



CONFIDENCE IN THE NATIONAL ECONOMY

Survey of Small Business

IDENTIFYING TRENDS AND CONDITIONS WITHIN THE SMALL BUSINESS SECTOR

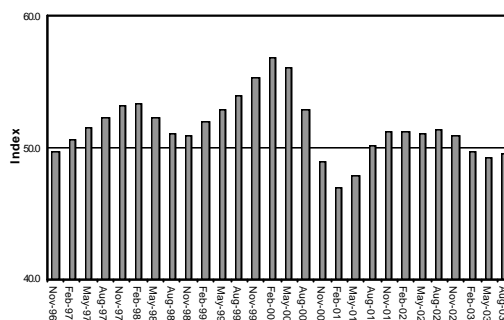
Issue 16 - August 2003

Small Business: Tough Times Now, Better Times Ahead

The results of ACCI's latest *Survey of Small Business* indicate that confidence in the National Economy within the small business community remained low but was generally steady relative to the previous quarter, while general business conditions declined again. The data on important indicators such as *Sales Revenue*, *Profits* and *Investment in Buildings* fell marginally while other indicators including *Selling Prices*, *Employment* and *Investment in Plant and Equipment*, improved marginally. Overall, the data portray an economy that is trending gently down but which may be poised to gather pace in the near term.

SMALL BUSINESS BAROMETERtm

Trend



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 who had replied that conditions had declined. Thus, any 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.

The ACCI *Survey of Small Business* has a primary aim of gauging business conditions of firms that employ less than 20 employees. With 3.3 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 1358 small businesses in the sample.

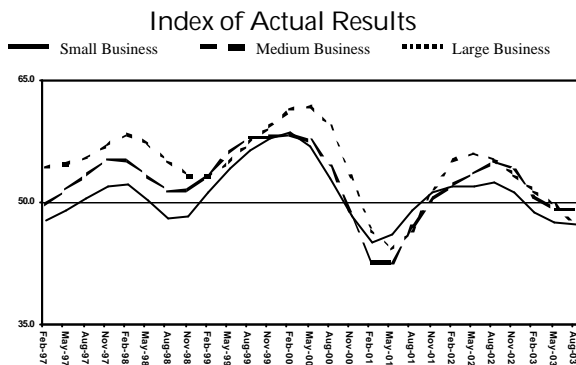
The latest *Small Business Barometer* index remained below 50 during the quarter showing that conditions have softened. Nevertheless, although its level was below 50, the barometer did rise relative to the quarter before, indicating some underlying improvement has taken place.

The index on the *Performance of the National Economy* recorded 49.0 during the current quarter slightly higher than the 47.5 recorded in the earlier quarter. Conditions do however remain well below those of last year when the index was recorded at 55.4.

The survey also disaggregates the data into large and medium-sized businesses enabling comparisons between all three sizes of firm to be made. This allows the specific conditions within the small business community to be highlighted and important trends identified, especially when they differ from medium and large firms. The most important area of difference showed continuing weakness in investment amongst small business while there is an upturn evident in firms of 100 employees or more.

It should also be noted that problems finding suitably qualified employees is now amongst the five most important constraints for firms of every size.

General Business Conditions



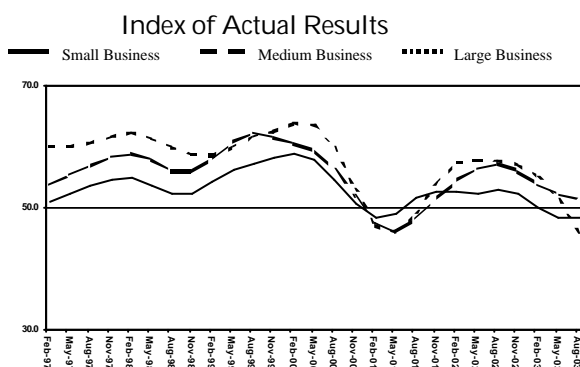
Small Business Results

| | Same Qtr Last Year Actual | Last Quarter Actual | Next Quarter Expectation |
|------------------------------|---------------------------------|---------------------------|--------------------------------|
| Up | 25.3 | 23.8 | 26.8 |
| Same | 47.1 | 48.7 | 49.8 |
| Down | 27.6 | 27.4 | 23.4 |
| Net Balance Index | -2.3 52.4 | -3.6 47.2 | +3.4 48.4 |

General Business Conditions fell marginally during the latest quarter with 23.8 per cent of respondents stating conditions had improved while 27.4 per cent specified conditions were worse. The trend index recorded 47.2 during the September quarter indicating that conditions are worse than in the previous quarter. Expectations data fell during the current period implying that firms expect that conditions will continue to ease.

General Business Conditions data for both medium and large-sized firms also eased during the quarter to record indices of 49.2 and 47.1 respectively.

Sales revenue



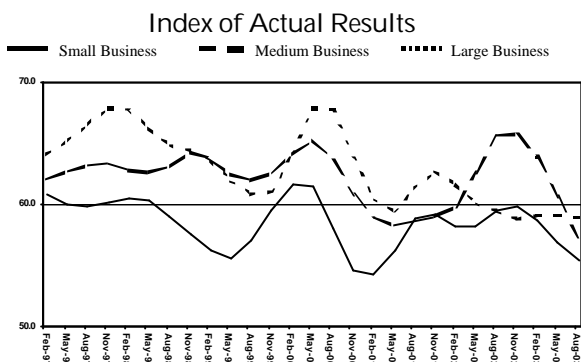
Small Business Results

| | Same Qtr Last Year Actual | Last Quarter Actual | Next Quarter Expectation |
|------------------------------|---------------------------------|---------------------------|--------------------------------|
| Up | 34.1 | 32.3 | 33.0 |
| Same | 34.1 | 33.8 | 41.3 |
| Down | 31.8 | 33.9 | 25.7 |
| Net Balance Index | +2.3 52.9 | -1.6 48.2 | +7.1 51.6 |

The data on Sales Revenue declined for the third consecutive quarter, in trend terms, paralleling the respondents' perceptions of General Business Conditions. The index recorded 48.2 during the latest survey period which indicates that sales revenues, on average, fell when compared with the previous survey period. This is the lowest recorded index for Sales Revenue since February 2001. Looking ahead to the next quarter the data indicate that over the next three months revenues are expected to slowly improve.

Sales Revenue data for medium and large firms indicate different conditions within the two categories. Medium sized firms reported improved revenues when compared with the previous quarter while large firms' experienced declining sales revenues.

wages



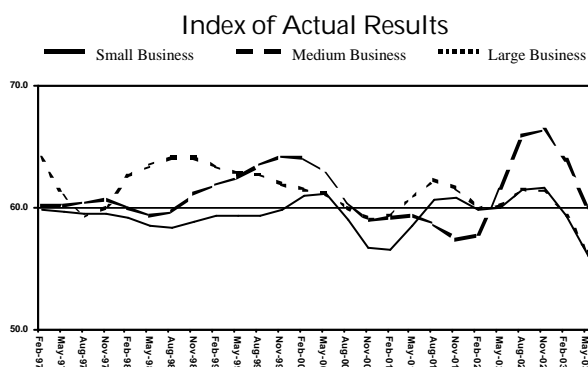
Small Business Results

| | Same Qtr Last Year Actual | Last Quarter Actual | Next Quarter Expectation |
|--------------------|---------------------------------|---------------------------|--------------------------------|
| Up | 26.5 | 25.6 | 26.4 |
| Same | 64.9 | 64.7 | 65.8 |
| Down | 8.5 | 9.6 | 7.8 |
| Net Balance | +18.0 | +16.0 | +18.6 |
| Index | 59.4 | 55.4 | 55.1 |

Small business data on *Wages Growth* over the September quarter point towards wage pressures remaining stable. The index recorded 55.4, in trend terms, indicating that while wages, on average, increased over the quarter these increases were moderate. Wage growth during the same period last year was stronger than the latest results. Although wage pressures appear subdued at present, expectations are for more rapid growth over the next six months.

The data on medium and large-sized firms indicate that *Wages Growth* in these categories have been more substantial. The trend index recorded 57.3 and 58.9 for medium and large enterprises respectively.

non-WAGE labour costs



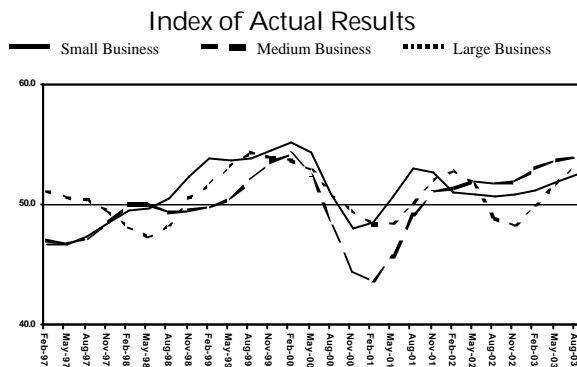
Small Business Results

| | Same Qtr Last Year Actual | Last Quarter Actual | Next Quarter Expectation |
|--------------------|---------------------------------|---------------------------|--------------------------------|
| Up | 28.0 | 23.5 | 26.7 |
| Same | 63.1 | 64.5 | 68.4 |
| Down | 8.9 | 12.0 | 4.9 |
| Net Balance | +19.1 | +11.5 | +21.8 |
| Index | 61.5 | 52.7 | 58.2 |

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 *Non-Wage Labour Costs* index for the September quarter reflects the subdued nature of wages growth being recorded at 52.7. Expectations for increases in non-wage labour costs compared with the previous quarter are slightly higher with the index recording 58.2.

Comparing different firm sizes the data show large firms' *Non-Wages Labour Costs* have, on average, increased over the quarter with medium-sized businesses also recording a higher index on *Non-Wage Labour Costs*.

selling prices



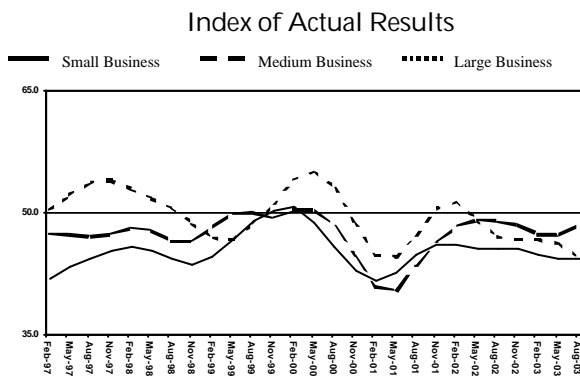
Small Business Results

| | Same Qtr Last Year Actual | Last Quarter Actual | Next Quarter Expectation |
|--------------------|---------------------------------|---------------------------|--------------------------------|
| Up | 13.8 | 16.6 | 17.7 |
| Same | 69.9 | 70.7 | 74.5 |
| Down | 16.2 | 12.7 | 7.7 |
| Net Balance | -2.4 | +3.9 | +10.0 |
| Index | 50.7 | 52.6 | 53.9 |

Selling Prices data show the index experienced moderate improvement over the previous quarter recording 52.6. The previous quarter index recorded 51.7, in trend terms. There is no evidence of prices pressure. Compared with the same quarter last year when the index recorded 50.7 only slightly more firms experienced rising prices. Expectations continue to be stable with moderate price rises anticipated over the next six months.

Medium and large-sized enterprises also experienced moderate increases in *Selling Prices* with indices recording 53.9 and 53.3 respectively.

profits



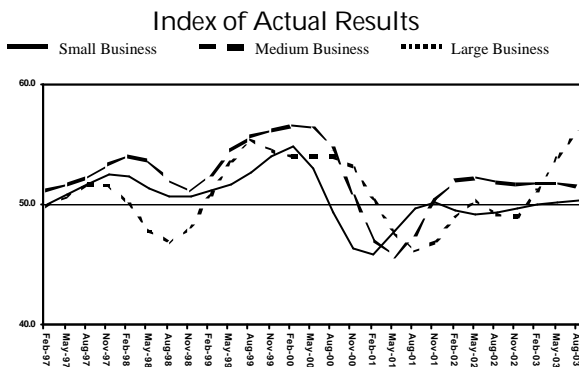
Small Business Results

| | Same Qtr Last Year Actual | Last Quarter Actual | Next Quarter Expectation |
|--------------------|---------------------------------|---------------------------|--------------------------------|
| Up | 21.6 | 21.9 | 23.3 |
| Same | 42.4 | 45.2 | 51.8 |
| Down | 36.0 | 32.9 | 24.9 |
| Net Balance | -14.4 | -11.0 | -1.6 |
| Index | 45.5 | 44.4 | 49.0 |

Profitability continues to remain weak as small businesses experienced another deterioration in the index. Margins again fell during the current period with the index recording 44.4. While 32.9 per cent of firms specified profits were lower than they had been in the previous quarter. The current outcome is similar compared with the same period last year when the index recorded 45.5. Profits expectations show conditions are not anticipated to improve.

Medium and large businesses are also experiencing difficult profit conditions with indices recording 48.4 and 44.3 respectively.

employment



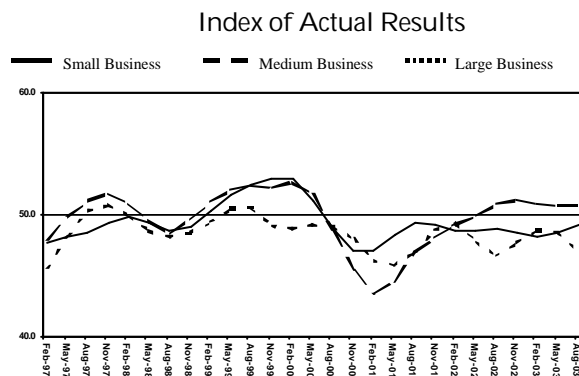
Small Business Results

| | Same Qtr Last Year Actual | Last Quarter Actual | Next Quarter Expectation |
|--------------------|---------------------------------|---------------------------|--------------------------------|
| Up | 14.1 | 14.4 | 14.6 |
| Same | 67.4 | 70.3 | 71.9 |
| Down | 18.4 | 15.3 | 13.4 |
| Net Balance | -4.3 | -0.9 | +1.2 |
| Index | 49.3 | 50.4 | 50.6 |

The *Employment* index shows that small business, on average, maintained their levels of personnel. The index recorded, in trend terms, a level of 50.4, a slight improvement over last quarter's result of 50.2. The index on *Employment* during the corresponding quarter last year was lower, measuring a stable 49.3. Over the previous five quarters employment has expanded which in turn has led to expectations of slightly higher employment numbers over the period ahead.

Large enterprises experienced strong growth in the level of employment with the index recording 56.0. This continues the improvement that has taken place over the year. Medium-sized enterprises, on average, increased employee numbers although not to the extent of large businesses.

overtime



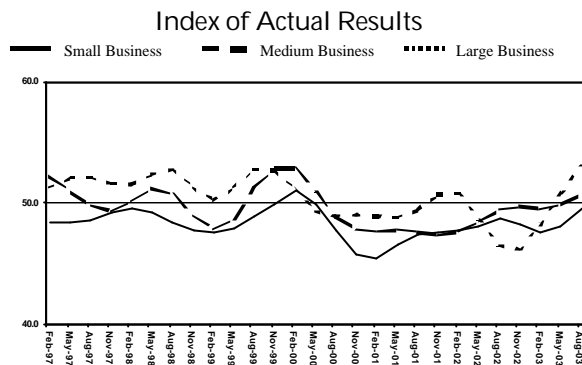
Small Business Results

| | Same Qtr Last Year Actual | Last Quarter Actual | Next Quarter Expectation |
|--------------------|---------------------------------|---------------------------|--------------------------------|
| Up | 15.2 | 17.6 | 16.7 |
| Same | 65.1 | 61.4 | 64.8 |
| Down | 19.7 | 21.0 | 18.5 |
| Net Balance | -4.5 | -3.4 | -1.8 |
| Index | 48.8 | 49.2 | 50.0 |

Overtime utilisation, in trend terms, by small business fell slightly over the latest quarter with the index recording 49.2. The previous quarter's index recorded 48.4. During the same period last year the overtime utilisation index recorded 48.8 indicating no significant change in hours worked. Expectations data for the quarter ahead show conditions, on average, are expected to remain unchanged with the index recording 50.0.

The index on *Overtime Utilisation* while deteriorating for large business picked-up slightly for medium-sized businesses with the indices recording 47.0 and 50.7 respectively.

investment in buildings



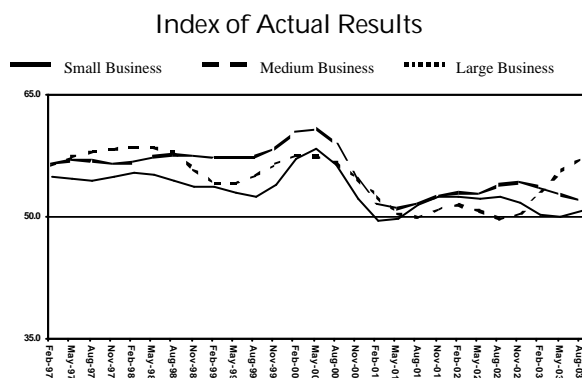
Small Business Results

| | Same Qtr Last Year Actual | Last Quarter Actual | Next Quarter Expectation |
|--------------------|---------------------------------|---------------------------|--------------------------------|
| Up | 13.5 | 18.7 | 19.0 |
| Same | 69.5 | 66.2 | 65.2 |
| Down | 16.9 | 15.1 | 15.9 |
| Net Balance | -3.4 | +3.6 | +3.1 |
| Index | 48.8 | 49.6 | 49.3 |

The index on *Investment in Buildings* indicates that small businesses, on average, reduced their level of investment during the latest quarter. The index recorded 49.6, marginally below 50.0 with the previous quarter recording 48.1. Compared with the same quarter of last year when the index recorded 48.8, slightly fewer firms' recorded lower investment relative to the previous quarter. Expectations are for a levelling off in investment with the index recording 49.3.

Comparing different firms the data on *Investment in Buildings* by size reveals a degree of stability in investment for medium-sized businesses while larger businesses tended to increase the level of investment over the previous quarter.

investment in plant and equipment



Small Business Results

| | Same Qtr Last Year Actual | Last Quarter Actual | Next Quarter Expectation |
|--------------------|---------------------------------|---------------------------|--------------------------------|
| Up | 22.0 | 24.3 | 24.7 |
| Same | 59.7 | 58.4 | 57.8 |
| Down | 18.2 | 17.2 | 17.5 |
| Net Balance | +3.8 | +7.1 | +7.2 |
| Index | 52.4 | 50.8 | 52.4 |

The data on *Investment in Plant and Equipment* during the latest quarter indicate that conditions are stable. The index recorded 50.8 over the most recent quarter, signifying that the number of firms who invested this quarter was generally unchanged. The current index is slightly lower than that recorded during the same period last year. Expectations data indicate that investment by firms, on average, will improve slightly.

Improvements in *Investment in Plant and Equipment* were strongest in large businesses recording an index level of 57.2, which is the highest level since May 2000. Medium sized enterprises recorded an index of 52.0.

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 slightly to 36.6 from the 35.7 recorded in the previous quarter.

TOP FIVE CONSTRAINTS ON INVESTMENT

SMALL BUSINESS

1. Business Taxes and Charges (1)
2. Non-Wage Labour Costs (3)
3. State Government Regulations (4)
4. Wage Costs (2)
5. Availability of Suitably Qualified Employees (8)

MEDIUM BUSINESS

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

LARGE BUSINESS

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

FIGURES IN BRACKETS SHOW RANKINGS DURING THE PREVIOUS QUARTER

The latest constraints data on investment for small business indicate that Business Taxes and Charges head the list for small and large businesses after being the number one constraint in the previous quarter. However, Non-Wage Labour Costs are the greatest constraint to investment in plant and equipment. Other top constraints are Wage Costs, State and Federal Regulations and Local Competition.

The largest movement came from Availability of Suitability Qualified Employees, which entered the top 5 for all business sizes suggesting skills shortages are becoming more acute in the labour market.

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 Victorian Automobile Chamber of Commerce
 Victorian Employers' Chamber of Commerce and Industry

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comparison by SIZE OF FIRM

Actual Results from the most Recent Quarter

General Business Conditions

| | Small | Medium | Large |
|--------------------|-------------|-------------|-------------|
| Up | 23.8 | 26.9 | 21.0 |
| Same | 48.7 | 47.0 | 51.3 |
| Down | 27.4 | 26.1 | 27.7 |
| Net Balance | -3.6 | +0.8 | -6.7 |
| Index | 47.2 | 49.2 | 47.1 |

Sales Revenue

| | Small | Medium | Large |
|--------------------|-------------|-------------|-------------|
| Up | 32.3 | 35.8 | 26.9 |
| Same | 33.8 | 34.2 | 38.4 |
| Down | 33.9 | 30.0 | 34.7 |
| Net Balance | -1.6 | +5.8 | -7.8 |
| Index | 48.2 | 51.4 | 45.9 |

Wages Growth

| | Small | Medium | Large |
|--------------------|--------------|--------------|--------------|
| Up | 25.6 | 28.1 | 30.3 |
| Same | 64.7 | 63.5 | 58.5 |
| Down | 9.6 | 8.3 | 11.2 |
| Net Balance | +16.0 | +19.8 | +19.1 |
| Index | 55.4 | 57.3 | 58.9 |

Non-Wages Growth

| | Small | Medium | Large |
|--------------------|--------------|--------------|--------------|
| Up | 23.5 | 29.9 | 26.8 |
| Same | 64.5 | 58.8 | 58.0 |
| Down | 12.0 | 11.3 | 15.2 |
| Net Balance | +11.5 | +18.6 | +11.6 |
| Index | 52.7 | 56.0 | 53.2 |

Selling Price

| | Small | Medium | Large |
|--------------------|-------------|-------------|-------------|
| Up | 16.6 | 20.8 | 16.5 |
| Same | 70.7 | 64.5 | 69.6 |
| Down | 12.7 | 14.7 | 13.9 |
| Net Balance | +3.9 | +6.1 | +2.6 |
| Index | 52.6 | 53.9 | 53.3 |

Profits

| | Small | Medium | Large |
|--------------------|--------------|-------------|--------------|
| Up | 21.9 | 25.1 | 21.1 |
| Same | 45.2 | 46.5 | 45.2 |
| Down | 32.9 | 28.4 | 33.7 |
| Net Balance | -11.0 | -3.3 | -12.6 |
| Index | 44.4 | 48.4 | 44.3 |

Employment

| | Small | Medium | Large |
|--------------------|-------------|-------------|-------------|
| Up | 14.4 | 18.7 | 20.7 |
| Same | 70.3 | 63.5 | 63.4 |
| Down | 15.3 | 17.9 | 15.9 |
| Net Balance | -0.9 | +0.8 | +4.8 |
| Index | 50.4 | 51.5 | 56.0 |

Overtime

| | Small | Medium | Large |
|--------------------|-------------|-------------|--------------|
| Up | 17.6 | 20.9 | 15.5 |
| Same | 61.4 | 58.1 | 57.0 |
| Down | 21.0 | 21.0 | 27.5 |
| Net Balance | -3.4 | -0.1 | -12.0 |
| Index | 49.2 | 50.7 | 47.0 |

Investment in Buildings

| | Small | Medium | Large |
|--------------------|-------------|-------------|-------------|
| Up | 18.7 | 21.3 | 23.2 |
| Same | 66.2 | 63.6 | 59.9 |
| Down | 15.1 | 15.1 | 16.9 |
| Net Balance | +3.6 | +6.2 | +6.3 |
| Index | 49.6 | 50.8 | 53.1 |

Investment in Plant & Equipment

| | Small | Medium | Large |
|--------------------|-------------|-------------|-------------|
| Up | 24.3 | 25.1 | 26.4 |
| Same | 58.4 | 57.0 | 56.3 |
| Down | 17.2 | 17.9 | 17.3 |
| Net Balance | +7.1 | +7.2 | +9.1 |
| Index | 50.8 | 52.0 | 57.2 |

