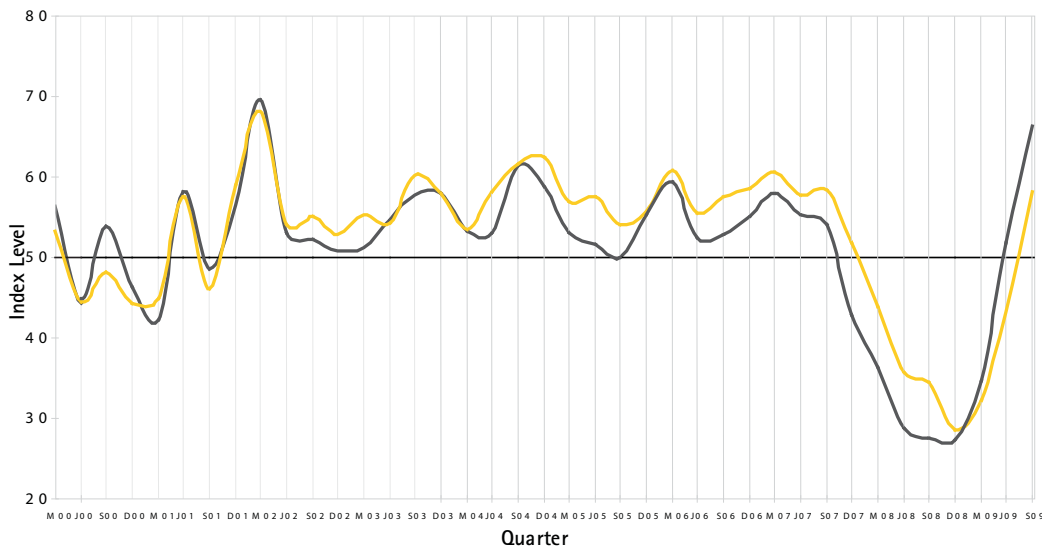


Commonwealth Bank CCIQ Pulse Survey of Business Conditions

September Quarter 2009

> 12 Month Outlook: Australian & Qld Economies



Australian Outlook			
	Sep-08	Jun-09	Sep-09
Weaker	75	27	11
Same	17	35	32
Stronger	7	37	57
Index	27.5	51.8	66.4

Queensland Outlook			
	Sep-08	Jun-09	Sep-09
Weaker	62	43	21
Same	26	34	37
Stronger	12	23	42
Index	34.4	43.3	58.2

— Australian economy
— Queensland economy

Australian Economy

- > The stronger performance of the Australian economy compared to its international peers continues to instil growing confidence in the Queensland business community. Many of the State's businesses consider that the recovery is well and truly underway.
- > In a sharp turnaround, almost 60% of survey respondents expect national economic conditions to improve over the next 12 months. This compares to just 7% of respondents in the corresponding quarter last year. Unsurprisingly, there has also been a dramatic decline in the number of businesses that believe the national economy will deteriorate over the coming year – from 75% in the September quarter 2008 to just 11% in the current quarter.
- > The Australian Economic Conditions Index has moved further into positive territory and is now closing in on its high water mark of the last decade (69.5 in the March quarter 2002). This is remarkable given that the Index only hit a historic low of 27.3 in the December quarter 2008.

Queensland Economy

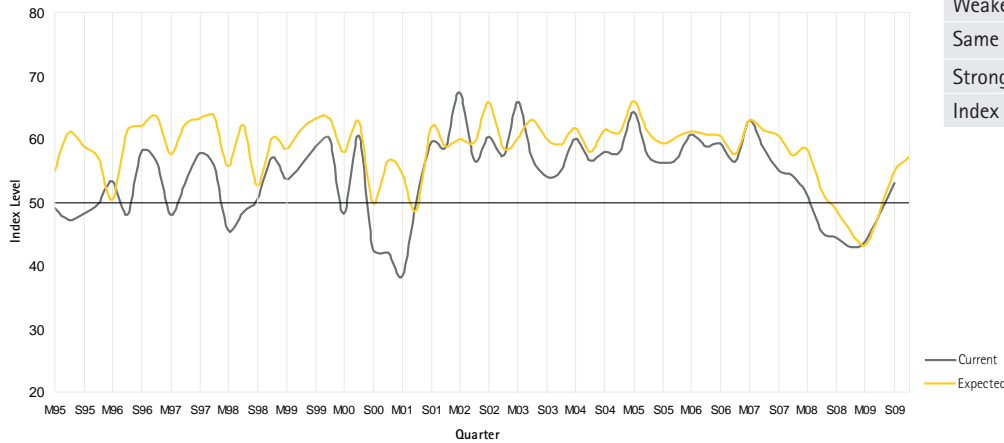
- > Despite the recent jump in the State's unemployment rate, Queensland businesses are also beginning to regain some confidence in the Queensland economy. However, they continue to be less optimistic about the State's economic prospects over the next 12 months than they are about those of the broader Australian economy.
- > Over 42% of survey respondents now expect the Queensland economy to strengthen over the next 12 months. While this is noticeably less than the equivalent result for the Australian outlook, it is a significant improvement on the September quarter 2008 result when just 12% of respondents expected the State economy to improve over the coming year.
- > The improved business sentiment is reflected in the Queensland Economic Conditions Index which has returned to satisfactory levels for the first time since the December quarter 2007.

Factors Affecting the 12 Month Outlook

- > While businesses generally have a more positive outlook on Queensland and Australia's economic performance over the coming year, they remain cognisant that the global financial crisis has not completely ended. There is some concern within the business community that the winding back of the Government's stimulus measures, coupled together with interest rate rises, may lead to a second dip in economic activity (the issue of interest rates is discussed in more detail on page 6).
- > As with previous quarters, the State's businesses also remain concerned that unemployment will continue to increase, particularly in Queensland. Businesses are worried that rising unemployment will undermine consumer confidence and any recovery in the economy.
- > This is an important issue as businesses are acutely aware of the important role that confidence plays in consumer and business spending and investment decisions. Businesses therefore consider that consumer and business confidence levels will be a major influence on the Australian and Queensland economies over the coming year. In particular, many view a sustained recovery in confidence as a critical prerequisite for an economic recovery.
- > The high Australian dollar is also creating angst for exporters and compounding the problems that these businesses have experienced as a result of the global financial crisis (for example, declining demand).

> Sales & Revenue

Sales & Revenue				
	Sep-08	Jun-09	Sep-09	Dec-09
Weaker	39	35	28	16
Same	35	34	31	36
Stronger	27	31	41	47
Index	44.4	48.0	53.1	57.2



"The downturn in the economy has seen our client's businesses struggle for a short period and our services were not used quite as much. We did however manage to acquire more work in other areas to keep our heads above and exceeded our own expectations."

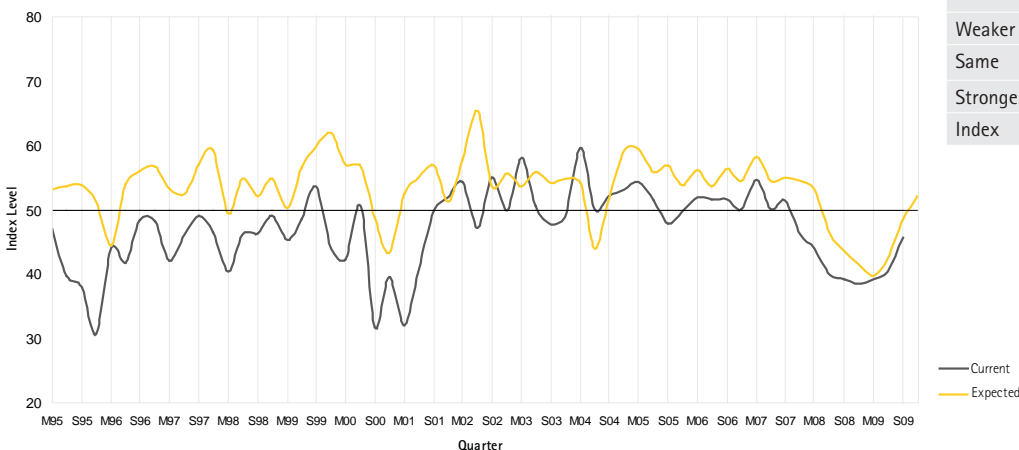
"The industries we are linked with on a commercial basis are performing better and therefore our performance has been more positive."

- survey respondents

- > The general view that economic conditions have begun to recover is reflected in sales and revenue which has reached satisfactory levels for the first time in more than a year. Over 41% of survey respondents reported stronger sales and revenue over the three months to September 2009.
- > The rebound in sales is reflected in the Sales & Revenue Index which has increased from 48.0 in the June quarter 2009 to 53.1 in the current quarter.
- > Looking forward, this trend is expected to continue with almost one in two businesses forecasting higher sales over the next three months.

> Profitability

Profitability				
	Sep-08	Jun-09	Sep-09	Dec-09
Weaker	46	45	37	22
Same	37	38	37	46
Stronger	17	17	27	33
Index	39.2	40.4	45.7	52.1



"Competition in the market is much stronger, putting a large burden on the sale prices of our goods."

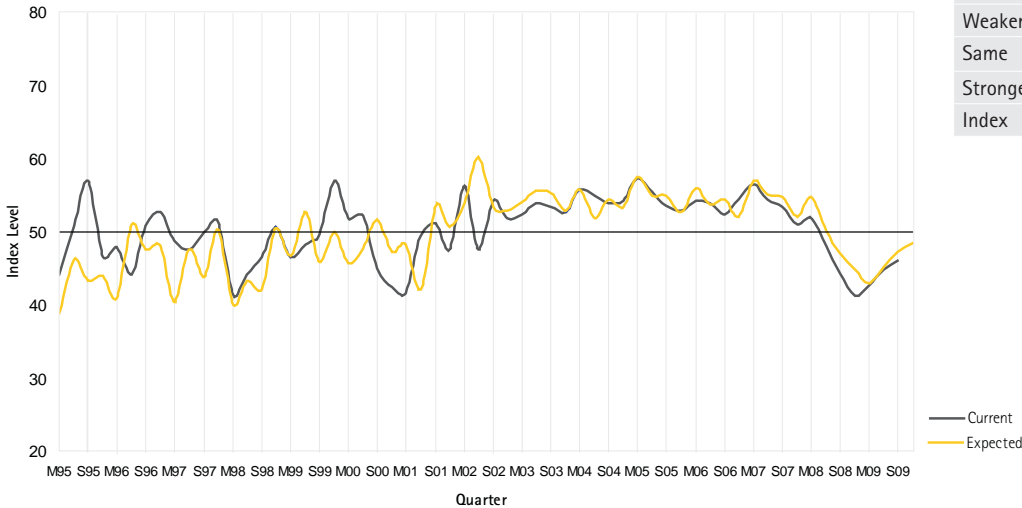
- survey respondent

- > Strengthening sales have not yet translated into improved profitability with 37% of businesses reporting weaker profits in the September quarter 2009. This suggests that some businesses may have cut margins in order to maintain or grow sales levels.
- > The slow recovery in profitability is reflected in the Profitability Index which, while increasing slightly during the September quarter, remains at a less than satisfactory level of 45.7.
- > In a positive development, profitability is expected to improve over the coming quarter with the Index forecast to move into positive territory for the first time in 18 months. This indicates that profitability may return to satisfactory levels in the short term.



> Employment Levels

Employment Levels				
	Sep-08	Jun-09	Sep-09	Dec-09
Weaker	29	31	26	25
Same	59	57	58	60
Stronger	12	13	16	15
Index	44.3	44.8	45.9	48.4



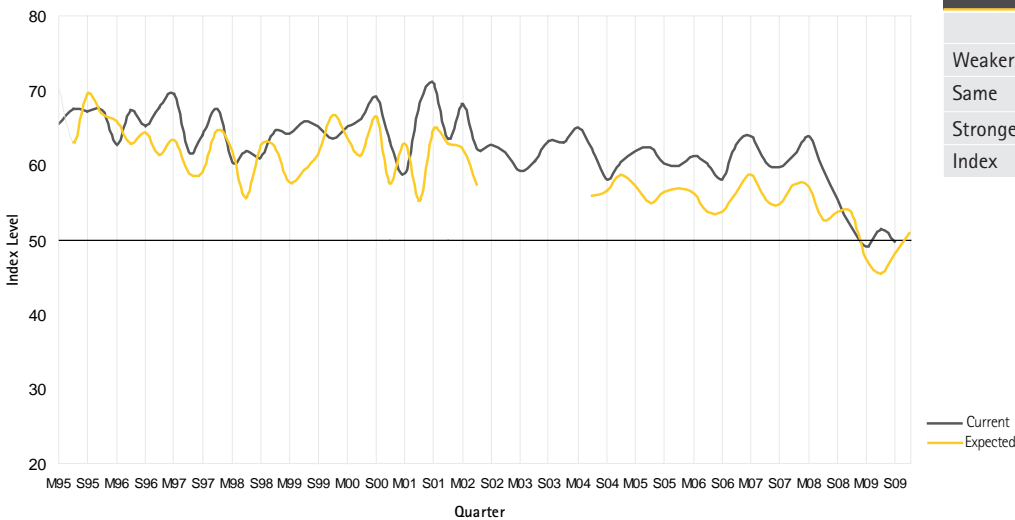
"Employers are not recruiting first year apprentices and many apprentices are not being replaced."

- survey respondent

- > As with profitability, employment levels are lagging the general recovery in confidence and sales levels. Businesses continue to be reticent to hire new staff until it is clear that conditions are improving, with the majority maintaining stable employment levels after reductions in the first half of this year.
- > This trend is expected to continue over the next three months. As a result, the Employment Index is forecast to stabilise at a less than satisfactory level of 48.4 in the short term.

> Average Wages

Average Wages				
	Sep-08	Jun-09	Sep-09	Dec-09
Weaker	9	12	9	8
Same	51	73	73	73
Stronger	40	15	17	19
Index	55.4	51.4	49.7	51.8

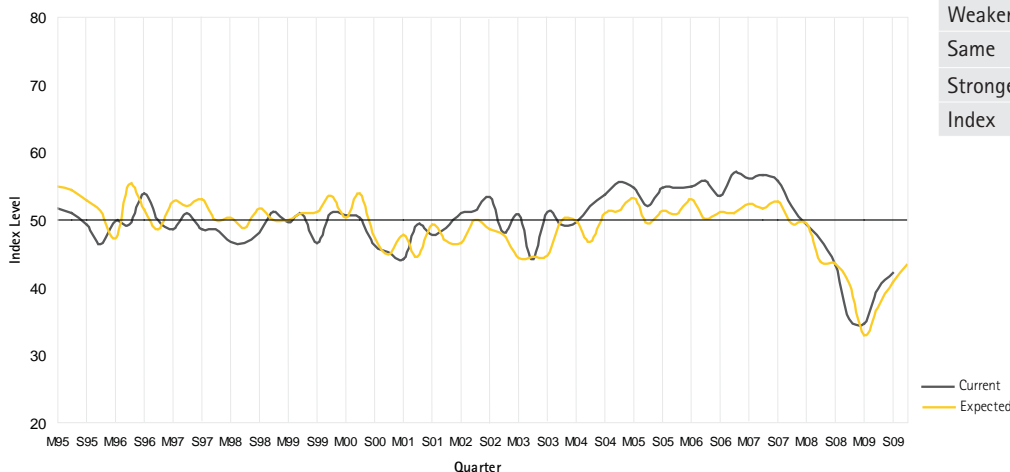


"The economy is slowly improving but businesses are still cutting budgets."

- survey respondent

- > The jump in Queensland's unemployment rate over recent months has taken pressure off wages growth, with only 17% of businesses reporting an increase in average wages during the current quarter.
- > The reduced pressure is reflected in the Average Wages Index which has fallen from 51.4 to 49.7 over the three months to September 2009.
- > Given the subdued short-term outlook for the State's labour market, average wages are forecast to remain relatively stable over the December quarter 2009.

> Capital Expenditure



Capital Expenditure				
	Sep-08	Jun-09	Sep-09	Dec-09
Weaker	36	41	36	29
Same	41	39	44	55
Stronger	23	20	21	16
Index	43.4	39.8	42.2	43.4

"New construction projects that have been on hold pending the downturn have started to come back and we have quoted projects other than those created from the government stimulus spending."

"Primarily the availability of additional Government funding is enabling us to commence significant Capital Works."

- survey respondents

- > Capital expenditure remains subdued, with most businesses reporting stable or reduced capital expenditure in the September quarter 2009.
- > Consequently, capital expenditure remains at a less than satisfactory level. As with employment, risk-averse businesses are continuing to delay capital expenditure until they are certain that the economic recovery will be sustained.
- > Looking forward, capital expenditure levels are likely to remain less than buoyant with the majority of businesses indicating that they will continue to maintain or reduce their capital expenditure over the next three months. It is likely that an inability to secure reasonably priced financing may also be limiting the capital investment plans of some businesses.

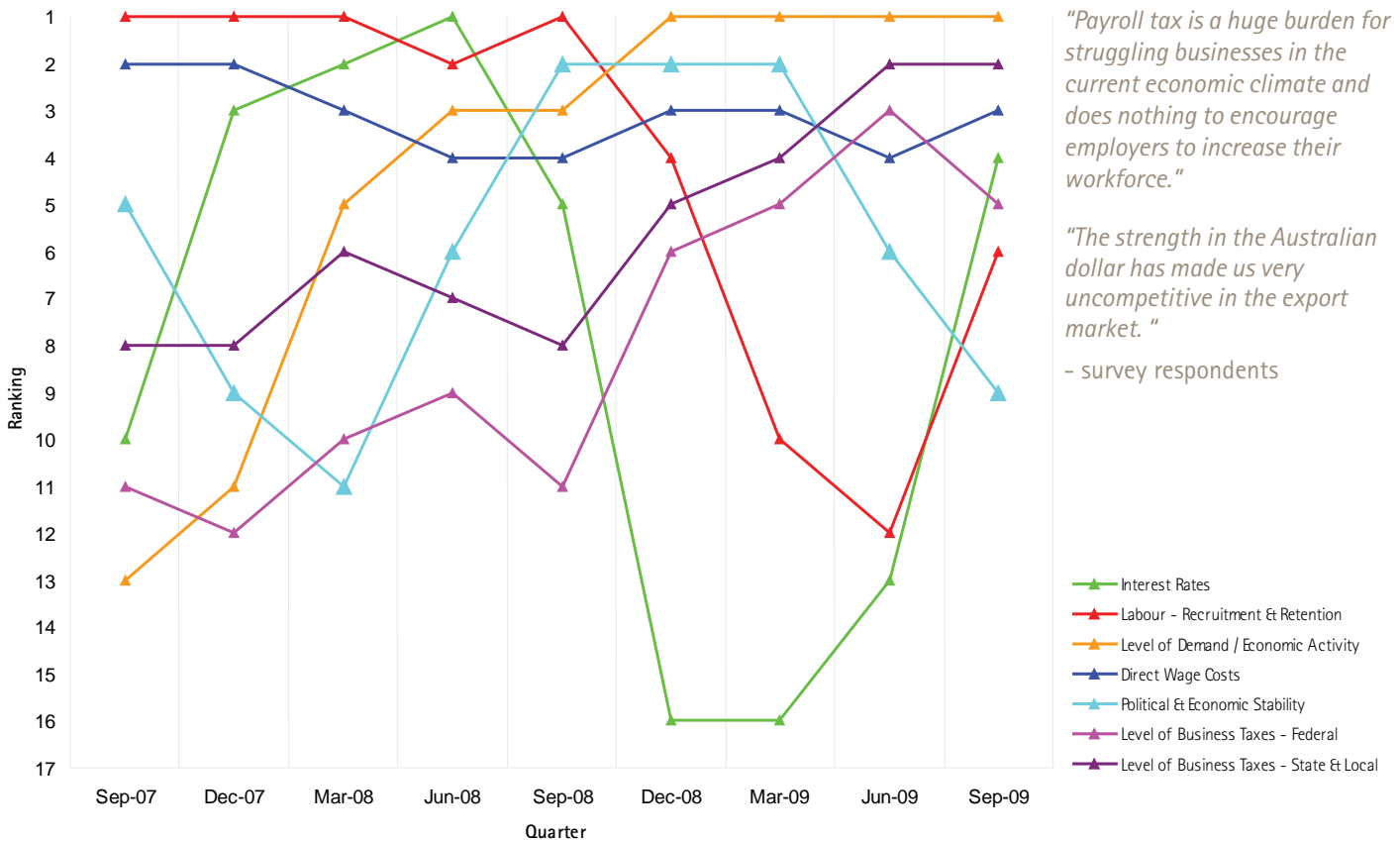
> Regional Analysis

Current	Brisbane	Sunshine Coast	Gold Coast	South West Qld	Central Qld	Central Coast	North Qld	Far North Qld	Average
12 month outlook - Queensland	56.1	54.1	56.3	53.7	57.3	64.8	57.4	50.0	58.2
General business conditions	54.7	57.7	56.6	54.9	56.4	59.9	51.8	49.3	55.2
Total sales/revenue	53.2	58.4	57.4	52.8	51.1	58.3	51.1	44.3	53.3
Profitability	46.3	47.3	50.8	45.0	47.2	47.7	43.1	38.9	45.8
Average wages	50.1	53.1	53.3	58.3	53.2	51.2	50.4	51.2	52.6
Employment levels	44.9	48.3	48.9	51.7	51.1	47.0	45.7	39.5	47.1
Capital expenditure	42.4	43.6	45.5	45.2	52.2	41.3	42.3	30.9	42.9

- > Businesses in all regions of Queensland are now optimistic about the outlook for the Queensland economy, although some regions are more positive than others.
- > While most of the key indicators have reached satisfactory levels, employment and profitability levels remain less than satisfactory in most regions of the State.
- > Far North Queensland continues to struggle, with the region recording the worst results in the State for most of the key performance benchmarks. This highlights the fact that the region has been significantly harder hit by the global financial crisis and appreciation of the Australian dollar than other areas of Queensland.



> Major Constraints on Business Growth



- > It is apparent that the recent rebound in consumer and business confidence has not yet translated into markedly improved trading conditions, with the level of demand/economic activity remaining the number one constraint on business growth in Queensland in the September quarter 2009. This is the fourth quarter in a row that this constraint has held the top ranking.
- > The level of business taxes (state and local) also continues to be a critical constraint on business growth. This highlights the importance of tax reform in driving future economic growth. In particular, there is a strong need to remove inefficient and perverse taxes such as payroll tax.
- > After dropping off the radar over the last few quarters, both interest rates and labour recruitment and retention have re-emerged as major constraints on business growth. While the impact of the Reserve Bank's decision to raise the official cash rate has yet to fully flow through the economy, many businesses are worried that the Bank may have acted too early and that its actions may actually hinder or halt the recovery. This issue is a particular concern in regions of the State where the major industries are particularly reliant on consumer discretionary spending – for example, Far North Queensland (tourism). In a positive sign, the increasing importance of labour recruitment and retention suggests that many businesses believe that employment levels will increase over the short term. If this occurs, it should help to temper the State's unemployment rate.
- > Unsurprisingly, direct wage costs continue to be a critical constraint on business growth. The ongoing importance of this factor highlights the importance of ensuring that future increases in wages are reasonable and affordable. Businesses have experienced difficult trading conditions over the last 12 months and need time to rebuild capital and to return to profitability. It is important to note that many businesses have endured substantially reduced profitability and even losses in order to retain existing staff during the downturn.

> Hot Topic

How would the removal of the payroll tax exemption threshold effect business?

Currently Queensland businesses with a payroll in excess of \$1 million are required to pay payroll tax. Commonwealth Treasury Secretary Ken Henry has mooted all businesses, regardless of payroll size, be required to pay this tax. 60.7% of businesses indicated that it would have a moderate to critical impact on employment, with 55.8% indicating the same for investment and 62.5% for profitability.

	No impact	Minor negative impact	Moderate negative impact	Major negative impact	Critical negative impact
Employment	31.1%	8.3%	16.9%	21.3%	22.5%
Investment	32.8%	11.4%	18.7%	18.1%	19.0%
Profitability	29.2%	8.2%	18.0%	19.8%	24.7%

Do businesses support the harmonisation of payroll tax across the States?

Ken Henry has also raised the possibility of harmonising the payroll tax rate across all States and centralising the administration of its collection. Queensland currently has the lowest rate of payroll tax (4.75%) and accordingly has a theoretical competitive advantage in this area against other States. 63.8% of businesses would support the proposal if Queensland's payroll tax rate was to decrease. Only 46% of businesses would support the initiative if Queensland's payroll rate was to stay the same.

	Yes	No	Unsure
Increase	1.0%	84.1%	14.9%
Decrease	63.8%	17.0%	19.2%
Stay the Same	46.0%	27.5%	26.5%

How should State Taxation Reform be funded?

Queensland businesses favour reducing the size of Government and thereby the need for taxes and increasing the usage of user pays fees in order to fund the removal or reduction of State based taxes such as Payroll Tax, Stamp Duties and Land Tax. Equally interesting is that businesses oppose the usage of asset sales or increasing the GST rate to fund State Tax Reform.

	%
Reducing Government spending	54.4
Increasing the usage of 'user pays' fees	18.5
Broadening the GST base by removing exemptions (Food, Health and Education)	10.5
Increasing the rate of GST	8.1
Increasing the company tax rate	3.6
Asset Sales	3.6
Increasing personal income tax rates	1.2

Do businesses support the handover of Hospital Services to the Commonwealth?

Given the size of the State's health budget it has been suggested that one of major barriers to fundamental reform of State taxes is the need for Queensland to fund the provision of hospital services. Accordingly, Queensland businesses appear supportive of the Commonwealth taking over hospital services from the Queensland State Government.

	%
Yes	62.6
No	11.9
Unsure	25.6



> 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 Business 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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