



ST.GEORGE - ACCI SMALL BUSINESS SURVEY

IDENTIFYING NATIONAL TRENDS
AND CONDITIONS FOR THE
SMALL BUSINESS SECTOR



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FOREWORD

The *St.George-ACCI Small Business Survey* is a national survey aggregated from the surveys conducted by member associations of the Australian Chamber of Commerce and Industry.

This survey covers small businesses in every state and in every industry. The data in this survey covers the period April, May and June 2005.

There were 717 small business respondents to this Survey.

For further information contact:

Michael Potter, Director of Economics and Taxation, ACCI on **(02) 6273 2311**.

If you would like further details from St.George, please contact:

Steve Ryan, St.George Chief Economist on **(02) 9320 5535** or visit **stgeorge.com.au/corporate**

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.



SMALL BUSINESS PROFITS DOWN BUT EXPECTATIONS BUOYANT

SUMMARY

The June 2005 *St. George-ACCI Small Business Survey* found that small businesses expect Australian economic growth to be slower over the next year than it has been over the last twelve months. Economic growth has clearly moderated from 2004, particularly reflected by the profit data. However, small business has been remarkably robust, recording stable sales growth over the June quarter and maintaining a positive outlook for the next quarter. The level of sales growth was virtually unchanged over the quarter.

Small business profits continued to decline after falling into negative territory in the March 2005 survey. However, this has not dimmed small business confidence and expectations are still being recorded at positive levels.

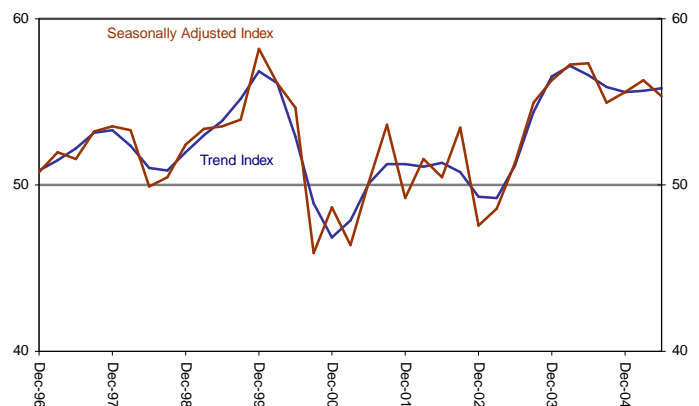
Adding to profitability concerns are trading conditions, which have slowed down, while non-wage and wage costs are continuing to rise. Non-wage costs have particularly risen strongly and may be driving the selling price index higher as businesses seek to restore margins.

Employment levels continued to expand over the quarter and overtime use also continued to grow. Expectations are for these trends in employment and overtime to continue into the next quarter as well.

Small business investment experienced a mild deceleration in growth over June quarter 2005 in both buildings and structures, and plant and equipment investment. However, growth remains positive and the overall investment figures still remain at reasonable levels.

Government regulations and imposts were the main constraints on small business expansion in June. Again,

General Business Conditions



the availability of suitably qualified employees featured in the top five constraints.

HIGHLIGHTS

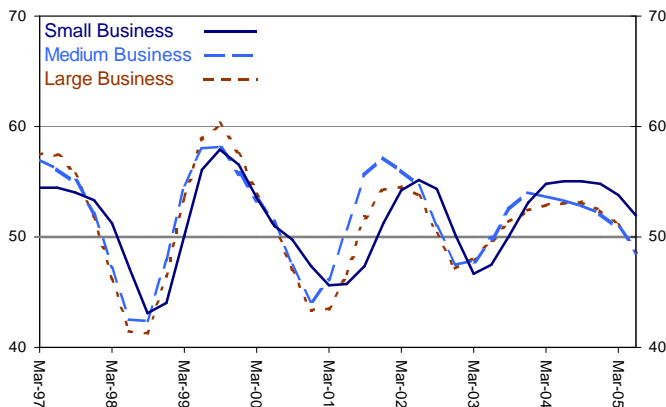
- Small business conditions are moderate.
- The small business sector remains positive about prospects for the next quarter.
- Employment continued to expand well, despite increasing labour costs.
- Sales revenue growth was stable.
- Profits continue to fall.
- Government regulations and taxes made up four of the five constraints to small business investment.



AUSTRALIAN ECONOMIC PERFORMANCE

The index of *Australian Economic Performance* declined for small, medium and large business. This index indicates how businesses expect the Australian economy to perform in the year ahead compared with the performance of the previous year. Small business expectations for economic growth have declined for the last five quarters and demonstrate that small businesses are still factoring in lower expectations for economic growth into their decision making.

Comparison of Trend Indexes by Size of Business



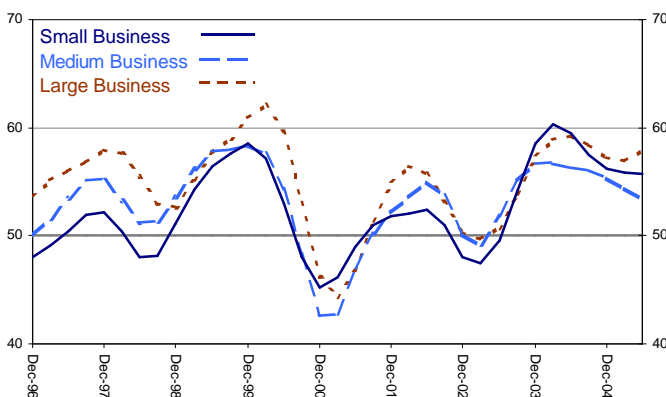
Small Business Responses

	June 2004 Expectation	June 2005 Expectation	Sept 2005 Expectation
Much Stronger	1.7%	2.2%	1.1%
Somewhat Stronger	29.6%	22.2%	19.1%
About the Same	52.0%	48.2%	51.2%
Somewhat Weaker	15.9%	25.9%	27.3%
Much Weaker	0.8%	1.4%	1.3%
Original Index	53.9	49.4	47.9
Seasonally Adjusted Index	55.7	51.1	48.7
Trend Index	55.0	51.9	49.5

GENERAL BUSINESS CONDITIONS

The *General Business Conditions* small business index declined marginally in the June 2005 quarter. This index measures whether or not conditions in respondents' own businesses have improved over the quarter. For small business, this general decline since March 2004 shows that conditions have moderated from the highs of last year but are still sound. Like their smaller counterparts, medium sized businesses had similar experiences while large businesses reported an improvement in conditions. Small business expectations for the next quarter are more optimistic and have improved.

Comparison of Trend Indexes by Size of Business



Small Business Responses

	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
Up	37.4%	27.2%	33.1%
Same	42.2%	49.5%	51.1%
Down	20.4%	23.3%	15.8%
Original Index	58.5	52.0	58.7
Seasonally Adjusted Index	61.0	54.2	61.2
Trend Index	59.4	55.7	61.9

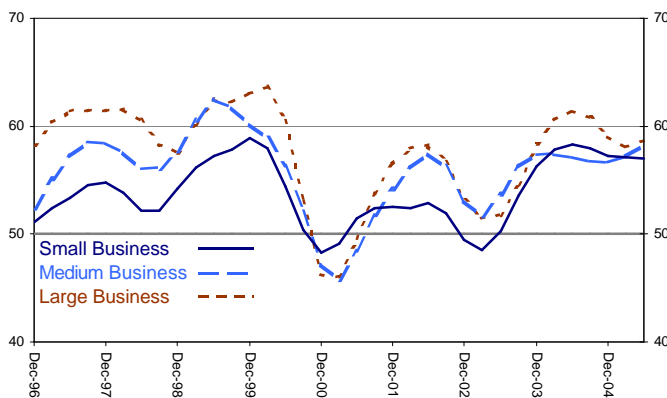


KEY BUSINESS INDICATORS

SALES REVENUE

The *Sales Revenue* index measures the change in sales revenue over the previous quarter. The small business index continued to slip in June 2005 but despite the small decline, the index remains at a good level in comparison to the results from mid 2000 to late 2002. In contrast, medium and large business sales revenue increased and small business expectations for the next quarter are very positive.

Comparison of Trend Indexes by Size of Business



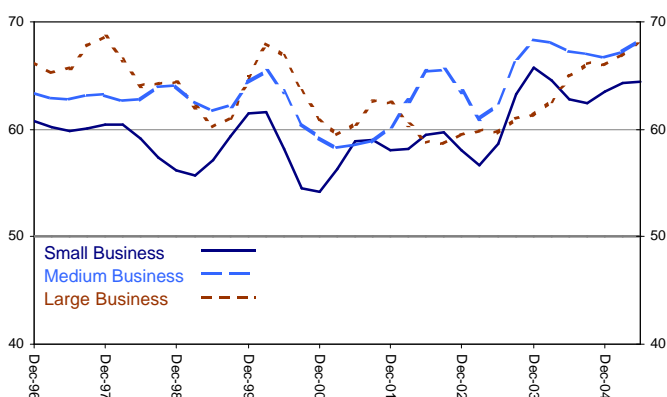
Small Business Responses

	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
Up	41.8%	36.9%	42.5%
Same	29.9%	35.1%	39.6%
Down	28.3%	28.0%	17.9%
Original Index	56.8	54.4	62.3
Seasonally Adjusted Index	58.9	56.5	65.3
Trend Index	58.3	57.0	64.6

WAGES GROWTH

The *Wages Growth* small business index which measures the growth in the level of wages paid by small businesses to their employees rose again in June 2005 quarter. This increase is expected to continue over the next quarter. However, small business wages growth remains below the rates of growth being reported by medium and large business.

Comparison of Trend Indexes by Size of Business



Small Business Responses

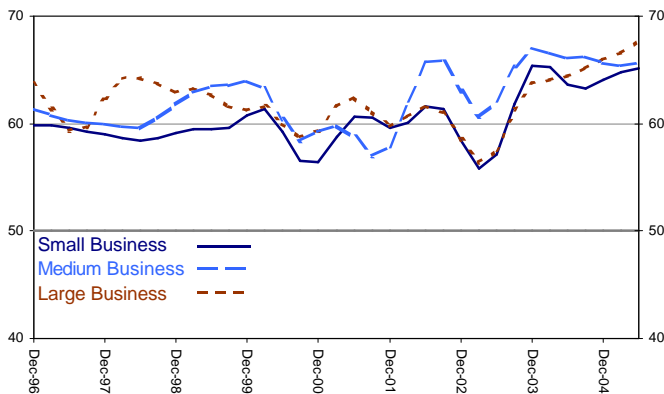
	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
Up	31.5%	34.5%	39.8%
Same	56.3%	59.2%	55.0%
Down	12.2%	6.2%	5.2%
Original Index	59.7	64.1	67.3
Seasonally Adjusted Index	60.1	64.6	65.1
Trend Index	62.8	64.5	64.5



NON-WAGE LABOUR COSTS

Small business *Non-Wage Labour Costs* were at a high level in June 2005 and costs are expected to continue to rise in the next quarter. This index measures the growth in labour on-costs such as fringe benefits, workers compensation, payroll tax and training. Medium and larger business recorded even larger increases in non-wage labour costs with large businesses reporting record high levels.

Comparison of Trend Indexes by Size of Business



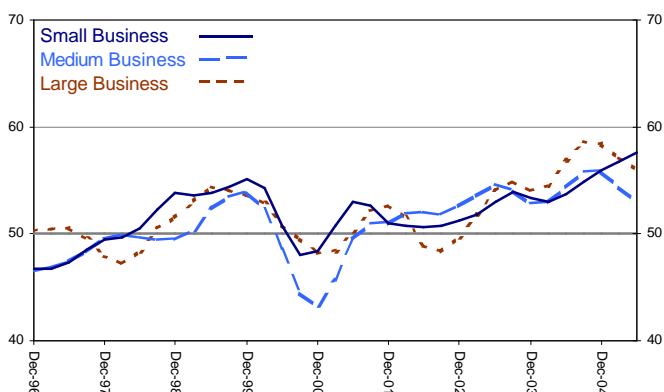
Small Business Responses

	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
Up	31.3%	32.0%	33.3%
Same	63.1%	63.3%	62.8%
Down	5.6%	4.7%	3.9%
Original Index	62.9	63.6	64.7
Seasonally Adjusted Index	63.1	63.9	62.1
Trend Index	63.6	65.2	62.1

SELLING PRICES

The index of *Selling Prices*, which measures growth in the prices charged by businesses for goods and services, indicates that small business are increasing prices quicker than in the past quarter. In contrast, large and medium business recorded lower growth in prices with medium business only increasing prices slightly.

Comparison of Trend Indexes by Size of Business



Small Business Responses

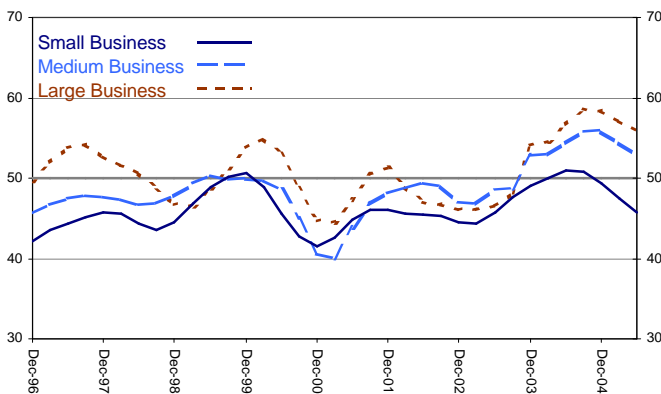
	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
Up	18.2%	22.9%	25.2%
Same	66.3%	67.8%	66.9%
Down	15.5%	9.4%	7.9%
Original Index	51.4	56.8	58.7
Seasonally Adjusted Index	52.8	58.4	58.4
Trend Index	53.7	57.6	57.7



PROFITS

Small business *Profitability* continued to decline in the June quarter 2005, but despite this lacklustre performance expectations remain at optimistic levels. Medium and large business had higher profit growth with large firms having the best results despite the medium and large business indexes declining marginally.

Comparison of Trend Indexes by Size of Business



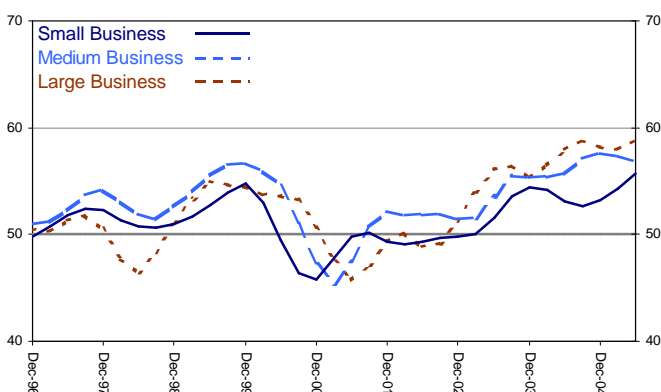
Small Business Responses

	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
Up	29.9%	20.5%	30.2%
Same	40.4%	47.2%	50.4%
Down	29.8%	32.3%	19.4%
Original Index	50.1	44.1	55.4
Seasonally Adjusted Index	52.0	45.7	57.7
Trend Index	50.9	45.7	57.4

EMPLOYMENT

The *Employment* index shows that small business continued to take on more employees in June 2005. This index measures the creation of new jobs by small business employers in the previous quarter. Expectations suggest that employment growth will continue over the next quarter. Large-sized business also showed an upward trend while the index for medium business moderated.

Comparison of Trend Indexes by Size of Business



Small Business Responses

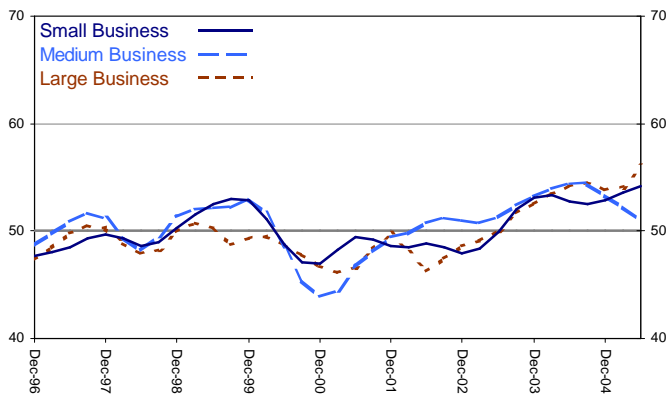
	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
Up	17.3%	22.9%	22.9%
Same	69.0%	64.0%	67.7%
Down	13.7%	13.0%	9.4%
Original Index	51.8	55.0	56.7
Seasonally Adjusted Index	53.0	56.2	57.9
Trend Index	53.1	55.7	57.5



OVERTIME UTILISATION

The *Overtime Utilisation* index continued to grow over the quarter for small business. This index measures the number of overtime hours worked by employees. Expectations show that overtime use is likely to remain high in the next quarter. Medium business reported a slowing down in the use of overtime over the quarter then they previously had while large firms had a surge in the use of overtime.

Comparison of Trend Indexes by Size of Business



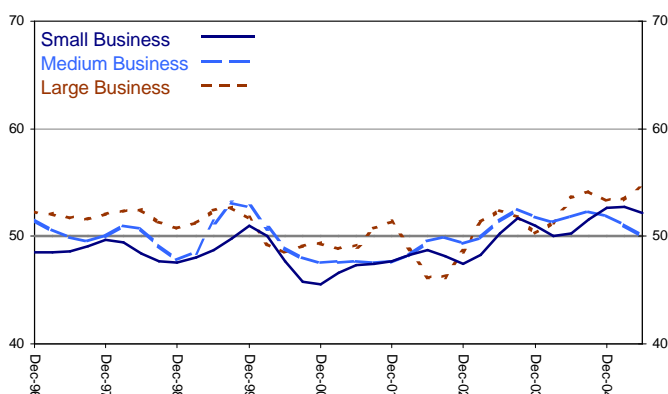
Small Business Responses

	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
Up	17.5%	20.6%	18.4%
Same	65.5%	63.5%	68.1%
Down	17.0%	15.9%	13.6%
Original Index	50.3	52.3	52.4
Seasonally Adjusted Index	51.8	53.9	53.8
Trend Index	52.8	54.2	53.6

INVESTMENT IN BUILDINGS AND STRUCTURES

Investment in Buildings and Structures index fell but remained in positive territory over the June 2005 quarter. This index measures the level of business investment in buildings and structures. Expectations for the next quarter also moved down slightly, while remaining positive. In contrast large business investment growth accelerated over the quarter, while medium business investment growth was the same over the quarter.

Comparison of Trend Indexes by Size of Business



Small Business Responses

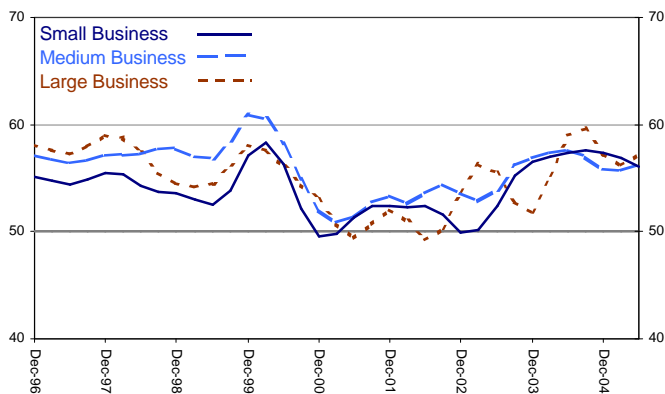
	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
Up	13.7%	17.3%	17.3%
Same	71.3%	67.1%	66.7%
Down	15.1%	15.5%	16.0%
Original Index	49.4	50.9	50.6
Seasonally Adjusted Index	49.5	51.1	51.0
Trend Index	50.3	52.2	51.2



INVESTMENT IN PLANT AND EQUIPMENT

Small business *Investment in Plant and Equipment* growth moderated while medium and large firms reported higher rates of growth in the June 2005 quarter. Despite the moderation among small business, expectations remain buoyant and the index remains at a healthy level.

Comparison of Trend Indexes by Size of Business



Small Business Responses

	June 2004 Actual	June 2005 Actual	Sept 2005 Expectation
Up	30.1%	26.2%	27.6%
Same	56.5%	59.6%	55.8%
Down	13.4%	14.2%	16.7%
Original Index	58.4	56.0	55.4
Seasonally Adjusted Index	57.9	55.6	56.4
Trend Index	57.4	56.1	54.1



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 33.3 to 37.5.

TOP FIVE CONSTRAINTS ON INVESTMENT

Figures in brackets show rankings during the previous quarter.

Small Business

1. Business Taxes and Government Charges (2)
2. State Government Regulations (6)
3. Availability of Suitably Qualified Employees (1)
4. Federal Government Regulations (8)
5. Non-Wage Labour Costs (3)

Medium Business

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

Large Business

1. Business Taxes and Government Charges (8)
2. Availability of Suitably Qualified Employees (7)
3. State Government Regulations (6)
4. Local Competition (9)
5. Non-Wage Labour Costs (1)

Government related constraints made up four of the top five constraints to small business investment in June 2005. *Business Taxes and Government Charges* was the single biggest brake on business investment in the quarter. Government regulation at both the State and Federal levels has moved into the top five constraints to small business investment. This shows the impact the government is having on Australian small businesses. *Non-Wage Labour Costs* was ranked fifth. This includes costs such as payroll tax, workers compensation and superannuation guarantee charges, which are other forms of government burden on business.

Labour related constraints diminished in importance in June, but the *Availability of Suitably Qualified Employees* remains an important constraint coming in third position in the latest survey.



COMPARISON BY SIZE OF BUSINESS ACTUAL RESULTS FROM THE JUNE QUARTER 2005

General Business Conditions

	Small	Medium	Large
Up	27.2	27.8	33.9
Same	49.5	49.3	48.0
Down	23.3	22.9	18.2
Original	52.0	52.4	57.8
Seasonally Adjusted	54.2	54.0	60.3
Trend	55.7	53.4	57.9

Sales Revenue

	Small	Medium	Large
Up	36.9	40.4	42.4
Same	35.1	33.5	34.9
Down	28.0	26.0	22.6
Original	54.4	57.2	59.9
Seasonally Adjusted	56.5	58.7	61.0
Trend	57.0	58.2	58.7

Wages Growth

	Small	Medium	Large
Up	34.5	42.2	38.8
Same	59.2	54.1	55.3
Down	6.2	3.7	4.8
Original	64.1	69.2	67.0
Seasonally Adjusted	64.6	69.6	69.1
Trend	64.5	68.4	68.4

Non-Wage Labour Costs

	Small	Medium	Large
Up	32.0	36.1	38.1
Same	63.3	59.9	58.6
Down	4.7	4.1	3.3
Original	63.6	66.0	67.4
Seasonally Adjusted	63.9	65.9	68.8
Trend	65.2	65.6	67.7

Selling Prices

	Small	Medium	Large
Up	22.9	22.1	25.7
Same	67.8	63.4	61.2
Down	9.4	14.5	13.2
Original	56.8	53.8	56.2
Seasonally Adjusted	58.4	53.8	58.3
Trend	57.6	52.9	56.1

Profits

	Small	Medium	Large
Up	20.5	22.1	25.7
Same	47.2	63.4	61.2
Down	32.3	14.5	13.2
Original	44.1	53.8	56.2
Seasonally Adjusted	45.7	53.8	58.3
Trend	45.7	52.9	56.1

Employment

	Small	Medium	Large
Up	22.9	24.0	32.4
Same	64.0	62.5	50.8
Down	13.0	13.4	16.8
Original	55.0	55.3	57.8
Seasonally Adjusted	56.2	56.3	59.7
Trend	55.7	56.8	58.8

Overtime Utilisation

	Small	Medium	Large
Up	20.6	18.5	26.0
Same	63.5	61.9	59.9
Down	15.9	19.6	14.1
Original	52.3	49.5	56.0
Seasonally Adjusted	53.9	50.7	58.6
Trend	54.2	51.0	56.0

Investment in Buildings and Structures

	Small	Medium	Large
Up	17.3	18.1	25.6
Same	67.1	65.0	60.5
Down	15.5	16.9	13.8
Original	50.9	50.6	55.9
Seasonally Adjusted	51.1	50.3	56.3
Trend	52.2	50.1	54.8

Investment in Plant and Equipment

	Small	Medium	Large
Up	26.2	29.1	31.2
Same	59.6	56.0	55.2
Down	14.2	14.9	13.6
Original	56.0	57.1	58.8
Seasonally Adjusted	55.6	57.4	59.2
Trend	56.1	56.3	57.3



PARTICIPATING ORGANISATIONS

The *St.George-ACCI Small Business Survey* is a national survey aggregated by size of business from the surveys conducted by member associations of the Australian Chamber of Commerce and Industry. 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 in conjunction with Sensis

Mr Paul Orton
Ph: (02) 9927 7445

Business SA

Mr Hamilton Calder
Ph: (08) 8300 0009

Chamber of Commerce & Industry of Western Australia

Ms Nicky Cusworth
Ph: (08) 9365 7555

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 Susie Savage
Ph: (03) 9829 1111

Victorian Employers' Chamber of Commerce & Industry

Mr Steven Wojtkiw
Ph: (03) 8662 5453

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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