

## ANNUAL WAGE REVIEW 2011-12

CCIQ Submission to Fair Work Australia

16 March 2012

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**“Anything that creates less ability to compete in the market place or makes our economy more costly than others around the world is only going to make business more difficult than it already is.”**

– Brisbane Business Operator in the Wholesale Trade industry

**“Let’s make it affordable for Australian Employers to keep Australian workers employed.”**

– Far North Queensland Business Operator in the Services industry

**“Increasing minimum wages could result in selling our business.”**

– Sunshine Coast Business Operator in the Agriculture, Forestry and Fishing industry

**“Every wage increase or an increase in a cost is making it very difficult to break even.”**

– North Queensland Business Operator in the Accommodation and Food Services industry

**“We are not in the mining industry so not making mega profits. The pay decision will need to take into account the whole business community and not those few industries that are doing well.”**

– Wide Bay Business Operator in the Financial and Insurance Services industry

## 1.0 EXECUTIVE SUMMARY

- 1.1 As the peak business organisation in Queensland, the Chamber of Commerce and Industry Queensland (CCIQ) welcomes the opportunity to make a submission to Fair Work Australia's Annual Wage Review 2011-12. The outcome of this review will be of pivotal importance to the Queensland business community.
- 1.2 Information provided throughout this submission demonstrates that Queensland businesses are in a significantly worse position than this time last year. Despite the success of the resources sector which is driving high headline growth figures for Queensland over the previous 12 months, CCIQ does not believe that the Queensland economy is performing strongly at present. Many Queensland regions and industries continue to perform poorly with their economic outlooks weak. Furthermore, Queensland's unemployment rate remains the highest of all mainland states, a trend that has persisted throughout the 2011/12 financial year. The economic inequality within Queensland's economy is expected to continue into the foreseeable future.
- 1.3 Further to the economic outlook for Queensland businesses moving forward, the coming financial year holds additional challenges that must also be taken into consideration during the 2011/12 Annual Wage Review. Queensland businesses continue to raise concerns about the impact of the Fair Work Act on employment and compliance costs, including the implementation of transitional arrangements under the modern awards. The cost implications of the carbon tax to commence 1 July 2012 provides uncertainty for SMEs who are largely unable to pass on increasing costs to their customers. Furthermore, latest data demonstrates that Queensland has the highest number of business insolvencies of all states with a 14.3% business exit rate. All of these factors, in addition to the increasing cost of running a business, the recovery from the natural disasters, the high Australian dollar and the downturn in key international markets, are providing further indications that businesses can not absorb a considerable increase to the minimum wage at this point in time.
- 1.4 In the lead up to the 2011/12 Annual Wage review, CCIQ also undertook a survey of 585 Queensland businesses to determine their capacity to absorb any increase in their wages bill. These results further demonstrate that Queensland businesses are in a significantly worse position than this time last year and highlight the need for a more cautious approach to this year's decision. Results show that an increase of \$10 or less a week would have a negative impact on employment for 57% of businesses, with nearly two thirds also indicating an increase of this level would adversely impact on their profitability and investment. Businesses expressed concerns that an increase of this level would result in the business owner working more hours, result in the reduction of staff and/or staff hours and lead to some businesses closing their doors.
- 1.5 Taking into consideration the feedback provided throughout this submission, CCIQ strongly encourages Fair Work Australia to seriously consider the broader impact that a significant wage increase may have on the economy and employment levels at this current time. CCIQ holds serious concerns regarding the inability of many Queensland businesses to fund a wage increase and/or pass that increase onto their customers. A significant increase at this point in time may prove a devastating blow for many struggling businesses, which is likely to provide an even worse outlook this time next year when we are considering an increase for the 2013/14 financial year.
- 1.6 Subsequently, in the 2011/12 Annual Wage Review, CCIQ strongly urges Fair Work Australia to implement an increase to the minimum wage that is substantially less than \$9 per week, preferably no increase until such time when businesses are better placed to afford it and remain viable.
- 1.7 It is essential that Fair Work Australia does what it can to reduce the negative impacts on businesses, which includes making sensible decisions regarding increases to minimum wages. It would be irresponsible to substantially increase minimum wages in an environment where so many businesses are struggling to maintain their current employment levels and maintain their viability for the long term.

## 2.0 OVERVIEW OF QUEENSLAND'S ECONOMIC CLIMATE

2.1 Queensland's economic environment has changed dramatically for the worse in recent years. Since late 2008, the global economic downturn, high Australian dollar and the wide-spread impact of the 2010-11 natural disasters have resulted in a deterioration of Queensland economic conditions. Poor consumer confidence, reduced revenue and increasing operational costs have progressively eroded business profitability outside of the resources sector, leading to the emergence of a two-speed economy which is evidenced by the below table.

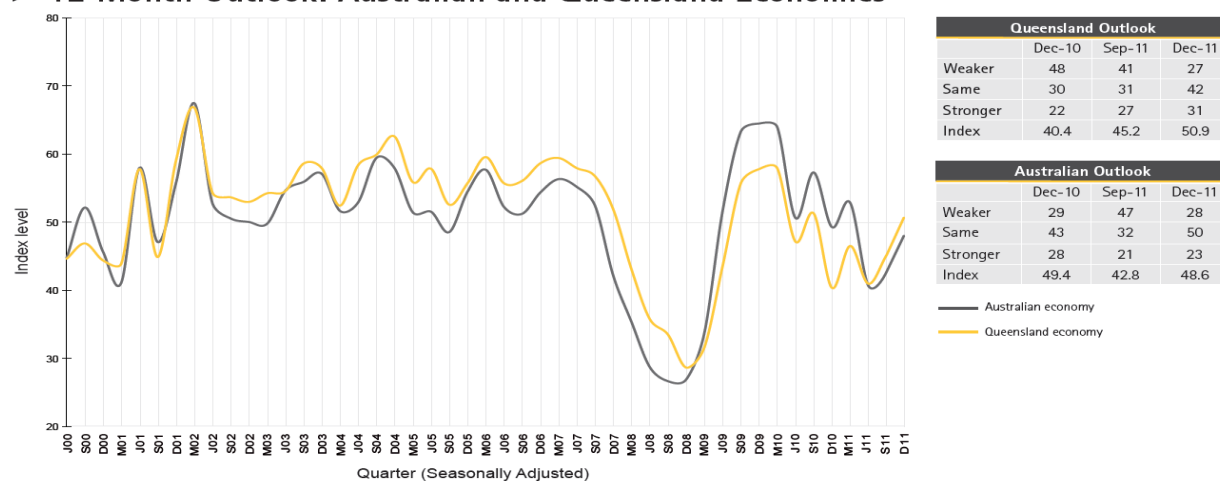
Performance over current year compared to previous 12 months			
	Good (More than 50% said it was better)	Bad (Between 50 – 70% said it was worse)	Worse (More than 70% said it was worse)
<b>Region</b>		<ul style="list-style-type: none"> <li>• Wide Bay (57%)</li> <li>• Central Coast (Mackay) (63%)</li> <li>• Sunshine Coast (64%)</li> <li>• Brisbane (68%)</li> </ul>	<ul style="list-style-type: none"> <li>• South West Queensland (71%)</li> <li>• Far North Queensland (Cairns) (75%)</li> <li>• North Queensland (Townsville) (76%)</li> <li>• Gold Coast (78%)</li> <li>• Central Queensland (Rockhampton) (80%)</li> </ul>
<b>Industry</b>	<ul style="list-style-type: none"> <li>• Communication Services (64%)</li> <li>• Mining (100%)</li> </ul>	<ul style="list-style-type: none"> <li>• Other (55%)</li> <li>• Wholesale Trade (56%)</li> <li>• Personal and Other Services (58%)</li> <li>• Manufacturing (63%)</li> <li>• Agriculture, Forestry &amp; Fishing (63%)</li> </ul>	<ul style="list-style-type: none"> <li>• Property and Business Services (71%)</li> <li>• Accommodation, Cafes &amp; Restaurants (78%)</li> <li>• Finance and Insurance (80%)</li> <li>• Retail Trade (80%)</li> <li>• Construction (81%)</li> <li>• Cultural and Recreational Services (83%)</li> <li>• Education (86%)</li> <li>• Health and Community Services (89%)</li> <li>• Transport and Storage (89%)</li> <li>• Electricity, Gas and Water Supply (100%)</li> <li>• Government Administration and Defence (100%)</li> </ul>

Source: CCIQ 2011 Snap Poll

2.2 The two speed economy is especially apparent in Queensland. Major resource projects continue to provide Queensland with high headline growth figures compared to other states, however the high unemployment rate shows a different story (refer to section 3.0). Key Queensland industries including tourism, retail, construction, and other non-mining sectors continue to struggle. The economic inequality among Queensland regions and sectors is expected to continue into the foreseeable future.

2.3 The latest Commonwealth Bank CCIQ Pulse Survey of Business Conditions for the December Quarter 2011 further demonstrates this point with businesses continuing to experience poor economic conditions (see Appendix 1 for the full report). Queensland continues to experience an unbalanced economy with some regions and sectors performing better, whilst others are not seeing any sign of a return to better economic times. The below graph shows that confidence in the Queensland economy has been somewhat more positive than confidence in the national economy. While the majority of Queensland businesses (42%) expect state-wide economic conditions to remain the same, 27% of Queensland businesses predict the Queensland economy will get weaker during 2012.

## > 12 Month Outlook: Australian and Queensland Economies



\*\* Scale – An Index level above 50 indicates that growth prospects are strengthening, while an Index level below 50 indicates that growth prospects are weakening.

Source: Commonwealth Bank CCIQ Pulse Survey of Business Conditions – December Quarter 2011

- 2.4 The below table shows the economic conditions in Queensland regions in the December Quarter 2011. Conditions in many Queensland regions are deteriorating, raising serious concerns for Queensland’s economic outlook. The economies of the Gold Coast, Brisbane and Far North regions in particular are not gaining any significant momentum and lag behind the remainder of the state across most indicators. Businesses in these regions are also not overly convinced of a turnaround in economic activity with the twelve month outlook in all three regions remaining the lowest in the State.

Current	Brisbane	Sunshine Coast	Gold Coast	South West Queensland	Central Queensland	Central Coast	North Queensland	Far North Queensland
12 Month Outlook - Queensland	47.8	55.5	50.9	55.1	54.8	57.6	50.0	44.3
General Business Conditions	48.5	56.0	44.8	57.4	61.0	55.4	52.3	47.2
Total Sales/Revenue	48.4	55.7	47.8	56.3	59.4	64.8	47.7	43.3
Profitability	42.5	45.3	36.2	46.2	52.1	48.9	45.3	36.5
Average Wages	53.6	56.4	36.2	55.3	53.1	58.7	55.8	54.5
Employment Levels	46.5	47.3	50.9	49.3	48.9	45.5	45.3	46.7
Capital Expenditure	43.5	40.0	40.3	52.3	52.3	52.2	40.8	40.8

Source: Commonwealth Bank CCIQ Pulse Survey of Business Conditions – December Quarter 2011

\* A Pulse Index reading of above 50 indicates conditions have improved over the previous quarter. A reading of 50 indicates conditions have remained the same and less than 50 indicates conditions have deteriorated.

- 2.5 This tough economic climate is placing significant pressure on Queensland businesses, with many struggling to remain viable. The very last thing that businesses (especially those which are small and medium-sized) need in these challenging circumstances are additional cost imposts and further constraints placed on employment due to a substantial increase in minimum wages.
- 2.6 The below table confirms that business profit margins, competitive pressures both domestically and internationally, and any ability to pass on costs to the customer are all conspiring to place business in an extremely poor position to withstand the implementation of continuing cost increases. Historical arguments that business can simply pass on cost increases flies in the face of the evidence presented below.

Thinking about your business currently please indicate your level of business performance in the following areas:						
	Very High	High	Average	Low	Very Low	Negative
<b>Business margins and profitability</b>	1.8%	18.1%	<b>53.5%</b>	17.6%	7.8%	1.1%
<b>Competitive pressures from local and national businesses</b>	15.3%	35.3%	<b>37.7%</b>	6.6%	3.9%	1.3%
<b>Competitive pressures from international businesses</b>	12.7%	18.2%	<b>21.5%</b>	17.6%	19.6%	10.5%
<b>Ability to pass on higher costs to your customers</b>	1.6%	9.6%	<b>36.3%</b>	26.1%	21.2%	5.1%

Source: CCIQ Snap Poll 2011

- 2.7 Despite the success of the resource sector which is driving high headline growth figures for Queensland over the previous 12 months, CCIQ does not believe that the Queensland economy is performing strongly at present. Many Queensland regions and industries continue to perform poorly. CCIQ fears that the inability of many Queensland businesses to pass on a wage increase to their customers may prove a devastating blow for struggling businesses. These concerns continue to be clarified throughout this submission.

**“There is a lack of confidence in general in the local and federal economy and a lot of small business owners are suffering.”**

– Brisbane Business Operator in the Accommodation, Cafes and Restaurants industry

**“Costs continue to rise faster than sales revenue.”**

- South West Queensland Business Operator in the Wholesale industry

**“The downturn in the economy and the global financial issues have slowed spending in our industry.”**

– Gold Coast Business Operator in the Electricity, Gas and Water Supply industry

**“There is extremely poor confidence in the FNQ marketplace. Our revenue has plummeted 40%.”**

– Far North Queensland Business Operator in the Communication Services industry

**“We continue to face reduced business activity and sales performance.”**

– Brisbane Business Operator in the Services industry

**“Global economic concerns are impacting on investment. There is a lack of confidence in banks to lend money for development projects especially on the Gold Coast.”**

– Gold Coast Business Operator in the Construction industry

**“Consumer confidence (or lack thereof) continues to undermine our results.”**

– Wide Bay Business Operator in the Property/Business Services industry

**“The local economy is still very slow.”**

– Far North Queensland Business Operator in the Education industry

**“The high Australian Dollar has seen more domestic customers visit overseas countries, and less Inbounders come to Australia due to the cost.”**

– Wide Bay Business Operator in the Accommodation, Cafes and Restaurants industry

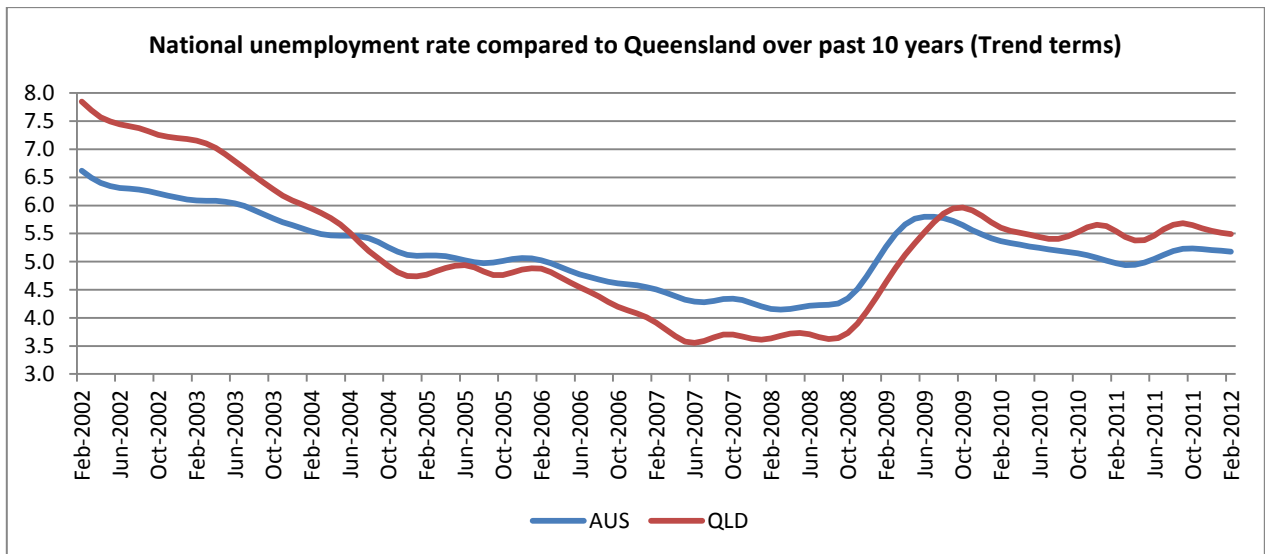
### 3.0 QUEENSLAND UNEMPLOYMENT FIGURES

3.1 Queensland continues to have the highest unemployment rate of all mainland states (excluding Tasmania), both in trend and seasonally adjusted terms. Queensland continues to maintain an unemployment rate that is significantly higher than the national unemployment rate (0.3% and 0.5% higher in trend and seasonally adjusted terms respectively). This is a trend that has persisted throughout the 2011/12 financial year.

Unemployment Rates										
	Trend					Seasonally Adjusted				
	Feb 11	Jan 12	Feb 12	% Δ Jan 12 – Feb 12	% Δ Feb 11 - Feb 12	Feb 11	Jan 12	Feb 12	% Δ Jan 12 – Feb 12	% Δ Feb 11 - Feb 12
NSW	4.9	5.3	5.2	-0.1	0.3	4.9	5.2	5.2	0.0	0.3
VIC	4.8	5.3	5.3	0.0	0.5	5.0	5.2	5.4	0.2	0.4
QLD	5.5	5.5	<b>5.5</b>	0.0	0.0	5.6	5.4	<b>5.7</b>	0.3	0.1
SA	5.5	5.2	5.2	0.0	-0.3	5.7	5.1	5.2	0.1	-0.5
WA	4.3	4.1	4.1	0.0	-0.2	4.3	4.1	4.0	-0.1	-0.3
TAS	5.7	6.7	7.0	0.3	1.3	5.6	7.1	7.0	-0.1	1.4
AUS	5.0	5.2	5.2	0.0	0.2	5.0	5.1	5.2	0.1	0.2

Source: ABS Catalogue 6202.0

3.2 The below graph shows that since August 2009, Queensland's unemployment rate has been significantly higher than the national unemployment rate. This is a trend that Queensland businesses are desperate to see reversed.



Source: ABS Catalogue 6202.0

3.3 The latest regional unemployment data shows that many Queensland regions have unemployment rates significantly higher than the Queensland (5.5%) and national (5.2%) unemployment rates in January 2012. These regions include:

- All Gold Coast regions including Gold Coast North (11.6%); Gold Coast (6.7%); and Gold Coast South (6.2%);
- West Moreton (11.3%);
- Far North (8.8%);
- Wide Bay Burnett (7.5%);
- Ipswich City (7.3%);
- Northern-North West (7.1%);
- South and East Brisbane (6.7%);
- Sunshine Coast (6.5%);
- Darling Downs-South West (6.1%).

- 3.4 Several Queensland regions have experienced a substantial increase in unemployment rates over the past 12 months, particularly West Moreton, Ipswich City and the Northern-North West region. Several Queensland regions have also experienced a substantial increase between December 2011 and January 2012 including Gold Coast North, Ipswich City, Far North Queensland, Wide Bay Burnett and the Gold Coast.

Unemployment rates in Queensland regions					
	Jan 11	Dec 11	Jan 12	% change Dec 11 - Jan 12	% change Jan 11 – Jan 12
Brisbane	5.3	4.9	5.0	0.1	-0.3
Brisbane City Inner Ring	5.3	3.3	4.5	1.2	-0.8
Brisbane City Outer Ring	4.3	4.0	3.9	-0.1	-0.4
South and East Brisbane	7.1	6.2	6.7	0.5	-0.4
North Brisbane	6.1	6.7	4.7	-2.0	-1.4
Ipswich City	2.2	4.9	7.3	2.4	5.1
Balance of QLD	7.0	5.4	6.8	1.4	-0.2
Gold Coast	6.9	4.6	6.7	2.1	-0.2
Gold Coast North	13.2	7.2	11.6	4.4	-1.6
Gold Coast South	6.1	4.3	6.2	1.9	0.1
Sunshine Coast	7.9	5.8	6.5	0.7	-1.4
West Moreton	3.8	11.4	11.3	-0.1	7.5
Wide Bay-Burnett	6.5	5.3	7.5	2.2	1.0
Mackay-Fitzroy-Central West	5.7	4.4	5.0	0.6	-0.7
Darling Downs-South West	9.8	4.2	6.1	1.9	-3.7
Northern-North West	4.2	6.6	7.1	0.5	2.9
Far North	9.6	6.5	8.8	2.3	-0.8

Source: ABS Catalogue 6291.0.55.001

- 3.5 In light of the statistics provided above, CCIQ is overwhelmingly of the view that a significant wage increase at this point in time would have a devastating impact on the Queensland economy and employment.

**“Businesses are likely to find conditions getting worse before they get better ie growing unemployment and bankruptcies.”**

– Brisbane Business Operator in the Agriculture, Forestry and Fishing industry

**“Our region suffers from high unemployment and no 'real' local job opportunities for the youth leaving school.”**

– Wide Bay Business Operator in the Property/Business Services industry

**“The poor local economy and unemployment are serious concerns.”**

– Far North Queensland Business Operator in the Retail industry

**“Government needs to focus on unemployment in Regional Australia.”**

– Brisbane Business Operator in the Communication Services industry

**“We are concerned about the increasing rate of insolvency and unemployment.”**

– Gold Coast Business Operator in the Construction industry



## 4.0 KEY ISSUES REQUIRING CONSIDERATION DURING THE ANNUAL WAGE REVIEW

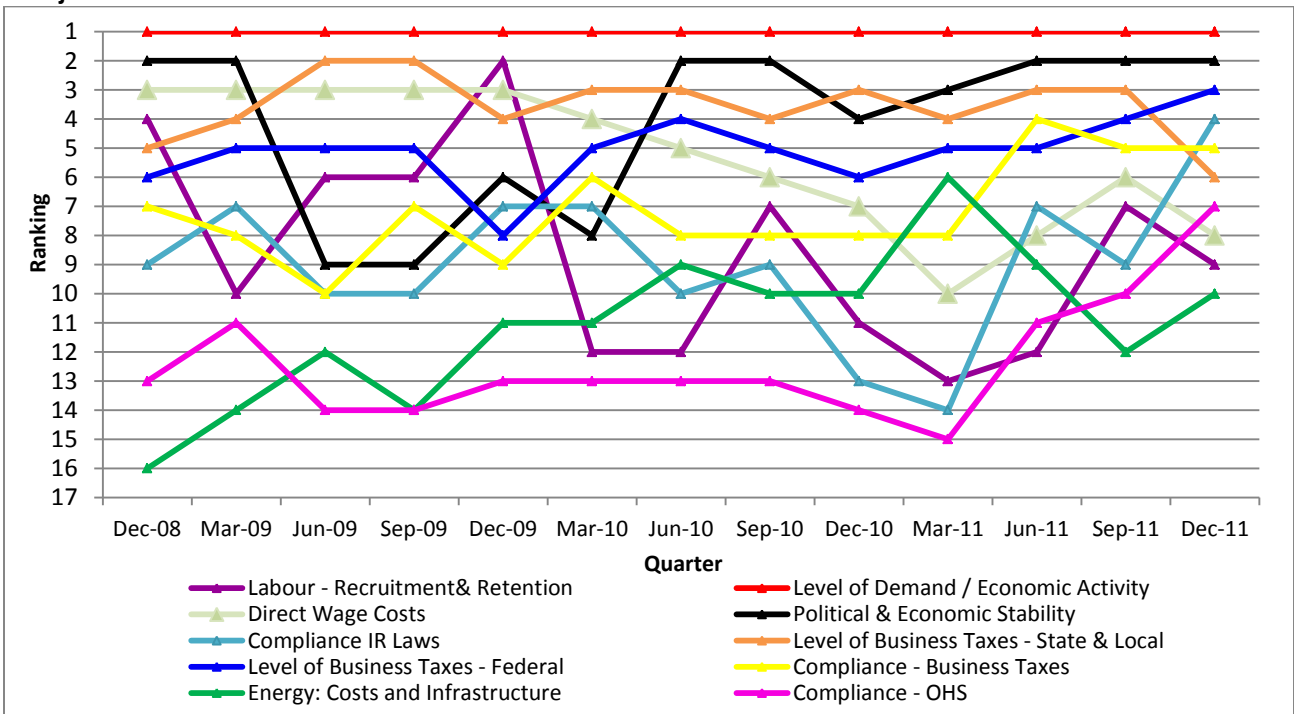
4.1 There are several key issues that CCIQ believes must be considered during the 2011-12 Annual Wage Review including concerns surrounding the Fair Work Act, the impact of the carbon tax, the two speed economy in Queensland, increasing number of business insolvencies, the rising costs of running a business and the economic circumstances facing our key trading partners.

### Fair Work Act

4.2 CCIQ recently undertook consultation with the Queensland business community to determine the impact that the Fair Work Act has had on their businesses to feed into the current review of the Act.<sup>1</sup> Of concern to CCIQ were the number of businesses who highlighted that they were employing no or very few employees due to the complexities associated with the Act. Furthermore, many businesses commented about the rising costs of employment and compliance under the Act. CCIQ believes that prior to any increase to minimum wages, it is essential to deliver improvements to ensure the Fair Work Act promotes and encourages employment throughout Australia, and not the opposite. Key findings from CCIQ research is included below.

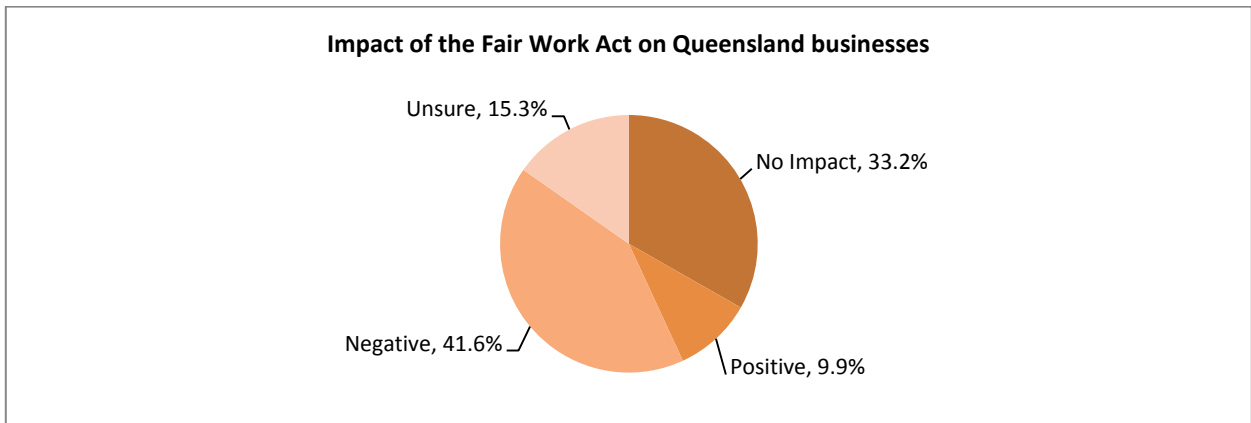
4.3 Compliance with industrial relations laws is a key issue for Queensland businesses. Since March 2011, compliance with industrial relations laws has increased from the 14th to the 4th most significant constraint on business growth in Queensland (behind the level of demand and economic activity, political and economic stability and the level of federal business taxes). These results demonstrate the rising impact of workplace relations issues on Queensland businesses.

Major Constraints on Business Growth



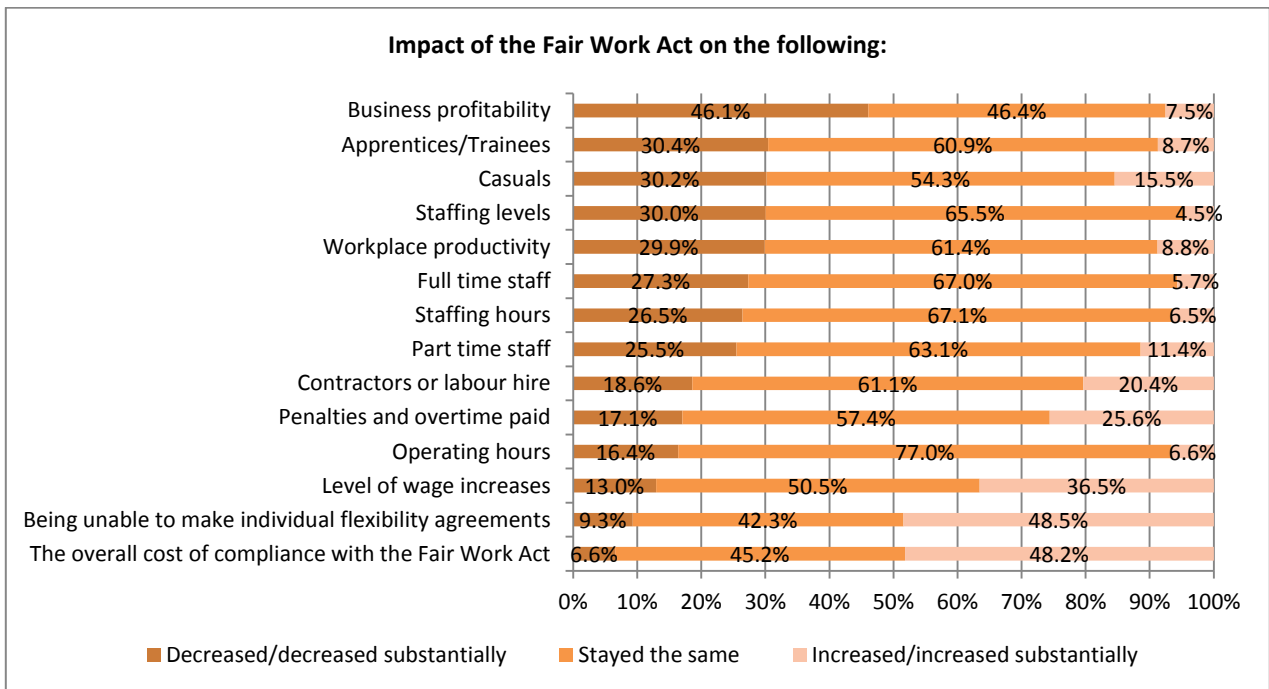
Source: Commonwealth Bank CCIQ Pulse Survey of Business Conditions: December Quarter 2011

4.4 Feedback from Queensland employers reveals that the Fair Work Act has unfortunately had an unintended and negative impact on 42% of businesses. One in three businesses indicates that the new system has had no material impact on their business and subsequently has not reduced the regulatory requirements placed on them as hoped. Only a small majority of businesses (10%) have experienced a positive impact following the introduction of the Act.



Source: CCIQ Report: Queensland business community's feedback on Australia's industrial relations system- November 2011

- 4.5 Businesses reported the following impacts of the new industrial relations system on their business:
- The overall level of compliance costs with the Fair Work Act has increased for 48% of businesses;
  - Workplace productivity has decreased in 30% of businesses as result of the Fair Work Act;
  - 46% of businesses have had a decrease in business profitability;
  - Around 30% of businesses have seen a decrease in staff levels (particularly casuals, apprentices/trainees and full time staff) as a result of the Fair Work Act;
  - One in four have seen a reduction in staff hours and an increase in penalties and overtime paid;
  - 36% of businesses have seen an increase in wage levels as a result of moving to modern awards.



Source: CCIQ Report: Queensland business community's feedback on Australia's industrial relations system – November 2011

- 4.6 Queensland businesses have raised numerous concerns regarding the impact of the Fair Work Act on their businesses; 58% stated it has increased the regulatory burdens on their business, and 56% stated that flexibility within their workplace has been affected since the introduction of the Fair Work System. Key concerns raised included:
- Existing red tape is restricting the number of people employed (cost of employment, restriction of junior hours);
  - Employment costs are increasing however productivity is remaining stagnate or decreasing;
  - Difficulties in remaining up-to-date with changes and interpreting how the Act applies to particular businesses. Businesses are also required to refer to several sources when seeking employment information;
  - Complex, time consuming and expensive compliance requirements with subsequent impacts on employment levels;

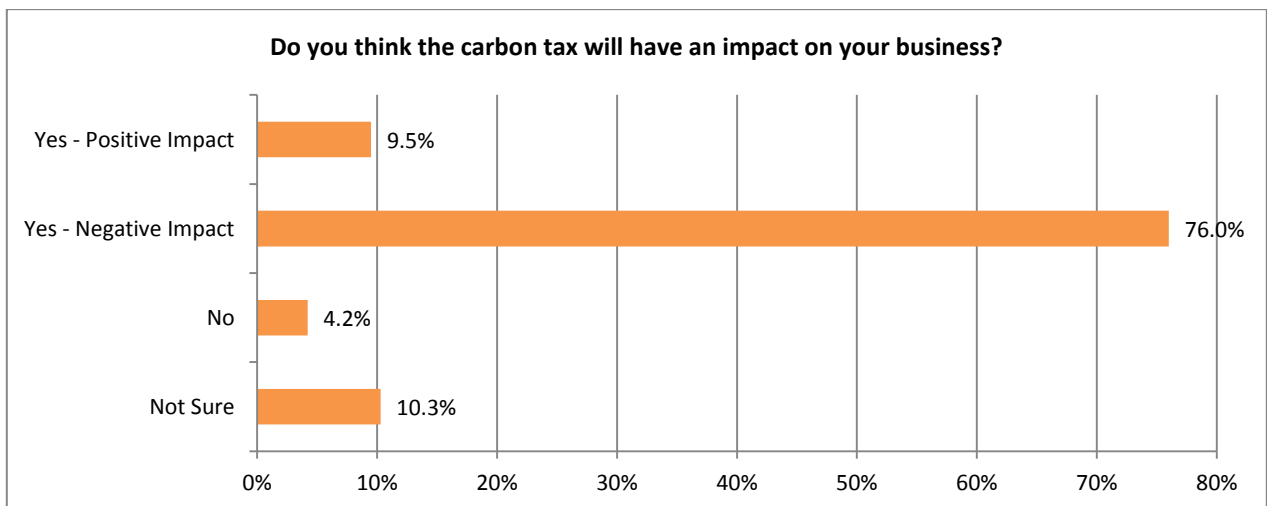
- Confusing transitional arrangements;
- Increased need for legal and/or specialist advice to ensure compliance;
- Unable to operate profitably within key operating times for businesses within particular industries (for example working Sundays, public holidays or week nights in the retail or tourism industries);
- Changes to employment types within business (for example increasing casual or labour hire employment and decreasing permanent employees to counteract the inflexibility);
- Reduced flexibility in rostering;
- Difficult to dismiss employees who are not performing or not following instructions;
- Restricts employees working the hours they want to work (for example minimum shift times, swapping days, penalty rates etc);
- Increasing automatic processes to decrease employee requirements;
- Ongoing fear of unfair dismissal or adverse action claims;
- Increased third party involvement in the workplace and management of staff.

4.7 CCIQ believes it is essential that the impacts that the Fair Work Act is having on employment and associated costs be considered when making decisions regarding increases to the minimum wage in the 2012/13 financial year.

## Carbon Tax

4.8 CCIQ believes that the impact of the carbon tax on Queensland businesses is a necessary consideration during the 2011-12 Annual Wage Review. The Australian Government will introduce a price on carbon on the 1 July 2012 that will require businesses to reduce their energy consumption, invest in renewable energy and undertake initiatives that will improve energy efficiency.<sup>2</sup>

4.9 CCIQ has undertaken substantial research on the impact of the carbon tax on Queensland businesses, including the development of a Blueprint.<sup>3</sup> The majority of Queensland businesses (76%) believe the carbon tax will have a negative impact on their business. Furthermore, the majority of businesses believe the carbon tax will increase the cost of running their business including their inputs and supplies; electricity costs that will in turn erode their business viability and their ability to compete internationally. Additionally, businesses are concerned for their ability to maintain current employment levels.



Source: CCIQ How will the Carbon Pricing Mechanism Impact on Business Survey August 2011

4.10 CCIQ survey results confirm that a 10% increase in electricity prices and 1.1% plus CPI increase in the cost of goods and services (based on Australian Treasury modeling) associated with the introduction of a carbon tax will have a major to critical impact on sales and revenue; business profitability, investment, competitiveness and business viability. Of particular significance to the 2011-12 Annual Wage Review is the fact that businesses believe the carbon tax will have a moderate to major impact on employment for over 52% of businesses, with an additional 17% of businesses believing it will have a critical impact on employment levels. Furthermore over half of all businesses indicated that the carbon tax would have a major to critical impact on their overall business viability (21.4% critical and 29.1% major).

- 4.11 If 17% of businesses in Queensland reduced their employment levels due the impact of the carbon tax, this could result in thousands of people losing their jobs, further increasing the already high Queensland unemployment rate.

The Australian Treasury has estimated that electricity prices will increase by at least 10 per cent and other goods and services by at least 1.1 per cent (plus CPI) in response to the introduction of the Carbon Pricing Mechanism. What impact are these cost increases likely to have on the following areas of your business?

	None	Minimal	Moderate	Major	Critical
Reduced sales and revenue	7.8%	14.5%	29.3%	31.5%	17.0%
Reduced profitability	4.5%	11.1%	24.7%	37.6%	22.1%
Reduced employment	12.4%	18.0%	28.8%	23.9%	16.9%
Reduced investment	12.0%	14.9%	24.7%	29.5%	18.9%
Reduced business viability	7.5%	14.4%	27.6%	29.1%	21.4%
Reduced competitiveness	10.5%	19.1%	25.0%	24.5%	20.9%
Increased prices passed onto customers	6.0%	11.6%	17.1%	37.3%	28.0%

Source: CCIQ How will the Carbon Pricing Mechanism Impact On Business Survey August 2011

- 4.12 Another major concern, particularly for rural and regional businesses and communities in Queensland is the impact that the carbon tax will have on transportation costs. Many communities in rural, regional and remote Queensland are very reliant on heavy vehicle and rail transport for the delivery of both essential and non-essential goods and services. Any increase in transportation costs is therefore likely to have a significant impact on the welfare of these communities given the substantial distances that must be travelled to reach them and the lack of public transport options in these areas.
- 4.13 Unfortunately businesses indicate that the likelihood of being able to minimise the impact of rising energy and transportation costs through lower usage levels and new technologies is not widely anticipated. Many business respondents commented that they have already investigated options for improving energy efficiency as a way to reduce costs and remain sustainable during the previous economic downturn. The next most common concern for Queensland businesses is that significant retrofitting of their business premises and production processes would be extremely costly and most businesses are not in any financial position to make such significant capital expenditure investments unassisted. Finally many businesses indicated that at present the technology and alternative options are unfortunately not yet available to meet their business needs.

How easy do you believe it would be to reduce your current energy (electricity, gas and transport fuels) use in response to the introduction of a carbon tax and associated energy efficiency targets?

	Easy to reduce	Moderate difficulty to reduce	High difficulty to reduce	Unable to reduce	Already reduced
Electricity	6.2%	16.8%	36.6%	25.1%	15.3%
Gas	11.9%	12.3%	23.7%	31.5%	20.7%
Transport fuels (diesel, petrol etc)	3.2%	11.9%	32.6%	40.9%	11.4%

Source: CCIQ How will the Carbon Pricing Mechanism Impact On Business Survey August 2011

4.14 A final additional consideration is the fact that with consumers also facing general increases in the cost of energy following the introduction of the carbon tax, businesses will not be able to pass on costs and be under further pressure to reduce operating costs. CCIQ are concerned that in this environment businesses may have little choice but to reduce the size of their workforce to remain profitable and competitive. CCIQ therefore strongly encourages Fair Work Australia to seriously consider the broader impact that a significant wage increase may have on the economy and employment levels at this current time in the context of the July 1 introduction of the CPM.

## Two speed economy in Queensland

4.15 As mentioned in section 2.0, Queensland is experiencing a two speed economy. This means that despite the success in the mining and resource industries, other industries in Queensland are struggling and are performing poorly. Key examples of the struggles facing key Queensland industries include:

- **Tourism Industry:** The Queensland tourism industry continues to struggle due to low tourist numbers. While domestic tourist numbers remain relatively stable, spending has been down. In relation to international tourists, key markets have been in significant decline including the UK, Japan and the USA. Other key challenges needing to be overcome by the Queensland tourism industry include ongoing economic turmoil, the high Australian dollar, increasing international competition, outdated tourism products and the lack of investment.<sup>4</sup>
- **Retail industry:** Queensland retailers continue to report difficult trading conditions with consumers reluctant to spend and ongoing challenges surrounding online trading and the high Australian dollar. Retailers have also raised significant concerns regarding the impact of rising employment costs on their businesses due to the Fair Work Act such as increases to the minimum wage, implementation of transitional arrangements, the application of penalty rates on weeknights and weekends, and the lack of flexibility to meet the needs of both employers and employees.<sup>5</sup>
- **Manufacturing industry:** The Queensland manufacturing industry remains under significant pressure from the high Australian dollar, global competition, cheap imports, high electricity prices and ongoing skill shortages. CCIQ continues to hear stories of Queensland manufacturers being unable to remain profitable, and either shutting their doors or shifting their operations overseas.
- **Construction industry:** The construction industry in many Queensland regions, particularly the Gold Coast and Far North Queensland regions, continue to face depressed business conditions. In the December quarter 2011, dwelling commencements fell 6.9%, the fastest rate in more than two years.<sup>6</sup> Other issues being faced by the construction industry include uncertainty around interest rates, the high Australian dollar, workplace relations and WHS constraints and increasing cost pressures.

4.16 Other industries in Queensland are also reporting depressed conditions including education, hospitality, agriculture and wholesale industries. CCIQ believes that the vast majority of businesses within the Queensland economy are not benefiting from the boon created by the mining and resource industries. It would be irresponsible to substantially increase minimum wages in an environment where so many businesses are struggling to maintain their current employment levels and maintain their viability for the long term.

## Business insolvencies

4.17 CCIQ remains concerned about the large number of business insolvencies in Queensland and the impact that rising employment costs has on this outcome. According to the latest ABS data, Queensland had the highest business exit rate of all states in Australia in 2010-11 at 14.3% and each year from 2007-08 to 2010-11 has maintained an exit rate higher than the national average. In 2010-11, there were also more business exits in Queensland than there were business entries, which resulted in a 0.6% decrease in the number of businesses in Queensland.

Business entries and exits by State 2010-11					
	Business operating at start of 2010-11	Entries	Exits	Business operating at end of 2010-11	Exit rate
QLD	433,171	59,170	61,793	430,548	14.3%
NSW	704,773	97,648	95,644	706,777	13.6%
VIC	537,522	77,171	70,618	544,075	13.1%
SA	148,626	17,718	18,067	148,277	12.2%
WA	220,928	31,495	29,852	222,571	13.5%
TAS	38,951	4,343	4,527	38,767	11.6%
AUS	2,214,650	294,210	286,448	2,132,412	13.5%

Source: ABS Catalogue 8165.0

- 4.18 Queensland also had the highest business failure rate of all states for businesses surviving between June 2007 and June 2011.

Survival of businesses by State between June 2007 and June 2011			
	Business operating in June 2007	Businesses survived to June 2011	Failure rate
QLD	421,060	246,770	41.4%
NSW	697,304	421,244	39.6%
VIC	517,794	317,470	38.7%
SA	146,823	92,647	36.9%
WA	211,745	126,716	40.2%
TAS	39,075	24,961	36.1%
AUS	2,073,793	1,252,626	39.6%

Source: ABS Catalogue 8165.0

- 4.19 Recent examples that demonstrate the issue of business insolvency and concerns of closure in Queensland include:
- WOW Sight and Sound: In early March 2012 it was announced that WOW would close all of its 15 stores (10 of which are in Queensland) resulting in the loss of 580 jobs;<sup>7</sup>
  - Closure of nearly 200 Colorado, Angus & Robertson and Borders stores nationwide in 2011;<sup>8</sup>
  - Sleep City and Everyday Living closure of 64 stores in Sydney, Melbourne, Brisbane and Adelaide with the loss of 450 staff;<sup>9</sup>
  - Australia's largest tomato grower based in Queensland, SP Exports closed its doors with the loss of 60 jobs.<sup>10</sup> This is in addition to other agricultural enterprises including Barbera Farms and Green Sprouts;<sup>11</sup>
  - Specialty Fashion Group closure of 120 stores national wide over the next 3 years (operates chains such as La Senza, Millers and Katies).<sup>12</sup>
- 4.20 It is important that minimum wages are maintained at a level that allows businesses to recover and improve their financial positions moving forward. CCIQ does not want to see a situation where business insolvencies continue to increase at current rates. It is essential that Government does what it can to reduce the negative impacts on businesses, which includes making sensible decisions regarding increases to minimum wages.

### Increasing cost of running a business

- 4.21 The increasing cost of running a business is cause for concern for many businesses who believe both State and Federal Governments are proving unsympathetic to the needs of many struggling businesses especially when red tape, taxes and charges continue to rise. Key issues raised by businesses in relation to increasing business costs include:
- Rising cost of complying with legislation, especially industrial relations and workplace health and safety;
  - Continual increases to electricity prices. Since 2007, electricity prices have increased on average 10.43% in Queensland each year, representing a 64% increase over a five year period;<sup>13</sup>
  - Banks raising interest rates, despite the RBA keeping rates on hold. In February 2012, 45 financial institutions, including Westpac, Commonwealth, NAB and ANZ, increased borrowing costs, despite the RBA's decision;<sup>14</sup>
  - Upcoming increases to the superannuation guarantee levy from 9% to 12%;<sup>15</sup>

- Financial impact associated with implementing the transitional arrangements under the modern awards;
- Ongoing increases to other input costs including insurance, transport/freight, workers' compensation, wages, and other overheads.

4.22 CCIQ believes that Queensland businesses are not in a position to absorb further cost increases at this point in time.

### **Additional considerations**

4.23 Other considerations raised by Queensland businesses that need to be taken into consideration during the 2011/12 Annual Wage Review include:

- The ongoing recovery of businesses from natural disasters;
- The downturn in many international financial markets and economies including our key trading partners;
- The impact of the high Australia dollar on business. Many businesses and industries are continuing to lose competitive advantage in their respective markets.<sup>16</sup>

4.24 All of the issues raised in this section require serious consideration by Fair Work Australia during the 2011/12 Annual Wage Review.

**“Australian manufacturing is struggling to compete in the global market. The major reason for this is our high employment costs.”**

– Brisbane Business Operator in the Manufacturing industry

**“Hospitality and tourism is seriously suffering under the Labor Government. We are working harder and harder, longer and longer hours, just to keep our heads above water. There is no slack to pick up any more. Costs simply cannot keep going up and labour is the biggest cost of all.”**

– Sunshine Coast Business Operator in the Accommodation and Food Services industry

**“We have real concerns about the economy going forward and the influence that the current Fair Work Act has on our business in being able to remain flexible during the economic uncertainty.”**

– Brisbane Business Operator in the Services industry

**“A further cost increase will put downward pressure on profitability as we compete against international suppliers who are price driven. We have difficulty recovering the cost of increases.”**

– Central Coast Business Operator in the Manufacturing industry

**“If wages increase we will have to employ less and less workers as the selling price of our products did not increase but decrease during the last financial year and season. Also all input costs like transport, packaging fuel chemical and fertilizer increased. Profit margins are decreasing and economic development is less every year. Wages are our biggest expenditure.”**

– Far North Queensland Business Operator in the Agriculture, Forestry and Fishing industry

**“We are finding it very difficult to even make a profit in the current market and any wage increase is difficult to budget for.”**

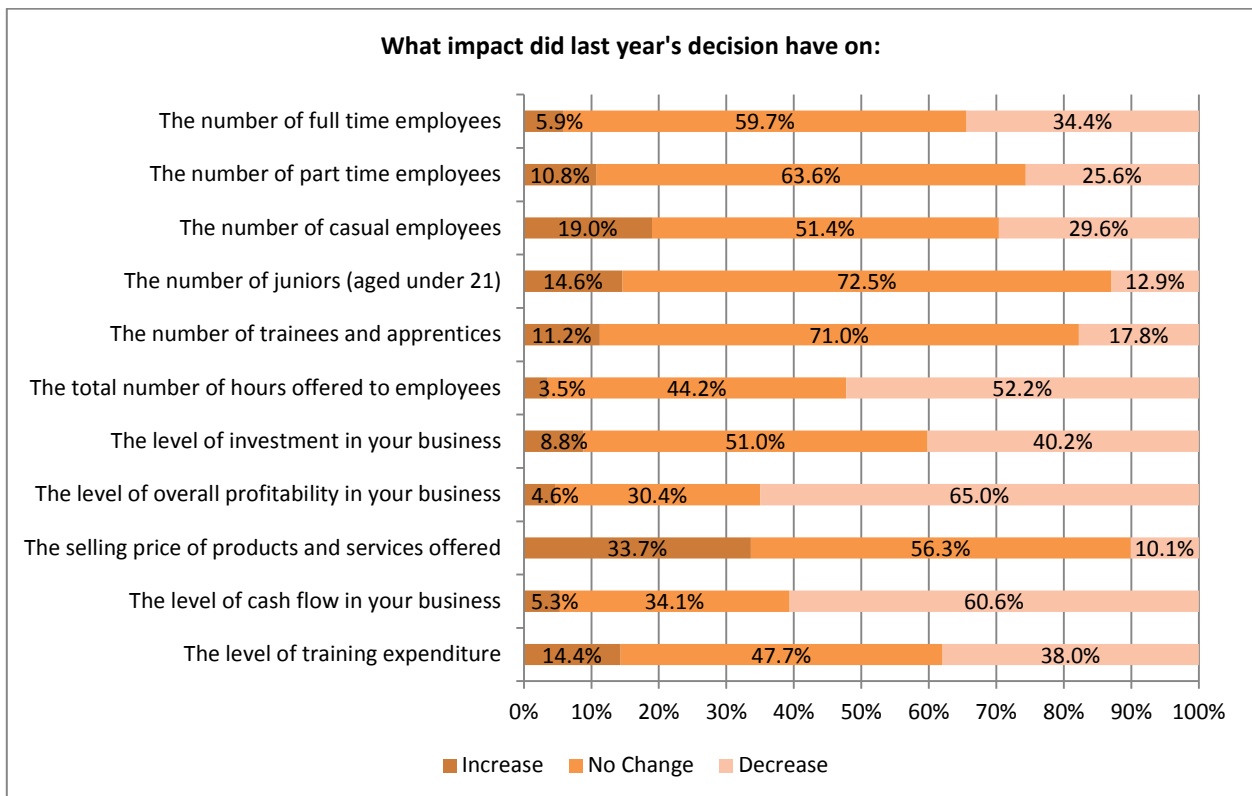
– Far North Queensland Business Operator in the Accommodation and Food Services industry

**“Australia is part of a Global economy and we need to compete as such. Manufacturing is on its knees and will soon all be moved off shore where Governments understand that a business is not solely run to profit employees and that the Business needs to make a profit.”**

– Brisbane Business Operator in the Manufacturing industry

## 5.0 IMPACT OF THE 2010-11 ANNUAL WAGE REVIEW ON QUEENSLAND BUSINESSES

- 5.1 CCIQ undertook a survey of 585 Queensland businesses between the 23 January and the 17 February 2012 to gather feedback for the 2011-12 Annual Wage Review (refer to page 30 for more information).
- 5.2 The vast majority of businesses who responded to the survey (84.3%) had employees who were covered by a modern award. The majority of those employees (60%) received an increase to their pay as a direct result of the decision by Fair Work Australia in June 2011 to increase the minimum wage rates.
- 5.3 In 2011, Fair Work Australia made the decision to grant a 3.4% per week increase to all adult wage rates in modern awards. This decision resulted in:
- 65% of businesses having a decreased level of overall profitability in their business;
  - 61% of businesses with a decrease in the level of cash flow in their business;
  - A reduction in the total number of employment hours offered to employees in 52% of businesses;
  - The level of business investment and training expenditure being reduced in 40% and 38% of businesses respectively;
  - 34% of businesses reducing the number of full time employees. A further 30% and 26% said they had reduced the number of casual and part time employees respectively;
  - The selling price of products and services offered increased for 34% of businesses.



Source: CCIQ Annual Wage Survey 2012

- 5.4 The results from the current CCIQ survey show a significantly worse situation than those from last year's survey. The table below highlights the deteriorating situation. Specific results that CCIQ would like to highlight include:
- An 18% increase in the proportion of businesses who indicated their level of profitability will be negatively impacted as a result of the annual wage decisions;
  - The jump from 27% to 52% of businesses who indicate that the total number of hours offered to employees will decrease as result of the wage increase;
  - The significant increase in the number of businesses who indicate that their employment levels will decrease;
  - Almost double the number of businesses in 2012 from 2011 indicate that the level of investment in their business will decrease as a result of FWA's decision.

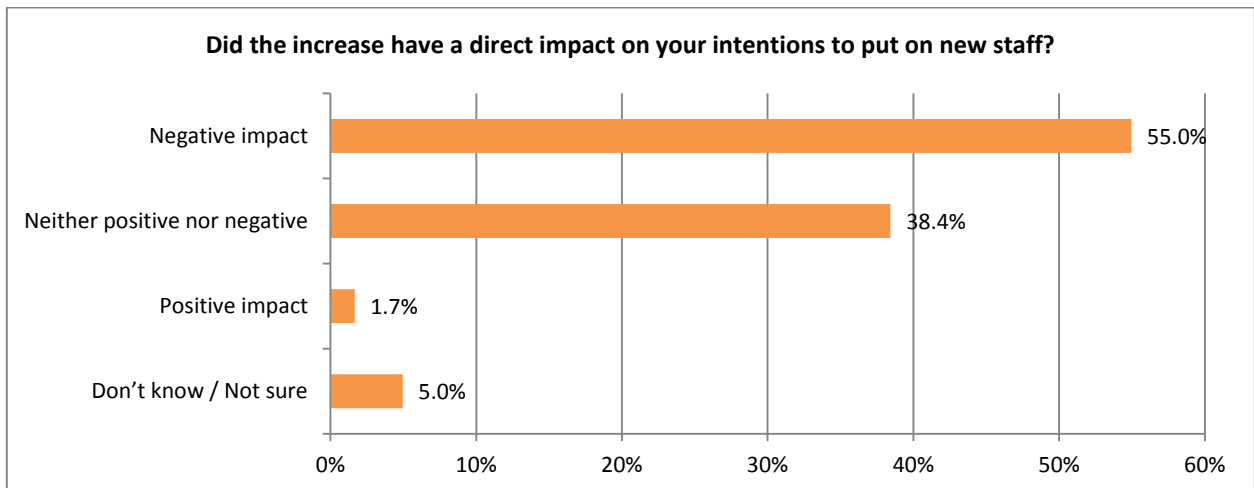
5.5 These figures show a distributing trend that must result in a more cautious approach in this year's decision.



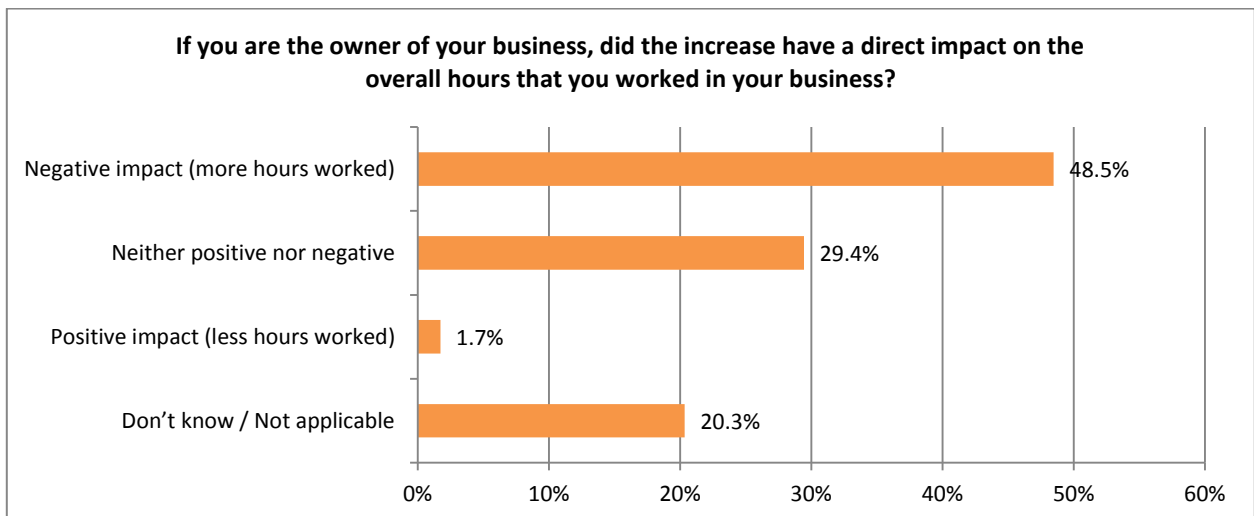
2012 CCIQ survey results compared to 2011 on the % of businesses who indicated a negative impact on the following due to the previous year's annual wage review decision:		
	2011	2012
The no. of full time employees	17.5%	34.4%
The no. of part time employees	10.9%	25.6%
The no. of casual employees	16.6%	29.6%
The no. of juniors (aged under 21)	8.2%	12.9%
The no. of trainees and apprentices	10.1%	17.8%
The total no. of hours offered to employees	26.6%	52.2%
The level of investment in your business	22.8%	40.2%
The level of profitability in your business	46.9%	65.0%
The selling price of products/services offered	26.1%	33.7%
The level of training expenditure	18.4%	38.0%

Source: CCIQ Annual Wage Survey 2011 and 2012

- 5.6 More than half of Queensland businesses (55%) stated that last year's minimum wage increase had a direct negative impact on their intentions to put on new staff. Furthermore, 48.5% of business owners said the decision resulted in them working more hours in their business.



Source: CCIQ Annual Wage Survey 2012



Source: CCIQ Annual Wage Survey 2012

## 6.0 BUSINESS CAPACITY TO ABSORB AN INCREASE IN 2012/13

- 6.1 There is a very strong relationship between wage costs and job levels. Any increase in wages will impact on the unemployed and low paid workers currently employed. Granting more than a modest wage increase will result in further job losses and less incentive for employers to recruit new employees.
- 6.2 CCIQ and its members believe that if FWA grants a significant wage increase it will result in a negative reaction from SMEs who are struggling to survive. The immediate future should be a period where we do everything possible to ensure employees in all industries, especially in low pay industries within Queensland that are predominately award employees, be retained amid a very difficult trading environment for businesses. The single greatest contribution that a business can make to support low paid workers is to provide secure ongoing employment.
- 6.3 As part of the CCIQ survey, Queensland employers were asked what impact a particular wage increase would have on their business, more specifically employment, profitability and investment.

### Impact of Wage Increase on Employers Aggregate % of employers indicating change in indicator

#### 2012

		\$0.00 - \$4.99	\$5.00 - \$9.99	\$10.00 - \$14.99	\$15.00 - \$19.99	\$20.00 - \$24.99	\$25.00+
Employment	↓	36% 36%	21% 57%	13% 70%	9% 79%	4% 83%	16% 100%
Profitability	↓	52% 52%	15% 67%	10% 77%	9% 86%	2% 88%	13% 100%
Investment	↓	47% 47%	17% 64%	10% 74%	7% 81%	3% 84%	16% 100%

#### 2011

		\$0.00 - \$4.99	\$5.00 - \$9.99	\$10.00 - \$14.99	\$15.00 - \$19.99	\$20.00 - \$24.99	\$25.00+
Employment	↓	26% 26%	15% 41%	13% 54%	10% 64%	14% 78%	23% 100%
Profitability	↓	40% 40%	14% 54%	13% 67%	9% 77%	7% 84%	16% 100%
Investment	↓	37% 37%	12% 49%	13% 62%	11% 73%	7% 80%	20% 100%

#### 2010

		\$0.00 - \$4.99	\$5.00 - \$9.99	\$10.00 - \$14.99	\$15.00 - \$19.99	\$20.00 - \$24.99	\$25.00+
Employment	↓	34% 34%	25% 59%	20% 79%	11% 90%	10% 100%	0% 100%
Profitability	↓	47% 47%	22% 69%	17% 86%	8% 94%	6% 100%	0% 100%
Investment	↓	42% 42%	25% 67%	18% 85%	8% 93%	7% 100%	0% 100%

#### 2009

		\$0.00 - \$4.99	\$5.00 - \$9.99	\$10.00 - \$14.99	\$15.00 - \$19.99	\$20.00 - \$24.99	\$25.00+
Employment	↓	32% 32%	19% 51%	30% 81%	12% 93%	7% 100%	0% 100%
Profitability	↓	68% 68%	6% 74%	17% 91%	5% 96%	4% 100%	0% 100%
Investment	↓	55% 55%	7% 62%	24% 86%	9% 95%	5% 100%	0% 100%

#### Legend:

##### Salary increase has

little impact
medium impact
major impact

↑ increase

↓ decrease

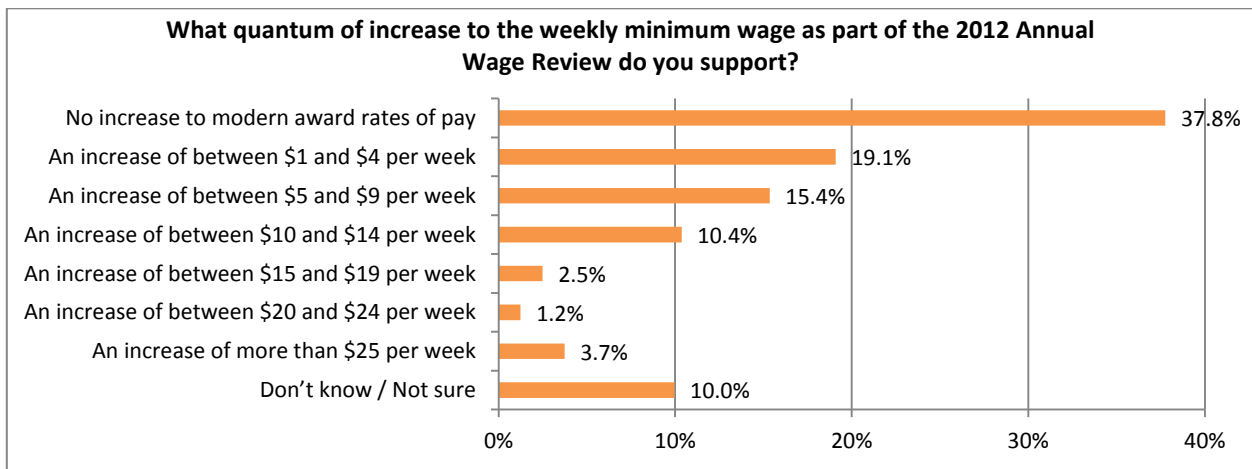
aggregate % of employers indicating \$ range has an impact

% of employers identifying specific \$ range as trigger point

Please indicate the point at which an increase in the minimum wage will have a negative impact on the following aspects of your organisation.

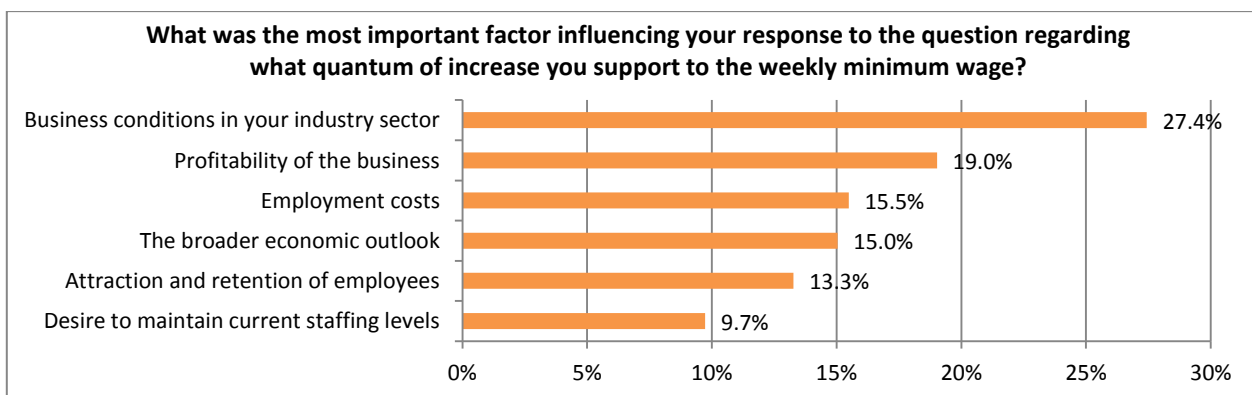
Source: March Quarter 2009 & 10 Pulse Survey, 2011 and 2012 Annual Wage Review survey

- 6.4 The above data once again demonstrates that the situation is significantly worse than this time last year. The majority of businesses (57%) indicated that a wage increase of less than \$10 a week would have an adverse impact on employment in their business (compared to 41% of businesses last year). This level of increase would also adversely impact on the profitability and investment of nearly two thirds of businesses. An increase of greater than \$10 a week would result in more than 70% of businesses decreasing their employment and investment levels, and experiencing greatly reduced profits.
- 6.5 Queensland businesses raise serious concerns regarding the impact of just a \$10 per week increase to the minimum wage. Businesses informed CCIQ that this increase could cost their businesses between \$1,000 and \$200,000 for the financial year (depending on the number of employees engaged) and in addition to increases in other on costs including implementing transitional arrangements, superannuation, workers' compensation and payroll tax. Concerns raised by businesses regarding the impact of a \$10 per week increase include:
- Needing to substantially reduce business costs including through the reduction of business activities, reducing investment and training, moving parts of the business offshore and/or purchasing required inputs from cheaper overseas suppliers;
  - Increasing average selling prices in a tough economic climate;
  - Requiring the business owner to work additional hours for no extra income;
  - Being required to reduce staff numbers and/or staff hours;
  - Suffering a substantial loss to their bottom line / significant reduction in profitability;
  - Not hiring any additional staff or apprentices in the coming financial year;
  - Some businesses are considering closing their doors.
- 6.6 Due to above results, it is unsurprising that the majority of Queensland businesses (56.9%) do not support an increase to the weekly minimum wage in modern awards of more than \$5 a week.



Source: CCIQ Annual Wage Survey 2012

- 6.7 Queensland businesses were asked to identify the most important factor influencing their response to the above question. The most common responses were business conditions in their industry sector (27.4% of businesses), the profitability of the business (19.0%), employment costs (15.5%) and the broader economic outlook (15.0%).



Source: CCIQ Annual Wage Survey 2012

- 6.8 Additional concerns raised by Queensland businesses regarding an increase to the weekly minimum wage include:
- Ongoing wage increases (on top of other business costs) are just not sustainable in the long term;
  - Substantial increases to unemployment rates and a decrease in the hours offered to employees;
  - The economic conditions for key trading partners;
  - Wage increases are not corresponding with increases in productivity;
  - Australian wages are significantly higher than our international competitors, impacting our competitiveness;
  - Difficulties in passing on costs to consumers in an environment of decreased consumer spending;
  - Minimum wages should not be considered in isolation, additional cost imposts also need to be considered such as increases to superannuation, the introduction of a carbon tax, impact of transitional arrangements, application of increased penalty rates etc;
  - The struggle of small and medium businesses must be taken into consideration, especially considering their substantial contribution to the economy and the employment of thousands of Queenslanders;
  - Some industries are performing significantly worse than others;
  - Continual increases to the cost of business will result in even higher business insolvency rates (wage costs are the highest costs faced by many businesses) and businesses moving offshore;
  - The high Australian dollar is significantly impacting on some industries and customers;
  - Flow on implications of raising minimum wages on other staff members;
  - Increasing number of hours being worked by the business owner to stay profitable;
  - Business is struggling to survive.

**“A \$10 week increase would mean I will have to put at least 2 more staff off.”**

– Far North Queensland Business Operator in the Accommodation and Food Services industry

**“Reduction in staff numbers, reduced training to current staff and remove all thoughts of putting on apprentices.”**

– Brisbane Business Operator in the Construction industry

**“I will still be working more hours as I will be unable to pay increased staff hours.”**

– Wide Bay Business Operator in the Automotive industry

**“Minimum wage increase can't be considered in isolation: consider also increases in super and carbon tax impacts that will all have a negative affect.”**

– Sunshine Coast Business Operator in the Professional, Scientific and Technical Services industry

**“Less profit, less take home pay for my wife and I and more hours for us to make up the balance.”**

– Central Queensland Business Operator in the Retail Trade industry

**“Our administration time and costs have risen significantly in the past years while our general profitability has decreased. If the government wish to increase wages they should look harder at decreasing the cost of employment and compliance.”**

– Brisbane Business Operator in the Manufacturing industry

**“We will do more of the work ourselves, as owners and use less staff. We put off our only 2 permanent staff last year and now use only casuals as sparingly as possible. Wages are our highest business cost. Yet the price we are paid for our fruit does not increase.”**

– Sunshine Coast Business Operator in the Agriculture, Forestry and Fishing industry

**“Business cannot just keep increasing wages and absorbing costs. There is currently no incentive to own a business as the rewards (profits) are far behind the risks associated with owning a business. The current model for "Just increasing wages" is crippling small to medium business. Large business can absorb costs with their ability to turn over more income with same staffing levels. Australia will soon be swallowed up with large corporations in all sectors.”**

– Brisbane Business Operator in the Construction industry

## 7.0 CCIQ POSITION ON THE 2011/12 ANNUAL WAGE REVIEW

- 7.1 Taking into consideration the feedback provided throughout this submission, CCIQ strongly encourages Fair Work Australia to seriously consider the broader impact that a significant wage increase may have on the economy and employment levels at this current time. CCIQ holds serious concerns regarding the inability of many Queensland businesses to fund a wage increase and/or pass that increase onto their customers. A significant increase at this point in time may prove a devastating blow for many struggling businesses, which is likely to provide an even worse outlook this time next year when we are considering an increase for the 2013/14 financial year.
- 7.2 Subsequently, in the 2011/12 Annual Wage Review, CCIQ strongly urges Fair Work Australia to implement an increase to the minimum wage that is substantially less than \$9 per week, preferably no increase until such time when businesses are better placed to afford it and remain viable.
- 7.3 It is essential that Fair Work Australia does what it can to reduce the negative impacts on businesses, which includes making sensible decisions regarding increases to minimum wages. It would be irresponsible to substantially increase minimum wages in an environment where so many businesses are struggling to maintain their current employment levels and maintain their viability for the long term.

**“The transitional amounts we are paying on top of the minimum wage increases is creating an unrealistic and unsustainable annual wage increase amongst our team. We have already begun plans to sell our businesses as we cannot see financial viability let alone profitability in the future with wage pressure at the level it will reach by 2013/14.”**

– Far North Queensland Business Operator in the Accommodation and Food Services industry

**“Given we have an increase in Superannuation Guarantee, we need to start allowing for that. An increase in wages as well would be too much for small business.”**

– South West Queensland Business Operator in the Professional, Scientific and Technical Services industry

**“Wages have to stop going up as we are already uncompetitive in the market and struggle to make a profit.”**

– Brisbane Business Operator in the Services industry

**“With the increase in superannuation looming any increase in pay rates no matter how small has compounding effect, consideration of the current economic outlook has to be made before any new pay rises and sundry increases are made.”**

– Gold Coast Business Operator in the Manufacturing industry

**“The biggest impact to our business will be less profit due to not being able to increase the cost of our services to our clients. It will also impact decisions to put on extra staff or put casuals onto part or full time employment.”**

– Sunshine Coast Business Operator in the Services industry

**“It will not allow us to increase staff hours so my wife and I will end up working longer hours.”**

– Wide Bay Business Operator in the Financial and Insurance Services industry

**“I will be looking at further innovation in procedures to reduce or at the minimum, maintain our existing wages.”**

– Central Queensland Business Operator in the Accommodation and Food Services industry

**“We will have to stop employing.”**

– Far North Queensland Business Operator in the Agriculture, Forestry and Fishing industry

# Commonwealth Bank CCIQ Pulse Survey of Business Conditions



December Quarter 2011

  
**CCIQ**  
Chamber of Commerce  
& Industry Queensland



## > Introduction

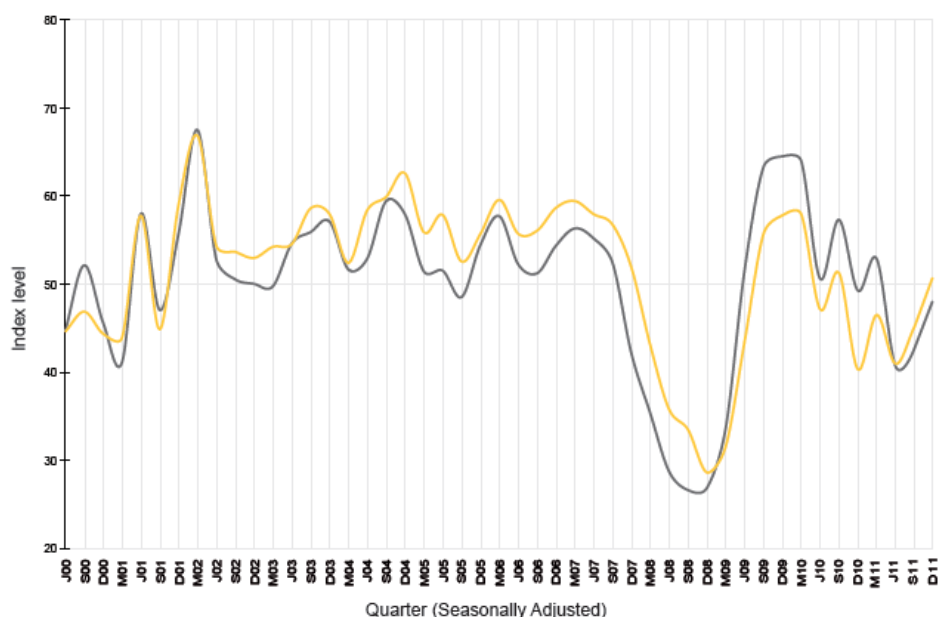
Queensland businesses are not entirely clear of the poor economic conditions that plagued the State economy over most of 2011; however, there has been an encouraging resurgence in business optimism for the year ahead. Results from the December Quarter 2011 Pulse Survey clearly indicate businesses have experienced a modest turnaround in activity and are additionally more optimistic in their forecasts for most indicators in the March Quarter 2012.

That being said, Queensland is still experiencing an unbalanced economy with some regions and sectors continuing to perform better whilst others are not seeing any sign of a return to better economic times. This Quarter's Hot Topic looks more closely at general business conditions across Queensland and how individual sectors are performing.

Queensland businesses are conscious of the economic difficulties overseas and how this might impact on the Queensland and Australian economies. The impact of government policies due to commence later in 2012 as well as the upcoming State and Local Government elections are also on the minds of Queensland business owners who are not prepared to say they are out of the woods just yet.

"Increases to taxes and charges creating apprehension when the rest of the world is battening down the hatches in preparation for the next imminent financial crisis." – Survey Respondent

## > 12 Month Outlook: Australian and Queensland Economies



Queensland Outlook			
	Dec-10	Sep-11	Dec-11
Weaker	48	41	27
Same	30	31	42
Stronger	22	27	31
Index	40.4	45.2	50.9

Australian Outlook			
	Dec-10	Sep-11	Dec-11
Weaker	29	47	28
Same	43	32	50
Stronger	28	21	23
Index	49.4	42.8	48.6

— Australian economy  
— Queensland economy

\*\* Scale – An Index level above 50 indicates that growth prospects are strengthening, while an Index level below 50 indicates that growth prospects are weakening.

### Australian Economy

> While still subdued at 48.6, the Pulse Australian Outlook Index increased by another 5 percentage points indicating a continuing turnaround in business confidence this quarter. The majority (50 per cent) of Queensland businesses expect the national economy to demonstrate similar conditions over the coming twelve month period. Only 23 per cent expect to see any improvement while 28 per cent are forecasting a decline in economic conditions.

### Queensland Economy

> Confidence in the Queensland economy also increased this quarter and continues to be somewhat more positive than confidence in the national economy. The Pulse Queensland Outlook Index rose by 5 percentage points to 50.9 (only just moving into positive territory). While the majority (42 per cent) of Queensland businesses expect state-wide economic conditions to remain the same, an increasing number of respondents (31 per cent compared to 27 per cent last quarter) predict the Queensland economy to get stronger during 2012.

## > Survey Analysis: Factors Affecting the 12 Month Outlook

The December Quarter's 12 month outlook figures certainly suggest an improvement in business confidence and hopefully signals a return to more prosperous and productive economic times.

Factors suggested by businesses as contributing to the improvement in economic outcomes include:

- > Completion of flood recovery efforts with much of the major rebuild works finalised and insurance claims finally being resolved;
- > An improvement in weather conditions over the season which has brought, amongst other things, a good boom in tourist numbers in the central and north coast regions;
- > Finally some reprieve in interest rate pressures, although businesses are still reporting a community wide reluctance to spend money; and
- > Ramping up of mining activities with businesses beginning to see increased activity as a result, although this is also bringing with it some challenges in terms of wage pressures and skills and labour shortages in regional areas.

However, a number of factors also continue to dampen the outlook. The education, tourism and retail sectors have not rallied to their pre-2011 levels, mainly due to the high value of the Australian dollar and on-going low consumer sentiment.

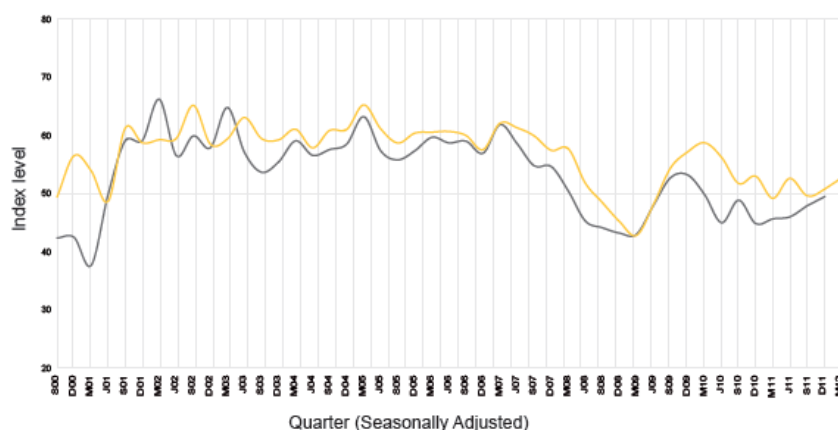
The downturn in many international financial markets and economies continues to make consumers and businesses anxious when it comes to major investments and increased spending. Businesses are also pre-empting the possible impact on business costs of new government policies due to commence this year such as the carbon tax and mining tax.

The increasing cost of running a business is also cause for concern for many businesses who believe that the State and Federal Governments are proving unsympathetic to the needs of many struggling businesses especially when red tape, taxes and charges continue to rise. Workplace health and safety and industrial relations compliance costs in particular seem to be the areas of greatest concern to businesses at present.

"Interest rates were kept too high too long and it will take months for confidence to creep back into the residential sector."  
— Survey Respondent

"Continuing economic woes internationally combined with a strong Australian dollar will see the tourism industry in QLD continue to struggle on multiple fronts." — Survey Respondent

## > Sales & Revenue



Sales & Revenue				
	Dec-10	Sep11	Dec-11	Mar-12
Weaker	37	36	31	27
Same	35	30	33	43
Stronger	29	34	36	30
Index	44.9	47.9	49.1	52.6

— Current — Expected

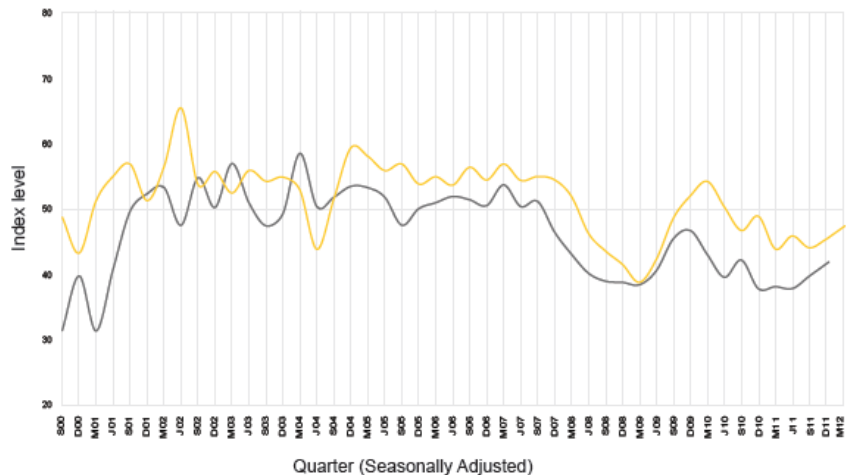
"Cash Flow has slowed down dramatically as debtors are much slower at paying. We have had to reduce staff hours and we have increased business loans to stay afloat."

— Survey Respondent

- > Sales and revenue continued to improve steadily over the December Quarter. This aligns with the outcomes expected in the previous quarter for this three month period. The Pulse Sales and Revenue Index improved from 47.9 to 49.1.
- > A continuing yet gradual increase is forecast for the first three months of 2012 with the index expected to increase further to 52.6.



## > Profitability



Profitability				
	Dec-10	Sep11	Dec-11	Mar-12
Weaker	49	48	41	33
Same	34	30	37	62
Stronger	17	22	21	15
Index	37.9	39.9	42.0	47.6

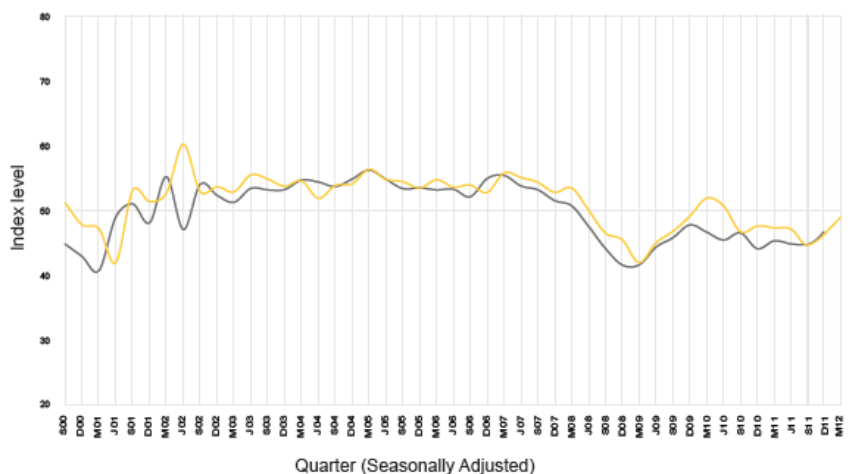
— Current — Expected

*"With so many new government fees and charges, the costs of running a business is increasing much more quickly than CPI."*

— Survey Respondent

- > Business profitability, while showing an improvement on previous quarters, still remains generally poor for all Queensland businesses. The majority (41 per cent) of businesses again reported weaker profitability levels, while only 37 per cent and 21 per cent reported similar or stronger profitability levels respectively over the past three months.
- > While Queensland businesses don't predominantly expect profitability to weaken any further, few expect it to improve significantly. The majority (62 per cent) expect profitability to remain the same across the period to March 2012.

## > Employment Levels



Employment Levels				
	Dec-10	Sep11	Dec-11	Mar-12
Weaker	28	30	23	22
Same	58	52	63	62
Stronger	14	18	14	15
Index	44.1	44.7	46.3	48.3

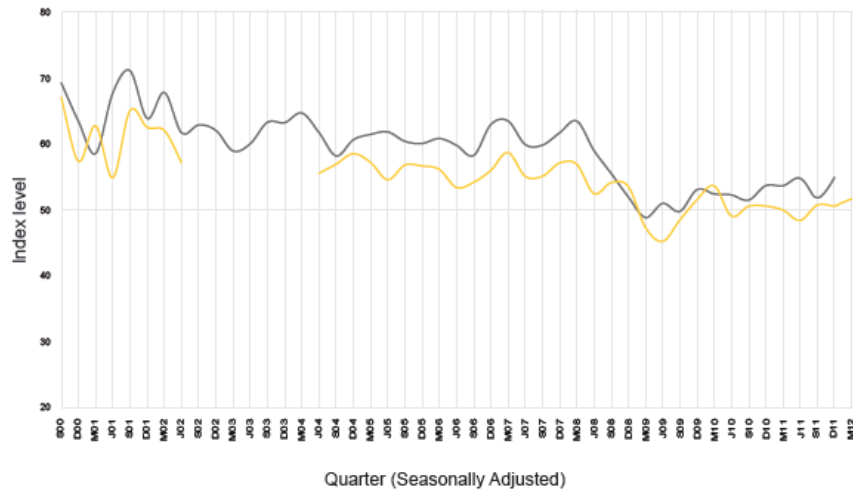
— Current — Expected

*"We are experiencing a significant shortage of labour to fill positions because of the huge draw of workers to the excessive wages in the mines. We have been operating on 75% staff levels with another 10-15% floating in and out on a daily or weekly basis. This leads to more inexperienced staff and ongoing training costs - and less productivity and more accidents."*

— Survey Respondent

- > The Pulse Employment Levels Index increased 1.6 percentage points to 46.3 over the December Quarter, with the majority of businesses reporting that employment expectations have remained the same.
- > With business conditions showing gradual signs of recovery, employment level expectations are marginally up on previous quarters. However the majority of businesses expect employment levels to remain the same over the next quarter indicating that businesses are erring on the side of caution and are not willing to expand until conditions improve significantly.

## > Average Wages



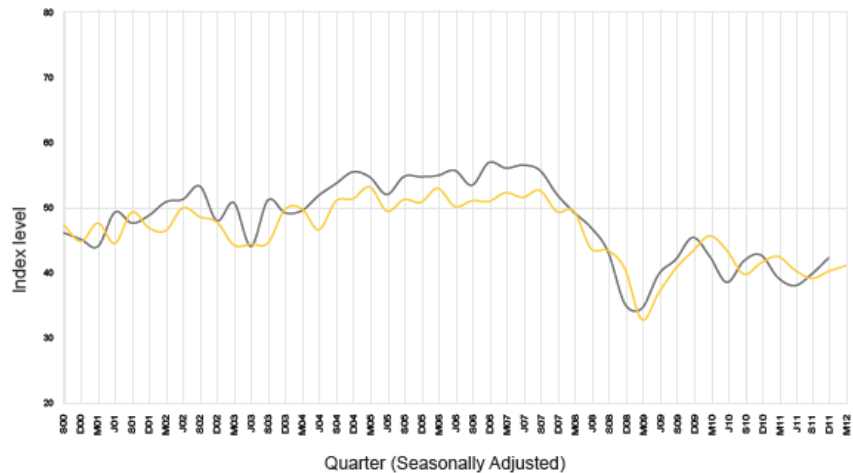
Average Wages				
	Dec-10	Sep11	Dec-11	Mar-12
Weaker	10	9	7	9
Same	68	66	71	74
Stronger	22	25	22	17
Index	53.6	51.6	54.2	51.5

— Current — Expected

*"Labor costs are too high compared to our overseas competitors. New taxes and red tape on business is not helpful in a difficult environment."* – Survey Respondent

- > Wage pressures are up on those of previous quarters and are slightly higher than they were in the same quarter last year. The Pulse Average Wage Index increased 2.6 percentage points to 54.2, with the majority of businesses indicating wages remained the same over the quarter.
- > Wage pressures, are expected to ease slightly in seasonally adjusted terms over the next quarter, with the forecast March Index falling to 51.5.

## > Capital Expenditure



Capital Expenditure				
	Dec-10	Sep11	Dec-11	Mar-12
Weaker	32	38	34	36
Same	47	43	47	49
Stronger	21	19	19	15
Index	42.9	39.9	42.4	41.2

— Current — Expected

*"There have been many changes in legislation this year. As a small business it hurts us more than the bigger businesses – we are finding it harder and harder to compete."* – Survey Respondent

- > As has been the trend since 2008, the Pulse Capital Expenditure Index has remained in negative territory at 42.4 for the December Quarter. The majority of Queensland businesses reported this quarter's expenditure on buildings, plant and equipment remained the same (47 per cent) or was weaker (34 per cent).
- > A slightly lower forecast Pulse Capital Expenditure Index for the March Quarter 2012 indicates that businesses have no plans for any significant investment in this area over the coming three month period.

## > Regional Analysis

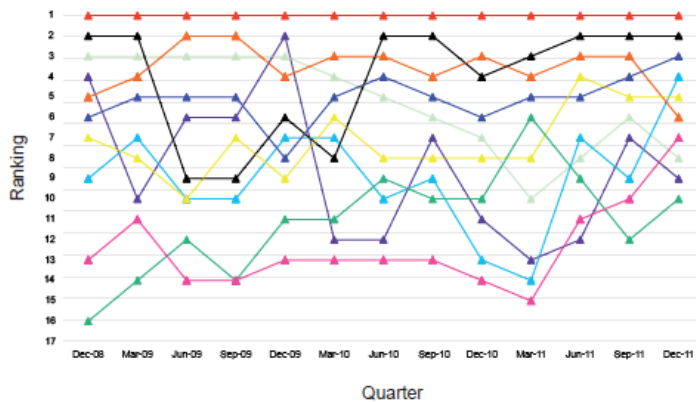
Current	Brisbane	Sunshine Coast	Gold Coast	South West Queensland	Central Queensland	Central Coast	North Queensland	Far North Queensland
12 Month Outlook - Queensland	↑ 47.8	↑ 55.5	↑ 50.9	↑ 55.1	↓ 54.8	↑ 57.6	↑ 50.0	↑ 44.3
General Business Conditions	- 48.5	↑ 56.0	↓ 44.8	↑ 57.4	↑ 61.0	↓ 55.4	↑ 52.3	↑ 47.2
Total Sales/Revenue	↑ 48.4	↑ 55.7	↑ 47.8	↑ 56.3	↓ 59.4	↑ 64.8	↑ 47.7	↓ 43.3
Profitability	↑ 42.5	↑ 45.3	↑ 36.2	↑ 46.2	↑ 52.1	↓ 48.9	↑ 45.3	↓ 36.5
Average Wages	↓ 53.6	↑ 56.4	↑ 36.2	↓ 55.3	↓ 53.1	↓ 58.7	↑ 55.8	↑ 54.5
Employment Levels	↑ 46.5	↑ 47.3	↓ 50.9	↑ 49.3	↑ 48.9	↓ 45.5	↑ 45.3	↑ 46.7
Capital Expenditure	↑ 43.5	- 40.0	↑ 40.3	↑ 52.3	↑ 52.3	↑ 52.2	↑ 40.8	↓ 40.8

↑ index increased from previous Qtr; - index unchanged from previous Qtr; ↓ index decreased from previous Qtr.

- > By far, the Central Queensland and Central Coast regions are the stand out regions in terms of general business conditions and profitability for the December Quarter. South West Queensland is also showing strong signs of economic recovery with general business conditions, sales and revenue, profitability and employment levels all increasing significantly from the previous quarter.
- > Business feedback suggests that the economic fortune of these regions is strongly linked to new mine, gas and other resource developments, with economic activity starting to flow through to the broader business community.
- > The North Queensland economy has also rallied strongly following a tumultuous twelve months of economic downturn and natural disasters.
- > The economies of the Gold Coast, Brisbane and Far North regions however have not gained any significant momentum over the past quarter and lag behind the remainder of the state across most indicators. Businesses in these regions are also not overly convinced of a turnaround in economic activity with the twelve month outlook in all three regions remaining the lowest across the state.

"Availability of finance for developers and builders is required to stimulate employment in the construction industry which is a key sector in our region. Until development commences again, the whole region will continue to suffer." — Survey Respondent

## > Major Constraints on Business Growth

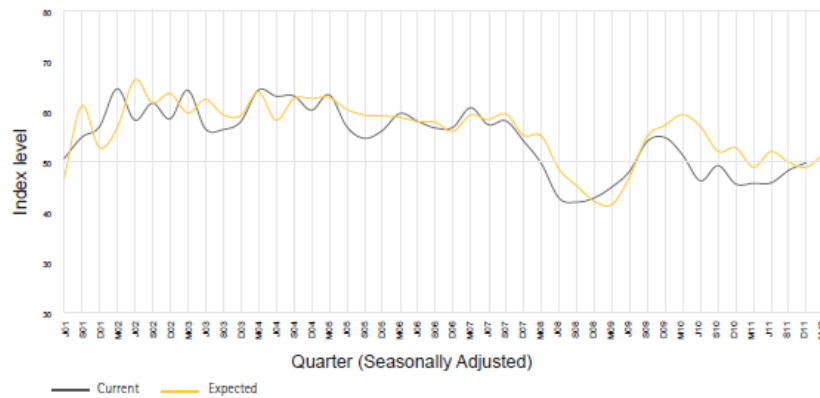


"Government policy, fees, charges and levies are driving businesses out of Queensland at an alarming rate. We have had 5 major clients sell up and move to either Victoria or Western Australia because the State Government and Local Council have made operating here unprofitable." — Survey Respondent

- Labour - Recruitment & Retention
- Political & Economic Stability
- Level of Business Taxes - Federal
- Compliance - OHS
- Level of Demand / Economic Activity
- Compliance IR Laws
- Compliance - Business Taxes
- Direct Wage Costs
- Level of Business Taxes - State & Local
- Energy: Costs and Infrastructure

- > While all other factors tend to fluctuate in their relevance to the business community, the level of demand and economic activity is currently and has been since December 2008 following the global financial crisis, the most significant constraint on business growth in Queensland.
- > Political and economic stability also remains high on the list of factors impacting business growth. Uncertainty over the impact and cost of proposed government policies as well as the looming Queensland State election are cited as factors contributing to lower consumer and business confidence and spending.
- > The Federal Government is responsible for a significant number of the major constraints on business growth. Federal business taxes and the compliance requirements and compliance with Industrial Relations laws, due to their significant impact on business profitability, round out the top five issues for the Queensland business community.
- > Compliance with occupational health and safety requirements has also increased significantly over the past twelve months as a major factor impacting on business growth. This reflects the significant concern of the business community over the implementation of a nationally harmonised system and the lack of associated lead in times.

## > Hot Topic – General Business Conditions



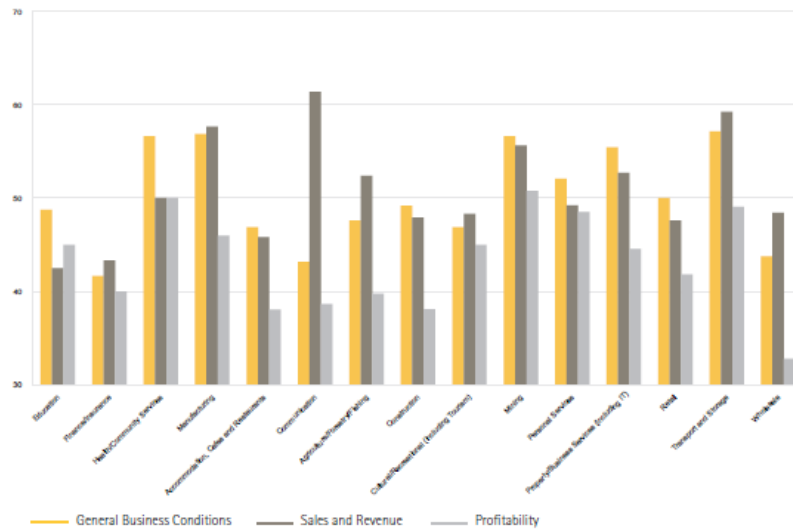
After spending most of the past two years in negative territory, General Business Conditions have shown a gradual turnaround over the past six months. In the December Quarter general business conditions increased to 49.8, their highest level since March 2010. Businesses are also increasingly optimistic about the coming March Quarter 2012 predicting a further improvement with the Pulse Index expected to increase to 50.1.

However, not all sectors of the economy are experiencing the same turnaround in economic fortunes as others demonstrating the reality of Queensland's two-speed economy. The mining, manufacturing, and transport and storage sectors in particular report the strongest levels of general business conditions, sales and revenue and profitability.

The accommodation, cafe and restaurant, construction, wholesale, education and finance/insurance sectors are at the other end of the spectrum, suffering the weakest levels of general business conditions, sales and revenue and profitability. Businesses in these sectors may require some targeted assistance over the short to medium term to help them recover from the ongoing effects of the economic downturn.

Top 3 General Business Conditions
Transport and Storage
Manufacturing
Health/Community Services
Top 3 Sales and Revenue
Communication
Transport and Storage
Manufacturing
Top 3 Profitability
Mining
Health/Community Services
Transport and Storage
Worst 3 General Business Conditions
Wholesale
Communication
Finance/Insurance
Worst 3 Sales and Revenue
Accommodation, Cafes and Restaurants
Finance/Insurance
Education
Worst 3 Profitability
Construction
Accommodation, Cafes and Restaurants
Wholesale

### Business Performance by Industry Sector



### What factors are impacting on your business:

*"Maintaining and improving profitability growth, over-regulation and the two speed economy are big issues for our business."*  
— Survey Respondent

*"Lack of political stability, the two speed economy (mining and other) and compliance costs (time and effort)."*  
— Survey Respondent

*"Two speed economy - consumer demand - sustainable mining/resources keeping consumer spending up - unemployment driving lower consumer confidence/spend and the infrastructure & construction industry flow on to smaller businesses."*  
— Survey Respondent

The Pulse Survey has been measuring Queensland business confidence and expectations for over 20 years and is conducted in conjunction with the Australian Chamber of Commerce and Industry's National Survey of Business Expectations. It is published in cooperation with the Commonwealth Bank.

The survey publishes quarterly the results from key questions put to the Queensland business community on National, State and individual economic performances.

The survey is unchallenged in terms of being the most authoritative, timely and comprehensive snapshot of Queensland business sentiment with over 750 Queensland businesses interviewed as part of each survey.

The survey contains data from the largest firms in Queensland through to the smallest, and provides a sample covering the entire business community.

## > Pulse Business Index

The analysis undertaken by CCIQ in the preparation of this Pulse Survey Report is based on survey responses from Queensland business.

The report uses the Pulse Business Index (PBI) as well as the (base) statistical data provided from the survey responses to effectively measure respondent's views as to how current or future activity (eg. three months ahead) compares with the previous quarter.

A **Pulse Index** reading of above 50 indicates conditions have improved over the previous quarter. A reading of 50 indicates conditions have remained the same and less than 50 indicates conditions have deteriorated.

The following guide is useful in interpreting the PBI results into broad indicative performance classifications.

Very Poor	0 – 29.99 Points
Poor	30 – 49.99 Points
Satisfactory	50 – 64.99 Points
Good	65 – 74.99 Points
Very Good	75 – 84.99 Points
Excellent	85 – 100 Points

The statewide PBI results have been seasonally adjusted.

The Pulse Business Constraints Index (BCI) measures the level of key impediments on business growth. The following guide is used in interpreting the BCI results.

Degree of Constraint	Index
Critical	70 – 100
Large	50 – 69.99
Moderate	40 – 49.99
Slight	30 – 39.99
No Constraint	0 – 29.99

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### Demographics of CCIQ Annual Wage Review survey respondents:

- 585 Queensland businesses responded
- Undertaken between 23 January and 17 February 2012
- Businesses were a range of sizes including small, medium and large (based on employee numbers)
- Respondents were located throughout all Queensland regions and in all industry sectors
- 80% of businesses were trading as a corporation
- Two thirds of respondents had employees that worked in regional areas