Future Business Index Update.

September 2014

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Capitalising on emerging opportunities

In a mixed economic environment, mid-market businesses continue to invest in growth, positioning themselves to benefit from a sustained increase in domestic demand and consumer spending.

This quarter's Future Business Index marks an important milestone. For the first time since our survey began three years ago, one in two businesses report that they plan to prioritise growth over cost management in the months ahead. That means the mid-market is equally poised between cost control and growth, with an increasing number of firms seeking to maximise emerging growth opportunities in a strengthening economy.

That finding is all the more striking given the current mixed business environment, with the Australian economy continuing the difficult transition from a resources boom to a broader growth model.

Overall, we saw the Future Business Index remain steady in the September quarter settling in line with the long-term average of the survey. Encouragingly, businesses are expecting revenue and profit increases and an expected reduction in input costs over the next six months with the key opportunities continuing to include pursuing new markets and clients.

To support these growth objectives and seek to address the expected rise in domestic and international competition, businesses have indicated an increase in investment in both capital expenditure and headcount.

While many key financial indicators were positive amongst businesses, the Index revealed that maintaining profit and cash flow, and addressing margin squeeze were amongst the top challenges faced by businesses in the next six months.

The high Australian dollar has also clearly taken a toll on a number of businesses surveyed, with exporters across the mid-market collectively reporting a negative confidence reading of –16 points, compared to a positive 17.7 for importers. Importantly, that reading was taken before the significant drop in the Australian dollar that occurred at the end of September 2014. Assuming that drop is sustained, we could see this result shift in the next quarter.

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

Businesses indicate an improvement in current and prospective economic conditions, and adjust to a higher exchange rate environment.

The Commonwealth Bank Future Business Index (FBI) was essentially unchanged between June and September. This sideways move in confidence, however, conceals some significant shifts in the underlying economic forces at play. The survey components that capture current and prospective economic conditions improved sharply, with readings on business conditions and revenue being some of the highest recorded over the life of the survey. This improvement was, however, offset by a deterioration in businesses' perceptions of their ability to deal with unexpected events. A range of factors are no doubt contributing to these fears. Geopolitical concerns have lifted everywhere, volatility has returned to financial markets and market prices, such as the Aussie dollar, are moving quickly.

The message from mid-market businesses about the economic outlook is positive. The improvement in the harder-edged indicators relating to business conditions and revenue has flowed through to risk appetite. The swing away from cost management to the pursuit of growth initiatives detected in the June FBI survey has continued in September and Capital spending plans and labour hiring intentions for the next six months are improving as a result. The most common indicator of improving sentiment is businesses detecting an increase in sales/demand.

Adding weight to this positive backdrop is the broad-based nature of the improvement in business conditions and revenue, experienced in all regions other than Victoria/Tasmania. There is a somewhat greater variation across the industry segments. But the sharp improvement in retail responses suggests that post-Budget fears of a consumer slump were overdone.

The exchange rate views of FBI participants continue to evolve. A significant re-benchmarking is underway as views shift from an Australian dollar "stuck" at 90 US cents or higher to one where a currency somewhere in the "eighties" is seen as more likely. What hasn't changed, however, is the view that the once invincible Australian dollar is not having any real impact on key economic decisions. Approximately 80 per cent of respondents note that the currency is not influencing labour hiring or capex plans.

The lack of exchange rate impact sits at odds with Reserve Bank of Australia fears. As reported in Commonwealth Bank's *Aussie Dollar Compass*, the FBI survey indicates that the "sweet spot" for the Australian dollar – where the least number of exporters and importers say they are uncompetitive – is 90–94 US cents. By comparison, our 2012 survey showed that the sweet spot was considerably lower at 80 US cents. The upshot is Australian businesses have adjusted to the higher exchange rate in the past two years, which in itself is a considerable achievement.

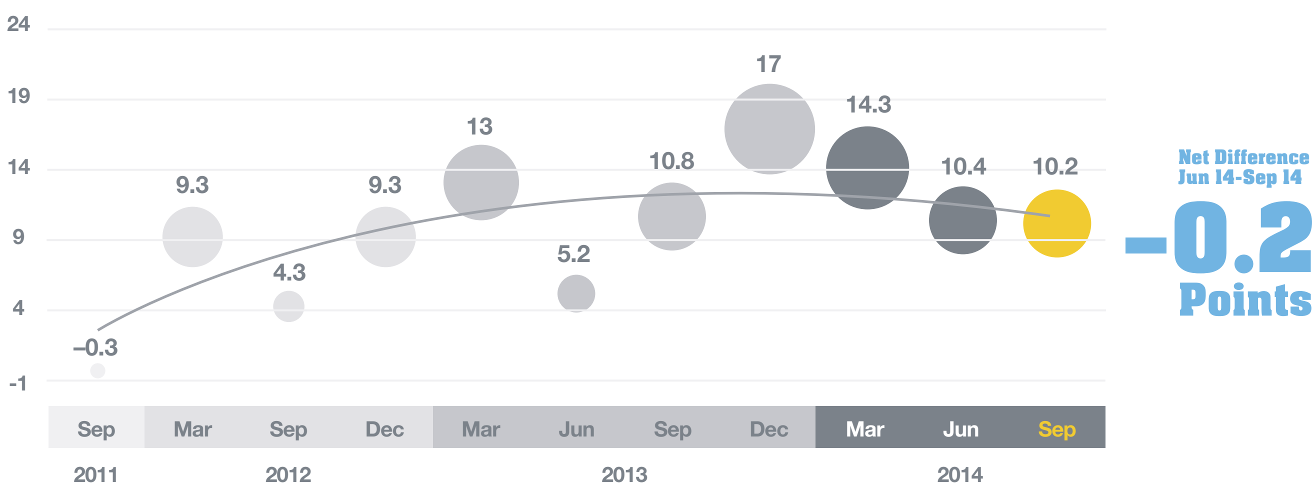
Michael Blythe
Chief Economist
Commonwealth Bank

Mid-market holding steady

Australia's mid-market organisations have started the new financial year on the front foot, with sentiment remaining positive across all states and industries. While the overall confidence reading remained largely unchanged, there were signs of increasing optimism on future business conditions and the promise of new growth opportunities.

The Commonwealth Bank Future Business Index held steady in the September quarter, easing just 0.2 points to 10.2, around the long-term average. Calculated from mid-market organisations' own forecasts of future business conditions, revenue and risk, the Index is a broad-based gauge of business confidence, reflecting expectations for the next six months across the mid-market.* This quarter's Index once again suggests that the business outlook remains healthy, with every industry and region in positive territory.

Overall, 35% of organisations said they expect business conditions to improve in the months ahead, with forecasts for revenue, profit and capital expenditure all trending higher. Underpinning this positive outlook is a growing sense of confidence that domestic growth will drive increased demand, although expectations for international demand have weakened. However, much of this quarter's survey was conducted before the significant falls in the Australian dollar during the last few weeks of September, when the dollar declined more than 6.5% from 93.6 to 87.3 US cents. As a result, the findings reflect a higher level of pessimism among export-oriented industries than is likely to apply today.



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

States and industries

Of the nine industries surveyed, five either held steady over the quarter or reported rising confidence. While exporters continued to be impacted by a high dollar (pending the falls in late September), a number of domestically focused industries benefited from higher demand, although concerns about subdued consumer sentiment still trouble many.

Here are some highlights:

- The Wholesale, Retail, and Transport & Logistics sectors all reported significant increases in confidence, with Index rises of 12.2, 13.1 and 17.5 points respectively. All three industries are looking forward to better business conditions, powered by domestic growth.
- In contrast, the Manufacturing sector fell to the bottom of the leaderboard, with a confidence reading of just 0.3 points. Manufacturers remained concerned about heightened domestic and international competition, as well as the impacts of a high Australian dollar.
- Businesses in Queensland and Western Australia remained remarkably resilient, despite their exposure to a Resources sector under pressure from declining commodity prices. In particular, the overall confidence Index for Queensland bounced back by 25.1 points after a sharp decline in the June quarter. Meanwhile, Western Australian businesses are feeling better prepared for the future and are ready to invest in product development and innovation.
- Victoria and Tasmania recorded the lowest confidence levels, with ongoing concerns over weak consumer confidence. Confidence also fell in New South Wales and the Australian Capital Territory, with expectations for revenue and profit growth declining.

Rising revenues and profits

Almost half of all organisations across the mid–market are looking forward to rising revenues and profits over the next six months. While concerns over rising wages and operating costs have lessened, competitive pressures appear to be intensifying, with 38% of businesses predicting a rise in local competition and 26% anticipating a rise in competition from overseas. However, the concerns over the potential for rising interest rates which marked the last quarter have eased, as companies continue to strengthen balance sheets and reduce borrowings.

Preparing for what lies ahead

Despite growing optimism for the future, many businesses feel less well equipped to manage volatile economic conditions over the next six months than in the previous quarter. While more than one-third say they are well prepared, companies across almost all sectors recognise the need for better prepared risk management plans and a deeper understanding of the competitive threats that drive the market. As a result, preparedness for future volatility has emerged as a weak point in this sector's survey, with organisations in six out of nine industries reporting lower levels of readiness.

"There is an upturn in the building industry, particularly the commercial sector. I think that is an indicator of a more positive business outlook."

Western Australia, Transport & Logistics, $10m–$19m turnover.

Focus on: New growth opportunities

In the September quarter, 50% of organisations said they would prioritise growth initiatives over cost management during the next six months, up from 48% in June and 43% in March. Strongly growth-oriented industries included the Wholesale (69%) and Retail (57%) sectors.

This renewed interest in growth reflects an upward trend in growth opportunities across the mid-market, with more organisations reporting higher demand, new clients and new or growing markets.

Industry outlook

Businesses in every industry reported a positive outlook for the next six months, with expectations for revenues and business conditions trending higher.

Key findings

- Confidence in the Wholesale sector soared this quarter, with the industry Index jumping from 11.4 to 23.6 points, largely driven by expectations of improved business conditions and higher revenues.
- The Transport and Logistics sector also reported rising confidence, posting the largest Index increase across the mid-market. Transport companies also anticipate better business conditions and higher revenue, driven by improving consumer confidence and higher demand, both locally and offshore.
- In contrast, the Manufacturing sector experienced the mid-market's largest drop, from 22.5 points in the June quarter to 0.3 in September. Ongoing concerns over exchange rates, domestic demand and economic conditions in Asia continue to impact the sector, although recent falls in the value of the dollar are likely to have improved conditions since the survey closed.

Almost half of organisations across the mid-market anticipate higher revenues and profits over the next six months.

Industry performance since December 2013: Future Business Index*

	Dec 13 quarter	Mar 14 quarter	Jun 14 quarter	Sept 14 quarter	Quarterly change	Quarterly trend
Overall (all figures in Index points)	**17.0**	**14.3**	**10.4**	**10.2**	**–0.2**	**Steady**
By industry						
Manufacturing	15.9	15.2	22.5	0.3	–22.2	▼
Agriculture	27.6	17.2	15.0	13.1	–1.9	▼
Mining	6.9	28.0	11.6	12.1	0.5	Steady
Wholesale Trade	12.4	19.8	11.4	23.6	12.2	▲
Government, Health & Education	15.3	1.2	11.3	1.8	–9.5	▼
Construction & Property Management	6.4	31.5	9.3	8.5	–0.8	Steady
Transport & Logistics	38.7	5.6	5.8	23.3	17.5	▲
Services	13.3	7.8	4.6	2.2	–2.4	▼
Retail	25.0	8.5	3.1	16.2	13.1	▲
By annual turnover						
$10m–$19m	15.3	12.8	14.2	5.4	–8.8	▼
$20m–$49m	20.2	16.8	4.0	17.3	13.3	▲
$50m–$99m	16.1	13.9	11.4	11.9	0.5	Steady
By market						
Importer	–	17.6	13.1	17.7	4.6	▲
Exporter	–	28.7	18.7	–16	–34.7	▼
Both importer and exporter	–	19.2	15.2	17.4	2.2	▲
Neither importer or exporter	–	8.6	6.4	9.3	2.9	▲

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

Retail

The Retail industry Index has jumped from 3.1 points to 16.2, with confidence booming on the back of better conditions and growing revenue.

- Confidence among retailers is on the rise, as concerns over exchange rates (30%), interest rates (23%) and Government policy (31%) ease.
- Retailers are also somewhat less concerned about operating costs (41%) and rising salaries and wages (45%), although they have become more cautious over the impact of international competition (27%).
- Across the mid-market, retail businesses are among the most likely to shift their focus from cost management towards growth over the next six months (57%), with many reporting a higher appetite for risk (20%).
- 44% of retail businesses are well prepared for any market volatility, with 77% in a strong financial position.

"Our sales have been up compared to prior years and we are starting to see a turnaround, generally and in the Australian economy."

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

▲ 26	▲ 16	▼ 4	83%
Business conditions	**Revenue**	**Preparedness**	**Have well-controlled costs**

Construction & Property Management

This quarter has seen a slight fall in confidence in the Construction & Property Management industry, with the industry Index slipping from 9.3 to 8.5 points as expectations for business conditions ease.

- Only a minority of Construction & Property Management businesses expect an improvement in business conditions (27%) and revenue (39%) over the next six months the lowest of all sectors.
- Confidence levels continue to be affected by concerns around domestic competition (35%), consumer confidence (29%) and the impact of declining mining activity.
- Many businesses are focused on cost management (64%) rather than growth.
- Although 49% say they are well prepared for any future volatility, there is a continuing drop in the number of companies who say they are in a strong financial position (70%) or confident about their business strategies (66%), risk management plans (62%) and forecasting (68%).

"We are in a very competitive, sales-driven environment and competition is fierce."

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

▼ 16	▲ 1	▲ 13	49%
Business conditions	**Revenue**	**Preparedness**	**Are well prepared**

Government, Health & Education

Government, Health & Education organisations continue to report fluctuating confidence, with this quarter's Index falling from 11.3 to 1.8 points, impacted by ongoing uncertainty over the effects of government policy.

- Only 24% of Government, Health & Education organisations anticipate an increase in business conditions over the next six months.
- The sector remains highly cautious about the potential impact of government policy (52%), domestic competition (51%) and increased salaries and wages (60%).
- Although companies expect to spend less on technology (48%) and product and service innovation (43%), most anticipate an increase in capital expenditure (52%).

"Market conditions are more positive and this has a flow on effect to the consumer."

New South Wales/Australian Capital Territory, Government, Health & Education, $20m–$49m turnover.

▼ 1	▼ 2	▼ 25	86%
Business conditions	**Revenue**	**Preparedness**	**Have a well-defined strategy**

Agriculture

Rising revenue expectations have been offset by concerns over exchange rates and consumer confidence, as well as a relative lack of preparedness for future volatility. As a result, the Agriculture confidence Index fell slightly, from 15.0 to 13.1 points.

- Of all industries, the Agriculture sector is most likely to anticipate increasing profits over the next six months (56%), boosting the sector's appetite for risk (24%).
- However, heightened concerns over increases in operating costs (51%), exchange rates (29%) and consumer confidence (30%), have seen agribusinesses remaining focused on cost management (56%).
- The sector has also been affected by a relative lack of preparedness for future volatility (40%), with fewer companies reporting that they are in a strong financial position (77%) or that they have detailed forecasts for the future (61%).

"We are pulling ourselves together now, as a result of the tax changes brought in by the new government."

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

▼ 5	▲ 16	▼ 15	61%
Business conditions	Revenue	Preparedness	Have detailed forecasts

Manufacturing

After a record Index reading of 22.5 points in the last quarter, sentiment in the Manufacturing industry has fallen sharply to 0.3, the lowest across the mid-market. Revenue expectations, profit forecasts and appetite for risk have all declined.

- Only 32% of manufacturers expect business conditions to improve over the next six months, with a decline in the proportion expressing confidence about revenue growth (45%) and profit (46%).
- The industry remains highly cautious about the negative impact of exchange rates (48%), domestic demand (23%) and economic conditions in Asia (26%), particularly China (31%).
- This quarter has also seen a decline in anticipated investment in product and service development (39%) and technology (28%).
- Although only 31% of companies say they are well prepared for future volatility, over half feel they are in a strong financial position (51%) and have well-prepared risk management plans (55%).

"Declining resource prices will dampen the stock market, which flows through to negative sentiment."

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

▼ 14	▼ 14	▼ 38	68%
Business conditions	Revenue	Preparedness	Have a well-defined strategy

Mining

Despite steep falls in some commodity prices, confidence has risen in the Mining sector, with the Index nudging up to 12.1 points. While there is a positive outlook for both profit growth and capital expenditure, the industry remains cautious about costs, the Chinese economy, domestic competition and government policy.

- The Mining sector has remained resilient this quarter, with a boost in expectations for revenue (47%) and profit (52%) over the next six months.
- However, this positive outlook has been partially offset by concerns about operating costs (44%) economic conditions in China (35%), domestic competition (47%) and government policy (28%).
- While concerns about exchange rates (13%) are falling, the use of currency hedging is on the rise (31%).
- Most companies are still focused on cost management, but capital expenditure is increasing (45%) with a higher demand for funding from international (46%) and local markets (36%).
- The Mining sector continued to report a low level of preparedness for future volatility (37%), with fewer companies saying they had well-developed risk management plans (66%) and detailed forecasts (70%).

"We have experienced competition from companies in other states and this has reduced projects. Additionally, finance changes from lenders [have] made it tougher to borrow."

South Australia/Northern Territory, Mining, $10m–$19m turnover.

▲ 2	▲ 25	▼ 26	66%
Business conditions	**Revenue**	**Preparedness**	**Have well-prepared risk plans**

Services

Confidence in the Services sector continues to decline, with the industry Index falling from 4.6 to 2.2 points. Across the mid-market, the Services sector is least well prepared for future volatility over the next six months.

- This quarter saw rising expectations for revenue (48%) and profit (48%) across the Services sector, coupled with reduced concerns over interest rates (33%), access to skilled staff (27%) and consumer confidence (44%).
- However, these positive influences are partially offset by concerns about domestic (39%) and international competition (34%). The Services sector also trails the mid-market in its levels of preparedness for future volatility (22%).
- Companies continue to focus on cost management rather than growth, with reduced investment in service and product development (41%) and technology (40%).

▲ 17	▲ 9	▼ 35	48%
Business conditions	**Revenue**	**Preparedness**	**Expect revenue to increase**

Transport & Logistics

The Transport & Logistics industry saw confidence increase in the September quarter. The industry Index lifted from 5.8 to 23.3 points, driven largely by expectations of improved business conditions in the coming months.

- The Transport & Logistics sector is the most confident across the mid-market about future business conditions (51%), driven by higher expectations for revenue (56%) and profit (51%).
- Companies also anticipate positive effects from domestic (62%) and international growth (52%), rising consumer confidence (51%) and economic conditions in Asia (59%). However, the potential impacts of higher operating costs (47%) and exchange rates (34%) remain a concern.
- An increasing number of Transport companies say they are in a strong financial position (90%, up from 68%), with a majority having well-defined business strategies (83%). However, 73% of businesses remain focused on cost management rather than growth.

> **"Our strengthened sales team will be able to pick up a lot more business from new clients."**

Queensland, Transport & Logistics, $20m–$49m turnover.

▲ 14	▲ 35	▲ 4	90%
Business conditions	Revenue	Preparedness	Are in a strong financial position

Wholesale Trade

Confidence in the Wholesale sector Index has strengthened significantly, with the industry Index rising 12.2 points to 23.6 – its highest level in three years.

- In the September quarter, the Wholesale sector was among the most confident that revenues (55%) and profits (56%) would rise over the next six months.
- With positive expectations for domestic growth (50%), consumer confidence (37%) and international growth (36%), the industry has a strong focus on growth initiatives (69%) compared to other sectors.
- However, businesses remain cautious about the impact of exchange rates (46%), government policy (41%), and increasing operating costs (42%).
- The sector is also the most prepared for the future across the mid-market, with the majority having well-controlled costs (95%), a well-defined business strategy (85%) and a strong financial position (80%).

> **"[Positives for our business include] finding new markets and promoting non-traditional product ranges to open those new markets."**

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

▲ 23	▲ 10	▲ 3	95%
Business conditions	Revenue	Preparedness	Have well-controlled costs

State outlook

After falling back in the June quarter, Queensland and Western Australia have rebounded strongly in the new financial year, as optimism about future business conditions and revenue continue to grow. However, confidence eased in Victoria and Tasmania, while sentiment continues to fluctuate in New South Wales and the Australian Capital Territory as competitive pressures intensify.

Key findings

- Sentiment in Queensland has bounced back strongly, with the state Index up 25.1 points to 25.4, driven by improved forecasts for business conditions and profits.
- Western Australia also saw optimism rise, with the state Index lifting from 9.1 points to 17.3. Western Australian companies are particularly likely to plan higher levels of capital expenditure, investment and innovation.
- Meanwhile, confidence in Victoria and Tasmania was the lowest across the country, with the state Index falling from 12 points in the June quarter to 3.1 in September. Businesses continue to be concerned about consumer confidence, domestic growth and the impact of reduced mining activity, with lower expectations for capital expenditure and investment in product and service development.
- Sentiment in New South Wales and the Australian Capital Territory has also fallen, with the Index declining from 14.5 points to 4.9. Companies in New South Wales and the Australian Capital Territory are less prepared for future volatility than their peers in other states, with fewer expecting profit growth amid concerns over rising operating costs.

State performance since December 2013: Future Business Index

	Dec 13 quarter	Mar 14 quarter	Jun 14 quarter	Sept 14 quarter	Quarterly change	Quarterly trend
Overall (all figures in Index points)	**17.0**	**14.3**	**10.4**	**10.2**	**–0.2**	Steady
NSW/ACT	23.5	10.6	14.5	4.9	–9.6	▼
SA/NT	4.7	3.3	13.3	14.0	0.7	Steady
Vic/Tas	14.3	13	12.0	3.1	–8.9	▼
WA	18.8	28.5	9.1	17.3	8.2	▲
Qld	15.3	17.5	0.3	25.4	25.1	▲

New South Wales and the Australian Capital Territory

Sentiment in New South Wales and the Australian Capital Territory has weakened, with the state Index dropping from 14.5 points to 4.9. Businesses are less prepared for future volatility, with rising costs a key concern.

- Fewer companies in New South Wales and the Australian Capital Territory expect revenue growth this quarter (45%), with many anticipating further increases in operating costs (42%).
- However, businesses also expect to benefit from rising consumer confidence (42%), domestic demand (51%), international growth (39%) and favourable interest rates (27%).
- Compared with other states, companies in New South Wales and the Australian Capital Territory are the least prepared for future volatility (31%), rating comparatively poorly on their understanding of the competitive landscape (69%), detailed business forecasts (61%) and risk management plans (59%).

"I think that business conditions will decline due to reduced capital expenditure in the Mining sector. Additionally, the high Australian dollar is not helping exports, so interest rates need to come down."

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

▲ 1	▼ 1	▼ 28	59%
Business conditions	**Revenue**	**Preparedness**	**Have well-prepared risk plans**

Queensland

Sentiment in Queensland has bounced back from 0.3 points to 25.4 – the highest reading across all states and the best result for Queensland in three years.

- Queensland companies are the most confident across the country about revenue (61%) and profit growth (62%) over the next six months. Many expect to benefit from improved consumer confidence (38%), domestic growth (49%) and economic conditions in Asia (36%), especially China (37%).
- Queensland businesses are well prepared for future fluctuations in business conditions, with the majority having a well-defined business strategy (82%), strong financial position (81%) and well-controlled costs (89%).
- Although spending on technology (42%) and product and service innovation (35%) are forecast to be lower than last quarter, an overall increase in capital expenditure (32%) is expected.

"[We are] expanding some of our lines into the new season … expanding the scope and reach of our products."

Queensland, Agriculture, $10m–$19m turnover.

▲ 34	▲ 34	▲ 7	61%
Business conditions	**Revenue**	**Preparedness**	**Expect revenue to increase**

South Australia and the Northern Territory

The Index for South Australia and the Northern Territory has nudged up from 13.3 to 14.0 points, with business conditions expected to improve over the coming months.

- 37% of firms in South Australia and the Northern Territory anticipate an improvement in business conditions – an increase of 11 percentage points since the June quarter.
- While many expect to benefit from domestic growth (53%), rising consumer confidence (45%) and positive economic conditions in Asia (37%), companies still report concerns about domestic (50%) and international competition (25%) and government policy (42%).
- Despite a focus on cost management initiatives (53%), businesses in South Australia and the Northern Territory plan to increase capital expenditure (37%) and technology spending (41%), helped by an increased use of debt facilities.

▲ 16	▲ 11	▼ 25	79%
Business conditions	**Revenue**	**Preparedness**	**Have well-controlled costs**

Victoria and Tasmania

Sentiment in Victoria and Tasmania has declined from 12.0 points in June to 3.1, the lowest across all states. Victorian and Tasmanian businesses are the least confident about business conditions in the coming months.

- With confidence across the state falling, fewer companies in Victoria and Tasmania expect profit growth (39%) than in the June quarter. Across the country, they are also least likely to increase staff (21%) over the next six months.
- Businesses in Victoria and Tasmania continue to be concerned by the impact of government policy and weak consumer confidence, along with subdued domestic growth and declining mining activity. As a result, capital expenditure, technology spending and investment in product and service development are expected to decline across both states.
- Only 34% of companies are well prepared for future volatility, with businesses less likely to have a strong financial position (67%), control of cost management (70%) and a strong understanding of the competitive landscape (69%).

"We get a fair amount of work through coal mining companies, which is declining at the moment. We also do a lot of work for the government on roads, dams and bridges, but there aren't as many tenders coming out."

Victoria/Tasmania, Mining, $50m–$99m turnover.

▼ 7	▲ 2	▼ 21	40%
Business conditions	**Revenue**	**Preparedness**	**Increased investment in technology**

Western Australia

Sentiment in Western Australia increased strongly in the September quarter, with the state Index rising from 9.1 points to 17.3. Businesses in Western Australia not only expect higher revenues, they are also the best prepared of all states to handle future volatility.

- While only 29% of Western Australian organisations believe business conditions will improve over the next six months, many expect revenue (46%) and profits (41%) to increase, driving a higher appetite for risk (24%).
- While the state has been impacted by reduced activity in the Mining sector (45%), economic conditions in China (43%) and sluggish consumer confidence (43%), businesses in Western Australia are the best prepared for volatility of any state (54%). The vast majority have a well-developed understanding of the competitive landscape (83%) and detailed forecasts of future market conditions (77%).
- Despite ongoing caution about business conditions, capital expenditure is increasing and investment in technology (41%) and product or service innovation (44%) is relatively strong. There has also been a rise in use of debt facilities for capital expenditure and local and international funding.

"We are aiming to highlight our competitive advantage over our peers in productivity and service delivery."

Western Australia, Mining, $50m–$99m turnover.

▲ 1	▲ 9	▲ 14	77%
Business conditions	Revenue	Preparedness	Have well-controlled costs

Looking ahead

As organisations across the mid-market switch their focus to growth, the sector is well positioned to capitalise on a strengthening economy.

This quarter's Future Business Index reveals a sector increasingly prepared to take advantage of emerging growth opportunities. For the third quarter in succession, the proportion of mid-market organisations focused on growth over cost management has increased – and although spending on innovation and product development has edged lower since the end of the financial year, it remains healthy. As a result, Australia's mid-market businesses are well positioned to take advantage of any pickup in economic growth and consumer spending, at a time when a rising proportion of businesses expect domestic demand to lift.

More concerning is the decline in readiness for future fluctuations in business conditions. While overall levels of preparedness remain relatively strong, they have nevertheless fallen back on a range of measures – including cost management, risk management planning and understanding of the competitive landscape. To some extent, this may reflect an economy in a state of transition, with mixed economic signals making forecasting more difficult. Nonetheless, it will be worth watching carefully to determine whether this is merely a temporary dip or a longer-lasting change.

Australia's mid-market businesses are well positioned to take advantage of any pickup in economic growth and consumer spending.

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

About the Future Business Index

The September 2014 Commonwealth Bank Future Business Index is based on a detailed quantitative survey of 424 financial decision makers in public and private companies throughout Australia with turnover between $10 million and $100 million, carried out between 26 August and 16 September 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 424 businesses with an annual turnover of $10 million 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.

CAN