

1st Quarter Analysis 2018  
Preliminary Report

# Australian Business Expectations Survey



# Services pick up the slack

Services sector upbeat as confidence grows for 2018.

The Services industry is in an upbeat mood as illion's latest Business Expectations Survey reveals growing confidence in the sector for 2018. The bright outlook was backed up by actual results for sales and selling prices for the September quarter of 2017, which were at their highest levels in five years.

The headline Business Expectations Index, gauging confidence levels among Australian businesses for the first quarter of 2018, is 20 percent higher than this time last year, with expectations for profits acting as the key driver.

“ The generally buoyant Business Expectations survey bodes well for the economy, even allowing for ongoing pockets of weakness in the retail and finance, real estate and insurance sectors. It appears a combination of strong growth in public spending, including on infrastructure, low interest rates and a more positive tone from the global economy are feeding the relative optimism. ”

Stephen Koukoulas  
illion Economic Adviser

“ A strong, diverse and confident services industry is vital for Australia to successfully transition from a producing economy to a knowledge economy. Mining and construction have driven growth over the past decade, but services employs more people than any other sector in Australia, encompassing a broad range of professional and recreational business. So it's great to see an increase in confidence as we look to 2018 and beyond. ”

Simon Bligh  
illion CEO



Services industry  
confidence highest  
in five years



Utilities costs  
number one concern  
for business



Skilled labour shortage  
impacting Construction  
industry growth



Reporting of actual  
sales up strongly  
on 2016

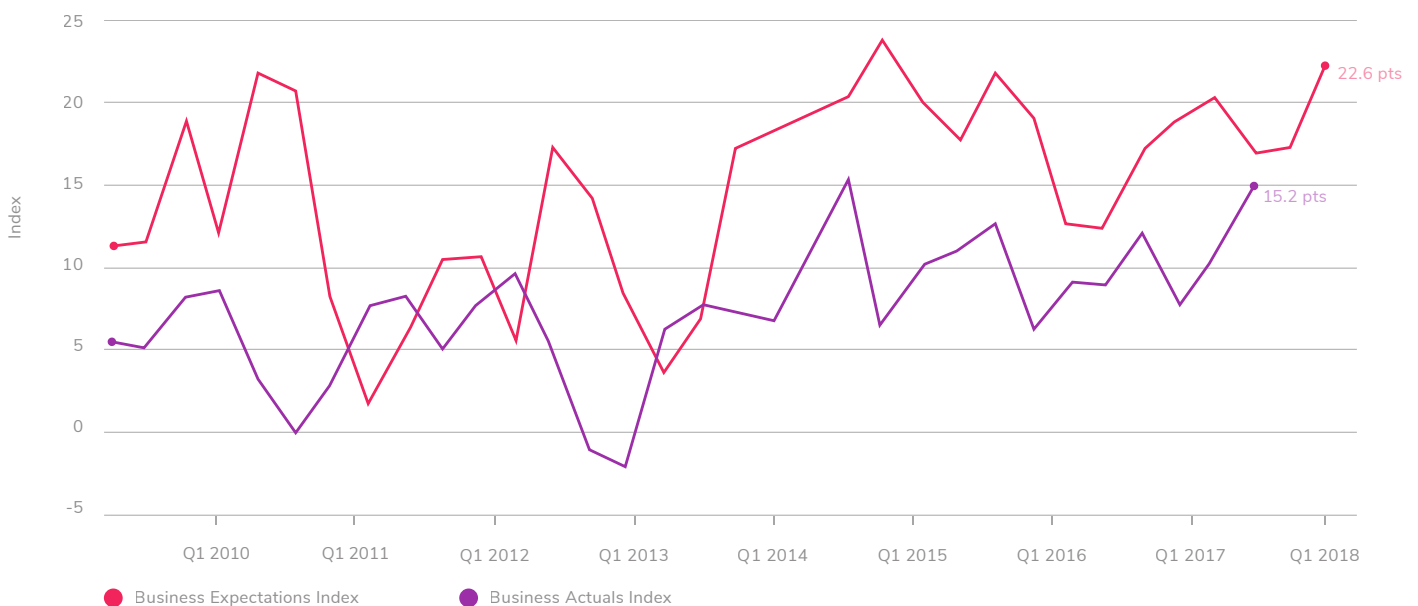
# Businesses expecting a happy New Year

The illion Business Expectations Index rose to 22.6 points in October, up 20 percent on the same period last year. Alongside services firms, manufacturers were also surprisingly upbeat in a month that saw the last Australian-made automobiles rolling off the production lines. Manufacturers' expectations for selling stock, hiring staff, business investment and increased prices of goods are all well up on this time last year. Across all industries, the Business Expectations Index was primarily boosted by a seven-year-high for expected profits.

“ The rise in expected selling prices suggests some upside risks for inflation into 2018, although the rise is from a low base. If realised, this would see the market continue to price in a risk of interest rate increases from the RBA. It is noteworthy that actual selling prices have a strong tendency to lag behind expected changes in selling price. ”

Stephen Koukoulas  
illion Economic Adviser

Business Expectations Index



# Services' gain, retail's pain

In stark contrast to the Services sector, confidence among retailers remained weak. This was to be expected following last month's BEX report, which revealed a sombre mood among retailers as we head into the crucial Christmas trading period. The difference in confidence levels between the two sectors is further evidence of a growing trend of consumers preferring to spend their hard-earned cash on experiences rather than material goods, adding more pain to already struggling retailers.

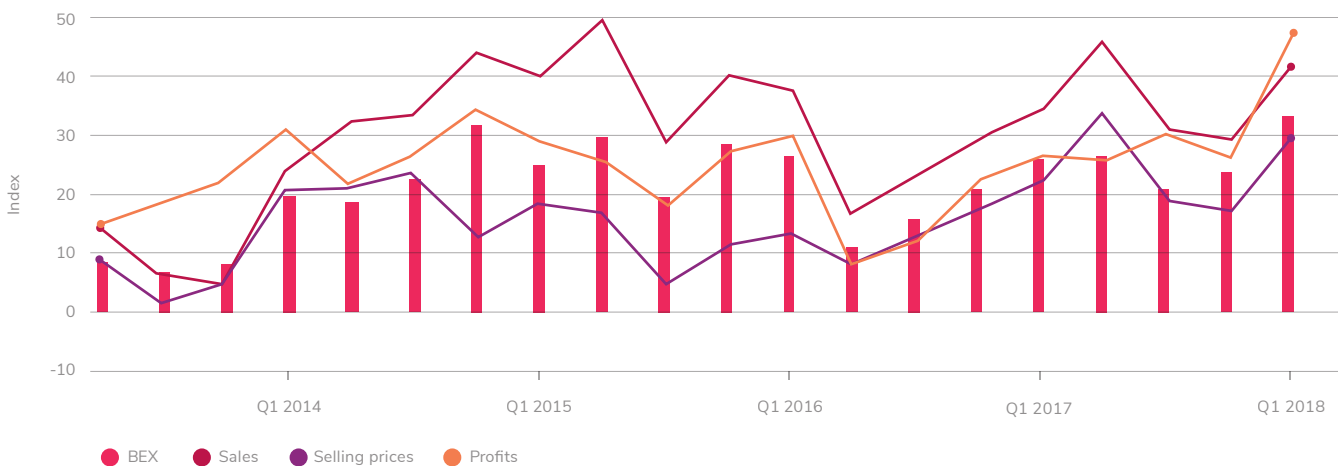
Services vs Retail: Q1 2018



“ The pessimism in the retail sector remains linked to the weakness in wages growth and the impact of the sharp increases in electricity bills, which continue to undermine the purchasing power of consumers. ”

Stephen Koukoulas  
illion Economic Adviser

Services Sector Forecasts a Strong Start to 2018



# Actual results strong

Actual results for all businesses covering the September quarter 2017 were also bullish – up 23 percent on the same time last year – driven by sales, profits and employees. Actual sales are at a 13-year-high and actual profits are at their highest level in five years. The overall business landscape remains mixed, however, with businesses operating in the retail, finance, insurance and real estate sectors less confident for the new year.

“The business outlook for the early part of 2018 is solidly positive, with the preliminary Business Expectations Index reaching a multi-year high, which could impact GDP growth for both the September and December quarter. Sales, profits and employee levels were all above the levels of a year ago.”

Stephen Koukoulas  
Illion Economic Adviser

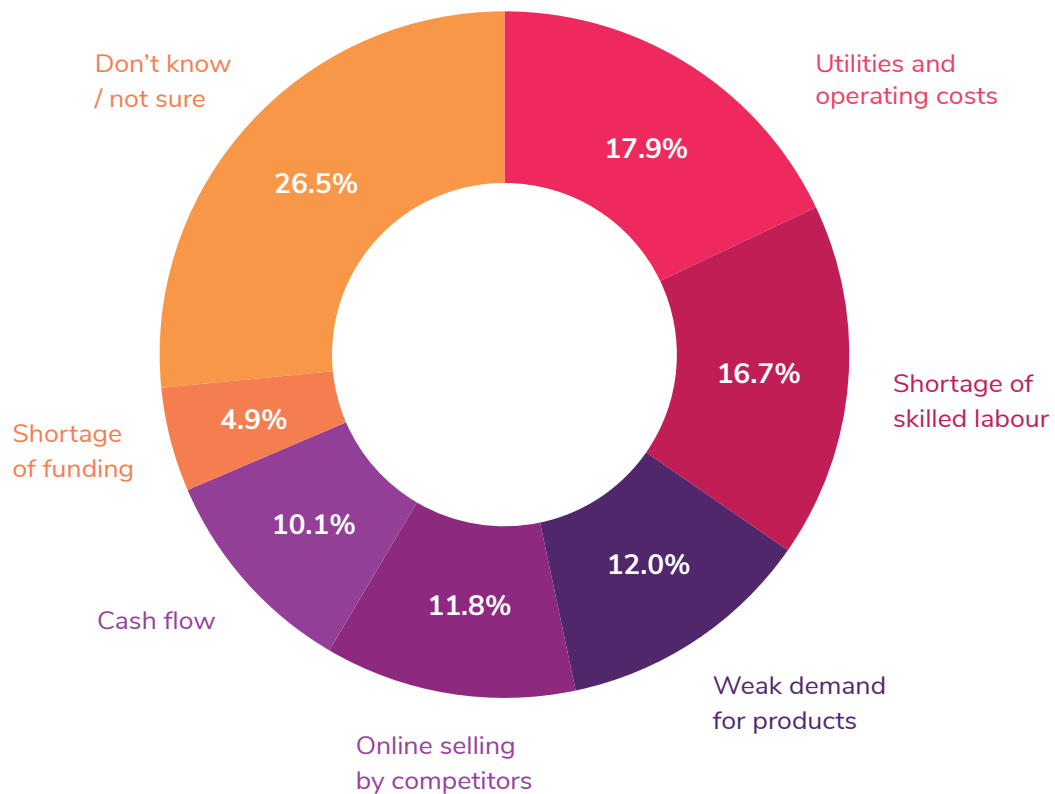
Actual Results: All Businesses Q3 2017



# Bills, bills, bills

Utility bills remain a pain point for both Australian businesses and consumers alike, with almost one in five businesses seeing it as the biggest barrier to growth in 2018. A notable exception was Construction, with more than a quarter of businesses (26 percent) citing a shortage of skilled labour as the primary barrier to growth in the next 12 months. Interestingly a shortage of funding, which is linked to bank lending and interest rate levels, remains the least significant issue, by a large margin, for the business sector.

What do you see as the biggest barrier to growing your business in the year ahead?



# Our methodology

Each month, D&B 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 400 responses obtained during October 2017.

Have a question?  
Contact us today.

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