

pulse
QUEENSLAND

WESTPAC GROUP CCIQ PULSE SURVEY OF BUSINESS CONDITIONS

▼ SEPTEMBER QUARTER 2013

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INTRODUCTION

The September Quarter Pulse Survey of Business Conditions has identified a significant boost in business confidence in both the Queensland and National economies, levels which have not been experienced in recent memory. However this confidence is yet to be reflected in actual business performance, with sales, profitability, employment and investment outcomes remaining soft.

Nevertheless businesses are optimistic about the coming quarter, with most forward indicators forecast in positive territory. Momentum is required to ensure this confidence is translated into improved business and economic performance outcomes over the coming twelve months. In particular, businesses are looking to the new Federal Government to deliver on election commitments, invest in infrastructure and strengthen our resilience to global economic uncertainty.

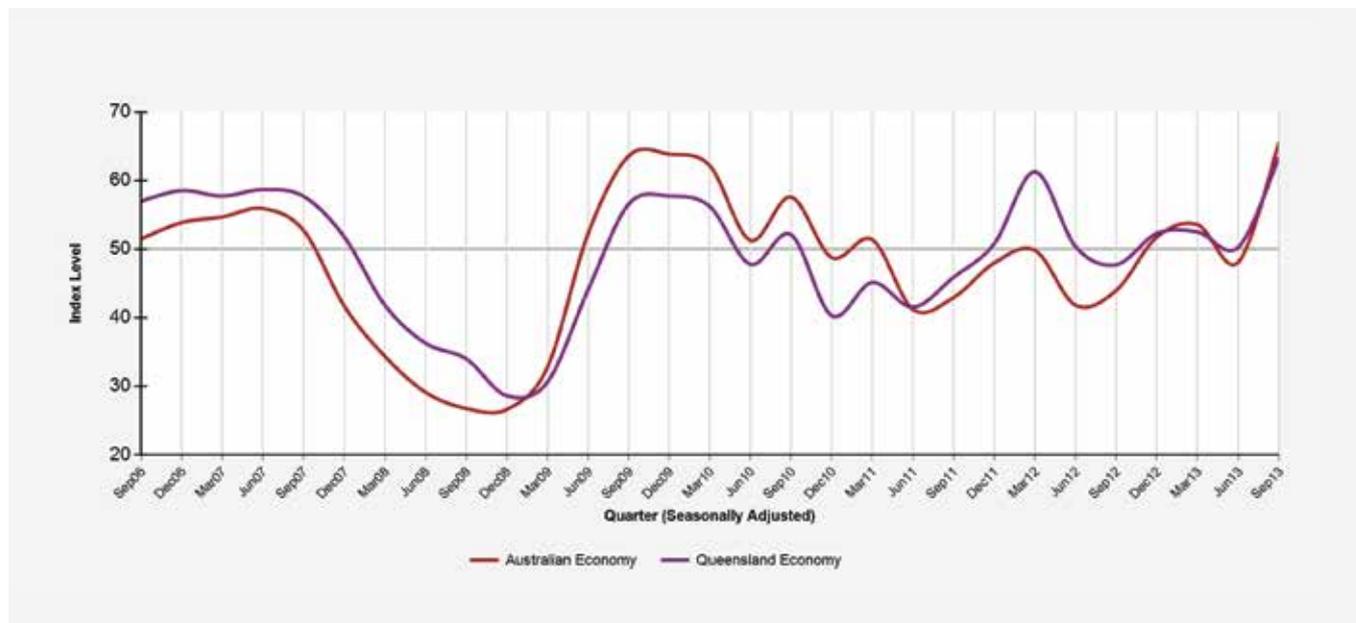
This quarter's Hot Topic section takes a deeper look at innovation in small and medium businesses and identifies the current barriers to business innovation and the achievement of business improvement practices.

“Stability of state and federal governments will help drive investment in Australia”
- Survey Respondent, North Queensland

“Infrastructure spending by both levels of Government will drive the economy. Not just planning but shovel ready projects like the Toowoomba Second Range Crossing.” - Survey Respondent, Brisbane

“We are in a growth and expansion phase. Marketing and a shift in our industry has encouraged us to take this step. Although we are affected by cheap imports, most of our profit and jobs are based locally. Now the industry is coming full circle as the number of local businesses has decreased and we are well poised to now take advantage of the increase in demand for local manufacturing”
- Survey Respondent, Brisbane

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		
	Sep-12	Jun-13	Sep-13	Sep-12	Jun-13	Sep-13
Weaker	39	34	13	41	34	10
Same	31	34	29	40	38	29
Stronger	30	32	58	19	28	61
Index	47.8	50.4	63.3	44.2	48.3	65.5

Business confidence in both the state and national economies has risen sharply in the September quarter, comparable to the highest levels ever recorded during the history of the Pulse Survey of Business Conditions. This is the first time that confidence in both indicators has been at similarly positive levels.

QUEENSLAND ECONOMY

- The Pulse Business Confidence Index rose significantly this quarter by 12.9 percentage points to 63.3, levels not experienced since March 2012 following the state election.
- 58 per cent of Queensland businesses expect economic conditions in Queensland to be stronger over the coming twelve months.

AUSTRALIAN ECONOMY

- Business confidence in the national economy rose to its highest level since 2009, with the Pulse Business Confidence Index increasing significantly by 17.2 percentage points to 65.5 in the September quarter.
- The majority of Queensland businesses expect the national economy to strengthen (61 per cent) over the next 12 months.
- Confidence in the national economic outlook is marginally stronger than it is for the Queensland economy.

SURVEY ANALYSIS: FACTORS AFFECTING THE 12 MONTH OUTLOOK

Undoubtedly, the political stability afforded by the new Federal Government has been the single most cited reason for the strong 12 month outlook for the Queensland and national economies. Previous business concerns surrounding a minority government, federal leadership and the election have been replaced with increased confidence and optimism over a new Federal Government with a clear mandate to govern. Businesses are seeking the delivery of key election commitments including the repeal of the carbon tax, cutting business red tape and the company tax rate, improving the Fair Work laws and delivering key infrastructure projects to maintain this momentum over the medium to long term.

Despite the strong optimism currently present, there remain concerns about the downturn in the mining and resource sector, the value of the Australian dollar and the level of government debt and potential spending cuts. Broader international economic conditions are also testing the confidence of businesses, with increased speculation regarding the impact of the US debt ceiling and the Chinese economy. The higher unemployment rate maintained in Queensland over the last 12 months (currently 5.9 per cent), and the rising costs of living (such as electricity and insurance) are seen to be impacting on consumer confidence, with implications for business sales and profitability.

Finally, more businesses are becoming concerned about the increasing drought conditions being experienced throughout regional Queensland, with more than half of the state now drought declared. Although businesses may not be directly impacted by these conditions, the negative effects ripple throughout the economy impacting on business revenues and profitability.

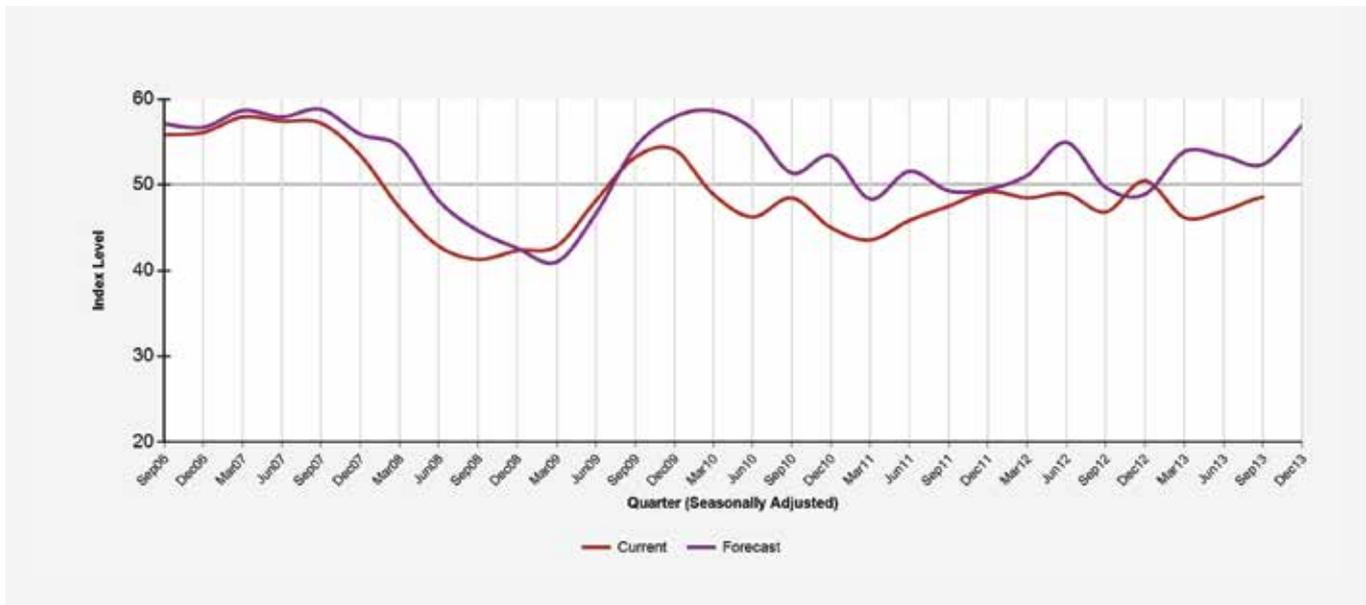
These results emphasise the need for both State and Federal Governments to deliver on commitments and reduce business costs and red tape in order to drive business confidence and investment into 2014.

“Mining infrastructure development has improved the local economy”
- Survey Respondent, South West Queensland

“The natural resources industry plays a large role in Queensland’s economy. Any increase or decrease in the demand for these resources influences our business”
- Survey Respondent, South West Queensland

“Business confidence was at an all-time low prior to the election. Confidence is now improving, but the drought is really starting to bite” - Survey Respondent, Central Queensland

GENERAL BUSINESS CONDITIONS

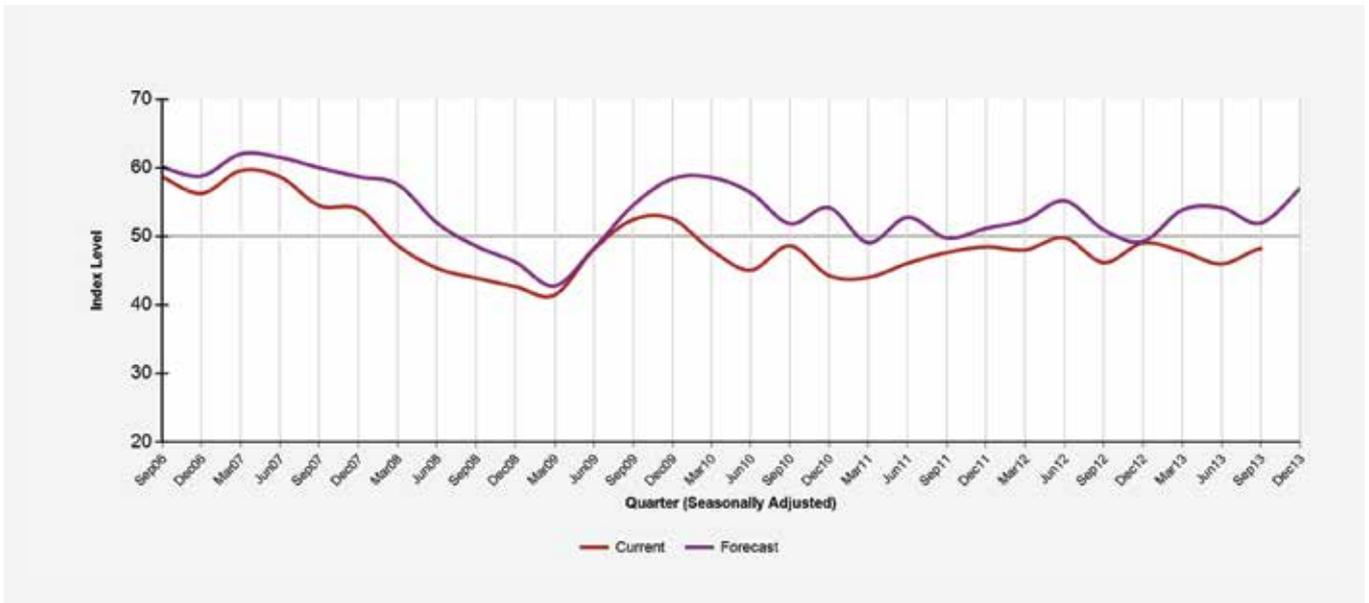


General Business Conditions				
	Sep-12	Jun-13	Sep-13	Dec-13
Weaker	34	37	27	13
Same	36	32	43	48
Stronger	31	32	30	39
Index	47.2	47.3	48.9	56.9

- General business conditions have increased over the three months to September, increasing 1.6 percentage points to 48.9.
- The majority of businesses indicated that general business conditions remained the same (43 per cent) or stronger (30 per cent) over the September quarter.
- The majority of businesses are increasingly positive about general business conditions for the coming December quarter, with only 13 per cent expecting weaker conditions.
- The Pulse General Business Conditions Index is forecast to increase further to 56.9 (seasonally adjusted) in the December quarter.

“We were able to capitalise on a number of large orders and whilst we had to lower margins in order to secure these orders against importers, the overall result was an increase in sales/revenue. Although profitability remained poor it seemed better to do low margin work than none at all” - Survey Respondent, Brisbane

SALES AND REVENUE



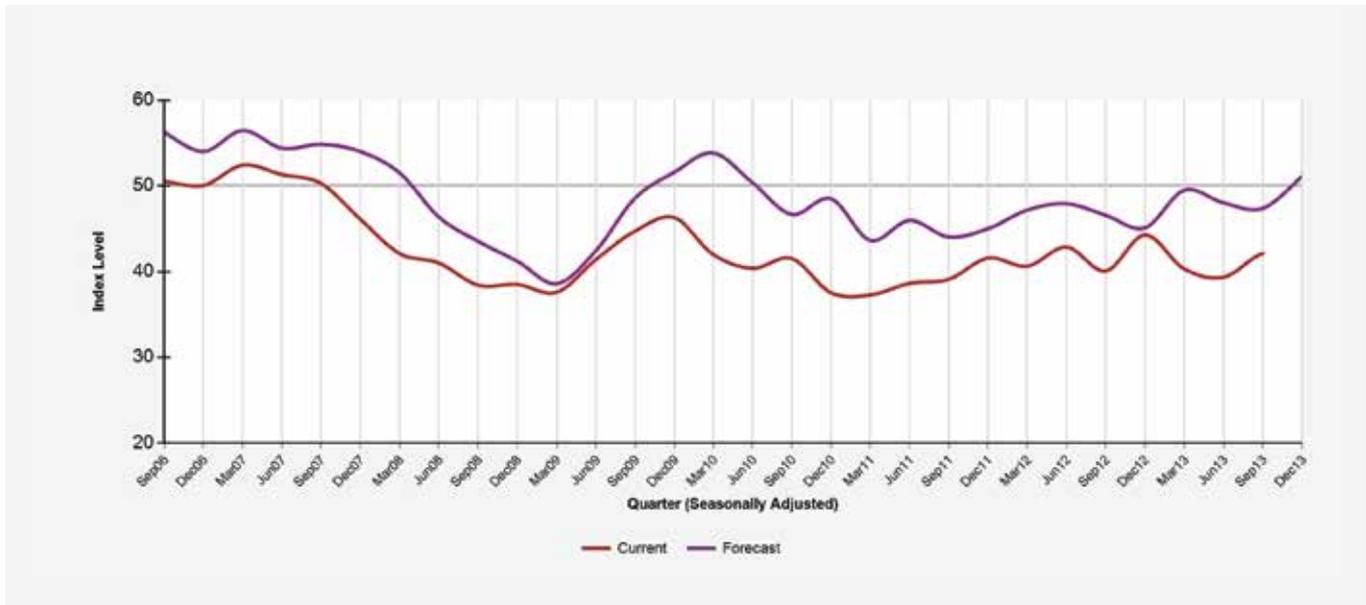
Sales & Revenue				
	Sep-12	Jun-13	Sep-13	Dec-13
Weaker	38	41	31	18
Same	29	26	39	40
Stronger	33	33	31	42
Index	46.4	46.2	48.4	56.8

- Sales and revenue improved over the September quarter, with the Pulse Sales and Revenue Index increasing by 2.2 percentage points to 48.4.
- The majority of businesses reported steady (39 per cent) or stronger (31 per cent) sales and revenue levels compared to the previous quarter.
- Optimism is emerging in the market, with more businesses forecasting stronger (42 per cent) sales and revenue levels in the coming quarter, with only 18 per cent expecting weaker conditions.
- The Pulse Sales and Revenue Index is forecast to increase further to 56.8 in the December quarter.

“Whilst business seems more optimistic since the election, it has not yet resulted in an increase in material business” - Survey Respondent, Sunshine Coast

“Red tape and compliance costs are preventing my industry from remaining competitive against imported products. My only market is domestic and I must produce at cost levels that allow me to remain in touch with the market” - Survey Respondent, Brisbane

PROFITABILITY



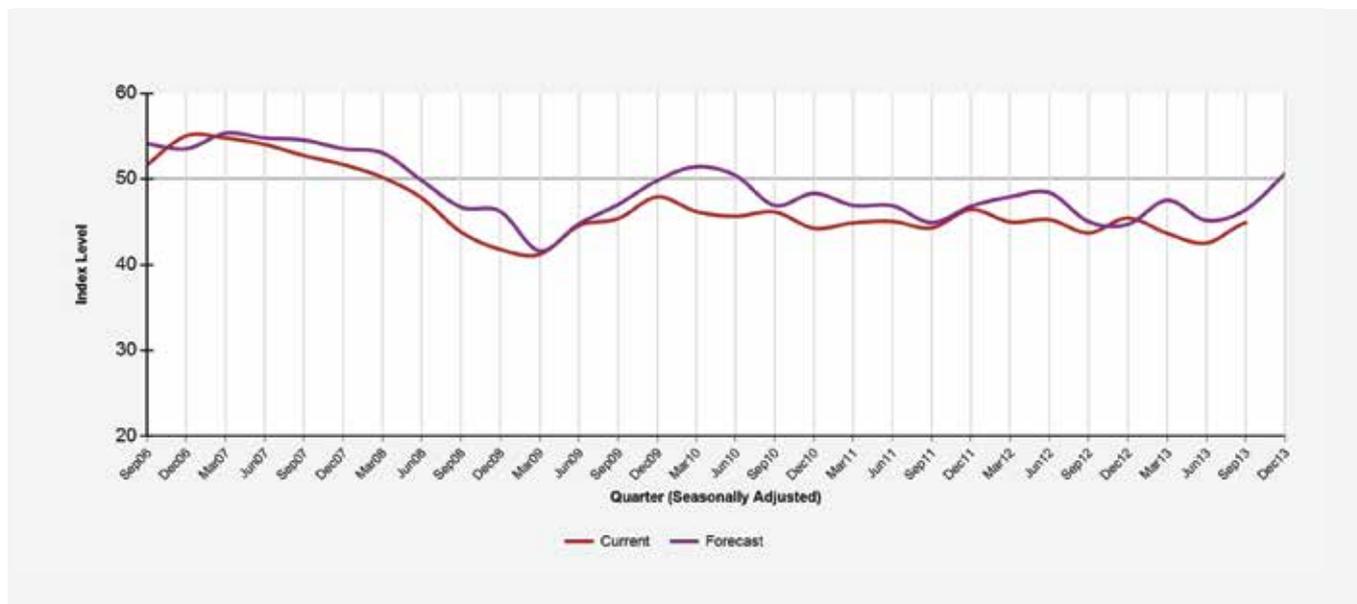
Profitability				
	Sep-12	Jun-13	Sep-13	Dec-13
Weaker	47	52	40	23
Same	31	29	41	49
Stronger	22	19	19	28
Index	40.2	39.4	42.1	50.9

- The Pulse Profitability Index has increased 2.7 percentage points to 42.1 in the September quarter.
- However profitability remains one of the most significant issues for Queensland businesses, with 40 per cent of businesses reporting weaker profit levels.
- There is some optimism for the December quarter, with the Pulse Profitability Index forecasted at 50.9, the first time the index has been forecast in positive territory since early 2010.

“Our business is still recovering from the last 18 months of difficult trading”
 - Survey Respondent, Gold Coast

“Whilst I expect a lift in long term confidence and a willingness to invest in infrastructure and equipment, I believe it will be several months before this confidence will impact on our economic wellbeing” - Survey Respondent, Brisbane

EMPLOYMENT LEVELS

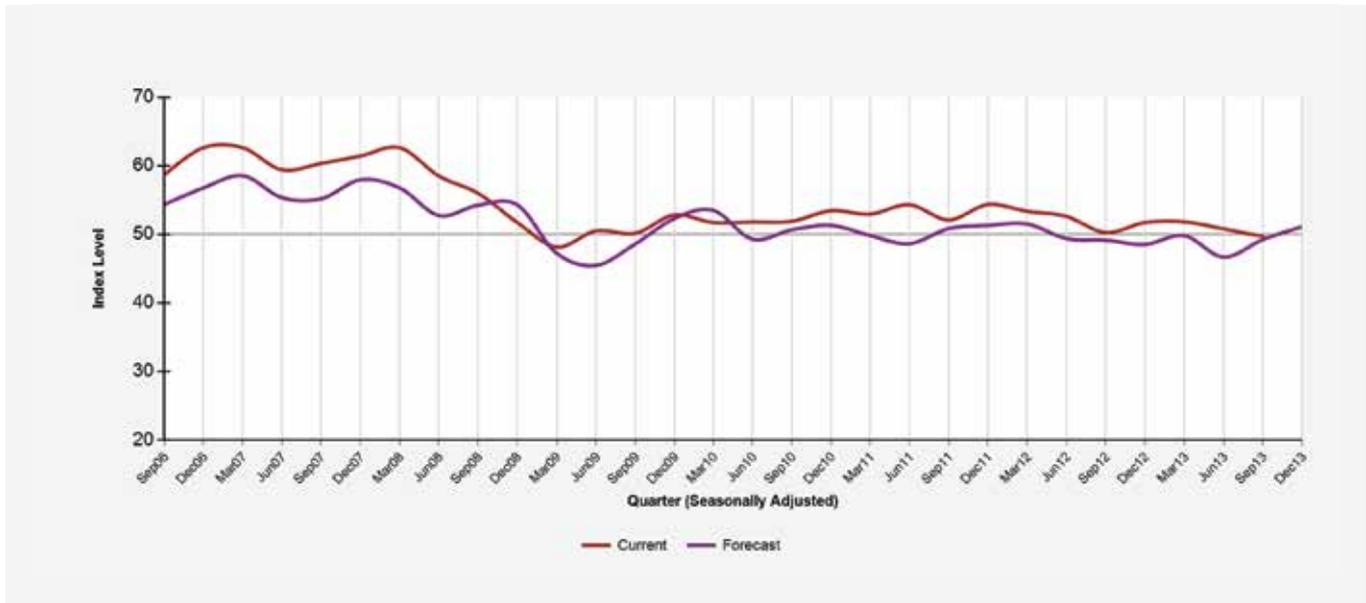


Employment Levels				
	Sep-12	Jun-13	Sep-13	Dec-13
Weaker	26	35	29	15
Same	63	51	55	67
Stronger	11	14	16	17
Index	43.8	42.6	44.9	50.6

- The Pulse Employment Levels Index increased by 2.3 percentage points during the September quarter to 44.9.
- The majority of Queensland businesses are keeping employment levels steady (55 per cent).
- Aligning with the increase in business confidence in the national and state economies and the generally optimistic outlook over the coming period, the Pulse Employment Levels Index is anticipated to improve to 50.6 in the December quarter. This is the first time the index has been forecast in positive territory since 2010.

“Eliminate Payroll Tax, which is unfair on medium sized businesses competing against others who do not pay this tax and does not reward companies that employ full time staff. These funds could be used by our company to further invest in staff training and innovative ideas” - Survey Respondent, Brisbane

AVERAGE WAGES



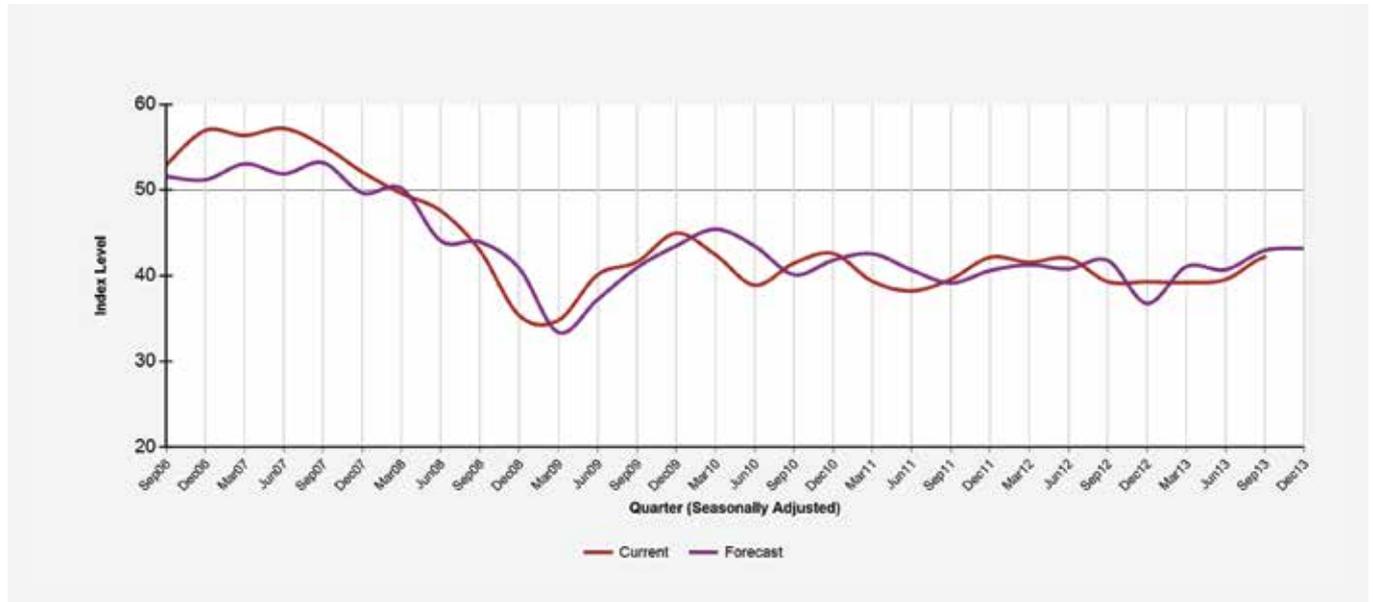
Average Wages				
	Sep-12	Jun-13	Sep-13	Dec-13
Weaker	10	14	10	9
Same	72	68	73	77
Stronger	18	18	16	14
Index	50.4	50.9	49.8	51.1

- Wage pressures have been relatively stable across the September quarter 2013, with the Pulse Average Wages Index shifting only marginally to 49.8 from 50.9 in the previous June quarter.
- The majority of Queensland businesses (73 per cent) continue to report that wages have remained the same.
- Businesses are predicting a modest increase in wage pressures in the December quarter, with the Pulse Average Wages Index forecast at 51.1.

“Need to create a business environment free from unnecessary shackles for all businesses”
- Survey Respondent, Brisbane

“Governments have not created an environment for businesses to move forward, with employment costs continually rising through penalty rates and increased superannuation contributions” - Survey Respondent, Far North Queensland

CAPITAL EXPENDITURE



Capital Expenditure				
	Sep-12	Jun-13	Sep-13	Dec-13
Weaker	36	39	32	28
Same	51	44	52	58
Stronger	14	41	16	14
Index	39.9	39.6	42.0	43.0

- The Pulse Capital Expenditure Index, whilst remaining in negative territory in the September quarter at 42.0, increased by 2.4 percentage points from 39.6 in the previous quarter.
- Only a modest 16 per cent of business respondents reported increased investment in building, plant and equipment; the majority reported capital expenditure to be the same (52 per cent).
- Capital expenditure remains relatively low on business priority lists, with the Pulse Index forecast to be 43.0 in the December quarter.

“A stable forward economy is needed to warrant more expenditure”
- Survey Respondent, Far North Queensland

“Businesses appear unwilling to commit to investment/expenditure until they have certainty over the economic conditions in which they are operating. Most businesses are employing a ‘wait and see’ attitude, and are ‘making do’ with what they’ve got”
- Survey Respondent, Brisbane

REGIONAL ANALYSIS

Actual – Sept Qtr	Brisbane	Sunshine Coast	Gold Coast	South West Qld	Central Qld	Central Coast	North Qld	Far North Qld
12 Month Outlook - Queensland	↑ 61.5	↑ 63.3	↑ 64.2	↑ 59.6	↑ 62.0	↑ 61.9	↑ 61.2	↑ 66.9
General Business Conditions	↓ 47.5	↑ 53.6	↑ 55.1	↑ 46.8	↑ 46.0	↑ 61.8	↑ 47.5	↑ 57.8
Total Sales/Revenue	↓ 46.5	↑ 55.4	↑ 55.1	↑ 44.0	↑ 47.9	↑ 61.1	↑ 46.1	↑ 55.5
Profitability	↑ 41.8	↑ 44.6	↑ 44.9	↑ 43.5	↑ 39.0	↑ 46.1	↑ 43.1	↑ 52.5
Average Wages	= 50.7	↓ 41.7	↑ 53.8	↓ 47.6	↑ 48.9	↑ 55.6	↑ 57.5	↑ 54.2
Employment Levels	↑ 47.1	= 44.2	↓ 47.7	↑ 41.9	↑ 39.1	↑ 46.1	↑ 48.8	↑ 50.8
Capital Expenditure	↑ 42.7	↑ 43.3	↓ 42.0	↓ 42.3	↓ 32.1	↑ 46.5	↑ 48.1	↑ 50.2

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

REGIONAL BUSINESS CONFIDENCE:

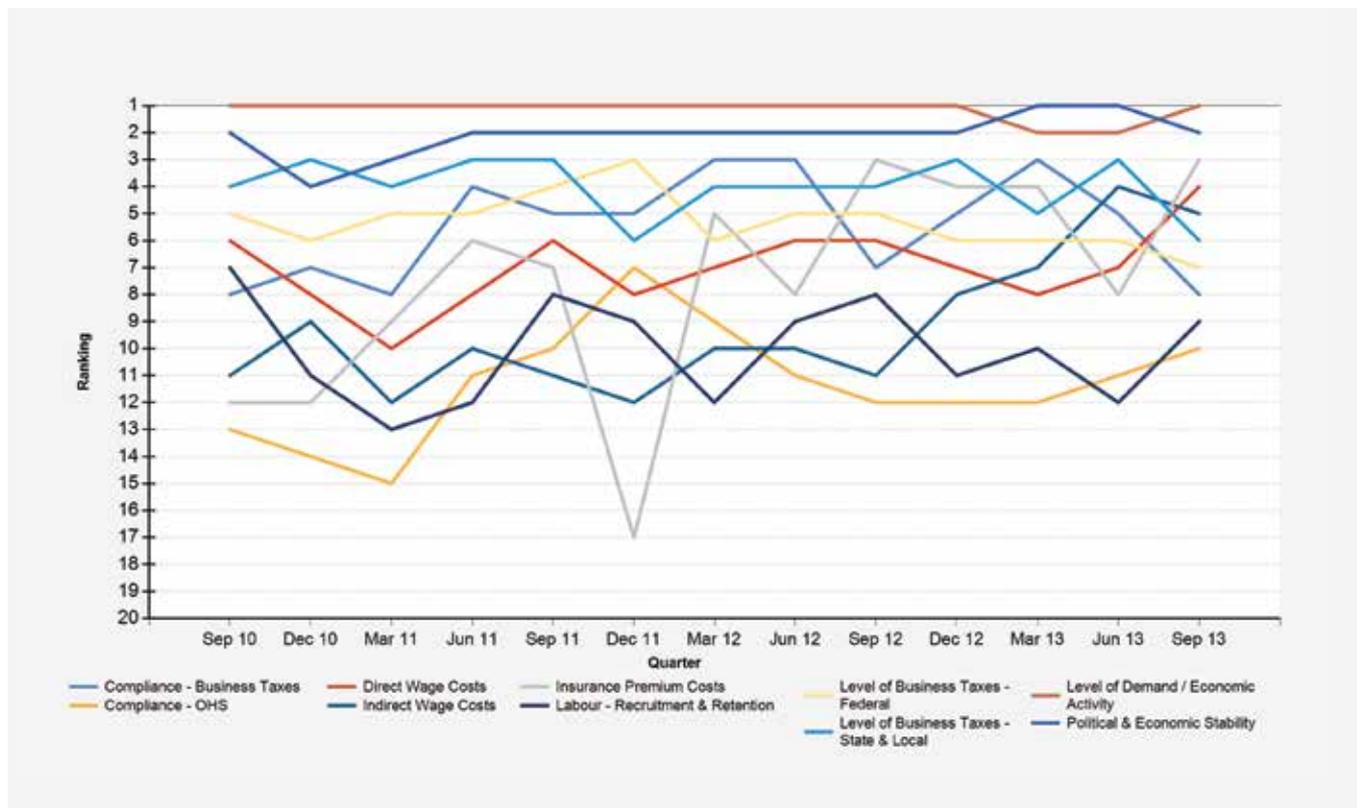
- All regions have seen a significant increase in business confidence over the September quarter, with the 12 month outlook in every region now in positive territory (above 50).
- Regional Queensland, in particular Central Queensland, Central Coast and Far North Queensland regions have seen sharp rises in business confidence of between 16 and 27 percentage points.

REGIONAL BUSINESS PERFORMANCE:

- Economic conditions have improved over most Queensland regions during the September quarter. Far North Queensland businesses in particular have reported positive results across all business performance indicators. Positive results have also been recorded for general business conditions and sales and revenue for businesses for the Sunshine Coast, Gold Coast and Central Coast regions.
- The Profitability Index for all regions remains in negative territory (Index of below 50 basis points), indicating that increased business confidence is not yet improving businesses' bottom line.
- All regions (except Central Queensland) are forecasting positive business conditions for the December quarter.

Forecast – Dec Qtr	Brisbane	Sunshine Coast	Gold Coast	SW Qld	Central Qld	Central Coast	North Qld	Far North Qld
General Business Conditions	59.2	61.5	57.6	53.4	47.8	52.8	58.8	58.1
Total Sales/Revenue	59.1	58.3	56.8	54.3	45.7	54.2	58.3	57.5
Profitability	52.4	53.8	52.3	49.1	43.5	50.0	48.6	52.5
Average Wages	54.2	45.0	48.4	43.8	53.8	51.4	52.5	51.7
Employment Levels	52.0	47.7	48.4	47.4	45.5	50.0	53.9	54.3
Capital Expenditure	44.0	44.4	42.6	45.8	38.4	40.8	44.6	43.5

MAJOR CONSTRAINTS ON BUSINESS GROWTH



- The level of demand and economic activity has returned to being the number one constraint on business growth. Businesses are looking towards the new Federal Government to maintain renewed confidence in the economy over the coming twelve months.
- Political and economic stability is the second most critical factor for Queensland businesses in the September quarter. Although business concerns over political uncertainty have lessened following the recent federal election, economic instability associated with the US debt ceiling and the Chinese economy are testing business confidence.
- Insurance premium costs have remained a key concern for businesses since the September quarter 2012, coming in as the third major constraint on business growth. Insurance premiums in Queensland have risen significantly over the last two years, fuelled by significant natural disaster events during 2011 and 2013.
- Direct and indirect wage costs round out the top five constraints on business growth. Employment is a key input cost and area of increasing compliance burden affecting business profitability and their capacity to grow and employ. Compliance with the industrial relations framework and the increased employer superannuation contribution rate are contributing factors.

“I think the performance of the newly elected Government will have the most significant effect on the economy. It will be interesting to see what the flow on effect is and if it boosts confidence and employment levels within the business sector”
 - Survey Respondent, North Queensland

HOT TOPIC: SMALL BUSINESS INNOVATION

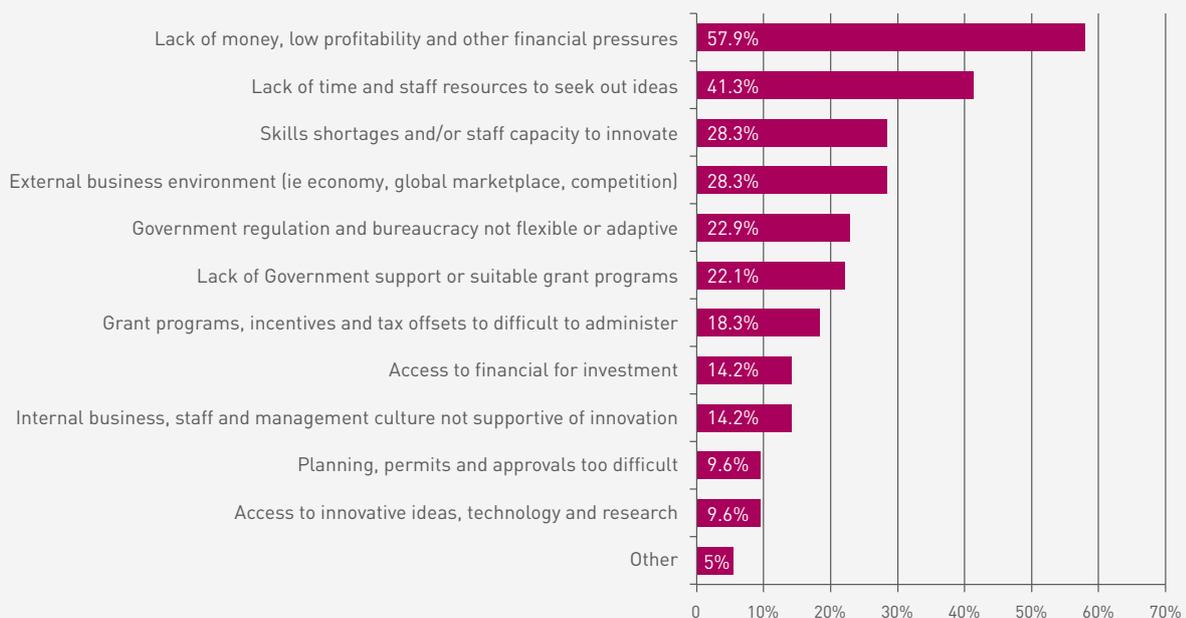
The September Pulse Survey of Business Conditions sought views on innovation and what it means for small businesses across the state. The survey found that 70 per cent of businesses did not believe they were 'innovative', with 82 per cent indicating that innovation was only possible for larger businesses and corporations.

However on further analysis, the survey found that many businesses were in fact being innovative but perhaps were not aware they were being so. Over the last three financial years, the vast majority of businesses had implemented organisational change or productivity improvements (77 per cent), tailored their products or services to meet changing customer and market needs (76 per cent) or implemented new or significantly improved products or services (71 per cent). Other activities undertaken included adopting new or improved business or customer relations approaches, undertaking research into new products or services, and developing or purchasing new technology (such as reporting and diagnostic tools, accounting and management systems).

The biggest barriers to innovation identified by businesses was the lack of cash reserves and other financial pressures (58 per cent), a lack of time and staff resources to identify innovative ideas (41 per cent), skill shortages and/or staff capacity to innovate (28 per cent) and the external business environment such as the economy, global market conditions and competition (28 per cent).

Government assistance is sought to reduce red tape, enhance access to finance and improve awareness and business capacity to access grants and offsets in order to deliver improved innovation and business improvement outcomes.

What do you consider to be the single biggest barrier to innovation and business improvement for your business?



“Banks want three years of balance sheets before they will help to finance a new venture. After three years we have done it ourselves, or the chance of an innovative new venture would have been missed.” - Survey Respondent, Brisbane



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.

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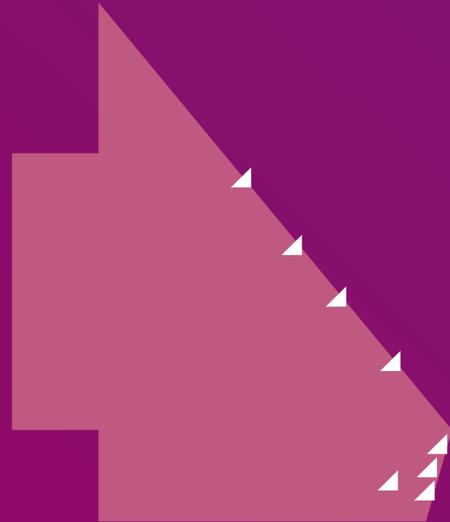
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