

3rd Quarter Analysis 2018

Final Report

Australian Business Expectations Survey



Business confidence down

Overview summary

Business confidence has faltered over the September quarter, with the latest Business Expectations survey showing a general decline across forecasts for sales, profit and selling prices. The retail sector was particularly hard hit across all of its indices, while the construction and services sectors also saw some declines across several key measures. The only positive news came from the employment and capital investment indices, which held firm over the quarter.

“ There are further signs of a cooling in the economic outlook, with the illion Business Expectations Survey pointing to a softer September quarter for the economy. The outlook is not yet a concern, but there has been a clear downturn in business expectations for the trifecta of sales, profits and selling prices, which are the key drivers of the macroeconomic conditions in the economy. ”

Stephen Koukoulas
illion Economic Adviser

“ The threat of global trade conflicts is contributing to a renewed fall in business confidence. Trade risks have intensified over the past few months and business leaders, particularly those with a heavy focus on export markets, are watching these developments closely. Economic data also continues to remain mixed, both in Australia and abroad, and we are seeing leaders take a cautious approach to spending and investment in these uncertain times. ”

Simon Bligh
illion CEO



Sales and profits
falter over Q3



Retail figures
plummet



Employment, capital
investment expectations
steady



Pessimism grows in
services, retail sectors

Indices dip over Q3

The Business Expectations index for the September quarter now stands at 21.7 points, down 8.3 per cent from the previous quarter, but up 29.6 per cent compared with the same period last year. Actual results have also dipped on a quarter-on-quarter basis, with the index now at 15.4 points, down 13.8 per cent from the prior quarter, although the figure has more than doubled when compared with the year-earlier period.

“ The Business Expectations data is a leading indicator of trends in the economy over the next one to two quarters. Taking the overall results at face value, the next two quarters are likely to see slower growth and profits, a dip in inflation but still solid rates of jobs growth. ”

Stephen Koukoulas
Illion Economic Adviser

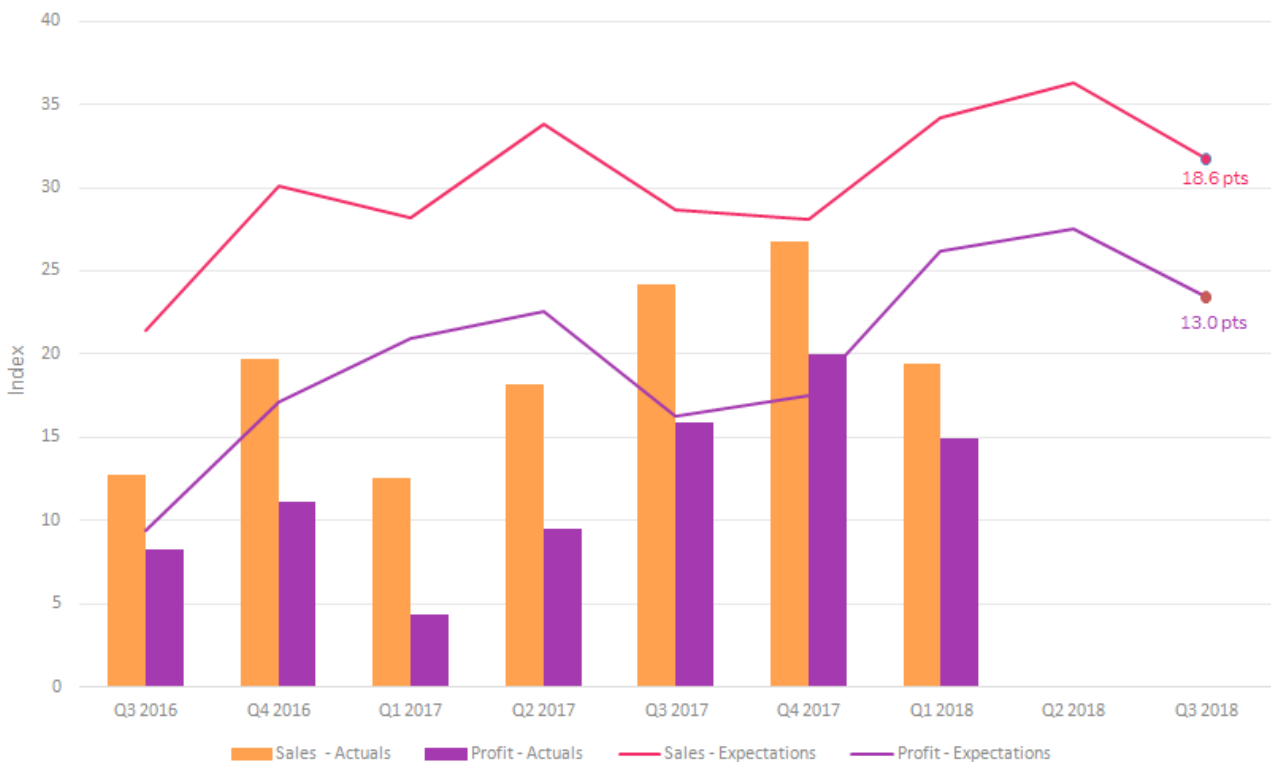
Business Expectations Index - Q3 2018



Sales, profit indices down

Sales and profit indices have seen significant declines across both expected and actual figures. Sales expectations were down 12.6 per cent compared with the previous quarter, while the actuals index fell 27.6 per cent. Meanwhile, profit expectations dropped by 14.9 per cent, while the actuals index plummeted 25.4 per cent.

Sales and Profit indices – Q3 2018



“

It is likely that the broadly based decline in the housing cycle and on-going concern about household spending and weak wages growth have weighed on the outlook. This mix of news is all but certain to see the Reserve Bank hold official interest rates steady for the next few months, and if there is any further loss of momentum in coming months, the door may open for an interest rate cut. This would be especially the case if expected selling prices, inflation in other words, fall further. ”

Stephen Koukoulas
Illion Economic Adviser

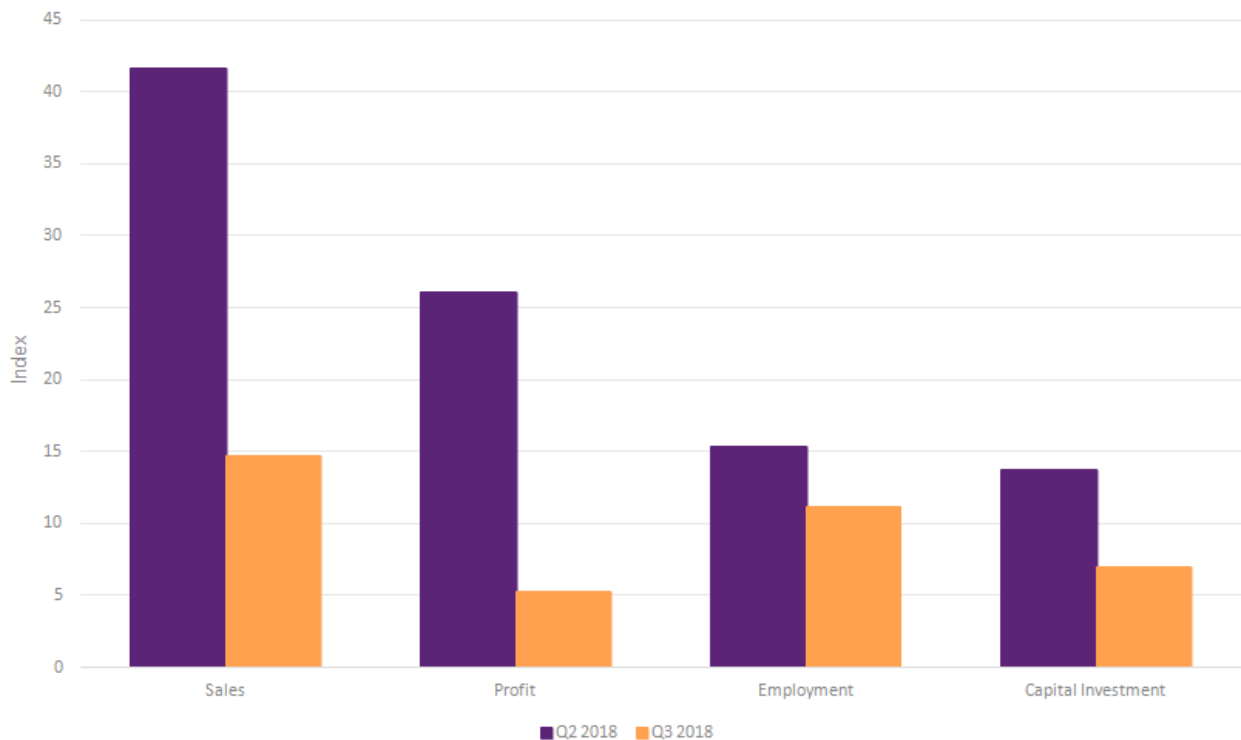
Retail indices plummet over Q3

The retail sector reported significant declines across all indices over the September quarter, particularly profit expectations, which plummeted 79.8 per cent on a quarter-on-quarter basis. The sales expectations index fell 64.7 per cent, while capital investment expectations fell 49.1 per cent and employment expectations slid 27.6 per cent. Meanwhile, the actual sales index fell below zero for the first time since Q4 2014, while the actual profit index also dipped into negatives.

“The retail sector is the main area of concern with both expectations and the actual performance falling sharply. Actual sales were reported to be below zero, which is the first time it has been this low in nearly four years. The gloomy outlook for the retail sector also showed up in expected employment, which fell over 27 per cent in the last quarter.”

Stephen Koukoulas
Illion Economic Adviser

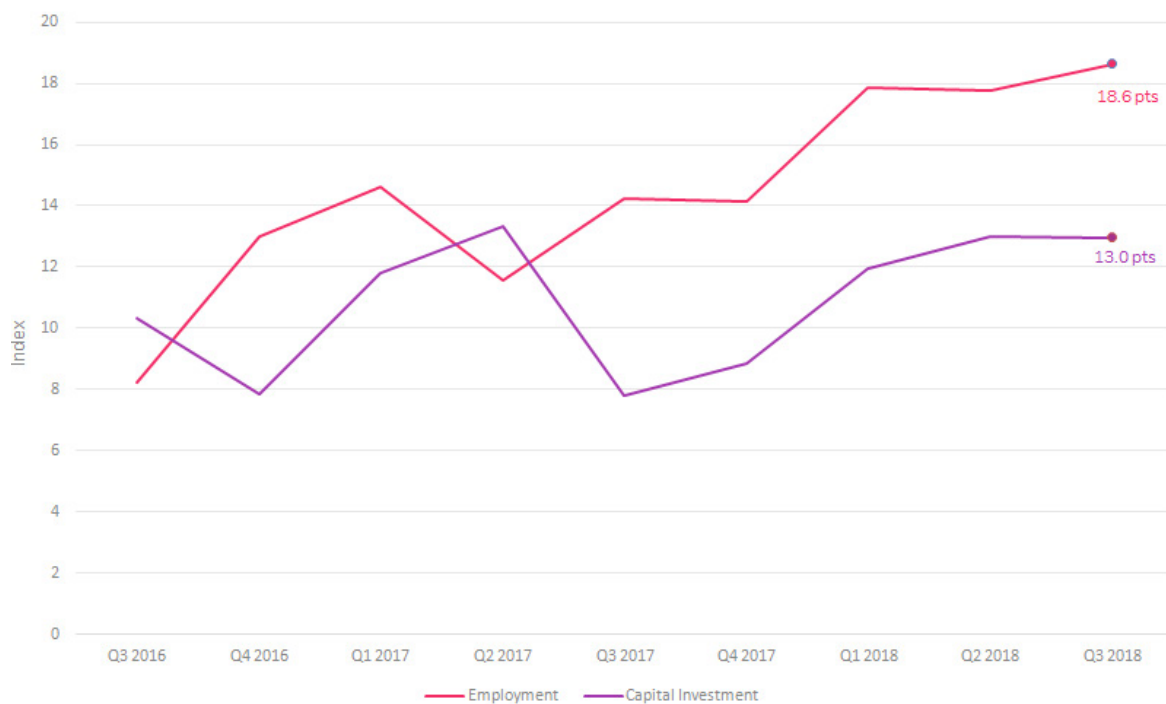
Retail – Expectations



Employment, capital investment steady

Employment confidence remains steady, with the expectations index up 4.8 per cent from the previous quarter, while the actuals index for employment lifted 2.8 per cent. Capital investment figures have also held firm; although expectations declined by 0.1 per cent compared with the June quarter, the actuals index jumped 21.5 per cent.

Employment and Capital Investment expectations



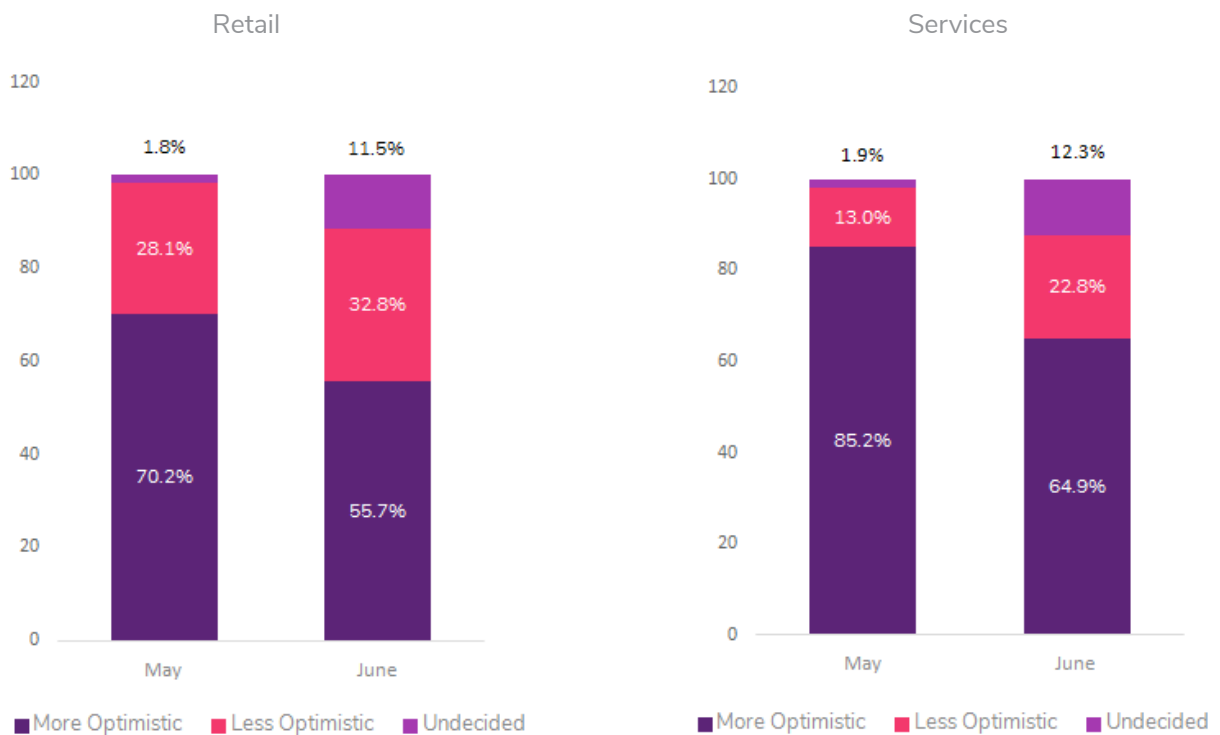
“Expectations for employment are tracking higher, while capital investment remains broadly flat, at a reasonable level. Meanwhile, capital expenditure plans have been increasing over the past year, with support coming from a lift in public sector infrastructure spending and activity associated with strong growth in tourism and education exports. Although low wages have been correctly identified as a constraint on consumer incomes and therefore the retail sector, they are also a trigger which underpins employer demand for additional labour.”

Stephen Koukoulas
illion Economic Adviser

Retail, services report decline in optimism

Business optimism took a hit over the month of June, with the retail and services industries in particular feeling uncertain about business growth over the remainder of the year. In total, 55.74 per cent of retailers surveyed over June were more optimistic about growing their business over 2018, down from 70.18 per cent in May. In the services sector, optimism fell from 85.2 per cent to 64.9 per cent between May and June.

Are you more optimistic, or less optimistic, about growing your business in 2018 compared to last year?



“Over the past month, there was a sharp deterioration in optimism for the retail and services sectors. The emergences on new entrants to the retail sector are also seen to be having a negative effect on the local retail base.”

Stephen Koukoulas
Illion Economic Adviser

Our methodology

Each month, illion asks a sample of executives if they expect an increase, decrease or no change in their quarter-ahead sales, profits, employees, capital investment and selling prices compared with the same quarter a year ago. The executives are also asked for actual changes over the twelve months to the latest completed quarter.

In this issue, the final indexes for the latest quarter are based on approximately 1,200 responses obtained during April, May and June 2018.

Have a question?
Contact us today.

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