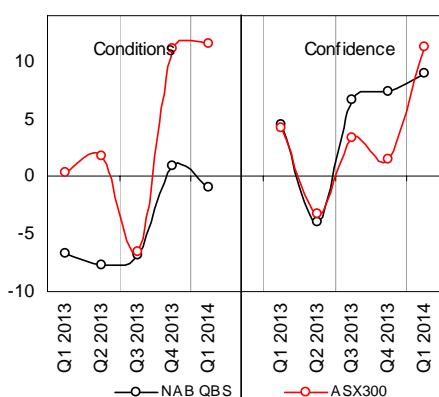
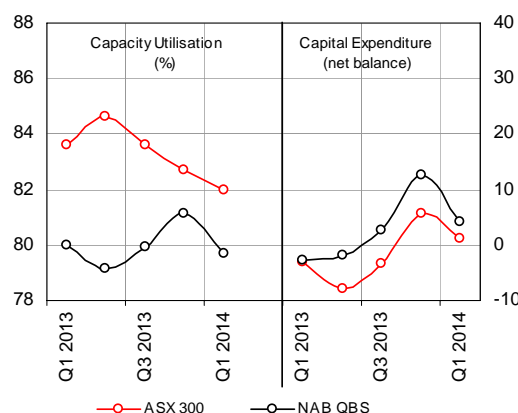


Quarterly ASX 300 Business Survey March 2014

Business conditions for ASX 300 maintained momentum in the first quarter of 2014 — the broader economy weakened as it dipped back into negative territory. Confidence for larger firms surged to its highest level in the 3-year history of the survey, rising by a greater extent than the broader economy. Capex remained subdued, cash flow strengthened slightly and credit was more readily available.

- Business conditions for ASX 300 increased for the second consecutive quarter, recording a strong reading of +12 in the March quarter. Trading conditions and employment continued to improve, however profitability eased from its recent high. Conditions (not seasonally adjusted) for the broader economy dipped into negative territory to -1 points (from +1 in Q4 2013).
- The only two industries that recorded negative conditions for ASX 300 – construction and mining – both appear to have had a bad run into the start of this year. Construction plunged -45 points to a final reading of -56 index points, despite the recent lift in residential building approvals. Meanwhile, conditions in mining eroded further to -16 (from -7 previously).
- On a brighter note, business confidence for ASX 300 surged to a series high, accelerating to +11 points from a reading of +1 previously – this is the highest level in the 3-year history of the survey, admittedly all of which is post-GFC. In the broader economy confidence (not seasonally adjusted) increased but to a lesser extent, rising to +9 points from +7 in the previous quarter.
- Retail inflation pressures edged down, although producer price inflation generally rose (driven by services and mining). Labour costs for larger firms picked up but sales margins were unchanged.
- Forward indicators are mixed. Capex for larger firms remained subdued, and below the broader economy, but near term expectations look to be more promising, as do expected business conditions. Capacity utilisation for larger firms hit their lowest rate in the brief history of the survey and forward orders eased.

Business conditions & confidence (net balance, nsa)

Capacity utilisation and capital expenditure


Key quarterly business statistics**

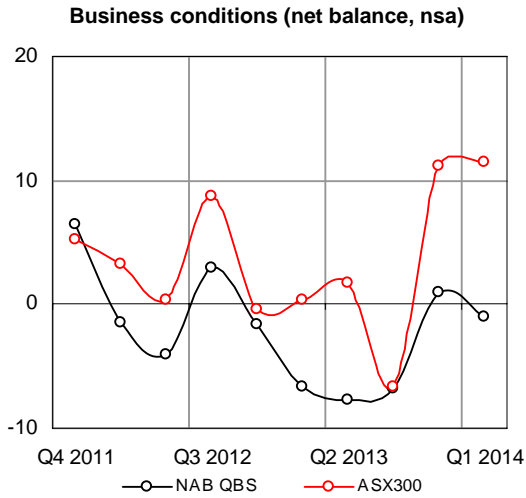
	ASX 300			NAB QBS		
	Q4 2013	Q1 2014	Q1 2014	Q4 2013	Q1 2014	Q1 2014
	<i>Net balance</i>			<i>Net balance</i>		
Business confidence	1	11	9	17	18	4
Business conditions				17	14	-2
- Current	11	12	-1	-1	2	-5
- Next 3 months	9	11	12	9	7	1
- Next 12 months	22	35	24	7	7	-3
Capex plans (next 12)	23	15	18	6	7	1
	<i>% change</i>			<i>% change</i>		
Labour costs	0.25	0.28	0.24	0.46	0.31	0.31
Purchase costs	0.20	0.15	0.52	<i>Per cent</i>		
Final product prices	0.16	0.30	0.24	82.7	81.9	79.7
				<i>Per cent</i>		
				82.7	81.9	79.7

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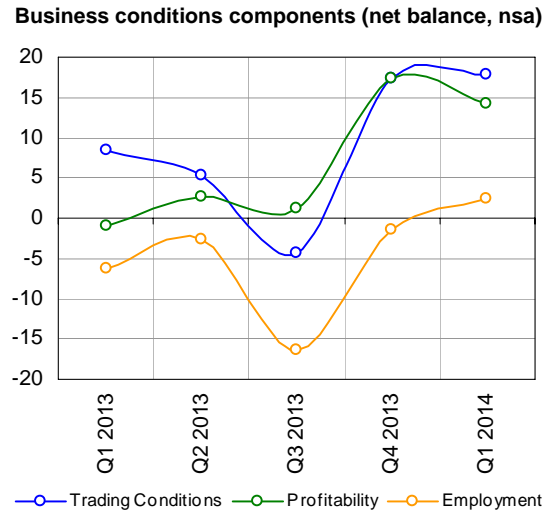
** All data non-seasonally adjusted. Cost and prices data are percentage changes expressed at a quarterly rate. All other data are net balance indexes, except capacity utilisation, which is an average rate, expressed as a percentage. Fieldwork for this Survey was conducted from 24 February to 12 March 2014.

Analysis

ASX 300 conditions maintained momentum; QBS deteriorated



Profitability eased in both surveys



Business conditions maintained momentum in the first quarter of 2014, increasing to +12 points from the +11 points recorded in the previous quarter. Recreational services gained the most, recording its highest level of conditions since Q4 2012 (up +44 points from a zero reading in the last quarter of 2013). The improvement was driven by better conditions in trading and employment (see page 4). However, profitability softened to +14 in Q1, 2014 (down from +17 points previously), although it remains elevated.

Contrary to the ASX 300, the majority of industries in the broader economy reported deteriorating conditions (not seasonally adjusted) in Q1. The NAB QBS Index reported a reading of -1 for the March quarter, 2014 (down from the first positive reading in five consecutive quarters of +1 in Q4 2013), led down by mining, wholesale, services, construction and manufacturing.

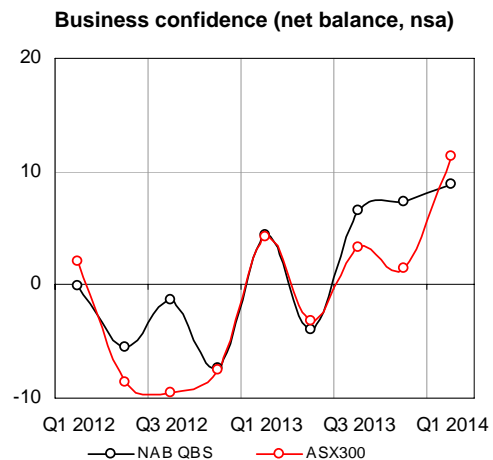
Weaker conditions in the broader economy were largely driven by marginally lower trading conditions, profitability and employment, recording readings of +4, -2 and -5 respectively (down from +6, +1 and -4 in the previous quarter). Business conditions for the broader economy look to be more promising in the next quarter for the majority of industries (excluding mining, construction and wholesale).

net balance	Conditions – current	Conditions – next 3 months	Conditions – next 12 months	Confidence – next 3 months
ASX 300	12	11	35	11
NAB QBS	-1	12	24	9

Business confidence for Australia's larger firms bounced back significantly during the first quarter of 2014, surging to +11 index points from a final reading of +1 in the previous quarter – the highest level in the 3-year history of the survey. Confidence for the broader economy also increased but to a lesser extent, rising to +9 (from +7 previously).

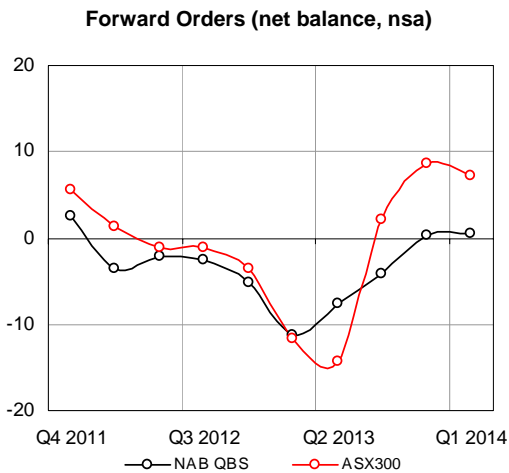
Better sentiment was felt across most industries, the standouts for both surveys was finance/business/ property services – both trended upwards to +20 (from 0 and +10 respectively). Confidence for utilities continued to deteriorate into the March quarter, dipping below negative territory to -6 points for QBS and -17 points for ASX (both reported a zero reading previously).

Confidence bounced back for ASX 300 and increased slightly for the broader economy

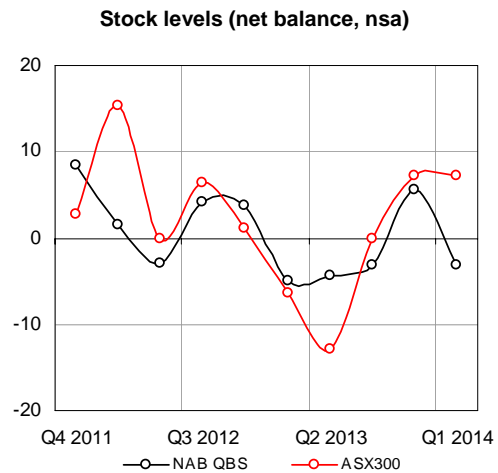


net balance	Trading Conditions	Profitability	Employment	Sales margins	Forward orders	Stocks
ASX 300	18	14	2	-1	7	7
NAB QBS	4	-2	-5	-10	1	-3

Forward orders deteriorated for ASX300



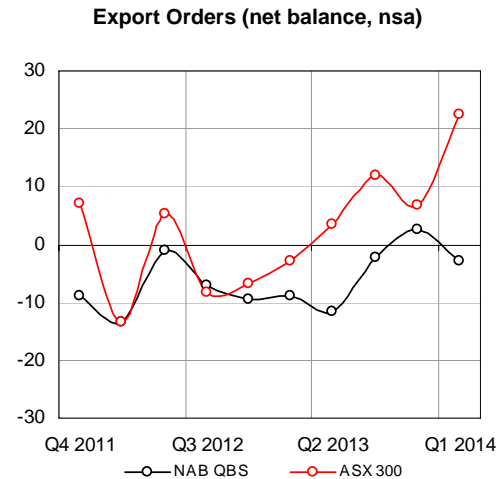
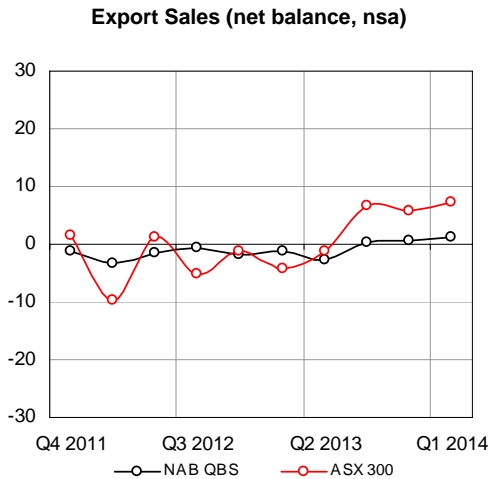
Stock levels remained flat for ASX300



In comparison to the December survey, forward orders for ASX 300 came down from its recent peak, but remains elevated (+7 points in Q1 down from +9 previously). Meanwhile for the broader economy, this leading indicator is showing strength as the index turned positive for the first time since the fourth quarter of 2011, increasing to +1 points from a zero reading previously (more details on page 8).

The stock index was unchanged for larger firms, but deteriorated for its counterpart. The NAB QBS index fell to a reading of -3 (from +6 previously). Coupled with an easing in QBS trading conditions and profitability, the lower stock levels may indicate some voluntary de-stocking as firms become less optimistic about the future. For the next quarter, the stocks index is broadly unchanged for the larger firms.

Export orders elevated for ASX 300, maintaining momentum from the global economy - however it declined for its counterpart

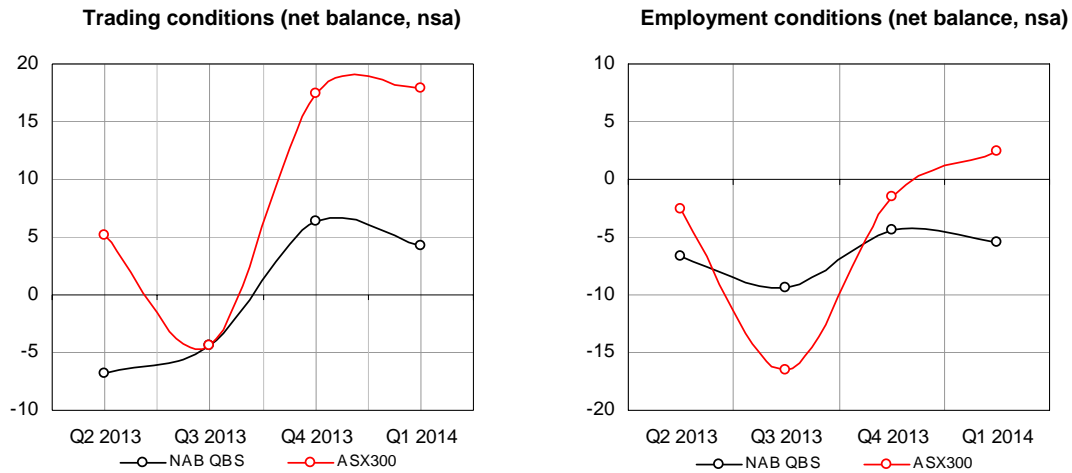


ASX 300 exports continued in positive territory for the third consecutive month, reflecting better global conditions, Sales grew marginally higher to +7 (from +6 previously). Sales improved the most for mining, finance/ business/ property services and transport services, but are strongest in transport. For its counterpart, export sales remained soft and in positive territory, recording a reading of +1, with the majority of industries sharing in the benefits – retail and wholesale are the exceptions.

Export orders surged for larger firms, to its highest level since before 2011 (when the survey commenced) to +23 points, up from +7 points in Q4 2013. The positive upward trend is expected to continue into the next quarter, despite signs of slowing demand growth in China, as the AUD becomes more accommodative in coming months and the major western economies improve.

In line with weakened trading conditions, it appears as though the relatively higher AUD experienced in the quarter adversely impacted export orders for the broader economy, declining to -3 points (down from +3 points). Quarter on quarter, construction and mining deteriorated the most.

Trading conditions for ASX300 strengthened; employment for larger firms at its highest since Q3 2012



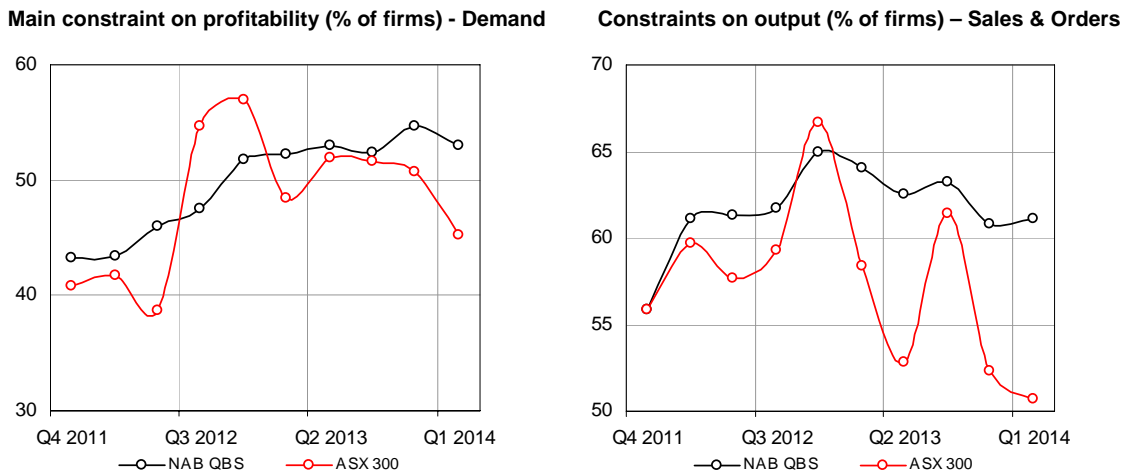
Trading conditions for larger firms continued to strengthen quarter on quarter, increasing modestly to +18 points from +17 in Q4. Industry gains were relatively broad – with exceptions in transport and construction. The standout was recreational services as it surged to +67 points from a zero reading in the December quarter. Retail and wholesale remained strong, reporting positive readings of +42 and +38 respectively, (from +43 and +29 in Q4 2013).

In contrast, trading conditions for the broader economy fell 2 points in the March quarter and are now down to +4 index points. Mining and construction plunged -28 and -10 points respectively (from -15 and -7 points), wholesale also fell to -16 points (from -10 previously).

On a brighter note, after a run of five consecutive quarters in the red, employment for ASX300 emerged into positive territory, establishing a more positive trend, increasing to +2 points (from -1 points in Q4, 2013) — its highest level since the third quarter of 2012. The largest gain was seen in recreational & personal services. However, the modest up-tick did not flow onto the broader economy; NAB's QBS reported a slight decline as employment contracted to -5 points (from -4 previously). The largest reductions were experienced in mining, construction and wholesale.

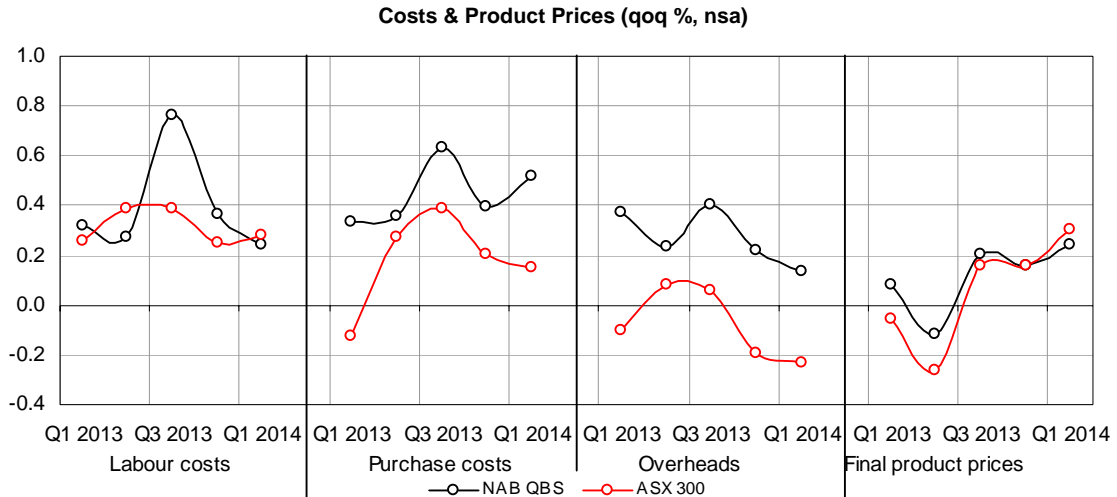
Despite the recent gain for ASX 300, employment still remains volatile and points to overall soft labour market conditions, remaining close to the recent post GFC low. The outlook for labour market conditions remains broadly unchanged, with the unemployment rate forecast to peak at 6.5% by the end of this year. The outset for trading conditions looks to be more positive.

Demand less of a constraint on profitability for ASX 300



At its lowest rate in almost two years, demand as a constraint on profitability continued to ease in the March quarter – 45% of firms in the ASX 300 report a lack of demand, a significant reduction from the 51% in the previous quarter. This was even better than the broader economy, where 53% of respondents reported demand as the main constraint on profitability, also down from 55% in the previous quarter. Sales and orders also continue to be less of a constraint on larger firms' output, reducing from 52% to 51%. This remained steady for the overall economy (reporting a reading of 61% for Q1 2014 and Q4 2013).

Firms are benefiting from reduced inflationary costs pressures

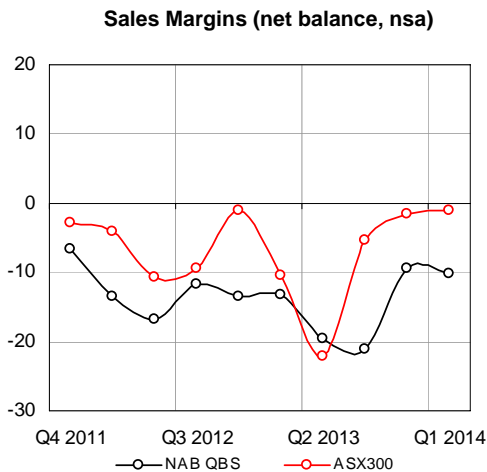


As anticipated in the December survey, ASX 300 continued to benefit from easing inflationary cost pressures; albeit the slight increase in labour costs (coinciding with the stronger employment growth). Purchase costs eased slightly to 0.15% from 0.20% and overhead costs dipped further to -0.23% from -0.19%. Larger firms are expected to benefit from lower purchase cost inflation in the next quarter, which should keep inflation pressures subdued.

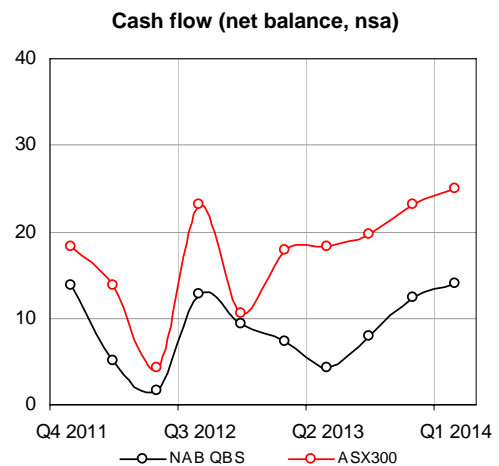
Gains also flowed onto the broader economy as firms benefited from further cuts in labour and overhead costs – edging downwards to 0.24% (from 0.37%) and 0.13% (from 0.22%) respectively. For the next three months, modest rises in labour costs are expected for the broader economy, spread across most industries (retail and recreation & personal services are exceptions).

Final product prices lifted for larger firms, growing marginally faster than for the broader economy – increasing to 0.30% (from 0.16%) for ASX 300 and 0.24% (from 0.16%) for QBS. Firms are expected to keep product price growth subdued in the short term.

Sales margins remained flat for ASX 300



Cash flow for ASX300 & QBS continue their upward trend

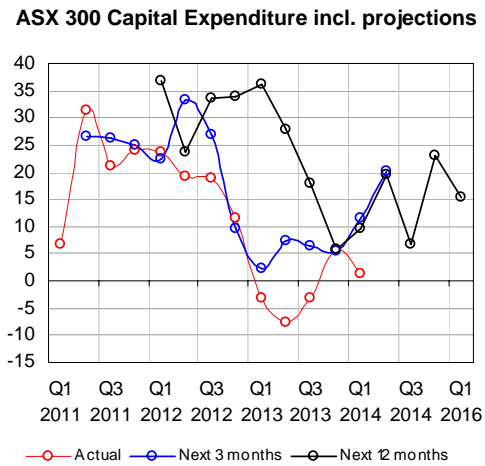
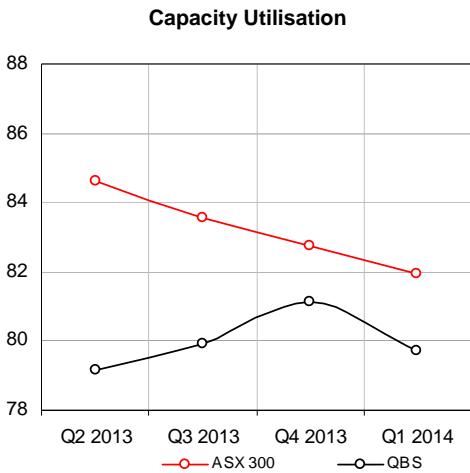


Sales margins remained in negative territory for both ASX 300 and the broader economy. Larger firms reported a reading of -1 points (also -1 points in the last quarter of 2013). The flat outcome was largely driven by the decline in transport & utilities, trending downwards to -11 points (from +38 in Q4 2013).

For the broader economy, sales margins continue to narrow. The overall index deteriorated to -10 points (down from -9 points), with all industries reporting negative results for Q1. Margins eroded the most in the wholesale industry, declining to -33 points from -8 points in Q4, 2013. Healthier margins were seen in recreational services and retail.

On a brighter note, larger firms continue to benefit from stronger cash flows, increasing to +25 points (from +23 points in the previous quarter) and +14 (from +12) for NAB QBS. The trend for larger firms was predominantly driven by transport & utilities and retail. Strong cash flows for the broader economy were reported in finance/banking/property (+26) and recreational & personal services (+25, despite weakening sharply). The upward trend in overall cash flow is expected to continue in the short term.

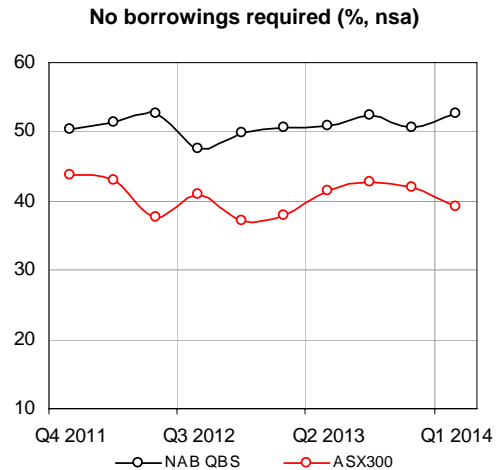
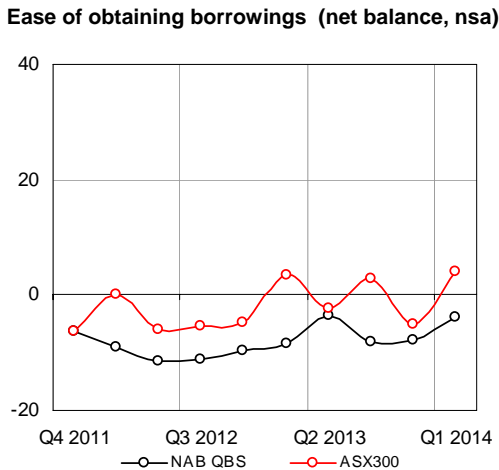
Capacity utilisation for ASX 300 is at its lowest in 3-year history; capex remained subdued



Capacity utilisation for ASX 300 is now at its lowest level in the 3-year history of the survey, decreasing for the fourth consecutive quarter to 81.9% (down from 82.7% in the previous quarter). There were sharp falls in recreation & personal services, construction and wholesale, but a large rise in transport & utilities. Similarly, following a slight recovery in the broader economy, capacity utilisation rates also softened, from 81.1% to 79.7%.

Capital expenditure for larger firms remains subdued in the March quarter (+1 point) and marginally below the broader economy (+4 points). ASX 300 reverted back to its downward trend, declining from +6 in Q4. Construction, recreational & personal services and manufacturing (which fell heavily) continue to weigh heavily on the overall result for larger firms. For the broader economy, capex was also the lowest for construction. Readings for the short term are expected to be slightly higher for both the ASX 300 and NAB QBS.

Credit conditions for ASX 300 and NAB QBS lifted; borrowing requirements fell



Credit conditions improved in the March quarter for larger firms and in the broader economy, despite remaining negative for the latter. The borrowing conditions index recovered to +4 points (up from -5 in Q4 2013), indicating that credit became relatively more available. This is also prevalent in the broader economy – the final index rose from -8 to -4 in the quarter — but conditions are still tough. For larger firms, the largest improvement was attributed by transport & utilities, as it gained +24 points to a positive reading of +22 index points.

Of the larger firms, fewer reported that they had no borrowing requirements for the second consecutive quarter, reducing to 39% for ASX 300 (down from 42%) and now at its lowest level since this time last year. This outcome suggest slightly stronger credit demand than the broader economy, with marginal increases in no borrowings required to 53% (up from 51% previously). Short-term borrowing expectations are little changed (stronger for ASX300, softer for the broader economy).

Industry analysis

Business conditions: majority of ASX300 reported stronger business conditions – with exceptions in construction & mining

The majority of industries recorded improvements in business conditions for ASX 300, with exceptions in **construction** and **mining**.

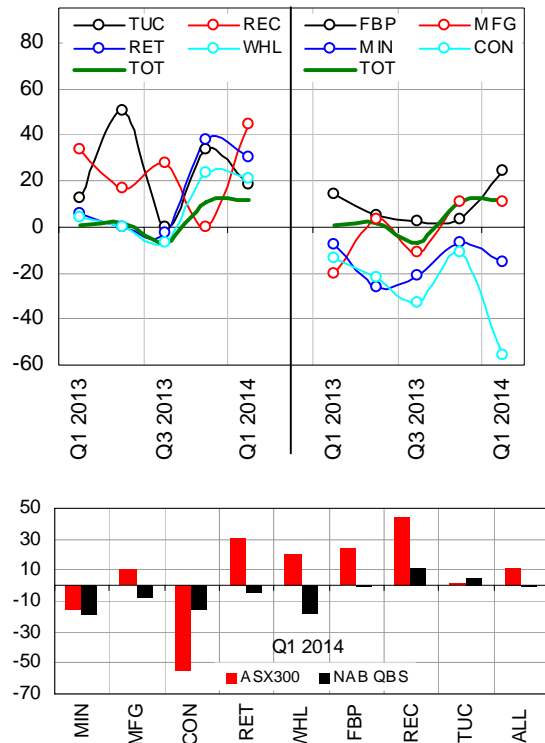
Construction declined significantly to be the weakest industry, reducing to -56 points, down from -11 in Q4 2013. **Mining** was also weak, falling to -16 points from -7 points.

Recreational & personal services recorded the highest level of business conditions for Australia's largest firms and, at +44 points, conditions are at their second-highest level in the 3-year history of the survey. **Retail** (+31) and **finance/ business/ property** (+24) were also strong among the ASX300 firms.

Deteriorating conditions in the broader economy were predominantly driven by declines in **mining**, **wholesale** and **construction**, falling to -20, -18 and -16 respectively (down from -13, -12 and -12 in the previous quarter).

The upward trend is expected to continue for Australia's largest firms and marginally improve for the broader economy in the next quarter.

Business conditions (net balance, nsa)



Business confidence: gains experienced by most industries; finance, banking & property attributing largely

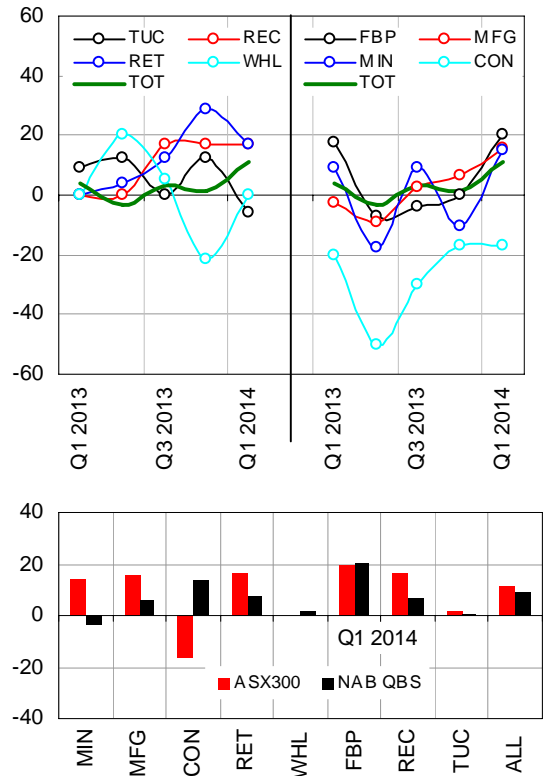
The surge in business confidence for ASX300 was driven by gains in a number of industries, with mining rising the most (up 26 points to +15), although confidence is best in **finance/ business/ property** (+20), followed by **recreational & personal services** and **retail** (both +17).

Strong improvements in the confidence index were also reported by **wholesale** (up 21 points) and **finance/ business/ property** services (up 20).

ASX300 reported a decline in **transport & utilities** (down 19) and **retail** (down 12), although confidence is still positive in the latter. Overall, confidence is currently only negative in **construction** and transport & utilities.

The broader QBS is only reporting negative confidence for **mining**, at -3 points.

Business confidence (net balance, nsa)



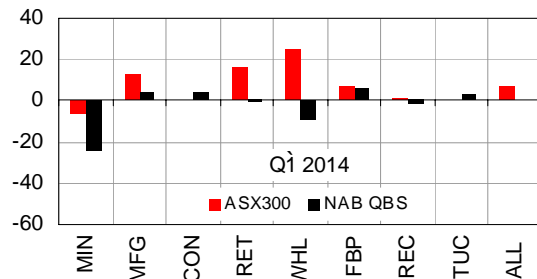
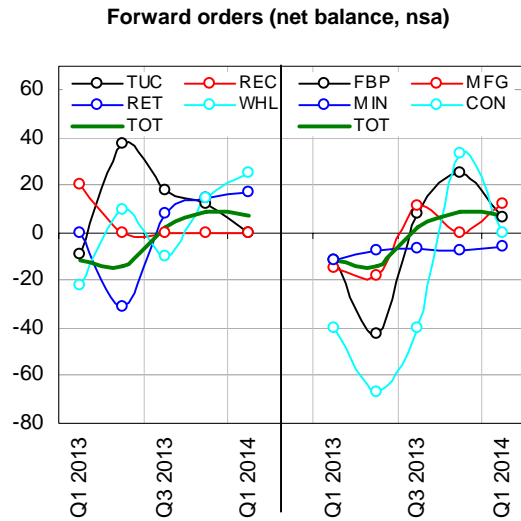
Forward orders: contracted overall for industries in larger firms with mining declining the most; most gained in the broader economy

Forward orders for ASX300 firms declined from +9 points to +7 points. **Mining** currently has the weakest orders at -6 points (down from -7). Quarter on quarter, **construction** and **finance/ business/ property** experienced the biggest losses.

Forward orders for **wholesale, retail** and **manufacturing** are the strongest for the larger firms, increasing to +25, +17 and +13 respectively (up from +14, +14 and 0 respectively).

In comparison, forward orders for the broader economy increased slightly during Q1 to +1. Despite **retail** and **wholesale** remaining in negative territory, these sectors improved from the previous quarter. **Mining** had the weakest forward orders of any industry in the broad economy.

Forward orders for both larger firms and the broader economy are expected to pick up in the near term.



Capital expenditure: reverts back to its downward trend

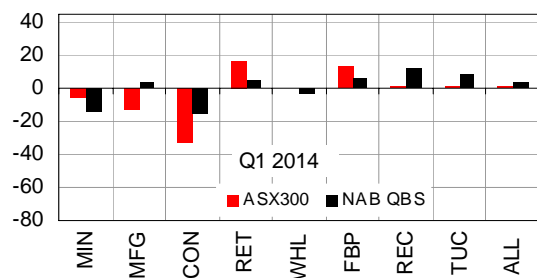
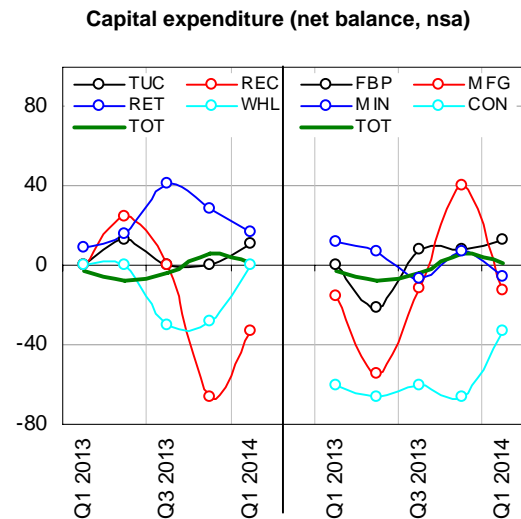
Capital expenditure for ASX300 returned to soft levels in the March quarter, decreasing to +1 (from +6 in Q4 2013). In line with the broader economy, NAB's QBS also reported a decrease, down to +4 (from +13).

On a levels basis for larger firms, **construction** and **recreational & personal services** were the weakest industries, both -33 points; **manufacturing** (-13) and **mining** (-6) were also negative. Retail (+17), **finance/ business/ property** (+13) both recorded positive readings.

For the broader economy, **construction** and **mining** weighed heavily on capex, reporting readings of -15 and -14 points (from -7 and -12 respectively).

However, quarter on quarter for ASX 300, **construction** and **recreational & personal services** improved significantly, both increasing 33 points from their previous readings of -67 each.

Near term expectations for capex look to be edging upwards.



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