



Future Business Index Update

December 2013



Contents

A year of opportunity.	03
Economic perspective.	04
Confidence reaches new highs.	05
States and industries	06
A positive outlook	06
Preparing for future challenges	06
Focus on: A potential skills shortage	06
Industry outlook.	07
Key findings	07
Industry performance since March 2013: Future Business Index	08
State outlook.	14
Key findings	14
State performance since March 2013: Future Business Index	15
Looking forward.	18



A year of opportunity.

Confidence is rising across the mid-market, with an overwhelming majority of businesses expecting performance to improve in 2014. These positive conditions have brought a range of strategic issues into sharper focus – including intensified competition for skilled staff.



Mid-market businesses around Australia are looking forward to a prosperous new year. The latest Future Business Index shows business confidence at its highest level since the Index was first released in September 2011.

Just over three-quarters of mid-market firms expect performance to improve in 2014, with a majority also expecting revenues to rise. While there are variations between industries and states, the positive outlook is evident almost across the board, reflecting a widespread view that business conditions are set to improve.

Encouragingly, two of the most optimistic industries in this quarter's Index are also highly keyed to fluctuations in domestic demand and broader economic activity. The Transport & Logistics industry is this quarter's success story, bouncing back from more subdued readings over the last six months to lead the mid-market. Eighty-eight per cent of Transport & Logistics firms expect their business performance to improve in 2014.

The Retail industry has also risen strongly, recording its highest index reading to date. As a result, more than a third of retailers are looking to boost capital expenditure, while one in five plan to increase headcount. If the optimism of these industries is justified, then we may be able to look

forward to a resurgence in consumer confidence and domestic demand.

Yet there are also some negatives in this quarter's report. Despite a positive outlook and strong balance sheets, fewer mid-market businesses say they are well prepared to manage any fluctuations in business conditions – a remarkable result. It seems that, having successfully negotiated the volatile environment of the last few years, firms have become more cautious, with most still emphasising cost control over expansion.

Improved conditions have also brought different strategic issues into sharper focus. In particular, many businesses are concerned about a potential shortage of skilled labour, as competition for experienced staff intensifies.

It will be interesting to see just how mid-market organisations rise to these challenges and build on their strengths in the months 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 2014, and we look forward to sharing our insights with you.

Michael Cant
Executive General Manager
Corporate Financial Services
Commonwealth Bank



Economic perspective.

With the prospect of better times ahead, businesses may be ready to capitalise on emerging opportunities.



The Reserve Bank of Australia Governor, Glenn Stevens, recently summed up 2013 as a year that was “not quite as good as hoped for, but not as bad as feared”. The latest readings from the Commonwealth Bank Future Business Index (FBI) suggest better times ahead.

Business confidence in the outlook for the first half of 2014 has improved sharply. The FBI has only a relatively short history, but the overall Index now stands at a record high. Just as significantly, confidence levels are high across all industries and states. And for the first time all industries and regions are reporting positive outcomes.

One of the key economic themes of the past few years is income weakness. Despite reasonable *real* economic outcomes, the economy has not been generating *income* in the way it normally would. This income weakness weighed on business sentiment and encouraged a focus on cost control. Labour hiring and capital expenditure plans have been quite soft as a result. So the sharp improvement in revenue and profit expectations in the latest FBI is quite encouraging.

Some flow through is already evident in other FBI components. Risk appetite has improved and

expectations for business capital expenditure and headcount are also higher.

The deterioration in views on firms’ ability to deal with future challenges, however, does suggest mid-market confidence remains fragile. What would help lock in the improvement seen in the FBI? The Index findings suggest the answer has to do with consumer confidence, government policy and the currency. Progress has been made in all three areas. Consumer confidence lifted from its lows during 2013. Fiscal policy has moved in an expansionary direction and the Australian dollar is lower. It is now up to business to capitalise on these opportunities.

Michael Blythe
Chief Economist
Commonwealth Bank



Confidence reaches new highs.

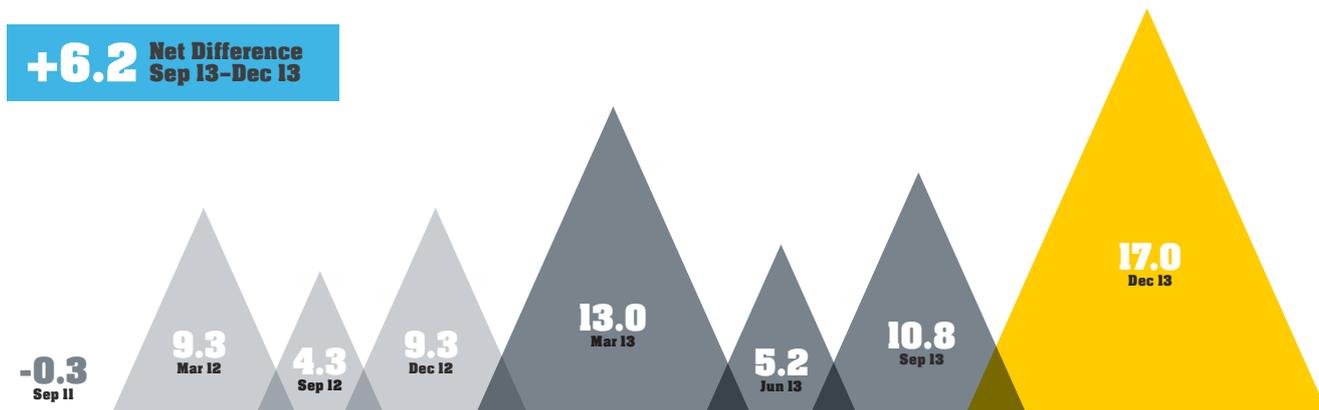
Australia's mid-market businesses will start the new year on an optimistic note, with confidence climbing to its highest level to date. But while most businesses expect revenues to rise and conditions to improve, many have become less certain about their ability to weather future challenges.

Over the last quarter, the Commonwealth Bank Future Business Index has risen 6.2 points to 17, the highest level since the Index began in September 2011. Calculated from mid-market organisations' own forecasts of future business conditions, revenue and preparedness, the Future Business Index is a broad-based gauge of business confidence, based on expectations for the next six months*. This quarter's Index shows businesses at their most confident in more than two years.

Organisations across the mid-market anticipate rising revenues, higher profits and more favourable business conditions over the months ahead. Seventy-seven

per cent expect their business to perform better in 2014 than in 2013, while 47% say that business conditions will improve in the next six months. Similarly, 56% expect revenues to increase, while 48% predict rising profits.

But despite an improving business environment, organisations feel less confident in their ability to manage future volatility. Only 38% say they feel well prepared to manage future fluctuations in business conditions, down nine percentage points since the September quarter.



*For more information about how the Index is calculated, see page 19.

States and industries

Despite variations between industries and states, the positive outlook is uniform across the country, with optimists outnumbering pessimists in every industry, state and territory. Yet not every state and industry is equally confident. Here are some of the key differences:

- ▶ Transport & Logistics was the standout performer this quarter, recording the highest Future Business Index reading of any industry. Buoyed by rising revenue and profit expectations and lower levels of concern about energy and fuel costs, the industry also stands out as the only industry group where over half say they are well prepared for future volatility.
- ▶ The Retail and Wholesale industries also recorded healthy rises in the Index readings, with both industries expecting growing consumer confidence to underpin expanding revenues. Meanwhile, the Agriculture and Mining industries expect higher levels of international demand to fuel growth.
- ▶ A further decline in sentiment placed the Property & Construction industry at the bottom of the Index leaderboard this quarter, although still in positive territory. While Property & Construction firms generally expect revenues and profits to rise, supported by increased domestic demand, only one in four feel well prepared to manage volatile business conditions.
- ▶ Among the states and territories, New South Wales and the Australian Capital Territory recorded the highest Future Business Index reading this quarter, with 62% of businesses expecting revenues to rise. However, sentiment in South Australia and the Northern Territory continues to decline, with South Australian and Territorian businesses less prepared for volatility than their peers in other states.

A positive outlook

Businesses across the mid-market expect both revenue and profit to grow over the next six months. Twenty-eight per cent of firms see domestic demand as the key driver, while 27% believe improving consumer confidence will boost revenues. With the 2013 federal election receding into the background, concerns about the negative impacts of uncertainty about government policy decisions has also fallen, down from 71% in the September quarter to 51% in the December quarter.

However, that does not mean 2014 will be without its challenges. Industry competition, both at home and abroad, is expected to impact mid-market businesses, although export-focused firms will also be looking to capitalise on increased international demand for

Australian goods and services as the global economy improves. And while a falling Australian dollar is good news for some organisations, around 42% of mid-market businesses also say it could have a negative impact over the months ahead.

Preparing for future challenges

Interestingly, given the improving outlook, fewer mid-market businesses say they are well prepared to manage volatility than just three months ago. Firms in every state and industry except Transport & Logistics are less prepared than in the September quarter. In particular, businesses are less confident about cost management, business strategy, forecasting and risk management plans. Nonetheless, 73% of firms say they are in a strong financial position, suggesting that most have the healthy balance sheets they need to weather any future economic fluctuations.

Focus on: A potential skills shortage

As business conditions improve, so does competition for skilled labour. Forty-one per cent of mid-market businesses say a labour skills shortage is likely to impact them over the next six months, up 11 percentage points since the September quarter.

The shortage is expected to be particularly acute in the Health & Education industry (cited by 56% of businesses), along with Business Services (51%) and Manufacturing (49%), where a trend towards niche, high value manufacturers demands a higher skill base. As a result, many businesses are under pressure to offer higher wages, with 45% saying they expect to increase wages over the next six months, while 52% believe a higher wages bill will negatively impact their business.



Industry outlook.

For the first time since the Index began, businesses from every industry report a positive outlook for the next six months. Rising domestic and international demand are expected to drive growth, along with increasing consumer confidence. And while most mid-market businesses say they are still focused on cost control rather than growth, appetite for risk, capital expenditure plans and headcount forecasts are all higher than in the September quarter.

Key findings

- ▶ While every industry covered by the Index recorded a positive Future Business Index overall, there are wide variations between the best and worst performers. Transport & Logistics firms were the most optimistic, adding 47.1 points to the industry's September quarter reading to achieve the highest overall Index of 38.7 points. Retailers and agribusinesses are also increasingly confident, buoyed by the prospect of rising demand at home and abroad.
- ▶ In contrast, the Mining and Property & Construction industries were the least optimistic, with Property & Construction companies recording a significant decline in preparedness for future fluctuations. But while confidence among Mining firms remains subdued, this quarter's reading still represents a substantial improvement on the industry's results in the September quarter. In general, Mining companies are looking to a recovering international economy and higher infrastructure investment to foster revenue growth.
- ▶ Although confidence levels have risen among companies of all sizes in the mid-market, those with a yearly turnover between \$20 million and \$49 million are most optimistic. But while these mid-sized companies expect to benefit from lower operating costs, they remain concerned by a potential shortage of skilled labour and its impact on wage growth.

Every industry covered by the Index recorded a positive Future Business Index overall.

Industry performance since March 2013: Future Business Index*

	Mar 13 quarter	Jun 13 quarter	Sep 13 quarter	Dec 13 quarter	Quarterly change	Quarterly trend
Overall (all figures in Index points)	13.0	5.2	10.8	17.0	6.2	▲
By industry						
Transport & Logistics	33.8	0.7	-8.4	38.7	47.1	▲
Agriculture	21.3	-17.2	26.1	27.6	1.5	▲
Retail	22.2	9.8	12.5	25.0	12.5	▲
Finance & Insurance	13.8	2.4	31.1	24.1	-7.0	▼
Manufacturing	10.9	4.5	16.1	15.9	-0.2	▼
Health & Education	24.1	9.2	7.5	15.3	7.8	▲
Business Services	5.3	13.9	14.8	13.3	-1.5	▼
Wholesale Trade	-2.5	-18.4	0.7	12.4	11.7	▲
Information, Media & Telecommunications	17.7	-2.1	30.2	10.7	-19.5	▼
Mining	5.4	4.5	-15.9	6.9	22.8	▲
Property & Construction	9	24.3	10.9	6.4	-4.5	▼
By annual turnover						
\$10m-\$19m	6.3	4	14.7	15.3	0.6	▲
\$20m-\$49m	20.9	9.4	5.9	20.2	14.3	▲
\$50m-\$99m	21.2	-0.6	8.7	16.1	7.4	▲

*For more information about how the Index is calculated, see page 19.

Retail

The Retail industry doubled its Index reading over the quarter to 25.0 points, the highest level to date. This growing optimism could signal a wider recovery, spurred by increasing domestic demand.

- ▶ Retailers are looking forward to higher revenues and profits in the months ahead, with 82% expecting a better performance in 2014. As a result, 36% of firms are looking to boost capital spending, up from 25% in the September quarter, while 21% plan to increase headcount, up from 16%.
- ▶ Domestic demand will be a significant driver of growth for the industry in 2014, cited by 23% of businesses.
- ▶ However, competitive pressures are also rising. More than half of retail businesses are concerned about competition from domestic retailers, while 41% now see international retailers as a significant threat, up from 24% last quarter.
- ▶ Retail firms are relatively well prepared for future volatility, with 48% describing themselves as well prepared. Eighty-one per cent say they have costs under control, while 75% believe they are in a strong financial position.

▲ 23	▲ 25	▼ 9	81%
Business conditions	Revenue	Preparedness	Have costs well managed

Health & Education

Confidence has bounced back in the Health & Education industry, with the overall Index reading more than doubling to 15.3 points. Around three-quarters expect stronger performances in 2014.

- ▶ Seventy-four per cent of Health & Education firms expect an improved business performance in 2014. But while 58% anticipate higher revenues, 61% also expect wage costs to rise, with 56% saying they are likely to be affected by a labour skills shortage.

- ▶ Of all the industries surveyed, Health & Education firms are the most likely to have a well-defined business strategy in place for managing the challenges ahead. Seventy-two per cent of organisations in the industry also have well-prepared risk management plans in place, compared to a mid-market average of 61%.
- ▶ Organisations are less concerned by global economic issues than in previous quarters. Increasing consumer confidence is a key driver of future growth, cited by 36% of firms.

▲ 17	▲ 12	▼ 7	61%
Business conditions	Revenue	Preparedness	Say wage increases could impact them

Property & Construction

Confidence has continued to decline from the highs of July 2013, with the Property & Construction industry now the least confident of those surveyed. Nonetheless, 77% of Property & Construction firms anticipate improved business performance in 2014.

- ▶ Fifty-four per cent of Property & Construction firms expect higher profits over the next six months, largely due to growing domestic demand.
- ▶ However, only 25% of firms feel well prepared to manage future volatility, the lowest result of any industry. The proportion of firms wary of growing international competition has more than doubled since the September quarter.

- ▶ Over half of respondents expect wage costs to rise in 2014, although this is likely to be partially offset by falling operational costs.
- ▶ Only 64% of Property & Construction firms have a well-defined business strategy, compared to 82% last quarter.

▲ 24	▲ 13	▼ 51	25%
Business conditions	Revenue	Preparedness	Are well prepared

Agriculture

Agribusinesses have built on their renewed confidence in the September quarter to record the industry's highest Index reading to date. Nonetheless, fewer than two in five Agriculture firms feel well prepared for future volatility.

- ▶ Sixty-nine per cent of Agricultural businesses expect business performance to improve in 2014, with growing consumer confidence and rising international demand driving higher revenues.
- ▶ Nevertheless, only 39% of Agriculture firms feel well prepared to handle fluctuating business conditions, and the majority will therefore continue to focus on managing costs rather than growth.

- ▶ While 47% of firms expect headcount to increase in the next six months, a labour skills shortage is still a concern for 37% of the industry.
- ▶ Almost a third of respondents (32%) see the falling Australian dollar as their biggest challenge in the coming months, compared to only 9% in the September quarter.

▲ 17	▲ 20	▼ 33	32%
Business conditions	Revenue	Preparedness	Say a falling dollar is their biggest challenge

Business Services

The Business Services industry has remained largely steady over the last three quarters, with the overall Index reading easing to 13.3 points. Just over half of Business Services firms anticipate higher profits and revenues in the months ahead.

- ▶ Seventy-two per cent of mid-market Business Services firms forecast an improved business performance in 2014. Fifty-five per cent anticipate revenue growth (up 15 percentage points since the September quarter), while 51% are looking forward to increased profits (up 16 points).

- ▶ Nonetheless, the industry remains exposed to possible regulatory changes, with 63% of firms saying they could be negatively impacted by uncertainty over government policy.
- ▶ While concerns over operating costs have declined, 60% of Business Services companies remain focused on cost management. Thirty-six per cent say they may be affected by falling interest rates, compared to an average of 24% across the mid-market.
- ▶ There is also growing concern over the international environment, with 61% of Business Services firms expressing unease about a potential slowdown in Asia.

▲ 2	▲ 26	▼ 32	43%
Business conditions	Revenue	Preparedness	Say domestic demand will drive growth

Finance & Insurance

Despite a moderate decline in confidence over the last quarter, Finance & Insurance firms remain largely positive about the future. Most believe 2014 will bring improved business conditions.

- ▶ Seventy-two per cent of Finance & Insurance firms are looking forward to improved conditions in 2014. Compared to last quarter, more than twice as many firms (31%) expect domestic demand to drive growth.
- ▶ Nonetheless, 42% anticipate higher operating costs, potentially limiting profit growth. While 61% expect higher revenues, only 40% say profits will increase.

- ▶ As a result, Finance & Insurance organisations are looking to reduce headcount and capital spending.
- ▶ The proportion of firms concerned over the falling Australian dollar has plummeted from 51% in September to 15% this quarter. A potential economic slump in Asia, however, is still a concern for 51% of firms.

▲ 6	▼ 14	▼ 14	50%
Business conditions	Revenue	Preparedness	Expect to reduce headcount

Information, Media & Telecommunications

A sharp decline in sentiment has seen the Information, Media & Telecommunications industry fall from second to ninth place on the industry leaderboard, although most anticipate a better performance in 2014.

- ▶ While 81% of Information, Media & Telecommunications organisations expect business performance to improve in 2014, only 33% believe profits will rise. More than half (52%) anticipate higher operating costs.
- ▶ As a result, the industry begins 2014 with a focus on cost management rather than growth. Fifty-nine per cent say they will concentrate on cost management over growth (up from 44% in the September quarter). And many seem to be gaining traction, with 70% saying cost management is under control.

- ▶ Of all the industries surveyed, this industry believes they are least prepared to manage future volatility, with only one in four firms describing themselves as well prepared. Nonetheless, 83% believe they understand the competitive landscape and the threats they face.
- ▶ Wary of another economic downturn in the US, firms in the Information, Media & Telecommunications industry are also concerned about international competition. Only 22% expect growth to come from international demand, compared to 44% last quarter.

▼ 2	▼ 38	▼ 19	81%
Business conditions	Revenue	Preparedness	Expect improvement in 2014

Manufacturing

Manufacturers are looking forward to a strong six months, with improved business conditions and higher revenues. As a result, they are among the few industries focusing on growth rather than cost control.

- ▶ Eighty-one per cent of manufacturers expect an improved business performance in 2014, with 64% forecasting higher revenues and 61% higher profits.
- ▶ As a result, Manufacturing is one of only two industries likely to focus on growth initiatives rather than cost management, with 32% planning to increase headcount. But a looming skills shortage could crimp expansion plans, with 49% of firms saying they expect competition for skilled labour to increase.

- ▶ Threats to the industry include international competition and the cost of fuel, which were cited as key concerns by a majority of businesses.
- ▶ One in five manufacturing firms believe growth in the industry will be largely driven by an expansion in mining and resource-related infrastructure.

▲ 22	▲ 8	▼ 32	49%
Business conditions	Revenue	Preparedness	Anticipate a skills shortage

Mining

While confidence in the Mining industry remains subdued, it has improved significantly from the negative outlook of just three months ago. Nonetheless, weak demand may restrict profit growth.

- ▶ Two in three mining firms (67%) expect an improved performance in 2014, the lowest reading for any industry. While 58% anticipate higher revenues, only 45% believe profits will rise. Four out of five say they could be impacted by a downturn in the industry.

- ▶ Rising fuel costs are an issue for 68% of mid-market Mining firms. The falling Australian dollar is also a cause for concern throughout the industry (cited by 42% of businesses, up from 23% in the September quarter), along with access to credit (53%, up from 25%).
- ▶ Mining companies will be keeping a close eye on global economic conditions in 2014. International competition (cited by 52% of firms) and a possible slowdown in China (82%) or Asia generally (79%) remain significant concerns.

▲ 56	▲ 36	▼ 24	82%
Business conditions	Revenue	Preparedness	Say a slowdown in China could impact them

Transport & Logistics

Confidence has soared within the Transport & Logistics industry this quarter. The industry has bounced back from its lacklustre readings over the last six months to become the most optimistic across the mid-market.

- ▶ Eighty-eight per cent of Transport & Logistics firms expect their business performance to improve in 2014, the best result of any industry.
- ▶ Across the mid-market, Transport & Logistics is the only industry where a majority of businesses feel well prepared to meet the challenges that lie ahead. Eighty-two per cent of businesses say costs are well managed, while 91% feel they have a firm understanding of the competitive landscape.

- ▶ Profit, capital spending and risk appetites all look set to increase, with 69% of firms anticipating higher revenues over the next six months. Domestic demand is seen as a key driver of growth for 43% of firms.
- ▶ While concern over energy and fuel costs have moderated, 39% of Transport & Logistics businesses see access to credit as a potential issue.

▲ 55	▲ 53	▲ 35	92%
Business conditions	Revenue	Preparedness	Are in a strong financial position

Wholesale Trade

Confidence has also rebounded in the Wholesale Trade industry, with the highest Index reading since it began. Underpinned by strong balance sheets and well-defined business strategies, wholesalers anticipate a positive start to 2014.

- ▶ Seventy-two per cent of wholesalers expect improved business performance in 2014, with 43% forecasting revenues to increase.
- ▶ Rising consumer confidence and international demand are seen as key drivers of future growth, although more than half of Wholesale Trade businesses (55%) are concerned about the impact of a falling dollar.

- ▶ With a fairly even mix of cost management and growth strategies in place, increases are expected in profit, capital spending and risk appetite.
- ▶ More than half of Wholesale Trade businesses (55%) say that the falling Australian dollar will impact them negatively over the next six months – a higher proportion than any other industry, although seven percentage points fewer than in the September quarter.

▲ 29	▲ 11	▼ 5	81%
Business conditions	Revenue	Preparedness	Are in a strong financial position



State outlook.

While mid-market businesses across the country are looking to the future with confidence, a shortage of skilled staff could begin to have a significant impact.

Key findings

- ▶ A marked increase in confidence this quarter has positioned New South Wales and the Australian Capital Territory as the regions most optimistic about the months ahead. As business conditions improve, almost four in five mid-market firms in the regions are looking forward to a brighter 2014.
- ▶ Western Australian firms also anticipate a rewarding six months, bouncing back from a subdued outlook in mid-2013. With sound risk management plans and business strategies in place, more Western Australian firms also claim to be well prepared for future volatility than any other state.
- ▶ Meanwhile, South Australia and the Northern Territory recorded the lowest Index reading for the quarter, down 0.6 points from last quarter. While cost pressures appear to have lessened somewhat, there is growing concern in the region over domestic competition, along with rising wage costs.
- ▶ Confidence remained largely steady across Queensland, Victoria and Tasmania. While businesses in all three states are concerned about increasing international competition, Victorian and Tasmanian firms also see possible skills shortages as a key issue.

As business conditions improve, almost four in five mid-market firms in the regions are looking forward to a brighter 2014.

State performance since March 2013: Future Business Index

	Mar 13 quarter	Jun 13 quarter	Sep 13 quarter	Dec 13 quarter	Quarterly change	Quarterly trend
Overall (all figures in Index points)	13.0	5.2	10.8	17.0	6.2	▲
NSW/ACT	18.7	2.9	5.9	23.5	17.6	▲
WA	22.7	0	11.3	18.8	7.5	▲
Qld	9.5	13.6	15.9	15.3	-0.6	▼
Vic/Tas	5.7	2.6	15.5	14.3	-1.2	▼
SA/NT	6.6	11.7	5.3	4.7	-0.6	▼

New South Wales and the Australian Capital Territory

New South Wales and the Australian Capital Territory outperformed the other states this quarter, with the Index rising 17.6 points to its highest level so far. But improved business performance could see skilled staff in strong demand.

- ▶ With confidence rebounding after a six-month drop in sentiment, firms in New South Wales and the Australian Capital Territory are among those most likely to see a rise in revenue. Risk appetites throughout the region are also growing.

- ▶ While 79% expect business conditions to improve in 2014, caution prevails as 55% of firms focus on keeping costs down. Wage costs will receive particular attention, with 48% of firms expecting salary pressures to rise.
- ▶ That reflects increasing concerns about a potential labour skills shortage, cited by 46% of firms. Other concerns for the region include access to credit (37% of firms) and the effects of any Asian economic slowdown (49%).

▲ 27	▲ 28	▼ 4	46%
Business conditions	Revenue	Preparedness	Anticipate a skills shortage

Queensland

Sentiment in Queensland has remained largely steady, with the state's Index reading easing just 0.6 points this quarter. As the third most confident state, Queensland's mid-market firms expect to see both profit and capital expenditure increase in 2014.

- ▶ With confidence across the state remaining relatively high, 51% of Queensland firms anticipate profit growth in the months ahead. Seventeen per cent expect international demand to be the main driver of future growth, while a similar proportion are looking towards an expansion of mining infrastructure.

- ▶ Concerns over wage costs have eased, but there is growing unease over a shortage of skilled labour, cited as an important issue by 35% of businesses. Although operating costs are down, only 70% of firms believe they have costs well managed, compared to 82% in the previous quarter.
- ▶ There is less unease over a weakening Australian dollar and falling interest rates. Queenslanders are also more relaxed about a downturn in Asia generally and China specifically, although these remain key concerns.

▲ 30	▲ 2	▼ 32	77%
Business conditions	Revenue	Preparedness	Expect improvement in 2014

South Australia and the Northern Territory

Sentiment has eased in South Australia and the Northern Territory, with the region's Index declining to 4.7 points from 5.3 points in the September quarter. Although less prepared for future volatility than businesses in other states, more than half of firms expect revenue growth in 2014.

- ▶ Despite a dip in confidence, 51% of organisations in the region anticipate revenue gains in the months ahead. Increased consumer confidence is seen as being the key driver for growth. Over three-quarters of organisations believe 2014 will be a better year for business than 2013.

- ▶ Operating cost pressures look set to ease somewhat in South Australia and the Northern Territory, although 59% of firms still intend to focus on cost management rather than growth initiatives.
- ▶ While the region's businesses are less concerned about global economic factors this quarter, 45% are wary of domestic competition, while 50% are still uncertain about how they will be affected by government policy changes.

▼ 2	▲ 22	▼ 21	59%
Business conditions	Revenue	Preparedness	Say wage increases could impact them

Victoria and Tasmania

While confidence levels have eased over the quarter, Victorian and Tasmanian businesses remain largely optimistic about the future. Many are looking to rising domestic demand to fuel higher revenues in 2014.

- ▶ Seventy-three per cent of Victorian and Tasmanian businesses expect stronger business performance in 2014, with 55% anticipating revenue growth. Combined with moderating operating and wage costs, that is expected to yield higher profits for 46% of businesses.

- ▶ Forty-seven per cent of mid-market firms are wary of domestic competition, while 45% are concerned about their overseas competitors. Rising energy costs are also a concern for 70% of businesses in the region, eight percentage points above the national average.
- ▶ Consistent with findings in other states, only 38% of firms feel well prepared to face the challenges ahead. Encouragingly, 69% of Victorian and Tasmanian firms now have a well-prepared risk management plan in place, up from 55% last quarter, while 80% say costs are well managed.

▲ 15	▲ 9	▼ 27	80%
Business conditions	Revenue	Preparedness	Have costs well managed

Western Australia

Western Australian firms are increasingly optimistic about the future, with the Future Business Index rebounding from zero points in the June 2013 quarter to 18.8 points in December 2013. Of all the states, Western Australian firms say they are best prepared to handle future volatility.

▶ The outlook is bright for Western Australia, with 78% of Western Australian firms expecting business performance to improve in 2014. The vast majority of firms in the mid-market have well-defined business strategies in place and are managing costs well. Just over a third plan to increase their borrowing to fund future growth.

- ▶ Unsurprisingly, Western Australians see the expansion of mining and resource-related infrastructure as a key driver of growth in the state (29% of businesses, up from 15% in the September quarter), along with international demand (17%, up from 11%).
- ▶ A potential downturn in the mining industry is seen as a key threat by 70% of firms, compared to 60% last quarter, with organisations across the state keeping a wary eye on the economic situations in Asia and the US.
- ▶ Businesses in the region are less worried about rising fuel and energy costs this quarter. However, there is significant concern over a labour skills shortage, cited by 44% of respondents, up from just 23% in the September quarter.

▲ 23	▲ 18	▼ 19	87%
Business conditions	Revenue	Preparedness	Are in a strong financial position



Looking forward.

As confidence continues to rebound across the mid-market, businesses around the country are anticipating a positive 2014.

With most industries anticipating revenue growth over the next six months, the mid-market is looking to capitalise on growing consumer confidence and demand for Australian goods and services. Businesses are also feeling more confident about the political landscape, following the 2013 federal election.

But despite the positive outlook shared by mid-market firms across Australia, surprisingly few feel prepared to handle the challenges that may lie ahead, such as rising energy and wage costs. Furthermore, while many organisations will be monitoring the performance of their local and overseas competitors, they will also be keeping a close eye on the changing fortunes of China and the United States.

For now, most mid-market organisations are taking a conservative approach towards the future, with a continuing focus on cost management over growth initiatives. Encouragingly, though, the majority of businesses have well-defined business strategies in place, as well as sound cost and risk management plans.

As things unfold in the months ahead, we will continue to monitor and analyse the challenges and opportunities facing industries in the mid-market. We look forward to bringing you more insights from the next Future Business Index in April.

The mid-market is looking to capitalise on growing consumer confidence and demand for Australian goods and services.

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

About the Future Business Index

The December 2013 Commonwealth Bank Future Business Index (wave 8) is based on a detailed quantitative survey of 422 financial decision makers in public and private companies throughout Australia with turnover between \$10 million and \$100 million, carried out between 11 November 2013 and 6 December 2013. 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, Business Services, Property & Construction, Health & Education, Agriculture, Information Media & Telecommunications, Manufacturing, Mining, Transport & Logistics, Finance & Insurance, and Wholesale Trade. The data has been weighted to reflect the latest Australian Bureau of Statistics Business Counts. The Future Business Index has been conducted from September 2011 to December 2013.

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 422 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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