

# St.George - ACCI SMALL BUSINESS SURVEY May 2006

Identifying National Trends and Conditions  
for the Small Business Sector

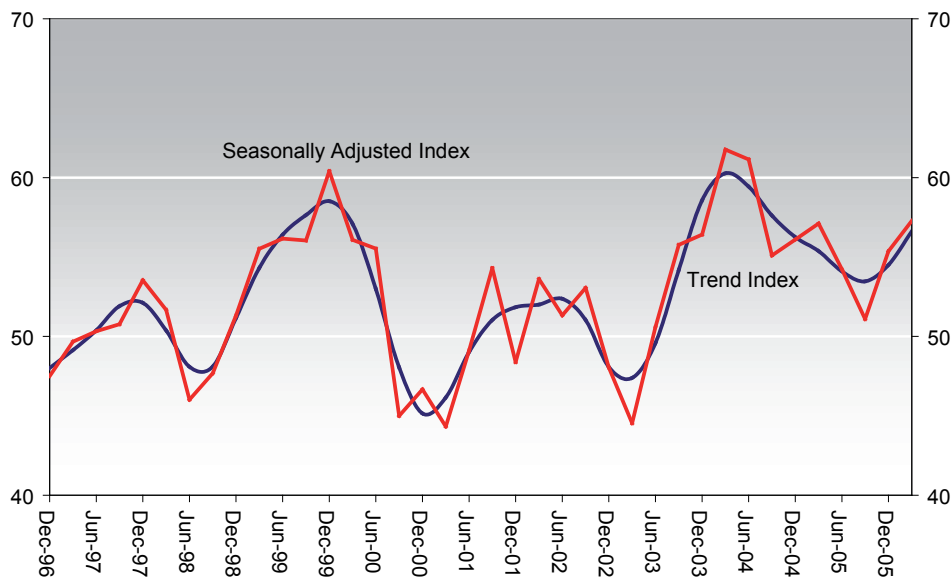
## Summary

**THE ST.GEORGE - ACCI INDEX OF SMALL BUSINESS CONDITIONS ROSE TO 57.3 IN THE MARCH QUARTER, FROM 56.6 PREVIOUSLY.**

- **Small business conditions** recovered strongly over the March quarter after a steady decline in 2005.
- Expectations for **Australian economic growth** recovered from negative territory with small business expecting the rate of economic growth to rise.
- **Sales revenue** grew soundly over the quarter and expectations for the June quarter are buoyant.
- **Wage** and **non-wage labour cost** growth remain high but the rate of growth has levelled off.
- There was slower growth in **selling prices**, indicating that inflation pressures are easing.
- **Profits** continued to fall. The low profit figures are being caused by continuing cost pressures and slower growth in selling prices.
- **Employment growth** moderated over the March quarter as did overtime use.
- **Medium** sized business had the most favourable business conditions while **small** business had the least favourable business conditions.

## Business Conditions

### Small Business Conditions Recover



## 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 2005	Dec 2005	March 2006	Quarterly Move	June 2006 (e)
Small Business Conditions	53.3	55.4	54.5	56.6	↑	60.9
Australian Economic Performance (a)	51.4	51.7	49.6	52.3	↑	—
Sales Revenue	54.1	56.9	56.8	58.6	↑	63.9
Wages	61.6	64.4	66.6	66.1	↓	65.4
Non-Wage Labour Costs	62.0	64.9	64.9	64.8	↓	63.9
Selling Prices	53.5	56.9	56.1	54.6	↓	58.6
Profits	46.9	47.3	47.5	48.0	↑	56.1
Employment	51.9	54.2	54.4	53.2	↓	56.5
Overtime	51.1	53.7	53.4	53.1	↓	52.7
Investment in Buildings and Structures	49.8	52.8	51.3	51.8	↑	52.1
Investment in Plant and Equipment	54.5	56.6	58.4	59.2	↑	55.0

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 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, 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.

## 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.

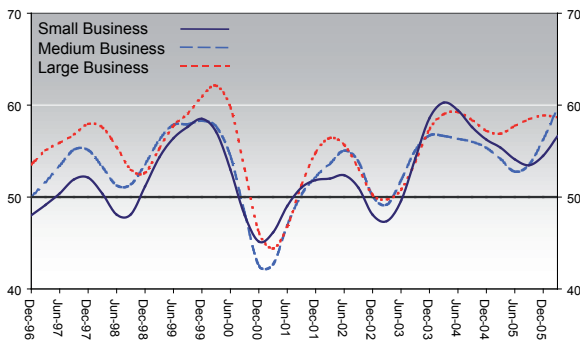
Finally, businesses are asked what their expectations are for the performance of the Australian economy over the next 12 months in comparison with the past 12 months. This provides a reading on the strength of growth in the domestic economy.

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 January, February and March 2006. There were 2086 respondents to the survey.

## Survey Data

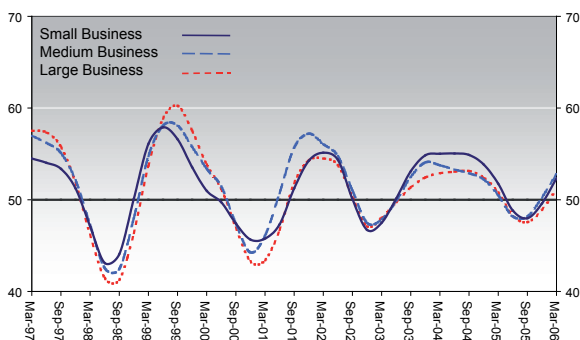
### Business Conditions



- **Small business conditions** rose to 56.6 from 54.5 over the quarter. Business conditions are relatively sound but despite the rise, the index remains well below the most recent peak of 60.3 recorded in the March 2004 quarter.
- Expectations for the June quarter were more positive than in the previous quarter and show that the current improvement should continue into the next quarter.
- **Small** business experienced the weakest conditions amongst the three sizes of business with **medium** business having the best conditions.

	Mar 2006	June 2006 (e)
Small	56.6	60.9
<b>All Businesses</b>	<b>57.5</b>	<b>61.1</b>

### Australian Economy



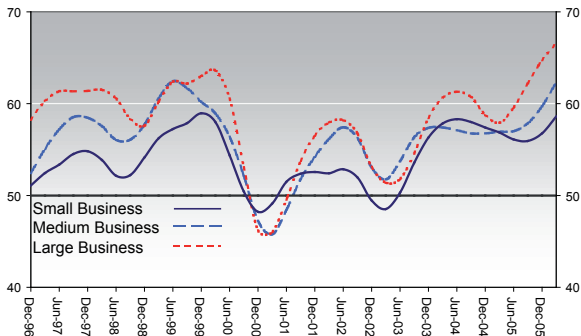
- Small business expects the Australian economy to grow more over the next 12 months than it did over the previous 12 months with the index of **Australian economic performance** in positive territory in the March quarter.
- The index rose into positive territory after being negative for the previous three quarters.
- **Medium** business was the most optimistic while **large** business was the least optimistic, but all three business classifications recorded positive expectations for economic growth.

	Dec 2005 (a)	Mar 2006 (a)
Small	49.6	52.3
<b>All Businesses</b>	<b>49.3</b>	<b>51.4</b>

(a) Expectation for following 12 months.

## Survey Data

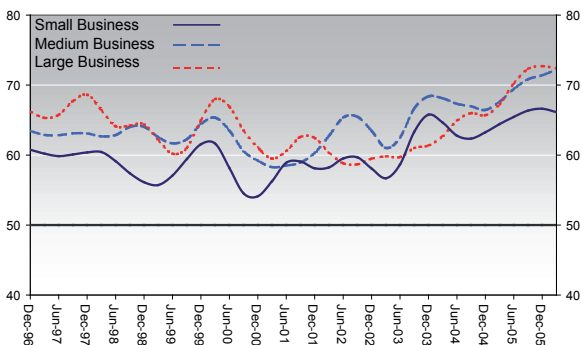
### Sales Revenue



- Small business **sales revenue** growth was very strong with the index rising from 56.8 to 58.6 in the March quarter.
- Expectations among small business remained optimistic but were down slightly over the quarter.
- Despite the strong rise in **small** business sales revenue, small business lagged behind their larger counterparts who recorded very high rates of growth. In particular, **large** business had the highest growth in sales. The divergence in the sales data may be a result of the commodities boom, which is directly benefiting large resource-based businesses.

	Mar 2006	June 2006 (e)
Small	58.6	63.9
<b>All Businesses</b>	62.4	65.6

### Wages

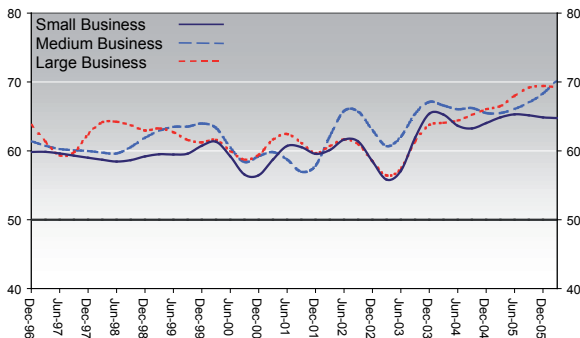


- The rate of growth in **wages** moderated slightly over the quarter, arresting the steady growth in the series observed since September quarter 2004. The wages series fell from 66.6 to 66.1 over the March quarter, which is still historically high.
- Expectations also moderated slightly over the quarter indicating that small business expects a further small deceleration in wages growth.
- **Small** business have the slowest growth while **large** business have the quickest.

	Mar 2006	June 2006 (e)
Small	66.1	65.4
<b>All Businesses</b>	70.3	65.2

## Survey Data

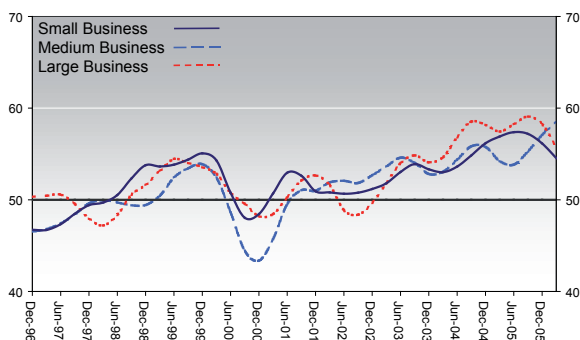
### Non-Wage Labour Costs



- **Non-wage labour costs** continue to grow at a fast rate, with the index declining from 64.9 to 64.8. The series was again above the five-year average of 62.0.
- Expectations for the June quarter show that small business non-wage labour costs should continue to grow strongly in line with previous quarters.
- **Non-wage labour costs** measures the growth in labour on-costs such as fringe benefits, workers' compensation, payroll tax and training.
- The index for non-wage labour costs were highest for **medium** business and lowest for **small** business.

	Mar 2006	June 2006 (e)
Small	64.8	63.9
<b>All Businesses</b>	67.1	63.0

### Selling Prices

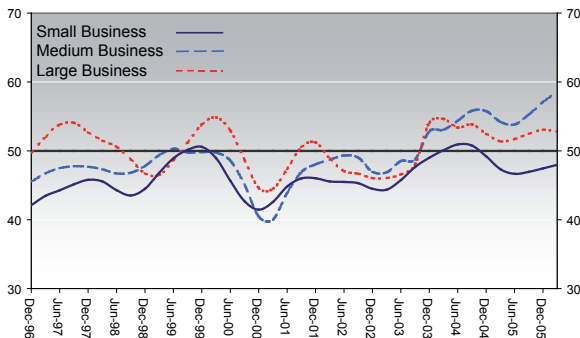


- The index of **selling prices** fell to 54.6 for the March quarter. Inflationary pressure within the small business sector is abating with the index well down from the recent peak of 57.4 in June 2005.
- Selling prices are expected to remain moderate over the next three months.
- Small business had the slowest growth in prices with medium business having the largest rises.

	Mar 2006	June 2006 (e)
Small	54.6	58.6
<b>All Businesses</b>	55.4	58.3

## Survey Data

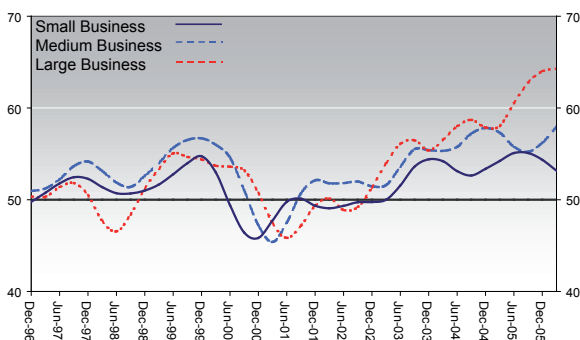
### Profits



- **Profitability** in small business continued to suffer with the index again in slightly negative territory. The index did, however, rise over the quarter from 47.5 to 48.0 indicating that declines in profitability were only small.
- Despite the negative result over the quarter, small business was optimistic about its prospects for the coming quarter.
- There was significant variation in profitability over the quarter with **medium** size business having the greatest growth while **large** business had more moderate results. **Small** business, in contrast, experienced declines in profitability.

	Mar 2006	June 2006 (e)
Small	48.0	56.1
<b>All Businesses</b>	49.9	56.6

### Employment

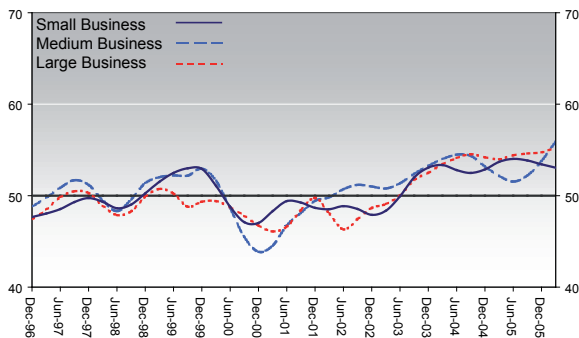


- Small business **employment** growth softened over the March quarter with the index declining from 54.4 to 53.2.
- Expectations also softened but still remain positive suggesting that employment growth will continue into the June quarter.
- In contrast, **medium** and **large** business had much higher employment growth, experiencing an increase rather than a decline in growth.

	Mar 2006	June 2006 (e)
Small	53.2	56.5
<b>All Businesses</b>	59.7	58.4

## Survey Data

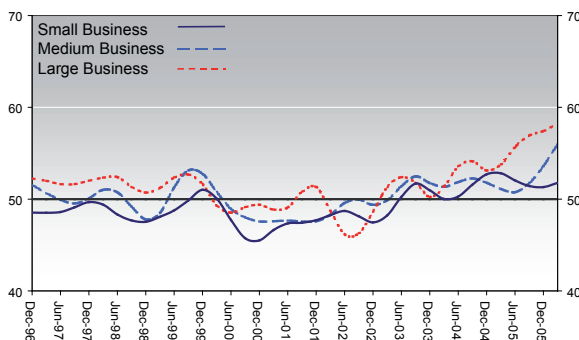
### Overtime



- The use of **overtime** in small business was relatively stable with the index at 53.1 for the March quarter, suggesting only a moderate increase took place.
- Expectations suggest that the use of overtime may expand gradually over the June quarter.
- **Medium** business had a significant increase in overtime while **large** business growth has been less volatile but remains high just behind medium business growth. **Small** business experienced the least growth in the use of overtime.

	Mar 2006	June 2006 (e)
Small	53.1	52.7
<b>All Businesses</b>	<b>53.9</b>	<b>51.3</b>

### Investment in Buildings



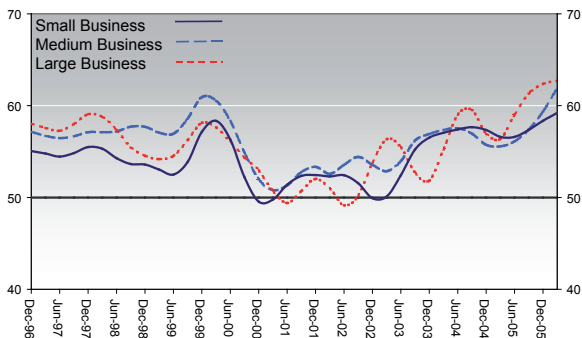
- **Building investment** rose slightly over the quarter with the small business index at 51.8. The index rose over the quarter from 51.3 in December 2005.
- Building investment should continue to grow slightly over the June quarter with expectations at a sound level.
- **Medium** and **large** business recorded higher rates of growth than their smaller counterparts. **Large** business had the highest rate of growth.

	Mar 2006	June 2006 (e)
Small	51.8	52.1
<b>All Businesses</b>	<b>55.7</b>	<b>54.4</b>



## Survey Data

### Investment in Plant and Equipment



- Small business **investment in plant and equipment** rose substantially over the quarter to post a new record for the survey since it began in 1996.
- The expectation figures for the next quarter are also high suggesting that the investment boom should continue into that quarter.
- All three business sizes recorded significant new investment with **large** business growth slightly ahead of **medium** business. While **small** business was behind its larger counterparts they still performed very well.

	Mar 2006	June 2006 (e)
Small	59.2	55.0
<b>All Businesses</b>	60.7	58.5

## Constraints on Investment

The ACIL Tasman - 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 rose from 37.4 to 40.2.

In interpreting this index the higher the average level of impediments the greater the constraint.

### Top Five Constraints on Investment

Figures in brackets show rankings during the December 2005 quarter.

#### Small Business

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

#### Medium Business

1. Availability of Suitably Qualified Employees (1)
2. Business Taxes and Government Charges (2)
3. Wage Costs (7)
4. Non-Wage Labour Costs (4)
5. Local Competition (6)

#### Large Business

1. Availability of Suitably Qualified Employees (2)
2. Business Taxes and Government Charges (3)
3. Non-Wage Labour Costs (8)
4. Local Competition (9)
5. State Government Regulations (1)

**Availability of suitably qualified employees** was the single biggest barrier to business investment for all three business sizes over the March quarter indicating just how tight the labour market is in many different markets. In addition to the labour availability issues, wages and non-wage labour costs added to the constraint felt by small business on their investment plans.

**Business taxes and government charges** were also ranked highly by all size categories and the addition of **state government regulations** to the top five constraints on small business shows how large the government impact on investment is.

The top five lists show priority areas that should be addressed to improve the investment and hence productivity performances within each size classification. The mix between labour 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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### Australian Business Limited

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### Business SA

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### Chamber of Commerce & Industry Western Australia

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### Chamber of Commerce Northern Territory

Ms Clalia Mar  
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### Commerce Queensland

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### Printing Industries Association of Australia

Mr Hagop Tchamkertenian  
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### Tasmanian Chamber of Commerce & Industry

Mr Nick Behrens  
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### 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

## 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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