

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 |

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Commonwealth Bank CCIQ Pulse Survey of Business Conditions



December Quarter 2010



Determined to be different



> Introduction

The December Quarter Pulse Survey unfortunately paints a generally bleaker picture of the Queensland economy. Based on the results from the December survey Queensland businesses have less to look forward to over the coming twelve months. Across all indicators there were worrying downward trends and based on expectations, businesses are not anticipating any reprieve from the effects of tightened consumer spending and a slowing economy.

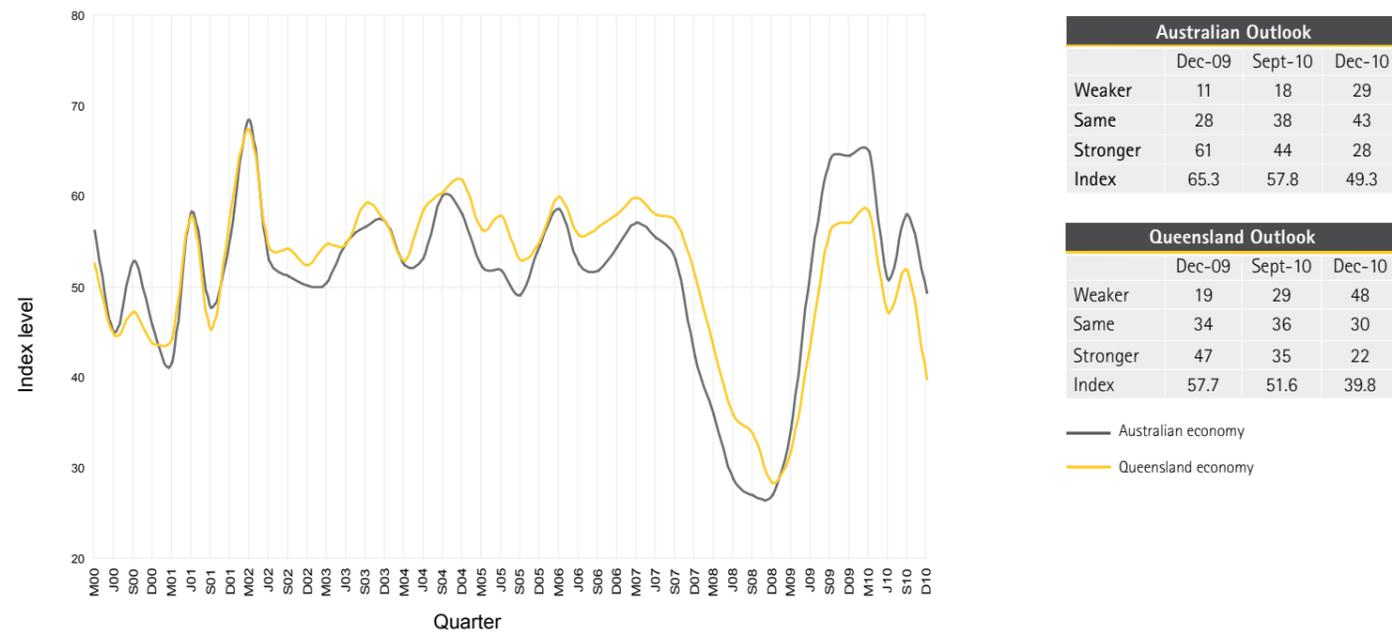
While the Queensland and interstate floods will certainly be a key factor impacting business performance over the coming period, businesses generally indicated that the floods would only exacerbate the already struggling state economy and that there are a number of other underlying issues undermining the viability of Queensland businesses.

"There is an ongoing battle to rebound from a financial crisis that has made consumers much more concerned with saving their money rather than spending".

"Massive flooding throughout the country and the poor condition of the economy prior to these events will affect all businesses".

"Floods, unemployment, interest rates, government taxes and increasing cost of living expenses leaves the everyday person struggling to make ends meet".

> 12 Month Outlook: Australian & Qld 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

Australian Economy

> Confidence in the Australian economy has fallen this quarter, with the Pulse Australian Outlook Index falling 8.5 basis points to 49.3 since the previous September Quarter, and down 16 basis points from its high point of 65.3 in December 2009.

Queensland Economy

> Business expectations for the Queensland economy are of greater concern. Nearly 50 per cent of respondents believe the Queensland economy will be weaker over the coming 12 months which is a significant change from the previous quarter when the majority of respondents were expecting the state economy to remain stable or get stronger. Accordingly the Pulse Index has fallen by 11.8 basis points to 39.8.

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

The issue of greatest influence on this Quarter's Pulse Survey was the Queensland floods which is covered as part of the Hot Topic on page 7. However respondents were significantly concerned by a number of other underlying trends.

Respondents commented that government charges and increasing business costs are strangling businesses and eroding profitability. Additionally the escalating cost of living brought about by government charges and rising utility costs is forcing consumers to reduce their spending and is impacting on business activity across the state.

Businesses also expressed frustration over the multiple interest rate rises during 2010 and the prospect of further rate rises during 2011. Interest rate rises have placed further downward pressure on consumer spending and curtailed business investment. Businesses commented that the Reserve Bank's analysis of Australia's economic performance is not accounting for the differences in state economies and the fact that a "two-speed economy" exists in Queensland. There was also a view shared amongst respondents that inflationary pressures have been driven largely by government spending and public sector wage increases not occurring elsewhere in the economy.

Global economic conditions, lack of finance, instability in the property markets and uncertainty over the negotiated outcome of the Federal Government's mining tax were further issues thought to be having a major impact on the Queensland and National economic outlooks.

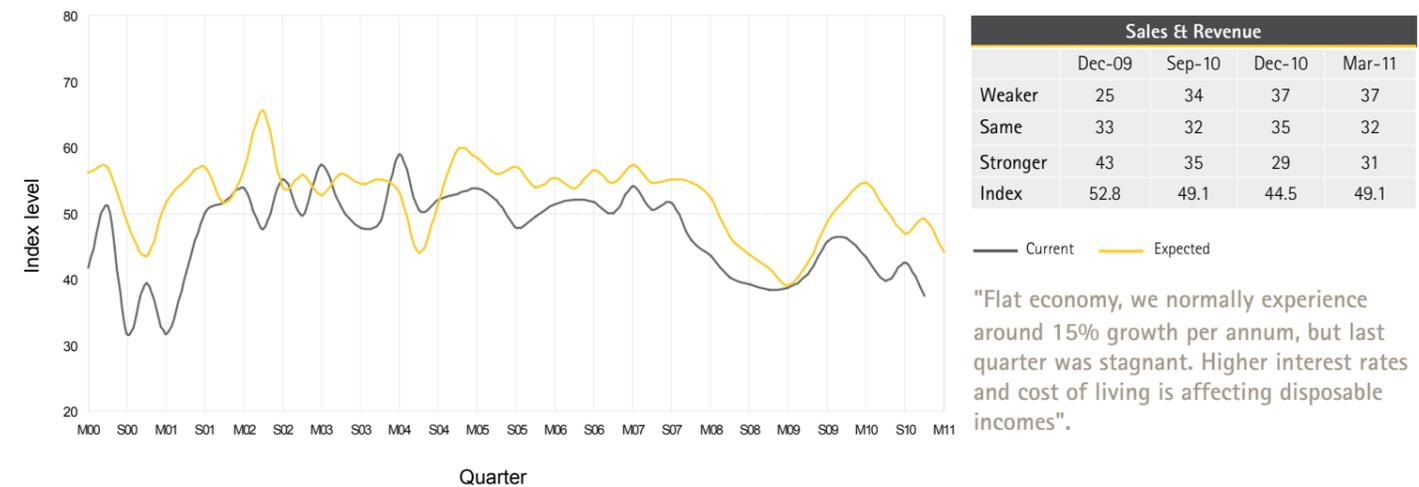
As a result of the depressed business environment, businesses are starting to make the "hard decisions" that the State and Federal Governments have failed to make. A number of respondents indicated they had reduced costs, scaled back business operations and cut staff and wage costs over the previous quarter. Further cut backs and business closures were foreshadowed should conditions not improve over the coming six to twelve month period.

"Mainly interest rates, if the Reserve Bank persists with punishing the rest of the economy because the mining sector is booming, things are only going down from here".

"Government charges! It seems everyone else is dropping prices except for all levels of Government – they are the main reason for fuelling inflation in my opinion".

"I recently closed my shop (opened market stall as its less rent) and let all my employees go. I intend to stay as sole trader until I retire because I'm fed up with costs and regulations associated with being an employer".

> Sales & Revenue



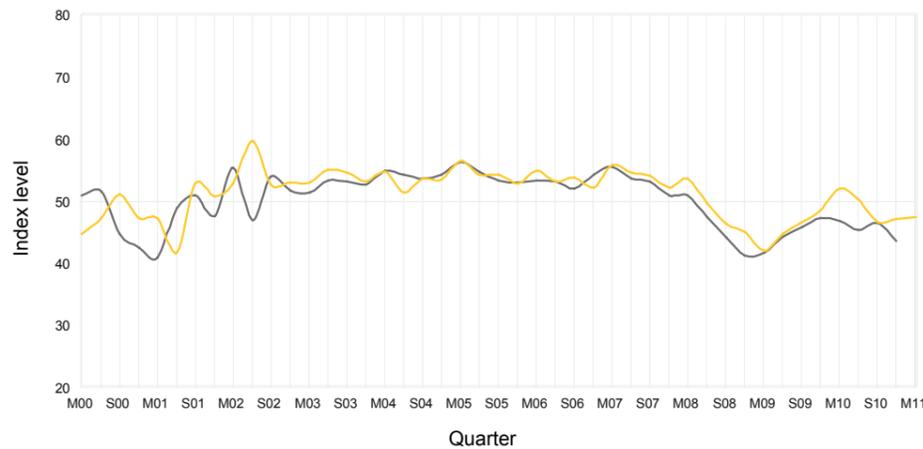
"Flat economy, we normally experience around 15% growth per annum, but last quarter was stagnant. Higher interest rates and cost of living is affecting disposable incomes".

> Sales and revenue for the December quarter were down. Despite there being strong expectations for the end of year and Christmas period, the majority of businesses (37 per cent) experienced weaker sales. Only 29 per cent of respondents enjoyed improved sales and revenue over the period. Accordingly the Pulse Sales and Revenue Index fell 4.6 basis points to 44.5 for the December 2010 Quarter.

> A similar trend is expected for the coming 3 month period with the majority of businesses (37 per cent) again expecting sales and revenue to be weaker over the March 2011 quarter.

"Mining is going well but not having an impact on our local economy – retail is sick, tourism is down and manufacturing is being shifted overseas. We have more businesses closing than opening".

> Profitability



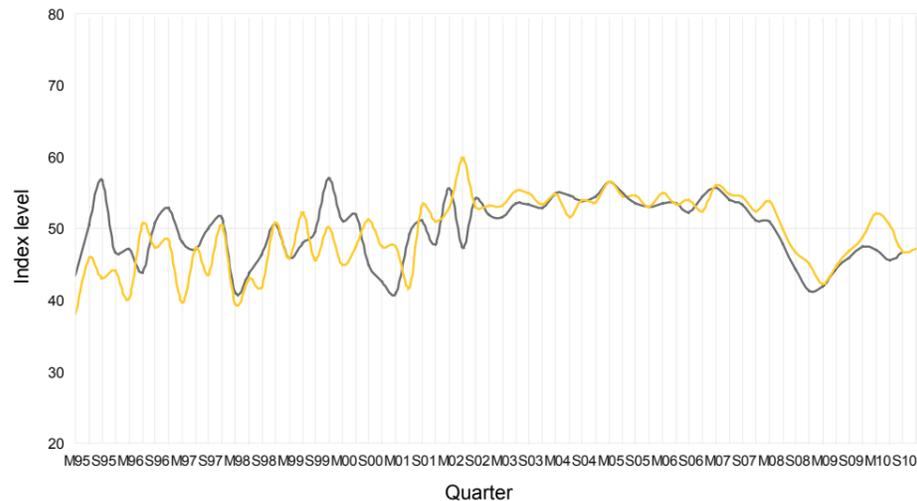
| Profitability | | | | |
|---------------|------|--------|--------|--------|
| | 44.2 | Sep-10 | Dec-10 | Mar-11 |
| Weaker | 33 | 39 | 49 | 41 |
| Same | 37 | 40 | 34 | 38 |
| Stronger | 30 | 20 | 17 | 21 |
| Index | 46.4 | 42.4 | 37.5 | 44.2 |

— Current — Expected

"Cost of running a business is getting to the stage it is unviable with penalty rates for employees, electricity and the general cost of goods making the profit margin for our business getting less and less".

- > Business profitability suffered as a result of depressed sales and revenue. The Pulse Profitability Index fell 4.9 basis points to 37.5, its lowest point since September 2008. Nearly half (49 per cent) of businesses experienced weaker profitability over the last three month period of 2010.
- > The three month outlook for the March quarter 2011 does not indicate any improvement, with the majority of businesses expecting weaker (41 per cent) or similar (38 per cent) profitability to the last quarter.

> Employment Levels



| Employment Levels | | | | |
|-------------------|--------|--------|--------|--------|
| | Dec-09 | Sep-10 | Dec-10 | Mar-11 |
| Weaker | 20 | 23 | 29 | 24 |
| Same | 64 | 59 | 58 | 61 |
| Stronger | 16 | 18 | 14 | 15 |
| Index | 47.2 | 46.7 | 43.8 | 47.5 |

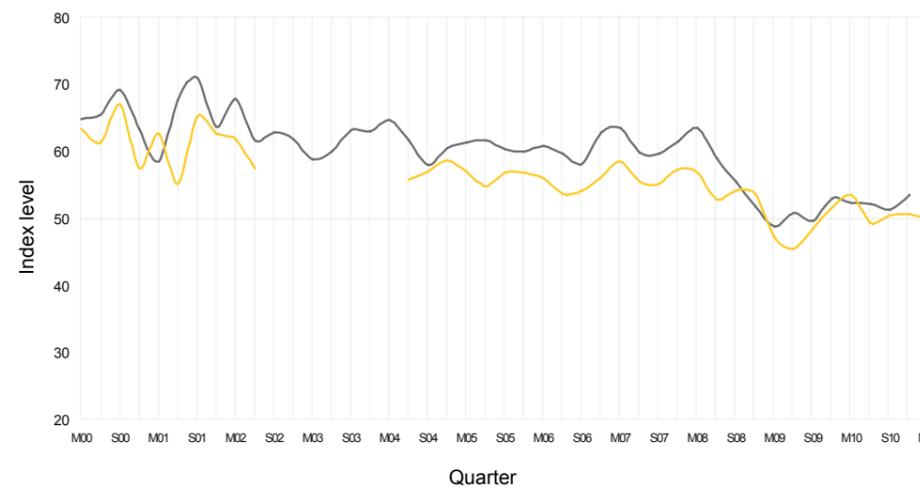
— Current — Expected

"Floods, unemployment and increasing cost of living expenses are on the increase with the everyday person struggling to make ends meet".

- > Obviously conscious of the period of historical skills shortages, employers have made efforts to retain staff where possible. However the Pulse Employment Index fell further to 43.8 in the December Quarter, signalling that employers, facing depressed sales and profitability, are starting to make tough decision regarding their workforce.
- > Only a modest improvement is anticipated for the March quarter 2011.

"Lack of consumer demand - small business owners have sacked all the staff they can & now will close as leases end".

> Average Wages



| Average Wages | | | | |
|---------------|--------|--------|--------|--------|
| | Dec-09 | Sep-10 | Dec-10 | Mar-11 |
| Weaker | 7 | 10 | 10 | 12 |
| Same | 77 | 64 | 68 | 73 |
| Stronger | 16 | 26 | 22 | 15 |
| Index | 52.6 | 51.4 | 53.5 | 49.8 |

— Current — Expected

"Wages increase by 13% in private sector to be in line with crazy public sector wage increase and to retain staff that are highly qualified to maintain high quality of care".

- > Wage pressures have increased slightly for employers over the previous quarter. The Pulse Average Wage Index increased by 2.1 basis points to 53.5 in the December Quarter 2010.
- > However these wage pressures are expected to ease back slightly over the coming three month period, with more respondents indicating wage pressures to remain the same (73 per cent) or weaker (12 per cent).

> Capital Expenditure



| Capital Expenditure | | | | |
|---------------------|--------|--------|--------|--------|
| | Dec-09 | Sep-10 | Dec-10 | Mar-11 |
| Weaker | 27 | 32 | 33 | 33 |
| Same | 52 | 52 | 47 | 50 |
| Stronger | 21 | 16 | 21 | 17 |
| Index | 45.5 | 41.6 | 42.9 | 42.6 |

— Current — Expected

- > Capital expenditure continues its less than favourable trend, remaining at subdued low levels for the twelfth consecutive quarter since March 2008. The Pulse Capital Expenditure Index remained relatively steady at 42.9, with the majority of respondents indicating capital expenditure on buildings, plant and equipment had remained the same (47 per cent) or weaker (33 per cent) over the three months to December 2010.
- > Little change is expected in this indicator for the March quarter 2011 with the Pulse Capital Expenditure Index expected to remain at 42.6.

> Regional Analysis

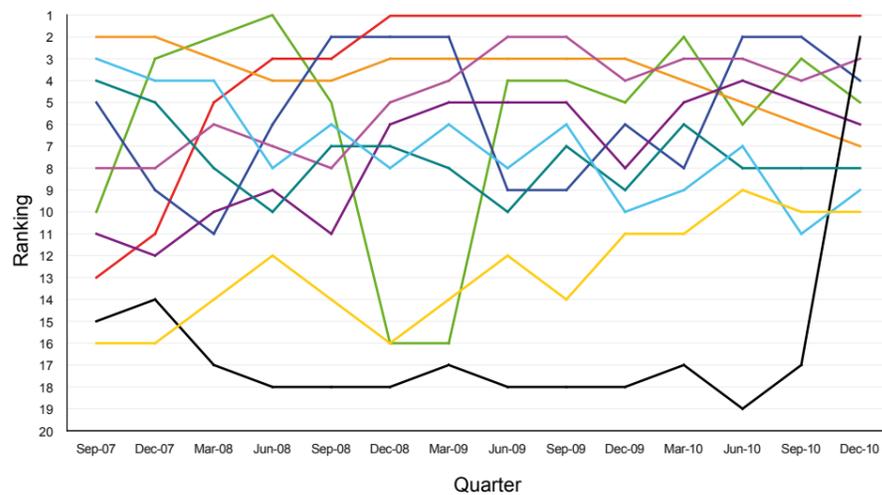
| Current | Brisbane | Sunshine Coast | Gold Coast | South West Queensland | Central Queensland | Central Coast | North Queensland | Far North Queensland |
|-------------------------------|----------|----------------|------------|-----------------------|--------------------|---------------|------------------|----------------------|
| 12 Month Outlook - Queensland | ↓ 43.0 | ↓ 37.5 | ↓ 38.5 | ↓ 33.8 | ↓ 44.8 | ↓ 41.2 | ↓ 40.9 | ↓ 36.0 |
| General Business Conditions | ↓ 52.2 | ↓ 44.9 | ↓ 44.5 | ↑ 44.1 | ↓ 42.7 | ↑ 60.9 | ↓ 46.6 | ↓ 35.9 |
| Total Sales/Revenue | ↓ 51.9 | ↑ 47.2 | ↓ 45.1 | ↑ 42.6 | ↓ 39.8 | ↓ 54.7 | ↓ 46.3 | ↓ 36.1 |
| Profitability | ↓ 44.0 | ↓ 37.7 | ↓ 37.2 | ↑ 35.3 | ↓ 38.5 | ↑ 46.7 | ↓ 38.8 | ↓ 30.9 |
| Average Wages | ↑ 55.8 | ↑ 50.0 | ↓ 37.2 | ↓ 51.5 | ↓ 48.9 | ↑ 55.9 | ↓ 54.8 | ↓ 48.8 |
| Employment Levels | ↓ 47.3 | ↓ 43.0 | = 52.2 | ↑ 44.1 | ↓ 39.6 | ↓ 47.1 | ↓ 53.8 | ↓ 36.0 |
| Capital Expenditure | ↑ 47.2 | ↑ 45.6 | ↑ 37.9 | ↑ 49.6 | ↑ 43.3 | ↑ 52.1 | ↑ 35.2 | ↑ 36.0 |

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

- > The depressed economic conditions were mirrored across most regions of the state, due to the coverage of the recent flood disaster across almost every region of the state and the flowing effects this disaster has had on the whole economy.
- > All regions have experienced a downturn in the economic outlook and sales and revenue figures. General business conditions and profitability remain strongest in the Central Coast/Mackay region, demonstrating the significant benefit that mining and related industries bring to the region.
- > Of greatest concern, Far North Queensland, one of the only regions spared from the widespread flooding, has experienced the most significant economic downturns of all regions. All indicators for this region have decreased by an average of 10-15 basis points suggesting that the economy and businesses in this region are facing significant challenges.

"The Reserve Bank have misjudged how depressed the economy is in areas like Marlborough. With unemployment above the national average, it means that there is not enough money in the local economy to stimulate growth. Unless sales growth is at least at the rate of inflation, we are going backwards".

> Major Constraints on Business Growth



"I think the mining sector is the only sector driving the economy. Now with the floods the agriculture sector will struggle along with retail etc. I also think interest rates will continue to be a dampener on the economy".

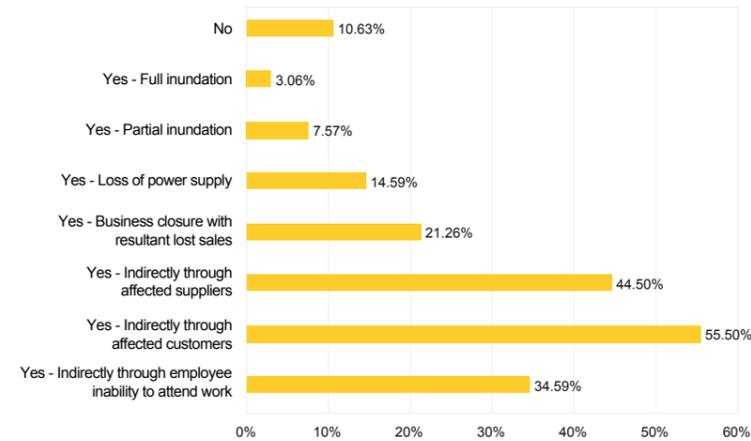
- > Level of demand and economic activity continues to be the largest constraint on businesses in Queensland at present. As previously noted, consumer spending due to increased cost of living slowed considerably over most of 2010.
- > Not surprisingly climatic conditions rose in prominence as a significant constraint on business growth for the previous quarter. Businesses have experienced prolonged rain periods culminating in the recent flood disaster effecting nearly 75 per cent of the state.
- > Level of business taxes and political and economic stability are also significantly impacting on business growth prospects. With reduced sales and revenue and profitability, the Queensland business community are struggling to meet increased business costs. The failure to take action to reduce the escalating costs of doing business is undermining confidence.
- > Since December 2008 energy costs has also been slowly moving higher up the list as a major constraint on business growth reflecting the concern across the business community regarding the effect of three consecutive years of significant energy price rises in Queensland. As energy is a major business input, energy price rises will further impact business profitability.

> Hot Topic - Impact of the Floods on Queensland Business Viability

While the residential impact of the floods across many areas of Queensland is widely acknowledged and of utmost priority, the severe consequences for business, employment and the broader state economy is of significant concern.

Nearly 90 per cent of businesses across flood affected areas of Queensland claim they have been affected by this flood disaster in some way. While only 10.6 per cent have been directly impacted by full or partial flood inundation, a further 35.8 per cent have suffered losses due to forced business closure and loss of power supply. More than half of affected businesses have been impacted indirectly due to delays in supply of goods or services, the impact of flooding on local and state infrastructure, or on their customers, suppliers and staff.

Has your business been impacted by the Queensland floods?

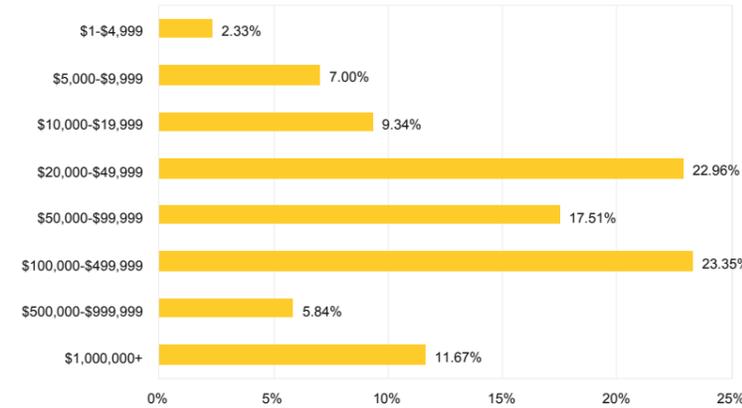


"Businesses affected by the floods won't pay their bills on time. This will then prevent us small companies from paying our accounts and staff wages, thus starting a domino effect across the whole economy".

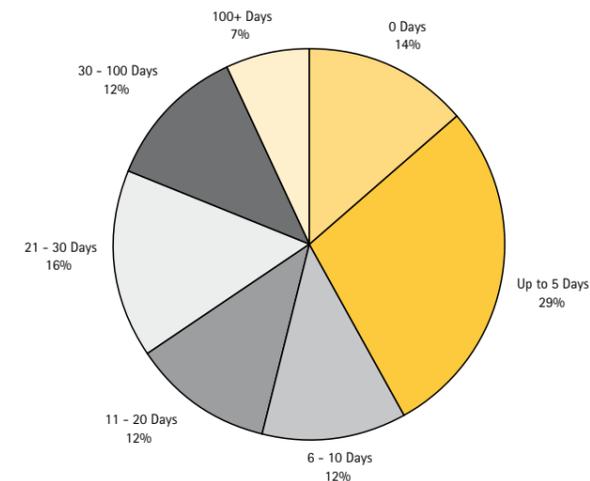
Of those businesses experiencing losses, around 40% expect to lose between \$20,000 and \$100,000 in lost earnings. A further 23 per cent expect to lose between \$100,000 and \$499,000. One in ten businesses expect to lose more than \$1 million as a result of the floods.

"A key problem will be getting back to normal business function after the floods especially when the bills keep coming in - there will be higher prices for fuel, food, electricity, water, rates and other business requirements such as licences, rego, transport - bet taxes will go up too!"

Expected total lost earnings



Business Days Following the Flood until back to Normal Operations



"Availability of skilled personnel that may be taken from the workforce for flood repair will equal rising costs for employment and wages due to skills shortages".

While the majority of businesses (43 per cent) indicated they would be back to normal business operation within 5 days following the flood, and a further 12 per cent within 10 days, it will be vitally important that the remaining 45 per cent of businesses taking longer than 2 weeks to return to normal business operation are supported appropriately.