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St.George - ACCI BUSINESS EXPECTATIONS SURVEY February 2007

Identifying National Trends and Conditions for Australian Business

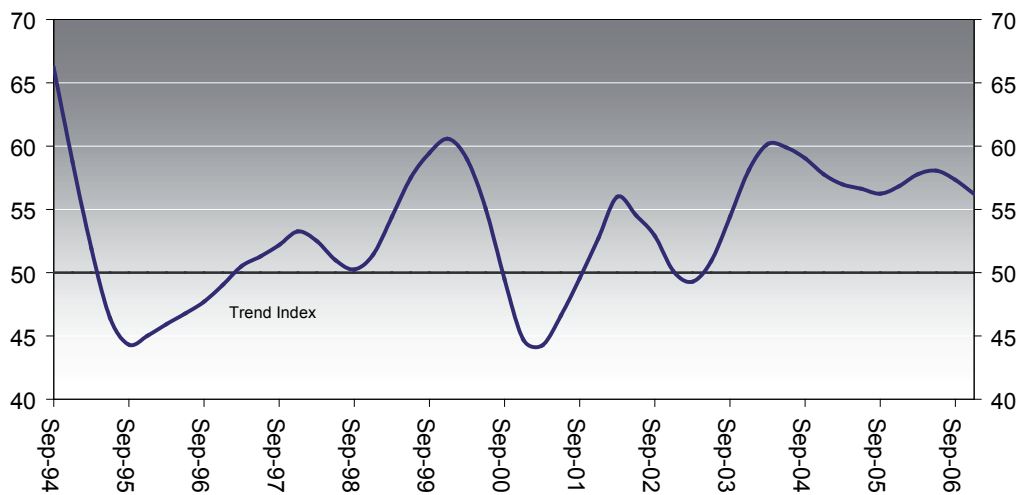
Summary

The St.George-ACCI Index of Business Conditions declined to 56.2 in the December Quarter, from 57.3 previously. However, the index is above 50, indicating that conditions continue to improve.

- Confidence in **expected economic growth** fell further into negative territory indicating that business expects growth to be less in one year's time than it is at present.
- **Employment** continued to grow strongly and employment expectations for the next quarter suggest that business will continue to create additional employment opportunities.
- **Wages growth** rose to the highest level ever recorded since the survey began in 1994.
- **Investment in plant and equipment** and **investment in buildings** continued to be strong, but moderated to some extent.
- **Sales revenue** was satisfactory despite a small decline in the index level while **profits** were lacklustre.
- **Selling prices** are relatively contained, but expectations suggest that inflation will be an issue over the next quarter.
- Looking at the results by **business size**, large business had the highest investment and employment figures but also the highest wage growth results.

Business Conditions

St.George - ACCI Index of Business Conditions



St.George and ACCI

St.George and ACCI share a strong desire to foster the success of businesses in Australia. Together we aim to look after the future of your business by bringing the national and industry-specific information that you need to thrive in a rapidly changing environment.

Results at a Glance

	5 Year Average	Dec 2005	Sept 2006	Dec 2006	Quarterly Move	March 2007 (e)
Business Conditions	55.8	56.8	57.3	56.2	↓	57.2
Expected Economic Growth (a)	50.8	49.7	48.3	46.0	↓	—
Sales Revenue	57.9	60.8	60.5	58.6	↓	62.8
Exports	52.1	55.2	54.6	54.2	↓	56.2
Wages	66.3	70.6	71.2	73.0	↑	71.0
Non-Wage Labour Costs	63.7	68.0	68.3	70.9	↑	68.6
Selling Prices	54.8	56.9	57.2	58.0	↑	61.8
Profits	49.9	50.1	50.4	49.9	↓	56.2
Employment	55.4	59.7	58.5	58.9	↑	60.0
Overtime	52.0	53.9	54.9	53.3	↓	52.1
Investment in Buildings and Structures	52.0	55.3	54.4	52.9	↓	55.6
Investment in Plant and Equipment	56.1	60.6	60.5	59.0	↓	58.8

Notes: Index values are in trend terms. The full data is available for download from the ACCI website at www.acci.asn.au.

(a) Expectation for following 12 months, (e) denotes expectation index level.

An index level of 50 indicates that there is an exact balance between those who responded that conditions had improved and those who replied that conditions had declined. Thus, a 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.

About the Survey

The Business Expectations Survey is a national survey aggregated from the surveys conducted by member associations of the Australian Chamber of Commerce and Industry (ACCI). These surveys cover firms in every state and industry as well as firms of every size. The survey is Australia's most comprehensive survey of business expectations.

The survey asks firms to indicate how their business has performed over the past 3 months, relative to the previous 3 months, according to 11 different measures: Business Conditions, Sales/Revenue, Exports, Wages, Non-Wage Labour Costs, Selling Prices, Employment, Overtime, Capital Expenditure, Buildings and Capital Expenditure, Plant and Equipment.

In addition, firms are asked how they believe their business will perform over the next 3 months compared with the past 3 months. This generates the expectations indexes.

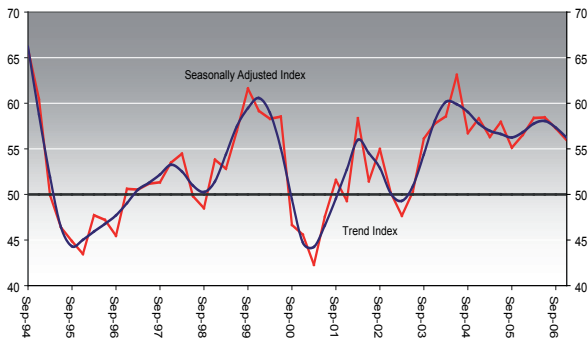
Finally, businesses are asked what their expectations are for the performance of the Australian economy over the next 12 months in comparison with the past 12 months. This provides a reading on the strength of growth in the domestic economy.

A number of the survey responses are segmented by size of business, with large firms categorised as having 100 or more employees, medium having 20-99 and small as having 1-19.

The data in this survey covers the period October, November and December 2006. There were 1,546 respondents to the survey.

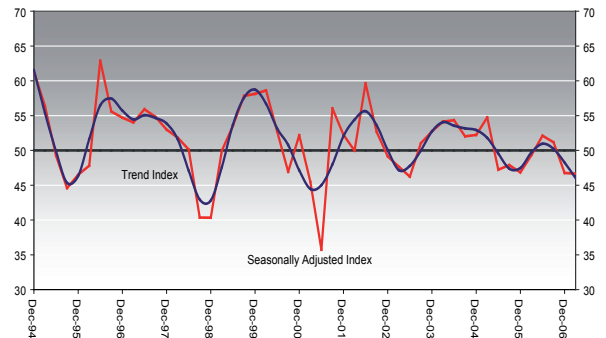
Survey Data

General Business Conditions



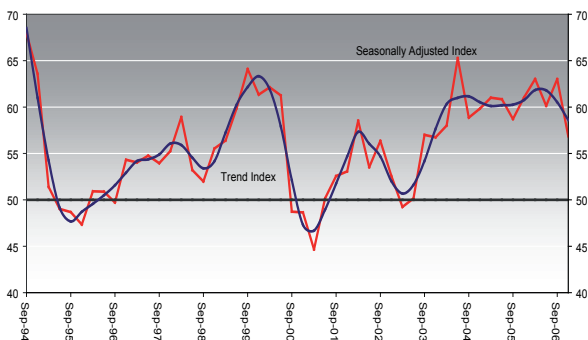
- **General business conditions** declined modestly with the index falling from 57.3 to 56.2 in the December quarter.
- The index remained well above the key 50.0 level.
- Expectations eased, showing that business is slightly less optimistic but the index remains very positive showing that overall business remains confident.

Expected Economic Growth



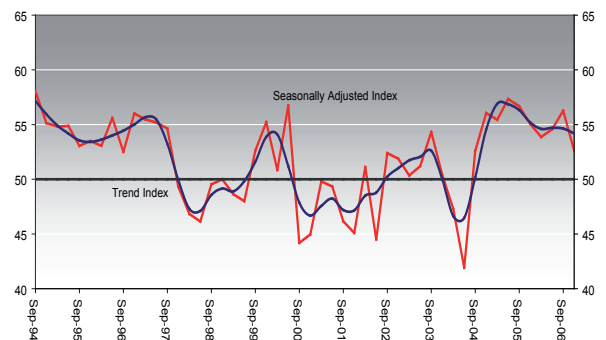
- Business expectations for **expected economic growth** for the next 12 months (relative to the previous 12 months) continued to decline over the December quarter.
- The decline in the index follows a rise into positive territory in the first half of 2006.
- The index now stands at 46.0 compared with 48.3 in the September quarter.

Sales Revenue



- The **sales revenue** index fell over the quarter to 58.6 from the 60.5 recorded in the previous quarter. However, the positive index level shows that sales growth is continuing to grow at a reasonable pace.
- Sales growth expectations also declined but remained very positive suggesting that business remains optimistic.

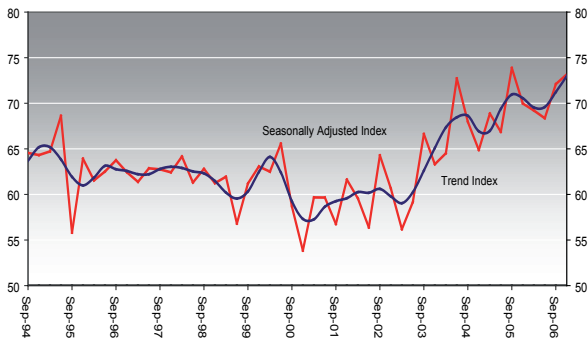
Export Sales Growth



- The **export growth** index was relatively unchanged and remained positive indicating that export growth continued to expand moderately.
- The index decreased to 54.2 in the December quarter from the 54.6 recorded in September.
- Expectations for export growth were up, showing that exports should continue to grow.

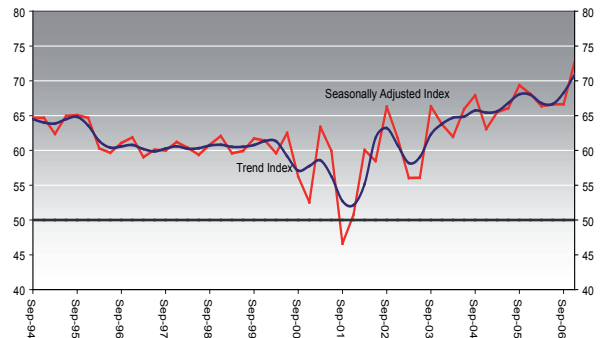
Survey Data

Wage Growth



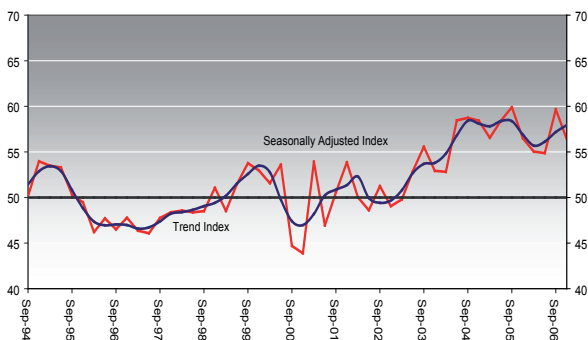
- **Wage growth** continued to rise significantly over the quarter with the index rising to 73.0 up from 71.2 recorded in September – the highest level ever recorded in this survey, which began in 1994.
- Wage pressures were exacerbated by the increase in wages handed down by the Australian Fair Pay Commission for implementation in December.
- Expectations increased over the quarter suggesting that wages will remain a key concern for business.

Non-Wage Labour Costs



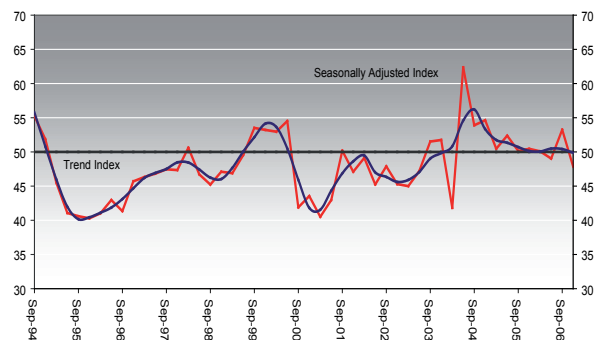
- The rate of growth in **non-wage labour costs** rose in tandem with wages to its highest level since 1994. The index increased from 68.3 to 70.9 over the quarter.
- This index measures labour on-costs such as fringe benefits, workers' compensation, payroll tax and training.
- Business expects these costs to continue to grow over the next quarter.

Selling Prices



- The index of **selling prices** rose over the December quarter, with the index at 58.0 compared with 57.2 in September.
- Despite the increase of the index, price growth remains relatively contained.
- Expectations for selling price growth show that continued price growth is likely to occur over the next three months.

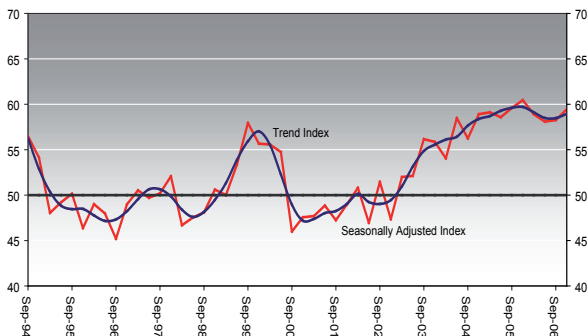
Profit Growth



- **Profit growth** remained in neutral territory with the index recorded at 49.9.
- Over the December quarter, the index declined marginally from 50.4 in the September quarter.
- Expectations for the next quarter were positive showing that business remains optimistic, despite neutral outcomes.

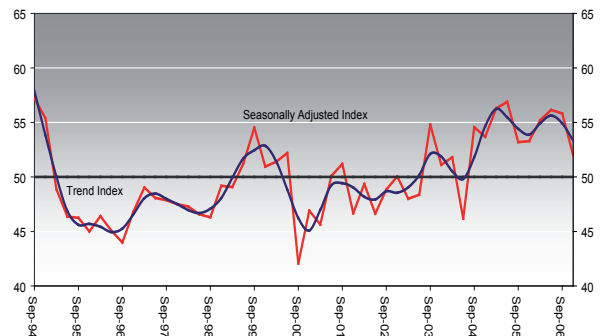
Survey Data

Employment



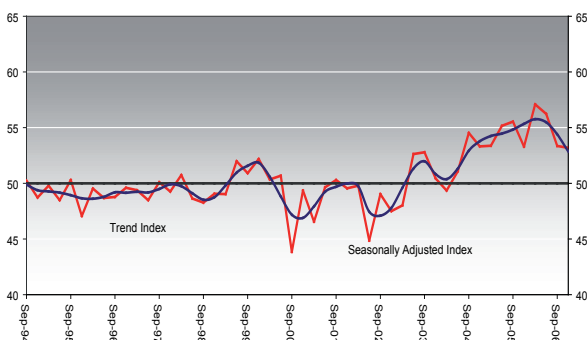
- The **employment** index has stabilised after dipping in mid 2006.
- The index level was recorded at 58.9 compared with 58.5 for the September quarter.
- Expectations also rose over the quarter, indicating that employment should continue to grow strongly.

Overtime Utilisation



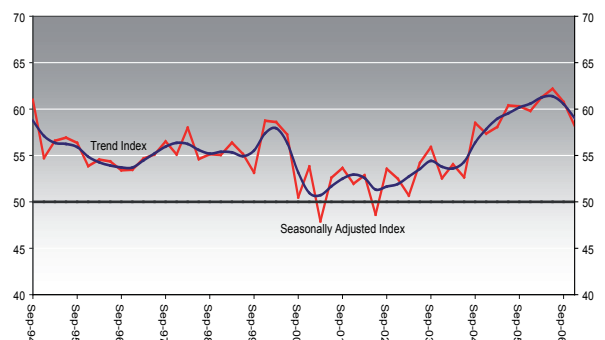
- The index of **overtime utilisation** declined from 54.9 in September to 53.3 in December, but remains quite positive.
- The level of overtime use shows that labour markets remain tight.
- Business expects overtime to remain an important part of the production process over the next quarter.

Investment in Buildings and Structures



- Growth of **investment in buildings and structures** by business continued to trend down, though the index remains firmly positive.
- The index fell to 52.9 from the previous level of 54.4 recorded in September.
- However, expectations rose, indicating that investment should continue to grow over the next quarter.

Investment in Plant and Equipment



- **Investment in plant and equipment** continued to fall away from record high levels over the December quarter. However, the index remains well above the five-year average.
- The index declined from 60.5 to 59.0 over the quarter.
- Expectations were buoyant showing that investment in plant and equipment will continue to grow well over the next three months.

Comparisons by Size of Business

All the data on this page is in original, not trend, terms.

General Business Conditions

	Dec 2006	Mar 2007 (e)
Small	56.3	56.4
Medium	59.1	55.4
Large	61.8	57.7
Weighted Average	59.4	56.7

- **General business conditions** were better for medium and large business while small firms indicated that general business conditions were positive but not as good as for their larger counterparts.
- All business sizes hold a positive outlook for the next quarter with large business the most optimistic and medium business the least.

Employment

	Dec 2006	Mar 2007 (e)
Small	55.3	56.9
Medium	58.1	58.4
Large	65.7	60.9
Weighted Average	60.7	58.8

- Large business again had the highest **employment growth**. Despite taking on more employees over the quarter, small business employed people at a slower rate than both medium and large firms.
- Large firms also expect that employment will expand by more than their small and medium counterparts.

Wage Growth

	Dec 2006	Mar 2007 (e)
Small	68.2	66.3
Medium	75.5	69.3
Large	77.0	74.0
Weighted Average	73.4	70.3

- **Wage growth** was very high for all three business sizes with large firms recording the most wage growth.
- The highest expectation for a wage growth over the next quarter was in large business as well, followed by medium and small business.

Investment in Plant and Equipment

	Dec 2006	Mar 2007 (e)
Small	55.1	53.3
Medium	59.3	56.2
Large	62.8	59.7
Weighted Average	59.9	57.1

- **Investment in plant and equipment** was highest in large business with small business undertaking the least new investment.
- All three business sizes did, however, continue to invest strongly.
- Looking ahead to the next quarter, small business held the lowest expectations while large business was the most optimistic.

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This survey is compiled from data collected through individual surveys conducted by members of the Australian Chamber of Commerce and Industry (ACCI). Participating organisations and contact details at each organisation are listed below.

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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:

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

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