



WESTPAC GROUP CCIQ PULSE SURVEY OF BUSINESS CONDITIONS

▼ JUNE 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, turnover and business profitability – knowledge that adds confidence to the strategic planning and future investment decisions of your business.

The survey period is for 1-17 July 2015 and covers business sentiment through the quarter to June 2015 and looking forward to the quarter ahead to September 2015.



SALES & REVENUE

- The Pulse Sales and Revenue Index returned to positive territory (50.8) in the June quarter, with end of financial year trading boosting results.
- The pick-up in sales and revenue is set to continue, with the Index forecast at 56.3 for the September quarter.

12
MONTH

12 MONTH OUTLOOK

- Confidence in both the Australian and Queensland economies has improved.
- Confidence in the Australian economy (48.1) is higher than the State outlook (42.7) and both results are below the levels recorded a year ago.
- Businesses have responded positively to both Federal and State budgets, but concerns over subdued consumer spending remains an overriding influence.

OVERVIEW

- Queensland business confidence improved, with an increase in the proportion of businesses expecting stronger economic growth.
- The moderately improving confidence appears to be translating into better business performance, with June quarter results showing an improvement across all key indicators.
- Forecasts for the September quarter are also encouraging.



GENERAL BUSINESS CONDITIONS

- The Pulse General Business Conditions Index lifted marginally to 43.0 in the June quarter, but overall conditions are still soft.
- Business expectations for the coming September quarter appear to be heading back into neutral territory (48.6).

INTRODUCTION

Business confidence lifts and performance indicators are encouraging

Queensland businesses are more optimistic about the State's and their own economic growth prospects according to the latest June Quarter results in the Westpac Group CCIQ Pulse Survey of Business Conditions.

Business expectations for the Australian economy strengthened, with stimulus measures from the Federal Budget boosting confidence. However, recent international events in Greece and the slowing pattern of growth in China have tempered the upswing in business sentiment. Overall confidence in the national outlook is just shy of neutral territory.

Confidence in the Queensland economy has also improved on the back of a balanced State Budget, but remains at a fragile level. The prolonged impact of the drought and slowdown in the resources sector continues to restrain business sentiment. State Government debt levels and spending on infrastructure featured as a concern.

This moderately improving confidence appears to be translating into better business performance, with June quarter results showing an improvement across all key indicators.

General business conditions rose slightly in the three months to June, but are still short of where needed. Cash flow pressures and price discounting continues, reflecting broader concerns about subdued consumer spending.

Sales and revenue over the three months to June was bolstered by increased trade in the lead up to the end of the financial year. Businesses also appear more willing to embrace innovation and implement new strategies in response to challenging trading conditions.

Capital expenditure increased to a seven-year high, with the small business package in the Federal Budget bringing forward investment decisions.

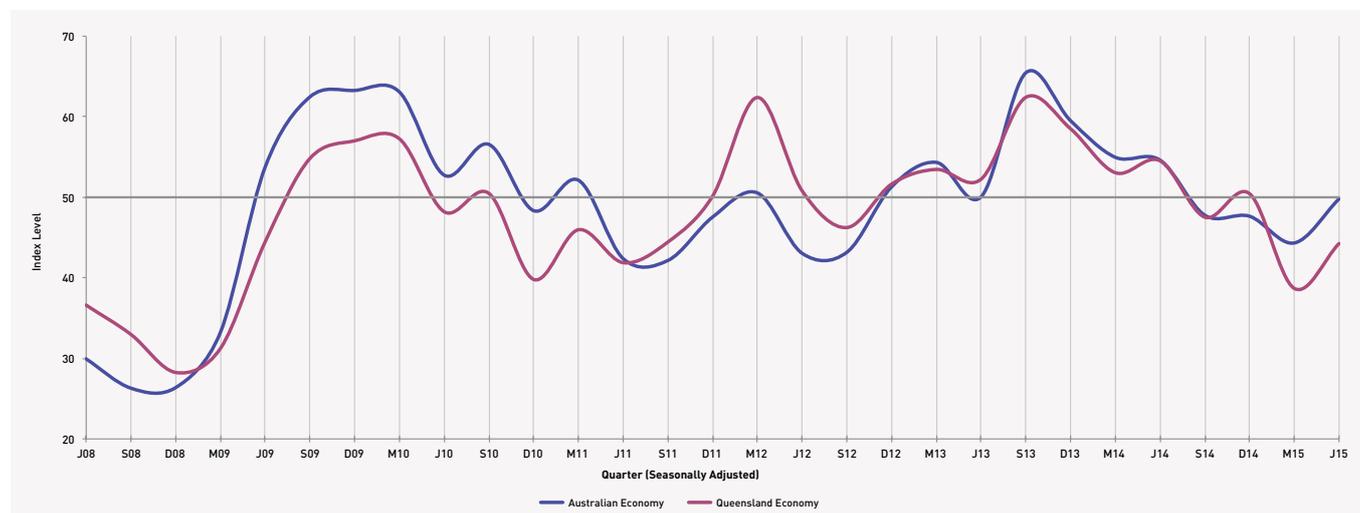
Businesses reported an upturn in profitability despite cost pressures. There was a slight lift in employment in the June quarter and signs that labour market conditions are steadying. Business hiring intentions may be at a favourable turning point.

Short-term expectations for the September quarter are encouraging, with improvements recorded across all key performance indicators.

“The reliance on the mining sector of both the Queensland and Australian economy is not sustainable therefore some innovative and brave thinking is required to find new and alternative pathways to fiscal security for Australia.” – Survey Respondent, Far North Queensland

“Queensland Government is actively looking for further opportunities for the state, which hopefully will expand the economy and support business investment.” – Survey Respondent, Brisbane

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		
	Jun-14	Mar-15	Jun-15	Jun-14	Mar-15	Jun-15
Weaker	25	50	41	21	41	31
Same	39	36	38	46	42	43
Stronger	36	14	21	33	17	26
Index	52.6	37.7	42.7	52.7	42.1	48.1

The 12 month outlook for both the Australian and Queensland economies improved, but are still below the levels recorded this time last year.

Feedback from businesses suggests the lower dollar is delivering competitive benefits to exporters and domestic tourism. The small business package in the Federal Budget has added to this positive momentum. Uncertainty of global economic conditions poses the biggest risk to near term growth.

In a promising sign for Queensland's economic growth prospects, businesses seem to have responded positively to the State Budget that provided more clarity on economic and fiscal policy direction. Sustaining this uplift will be challenging with downside risks, including the resources sector, drought conditions and the subdued trend in consumer spending.

QUEENSLAND ECONOMY

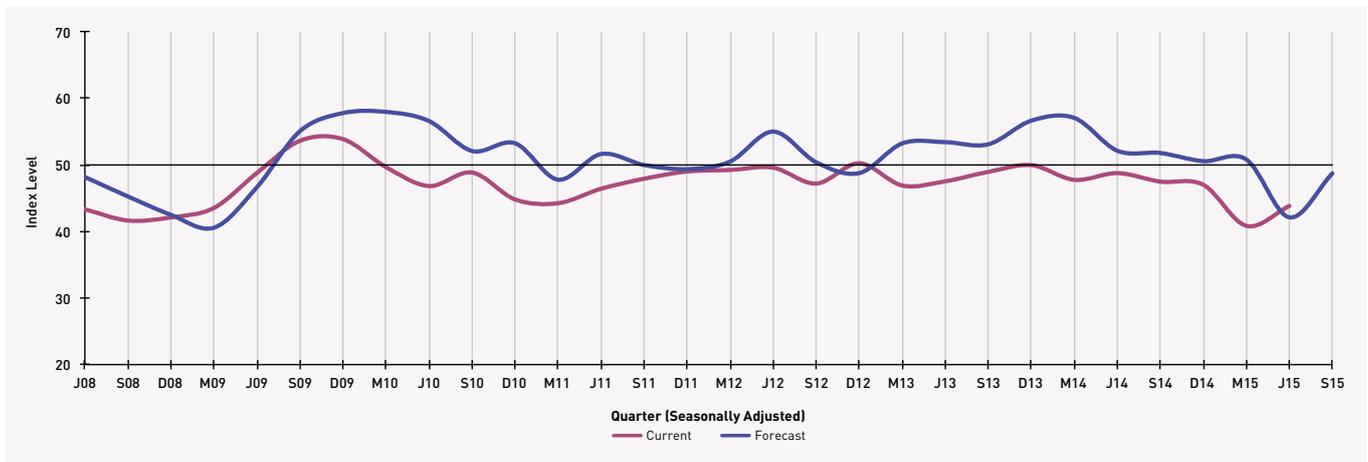
- Business confidence in the Queensland economy improved, with the Pulse Business Confidence Index rising by 5 percentage points to 42.7 in the June quarter.
- Some 21 per cent of businesses expect the State's economy to strengthen, up from 14 per cent in the March quarter.

AUSTRALIAN ECONOMY

- Business expectations for the Australian economy rose by 6 percentage points to 48.1 in the June quarter.
- The majority of businesses (43 per cent) expect similar growth over the next 12 months.

"We should be looking at US recovery and implementing recovery programs now, even though we did not have the same recession" – Survey Respondent, Brisbane

GENERAL BUSINESS CONDITIONS



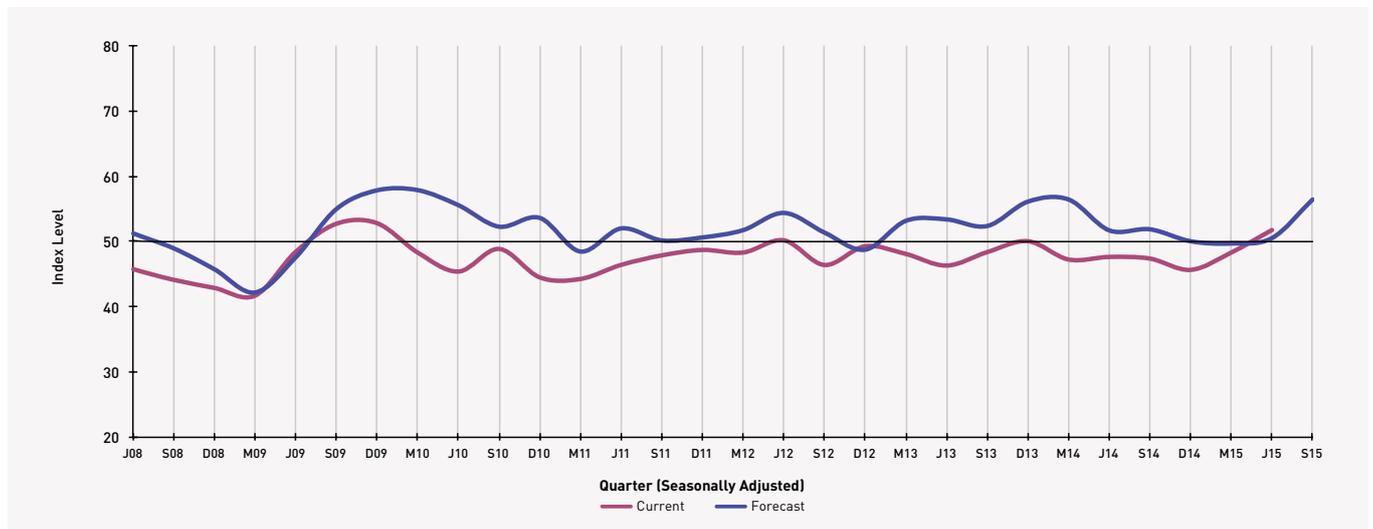
General Business Conditions				
	Jun-14	Mar-15	Jun-15	Sep-15
Decreased	31	48	39	27
Same	42	38	41	51
Increased	27	14	20	22
Index	47.9	38.4	43.0	48.6

- The Pulse General Business Conditions Index edged up 4.6 percentage points to 43.0 in the June quarter. The Index is still below its five-year average (47.8).
- A significant proportion of businesses (39 per cent) reported weaker general business conditions over the June quarter. Compared to a year ago, the gap between businesses expecting conditions to decrease and those expecting conditions to increase seems to be widening.
- Feedback from businesses suggests ongoing challenges with cash flow and intense competition preventing a sustained uptick in profitability.
- Business expectations for the coming September quarter appear to be heading back into neutral territory, with the Pulse General Business Conditions Index forecast at 48.6. This result is below both the five-year average (51.5) and ten-year average (53.5) for the September quarters.

“The downturn in mining and the lasting effects of the drought both indicating lower employment levels. Overseas problems will also affect consumer confidence. Living in an area moving from construction to production in the gas area we are not optimistic about the future of retail in our area” – Survey Respondent, South West Queensland

“Cuts to pensions and welfare, low jobs growth and high unemployment will continue to affect consumer spending. It is essential for people to feel they are free from the pressure of cost of living to spend freely on leisure and sports activities. It is too early to tell yet with the Queensland Government if their plans will improve the economy” – Survey Respondent, Central Queensland

SALES AND REVENUE



Sales & Revenue				
	Jun-14	Mar-15	Jun-15	Sep-15
Decreased	38	38	31	17
Same	31	35	33	42
Increased	31	27	36	41
Index	46.8	45.3	50.8	56.3

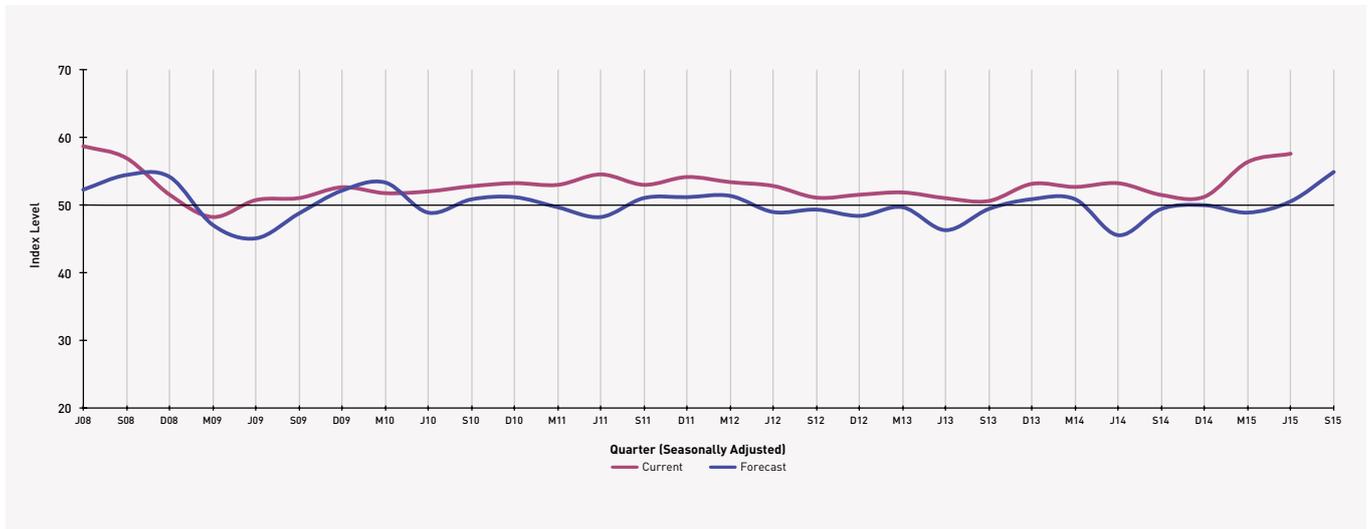
- The Pulse Sales and Revenue Index lifted to 50.8 in the June quarter, with end of financial year trade boosting results. The Index is now in positive territory and in seasonally adjusted terms, is at its highest level in five years.
- Businesses expect consumer sentiment to remain subdued and are seeking new approaches to bolster sales, with new processes and product offerings an emerging theme.
- The Pulse Sales and Revenue Index is forecast at 56.3 for the September quarter. This result is above both the five-year average (51.6) and ten-year average (54.3) for the series and suggests sales and revenue performance could be at a turning point.

“Working through how to change product mix and product offer to adapt to new markets” – Survey Respondent, Brisbane

“Internal promotions, implementing new idea to increase sales, reviewing, seeing what works, and not spending any more time on those activities that do not work.” – Survey Respondent, North Queensland

“A reduction in sales enables a concentration in future sales directions and procedures. Internet has remained a constant challenge and re-invention is the key” – Survey Respondent, South West Queensland

LABOUR COSTS



Labour Costs				
	Jun-14	Mar-15	Jun-15	Sep-15
Decreased	9	13	11	4
Same	69	53	49	60
Increased	22	34	40	36
Index	53.0	55.2	57.3	58.0

- The Pulse Labour Costs Index rose to 57.3 in the June quarter. The rise is surprising given unemployment remains elevated, which suggests labour costs are relatively high compared to cash flows.
- Some 40 per cent of Queensland businesses reported increased labour costs in the June quarter. Feedback from businesses highlights that the pick-up in sales and revenue has not offset labour cost pressures because average selling prices remain flat.
- Looking ahead, the Index is expected to moderate with 60 per cent of businesses forecasting similar labour costs for the coming September quarter.

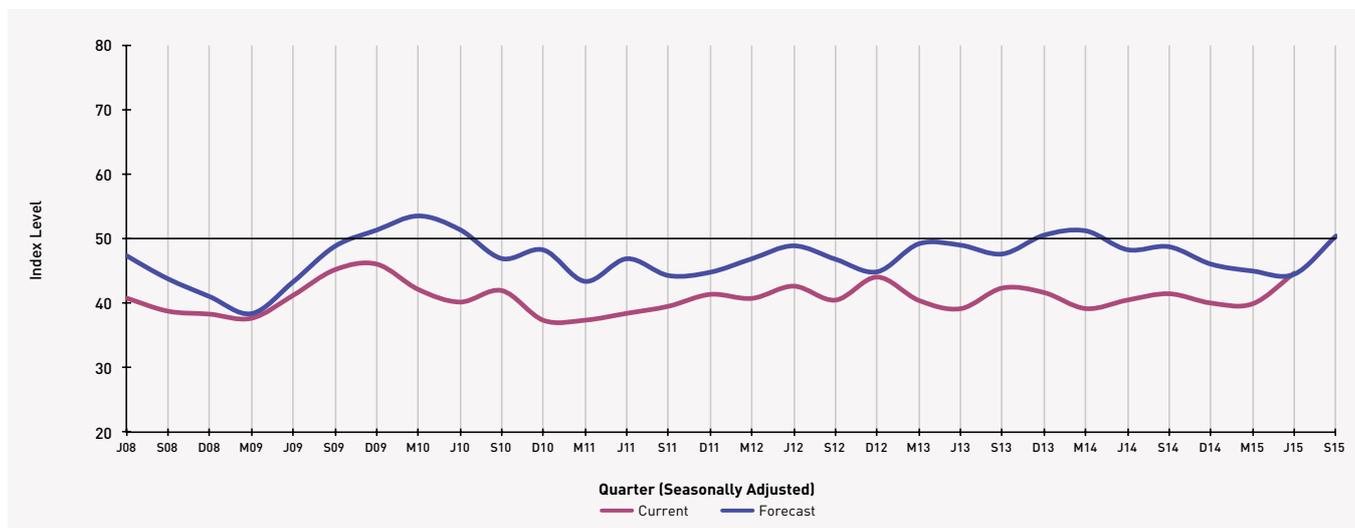
Pulse Other Operating Costs Index

The Pulse Survey introduced a new indicator on Other Operating Costs in the March Quarter 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 two quarters of data received so far, business operating costs increased. The majority of businesses (54 per cent) reported increased operating costs in both the March and June quarters.

“There is less work to tender for and clients have a perception that prices should be lower even though wages and superannuation have increased” – Survey Respondent, South West Queensland

PROFITABILITY



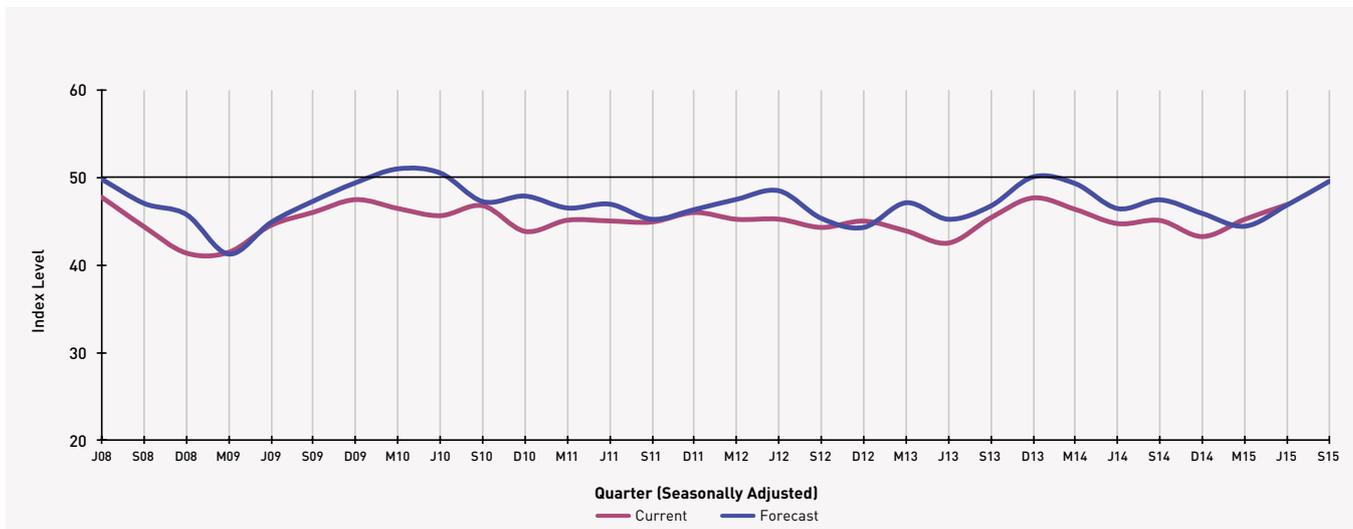
Profitability				
	Jun-14	Mar-15	Jun-15	Sep-15
Decreased	48	53	44	26
Same	35	33	35	47
Increased	17	14	21	27
Index	39.5	37.8	43.5	49.6

- The Pulse Profitability Index rose by 5.7 percentage points to 43.5 in the June quarter, but remains stubbornly in negative territory.
- The majority of businesses reported weaker (44 per cent) or similar (35 per cent) profitability levels in the three months to June 2015. Businesses reported tight margins due to high running costs and below cost pricing to gain market share.
- The Index is forecast at 49.6 for the coming September quarter and in seasonally adjusted terms is forecast to be in positive territory. This result is promising and is in line with the ten-year average for the series (49.6).
- Some 27 per cent of businesses expect profitability to increase in the next three months.

“Most wholesale prices have increased which means less profit. We have to keep prices at minimum to compete with online and big store prices.”
– Survey Respondent, Far North Queensland

“General economic climate in our area is very depressed. Lots of mining construction companies are now competing for local general civil construction and many are doing work for less than cost. Profitability has decreased a lot. Just no work and what work there is has to be quoted, re-quoted and then cut some more before the job is let.”
– Survey Respondent, Central Coast

EMPLOYMENT LEVELS



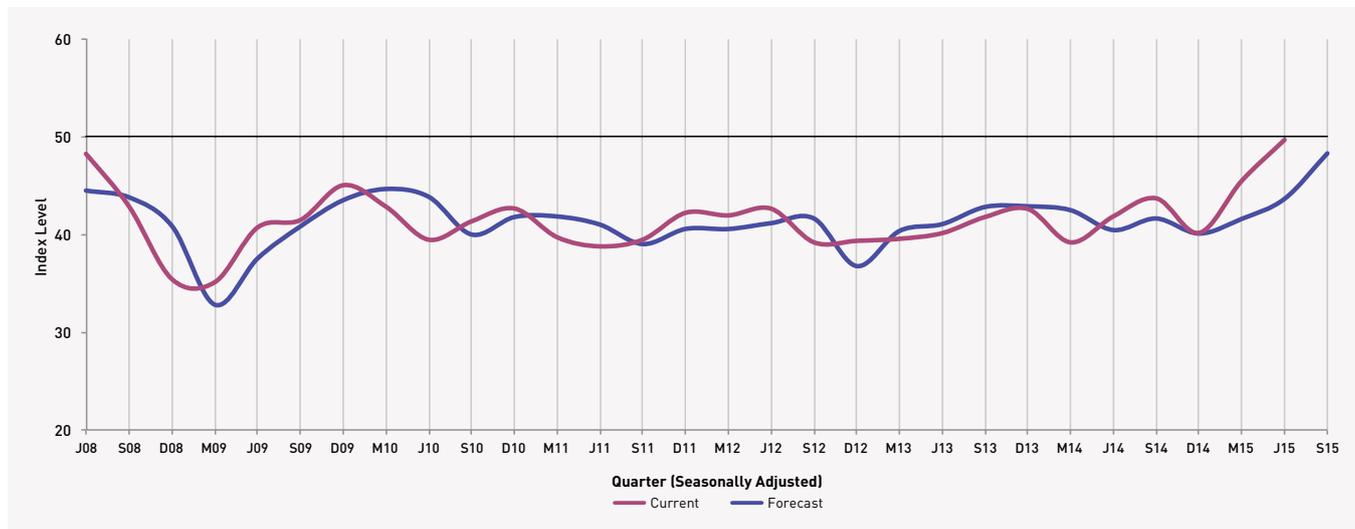
Employment Levels				
	Jun-14	Mar-15	Jun-15	Sep-15
Decreased	29	32	28	19
Same	59	55	56	65
Increased	12	13	16	16
Index	44.3	44.1	46.4	49.1

- The Pulse Employment Levels Index increased to 46.4 in the June quarter. The Index has improved over two consecutive quarters.
- There are positive signs emerging with 16 per cent of Queensland businesses reporting increased employment levels, up from 12 per cent in the June 2014 quarter. This aligns with recent jobs growth data and suggests labour market conditions are stabilising.
- Looking ahead to the September quarter, the Index is forecast at 49.1, which is above the five-year average for the series (46.4) and may reflect a shift in business hiring intentions.
- The majority of businesses (65 per cent) expect to keep employment levels steady over the next three months.

“The cost of doing business and consumers wanting more for less \$. Wages and power increases have put the cost of goods up so we the business owners have only a couple of choices if we want to stay ahead. Increase sale prices, decrease hours of staff or try and source product ingredients at a lower price from suppliers (the later the harder choice as the cost of production increases as well)” – Survey Respondent, South West Queensland

“We’ve had to put people off to try and get profitable with a lower level of work”
– Survey Respondent, Far North Queensland

CAPITAL EXPENDITURE



Capital Expenditure				
	Jun-14	Mar-15	Jun-15	Sep-15
Decreased	41	35	28	25
Same	42	46	50	56
Increased	17	19	22	18
Index	40.0	43.7	47.7	47.1

- The Pulse Capital Expenditure Index increased by 4 percentage points to 47.7 in the June quarter. The result is the highest in seven years, with 22 per cent of businesses reporting increased expenditure on building, plant and equipment in the past three months.
- It appears the instant asset write off incentive for small business provided in the Federal Budget has brought forward investment decisions as businesses seek to capitalise on the tax benefits.
- Short term expectations are for capital expenditure to be at a similar level, with the Index forecast at 47.1 in the forthcoming September quarter.

“Slowing economic activity has led to more aggressive competition from in-house service providers and other consultancies. It has also impacted sentiment with investment decisions delayed or cancelled and budgets reduced. We continue to actively cut labour and operating costs” – Survey Respondent, Brisbane

“Confidence isn’t there for big investors to make the plunge and the trickle down affect is very apparent” – Survey Respondent, Far North Queensland

REGIONAL ANALYSIS

Actual – June 2015 Qtr	Brisbane	Sunshine Coast	Gold Coast	South West Qld	Central Qld	Central Coast	North Qld	Far North Qld
12 Month Outlook – Queensland	↑ 42.6	↑ 43.9	↑ 38.4	↑ 43.4	↑ 49.0	↓ 33.7	↑ 44.1	↑ 45.4
General Business Conditions	↑ 43.7	↑ 50.6	↑ 44.1	↑ 36.7	↑ 42.4	↓ 34.4	↑ 39.3	↑ 36.9
Total Sales/Revenue	↑ 53.4	↑ 58.3	↓ 48.5	↓ 34.2	↑ 54.3	↓ 37.5	↑ 48.2	↑ 48.1
Labour costs	↓ 54.2	↑ 60.5	↑ 62.1	↑ 61.7	↓ 53.3	↓ 54.2	↑ 57.7	↑ 59.8
Profitability	↑ 44.8	↑ 48.1	↑ 41.2	↑ 33.3	↑ 48.9	↓ 33.7	↑ 40.4	↑ 43.5
Employment Levels	↑ 46.5	↑ 50.9	↑ 50.7	↓ 43.3	↑ 44.6	↓ 40.6	= 39.3	↑ 45.7
Capital Expenditure	↑ 48.0	↑ 52.8	↑ 48.5	↑ 48.3	↑ 41.3	↓ 40.6	↑ 41.1	↑ 46.3

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

REGIONAL BUSINESS CONFIDENCE:

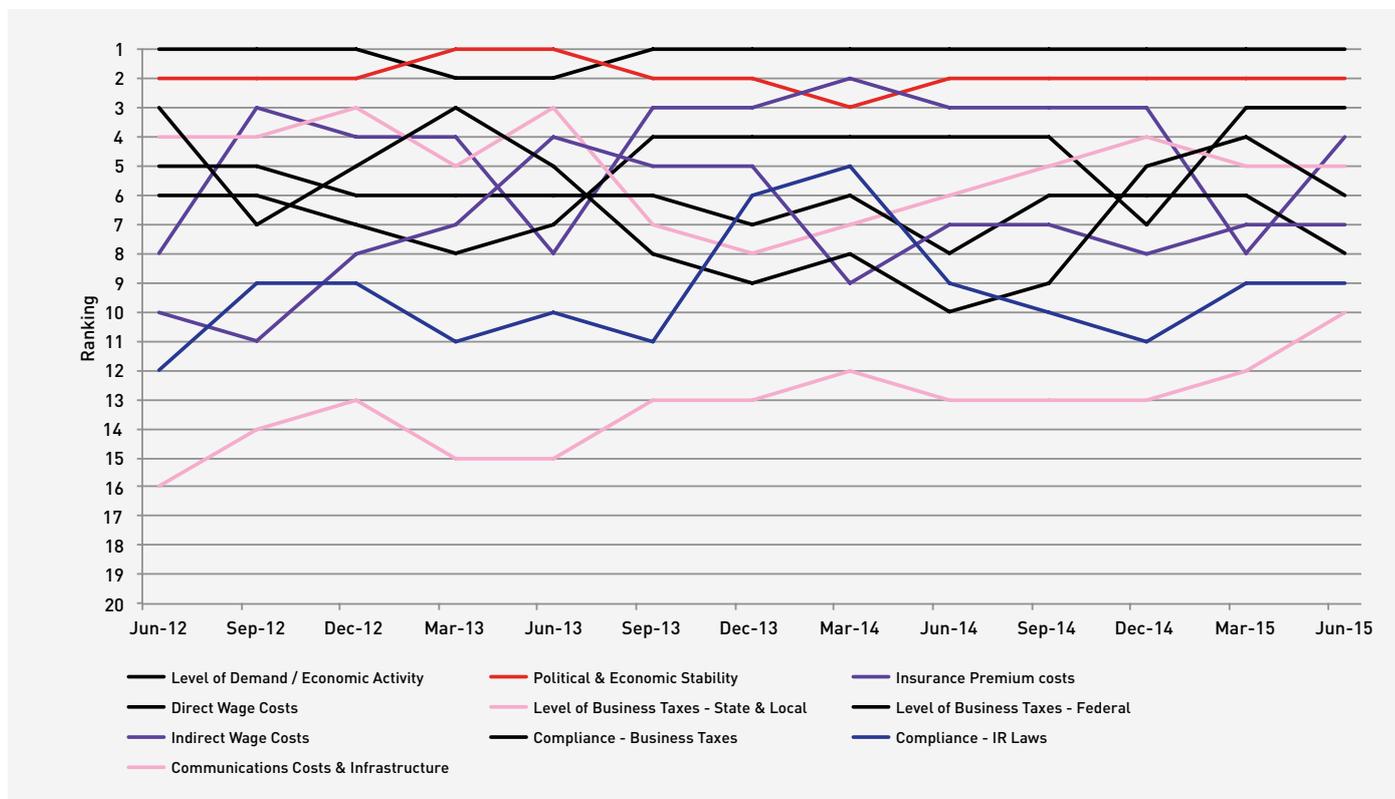
- Business confidence improved across all regions, with the exception of Central Coast where the confidence index (33.7) is the lowest in the State. The slowdown in the resources sector remains the dominant influence.
- Confidence in the Central Queensland region rose 18.4 percentage points to 49.0, which is the highest in the State. This makes up ground lost in the previous quarter and the regional outlook appears to be settling into neutral territory.
- South West Queensland business confidence improved to 43.4, but is below the level recorded a year ago. The combined impacts from lower levels of CSG activities and drought affected agricultural production are holding back business sentiment.
- Confidence levels are up in Brisbane (42.6) and the Sunshine Coast (43.9) but the results are below the five-year average in both these regions.
- Gold Coast business confidence (38.4) is the second lowest in the State, with the index comparable to the low levels recorded three years ago.
- The June Quarter result for both North Queensland (44.1) and Far North Queensland (45.4) is in line with the seven year trends and suggests the regional outlook is stabilising.

REGIONAL BUSINESS PERFORMANCE:

- Sales and revenue improved in Brisbane (53.4) and the Sunshine Coast (58.3) and marks three consecutive quarters of positive results in these regions. Sunshine Coast was also the only region with a positive result in general business conditions and capital expenditure.
- Gold Coast sales and revenue (48.5) weakened, consistent with the June quarter dip that has occurred for the past three years. The index is expected to rebound to 58.1 in the next quarter.
- Performance was mixed in South West Queensland. There was an upswing in capital expenditure but the downward trend in sales and revenue continues, with the index (34.2) reaching new lows.
- Central Coast businesses recorded falls across all key performance indicators, with general business conditions now the lowest in the state. Modest gains are forecast for the next quarter.
- Businesses in the Central Queensland region recorded the biggest gains in profitability (up 20.2 percentage points to 48.9), but a trend is not yet evident with profitability expected to remain flat in the September quarter.
- General business conditions in North Queensland (39.3) and Far North Queensland (36.9) are below the state average.

Forecast – September 2015 Qtr	Brisbane	Sunshine Coast	Gold Coast	SW Qld	Central Qld	Central Coast	North Qld	Far North Qld
General Business Conditions	49.2	52.8	50.7	45.8	45.7	38.5	46.2	46.4
Total Sales/Revenue	56.4	62.5	58.1	49.1	48.9	50.0	57.1	54.9
Labour Costs	57.4	57.8	60.9	59.2	53.3	58.3	60.7	58.9
Profitability	50.6	53.8	51.6	41.7	48.9	40.6	48.2	50.0
Employment Levels	49.8	53.2	52.2	44.2	44.6	49.0	44.6	45.2
Capital Expenditure	49.1	50.6	47.1	42.5	39.8	42.7	44.6	42.5

MAJOR CONSTRAINTS ON BUSINESS GROWTH



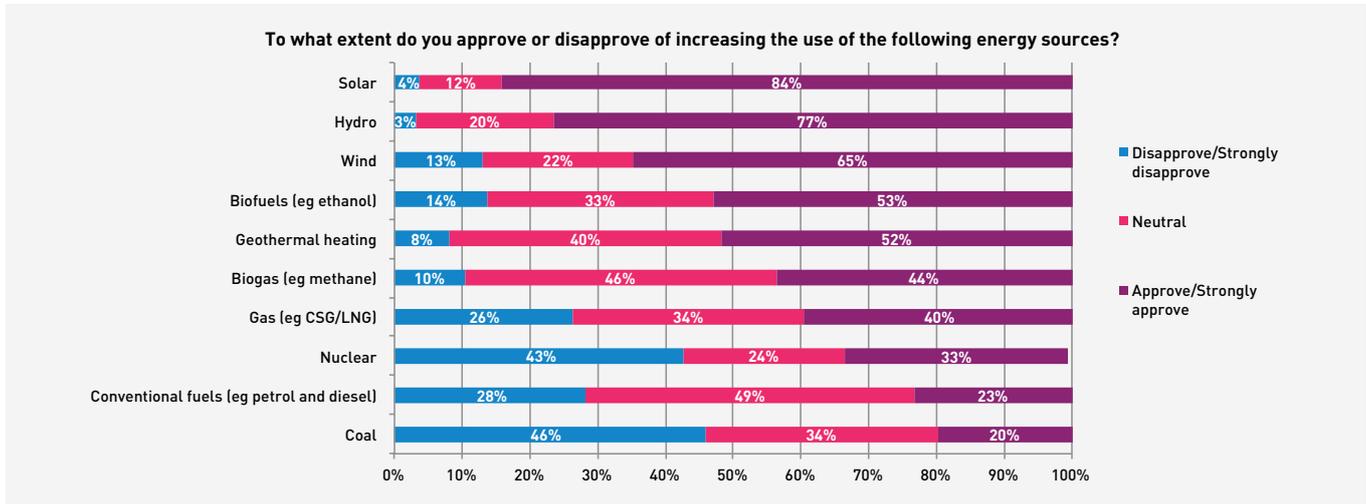
- For the past eight consecutive quarters, the soft level of consumer demand has been reported by Queensland businesses as the largest constraint on growth.
- Political and economic stability is the second largest constraint. There has been a positive response to the small business package in the Federal Budget and the commitment not to increase business taxes in the State Budget.
- Direct wage costs are in third position, maintaining its ranking from the previous quarter. Labour cost pressures seem to be more accentuated because of subdued consumer spending.
- Insurance premium costs moved up the rankings and are now considered the fourth largest constraint on business growth.
- The level of business taxes by State and Local Government completes the top five constraints.
- Communications infrastructure and costs has moved up into the top ten business constraints for the first time. This may reflect emerging concerns about the rollout of the national broadband network and business accessibility to high speed broadband

“Consumer confidence is down, due in part to the lower Aussie dollar, and the lower interest rates have people worried because they wonder if the Reserve Bank cuts the interest rates again, are we in trouble” – Survey Respondent, Wide Bay Burnett

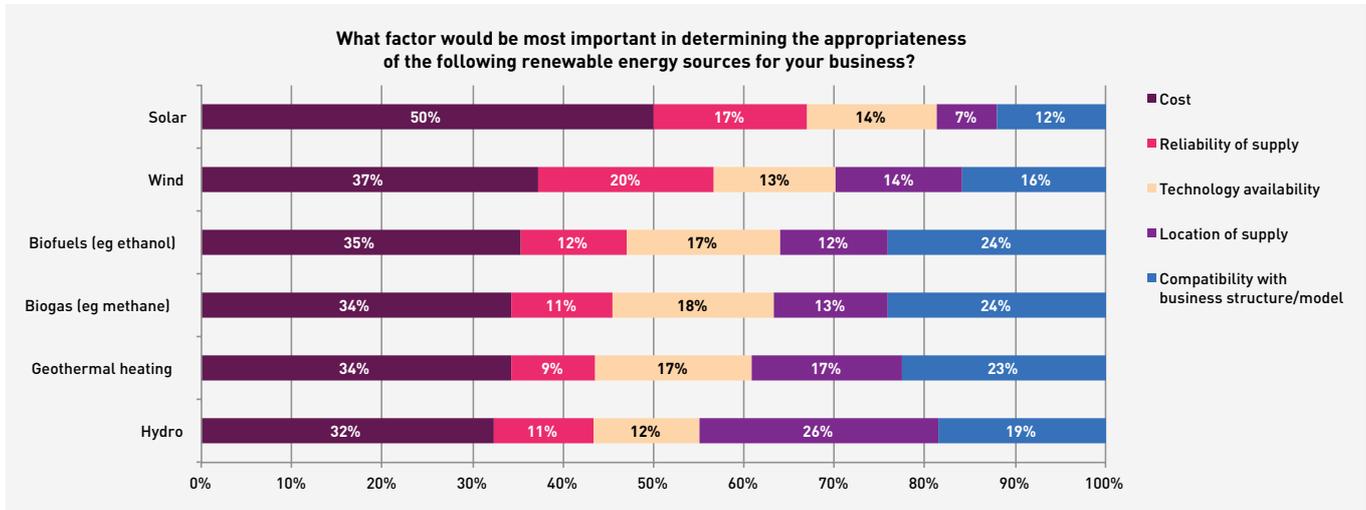
“Everyone is looking for a cheaper option for everything from insurance to groceries. If they can do without it, they will. There is not much room for luxury anymore.” – Survey Respondent, Brisbane

HOT TOPIC: FUTURE OF ENERGY

Queensland businesses generally support a transition away from conventional energy towards more renewable energy sources. The majority of business (84 per cent) approve or strongly approve of increasing the use of solar energy. A significant proportion of businesses also endorsed increasing the use of hydro (77 per cent) and wind (65 per cent).



When asked about the appropriateness of using renewable energy sources, Queensland businesses indicated that cost was the most important factor. Feedback from businesses suggests there is a role for government incentives to diversify the energy mix, provided it does not add to the already high price of electricity.



“I don’t see why we shouldn’t plan to convert to renewable energy as the technology improves to become cost effective and efficient” – Survey Respondent, Brisbane

“In a carbon-constrained world, we need to stay competitive with other countries by moving rapidly towards clean energy and protect our environment by minimising carbon and air and water pollution” – Survey Respondent, Sunshine Coast



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, General Manager – Advocacy, on **07 3842 2279** or at **cciqadvocacy@cciq.com.au**



CAPITAL EXPENDITURE

– The Pulse Capital Expenditure Index increased to a seven-year high of 47.7 in the June quarter, with the small business package in the Federal Budget bringing forward investment decisions.

– The Index is forecast to be at a similar level (47.1) in the forthcoming September quarter.



EMPLOYMENT LEVELS

– Employment levels have increased over two consecutive quarters and the Index is now at 46.4 for the June quarter.

– There are positive signs that labour market conditions are stabilising.

– Some 65 per cent of businesses expect to keep employment levels steady in the three months to September.



PROFITABILITY

– Profitability rose to 43.5 in the June quarter, but remains stubbornly in negative territory. The majority of businesses reported weaker (44 per cent) or similar (35 per cent) profitability levels in the three months to June 2015.

– Expectations for the coming September quarter see the Index levelling into neutral territory.



LABOUR COSTS

– The Pulse Labour Costs Index rose to 57.3 in the June quarter, with 40 per cent of Queensland businesses reporting increased labour costs in the past three months.

– Labour cost pressures seem to be more accentuated because of subdued consumer spending.

– The Index is expected to moderate with 60 per cent of businesses forecasting similar results in the September quarter.

For general enquiries,
please call **1300 731 988**.

For the Employer Assistance
Line, please call **1300 731 988**.



Chamber of Commerce & Industry Queensland
375 Wickham Tce, Spring Hill QLD 4000
Telephone 1300 731 988