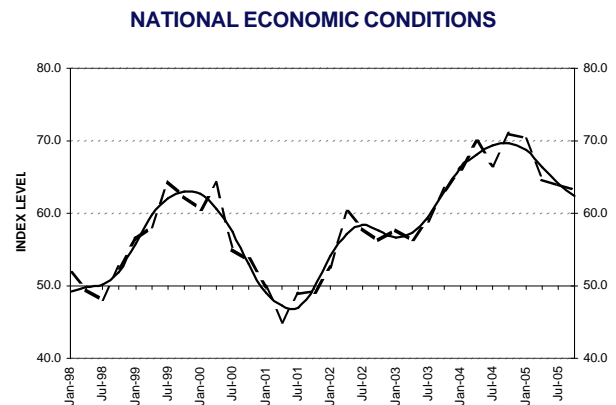


OCTOBER 2005

BUSINESS CONDITIONS STABILISE

The October 2005 *Survey of Investor Confidence* has found that businesses expect economic growth to continue to be subdued, but that expectations have begun to stabilise after falling significantly over the past twelve months.

The indexes of *Overall Economic Conditions* and *Investor Confidence* continued to decline from their all-time highs recorded one year ago. However, the rates of decline seem to be slowing and with other major indicators such as *Sales*, *Profits* and *Level of Investment* showing signs of improvement these two series may level off shortly.



The trend in sales and profit growth was still down but an increase in the seasonally adjusted measures for both series has been recorded for the first time since the October 2004 survey. Moreover, the *Sales* index remains at a positive level despite the declines. However, sales are clearly not growing as quickly as they were at their recent peak in mid-2004. In addition, continued high rates of wages growth and oil prices means profits are under pressure. These cost pressures might again be responsible for the significantly lower level of the *Profit* index relative to the *Sales* index.

Businesses still expect interest rates to increase over the next twelve months but to a considerably lesser extent than had been expected at the beginning of 2005. The index level is currently at its lowest level since 2003.

With business expecting a somewhat higher interest rate, profits easing and an economic growth rate well down from its recent peak it is unsurprising that expected investment growth has remained relatively flat over the past three months. Like investment intentions, the index on full-time employment was also relatively unchanged.

The major constraints on investment were again related to taxes and labour, with *Business Taxes and Government Charges* the largest single constraint. The *Availability of Suitably Qualified Employees* was again a major constraint as were *Wages* and *Non-Wage Labour Costs*. This suggests that the labour market remains tight.

The Survey covers the months of July, August and September 2005 and had 887 respondents.

NATIONAL ECONOMY

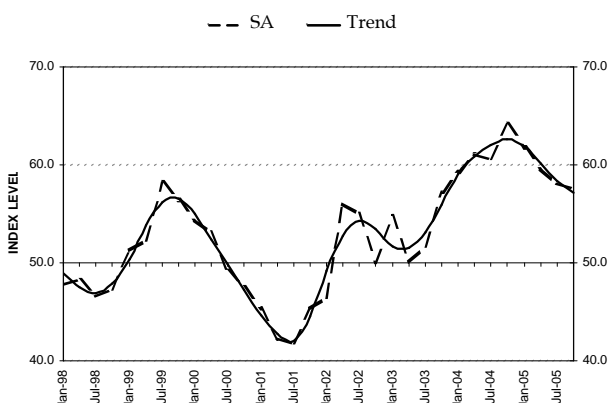
National Economic Conditions

The index of *Overall Economic Conditions*, which measures business' evaluation of the general state of the national economy, fell to 62.4 in the October survey. The index level has declined steadily from the all-time high of 69.7 recorded twelve months ago.

Despite the continued fall the index level remains at a relatively sound level compared to the historical average. The declines in the index over the past six months appear to be slowing, which may suggest that condition could stabilise and begin to improve over the next couple of quarters.

	Oct 2004	July 2005	Oct 2005
Excellent	3.6	3.0	2.2
Very Good	37.6	21.5	19.9
Good	40.9	38.4	43.1
Satisfactory	15.8	26.5	24.5
Poor	1.6	10.3	9.7
Very Poor	0.1	0.3	0.6
Deeply Depressed	0.5	0.0	0.0
Original	70.6	63.2	63.1
Seasonally Adjusted	70.9	64.0	63.3
Trend	69.7	64.1	62.4

Climate for Investment



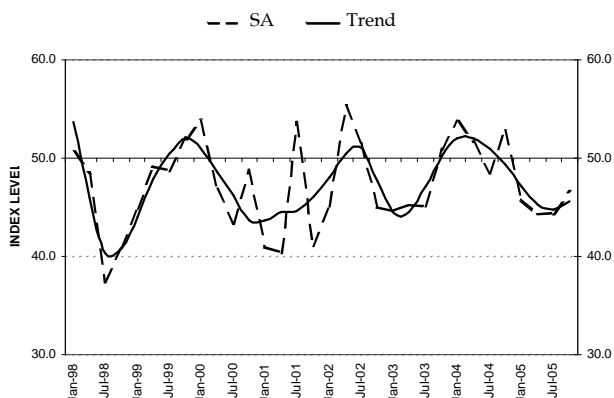
	Oct 2004	July 2005	Oct 2005
Excellent	1.7	0.8	1.6
Very Good	19.3	12.5	13.4
Good	47.4	36.4	35.6
Satisfactory	23.3	32.0	31.7
Poor	8.3	16.5	14.8
Very Poor	0.0	1.9	3.0
Deeply Depressed	0.0	0.0	0.0
Original	63.8	56.9	57.2
Seasonally Adjusted	64.2	58.0	57.6
Trend	62.6	58.3	57.1

The index of *Climate for Investment*, which asks businesses to rate the current climate for investment, declined over the quarter from 58.3 to 57.1, in line with the fall in *Overall Economic Conditions*. However, the continued downward movement of the index comes after the all-time high recorded at the same time last year of 62.6 and the current index level remains above the five-year average of 53.6.

EXPECTATIONS FOR THE NATIONAL ECONOMY

This section presents business expectations for the next twelve months on a range of economic indicators for the national economy.

GDP Growth

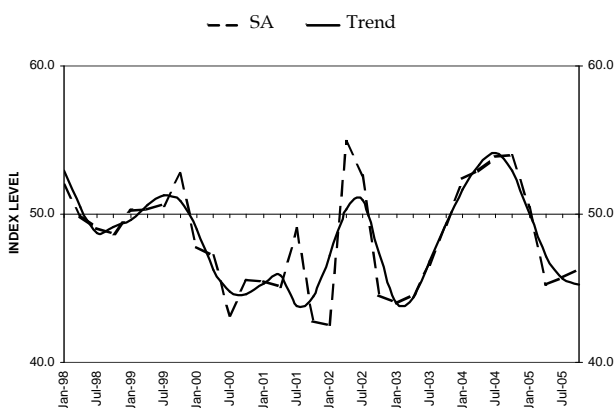


Growth in Output

	Oct 2004	July 2005	Oct 2005
Much Higher	0.0	2.1	0.0
Somewhat Higher	29.8	14.2	18.8
About the Same	50.7	46.9	50.4
Somewhat Lower	18.4	34.3	27.0
Much Lower	1.2	2.5	3.8
Original	52.3	44.8	46.1
Seasonally Adjusted	52.9	44.4	46.6
Trend	49.4	44.7	45.7

The index of *Expected GDP Growth* rose from 44.7 to 45.7, halting the decline that had taken place since April 2004. The increase in the index level is a positive sign but at this stage the index remains at a low level indicating that GDP is expected to grow by less in the next 12 months than it had previously. The continued recording of poor GDP expectations is significant in that this evaluation feeds through into business decisions.

Business Investment

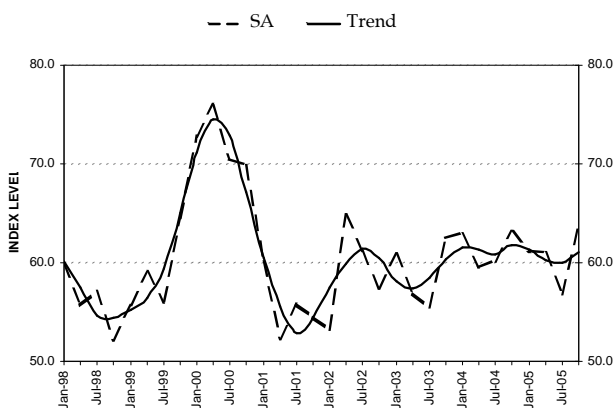


Business Investment

	Oct 2004	July 2005	Oct 2005
Much Higher	0.7	1.6	1.9
Somewhat Higher	35.2	17.8	20.3
About the Same	44.6	49.5	43.6
Somewhat Lower	17.5	23.9	29.1
Much Lower	2.0	7.1	5.1
Original	53.8	45.7	46.2
Seasonally Adjusted	53.9	45.8	46.3
Trend	52.9	45.7	45.2

Expectations for the next 12 months of national business investment declined, with the index of *Business Investment* falling from 45.7 to 45.2. However, the seasonally adjusted series is continuing to rise, suggesting the index may be reaching a turning point.

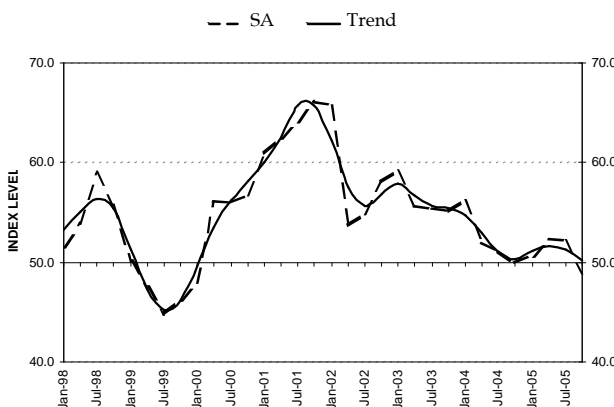
Prices



	Oct 2004	July 2005	Oct 2005
Much Higher	1.0	1.0	3.8
Somewhat Higher	52.8	39.6	54.8
About the Same	45.5	54.1	38.5
Somewhat Lower	0.3	4.2	2.8
Much Lower	0.4	1.2	0.0
Original	63.4	58.8	64.2
Seasonally Adjusted	63.1	56.8	63.8
Trend	61.7	60.0	61.1

The index of *Expected Movement in Prices* has begun to move up in the most recent survey, rising from 60.0 to 61.1, after declining over the past year. Despite the very large increase in the seasonally adjusted series over the past three months only 3.8 percent of respondents indicated that prices would be *much higher*, with the majority of respondents indicating an expectation for only modest rates of growth. Overall, the index level is suggestive of moderate inflation being factored into business decision-making.

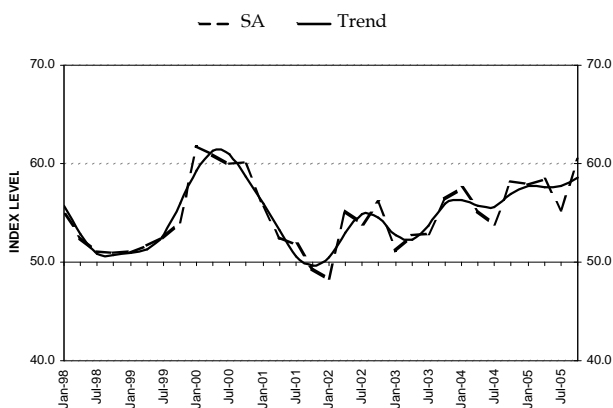
Unemployment



	Oct 2004	July 2005	Oct 2005
Much Higher	0.0	0.5	2.5
Somewhat Higher	21.4	23.5	25.5
About the Same	58.1	61.7	55.0
Somewhat Lower	20.1	13.3	17.1
Much Lower	0.4	1.0	0.0
Original	50.1	52.3	49.1
Seasonally Adjusted	49.9	52.3	48.9
Trend	50.3	51.3	50.2

The trend index of *Unemployment* declined from the 51.3 recorded in July to be 50.2 in October. The decrease in the index is indicative of an expectation that the unemployment rate could fall further over the near term. The fall of the index in the most recent survey is consistent with the improved result for expectations of GDP growth.

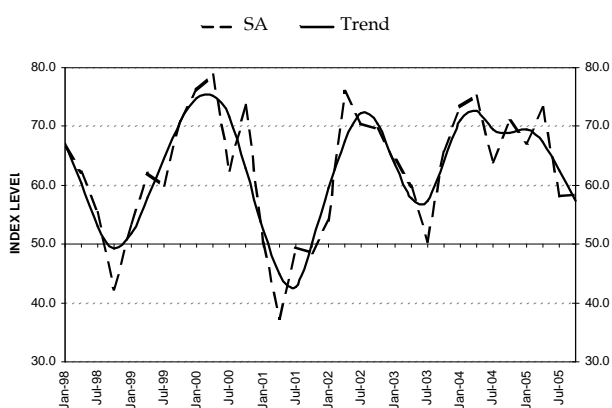
Wages Growth



	Oct 2004	July 2005	Oct 2005
Much Higher	0.6	3.2	3.2
Somewhat Higher	28.6	32.5	37.2
About the Same	67.1	57.2	51.8
Somewhat Lower	3.7	7.1	6.9
Much Lower	0.0	0.0	0.9
Original	56.5	56.2	58.7
Seasonally Adjusted	58.2	55.3	60.5
Trend	56.9	57.7	58.6

Expectations for wages growth had been relatively stable for the first three quarters of 2005 but have picked up in the most recent survey, rising from the 57.7 recorded in July to 58.6 in October. The current rise has continued the general upward trend that can be observed over the past four years with the lows and highs steadily rising. The general upward trend makes it clear that wages growth is continuing strongly.

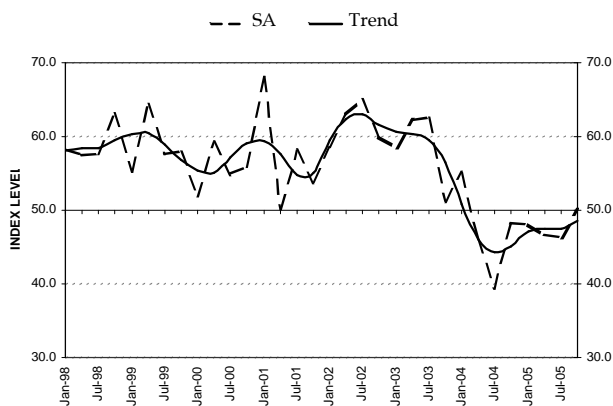
Interest Rates



	Oct 2004	July 2005	Oct 2005
Much Higher	1.2	2.8	2.0
Somewhat Higher	81.3	51.4	46.4
About the Same	14.8	40.6	41.6
Somewhat Lower	2.7	5.3	10.0
Much Lower	0.0	0.0	0.0
Original	70.2	61.6	57.6
Seasonally Adjusted	71.0	58.1	58.2
Trend	68.8	62.6	57.5

The index of *Interest Rates*, which measures expectations for interest rate movements over the next twelve months, fell significantly, similar to the previous survey. The index declined from 62.6 to 57.5 over the three months to October indicating that business still perceived that interest rates are more likely to be tightened rather than loosened, but that the outlook for increases has diminished strikingly over the past six months.

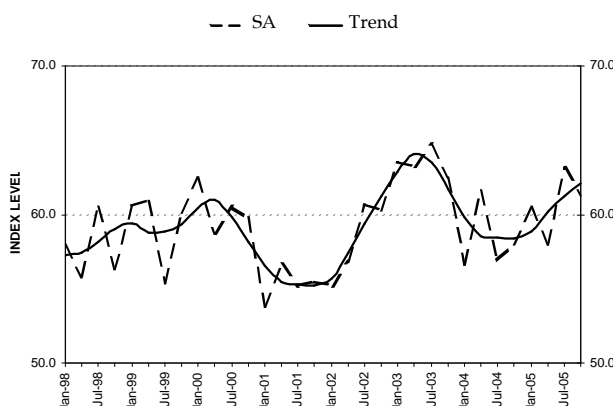
Exchange Rate



	Oct 2004	July 2004	Oct 2005
Much Higher	0.2	0.5	0.0
Somewhat Higher	22.8	23.2	27.6
About the Same	45.5	43.1	45.4
Somewhat Lower	31.5	32.5	25.3
Much Lower	0.0	0.7	1.7
Original	47.9	47.6	49.8
Seasonally Adjusted	48.2	46.4	50.0
Trend	45.0	47.5	48.6

The index on the *Expected Exchange Rate* (measured against the US dollar) increased over the past three months from 47.5 to 48.6. The increase of the index towards a more neutral level indicates that business is, on average, still expecting a modest fall against the US dollar over the next twelve months.

Current Account Deficit



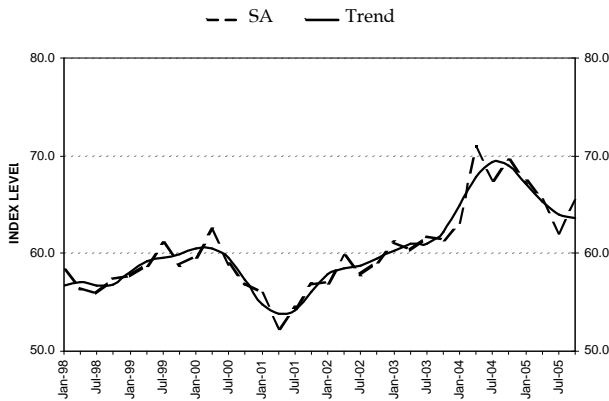
	Oct 2004	July 2005	Oct 2005
Much Higher	2.9	5.7	4.0
Somewhat Higher	39.3	54.6	51.6
About the Same	40.9	29.6	35.5
Somewhat Lower	16.8	9.3	8.9
Much Lower	0.0	0.7	0.0
Original	57.1	63.9	60.4
Seasonally Adjusted	58.0	63.1	61.4
Trend	58.4	61.2	62.1

The index of the *Current Account Deficit* has continued to increase over the three months to October, rising from 61.2 to 62.1. Business expects Australia's current account deficit to continue to worsen over the next twelve months.

OWN BUSINESS

This section presents an analysis of the assessments business have made about their own firm’s current performance.

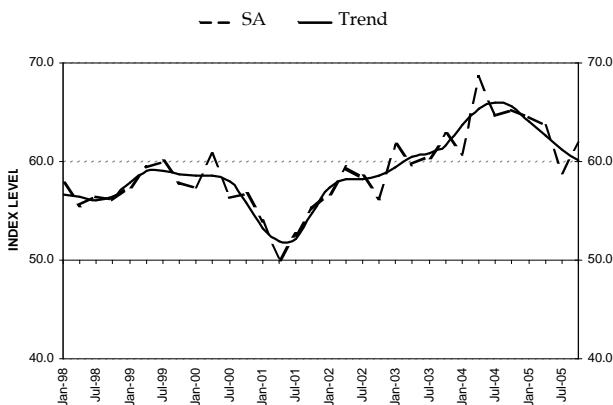
State Within Own Business



	Oct 2004	July 2004	Oct 2005
Excellent	11.9	4.2	5.2
Very Good	25.1	23.1	23.2
Good	34.4	27.8	37.0
Satisfactory	23.3	29.1	26.8
Poor	4.9	15.8	6.5
Very Poor	0.3	0.1	1.2
Deeply Depressed	0.0	0.0	0.0
Original	69.1	61.7	65.0
Seasonally Adjusted	69.5	62.1	65.4
Trend	69.0	64.0	63.6

The index of *State Within Own Business*, which measures the general evaluation of respondents’ own businesses, continued to decline in October, though it remains positive. Additionally, the downward trend that is evident from the all-time high of 69.3 reached in July 2004 appears to be slowing. The current index level of 63.6 represents only a small fall from the 64.0 recorded in July.

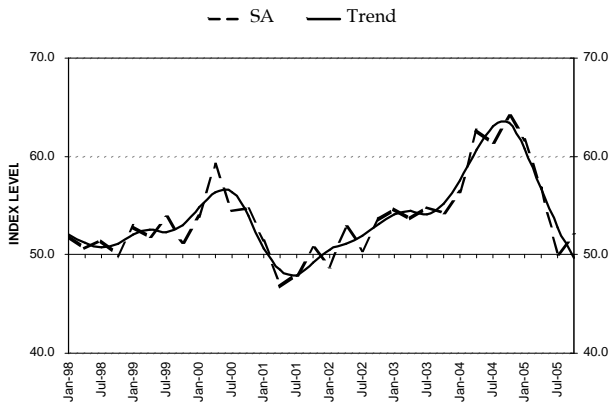
Sales



	Oct 2004	July 2004	Oct 2005
Excellent	4.4	1.8	3.9
Very Good	22.1	21.4	20.6
Good	41.2	27.2	29.8
Satisfactory	24.3	30.7	32.6
Poor	6.2	16.4	12.5
Very Poor	1.8	1.2	0.0
Deeply Depressed	0.0	1.4	0.6
Original	64.8	58.8	61.4
Seasonally Adjusted	65.2	58.9	61.8
Trend	65.6	61.2	60.2

The index of *Sales*, which shows the growth in the level of sales, continued to decline over the past three months with the index level falling from 61.2 to 60.2. More positively, the seasonally adjusted measure has turned up after having declined steadily over last year.

Profitability



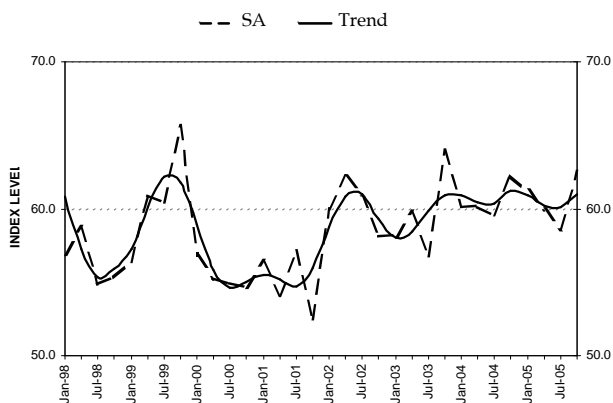
	July 2004	April 2005	July 2005
Excellent	8.5	5.6	3.5
Very Good	25.4	21.7	16.3
Good	25.2	14.3	29.9
Satisfactory	22.6	33.2	29.6
Poor	18.3	25.3	20.7
Very Poor	0.0	0.0	0.0
Deeply Depressed	0.0	0.0	0.0
Original	63.8	49.8	51.8
Seasonally Adjusted	64.0	50.2	51.9
Trend	63.4	52.7	49.7

The index on *Profitability* dipped into slightly negative territory from the 52.7 recorded in the last survey to 49.7. Like a number of other indicators, the seasonally adjusted measure has turned up after posting continuously falling results, which may indicate that the declines are levelling out or may reverse over the near future.

EXPECTATIONS FOR OWN BUSINESS

In addition to asking firms to evaluate their current business conditions, the survey also asks respondents to provide an indication as to the expected level of activity in the business over the next six months. The relevant data is presented in this section.

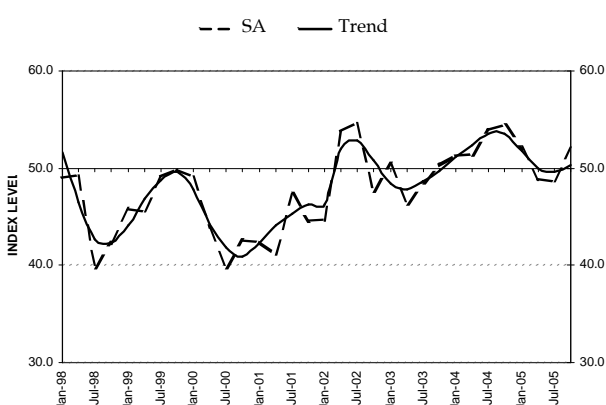
Level of Activity



	Oct 2004	July 2005	Oct 2005
Much Higher	3.7	6.6	3.4
Somewhat Higher	46.8	42.8	51.7
About the Same	41.5	36.7	35.5
Somewhat Lower	8.0	11.9	7.8
Much Lower	0.0	1.9	1.6
Original	61.5	60.1	61.8
Seasonally Adjusted	62.2	58.6	62.6
Trend	61.2	60.1	61.0

Business activity levels over the next six months are expected to continue to be positive. The index of *Expected Level of Activity* rose from the 60.1 recorded in July to 61.0 in October. The index has remained fairly steady at these levels over the past year.

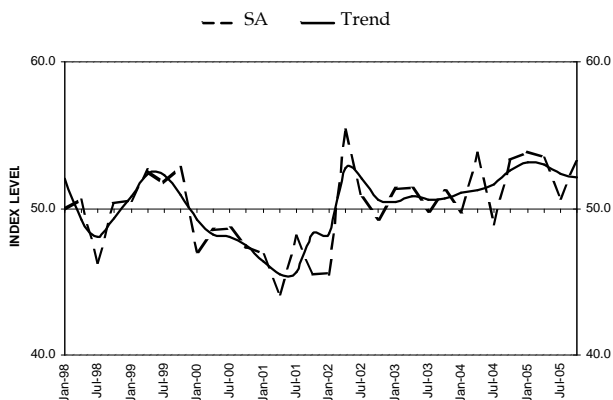
Level of Investment



	Oct 2004	July 2005	Oct 2005
Much Higher	5.3	2.6	5.0
Somewhat Higher	27.8	21.2	26.1
About the Same	49.0	50.7	47.2
Somewhat Lower	14.9	17.9	16.0
Much Lower	3.0	7.6	5.7
Original	54.4	48.3	52.1
Seasonally Adjusted	54.3	48.6	52.1
Trend	53.6	49.6	50.4

Expectations for investment in own businesses rose to a positive level after dipping into negative territory in the last survey. The index was recorded at 50.4 in October while it was 49.6 in July. The rise in expected investment levels is consistent with perceptions of general business conditions, sales and profits.

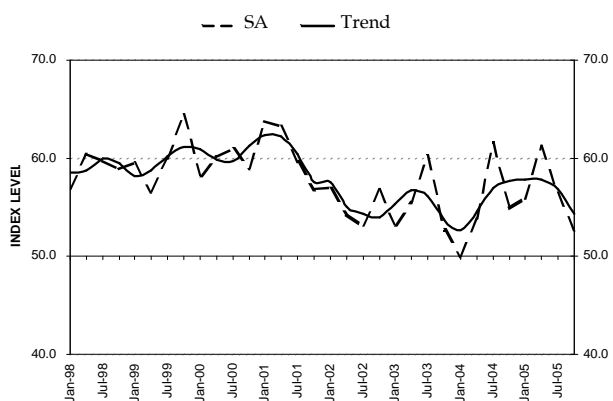
Number of Full-Time Employees



	Oct 2004	July 2005	Oct 2005
Much Higher	0.0	0.0	2.1
Somewhat Higher	25.6	19.5	25.1
About the Same	63.0	63.9	58.6
Somewhat Lower	11.4	15.4	13.3
Much Lower	0.0	1.2	0.9
Original	53.6	50.4	53.6
Seasonally Adjusted	53.3	50.7	53.3
Trend	52.6	52.3	52.1

The data on expected full-time employment declined only slightly in the latest survey with the index declining from 52.3 in July to 52.1 in October. The index level is indicative of continued growth in full-time employment.

Capacity in Relation to Demand



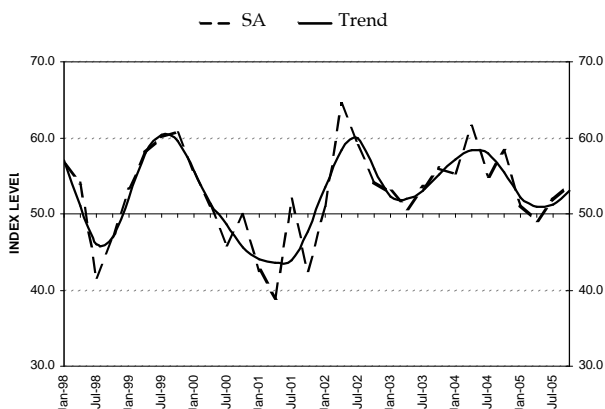
	Oct 2004	July 2005	Oct 2005
More than Adequate	22.5	29.9	24.7
Adequate	66.3	55.8	57.5
Less than Adequate	11.2	14.3	17.8
Original	55.7	57.8	53.4
Seasonally Adjusted	54.9	56.5	52.7
Trend	57.7	56.9	54.3

Capacity in Relation to the Expected Level of Demand was down over the quarter, with the index falling from 56.9 to 54.3. The fall of the index implies that firms expect to have less spare capacity over the next six months than in the previous survey. The expected unwinding of the excess spare capacity that has developed in the economy over the last year and a half is a positive sign and may signal greater growth in the near term.

CURRENT TRENDS IN THE NATIONAL ECONOMY

In addition to asking respondents to gauge current national business conditions, businesses are asked for their expectations of where the economy is headed in the short-run.

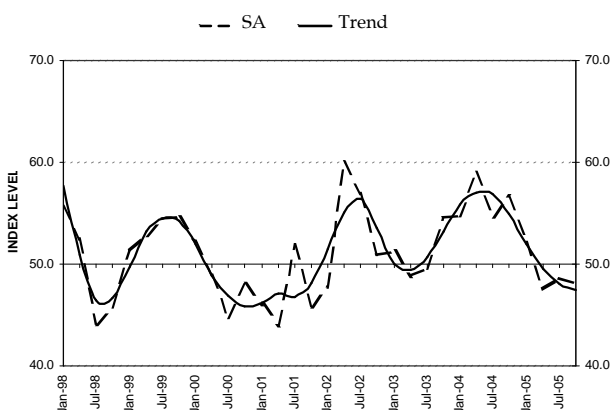
Trend in National Economic Conditions



	Oct 2004	July 2005	Oct 2005
Improving Rapidly	2.8	1.4	1.9
Improving Slowly	41.1	36.0	42.2
No Change	42.2	29.1	26.6
Deteriorating Slowly	13.9	32.8	27.6
Deteriorating Rapidly	0.0	0.8	1.8
Original	58.2	51.1	53.7
Seasonally Adjusted	58.3	51.8	53.8
Trend	55.5	51.3	53.1

The index of *Trend in National Economic Conditions* improved during the quarter to 53.1 from the 51.3 recorded in the previous survey, but expectations remain well down from the recent peak of 58.4 recorded in April 2004. Like the previous survey expectations remain fairly polarized between those expecting improvements and those expecting deteriorating conditions.

Trend in Climate for Investment



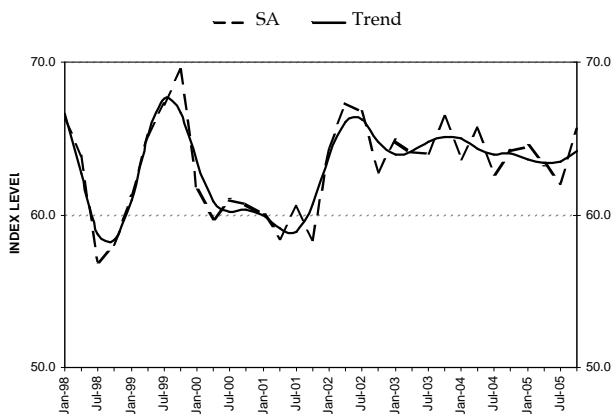
	Oct 2004	July 2004	Oct 2005
Improving Rapidly	2.2	0.6	1.0
Improving Slowly	35.8	21.8	28.4
No Change	48.5	49.7	39.1
Deteriorating Slowly	13.2	24.3	24.3
Deteriorating Rapidly	0.3	3.7	7.2
Original	56.6	47.8	47.9
Seasonally Adjusted	56.7	48.6	48.0
Trend	55.0	48.0	47.5

The index of short-run expectations for the climate for investment in the Australian economy declined further into negative territory, falling from 48.0 in July to 47.5 in the current survey. While this continued decline is worrying, the declines appear to be levelling out. Given that many of the other major indicators have begun to improve investor confidence may soon return.

CURRENT TRENDS IN OWN BUSINESS

This sections presents businesses' expectations for conditions within their own firms.

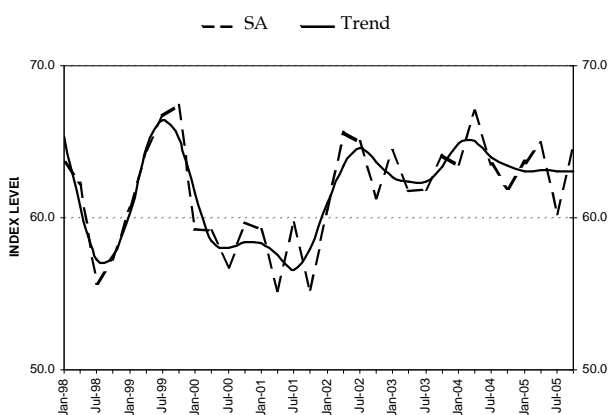
Trend in Own Business Conditions



	Oct 2004	July 2005	Oct 2005
Improving Rapidly	2.8	6.2	4.2
Improving Slowly	57.1	53.0	62.0
No Change	29.6	25.0	21.5
Deteriorating Slowly	10.5	15.5	12.0
Deteriorating Rapidly	0.0	0.2	0.3
Original	63.0	62.4	64.5
Seasonally Adjusted	64.1	62.1	65.6
Trend	64.0	63.5	64.2

Respondents continued to be confident about the prospects for their own firms over the short-term, with the index of *Trend in Own Business Conditions* rising from 63.5 in July to 64.2 in October. Importantly, there were only 12.3 percent of businesses indicating that they expected deterioration in their own operating conditions.

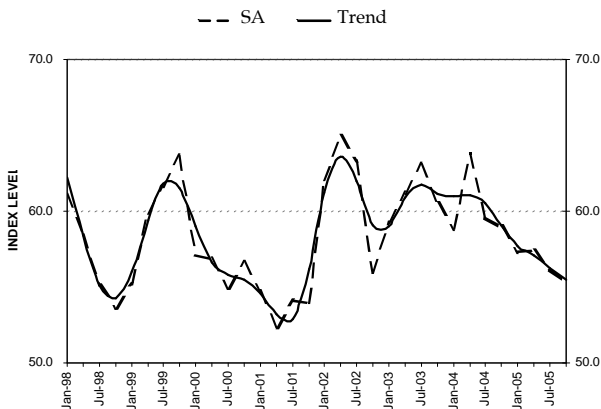
Trend in Own Sales



	Oct 2004	July 2005	Oct 2005
Improving Rapidly	2.0	3.9	3.5
Improving Slowly	54.2	50.1	62.2
No Change	28.8	33.9	19.6
Deteriorating Slowly	14.6	11.4	14.2
Deteriorating Rapidly	0.3	0.7	0.5
Original	60.8	61.3	63.5
Seasonally Adjusted	62.0	60.2	64.8
Trend	63.4	63.0	63.0

The index of *Trend in Own Sales* remained stable over the last three months with the index remaining at 63.0 over this timeframe. Moreover, the index has been relatively unchanged over all of 2005, with the index remaining within the range of 63.2 to 63.0. However, the level of the index suggests expectations for improving levels of sales.

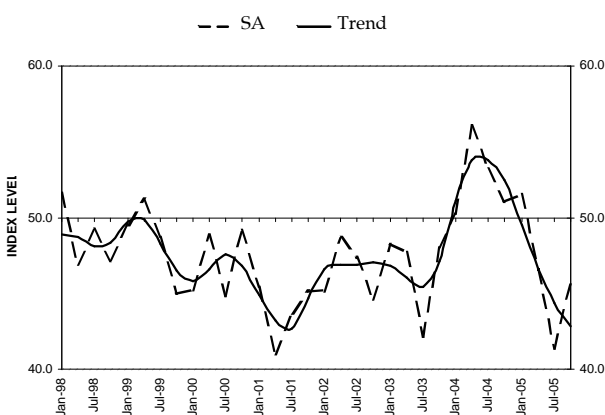
Trend in Own Profits



	Oct 2004	July 2005	Oct 2005
Improving Rapidly	2.4	1.4	1.5
Improving Slowly	44.5	49.1	44.9
No Change	39.2	25.4	30.9
Deteriorating Slowly	13.0	21.1	17.3
Deteriorating Rapidly	0.9	3.0	5.4
Original	58.6	56.2	54.9
Seasonally Adjusted	59.0	56.2	55.3
Trend	59.1	56.3	55.5

The index of *Trend in Own Profits* declined slightly from 56.3 to 55.5, continuing the steady decline from the 61.0 recorded in April 2004. The index itself remains above neutral suggesting that profit levels are expected to expand to some extent, but the continuing downward trend must certainly still be considered as concerning.

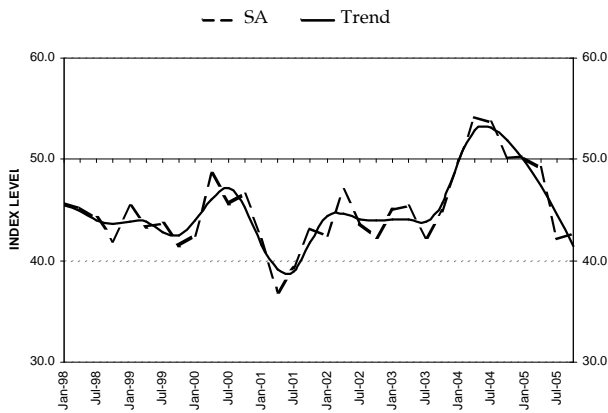
Actual Sales Compared with the Level Expected Six Months Ago



	Oct 2004	July 2005	Oct 2005
Much Higher	1.8	2.4	3.5
Somewhat Higher	28.7	19.6	19.8
About the Same	45.7	28.8	37.9
Somewhat Lower	20.0	36.6	33.8
Much Lower	3.8	12.5	4.9
Original	51.1	40.7	45.8
Seasonally Adjusted	51.0	41.4	45.7
Trend	52.5	44.3	42.8

Sales generally did not meet projections, with the index of *Actual Sales Compared With Expected* recorded at 42.8. However, the seasonally adjusted index rose to 45.7, suggesting a turnaround may be coming.

Actual Profits Compared with the Level Expected Six Months Ago



Actual Profits Compared with Expected

	Oct 2004	July 2005	Oct 2005
Much Higher	1.9	2.3	2.1
Somewhat Higher	26.9	15.9	22.2
About the Same	44.0	37.9	32.8
Somewhat Lower	22.7	33.2	28.5
Much Lower	4.6	10.6	14.5
Original	49.7	41.5	42.2
Seasonally Adjusted	50.2	42.2	42.7
Trend	51.8	44.5	41.5

The data on expected versus actual profits showed a very similar pattern to the comparison of sales to expected sales, with the index of actual profits compared with expected recorded down at 41.5 in trend terms and up at 42.7 in seasonally adjusted terms.

CONSTRAINTS ON INVESTMENT

ACCI's *Survey of Investor Confidence* seeks information from respondents on the importance of a list of twenty factors as constraints on the level of investment. The overall average index level for all constraints increased in the latest survey to 37.0, up on the 36.3 recorded in the previous period. This suggests there is currently a slightly higher degree of constraint on investment than in the previous quarter.

The table presented below shows the ten most important constraints on business investment and finds that the labour market and government taxes and regulations have again been the biggest brakes on investment.

Business Taxes and Government Charges was the largest single constraint on investment. It continues to be critical that reform in this area takes place if this constraint is to be reduced. Government regulation features prominently in the top ten constraints list with State Government regulation the greatest hindrance out of the three tiers of government regulation.

The *Availability of Suitably Qualified Employees* was the second largest constraint on business investment in the current survey. While staffing issues remain critical concerns, wages and non-wage costs are also key issues and were recorded in fourth and sixth positions respectively.

Local Competition and *Insufficient Demand* again appeared in the top ten list, indicating that trading conditions remain moderately difficult for business. These two constraints on business may be further compounded by the lack of profit growth being observed and hence the appearance of *Insufficient Retained Earnings* as a constraint on investment.

TOP TEN CONSTRAINTS ON INVESTMENT

October 2005

1. **Business Taxes and Government Charges** (2)
2. **Availability of Suitably Qualified Employees** (1)
3. **State Government Regulations** (3)
4. **Non-Wage Labour Costs** (4)
5. **Federal Government Regulations** (6)
6. **Wage Costs** (5)
7. **Local Competition** (7)
8. **Insufficient Demand** (9)
9. **Local Government Regulations** (8)
10. **Insufficient Retained Earnings** (10)

The figures in brackets show the ranking in the previous survey.

Note on Interpreting the Data

An index level of 50.0 indicates that there is a balance between those who responded that conditions were 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 October 2005 ACIL Tasman-ACCI *Survey of Investor Confidence* encompasses responses sought during September 2005 about current conditions and future expectations and had 887 respondents.