

St.George - ACCI BUSINESS EXPECTATIONS SURVEY November 2006

Identifying National Trends and Conditions for Australian Business

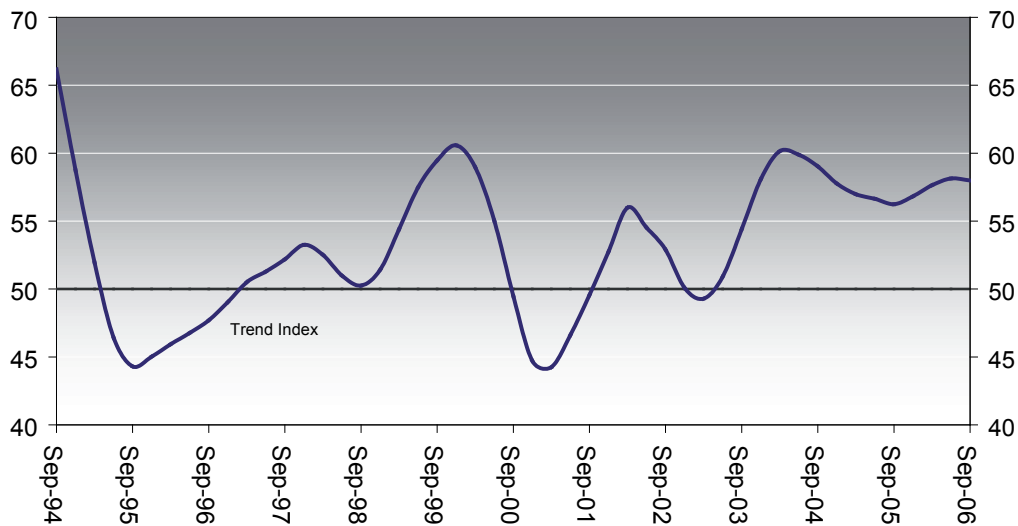
Summary

The St.George-ACCI Index of Business Conditions Declined to 58.0 in the September Quarter, from 58.1 previously.

- Confidence in **Australian economic growth** declined over the quarter and entered negative territory indicating that business expects growth to be less in one year's time than it is at present.
- **Sales revenue** expanded over the quarter while **profits** picked up after being lacklustre in the first half of 2006.
- **Selling price** expectations suggest that price growth will continue to be relatively high over the next quarter.
- **Employment** continued to grow strongly despite the slight decline of the index. Employment expectations suggest that business will continue to create employment opportunities into the next quarter. The employment results taken together with the strong increases in **wages growth** make it clear that labour markets will continue to remain tight.
- **Wage and non-wage labour costs** were recorded at near record highs, but expectations are weaker.
- **Investment in plant and equipment** and **investment in buildings** continued to be very strong.
- Looking at the results by **business size**, large business have the highest investment and employment figures but also the highest wage growth results as well.

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	Sept 2005	June 2006	Sept 2006	Quarterly Move	Dec 2006 (e)
Business Conditions	55.5	56.2	58.1	58.0	↓	58.9
Australian Economic Growth (a)	51.1	47.5	50.3	48.6	↓	—
Sales Revenue	57.6	60.3	61.9	62.1	↑	63.5
Exports	51.8	56.3	54.8	55.4	↑	55.0
Wages	65.6	71.0	69.5	70.6	↑	65.8
Non-Wage Labour Costs	63.5	68.1	66.5	66.3	↓	63.6
Selling Prices	54.8	58.4	56.1	57.8	↑	59.6
Profits	49.8	50.7	50.6	51.7	↑	56.2
Employment	54.8	59.6	58.4	57.9	↓	59.4
Overtime	51.8	54.4	55.8	56.4	↑	52.8
Investment in Buildings and Structures	51.9	54.8	55.5	54.9	↓	54.0
Investment in Plant and Equipment	55.9	60.2	61.5	61.6	↑	58.9

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.

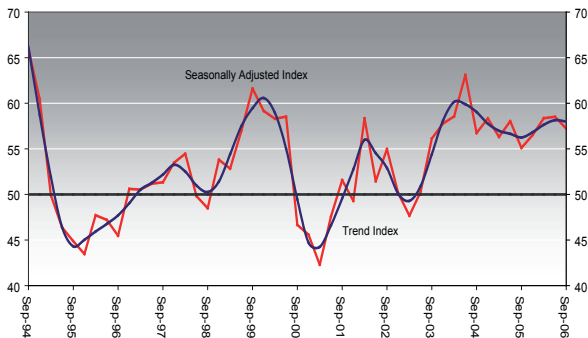
Finally, businesses are asked what their expectations are for the performance of the Australian economy over the next 12 months in comparison with the past 12 months. This provides a reading on the strength of growth in the domestic economy.

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 July, August and September 2006. There were 1,768 respondents to the survey.

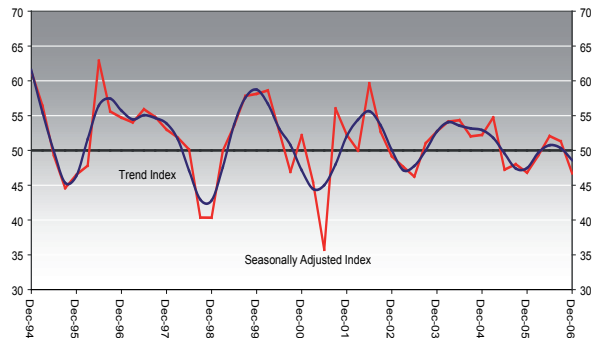
Survey Data

General Business Conditions



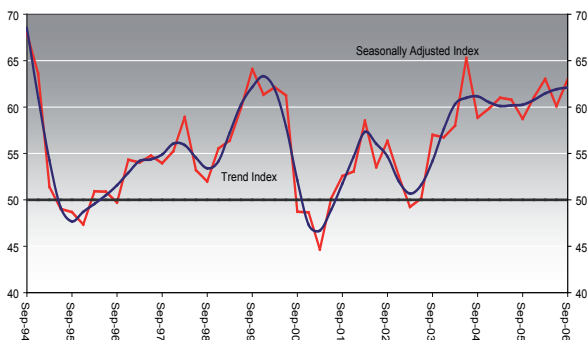
- **General business conditions** declined marginally in the September quarter.
- The index remained at a strong positive level well above its average level.

Australian Economic Growth



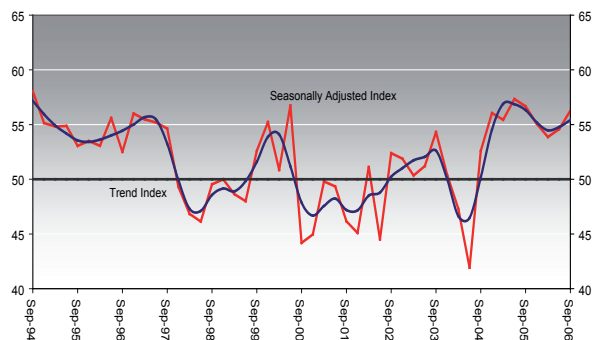
- Business expectations for **Australian economic growth** for the next 12 months (relative to the previous 12 months) declined over the September quarter.
- The index is now being recorded at negative levels after having risen into positive territory in the first half of 2006.
- This indicator shows that business expects growth to moderate over the next year.

Sales Revenue



- The **sales revenue** index rose over the quarter. The high positive index level shows that sales growth is sound.
- Sales growth expectations declined slightly but remained very positive suggesting that sales growth will remain satisfactory.

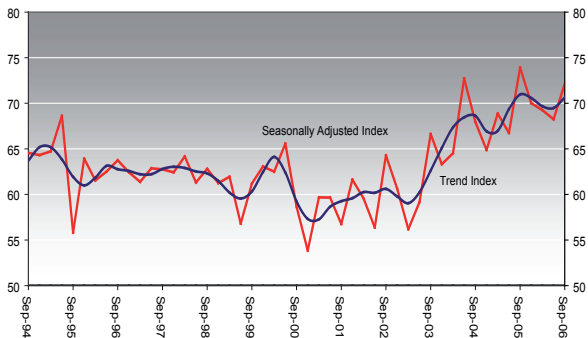
Export Sales Growth



- The **export sales growth** index increased over the quarter showing that exports continue to expand.
- Expectations for export growth were steady showing that exports should continue to grow at about the current rate.

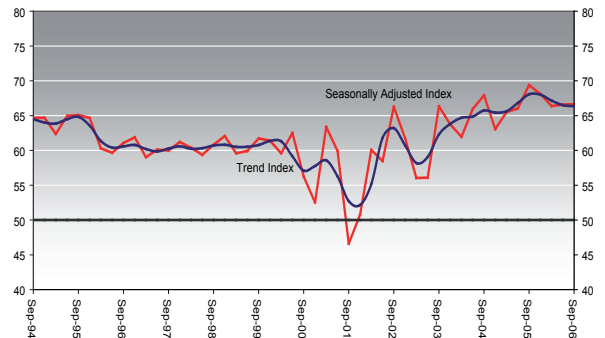
Survey Data

Wage Growth



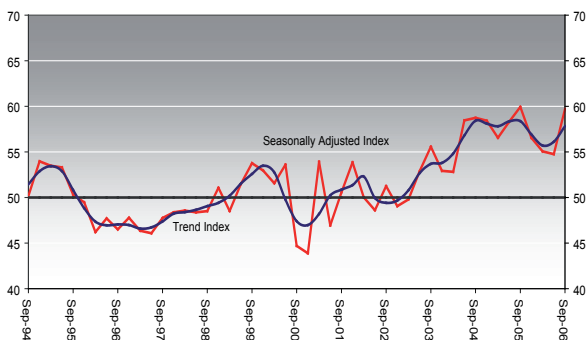
- **Wage growth** increased over the quarter.
- Wage pressures had eased to some extent over the first half of 2006 but have picked up again in the most recent survey.
- Expectations also increased over the quarter suggesting that wages will remain a key concern for business.

Non-Wage Labour Costs



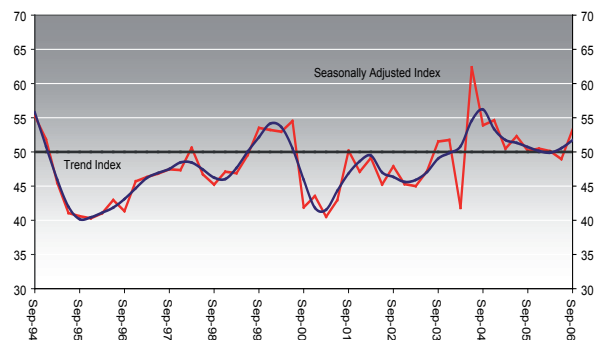
- The rate of growth in **non-wage labour costs** continues to decline slightly. The index is also down from the all time high of 68.1 recorded in September 2005.
- This index measures labour on-costs such as fringe benefits, workers' compensation, payroll tax and training.
- Business expects these index costs to continue to grow over the next quarter albeit at a slower rate.

Selling Prices



- The index of **selling prices** rose over the September quarter, to be at historically high levels.
- The increase of the index comes after the index had declined significantly in the first half of 2006.
- Expectations for selling price growth also remain high.

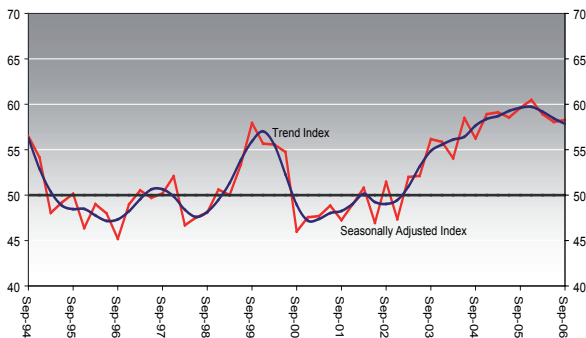
Profit Growth



- **Profit growth** increased after lacklustre growth in both the March and June quarters.
- Expectations for the next quarter are strong showing that business is very optimistic.

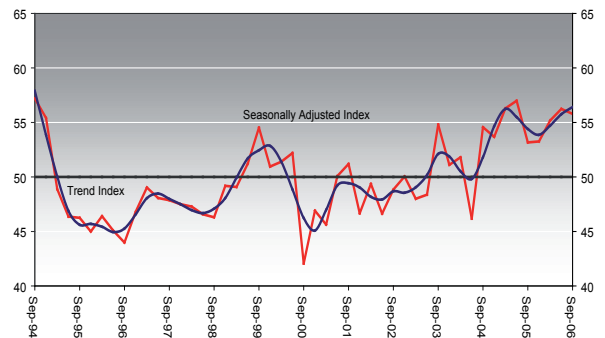
Survey Data

Employment



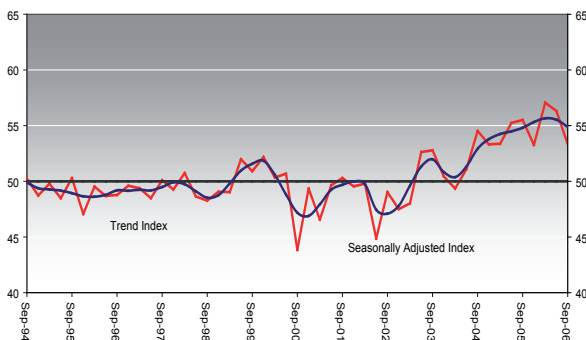
- The **employment** index continued to moderate but remained firmly positive.
- Expectations, however, rose over the quarter indicating that employment should continue to grow soundly.

Overtime Utilisation



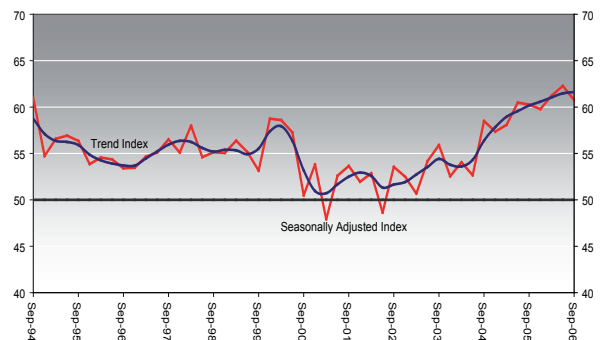
- **Overtime utilisation** continued to expand over the quarter.
- The high level of overtime use shows that labour markets remain tight.
- Business expects overtime to continue to grow over the next quarter, but at a slow rate.

Investment in Buildings and Structures



- **Investment in buildings and structures** by business continued to be solid despite the rate of growth slowing to some extent.
- However, expectations are strong indicating that investment should continue to grow over the next quarter.

Investment in Plant and Equipment



- **Investment in plant and equipment** continued to grow at record levels with the index relatively stable over the quarter.
- Expectations were buoyant showing that investment in plant and equipment will continue to grow well over the next quarter.

Comparisons by Size of Business

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

General Business Conditions

	Sept 2006	Dec 2006 (e)
Small	54.1	57.9
Medium	58.2	58.5
Large	58.4	61.5
Weighted Average	57.1	60.0

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

Employment

	Sept 2006	Dec 2006 (e)
Small	53.0	57.5
Medium	58.7	60.0
Large	61.6	64.4
Weighted Average	58.1	61.3

- Large business again had the highest **employment** figures, with small business employing people at a slower rate than both medium and large firms.
- Large firms also expect that employment will expand by more than their small and medium counterparts.

Wage Growth

	Sept 2006	Dec 2006 (e)
Small	65.1	62.4
Medium	75.7	69.3
Large	76.4	67.7
Weighted Average	72.7	66.0

- **Wage growth** was in line with the employment data with both medium and large business having significantly higher wage growth compared to small business.
- The highest expectation for wage growth over the next quarter is amongst medium business followed by large and small business.

Investment in Plant and Equipment

	Sept 2006	Dec 2006 (e)
Small	53.8	54.7
Medium	59.6	59.0
Large	63.5	64.2
Weighted Average	59.9	60.4

- **Investment in plant and equipment** was highest among large business with small business undertaking the least new investment.
- However, all three business sizes continue to invest strongly.
- Looking ahead to the next quarter, small business are the least optimistic while large business are the most optimistic.

Contact Listing

For further information contact:

Director of Economics and Taxation - ACCI

Michael Potter
michael.potter@acci.asn.au
(02) 6273 2311

Chief Economist - St.George Bank

Steve Ryan
ryans@stgeorge.com.au
(02) 9320 5535

Head of Economic Research - St.George Bank

Steven Milch
milchs@stgeorge.com.au
(02) 9320 5264

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.

ACT & Region Chamber of Commerce and Industry

Mr Chris Peters AM
Ph: (02) 6283 5200

Australian Business Limited

Mr Paul Orton
Ph: (02) 9927 7445

Business SA

Mr Nathan Paine
Ph: (08) 8300 0000

Chamber of Commerce & Industry Western Australia

Mr John Nicolaou
Ph: (08) 9365 7555

Chamber of Commerce Northern Territory

Ms Clalia Mar
(08) 8936 3100

Commerce Queensland

Mr Paul Bidwell
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) 6236 3600

Victorian Automobile Chamber of Commerce

Ms Susie Savage
Ph: (03) 9829 1111

Victorian Employers' Chamber of Commerce & Industry

Mr Michael Wilson
Ph: (03) 9251 4333

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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