



# ST.GEORGE - ACCI BUSINESS EXPECTATIONS SURVEY

IDENTIFYING NATIONAL TRENDS AND  
CONDITIONS FOR AUSTRALIAN BUSINESS





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## FOREWORD

The Business Expectations Survey (formerly known as the National Survey of Business Expectations) 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 firms of every size. In total, they represent Australia's most comprehensive survey of business expectations.

The data in this survey covers the period July, August and September 2005. There were 1,732 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.



# BUSINESS CONDITIONS SOUND - CONFIDENCE IN THE AUSTRALIAN ECONOMY SOFTENS: WAGE PRESSURES INCREASE

## SUMMARY

General business conditions worsened slightly over the September quarter but remain at an adequate level, having declined from the high levels recorded in 2004. Of concern is the continued growth in wage and non-wage labour costs, which have grown to their highest level since the survey began in 1994.

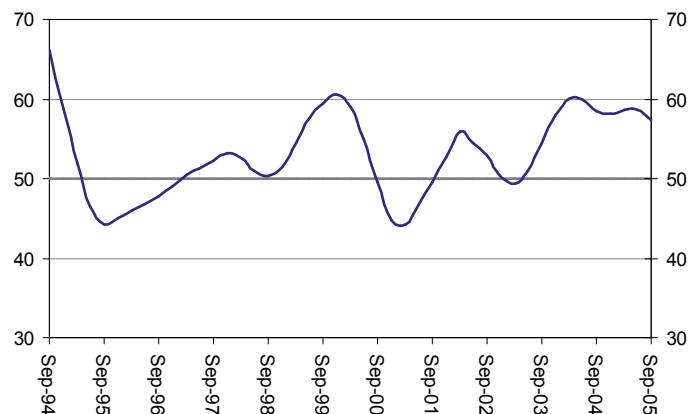
Modest increases were recorded in both sales revenue and profit levels.

Business continued to take on more staff over the quarter while the growth in overtime use was down slightly over the quarter. The growth in employment continued despite continued increases in wages growth. Expectations for employment continued to be recorded at a high level indicating that employment growth should continue well over the next quarter.

Very good levels of investment were recorded for both buildings, and plant and equipment despite a small decline in the buildings index.

Prices rose again over the quarter and the outlook for the next quarter is that prices will grow in line with the rates currently being recorded.

## GENERAL BUSINESS CONDITIONS



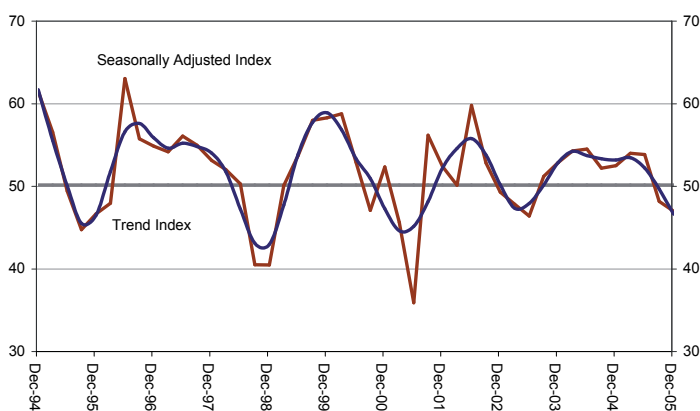
## HIGHLIGHTS

- The St.George-ACCI *Business Expectations Survey* shows business conditions have eased after stabilising in the previous survey.
- Sales and profit levels improved, while expectations were also positive.
- Employment growth continued strongly.
- Wage and non-wage labour cost growth continue to escalate.



## AUSTRALIAN ECONOMIC PERFORMANCE

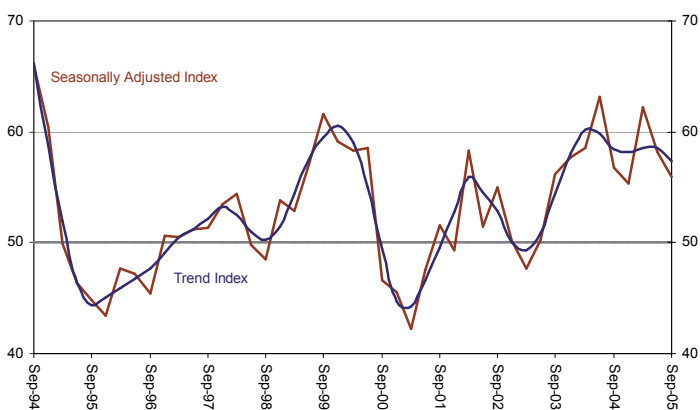
The index of *Australia's Economic Performance* continued to fall over the September quarter and has declined into negative territory. This index measures business expectations for the economy this year relative to the previous year's performance. The continued decline in the index shows that business expects the economy to grow by less this year than it did in the previous year.



	Dec 2004 Expectation	Sept 2005 Expectation	Dec 2005 Expectation
<b>Much Stronger</b>	3.4%	1.2%	1.7%
<b>Somewhat Stronger</b>	22.5%	16.5%	18.7%
<b>About the Same</b>	57.2%	53.1%	50.0%
<b>Somewhat Weaker</b>	15.5%	28.6%	28.5%
<b>Much Weaker</b>	0.8%	0.7%	1.1%
<b>Original Index</b>	53.5	47.2	47.9
<b>Seasonally Adjusted Index</b>	52.3	48.0	46.8
<b>Trend Index</b>	53.0	49.5	46.5

## GENERAL BUSINESS CONDITIONS

The index of *General Business Conditions* decreased slightly in the current survey, continuing the general downward trend that is evident since the March quarter of 2004. The expectation measure has also continued down though it remains positive, indicating that respondents remain generally optimistic but to a slightly lesser extent than one quarter ago.

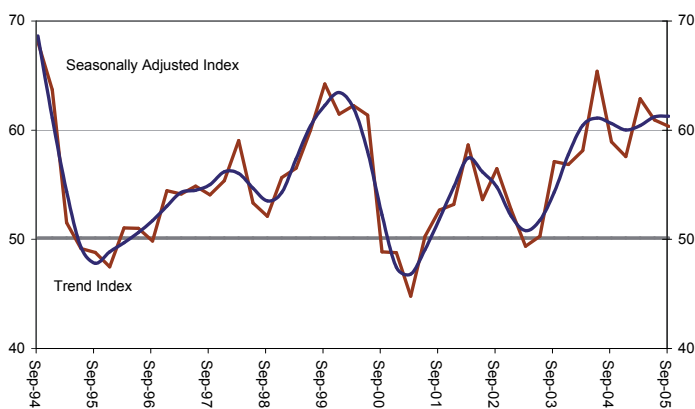


	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
<b>Up</b>	32.1%	30.3%	35.2%
<b>Same</b>	49.4%	51.3%	53.1%
<b>Down</b>	18.5%	18.4%	11.7%
<b>Original Index</b>	56.8	56.0	61.7
<b>Seasonally Adjusted Index</b>	56.8	55.9	58.9
<b>Trend Index</b>	58.5	57.4	59.1



## SALES REVENUE

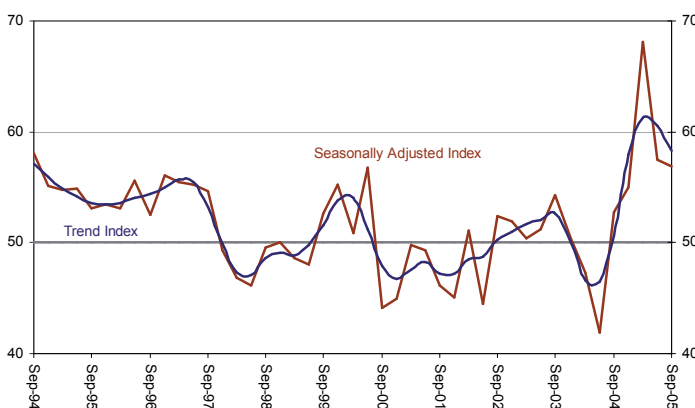
The *Sales Revenue* index rose insignificantly over the quarter and is at a healthy level, indicating that sales continue to be resilient. Expectations for sales growth increased strongly, demonstrating that business is confident about the next quarter.



	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
<b>Up</b>	42.9%	43.1%	52.9%
<b>Same</b>	33.1%	35.5%	35.6%
<b>Down</b>	24.0%	21.4%	11.5%
<b>Original Index</b>	59.5	60.9	70.7
<b>Seasonally Adjusted Index</b>	58.8	60.2	67.7
<b>Trend Index</b>	60.5	61.2	67.0

## EXPORT SALES

Export sales growth, like domestic sales, remained sound over the quarter despite the index of *Export Sales* falling away slightly. Expectations for the coming quarter were also slightly dampened but the index level is indicative of further modest growth.

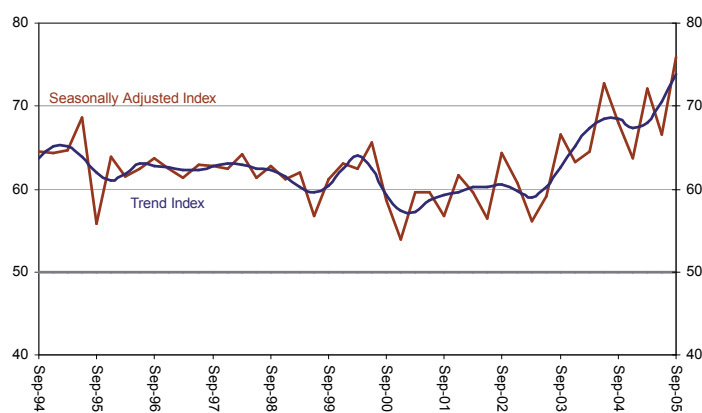


	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
<b>Up</b>	21.5%	22.6%	19.4%
<b>Same</b>	63.9%	70.3%	75.0%
<b>Down</b>	14.6%	7.2%	5.6%
<b>Original Index</b>	53.5	57.7	56.9
<b>Seasonally Adjusted Index</b>	52.8	56.9	56.9
<b>Trend Index</b>	50.6	58.3	57.5



## WAGES GROWTH

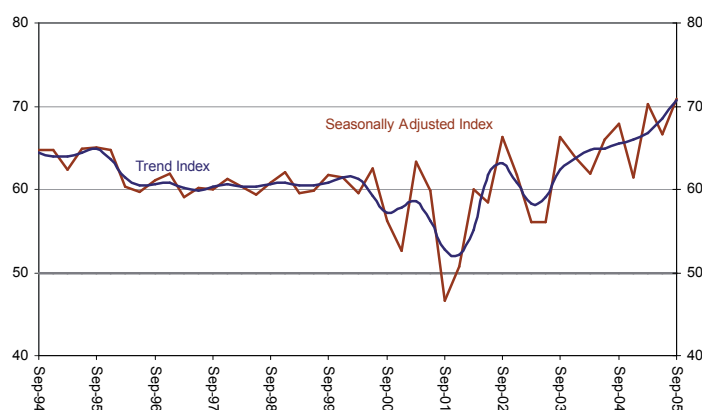
Wage growth rose strongly in the quarter with the index of *Wages Growth* rising to the highest level recorded since the survey began in 1994. The index level has increased significantly in the second half of 2005 after having moderated in the first half of 2005. Expectations for wages growth over the next year also picked up showing that business perceives that tight labour markets are likely to persist.



	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
<b>Up</b>	43.4%	54.1%	40.3%
<b>Same</b>	49.4%	44.0%	57.9%
<b>Down</b>	7.2%	1.9%	1.7%
<b>Original Index</b>	68.1	76.1	69.3
<b>Seasonally Adjusted Index</b>	68.0	76.0	70.5
<b>Trend Index</b>	68.5	73.9	71.1

## NON-WAGE LABOUR COSTS

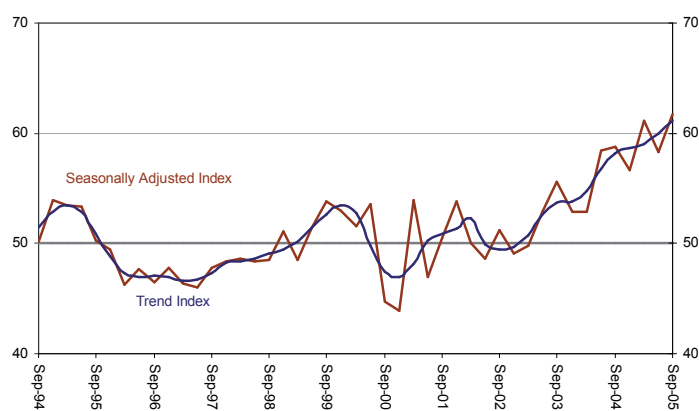
*Non-Wage Labour Costs* continue to rise and have increased to the highest level since the survey began. This index measures labour on-costs such as fringe benefits, worker's compensation, payroll tax, and training. Looking ahead, expectations are indicative of continuing strong growth in this area.



	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
<b>Up</b>	40.5%	45.8%	37.5%
<b>Same</b>	56.8%	52.0%	60.9%
<b>Down</b>	2.7%	2.1%	1.6%
<b>Original Index</b>	68.9	71.8	67.9
<b>Seasonally Adjusted Index</b>	67.9	70.9	67.5
<b>Trend Index</b>	65.5	70.8	68.6

## SELLING PRICES

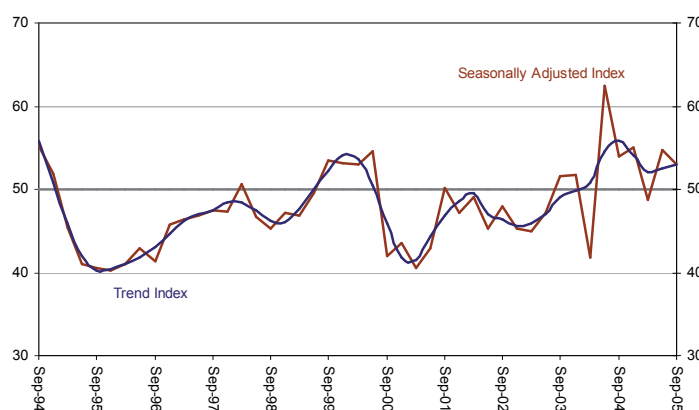
The index of *Selling Prices*, which measures growth in the prices charged by business for goods and services, rose strongly over the quarter and is currently at all time highs. Expectations for future price increases were in line with those expected last quarter, suggesting that prices should continue to rise at about current rates over the next quarter.



	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
<b>Up</b>	27.0%	29.5%	26.7%
<b>Same</b>	63.5%	64.4%	68.4%
<b>Down</b>	9.5%	6.1%	4.9%
<b>Original Index</b>	58.8	61.7	60.9
<b>Seasonally Adjusted Index</b>	58.8	61.7	61.9
<b>Trend Index</b>	58.2	61.1	61.6

## PROFITS

Profit growth has recovered slightly from the previous quarter with the index on *Profits* rising slightly. However, the index remains well below the peak recorded at the same time last year. Profit expectations remain positive showing that business expects profits to continue improving over the next quarter.

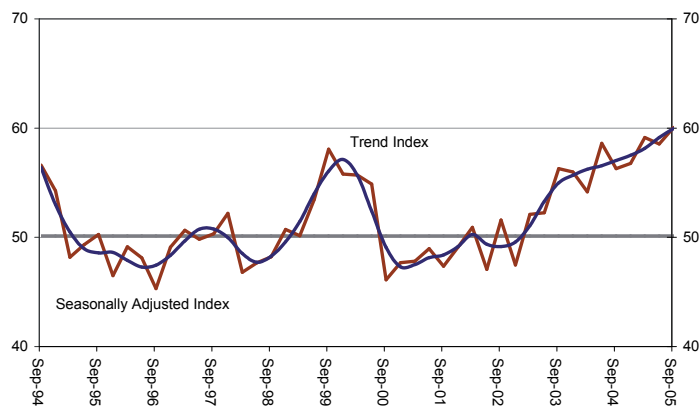


	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
<b>Up</b>	30.8%	27.3%	34.0%
<b>Same</b>	42.0%	47.2%	52.8%
<b>Down</b>	27.2%	25.5%	13.2%
<b>Original Index</b>	51.8	50.9	60.4
<b>Seasonally Adjusted Index</b>	53.9	53.0	58.8
<b>Trend Index</b>	55.8	53.1	59.3



## EMPLOYMENT

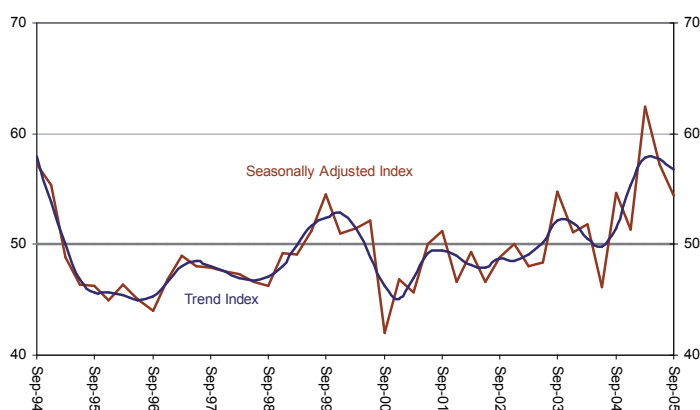
The index of *Employment*, which measures the creation of new jobs by employers, rose over the quarter showing that business continues to hire more staff. The marked improvements of the index level since 2003 in conjunction with the high labour cost indexes demonstrates how tight the labour market has become. Expectations are for further employment gains.



	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
<b>Up</b>	25.0%	31.4%	30.5%
<b>Same</b>	62.1%	57.0%	61.6%
<b>Down</b>	12.8%	11.6%	7.9%
<b>Original Index</b>	56.1	59.9	61.3
<b>Seasonally Adjusted Index</b>	56.2	59.9	59.9
<b>Trend Index</b>	56.9	59.8	60.0

## OVERTIME UTILISATION

The *Overtime Utilisation* index, which measures the number of overtime hours worked by employees, declined over the quarter. Businesses expect the overtime usage will be modest over the next quarter.



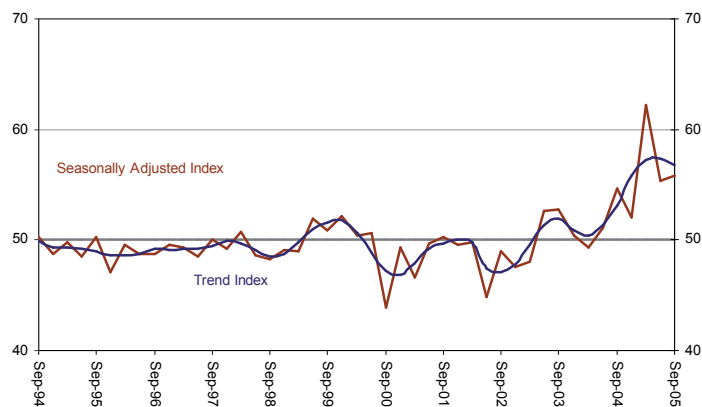
	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
<b>Up</b>	23.2%	21.6%	23.4%
<b>Same</b>	62.5%	65.4%	66.2%
<b>Down</b>	14.3%	13.0%	10.4%
<b>Original Index</b>	54.4	54.3	56.5
<b>Seasonally Adjusted Index</b>	54.6	54.4	53.3
<b>Trend Index</b>	51.5	56.8	54.3





## INVESTMENT IN BUILDINGS AND STRUCTURES

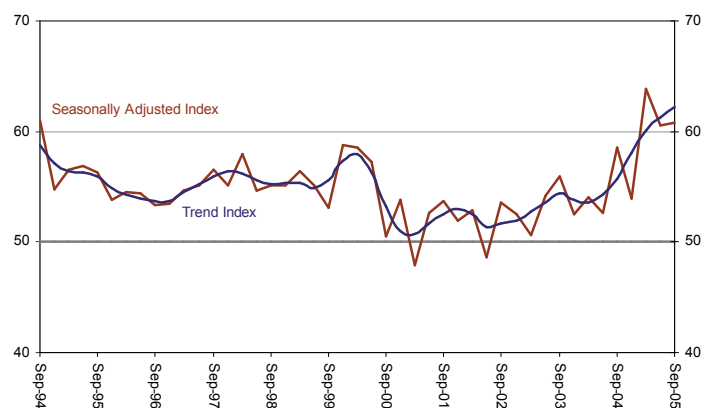
The index of *Investment in Buildings and Structures*, which measures business investment in buildings, was down from the high of the June quarter but remains at a relatively high level. Expectations were in line with the previous quarter, suggesting that this segment of business investment should continue to grow well in the December quarter.



	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
<b>Up</b>	21.5%	22.1%	24.0%
<b>Same</b>	64.8%	66.0%	64.0%
<b>Down</b>	13.6%	11.9%	12.0%
<b>Original Index</b>	53.9	55.1	56.0
<b>Seasonally Adjusted Index</b>	54.7	55.9	56.7
<b>Trend Index</b>	53.1	56.8	56.4

## INVESTMENT IN PLANT AND EQUIPMENT

The rate of growth for *Investment in Plant and Equipment* continued to increase over the past three months, and expectations continue to be buoyant. The data shows that investment has been strong over the quarter and that this strength is likely to persist into the next quarter.



	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
<b>Up</b>	30.3%	30.5%	28.5%
<b>Same</b>	54.8%	59.0%	59.2%
<b>Down</b>	14.9%	10.5%	12.3%
<b>Original Index</b>	57.7	60.0	58.1
<b>Seasonally Adjusted Index</b>	58.5	60.8	58.3
<b>Trend Index</b>	55.7	62.2	58.6

## COMPARISONS BY SIZE OF BUSINESS

A number of comparisons by size of business are provided below. 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* were again recorded at positive levels for all three business size categories (small, medium and large). While overall positive results were recorded across the board, large firms posted the best results. All businesses expect positive business conditions, with large business being the most optimistic.

	No. of Employees					
	1-19		20-99		100+	
	Sept '05 Actual	Dec '05 Expected	Sept '05 Actual	Dec '05 Expected	Sept '05 Actual	Dec '05 Expected
Up	26.3%	37.2%	28.8%	31.5%	37.4%	39.2%
Same	52.8%	48.5%	51.6%	55.8%	47.3%	51.8%
Down	21.0%	14.2%	19.6%	12.7%	15.3%	9.0%
Index	52.7	61.5	54.6	59.4	61.1	65.1

### EMPLOYMENT

*Employment* data showed significant variation amongst the different business size categories, with large business employment growth significantly higher than medium and smaller-sized businesses. 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+	
	Sept '05 Actual	Dec '05 Expected	Sept '05 Actual	Dec '05 Expected	Sept '05 Actual	Dec '05 Expected
Up	18.3%	25.7%	22.7%	23.3%	46.4%	39.7%
Same	70.6%	67.1%	65.9%	68.9%	42.2%	52.3%
Down	11.2%	7.1%	11.4%	7.8%	11.4%	8.1%
Index	53.5	59.3	55.7	57.8	67.5	65.8



## INVESTMENT IN PLANT AND EQUIPMENT

The data on *Investment in Plant and Equipment* showed a similar pattern to employment, with large business recording the strongest index level. Expectations were also similar to the actual investment data with large-sized enterprises recording a very good result and was the highest of the size categories.

	No. of Employees					
	1-19		20-99		100+	
	Sept '05 Actual	Dec '05 Expected	Sept '05 Actual	Dec '05 Expected	Sept '05 Actual	Dec '05 Expected
Up	26.5%	24.8%	28.2%	22.4%	34.8%	35.2%
Same	61.7%	59.5%	59.7%	63.7%	56.3%	55.0%
Down	11.8%	15.7%	12.1%	13.9%	8.9%	9.8%
Index	57.4	54.5	58.0	54.2	62.9	62.7

## WAGES GROWTH

*Wages Growth* was highest amongst large enterprises in the latest survey with small business recording less wage pressure. Despite the differences, all three business size categories experienced significant wages growth. With large businesses expecting the greatest increase in wages and with medium and small businesses expecting slightly.

	No. of Employees					
	1-19		20-99		100+	
	Sept '05 Actual	Dec '05 Expected	Sept '05 Actual	Dec '05 Expected	Sept '05 Actual	Dec '05 Expected
Up	45.3%	40.8%	54.1%	35.6%	61.1%	43.6%
Same	51.4%	54.3%	43.6%	62.8%	38.5%	56.4%
Down	3.3%	4.8%	2.3%	1.5%	0.4%	0.0%
Index	71.0	68.0	75.9	67.1	80.4	71.8



## 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**

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

Ms Nicky Cusworth  
Ph: (08) 9365 7555

### **Chamber of Commerce Northern Territory**

Ms Clalia Mar  
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### **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

### **Victorian Automobile Chamber of Commerce**

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

Mr Steven Wojtkiw  
Ph: (03) 9251 4333

#### 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 lower 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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