August 2006

# Sensis® *Business Index- Small and Medium Enterprises*

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# Introduction

The Sensis® *Business Index* is an ongoing series of surveys tracking confidence and behaviour of Australia's small and medium enterprises (SMEs).

The primary objectives of the Sensis® *Business Index* are to:

- track small and medium business activity over the past three months;
- track expectations over both the current three and 12 month periods; and
- measure overall confidence among SMEs.

Another purpose of the Sensis® *Business Index* is to provide an independent, objective assessment of proprietors' experiences and attitudes on key issues.

The Sensis® *Business Index* is based on a sample size of 1,800 SMEs from metropolitan and regional areas of Australia. It includes businesses within the accommodation, construction, communication, health, community services, cultural and recreational industries.

The Sensis® *Business Index* enables broad scrutiny of the SME market, as well as an understanding of trends and issues relevant to this sector. It examines the differences in attitudes and experiences between regional and metropolitan SMEs and between small and medium enterprises. The aim of the Sensis® *Business Index* is to reflect the attitudes and behaviour of approximately 99 per cent of the Australian business sector.

Results in the Sensis® *Business Index* are reported as a net balance, which represents the total number of positive responses minus the total number of negative responses. All results are based on the responses of SMEs surveyed.

The Sensis® *Business Index* is an initiative of Sensis Pty Ltd as part of its commitment to this vital business sector. Sensis is Australia's leading information resource and is a wholly owned Telstra subsidiary. Sensis' popular information services make complex lives simpler by helping Australians find, buy and sell. These services include Yellow Pages®, White Pages®, Trading Post®, CitySearch®, UBD®, Gregory's®, Whereis® and GoStay® Accommodation Guide. Sensis provides advertising services to 420,000 Australian businesses, of which 90 per cent are SMEs.

In addition, the Sensis® *Insights* products provide commissioned research for corporate and government organisations on a variety of SME, policy and communication issues. For more information on commissioned research, please refer to page 30.

# About the survey

Since its inception in 1993, the Sensis® *Business Index* has been one of the most extensive and regular surveys of small businesses in Australia. Historically, the Sensis® *Business Index* has focused specifically on businesses employing 19 people or fewer. In November 2000 it was expanded to cover the medium business sector, while the regional and industrial sectors were also enhanced.

The August 2006 Sensis® *Business Index* results are based on telephone interviews conducted with 1,800 small and medium business proprietors. The sample size comprises 1,400 small businesses and 400 medium businesses (the latter defined as businesses employing between 20 and 199 people).

Businesses interviewed for the August 2006 Sensis® *Business Index* were drawn from all metropolitan and major non-metropolitan regions within Australia. Quotas were set for geographical location and type of business in order to produce the standard sample structure shown below. Where replacement businesses are recruited, this sample structure is maintained.

At the analysis stage, results were weighted by selected Australian New Zealand Standard Industrial Classification (ANZSIC) divisions within the metropolitan and non-metropolitan region of each state and territory. This ensured the sample reflected the actual small and medium business population distribution. The Australian Bureau of Statistics (ABS) Business Register, as at June 1998, was used to weight the sample to be representative of the total business population.

Interviewing for this latest survey was conducted from 25 July to 15 August 2006. The report covers experiences over the past three months (May 2006 to July 2006), and expectations for both the current quarter (August to October 2006) and the 12 months ending August 2007.

**Location of business**

| | Total | Metro | Non-metro |
|---|---|---|---|
| New South Wales | 300 | 240 | 60 |
| Victoria | 300 | 240 | 60 |
| Queensland | 300 | 165 | 135 |
| South Australia | 225 | 195 | 30 |
| Western Australia | 225 | 195 | 30 |
| Tasmania | 150 | 90 | 60 |
| Northern Territory | 150 | 90 | 60 |
| Australian Capital Territory | 150 | 150 | - |
| Total | 1800 | 1365 | 435 |

**Division**

| | |
|---|---|
| Manufacturing | 200 |
| Building/Construction | 250 |
| Wholesale Trade | 150 |
| Retail Trade | 250 |
| Accommodation, Cafes and Restaurants | 100 |
| Transport/Storage | 150 |
| Finance and Insurance | 100 |
| Communication, Property and Business Services | 300 |
| Health and Community Services | 150 |
| Cultural, Recreational and Personal Services | 150 |
| Total | 1800 |

# Executive summary

Business confidence among SMEs continued to decline during the past quarter. Along with the fall in confidence, SME current perceptions of the economy fell sharply, as did perceptions about the future economic direction, which are now at their lowest level in the history of the Sensis® *Business Index*. In fact, for the first time in the history of the Sensis® *Business Index*, concerns over the economic climate were the most reported issue of concern for SMEs. Business performance in sales was flat and unchanged; however declines were recorded in employment, capital expenditure and profitability in the past quarter and the only increases were the prices SMEs charged for goods and services and their total wages bill, leading to inflationary concerns. However SMEs were expecting some improvement in the short term, with short-term expectations for all key indicators increasing, with the exception of capital expenditure. Yet SMEs were expecting any improvement to be short-lived, with most expectations for the year ahead falling. The only year-ahead indicator that did not fall was the prices that SMEs were expecting to charge for goods and services, which was unchanged in the past quarter. Support for the Federal Government fell but remained net positive overall on the back of strong support from SMEs for its agenda of workplace relations changes. The Federal Government was the most supported government in Australia. The Tasmanian Government was the most supported state or territory government by SMEs, with New South Wales again the least supported.

Other key findings from the Sensis® *Business Index* are included in the following parts of the executive summary which cover:

1. historical trends and highlights of recent trends for SMEs generally;
2. small versus medium business trends;
3. metropolitan versus regional business trends;
4. industry sector comparisons; and,
5. business cycle analysis based on the findings from this Sensis® *Business Index*.

## Historical trends and overall SME highlights

- Business confidence among SMEs continued to decline during the past quarter.
- Perceptions of the current state of the Australian economy fell sharply, along with a strong fall in the net balance of SMEs that felt the economy would be better a year from now, marking the lowest level recorded in the Sensis® *Business Index*.
- There was an unchanged result for sales performance in the last quarter. Falls in performance trends were reported in profitability, employment and capital expenditure indicators. Only prices and wages recorded an increase in performance.
- In the short term, SMEs are expecting increases in all key indicators with the exception of capital expenditure.
- Expectations for most key business indicators for the year ahead also fell, with the exception of prices, which was unchanged in the past quarter.
- The economic climate was the primary concern of SMEs this quarter. This was followed by concerns over increasing fuel prices and problems finding and keeping staff.
- Flat sales performance was recorded, with faltering demand being cited as a reason for weaker confidence this quarter. Sales expectations for the current quarter rose, however, expectations for the year ahead were for further falls.
- Following from the weak sales result, profitability performance declined in the past quarter.
- Employment growth during the quarter fell, with more SMEs reporting a decrease in employment than an increase.
- Capital expenditure performance also fell sharply with more falls expected in both the short term and the year ahead.
- Support for the Federal Government's policies fell sharply but remained net positive on the back of SME support for their workplace relations agenda.
- The Tasmanian Government was the most supported state government in Australia, however all state and territory governments reported net negative results. The New South Wales Government recorded the lowest level of support for a state or territory government for the tenth successive quarter.

## Small versus medium enterprises

The main differences to emerge between small and medium businesses during the past quarter included:

- medium businesses were again more confident than small businesses, with the gap increasing to 15 percentage points, up two percentage points from last quarter;
- medium businesses were again noticeably more positive about the current state of the Australian economy than small businesses, reporting that they felt that the economy was currently growing, compared to small businesses that felt, on balance, that the economy was currently slowing;
- medium businesses recorded higher performance than small businesses for all indicators in the past quarter with the exception of prices; and,
- medium businesses continued to be far more supportive of the Federal Government's policies than small businesses.

## Metropolitan versus regional

The main differences to emerge between metropolitan and regional businesses during the previous quarter included:

- regional businesses were less confident than their metropolitan counterparts, for the second successive quarter;
- metropolitan businesses were more positive about the current state of the Australian economy than regional businesses;
- metropolitan businesses reported higher results than regional businesses in sales, employment and profitability for the previous quarter;
- regional businesses reported higher results than metropolitan businesses is wages, prices and capital expenditure;
- regional businesses reported lower expectations for the coming quarter than metropolitan businesses in most indicators, with the only exceptions being prices, which were higher in regional areas; and,
- metropolitan businesses recorded higher support for the Federal Government's policies than their regional counterparts.

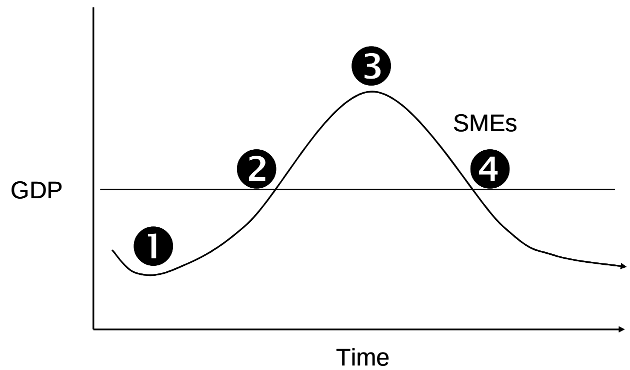
## Industry sector trends

Several trends emerged throughout the industry sectors, including:

- confidence was highest in the accommodation, cafes and restaurant sector;
- the retail trade sector again recorded the lowest confidence levels of any sector;
- strong performance was recorded by SMEs in the health and community services sector in the past quarter, with that sector reporting the highest results for sales, employment, capital expenditure and wages bills;
- in line with increasing fuel costs, the transport and storage sector reported the greatest net proportion of SMEs that increased their prices in the past quarter;
- SMEs in the finance and insurance sector were most likely to report increasing profitability in the past quarter; and
- the wholesale trade sector was the most supportive of the Federal Government's policies, with the retail trade sector being the least supportive.

# SME business cycle analysis

**The Business Cycle and SMEs**




When examining the 12-month trends for a range of key business and economic indicators, it is possible to gauge the likely direction of the Australian economy.

The chart below shows an assessment of each indicator's performance in relation to the state of the economy. Shaded areas highlight where each indicator sits as a result of the findings from this Sensis® *Business Index* relative to the normal business cycle.

Analysis of the key indicators from the August 2006 Sensis® *Business Index* suggests considerable uncertainty in the current prospects of Australian SMEs within the Australian economy. This latest quarter saw an economic environment for SMEs which was characterised by falls in most indicators, along with falling confidence levels. Overall, SMEs felt that the current economic situation was inherently uncertain, with these views resulting from increased fuel costs, decreasing demand and increasing interest rates. SMEs are likely to continue reporting decreased confidence levels until the economic direction for fuel prices, interest rates and consumer demand becomes clearer. Overall, these factors currently playing out in the economy have lead to a relatively consistent view of slowing in the Australian business cycle.

| 1. Trough | 2. Recovery | 3. Peak | 4. Slow Down |
|---|---|---|---|
| Low business confidence | Rising confidence | Strong business confidence | Falling business confidence |
| Poor perceptions of the economy | Rising perceptions of the economy | Strong perceptions of the economy | Declining perceptions of the economy |
| Weak sales | Improving sales | Strong sales | Declining sales |
| Low investment | Rising investment | High investment | Declining investments |
| Pessimistically low investment expectations (i.e. high realisation ratio) | Investment expectations improving but still on the low side | Optimistically high investment expectations (i.e. low realisation ratios) | Investment expectations weakening but still on the high side |
| Low selling price rises | Rising selling prices | High selling prices | Selling price rises weakening |
| Weak profitability | Improving profitability | Strong profitability | Declining profitability |
| Flat employment | Rising employment | Strong employment | Declining employment |
| Low wages growth | Rising wages | High wages growth | Moderating wages growth |

**Highlighted sections show the indicators relevant to SMEs for the August 2006 Sensis® *Business Index.***

# Small and medium business outlook – national summary

## Confidence in own business prospects over the next 12 months

### Key findings

Australian SMEs experienced a continued decline in business confidence during the quarter. This result represents increasingly uncertain views among SMEs compared to last quarter, when SMEs recorded a sharp decline in confidence. The main causes for increased pessimism related to increased fuel costs, decreased business demand and increasing interest rates. Confidence among SMEs has not been at a lower point since November 2001.

### Last quarter (May to July 2006)

SMEs recorded decreased business confidence with a net balance result of 45 per cent. This comprised 63 per cent of businesses that were confident about their business prospects for the year ahead and 18 per cent that were concerned. In the key confidence categories, businesses that felt confident to some degree about their business prospects have recorded a decrease of two percentage points. Those business owners who felt worried to some extent about their business prospects increased over the quarter by one percentage point, resulting in a decrease in the net balance result of three percentage points.

Despite the continued decrease in net confidence, there was a marginal increase of one percentage point in the proportion of SMEs reporting that they felt fairly confident. There was also a marginal decrease of one percentage point in the proportion of SMEs that felt extremely worried. Opposing this trend, however, were SMEs that felt extremely confident, which declined by three percentage points – the largest shift during the quarter. The main reasons that businesses gave for feeling worried about their prospects related to the external operating environment. SMEs cited rising fuel prices as their main reason for concern, followed by decreased business demand, then closely followed by interest rate increases. On the other hand, businesses that felt confident about their prospects were most likely to point to internal factors, in particular that their businesses had plenty of work coming up, that they were established and experienced, and that they had good customer relations.

There are three key indicators that provide an overall assessment of SME confidence levels:

- business confidence;
- current perceptions of the Australian economy; and,
- future expectations for the Australian economy.

This latest result shows that businesses are feeling increasingly concerned about future economic conditions, and are feeling first hand the impact of increasing fuel prices and interest rates, which have affected consumer demand.

**Overall confidence**
August 2006

| | Small Business (up to 19 employees) | Medium Business (20 - 199 employees) | Total Small and Medium |
|---|---|---|---|
| Extremely confident | 12% | 13% | 12% |
| Fairly confident | 51% | 59% | 51% |
| Neutral | 19% | 15% | 18% |
| Fairly worried | 17% | 11% | 16% |
| Extremely worried | 2% | 2% | 2% |
| Total confident | 63% | 72% | 63% |
| Total worried | 19% | 13% | 18% |
| ***Net Balance** | **+44%** | **+59%** | **+45%** |

*Q. Thinking about the next twelve months, how confident do you feel about your business prospects?*

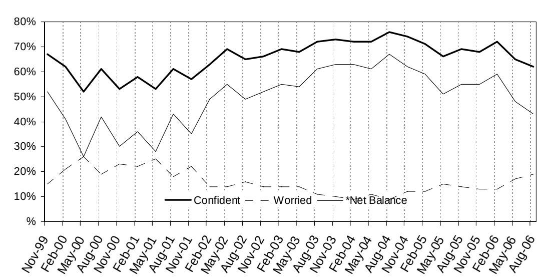
SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

**Confidence trends - past five quarters**

| | Aug 05 | Nov 05 | Feb 06 | May 06 | Aug 06 |
|---|---|---|---|---|---|
| Extremely confident | 15% | 13% | 13% | 15% | 12% |
| Fairly confident | 54% | 55% | 59% | 50% | 51% |
| Neutral | 17% | 19% | 14% | 17% | 18% |
| Fairly worried | 11% | 10% | 11% | 14% | 16% |
| Extremely worried | 3% | 3% | 2% | 3% | 2% |
| Total confident | 69% | 68% | 72% | 65% | 63% |
| Total worried | 14% | 13% | 13% | 17% | 18% |
| ***Net Balance** | **+55%** | **+55%** | **+59%** | **+48%** | **+45%** |

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

**Long term trends in confidence**
Small business only




SOURCE: Sensis® *Business Index*
*Sweeney Research – August 2006*

* *Net balance is defined as the difference between the percentage who are confident and the percentage who are worried.*

# Confidence by state, sector and size

## Key findings

The highest levels of business confidence in the past quarter were again recorded in Western Australia, with the lowest level of business confidence again recorded in New South Wales. Regional businesses reported lower confidence levels than their metropolitan counterparts for the second successive quarter. Confidence was highest among SMEs in the accommodation, cafes and restaurants sector. Confidence was again lowest among SMEs in the retail trade sector.

## Last quarter (May to July 2006)

Western Australia recorded the highest confidence of any state or territory in the past quarter. New South Wales again recorded the lowest level of confidence, having experienced a continued decline in the past quarter. New South Wales has now recorded the lowest confidence level of any state or territory for eight of the last nine quarters. The Australian Capital Territory saw the greatest decline in confidence of any state or territory, bringing it to the second lowest of any state or territory. The only location to record an increase in confidence in the past quarter was the Northern Territory. Confidence amongst SMEs in Queensland was unchanged in the past quarter, with all other states recording decreasing confidence levels.

The tourism-dependent accommodation, cafes and restaurant sector recorded the highest confidence level at a net 59 per cent, which was an improvement of seven percentage points in the past quarter. This was followed by the communications, property and business services sector, where business confidence was at a net 54 per cent. Reflecting difficult consumer trading conditions, the lowest confidence level was again recorded in the retail trade sector, with a net balance of 21 per cent. This marks a deterioration of 10 percentage points in the past quarter, with the wholesale trade sector recording the largest net decline in confidence of any sector in the past quarter.

On a national basis, confidence was highest among businesses in metropolitan areas, yet confidence was varied amongst the states and territories. The largest improvement was among those SMEs in regional areas of the Northern Territory, which recorded the highest confidence of any area in Australia, with the largest declines in business confidence recorded among SMEs in the Australian Capital Territory and regional Tasmania. SMEs in regional areas of New South Wales recorded the lowest confidence levels overall, and the only net negative result, reflecting that more businesses were actually worried than those that were confident.

**Trends by state**
*net balance

| | Aug 05 | Nov 05 | Feb 06 | May 06 | Aug 06 |
|---|---|---|---|---|---|
| **National** | **55%** | **55%** | **59%** | **48%** | **45%** |
| New South Wales | 51% | 45% | 54% | 30% | 28% |
| Victoria | 43% | 51% | 56% | 51% | 42% |
| Queensland | 68% | 70% | 70% | 64% | 64% |
| South Australia | 70% | 66% | 65% | 53% | 47% |
| Western Australia | 68% | 63% | 67% | 71% | 65% |
| Tasmania | 62% | 62% | 63% | 59% | 48% |
| Northern Territory | 73% | 67% | 59% | 58% | 59% |
| Australian Capital Territory | 58% | 64% | 67% | 56% | 39% |

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

**Metro and regional confidence**
*net balance

| | Metro | Regional | Total |
|---|---|---|---|
| **National** | **48%** | **34%** | **45%** |
| New South Wales | 44% | -8% | 28% |
| Victoria | 43% | 45% | 42% |
| Queensland | 61% | 66% | 64% |
| South Australia | 45% | 53% | 47% |
| Western Australia | 69% | 54% | 65% |
| Tasmania | 62% | 38% | 48% |
| Northern Territory | 50% | 70% | 59% |
| Australian Capital Territory | 39% | N/A | 39% |

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

**Confidence by business size**

| | Confident | Worried | *Net Balance |
|---|---|---|---|
| **Total** | **63%** | **18%** | **45%** |
| 1-2 Employees | 58% | 20% | 38% |
| 3-4 Employees | 67% | 17% | 50% |
| 5-9 Employees | 62% | 19% | 43% |
| 10-19 Employees | 72% | 12% | 60% |
| **Total Small Business** | **63%** | **19%** | **44%** |
| 20-99 Employees | 72% | 14% | 58% |
| 100-199 Employees | 72% | 4% | 68% |
| **Total Medium Business** | **72%** | **13%** | **59%** |

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

**Confidence by sector**

| | Confident | Worried | *Net Balance |
|---|---|---|---|
| Manufacturing | 70% | 17% | 53% |
| Building/Construction | 66% | 14% | 52% |
| Wholesale Trade | 62% | 19% | 43% |
| Retail Trade | 55% | 34% | 21% |
| Transport/Storage | 53% | 23% | 30% |
| Communication Property & Business Services | 66% | 12% | 54% |
| Finance and Insurance | 60% | 13% | 47% |
| Health and Community Services | 68% | 19% | 49% |
| Cultural, Recreational and Personal | 62% | 17% | 45% |
| Accommodation, Cafes and Restaurants | 68% | 9% | 59% |

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

** Net balance is defined as the difference between the percentage who are confident and the percentage who are worried.*

# Perceptions of the economy

## Key findings

In conjunction with falling confidence, net perceptions of the Australian economy showed significant deterioration among SMEs.

In addition, there was also sharp deterioration in future economic expectations from the previous quarter's result, with more SMEs believing that the economy would be worse a year from now. In fact, this indicator is now at its lowest point in the history of the Sensis® *Business Index*.

## Last quarter (May to July 2006)

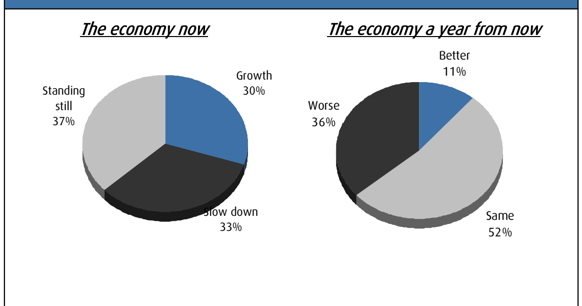
There was sharp deterioration in the proportion of SMEs that felt the economy was currently growing, which dropped by 14 percentage points in the past quarter. Coupled with this was an increase of 12 percentage points in the proportion of SMEs that felt the economy was currently slowing. This resulted in a sharp decline in the overall perception of the current state of the economy, with a net balance of negative three per cent of businesses believing the Australian economy is currently in a growth phase. This was a decline of 26 percentage points from last quarter.

With strong economic conditions recorded in the state, SMEs in Western Australia again had the strongest perception of the current state of the Australian economy. A net balance of 42 per cent reported a current growth phase, which was still a decline of 21 percentage points from the previous quarter. The second strongest perception was again recorded in the Northern Territory (net balance of 22 per cent). The weakest perceptions were recorded among SMEs in New South Wales (net balance of negative 20 per cent).

No states or territories recorded improved views of the economy in the past quarter. The largest decline in perceptions was registered in the Australian Capital Territory, which also recorded the largest fall in business confidence.

There was also a sharp drop in expectations of the economy for the year ahead, with a net negative 25 percentage points of SMEs believing the economy would be worse in a year's time. This was a large fall from last quarter's result of net three per cent believing the economy would be stronger a year from now, and is now at its lowest level in the history of the Sensis® *Business Index*.

The economy



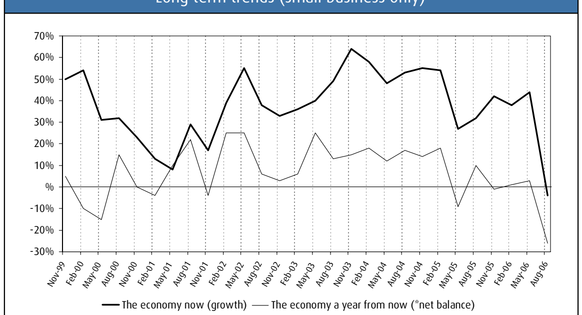

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

Perceptions of the economy - trends

| | Aug 05 | Nov 05 | Feb 06 | May 06 | Aug 06 |
|---|---|---|---|---|---|
| *The economy now* | | | | | |
| Growth | 32% | 36% | 39% | 44% | 30% |
| Slowing | 22% | 22% | 17% | 21% | 33% |
| ***Net Balance** | **+10%** | **+14%** | **+22%** | **+23%** | **-3%** |
| *The economy a year from now* | | | | | |
| Better | 20% | 20% | 22% | 24% | 11% |
| Worse | 17% | 21% | 20% | 21% | 36% |
| ***Net Balance** | **+3%** | **-1%** | **+2%** | **+3%** | **-25%** |

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

Perceptions of the economy
Long term trends (small business only)




SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

Perceptions of the economy by state

| | NSW | VIC | QLD | SA | WA | TAS | NT | ACT |
|---|---|---|---|---|---|---|---|---|
| *The economy now* | | | | | | | | |
| Growth | 19% | 29% | 37% | 25% | 59% | 34% | 46% | 25% |
| Slowing | 39% | 32% | 32% | 33% | 17% | 27% | 24% | 41% |
| *Net Balance | -20% | -3% | +5% | -8% | +42% | +7% | +22% | -16% |
| *The economy a year from now* | | | | | | | | |
| Better | 10% | 10% | 11% | 13% | 18% | 10% | 16% | 14% |
| Worse | 39% | 36% | 34% | 35% | 30% | 35% | 32% | 40% |
| *Net Balance | -29% | -26% | -23% | -22% | -12% | -25% | -16% | -26% |

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

** Net balance is defined as the difference between the percentage with a positive outlook and the percentage with a negative outlook.*

# Expectations on key indicators for the next 12 months

## Key findings

The 12-month expectations for key indicators softened markedly in most areas in the past quarter. The only indicator to increase for the year ahead in the past quarter was again for the prices that businesses intended to charge for goods and services.

## Next 12 months (August 2006 to July 2007)

There were falls in expectations in all key indicators, except for prices, for the year ahead.

Sales expectations fell during the quarter from 51 per cent to 48 per cent, continuing last quarter's decline. This result comprised 62 per cent of businesses that believed sales would rise in the year ahead and 14 per cent that thought sales would fall. The strongest net sales expectations for the year ahead were again recorded in Western Australia at a net 64 per cent, up one percentage point since last quarter. The most confident industry sector for sales expectations was again the health and community services sector (net 71 per cent, up from 64 per cent), with the retail trade sector having the lowest sales expectations for the year ahead (net 29 per cent).

There was also a decrease in employment expectations for the year ahead, with a net balance result of 19 per cent for the year ahead compared to 21 per cent for the previous quarter. Businesses in the Northern Territory and Queensland recorded the strongest employment expectations for the year ahead, with a net balance result of 26 per cent. The lowest employment expectations were again recorded in Tasmania, with a net balance result of nine per cent.

There was a decrease of a net two percentage points in expectations for total wage and salary costs for the year ahead. A net balance of 35 per cent of businesses expected a rise in their total wage costs in the coming year. The strongest expectations for total wage costs were recorded in Western Australia with a net balance of 49 per cent. The weakest expectations were recorded in New South Wales (net balance of 24 per cent).

Selling price expectations for the year ahead was the only year-ahead indicator that did not fall in the past quarter, remaining unchanged at a net balance of 56 per cent. The strongest selling price expectations were recorded in the transport and storage sector, with a net balance of 73 per cent. The weakest selling price expectations were again recorded in the finance and insurance sector (27 per cent). This latest result remains the highest year-ahead price expectation since the introduction of the Goods and Services Tax in July 2000.

In line with declining sales expectations, expectations for profitability in the year ahead fell by five percentage points to a net 37 per cent. The highest expectations for profitability for the year ahead were recorded in Queensland, with a net balance of 60 per cent. The lowest were recorded in New South Wales, where a net balance of 20 per cent of SMEs were expecting their profitability to increase.

Capital expenditure expectations for the year ahead also recorded a decrease in the past quarter of seven percentage points to a net balance of 6 per cent. The strongest capital expenditure expectations were recorded in the Northern Territory (27 per cent) and in the transport and storage, health and community services and cultural, recreational and personal services sectors (14 per cent each).

**Expectations on key indicators over the next 12 months**
August 2006

| | Expect an increase | Expect a decrease | *Net Balance |
|---|---|---|---|
| Value of sales | 62% | 14% | **+48%** |
| Size of workforce | 24% | 5% | **+19%** |
| Wages bill | 42% | 7% | **+35%** |
| Prices charged | 58% | 2% | **+56%** |
| Profitability | 55% | 18% | **+37%** |
| Capital expenditure | 30% | 24% | **+6%** |

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

**Expectations on key indicators**
Trends in *net balance

| | Aug 05 | Nov 05 | Feb 06 | May 06 | Aug 06 |
|---|---|---|---|---|---|
| Value of sales | 56% | 60% | 56% | 51% | 48% |
| Size of workforce | 20% | 21% | 24% | 21% | 19% |
| Wages bill | 38% | 42% | 43% | 37% | 35% |
| Prices charged | 51% | 54% | 55% | 56% | 56% |
| Profitability | 50% | 54% | 51% | 42% | 37% |
| Capital expenditure | 16% | 14% | 16% | 13% | 6% |

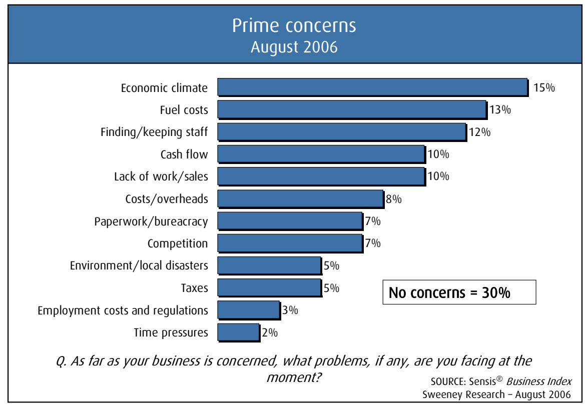
SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

* *Net balance is defined as the difference between the percentage with a positive outlook and the percentage with a negative outlook.*

# Concerns

## Key findings

Concern over the economy almost doubled in the past quarter to be the most pressing concern faced by SMEs nationally. This was followed by concern over rising fuel prices and difficulties finding and keeping staff.




## Last quarter (May to July 2006)

In line with other findings in this report, the proportion of SMEs reporting concern over the current economic climate almost doubled in the past quarter, to be the number one concern facing SMEs nationally. This is the first time in the history of the Sensis® *Business Index* that the economic climate has been the greatest concern of SMEs, having risen from eight per cent to 15 per cent in the past quarter. Concern over the economic climate was highest in New South Wales, where it was a concern for 23 per cent of SMEs, and lowest in Western Australia, where only six per cent reported concern. Reflecting their heavy dependence on the consumer sector, SMEs in the retail trade sector were most likely to report being concerned about the economic climate.

The recent increase in the price of fuel was the second most nominated problem by SMEs in the past quarter. Overall, 13 per cent of SMEs nominated fuel costs as an issue, having risen by a further one percentage point in the past quarter. Concern over fuel costs was highest in Queensland, Tasmania and the Australian Capital Territory where 16 per cent of SMEs reported concerns in this area. Not surprisingly, the transport and storage sector reported the highest level of concern over increasing fuel costs, with three in 10 SMEs in that sector reporting concern over this issue.

Difficulties finding and keeping staff was the next most strongly reported issue in the latest quarter, having recorded a small rise of one percentage point in the past quarter. This problem was most felt in the Northern Territory, where 26 per cent of SMEs reported difficulties, and in the building and construction sector (17 per cent).

Other key problems faced by businesses this quarter were cash flow and a lack of work or sales. Both of these problems were cited by 10 per cent of businesses. While this result fell for concerns over a lack of work or sales, it represented a one percentage point increase in the level of concern about cash flow. Some 30 per cent of SMEs reported currently facing no problems in their business, up two percentage points in the past quarter.

# Sales

### Key findings

SMEs reported no change in sales over the past quarter, with net performance in sales at its lowest level in over five years. Positively, SMEs were expecting some improvement in the short term, but were also expecting further declines in the sales results in the medium term.

### Last quarter (May to July 2006)

Sales performance recorded an unchanged net balance of zero per cent for the quarter. The flat result in sales performance is consistent with the relatively weak results reported by SMEs, with softening demand being cited by SMEs as a reason for lower confidence this quarter.

Sales performance varied dramatically across the states and territories. The Northern Territory recorded the strongest performance, where a net 35 per cent experienced increasing sales in the past quarter. At the other end of the scale, sales performance was lowest among SMEs in New South Wales, where a net negative 16 per cent of SMEs reported increasing sales.

The strongest sales performance was recorded in the health and community services sector, with a net balance of 18 per cent of SMEs reported increasing sales. The retail trade sector recorded the weakest industry performance, with a net negative 14 per cent of SMEs in that sector reporting sales growth.

### Current quarter (August to October 2006)

SMEs were expecting some improvement in sales in the short term. Sales expectations for the current quarter recorded an increase of four percentage points from the previous quarter.

Expectations for sales growth again varied around the country, with the strongest expectations recorded in Western Australia at net 43 per cent. The weakest sales expectations for the coming quarter were recorded in the Australian Capital Territory.

There was also variation in expectations on an industry basis. The strongest expectations for the current quarter were recorded in the communication, property and business services sector (net balance of 52 per cent). The transport and storage sector recorded the lowest level of expectations (net five per cent).

### Next 12 months (August 2006 to July 2007)

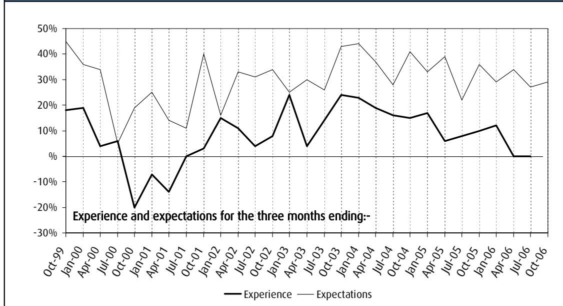
Twelve-month sales expectations fell from a net 51 per cent to 48 per cent. The result comprised 62 per cent of businesses that believed sales would increase in the year ahead and 14 per cent that thought they would fall. Sales expectations for the year ahead were again highest in Western Australia.

**Value of sales**

| | Aug 05 | Nov 05 | Feb 06 | May 06 | Aug 06 |
|---|---|---|---|---|---|
| *Last Quarter* | | | | | |
| Experienced increase | 38% | 40% | 38% | 36% | 35% |
| No change | 32% | 31% | 35% | 28% | 30% |
| Experienced decrease | 30% | 29% | 26% | 36% | 35% |
| ***Net Balance** | **+8%** | **+11%** | **+12%** | **0%** | **0%** |
| *Current Quarter* | | | | | |
| Expect increase | 47% | 45% | 48% | 43% | 45% |
| No change | 41% | 40% | 37% | 40% | 40% |
| Expect decrease | 11% | 15% | 14% | 16% | 14% |
| ***Net Balance** | **+36%** | **+30%** | **+34%** | **+27%** | **+31%** |

SOURCE: Sensis® *Business Index*
Sweeney Research – August2006

**Value of sales**
Trends in *net balance – small business only




SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

** Net balance is defined as the difference between the percentage with a positive outlook and the percentage with a negative outlook.*

# Employment

## Key findings

Employment growth recorded a net balance of negative one per cent for the quarter which represented a decline of two percentage points from the previous quarter. While SMEs reported expecting some improvement in the coming quarter, this was expected to be short-lived with expectations deteriorating for the year ahead.

## Last quarter (May to July 2006)

SMEs recorded falling employment performance from the previous quarter, with net negative one per cent of SMEs reporting increased employment in their businesses. This result reflected more SMEs actually having decreased their employment in the past quarter than increased it on balance.

Reflecting markedly different economic conditions, there was considerable variation across the states and territories in employment performance. The strongest result was again in South Australia with a net balance result of 10 per cent. At the other end of the scale was New South Wales and Tasmania, each reporting a net negative eight per cent result. On an industry basis, the strongest employment result was recorded in health and community services (12 per cent). The retail trade sector was the weakest in terms of employment performance (negative nine per cent).

A lack of demand was once again the most reported impediment to taking on new employees during the quarter (25 per cent of SMEs believed barriers to increasing employment existed, down from 28 per cent last quarter). This barrier was most likely to be identified by SMEs in Victoria and Tasmania (33 per cent each).

## Current quarter (August to October 2006)

Employment expectations for the current quarter improved marginally to a net 10 per cent, compared to a net result of nine per cent the previous quarter. Interestingly, the strongest employment expectations were recorded in the Northern Territory and Queensland with a net balance result of 13 per cent. On an industry basis the strongest expectations again occurred in the health and community services sector (20 per cent).

## Next 12 months (August 2006 to July 2007)

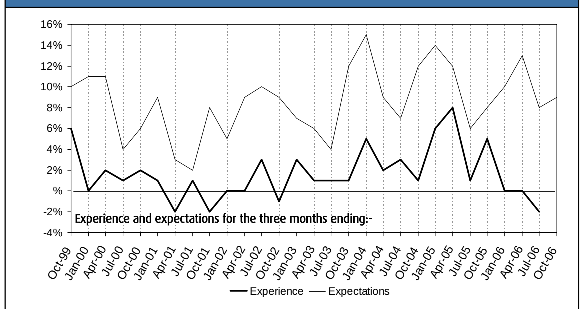
There was continued decline in employment expectations for the year ahead, with a net result of 19 per cent, a two percentage point decrease from the previous quarter. The weakest expectations for the year ahead were recorded in Queensland and the Northern Territory (26 per cent each).

**Size of workforce**

| | Aug 05 | Nov 05 | Feb 06 | May 06 | Aug 06 |
|---|---|---|---|---|---|
| *Last Quarter* | | | | | |
| Experienced increase | 14% | 16% | 12% | 14% | 13% |
| No change | 74% | 73% | 77% | 73% | 73% |
| Experienced decrease | 13% | 11% | 11% | 13% | 14% |
| ***Net Balance** | **+1%** | **+5%** | **+1%** | **+1%** | **-1%** |
| *Current Quarter* | | | | | |
| Expect increase | 14% | 15% | 17% | 14% | 13% |
| No change | 81% | 78% | 77% | 80% | 81% |
| Expect decrease | 5% | 4% | 4% | 5% | 3% |
| ***Net Balance** | **+9%** | **+11%** | **+13%** | **+9%** | **+10%** |

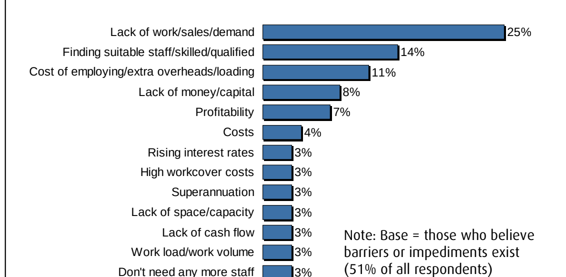
SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

Size of workforce
Trends in *net balance - small business only




SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

What are the barriers to taking on new employees?
August 2006




SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

* *Net balance is defined as the difference between the percentage with a positive outlook and the percentage with a negative outlook.*

# Wages bill

## Key findings

Net growth in total wage costs rose marginally during the last quarter, as did expectations for the current quarter. For the year ahead, however, SMEs were expecting some moderation in wages growth.

## Last quarter (May to July 2006)

The most recent quarter saw a rise in wage cost trends, with the performance result increasing from a net 10 per cent to a net 11 per cent. This marginal rise follows two quarters of falling results.

During the quarter, 26 per cent of SMEs experienced a rise in total wage costs, while 15 per cent recorded a decline. SMEs in Western Australia recorded the highest increases in total wage costs (net 22 per cent), while the lowest wage pressures were in Victoria and Tasmania (net four per cent each). The strongest rise in total wage costs was recorded in the health and community services sector (net 40 per cent), in line with strong employment growth in that sector.

## Current quarter (August to October 2006)

SMEs were expecting further increases in wages in the short term, with expectations for total wage costs increasing to a net 18 per cent for the current quarter from 16 per cent last quarter. The highest wage expectations were also in Western Australia, with a net balance of 29 per cent of SMEs expecting an increase in their total wages bill in the coming quarter. Those SMEs in New South Wales were least likely to be expecting to increase their wages bill in the current quarter (net 10 per cent).

## Next 12 months (August 2006 to July 2007)

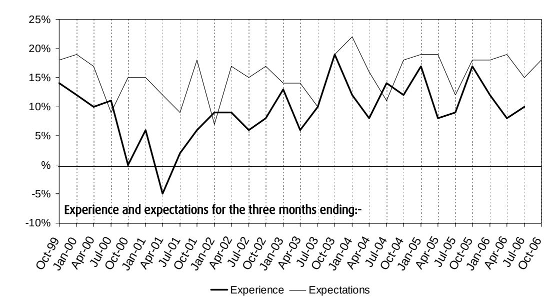
Expectations for total wage and salary costs for the coming year fell during the quarter, with a net balance of 35 per cent of businesses expecting a rise in total wage costs in the year ahead. This represented a decrease in the net balance trend of two percentage points. The SMEs most likely to be expecting increases to their wages bills were also in Western Australia. SMEs in New South Wales were the least likely to be expecting to increase their total wages bill in the coming year.

**Wages bill**

| | Aug 05 | Nov 05 | Feb 06 | May 06 | Aug 06 |
|---|---|---|---|---|---|
| *Last Quarter* | | | | | |
| Experienced increase | 25% | 28% | 25% | 25% | 26% |
| No change | 59% | 58% | 60% | 54% | 55% |
| Experienced decrease | 14% | 10% | 11% | 15% | 15% |
| ***Net Balance** | **+11%** | **+18%** | **+14%** | **+10%** | **+11%** |
| *Current Quarter* | | | | | |
| Expect increase | 26% | 26% | 28% | 24% | 26% |
| No change | 64% | 63% | 60% | 63% | 61% |
| Expect decrease | 7% | 7% | 8% | 8% | 8% |
| ***Net Balance** | **+19%** | **+19%** | **+20%** | **+16%** | **+18%** |

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

Wages bill
Trends in *net balance - small business only




SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

** Net balance is defined as the difference between the percentage with a positive outlook and the percentage with a negative outlook.*

# Prices

## Key findings

The net proportion of SMEs that increased their prices rose during the past quarter. Looking ahead, more SMEs were expecting to increase their prices in the short term, however, price expectations held steady for the year ahead. This indicator remains at its highest level since the introduction of the Goods and Services Tax in 2000.

### Last quarter (May to July 2006)

The proportion of businesses that increased prices rose by six percentage points during the quarter, to a net balance result of 25 per cent. This result represents two quarters of solid growth in the net proportion of SMEs increasing their prices, with this indicator not having been higher since the price increases recorded in conjunction with the introduction of the Goods and Services Tax.

Of all states and territories, the strongest price trends were again recorded in Queensland and Western Australia, with a net balance of 33 per cent each. The lowest results were recorded in Victoria, with a net balance of 17 per cent. Reflecting continued increases in the cost of fuel, the strongest price rises were recorded in the transport and storage sector, with a net balance result of 40 per cent. The weakest outcome was again recorded in the finance and insurance sector, with a net balance result of three per cent.

### Current quarter (August to October 2006)

SME expectations for price rises increased sharply during the quarter to a net balance result of 32 per cent, a rise of eight percentage points since the last quarter. The Northern Territory recorded the strongest price rise expectations, with a net balance result of 45 per cent, while New South Wales again recorded the weakest price rise expectations, with a net balance of 29 per cent.

### Next 12 months (August 2006 to July 2007)

At a net balance of 56 per cent, expectations for price rises in the coming year were unchanged, remaining at historically high levels. Year-ahead expectations for price increases were strongest among SMEs in the Northern Territory and weakest among those in Victoria.

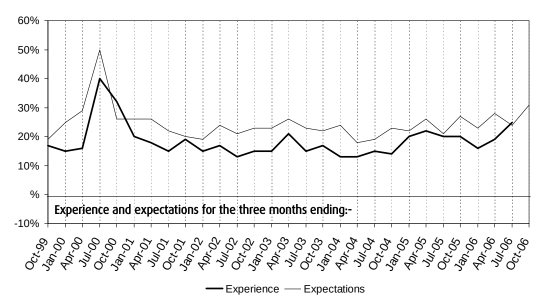
The strongest price rise expectations for the year ahead were recorded in the transport and storage sector, with a net balance result of 73 per cent. The weakest selling price expectations were again recorded in the finance and insurance sector (net 27 per cent).

**Prices charged**

| | Aug 05 | Nov 05 | Feb 06 | May 06 | Aug 06 |
|---|---|---|---|---|---|
| ***Last Quarter*** | | | | | |
| Experienced increase | 24% | 24% | 20% | 25% | 29% |
| No change | 72% | 71% | 76% | 69% | 67% |
| Experienced decrease | 4% | 4% | 4% | 6% | 4% |
| ***Net Balance** | **+20%** | **+20%** | **+16%** | **+19%** | **+25%** |
| ***Current Quarter*** | | | | | |
| Expect increase | 30% | 26% | 30% | 27% | 34% |
| No change | 67% | 71% | 68% | 70% | 64% |
| Expect decrease | 3% | 3% | 2% | 3% | 2% |
| ***Net Balance** | **+27%** | **+23%** | **+28%** | **+24%** | **+32%** |

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

Prices charged
Trends in *net balance - small business only




SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

* *Net balance is defined as the difference between the percentage with a positive outlook and the percentage with a negative outlook.*

# Capital expenditure

## Key findings

Reflecting lower confidence levels, the proportion of SMEs that reported growth in capital expenditure declined sharply during the quarter. This result was the lowest in the history of the Sensis® *Business Index*, with strong declines also recorded for both short- and medium-term expectations. Capital expenditure was the only indicator to record large falls for both short- and medium-term expectations.

## Last quarter (May to July 2006)

SME performance in capital expenditure recorded a net negative 11 per cent, the fourth consecutive quarter when capital expenditure recorded a net negative result. Not only was this result below expectations, but it was the lowest performance result for capital expenditure recorded in the history of the Sensis® *Business Index*. This result points to the current level of uncertainty in the future economic direction strongly impacting on SMEs' confidence to invest.

Capital expenditure growth was strongest in Western Australia, with a net balance result of a positive 10 per cent of SMEs that increased their capital expenditure. The weakest result was in New South Wales, which recorded a net balance of negative 19 per cent.

Once again there was a high degree of variation between the sectors. While the finance and insurance sector recorded the strongest capital expenditure performance (13 per cent), at the other end of the investment scale was the building and construction sector (19 per cent).

## Current quarter (August to October 2006)

The net result for capital expenditure expectations declined sharply in line with actual performance, with a net balance result of negative eight per cent. The highest result was recorded in the Australian Capital Territory at a net positive 11 per cent. The weakest result was again recorded in Tasmania with a net balance of negative 16 per cent.

SMEs in the cultural, recreational and personal services sector recorded the strongest expectations (seven per cent), while the finance and insurance sector again recorded the weakest results at a net negative 24 per cent.

## Next 12 months (August 2006 to July 2007)

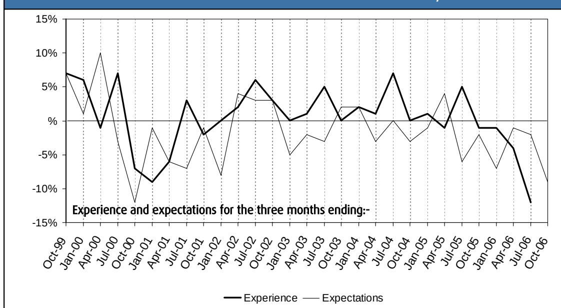
Capital expenditure expectations for the year ahead also fell sharply during the quarter, with only a net six per cent of SMEs expecting to increase their capital expenditure in the next twelve months. The strongest capital expenditure expectation by state or territory was recorded in the Northern Territory (27 per cent).

Capital expenditure

| | Aug 05 | Nov 05 | Feb 06 | May 06 | Aug 06 |
|---|---|---|---|---|---|
| *Last Quarter* | | | | | |
| Experienced increase | 27% | 24% | 23% | 22% | 20% |
| No change | 49% | 46% | 50% | 49% | 45% |
| Experienced decrease | 21% | 25% | 24% | 25% | 31% |
| ***Net Balance** | **+6%** | **-1%** | **-1%** | **-3%** | **-11%** |
| *Current Quarter* | | | | | |
| Expect increase | 22% | 21% | 25% | 23% | 21% |
| No change | 50% | 47% | 47% | 47% | 46% |
| Expect decrease | 24% | 28% | 25% | 25% | 29% |
| ***Net Balance** | **-2%** | **-7%** | **0%** | **-2%** | **-8%** |

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

Capital expenditure
Trends in *net balance - small business only




SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

* *Net balance is defined as the difference between the percentage with a positive outlook and the percentage with a negative outlook.*

# Profitability

## Key findings

In line with the weak sales result, the proportion of SMEs reporting increased profitability in the past quarter fell further, with more SMEs reporting falls in profitability than reported increases for the second successive quarter. While SMEs were expecting some improvement in profitability in the short term, they were realistically expecting decreased profitability over the next twelve months.

## Last quarter (May to July 2006)

Profitability performance continued to fall during the quarter, with more SMEs reporting falls in their profitability than those reporting a rise. This resulted in a net balance outcome of negative four per cent. This result was a decline of a further two percentage points from last quarter's net balance result of negative two per cent.

In line with their expectations from last quarter, SMEs in the Northern Territory recorded the highest profitability performance during the quarter, with a net balance of 28 per cent. SMEs in New South Wales again recorded the weakest performance, at net negative 20 per cent, down from net negative nine per cent last quarter. The strongest performance by industry was in the finance and insurance sector, recording a net balance result of 18 per cent. SMEs in metropolitan areas again experienced better profitability on balance than their regional counterparts.

## Current quarter (August to October 2006)

Profitability expectations for the current quarter rose. Overall, 41 per cent of businesses expected an increase in profitability for the quarter compared to 14 per cent that expected a decline. The net balance result of 27 per cent was an increase of six percentage points from the result of 21 per cent last quarter.

The communication, property and business services sector recorded the highest profitability expectations of any sectors, with a net balance of 49 per cent. The weakest expectations were recorded in the retail trade sector, with a net balance result of only seven per cent. SMEs in Western Australia recorded the highest net profitability expectations of any state or territory.

## Next 12 months (August 2006 to July 2007)

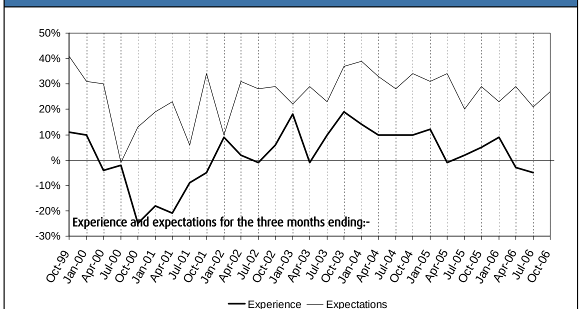
Expectations for profitability for the medium-term continued to drop, in line with falling medium-term sales expectations. A net balance result of 37 per cent of SMEs were expecting increased profitability in the year ahead. The strongest profit expectations for the year ahead were recorded in the health and community services sector, with a net balance of 59 per cent. The weakest profit expectations were again in the retail trade sector, which recorded a net balance of 11 per cent .

**Profitability**

| | Aug 05 | Nov 05 | Feb 06 | May 06 | Aug 06 |
|---|---|---|---|---|---|
| ***Last Quarter*** | | | | | |
| Experienced increase | 34% | 35% | 32% | 32% | 32% |
| No change | 35% | 35% | 43% | 33% | 32% |
| Experienced decrease | 31% | 30% | 23% | 34% | 36% |
| ***Net Balance** | **+3%** | **+5%** | **+9%** | **-2%** | **-4%** |
| ***Current Quarter*** | | | | | |
| Expect increase | 44% | 41% | 45% | 39% | 41% |
| No change | 40% | 41% | 39% | 43% | 44% |
| Expect decrease | 15% | 18% | 16% | 18% | 14% |
| ***Net Balance** | **+29%** | **+23%** | **+29%** | **+21%** | **+27%** |

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

Profitability
Trends in *net balance - small business only




SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

** Net balance is defined as the difference between the percentage with a positive outlook and the percentage with a negative outlook.*

# Exports

## Key findings

The proportion of SMEs that exported goods in the past quarter was unchanged, however the proportion of SMEs reporting an increase in the value of their exports continued to increase.

## Last quarter (May to July 2006)

Thirteen per cent of SMEs reported they had exported in the past quarter, which was unchanged from the previous quarter's result. The only states or territories which saw an increase in the proportion of SMEs exporting were Victoria, where the result increased by three percentage points, and New South Wales and the Australian Capital Territory, which both recorded a marginal increase of one percentage point in the proportion of SMEs exporting.

SMEs that had significant growth plans were over three times as likely to export as those with no plans for growth (19 per cent compared to six per cent). SMEs in metropolitan areas were over twice as likely to export than their regional counterparts (16 per cent compared to seven per cent).

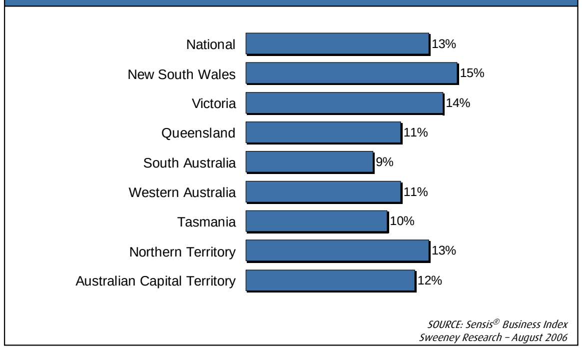
SMEs in the wholesale trade sector were again the most likely to have exported in the past quarter, with participation in that sector falling to 33 per cent. SMEs in the finance and insurance sector reported the lowest level of export activity in the past quarter.

While the proportion of SMEs exporting was unchanged over the last quarter, there was a further improvement in the net proportion of exporting SMEs that reported an increase in the value of their exports. A net balance of 22 per cent reported an increase in the value of the goods and services exported in the past quarter, up from last quarter's net balance of 18 per cent.

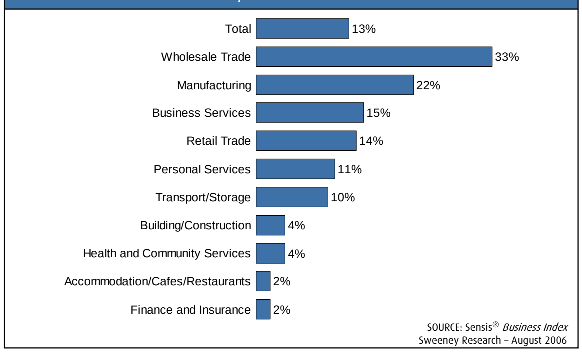
SMEs were expecting some easing in the value of their exports for the coming quarter. The net proportion of SMEs expecting an increase in the value of their exports in the current quarter decreased from a net 23 per cent to a net 19 per cent. Countering this, however, was an increase of eight percentage points in the proportion of SMEs expecting to increase the value of their exports in the year ahead.

New Zealand was the most favoured destination for SME exports in the past quarter, with 40 per cent of exporting SMEs exporting to that location. Other strong results were seen for the United Kingdom, to which 29 per cent of exporting SMEs exported, and the United States, which came in third at 27 per cent.

Proportion of SMEs exporting in last year
by state and territory




Proportion of SMEs exporting in last year
by business sector




Value of exports - trends

| | Aug 05 | Nov 05 | Feb 06 | May 06 | Aug 06 |
|---|---|---|---|---|---|
| *Last Quarter* | | | | | |
| Experienced increase | 37% | 33% | 29% | 31% | 35% |
| No change | 51% | 39% | 45% | 56% | 52% |
| Experienced decrease | 12% | 28% | 26% | 13% | 13% |
| ***Net Balance** | **+25%** | **+5%** | **+3%** | **+18%** | **+22%** |
| *Current Quarter* | | | | | |
| Expect increase | 29% | 30% | 33% | 31% | 29% |
| No change | 53% | 50% | 53% | 60% | 61% |
| Expect decrease | 18% | 20% | 14% | 8% | 10% |
| ***Net Balance** | **+11%** | **+10%** | **+19%** | **+23%** | **+19%** |
| *Next 12 months* | | | | | |
| Expect increase | 55% | 48% | 41% | 45% | 50% |
| No change | 38% | 38% | 46% | 44% | 43% |
| Expect decrease | 7% | 14% | 13% | 11% | 8% |
| ***Net Balance** | **+48%** | **+34%** | **+28%** | **+34%** | **+42%** |

Base : Exported goods or services overseas in last three months

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

## Demand for export-related businesses

With the increased emphasis on export-related activity it is interested to have a look at export-related businesses and those businesses that service the export market.

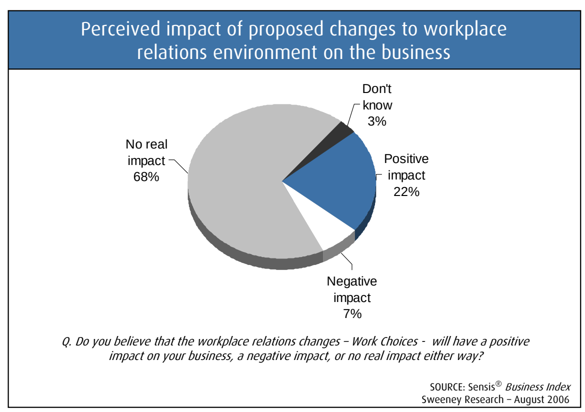

By analysing searches from the Yellow Pages® Online website for export agents, it can be seen that the central business districts of our capital cities are where most people are looking to find an export agent. Overall, the Sydney CBD area is where there were the most searches for an export agent of any location in Australia. This was closely followed by the Melbourne CBD and the Brisbane CBD.

After locations in the major central business districts, our major airports and ports were the next most popular location that people wanted to find an export agent. Both the Botany region in Sydney and the Tullamarine area in Melbourne were equally popular locations that people wanted to find an export agent in, with the Mascot area in Sydney also ranking in the top ten locations that people wanted to find an export agent.

# Workplace relations

## Perceived impact of proposed changes to workplace relations environment

The Sensis® *Business Index* has been examining the views of the SME community on the Australian workplace relations system for several quarters, focusing on the debate surrounding the proposed changes to the system.




While the views of SME owners as to the likely impact of the legislation is relatively unchanged, the main movement has been in the proportion of SMEs that feel there will be a negative impact, which was increased by two percentage points to seven per cent.

More than four in five SMEs were not planning to make any changes at all under the new workplace relations system. The main change that SMEs were planning on making was to hire new staff (four per cent of SMEs). To date, nine per cent of SMEs claim to have made any changes under the new workplace relations system. The main change that SMEs report having made since the introduction of the new system was to employ staff on contracts and employ subcontractors, followed by introducing new workplace agreements. Some 10 per cent of SMEs that reported having made changes have removed employees, compared to five per cent that reported having hired new staff.

# Assessment of Federal Government policies

## Key findings

Support among SMEs for the Federal Government fell sharply but remained net positive overall. Support for the Federal Government among SMEs has now been net positive for seven out of the last eight quarters. Despite the fall this quarter, larger falls reported in the states and territories resulted in the Federal Government being the most supported government in Australia by SMEs.

## Last quarter (May to July 2006)

The net balance result of a positive six per cent approval rating represented a drop of 11 percentage points in the past quarter, coming off an historically high base. Although the result reversed the increase recorded in the previous quarter, the Federal Government's result has now been net positive for seven out of the last eight quarters since the last Federal election. The result comprised 32 per cent of businesses that were supportive of the Federal Government's small business policies, compared to 26 per cent that felt their policies worked against small business.

The strongest support for the Federal Government's policies occurred in Victoria and the Northern Territory, where businesses recorded a positive 14 per cent net balance. Very strong results were also recorded in Western Australia. The region that was most critical of the Federal Government's small business policies was New South Wales, where the net balance of SMEs that felt the Federal Government's policies supported small business was negative one per cent, the only state or territory to record a net negative result.

SMEs in metropolitan areas were over twice as supportive of the Federal Government than those in regional areas. Medium businesses were nine times as supportive of the Federal Government as small businesses, and businesses aiming for growth were also much more supportive than businesses that were not aiming for growth. Businesses that were not aiming for growth held net negative perceptions overall about the Federal Government's policies.

Once again, the Federal Government's industrial relations policies were by far the main reason SMEs gave for believing that the Federal Government was trying to support small business. This view was particularly strong among SMEs in New South Wales, followed by those in South Australia. The belief that the Federal Government was creating a stable economic environment was the next most frequent response at a much lower rate.

The key reasons that SMEs believed the Federal Government's policies worked against them were the amount of bureaucracy, the level of paperwork and the belief that the Federal Government was only concerned with big business.

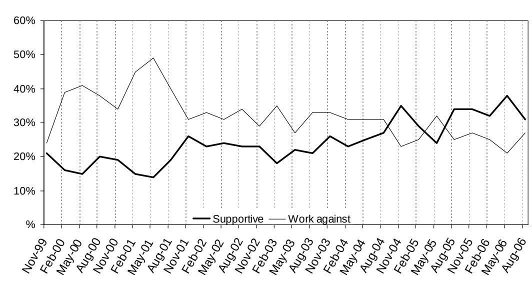
Attitudes to Federal Government policies
past five quarters

| | Aug 05 | Nov 05 | Feb 06 | May 06 | Aug 06 |
|---|---|---|---|---|---|
| Supportive | 34% | 35% | 33% | 38% | 32% |
| Work against | 24% | 26% | 24% | 21% | 26% |
| No impact | 41% | 39% | 43% | 40% | 42% |
| ***Net Balance** | **+10%** | **+9%** | **+9%** | **+17%** | **+6%** |

*Q. Thinking about the current Federal Government, do you believe that their policies are supportive of small business, work against small business or have no real impact either way?*

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

Attitudes to Federal Government policies
Long-term trends - small business only




SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

* *Net balance is defined as the difference between the percentage with a positive outlook and the percentage with a negative outlook.*

## Assessment of State Government policies

### Key findings

Despite recording a dramatic fall to become net negative, the Tasmanian Government remained the most popular state or territory government in Australia among SMEs. The New South Wales Government remained the least popular state or territory government among SMEs for the tenth successive quarter, following a further fall in support. All state and territory governments recorded a net negative result this quarter.

### Last quarter (May to July 2006)

The Tasmanian Government recorded the highest approval rating from SMEs at net negative one per cent. This result was down from net positive 26 per cent last quarter. The Tasmanian Government's support for tourism was the main reason given by SMEs for their support; however the fall in support of 27 percentage points recorded by the Tasmanian Government was the largest seen in any state or territory.

The Northern Territory Government and the Queensland Government achieved the next highest ratings from SMEs, recording net negative three per cent and net negative four per cent respectively. The main reason that SMEs gave for supporting the Northern Territory Government was their small business management training programs, with a view that the Queensland Government was trying to help small business.

The only governments in Australia that recorded increased levels of support from SMEs in the past quarter were in Victoria and Western Australia. Support for the Victorian Government increased by four percentage points and was the only government to record rises for two consecutive quarters. This result was the highest result for the Victorian Government in the past year, up 11 percentage points from the level recorded one year ago. The main reason for support for the Victorian Government was a belief that they were trying to help small business. The Western Australian Government also recorded a marginal improvement of one percentage point on the back of views that they were more supportive of small business.

Having fallen by a further 14 percentage points in its rating, the New South Wales Government remained by far the least supported government among SMEs. This was the weakest result for the New South Wales Government since May 2005, when the rating was one percentage point lower. It is, however, the tenth successive quarter that the New South Wales Government has recorded the lowest result of any state or territory government. The key reason that SMEs gave for not supporting the New South Wales Government was again a view that there was a high level of bureaucracy and red tape.

Attitudes to state or territory government policies
August 2006

| | NSW | VIC | QLD | SA | WA | TAS | NT | ACT |
|---|---|---|---|---|---|---|---|---|
| Supportive | 7% | 16% | 17% | 16% | 19% | 22% | 28% | 18% |
| Work against | 53% | 30% | 21% | 25% | 28% | 23% | 31% | 35% |
| No impact | 40% | 55% | 62% | 59% | 52% | 54% | 41% | 47% |
| ***Net Balance** | **-46%** | **-14%** | **-4%** | **-9%** | **-9%** | **-1%** | **-3%** | **-17%** |

*Q. Thinking about the current State/Territory Government, do you believe that their policies are supportive of small business, work against small business or have no real impact either way?*

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

Attitudes to state or territory government policies
Trends in *net balance

| | Aug 2005 | Nov 2005 | Feb 2006 | May 2006 | Aug 2006 |
|---|---|---|---|---|---|
| New South Wales | -40% | -39% | -33% | -32% | -46% |
| Victoria | -25% | -16% | -24% | -18% | -14% |
| Queensland | -1% | -5% | -9% | -2% | -4% |
| South Australia | -1% | -4% | -9% | +1% | -9% |
| Western Australia | -20% | -23% | -10% | -10% | -9% |
| Tasmania | +11% | +1% | +10% | +26% | -1% |
| Northern Territory | +7% | +10% | +2% | +3% | -3% |
| Australian Capital Territory | +2% | -4% | -3% | -6% | -17% |

SOURCE: Sensis® *Business Index*
Sweeney Research – August 2006

** Net balance is defined as the difference between the percentage with a positive outlook and the percentage with a negative outlook.*

# Small and medium business outlook – national

- Business confidence declined further during the quarter;
- perceptions of the current state of the economy and future economic expectations both fell sharply;
- sales performance recorded a flat result, remaining unchanged during the past quarter;
- employment growth recorded a fall, becoming net negative;
- capital expenditure recorded the lowest performance in the history of the Sensis® *Business Index*;
- profitability weakened to record a net negative result for the second successive quarter; and,
- support for the Federal Government's policies fell sharply to net positive six per cent, the highest of any government in Australia.

## Trends in past three months' experience and current quarter expectations – national

| CONFIDENCE IN OWN BUSINESS PROSPECT IN NEXT 12 MONTHS | AUG 2005 % | NOV 2005 % | FEB 2006 % | MAY 2006 % | AUG 2006 % |
|---|---|---|---|---|---|
| POSITIVE | 69 | 68 | 72 | 65 | 63 |
| NEGATIVE | 14 | 13 | 13 | 17 | 18 |
| **NET BALANCE** | **+55** | **+55** | **+59** | **+48** | **+45** |

| TOTAL SMALL AND MEDIUM BUSINESS – NATIONAL | | ACTUAL EXPERIENCE DURING:- | | | | | EXPECTATIONS FOR:- | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | MAY-JUL 05 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 06 % |
| SALES VALUE: | INCREASE | 38 | 40 | 38 | 36 | 35 | 47 | 45 | 48 | 43 | 45 |
| | DECREASE | 30 | 29 | 26 | 36 | 35 | 11 | 15 | 14 | 16 | 14 |
| | **NET BALANCE** | **+8** | **+11** | **+12** | **0** | **0** | **+36** | **+30** | **+34** | **+27** | **+31** |
| SIZE OF WORKFORCE: | INCREASE | 14 | 16 | 12 | 14 | 13 | 14 | 15 | 17 | 14 | 13 |
| | DECREASE | 13 | 11 | 11 | 13 | 14 | 5 | 4 | 4 | 5 | 3 |
| | **NET BALANCE** | **+1** | **+5** | **+1** | **+1** | **-1** | **+9** | **+11** | **+13** | **+9** | **+10** |
| WAGES BILL: | INCREASE | 25 | 28 | 25 | 25 | 26 | 26 | 26 | 28 | 24 | 26 |
| | DECREASE | 14 | 10 | 11 | 15 | 15 | 7 | 7 | 8 | 8 | 8 |
| | **NET BALANCE** | **+11** | **+18** | **+14** | **+10** | **+11** | **+19** | **+19** | **+20** | **+16** | **+18** |
| PRICES: | INCREASE | 24 | 24 | 20 | 25 | 29 | 30 | 26 | 30 | 27 | 34 |
| | DECREASE | 4 | 4 | 4 | 6 | 4 | 3 | 3 | 2 | 3 | 2 |
| | **NET BALANCE** | **+20** | **+20** | **+16** | **+19** | **+25** | **+27** | **+23** | **+28** | **+24** | **+32** |
| PROFITABILITY: | INCREASE | 34 | 35 | 32 | 32 | 32 | 44 | 41 | 45 | 39 | 41 |
| | DECREASE | 31 | 30 | 23 | 34 | 36 | 15 | 18 | 16 | 18 | 14 |
| | **NET BALANCE** | **+3** | **+5** | **+9** | **-2** | **-4** | **+29** | **+23** | **+29** | **+21** | **+27** |
| CAPITAL EXPENDITURE: | INCREASE | 27 | 24 | 23 | 22 | 20 | 22 | 21 | 25 | 23 | 21 |
| | DECREASE | 21 | 25 | 24 | 25 | 31 | 24 | 28 | 25 | 25 | 29 |
| | **NET BALANCE** | **+6** | **-1** | **-1** | **-3** | **-11** | **-2** | **-7** | **+0** | **-2** | **-8** |

* Net balance is defined as the difference between the percentage of small businesses reporting an increase and the percentage reporting a decrease.

# Small and medium business outlook – New South Wales

- Business confidence fell further during the quarter to remain, by some distance, the lowest of any state or territory – this was the lowest result recorded by any state or territory since November 2001;
- New South Wales sales performance was the lowest in Australia, as was performance in employment, profitability and capital expenditure;
- SMEs in New South Wales recorded the lowest expectations for the coming quarter in wages and prices;
- for the year ahead, SMEs in New South Wales recorded the lowest levels of expectations for sales, wages and profitability;
- support for the policies of the New South Wales Government fell sharply margin and remained the lowest level for any state or territory government for the tenth successive quarter.

**Trends in past three months' experience and current quarter expectations – New South Wales**

| CONFIDENCE IN OWN BUSINESS PROSPECT IN NEXT 12 MONTHS | AUG 2005 % | NOV 2005 % | FEB 2006 % | MAY 2006 % | AUG 2006 % |
|---|---|---|---|---|---|
| POSITIVE | 67 | 63 | 71 | 55 | 54 |
| NEGATIVE | 16 | 18 | 17 | 25 | 26 |
| **NET BALANCE** | **+51** | **+45** | **+54** | **+30** | **+28** |

| TOTAL SMALL AND MEDIUM BUSINESS – NEW SOUTH WALES | | ACTUAL EXPERIENCE DURING:- | | | | | EXPECTATIONS FOR:- | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | MAY-JUL 05 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 06 % |
| SALES VALUE: | INCREASE | 39 | 35 | 32 | 37 | 29 | 46 | 42 | 45 | 43 | 42 |
| | DECREASE | 34 | 37 | 27 | 40 | 45 | 12 | 14 | 12 | 18 | 15 |
| | **NET BALANCE** | **+5** | **-2** | **+5** | **-3** | **-16** | **+34** | **+28** | **+33** | **+25** | **+27** |
| SIZE OF WORKFORCE: | INCREASE | 12 | 18 | 8 | 13 | 10 | 11 | 13 | 19 | 17 | 13 |
| | DECREASE | 14 | 13 | 15 | 16 | 18 | 7 | 5 | 2 | 5 | 4 |
| | **NET BALANCE** | **-2** | **+5** | **-7** | **-3** | **-8** | **+4** | **+8** | **+17** | **+12** | **+9** |
| WAGES BILL: | INCREASE | 24 | 27 | 20 | 23 | 26 | 22 | 24 | 32 | 25 | 21 |
| | DECREASE | 19 | 13 | 13 | 23 | 16 | 10 | 8 | 8 | 9 | 11 |
| | **NET BALANCE** | **+5** | **+14** | **+7** | **0** | **+10** | **+12** | **+16** | **+24** | **+16** | **+10** |
| PRICES: | INCREASE | 20 | 21 | 20 | 22 | 29 | 29 | 26 | 27 | 20 | 30 |
| | DECREASE | 4 | 6 | 5 | 8 | 4 | 4 | 3 | 2 | 2 | 1 |
| | **NET BALANCE** | **+16** | **+15** | **+15** | **+14** | **+25** | **+25** | **+23** | **+25** | **+18** | **+29** |
| PROFITABILITY: | INCREASE | 34 | 32 | 28 | 32 | 27 | 42 | 37 | 40 | 34 | 37 |
| | DECREASE | 35 | 37 | 22 | 41 | 47 | 16 | 19 | 15 | 22 | 14 |
| | **NET BALANCE** | **-1** | **-5** | **+6** | **-9** | **-20** | **+26** | **+18** | **+25** | **+12** | **+23** |
| CAPITAL EXPENDITURE: | INCREASE | 26 | 25 | 19 | 20 | 18 | 19 | 20 | 22 | 26 | 17 |
| | DECREASE | 17 | 24 | 20 | 23 | 37 | 28 | 31 | 24 | 23 | 30 |
| | **NET BALANCE** | **+9** | **+1** | **-1** | **-3** | **-19** | **-9** | **-11** | **-2** | **+3** | **-13** |

* Net balance is defined as the difference between the percentage of small businesses reporting an increase and the percentage reporting a decrease.

# Small and medium business outlook – Victoria

- Business confidence fell sharply during the quarter to the lowest level in the past year;
- sales performance improved noticeably among Victorian SMEs during the past quarter to become net positive;
- Victorian SMEs continued to record net positive employment performance during the quarter, above the national average;
- SMEs in Victoria recorded the lowest level of increases in wages and prices in the past quarter;
- in line with improvement in sales performance, profitability among Victorian SMEs improved significantly during the last quarter;
- short term expectations for the current quarter improved for all indicators with the exception of profitability which was unchanged and capital expenditure which fell sharply; and,
- SME support for the Victorian Government improved for the second successive quarter, having recorded the largest increase in approval of any government.

**Trends in past three months' experience and current quarter expectations – Victoria**

| CONFIDENCE IN OWN BUSINESS PROSPECT IN NEXT 12 MONTHS | AUG 2005 % | NOV 2005 % | FEB 2006 % | MAY 2006 % | AUG 2006 % |
|---|---|---|---|---|---|
| POSITIVE | 61 | 63 | 69 | 68 | 60 |
| NEGATIVE | 18 | 12 | 13 | 17 | 18 |
| NET BALANCE | +43 | +51 | +56 | +51 | +42 |

| TOTAL SMALL AND MEDIUM BUSINESS – VICTORIA | | ACTUAL EXPERIENCE DURING:- | | | | | EXPECTATIONS FOR:- | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | MAY-JUL 05 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 05 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 06 % |
| SALES VALUE: | INCREASE | 34 | 40 | 39 | 33 | 35 | 50 | 47 | 51 | 41 | 44 |
| | DECREASE | 31 | 29 | 25 | 37 | 33 | 8 | 15 | 17 | 15 | 15 |
| | NET BALANCE | +3 | +11 | +14 | -4 | +2 | +42 | +32 | +34 | +26 | +29 |
| SIZE OF WORKFORCE: | INCREASE | 14 | 17 | 17 | 15 | 15 | 15 | 13 | 13 | 9 | 14 |
| | DECREASE | 15 | 7 | 7 | 11 | 13 | 4 | 5 | 4 | 6 | 4 |
| | NET BALANCE | -1 | +10 | +10 | +4 | +2 | +11 | +8 | +9 | +3 | +10 |
| WAGES BILL: | INCREASE | 24 | 28 | 28 | 24 | 22 | 25 | 24 | 24 | 19 | 29 |
| | DECREASE | 12 | 9 | 6 | 11 | 18 | 6 | 7 | 7 | 10 | 8 |
| | NET BALANCE | +12 | +19 | +22 | +13 | +4 | +19 | +17 | +17 | +9 | +21 |
| PRICES: | INCREASE | 26 | 24 | 15 | 21 | 21 | 27 | 21 | 29 | 27 | 32 |
| | DECREASE | 6 | 5 | 4 | 6 | 4 | 3 | 3 | 2 | 4 | 3 |
| | NET BALANCE | +20 | +19 | +11 | +15 | +17 | +24 | +18 | +27 | +23 | +29 |
| PROFITABILITY: | INCREASE | 27 | 37 | 32 | 29 | 34 | 45 | 39 | 46 | 39 | 41 |
| | DECREASE | 31 | 28 | 22 | 33 | 31 | 18 | 17 | 18 | 15 | 17 |
| | NET BALANCE | -4 | +9 | +10 | -4 | +3 | +27 | +22 | +28 | +24 | +24 |
| CAPITAL EXPENDITURE: | INCREASE | 23 | 21 | 25 | 18 | 17 | 25 | 17 | 25 | 21 | 19 |
| | DECREASE | 23 | 25 | 27 | 26 | 31 | 17 | 23 | 41 | 25 | 29 |
| | NET BALANCE | 0 | -4 | -2 | -8 | -14 | +8 | -6 | -3 | -4 | -10 |

* Net balance is defined as the difference between the percentage of small businesses reporting an increase and the percentage reporting a decrease.

# Small and medium business outlook – Queensland

- Business confidence was unchanged during the quarter with Queensland remaining the second most confident state or territory;
- sales performance among Queensland SMEs improved strongly during the past quarter;
- employment trends among Queensland SMEs declined in line with the national average;
- profitability improved marginally compared to last quarter;
- capital expenditure declined further during the quarter;
- immediate expectations for the current quarter remained quite optimistic with only profitability recording a marginal fall; and,
- there was a small fall during the quarter in the Queensland Government's approval rating to be the third most supported state or territory government.

**Trends in past three months' experience and current quarter expectations – Queensland**

| CONFIDENCE IN OWN BUSINESS PROSPECT IN NEXT 12 MONTHS | MAY 2005 % | AUG 2005 % | FEB 2006 % | MAY 2006 % | AUG 2006 % |
|---|---|---|---|---|---|
| POSITIVE | 76 | 78 | 78 | 74 | 75 |
| NEGATIVE | 8 | 8 | 8 | 10 | 11 |
| **NET BALANCE** | **+68** | **+70** | **+70** | **+64** | **+64** |

| TOTAL SMALL AND MEDIUM BUSINESS – QUEENSLAND | | ACTUAL EXPERIENCE DURING:- | | | | | EXPECTATIONS FOR:- | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | MAY-JUL 05 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 06 % |
| SALES VALUE: | INCREASE | 40 | 45 | 41 | 38 | 41 | 44 | 45 | 48 | 47 | 46 |
| | DECREASE | 29 | 22 | 29 | 33 | 28 | 12 | 17 | 15 | 14 | 13 |
| | **NET BALANCE** | **+11** | **+23** | **+12** | **+5** | **+13** | **+32** | **+28** | **+33** | **+33** | **+33** |
| SIZE OF WORKFORCE: | INCREASE | 15 | 14 | 12 | 13 | 12 | 14 | 18 | 20 | 14 | 15 |
| | DECREASE | 9 | 12 | 11 | 12 | 13 | 3 | 4 | 8 | 6 | 2 |
| | **NET BALANCE** | **+6** | **+2** | **+1** | **+1** | **-1** | **+11** | **+14** | **+12** | **+8** | **+13** |
| WAGES BILL: | INCREASE | 26 | 26 | 26 | 25 | 28 | 27 | 25 | 27 | 26 | 28 |
| | DECREASE | 12 | 7 | 13 | 13 | 10 | 5 | 7 | 8 | 6 | 5 |
| | **NET BALANCE** | **+14** | **+19** | **+13** | **+12** | **+18** | **+22** | **+18** | **+19** | **+20** | **+23** |
| PRICES: | INCREASE | 24 | 26 | 24 | 34 | 38 | 34 | 30 | 34 | 29 | 35 |
| | DECREASE | 4 | 4 | 4 | 4 | 5 | 1 | 4 | 2 | 2 | 4 |
| | **NET BALANCE** | **+20** | **+22** | **+20** | **+30** | **+33** | **+33** | **+26** | **+32** | **+27** | **+31** |
| PROFITABILITY: | INCREASE | 36 | 35 | 32 | 32 | 33 | 42 | 42 | 51 | 46 | 43 |
| | DECREASE | 29 | 26 | 27 | 31 | 31 | 12 | 17 | 14 | 13 | 11 |
| | **NET BALANCE** | **+7** | **+9** | **+5** | **+1** | **+2** | **+30** | **+25** | **+37** | **+33** | **+32** |
| CAPITAL EXPENDITURE: | INCREASE | 31 | 24 | 25 | 22 | 20 | 22 | 23 | 26 | 21 | 26 |
| | DECREASE | 22 | 24 | 27 | 27 | 28 | 27 | 26 | 22 | 28 | 30 |
| | **NET BALANCE** | **+9** | **0** | **-2** | **-5** | **-8** | **-5** | **-3** | **+4** | **-7** | **-4** |

** Net balance is defined as the difference between the percentage of small businesses reporting an increase and the percentage reporting a decrease.*

# Small and medium business outlook – South Australia

- Business confidence fell noticeably during the quarter but once again remained above the national average;
- sales performance declined sharply during the quarter to a level below the national average;
- employment performance among SMEs in South Australia was again the highest of any state or territory;
- profitability deteriorated significantly among SMEs in South Australia, to a level significantly below the national average;
- price pressures among South Australian SMEs were marginally higher than the national result;
- South Australian SMEs recorded sharply declining expectations for capital expenditure for the coming quarter; and,
- support for the South Australian Government fell by 10 percentage points to become net negative.

**Trends in past three months' experience and current quarter expectations – South Australia**

| CONFIDENCE IN OWN BUSINESS PROSPECT IN NEXT 12 MONTHS | MAY 2005 % | AUG 2005 % | FEB 2006 % | MAY 2006 % | AUG 2006 % |
|---|---|---|---|---|---|
| POSITIVE | 78 | 74 | 74 | 69 | 65 |
| NEGATIVE | 8 | 8 | 9 | 16 | 18 |
| NET BALANCE | +70 | +66 | +65 | +53 | +47 |

| TOTAL SMALL AND MEDIUM BUSINESS – SOUTH AUSTRALIA | | ACTUAL EXPERIENCE DURING:- | | | | | EXPECTATIONS FOR:- | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | MAY-JUL 05 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 06 % |
| SALES VALUE: | INCREASE | 40 | 50 | 42 | 39 | 34 | 43 | 48 | 48 | 43 | 51 |
| | DECREASE | 23 | 25 | 26 | 28 | 36 | 17 | 15 | 11 | 19 | 14 |
| | NET BALANCE | +17 | +25 | +16 | +11 | -2 | +26 | +33 | +37 | +24 | +37 |
| SIZE OF WORKFORCE: | INCREASE | 12 | 14 | 11 | 19 | 16 | 15 | 20 | 13 | 18 | 11 |
| | DECREASE | 9 | 10 | 8 | 8 | 6 | 6 | 3 | 6 | 7 | 4 |
| | NET BALANCE | +3 | +4 | +3 | +11 | +10 | +9 | +17 | +7 | +11 | +7 |
| WAGES BILL: | INCREASE | 23 | 33 | 29 | 23 | 25 | 23 | 36 | 28 | 29 | 30 |
| | DECREASE | 9 | 8 | 7 | 10 | 14 | 10 | 7 | 9 | 8 | 7 |
| | NET BALANCE | +14 | +25 | +22 | +13 | +11 | +13 | +29 | +19 | +21 | +23 |
| PRICES: | INCREASE | 30 | 30 | 22 | 23 | 29 | 27 | 28 | 32 | 32 | 41 |
| | DECREASE | 2 | 1 | 4 | 4 | 3 | 3 | 3 | 3 | 4 | 3 |
| | NET BALANCE | +28 | +29 | +18 | +19 | +26 | +24 | +25 | +29 | +28 | +38 |
| PROFITABILITY: | INCREASE | 36 | 47 | 38 | 34 | 26 | 53 | 46 | 44 | 36 | 48 |
| | DECREASE | 23 | 25 | 25 | 29 | 36 | 10 | 17 | 16 | 21 | 17 |
| | NET BALANCE | +13 | +22 | +13 | +5 | -10 | +43 | +29 | +28 | +15 | +31 |
| CAPITAL EXPENDITURE: | INCREASE | 30 | 25 | 27 | 23 | 27 | 21 | 26 | 29 | 23 | 22 |
| | DECREASE | 19 | 28 | 23 | 23 | 22 | 27 | 31 | 21 | 22 | 31 |
| | NET BALANCE | +11 | -3 | +4 | 0 | +5 | -6 | -5 | +8 | +1 | -9 |

** Net balance is defined as the difference between the percentage of small businesses reporting an increase and the percentage reporting a decrease.*

# Small and medium business outlook – Western Australia

- Business confidence fell during the quarter but remained the highest result of any state or territory;
- sales performance recorded a strong rise during the quarter at a level well above the national average;
- profitability also improved strongly amongst Western Australian SMEs and was well above the national average;
- employment also improved considerably during the quarter and was above the national average;
- SMEs in Western Australia recorded the strongest capital expenditure performance for the quarter;
- sales and profitability expectations amongst Western Australian SMEs for the coming quarter were the highest of any state or territory; and,
- support for the Western Australian Government improved marginally, being one of only two governments in Australia to record an increase in sentiment amongst SMEs in the past quarter.

## Trends in past three months' experience and current quarter expectations – Western Australia

| CONFIDENCE IN OWN BUSINESS PROSPECT IN NEXT 12 MONTHS | AUG 2005 % | NOV 2005 % | FEB 2006 % | MAY 2006 % | AUG 2006 % |
|---|---|---|---|---|---|
| POSITIVE | 76 | 75 | 77 | 76 | 74 |
| NEGATIVE | 8 | 12 | 10 | 5 | 9 |
| **NET BALANCE** | **+68** | **+63** | **+67** | **+71** | **+65** |

| TOTAL SMALL AND MEDIUM BUSINESS – WESTERN AUSTRALIA | | ACTUAL EXPERIENCE DURING:- | | | | | EXPECTATIONS FOR:- | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | MAY-JUL 05 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 06 % |
| SALES VALUE: | INCREASE | 41 | 41 | 52 | 37 | 48 | 50 | 48 | 52 | 48 | 54 |
| | DECREASE | 23 | 22 | 15 | 28 | 18 | 11 | 18 | 15 | 14 | 11 |
| | **NET BALANCE** | **+18** | **+19** | **+37** | **+9** | **+30** | **+39** | **+30** | **+37** | **+34** | **+43** |
| SIZE OF WORKFORCE: | INCREASE | 15 | 17 | 14 | 13 | 15 | 18 | 15 | 17 | 15 | 10 |
| | DECREASE | 10 | 10 | 10 | 15 | 9 | 2 | 4 | 3 | 2 | 1 |
| | **NET BALANCE** | **+5** | **+7** | **+4** | **-2** | **+6** | **+16** | **+11** | **+14** | **+13** | **+9** |
| WAGES BILL: | INCREASE | 29 | 32 | 26 | 33 | 33 | 39 | 31 | 28 | 31 | 32 |
| | DECREASE | 11 | 10 | 14 | 9 | 11 | 4 | 4 | 8 | 4 | 3 |
| | **NET BALANCE** | **+18** | **+22** | **+12** | **+24** | **+22** | **+35** | **+27** | **+20** | **+27** | **+29** |
| PRICES: | INCREASE | 28 | 32 | 26 | 31 | 35 | 34 | 30 | 38 | 43 | 41 |
| | DECREASE | 5 | 2 | 2 | 3 | 2 | 2 | 1 | 2 | 2 | 1 |
| | **NET BALANCE** | **+23** | **+30** | **+24** | **+28** | **+33** | **+32** | **+29** | **+36** | **+41** | **+40** |
| PROFITABILITY: | INCREASE | 43 | 38 | 45 | 39 | 42 | 49 | 47 | 49 | 48 | 51 |
| | DECREASE | 24 | 22 | 21 | 27 | 22 | 13 | 14 | 13 | 13 | 11 |
| | **NET BALANCE** | **+19** | **+16** | **+24** | **+12** | **+20** | **+36** | **+33** | **+36** | **+35** | **+40** |
| CAPITAL EXPENDITURE: | INCREASE | 26 | 29 | 26 | 32 | 29 | 27 | 28 | 29 | 25 | 25 |
| | DECREASE | 26 | 27 | 25 | 27 | 19 | 21 | 30 | 28 | 27 | 28 |
| | **NET BALANCE** | **0** | **+2** | **+1** | **+5** | **+10** | **+6** | **-2** | **+1** | **-2** | **-3** |

** Net balance is defined as the difference between the percentage of small businesses reporting an increase and the percentage reporting a decrease.*

# Small and medium business outlook – Tasmania

- Business confidence fell sharply during the quarter but remained above the national average;
- sales performance among Tasmanian SMEs fell sharply and was the second lowest result in Australia;
- profitability within Tasmanian SMEs also dropped, and was significantly below the national average;
- employment performance also fell during the quarter, and was the lowest of any state or territory, equal with New South Wales – Tasmania also recorded the lowest employment expectations for the coming quarter;
- Tasmanian SMEs reported a net negative result for capital expenditure and recorded the lowest expectations for the coming quarter;
- support for the Tasmanian Government's policies fell dramatically but remained the highest of any state or territory government, with support for tourism being the single most important reason for this result.

**Trends in past three months' experience and current quarter expectations – Tasmania**

| CONFIDENCE IN OWN BUSINESS PROSPECT IN NEXT 12 MONTHS | AUG 2005 % | NOV 2005 % | FEB 2006 % | MAY 2006 % | AUG 2006 % |
|---|---|---|---|---|---|
| POSITIVE | 74 | 74 | 73 | 72 | 67 |
| NEGATIVE | 12 | 12 | 10 | 13 | 19 |
| NET BALANCE | +62 | +62 | +63 | +59 | +48 |

| TOTAL SMALL AND MEDIUM BUSINESS – TASMANIA | | ACTUAL EXPERIENCE DURING:- | | | | | EXPECTATIONS FOR:- | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | MAY-JUL 05 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 06 % |
| SALES VALUE: | INCREASE | 35 | 34 | 41 | 38 | 26 | 40 | 44 | 43 | 27 | 40 |
| | DECREASE | 29 | 30 | 26 | 28 | 37 | 9 | 14 | 16 | 26 | 12 |
| | NET BALANCE | +6 | +4 | +15 | +10 | -11 | +31 | +30 | +27 | +1 | +28 |
| SIZE OF WORKFORCE: | INCREASE | 8 | 16 | 14 | 9 | 11 | 12 | 14 | 16 | 5 | 6 |
| | DECREASE | 18 | 11 | 12 | 9 | 19 | 8 | 4 | 4 | 6 | 4 |
| | NET BALANCE | -10 | +5 | +2 | 0 | -8 | +4 | +10 | +12 | -1 | +2 |
| WAGES BILL: | INCREASE | 23 | 30 | 24 | 26 | 24 | 17 | 25 | 21 | 16 | 24 |
| | DECREASE | 17 | 14 | 17 | 12 | 20 | 11 | 6 | 7 | 14 | 10 |
| | NET BALANCE | +6 | +16 | +7 | +14 | +4 | +6 | +19 | +14 | +2 | +14 |
| PRICES: | INCREASE | 21 | 27 | 18 | 27 | 28 | 26 | 35 | 28 | 37 | 36 |
| | DECREASE | 11 | 3 | 3 | 4 | 3 | 3 | 1 | 1 | 5 | 3 |
| | NET BALANCE | +10 | +24 | +15 | +23 | +25 | +23 | +34 | +27 | +32 | +33 |
| PROFITABILITY: | INCREASE | 29 | 33 | 33 | 36 | 25 | 40 | 41 | 40 | 21 | 36 |
| | DECREASE | 28 | 28 | 22 | 27 | 38 | 14 | 17 | 14 | 25 | 11 |
| | NET BALANCE | +1 | +5 | +11 | +9 | -13 | +26 | +24 | +26 | -4 | +25 |
| CAPITAL EXPENDITURE: | INCREASE | 25 | 21 | 25 | 31 | 30 | 31 | 24 | 29 | 23 | 19 |
| | DECREASE | 30 | 27 | 29 | 24 | 31 | 25 | 28 | 26 | 31 | 35 |
| | NET BALANCE | -5 | -6 | -4 | +7 | -1 | +6 | -4 | +3 | -8 | -16 |

# Small and medium business outlook – Northern Territory

- SMEs in the Northern Territory reported the only rise in business confidence in Australia at a level well above the national average;
- the improving confidence levels reflected good performance results, with SMEs in the Territory recording the highest results for both sales and profitability of any state or territory;
- although SMEs in the Territory were expecting more subdued results as they move into the coming wet season, employment expectations were still the highest of any state or territory for the short term; and,
- support for the Northern Territory Government fell by six percentage points during the quarter but remained the second most supported state or territory government by SMEs.

**Trends in past three months' experience and current quarter expectations – Northern Territory**

| CONFIDENCE IN OWN BUSINESS PROSPECT IN NEXT 12 MONTHS | AUG 2005 % | NOV 2005 % | FEB 2006 % | MAY 2006 % | AUG 2006 % |
|---|---|---|---|---|---|
| POSITIVE | 80 | 76 | 72 | 72 | 73 |
| NEGATIVE | 7 | 9 | 13 | 14 | 14 |
| NET BALANCE | +73 | +67 | +59 | +58 | +59 |

| TOTAL SMALL AND MEDIUM BUSINESS – NORTHERN TERRITORY | | ACTUAL EXPERIENCE DURING:- | | | | | EXPECTATIONS FOR:- | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | MAY-JUL 05 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 06 % |
| SALES VALUE: | INCREASE | 62 | 53 | 38 | 30 | 51 | 48 | 41 | 53 | 58 | 44 |
| | DECREASE | 12 | 13 | 28 | 32 | 16 | 14 | 25 | 14 | 7 | 19 |
| | NET BALANCE | +50 | +40 | +10 | -2 | +35 | +34 | +16 | +39 | +51 | +25 |
| SIZE OF WORKFORCE: | INCREASE | 20 | 13 | 13 | 16 | 19 | 24 | 16 | 23 | 19 | 20 |
| | DECREASE | 11 | 10 | 22 | 9 | 10 | 4 | 8 | 4 | 3 | 7 |
| | NET BALANCE | +9 | +3 | -9 | +7 | +9 | +20 | +8 | +19 | +16 | +13 |
| WAGES BILL: | INCREASE | 41 | 30 | 24 | 21 | 30 | 35 | 26 | 32 | 31 | 37 |
| | DECREASE | 7 | 7 | 21 | 14 | 13 | 11 | 10 | 9 | 6 | 12 |
| | NET BALANCE | +34 | +23 | +3 | +7 | +17 | +24 | +16 | +23 | +25 | +25 |
| PRICES: | INCREASE | 28 | 33 | 30 | 32 | 30 | 32 | 29 | 26 | 30 | 45 |
| | DECREASE | 1 | 1 | 1 | 1 | 1 | 1 | 4 | 2 | 0 | 0 |
| | NET BALANCE | +27 | +32 | +29 | +31 | +29 | +31 | +25 | +24 | +30 | +45 |
| PROFITABILITY: | INCREASE | 55 | 44 | 36 | 26 | 47 | 48 | 41 | 49 | 54 | 38 |
| | DECREASE | 12 | 16 | 27 | 34 | 19 | 12 | 20 | 14 | 5 | 17 |
| | NET BALANCE | +43 | +28 | +9 | -8 | +28 | +36 | +21 | +35 | +49 | +21 |
| CAPITAL EXPENDITURE: | INCREASE | 37 | 32 | 25 | 30 | 30 | 23 | 22 | 22 | 28 | 28 |
| | DECREASE | 17 | 25 | 31 | 28 | 27 | 27 | 35 | 34 | 31 | 30 |
| | NET BALANCE | +20 | +7 | -6 | +2 | +3 | -4 | -13 | -12 | -3 | -2 |

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# Small and medium business outlook – Australian Capital Territory

- Business confidence fell sharply during the quarter among Australian Capital Territory SMEs, at a level well below the national average;
- sales performance recorded an increase during the quarter in the Australian Capital Territory, bucking the national trend;
- employment performance continued to fall but remained positive and above the national trend;
- profitability in the Australian Capital Territory improved to a level well above the national average;
- SMEs in the Australian Capital Territory recorded the lowest sales and profitability expectations in Australia for the coming quarter; and,
- support for the Australian Capital Territory Government fell by 11 percentage points during the quarter to become the second least supported government in Australia by SMEs. The most significant concern of SMEs was a view that there had been poor economic management.

## Trends in past three months' experience and current quarter expectations – Australian Capital Territory

| CONFIDENCE IN OWN BUSINESS PROSPECT IN NEXT 12 MONTHS | AUG 2005 % | NOV 2005 % | FEB 2006 % | MAY 2006 % | AUG 2006 % |
|---|---|---|---|---|---|
| POSITIVE | 72 | 75 | 77 | 69 | 62 |
| NEGATIVE | 14 | 11 | 10 | 13 | 23 |
| NET BALANCE | +58 | +64 | +67 | +56 | +39 |

| TOTAL SMALL AND MEDIUM BUSINESS – AUSTRALIAN CAPITAL TERRITORY | | ACTUAL EXPERIENCE DURING:- | | | | | EXPECTATIONS FOR:- | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | MAY-JUL 05 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 05 % | NOV-JAN 05/06 % | FEB-APR 06 % | MAY-JUL 06 % | AUG-OCT 06 % |
| SALES VALUE: | INCREASE | 30 | 42 | 46 | 33 | 39 | 46 | 49 | 57 | 46 | 41 |
| | DECREASE | 26 | 24 | 24 | 27 | 24 | 19 | 15 | 14 | 13 | 25 |
| | NET BALANCE | +4 | +18 | +22 | +6 | +15 | +27 | +34 | +43 | +33 | +16 |
| SIZE OF WORKFORCE: | INCREASE | 20 | 18 | 18 | 18 | 15 | 19 | 15 | 19 | 14 | 13 |
| | DECREASE | 11 | 12 | 9 | 12 | 13 | 4 | 6 | 5 | 4 | 7 |
| | NET BALANCE | +9 | +6 | +9 | +6 | +2 | +15 | +9 | +14 | +10 | +6 |
| WAGES BILL: | INCREASE | 20 | 26 | 33 | 30 | 28 | 28 | 26 | 30 | 28 | 23 |
| | DECREASE | 13 | 13 | 11 | 17 | 11 | 8 | 14 | 9 | 6 | 6 |
| | NET BALANCE | +7 | +13 | +22 | +13 | +17 | +20 | +12 | +21 | +22 | +17 |
| PRICES: | INCREASE | 27 | 23 | 21 | 26 | 22 | 30 | 25 | 30 | 34 | 39 |
| | DECREASE | 9 | 4 | 6 | 1 | 0 | 4 | 3 | 1 | 2 | 1 |
| | NET BALANCE | +18 | +19 | +15 | +25 | +22 | +26 | +22 | +29 | +32 | +38 |
| PROFITABILITY: | INCREASE | 30 | 34 | 35 | 35 | 34 | 44 | 50 | 52 | 43 | 34 |
| | DECREASE | 29 | 22 | 23 | 27 | 25 | 18 | 16 | 13 | 15 | 28 |
| | NET BALANCE | +1 | +12 | +12 | +8 | +9 | +26 | +34 | +39 | +28 | +6 |
| CAPITAL EXPENDITURE: | INCREASE | 26 | 26 | 24 | 19 | 21 | 23 | 25 | 26 | 27 | 30 |
| | DECREASE | 30 | 25 | 27 | 34 | 23 | 31 | 28 | 24 | 24 | 19 |
| | NET BALANCE | -4 | +1 | -3 | -15 | -2 | -8 | -3 | +2 | +3 | +11 |

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