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# St.George - ACCI SMALL BUSINESS SURVEY August 2006

Identifying National Trends and Conditions  
for the Small Business Sector

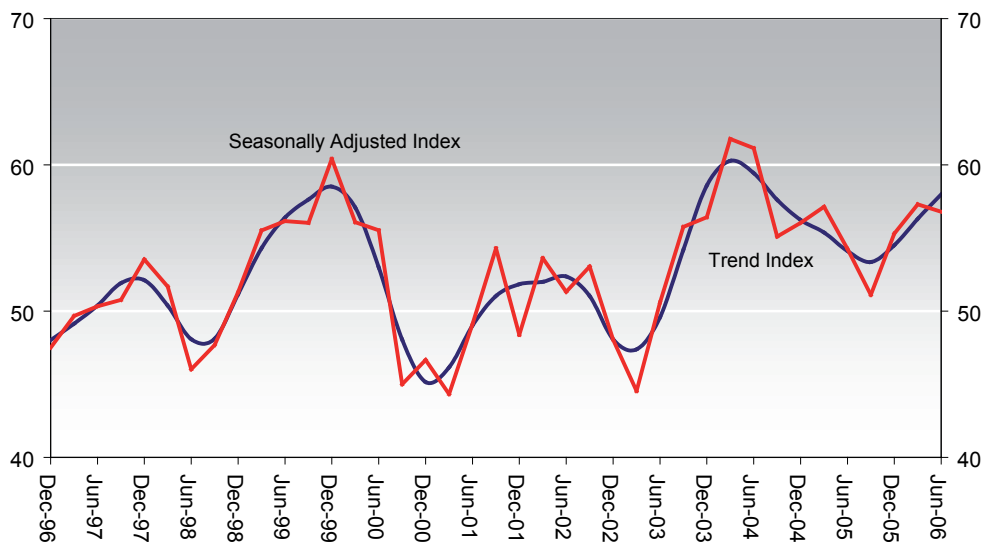
## Summary

**THE ST.GEORGE - ACCI INDEX OF SMALL BUSINESS CONDITIONS ROSE TO 58.0 IN THE JUNE QUARTER, FROM 56.3 IN THE MARCH QUARTER.**

- **Small business conditions** continued to improve over the June 2006 quarter.
- Expectations for **Australian economic growth** show that business expects some continuing improvements in Australia's rate of growth over the next twelve months.
- **Sales revenue** expanded solidly over the quarter and expectations for September indicate that sales should continue to grow well.
- **Wage and non-wage labour costs** growth continued to ease over the June quarter. However, overall growth remains high.
- **Price growth** declined, indicating that inflation pressures may have peaked.
- **Profit growth** was flat despite sound sales growth, which may imply that profits are instead flowing into wages.
- **Investment in plant and equipment** remained at record highs while investment in buildings and structures was sound.
- Employment growth was good over the quarter showing that there continues to be gains in the labour market.
- **Medium and large** business had more favourable business conditions than did **small** business, which may be because larger firms are more direct beneficiaries of the commodities boom.

## Business Conditions

### Small Business Conditions Resilient



## 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	June 2005	March 2006	June 2006	Quarterly Move	Sept 2006 (e)
Small Business Conditions	53.8	54.1	56.3	58.0	↑	61.1
Australian Economic Performance (a)	51.6	48.8	51.0	52.0	↑	—
Sales Revenue	54.7	56.1	58.5	60.2	↑	65.1
Wage Growth	62.1	65.5	66.0	65.2	↓	61.6
Non-Wage Labour Costs	62.3	65.3	64.6	64.1	↓	60.3
Selling Prices	53.7	57.4	55.6	55.5	↓	58.6
Profit Growth	47.2	46.7	48.3	49.1	↑	56.9
Employment	52.3	55.1	54.2	54.6	↑	57.1
Overtime Utilisation	51.4	54.0	53.7	54.2	↑	53.3
Investment in Buildings and Structures	50.1	52.0	52.0	52.7	↑	51.3
Investment in Plant and Equipment	54.9	56.6	58.8	58.9	↑	54.6

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.

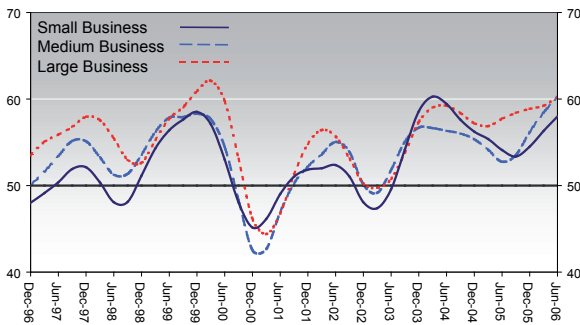
Finally, businesses are asked what their expectations are for the performance of the Australian economy over the next 12 months in comparison with the past 12 months. This provides a reading on the strength of growth in the domestic economy.

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 April, May and June 2006. There were 1822 respondents to the survey.

## Survey Data

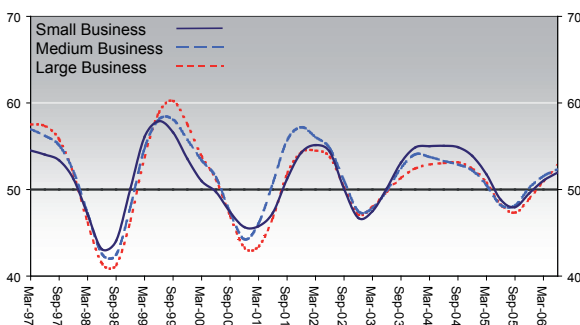
### Small Business Conditions



- **Small business conditions** rose to 58.0 from 56.3 over the quarter. The increase indicates that business conditions improved over the June quarter.
- Expectations for the September quarter were positive and indicate that there should be further improvement in business prospects into the next quarter.
- **Small business** experienced the worst **business conditions** amongst the three sizes of business. **Medium** business recorded the highest index level, just ahead of **large** business.

	June 2006	Sept 2006 (e)
Small	58.0	61.1
<b>All Businesses</b>	59.0	61.9

### Australian Economic Performance



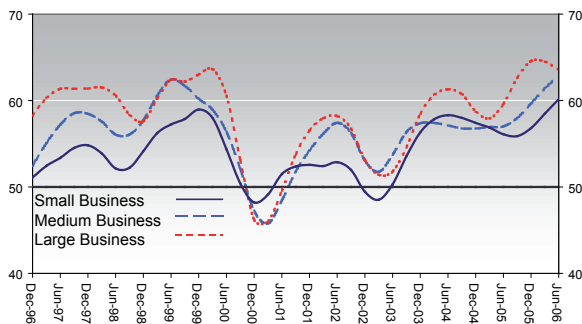
- Small business is expecting a pick-up in the rate of economic growth over the next twelve months compared with the past twelve months. The index of Australian economic performance rose from 51.0 to 52.0 over the June quarter.
- The rise of the index away from the more neutral level recorded in the last survey demonstrates a return to more positive expectations after the index fell into negative territory in the second half of 2005.
- **Small** business expected the least improvement with **medium** business slightly ahead of small business. **Large** business expectations rose strongly to be the highest after being the least optimistic in the previous survey.

	Mar 2006 (a)	June 2006 (a)
Small	51.0	52.0
<b>All Businesses</b>	50.9	52.3

(a) Expectation for following 12 months.

## Survey Data

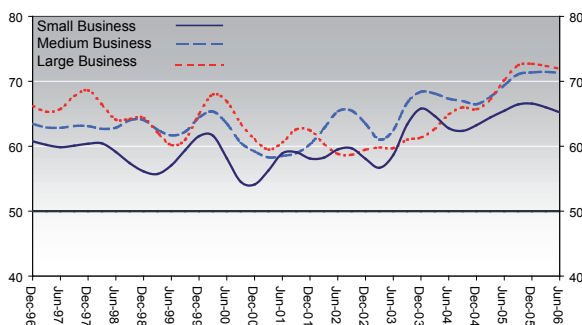
### Sales Revenue



- Small business **sales revenue** continued to improve with the index rising from 58.5 to be very strong at a level of 60.2 in the June quarter.
- Expectations remain positive among small business and were up slightly over the quarter.
- **Small** business sales revenue growth was behind the growth for both **medium** and **large** business. **Large** business experienced the most positive results. The divergent results likely reflect large resource firms outperforming other sectors.

	June 2006	Sept 2006 (e)
Small	60.2	65.1
<b>All Businesses</b>	61.7	65.3

### Wage Growth

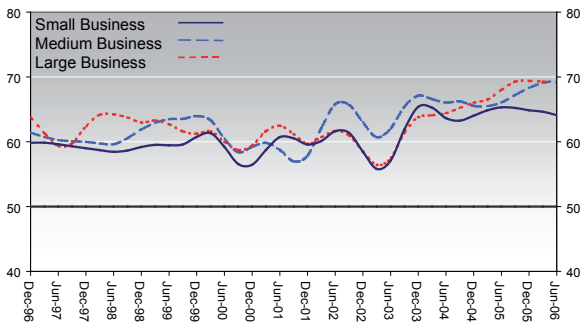


- **Wage growth** continued to ease over the quarter, but remains near the record high of 66.6 recorded in December quarter 2005. The index fell from 66.0 to 65.2 over the current quarter.
- Expectations declined more significantly than the actual results suggesting that wage pressures may continue to moderate over the next quarter.
- **Medium** and **large** businesses had significantly more wage pressures than did **small** business but there was a slight moderation in growth for the two larger business categories.

	June 2006	Sept 2006 (e)
Small	65.2	61.6
<b>All Businesses</b>	67.8	64.2

## Survey Data

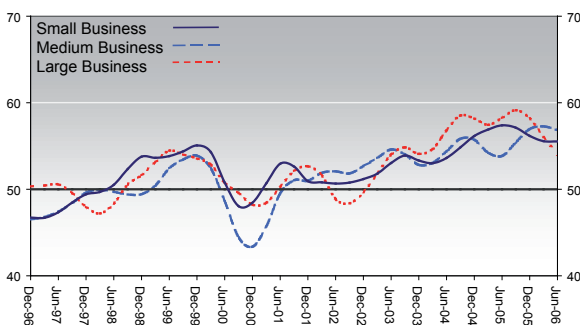
### Non-Wage Labour Costs



- **Non-wage labour costs** growth remained high despite some moderation of the index from 64.6 to 64.1 over the June quarter. The series remains well above the five-year average of 62.3.
- However, expectations eased more significantly which may signify a greater reduction in wage pressures over the next few months.
- Non-wage costs were highest for **medium** business and lowest for **small** business.
- **Non-wage labour costs** refers to the growth in labour on-costs such as fringe benefits, workers' compensation, payroll tax and training.

	June 2006	Sept 2006 (e)
Small	64.1	60.3
<b>All Businesses</b>	66.1	60.9

### Selling Prices

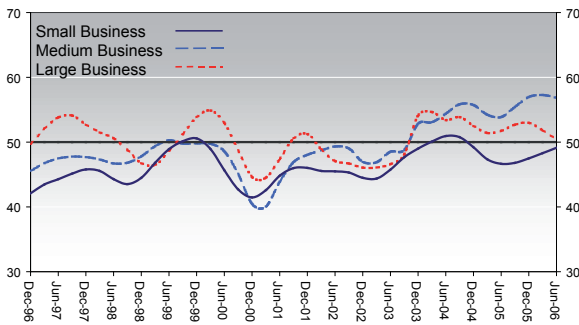


- Growth in **selling prices** remained above average but are well down from the recent peak of 57.4 recorded in the same quarter of last year. The current reading is 55.5 for the June quarter.
- Expectations suggest that the index level should remain relatively unchanged over the next three months.
- **Large** business had the lowest growth in prices with medium firms, as with the last survey, having the largest increases.

	June 2006	Sept 2006 (e)
Small	55.5	58.6
<b>All Businesses</b>	54.1	56.9

## Survey Data

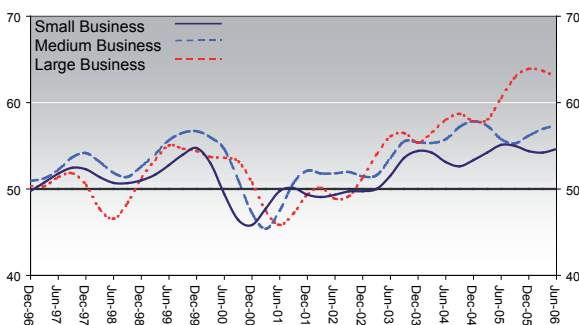
### Profit Growth



	June 2006	Sept 2006 (e)
Small	49.1	56.9
<b>All Businesses</b>	<b>49.3</b>	<b>56.4</b>

- **Profit growth** suggests that achieving profitability remains an issue for small business, with the index again recorded in negative territory. The index did, however, rise over the quarter from 48.3 to 49.1. The rise shows that there was a lesser decline in profits over the quarter.
- Expectations continued to be resilient despite the lacklustre profits data. The positive sentiments expressed for next quarter's profitability show that conditions should remain conducive for improved profits.
- The rise of the small business index towards neutral was in contrast to the downward movement of the indexes for both **medium** and **large** business. **Medium** enterprises, despite the decline of the index, had the greatest growth while **large** firms had more moderate results.

### Employment

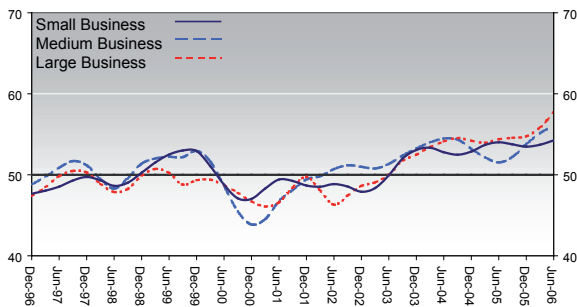


	June 2006	Sept 2006 (e)
Small	54.6	57.1
<b>All Businesses</b>	<b>58.3</b>	<b>58.4</b>

- Small business **employment** growth was robust over the June quarter with the index rising from 54.2 to 54.6.
- Expectations for the next quarter remain positive suggesting that employment growth should continue through the September quarter.
- In contrast with the improvement of the index for **small** business the data on **large** business showed that growth in that sector slowed slightly. Despite the easing of employment growth over the quarter **large** business continued to have the highest growth by a significant margin.

## Survey Data

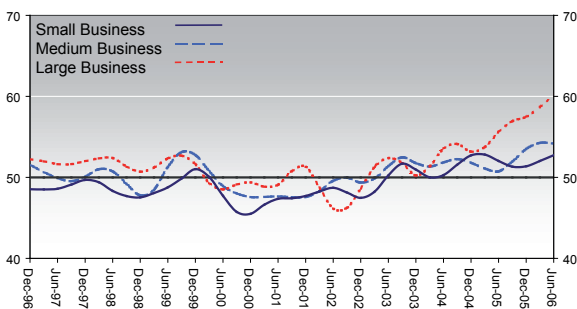
### Overtime Utilisation



- The use of overtime within small business increased over the June quarter with the index of **overtime utilisation** up from 53.7 to 54.2.
- Expectations indicate that overtime will continue to be used at about current levels over the next quarter.
- **Large** business made the greatest use of overtime with **small** and **medium** business employing overtime to a lesser extent.

	June 2006	Sept 2006 (e)
Small	54.2	53.3
<b>All Businesses</b>	<b>56.2</b>	<b>52.7</b>

### Investment in Buildings and Structures



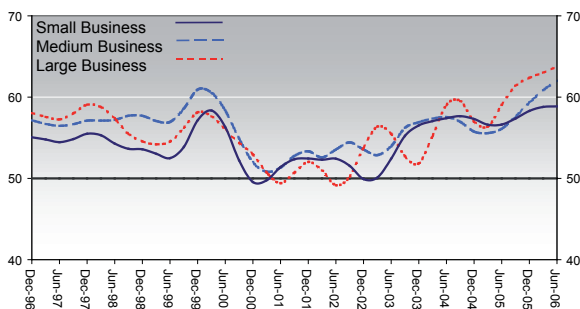
- **Investment in buildings and structures** remained sound over the quarter with the small business index recorded at 52.7. The index rose slightly over the June quarter from 52.0 in the March quarter.
- Small business investment should continue at about current rates of growth over the September quarter with expectations in line with what has been recorded over the past 18 months.
- **Large** business continued to set new records for investment in buildings and structures while **medium** firms' investment growth appears to have peaked. **Small** business investment continued to be below their larger counterparts despite the sustained increase of the index over the past six months.

	June 2006	Sept 2006 (e)
Small	52.7	51.3
<b>All Businesses</b>	<b>56.6</b>	<b>51.7</b>



## Survey Data

### Investment in Plant and Equipment



- Small business **investment in plant and equipment** was robust over the quarter. The index rose to 58.9 from 58.8 to again, though only marginally, be at an all time high since the survey began in 1994.
- The expectation figures eased while remaining high suggesting that the investment growth may be levelling off.
- All three business sizes recorded significant new investment with **large** business growth again the highest. While **small** business was behind their larger counterparts, they still performed very well.

	June 2006	Sept 2006 (e)
Small	58.9	54.6
<b>All Businesses</b>	62.0	57.1

## 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 from 40.2 to 36.9.

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 June 2006 quarter.

#### Small Business

1. Business Taxes and Government Charges (2)
2. Availability of Suitably Qualified Employees (1)
3. Local Competition (11)
4. Insufficient Retained Earnings (7)
5. State Government Regulations (5)

#### Medium Business

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

#### Large Business

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

**Business taxes and government charges** was the single biggest barrier to business investment for all three business sizes over the June quarter. In addition, **state government regulations** also featured prominently in the top-five constraints and shows how large an impact the government has on investment. **Wage costs** and **non-wage labour costs** had less of an impact over the June quarter and did not enter the top five constraints on small business after both being ranked highly over the previous nine-months.

Despite wage and non-wage costs diminishing in importance, the **availability of suitably qualified employees** continued to be an important constraint on business.

**Local competition** and **insufficient retained earnings** were also present in the top-five for the first time since 2005 and 2002 respectively. The addition of **insufficient retained earnings** may reflect the fact that profits have not expanded while investment has grown significantly. This may mean that investment growth will peak as business seeks to regain profit growth.

The top-five lists shows priority areas that should be addressed to improve the investment and hence productivity performances 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

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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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### Business SA

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### Chamber of Commerce & Industry Western Australia

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### Chamber of Commerce Northern Territory

Ms Clalia Mar  
(08) 8936 3100

### 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 Susie Savage  
Ph: (03) 9829 1111

### Victorian Employers' Chamber of Commerce & Industry

Mr Michael Wilson  
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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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