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St.George - ACCI BUSINESS EXPECTATIONS SURVEY May 2007

Identifying National Trends and Conditions for Australian Business

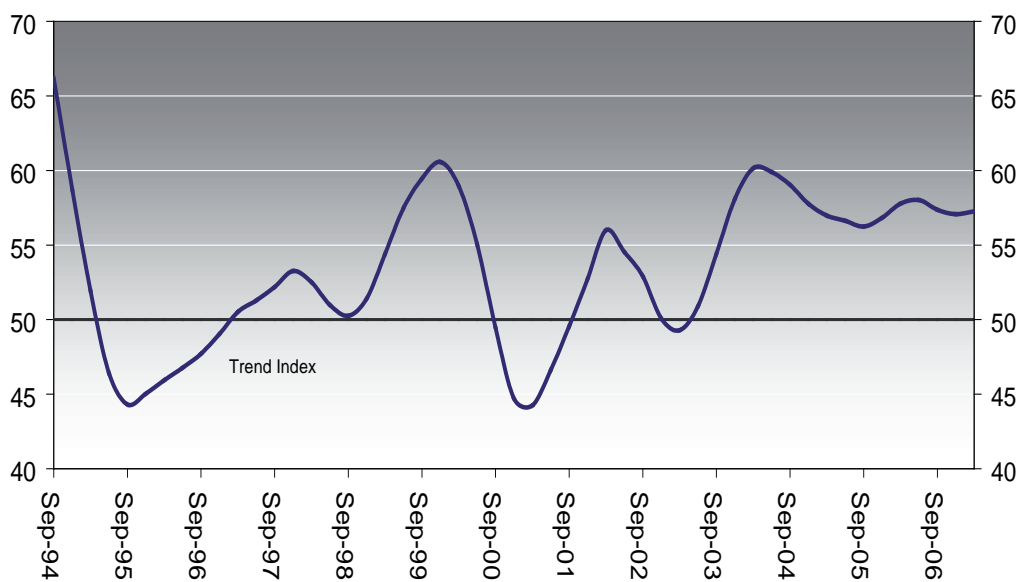
Summary

The St.George-ACCI Index of Business Conditions increased to 57.3 in the March Quarter, up from 57.1 in the December quarter.

- **Business Conditions** remain highly favourable and expectations for the next quarter were very positive.
- Confidence in expected **Australian economic growth** rose but remained in negative territory indicating that business expects growth to be slightly less in one year's time than it is at present.
- **Employment** continued to grow strongly setting a new all time high and employment expectations for the next quarter suggest that business will continue to create additional employment opportunities.
- **Wages growth** rose to a new all time high since the survey began in 1994. Wage growth has risen sharply since June 2006.
- **Sales revenue** growth increased while **profitability** was slightly improved over the March quarter.
- **Selling prices** moderated but expectations suggest that business is factoring in slightly higher price growth over the next quarter.
- **Investment in plant and equipment** and **investment in buildings** continued to be strong but investment in plant and equipment slowed somewhat during the quarter.
- Looking at the results by **business size**, large business had the highest investment and employment results but also the highest wage growth results.

Business Conditions

St.George - ACCI Index of 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	March 2006	Dec 2006	March 2007	Quarterly Move	June 2007 (e)
Business Conditions	56.1	57.8	57.1	57.3	↑	58.7
Expected Economic Growth (a)	50.6	50.9	47.9	48.5	↑	—
Sales Revenue	58.4	61.9	60.9	62.3	↑	63.2
Exports	52.3	54.6	54.0	53.3	↓	54.8
Wages	66.4	69.5	72.9	74.4	↑	70.4
Non-Wage Labour Costs	64.6	66.8	69.9	71.1	↑	66.9
Selling Prices	55.0	55.7	57.4	57.1	↓	61.2
Profits	50.1	50.1	50.7	51.3	↑	56.7
Employment	56.0	59.1	59.7	61.2	↑	58.5
Overtime	52.2	54.9	54.1	53.6	↓	50.9
Investment in Buildings and Structures	52.2	55.7	53.7	53.7	—	55.8
Investment in Plant and Equipment	56.4	61.3	59.4	58.4	↓	58.1

Notes: Index values are in trend terms. The full data is available for download from the ACCI website at www.acci.asn.au.

(a) Expectation for following 12 months, (e) denotes expectation index level.

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, a 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.

About the Survey

The Business Expectations 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 firms in every state and industry as well as firms of every size. The survey is Australia's most comprehensive survey of business expectations.

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: Business Conditions, Sales/Revenue, Exports, Wages, Non-Wage Labour Costs, Selling Prices, 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 generates the expectations indexes.

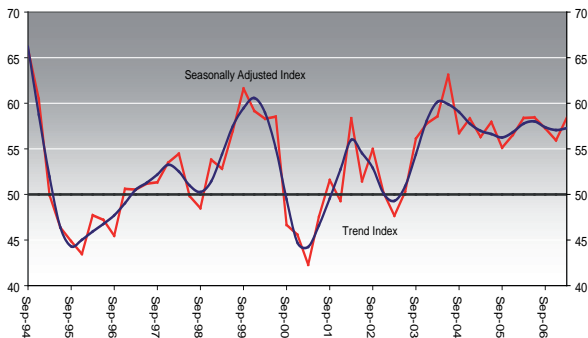
Finally, businesses are asked what their expectations are for the performance of the Australian economy over the next 12 months in comparison with the past 12 months. This provides a reading on the strength of growth in the domestic economy.

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 January, February and March 2007. There were 1,558 respondents to the survey.

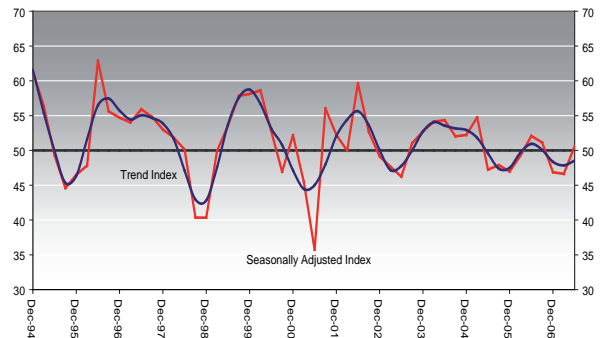
Survey Data

General Business Conditions



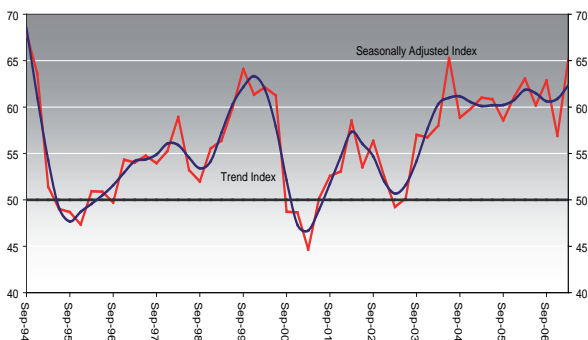
- **General business conditions** rose modestly with the index increasing from 57.1 to 57.3 in the March quarter.
- The index remained at a strongly positive level.
- Expectations strengthened slightly, showing that business remains very confident.

Expected Economic Growth



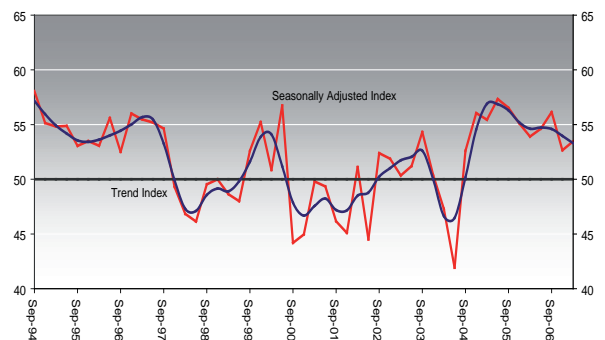
- Business expectations for **expected economic growth** for the next 12 months (relative to the previous 12 months) turned around after declining for three quarters.
- The index, however, remains in negative territory indicating that business expects growth to slow slightly over the next 12 months.
- The index now stands at 48.5 compared with 47.9 in December 2006.

Sales Revenue



- The **sales revenue** index rose strongly over the quarter to 62.3 from the 60.9 recorded in the previous quarter.
- The current reading for sales revenue indicates that sales growth is strong.
- Sales growth expectations declined marginally but remained very positive suggesting that business remains optimistic.

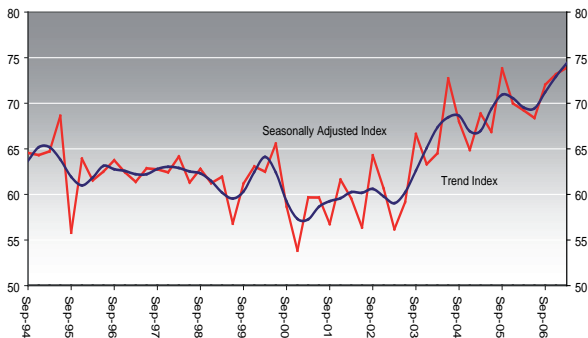
Export Sales Growth



- The **export sales growth** index decreased to 54.2 in the March quarter from the 54.6 recorded in December, possibly reflecting the strength of the Australian dollar.
- Despite the fall of the index, it remains above the five year average showing that there is a slow but steady improvement to export growth.
- Expectations for export growth were also down showing that exports should grow only modestly.

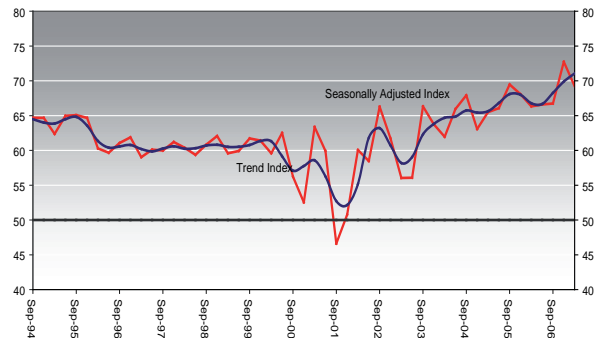
Survey Data

Wage Growth



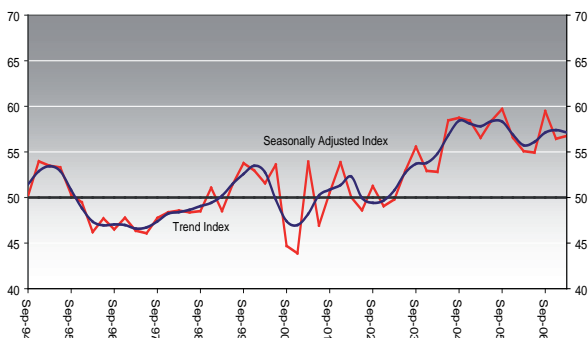
- **Wage growth** continued to rise over the quarter with the index rising to 74.4 from the 72.9 recorded in December.
- Wage growth rose to the highest level ever recorded in this survey which began in 1994.
- Expectations also increased over the quarter suggesting that wages will remain a key concern for business.

Non-Wage Labour Costs



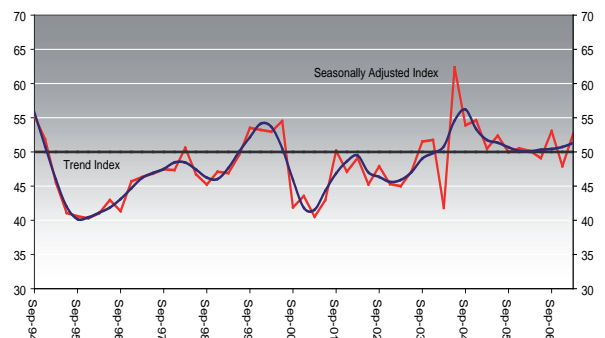
- The rate of growth in **non-wage labour costs** rose in tandem with wages. The index increased from 69.9 to 71.1 over the quarter to a new record high.
- This index measures labour on-costs such as fringe benefits, workers' compensation, payroll tax and training.
- Business expects these costs to continue to grow over the next quarter.

Selling Prices



- The index of **selling prices** fell slightly over the March quarter, with the index at 57.1 relative to 57.4 in December.
- Expectations for selling price growth show that price growth is not likely to fall further over the next three months.

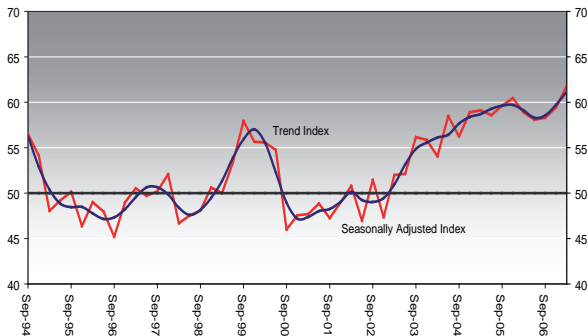
Profit Growth



- **Profit growth** increased slightly after being flat for the past five quarters. Over the March quarter the index increased from 50.7 to 51.3.
- Expectations for the next quarter were little changed from previous positive results showing that business remains optimistic of further profit gains.

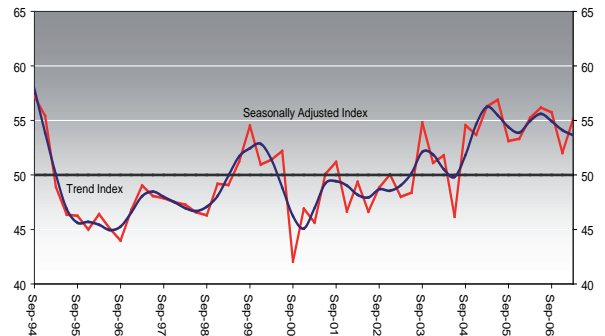
Survey Data

Employment



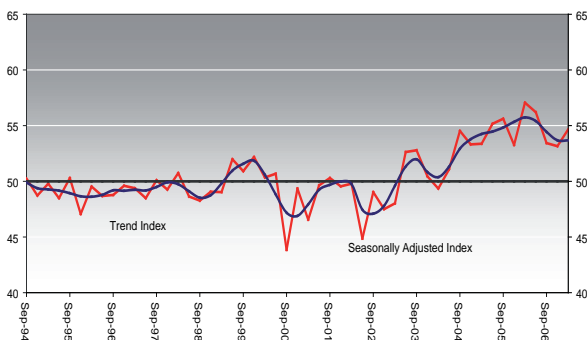
- The **employment** index continued to rise strongly in the first quarter of 2007 after slowing significantly in mid 2006.
- The index level was recorded at 61.2 compared with 59.7 for the December quarter to set a new all-time record.
- Expectations, however, declined over the quarter, indicating that employment growth may slow from current high rates.

Overtime Utilisation



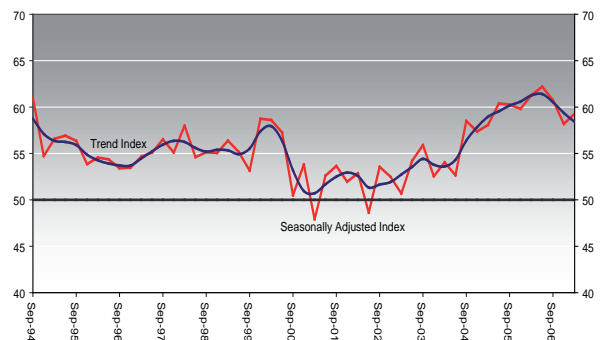
- **Overtime utilisation** contracted slightly over the quarter, with the index recorded at 53.6 in the March quarter from the 54.1 recorded in December.
- The level of overtime use shows that labour markets remain tight but with expectations for an easing of overtime use over the next quarter.

Investment in Buildings and Structures



- Growth of **investment in buildings and structures** remained unchanged over the quarter at a strong level.
- The index remained at 53.7 in the March quarter 2007.
- Expectations, however, rose indicating that investment should accelerate over the next quarter.

Investment in Plant and Equipment



- **Investment in plant and equipment** continued to fall away from record high levels recorded in the June quarter 2006. However, the index remains well above the five-year average.
- The index declined from 59.4 to 58.4 over the quarter.
- Expectations were buoyant showing that investment in plant and equipment should continue to grow well during the next quarter.

Comparisons by Size of Business

All the data on this page is in original, not trend, terms.

General Business Conditions

	March 2007	June 2007 (e)
Small	54.4	57.7
Medium	58.7	61.8
Large	57.8	61.3
Weighted Average	57.1	60.0

- The experiences of **general business conditions** were similar for medium and large business while small firms indicated that conditions were positive but not as good as their larger counterparts.
- All business sizes held a positive outlook for the next quarter with large business the most optimistic and small business the least.

Employment

	March 2007	June 2007 (e)
Small	55.7	55.9
Medium	60.5	59.0
Large	64.9	59.2
Weighted Average	61.0	57.9

- Large business again had the highest **employment** figures. Small business, despite taking on more employees over the quarter, are employing people at a slower rate than both medium and large firms.
- Large and medium firms also expect that employment will expand by more than their small counterparts.

Wage Growth

	March 2007	June 2007 (e)
Small	69.7	63.5
Medium	74.8	70.2
Large	75.2	70.5
Weighted Average	73.0	68.1

- **Wage growth** was very high for all three business sizes with large firms recording the highest wage growth.
- Large business also had the highest expectation for wage growth over the next quarter followed closely by medium business and small business expecting the slowest growth.

Investment in Plant and Equipment

	March 2007	June 2007 (e)
Small	54.9	54.3
Medium	60.3	58.4
Large	60.8	60.1
Weighted Average	58.8	57.8

- **Investment in plant and equipment** was highest amongst large business with small business undertaking the least new investment.
- All three business sizes did, however, continue to record growth in investment.
- Looking ahead to the next quarter, small business held the lowest expectations while large business was the most optimistic.

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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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