

Media Release

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Business confidence gains momentum

Business confidence has revealed signs of continued recovery during the December 2009 quarter following expected increases in sales revenue, according to the State's leading business organisation, Business SA.

The *Commonwealth Bank Business SA Survey of Business Expectations* for the December quarter showed that the South Australian confidence index increased six per cent to 128.2 points.

It is the third consecutive increase in confidence, following the record low levels in early 2009.

While it was highlighted that there are still concerns for business, the continued increase in confidence for the December quarter is being attributed to the optimistic Christmas and New Year trading outlook in what remains a challenging climate.

Business SA Chief Executive Officer, Peter Vaughan, said that the survey results indicated that many businesses were regaining confidence heading into 2010.

"While the recovery remains fragile, the local economy appears to be emerging from the downturn and businesses are certainly feeling better than at this time last year," said Mr Vaughan.

"It is vital that businesses get back on track, however the three consecutive interest rate rises have dampened what could have been a much more positive recovery.

"The resilience of local economic data over recent months has also boosted confidence in the economy and the outlook for the year appears relatively positive.

"General business conditions in the December quarter also recorded a third consecutive rise, increasing seven per cent to 108.1 points."

According to respondents, the increase in confidence appears to be associated with the increase in sales revenue and the expectation of more to come.

"With South Australia's busy calendar of events in the first quarter of 2010, more than half of businesses expect an increase in total sales revenue in the March quarter following the Christmas trading period.

"Over 96 per cent of respondents expect interest rates to increase in the March quarter, and this is certainly a concern in terms of ensuring this rising business confidence continues."

According to Joe Formichella, General Manager Corporate Financial Services, South Australia and Northern Territory, Commonwealth Bank, the spike in confidence is very encouraging and boosts expectations for a positive year ahead for South Australian businesses.

“Confidence continues to rise within the South Australian business community which is a sign that declines in demand may be easing. With sentiment now at its highest level since the survey started almost 10 years ago, the results reflect an economy that is going from strength to strength, despite business conditions still failing to meet last quarter’s expectations,” Mr Formichella said.

“The boost in confidence is underpinned by expectations that businesses will continue spending over the next quarter, despite the majority of business owners expecting an increase in interest rates over the March quarter,” he said.

Mr Vaughan said that while the boost in confidence was a positive sign, there were still concerns regarding the outlook for unemployment and rising labour costs.

“It remains a concern that almost 45 per cent of respondents anticipate an increase in unemployment levels in the March quarter.

“Local unemployment figures have remained very competitive compared with the national average over the past 12 months, however businesses remained clearly concerned over expectations of further rate rises.

“The majority of businesses did not see a change in sourcing professional, skilled or unskilled labour during the December quarter, however more than 70 per cent of businesses expect total real labour costs to increase in the next quarter.

“Indications are that material costs will remain stagnant in the coming months, while 60 per cent expect an increase in the cost of overheads.

The majority of exporters indicated their export sales were the same as the previous quarter, and more than two thirds predicted much of the same in the next quarter.

“The ongoing uncertainty in international financial markets has again divided businesses on their opinion of the value of the Australian dollar,” Mr Vaughan said.

Almost half of survey participants expect the Australian dollar to remain stagnant in the next quarter, while a large proportion of the remainder predicted it to increase.

The December quarter survey also asked businesses about their opinion in relation to wage bills, employment numbers, cash flow and banking visibility.

More than half of respondents indicated that they paid less than half a million in wages in the last financial year.

Nearly 30 percent stated that they employed less than four people in the last financial year.

More than half indicated that it was essential to have full visibility over their banking.

The next survey will be available via Business SA’s website at www.business-sa.com from the first week in March.

Ends.