

## Overview

This report outlines the results of the Reliance Credit Union Regional Business Survey for the September quarter of 2006. This survey includes the responses of 402 businesses across eight statistical divisions in regional NSW and provides a good indication of regional business sentiment.

Business performance in regional NSW was, on balance, relatively stable. There were minor declines from the June quarter however almost half of all respondents (48%) recorded good or very good sales performance. Business and professional services remained strong, and the manufacturing sector reported significant improvement from the previous quarter.

Profitability was positive for all regions this quarter, with 43% recording good or very good profitability. This represents a significant increase of 9% from the June quarter. Nevertheless, none of the regions reached expectations held from the previous quarter. Improvements are expected by all centres in the December quarter.

Results also indicated that businesses are so far proving resilient to drought-related pressures to decrease staff. Furthermore a significant number (40%) felt their business performance would remain steady if drought conditions were to continue for another 6 months. Still, 54% predict a decline if conditions continue.

## Sales Performance

On balance, sales performance across regional NSW decreased marginally in the September quarter. Performance remained below expectations from the previous quarter, however this has not been unusual over the past 18 months.

Forty-eight percent of businesses surveyed indicated that good or very good sales had been achieved in the September quarter, a decline of 2% from the June quarter. The number of businesses recording poor or very poor sales performance increased by 1% for the second consecutive quarter, reaching 18%.

Expectations for good or very good sales performance in the coming quarter have declined, however 50% of businesses are still anticipating above average sales performance, and an improvement on this quarter's performance. Fifteen percent are predicting poor or very poor sales and the remaining 35% expect average sales performance.

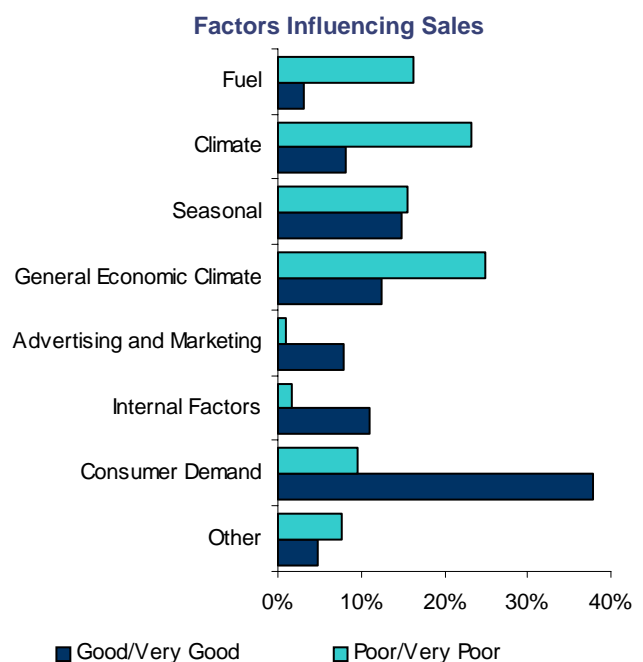
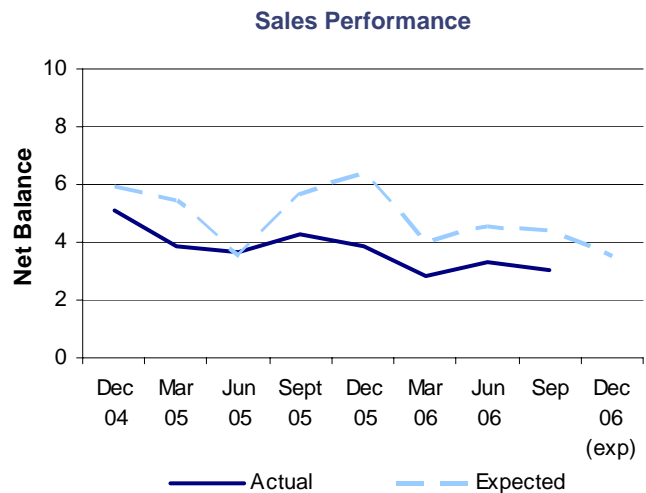
## Reasons for Expected Sales Change

Forty-five percent of businesses surveyed expected sales performance to change in the coming quarter. Of these 26% predicted that the change would be positive.

Consumer demand was cited as the driving factor behind expectations of good or very good sales performance by a significant number of businesses in all industry sectors. The general economic climate is expected to benefit business and professional services (14%), manufacturing (14%) and construction (13%).

Negative sales change is primarily expected due to the general economic climate, particularly in the mining (18%), retail (15%) and agriculture (11%) sectors. Agricultural businesses are understandably anticipating reduced sales to result from climatic conditions.

*NB: Internal Factors include changes to staffing, customer service and product range.*



Net balance is equal to the number of positive responses less the number of negative responses divided by total responses, with the result expressed as a score between -10 and 10. A positive score indicates an improvement and a negative score a deterioration.

### Sales Performance by Region

The Regional Business Survey tracks the performance of businesses across nine statistical divisions in regional NSW. The graph below compares the sales performance of each region from the March quarter 06 to the expected performance of the December quarter 06.

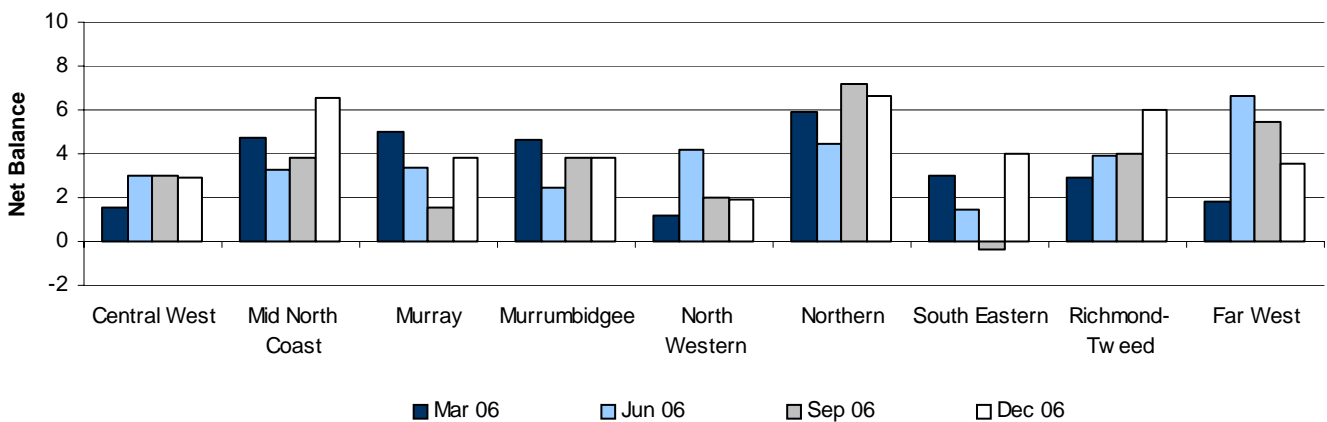
Five of the eight regions recorded improved sales from the June quarter. These were the Central West, Mid North Coast, Murrumbidgee, Northern and Richmond-Tweed regions. The Northern district reported the strongest performance of the quarter as well as greatest net improvement.

The North West reported the greatest net decline in

sales performance since the June quarter, while the South East recorded the lowest overall performance this quarter.

Four of the regions expect an increase in the coming December quarter and four expect a decrease, while Murrumbidgee is predicting stable sales performance. The greatest improvement is anticipated by businesses in the South Eastern region. On balance the best overall performance is expected in the Northern area again.

The lowest sales performance is anticipated in North West, followed by the Central West.



### Sales Performance by Sector

The Regional Business Survey targets businesses in eight industry sectors across regional NSW.

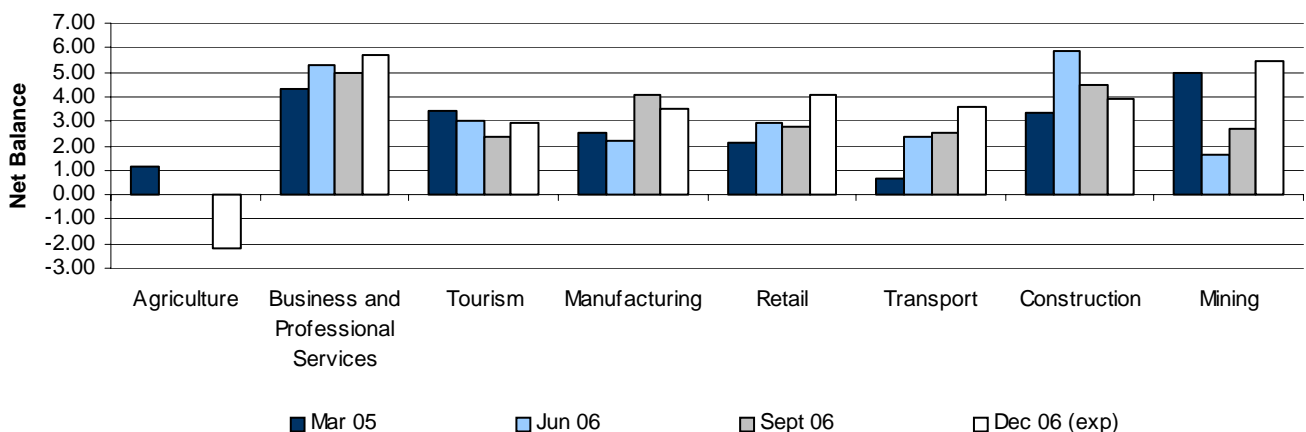
Manufacturing, transport and mining all recorded improved sales performance from the June quarter. On balance the most positive sales performance was recorded in the business and professional services sector, followed by the construction industry.

For the second consecutive quarter agricultural businesses reported average sales performance, and this was the lowest performance of all industry sectors. The remaining sectors - business and professional services, tourism, retail, and

construction - reported decreased sales performance from the previous quarter.

Expectations for the December quarter are varied. Five of the eight industries expect improvement. Business services, tourism and retail predict improvement despite these industries experiencing decreased performance this quarter. Mining expects the greatest net improvement and business and professional services expect the greatest overall sales performance in the December quarter.

Agriculture, manufacturing and construction anticipate decreased sales performance.

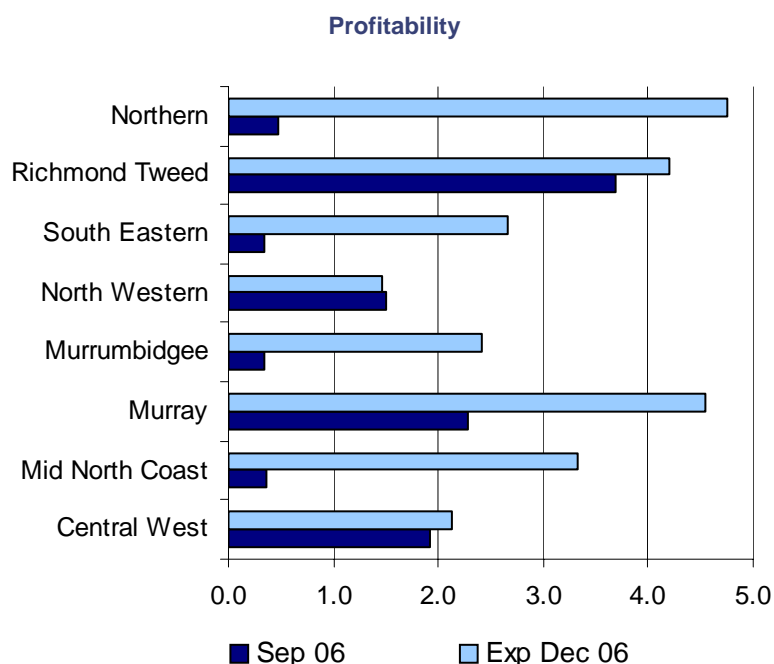


### Profitability

Profitability increased for a significant number of respondents this quarter with 43% reporting good or very good profitability. This is an increase from 34% in the June quarter 06.

All regions recorded positive profit levels in the September quarter. On balance all districts improved on their profit levels from the June quarter 06, with the exceptions of the Mid North Coast and Northern regions which recorded marginal declines. Richmond/Tweed businesses saw the greatest improvement, and also reported the best overall profitability for the quarter.

All areas anticipate further improvement into the December 06 quarter. Businesses in the Northern statistical division are particularly optimistic and anticipate the greatest improvement of all regions.

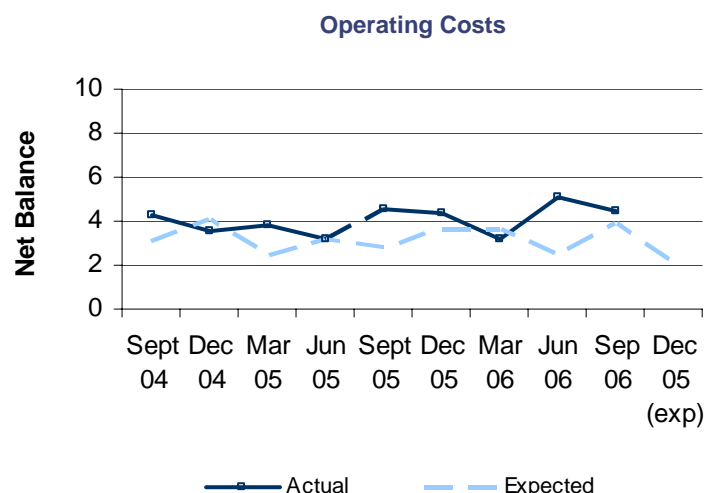


### Operating Costs

The rate of increase of operating costs increased for 51% of respondents in the September quarter, down from 58% in June. The rate of increase was in line with expectations recorded in the June quarter 06.

Freight and fuel costs were considered to be the greatest influences by 34% of businesses, followed by the cost of inputs and materials (21%). Other reasons given included the cost of coping with drought and interest rate rises. Government charges had the least affect (11%).

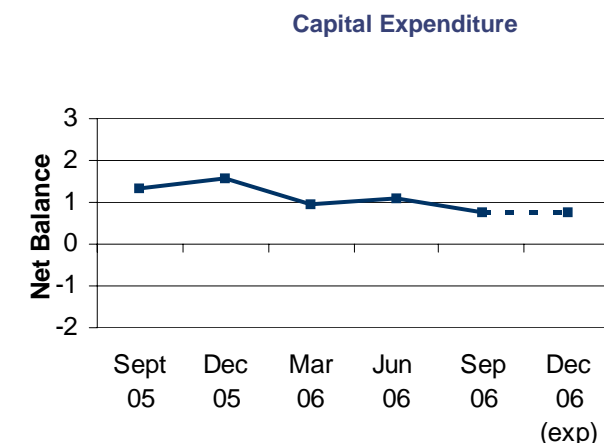
Only 30% of businesses expect the rate of increase of operating costs to increase further in the December quarter.



### Capital Expenditure

Businesses were questioned on their level of spending on new buildings, plant and equipment. This quarter only 18% of respondents noted an increase, which continues the overall downward trend of the past twelve months.

A larger proportion of businesses (70%) anticipate no change in capital expenditure in the December quarter 06. On balance, a very minor increase is expected overall.



### Staffing Levels

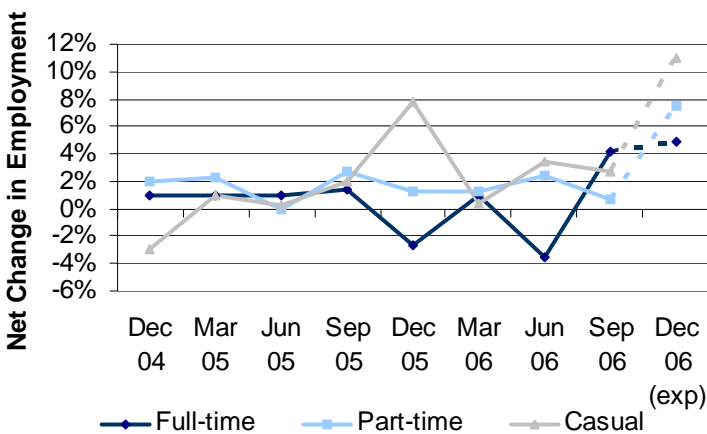
Of the businesses surveyed 62% of workers were employed full-time, 13% part-time and 25% casual.

On balance 4% of businesses increased full-time employment negating the 4% decrease in the June quarter. One percent of businesses increased part-time positions and 3% increased casual positions this quarter.

A significant number of businesses expect to increase full time (5%), part time (7%) and casual (11%) positions in the December quarter. This is the largest anticipated increase in casual positions since the September Quarter 2003 and indicates an optimistic outlook to the Christmas period.

Sep Qtr	Decrease	Stay Same	Increase
<b>Full-time</b>	5%	85%	10%
<b>Part-time</b>	5%	89%	6%
<b>Casual</b>	9%	79%	12%

Dec Qtr	Decrease	Stay Same	Increase
<b>Full-time</b>	3%	88%	8%
<b>Part-time</b>	1%	90%	9%
<b>Casual</b>	6%	78%	17%



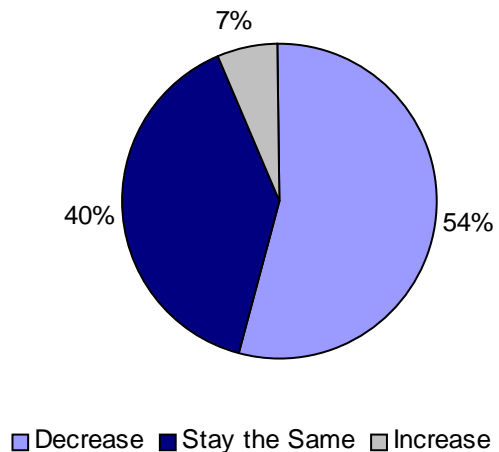
### Impact of the Drought

Businesses were asked if they had changed their number of staff as a direct result of drought conditions across NSW. Eighty-four percent of respondents had maintained staff levels through difficult conditions, while 16% had been forced to reduce numbers due to reduced income with which to pay wages.

Businesses were also asked how they felt their business performance would respond if drought conditions continued for another 6 months. Fifty-four percent felt that their business would decline as a direct result, and a small number (7%) predicted an increase. A surprising number (40%) felt resilient to continuing drought conditions.

Business and professional services (26%) felt most resilient to continuing drought, while the 26% of retail businesses expect to decline.

How will continuing drought impact on business performance?



### Survey Notes

**Sample Characteristics:** The sample includes 402 businesses from regional NSW.

**Disclaimer:** Individual responses are confidential and remain the property of the WRI. All possible care has been taken in the preparation of the information contained in this survey. However, WRI expressly disclaims any liability for the accuracy and sufficiency of the information and under no circumstances shall be liable in negligence or otherwise in and arising out of the preparation or supply of any of the information aforesaid. Persons who utilise the information provided herein do so at their own risk. It is recommended that before any reliance is placed upon information provided, independent advice be sought.

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