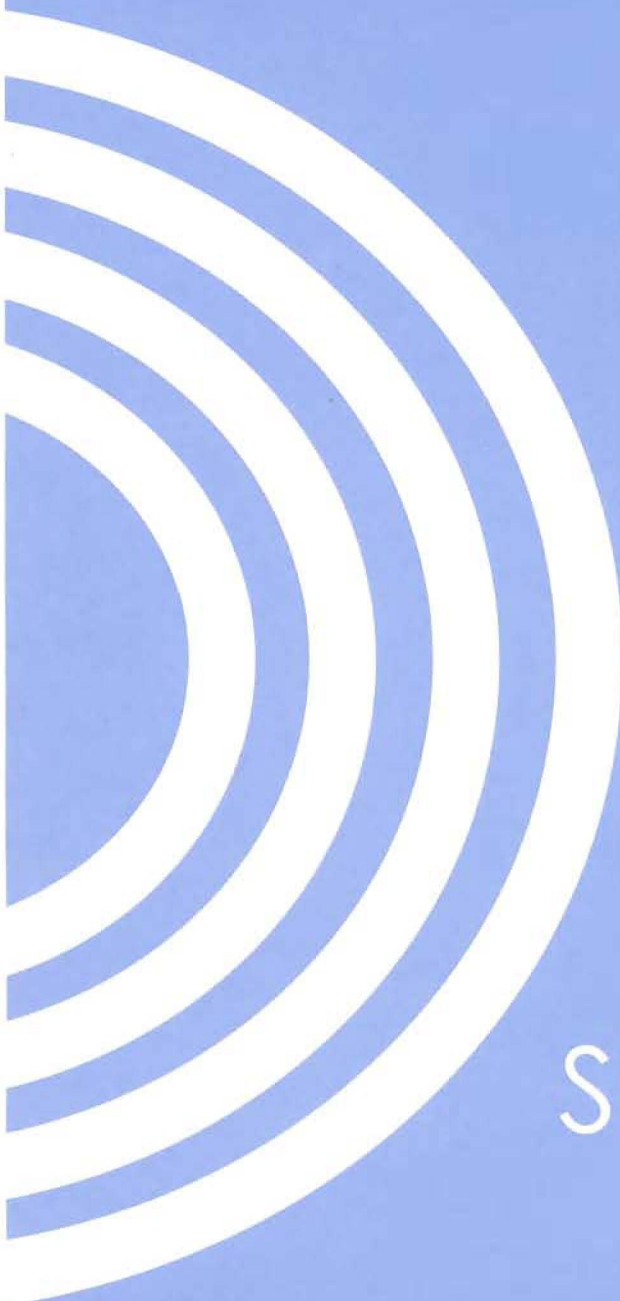


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AUSTRALIAN CHAMBER OF
COMMERCE AND INDUSTRY



ACCI SMALL BUSINESS SURVEY

Identifying National Trends and Conditions
for the Small Business Sector

February 2012

ACCI

SMALL BUSINESS SURVEY

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FOREWORD

The ACCI Small Business Survey is a national survey aggregated from the surveys conducted by member associations of the Australian Chamber of Commerce and Industry.

MEDIA ENQUIRIES

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The data in this survey covers the December quarter of 2011. There were 1,744 respondents to this survey.



RESULTS AT A GLANCE

	5 Year Average	Dec 2010	Sep 2011	Dec 2011	Quarterly Move	Mar 2012 (e)
Small Business Conditions	46.2	43.7	41.9	41.9	↓	44.9
Expected Economic Performance (a)	44.5	49.2	40.9	39.7	↓	—
Sales Revenue	48.2	44.6	44.4	44.8	↑	50.0
Wage Growth	61.2	60.4	60.4	60.1	↓	59.0
Non-Wage Labour Costs	61.0	59.9	59.3	59.0	↓	58.1
Selling Prices	50.8	48.0	46.4	47.6	↑	50.0
Profit Growth	41.0	39.2	38.3	38.7	↑	45.1
Employment	48.7	48.1	48.1	48.0	↓	49.2
Overtime Utilisation	46.7	46.0	45.2	45.7	↑	45.0
Investment in Buildings and Structures	44.7	42.8	41.4	42.5	↑	43.3
Investment in Plant and Equipment	49.6	47.9	46.0	46.2	↑	45.3

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

ABOUT THE SURVEY

Notes: Throughout this survey, index values are in trend terms including five year averages.

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.

In this survey, responses are segmented by size of business, with small firms categorised as having fewer than 20 employees, medium having 20 to 99 employees and large as having 100 or more employees.

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:

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

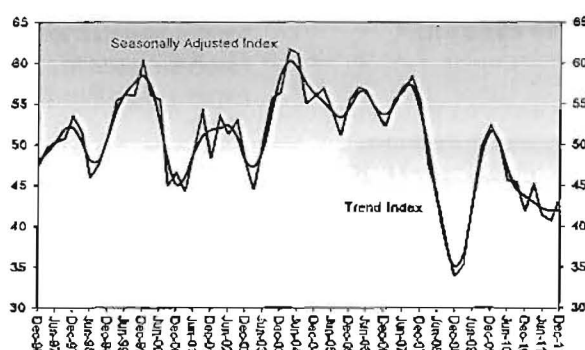


SUMMARY

SMALL BUSINESS TRADING CONDITIONS SUPPRESSED BUT STABILISING

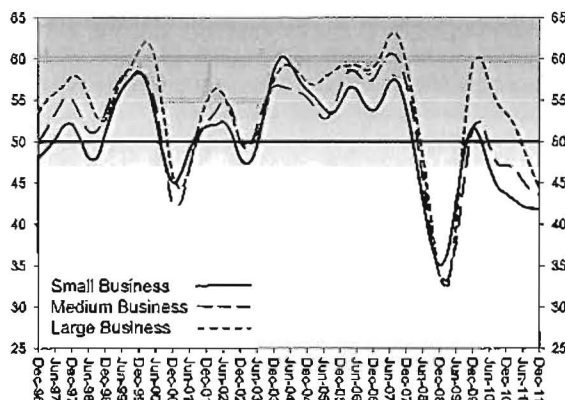
- General business conditions in the small business sector deteriorated marginally in the December quarter but appear to be stabilising after having gone backwards now for eight consecutive quarters. Indicator readings were mixed in the quarter, only rising or falling by small increments. Nevertheless, trading conditions remain deeply suppressed in the face of the uncertainty imbued by the European sovereign debt crisis and softening domestic demand.
- **Small Business Conditions** (p.4) edged just fractionally lower to 41.9 in the December quarter, to be 4.3 points below their five-year average and having been mired below the 50 mark for almost two years. Conditions are expected to deteriorate further in the coming quarter.
- **Expected Economic Performance** (p.4) slipped from 40.9 to 39.7 during the quarter, down 9.5 points on expectations at the same point last year as the ongoing threat stemming from Europe dampens domestic small business confidence.
- **Sales Revenue** (p.5) posted a marginal increase, rising from 44.4 to 44.8 in the last three months of 2011. However, the index remains considerably below its five year average of 48.2 and is expected to deteriorate in the coming quarter.
- **Wage Growth** (p.5) and **Non-Wage Labour Costs** (p.6) both eased slightly in the December quarter while remaining elevated and imposing major cost pressures on small businesses.
- The index on **Selling Prices** (p.6) posted a small rise, increasing from 46.4 to 47.6 in the quarter and remaining well short of the 50 level that separates expansion from contraction. Small business expect selling prices to improve in the March quarter, with the expectations indicator posting a balanced reading of 50.0.
- **Profit Growth** (p.7) edged higher from 38.3 to 38.7 in the final months of 2011. Despite the marginal improvement the index on profits remains deeply depressed and the expectations indicator reveals profits are expected to decline in the March quarter.
- Indices on **Employment** (p.7) and **Overtime Utilisation** (p.8) were broadly steady in the December quarter with both remaining in contraction territory and having tracked sideways for the past two years. Small business expect employment to worsen in the coming quarter while overtime is expected to improve.
- **Investment in Buildings and Structures** (p.8) recorded a modest rise in December, increasing from 41.4 to 42.5 but remains deeply suppressed and has been below the 50 mark for four years.
- The index on **Investment in Plant and Equipment** (p.9) crept up from 46.0 to 46.2 in the quarter, with the index moving broadly sideways now for the past year. Small business expect investment in plant and equipment will worsen in the March quarter.
- **Business Taxes and Government Charges** continued to be the number one barrier to small business investment in the December quarter, while **Insufficient Demand** charged from ninth place to second as the non-mining economy slowed. **State Government Regulations** and **Federal Government Regulations** were the third and fifth most significant obstacles to small business expansion, respectively. **Local Competition** rose to fourth position in December, up sharply from eleventh in the previous quarter.

Small Business Conditions



SURVEY DATA

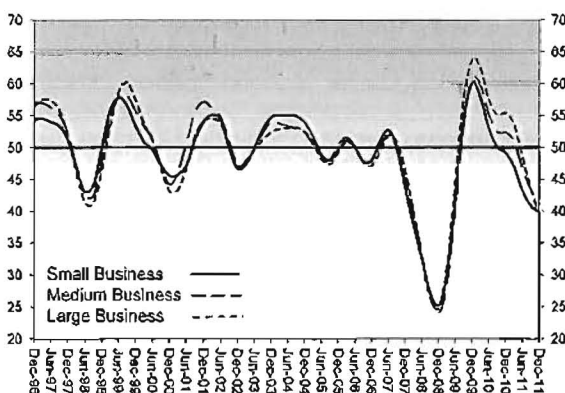
Small Business Conditions



- The index of **Small Business Conditions** slipped fractionally lower to 41.9 in the December quarter, a move that escaped the rounding barrier.
- The deterioration was the eighth consecutive quarterly decline, however, the seasonally adjusted index rose substantially and may signal a turning point in conditions.
- Expectations for the March quarter have worsened relative to the previous quarter, the expectations index dropping from 47.9 to a reading of 44.9, well below the neutral 50 level.
- General business conditions were contractionary for businesses of all size in the December quarter, but were most challenging for **small** business.

	Dec 2011	Mar 2012 (e)
Small	41.9	44.9
All Businesses	43.8	46.3

Expected Economic Performance

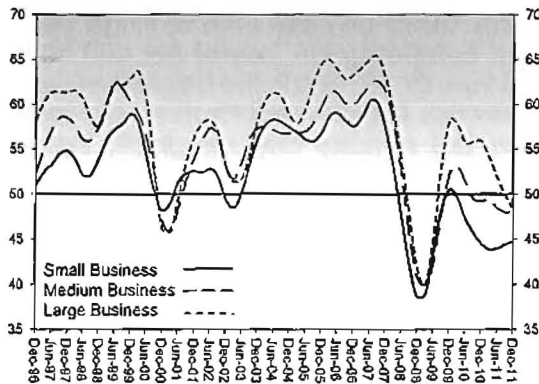


- The **Expected Economic Performance** index edged down from 40.9 to 39.7 in December, having fallen for eight successive quarters now to be down from 60.2 two years ago.
- Small business expectations for the performance of the Australian economy over the next twelve months are at their lowest point since March 2009.
- There has been a sharp turnaround in expectations for the economy over the past two years as interest rates and the exchange rate rose, and the sovereign debt crisis in Europe intensified.
- Businesses of all sizes have pessimistic expectations for the performance of the economy over the next twelve months, with **large** businesses marginally more negative than either small or medium sized firms.

	Sep 2011	Dec 2011 (a)
Small	40.9	39.7
All Businesses	42.7	39.9

(a) Expectation for following 12 months.

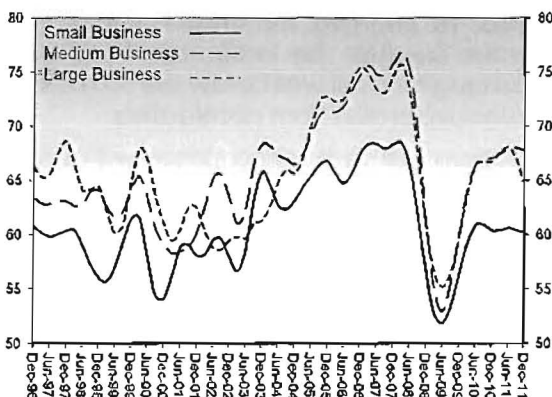
Sales Revenue



- **Sales Revenue** improved again in the December quarter with the index rising marginally from 44.4 to 44.8, its third consecutive rise but still remaining deep in negative territory.
- Expectations for sales revenue in the quarter ahead slipped from 52.0 to 50.0 for March. The expectations indicator has steadily ground lower now for eight quarters in a row and is now on the cusp of slipping below the neutral 50 level.
- The December quarter saw businesses of all sizes reporting contracting sales, albeit the index for medium-sized firms edged fractionally higher while remaining below 50. The negative readings on sales revenue were worst for **small** businesses and by a considerable margin.

	Dec 2011	Mar 2012 (e)
Small	44.8	50.0
All Businesses	47.3	52.8

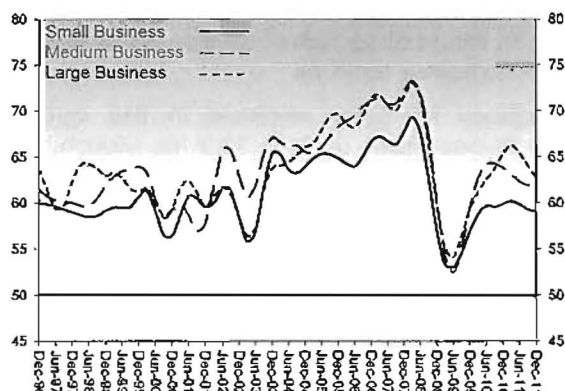
Wage Growth



- The index on **Wage Growth** eased from 60.4 to 60.1 in the December quarter, remaining elevated in spite of lacklustre trading conditions and only slightly below its five year average of 61.2.
- The expectations indicator also recorded a marginal rise from 59.9 to 59.0 for the March quarter, with the index continuing to post strongly positive readings just shy of longer-run levels.
- All businesses reported elevated readings on the wage index measures in the December quarter but moderated to varying degrees for all firm sizes. Wage pressures were most acute for **medium** size firms and relatively more contained for **small** business.

	Dec 2011	Mar 2012 (e)
Small	60.1	59.0
All Businesses	64.4	63.6

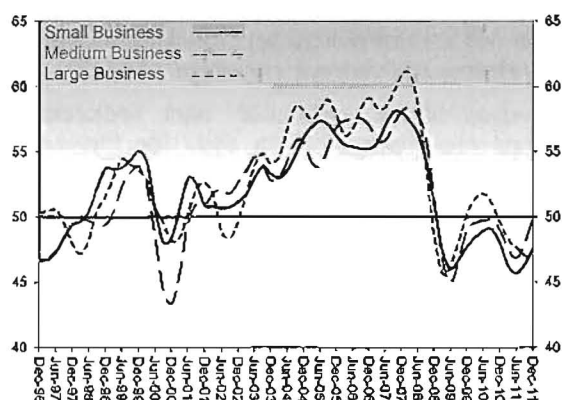
Non-Wage Labour Costs



- The index on **Non-Wage Labour Costs**, which measures labour on-costs such as fringe benefits, workers' compensation, payroll tax and training, slipped from 59.3 to 59.0 in the December quarter. The index has ebbed lower for three consecutive quarters but remains only marginally below its five-year average of 61.0.
- Growth in non-wage labour costs is expected to remain relatively solid in March. The expectations index read 58.1, down only marginally from 58.3 in the December quarter.
- Firms of all sizes reported a moderation in indices of non-wage labour costs, but all readings were consistent with strong growth. **Small** business recorded the least pressure on non-wage labour costs and **large** firms the most.

	Dec 2011	Mar 2012 (e)
Small	59.0	58.1
All Businesses	62.2	60.9

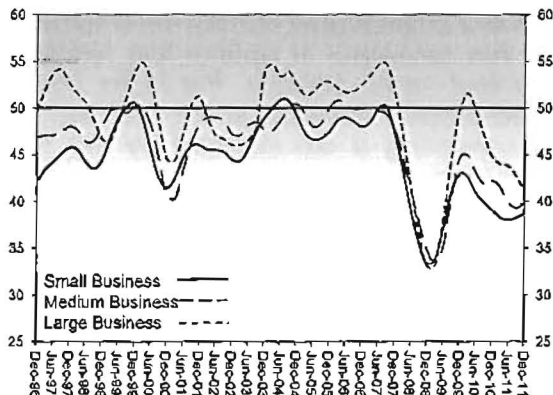
Selling Prices



- The index on **Selling Prices** was one of the few indicators to improve for small business in the December quarter. The index rose from 46.4 to 47.6, although it is still well below the 50 mark that separates expansion from contraction.
- Expectations are that selling prices will continue to improve in the March quarter, with the forward looking indicator rising from 49.6 to 50.0 for the first three months of 2012.
- Large and small businesses reported declining selling prices in the December quarter, while the index for medium size firms edged into positive territory for the first time since late 2008. **Large** firms recorded the lowest reading on selling prices.

	Dec 2011	Mar 2012 (e)
Small	47.6	50.0
All Businesses	47.2	50.8

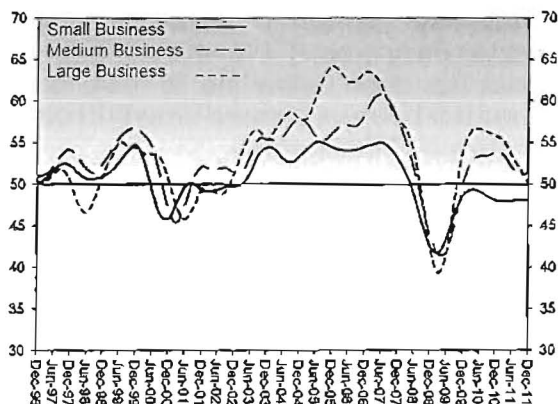
Profit Growth



	Dec 2011	Mar 2012 (e)
Small	38.7	45.1
All Businesses	40.4	47.8

- The Profit Growth index nudged up from 38.3 to 38.7 in the December quarter, adding to the marginal gain seen in the previous quarter but still leaving the index mired deep in contraction territory. The index has been stuck below the neutral 50 level now for more than four years.
- The pace of deterioration in profits is expected to quicken marginally in March, with the expectations indicator slipping from 46.5 to 45.1. Expectations for profits have deteriorated now for eight successive quarters.
- Profit indices for all firm sizes are deep in contraction territory. **Medium** size businesses recorded the worst readings on profits, although the index for those firms managed to edge higher in the December quarter.

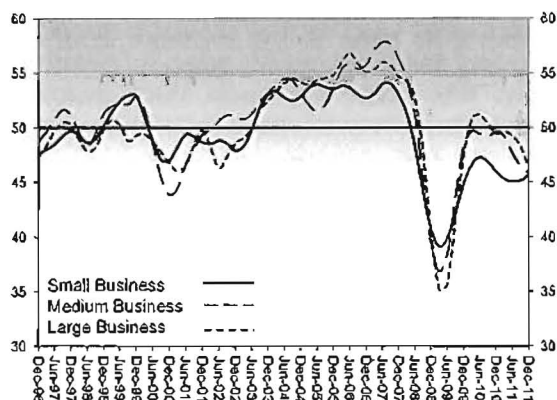
Employment



	Dec 2011	Mar 2012 (e)
Small	48.0	49.2
All Businesses	49.6	50.8

- The **Employment** index for small business declined fractionally from 48.1 to 48.0, having remained below the 50 level for almost four years. The index has broadly drifted sideways for the past eight quarters after recovering from the dip induced by the global financial crisis.
- Employment is expected to deteriorate, with the index for the March quarter falling to 49.2 from 49.8. The expectations indicator for employment has only slipped below the 50 level in the last two quarters.
- **Small** firms recorded the worst employment reading in the December quarter, reporting declining headcounts. Staffing levels were steady for large business and rising for medium firms.

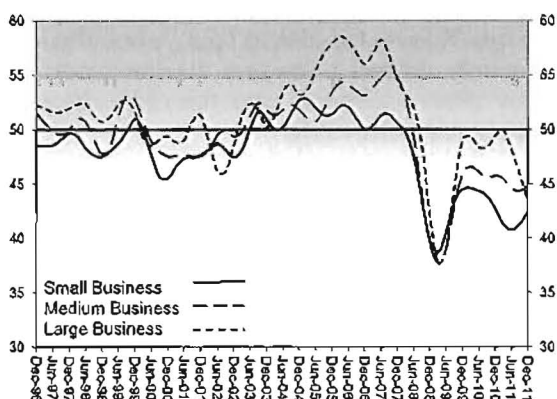
Overtime Utilisation



- The **Overtime Utilisation** index crept higher from 45.2 to 45.7 in December and like the employment index has remained in contraction territory for nearly four years. Similarly, the index has also tracked broadly sideways in the past two years after correcting a dip induced by the global financial crisis.
- Overtime utilisation is expected to improve in the March quarter, with the expectations indicator for the coming quarter rising from 44.3 to 45.0. The improvement in expectations snaps a run of six consecutive quarterly declines.
- Overtime was curtailed for firms of all sizes in the December quarter, with **small** businesses reporting the sharpest deterioration in supplementary hours worked.

	Dec 2011	Mar 2012 (e)
Small	45.7	45.0
All Businesses	46.3	44.5

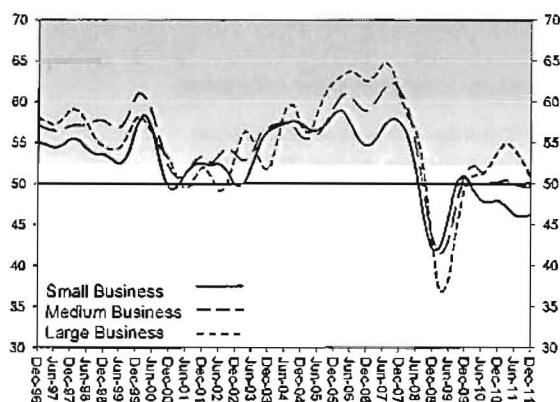
Investment in Buildings and Structures



- The small business index of **Investment in Buildings and Structures** posted a modest increase in December, rising from 41.4 to 42.5 in the quarter. The index has been below the 50 mark for four years and has been suppressed around its current level for much of that period.
- Investment in buildings is expected to deteriorate slightly less rapidly in early 2012, with the expectations index rising to 42.5 to 43.3 for the March quarter but still deep in negative territory.
- All firms reported declining investment in buildings and structures in the December quarter. Conditions were worst for **small** business, albeit only marginally.

	Dec 2011	Mar 2012 (e)
Small	42.5	43.3
All Businesses	43.9	45.4

Investment in Plant and Equipment



- The **Investment in Plant and Equipment** index crept higher in December, inching up from 46.0 to 46.2 in the quarter. The index has been below the 50 mark for two years now and has broadly moved sideways at its current level for the past twelve months.
- Small business anticipate investment in plant and equipment will deteriorate further in early 2012, the expectations index slipping from 45.8 to 45.3 for the March quarter.
- Only **small** firms reported a sharp decline in investment in new machinery in the December quarter. Index readings for large and medium size businesses were marginally above and below the 50 mark, respectively.

	Dec 2011	Mar 2012 (e)
Small	46.2	45.3
All Businesses	49.3	50.3

CONSTRAINTS ON INVESTMENT

The *ACCI Survey of Investor Confidence* asks businesses the degree to which twenty factors constrain business investment in plant and equipment.

The *ACCI Small Business Survey* breaks these figures down into small vs medium vs large business categories.

Based on a new small business breakdown of the latest edition of the *ACCI Survey of Investor Confidence*, the average level of impediments on investment for small business dipped sharply from 43.3 to 32.7 in the December quarter. This reading was the lowest level in eight years and driven by declines in constraints on investment across the board.

The average level of impediments is the average of all 20 impediments to investment and reflects whether taken as a whole there is a greater or lesser degree of constraint on investment. The higher the average level of impediments the greater the constraint.

Top Five Constraints on Investment

(Figures in brackets show rankings during the September quarter of 2011.)

Small Business

1. Business Taxes and Government Charges (1)
2. Insufficient Demand (9)
3. State Government Regulations (4)
4. Local Competition (11)
5. Federal Government Regulations (3)

Medium Business

1. State Government Regulations (3)
2. Business Taxes and Government Charges (1)
3. Federal Government Regulations (2)
4. Non-Wage Labour Costs (7)
5. Insufficient Demand (11)

Large Business

1. Import Competition (18)
2. Local Competition (4)
3. Business Taxes and Government Charges (2)
4. Insufficient Demand (1)
5. Federal Government Regulations (6)

The December quarter saw some interesting developments in constraints on investment reflecting the two speed economy and competitive pressures arising from the elevated value of the Australian dollar. **Import Competition** is now the most significant barrier to investment for large businesses, up sharply from eighteenth position last quarter and having languished well down the list for an extended period.

Insufficient Demand appears amongst the top five constraints on investment for firms of all sizes, ranking as the second most important barrier to investment for small businesses after rising from ninth position in the previous quarter. Medium-sized firms now rank **Insufficient Demand** as the fifth most important constraint on investment, up sharply from eleventh in September. While this factor slipped from first position for large business it remains a key impediment to expansion, ranking at number four.

Business Taxes and Government Charges continue to constitute an important barrier to investment across the board but its significance has been overtaken in relative importance for large and medium-sized firms. Large businesses report **Business Taxes and Government Charges** edging from second to third position as a constraint on investment, while for medium-sized businesses it slipped to number two as **State Government Regulations** moved into first spot. Small business still regarded **Business Taxes and Government Charges** as the most important barrier to investment in the December quarter.

The mounting red-tape burden is becoming an increasingly significant obstacle to expanding a business. **State Government Regulations** were the number one constraint on investment for medium-sized firms and ranked third amongst small business. **Federal Government Regulations** featured in the top five barriers to investment for firms of all sizes and in the case of large businesses rose from just twelfth position last year. These findings demonstrate the key role government plays in fostering, or otherwise, a favourable economic climate for business to expand and create jobs.

