

# **VECCI - Bank of Melbourne**

Survey of business trends  
and prospects



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June quarter 2014

## **Performance**

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September quarter 2014

## **Outlook**



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# Contents

<b>1. Summary of results</b>	<b>3</b>
<b>2. Business sentiment</b>	<b>4</b>
Australian economic outlook	4
Victorian economic outlook	6
Australian economy: regional versus metropolitan outlook	8
Victorian economy: regional versus metropolitan outlook	8
Regional versus metro business performance – at a glance	9
<b>3. Business performance: overall results</b>	<b>10</b>
General business conditions	10
Sales	10
Exports	11
Wages growth	11
Other labour costs	12
Selling prices	13
Profits	13
Employment	14
Overtime	14
Buildings and structures investment	15
Plant and equipment investment	16
Capacity utilisation	17
<b>4. Business performance: industry-specific results</b>	<b>19</b>
Manufacturing	19
Building and construction	19
Wholesale and retail trade	20
Transport and storage	21
Finance, property and business services	21
Education, health and community services	22
Recreation, personal and other services	23
<b>5. Special questions - federal government reforms to the company tax rate and the Age Pension</b>	<b>24</b>
<b>6. About the VECCI - Bank of Melbourne survey of business trends and prospects</b>	<b>26</b>
Profile of surveyed businesses for the June quarter 2014	26

Please direct any enquiries on information contained within this report to:

**Mr Steven Wojtkiw**  
**Executive Manager**

Telephone: 03 8662 5357

Fax: 03 8662 5139

Email: [swojtkiw@vecci.org.au](mailto:swojtkiw@vecci.org.au)

# Summary of results

VECCI's business sentiment index for the Australian economy moderated slightly in the June 2014 quarter, with 24 per cent of respondents anticipating stronger economic growth over the next 12 months, compared with 26 per cent in the previous quarter. However, this still represents an improvement on the results recorded in the June quarter 2013 (19 per cent). Overall, 27 per cent of respondents anticipate a weakening in national economic conditions over the year ahead, while 49 per cent expect national economic conditions to remain the same.

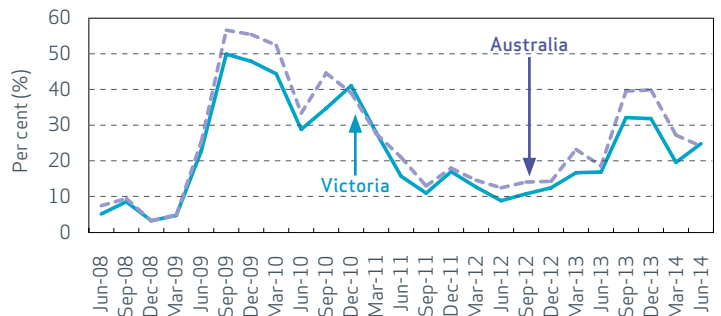
In contrast, the outlook for the Victorian economy strengthened over the June 2014 quarter. Overall, just under 25 per cent of respondents expect stronger state economic conditions over the year ahead. This represents an improvement on the previous quarter, when 20 per cent of respondents expected stronger state economic conditions. However, 30 per cent of respondents expect conditions to weaken over the coming 12 months, while 46 per cent of respondents expect conditions to remain the same.

Trading conditions overall remained challenging over the quarter ending June 2014. Respondents reported declines across most business performance metrics. Similar to last quarter, respondents again reported widespread increases in wages growth and other labour costs, while profitability has continued to fall in most sectors.

Regional respondents were slightly more likely to have experienced stronger general business conditions in the June quarter 2014 than their metropolitan counterparts, although on a net balance basis, both reported a deterioration. Both metropolitan and regional businesses experienced tough trading conditions, with most business indicators showing declines. Looking forward, regional respondents are slightly more likely than their metropolitan counterparts to expect stronger conditions over the year ahead for the national economy but are slightly less positive about the Victorian economy.

In terms of the performance of key industries, conditions have been mixed, with the building and construction and the finance, property and business services sectors reporting improvements across a number of measures, including general business conditions. However, most sectors reported declines in most indicators, with conditions in the manufacturing and the transport and storage sectors showing particular weakness. Despite this, all sectors reported at least cautious optimism with regard to the outlook for general business conditions in the coming quarter.

**VECCI business sentiment index**  
Share of business forecasting stronger growth



# Business sentiment

## Australian economic outlook

Business confidence in the short-term outlook for the Australian economy remained positive, but moderated slightly over the June quarter 2014, with 24 per cent of respondents anticipating stronger economic growth over the next 12 months.

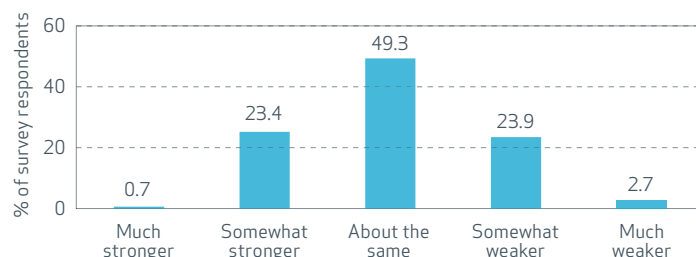
Results are only slightly lower than those reported in the previous quarter (26 per cent), but represent an improvement on results recorded in the June quarter 2013 (19 per cent).

Overall, 27 per cent of respondents expect Australia's economic performance to weaken over the next 12 months, while 49 per cent of respondents expect conditions to remain similar to those currently being experienced.

The building and construction sector was the industry most likely to expect stronger national economic conditions in the year ahead, with 42 per cent of respondents expecting the Australian economy to strengthen. Conversely, respondents in the recreational, personal, and other services sector were the most likely to expect the performance of the Australian economy to deteriorate, with 36 per cent either expecting much weaker or somewhat weaker conditions.

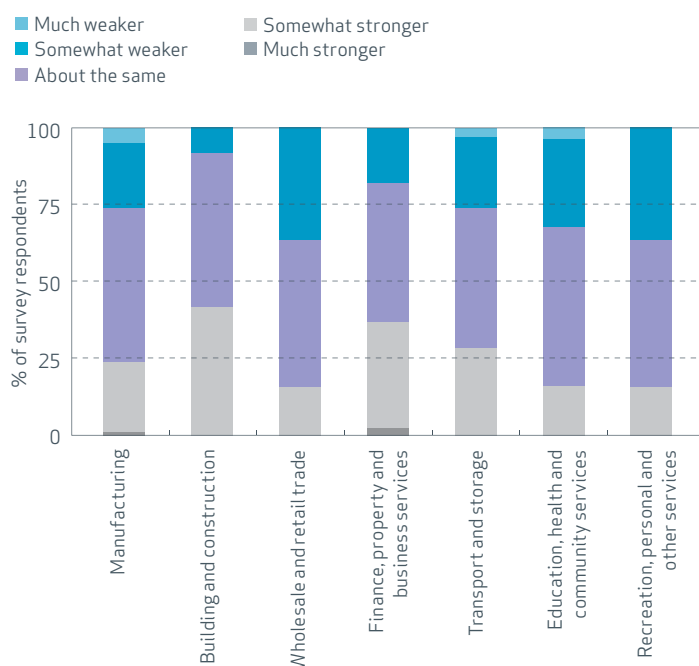
## Australian economic outlook

*Expected performance 12 months to June quarter 2015*



## Australian economic outlook by industry

*Expected performance 12 months to June quarter 2015*



# Business sentiment

## continued

### Victorian economic outlook

Business confidence in the short-term outlook for the Victorian economy strengthened over the June quarter 2014, with just under 25 per cent of respondents anticipating stronger economic growth over the next 12 months.

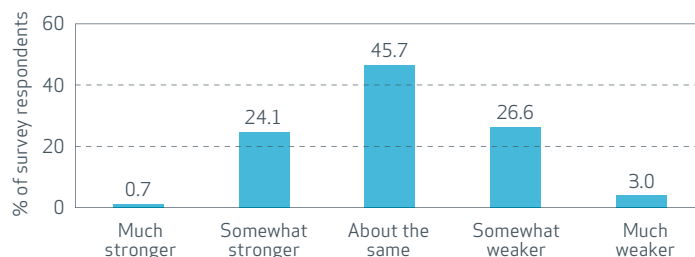
Results are higher than those reported in the previous quarter (20 per cent), and are also an improvement on results recorded in the June quarter 2013 (17 per cent).

Overall, 30 per cent of respondents expect that Victoria's economic performance will weaken over the next 12 months, a decrease on results reported in the previous quarter (37 per cent). A further 46 per cent of respondents expect that economic activity in Victoria will remain largely unchanged over the year ahead.

At 38 per cent, respondents in the building and construction industry were most likely to expect stronger conditions for the Victorian economy over the year ahead. Respondents in the transport and storage industry were the most likely to expect the performance of the Victorian economy to deteriorate, with 31 per cent expecting much weaker or somewhat weaker conditions.

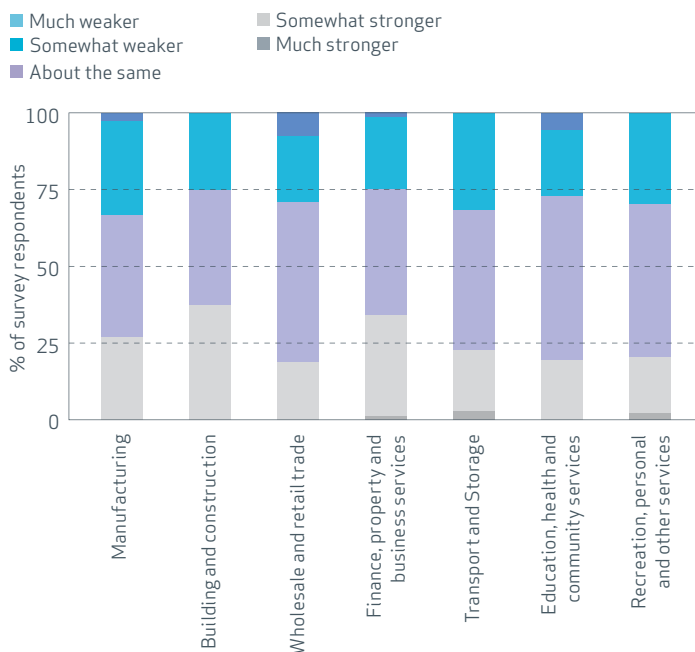
### Victorian economic outlook

Expected performance 12 months to June quarter 2015



### Victorian economic outlook by industry

Expected performance 12 months to June quarter 2015



### Australian economy: regional versus metropolitan outlook

Looking at the outlook for the Australian economy, regional businesses were more likely to expect stronger conditions for the year ahead (28 per cent) compared to their metropolitan counterparts (22 per cent). The expectations of regional respondents were up from the previous quarter (25 per cent expecting stronger economic conditions) while those of metropolitan respondents were down from the previous quarter (29 per cent expecting stronger economic conditions).

In total, 28 per cent of regional and 26 per cent of metropolitan respondents expect a deterioration in trading conditions over the next 12 months.

### Victorian economy: regional versus metropolitan outlook

With regard to the outlook for the Victorian economy, metropolitan and regional respondents were equally likely to expect stronger conditions over the coming year (24 per cent).

In total, 30 per cent of regional respondents and 29 per cent of metropolitan respondents expect weaker economic conditions in Victoria over the year ahead.

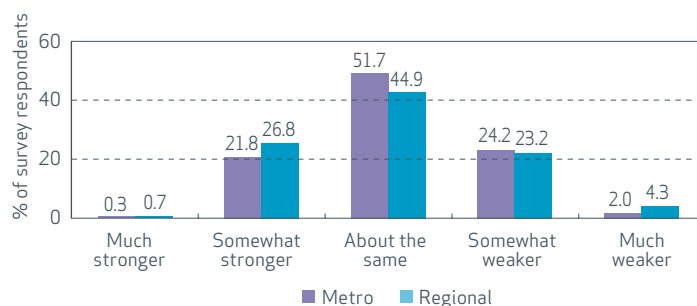
### Regional versus metro business performance - at a glance

Metropolitan respondents were more likely to have experienced challenging business conditions during the June quarter. On many indicators, including general business conditions, exports, selling prices and profits, metropolitan respondents reported more difficult conditions than those faced by their regional counterparts, although regional respondents reported challenging trends in investment, overtime, wages growth and other labour costs.

*Note: Not all respondents reported the location of their business and as a result the data contained in the above table may exhibit some discrepancy from the overall results reported elsewhere in this survey.*

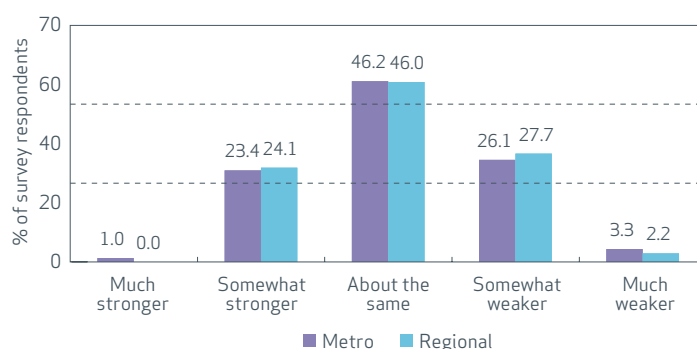
### Australian economic outlook

Expected performance 12 months to June quarter 2015

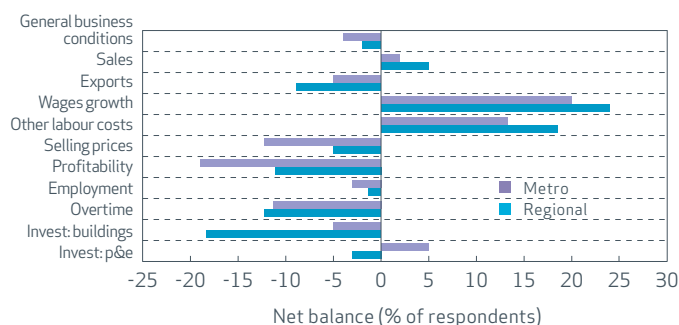


### Victorian economic outlook

Expected performance 12 months to June quarter 2015



### Regional and metro business performance indicators



# Business performance:

## Overall results

### General business conditions

On a net balance basis, which measures the difference between the proportion of businesses reporting an improvement and those reporting deterioration, a net four per cent of respondents reported weaker general business conditions over the June quarter 2014.

This is a weaker outcome than reported in the previous quarter, when a net one per cent of respondents reported weaker general business conditions. However, this is a stronger result than for the same period last year when a net balance of 18 per cent of respondents reported weaker conditions.

Expectations for the September quarter 2014 are positive, with 24 per cent of respondents expecting stronger general business conditions against only 17 per cent of respondents expecting weaker conditions, giving a positive net balance result of seven per cent.

### Sales

In the June quarter 2014, a net balance of three per cent of respondents reported an increase in sales, comprising of 32 per cent who reported an increase and 29 per cent a decline. This is an improvement on a net balance basis on the previous quarter (when reported sales only grew by a net balance of one per cent), and an improvement on the same quarter of last year (a negative net balance of 10 per cent).

On a net balance basis, 16 per cent of respondents expect sales to increase in the September quarter 2014.

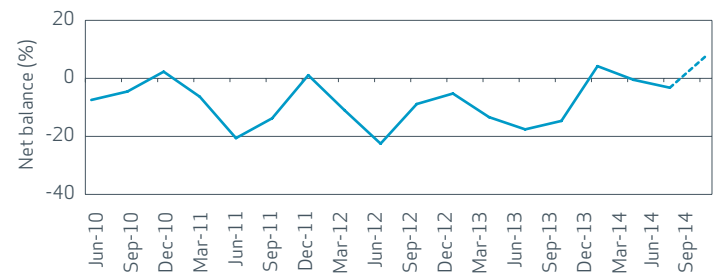
### Exports

In the June quarter 2014, a net balance of nine per cent of respondents reported a decline in exports, which is a further deterioration on the previous quarter when a net six per cent of respondents reported a decline. This is, however, a slight improvement on the same period last year when a negative net balance of 11 per cent was reported.

Expectations for the next quarter are for a small improvement in exports, although 12 per cent of respondents are still expecting a decrease.

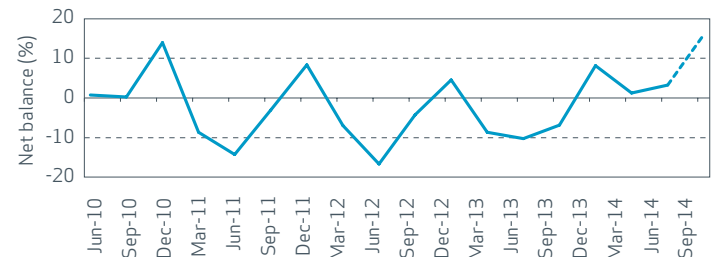
### General business conditions

June 2010 - September 2014 (forecast)



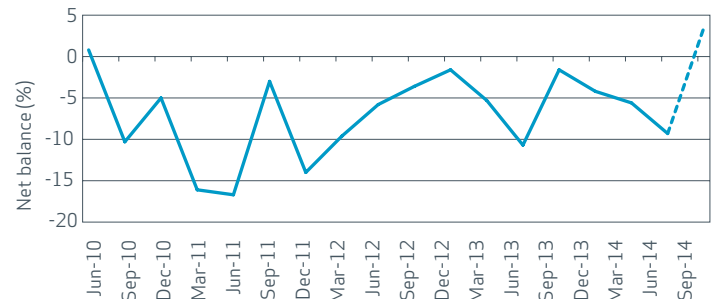
### Sales

June 2010 - September 2014 (forecast)



### Exports

June 2010 - September 2014 (forecast)





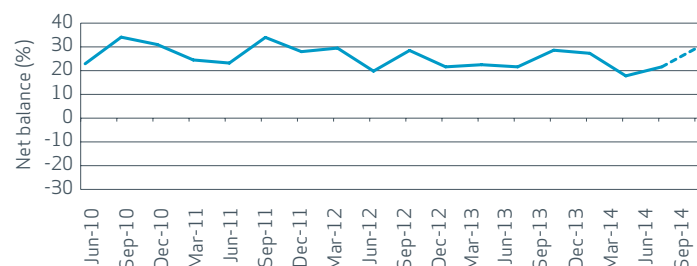
## Wages growth

Wages growth has continued to rise in the June quarter 2014, with a net balance of 22 per cent of respondents reporting an increase. This is somewhat higher than the previous quarter which saw a net balance of 18 per cent of respondents reporting increased wage growth.

Wage increases are expected in the September quarter 2014 by a net balance of 30 per cent of respondents.

## Wages growth

June 2010 - September 2014 (forecast)



## Other labour costs

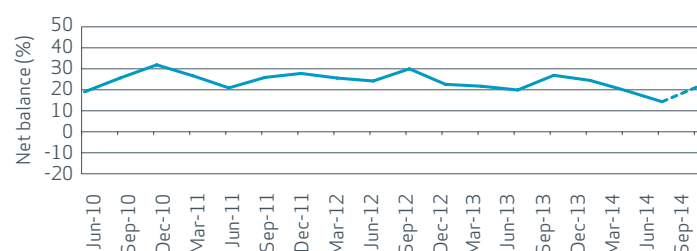
Other non-wage labour costs relate to all of the on-costs associated with employing labour, as well as various benefits provided by employers, such as superannuation and WorkCover payments.

In the June quarter 2014, a net balance of 14 per cent of respondents reported an increase in other labour costs. This was higher than the previous quarter, when a net 20 per cent reported an increase.

Looking ahead, a net balance of 22 per cent of respondents expect other labour costs to rise in the September quarter 2014.

## Other labour costs

June 2010 - September 2014 (forecast)



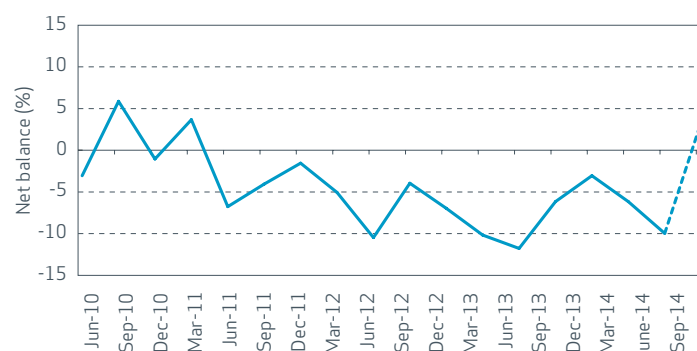
## Selling prices

In the June quarter 2014, a net 10 per cent of respondents reported a decline in selling prices. The decline was slightly more widespread than last quarter, when a net six per cent reported a decrease, but less widespread than in the same period last year when a net balance of 12 per cent of respondents reported a deterioration in selling prices.

For the September quarter, a net balance of three per cent of respondents expecting selling prices to rise.

## Selling prices

June 2010 - September 2014 (forecast)



# Business performance

## Overall results continued

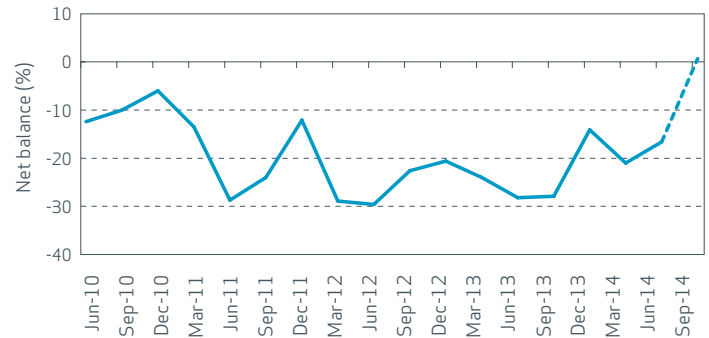
### Profits

Falls in business profitability have continued in the June quarter, with a net 17 per cent of respondents reporting a decline, which is nonetheless an improvement on the reported net 21 per cent decline last quarter. This is also a more positive result than the same period last year, when a net balance of 28 per cent reported a decline.

For the September quarter 2014, a net balance of less than one per cent of respondents expect an improvement in profitability.

### Profits

June 2010 - September 2014 (forecast)



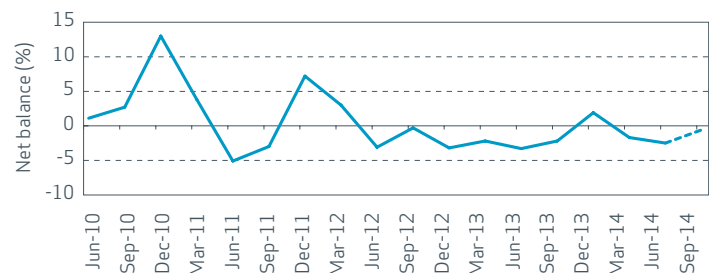
### Employment

Respondents reported slightly negative employment results for the June quarter 2014, with a net three per cent of respondents reporting a decrease in their level of employment. This is a small deterioration on last quarter's results (negative two per cent), but a similar result when compared with the same period last year when employment levels also declined by three per cent on a net balance basis.

Expectations surrounding employment trends over the September 2014 quarter remain bearish with a negative net balance of one per cent.

### Employment

June 2010 - September 2014 (forecast)



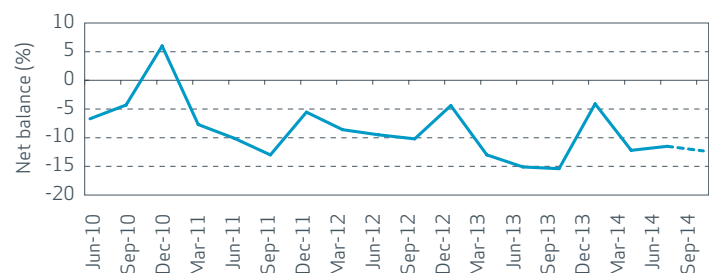
### Overtime

In the June quarter 2014, a net balance of 12 per cent of respondents reported a fall in the level of overtime worked. This is an identical fall to the previous quarter and a similar result to the same period last year, when overtime fell for a net balance of 15 per cent.

Looking forward to the September quarter 2014, results show a net balance of 12 per cent of respondents expect to reduce the level of overtime offered to employees.

### Overtime

June 2010 - September 2014 (forecast)



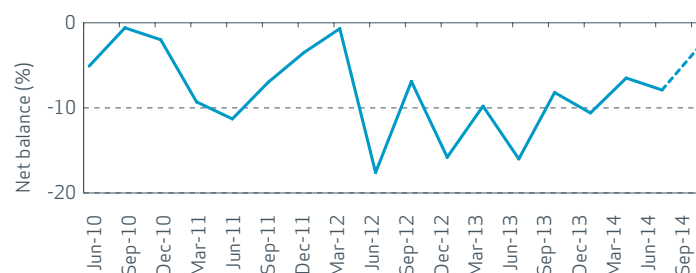
### Buildings and structures investment

In the June quarter 2014, buildings and structures investment declined for a net balance of eight per cent of respondents. This decline was slightly more widespread than last quarter (seven per cent), but less than the same period last year, when a net balance of 16 per cent reported a decline.

For the September quarter 2014, a net balance of three per cent of respondents expect to reduce their level of investment in buildings and structures.

### Buildings and structures investment

June 2010 - September 2014 (forecast)



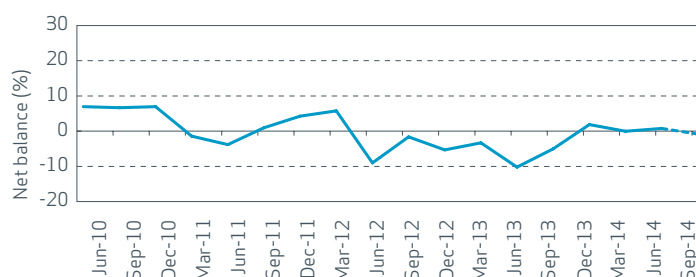
### Plant and equipment investment

In the June quarter 2014, a net balance of one per cent of respondents reported an increase in plant and equipment investment. This is a slight improvement on the previous quarter when the percentage of respondents who reported an increase in plant and equipment investment was matched by the same percentage of respondents who reported a decrease. The result is also an improvement on the same period a year ago when the result was a net decline of three per cent.

For the September quarter 2014, an overall decline in the level of investment in plant and equipment is expected with a negative net balance of one per cent.

### Plant and equipment investment

June 2010 - September 2014 (forecast)



# Business performance

## Overall results continued

### Capacity utilisation

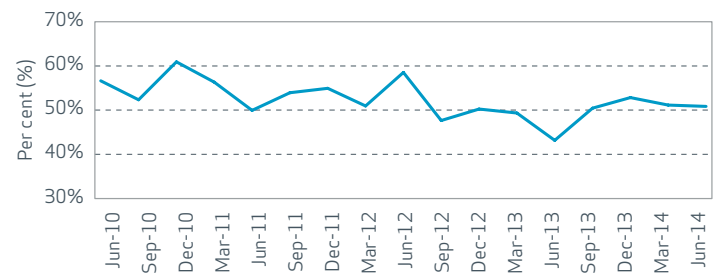
In the June quarter 2014, 50.9 per cent of respondents indicated that they were operating at a satisfactory level of capacity, down from the 51.2 per cent reported in the previous quarter, but up on the corresponding period last year (43.0 per cent).

In total, 51.2 per cent of respondents reported that they are currently operating in excess of 80 per cent of capacity (up from 50 per cent in the last quarter), while 10.1 per cent of respondents reported a low rate of capacity utilisation (less than 60 per cent). The remaining 38.7 per cent are operating at between 60 and 80 per cent of capacity.

Among the different industries, the finance, property and business services sector reported the highest level of capacity utilisation (63 per cent of respondents in this sector operating at over 80 per cent of capacity), closely followed by the transport and storage and the education, health, and community services sectors (57 per cent of respondents in these sectors operating at over 80 per cent of capacity).

### Business operating at a satisfactory rate of capacity

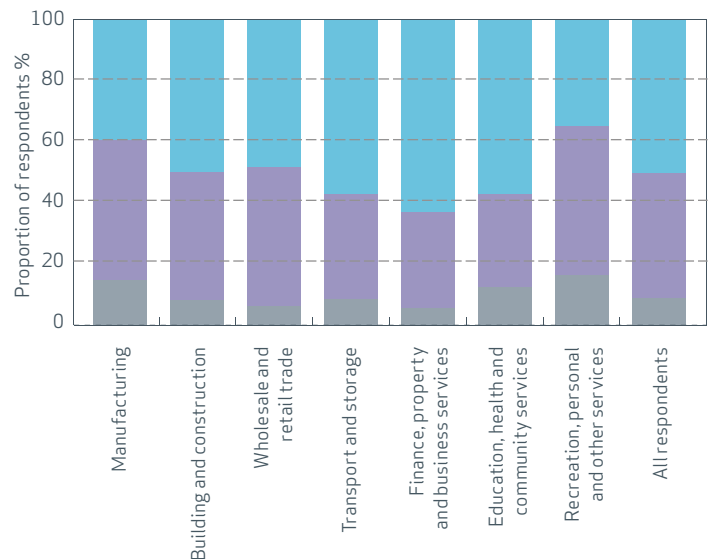
June 2010 - June 2014



### Rate of capacity utilisation

June quarter 2014

- Operating at over 80% capacity
- Operating between 60% and 80% capacity
- Operating at less than 60% capacity



# Business performance

## Industry-specific results

### Manufacturing

Respondents in the manufacturing sector reported difficult trading conditions in the June quarter 2014, with a net balance of 14 per cent of respondents reporting a decline in general business conditions. Furthermore, the sector reported declines across all business performance measures, particularly in profitability, selling prices, sales, overtime and investment in buildings and structures.

For the September quarter 2014, respondents in the manufacturing sector are expecting a promising rebound in sales and exports. However, these are likely to be offset by expected declines in all other indicators, with the exception of general business conditions which is expected to stabilise across the sector.

### Building and construction

Respondents in the building and construction industry reported a visible improvement in trading conditions over the June quarter. In contrast to the previous quarter, general business conditions, exports and selling prices strengthened during June. Sales also improved but the sector has reported increases in wages growth and other labour costs along with declines in investment. Although some respondents have reported improvements in profitability, an equal number reported declines.

Over the September quarter, respondents in the building and construction industry generally expect most key indicators to continue to improve. However, profitability is expected to decline along with investment and overtime, while wages and labour costs are expected to increase.

### Wholesale and retail trade

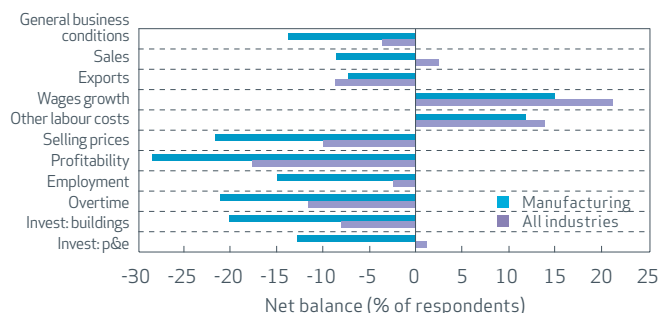
The wholesale and retail trade sector experienced challenging conditions in the June quarter 2014. Trends in general business conditions, sales, exports, and employment were all negative, with investment in plant and equipment experiencing particularly sharp falls. However, in contrast to the March quarter, sales have shown some improvement.

Respondents in this industry hold mixed expectations for the September quarter 2014, with improvements expected in general business conditions, profitability, sales and selling prices, but continued tough conditions forecast for exports, overtime, and employment.

*Net balance measures the difference between the proportion of business reporting an improvement (up) and those reporting a deterioration (down).*

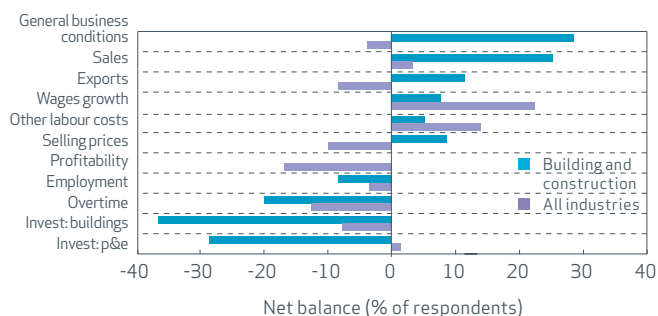
### Business performance indicators

June quarter 2014



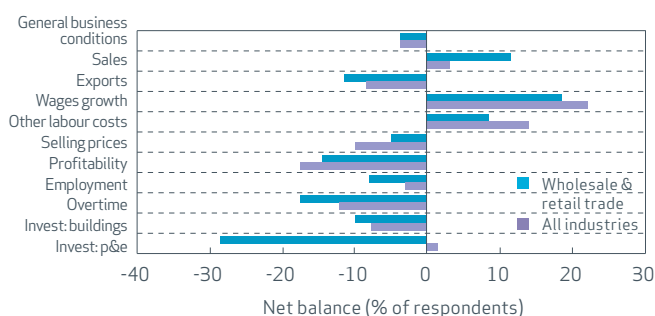
### Business performance indicators

June quarter 2014



### Business performance indicators

June quarter 2014



# Business performance

## Industry-specific results continued

### Transport and storage

In the June quarter 2014, the transport and storage sector reported difficult trading conditions. Similar to last quarter, all key business indicators were under pressure, with the exception of investment in plant and equipment.

However, there are signs of optimism with respect to a number of indicators in the upcoming September quarter 2014. Respondents in this industry expect improvements in exports, selling prices, sales, and general business conditions, although other metrics are expected to remain under pressure, and profitability is expected to remain unchanged.

*\*Note: The low number of responses received from this sector means the data and accompanying analysis should be treated with caution.*

### Finance, property and business services

The finance, property and business services sector reported mixed conditions during the June quarter 2014. General business conditions, exports, employment and sales were positive, but selling prices and profitability continued to weaken alongside increases in wages and other labour costs.

For the September quarter 2014, expectations for respondents in this sector are mixed, with anticipated improvements in general business conditions, sales, exports, profitability and employment in part offset by expected falls in a number of other indicators. However, the outlook is still comparatively positive overall.

### Education, health and community services

Over the June quarter 2014, respondents in the education, health and community services sector reported generally weaker conditions, with decreases in all key indicators except employment, selling prices and investment. Increases in wages growth and other labour costs were particularly widespread.

Respondents in this sector are positive about most indicators in the coming September quarter 2014. Improvements in most key indicators are expected with the exception of overtime (expected to stabilise) and trends in wages and other labour costs, which are expected to rise.

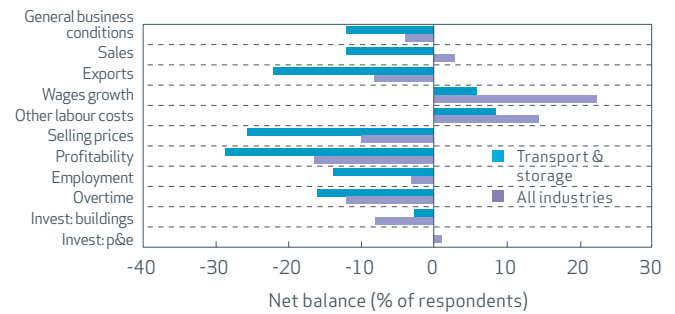
### Recreation, personal and other services

Over the June quarter, respondents in the recreation, personal, and other services sector reported challenging conditions with deterioration on all indicators excluding selling prices and investment in plant and equipment, neither of which increased since the previous quarter. Respondents also reported greater wages growth and other labour costs than those experienced across all sectors.

Despite these difficult conditions, respondents in this sector are cautiously optimistic, expecting improvements in several indicators over the September quarter 2014 including general business conditions, sales, selling prices, and profitability although this is offset by the expectation of further increases in wages and other labour costs.

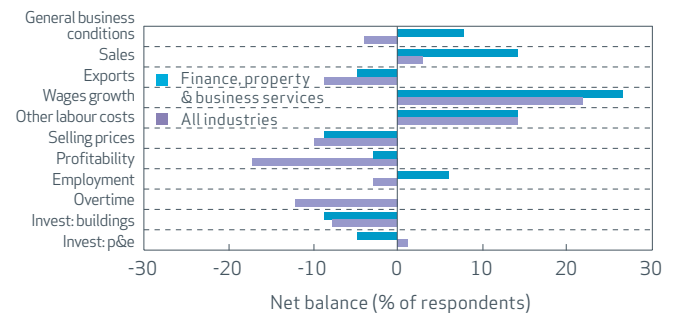
### Business performance indicators

June quarter 2014



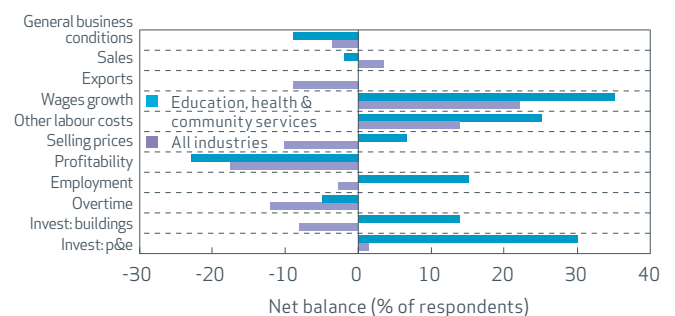
### Business performance indicators

June quarter 2014



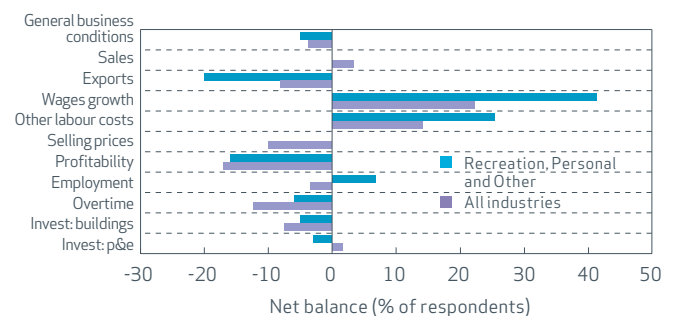
### Business performance indicators

June quarter 2014



### Business performance indicators

June quarter 2014



# Special questions

## Federal government changes to the company tax rate and the Age Pension

In the June quarter 2014 survey, respondents were asked two questions regarding recently announced federal government policies and the consequences of these policies for respondents' business circumstances.

The first question asked respondents about the impact of the announced company tax rate cut on business cash flow, while the second question related to succession planning in light of proposed changes to the Age Pension.

### Company tax rate cut and business cashflow

In the first question, respondents were asked whether the announced cut in the company tax rate to 28.5 per cent from 1 July 2015 would help improve their business cash flow.

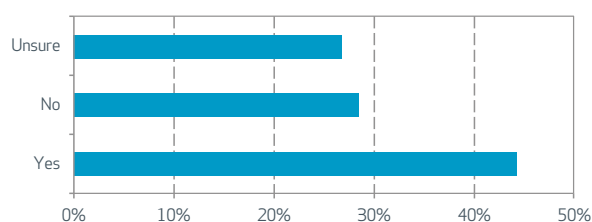
Of the respondents who answered this question, the majority (44 per cent) indicated that they consider the cut to the company tax rate would help improve their business cash flow. Twenty-nine per cent of respondents indicated that they believed the tax cut would not help improve their business cash flow, while another 27 per cent indicated they were uncertain whether the tax cut would help improve their business cash flow position.

### Age Pension and succession planning

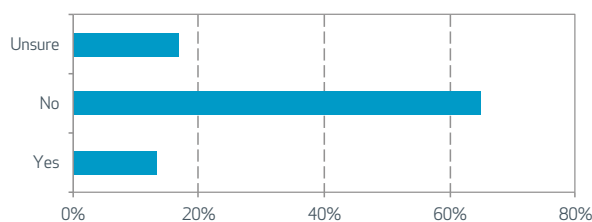
In the second question, respondents were asked whether the recently announced move to increase the Age Pension to age 70 by 1 July 2035 would affect succession planning in their business.

Of the respondents to this question, the majority (66 per cent) indicated that succession planning for their business would not be affected by the changes to the Age Pension. Nineteen per cent of respondents expressed uncertainty regarding the effect of the changes to the Age Pension on succession planning in their business, while 15 per cent of respondents indicated that the changes would have an impact on succession planning in their business.

### Will the announced cut in the company tax rate to 28.5 per cent from 1 July 2015 help improve your business cash flow?



### Will the recently announced move to increase the Age Pension to age 70 by 1 July 2035 affect succession planning in your business?



# About the survey

The VECCI – Bank of Melbourne survey of business trends and prospects is designed to monitor business performance and expectations with respect to current and expected trends in national and state economic conditions; and the recent performance of individual Victorian businesses and their expectations for the next three months.

Conducted quarterly during March, June, September and December each year, the survey identifies key factors influencing business trends and prospects. From time-to-time, special questions are included to ascertain the experience and attitudes of business on key issues. Each quarter, over 400 businesses respond, representing the diverse spectrum of Victorian industry. It covers small, medium and large businesses and includes enterprises located in both regional and metropolitan Victoria.

## Profile of surveyed businesses for the June quarter 2014

Of the respondents to the June quarter 2014 survey, 68.4 per cent were located in metropolitan Melbourne, with the remaining 31.6 per cent located in regional Victoria.

Overall, 47.8 per cent were small businesses (employing less than 20 staff), a further 42 per cent were medium-sized businesses (employing between 20 and 99 staff), and the remaining 10.2 per cent were large businesses (employing 100 or more staff).

Furthermore, 33.6 per cent of the businesses in this survey were involved in trade related activities (i.e. exporting/importing).

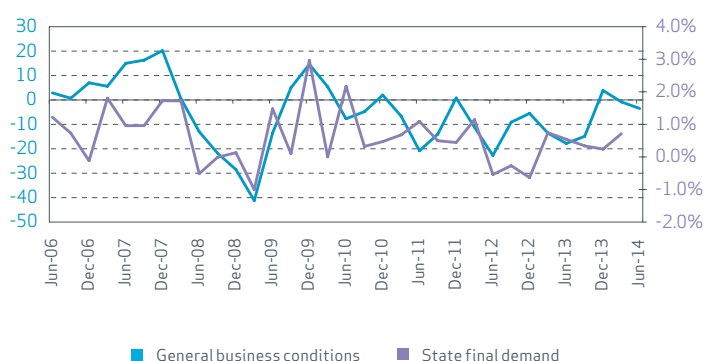
Industry sector (ANZSIC division)	(%)
Agriculture, Forestry and Fishing	3.7
Manufacturing	18.8
Building and Construction	5.6
Wholesale and Retail Trade	18.8
Transport and Storage	8.1
Finance, Property and Business Services	16.9
Education, Health and Community Services	13.0
Recreation, Personal and Other Services	10.2
Other	4.9
<b>TOTAL</b>	<b>100</b>

## Accuracy of the VECCI – Bank of Melbourne survey of business trends and prospects as a forecasting tool

In the graph at the right, the left-hand vertical axis represents business expectations in relation to the anticipated direction of general business conditions over the forthcoming quarter (net balance). The right-hand axis represents the quarterly percentage change in State Final Demand (seasonally adjusted). The graph gauges the accuracy of respondents' estimation of future general business conditions against actual demand conditions in the Victorian economy at any point in time.

State Final Demand, recorded in the Australian Bureau of Statistics catalogue 5206.0 National Income, Expenditure and Product, is an expenditure-based approach to measuring the value of final purchases of assets and consumption, excluding inventories. It is comprised of the addition of final consumption expenditure for households and general government, plus public and private gross fixed capital formation. It does not include exports or changes in inventories. However, State Final Demand does include net expenditure by Victorians interstate.

## Survey of business trends and prospects – predictive accuracy





# Key industry definitions

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## **Manufacturing**

Surveyed businesses in this ANZSIC category include those engaged in the manufacture of food beverages and tobacco; textiles, clothing and footwear; wood and paper products; printing, publishing and recorded media; petroleum, coal and chemical products; non-metallic mineral products; and machinery and equipment products.

## **Building and construction**

Surveyed businesses in this ANZSIC division include those engaged in residential and non-residential building construction, non-building construction, and construction trade services, such as concreting, roofing, plumbing, carpentry, painting and landscaping services.

## **Wholesale and retail trade**

Surveyed businesses in this ANZSIC group include those engaged in the wholesaling of farm produce, mineral, metal and builders supplies; and businesses providing retail trade services in areas such as food, personal and household goods, furniture and appliances, and motor vehicle retailing and related services.

## **Transport and storage**

Surveyed businesses in this ANZSIC division include those engaged in road, rail and water transport; air transport; service to the transport industry, such as parking services, port services, freight forwarding, travel agency services and customs services; and storage.

## **Finance, property and business services**

Surveyed businesses in this ANZSIC group include those engaged in finance and insurance services, such as banking, money market dealers and life insurance and superannuation funds; and property and business services including property developers and real estate agents. Hiring and leasing services, computing, accounting, legal, marketing, and employment placement services; and communication services.

## **Education, health and community services**

Surveyed businesses in this ANZSIC group include those engaged in education; health; such as hospitals and nursing homes, medical and veterinary services; and community services.

## **Recreational, personal and other services**

Surveyed businesses in this ANZSIC group include those engaged in accommodation, cafes and restaurants; cultural and recreational services, such as libraries, performing arts and sports grounds; and personal and other services, including video hire outlets, dry-cleaners, photographic studios, hairdressers and interest groups.



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