



WESTPAC GROUP CCIQ PULSE SURVEY OF BUSINESS CONDITIONS

DECEMBER QUARTER 2012



INTRODUCTION

Based on the December 2012 Quarter results, Queensland businesses have entered 2013 with hope and optimism.

Business confidence in both the state and national economies strengthened in the December quarter. Equally most business indicators including sales and revenue and profitability continued their upward trend over the three month period. As confidence is an important precursor for business investment and growth, the foundation for business and economic recovery in 2013 are now potentially in place.

However the most significant issue for Queensland businesses looking forward into 2013 will be the Federal election. Based on business feedback, it is clear that most businesses will continue to tread water until after the Federal election, putting off major plans for investment, growth or expansion until the future economic and political environment becomes more certain.

“There had been a significant decline in confidence that the market would improve over the past year. Being on the coast in a tourist region and having a bumper season, I’ve seen a complete reversal in the market. The 2013 year has definitely started on a more positive note.” – Survey Respondent, Sunshine Coast

“No idea why it has been busier, but am glad it has been. We have been marketing our business and spent a lot of time on looking for new value add options, so I guess this has paid off for us.” – Survey Respondent, Brisbane

“Far too great a proportion of taxes collected, being paid towards maintenance of government debt and prevents government spending on worthwhile, growth related projects which promote productive employment – State Government have got the right idea and are cutting back spending, now it’s time for the Australian Government to do the same.” – Survey Respondent, Central Queensland

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-11	Sept-12	Dec-12	Dec-11	Sept-12	Dec-12
Weaker	27	39	27	28	41	23
Same	42	31	38	50	40	47
Stronger	31	30	35	23	19	30
Index	50.9	47.2	52.3	48.6	44.0	52.1

QUEENSLAND ECONOMY

- Queensland business confidence in the state economy finished the 2012 year in a stronger position with the Pulse State Business Confidence Index improving 5.1 basis points to 52.3.
- Queensland businesses are increasingly more positive in their outlook for 2013, with the majority indicating expectations for strengthening (35 per cent) or stable (38 per cent) growth for the Queensland economy over the coming twelve month period.

AUSTRALIAN ECONOMY

- Confidence in the national economy also improved over the December 2012 quarter, with the Pulse National Business Confidence Index moving upward by 8.1 basis points to its highest level since March 2011.
- The 12 month outlook for both the Queensland and National economies are now at similar levels.

SURVEY ANALYSIS: FACTORS AFFECTING THE 12 MONTH OUTLOOK

For the majority of Queensland businesses, 2012 has ended on a positive note with a general improvement in business conditions and performance, influenced in particular by a much improved period for the tourism and retail sectors over the December quarter.

However Queensland businesses still enter 2013 with a degree of caution.

Queensland businesses have weathered the worst of the economic consolidation and fiscal management strategies implemented by the Queensland State Government over the past year and are now hopeful that the Queensland Government are in a better position to turn the state economy around and improve the general business operating environment. That is not to say that there have not been casualties, many businesses across Queensland noted that the winding back of government spending has had an impact on business opportunities and general confidence and spending by consumers over the past nine months.

At a state level another critical issue is the level of construction activity, the impact of which is not isolated to those directly in the building and construction sector. Additionally businesses across all sectors continue to experience difficulty accessing much needed investment finance due to the downgrading of asset values and cautious capital markets.

Queensland businesses are also conscious that the state and national economies are significantly influenced by international stability and its implications for resources demand and the value of the Australian dollar. Rightly or wrongly, the Queensland business community believe that the mining tax is currently affecting forward investment strategies across the resources sector. Equally Queensland businesses have expressed frustration over increasing business operating costs, in particular, the impact on supply costs and prices from the Carbon Tax.

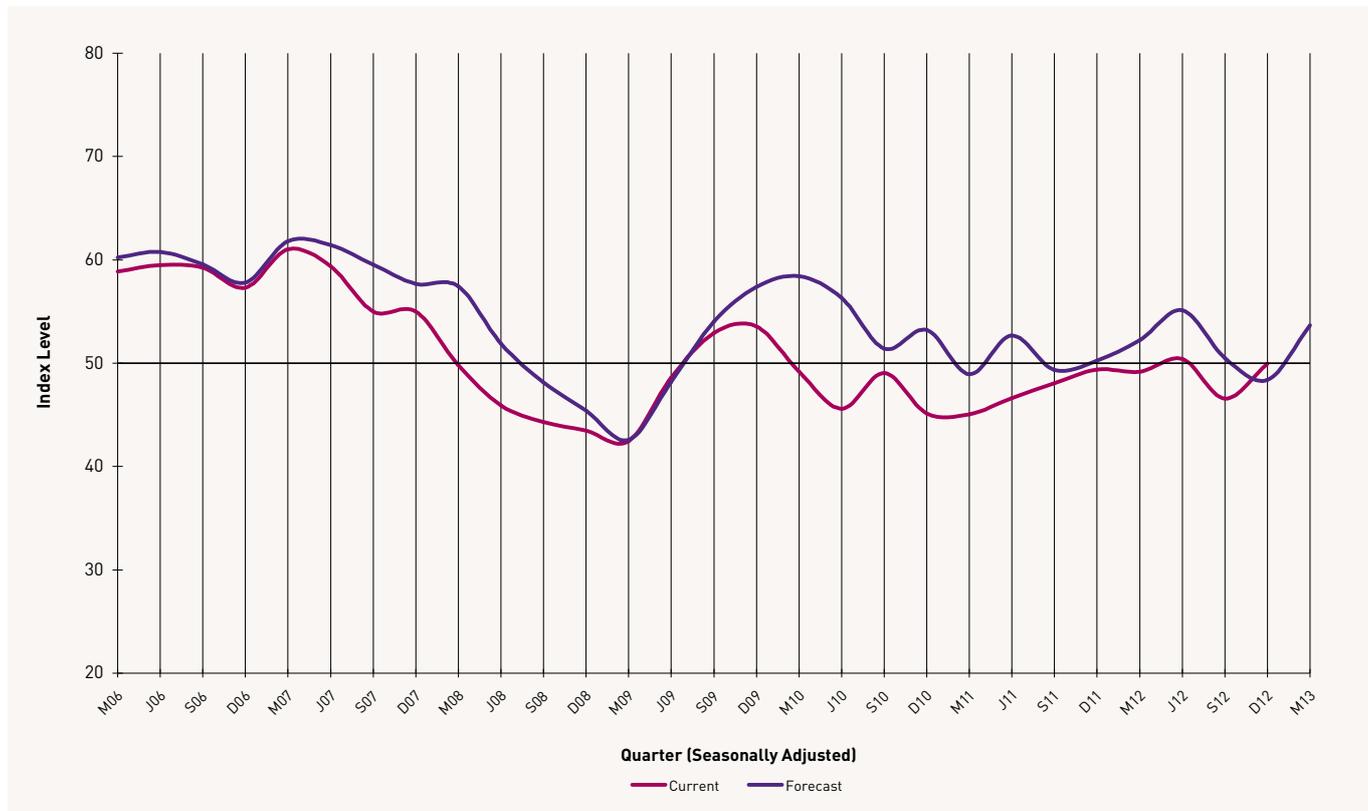
Finally, businesses continue to exercise caution in light of the upcoming Federal election. The political instability resulting from a minority government and the ongoing political game playing continues to detract from vital discussion over important business and economic issues. Based on business feedback, the recent indication from the Federal government regarding government debt/surplus levels is also of concern to the business sector, who are now speculating over the possibility of spending cut backs at a Federal level.

“The government has displayed greed and desperation on taxing state and federal mining companies. All this has done has halted exploration growth and development of new mining ventures. Seems crazy when the mining sector is propping the rest of the economy up.”
– Survey Respondent, Brisbane

“Carbon Tax – we saw many of our suppliers gradually put prices up over the past few months, and now with the start of the new year we feel that we will need to do the same and start passing some of these new costs onto our customers.”
– Survey Respondent, Central Queensland

“I think the next twelve months will be affected mostly by sentiment based on political activity. On a national level the election will put quite a lot of things on hold; at a state level the LNP government have cleared the decks and I expect them to now start building new initiatives that will stimulate growth into the future.” – Survey Respondent, Wide Bay

SALES AND REVENUE



Sales & Revenue				
	Dec-11	Sept-12	Dec-12	Mar-13
Weaker	31	38	29	27
Same	33	29	33	37
Stronger	36	33	37	36
Index	49.1	46.4	50.0	53.7

- Sales and revenue improved over the December quarter, no doubt driven by an improvement in general business conditions across key sectors such as tourism, retail, and agriculture over the period.
- The Pulse Sales and Revenue Index increased by 3.6 basis point to 50, with the majority (37 per cent) of Queensland businesses reporting stronger sales and revenue levels.
- This trend is expected to continue into the first quarter of 2013, with the Pulse Sales and Revenue Index expected to reach 53.7, reflecting a majority of businesses who anticipate similar (37 per cent) or stronger (36 per cent) sales and revenue levels over the March quarter.

“The Christmas period generally slows out business, however we have received a good return in this period compared to the same time last year.” – Survey Respondent, Far North Queensland

PROFITABILITY



Profitability				
	Dec-11	Sept-12	Dec-12	Mar-13
Weaker	41	47	36	30
Same	37	31	40	41
Stronger	21	22	24	39
Index	42.0	41.2	43.8	49.8

- On average, profitability has tracked relatively consistently below the 50 basis point level (indicating weaker profitability levels) throughout 2012, and the December quarter Pulse Survey did not prove any exception.
- The Pulse Profitability Index remained relatively weak at 43.8, with over a third of Queensland businesses (36 per cent) indicating weaker profitability over the three months whilst an additional 40 per cent indicated no change in profitability levels over the December quarter.
- Whilst continuing at poor levels this indicator is beginning to creep upwards towards the 50 basis point threshold.
- Businesses anticipate a marginal improvement in profitability levels over the coming three months, with the majority of businesses expecting stable (41 per cent) or stronger (39 per cent) levels of the profitability.

“The inability of government to live within OUR means coupled with ever increasing charges at all government levels required to pay off their frivolous spending. Each charge/fee/tax might individually be minor but collectively its adding up and are choking our business.”

– Survey Respondent, Central Queensland

EMPLOYMENT LEVELS



Employment Levels				
	Dec-11	Sept-12	Dec-12	Mar-13
Weaker	23	26	28	23
Same	63	63	56	59
Stronger	14	11	16	17
Index	46.3	44.1	45.7	47.6

- There was little change in employment levels across the December quarter. The majority of businesses (56 per cent) continued to report stable employment levels, however the number of businesses reporting weaker employment levels increased marginally to 28 per cent up from 26 per cent in the previous quarter.
- Looking ahead into the March quarter 2013, employment levels are not expected to change materially with the forecast Pulse Employment Index expected to remain at less than optimal levels at 47.6.

“We have a really good team of staff and we hope to reduce the amount of staff turnover during the next few years as stability in our team is one of the best assets we have.”
 – Survey Respondent, Far North Queensland

AVERAGE WAGES



Average Wages				
	Dec-11	Sept-12	Dec-12	Mar-13
Weaker	7	10	9	12
Same	71	72	77	74
Stronger	22	18	15	14
Index	54.2	49.9	51.7	49.9

- Average wage pressures, which lessened somewhat in the previous September quarter, returned to its trend level, with the seasonally adjusted Pulse Index increasing marginally up 1.8 basis points to 51.7.
- Reflecting on historical levels prior to 2008, wage pressures are not currently presenting a significant issue for Queensland businesses, the majority (77 per cent) continue to report average wage levels as being at same or similar levels.
- Average wages are anticipated to continue at trend levels for the March quarter 2013 with the forecast Average Wages Index expected to move to 49.9.

“Our compliance and labour costs are out of whack with any of our competitors – the struggle with costs and compliance issues in the cattle and agricultural industry is causing some not to bother anymore.” – Survey Respondent, South West Queensland

CAPITAL EXPENDITURE



Capital Expenditure				
	Dec-11	Sept-12	Dec-12	Mar-13
Weaker	34	36	38	34
Same	47	51	45	52
Stronger	19	14	17	13
Index	42.4	39	39.5	40.9

- Capital expenditure unfortunately continues to remain at poor levels which represents a significant ongoing issue for the Queensland economy. Unfortunately since the GFC in 2008, Queensland businesses have been constrained in their ability to invest in their business, a trend which can only continue for so long before it impacts negatively on future growth.
- The majority of businesses continue to report weaker or similar levels of business investment across each of the four quarters in 2012. Accordingly the Pulse Index remained at 39.5 with only a marginal change up to 40.9 expected for the coming March 2013 three month period.

“We invested in some new machinery which added more capabilities and made some items more price competitive. We have been in business for over 46 years and we have a good stable customer base as they know our history and service.” – Survey Respondent, Brisbane

REGIONAL ANALYSIS

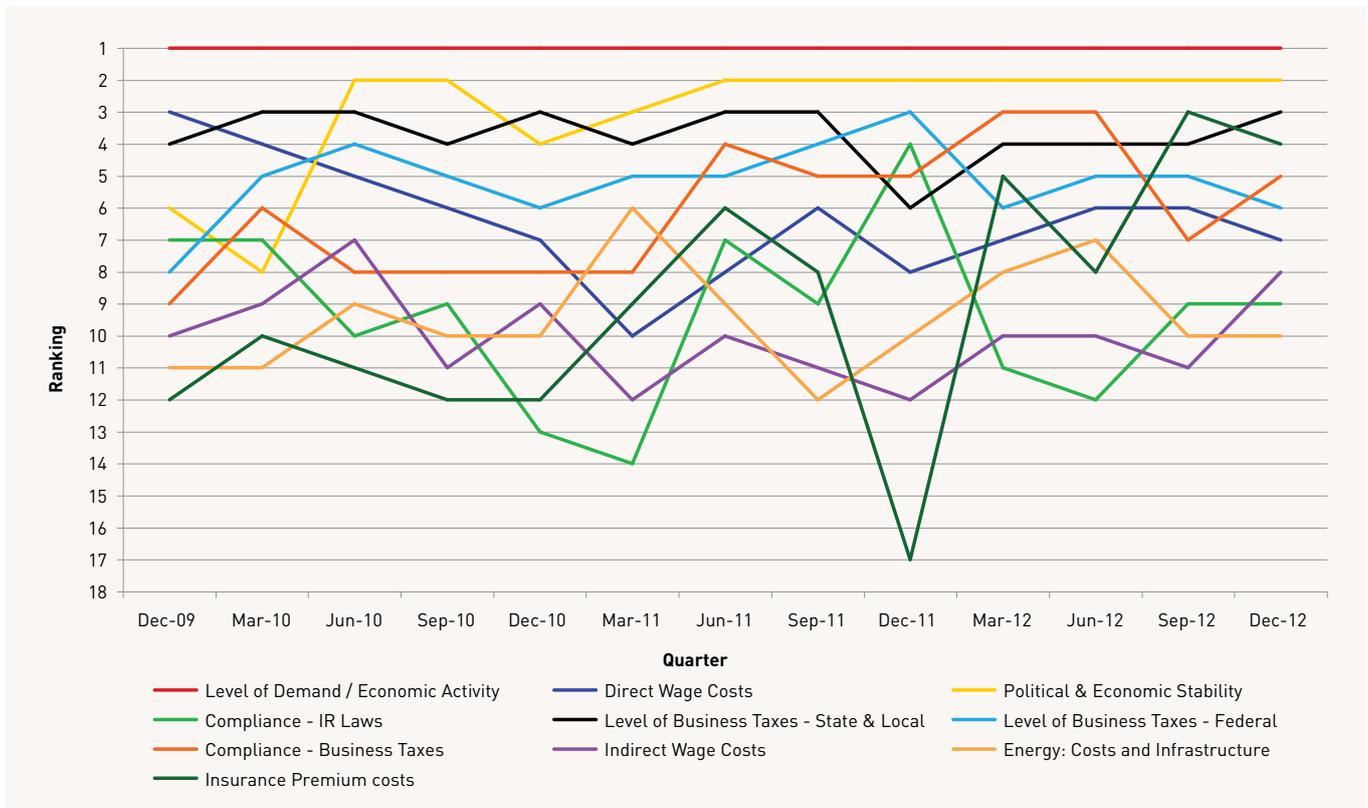
Current Dec 2012	Brisbane	Sunshine Coast	Gold Coast	SW Qld	Central Qld	Central Coast	North Qld	Far North Qld
12 Month Outlook - Queensland	↑ 52.7	↑ 53.4	↑ 52.7	↓ 49.1	↓ 40.0	↑ 54.3	↑ 53.8	↑ 53.2
General Business Conditions	↑ 51.8	↑ 54.0	↑ 55.2	↓ 55.3	↓ 34.7	↑ 42.4	↑ 52.6	↑ 54.0
Total Sales/Revenue	↑ 50.9	= 54.1	↑ 54.2	↓ 55.7	↓ 39.7	↑ 44.6	↑ 50.0	↑ 50.5
Profitability	↑ 44.4	↑ 52.4	↑ 45.3	↑ 51.8	↑ 38.2	↑ 40.9	↑ 45.8	↓ 43.0
Average Wages	↓ 50.4	↑ 51.5	↑ 45.3	↓ 52.4	↓ 48.5	↓ 48.9	↓ 54.2	↑ 52.7
Employment Levels	↓ 44.2	↑ 49.5	↑ 50.6	↑ 52.4	↓ 33.8	↓ 38.6	↑ 43.8	↑ 48.9
Capital Expenditure	↓ 37.7	↑ 44.6	↓ 39.8	↓ 46.7	↓ 28.6	↑ 35.1	↑ 50.4	↓ 35.3

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

- The regional analysis provides a good example of how strongly Queensland's regional economies are linked to the fortunes and fluctuations of the global resources and mining sector and demonstrates clearly how the two-speed business environment continues to impact on the overall state of our economy.
- Generally there was a strong improvement in overall business conditions and performance across the majority of Queensland regions over the December quarter.
- In particular Brisbane, Sunshine Coast and Gold Coast based businesses reported positive improvements in general business conditions, sales and revenue and profitability levels. Accordingly the twelve month outlook in each of these business regions has returned to positive levels not seen for most of the past twelve month period.
- The North and Far North Queensland regions also saw a strong turnaround across the general business conditions and sales and revenue indicators. However profitability levels, whilst gaining upward momentum, still show room for improvement. Business confidence in the North and Far North Queensland regions is amongst the strongest levels reported across the state.
- Those regions with a strong resource sector presence however did not enjoy the same economic turnaround.
- General Business conditions, sales and revenue, and profitability levels remain comparatively weak across the Central Coast and Central Queensland regions. Not surprisingly businesses across both regions reported the weakest levels of employment and capital expenditure growth.
- Whilst index levels still remain at comparatively strong levels, businesses in South West Queensland saw a general weakening across most indicators, however profitability and employment levels grew suggesting businesses expect this to be a short lived fluctuation.

"We have been impacted by the loss of some major contracts as a result of a few local mines closing/downsizing." – Survey Respondent, Central Coast

MAJOR CONSTRAINTS ON BUSINESS GROWTH



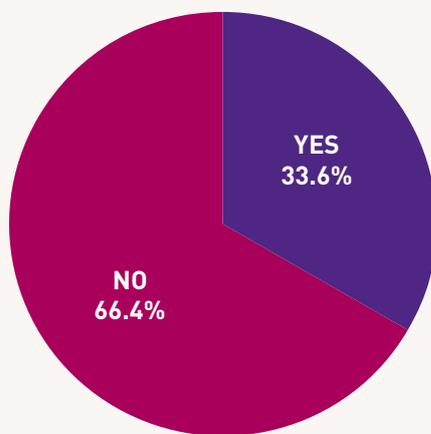
- The level of demand and economic activity continues to be the most significant factor impacting on opportunities for business growth. This is largely influenced by poor consumer confidence and spending, and reduced international demand due to economic instability and the high Australian Dollar.
- Political and economic stability remains a key concern for Queensland businesses. However with the Federal election now firmly in sight, businesses will be seeking a much improved and more stable political and economic environment from the next Federal government.
- Various business costs stemming from business taxes, insurance premiums, red tape compliance, direct and indirect wage costs and input costs such as electricity round out the remaining eight of the ten total major constraints on business growth.
- This reconfirms the on-going need for all levels of government to improve the business operating environment and implement cost cutting measures across all areas of business regulation, compliance and taxation.

“Red tape and bureaucracy – for example a ridiculous amount of time goes into tax administration and superannuation calculations – the government needs to get better at designing productive regulation not just unproductive laws that stifle businesses.”
 – Survey Respondent, Brisbane

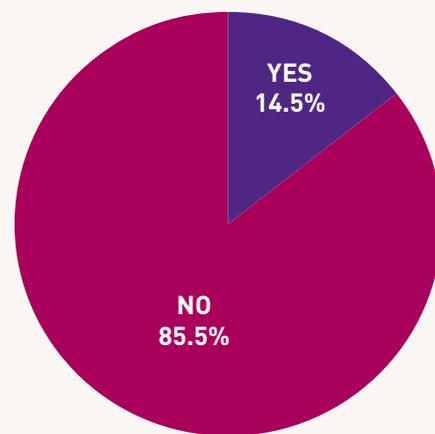
HOT TOPIC: STATE GOVERNMENT WORKPLACE RELATIONS SYSTEM

This quarter's Hot Topic Question sought the views of Queensland businesses in relation to a discussion paper released by the Queensland Attorney-General, which canvassed moving unincorporated businesses back under the state workplace relations system in order to relieve them of some of the difficulties being experienced under the Fair Work Act.

Preference for moving back under State Government WR system (Unincorporated)



Preference for moving back under State Government WR system (Incorporated/Company)



* The majority of Queensland businesses fall into the category of incorporated/company.

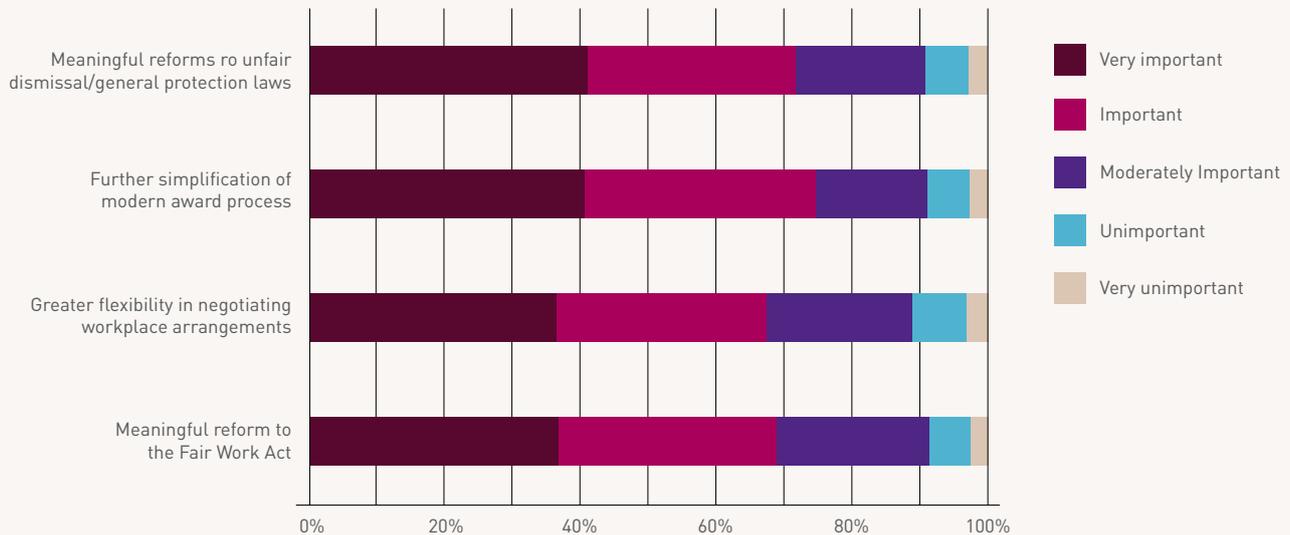
The survey results clearly demonstrated that the majority of Queensland businesses wish to remain under a national workplace relations system:

- 66.4 per cent of unincorporated businesses responded that they would prefer not to return to a state workplace relations system; and
- 85.5 per cent of incorporated businesses indicated that they would not consider moving to an unincorporated structure in order to fall under Queensland workplace relations law (if the State Government brought unincorporated entities back under a state based system).

Clearly both incorporated and unincorporated businesses see benefits in a national workplace relations system. According to survey respondents, the most important of these benefits are greater consistency, clarity and less bureaucracy.

“I know that all of the regulation surrounding employing people is a big disincentive to employ. Inexperienced unskilled workers do not get employed if the minimum wage is too high for these kind of people and if it is too difficult to remove a worker who is not performing. This means that people with potential do not get an opportunity to prove themselves.”
– Survey Respondent, Sunshine Coast

Business Priorities for National WR System



However, respondents were strongly of the view that a number of critical issues with the national workplace relations system needed to be resolved with over two thirds of respondents (67.9 per cent) supporting urgent reform to the Fair Work Act including across the following specific areas:

- 74.8 per cent listed further simplification of the modern awards process as being very important or important;
- 71.7 per cent listed reform to unfair dismissal/general protection laws as being very important or important; and
- 67.6 per cent of respondents wanted greater flexibility in negotiating workplace arrangements.

“I feel as an employer a lot of control is taken away from the small business owner and a lot more costs are introduced. I do understand that there needs to be a balance for both employers and employees but if the small business owner is forced into extinction then what happens to the employees.” - Survey Respondent, Wide Bay - Burnett

“A move to simplification and flexibility are essential, the business community need a reliable and low risk basis on which to provide for future employment. ”
- Survey Respondent, Brisbane

“Reform is just another way to play around with the system and gain political mileage for one side or the other. Leave this alone or put it in the hands of an independent body to assess and structure. No political involvement (or pressure) should be inflicted on the process. ” - Survey Respondent, South West 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

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 2253** or at policy@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.

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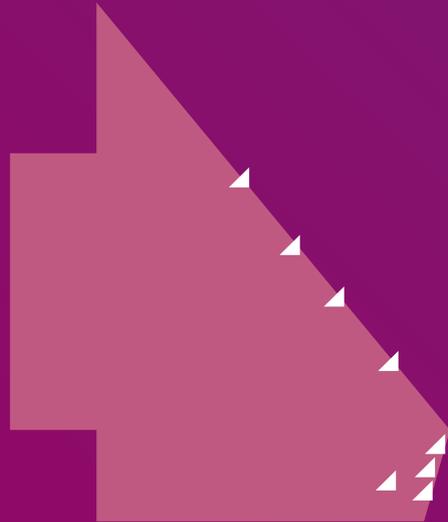
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