

# The Business SA

# Survey of Business Expectations



# 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 South Australian and National economies weakened in the September quarter 2011. Confidence at a State level has fallen to its lowest point since the March quarter 2007. Nationally, business confidence is now at its lowest level in nearly two years.

The continuing decline in business confidence across the South Australian and National economies is indicative of widespread economic uncertainty. Sentiment among South Australian businesses may represent the growing divergence between robust and weakened industry sectors, characterised by the nations' "two-speed" economy. Domestically, the perpetual deterioration in confidence to a four-year low highlights growing concern over the financial impact of the proposed carbon tax on businesses.

Diminishing confidence in the national business economy is indicative of equally discouraging key economic indicators. Recent Australian Bureau of Statistics (ABS) data underlines the poor performance of retail sales, international trade, building approvals and the manufacturing industry. The repressed economic outlook has partly attributed to a contraction in consumer spending and rising Australian Dollar. International pressures, such as concern about the European sovereign-debt crisis continue to weigh heavily on productivity and economic growth, which has also contributed to a fall in business confidence in the September quarter 2011.

According to survey results, there has been a slight decline in general business conditions. Downward pressure on financial markets may have also attributed to a reduction in revenue generated by South Australian businesses. The business sector anticipates a rise in the cost of doing business during the September quarter 2011 resulting from the increasing cost of labour, materials and overheads. Employment levels are expected to remain stable and average wages to rise in the current period. These factors may contribute to a negative impact on overall profitability.

The Reserve Bank of Australia maintained the official cash rate of 4.75% in September 2011, meeting the expectations of financial markets. The RBA may be obliged to review their current stance on monetary policy, given the worsening conditions of the Global economy and subdued outlook for growth and inflation. Consequently, interest rates are expected to fall in the September quarter 2011, as lending conditions tighten.

## **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.



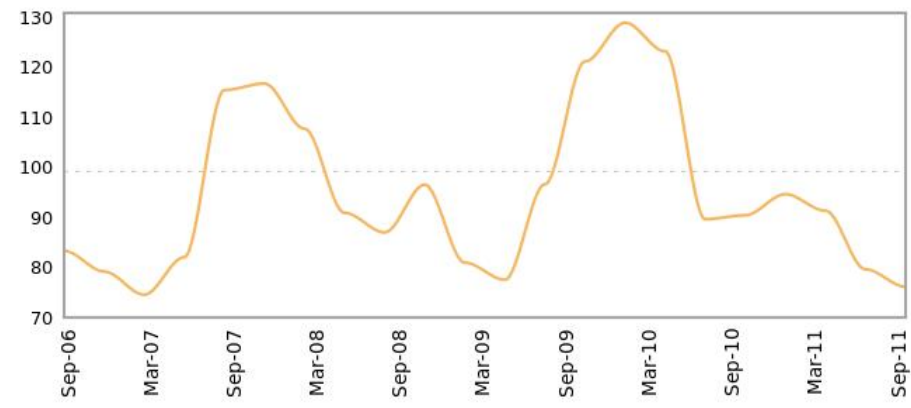
# Overview Of Results

Business confidence in the South Australian and National economies weakened in the September quarter 2011. Confidence at a State level has fallen to its lowest point since the March quarter 2007. Nationally, business confidence is now at its lowest level in nearly two years.

## The South Australian confidence index

Business confidence remains low in South Australia, consistent with national trends. Sentiment across South Australian businesses fell 4% to 78.2 points in the September quarter 2011.

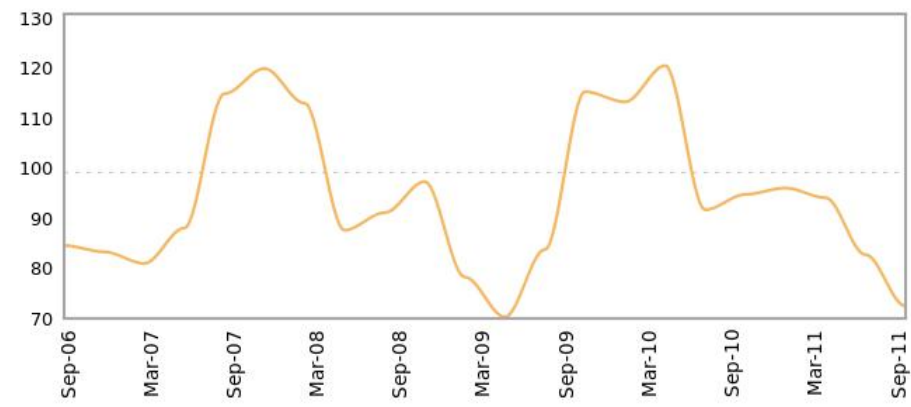
Graph 1.1 : South Australian Confidence Index



## The National confidence index

Business confidence in the performance of the national economy fell in the September quarter 2011, by 12% to 74.7 points.

Graph 1.2 : National Confidence Index



The continuing decline in business confidence across the South Australian and National economies is indicative of widespread economic uncertainty. Sentiment among South Australian businesses may represent the growing divergence between robust and weakened industry sectors, characterised by the nations' "two-speed" economy. Domestically, the perpetual deterioration in confidence to a four-year low highlights growing concern over the financial impact of the proposed carbon tax on businesses.

Diminishing confidence in the national business economy is indicative of equally discouraging key economic indicators. Recent Australian Bureau of Statistics (ABS) data underlines the poor performance of retail sales, international trade, building approvals and the manufacturing industry. The repressed economic outlook has partly attributed to a contraction in consumer spending and rising Australian Dollar. International pressures, such as concern about the European sovereign-debt crisis continue to weigh heavily on productivity and economic growth, which has also contributed to a fall in business confidence in the September quarter 2011.

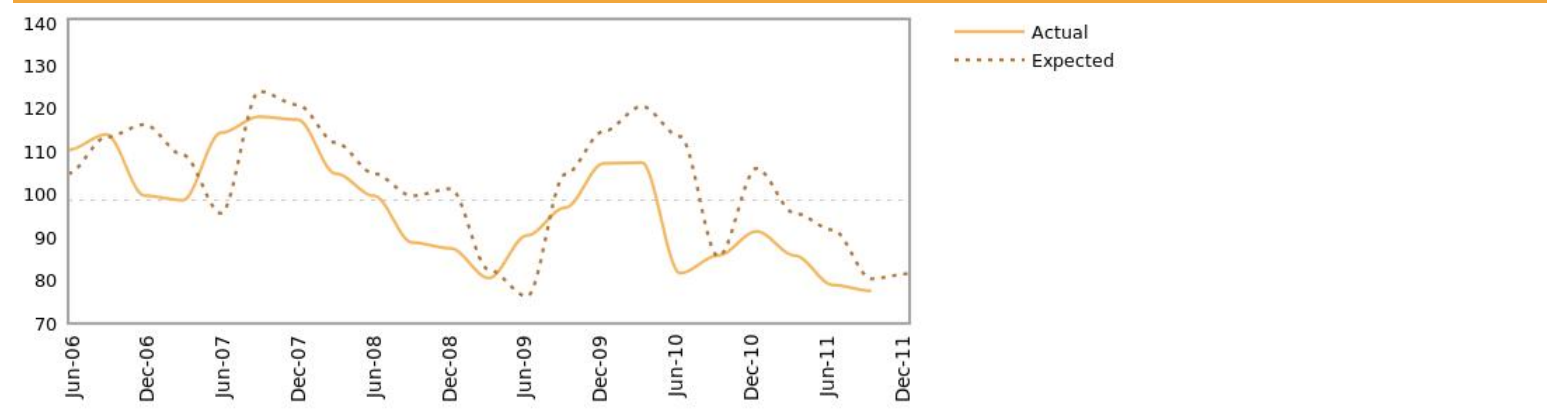


# A Closer Look At Indices

## General business conditions

General business conditions fell 1% to 80 points in the September quarter 2011. This result is contrary to the expected increase of 2% forecast from the June quarter 2011. It is expected that general business conditions will improve in the December quarter 2011 to 84 points.

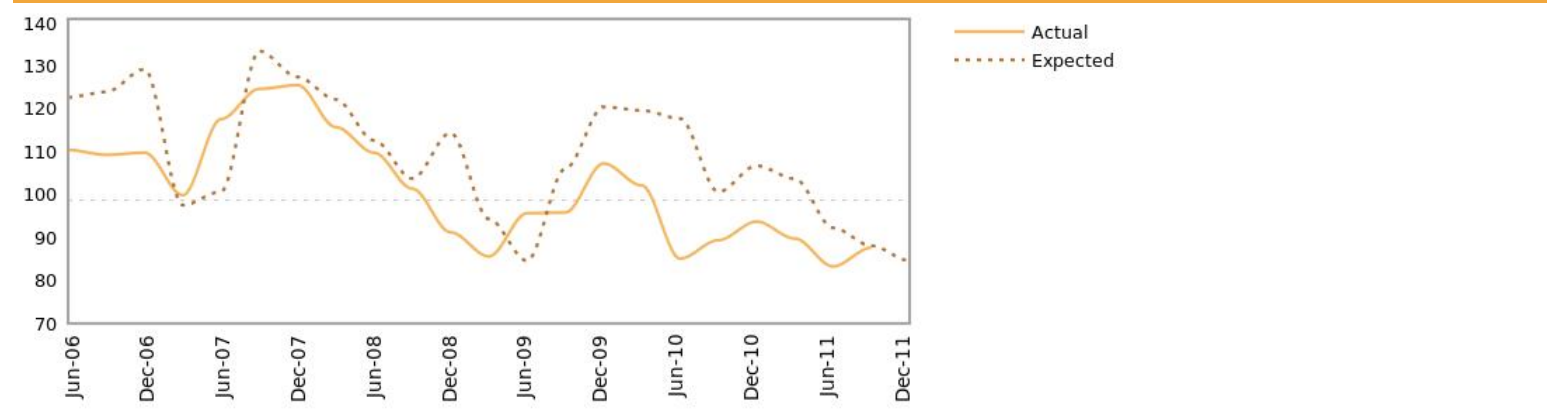
Graph 2.1 : Actual vs Expected General Business Conditions



## Total sales revenue

The Total Sales Revenue Index increased 5% to 89.5 points in the September quarter 2011. Total Sales Revenue is expected to further increase in the next quarter, at 90 points.

Graph 2.2 : Total Sales Revenue



## More Key Results

### Exports

In the September quarter 2011, approximately 38% of respondents indicated that their export sales were down from the previous quarter. The majority of respondents (approximately 43%) expect stable export sales in the current quarter. Approximately 47% of survey participants expect their export sales to remain stable in the December quarter 2011.

Majority of survey respondents (approximately 42%) expect the Australian dollar to decrease in value during the December quarter 2011. Just over one third of South Australian businesses expect the value of the Australian dollar to remain stable, while only around 22% expect the Australian dollar to increase in value during the same period.

### Employment levels

22.5% of South Australian businesses reported a reduction in employment levels in the September quarter 2011. Conversely, a relatively small proportion of respondents (approximately 17%) increased their number of staff during the same quarter.

62% of respondents anticipate their headcount to remain stable and 22.5% intend to reduce their number of staff in the December quarter 2011. 63.5% of businesses in South Australia expect the unemployment rate to rise in the December quarter 2011, while only 9.5% of participants surveyed expect a fall in the unemployment rate.

### Availability of labour

32% of businesses surveyed across the State found it more difficult to source skilled labour between the last quarter (June 2011) and the current quarter (September 2011). Approximately 21% of respondents indicated that it was more difficult to source professional labour. This proportion fell to around 5% for unskilled labour during the same period.

### Business costs

69% of South Australian businesses surveyed indicated that the cost of overheads increased in the September quarter 2011. Only around 4% of survey respondents reported a decrease in the cost of overheads.

The cost of overheads is expected to increase in the December quarter 2011, with only 4% of businesses surveyed expecting to see a decrease and the majority at 62% expecting an increase in the cost of doing business in South Australia.

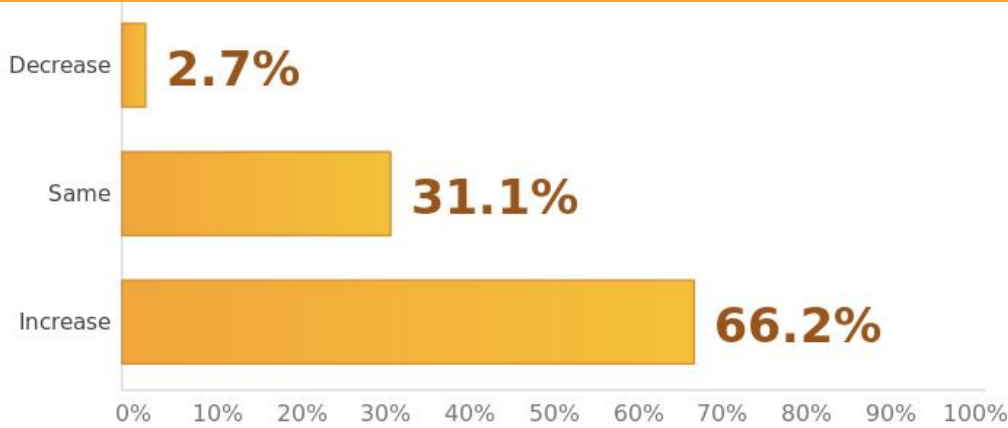


# Looking Ahead

## Expected total real labour costs

The vast majority of businesses surveyed (approximately 66%) expect total real labour costs to increase in the December quarter 2011. This result reflects an increase in the proportion of respondents (approximately 31%) who anticipate labour costs to remain steady during the December quarter. The increase in costs is expected to be spread evenly across employee wages and other associated labour costs.

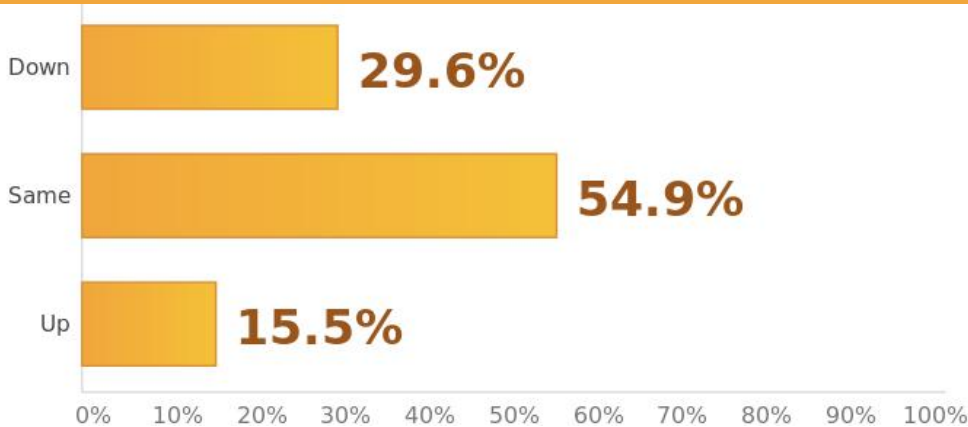
Graph 3.1 : Expected Total Real Labour Costs, December Quarter 2011



## Expected average selling price

Just over half of South Australian businesses surveyed expect to maintain average selling prices at current levels during the December quarter 2011. There has been a slight decrease of approximately 3% in the proportion of respondents who expect selling prices to increase, at 15.5%. Conversely, nearly one third of businesses surveyed anticipate a reduction in the average selling price in the December quarter 2011.

Graph 3.2 : Expected Average Selling Price, December Quarter 2011



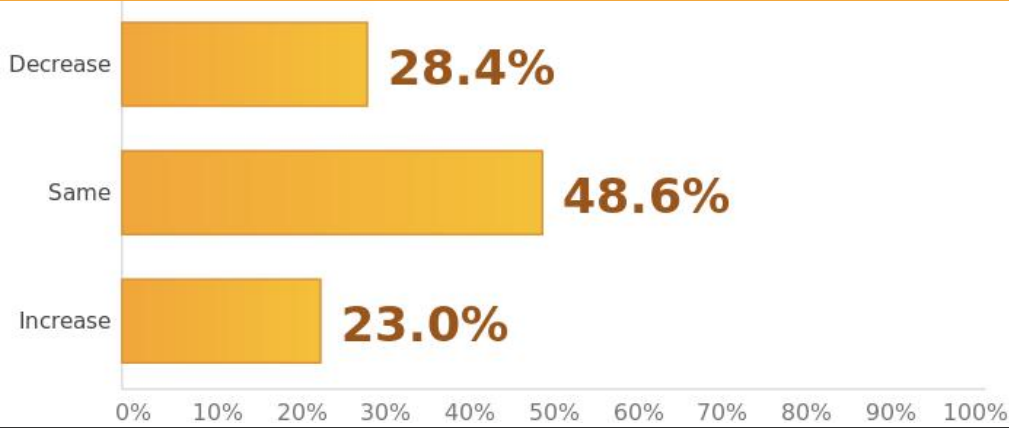
# Looking Ahead

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

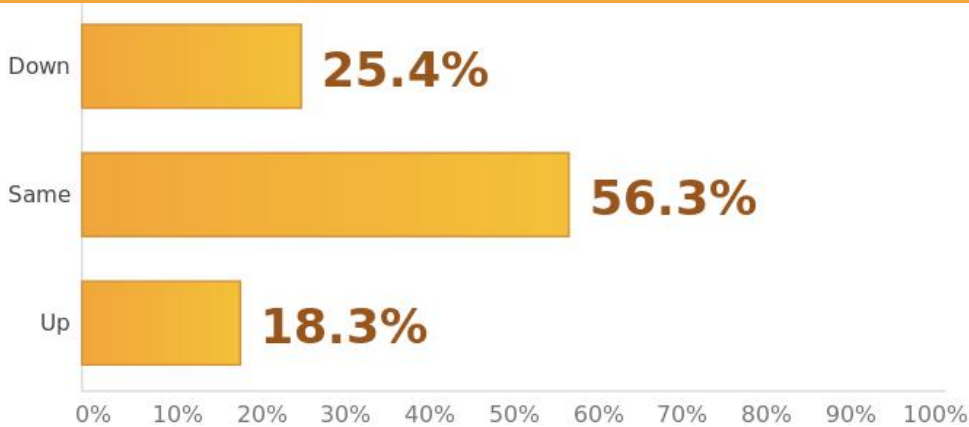
23% of surveyed businesses across the State are expecting an increase to interest rates in the December quarter and nearly half expect interest rates to remain stable. Nearly 30% of all respondents anticipate a decrease in interest rate during the next quarter.

Approximately 56% expect to maintain their current levels of capital expenditure on plant and equipment. Almost one quarter of respondents planned to reduce spending, while less than 20% of businesses surveyed intend to increase capital expenditure in the December quarter 2011.

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



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



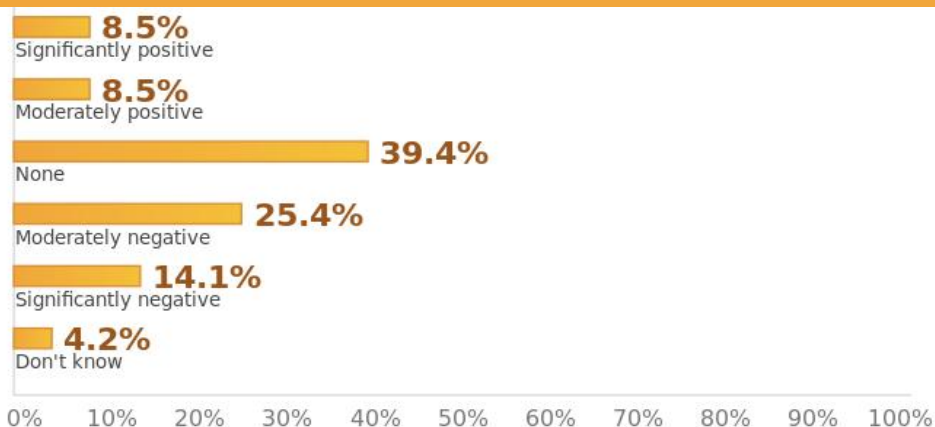
# Supplementary Questions

In The September quarter 2011 survey, respondents were asked about the impact of Local Government responsibility and regulations on their business operations.

Respondents were also specifically asked about the deregulation of shop trading hours in South Australia.

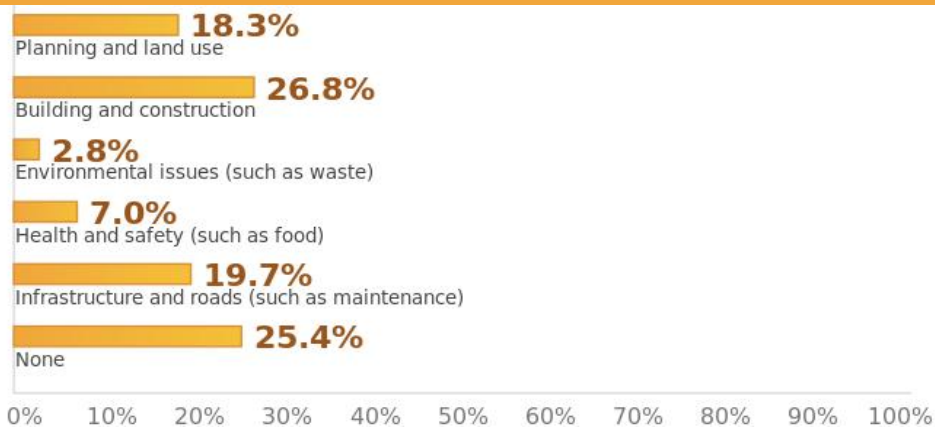
The majority of survey respondents indicated that Local Government regulations have either a negative (39.5%) or no effect (39.4%) on the operations of their business. Only 17% of businesses surveyed reported that Local Government regulations have a positive impact on their business.

Graph 4.1 : Impact of Local Government regulations



When respondents were asked to highlight their primary area of concern with Local Government responsibility and regulation, 27% of businesses said building and construction, 20% indicated infrastructure and roads (such as maintenance) and over 18% suggested planning and land use. Health and safety (such as food) and environmental issues (such as waste) were the areas least affecting businesses at 7% and 3% respectively. Over one quarter of all respondents indicated no concern over Local Government responsibility and regulations.

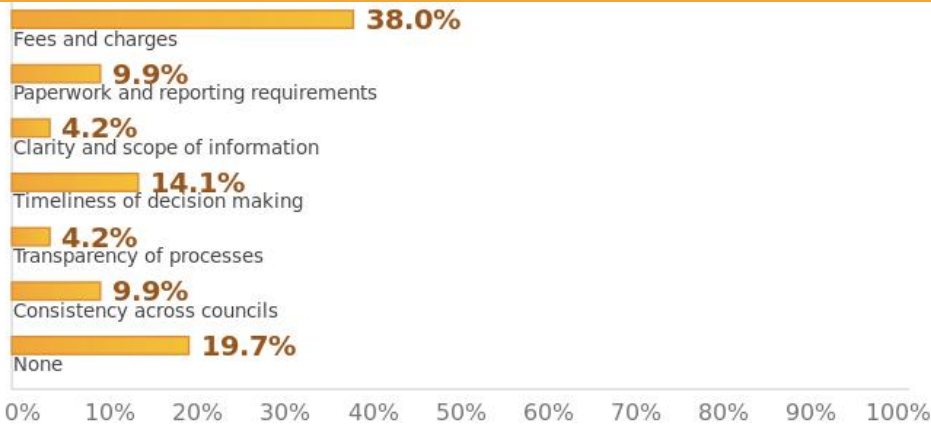
Graph 4.2 : Primary area of concern with Local Government responsibility and regulations



# Supplementary Questions

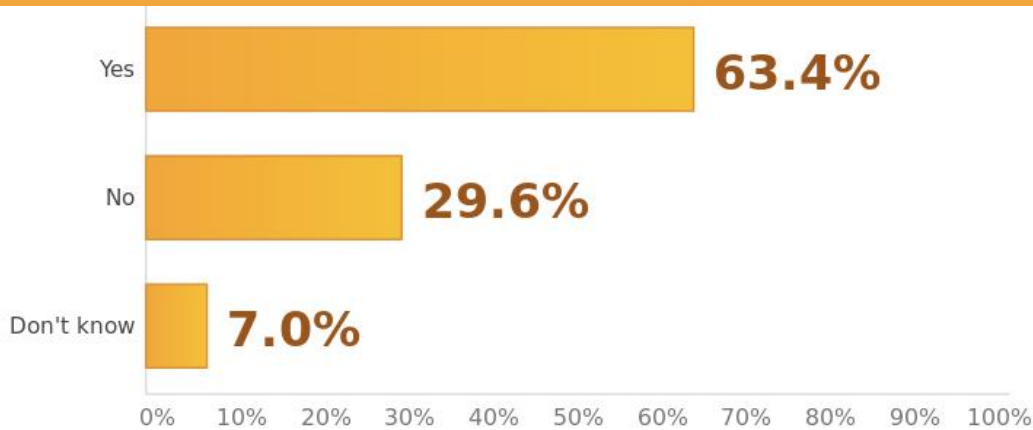
On the question of which aspects of Local Government regulation is of greatest concern to business, Fees and charges was the major concern (38%), followed by timeliness of decision making at 14%. Paperwork and reporting requirements, in addition to consistency across local councils is the major regulatory burden for approximately 10% of businesses surveyed.

Graph 4.3 : Primary aspect of concern with Local Government regulations



A vast majority of businesses (63%) participating in this survey support the total deregulation of shop trading hours in South Australia. Conversely, 30% of respondents disagree and 7% are undecided as to whether shop trading hours should be totally deregulated across the State.

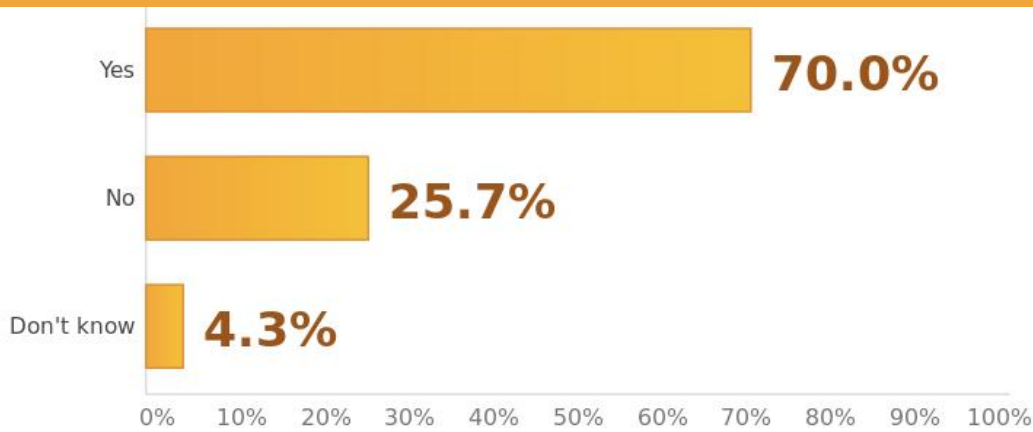
Graph 4.4 : Total deregulation of shop trading hours



## Supplementary Questions

Support for shops to be open on public holidays (excluding Christmas and the morning of Anzac Day) is strong with almost three quarters of respondents in favour of extended retail trading hours. In contrast, approximately one quarter of all businesses surveyed did not agree with opening shops on public holidays in South Australia.

Graph 4.5 : Open shops on public holidays (excluding Christmas and the morning of Anzac Day)



# 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	22.5	31.3	26.3	20.0	0.0

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	24.4	39.7	19.2	16.7	0.0

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

		<b>Easier</b>	<b>Same</b>	<b>Harder</b>
Professional		14.7	64.0	21.3
Skilled		12.0	56.0	32.0
Unskilled		28.0	66.7	5.3

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

	<b>Decrease</b>	<b>Same</b>	<b>Increase</b>
Interest rates	28.4	48.6	23.0
Inflation rate (CPI)	1.4	45.9	52.7
Total real labour costs	2.7	31.1	66.2
Unemployment rate	9.5	27.0	63.5
Value of \$A	41.9	36.5	21.6

### 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 (September 2011)

	<b>Down</b>	<b>Same</b>	<b>Up</b>
General business conditions	52.1	25.4	22.5
Total sales/revenue	46.5	22.5	31.0
Export sales	38.1	42.9	19.0
Profitability	49.3	29.6	21.1
Employment levels	22.5	60.6	16.9
Overtime worked	28.2	50.7	21.1
Capital expenditure - Buildings	28.2	62.0	9.9
Capital expenditure - Plant and equipment	32.4	43.7	23.9
Average wages	5.6	40.8	53.5
Labour costs (other than wages)	7.0	52.1	40.8
Cost of materials	9.9	38.0	52.1
Cost of overheads	4.2	26.8	69.0
Training expenditure	19.7	59.2	21.1
Orders received	50.8	31.1	18.0
Average selling price	38.0	45.1	16.9

Next quarter (December 2011)

	<b>Down</b>	<b>Same</b>	<b>Up</b>
General business conditions	40.8	42.3	16.9
Total sales/revenue	46.5	26.8	26.8
Export sales	31.6	47.4	21.1
Profitability	50.7	33.8	15.5
Employment levels	22.5	62.0	15.5
Overtime worked	22.5	60.6	16.9
Capital expenditure - Buildings	19.7	69.0	11.3
Capital expenditure - Plant and equipment	25.4	56.3	18.3
Average wages	7.0	60.6	32.4
Labour costs (other than wages)	2.8	63.4	33.8
Cost of materials	7.0	52.1	40.8
Cost of overheads	4.2	33.8	62.0
Training expenditure	19.7	57.7	22.5
Orders received	40.0	46.7	13.3
Average selling price	29.6	54.9	15.5

