

# VECCI - Bank of Melbourne

Survey of business trends  
and prospects



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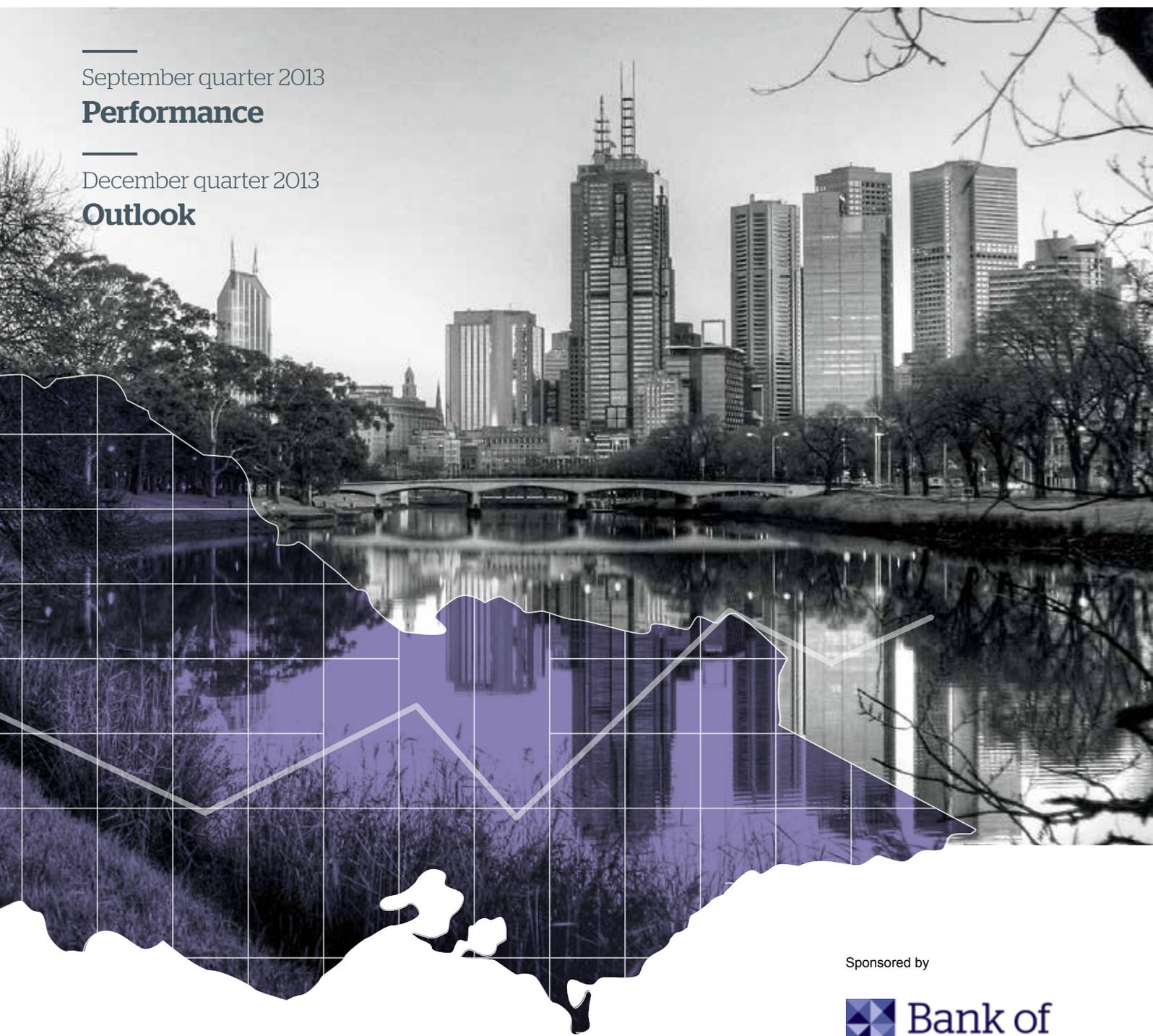
September quarter 2013

## Performance

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December quarter 2013

## Outlook



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# Summary of results

VECCI's business sentiment index for the Australian economy improved significantly in the September quarter 2013. In total, 40 per cent of respondents anticipate stronger national economic growth over the year ahead, an improvement of 21 percentage points on the June quarter 2013, and an improvement of 26 percentage points on the same time last year. In all, 16 per cent expect weaker conditions in the year ahead, which is a decrease of 19 percentage points on the proportion of respondents who held this view when surveyed last quarter.

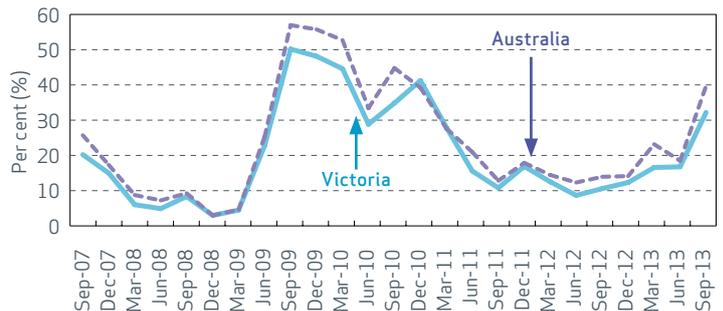
Expectations for the performance of the Victorian economy over the year ahead also improved significantly, with 32 per cent of respondents expecting stronger state economic conditions for the year ahead. This is an improvement of 15 percentage points on the previous quarter and 20 percentage points on the same period last year. Overall, 17 per cent of respondents expect Victoria's economic performance to weaken over the next 12 months, compared to 34 per cent who held this view last quarter. About half of the respondents expect no change over the year ahead.

Notwithstanding the improved near-term outlook, in the September quarter 2013, respondents reported weak conditions across all business indicators, including general business conditions, sales, selling prices and profitability. However, expectations for the December quarter 2013 are that business conditions will visibly improve, although sales are expected to fall further.

Regional respondents are more likely than their metropolitan counterparts to expect stronger economic conditions over the year ahead for the national economy as well as the Victorian economy. In the September quarter 2013, regional respondents experienced stronger sales, exports and selling prices than their metropolitan counterparts. However, metropolitan respondents reported a somewhat stronger employment climate when compared to their regional counterparts.

With the exception of the [education, health and community services](#) sector, business performance over the September quarter 2013 was largely weaker across most surveyed sectors, with the [building and construction](#) industry experiencing a particularly challenging quarter.

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



# Business sentiment

## Australian economic outlook

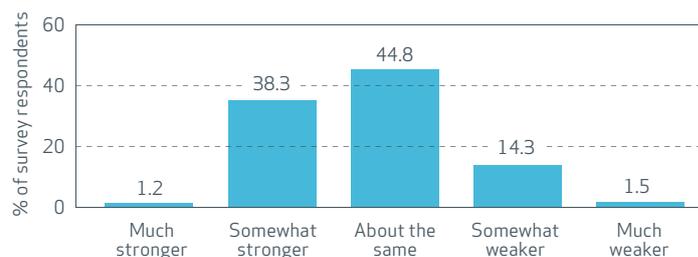
Business confidence in the 12-month outlook for the Australian economy improved significantly in the September quarter 2013. The proportion of respondents expecting stronger conditions over the year ahead increased from 19 to 40 per cent. Correspondingly, respondents expecting weaker conditions decreased from 35 to 16 per cent.

Just under half of the survey respondents (45 per cent) expect Australia's economic conditions to remain about the same for the year ahead.

The [building and construction](#) sector was the industry most likely to expect stronger national economic conditions in the year ahead, with 52 per cent of respondents expecting the Australian economy to be stronger. 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 22 per cent expecting much weaker or somewhat weaker conditions.

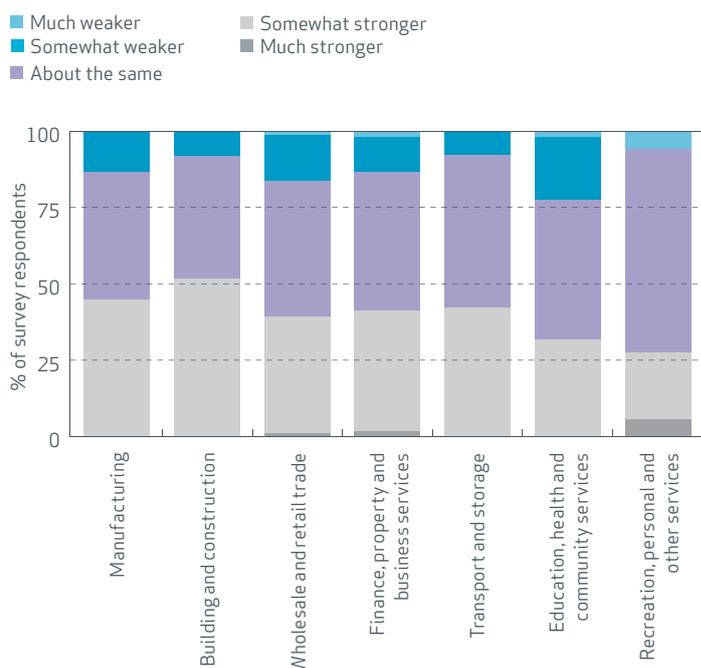
## Australian economic outlook

*Expected performance 12 months to September quarter 2014*



## Australian economic outlook by industry

*Expected performance 12 months to September quarter 2014*



# Business sentiment

## continued

### Victorian economic outlook

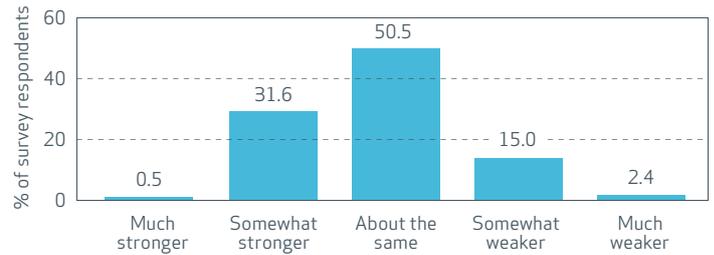
Business confidence in the outlook for the Victorian economy also increased during the September quarter. In total, 32 per cent of respondents expect the state's economy to strengthen over the next 12 months – an improvement on the 17 per cent reported in the June quarter, and an increase on the 11 per cent reported during the same period last year.

Weaker conditions for the state economy in the year ahead are expected by a total of 17 per cent of respondents, an improvement on last the quarter when 34 per cent of respondents held this view. In all, about half of the respondents expect the state's economic conditions to remain about the same.

At 45 per cent, respondents in the [finance, property and business services](#) industry were most likely to expect stronger conditions for the Victorian economy over the year ahead, closely followed by those in the [building and construction and manufacturing](#) industries (39 and 37 per cent respectively). Similarly, as with the national economic outlook, respondents in the [education, health and community services](#) industry were the most likely to expect the performance of the Victorian economy to deteriorate, with 25 per cent expecting much weaker or somewhat weaker conditions.

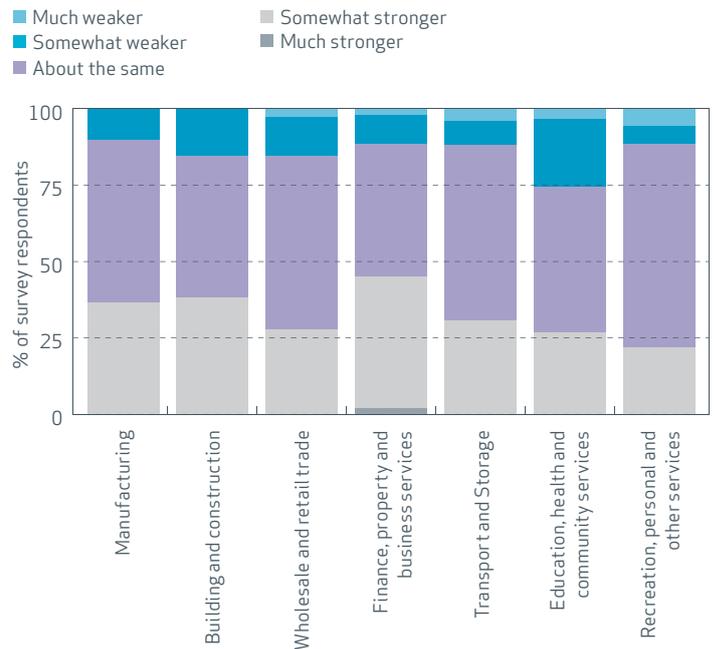
### Victorian economic outlook

*Expected performance 12 months to September quarter 2014*



### Victorian economic outlook by industry

*Expected performance 12 months to September quarter 2014*



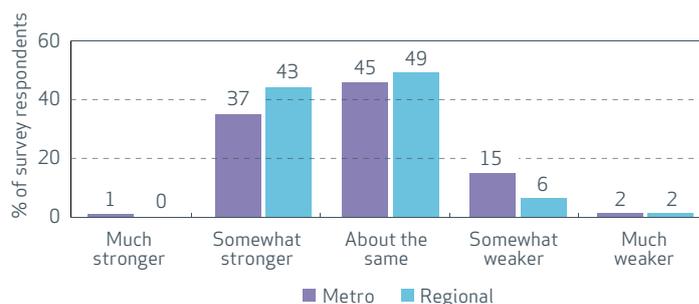
### Australian economy: regional versus metropolitan outlook

On the outlook for the Australian economy, regional businesses were more likely to expect stronger conditions for the year ahead (43 per cent) compared to their metropolitan counterparts (38 per cent). The expectations of both groups were up on the previous quarter (20 and 17 per cent respectively were expecting stronger economic conditions).

On the flipside, 17 per cent of metropolitan and eight per cent of regional respondents expect a deterioration in trading conditions over the next 12 months.

### Australian economic outlook

Expected performance 12 months to September quarter 2014



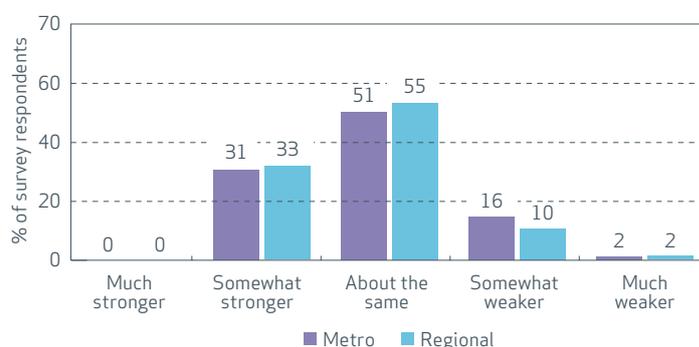
### Victorian economy: regional versus metropolitan outlook

With regard to the outlook for the Victorian economy, regional respondents are also more likely to expect stronger conditions over the year ahead (33 per cent) compared to metropolitan respondents (31 per cent).

In total, 18 per cent of metropolitan respondents and 12 per cent of regional respondents expect weaker economic conditions in Victoria over the year ahead.

### Victorian economic outlook

Expected performance 12 months to September quarter 2014

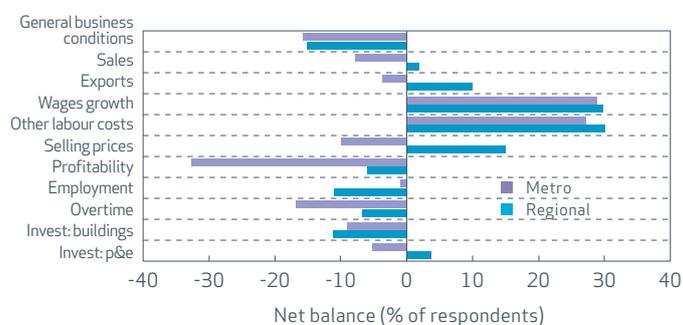


### Regional versus metro business performance - at a glance

In the September quarter 2013, metropolitan respondents were slightly more likely to have experienced weaker general business conditions than their regional counterparts. Metropolitan businesses also reported net balance declines in sales, exports and selling prices, while their profitability was significantly weaker than their regional counterparts. Conversely, regional respondents saw an uplift in sales and selling prices, although employment trends were weaker when compared with their metropolitan counterparts. There were widespread increases in wages and other labour costs among both metropolitan and regional respondents.

*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.*

### 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 a deterioration, a net 15 per cent of respondents reported weaker general business conditions over the September quarter 2013. The deterioration is slightly less widespread than the June quarter result, when a net 18 per cent of respondents reported a decline. However, this is a weaker result than the same period last year when a net nine per cent reported weaker conditions.

Expectations for the December quarter 2013 are positive, with 38 per cent of respondents expecting stronger general business conditions against only 12 per cent of respondents expecting weaker general business conditions, giving a positive net balance result of 26 per cent

### Sales

In the September quarter 2013, a net balance of seven per cent of respondents reported a decrease in sales, comprising of 29 per cent who reported an increase and 36 per cent a decline. This is a slightly better result compared with the June quarter, but a deterioration of three percentage points on the net balance recorded in the same quarter of last year.

On a net balance basis, a net 28 per cent of respondents expect sales to increase in the December quarter 2013.

### Exports

In the September quarter 2013, a net balance of two per cent of respondents reported a decline in exports, which is an improvement on the previous quarter when a net 11 per cent of respondents reported a decline. This is also a slight improvement on the same period last year when a negative net balance of four per cent was reported.

Expectations for the next quarter are positive, with a net balance of 10 per cent of respondents expecting an increase in exports.

### General business conditions

September 2009 - December 2013 (forecast)



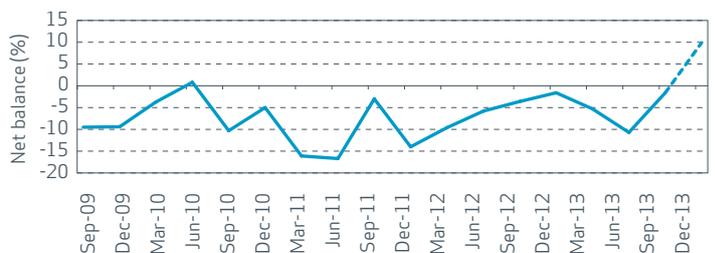
### Sales

September 2009 - December 2013 (forecast)



### Exports

September 2009 - December 2013 (forecast)



### Wages growth

Wages growth was again widespread in the September quarter 2013, with a net balance of 29 per cent of respondents reporting an increase – up seven percentage points on the June quarter.

Wage increases are again expected in the December quarter 2013, although this view is less widespread when compared to the previous quarter, with a net balance of 26 per cent of respondents currently 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 September quarter 2013, a net balance of 27 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 18 per cent of respondents expect other labour costs to rise in the December quarter 2013.

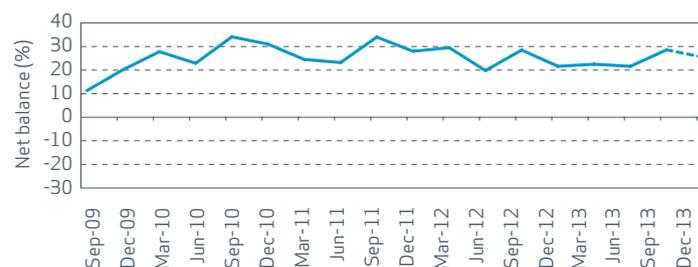
### Selling prices

In the September quarter 2013, a net six per cent of respondents reported a decline in selling prices, comprising of 15 per cent who reported an increase and 21 per cent who reported a decline. The decline was less widespread than last quarter, when a net 12 per cent reported a decrease.

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

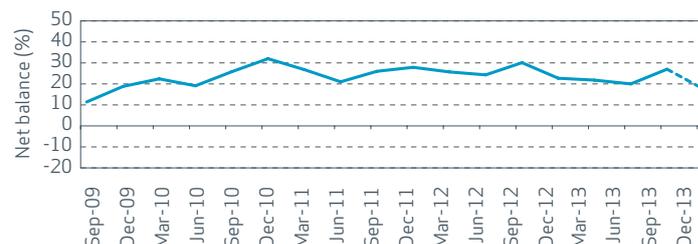
### Wages growth

September 2009 – December 2013 (forecast)



### Other labour costs

September 2009 – December 2013 (forecast)



### Selling prices

September 2009 – December 2013 (forecast)



# Business performance

## Overall results continued

### Profits

Falls in business profitability were similar to the June quarter, with a net 28 per cent of respondents again reporting a decline in the September quarter 2013. This is a weaker result when compared to the same period last year, when a net balance of 23 per cent reported a decline.

However, for the December quarter 2013, a net balance of six per cent of respondents expect improvements in profitability.

### Employment

Respondents reported slightly negative employment results for the September quarter 2013, with a net two per cent of respondents reporting a decrease in their level of employment. This is almost the same as last quarter's results (negative three per cent), but slightly more negative when compared with the same period last year when employment levels remained unchanged on a net balance basis.

Over the December quarter 2013, employment is expected to improve, with a net balance of four per cent of respondents expecting an increase.

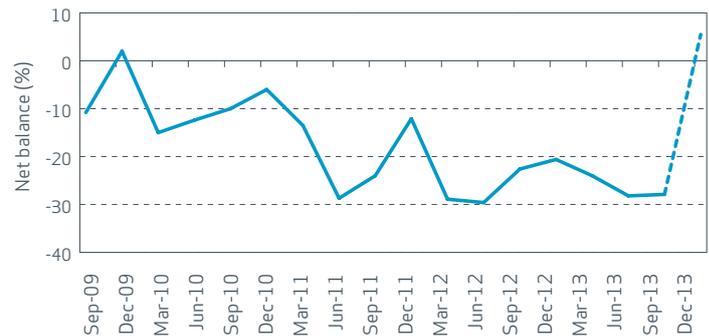
### Overtime

In the September quarter 2013, a net balance of 15 per cent of respondents reported a fall in the level of overtime worked. This is a similar result to the previous quarter, but more negative than the same period last year when 10 per cent of respondents reported a decline.

However, for the December quarter 2013, a net balance of only two per cent of respondents expect to reduce the level of overtime offered to employees.

### Profits

September 2009 - December 2013 (forecast)



### Employment

September 2009 - December 2013 (forecast)



### Overtime

September 2009 - December 2013 (forecast)



### Buildings and structures investment

In the September quarter 2013, buildings and structures investment declined for a net balance of eight per cent of respondents (which was made up of 15 per cent who reported an increase and 23 per cent who reported a decline). This decline was less widespread than last quarter (16 per cent), but slightly more than the same period last year, when a net balance of seven per cent reported a decline.

For the December quarter 2013, a net balance of three per cent of respondents expect to reduce their level of investment in buildings and structures.

### Plant and equipment investment

A net balance of five per cent of respondents reported a decline in plant and equipment investment in the September quarter 2013, which is an improvement on the previous quarter when a net balance of 10 per cent reported a decline. In comparison, the result for the same period last year was slightly better with a net decrease of only two per cent.

For the December quarter 2013, an improvement in the level of investment in plant and equipment is expected by a net balance of four per cent of respondents.

### Buildings and structures investment

September 2009 - September 2013 (forecast)



### Plant and equipment investment

September 2009 - September 2013 (forecast)



# Business performance

## Overall results continued

### Capacity utilisation

In the September quarter 2013, 50.5 per cent of respondents indicated that they were operating at a satisfactory level of capacity, up from both the 43.2 per cent in the last quarter and the corresponding period last year (47.7 per cent).

In total, 46 per cent of respondents reported that they are currently operating in excess of 80 per cent of capacity (up from 41 per cent in the last quarter), while 10 per cent of respondents reported a low rate of capacity utilisation (less than 60 per cent). The remaining 44 per cent are operating at between 60 and 80 per cent of capacity.

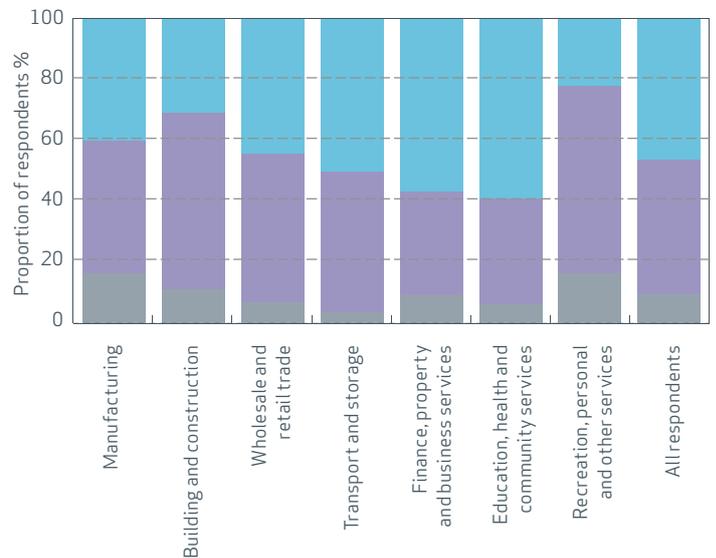
Levels of capacity utilisation among industries did shift, however, with the [education, health and community services](#) sector reporting the highest level of capacity utilisation (59 per cent of respondents in this sector operating at over 80 per cent of capacity), closely followed by the [finance, property and business services](#) and [transport and storage](#) sectors (57 and 50 per cent of respondents in these sectors respectively).

### Business operating at a satisfactory rate of capacity September 2009 - December 2013



### Rate of capacity utilisation September quarter 2013

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



# Business performance

## Industry-specific results

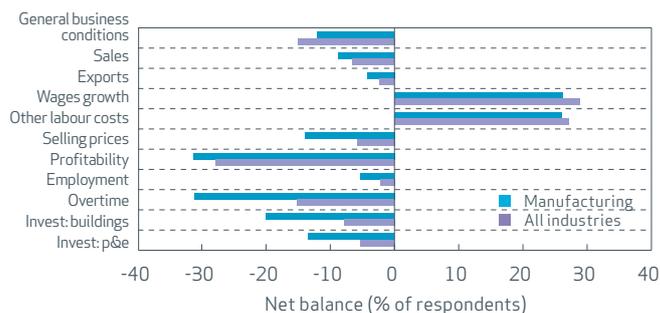
### Manufacturing

Respondents in the [manufacturing](#) sector reported tough trading conditions in the September quarter 2013. A net balance of 12 per cent of respondents reported a decline in general business conditions, which was less widespread than last quarter when a net 21 per cent reported a decline. Selling price declines were widespread, along with reduced profitability. Investment declines were also much more widespread than in other industries.

For the December quarter 2013, respondents in the [manufacturing](#) sector are noticeably more optimistic, with turnarounds expected for all indicators.

### Business performance indicators

September quarter 2013



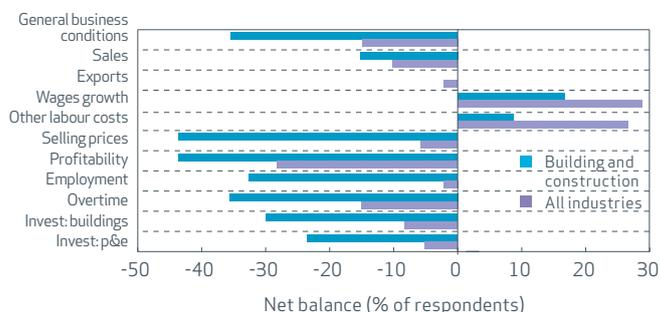
### Building and construction

Respondents in the [building and construction](#) industry also reported widespread declines in all key indicators, and increases in wages and other labour costs. In line with the previous quarter, sales, selling prices, profitability, employment, overtime and investment again all reported marked declines. General business conditions were down for a net balance of 36 per cent of respondents, while selling prices and profitability were both down for a net balance of 44 per cent.

Over the next quarter, respondents in the [building and construction](#) industry generally expect most key indicators to improve. However, increases in wages and other labour costs are expected to be widespread.

### Business performance indicators

September quarter 2013



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

### Wholesale and retail trade

The **wholesale and retail trade** sector also experienced tough trading conditions in the September quarter, with a net balance of 21 per cent reporting a deterioration in general business conditions. Declines were reported across all areas, with sales decreases and widespread declines in profitability. However, the pressure on selling prices and increases in wages and other labour costs were less pronounced than the all industries averages.

Respondents in this industry expect significant improvements in all key indicators in the December quarter 2013.

### Transport and storage

In the September quarter 2013, like in the previous quarter, the **transport and storage** sector reported weaker conditions. General business conditions and sales deteriorated, although to a lesser extent than compared with the average for all industries. However, exports, selling prices, profitability and investment showed significant declines.

For the upcoming December quarter 2013, respondents in this industry expect significant improvements across all key indicators, with only selling prices and investment in buildings and structures expected to remain negative.

### Finance, property and business services

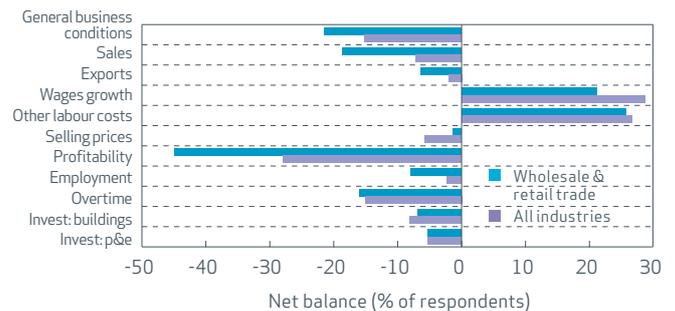
The **finance, property and business services** sector reported relatively positive conditions during the September quarter 2013. Although some key indicators, such as general business conditions, sales, selling prices and profitability, reported declines, they were less pronounced than the average for all industries. Noticeably, employment levels increased for a net balance of 12 per cent of respondents.

For the December quarter, expectations for respondents in this sector are positive, with all key indicators, except overtime and investment, forecast to improve.

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

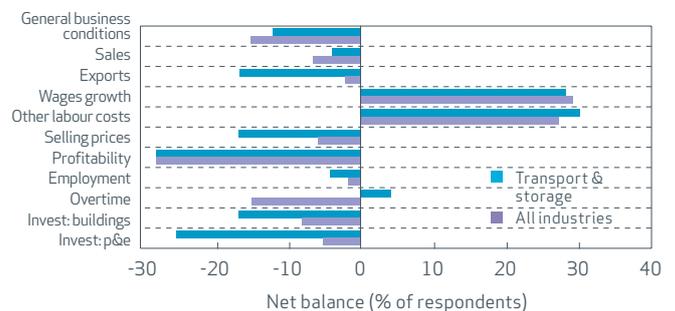
### Business performance indicators

September quarter 2013



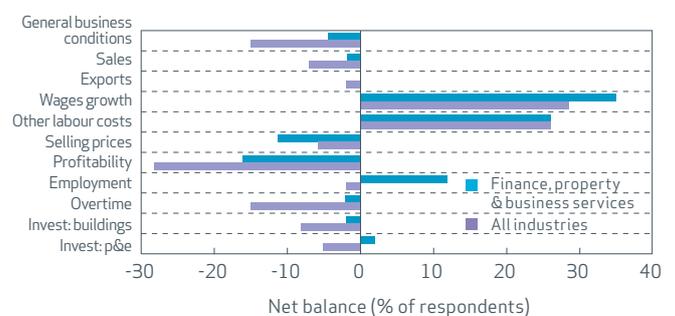
### Business performance indicators

September quarter 2013



### Business performance indicators

September quarter 2013



### Education, health and community services

Over the September quarter, respondents in the [education, health and community services](#) sector reported some negative conditions, with declines in general business conditions, exports, profitability and overtime. However, these were relatively limited when compared to the all industries average. Sales and employment reported widespread growth, along with investment in both buildings and structures, and plant and equipment.

Though respondents in this sector expect key indicators such as general business conditions and sales to improve over the December quarter 2013, exports, profitability and overtime are expected to deteriorate. Selling prices, employment and investment in building and structures, and plant and equipment, are expected to increase.

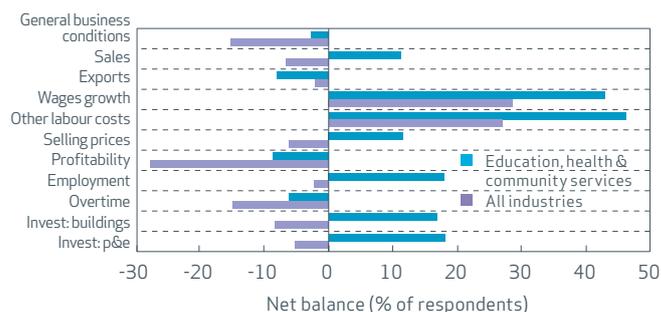
### Recreation, personal and other services

Respondents in the [recreation, personal and other services](#) sector reported weaker conditions in the September quarter 2013. General business conditions, profitability and employment were all down, while sales and selling prices were flat.

For the December quarter 2013, expectations are mixed, although on balance comparatively negative. Sales and selling prices are expected to improve, but profitability, employment and investment are expected to deteriorate.

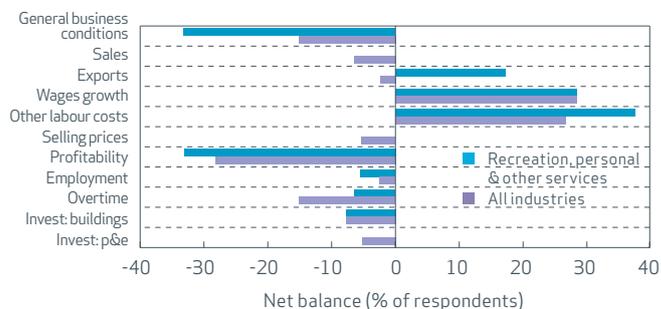
### Business performance indicators

September quarter 2013



### Business performance indicators

September quarter 2013



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

# Special questions

## Business input costs and receptiveness of customers to price rises

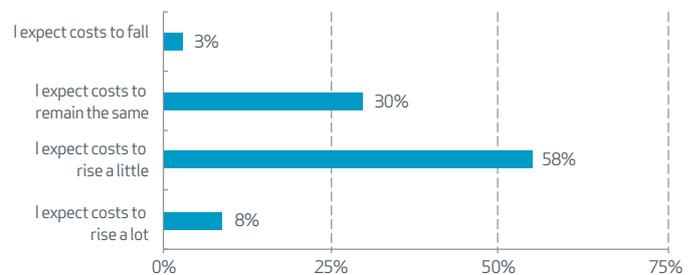
In the September quarter 2013 survey, respondents were asked two extra questions with regard to costs. The first question asked respondents how they anticipate their cost structure to change, while the second question asked respondents how receptive they believe their customers are to price rises.

### Business input costs

In the first question, respondents were asked how they expect their business input costs to change over the next six months.

At 58 per cent, the majority of respondents expect costs to rise a little. A significant portion of the respondents, (30 per cent), expect their business input costs to remain the same, while eight per cent of respondents expect their costs to increase considerably. Only three percent of the respondents expect their costs to fall over the next six months.

### How do you expect your business input costs will change over the next six months?

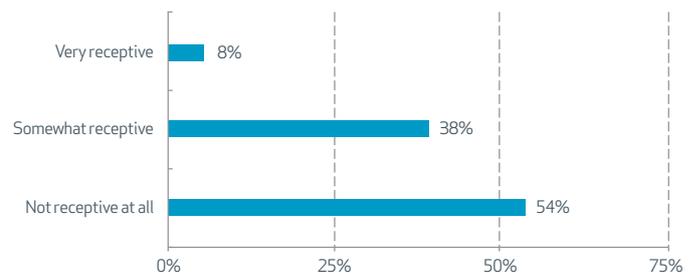


### Receptiveness of customers to price rises

In the second question, respondents were asked how receptive they believe their customers to be to price rises.

The majority of business (54 per cent) do not believe that their customers will be receptive to price rises. A significant number of businesses, (38 per cent), believe that their customers will be somewhat receptive to price rises, while eight per cent consider customers will be very receptive.

### How receptive do you believe your customers are to price rises?



# 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 300 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 2013

Of the respondents to the September quarter 2013 survey, 87.5 per cent were located in metropolitan Melbourne, with the remaining 12.5 per cent located in regional Victoria.

Overall, 44.2 per cent were small businesses (employing less than 20 staff), a further 42.8 per cent were medium-sized businesses (employing between 20 and 99 staff), and the remaining 13 per cent were large businesses (employing 100 or more staff).

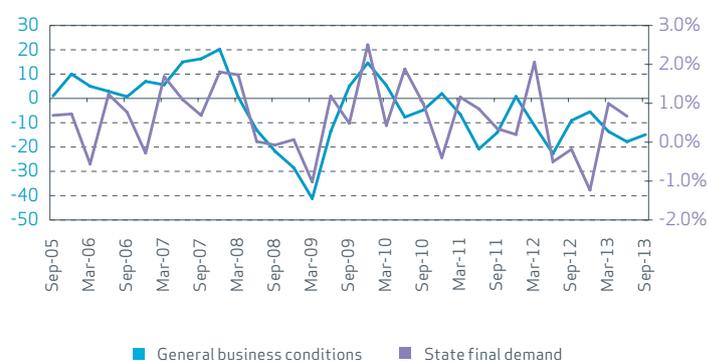
Industry sector (ANZSIC division)	(%)
Agriculture, forestry and fishing	2.3
Manufacturing	16.9
Building and construction	7.3
Wholesale and retail trade	24.2
Transport and storage	7.3
Finance, property and business services	14.9
Education, health and community services	17.7
Recreation, personal and other services	5.1
Other	4.3
<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 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.

# We're the Regional Bank of the Year.

Cheers to everyone who  
helped us get there.

Bank of Melbourne has brought a fresh approach to banking in Victoria. We are growing our contemporary branch network throughout Melbourne and regional Victoria, employing more Victorians and welcoming new customers.

We offer all the expertise, products and services you'd expect from your bank. The difference is we also offer the customised solutions and personal attention you'd expect from a local.

We can offer you a dedicated Business Relationship Manager who will be your one point of call. They'll provide you with access to specialists in Property, Financial Markets, Cash Flow Finance, Equipment Finance, Investments, and more. Call **13 82 66** to discuss your next steps with the business bank of Melbourne today.



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