

Commonwealth Bank CCIQ Pulse Survey of Business Conditions



June Quarter 2012



Determined to be different

> Introduction

Whilst results for the March quarter 2012 survey were all about future confidence, the June quarter has shown a return to reality for many Queensland businesses.

Business confidence in the State and National economies has returned to more realistic levels, on the back of on-going subdued levels of sales and revenue and profitability. The challenges of working through compliance obligations, absorbing wage costs and new taxes, and subdued consumer spending are dragging down business conditions across Queensland.

It is also concerning and somewhat surprising that business optimism has wavered this quarter. There is little growth forecast across most of the Pulse indicators over the coming September quarter.

This quarter's Hot Topic looks closely at General Business Conditions and the reasons behind the stagnating growth forecasts and subdued levels of confidence.

"We had a huge surge in business for the month after the State elections as people are starting to have a bit of confidence in our current leaders. However this has eased off in the last month or so, I think because people were not willing or able to spend money towards the end of the financial year." — Survey Respondent

> 12 Month Outlook: Australian and Queensland Economies



Queensland Outlook			
	Jun-11	Mar-12	Jun-12
Weaker	47	17	35
Same	32	28	31
Stronger	21	55	34
Index	41.4	63.3	50.2

Australian Outlook			
	Jun-11	Mar-12	Jun-12
Weaker	46	32	43
Same	36	43	41
Stronger	19	25	16
Index	41.2	51.4	41.9

** Scale – An Index level above 50 indicates that growth prospects are strengthening, while an Index level below 50 indicates that growth prospects are weakening.

"The Queensland economy is waiting for the State Budget and things will not improve until then. Federal problems are centred on the inability of the major parties to cooperate on anything, and they spend most of their time rubbishing each other, this frightens people and businesses." — Survey Respondent

Queensland Economy

- > The Pulse Business Confidence Index fell from its historic post-election high recorded in the March quarter, decreasing 13.1 percentage points to 50.2. This highlights a return to more realistic expectations in the wake of weakening business profitability and economic conditions.
- > Looking forward over the next 12 months, two-thirds of all businesses expect the Queensland economy to weaken (35 per cent) or stay the same (31 per cent) with the remaining third (34 per cent) expecting it to strengthen.

Australian Economy

- > With Federal issues increasing in prominence, confidence in the Australian economy continues to lag confidence levels for the State economy. The Pulse Business Confidence Index has reverted to negative territory, falling 9.5 percentage points to 41.9.
- > The majority of Queensland businesses (43 per cent) expect national economic conditions to weaken further over the coming twelve months, which is a significant increase on the 32 per cent recorded in the March Quarter. The number of businesses expecting the national economy to strengthen has fallen by 9 percentage points from the previous quarter to 16 per cent.

> Survey Analysis: Factors Affecting the 12 Month Outlook

After a surge in business confidence following the State election, confidence has returned to more subdued levels. While the State Government is making progress towards delivering many of its election promises that will benefit businesses, Federal issues and politics are eroding any positive gain, and continue to weigh down the Queensland economy.

The carbon tax is undoubtedly viewed as a critical issue this quarter. Over 60 per cent of businesses identified the carbon tax as having pricing impacts on their operations and contributing to depressed consumer spending and investment. Additionally, while interest rates have been cut, with the intention of spurring consumer spending, this has not occurred and consumers remain cautious.

Businesses have also strongly indicated that political instability at the national level has indirectly affected their performance over the last three months. Businesses have indicated they need strong and consistent leadership at the national level, which is not being delivered by either of the major parties.

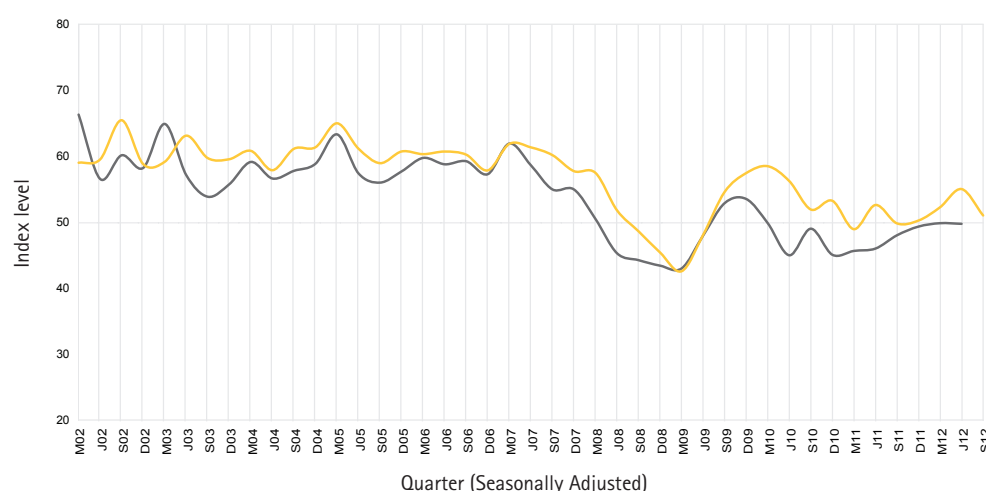
Further to this, the 12 month outlook has been affected by the impact of instability in Europe, the continued high value of the Australian Dollar, industrial relations laws restricting business flexibility, and difficulty accessing finance.

"Economic turmoil in Europe and the still very volatile US economy makes Australia vulnerable. Queensland still has so much debt that small businesses like ours feel very vulnerable to international changes." — Survey Respondent

"Politics and our current Federal leaders are not supporting the employers of Australia but adding more compliance costs and introducing policies that create additional burden for business owners. The carbon tax introduction has also coincided with other price rises coming through from our suppliers and manufacturers. These prices will not be borne by us, but passed on." — Survey Respondent

"The backlash over the carbon tax will be an important issue domestically however the stronger AUD and the poor state of the European economy will have a drastic effect on tourism. People will spend less and be more cautious. The rising cost of electricity is another important issue. The lack of confidence in both governments will have a flow on effect and consumers and business will be more cautious." — Survey Respondent

> Sales & Revenue



Sales & Revenue				
	Jun-11	Mar-12	Jun-12	Sep-12
Weaker	38	38	32	25
Same	34	36	37	41
Stronger	28	26	31	34
Index	46.1	49.9	49.8	51.1

— Current — Forecast

"Government expenditure (or lack thereof) will impact on many businesses who came to rely on it. Nonetheless, it is still the right strategy as the Queensland economy needs to be resilient and reduce its debt."

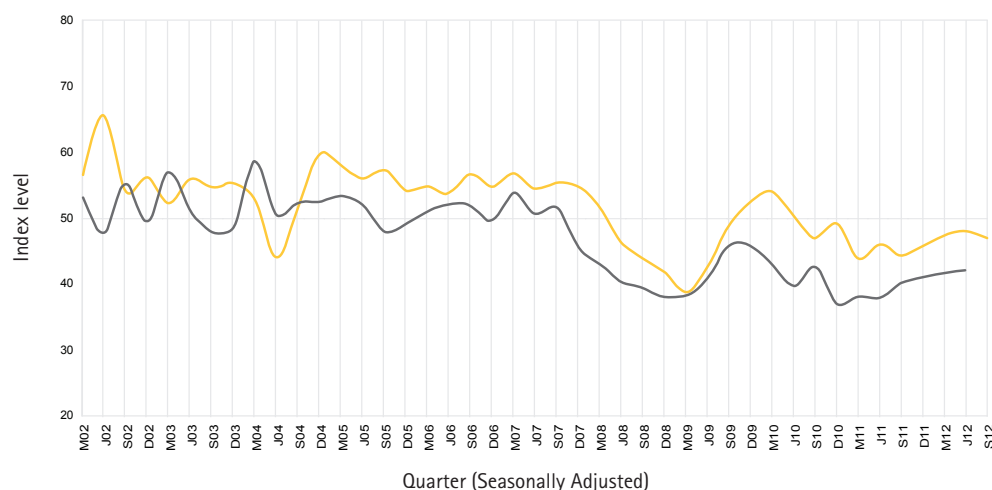
— Survey Respondent

"Between 20 and 30 per cent of our customers have left the local area to find work to support their families, and the few local construction jobs seem to go to out of town contractors who buy little locally." — Survey Respondent

"Customers are still showing a strong reluctance to spend their dollars, and consumers are purchasing promotional lines and generic brands at a much higher rate than in the past. Costs to run the business are going up at a far quicker rate than anything we can do to offset them." — Survey Respondent

- > Sales and revenue has remained subdued in the June Quarter, with the Pulse Sales and Revenue Index continuing on trend at 49.8.
- > Businesses are not anticipating any immediate improvement, with the Pulse Sales and Revenue Index not expected to materially change over the coming three months.

> Profitability



Profitability				
	Jun-11	Mar-12	Jun-12	Sep-12
Weaker	51	49	47	35
Same	32	35	32	40
Stronger	17	16	21	25
Index	38.0	41.8	42.3	47.0

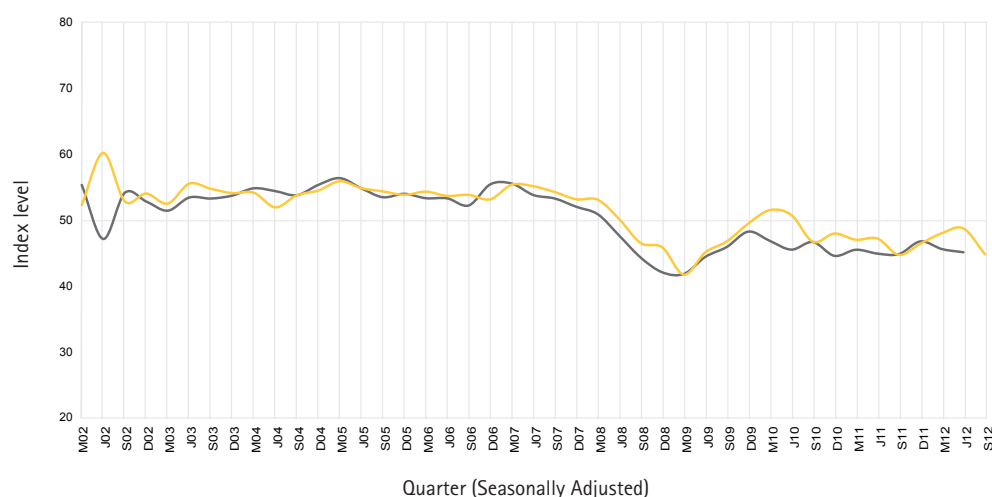
— Current — Forecast

"Carbon tax would be the key issue for us over the next 3 months. Most customers and business friends we speak to have concerns about waiting for invoices to come through so they can change their pricing to reflect the carbon tax. For us already, car air-conditioning has increased by \$40.00 per vehicle which is a significant jump in price."
— Survey Respondent

- > There has been a marginal improvement in the Pulse Profitability Index over the June quarter, which increased slightly to 42.3 from 41.8 in the March quarter. While this is the highest index level since September 2011, 47 per cent of businesses still reported experiencing weaker profitability levels over the past three months.
- > The majority of businesses expect profitability to stay the same (40 per cent) or weaken (35 per cent) over the September quarter.

"A lot of small businesses in our region have gone into administration. This has then left us with our own bad debts which are now unrecoverable putting a strain on our cash flow." — Survey Respondent

> Employment Levels



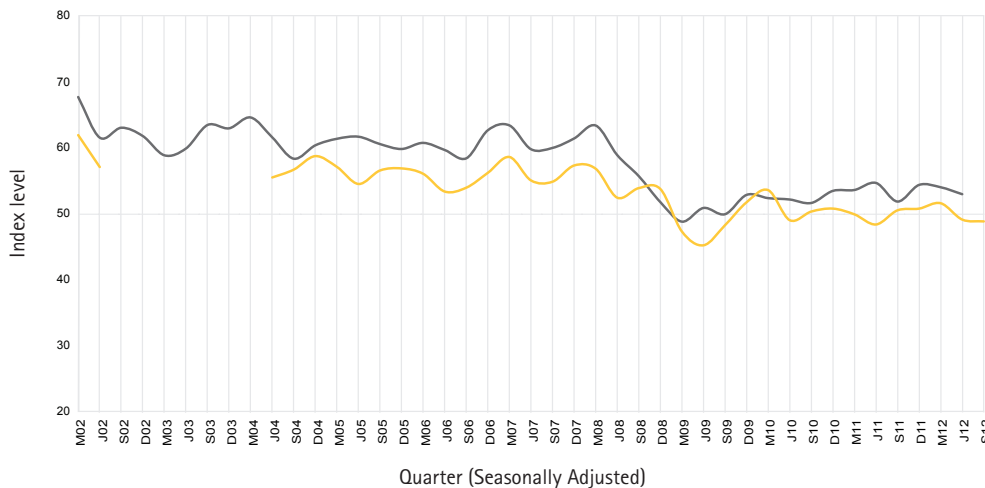
Employment Levels				
	Jun-11	Mar-12	Jun-12	Sep-12
Weaker	29	30	30	27
Same	58	56	55	60
Stronger	13	14	15	13
Index	45.0	45.4	45.0	44.7

— Current — Forecast

"We have already reduced the total number of staff and try to stay competitive by doing as much work as we possibly can ourselves. As owners of the businesses, we are working 70 - 80 hours per week and this is not sustainable." — Survey Respondent

- > The Pulse Employment Index in seasonally adjusted terms fell marginally (0.4 percentage points to 45.0). There was a marginal increase (1 per cent) in the number of businesses reporting stronger employment levels, with no change in those experiencing weaker conditions (30 per cent).
- > Employment levels are forecast to weaken further over the coming three months, with the Pulse Employment Index expected to fall to 44.7. This highlights that on-going cost pressures are increasingly impacting on employment and employers anticipate a possible need to review workforce numbers.

> Average Wages



Average Wages				
	Jun-11	Mar-12	Jun-12	Sep-12
Weaker	9	8	11	13
Same	64	72	66	63
Stronger	27	19	23	24
Index	54.7	54.0	52.9	48.8

— Current — Forecast

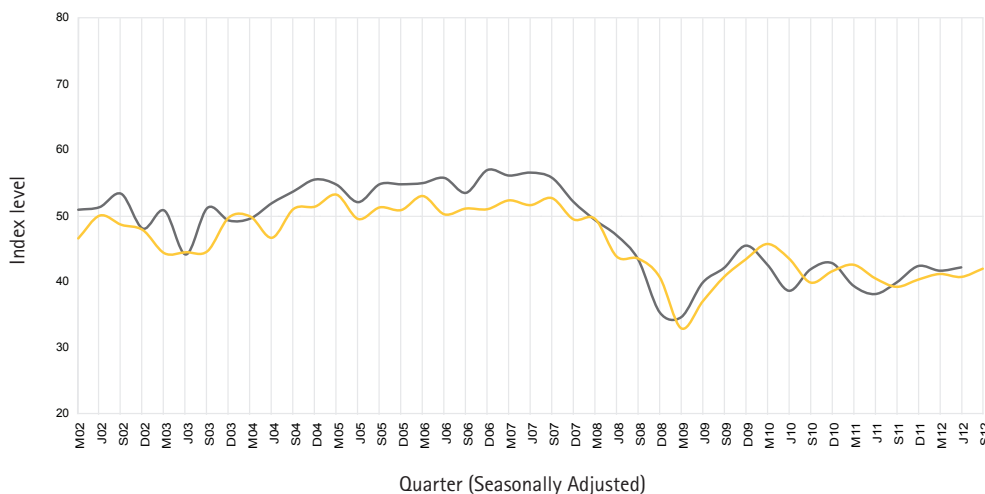
"The past few years of national wage increases has caused us real problems. We understand that workers need wage increases to cover increasing cost of living, but as a business we are under real pressure to afford these increases, especially when our customers are pushing us for discounts and price cuts." — Survey Respondent

"Our biggest problem is finding suitably qualified and reliable workers willing to work for our company for the wages we can afford to offer. We can't pay the same big money that the mines do, but surely you would think people would want to work for a local, well renowned, family run business?" — Survey Respondent

- > The Pulse Average Wages Index declined to 52.9 in the June quarter, however remains in positive territory indicating that employers face continued upward wage pressure, while revenue and profitability remain subdued.
- > Similar to the March quarter, the majority of businesses in June (63 per cent) are expecting wage pressures to remain constant over the next three month period, with the number of businesses believing they will get stronger increasing to 24 per cent.

"We thought that with people facing job losses in the government, we would have a good response to a recent job ad. But we were told that we weren't offering enough money compared to what they were used to in the public service" — Survey Respondent

> Capital Expenditure



Capital Expenditure				
	Jun-11	Mar-12	Jun-12	Sep-12
Weaker	43	37	36	35
Same	41	49	49	54
Stronger	16	14	16	11
Index	38.2	41.7	42.2	42.0

— Current — Forecast

"The Federal Government has done little, if anything, to positively stimulate the economy and their general solution is to keep throwing money at problems. But what we really need is real reform and a full review of business taxes. Small businesses cannot keep funding the government's waste." — Survey Respondent

- > Continuing a four year trend, there has been no significant change to business investment levels in capital, plant and equipment this quarter. The Pulse Capital Expenditure Index increased only marginally to 42.2 per cent, but remains entrenched in negative territory.
- > With little hope of a significant turnaround in the short term, the majority of businesses (89 per cent) indicated expenditure on capital, plant and equipment will stay the same or weaken over the coming quarter

> Regional Analysis

Current	Brisbane	Sunshine Coast	Gold Coast	South West Queensland	Central Queensland	Central Coast	North Queensland	Far North Queensland
12 Month Outlook – Queensland	↓ 48.0	↓ 51.8	↓ 49.5	↓ 49.4	↓ 50.8	↓ 50.0	↓ 46.2	↓ 50.0
General Business Conditions	↓ 46.3	↑ 48.9	↑ 45.5	↑ 54.4	↑ 53.3	↓ 47.8	↑ 47.1	↑ 53.8
Total Sales/Revenue	↓ 47.1	↑ 51.2	↑ 46.8	↑ 56.8	↑ 50.9	↑ 47.6	↓ 46.9	↑ 53.0
Profitability	↓ 40.6	↑ 43.2	↑ 39.8	↑ 48.0	↑ 45.5	↓ 35.9	↓ 37.5	↑ 43.3
Average Wages	↓ 51.2	↓ 49.6	↑ 39.8	↓ 51.9	↓ 55.4	↑ 58.0	↑ 58.3	↑ 58.3
Employment Levels	↓ 43.8	↑ 45.5	= 50.0	↑ 50.6	↓ 45.8	↑ 46.4	↓ 39.4	↑ 48.0
Capital Expenditure	↓ 37.8	↑ 43.4	↓ 39.4	↑ 45.8	↑ 43.7	↑ 49.9	↓ 45.2	↑ 39.6

↑ index increased from previous Qtr; = index unchanged from previous Qtr; ↓ index decreased from previous Qtr.

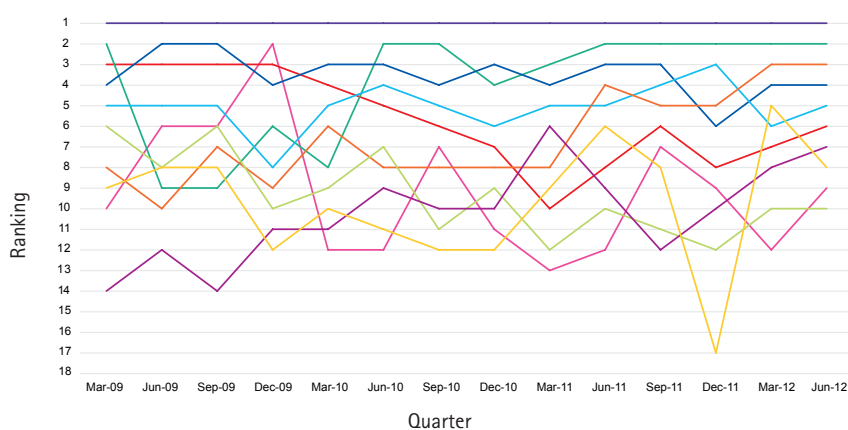
- > There have been few surprises this quarter, with all regions experiencing a decline in at least one or more indicators. In particular, the 12 month outlook for Queensland has declined across every region, suggesting that business confidence, previously buoyed by the change of State Government, has now returned to reality in the face of mounting business pressures.
- > Central Queensland (53.3), South West Queensland (54.4) and the Far North (53.8) all enjoyed the highest levels of General Business Conditions this quarter. For many regions however, General Business Conditions remains less than optimal, sitting below 50 basis points.
- > Brisbane, Gold Coast and North Queensland were unfortunately the worst performing regions, with each experiencing the lowest levels of profitability, sales and revenue and declining employment. The South West and Far North Queensland were the best performing in the June Quarter, enjoying strong General Business Conditions and revenue levels, and improving profitability and employment.
- > Impressively, conditions in the Far North continue to build steadily. Marking a turnaround from the March quarter, Far North Queensland has experienced an increase in all but one of the Pulse indicators, showing that they are now ready to move out of the bottom of the cycle.

"Building and construction on the Sunshine Coast and surrounds appears to have come to a complete halt, causing local companies to move elsewhere to find work, affecting local works, employment opportunities and local suppliers. After 31 years in business here on the coast, this is probably the most quiet I have experienced it." – Survey Respondent

"Cost of groceries, fuel, and accommodation are all extremely high in Mackay. The mines effect the cost of living here and a lot of families that work in town, live week-to-week and have no additional money to spend." – Survey Respondent

"Lack of residential and commercial projects has caused high unemployment on the Gold Coast. Even though interest rates have decreased, no one is game to borrow as there is no job security. We have not seen conditions this bad in 25 years of business." – Survey Respondent

> Major Constraints on Business Growth



"Insurance costs have been an overwhelming burden. Insurers have become paranoid and whilst we have had no previous claims, they insisted on modifications in our warehouse before they would insure us. The premium for the next twelve months exceeds \$30,000." – Survey Respondent

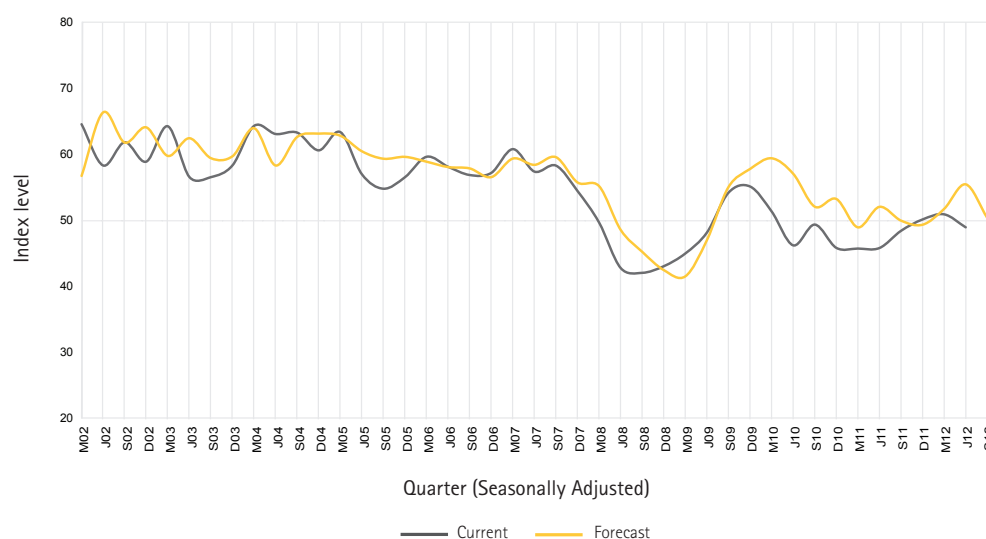
- > The level of demand and economic activity continues to be the most significant factor impeding business growth. Businesses remain concerned over the continued low levels of consumer confidence and lack of spending across the economy.
- > Political and economic stability has also continued as a core concern for Queensland businesses, with many now moving their focus from the 2012 Local and State elections to the 2013 Federal election. Leadership uncertainty at the Federal level is starting to creep into the mind-set of businesses and consumers, influencing spending considerations.

- > With the implementation of the carbon tax underway, compliance and business taxes remain key concerns for businesses in the June quarter. Linked to the carbon tax, energy costs are also continuing to constrain businesses. Businesses can only thrive, in a low cost and competitive operating environment and clearly all levels of government need to start recognising the constraints they are placing on business growth.
- > Direct and indirect wages remain a major issue for businesses. While the mining boom is putting upward pressure on wages, the Federal Government's reluctance to listen to industry relating to workplace relations is also having a significant impact.
- > Recruitment and retention of staff, in particular, skills shortages and competition with the resource sector continue to challenge small and medium businesses.
- > Rounding out the top ten constraints, insurance costs are continuing to be a prominent issue for businesses at present, with many highlighting that the inability to secure affordable and comprehensive insurance is a critical issue for their ability to operate.

> Hot Topic – General Business Conditions

In this quarter's Hot Topic, we focus on General Business Conditions which, despite building for the past few quarters, has fallen back into negative territory in June. Accordingly it is a top ongoing issue for Queensland businesses.

With a 10 percentage point drop in the forecast General Business Conditions Index for the September quarter, businesses believe they are becoming entrenched in subdued economic conditions, especially those outside the benefits of the resources sector.



"The general public are now quite concerned with their finances and what the future holds. Any stimulatory measures by the RBA are not having their traditional effect. People are banking the saving instead of spending it."
— Survey Respondent

"The strong AU dollar will continue to impact not only tourism but all our exporters and the flow through from the mining industry slowing will tighten disposable income. Also the weather plays a major role in our local economy with statistics showing a decrease in population growth in this area."
— Survey Respondent

"Despite the cost cutting measures that we have put in place, our electricity costs have gone up in excess of 20% in the last 12 months. I believe that the introduction of the carbon tax will put more pressure on our business." — Survey Respondent

Business feedback highlights a number of factors impacting general business conditions. In particular, there is concern expressed for the eroding effect of the introduction of new policies and taxes by the Federal Government. This is compromising the new Queensland State Government's attempt to deliver business cost cuts.

Businesses also highlight the fact that with costs increasing across all fronts, interest rates cuts designed to stimulate spending, have not delivered material benefit to business as consumers remain cautious and reluctant to spend.

Other issues highlighted include the carbon tax (40 per cent), reduced State Government spending (32 per cent), global economic uncertainty (25 per cent), political instability at the Federal level (25 per cent), and lack of confidence with political leaders at the national level (15 per cent). Businesses firmly believed that all of these issues placed unnecessary downward pressure on consumer confidence thus affecting general business conditions across the state economy.

The Pulse Survey has been measuring Queensland business confidence and expectations for over 20 years and is conducted in conjunction with the Australian Chamber of Commerce and Industry's National Survey of Business Expectations. It is published in cooperation with the Commonwealth Bank.

The survey publishes quarterly the results from key questions put to the Queensland business community on National, State and individual economic performances.

The survey is unchallenged in terms of being the most authoritative, timely and comprehensive snapshot of Queensland business sentiment with over 750 Queensland businesses interviewed as part of each survey.

The survey contains data from the largest firms in Queensland through to the smallest, and provides a sample covering the entire business community.

> Pulse Business Index

The analysis undertaken by CCIQ in the preparation of this Pulse Survey Report is based on survey responses from Queensland business.

The report uses the Pulse Business Index (PBI) as well as the (base) statistical data provided from the survey responses to effectively measure respondent's views as to how current or future activity (eg. three months ahead) compares with the previous quarter.

A **Pulse Index** reading of above 50 indicates conditions have improved over the previous quarter. A reading of 50 indicates conditions have remained the same and less than 50 indicates conditions have deteriorated.

The following guide is useful in interpreting the PBI results into broad indicative performance classifications.

Very Poor	0 – 29.99 Points
Poor	30 – 49.99 Points
Satisfactory	50 – 64.99 Points
Good	65 – 74.99 Points
Very Good	75 – 84.99 Points
Excellent	85 – 100 Points

The statewide PBI results have been seasonally adjusted.

The Pulse Business Constraints Index (BCI) measures the level of key impediments on business growth. The following guide is used in interpreting the BCI results.

Degree of Constraint	Index
Critical	70 – 100
Large	50 – 69.99
Moderate	40 – 49.99
Slight	30 – 39.99
No Constraint	0 – 29.99

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