



# SUNCORP GROUP CCIQ PULSE SURVEY OF BUSINESS CONDITIONS

▼ SEPTEMBER QUARTER 2016



The CCIQ Pulse Survey of Business Conditions is the largest survey of Queensland businesses, providing critical insights into the sentiment of nearly 600 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 3-14 October 2016 and covers business sentiment through the September Quarter 2016 and looking forward to the December Quarter 2016.

## MAJOR CONSTRAINTS ON BUSINESS GROWTH

The top five constraints on business growth at present include Level of demand & economic activity; Political and economic stability; Direct wage costs; Level of State business taxes and government charges; and Indirect wage costs.

## BUSINESS PERFORMANCE AND EXPECTATIONS

**General Business Conditions** rose by 0.6 index points in the September Quarter to 43.0 and should further improve in the December Quarter (46.9).

**Sales and Revenue** rose by 0.5 index points in the September Quarter to 50.7 and represents three straight quarters of strengthening performance. The index is now 2.1 index points above the five-year average and is set for further improvement rising to 54.2 in the December quarter.

**Labour Costs** rose by 0.6 index points in the September Quarter to 57.1 and is above the five-year average of 53.6.

**Profitability** fell by 0.5 index points in the September Quarter to 42.0 but is above the five-year average (41.5), and combined with strengthening sales and revenue results is forecast to improve in the December Quarter (46.8).

**Employment Levels** were unchanged at 47.1 in the September quarter and is consistent with relatively no change in the past twelve months. While remaining above the five-year average (45.6), the December quarter indicates further no change in employment levels.

**Capital Expenditure** fell by 1.7 index points to 45.7 in the September Quarter and is expected to decline by a further 0.7 index points in the December Quarter. Despite these declines the Index remains 2.6 percentage points above the five-year average (43.1).

## INTRODUCTION

**Business confidence as measured by the twelve-month outlook of the Queensland economy fell for a third straight quarter in September.**

While low interest rates, more affordable property prices and a solid pipeline of residential construction work are important positives for the Queensland economy, concerns associated with weak employment, slow wages growth, and an oversupply in high-density apartments are reflected in the current business sentiment data.

While the conclusion of the Federal election has delivered some certainty to the business community, the slim majority of the Turnbull government, and a belief that there is a lack of vision and direction for Australia, is influencing overall confidence at a national level.

For Australia, the twelve-month outlook fell by 1.6 percentage points to 48.8 in the September Quarter, and places the index below both the neutral level (50.0), and the five-year average (49.3).

Business confidence in the Queensland economy also fell in the September Quarter, and at 41.4 it is now at its lowest level since the March Quarter 2015. Further, the twelve-month outlook is now 8.0 percentage points below the five-year average (49.4), in seasonally adjusted terms.

Despite this fall in sentiment, businesses have recorded an increase in general businesses conditions, as well as sales and revenue, suggesting that while overall confidence in the economy remains low, businesses are reporting that increased levels of activity are returning to Queensland.

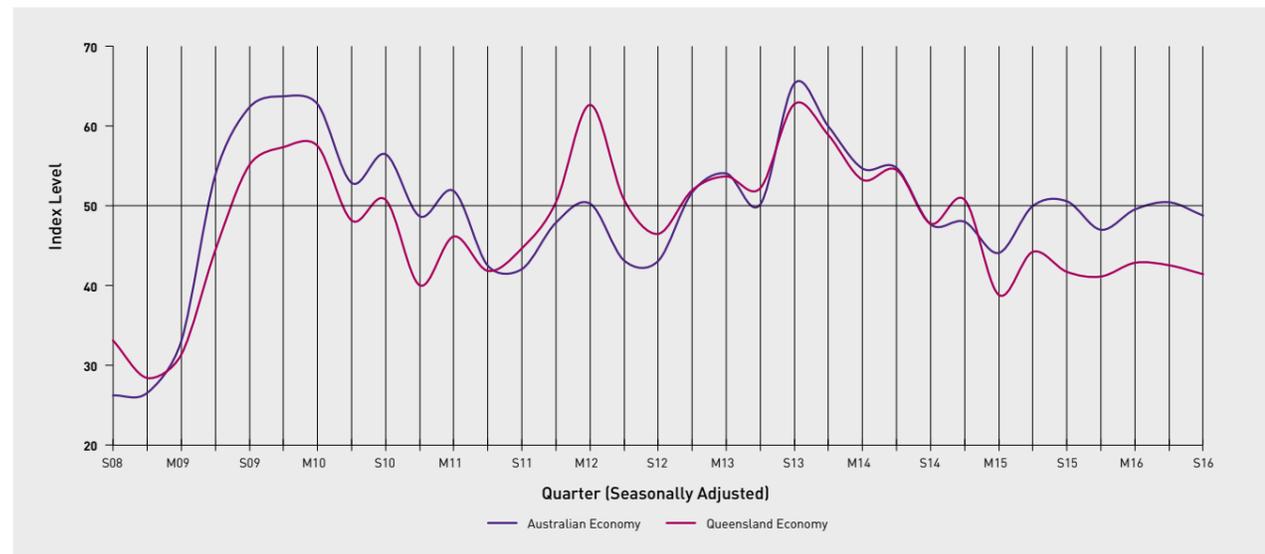
Notwithstanding a number of indicators highlighting improvement in the Queensland economy, it appears that this is yet to filter through to a strengthening in business confidence with the Pulse Survey suggesting ongoing caution and “determined pessimism” across many small businesses.

There are some signs of economic progress in the area, with unemployment appearing to decrease as a whole, and the continuing performance of the Australian dollar is a good indicator that the economy is picking up. – Survey Respondent, Central Queensland

Property prices have been on the rise with low interest rates driving borrowing and consequently construction across South East Queensland. The level of new apartments coming online will outstrip demand and lead to a decline in prices and a potential property bust. – Survey Respondent, Brisbane

The ability of businesses to create jobs will need to be a priority for Queensland. The high level of “real” unemployment, which is underemployment and all the discouraged job seekers that are not even counted in government data, is a critical issue in the regions. – Survey Respondent, South West Queensland

## 12 MONTH OUTLOOK: AUSTRALIAN & 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		
	Sep-15	Jun-16	Sep-16	Sep-15	Jun-16	Sep-16
Weaker	41	43	39	28	27	25
Same	39	42	45	39	49	53
Stronger	20	15	15	33	24	22
Index (original)	42.1	41.1	41.8	50.7	48.6	48.9
Index (seasonally adjusted)	41.7	42.5	41.4	50.5	50.4	48.8

Confidence in the national and state economies has followed similar, downward trends in the September Quarter with sentiment weakening in the twelve-month outlook for both the Australian and Queensland economies.

At a national level, the conclusion of a two-month election campaign has seen a renewal of business activity across the past three months, although the slim majority of the Turnbull Government has generated concern among small business owners about the ability of the Coalition to govern effectively. These concerns, combined with uncertainty surrounding global markets and the forthcoming US Presidential Election, are driving weakening sentiment at the national level. The competitiveness of the Australian dollar and low interest rates continue to deliver benefits to a number of industry sectors however, and are particularly favourable for the Queensland economy.

A number of issues are restraining confidence in the Queensland economy as well. Despite the September Quarter revealing positive results across retail trade, dwelling approvals and housing finance, the current Pulse Survey suggests that unemployment and an inability of the private sector to generate new jobs, is underpinning much of the doubt and caution across small businesses. For some industry sectors, the oversupply of high-density residential properties is also a source of apprehension, with the possibility of settlement risk emerging as a new source of unease for some businesses.

The results of the September Quarter highlight that small businesses across Queensland continue to have a cautious view of state economic performance. While a number of key economic indicators suggest that momentum appears to be gathering, businesses are yet to be convinced that this will translate into a meaningful, long-term trend. As a result, small businesses continue to be apprehensive about the Queensland economy across the next twelve months.

### QUEENSLAND ECONOMY

- The seasonally adjusted estimate declined by 1.1 percentage points in the September Quarter to 41.4, which is 8.0 percentage points below the five-year average (49.4).
- This follows a fall of 0.3 percentage points in the June Quarter.
- In seasonally adjusted terms, the Queensland Outlook index is 0.3 percentage points lower in September 2016 compared with September 2015.

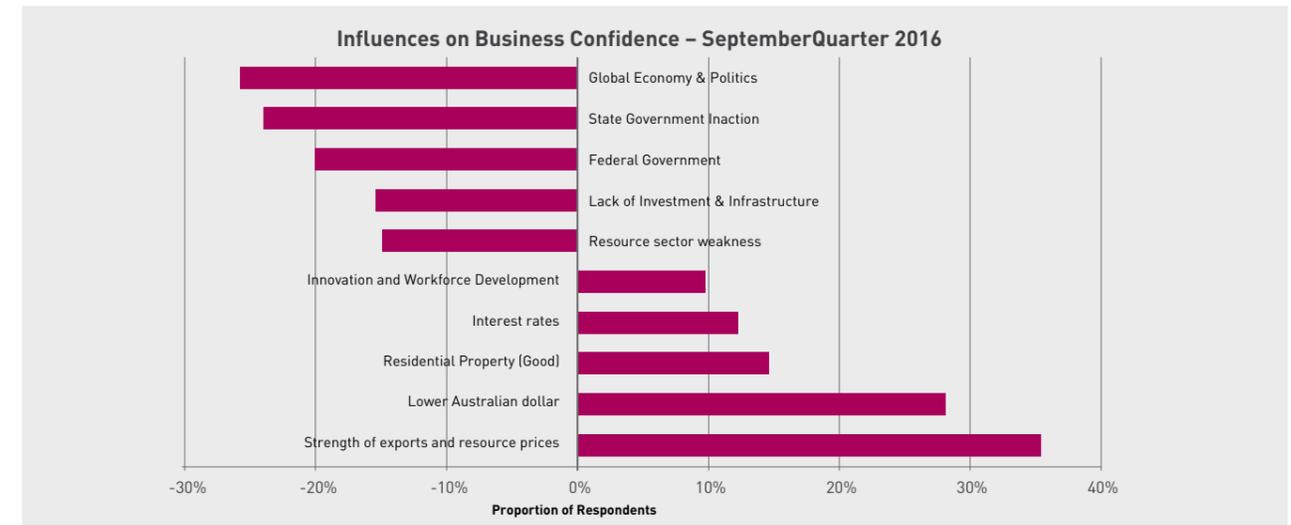
### AUSTRALIAN ECONOMY

- The seasonally adjusted estimate fell by 0.6 percentage points in the June Quarter to 48.8.
- The national outlook is now 1.8 percentage points below the same quarter last year.
- The Australian Outlook index is now below the neutral level (50.0) and the five-year average (50.5), but remains 7.3 percentage points above the Queensland Outlook.

## INFLUENCERS ON BUSINESS CONFIDENCE

Business confidence in the Queensland economy continues to be weak, although sales and revenue has remained above neutral territory, with general business conditions also showing signs of recovery across the most recent Quarter.

Analysis of Pulse Survey qualitative data has revealed a number of factors that are having both a positive, and negative impact, on the sentiment of businesses towards current economic conditions and future outlook. The graph below highlights the most commonly cited influences on business confidence in the June Quarter.



### TOP 5 NEGATIVE FACTORS

#### 1. Global Economy, Markets & Politics

The most cited reason driving negative perceptions of economic performance was linked to concerns surrounding global markets, and the implications of reduced international trade on domestic activity. As an extension of this, a high proportion of businesses also indicated that the upcoming US Presidential Election was generating concern, although this was offset by a number of respondents suggesting that apprehension will reduce once the vote has taken place on November 8.

#### 2. Queensland Government

While global concerns are at the forefront for many businesses, the performance of the Queensland government continues to be a negative influence on overall business confidence. A high proportion of businesses indicated that inactivity of the Queensland Government on key policies is restricting small businesses from improving productivity and profitability.

#### 3. Federal Government

Concerns relating to the Federal Government, and in particular the ability of the Turnbull Coalition to govern effectively with a slim majority in the Lower House and potential Senate impasse, was highlighted as being a key factor in the negative sentiment towards economic performance across the next twelve months, especially at the national level.

#### 4. Lack of Investment & Infrastructure

Businesses continue to indicate that a lack of public expenditure and investment into significant infrastructure projects, especially in regional Queensland, continue to place limits on confidence in economic performance, and optimism surrounding the vision and direction for the State.

#### 5. Resource Sector

Weakness in the resource sector, and the disruption being generated by an ongoing transition away from mining projects continues to have a prominent role in driving negative sentiment towards the economic performance of Queensland.

### TOP 5 POSITIVE FACTORS

#### 1. Exports & Resources

Rising commodity prices, increased international tourism, and continued strength in agriculture were all cited as important positives for the Queensland economy across the September Quarter. Continued business activity within the tourism industry, and the strength of cattle and sugar prices, are having particularly strong influences in regional Queensland.

#### 2. Australian Dollar

The value of the Australian dollar across the past three months was also cited as a positive for a number of businesses across Queensland. Specifically, the tourism and education sectors continue to benefit from an internationally competitive exchange rate, which is producing an increase in demand from overseas tourists, students and other exports.

#### 3. Property & Construction

Despite a drop in dwelling approvals the pipeline of residential construction work remains at very high levels which is driving optimism across some sectors of the business community. This optimism is beginning to be offset however, by concerns relating to an oversupply of housing stock, and the possibility of settlement risk, especially across Inner-Brisbane.

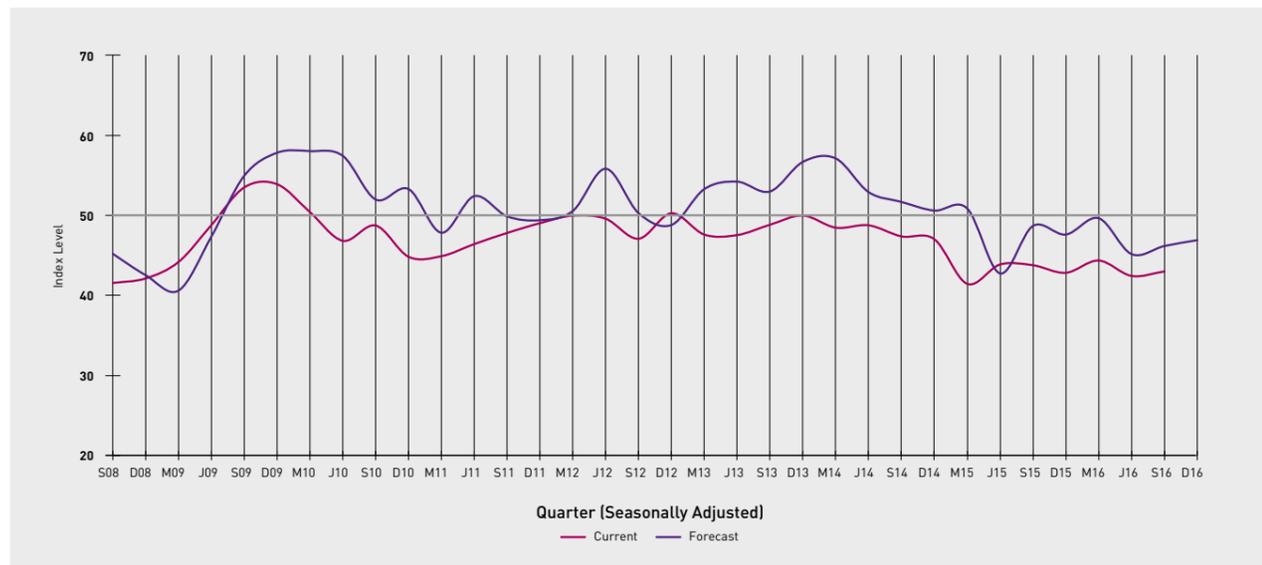
#### 4. Interest Rates

The influence of low interest rates continues to have a positive impact on the confidence levels of Queensland businesses. Some businesses however, indicate disappointment that despite the historically low interest rates, access to finance continues to be difficult for small businesses wanting to invest in, and develop, their operations.

#### 5. Investment & Innovation Projects

Support and funding for investment in innovation projects has continued to be a source of optimism for business across Queensland, with a number of respondents highlighting that the combined application of new technology, and workforce development, continues to drive innovation and productivity in some industry sectors.

## GENERAL BUSINESS CONDITIONS



General Business Conditions				
	Sep-15	Jun-16	Sep-16	Dec-16
Weaker	34	37	34	28
Same	46	50	46	51
Stronger	20	13	20	21
Index (original)	45.0	41.6	44.2	47.0
Index (seasonally adjusted)	43.8	42.4	43.0	46.9

- The Pulse General Business Conditions Index rose by 0.6 percentage points in the September Quarter to 43.0.
- The number of businesses reporting that business conditions were weakening decreased by three per cent in the September Quarter, with perceptions of general business conditions returning to the level recorded in the same quarter last year.
- Businesses indicated that conditions should further improve in the December Quarter, with the seasonally adjusted forecast of General Business Conditions expected to reach an index level of 46.9 in the next three months.

Quote: Business conditions are challenging as we adapt to a market place with an increased number of local competitors that are engaging with aggressive sales techniques, as well as online sales that going to interstate and overseas businesses.  
– Survey Respondent, South West Queensland.

## SALES AND REVENUE



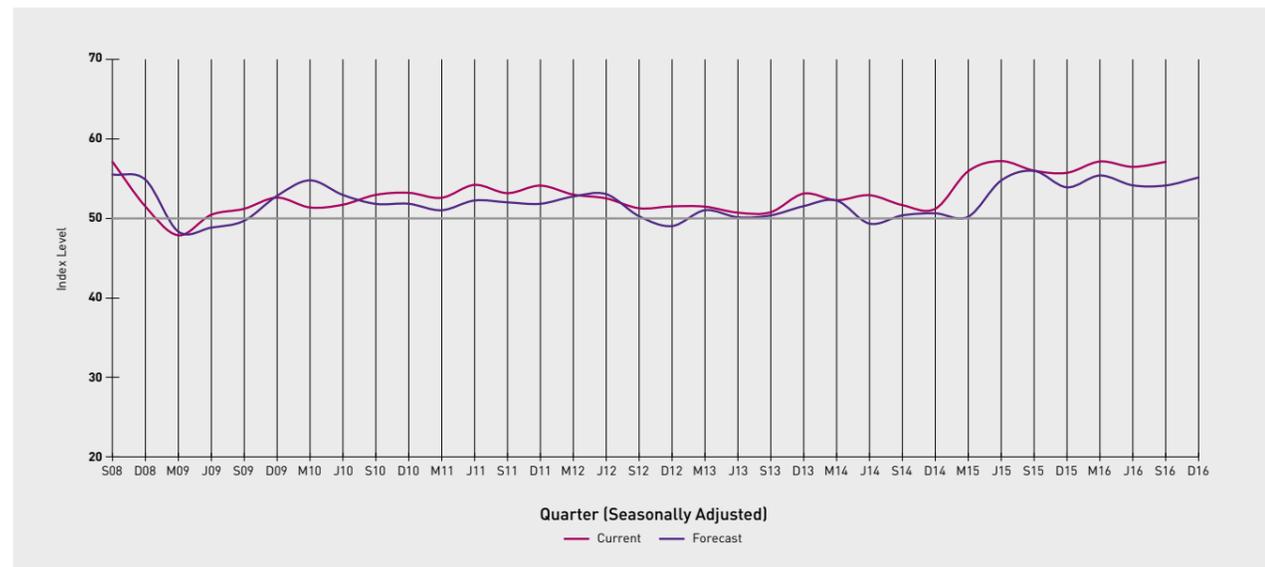
Sales & Revenue				
	Sep-15	Jun-16	Sep-16	Dec-16
Decreased	30	30	30	21
Same	36	39	31	41
Increased	35	31	38	39
Index (original)	50.6	49.5	51.7	54.5
Index (seasonally adjusted)	49.6	50.2	50.7	54.2

- The Pulse Sales and Revenue Index rose by 0.5 percentage points in the September Quarter to 50.7.
- More than a third of businesses indicated that the levels of sales and revenue in their business had increased compared to the June Quarter.
- This result represents three straight quarters of strengthening performance in sales and revenue, and places the index at 2.1 percentage points above the five-year average.
- Further improvements are expected across the next three months, with the Sales and Revenue Index remaining above the neutral level (50.0) at 54.2.

The business is currently experiencing a strong increase in sales, and enquiries with our transactions in October 2016 being the second highest for any month in our 65-year history.  
– Survey Respondent, Gold Coast.

Across the past three months we have seen an increase in project work from regular, and new clients, which is improving revenue, although not significantly.  
– Survey Respondent, Far North Queensland.

## LABOUR COSTS



Labour Costs				
	Sep-15	Jun-16	Sep-16	Dec-16
Decreased	9	8	8	7
Same	57	59	54	66
Increased	34	32	38	27
Index (original)	56.6	56.6	57.7	55.0
Index (seasonally adjusted)	56.0	56.5	57.1	55.2

- The Pulse Labour Costs Index rose by 0.6 percentage points in the September Quarter to 57.1. More than one-third of Queensland businesses indicated that labour costs had increased relative to the June Quarter, while the majority recorded that labour costs were unchanged.
- The Pulse Labour Costs Index remains above the five-year average of 53.6, while also being above the twelve-month average of 56.5.
- The number of Queensland businesses experiencing significant upward pressure in labour costs are at levels not seen for almost a decade.

Labour costs and employment levels are under pressure with both declining as a result of redundancies and the reduction in casual workers.  
– Survey Respondent, Far North Queensland

## OPERATING COSTS

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 has now been developed however, only original estimates are currently available, with a seasonally adjusted index being made available in the future. As this measure is still being refined, the figures provided should be used with some caution.

Operating Costs				
	Sep-15	Jun-16	Sep-16	Dec-16
Decreased	3	3	3	2
Same	44	38	44	59
Increased	52	59	52	39
Index (original)	63.6	65.9	63.7	59.9

Based on the available data, the proportion of businesses reporting an increase in operational costs has remained relatively unchanged in the past twelve months. The majority (52 per cent) of businesses indicated that they experienced an increase in operating costs in the September Quarter, compared with the June Quarter. In original terms, the Operating Costs index level fell by 2.2 percentage points in the September Quarter, with respondents continuing to cite insurance, electricity, indirect wage costs as the key areas driving cost increases.

Although there are good growth opportunities from overseas markets, and the local economy is vibrant, the active management of our operating costs, and driving these down where possible, has had the biggest impact on our business over the last three months.  
– Survey Respondent, South West Queensland

The time and cost of compliance has really increased our costs at time when confidence and willingness to spend is low in the community. We thought that things would improve after the Federal election, but we are yet to see any upward movement in sales.  
– Survey Respondent, Wide Bay

## PROFITABILITY



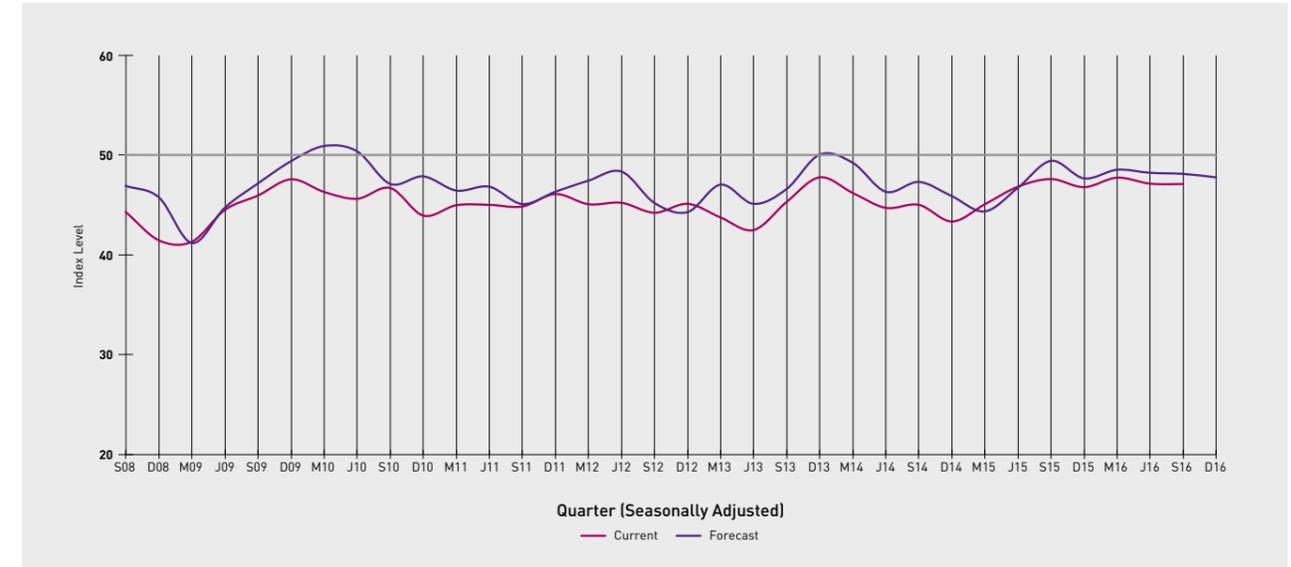
Profitability				
	Sep-15	Jun-16	Sep-16	Dec-16
Decreased	43	45	42	29
Same	39	36	37	48
Increased	18	18	21	23
Index (original)	42.5	41.5	42.9	47.1
Index (seasonally adjusted)	41.6	42.5	42.0	46.8

- The Pulse Profitability Index fell by 0.5 percentage points in the September Quarter to 42.0.
- The proportion of businesses indicating that profitability had decreased fell by three percent, and is lower than what was recorded in the September Quarter last year.
- While profitability remains weak, the Pulse Profitability Index is slightly above the five-year average (41.5), and combined with strengthening sales and revenue results, the forecast of improved profitability in the December Quarter suggest improving conditions.

Across the past quarter, we have seen an increase in demand from our clients, all of which have been more profitable projects for the business.  
– Survey Respondent, Far North Queensland

The major impacts on business activity in the past three months has been an increase in both competition and higher wages, which in turn are reducing margins and overall profitability. – Survey Respondent, Brisbane

## EMPLOYMENT LEVELS



Employment levels				
	Sep-15	Jun-16	Sep-16	Dec-16
Decreased	23	24	23	22
Same	61	62	62	61
Increased	16	14	16	18
Index (original)	48.0	46.7	47.5	48.1
Index (seasonally adjusted)	47.6	47.1	47.1	47.8

- The Pulse Employment Levels Index remained unchanged at 47.1 in the September quarter.
- In seasonally adjusted terms, the Employment Levels Index is slightly lower (0.5 percentage points) in September 2016 compared with September 2015, although the index has been flat for the past twelve months.
- While remaining above the five-year average (45.6), businesses continue to indicate that conditions do not warrant any substantial increase in employment, with the index remaining below the neutral level.
- Without any meaningful increase in demand and economic activity, small business will continue to consolidate employment levels, and utilise the spare capacity in their existing workforce.

The local economy continues to experience difficulties, which means there is no work and people aren't spending money. Small business is unable employ additional staff, and most can barely afford the people they have. Those people that are employed are very conscious that their jobs are not safe. – Survey Respondent, Central Queensland

I have had to concentrate on cutting costs this quarter, and as a result have needed to reduce staff numbers to stay in business. Financial institutions are unwilling to lend to small businesses, which makes it hard to stay in business, and very hard to invest in employees. – Survey Respondent, Wide Bay

## CAPITAL EXPENDITURE



Capital Expenditure				
	Sep-15	Jun-16	Sep-16	Dec-16
Decreased	28	32	27	25
Same	49	45	52	60
Increased	23	23	21	15
Index (original)	47.1	46.3	46.6	45.4
Index (seasonally adjusted)	46.1	47.4	45.7	45.0

- The Pulse Capital Expenditure Index fell by 1.7 percentage points to 45.7 in the September Quarter.
- Queensland businesses forecast further contraction in capital expenditure across the next three months, with the index expected to decline by a further 0.7 percentage points during the December Quarter.
- Despite two straight quarters of falling capital expenditure, the Index remains 2.6 percentage points above the five-year average (43.1).
- While business continues to indicate that current conditions are not suitable for investment and expenditure on buildings, plant and machinery, there does appear to be a gradual strengthening since a low point of 37.0 was recorded in December 2012.

Although we have seen a dramatic drop in repeat business, we have had a slight increase in new client numbers, which is allowing the business to make some expenditure available to marketing and capital equipment. – Survey Respondent, Wide Bay

## REGIONAL ANALYSIS

Regional analysis of the CCIQ Pulse Survey highlights that economic conditions are being experienced disproportionately across Queensland, with the South-East recording stronger results relative to Regional Queensland.

Current (Seasonally Adjusted)	Queensland	South-East Queensland	Regional Queensland
Queensland	41.4	42.2	40.8
General Business Conditions	43.0	44.8	40.2
Sales and Revenue	50.7	51.7	48.8
Profitability	42.0	44.1	39.1
Labour costs (Avg. Wage)	57.1	59.4	54.4
Employment Levels	47.1	47.5	46.4

### REGIONAL BUSINESS CONFIDENCE:

- Businesses in South-East Queensland are more optimistic about the twelve-month outlook of the state economy, compared with Regional Queensland (40.8), recording an index level of 42.2.
- While the Sales and Revenue Index indicates strengthening performance for businesses in South-East Queensland (51.7), the recorded score of 48.8 for Regional Queensland highlights that the recent return in customer spending has not been distributed evenly across Queensland.
- Analysis indicates that sales and revenue has been strengthening in South East Queensland for seven straight quarters, while this index has not been above a neutral level in Regional Queensland since June 2012.
- Despite this finding for sales and revenue, it is encouraging that businesses operating outside of the South-East corner recorded an index level of 40.2 for general business conditions, which is a rise of 2.5 percentage points on the previous quarter.
- While conditions do appear to be significantly better for business operating in South-East Queensland, evidence indicates that businesses in this region are experiencing a greater impact from rising wage costs relative to regional Queensland, with the Pulse Labour Costs Index being at a nine-year high.
- Overall, businesses operating in South-East Queensland continue to enjoy more favourable business conditions relative to regional Queensland, with forecasts indicating that this will continue into the December Quarter.

Forecast – December 2016 (Original)	Queensland	South-East Queensland	Regional Queensland
General Business Conditions	47.1	47.2	47.1
Sales and Revenue	54.5	56.3	54.3
Profitability	47.1	49.3	47.1
Labour Costs	55.0	57.4	54.9
Employment Levels	48.1	49.3	48.1

## MAJOR CONSTRAINTS ON BUSINESS GROWTH

Rank	Constraint	Sep-15	Jun-16	Sep-16	Quarterly Change
1	Level of demand/economic activity	62.3	63.5	64.6	↑
2	Political and economic stability	58.2	63.5	61.0	↓
3	Direct wage costs	49.3	51.0	54.4	↑
4	Level of business taxes and government charges (State and Local)	49.0	52.8	53.6	↓
5	Indirect wage costs	46.0	48.9	52.6	↑
6	Compliance and complexity of business taxes	49.1	50.0	52.4	=
7	Insurance premium costs	47.3	50.0	51.5	↓
8	Level of business taxes and government charges (Federal)	46.7	49.4	50.9	↓
9	Compliance and complexity of IR laws	45.9	44.3	50.8	↑
10	Energy costs and reliability	44.3	48.4	49.8	↓

↑ Rank order improved from previous quarter; = unchanged from previous quarter; ↓ worsened from previous quarter.

- With a full quarter since the Federal election, the level of customer demand and overall economic activity has replaced political uncertainty as the major constraint on Queensland business.
- Direct wage costs, rose by 3.4 percentage points and has moved into third place as a major constraint on business and highlights the continuing impact of this expenditure item on the performance and growth of small business.
- The level of constraint imposed by indirect wage costs, which includes such things as superannuation and workers' compensation, increased by 3.7 percentage points and rose from eighth to fifth as an overall constraint on business activity.
- Re-entering the top ten for the first time in twelve months, compliance and complexity of industrial relations laws recorded the single largest increase, rising by 6.5 percentage points to rank ninth overall as a major constraint.
- Taxes across all levels of government remain as a significant constraint on business growth, while the complexity of business taxation also persists as a major hindrance to small business across Queensland.
- While falling to tenth position overall, energy costs and reliability are another major barrier to business growth.

Low levels of customer demand, declining investment, and uncertainty across all levels of Government, continue to affect my business and capacity to grow.  
– Survey Respondent, Brisbane

### ECONOMIC INDEX

The **Queensland Economic Index** declined by 1.1 points in the September Quarter to 41.4, which is 8.0 percentage points below the five-year average (49.4)

The **Australian Economic Index** fell by 0.6 points in the September Quarter to 48 and is below the five-year average (50.5) but 7.3 percentage points above the Queensland Outlook.

### REGIONAL ANALYSIS

**Regional analysis** highlights that economic conditions are being experienced disproportionately across Queensland, with the South-East recording stronger results relative to Regional Queensland.

### INFLUENCERS ON BUSINESS CONFIDENCE

**Negative influencers** on the 12 month outlook for the Queensland economy include Global Economy & Politics; State Government inaction; Federal Government; Lack of Investment & Infrastructure and Resource Sector weakness.

**Positive influencers** on the 12 month outlook for the Queensland economy include Strength of exports & resource prices; Lower Australian Dollar; Property & Construction; Interest Rates and Investment & Innovation Projects

## 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.

**To find out more about Pulse, please contact Nick Behrens, Director of Advocacy, on 1300 731 988 or at [cciqadvocacy@cciq.com.au](mailto:cciqadvocacy@cciq.com.au)**

## 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



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