



# 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 April, May and June 2005. There were 1,789 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.



# AUSTRALIAN ECONOMY IS RESILIENT

## SUMMARY

General business conditions improved over the quarter arresting the decline that had been taking place over the previous year. However, expectations for Australia's economic performance continued to decline showing business still expects growth in the year ahead to be lower than the rates achieved over the previous twelve months.

Confirming the resilience of the Australian economy, however, was the modest increase recorded in sales revenue. Profits continue to be lacklustre, but may have turned a corner.

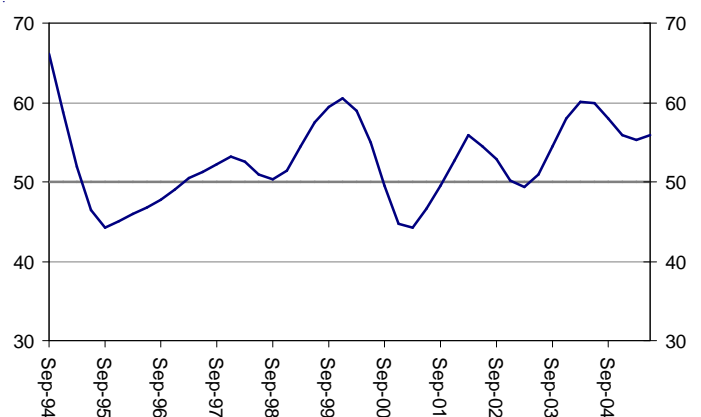
Business continued to create employment opportunities over the quarter with the index high and steady. Employment levels are also expected to remain sound indicating that employment growth should continue over the next quarter. In addition, use of overtime employment increased in the quarter, further showing the extent to which the labour market remains tight.

Investment in plant and equipment rose slightly while building and structures investment was down marginally.

The outlook for inflation showed improvement, albeit only to a modest extent, with businesses expecting selling price increases to moderate after the record high levels in the second half of 2004.

The survey shows further attention is required to reduce labour on-costs, such as payroll tax and worker's compensation, with business continuing to post record-high levels of non-wage growth.

## General Business Conditions



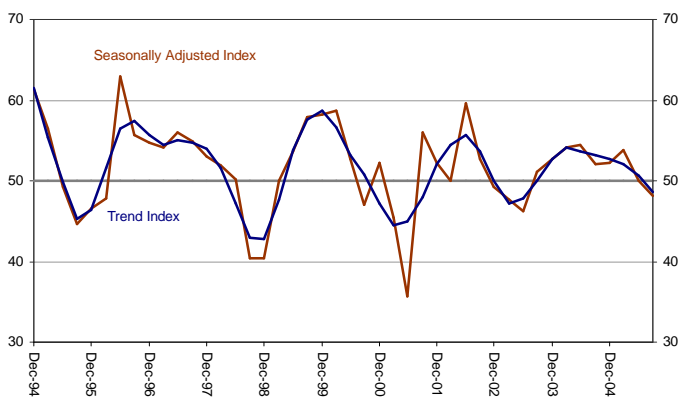
## HIGHLIGHTS

- The *St. George-ACCI Business Expectations Survey* shows business conditions have stabilised after the falls recorded last year.
- Sales improved and while profit growth continued to slow, profits are expected to turn around in the next quarter.
- Employment growth was sound and is expected to continue.
- Modest rates of export growth were recorded.
- Non-wage labour costs were recorded at the highest level since the Survey began in 1994.



## AUSTRALIAN ECONOMIC PERFORMANCE

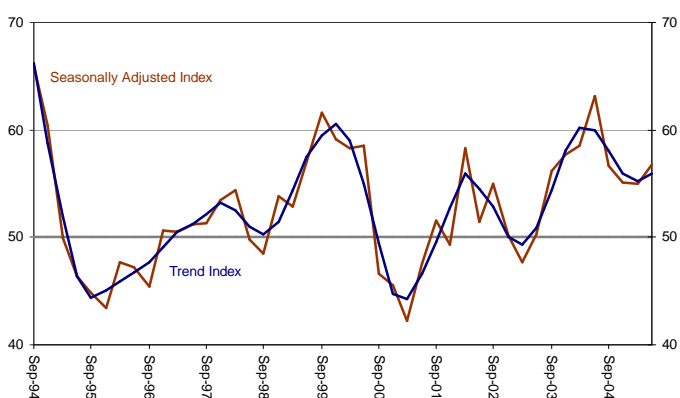
The index of *Australian Economic Performance* continued to ease over the quarter. This index measures business expectations for the economy this year relative to the previous year's performance. The continued decline in the index shows that business expects the economy to grow by less this year than it did in the previous year. However, at the current index levels it is not expected that economic growth will become negative.



	June 2004 Expectation	June 2005 Expectation	Sept 2005 Expectation
<b>Much Stronger</b>	2.5%	2.0%	1.3%
<b>Somewhat Stronger</b>	26.5%	21.4%	16.9%
<b>About the Same</b>	53.6%	47.8%	52.7%
<b>Somewhat Weaker</b>	16.1%	27.4%	28.3%
<b>Much Weaker</b>	1.3%	1.3%	0.8%
<b>Original Index</b>	53.2	48.8	47.4
<b>Seasonally Adjusted Index</b>	54.3	50.0	48.2
<b>Trend Index</b>	53.6	50.6	48.6

## GENERAL BUSINESS CONDITIONS

The index of *General Business Conditions* increased slightly in the current survey, the first positive movement in the index since the March quarter of 2004. This index measures conditions within respondents own business. The increase is consistent with expectations from the previous survey, which foreshadowed that the declines in business conditions were transitory. The expectations for the next quarter have become slightly more subdued but are still recorded at positive levels.

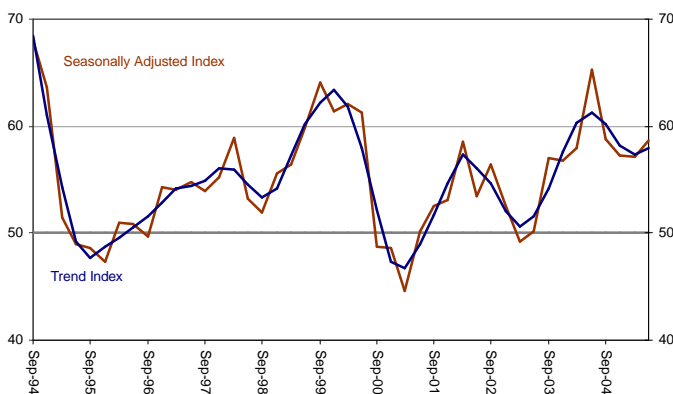


	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
<b>Up</b>	36.8%	30.3%	28.1%
<b>Same</b>	48.2%	48.9%	56.5%
<b>Down</b>	15.0%	20.8%	15.4%
<b>Original Index</b>	60.9	54.8	56.3
<b>Seasonally Adjusted Index</b>	63.1	56.7	57.6
<b>Trend Index</b>	60.0	55.9	57.4



## SALES REVENUE

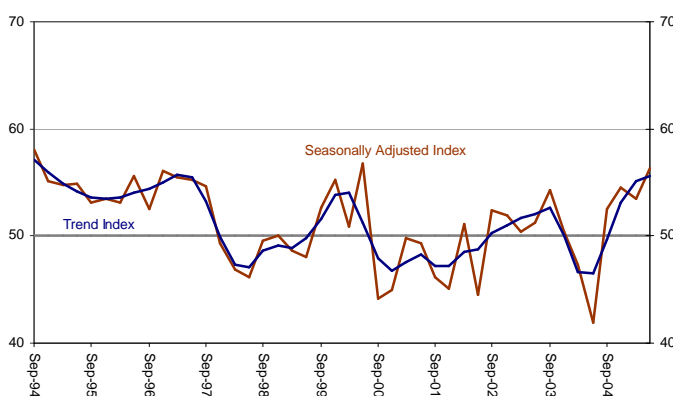
Growth in *Sales Revenue*, like business conditions, improved over the quarter after falling consistently over the previous year. The index level remains well down from the peak recorded at the same time last year but is nonetheless at a healthy level, indicating that sales continue to be resilient. Expectations for sales growth declined slightly but the index level remains sound.



	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
<b>Up</b>	45.8%	39.9%	42.7%
<b>Same</b>	36.2%	34.9%	40.7%
<b>Down</b>	18.1%	25.2%	16.6%
<b>Original Index</b>	63.8	57.3	63.0
<b>Seasonally Adjusted Index</b>	65.3	58.7	63.9
<b>Trend Index</b>	61.2	57.9	61.9

## EXPORT SALES

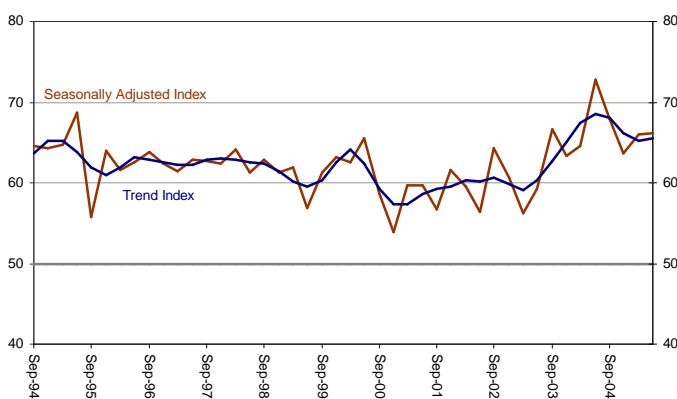
Export growth continued over the quarter, with the index of *Export Sales* again improving. This index measures whether business exports sales increased or decreased over the quarter. The index has now increased for every quarter since June 2004 with modest growth expected in the next quarter.



	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
<b>Up</b>	4.3%	18.4%	19.0%
<b>Same</b>	71.2%	70.4%	70.7%
<b>Down</b>	24.5%	11.2%	10.3%
<b>Original Index</b>	39.9	53.6	54.3
<b>Seasonally Adjusted Index</b>	41.9	56.2	54.4
<b>Trend Index</b>	46.5	55.6	53.1

## WAGES GROWTH

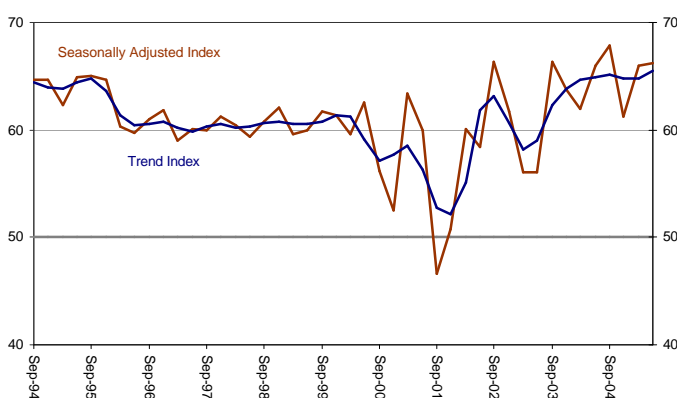
Wage growth continued at about the same rate as in the previous quarter with the index of *Wages Growth* rising only slightly. This index measures growth in the level of wages paid by business to their employees. Overall the index remains well down from its all-time high, recorded in the June quarter of last year, when the index was 68.5. Expectations for wages growth over the next quarter also picked up showing that business perceives that tight labour markets are likely to persist.



	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
<b>Up</b>	47.6%	38.4%	50.5%
<b>Same</b>	51.4%	56.6%	45.6%
<b>Down</b>	1.0%	5.1%	3.9%
<b>Original Index</b>	73.3	66.6	73.3
<b>Seasonally Adjusted Index</b>	72.7	66.1	69.5
<b>Trend Index</b>	68.5	65.6	67.6

## NON-WAGE LABOUR COSTS

The index of *Non-Wage Labour Costs* remained at a high level with the index rising slightly over the quarter. This index measures labour on-costs such as fringe benefits, worker's compensation, payroll tax and training. Looking ahead, expectations indicate non-wage labour costs will continue to rise.

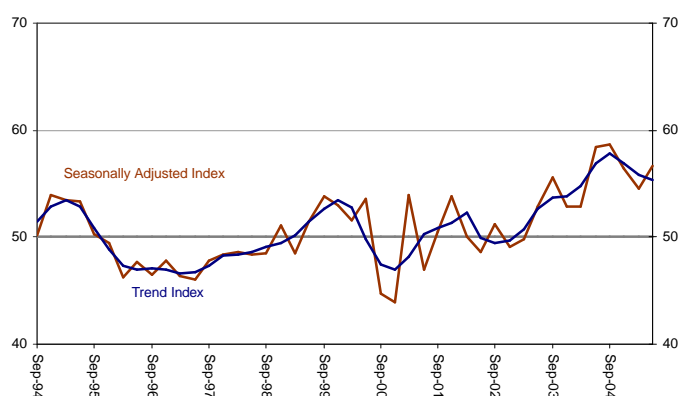


	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
<b>Up</b>	31.9%	35.4%	39.3%
<b>Same</b>	67.3%	60.9%	57.2%
<b>Down</b>	0.8%	3.7%	3.5%
<b>Original Index</b>	65.5	65.8	67.9
<b>Seasonally Adjusted Index</b>	65.9	66.2	66.8
<b>Trend Index</b>	64.9	65.5	65.5



## SELLING PRICES

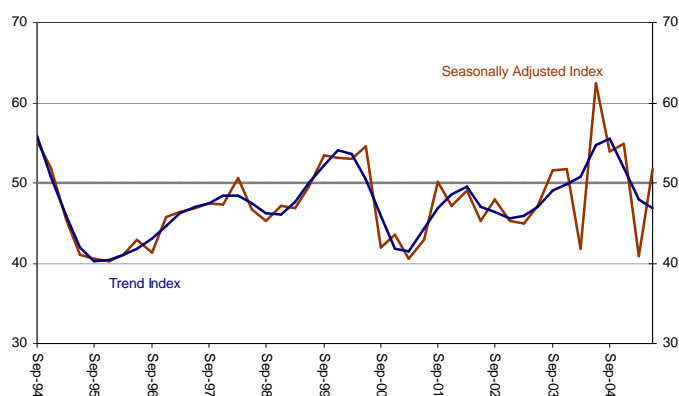
The index of *Selling Prices*, which measures growth in the prices charged by businesses for goods and services, continued to retreat from the all-time high of 57.8 recorded in September quarter 2004. This decline comes in spite of the surge in oil prices during the quarter. Despite the continued moderation of the price data, expectations for future price increases indicate that prices growth may begin to pick up somewhat, warranting continued attention over the next quarter.



	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
<b>Up</b>	30.8%	24.2%	27.4%
<b>Same</b>	53.8%	63.6%	64.8%
<b>Down</b>	15.4%	12.3%	7.8%
<b>Original Index</b>	57.7	55.9	59.8
<b>Seasonally Adjusted Index</b>	58.5	56.7	58.1
<b>Trend Index</b>	56.8	55.4	57.6

## PROFITS

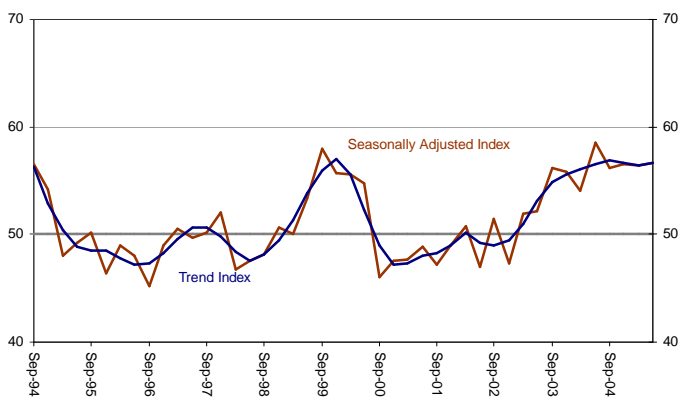
Profit growth was down on the previous quarter with the index on *Profits* declining further into negative territory. However, in seasonally adjusted terms the index rose strongly. There is a large difference between the directions of the seasonally adjusted and the trend indexes. This may signify a turning point in this series.



	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
<b>Up</b>	34.0%	26.1%	30.9%
<b>Same</b>	47.4%	43.5%	52.0%
<b>Down</b>	18.5%	30.3%	17.1%
<b>Original Index</b>	57.7	47.9	56.9
<b>Seasonally Adjusted Index</b>	62.4	51.7	57.5
<b>Trend Index</b>	54.7	46.8	56.0

## EMPLOYMENT

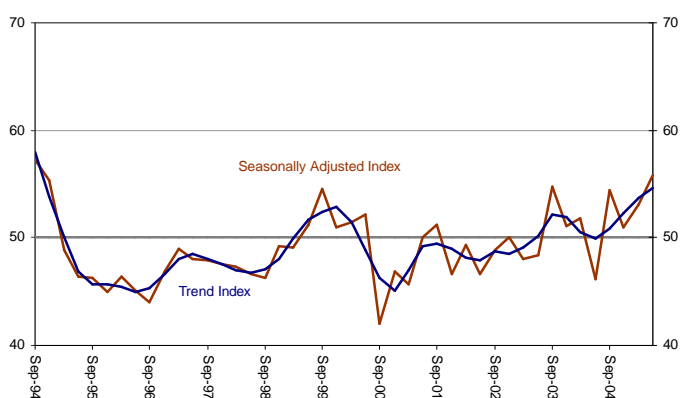
The index of *Employment*, which measures the creation of new jobs by employers, increased slightly in the latest survey. The index has remained at a high level in its historical context since September 2003 and demonstrates how strong the labour market has been. Expectations remained at relatively stable levels as well, which suggests that employment gains should continue.



	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
<b>Up</b>	21.0%	28.1%	25.8%
<b>Same</b>	74.6%	56.7%	64.7%
<b>Down</b>	4.4%	15.2%	9.5%
<b>Original Index</b>	58.3	56.4	58.1
<b>Seasonally Adjusted Index</b>	58.5	56.6	58.9
<b>Trend Index</b>	56.5	56.6	57.6

## OVERTIME UTILISATION

The *Overtime Utilisation* index, which measures the number of overtime hours worked by employees, again grew over the quarter. However, expectations are for overtime levels to remain at around current rates over the next quarter.

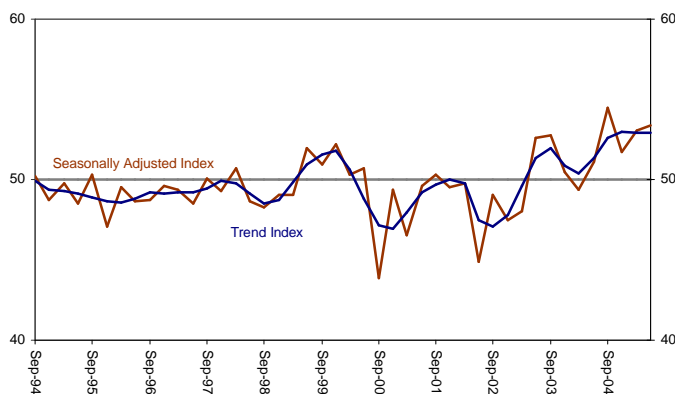


	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
<b>Up</b>	7.3%	23.2%	16.2%
<b>Same</b>	74.0%	60.9%	67.2%
<b>Down</b>	18.6%	15.9%	16.6%
<b>Original Index</b>	44.3	53.6	49.8
<b>Seasonally Adjusted Index</b>	46.2	55.9	51.6
<b>Trend Index</b>	50.0	54.6	51.2



## INVESTMENT IN BUILDINGS AND STRUCTURES

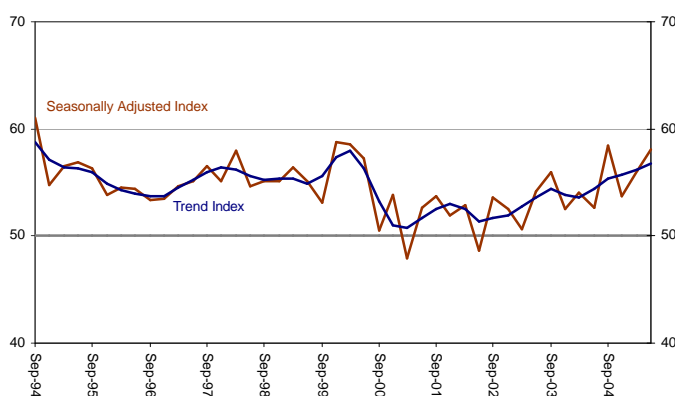
The index of *Investment in Buildings and Structures*, which measures business investment in buildings declined during the quarter by only 0.1 points. The expectation index continued to decline towards neutral and suggests that this segment of business investment may continue to remain at current levels.



	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
<b>Up</b>	22.9%	21.8%	18.9%
<b>Same</b>	56.5%	63.3%	66.9%
<b>Down</b>	20.6%	14.9%	14.1%
<b>Original Index</b>	51.1	53.5	52.4
<b>Seasonally Adjusted Index</b>	51.1	53.4	51.9
<b>Trend Index</b>	51.4	52.9	51.4

## INVESTMENT IN PLANT AND EQUIPMENT

The rate of growth for *Investment in Plant and Equipment* continued to rise over the quarter, and it is expected that investment in plant and equipment will continue to grow at modest rates.



	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
<b>Up</b>	27.2%	29.3%	29.4%
<b>Same</b>	50.2%	56.6%	56.3%
<b>Down</b>	22.6%	14.1%	14.3%
<b>Original Index</b>	52.3	57.6	57.5
<b>Seasonally Adjusted Index</b>	52.7	58.0	57.0
<b>Trend Index</b>	54.4	56.8	54.2



## COMPARISONS BY SIZE OF BUSINESS

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

### GENERAL BUSINESS CONDITIONS

*General Business Conditions* were positive across the small, medium and large business size categories. Expectations were positive in all three business categories, with large firms posting the best overall results and small business showing the highest level of confidence.

	No. of Employees					
	1-19		20-99		100+	
	June '05 Actual	Sept '05 Expected	June '05 Actual	Sept '05 Expected	June '05 Actual	Sept '05 Expected
Up	28.2%	34.6%	28.0%	27.8%	35.3%	26.2%
Same	49.0%	50.4%	48.9%	54.7%	46.5%	61.7%
Down	22.8%	15.0%	23.1%	17.5%	18.2%	12.1%
<b>Index</b>	<b>52.7</b>	<b>59.8</b>	<b>52.4</b>	<b>55.2</b>	<b>58.5</b>	<b>57.0</b>

### EMPLOYMENT

*Employment* growth was stronger for large business while medium and smaller-sized enterprises experienced more moderate rates of growth. Similarly, expectations for further employment growth were greatest among large business, with medium-sized operators reporting the lowest expectations of hiring for the next three months.

	No. of Employees					
	1-19		20-99		100+	
	June '05 Actual	Sept '05 Expected	June '05 Actual	Sept '05 Expected	June '05 Actual	Sept '05 Expected
Up	22.5%	23.9%	25.9%	21.6%	32.9%	30.3%
Same	64.7%	67.2%	62.1%	68.1%	51.0%	60.4%
Down	12.7%	8.9%	12.0%	10.4%	16.1%	9.3%
<b>Index</b>	<b>54.9</b>	<b>57.5</b>	<b>56.9</b>	<b>55.6</b>	<b>58.4</b>	<b>60.5</b>



## INVESTMENT IN PLANT AND EQUIPMENT

The index on *Investment in Plant and Equipment* was relatively similar across all categories but with large business recording the strongest index level. Expectations were also similar to the current June quarter's investment data with large-sized businesses recording a very good result and the highest among the three categories.

	No. of Employees					
	1-19		20-99		100+	
	June '05 Actual	Sept '05 Expected	June '05 Actual	Sept '05 Expected	June '05 Actual	Sept '05 Expected
Up	27.9%	28.9%	31.0%	29.2%	31.2%	31.3%
Same	59.1%	55.2%	53.3%	52.6%	55.1%	57.5%
Down	13.0%	15.8%	15.8%	18.2%	13.7%	11.2%
<b>Index</b>	<b>57.5</b>	<b>56.5</b>	<b>57.6</b>	<b>55.5</b>	<b>58.7</b>	<b>60.1</b>

## WAGES GROWTH

*Wages Growth* was highest amongst medium sized-businesses in the latest survey with small business recording the least wage pressure. Large businesses are expecting the greatest increase in wages in the next quarter.

	No. of Employees					
	1-19		20-99		100+	
	June '05 Actual	Sept '05 Expected	June '05 Actual	Sept '05 Expected	June '05 Actual	Sept '05 Expected
Up	34.7%	40.6%	43.3%	47.0%	39.6%	60.0%
Same	59.6%	55.4%	53.6%	51.2%	55.6%	36.9%
Down	5.7%	4.0%	3.2%	1.8%	4.9%	3.1%
<b>Index</b>	<b>64.5</b>	<b>68.3</b>	<b>70.1</b>	<b>72.6</b>	<b>67.3</b>	<b>78.4</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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### **Australian Business Limited in conjunction with Sensis**

Mr Paul Orton  
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### **Business SA**

Mr Hamilton Calder  
Ph: (08) 8300 0009

### **Chamber of Commerce & Industry of Western Australia**

Ms Nicky Cusworth  
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### **Chamber of Commerce Northern Territory**

Ms Clalia Mar  
Ph: (08) 8936 3100

### **Commerce Queensland**

Mr Andrew Larkin  
Ph: (07) 3842 2253

### **Printing Industries Association of Australia**

Mr Hagop Tchamkertenian  
Ph: (02) 8789 7300

### **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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