



Future Business Index Update

June 2014



Contents

Investing for growth	3
Economic perspective	4
As confidence dips, the mid-market seeks new opportunities	5
States and industries	6
Seeking new opportunities for growth	6
Ready for the future	6
Focus on: The Australian dollar	6
Industry outlook	7
Key findings	7
Industry performance since September 2013: Future Business Index	8
State outlook	13
Key findings	13
State performance since June 2013: Future Business Index	13
Ready for change	17



Investing for growth

Confidence among mid-market businesses declined over the last quarter, retracing the gains of the previous six months. While most businesses expect conditions to remain steady for the remainder of 2014, many businesses have shifted their focus to growth initiatives.



For the second quarter in succession, sentiment has softened among Australia's mid-market businesses, falling back to the long-term average observed over the last two and a half years. There were a number of contributing factors to the subdued

outlook, including some businesses indicating concerns around the Federal Budget and lower consumer confidence as having an impact.

Nonetheless, the longer term outlook for the sector remains positive, with a rising number of businesses preparing to switch their focus from cost control to growth initiatives, the most significant shift in the trend we have seen in the 2014 financial year.

While revenue expectations declined in the June quarter, more than 44% of mid-market firms still expect revenues to grow in the months ahead, while fewer than one in five believe they will decline. Almost half plan to harness this extra cash flow by investing in technology, while a significant number are also looking to develop new products and services during the next six months.

It is clear businesses are seeking to take advantage of diversification and growth to enhance performance, with new markets, clients and products seen as the key opportunities in the remainder of 2014. To achieve this growth and strengthen future revenues, businesses are aware that cash flow management is paramount, with maintaining profit and cash flow cited as the top challenge for businesses over the next six months.

In part, this shift in priorities may simply be a sign that after focusing relentlessly on controlling expenditure over the past few years, many businesses now believe cost cutting has run its course. Yet it is also a vote of confidence in an economy still undergoing the difficult

transition from a resources boom to a broader growth model centred on the non-mining economy.

That ongoing transition is very much in evidence in this quarter's report, with the resource-rich states of Queensland and Western Australia both experiencing significant falls in confidence, after performing steadily in recent quarters. Revenue expectations in the Mining industry have also fallen back as commodity prices moderate, while many Construction & Property Management firms are feeling less prepared to meet future challenges, despite the beneficial effects of a healthy residential property market.

The ongoing strength of the Australian dollar also remains a significant concern for export-oriented industries, particularly the wholesale, retail and manufacturing industries. While most mid-market businesses expect the dollar to trend lower over the months ahead, the consensus suggests it will remain at a level some consider uncomfortably high.

A growing number of businesses have responded by hedging their currency exposure, limiting the impact of future exchange rate fluctuations. Looking at economic volatility more generally, levels of preparedness across the mid-market remain impressively high and more businesses have an understanding of the competitive landscape and threats, both indications that the sector is well positioned for the future.

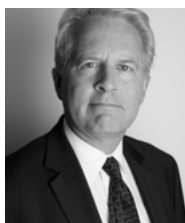
I hope you find this edition of the Future Business Index useful and thought-provoking. We will continue to monitor the mid-market landscape throughout 2014, and we look forward to sharing our insights with you.

Michael Cant
Executive General Manager
Corporate Financial Services
Commonwealth Bank



Economic perspective

Falling consumer confidence and the Budget have impacted business sentiment in the short term. But there are clear indications that the mid-market remains confident in the longer-run prospects for the Australian economy and business conditions.



The latest readings from the Commonwealth Bank Future Business Index (FBI) confirm that business sentiment was not immune to the negative post-Budget reaction seen in the consumer space. Mid-market businesses have very clearly identified

fiscal settings and outcomes as a potential deadweight on business conditions over the next six months. Some 32% of respondents highlight the direct negative effect of the Budget and 21% point to the associated collapse in consumer confidence.

The Budget is in the spotlight, but other factors are also at work. The decline in FBI readings was concentrated in Western Australia and Queensland and in the Mining and associated Construction sectors. This combination suggests that the drop in some key commodity prices, such as iron ore, has also hit sentiment.

Against this backdrop it is not surprising to see business risk appetite decline over the past three months. The relative resilience of labour hiring and business capex plans for the next six months, however, does offer some hope that budget and consumer confidence impacts will not have a lasting impact.

Despite a tough operating environment for most businesses, the FBI reveals that mid-market organisations are in the early stages of shifting from a cost management focus towards growth initiatives. These initiatives are centred on expanding markets and clients, new products and a belief that sales demand will rise. Again, this shift in focus suggests a degree of confidence in longer-run prospects for the Australian economy.

Reserve Bank of Australia Governor Stevens has recently elevated the importance of the Australian dollar in the economic outlook and policy debate. He reiterated that the dollar is “high” by historical standards and “uncomfortable” for some trade-exposed sectors. The dollar is also “overvalued, and not just by a few cents”. Clearly the RBA is unhappy with where the Aussie is sitting! Our perception is that the RBA would be comfortable with the AUD settling in a USD\$0.85–\$0.90 range. The majority of FBI respondents expect the currency to be in that range or lower by mid-2015.

Somewhat surprisingly, given the focus on the AUD, the FBI survey reveals that 54% of FBI respondents see the AUD as having “no impact” on their competitiveness. In line with that belief, around 85% of respondents suggest that the exchange rate will have no impact on labour hiring or capital spending plans.

Few, if any, FBI respondents see higher interest rates as a risk over the next six months. The RBA is indicating that the period of stability in interest rate settings will continue, but we believe some preparedness for higher rates is desirable in the year ahead.

Michael Blythe
Chief Economist
Commonwealth Bank



As confidence dips, the mid-market seeks new opportunities

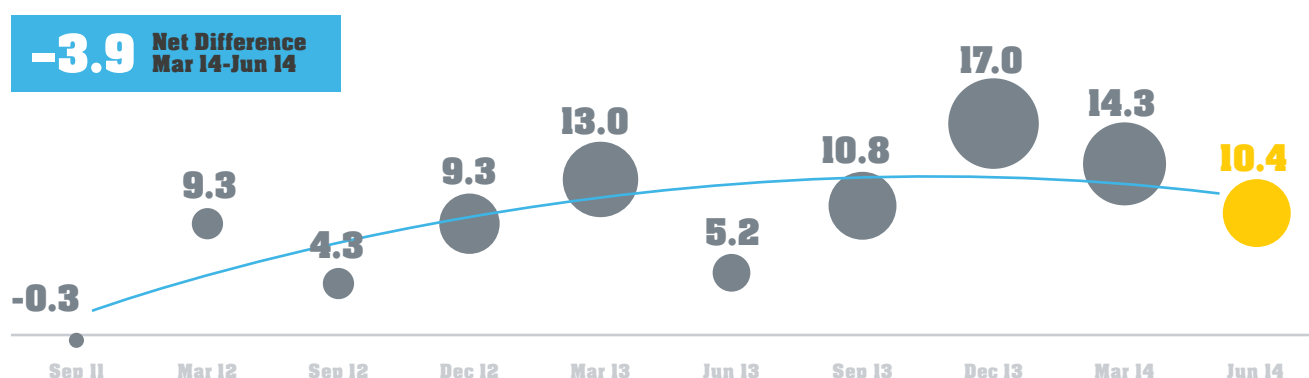
Although confidence eased during the June quarter, businesses across the country have reported a positive outlook for the new financial year. While tight cash flow and an economy in transition continue to challenge mid-market firms, a greater number now say they are ready to focus on growth, investment and new opportunities.

The Commonwealth Bank Future Business Index eased 3.9 points in the June quarter, falling back to 10.4, within its long-term average range. Calculated from mid-market organisations' own forecasts of future business conditions, revenue and risk, the Future Business Index is a broad-based gauge of business confidence, based on expectations for the next six months.* Despite falling back, this quarter's Index suggests that the outlook for organisations across the mid-market remains healthy, with every industry and region in positive territory.

While there are still concerns over consumer spending and the performance of the mining industry, many businesses also expect domestic and international

growth to drive increased demand. Overall, one in three mid-market businesses believe business conditions will improve over the next six months, while 47% expect them to remain the same. Fewer than one in five foresee a decline.

Although a higher proportion of organisations say their costs are well controlled, many also believe wages and operating costs will rise in the months ahead. As a result, an increasing number of companies anticipate challenges managing profitability and cash flow, while profit expectations have moderated.



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

States and industries

Six out of nine industries saw confidence decline over the June quarter, although the extent of the decline varied. While export-oriented industries continued to benefit from falls in the exchange rate in the first three months of 2014, the Mining industry was also affected by subdued commodity prices. Meanwhile, consumer sentiment and spending remain a key concern for domestically focussed businesses.

Here are some highlights:

- ▶ Manufacturers were among the biggest beneficiaries of a lower dollar, with the industry Index improving 7.3 points from 15.2 to 22.5 points, supported by a higher level of preparedness and better business planning. Confidence within the Government, Health & Education industry also rose by 10.1 points, as concerns over government spending decisions moderated.
- ▶ In contrast, the Retail industry had the lowest confidence this quarter, with concerns over consumer spending and domestic competition prompting a more cautious outlook. The Construction & Property industry also fell back, with many businesses concerned about potential cost increases.
- ▶ Confidence bounced back in New South Wales and the ACT, as the Australian economy continued its transition from mining investment to a broader growth model centred on non-mining activity. Sentiment in South Australia and the Northern Territory also rose strongly, with an Index reading of 13.3 points.
- ▶ However, Western Australia and Queensland both saw confidence turn down, with falling commodity prices and declining mining investment flowing through to the rest of the mid-market.

Seeking new opportunities for growth

Despite a more subdued outlook, companies across the mid-market are increasingly ready to invest in new opportunities and explore new markets. The June quarter saw a further increase in the proportion of businesses planning to switch from a focus on cost management to a focus on growth. Almost half of all mid-market businesses intend to make growth their first priority over the next six months, while a similar proportion plan to increase their investment in technology and innovation.

Ready for the future

Mid-market organisations continue to be optimistic about their ability to manage volatile economic conditions. Ninety-seven per cent of companies now say they are well prepared or somewhat prepared for fluctuations in business conditions. The June quarter also saw an uptick in those who say they have well-controlled cost management, well-prepared risk management plans, a strong financial position and a strong understanding of the competitive landscape.

“The economy will get stronger, demand for our product will increase and the general level of confidence is up.”

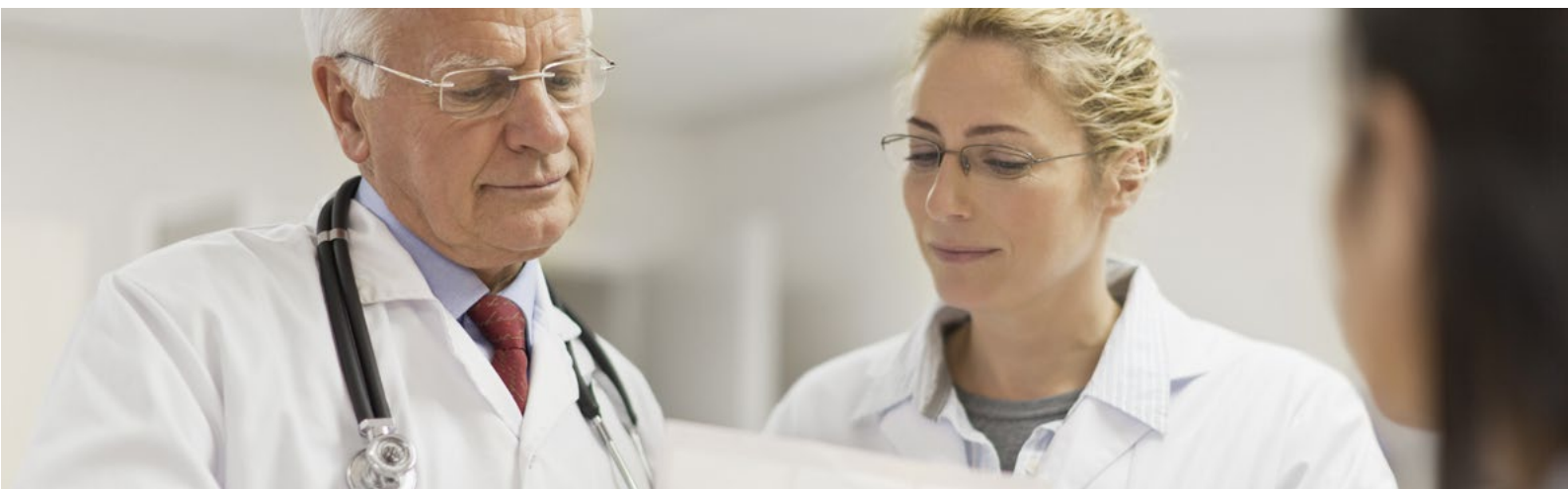
NSW and ACT, Manufacturing, \$20m–\$49m turnover.

Focus on: The Australian dollar

After healthy falls during the first three months of 2014, the Australian dollar remained stubbornly high during the June quarter, despite falling commodity prices. Nonetheless, most mid-market organisations expect the currency to depreciate over the next 12 months, with 38% forecasting a drop below 90 US cents by December 2014, and 58% expecting a fall below that level by March 2015.

While more than half of all mid-market organisations believe their competitiveness will not be affected by exchange rate fluctuations over the next six months, 27% say they will be negatively impacted. As a result, 20% say they will increase their use of currency hedging, up from 17% in the March quarter.

Asked about their preferred hedging tool for currency risks, two in three businesses who plan to hedge said they would use currency Forwards, while only one third said they would use Options. That's a direct reversal of our findings in the March quarter, when two in three businesses preferred Options, indicating that they were willing to pay more to access the potential benefits of favourable currency movements, rather than locking in a fixed rate.



Industry outlook

Businesses in every industry reported a positive outlook for the next six months, although sentiment has declined since March. While many industries have become increasingly concerned about potential cost rises, the vast majority remain confident that they can maintain or grow profits in the first half of the new financial year.

Key findings

- ▶ Optimism has surged in the Manufacturing industry, with businesses benefitting from a lower dollar and stronger balance sheets. More than half expect revenues and profits to rise in the second half of 2014.
- ▶ Agribusinesses have also felt the benefits of a more competitive currency and a better outlook for international growth. Nevertheless, concerns over rising costs and subdued revenue forecasts have seen sentiment in the sector edge lower.
- ▶ Government, Health & Education organisations recovered strongly from their lows in the March quarter, with the industry Index rising 10.1 points. Organisations reported that greater certainty around government spending decisions and improved strategic planning were key factors in their more optimistic outlook.
- ▶ Meanwhile, the Construction & Property and Mining industries both experienced falling confidence, citing concerns over rising costs. Among Construction & Property Management firms, higher wages were a particular concern, with a shortage of skilled staff forecast to push salaries up.
- ▶ Confidence in the Wholesale Trade industry also weakened on the back of lacklustre consumer spending growth, with only one in four businesses expecting conditions to improve. But the Retail industry was the quarter's worst performer, with an overall Index reading of 3.1, as subdued consumer sentiment began to impact revenue forecasts.
- ▶ The Index reading for the Services industry also fell again this month, reaching a new low of 4.6, as Services businesses reined in revenue forecasts. Nonetheless, around half of all Services companies are looking to drive future growth by increasing their investment in technology and service innovation.
- ▶ Smaller businesses (with turnover between \$10m and \$19m) are more confident than their larger peers, largely due to more robust revenue forecasts.

Industry performance since September 2013: Future Business Index*

	Sep 13 quarter	Dec 13 quarter	Mar 14 quarter	June 14 quarter	Quarterly change	Quarterly trend
Overall (all figures in Index points)	10.8	17.0	14.3	10.4	-3.9	▼

By industry

Manufacturing	16.1	15.9	15.2	22.5	7.3	▲
Agriculture	26.1	27.6	17.2	15.0	-2.2	▼
Mining	-15.9	6.9	28	11.6	-16.4	▼
Wholesale Trade	0.7	12.4	19.8	11.4	-8.4	▼
Government, Health & Education	7.5	15.3	1.2	11.3	10.1	▲
Construction & Property Management	10.9	6.4	31.5	9.3	-22.2	▼
Transport & Logistics	-8.4	38.7	5.6	5.8	0.2	Steady
Services	14.8	13.3	7.8	4.6	-3.2	▼
Retail	12.5	25	8.5	3.1	-5.4	▼

By annual turnover

\$10m-\$19m	14.7	15.3	12.8	14.2	1.4	▲
\$20m-\$49m	5.9	20.2	16.8	4.0	-12.8	▼
\$50m-\$99m	8.7	16.1	13.9	11.4	-2.5	▼

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

Manufacturing

The Manufacturing industry Index rose strongly from 15.2 to 22.5 points during the June quarter, supported by a higher level of preparedness for volatile business conditions.

- Of all the Industries surveyed, manufacturers were the most confident that their revenues (52%) and profits (53%) would increase over the next six months.
- Domestic growth (58%), consumer confidence and Chinese economic conditions (both 40%) are all expected to have a positive impact.

- Nonetheless, the Manufacturing industry remains concerned about the impact of exchange rates (41%), and government policy (29%), as well as continued increases in operating costs (55%) and salaries and wages (53%). However, 53% of firms plan to capitalise on a lower dollar by increasing product innovation.
- The majority of the industry has a high level of preparedness, with well-defined business strategies (82%), a strong financial position (80%), well-controlled costs (80%) and a good understanding of the competitive landscape (79%).

▼ 6	▼ 2	▲ 30	82%
Business conditions	Revenue	Preparedness	Have a well-defined strategy

Agriculture

Confidence among Agriculture firms continues to decline, with the industry Index falling from 17.2 to 15.0. A positive outlook for domestic and international growth has been offset by concerns over staff shortages and higher costs.

- ▶ Among the industries surveyed, Agricultural businesses were least likely to predict higher revenues (35%) over the next six months. Anticipated increases in salaries and wages (58%) and operating costs (45%) have also seen agribusinesses remain focussed on cost management over growth (53%), reflecting their position as the industry with the lowest appetite for risk (5%).
- ▶ Agribusinesses are concerned about access to skilled staff (35%) and the potential impacts of changing government policy (34%). Nonetheless, many are confident about expansion opportunities

(31%) and their overall financial position (82%), while the vast majority have a well-developed understanding of the competitive landscape and market threats (85%).

- ▶ The agricultural industry is also the most positive regarding the impact of exchange rates on their business over the next six months.

“Business conditions will improve as sales trends are increasing in our industry and there is more demand. The current Australian dollar has assisted with an increase in sales.”

WA, Agriculture, \$10m–\$19m turnover.

▲ 14	▼ 19	▼ 4	93%
Business conditions	Revenue	Preparedness	Have costs well controlled

Mining

Sentiment in the Mining industry continues to fluctuate, with the industry Index falling from 28 to 11.6 points. However, there is a high level of confidence regarding international growth – particularly improved economic conditions in Asia.

- ▶ The Mining industry remains highly focussed on cost management initiatives (61%), in anticipation of lower revenues (39%) and profits (44%), compared to the previous quarter.
- ▶ While 85% of miners say cost management is under control, Mining businesses increasingly plan to use debt facilities for capital investment (51%) and cash flow management (38%), including sourcing funding from international markets (35%).

- ▶ The industry continues to be driven by international demand, with economic conditions in Asia, particularly China, expected to have a positive impact on operations (both 64%).

“Winning new contracts is the challenge as the Mining sector slows down. We just have to stay on top of it and explore every opportunity.”

South Australia and the Northern Territory, Mining, \$20m–\$49m turnover.

▼ 8	▼ 33	▼ 4	88%
Business conditions	Revenue	Preparedness	Understand competitive landscape

Wholesale Trade

The Wholesale industry Index has weakened by 8.4 points, returning to the levels of late 2013. The industry continues to be affected by sluggish consumer sentiment and restrained spending growth.

- ▶ Only 27% of Wholesale organisations believe business conditions will improve over the next six months – the lowest reading across all mid-market industries.
- ▶ The main factors expected to negatively impact the industry are consumer confidence (43%) and the potential impact of government decisions (41%).
- ▶ Wholesale firms have a higher level of preparedness than other industries (51%), with most having well-developed risk management plans (74%) and a good understanding of the competitive landscape (81%).

- ▶ Despite caution around business conditions, Wholesalers are more likely than their peers to prioritise growth initiatives (58%) over the next six months.

“I think that business conditions will improve in the next six months because our forward orders indicate an improvement.”

NSW and ACT, Wholesale Trade, \$10m–\$19m turnover.

▼ 3	▲ 14	▼ 33	81%
Business conditions	Revenue	Preparedness	Understand competitive landscape

Government, Health & Education

Confidence has strengthened considerably in the Government, Health & Education industry this quarter, with the Index rising 10.1 points from 1.2 to 11.3. Improvements across all areas of business preparedness reflect a greater certainty around government policy, helping to support strategic planning.

- ▶ Government, Health & Education organisations are increasingly confident in their business preparedness, with the majority having a well-defined business strategy (71%), well-controlled cost management (70%) and a strong financial position (67%).
- ▶ But despite a focus on cost management initiatives (60%), organisations also expect increasing operating costs (57%) and wages (56%).

- ▶ More positively, Government, Health & Education organisations also plan to increase capital expenditure (42%), technology spending (59%) and investments in product and service innovation (57%) over the next six months.

“Managing expenses is the challenge. We’re well into the school year and everything from costs to budget is already established. That includes 70% of our salary budget locked in.”

NSW and ACT, Government, Health & Education, \$10m–\$19m turnover.

▼ 7	▲ 5	▲ 34	72%
Business conditions	Revenue	Preparedness	Understand competitive landscape

Construction & Property Management

Following a record reading of 31.5 in the March quarter, the Index for the Construction & Property Management industry has fallen sharply to 9.3, with a marked decline in all three Index components.

- ▶ Despite an underlying confidence in the strength of demand and their industry, Construction & Property Management businesses are concerned about a shortage of skilled staff (33%) and the potential impact of government decisions (40%). Many also anticipate rising operating costs, salaries and wages (both 54%) over the next six months.

- ▶ More positively, domestic growth (55%) and rising consumer confidence (43%) are expected to have a beneficial influence on the industry, with 52% of companies now focussed on growth over cost management.
- ▶ Only 42% of businesses feel well prepared to manage volatile conditions, despite the fact that 82% are in a strong financial position.

“The trends in the market ... and the reduction of tenders indicate a decline.”

South Australia and Northern Territory, Construction & Property Management, \$20m–\$49m turnover.

▼ 10	▼ 26	▼ 35	82%
Business conditions	Revenue	Preparedness	Are in a strong financial position

Transport & Logistics

The Transport & Logistics industry Index has remained largely steady, edging up from 5.6 to 5.8. However, the industry has become less prepared for economic volatility, with many firms lacking a well-defined strategy.

- ▶ Although the Transport & Logistics industry is relatively confident about business conditions, only 37% of companies are well prepared for future volatility.
- ▶ Across the mid-market, Transport & Logistics firms are also least likely to say they are in a strong financial position (68%) with well-defined business strategies (57%).

- ▶ On the plus side, Transport & Logistics companies have improved their cost management, with 82% saying costs are well managed, although they remain concerned about the potential for increasing salaries and wages (48%) over the next six months.
- ▶ Nonetheless, 53% of firms plan to focus on growth rather than costs, with economic conditions in Asia expected to drive demand.

“Our business plans over the last few months have been successful, and we predict no major change to the economy. We will continue to see growth for our business.”

WA, Transport & Logistics, \$50m–\$99m turnover.

▲ 31	▲ 3	▼ 27	82%
Business conditions	Revenue	Preparedness	Have well-controlled costs

Services

Confidence in the Services industry continues to decline, with the industry Index falling from 7.8 to 4.6. Service businesses are concerned about increasing levels of competition from both local and international rivals.

- ▶ Services businesses are cautious about future prospects, with increasing domestic (43%) and international competition (34%) impacting growth and profitability.
- ▶ While government policy could have a negative impact over the next six months (44%), many are optimistic about the positive effects of domestic and international growth (both cited by 42% of Services businesses).
- ▶ Although most are focussed on cost management initiatives (56%), Services companies are increasing their investment in technology (52%) and service innovation (49%).

▼ 6	▼ 10	▲ 5	82%
Business conditions	Revenue	Preparedness	Have a well-defined strategy

Retail

The Retail industry Index continues to drop, falling to 3.1 in the June quarter – the lowest of all industries surveyed.

- ▶ Only 28% of Retail organisations anticipate improving business conditions over the next six months. The industry remains highly cautious about the possible negative impact of sluggish consumer confidence (42%) and government spending decisions (57%).
- ▶ Retail businesses are also concerned about operating costs (52%), salaries and wages (51%), and higher levels of domestic competition (46%).

- ▶ Nonetheless, many are looking for growth opportunities, with around half planning to invest more in technology (55%) and product or service development (45%) to drive growth.

“Consumer confidence is fragile, and retail and housing figures are not trending well.”

WA, Retail, \$20m–\$49m turnover.

▼ 18	▼ 5	▲ 9	85%
Business conditions	Revenue	Preparedness	Have well-controlled costs



State outlook

After performing strongly over the last year, the resource-rich states of Western Australia and Queensland have begun to see the effects of a slowdown in mining investments. Meanwhile, other states have gained momentum as the non-mining economy gathers pace, while South Australian and Territorian exporters have benefited from a lower dollar.

Key findings

- ▶ After topping the leaderboard in the March 2014 quarter, confidence among Western Australian businesses fell sharply over the last three months to an Index reading of 9.1, the lowest in a year. Unsurprisingly, falling confidence in the Mining industry was an important driver of falling business conditions across the state.
- ▶ Queensland was also down, recording the lowest Index reading this quarter at just 0.3, amid concerns about mining investment, government spending decisions and their potential effects on consumer confidence and domestic growth.
- ▶ However, confidence was higher in South Australia and the Northern Territory, as well as New South Wales, as non-mining exporters continued to benefit from falls in the dollar at the beginning of 2014. The combined Index for South Australia and the Northern Territory recorded the largest increase in sentiment, gaining 10 points to 13.3 on the back of improved expectations for international demand.
- ▶ Sentiment also rose in New South Wales and the Australian Capital Territory, which recorded the highest Index reading for the quarter at 14.5 points, with a higher than average proportion of businesses forecasting revenue growth.

State performance since September 2013: Future Business Index

	Sep 13 quarter	Dec 13 quarter	Mar 14 quarter	June 14 quarter	Quarterly change	Quarterly trend
Overall (all figures in Index points)	10.8	17.0	14.3	10.4	-3.9	▼
NSW/ACT	5.9	23.5	10.6	14.5	3.9	▲
SA/NT	5.3	4.7	3.3	13.3	10.0	▲
Vic/Tas	15.5	14.3	13	12.0	-1.0	▼
WA	11.3	18.8	28.5	9.1	-19.4	▼
Qld	15.9	15.3	17.5	0.3	-17.2	▼

New South Wales and the Australian Capital Territory

Following a dip in the March quarter, the Index for New South Wales and the ACT increased to 14.5, with more than 50% of businesses forecasting rising revenues over the next six months.

- ▶ With confidence slowly increasing, mid-market companies in New South Wales and the ACT have increasingly shifted their focus from cost management initiatives to growth, showing an increased appetite for risk. As a result, they are more confident than their peers in other states that revenue and profits will grow over the next six months.
- ▶ Companies in New South Wales and the ACT are also more likely to see government policy (29%) and exchange rates (27%) as a positive influence on future business conditions.

- ▶ More organisations in New South Wales and the ACT expect to increase their use of currency hedging (26%) than in other states, while nearly half of all companies in the region (45%) are well prepared for market volatility.

“The economy will get stronger, demand for our product will increase and the general level of confidence is up.”

NSW and ACT, Manufacturing, \$20m–\$49m turnover.

▲ 4	▼ 3	▲ 10	70%
Business conditions	Revenue	Preparedness	Have well-prepared risk plans

Queensland

Sentiment in Queensland fell sharply in the June quarter, with the state Index dropping from 17.5 to 0.3 points. Businesses in Queensland are the least prepared for market volatility and are most likely to have concerns about government policy.

- ▶ With confidence across the state falling, fewer companies in Queensland predicted higher revenues (41%) or profits (40%) this quarter. Queensland businesses also have the lowest appetite for risk of all states (4%).
- ▶ Queensland firms were also least likely to predict wage increases (44%) or rising capital expenditure (27%). However, 31% plan to increase their use of debt facilities to manage cash flow.

- ▶ Consumer confidence (39%), the impact of government policy (54%) and confidence in the Mining industry (37%) are key concerns for Queensland businesses. But while less prepared for volatility than other states, companies in Queensland are more likely to be focussed on growth initiatives (52%) than cost management.

“There is too much uncertainty in Australia, combined with mixed results internationally.”

Queensland, Government, Health & Education, \$50m–\$99m turnover.

▼ 18	▼ 12	▼ 22	54%
Business conditions	Revenue	Preparedness	Are impacted by Government policy

South Australia and the Northern Territory

The Index for South Australia and the Northern Territory increased strongly in the June quarter, rising 10 points to 13.3. Businesses in South Australia and the Northern Territory are better prepared than those in other regions to handle future volatility.

- Expectations for profit growth in South Australia and the Northern Territory were the lowest across the country (31%), with many businesses forecasting increased operating costs (47%). Meanwhile, only 37% anticipated higher revenues.

- Nonetheless, confidence has improved as organisations focus on preparing for uncertain market conditions, with stronger business strategies (74%) and risk management plans (74%).
- The potential for international growth was the other key driver of the region's increased optimism (42%), with many businesses planning to increase their investment in product and service innovation (51%).

▲ 5	▼ 4	▲ 29	84%
Business conditions	Revenue	Preparedness	Have a well-defined strategy

Victoria and Tasmania

Confidence levels have eased slightly in Victoria and Tasmania, with the Index slipping from 13.0 in April to 12.0 points in June. However, business conditions are expected to improve over the coming months.

- Victorian and Tasmanian businesses expect domestic growth (49%) and consumer confidence (40%) to positively impact results in the new financial year. 38% of firms in Victoria and Tasmania also believe business conditions will improve, an increase of 8 percentage points since the last quarter.
- At the same time, concerns about increased operating costs (49%) and international competition (33%) are higher than in other states. Nonetheless, 45% of firms feel well prepared to face the challenges ahead, with a greater focus on growth initiatives (51%) than cost control.

- Companies in Victoria and Tasmania are more likely to increase their investment in technology (55%) and in product or service innovation (48%) in the next six months.

“We now have a government that understands what is required to improve the economy and is making the tough decisions.”

Victoria and Tasmania, Retail, \$10m–\$19m turnover.

▲ 3	▼ 6	▼ 1	55%
Business conditions	Revenue	Preparedness	Increased investment in technology

Western Australia

The state Index for Western Australia declined strongly in the June quarter, falling 19.4 points to 9.1. Reduced confidence in the Mining industry was a key driver of declining optimism across the state, with many firms anticipating lower profits.

- ▶ Mid-market businesses have become less positive about the outlook for Western Australia, with only 29% of Western Australian firms expecting business conditions to improve over the next six months. Similarly, only 34% predict an increase in profits.
- ▶ Falling confidence in the Mining industry (40%) and access to skilled staff (31%) were the most significant concerns for Western Australian companies. Western Australian organisations also report a fall in their levels of preparedness for future fluctuations in business conditions, with only 64% having well-developed risk management plans – the lowest proportion of any state.

- ▶ Businesses across the state are strongly focussed on cost reduction, with 69% saying they plan to prioritise expenditure management over growth. On the plus side, 84% say cost management is well controlled, indicating that those initiatives are achieving results.

“I think business and the economy have bottomed out. It’s kind of quiet right now, and I think we’ll start moving upwards again.”

WA, Mining, \$20m–\$49m turnover.

▼ 18	▼ 17	▼ 24	84%
Business conditions	Revenue	Preparedness	Have well-controlled costs



Ready for change

Despite the ongoing challenges posed by the end of the mining investment boom, this quarter's Index contains promising signs for the future. As the Australian economy transitions to non-mining growth, Australia's mid-market businesses are well positioned to benefit from a rise in overall economic activity.

As we enter the 2015 financial year, Australia's mid-market businesses continue to grapple with the ongoing transition from mining to non-mining led growth. This quarter's Future Business Index reflects the impact of that transition – but it also shows that Australia's mid-market organisations are responding positively as the non-mining economy begins to gain momentum.

Businesses across the sector are looking to harness healthier domestic and international demand by expanding into new markets at home and overseas. As many shift their focus from cost management to growth, an increasing investment in technology and innovation will help them diversify their product and service offerings and hone their competitive edge.

Naturally there are still uncertainties. While many businesses would prefer to see the Australian dollar fall further, it's possible that our currency's recent strength will continue into 2015. Meanwhile, consumer spending growth remains subdued, impacting domestically focussed industries. Fortunately, Australia's mid-market is well positioned to weather future currency changes and other fluctuations in business conditions over the months ahead.

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 October 2014.

“Mid-market organisations continue to be optimistic about their ability to manage economic volatility, with 97% saying they are prepared for future fluctuations in business conditions. The June quarter saw an uptick in those who say they have well-controlled cost management, well-prepared risk management plans, a strong financial position and a strong understanding of the competitive landscape.”

**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 June 2014 Commonwealth Bank Future Business Index is based on a detailed quantitative survey of 429 financial decision-makers in public and private companies throughout Australia with turnover between \$10 million and \$100 million, carried out between 29 May and 18 June 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 429 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.



Important information: This report is published solely for information purposes. As this report has been prepared without considering your objectives, financial situation or needs, you should, before acting on the information in this report, consider its appropriateness to your circumstances and if necessary seek the appropriate professional advice. The information in this report is based on a survey of 429 financial decision-makers and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to the accuracy, reliability or completeness of any statement made in this report. Commonwealth Bank of Australia ABN 48 123 123 124.