

Australian  
Chamber of Commerce  
and Industry

# Business Expectations Survey

**Issue 84** March Quarter 2016

## Foreword

The Business Expectations Survey is a national survey aggregated from the surveys conducted by member associations of the Australian Chamber of Commerce and Industry. These surveys cover firms in every mainland state, in every industry and firms of every size. In total, they represent Australia's most comprehensive survey of business expectations.

The data in this survey covers the period January, February and March 2016. There were 2,513 respondents to the survey.

## Participating Organisations

This survey is compiled from data collected through individual surveys conducted by members of the Australian Chamber of Commerce and Industry:

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## Results at a glance

	5 year average	Mar 15	Dec 15	Mar 16	Change	Jun 16 (e)
Expected Economic Performance (a)	46.3	42.6	46.6	48.5	↑	—
General Business Conditions	45.1	43.1	47.7	50.3	↑	52.1
Sales Revenue	48.4	49.6	53.5	55.5	↑	58.6
Export Sales	46.9	47.8	49.1	48.1	↓	48.4
Wage Growth	60.9	58.7	60.2	57.3	↓	51.3
Non-Wage Labour Costs	60.8	60.5	61.0	58.2	↓	56.0
Selling Prices	46.2	47.1	46.3	45.6	↓	48.1
Profits	40.6	41.2	46.0	47.5	↑	53.7
Employment	47.4	46.6	49.9	51.5	↑	52.2
Overtime Utilisation	44.8	43.2	46.5	45.7	↓	40.2
Investment in Buildings and Structures	44.0	42.6	46.8	45.9	↓	44.7
Investment in Plant and Equipment	47.8	46.6	49.6	49.4	↓	51.3

(a) Expectation for following 12 months

(e) Expectation for next quarter

## About the survey

Index values are discussed in trend terms.

An index level of 50 indicates an exact balance between those who said the variable is growing and those who said it is declining.

Businesses are asked for their expectations for the Australian economy over the next 12 months compared with the previous 12 months. This provides a reading on the strength of the domestic economy.

The survey asks firms to indicate how their business has performed over the past three months relative to the three months before. There are 11 measures: Business Conditions, Sales/Revenue, Export Sales, Wages, Non-Wage Labour Costs, Selling Prices, Profits, Employment, Overtime, Investment in Buildings and Structures, and Investment in Plant and Equipment.

Firms are also asked how they believe their business will perform over the next three months compared with the previous three months. This is reflected in expectations indices.

Several survey questions are segmented by size of business: small firms (fewer than 20 employees), medium firms (20 to 99 employees) and large firms (100 or more employees).

Each survey reading is calculated by taking a weighted sum of the proportion of responses in each answer grouping to form an index between 0 and 100.

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.

If all respondents place their answer in the strongest grouping the index would be 100. 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:

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

## Signs of growing business confidence in 2016

Australia's largest quarterly business survey, the Australian Chamber Business Expectations Survey, shows that overall business conditions and confidence improved strongly in the March Quarter of 2016.

Despite financial market volatility and frequent concerns about global risks, business expectations for Australia's Economic Performance in the next 12 months improved for the fourth consecutive quarter to reach 48.5, which is a 5.9-point improvement over the reading recorded at the same time last year.

Perceptions of General Business Conditions also continue to improve, with the index rising to 50.3, which is the first reading above 50 since the end of 2010. This index is now 5.2 points above its five-year average and businesses expect further improvements in the June Quarter.

Sales Revenue remains the strongest component of business performance, moving further into positive territory with a reading of 55.5. This is the best reading that has been recorded since the Global Financial Crisis, and indicates robust demand in the Australian economy. Expectations for the June Quarter are similarly strong.

In contrast to overall Sales Revenue, Export Sales fell 1.0 points to 48.1, reflecting the increased value of the Australian dollar against our major trading partners, as well as worsening global headwinds.

Cost pressures also appear to have moderated. Indexes for Wage Growth and Non-Wage Labour Costs have increased strongly in recent surveys, but both recorded almost 3-point falls in the March Quarter. This puts both indexes well below average, consistent with official data on labour costs.

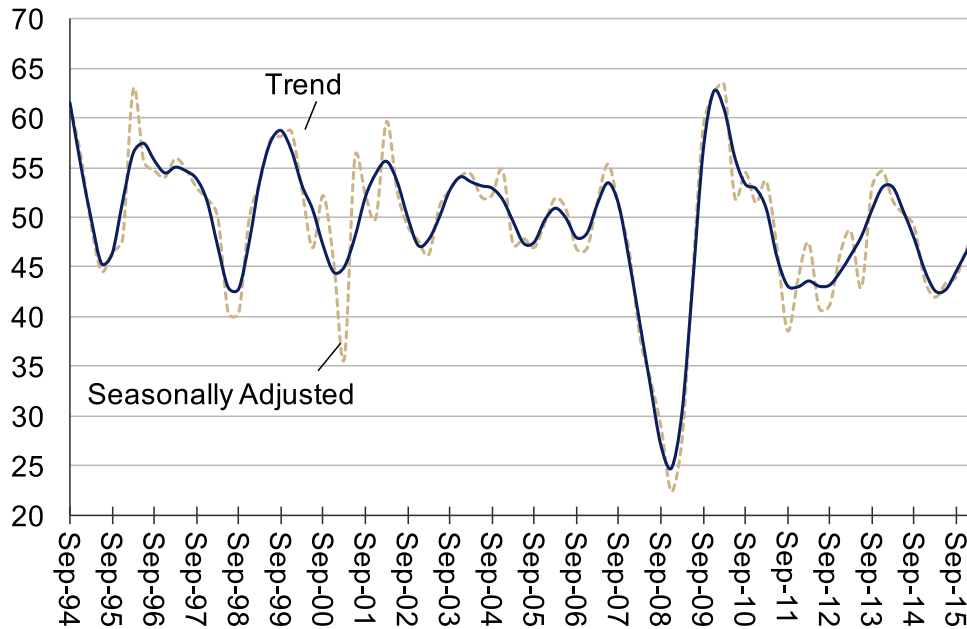
Similarly, Selling Prices fell 0.7 points to 45.6, which is similar to the lows recorded in 2009, the last time Australia experienced deflation.

Profits are increasing, with a 1.5-point jump to 47.5 bringing the index to levels last seen in 2010. The current reading is 6.9 points above the five-year average. Although it indicates strong results for businesses trading domestically it does not fully capture the impact of Australia's declining terms of trade on the profits of exporters.

The index measuring Employment moved above 50 for the first time since 2011, recording a reading of 51.5, thanks to a 1.6-point jump. This supports indications of significant improvement in labour market conditions in official labour market data. However, there may be some cooling in demand for new staff, with Overtime Utilisation falling 0.8 points to 45.7, which is just above the five-year average.

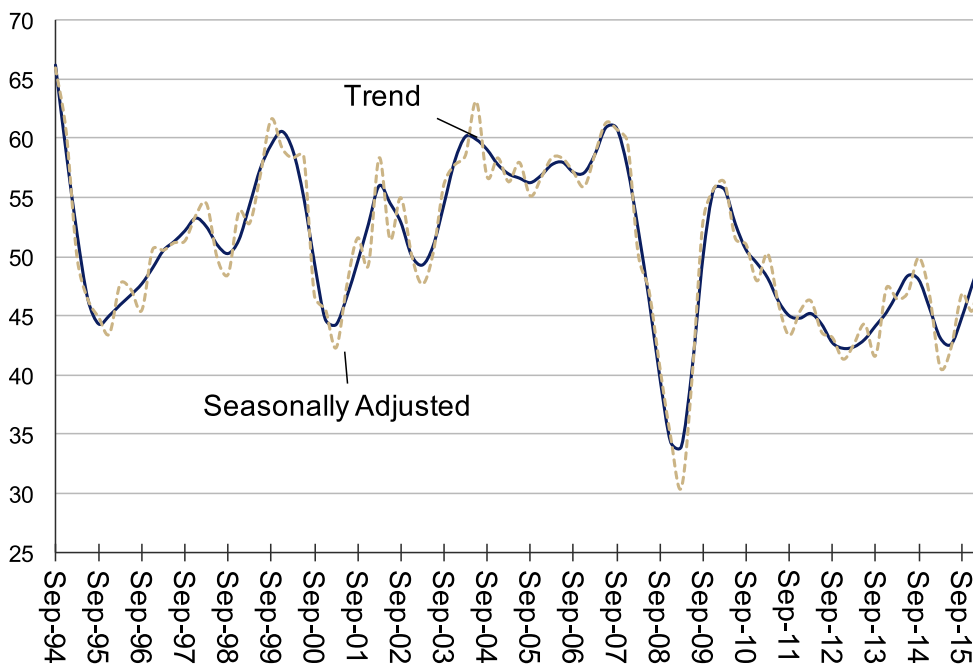
The biggest weakness in the March Quarter data was a decline in the indexes that measure investment. The index measuring Investment in Building and Structures fell 0.9 points to 45.9, while the index measuring Investment in Plant and Equipment fell 0.2 points to 49.4. Both indexes remain well above their five-year average. However, lack of non-mining business investment remains the key drag on Australia's growth.

## Expected Economic Performance <sup>(a)</sup>

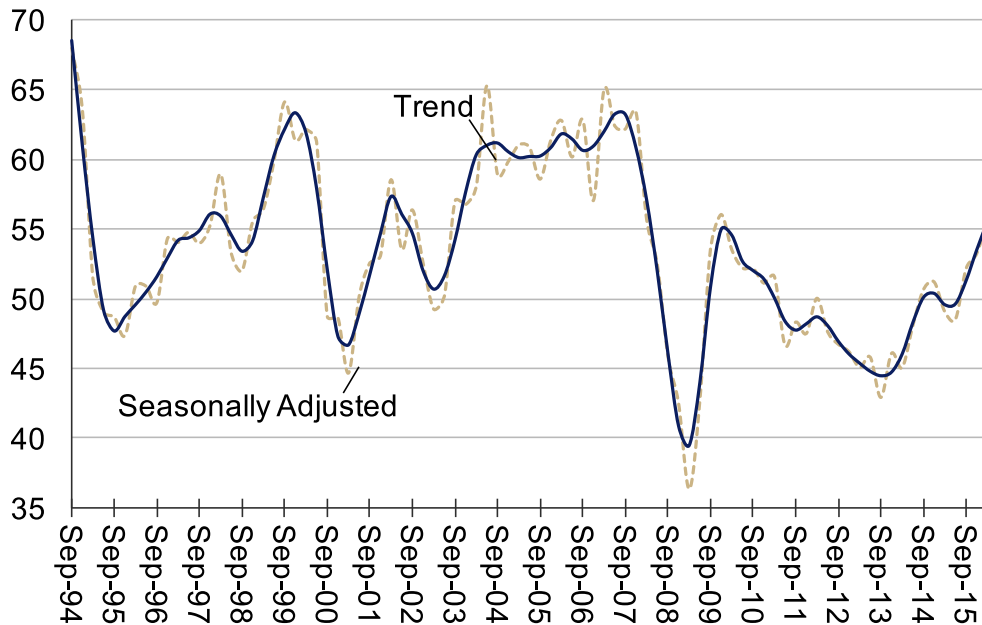


(a) Expectation for following 12 months

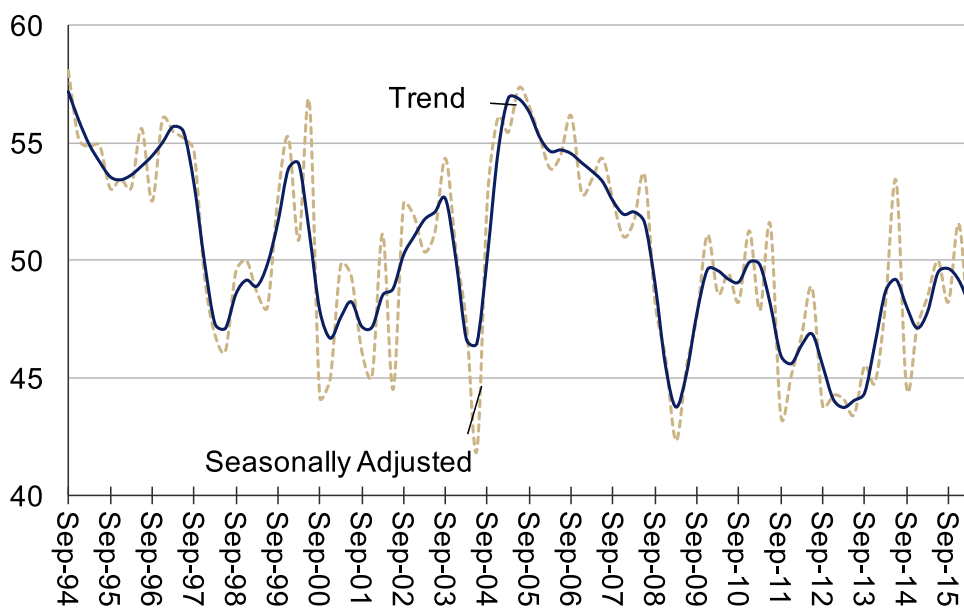
## General Business Conditions



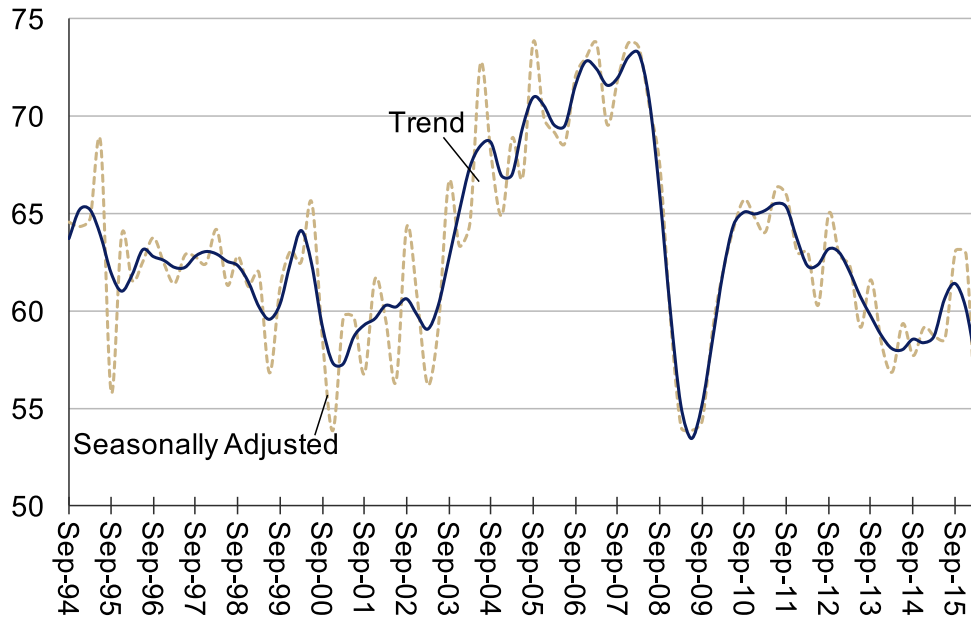
## Sales Revenue



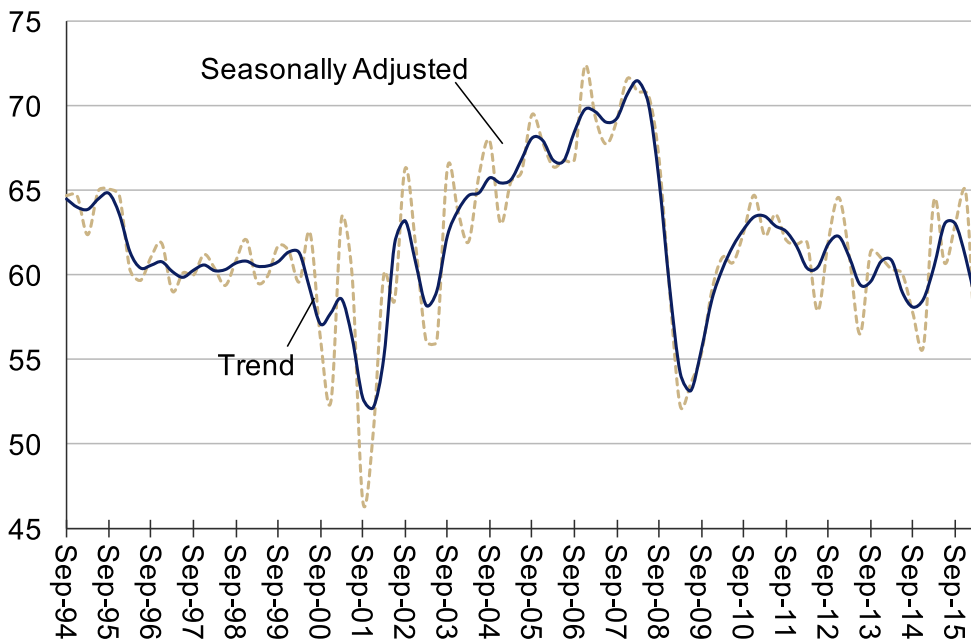
## Export Sales



## Wage Growth

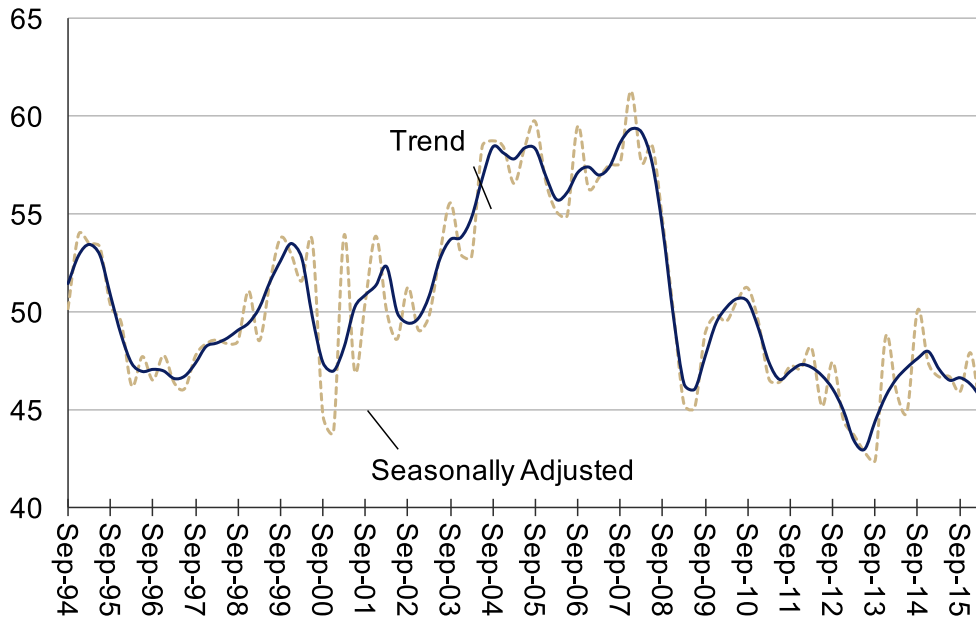


## Non-Wage Labour Costs

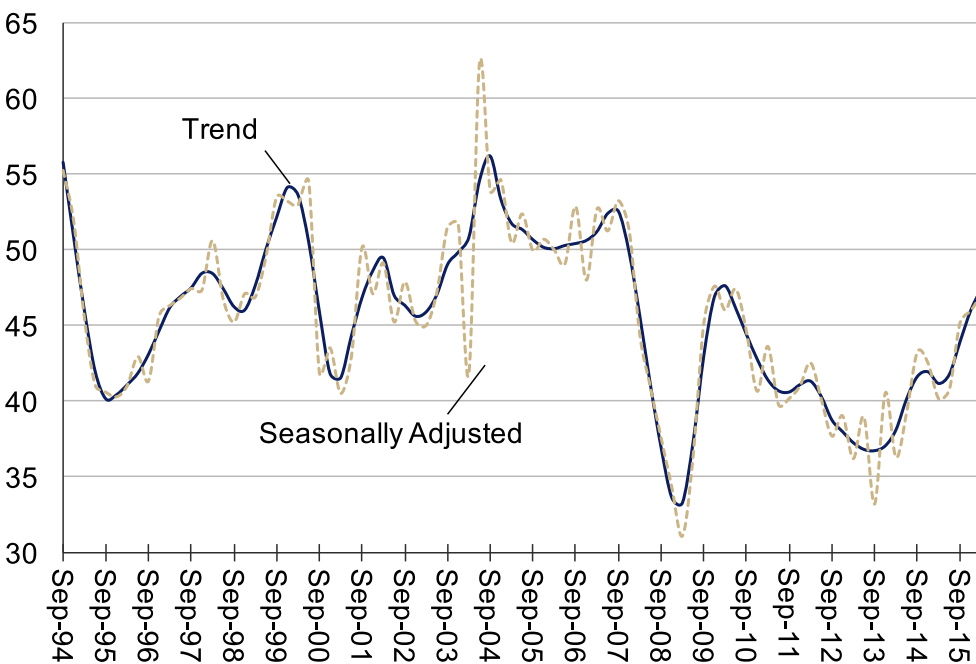




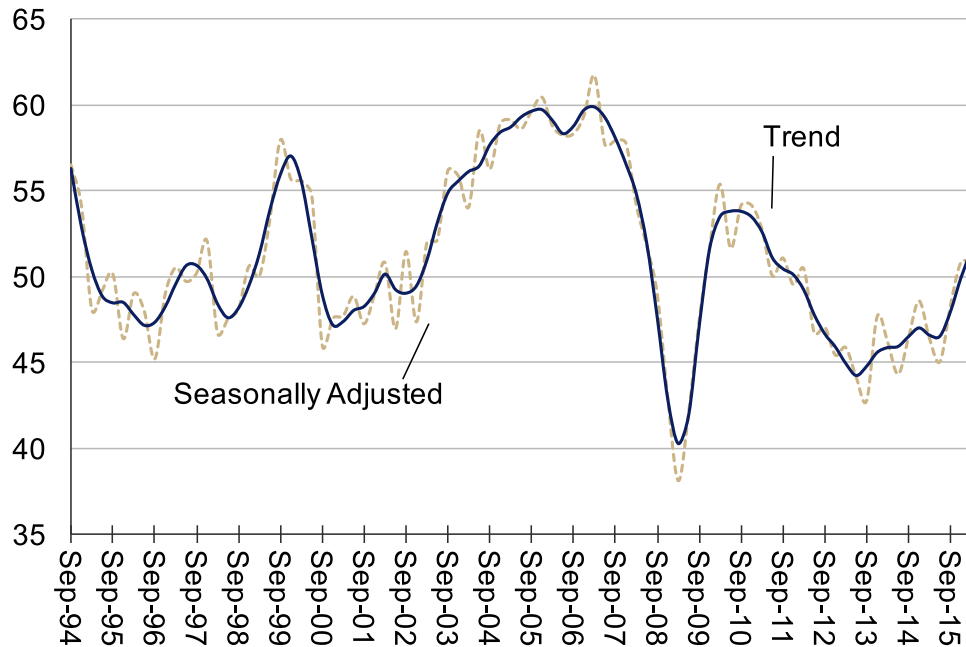
## Selling Prices



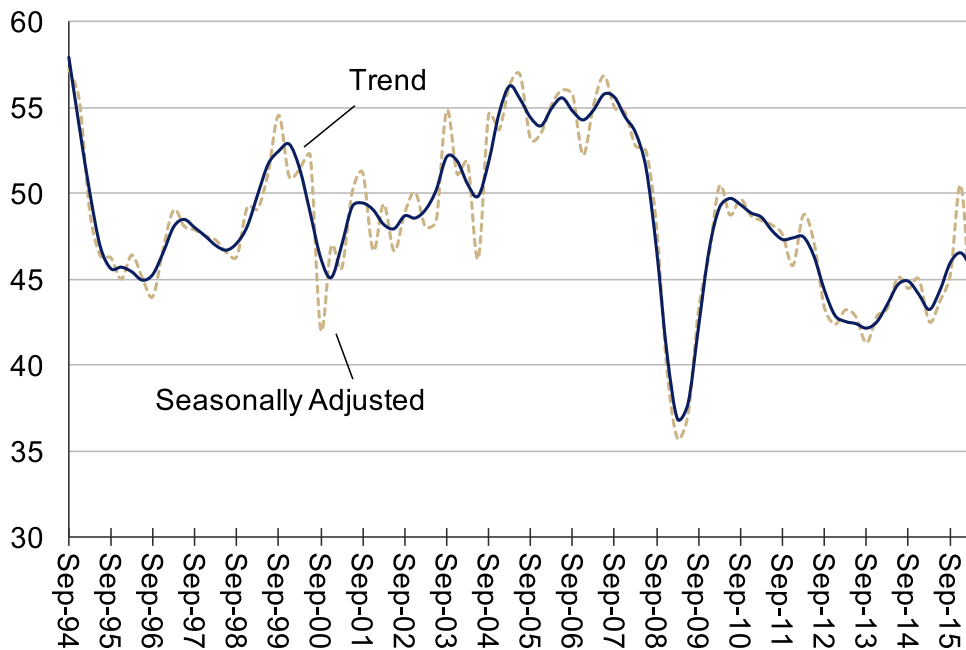
## Profits



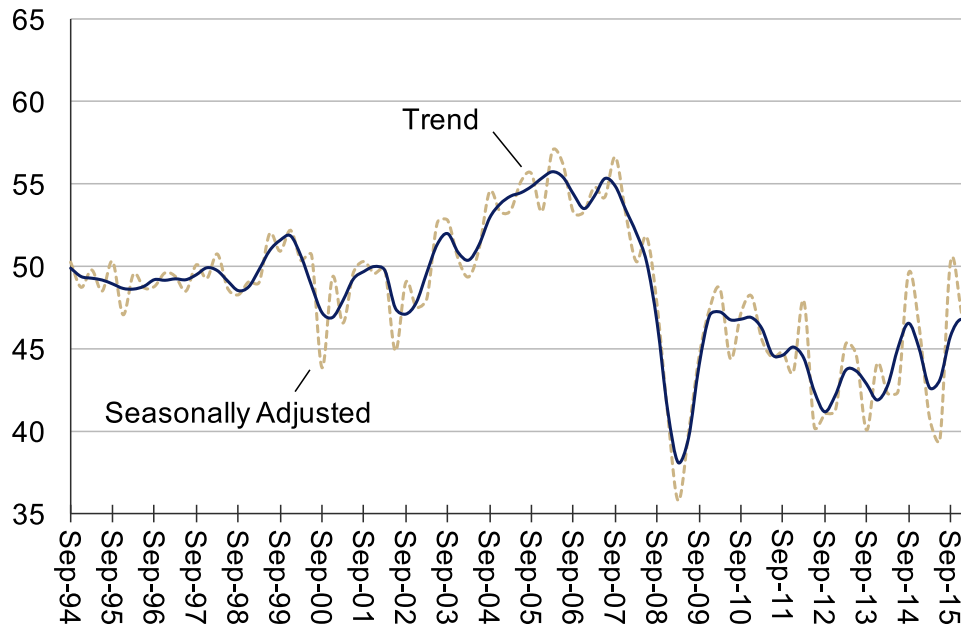
## Employment



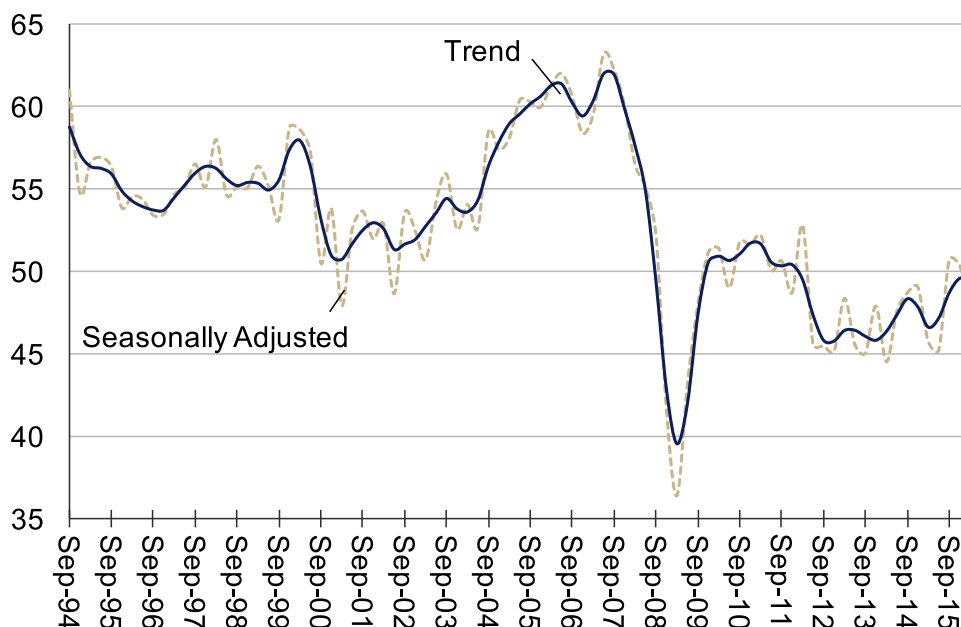
## Overtime Utilisation



## Investment in Building and Structures



## Investment in Plant and Equipment



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