

VECCI - Bank of Melbourne

Survey of business trends
and prospects



March quarter 2014

Performance

June quarter 2014

Outlook



Sponsored by



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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

Summary of results

VECCI's business sentiment index for the Australian economy softened in the March 2014 quarter, with 27 per cent of respondents anticipating stronger economic growth over the next 12 months, compared with 40 per cent in the previous quarter. However, this still represents an improvement on the results recorded in the March quarter 2013 (23 per cent). Overall, 26 per cent of respondents anticipate a weakening in national economic conditions over the year ahead, while 46 per cent expect national economic conditions to remain the same.

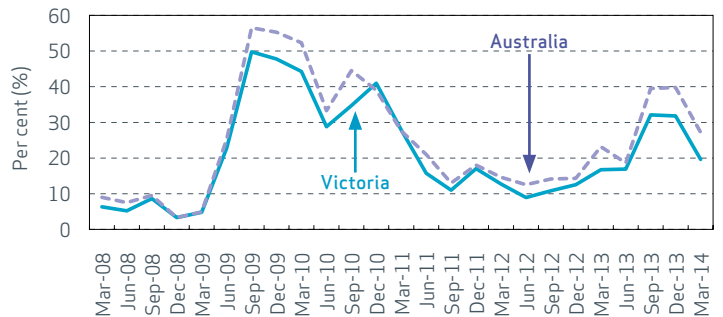
Though still positive, the outlook for the Victorian economy also softened over the March 2014 quarter. Overall, 20 per cent of respondents expect stronger state economic conditions over the year ahead. This represents a decline on the previous two quarters, when 32 per cent of respondents expected stronger state economic conditions. A total of 37 per cent of respondents expect conditions to weaken over the coming 12 months, while 43 per cent expect conditions to remain the same.

Trading conditions moderated over the three months to March 2014. Respondents reported modest declines in general business conditions, exports, selling prices and investment in buildings and structures. Profitability and overtime also declined. Respondents reported widespread increases in wages growth and other labour costs.

Regional respondents were slightly more likely to have experienced stronger general business conditions in the March quarter 2014. However, both metropolitan and regional businesses experienced tough trading conditions, with selling prices and profitability both under pressure. Looking forward, metropolitan respondents are slightly more likely than their regional counterparts to expect stronger conditions over the year ahead for both the national and Victorian economies.

In terms of the performance of key industries, conditions in most sectors weakened in the March quarter, with the [transport and storage](#) and the [building and construction](#) sectors experiencing a difficult quarter. However, the [finance, property and business services](#) sector and the [education, health and community services](#) sector reported relatively healthier trading conditions. Looking forward, most industries, with the exception of the [transport and storage](#) sector, expect business conditions to improve in the next 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 softened over the March quarter 2014, with 27 per cent of respondents anticipating stronger economic growth over the next 12 months.

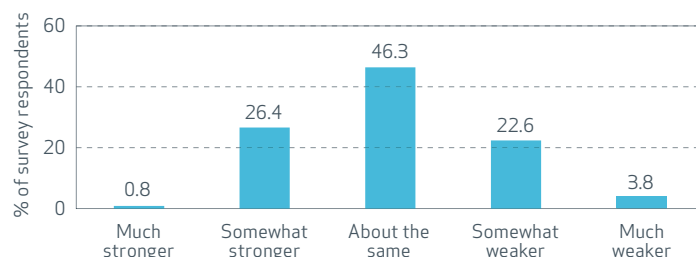
Results are notably lower than those reported in the previous quarter (40 per cent), but still represent a slight improvement on results recorded in the March quarter 2013 (23 per cent).

Overall, 26 per cent of respondents expect Australia's economic performance to weaken over the next 12 months, while 46 per cent of respondents expect conditions to remain similar to those at present.

The [wholesale and retail trade](#) sector was the industry most likely to expect stronger national economic conditions in the year ahead, with 36 per cent of respondents expecting the Australian economy to strengthen. Conversely, respondents in the [education, health and community services](#) industry were the most likely to expect the performance of the Australian economy to deteriorate, with 50 per cent either expecting much weaker or somewhat weaker conditions.

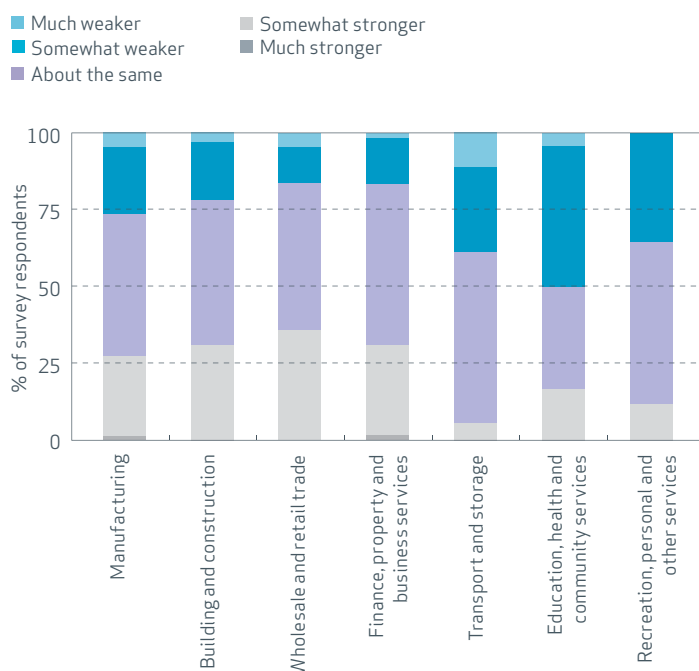
Australian economic outlook

Expected performance 12 months to March quarter 2015



Australian economic outlook by industry

Expected performance 12 months to March quarter 2015



Business sentiment

continued

Victorian economic outlook

Business confidence in the short-term outlook for the Victorian economy softened over the March quarter 2014, with 20 per cent of respondents anticipating stronger economic growth over the next 12 months.

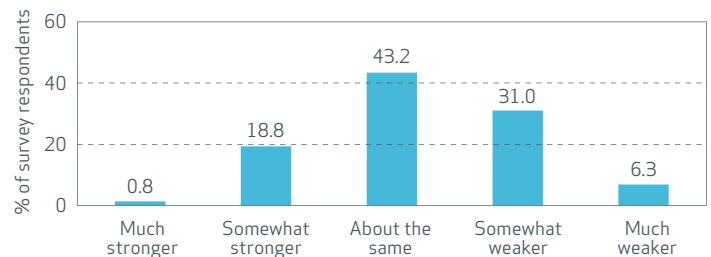
Results are lower than those reported in the previous quarter (32 per cent), but are a moderate improvement on results recorded in the March quarter 2013 (17 per cent).

Overall, 37 per cent of respondents expect that Victoria's economic performance will weaken over the next 12 months, an increase on results reported in the previous quarter (22 per cent). A further 43 per cent of respondents expect that economic activity in Victoria will remain largely unchanged over the year ahead.

At 29 per cent, respondents in the [wholesale and retail trade](#) 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 67 per cent expecting much weaker or somewhat weaker conditions. Possessing a similar sentiment were the respondents in the [education, health and community services](#) sector, where 59 per cent of businesses also remain cautious about the medium term outlook for the Victorian economy.

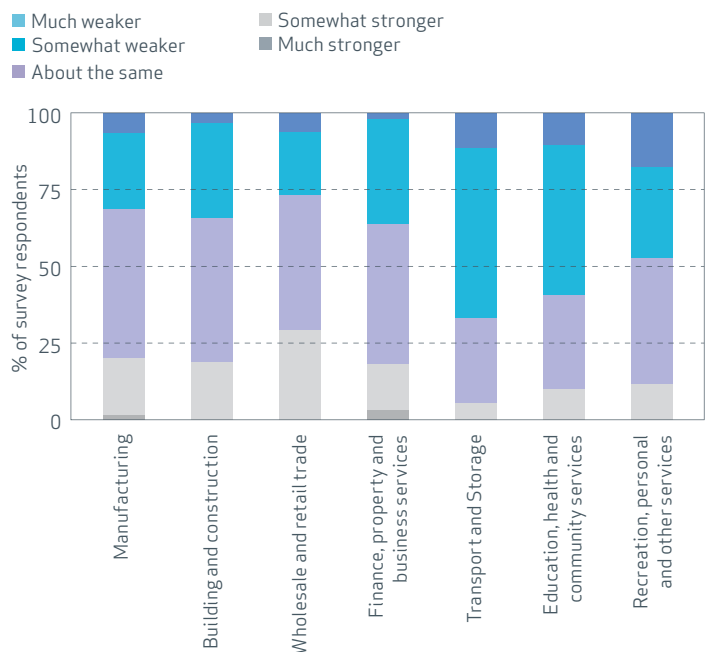
Victorian economic outlook

Expected performance 12 months to March quarter 2015



Victorian economic outlook by industry

Expected performance 12 months to March quarter 2015



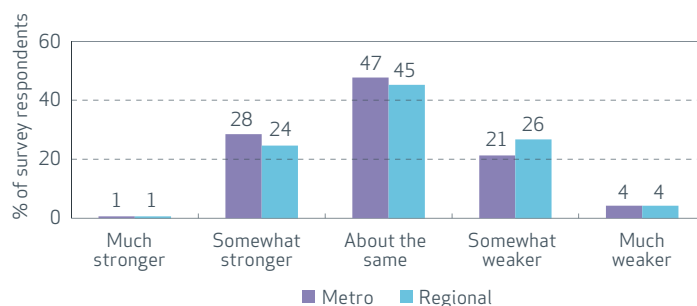
Australian economy: regional versus metropolitan outlook

Looking at the outlook for the Australian economy, metropolitan businesses were more likely to expect stronger conditions for the year ahead (29 per cent) compared to their regional counterparts (25 per cent). The expectations of both metropolitan and regional respondents were down from the previous quarter (40 and 38 per cent respectively expecting stronger economic conditions).

In total, 30 per cent of regional and 25 per cent of metropolitan respondents expect a deterioration in trading conditions over the next 12 months.

Australian economic outlook

Expected performance 12 months to March quarter 2015



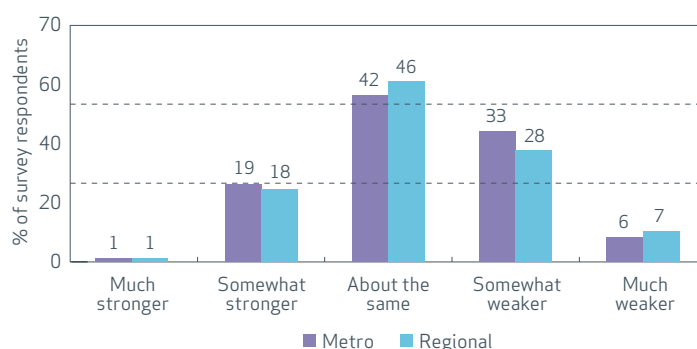
Victorian economy: regional versus metropolitan outlook

With regard to the outlook for the Victorian economy, metropolitan respondents were slightly more likely to expect stronger conditions over the year ahead (20 per cent) compared to metropolitan respondents (19 per cent).

In total, 39 per cent of metropolitan respondents and 35 per cent of regional respondents expect weaker economic conditions in Victoria over the year ahead.

Victorian economic outlook

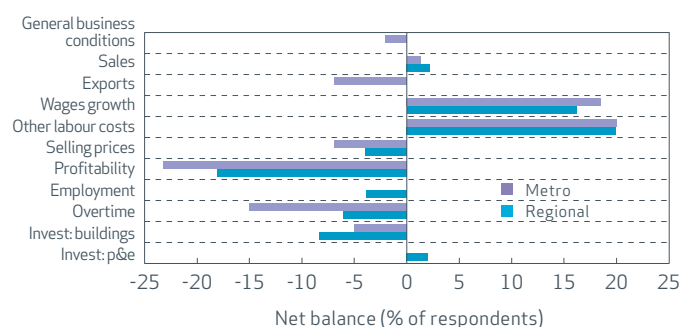
Expected performance 12 months to March quarter 2015



Regional versus metro business performance - at a glance

Metropolitan respondents were more likely to have experienced challenging business conditions during the March quarter. On most indicators, including general business conditions, exports, selling prices and profits, metropolitan respondents indicated that conditions have been more challenging when compared to their regional counterparts.

Regional and metro business performance indicators



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.

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 a deterioration, a net one per cent of respondents reported weaker general business conditions over the March quarter 2014. This is in contrast with the positive result reported in the previous quarter, when a net 4 per cent of respondents reported stronger conditions. However, this is a stronger result than the same period last year when a net balance of 14 per cent of respondents reported weaker conditions.

Expectations for the June quarter 2014 are positive, with 30 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 13 per cent.

Sales

In the March quarter 2014, a net balance of one per cent of respondents reported an increase in sales, comprising of 34 per cent who reported an increase and 33 per cent a decline. This is a deterioration on a net balance basis on the previous quarter (when sales increased for a net balance of eight per cent), but an improvement on the same quarter of last year (minus nine per cent).

On a net balance basis, 15 per cent of respondents expect sales to increase in the June quarter 2014.

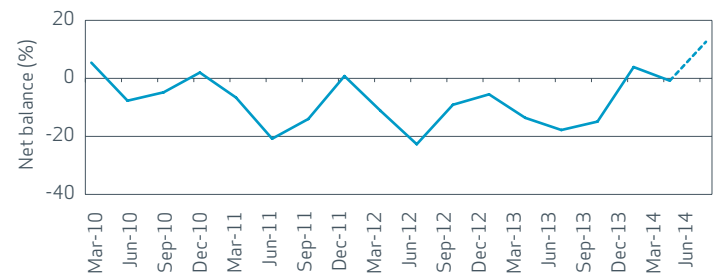
Exports

In the March quarter 2014, a net balance of six per cent of respondents reported a decline in exports, which is a slight deterioration on the previous quarter when a net balance of four per cent of respondents reported a decline. This is also slightly down on the same period last year when a negative net balance of five per cent was reported.

Expectations for the next quarter are for conditions to improve. However, a net balance of one per cent of respondents are still expecting a decrease in exports.

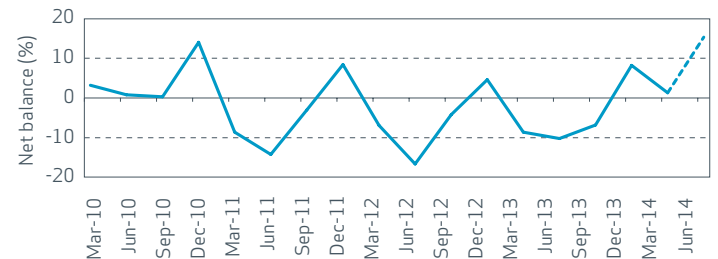
General business conditions

March 2010 - June 2014 (forecast)



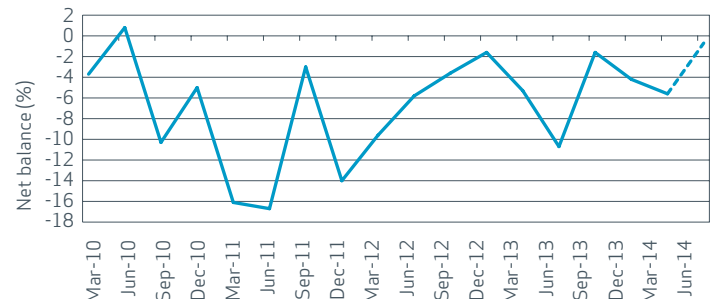
Sales

March 2010 - June 2014 (forecast)



Exports

March 2010 - June 2014 (forecast)



Wages growth

Wages growth was again widespread in the March quarter 2014, with a net balance of 18 per cent of respondents reporting an increase. This is, however, an improvement on the previous quarter when a net balance of 27 per cent reported increased wages growth.

Wage increases are again expected in the June quarter 2014 where a net balance of 19 per cent of respondents are expecting increases.

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 March quarter 2014, a net balance of 20 per cent of respondents reported an increase in other labour costs. This was lower than the previous quarter, when a net 25 per cent reported an increase.

Looking ahead, a net balance of 18 per cent of respondents expect other labour costs to rise in the June quarter 2014.

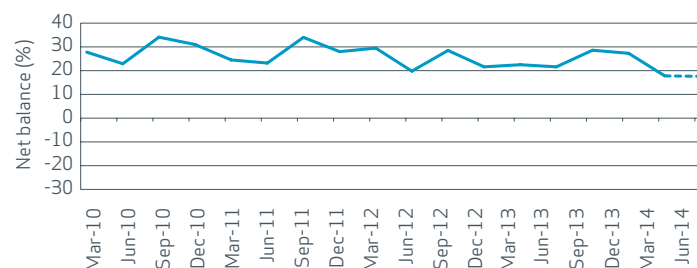
Selling prices

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

For the June quarter, views are more positive, with a net balance of four per cent of respondents expecting selling prices to rise.

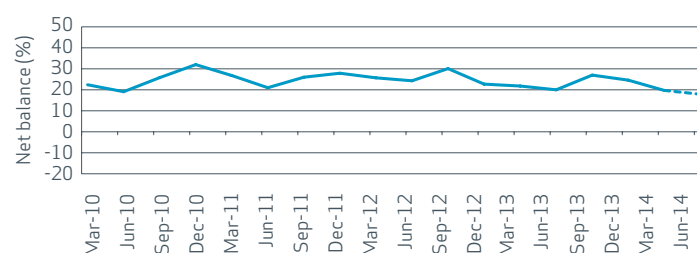
Wages growth

March 2010 - June 2014 (forecast)



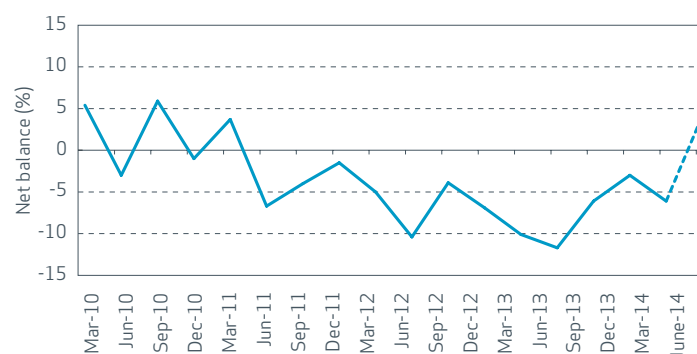
Other labour costs

March 2010 - June 2014 (forecast)



Selling prices

March 2010 - June 2014 (forecast)



Business performance

Overall results continued

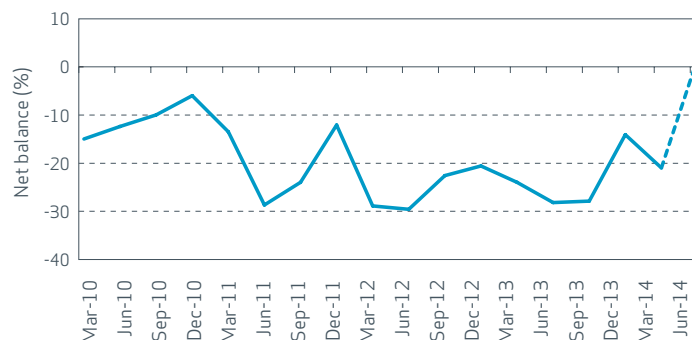
Profits

Falls in business profitability were more widespread in the March quarter, with a net 21 per cent of respondents reporting a decline, down from a net 14 per cent reporting a decline in the previous quarter. This is, however, a slightly more positive result than the same period last year, when a net balance of 24 per cent reported a decline.

For the June quarter 2014, improved conditions are expected, with a net balance of two per cent of respondents expecting profitability to increase.

Profits

March 2010 - June 2014 (forecast)



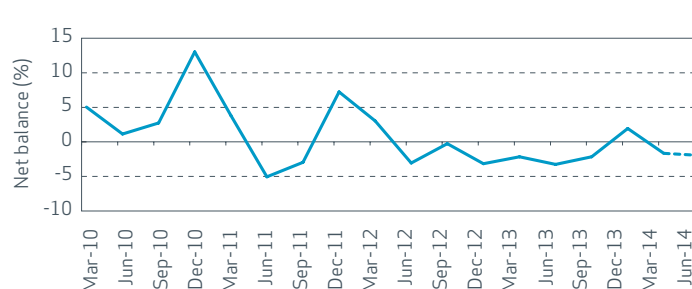
Employment

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

Similar employment trends are forecast over the June quarter 2014, with a net balance of two per cent of respondents expecting a decrease.

Employment

March 2010 - June 2014 (forecast)



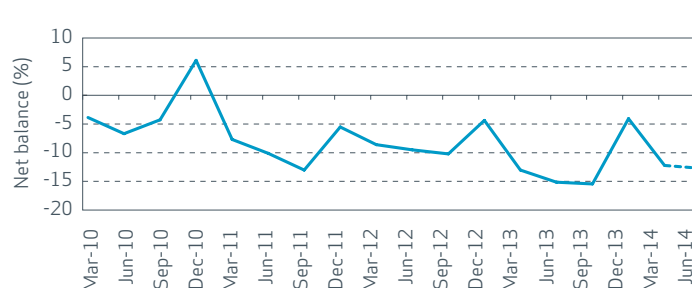
Overtime

In the March quarter 2014, a net balance of 12 per cent of respondents reported a fall in the level of overtime worked. This is a deterioration on the previous quarter (negative 4 per cent), and a similar result to the same period last year, when overtime fell for a net balance of 13 per cent.

Looking forward to the June quarter 2014, results show a net balance of 13 per cent of respondents expect to reduce the level of overtime offered to employees.

Overtime

March 2010 - June 2014 (forecast)



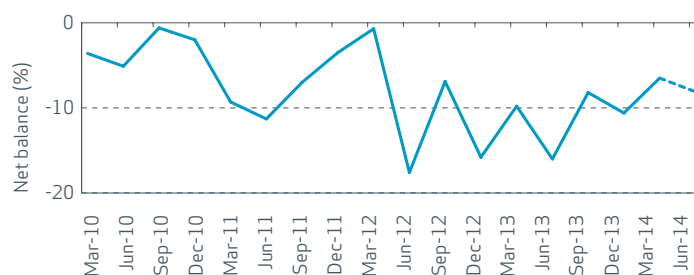
Buildings and structures investment

In the March quarter 2014, buildings and structures investment declined for a net balance of seven per cent of respondents. This decline was slightly less widespread than last quarter (11 per cent), as well as the same period last year, when a net balance of 10 per cent reported a decline.

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

Buildings and structures investment

March 2010 - June 2014 (forecast)



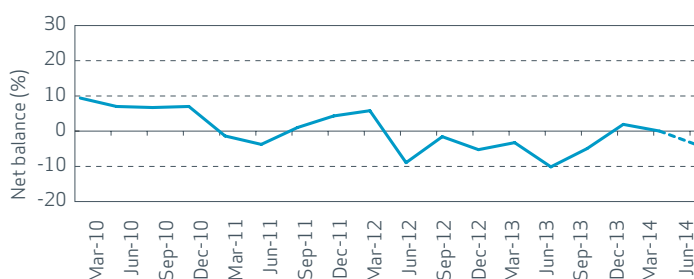
Plant and equipment investment

In the March quarter 2014, 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 (18 per cent). This is a slight deterioration on the previous quarter when a net balance of two per cent reported an increase. In comparison, the result for the same period last year was a net decrease of three per cent.

For the June quarter 2014, a deterioration in the level of investment in plant and equipment is expected with a negative net balance of four per cent.

Plant and equipment investment

March 2010 - June 2014 (forecast)



Business performance

Overall results continued

Capacity utilisation

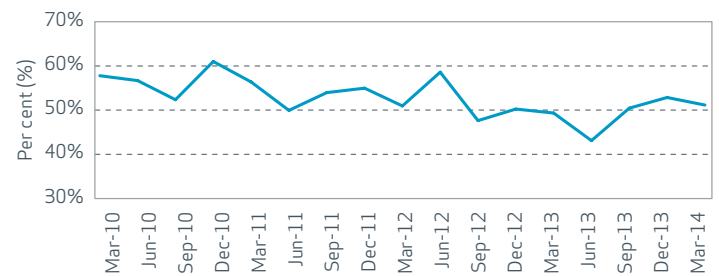
In the March quarter 2014, 51.2 per cent of respondents indicated that they were operating at a satisfactory level of capacity, down from the 52.9 per cent reported in the previous quarter, but up on the corresponding period last year (49.4 per cent).

In total, 50 per cent of respondents reported that they are currently operating in excess of 80 per cent of capacity (down from 53 per cent in the last quarter), while nine per cent of respondents reported a low rate of capacity utilisation (less than 60 per cent). The remaining 41 per cent are operating at between 60 and 80 per cent of capacity.

Among the different industries, the [education, health and community services](#) sector reported the highest level of capacity utilisation (61 per cent of respondents in this sector operating at over 80 per cent of capacity), closely followed by the [finance, property and business services](#) sector (59 per cent).

Business operating at a satisfactory rate of capacity

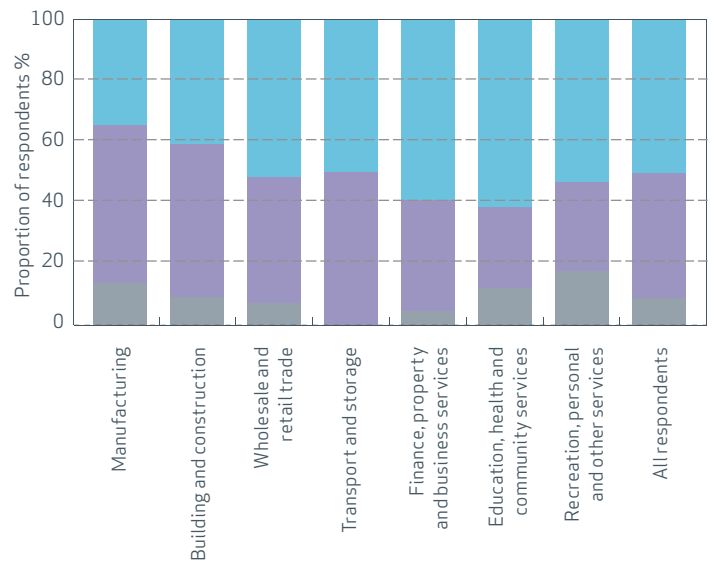
March 2010 - March 2014



Rate of capacity utilisation

March quarter 2014

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



Business performance

Industry-specific results

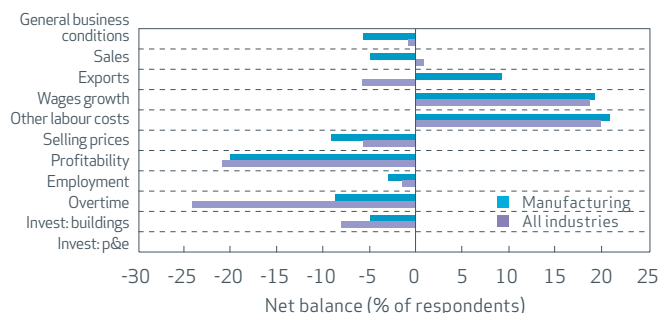
Manufacturing

Respondents in the [manufacturing](#) sector reported relatively tough trading conditions in the March quarter 2014, with a net balance of six per cent of respondents reporting a decline in general business conditions. Furthermore, declines in profitability were widespread, along with reduced sales, selling prices, employment and investment in buildings and structures. However, exports were up nine per cent on a net balance basis.

For the June quarter 2014, respondents in the [manufacturing](#) sector are more optimistic, with turnarounds expected for most indicators, with the exception of investment and overtime.

Business performance indicators

March quarter 2014



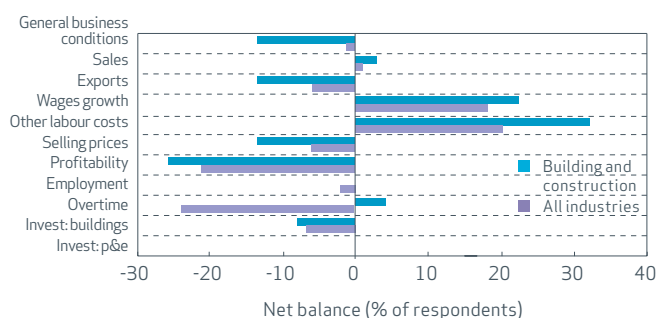
Building and construction

Respondents in the [building and construction](#) industry reported difficult trading conditions over the March quarter. Despite gains in the previous quarter, general business conditions and exports weakened during the March quarter, while selling prices and profitability were under pressure. However, sales and overtime showed some improvement.

Over the June quarter, respondents in the [building and construction](#) industry generally expect most key indicators to improve. However, trends in exports and investment are expected to remain subdued.

Business performance indicators

March quarter 2014



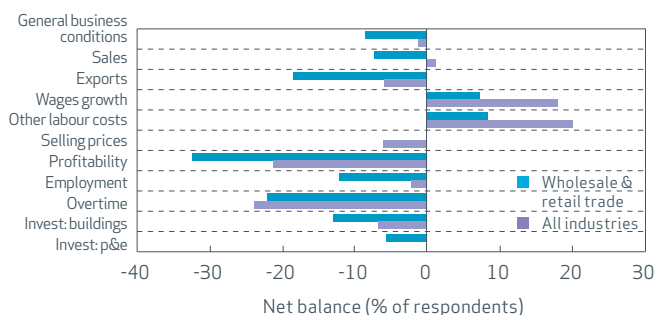
Wholesale and retail trade

The [wholesale and retail trade](#) sector also experienced challenging conditions in the March quarter 2014. Trends in general business conditions, sales, exports, and employment were all negative, with profitability experiencing particularly sharp falls. However, wages growth and other labour costs continued to rise.

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

Business performance indicators

March quarter 2014



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

Business performance

Industry-specific results continued

Transport and storage

In the March quarter 2014, the [transport and storage](#) sector reported difficult trading conditions. With the exception of investment in plant and equipment, all key business indicators were under pressure, especially when compared against the all industries average.

For the upcoming June quarter 2014, respondents in this industry expect overall conditions to remain challenging, with the exception of sales, which are expected to stabilise.

**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 March quarter 2014. General business conditions and sales were positive, but selling prices, profitability and employment weakened.

For the June quarter 2014, expectations for respondents in this sector are positive, with all key indicators, except employment and overtime levels, forecast to improve.

Education, health and community services

Over the March quarter 2014, respondents in the [education, health and community services](#) sector reported generally positive conditions, with increases in all key areas, except exports, profitability and overtime. Unfortunately, increases in wages and other labour costs were also widespread.

With the exception of exports and overtime, respondents in this sector expect conditions to further improve in the next quarter.

Recreation, personal and other services

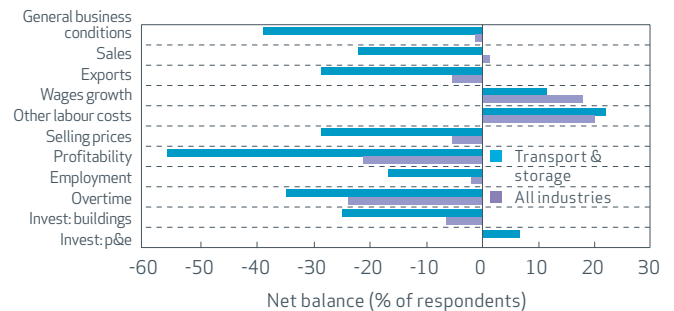
Over the March quarter, respondents in the [education, health and community services](#) sector reported mixed conditions. Though employment was up, general business conditions, sales and exports remained largely unchanged since the previous quarter. Selling prices, profitability, overtime and investment were weaker over the quarter.

Respondents in this sector expect mixed conditions to continue in the June quarter 2014.

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

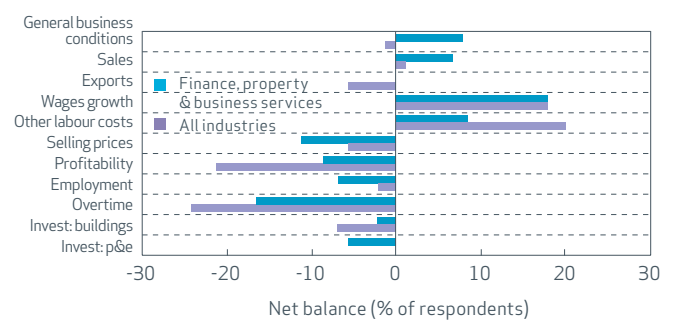
Business performance indicators

March quarter 2014



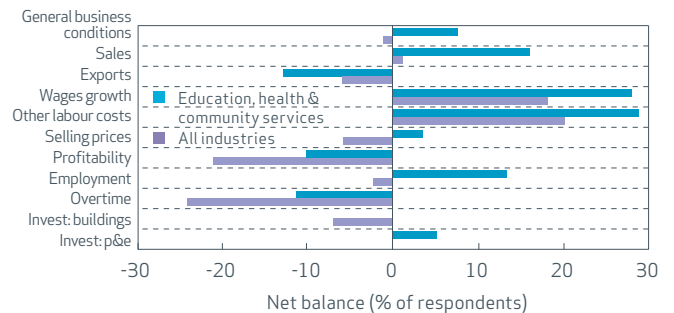
Business performance indicators

March quarter 2014



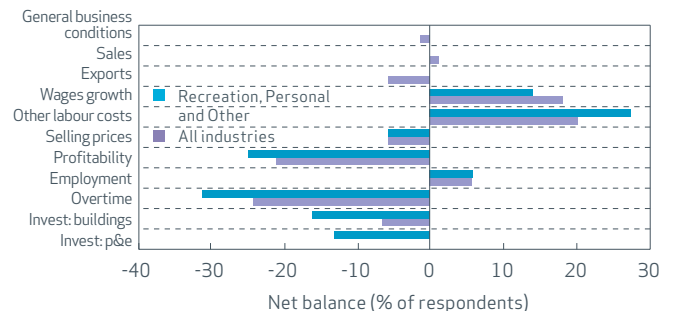
Business performance indicators

March quarter 2014



Business performance indicators

March quarter 2014



Special questions

Money management

In the March quarter 2014 survey, respondents were asked two questions with regard to their money management practices. The first question asked respondents about the use of their overdraft or cash holdings, while the second question related to the protection of their cashflow.

Use of overdraft or cash holdings

In the first question, respondents were asked how often they purchase business equipment from their overdraft or cash holdings.

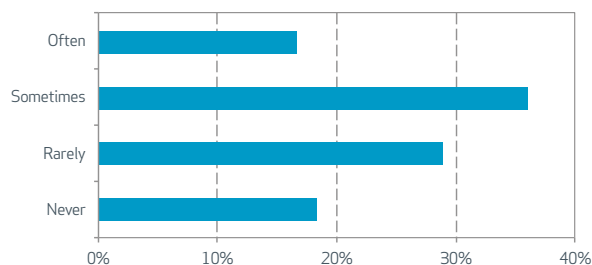
Of the respondents who answered this question, the majority (36 per cent) indicated that they sometimes use their overdraft or cash holdings to purchase business equipment. At 29 per cent, a sizable portion of respondents indicated that they rarely use their overdraft or cash holdings for these purposes. Eighteen per cent indicated that they never use their overdraft or cash holdings to purchase business equipment, while 17 per cent indicated they often utilise their overdraft or cash holdings to buy business equipment.

Cashflow protection

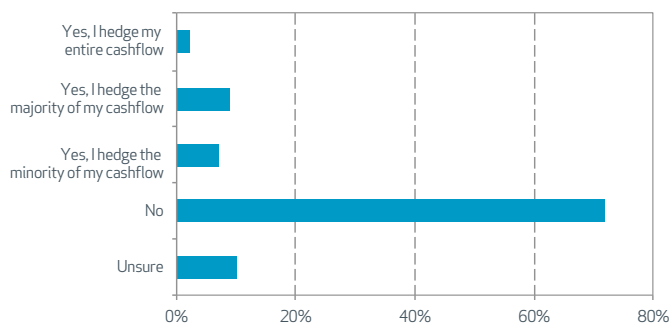
In the second question, respondents were asked whether they protect their cashflow against interest rate changes by using a fixed loan or other hedging product.

Of the respondents to this question, the vast majority (71 per cent) replied that their business does not use fixed loans or other hedging products to protect against interest rate changes. Ten per cent of respondents were unsure whether they employed any of the abovementioned protection measures. A total of 19 per cent of respondents indicated that they employed some level of protection for their cashflow by using a fixed loan or other hedging product; nine per cent hedge the majority of their cashflow, eight per cent hedge the minority of the cashflow, while only two per cent hedge their entire cashflow against interest rate changes.

How often do you purchase business equipment from your overdraft or cash holdings?



Do you protect your cashflow against interest rate changes by using a fixed loan or other hedging product?



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 March quarter 2014

Of the respondents to the March quarter 2014 survey, 67.1 per cent were located in metropolitan Melbourne, with the remaining 32.9 per cent were located in regional Victoria.

Overall, 47.9 per cent were small businesses (employing less than 20 staff), a further 42.3 per cent were medium-sized businesses (employing between 20 and 99 staff), and the remaining 9.8 per cent were large businesses (employing 100 or more staff).

Furthermore, 28.2 per cent of the businesses in this survey were involved in trade related activities (i.e. exporting/importing).

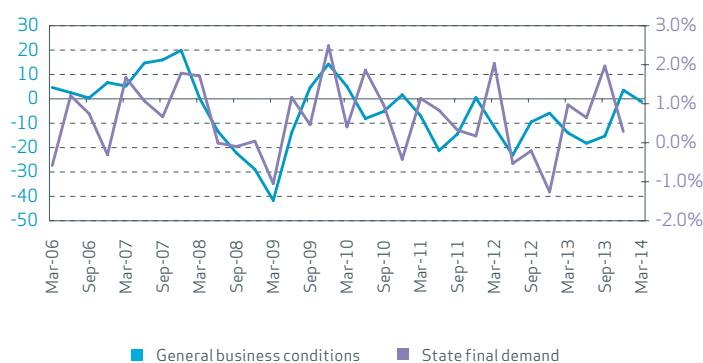
Industry sector (ANZSIC division)	(%)
Agriculture, Forestry and Fishing	2.8
Manufacturing	19.9
Building and Construction	9.8
Wholesale and Retail Trade	20.8
Transport and Storage	5.5
Finance, Property and Business Services	18.7
Education, Health and Community Services	15.0
Recreation, Personal and Other Services	5.2
Other	2.3
TOTAL	100

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

In the graph below, 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

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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