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St. George - ACCI BUSINESS EXPECTATIONS SURVEY August 2007

Identifying National Trends and Conditions for Australian Business

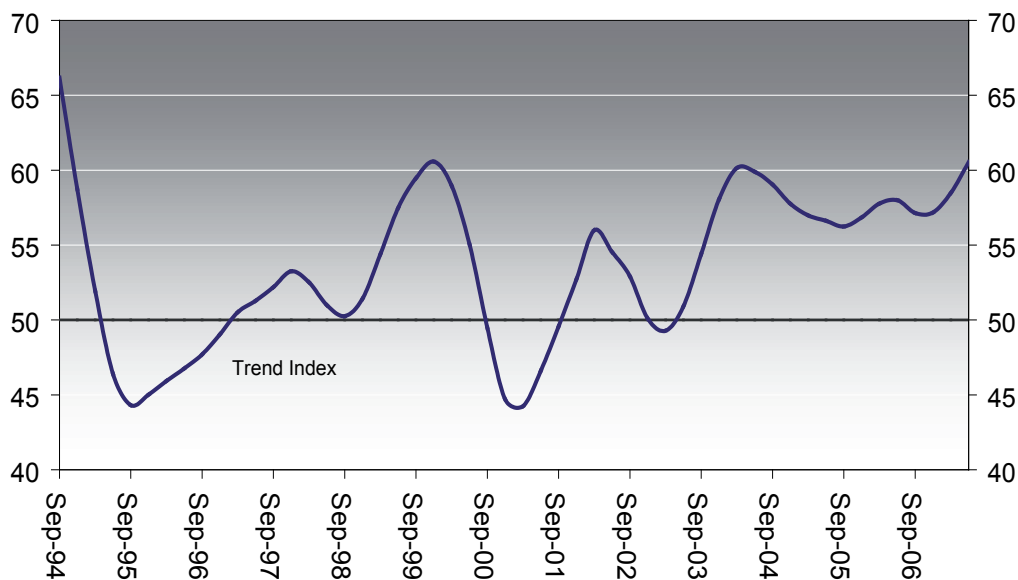
Summary

The St.George-ACCI Index of Business Conditions increased to 60.5 in the June Quarter, up from 58.5 previously.

- The **Australian economic growth** index continued to improve over the quarter, after being negative in 2006. This shows rekindled confidence in the economy.
- The **business conditions** index improved in the quarter and is approaching the September 1999 peak. Conditions are extremely favourable and expectations indicate better conditions yet to come.
- **Investment in plant and equipment** reached a new record, the highest since the survey's inception in 1994, while **investment in buildings and structures** improved as well.
- **Export growth** remains steady despite a sharp increase in the Trade Weighted Index.
- **Selling prices** eased over the quarter, however **sales revenue** growth continued to improve, which implies a higher volume of trade.
- **Wages growth** moderated over this quarter. Wage growth has risen sharply since June 2006 and reached an all time high in December 2006.
- Looking at the results by **business size**, business conditions roughly followed the business size classifications with larger business having the strongest investment and employment growth results but also the strongest wage growth results.

Business Conditions

St.George - ACCI Index of Business Conditions



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	June 2006	March 2007	June 2007	Quarterly Move	Sept 2007 (e)
Business Conditions	56.3	58.0	58.5	60.5	↑	64.0
Expected Economic Growth (a)	50.7	50.0	51.0	54.8	↑	—
Sales Revenue	58.6	61.4	62.1	63.1	↑	67.5
Exports	52.6	54.7	53.7	53.9	↑	55.3
Wages	66.8	69.5	72.5	71.1	↓	67.9
Non-Wage Labour Costs	65.2	66.7	69.8	68.9	↓	63.2
Selling Prices	55.2	56.1	57.2	56.8	↓	59.8
Profits	50.2	50.3	51.1	51.2	↑	58.8
Employment	56.3	58.3	59.9	59.4	↓	59.8
Overtime	52.7	55.6	54.8	56.2	↑	53.9
Investment in Buildings and Structures	52.4	55.4	54.0	54.5	↑	54.6
Investment in Plant and Equipment	56.9	61.4	60.1	61.7	↑	57.4

Notes: Index values are in trend terms. The full data is available for download from the ACCI website 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, a 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: 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 generates the expectations indexes.

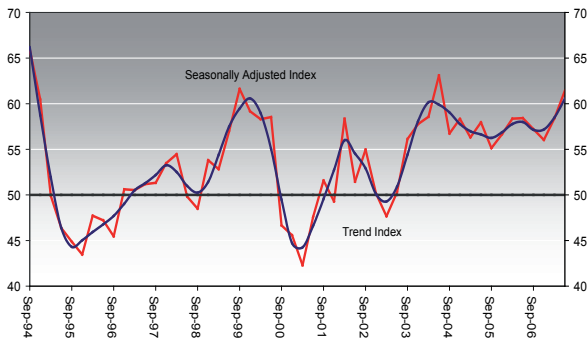
Finally, businesses are asked what their expectations are for the performance of the Australian economy over the next 12 months in comparison with the past 12 months. This provides a reading on the strength of growth in the domestic economy.

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 April, May and June 2007. There were 1,292 respondents to the survey.

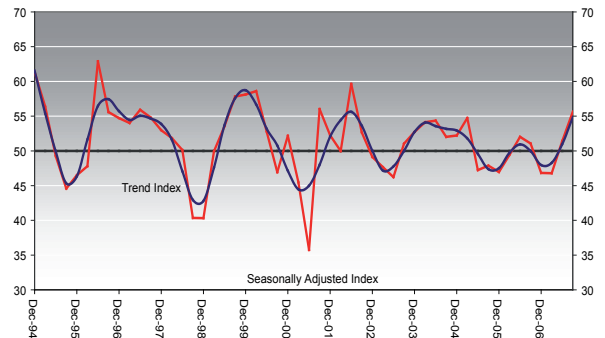
Survey Data

General Business Conditions



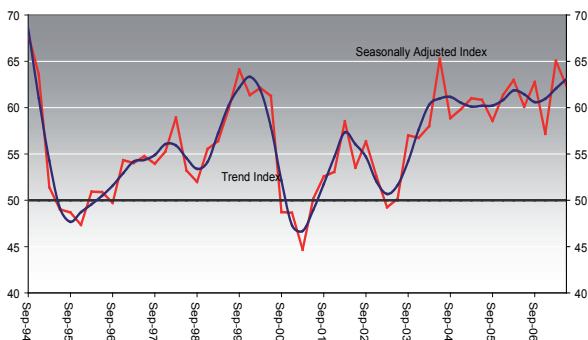
- **General business conditions** rose strongly with the index increasing from 58.5 to 60.5 in the June quarter.
- The index is at its highest level in eight years.
- Expectation also strengthened significantly over the quarter, to near record levels, indicating excellent conditions ahead.

Expected Economic Growth



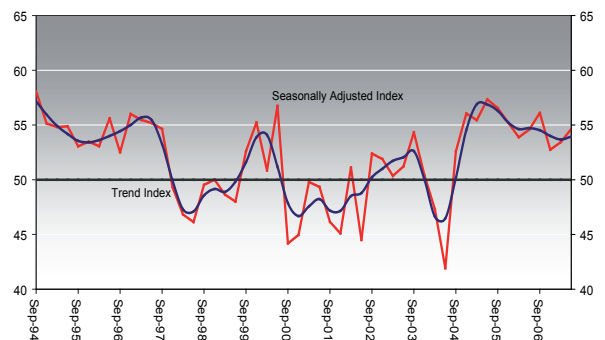
- Business expectations for **Australian economic growth** for the next 12 months (relative to the previous 12 months) increased considerably over the quarter.
- The index now stands at 54.8 compared with 51.0 in March 2007.

Sales Revenue



- The **sales revenue** index rose strongly over the quarter to 63.1 from the 62.1 recorded in the previous quarter.
- The current reading for sales revenue indicates that sales growth is remarkably strong.
- Sales growth expectations remain near record highs suggesting that business believes improved conditions ahead will translate into higher sales revenue.

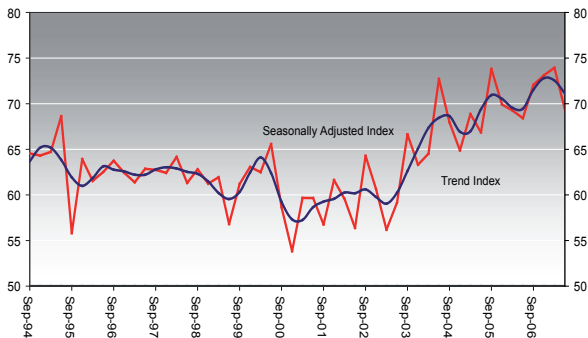
Export Sales Growth



- The **export growth** index increased to 53.9 in the June quarter from the 53.7 recorded in March.
- Despite the recent appreciation of the Australian dollar, export growth remains steady.
- Expectations for export growth were steady showing that exports should continue to grow modestly.

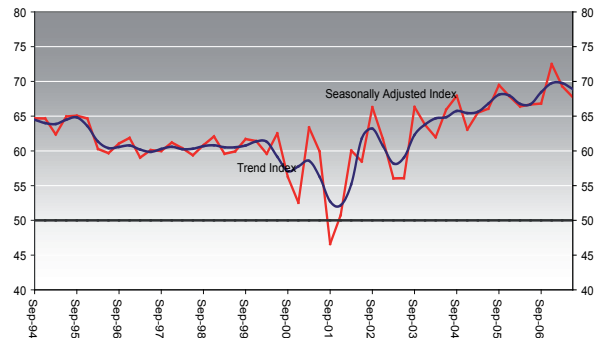
Survey Data

Wage Growth



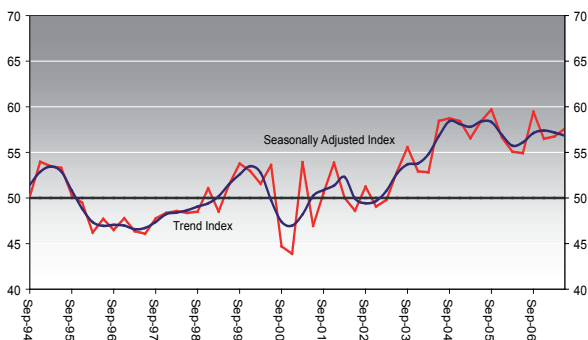
- **Wage growth** declined over the quarter to 71.1 from the 72.5 recorded in March.
- Wage growth receded from the recent all time record, however it remains exceptionally high.
- Expectations also fell over the quarter suggesting further reduction in wage growth is likely.

Non-Wage Labour Costs



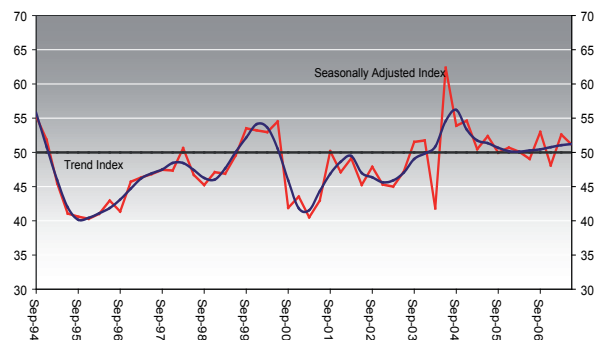
- The rate of growth in **non-wage labour costs** fell in sync with wages. The index decreased from 69.8 to 68.9 over the quarter.
- This index measures labour on-costs such as fringe benefits, workers' compensation, payroll tax and training.
- Despite the fall in growth, business expects these costs to continue to grow strongly over the next quarter.

Selling Prices



- The index of **selling prices** fell slightly over the June quarter, with the index at 56.8 relative to 57.2 in March.
- Expectations for selling price growth show that price growth is likely to fall further over the next three months.

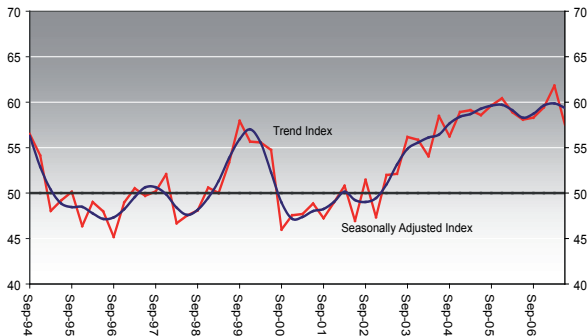
Profit Growth



- **Profit growth** remains relatively stable at 51.2 up from 51.1 in March.
- Expectations, in regards to the next quarter shows that business remains optimistic of further profit gains.

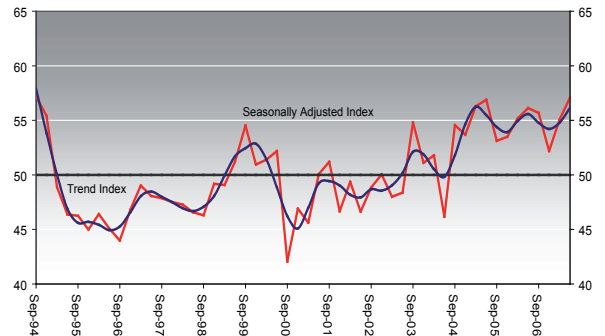
Survey Data

Employment



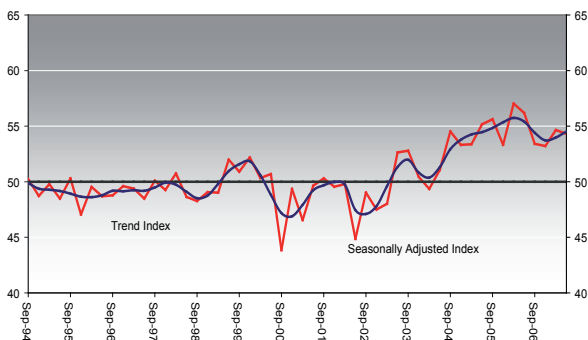
- The **employment** index fell marginally over the quarter to 59.4 from 59.9 in March.
- Despite the fall in the employment index, it remains near record high levels.
- Expectations, however, increased over the quarter, indicating that employment growth may reach even higher records.

Overtime Utilisation



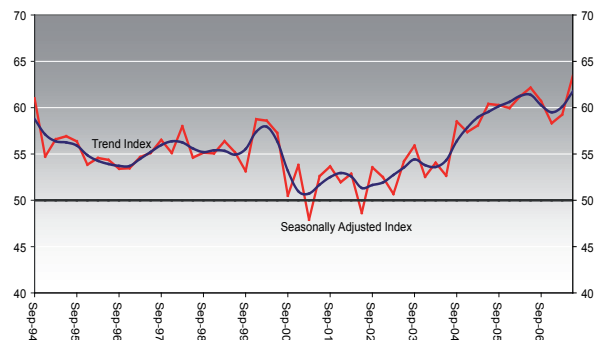
- **Overtime utilisation** increased over the quarter, with the index recorded at 56.2 in the June quarter, up from the 54.8 recorded in March.
- The near record level of overtime use shows that labour markets remain particularly tight.
- Business expects further increases in overtime utilisation over the next quarter. This provides evidence for a tight labour market in the coming quarter.

Investment in Buildings and Structures



- Growth of **investment in buildings and structures** by business was up slightly over the quarter and the index remains firmly positive.
- The index rose to 54.5 in the June quarter 2007.
- Expectations however, eased indicating that investment may begin to taper off over the quarter.

Investment in Plant and Equipment



- **Investment in plant and equipment** is at a record high.
- The index increased from 60.1 to 61.7 over the quarter.
- Expectations for investment in plant and equipment retreated slightly over the quarter. However, it remains at very strong levels.

Comparisons by Size of Business

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

General Business Conditions

	June 2007	Sept 2007 (e)
Small	54.4	61.9
Medium	57.6	60.7
Large	63.0	66.3
Weighted Average	59.5	64.0

- The experiences of **general business conditions** were mixed but positive overall.
- The difference between small business conditions and large business conditions increased significantly relative to the March quarter.

Employment

	June 2007	Sept 2007 (e)
Small	53.6	58.8
Medium	60.1	64.5
Large	58.6	60.0
Weighted Average	57.2	60.3

- Medium business had the highest employment growth rate.
- Large business is still employing people at a faster rate than small business, despite a substantial reduction from the March quarter.
- Large and medium firms also expect that employment will expand by more than their small counterparts.

Wage Growth

	June 2007	Sept 2007 (e)
Small	66.2	68.1
Medium	73.6	73.8
Large	69.7	70.8
Weighted Average	69.4	70.3

- **Wage growth** was very high for all three business sizes with medium firms experiencing the highest wage growth.
- Medium sized business also had the highest expectation for wage growth over the next quarter. This was followed closely by large business while small business expects the least growth.

Investment in Plant and Equipment

	June 2007	Sept 2007 (e)
Small	57.9	57.1
Medium	59.1	58.3
Large	67.6	59.6
Weighted Average	63.2	58.5

- **Investment in plant and equipment** was highest amongst large business while small business undertook the least new investment.
- All businesses have lower expectations for the next quarter. Large business remains the most optimistic.

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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 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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