GE Capital | Australian Mid-Market Report June 2012

Recovery or false dawn:
what's on the horizon
for Mid-Market CFOs?

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A note from the CEO:

by Skander Malcolm

President & CEO of GE Capital Australia & New Zealand

Where is the Australian economy heading? It's a critical question that economists and business forecasters are asking as we manage through some very turbulent economic times.

Although we see growth, it's not uniform. In the first few months of 2012, as we see a continued resource boom, others watch key industries like Manufacturing and Wholesale Trade languish in some of the toughest conditions they have faced. And, as our economy asserts itself in the Asia Pacific, we wait to see how the global economy – impeded by a slow recovery in the US, the European sovereign debt crisis and a potential slowdown in Chinese economic growth – will affect our own.

It's clear that Australian companies are facing uncertain economic conditions.

In these tough and unpredictable times, it pays to understand how Australian businesses are coping, how they contribute to the economy and how they plan for the future. This is particularly true of the Mid-Market – a key sector in our economy that often flies under the radar. In October 2011, the first GE Capital Australian Mid-Market Report examined the business landscape defined by companies with revenue of between $10 million to $250 million. The picture of the Mid-Market that emerged was an influential sector of Australian business. The Mid-Market accounts for more than a third of the revenue earned by Australian business and one in five dollars borrowed.

The picture is an overwhelming one of strength and resilience, but the Mid-Market is not without its challenges. Companies in this sector are generally not large enough to attract media attention and conversely too big to receive government assistance. Having previously lingered just outside the sphere of influence – neglected in policy-making circles, largely ignored by the media, and not given the public recognition it deserves – the Mid-Market is now causing people to sit up and take notice. **A recent Google search for 'Mid-Market' in Australia over the last six months had over 200,000 hits, up 47% from the previous six months. Evidently, people are wanting to learn more about this sector**.

Mid-Market companies are represented across all industries and are found in both capital cities and regional areas. They contribute around $425 billion in added value and 3.2 million full-time equivalent jobs. Compared to large and small businesses – which contribute $393 billion and $373 billion respectively – the Mid-Market punches above its weight as a key driver of the Australian economy. This report – the second in a biannual series – investigates and analyses the performance of the Mid-Market. It gathers valuable insights and sentiments from the Chief Financial Officers (CFOs) of a broad cross-section of Mid-Market companies, to gauge their confidence (or lack of) about the economy and its impact on their businesses.

The key measure in this report is the *Business Growth Outlook Index*. The Index – which tracks CFO optimism against a range of key performance indicators – provides a useful tool for gathering qualitative insights into the current and future intentions of these companies. These intentions are a valuable leading indicator for the health of the broader Australian economy.

The current report, which tracks the Mid-Market from October 2011 to March 2012, points to some promising trends within the Mid-Market – particularly an inherent resilience and strength in overcoming a downturn. Yet it reads like a rollercoaster ride. Overall, the sector experienced a long, sharp fall for the first four months before stabilising and now showing signs of recovery, while different industries and states have fared very differently.

GE Capital works with around 7,500 Mid-Market businesses across the country. This report gives us crucial information as to how our customers and Mid-Market companies more broadly view the business outlook and how they can be supported, but it is not our only source of information. In my discussions with our Mid-Market customers around the country I see the same themes repeated – economic conditions are tougher than many realise, given the overall strength of our resource rich economy. But if there is one sector that can adapt and thrive in these conditions it is the Mid-Market. If the growth trends in this report continue, the Mid-Market is likely to have experienced the shortest and least severe downturn in sentiment and outlook out of any sector.

This report continues GE Capital's work to increase the understanding of business and policy-makers about the Mid-Market through our website **www.gecapital.com.au** and our regular reports. However, even with increased awareness of the importance and role of the Mid-Market, the fundamental question remains whether the recent recovery can be sustained, or whether it is a false dawn that heralds a second round of decline. I remain optimistic about the future for the Australian Mid-Market, but regardless of the outcome, a better understanding among policy-makers and analysts will help the sector in both good times and bad.

> "The picture is an overwhelming one of strength and resilience, but the Mid-Market is not without its challenges.

SKANDER MALCOLM, PRESIDENT AND CEO, GE CAPITAL AUSTRALIA AND NEW ZEALAND

Executive summary:

In October 2011, the first GE Capital Australian Mid-Market Report found the Mid-Market was poorly understood and sought to improve understanding of the sector.

The report described the Mid-Market as being at a crossroads. It was the most optimistic of all sectors of the economy and did not show any sustained signs of weakness. Compared to the Micro, Small and Large business sectors, the Mid-Market demonstrated remarkable strength and resilience. However, given the pessimism of other sectors, the report asked would the Mid-Market be able to continue its run of strength or would it enter a phase of decline?

The June 2012 GE Capital Australian Mid-Market Report provides some answers to those questions. It builds upon the findings of the first report to measure just how accurate CFOs were in their outlook for business, and where they see themselves in six months time.

By February 2012, it was clear that the Mid-Market had lost some of its momentum. CFOs had lowered their expectations for growth in revenue and staffing. Their concerns about the *economic environment*[1] and the need to *manage costs* had overtaken growth-related goals like building capacity through growth in labour (*finding and keeping staff*).

Yet these concerns were short-lived. By March 2012, evidence showed that the downturn in the Mid-Market may have been arrested and early signs of recovery were emerging. At this time, CFOs revisited their growth expectations and were shown to hold fewer concerns about *barriers to growth*.

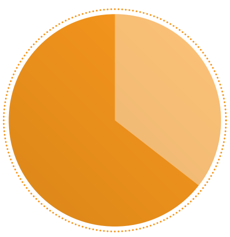
The movement in the sector was not uniform. Some industries – **Business & Property and Other Industries (which includes the small but dynamic resources sector) – were less affected** by falling optimism. Others, like Manufacturing, Wholesale Trade and Construction, fared much worse.

Manufacturing has suffered the largest fall in the *Business Growth Outlook Index* of any industry, possibly reflecting underlying structural changes made worse by the impact of the difficult economic environment, and compounded by a strong Australian dollar.

Likewise, **there were marked differences from state to state**. Western Australia and Queensland drew strength from the resources boom, while other states were much less optimistic about their business outlook. Victoria/Tasmania did not show any evidence of recovery in March, but had begun the six months being quite optimistic. South Australia/Northern Territory also lacked any sign of recovery, but was much less optimistic at the start of the last six months.

Overall, with the fall in optimism recorded by the Mid-Market only lasting four months, the sector is likely to have experienced the shortest and least severe downturn when compared to the Micro, Small and Large business sectors – and clearly remains the most optimistic sector in the Australian business landscape.

If the period of decline is over for the Mid-Market, then the sector has again demonstrated its strength and resilience. The key question now is whether the signs of recovery for the Mid-Market can be sustained, or whether this is only a pause before the sector enters into a second round of decline. Given that the two largest industries (Property & Business and Other Industries) have proven themselves to be either immune from the downturn or showing strong signs of recovery, the sector as a whole should feel optimistic about the future.



37%

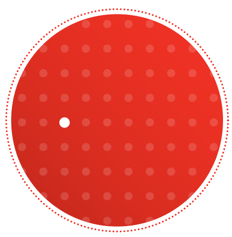
of all business revenue is contributed by the Mid-Market.

21%

of all deposits and borrowings are contributed by the Mid-Market.

23%

of full time employees are represented by the Mid-Market.



1.4%

of Australian businesses constitute the Mid-Market.

[1] Note: for an explanation of italicised terms, please see Appendix 4.

Key findings:

- In the last six months, the Mid-Market – the most growth-oriented segment of the Australian business community – became less focused on growth and **more concerned about *barriers to growth*** compared to the previous months. This setback dominated CFO thinking from October to January.
- The past few months have shown **signs of recovery**, indicating that the Mid-Market decline may be quite short-lived.
- All sectors of the business community were affected by a fall in optimism. However, the Mid-Market was the last to record this decline and among the first to recover, demonstrating **continuing robustness and resilience**:
    - The Micro and Small business segment felt the decline first, starting early in 2011, and continuing through to March 2012 for the Micro sector and November 2011 for Small business.
    - The Large business sector first showed evidence of a downturn in June 2011, with sentiments dropping to an all-time low in the last six months. From March 2012, the sector has been showing strong signs of recovery.
    - The Mid-Market was the last to decline commencing around September 2011, with recovery starting only four months later, in February 2012.
- The *economic environment* has been the single most important factor driving the fall in optimism, with reduced demand causing a shift away from growth strategies towards a greater focus on *maintaining revenue* and *managing costs*.
- **The downturn has not been uniform across the Mid-Market, reflecting Australia's multi-speed economy. Industry sectors such as Business & Property and Other Industries have retained a strong focus on growth, and remain largely unaffected by the more difficult economic conditions. On the other hand, Manufacturing, Construction, and Wholesale Trade have fared much worse.**
- *Government regulations* remain a top concern.

The downturn has not been uniform across the Mid-Market, reflecting Australia's multi-speed economy. Industry sectors such as Business & Property and Other Industries have retained a strong focus on growth, and remain largely unaffected by the more difficult economic conditions. On the other hand, Manufacturing, Construction and Wholesale Trade have fared much worse.

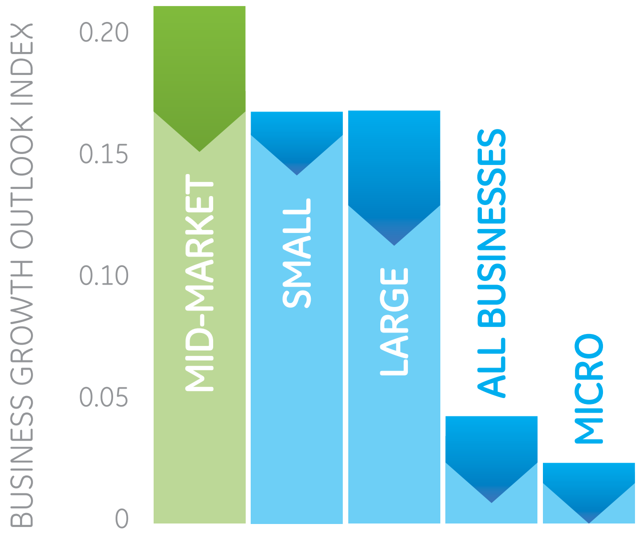
TROUBLE SPOTS REMAIN - the mining boom has resulted in a continued high dollar.

1. CFO Business Growth Outlook Index

1.1 Economic backdrop

On the face of it, the indicators for the Australia economy are good. Unemployment was at 5.2% in March, interest rates were also low and inflation remained under control. Retail sales figures improved slightly with the value of retail sales rising by a strong 0.9% in the month of March and retail sales volumes rising 1.8% in the March quarter. Trouble spots remain though – the mining boom has resulted in a continued high dollar, which has affected trade-exposed industries such as tourism and manufacturing. Companies are also voicing concerns about productivity. Uncertainty about global economic conditions, including the European sovereign debt crisis and sluggish economic recovery in the US, has affected business and consumer confidence.

It is against this backdrop that the sentiments of Mid-Market CFOs are measured in the *GE Capital Mid-Market CFO Business Growth Outlook Index* and may help to explain the downturn in optimism among Australian businesses which began early in 2011 and continued falling until February 2012, when the Index stabilised at lower levels.



Decline in the Mid-Market compared to other business sectors from September 2011 to March 2012.

> "The Mid-Market stood out from the other sectors in remaining more optimistic than any other sector throughout the decline and in the brevity of the downturn that it suffered.

The Mid-Market, however, stood out from the other sectors in remaining more optimistic than any other segment throughout the decline and in the brevity of the downturn that it suffered. The downturn commenced later for the Mid-Market than any other sector. It also finished its downturn earlier than for any other sector excepting for Small Business, which had undergone an early and sustained fall.

1.2 Index performance Oct-Mar 2012

At the end of the last survey period (September 2011), the *GE Capital Mid-Market CFO Business Growth Outlook Index* sat at 0.209 for the Mid-Market. At that point, the *Future Expectations Index* had been in steady decline – which did not bode well for the months ahead. So the decline of the *Business Growth Outlook Index* to a low of 0.166 in January 2012 came as little surprise.

While the overall Index has remained steady since its low in January, the *Future Expectations Index* has lifted significantly in February and March of this year, which points to a growing optimism among CFOs – and a renewed focus on growth opportunities. Indeed, the rise in the *Future Expectations Index* from January 2012 (at 0.29) to February 2012 (at 0.31) was the single largest rise in this Index since mid-2010.

The *Current Conditions Index* has also improved recently, although the rise occurred later than the *Future Expectations Index* and the improvement was smaller.

Between September 2011 and February 2012, the *Current Conditions Index* fell from 0.09 to 0.02. In March, it rose slightly, which indicates a growing optimism among Mid-Market CFOs as they shift their focus back towards growth-related issues. While the recovery of this Index is still in its earliest stages, the signals point to ongoing gains as the *Current Conditions Index* tracks the path of its lead indicator, the *Future Expectations Index*.

For a more detailed explanation of the Index see Appendix 1 on page 36.

Overall, the Mid-Market has fared well compared to the Micro, Small and Large business sectors. All of these sectors experienced a more protracted and significant decline in optimism, and have taken longer to rebound.

At its peak in August 2011, the *Business Growth Outlook Index* for the Mid-Market was 0.22, dropping slightly in September to 0.21, and falling to a low of 0.17 in January 2012 (see Chart 2). Falls experienced by the other sectors were all larger including the fall by the Small business sector, which was twice as large.

Chart 1: Business Growth Outlook Index and component measures for the Mid-Market (June'10 to March'12).

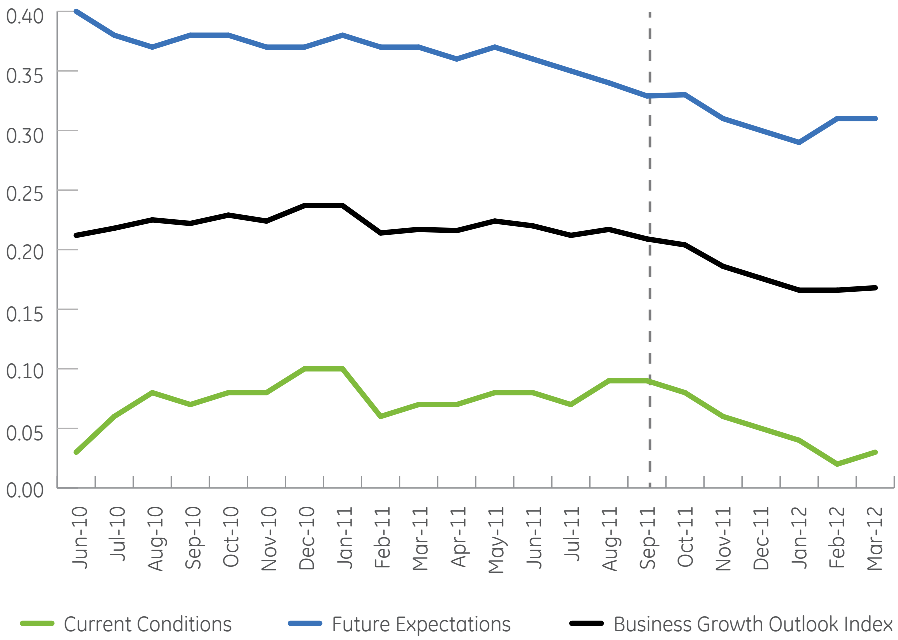
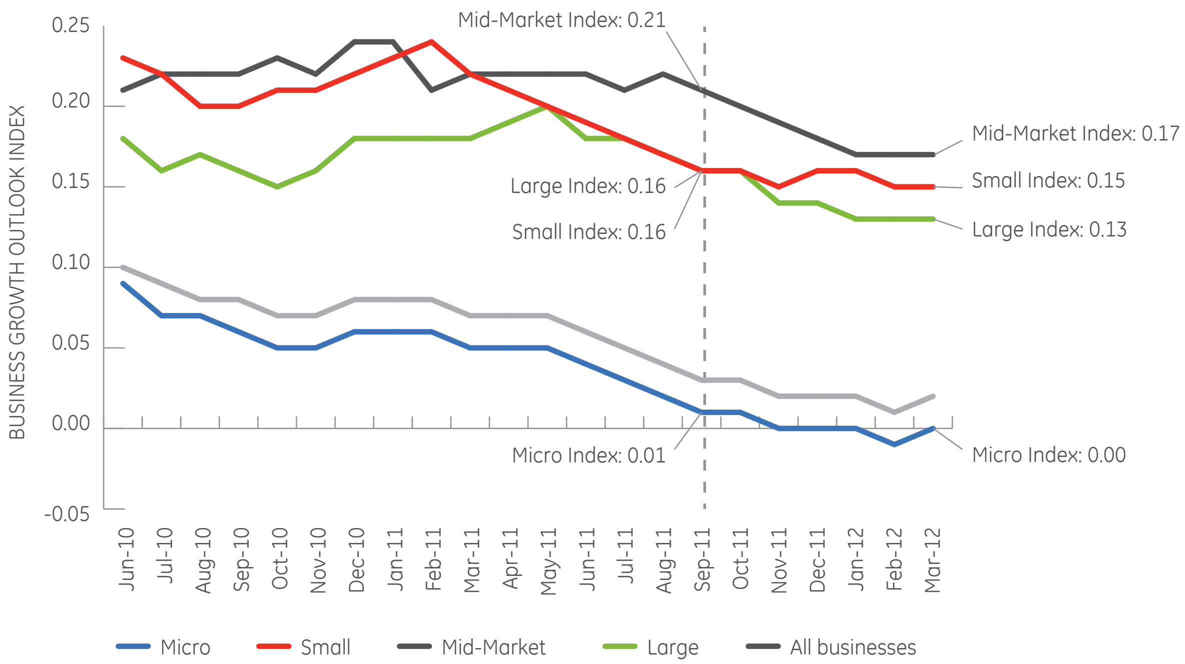
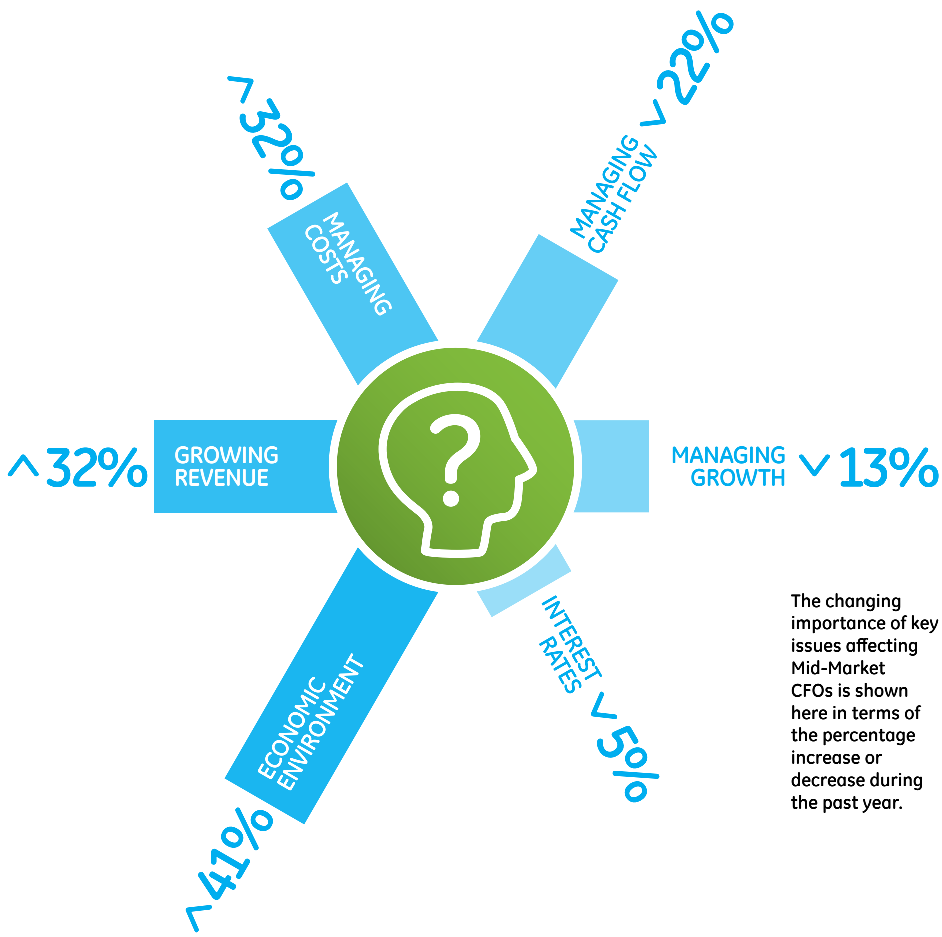


Chart 2: Business Growth Outlook Index for the Mid-Market compared with other sectors of the Australian business community (June'10 - March'12).

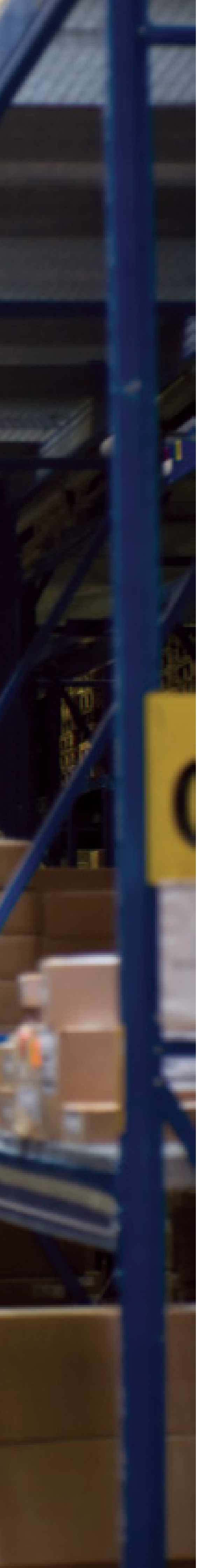


The Future Expectations Index has lifted significantly in February and March of this year, which points to a growing optimism among CFOs – and a renewed focus on growth opportunities.



The changing importance of key issues affecting Mid-Market CFOs is shown here in terms of the percentage increase or decrease during the past year.

WINNERS & LOSERS - the current strength of some industries in the Australian Mid-Market is making it difficult for others to thrive.



2. Industry-specific findings

There are always going to be winners and losers in any economic climate, but the current strength of some industries in the Australian Mid-Market is making it difficult for others to thrive. The figures show that the severity of the downturn has varied widely from one industry to the next.

Manufacturing and Wholesale Trade have suffered the largest declines. Most other industry groups have suffered only milder declines. Business & Property has remained the most optimistic industry group over the last six months. The Other Industries group appears to have been virtually untouched by the downturn in sentiment.

The question is whether the stronger industries like Business & Property can prop up the entire sector while industries like Manufacturing and Wholesale Trade are dragging it down. Given that Manufacturing accounts for 13% of the Mid-Market and is facing ongoing structural challenges and a historically high Australian dollar, it will be very interesting to see how its performance over the rest of 2012 impacts the Mid-Market as a whole.

Most industries remain focused on growth except Wholesale Trade. The *Business Growth Outlook Index* for Wholesale Trade is close to zero, indicating that the industry is approaching a point where CFOs are as focused on dealing with *barriers to growth* as they are on *opportunities for growth*.

Construction, which had suffered a very significant collapse in September 2011, has recovered slightly, but remains weak compared to most other industries.

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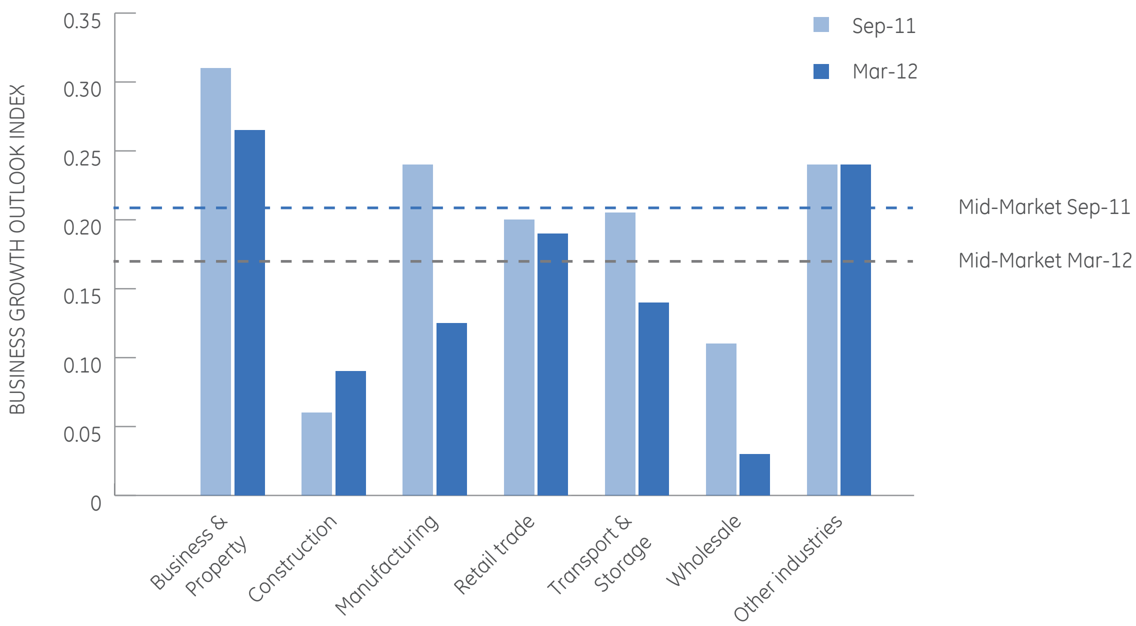
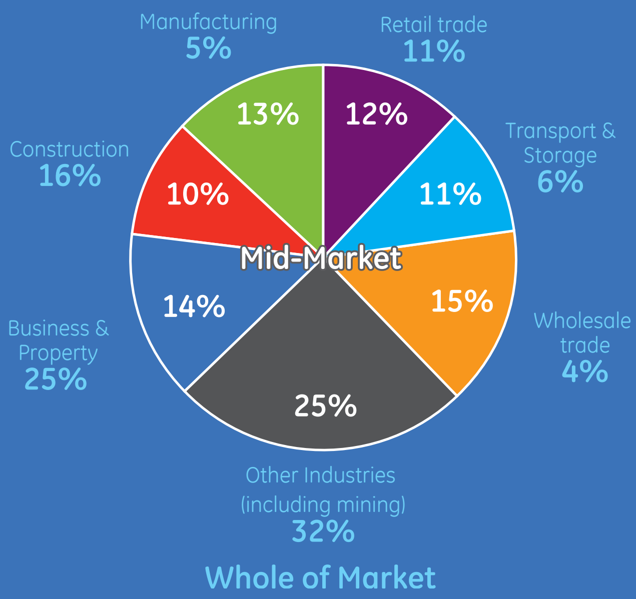
Chart 3: Comparison of Business Growth Outlook Index by Mid-Market industry comparing September 2011 with March 2012.



MID-MARKET INDUSTRY GROUPINGS

- The largest industry group within the Mid-Market is Other Industries, which makes up 25% of the total. Other Industries is dominated by service sector industries drawn from finance and insurance, accommodation, cafes and restaurants, communications, culture and recreational services, education, health and community services, and personal and other services. The Other Industries group also includes mining as well as agriculture, and electricity, gas and water utilities.
- Wholesale Trade is the next largest industry group at 15%.
- Business & Property accounts for about 14% of Mid-Market businesses.
- Manufacturing (13%), Retail trade (12%), Transport & Storage (11%) and Construction (10%) are all smaller and make up the remainder of the Mid-Market.
- The Mid-Market is heavily represented in Manufacturing, Transport and Wholesale Trade compared with the entire business community. By comparison, the Mid-Market has lower representation in Business & Property, Construction and Other Industries. As Micro business dominates the business community, the Whole of Market is strongly representative of the Micro business segment.
- The Mid-Market industry profile has changed little over the last six months.

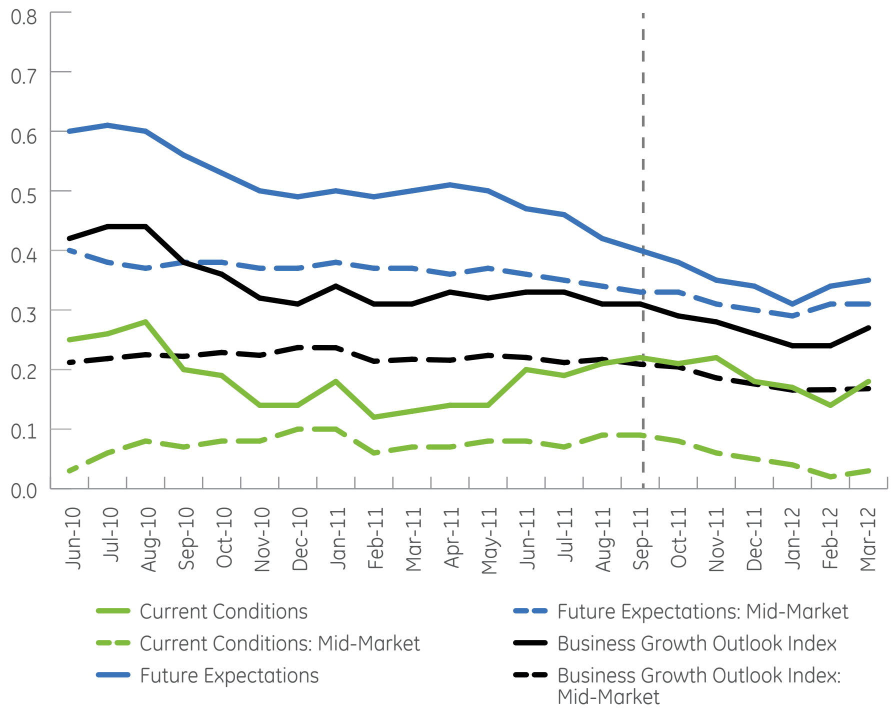


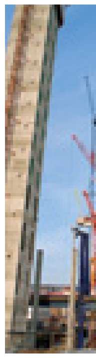
Business & Property

Business & Property has been showing clear signs of recovery since February 2012. It accounts for 14% of the Mid-Market and remains the most optimistic, with a small fall in its *Business Growth Outlook Index* from 0.31 to 0.27. Clear signs of recovery were led by a rebound in the *Future Expectations Index* and then followed by a shift in the *Current Conditions Index* in March 2012.

The key concerns for Business & Property over the last six months have been *growing or maintaining revenue* followed by *economic environment* and *managing costs*, which increased the most of any issue, becoming the third most commonly cited issue of concern. *Finding staff* has declined as key concerns for Business & Property over the last six months in line with other industries.

Chart 4: Business Growth Outlook Index and component measures for Mid-Market Business & Property compared with Mid-Market (June 2010 to March 2012).





Much of the upturn in the industry between February and March 2012 occurred as a result of decreased concern with the *economic environment*.

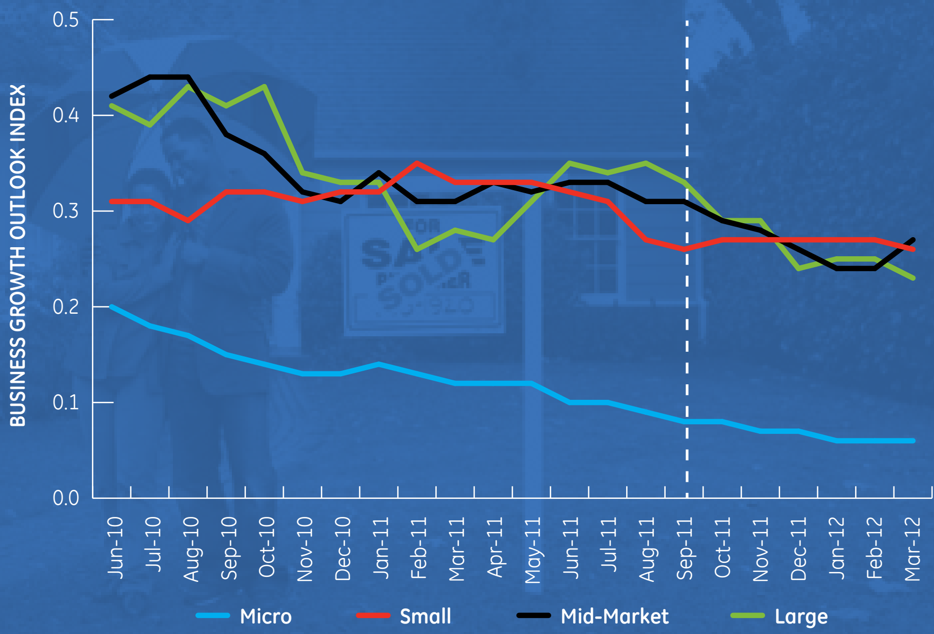
Compared with the Mid-Market as a whole, Business & Property appears to be more focused on growth related issues such as *growing or maintaining revenue* and less concerned about the *economic environment*.

Talent management remained the more important set of issues compared with *capital resourcing* for Business & Property through 2011 and continuing into 2012. By March 2012, both *talent management* and *capital resourcing* had retained their respective importance compared with September 2011.

BUSINESS & PROPERTY – MID-MARKET VERSUS SMALL AND LARGE SECTORS

The Business & Property sector in the Mid-Market has maintained a similar level of business confidence to that seen in the Small and Large business sector over all of 2011 and in early 2012. The Business & Property sector, across all sector, has experienced a decline in confidence since about mid-2011.

There is no real evidence of recovery in any segment except the Mid-Market. For the Small business segment, a halt to the decline in confidence began around October 2011, however, there has been no real lift in confidence since then and a further slight decrease in March 2012. There is also evidence of a levelling out of the decline in business confidence in the Micro sector since February 2012. In the Large business market, there was an improvement then fall back in confidence between January and March 2012. **Mid-Market Business & Property is the only** sector **to show clear evidence of a recovery in the last two months.**



Construction

Construction, which is the smallest industry in the Mid-Market at 10%, was also weak in September 2011. Since then, it has recovered to reach 0.10 in the *Business Growth Outlook Index* in March 2012. This recovery was driven largely by its *Future Expectations Index*, while the *Current Conditions Index* continues to languish in negative territory.

Hampering the industry is the *economic environment*, which 60% of its CFOs cited as a key concern, and the challenge of *finding staff*, probably due to competition with the mining industry. It is likely that a combination of these issues acted as a double brake on the industry's sentiment. *Government regulation* also emerged as a more significant issue.

(continued overleaf)

Over the last six months, *capital resourcing* issues came to be more important than *talent management* issues in Construction. In September 2011, *talent management* issues were still more important than capital resourcing, however, *talent management* had been declining in importance. That trend continued in the succeeding six months, while *capital resourcing* became more important, overtaking *talent management* in January 2012.

Chart 5: Business Growth Outlook Index and component measures for Mid-Market Construction (June 2010 to March 2012).

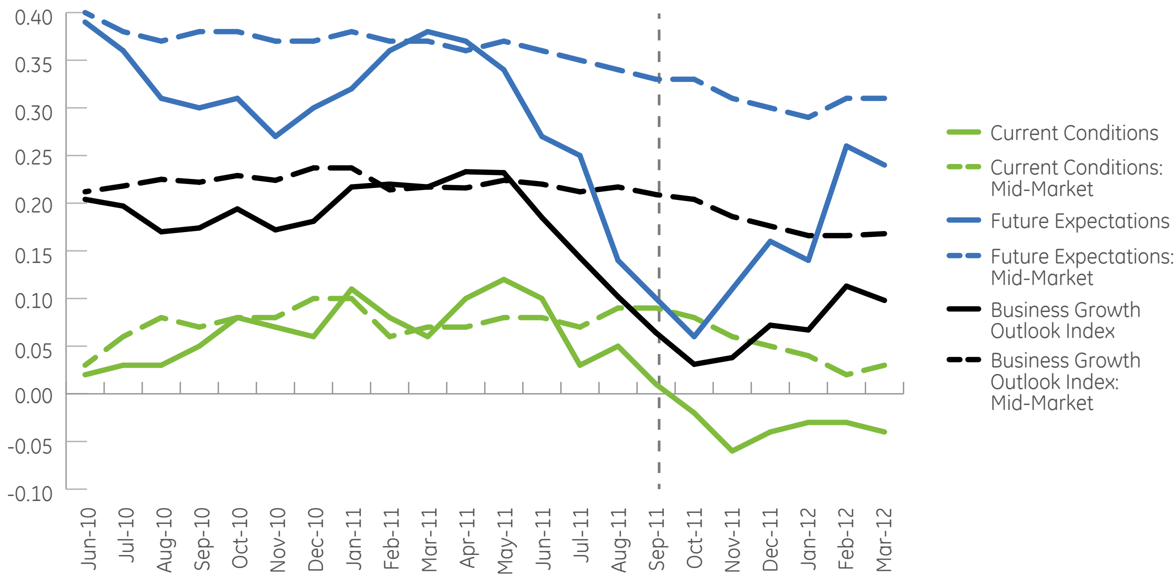
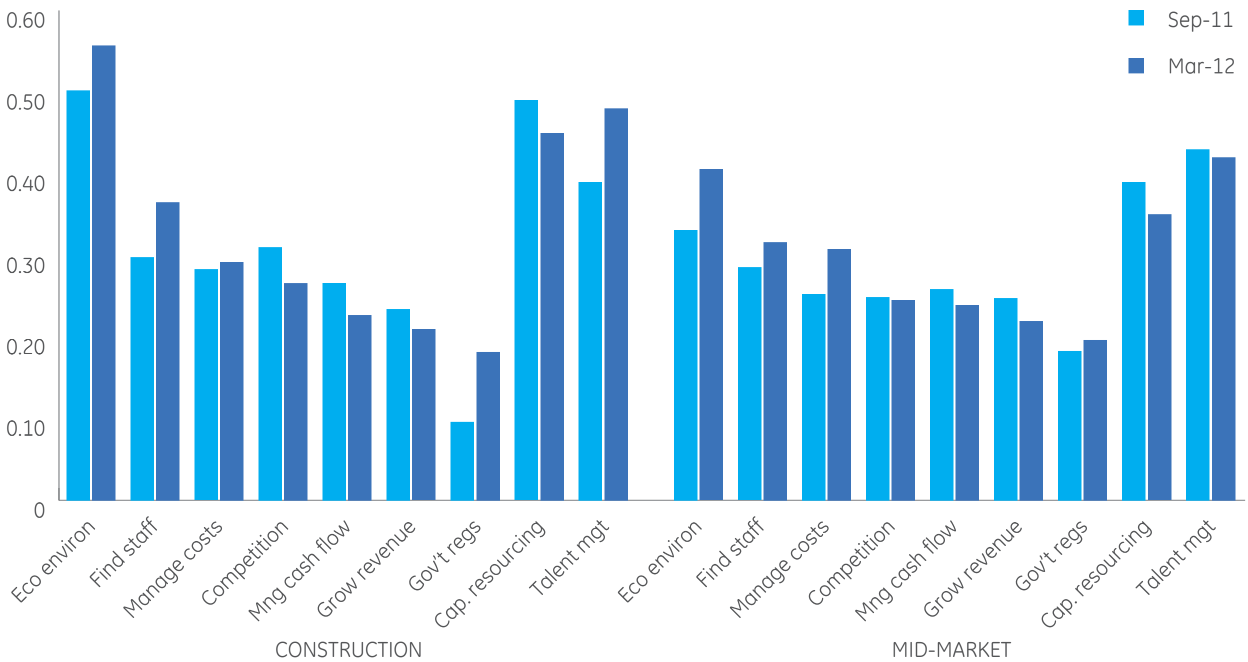


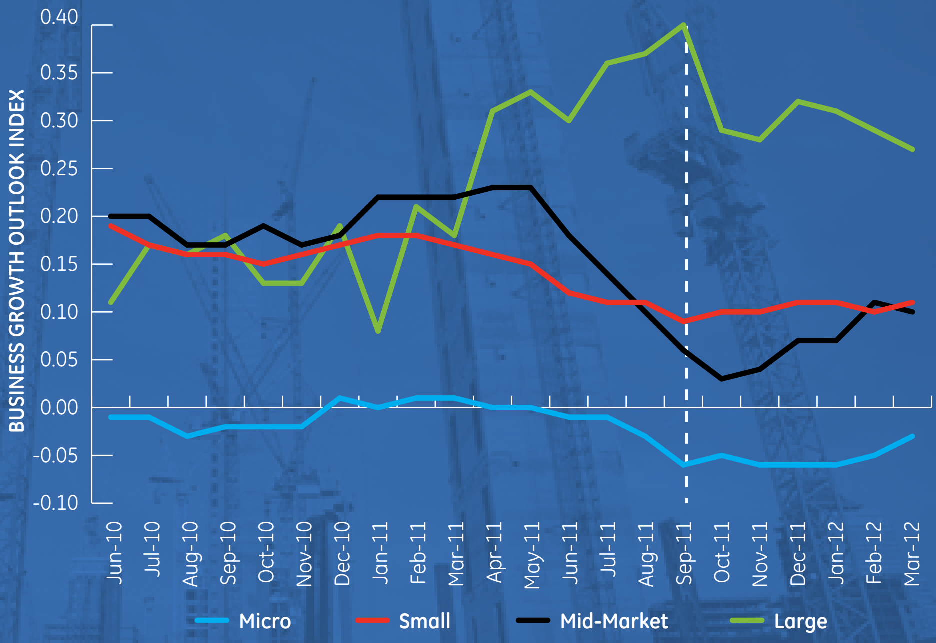
Chart 6: Seven main current issues and capital resourcing and talent management for Construction comparing September 2011 with March 2012, with comparative issue for the Mid-Market.

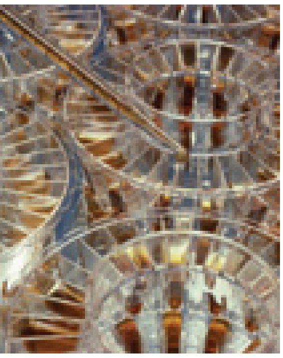


CONSTRUCTION – MID-MARKET VERSUS SMALL AND LARGE SECTORS

The decline in confidence across Construction has been felt most keenly in the Mid-Market, but equally, the Mid-Market recovery has been the most dramatic of the four sectors.

In the Large business sector, the decline in confidence that occurred after September 2011 followed a period of very strong and rising confidence. There is no clear evidence of recovery in the Large business sector. For the Small business market, confidence in the Construction sector declined gradually between early 2011 and September; since then it has been gradually improving. Construction in the Micro business market saw only a mild decline in confidence, however, it began at a low level and was clearly negative at its low point around December 2011.





Manufacturing

Manufacturing, which accounts for 13% of the Mid-Market, has suffered a steep decline and signs of recovery remain weak. The overall *Business Growth Outlook Index* for Manufacturing has fallen significantly since September 2011 – dropping from 0.25 then to 0.13 in March 2012. This has seen its ranking drop from equal second in September (on par with Other Industries) to fifth in March 2012. The main impact on this decline has been the *Current Conditions Index*, with CFOs reporting a dramatic shift in focus towards *barriers to growth*, specifically the *economic environment* and *managing costs*.

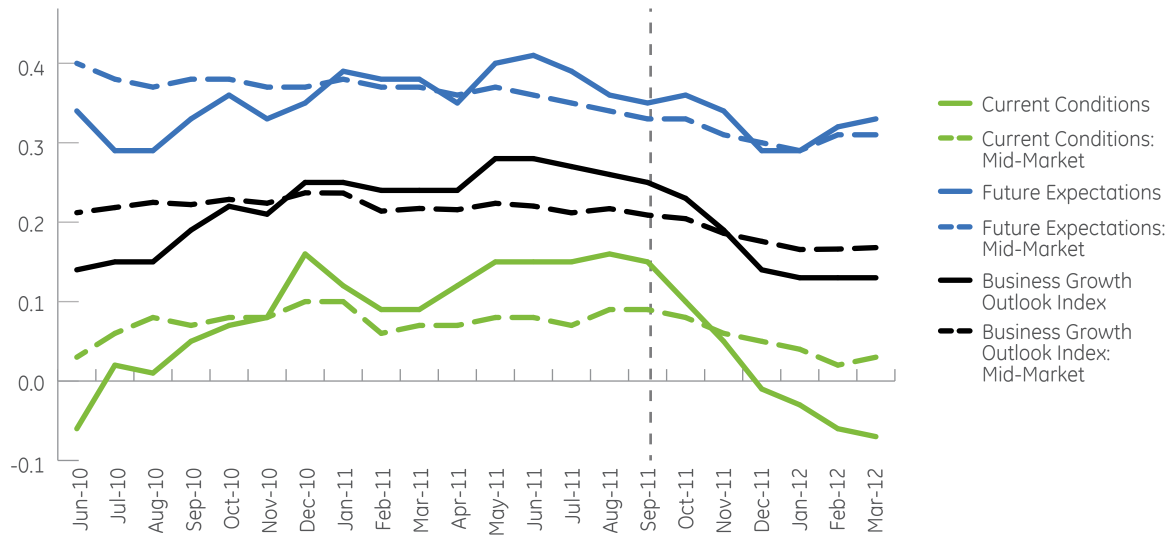
The decline is being driven by *Current Conditions*. While *Future Expectations* for growth have remained relatively positive, perceptions of *Current Conditions* have shifted markedly towards *barriers to growth*. Unlike most other industries, there has been no sign of a recovery in the *Current Conditions Index* in the last few months, which is at variance to the improving *Future Expectations* for growth. This implies that Manufacturing CFOs – while dealing with difficult immediate circumstances – could be anticipating a turnaround later in this year.

The sharp decline in the *Current Conditions Index* has been fuelled by a large increase in concern about the *economic environment* and *managing costs*. Exchange rate concerns have also clearly been felt, reflected in high and increasing levels of concern about the *value of the Australian dollar* and *foreign exchange rates*. Concern about these issues has not eased in recent months.

Talent management and *capital resourcing* issues both declined in importance in Mid-Market Manufacturing between September 2011 and March 2012. The decline in these issues reflected the large increase in concern about *economic conditions* and *managing costs*. In September 2011, both *talent management* and *capital resourcing* were both equally important, which continued for most of the next six months and was also the case in March 2012.

(continued overleaf)

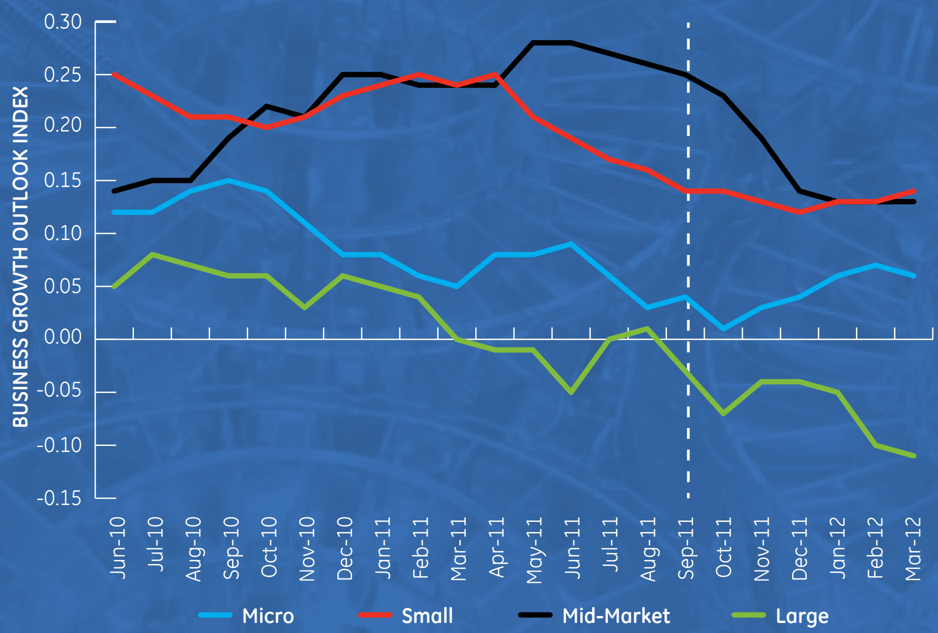
Chart 7: **Business Growth Outlook Index and component measures for Mid-Market Manufacturing compared with Mid-Market (June 2010 to March 2012).**

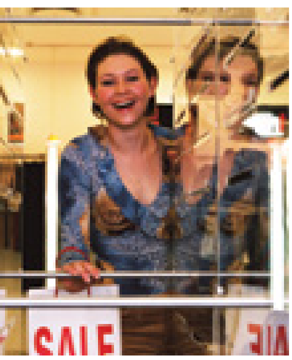


MANUFACTURING – MID-MARKET VERSUS SMALL AND LARGE SECTORS

Manufacturing in the Mid-Market has had a considerably higher level of confidence than any of the other sectors over much of the last 12 months. However, following a period of steep decline between October and December 2011, confidence throughout 2012 has been at about the same level as for Small business manufacturing. Evidence of any real recovery among Mid-Market manufacturers is, as yet, only tentative.

Large business manufacturers are by far the worst hit for confidence. Excepting for only one month in the last year, confidence for Manufacturing in the Large business sector **has been consistently negative, and is showing no sign of recovery.** The only sector to show a recovery is Micro business, which has been building confidence since November 2011.





Retail

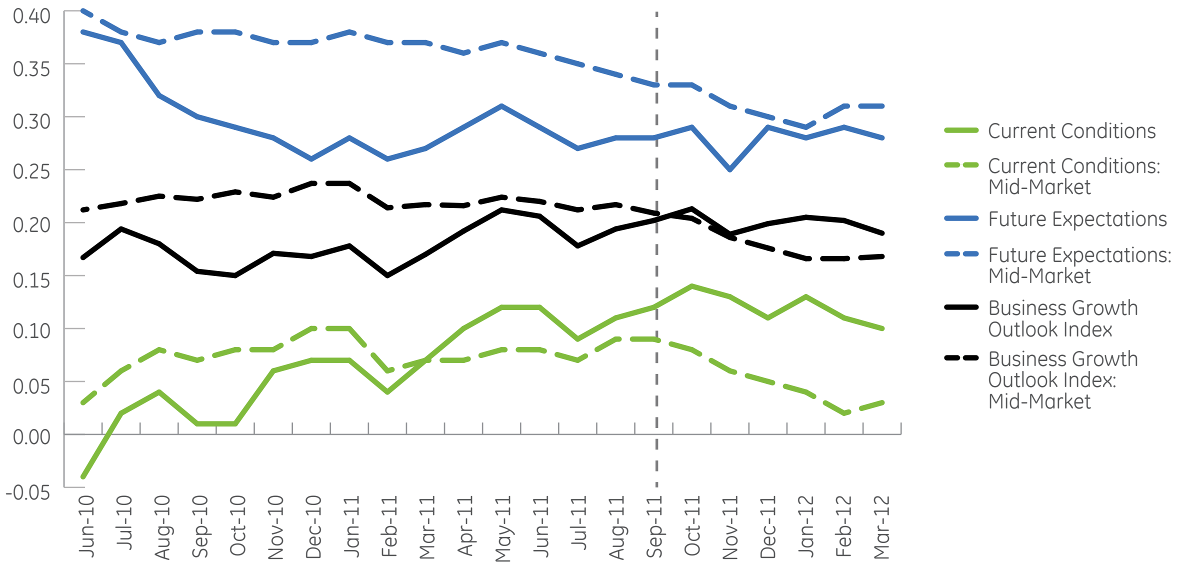
Retail trade in the Mid-Market, which makes up 12% of the sector, also has quite a strong growth outlook, and is certainly more growth oriented here than in the other sectors. **Retail trade in the Mid-Market has not been affected by the general downturn in sentiment, experienced by Retail trade in the other sectors (see box on right), and remains positive with rising expectations of growth.**

This optimism has been significant enough so that in March 2012 the *Business Growth Outlook Index* for Retail had moved to be above the Mid-Market average. *Future Expectations* for growth has improved since September 2011 to be now only slightly below average. Perceptions of *Current Conditions* have remained largely constant when perceptions by the Mid-Market as a whole clearly shifted away from growth towards barriers.

For Mid-Market Retail, *talent management* was more important than *capital resourcing* issues throughout the last six months, however, compared with September 2011, the gap between the two had narrowed by March 2012.

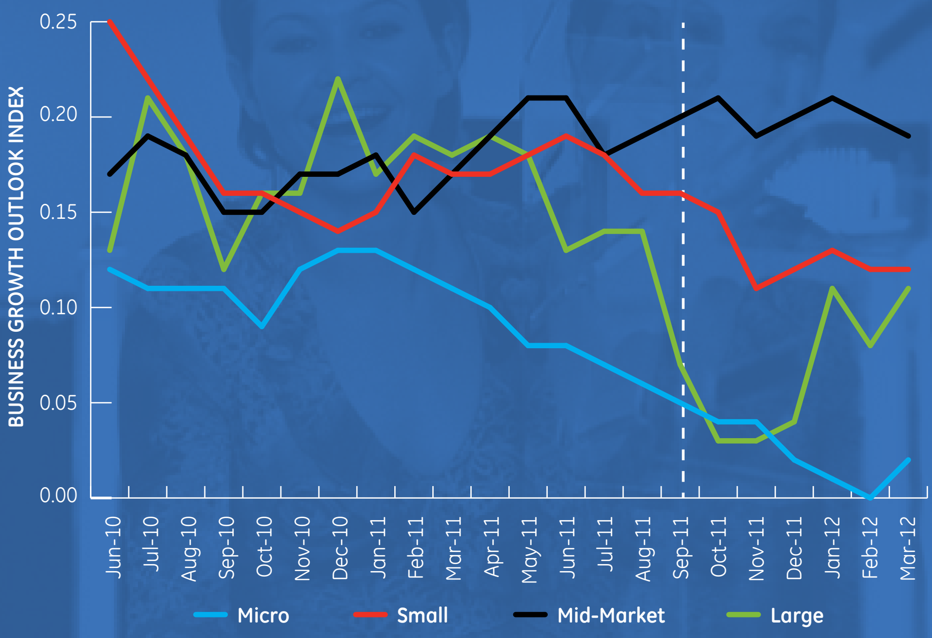
Over the period between September 2011 and March 2012, the importance of *talent management* declined, particularly between October and December 2011. At the same time, the importance of *capital resourcing* increased, almost as a mirror image.

Chart 8: Business Growth Outlook Index and component measures for Mid-Market Retail trade compared with Mid-Market (June 2010 to March 2012).



RETAIL – MID-MARKET VERSUS SMALL AND LARGE SECTORS

By March 2012, Retail trade in the Mid-Market was expressing the most confidence of any of the four sectors, having shown no clear period of decline at all. All three of the other sectors did have clear periods of decline, with Micro suffering the longest decline and Large business experiencing the largest fall. The Large business sector also had the largest rebound, after November 2011, with the fall in confidence experienced from September 2011 regained. Micro has enjoyed only a very minor improvement in March while any recovery in the Small business sector is minimal at this stage.



Transport & Storage

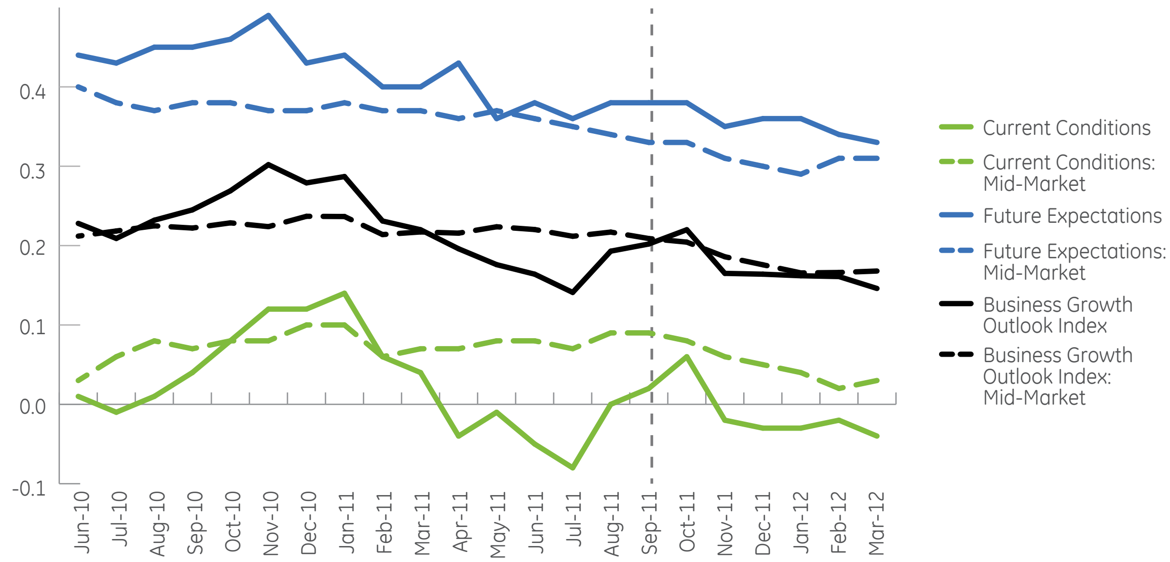
Transport & Storage accounts for 11% of the Mid-Market, and has experienced a decline similar to the Mid-Market as a whole, but is yet to shown clear signs of recovery. This followed an earlier period of decline and recovery during 2011. *Future Expectations* for growth have been slightly above average.

The decline in the *Current Conditions Index* since September 2011 reflects a significant rise in concern about the *economic environment* and a decline in concern about *finding staff* and *managing cash flow*. *Keeping staff* has significantly increased as a concern and plays a much greater role in Transport & Storage than it does in other parts of the Mid-Market.

Government regulations – traditionally more important in the industry – also gained traction as an issue, most likely reflecting increased discussion about a carbon tax. Faced with more difficult economic conditions, this industry appears to have adopted a more defensive stance and is seeking ways to reduce costs and grow revenue.

Talent management in Mid-Market Transport & Storage declined markedly in importance over the six-month period between September 2011 and March 2012 (see chart 9). Over the same period, *capital resourcing* became more important. As a result, *talent management*, which began the six month period more important than *capital resourcing*, finished considerably less important overall and less important than *capital resourcing*. In contrast, *capital resourcing* became more important over the period.

Chart 9: Business Growth Outlook Index and component measures for Mid-Market Transport & Storage compared with Mid-Market (June 2010 to March 2012).



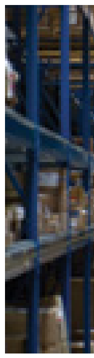
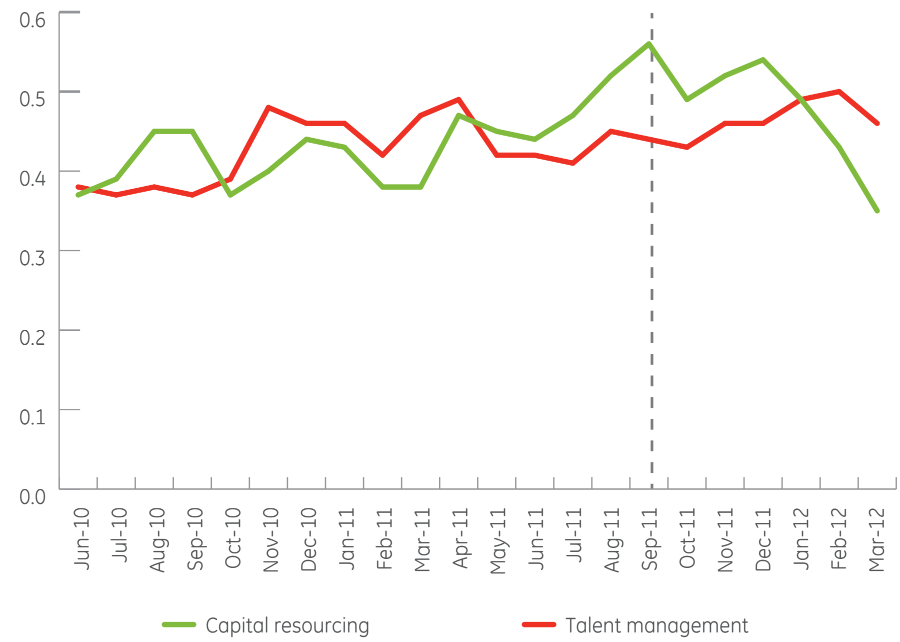


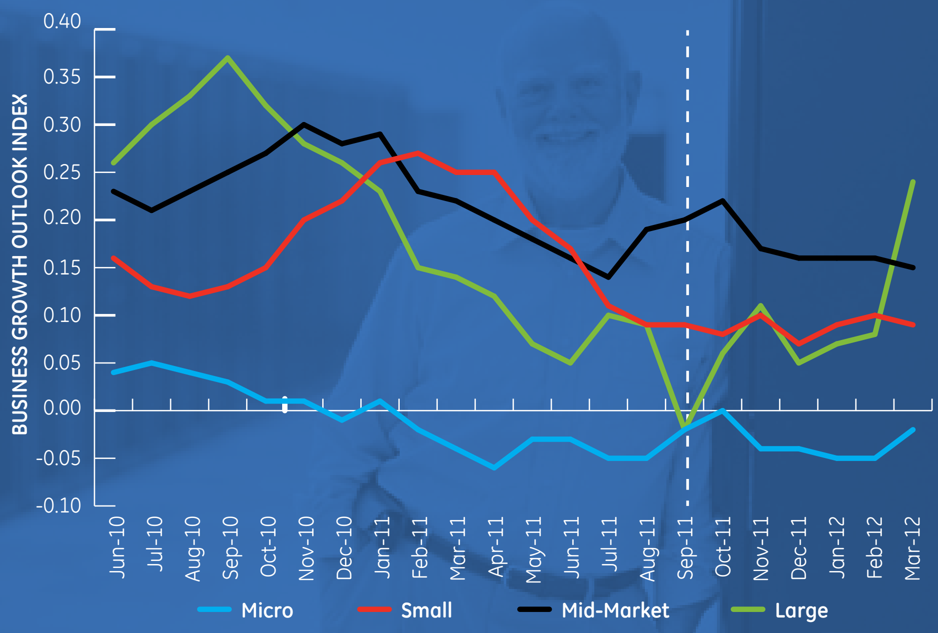
Chart 10: Capital resourcing and talent management indices for Mid-Market Transport & Storage.



TRANSPORT & STORAGE – MID-MARKET VERSUS SMALL AND LARGE SECTORS

The Mid-Market Transport & Storage sector experienced a relatively mild decline in confidence compared with the industry in the Small and Large business sectors. The decline in confidence among Micro businesses was shallow, however, the level of confidence measured by the Business Growth Outlook Index among Micro businesses in the Transport & Storage sector has been negative since February 2011.

After a sustained period of a decline in confidence, the Large business sector of Transport & Storage fell into negative territory in September 2011. However, the sector has been recovering since, with rises in the Business Growth Outlook Index occurring every month except one. The Large business sector is now the most confident of the Transport & Storage industry.



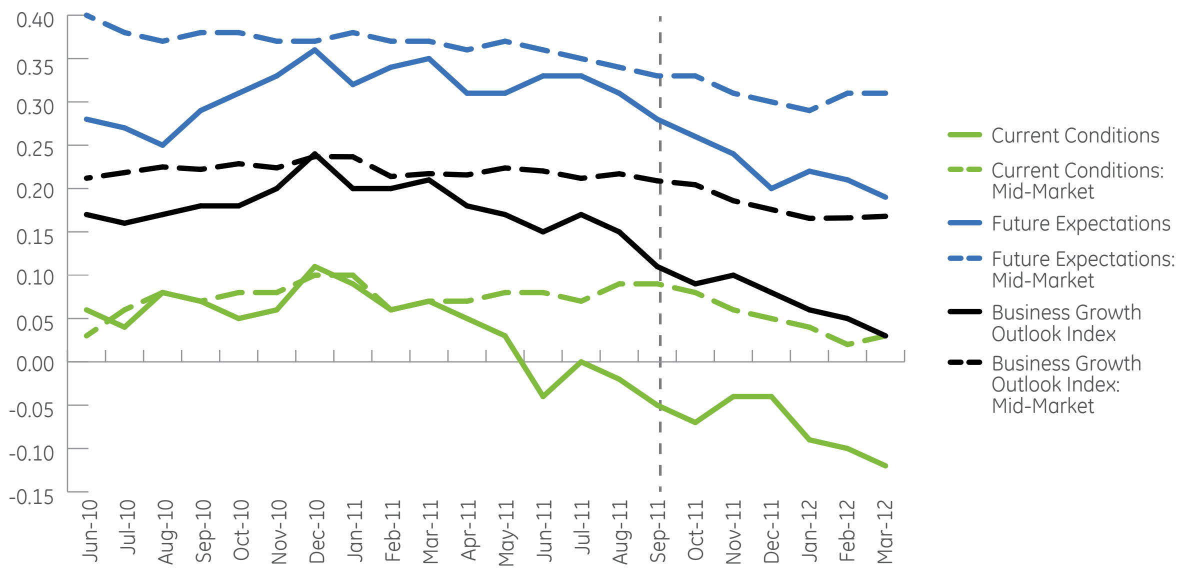
Wholesale Trade

Wholesale Trade, which accounts for 15% of the Mid-Market, has been the hardest hit. It is the worst performing industry and shows no signs of recovery, having been in a constant state of decline since March 2011. By March 2012, its *Business Growth Outlook Index* value of 0.03 was only marginally above the important Index value of zero.

Both its *Future Expectations* and *Current Conditions* indices are substantially below the Mid-Market overall values.

(continued overleaf)

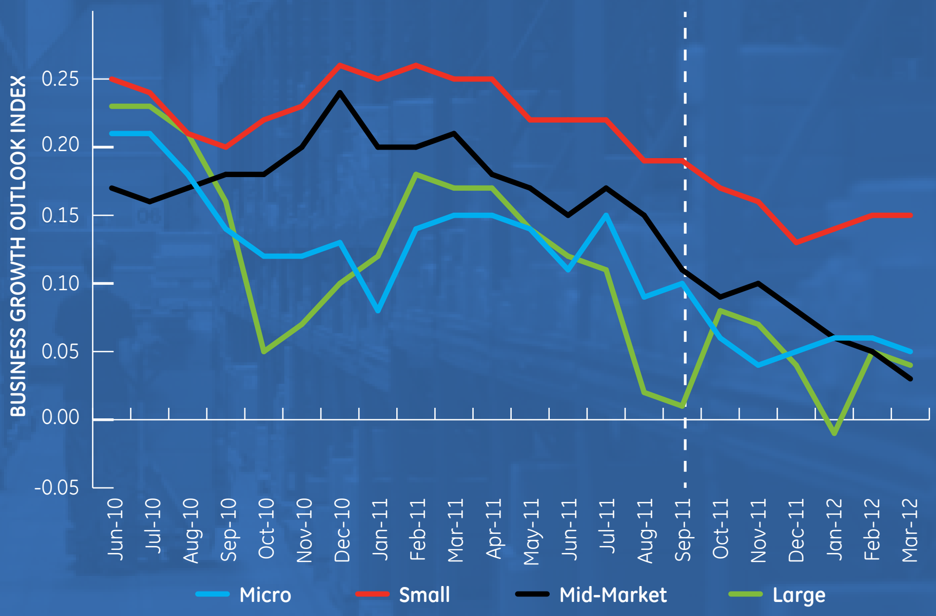
Chart 11: Business Growth Outlook Index and component measures for Mid-Market Wholesale Trade compared with Mid-Market (June 2010 to March 2012).



Economic environment is the key concern for Wholesale Trade. About half of Wholesale Trade CFOs indicated that it was a Top 3 concern. A further one-third said *growing or maintaining revenue* and one-third reported *managing costs* as a Top 3 issue. Unsurprisingly, the *value of the Australian dollar* was also a key concern. Concerns about *staffing* ranked outside the top seven issues. **Wholesale Trade is facing very difficult conditions with the continuing, clear decline pointing to an industry in crisis.**

WHOLESALE TRADE – MID-MARKET VERSUS SMALL AND LARGE SECTORS

All parts of Wholesale Trade have experienced significant declines in confidence over 2011 and 2012. The size of the declines have been broadly similar, although the time over which the Wholesale Trade sector in the Micro sector has been losing confidence could be longer. Wholesale Trade in the Small business sector has generally been more confident than the other sectors.



Other Industries (including mining)

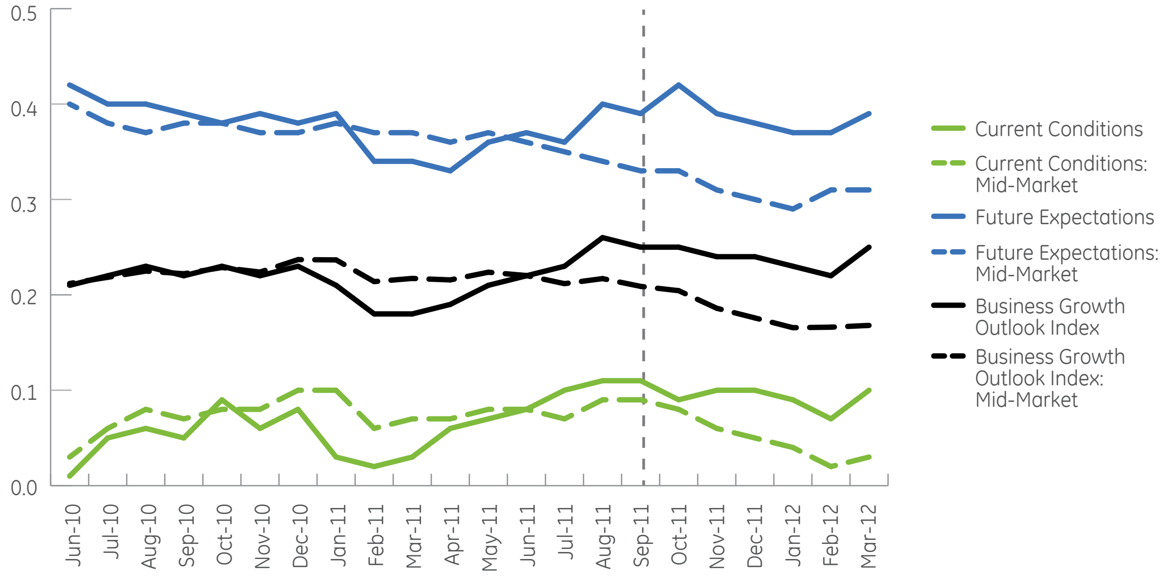
Other Industries account for about 25% of the Mid-Market and was the second strongest performing industry behind Business & Property. Over the last six months, the group's *Business Growth Outlook Index* has remained largely unchanged, reflecting similar strength in both the *Future Expectations* and *Current Conditions* indices, declining only slightly after December 2011, but then regaining that loss. This grouping is one of the engines of growth within the Mid-Market.

It should be noted that, while the contribution of the resources boom through the mining industry does play a role in the performance of the Other Industries grouping, mining is only a small component. Instead, it seems more likely that a range of service sector industries, such as communications, education, health and community services, and finance and insurance could be sustaining the sector.

Unlike other parts of the Mid-Market, *economic environment* is a relatively unimportant issue for the CFOs of Other Industries. The top concerns are *growing revenue, managing costs* and *finding staff*.

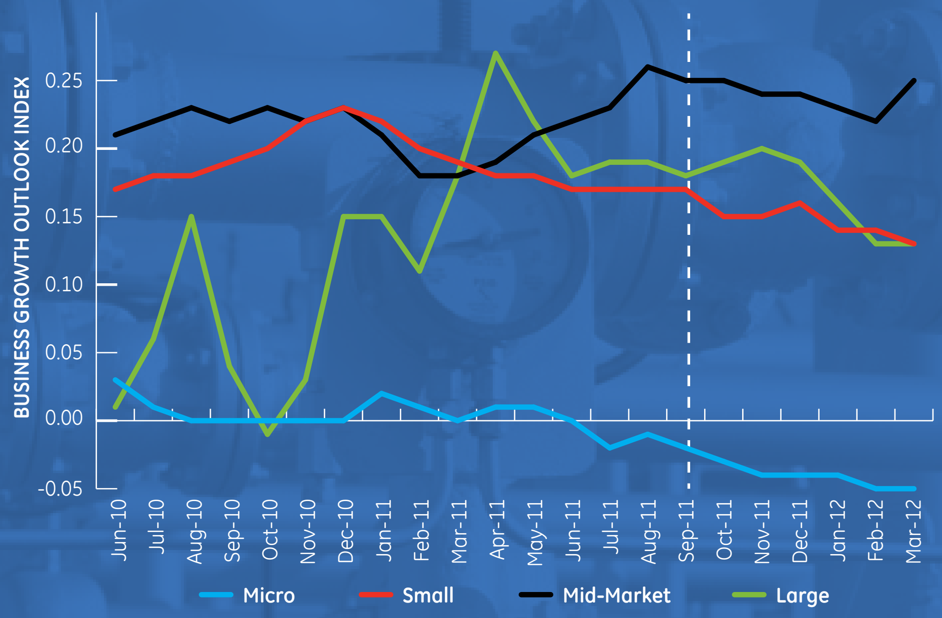
Over the six months between September 2011 and March 2012, *talent management* increased in importance, while *capital resourcing* decreased in importance in the industry.

Chart 12: Business Growth Outlook Index and component measures for Mid-Market Other Industries compared with Mid-Market as a whole (June 2010 to March 2012).

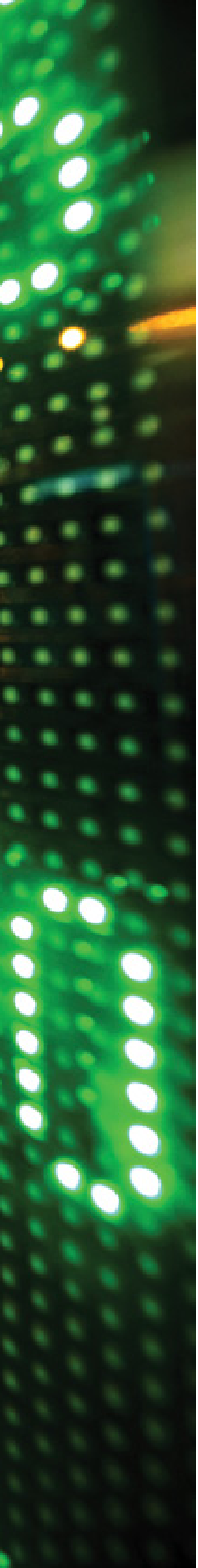


OTHER INDUSTRIES – MID-MARKET VERSUS SMALL AND LARGE SECTORS

In contrast to other sectors, **there is no real evidence of a decline in confidence among Other Industries in the Mid-Market.** Among Micro businesses, confidence began declining about the middle of 2011 and has continued since, with the *Business Growth Outlook Index* registering negative values throughout that time. The decline began earlier, around January 2011 in the Small business market, and has also continued unabated since. There is considerable volatility in the Large business market measure, however, it seems that confidence rose dramatically, peaking about April 2011, after this time it has generally fallen.



EBBS AND FLOWS - All states except Queensland followed the general trend of the Business Growth Outlook Index, showing a period of initial decline from September 2011, and then more recent signs of recovery.



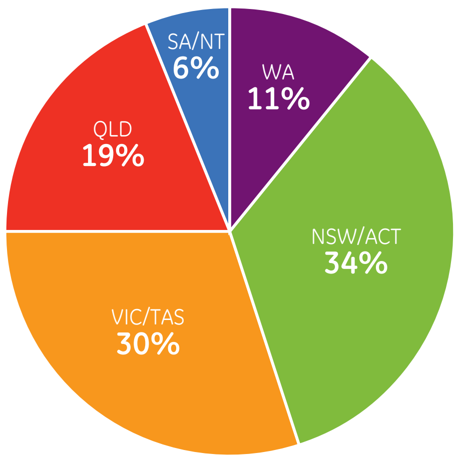
3. Mid-Market performance by state and territory

Across Australia, the Mid-Market is hard at work generating jobs and revenue. It is largest in NSW/ACT, accounting for 34% of the total sector and is smallest in South Australia/Northern Territory, with just six per cent of the sector.

All states except Queensland followed the general trend of the *Business Growth Outlook Index*, showing a period of initial decline from September 2011, and then more recent signs of recovery. Yet each state recorded distinct ebbs and flows.

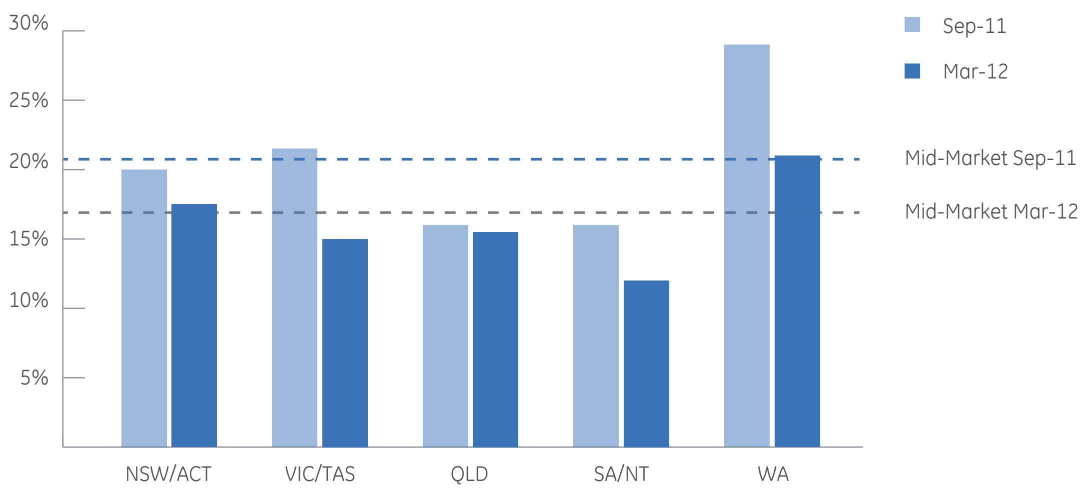
The resources boom has played a significant role in the differences among the states. Western Australia, which was the most growth-oriented of the states in September 2011, remains clearly the most positive in March 2012. This is despite a steep fall in its sentiment – reflecting perhaps a more realistic assessment of the impact of the resources boom in the general business community.

Queensland, which has also benefited significantly from the resources boom and has been recovering after natural disasters early in 2011, was the only state to show no decline in the *Business Growth Outlook Index* over the six months.



The distribution of Mid-Market businesses among the states.

Chart 13: Comparison of Business Growth Outlook Index in the Mid-Market by states comparing September 2011 with March 2012.



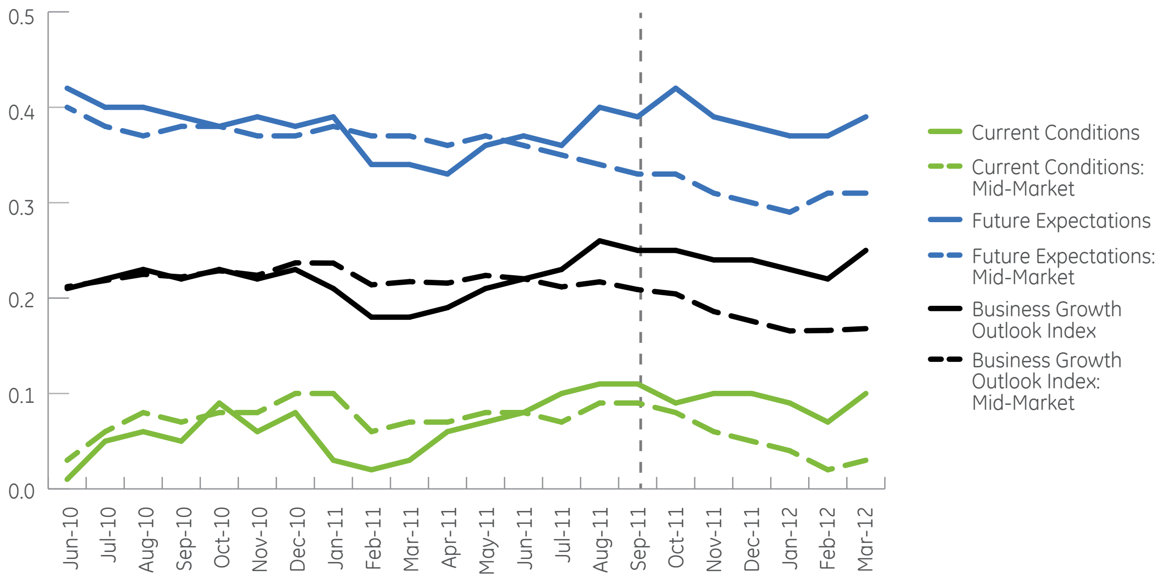
New South Wales and the Australian Capital Territory

The Mid-Market in NSW/ACT over the last six months has very closely followed the sentiment of the Mid-Market as a whole – this is partly because of the size of the state and what happens in NSW/ACT statistics will be reflected in the national statistics. Following a decline in its *Business Growth Outlook Index* over the last six months there is evidence of an upturn from February 2012 onward. Concerns of NSW/ACT CFOs are also very similar to those nationwide; although there was slightly more concern about *growing or maintaining revenue*.

It is interesting to note the coincidence of the NSW State Elections held in late March 2011 and the steep, short-term rise in the Index over the next month for the state, followed by a longer-term fall in confidence back to similar levels.

NSW/ACT has a higher than average proportion of Other Industries grouping businesses in the Mid-Market (29% versus 25% overall), within which the finance and insurance sub-group is considerably stronger in profile than nationally (47% versus 33%). It has a smaller than average representation of Construction and Manufacturing industries, while a slightly stronger representation in Wholesale Trade.

Chart 14: Business Growth Outlook Index and component measures for the Mid-Market in NSW/ACT compared with Mid-Market (June 2010 to March 2012).



Victoria and Tasmania

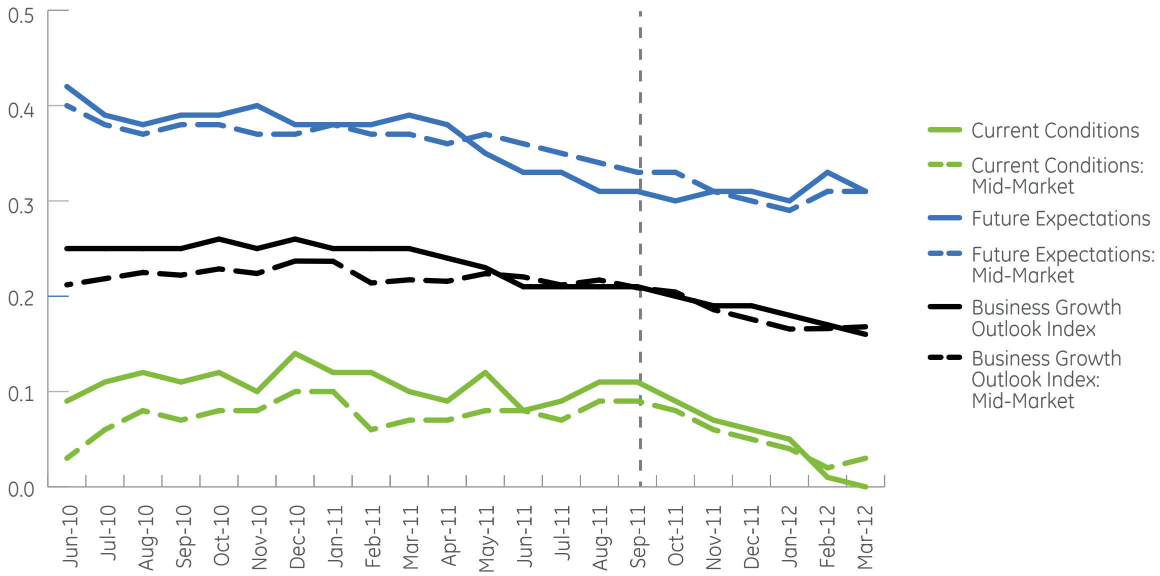
The *Business Growth Outlook Index* for Victoria/Tasmania has been in continuous decline throughout 2011 and early 2012. While the national measure showed evidence of a rebound in March 2012, it seems Victoria/Tasmania missed out.

The strong representation of Manufacturing and of Transport & Storage, both of which were less optimistic than average, and the under-representation of Retail trade in Victoria, which nationally was more optimistic than average, has very likely contributed to the Victorian/Tasmanian result.

Similar to the Mid-Market as a whole, the *economic environment* was the most commonly cited concern among Victorian/Tasmanian CFOs. The increase in concern about the economy from September 2011 to March 2012 was also similar to the national result. *Managing costs* increased as a concern substantially over the six months; more so than nationally, but lifting it to be the third most commonly cited concern and similar in level to the national result.

There is some indication that the number of Mid-Market businesses across these two states has declined over the last six months, possibly as part of a longer-term trend.

Chart 15: Business Growth Outlook Index and component measures for the Mid-Market in Victoria/ Tasmania compared with Mid-Market (June 2010 to March 2012).



Queensland

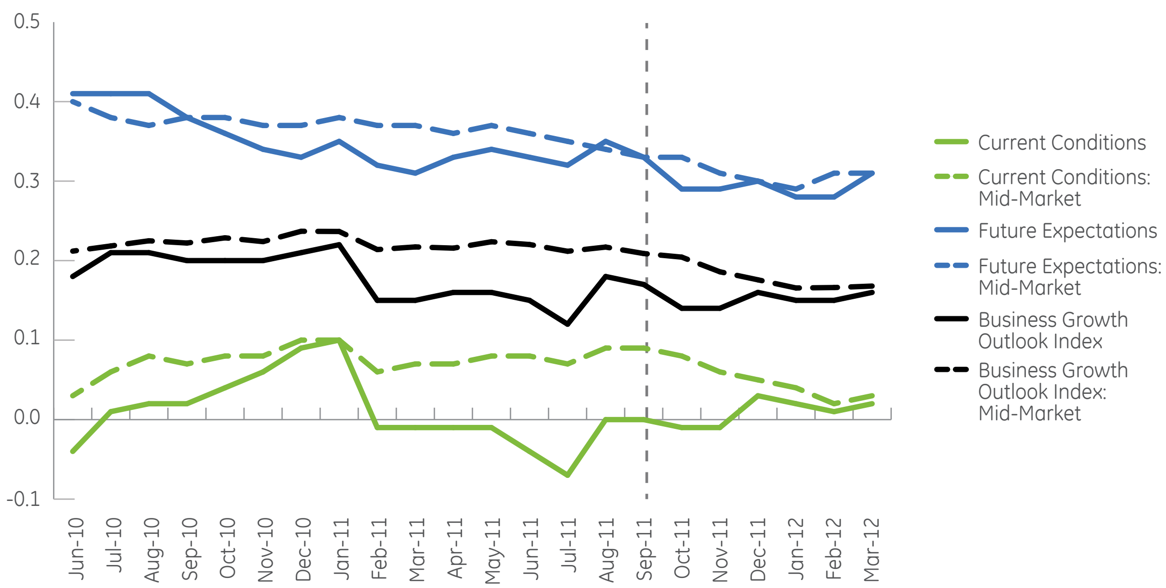
Results for Queensland have been strongly affected by the natural disasters of late 2010 and early 2011, leading to a steep decline in the *Business Growth Outlook Index* and the subsequent recovery.

Throughout 2011, the *Business Growth Outlook Index* for the Mid-Market in Queensland was well below the national average. However, as the national Index declined towards the end of 2011 into 2012, the Queensland measure began to gradually climb, reflecting a recovery. Queensland, by the start of 2012, had returned to the national average and was showing clear signs of continued recovery through the first quarter of 2012 in both *Future Expectations* and perceptions of *Current Conditions*.

The main concerns for Queensland Mid-Market CFOs reflect the recovery phase. These include *managing costs, growing revenue, finding staff* and *keeping staff*, which have all increased as concerns, and are only just behind the main concern of *economic environment*.

The number of Mid-Market businesses in the state has declined over the last six months, possibly reflecting the severe shock of the natural disasters. The Mid-Market in Queensland is strongly represented in Construction as well as, to a lesser extent, in Retail trade and Transport & Storage. The state has a relatively low representation of Other Industries.

Chart 16: Business Growth Outlook Index and component measures for the Mid-Market in Queensland compared with Mid-Market (June 2010 to March 2012).



South Australia and Northern Territory

South Australia/Northern Territory is the weakest performing group and shows no sign of recovery yet.

A fall in the *Business Growth Outlook Index* throughout much of 2011 stabilised in the last quarter of the year only to begin falling again in 2012. By March 2012, the Index fell further, accelerating the rate of decline and opening a wider gap between the national *Business Growth Outlook Index* value and that for South Australia/Northern Territory.

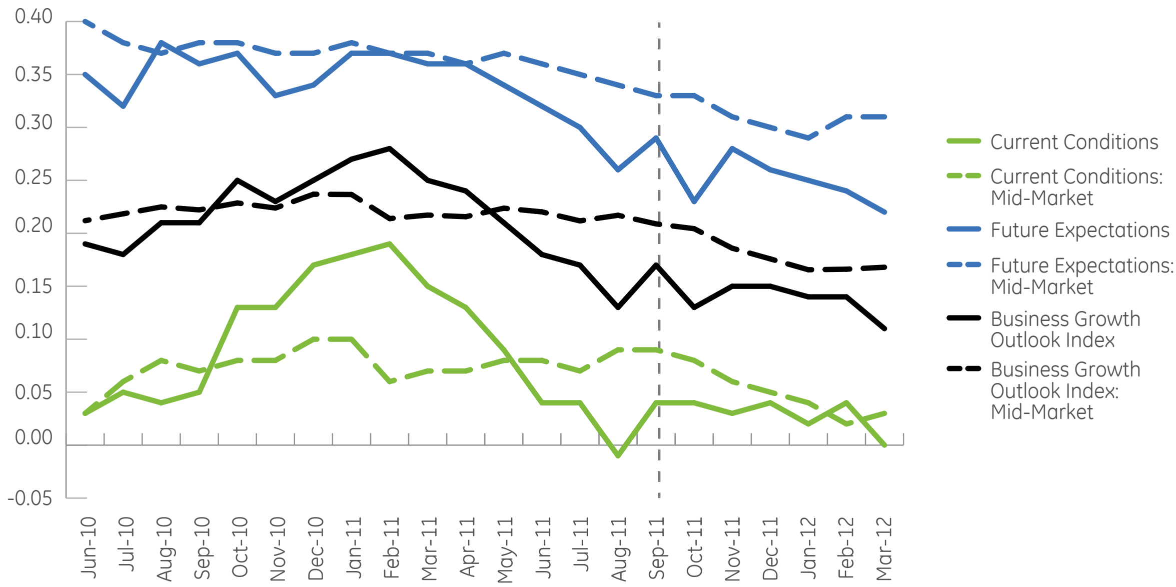
The strong influence of the Construction and Manufacturing industries in South Australia/Northern Territory, as well as the under-representation of the more optimistic Business & Property and Other Industries may lay behind some of the weakness in the indices for South Australia/Northern Territory.

Concerns about the *economic environment* dominated all other issues among South Australia/Northern Territory Mid-Market CFOs throughout 2011 and rose further by March 2012 so that just under 45% of CFOs indicated it was one of their Top 3 concerns.

A set of five issues including *cost management*, *competition with other businesses*, *finding staff* and *growing revenue* were the next most important issues. *Government regulation*, which had been considerably less important in September 2011 than it was nationally, rose very markedly over the last six months.

There is some evidence that the size of the Mid-Market in South Australia/Northern Territory is shrinking. Construction and Manufacturing play a much larger role in the Mid-Market for South Australia/Northern Territory than they do nationally. Manufacturing is the largest single industry, accounting for nearly one-quarter of all Mid-Market businesses compared against only 13% nationally. Business & Property and Other Industries are both smaller than the national average.

Chart 17: Business Growth Outlook Index and component measures for the Mid-Market in South Australia/Northern Territory compared with Mid-Market (June 2010 to March 2012).



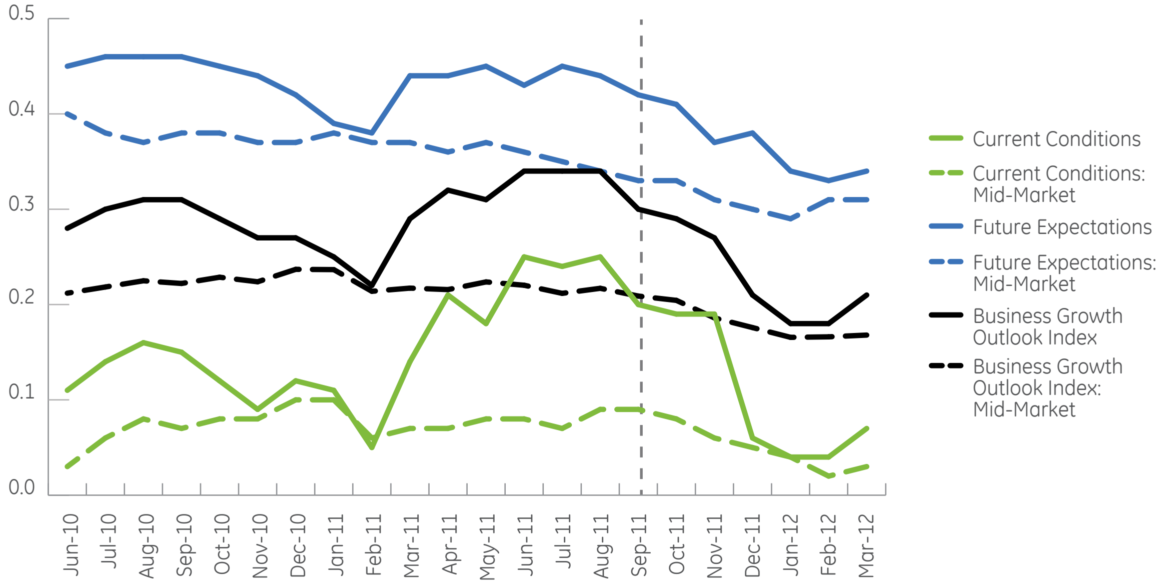
Western Australia

Western Australia is the strongest performing state but has still suffered a significant decline. Its *Business Growth Outlook Index* was above the national average in September 2011 and March 2012. However, those results do not reflect the steep fall and marked recovery in the measure that occurred during the intervening months.

The pattern of main concerns among Western Australian Mid-Market CFOs in March 2012 reflects the positive position of the state. The most commonly cited concern for the state was *growing revenue*. Although this was closely followed by concerns about the *economic environment*, the level of concern about the economy was much lower in Western Australia than it was elsewhere. *Managing costs* rose very substantially as a concern over the last six months, to be ranked third. *Finding staff*, the primary concern in September 2011, declined strongly over the six months to be fifth ranked and less important than it was nationally. Against this, there was a significant rise in concern about *keeping staff*, which nationally was much less important.

Western Australia has a much higher proportion of Construction and of Other Industry businesses, reflecting the fact it is at the heart of the resources boom. Conversely, there are relatively fewer businesses in the Business & Property and Wholesale sectors. Within the Other Industries group, most individual industries are under-represented with the notable exception of mining. Mining nationally accounts for about eight per cent of Other Industries, however, in Western Australia, it is just over one-third.

Chart 18: Business Growth Outlook Index and component measures for the Mid-Market in Western Australia compared with Mid-Market (June 2010 to March 2012).



SHIFTING FOCUS - CFOs shifted their focus away from growth strategies and instead turned their attention to dealing with barriers to growth.

4. Outlook for the Mid-Market as a whole

4.1 Downturn and early stages of recovery

Like all sectors of the Australian economy, the Mid-Market experienced a setback in the last quarter of 2011. In response, Mid-Market CFOs shifted their focus away from growth strategies and instead turned their attention to dealing with *barriers to growth*. This was not unique to the Mid-Market; what was unique was the timing and duration of the downturn.

Hardest hit in 2011 were the Micro and Small business sectors – which first entered a period of decline in early 2011 and continued in this vein until March 2012 for the Micro sector and November 2011 for Small business. The Large business sector first showed evidence of a downturn in June 2011 has recently shown signs of recovery.

In comparison, the Mid-Market decline didn't really start until September 2011, and its downturn was only a few months long, with recovery starting in February 2012. Given that it was the last to feel the downturn and among the first to start recovering, it is safe to say that the Mid-Market has demonstrated continuing robustness compared to the other sectors of the business community.

According to Mid-Market CFOs, the main causes of this relatively brief downturn were:

- The **economic environment** – falling demand saw CFOs shift away from growth strategies like investing in labour and capital, and instead focus on maintaining revenues and managing costs
- **Increased competitive pressure** – most likely caused by a tighter market with more businesses competing for fewer customers
- **Government regulations** – linked to concerns about changes like the Carbon Tax coming into effect in a challenging economic environment

The key question now is whether the signs of recovery shown by the Mid-Market in recent months can be sustained, or whether this is only an optimistic pause before the sector enters into a second round of decline. Given that the two largest industries (Property & Business and Other Industries) in the Mid-Market have shown themselves to be virtually immune to the recent downturn, there is reason to believe that the sector as a whole will fare positively throughout the rest of 2012. Against this, the brooader economic challenges prestented by the European sovereign debt crisis, and lower levels of economic activity in the Chinese and US economies pose real and ongoing threats to all sectors of the Australian economy.

4.2 Future Expectations Index

As a lead indicator for the future state of the Mid-Market economy, the *Future Expectations Index* is a valuable tool for predicting what's around the corner. It certainly proved its veracity in 2011 – hinting at the last-quarter decline as early as January. From then, the Index fell almost every month until February of this year (see Chart 19).

The main drivers of the decline in the *Future Expectations Index* are CFOs' negative views on revenue and staffing growth. That said, both have picked up since January (although only minimally for *revenue expectations*), with CFOs reporting that they are expecting to hire more staff in coming months.

The resilience of Mid-Market compared to other market sectors shows through in the *Future Expectations Index*. It is the only sector to have lifted expectations in the last couple of months. The *Future Expectations* indices for Micro and Small Business have continued to decline while the Index for Large business has levelled out.

If future expectations really do serve as a lead indicator of movements in current conditions and therefore in the overall growth orientation of business, then the comparison of recent movements in the *Future Expectations Index* values across the market sectors suggests a greater strength in the Mid-Market compared to Micro, Small and Large business (see Chart 20).

Chart 19: Future Expectations Index for the Mid-Market comparing revenue and staffing expectations (June'10-March'12).

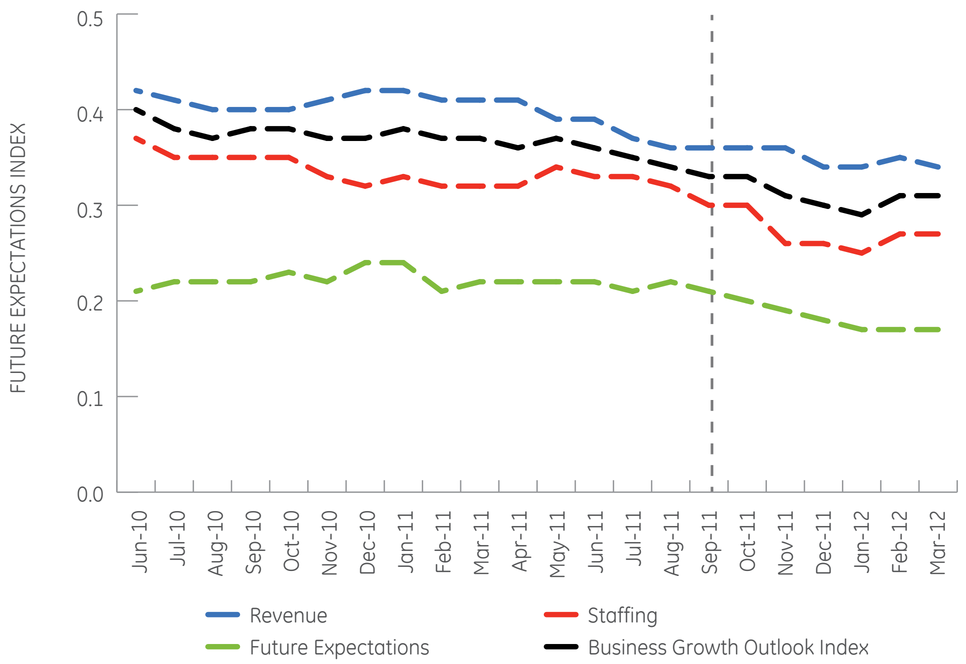
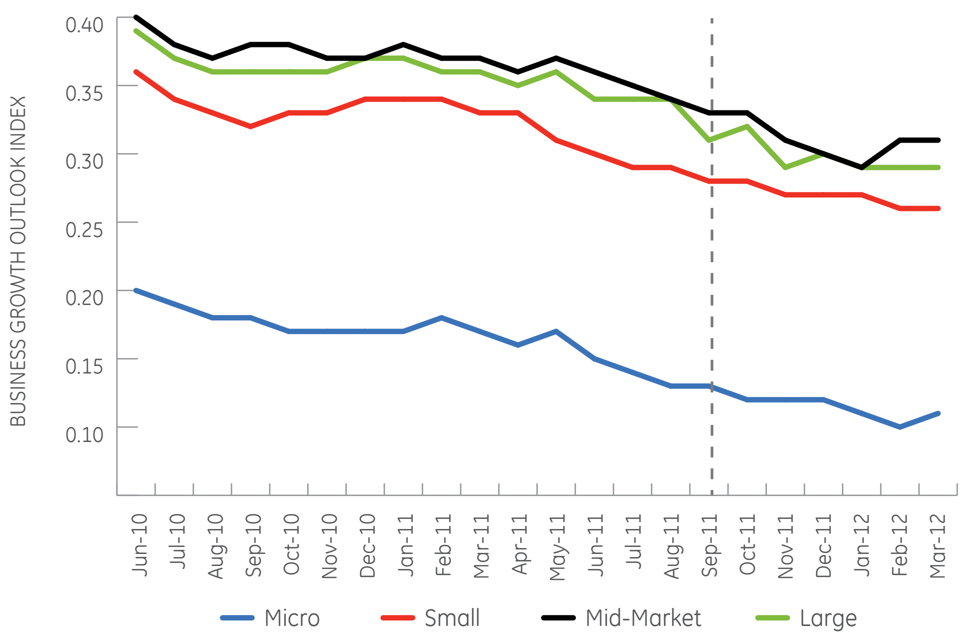


Chart 20: Future Expectations Index for the Mid-Market comparing market sectors (June'10-March'12).



4.3 Current Conditions Index

The recovery of the *Current Conditions Index* – which measures CFOs' current areas of focus or concern – is still in its very early stages. The Index rose slightly in March after a sustained fall between September 2011 and February 2012, when it fell from 0.09 to 0.02.

As the *Current Conditions Index* approaches zero, CFOs switch attention from growth-related strategies like *growing or maintaining revenue, finding or keeping staff,* and *managing for growth*; to instead focus on ways to deal with the main *barriers to growth*. The small rise in March means that the Mid-Market slightly shifted their focus back towards growth-related issues.

In examining the sentiments of Mid-Maket CFOs during this time, the most frequently cited issue, is the *economic environment* – about two-fifths (41%) of Mid-Market CFOs cited it as a Top 3 concern, an increase of seven per cent from September 2011.

The second major concern, *managing costs*, similarly rose in the six months to March 2012. In September 2011, about one-quarter of Mid-Market CFOs reported that it was a Top 3 concern – by February 2012 this figure had risen to 31%.

Interestingly, concerns about *managing cash flow* declined in the months leading up to March 2012. The most likely explanation for this fall is that other issues outweighed cash flow. But another factor in helping to remove *managing cash flow* from the limelight is the easing conditions in 2012, and the first signs of improving sales.

Other Top 3 concerns cited by CFOs relate to more *indirect barriers to growth – government regulations, external growth opportunities (competition)* and *interest rates*. Interestingly, concerns about *interest rates* have declined since their peak in September 2011, coinciding with movements in the RBA's Weighted Average Rate of Credit Outstanding to Small business – which fell from 8.6% in September to 8.25% in December 2011.

Recent signs of recovery in the *Current Conditions Index* have been driven by a greater focus on building capacity for growth, specifically *finding* and *keeping staff*. There is a strong correlation between a rise in this area and similar movement in the *Future Expectations Index*.

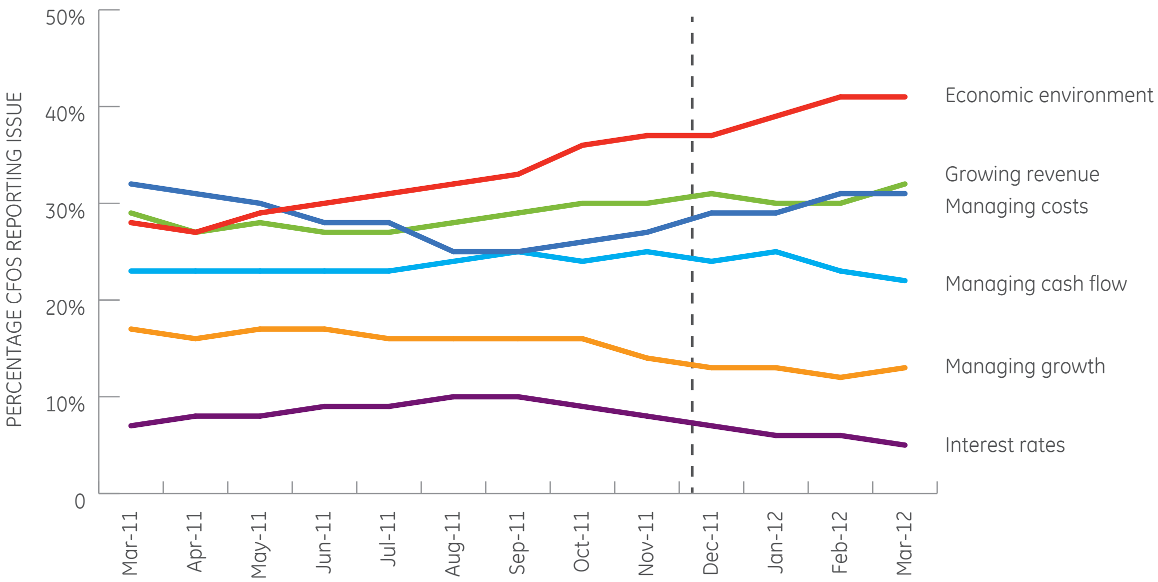
Table 1: Importance of key issues for Mid-Market CFOs comparing March 2012 ratings against September 2011 ratings.

	SEP-11		MAR-12		CHANGE	
	Selected	Rank	Selected	Rank	Selected	Rank[1]
Economic environment	33%	1	41%	1	8%	1
Grow revenue	29%	2	32%	2	3%	4
Manage costs	25%	4	31%	3	6%	2
Competition	25%	5	25%	4	0%	17
Find staff	26%	3	24%	5	-2%	8
Managing cash flow	25%	6	22%	6	-3%	5
Government regulations	18%	7	20%	7	2%	10
Keep staff	15%	9	15%	8	0%	16
Manage growth	16%	8	13%	9	-3%	6
Australian dollar value	11%	11	10%	10	-1%	13
Market business	11%	10	9%	11	-2%	7
Finance growth	9%	13	9%	12	0%	20
Technology, systems	8%	14	8%	13	0%	19
Succession plan	7%	16	8%	14	1%	12
Foreign exchange rates	8%	15	7%	15	-1%	14
Interest rate	10%	12	5%	16	-5%	3
Company culture	6%	18	5%	17	-1%	15
Operating risk	4%	19	5%	18	1%	9
Access finance	6%	17	4%	19	-2%	11
Climate change	3%	20	3%	20	0%	18

[1] Ranks for change are based on the absolute size of the change and are designed to highlight the items that experienced the greatest movement, either upward or downward, in the rate at which they were selected between September 2011 and March 2012.

2 All data based on 6-month rolled measures; sample size for September 2011: n=1,417; sample size for March 2012; n=1,289.

Chart 21: Future Expectations Index for the Mid-Market comparing revenue and staffing expectations (June'10-March'12).



4.4 Capital resourcing and talent management

Of all the issues vying for the attention of CFOs, *capital resourcing* and *talent management* remain key areas of focus within the Mid-Market. Over the past six months, *talent management* has remained a significant issue while *capital resourcing* has become less of an issue for CFOs. The decline in importance for *capital resourcing* beginning just before September 2011 follows a long period during which *capital resourcing* had been gradually increasing in importance.

The main reason that *talent management* remains an issue is because of the number of CFOs reporting difficulty in *finding suitable staff*, with 24% of CFOs identifying this as an issue in March 2012 (down slightly from 26% in September 2011). The issue of *talent management* is made up of four specific issues: *finding suitable staff; keeping staff; company culture* and *succession planning*. However, the pattern of specific concerns has shifted slightly. *Finding staff* has become less important while *company culture* and *succession planning* both increased in importance. *Keeping staff* also marginally increased in importance over the six months.

These shifts indicate that CFOs are thinking less about expanding their business through the acquisition of new talent in which finding staff was the greatest concern; and are rather focusing more on maintaining and developing their existing workforce.

Capital resourcing has declined slightly in its importance for CFOs from last year. Earlier in 2011, there was a long period during which it was of growing concern to CFOs – yet the past six months have seen its relative decline as an issue of concern.

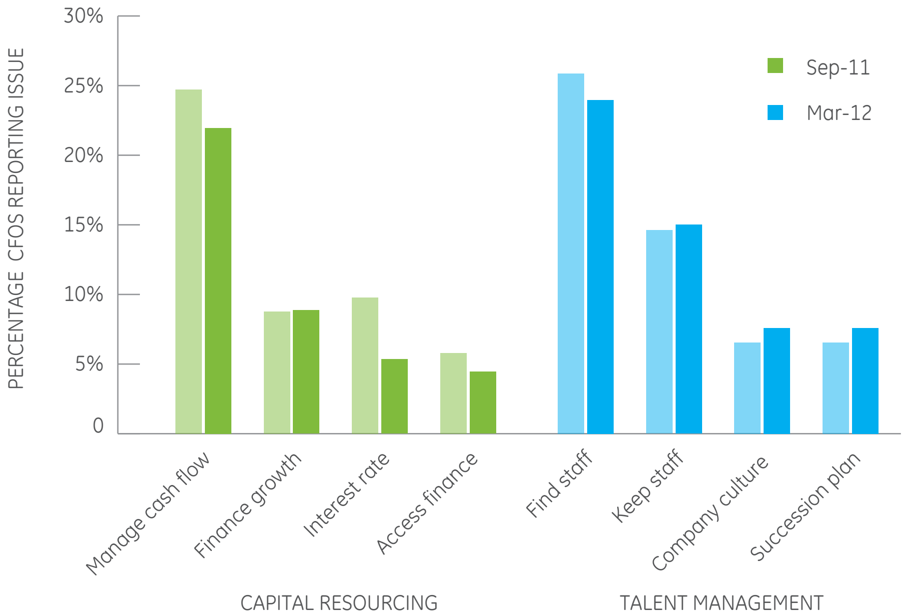
Capital resourcing is comprised of four specific issues: *managing cash flow; capacity to finance growth; access to finance* and *interest rates*.

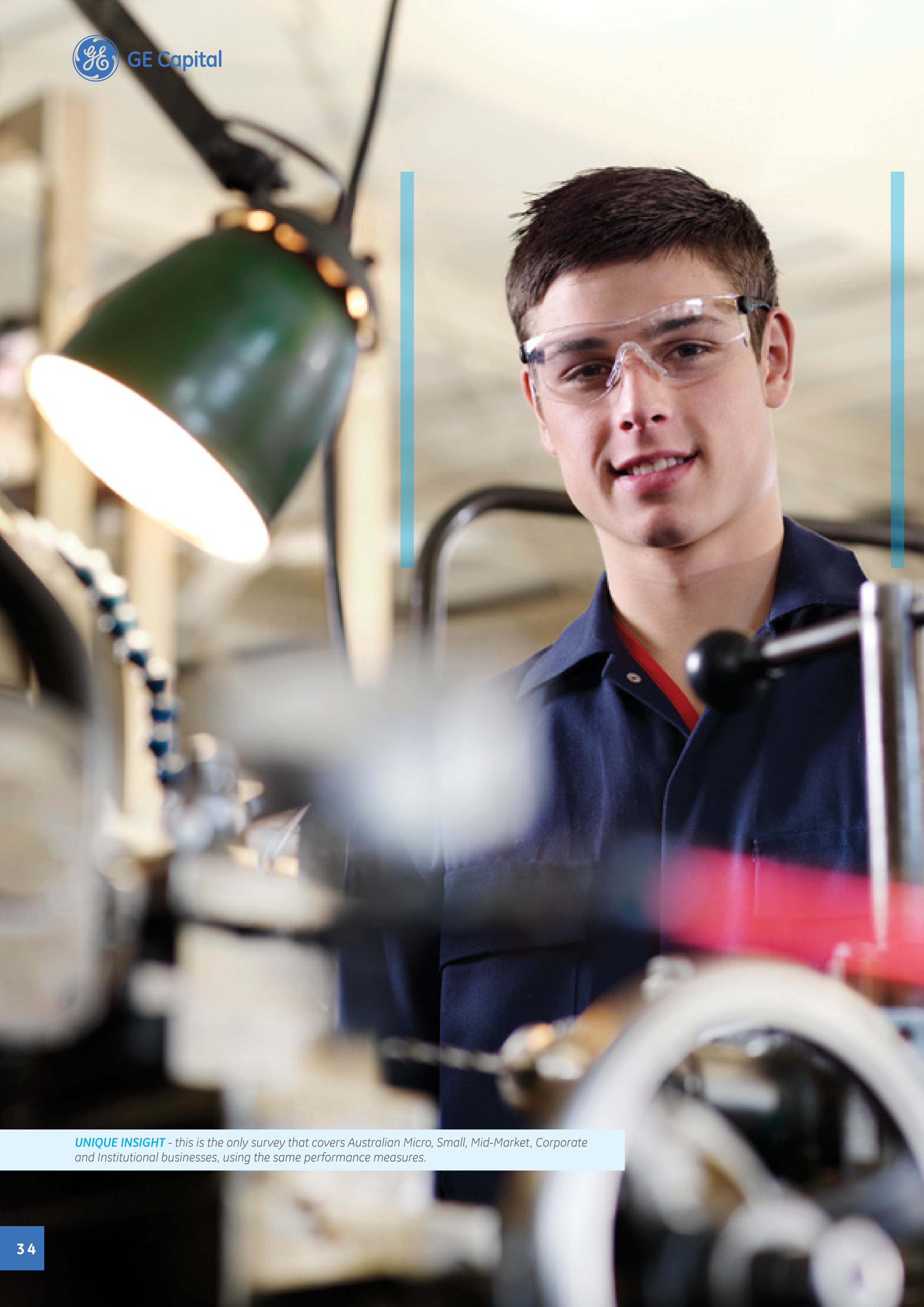
Table 2: Comparison of Top 5 issues by business sector (March 2012).

RANK	Micro	Small	Mid-Market	Large
1	Economic conditions	Economic conditions	Economic conditions	Growing or maintaining revenue
2	Managing costs	Managing costs	Growing or maintaining revenue	Economic conditions
3	Growing or maintaining revenue	Finding staff	Managing costs	Managing costs
4	Government regulation	Managing cashflow	Competition from other businesses	Competition from other businesses
5	Competition from other businesses	Growing or maintaining revenue	Finding staff	Government regulation

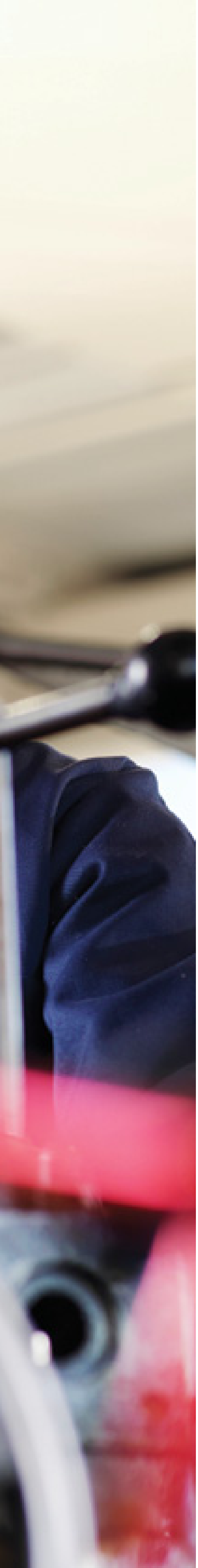
The main issue within *capital resourcing* is *managing cash flows*, and the fact that fewer CFOs identified this as an area of concern demonstrates why overall, *capital resourcing* has a more positive outlook. Likewise, *interest rates* and *access to finance* are both significantly less of a concern to CFOs. *Financing growth* was the only issue in this sub-group that did not become less important to CFOs – although it should be noted that only about nine per cent of CFOs selected this as one of their top three issues. **The decline in *capital resourcing* seems to reflect a general decline across a range of specific *capital resourcing* issues.**

Chart 22: Capital resourcing and talent management for Mid-Market CFOs comparing September 2011 with March 2012.





UNIQUE INSIGHT *- this is the only survey that covers Australian Micro, Small, Mid-Market, Corporate and Institutional businesses, using the same performance measures.*



5. Conclusion

The Australian Mid-Market's decline over the last six months was similar to those felt by other business sectors – but much shorter and less steep than those felt by the Micro, Small and Large business sectors.

The recent signs of recovery in the Mid-Market are still just green shoots after a sustained fall beginning in September last year. The two months of steady or slightly rising values on the *Business Growth Outlook Index* are cause for optimism though.

Analysts wanting to take a bet on a continued recovery or a further period of decline for the Mid-Market would be well advised to look at the *Future Expectations Index* – a leading indicator of overall movements. The *Future Expectations Index* had a small, but clear rise going into February, which was largely maintained, but not further extended in March.

This is a good sign, but it does not give us a definitive answer.

Instead it's worth looking back at the performance of different industries across the Mid-Market and how that translates into the broader sentiment of the sector. It is fortunate that the outlook is strong for Other Industries and Business & Property sectors - two of the largest industries, accounting for nearly 40% of the total Mid-Market. Their performance will have a very large influence on the Mid-Market as a whole. Evidence of recovery in each of these two industries is clear for the Mid-Market, but either very weak or absent for the Micro, Small and Large business sectors.

While the contribution of the resources boom through the mining industry does play a role in the performance of the Other Industries grouping, mining in the Mid-Market is only a small component. Instead, it seems more likely that a range of service industries, such as communications, education, health and community services, and finance and insurance could be sustaining the Other Industries group. This would be consistent with the strength of the Business and Property services.

Retail trade in the Mid-Market also has a quite strong growth outlook, and is more growth oriented in the Mid-Market than in the other sectors.

Expectations for growth in the service industries sector for the longer term are positive. Growth rates over the last 20 years of 3.5-4.0% are expected to continue as increasing globalisation builds global trade in services. Domestic demand for services is also expected to contribute to strong growth.

The non-service sector industries (Construction, Manufacturing, Transport and Storage, and Wholesale Trade), which together account for 49% of the Mid-Market, generally have weaker growth outlooks and with the exception of Construction, are not yet showing evidence of recovery. While comparisons with the other sectors are more mixed, the Mid-Market in each of these industries still has similar or stronger growth outlooks for most of the other sectors.

The next six months will be something of a balancing act between the stronger performing industries, such as Other Industries and Business & Property, and the weaker non-service sector industries.

It will also be a balancing act between business and consumer fears about the global economy, dominated by the Eurozone crisis and a Chinese slowdown, and on the other side, improving consumer confidence and positive Australian macro-economic indicators.

Appendix 1: How the Business Growth Outlook Index is calculated

How was the survey conducted?

The GE Capital Mid-Market CFO Business Growth Outlook Index is based on DBM Consultants Business Financial Services Monitor (BFSM). The BFSM is the largest business survey in Australia and includes interviews with more than 19,000 businesses annually. It is also the only survey that covers Micro, Small, Mid-Market, Corporate and Institutional businesses, using the same performance measures.

The Mid-Market Growth Outlook research is based on a representative sample of n=5,096 Mid-Market CFOs drawn from the BFSM. The sample includes all industries, sizes and states. Survey results were projected to the total population of Mid-Market enterprises using the Australian business population defined by the Australian Bureau of Statistics. Both telephone and online interviews were used to conduct the survey.

The survey measured CFOs' concerns and expectations on 22 key measures. The Business Growth Outlook Index was developed from these indicators.

The CFO Business Growth Outlook Index is a single value ranging from -1.0 to +1.0. The Index reflects CFOs' overall feeling about their business's current orientation towards growth and future prospects for growth.

A value of +1.0 indicates a strong orientation towards current growth and strong expectations for future growth over the next 12 months.

A value of -1.0 indicates a strong orientation towards dealing with barriers to growth and strong expectations for contraction in the next 12 months.

A value of 0.0 indicates a net neutral position, often involving a sharing of focus between growth and dealing with barriers to growth, while holding neutral expectations for growth over the next 12 months.

The Current Conditions Index and the Future Expectations Index contribute equally to the Business Growth Outlook Index. Each of the Current Conditions and Future Expectations is measured by a subsidiary Index, each of which also ranges between -1.0 and +1.0.

Appendix 2: Current Conditions Index managing growth and barriers to growth sub-indices

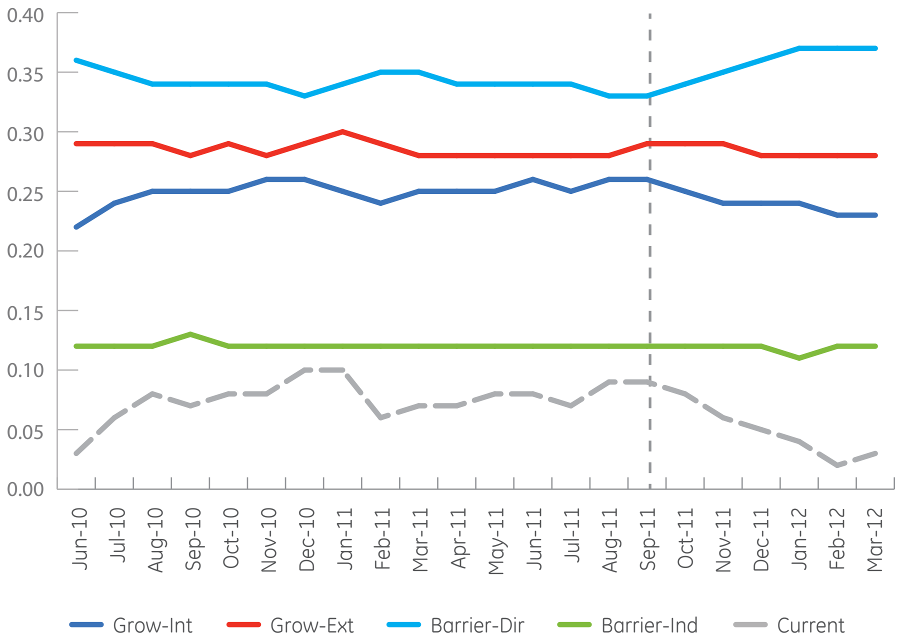
The Current Conditions Index is based on asking CFOs to nominate their three main current concerns for their business. The Current Conditions Index reflects the joint effects of 20 issues which are associated with either managing growth or barriers to growth.

Managing growth and barriers to growth are again each split into two categories.

Managing for growth internally relates to building the capacity of the business to deal with growth and managing for growth externally is about seeking opportunities to build the business. Direct barriers to growth relate to direct economic and competitive barriers, while those that affect the broader environment and which could indirectly limit growth are classed as indirect barriers to growth. (See Appendix 4 for a diagram)

Chart 22 below compares performance of the two growth and two barriers to growth indices for the Mid-Market. The analysis shows that there has been a significant rise in direct barriers and a decline in the managing for growth internally theme. Both changes appear to have stopped or even begun to reverse in the last month. The two other themes, managing for growth externally and indirect barriers have been unchanged over the last six months.

Chart 23: Current Conditions Index for the Mid-Market comparing the two growth and the two barriers to growth measures (June'10-March'12).



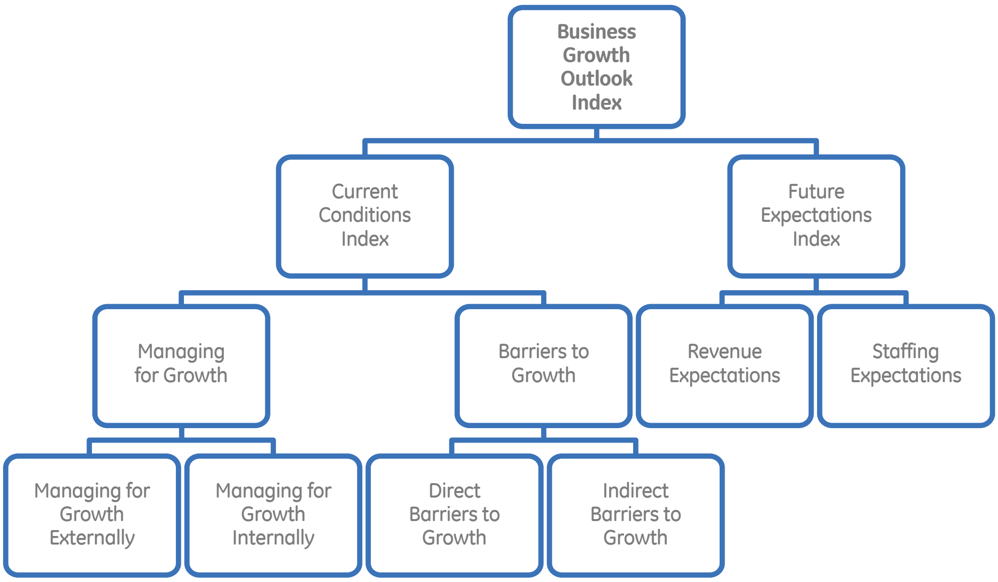
Appendix 3: Future Expectations Index – revenue and staffing growth and contraction

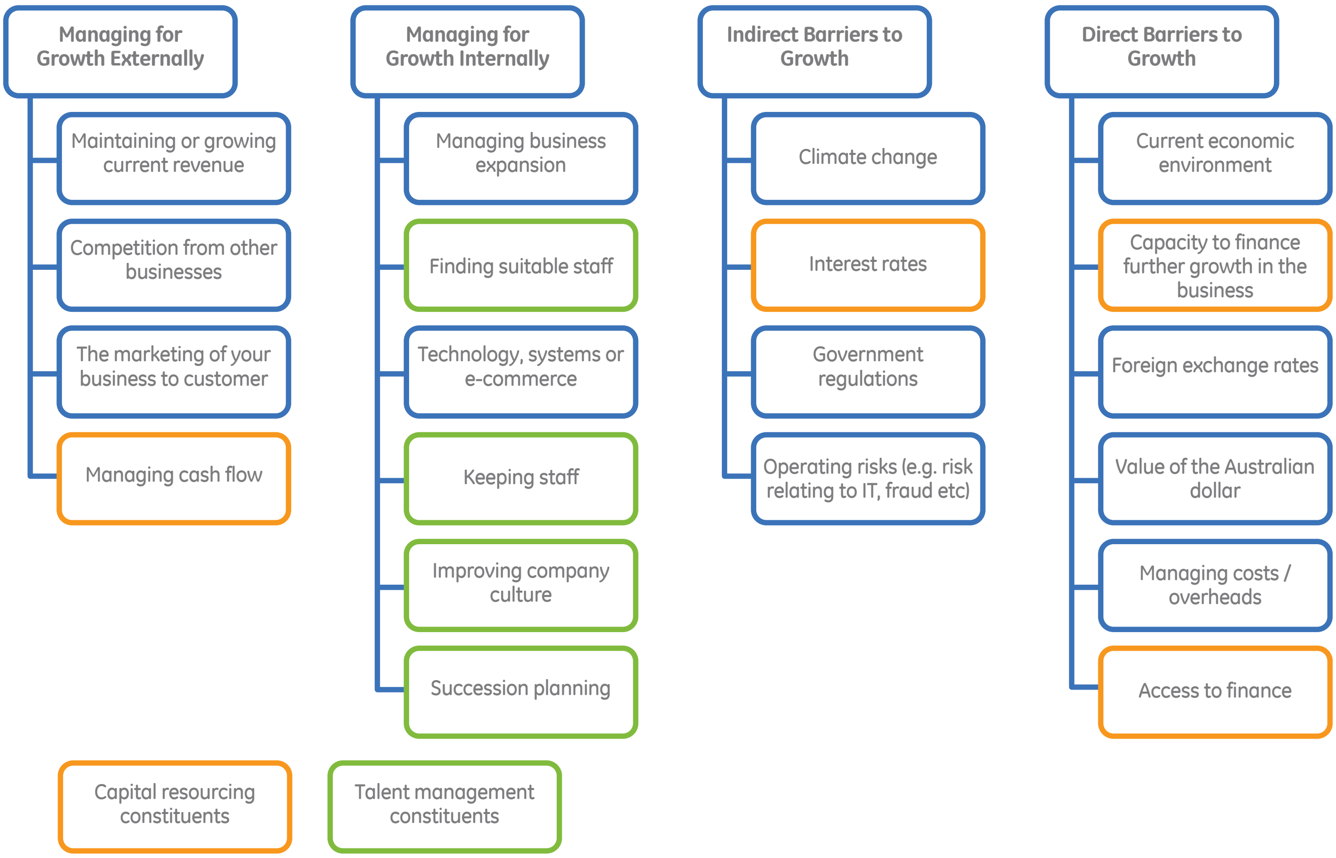
The Future Expectations Index is based on asking CFOs how much they expected revenue and staffing in their business to grow or contract over the next 12 months. Expectations for revenue and staffing are asked separately and each is scored from -1 to +1, where -1 indicates contraction and +1 indicates expansion. For revenue, a distinction is drawn between strong growth/contraction (score +1 or -1) and 'grow/contract somewhat' (score +0.5 or -0.5).

Scores from each item are combined to produce a single Future Expectations Index and rescaled to range from -1 to +1. Each of the two elements contributed equally to the final Future Expectations score.

Appendix 4: glossary of terms

The following figures show the 30 measures used in the Business Growth Outlook Index research. The relationships among the terms are summarised by the tree structures.





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