



ST.GEORGE - ACCI SMALL BUSINESS SURVEY

IDENTIFYING NATIONAL TRENDS AND
CONDITIONS FOR THE SMALL BUSINESS
SECTOR



CONTENTS

- 3 Summary and Highlights
- 4 Australian Economic Performance
- 4 General Business Conditions
- 5 Key Business Indicators
 - 5 Sales Revenue
 - 5 Wages Growth
 - 6 Non-Wage Labour Costs
 - 6 Selling Prices
 - 7 Profits
 - 7 Employment
 - 8 Overtime Utilisation
 - 8 Investment in Buildings and Structures
 - 9 Investment in Plant and Equipment
- 10 Constraints on Investment
- 11 Comparison by Size of Business
- 12 Participating Organisations

FOREWORD

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

This survey covers small businesses in every state and in every industry. The data in this survey covers the period July, August and September 2005.

There were 1,760 respondents to this Survey.

For further information contact:

Michael Potter, Director of Economics and Taxation, ACCI on **(02) 6273 2311**.

If you would like further details from St.George, please contact:

Steve Ryan, St.George Chief Economist on **(02) 9320 5535** or visit **st.george.com.au/corporate**.

ST.GEORGE & 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.

SMALL BUSINESS WAGES GROWTH PUTS PRESSURE ON PROFITS

SUMMARY

The September quarter 2005 *St.George-ACCI Small Business Survey* shows that small business conditions have continued to moderate from the all-time high recorded in the March quarter of 2004. Small business confidence in the national economy also eroded over the September quarter and small business expects that the national economy will not be as strong over the next 12 months as compared to the last year.

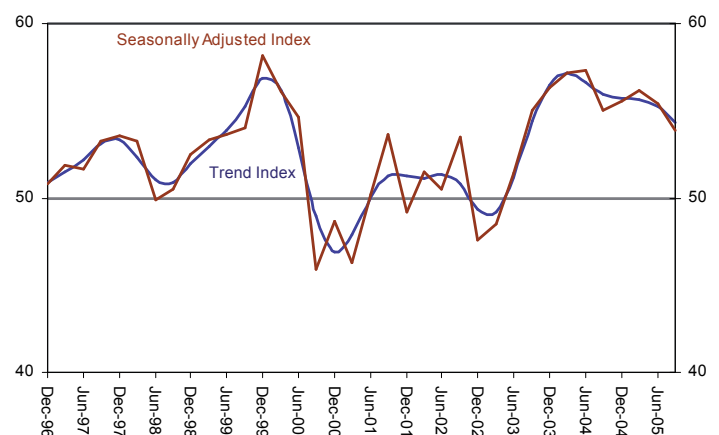
Since the peak in *General Business Conditions* last year, *Sales Growth* has generally declined while wage growth and non-wage labour costs have risen to the highest level since the survey began nine years ago. This combination has likely led to the observed downward trend in profits. Small business profit declined over the quarter. Despite the diminished sales growth results, sales expectations remain sound as do profit expectations.

Employment growth was maintained over the quarter and overtime utilization was constant. Employment expectations for the December quarter were buoyant suggesting that the labour market should remain tight.

Small business investment showed modest gains through the quarter in buildings and structures, and plant and equipment investment, despite the continued moderation of the two investment indexes.

The main constraint on small business investment was *Business Taxes and Government Charges*, with labour-related constraints the next major constraints. In addition to government taxes and charges, *State Government Regulation* was the fifth-largest constraint to investment.

GENERAL BUSINESS CONDITIONS



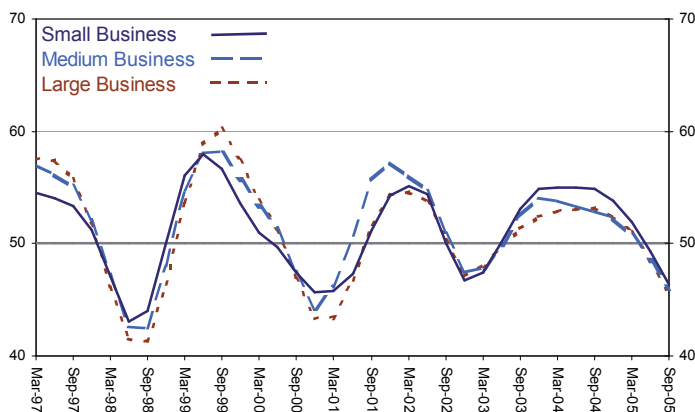
HIGHLIGHTS

- Small business conditions moderated.
- The small business sector is positive about the next quarter.
- Employment continued to expand well, despite labour and non-labour cost increases.
- Sales revenue growth was down.
- Profits fell.
- Government regulation and labour market imposts made up the top five constraints to small business investment.

AUSTRALIAN ECONOMIC PERFORMANCE

The index of *Australian Economic Performance*, which indicates how businesses expect the Australian economy to perform in the year ahead compared with the performance of the previous year, continued to fall for all three business sizes – small, medium and large. Business now expects the economy will grow by less in the next 12 months than it did over the previous 12 months.

Comparison of Trend Indexes by Size of Business



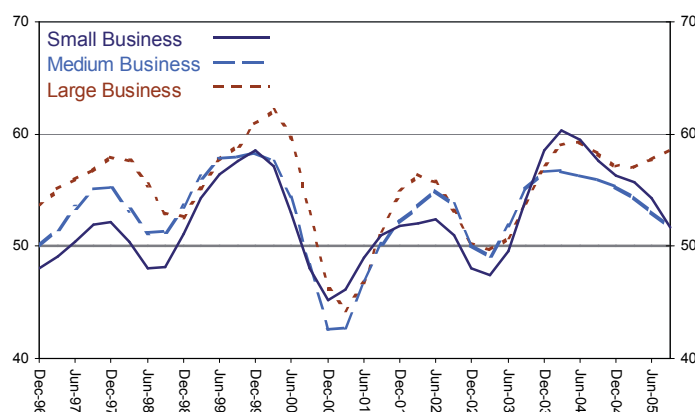
Small Business Responses

	Sept 2004 Expectation	Sept 2005 Expectation	Dec 2005 Expectation
Much Stronger	4.5%	1.1%	1.4%
Somewhat Stronger	27.8%	19.1%	19.9%
About the Same	50.0%	51.2%	49.5%
Somewhat Weaker	16.2%	27.3%	27.1%
Much Weaker	1.5%	1.3%	2.2%
Original Index	54.4	47.9	47.8
Seasonally Adjusted Index	55.3	48.7	47.3
Trend Index	55.0	49.3	46.4

GENERAL BUSINESS CONDITIONS

The *General Business Conditions* index, which measures whether or not conditions in the respondents' own businesses have improved or not over the quarter, declined significantly over the September 2005 quarter. Despite the fall in the index level, expectations remain sound. Interestingly, while the confidence of small, medium and large businesses has declined from the peaks recorded in 2004, large business showed a marked improvement in this quarter.

Comparison of Trend Indexes by Size of Business



Small Business Responses

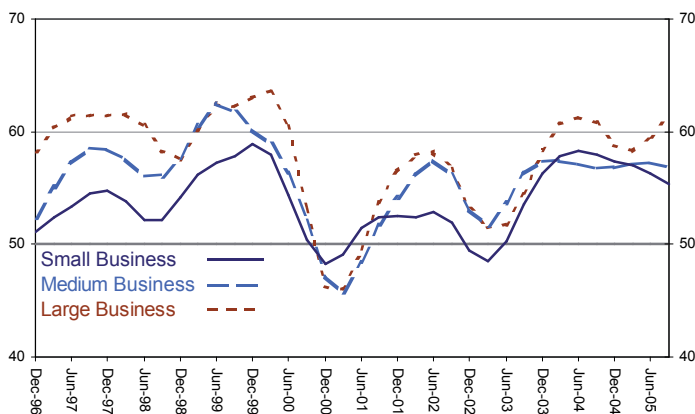
	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
Up	28.5%	25.4%	36.5%
Same	52.2%	50.4%	49.5%
Down	19.3%	24.1%	14.0%
Original Index	54.6	50.6	61.2
Seasonally Adjusted Index	54.8	50.8	58.4
Trend Index	57.5	51.7	59.2

KEY BUSINESS INDICATORS

SALES REVENUE

The *Sales Revenue* index measures the change in sales revenue over the previous quarter. The small business index continued to decline in the September quarter but expectations for the December quarter were very positive. Medium business sales revenue was little changed over the quarter while large business continued to post strong results.

Comparison of Trend Indexes by Size of Business



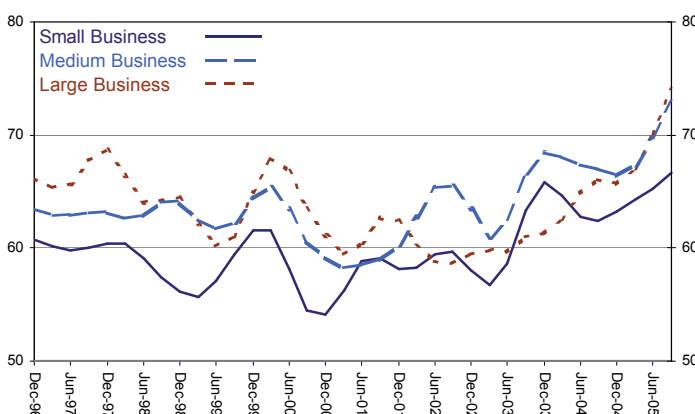
Small Business Responses

	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
Up	40.4%	35.2%	48.0%
Same	34.9%	38.1%	38.6%
Down	24.8%	26.7%	13.4%
Original Index	57.9	54.2	67.3
Seasonally Adjusted Index	58.0	54.4	64.4
Trend Index	58.0	55.3	64.4

WAGES GROWTH

The *Wages Growth* index, which measures growth in the level of wages paid by businesses to their employees, continued to increase over the September 2005 quarter. The steady increase has brought the wage index to a new all-time high. Looking ahead, small business expects wages to continue to grow over the next quarter. However, small business wages growth was well below the rate of growth reported by medium and large business, which each showed substantial increases.

Comparison of Trend Indexes by Size of Business



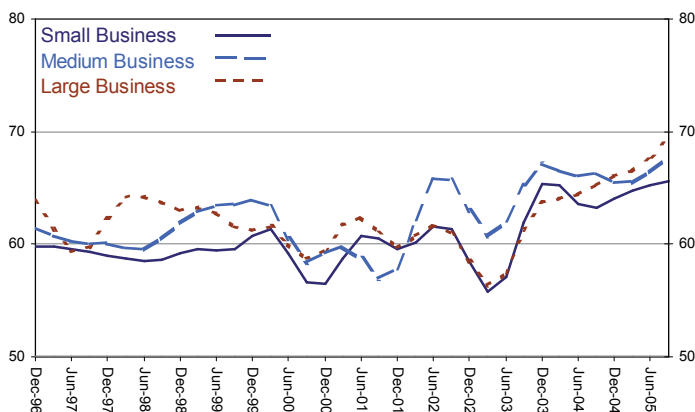
Small Business Responses

	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
Up	36.4%	42.1%	37.6%
Same	55.8%	54.7%	57.9%
Down	7.7%	3.2%	4.5%
Original Index	64.3	69.5	66.6
Seasonally Adjusted Index	62.7	67.7	66.8
Trend Index	62.4	66.7	66.0

NON-WAGE LABOUR COSTS

This index measures the growth in labour on-costs such as fringe benefits, workers' compensation, payroll tax and training. Growth in small business *Non-Wage Labour Costs* was not as pronounced as for wages, but like wages, have continued to increase fairly quickly and have also set a new all-time high. In addition, small business *Non-Wage Labour Costs* are expected to continue to mount over the coming quarter. Medium and larger business recorded higher levels of non-wage labour costs with large business, as with the previous survey, recording an all-time high.

Comparison of Trend Indexes by Size of Business



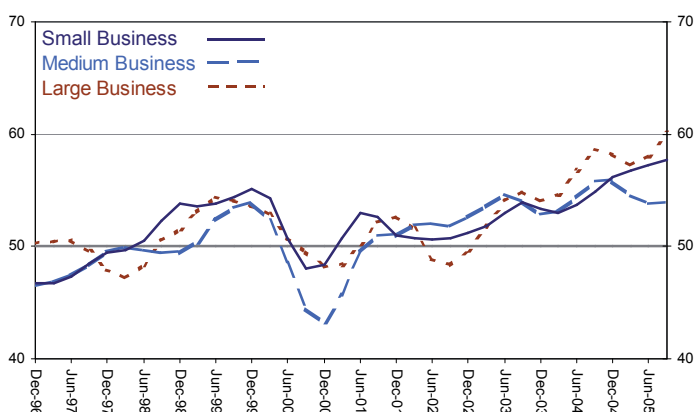
Small Business Responses

	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
Up	35.8%	39.6%	32.5%
Same	60.1%	57.2%	64.8%
Down	4.1%	3.2%	2.7%
Original Index	65.9	68.2	64.9
Seasonally Adjusted Index	63.5	65.8	65.8
Trend Index	63.3	65.6	64.3

SELLING PRICES

The small business index of *Selling Prices*, which measures growth in the prices charged by businesses for goods and services, indicates continued increases in prices with expectations for these increases to continue. Medium business recorded no change in growth while large business, and small business, displayed higher growth rates than previously.

Comparison of Trend Indexes by Size of Business



Small Business Responses

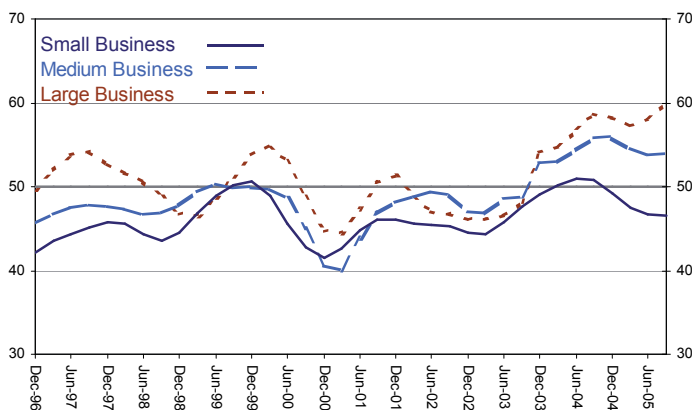
	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
Up	23.5%	23.0%	27.1%
Same	66.0%	68.4%	67.4%
Down	10.5%	8.6%	5.5%
Original Index	56.5	57.2	60.8
Seasonally Adjusted Index	56.2	56.9	61.5
Trend Index	54.8	57.7	60.3



PROFITS

Small business *Profitability* declined further in the September quarter of 2005, but expectations remain optimistic. There was a wide variation in experiences between the three business size classes with medium and larger sizes both recording better levels than their smaller counterparts. For expectations, large businesses showed a substantial improvement while the results for medium businesses remained unchanged.

Comparison of Trend Indexes by Size of Business



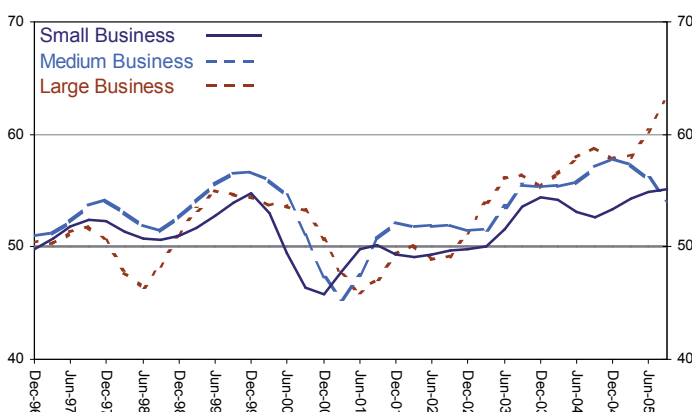
Small Business Responses

	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
Up	28.3%	22.5%	35.1%
Same	44.9%	49.4%	49.3%
Down	26.9%	28.1%	15.6%
Original Index	50.8	47.2	59.7
Seasonally Adjusted Index	51.1	47.5	57.9
Trend Index	50.8	46.5	57.5

EMPLOYMENT

The *Employment* index, which measures the creation of new jobs by employers in the previous quarter, shows that small business employment was moderately higher in the September quarter 2005 than in the previous quarter. For the December quarter, further modest gains are expected. Large-sized business had significantly higher employment levels, while the index for medium business continued downwards.

Comparison of Trend Indexes by Size of Business



Small Business Responses

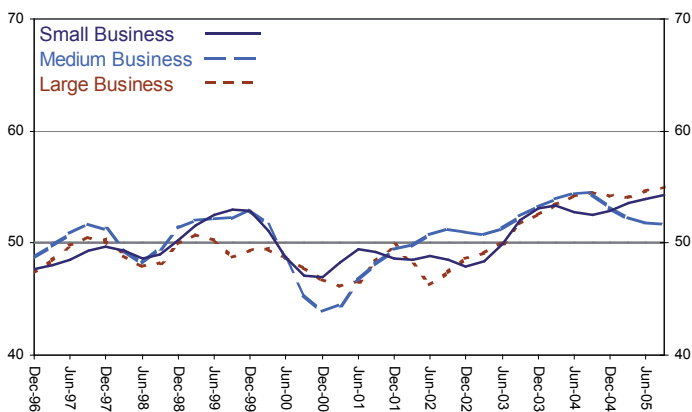
	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
Up	18.3%	17.9%	22.6%
Same	69.1%	71.9%	70.5%
Down	12.6%	10.2%	6.9%
Original Index	52.9	53.8	57.8
Seasonally Adjusted Index	52.9	53.8	57.5
Trend Index	52.6	55.1	57.6



OVERTIME UTILISATION

The *Overtime Utilisation* index, which measures the extent to which overtime was employed in the previous quarter, was virtually unchanged over the last three months. Expectations for the next quarter are for an increase in the level of overtime used. Medium businesses continue to report less overtime usage than their smaller and larger counterparts.

Comparison of Trend Indexes by Size of Business



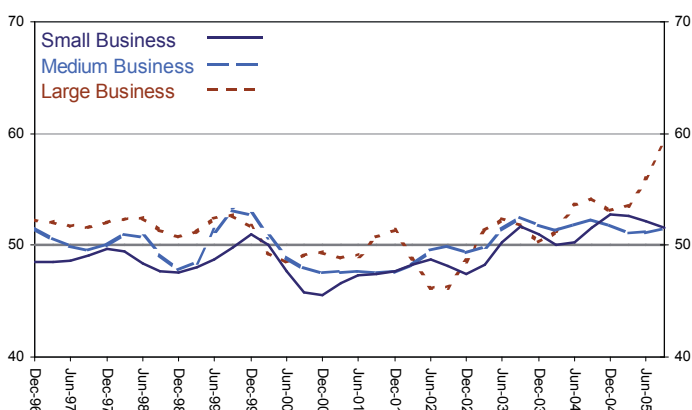
Small Business Responses

	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
Up	21.6%	22.5%	21.6%
Same	62.8%	63.5%	69.7%
Down	15.6%	14.0%	8.7%
Original Index	53.0	54.2	56.5
Seasonally Adjusted Index	52.7	54.0	54.3
Trend Index	52.5	54.3	54.1

INVESTMENT IN BUILDINGS AND STRUCTURES

Investment in Buildings and Structures, which measures the level of business investment in buildings and structures, moved back into neutral territory after having been positive in the first half of 2005. Expectations for the next quarter were also neutral. Building investment was driven by large business with significantly higher levels of building work being recorded for that sector, while for medium firms building work was on par with small business.

Comparison of Trend Indexes by Size of Business



Small Business Responses

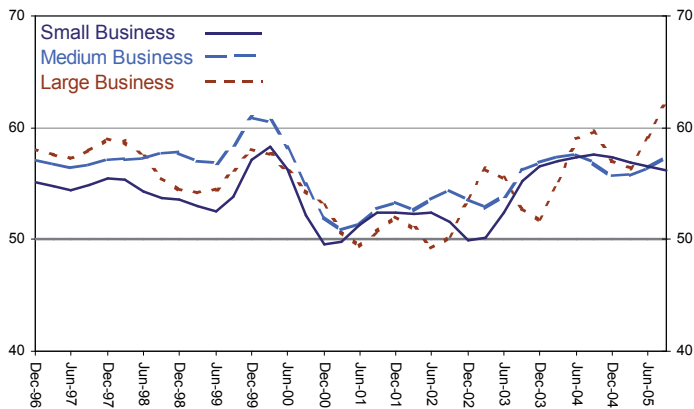
	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
Up	17.3%	16.1%	16.7%
Same	68.2%	69.4%	68.1%
Down	14.5%	14.5%	15.2%
Original Index	51.4	50.8	50.7
Seasonally Adjusted Index	52.5	51.8	51.4
Trend Index	51.6	51.6	51.1



INVESTMENT IN PLANT AND EQUIPMENT

Investment in Plant and Equipment followed a similar pattern to building investment, with small business recording modest rates of growth and large business recording very high growth. Expectations diminished slightly over the quarter, and at the current level indicate that *Investment in Plant and Equipment* should continue to be subdued among small businesses.

Comparison of Trend Indexes by Size of Business



Small Business Responses

	Sept 2004 Actual	Sept 2005 Actual	Dec 2005 Expectation
Up	28.7%	25.8%	21.8%
Same	55.9%	61.1%	62.3%
Down	15.4%	13.1%	16.0%
Original Index	56.7	56.3	52.9
Seasonally Adjusted Index	57.3	56.9	52.7
Trend Index	57.7	56.2	53.6



CONSTRAINTS ON INVESTMENT

The *ACIL TASMAN-ACCI Survey of Investor Confidence* asks businesses 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 from 37.5 to 40.1.

TOP FIVE CONSTRAINTS ON INVESTMENT

Figures in brackets show rankings during the June 2005 quarter.

Small Business

1. Business Taxes and Government Charges (1)
2. Availability of Suitably Qualified Employees (3)
3. Non-Wage Labour Costs (5)
4. Wage Costs (9)
5. State Government Regulations (2)

Medium Business

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

Large Business

1. Availability of Suitably Qualified Employees (2)
2. State Government Regulations (3)
3. Federal Government Regulations (6)
4. Non-Wage Labour Costs (5)
5. Wage Costs (7)

Labour-related constraints constituted three of the top five constraints on small business investment in September 2005. *Business Taxes and Government Charges*, was the single biggest barrier to business investment in the current quarter, the same as last quarter. Ranking behind taxes and charges were labour-related constraints, which made up the second, third and fourth spots in the top five. The high ranking of labour related constraints demonstrates how tight the labour market remains. In addition, *State Government Regulations* was ranked in fifth place. State regulations featured on all three business classes showing that state regulations affect all business size classifications.

COMPARISON BY SIZE OF BUSINESS

ACTUAL RESULTS FROM THE SEPTEMBER QUARTER 2005

General Business Conditions

	Small	Medium	Large
Up	25.4	28.4	33.4
Same	50.4	49.8	50.1
Down	24.1	21.8	16.4
Original	50.6	53.3	58.5
Seasonally Adjusted	50.8	51.9	57.9
Trend	51.7	51.7	58.5

Sales Revenue

	Small	Medium	Large
Up	35.2	39.9	46.5
Same	38.1	34.5	32.7
Down	26.7	25.6	20.8
Original	54.2	57.2	62.9
Seasonally Adjusted	54.4	55.7	62.1
Trend	55.3	56.9	61.5

Wages Growth

	Small	Medium	Large
Up	42.1	52.5	56.1
Same	54.7	45.1	42.8
Down	3.2	2.5	1.1
Original	69.5	75.0	77.5
Seasonally Adjusted	67.7	73.2	75.1
Trend	66.7	73.0	74.1

Non-Wage Labour Costs

	Small	Medium	Large
Up	39.6	43.0	46.5
Same	57.2	53.8	52.5
Down	3.2	3.1	1.0
Original	68.2	70.0	72.7
Seasonally Adjusted	65.8	68.3	68.7
Trend	65.6	67.9	69.5

Selling Prices

	Small	Medium	Large
Up	23.0	22.2	32.6
Same	68.4	64.7	62.6
Down	8.6	13.1	4.9
Original	57.2	54.5	63.9
Seasonally Adjusted	56.9	54.8	61.9
Trend	57.7	53.8	60.1

Profits

	Small	Medium	Large
Up	22.5	22.2	32.6
Same	49.4	64.7	62.6
Down	28.1	13.1	4.9
Original	47.2	54.5	63.9
Seasonally Adjusted	47.5	54.8	61.9
Trend	46.5	53.8	60.1

Employment

	Small	Medium	Large
Up	17.9	21.6	42.5
Same	71.9	66.3	45.5
Down	10.2	12.0	12.0
Original	53.8	54.8	65.2
Seasonally Adjusted	53.8	54.0	64.7
Trend	55.1	54.2	63.2

Overtime Utilisation

	Small	Medium	Large
Up	22.5	18.1	18.6
Same	63.5	68.4	66.3
Down	14.0	13.5	15.1
Original	54.2	52.3	51.8
Seasonally Adjusted	54.0	52.8	52.0
Trend	54.3	51.7	54.8

Investment in Buildings and Structures

	Small	Medium	Large
Up	16.1	19.5	27.5
Same	69.4	66.2	62.4
Down	14.5	14.3	10.1
Original	50.8	52.6	58.7
Seasonally Adjusted	51.8	52.6	59.2
Trend	51.6	51.5	59.3

Investment in Plant and Equipment

	Small	Medium	Large
Up	25.8	28.0	34.0
Same	61.1	58.6	56.8
Down	13.1	13.4	9.2
Original	56.3	57.3	62.4
Seasonally Adjusted	56.9	56.8	63.6
Trend	56.2	57.3	62.6



PARTICIPATING ORGANISATIONS

The 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.

ACT & Region Chamber of Commerce and Industry

Mr Chris Peters AM
Ph: (02) 6283 5200

Australian Business Limited

Mr Paul Orton
Ph: (02) 9927 7445

Business SA

Ms Rene Reaiche
Ph: (08) 8300 0000

Chamber of Commerce & Industry of Western Australia

Ms Nicky Cusworth
Ph: (08) 9365 7555

Chamber of Commerce Northern Territory

Ms Clalia Mar
Ph: (08) 8936 3100

Commerce Queensland

Mr Andrew Larkin
Ph: (07) 3842 2253

Printing Industries Association of Australia

Mr Hagop Tchamkertenian
Ph: (02) 8789 7300

Tasmanian Chamber of Commerce & Industry

Mr Nick Behrens

Victorian Automobile Chamber of Commerce

Ms Susie Savage
Ph: (03) 9829 1111

Victorian Employers' Chamber of Commerce & Industry

Mr Steven Wojtkiw
Ph: (03) 9251 4333

NOTE ON INTERPRETING THE SURVEY

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, 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 index is calculated by taking a weighted sum of the proportion of responses to every answer to form an index between 100 and 0. The strongest response is given the greatest weighting of one with the weakest given the lower weighting of zero, and proportional weighting in between. As a result, if all respondents answered the strongest response, the index would be 100; if they all answered the weakest response, the index would be zero.

If n is the number of response categories; $prop_i$ is the proportion of responses in a given category and i is the response category, then the formula for the index is:

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

The information and data contained in this Survey has been prepared by ACCI and is intended for general use only. The opinions and views expressed in this Survey are not representative of those of St.George Bank Limited ABN 92 055 513 070 AFSL 240997 or any of its related entities ("St.George Group"). Before making any decision based on the information contained in the Survey, St.George strongly recommends that you seek appropriate professional advice.

To the extent permitted by law, the St.George Group is not liable for any loss or damage sustained by any entity as a result of its reliance on any information contained in this Survey (including, without limitation, by reasons of negligence, negligent misstatement, lack of care, or that such loss or damage was foreseeable).