

BUSINESS EXPECTATIONS SURVEY IN AUSTRALIA

Dun & Bradstreet 3rd Quarter Analysis 2017 - Interim

The end is (nearly) nigh?

As Australia grabs the world record for uninterrupted economic growth, the signs are mainly pointing downwards. Business performance for the first quarter has hit a four-year low, resulting in lower expectations for the second half of the year. Dun & Bradstreet's May Business Expectations Survey shows a generally muted outlook for the September quarter of 2017 despite employment expectations reaching a two-year high.

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The official GDP data, which confirmed a clear slowing in the rate of economic growth, was fully anticipated by the Dun & Bradstreet Business survey. Business expectations have dropped off for the September quarter 2017 following a softer-than-expected March quarter on the back of lower actual sales, profits, employment, selling prices and investment in the first quarter. This continues to highlight the importance of the Business Expectations Survey as an early indicator in turning points in key aspects of the economy – in this instance overall economic growth. The survey also has a solid record in anticipating turning points in other variables such as selling prices, employment and profits.

2
year high
for employment expectations

15%
decrease
in Business Expectations
Index

**Retail &
Manufacturing**
least optimistic sectors

4
year low
for Business Actual Index

Cautious approach in line with inflation

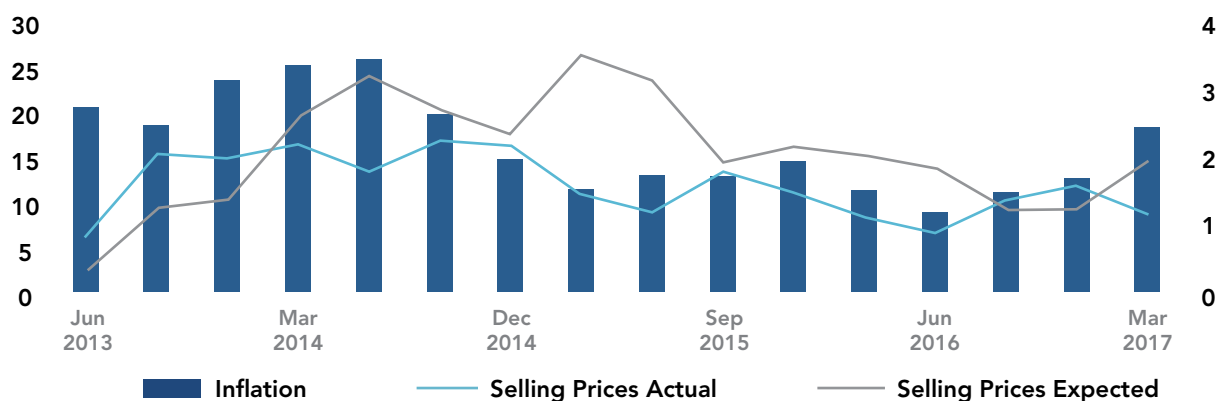
Business expectations have dropped by 15 percent for the September quarter from the June quarter. The outlook for sales, profits and capital investment continue to decline while selling prices have stabilised well below the 10-year average for the index.

“ Expected selling prices remain flat at a level below the long run historical average. This is consistent with the official inflation data which shows annual inflation remaining below trend.

The Business Expectations Survey is again proving to be a reliable indicator for key economic trends. It has correctly anticipated the pick-up in inflation from the end of 2016, and that the rise would be moderate. It has also anticipated what many in the market are now agreeing is a soft start to 2017 for the economy.

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Stephen Koukoulas, Dun & Bradstreet Economic Adviser



A resilient outlook for employment

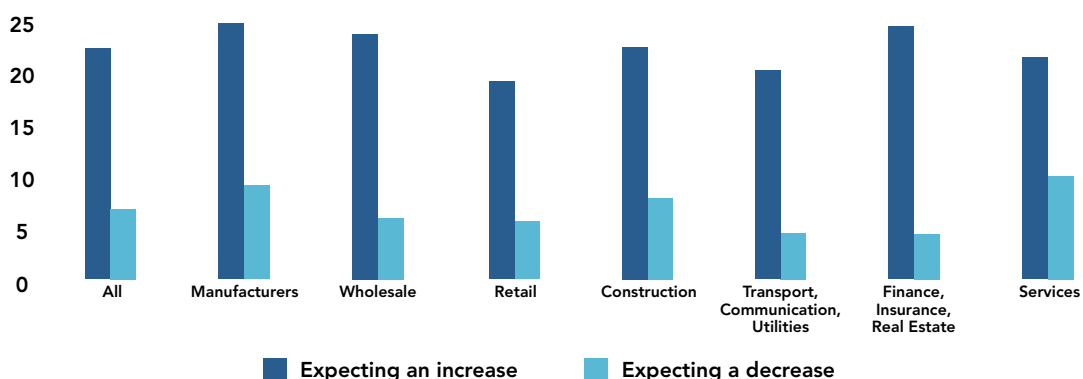
Expectations for employment are at a more than two-year high for the September quarter. All sectors have higher expectations for employment in the September quarter compared to the June quarter, except the Services industry, which saw a 24 percent decline in employment expectations.

“ One encouraging aspect from the business expectations survey is the outlook for employment. This may be linked to the current low wages environment and it fits with the recent ABS labour force data which has shown a solid rise in employment in recent months. The positive outlook for employment is across almost all industries, which is a favourable development.

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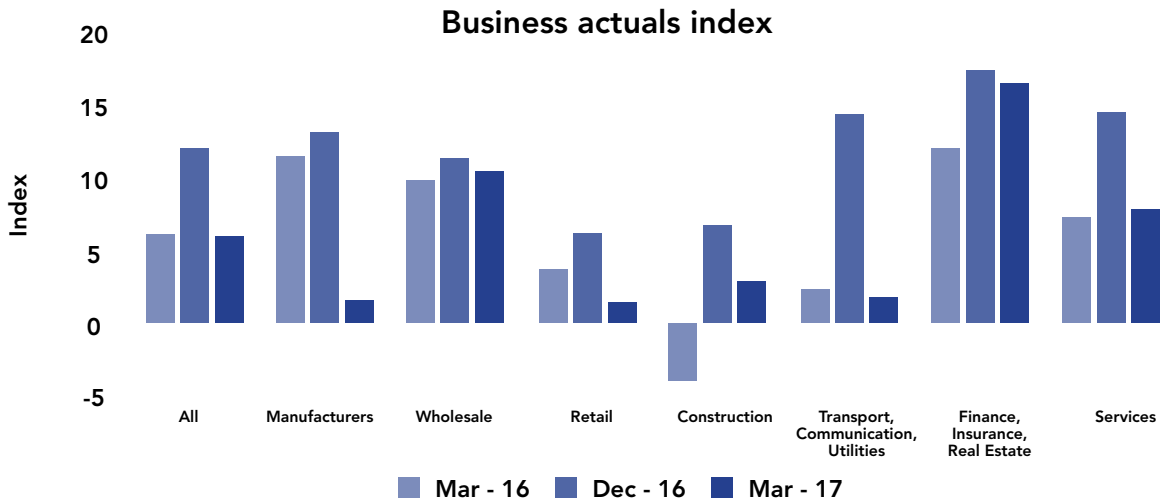
Stephen Koukoulas, Dun & Bradstreet Economic Adviser

Employment expectations for Q3 2017



Sluggish growth across all sectors

Business activity in the March quarter dipped to a 13-quarter low, with soft growth for sales, employment, selling prices, capital investment and profits. The Business Actuals Index was lower across all sectors.



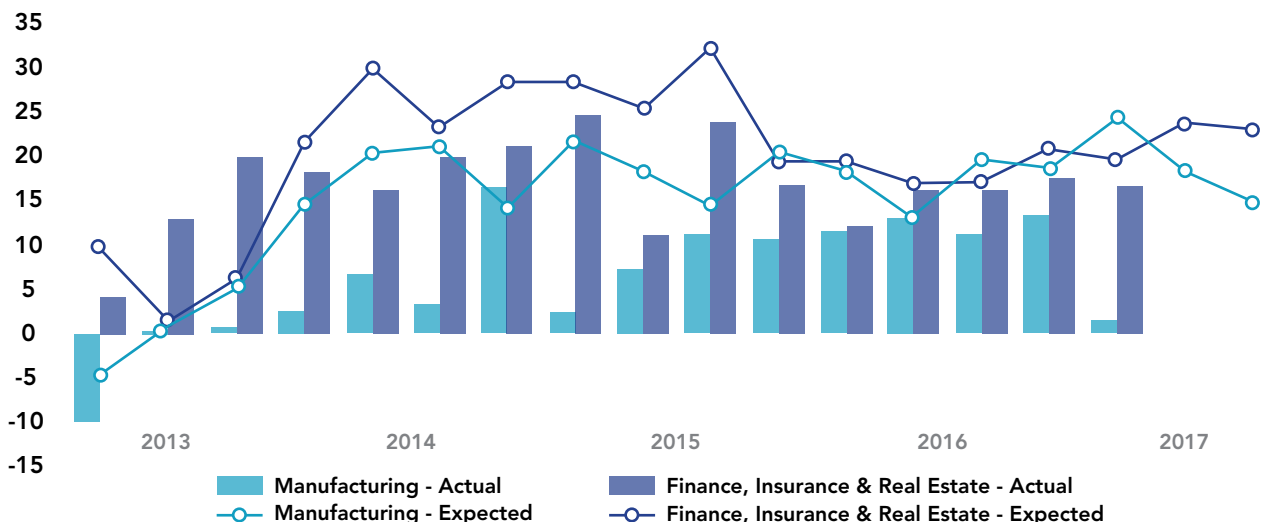
“ Despite a generally positive outlook for business expectations in the early part of 2017, the actual performance of the business sector slumped to its weakest level since Q2 2013. This significant shortfall in expectations was most evident in a disappointing actual result for profits, which turned negative for the first time since Q2 2011, with employment also deteriorating to a four-year low. The survey results are consistent with the economy growing, albeit at a below-trend pace. ”

Stephen Koukoulas, Dun & Bradstreet Economic Adviser

Manufacturing lows, Finance highs

Manufacturing businesses saw multi-year lows across expected sales, profits, and capital investment, as well as actual sales, selling prices, and capital investment. Its Business Actuals Index was at a more than three-year low for the March quarter.

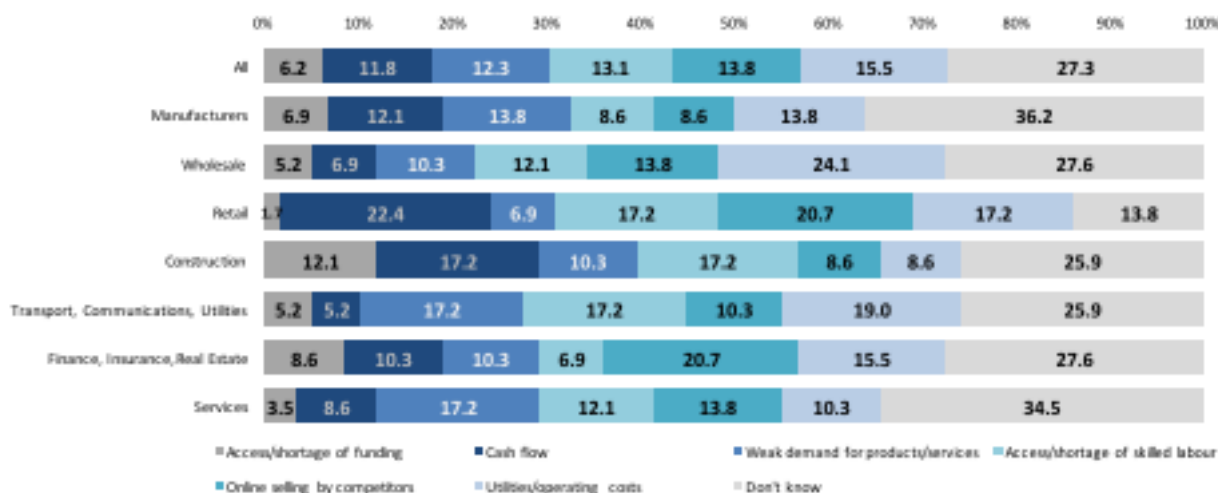
The Finance, Insurance & Real Estate sector recorded multi-year highs across a number of survey components including expected sales, employment, selling prices and capital investment, as well as actual employment and selling prices. However, its capital investment activity and expectations remained low.



Utilities & online competition a major concern

'Utilities and operating costs' remain a major concern for Australian businesses, and about two-thirds of businesses said they have been impacted by rising energy costs, with more than 20 percent experiencing a 'major' impact. 'Online selling by competitors' was seen as the second-biggest barrier to growth at 13.8 percent.

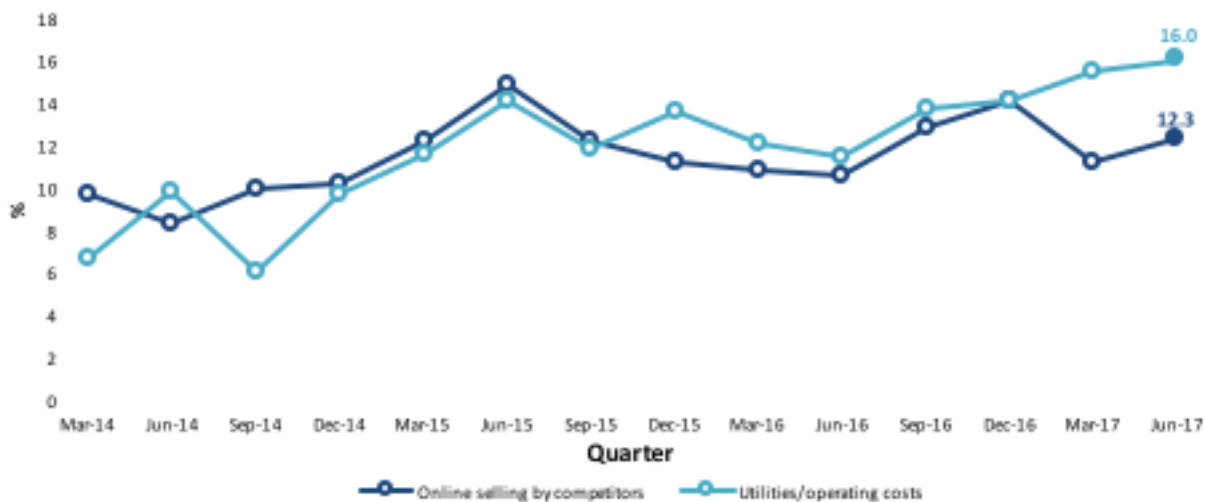
What do you see as the biggest barrier to growing your business in the year ahead?



“ In terms of the biggest barriers to business growth, firms suggested that utilities and operating cost as well as online competition were the major risks. The threat of online competition was most acute in the retail sector, which was also concerned about cash flow as a barrier to growth. It was interesting to note that access to finance was the least important issue confronting the business sector and that this was evident in all sectors. ”

Stephen Koukoulas, Dun & Bradstreet Economic Adviser

Utility costs, online competition expected to stymie growth



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 interim indexes for the latest quarters are based on approximately 800 responses obtained during April and May 2017.

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