

Commonwealth Bank CCIQ Pulse Survey of Business Conditions



March Quarter 2011



CHAMBER OF
COMMERCE &
INDUSTRY
QUEENSLAND



Determined to be different

> Introduction

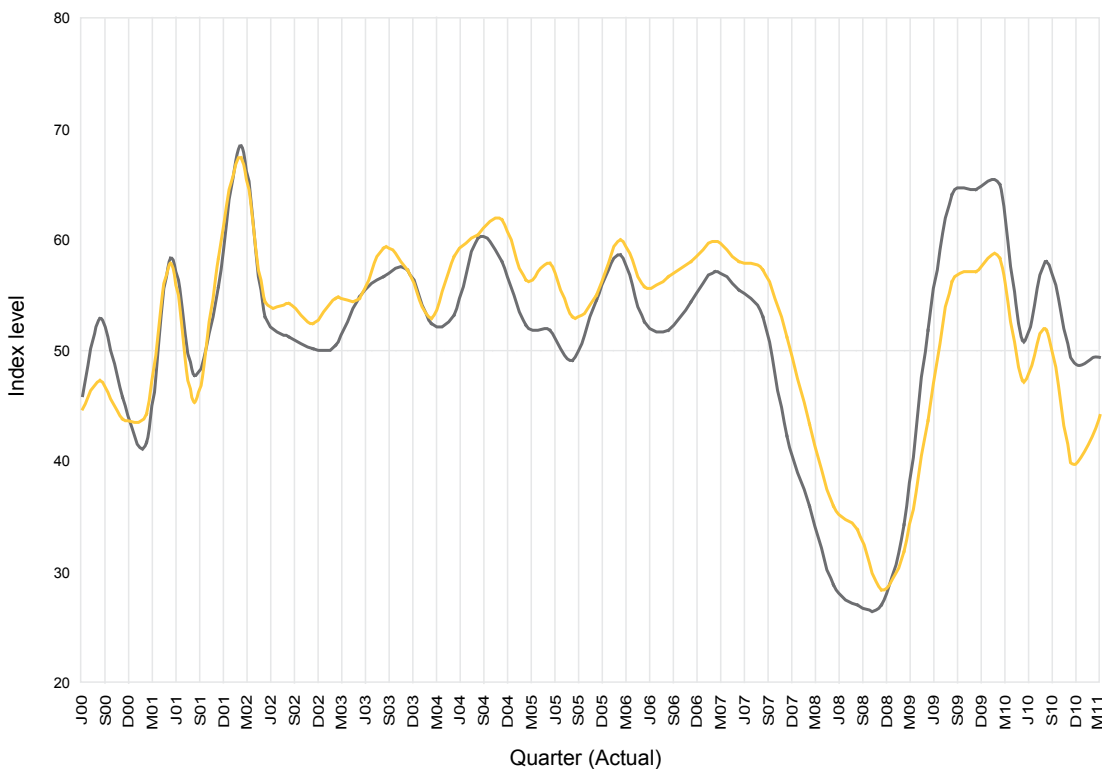
The March Quarter Pulse Survey results show that business owners are sitting on the fence with expectations and reporting little change in business and economic conditions since last measured in the December Quarter 2010. While it is promising that there has been a slight upturn in business confidence, economic conditions still suggest a general weakening of the Queensland economy during this quarter.

Given the significance of the natural disasters which affected most of the state at the start of 2011, it is not surprising that Queensland businesses have reported a slow start to the year. However, what is concerning and of critical importance to our political leaders and decision makers is that businesses are not forecasting any improvement on these depressed conditions over the coming June Quarter.

"We are seeing a huge amount of hurt in our small business clients, like us they have downsized as far as they can go. Most are trapped in loans, they cannot wind the business up, so they are just exhausting credit cards and overdrafts – the cracks are starting to appear". – Survey Respondent

"We are slowly – very slowly – getting business finances back in order. Trading conditions over the past three years have been tough, but there may be a light at the end of the tunnel, provided we are not hit with any new problems". – Survey Respondent

> 12 Month Outlook: Australian & Qld Economies



Australian Outlook			
	Mar-10	Dec-10	Mar-11
Weaker	17	29	31
Same	28	43	36
Stronger	54	28	33
Index	59.9	48.9	49.5

Queensland Outlook			
	Mar-10	Dec-10	Mar-11
Weaker	24	48	42
Same	31	30	31
Stronger	45	22	28
Index	55.8	40.0	44.8

— 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.

"The world economy is unlikely to improve greatly over the next 2 months with Japan suffering currently and the USA still likely to be facing another watershed – its surprising how many customers are talking and worried about this and its really slowing down sales". – Survey Respondent

Australian Economy

> Confidence in the Australian economy has remained stable at levels similar to the previous December Quarter with an equal number of businesses expecting conditions to improve or remain the same as those who are expecting the national economy to weaken over the coming twelve months. Accordingly the Pulse Index strengthened slightly to 49.5.

Queensland Economy

> Business expectations for the Queensland economy, while up on the December Quarter, are still in troubling territory with the index sitting at 44.8. The majority of Queensland businesses (41 per cent) expect weaker conditions over the coming twelve months, while 31 per cent and 28 per cent expect conditions to remain the same or strengthen respectively.

> Survey Analysis: Factors Affecting the 12 Month Outlook

Undoubtedly the natural disasters at the start of the year continue to have a significant impact on Queensland businesses and their expectations. With the right conditions, businesses are expecting a gradual recovery over the next twelve months. Business owners are pinning expectations to the roll out of recovery and rebuild programs which they hope will boost what has been an all but stalled economic quarter for business growth. However businesses have also been critical of delays in insurance payouts and government disaster funding payments which they believe has hampered their ability to get back on track sooner.

"Money from the Government is not aiding businesses quick enough to get us back onto jobs and into work – if it does not come soon businesses will close the doors". – Survey Respondent

The stability of our Federal and State Governments is also playing on the minds of businesses and the community. Businesses are concerned that the prospect of a state election may lead the government to politicise the much needed economic recovery programs or may delay the rebuild of much needed infrastructure. Federally, businesses are increasingly concerned at the negative impact of proposed policies (such as the flood levy, carbon tax and the speculation of a tough budget) on an already cautious market.

"Prospect of the carbon tax has our industry slowing down as people are not spending until they know there is or is not a new tax and what its impact on their budgets is going to be. Flood levy also has people worried and are holding off spending until they know how it is going to effect their wages". – Survey Respondent

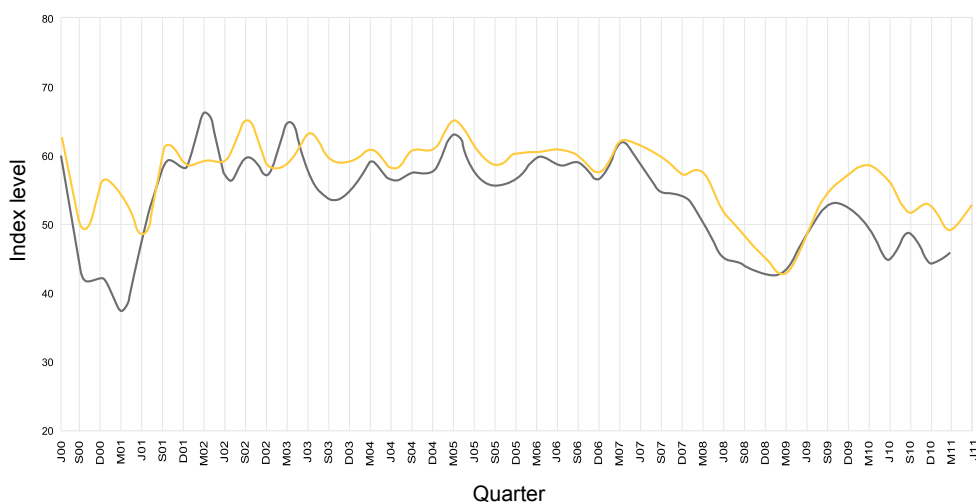
"The federal and state governments seem to currently be chasing popularity with voters over good management practices and smart decisions. I'm worried that now we are facing an election in Queensland that funding and infrastructure repairs will only happen in the areas where the government think they might lose a seat". – Survey Respondent

Broader national and international economic conditions are also testing the confidence of both business and the community. The high value of the Australian Dollar is significantly impacting those industries heavily reliant on export markets such as manufacturing and tourism as well as import competing manufacturing. Equally, businesses are witnessing tightened consumer spending across all sectors as households become increasingly cautious in light of troubled international economies and natural disasters overseas.

These results emphasise the need for targeted business assistance and careful thinking over key policy decisions during the coming financial year. Queensland businesses recognise the budgetary pressures faced by the Federal and State Governments and accordingly expect a disciplined approach to government spending and reduced government wastage, especially when businesses are not in any position to absorb additional costs or new business taxes.

"International disasters have added to the state of worry following our own floods etc. National debate on increased taxation has added to worry about the future. Overall, there are many reasons for people to delay purchases". – Survey Respondent

> Sales & Revenue



Sales & Revenue				
	Mar-10	Dec-10	Mar-11	Jun-11
Weaker	40	37	47	23
Same	29	35	25	42
Stronger	31	29	28	35
Index	50.7	44.5	45.7	52.8

— Current — Expected

"In normal times export accounts for 50% of our sales, due to the exchange rates at the moment we are only expecting 10%".

– Survey Respondent

> Sales and revenue remained weak over the three months to March 2011 with the Pulse Sales and Revenue Index increasing marginally in seasonally adjusted terms to 45.7. As anticipated the natural disasters have left the majority of businesses (47 per cent) with weaker sales while only 28 per cent of respondents enjoyed improved sales and revenue over the period.

> A similar trend is expected for the coming three month period with the majority of businesses (42 per cent) again expecting sales and revenue to remain at similar levels.

"The fact that banks are still not supporting small business and most small businesses have no access to equity to carry their short-term losses of income". – Survey Respondent

> Profitability



Profitability				
	Mar-10	Dec-10	Mar-11	Jun-11
Weaker	46	49	56	33
Same	34	34	28	41
Stronger	20	17	16	26
Index	44.0	37.5	38.5	46.0

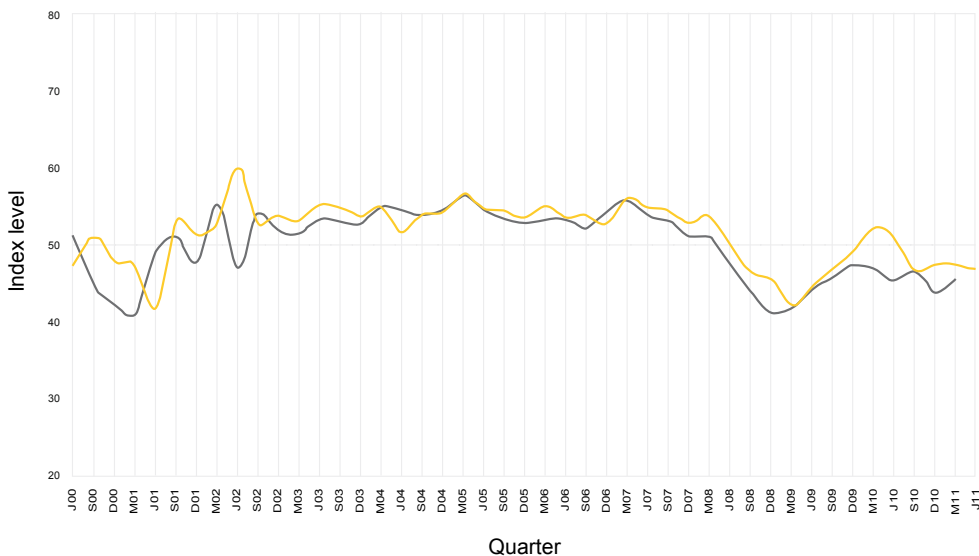
— Current — Expected

"Inflexible employment conditions and constant cost of living pressures are the biggest negative factors for my business at the moment". – Survey Respondent

"There has been a huge loss of business confidence. This is not helped by the announcement of a severe budget by the Prime Minister, it has businesses sitting on the fence until they know what implications are in it for them". – Survey Respondent

- > Business profitability also suffered as a result of depressed sales and the natural disasters during the quarter. The Pulse Profitability Index remained low at 38.5 in seasonally adjusted terms. More than half (56 per cent) of businesses experienced weaker profitability over the last three months.
- > The three month outlook for the June Quarter 2011 does not indicate any significant improvement, with the majority of businesses (41 per cent) expecting similar profitability to the last quarter.

> Employment Levels



Employment Levels				
	Mar-10	Dec-10	Mar-11	Jun-11
Weaker	26	29	30	24
Same	59	58	56	62
Stronger	15	14	14	13
Index	47.6	43.8	45.6	46.9

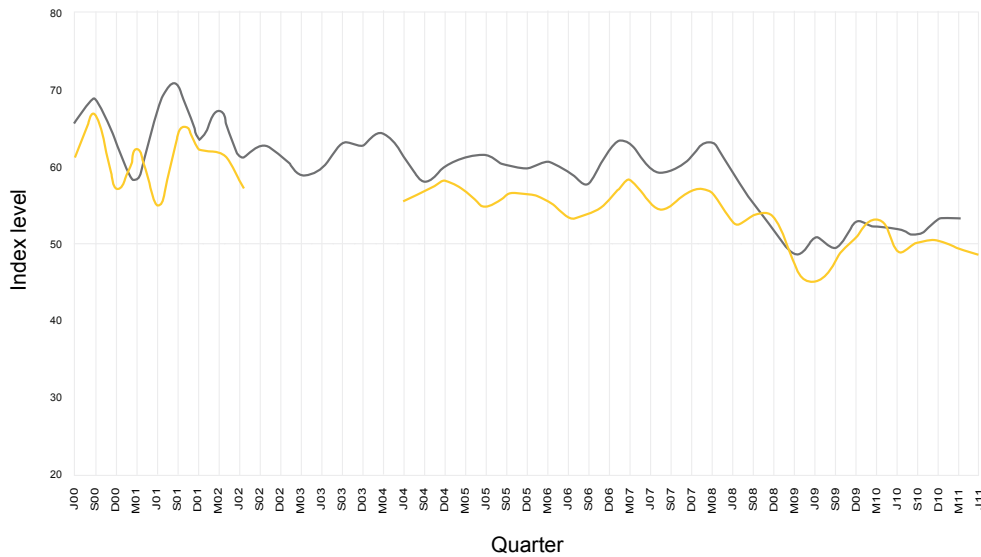
— Current — Expected

"General economic activity at present seems to be worse than the GFC period. Demand on our distributors is very low – the high AUD is forcing us to drop prices to compete with imports which means we are barely covering costs". – Survey Respondent

"The lack of competitiveness with wage increases and many employment laws being forced on us with absolutely no productivity increases – so it costs us more money without growing our business output?" – Survey Respondent

- > Employment levels have not moved significantly in any direction over the March Quarter, which is positive considering the dip in sales and profitability experienced by Queensland businesses. The Pulse Index remained relatively stable at 45.6 in seasonally adjusted terms with the majority of respondents (56 per cent) reporting employment to have remained the same.
- > However, emerging from the results is the fact that expectations for employment levels have now been trending downwards since the September Quarter 2010 possibly indicating growing caution over the ability of business owners to retain employees or recruit additional staff.

> Average Wages



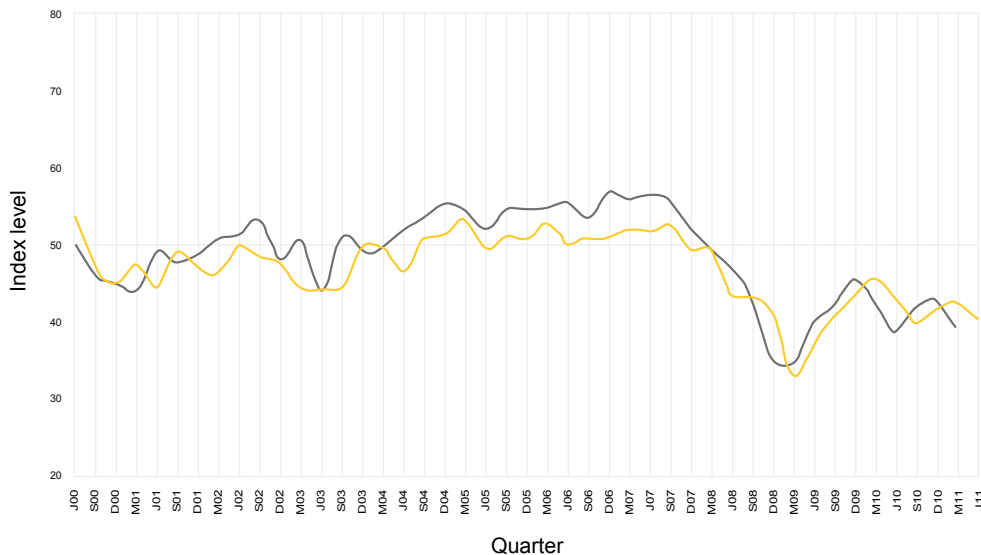
Average Wages				
	Mar-10	Dec-10	Mar-11	Jun-11
Weaker	11	10	10	10
Same	72	68	72	72
Stronger	16	22	19	18
Index	52.7	53.5	53.6	48.6

— Current — Expected

"There will be many more businesses closing or downsizing dramatically just to stay afloat. Since the beginning of the year I would have spoken to hundreds of business owners in most industries, and all are saying the same thing, that it is tough and cash flow is very tight." – Survey Respondent

- > Wage pressures have remained high over the past three months with the Pulse Average Wage Index sitting at 53.6 for the March Quarter 2011.
- > While the Average Wage Expectations Index for the June Quarter continues to trend downwards in seasonally adjusted terms, the majority of business owners anticipate wage pressures to remain the same over the coming three months reflecting the pressure that cost of living increases and the industrial relations system continues to place on employers.

> Capital Expenditure



Capital Expenditure				
	Mar-10	Dec-10	Mar-11	Jun-11
Weaker	35	33	42	35
Same	47	47	40	50
Stronger	18	21	18	15
Index	42.6	42.9	39.4	40.6

— Current — Expected

"Turnover has been bad since 2010 but we are facing rising costs from every angle - electricity, food, petrol prices - and we are not able to increase our prices to cover these costs." – Survey Respondent

- > Business investment in capital has a direct relationship to business confidence and future business and economic growth. It is concerning that capital expenditure in Queensland has been in decline since early 2008. The Pulse Capital Expenditure Index fell to 39.4 in the March Quarter, with the majority of respondents indicating capital expenditure on buildings, plant and equipment to be weaker (42 per cent) or the same (40 per cent) over the past three months.
- > Little change is expected in this indicator for the June Quarter 2011 with the Pulse Capital Expenditure Index expected to remain steady at 40.6.

> Regional Analysis

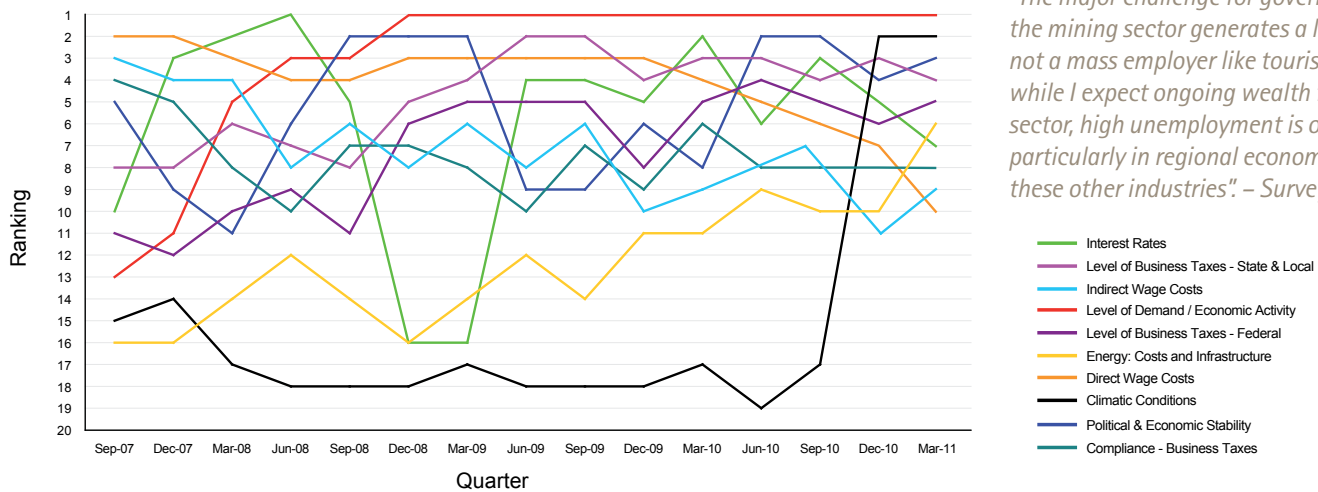
Current	Brisbane	Sunshine Coast	Gold Coast	South West Queensland	Central Queensland	Central Coast	North Queensland	Far North Queensland
12 Month Outlook - Queensland	↑ 44.0	↑ 46.2	↑ 42.4	↑ 48.1	↑ 52.1	↑ 51.1	↑ 43.8	↑ 37.8
General Business Conditions	↓ 44.8	↓ 44.5	↓ 38.0	↑ 51.0	↑ 47.9	↓ 52.4	↓ 39.2	↓ 27.9
Total Sales/Revenue	↓ 44.0	↓ 44.7	↓ 36.4	↑ 52.1	↑ 46.2	↓ 51.1	↓ 41.5	↓ 27.6
Profitability	↓ 35.3	↑ 41.4	↓ 33.5	↑ 42.6	↑ 40.8	↓ 42.0	↓ 32.1	↓ 26.0
Average Wages	↓ 51.5	↓ 49.4	↓ 33.5	↑ 54.6	↑ 56.5	↑ 57.6	↑ 55.2	= 48.5
Employment Levels	↓ 44.7	↑ 46.9	↓ 47.0	↑ 46.4	↑ 46.0	↓ 43.2	↓ 48.3	↑ 39.8
Capital Expenditure	↓ 36.5	↓ 38.6	↓ 35.7	↓ 41.6	↓ 42.7	↓ 45.1	↑ 38.8	↓ 33.2

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

- > Some regions have fared worse than others over the March Quarter. Far North Queensland in particular continues to be a region of significant concern where the Pulse Indexes for General Business Conditions (27.9), Sales/Revenue (27.6) and Profitability (26.0) are on average 15 to 20 basis points below other regions and are at their lowest levels in the history of the CCIQ Pulse Survey.
- > Notably regions in the southeast corner of the State (Brisbane and the Gold and Sunshine Coasts) also experienced one of their worst quarters since the Global Financial Crisis in 2008 with general business conditions, sales and profitability all down on the previous quarter.
- > South West and Central Queensland were the strongest performing regions, both showing a dramatic improvement in general business conditions, sales, profitability and employment.
- > Businesses in all regions however remain optimistic that business conditions will improve over the coming 12 month period on the back of a strong recovery following the summer's natural disasters.

"Poor state of the Gold Coast economy has many business operators treading water; tourism is struggling; building is at an all time low; property values have fallen sufficiently to mean many business owners have zero equity; cost of living is increasing; professional fees are dropping; all this means profits are squeezed". – Survey Respondent

> Major Constraints on Business Growth



"The major challenge for government is while the mining sector generates a lot of wealth it is not a mass employer like tourism and retail. So while I expect ongoing wealth from the mining sector, high unemployment is on the horizon, particularly in regional economies which rely on these other industries". – Survey Respondent

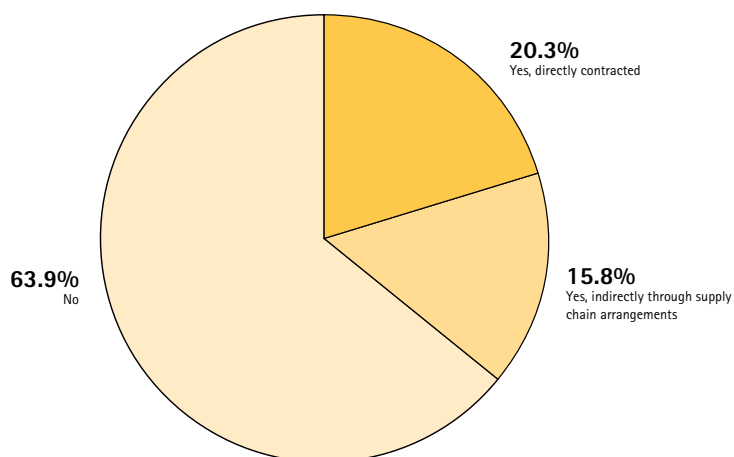
- > Level of demand and economic activity and climatic conditions continued to be the most significant dampeners on business conditions during the March Quarter. Combined, these factors have driven a downturn in business activity, consumer confidence and spending resulting in reduced sales and profitability for business.
- > Political and economic stability has also been a major factor impacting business growth during the March Quarter. Businesses have attributed uncertainty over major policy proposals such as the flood levy, carbon tax, upcoming state and federal budgets and a potential state government election to the downturn in consumer confidence and spending.
- > Increasing business costs also continue to impact on business growth prospects. With reduced sales/revenue and profitability, the Queensland business community are struggling to meet increased business costs associated with local, state and federal government policy decisions.
- > Aside from the direct argument regarding the merits and costs of the policy, the current debate over the Carbon Tax appears to be driving an increased consciousness and concern for escalating energy costs. As noted in last quarter's Pulse Report, since December 2008 energy costs have been slowly moving higher up the list as a major constraint on business growth and has again moved higher in prevalence to now be in the top ten major constraints on business growth.

> Hot Topic – Industry Participation in Government Procurement and Major Projects

Government has an obligation to ensure that local industry is given full, fair and reasonable opportunity to be considered for major projects and the provision of goods and services in Queensland. This has never been more important in Queensland than it is now following the recent floods and natural disasters. Queensland's economic recovery will depend on how readily local businesses can be engaged in the rebuild program and major infrastructure projects.

While all levels of government have local industry and procurement policies in place, respondents indicated that the current level of involvement by local businesses in major government projects and other procurement opportunities is low. Only 36 per cent of Queensland businesses are accessing procurement opportunities while a greater majority (63.9 per cent) are not.

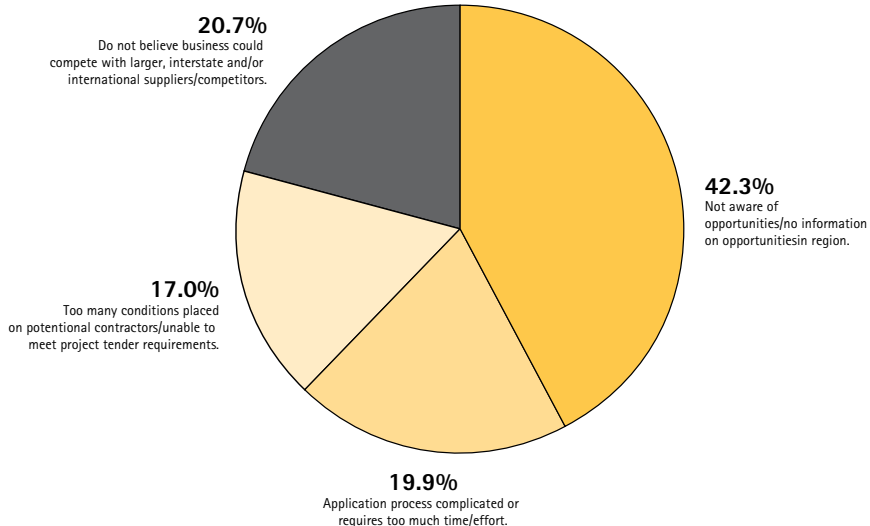
Business participation (current and/or past) in government procurement opportunities



"Tender qualification process is unnecessarily complicated and exclusive. Project management is subsequently convoluted with often 3 levels of contractors before anyone sticks a shovel in the ground and the guy with the shovel has to wait for payments while project managers and government departments go through the payment process. I've done it once before, but will never bother again, it nearly sent me broke". – Survey Respondent

"Complexity is too much for small business - makes such projects not cost effective". – Survey Respondent

Main reasons for not accessing government procurement opportunities



The main reason for the low industry participation in government procurement opportunities is that Queensland businesses simply are not made aware of the possible opportunities in their regions. Businesses commented that they do not know where or how to find information on upcoming project or supply opportunities and that they most frequently become aware of major projects only when the media reports on the successful tenders or commencement of projects. There is also a growing perception that local small businesses can not compete against the larger national and international companies, especially when the application and contract requirements are so complex.

"BIG companies like trading with the BIG companies – they just don't understand how small business works but are not interested in taking the time to learn, even though we can often meet their needs better". – Survey Respondent

"I believe in Queensland there has at times not been a level playing field for smaller private providers in which to compete". – Survey Respondent

Overall the majority (43.7 per cent) of Queensland businesses rated the existing industry procurement policies and processes as average. Only 29 per cent of businesses rated their past experience participating in procurement as good, while 27 per cent of businesses rated this experience as poor.

Businesses unanimously agreed that more could be done to improve the existing procurement framework to ensure more local small and medium businesses can benefit from major projects and government purchasing in their region.

"Size and reputation of the company dictates who wins. Procurement evaluators are not willing to put their own reputations on the line to test new or smaller providers". – Survey Respondent

"I know that after the Brisbane floods all waterfront rectification works were given to an interstate company – I don't even believe it was put to tender, Qld companies were not advised". – Survey Respondent

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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