

3rd Quarter Analysis 2018
Preliminary Report

Australian Business Expectations Survey



Outlook on sales, profits muted

Moderate declines expected for sales and profits

The outlook for sales and profits has stalled, according to illion's latest Business Expectations analysis. The Preliminary survey for the September quarter sees a more cautious outlook for businesses, with the sales expectations index falling 11.5 per cent from the previous quarter to 32.2 points. The profits expectations index also fell 4 per cent on the previous quarter to 26.4 points.

“The business outlook is presenting a broadly positive background, but with some areas of softness emerging. The illion survey fits with the broader news on the economy, which shows moderate economic growth, well contained inflation and stalling profit growth. It is too early to say there is a weakening trend, but another few months of weakness would be disconcerting.”

Stephen Koukoulas
illion Economic Adviser

“Business confidence remains healthy but we're seeing pockets of weakness emerge after a strong start to the year. The banking royal commission could have far-reaching consequences for the Australian economy. As financial institutions reassess their lending processes we may see a tightening in the availability of credit for both business and consumers, which could impact investment planning, demand for goods and services, employment and, most significantly, the housing market.”

Simon Bligh
illion CEO



Actual sales
down 26%



1 in 5 businesses
affected by skilled
labour shortage



Construction Expectations
Index highest since 2013



Capex plans up for
fourth quarter
in a row

Business expectations remain elevated

The headline Business Expectations index flat-lined at 23.5 points from the previous quarter's three-year high of 23.6 points. While expected sales, profits and selling prices declined from the prior quarter, the employment and capital investment expectations indices continued to climb to multi-year highs. The business actuals index, at 16.4 points, increased 117 per cent | year-on-year.

“ There was mixed news on the economy from the illion Business Expectations Survey. Solid levels of profits and an expected pick up in employment, if reflected in the government’s annual budget forecasts, will provide a boost to tax revenue. For the Reserve Bank, the evidence of a pull-back in expected selling prices suggests inflation pressures will remain in check, which should see market pricing for interest rate hikes pushed well into the future. ”

Stephen Koukoulas
illion Economic Adviser

Business Expectations Index - Q3 2018



Capital investment plans on the rise

Businesses have increased capital expenditure plans for the fourth consecutive quarter, with the Capital Investment Expectations index up 20.9 per cent on the previous quarter and doubled from the same time a year ago. Among the sectors, expectations for Capital Investment were highest for Finance, Insurance and Real Estate, which rose 167 per cent year-on-year to 22.4 points,

Capital Investment Expectations Index - Q3 2018



“Planned capital expenditure is at its highest level since 2010. Firms are clearly keen to expand their capacity on the expectation of stronger activity in future. Expectations for employment have also increased to an 18-year high, which suggests some upside to the next few months of official employment data. Offsetting the positives was a moderate fall in expected sales and selling prices, and a broadly flat outlook for profits, which may be linked to policy uncertainty, including some of the fallout from the banking royal commission.”

Stephen Koukoulas
Illion Economic Adviser

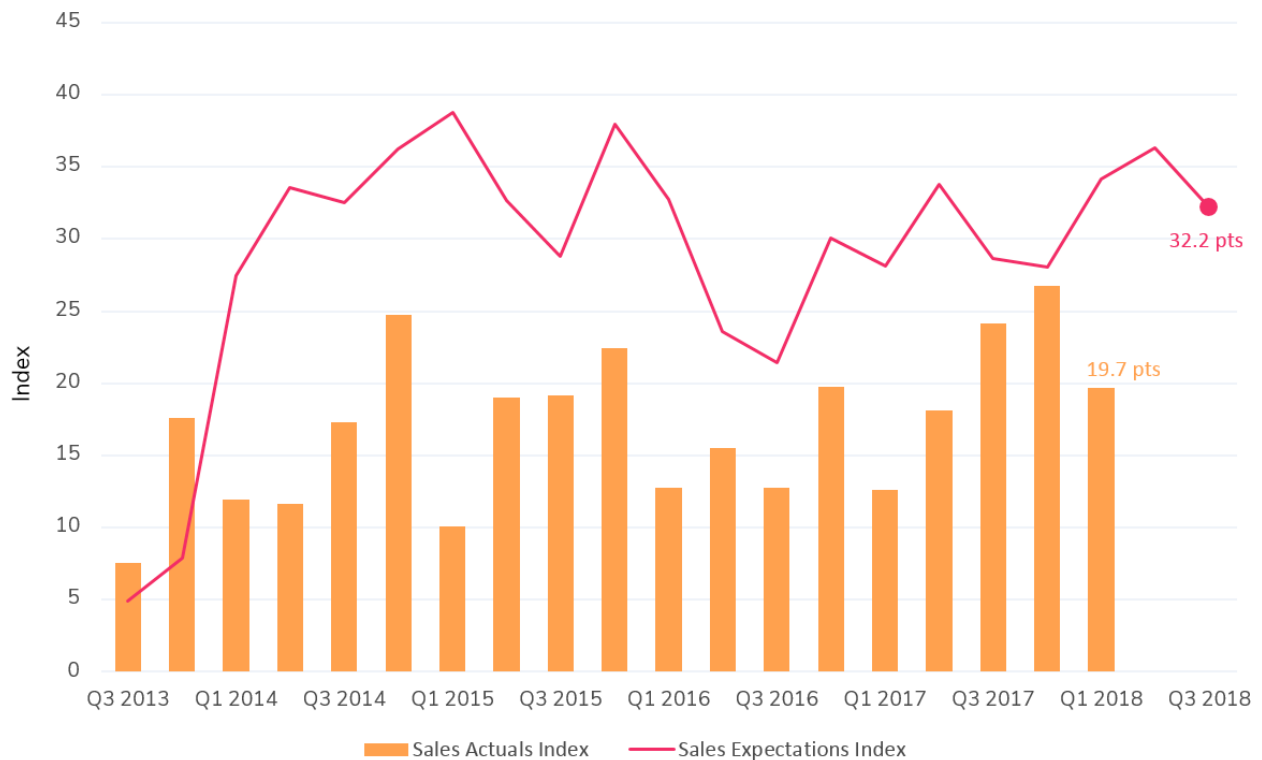
Expected sales in downward trajectory

Actual sales for the March quarter slid 26.4 per cent from the previous quarter to 19.7 points, but still 56.6 per cent higher than the same period in 2017. The result was primarily dragged down by the sales actuals index for retail, which slumped 77.8 per cent from the previous quarter. The sales expectations index also dropped 11.5 per cent to 32.2 points, but is still well above the 10-year average of 19.8 points.

“ The turning point in expected sales will need to be closely watched in the coming months. Its correlation with underlying economic growth in the economy has been well established over the long run. This means that any further fall in sales expectations will be a warning sign that the economy could be slowing. ”

Stephen Koukoulas
Illion Economic Adviser

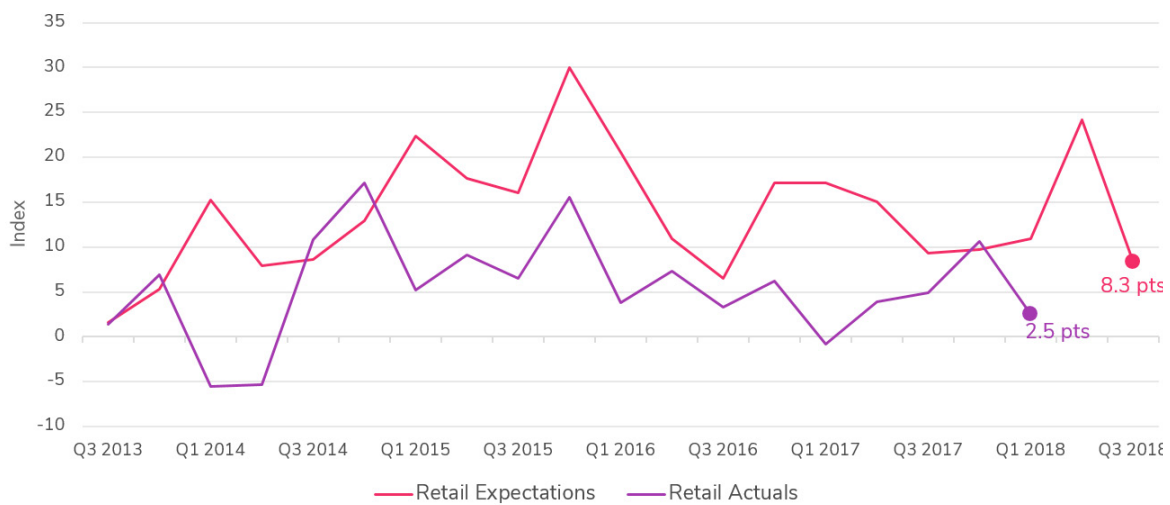
Sales Actuals vs Expectations



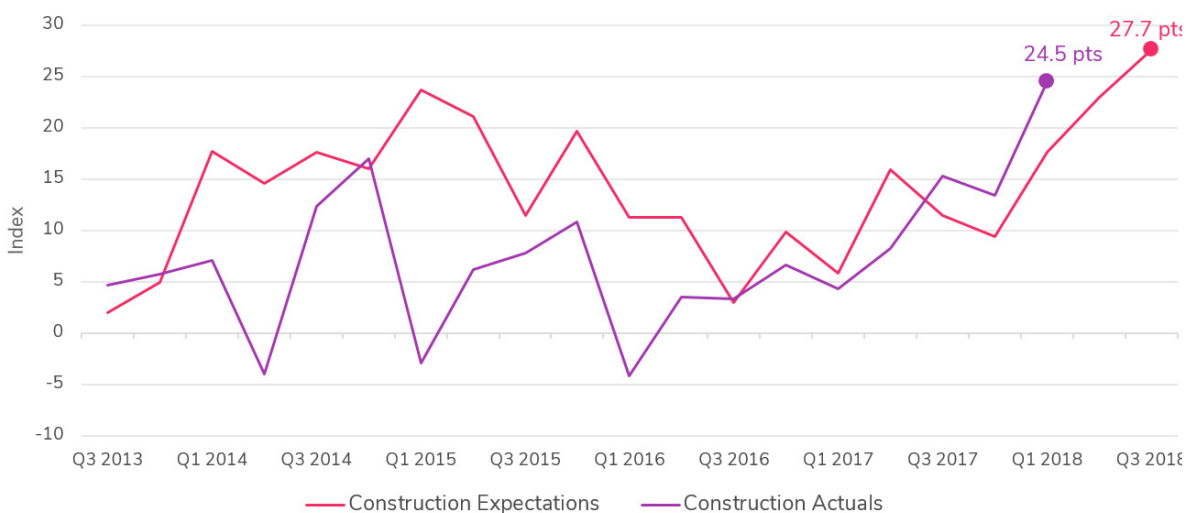
Retail plummets, construction soars

Retail expectations slumped to a 2-year low of 8.3 points, down 65.8 per cent from the previous quarter and a 10.9 per cent drop compared with the prior corresponding period. Construction has seen significant improvement over the latest quarter, with expectations reaching 27.7 points, up 141.1 per cent year-on-year.

Retail Expectations & Actuals



Construction Expectations & Actuals



“After a more upbeat view around Christmas and new year, expectations for the retail sector have nosedived. Consumers remain cautious, with weak wages growth and the fallout from the drop in house prices in the main capital cities likely weighing on the retail sector.”

Stephen Koukoulas
illion Economic Adviser

Skilled labour shortage a barrier for 1 in 5 firms

Businesses surveyed in April have expressed particular concern about a skills shortage, with 20.3 per cent stating that a shortage of skilled labour was their biggest barrier to growth over 2018. This has been most evident in the construction sector, where 33.3 per cent consider a skills shortage to be their biggest hurdle. In contrast, the wholesale sector is less worried about the issue, with only 10.3 per cent of businesses in the sector pointing to a skills shortage as their primary concern. Other major barriers to growth include weak market demand (17.8 per cent), and utilities and operating costs (17.0 per cent).

Biggest barrier to growth by sector

33.3% 

Construction - Shortage of skilled labour

27.6% 

Wholesale - Weak demand for products

26.3% 

Manufacturers - Shortage of skilled labour

26.3% 

Finance, Insurance & Real Estate -
Utilities & operating costs

22.2% 

Retail - Online selling by competitors

21.4% 

Transport, Communication & Utilities -
Utilities and operating costs

17.5% 

Services - Shortage of skilled labour

“ Even with the official labour force data showing the unemployment rate stuck at around 5.5 per cent, firms are suggesting that it is increasingly difficult to find suitably skilled labour. When such a skills shortage has emerged in past cycles, there has usually been an acceleration in wages growth shortly thereafter. ”

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 407 responses obtained during April 2018.

Have a question?
Contact us today.

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