



pulse
QUEENSLAND

CCIQ PULSE SURVEY OF BUSINESS CONDITIONS

▼ MARCH QUARTER 2016

CCIQ Powering
business
potential

The CCIQ Pulse Survey of Business Conditions is the largest survey of Queensland businesses, providing critical insights into the sentiment of nearly 500 business owners across the state. It is unchallenged in terms of being the most authoritative, timely and comprehensive snapshot of Queensland business expectations and confidence and has been in operation for over decades

The survey period is for 12-22 April 2016 and covers business sentiment through the quarter to March 2016 and looking forward to the quarter ahead to June 2016.



SALES & REVENUE

- The Pulse Sales and Revenue Index is in positive territory recording (51.0) in the March quarter.
- Sales and revenue are set to rise further, with the Index forecast at 52.8 for the June quarter.

OVERVIEW

- Queensland business confidence consolidated, with a steady proportion of businesses expecting and reporting improved economic growth.
- On the positive side, the low Australian dollar, interest rates, weather and fuel prices all combined to support economic activity over the March quarter and are anticipated to benefit the State in the coming 12 months.
- On the downside, the resources sector, a hung State Parliament, and the forthcoming Federal Election are weighing down consumer and business confidence and demand.



GENERAL BUSINESS CONDITIONS

- The Pulse General Business Conditions Index lifted to 44.3 (seasonally adjusted) in the March quarter, but overall conditions remain challenging.
- Business expectations for the coming June quarter appear to be heading back toward neutral territory (45.1).

12
MONTH

12 MONTH OUTLOOK

- The 12 month outlook for the Australian (49.9) and the Queensland (43.3) economies have both risen however remain just shy of a neutral setting.

INTRODUCTION

Business performance and confidence in the March Quarter ticked upwards for the Queensland economy.

On the positive side, the low Australian dollar, interest rates, weather and fuel prices all combined to support economic activity over the March quarter and are anticipated to benefit the State in the coming 12 months.

On the downside, the resources sector, a hung State Parliament, and the forthcoming Federal Election are weighing down consumer and business confidence and demand.

Despite the overall positive trend all metrics measured by the Survey remain well short of where needed and are below the five year average.

However the unmistakable direction for the March quarter was a positive one with indicators trending north. Performance and confidence are noticeably ahead of this time last year and expectations for the June quarter are also looking favourable.

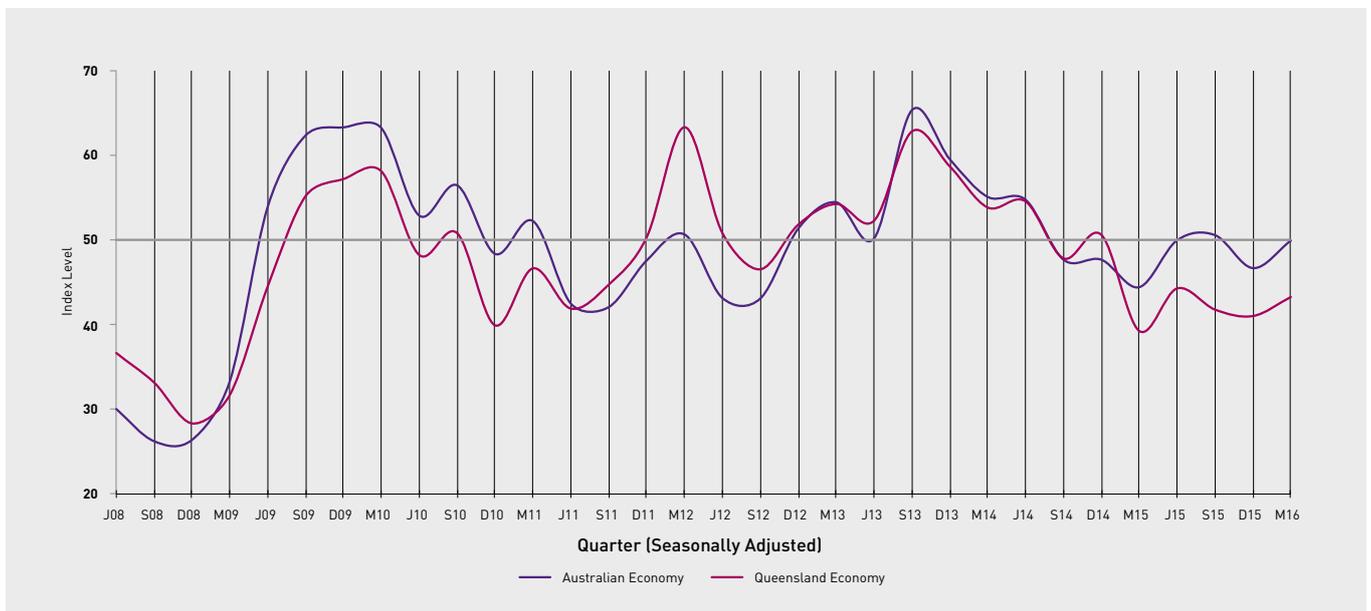
Whilst the current economic picture is undoubtedly challenging, there is mild optimism with improving general business conditions, sales and in turn profitability, employment and capital expenditure trending towards neutral territory.

Our efforts to digitalise our business and establish an online presence has paid off with an increase in online bookings in the last three months – Survey Respondent Wide Bay

SME's are very hesitant to make big decisions about the future given the uncertainty of the State Government's stability – Survey Respondent Brisbane

Uncertainty in federal politics and the upcoming election has meant consumers are holding off on large ticket purchases until after the results are known – 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-15	Dec-15	Mar-16	Mar-15	Dec-15	Mar-16
Weaker	50	44	43	41	32	30
Same	36	36	40	42	41	46
Stronger	14	20	17	17	26	23
Index (original)	37.7	41.1	41.6	42.1	47.2	47.3
Index (seasonally adjusted)	39.3	41.0	43.3	44.4	46.7	49.9

The 12 month outlook for the Australian and the Queensland economies have both slightly risen however the indexes remain below neutral levels.

At a national level, Federal Government budget 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. Additionally favourable weather conditions and fuel prices are providing a shot in the arm to small businesses especially in the tourism and agricultural industries.

In Queensland, the above influencers are also impacting on expectations for the State economy. However the downturn in the resources sector, State Government and both business and consumer confidence and demand are weighing heavily on business confidence especially in regional and rural parts of the State.

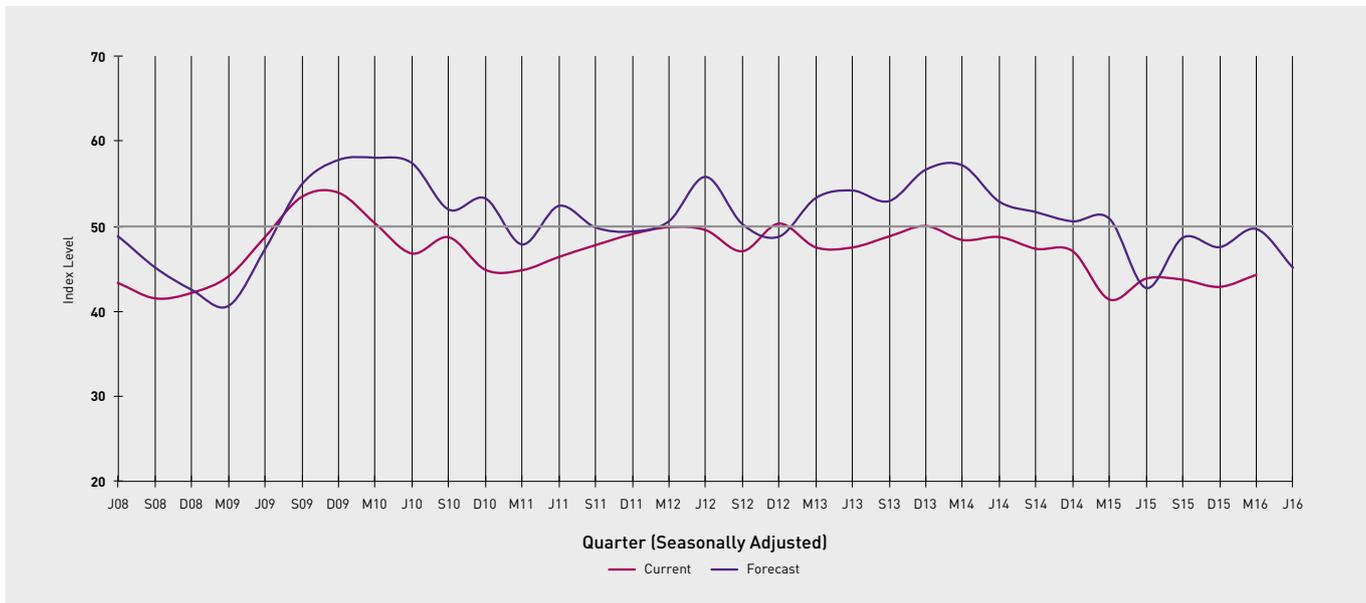
QUEENSLAND ECONOMY

- Business confidence in the Queensland economy improved, with the Pulse Business Confidence Index rising to 43.3 in the March quarter.
- However the majority of businesses continue to expect the State's economy to weaken, over the coming twelve months

AUSTRALIAN ECONOMY

- Business expectations for the Australian economy also improved and registered at 49.9 in the March quarter.
- The majority of businesses expect similar growth over the next 12 months.

GENERAL BUSINESS CONDITIONS



General Business Conditions				
	Mar-15	Dec-15	Mar-16	Jun-16
Weaker	48	34	40	31
Same	38	48	46	52
Stronger	14	19	14	17
Index (original)	38.4	44.9	41.1	44.9
Index (seasonally adjusted)	41.4	42.9	44.3	45.1

- The Pulse General Business Conditions Index rose in seasonally adjusted terms in the March quarter. However the Index continues to remain below its five-year average (47.8).
- The majority of businesses reported weaker general business conditions in the March quarter. This is consistent with recent quarters and indicates a continuing soft trading environment for the Queensland domestic economy.
- Business expectations for the coming June quarter appear to be heading in a positive direction albeit at a level below neutral territory, with the Pulse General Business Conditions Index forecast at 45.1 in seasonally adjusted terms.

The Queensland economy is struggling. In particular, North and Central Queensland are hurting with no business or consumer confidence. Investment from the State and Federal Government is needed to turn the economy around, lift confidence and create jobs – Survey Respondent Brisbane

SALES AND REVENUE

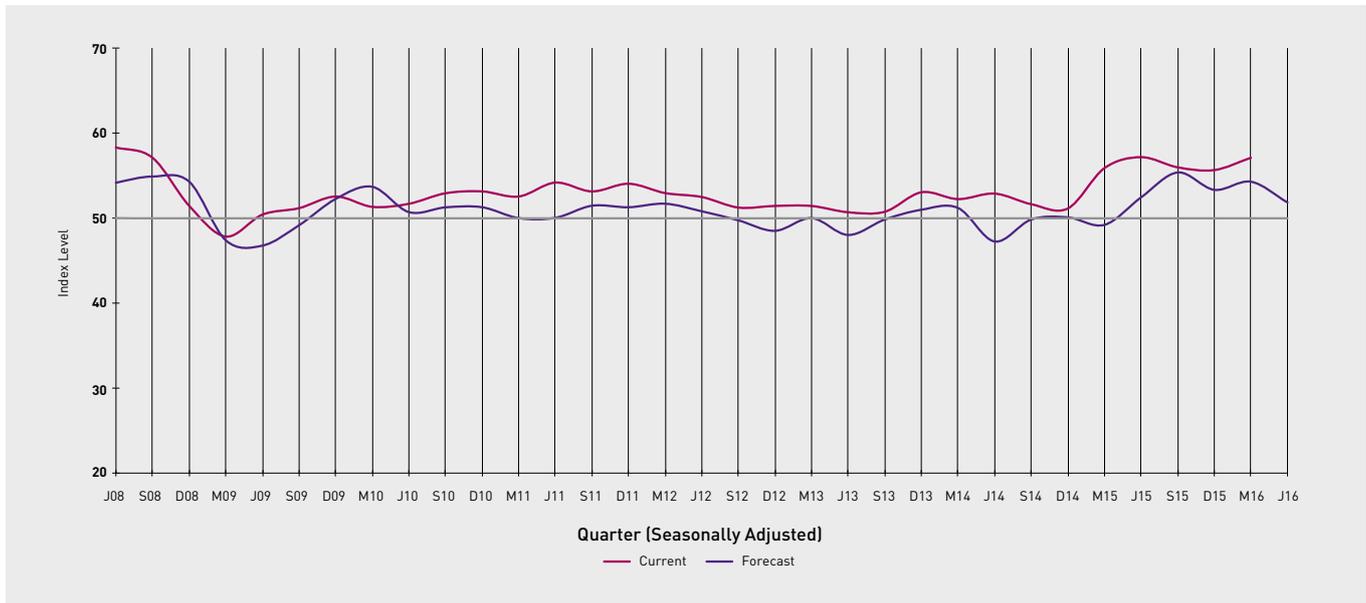


Sales & Revenue				
	Mar-15	Dec-15	Mar-16	Jun-16
Decreased	38	32	36	22
Same	35	34	34	41
Increased	27	34	31	37
Index (original)	45.3	50.2	47.5	52.9
Index (seasonally adjusted)	48.6	47.9	51.0	52.8

- The Pulse Sales and Revenue Index rose in the March quarter to 51.0 in seasonally adjusted terms.
- The Index has risen despite the uncertainty from the recent local government elections and the upcoming federal budget and election weighing on consumer demand.
- The Pulse Sales and Revenue Index is forecast to further rise in June quarter (52.8) and is above the five-year average (51.6), indicating that Queensland businesses expect consumer spending to pleasingly strengthen over the coming quarter.

The fantastic weather in recent months and the weak Australian dollar helps us with more people holidaying at home in Australia – Survey Respondent Sunshine Coast

LABOUR COSTS



Labour Costs				
	Mar-15	Dec-15	Mar-16	Jun-16
Decreased	13	8	7	7
Same	53	62	61	70
Increased	34	29	32	24
Index (original)	55.2	55.4	56.4	54.0
Index (seasonally adjusted)	55.9	55.7	57.1	51.9

- Whilst actual wages remain relatively subdued, total labour costs have risen with the Pulse Labour Costs Index rising to 57.1 in seasonally adjusted terms in the March quarter.
- The majority of Queensland businesses reported total labour costs remained the same in the March quarter.
- Looking ahead, the Index is expected to moderate for the coming June quarter.

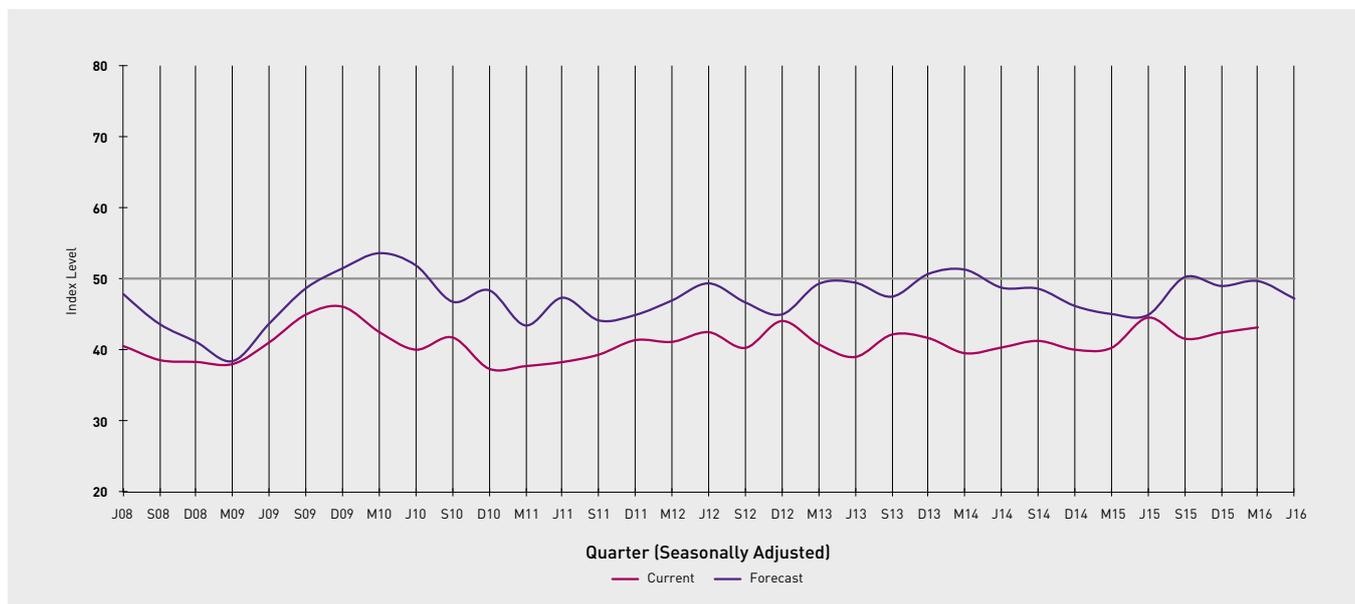
PULSE OTHER OPERATING COSTS INDEX

The Pulse Survey introduced a new indicator of 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 five quarters of data received so far, business operating costs appear elevated. The majority of businesses reported increased (52 per cent) or similar (45 per cent) operating costs in the March quarter. This trend is concerning and warrants future consideration.

Our business is struggling with poor sales activity due to a lack of government infrastructure projects. In addition, high labour costs and difficulty reducing these fixed costs through enterprise bargaining is squeezing our profit margins – Survey Respondent Brisbane

PROFITABILITY

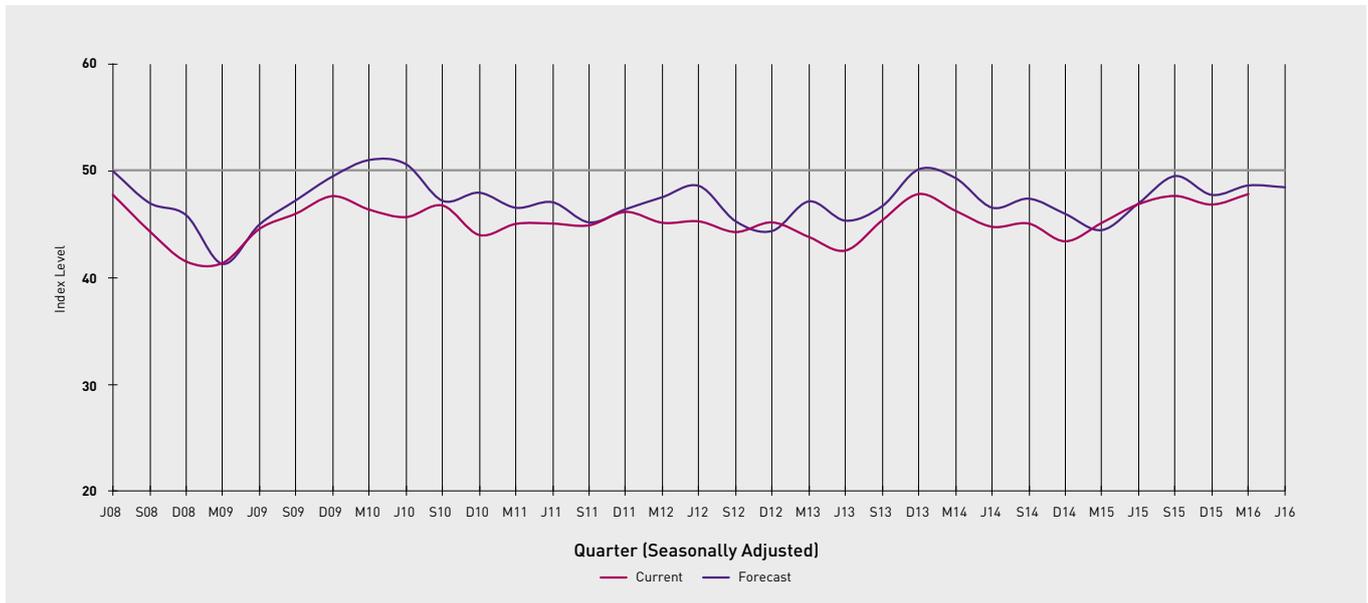


Profitability				
	Mar-15	Dec-15	Mar-16	Jun-16
Decreased	53	41	46	34
Same	33	38	40	40
Increased	14	21	14	26
Index (original)	37.8	44.3	40.5	46.8
Index (seasonally adjusted)	40.3	42.4	43.1	47.2

- The Pulse Profitability Index rose by to 42.4 in seasonally adjusted terms in the March quarter but remains stubbornly in negative territory.
- The majority of businesses reported decreased or similar profit levels in the three months to March 2016. Businesses identified high labour and other input costs as well as weak revenue growth and increasing competition as key factors impacting probability.
- The Index is forecast to improve increasing to 47.2 for the coming June quarter in seasonally adjusted terms. This result is promising and is in line with small business efforts to reduce business costs and seek out new income streams.

We are operating in a tough market, clients continue to push down margins and competitors dropping prices to win new business. Internally we have had staff changes, which long term will increase the business, short term has made it a little more fragile – Survey Far North Queensland

EMPLOYMENT LEVELS



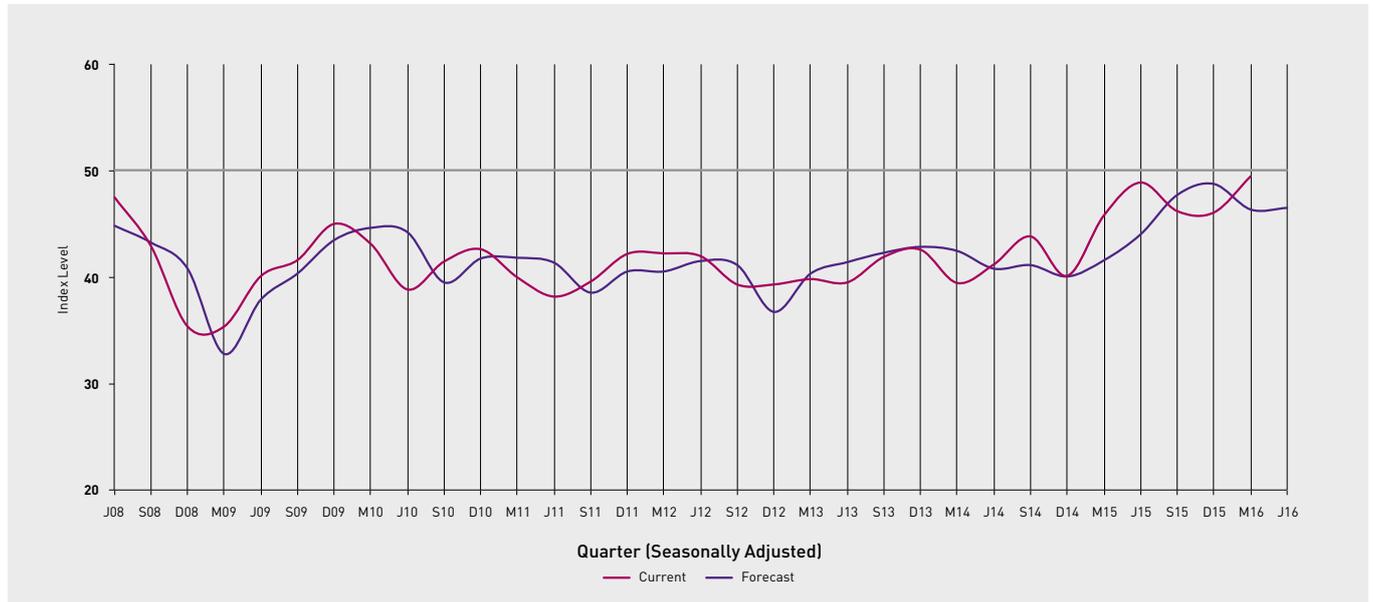
Employment Levels				
	Mar-15	Dec-15	Mar-16	Jun-16
Decreased	32	22	25	21
Same	55	64	59	64
Increased	14	14	15	15
Index (original)	44.1	47.6	46.7	47.7
Index (seasonally adjusted)	45.1	46.8	47.8	48.4

- The Pulse Employment Levels Index rose slightly in seasonally adjusted terms to 47.8 in the March quarter.
- Looking ahead to the June quarter, the Index is forecast at 48.4, which is above the five-year average for the series (46.6) although remaining below neutral levels.
- The majority of businesses expect to keep employment levels steady over the next three months.

There have been more redundancies in the last few months as customers are getting tighter with their spending. Companies are increasingly offshoring their workforce reducing employment opportunities in our region – Survey Respondent Sunshine Coast

The slowdown in the resources sector and persistent drought has resulted in a severe lack of money in our region which has meant less spending and jobs. – Survey Respondent South West Queensland

CAPITAL EXPENDITURE



Capital Expenditure				
	Mar-15	Dec-15	Mar-16	Jun-16
Decreased	34	25	25	24
Same	46	55	53	60
Increased	19	20	22	15
Index (original)	43.7	47.4	47.2	45.5
Index (seasonally adjusted)	45.8	46.0	49.4	46.5

- The Pulse Capital Expenditure Index rose to 49.4 in seasonally adjusted terms in the March quarter.
- Short term expectations for capital expenditure are not quite as good with the index coming back slightly to 46.5 in seasonally adjusted terms.
- Small businesses cited profitability, economic uncertainty from the upcoming federal election as challenges for increasing capital expenditure in their business.

Our business is waiting to see the outcome of the federal election and State Government policies for tax, super and industrial relations. All these policies impact our decisions and our willingness to invest and employ – Survey Respondent Far North Queensland

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	↑ 42.5	↓ 42.4	↑ 47.8	↓ 40.3	↓ 33.7	↓ 42.0	↓ 28.3	↑ 46.0	↓ 40.2
General Business Conditions	↓ 42.2	↓ 45.9	↓ 48.8	↓ 41.0	↓ 27.6	↓ 32.9	↓ 27.2	↑ 45.0	↓ 38.3
Total Sales/Revenue	↓ 48.7	↓ 52.3	↓ 53.8	↓ 44.0	↓ 30.3	↓ 36.8	↑ 38.0	↑ 54.0	↓ 46.7
Profitability	↓ 41.1	↓ 43.6	↓ 44.4	↓ 38.0	↓ 30.3	↓ 34.2	↓ 32.6	↑ 46.9	↓ 39.2
Labour costs	↑ 56.3	↓ 59.3	↓ 58.1	↑ 53.0	↓ 55.3	↓ 54.2	↓ 54.3	↓ 59.0	↑ 54.3
Employment Levels	↑ 46.5	↑ 52.3	↓ 51.3	↓ 44.0	↓ 40.8	↑ 46.1	↓ 39.1	↓ 47.0	↓ 46.7
Capital Expenditure	↑ 48.0	↑ 52.9	↑ 50.0	↓ 44.8	↓ 43.4	↑ 47.4	↓ 37.0	↑ 46.0	↓ 45.8

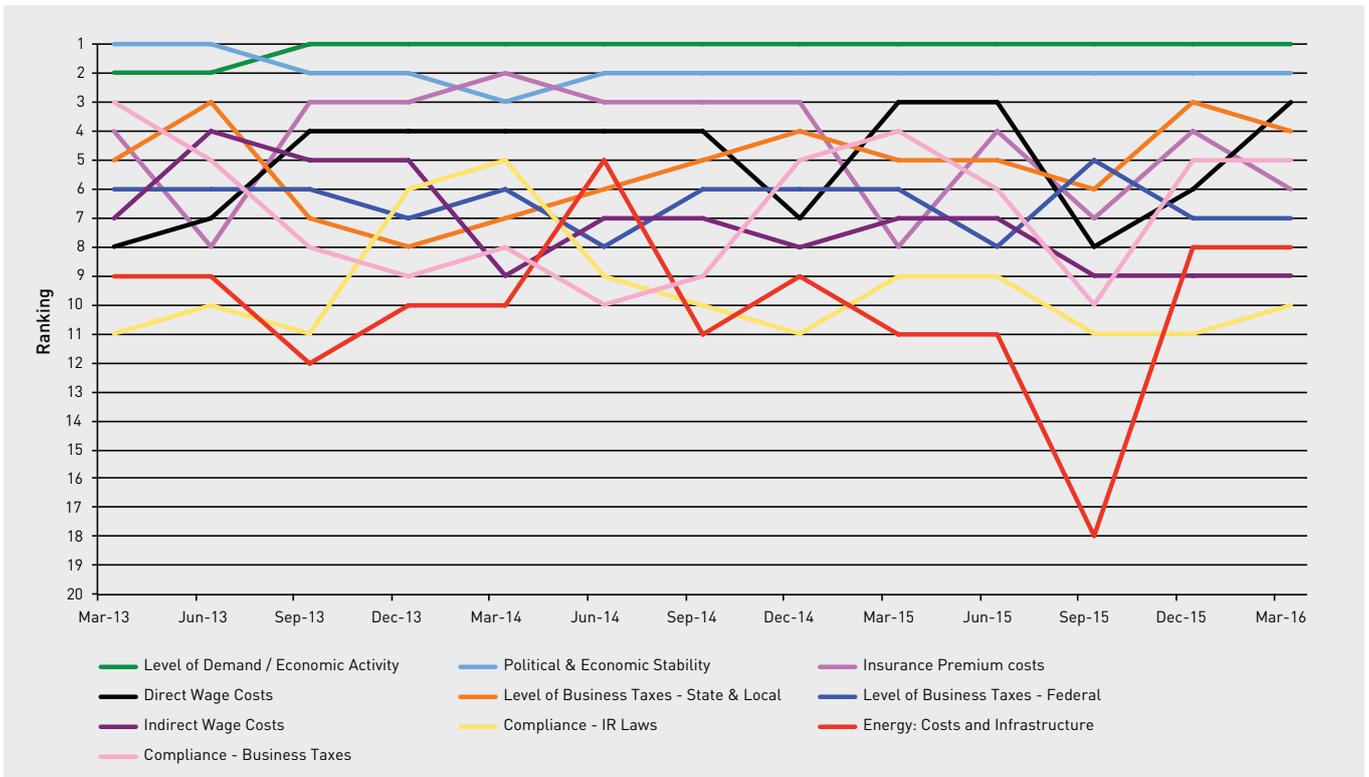
↑ index improved from previous quarter; = index unchanged from previous quarter; ↓ index worsened from previous quarter. *Wide Bay previously part of Sunshine Coast data set.

REGIONAL BUSINESS CONFIDENCE

- Business confidence was mixed across all regions, with North Queensland recording the lowest confidence index (28.3) in the State.
- Confidence in Far North Queensland region rose by an impressive 9 points to 46.0. This is partly accounted for by the weaker Australian dollar creating a 'double shot' for business from overseas and domestic tourists as well as international investors.
- Central Queensland business confidence fell to 33.7 however it is expected to rebound in the coming quarter as improved weather conditions and strong agricultural commodity prices boost local economic activity.
- Confidence levels rose in Brisbane (42.5) but continue to relatively subdued.
- Gold Coast business confidence (47.8) has improved over the last three months whereas the Sunshine Coast has fallen after recording the second highest confidence in the State in the December quarter.
- The March Quarter saw confidence in Wide Bay declining with the mining downturn, decline in government tenders and the upcoming federal election sapping local consumer demand.

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	45.3	45.9	48.7	42.0	39.5	43.4	35.9	47.0	46.7
Total Sales/Revenue	55.3	51.2	55.6	51.0	43.4	50.0	43.5	56.0	55.8
Profitability	48.5	43.6	55.1	42.0	39.5	46.1	33.3	51.0	47.4
Labour Costs	53.5	52.9	56.4	52.0	55.3	51.3	52.2	52.1	58.6
Operating Costs	58.8	59.3	60.9	54.0	63.2	57.9	68.5	57.0	66.7
Employment Levels	48.2	49.4	51.3	43.0	40.8	50.0	38.0	47.0	53.3
Capital Expenditure	47.3	51.7	46.7	33.3	40.8	46.1	32.6	50.0	45.0

MAJOR CONSTRAINTS ON BUSINESS GROWTH

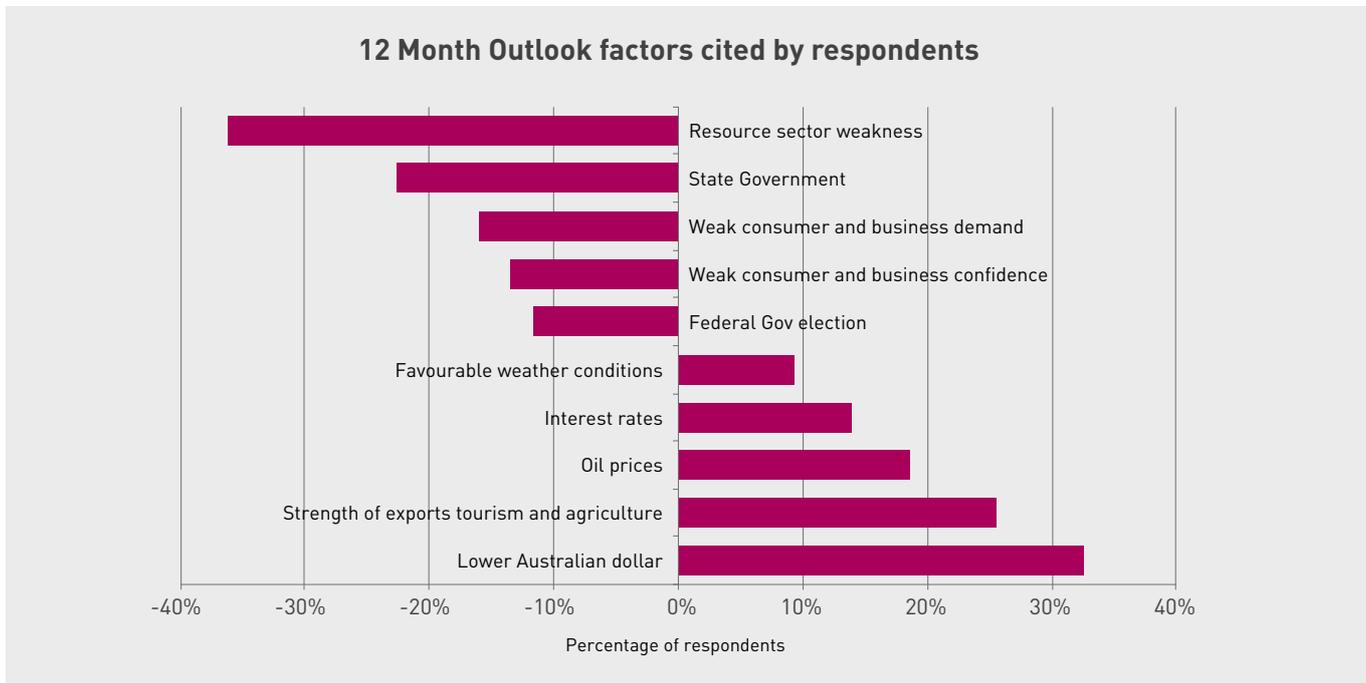


- For the past eleven consecutive quarters, Queensland businesses have reported soft levels of consumer demand and economic activity as the largest constraint on growth.
- Political and economic stability is the second largest constraint. The upcoming federal election no doubt weighing on business sentiment and activity across the Sunshine State.
- Upward pressure from direct wages is continuing to bite as sales and revenue are soft across Queensland reducing profits.
- The level of State business taxes and government charges is in fourth place as small businesses become increasingly worried by the rising burden of inefficient taxes such as payroll tax and duties on business transactions.
- Compliance and complexity of business taxes and charges completes the top five constraints and cements the need for holistic national tax reform.

Governments at state and federal level need to start investing in Nation Building projects like Dams, water infrastructure, Electricity generation, road and rail networks, particularly in Regional Queensland to allow further expansion of our agricultural, mining and construction sectors – Survey Respondent North Queensland

HOT TOPIC: 5 GREATEST INFLUENCERS ON BUSINESS CONFIDENCE

Whilst the seasonally adjusted direction for the Queensland economy was one of improvement business confidence continues to have plenty of room for improvement. CCIQ has analysed the factors influencing business confidence for the Queensland economy with the graph below showing the factors that the Queensland business community believe will affect the economy over the next 12 months.



TOP 5 NEGATIVE FACTORS

1. Resource Sector weakness

The resource's sector has been an important driver of economic activity for Queensland. In 2016, the poorer outlook for the resources sector is anticipated to negatively impact broader business activity especially in rural and regional areas of the State.

2. State Government

State Government policies are a key factor determining consumer and business confidence. Businesses believe the Palaszczuk Government is not investing enough in key infrastructure, and is not doing enough to help transition the economy post the resources boom and restore the State's financial position. The hung parliament has increasingly weighed heavily on the minds of business.

3. Weak consumer and business demand

Global economic conditions especially in China and financial market volatility are having negative repercussions on overall economic activity across the Sunshine State.

4. Weak consumer and business confidence

Continued resource sector weakness and the upcoming federal budget and election will weigh heavily on consumer and business confidence.

5. Federal government election

The upcoming 2016 Federal election is expected to again have a negative impact on Queensland's economic activity with consumers going into slow motion. For business uncertainty around government policy and decision making reduces sales and capital expenditure.

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 and the signing of Free Trade Agreements with Korea, Japan and China will boost demand for Queensland exports in 2016. Queensland businesses identified tourism, resources, agribusiness and education as bright spots in driving business activity.

3. 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.

4. Interest rates

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

5. Favourable weather conditions

Queensland small businesses cited the continued improvement in historical weather factors and the reduction of drought conditions as positive influencers on the Queensland economy. This is especially true in the tourism and agricultural sectors boosting aggregate demand, jobs and investment.



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.

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 Capital Expenditure Index increased to 49.4 in the March quarter.
- Short term expectations for capital expenditure are not quite as good with the index coming back to 46.5.



EMPLOYMENT LEVELS

- Employment levels have increased over four consecutive quarters and the Index is now at 47.8 for the March quarter.
- 64 per cent of businesses expect to keep employment levels steady in the three months to June.



PROFITABILITY

- Profitability rose slightly to 43.1 in the March quarter but remains stubbornly in negative territory. The majority of businesses reported weaker (46 per cent) or similar (40 per cent) profitability levels in the three months to March 2015.
- Expectations for the coming June quarter sees the Index trending towards neutral territory.



LABOUR COSTS

- Whilst actual wage costs remain relatively subdued, total labour costs have risen with the Pulse Labour Costs Index rising to 57.1 in seasonally adjusted terms in the March quarter.
- Looking ahead, the Index is expected to moderate for the coming June quarter (51.9).

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