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## *Visa - VECCI Survey of Business Trends & Prospects*

The Visa - VECCI 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.

The Visa - VECCI Survey of Business Trends and Prospects covers over 500 business respondents representing the diverse spectrum of Victorian industry. It covers small and medium as well as large sized businesses and includes enterprises located in both regional and metropolitan Victoria. Of the respondents, 38 per cent were located in regional Victoria, with the remaining 62 per cent located in metropolitan Melbourne.

The survey sample has been constructed to represent a comprehensive profile of the Victorian economy by industry sector. Respondents are drawn from the agriculture, mining, manufacturing, building and construction, transport and storage industries, as well as service sector industries including retail and wholesale trade, finance, property and business services, education, health and recreation.

### **The Survey Sample: Profile of Surveyed Businesses**

<b>Industry Sector (ANZSIC Division)</b>	<b>%</b>
Agriculture, Forestry and Fishing	3.2
Electricity, Gas and Water Supply <sup>1</sup>	1.0
Manufacturing	17.7
Building and Construction	5.5
Wholesale and Retail Trade	17.9
Transport and Storage	4.0
Finance, Property and Business Services	10.9
Government Administration and Defence <sup>1</sup>	3.0
Education, Health and Community Services	20.1
Recreation, Personal and Other Services	5.0
Other	11.7
<b>Total:</b>	<b>100%</b>

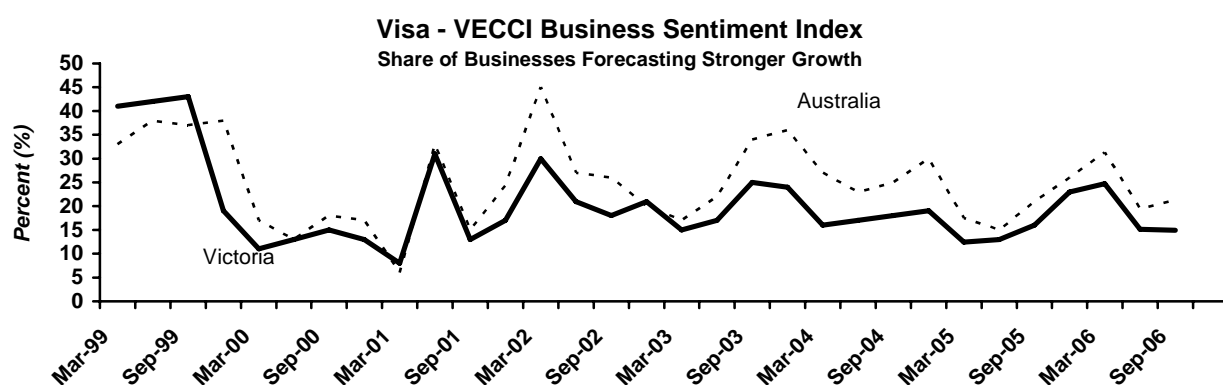
The survey sample is structured by ANZSIC division to reflect the actual business population in Victoria. The ABS Business Register Count as at September 2001 is used to obtain the appropriate weighting by type of business.

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<sup>1</sup> *Industry-specific results for the mining, government administration and defence, and electricity, gas and water industries are not included in this survey as the small number of respondents would render the analysis statistically unsound.*

## 1. Summary of Results

- Trading conditions for Victorian businesses softened during the June quarter 2006. Growth in general business conditions and sales levels eased during the quarter but remained positive, while profitability declined, and wage pressures continued to grow. Over the next three months, general business conditions, sales, exports, wages, selling prices, profitability and employment levels are all expected to rise.
- VECCI's Business Sentiment Index for the Australian economy rose marginally over the September quarter, signalling a mild improvement in the business community's perceptions of the prospects for the national economy over the next twelve months. A total of 22 per cent of respondents anticipate that the Australian economy will experience stronger growth over this period, an increase on the June quarter 2006, when 19 per cent of respondents held this view.
- Those industries where a notable proportion of respondents consider that Australia's economic performance will strengthen over the twelve months to September 2007 include the building and construction (36%) and recreation, personal and other services (40%) sectors.
- In contrast, a sizeable proportion of respondents in the manufacturing industry (31%) believe that national economic conditions will weaken over the forward period.
- Victoria's economic outlook remained steady over the September quarter 2006, with a total of 15 per cent of surveyed businesses anticipating that the State's economy will experience stronger growth during the next twelve months, consistent with the 15 per cent of respondents who held this view over the June quarter 2006. Thirty-two per cent of respondents expect Victoria's economy will weaken over the next 12 months.
- Businesses in the recreation, personal and other services (25%) and building and construction (23%) industries hold the most optimistic expectations for the future performance of the State economy.
- In contrast, wholesale and retail trade (41%), manufacturing (38%), transport and storage (31%) and finance, property and business services (31%) were industries where a sizeable proportion of respondents believe that State economic conditions will weaken over the next twelve months.



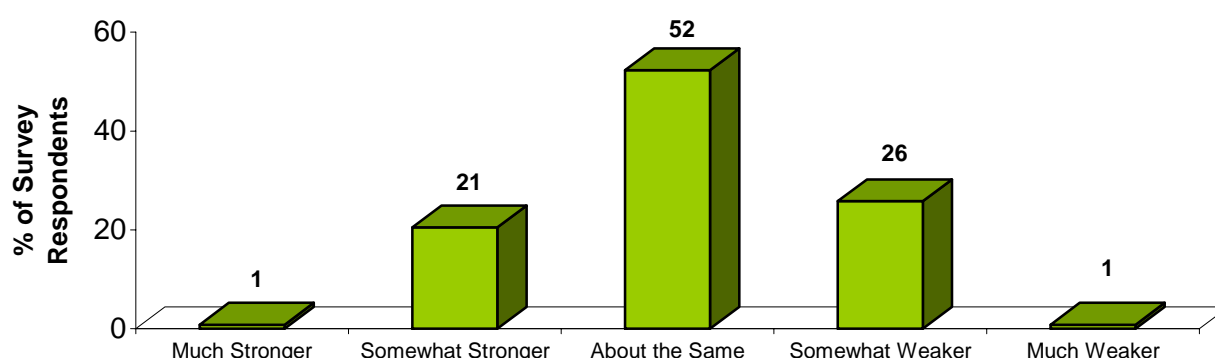
## 2. Survey Results in Detail

### Australian Economic Outlook

Business confidence in the short-term outlook for the Australian economy has improved marginally in the September quarter, with 22 per cent of respondents anticipating stronger economic growth over the next year. In the June quarter 2006, 19 per cent of respondents were expecting stronger growth over the year ahead, down from 30 per cent in the March quarter.

However, the September 2006 survey also revealed a slight increase in the number of respondents forecasting weaker economic conditions for the year ahead. In total, 27 per cent of respondents in the current quarter are pessimistic about the future of Australia's economy, compared with 26 per cent in the June quarter and 15 per cent in the March quarter.

**Australian Economic Outlook**  
**Expected Performance 12 Months to September Quarter 2007**



The recreational, personal and other services sector reported improved expectations for the Australian economy over the past three months, from 38 per cent expecting a stronger economic outlook for the national economy for the June quarter 2006, to 40 per cent during the current quarter. In the building and construction industry, 36 per cent of respondents expect a weaker Australian economy over the next 12 months, up from 17 per cent in the June quarter.

The view of manufacturers on the future prospects for Australia's economy is less optimistic, with 31 per cent of respondents stating that they believe the outlook for the next 12 months will be weaker.

### Australian Economic Outlook by Industry

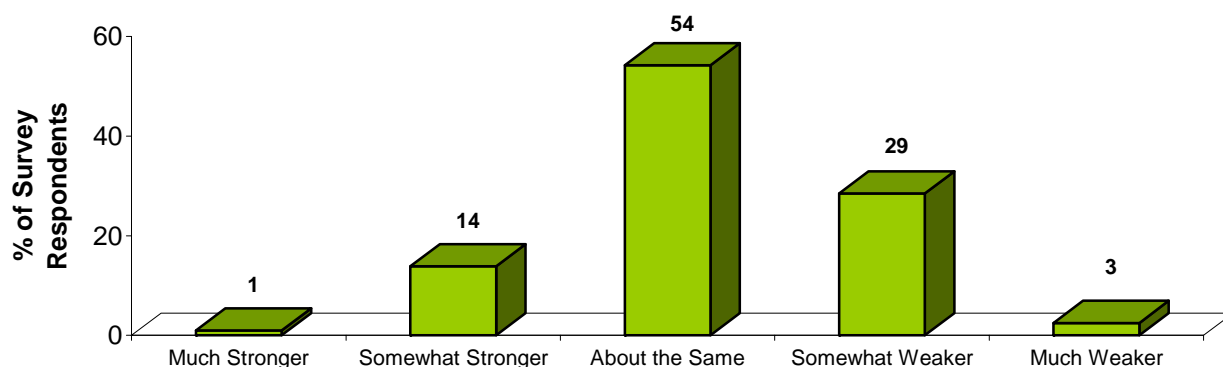
Industry	Expected Performance 12 Months to September quarter 2007 Proportion of respondents (%)				
	Much Stronger	Somewhat Stronger	About the Same	Somewhat Weaker	Much Weaker
Agriculture, Forestry and Fishing	0	17	58	25	0
Manufacturing	1	24	44	30	1
Building and Construction	0	36	36	27	0
Wholesale and Retail Trade	0	15	58	27	0
Transport and Storage	0	19	56	25	0
Finance, Property and Business Services	0	28	49	21	2
Education, Health and Community Services	0	12	62	26	0
Recreation, Personal and Other Services	0	40	40	15	5

## Victorian Economic Outlook

Business sentiment relating to Victoria's economic outlook has remained unchanged since the last quarterly survey. The 15 per cent of September quarter respondents expecting the State economy will experience stronger growth over the next twelve months is the same as that reported in the June survey, but down from the March quarter 2006, when 25 per cent of respondents held this view.

In all, 32 per cent of respondents expect that the State's economic performance will be weaker over the next 12 months, matching the view of respondents in the June quarter. Those surveyed in the March quarter 2006 were less pessimistic about the State's future economic performance, when 21 per cent expected weaker economic activity in Victoria over the year ahead.

**Victorian Economic Outlook**  
**Expected Performance 12 Months to September Quarter 2007**



In the recreational, personal and other services sector, 25 per cent of respondents believe that Victoria's economic performance will strengthen over the twelve months to September 2007. This contrasts with this sector's outlook for the national economy over the next year, where 40 per cent expect strengthening activity.

Wholesale and retail trade (41%), and manufacturing (38%) were industries where a considerable proportion of respondents believe that Victoria's economic conditions will weaken over the forward period.

## Victorian Economic Outlook by Industry

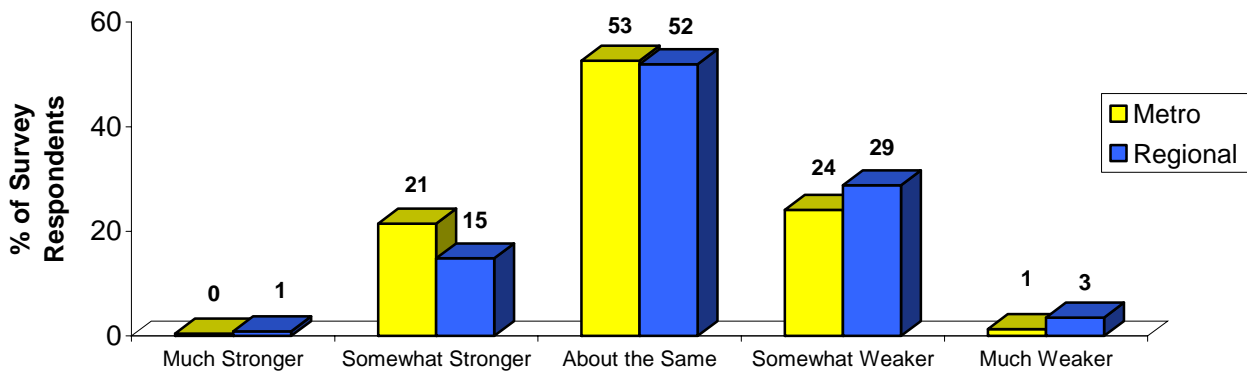
Industry	Expected Performance 12 Months to September quarter 2007 Proportion of respondents (%)				
	Much Stronger	Somewhat Stronger	About the Same	Somewhat Weaker	Much Weaker
Agriculture, Forestry and Fishing	0	15	54	15	15
Manufacturing	3	10	49	34	4
Building and Construction	0	23	59	14	5
Wholesale and Retail Trade	0	14	44	40	1
Transport and Storage	0	19	50	31	0
Finance, Property and Business Services	0	21	49	26	5
Education, Health and Community Services	0	11	65	24	0
Recreation, Personal and Other Services	5	20	50	20	5

## Australian Economy: Regional versus Metropolitan Outlook

In relation to the outlook for the Australian economy, a higher proportion of surveyed metropolitan businesses expect stronger economic conditions over the year ahead (21%), compared to regional respondents (16%). A notable 32 per cent of regional respondents believe that Australia's economic performance will be weaker over the coming 12 months, an increase of 4 percentage points on the June quarter figure of 28 per cent, and higher than the corresponding figure for metropolitan respondents of 25 per cent.

Both metropolitan and regional respondents are now more pessimistic about future national growth prospects than they were in the June and March quarters of 2006.

**Australian Economic Outlook**  
**Expected Performance 12 Months to September Quarter 2007**

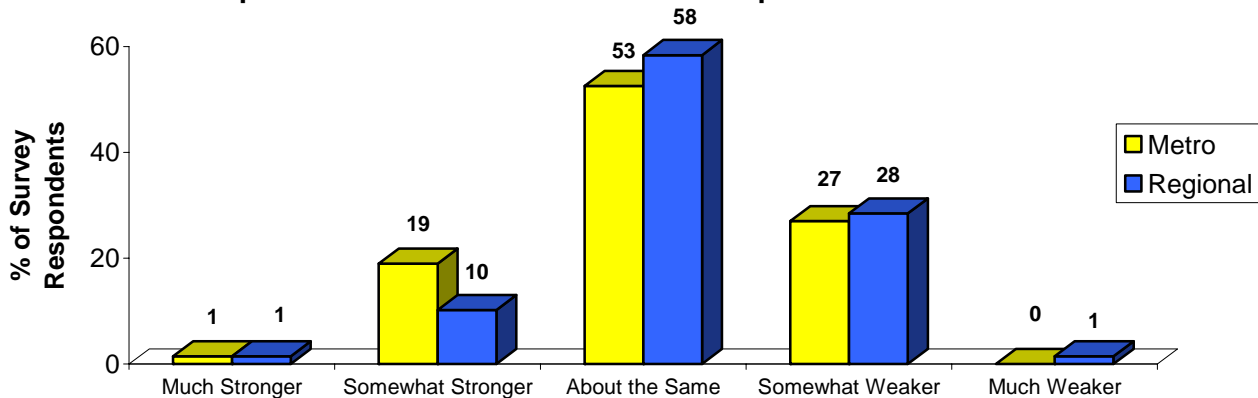


## Victorian Economy: Regional versus Metropolitan Outlook

In relation to the outlook for the Victorian economy, there has been a rise in the share of metropolitan respondents expecting stronger State economic activity over the next 12 months, from 13 per cent for the June quarter 2006, to 20 per cent for the September quarter 2006.

The proportion of metropolitan respondents expecting stronger State economic conditions outweighed that of regional respondents for the first time since the September quarter 2005, with 20 per cent of metropolitan respondents expecting stronger conditions compared with 11 per cent of regional respondents.

**Victorian Economic Outlook**  
**Expected Performance 12 Months to September Quarter 2007**



## Regional versus Metro Business Performance – At a Glance

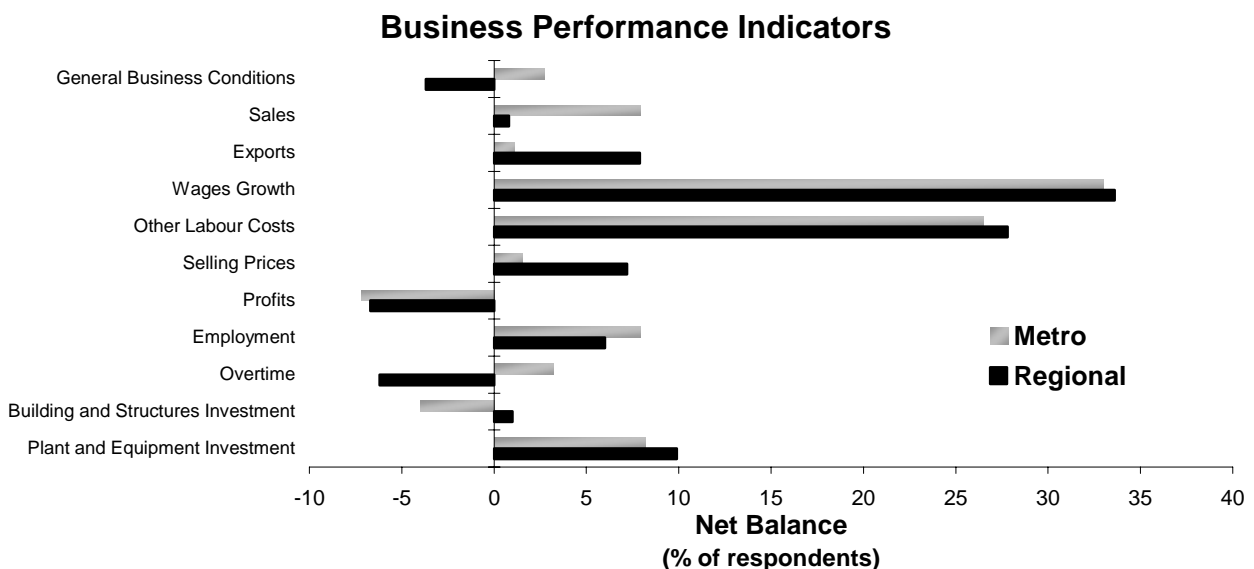
Business Indicator - Net Balance September Quarter 2006	Metro %	Regional %
General Business Conditions	3	-4
Sales	8	1
Exports	1	8
Wages Growth	33	34
Other Labour Costs	27	28
Selling Prices	2	7
Profits	-7	-7
Employment	8	6
Overtime	3	-6
Building and Structures Investment	-4	1
Plant and Equipment Investment	8	10

*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.*

Metropolitan respondents reported that general business conditions were slightly stronger during the September quarter (a net balance of 3%), while regional respondents reported weakening conditions (a negative net balance of 4%).

For metropolitan respondents, sales grew over the September quarter 2006 (8% on a net balance basis), while their regional counterparts reported a significant slowdown in sales growth; from 11 per cent over the June quarter 2006 to 1 per cent over the September quarter 2006.

A net balance of 7 per cent of regional respondents reported an increase in selling prices over the September quarter 2006, up from 1 per cent in the June quarter 2006. However, for metropolitan respondents there has been a downward shift in the proportion of businesses recording increases in selling prices, from a net balance of 5 per cent in the June quarter 2006 to 2 per cent in the September quarter 2006.



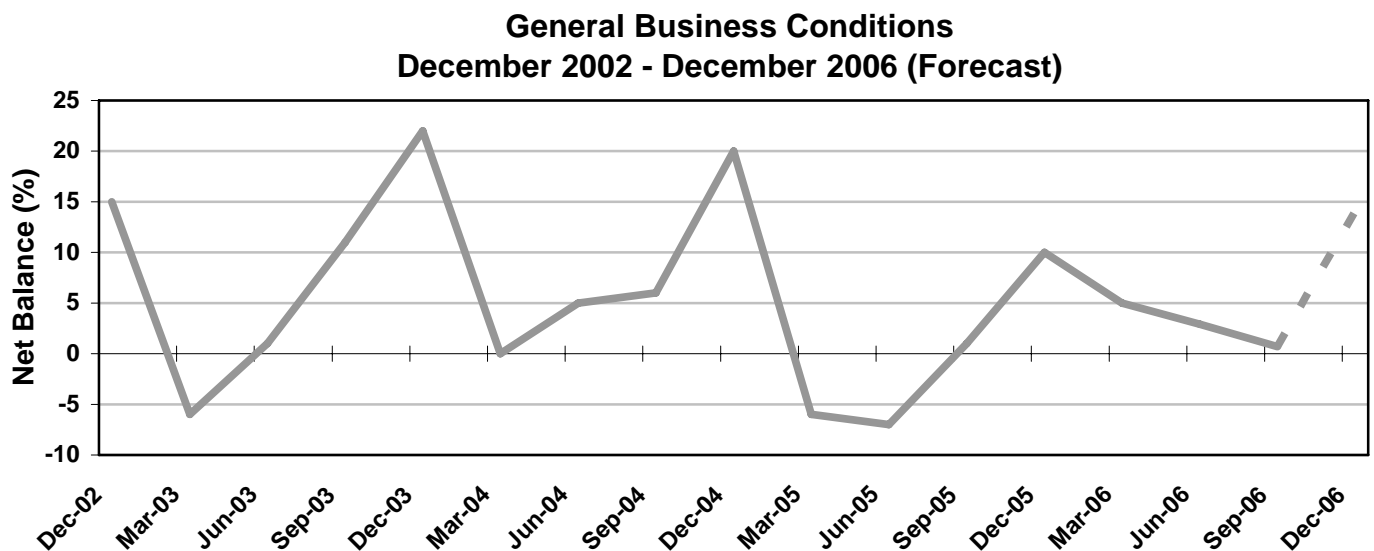
### 3. Business Performance: Overall Results

#### General Business Conditions

General business conditions were reportedly flat in the September quarter 2006, with a net 1 per cent of respondents reporting a lift in general business conditions. This figure is consistent with the result reported during the corresponding period in 2005.

General business conditions are expected to strengthen in the December quarter 2006, with a positive net balance of 14 per cent of respondents anticipating an improvement.

<b>General Business Conditions</b> (% of respondents reporting)		Up	Down	Net Balance
Actual Performance	<b>SEPTEMBER QUARTER, 2005</b>	24	23	<b>1</b>
	<b>DECEMBER QUARTER, 2005</b>	28	18	<b>10</b>
	<b>MARCH QUARTER, 2006</b>	27	22	<b>5</b>
	<b>JUNE QUARTER, 2006</b>	25	22	<b>3</b>
	<b>SEPTEMBER QUARTER, 2006</b>	23	22	<b>1</b>
Expected Performance	<b>DECEMBER QUARTER, 2006</b>	28	14	<b>14</b>

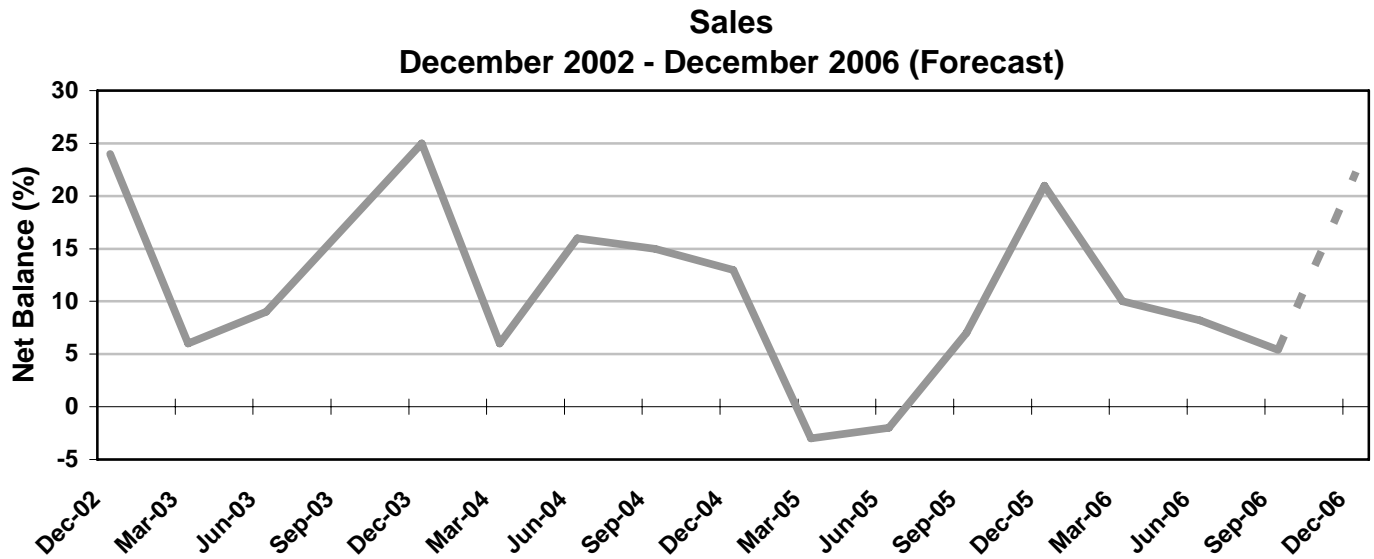


## Sales

A net balance of 5 per cent of respondents reported stronger sales over the September quarter 2006. This follows the June quarter 2006 survey where a net 8 per cent of respondents reported an increase in sales.

Respondents are optimistic that sales will strengthen over the December quarter 2006, with a positive net balance of 22 per cent predicting increased sales, in part reflecting the influence of seasonal trends.

		Sales (% of respondents reporting)		
		Up	Down	Net Balance
Actual Performance	SEPTEMBER QUARTER, 2005	35	28	7
	DECEMBER QUARTER, 2005	42	21	21
	MARCH QUARTER, 2006	38	28	10
	JUNE QUARTER, 2006	35	27	8
	SEPTEMBER QUARTER, 2006	34	28	5
Expected Performance	DECEMBER QUARTER, 2006	37	15	22

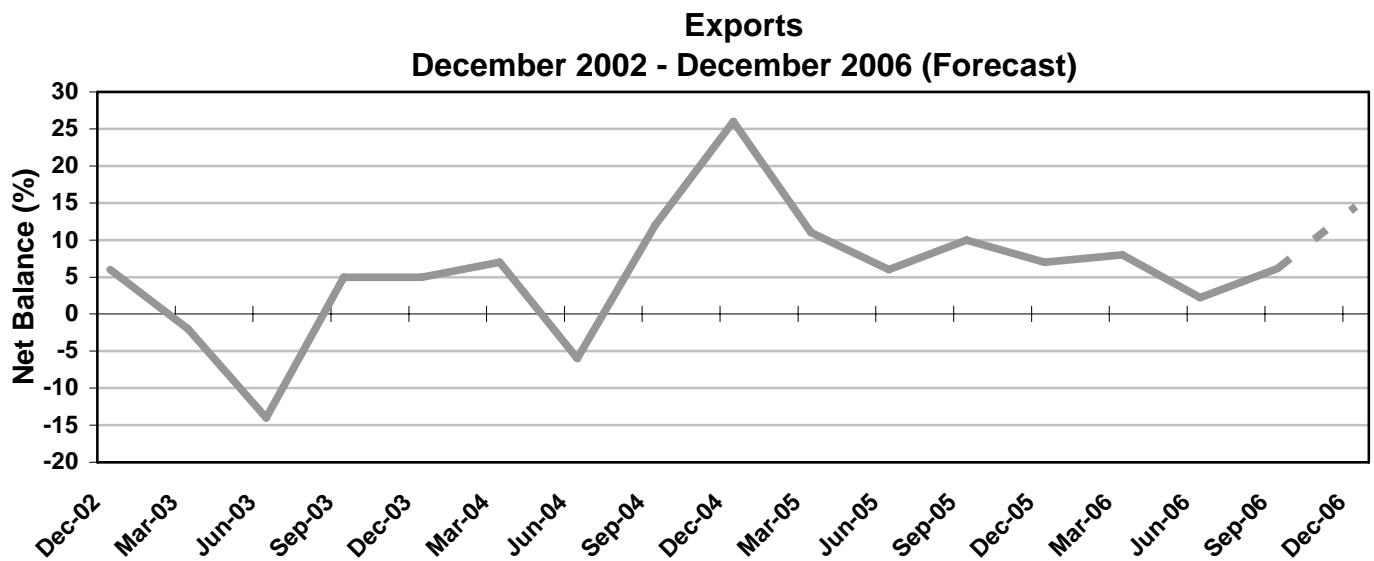


## Exports

Export trends remained positive, with a net balance of 6 per cent of respondents reporting an improvement in export sales over the September quarter 2006. This continues the relatively stable export growth reported by respondents since the December quarter of 2005.

An expansion in export levels is expected over the next three months, with a net balance of 15 per cent of respondents anticipating stronger export sales over the December quarter 2006.

		Exports (% of respondents reporting)		
		Up	Down	Net Balance
Actual Performance	SEPTEMBER QUARTER, 2005	22	12	10
	DECEMBER QUARTER, 2005	22	15	7
	MARCH QUARTER, 2006	23	15	8
	JUNE QUARTER, 2006	18	16	2
	SEPTEMBER QUARTER, 2006	16	10	6
Expected Performance	DECEMBER QUARTER, 2006	24	9	15

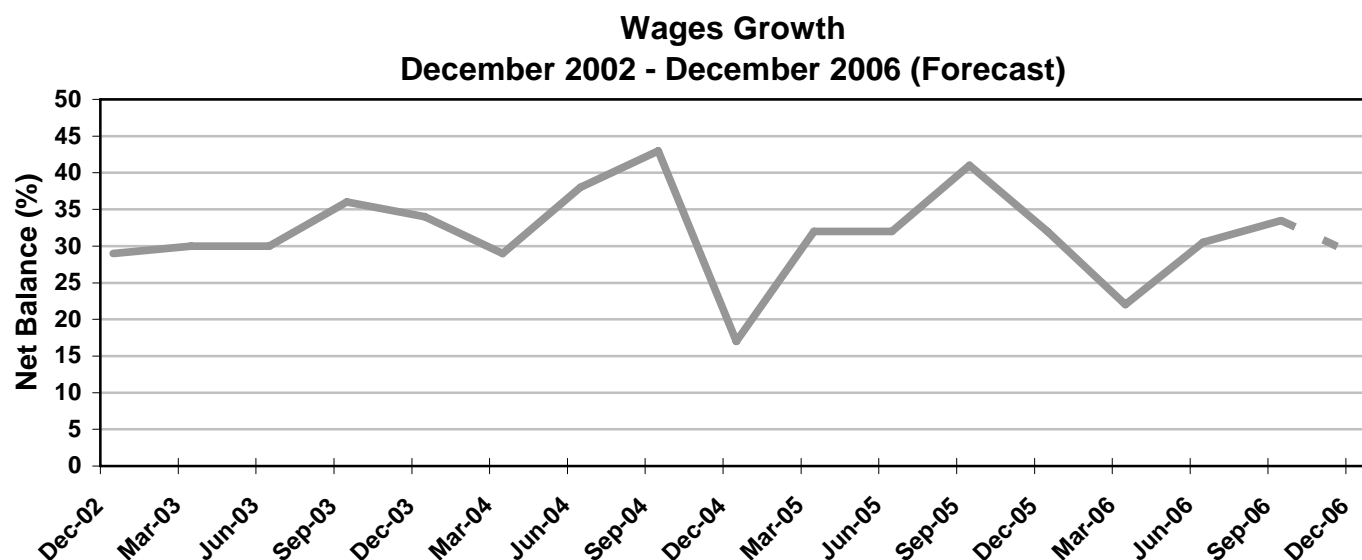


## Wages Growth

A net 34 per cent of respondents reported wages growth during the September quarter 2006, following reported increases in the June quarter 2006 (31%) and March quarter 2006 (22%). Wages growth is expected to moderate slightly over the December quarter 2006, to 29 per cent on a net balance basis.

The expected moderation in the rate of wages growth over the coming quarter reflects anticipated softer trading conditions in the manufacturing (21% on a net balance basis); wholesale and retail trade (26%); and building and construction (26%) sectors.

<b>Wages Growth</b> (% of respondents reporting)				
		Up	Down	Net Balance
Actual Performance	<b>SEPTEMBER QUARTER, 2005</b>	44	3	<b>41</b>
	<b>DECEMBER QUARTER, 2005</b>	35	3	<b>32</b>
	<b>MARCH QUARTER, 2006</b>	28	6	<b>22</b>
	<b>JUNE QUARTER, 2006</b>	35	4	<b>31</b>
	<b>SEPTEMBER QUARTER, 2006</b>	37	4	<b>34</b>
Expected Performance	<b>DECEMBER QUARTER, 2006</b>	31	3	<b>29</b>



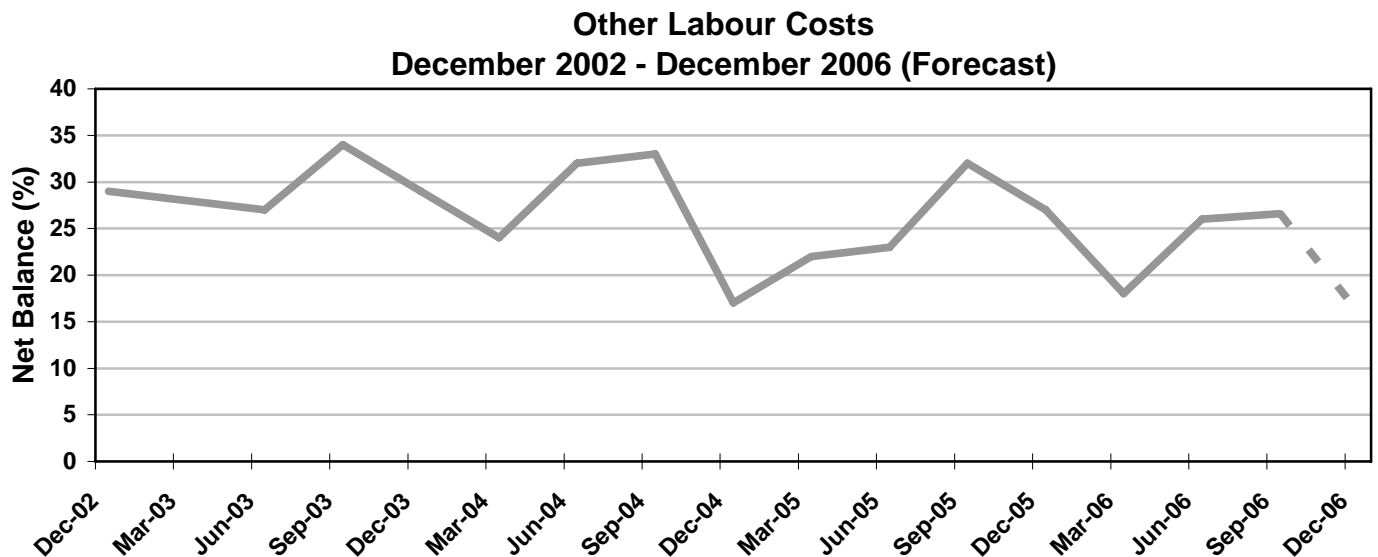
## Other Labour Costs

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.

A net balance of 27 per cent of respondents reported an increase in other labour costs over the September quarter 2006. This is a similar result to the June quarter 2006 survey, where a net 26 per cent of respondents reported an increase in other labour costs.

Looking ahead, a slight slowing in the rate of increase in non-wage labour costs is anticipated, with a net balance of 24 per cent of respondents expecting increased labour costs over the December quarter 2006.

Other Labour Costs (% of respondents reporting)				
		Up	Down	Net Balance
Actual Performance	SEPTEMBER QUARTER, 2005	35	3	32
	DECEMBER QUARTER, 2005	31	4	27
	MARCH QUARTER, 2006	25	7	18
	JUNE QUARTER, 2006	32	6	26
	SEPTEMBER QUARTER, 2006	32	6	27
Expected Performance	DECEMBER QUARTER, 2006	29	5	24



## Selling Prices

A net 5 per cent of survey respondents reported an increase in average selling prices during the September quarter 2006. The relatively modest reported increase in average selling prices reflects softer general business conditions.

Respondents are expecting selling prices to lift over the December quarter 2006, with a net balance of 9 per cent of businesses anticipating rises. This expected increase in selling prices is largely due to the forecast improvement in sales and general business conditions over this coming period, allowing businesses the opportunity to pass on cost increases.

<b>Selling Prices</b> (% of respondents reporting)		Up	Down	Net Balance
Actual Performance	<b>SEPTEMBER QUARTER, 2005</b>	18	15	3
	<b>DECEMBER QUARTER, 2005</b>	16	13	3
	<b>MARCH QUARTER, 2006</b>	19	16	3
	<b>JUNE QUARTER, 2006</b>	16	14	2
	<b>SEPTEMBER QUARTER, 2006</b>	18	14	5
Expected Performance	<b>DECEMBER QUARTER, 2006</b>	19	11	9

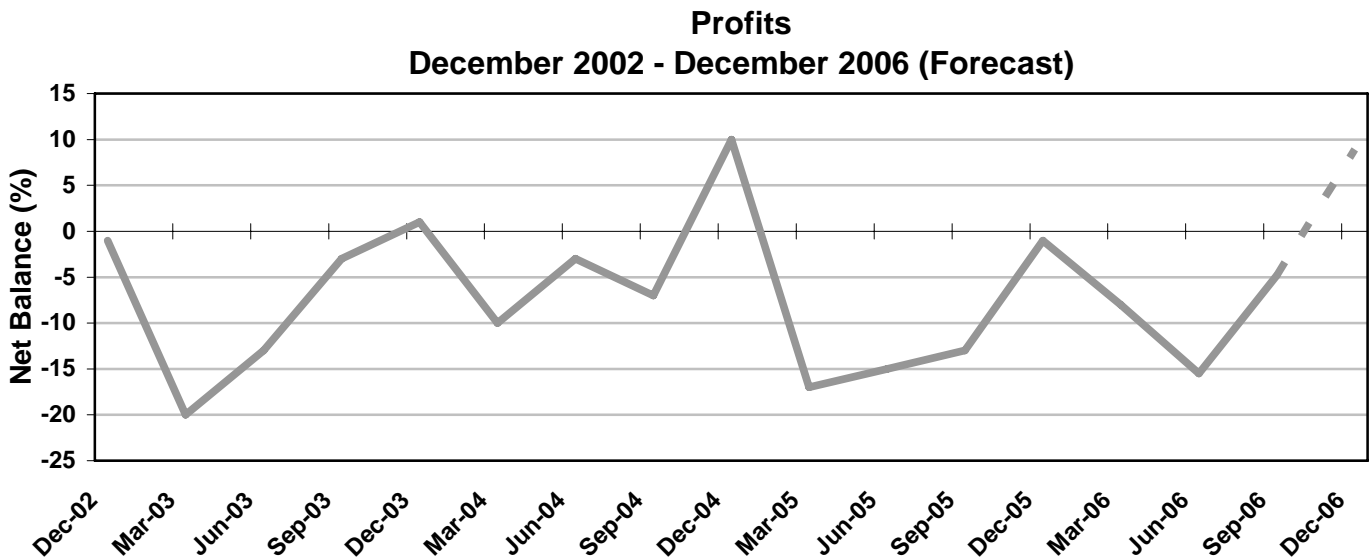


## Profits

Business profitability declined during the September quarter 2006, with a net balance of 5 per cent of respondents reporting a decrease in profits. Over the quarter, profitability was adversely impacted by growth in wage and other labour costs, and slower sales growth.

Profits are expected to recover over the December quarter 2006, with a net balance of 9 per cent of respondents anticipating that profit levels will rise. This anticipated increase reflects expected improvements in sales and selling prices.

Profits (% of respondents reporting)				
		Up	Down	Net Balance
Actual Performance	SEPTEMBER QUARTER, 2005	21	34	-13
	DECEMBER QUARTER, 2005	24	25	-1
	MARCH QUARTER, 2006	20	28	-8
	JUNE QUARTER, 2006	20	35	-16
	SEPTEMBER QUARTER, 2006	25	29	-5
Expected Performance	DECEMBER QUARTER, 2006	27	18	9

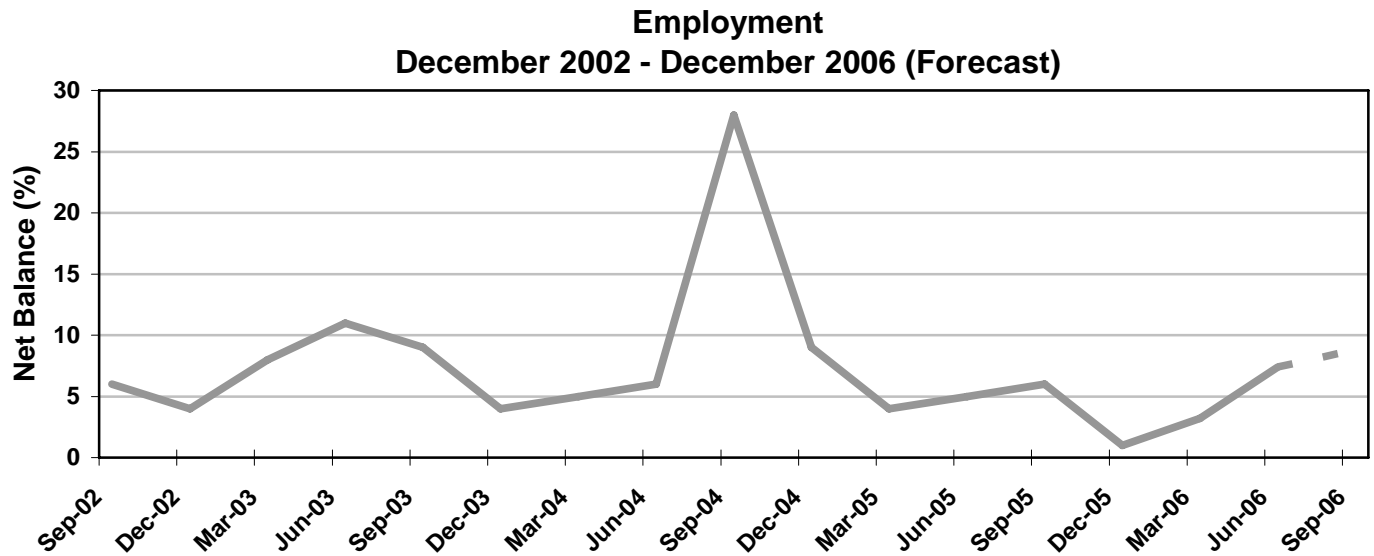


## Employment

Employment growth continued over the past three months, with a net balance of 7 per cent of surveyed businesses reporting an increase in employment during the September quarter 2006.

Employment growth is expected to continue through to December 2006, with a positive net balance of 9 per cent of respondents anticipating further jobs growth.

		Employment (% of respondents reporting)		
		Up	Down	Net Balance
Actual Performance	SEPTEMBER QUARTER, 2005	16	11	5
	DECEMBER QUARTER, 2005	15	9	6
	MARCH QUARTER, 2006	17	16	1
	JUNE QUARTER, 2006	16	13	3
	SEPTEMBER QUARTER, 2006	19	12	7
Expected Performance	DECEMBER QUARTER, 2006	19	10	9

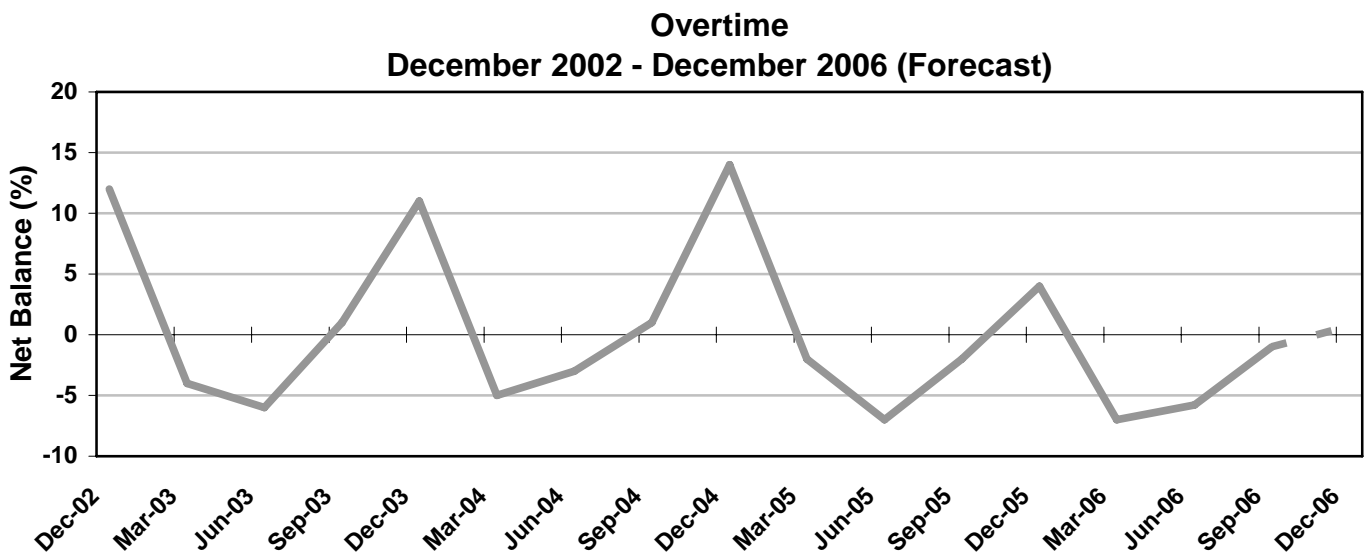


## Overtime

A net balance of 1 per cent of surveyed businesses reported a decrease in the amount of overtime offered to existing employees during the September quarter 2006.

Respondents expect a small increase in the level of overtime offered over coming months, with a positive net balance of 1 per cent forecasting increased overtime for the December quarter 2006 – in line with seasonal business expectations over the pre-christmas period.

		Overtime (% of respondents reporting)		
		Up	Down	Net Balance
Actual Performance	SEPTEMBER QUARTER, 2005	12	14	-2
	DECEMBER QUARTER, 2005	18	14	4
	MARCH QUARTER, 2006	13	20	-7
	JUNE QUARTER, 2006	13	19	-6
	SEPTEMBER QUARTER, 2006	16	17	-1
Expected Performance	DECEMBER QUARTER, 2006	14	13	1

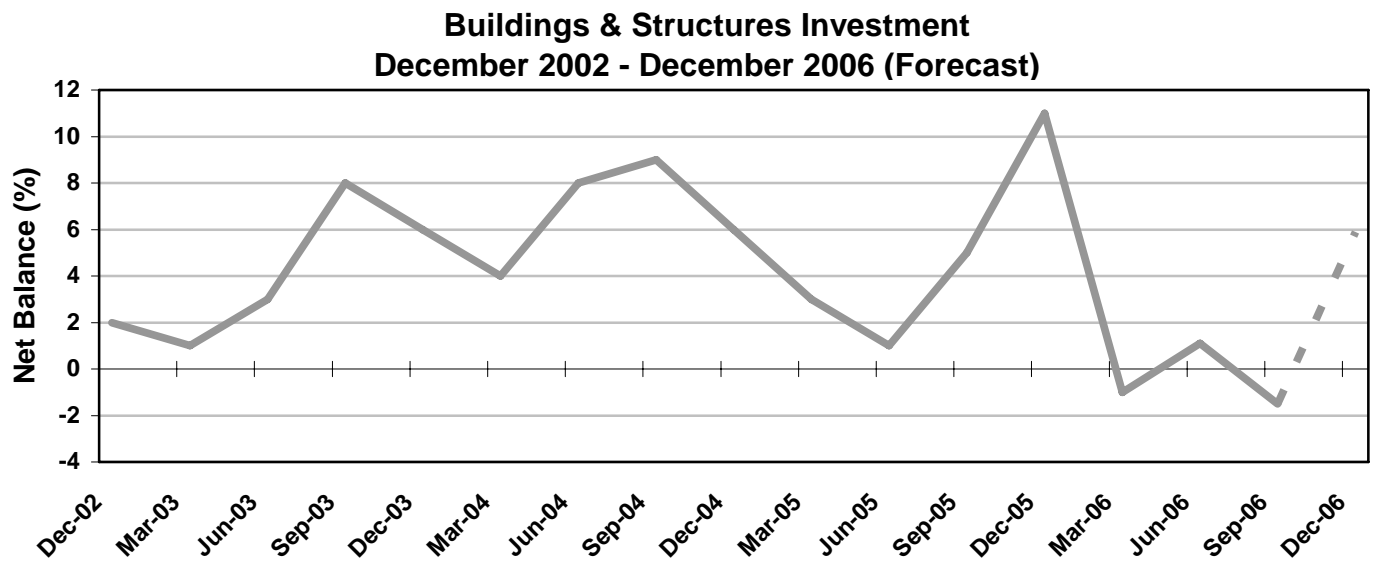


## Buildings and Structures Investment

The September quarter 2006 survey results show that investment in buildings and structures was relatively static, with a net balance of 2 per cent of respondents reporting a decrease, down from the previous quarterly result of 1 per cent.

Investment in buildings and structures is expected to rise over the coming quarter, with a net balance of 6 per cent of respondents forecasting an increase.

Buildings and Structures Investment (% of respondents reporting)				
		Up	Down	Net Balance
Actual Performance	SEPTEMBER QUARTER, 2005	19	14	5
	DECEMBER QUARTER, 2005	20	9	11
	MARCH QUARTER, 2006	13	14	-1
	JUNE QUARTER, 2006	18	17	1
	SEPTEMBER QUARTER, 2006	16	17	-2
Expected Performance	DECEMBER QUARTER, 2006	17	11	6

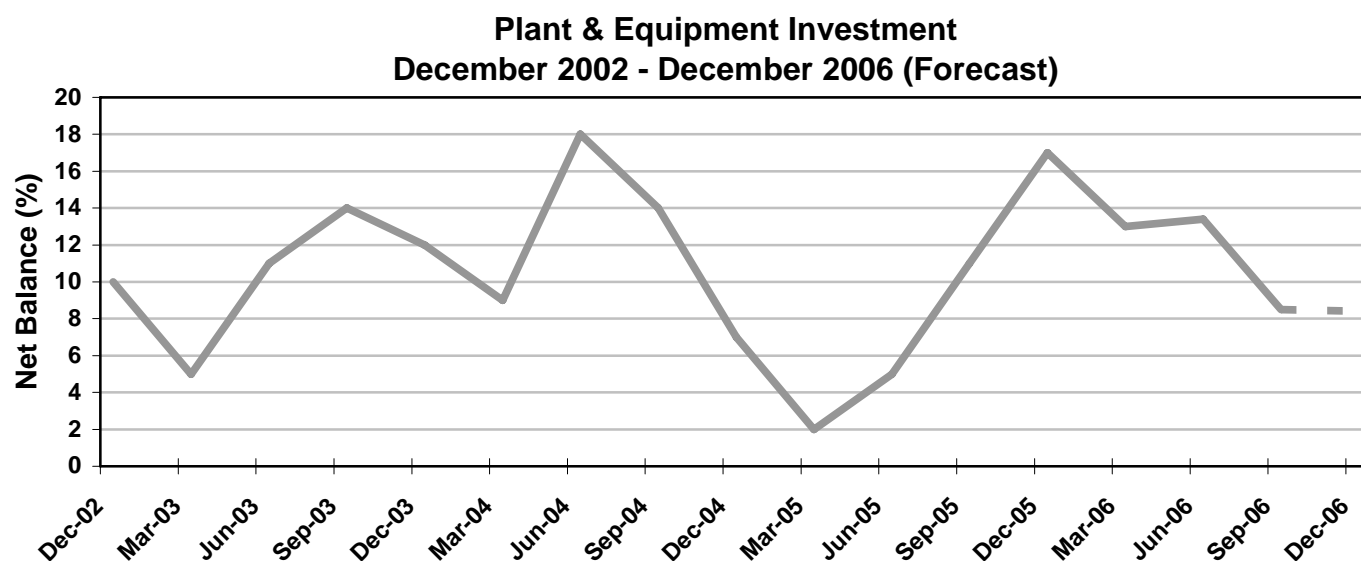


## Plant and Equipment Investment

A positive net balance of 9 per cent of respondents reported an increase in expenditure on plant and equipment over the September quarter 2006. This follows strong increases in the level of investment in plant and equipment since the June quarter 2005.

Investment in plant and equipment is expected to remain robust during the December quarter 2006, with a net balance of 8 per cent of respondents anticipating an increase.

Plant and Equipment Investment (% of respondents reporting)				
		Up	Down	Net Balance
Actual Performance	SEPTEMBER QUARTER, 2005	25	14	11
	DECEMBER QUARTER, 2005	26	9	17
	MARCH QUARTER, 2006	24	11	13
	JUNE QUARTER, 2006	26	13	13
	SEPTEMBER QUARTER, 2006	21	13	9
Expected Performance	DECEMBER QUARTER, 2006	21	12	8



## Capacity Utilisation

The proportion of survey respondents indicating that their business is operating at a satisfactory rate of capacity increased to a positive net balance of 22 per cent for the September quarter 2006. This is up on the June quarter 2006 result of a positive net balance of 16 per cent.

<b>Businesses Operating at a Satisfactory Rate: (Proportion of Respondents %)</b>		Yes	No	Net Balance
Actual Performance	<b>SEPTEMBER QUARTER, 2005</b>	59	41	<b>18</b>
	<b>DECEMBER QUARTER, 2005</b>	66	34	<b>32</b>
	<b>MARCH QUARTER, 2005</b>	61	39	<b>22</b>
	<b>JUNE QUARTER, 2006</b>	58	42	<b>16</b>
	<b>SEPTEMBER QUARTER, 2006</b>	60	38	<b>22</b>

Industries that are currently reporting relatively high levels of capacity utilisation include: education, health and community services (67%), and transport and storage (67%).

Overall, 50 per cent of respondents reported that they are currently operating in excess of 80 per cent of capacity, a decrease of 7 percentage points on the previous quarter. In all, 12 per cent of respondents reported a low rate of capacity utilisation (operating at 60% or less).

<b>Industry</b>	<b>Proportion of Respondents (%)</b>		
	<b>Operating at Less than 60% Capacity</b>	<b>Operating between 60% and 80% Capacity</b>	<b>Operating at Over 80% Capacity</b>
Agriculture, Forestry and Fishing	0	33	67
Manufacturing	14	61	25
Building and Construction	18	36	45
Wholesale and Retail Trade	13	36	51
Transport and Storage	13	20	67
Finance, Property and Business Services	14	36	50
Education, Health and Community Services	5	28	67
Recreation, Personal and Other Services	35	35	30
<b>Total:</b>	<b>12</b>	<b>38</b>	<b>50</b>

## 4. Business Performance: Industry-Specific Results

### Agriculture, Forestry and Fishing

Surveyed businesses in this ANZSIC division include those engaged in agricultural activities, such as horticulture and fruit growing; farming and crop-growing; forestry and logging; and commercial fishing, hunting and aquaculture.

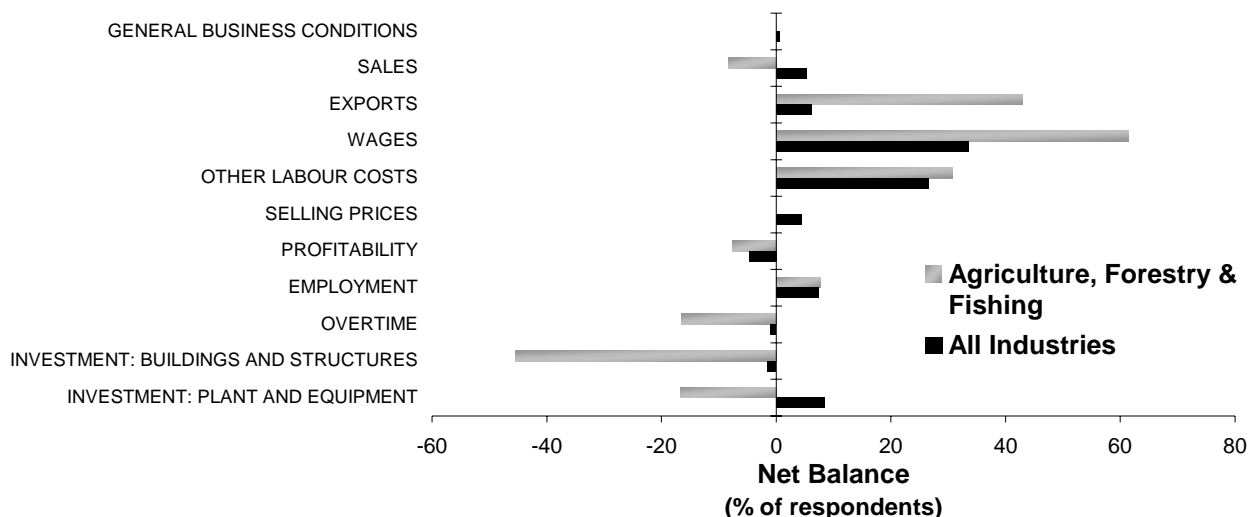
#### Business Trends and Prospects

- ◆ The September quarter figures show profitability declined in the agriculture, forestry and fishing sector over the past three months (with a net 8 per cent of respondents reporting a fall). On a positive note, respondents in the sector have noted an improvement in exports and employment levels.
- ◆ Respondents are forecasting a decline in profitability over the coming quarter along with a fall in sales levels. Selling prices, exports, wages, and other labour costs are all expected to increase in the three months to December 2006.

	ACTUAL PERFORMANCE			EXPECTED PERFORMANCE		
	SEPTEMBER QUARTER, 2006			DECEMBER QUARTER, 2006		
	Up	Down	Net Balance (%)	Up	Down	Net Balance (%)
<b>GENERAL BUSINESS CONDITIONS</b>	15	15	<b>0</b>	42	42	<b>0</b>
<b>SALES</b>	25	33	<b>-8</b>	33	50	<b>-17</b>
<b>EXPORTS</b>	43	0	<b>43</b>	29	14	<b>14</b>
<b>WAGES</b>	62	0	<b>62</b>	25	0	<b>25</b>
<b>OTHER LABOUR COSTS</b>	39	8	<b>31</b>	33	0	<b>33</b>
<b>SELLING PRICES</b>	8	8	<b>0</b>	25	8	<b>17</b>
<b>PROFITABILITY</b>	23	31	<b>-8</b>	17	42	<b>-25</b>
<b>EMPLOYMENT</b>	15	8	<b>8</b>	17	25	<b>-8</b>
<b>OVERTIME</b>	17	33	<b>-17</b>	9	46	<b>-36</b>
<b>INVESTMENT: BUILDINGS AND STRUCTURES</b>	0	46	<b>-46</b>	0	40	<b>-40</b>
<b>INVESTMENT: PLANT AND EQUIPMENT</b>	8	25	<b>-17</b>	9	36	<b>-27</b>

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

#### Business Performance Indicators



\* Note: The low number of responses received from the Agriculture, Forestry and Fishing industry means the data and accompanying analysis needs to be treated with caution.

## 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.

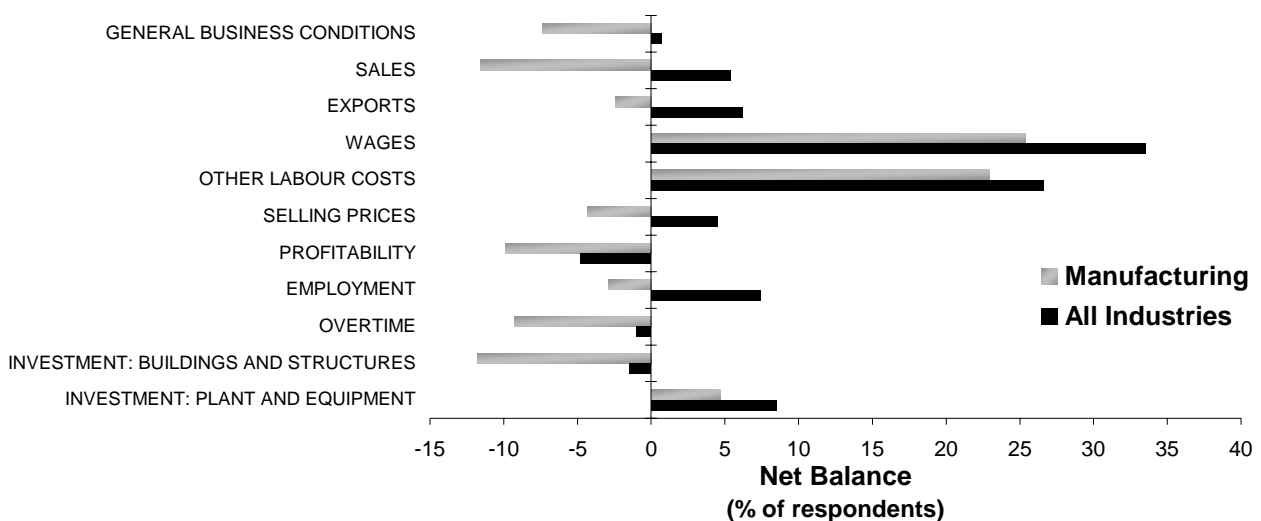
### Business Trends and Prospects

- ◆ The manufacturing sector reported a decline in most key indicators over the September quarter 2006, including general business conditions (negative net balance of 7%), sales (-12%), selling prices (-4%), profitability (-10%), and investment in buildings and structures (-12%). Wages, other labour costs and investment in plant and equipment all increased over the past three months on a net balance basis.
- ◆ The manufacturing sector is optimistic about business prospects over the three months to December 2006. Strong increases in general business conditions, sales, exports, and profitability are anticipated.

	ACTUAL PERFORMANCE			EXPECTED PERFORMANCE		
	SEPTEMBER QUARTER, 2006			DECEMBER QUARTER, 2006		
	Up	Down	Net Balance (%)	Up	Down	Net Balance (%)
<b>GENERAL BUSINESS CONDITIONS</b>	25	32	<b>-7</b>	33	17	<b>17</b>
<b>SALES</b>	26	38	<b>-12</b>	42	15	<b>27</b>
<b>EXPORTS</b>	17	20	<b>-2</b>	31	12	<b>19</b>
<b>WAGES</b>	32	7	<b>25</b>	25	4	<b>21</b>
<b>OTHER LABOUR COSTS</b>	33	10	<b>23</b>	24	8	<b>16</b>
<b>SELLING PRICES</b>	11	16	<b>-4</b>	13	12	<b>2</b>
<b>PROFITABILITY</b>	23	32	<b>-10</b>	28	16	<b>12</b>
<b>EMPLOYMENT</b>	13	16	<b>-3</b>	21	14	<b>8</b>
<b>OVERTIME</b>	17	26	<b>-9</b>	22	16	<b>6</b>
<b>INVESTMENT: BUILDINGS AND STRUCTURES</b>	10	22	<b>-12</b>	12	17	<b>-5</b>
<b>INVESTMENT: PLANT AND EQUIPMENT</b>	20	16	<b>5</b>	23	18	<b>5</b>

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

### Business Performance Indicators



## 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.

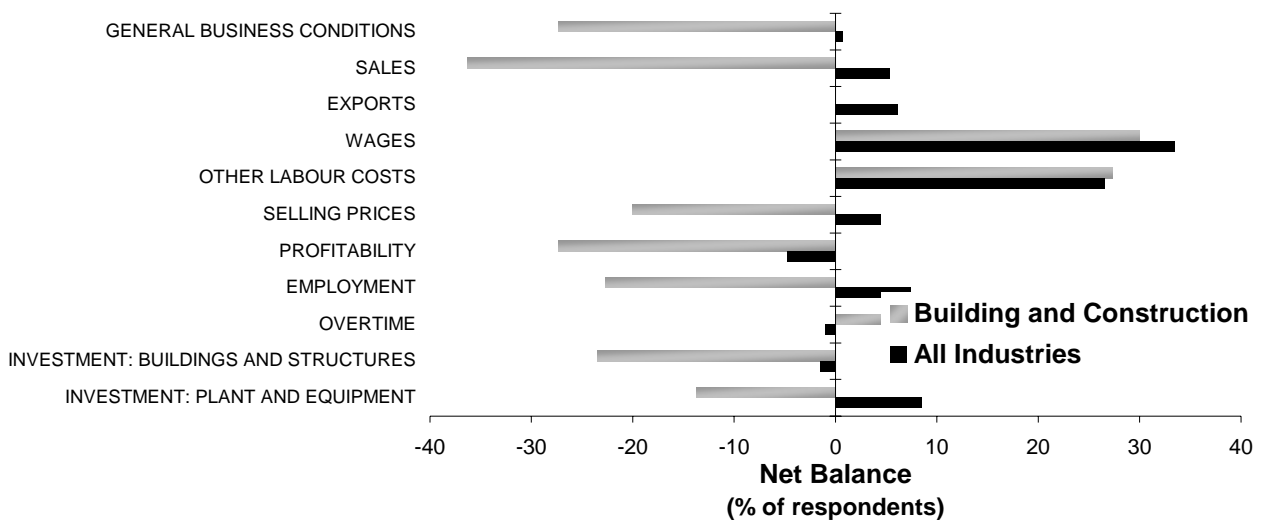
### Business Trends and Prospects

- ◆ Respondents in the building and construction sector reported declines in general business conditions, sales, selling prices, profitability, and employment over the September quarter 2006, while wage costs increased.
- ◆ The sector is confident that sales and overtime will improve over the December quarter 2006, although selling prices and profitability are expected to decline further.

	ACTUAL PERFORMANCE			EXPECTED PERFORMANCE		
	SEPTEMBER QUARTER, 2006			DECEMBER QUARTER, 2006		
	Up	Down	Net Balance (%)	Up	Down	Net Balance (%)
<b>GENERAL BUSINESS CONDITIONS</b>	23	50	<b>-27</b>	20	20	<b>0</b>
<b>SALES</b>	18	55	<b>-36</b>	29	24	<b>5</b>
<b>EXPORTS</b>	0	0	<b>0</b>	0	20	<b>-20</b>
<b>WAGES</b>	35	5	<b>30</b>	32	5	<b>26</b>
<b>OTHER LABOUR COSTS</b>	36	9	<b>27</b>	33	5	<b>29</b>
<b>SELLING PRICES</b>	15	35	<b>-20</b>	16	26	<b>-11</b>
<b>PROFITABILITY</b>	18	46	<b>-27</b>	14	33	<b>-19</b>
<b>EMPLOYMENT</b>	9	32	<b>-23</b>	10	10	<b>0</b>
<b>OVERTIME</b>	30	25	<b>5</b>	16	11	<b>5</b>
<b>INVESTMENT: BUILDINGS AND STRUCTURES</b>	6	29	<b>-24</b>	12	18	<b>-6</b>
<b>INVESTMENT: PLANT AND EQUIPMENT</b>	14	27	<b>-14</b>	24	24	<b>0</b>

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

### Business Performance Indicators



## 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.*

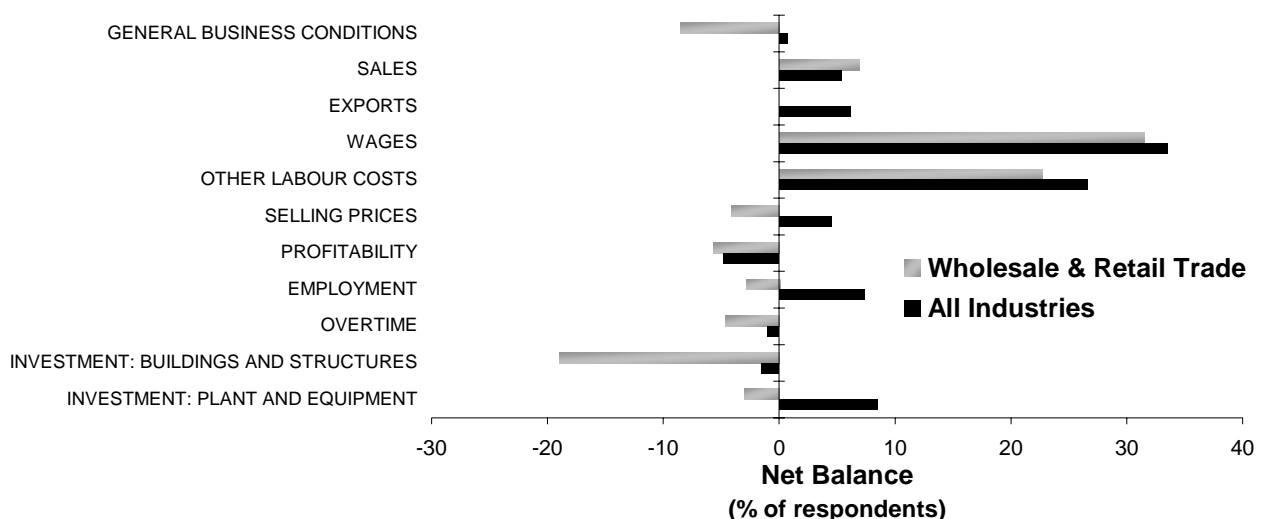
### Business Trends and Prospects

- ◆ Declines in general business conditions, selling prices, profitability, employment, overtime, and capital investment were reported in the wholesale and retail trade sector during the September quarter 2006.
- ◆ Profitability fell over the quarter (negative net balance of 6%), but is expected to rebound with a net balance of 8 per cent of respondents forecasting increased profits over the three months to December 2006.
- ◆ Retailers and wholesalers are also expecting an improvement in sales and selling prices over the three months to December 2006, largely reflecting positive seasonal influences in the lead up to Christmas.

	ACTUAL PERFORMANCE			EXPECTED PERFORMANCE		
	SEPTEMBER QUARTER, 2006			DECEMBER QUARTER, 2006		
	Up	Down	Net Balance (%)	Up	Down	Net Balance (%)
<b>GENERAL BUSINESS CONDITIONS</b>	18	27	<b>-9</b>	18	18	<b>0</b>
<b>SALES</b>	35	28	<b>7</b>	39	21	<b>18</b>
<b>EXPORTS</b>	10	10	<b>0</b>	11	11	<b>0</b>
<b>WAGES</b>	33	1	<b>32</b>	31	5	<b>26</b>
<b>OTHER LABOUR COSTS</b>	29	6	<b>23</b>	26	5	<b>21</b>
<b>SELLING PRICES</b>	17	21	<b>-4</b>	21	15	<b>6</b>
<b>PROFITABILITY</b>	26	31	<b>-6</b>	29	21	<b>8</b>
<b>EMPLOYMENT</b>	13	16	<b>-3</b>	10	6	<b>4</b>
<b>OVERTIME</b>	6	11	<b>-5</b>	10	12	<b>-2</b>
<b>INVESTMENT: BUILDINGS AND STRUCTURES</b>	2	21	<b>-19</b>	7	9	<b>-2</b>
<b>INVESTMENT: PLANT AND EQUIPMENT</b>	11	14	<b>-3</b>	13	12	<b>2</b>

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

### Business Performance Indicators



## 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.

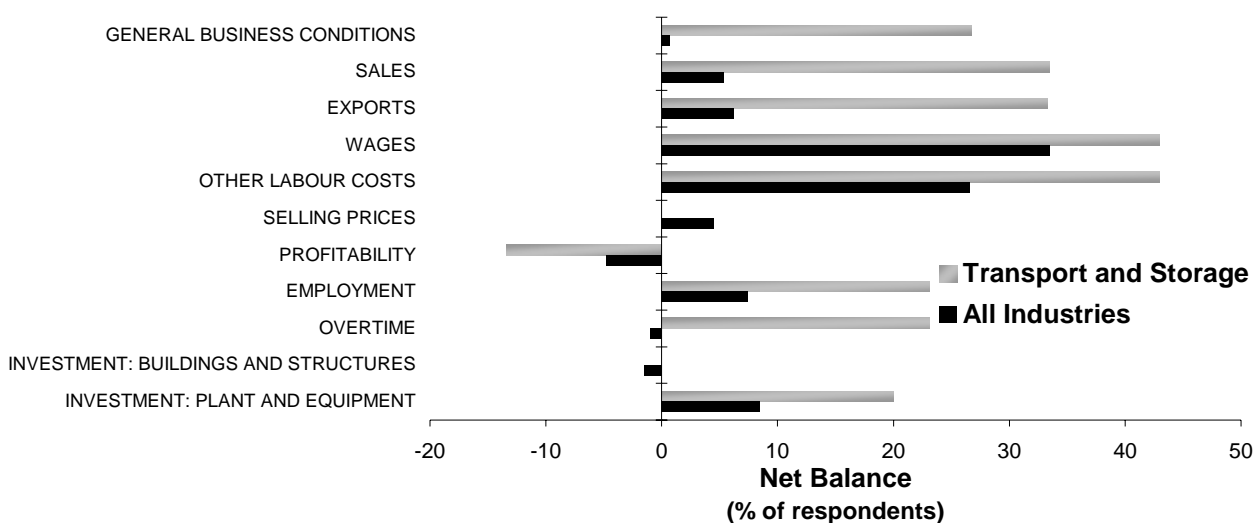
### Business Trends and Prospects

- The transport and storage industry reported an improvement in several key business indicators over the September quarter 2006 including sales, general business conditions and employment. Notably, the sector reported a decline in profitability over the past three months (negative net balance of 13%), as a result of higher wages and other business costs.
- A net balance of 21 per cent of respondents in the industry are expecting profitability to rebound over the next quarter. General business conditions, sales, and overtime are also expected to improve.

	ACTUAL PERFORMANCE			EXPECTED PERFORMANCE		
	SEPTEMBER QUARTER, 2006			DECEMBER QUARTER, 2006		
	Up	Down	Net Balance (%)	Up	Down	Net Balance (%)
GENERAL BUSINESS CONDITIONS	40	13	27	67	7	60
SALES	47	13	33	67	13	53
EXPORTS	33	0	33	56	11	45
WAGES	43	0	43	57	0	57
OTHER LABOUR COSTS	43	0	43	43	0	43
SELLING PRICES	14	14	0	8	25	-17
PROFITABILITY	13	27	-13	36	14	21
EMPLOYMENT	27	0	27	57	21	36
OVERTIME	36	0	36	57	14	43
INVESTMENT: BUILDINGS AND STRUCTURES	7	7	0	21	7	14
INVESTMENT: PLANT AND EQUIPMENT	27	7	20	29	14	14

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

### Business Performance Indicators



## 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.

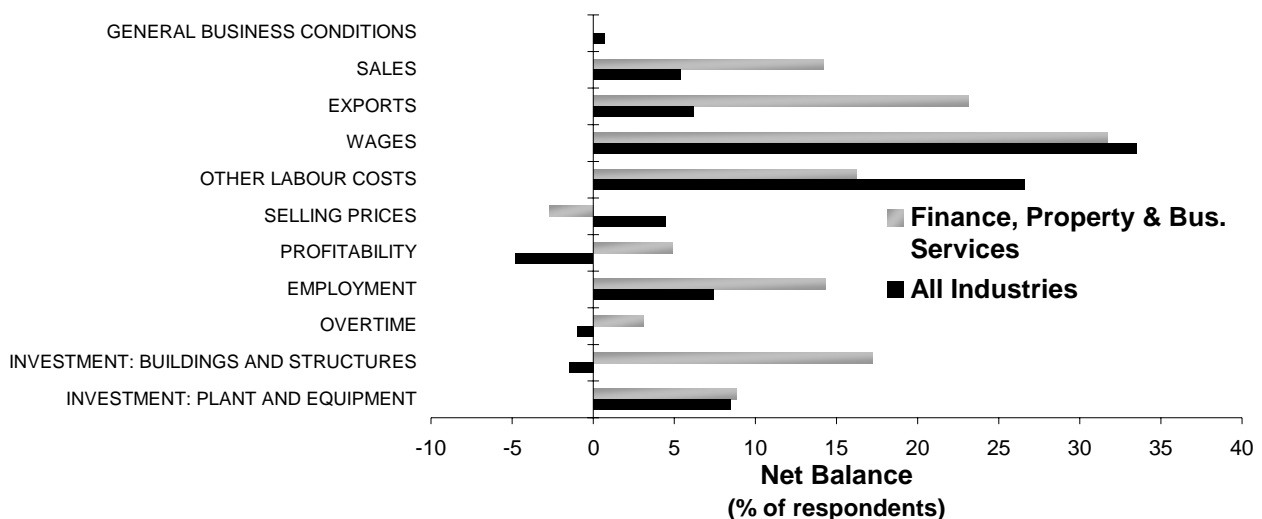
### Business Trends and Prospects

- ◆ A net balance of 3 per cent of respondents in the finance, property and business services sector reported that selling prices declined over the three months to September 2006. This follows the June quarter 2006 survey where a net 9 per cent of respondents reported a decrease in selling prices. All other business indicators strengthened over the quarter, with particularly strong net balance trends reported in exports and investment in building and structures. Wages growth was also strong over the quarter.
- ◆ All business indicators are expected to increase over the December quarter 2006, with particularly strong improvements expected in general business conditions, sales, employment, and profitability.

	ACTUAL PERFORMANCE			EXPECTED PERFORMANCE		
	SEPTEMBER QUARTER, 2006			DECEMBER QUARTER, 2006		
	Up	Down	Net Balance (%)	Up	Down	Net Balance (%)
<b>GENERAL BUSINESS CONDITIONS</b>	23	23	<b>0</b>	42	11	<b>31</b>
<b>SALES</b>	45	31	<b>14</b>	53	6	<b>47</b>
<b>EXPORTS</b>	31	8	<b>23</b>	33	8	<b>25</b>
<b>WAGES</b>	37	5	<b>32</b>	35	0	<b>35</b>
<b>OTHER LABOUR COSTS</b>	19	3	<b>16</b>	31	3	<b>28</b>
<b>SELLING PRICES</b>	11	14	<b>-3</b>	25	6	<b>19</b>
<b>PROFITABILITY</b>	37	32	<b>5</b>	43	14	<b>29</b>
<b>EMPLOYMENT</b>	24	10	<b>14</b>	38	6	<b>32</b>
<b>OVERTIME</b>	13	9	<b>3</b>	23	10	<b>13</b>
<b>INVESTMENT: BUILDINGS AND STRUCTURES</b>	31	14	<b>17</b>	26	4	<b>22</b>
<b>INVESTMENT: PLANT AND EQUIPMENT</b>	21	12	<b>9</b>	16	7	<b>10</b>

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

### Business Performance Indicators



## Education, Health and Community Services

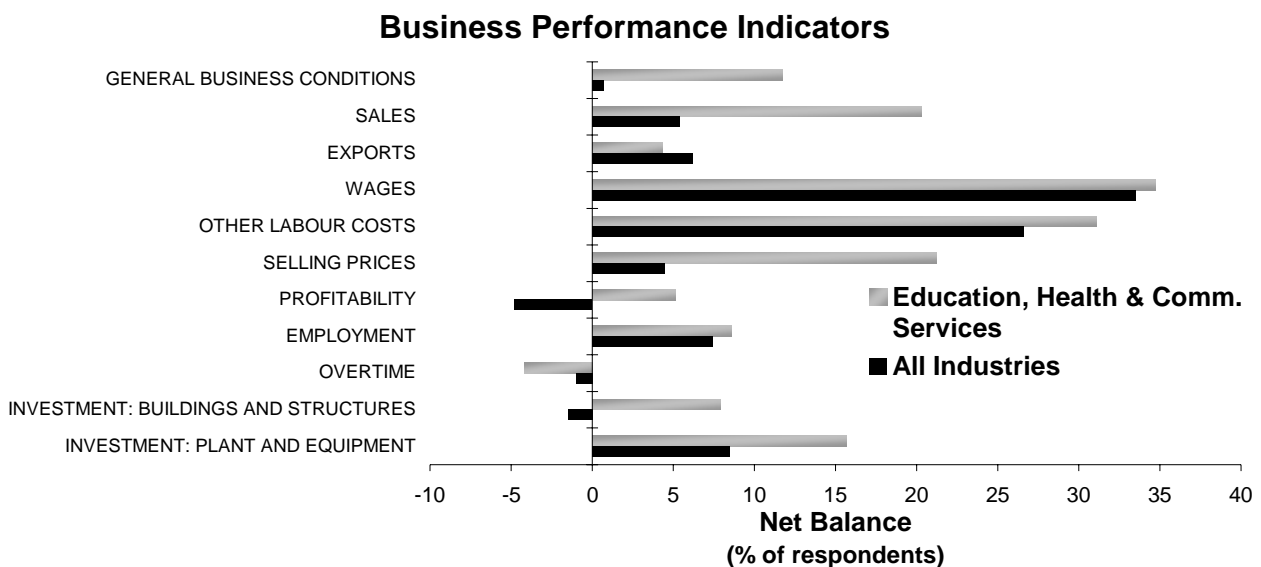
*Surveyed businesses in this ANZSIC group include those engaged in education; health; such as hospitals and nursing homes, medical and veterinary services; and community services.*

### Business Trends and Prospects

- ◆ General business conditions, sales, and selling prices were strong in the education, health and community services sector during the September quarter 2006. Wage growth was also strong, with a net balance of 35 per cent of respondents reporting increases.
- ◆ Respondents are forecasting a strong performance in most business indicators over the next three months, including sales, selling prices, and profitability. Wages and other labour costs are expected to increase further, with a decline in the level of overtime being offered. New investment in both buildings and structures and plant and equipment is expected to continue apace.

	ACTUAL PERFORMANCE			EXPECTED PERFORMANCE		
	SEPTEMBER QUARTER, 2006			DECEMBER QUARTER, 2006		
	Up	Down	Net Balance (%)	Up	Down	Net Balance (%)
<b>GENERAL BUSINESS CONDITIONS</b>	20	8	<b>12</b>	26	7	<b>19</b>
<b>SALES</b>	36	16	<b>20</b>	30	8	<b>21</b>
<b>EXPORTS</b>	13	9	<b>4</b>	30	4	<b>26</b>
<b>WAGES</b>	39	4	<b>35</b>	40	3	<b>37</b>
<b>OTHER LABOUR COSTS</b>	38	7	<b>31</b>	40	5	<b>35</b>
<b>SELLING PRICES</b>	26	4	<b>21</b>	16	2	<b>13</b>
<b>PROFITABILITY</b>	24	19	<b>5</b>	25	14	<b>11</b>
<b>EMPLOYMENT</b>	20	11	<b>9</b>	18	12	<b>6</b>
<b>OVERTIME</b>	8	13	<b>-4</b>	4	13	<b>-9</b>
<b>INVESTMENT: BUILDINGS AND STRUCTURES</b>	22	14	<b>8</b>	28	7	<b>22</b>
<b>INVESTMENT: PLANT AND EQUIPMENT</b>	27	11	<b>16</b>	24	8	<b>16</b>

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



## Recreation, 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.*

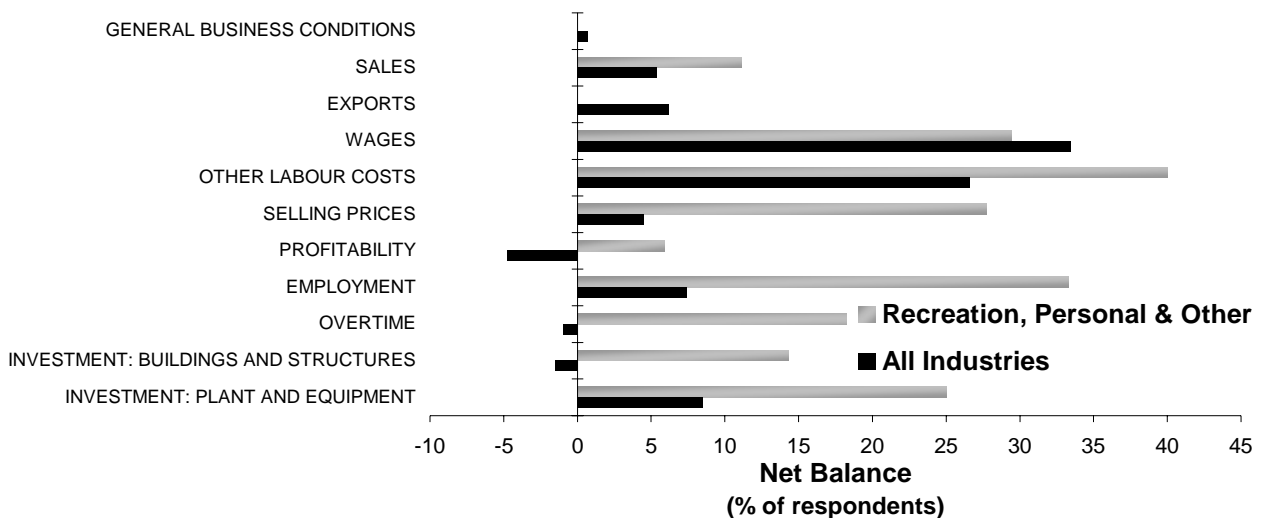
### Business Trends and Prospects

- ◆ The recreation, personal and other services industry experienced growth in all key indicators in the September quarter 2006, including sales, selling prices and employment. A rebound in capital investment was reported over the past quarter with both buildings and structures (14%) and plant and equipment (25%) investment increasing on a net balance basis.
- ◆ Profitability (net balance of 6%) in the industry has also rebounded, and is expected to strengthen further with a net balance of 19 per cent of businesses forecasting increased profits over the December quarter 2006.

	ACTUAL PERFORMANCE			EXPECTED PERFORMANCE		
	SEPTEMBER QUARTER, 2006			DECEMBER QUARTER, 2006		
	Up	Down	Net Balance (%)	Up	Down	Net Balance (%)
GENERAL BUSINESS CONDITIONS	35	35	0	32	11	21
SALES	44	33	11	47	12	35
EXPORTS	0	0	0	17	0	17
WAGES	35	6	29	44	0	44
OTHER LABOUR COSTS	40	0	40	38	0	38
SELLING PRICES	33	6	28	38	6	31
PROFITABILITY	35	29	6	31	13	19
EMPLOYMENT	33	0	33	12	6	6
OVERTIME	40	7	33	8	15	-8
INVESTMENT: BUILDINGS AND STRUCTURES	21	7	14	15	8	8
INVESTMENT: PLANT AND EQUIPMENT	31	6	25	27	7	20

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

### Business Performance Indicators



## 5. Special Questions: Impact of Petrol Prices

The September quarter survey included supplementary questions to determine the impact of petrol prices on business sales, operating costs and profitability. Businesses were also asked what policy responses they would support to contain or reduce petrol prices. A total of 396 businesses responded to these special questions. The results to these questions are summarised as follows:

Has the increase in petrol prices over the past year had an impact on your business sales?	Metro (%)	Regional (%)	Total (%)
No Impact	28	24	27
Mild Impact	36	29	34
Moderate Impact	29	34	31
Critical Impact	7	13	9

Respondents were asked if the increase in petrol prices over the past year has had an impact on their business sales. Forty per cent of all respondents stated that the increase in petrol prices has had a moderate or critical impact on their business sales. A notable 13 per cent of regional respondents stated that the increase in petrol prices has had a critical impact on their business sales, compared with 7 per cent of metropolitan respondents.

Has the increase in petrol prices over the past year had an impact on the cost of running your business?	Metro (%)	Regional (%)	Total (%)
No Impact	18	13	16
Mild Impact	42	22	35
Moderate Impact	33	46	38
Critical Impact	6	19	11

Respondents were asked if the increase in petrol prices over the past year has had an impact on the costs of running their business. Almost half (49%) of the surveyed businesses stated that the increase in petrol prices has had a moderate or critical impact on the cost of running their business.

For regional respondents, 65 per cent reported that the increase in petrol prices has had a moderate or critical impact on the cost of running their business, while 39 per cent of metropolitan respondents hold this view.

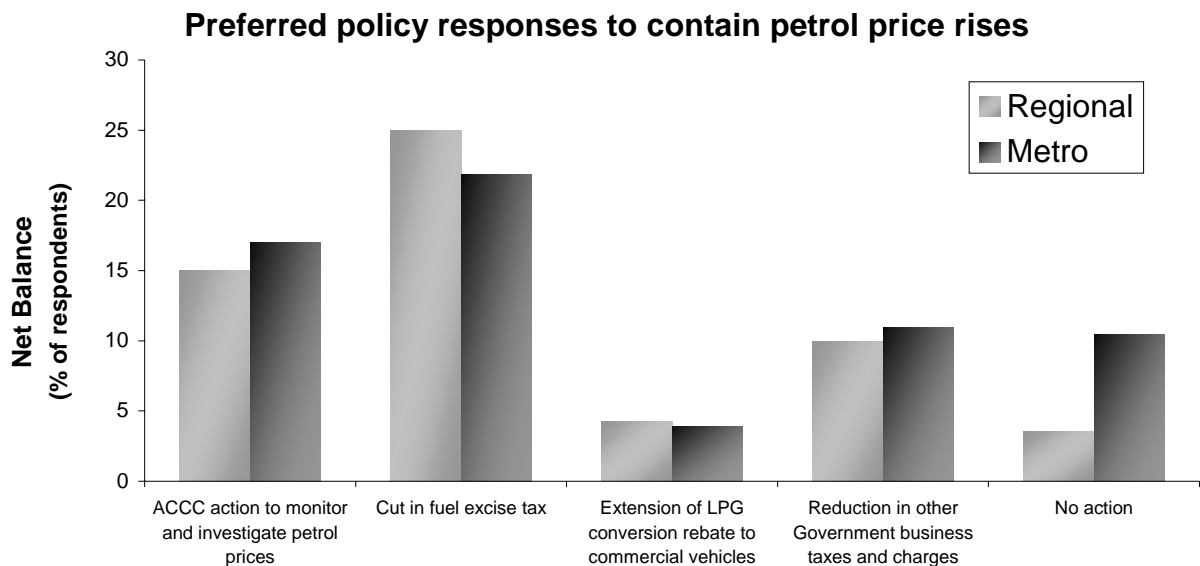
Has the increase in petrol prices over the past year had an impact on the profitability of your business?	Metro (%)	Regional (%)	Total (%)
No Impact	23	18	21
Mild Impact	47	32	41
Moderate Impact	25	37	30
Critical Impact	5	13	8

Respondents were asked if the increase in petrol prices over the past year has had an impact on the profitability of their business. Thirty-eight per cent of businesses stated that the increase in petrol prices has had a moderate or critical impact on the profitability of their business.

Again, regional respondents were more likely to report a moderate or critical impact (50%), compared with 30 per cent for metropolitan respondents.

Which (if any) policy response would you support to contain petrol price rises?	Metro (%)	Regional (%)	Total (%)
ACCC action to monitor and investigate petrol prices	17	15	16
Cut in fuel excise tax	22	25	23
Extension of LPG conversion rebate to commercial vehicles	4	4	4
Reduction in other Government business taxes and charges	11	10	11
No action	10	4	8

Surveyed businesses were asked which (if any) policy response they would support to contain petrol rises. Twenty-three per cent stated that they would support cuts in the fuel excise tax. Stronger ACCC action to monitor and investigate petrol prices (16 per cent) and a reduction in other Government business taxes and charges (11 per cent) were also supported by respondents. Only 4 per cent of respondents stated that their preferred policy response was to see an extension of the Federal Government’s LPG conversion rebate to commercial vehicles.



## 6. Supplementary Questions: Financial Products and Business Administration

The September quarter survey included supplementary questions to determine the business use of financial products for commercial transactions. The results to these questions are summarised as follows:

<b>What is the main way you pay for your business expenses?</b>	<b>%</b>
Cash	1
Cheque	45
Credit Card	6
Telegraphic Transfer	9
Direct Debit	15
Internet Banking	23
Others	2

Respondents were asked to list the main method used to pay for business expenses. The majority of businesses (45 per cent) reported that they mainly use cheques to pay for business expenses, while 23 per cent stated that they rely on internet banking. Businesses using direct debit services account for 15 per cent, 9 per cent used telegraphic transfers, while the remaining 9 per cent is spread between cash, credit cards and other transactions.

<b>Which of the following cards does your business mainly use to pay for business transactions?</b>	<b>%</b>
Visa	38
MasterCard	18
American Express	17
Diners Club	6
Other	1
I don't use credit cards	21

Respondents were asked to list the main card that they use to pay for business transactions. The most popular payment method is Visa (38 per cent), followed by MasterCard (18 per cent), American Express (17 per cent) and Diners Club (6 per cent). Overall, 21 per cent of respondents stated that they do not use credit cards to pay for business transactions.

<b>If you do use credit cards for business purchases, what type do you use?</b>	<b>%</b>
Personal Card	40
Business Card	60

Three out of every five (60 per cent) respondents that use credit cards for business transactions use a Business Card.

<b>If you don't use credit cards for business transactions, which reason best describes why?</b>	<b>%</b>
Don't like to use credit/borrow money	3
Concerns about security	5
Prefer traditional methods (cheque, cards etc)	29
My suppliers don't accept credit cards	6
My suppliers apply a surcharge on payments made by credit card	3
No need to use credit cards	23
Overdraft / Line of Credit / Other bank facility	13
Not sure of the potential benefits of business credit cards	2
I receive trade credit	17

Respondents who do not use a credit card for business transactions were asked to identify the main reason. The most common reason was because they prefer traditional methods such as cheques (29 per cent). Receiving trade credit (17 per cent), no need to use credit cards (23 per cent) and overdraft, line of credit, or other bank facilities (13 per cent) were other major reasons cited for not using a credit card for business transactions.

<b>What is the most important to you in terms of your business success?</b>	<b>%</b>
Achieving a good balance between family and work	41
Profits	23
Feeling of achievement	28
Independence and freedom	9

Respondents were asked to list what is most important to them in terms of their business success. The majority of businesses (41 per cent) reported that achieving a good balance between family and work was most important. A feeling of achievement (28 per cent) and profits (23 per cent) were the other major reasons cited as important in terms of business success.

<b>How much time do you spend on routine business financial administration?</b>	<b>%</b>
20+ hours per week	44
15 - 20 hours per week	13
10 - 15 hours per week	16
5 - 10 hours per week	16
Less than 5 hours per week	10

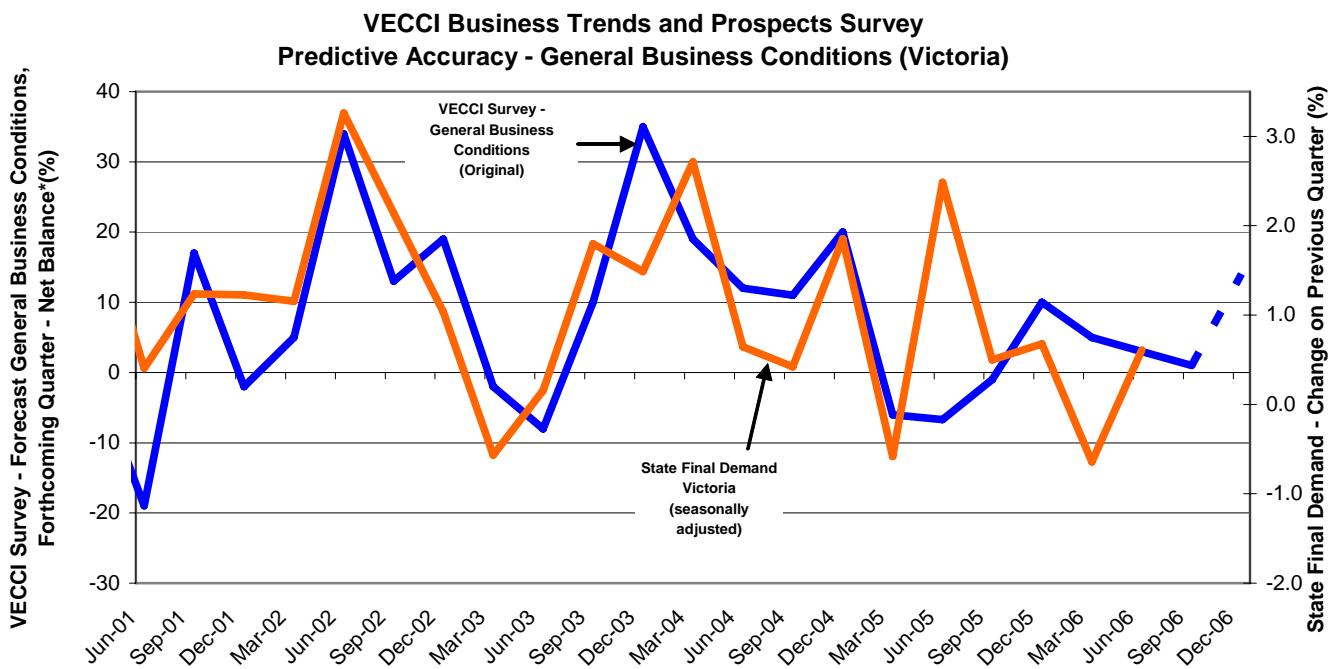
Almost half (44 per cent) of the respondents stated that they spend 20 or more hours per week on routine business financial administration. Only 10 per cent of responding businesses stated that they spend less than 5 hours per week on routine business financial administration.

<b>Do you find it difficult to keep track of business spending?</b>	<b>%</b>
Yes	11
No	89

Only 11 per cent of businesses stated that they find it difficult to keep track of business spending.

## 7. Accuracy of the Business Trends and Prospects Survey 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.



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

### State Final Demand

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. State Final Demand does however include net expenditure by Victorians interstate.