



WESTPAC GROUP CCIQ PULSE SURVEY OF BUSINESS CONDITIONS

▼ DECEMBER QUARTER 2013



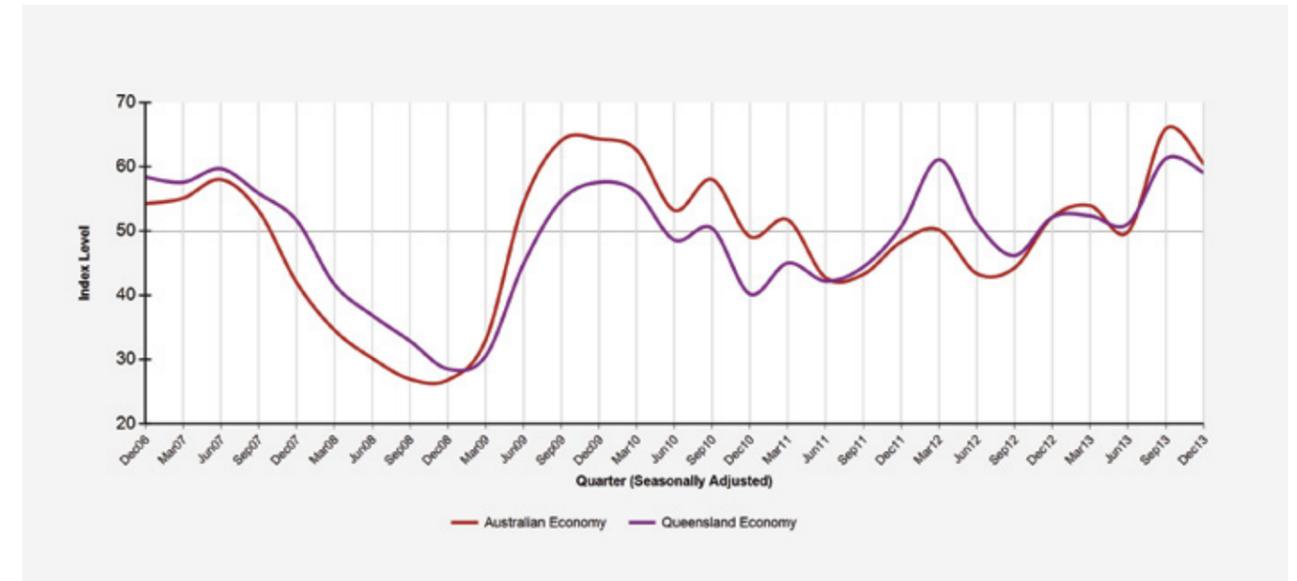
INTRODUCTION

The December Quarter Pulse Survey of Business Conditions has identified good optimism among Queensland businesses as they enter 2014.

Business confidence in both the Queensland and national economies remains at record high levels, with this confidence beginning to be reflected in other business indicators including general business conditions, sales and employment. However, profitability and investment levels remain as significant issues, with external constraints such as rising input costs, industrial relations legislation, regulatory burdens and the worsening drought conditions having a negative impact on businesses' bottom line.

The outlook for the coming March quarter 2014 remains positive, with general business conditions, sales and revenue and profitability all forecast in positive territory.

12 MONTH OUTLOOK: AUSTRALIAN AND QUEENSLAND ECONOMIES



Scale – An Index level above 50 indicates that growth prospects are strengthening, while an Index level below 50 indicates that growth prospects are weakening. *Seasonally adjusted

	Queensland Outlook			Australian Outlook		
	Dec-12	Sep-13	Dec-13	Dec-12	Sep-13	Dec-13
Weaker	27	13	18	23	10	15
Same	38	29	31	47	29	32
Stronger	35	58	51	30	61	53
Index	52.3	63.3	58.8	52.1	65.5	60.2

The 12 month outlook for both the state and national economies has fallen from record highs in the September quarter, but remains at its highest levels excluding post-election spikes. Confidence in the national economic outlook is marginally stronger than it is for the Queensland economy.

QUEENSLAND ECONOMY

- Remaining well in positive territory, the Pulse Business Confidence Index decreased in the December quarter by 4.5 percentage points to 58.8.
- 51 per cent of Queensland businesses expect economic conditions in Queensland to be stronger over the coming twelve months.

AUSTRALIAN ECONOMY

- The Pulse Business Confidence Index fell by 5.3 percentage points to 60.2 in the December quarter.
- The majority of Queensland businesses expect the national economy to strengthen (53 per cent) over the next 12 months.

“Government spending on infrastructure will help drive confidence in the economy over the next 12 months” - Survey Respondent, Far North Queensland

“The ramping up of new developments will have a positive effect, as will any further devaluation of the Australian dollar (which will benefit all exports)” - Survey Respondent, Central Coast

SURVEY ANALYSIS: FACTORS AFFECTING THE 12 MONTH OUTLOOK

Queensland businesses are looking towards the Federal Government to deliver on its election promises (namely the removal of the carbon and mining taxes and significant investment in infrastructure) to help maintain positive momentum over the coming 12 months. Low interest rates, increased activity within the building and construction industry and strengthening tourist numbers are also contributing to business optimism in 2014. Generally businesses believed the falling Australian dollar was having a positive impact; however it has led to reduced profit margins for importing businesses.

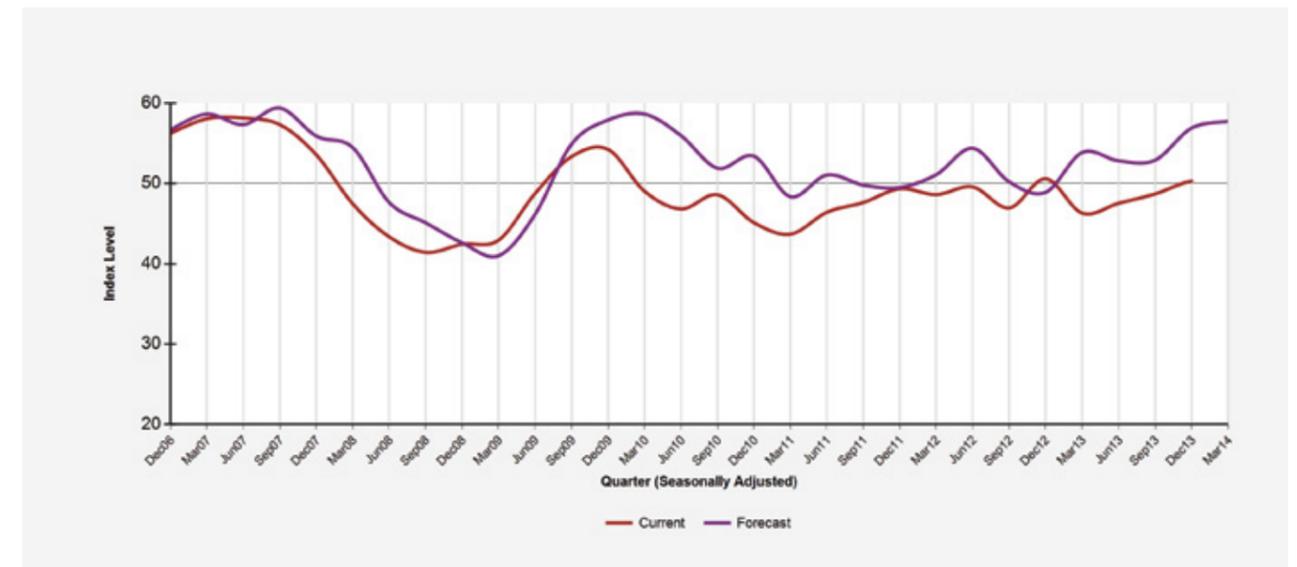
Despite the current optimism, there remain concerns surrounding the downturn in the mining and resource sector, increasing regulatory compliance costs, rising input costs (insurance, electricity and wages) and global economic conditions. Industrial relations regulations in particular have been highlighted as a significant constraint on business and employment growth, specifically penalty rates, anti-bullying requirements and increases in unfair dismissal claims. Drought conditions in regional Queensland are also having significant ripple effects throughout the economy and for businesses in the supply chain which will worsen if weather conditions do not improve over the coming 12 months.

“The real estate market has seen much more activity in the last four months which has flowed directly onto our business. There appears to be much more confidence expressed by many of the small business people whom I associate with which is having positive flow on effects throughout the community” - Survey Respondent, Gold Coast

“Increasing tourist numbers and skilled migrants will generate growth to stimulate our economy by increasing activity in the housing market, employment, retail and education” - Survey Respondent, Gold Coast

“The feeling locally was that a new government was needed. Now that has happened there is a real change in the air with many feeling positive about the future. Government must now deliver on its election promises” - Survey Respondent, Central Coast

GENERAL BUSINESS CONDITIONS

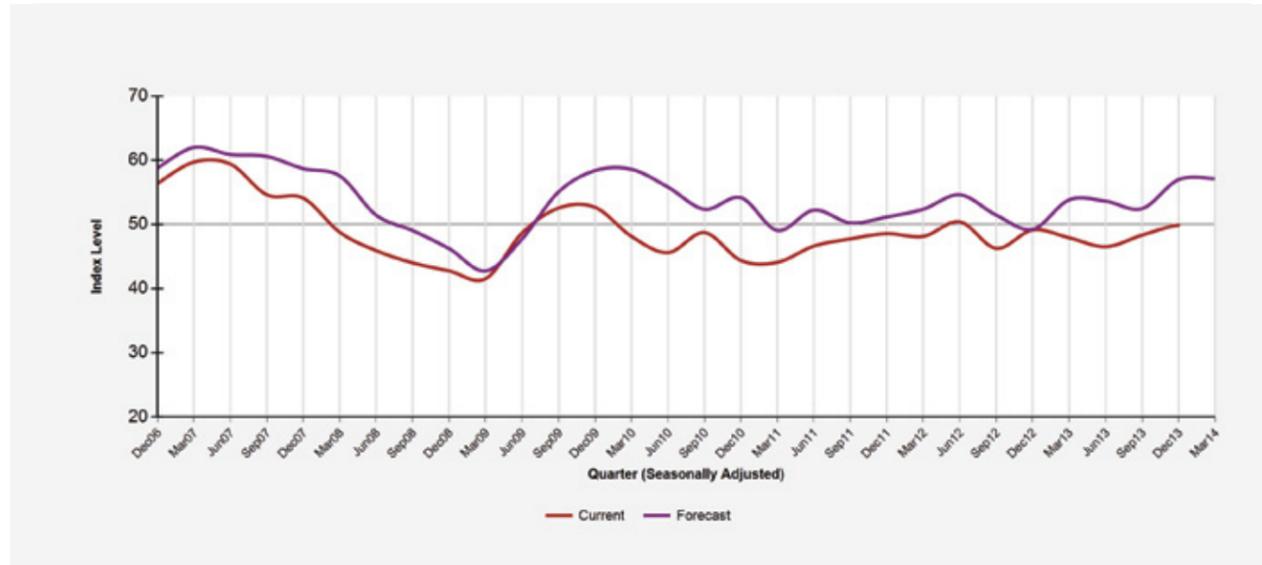


General Business Conditions				
	Dec-12	Sep-13	Dec-13	Mar-14
Weaker	24	27	26	19
Same	40	43	38	38
Stronger	36	30	36	43
Index	52.7	48.9	52.4	56.6

- General business conditions have increased over the three months to December, increasing 3.5 percentage points to 52.4. This is the first time the index has been recorded in positive territory since December 2012.
- The majority of businesses indicated that general business conditions remained the same (38 per cent) or stronger (36 per cent) over the December quarter.
- More businesses are positive about general business conditions for the new year, with only 19 per cent forecasting weaker conditions.
- The Pulse General Business Conditions Index is forecast to increase further to 56.6 (seasonally adjusted) in the March quarter 2014.

“Business having a positive outlook will be influenced by a lower Australian dollar and regulatory improvements (less red tape). We are negatively impacted by rising costs including insurance, fuel and imports” - Survey Respondent, Far North Queensland

SALES AND REVENUE

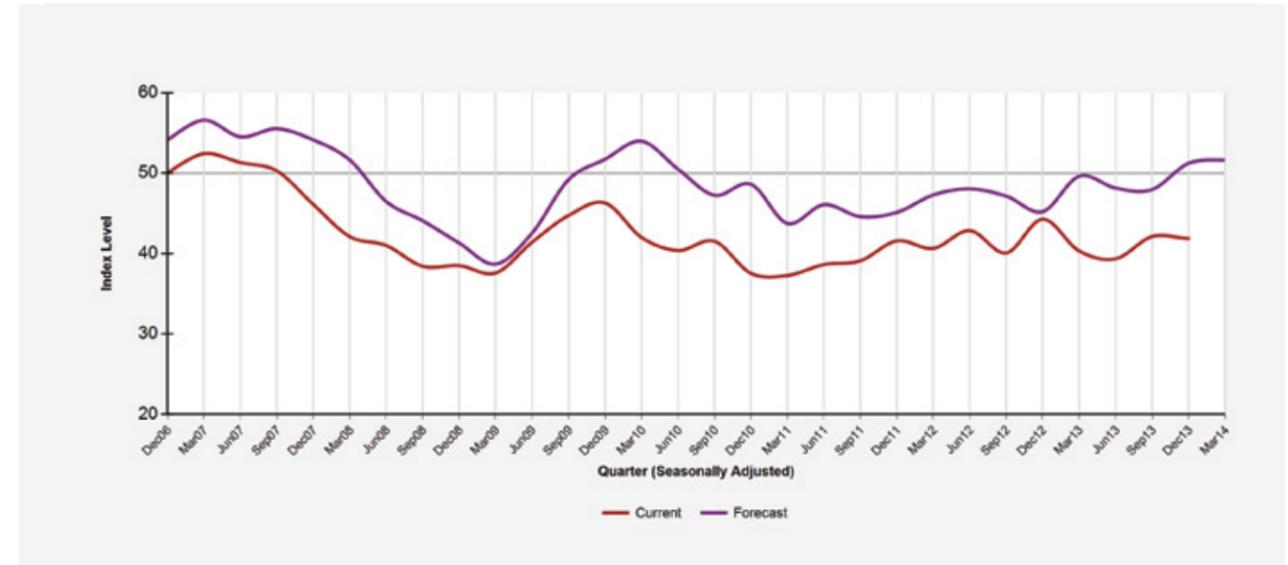


Sales & Revenue				
	Dec-12	Sep-13	Dec-13	Mar-14
Weaker	29	31	29	22
Same	33	39	32	38
Stronger	37	31	39	40
Index	50	48.8	52.4	55.2

- Sales and revenue improved over the December quarter, with the Pulse Sales and Revenue Index increasing by 4.0 percentage points to 52.4, the first time the index has reached positive territory since June 2012.
- The majority of businesses reported steady (32 per cent) or stronger (39 per cent) sales and revenue levels compared to the previous quarter.
- More businesses are forecasting stronger (40 per cent) sales and revenue levels in the coming quarter, with only 22 per cent expecting weaker conditions.
- The Pulse Sales and Revenue Index is forecast to increase further to 55.2 in the March quarter. If realised, this will represent the first two consecutive quarters of growth since 2009.

“Our business gets half its sales from Australia and half from global markets. The drop in the Australian dollar vis a vis the US dollar has had a positive impact on our sales” - Survey Respondent, Brisbane

PROFITABILITY



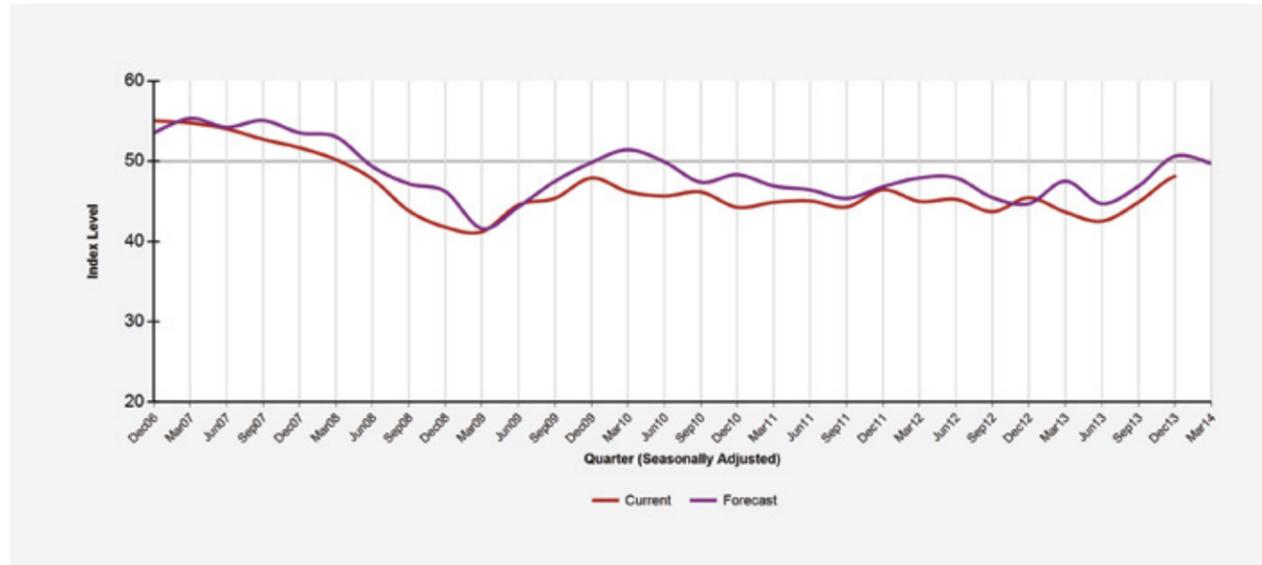
Profitability				
	Dec-12	Sep-13	Dec-13	Mar-14
Weaker	36	40	40	26
Same	40	41	39	41
Stronger	24	19	21	33
Index	43.8	42.1	43.5	51.0

- The Pulse Profitability Index remains relatively flat, increasing by only 1.4 percentage points to 43.5 in the December quarter.
- Profitability remains one of the most significant issues for Queensland businesses, with 40 per cent of businesses reporting weaker profit levels.
- Expectations for an improvement in profitability continue to build, with the Pulse Profitability Index for the March quarter forecasted at 51.0, with 74 per cent of businesses expecting similar or stronger profitability levels

“A strengthening of sales orders boosted our productivity and whilst profitability was somewhat stagnant, the increased work load lifted production and working hours for employees and also generated more turnover for the three month period” - Survey Respondent, Brisbane

“In our particular industry, the October-December period is traditionally slower. We budget and plan for this drop in activity. We are expecting a very strong January-June period” - Survey Respondent, Gold Coast

EMPLOYMENT LEVELS



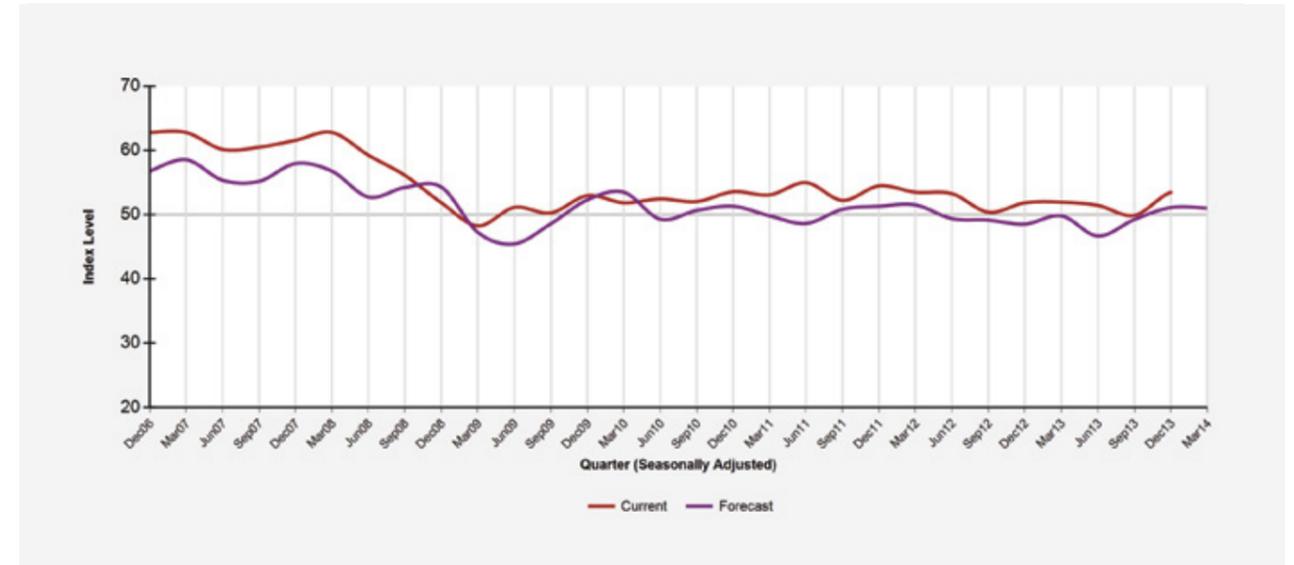
Employment Levels				
	Dec-12	Sep-13	Dec-13	Mar-14
Weaker	28	29	22	19
Same	56	55	59	61
Stronger	16	16	19	20
Index	45.7	44.9	48.6	49.6

- The Pulse Employment Levels Index increased by 3.7 percentage points during the December quarter to 48.6.
- The majority of Queensland businesses are keeping employment levels steady (59 per cent).
- The Pulse Employment Levels Index is anticipated to improve slightly to 49.6 in the March quarter, with 61 per cent of businesses expecting to keep employment levels steady

“Industrial relations policy must be addressed – penalty rates place an enormous burden on our 7 day a week business” - Survey Respondent, Wide Bay

“We have reduced staff turnover by retaining the staff we want to keep. The cost of constantly finding new and good staff is now directed towards rewarding the staff we have retained, which in turn has improved our productivity” - Survey Respondent, Brisbane

AVERAGE WAGES



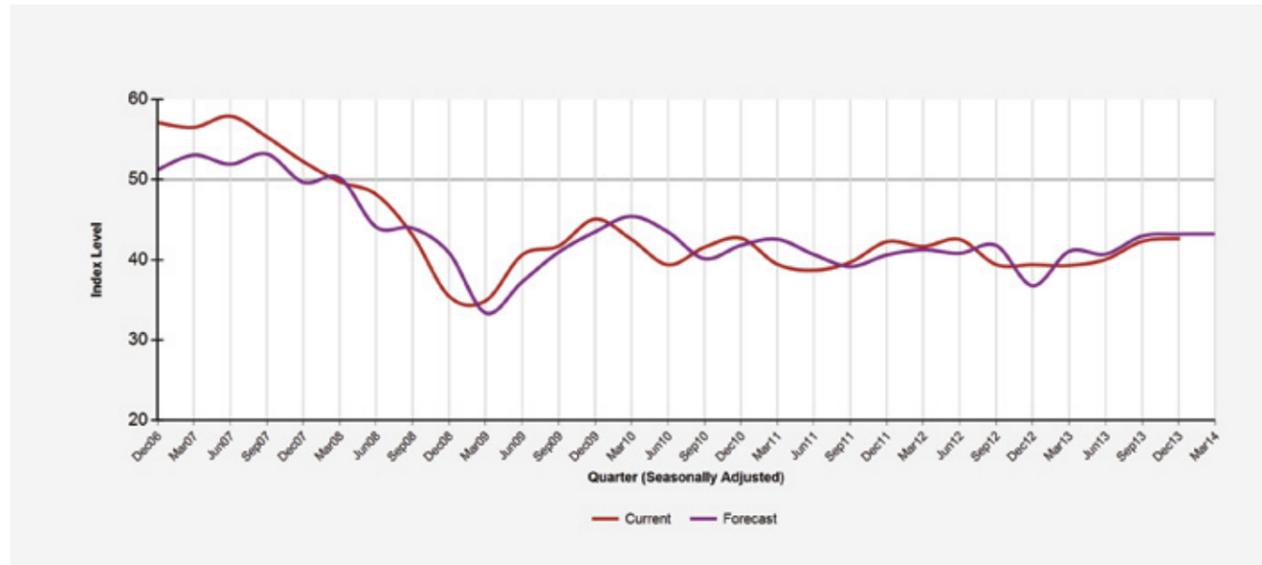
Average Wages				
	Dec-12	Sep-13	Dec-13	Mar-14
Weaker	9	10	7	10
Same	77	73	75	75
Stronger	15	16	18	15
Index	51.7	49.8	52.8	51.4

- Wage pressures have increased during the December quarter, with the Pulse Average Wages Index rising 3 percentage points to 52.8.
- The majority of Queensland businesses (75 per cent) continue to report that wages have remained the same.
- Businesses are predicting wage pressures to remain relatively stable in the March quarter 2014, with the Pulse Average Wages Index forecast at 51.4.

“High employment costs, less work and more competition are impacting our business performance” - Survey Respondent, North Queensland

“A number of factors contained in the Fair Work legislation are a detriment to employers and any expansion of our workforce. This will also limit potential growth and further development whilst they remain and are enforceable” - Survey Respondent, South West Queensland

CAPITAL EXPENDITURE



Capital Expenditure				
	Dec-12	Sep-13	Dec-13	Mar-14
Weaker	38	32	32	31
Same	45	52	47	51
Stronger	17	16	21	17
Index	39.5	42.0	43.8	43.1

- The Pulse Capital Expenditure Index has increased slightly in the December quarter by 1.8 percentage points to 43.8.
- Only a modest 21 per cent of business respondents reported increased investment in building, plant and equipment; the majority reported capital expenditure to be the same (47 per cent).
- Capital expenditure remains relatively low on business priority lists, with the Pulse Index forecast to decrease slightly to 43.1 in the March quarter. Improvement for this indicator is not anticipated until profitability returns.

“Interest rates remaining low will be encouraging for capital investment”
- Survey Respondent, Sunshine Coast

“Profitability is down due to rising costs and our inability to recover costs through price increases. This has resulted in insufficient profit after tax for investment in plant and equipment” - Survey Respondent, Brisbane

REGIONAL ANALYSIS

Actual – December Qtr	Brisbane	Sunshine Coast	Gold Coast	South West Qld	Central Qld	Central Coast	North Qld	Far North Qld
12 Month Outlook – Queensland	↓ 59.3	↓ 54.9	↓ 62.1	↓ 56.0	↓ 57.3	↓ 60.3	↓ 52.3	↓ 61.9
General Business Conditions	↑ 51.7	↑ 57.9	↑ 58.1	↑ 48.9	↑ 51.9	↓ 46.9	↓ 45.5	↓ 49.1
Total Sales/Revenue	↑ 51.5	↑ 58.6	↓ 53.0	↑ 52.3	↑ 53.7	↓ 51.8	↑ 50.0	↓ 47.3
Profitability	↑ 42.9	↑ 47.4	= 45.5	= 42.9	↑ 47.1	↓ 35.9	↑ 45.5	↓ 39.3
Average Wages	↑ 53.3	↑ 52.3	= 54.5	↑ 54.8	↓ 47.7	↓ 51.6	↓ 52.3	↓ 52.7
Employment Levels	↑ 48.9	↑ 52.8	↑ 52.9	↓ 40.9	↑ 44.2	↓ 43.8	↓ 47.5	↓ 47.3
Capital Expenditure	↓ 41.0	↑ 51.9	↑ 56.8	↓ 37.9	↑ 41.8	↓ 35.4	↑ 50.0	↓ 39.6

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

REGIONAL BUSINESS CONFIDENCE:

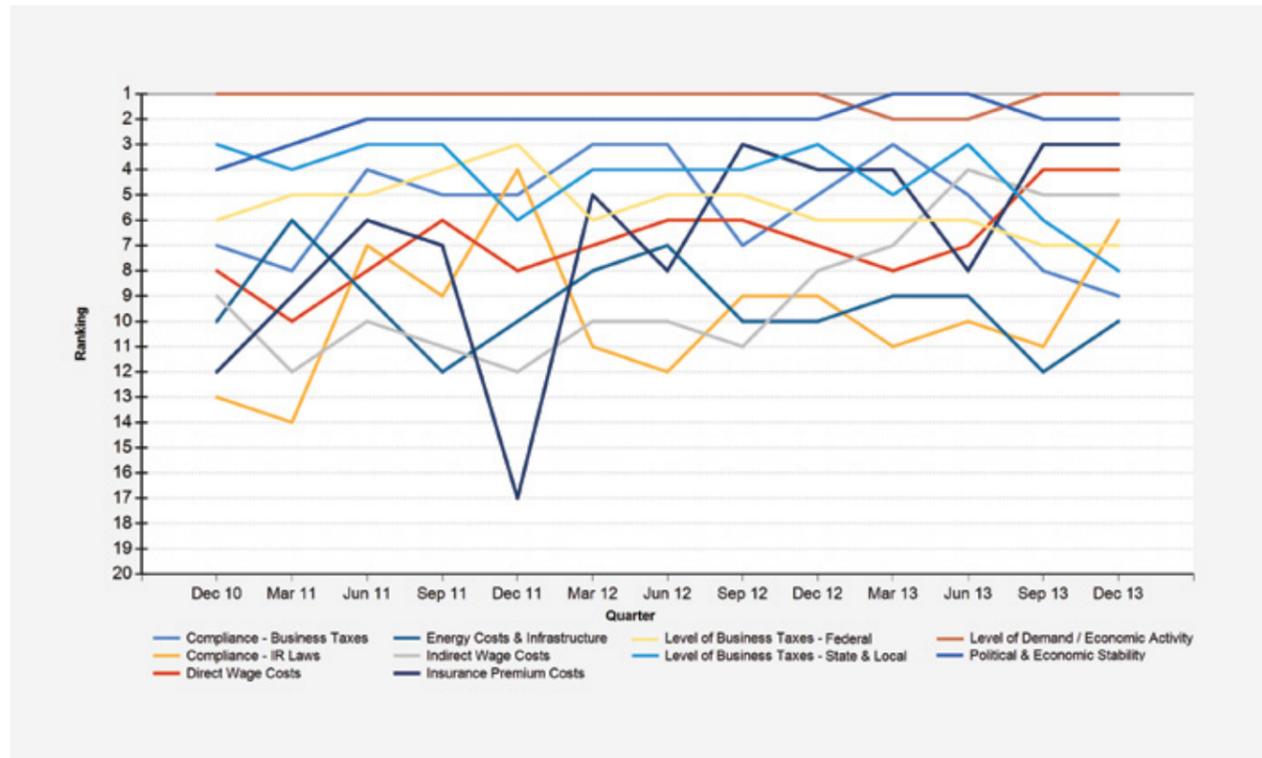
- All regions have seen a decrease in the record high levels of business confidence seen in the previous quarter, however the 12 month outlook index in every region remains quite positive.
- Business confidence remains higher in the Brisbane, Gold Coast, Central Coast and Far North Queensland regions.
- The Sunshine Coast and North Queensland regions experienced the largest falls in business confidence during the quarter, decreasing by 8.5 and 9.1 percentage points respectively.

REGIONAL BUSINESS PERFORMANCE:

- The increase in business confidence experienced in the previous quarter has seen an improvement in general business conditions in several regions, particularly Brisbane, Sunshine Coast, Gold Coast, South West Queensland and Central Queensland regions.
- Profitability remains a key issue for all businesses across the state, with the Profitability Index remaining in negative territory (Index of below 50 basis points) in all regions.
- Businesses optimism continues in the coming March quarter 2014, with all regions (except North Queensland) forecasting positive business conditions.

Forecast – March Qtr	Brisbane	Sunshine Coast	Gold Coast	SW Qld	Central Qld	Central Coast	North Qld	Far North Qld
General Business Conditions	56.4	55.8	63.3	54.8	58.7	54.7	43.2	54.5
Total Sales/Revenue	55.2	54.6	60.3	53.8	61.0	48.3	43.2	54.5
Profitability	49.8	48.7	61.3	52.4	53.0	48.4	40.9	51.8
Average Wages	51.3	47.8	54.8	48.8	53.1	50.0	47.7	53.6
Employment Levels	47.0	48.6	58.3	51.2	52.0	46.7	40.9	50.0
Capital Expenditure	40.2	44.9	56.2	41.9	44.0	43.9	35.8	41.0

MAJOR CONSTRAINTS ON BUSINESS GROWTH



- The top 5 constraints on business growth remain unchanged in the December quarter, with the level of demand and economic activity the number one constraint on business growth.
- Political and economic stability is the second most critical factor for Queensland businesses in the December quarter. Although business concerns surrounding election campaigns and political party leadership have lessened, government inability to deliver on election commitments (such as removing the carbon and mining taxes) due to blockages in the Senate has been raised as a prominent issue that is testing business patience.
- Rising insurance premiums were the third highest critical issue identified for businesses in the December quarter. Direct and indirect wage costs round out the top five constraints on business growth.
- Compliance with industrial relations laws has risen from the eleventh to the sixth highest constraint on business growth in the December quarter. Businesses believe the pendulum has swung too far in favour of employees, with reforms required to bring more balance back into the system. In particular, businesses have raised concerns regarding inflexibility, penalty rates, anti-bullying amendments and unfair dismissal.

“We have employees who want to work flexible working arrangements and are happy to forego some penalty payments, but the IR legislation prevents this. We end up with a lose-lose situation. We manage work overflow by bringing in short term labour hire workers, which is not our preference or the preference of our employees” - Survey Respondent, Gold Coast

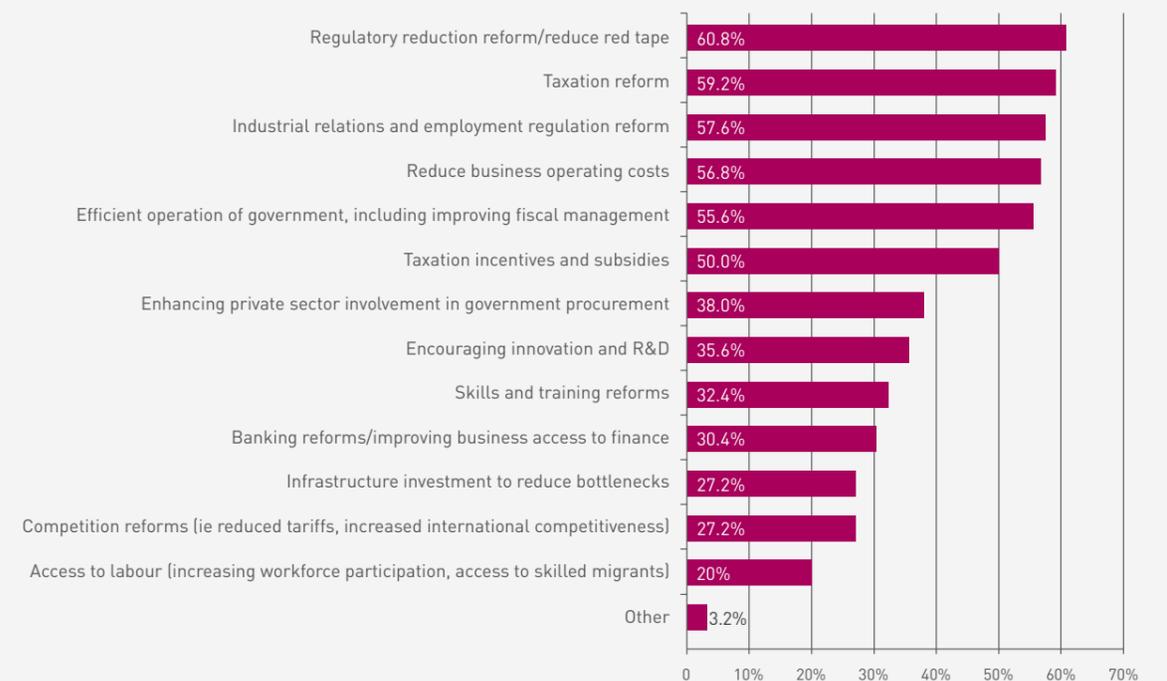
HOT TOPIC: QUEENSLAND SMALL BUSINESS PRODUCTIVITY

The December Pulse Survey of Business Conditions sought views on productivity and the associated challenges faced by small businesses. Achieving productivity improvements was seen as very important or vital to individual Queensland businesses and the state and national economies. However more than 80 per cent of respondents believed that the policies and reforms of the state and federal governments over the past five years have not been conducive to raising productivity.

The majority of businesses (64 per cent) have experienced an increase in productivity performance within their business over the past five years. These improvements had been achieved through the adoption of new technologies, systems or processes; changes to the way products or services are produced or delivered; better utilisation of existing staff; improvements to managerial skills; and greater education and/or training of staff. Key factors influencing business productivity are direct labour costs (not including penalty rates), costs of utilities including electricity and water, other costs of running a business, compliance with government regulations and indirect labour costs (including superannuation and workers' compensation).

Queensland businesses are seeking a stronger commitment from both state and federal governments to productivity reforms. In particular, businesses would like to see greater improvements delivered in the areas of regulatory reform, taxation reform, industrial relations, business operating costs and the efficient operation of government.

Areas State and Federal Governments should target to deliver the greatest improvements in productivity and competitiveness for your business



“Previous governments have hindered growth and productivity. It is up to individual business owners to create productivity and efficiencies where possible, under the constraints of government policy” - Survey Respondent, Far North Queensland



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.

The Pulse Survey is produced in cooperation with the Westpac St George Group.

PULSE BUSINESS INDEX

The analysis undertaken by CCIQ in the preparation of this Pulse Survey Report is based on survey responses from Queensland business.

The report uses the Pulse Business Index (PBI) as well as the (base) statistical data provided from the survey responses to effectively measure respondent's views as to how current or future activity (eg. three months ahead) compares with the previous quarter.

A Pulse Index reading of above 50 indicates conditions have improved over the previous quarter. A reading of 50 indicates conditions have remained the same and less than 50 indicates conditions have deteriorated.

The following guide is useful in interpreting the PBI results into broad indicative performance classifications.

Very Poor 0 – 29.99 Points
Poor 30 – 49.99 Points
Satisfactory 50 – 64.99 Points
Good 65 – 74.99 Points
Very Good 75 – 84.99 Points
Excellent 85 – 100 Points

The state-wide PBI results have been seasonally adjusted.

The Pulse Business Constraints Index (BCI) measures the level of key impediments on business growth. The following guide is used in interpreting the BCI results.

DEGREE OF CONSTRAINT INDEX

Critical 70 - 100
Large 50 - 69.99
Moderate 40 - 49.99
Slight 30 - 39.99
No Constraint 0 - 29.99

To find out more about Pulse, please contact Nick Behrens, General Manager – Advocacy, on **07 3842 2279** or at cciqadvocacy@cciq.com.au



ABOUT CCIQ

For almost 150 years, we've been taking care of business in Queensland.

WE LISTEN TO YOU, AND THEN WE SPEAK.

Through influence and persistence, we are a loud and clear voice for Queensland business to the media and every political party.

WE WORK HARD FOR YOU.

Business is the engine of our nation's economy, and we are tireless in our efforts to ensure governments at all levels create the best possible conditions for your business to succeed.

WE MAKE YOU MORE COMPETITIVE.

Through industry-certified training, we skill your workforce and enhance your business performance.

WE KEEP YOU SAFE.

We comprehensively protect our members by providing members-only hotlines on OHS, workers' compensation and employee relations, as well as expert legal services.

WE SHARE WHAT WE KNOW.

We keep our members up to date by sharing real business intelligence and research.

WE NETWORK SO YOU CAN GROW.

We create business networks and commercial partnerships so you can leverage your membership into opportunities for your business to reduce costs and grow.

BECOME A MEMBER OF CCIQ

It doesn't matter whether you're a new business or at the big end of town. Either way, your membership buys you the knowledge, protection and power that come from belonging to

QUEENSLAND'S LEADING BUSINESS BODY.

Your membership with CCIQ comes with exclusive benefits

PROTECTION

Your membership buys you instant, over-the-phone support from our Employer Assistance Line.*

NEWS

Inform, our monthly member magazine, will be delivered to your inbox.

RESEARCH

Use your exclusive access to our quarterly Pulse research into Queensland business sentiment to set future plans with confidence.

KNOWLEDGE

You'll receive free access to our regular webinars, seminars and policy reports.

NETWORKS

Events, held frequently throughout the state, are ideal opportunities to build your networks.

MYCCIQ

Your membership gives you access to our special member portal, where you can search our extensive resources, manage your account and book training and events.

OFFERS AND TRIALS

As a member, you're offered free product trials and heavily discounted partner offers.

PROMOTION

We list participating members in our exclusive CCIQ Member Directory.

* Not available to Opportunity members.

To find out more about becoming a member of CCIQ, visit www.cciq.com.au/join or call **1300 731 988**.

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We have regional representatives in offices throughout Queensland, and are affiliated with more than 100 chambers of commerce throughout the state.

▲ BRISBANE

Regional Manager
Colin Fruk
Phone 0409 622 297
Email cfruk@cciq.com.au

▲ CAIRNS AND FAR NORTH QUEENSLAND

Regional Manager
Karen Seal
Phone 0418 724 112
Email kseal@cciq.com.au

▲ GOLD COAST AND HINTERLAND

Regional Manager
Troy Cush
Phone 0458 422 041
Email tcush@cciq.com.au

▲ MACKAY AND CENTRAL COAST

Regional Manager
Victoria Bradshaw
Phone 0410 220 915
Email vbradshaw@cciq.com.au

▲ NORTH QUEENSLAND

Regional Manager
Karen Seal
Phone 0418 724 112
Email kseal@cciq.com.au

▲ ROCKHAMPTON AND GLADSTONE

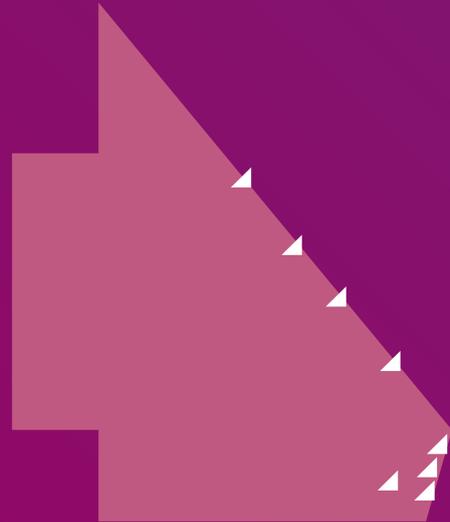
Regional Manager
Victoria Bradshaw
Phone 0410 220 915
Email vbradshaw@cciq.com.au

▲ SOUTH WEST QUEENSLAND

Regional Manager
Roger Gorrel
Phone 0429 001 612
Email rgorrel@cciq.com.au

▲ SUNSHINE COAST AND WIDE BAY

Regional Manager
Kimberly Lynch
Phone 0400 731 522
Email klynch@cciq.com.au



For general enquiries, please call **1300 731 988**.

For the Employer Assistance Line, please call **1300 731 988**.



Chamber of Commerce & Industry Queensland
375 Wickham Tce, Spring Hill QLD 4000
Telephone 1300 731 988