June Quarter 2011

Survey of Business Expectations

The Business SA

Survey of Business Expectations

BusinessSA

Your business is ours

About The Survey

Business expectations

The 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 business and industry.

South Australian economy

Business confidence in the economy weakened in the June quarter 2011, following small declines in the previous two quarters. The perceived lack of business confidence on a state level was also apparent in the Australian business economy. The decline in business confidence for both the South Australian and national economies highlights a number of factors.

Domestically, these include the impact of the Fair Work Australia decision to raise award rates by 3.4%, anticipated increases in interest rates, the rising cost of utilities, the proposed carbon tax and weak consumer confidence. International pressures, such as the high Australian dollar, debt problems in Europe and concern about the US economic recovery also contributed to the fall in business confidence in the June quarter 2011.

Diminishing confidence in the South Australian and national economies has resulted in equally discouraging key economic indicators. Recent data from the Australian Bureau of Statistics indicates retail sales have diminished by 0.4% and 0.7% in April and May respectively.

According to survey results, there has been a decline in general business conditions. More businesses experienced a decrease in revenue than an increase in total sales, consequently impacting on profitability. Employment levels continue to remain stagnant, and average wages are rising. The small business sector in South Australia incurred an increase in the cost of materials and overheads during the June quarter. The rising cost of doing business, may have contributed to the substantial reduction in capital expenditure.

The Reserve Bank of Australia maintained the official cash rate of 4.75% in July 2011, despite earlier predictions that a rate rise was imminent during the first half of 2011. Interest rates are now expected to remain stable in the September quarter, while long-term estimates are uncertain given the disparity in predictions among the major banking corporations.

Disclaimer

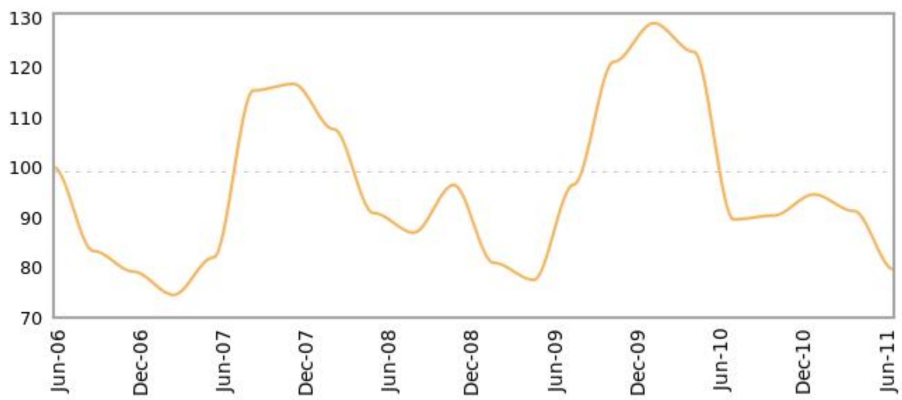
Opinions expressed in this survey do not necessarily represent those of Business SA. No responsibility is accepted by Business SA for the accuracy of any statements, opinions or advice contained in the survey and readers should rely upon their own enquiries when making any decisions affecting their own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

Overview Of Results

Business confidence in the economy weakened in the June quarter 2011, following small declines in the previous two quarters.

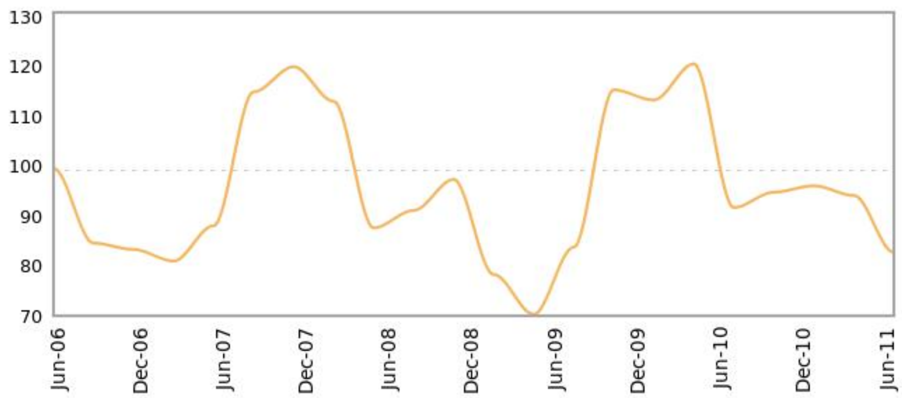
The South Australian confidence index
South Australian business confidence in the performance of the South Australian economy over the next twelve months decreased 11% to 81.5 points in the June quarter 2011. This follows small declines in the previous two quarters.

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 decreased in the June quarter 2011, by 11% to 84.5 points.

Graph 1.2 : National Confidence Index



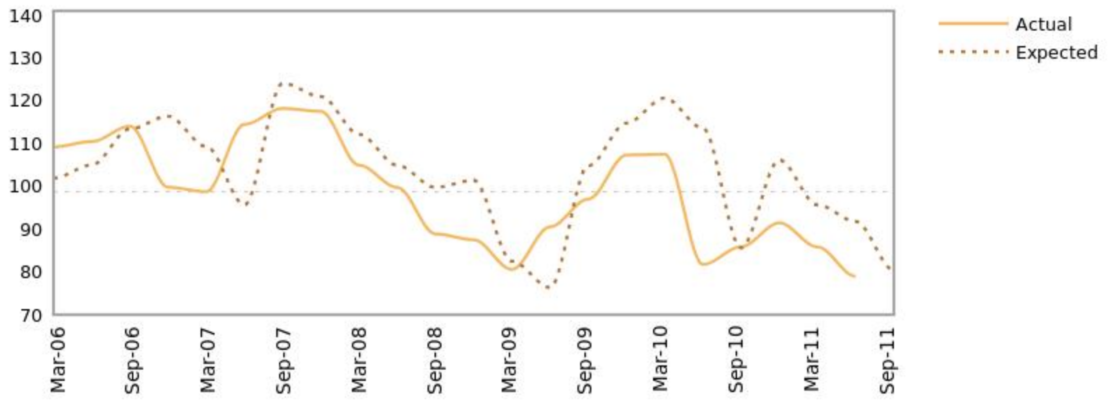
The decline in business confidence for both the South Australian and national economies highlights a number of factors. Domestically, these include the impact of the Fair Work Australia decision to raise award rates by 3.4%, anticipated increases in interest rates, the rising cost of utilities, the proposed carbon tax and weak consumer confidence. International pressures, such as the high Australian dollar, debt problems in Europe and concern about the US economic recovery also contributed to the fall in business confidence in the June quarter 2011.

A Closer Look At Indices

General business conditions

General business conditions fell 8% to 81 points in the June quarter 2011, which is at odds with the expected increase of 5% in general business conditions forecast from March 2011. However, expectations for general business conditions are slightly higher for the September 2011 quarter, at 83 points.

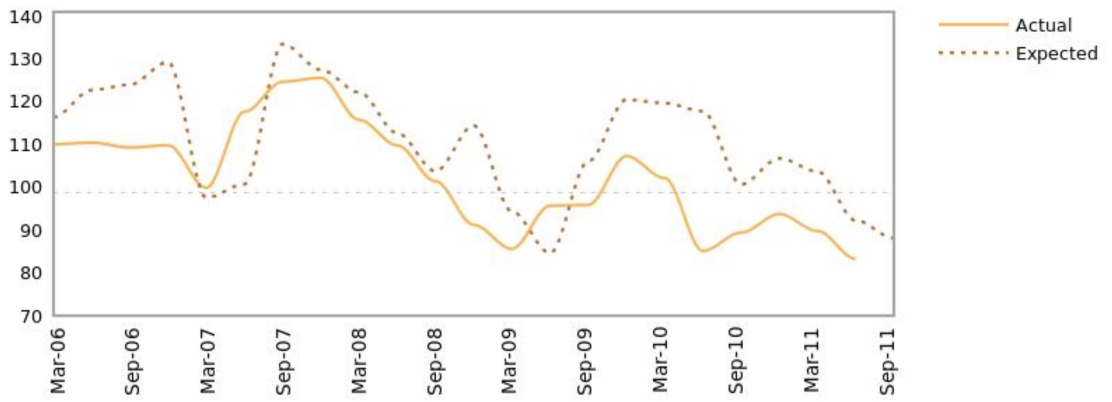
Graph 2.1 : Actual vs Expected General Business Conditions



Total sales revenue

The Total Sales Revenue Index decreased 8% to 85 points in the June quarter 2011. However, Total Sales Revenue is expected to improve considerably in the next quarter, at 93 points.

Graph 2.2 : Total Sales Revenue



More Key Results

Exports
In the June quarter 2011, approximately 22% of respondents indicated that their export sales were down from the previous quarter. The majority of respondents indicated stable export sales for the current quarter. 58% of survey participants expect their export sales to remain stable in the September 2011 quarter.

Almost half of respondents expect the value of the Australian dollar to remain stable in the September quarter 2011. Over one third of South Australian businesses expect the Australian dollar to decrease in value.

Employment levels
Approximately 29% of South Australian businesses reported a reduction in employment levels in the June quarter 2011. In comparison, a relatively small proportion of respondents (16%) increased their staff levels during the current quarter.

62% of respondents anticipate employment levels to remain stable in the September quarter 2011. Almost 27% of South Australian businesses plan to reduce staffing levels in the upcoming quarter. Around 44% of businesses expect the unemployment rate to rise in the September quarter 2011, while just 13% believe it will fall.

Availability of labour
During the June quarter 2011, 28% of respondents found it more difficult to source skilled labour compared to the previous quarter. Approximately 24% of survey participants indicated that it was more difficult to source professional labour between the March quarter 2011 and the June quarter 2011. This proportion was around 9% for unskilled labour in the June quarter.

Business costs
74% of businesses indicated that the costs of overheads increased in the June quarter 2011. Approximately 57% of businesses had higher material costs.

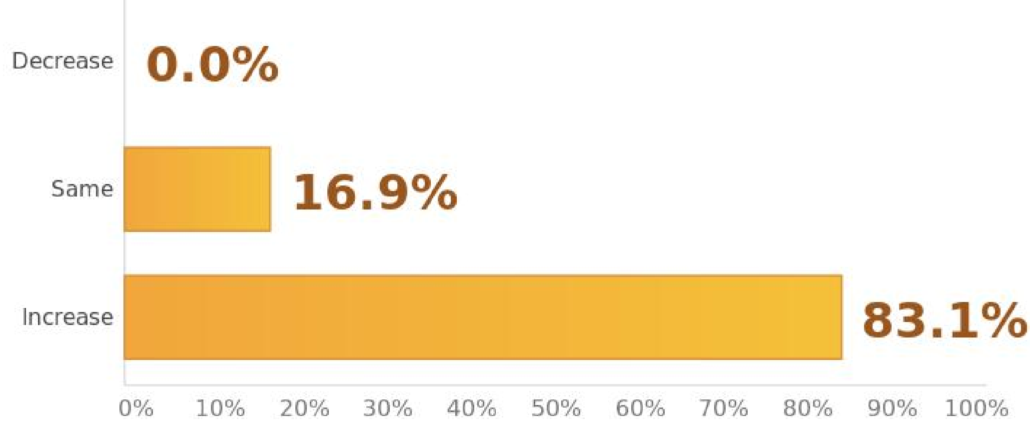
Two thirds of respondents expect the cost of overheads to rise in the September quarter 2011. Similarly, 53% of survey participants also expect the cost of materials to increase.

Looking Ahead

Expected total real labour costs

The vast majority of business (83%) expect total real labour costs to increase in the September quarter 2011. This is the highest proportion since the Global Financial Crisis. In line with the recent National Wage Case decision to increase award rates by 3.4%, none of the businesses surveyed expect to see a decrease in labour costs during the subsequent quarter. The expected increase is attributed mostly to an anticipated rise in employee wages, as opposed to other associated costs of labour.

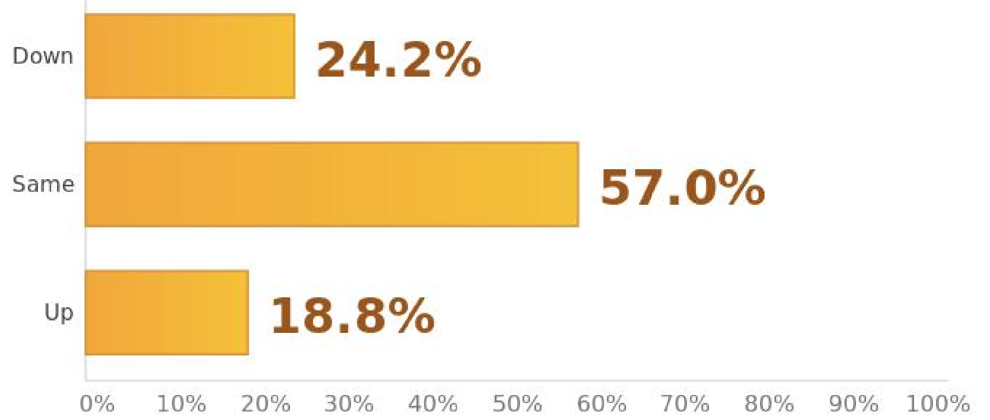
Graph 3.1 : Expected Total Real Labour Costs, September Quarter 2011



Expected average selling price

The percentage of South Australian businesses expecting to see a decrease in average selling prices during the September quarter 2011 has increased 4% to 24%. As a result there has been a slight decline in the percentage of respondents who anticipate an increase in the average selling price (19%) and current levels to remain unchanged (57%).

Graph 3.2 : Expected Average Selling Price, September Quarter 2011

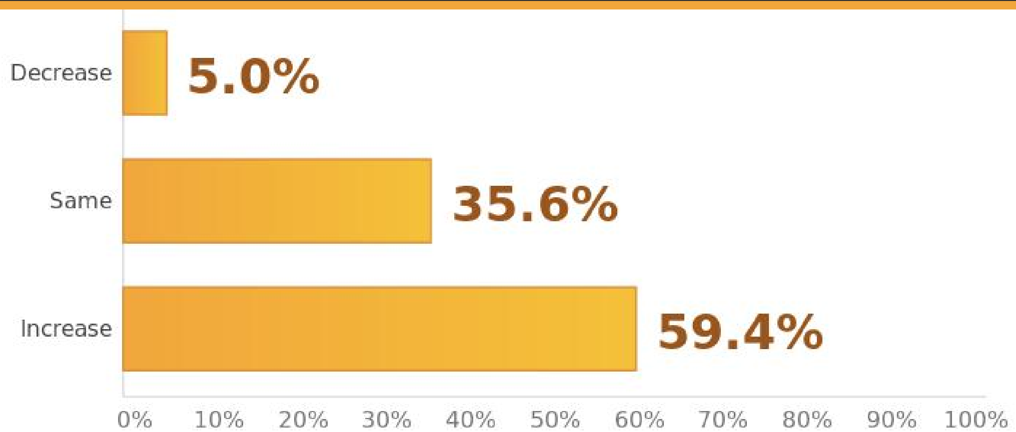


Looking Ahead

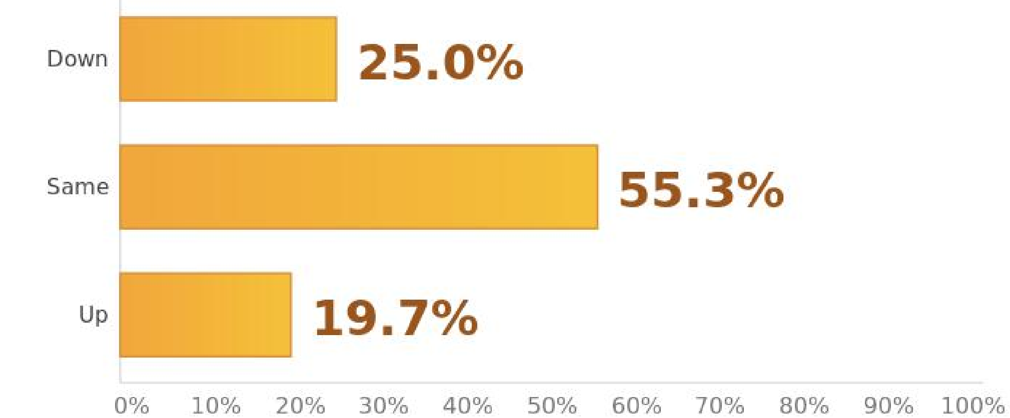
Expected interest rate and capital expenditure - Plant and equipment
More than half of all respondents are expecting an increase in interest rates during the September quarter. A small minority (5%) of respondents anticipate a decrease in interest rates during the next quarter.

Approximately 55% of survey participants expect to maintain their current levels of capital expenditure on plant and equipment. Exactly one quarter of respondents planned to reduce spending, while a smaller proportion (20%) of businesses intend to increase capital expenditure in the September quarter 2011.

Graph 3.3 : Expected Interest Rate, September Quarter 2011



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

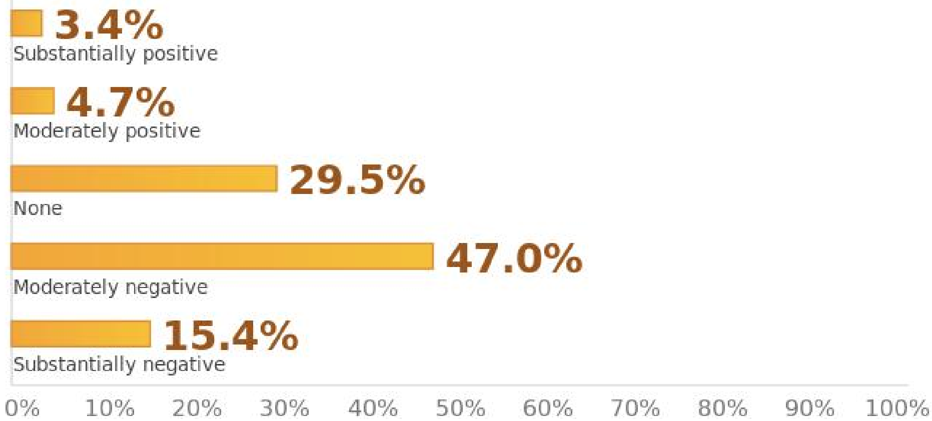


Supplementary Questions

In the June quarter 2011 survey, businesses were asked about the imminent Work, Health and Safety (WHS) legislation and the impact of the Fair Work Australia decision to raise award rates by 3.4% on employment levels, capital investment spending and profitability.

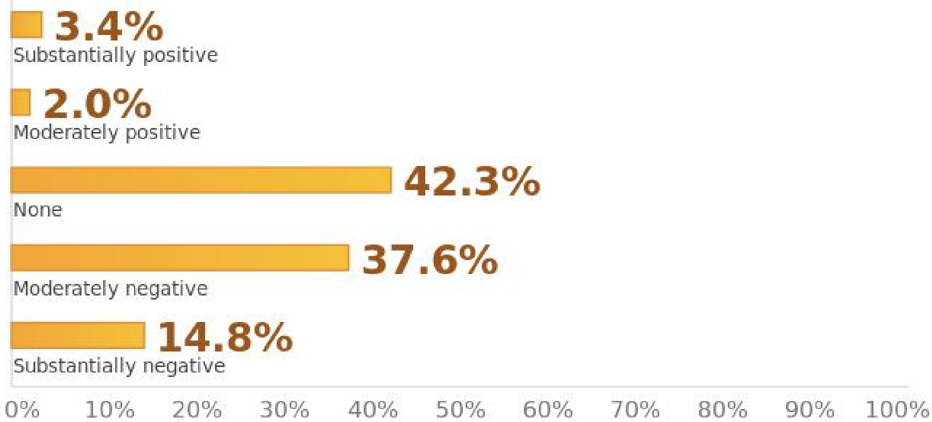
Approximately 62% of businesses anticipated a negative impact of the Fair Work decision on employment levels. Almost 30% of businesses expect no impact.

Graph 4.1 : Impact of the Fair Work Australia decision on unemployment levels



When asked whether a 3.4% increase in award rates would impact upon capital investment spending, opinion among the business community was divided. Approximately 42% of respondents indicated the increase would have no impact, while 52% of respondents anticipated a negative impact on capital investment spending.

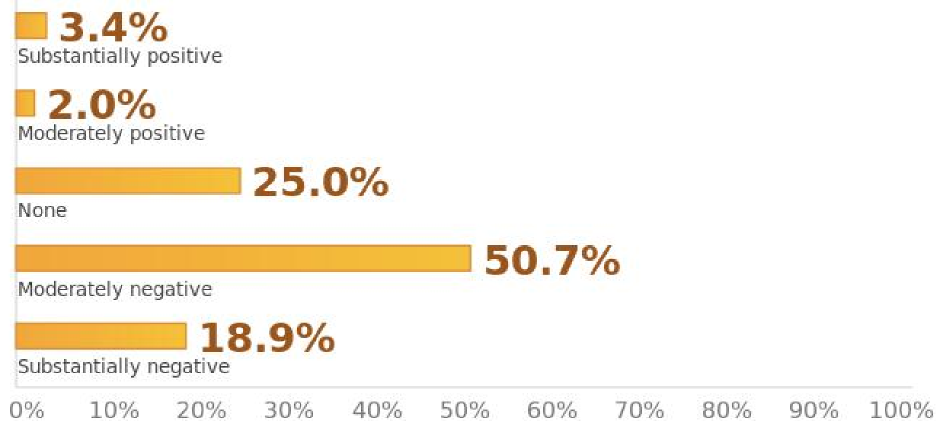
Graph 4.2 : Impact of the Fair Work Australia decision on capital investment spending



Supplementary Questions

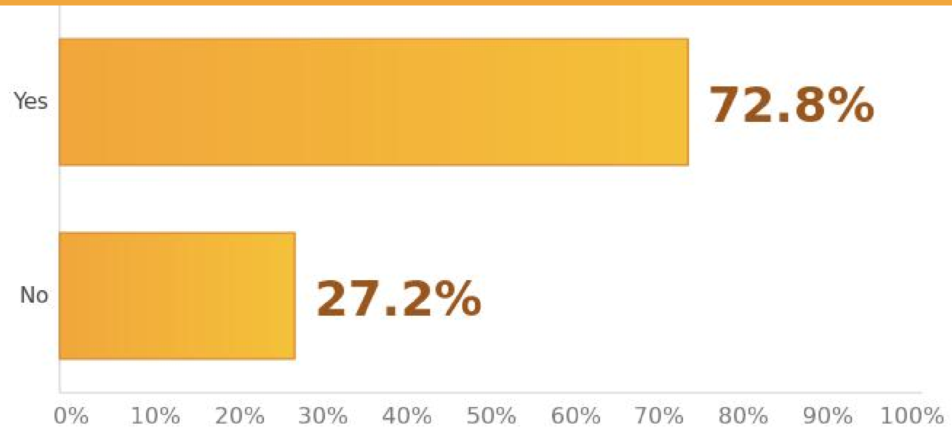
Almost 70% of respondents expect that the decision to raise award rates will negatively affect business profitability. One quarter believed there would be no impact on profitability.

Graph 4.3 : Impact of the Fair Work Australia decision on profitability



Almost three quarters of respondents indicated that they were aware that new Work, Health and Safety legislation, regulations and codes of practice come into force on 1 January, 2012.

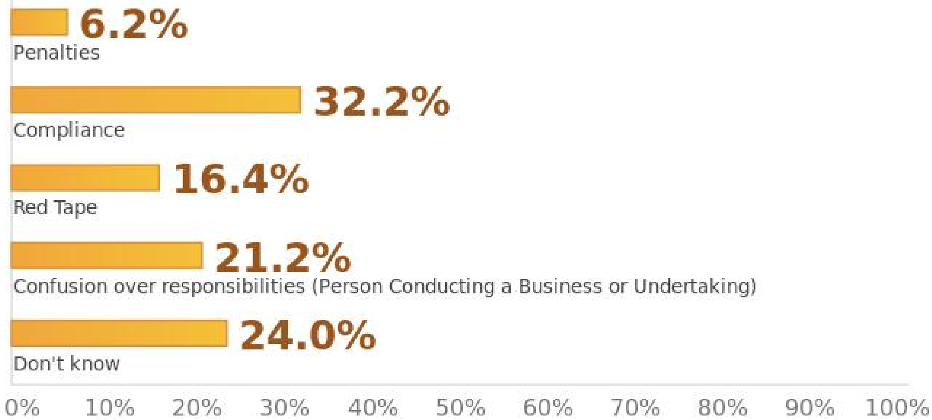
Graph 4.4 : Awareness of new WHS legislation, regulations and codes of practice



Supplementary Questions

When respondents were asked to highlight their primary concern with the new WHS laws, regulations and codes of practice, 32% of businesses said compliance, 21% indicated confusion over responsibilities, over 16% suggested red tape and 6% mentioned penalties. Nearly one quarter of all respondents were uncertain of their primary concern with the new WHS laws, regulations and codes of practice.

Graph 4.5 : Primary concern with new WHS laws, regulations and codes of practice



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?

	Weaker		Same		Stronger
South Australia	15.5	53.0	17.9	12.5	1.2

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

	Weaker		Same		Stronger
Australia	15.7	54.2	16.3	13.3	0.6

c) How would you rate the change in availability of labour between the last quarter (March 2011) and the current quarter (June 2011)?

	Easier	Same	Harder
Professional	4.3	71.8	23.9
Skilled	8.0	64.4	27.6
Unskilled	17.8	73.6	8.6

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

	Decrease	Same	Increase
Interest rates	5.0	35.6	59.4
Inflation rate (CPI)	5.6	38.1	56.3
Total real labour costs	0.0	16.9	83.1
Unemployment rate	13.3	42.4	44.3
Value of $A	34.8	46.8	18.4

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 (June 2011)

	Down	**Same**	**Up**
General business conditions	49.0	33.1	17.8
Total sales/revenue	51.0	23.6	25.5
Export sales	21.5	70.8	7.7
Profitability	50.0	32.7	17.3
Employment levels	28.8	55.1	16.0
Overtime worked	30.1	50.6	19.2
Capital expenditure - Buildings	22.6	66.5	11.0
Capital expenditure - Plant and equipment	23.2	55.5	21.3
Average wages	8.4	40.0	51.6
Labour costs (other than wages)	2.6	54.8	42.6
Cost of materials	5.8	36.8	57.4
Cost of overheads	1.9	24.5	73.5
Training expenditure	11.8	63.4	24.8
Orders received	43.1	32.5	24.4
Average selling price	29.4	56.2	14.4

Next quarter (September 2011)

	Down	**Same**	**Up**
General business conditions	46.1	35.7	18.2
Total sales/revenue	42.9	30.5	26.6
Export sales	25.0	58.3	16.7
Profitability	36.4	44.4	19.2
Employment levels	26.5	61.6	11.9
Overtime worked	31.1	54.3	14.6
Capital expenditure - Buildings	22.2	61.4	16.3
Capital expenditure - Plant and equipment	25.0	55.3	19.7
Average wages	7.2	40.5	52.3
Labour costs (other than wages)	4.7	58.4	36.9
Cost of materials	5.4	41.6	53.0
Cost of overheads	3.4	30.9	65.8
Training expenditure	18.1	60.4	21.5
Orders received	35.8	45.0	19.2
Average selling price	24.2	57.0	18.8