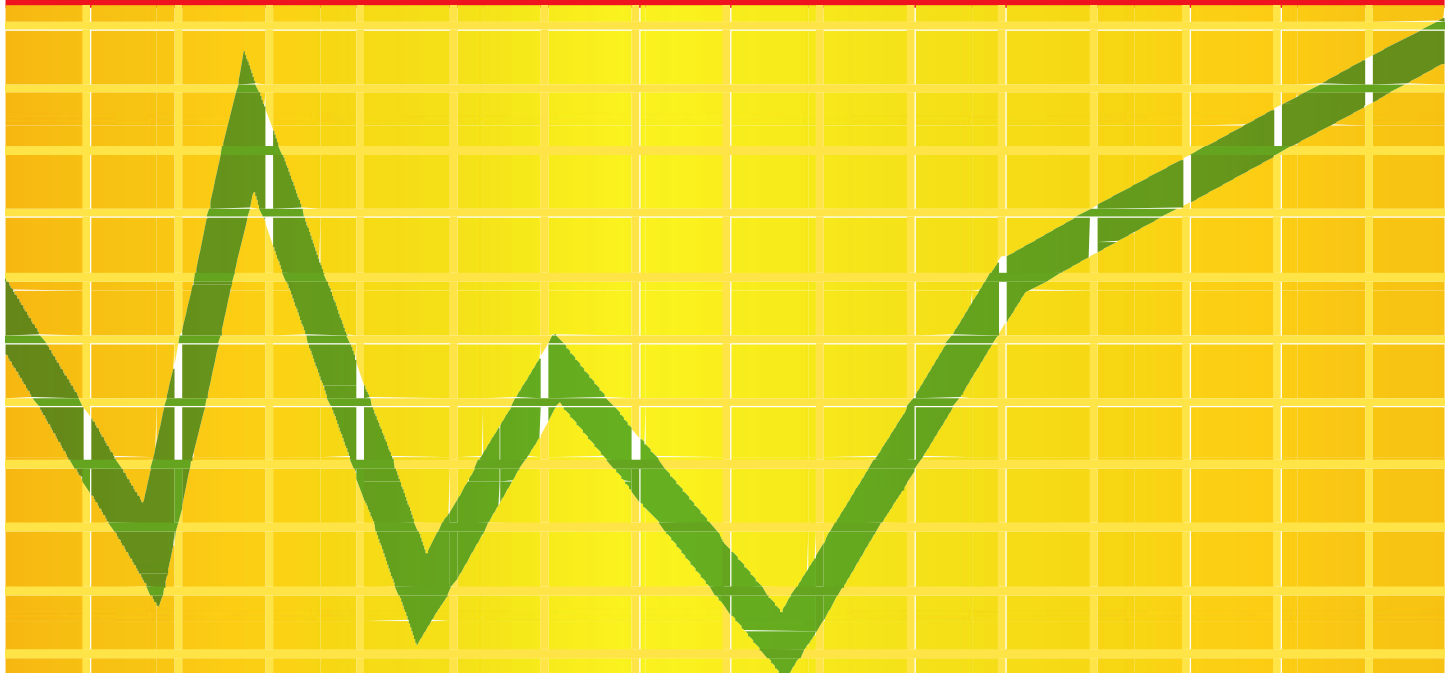




# ST.GEORGE - ACCI BUSINESS EXPECTATIONS SURVEY

IDENTIFYING NATIONAL TRENDS AND  
CONDITIONS FOR AUSTRALIAN BUSINESS





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## FOREWORD

The St.George-ACCI Business Expectations Survey is a national survey aggregated from the surveys conducted by member associations of the Australian Chamber of Commerce and Industry. These surveys cover firms in every state, in every industry and incorporate firms of every size. In total, they represent Australia's most comprehensive survey of business expectations. The data in this survey covers the period October, November and December 2004. There were 2,620 respondents to the survey.

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### ST.GEORGE & 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.

**St.George awarded Business Bank of the Year, CFO Magazine 2004 Awards.**



# WAGE PRESSURES STABILISE AS ECONOMY CONTINUES TO EXPAND

## SUMMARY

*Australia's Economic Performance* for 2005 is expected to be buoyant with the December-quarter index rebounding from its mid-2004 trough.

The *General Business Conditions* data suggests businesses enjoyed a strong operating environment in the December quarter 2004, despite a small decline in conditions. Importantly, businesses remain positive about 2005.

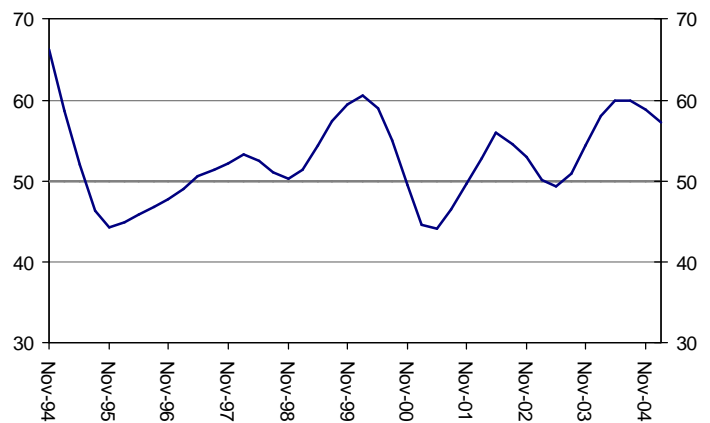
Similarly, *Sales Revenue* was robust, despite moderating from the very high levels of the previous quarter. Businesses are very confident about this revenue growth continuing.

For the first time since December 2003, *Export Growth* was positive, and businesses are expecting this growth to continue.

During this current quarter, business is expecting strong growth in profits, while the growth in wages and labour on-costs is expected to continue, but at a slower pace. Robust employment-growth expectations combined with solid investment numbers send a clear message - the Australian economy is performing well.

Strength was not confined to any one market segment with small, medium and large businesses all showing good outcomes. The notable exception was employment, where outcomes for smaller operations were muted, despite the sector reporting strong investment figures.

## General Business Conditions



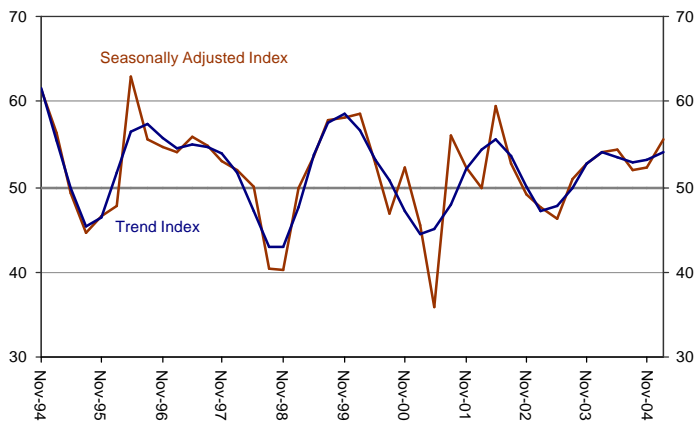
## HIGHLIGHTS

- The St.George-ACCI Business Expectations Survey for the December quarter of 2004 shows domestic economic growth remains strong and businesses expect solid conditions in 2005.
- Sales and profits continue to rise and expectations for the March quarter are well above average.
- Export growth accelerated and businesses expect further growth in early 2005.
- Wage and non-wages growth moderated during the December quarter but remain at high levels. Expectations data suggests above-average wages growth will continue this year.



## AUSTRALIAN ECONOMIC PERFORMANCE

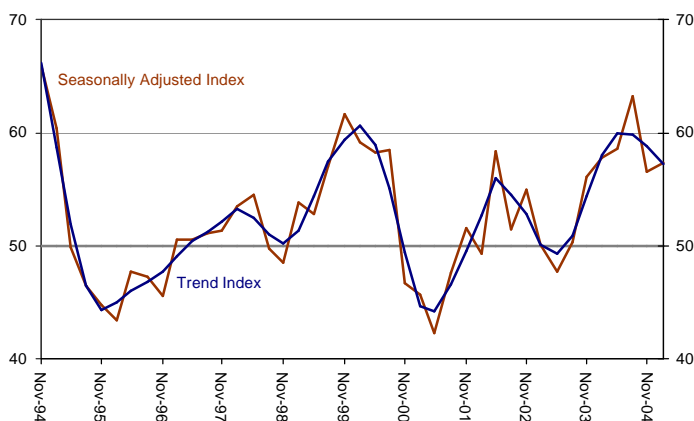
The index of *Australia's Economic Performance* jumped in the December quarter, continuing its upswing after declining in the March and June quarters of 2004, and is well above the long-run average. The seasonally adjusted measure also rose strongly in the quarter to its highest level since March 2002. This index indicates how businesses expect the Australian economy to perform in the year ahead compared with the performance of the previous year.



	Dec 2003 Expectation	Dec 2004 Expectation	Mar 2005 Expectation
<b>Much Stronger</b>	2.8	3.4	5.1
<b>Somewhat Stronger</b>	33.3	22.5	31.0
<b>About the Same</b>	45.6	57.2	49.3
<b>Somewhat Weaker</b>	17.0	15.5	13.2
<b>Much Weaker</b>	1.3	0.8	1.4
<b>Original Index</b>	54.8	53.5	56.3
<b>Seasonally Adjusted Index</b>	54.1	52.2	55.6
<b>Trend Index</b>	54.1	53.1	54.1

## GENERAL BUSINESS CONDITIONS

The *General Business Conditions* Index continues to ease from the very high levels reported in the first half of 2004 but remains firmly in positive territory. The actual data suggests business conditions were favourable in the December quarter while returning to more sustainable levels. In contrast, the expectation index jumped suggesting strong confidence in the economy this year.

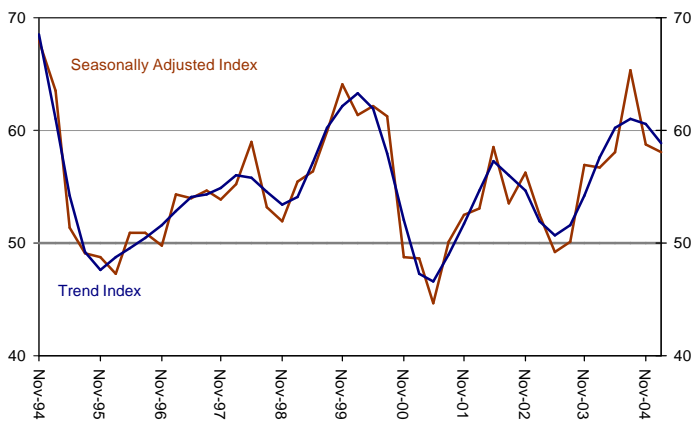


	Dec 2003 Actual	Dec 2004 Actual	Mar 2005 Expectation
<b>Up</b>	38.4	37.9	37.2
<b>Same</b>	45.8	46.1	46.5
<b>Down</b>	15.7	16.0	16.2
<b>Original Index</b>	61.3	60.9	60.5
<b>Seasonally Adjusted Index</b>	57.8	57.4	62.0
<b>Trend Index</b>	58.1	57.2	60.8



## SALES REVENUE

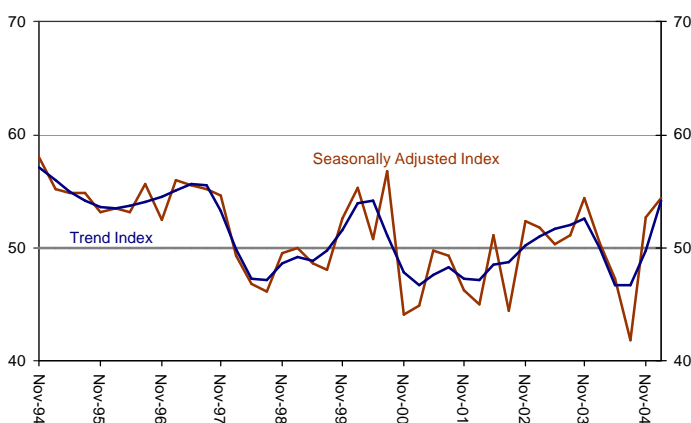
Sales growth also declined, with *Sales Revenue* index falling to 58.8 in trend terms from 60.5 in the September quarter and from the most recent peak of 61.1 in June 2004. However, it remains above the long-run average of 55.0 and shows that Australian businesses generally performed well over the quarter. Respondents are very confident about future revenue with expectations jumping strongly.



	Dec 2003 Actual	Dec 2004 Actual	Mar 2005 Expectation
<b>Up</b>	45.2	46.1	48.0
<b>Same</b>	31.4	32.5	35.5
<b>Down</b>	23.4	21.4	16.6
<b>Original Index</b>	60.9	62.3	65.7
<b>Seasonally Adjusted Index</b>	56.7	58.1	69.0
<b>Trend Index</b>	57.6	58.8	67.7

## EXPORTS

The index of *Export Sales* improved again during the December quarter, returning to positive territory after languishing below 50.0 since the December quarter of 2003. Actual export growth has been improving over 2004 and staged a strong rally at the end of the year. The outlook is positive with the *Expected Exports* index posting its second rise since its sharp decline in the first half of 2004.

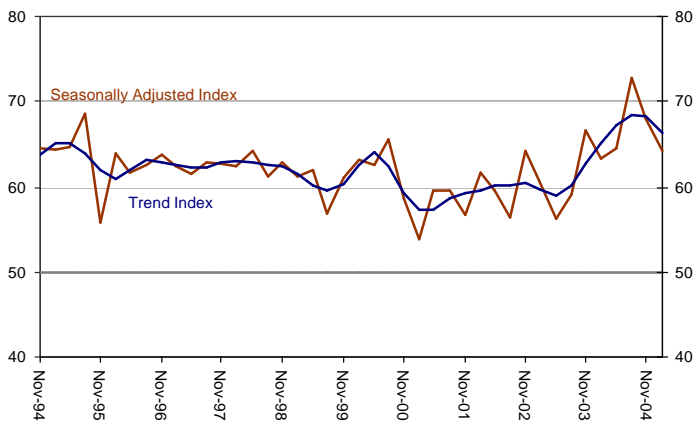


	Dec 2003 Actual	Dec 2004 Actual	Mar 2005 Expectation
<b>Up</b>	18.1	24.0	19.6
<b>Same</b>	68.3	64.7	67.6
<b>Down</b>	13.6	11.3	12.8
<b>Original Index</b>	52.3	56.4	53.4
<b>Seasonally Adjusted Index</b>	50.4	54.4	54.7
<b>Trend Index</b>	50.0	54.2	55.6



## WAGES GROWTH

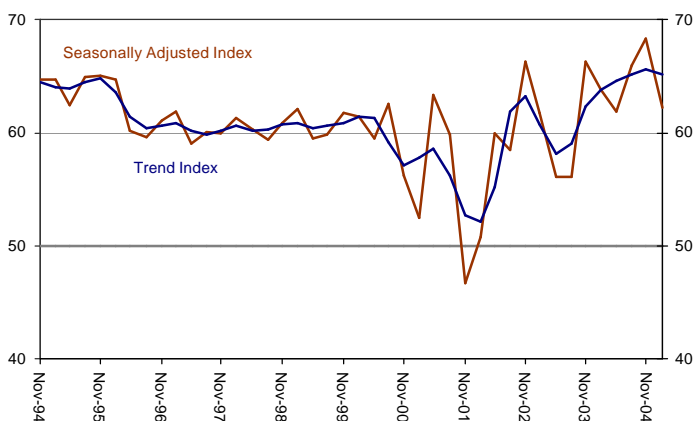
Wages continued to rise for many businesses, but across the board some moderation was reported with the December-quarter *Wages Growth* index retreating from its all-time June-quarter high of 68.6. Expectations for wages growth over the next year also moderated. Labour markets are very tight in many sectors so it is likely the index will remain above average for some time.



	Dec 2003 Actual	Dec 2004 Actual	Mar 2005 Expectation
<b>Up</b>			
<b>Same</b>	34.6	37.0	34.3
<b>Down</b>	58.2	55.4	60.0
	7.1	7.6	5.7
<b>Original Index</b>	63.7	64.7	64.3
<b>Seasonally Adjusted Index</b>	63.3	64.3	66.3
<b>Trend Index</b>	65.1	66.4	66.9

## NON-WAGE LABOUR COSTS

Similar to wage costs, the *Non-Wage Labour Costs* index eased from its early 2004 peaks but remains very high. This again suggests very tight labour markets. However, expectations have eased which should be good news for employers since labour on-costs can make up a large proportion of the cost of employees.

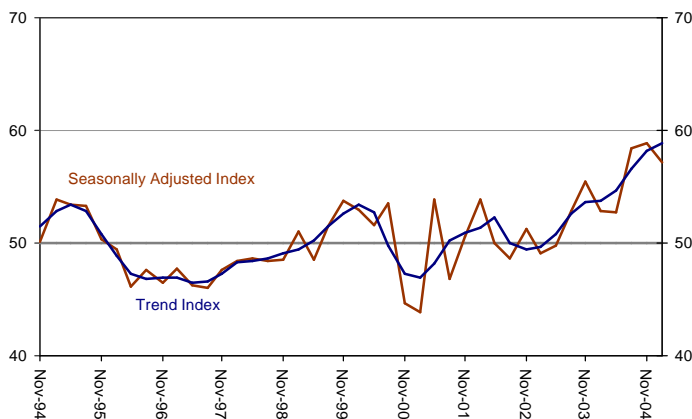


	Dec 2003 Actual	Dec 2004 Actual	Mar 2005 Expectation
<b>Up</b>			
<b>Same</b>	33.4	32.0	28.7
<b>Down</b>	62.5	62.2	65.0
	4.0	5.8	6.3
<b>Original Index</b>	64.7	63.1	61.2
<b>Seasonally Adjusted Index</b>	63.8	62.2	62.9
<b>Trend Index</b>	63.8	65.1	64.0



## SELLING PRICES

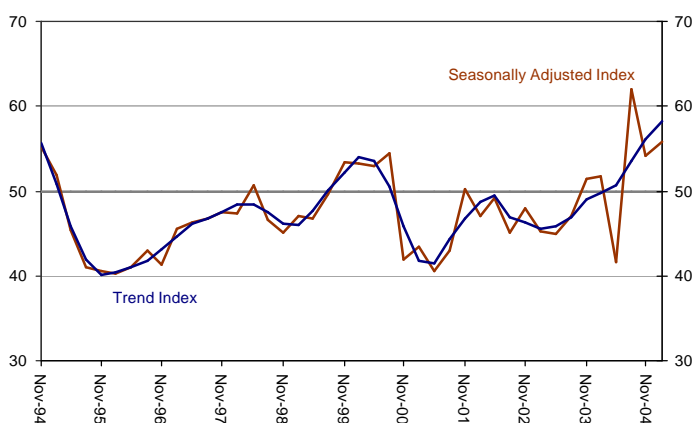
The index of *Selling Prices* jumped again over the quarter to hit an all-time high with about one quarter of respondents reporting price rises. Businesses are clearly factoring past rises into future pricing with the expectations index rising in tandem. This suggests some inflationary pressure is emerging.



	Dec 2003 Actual	Dec 2004 Actual	Mar 2005 Expectation
<b>Up</b>	15.8	24.6	25.5
<b>Same</b>	74.5	65.7	65.7
<b>Down</b>	9.7	9.8	8.7
<b>Original Index</b>	53.0	57.4	58.4
<b>Seasonally Adjusted Index</b>	52.9	57.3	59.5
<b>Trend Index</b>	53.8	58.9	59.6

## PROFITS

Profitability rose modestly in the December quarter with rising selling prices outpacing growth in wages and non-wages. The actual results show a strong improvement over the previous year and businesses expect further improvement in profitability in 2005.

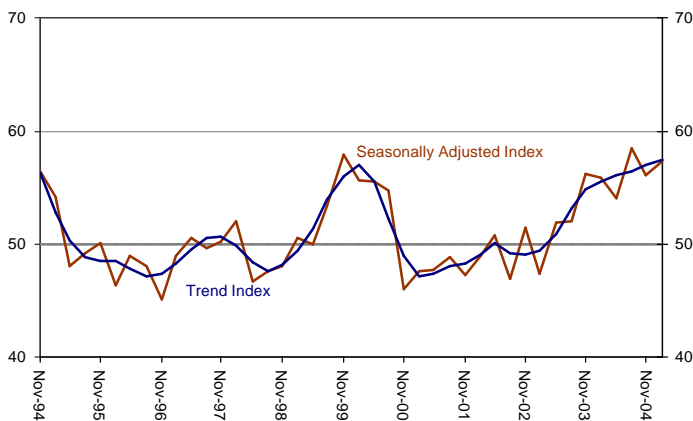


	Dec 2003 Actual	Dec 2004 Actual	Mar 2005 Expectation
<b>Up</b>	28.3	34.3	35.7
<b>Same</b>	47.4	43.8	46.4
<b>Down</b>	24.2	21.9	17.9
<b>Original Index</b>	52.0	56.2	58.9
<b>Seasonally Adjusted Index</b>	51.7	55.9	61.2
<b>Trend Index</b>	49.8	58.2	59.7



## EMPLOYMENT

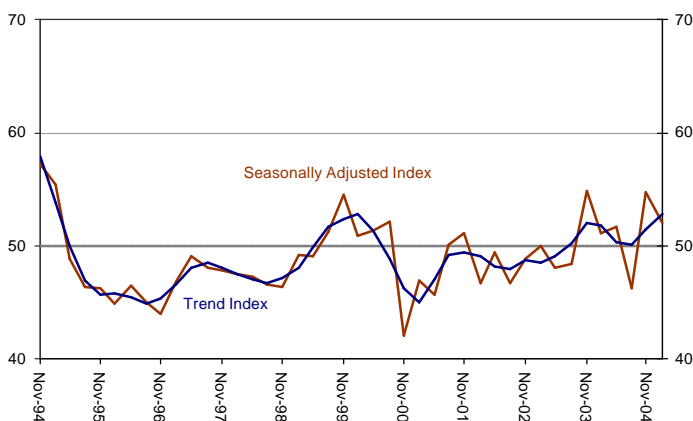
The index of *Employment intentions* rose slightly over the quarter to post its ninth successive increase and another all-time high. The survey points towards tighter labour markets in the coming months with businesses expecting strong employment growth to continue.



	Dec 2003 Actual	Dec 2004 Actual	Mar 2005 Expectation
<b>Up</b>	26.8	27.5	26.1
<b>Same</b>	60.1	61.7	61.7
<b>Down</b>	13.1	10.8	12.2
<b>Original Index</b>	56.8	58.3	57.0
<b>Seasonally Adjusted Index</b>	55.9	57.3	57.8
<b>Trend Index</b>	55.6	57.5	58.7

## OVERTIME UTILISATION

Business *Overtime Utilisation* rose somewhat during the December quarter, in line with the growth in wages and employment intentions. However, the index is only just above its long-run average of 49.0. Just over 26 percent of businesses surveyed said they had increased their use of overtime during the quarter and expect this trend to continue, with expectations rising to be slightly into positive territory.



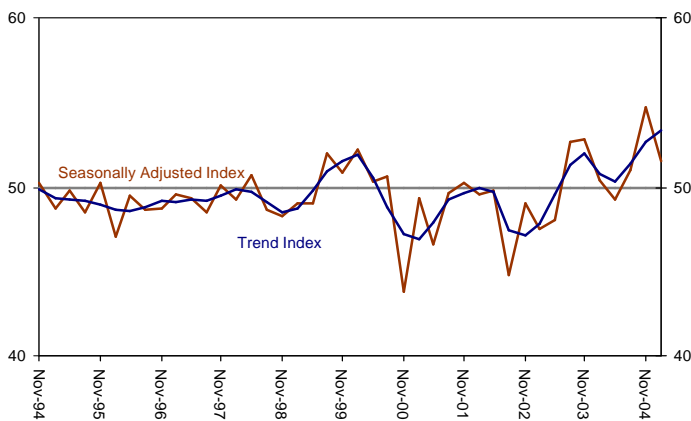
	Dec 2003 Actual	Dec 2004 Actual	Mar 2005 Expectation
<b>Up</b>	24.8	26.4	20.6
<b>Same</b>	60.7	59.4	59.0
<b>Down</b>	14.5	14.2	20.3
<b>Original Index</b>	55.1	56.1	50.1
<b>Seasonally Adjusted Index</b>	51.1	52.0	51.1
<b>Trend Index</b>	51.9	52.9	51.3





## INVESTMENT IN BUILDINGS AND STRUCTURES

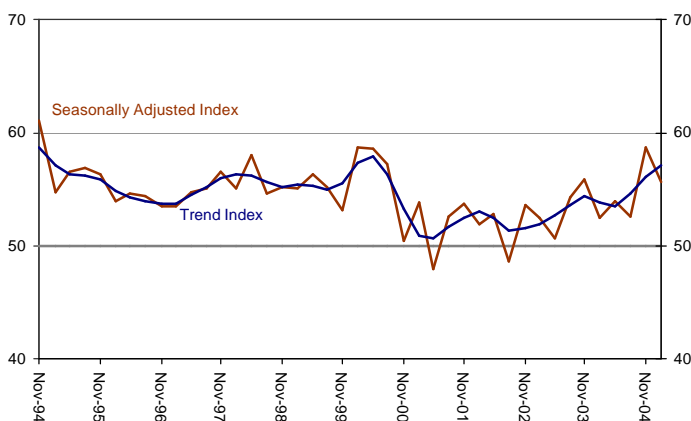
Business *Investment in Buildings and Structures* rose again over the December quarter as profits firmed. The index is at historically high levels, with business expectations for investment falling but remaining positive.



	Dec 2003 Actual	Dec 2004 Actual	Mar 2005 Expectation
<b>Up</b>	19.4	20.3	19.0
<b>Same</b>	64.6	65.3	64.3
<b>Down</b>	16.0	14.5	16.7
<b>Original Index</b>	51.7	52.9	51.1
<b>Seasonally Adjusted Index</b>	50.4	51.6	51.2
<b>Trend Index</b>	50.8	53.3	53.8

## INVESTMENT IN PLANT AND EQUIPMENT

Business *Investment in Plant and Equipment* was solid in the December quarter, after rising for the last three surveys. This follows some weakness in the first part of 2004. Expectations increased again, suggesting businesses plan to invest substantial amounts in plant and equipment over the coming months.



	Dec 2003 Actual	Dec 2004 Actual	Mar 2005 Expectation
<b>Up</b>	23.2	27.8	28.0
<b>Same</b>	62.2	59.3	59.3
<b>Down</b>	14.6	12.9	12.8
<b>Original Index</b>	54.3	57.4	57.6
<b>Seasonally Adjusted Index</b>	52.5	55.6	58.3
<b>Trend Index</b>	53.8	57.1	59.2



## COMPARISONS BY SIZE OF BUSINESS

A number of comparisons by size of business are provided below. As the data shows, there are important differences in the performance and expectations of businesses depending on their size. The data is weighted by industry.

### GENERAL BUSINESS CONDITIONS

*General Business Conditions* improved across the board in the December quarter with medium-sized enterprises experiencing the greatest improvement. Expectations were also positive across the board with large businesses being the most confident.

	No. of Employees					
	1-19		20-99		100+	
	Dec '04 Actual	Mar '05 Expected	Dec '04 Actual	Mar '05 Expected	Dec '04 Actual	Mar '05 Expected
Up	33.3	32.9	41.7	38.0	29.6	35.4
Same	51.2	53.4	42.1	43.5	55.1	50.6
Down	15.5	13.7	16.2	18.6	15.3	14.0
<b>Index</b>	<b>58.9</b>	<b>59.6</b>	<b>62.7</b>	<b>59.7</b>	<b>57.1</b>	<b>60.7</b>

### EMPLOYMENT

*Employment* grew substantially in medium and large businesses during the December quarter. Smaller operators reported only a slight rise in employment but expected to hire more staff in 2005. Overall medium-sized businesses had the most buoyant expectations for employment.

	No. of Employees					
	1-19		20-99		100+	
	Dec '04 Actual	Mar '05 Expected	Dec '04 Actual	Mar '05 Expected	Dec '04 Actual	Mar '05 Expected
Up	19.6	25.0	32.3	30.0	36.8	33.9
Same	66.5	65.5	58.3	62.7	50.5	47.7
Down	13.9	9.5	9.4	7.3	12.7	18.4
<b>Index</b>	<b>52.8</b>	<b>57.8</b>	<b>61.5</b>	<b>61.3</b>	<b>62.0</b>	<b>57.7</b>



## INVESTMENT IN PLANT AND EQUIPMENT

The data on *Investment in Plant and Equipment* shows a fairly even pattern of investment across all categories with small business being the strongest. Large businesses had slightly stronger expectations than small and medium sized businesses.

	No. of Employees					
	1-19		20-99		100+	
	Dec '04 Actual	Mar '05 Expected	Dec '04 Actual	Mar '05 Expected	Dec '04 Actual	Mar '05 Expected
Up	23.3	27.5	22.7	23.2	27.2	31.9
Same	67.0	59.5	64.6	64.2	55.6	53.8
Down	9.8	13.0	12.7	12.5	17.2	14.3
<b>Index</b>	<b>56.7</b>	<b>57.3</b>	<b>55.0</b>	<b>55.3</b>	<b>55.0</b>	<b>58.8</b>

## WAGES GROWTH

Large businesses experienced the strongest *Wages Growth* in the quarter; however, wage pressures were evident across the board as were expectations for continued wage growth.

	No. of Employees					
	1-19		20-99		100+	
	Dec '04 Actual	Mar '05 Expected	Dec '04 Actual	Mar '05 Expected	Dec '04 Actual	Mar '05 Expected
Up	35.1	37.9	42.6	35.8	41.8	38.9
Same	56.2	56.1	46.1	57.2	49.9	54.8
Down	8.7	6.0	11.3	7.0	8.3	6.3
<b>Index</b>	<b>63.2</b>	<b>65.9</b>	<b>65.7</b>	<b>64.4</b>	<b>66.7</b>	<b>66.3</b>



## PARTICIPATING ORGANISATIONS

The 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.

### ACT & Region Chamber of Commerce and Industry

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### Business SA

Mr Hamilton Calder  
Ph: (08) 8300 0009

### Chamber of Commerce & Industry of Western Australia

Ms Nicky Cusworth  
Ph: (08) 9365 7555

### Chamber of Commerce Northern Territory

Ms Clalia Mar  
Ph: (08) 8936 3100

### Commerce Queensland

Mr Andrew Larkin  
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### Printing Industries Association of Australia

Mr Hagop Tchamkertenian  
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### Tasmanian Chamber of Commerce & Industry

Mr Nick Behrens  
Ph: (03) 6234 5933

### Victorian Automobile Chamber of Commerce

Ms Elly Babic  
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### Victorian Employers' Chamber of Commerce & Industry

Mr Steven Wojtkiw  
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### NOTE ON INTERPRETING THE SURVEY

An index level of 50 indicates that there is an exact balance between those who responded that conditions had improved and those who replied that conditions had declined. Thus, any level below 50 can generally be interpreted as meaning that conditions are deteriorating, and conversely, a reading above 50 indicates conditions on average are improving.

The index is calculated by taking a weighted sum of the proportion of responses to every answer to form an index between 100 and 0. The strongest response is given the greatest weighting of one with the weakest given the lowest weighting of zero, and proportional weighting in between. As a result, if all respondents answered the strongest response, the index would be 100; if they all answered the weakest response, the index would be zero.

If  $n$  is the number of response categories,  $prop_i$  is the proportion of responses in a given category and  $i$  is the response category, then the formula for the index is:

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

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