

Future Business Index Update

March 2014



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A focus on the future

Mid-market businesses have consolidated on the gains of 2013, remaining confident about their prospects for the coming months. While business conditions are still patchy, most feel well prepared to face the challenges ahead.



Despite a slight dip in sentiment, the quarterly Future Business Index recorded its second highest reading since it was first released in September 2011, reflecting a general sense of optimism across the mid-market.

It's especially encouraging to see businesses seeking new clients and markets, both at home and abroad, to take advantage of growing consumer demand. In fact, 15% of companies see managing growth as their biggest challenge over the next six months.

Almost half of all mid-market firms are looking forward to rising revenues in the months ahead. Many intend to invest in new technologies and develop new products and services – another indication of a more confident outlook.

Nevertheless, the current landscape is not without its challenges. Key issues concerning the sector include domestic competition, potential interest rate rises and access to skilled staff. Uncertainty also remains over the impact of government policy changes, especially in the lead up to this year's Federal Budget. Meanwhile, fluctuations in the Australian dollar could have widely varying impacts on different industries, with opinion divided about their likely effects.

Overall, only 35% of mid-market companies expect business conditions to improve over the next six months, although an increasing percentage of firms say they are well prepared to weather future challenges. More firms have sound risk management plans in place, with strong balance sheets. As a result, we believe the sector is in a strong position to take advantage of future growth opportunities and continue the upward trend of the last few quarters.

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

An increasing appetite for risk across the mid-market is heartening news for both the sector and the broader economy.



The broad improvement in the Commonwealth Bank Future Business Index (FBI) evident since late 2013 has been sustained into 2014. The overall index fell back a little over the past three months but its component parts — business conditions, revenue and

preparedness to deal with unexpected events — remain at the upper end of the range over the survey's life. As well, all industry segments and all states continue to report positive FBI readings.

Looking ahead, the most encouraging aspect of the latest FBI readings is that risk appetite has improved further. This improvement is now more clearly evident in labour hiring intentions and capital spending plans. That is heartening news for both the mid-market and the broader economy. A stabilisation in the jobs market is needed to support consumer confidence, while a recovery in business capex is required to offset the looming downturn in mining construction activity. The growth transition from mining to non-mining activity that policy makers are trying to engineer is also highly dependent on the mid-market, since this sector generates the majority of new jobs and accounts for a large share of non-mining business investment.

It is still a tough operating environment for most businesses, however. And this brings with it a series of risks and challenges. The majority of businesses, for example,

are placing a greater emphasis on cost management (57%) than growth initiatives (43%). The nascent recovery in labour hiring and capex plans remains at risk against this backdrop. Other areas of significant concern relate to government policy and the Aussie dollar.

A small majority believe that the upcoming Federal Budget will have a positive impact on business conditions. Businesses would like to see reduced taxes, less red tape, increased spending on infrastructure and more workplace flexibility. Progress is likely in some of these areas. But not all.

Views on the Australian dollar are mixed. But the consensus among FBI respondents is that the Aussie has further to fall. Exporters in particular believe that a currency in the 80–89 US cent range is needed to effectively stimulate growth and profitability. From that perspective, the recent run up in the dollar is unhelpful.

The majority of FBI respondents indicate that rising interest rates would have a negative impact on their business (52% of respondents). But none see higher rates as a “challenge” over the next six months. While the RBA is indicating a period of stability in interest rate settings, we believe some preparedness for higher rates is desirable in the year ahead.

Michael Blythe
Chief Economist
Commonwealth Bank



Optimism remains strong

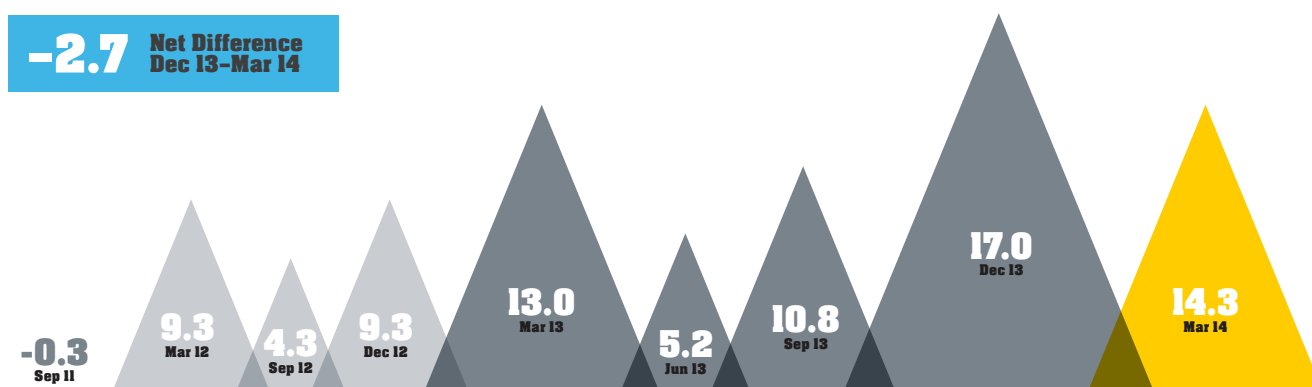
While optimism among Australia's mid-market businesses has receded from the highs of December 2013, it still remains strong. For the second quarter in a row, every industry and every state recorded positive Index readings, with businesses becoming more confident about their ability to manage future volatility.

After reaching new highs in December 2013, the Commonwealth Bank Future Business Index edged lower in March, falling 2.7 points to 14.3. 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: It suggests that the outlook for organisations across the mid-market remains broadly positive, with the Index at its second highest level since the survey began in September 2011.

Nearly 50% of organisations across the mid-market anticipate revenue growth during the next six months, although concerns about potential interest rate rises

and domestic competition have affected sentiment. The potential impact of government policy changes and a lack of access to skilled staff are also causes for concern. But with fewer organisations expecting wage and operating costs to rise, profit expectations remain largely unchanged.

There is also a healthy level of confidence that investments in product and service innovation (50%) and technology (46%) will have a positive effect on business outcomes, along with an uplift in domestic growth and consumer confidence. Expectations of global growth, especially in Asia, also remain positive.



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

States and industries

While all industries and regions reported a positive Index reading this quarter, there were still some significant changes over the last three months. Here are some of the highlights:

- Confidence has soared in the Construction & Property Management industry, with an Index reading of 31.5 points, up 25.1 points since the December quarter. Mining companies are also more optimistic, buoyed by expectations of a falling Australian dollar and strong global economic conditions.
- Meanwhile, the Transport & Logistics industry has fallen back from its leading position in the December quarter, with an overall Index reading 33.1 points lower at 5.6. Confidence among Transport & Logistics organisations has been affected by concerns about domestic competition and government policy. The Retail industry also experienced a significant drop, amid caution about the impact of interest rates and the upcoming Federal Budget.
- Western Australia was the standout region this quarter. Its Index reading rose 9.7 points to 28.5, boosted by an optimistic mining sector and a stronger global outlook. Resource-rich Queensland was also stronger, recording its highest reading yet at 17.5 points.
- While sentiment in other states and territories has eased back, it still remains largely positive. New South Wales and the Australian Capital Territory experienced the largest drop, from 23.5 points to 10.6, but South Australia and the Northern Territory recorded the lowest overall Index reading of 3.3, reflecting concerns over rising costs and interest rates.

Amid patchy growth, conditions are set to stay unchanged

Almost half of mid-market organisations expect business conditions to stay the same over the next six months (48%), while another 35% expect them to improve. However, the mining states are notably more optimistic, with 40% of Western Australian and Queensland businesses predicting an improvement. But growth expectations remain patchy, with 22% of businesses expecting increasing demand to drive better conditions, while another 26% say a downturn in their industry will see conditions worsen.

Opinions on the Australian dollar are equally divided. While most firms believe the dollar will continue to depreciate, only 36% believe this will have a positive impact on their business. Overall, 52% of mid-market organisations would prefer the dollar to remain above

USD 0.90, including those in the Wholesale, Retail, Government and Health & Education industries. Meanwhile, export-driven businesses in Agriculture, Mining and Manufacturing would like to see the dollar trade below USD 0.85.

Businesses are more prepared

Mid-market businesses have become increasingly confident in their ability to manage future volatility, with 45% of companies saying they feel well prepared, up from 38% last quarter. Importantly, more businesses have now made detailed forecasts and have risk management plans in place for weathering future volatility.

Cost management remains the focus for the mid-market, rather than growth initiatives. However, a higher percentage of firms also say that their capital spending and appetite for risk are likely to increase. Accordingly, the use of debt facilities and funding from domestic and international sources is also on the rise.

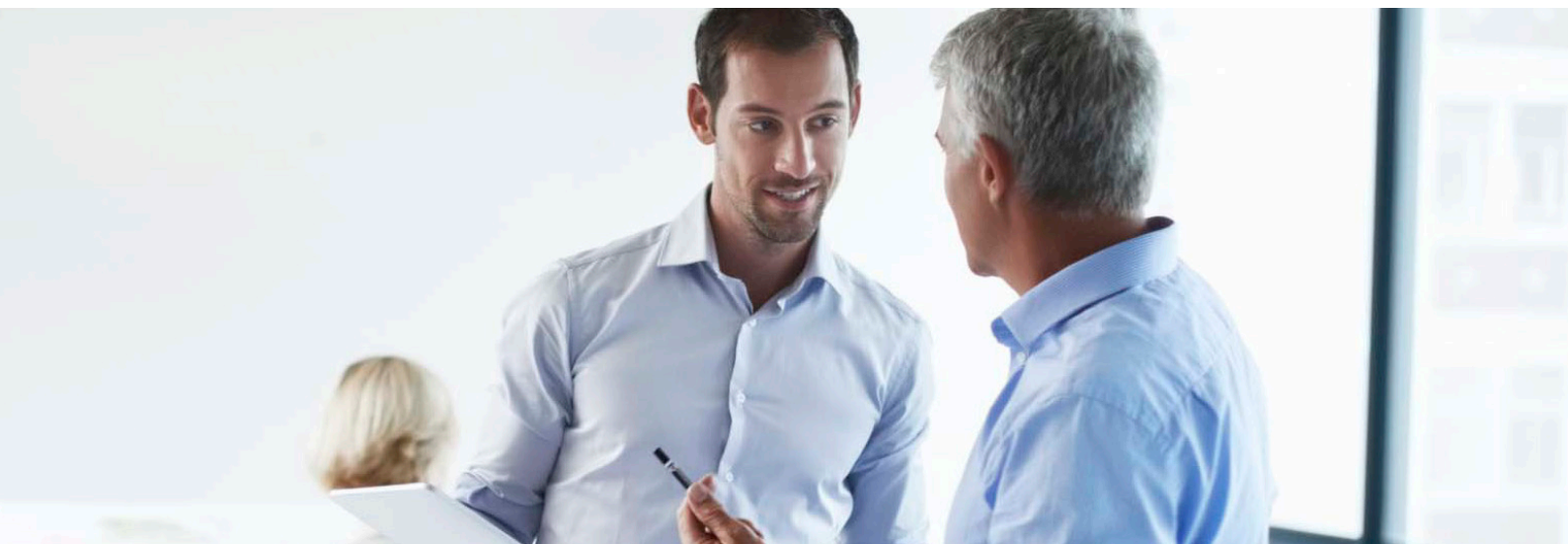
“Revenue and profit will increase due to strong gold and commodity prices, and there will be a corresponding increase in demand.”

Queensland, Mining industry, \$50m–\$100m turnover.

Focus on: The impact of the 2014 Federal Budget

While most organisations believe they will be affected by the Federal government budget on 14 May 2014, opinions on its probable impact vary. Overall, 35% of firms believe the budget will be positive, while 28% expect a negative impact and 37% say their business is unlikely to be affected. Mining and Transport & Logistics firms are most likely to predict a positive outcome, while the Services, Government, Health & Education industries are more pessimistic.

Asked which areas they would like to see addressed in the budget, 30% of firms said they would like tax reductions, while 21% hope for a reduction in government red tape. Another 21% cited increased spending on infrastructure as their number one priority.



Industry outlook

While confidence has edged lower since the December quarter, businesses from every industry still report a positive outlook for the next six months. Many expect increasing demand and improved consumer confidence to drive higher sales, although others are concerned that rising unemployment and a sluggish economy could see conditions decline.

Key findings

- ▶ Optimism has surged in the Construction & Property Management industry, which recorded an Index reading of 31.5 points — its highest since the Index began and a 25.1 point jump from last quarter.
- ▶ The Mining industry also enjoyed a 21.1 point increase with an Index reading of 28.0 points for the quarter, buoyed by strong global economic conditions and expectations of a falling Australian dollar.
- ▶ Following a spike in business confidence last quarter, sentiment has declined in the Transport & Logistics industry. Its Index reading dropped 33.1 points to 5.6.
- ▶ Government, Health & Education organisations recorded the mid-market's lowest reading of 1.2 points, amid concerns over the impact of government policy changes.
- ▶ The Retail industry is also wary about the impending Federal Budget, and recorded the mid-market's second largest drop in confidence for the quarter.

“While confidence has edged lower since the December quarter, businesses from every industry still report a positive outlook for the next six months.”

Industry performance since June 2013: Future Business Index*

	Jun 13 quarter	Sep 13 quarter	Dec 13 quarter	Mar 14 quarter	Quarterly change	Quarterly trend
Overall (all figures in Index points)	5.2	10.8	17.0	14.3	-2.7	▼

By industry

Construction & Property Management	24.3	10.9	6.4	31.5	25.1	▲
Mining	4.5	-15.9	6.9	28.0	21.1	▲
Wholesale Trade	-18.4	0.7	12.4	19.8	7.4	▲
Agriculture	-17.2	26.1	27.6	17.2	-10.4	▼
Manufacturing	4.5	16.1	15.9	15.2	-0.7	▼
Retail	9.8	12.5	25.0	8.5	-16.5	▼
Services	13.9	14.8	13.3	7.8	-5.5	▼
Transport & Logistics	0.7	-8.4	38.7	5.6	-33.1	▼
Government, Health & Education	9.2	7.5	15.3	1.2	-14.1	▼

By annual turnover

\$10m-\$19m	4	14.7	15.3	12.8	-2.5	▼
\$20m-\$49m	9.4	5.9	20.2	16.8	-3.4	▼
\$50m-\$99m	-0.6	8.7	16.1	13.9	-2.2	▼

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

Retail

After spiking in the last quarter, the Retail industry's Index has dropped 16.5 points to 8.5. Although Retail businesses remain cautious, profit expectations for the next six months are strong.

- The Retail industry is confident that profits will increase in the months ahead, despite concerns about domestic competition (57%), rising interest rates (56%) and government policy (42%).
- Fifty-six per cent of mid-market retailers expect product and service innovation to drive growth, while 49% believe growth will be supported by technology investment. However, one-third of businesses are concerned about the results of the upcoming Federal Budget.

- There is a continuing decline in the level of preparedness in the Retail sector. Only 41% of firms claim to be well prepared, down from 53% in the September 2013 quarter. Only 68% say they are in a strong financial position and have well-prepared risk management plans.

▼ 22	▼ 16	▼ 14	82%
Business conditions	Revenue	Preparedness	Have well-controlled costs

Construction & Property Management

Confidence has soared among Construction & Property Management firms this quarter. The industry has bounced back with an Index reading of 31.5 — its strongest result to date and the highest result for the quarter.

- ▶ In the coming months, 60% of Construction & Property Management firms expect higher revenues, with many increasing headcount (40%), capital expenditure (45%) and appetite for risk (29%).
- ▶ Just over half the industry believes growing consumer confidence will generate improved conditions, while two in five firms also expect to benefit from greater access to skilled staff.
- ▶ One-third of Construction & Property Management companies (33%) believe government policy will have a positive impact on their operations. Accordingly, 40% of firms in the industry are confident of a positive outcome in the upcoming Federal Budget.

- ▶ Across the industry, 60% of organisations feel well prepared to handle future challenges, up from 25% in the last quarter. The majority of firms are in a strong financial position, with increased cash reserves.

“There is a lot of activity in construction at the moment, although it has not actually peaked as yet. Oil and gas is kicking off, iron-ore mines are starting up and there are a lot of big construction jobs in the works as well.”

South Australia and Northern Territory, Construction & Property Management, \$50m–\$100m turnover.

▲ 1	▲ 9	▲ 70	90%
Business conditions	Revenue	Preparedness	Are in a strong financial position

Government, Health & Education

Sentiment fell among the Government, Health & Education organisations this quarter, with an Index reading of 1.2, down 14.1 points since the December 2013 quarter. It is the mid-market segment most vulnerable to fluctuations in business conditions, with only 27% of organisations feeling prepared to face future challenges.

- ▶ Less than half of Government, Health & Education organisations (48%) claim to have costs well managed, although 54% believe their financial position is strong.
- ▶ Sixty-one per cent of organisations are focused on cost management over growth, while 45% anticipate increases in operating costs and 41% expect wage costs to rise.
- ▶ Nonetheless, one in two organisations also intend to increase capital spending, while 35% indicated their

appetite for risk is likely to increase, despite concerns about rising interest rates (52%) and the effects of government policy (50%). Almost half the sector's organisations (47%) foresee a negative impact from the impending Federal Budget.

“We expect to see an increase in the birth rate which will increase demand.”

Western Australia, Government, Health & Education, \$50m–\$100m turnover.

▼ 13	▼ 14	▼ 16	62%
Business conditions	Revenue	Preparedness	Have a well-defined strategy

Agriculture

Sentiment in the Agriculture industry has fallen back from a record Index reading last quarter, with a drop of 10.4 points to 17.2. However, agribusinesses still expect positive impacts from Asian demand and the falling Australian dollar.

- ▶ Although 64% of agribusinesses are wary of rising interest rates, 57% expect to increase their capital spending to increase as concerns over access to credit begin to ease.
- ▶ Headcounts are on the rise for 36% of agribusinesses, but 32% are still concerned over access to skilled staff.

- ▶ Nevertheless, 50% of firms feel well prepared to handle fluctuating business conditions. The vast majority (93%) have costs under control, as the industry maintains its focus on cost management over growth.
- ▶ More than half of agribusinesses (54%) would prefer the Australian dollar to remain below USD 0.90.

▼ 39	▼ 12	▲ 21	93%
Business conditions	Revenue	Preparedness	Have costs well controlled

Manufacturing

Confidence in the Manufacturing industry has remained steady, easing just 0.7 points to an Index score of 15.2. Expectations for increased revenue and profit are strong.

- ▶ While domestic and international competition continue to concern manufacturers, 62% expect revenues to rise, due to the positive impact of investments in new products and technologies.
- ▶ Many also believe domestic and international growth will help drive demand (cited as positive factors by 53% and 43% of firms respectively), while 38% say easier access to credit will help improve conditions. As a result, Manufacturing is one of only two mid-market industries likely to focus on growth initiatives rather than cost management in the near future.

- ▶ However, just 35% of Manufacturing businesses claim to be well prepared to manage volatility over the coming months. Financial strength, cost management and risk management indicators are all relatively low compared to other mid-market industries.
- ▶ With 53% of Manufacturing businesses expecting gains from the falling Australian dollar, the industry would prefer the dollar to trade below USD 0.85. A third of businesses are hedging currency risk.

▼ 8	▼ 1	▲ 7	60%
Business conditions	Revenue	Preparedness	Are focusing on growth

Mining

Confidence continues to improve in the Mining industry, with an impressive 21.1 point jump in the industry's overall Index reading to 28.0. This growing optimism is largely fuelled by the falling Australian dollar and favourable economic conditions overseas.

- ▶ With optimism driven by global economic growth, 55% of Mining firms expect higher revenues over the next six months, while 53% anticipate profit growth. Two in five firms expect government policy changes to improve conditions, while just over half say the upcoming Federal Budget will have a positive impact.
- ▶ While miners remain cautious over the Asian economy, 59% of firms are well prepared for fluctuating business conditions. The vast majority have well-defined business strategies and risk management plans in place.

- ▶ Although three-quarters of Mining businesses continue to prioritise cost management over growth, the industry is expecting to increase its use of debt facilities for capital investment and cash flow management. The majority of Mining businesses would prefer the Australian dollar to trade below USD 0.85.

“We will be targeting new markets and new customers to try to grow the business.”

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

▲ 5	▲ 13	▲ 42	94%
Business conditions	Revenue	Preparedness	Have well-prepared risk plans

Business Services

Confidence in the Business Services fell over the last quarter, with the overall Index dropping from 13.3 points to 7.8. Only 37% of Business Services firms feel well prepared to manage future volatility in the business environment.

- ▶ Although global economic conditions are expected to have a positive impact over the next six months, 44% of Services firms anticipate higher operating costs, while 47% expect wage increases.
- ▶ Rising interest rates are also a concern for 52% of businesses, and 28% plan to hedge interest rate risk.

- ▶ Overall, the Business Services is not looking forward to the upcoming Federal Budget, with only 29% of firms expecting a positive outcome for their business.
- ▶ Relative to most other mid-market industries, the Business Services are less confident about their financial strength, cost-management activities and risk management plans.

▼ 11	▼ 7	▲ 4	68%
Business conditions	Revenue	Preparedness	Have well-controlled costs

Transport & Logistics

The Transport & Logistics industry experienced the mid-market's steepest drop in confidence for the quarter, down 33.1 points to 5.6. Of all the mid-market industries, it is the least confident about its ability to manage changing business conditions in the next six months.

- Of all the mid-market industries, Transport & Logistics is the least confident this quarter. Only 30% of Transport & Logistics companies expect revenue and profits to rise in the coming months.
- Although almost half of Transport & Logistics firms are concerned about domestic competition and government policy, the results of the upcoming Federal Budget are expected to have a positive impact on the industry.

- Fifty-one per cent of organisations claim to be well prepared to meet the challenges ahead. However, only 66% believe they have a sound understanding of future market conditions. As a result, 76% of firms will focus on cost management rather than growth initiatives.

“We are predicting an increase in demand that will result in an increase in flights, affecting the whole industry.”

Western Australia, Transport & Logistics, \$20m–\$49m turnover.

▼ 39	▼ 55	▼ 13	82%
Business conditions	Revenue	Preparedness	Are in a strong financial position

Wholesale Trade

Confidence has surged in the Wholesale Trade industry, with an Index reading of 19.8, up from 12.4. Wholesalers are well prepared for future challenges, with strong cost controls and risk management.

- More than two-thirds of Wholesalers say they are well prepared for future volatility, with 9 out of 10 claiming to have costs well managed, while 84% of firms have a good understanding of the competitive landscape.

- Nonetheless, the industry remains cautious. While 58% of firms are concerned about domestic competition, 53% say a falling Australian dollar could have a negative impact.
- The majority of mid-market Wholesale Trade companies would prefer the dollar to be trading above USD 0.90. As a result, 43% are hedging currency risk.

▼ 22	▼ 5	▲ 46	90%
Business conditions	Revenue	Preparedness	Have well-controlled costs



State outlook

Results around the country were mixed this quarter, although each region once again recorded a positive Index reading. While mid-market businesses in some states remain concerned by the possible impact of sluggish demand and a soft economy, many are also more prepared for future volatility than they were three months ago.

Key findings

- ▶ Western Australia continues its positive upward trend, reporting the highest Index result for the quarter of all the states – up 9.7 points to 28.5. Confidence in the Mining sector, coupled with the falling Australian dollar, is expected to drive growth in Western Australia, supported by a stronger global economic outlook.
- ▶ Confidence also rose slightly in Queensland, with an increase of 2.2 from last quarter. More than half of Queensland's businesses expect revenue and profit growth in the coming months.
- ▶ Sentiment remained steady in Victoria and Tasmania, where three-quarters of mid-market businesses are in a strong financial position.
- ▶ Optimism has eased in New South Wales and the Australian Capital Territory, after spiking in the previous quarter. In part, the result reflects concerns about the outcome of the upcoming Federal Budget and a possible downturn in Asian economic conditions.
- ▶ The Index reading for South Australia and the Northern Territory dropped once again to 3.3, the lowest result for the March quarter. However, a higher proportion of businesses believe they are well prepared for future volatility, with 81% saying they have costs under control.

State performance since June 2013: Future Business Index

	Jun 13 quarter	Sep 13 quarter	Dec 13 quarter	Mar 14 quarter	Quarterly change	Quarterly trend
Overall (all figures in Index points)	5.2	10.8	17.0	14.3	-2.7	▼
WA	0	11.3	18.8	28.5	9.7	▲
Qld	13.6	15.9	15.3	17.5	2.2	▲
Vic/Tas	2.6	15.5	14.3	13.0	-1.3	▼
NSW/ACT	2.9	5.9	23.5	10.6	-12.9	▼
SA/NT	11.7	5.3	4.7	3.3	-1.4	▼

New South Wales and the Australian Capital Territory

Following last quarter's spike in confidence, sentiment in New South Wales and the Australian Capital Territory has fallen back, with the overall Index reading declining 12.9 points to 10.6. Only 36% of firms expect business conditions to improve over the next six months.

- ▶ With confidence lower, mid-market companies in NSW and ACT remain focused on cost management initiatives (58%) with less appetite for increasing risk and headcount.

- ▶ Thirty-two per cent of organisations are concerned about having adequate access to skilled staff. Concerns about a downturn in the Asian economy are more prevalent than in other states, as are fears about the outcome of the upcoming Federal Budget.
- ▶ Only two in five firms in New South Wales and the Australian Capital Territory are well prepared for any market downturn, with fewer companies saying they have a good understanding of competitive threats and future market conditions than in any other state.

▼ 27	▼ 20	▲ 9	32%
Business conditions	Revenue	Preparedness	Anticipate a skills shortage

Queensland

Sentiment in Queensland has risen this quarter, with the state's overall Index reading gaining 2.2 points to 17.5. As a result, it is the second most confident state, and one of the most optimistic regarding business conditions.

- ▶ Confidence remains relatively high across the state, as 53% of Queensland firms anticipate growing profits and revenue, and 38% expect capital spending to increase.
- ▶ Growth will be driven by product or service development for 61% of Queensland businesses, and by technology for 62%. Half the state's mid-market firms are upbeat about domestic growth.
- ▶ One-third of Queensland firms are feeling positive about the potential effects of government policy changes. With 43% expecting a good outcome from the Federal Budget, it is the most confident state in this regard.

- ▶ Although 83% of organisations claim to have costs well managed — up from 70% last quarter — 50% expect wage costs to go up, while 60% are concerned about interest rate increases.

“We’re diversifying our products to make us less vulnerable to variable weather conditions.”

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

▼ 13	▼ 4	▲ 23	85%
Business conditions	Revenue	Preparedness	Fully understand threats

South Australia and the Northern Territory

Optimism remains fairly steady in South Australia and the Northern Territory, with an Index reading dipping only slightly from 4.7 points to 3.3 points since last quarter. However, 29% of firms in the region expect business conditions to decline over the next six months.

- ▶ Only 40% of the region's mid-market firms anticipate gains in revenue and profit in the coming months, the lowest of all the states. Since South Australia and the Northern Territory also have the largest predicted rise in operating costs, it's unsurprising that few companies are looking to increase their headcounts or capital spending.
- ▶ Key challenges facing the region's businesses in the months ahead include interest rate rises and government policy changes, as cited by 56% and 44% of firms respectively.

- ▶ Businesses in South Australia and the Northern Territory are also the least prepared for managing the challenges ahead, with two in five firms claiming to be well prepared. Only 60% have a strong financial position compared to the national average of 73%.

“I watch the news. People are losing jobs, many companies are closing, it has an impact”

South Australia and Northern Territory, Agriculture, \$10m–\$19m turnover.

▼ 12	▼ 6	▲ 14	81%
Business conditions	Revenue	Preparedness	Have costs well managed

Victoria and Tasmania

Optimism has eased slightly in Victoria and Tasmania, with a 1.3 point dip in the region's quarterly Index reading to 13.0. On the bright side, many businesses are expecting positive outcomes from domestic growth and increasing consumer confidence.

- ▶ Victorian and Tasmanian mid-market business have their eye on developments outside Australia. While 26% of businesses are wary of overseas competition, 19% are concerned by international growth. Over a third of businesses are also worried about the falling Australian dollar, and most would prefer it stayed about USD 0.90.
- ▶ On a positive note, around half of Victorian and Tasmanian companies believe that business improvements will be driven by domestic growth or increasing consumer confidence. While 30% are planning to capitalise by raising their headcounts, 26% will increase their risk exposure.

- ▶ Consistent with the overall preparedness of other states, only 45% of firms feel well prepared to face the challenges ahead. Cost management initiatives remain the focus for 58% of firms, and therefore an increase in capital spending is not expected.

“Based on an increase in investment in local infrastructure, I predict that the next six months will see an improvement in business conditions for our industry.”

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

▼ 14	▼ 4	▲ 14	75%
Business conditions	Revenue	Preparedness	Are in a strong financial position

Western Australia

Western Australia recorded the highest levels of sentiment of all the states, with an Index reading of 28.5, up 9.7 since December. It is also the region most prepared to manage future volatility.

- ▶ Western Australia has a positive outlook, with two in five firms expecting business conditions to improve in the next six months. Organisations are also looking forward to increases in revenue, profit and headcount.
- ▶ The state's mid-market firms see confidence in the Mining sector and falling Australian dollar as key drivers of growth, as cited by 42% and 47% of firms respectively. A stronger outlook for the global economy will also have a positive impact.
- ▶ Western Australian businesses are among the country's most prepared, with 58% of companies ready to face future challenges. While 83% have a well-defined business strategy, 79% claim to be in a strong financial position.
- ▶ Forty-three per cent of firms expect a positive impact from the upcoming Federal Budget — the highest result of all the states.

▼ 1	▲ 7	▲ 14	83%
Business conditions	Revenue	Preparedness	Have a well-defined strategy



Looking forward

There may be uncertainty in the coming months, but businesses are well prepared to handle whatever challenges they face.

With revenue expectations up for the quarter, businesses will be looking to maximise their opportunities both at home and abroad. Product and service innovation and diversification will help businesses harness growing consumer demand, as will a focused investment in technology. Caution is likely to prevail, however, with growth initiatives taking a back seat to cost management.

For many mid-market firms, fluctuations in the value of the Australian dollar are likely to have a significant effect on their business strategies, and opinions vary between industries as to its optimal trading value. Many mid-market firms will also be looking to control their currency risk through hedging strategies.

However, perhaps the biggest changes to the mid-market landscape may come from the upcoming Federal Budget, due to be announced on 14 May. It will be interesting to see which mid-market industries come out on top.

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 July.

“Caution is likely to prevail, however, with growth initiatives taking a back seat to cost management.”

**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 March 2014 Commonwealth Bank Future Business Index is based on a detailed quantitative survey of 442 financial decision-makers in public and private companies throughout Australia with turnover between \$10 million and \$100 million, carried out between 14 February and 5 March 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, Business Services; Transport & Logistics; 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 442 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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