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ACCI BUSINESS EXPECTATIONS SURVEY

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Foreword

The Business Expectations Survey is a national survey aggregated from the surveys conducted by member associations of the Australian Chamber of Commerce and Industry. These surveys cover firms in every state, in every industry and firms of every size. In total, they represent Australia's most comprehensive survey of business expectations.

The data in this survey covers the period October, November and December 2011. There were 2,897 respondents to the survey.

Media Enquiries

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Results at a Glance

	5 Year Average	Dec 2010	Sep 2011	Dec 2011	Change	Mar 2012(e)
Expected Economic Performance (a)	46.1	52.9	42.7	39.9	↓	—
General Business Conditions	49.1	49.5	44.9	43.8	↓	46.3
Sales Revenue	51.9	51.4	47.6	47.3	↓	52.8
Export Sales	49.1	49.9	46.1	44.9	↓	50.5
Wage Growth	64.9	65.0	65.2	64.4	↓	63.6
Non-Wage Labour Costs	63.3	63.4	62.3	62.2	↓	60.9
Selling Prices	51.6	49.2	46.8	47.2	↑	50.8
Profits	43.4	42.8	40.5	40.4	↓	47.8
Employment	51.5	53.5	50.3	49.6	↓	50.8
Overtime Utilisation	48.2	48.8	47.2	46.3	↓	44.5
Investment in Buildings and Structures	47.2	46.9	44.1	43.9	↓	45.4
Investment in Plant and Equipment	51.7	51.7	49.9	49.3	↓	50.3

(a) Expectation for following twelve months, (e) Expectation for next quarter.

About the Survey

Notes: Throughout this survey, index values are discussed in trend terms.

An index level of 50 indicates that there is an exact balance between those who responded that the variable is growing and those who replied that the variable had declined. Thus, any level below 50 can generally be interpreted as meaning that the variable is falling, and conversely, a reading above 50 indicates the variable is increasing.

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 the domestic economy.

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, Wages, Non-Wage Labour Costs, Selling Prices, Profits, Employment, Overtime, Investment in Buildings and Structures, and Investment in 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 indices.

A number of the survey questions are segmented by size of business, with small firms categorised as having fewer than 20 employees, medium having 20 to 99 and large as having 100 or more.

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:

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



Business Conditions and Outlook Deteriorate Across the Board

The ACCI *Business Expectations Survey* for December records virtually all actual and expectation indicators worsening in the quarter. The movement in the three indicators across the entire survey that did improve were immaterial.

Key expectation indicators in the survey posted further steady declines. Businesses see their own trading conditions deteriorating considerably in the March quarter along with the performance of the broader economy.

The *Expected Economic Performance* index (p.4) ground lower in December, declining from 42.7 to 39.9, now deep in negative territory and at its lowest level since early 2009. The downturn in the index has been relentless, having declined for eight consecutive quarters.

Firms are also increasingly pessimistic about prospects for their own business. The index of *General Business Conditions* (p.5) dropped to 43.8 in the December quarter, a reading well below the neutral 50 level. Businesses' outlook for their own trading conditions also worsened considerably. *Sales Revenue* (p.5) held broadly steady in December but firms are expecting sales to ease in early 2012. *Export Sales* (p.6) have deteriorated markedly over the past year due to the impact of the elevated value of the Australian dollar.

The index on *Employment* (p.8) slipped into negative territory for the first time in over two years and businesses expect employment will worsen in March. Further evidence of a softening labour market is seen in the *Overtime Utilisation* index (p.9), which fell again in December and has been in negative territory for almost four years now. Firms are winding back over-time hours as well as deferring the hiring of new staff in light of the highly uncertain economic outlook and difficult trading conditions.

The *Selling Prices* (p.7) index was broadly unchanged in December, still consistent with declining prices and expected to worsen in March. The index on *Wage Growth* (p.6) moved marginally lower in the quarter but remains elevated. Similarly, the *Non-Wage Labour Costs* (p.7) index was largely unchanged in December while continuing to track at an elevated level compared to recent history.

The index on *Profits* (p.8) was steady, remaining mired well below the 50 level that separates contraction from expansion. Poor profitability and an expectation that business conditions will worsen has led the index on *Investment in Buildings and Structures* (p.9) and *Investment in Plant and Equipment* (p.10) to both decline in December, albeit expenditure on new machinery remains far more buoyant.

Comparisons by *Size of Firm* (from p.10) reveal that small businesses are struggling more relative to medium- and large-sized firms. However, all firms are experiencing negative *General Business Conditions* (p.10) that they expect will worsen in early 2012. Employment outcomes diverge by firm size, with small businesses downsizing workforces in December while medium and large employers added to headcounts. *Investment in Plant and Equipment* (p.11) mirrors this divergence, medium and large firms are expanding investment at the same time small businesses reduce capital expenditure.

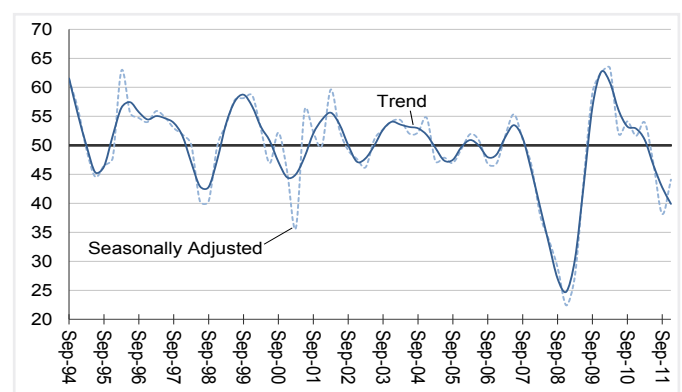
Expected Economic Performance

The index of *Expected Economic Performance* continued to push lower in the December quarter, falling from 42.7 to 39.9. Having declined for eight consecutive quarters the index is now deep in negative territory and has reached its lowest level since early 2009. The index gauges business expectations for the economy in the year ahead and is signalling confidence has slumped badly in response to the sovereign debt crisis in Europe and decidedly mixed trading conditions domestically.

On the bright side, an increase in the seasonally adjusted index may be an early indication conditions have reached their nadir and the index remains well above the low reached in the wake of the collapse of Lehman Brothers.

Expected Economic Performance (a)

	Dec 2010	Sep 2011	Dec 2011
Much Stronger	1.8%	0.7%	0.4%
Somewhat Stronger	31.2%	13.9%	18.1%
About the Same	43.4%	35.1%	43.6%
Somewhat Weaker	19.5%	43.0%	33.5%
Much Weaker	4.1%	7.3%	4.3%
Original Index	51.7	39.4	44.2
Seasonally Adjusted Index	51.6	38.2	44.1
Trend Index	52.9	42.7	39.9



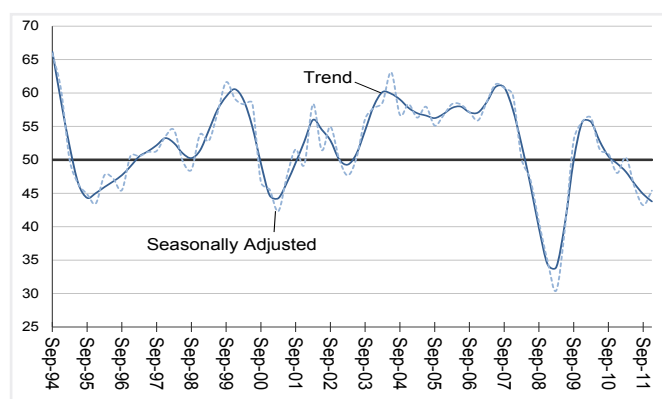
General Business Conditions

The *General Business Conditions* index provides an assessment of current trading conditions within a firm. While the decline in the index in December from 44.9 to 43.8 was modest, it remains mired well below the contraction level of 50 and has been below this threshold for more than a year now.

Business expect trading conditions will continue to deteriorate in the March quarter. The expectations index dropped from 49.2 to 46.3 for the first quarter of 2012, its eighth consecutive decline.

General Business Conditions

	Sep 2011	Dec 2011	Mar 2012 (e)
Up	18.8%	22.8%	22.5%
Same	49.6%	51.0%	49.8%
Down	31.5%	26.2%	27.8%
Original Index	43.7	48.3	47.3
Seasonally Adjusted Index	43.2	45.4	48.7
Trend Index	44.9	43.8	46.3



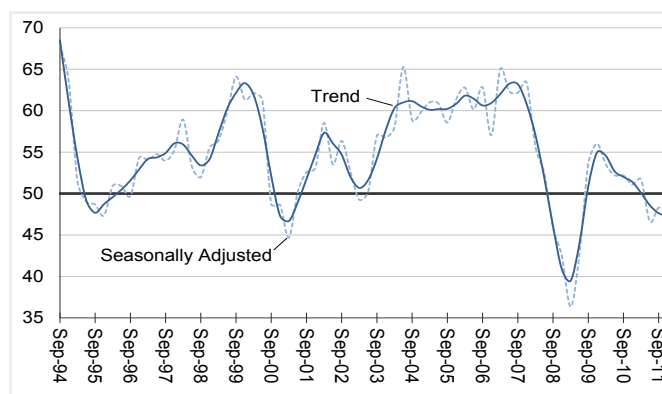
(e) Expectation for next quarter.

Sales Revenue

The index on *Sales Revenue* edged marginally lower in December, declining from 47.6 to 47.3. Business have been reporting falling sales for the past three quarters, the last time this occurred was following the downturn associated with the global financial crisis. Expectations for the next three months deteriorated in a more pronounced fashion. The expectations indicator slipped from 54.8 to 52.8, recording its lowest level in two and a half years.

Sales Revenue

	Sep 2011	Dec 2011	Mar 2012 (e)
Up	31.3%	34.5%	31.4%
Same	35.7%	33.1%	37.4%
Down	33.0%	32.4%	31.1%
Original Index	49.1	51.1	50.1
Seasonally Adjusted Index	48.3	47.4	52.6
Trend Index	47.6	47.3	52.8



(e) Expectation for next quarter.

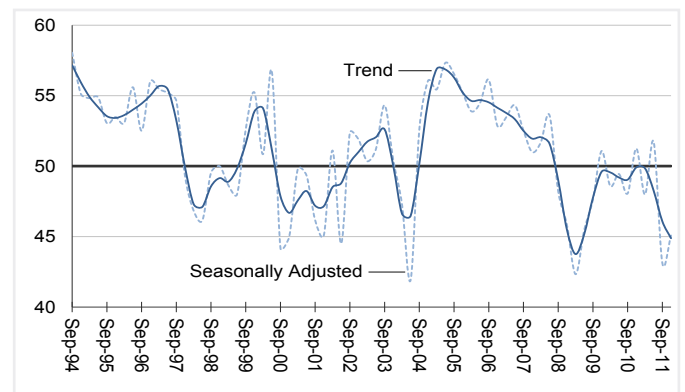
Export Sales

The *Export Sales* index fell from 46.1 to 44.9 in the December quarter. The index has dropped considerably over the past year from a starting point just below the neutral 50 level. Firms expect export sales to decline further in the March quarter, the expectations index easing from 51.7 to 50.5 but remaining in the expansion range. The value of the Australian dollar is clearly curtailing exports and the longer it remains at an elevated level the more impact it seems to have.

	Sep 2011	Dec 2011	Mar 2012 (e)
Up	11.3%	20.4%	17.3%
Same	65.2%	52.8%	61.3%
Down	23.5%	26.8%	21.4%
Original Index	43.9	46.8	47.9
Seasonally Adjusted Index	43.1	45.1	48.8
Trend Index	46.1	44.9	50.5

(e) Expectation for next quarter.

Export Sales



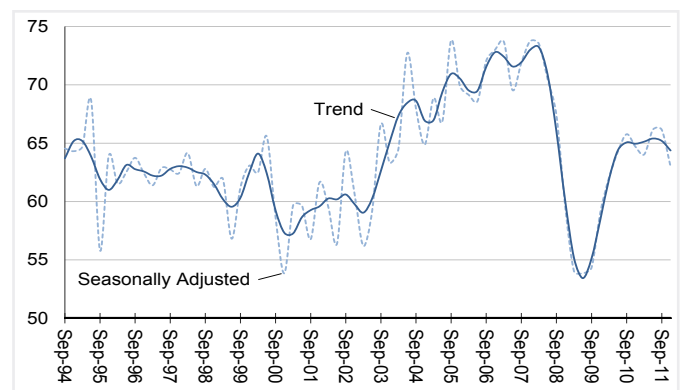
Wage Growth

The index of *Wage Growth* moved marginally lower from 65.2 to 64.4 in the final three months of 2011. The index has remained at around this level for the past two years as the unemployment rate began to approach the upper bound of the range Treasury consider consistent with “full employment”. Businesses expect wages growth to moderate slightly in the March quarter, with the expectations indicator falling from 64.2 in December to 63.6.

	Sep 2011	Dec 2011	Mar 2012 (e)
Up	39.3%	31.3%	29.1%
Same	54.9%	63.9%	65.5%
Down	5.7%	4.8%	5.4%
Original Index	66.8	63.3	61.9
Seasonally Adjusted Index	66.1	63.0	63.5
Trend Index	65.2	64.4	63.6

(e) Expectation for next quarter.

Wage Growth



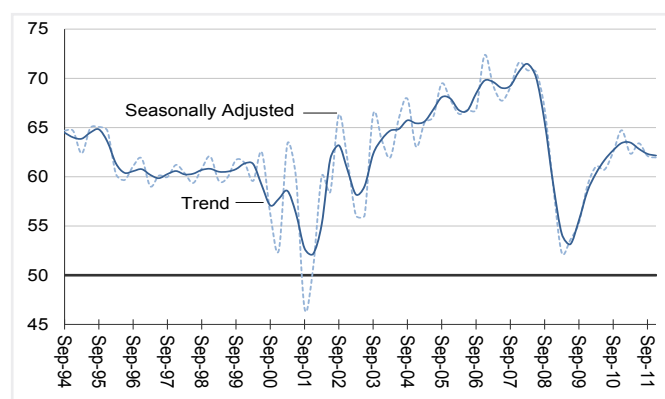
Non-Wage Labour Costs

The *Non-Wage Labour Costs* index was broadly unchanged at 62.2 in December. Similar to wage costs, the index has held at around its current level for the past two years, albeit the recent downturn has been slightly more pronounced. The index tracks changes in on-costs for labour, such as fringe benefits, worker’s compensation, payroll tax and training.

The expectations indicator shows business expect growth in non-wage labour costs to ease fractionally in the March quarter. The expectations indicator fell from 61.1 to 60.9 for March.

Non-Wage Labour Costs

	Sep 2011	Dec 2011	Mar 2012 (e)
Up	33.3%	30.1%	25.6%
Same	60.2%	62.4%	65.0%
Down	6.5%	7.4%	9.5%
Original Index	63.4	61.3	58.0
Seasonally Adjusted Index	62.1	62.0	60.1
Trend Index	62.3	62.2	60.9



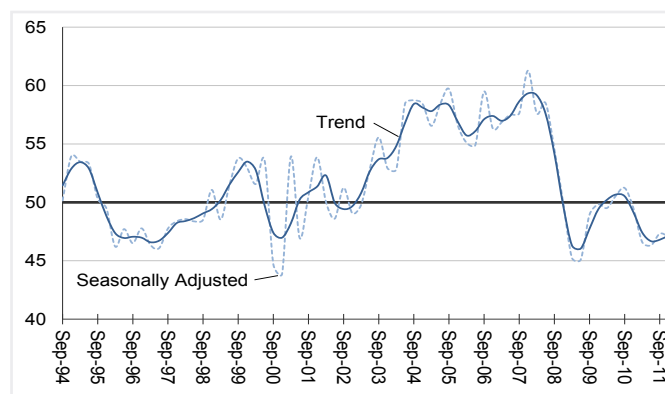
(e) Expectation for next quarter.

Selling Prices

Selling Prices rose marginally in December, with the index on this measure rising from 46.8 to 47.2 in the quarter. The index has been in contraction territory for over the past year and has plumbed just short of the depths see in the midst of the global recession. However, the index now appears to have troughed. Expectations for selling prices slipped from 51.2 to 50.8 for March, having fallen now for eight successive quarters.

Selling Prices

	Sep 2011	Dec 2011	Mar 2012 (e)
Up	17.5%	17.5%	17.7%
Same	60.8%	59.6%	63.2%
Down	21.7%	22.8%	19.1%
Original Index	47.9	47.4	49.3
Seasonally Adjusted Index	47.3	47.1	49.7
Trend Index	46.8	47.2	50.8



(e) Expectation for next quarter.

Profits

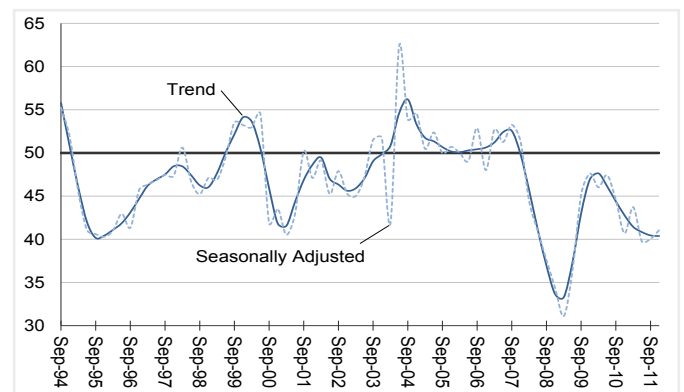
The index on *Profits* was largely unchanged over the past three months. It remained mired at 40.4 in December, where it has been anchored for most of the past year. The current reading on the index is well below the 50 level that separates expansion from contraction, but still considerably above the lows seen in the aftermath of the collapse of Lehman Brothers.

Firms expect profits will deteriorate further in early 2012. The index on expectations declined from 48.8 to 47.8 for March. Expectations for profits have been wound back now for five quarters in a row.

	Sep 2011	Dec 2011	Mar 2012 (e)
Up	18.5%	23.8%	25.3%
Same	44.4%	39.8%	42.9%
Down	37.0%	36.4%	31.8%
Original Index	40.7	43.7	46.7
Seasonally Adjusted Index	40.0	41.1	48.4
Trend Index	40.5	40.4	47.8

(e) Expectation for next quarter.

Profits



Employment

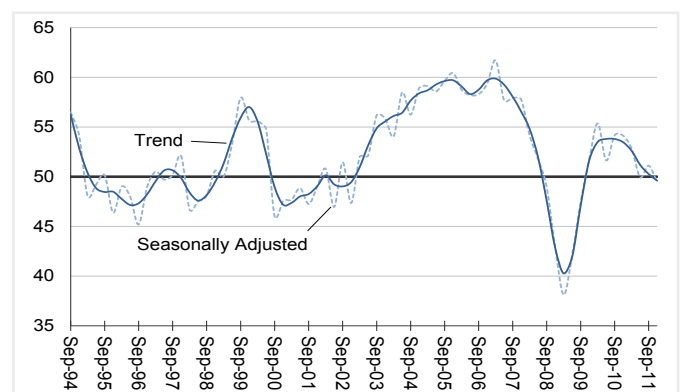
Employment is expected to decline, with the index on employment moving from 50.3 to 49.6 in December. This is the first time the index has moved into contraction territory in over two years, after having fallen considerably over the past twelve months.

Business expectations for employment have worsened. The expectations index slipped from 51.4 to 50.8 for March and has declined now for eight consecutive quarters. However, the expectations indicator remains consistent with expansion and is still well above the level seen just after the economic downturn in late 2008.

	Sep 2011	Dec 2011	Mar 2012 (e)
Up	22.7%	20.5%	20.0%
Same	57.1%	60.5%	62.2%
Down	20.2%	19.0%	17.7%
Original Index	51.2	50.8	51.2
Seasonally Adjusted Index	51.1	49.5	51.8
Trend Index	50.3	49.6	50.8

(e) Expectation for next quarter.

Employment



Overtime Utilisation

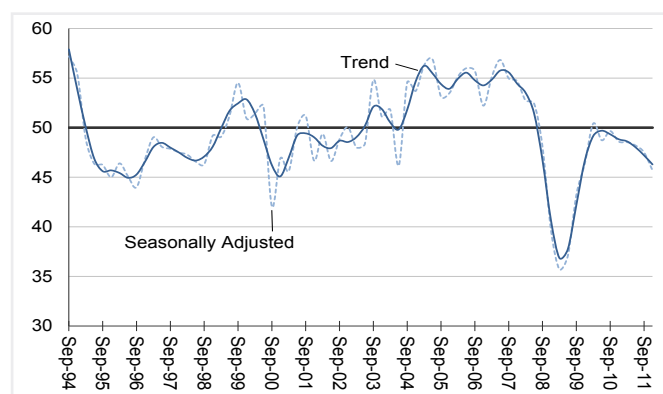
The *Overtime Utilisation* index fell in the last three months of 2011, declining marginally from 47.2 to 46.3. The index measures overtime hours worked by employees and has been in negative territory for three and a half years now. Business had been rebuilding lost over-time hours in the recovery following the global financial crisis but this trend has been reversed over the past eighteen months.

Expectations for over-time remain suppressed. The expectations index is stubbornly subdued at 44.5 for March, broadly unchanged from the previous quarter but well down on the reading of 48.4 for the same period twelve months earlier.

	Sep 2011	Dec 2011	Mar 2012 (e)
Up	16.9%	19.7%	12.9%
Same	61.4%	58.0%	61.4%
Down	21.7%	22.3%	25.6%
Original Index	47.6	48.7	43.6
Seasonally Adjusted Index	47.5	45.7	44.8
Trend Index	47.2	46.3	44.5

(e) Expectation for next quarter.

Overtime Utilisation



Investment in Buildings and Structures

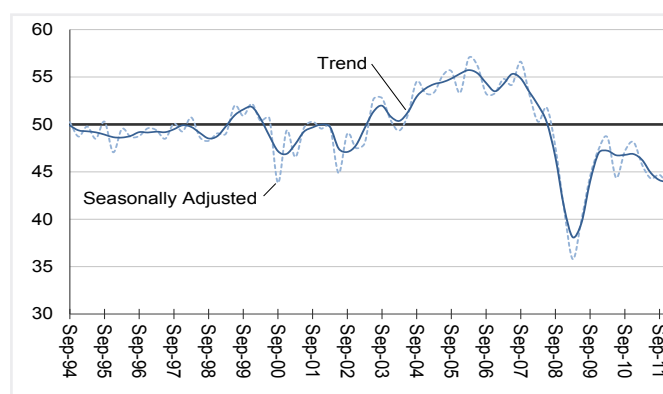
The index of *Investment in Buildings and Structures* edged marginally lower in the December quarter, easing from 44.1 to 43.9. The index has now been in contraction territory for more than three years. While the index improved as the economy recovered, the recent deterioration in trading conditions has seen a renewed decline over the past year.

Expectations for spending on new building and structures remain suppressed. The expectations index held steady at 45.4 for March, having tracked at around this level for the past year.

	Sep 2011	Dec 2011	Mar 2012 (e)
Up	13.8 %	14.7%	15.7%
Same	61.6%	59.4%	58.4%
Down	24.6%	25.8%	25.9%
Original Index	44.6	44.5	44.9
Seasonally Adjusted Index	44.7	43.5	44.9
Trend Index	44.1	43.9	45.4

(e) Expectation for next quarter.

Investment in Buildings and Structures



Investment in Plant and Equipment

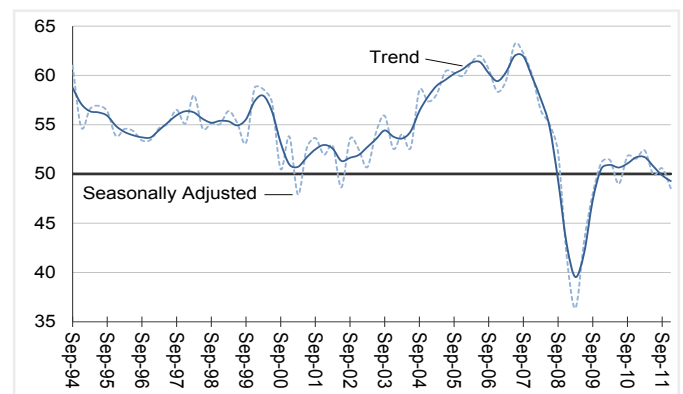
The *Investment in Plant and Equipment* index fell marginally in the final months of 2011, down from 49.9 to 49.3 in December. Investment in plant and equipment has held up much better than buildings and structures. It is only in recent quarters that the index has slipped below 50 and even then the movement into negative territory has been shallow. The index is nowhere near the 40 level reached just after the global financial crisis.

Business expect investment in plant and equipment to hold broadly steady in early 2012. The expectations indicator nudging only fractionally higher, rising from 50.2 to 50.3 in March. However, this represents a deterioration from the 53.8 reading for the same period in 2011.

	Sep 2011	Dec 2011	Mar 2012 (e)
Up	22.6%	23.6%	22.9%
Same	55.8%	52.4%	53.9%
Down	21.6%	24.0%	23.2%
Original Index	50.5	49.8	49.9
Seasonally Adjusted Index	50.6	48.5	50.4
Trend Index	49.9	49.3	50.3

(e) Expectation for next quarter.

Investment in Plant and Equipment



Comparisons by Size of Business

A number of comparisons by size of business are provided below. Please note that the data in this section is neither seasonally adjusted nor trended.

	Dec 2011	Mar 2012 (e)
Small	46.6	45.6
Medium	48.1	47.4
Large	49.4	48.3
Weighted Average	48.3	47.3

(e) Expectation for next quarter.

General Business Conditions

General Business Conditions were negative for businesses of all sizes in the latest survey. Small businesses fared worst, with the index for these firms at 46.6, well below the neutral 50 mark. Large and medium businesses are also reporting unfavourable business conditions, but at 49.4 and 48.1, respectively, the index readings for these firms are only modestly negative. All firms believe conditions will deteriorate in March.

	Dec 2011	Mar 2012 (e)
Small	59.1	58.1
Medium	68.0	63.5
Large	63.9	63.6
Weighted Average	63.3	61.9

(e) Expectation for next quarter.

Wage Growth

The *Wage Growth* index reading was highest for medium businesses again in the December quarter. All firm sizes recorded rising wages, but wage pressures were most acute for medium-sized firms. Wages growth is expected to ease for all business categories in March, with the moderation largest for medium-sized businesses.

	Dec 2011	Mar 2012 (e)
Small	48.1	49.3
Medium	55.5	53.8
Large	51.7	51.9
Weighted Average	50.8	51.2

(e) Expectation for next quarter.

Employment

Employment contracted in the small business sector, while medium and large businesses expanded employment in December. Medium-sized firms recorded a strong employment index reading of 55.5. Large and small business expect employment to improve in March, while medium sized firms anticipate a moderation in the pace of job creation.

	Dec 2011	Mar 2012 (e)
Small	47.3	46.0
Medium	51.5	49.8
Large	51.6	52.4
Weighted Average	49.8	49.9

(e) Expectation for next quarter.

Investment in Plant and Equipment

The readings on *Investment in Plant and Equipment* show small businesses winding back levels of investment in the December quarter at the same time as medium- and large-sized firms expanded their capital expenditures. Both small- and medium-sized business expect investment to decline in March, while the expectations index for large firms improved.

Media Enquiries

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Participating Organisations

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 for each organisation are listed below.

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