

3rd Quarter Analysis 2018
Interim Report

Australian Business Expectations Survey



Business confidence flat

Sales and profits outlook weighs on index

Business confidence is beginning to lose steam, as the latest Business Expectations survey shows a mixed landscape across sectors and business priorities. While hiring and capital investment planning remain high, forecasts for sales and profits have edged lower after a strong start to the year. The government's proposed tax cuts have not inspired confidence in terms of hiring and wage increases, with more than two-thirds of businesses saying they will have limited or no impact in this area.

“ There was a slight moderation in the business expectations index in the September quarter from what was a buoyant level in the June quarter. That said, business expectations remain upbeat. In terms of actual activity, there was a pull-back in the index, which is consistent with the generally softer tone of official data during the March quarter. ”

Stephen Koukoulas
illion Economic Adviser

“ We're seeing increased softness after a solid run of results. The index doesn't track a straight line, however, so we should be careful not to talk ourselves into a downturn. Confidence levels remain historically strong, interest rates are the lowest they've ever been and Australia hasn't suffered a recession for a quarter of a century. Nevertheless, consumers are the linchpin of the Australian economy, and at present they don't appear confident, which is in turn impacting the business outlook. ”

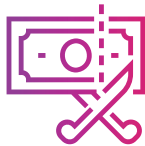
Simon Bligh
illion CEO



Employment outlook solid



Sales and profits expectations down



69% of businesses unmoved by proposed tax cuts



Actual Capital Investment up 136.5%

Outlook shifts for September quarter

The Business Expectations index for the September quarter now stands at 23.1 points, 38 per cent higher than the same time last year, but the short-term trajectory is downward. Actual results also took a sharp turn south between the final quarter of 2017 and Q1 2018, although the index is up 108.2 per cent year-on-year.

“ Despite the easing in business expectations, the overall economic outlook remains firm. It is too early to be sure whether there will be further downturns in the quarters ahead, but with banks tightening credit, the housing market weakening and the global economy showing signs of stress, the risks are building for a patch of weaker activity over the second half of 2018. ”

Stephen Koukoulas
Illion Economic Adviser

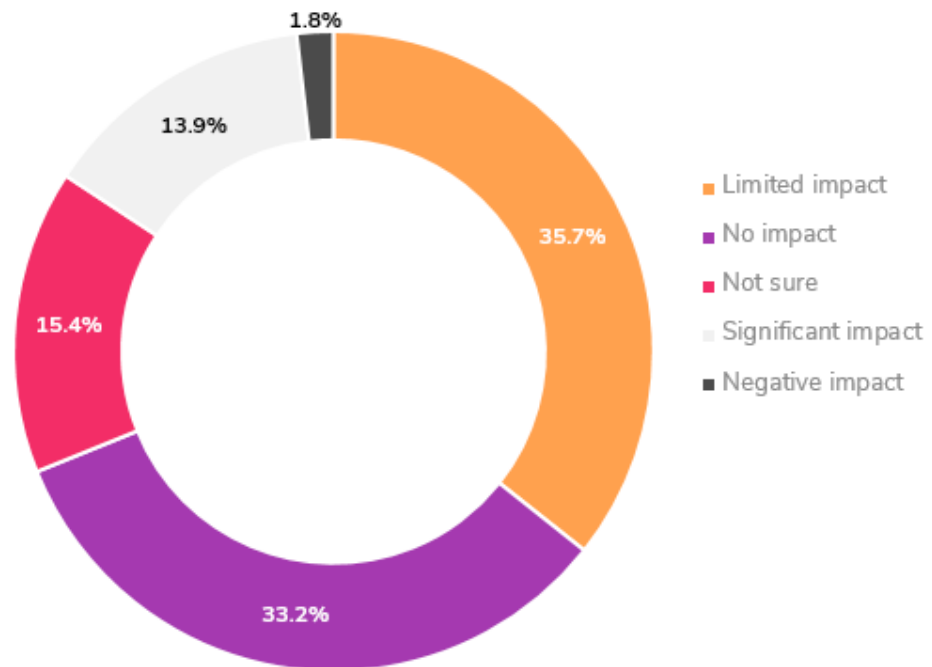
Business Expectations Index - Q3 2018



Tax cuts unlikely to solve stagnant wage growth

Tax cuts appear unlikely to result in a nationwide hiring spree or increased wages for workers. Across all sectors, just 13.9 per cent of businesses said tax cuts would have a significant impact on wages and employment decisions. Almost half (40.5 per cent) of Services and Retail firms said tax cuts would have 'No impact'. At the other end of the scale, 19.8 per cent of construction businesses said cuts would have a 'Significant impact'.

What impact will proposed company tax cuts have on wages and hiring for your business?



“The business sector has given a muted response to the government’s proposed company tax cuts, with 86.1 per cent of respondents saying the impact of those cuts on wages and hiring decisions would be either limited, nil, negative or not sure. Recent illion surveys show the business sector is more concerned about energy prices, availability of skilled labour and overall business conditions as factors driving their outlook.”

Stephen Koukoulas
illion Economic Adviser

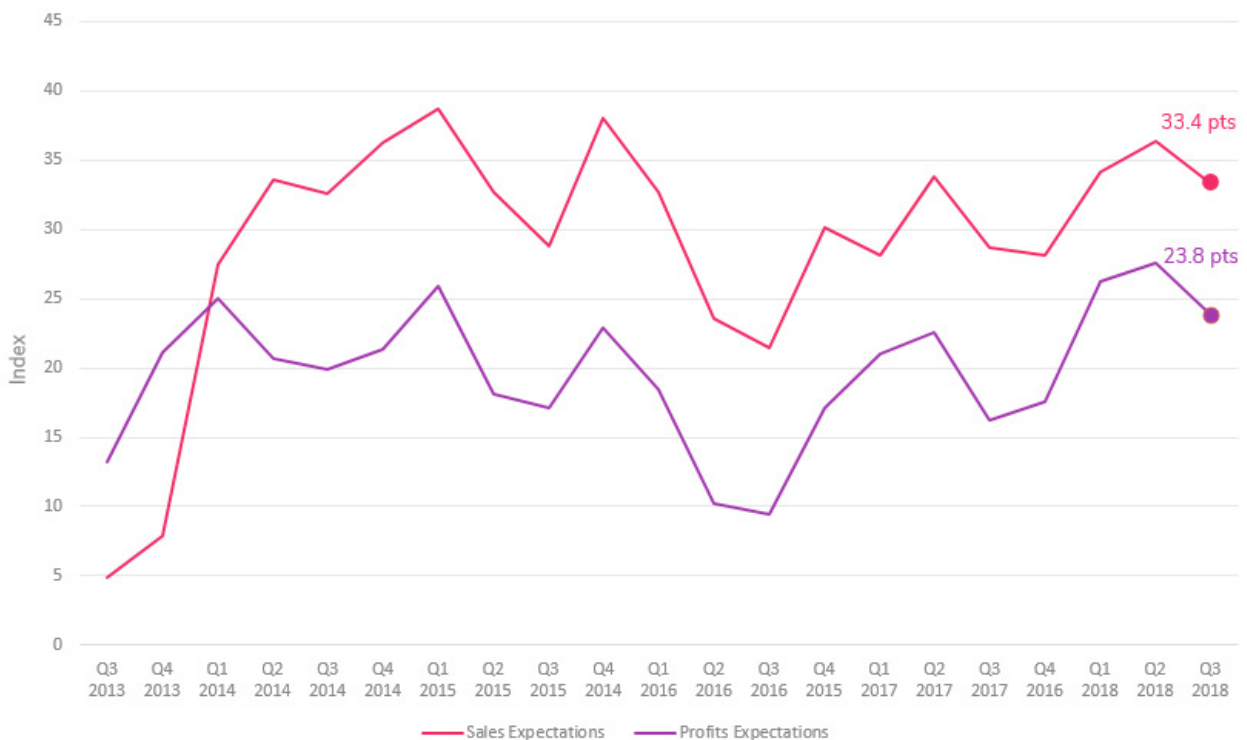
Key drivers pulling back

Sales and profits, both key drivers of the headline index over the past few quarters, look set to take a backwards step in the September quarter. Expectations for profits fell 13.4 per cent between quarters, but remain 46.6 per cent higher than the same time last year. Sales expectations are tracking a similar trajectory, down 8 per cent on the June quarter but still higher year-on-year.

“ The components of the business expectations survey presented a mixed scorecard on the economy. Business expectations for sales and profits are both trending lower, which is in line with the run of recent news on the economy from the Bureau of Statistics. That is, the economy is registering decent rates of expansion, but there is no acceleration in the pace of growth. ”

Stephen Koukoulas
illion Economic Adviser

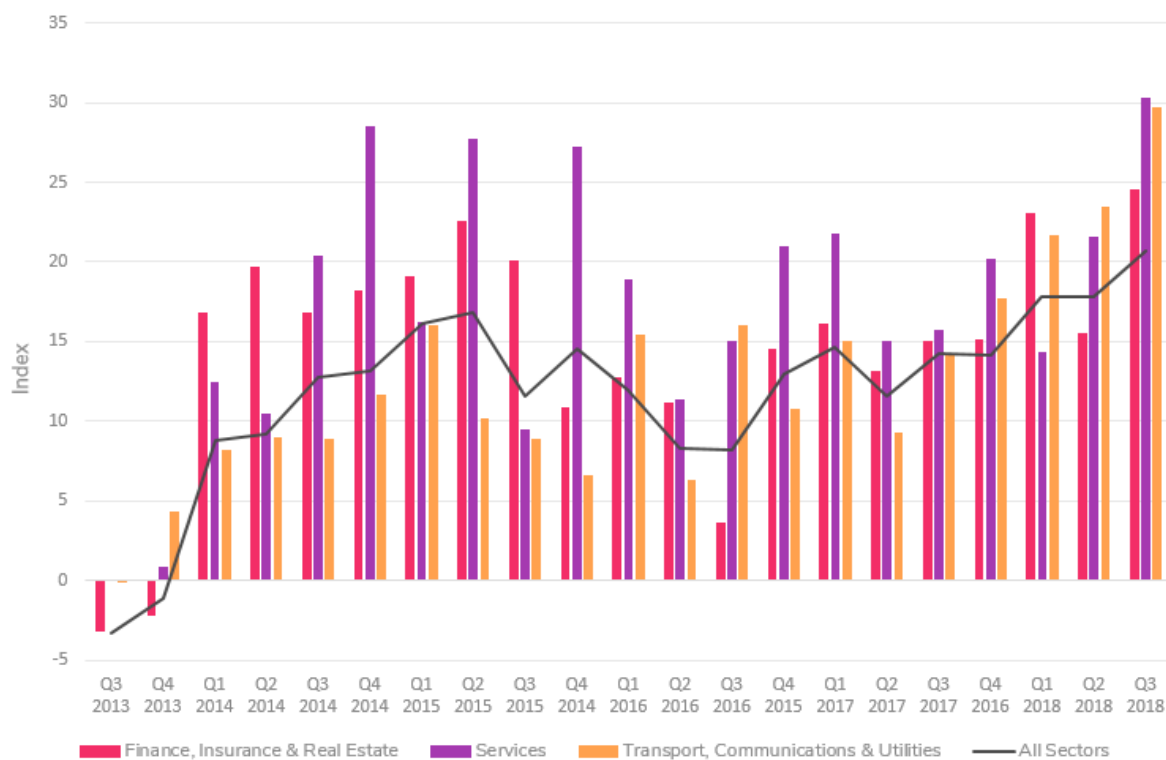
Sales and Profits expectations – Q3 2018



Employment outlook remains bullish

Expectations for hiring new staff remain strong, driven by the Services, Finance, Insurance & Real Estate, and Transport, Communications & Utilities sectors. The employment expectations index is 45.2 per cent higher on an annual basis. Meanwhile the employment actuals index is 103.9 per cent higher year-on-year, providing firm support to the optimistic outlook.

Key sectors driving employment expectations – Q3 2018



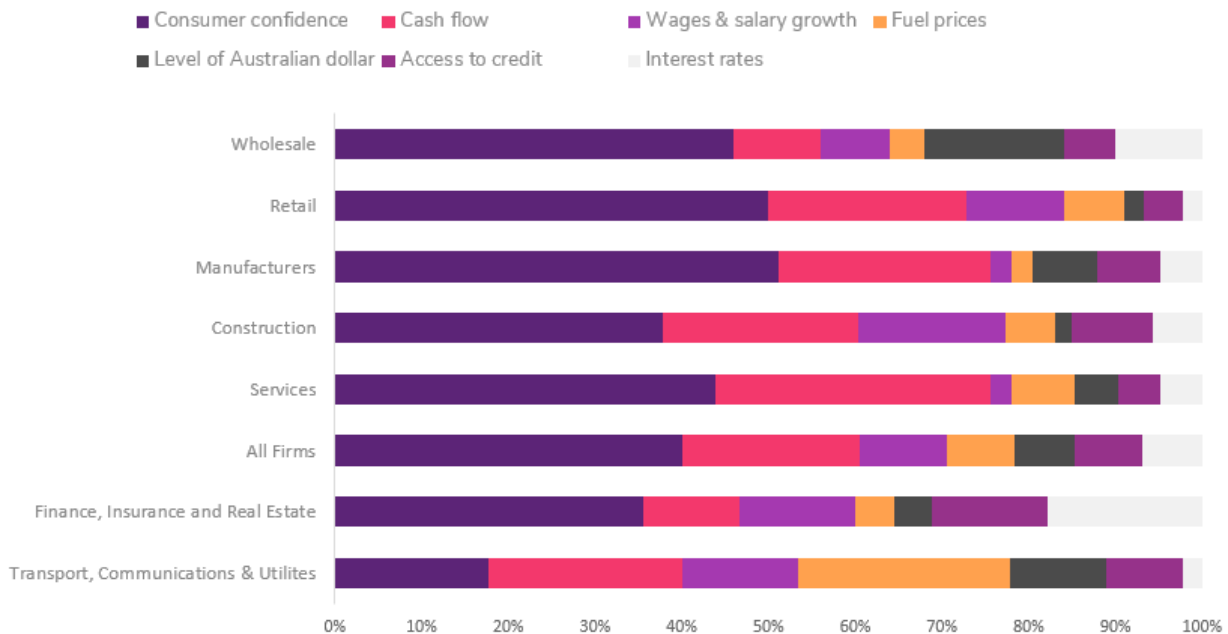
“ The good news was squarely on a further solid increase in business expectations for employment and capital investment, both of which reached multiyear highs. For the economy to sustain its expansion, business investment growth is a key element, especially when expected sales are edging lower. ”

Stephen Koukoulas
illion Economic Adviser

Confidence and cash flow main concerns

Consumer confidence and cash flow are comfortably the top two short-term business concerns. In the current environment, with an ongoing banking royal commission and the related fallout, localised house price weakness potentially becoming a national issue, and stubbornly low wage growth, it is no surprise businesses are primarily concerned with staying liquid and consumers' capacity to buy products and services.

Which issue will influence your business the most in the quarter ahead?



“ One of the main threats to business activity is consumer confidence, which in recent months has been broadly flat. This is not surprising given household consumption expenditure accounts for over half of all economic activity. Despite wages growth hovering near record lows, it was interesting that wages and salary growth was cited as the third most important business concern. With official interest rates at record lows, interest rates were a low area of concern. ”

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 preliminary indexes for the latest quarter are based on approximately 800 responses obtained during April and May 2018.

Have a question?
Contact us today.

publicrelations@illion.com.au