



# WESTPAC GROUP CCIQ PULSE SURVEY OF BUSINESS CONDITIONS

▼ MARCH 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 7-24 April 2015 and covers business sentiment through the quarter to March 2015 and looking forward to the quarter ahead to June 2015.



## SALES & REVENUE

- Sales and revenue fell to 45.3 in the March quarter in line with cautious consumer spending.
- Businesses are mildly optimistic about the next three months, with more businesses forecasting stronger (31 per cent) or similar (44 per cent) sales and revenue levels.

**12**  
MONTH

## 12 MONTH OUTLOOK

- Business expectations for economic growth over the next 12 months have deteriorated, with confidence in the Queensland economy (37.7) now at its lowest level in six years. Drought, slowdown in mining and a soft labour market were the main drivers.
- The drop in confidence in the Australian economy (42.1) was less severe but marks a two-year low. The impact of the Federal budget on consumer sentiment is a key concern.

## OVERVIEW

- Queensland business sentiment has fallen sharply, with confidence adversely impacted by the slow pace of economic activity and uncertainty surrounding major infrastructure projects.
- General business conditions has weakened and with it, profitability. But sales and revenue, employment and capital expenditure seem to be holding ground.
- Forecasts for the June quarter are restrained but business performance overall appears resilient.



## GENERAL BUSINESS CONDITIONS

- General business conditions fell 10.9 percentage points to 38.4 in the March quarter, the lowest in over a decade.
- Business expectations for the coming June quarter are at a record low, with only 13 per cent of businesses anticipating an improvement in conditions.

## INTRODUCTION

### Business confidence dips sharply but performance appears resilient

The March Quarter Pulse Survey of Business Conditions shows Queensland business expectations for economic growth over the next 12 months has deteriorated. Whilst confidence has fallen, business performance has remained fairly steady.

Confidence in the Queensland economy has been adversely impacted by dry weather conditions, slowdown in mining sector investment, elevated unemployment levels and uncertainty surrounding major infrastructure projects.

The machinations of government processes, while typical in the months immediately following an election, are curtailing business appetite for investment despite historically low interest rates. As a result, businesses are adopting a wait and see approach to decisions about projects and employment.

While the general business conditions index declined in line with the drop in confidence, Queensland business performance across other key indicators held steady.

Sales and revenue over the three months to March pleasingly edged upwards, in seasonally adjusted terms, as did the employment index. This is likely a reflection of the modest improvement in trading activity late in the quarter in the lead up to the Easter holidays.

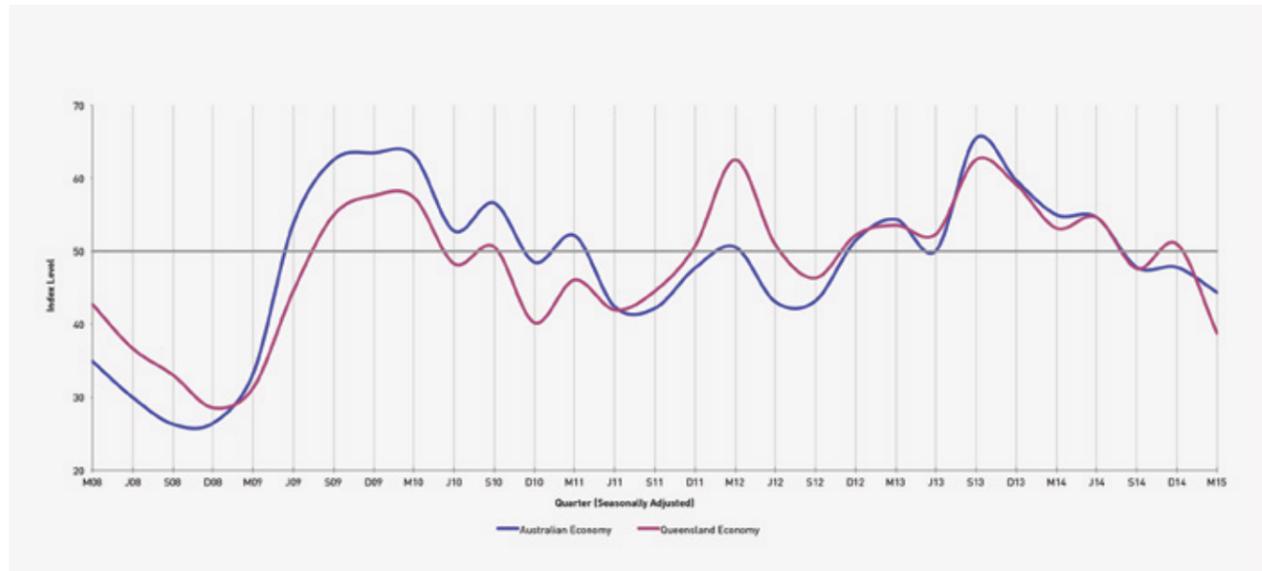
The capital expenditure index also rose marginally on the back of an upswing in residential housing construction. However, profit margins continue to be crunched by rising operating costs and constrained sales and revenue.

The June quarter forecast for sales and revenue is positive and business performance across all other key indicators appears to be stable.

“Main factors affecting growth are falling commodity prices, lack of government leadership in infrastructure spending and fiscal tightening” – Survey Respondent, Central Queensland

“Federal government lacks any form of strategic thought or direction and cannot negotiate with minor party members. The new Labor Government needs to be given a go to test itself on economic, environmental and social economy issues. Unless all levels of government address all three economic, environmental and social economy matters in a coordinated approach, we are doomed to languish following two decades of mining dominance” – 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		
	Mar-14	Dec-14	Mar-15	Mar-14	Dec-14	Mar-15
Weaker	30	30	50	27	32	41
Same	32	37	36	35	42	42
Stronger	38	33	14	38	26	17
Index	51.7	50.7	37.7	52.2	48.2	42.1

The 12 month outlook for both the Australian and Queensland economies has weakened to their lowest level in two years.

Businesses point to the Queensland Government's change of policy direction and hesitation with approving major infrastructure projects as a major cause for concern. More significantly, the combination of slowdown in mining investments, prolonged dry weather conditions and a soft labour market are dominant trends that are restraining growth.

The fall in confidence in the national economy was less severe, but businesses appear apprehensive about stimulus measures, including small business tax concessions and other Federal Budget measures, being implemented expediently. Businesses also highlight the Federal Government's lack of leadership in articulating an economic vision as a significant break on growth.

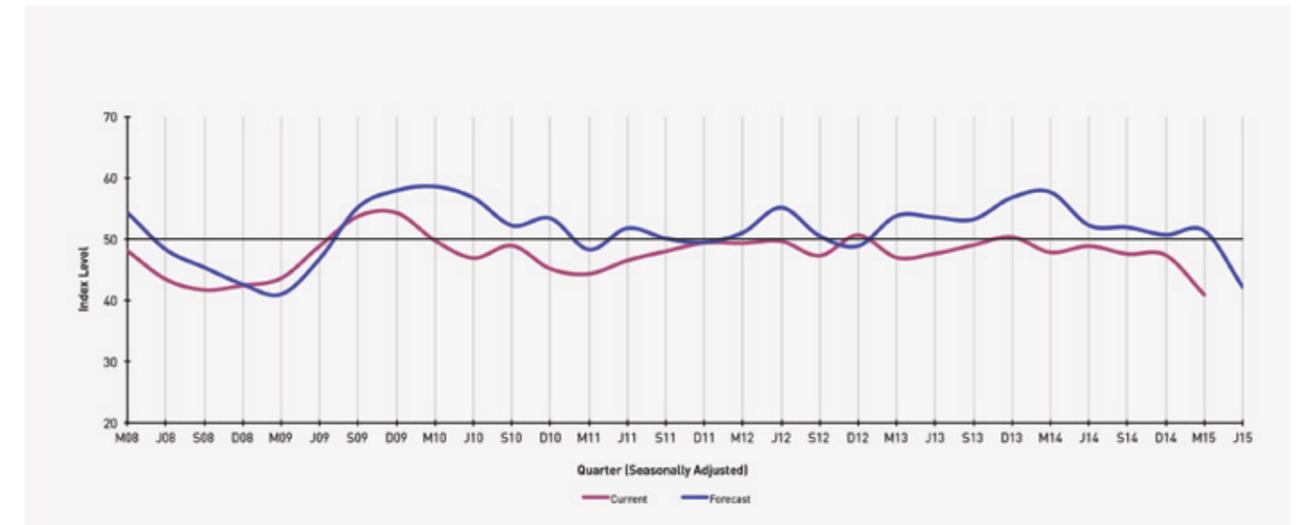
### QUEENSLAND ECONOMY

- Business confidence in the Queensland economy dipped sharply, with the Pulse Business Confidence Index decreasing by 13.0 percentage points to 37.7 in the March quarter.
- Some 50 per cent of businesses anticipate economic growth to weaken in Queensland over the next twelve months.

### AUSTRALIAN ECONOMY

- Business expectations for the Australian economy fell by 6.1 percentage points to 42.1 in the March quarter.
- Only 17 per cent of businesses expect stronger growth over the next 12 months, down from 38 per cent in the March 2014. quarter.

## GENERAL BUSINESS CONDITIONS

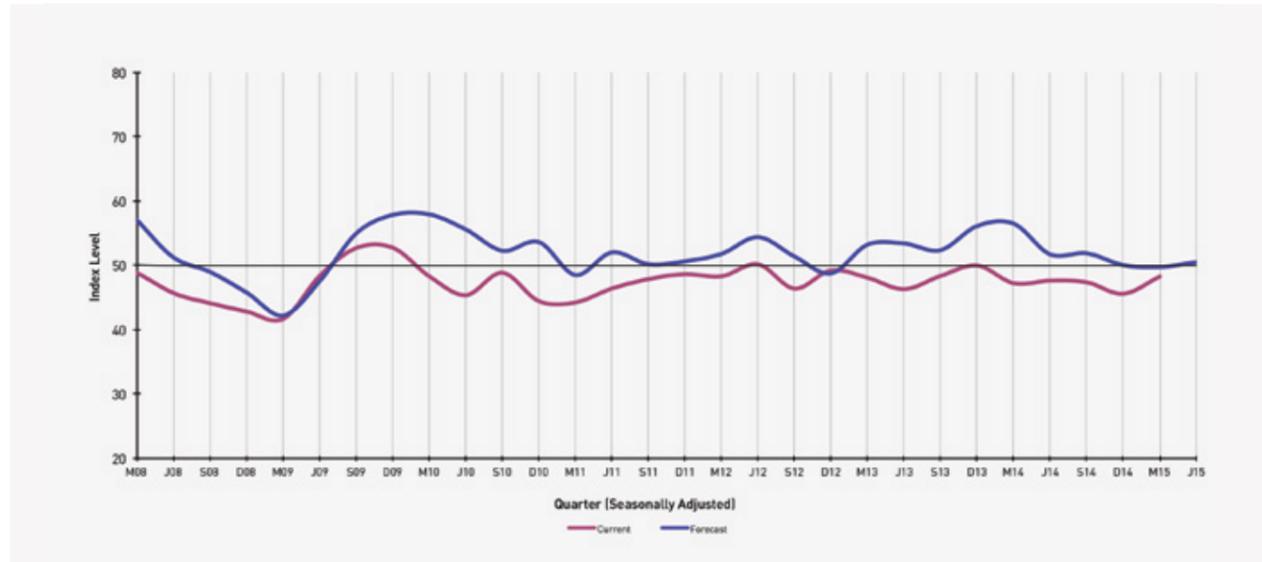


General Business Conditions				
	Mar-14	Dec-14	Mar-15	Jun-15
Decreased	38	28	48	39
Same	36	41	38	48
Increased	26	31	14	13
Index	44.9	49.3	38.4	42.5

- The Pulse General Business Conditions Index fell by 10.9 percentage points to 38.4 in the March quarter. This represents the largest decline in conditions in over a decade, with the Index now well below its ten-year average (50.4).
- The majority of businesses (48 per cent) reported weaker general business conditions over the March quarter.
- Business expectations for the coming June quarter are also restrained, with the Pulse General Business Conditions Index forecast at 42.5. This result is a record low for the June forecast series.

“Negative flow on affects from weak commodity prices and the continued adjustments from the over-capacity in that sector, high production costs, increasing import costs, a declining manufacturing base and lack of a clear long term plan for nation building”  
– Survey Respondent, North Queensland

## SALES AND REVENUE



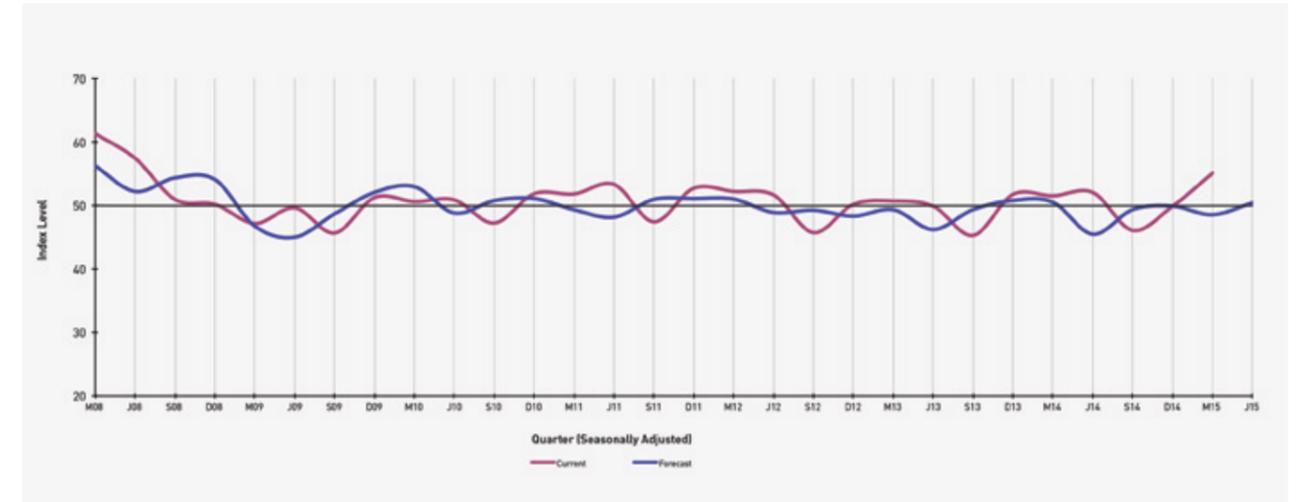
Sales & Revenue				
	Mar-14	Dec-14	Mar-15	Jun-15
Decreased	40	34	38	25
Same	32	31	35	44
Increased	28	35	27	31
Index	44.3	47.8	45.3	51.0

- The Pulse Sales and Revenue Index fell to 45.3 in the March quarter, with consumers still cautious about spending. In seasonally adjusted terms, the Sales and Revenue Index was higher at 48.3 but still in negative territory overall.
- Business sales and revenue performance remains mixed with no clear signs of a turning point.
- The Pulse Sales and Revenue Index is forecast at 51.0 for the June quarter. While in positive territory, the result is below the five-year average for this series (53.4).

“Diminished revenue from sales across the board. Heightened tough competition with associated expectations from customer for price discounting” – Survey Respondent, Brisbane

“Trade is significantly down. We have two sides to the business and both are being affected by government indecision and the dry weather” – Survey Respondent, Far North Queensland

## LABOUR COSTS



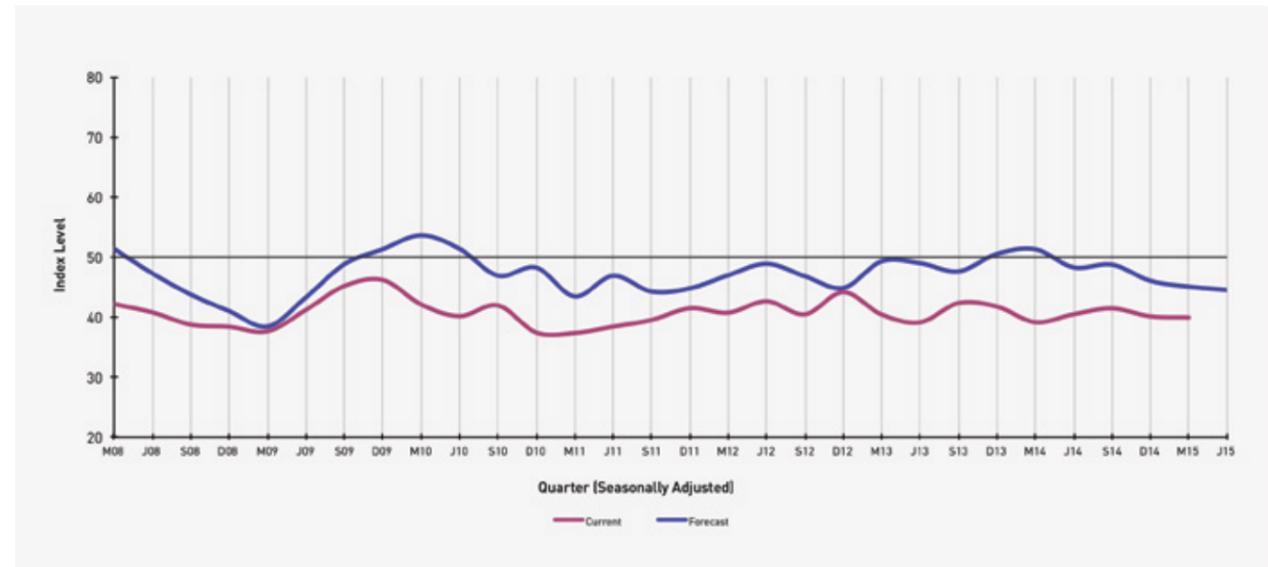
Labour Costs				
	Mar-14	Dec-14	Mar-15	Jun-15
Decreased	10	13	13	9
Same	73	68	53	63
Increased	17	19	34	28
Index	51.6	50.9	55.2	54.6

- The Pulse Labour Costs Index rose to 55.2 in the March quarter. Part of this rise is likely attributable to this Index now reflecting labour costs whereas previously it measured just average wages.
- Some 34 per cent of Queensland businesses reported increased labour costs in the March quarter, reflecting the relatively high fixed cost of labour amidst softening sales and revenue.
- Looking ahead, the Index is expected to moderate with 63 per cent of businesses forecasting similar labour costs for the coming June quarter.

“More work is available for our businesses but we will not put on more people due to the punitive and unfair labour laws”, Survey Respondent – Gold Coast

“As staff have resigned or left they haven’t been replaced, their tasks are just re-allocated in-house and usually to management. We have cut costs by not contracting out and doing our own IT, marketing, OH&S and quality in-house. Indirect costs related to employees is crippling - payroll tax, SGC etc.” – Survey Respondent, Central Coast

## PROFITABILITY



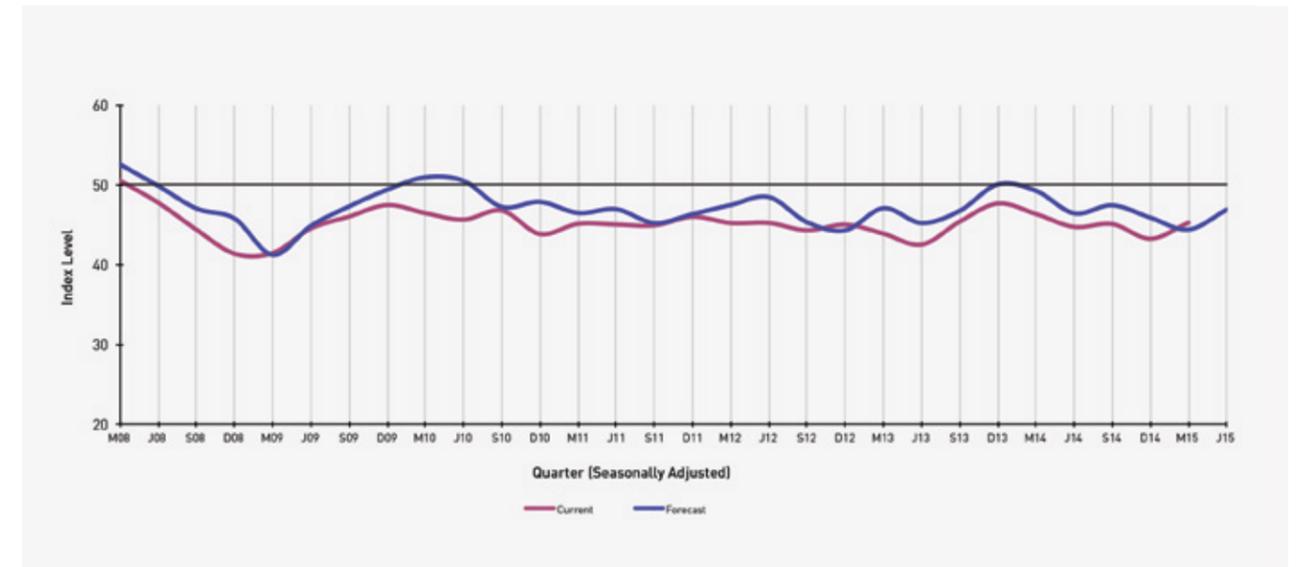
Profitability				
	Mar-14	Dec-14	Mar-15	Jun-15
Decreased	52	44	53	38
Same	31	34	33	42
Increased	17	22	14	20
Index	37.1	41.8	37.8	44.5

- The Pulse Profitability Index fell to 37.8 in the March quarter and remains steadily in negative territory. Rising business operating costs and flat demand for business products and services has crunched profit margins.
- The majority of businesses reported weaker (53 per cent) or the same (33 per cent) profitability levels in the three months to March 2015.
- The Index is forecast at 44.5 for the coming June quarter, continuing the downward trend in expectations over the past year. The Index is now well below the ten-year average for the series (50.3).

“Businesses are severely under cutting prices on tenders just to win contracts”  
– Survey Respondent, Far North Queensland

“Costs of essential services such as power, gas and water continue to rise disproportionately to the ability of business and or households to pay. We have had to rethink of long term strategies and restructure of total operations in order to reduce overheads” – Survey Respondent, Brisbane

## EMPLOYMENT LEVELS



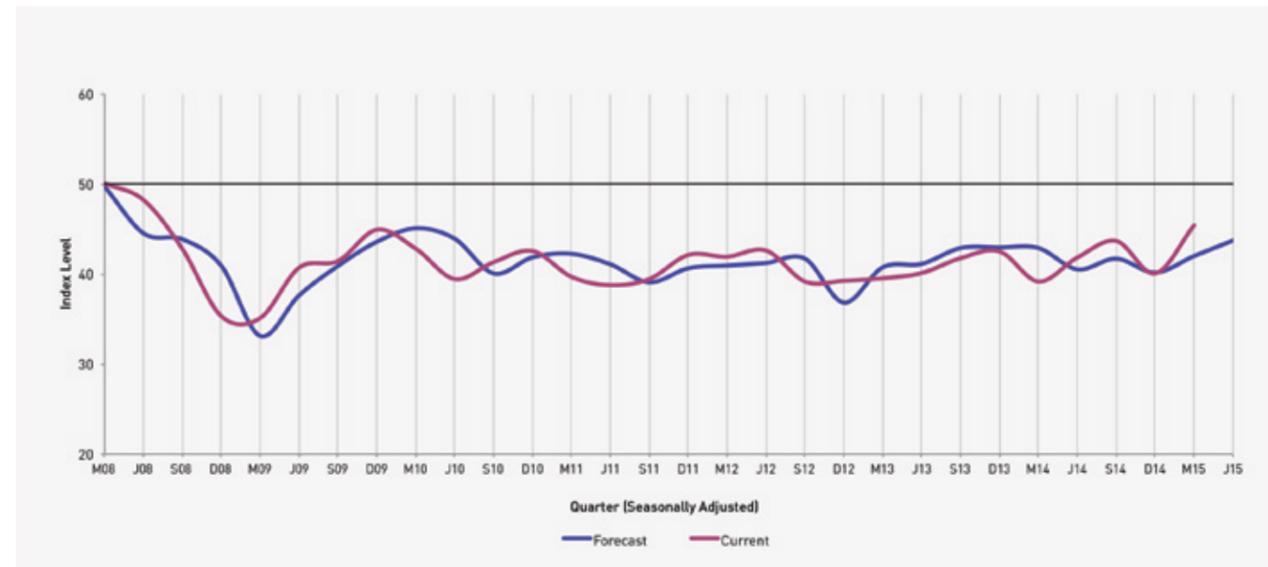
Employment Levels				
	Mar-14	Dec-14	Mar-15	Jun-15
Decreased	26	29	32	25
Same	63	58	55	63
Increased	11	13	13	12
Index	45.2	44.1	44.1	46.2

- The Pulse Employment Levels Index steadied at 44.1 in the March quarter, but in seasonally adjusted terms improved marginally.
- The majority of Queensland businesses (55 per cent) kept employment levels steady in the three months to March 2015.
- The June quarter forecast (46.2) is in line with the five-year average for the series (46.9) and suggests businesses are opting to hold onto staff in anticipation of trading conditions improving.

“It is still too expensive to buy Australian made due to industrial relations. We have had to reduce hours of casual staff to survive and have not replaced staff that have left”  
– Survey Respondent, North Queensland

“We have reduced our employment levels in order to become more profitable with the amount of work available. Also tried reducing other expenses as well, but this will be more of a long term goal over the next twelve months” – Survey Respondent, South West Queensland

## CAPITAL EXPENDITURE



Capital Expenditure				
	Mar-14	Dec-14	Mar-15	Jun-15
Decreased	42	34	35	32
Same	44	47	46	55
Increased	14	19	19	13
Index	37.7	41.3	43.7	43.1

- The Pulse Capital Expenditure Index increased by 2.4 percentage points to 43.7 in the March quarter. In seasonally adjusted terms, the result is higher than the five-year average for the series (40.6) and may reflect new investment by some businesses connected with residential building activity.
- Overall, the Index remains in negative territory with the majority of Queensland businesses reporting similar (46 per cent) or weaker (35 per cent) capital expenditure in the past three months.
- Short term expectations are for capital expenditure to remain steady with the Index forecast at 43.1 in the forthcoming June quarter.

“Downturn in resource projects has resulted in proposed projects being delayed or cancelled. Excess plant and equipment now underutilised in the country and this is having an adverse impact on margins as competition for scarce work has significantly increased. General business confidence has resulted in projects being scaled back”  
– Survey Respondent, North Queensland

## REGIONAL ANALYSIS

Actual – Mar 2015 Qtr	Brisbane	Sunshine Coast	Gold Coast	South West Qld	Central Qld	Central Coast	North Qld	Far North Qld
12 Month Outlook - Queensland	↓ 38.7	↓ 42.6	↓ 33.8	↓ 34.3	↓ 30.6	↓ 40.8	↓ 31.0	↓ 40.6
General Business Conditions	↓ 42.3	↓ 42.8	↓ 37.5	↓ 34.4	↓ 26.0	= 39.5	↓ 30.8	↓ 33.0
Total Sales/Revenue	↑ 51.2	↓ 50.0	↑ 50.8	↓ 38.5	↓ 34.0	↑ 46.1	↓ 37.0	↓ 29.5
Labour costs	↑ 56.4	↓ 52.7	↑ 57.8	↑ 56.3	↑ 55.4	↑ 55.9	= 50.0	= 53.7
Profitability	↓ 41.6	↓ 43.5	↓ 39.8	↓ 32.3	↑ 28.7	↑ 37.5	↓ 27.9	↓ 31.3
Employment Levels	↑ 45.2	↓ 50.0	↓ 44.5	↑ 44.8	↑ 35.2	↑ 46.1	↑ 39.4	↓ 40.2
Capital Expenditure	↑ 45.5	↓ 48.3	↓ 39.8	↑ 41.7	↑ 38.5	↑ 43.1	↑ 36.0	↑ 41.7

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

### REGIONAL BUSINESS CONFIDENCE:

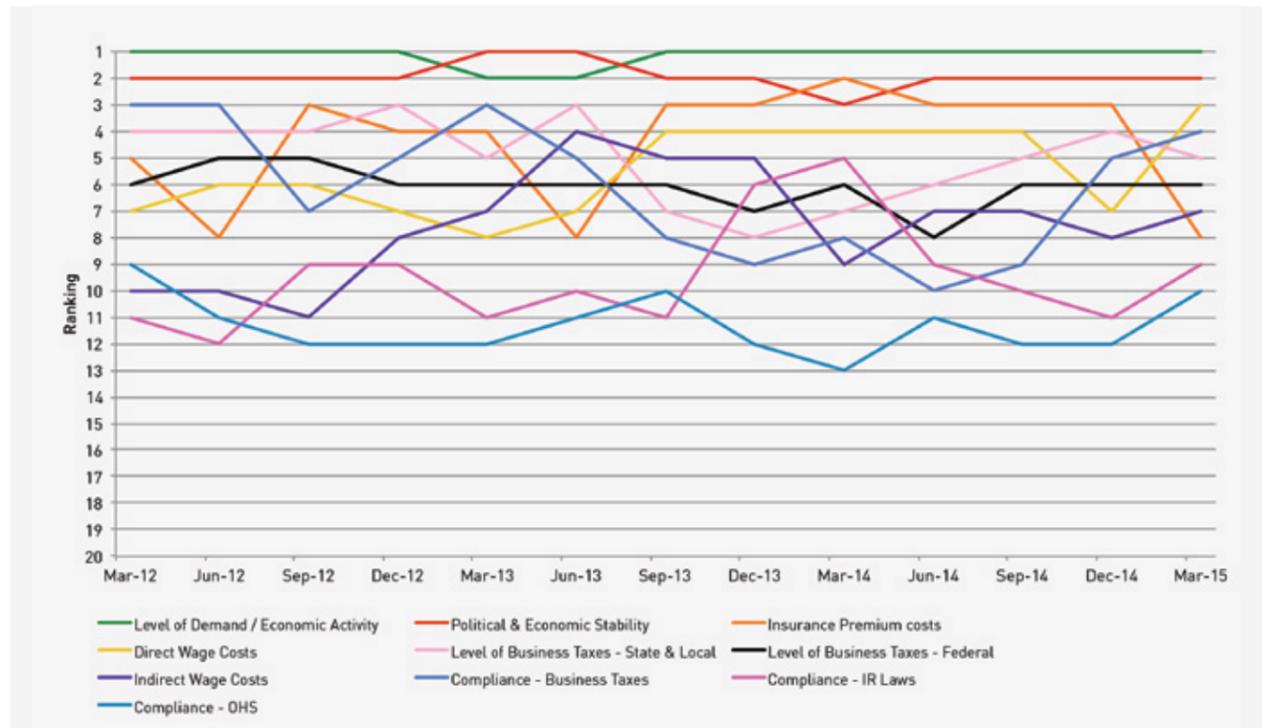
- Business confidence declined across all regions.
- The confidence index in Brisbane (38.7) and Gold Coast (33.8) is well below the five-year average for the series of 53.1 and 53.6, respectively.
- Businesses in the Central Queensland region recorded the largest fall in confidence with the index (30.6) now at its lowest level in six years. Ongoing rationalisation in the mining sector is the main driver.
- The Sunshine Coast business confidence (42.6) remains the highest overall, consistent with the previous quarter. However, the gains made over the past 12 months have been reversed and the index is well into negative territory.
- The March quarter result in the South West and North Queensland regions continued the downward trend in confidence over the past year.
- Business confidence in Central Coast and Far North Queensland, although down, are less sombre, which may reflect growth prospects in tourism in these regions.

### REGIONAL BUSINESS PERFORMANCE:

- Brisbane businesses recorded slight gains in sales and revenue, employment and capital expenditure during the March quarter, but these were overshadowed by falls in general business conditions (down 9.5 percentage points) and profits (down 2.5 percentage points).
- Sunshine Coast businesses recorded falls across all key performance indicators. General business conditions fell 18.7 percentage points to 42.8. Businesses in the region expect sales and revenue to improve in the June quarter.
- Sales and revenue held steady in the Gold Coast region but performance declined across all other key indicators. Modest gains are forecast for the June quarter.
- The Far North Queensland region recorded the biggest falls to general business conditions (down 23.8 percentage points to 33.0) and sales and revenue (down 23.9 percentage points to 29.5). However, sales and revenue is forecast to bounce back in the June quarter to 53.6.
- The general business conditions index for Central Queensland is 26.0, the lowest in the state.

Forecast – June 2015 Qtr	Brisbane	Sunshine Coast	Gold Coast	SW Qld	Central Qld	Central Coast	North Qld	Far North Qld
General Business Conditions	43.1	45.7	41.4	38.5	37.5	46.1	40.4	40.2
Total Sales/Revenue	51.2	56.5	50.8	49.0	41.7	52.6	44.4	53.6
Labour Costs	55.0	55.6	58.6	52.1	48.1	53.9	59.3	49.0
Profitability	45.2	50.0	45.3	41.7	34.6	45.6	40.7	42.0
Other Operating Costs	60.1	58.2	63.3	62.5	63.9	57.9	67.6	58.9
Employment Levels	45.7	51.3	45.3	42.7	40.7	46.1	46.2	45.5
Capital Expenditure	44.2	47.0	40.6	42.7	38.9	47.2	34.6	40.2

## MAJOR CONSTRAINTS ON BUSINESS GROWTH



- Queensland businesses continue to point to the slow pace of economic activity as the largest constraint on growth. Restrained consumer spending, drought and ongoing adjustments in the mining sector are the dominant influences.
- Political and economic stability is the second largest constraint. Businesses are unwilling to commit to new investment until there is more certainty about future policy direction. There is concern about both Federal and State Government debt levels and the extent to which this limits economic stimulus measures through major public infrastructure projects.
- Direct wage costs have moved into third position. Queensland businesses highlight the relatively high cost of labour in the context of flat sales and revenue as well as the inflexibility of the workplace relations system to cope with an economy in transition.
- Concern about tax compliance and reporting has steadily moved up the rankings over the past three quarters and is now the fourth largest constraint on growth.
- The level of business taxes by State and Local Government completes the top five constraints.

“My time is spent filling and following compliance regulations when I could be spending that time in store, training staff or networking/marketing” – Survey Respondent, Sunshine Coast

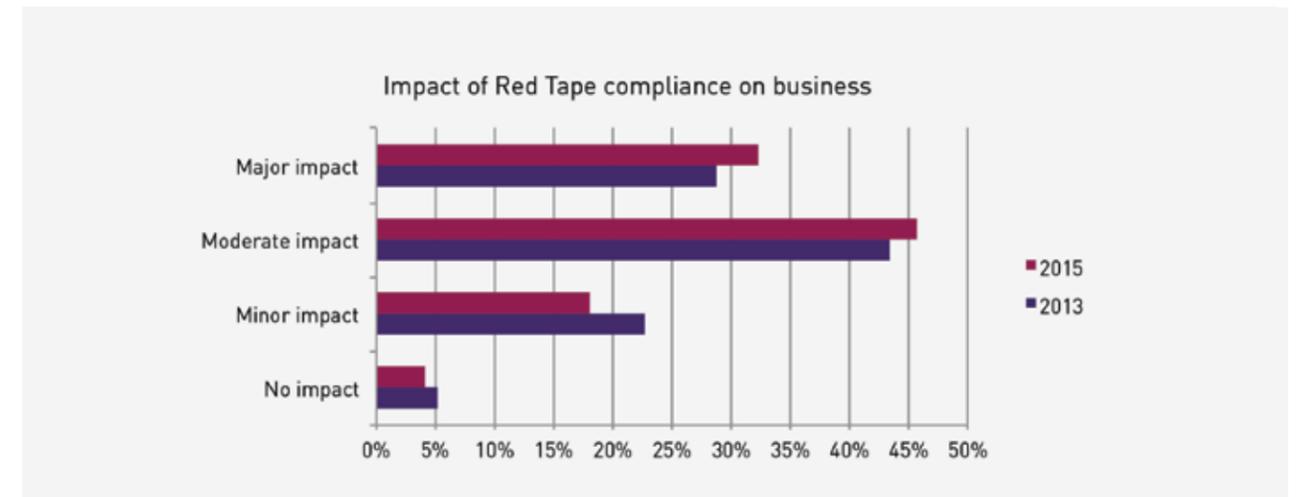
“There is a lack of a consistent narrative for the future by political leaders. SME sector is not supported to the level it requires to grow fully and this is stifling opportunities and growth in equity, sales and employment” – Survey Respondent, Gold Coast

## HOT TOPIC: BI-ANNUAL RED TAPE STUDY

The burden of red tape has intensified over the past two years and continues to adversely impact the performance of Queensland businesses.

Findings from the latest survey show 78 per cent of Queensland businesses experience a moderate to major impact from complying with government regulation, up from 72 per cent in 2013. This is despite commitments in the past two years from both the Federal and State Governments to reduce red tape compliance.

One in four businesses stated that red tape compliance had prevented them from making changes to grow their business and/or directly impacted profitability. The findings highlight the difficulties in identifying those red tape reduction measures that will provide real benefit to Queensland businesses.



The majority of Queensland businesses (58 per cent) indicated that the overall time spent on regulatory compliance had increased in the past two years. Some 44 per cent of Queensland businesses reported that they now spend 6 or more hours per week complying with government regulatory requirements compared to 38 per cent in 2013.

In terms of the overall cost of red tape compliance, 57 per cent of Queensland businesses indicated that costs had increased. This is an improvement from the 66 per cent of businesses that recorded increased costs in 2013 and the 81 per cent of businesses that recorded increased costs in 2011. The finding may reflect the greater use of online reporting and compliance activity leading to lower transaction costs. However, red tape appears to be unnecessarily complex, with one-third of Queensland businesses highlighting that understanding regulatory obligations and finding information is the most costly aspect of regulatory compliance.

“The unsettling effect of both State and Federal Governments which leads to nothing being accomplished. All politicians are scared to make firm decisions. Either we go the way NZ has gone and change our tax structure or we will keep going downhill as our overseas exports decline” – Survey Respondent, Gold Coast

“Regulatory changes are often impractical and a matter of more paperwork rather than improved practice” – Survey Respondent, South West Queensland

## 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](mailto:cciqadvocacy@cciq.com.au)

### CAPITAL EXPENDITURE

– Capital expenditure improved to 43.7 in the March quarter but remains in negative territory.

– The majority of Queensland businesses (55 per cent) expect similar spending on building, plant and equipment in the June quarter.

### EMPLOYMENT LEVELS

– The index levelled to 44.1 in the March quarter as Queensland businesses focus on maintaining staffing levels.

– Short-term expectations are stable, with 63 per cent of businesses reporting similar employment levels in the June quarter.

### PROFITABILITY

– Profitability fell to 37.8 in the March quarter, with the majority of businesses (53 per cent) reporting weaker profit margins as a result of rising input costs and soft demand.

– The index is forecast at 44.5 in the June quarter, with one in five businesses anticipating stronger profitability.

### LABOUR COSTS

– One-third of businesses reported increased labour costs in the March quarter.

– The upward movement in the Index to 55.2 is partly due to the Index now reflecting labour costs whereas previously it measured average wages.

– Some 63 per cent of businesses anticipate similar labour cost pressures over the next three months.

For general enquiries,  
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For the Employer Assistance  
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