

business expectations



DECEMBER QUARTER 2011

CommonwealthBank



Business confidence ends the year in negative territory.

Business confidence in the WA economy remained in negative territory in the final months of 2011, according to the latest *Commonwealth Bank - CCI Survey of Business Expectations*.

Despite a small improvement in the headline confidence measure, local firms remained concerned about economic conditions in the state over the next three months. The December edition of WA's longest running business survey revealed that just 16 per cent of businesses believe the WA economy will improve over the next three months. Meanwhile, one quarter expect conditions to deteriorate.

Worries about the economy were weighing particularly heavily on small businesses, with just 12 per cent of firms expecting better conditions, compared to one quarter that expected a deterioration.

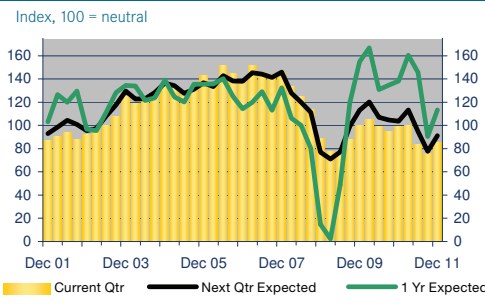
Firms are more upbeat about the longer term prospects for WA. Some 30 per cent of respondents believe the local economy will grow strongly in the year ahead, up from 25 per cent in September. Meanwhile, the share of those who felt conditions would deteriorate shrank from one third to just under 20 per cent.

The rebound in confidence this quarter reflects an improvement in all four indicators of operating conditions. However, conditions still remain challenging for many local firms.

Trading conditions remain weak, with just 19 per cent of businesses reporting that conditions were 'good', compared to 25 per cent that felt conditions were 'poor'. Small businesses continue to report a particularly difficult environment, with one third indicating their trading conditions were poor. The environment for firms has remained subdued in the local economy for the past eight editions of the survey.

The difficult trading conditions continue to be marked by rising costs and slimmer margins, although pressures eased somewhat over the December quarter.

WA economic conditions



Over the past three months, 45 per cent of local firms saw their wage bills rise, down from 50 per cent in September. Meanwhile, just 45 per cent of businesses reported increased input costs, down from 55 per cent last quarter and 60 per cent earlier in the year.

Easing cost pressures have seen improved profitability for businesses, although many still report their margins are shrinking. In December, 28 per cent of local firms reported their profits had shrunk over the quarter, down from 42 per cent in September.

Profitability has also been helped by improving turnover, with just 22 per cent of businesses reporting falling sales in December, the smallest proportion in over a year. Meanwhile, 37 per cent reported an increase.

However, in spite of the difficult operating environment many businesses find themselves in at present, the December survey has revealed that measures of business growth have ticked up for the first time this year.

Some 30 per cent of businesses increased their staffing complement over the quarter - up from one quarter in September, to the highest proportion this year. This coincided with an increase in the proportion of businesses who found labour to be "scarce", from 38 per cent in September to 45 per cent in December.

Meanwhile, one quarter of businesses expect to increase their capital expenditure over the next 12 months, an increase from 19 per cent last quarter. ■

Key Points

- Confidence rebounds across the WA economy, although it is still in negative territory.
- Cost increases ease, while sales turnover shows signs of improvement.
- Business expansion plans increased for both staffing and capital.
- Feature Question: Infrastructure Provision.

Survey Sample

Number of respondents 382

Employment 42,206

Respondents by size:

Small 38%

Medium 52%

Large 10%

Respondents by sector:

Services 31%

Mining & Agriculture 16%

Manufacturing 19%

Consumer 15%

Construction 14%

Other/Not Specified 5%

➔ The longest running and most comprehensive survey of business opinion in Western Australia.

A QUARTERLY PUBLICATION OF CCI
SPONSORED BY COMMONWEALTH BANK

FOR FURTHER DETAILS ON THE SURVEY CONTACT
RYAN BUCKLAND AT CCI ON (08) 9365 7693 OR
EMAIL TO ryan.buckland@cciwa.com

business expectations

Recruitment activity ticks up...

- The survey's index of employment activity turned around in December, rising for the first time this year.
- Some 30 per cent of businesses reported an increase in the size of their workforce in December, up from 26 per cent in September. Meanwhile, 16 per cent cut staff.
- Larger firms were most likely to have taken on more staff throughout December (44 per cent), while services businesses were the most reluctant to do so (23 per cent).
- Employment expectations have remain broadly unchanged in December, with around one third of WA businesses expecting to increase the size of their workforce in 2012.

Labour availability tightens...

- The availability of staff deteriorated in December, with labour scarcity hitting its highest level in three years.
- Some 45 per cent of businesses surveyed reported labour to be "scarce" in the December quarter, compared to 38 per cent in September and 33 per cent in March.
- Finding workers was most difficult for regional operators and primary producers, with 54 per cent and 49 per cent respectively having trouble sourcing workers.
- Labour shortages are expected to continue to be a problem for many businesses next year, with 48 per cent of respondents expecting labour to be scarce in the first quarter of 2012.

Operating conditions rebound, but still challenging...

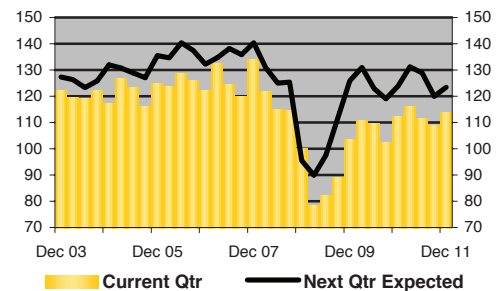
- Operating conditions across the WA economy have improved in December 2011, but still remain difficult for many businesses.
- Sales rebounded after taking a significant hit earlier this year, with 37 per cent of respondents indicating that turnover had increased, up from 26 per cent in September. However, some 20 per cent of businesses still reported that sales had fallen. Wholesalers and retailers were more likely to report an increase (42 per cent).
- Rising turnover also coincided with improved levels of profitability in December. Just 29 per cent of respondents indicated their profits had dipped over the quarter, down from almost half in September. Services firms were more likely to have seen an improvement (just 23 per cent saw a fall in profits), while local manufacturers (34 per cent) and businesses operating interstate (40 per cent) continue to feel profitability is being squeezed.
- The poor trading environment experienced by businesses in 2011 also eased, with just under one quarter of respondents indicating conditions had worsened in December (down from 38 per cent in September).

Investment plans back on the agenda...

- The survey's index of anticipated capital expenditure bounced back during December, but still remains at a low level.
- One quarter of businesses surveyed expect to increase capital expenditure in the next 12 months, up from 20 per cent in September. However, 21 per cent still expected to reduce their investment spending.
- Large firms were looking to expand their business, with 47 per cent of respondents indicating they would increase their CAPEX over the next 12 months. Meanwhile, local manufacturers (28 per cent) remain the most likely to cut spending.
- The increase in investment plants occurred as capacity utilisation rose to its highest level in over two years at 78 per cent.

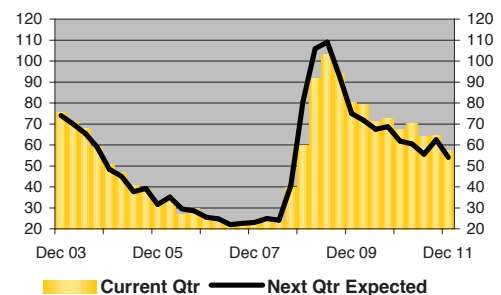
Employment

Index, 100 = neutral



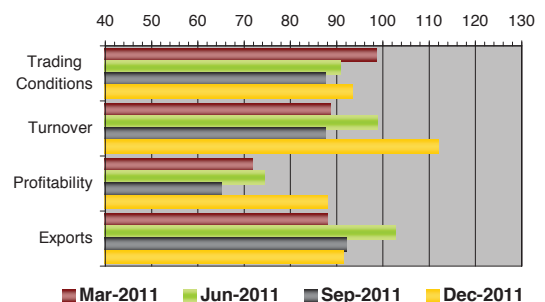
Labour availability

Index, 100 = neutral



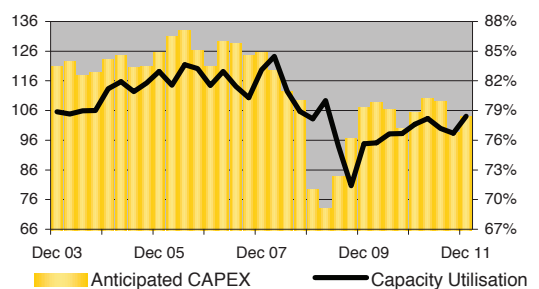
Operating conditions

Index, 100 = neutral



Production capacity

Index of Expected CAPEX (100=Neutral) in next 12 months & Capacity Utilisation



business expectations

Wage pressures fall in December...

- The survey's index of wage costs fell in the December quarter of 2011 after reaching its highest level in over three years in September. However, wage pressures still remain a concern for many employers.
- Some 45 per cent of those surveyed reported an increase in their wage bill during December, compared to just five per cent that reported a fall.
- Businesses engaged in distribution (retailers and wholesalers) reported stronger-than-average wage pressures (51 per cent), while growth was relatively subdued in primary production industries (42 per cent).
- Wage pressures look set to remain firm next quarter, with 52 per cent of respondents expecting wages to remain at a high level. Meanwhile, 44 per cent expect an increase, unchanged from last quarter.

Non-wage labour costs ease, but expected to rise in 2012...

- The index of non-wage labour costs eased in December 2011, but still remains at a high level. Some 37 per cent of respondents reported an increase in other staffing costs during the quarter, however this is down from 40 per cent in September.
- Primary production firms (40 per cent), large businesses (41 per cent) regional operators (44 per cent) were most likely to report an increase in the cost of other staff benefits.
- Non-wage costs are expected to remain firm next quarter, with 41 per cent of respondents expecting an increase. Pressures are expected to remain elevated across all groups.
- Non-wage labour costs include workers compensation premiums, staff allowances and non-cash benefits.

Input costs remain steady...

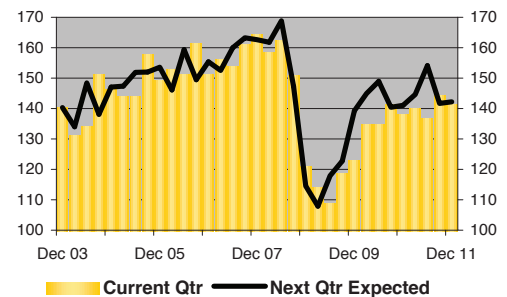
- Input cost pressures remain elevated in December 2011.
- Some 52 per cent of businesses reported the cost of their inputs remained high over the quarter, while just three per cent reported a decline.
- The services sector reported the most significant cost pressures this quarter, with 53 per cent of respondents reporting an increase in their input costs. Prices for materials eased somewhat for local manufacturers, with just 48 per cent reporting an increase (down from 68 per cent in September).
- Cost pressures are expected to remain firm heading into the new year, with over 90 per cent of respondents expecting the cost of materials and supplies to stay elevated or move higher in the next quarter.

Local firms remain reluctant to put up prices...

- The index of prices charged fell for the second consecutive quarter in December, despite continued cost pressures.
- Some 68 per cent of businesses reported unchanged prices for their goods and services in December, up marginally from last quarter. However, the percentage who reported price cuts rose to its highest level in 18 months, at almost 10 per cent.
- The services sector remained the most reluctant to pass on high costs, with 78 per cent of businesses in this sector leaving prices unchanged.
- The majority of businesses are expecting their prices to remain flat into the first quarter of 2012, with just one quarter indicating they would charge more heading into March.

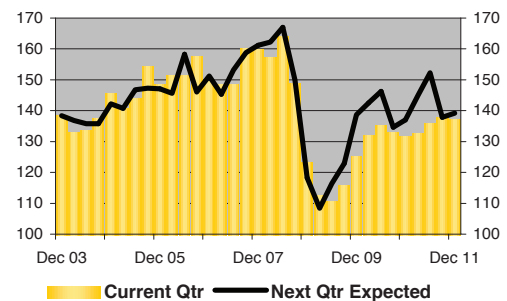
Wages

Index, 100 = neutral



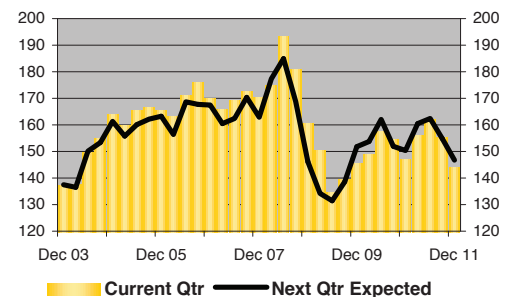
Non wage labour costs

Index, 100 = neutral



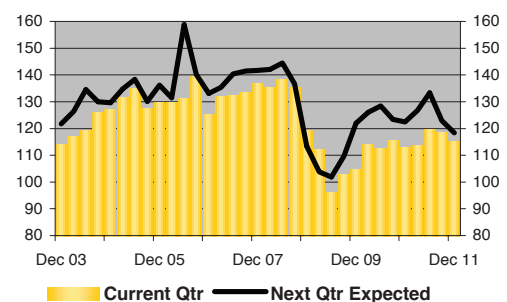
Input costs

Index, 100 = neutral



Prices charged

Index, 100 = neutral



Feature Question – Infrastructure Provision

The feature question this quarter asked respondents to identify the types of infrastructure that were affecting their operations, and the impacts these were having.

Respondents were presented with nine broad areas of infrastructure and asked to select those which were impacting the operation of their business, and then invited to identify how their operations were being affected. The categories to select from included:

- airports;
- commercial rail;
- energy;
- public transport;
- roads;
- sea ports;
- social amenities;
- telecommunications; and,
- water.

The provision of roads was the most significant infrastructure concern, being identified by 30 per cent of respondents. Consumer-facing industries (23 per cent) were less concerned than local manufacturers (34 per cent), while there were no significant difference between large (32 per cent) and small (30 per cent) firms.

Telecommunications infrastructure was rated as the second biggest concern for local businesses, with just over one quarter of respondents rating ICT as a priority area. The construction and utilities sector (37 per cent) rated it their most pressing requirement, as did mining firms (27 per cent). This is likely due to the need for communications in rural and regional areas, as shown by the difference between metropolitan (22 per cent) and regional (33 per cent) respondents. Consumer-facing businesses were the least concerned about telecommunications infrastructure (seven per cent).

A large proportion of businesses (22 per cent) rated energy infrastructure as an area in need of attention, a result which was fairly consistent across industry groups. However, smaller firms (28 per cent) were more concerned about energy than larger businesses (23 per cent).

The availability of ports, both air and sea, were identified as the fourth and fifth largest areas of concern (20 per cent and 19 per cent respectively). The prevalence of fly-in, fly-out work in mining and construction meant airports were a bigger concern for these two industries (27 per cent and 29 per cent respectively), while sea port issues were of greatest concern to manufacturers (23 per cent).

Other items of infrastructure were less of an issue for the WA business community; public transport (16 per cent), social amenities (14 per cent), commercial rail (seven per cent) and water (seven per cent) all had less than a one in five hit rate.

However, some of these areas were identified by specific groups as having an impact on their operations. One third of consumer-facing businesses rated public transport as a concern, while almost a quarter of services companies were concerned about the provision of social infrastructure (such as parks and community centres).

Businesses were then asked to identify the impact infrastructure bottlenecks were having on their operations.

The biggest impact on local businesses was in relation to operating costs, being identified by 44 per cent of firms. Increased costs were the biggest concern for construction and utilities firms, as well as regional operators (both at 54 per cent).

Timing delays were next on the list, with 43 per cent of businesses indicating bottlenecks were causing issues with their service delivery. Construction companies (60 per cent) were more likely to be impacted by this than services firms (32 per cent), as were regional operators (46 per cent) compared to their metropolitan counterparts (38 per cent).

Third on the list of impacts was lost commercial opportunities, with 39 per cent of WA firms indicating they had missed out on business due to infrastructure bottlenecks. This was a particular concern for services (47 per cent) and manufacturing (43 per cent) businesses, while larger firms (29 per cent) didn't consider this as significant.

Finally, increased transport costs were highlighted as an issue by 31 per cent of firms, with manufacturing companies (41 per cent) feeling the biggest impact.

Businesses were also asked to identify which specific infrastructure projects they felt would have a positive impact on their business. Some examples are provided below:

"Upgrade of mobile phone coverage to provide safer and more convenient working conditions." – regional mining firm.

"Additional capacity for quicker air freight from eastern states, plus new roads will speed up transport time to and from major suppliers." – metropolitan construction firm.

"Infrastructure that would enable faster clearance of containers off wharves and quicker delivery to site." – small manufacturing firm.

"Upgrade of major arterial roads to improve traffic flow." – intrastate transport company.

"More underground / above ground train lines throughout the metro area, including a train line linking the city to airport." – medium size health care provider

Key results from the survey

Indicator (Index)	Actual			Expected	
	Dec 10	Sep 11	Dec 11	1 quarter	1 year
Economy					
WA Economic Conditions	99	76	86	91	113
Operating Conditions					
Trading conditions	95	87	93	97	-
Sales turnover	98	87	112	119	-
Profitability	76	65	88	93	-
Export sales	97	92	91	97	-
Employment					
Number of employees	112	109	114	123	-
Labour availability ^a	62	64	57	54	-

Indicator (Index)	Actual			Expected	
	Dec 10	Sep 11	Dec 11	1 quarter	1 year
Costs & Prices					
Total unit labour cost	141	149	144	141	-
Average wages	138	144	141	142	-
Non-wage labour costs	131	138	137	139	-
Input costs	147	155	144	147	-
Prices charged	113	118	115	118	-
Capital Expenditure					
Anticipated CAPEX (next 12 months)	105	99	104	-	-

Notes: The index calculation gives weight to the 'extent' to which an indicator is rising or falling (i.e. a response indicating that employment this quarter is "much less" than last quarter is given a higher weight than one saying it is "less"). By setting the "neutral" level at 100 (broadly, as much increasing or decreasing activity, weighting for extent) the index also allows for more meaningful comparisons over time – for example, as percentage changes in the Index.

^a. Lower number = scarcer.