

# The Business SA

# Survey of Business Expectations



# About The Survey

## Business expectations

The *Commonwealth Bank Business SA Survey of Business Expectations* is an opinion-based survey that samples businesses from all sectors in South Australia.

The purpose of the survey is to act as a lead indicator, which can enable a timely response to emerging issues and the continued promotion of growth and development of South Australian industry and business.

## South Australian economy

South Australian business confidence appears to have formed a base and has been edging higher for two quarters now, according to Michael Blythe, Chief Economist at the Commonwealth Bank of Australia (CBA). The improvement in confidence in the South Australian economy in the December quarter 2010 outpaced the improvement in the confidence that South Australian businesses are placing in the national economic picture. The Australian economic outlook remains extremely favourable as 2011 gets underway. Buoyant expectations for the South Australian and national economic performance over the next 12 months do not seem misplaced, in our view. Major resource and energy projects currently underway are multi-year investments, which will progress through to completion. This activity should underpin some 'base momentum' for the economy, should international conditions unexpectedly deteriorate.

The *Commonwealth Bank Business SA Survey of Business Expectations* continues to show some of the side effects of 'commodity boom Mark II'. Labour cost pressures are expected to continue to increase. The reported trends in materials and overhead costs and expectations, are consistent with an economy running at capacity and straining (in some sectors) to cope with demands that are set to increase, not ease, in the year ahead. Weakness in orders continues for some businesses and export sales continue to deteriorate under the strain of the high Australian dollar. That said, investments in plant and equipment, now cheaper courtesy of the high dollar, increased further in the December quarter 2010. Survey respondents faced challenges increasing average selling prices in the quarter. With the Reserve Bank likely to increase interest rates in the year ahead to keep a lid on inflation, headwinds to price increases will remain. As a consequence, profit expectations have deteriorated.

The December quarter 2010 survey was taken prior to the major January rainfalls, which have had disastrous consequences for many. Tragically, lives have been lost. A lot of water is slowly snaking towards South Australia. The Murray Darling catchment area received its highest rainfall in 100 years in 2010. Significant water flows through the Murray Darling system are expected over the next few months. The recent heavy falls in Queensland, NSW and Victoria will boost this further, with the remainder of the wet season potentially delivering further falls upstream. Soaked catchments and full water storages will help underwrite strong agricultural output over coming years. But the costly task of reconstruction and recovery across many states, and particularly Queensland, will strain the construction sector. Construction costs, already under pressure given the scale of the mining boom, could experience significant increases, potentially threatening a broader inflation breakout. Because of this threat, CBA Economics expect the RBA to remain on alert in 2011, with the official cash rate likely to rise a further 0.75% by the end of the year.

## Disclaimer

Opinions expressed in this survey do not necessarily represent those of Business SA. No responsibility is accepted by Business SA for the accuracy of any statements, opinions or advice contained in the survey and readers should rely upon their own enquiries when making any decisions affecting their own interests.



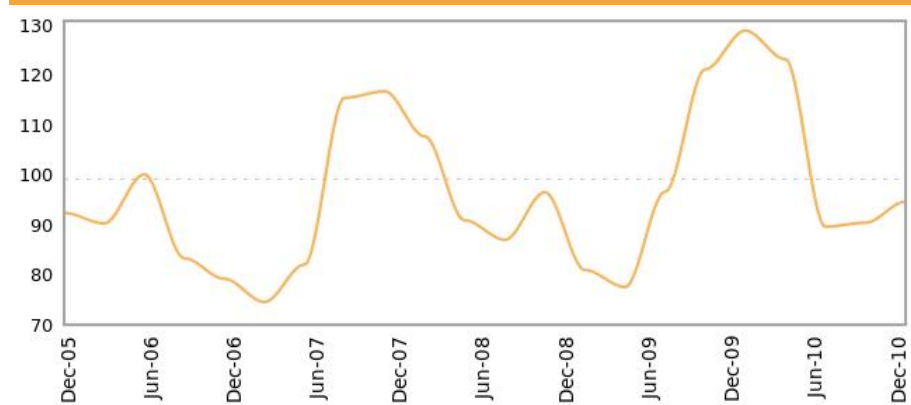
# Overview Of Results

Business confidence improved in the December quarter 2010, following a small rise in the September quarter 2010.

## The South Australian confidence index

South Australian business confidence in the performance of the South Australian economy over the next twelve months increased 4% to 96 points in the December quarter 2010, following a small rise in the September quarter 2010. This comes after falling confidence in the first half of 2010.

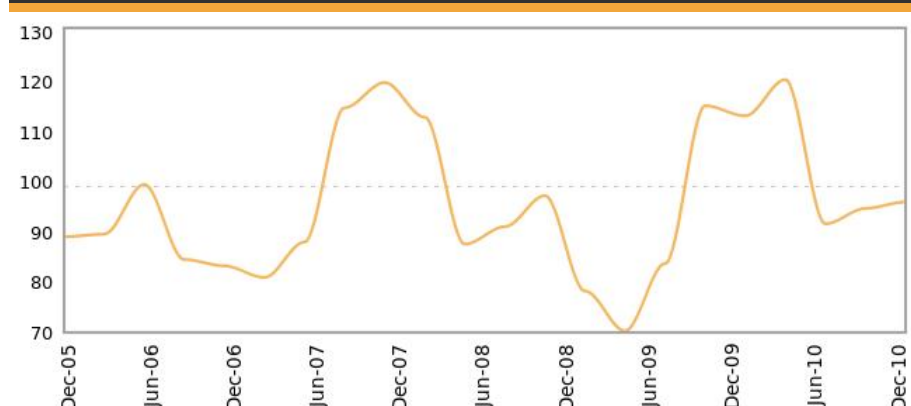
Graph 1.1 : South Australian Confidence Index



## The National confidence index

South Australian business confidence in the performance of the Australian economy over the next twelve months also improved in the December quarter 2010, rising one point to 97 points.

Graph 1.2 : National Confidence Index



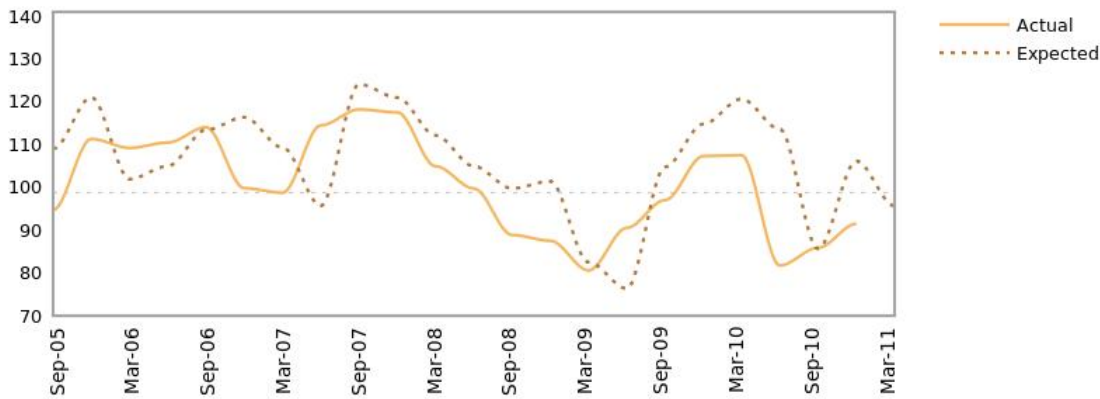
Business confidence is still low, reflecting another rise in interest rates in November and concerns about financial stability in Europe. Nevertheless, the small rise in confidence reflects strength in some parts of the domestic economy.

# A Closer Look At Indices

## General business conditions

General business conditions increased 6% to 93 points in the December quarter 2010, but underperformed expectations from the previous quarter. Expectations for general business conditions are higher for the next quarter, at 97 points.

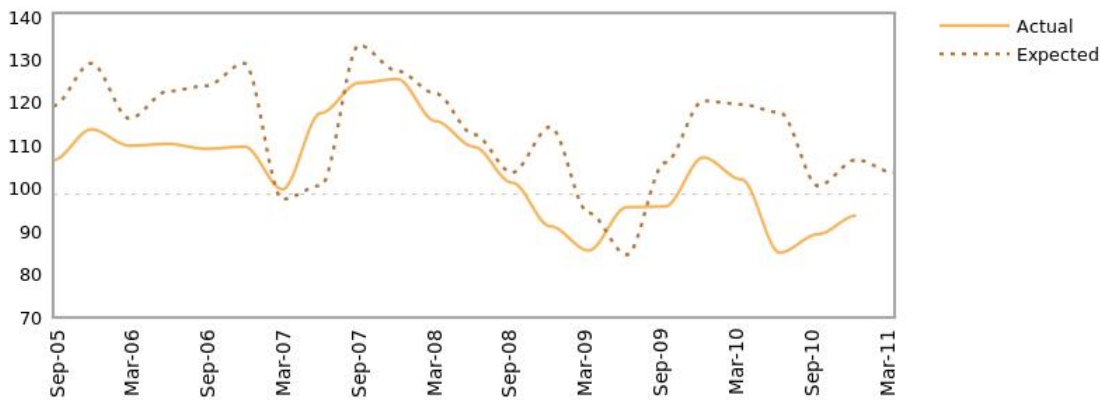
Graph 2.1 : Actual vs Expected General Business Conditions



## Total sales revenue

The Total Sales Revenue Index increased 4% to 95 points in the December quarter 2010, but underperformed expectations from the previous quarter. Expectations for total sales revenue are significantly higher for the next quarter, at 105 points.

Graph 2.2 : Total Sales Revenue



## More Key Results

### Exports

In the December quarter 2010, over one quarter of respondents indicated that their export sales were down from the previous quarter. Almost two thirds indicated stable export sales. 58% of survey participants expect their export sales to remain at the same level in the first quarter of 2011.

Almost half of businesses surveyed expect the value of the Australian dollar to remain stable in the March quarter 2011. The remaining respondents are almost evenly split on whether the Australian dollar will rise or fall.

### Employment levels

Around 55% of businesses maintained stable employment levels in the December quarter 2010 and this is expected to continue in the March quarter 2011. About one quarter of businesses expect to increase employment levels and one fifth expect to reduce staff numbers.

Almost half of respondents believe the unemployment rate will remain the same in the March quarter 2011. Over one third believe the unemployment rate will rise.

### Availability of labour

In the December quarter 2010, 26% of respondents found it harder to source Skilled labour compared to the previous quarter. This proportion fell to 22% for Professional labour and less than 10% for Unskilled labour.

### Business costs

Around two thirds of businesses indicated that overhead costs increased in the December quarter 2010. Almost 53% of businesses had higher materials costs.

Almost 60% of respondents expect the cost of overheads to rise in the March quarter 2011, while half expect the cost of materials to remain the same.

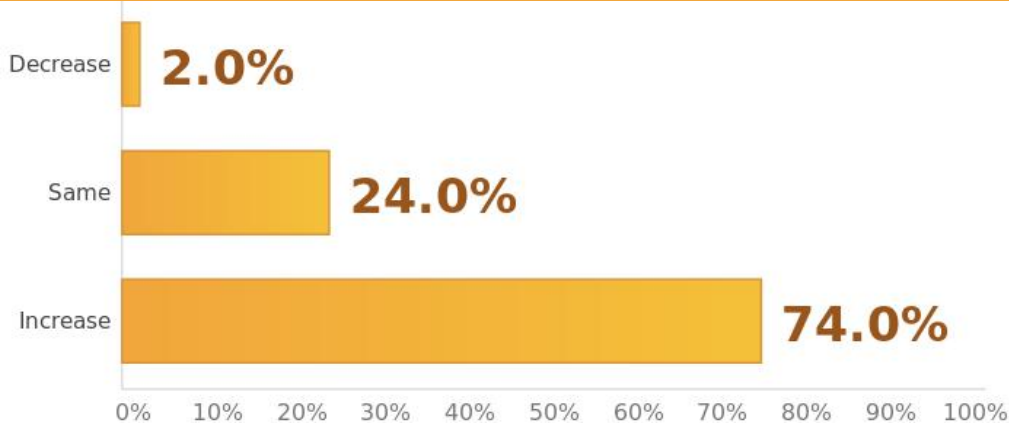


# Looking Ahead

## Expected total real labour costs

Almost three quarters of respondents expect total real labour costs to increase in the March quarter 2011.

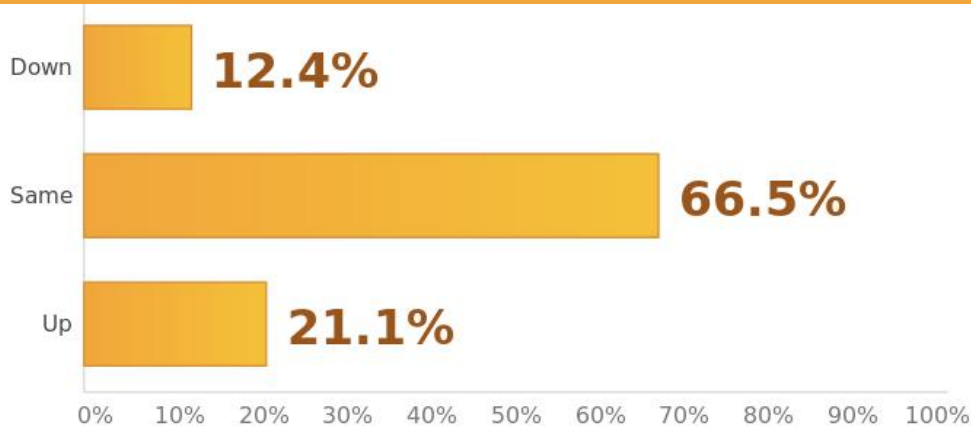
Graph 3.1 : Expected Total Real Labour Costs, March Quarter 2011



## Expected average selling price

Two thirds of respondents expect to maintain average selling prices at current levels in the March quarter 2011. Just over one fifth of businesses expect to raise their prices, which is the lowest proportion for a year. This reflects a squeeze in margins in a number of industries, including retailing and manufacturing.

Graph 3.2 : Expected Average Selling Price, March Quarter 2011



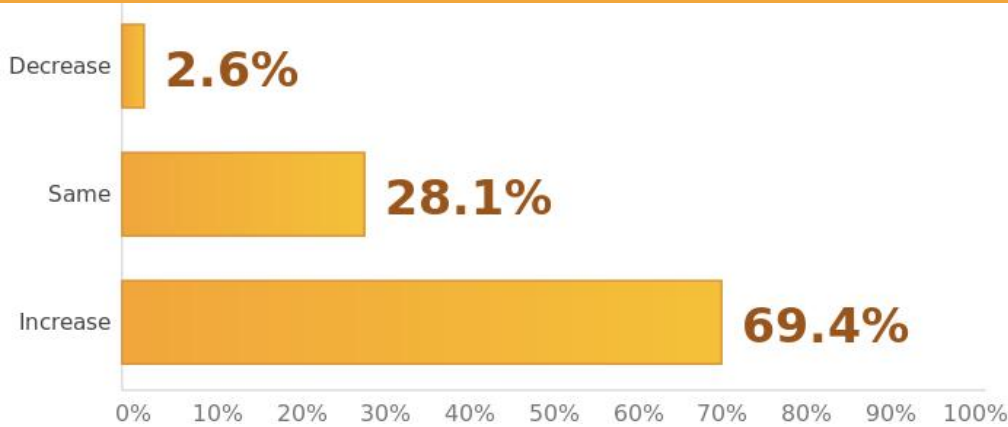
# Looking Ahead

## **Expected interest rate and capital expenditure - Plant and equipment**

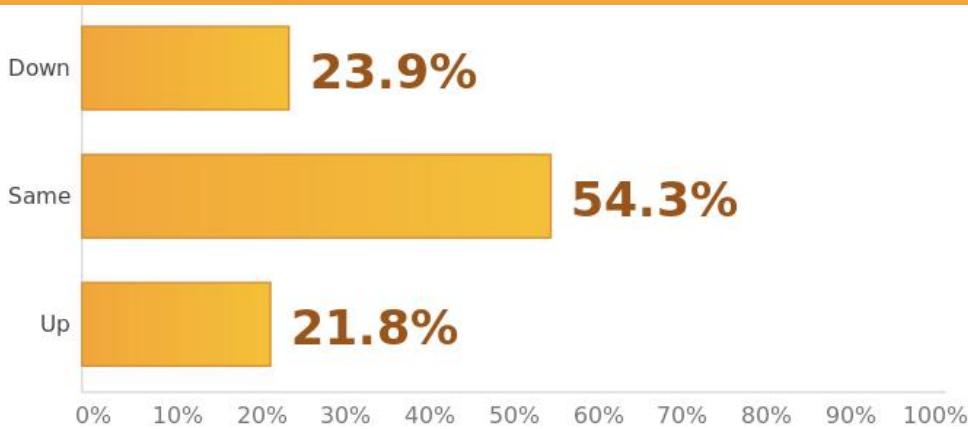
Almost 70% of respondents expect interest rates to increase in the March quarter 2011.

More than half of businesses expect to keep their capital spending on plant and equipment at current levels in the March quarter 2011. For the first time in twelve months, more businesses expect to reduce capital spending on plant and equipment than increase it.

**Graph 3.3 : Expected Interest Rate, March Quarter 2011**



**Graph 3.4 : Capital expenditure - Plant and equipment, March Quarter 2011**

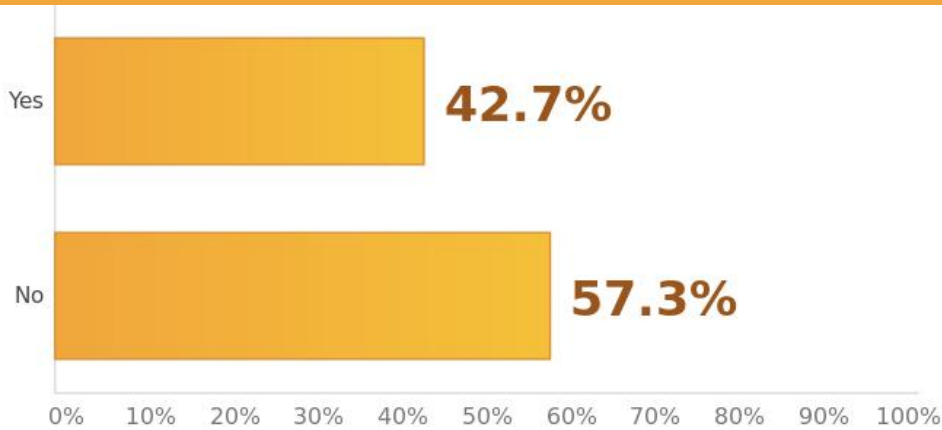


# Supplementary Questions

In the December quarter 2010 survey, businesses were asked about environmental legislation and regulations, their cash flow and to nominate a major issue for 2011.

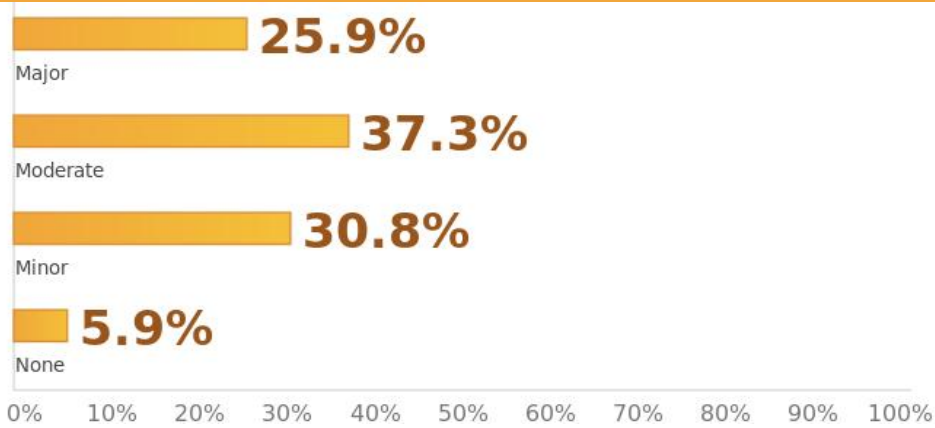
Around 57% of businesses indicated that they did not have an environmental management strategy or plan.

**Graph 4.1 : Environmental management strategy or plan**



Just over one quarter of businesses indicated that environmental legislation and regulations was a major concern. A further two thirds had either moderate or minor concerns.

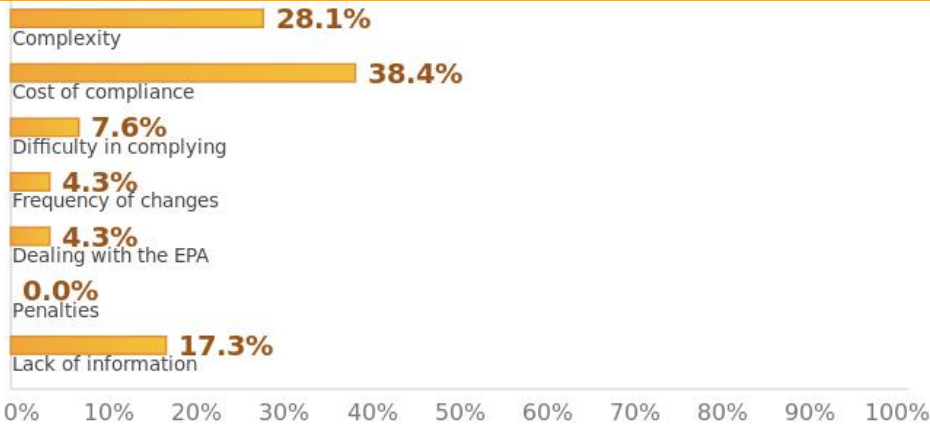
**Graph 4.2 : Level of concern with environmental legislation and regulations**



# Supplementary Questions

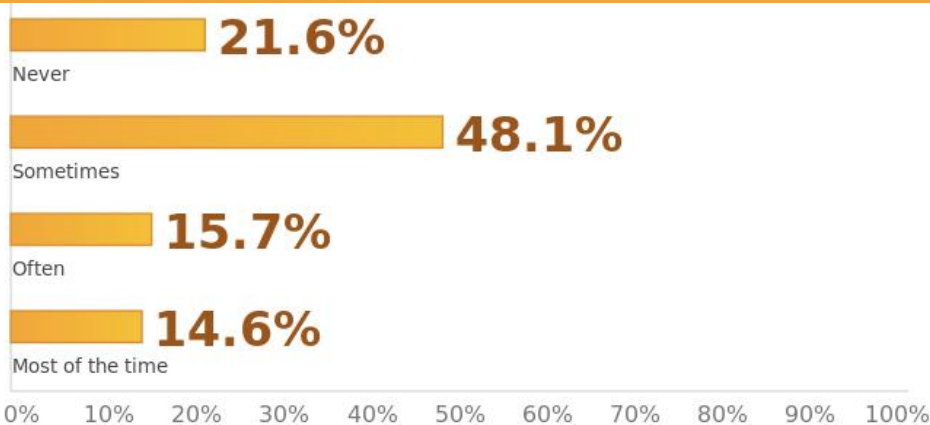
38% of businesses indicated that the cost of compliance was their key concern with environmental legislation and regulations, followed by complexity (28%) and a lack of information (17%). No businesses were concerned with penalties.

Graph 4.3 : Key concern with environmental legislation and regulations



Around 30% of businesses stated that they often or most of the time have difficulties managing their cash flow because their customers were not paying their bills.

Graph 4.4 : Managing cash flow



## Supplementary Questions

When asked what they perceived to be the biggest business issue in 2011, 42% of respondents indicated business management and leadership, followed by the global economic recovery and international market volatility (33%).

Graph 4.5 : Biggest issue in 2011



# Data - Survey Results (All Businesses)

## The economy (Summary of responses as %)

a) How do you expect the South Australian economy to perform over the next 12 months?

	<b>Weaker</b>		<b>Same</b>		<b>Stronger</b>
South Australia	6.0	39.7	25.6	27.1	1.5

b) How do you expect the national economy to perform over the next 12 months?

	<b>Weaker</b>		<b>Same</b>		<b>Stronger</b>
Australia	6.0	38.2	22.1	32.7	1.0

c) How would you rate the change in availability of labour between the last quarter (September 2010) and the current quarter (December 2010)?

		<b>Easier</b>	<b>Same</b>	<b>Harder</b>
Professional		8.1	70.1	21.8
Skilled		10.7	62.9	26.4
Unskilled		16.2	74.1	9.6

d) Please indicate how you expect the following economic indicators to change in the next quarter (March 2011) compared to the current quarter (December 2010)?

	<b>Decrease</b>	<b>Same</b>	<b>Increase</b>
Interest rates	2.6	28.1	69.4
Inflation rate (CPI)	3.1	39.8	57.1
Total real labour costs	2.0	24.0	74.0
Unemployment rate	16.3	47.4	36.2
Value of \$A	27.0	48.0	25.0

### 1 The Business SA Confidence Index - explanation

The Business SA Confidence Index is a measure of the spread of opinion that takes into account the proportion of views across the range of qualitative responses. The weight is the scale value (eg from 'Weaker' to 'Same' to 'Stronger'). The Index is an artificial construct because there is no definite scale for measuring confidence. If participants predict that economic conditions will remain unchanged the Index will be at 100. Further, if some expect it to improve and equal numbers expect it to worsen from the current level, these effects will balance themselves out and the index will also remain at 100. More respondents expecting conditions to improve will push the index above 100, while more respondents expecting worsening economic conditions will push it below 100.

If all people selected one, on the scale of one to five, the Index would fall to a minimum of 33 - its lowest possible level.

2 All numbers are automatically rounded which can result in totalling errors of 99.9 or 100.1.



## Key Economic Performance Indicator

In your opinion how did your business 'trend' in each of the following indices for the indicated periods?

Current quarter (December 2010)

	<b>Down</b>	<b>Same</b>	<b>Up</b>
General business conditions	40.0	30.3	29.7
Total sales/revenue	41.5	24.6	33.8
Export sales	26.8	64.6	8.5
Profitability	38.5	36.4	25.1
Employment levels	22.6	55.4	22.1
Overtime worked	24.1	50.8	25.1
Capital expenditure - Buildings	22.1	70.8	7.2
Capital expenditure - Plant and equipment	20.5	51.8	27.7
Average wages	7.2	48.7	44.1
Labour costs (other than wages)	3.1	58.0	38.9
Cost of materials	5.2	42.0	52.8
Cost of overheads	1.6	33.7	64.8
Training expenditure	9.8	65.8	24.4
Orders received	41.1	31.8	27.2
Average selling price	23.8	57.5	18.7

Next quarter (March 2011)

	<b>Down</b>	<b>Same</b>	<b>Up</b>
General business conditions	30.5	43.7	25.8
Total sales/revenue	33.2	27.9	38.9
Export sales	25.8	58.1	16.1
Profitability	32.4	37.2	30.3
Employment levels	19.1	56.4	24.5
Overtime worked	21.3	56.9	21.8
Capital expenditure - Buildings	22.3	66.5	11.2
Capital expenditure - Plant and equipment	23.9	54.3	21.8
Average wages	4.3	55.9	39.9
Labour costs (other than wages)	2.7	58.1	39.2
Cost of materials	4.3	50.0	45.7
Cost of overheads	2.2	38.2	59.7
Training expenditure	9.7	65.9	24.3
Orders received	21.3	49.6	29.1
Average selling price	12.4	66.5	21.1

