

Focus on: Australia

International Business Report 2010 – Country focus series

The recovery

Ahead of every other major industrial economy, Australia posted 1.3 per cent real GDP growth in 2009, although the recovery has slowed in the first quarter of 2010. Business investment and state spending have led the revival and the momentum has carried into the first quarter of 2010. The fiscal stimulus package is winding down quickly with policy shifting to targeted investment and tighter monetary conditions to contain inflation. Net trade is reducing GDP even though the terms of trade have improved and interest payments on foreign debt are keeping the current account firmly in deficit.

The key indicators¹ are highlighted below:

- the Australian economy grew by 0.5 per cent in the three months to March, down from 1.1 per cent in Q4 2009
- consumer confidence remains tentative, consumption grew by 0.6 per cent in Q1 2010, down slightly from the 0.9 per cent increase observed in the previous quarter
- exports remain volatile, declining by 0.5 per cent in the first quarter of 2010, whilst imports rose by 1.8 per cent
- the unemployment rate declined slightly to 5.2 per cent in May 2010.

Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on Australia, the experiences and attitudes of its privately held businesses and how they have been affected by the economic crisis along with how they are dealing with the recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in Australia are considerably more optimistic regarding the outlook for the economy over the next 12 months, and two-thirds expect to see an upturn in the global economy by the end of 2010. Revenue and profitability expectations are even more optimistic than last year, but the availability of a skilled workforce remains a major constraint on potential expansion.



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

Looking ahead

The Australian economy is expected to expand by 2.4 per cent this year, accelerating to 3.5 per cent in 2011. After some atypical years of consumer debt consolidation, Australia is expected to revert to its dependence on consumer spending for economic growth and public sector surpluses to ensure foreign capital access. Investment is expected to show a marked improvement across the next two years with gross fixed capital formation expected to expand by 5.9 per cent in 2011.

Trade ties with Asia should strengthen, initially with China (now the biggest trade partner) but also with India and Japan as exports grow by a forecast 6.3 per cent in 2010, accelerating to 8.1 per cent in 2011. As the exporting sector dominates net job creation and income growth, productivity, competitiveness and a stable dollar will become industrial priorities. Though the banking sector functioned reasonably well during the downturn, it is likely to rely on offshore wholesale funding for many years yet, which will leave Australia vulnerable to any further international credit shortages.

As the economy exits recession, all businesses will face new challenges and will need to take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.

Figure 1: Key indicators for businesses

Australia compared to the Asia Pacific average	2008 Aus	2009 Aus	2010 Aus	2010 Asia Pacific
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+67%	+11%	+79%	+33%
Change in employment levels				
Balance of businesses expecting an increase over those expecting a reduction	+49%	+10%	+47%	+33%
Constraints on expansion				
Regulations/red tape	32%	20%	35%	29%
Availability of a skilled workforce	58%	47%	31%	26%

Source: Grant Thornton IBR 2010

Talk to us to find out how we can help you deal with the challenges of a new world economic order.



Tony Markwell

T +61 (0)7 3222 0229

E tony.markwell@au.gt.com

W www.grantthornton.com.au



International Business Report results

The Grant Thornton IBR 2010 reveals that businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in Australia are considerably more optimistic about prospects for 2010; their optimism/pessimism balance² has increased 68 percentage points from +11 per cent in 2009 to +79 per cent in 2010.

For the first time in six years, India has been overtaken as the most optimistic country by Chile. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

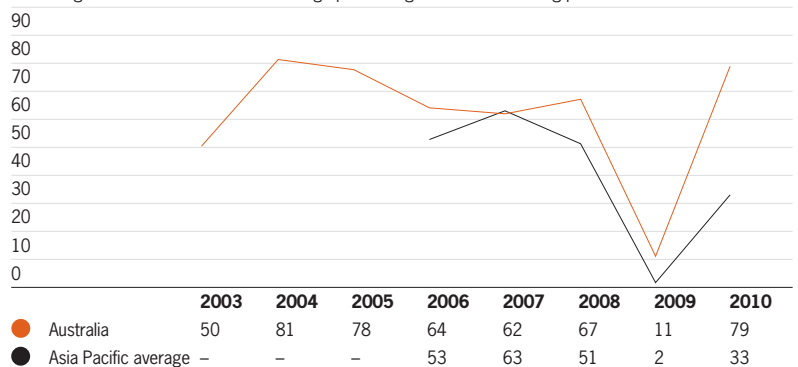
Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

Optimism/pessimism

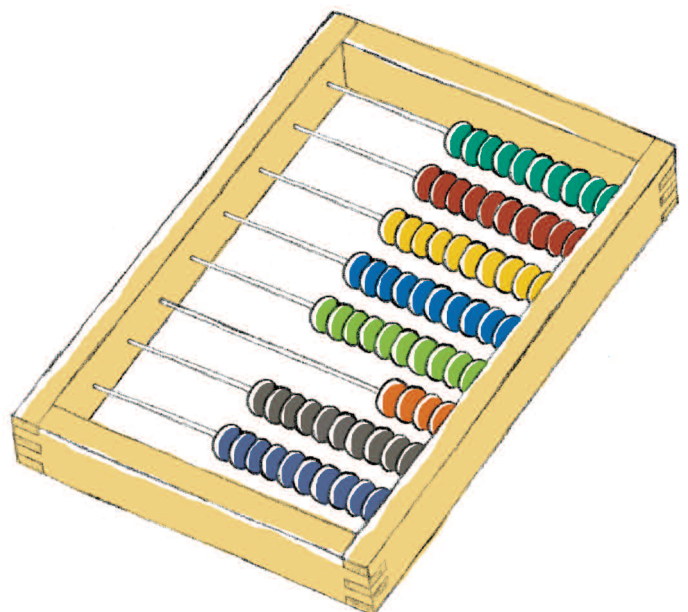
- businesses in Australia are considerably more optimistic about their economy this year (+79 per cent) compared with 2009 (+11 per cent)
- this is more than double the Asia Pacific³ average of +33 per cent
- optimism amongst businesses in the Asia Pacific region has risen by 31 percentage points this year, from just +2 per cent in 2009 to +33 per cent.

Figure 2: Outlook for the economy over the next 12 months: 2003-2010

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



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

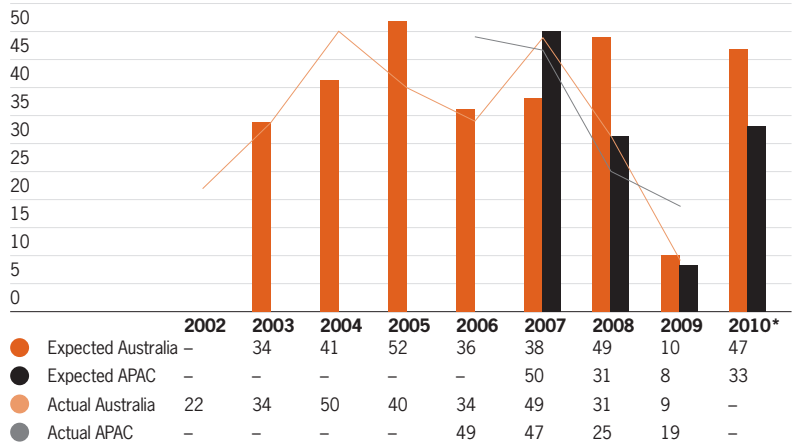
³ for the purposes of IBR, the term 'Asia Pacific' refers to those Asia Pacific economies covered by our survey – Australia, mainland China, Hong Kong, India, Japan, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam.

Employment

- a balance of +47 per cent of businesses in Australia expect employment to grow in 2010, compared to +10 per cent in 2009
- the Asia Pacific average has risen by 25 percentage points, from +8 per cent in 2009 to +33 per cent
- actual employment growth reported by businesses in Australia for 2009 (+9 per cent) was just slightly lower than expected 12 months previously (+10 per cent).

Figure 3: Employment history: 2002-2010

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



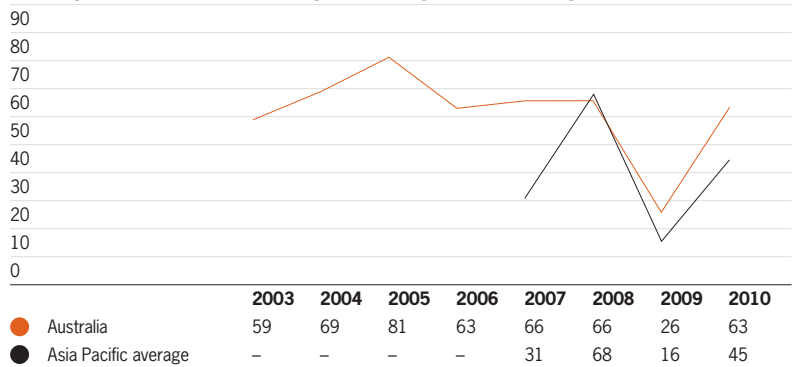
*actual 2010 data will be documented in IBR 2011
Source: Grant Thornton IBR 2010

Revenue expectations

- expectations for revenue prospects have risen by 37 percentage points to +63 per cent this year, from +26 per cent in 2009
- this is more optimistic than the Asia Pacific average of +45 per cent
- the Asia Pacific average has also risen although not as steeply, by 29 per cent from +16 per cent last year to +45 per cent this year.

Figure 4: Revenue expectations: 2003-2010

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

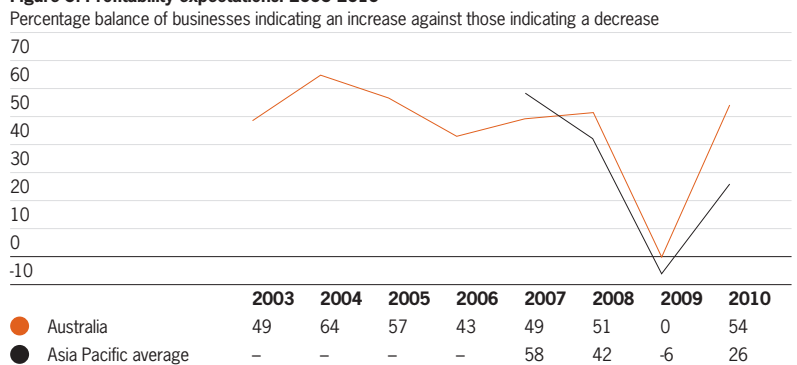


Source: Grant Thornton IBR 2010

Profitability expectations

- the balance of businesses in Australia expecting to increase profits has also risen this year, by 54 percentage points to +54 per cent in 2010 (0 per cent in 2009)
- this is also higher than the Asia Pacific average (26 per cent)
- the Asia Pacific average has risen by 32 percentage points to +26 per cent.

Figure 5: Profitability expectations: 2003-2010



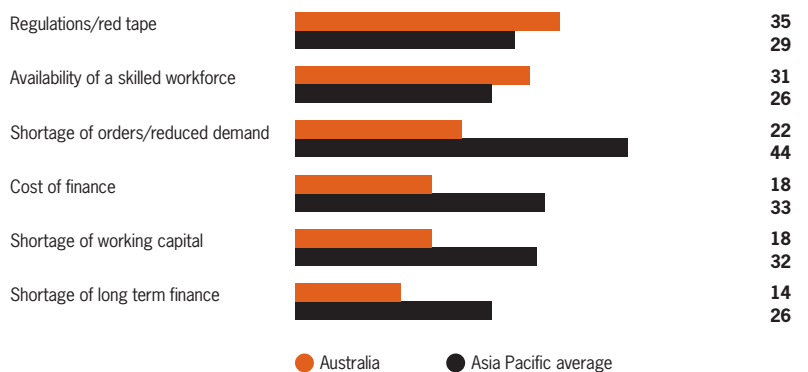
Source: Grant Thornton IBR 2010

Constraints

- regulations/red tape is cited as the most pressing constraint on expansion by businesses in Australia (35 per cent), higher than the Asia Pacific average (29 per cent)
- the availability of a skilled workforce is also a greater constraint for businesses in Australia (31 per cent) compared to the Asia Pacific average (26 per cent)
- the remaining constraints are more of a concern across the Asia Pacific region as a whole; particularly a shortage of orders/reduced demand, 44 per cent across the Asia Pacific compared to 22 per cent 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

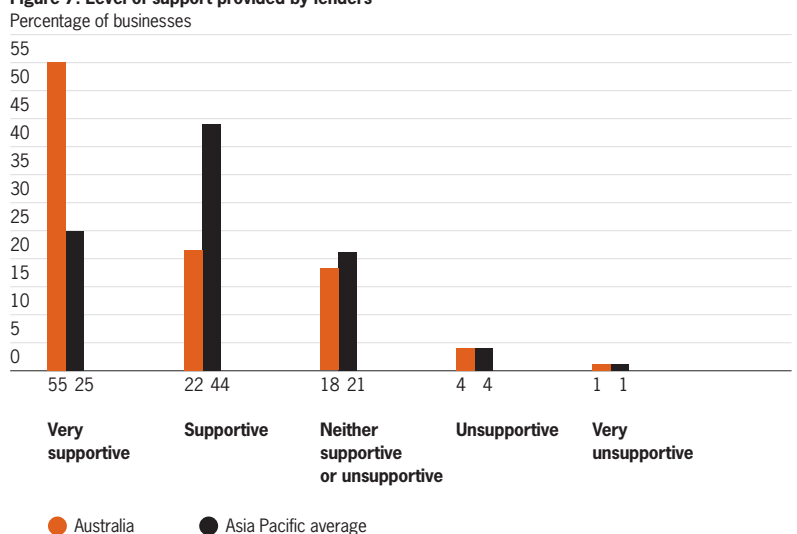


Source: Grant Thornton IBR 2010

Support of lender

- three-quarters of businesses in Australia are happy with the level of support provided by lenders; 77 per cent class lenders as supportive or very supportive towards their business
- this compares with 69 per cent of businesses in the Asia Pacific region as a whole
- in line with the Asia Pacific average, five per cent of businesses in Australia believe that lenders are unsupportive or very unsupportive of their business.

Figure 7: Level of support provided by lenders

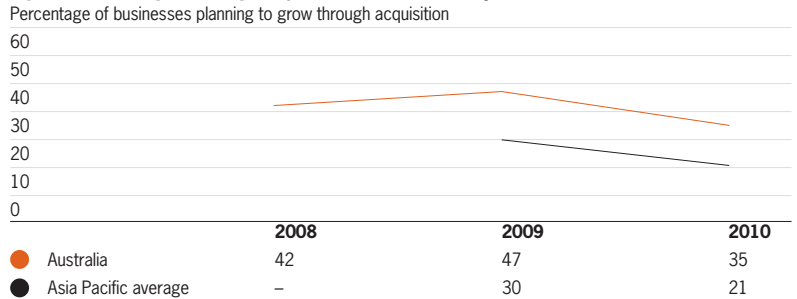


Source: Grant Thornton IBR 2010

Mergers & acquisitions

- the proportion of businesses in Australia planning to grow through acquisition this year has fallen, from 47 per cent in 2009 to 35 per cent; this follows a rise of five per cent observed the previous year
- the Asia Pacific average has dropped this year, from 30 per cent in 2009 to 21 per cent.

Figure 8: Plans to grow through acquisition in the next three years: 2008-2010

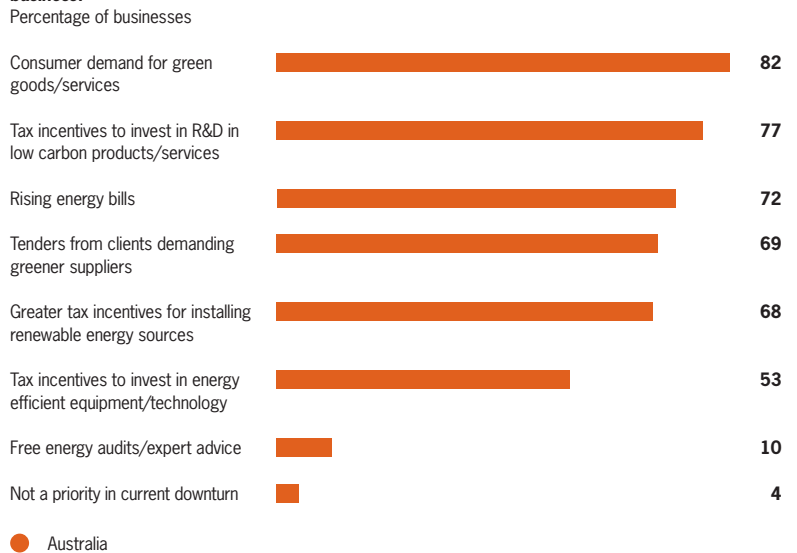


Source: Grant Thornton IBR 2010

Environmentally friendly/sustainable

- four-fifths of businesses in Australia (82 per cent) cite that consumer demand would encourage them to operate a more environmentally friendly/sustainable business
- three-quarters cite R&D tax incentives (77 per cent) and rising energy bills (72 per cent)
- over half would be encouraged by suppliers and installation/investment tax incentives
- free energy audits/expert advice was the least influential factor (ten per cent)
- whilst just four per cent cited that this just is not a priority in the current downturn.

Figure 9: What would encourage you to operate a more environmentally-friendly/sustainable business?

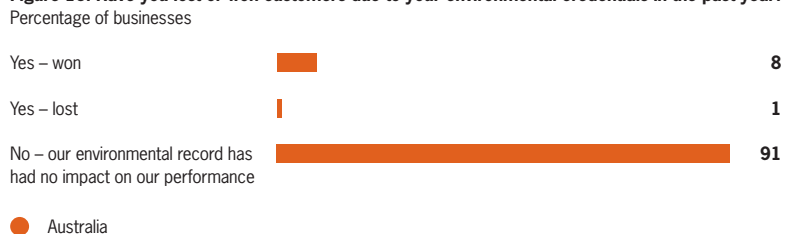


Source: Grant Thornton IBR 2010

Effect on customers

- the majority of businesses in Australia do not believe that their environmental credentials have influenced their performance (91 per cent)
- eight per cent believe that they have won customers
- just one per cent believe that they have lost customers due to their environmental credentials.

Figure 10: Have you lost or won customers due to your environmental credentials in the past year?

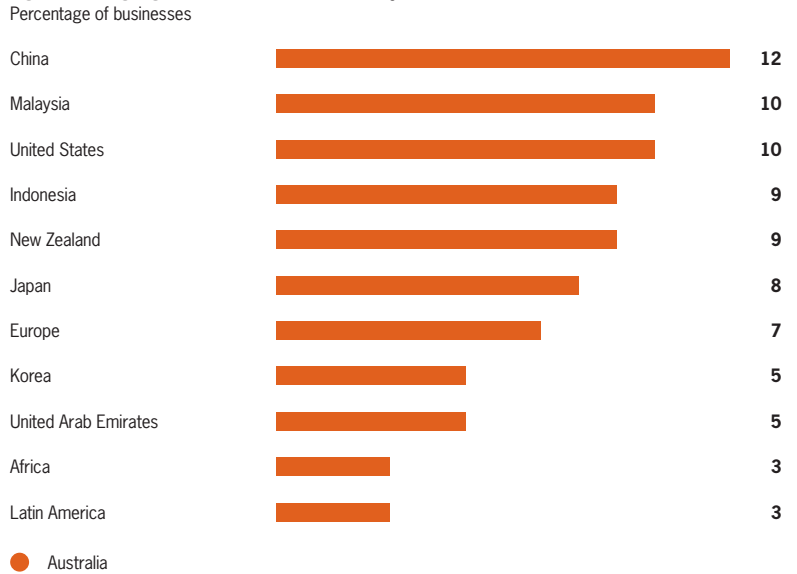


Source: Grant Thornton IBR 2010

Target growth markets

- China is the most popular target growth market over the next three years for businesses in Australia (12 per cent)
- followed closely by Malaysia, the United States (both ten per cent), Indonesia and New Zealand (both nine per cent)
- Africa and Latin America were the least popular target growth markets, cited by just three per cent of businesses in Australia.

Figure 11: Target growth markets for next three years

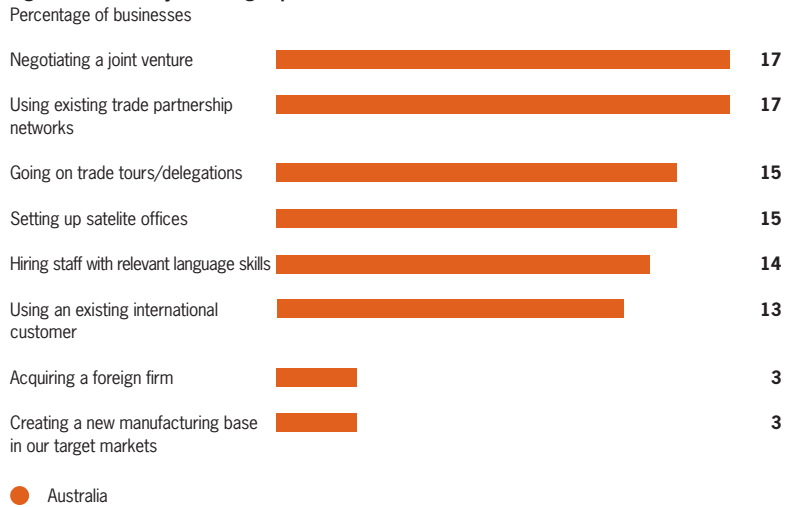


Source: Grant Thornton IBR 2010

Market penetration

- 17 per cent of businesses cited negotiating a joint venture or using existing partnership networks as a means of penetrating into these markets
- 15 per cent cited going on trade tours/delegations or setting up satellite offices
- whilst just three per cent cited acquiring a foreign firm or creating a new manufacturing base in the target market.

Figure 12: How are you looking to penetrate into these markets?



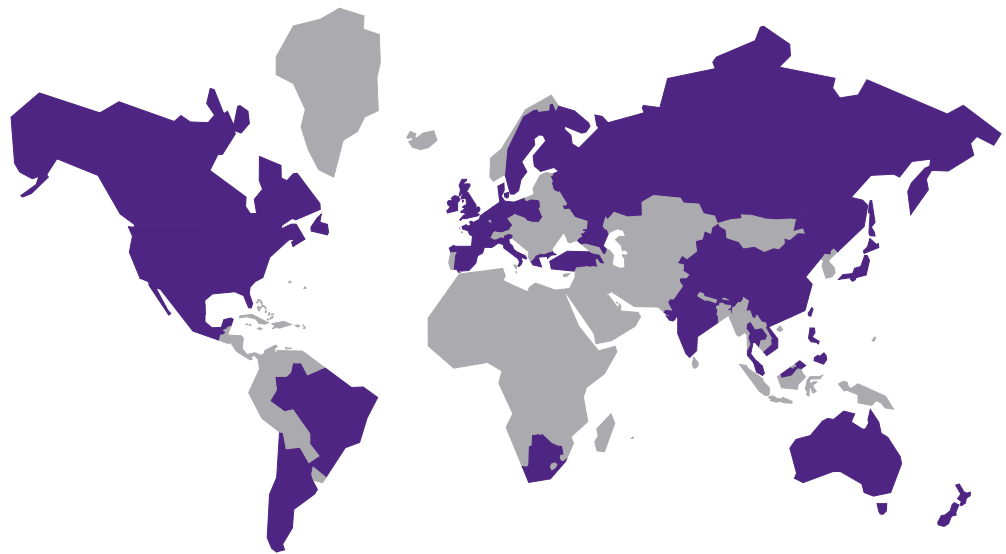
Source: Grant Thornton IBR 2010

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In Australia, 250 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	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



www.gti.org
www.internationalbusinessreport.com

© 2010 Grant Thornton International Ltd. All rights reserved.
Grant Thornton International Ltd (Grant Thornton International) and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.