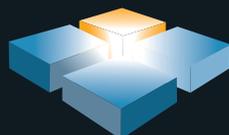


Commonwealth Bank CCIQ Pulse Survey of Business Conditions



September Quarter 2010



CHAMBER OF
COMMERCE &
INDUSTRY
QUEENSLAND



Determined to be different

> Introduction

For the first time in over twelve months, there is a fledgling sense of business optimism in the Queensland economy with most indicators starting to trend upwards.

However Queensland businesses are still exercising caution in the light of possible further interest rate hikes, ongoing uncertainty around key government policies such as the mining tax and carbon pricing, and the stability of global economies and key international trading markets.

The next three months leading into Christmas will be a telling period for Queensland businesses and the state's economy. Stronger business and consumer confidence will need to drive long awaited improvements in sales, revenue and business profitability. Strong leadership and decisions on key aspects of economic and monetary policy over the next quarter will determine the economic fortunes of Queensland businesses.

"General lack of confidence by consumers caused by many things but mainly the instability of both State and Federal governments."

"Business Uncertainty – everybody seems reluctant to move forward."

> 12 Month Outlook: Australian & Qld Economies



Australian Outlook			
	Sep-09	Jun-10	Sep-10
Weaker	11	27	18
Same	32	41	38
Stronger	57	32	44
Index	63.8	50.0	57.8

Queensland Outlook			
	Sep-09	Jun-10	Sep-10
Weaker	21	36	29
Same	37	38	36
Stronger	42	26	35
Index	56.0	46.6	51.6

— Australian economy
— Queensland economy

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

Australian Economy

> This quarter has seen a sharp turn around in business confidence in the Australian economy on last quarter's low point. The seasonally adjusted Pulse Business Confidence Index increased from 50.0 in the June Quarter to 57.8 for September signalling that business fears over the instability of the Australian Government and for international economies may be easing.

> Accordingly the majority (44 per cent) of businesses are expecting stronger growth prospects for the Australian economy over the coming year. Only 18 per cent of businesses expect the Australian economy to weaken.

Queensland Economy

> Queensland businesses are also optimistic about the outlook for the state economy, with more businesses expecting the Queensland economy to remain the same (36 per cent) or grow stronger (35 per cent) over the next twelve months.

> The seasonally adjusted Pulse Business Confidence Index has moved back into positive territory, increasing from 46.6 in the June Quarter to 51.6 for the September Quarter.

> Survey Analysis: Factors Affecting the 12 Month Outlook...

Interest rate decisions were a key issue for Queensland businesses in this quarter's pulse survey. Businesses are significantly concerned that the RBA is not cognisant of small business and regional areas which are still struggling and have not experienced any significant economic recovery. Businesses indicated that further interest rate rises would cause consumer confidence and spending to fall to levels where business viability and the ability to maintain employment will be challenged.

"Interest rates are the big one, the RBA has no idea what the economy is really like at the moment, the mining industry are propping up an economy that is at tipping point".

"I have a big issue with people talking up the economy when small business is struggling, so we feel we are being lied to by our politicians".

Political leadership and stability also featured strongly as a key factor impacting the twelve month outlook. Many businesses are questioning the current Federal Government's approach to policy development and their ability to make decisions and take decisive action. Businesses fear the ongoing effects on consumer confidence, investment and economic growth as a result of the potentially unstable minority government and the lingering uncertainty and constant changes to policy issues of national economic significance.

"Government ability to implement decisions and give certainty on significant issues including the mining tax. Also the longevity of the government is of concern. We can't afford to go into another election period, business just stops".

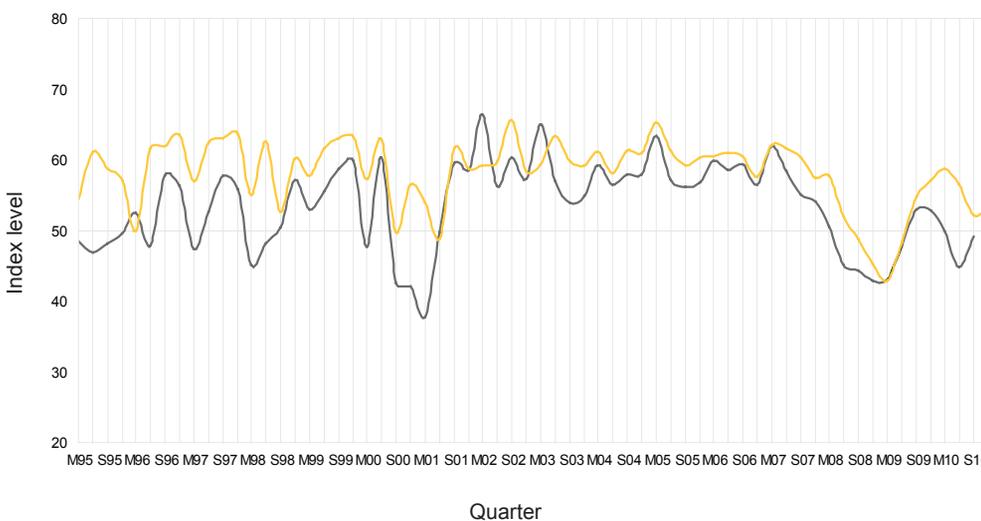
A further challenge facing Queensland businesses is the high value of the Australian Dollar and the immediate and longer term effects on our terms of trade and key export industries. As there is a general view that Queensland's economy is largely supported by export-orientated industries, in particular the mining industry, all Queensland businesses are exposed to significant risk from declining demand in our export markets should the Australian dollar continue at current highs.

Finally businesses expressed frustration over the tightening of bank lending both to the consumer/household and business markets. The tightening of credit has had a significant effect on property markets and the building and construction industry and has also contributed to reduction in general consumer spending. Compounding this, Queensland businesses are struggling to access the finance required to invest in business expansion. This is viewed by Queensland businesses as a significant factor affecting the twelve month outlook.

"Cannot get finance from the banks – they are changing their rules and want us to pay back part of existing loans without any defaults on our side".

"Higher interest rates would see retail spending slow even further. Lack of finance to business is stalling any recovery".

> Sales & Revenue



Sales & Revenue				
	Sep-09	Jun-10	Sep-10	Dec-10
Weaker	28	40	34	20
Same	31	32	32	44
Stronger	41	28	35	36
Index	53.0	44.9	49.1	53.0

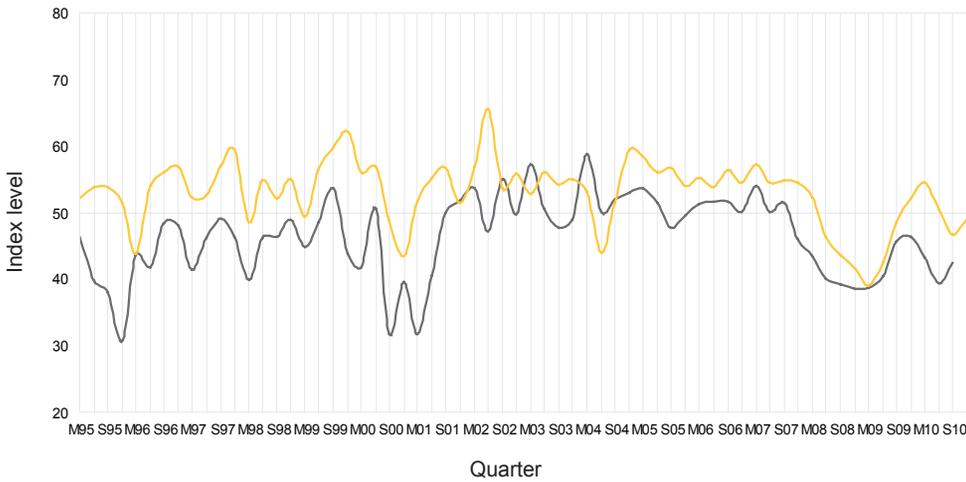
— Current — Expected

"Expenses are increasing constantly, however people are cautious and not spending their discretionary income. Confidence is weak and people are battling increases in every day costs of living".

- survey respondent

Following a poor start in the first half of the year, Queensland businesses have had a somewhat improved quarter for sales and revenue, however there is still a wide gap between expectations and actual results and a significant divergence in performance across businesses. An equal proportion of businesses experienced the same (32 per cent) or stronger (35 per cent) sales and revenue to those who experienced weaker sales and revenue (34 per cent) for the quarter. Accordingly the Pulse Sales and Revenue Index has increased by 4.2 points to 49.1 for the September Quarter.

> Profitability



Profitability				
	Sep-09	Jun-10	Sep-10	Dec-10
Weaker	37	48	39	29
Same	37	34	40	44
Stronger	27	18	20	27
Index	45.7	39.4	42.4	49.0

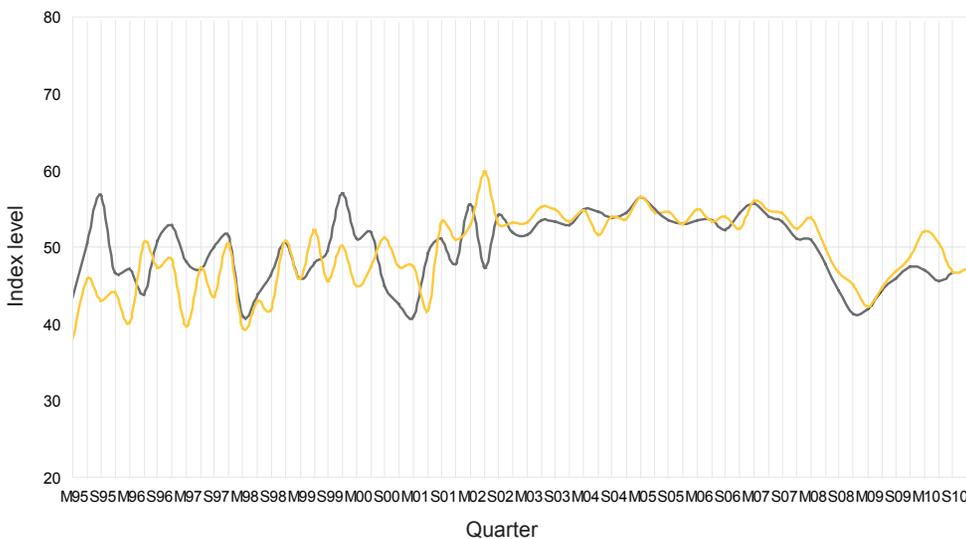
— Current — Expected

“Commercial rents have increased by 4% per annum; all services have increased – electricity by nearly 50 per cent, even the ambulance levy has gone up by 7 per cent. We are having to give huge discounts to keep our clients and attract new ones.”

– survey respondent

- > Despite a slight improvement in sales and revenue, Queensland businesses continue to experience depressed profitability. The majority of Queensland businesses experienced the same (40 per cent) or weaker (39 per cent) profit results for the September quarter. There has been only a small upturn in the Pulse Profitability Index which improved by 3 points, from 39.4 in the June Quarter to 42.4 in the September Quarter.
- > Queensland businesses expect marginal improvements in profitability to continue over the December Quarter, with the Pulse Profitability Index forecast to move upwards to 49.0.

> Employment Levels



Employment Levels				
	Sep-09	Jun-10	Sep-10	Dec-10
Weaker	26	27	23	20
Same	58	59	59	65
Stronger	16	13	18	15
Index	45.9	45.7	46.7	47.2

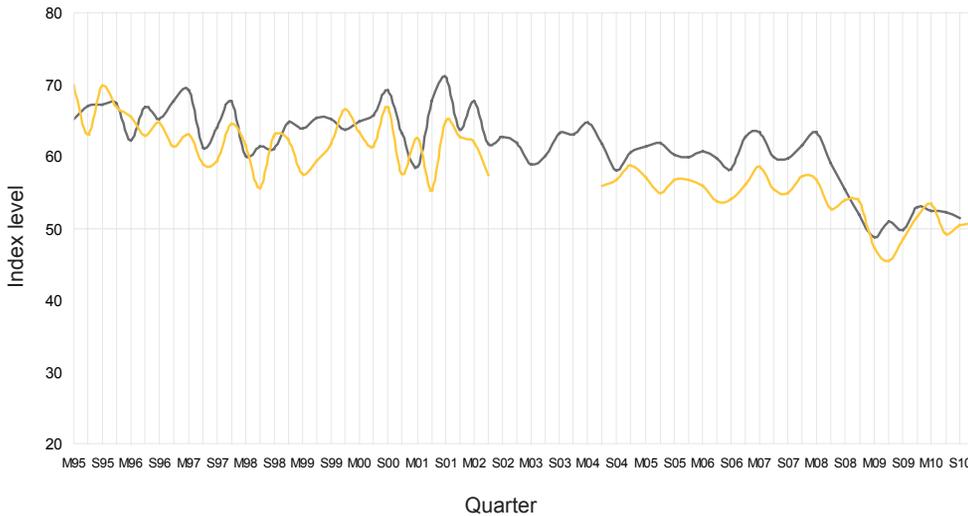
— Current — Expected

“Less staff employed due to rising costs – I have put two staff off as lack of confidence continues to affect sales and profitability. We had to downsize business, cut workers and reduce overheads in order to stay viable.”

– survey respondent

- > With economic conditions being slow to recover, it is not surprising that employment levels have also remained unchanged over the past three months. The majority of businesses have left employment levels the same and expect this trend to continue through to the end of the year.
- > Accordingly the Pulse Employment Levels Index increased only marginally from 45.7 in June to 46.7 in September and is expected to increase to 47.2 in December.

> Average Wages



Average Wages				
	Sep-09	Jun-10	Sep-10	Dec-10
Weaker	9	10	10	10
Same	73	71	64	72
Stronger	17	19	26	18
Index	49.7	52.3	51.4	50.7

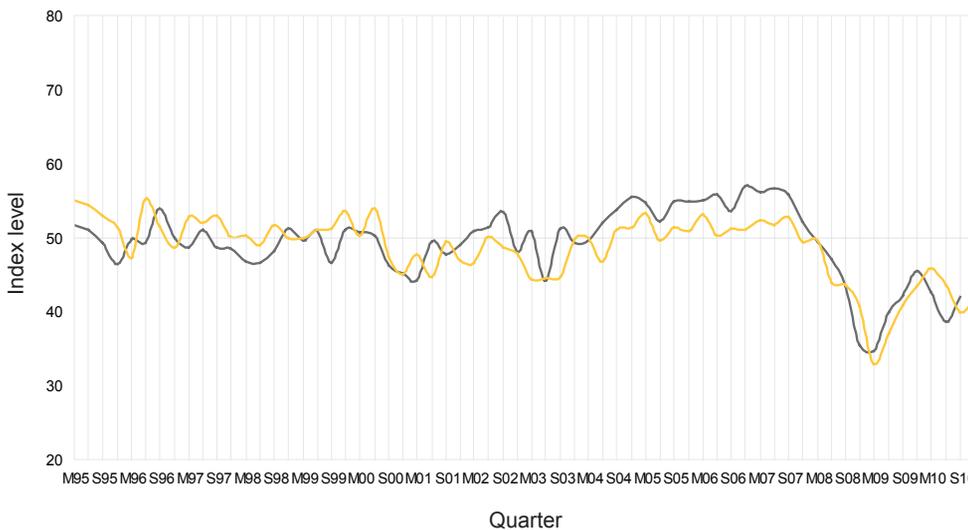
— Current — Expected

"South East Qld is in recession with the average small business at a third to half of employment capacity. Big business and banks are handing on all costs to small business to maintain record profits, whilst small businesses go broke."

- survey respondent

- > Queensland businesses are not experiencing any significant wage pressures at present which is reflective of the stable employment conditions and depressed state of business sales and profitability. Wages pressures are expected to remain at the same low levels into the December quarter.

> Capital Expenditure



Capital Expenditure				
	Sep-09	Jun-10	Sep-10	Dec-10
Weaker	36	42	32	32
Same	44	43	52	53
Stronger	21	15	16	15
Index	42.2	38.7	41.9	41.6

— Current — Expected

"The fact that the governments keep spending money while tax payers foot the bill. Businesses don't have much more they can give - their pockets are empty. I think the economy is in much worse shape than is portrayed."

- survey respondent

- > The level of Business Capital Expenditure remained at concerningly low levels during the three months to September with the Pulse Capital Expenditure Index improving only marginally to 41.9. Depressed sales and profit levels coupled with high business costs are making it especially hard for Queensland businesses to reinvest back into their business.

"It doesn't help when the banks put up interest rates - enough families are hurting. We were looking forward to a good Christmas and then we get more bad news (of further interest rate rises). It seems to me that at the moment the big guys including the banks have had a growth year but yet more than 50% of businesses have not."

- survey respondent

"More people are spending with cash (not large amounts) instead of putting purchases on credit card. The decision to purchase larger items in our case furniture and window coverings, is being put on hold. Our industry has never seen it so quiet at this time of year in our 30 years of doing business"

- survey respondent

> Regional Analysis

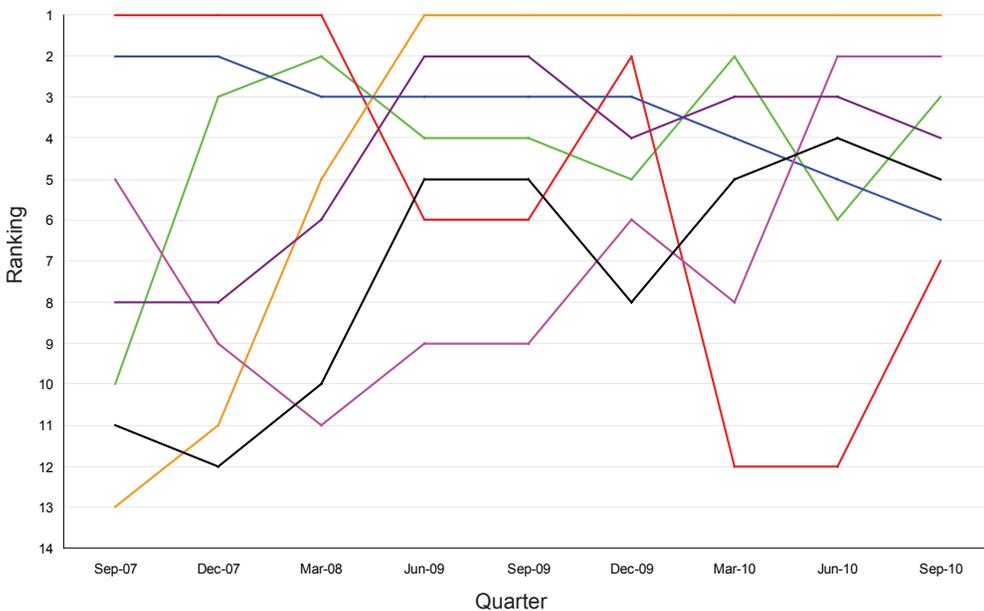
Current	Brisbane	Sunshine Coast	Gold Coast	South West Queensland	Central Queensland	Central Coast	North Queensland	Far North Queensland
12 Month Outlook - Queensland	↑ 51.6	↑ 49.3	↑ 48.3	↑ 52.7	↑ 53.8	↑ 62.5	↑ 51.0	= 48.4
General Business Conditions	↑ 53.1	↑ 47.0	= 47.5	= 41.8	↑ 53.3	↑ 59.1	↑ 52.1	↑ 49.5
Total Sales/Revenue	↑ 52.8	↑ 46.3	↑ 47.1	↑ 38.1	↑ 55.1	↑ 58.0	= 47.9	↑ 50.5
Profitability	↑ 46.6	↑ 41.2	↓ 40.0	↓ 34.1	↑ 42.4	= 44.3	= 39.8	↑ 44.4
Average Wages	↑ 55.6	↑ 48.7	↓ 40.0	↓ 51.7	↑ 58.3	↑ 54.5	↑ 55.4	↑ 51.9
Employment Levels	↑ 50.6	= 43.5	↓ 52.2	↓ 42.9	↑ 49.4	↓ 47.6	↑ 47.8	↑ 44.9
Capital Expenditure	↑ 45.8	↑ 38.4	↓ 37.2	↓ 43.2	↑ 42.2	↑ 46.9	↑ 33.1	↑ 43.6

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

- > There continues to be wide disparity in the economic fortunes of businesses across different regions of the state.
- > While the Central Coast region is again the strongest performing region across all business indicators, businesses in Brisbane and Far North Queensland have experienced a significant turnaround over the September Quarter. North Queensland has also shown their most encouraging signs of economic recovery experienced this year.
- > The economic performance of businesses in the Gold Coast, South West Queensland, and to a lesser degree the Sunshine Coast regions remain at concerning levels.

"The economy is very weak at the moment, the mining industry is providing a false sense of where the economy is really at, another interest rate rise will cause a lot of heartache in the community."

> Major Constraints on Business Growth



"At a state level costs keep rising, at a federal level debt and mismanagement are of particular concern".

- survey respondent

"Interest rate rises and slowing economy have produced the necessary scare tactics for slow spending...everyone is now terrified of the GFC coming back".

- survey respondent

- Interest Rates
- Labour - Recruitment & Retention
- Level of Demand / Economic Activity
- Direct Wage Costs
- Political & Economic Stability
- Level of Business Taxes - State & Local
- Level of Business Taxes - Federal

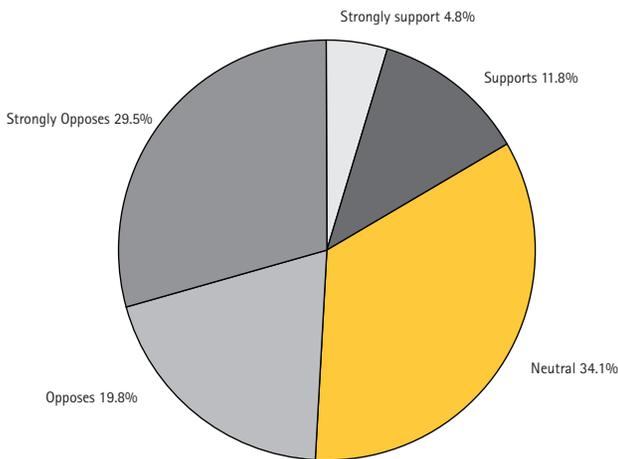
- > Queensland businesses remain most concerned about the level of demand and economic activity. Depressed sales and revenue continue to impact on business profitability.
- > Political and economic stability is the second most significant constraint on business growth. The disruption to business activity caused by the Federal Election outcome coupled with ongoing reports of international economic instability significantly impacted on business growth over the previous quarter.
- > Interest rates and the threat of future rate rises continue to erode consumer confidence and spending which impacts significantly on business growth. Additionally Queensland businesses face significant challenges in leveraging funds for business investment and are struggling to absorb the impacts of higher rates on their business lending which is further eroding business profitability and growth.
- > The level of federal and state business taxes remain a significant constraint on business activity. In the current high cost business environment, Queensland businesses need some reprieve from escalating costs of doing business in Queensland bought about by government regulation and taxes.

> Hot Topic – Impacts of Carbon Pricing on Queensland businesses

Despite there being assurances provided during the federal election campaign that a re-elected Federal Government would not consider the introduction of a carbon reduction scheme, this issue is now back on the Government's agenda. Accordingly this quarter's Pulse Hot topic question sought the views of the Queensland business community on this very important issue and its likely effect on the Queensland economy.

A strong majority (90.3 per cent) of Queensland businesses believe a price on carbon or an emissions trading scheme would increase electricity costs. Most businesses believed increased electricity prices would have a minimal to moderate impact on their business in the areas of sales, employment, investment and viability and a somewhat higher impact on business profitability. However a number of businesses have indicated that the rising energy prices would have a major (20.5 per cent) to critical (5.6 per cent) impact on their business.

Business support for the implementation of a Carbon Tax or ETS



"Australia is so relatively small in the global context that any changes we make will have minimal impact at the global level. Therefore, imposing a dead weight cost through an additional tax simply reduces the competitiveness of our economy without making a significant impact on Global warming."

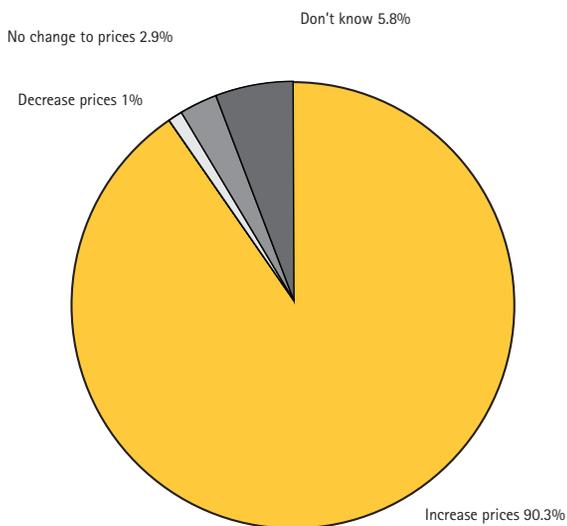
- survey respondent

Whilst 34 per cent of businesses were undecided on whether they supported or opposed the implementation of a price on carbon or an emissions trading scheme in Australia, nearly 50 per cent of businesses indicated they opposed its implementation compared to 16 per cent who supported its implementation. However most businesses (66.7 per cent) agreed that the implementation should be delayed until there is global action on climate change.

"If government were fair dinkum on this more would be done to assist business in R&D on lowering the effect on the environment. As it is, the issue appears solely to be a grab for cash by cash strapped governments."

- survey respondent

Impact of a Carbon Tax or Emissions Trading Scheme on electricity prices in Queensland



"The implications of ETS or Carbon Tax are not fully understood generally and there needs to be more discussion to ensure informed debate."

- survey respondent

"I agree with a carbon tax but only if there are tax cuts in other areas to offset the burden on the tax payer fairly."

- survey respondent

Business provided the most support for research and development for alternative lower emission energy sources and direct assistance for businesses to embrace low carbon technologies and processes as alternative policy responses to climate change. While being the two least preferred policy responses, a carbon trading scheme was preferred more than a carbon price or tax on emissions.

Given the fragile state of the Queensland economy it is little surprise that most businesses considered reliability of electricity supply (53.7 per cent) and low energy prices (40.1 per cent) to be more important to their business and its viability than reducing emissions (6.2 per cent).

In this debate what is clear to CCIQ is that business desire for significantly more information on the policy proposals and what will be the true impact on business and the Australian economy in the event that Australia takes action to reduce carbon emissions. It is the responsibility of the Federal Government to ensure informed public debate and adequate consultation, especially on matters of high national importance such as a carbon tax or emissions trading scheme.

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. It is published in cooperation with the Commonwealth Bank.

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 with over 750 Queensland businesses interviewed as part of each survey.

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 statewide 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

Contact:
Nick Behrens
General Manager Policy
t > 07 3842 2244
e > nbehrens@cciq.com.au
w > www.cciq.com.au

Chamber of Commerce & Industry Queensland
Industry House
375 Wickham Terrace
Brisbane Q. 4000

t > 07 3842 2244
f > 07 3832 3195
e > info@cciq.com.au

