



CONFIDENTIAL REPORT BY ACCI FOR THE GOVERNMENT OF AUSTRALIA

SURVEY OF SMALL BUSINESS

IDENTIFYING TRENDS AND CONDITIONS WITHIN THE SMALL BUSINESS SECTOR

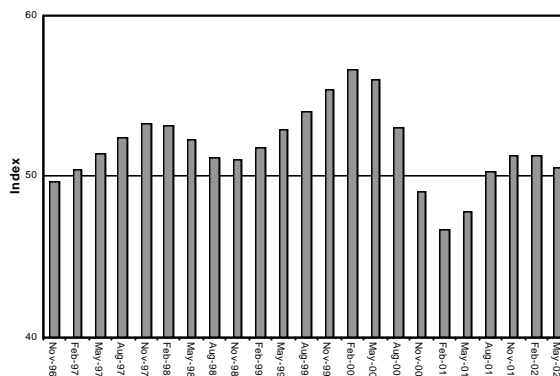
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SMALL BUSINESS RECOVERY SLOWS BUT EXPECTATIONS POSITIVE

SMALL BUSINESS BAROMETER™

Trend

The results of the ACCI *Survey of Small Business* indicate that conditions in the small business sector did not expand strongly during the quarter. In particular, the data on sales, the labour market and profitability demonstrate that conditions within the small business sector continue to be tight. Respondents were, however, generally optimistic for the period ahead despite the lacklustre performance registered during the quarter.



The *Small Business Barometer* gauges how the small business sector views the national economy by amalgamating the data on general business conditions, employment and investment. It should be noted that when interpreting the Barometer and the other indices within this survey, that an index level of 50 indicates that there is an exact balance between those who responded that conditions had improved and those that replied that conditions had declined. Thus, any level below 50 indicates that conditions are deteriorating, and conversely, a reading above 50 indicates conditions on average are improving.

The ACCI *Survey of Small Business* has a primary aim of gauging business conditions of firms that employ less than 20 employees. With 2.5 million employees across the small business sector, this represents a crucially important segment of the national economy. The ACCI *Survey of Small Business* is derived from ACCI's comprehensive *National Survey of Business Expectations* and allows a unique comparison of small (1-19 employees), medium (20-99 employees) and large (100+ employees) businesses. This is a weighted sample covering businesses throughout the whole of Australia and within the entire non-farm private sector. There were 1185 small businesses in the sample.

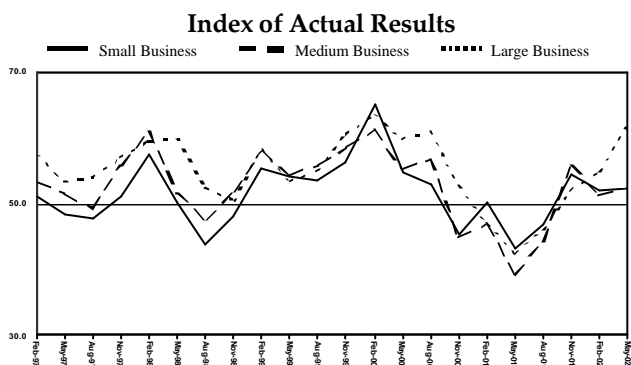
What the latest reading of the *Small Business Barometer* indicates is that the recovery within the small business sector had diminished during the quarter, after the sustained increases that had been registered over the past year.

The data on respondents' views of the performance of the national economy was more positive than the data on their own firms indicating that small business is becoming more confident about the general state of the national economy. The index on the *Performance of the National Economy* was recorded at 59.1 well up on the 51.3 recorded in the previous period and was up significantly over the very low level of 36.0 which had been recorded one year before.

This survey also compares conditions in the small business sector with conditions in medium and large-sized firms. This allows the specific conditions within the small business community to be highlighted and important trends to be identified, especially when they differ from medium and large firms.

Business taxes and government charges were the most important impediments to small business investment during the period. In addition, the average level of impediments to investment rose significantly during the quarter.

GENERAL BUSINESS CONDITIONS



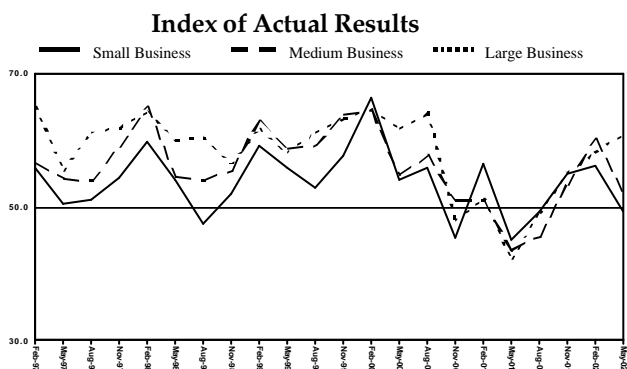
Small Business Results

	Same Qtr Last Year Actual	Last Quarter Actual	Next Quarter Expectation
Up	24.0	30.6	37.5
Same	38.4	43.3	49.4
Down	37.5	26.1	13.1
Net Balance Index	-13.5 43.2	+4.5 52.3	+24.4 62.2

The index on *General Business Conditions* rose slightly to 52.3 from the 52.1 recorded in the last quarter. Despite the very low growth in the index level, the current index level is markedly better than the 43.2 recorded one year ago. Respondents were, however, optimistic about the next quarter, indicating that they expect a significant improvement in general business conditions with the index for expectations recorded at 62.2.

General Business Conditions improved significantly for large business while for small and medium firms there was only minimal improvement in the index.

SALES REVENUE



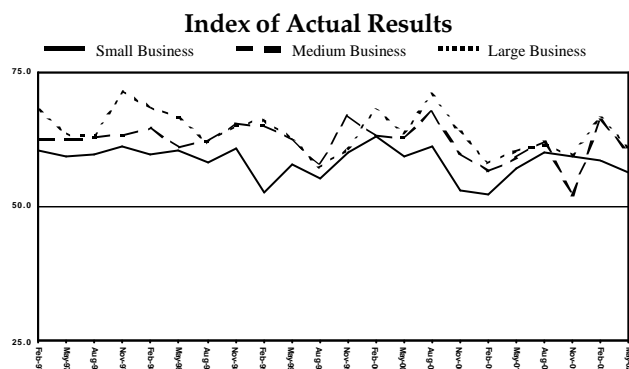
Small Business Results

	Same Qtr Last Year Actual	Last Quarter Actual	Next Quarter Expectation
Up	31.8	34.4	42.0
Same	26.7	29.7	38.0
Down	41.5	35.9	20.0
Net Balance Index	-9.7 45.2	-1.5 49.3	+22.0 61.0

The data on sales revenue indicate that respondents viewed revenue growth over the quarter as unsatisfactory. During the quarter, the index on *Sales Revenue* declined to 49.3 from the 56.3 recorded in the last quarter. The index, however, was better than the 45.2 recorded in the corresponding quarter of last year. Expectations within the small business sector are, however, optimistic with the index recorded at 61.0 for the coming quarter.

A comparison of the data on sales revenue by firm size indicates that for large sized firms sales revenue has improved but in medium firms, sales revenue was reported to have improved at a diminished rate. The index on *Sales Revenue* was lowest for small business.

WAGES



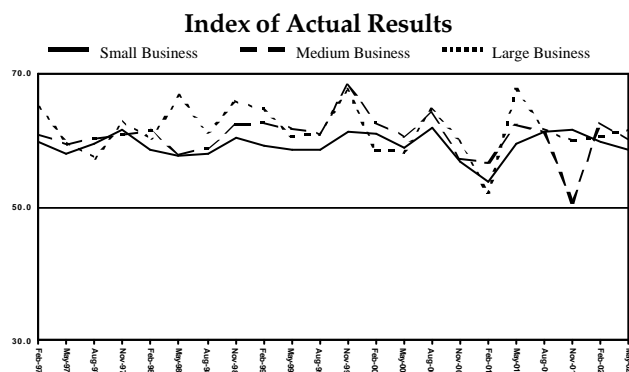
Small Business Results

	Same Qtr Last Year Actual	Last Quarter Actual	Next Quarter Expectation
Up	22.5	22.5	24.7
Same	69.0	67.4	69.1
Down	8.4	10.1	6.2
Net Balance	+14.1	+12.4	+18.5
Index	57.0	56.2	59.3

The data on wages growth are indicative of a limited expansion of wages with the index on *Wages Growth* at 56.2, down on the 58.5 recorded in the previous survey. The index on *Wages Growth* over the year has decreased slightly from the 57.0 recorded in the corresponding quarter of last year. Respondents also indicated that they expected wages growth would continue in a relatively modest manner with the index recorded at 59.3 for the next quarter.

Wages pressures eased amongst all sizes of firm during the latest quarter, with large firms indicating the greatest level of wage growth over the period.

NON-WAGE LABOUR COSTS



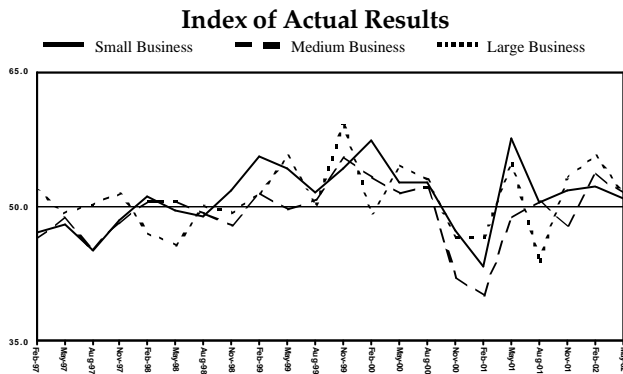
Small Business Results

	Same Qtr Last Year Actual	Last Quarter Actual	Next Quarter Expectation
Up	25.4	26.1	26.4
Same	67.9	65.1	67.0
Down	6.7	8.8	6.6
Net Balance	+18.7	+17.3	+19.8
Index	59.4	58.7	59.9

Non-wage labour costs are the on-costs attached to the cost of employing as well as various benefits provided by employers for their employees. The index on *Non-Wage Labour Costs* continued to decline in the most recent quarter, falling to 58.7, from the 59.7 recorded in the previous survey and down on the 59.4 recorded during the corresponding quarter of last year. The expectations data suggest that small businesses, on average, believe non-wage labour costs will continue to grow with the index recorded at 59.9 for the next quarter.

Non-wage labour costs increased for all three business size categories, although the index level declined for both small and medium sized firms. In contrast, the index for the large business sector increased and recorded the highest level among the business size categories.

SELLING PRICES



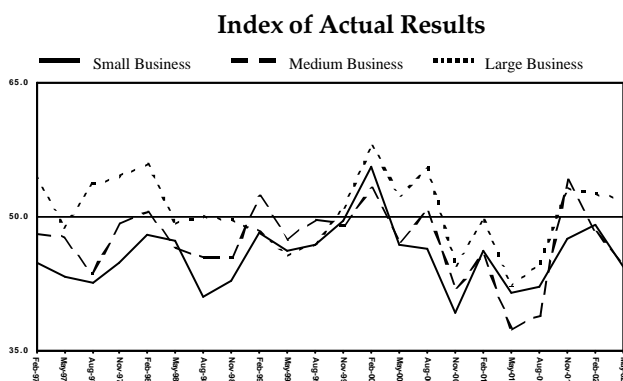
Small Business Results

	Same Qtr Last Year Actual	Last Quarter Actual	Next Quarter Expectation
Up	29.7	15.5	19.6
Same	55.8	70.9	70.7
Down	14.4	13.6	9.7
Net Balance	+15.3	+1.9	+9.9
Index	57.6	51.0	55.0

The latest survey data indicate that selling prices within the small business sector remain relatively flat with only very modest increases in selling prices reported during the quarter. The index on *Selling Prices* was recorded at 51.0, which is down from the 52.4 recorded one period before. The index on selling prices was, in addition, down on the 57.6 recorded during the same quarter last year. The expectations data are indicative of slow rates of growth in prices, with the index at 55.0 for the quarter ahead.

A comparison between firm sizes indicates that price increased marginally in the domestic economy with the index on *Selling Prices* showing lower increases then in the previous quarter for firms of all sizes.

PROFITS



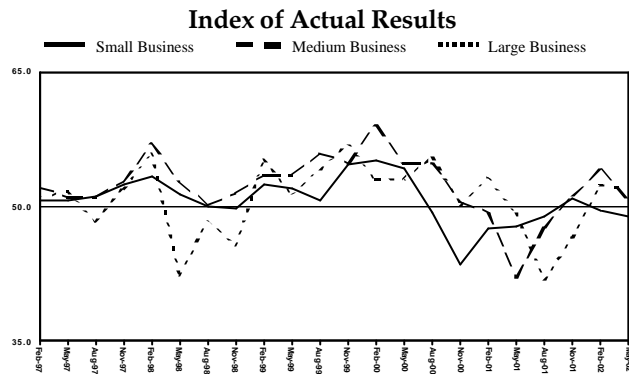
Small Business Results

	Same Qtr Last Year Actual	Last Quarter Actual	Next Quarter Expectation
Up	17.0	23.0	30.4
Same	48.8	42.5	50.8
Down	34.2	34.5	18.8
Net Balance	-17.2	-11.5	+11.6
Index	41.4	44.3	55.8

The data on profitability within the small business sector indicate that profits were relatively poor over the period with the index declining to 44.3 from the 49.0 recorded one quarter ago. The index is, however, above the 41.4 recorded in the corresponding quarter of last year. Expectations for future profitability were much more optimistic, with the index for the period ahead at 55.8.

In comparing the data between business sizes, small and medium sized firms indicated profitability was poor, but large businesses indicated some improvement in the level of profits, although even for the larger sized firms the index did decline slightly relative to the previous quarter.

EMPLOYMENT



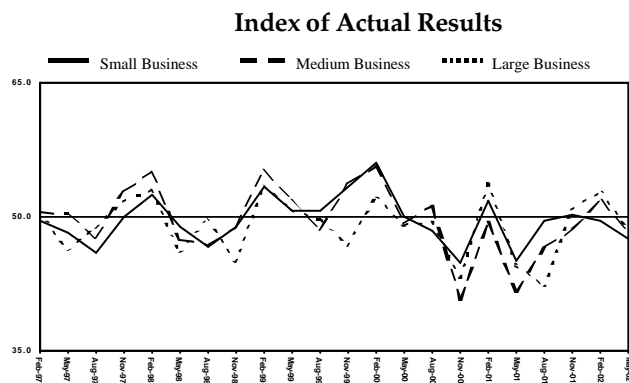
Small Business Results

	Same Qtr Last Year Actual	Last Quarter Actual	Next Quarter Expectation
Up	18.5	14.2	16.6
Same	58.8	69.5	74.3
Down	22.7	16.4	9.1
Net Balance	-4.2	-2.2	+7.5
Index	47.9	48.9	53.8

The index on *Employment* indicates that employment was relatively flat over the last quarter with the index declining slightly to 49.0 from the 49.6 recorded one period ago. The index was, however, above the 47.9 recorded in the corresponding quarter of last year. Notably, 69.5 percent of respondents indicated that their level of employment had remained relatively unchanged. Expectations amongst small business for employment are more optimistic with the index recorded at 53.8 for the coming quarter.

The comparison data show that small business had the lowest reading of the index on *Employment*, with medium sized firms holding steady and larger firms indicating a slightly positive result for the quarter.

OVERTIME



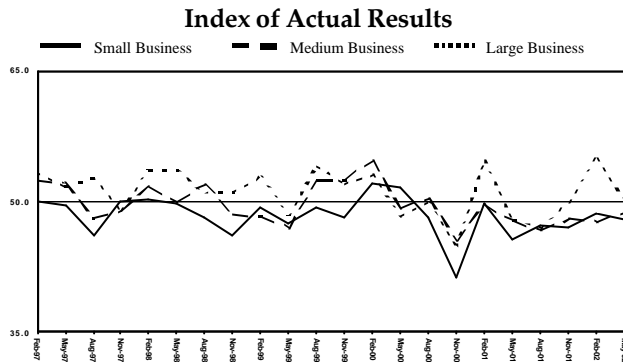
Small Business Results

	Same Qtr Last Year Actual	Last Quarter Actual	Next Quarter Expectation
Up	11.8	16.2	16.7
Same	66.4	62.5	69.7
Down	21.9	21.3	13.6
Net Balance	-10.1	-5.1	+3.1
Index	45.0	47.5	51.6

Overtime utilisation within the small business sector declined during the latest survey period, with the index falling to 47.5, from the 49.6 recorded during the previous quarter but was up marginally on the 45.0 recorded in the same quarter of last year. The expectations data show overtime utilization is likely to improve with the index recorded at 51.6 for the next period.

A comparison across business sizes showed that all three business sectors reported a reduction in overtime utilization with larger businesses reporting the smallest proportion of respondents indicating that overtime had fallen during the period.

INVESTMENT IN BUILDINGS



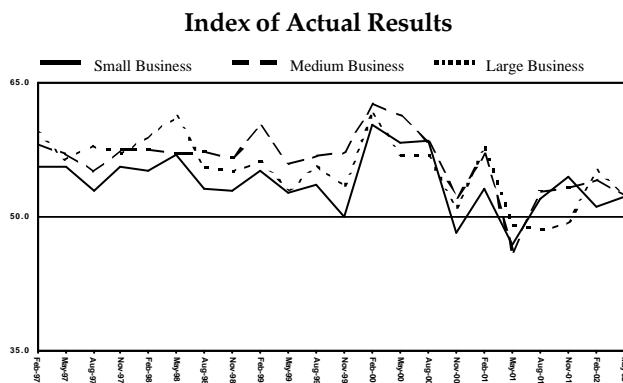
Small Business Results

	Same Qtr Last Year Actual	Last Quarter Actual	Next Quarter Expectation
Up	12.3	13.1	16.5
Same	66.6	69.6	69.1
Down	21.1	17.3	14.4
Net Balance	-8.8	-4.2	+2.1
Index	45.6	47.9	51.1

Investment in buildings was soft within the small business sector with the index on *Investment in Buildings* falling to 47.9 from the 48.7 recorded in the previous quarter. The poor level of the index is, however, up on the 45.6 recorded twelve months before. In continuing the general trend of respondents' expecting the performance of the economy to improve in the near future, the data on expectations for investment are positive with the index recorded at 51.1 for the next quarter.

The comparison by firm size reveals that large businesses were more active in investing in buildings than small and medium businesses, with medium firms, like small firms, indicating that investment in buildings was soft.

INVESTMENT IN PLANT AND EQUIPMENT



Small Business Results

	Same Qtr Last Year Actual	Last Quarter Actual	Next Quarter Expectation
Up	15.2	22.8	24.2
Same	63.3	58.9	59.4
Down	21.5	18.4	16.5
Net Balance	-6.3	+4.4	+7.7
Index	46.9	52.2	53.9

The data on the level of investment in plant and equipment are indicative of improvements in the level of investment in plant and equipment within small businesses. The index on *Investment in Plant and Equipment* rose to 52.3 from the 51.0 recorded in the previous survey, and is well up on the 46.9 recorded in the corresponding period of last year. Expectations are that investment in plant and equipment within the small business sector will continue to grow with the index recorded at 53.9 for the period ahead.

While the level of investment in plant and equipment improved for small business, both medium and large sectors of the economy reported diminished rates of investment with the indices for medium and large firms falling, although remaining in positive territory.

CONSTRAINTS ON INVESTMENT BY SIZE OF FIRM

In ACCI's *Survey of Investor Confidence* businesses are asked the degree to which twenty factors constrain business investment in plant and equipment. In the most recent survey the average level of impediments to investment for small business rose to 41.1 from the 32.7 recorded in the previous quarter.

TOP FIVE CONSTRAINTS ON INVESTMENT

SMALL BUSINESS

1. **Business Taxes and Government Charges (1)**
2. **Insufficient Retained Earnings (6)**
3. **Non-Wage Labour Costs (4)**
4. **Availability of Suitably Qualified Employees (9)**
5. **Wage Costs (3)**

MEDIUM BUSINESS

1. **Business Taxes and Government Charges (1)**
2. **Non-Wage Labour Costs (6)**
3. **State Government Regulations (7)**
4. **Availability of Suitably Qualified Employees (5)**
5. **Wage Costs (4)**

LARGE BUSINESS

1. **Insufficient Demand (6)**
2. **Local Competition (5)**
3. **State Government Regulations (2)**
4. **Non-Wage Labour Costs (1)**
5. **Business Taxes and Government Charges (3)**

FIGURES IN BRACKETS SHOW RANKINGS DURING THE PREVIOUS QUARTER

The latest data on the *Constraints to Investment* for small business indicate that *Business Taxes and Government Charges* again top the list of impediments to investment for small and medium firms while in larger businesses taxes and charges continued to hinder investment but to a lesser extent. It is clear that out of the list of twenty factors taxes and government charges continue to impact on investment and hence on the potential for future economic growth.

For small and medium firms, labour related constraints were critical constraints on investment over the period. For small business labour market issues made up three of the top five constraints on investment. In third position was *Non-Wage Labour Costs*, followed by *Availability of Suitably Qualified Employees* and then in fifth position *Wage Costs*. Reinforcing the relative importance of labour related issues as constraints was the breakdown from the medium business sector of the economy where again three of the top five constraints were labour related. Among larger firms non-wage costs declined in relative importance but remained in the top five constraints, ranked in fourth position.

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COMPARISON BY SIZE OF FIRM

ACTUAL RESULTS FROM THE MOST RECENT QUARTER

General Business Conditions

	Small	Medium	Large
Up	30.6	32.0	36.8
Same	43.3	41.1	49.8
Down	26.1	26.9	13.5
Net Balance	+4.5	+5.1	+23.3
Index	52.3	52.6	61.7

Sales Revenue

	Small	Medium	Large
Up	34.4	38.8	42.2
Same	29.7	26.3	37.0
Down	35.9	35.0	20.9
Net Balance	-1.5	+3.8	+21.3
Index	49.3	52.0	60.7

Wages Growth

	Small	Medium	Large
Up	22.5	29.3	27.4
Same	67.4	61.5	67.1
Down	10.1	9.3	5.5
Net Balance	+12.4	+20.0	+21.9
Index	56.2	60.1	61.0

Non-Wages Growth

	Small	Medium	Large
Up	26.1	27.8	26.7
Same	65.1	64.1	70.0
Down	8.8	8.0	3.3
Net Balance	+17.3	+19.8	+23.4
Index	58.7	59.9	61.7

Selling Price

	Small	Medium	Large
Up	15.5	18.7	17.6
Same	70.9	65.4	67.6
Down	13.6	15.9	14.8
Net Balance	+1.9	+2.8	+2.8
Index	51.0	51.4	51.4

Profits

	Small	Medium	Large
Up	23.0	27.1	31.0
Same	42.5	35.2	42.0
Down	34.5	37.7	27.0
Net Balance	-11.5	-10.6	+4.0
Index	44.3	44.7	52.0

Employment

	Small	Medium	Large
Up	14.2	23.4	20.1
Same	69.5	54.9	63.7
Down	16.4	21.7	16.2
Net Balance	-2.2	+1.7	+3.9
Index	48.9	50.9	52.0

Overtime

	Small	Medium	Large
Up	16.2	21.0	15.3
Same	62.5	54.4	66.3
Down	21.3	24.6	18.4
Net Balance	-5.1	-3.6	-3.1
Index	47.5	48.2	48.5

Investment in Buildings

	Small	Medium	Large
Up	13.1	16.0	18.4
Same	69.6	65.6	63.5
Down	17.3	18.4	18.1
Net Balance	-4.2	-2.4	+0.3
Index	47.9	48.8	50.2

Investment in Plant & Equipment

	Small	Medium	Large
Up	22.8	24.1	23.6
Same	58.9	56.5	57.7
Down	18.4	19.4	18.7
Net Balance	+4.4	+4.7	+4.9
Index	52.2	52.4	52.5



AUSTRALIAN CONFEDERATION OF CONSUMER INDUSTRIES