



Ai Group Industry Snapshot

Industry success over the coming year: what does business say about likely help and hindrances over the next 12 months?

Australian businesses are feeling the full force of the global financial and economic crisis. Sales and new orders are down, profit margins are being squeezed, and businesses are needing to re-evaluate their business plans and investment, including making difficult decisions about employment. In a similar vein, the ability of Australian companies to withstand the current global crisis, and the ability of governments to put in place the best frameworks to help industry, is fundamental in helping the economy as a whole move back into more favourable conditions.

In this context, Ai Group conducted an industry survey across the manufacturing, construction and related sectors, asking businesses what were the factors that would help or hinder them in the coming 12 months. A total of 551 companies across the eastern seaboard, comprising almost 70,000 employees and sales revenue of \$21.8 billion responded.

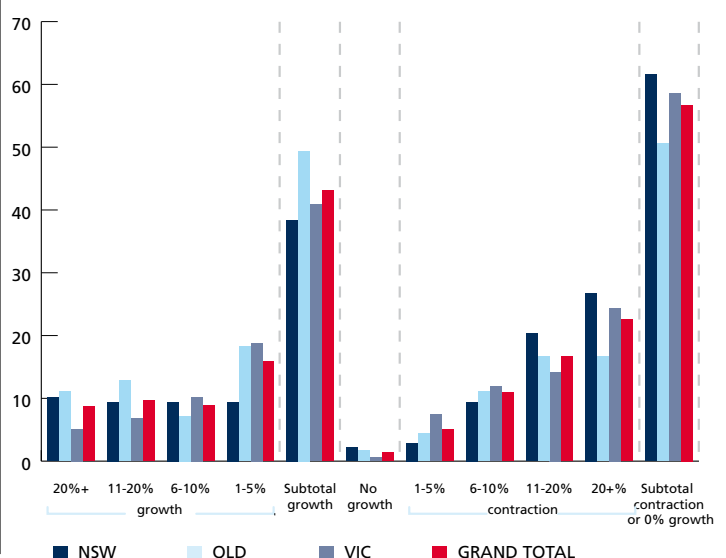
1. Sales expectations for 2008/09?

Unsurprisingly, industry is citing substantially changed conditions over the course of the current financial year. Indeed, 56.7% expect their business will have no sales growth or contract over this time. Worryingly, almost 40% expect sales to contract by more than 10%.

By state, the contraction is being felt most heavily in New South Wales where 47.1% of businesses expect their sales to contract at a rate greater than 10%. The most opportunity appears to exist in Queensland where just under one-quarter of respondents expect sales to grow by more than 10%, compared to 11.9% in Victoria.

The results are consistent with other regular Ai Group surveys and partner bodies in the manufacturing sector (the Australian Performance of Manufacturing Index®), the construction sector (the Australian Performance of Construction Index®) and the services sector (the Australian Performance of Services Index®), which shows activity in these sectors at historic low levels.

FIGURE 1: BY WHAT % DO YOU EXPECT SALES TO GROW OR CONTRACT OVER THE CURRENT FINANCIAL YEAR?



2. Factors likely to either help or hinder success over the next year?

Companies identified a range of factors that will impact on their business outlook over the next year.

The biggest positive factors were interest rate reductions (61%) and infrastructure spending (46.5%). The most commonly cited negative factor was the lack of consumer confidence (63.8%). Business cash flow (56.3%), domestic sales (57.2%) and government regulations (55.2%) are also having a significant negative impact. Credit availability (39.6%) also remains a problem for almost two-fifths of all respondents.

Some factors were equally divided as having both a positive and negative impact such as exchange rate changes, the decline in the Australian dollar and unemployment.

3. Selection of business success factors – by state and business size

A) INTEREST RATE REDUCTIONS

The major positive for industry has been the series of interest rate reductions delivered by the Reserve Bank of Australia in recent months. In fact, 61% of all respondents cited positive impacts from these reductions. This is a fairly constant reflection across New South Wales (62.0%), Victoria (62.6%) and Queensland (58.9%).

The impact of these reductions has been least felt by businesses with less than 10 employees, where less than 1 in 2 cited a positive impact on outlook.

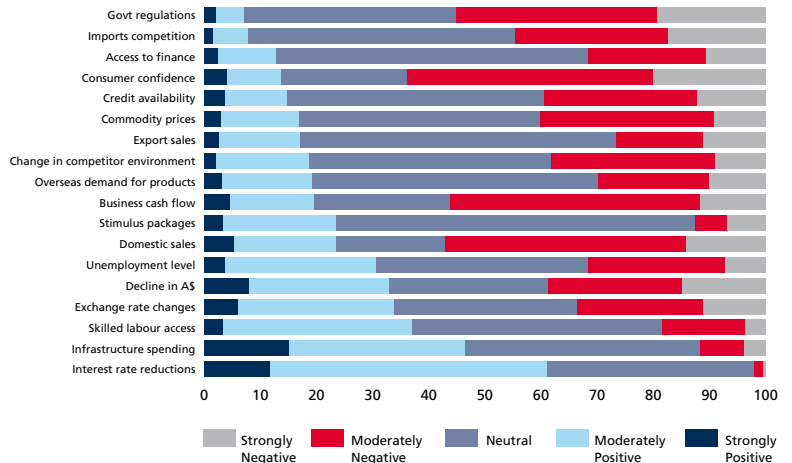
B) INFRASTRUCTURE SPENDING

Infrastructure spend is the other major area of public policy contributing very positively to the business outlook.

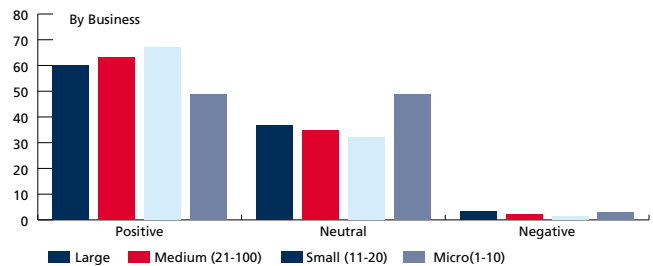
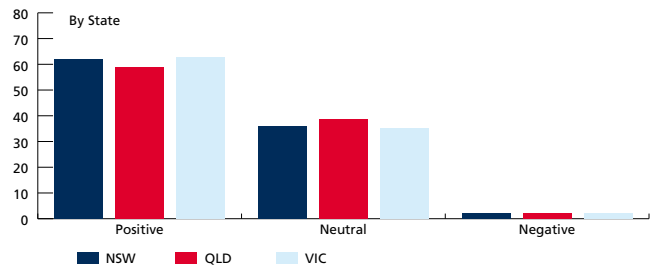
In total, almost half of respondents (46.5%) cited positive impacts from this spend. This figure is much higher in Queensland where 53.2% of respondents cite a positive impact, reflecting the substantial spend of the State Government in its building program. By contrast, in Victoria this spending is only felt in positive terms by 37.4% of industry.

Larger businesses were more likely to cite positive benefits from the increase in infrastructure spend than smaller businesses.

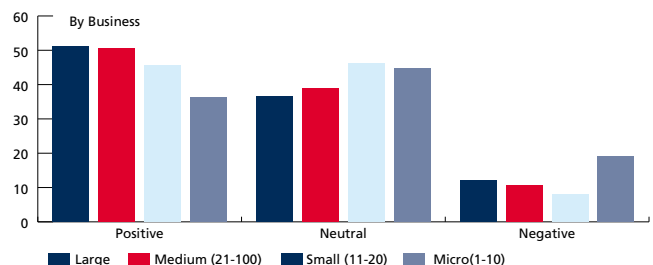
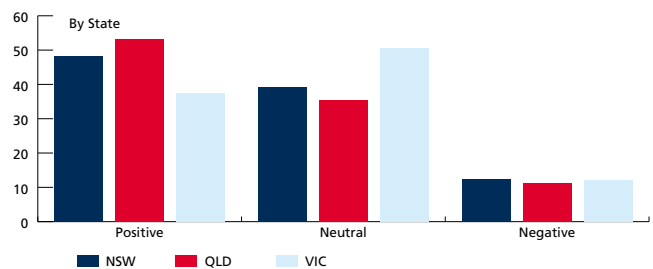
FIGURE 2: WHAT ARE THE LIKELY POSITIVE AND NEGATIVE FACTORS IMPACTING ON YOUR BUSINESS OUTLOOK OVER THE NEXT 12 MONTHS?



A) INTEREST RATE REDUCTIONS



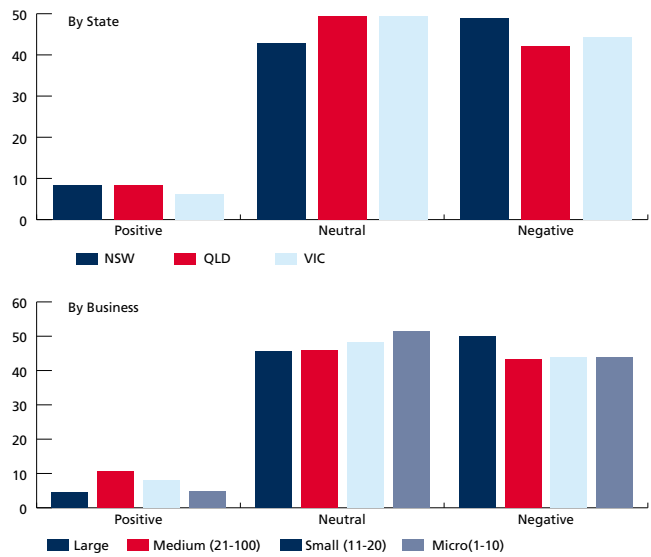
B) INFRASTRUCTURE SPENDING



C) COMPETITION FROM IMPORTS

While the exchange rate depreciation is viewed as having, on balance, a positive impact on the business outlook, industry still cites import competition as having a considerable negative impact on business. In total, 44.6% of respondents cited a negative impact on outlook in relation to import competition.

C) COMPETITION FROM IMPORTS



D) ACCESS TO SKILLED LABOUR

The downturn is helping to resolve skilled labour issues, however, with 37.1% of respondents citing a positive impact on access issues. This is most pronounced in Queensland, where 46.3% cite a positive impact.

Large and medium sized businesses are more likely to nominate access to skilled labour as being a positive factor, than smaller businesses.

D) ACCESS TO SKILLED LABOUR

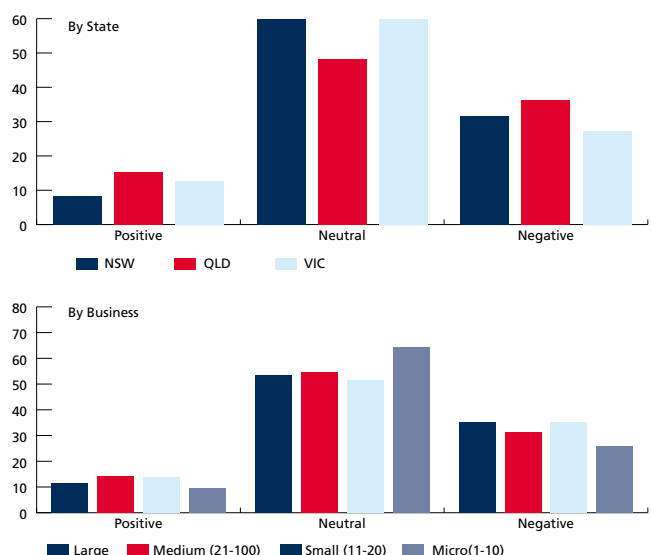


E) ACCESS TO FINANCE

While Queensland is benefiting more from the higher infrastructure spend and looks to have stronger sales for this financial year its outlook is hampered by access to finance issues, which are more acute in the State than elsewhere. In total 36.4% of Queensland industry is citing negative impacts from access to finance, compared to 27.3% in Victoria and 31.7% in New South Wales.

Access to finance issues appear to be less prevalent in micro businesses with only 26.0% citing access issues compared to 35.3% of large businesses.

E) ACCESS TO FINANCE

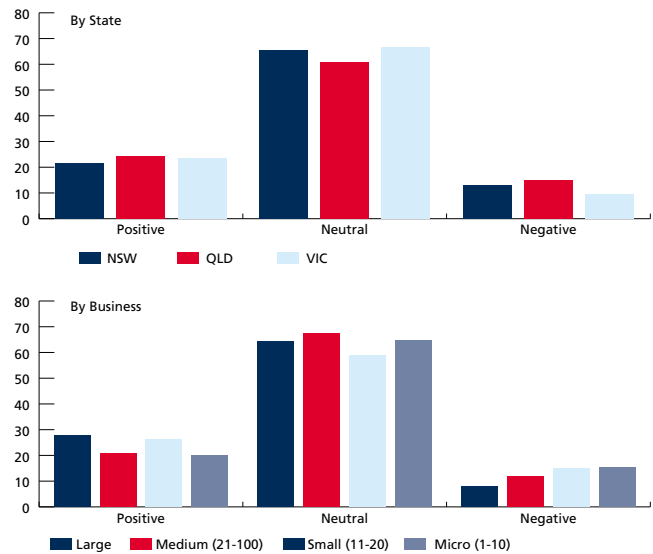


F) FEDERAL STIMULUS PACKAGES

In terms of the cash payments and allowances as part of the Federal stimulus packages (as at late March 2009), less than one-quarter of respondents cited any positive impact on their outlook as a result of that aspect of the stimulus package.

This is relatively consistent across states and business sizes.

F) FEDERAL STIMULUS PACKAGES



Conclusions and recommendations

The survey highlighted a range of very significant issues in relation to factors influencing business success.

1. **Interest rate reductions:** The single biggest positive outcome that could be delivered to industry right now is a further reduction in interest rates. This research clearly states that, to date, these reductions have had the most positive impact of all fiscal and monetary stimuli. The major positive for industry has been the series of interest rate reductions delivered by the Reserve Bank of Australia in recent months. In fact, 61% of all respondents cited positive impacts from these reductions.

The data also points to the importance of interest rate reductions being passed on to business borrowers, as well as homeowners.

- 2. **Consumer confidence:** Consumer confidence is seen as key to business success over the next 12 months. As such, measures to bolster consumer confidence are critical in improving the business outlook for companies.
- 3. **Infrastructure:** Infrastructure spending is seen as critical in cushioning the impact of the economic downturn, and in building the long term productive capacity of the nation. In particular, those States which commit to a more significant infrastructure spend would appear to be able to ride the global recession much better than those which do not. This is evidenced by the fact that 53.2% of Queensland industry is reporting significant positive flows from the State's building program, in contrast to much lower figures in other States.

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