



WESTPAC GROUP CCIQ PULSE SURVEY OF BUSINESS CONDITIONS

▼ DECEMBER QUARTER 2015

Pulse is the largest survey of Queensland businesses, providing critical insights into the sentiment of business owners and managers across the State.

Our Westpac Group CCIQ Pulse Survey of Business Conditions includes detailed measurements on employment levels, capital expenditure and business profitability – knowledge that adds confidence to the strategic planning and future investment decisions of business.

The survey period is for 12-22 January 2016 and covers sentiment from over 650 Queensland businesses through the quarter to December 2015 and looking forward to the quarter ahead to March 2016.



SALES & REVENUE

- The Pulse Sales and Revenue Index remains in positive territory but fell slightly (50.2) in the December quarter.
- Sales and revenue are set to rise further, with the Index forecast at 54.5 for the March quarter.

OVERVIEW

- Business confidence for the Queensland economy fell with concerns cited in relation to China, lack of State Government infrastructure investment, downturn in the resources sector, financial market volatility and the forthcoming Federal Election. Businesses have however responded positively to a lower Australian dollar, lower interest rates, lower oil prices, progress made on the Free Trade Agreements and Federal Government leadership.



12
MONTH

12 MONTH OUTLOOK

- Business confidence for both the Queensland and National Economies fell.
- Confidence in the Australian economy (47.2) is higher than the State economy (41.1).
- For every business citing a strengthening outlook for the Queensland economy there are two citing a negative outlook.



GENERAL BUSINESS CONDITIONS

- The Pulse General Business Conditions Index was steady at 44.9 in the December quarter with the overall environment remaining soft.
- Business expectations for the coming March quarter appear to be heading back toward neutral territory (49.2).

INTRODUCTION

Business confidence falls and performance indicators falter.

The December Quarter Pulse Survey of Business Conditions points to concern about the State's economic growth prospects as business confidence slips for the Queensland economy.

Business expectations for the Australian economy also softened as recent international events such as slowing growth in China and stock-market volatility weighed on business sentiment. Overall in the last three months, confidence in the national outlook has fallen below neutral territory. On a positive note, the low Australian dollar, interest rates and oil prices are expected to support economic activity over the coming 12 months.

Confidence in the Queensland economy deteriorated with both China and the 'perceived' inaction of the State Government on the economy and infrastructure dampening business sentiment. The prolonged impact of the drought and slowdown in the resources sector also feature as key concerns for small businesses.

General business conditions remained relatively unchanged in the three months to December but continue to be short of where needed.

Sales and revenue declined slightly despite businesses reporting sales in the lead up to Christmas have been stronger than the last few years.

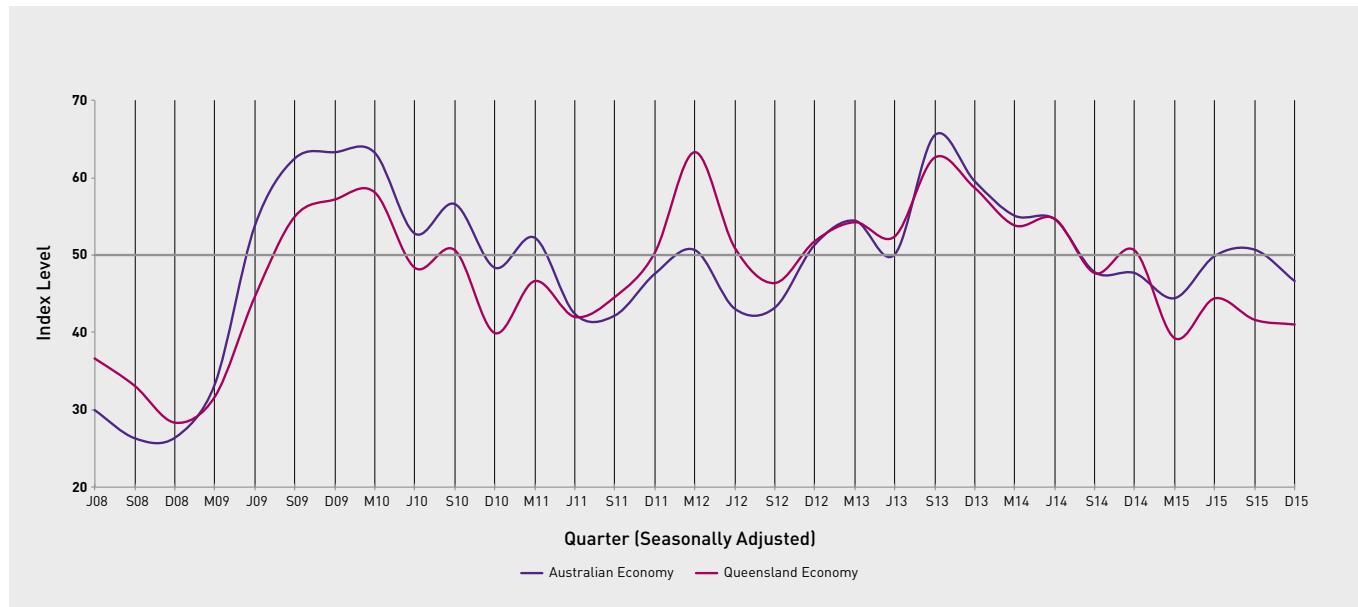
Pleasingly capital expenditure marginally rose to be just below neutral territory and businesses reported higher profitability in part because of weaker labour cost pressures. There was a slight fall in employment in the December quarter with continued resource sector consolidation weighing on many regional parts of the State.

Whilst the current economic picture is undoubtedly challenging, there is mild optimism for improving general business conditions and sales growth for the early months of 2016.

The State government is not engaging in infrastructure as they should. If they don't get moving, unemployment in Queensland will increase – Survey Respondent Gold Coast

There is a lack of strategic direction and inaction by the State Government. Nationally, the economy will strengthen based on new international trade agreements and export opportunities – Survey Respondent Central Queensland

12 MONTH OUTLOOK: AUSTRALIAN AND QUEENSLAND ECONOMIES



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

	Queensland Outlook			Australian Outlook		
	Dec-14	Sep-15	Dec-15	Dec-14	Sep-15	Dec-15
Weaker	29	41	44	32	28	32
Same	37	39	36	42	39	41
Stronger	33	20	20	26	33	26
Index	51	42.1	41.1	48.2	50.7	47.2

The 12 month outlook for the Australian economy has softened to be in negative territory and the Queensland economy has continued its trend downward sitting below the levels recorded this time last year.

At a national level, feedback from businesses suggests that international economic uncertainty and the upcoming federal election are weighing on business confidence. However the lower Australian dollar is continuing to deliver competitive benefits to exporters and domestic tourism, with progress on Free Trade Agreements and the change in federal leadership also listed as positive factors.

In Queensland, the lack of infrastructure spending and China have continued to undermine business activity especially in regional and rural parts of the State.

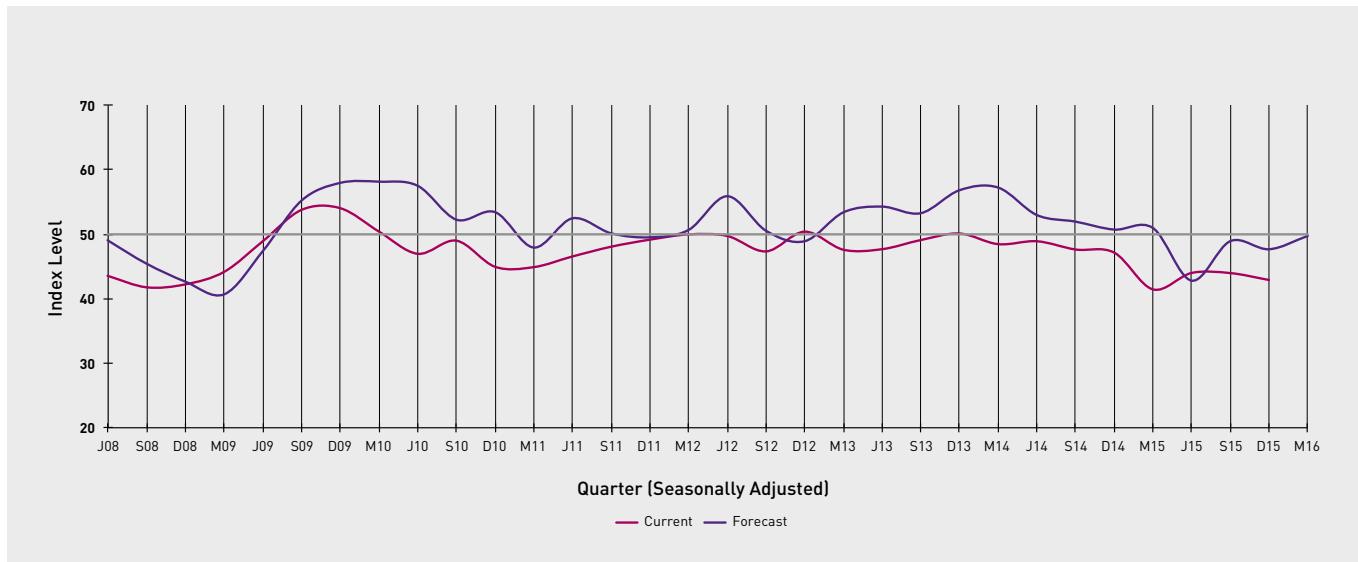
QUEENSLAND ECONOMY

- Business confidence in the Queensland economy fell, with the Pulse Business Confidence Index falling by 1 index point to 41.1 in the December quarter.
- Some 44 per cent of businesses expect the State's economy to weaken over the coming twelve months, well up on this time last year.

AUSTRALIAN ECONOMY

- Business expectations for the Australian economy fell by 3.5 index points to 47.2 in the December quarter.
- The majority of businesses (41 per cent) expect similar growth over the next 12 months.

GENERAL BUSINESS CONDITIONS



General Business Conditions				
	Dec-14	Sep-15	Dec-15	Mar-16
Decreased	28	34	34	25
Same	41	46	48	52
Increased	31	20	19	24
Index	49.3	45.0	44.9	49.2

- The Pulse General Business Conditions Index (44.9) was relatively unchanged in the December quarter.
- The Index remains below its five-year average (47.8).
- A significant proportion of businesses (34 per cent) reported weaker general business conditions in the December quarter, indicating a continuing disconnect between expectations for the quarter and actual recorded conditions three months later.
- Business expectations for the coming quarter if realised are heading back towards neutral territory, with the Pulse General Business Conditions Index forecast at 49.2.

There is a general weakness in the Queensland regional economy as a result of continued drought and lack of consumer confidence – Survey Respondent Wide Bay Area

There is a general downturn in the Central & North Queensland economies as construction and maintenance of significant projects falls. A shift from the 'Construction' phase of the mining boom to the 'Production' phase with a lack of alternative avenues for growth, is hurting our region – Survey Respondent Central Queensland

SALES AND REVENUE



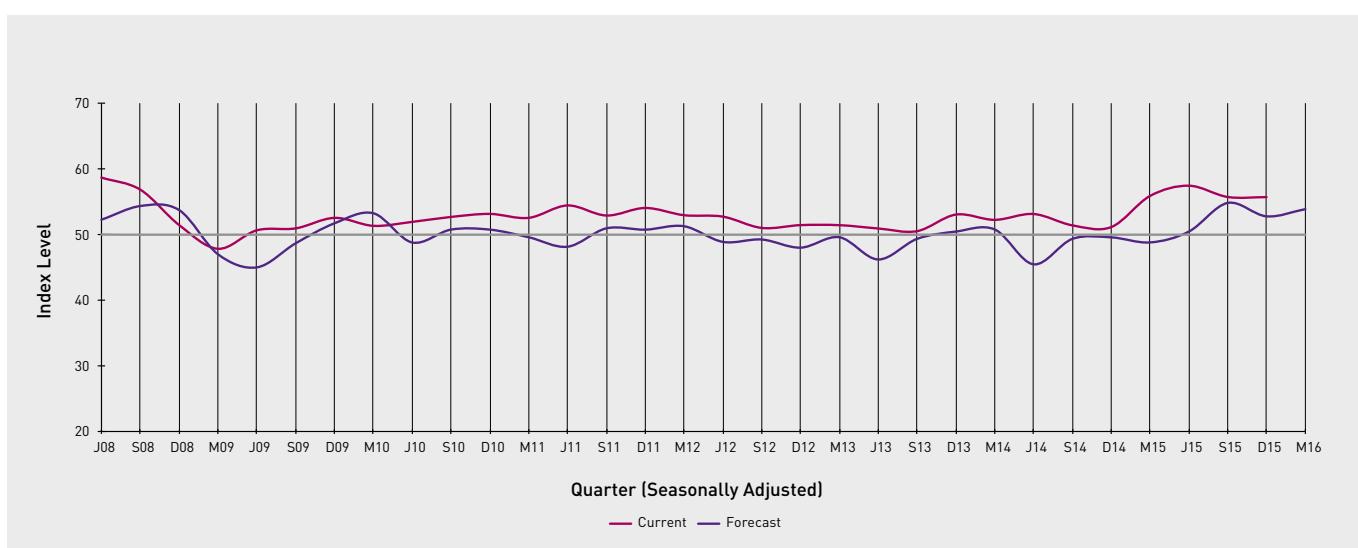
Sales & Revenue				
	Dec-14	Sep-15	Dec-15	Mar-16
Weaker	34	30	32	20
Same	31	36	34	41
Stronger	35	35	34	39
Index	47.8	50.6	50.2	54.5

- The Pulse Sales and Revenue Index fell slightly in the December quarter to 50.2.
- The Index has moderated against a backdrop of mixed economic factors with general economic and stock market uncertainty weighing on consumer confidence and demand.
- The Pulse Sales and Revenue Index is forecast at 54.5 for the March quarter, above the five-year average (51.6), indicating that Queensland businesses expect consumer spending to strengthen over the coming quarter.

Small business are closing down in rural areas due to the readily available use of the Internet and online shopping – Survey Respondent South West Queensland

Sales are falling because of a lack of ongoing confidence in the State economy – Survey Respondent Sunshine Coast

LABOUR COSTS



Labour Costs				
	Dec-14	Sep-15	Dec-15	Mar-16
Weaker	11	9	8	7
Same	69	57	62	69
Stronger	21	34	29	24
Index	52.2	56.6	55.4	54.5

- The Pulse Labour Costs Index registered at 55.4 in the December quarter and remains persistently elevated relative to sales and revenue.
- 29 per cent of Queensland businesses reported increased labour costs in the December quarter citing penalty rates as a key constraint.
- Looking ahead, the Index is expected to moderate with 69 per cent of businesses forecasting similar labour costs for the coming March quarter.

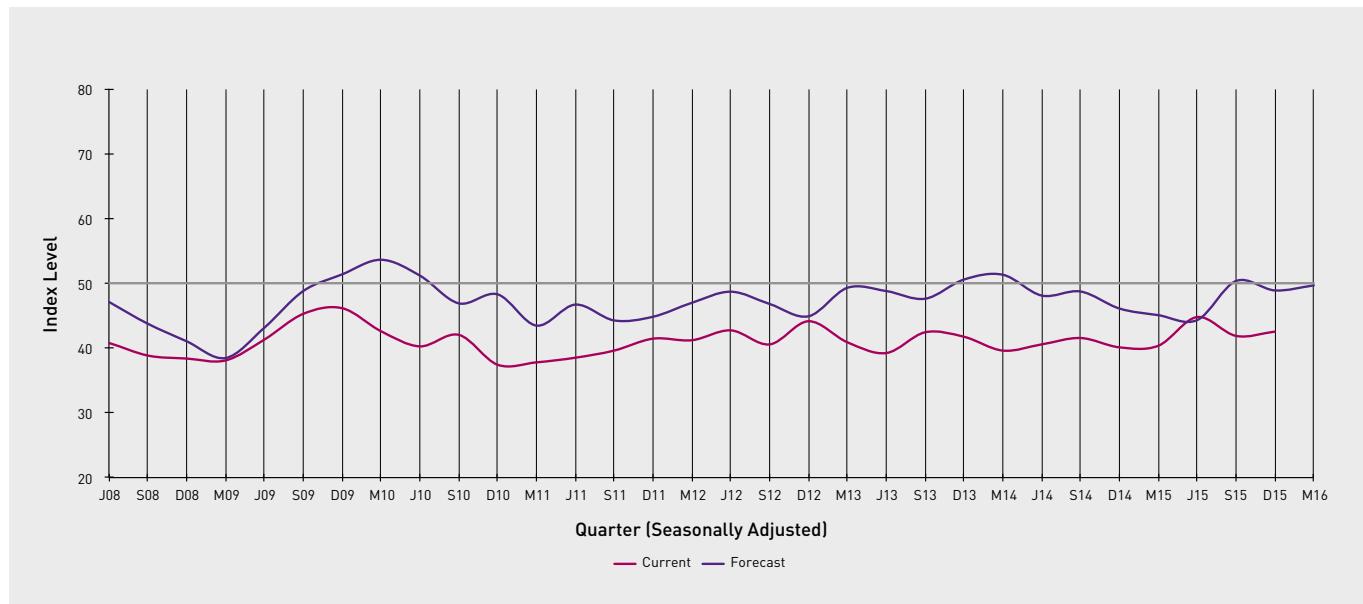
PULSE OTHER OPERATING COSTS INDEX

The Pulse Survey introduced a new indicator on Other Operating Costs in the March Quarter 2015 to provide additional insights into the costs of doing business. An Index for Other Operating Costs will be developed as more data becomes available.

Based on the four quarters of data received so far, business operating costs appear elevated. The majority of businesses reported increased (29 per cent) or similar (62 per cent) operating costs in the December quarter. This trend is concerning and warrants future consideration..

Indirect wage costs such as payroll tax place a great strain on our business. The State Government doesn't make it easy for small business to recruit and invest in additional employees to help expand. We get penalised with red tape and payroll tax even though we're making less profit due to the investment in additional labour – Survey Respondent Gold Coast

PROFITABILITY



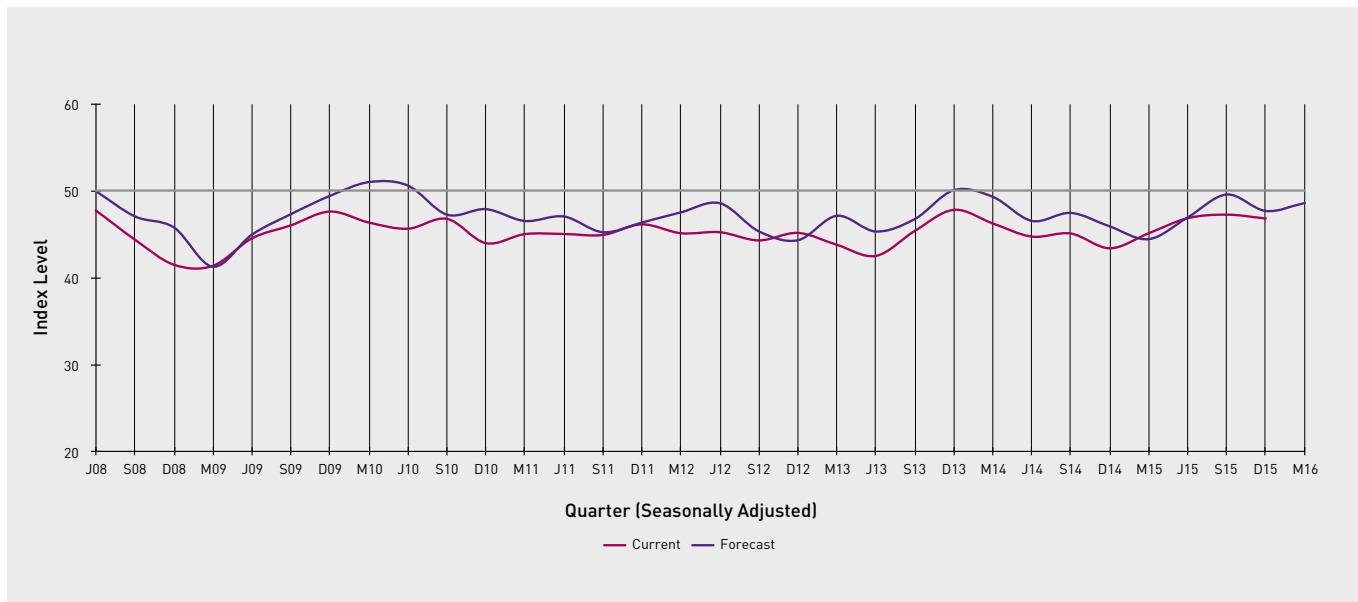
Profitability				
	Dec-14	Sep-15	Dec-15	Mar-16
Weaker	44	43	41	27
Same	34	39	38	47
Stronger	22	18	21	26
Index	41.8	42.5	44.3	49.4

- The Pulse Profitability Index rose slightly by 1.8 index points to 44.3 in the December quarter but remains stubbornly in negative territory.
- The majority of businesses reported weaker (41 per cent) or similar (38 per cent) profit levels in the three months to December 2015. Businesses identified tight margins due to high labour and input costs as well as weak revenue growth as key factors impacting profitability.
- The Index is forecast at 49.4 for the coming March quarter. This result is promising and is in line with small business efforts to find new efficiencies and innovate better to reduce business costs.

The weakening Australian dollar has raised the costs of goods which has reduced our profit margins – Survey Respondent Sunshine Coast

The recent lower fuel prices have reduced our business costs. In addition, higher turnover has increased profits – Survey Respondent North Queensland

EMPLOYMENT LEVELS

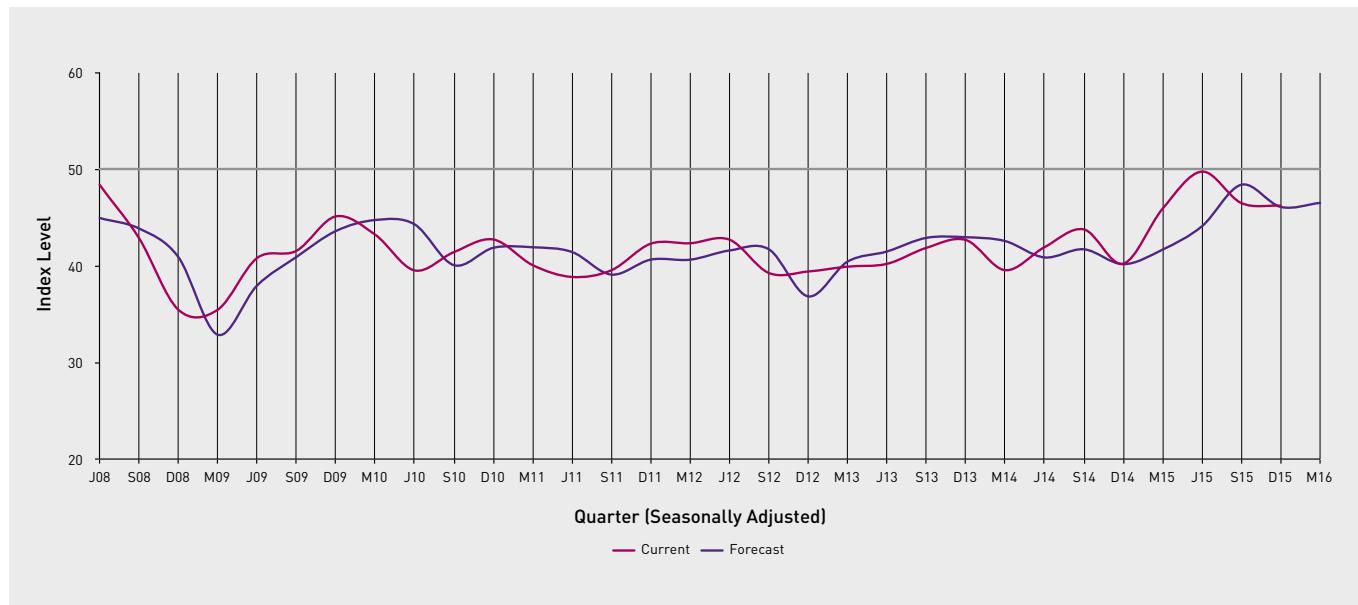


Employment Levels				
	Dec-14	Sep-15	Dec-15	Mar-16
Weaker	29	23	22	17
Same	58	61	64	68
Stronger	13	16	14	15
Index	44.1	48.0	47.6	48.9

- The Pulse Employment Levels Index slightly decreased to 47.6.
- There are positive signs emerging with only 22 per cent of Queensland businesses reporting weaker employment levels, down from 29 per cent in December 2014. This aligns with recent jobs growth data however as a lag indicator without future economic activity this positive trend may not be sustained throughout 2016.
- The majority of businesses (68 per cent) expect to keep employment levels steady far at least the next three months.

The wage and penalty wage crisis is killing small business. If we did not have to pay penalty rates then small business could employ more Queenslanders. This would allow small businesses to stay open longer generating more spending and earnings and compete on a level playing field with large businesses – Survey Respondent, Brisbane

CAPITAL EXPENDITURE



Capital Expenditure				
	Dec-14	Sep-15	Dec-15	Mar-16
Weaker	34	28	25	22
Same	47	49	55	62
Stronger	19	23	20	16
Index	41.3	47.1	47.4	47.0

- The Pulse Capital Expenditure Index was steady at 47.4 in the December quarter. 25 per cent of businesses reported decreased expenditure on building, plant and equipment in the past three months.
- Short term expectations for capital expenditure are largely unchanged in the forthcoming March quarter (47.0).

The high cost of development for private businesses is detracting from investment in regional areas – Survey Respondent, South West Queensland

The reduction in State Government investment in infrastructure projects is hurting our business – Survey Respondent Brisbane

REGIONAL ANALYSIS

Current	Brisbane	Sunshine Coast	Gold Coast	South West Qld	Central Qld	Central Coast	North Qld	Far North Qld	Wide Bay
12 Month Outlook - Queensland	↓ 37.6	↓ 47.6	↑ 41.5	↑ 41.4	↓ 36.4	↑ 50.0	↓ 32.0	↓ 37.0	↑ 46.8
General Business Conditions	↓ 44.6	↑ 48.9	↑ 52.6	↑ 44.3	↑ 46.3	↑ 40.6	↑ 33.9	↓ 35.9	↓ 48.3
Total Sales/Revenue	↑ 50.2	↑ 58.9	↑ 57.1	↑ 49.0	↑ 53.8	↑ 43.3	↓ 35.7	↓ 41.3	↓ 51.7
Profitability	↑ 45.4	↑ 51.6	↑ 51.3	↑ 43.0	↑ 42.5	↑ 37.5	↓ 34.8	↓ 37.0	↓ 44.9
Labour costs	↓ 56.8	↑ 55.7	↓ 57.1	↑ 55.9	↑ 51.3	↑ 46.9	↑ 50.9	↑ 52.2	↓ 56.9
Employment Levels	↓ 45.4	↓ 52.1	↑ 57.7	↑ 46.2	↑ 43.8	↑ 42.2	↑ 44.6	↑ 47.8	↓ 49.2
Capital Expenditure	↓ 45.9	↓ 52.6	↓ 48.7	↑ 48.5	↑ 43.8	↑ 46.9	↓ 40.2	↓ 40.2	↑ 50.4

↑ index improved from previous quarter; = index unchanged from previous quarter; ↓ index worsened from previous quarter.

REGIONAL BUSINESS CONFIDENCE:

- Business confidence was mixed across all regions, with North Queensland recording the lowest confidence index (32.0) in the State. The slowdown in the resources sector, persistent drought conditions and economic uncertainty remain dominant weights on consumer sentiment and business growth across Queensland.
- Confidence in the Central Coast region rose by an impressive 15 index points to 50.0. This is partly accounted for by the weaker Australian dollar creating a 'double shot' for overseas and domestic tourists as well as for agribusiness exporters.
- Far North Queensland business confidence fell to 37.0 and is forecast to remain subdued with uncertainty regarding perceived State Government inaction on infrastructure projects and the AQUIS decision weighing on local business sentiment.
- Confidence levels are down in Brisbane (37.6) with labour costs outstripping revenue growth.
- Gold Coast business confidence (41.5) has improved over the last three months whereas the Sunshine Coast has fallen but recorded the second highest confidence in the State at 47.6.

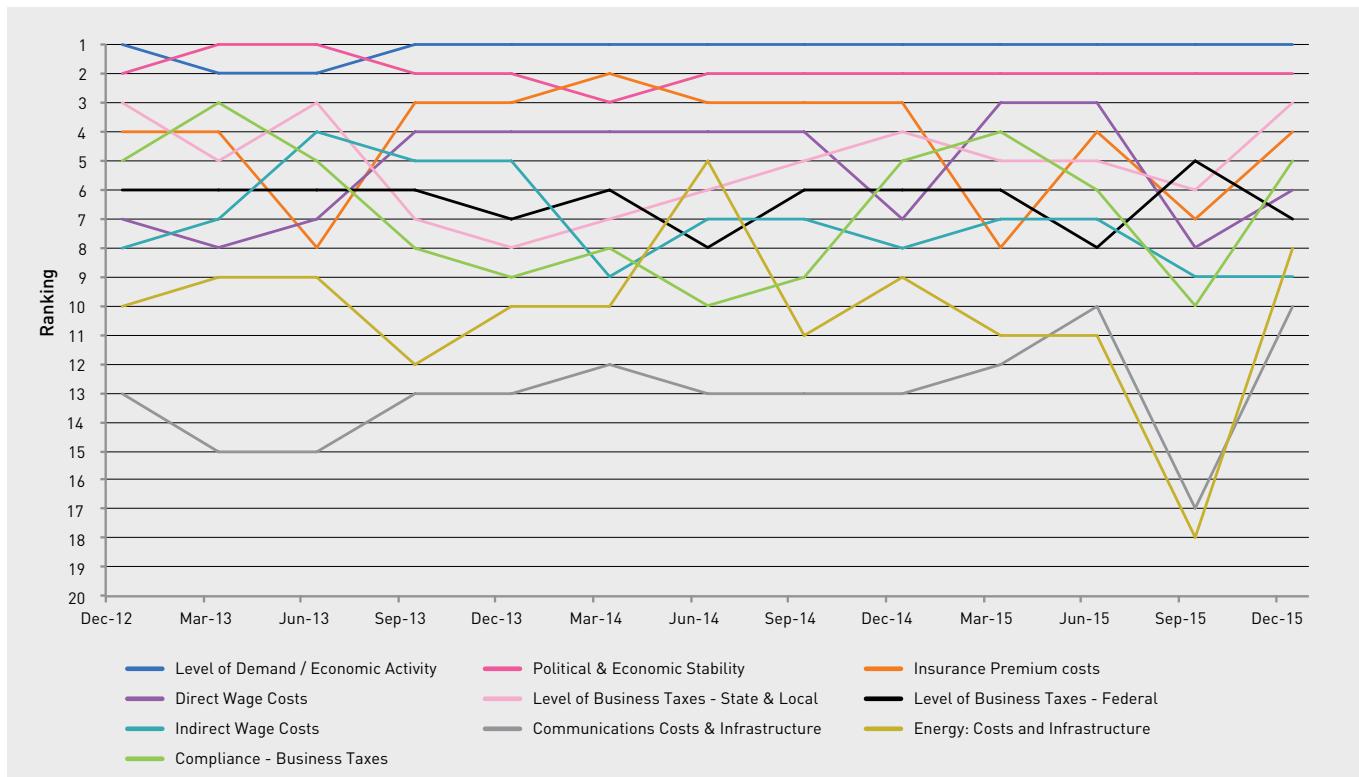
- The December Quarter saw confidence in Wide Bay undoubtedly benefiting from tourism which recorded stronger results (46.8).

REGIONAL BUSINESS PERFORMANCE:

- Profitability improved across all regions (except North Queensland, Far North Queensland and Wide Bay) with weak sales growth and elevated labour costs hurting margins. The high cost of electricity and other inputs was also cited by business for the challenging trading conditions.
- General Business Conditions were mixed across the regions with falls in Brisbane, Far North Queensland and Wide Bay.
- Gold Coast businesses recorded improvements across all key performance indicators except labour costs and capital expenditure, with higher tourism activity, preparations for the 2018 Commonwealth Games and lower Australian dollar boosting local business conditions.
- North Queensland recorded the weakest business performance of the regions with all indicators below the state average except labour costs which have softened over the last quarter.

Forecast – Dec 2015 Qtr	Brisbane	Sunshine Coast	Gold Coast	SW Qld	Central Qld	Central Coast	North Qld	Far North Qld	Wide Bay
General Business Conditions	49.8	56.3	51.9	49.1	47.4	45.3	37.5	37.5	53.8
Total Sales/Revenue	55.9	62.2	60.9	53.5	50.0	48.4	39.3	45.7	57.6
Labour Costs	50.4	56.9	54.6	48.3	48.7	43.8	33.0	41.3	53.0
Other Operating Costs	56.1	57.3	56.4	53.3	52.6	50.0	50.0	54.3	55.1
Profitability	59.8	59.0	57.7	60.3	56.6	54.7	63.4	55.4	60.2
Employment Levels	50.4	53.6	52.6	47.7	46.1	46.9	42.9	47.8	48.3
Capital Expenditure	47.6	50.0	47.4	47.1	47.4	42.2	42.0	43.5	50.0

MAJOR CONSTRAINTS ON BUSINESS GROWTH

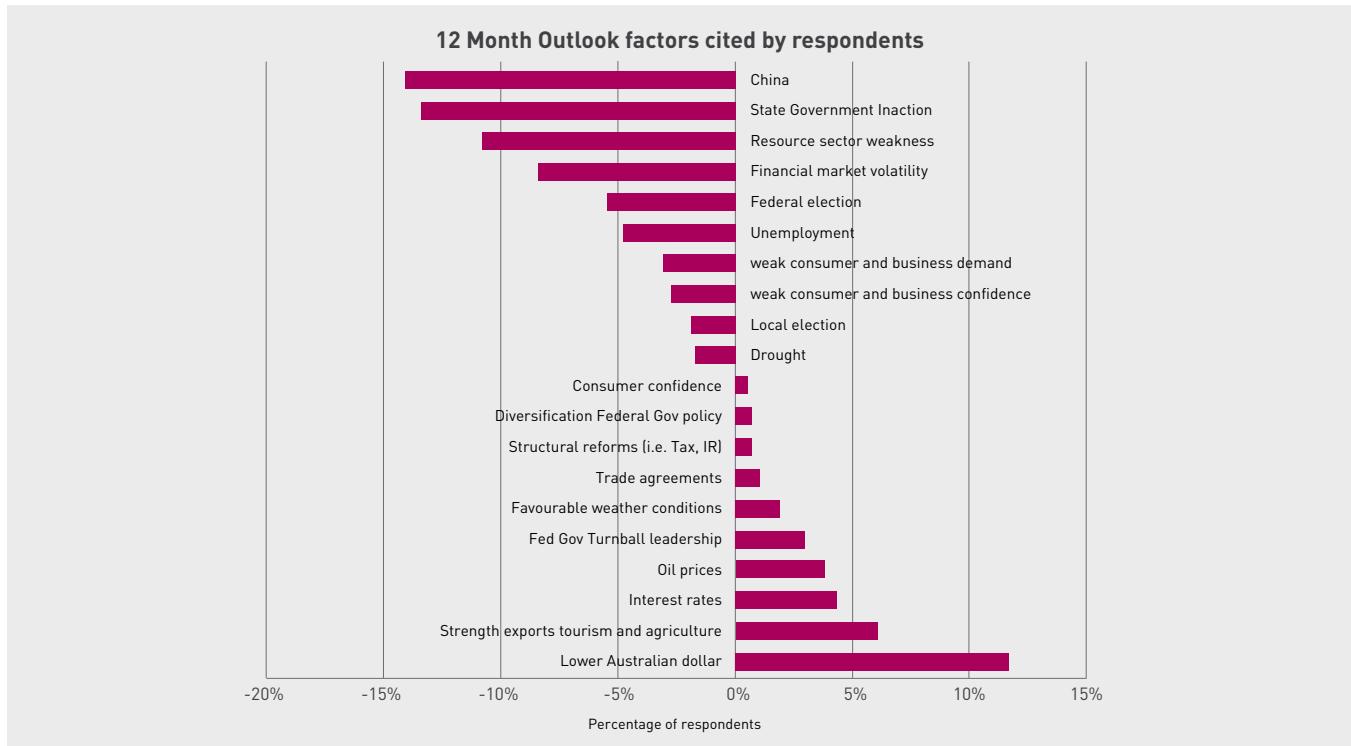


- For the past ten consecutive quarters, Queensland businesses have reported soft levels of consumer demand and economic activity as the largest constraint on growth.
- Political and economic stability is the second largest constraint. There are continuing positive impacts being felt from the change in leadership and progress at the federal level. However perceived inaction from the State Government on matters such as spending on new infrastructure projects are weighing on business sentiment.
- The level of State business taxes and government charges has risen to third place as small businesses become increasingly worried by the burden of inefficient taxes.
- Upward pressure on insurance premiums remains a prominent constraint.
- Compliance and complexity of business taxes and charges completes the top five constraints.

"There is a lot of talk - committees, conferences, networking etc - but not a lot happening on the ground. More infrastructure is needed for regional towns so that industries relocate to regional centres. Electricity prices need to be lower in Queensland. To have industry located here you need cheap energy prices. For the rural industry to survive you need cheaper power" – Survey Respondent, Wide Bay

HOT TOPIC: 5 GREATEST INFLUENCERS ON BUSINESS CONFIDENCE

Queensland small businesses have expressed concern about the State economy and generally anticipate weakening prospects for the economy over the next 12 months. CCIQ has analysed the factors influencing business confidence in the Queensland economy.



TOP 5 NEGATIVE FACTORS

1. China – China is one of the world's largest economies and Queensland's largest trading partner. The slowest Chinese economic growth in 25 years will place downward pressure on commodity prices and demand for key Queensland exports in 2016.

2. State Government Inaction – State Government policies are a key factor in determining consumer and business confidence. Queensland businesses believe that the 'perceived' inaction of the State Government will weigh on business confidence in 2016. Specifically, businesses believe the Palaszczuk Government is not investing enough in key infrastructure, does not have a significant plan to help transition the economy post the resources boom and restore the State's financial position.

3. Resource sector weakness – The resource's sector has been an important driver of economic activity for Queensland. In 2016, continued weak commodity prices, mine closures and job losses are anticipated to negatively impact broader business activity especially in rural and regional areas of the State.

4. Financial market volatility – Queensland is an open trade focussed economy. Global economic conditions and financial market volatility especially in China are having negative repercussions around the world including on Australia's and global share markets. This will place downward pressure on consumer confidence and activity in this State.

5. Federal election – Queensland small businesses identify government elections as periods of subdued operating conditions. Uncertainty around government policy and decision making reduces sales and capital expenditure. The upcoming 2016 Federal election is expected to again have a negative impact on Queensland's economic activity with consumers going into slow motion.

TOP 5 POSITIVE FACTORS

1. Australian dollar – A lower Australian dollar has improved the competitiveness of Queensland exporters, import competing manufacturing and the Sunshine State's tourism industry. A low dollar will continue to spur economic activity.

2. Exports – The growth of the Asian middle class especially in China and India and the signing of Free Trade Agreements will boost demand for Queensland exports in 2016. Queensland businesses identified tourism, resources, agribusiness and education as bright spots in driving business activity.

3. Interest rates – The current accommodative monetary policy setting in Australia is lowering the cost of borrowing for businesses. Additionally, home mortgage repayments are coming down boosting disposable income and in turn discretionary expenditure of households.

4. Oil price – Oil prices have a significant economic impact on consumers and businesses. Low oil prices in 2016 will boost consumer spending and economic activity through lower petrol prices and transport charges.

5. Leadership of the Turnbull Government – Queensland small businesses consistently identify political stability as one of the most critical factors impacting business activity. The Federal leadership of the Turnbull Government which has a renewed focus on pro-growth structural reform policies such as taxation and industrial relations is viewed by many businesses as a positive influence on the economy.



ABOUT PULSE

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. 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.

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

The Pulse Survey is produced in cooperation with the Westpac St George Group.

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 state-wide 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

To find out more about Pulse, please contact Nick Behrens,
Director of Advocacy, on **07 3842 2279** or at **cciqadvocacy@cciq.com.au**



CAPITAL EXPENDITURE

- The Pulse Capital Expenditure Index rose to 47.4 in the December quarter. The Index is forecast to remain relatively unchanged (47.0) in the forthcoming March quarter.

EMPLOYMENT LEVELS

- Employment levels fell slightly over the December quarter to 47.6 largely as a result of downsizing in regional Queensland.
- Some 68 per cent of businesses expect to keep employment levels steady in the three months to March.



PROFITABILITY

- Profitability index rose to 44.3 in the December quarter but remains stubbornly in negative territory. The majority of businesses reported similar (38 per cent) or weaker (41 per cent) profitability levels in the three months to December 2015.
- Expectations for the coming March quarter see the Index levelling towards neutral territory.



LABOUR COSTS

- The Pulse Labour Costs Index fell slightly to 55.4 in the December quarter, with 70 per cent of Queensland businesses reporting either stable or falling labour costs in the past three months.

For general enquiries,
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For the Employer Assistance
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