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St.George - ACCI BUSINESS EXPECTATIONS SURVEY August 2006

Identifying National Trends and Conditions for Australian Business

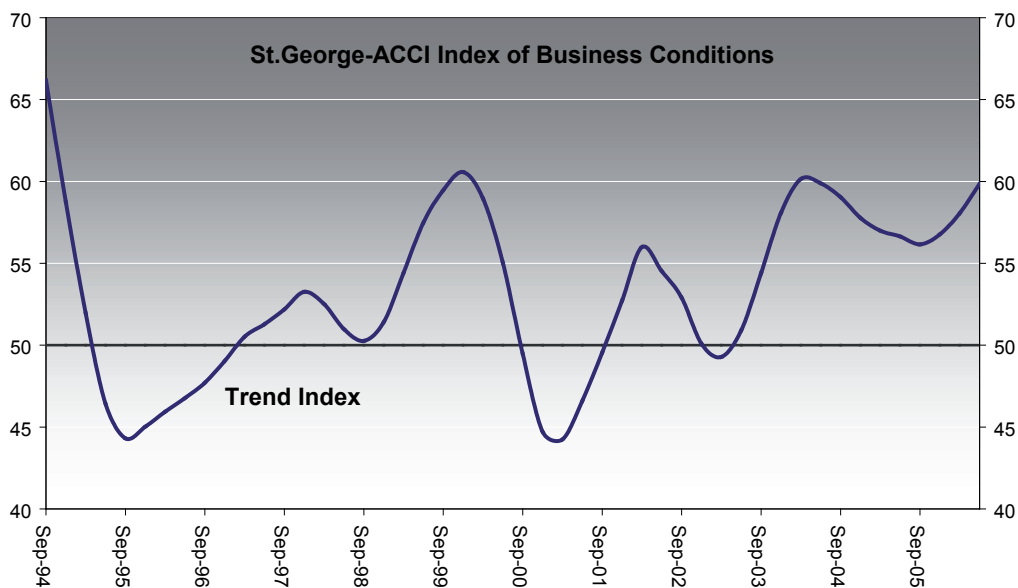
Summary

THE ST.GEORGE - ACCI INDEX OF BUSINESS CONDITIONS ROSE TO 59.9 IN THE JUNE QUARTER, FROM 58.1 IN THE MARCH QUARTER.

- Confidence in **Australian economic growth** continued to improve over the quarter after having been negative in 2005.
- **Investment in plant and equipment** and **investment in buildings** reached new all time highs since the survey began in 1994.
- **Wage growth** and **non-wage labour costs** declined over the quarter but remain at a high level.
- Inflation appears to be moderating - **prices** rose by less than they have since March 2004. Price expectations suggest that price growth will moderate over the next quarter.
- **Sales revenue** expanded over the quarter while **profits** were lacklustre.
- **Employment** continued to grow over the quarter but at a slower rate while overtime use grew strongly over the quarter, indicating that labour markets remain tight.
- Looking at the results by **business size**, business conditions roughly followed the business size classifications with large business having the highest investment and employment figures but also the highest wage growth results.

Business Conditions

Business Conditions Good but Profits Falling



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	June 2005	March 2006	June 2006	Quarterly Move	Sept 2006 (e)
Business Conditions	55.1	56.6	58.1	59.9	↑	63.0
Australian Economic Growth (a)	51.1	47.4	51.0	52.5	↑	—
Sales Revenue	57.0	60.2	61.7	62.2	↑	66.3
Exports	51.4	56.9	54.5	54.1	↓	54.9
Wages	65.0	69.4	69.7	68.1	↓	64.0
Non-Wage Labour Costs	62.9	67.1	67.2	67.0	↓	62.9
Selling Prices	54.4	58.3	55.5	54.0	↓	56.8
Profits	49.5	51.3	49.9	49.5	↓	57.2
Employment	54.3	59.3	59.1	58.2	↓	58.8
Overtime	51.5	55.5	54.7	56.2	↑	53.2
Investment in Buildings and Structures	51.6	54.5	55.8	56.8	↑	52.0
Investment in Plant and Equipment	55.4	59.6	61.0	61.9	↑	57.3

Notes: Index values are in trend terms. The full data set is able to be viewed 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, 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.

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, namely 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 gives rise to the expectations indexes.

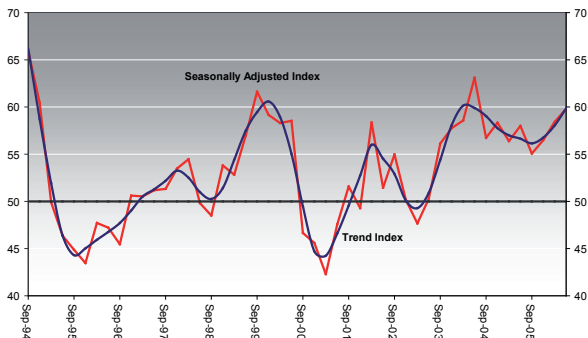
Finally, businesses are asked what their expectations are for the performance of the Australian economy over the next 12 months in comparison with the past 12 months. This provides a reading on the strength of growth in the domestic economy.

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 April, May and June 2006. There were 1,606 respondents to the survey.

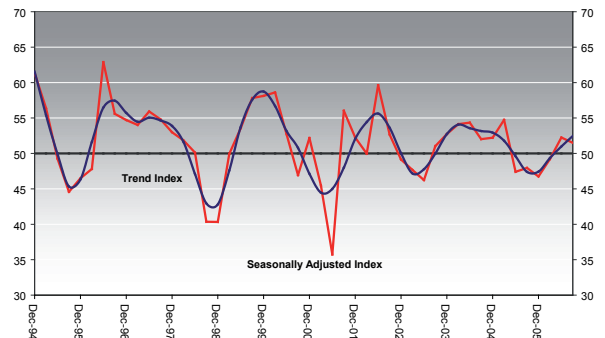
Survey Data

General Business Conditions



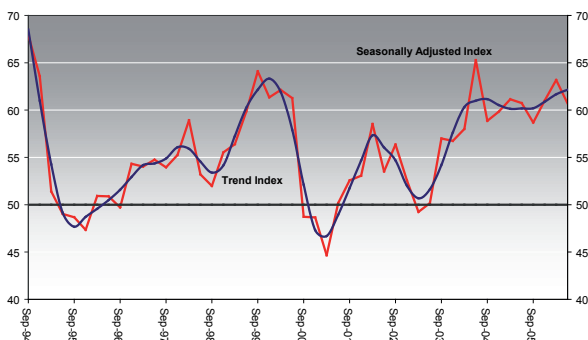
- **General business conditions** improved in the June quarter to 59.9 from 58.1 in the March quarter.
- Conditions have improved markedly after having deteriorated over 2005.
- Expectations showed that businesses are optimistic, with the expectations index recorded at a strongly positive level.

Australian Economic Growth



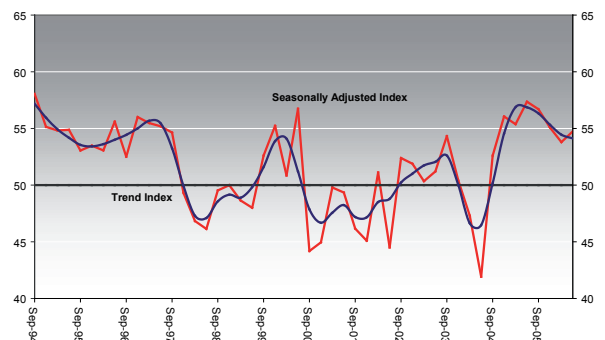
- Business expectations for **Australian economic growth** for the next 12 months (relative to the previous 12 months) rose over the June quarter.
- The index is now being recorded at positive levels after having dipped into negative territory in 2005.
- The index now stands at 52.5 compared with 51.0 in March.

Sales Revenue



- The **sales revenue** index rose over the quarter to 62.2 from the 61.7 recorded in the previous quarter.
- Sales growth is sound, while expectations suggest sales growth should remain at about the current rate of growth with the expectations index remaining unchanged over the quarter.

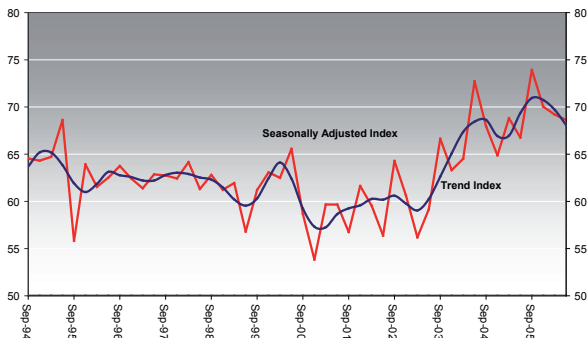
Export Sales Growth



- The **export growth** index declined slightly over the quarter but remained in positive territory.
- The index declined to 54.1 from 54.5 over the June quarter and indicates that exports continued to expand modestly.
- Expectations for export growth also declined somewhat suggesting that exports will not pick-up significantly over the next quarter.

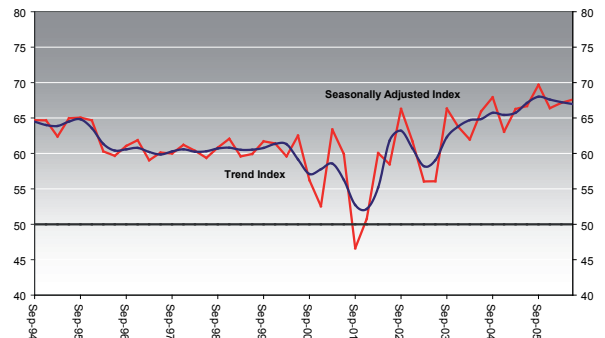
Survey Data

Wage Growth



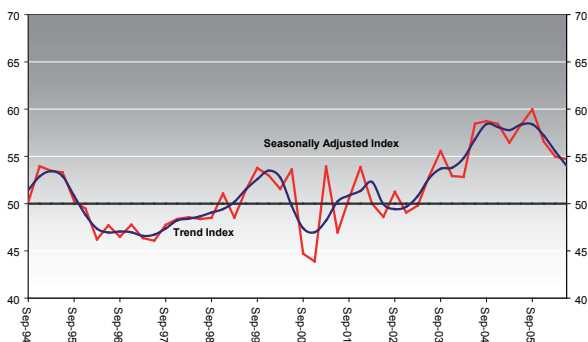
- **Wage growth** declined over the quarter with the index declining to 68.1 from 69.7 recorded in March.
- The decline of the index after having reached an all time high in 2005 indicates that wage pressures are easing.
- Expectations also declined over the quarter suggesting that further moderations may take place.

Non-Wage Labour Costs



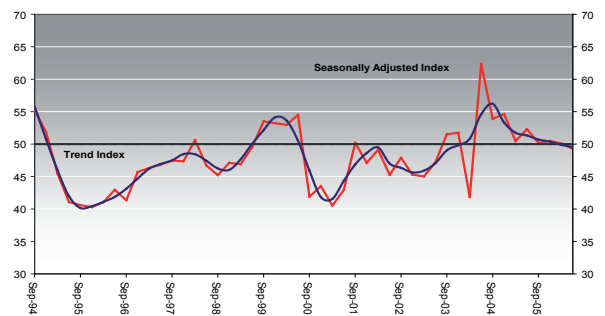
- The rate of growth in **non-wage labour costs** declined only slightly. The index declined to 67.0 from 67.2 over the June quarter.
- This index measures labour on-costs such as fringe benefits, workers' compensation, payroll tax and training.
- Business expects these costs to continue to grow but at a slightly reduced rate over the next quarter.

Selling Prices



- The index of **selling prices** was down over the June quarter, with the index at 54.0 in June relative to 55.5 in March.
- The decline of the index shows that inflation pressures are easing with the index at its lowest level since March 2004.
- Expectations for price rises over the next quarter were also down.

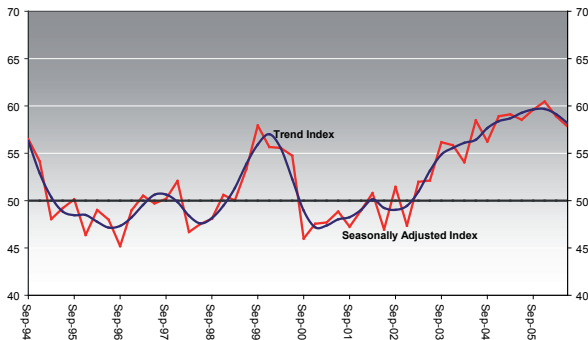
Profit Growth



- Profitability declined over the quarter with the index of **profit growth** falling further into negative territory.
- The index was recorded at 49.5 after being 49.9 in March.
- The expectation index remained positive showing that business remains optimistic despite the decreasing profits.

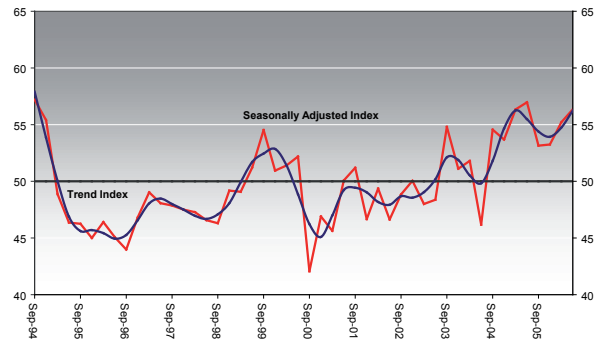
Survey Data

Employment



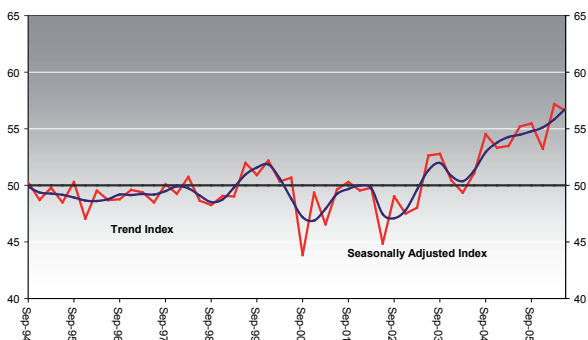
- **Employment** index remained firmly positive despite the easing of the index over the quarter.
- The index level was recorded at the very positive level of 58.2, which is down from the 59.1 recorded in the previous survey but not down very far from the all-time high of 59.7 recorded in December 2005.
- Expectations were little changed over the quarter and remain positive.

Overtime Utilisation



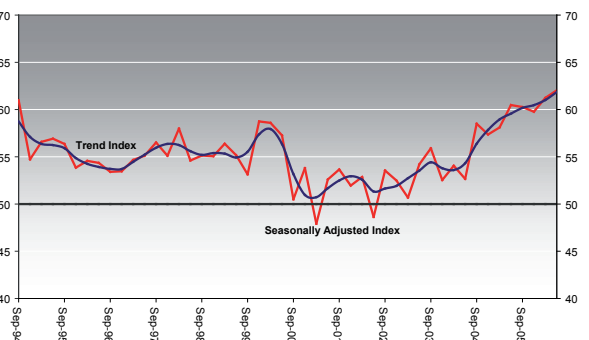
- **Overtime utilisation** continued to expand over the quarter, with the index rising to 56.2 from 54.7 over the quarter.
- The high level of overtime use shows that labour markets remain tight.
- Business expects overtime to remain an important ingredient in production over the next quarter.

Investment in Buildings and Structures



- **Investment in buildings and structures** by business continued to rise significantly with the index rising to an all-time high for the eighth consecutive quarter.
- The index rose to 56.8 from the previous high of 55.8 recorded in March.
- Expectations eased indicating that investment may begin to taper off slightly over the next quarter.

Investment in Plant and Equipment



- **Investment in plant and equipment**, like the buildings and structures index, also rose to a new all-time high, posting its sixth consecutive high.
- The index rose to 61.9 from 61.0 over the quarter.
- Again, like the plant and equipment data, the expectations for the next quarter diminished, suggesting that investment growth may have peaked.

Comparisons by Size of Business

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

General Business Conditions

	June 2006	Sept 2006 (e)
Small	56.0	58.1
Medium	57.6	61.1
Large	59.4	64.3
Weighted Average	57.9	61.8

- **General business conditions** were similar in the June quarter for all three business sizes.
- Large business was slightly ahead of medium and smaller firms but overall the index levels were fairly close.
- All business sizes held a positive outlook for the next quarter with large business the most optimistic and small business the least.

Employment

	June 2006	Sept 2006 (e)
Small	54.9	57.3
Medium	55.5	60.8
Large	60.5	59.4
Weighted Average	57.5	58.8

- Large business again had the highest **employment** figures with small business experiencing less new employment.
- Medium firms, however, expect to expand employment by more than their small and medium counterparts.

Wage Growth

	June 2006	Sept 2006 (e)
Small	65.0	61.9
Medium	71.0	69.9
Large	71.4	72.3
Weighted Average	68.8	68.2

- Large business, experienced higher **wage growth** than did small or medium business.
- All business sizes continue to experience wage pressures indicating that labour markets remain tight.
- Expectations were also in line with business size with large business having the highest followed by medium and then small business expecting the least wage growth.

Investment in Plant and Equipment

	June 2006	Sept 2006 (e)
Small	58.8	53.3
Medium	59.9	58.7
Large	63.8	60.2
Weighted Average	61.6	57.6

- **Investment in plant and equipment** was highest amongst 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 were the most optimistic.

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Participating Organisations

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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