

# Commonwealth Bank ACCI Business Expectations Survey



Identifying National Trends and  
Conditions for Australian Business

Issue 64  
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**Determined** to be different



AUSTRALIAN CHAMBER OF  
COMMERCE AND INDUSTRY

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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 April, May and June 2010. There were 2,582 respondents to the survey.

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## Results at a Glance

	5 Year Average	June 2009	Mar 2010	June 2010	Change	Sep 2010 (e)
Expected Economic Performance (a)	46.5	43.1	60.7	56.4	↓	—
General Business Conditions	52.3	40.5	55.4	53.7	↓	60.9
Sales Revenue	55.6	44.0	54.4	52.9	↓	62.7
Export Sales	51.5	45.2	49.7	49.5	↓	53.6
Wage Growth	66.7	53.4	61.7	64.4	↑	67.7
Non-Wage Labour Costs	64.9	53.1	60.4	61.3	↑	63.1
Selling Prices	54.4	46.0	50.0	50.2	↑	55.4
Profits	46.3	37.3	47.3	47.1	↓	54.5
Employment	54.0	41.9	53.5	53.0	↓	55.9
Overtime Utilisation	50.4	37.8	49.1	49.3	↑	49.4
Investment in Buildings and Structures	50.2	39.6	47.2	46.3	↓	48.9
Investment in Plant and Equipment	54.8	41.9	50.8	50.2	↓	52.9

(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 Confidence Edge Down Amidst Global Uncertainty

The August 2010 *Commonwealth Bank – ACCI Business Expectations Survey* finds that most business actual indicators deteriorated over the June quarter, except for the indexes of *Wage Growth*, *Non-Wage Labour Costs*, *Selling Prices* and *Overtime Utilisation*. Most of the expectations indicators are flatlining, if not declining, compared to the March quarter's forward projections except for the two expectations indicators of labour costs.

Overall business sentiment fell over the June quarter, following the two successive interest rate hikes in April and May as well as increasing uncertainty on the strength of global economic recovery. The index of *Expected Economic Performance* (p.4) edged down from its historic peak recorded in the December quarter of 2009 indicating that business confidence has retreated to more realistic levels.

The index of *General Business Conditions* (p.5) deteriorated over the June quarter following strong improvement in the preceding four quarters but business still expects trading conditions to continue to improve over the next three months. While the growth in *Sales Revenue* (p.5) fell marginally over the quarter, businesses are confident that sales will pick up in the next three months.

Although the index of *Selling Prices* (p.7) remained relatively unchanged over the June quarter, *Wage Growth* (p.6) and *Non-wage Labour Costs* (p.7) have risen significantly, which continue to put downward pressure on business profits, manifested by a further contraction of the *Profits* (p.8) index over the quarter. Nonetheless, businesses are expecting all four indicators to increase further over the September quarter.

The index of *Employment* (p.8) fell marginally over the June quarter but businesses are expecting further improvement in hiring intentions. Both actual and expectations indexes of *Overtime Utilisation* (p.9) remained marginally negative and hours worked are expected to remain unchanged during the September quarter.

Although *Investment in Buildings and Structures* (p.9) fell further into negative territory, *Investment in Plant and Equipment* (p.10) remained relatively unchanged over the June quarter. Businesses are expecting to increase their investment expenditure on plant and equipment over the next three months, while projecting a slower decline in buildings investment.

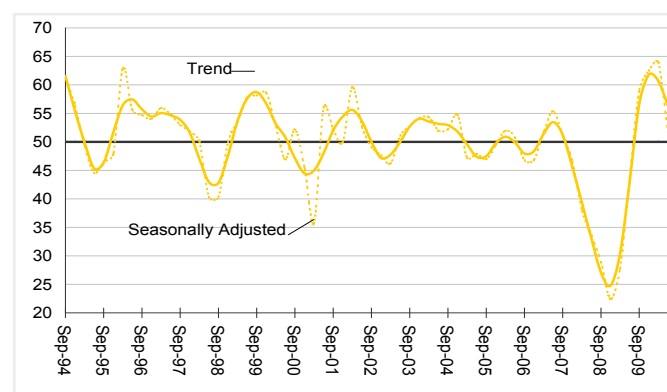
Comparisons by *Size of Firm* (from p.10) show that while conditions were relatively similar for medium and large firms over the last three months, small firms have recorded the weakest performance with small businesses' conditions, employment and investment in plant and equipment remaining contractionary. Large firms are expecting the strongest improvement in trading conditions over the September quarter, compared to small and medium sized businesses.

### Expected Economic Performance

The index of *Expected Economic Performance*, which measures business expectations for the economy over the next twelve months relative to the previous twelve months, fell 4.3 points to 56.4 over the June quarter. While the index is below its historic peak of 61.8 recorded in the December quarter of 2009, it remains almost ten points above its five year average of 46.5, indicating that businesses are unwinding their overly optimistic expectations about Australian economic performance.

	June 2009	Mar 2010	June 2010
Much Stronger	1.4%	5.1%	2.6%
Somewhat Stronger	22.3%	49.9%	33.3%
About the Same	34.4%	32.4%	38.0%
Somewhat Weaker	34.2%	11.4%	20.9%
Much Weaker	7.7%	1.1%	5.2%
<b>Original Index</b>	<b>43.9</b>	<b>61.6</b>	<b>51.8</b>
<b>Seasonally Adjusted Index</b>	<b>43.8</b>	<b>64.0</b>	<b>51.7</b>
<b>Trend Index</b>	<b>43.1</b>	<b>60.7</b>	<b>56.4</b>

Expected Economic Performance (a)

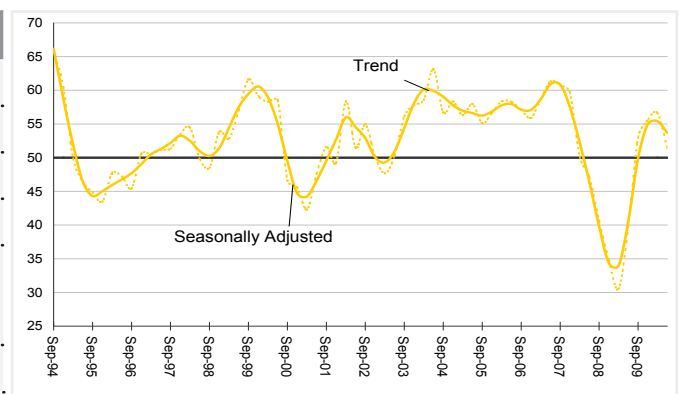


General Business Conditions

The index of *General Business Conditions* gives an overall business assessment of current trading conditions. The index fell to 53.7 from 55.4 over the last three months, albeit remains 1.4 points above its five year average of 52.3. While trading conditions are expected to improve further over the September quarter, the expectations indicator has declined almost three points from previous quarter predictions to 60.9.

	Mar 2010	June 2010	Sep 2010 (e)
Up	31.8%	28.0%	34.3%
Same	44.9%	43.8%	43.5%
Down	23.3%	28.2%	22.2%
<b>Original Index</b>	<b>54.3</b>	<b>49.9</b>	<b>56.0</b>
<b>Seasonally Adjusted Index</b>	<b>56.6</b>	<b>51.4</b>	<b>56.4</b>
<b>Trend Index</b>	<b>55.4</b>	<b>53.7</b>	<b>60.9</b>

General Business Conditions



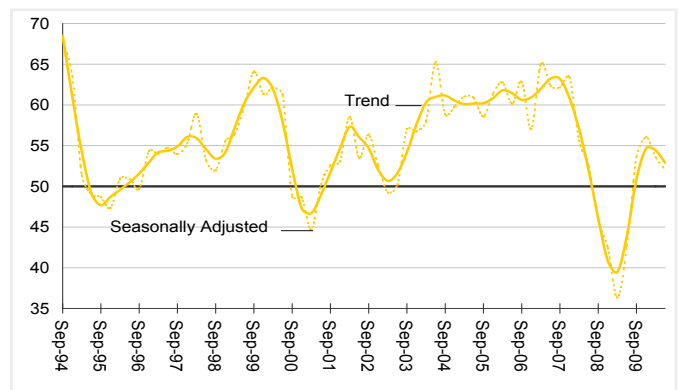
(e) Expectation for next quarter.

Sales Revenue

The *Sales Revenue* index fell marginally from 54.4 to 52.9 over the last quarter and remains almost three points below its five year average of 55.6. Businesses are confident that sales performance will improve over the September quarter, albeit the expectations index is declining after four quarters of strong forward projections.

	Mar 2010	June 2010	Sep 2010 (e)
Up	32.9%	34.7%	42.4%
Same	35.2%	32.0%	35.3%
Down	31.9%	33.3%	22.3%
<b>Original Index</b>	<b>50.5</b>	<b>50.7</b>	<b>60.0</b>
<b>Seasonally Adjusted Index</b>	<b>53.6</b>	<b>52.0</b>	<b>60.1</b>
<b>Trend Index</b>	<b>54.4</b>	<b>52.9</b>	<b>62.7</b>

Sales Revenue



(e) Expectation for next quarter.

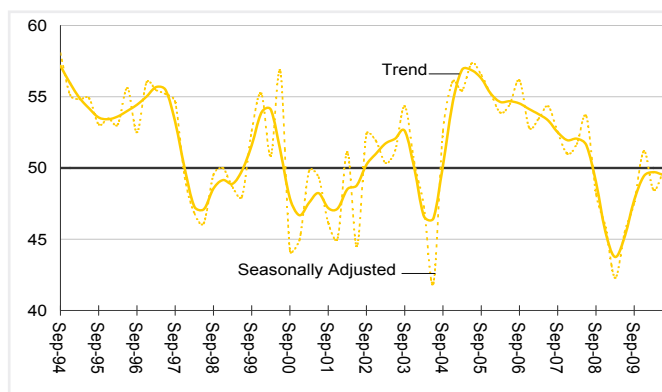
### Export Sales

The *Export Sales* index remained relatively unchanged at 49.5 over the June quarter, two points below its five year average of 51.5. Nonetheless it remains almost on par with the 50 mark, indicating export sales are flatlining compared to the previous quarter. Business expects export sales growth to improve further over the coming three months, with the expectations index increasing to 53.6.

	Mar 2010	June 2010	Sep 2010 (e)
Up	13.1%	12.5%	14.5%
Same	69.4%	70.2%	74.6%
Down	17.4%	17.2%	10.9%
<b>Original Index</b>	<b>47.9</b>	<b>47.6</b>	<b>51.8</b>
<b>Seasonally Adjusted Index</b>	<b>48.5</b>	<b>49.7</b>	<b>51.8</b>
<b>Trend Index</b>	<b>49.7</b>	<b>49.5</b>	<b>53.6</b>

(e) Expectation for next quarter.

### Export Sales



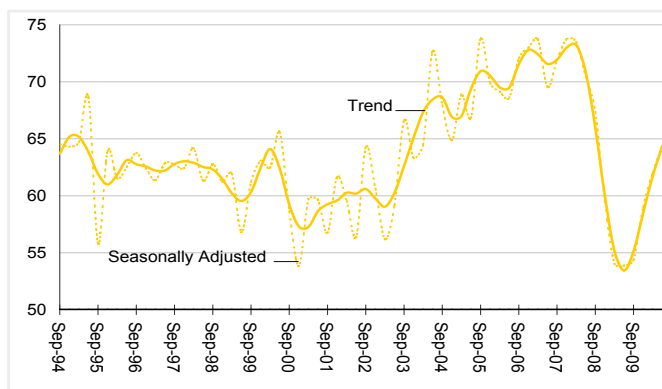
### Wage Growth

Over the June quarter, the index of *Wage Growth* rose further from 61.7 to 64.4, the fourth successive quarterly increase since the June quarter of last year, indicating wage pressure has become an increasingly important issue for business. Looking at expectations data, business expects wage growth to increase further over the next three months to 67.7, more than two points above its five year average of 65.5.

	Mar 2010	June 2010	Sep 2010 (e)
Up	28.6%	33.6%	45.8%
Same	65.3%	61.3%	49.4%
Down	6.1%	5.1%	4.7%
<b>Original Index</b>	<b>61.3</b>	<b>64.2</b>	<b>70.5</b>
<b>Seasonally Adjusted Index</b>	<b>62.0</b>	<b>64.4</b>	<b>67.0</b>
<b>Trend Index</b>	<b>61.7</b>	<b>64.4</b>	<b>67.7</b>

(e) Expectation for next quarter.

### Wage Growth

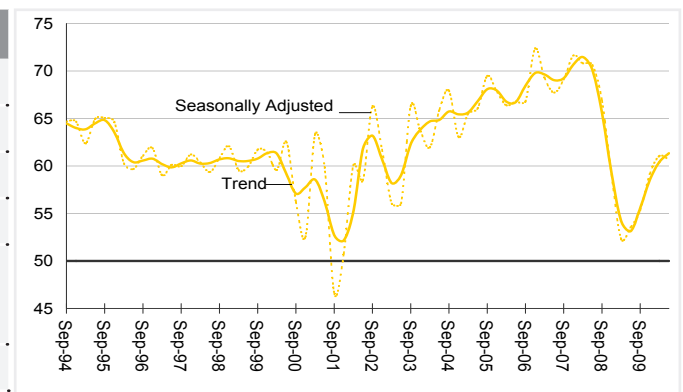


### Non-Wage Labour Costs

The *Non-Wage Labour Costs* index increased marginally from 60.4 to 61.3 over the last three months but remains almost four points below its five year average of 64.9. This index measures labour on-costs such as fringe benefits, workers' compensation, payroll tax, and training. Consistent with wages, business expects growth in this area to increase further over the September quarter.

#### Non-Wage Labour Costs

	Mar 2010	June 2010	Sep 2010 (e)
Up	26.6%	27.4%	37.9%
Same	67.8%	66.8%	56.6%
Down	5.7%	5.9%	5.4%
<b>Original Index</b>	<b>60.4</b>	<b>60.7</b>	<b>66.3</b>
<b>Seasonally Adjusted Index</b>	<b>61.0</b>	<b>60.7</b>	<b>62.6</b>
<b>Trend Index</b>	<b>60.4</b>	<b>61.3</b>	<b>63.1</b>



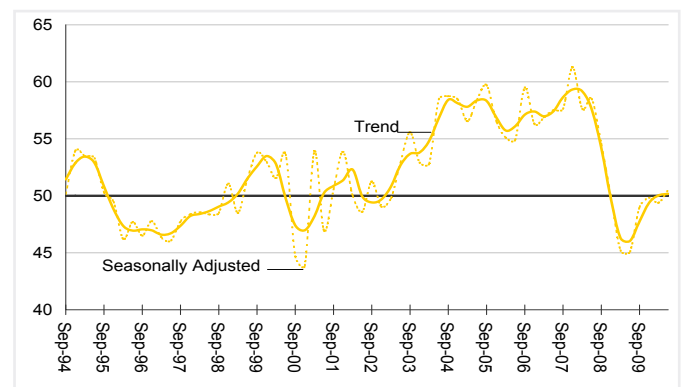
(e) Expectation for next quarter.

### Selling Prices

The index of *Selling Prices* stabilised at 50.2 over the June quarter, indicating prices charged by businesses for goods and services remained relatively unchanged compared to the previous quarter. Business expects selling prices to improve further over the September quarter, with the expectations index rising to 55.4.

#### Selling Prices

	Mar 2010	June 2010	Sep 2010 (e)
Up	17.2%	17.4%	23.5%
Same	64.5%	64.7%	63.6%
Down	18.3%	17.9%	12.9%
<b>Original Index</b>	<b>49.4</b>	<b>49.7</b>	<b>55.3</b>
<b>Seasonally Adjusted Index</b>	<b>49.4</b>	<b>50.5</b>	<b>54.0</b>
<b>Trend Index</b>	<b>50.0</b>	<b>50.2</b>	<b>55.4</b>



(e) Expectation for next quarter.

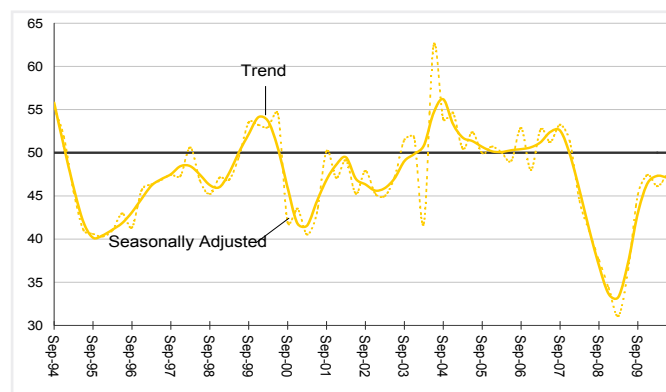
Profits

While the index of *Profits* was almost unchanged at 47.1 over the June quarter, it remains around three points below 50, indicating that profits continued to fall. Businesses expect profits to improve to 54.5 over the next three months, with the expectations index declining after four successive quarters of robust forward projections.

	Mar 2010	June 2010	Sep 2010 (e)
Up	23.1%	25.4%	30.1%
Same	42.2%	40.7%	43.1%
Down	34.6%	33.9%	26.8%
<b>Original Index</b>	<b>44.2</b>	<b>45.7</b>	<b>51.6</b>
<b>Seasonally Adjusted Index</b>	<b>46.1</b>	<b>47.5</b>	<b>51.8</b>
<b>Trend Index</b>	<b>47.3</b>	<b>47.1</b>	<b>54.5</b>

(e) Expectation for next quarter.

Profits



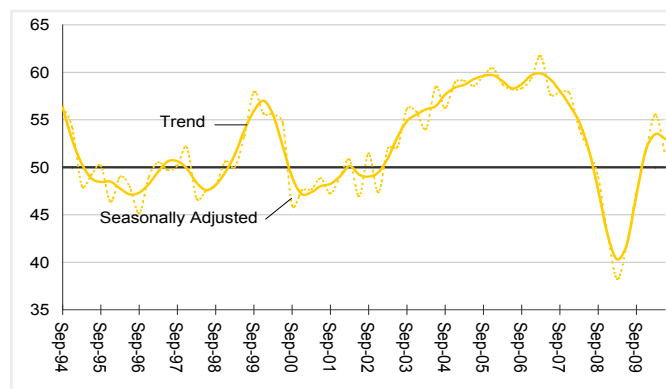
Employment

The index of *Employment* declined marginally from its recent peak of 53.5 to 53.0 over the last three months, one point below its five year average of 54.0. Over the next three months, business expects employment to increase further, with this index forecast to rise to 55.9.

	Mar 2010	June 2010	Sep 2010 (e)
Up	25.5%	21.5%	23.5%
Same	58.2%	58.9%	59.1%
Down	16.3%	19.6%	17.4%
<b>Original Index</b>	<b>54.6</b>	<b>50.9</b>	<b>53.0</b>
<b>Seasonally Adjusted Index</b>	<b>55.6</b>	<b>51.4</b>	<b>53.3</b>
<b>Trend Index</b>	<b>53.5</b>	<b>53.0</b>	<b>55.9</b>

(e) Expectation for next quarter.

Employment



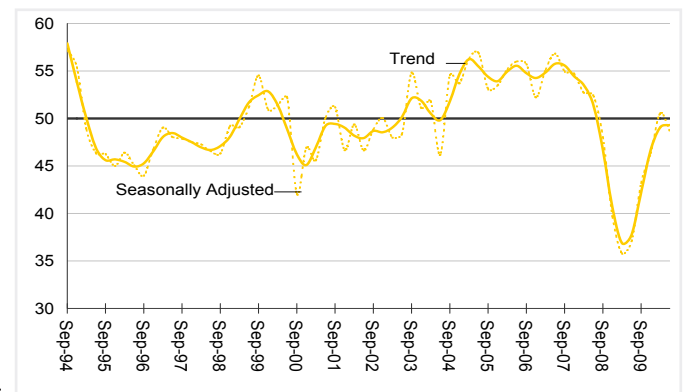
### Overtime Utilisation

The *Overtime Utilisation* index, which measures the change in the number of overtime hours worked by employees, remained relatively unchanged at 49.3 over the June quarter. This index remains negative and around one point below its five year average of 50.4. Business expects overtime utilisation to stabilise at 49.4 over the September quarter.

	Mar 2010	June 2010	Sep 2010 (e)
Up	22.2%	17.2%	14.4%
Same	53.8%	59.7%	64.5%
Down	24.0%	23.1%	21.1%
<b>Original Index</b>	<b>49.1</b>	<b>47.1</b>	<b>46.7</b>
<b>Seasonally Adjusted Index</b>	<b>50.6</b>	<b>48.7</b>	<b>47.6</b>
<b>Trend Index</b>	<b>49.1</b>	<b>49.3</b>	<b>49.4</b>

(e) Expectation for next quarter.

### Overtime Utilisation



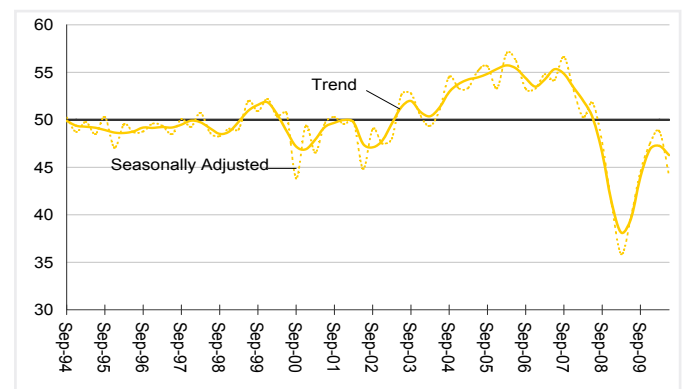
### Investment in Buildings and Structures

The index of *Investment in Buildings and Structures* edged down from 47.2 to 46.3 over the June quarter, almost four points below its five year average of 50.2. Expectations for the next three months strengthened further to 48.9, albeit remain in contractionary territory.

	Mar 2010	June 2010	Sep 2010 (e)
Up	16.0%	13.7%	16.9%
Same	63.4%	61.3%	60.0%
Down	20.6%	24.9%	23.1%
<b>Original Index</b>	<b>47.7</b>	<b>44.4</b>	<b>46.9</b>
<b>Seasonally Adjusted Index</b>	<b>48.7</b>	<b>44.1</b>	<b>46.5</b>
<b>Trend Index</b>	<b>47.2</b>	<b>46.3</b>	<b>48.9</b>

(e) Expectation for next quarter.

### Investment in Buildings and Structures



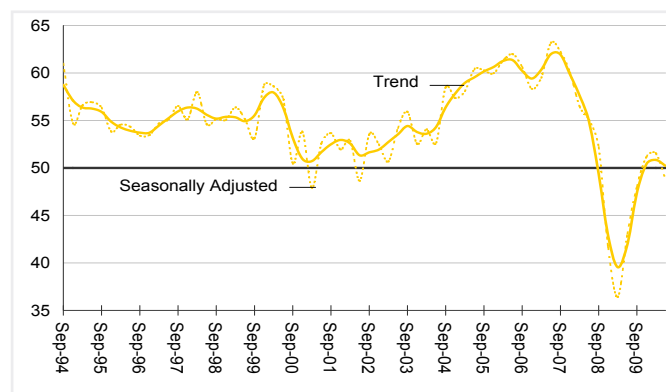
### Investment in Plant and Equipment

The index of *Investment in Plant and Equipment* fell marginally from 50.8 to 50.2 over the last three months. This indicator remains above the 50 mark indicating business investment is growing, albeit at a slower pace compared to the March quarter. Business expects investment in plant and equipment to strengthen further over the September quarter.

	Mar 2010	June 2010	Sep 2010 (e)
Up	21.4%	22.3%	24.6%
Same	57.9%	53.1%	52.6%
Down	20.7%	24.6%	22.8%
<b>Original Index</b>	<b>50.3</b>	<b>48.9</b>	<b>50.9</b>
<b>Seasonally Adjusted Index</b>	<b>51.5</b>	<b>48.8</b>	<b>50.2</b>
<b>Trend Index</b>	<b>50.8</b>	<b>50.2</b>	<b>52.9</b>

(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.

	June 2010	Sep 2010 (e)
Small	43.8	50.6
Medium	44.6	52.8
Large	55.1	60.3
<b>Weighted Average</b>	<b>49.9</b>	<b>56.0</b>

(e) Expectation for next quarter.

### General Business Conditions

Only large businesses rated *General Business Conditions* as positive for the June quarter, with small and medium businesses reporting that conditions remained negative. All businesses expect business conditions to improve further over the next three months, with large firms rating conditions as the most promising.

	June 2010	Sep 2010 (e)
Small	61.7	63.5
Medium	64.7	70.1
Large	65.8	74.3
<b>Weighted Average</b>	<b>64.2</b>	<b>70.5</b>

(e) Expectation for next quarter.

### Wage Growth

*Wage Growth* was highest amongst largest businesses in the latest survey, with small business recording the least wage pressure among the size categories. All businesses expect wages to increase further over the September quarter, with large business expecting the largest wage increases.

	June 2010	Sep 2010 (e)
Small	48.4	52.3
Medium	51.1	52.7
Large	51.6	53.7
<b>Weighted Average</b>	<b>50.9</b>	<b>53.0</b>

(e) Expectation for next quarter.

### Employment

The *Employment* data showed that only medium and large businesses experienced positive employment growth over the last three months. All businesses expect employment to increase over the next quarter, with small business expecting the lowest hiring rate.

	June 2010	Sep 2010 (e)
Small	46.6	47.1
Medium	49.1	48.1
Large	49.1	53.7
<b>Weighted Average</b>	<b>48.9</b>	<b>50.9</b>

(e) Expectation for next quarter.

### Investment in Plant and Equipment

The data on *Investment in Plant and Equipment* showed that all businesses scaled down their investment over the June quarter, with small business experiencing the largest contraction. Small and medium sized businesses expect investment to remain negative over the next three months.

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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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**Tasmanian Chamber of Commerce & Industry**

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**NSW Business Chamber**

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