



CCI Survey of Business Expectations

March Quarter 2016 | 1300 4 CCIWA | economics@cciwa.com



Short-term confidence falls in first quarter of 2016

The latest *CCI Survey of Business Expectations* has found that short-term business confidence has fallen slightly in the March quarter of 2016, following consecutive increases in the second half of 2015. The State's medium-term economic performance has improved slightly over the last three quarters, however businesses remain uncertain about future growth.

The percentage of Western Australian (WA) businesses reporting that economic conditions worsened during the March quarter was 56 per cent, up from 47 per cent last quarter. Similarly, the percentage of businesses expecting conditions to soften next quarter was 52 per cent, up from 47 per cent last quarter.

About two thirds of businesses still expect the State's economy to soften over the coming year, which is unchanged from last quarter. Despite being largely unchanged, some eight per cent of respondents expect conditions to improve in 2017, up from five per cent last quarter.

While more businesses seem to be optimistic about the State's medium-term economic future, the survey results show operating conditions have remained steady in the March quarter, at just below neutral. Around 53 per cent of businesses indicated the environment was 'poor', up from 42 per cent last quarter. This compared to seven per cent of respondents who thought the current trading environment was 'good', down from 15 per cent last quarter.

The wage cost index in the March quarter was largely unchanged from the December quarter. Only about 13 per cent of respondents indicated wages were higher in the March quarter, down from 19 per cent last quarter. About 70 per cent of businesses expected 'no change' to wages next quarter, (which is unchanged from last quarter), while 12 per cent of

respondents expected wages to decrease in the second quarter of 2016.

The input costs index improved in the March quarter. The proportion of respondents suggesting input costs increased during the quarter was 25 per cent, down from 34 per cent last quarter. However, respondents largely reported that input costs were unchanged during the quarter (61 per cent), and they expected them to remain mostly unchanged next quarter.

Similar to the trend in input costs, the share of businesses expecting 'no change' to other labour costs next quarter was 72 per cent, up from 67 per cent last quarter. In addition, 10 per cent of businesses expected other labour costs to be less in the next quarter.

Although cost pressures remained relatively stable in this quarter, this did not seem to have a positive impact on business profitability and investment intentions. Only four per cent of respondents indicated their profits increased during the March quarter, while 39 per cent of businesses reported 'no change' to their profit (slightly down from 40 per cent during the previous quarter). The share of businesses reporting less profit increased from 49 per cent to 57 per cent this quarter.

About 42 per cent of businesses reported their anticipated capital expenditure over the next 12 months remained unchanged in the March quarter, down from 49 per cent in the December quarter. While 44 per cent of businesses reduced their investment expenditure,

Key Points

- ▶ Short-term expectations fell slightly in the first quarter of 2016 in Western Australia.
- ▶ Businesses remain uncertain about the medium-term Western Australian economic outlook.
- ▶ The index for profitability has fallen slightly for the second consecutive quarter.

Survey Sample

Number of respondents.....181

Employment11,461

Respondents by size:

Small47%

Medium47%

Large6%

Respondents by sector:

Other Services21%

Manufacturing.....14%

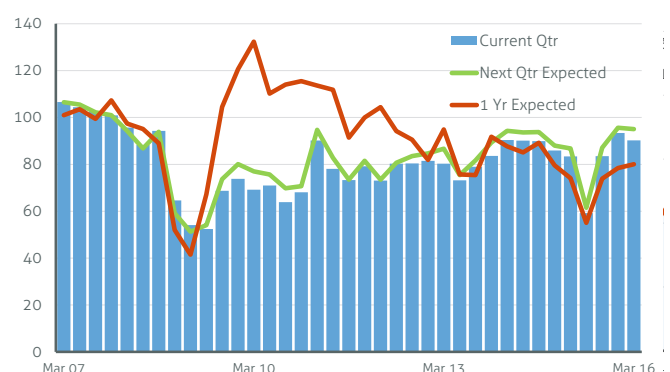
Consumer.....35%

Mining & Agriculture.....19%

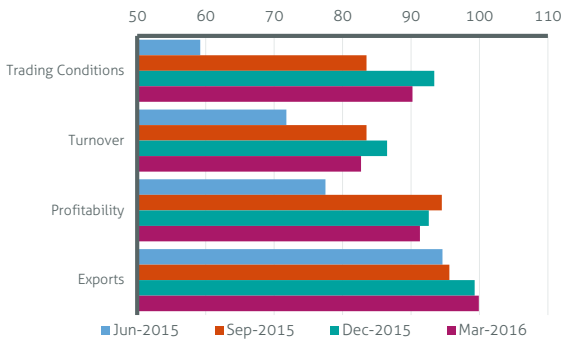
Construction & Utilities.....11%

14 per cent of businesses increased their anticipated capital expenditure in the March quarter.

WA Economic Conditions Index, 100=Neutral



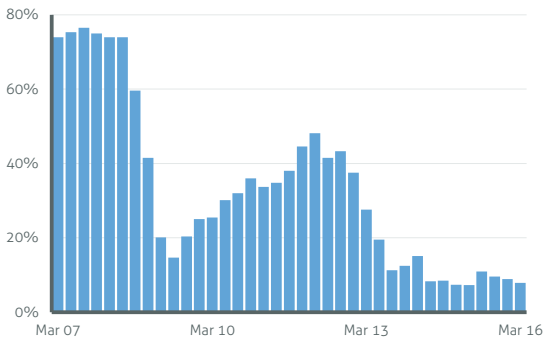
Operating Conditions
Index, 100=Neutral



A Snapshot of Operating Conditions in 2016

- ▶ Trading conditions remained steady in the first quarter of 2016. Large businesses (60 per cent) were more satisfied with their trading conditions than small (22 per cent) and medium businesses (52 per cent).
- ▶ Export activities continued to increase in the March quarter, with the exports index reaching neutral in 2016, for the first time since June 2011. Some 13 per cent of large businesses reported an increase in export sales in the March quarter, compared with seven per cent for medium-sized businesses and six per cent for small businesses.
- ▶ The turnover index decreased in the March quarter, with only seven per cent of businesses indicating that they made more sales than the previous quarter. The remainder of respondents recorded lower sales (55 per cent) or 'no change' (38 per cent). Around 10 per cent of medium-sized businesses reported increased sales during the quarter, compared to only three per cent of small businesses. However, large businesses reported no increase in sales turnover.
- ▶ The profitability index decreased slightly in the March quarter, with 57 per cent of businesses reporting lower profit compared to the last quarter. This compared to 14 per cent of businesses expecting an increase of profit in the next quarter.

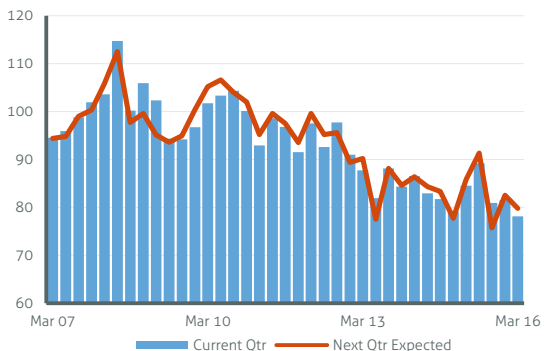
Labour Scarcity: Current quarter
Percentage of Respondents Indicating Labour as 'Scarce'



Labour scarcity remains low

- ▶ Labour availability continues to remain at a relatively high level, with less than eight per cent of businesses reporting labour to be scarce. This was slightly lower than the nine per cent recorded in the December quarter.
- ▶ Only six per cent of medium businesses reported labour to be scarce, a lower proportion compared to small (10 per cent) and large (10 per cent) business respondents.
- ▶ Labour availability appears to remain relatively high in the second quarter of 2016, as only eight per cent of businesses expect labour will be scarce.

Input Costs
Index, 100=Neutral



Input cost fall in March quarter 2016

- ▶ Cost pressures have continued to decrease in the March quarter, with 14 per cent of businesses indicating that their input costs were less, while 61 per cent of respondents reported that their input costs remained unchanged (compared to 58 per cent in the last quarter). Conversely, 25 per cent of respondents operated their businesses with higher costs this quarter, compared to 34 per cent in the December quarter 2015.
- ▶ About 30 per cent of small firms reported an increase of input costs, compared to medium (24 per cent) and large (11 per cent) business respondents. Further, around 25 per cent of respondents expect their input costs will increase in the second quarter of 2016.

Key Results from the survey

Indicator (Index)	Actual			Expected		Indicator (Index)	Actual			Expected	
	Mar 15	Dec 15	Mar 16	1 quarter	1 year		Mar 15	Dec 15	Mar 16	1 quarter	1 year
Economy						Costs & Prices					
WA Economic Conditions	83.4	93.4	90.2	95.1	80.1	Total unit labour cost	82.1	83.4	82.1	82.8	-
Operating Conditions						Average wages	81.0	82.9	82.3	81.9	-
Trading conditions	87.1	97.4	97.3	102.1	-	Non-wage labour costs	83.5	83.7	84.5	84.4	-
Sales turnover	78.5	86.5	82.7	87.3	-	Input costs	84.5	81.5	78.1	79.8	-
Profitability	86.4	92.6	91.3	93.0	-	Prices charged	87.7	88.9	88.5	86.7	-
Export sales	97.8	99.3	99.9	97.0	-	Capital Expenditure					
Employment						Anticipated CAPEX (next 12 months)	97.4	102.9	105.4	-	-
Number of employees	84.5	88.4	86.9	85.4	-						
Labour availability	141.9	145.8	148.8	150.8	-						

Notes: The index calculation has been revised and it is based on a net balance approach (e.g. the WA Economic Conditions is a net balance of those companies that indicated the state economy will improve minus those that believe the economy will worsen). By setting the "neutral" level at 100 (broadly, the level of increased or decreased cost/expenditure/sales etc.) the index allows for more meaningful comparisons over time – for example, how percentage changes in the Index, to a certain extent, reflects the trend of the state's economic activities.

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