

# Treasury's business liaison program

*Treasury has conducted a formal business liaison program for nearly a decade. For much of the period this was conducted from regional offices in Sydney and Melbourne. For the last two years this function has been undertaken in Canberra. This article summarises how Treasury undertakes its business liaison program and how the information is used.*

## Introduction

Treasury's economic forecasting process has for some time involved contact with business and others.<sup>1</sup> In January 1993 Treasury opened small offices in Sydney and Melbourne. These offices were responsible for establishing a structured program of liaison with the business community. In January 2000, Treasury centralised its business liaison program in Canberra.

This article outlines Treasury's approach to the liaison process; how liaison material is incorporated into the forecasting process; and some recent developments in business liaison.

## Treasury's approach to business liaison

Treasury conducts two business liaison 'rounds' each year<sup>2</sup>, ahead of the Budget and the *Mid-Year Economic and Fiscal Outlook* (MYEFO).<sup>3</sup> Each round involves between 80 and 100 contacts with individual firms and industry groups over a four to six week period. Business liaison contact is predominantly via face-to-face meetings although these can be supplemented

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1 For more information on Treasury's contact with business prior to the establishment of the business liaison program see 'Economic Forecasting' in the Autumn 1992 edition of the *Economic Roundup* (pp13-14), and Treasury's 1990-91 Annual Report.

2 As the need arises, Treasury may also approach business liaison contacts on an *ad hoc* basis. In addition, Treasury continues to have a range of contacts with business and the wider community through a range of other fora, including ongoing contact with economic analysts in financial markets.

3 Prior to the closure of the Sydney and Melbourne offices two additional 'rounds' of business liaison were conducted: one to inform the economic parameters for the Expenditure Review Committee and another 'mini-round' in the month before the Budget.

by telephone contacts to clarify particular developments or where the liaison contact is very familiar with the liaison process.

The typical business liaison round involves around two weeks of meetings in both Sydney and Melbourne. It would also involve up to a week of face-to-face meetings in Brisbane, Adelaide or Perth, with the city visited alternating between rounds. A higher proportion of contacts in these cities, compared with Sydney and Melbourne, is via the telephone.

Liaison discussions are conducted by a senior officer located in the area responsible for forecasting and briefing on the Australian economy. Typically, each contact will also involve an analyst assigned with the role of forecasting a sector of the economy. This involvement is rotated within and between rounds, so that all analysts involved in the forecasting process are directly exposed to the views of relevant businesses and industry groups.

Treasury's business liaison unit maintains regular contact with over 500 companies in Australia, covering each of the major industry sectors. Companies also range in size, from large multinationals to smaller localised firms. That said, for practical reasons, smaller firms and the services sector are under-represented relative to their importance to the economy as a whole.

Business liaison meetings typically cover developments in a range of key economic variables: sales, production, stocks, investment, employment, costs, prices, wages, exports, imports and profitability. Depending on the nature of the company concerned, not all of these subject areas would necessarily be covered during a meeting. The focus of meetings is on recent trends in, and the short-term outlook for, these variables, and on gaining an understanding of the factors driving these outcomes.

The key points from each liaison contact are documented as a confidential record of the meeting, with access to information on contacts with individual firms restricted to those directly involved in the forecasting process.

A report summarising the key themes to emerge from the round as a whole is prepared and circulated to those officers within Treasury directly involved in the forecasting process. A summary is also provided to the Treasurer and to the companies interviewed during the round.

Although the principal focus of business liaison is the economic outlook, it also provides an opportunity to seek feedback from business on broader policy issues. The key policy comments that emerge from the round are drawn to the attention of relevant officers within Treasury for their consideration.

## Business liaison and the forecasting process

Business liaison is an important part of Treasury's forecasting process.

The principal feature of business liaison is that it involves direct contact with the 'real' economy, rather than the (necessary) abstraction involved in most economic statistics. This allows for a deeper understanding of the economic conditions being faced by individual businesses and how they are likely to respond to expected developments. In some circumstances, it can provide for more timely assessment of current economic conditions than official statistics. For example, the most recent business liaison round included contacts before and after the terrorist attacks on September 11.

These are significant advantages. However, they bring with them some inherent limitations.

In particular, the number of contacts in any liaison round is necessarily limited, and contacts may not be representative of the economy as a whole. As a result, care is needed in interpreting and extrapolating the findings of business liaison. While liaison can produce some useful quantitative data, the most valuable information comes from qualitative insights into the economic outlook.<sup>4</sup>

The nature of Treasury's forecasting timetable can impose some limitations on the timeliness of business liaison material. The traditional approach has been for liaison rounds to be concluded up to two weeks prior to the release of the quarterly national accounts<sup>5</sup>, enabling a final summary report to be prepared and presented to forecasters at the start of the forecasting process. However, this can result in a significant lag between the time when liaison is conducted and when the official forecasts are published in the Budget and MYEFO. For example, liaison for the *Mid-Year Economic and Fiscal Outlook 2000-01*, released in November 2000 was conducted in August 2000.<sup>6</sup> As a result, follow-up contacts are often made by telephone to selected firms to verify that there have been no unanticipated developments since the initial discussions.

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4 For more detail on Treasury's forecasting process see 'Macroeconomic forecasts: purpose, methodology and performance' in the Autumn 1996 *Economic Roundup*.

5 More formally, the ABS publication *National Expenditure, Income and Consumption*, Cat. No. 5206.0.

6 For more detail on the forecasting timetable, see 'On Economists, the Economy and Fiscal Policy', Address to the Australian Business Economists by Dr Ken Henry, Secretary to the Treasury, 29 May 2001. This speech is available at [www.treasury.gov.au/speeches/2001](http://www.treasury.gov.au/speeches/2001).

A variation on this approach was employed in the liaison round for the *Mid-Year Economic and Fiscal Outlook 2001-02*, released in mid-October 2001. The liaison round was conducted in September and early October, with progressive and cumulative reporting of findings to forecasters. While this approach has the advantage of timeliness, it is more difficult to fully incorporate liaison findings into the forecasting process which was occurring simultaneously. Not the least of these difficulties is the restricted availability of forecasting analysts to be directly involved in liaison.

The optimal timing of business liaison rounds, including from the perspective of business contacts, is being reviewed by Treasury.

## **Recent developments in business liaison**

As noted above, in January 2000 Treasury's business liaison function was centralised in Canberra. One of the key objectives in doing so was to ensure that all Treasury analysts assigned to the role of forecasting were in regular direct contact with businesses. The liaison program can also be run from Canberra at lower cost than those involved with maintaining stand-alone offices in other cities.

That said, it has taken some time to 'bed down' the centralised liaison process. In calendar 2000 the average number of liaison visits per round was lower than in previous years, before recovering to around pre-centralisation average in calendar 2001. It is expected that in coming years liaison rounds will average between 80 and 100 contacts.

Another significant recent development is the move by the Reserve Bank of Australia (RBA) to commence a very substantial liaison program, having recently opened offices in Melbourne, Brisbane, Perth and Adelaide. The liaison programs conducted by Treasury and the RBA have different focuses. Treasury has discrete liaison rounds to feed into the Budget and MYEFO while the RBA's liaison is more continuous, feeding into meetings of the RBA board.<sup>7</sup> Nevertheless, Treasury and the Reserve Bank are continuing to work together on the interaction between these two liaison programs, including some joint liaison visits.

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<sup>7</sup> See 'The Monetary Policy Process at the RBA', Address by Mr G R Stevens, Assistant Governor (Economic), to Economic Society of Australia (Victorian Branch), Forecasting Conference, Melbourne, 10 October 2001. This speech was published in the October 2001 edition of the Reserve Bank of Australia *Bulletin*.

## **Conclusion**

The importance placed in regular contact with businesses is reflected in Treasury's ongoing commitment to business liaison and the role that this information plays in the regular assessment of the economy. Treasury greatly appreciates the commitment of time and effort made by Australian business and industry associations that participate in this program.

