



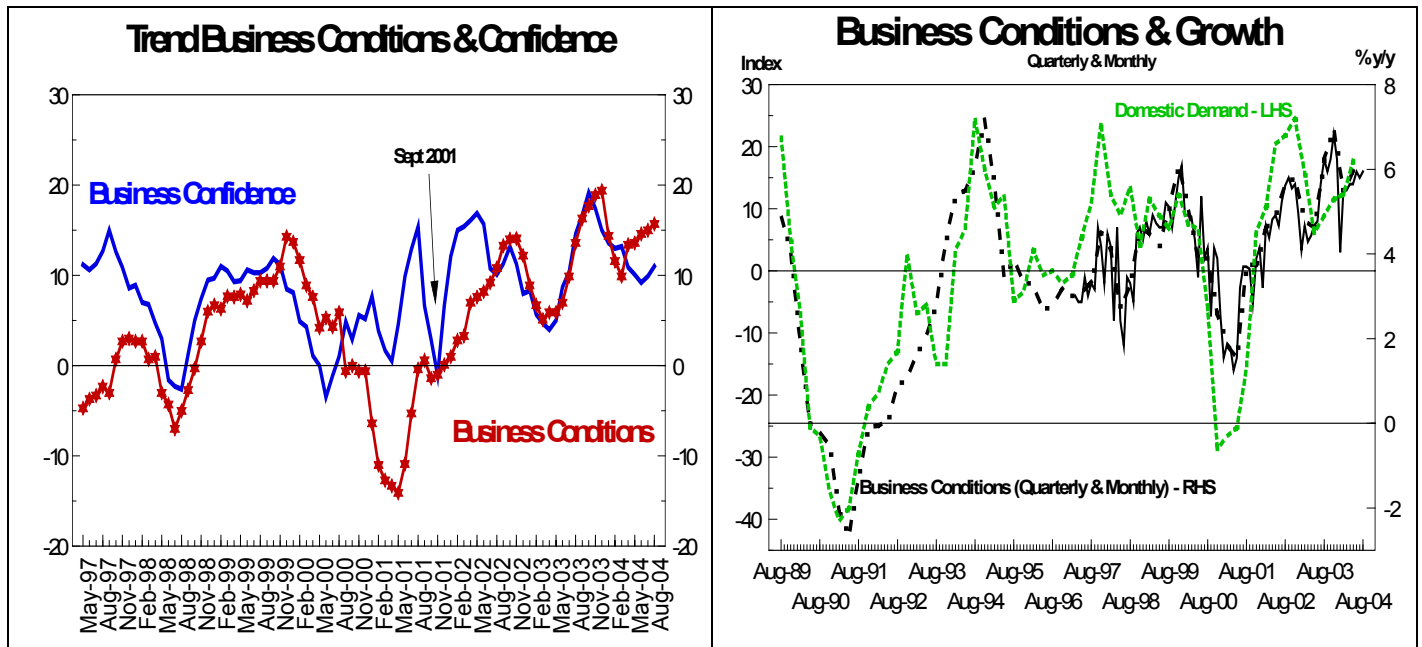
Media Release

National's Monthly Business Survey – August, 2004

***Business Conditions Remain at Robust Levels in August;
 Most Sectors Contribute to Strong Conditions;
 Business Confidence and Forward Orders Down Marginally – But Still Trending Up;
 Capital Spending and Labour Market Stronger, with Capacity Utilisation Up;
 Exports Broadly Unchanged - But Trending Up;
 Wages and Prices Ease a Touch – But Mainly Seasonal;
 House Price Expectations A Touch Lower - But Reduced Concerns About a “Housing Bubble”;
 National's Key Economic Forecasts Remain Unchanged;
 We Still See A Rate Rise Post-Election; and
 Business Also Overwhelmingly Expect the Next Rate Move To Be Up.***

The key message from the National's August Business Survey is that the re-acceleration of growth, evident in the Survey's readings in recent months, continued in August. In brief, the fundamental strength of the Australian economy was again evident in August.

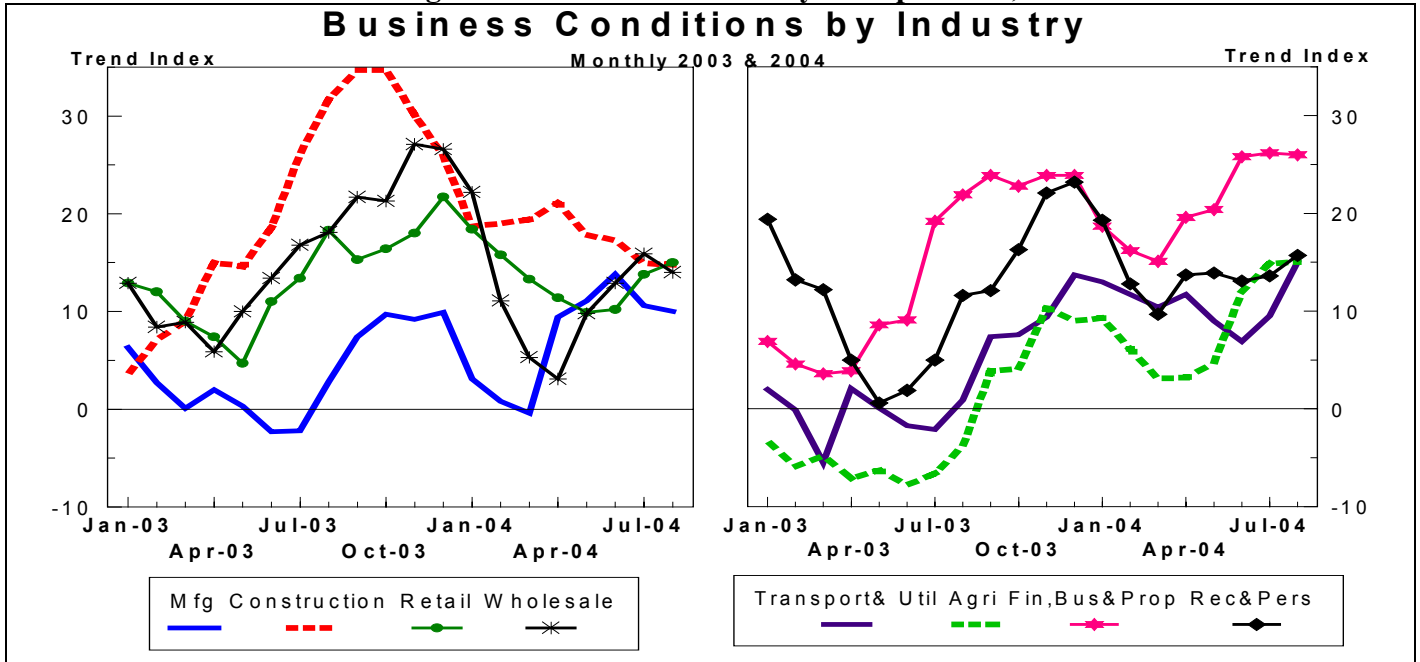
Indeed, current levels of business conditions are consistent with domestic demand growing at around 6 per cent per annum (see chart below). While there are the usual elements of monthly volatility in some series, most key indicators continued to strengthen in trend terms. In August, that has generally seen stronger labour market conditions, higher levels of capital spending and capacity utilisation approaching the record levels of late 2003.



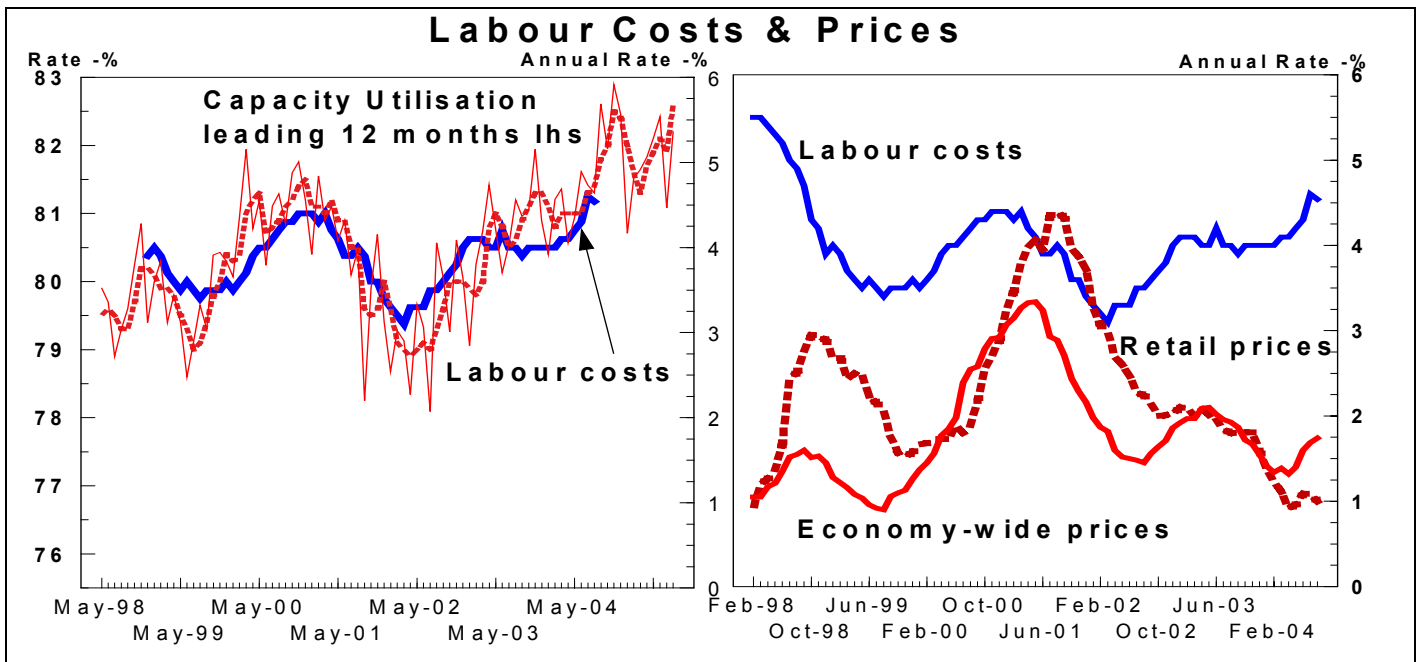
The strength of the current business indicators, together with the still robust levels of near and medium term expectations and reduced stocks, point to a favourable economic outlook. In addition, the Survey suggests that there is now more “balance” in recorded growth in business conditions – with contributions from most industries, as well as, improving external sales over the past few months.

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Business Conditions by Industry



Turning to inflation, while both wage and price increases in August were significantly lower than July levels, the slowing is mainly seasonal in nature. Hence, over the past year, there was little change in reported annual growth in wages (4.5 per cent), overall economy-wide prices (1.7 per cent) and retail prices (1.3 per cent). As shown in the chart below, general price increases have passed their lows and wages are moving up in the face of high (and strengthening) levels of capacity utilisation.



The Survey also contains interesting expectation data for house prices and interest rates. On house prices, expectations for the next year have weakened, at the margin, with the Australian average expected movement in prices -1.6 per cent. As per previous Surveys, the weakest expectations are for Sydney and Melbourne (-1.5 and -3.0 per cent, respectively). However, unlike previous Surveys, house prices in all capital cities are now expected to fall (albeit marginally). Against that, the proportion of respondents describing the residential property market as a “bubble” has fallen further to 56 per cent in August (vis-à-vis a peak response of around 75 per cent in November 2003).

On interest rate expectations, it is perhaps not surprising, given the strength of business conditions that a majority of respondents expect the next move in short term interest rates to be up. That expectation has, however, firmed with 77 per cent of respondents in August now expecting rates to move up (vis-à-vis 60 per cent in May). The mean expectation is for another half point increase in official rates.

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Finally on the economic outlook, both domestically and internationally, we see little reason to fundamentally change our forecasts. Indeed, our local activity forecasts are very similar to that released last week in the Pre-Election Economic and Fiscal Outlook (see table below). Relative to the Treasury, we expect a slightly higher inflation outlook (and hence, our continuing call for a tighter monetary policy stance) and stronger global outlook.

Economic Outlook						
	2004-05			2005-06		
	May Budget	September PEEFO	National	May Budget	September PEEFO	National
Real GDP	3.5%	3.5%	3.75%	3.5%	3.5%	3.75%
Employment	1.75%	2.25%	2.25%	1.5%	1.75%	1.75%
Headline CPI	2.0%	2.5%	2.75%	2.5%	2.5%	2.50%
Wages (WCI)	3.75%	3.5%	3.75%	3.75%	3.75%	3.75%
World GDP (a)	4.5%	4.75%	5%	4.25%	4.25%	4.25%
(a) Calendar year						

On interest rates, we still expect the RBA to raise the official cash rate by 25 basis points to 5¼% before year-end. Continued domestic and global strength, and still strong housing credit, all point to the need for tighter monetary policy. In addition, over the next month, we are likely to see both major parties move to further loosen fiscal policy. The prospect of inflation accelerating over the next 12 months to the top of the RBA's target range only reinforces this view. While some commentators (and markets) have put great store on weaker, but volatile, recent data we would caution against putting too much weight on this data vis-à-vis the fundamental drivers of economic growth and inflation. While we agree that political factors will limit the potential for RBA action in the lead up to the Federal election, we still expect the RBA to move prior to Christmas.

Turning in more detail to the Survey, the key results for August include:

- Business conditions were broadly unchanged in August – increasing by 1 point to an overall index of +16 index points – a reading consistent with ongoing growth in domestic demand of around 6 per cent;
- Within the overall business conditions index, trading conditions and employment strengthened somewhat, while profitability eased. In more detail, trading conditions increased by 3 points to an overall reading of +24 index points while employment increased 2 points to +9 index points. As such, the Survey's readings for employment are somewhat stronger than that reported by the Statistician last week – a finding also in keeping with other potential indicators, such as job ads and, more importantly, long-standing econometric relationships. Profitability levels declined 4 points – with most sectors reporting small falls – to an overall reading of +14 index points;
- All industries reported quite strong levels of business conditions – with minor movements tending to cancel each other out. Against that general trend, there was a more significant improvement in the wholesale sector and a marked weakening of business conditions in the recreational & personal services sector;
- Forward orders fell 4 points to a still strong overall reading of +7 index points. That result mainly reflected weaker orders in the recreational & personal services and wholesale sectors, partly offset by stronger manufacturing orders. Stock increases also eased marginally – falling 2 points to +7 index points;
- Exports sales remained unchanged at an overall level of +6 index points – maintaining gains of recent months;
- Against that, capital spending reversed last month's fall to return to the recent high of +16 index points. Capacity utilisation strengthened significantly to rise to 82.6 per cent (up 1.5 percentage points). The current rate of capacity utilisation is now within 0.3 per cent of the record high levels reported late in 2003;
- Wage costs increased at a quarterly rate of 0.8 per cent in August – significantly down from the seasonally high 2.9 per cent rate recorded in July. That said, over the 12 months to August, wage cost increases were still 4.5 per cent – broadly similar to the 4.6 per cent increase reported in the year to July.

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- Labour costs across the business sector were broadly similar to the national average, with the strongest increases reported in construction. Mining and electricity wages cost increases, on the other hand, were at the lower end of the spectrum;
- Price pressures also eased in August – but again that mainly reflects seasonal influences. Overall, final product prices increased by 0.5 per cent (on a quarterly basis) – slightly down on the 0.9 per cent reported in July. Once again, however, there was no movement in the annual rate of final product price inflation – at 1.7 per cent. Retail prices increased by a more subdued 0.1 per cent (quarterly rate) in August – resulting in a marginally lower 12 months to rate of increase in retail prices (1.0 per cent vis-à-vis 1.1 per cent in July); and
- Finally business confidence fell 4 points – reversing last month’s gains – to an overall reading of +9 index points. Confidence levels in most sectors fell marginally, with larger declines reported in the retail and recreational & personal services sectors. The only sectors to report stronger confidence levels in August were mining and construction.

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