

Future Business Index Update

December 2014



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Planning for growth, preparing for uncertainty

The latest Future Business Index reveals a resilient mid-market poised to grasp emerging opportunities in 2015, while remaining ready for volatile conditions over the short term.



There can be little question that 2014 was a challenging year for Australian business. The strength of the economic headwinds we faced was starkly illustrated in the December 2014 national accounts, which showed an 8.9% drop in our terms of trade over just 12

months.* Meanwhile, subdued business investment and consumer spending has continued to constrain domestic growth, indicating that the difficult transition from a resources-led economy to a more broadly based growth model still has some way to go.

Given this environment, it is no surprise to learn that mid-market organisations have been trimming revenue and profit expectations for the first half of the new year. Despite this, the latest Future Business Index also contains encouraging signs for the future.

Surging optimism among exporters demonstrates that a lower dollar is already beginning to deliver competitive benefits, as anticipated in our last report – and many organisations forecast that the dollar will fall further. A strengthening outlook in some non-mining states and in key industries including Construction & Property Management and Manufacturing suggests that new drivers of growth are gaining momentum. In addition, a continued rise in the proportion of businesses that say they are financially strong shows that many are well positioned to grasp new opportunities as they emerge.

While this quarter's Index indicates that mid-market organisations have moderated their short-term growth expectations, it also shows a record number planning to switch their focus to growth. This was also reflected in the forecast use of financing facilities, with a rise in the number of businesses expecting to use debt to fund capital investment and expansion.

Many mid-market businesses have strengthened their strategic position by honing risk management plans, increasing cash reserves and ensuring they are better prepared for further volatility. In other words, mid-market organisations are planning for growth, but prepared for uncertainty. That places them in good stead for the year ahead.

I hope you find this edition of the Future Business Index useful and thought provoking. We will continue to monitor the mid-market landscape throughout 2015, and we look forward to sharing our insights with you.

Michael Cant
Executive General Manager
Corporate Financial Services
Commonwealth Bank

*Australian Bureau of Statistics, Australian National Accounts, 03 December 2014.



Economic perspective

Businesses remain resilient despite volatile conditions, with a continued focus on growth – a positive sign for 2015.



The Commonwealth Bank Future Business Index (FBI) fell slightly between September and December. The decline was, however, quite modest given the backdrop of renewed global growth concerns and rising financial market volatility.

The rapid realignment of the Australian dollar, big falls in key commodity prices such as oil and iron ore and some disappointing economic growth numbers also weighed on sentiment.

The economic transition theme that is central to most economists' forecasts for 2015 was also evident in middle market business strategies during 2014. The proportion focused on "cost management" declined steadily during the year. The proportion focused on "growth" steadily increased. This shift in focus is essential to a successful transition from mining to non-mining led growth. An increasing focus on growth, despite some weakening in business confidence, is an encouraging sign for 2015.

Lifting sales while maintaining profitability and managing labour demand in a competitive environment remain as major challenges seen by business in the year ahead. These challenges can be simplified down to finding some new sources of income and some new sources of jobs. Failure at either task will deliver worse economic outcomes than we currently expect and it's here that the FBI reports some slightly more disappointing outcomes. The proportion of respondents

expecting revenue to lift declined a little at the end of 2014 and plans for more capex and headcount have been scaled back as a result.

The FBI also puts the recent interest rate cut debate into perspective. Reserve Bank of Australia (RBA) Governor Stevens noted recently that his focus in 2014 had been on "giving a message of stability and predictability". His hope is that this message would be "conducive to confidence". The pull back in business confidence revealed in the FBI survey may reflect in part rate-cut speculation. It appears that business now equate rate cuts with "bad" economic news. So such cuts won't necessarily help produce the confidence and stability the RBA favours.

The FBI survey has emphasised again that the Australian dollar (AUD) may not be as big a headwind to economic activity as imagined. The AUD has fallen a fair way in the past few months and middle market businesses have lowered their expectations for the currency in 2015. A small but rising proportion expects the AUD to dip below USD\$0.80 in 2015. A large and stable proportion report that the AUD is not having any impact on capex and labour hire plans and around one-third of middle market businesses say they can now survive with an exchange rate of USD\$0.90 or higher.

Michael Blythe
Chief Economist
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Growth is on the agenda in 2015

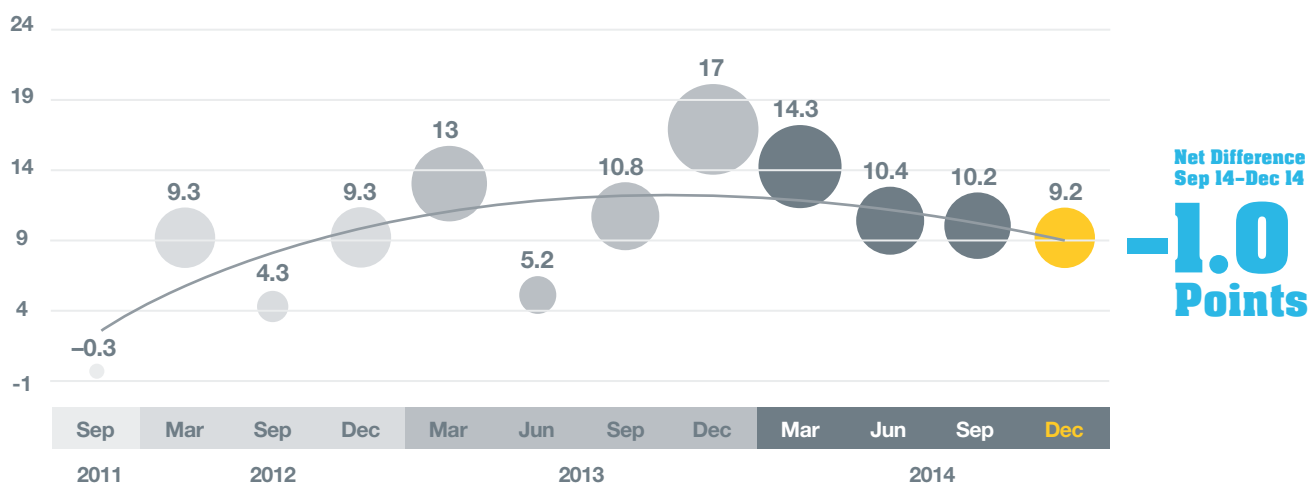
After a challenging year, Australia's mid-market organisations are approaching 2015 with some caution, reducing revenue forecasts and lowering expectations for business conditions. Yet a growing majority are also preparing to take advantage of new growth opportunities, with most expecting business performance to improve before the new year is over.

The Commonwealth Bank Future Business Index declined for the fourth consecutive quarter in December 2014 to 9.2, its lowest level since June 2013. Calculated from mid-market organisations' own forecasts of future business conditions, revenue and risk, the Index is a broad-based gauge of business confidence, reflecting expectations for the next six months across the mid-market.*

After finishing 2013 in an optimistic mood, the mid-market has had a challenging 12 months, with few firms now expecting conditions to pick up in the short term. Only 32% of mid-market organisations forecast better business conditions over the next six months, down

3% from the September quarter. Revenue and profit expectations have also edged lower, with continuing concerns over the domestic economy and consumer confidence impacting forecasts.

Nonetheless, the vast majority of businesses expect their performance to improve before the end of 2015, with a growing majority ready to prioritise growth over cost controls as the outlook brightens.



*For more information about how the Index is calculated, see page 18.

States and industries

Conditions remain highly variable across industries and regions, with six out of nine sectors reversing their recent quarterly trend. The Government, Health & Education sector recorded one of the largest turnarounds, posting a 9.7 point rise in the industry Index and undoing last quarter's decline. But the volatile Retail and Transport & Logistics sectors gave up recent gains on the back of tighter revenue forecasts.

Here are some other key highlights:

- ▶ The Agricultural and Construction & Property Management sectors both reported rising confidence, with Indexes of 16.2 and 15.7 respectively.
- ▶ The Services sector continues to decline, with the industry Index now in negative territory at -1.8, down from 4.6 six months ago.
- ▶ Concerns about growth and the weakening Australian dollar have affected confidence in the Retail sector, with the industry Index declining from 16.2 to 5.6.
- ▶ Meanwhile, mid-market companies in Queensland continue to focus on growth initiatives, with more companies set to increase their appetite for risk (23%) and invest in service and product development (41%).
- ▶ Confidence in New South Wales and the Australian Capital Territory has bounced back, with the state Index rising from 4.9 to 12.1 on the back of better business conditions.
- ▶ Confidence in Western Australia continues to fluctuate, with the Index falling from 17.3 to 5.8.

New year, new opportunities

Despite the challenges, mid-market organisations are ready to seek new opportunities and invest for growth. In the December 2014 quarter, the proportion of mid-market businesses planning to prioritise growth over cost management during the next six months rose to 53%, the highest level since the Index began in September 2011. Many expect to see their competitive edge sharpened by a weaker Australian dollar, while others anticipate higher demand as the domestic and international economies gather momentum.

Increasingly well prepared

At the same time, businesses have taken steps to protect themselves against an uncertain economic environment. The December 2014 Index saw a widespread improvement in key risk management indicators, including the number of businesses with well-defined business strategies, a strong understanding of the competitive landscape, detailed forecasts and high quality risk management plans. As a result, the proportion who say they are well prepared for future volatility has risen from 38% to 42% over the last three months.

“We’ve seen a downturn in activity in our market segment in the last few months and expect this to continue for a few more. Obviously, this will impact our revenue and, to combat that, we built up our cash reserves. Anything that really deviates from what we are expecting might throw us a little, but I’m sure we’d be able to survive.”

New South Wales/Australian Capital Territory, Construction & Property Management, \$50m–\$99m turnover.

Focus on: The outlook for 2015

While mid-market organisations have approached strategic planning for the new year in a relatively cautious mood, most still believe performance will improve over the next 12 months. When asked whether they expected their business to perform better or worse in 2015, 71% of organisations across the mid-market forecast an improvement. Mining (76% positive), Manufacturing (78%) and Agriculture (74%) were among the most optimistic sectors, with a falling dollar improving prospects for exporters. But the Retail sector was considerably less positive than the year before, with only 66% of respondents anticipating better performance.



Industry outlook

Despite subdued sentiment across the mid-market in the December 2014 quarter, eight out of nine sectors remain positive, and four have seen confidence improve. While export-oriented businesses have benefitted from a declining dollar, their domestically focused peers continue to be affected by tight conditions and sluggish spending growth.

Key findings

- ▶ Agriculture moved to the top of the industry leaderboard in the December 2014 quarter, recording the most positive reading of any sector. Although agribusinesses reported softening expectations for business conditions and revenue in the first half of 2015, the weakening Australian dollar is expected to have a positive business impact over the next six months.
- ▶ Mining and Manufacturing also reported relatively high confidence levels, again reflecting the benefits of a more favourable exchange rate. Meanwhile, the overall Index for exporters jumped 26.6 points to 10.6.
- ▶ Among more domestically oriented sectors, Construction & Property Management organisations continue to benefit from low interest rates and a strong residential housing market. Despite continuing concerns over strong domestic competition, 43% are well prepared, with well-defined business strategies, strong finances and improving cash reserves.

- ▶ In contrast, the Retail sector has been impacted by concerns over growth and the weakening Australian dollar. And confidence in the Services sector has continued to decline, with only 32% of Services businesses now saying they are well prepared for future volatility.

“I think conditions will improve with the FTA with China and export of cattle.”

Queensland, Agriculture, \$20m–\$49m turnover.

Industry performance since December 2013: Future Business Index*

	Dec 13 quarter	Mar 14 quarter	Jun 14 quarter	Sept 14 quarter	Dec 14 quarter	Quarterly change	Quarterly trend
Overall (all figures in Index points)	17.0	14.3	10.4	10.2	9.2	-1.0	Steady

By industry

Agriculture	27.6	17.2	15.0	13.1	16.2	3.1	▲
Construction & Property Management	6.4	31.5	9.3	8.5	15.7	7.2	▲
Mining	6.9	28.8	11.6	12.1	12.6	0.5	Steady
Manufacturing	15.9	15.2	22.5	0.3	12.3	12.0	▲
Government, Health & Education	15.3	1.2	11.3	1.8	11.5	9.7	▲
Wholesale Trade	12.4	19.8	11.4	23.6	10.0	-13.6	▼
Transport & Logistics	38.7	5.6	5.8	23.3	8.3	-15	▼
Retail	25.0	8.5	3.1	16.2	5.6	-10.6	▼
Services	13.3	7.8	4.6	2.2	-1.8	-4	▼

By annual turnover

\$10m–\$19m	15.3	12.8	14.2	5.4	7.2	1.8	Steady
\$20m–\$49m	20.2	16.8	4.0	17.3	10.6	-6.7	▼
\$50m–\$99m	16.1	13.9	11.4	11.9	14.3	2.4	Steady

By market

Importer	–	17.6	13.1	17.7	12.0	-5.7	▼
Exporter	–	28.7	18.7	-16	10.6	26.6	▲
Both importer and exporter	–	19.2	15.2	17.4	10.4	-7	▼
Neither importer or exporter	–	8.6	6.4	9.3	7.9	-1.4	Steady

*For more information about how the Index is calculated, see page 18.

Retail

Concerns over spending growth and the weakening Australian dollar have impacted confidence in the Retail sector, with the industry Index declining from 16.2 to 5.6.

- ▶ While retailers are relatively optimistic about revenue and profit growth over the next six months, they still expect business conditions to weaken. Preparedness for future volatility has also declined across the sector, with a variety of risk indicators deteriorating – including financial strength, risk management and forecasting.
- ▶ Retail businesses are also highly concerned about the impact of exchange rates, cited as a potential negative by 40% of organisations.

- ▶ Cost management initiatives (57%) are now the focus for the sector, with declining levels of investment in technology and product or service innovation.

“There is great flexibility in our company structure to cope with changes in conditions as they occur. We can downsize from 100 employees to none in one day and expand just as rapidly if needed.”

Queensland, Retail, \$10m–\$19m turnover.

▼ 16	▼ 5	▼ 11	80%
Business conditions	Revenue	Preparedness	Have detailed forecasts

Construction & Property Management

Confidence in the Construction & Property Management industry has increased, with the Index climbing from 8.5 to 15.7 and expectations for business conditions, revenue and profit all improving.

- ▶ A relatively high proportion (55%) of organisations in the Construction industry expect revenue to improve over the next six months, while 49% expect profits to increase – more than all other industries except the Wholesale sector.
- ▶ Despite domestic competition continuing to cause concern (cited by 48% of organisations), 43% say they are well prepared for future volatility, with well-defined business strategies, strong finances and improving cash reserves.
- ▶ Cost management initiatives (59%) remain the priority, with relatively low levels of capital expenditure, technology investment and product innovation expected.

“Our business structure and planning strategies are all aligned to where we think it’s going to go, so I think our capital position is good. I think we are in the right place so we are just waiting for things to take off.”

Victoria/Tasmania, Construction & Property Management, \$50m–\$99m turnover.

▲ 16	▲ 18	▼ 13	55%
Business conditions	Revenue	Preparedness	Expect revenue to increase

Government, Health & Education

The Government, Health & Education sector has recovered from last quarter’s decline, with a range of indicators returning to the levels recorded in June 2014.

- ▶ The Government, Health & Education Index has jumped 9.7 points to 11.5, with expectations for revenue and profit growth on the rise. However, only 27% of government organisations anticipate an improvement in business conditions over the next six months.
- ▶ Concerns over government policy (cited by 36% of organisations) and domestic competition (33%) are still evident, but have moderated since the last quarter. However, rising salaries and wages (60%) are expected to impact performance.

- ▶ The sector is now better prepared for future uncertainty, with a growing number of organisations having detailed forecasts in place (88%). However, cost management initiatives (53%) remain the key priority across the sector, even though levels of capital expenditure and technology investment are relatively high.

“We have a dynamic business plan with sensitivity analysis to allow us to move at the right times and we have locked in our major cost until 2017.”

Victoria/Tasmania, Government, Health & Education, \$20m–\$49m turnover.

▲ 9	▼ 2	▲ 22	88%
Business conditions	Revenue	Preparedness	Have detailed forecasts

Agriculture

Sentiment in the Agricultural sector has edged higher, with the industry Index reaching 16.2, the best result of any sector.

The weakening Australian dollar is expected to have a positive impact on agribusinesses, while an improving trade environment has raised expectations for the future.

- ▶ Although forecasts of future business conditions and revenue are softer, the weakening Australian dollar is expected to have a positive business impact over the next six months.
- ▶ A significant 57% of companies in the sector are well prepared for future volatility, with more than 80% of companies in a strong financial position, thanks to well-defined business strategies, strong risk management plans and a detailed understanding of competitive threats. Cash reserves are also expected to increase.

- ▶ While the focus for the Agriculture sector is on cost management (64%), investment in technology and product innovation continues to grow.

“We are diversified and can change quickly as well as quickly duplicate what we have done in other areas.”

New South Wales/Australian Capital Territory, Agriculture, \$20m–\$49m turnover.

▼ 10	▼ 15	▲ 34	91%
Business conditions	Revenue	Preparedness	Have a well-defined strategy

Manufacturing

Manufacturing continues to be one of the most volatile sectors across the mid-market, with the industry Index bouncing back to 12.3 from only 0.3 in the September quarter. A weaker Australian dollar has created a new sense of confidence, with two in three organisations now focused on growth.

- ▶ Although expectations regarding business conditions and revenue remain flat, Manufacturing businesses are expecting exchange rates, domestic growth and consumer confidence to have a positive impact in 2015.
- ▶ As a result, two-thirds (66%) plan to focus on growth initiatives, up from 59% in the previous quarter. The proportion of businesses planning to increase investment in product and service development (44%), technology (45%) and capital investment (34%) has also risen, with the use of funding from local markets predicted to escalate.

- ▶ 42% of Manufacturing businesses are now well prepared for future volatility – an increase of 31% on the previous quarter. Stronger planning, forecasting and financial strength have helped to underpin confidence.

“We are a seasonal business, hence we can reduce the workforce as necessary. But exchange rates affect us and price management becomes an issue.”

South Australia/Northern Territory, Manufacturing, \$50m–\$99m turnover.

▲ 7	▲ 6	▲ 23	86%
Business conditions	Revenue	Preparedness	Have a well-defined strategy

Mining

The Mining sector has remained resilient in the face of falling commodity prices, with the Index steady at 12.6. Although business conditions are challenging, the weakening Australian dollar has provided welcome relief.

- ▶ Global economic conditions, growing competition and government policy are all expected to impact profits in the Mining sector over the next six months. Nonetheless, organisations predict that a moderating Australian dollar will enhance competitiveness.
- ▶ With only 49% of mining companies in a strong financial position and 15% expecting an increase in cash reserves, fewer companies plan to increase headcount or lift capital expenditure. As a result, the use of debt facilities is also expected to decline.

- ▶ Yet despite a challenging environment, one in two mining companies (52%) plan to focus on growth initiatives, rather than cost management, in the new year. This compares to 40% last quarter and just 25% at the beginning of 2014.

“Government policies, both State and Federal, are giving consumers no confidence. Media reporting creates uncertainty in consumers due to always focusing on negatives.”

Western Australia, Mining, \$20m–\$49m turnover.

▼ 4	▼ 24	▲ 30	52%
Business conditions	Revenue	Preparedness	Are well prepared

Services

Confidence in the Services sector continues to decline, with the industry Index falling for the fourth consecutive quarter.

The Services Index is now in negative territory, at –1.8, down from 2.2 in the previous quarter and 4.6 six months ago.

- ▶ Expectations for business conditions in the Services sector have again declined, with only 30% of businesses predicting an improvement over the next six months – a low for 2014.
- ▶ Although there is underlying optimism regarding domestic and international growth, sentiment in the Services sector continues to lag. Only 32% of Services organisations are well prepared for future volatility, with the industry performing relatively poorly on risk planning, forecasting and business strategy.

- ▶ A higher than usual proportion of Services businesses are also concerned with maintaining cash flow, reflecting tight conditions and an uncertain trading environment.
- ▶ Nonetheless, many organisations have shifted their focus from cost management to growth initiatives (61%), even though capital expenditure (29%), technology investments (32%) and investments in service and product development (40%) are predicted to remain flat or decline.

“Political uncertainty is having a negative impact.”

New South Wales/Australian Capital Territory, Services, \$50m–\$99m turnover.

▼ 25	▼ 7	▲ 21	61%
Business conditions	Revenue	Preparedness	Focus on growth initiatives

Transport & Logistics

After a strong quarter in September 2014, sentiment in the Transport & Logistics sector Index has returned to the levels seen in the first half of 2014, with the industry Index falling to 8.3 from 23.3 three months before.

- Expectations for business conditions and revenue in the Transport & Logistics industry have declined sharply, as scepticism about consumer confidence and international growth rises.
- However, the sector remains relatively well prepared for future fluctuations, with 89% of companies reporting that they have well-defined business strategies, while 86% have cost management under control.

- Cost management initiatives (55%) remain the primary focus across the industry, but capital investment is predicted to rise, driving an increase in those seeking access to credit and local funding.

“We’re a seasonal business. Cycles and fluctuations are a natural part of our business. We’re very focused on it. We talk about it in every one of our weekly meetings.”

Queensland, Transport & Logistics, \$10m–\$19m turnover.

▼ 20	▼ 30	▲ 5	89%
Business conditions	Revenue	Preparedness	Have a well-defined strategy

Wholesale Trade

Confidence in the Wholesale sector has declined, with the industry Index falling from a high of 23.6 in the September quarter to just 10 – a new low for 2014.

- While Wholesale Trade businesses remain relatively confident that revenue and profit will increase over the next six months, expectations for business conditions and preparedness have both declined markedly, driving the industry Index sharply lower.
- Organisations remain very concerned about the impact of exchange rates (53%), weak consumer confidence (41%) and their ability to access skilled staff (22%).
- Nonetheless, the sector continues to focus on growth initiatives (76%), with many firms continuing to increase investment in technology and product and service innovation.

- The sector is reasonably ready for future fluctuations, with 42% of businesses saying they are well prepared, while 87% have a well-defined business strategy and 81% describe their financial position as strong.

“More and more companies are shutting their doors. So many companies have moved and are moving off-shore – and as a result demand for products, locally, has declined.”

New South Wales/Australian Capital Territory, Wholesale, \$10m–\$19m turnover.

▼ 13	▼ 6	▼ 22	54%
Business conditions	Revenue	Preparedness	Expect profit to increase



State outlook

Conditions across the country remain variable, as organisations continue to adjust to an uncertain and rapidly changing business environment. While optimism in New South Wales and the Australian Capital Territory has bounced back, confidence in Western Australia has retreated, and pessimists outnumber optimists in South Australia and the Northern Territory.

Key findings

- ▶ Stronger expectations for revenues and profits have seen confidence improve in New South Wales and Victoria, with domestic growth expected to drive performance.
- ▶ Although sentiment in Queensland has eased from the highs of the September 2014 quarter, it remains the most confident state, despite continued concerns over a potential skills shortage in some sectors.
- ▶ After rebounding in the September 2014 quarter, confidence in Western Australia has receded, with Western Australian businesses now the most pessimistic across the nation about future business conditions. Only 23% of Western Australian organisations expect conditions to improve over the next six months.
- ▶ Meanwhile, sentiment in South Australia and the Northern Territory has slipped into negative territory, with expectations for business conditions and revenue both falling, along with preparedness for future change.

State performance since December 2013: Future Business Index

	Dec 13 quarter	Mar 14 quarter	Jun 14 quarter	Sept 14 quarter	Dec 14 quarter	Quarterly change	Quarterly trend
Overall (all figures in Index points)	17.0	14.3	10.4	10.2	9.2	-1.0	Steady
Qld	15.3	17.5	0.3	25.4	16.1	-9.3	▲
NSW/ACT	23.5	10.6	14.5	4.9	12.1	7.2	▲
Vic/Tas	14.3	13.0	12.0	3.1	7.2	4.1	▲
WA	18.8	28.5	9.1	17.3	5.8	-11.5	▼
SA/NT	4.7	3.3	13.3	14.0	-1.2	-15.2	▼

New South Wales and the Australian Capital Territory

Sentiment in New South Wales and the Australian Capital Territory bounced back during the December 2014 quarter, with the state Index rising from 4.9 to 12.1. Businesses are more confident about future business conditions than their peers in other states, and are increasingly well prepared for future volatility.

- ▶ Expectations regarding revenue (45%) and profit (46%) are relatively strong in New South Wales and the Australian Capital Territory, buoyed by confidence in the prospects for domestic growth (51%).
- ▶ However, businesses continue to be concerned about exchange rates (32%) and the impact of declining confidence in the Mining sector (25%).
- ▶ Companies in New South Wales and the Australian Capital Territory are better prepared for the future than in previous quarters, with more saying they have a well-defined business strategy (79%), detailed forecasts (73%) and well-developed risk management plans (70%).

- ▶ Despite the increase in confidence, only 49% of companies in New South Wales plan to focus on growth initiatives over the next six months.

“Our biggest opportunity will be ... the new capital and construction works, in particular Badgerys Creek Airport.”

New South Wales/Australian Capital Territory, Construction & Property Management, \$10m–\$19m turnover.

▼ 1	▼ 2	▲ 25	79%
Business conditions	Revenue	Preparedness	Have a well-defined strategy

Queensland

While the Index for Queensland declined from 25.4 to 16.1 in the December 2014 quarter, the state remains the nation's most confident, thanks to strong expectations for better business conditions and increasing revenue.

- ▶ Firms in Queensland are the most confident across the country, with the largest proportion anticipating increases in revenue (58%) and profit (53%) across all states.
- ▶ Improved consumer confidence (44%) and domestic growth (61%) are expected to drive better results, although many Queensland businesses are concerned that growing competition for skilled staff will constrain their ability to grow.
- ▶ Queensland businesses are generally well prepared, with the majority reporting that they have costs under control (82%) and well-defined business strategies (81%).

- ▶ With confidence still strong, mid-market companies in Queensland continue to focus on growth initiatives (57%) rather than cost management, with 23% of companies reporting an increased appetite for risk and 41% planning to lift investment in service and product development.

“Indications are that the economic climate is improving. That's based on what I'm seeing in our forward orders. To me, they reflect an improvement in consumer confidence.”

Queensland, Transport & Logistics, \$10m–\$19m turnover.

▼ 21	▼ 8	▲ 1	82%
Business conditions	Revenue	Preparedness	Have well-controlled costs

South Australia and the Northern Territory

The Index for South Australia and the Northern Territory has declined from 14.0 to -1.2, the lowest across all states and territories. Businesses in South Australia and the Northern Territory are the least prepared for any volatility over the next six months.

- Fewer companies in South Australia and the Northern Territory expect growth in revenue (43%) and profit (41%) than in the previous quarter. Upward pressure on operating costs (42%) and wages (47%) is expected to continue. However, businesses expect to benefit from improved exchange rates (23%) and domestic growth (43%).
- Compared with other states and territories, companies in South Australia and the Northern Territory are the least ready for future uncertainty, with just 35% saying they are well prepared, although 74% have a well-defined business strategy and 68% have developed detailed forecasts.

- Despite a focus on cost management initiatives (66%), many businesses in South Australia and the Northern Territory expect to increase their spending on technology (47%).

“We rely on the farmers and we can see that the harvest hasn’t been that good in our area, so this will have a direct roll on affect to us.”

South Australia/Northern Territory, Retail, \$20m–\$49m turnover

▼ 17	▼ 13	▼ 15	83%
Business conditions	Revenue	Preparedness	Have well-controlled costs

Victoria and Tasmania

Sentiment in Victoria and Tasmania increased from 3.1 in September to 7.2 over the December 2014 quarter, with revenue expected to rise in the first half of 2015.

- Confidence among organisations in Victoria and Tasmania has risen, with many saying that more favourable exchange rates will have a positive impact (28%). However, many are also concerned about the potential effects of economic conditions in China (13%), rising operating costs (30%) and higher salaries and wages (37%).
- More positively, concerns over the potential impact of government policy have fallen significantly in the wake of the November state election.
- With confidence ticking upwards, companies in Victoria and Tasmania are shifting their focus from cost management initiatives towards growth (62%), with more investing in service and product development (36%) and technology (40%) this quarter.

“We see more activity in our Asian markets and there seems to be less uncertainty within the Australian economy. Both of those factors will help us with Asia since we import and export with Asia, primarily China and Indonesia.”

Victoria/Tasmania, Manufacturing, \$10m–\$19m turnover.

▲ 2	▲ 3	▲ 6	78%
Business conditions	Revenue	Preparedness	Have a detailed forecast

Western Australia

Sentiment in Western Australia continues to fluctuate, with the state Index falling from 17.3 to 5.8. Businesses in Western Australia are the least confident regarding business conditions over the next six months.

- ▶ Only 23% of Western Australian organisations believe business conditions will improve over the next six months. Expectations of revenue (30%) and profit (28%) are also lower compared to previous quarters.
- ▶ The main factors expected to negatively impact Western Australia are confidence in the Mining sector (53%), exchange rates (34%), government policy (30%) and domestic growth (31%).
- ▶ However, businesses in Western Australia continue to be better prepared for future volatility than their peers around the country, with 54% saying they are well prepared. Most have a well-defined business strategy (88%), well-controlled costs (86%), a good understanding of the competitive landscape (82%) and a strong financial position (81%).
- ▶ Despite caution about business conditions, investment in technology (54%) and product or service innovation (45%) are relatively strong.

“We’re expecting gold and other base metal prices to increase. We’ve seen central banks around the world buying up more gold recently and this should push up prices.”

Western Australia, Mining, \$10m–\$19m turnover.

▼ 11	▼ 23	no change	88%
Business conditions	Revenue	Preparedness	Have a well-defined strategy



Looking ahead

After challenging conditions in 2014, the outlook for the new year is brightening – and mid-market organisations remain well positioned to take advantage of any upturn.

Looking ahead to 2015, mid-market business remain understandably cautious. Yet while their forecasts for business conditions over the next six months have become less optimistic, the longer-term outlook remains encouraging. A large majority of mid-market organisations expect the next 12 months to bring better performance, with many expecting domestic and international growth to drive improved business outcomes. Meanwhile, growth through new client acquisition continues to trend upwards, particularly in New South Wales, the Australian Capital Territory, and in the Construction & Property, Transport & Logistics and Wholesale sectors. And as growth plans gather momentum, the mid-market's appetite for investment appears to be increasing.

Encouragingly, many businesses have also pointed to longer-term factors that are likely to increase demand and drive better performance. While the end of the mining investment boom has brought structural challenges across the economy, it has also been important in allowing the Australian dollar to return to less elevated levels, removing a significant obstacle to export growth. Many organisations, particularly in Agriculture, have suggested that the China free trade agreement has the potential to create new opportunities over the years ahead. Meanwhile, the Government, Health & Education sector looks set to benefit from long-term demographic trends, including an ageing population, rising expenditures on healthcare and growing demand for investment in education.

Unquestionably, there are still challenges, but the mid-market remains well positioned to face them. A renewed emphasis on risk management and strategic planning has helped to boost confidence across the sector, underpinning future performance.

We will continue to track and analyse the performance of the mid-market to see how these trends play out. We look forward to bringing you more insights in our next update in March 2015.

**For more information
on how we can help your
business, contact your
Commonwealth Bank
Relationship Executive,
or call us on 1800 019 910**

About the Future Business Index

The December 2014 Commonwealth Bank Future Business Index is based on a detailed quantitative survey of 441 financial decision makers in public and private companies throughout Australia with turnover between \$10 million and \$100 million, carried out between 10 November and 1 December 2014. Conducted by ACA Research, the Future Business Index is an indicator of what the business landscape will look like over the next six months, based on business confidence, predicted future activity and an organisation's ability to manage fluctuating business conditions. The survey sample includes businesses from a range of industries, including Retail, Construction & Property Management, Government, Health & Education, Manufacturing, Mining, Services, Transport & Logistics, Agriculture and Wholesale Trade. The data has been weighted to reflect the latest Australian Bureau of Statistics Business Counts.

The Index seeks to identify:

- ▶ The level of confidence in business conditions over the next six months.
- ▶ The challenges and threats businesses face over the next six months.
- ▶ How prepared businesses are to navigate volatile conditions.
- ▶ The use of financial facilities and risk planning.
- ▶ Expected sources of growth and opportunities.

How the Index is calculated:

- ▶ The Commonwealth Bank Future Business Index has been calculated by taking a net balance of future business conditions, net revenue and risk as indicated by 441 businesses with an annual turnover of \$10 to \$100 million.
- ▶ **Net Business Conditions** is a net balance of those companies that indicated business conditions will improve minus those that believe business conditions will decline.
- ▶ **Net Revenue** is a net balance of those companies that foresee an increase in revenue over the next six months minus those that predict a decline.
- ▶ **Net Well Preparedness** is a net balance of those that are 'well prepared' minus those that are 'somewhat' and 'not well prepared'.

About ACA Research:

ACA Research is a full-service market research consultancy, with particular expertise in customised business-to-business thought leadership, executive research and syndicated multi-client studies throughout Australia, New Zealand and Asia. Through a high level of business and research experience, industry expertise and focus on high quality outputs, ACA Research effectively supports business thought leaders in their decision-making activities.



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