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# St.George - ACCI SMALL BUSINESS SURVEY February 2007

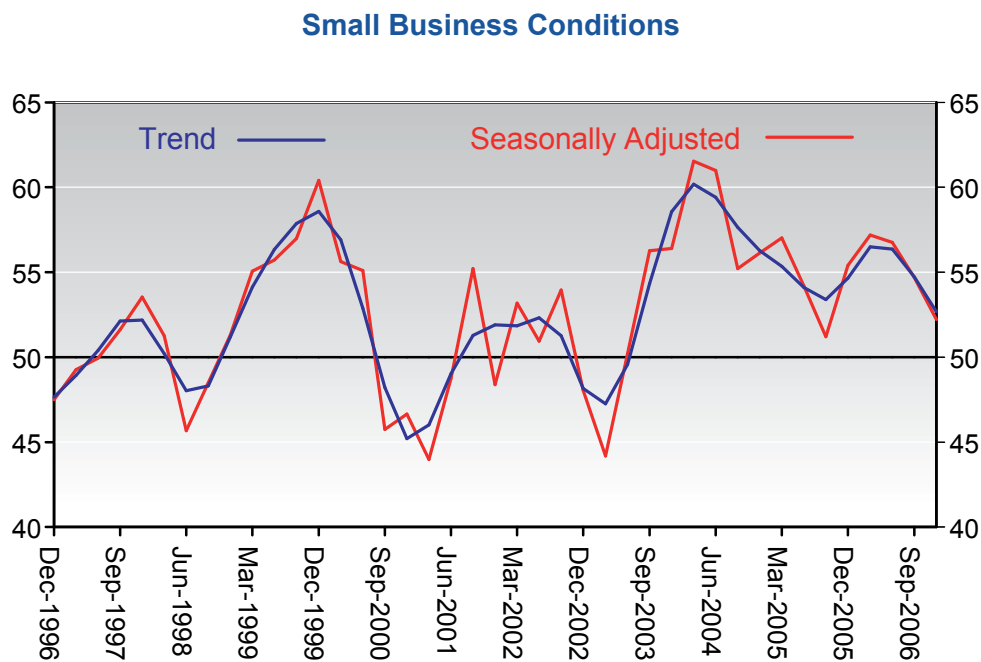
Identifying National Trends and Conditions  
for the Small Business Sector

## Summary

The St.George - ACCI Index of Small Business Conditions fell to 52.7 in the December quarter, from 54.7 previously. However, the index is above 50, indicating that conditions continue to improve.

- **Small business conditions** have continued to ease over the December 2006 Quarter and are now below survey average.
- The expectations for Australian economic growth show that small business expects a moderation in Australia's rate of growth over the next 12 months relative to the current annual growth rate.
- **Sales revenue** was down from the all-time high figure recorded last quarter but remains strong and expectations for the March Quarter are optimistic.
- **Wage and non-wage labour costs** rose significantly over the December quarter with non-wage costs growing at the highest level recorded since this survey began in 1996.
- **Price growth** was steady over the quarter and remained above the five-year average.
- **Profit growth** fell further below the key 50.0 level but expectations for the March quarter are positive.
- **Employment growth** was broadly unchanged and showed continued solid growth, with expectations strong.
- **Investment in plant and equipment** growth continued to fall away from the record high at the beginning of 2006 while **investment in buildings and structures** declined below the 50.0 level.
- **Medium and large** business had more favourable business conditions than small business, which may continue to reflect the fact that larger firms are more direct beneficiaries of the commodities boom.

## Small 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	Dec 2005	Sept 2006	Dec 2006	Quarterly Move	Mar 2007 (e)
Small Business Conditions	54.1	54.6	54.7	52.7	↓	57.4
Australian Economic Performance (a)	51.3	49.7	48.2	45.3	↓	—
Sales Revenue	55.1	56.8	58.1	56.1	↓	60.6
Wage Growth	62.7	66.8	65.5	66.8	↑	65.2
Non-Wage Labour Costs	62.7	64.9	64.9	66.4	↑	63.6
Selling Prices	54.0	56.2	55.4	55.4	—	59.9
Profit Growth	47.4	47.4	48.6	47.1	↓	54.3
Employment	52.6	54.5	54.1	54.4	↑	57.2
Overtime Utilisation	51.7	53.5	53.1	51.9	↓	51.8
Investment in Buildings and Structures	50.4	51.4	51.1	49.4	↓	50.4
Investment in Plant and Equipment	55.1	58.6	55.6	53.9	↓	53.1

Notes: Index values are in trend terms. The full data set is able to be viewed at [www.acci.asn.au](http://www.acci.asn.au).

(a) Expectation for following twelve-months, (e) denotes expectation for next quarter.

An index level of 50 indicates that there is an exact balance between those who responded that the variable is growing and those who replied that the variable had declined. Thus, any level below 50 can generally be interpreted as meaning that the variable is falling, and conversely, a reading above 50 indicates the variable is increasing.

## About the Survey

The Small Business 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 small businesses in every state and in every industry.

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, namely Business Conditions, Sales/Revenue, Wages, Non-Wage Labour Costs, Selling Prices, Profits, 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 gives rise to the expectations indices.

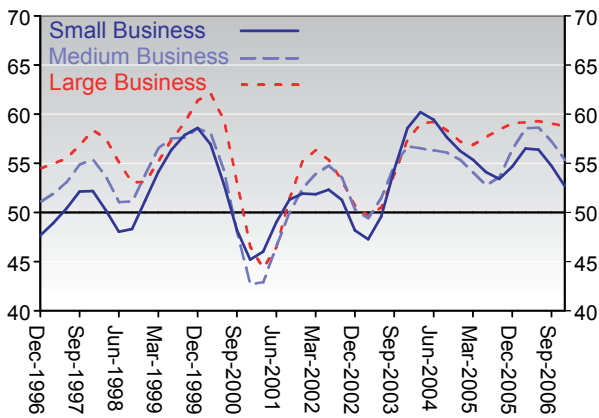
Finally, businesses are asked what their expectations are for the performance of the Australian economy over the next 12 months in comparison with the past 12 months. This provides a reading on the strength of growth in the domestic economy.

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 October, November and December 2006. There were 1,546 respondents to the survey.

## Survey Data

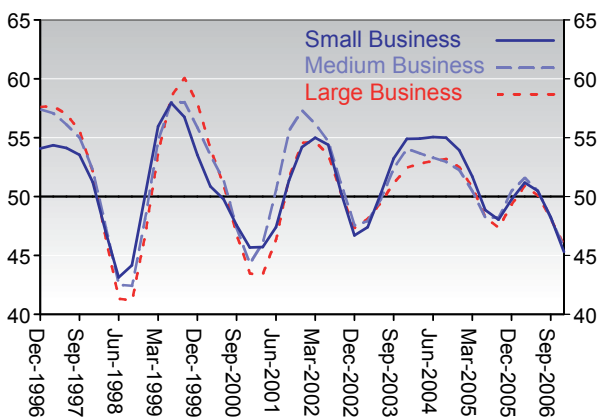
### Small Business Conditions



- **Small business conditions** fell to 52.7 from 54.7 over the December quarter indicating that business conditions have moderated.
- Expectations for the March quarter remained positive despite also moderating slightly.
- **Small and medium** business had a similar downturn in **business conditions**. **Large** business experienced the strongest conditions amongst the different business size groups with little variation in the recorded level over the past twelve months.

	Dec 2006	Mar 2007 (e)
Small	52.7	55.0
<b>All Businesses</b>	56.2	57.2

### Australian Economic Performance



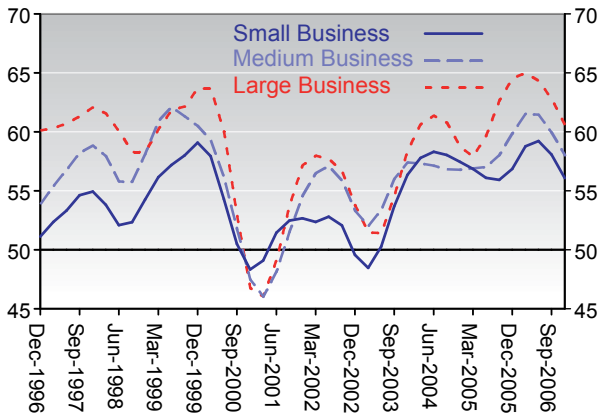
- Small business is expecting the rate of economic growth over the next twelve months to be lower compared with the growth experienced over the past twelve months. The index of **Australian economic performance** declined from 48.2 to 45.3 over the December quarter.
- All three size groups expected a deterioration in the rate of economic growth with little variation between size categories.

	Sept 2006 (a)	Dec 2006 (a)
Small	48.2	45.3
<b>All Businesses</b>	48.3	46.0

(a) Expectation for following 12 months.

## Survey Data

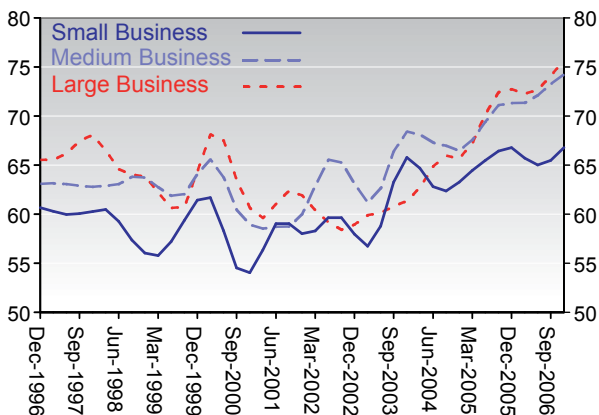
### Sales Revenue



- Small business **sales revenue** continued to be strong despite the index easing over the quarter. The index fell from 58.1 to 56.1 in the December quarter.
- Expectations remain positive among small business.
- **Small** business sales revenue growth was behind both **medium** and **large** business. **Large** business experienced the most positive results. The divergent results likely reflect the differences in the performance of industry sectors in the economy.

	Dec 2006	Mar 2007 (e)
Small	56.0	60.6
<b>All Businesses</b>	<b>58.6</b>	<b>62.8</b>

### Wage Growth

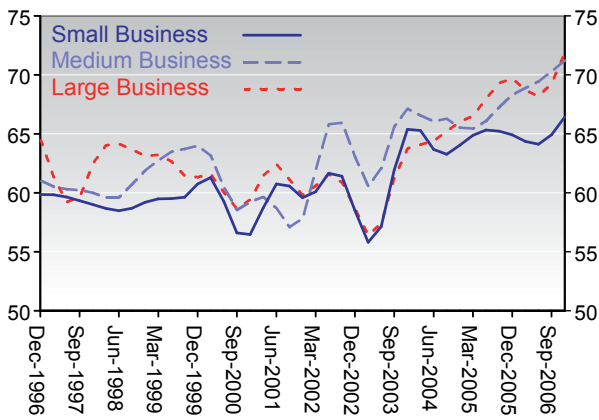


- **Wage growth** accelerated over the quarter with the index matching the high set at the same time last year. The index rose from 65.5 to 66.8 over the December quarter. There has likely been a significant impact on the wages figure from the December implementation of the *Australian Fair Pay Commission* decision to raise award wages.
- Expectations suggest further strong wage growth through the March quarter.
- **Medium** and **large** businesses experienced significantly higher wages pressure than did **small** business. Wage growth followed business size, with small business having the slowest growth while large business experienced the greatest.

	Dec 2006	Mar 2007 (e)
Small	66.8	65.2
<b>All Businesses</b>	<b>73.0</b>	<b>71.0</b>

## Survey Data

### Non-Wage Labour Costs

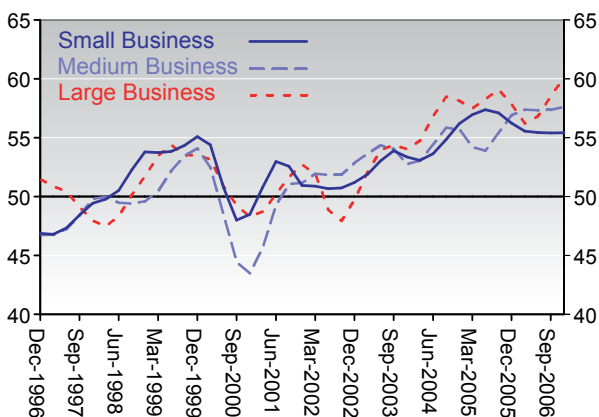


- **Non-wage labour costs** rose in line with wages over the December quarter with the index rising from 64.9 to 66.4. The series remains well above the five year average of 62.7
- Expectations suggest further increases will occur, which will maintain pressure on business profitability.
- Non-wage cost growth was highest for **large** business with medium business only slightly behind and **small** business having the slowest growth in costs.

**Non-wage labour costs** are labour on-costs such as fringe benefits, workers' compensation, payroll tax and training.

	Dec 2006	Mar 2007 (e)
Small	66.4	63.6
<b>All Businesses</b>	<b>70.9</b>	<b>68.6</b>

### Selling Prices

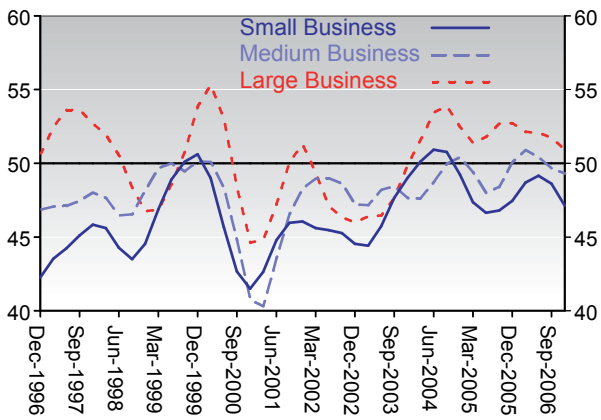


- The index of **selling prices** was unchanged over the quarter remaining at 55.4.
- Expectations also suggest that price growth should remain relatively unchanged over the next three months.
- Unlike **small** and **medium** business where price growth was stable, **large** business experienced a significant increase in price growth over the quarter.

	Dec 2006	Mar 2007 (e)
Small	55.4	59.9
<b>All Businesses</b>	<b>58.0</b>	<b>61.8</b>

## Survey Data

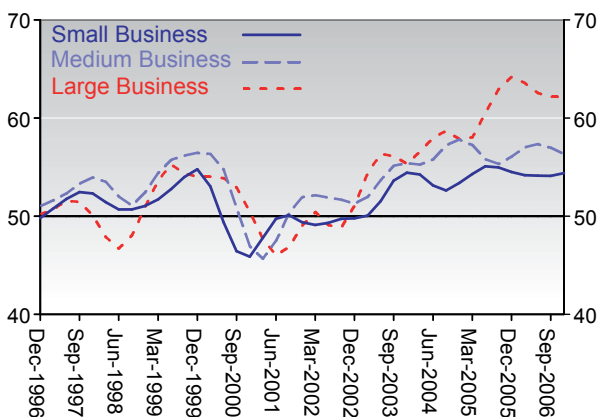
### Profit Growth



- **Profit growth** declined over the December quarter with the index recorded at 47.1. The current result is down slightly from the 48.6 recorded in the previous quarter.
- Expectations continue to be positive and demonstrate that conditions remain conducive for improved profits.
- The negative result for the **small** business index was in contrast with the higher profit growth figures for **large** business. **Large** enterprises have the greatest growth while medium firms have slightly negative figures.

	Dec 2006	Mar 2007 (e)
Small	47.1	54.3
<b>All Businesses</b>	49.9	56.2

### Employment

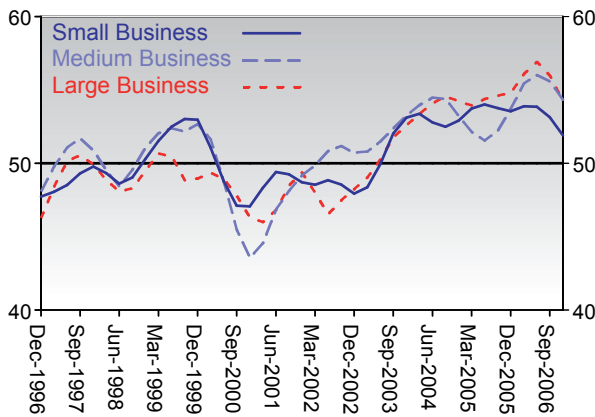


- Small business **employment** growth continued to be robust and there was a further improvement of the index from 54.1 to 54.4 over the December quarter.
- Expectations for the next quarter remain very positive suggesting that employment growth should continue through the December quarter.
- All three business sizes had strong employment growth but there was quite a bit of variation between the different classes. **Large** business continued to have the greatest employment growth. **Medium** business continued to have higher employment growth than small business but the rate of growth has softened since mid 2006.

	Dec 2006	Mar 2007 (e)
Small	54.4	57.2
<b>All Businesses</b>	58.9	60.0

## Survey Data

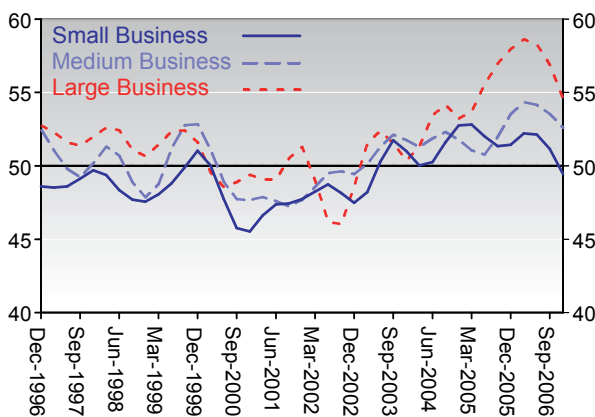
### Overtime Utilisation



- The index of **overtime utilisation** within small business decreased over the December quarter with the index down to 51.9 from 53.1.
- Expectations indicate that the growth in overtime utilization may continue to ease over the next quarter.
- **Large** and **medium** business made the most use of overtime, slightly ahead of small business.

	Dec 2006	Mar 2007 (e)
Small	51.9	51.8
<b>All Businesses</b>	53.3	52.1

### Investment in Buildings and Structures



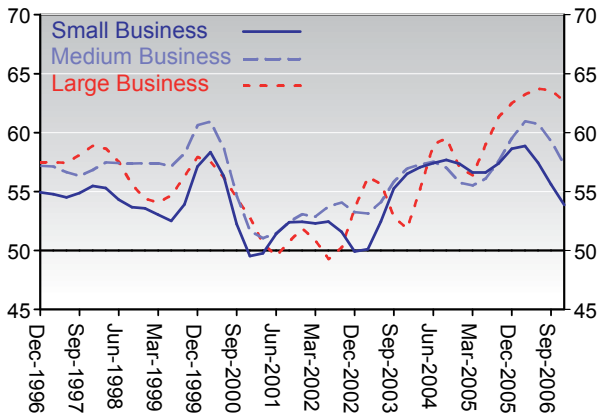
- The growth of **investment in buildings and structures** fell slightly over the quarter with the small business index recorded at 49.4, after being 51.1 in the September quarter.
- Small business investment should continue at about current rates of growth over the December quarter with expectations recorded at a neutral level.
- **Large** business investment declined sharply but continued to be higher than both **medium** and **small** business investment.

	Dec 2006	Mar 2007 (e)
Small	49.4	50.4
<b>All Businesses</b>	52.9	55.6



## Survey Data

### Investment in Plant and Equipment



- The growth rate for small business **investment in plant and equipment** continued to decline over the quarter. The index fell to 53.9 from 55.6. The index has now fallen below the five-year average of 55.1.
- Expectations also eased indicating that small business investment growth may continue to moderate.
- **Large** business investment growth was again the highest. **Small** businesses were behind their larger counterparts.

	Dec 2006	Mar 2007 (e)
Small	53.9	53.1
<b>All Businesses</b>	59.0	58.8

## Constraints on Investment

The SAI Global-ACCI Survey of Investor Confidence asks businesses the degree to which twenty factors constrain business investment in plant and equipment.

In the most recent survey, the average level of impediments to investment for small business decreased marginally from 35.9 to 35.7.

The average level of impediments is the average of all 20 impediments to investment and reflects whether taken as a whole there is a greater or lesser degree of constraint on investment. The higher the average level of impediments the greater the constraint.

### Top Five Constraints on Investment

Figures in brackets show rankings during the September 2006 quarter.

#### Small Business

1. State Government Regulations (3)
2. Business Taxes and Government Charges (1)
3. Availability of Suitably Qualified Employees (2)
4. Non-Wage Labour Costs (8)
5. Federal Government Regulations (4)

#### Medium Business

1. Business Taxes and Government Charges (2)
2. Availability of Suitably Qualified Employees (1)
3. Non-Wage Labour Costs (5)
4. Wage Costs (3)
5. State Government Regulations (6)

#### Large Business

1. Availability of Suitably Qualified Employees (3)
2. Business Taxes and Government Charges (1)
3. State Government Regulations (5)
4. Wage Costs (8)
5. Federal Government Regulations (4)

**Business taxes and government charges** was a key barrier to business investment for all three business sizes over the December quarter. Small and large business listed this constraint as the second largest constraint while medium business indicated that taxes and charges was the largest constraint. Overall government regulation or charges featured prominently in the top five constraints for all three business groups and shows how significant an impact the government is making on investment. The only non-government source of constraint amongst small business was the **availability of suitably qualified employees** and **non-wage labour costs** (though some aspects of this are payments required by government regulation).

The top five lists shows priority areas that should be addressed to improve investment and therefore productivity within each size classification. The mix between skills and government taxes and regulations in the current survey shows that continuing economic reform is essential.

## Contact Listing

For further information contact:

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## 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.

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### Chamber of Commerce Northern Territory

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### Victorian Employers' Chamber of Commerce & Industry

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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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