

Focus on: Australia

International Business Report 2011 – Economy focus series

The economy

Having avoided recession following the global financial crisis, the Australian economy posted growth of 2.6% in 2010 thanks to strong demand in Asia for iron ore and other commodities. However, the cyclone and devastating floods that hit Queensland in December 2010 and January 2011, halting mines, ruining crops and damaging infrastructure, severely impacted growth prospects for 2011.

The key indicators¹ are highlighted below:

- the economy was flat in H1 as the 1.2% contraction in Q1 – the largest in 20 years as the floods and cyclone hit agriculture, mining and the railways – was balanced out by 1.2% growth in Q2 as restocking, private consumption and business investment all improved
- exports grew by 6.7% from May to June, to A\$21.9bn, helped by increased shipments to the EU
- the unemployment rate remained at 4.9% in July, down from 5.1% 12 months previously
- consumer sentiment fell by 8.3 points to 92.8 in July, its lowest level in two years as fears over European debt and the Government's proposed carbon tax impacted on consumer confidence
- commodity prices and investor caution over sovereign debt issues in other mature markets have driven the Australian dollar to record highs against the US dollar.

Impact on privately held businesses

The Grant Thornton International Business Report (IBR) 2011 surveyed the views of over 11,000 privately held businesses (PHBs) in 39 economies around the world. This report focuses on Australia the experiences and attitudes of its privately held businesses and how they have been affected and what their expectations are over the next 12 months, as illustrated in figure 1.

The IBR survey tells us that PHBs in Australia are optimistic about the outlook for the economy over the next 12 months, but less optimistic than they were in 2010. Revenue and profitability expectations, whilst positive, are lower than in 2010 with the availability of a skilled workforce continuing to be a major constraint on potential expansion.



¹ source: International Monetary Fund, The Economist and Experian.

The outlook

After the set-backs of the first quarter, growth should accelerate quickly over the second half of 2011 as mining output recovers and reconstruction activity gets underway. Growth of 1.9% is forecast for the year, with export growth of just 0.4% expected. However, with exports expected to rise to grow by 8.5% in 2012, longer term prospects for the economy look far more healthy than other developed nations with average annual growth of 2.9% forecast for 2012-2015.

Government construction spending is expected to wind down this year and consumer markets, though firm, will disappoint in growth terms. The current account deficit will get back on track in early 2012 while the Government's tax programme attempts to restore the public sector to surplus (just in time for the next election).

Despite the dollar's strength, inflation will stay above the RBA's 2%-3% target band for most of this year. Fuel prices and weather-affected food prices will maintain the price momentum, along with higher housing costs after the interest rate increases. Inflation should ease later this year as import prices slow and the reconstruction work dies down. Wage inflation will be a risk as the employment level increases.

Consumption growth should accelerate again into 2012 as improving confidence lifts borrowing levels and the jobs market remains tight. The key risk is around the over-priced housing market and the scale and speed of the correction over the next year.

The proposed carbon tax will take effect from July 2012, taxing emissions at a fixed rate of A\$23 per tonne of CO² rising incrementally for two years until the emissions-trading scheme comes into effect. As coal produces over 80% of Australia's power electricity companies will bear the brunt of the tax, but around half the tax revenues have been earmarked to help shield consumers from rising prices.

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Figure 1: Key indicators for MLEs

Australia compared to the Asia-Pacific average	2009 Aus	2010 Aus	2011 Aus	2011 APAC
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+11%	+79%	+35%	+11%
Change in employment levels				
Balance of MLEs expecting an increase over those expecting a reduction	+10%	+47%	+28%	+36%
Constraints on expansion				
Regulations/red tape	20%	35%	38%	32%
Availability of skilled workforce	47%	31%	41%	38%

Source: Grant Thornton IBR 2011



International Business Report results

The Grant Thornton IBR 2011 reveals that privately held businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in Australia remain optimistic albeit less so than 12 months previously; their optimism/pessimism balance² has fallen from +79% in 2010 to +35% in 2011.

Businesses in India and Chile are once again the most optimistic globally, topping the league table of optimism with +91%. They are followed by the Philippines (+85%), Sweden (+81%) and the United Arab Emirates (+80%). Japan is the least optimistic country once again with a balance of -66%, followed by Spain (-48%) and Greece (-45%).

Overall optimism amongst businesses globally has risen: this year on balance, +28% of PHBs across all countries are positive about their country's economy, compared with +24% in 2010.

Optimism/pessimism

- businesses in Australia are less optimistic about their economy this year (+35%) compared with 2010 (+79%)
- this is more than double the Asia-Pacific³ average of +11%
- globally, business sentiment has risen from +24% in 2010 to +28% in 2011.

Figure 2: Outlook for the economy over the next 12 months: 2003-2011

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2011



² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

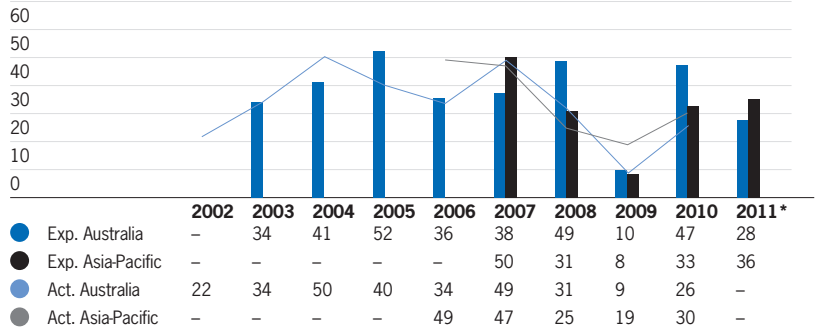
³ for the purposes of IBR, the term 'Asia-Pacific' refers to those Asia-Pacific economies covered by our survey – Australia, mainland China, Hong Kong, India, Japan, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam.

Employment

- a balance of +28% of businesses in Australia expect employment to grow in 2011, compared to +47% in 2010
- the Asia-Pacific average has risen marginally by 3 percentage points, from 33% in 2010 to +36%
- actual employment growth reported by businesses in Australia for 2010 (+26%) was considerably lower than expected 12 months previously (+47%).

Figure 3: Employment history: 2002-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



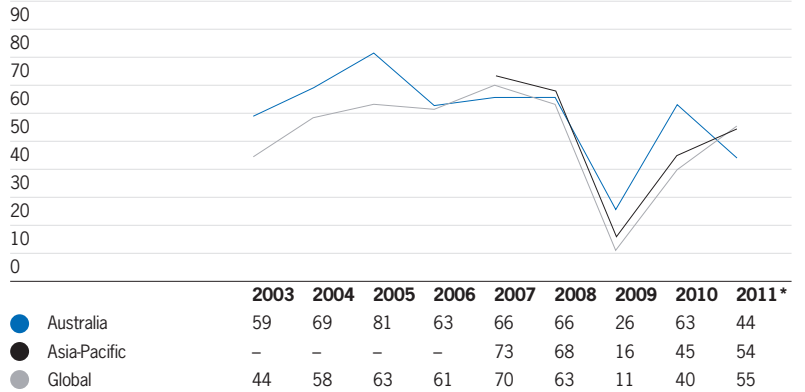
*actual 2011 data will be documented in IBR 2012
Source: Grant Thornton IBR 2011

Revenue expectations

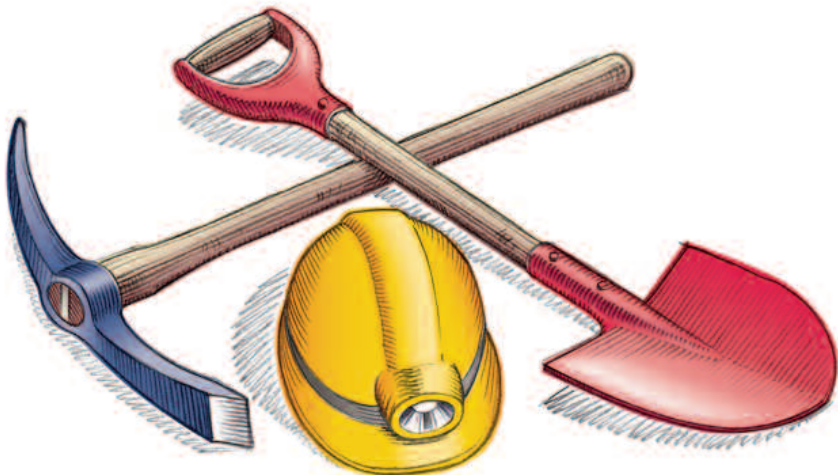
- expectations for revenue prospects have fallen by 21 percentage points to +44% this year, from +63% in 2010
- this is less optimistic than the Asia-Pacific average of +54% which has risen by 9 percentage points
- the global business average has also risen by 15 percentage points from +40% last year to +55% this year.

Figure 4: Revenue expectations: 2003-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2011

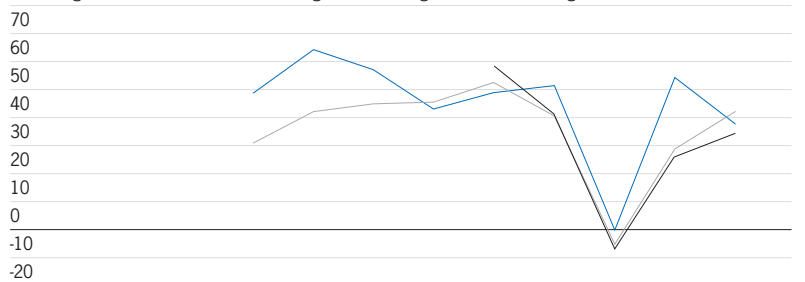


Profitability expectations

- the balance of businesses expecting to increase profits in Australia has also fallen this year, by 16 percentage points to +38% in 2011
- this is higher than the Asia-Pacific average (+34%)
- the global business average has also increased from +29% in 2010 to +42% in 2011.

Figure 5: Profitability expectations: 2003-2011

Percentage balance of businesses indicating an increase against those indicating a decrease



	2003	2004	2005	2006	2007	2008	2009	2010	2011*
● Australia	49	64	57	43	49	51	0	54	38
● Asia-Pacific	-	-	-	-	58	42	-6	26	34
● Global	31	42	45	46	52	41	-5	29	42

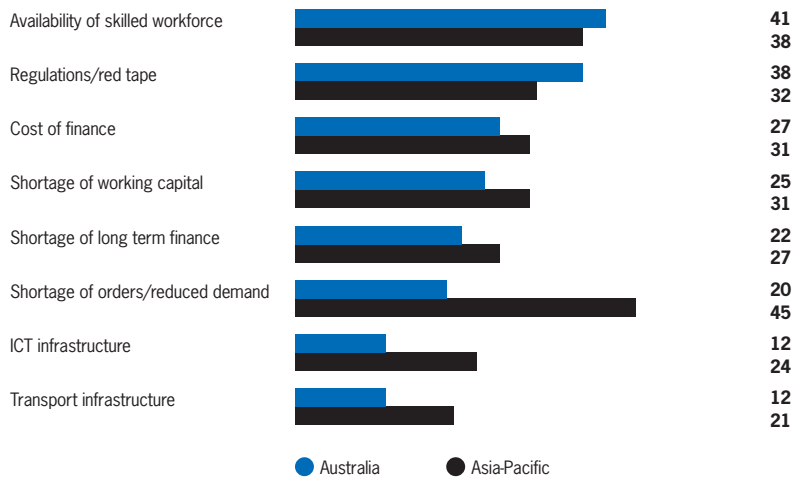
Source: Grant Thornton IBR 2011

Constraints

- the availability of a skilled workforce is cited as the most pressing constraint on expansion by businesses in Australia (41%), higher than the Asia-Pacific average (38%)
- regulations and red tape is also a greater constraint for businesses in Australia (38%) compared to the Asia-Pacific average (32%)
- a shortage of orders/reduced demand is far more of a constraint for businesses across Asia-Pacific. 46% of businesses cite this as a pressing constraint compared to 20% of businesses in Australia.

Figure 6: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint

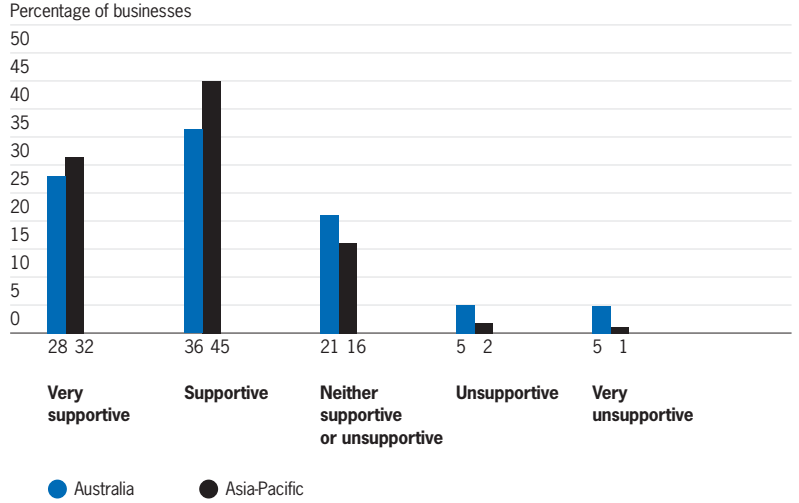


Source: Grant Thornton IBR 2011

Support of lender

- businesses in Australia are generally happy with the level of support provided by lenders; 64% class lenders as supportive or very supportive towards their business
- this compares with 77% of businesses in the Asia-Pacific region as a whole
- above the Asia-Pacific average, 10% of businesses in Australia believe that lenders are unsupportive or very unsupportive of their business compared to 3% across Asia-Pacific.

Figure 7: Level of support provided by lenders

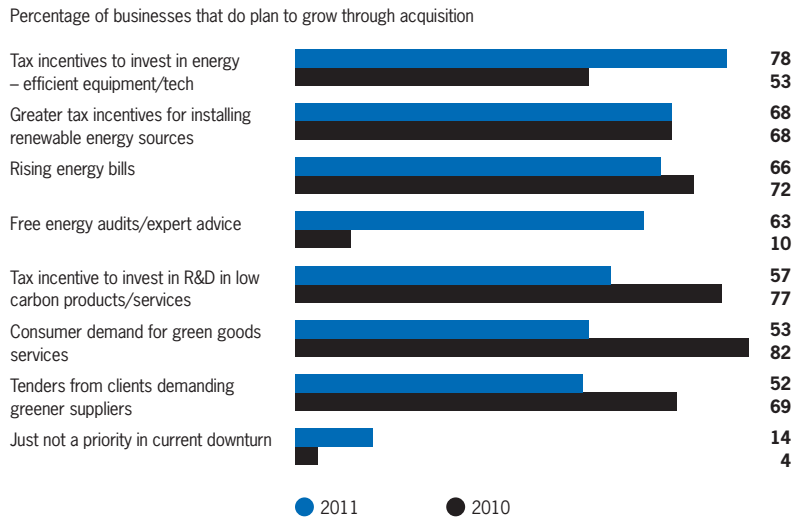


Source: Grant Thornton IBR 2011

Environmentally friendly/sustainable

- almost four-fifths of businesses in Australia (78%) cite that tax incentives to invest in energy-efficient equipment/technology would encourage them to operate a more environmentally-friendly/sustainable business; a sharp increase from 2010 (53%)
- free energy audits/expert advice is now on the agenda (63%) compared to 2010 when it was the least influential factor (10%)
- 14% cited that this issue is just not a priority in the current downturn, a sharp increase from 2010 (4%).

Figure 8: What would encourage you to operate a more environmentally-friendly/sustainable business?



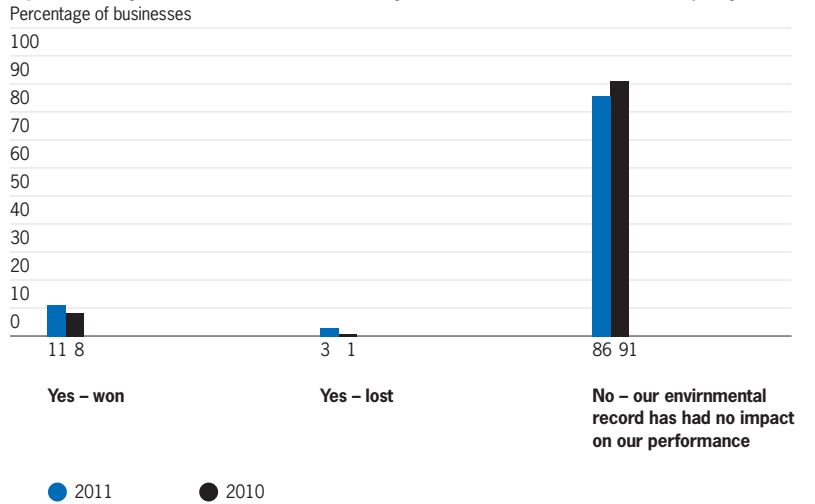
Source: Grant Thornton IBR 2011



Effect on customers

- the majority of businesses in Australia do not believe that their environmental credentials have influenced their performance (86%)
- 10% believe that they have won customers because of their environmental credentials
- just 3% believe that they have lost customers due to their environmental credentials.

Figure 9: Have you lost or won customers due to your environmental credentials in the past year?

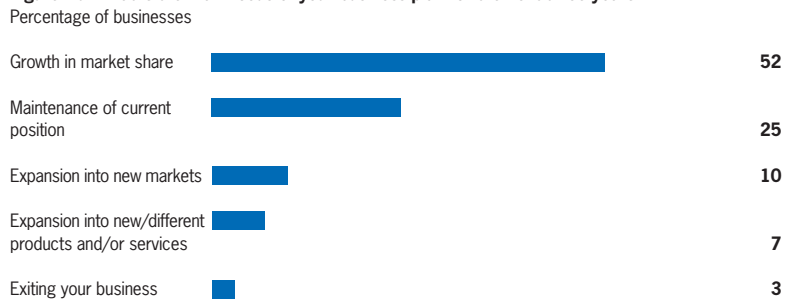


Source: Grant Thornton IBR 2011

Focus of business plan

- over half of businesses in Australia cite growth in market share as being the main focus of their business plan for the next three years (52%)
- a quarter feel that maintaining their current position will be the main focus, whilst 10% see expanding into new markets as being their main focus
- only 3% expect to be exiting their business as part of their business plan for the next three years.

Figure 10: What is the main focus of your business plan for the next three years?



Source: Grant Thornton IBR 2011



The Grant Thornton International Business Report (IBR) is a quarterly survey of around 3,000 senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 11,000 PHBs in 39 economies on an annual basis providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

In Australia 325 PHBs were surveyed and these businesses ranged from small to large in size with total employees of between 20 and 299.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Malaysia
Armenia	Mexico
Australia	Netherlands
Belgium	New Zealand
Botswana	Philippines
Brazil	Poland
Canada	Russia
Chile	Singapore
Mainland China	South Africa
Denmark	Spain
Finland	Sweden
France	Switzerland
Georgia	Taiwan
Germany	Thailand
Greece	Turkey
Hong Kong	United Arab Emirates
India	United Kingdom
Ireland	United States
Italy	Vietnam
Japan	



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