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St.George - ACCI SMALL BUSINESS SURVEY August 2007

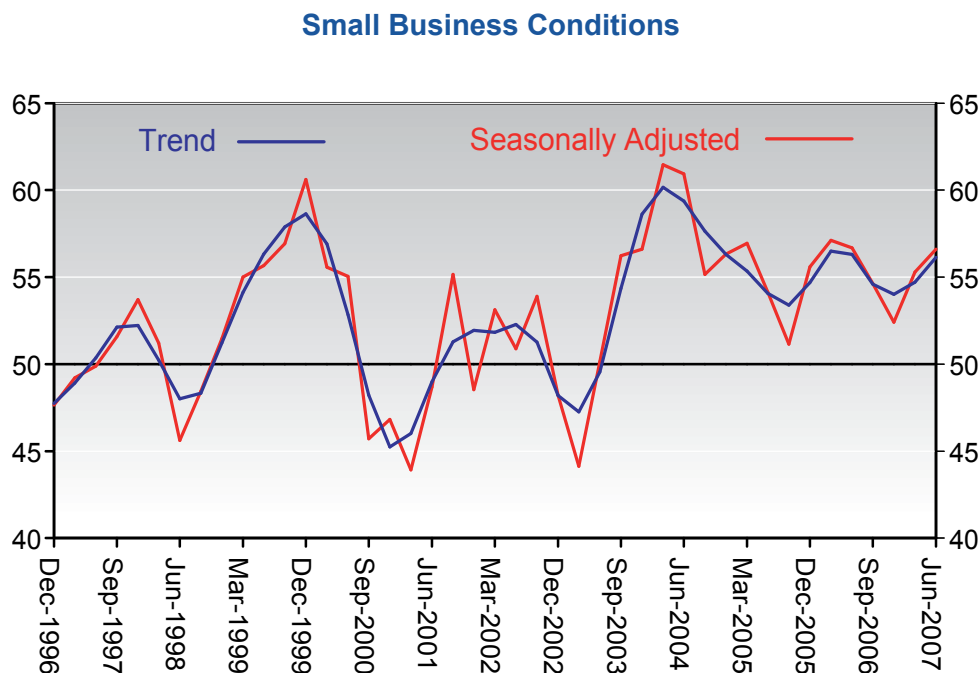
Identifying National Trends and Conditions
for the Small Business Sector

Summary

The St.George - ACCI Index of Small Business Conditions improved to 56.1 in the June quarter, from 54.7 in the March quarter.

- **Small business conditions** have improved over the June 2007 quarter with the index at a very satisfactory level. Expectations indicate further improvements in business conditions are likely to occur in the September quarter.
- **Australian economic performance** is expected to accelerate over the next twelve months.
- **Sales revenue** rose marginally over the June quarter to a near record high. Expectations are highly optimistic, reflecting confidence in prolonged favourable trading conditions.
- Providing evidence for an extremely tight labour market, **employment growth** and **overtime utilisation** strengthened further over the June quarter to be at all time highs and expectations showed continuing growth over the next quarter.
- As a direct result of a tight labour market, **wage** and **non-wage labour costs** rose strongly over the June quarter with both indices at record high levels since the survey began in 1996.
- **Price growth** increased over the quarter to be at near record levels.
- All **small** business indicators for the June quarter are above their respective five-year averages but are below their **large** counterparts. Furthermore, all **small** business indicators for the June quarter rose, providing a compelling case for a vigorous economy.

Small Business Conditions



St.George and ACCI

St.George and ACCI share a strong desire to foster the success of businesses in Australia. Together we aim to look after the future of your business by bringing the national and industry-specific information that you need to thrive in a rapidly changing environment.

Results at a Glance

	5 Year Average	June 2006	Mar 2007	June 2007	Quarterly Move	Sept 2007 (e)
Small Business Conditions	54.5	56.3	54.7	56.1	↑	62.6
Australian Economic Performance (a)	51.2	50.2	50.7	54.6	↑	—
Sales Revenue	55.8	59.0	58.3	58.9	↑	67.6
Wage Growth	63.8	64.7	68.6	69.1	↑	66.2
Non-Wage Labour Costs	63.5	64.0	67.4	67.8	↑	62.0
Selling Prices	54.5	55.4	55.7	56.7	↑	59.3
Profit Growth	47.8	49.0	48.3	48.9	↑	60.9
Employment	53.2	54.0	54.7	55.1	↑	58.2
Overtime Utilisation	52.2	53.7	53.2	54.2	↑	52.0
Investment in Buildings and Structures	50.7	52.1	50.2	51.0	↑	51.1
Investment in Plant and Equipment	55.5	57.3	55.5	56.9	↑	56.6

Notes: Throughout this survey, index values are in trend terms including five-year averages. The full data set is available from www.acci.asn.au.

(a) Expectation for following twelve-months, (e) expectation for next quarter.

An index level of 50 indicates that there is an exact balance between those who responded that the variable is growing and those who replied that the variable had declined. Thus, any level below 50 can generally be interpreted as meaning that the variable is falling, and conversely, a reading above 50 indicates the variable is increasing.

About the Survey

The Small Business Survey is a national survey aggregated from the surveys conducted by member associations of the Australian Chamber of Commerce and Industry (ACCI). These surveys cover small businesses in every state and in every industry.

The survey asks firms to indicate how their business has performed over the past 3 months, relative to the previous 3 months, according to 11 different measures, namely Business Conditions, Sales/Revenue, Wages, Non-Wage Labour Costs, Selling Prices, Profits, Employment, Overtime, Capital Expenditure - Buildings and Capital Expenditure - Plant and Equipment.

In addition, firms are asked how they believe their business will perform over the next 3 months compared with the past 3 months. This gives rise to the expectations indices.

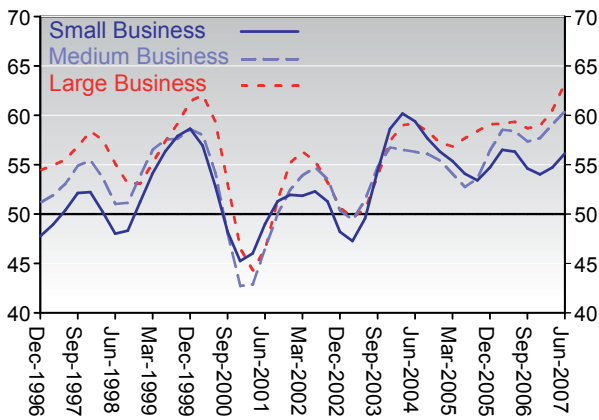
Finally, businesses are asked what their expectations are for the performance of the Australian economy over the next 12 months in comparison with the past 12 months. This provides a reading on the strength of growth in the domestic economy.

A number of the survey responses are segmented by size of business, with large firms categorised as having 100 or more employees, medium having 20-99 and small as having 1-19.

The data in this survey covers the period April, May and June 2007. There were 1,292 respondents to the survey.

Survey Data

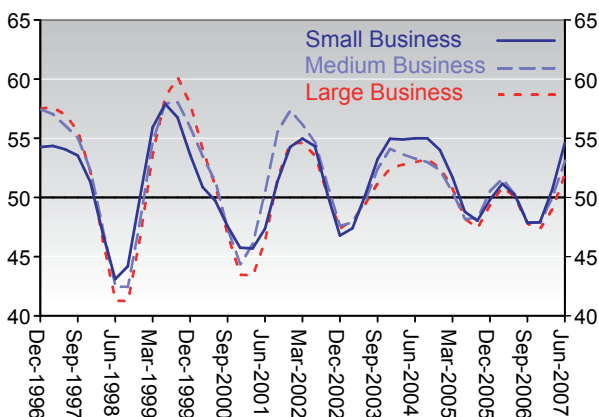
Small Business Conditions



- **Small business conditions** rose to 56.1 from 54.7 over the June quarter.
- The index is comfortably higher than its five-year average of 54.5.
- Expectations for the September quarter remained robust, signalling continued improvement of trading conditions over the next quarter.
- Small businesses rated their conditions lower than both medium and large businesses. Large businesses reported that they had the biggest improvement to their business conditions over the June quarter.

	June 2007	Sept 2007 (e)
Small	56.1	62.6
All Businesses	60.5	64.0

Australian Economic Performance



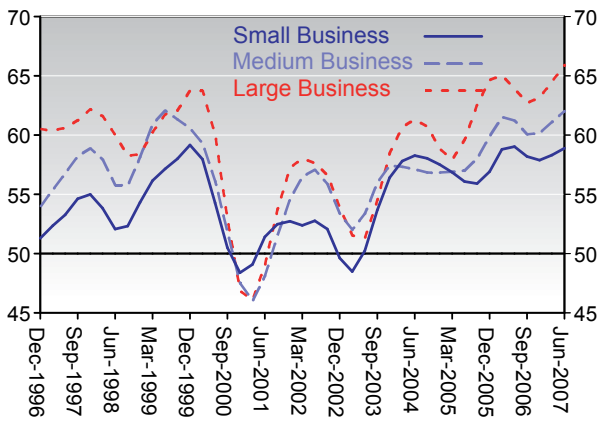
- Small business is expecting growth over the next twelve months to be significantly higher compared with the past twelve months. The index of **Australian economic performance** increased from 50.7 to 54.6 over the June quarter.
- The index is considerably higher than its five-year average of 51.2.
- All three business size groups expect an improvement in the rate of economic growth. The magnitude of the increase is relatively uniform across the three size groups, with small business remaining the most positive.

	Mar 2006 (a)	June 2007 (a)
Small	50.7	54.6
All Businesses	51.0	54.8

(a) Expectation for following 12 months.

Survey Data

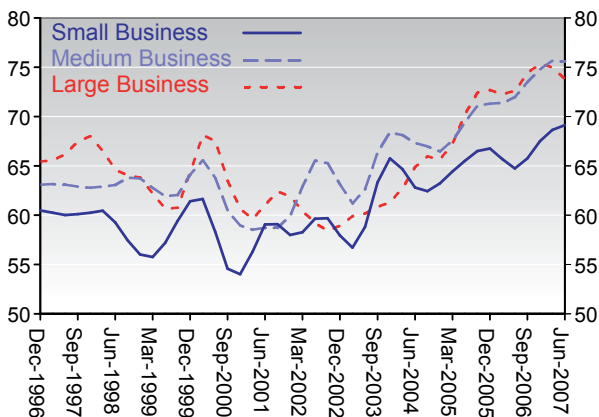
Sales Revenue



- Small business **sales revenue** increased slightly over the June quarter from 58.3 to 58.9.
- The index is considerably higher than its five-year average of 55.8.
- The **sales revenue** index stands at only marginally less than the all time peak of 59.0, reached on two separate occasions
- Strong expectations for the September quarter suggests that small business anticipates favourable business conditions will translate into further sales revenue growth.
- All three business sizes had positive results. Large business had the strongest increase while small business had the weakest increase.

	June 2007	Sept 2007 (e)
Small	58.9	67.6
All Businesses	63.1	67.5

Wage Growth

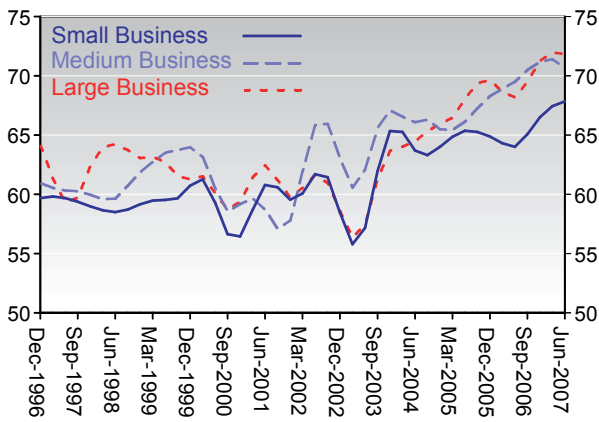


- **Wage growth** continued to accelerate over the quarter with the index rising to a new all time high. The index rose from 68.6 to 69.1 over the June quarter.
- The index is well above its five-year average of 63.8.
- Increases in expectations are suggestive of further strong growth through the September quarter.
- Medium and large businesses both experienced moderation in wage pressures, while the opposite was true for small business.

	June 2007	Sept 2007 (e)
Small	69.1	66.2
All Businesses	71.1	67.9

Survey Data

Non-Wage Labour Costs

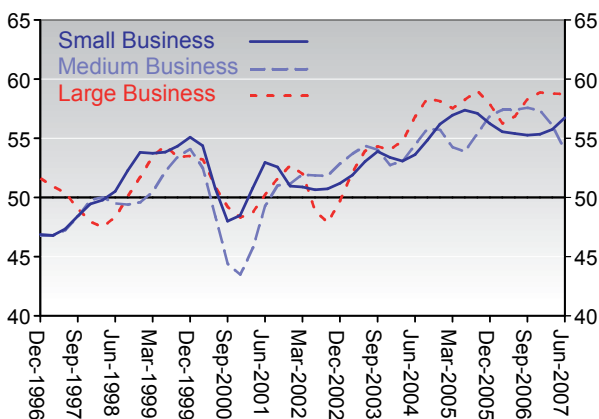


- **Non-wage labour costs** rose in line with wages over the June quarter with the index rising from 67.4 to 67.8. This index is also at an all time high.
- The series remains well above the five-year average of 63.5.
- Expectations moderated over the quarter, however business still anticipates well above average growth in non-wage labour costs.
- Expectation index for **non-wage labour costs** is the only index in this survey to fall for small business.
- Non-wage cost growth was highest for large business with medium business only slightly behind and small business having the least growth.

Non-wage labour costs refer to the growth in labour on-costs such as fringe benefits, workers' compensation, payroll tax and training.

	June 2007	Sept 2007 (e)
Small	67.8	62.0
All Businesses	68.9	63.2

Selling Prices

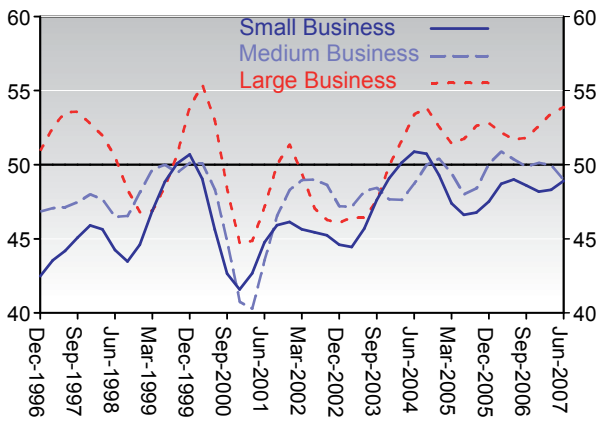


- The index of **selling prices** increased over the quarter from 55.7 to 56.7.
- The index is considerably higher than its five-year average of 54.5.
- Expectations suggest that the index level may increase moderately over the next quarter.
- Medium business experienced a significant drop in the **selling price** index, while the index remained relatively steady for large business. Despite the lack of movement, large business retains the highest **selling price** growth.

	June 2007	Sept 2007 (e)
Small	56.7	59.3
All Businesses	56.8	59.8

Survey Data

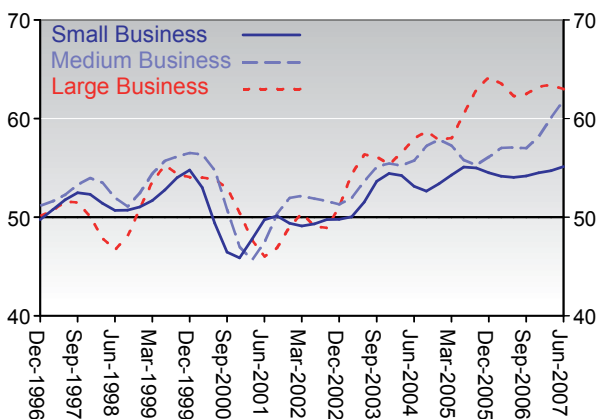
Profit Growth



- The index for **profit growth** improved over the June quarter from 48.3 to 48.9.
- The index is comfortably above its five-year average of 47.8.
- Expectations continue to be positive and demonstrate that conditions remain conducive for improved profits.
- Large businesses' **profit growth** is the strongest, while small and medium business are equal in position.

	June 2007	Sept 2007 (e)
Small	48.9	60.9
All Businesses	51.2	58.8

Employment

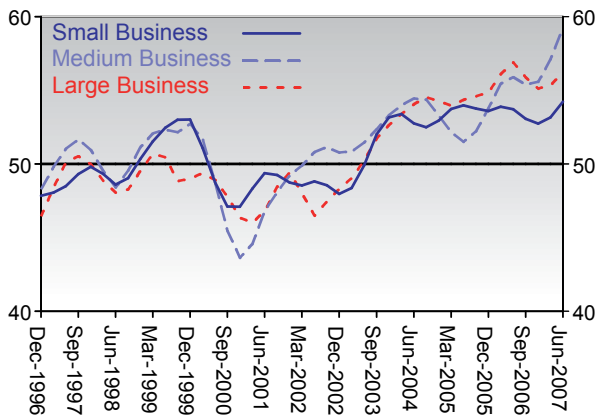


- Small business **employment** growth continued to be robust with a further improvement to the index from 54.7 to 55.1 over the June quarter.
- Further evidence of a tight labour market is given by the **employment** index, which is at its highest level since the survey began.
- The index is comfortably above its five-year average of 53.2.
- Expectations for the next three months were higher, suggesting that **employment** growth should continue to expand through the September quarter.
- All three business sizes had strong **employment** growth with large business continuing to record the highest growth. Medium business is also at record **employment** since the survey began.

	June 2007	Sept 2007 (e)
Small	55.1	58.2
All Businesses	59.4	59.8

Survey Data

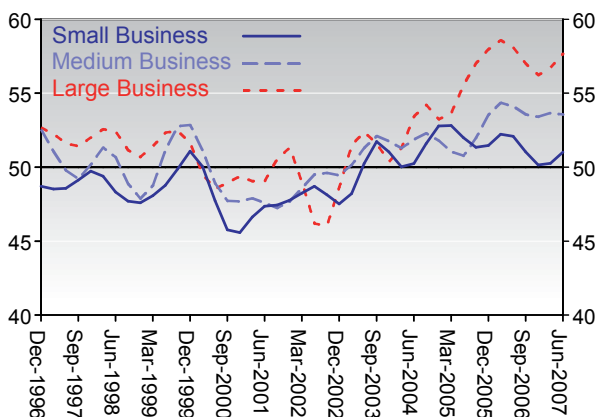
Overtime Utilisation



- The use of overtime within small business increased over the June quarter with the index of **overtime utilisation** up to 54.2 from 53.2.
- The index is considerably above its five-year average of 52.2.
- Expectations indicate that the growth in overtime utilisation may ease over the next quarter
- All three business sizes made more use of overtime over the June quarter. Medium business made the most use of overtime, well ahead of small and large business.

	June 2007	Sept 2007 (e)
Small	54.2	52.0
All Businesses	56.2	53.9

Investment in Buildings and Structures

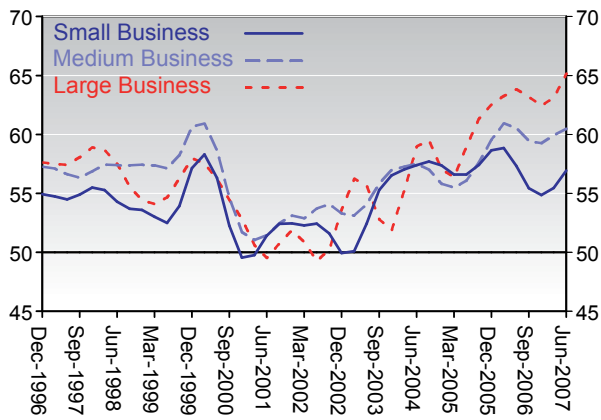


- The growth of **investment in buildings and structures** picked up over the quarter with the small business index recorded at 51.0. The index rose slightly over the June quarter after being 50.2 in the March quarter.
- The index is marginally above its five-year average of 50.7.
- Small business investment should continue at about current rates of growth over the September quarter with expectations recorded at approximately the same level.
- While both small and large business experienced increases in investment growth, medium business investment has fallen slightly over the quarter.

	June 2007	Sept 2007 (e)
Small	51.0	51.1
All Businesses	54.5	54.6

Survey Data

Investment in Plant and Equipment



- The growth rate for small business **investment in plant and equipment** strengthened over the quarter. The index rose to 56.9 from 55.9.
- The index is comfortably above its five-year average of 55.5.
- Expectations for the next quarter are marginally lower, indicating that **investment in plant and equipment** is steady and will grow comfortably at the current rate.
- Although **investment in plant and equipment** increased for all three business sizes, small business still has the lowest growth rate.

	June 2007	Sept 2007 (e)
Small	56.9	56.6
All Businesses	61.7	57.4

Constraints on Investment

The *SAI Global - ACCI Survey of Investor Confidence* asks businesses the degree to which twenty factors constrain business investment in plant and equipment.

In the most recent survey, the average level of impediments to investment for small business increased significantly from 33.0 to 40.4. The index is at a five year high.

The average level of impediments is the average of all 20 impediments to investment and reflects whether taken as a whole there is a greater or lesser degree of constraint on investment. The higher the average level of impediments, the greater the constraint.

Top Five Constraints on Investment

Figures in brackets show rankings during the last quarter.

Small Business

1. Availability of Suitably Qualified Employees (1)
2. Business Taxes and Government Charges (2)
3. State Government Regulations (4)
4. Wage Costs (3)
5. Charges by Lending Institutions (12)

Medium Business

1. Availability of Suitably Qualified Employees (1)
2. Business Taxes and Government Charges (4)
3. Local Competition (5)
4. Wage Costs (2)
5. State Government Regulations (3)

Large Business

1. Availability of Suitably Qualified Employees (1)
2. Insufficient Demand (10)
3. Wage Costs (4)
4. Federal Government Regulations (7)
5. Local Competition (6)

The **availability of suitably qualified employees** remains the number one constraint for all three business sizes. This result concurs with a myriad of other indicators showing that the labour market is quite tight. As a direct result of the success of the Australian economy and flexible labour market, **wage costs** has risen to record highs, but appears to now be putting pressure on investment levels. This unmistakably demonstrates the need to encourage skill development and workforce participation by industry and government.

Business taxes and government charges was another key barrier to business investment for small and medium business over the June quarter. Overall, government regulation or charges continue to be featured prominently in the top five constraints for all three business groups and shows how significant an impact government is making on investment.

Local Competition increased its importance as a constraint on investment by business. Larger businesses are finding it increasingly harder to make investment due to fierce competition in the market.

The top five lists shows priority areas that should be addressed to improve the investment and hence productivity performances within each size classification. The mix between skills, and government taxes and regulations in the current survey shows that continuing economic reform is essential.

Contact Listing

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Participating Organisations

This survey is compiled from data collected through individual surveys conducted by members of the Australian Chamber of Commerce and Industry (ACCI). Participating organisations and contact details at each organisation are listed below.

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Technical Note

Each survey reading is calculated by taking a weighted sum of the proportion of responses in each answer grouping to form an index between 100 and 1 (note that answers are grouped according to the strength of conditions). The strongest answer grouping is given a weighting of one and the weakest is given a weighting of zero, with those between receiving a proportional weighting.

As a result, if all respondents place their answer in the strongest grouping, the index would be 100. Conversely, if they all opted for the weakest grouping, the index would be 0.

If n is the number of response categories, $prop_i$ is the proportion of responses in a given category (out of 100) and i is the response category (ordered from 1 = strongest to n = weakest), then the formula for the index is as follows:

$$Index = \sum_{i=1}^n prop_i \left(\frac{n-i}{n-1} \right).$$

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