

pulse
QUEENSLAND

WESTPAC GROUP CCIQ PULSE SURVEY OF BUSINESS CONDITIONS

▼ MARCH QUARTER 2014

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Pulse is the largest survey of Queensland businesses, providing critical insights into the sentiment of business owners and managers across the state.

Our Westpac Group CCIQ Pulse Survey of Business Conditions includes detailed measurements on employment levels, turnover and business profitability – knowledge that adds confidence to the strategic planning and future investment decisions of your business.

The survey period is for 1-17 April 2014 and covers business sentiment through the quarter to March 2014 and looking forward to the quarter ahead to June 2014.



SALES & REVENUE

- Sales and revenue expectations were not realised over the quarter 2014 with 40 per cent of businesses reporting weaker sales.
- Businesses are optimistic about the coming June quarter, with more businesses forecasting stronger (39 per cent) or similar (36 per cent) sales and revenue levels.

12
MONTH

12 MONTH OUTLOOK

- The 12 month outlook for both the state and national economies has come back from the record highs recorded over the last six months.
- The majority of businesses are expecting similar (32 per cent) or stronger (38 per cent) economic conditions in Queensland over the coming twelve months.
- Confidence in the national economic outlook is marginally stronger than it is for the Queensland economy.

OVERVIEW

- Results show a downturn in the strong business sentiment recorded over the last six months
- Substantial falls in business confidence have been reflected across all key business indicators.
- Diminished consumer and business confidence, government deficit and debt discussions and rising business costs have been identified as key contributing factors influencing results.
- Subdued business results are forecast for the coming June quarter.



GENERAL BUSINESS CONDITIONS

- General business conditions contracted over the quarter, with 38 per cent of businesses reporting weaker conditions.
- Similar conditions are forecast for the coming June quarter, with 44 per cent of businesses expecting similar conditions.

INTRODUCTION

The March Quarter Pulse Survey of Business Conditions has identified a downturn to the strong business sentiment recorded over the last six months.

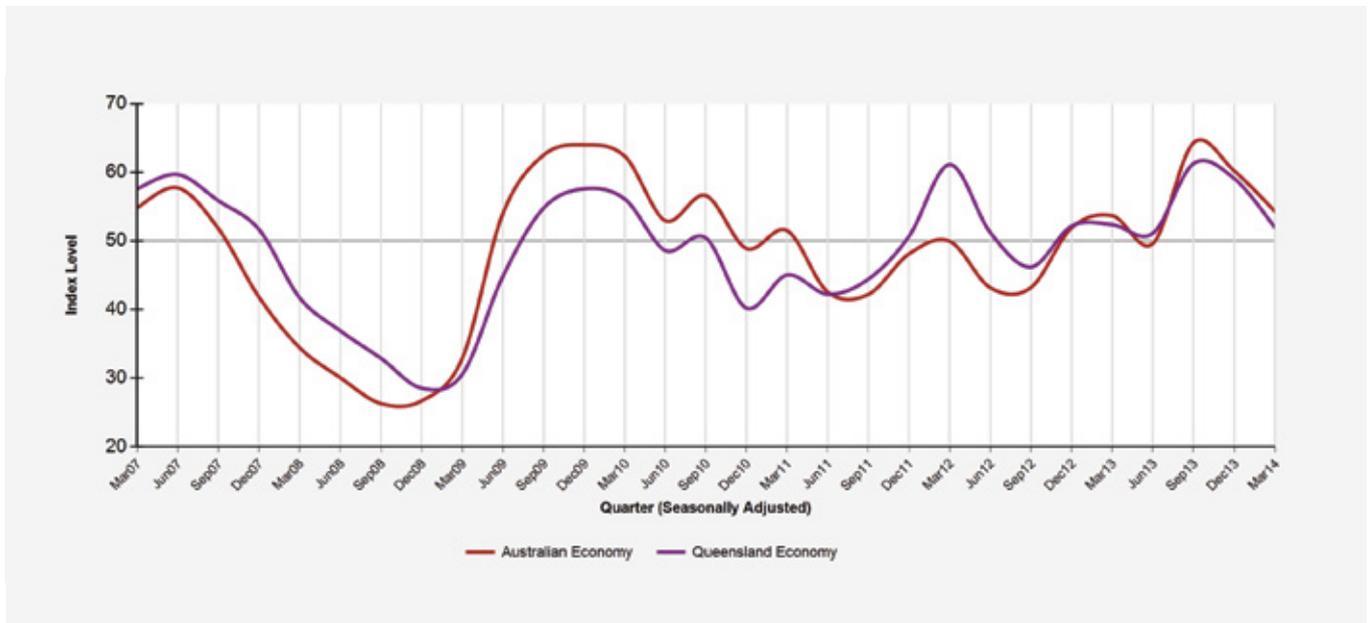
Although remaining in positive territory, substantial falls in business confidence in both the Queensland and national economies have been experienced over the three months to March 2014. These results are unfortunately further reflected across all key business indicators with falls recorded in general business conditions, sales and revenue, profitability, employment and capital expenditure. Diminished consumer and business confidence, government deficit and debt discussions and rising business costs have been identified as key contributing factors influencing results.

The outlook remains similar for the coming June quarter 2014. Businesses have forecast positive general business conditions and sales and revenue outcomes, however profitability, employment levels and capital expenditure will remain key challenges.

“There is very weak demand for product and a lack of expansion and development in our market segments. There are tight cash flows throughout business and industry requiring ‘belt tightening’ across the board. In addition to continued price rises of raw materials and the cost of essential services, there are generally depressed conditions”
- Survey Respondent, Brisbane

“The key difficulty is the balance between government investment in job creation and fiscal constraints being experienced nationally and at a state level”
- Survey Respondent, Sunshine Coast

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 | | |
|----------|--------------------|--------|--------|--------------------|--------|--------|
| | Mar-13 | Dec-13 | Mar-14 | Mar-13 | Dec-13 | Mar-14 |
| Weaker | 28 | 18 | 30 | 24 | 15 | 27 |
| Same | 36 | 31 | 32 | 44 | 32 | 35 |
| Stronger | 36 | 51 | 38 | 32 | 53 | 38 |
| Index | 53.4 | 58.8 | 51.7 | 54.8 | 60.2 | 52.2 |

The 12 month outlook for both the state and national economies has come back from the record highs recorded over the last six months.

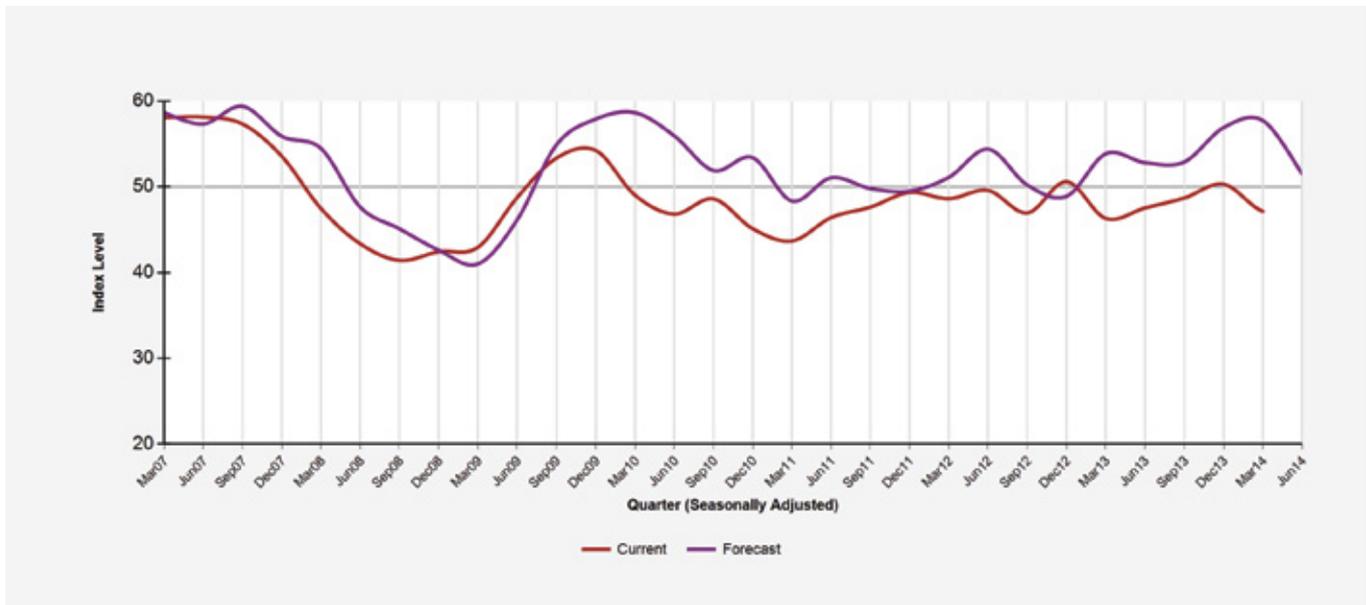
QUEENSLAND ECONOMY

- Although remaining in positive territory, the Pulse Business Confidence Index for Queensland decreased in the March quarter by 7.1 percentage points to 51.7.
- The majority of businesses are expecting similar (32 per cent) or stronger (38 per cent) economic conditions in Queensland over the coming twelve months.

AUSTRALIAN ECONOMY

- The Pulse Business Confidence Index fell by 8.0 percentage points to 52.2 in the March quarter.
- The majority of Queensland businesses expect the national economy to strengthen (38 per cent) or remain the same (35 per cent) over the next 12 months.
- Confidence in the national economic outlook is marginally stronger than it is for the Queensland economy.

GENERAL BUSINESS CONDITIONS



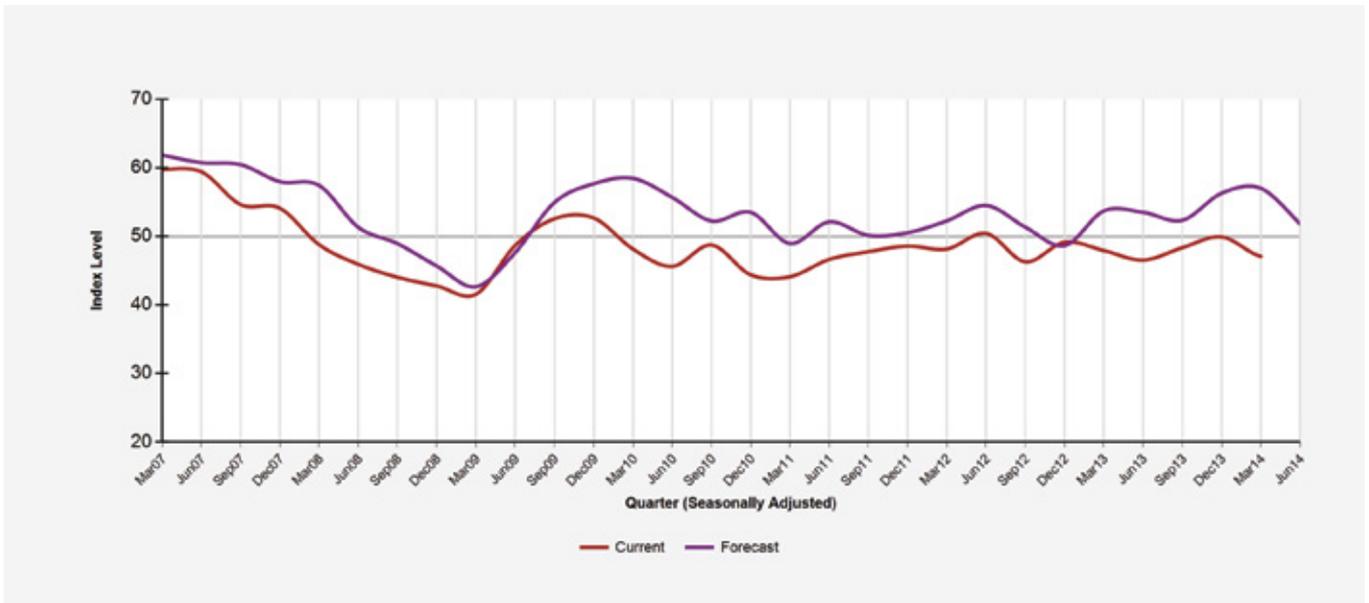
| General Business Conditions | | | | |
|-----------------------------|--------|--------|--------|--------|
| | Mar-13 | Dec-13 | Mar-14 | Jun-14 |
| Weaker | 39 | 26 | 38 | 22 |
| Same | 36 | 38 | 36 | 44 |
| Stronger | 25 | 36 | 26 | 35 |
| Index | 47.8 | 52.4 | 44.9 | 52.6 |

- General business conditions contracted over the March quarter, falling 7.5 percentage points to 44.9.
- The majority of businesses indicated that general business conditions were weaker (38 per cent) or remained the same (36 per cent).
- Businesses are optimistic about the coming June quarter, with the Pulse General Business Conditions Index forecast at 52.6 (seasonally adjusted) but noticeably more tapered than expectations from previous quarters.

“Our region has such a high unemployment rate that there is not enough cash circulating to generate stimulus. The drought is also having a huge impact on our rural economy”
 - Survey Respondent, Wide Bay

“Contraction of the mining/resources sector and near collapse of the manufacturing/car manufacturing sector leading to higher unemployment and the subsequent flow on effects. This may be able to be offset by Federal Government’s efforts to accelerate infrastructure projects in the short to medium term” - Survey Respondent, Brisbane

SALES AND REVENUE



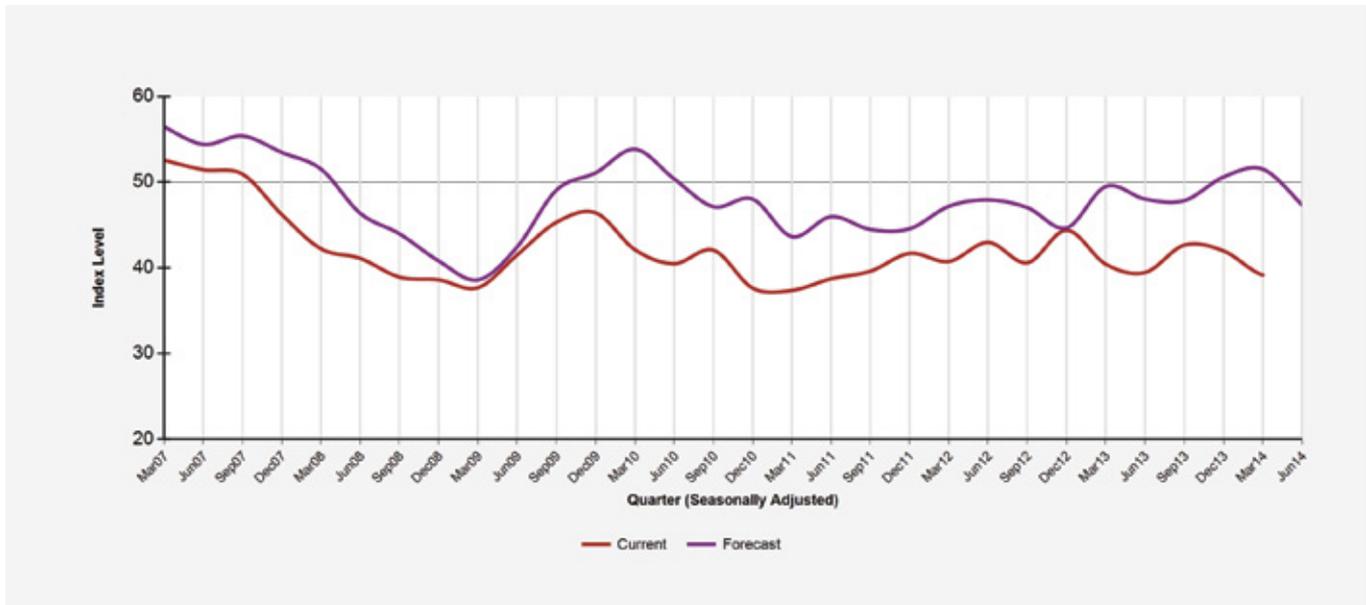
| Sales & Revenue | | | | |
|-----------------|--------|--------|--------|--------|
| | Mar-13 | Dec-13 | Mar-14 | Jun-14 |
| Weaker | 40 | 29 | 40 | 25 |
| Same | 30 | 32 | 32 | 36 |
| Stronger | 30 | 39 | 28 | 39 |
| Index | 48.9 | 52.4 | 44.3 | 52.2 |

- Sales and revenue expectations were not realised over the March quarter 2014. The Pulse Sales and Revenue Index fell 8.1 percentage points to 44.3, with 40 per cent of businesses reporting weaker sales over the three month period.
- Businesses are optimistic about the coming June quarter, with more businesses forecasting stronger (39 per cent) or similar (36 per cent) sales and revenue levels.
- The Pulse Sales and Revenue Index is forecast to increase to 52.2 in the June quarter.

“It is a very competitive market at present, with competitors quoting at cost or under cost to win jobs and maintain turnover” - Survey Respondent, Central Coast

“Our sales and revenue is impacted by employment costs and the strong Australian dollar which is affecting our accommodation demands with people travelling overseas in lieu of holidaying in Australia. Our income also falls dramatically during bad weather or when the media exaggerates weather events” - Survey Respondent, Gold Coast

PROFITABILITY



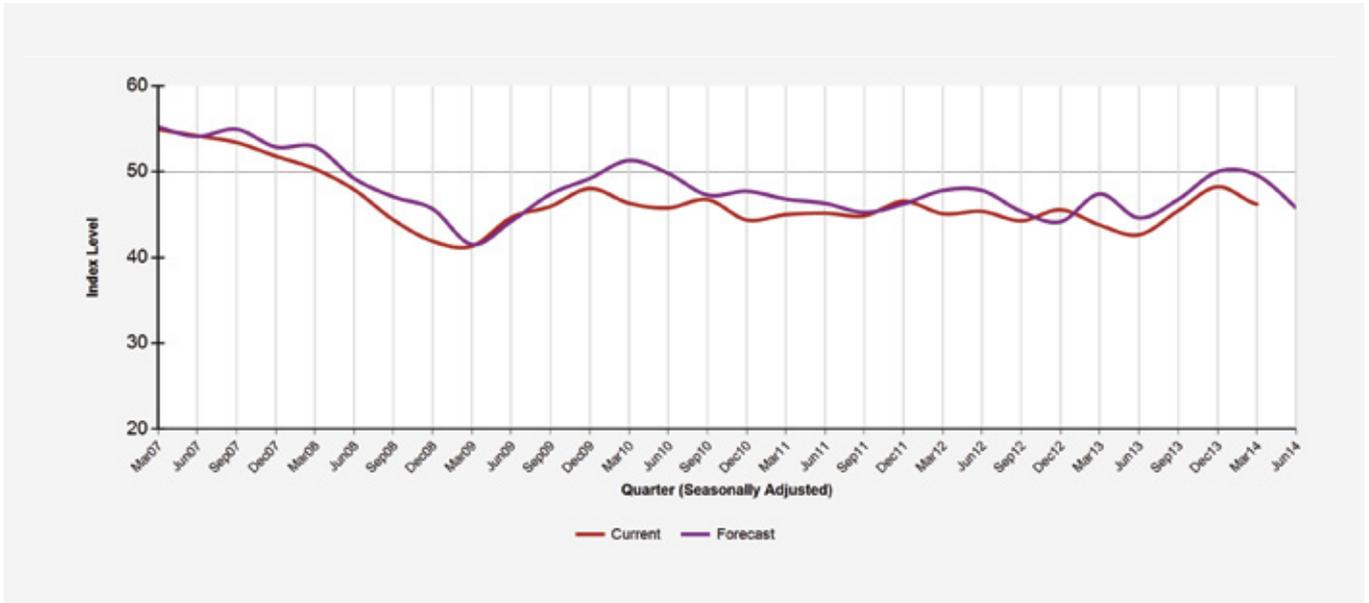
| Profitability | | | | |
|---------------|--------|--------|--------|--------|
| | Mar-13 | Dec-13 | Mar-14 | Jun-14 |
| Weaker | 53 | 40 | 52 | 29 |
| Same | 28 | 39 | 31 | 42 |
| Stronger | 19 | 21 | 17 | 29 |
| Index | 41.0 | 43.5 | 37.1 | 48.3 |

- Profitability continues to remain one of the most significant issues for Queensland businesses.
- The Pulse Profitability Index decreased by 6.4 percentage points to 37.1 in the March quarter 2014, the lowest level recorded since the June quarter 2011. Only 17 per cent of businesses reported stronger profitability levels during the quarter.
- The Index is forecast to remain in negative territory (48.3) for the coming June quarter, with 71 per cent of businesses expecting weaker or similar profitability levels.

Cost of goods has marginally increased however there is no tolerance in the market for increased price points. The balance between output capacity and quality and staffing levels is difficult to manage as trade during peak periods and off peak periods are not stable” - Survey Respondent, Brisbane

“Offshoring the administration of our business has increased productivity and decreased cost in overheads” - Survey Respondent, Brisbane

EMPLOYMENT LEVELS



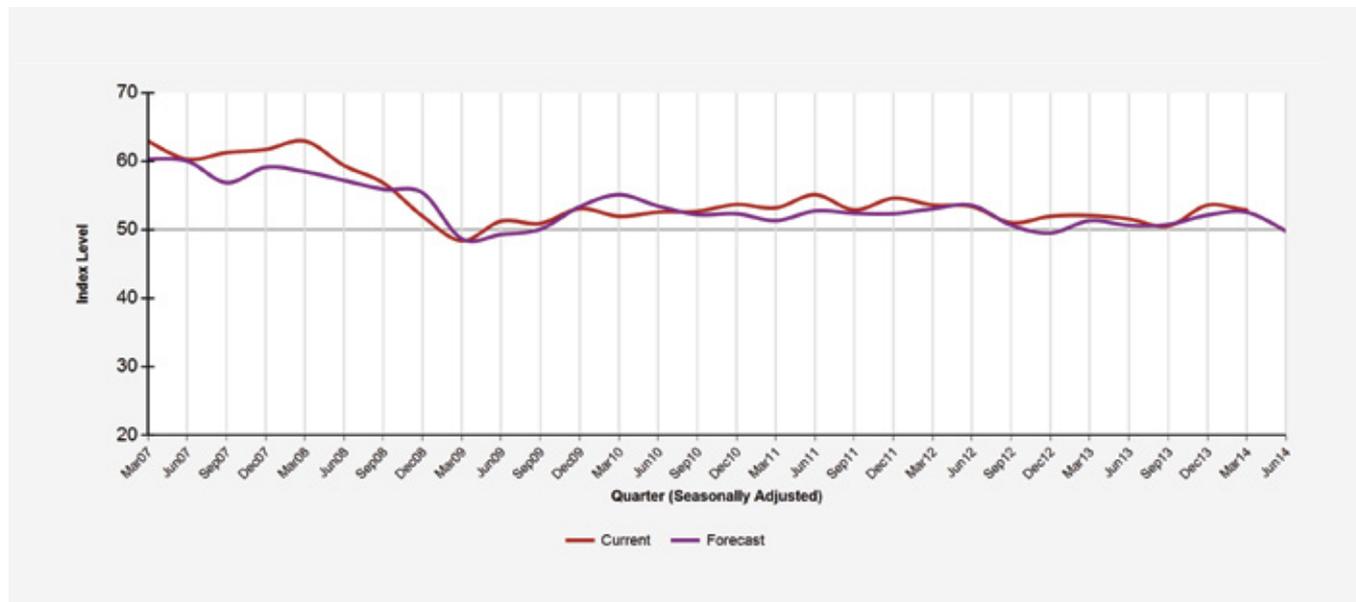
| Employment Levels | | | | |
|-------------------|--------|--------|--------|--------|
| | Mar-13 | Dec-13 | Mar-14 | Jun-14 |
| Weaker | 30 | 22 | 26 | 25 |
| Same | 62 | 59 | 63 | 61 |
| Stronger | 8 | 19 | 11 | 15 |
| Index | 44.1 | 48.6 | 45.2 | 45.8 |

- The Pulse Employment Levels Index decreased by 3.4 percentage points during the March quarter to 45.2.
- The majority of Queensland businesses are keeping employment levels steady (63 per cent).
- The Pulse Employment Levels Index is forecast to remain relatively stable at 45.8 in the June quarter, with 61 per cent of businesses expecting to keep employment levels steady.

“We need to stimulate the economy and create jobs in regional Queensland”
- Survey Respondent, Central Coast

“We have a new enterprise agreement that was difficult due to inflexible compliant conditions required under the retail award. This will affect jobs going forward and needs urgent changes, particularly to penalty provisions that make no sense given online competition” - Survey Respondent, Central Queensland

AVERAGE WAGES



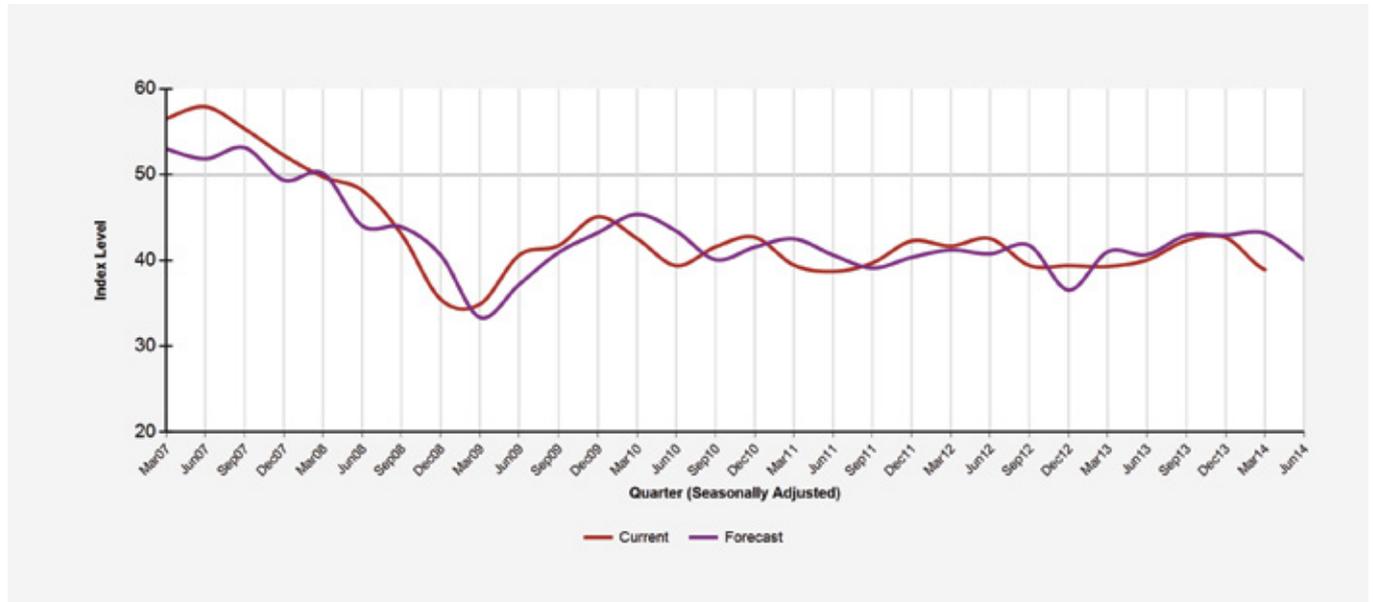
| Average Wages | | | | |
|---------------|--------|--------|--------|--------|
| | Mar-13 | Dec-13 | Mar-14 | Jun-14 |
| Weaker | 10 | 7 | 10 | 13 |
| Same | 76 | 75 | 73 | 75 |
| Stronger | 14 | 18 | 17 | 12 |
| Index | 52.4 | 52.8 | 51.6 | 49.2 |

- Wage pressures have remained relatively stable during the March quarter, with the Pulse Average Wages Index decreasing 1.2 percentage points to 51.6.
- The majority of Queensland businesses (73 per cent) continue to report that wages have remained the same.
- Businesses are predicting wages to decrease slightly in the June quarter 2014, with the Pulse Average Wages Index forecast at 49.2.

“Small businesses are struggling to pay staff penalty rates and keep their doors open. Action is needed to assist small business owners to remain viable” - Survey Respondent, South West Queensland

“Rising wages and superannuation costs, along with large rising rental costs, are impacting our ability to stay competitive with our prices” - Survey Respondent, Wide Bay

CAPITAL EXPENDITURE



| Capital Expenditure | | | | |
|---------------------|--------|--------|--------|--------|
| | Mar-13 | Dec-13 | Mar-14 | Jun-14 |
| Weaker | 40 | 32 | 42 | 37 |
| Same | 46 | 47 | 44 | 52 |
| Stronger | 14 | 21 | 14 | 12 |
| Index | 39.5 | 43.8 | 37.7 | 40.0 |

- The Pulse Capital Expenditure Index has fallen 6.1 percentage points to 37.7 in the March quarter 2014.
- The majority of Queensland businesses reported weaker (42 per cent) or similar (44 per cent) expenditure on building, plant and equipment during the past three months.
- Priority on capital expenditure remains low on business priority lists, with the Pulse Index forecast at 40.0 in the June quarter.

“We are waiting for the budget announcements before making spending decisions”
- Survey Respondent, North Queensland

“There is a lack of capital expenditure by larger companies and the flow on effects of this onto the broader economy. There is a downturn of contracted services by most businesses as being part of the income stream. There is a lack of orders from clients, plenty of enquiries but no money spent. There is also a reduction in maintenance budgets by larger companies due to a down turn in equipment usage” - Survey Respondent, Central Coast

REGIONAL ANALYSIS

| Actual – March Qtr | Brisbane | Sunshine Coast | Gold Coast | South West Qld | Central Qld | Central Coast | North Qld | Far North Qld |
|-------------------------------|----------|----------------|------------|----------------|-------------|---------------|-----------|---------------|
| 12 Month Outlook - Queensland | ↓ 55.6 | ↓ 43.5 | ↓ 60.2 | ↓ 51.5 | ↓ 45.6 | ↓ 55.6 | ↓ 45.4 | ↓ 46.5 |
| General Business Conditions | ↓ 49.6 | ↓ 46.7 | ↓ 52.5 | = 49.2 | ↓ 43.0 | ↓ 38.2 | ↓ 32.3 | ↓ 28.2 |
| Total Sales/Revenue | ↓ 50.0 | ↓ 48.9 | ↑ 56.6 | ↓ 48.3 | ↓ 40.8 | ↓ 35.3 | ↓ 29.2 | ↓ 26.3 |
| Profitability | ↓ 41.3 | = 47.8 | ↓ 44.4 | = 42.7 | ↓ 30.0 | ↑ 36.8 | ↓ 19.8 | ↓ 23.7 |
| Average Wages | ↓ 51.1 | ↓ 47.2 | = 54.4 | ↓ 51.7 | ↑ 54.3 | ↓ 45.3 | ↓ 47.6 | ↑ 54.5 |
| Employment Levels | ↓ 46.5 | ↓ 46.1 | ↓ 51.3 | ↑ 47.6 | ↓ 42.5 | ↑ 45.6 | ↓ 32.1 | ↓ 43.4 |
| Capital Expenditure | ↑ 42.3 | ↓ 39.8 | ↓ 43.6 | ↑ 45.6 | ↓ 31.1 | ↓ 29.3 | ↓ 12.9 | ↓ 33.9 |

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

REGIONAL BUSINESS CONFIDENCE:

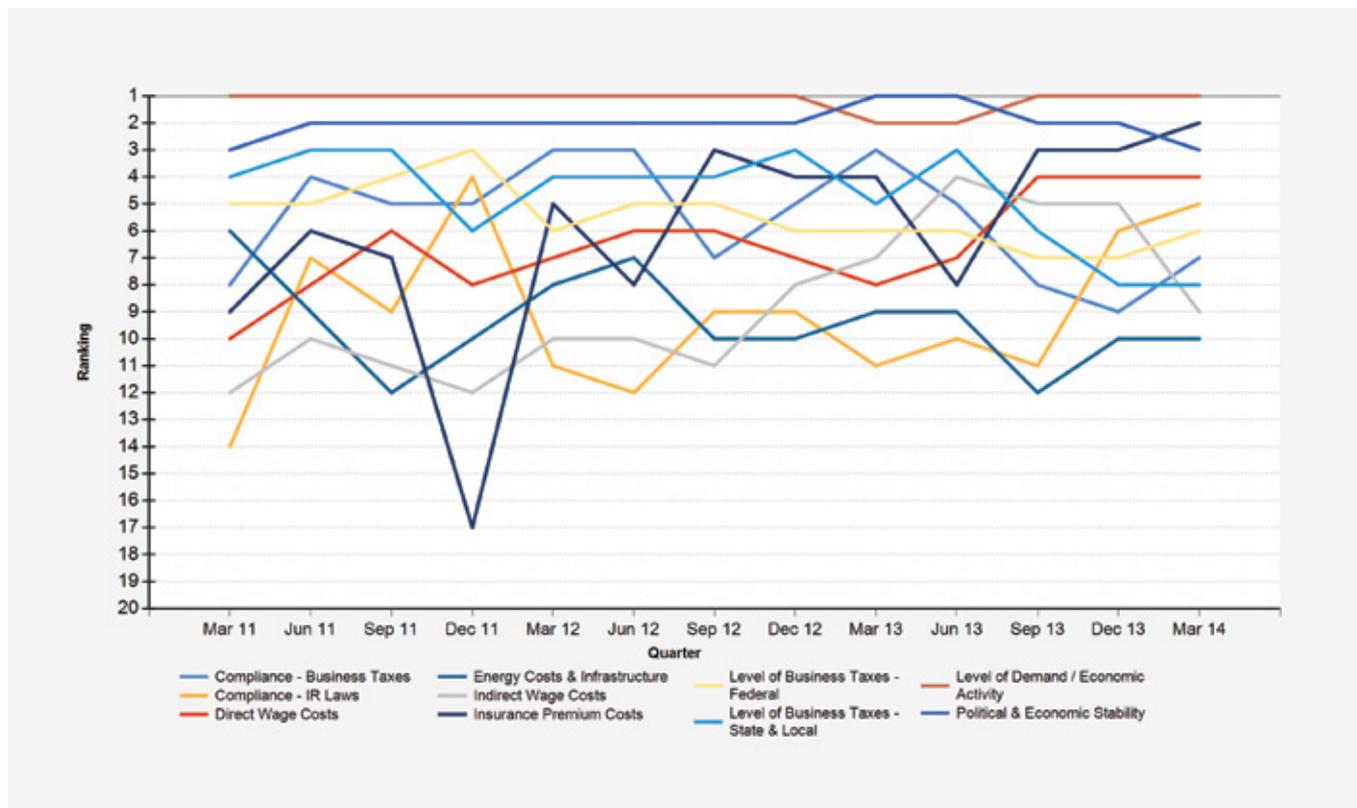
- All regions have seen a decrease in general confidence levels over the March quarter 2014. Business confidence is highest in the Gold Coast region, and remains positive in the Brisbane, Central Coast and South West Queensland regions.
- Far North Queensland, Central Queensland and Sunshine Coast regions experienced the largest falls in business confidence during the quarter.

REGIONAL BUSINESS PERFORMANCE:

- Almost every region has recorded a fall in most business indicators during the past three months. Far North Queensland and North Queensland in particular have recorded a substantial decline in general business conditions, sales and revenue and profitability which is being attributed to weather conditions, rising business costs and decreased consumer spending.
- Businesses in the Brisbane, Sunshine Coast, Gold Coast and Central Coast regions remain optimistic about the coming June quarter, forecasting positive business conditions, sales and revenue and profitability levels. Priority attention is needed on increasing profitability and capital expenditure levels in all regions.

| Forecast – June Qtr | Brisbane | Sunshine Coast | Gold Coast | SW Qld | Central Qld | Central Coast | North Qld | Far North Qld |
|-----------------------------|----------|----------------|------------|--------|-------------|---------------|-----------|---------------|
| General Business Conditions | 55.4 | 57.3 | 55.3 | 48.3 | 49.2 | 57.4 | 44.6 | 52.0 |
| Total Sales/Revenue | 53.9 | 61.5 | 56.9 | 46.2 | 50.0 | 60.3 | 44.3 | 50.0 |
| Profitability | 52.7 | 58.3 | 54.2 | 38.8 | 42.0 | 57.4 | 35.9 | 44.6 |
| Average Wages | 49.8 | 48.7 | 50.0 | 45.7 | 46.2 | 50.0 | 43.4 | 51.5 |
| Employment Levels | 48.4 | 46.3 | 52.9 | 42.2 | 42.9 | 46.9 | 35.2 | 47.8 |
| Capital Expenditure | 42.5 | 43.1 | 42.7 | 43.7 | 37.9 | 36.1 | 35.2 | 35.5 |

MAJOR CONSTRAINTS ON BUSINESS GROWTH



- The level of demand and economic activity remains the number one constraint on business growth during the March quarter. Contributing factors include the downturn in mining activity, wavering consumer confidence and the impact of weather conditions such as drought and cyclones.
- Insurance premium costs have risen to be the second most critical factor impacting on business growth in Queensland. This issue is explored in more detail in the Hot Topic section.
- Political and economic stability is the third biggest constraint during the March quarter. Government’s discussions around asset sales and the changing balance of power in the Senate have all been identified as prominent issues that are testing business confidence.
- Direct wage costs and compliance with industrial relations laws round out the top four and five major constraints on business growth. The upcoming minimum wage decision, penalty rates, and lack of flexibility have all been raised as issues of ongoing concern.

“The negative sentiment from all levels of Government and the media has a flow on effect on the whole community. There are still unrealistic wage expectations flowing from the buoyant mining and construction boom times, but ordinary businesses can not afford these unrealistic wages. High penalty rates are a major detriment to business profitability and hiring”
 - Survey Respondent, North Queensland

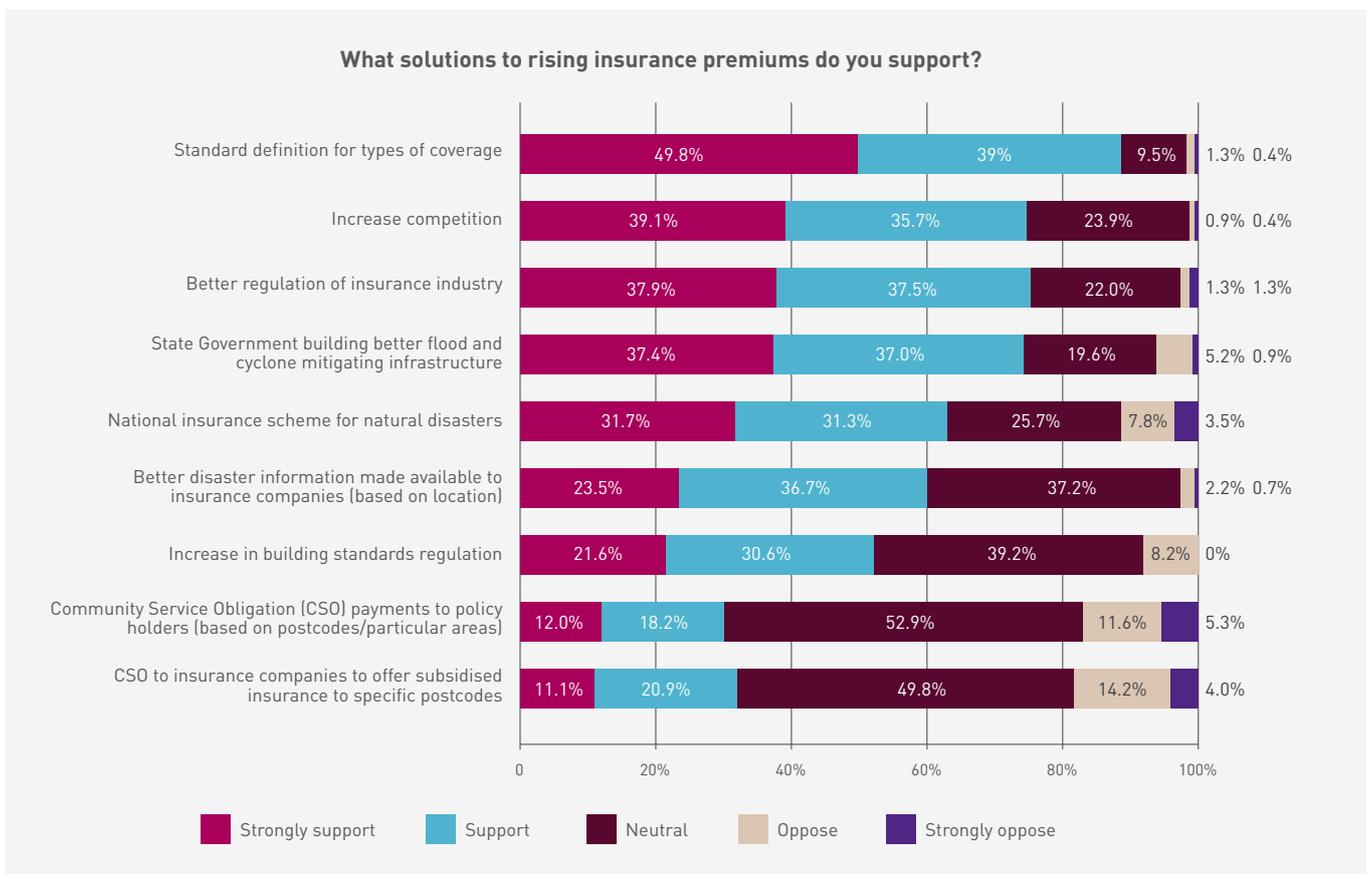
HOT TOPIC: BUSINESS INSURANCE PREMIUMS

The March Quarter Pulse Survey of Business Conditions looked further into insurance costs which have been raised as a major constraint on business. The majority of business respondents (95.2 per cent) had some form of business insurance, with the most common products including public and products liability, workers compensation, general property, plant and equipment (including machinery and non-passenger motor vehicles), and professional indemnity.

Queensland businesses attributed rising insurance premiums to mainly external factors including insurance companies operating costs and profit margins (62.6 per cent), the direct result of natural disasters (51.3 per cent) and the indirect result of natural disasters through cross subsidisation (44.3 per cent). Most businesses reported that minimal internal factors had led to an increase in premiums, however some identified changing workforce sizes, increases in plant and equipment investment, numbers of vehicles and claims history as having an impact on their premiums.

On average, 5.1 per cent of overall business costs are comprised of insurance premiums. Rising premiums has led to decreased profitability for more than half of Queensland’s businesses (51.3 per cent) and decreased investment by 26.1 per cent. Two in five businesses have changed insurance companies as a result of rising prices. Of concern, 12.3 per cent of businesses reported that they are underinsured and 4 per cent have discontinued their insurance cover.

Queensland businesses are supportive of further actions being taken to reduce the impact of rising insurance premiums. Strong support is provided by businesses for standard definitions for types of coverage, increasing competition (particularly in regional areas), better regulation of the insurance industry, the State Government building better flood and cyclone mitigating infrastructure and a national disaster insurance scheme.



“Insurance companies need to assess risk based on actual property risk as opposed to postcode!” - Survey Respondent, 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**



CAPITAL EXPENDITURE

- Capital expenditure remains weak, with 44 per cent reporting capital expenditure as the same and 42 per cent reporting it as weaker.
- Capital expenditure remains relatively low on business capability plans, with improvements not anticipated until profitability returns.



EMPLOYMENT LEVELS

- The majority of Queensland businesses are keeping employment levels steady (63 per cent).
- Employment levels are forecast to remain relatively steady in the June quarter 2014.



PROFITABILITY

- Profitability remains one of the most significant issues for Queensland businesses, with 52 per cent of businesses reporting weaker profit levels.
- Businesses forecast similar conditions for the coming June quarter, with 71 per cent of businesses expecting weaker or similar profitability levels.



AVERAGE WAGES

- The majority of Queensland businesses (73 per cent) continue to report that wages have remained the same.
- Wage pressures are predicted to remain relatively stable in the June quarter 2014.

CCIQ OFFICES

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
Karen Fitzgibbons
Phone 0408 755 727
Email kfitzgibbons@cciq.com.au

▲ NORTH QUEENSLAND

Regional Manager
Karen Fitzgibbons
Phone 0408 755 727
Email kfitzgibbons@cciq.com.au

▲ ROCKHAMPTON AND GLADSTONE

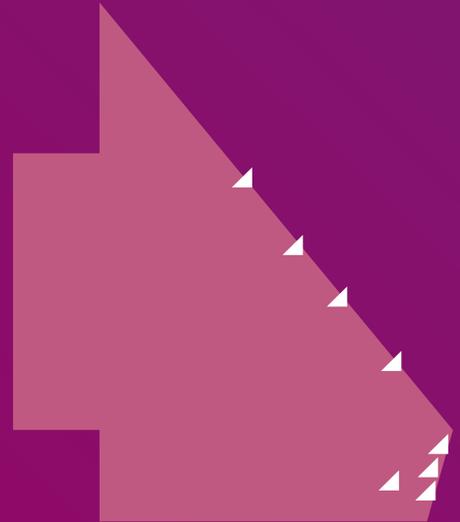
Regional Manager
Victoria Bradshaw
Phone 0410 220 915
Email vbradshaw@cciq.com.au

▲ 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