March 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
South Australian business confidence weakened in the March quarter 2011, following small improvements in the second half of 2010. This fall in confidence was apparent for both the South Australian and national economies. The decline in business confidence reflects the two-speed economy and particularly weakness in retailing, as well as the high Australian dollar and concerns about the global economic recovery. The natural disasters in other States may also have impacted business confidence.

Some of the recent data from the Australian Bureau of Statistics indicate why business confidence is subdued in South Australia. Retail sales declined in four of the five months from October 2010 to February 2011. Building approvals are weak and volatile. The unemployment rate in South Australia is above the national average, at 5.4% compared to 4.9%.

Businesses in South Australia are feeling the pressure, according to the survey results. Costs of labour, materials and overheads are all rising and profitability is falling. Employment levels are stagnant and more businesses are reducing capital expenditure than increasing it.

While there has been an exploration boom in South Australia, there has yet to be a mining boom. A go-ahead for the Olympic Dam expansion is vital for investment in the State.

The Reserve Bank of Australia held interest rates steady again in early April. However, there is likely to be a rise in interest rates at least once during 2011.

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.

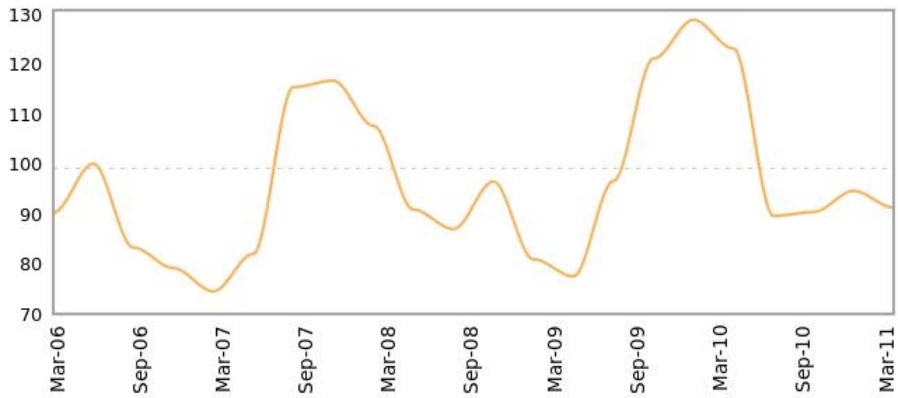
Overview Of Results

Business confidence weakened in the March quarter 2011, following small rises in the second half of 2010.

The South Australian confidence index

South Australian business confidence in the performance of the South Australian economy over the next twelve months fell 3% to 92 points in the March quarter 2011. This follows small rises in the second half of 2010.

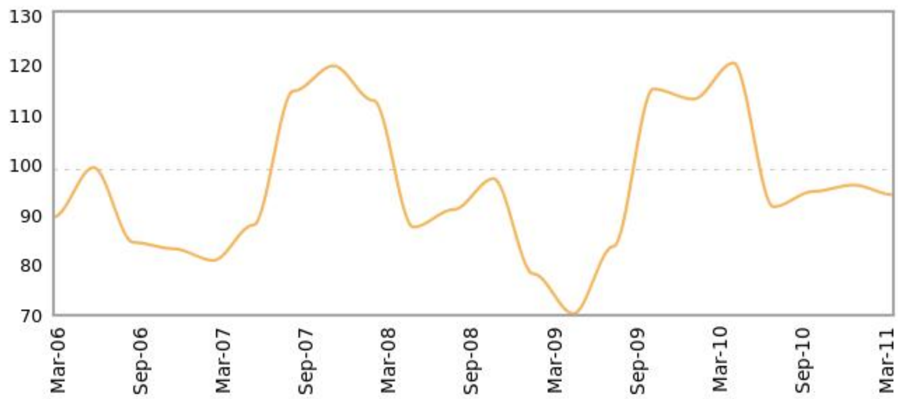
Graph 1.1 : South Australian Confidence Index



The National confidence index

South Australian business confidence in the performance of the Australian economy over the next twelve months also fell in the March quarter 2011, by 2% to 95 points.

Graph 1.2 : National Confidence Index



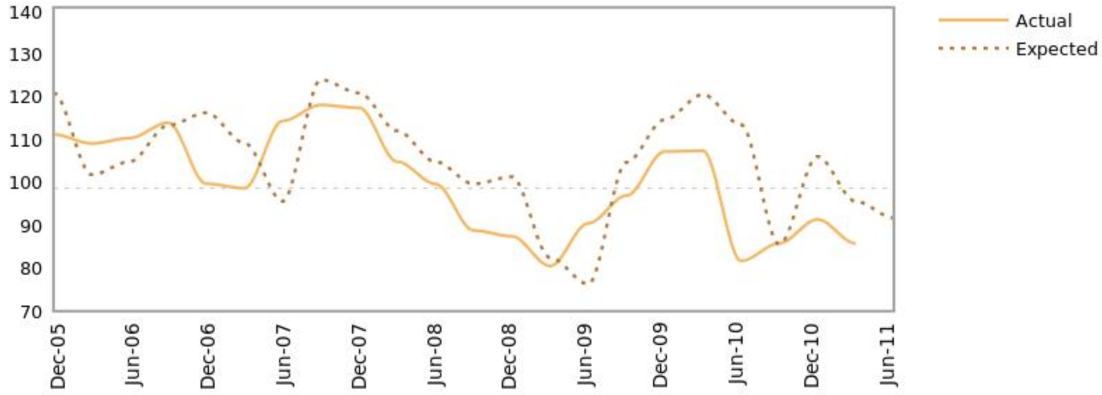
The decline in business confidence reflects the two-speed economy and particularly weakness in retailing, as well as the high Australian dollar and concerns about the global economic recovery. The natural disasters in other States may also have impacted business confidence.

A Closer Look At Indices

General business conditions

General business conditions decreased 5% to 88 points in the March quarter 2011. But expectations for general business conditions are higher for the June quarter 2011, at 93 points.

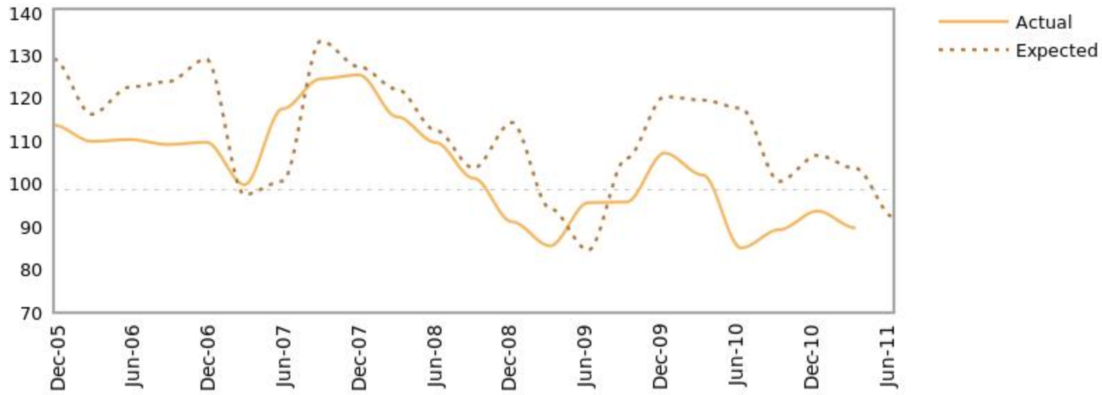
Graph 2.1 : Actual vs Expected General Business Conditions



Total sales revenue

The Total Sales Revenue Index decreased 3% to 92 points in the March quarter 2011. Total sales revenue is expected to remain weak in the next quarter, at 93 points.

Graph 2.2 : Total Sales Revenue



More Key Results

Exports

In the March quarter 2011, around one quarter of respondents indicated that their export sales were down from the previous quarter. Almost two thirds indicated stable export sales. 70% of survey participants expect their export sales to remain stable in the June quarter 2011.

Around half of the businesses surveyed expect the value of the Australian dollar to remain stable in the June quarter 2011. Over one third expect the Australian dollar to fall.

Employment levels

62% of businesses maintained stable employment levels in the March quarter 2011. The remainder were almost evenly split between increasing and decreasing their staff levels. These trends are expected to continue in the June quarter 2011.

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

Availability of labour

In the March quarter 2011, 29% of respondents found it harder to source Skilled labour compared to the previous quarter. This proportion fell to 21% for Professional labour and less than 8% for Unskilled labour.

Business costs

57% of businesses indicated that the cost of overheads increased in the March quarter 2011. Almost 46% of businesses had higher materials costs.

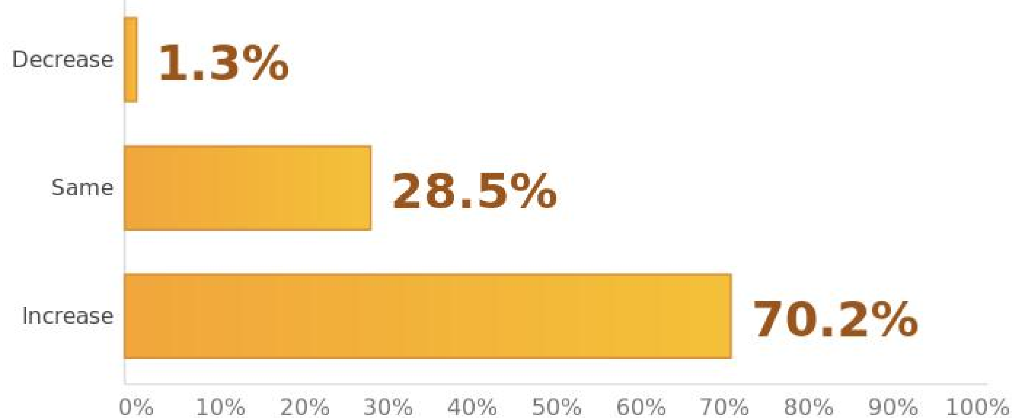
58% of respondents expect the cost of overheads to rise in the June quarter 2011, while 44% expect the cost of materials to remain the same.

Looking Ahead

Expected total real labour costs

Around 70% of businesses expect total real labour costs to increase in the June quarter 2011. Most of this increase is expected to come from rising average wages, rather than other labour costs.

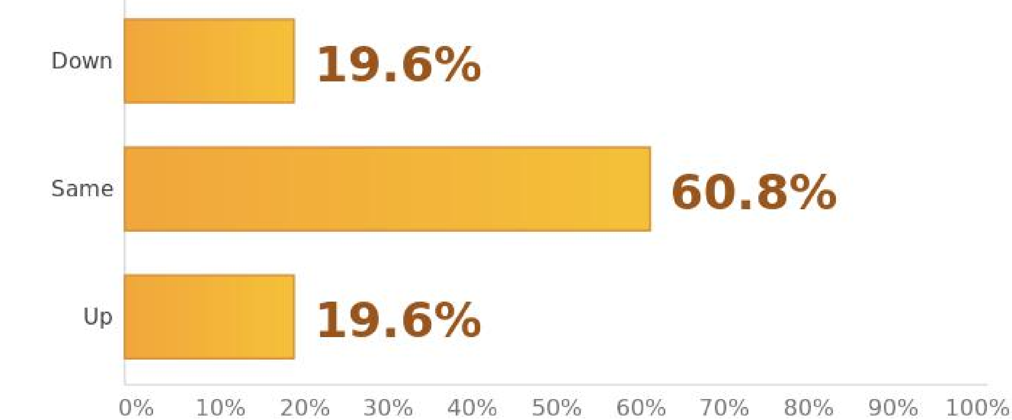
Graph 3.1 : Expected Total Real Labour Costs, June Quarter 2011



Expected average selling price

Just over 60% of businesses expect to maintain average selling prices at current levels in the June quarter 2011. The remaining respondents were evenly split between raising selling prices and lowering selling prices. Many businesses are continuing to suffer a squeeze in margins.

Graph 3.2 : Expected Average Selling Price, June Quarter 2011



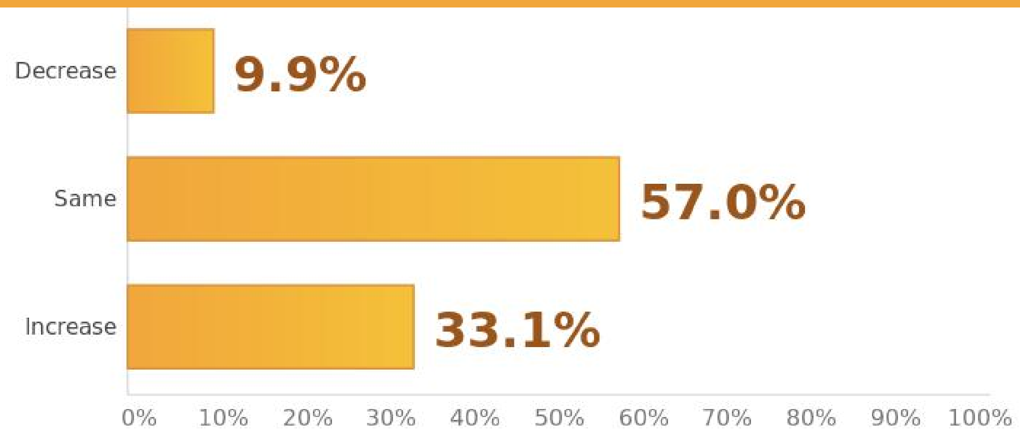
Looking Ahead

Expected interest rate and capital expenditure - Plant and equipment
Around one third of respondents expect interest rates to increase in the June quarter 2011, while 10% expect a decrease.

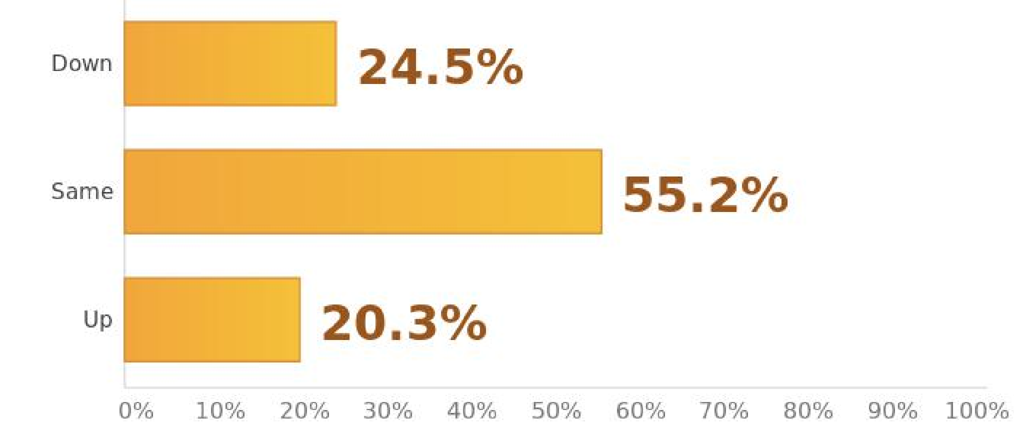
About 55% of businesses expect to keep capital expenditure on plant and equipment at current levels. Almost one quarter plan to reduce capital expenditure and one fifth plan to increase it.

Less than 10% of businesses plan to increase capital expenditure on buildings in the June quarter 2011.

Graph 3.3 : Expected Interest Rate, June Quarter 2011



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

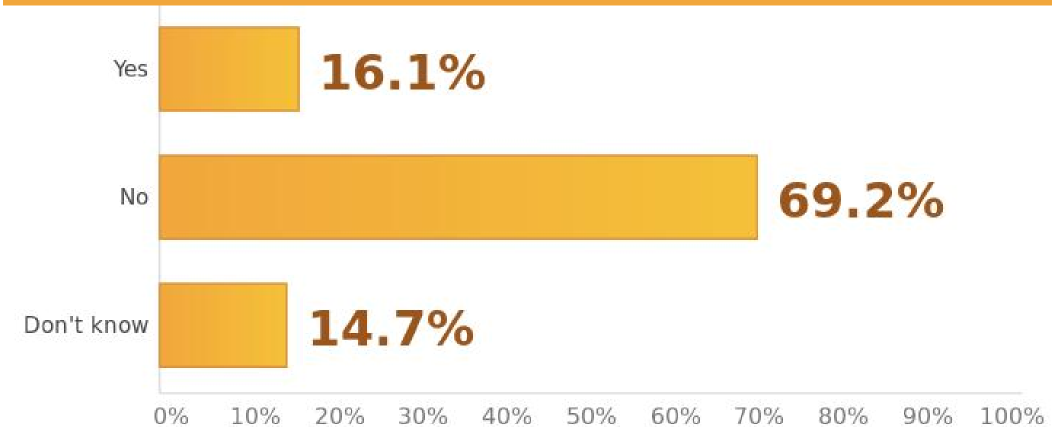


Supplementary Questions

In the March quarter 2011 survey, businesses were asked about a carbon price, electricity prices and climate change policies.

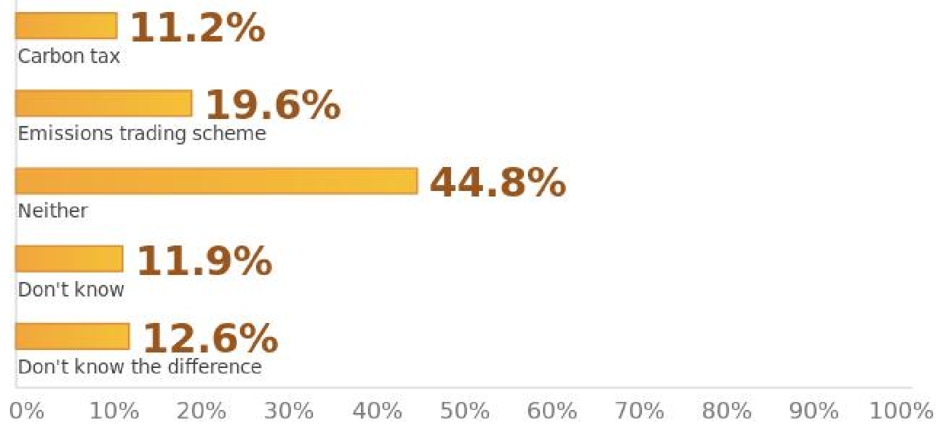
Almost 70% of businesses do not support the introduction of a carbon price.

Graph 4.1 : Support for a carbon price



When asked about their preference between a carbon tax or an emissions trading scheme, 45% of businesses said neither, 20% preferred an emissions trading scheme and 11% preferred a carbon price. Almost 13% said that they did not know the difference.

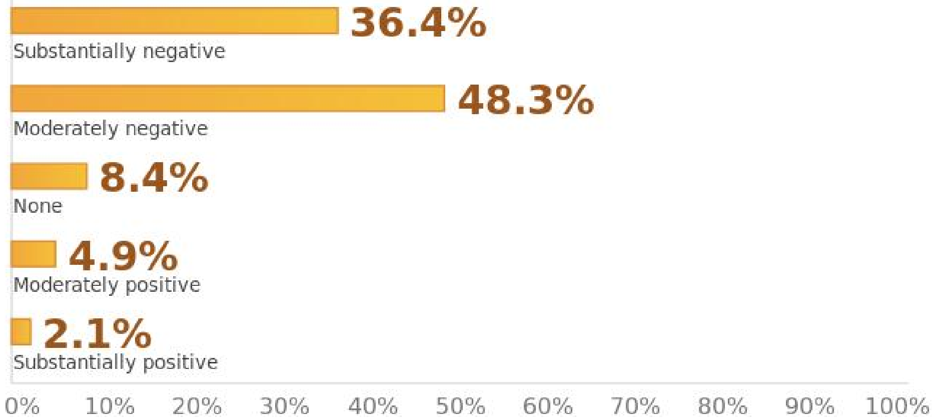
Graph 4.2 : Type of carbon price



Supplementary Questions

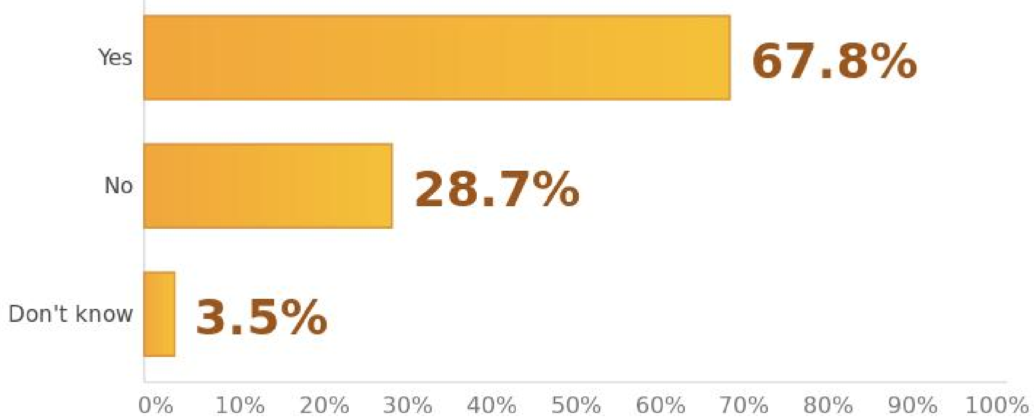
Around 85% of respondents indicated that a carbon price would have a negative impact on their business. Just 7% thought that the impact would be positive.

Graph 4.3 : Impact of a carbon price



When asked about the impact of higher electricity prices, more than two thirds of businesses revealed that higher electricity prices were impacting on their profitability.

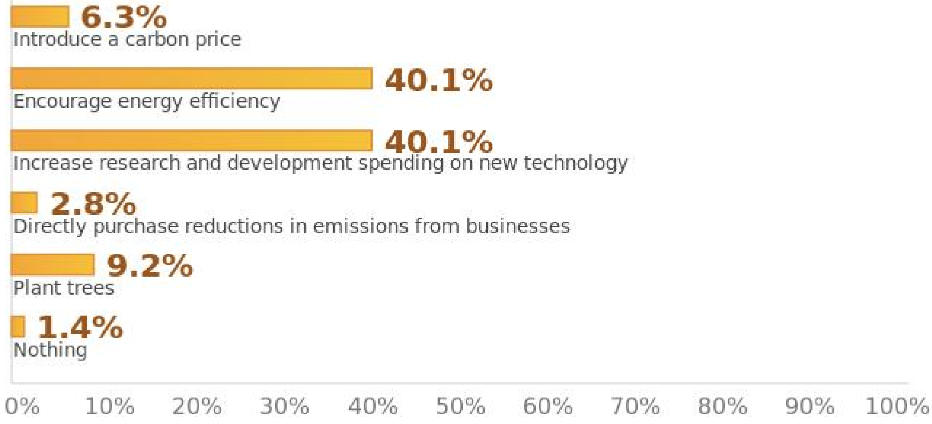
Graph 4.4 : Impact of higher electricity prices



Supplementary Questions

On the question of broader Government climate change policies, encouraging energy efficiency and increasing research and development spending on new technology were the preferred options (40% each). Introducing a carbon price was preferred by just 6% of respondents and planting trees was preferred by 9% of respondents.

Graph 4.5 : Climate change policies



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	6.4	44.2	17.3	31.4	0.6

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

	Weaker		Same		Stronger
Australia	7.1	44.2	24.4	23.1	1.3

c) How would you rate the change in availability of labour between the last quarter (December 2010) and the current quarter (March 2011)?

	Easier	Same	Harder
Professional	9.0	69.7	21.3
Skilled	8.4	62.6	29.0
Unskilled	18.1	74.2	7.7

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

	Decrease	Same	Increase
Interest rates	9.9	57.0	33.1
Inflation rate (CPI)	5.3	37.7	57.0
Total real labour costs	1.3	28.5	70.2
Unemployment rate	14.6	49.7	35.8
Value of $A	35.1	49.7	15.2

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 (March 2011)

	Down	Same	Up
General business conditions	41.7	31.8	26.5
Total sales/revenue	43.0	24.5	32.5
Export sales	25.9	65.5	8.6
Profitability	41.7	37.1	21.2
Employment levels	18.0	62.0	20.0
Overtime worked	22.0	59.3	18.7
Capital expenditure - Buildings	22.7	68.7	8.7
Capital expenditure - Plant and equipment	23.3	56.7	20.0
Average wages	7.3	53.3	39.3
Labour costs (other than wages)	6.0	69.8	24.2
Cost of materials	3.4	51.0	45.6
Cost of overheads	3.4	39.6	57.0
Training expenditure	8.1	68.9	23.0
Orders received	41.8	32.8	25.4
Average selling price	24.3	58.8	16.9

Next quarter (June 2011)

	Down	Same	Up
General business conditions	31.5	45.9	22.6
Total sales/revenue	40.4	29.5	30.1
Export sales	21.3	70.2	8.5
Profitability	37.9	36.6	25.5
Employment levels	19.3	61.4	19.3
Overtime worked	22.1	60.0	17.9
Capital expenditure - Buildings	21.7	69.2	9.1
Capital expenditure - Plant and equipment	24.5	55.2	20.3
Average wages	7.7	57.3	35.0
Labour costs (other than wages)	4.2	67.1	28.7
Cost of materials	0.7	55.2	44.1
Cost of overheads	4.2	37.8	58.0
Training expenditure	7.7	72.0	20.3
Orders received	27.8	39.1	33.0
Average selling price	19.6	60.8	19.6