

St.George - ACCI BUSINESS EXPECTATIONS SURVEY May 2006

Identifying National Trends and Conditions for Australian Business

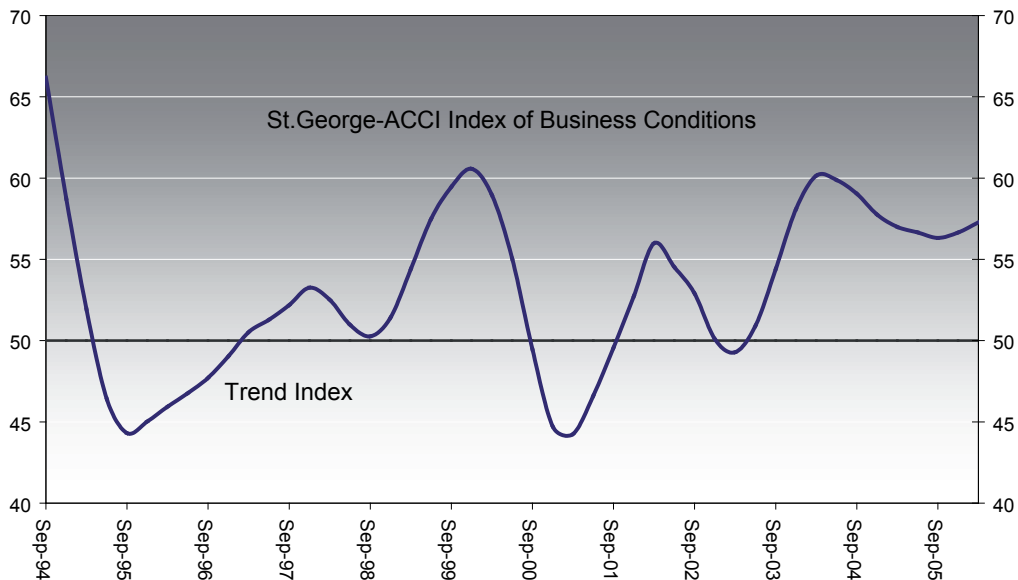
Summary

THE ST.GEORGE - ACCI INDEX OF BUSINESS CONDITIONS ROSE TO 57.3 IN THE MARCH QUARTER, FROM 56.6 PREVIOUSLY.

- Confidence in **Australian economic growth** improved slightly to be just inside positive territory.
- **Investment in plant and equipment** and **investment in buildings and structures** continue to be at historically high levels.
- **Sales revenue** grew at a faster pace over the quarter, but **selling prices** grew slower.
- The index of **exports** decreased slightly but remains sound.
- The strong growth in **wages** and **non-wage labour costs** is continuing, but at lower rates, with these indexes declining slightly after reaching all time highs.
- **Employment** and **overtime** continued to grow in-line with the previous quarter, but expectations have eased.
- The strong growth in costs is keeping **profitability** lacklustre.
- Looking at the results by **business size**, business conditions are broadly similar with small business experiencing the least favourable conditions. Large business employment growth is significantly higher, while small business wages growth and investment is below the growth for other sized businesses.

Business Conditions

Business Conditions Improve but Wages Growth Remains High



St.George and ACCI

St.George and ACCI share a strong desire to foster the success of businesses in Australia. Together we aim to look after the future of your business by bringing the national and industry-specific information that you need to thrive in a rapidly changing environment.

Results at a Glance

	5 Year Average	March 2005	Dec 2006	March 2006	Quarterly Move	June 2006 (e)
Business Conditions	55.2	57.0	56.6	57.3	↑	61.7
Australian Economic Growth (a)	51.4	49.6	49.4	51.5	↑	—
Sales Revenue	57.3	60.1	61.3	63.2	↑	66.9
Exports	51.4	56.9	55.5	54.3	↓	56.8
Wages	64.9	67.0	70.9	70.0	↓	65.3
Non-Wage Labour Costs	62.7	65.7	67.6	67.0	↓	63.1
Selling Prices	54.4	57.8	57.0	54.8	↓	58.9
Profits	49.8	51.8	50.5	50.1	↓	57.3
Employment	54.5	58.7	59.7	59.6	↓	58.9
Overtime	51.4	56.2	53.9	54.0	↑	51.6
Investment in Buildings and Structures	51.5	54.3	55.0	55.6	↑	54.6
Investment in Plant and Equipment	55.2	59.0	60.4	60.6	↑	58.9

Notes: Index values are in trend terms. The full data set is able to be viewed at www.acci.asn.au.

(a) Expectation for following 12 months, (e) denotes expectation index level.

An index level of 50 indicates that there is an exact balance between those who responded that conditions had improved and those who replied that conditions had declined. Thus, any level below 50 can generally be interpreted as meaning that conditions are deteriorating, and conversely, a reading above 50 indicates conditions on average are improving.

About the Survey

The Business Expectations Survey is a national survey aggregated from the surveys conducted by member associations of the Australian Chamber of Commerce and Industry (ACCI). These surveys cover firms in every state and industry as well as firms of every size. The survey is Australia's most comprehensive survey of business expectations.

The survey asks firms to indicate how their business has performed over the past 3 months, relative to the previous 3 months, according to 11 different measures, namely Business Conditions, Sales/Revenue, Exports, Wages, Non-Wage Labour Costs, Selling Prices, Employment, Overtime, Capital Expenditure, Buildings and Capital Expenditure, Plant and Equipment.

In addition, firms are asked how they believe their business will perform over the next 3 months compared with the past 3 months. This gives rise to the expectations indexes.

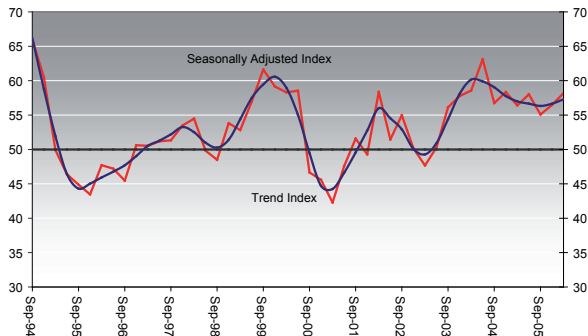
Finally, businesses are asked what their expectations are for the performance of the Australian economy over the next 12 months in comparison with the past 12 months. This provides a reading on the strength of growth in the domestic economy.

A number of the survey responses are segmented by size of business, with large firms categorised as having 100 or more employees, medium having 20-99 and small as having 1-19.

The data in this survey covers the period January, February and March 2006. There were 1,895 respondents to the survey.

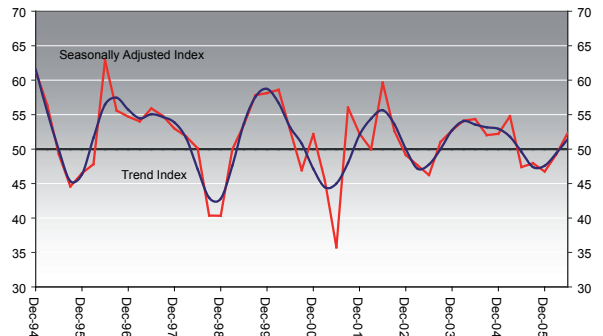
Survey Data

Business Conditions



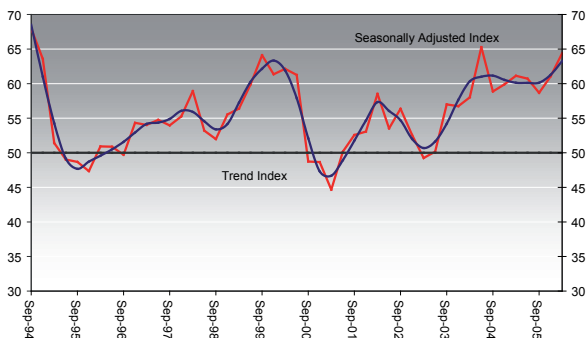
- **General business conditions** improved in the March quarter to 57.3 from 56.6 in the December quarter.
- Conditions remain below the high levels of 2004.
- Expectations for the next three months also rose and remain firmly within positive territory.

Australian Economic Growth



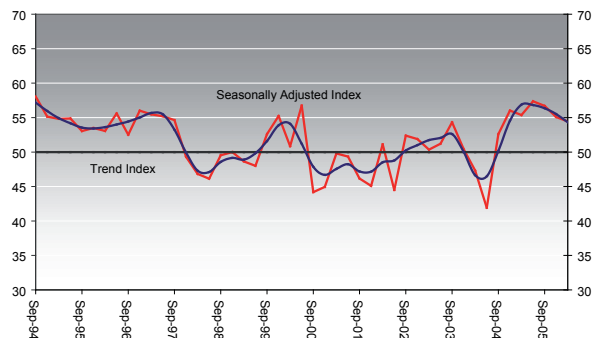
- Business expectations for **Australian economic growth** this year (relative to last year) rose over the March quarter.
- The gain caused the index to rise into positive territory, from 49.4 to 51.5.
- Business expects the economy to grow by slightly more over the next twelve months than it did in the previous twelve months.

Sales Revenue



- The **sales revenue** index rose over the March quarter from 61.3 to 63.2 indicating that business sales are picking up speed.
- This follows several quarters of the index remaining at 60.1.
- Expectations for sales growth fell slightly but businesses remain confident for the next quarter.

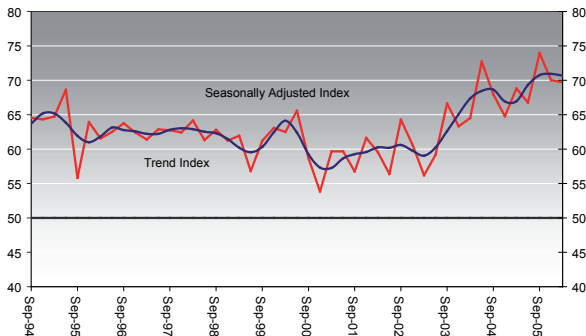
Exports



- **Export sales growth** remained sound over the quarter despite the index decreasing slightly from 55.5 to 54.3.
- Expectations fell slightly but remain positive. Overall, business remains optimistic for the future of exports.

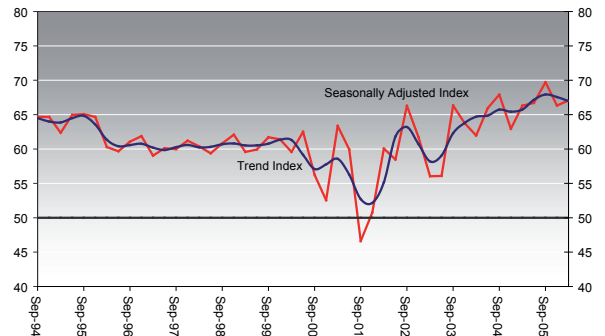
Survey Data

Wages



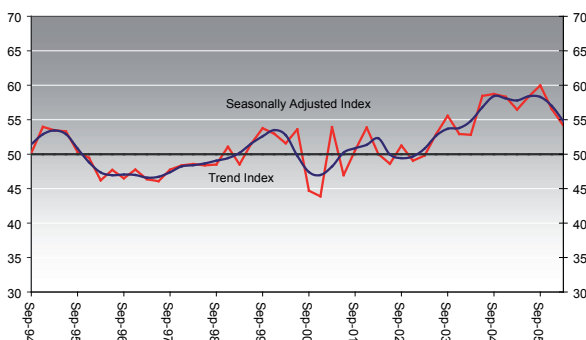
- The index of **wage growth** fell slightly from 70.9 to 70.7 but remains at high levels.
- This may indicate start of an easing in wages pressures.
- Business expects wages growth to continue but at a slower rate over the next three months.

Non-Wage Labour Costs



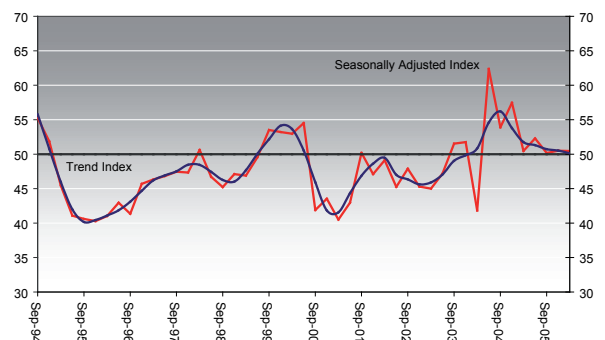
- The **non-wage labour costs** index recorded a slight drop from 67.6 to 67.0, similar to the slight dip in wage growth. This index measures labour on-costs such as fringe benefits, workers' compensation, payroll tax and training.
- Business expects these costs to grow but at a slower rate.

Selling Prices



- The index of **selling prices** fell moderately from 57.0 to 54.8 suggesting that businesses are finding it harder to increase prices.
- Expectations for the June quarter fell slightly but remain in positive territory suggesting that business considers that selling prices will continue to grow at about the same rate.

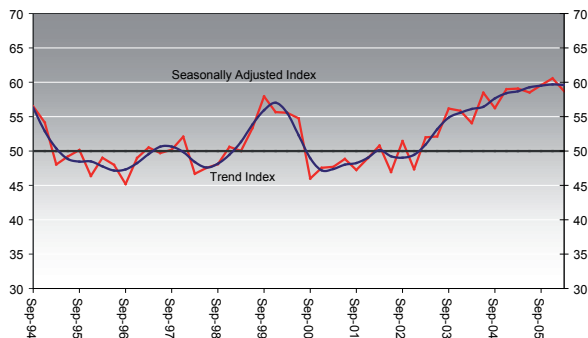
Profits



- **Profit growth** has decreased slightly over the quarter from 50.5 to 50.1 suggesting that profits were basically unchanged over the quarter.
- The index is maintaining its downward trend evident since March 2005.
- Expectations also weakened but still remain in positive territory at 57.3 suggesting that businesses are still more optimistic about future profits.

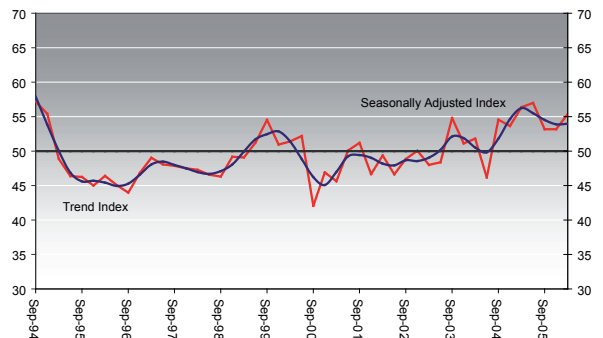
Survey Data

Employment



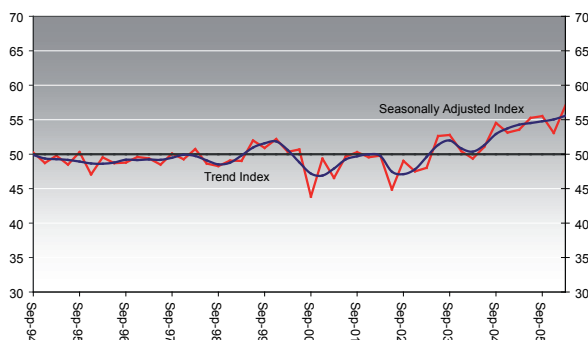
- The index of **employment** remained almost unchanged over the March quarter falling from 59.7 to 59.6, indicating that businesses are continuing to hire more staff.
- Expectations moderated slightly but remain in positive territory suggesting employment will continue to grow but at a lower rate.

Overtime



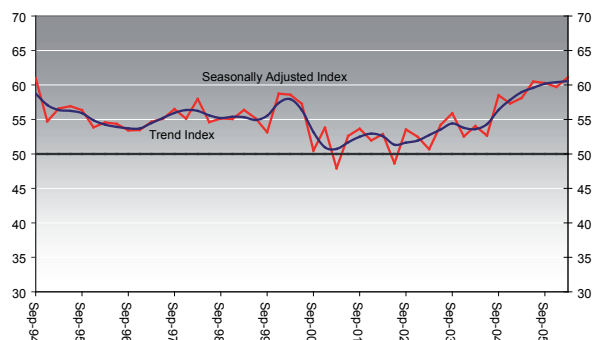
- The index of **overtime utilisation** remained almost unchanged over the quarter, increasing from 53.9 to 54.0.
- The expectation index declined to 51.6, suggesting that businesses expect overtime usage to increase slightly over the next three months.

Investment in Buildings



- **Investment in buildings and structures** increased from 55.0 to 55.6 and remains at a very high level historically.
- Expectations for the next quarter were down slightly however the index remains significantly positive.

Investment in Plant and Equipment



- **Investment in plant and equipment** increased yet again, posting a record high for the March quarter of 60.6.
- Expenditure growth is expected to remain high and steady through the next quarter.

Comparisons by Size of Business

All the data on this page is in original, not trend, terms.

Business Conditions

	March 2006	June 2006 (e)
Small	56.3	63.1
Medium	57.7	59.6
Large	57.6	61.8
Weighted Average	56.8	62.0

- Business conditions were positive for businesses in all the three size categories (small, medium and large).
- Results were best for medium and large sized firms, with small business slightly behind.
- All business sizes were expecting improvements in business conditions.
- In contrast to current conditions, small and large businesses had stronger expectations than medium sized businesses.

Employment

	March 2006	June 2006 (e)
Small	52.8	56.8
Medium	57.2	59.2
Large	62.0	59.5
Weighted Average	58.0	58.6

- Large business employment growth was significantly higher than growth for both medium and smaller-sized businesses.
- Small and medium sized businesses were more optimistic about future employment, but larger businesses were less optimistic.
- Large business expected the greatest increase in employment in the next quarter closely followed by medium business and then small business.

Wages

	March 2006	June 2006 (e)
Small	64.6	64.6
Medium	71.5	67.8
Large	71.6	63.8
Weighted Average	68.9	64.6

- Wages growth is very strong in large and medium businesses and was weaker, but still high, amongst small businesses.
- Large and medium businesses both expected reduced wage pressures but small businesses expect wage pressures to continue at the same growth rate.
- Medium business expected the greatest increase in wages over the next three months, with large and small businesses having lower expectations.

Investment in Plant and Equipment

	March 2006	June 2006 (e)
Small	57.7	54.7
Medium	62.0	60.8
Large	62.1	59.7
Weighted Average	60.6	58.3

- Large and medium businesses recorded the strongest investment in plant and equipment, with small business having lower investment.
- All three business sizes expect capital expenditure in plant and equipment to continue to grow over the next quarter.
- Expectations for investment were highest amongst medium business while small business expected investment to increase only slightly.

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This survey is compiled from data collected through individual surveys conducted by members of the Australian Chamber of Commerce and Industry (ACCI). Participating organisations and contact details at each organisation are listed below.

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Technical Note

Each survey reading is calculated by taking a weighted sum of the proportion of responses in each answer grouping to form an index between 100 and 1 (note that answers are grouped according to the strength of conditions). The strongest answer grouping is given a weighting of one and the weakest is given a weighting of zero, with those between receiving a proportional weighting.

As a result, if all respondents place their answer in the strongest grouping, the index would be 100. Conversely, if they all opted for the weakest grouping, the index would be 0.

If n is the number of response categories, $prop_i$ is the proportion of responses in a given category (out of 100) and i is the response category (ordered from 1 = strongest to n = weakest), then the formula for the index is as follows:

$$Index = \sum_{i=1}^n prop_i \left(\frac{n-i}{n-1} \right).$$

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