

2nd Quarter Analysis 2018

Final Report

Australian Business Expectations Survey



Businesses upbeat on sales, profits

Bright outlook for profits after strong end to 2017

Business conditions are buoyant amid strong performances in sales, profits and employment, as revealed in illion's latest Business Expectations Survey. The illion Business Expectations index hit 23.7 points in March, up 16.4 percent on the same period a year earlier and the highest level since 2015. Expectations for employment jumped 54 percent on the prior year to 17.8 points, with Transport, Communications & Utilities businesses most likely to hire during the second quarter. Selling prices and profits expectations are up 43 percent and 22 percent, respectively. Actual profits for the final quarter of 2017 rose 79 percent on the prior corresponding period, while the actual employment index surged 74 percent to an 18-year high and actual sales rose 36 percent to its highest level since 2004.

“ The Final Business Expectations report for the June quarter strikes a confident, if slightly less bullish tone than the preceding months. Profits and sales continue to underpin the Business Expectations index, although there remains a conflict between the profits being reported across corporate Australia, signalling boom times, and stalling consumer confidence, indicating struggling households. Capital investment and wage increases remain the key factors to solve this impasse and build sustainable long-term growth. ”

Simon Bligh
illion CEO



Profits Actuals
highest in 5 years



Capital Investment
Expectations up 8.6
percent on Q2



Skilled labour
shortage affects 1 in 4
Construction businesses



Services Expectations
hit 3-year high

Expectations hit three-year high

“ Businesses have maintained a favourable outlook for the economy in the latest illion business expectations survey. The upbeat business mood fits with a range of other indicators pointing to buoyant conditions for the economy.

The recent GDP result confirmed economic expansion of 2.4 percent through 2017, a pace broadly consistent with the business expectations index. At its current level the index is pointing to a step up in growth in the first half of 2018.

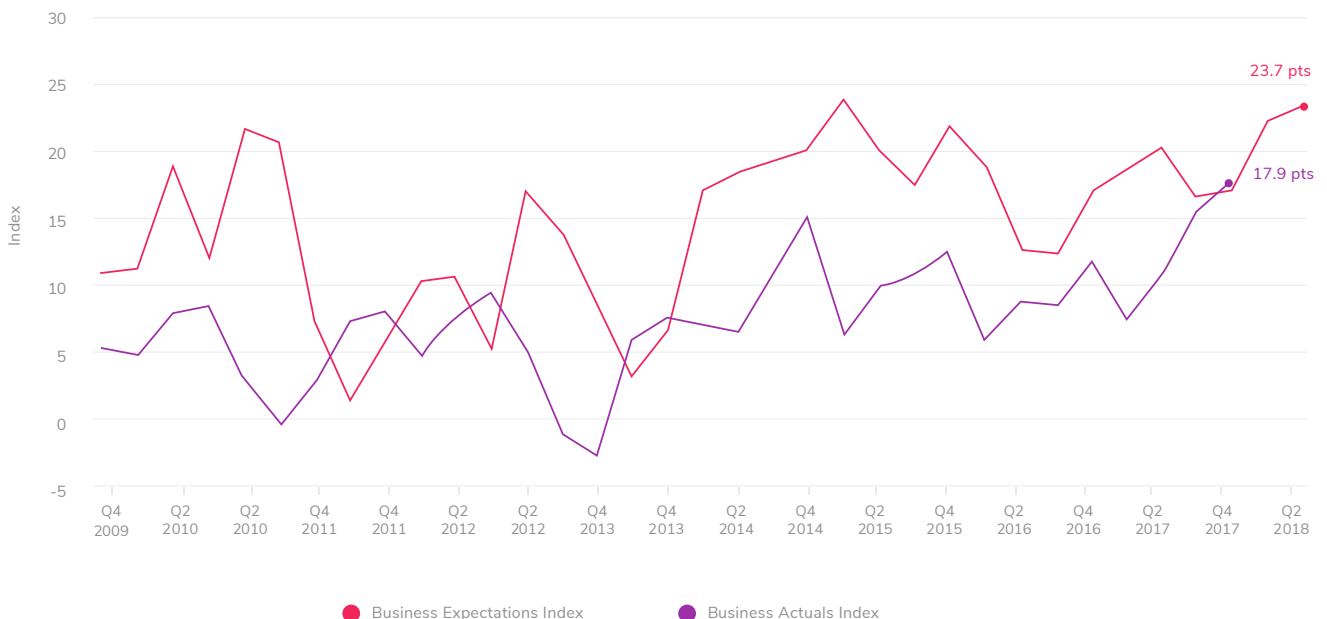
In aggregate, expected sales maintained a positive outlook for the June quarter, which points to a pickup in economic activity in the first half of 2018. Low interest rates and a stronger global economy are factors helping to support the sales outlook.

That said, employment expectations have edged lower, but remain at an overall buoyant level. A critical question for the economy and RBA interest rate policy is the strength of the labour market. If this turning point in employment expectations deteriorates in the months ahead, there will be further doubt about the prospects for interest rate rises within the next 12 months.

It is particularly interesting that expected selling prices have picked up sharply since the end of 2017. To date, the official inflation data show price pressures are well contained, but the most recent inflation data relate to the December quarter 2017. The inflation risk evident in the illion survey will be a closely watched aspect of the economy over coming quarters as it too will influence the RBA monetary policy considerations. ”

Stephen Koukoulas, illion Economic Adviser

Business Expectations Index - Q2 2018



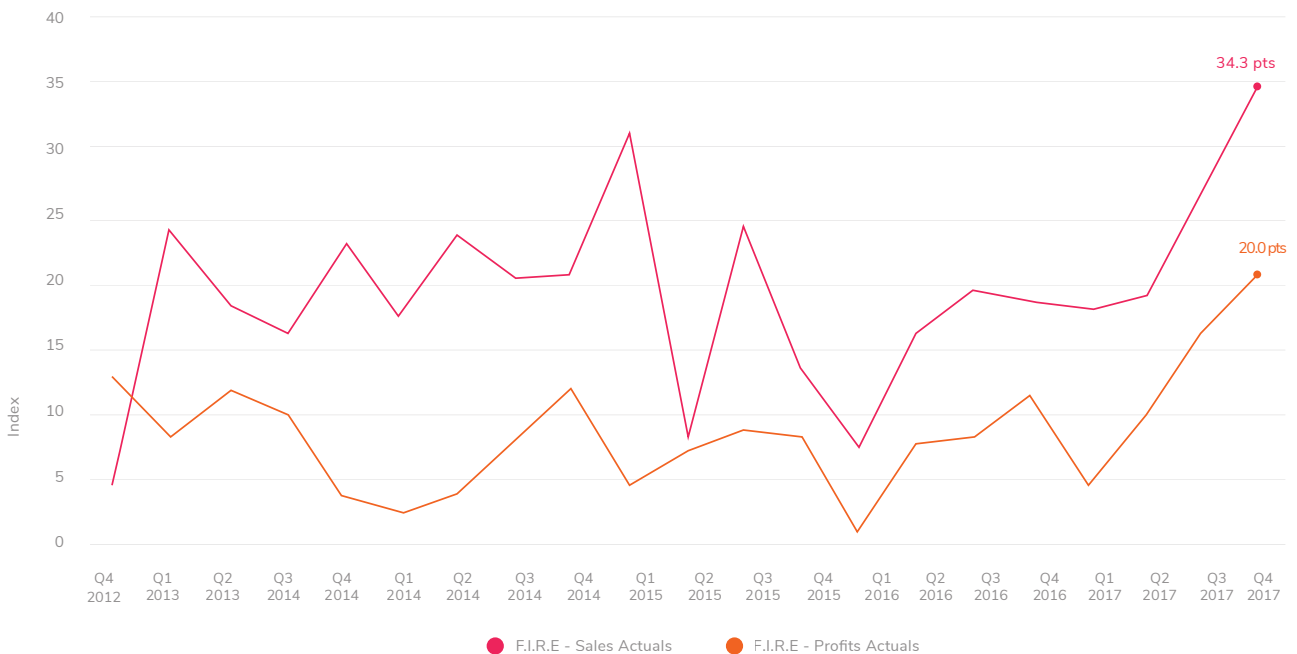
Finance, Insurance & Real Estate drive profits index

Actual profits for the December quarter of 2017 soared 79 percent higher than the same period in 2017, and 26 percent higher than the previous quarter to 20.0 points. The performance of the Finance, Insurance & Real Estate (F.I.R.E) industry drove the result, with actual profits up 88 percent on the prior corresponding period to 34.3 points. Profits in the Services sector also hit their highest level in five years, rising to 24.6 points for the December quarter.

“ Expected profits seems to be plateauing, albeit at an elevated level. Firms appear to be facing an increase in their wages costs, with tentative evidence of a moderate pick up in wages growth and the surge in employment adding to total labour costs. The most upbeat sector in the latest survey was Finance, Insurance & Real Estate, with both sales and employment expectations reaching their highest level since 2015. ”

Stephen Koukoulas
Illion Economic Adviser

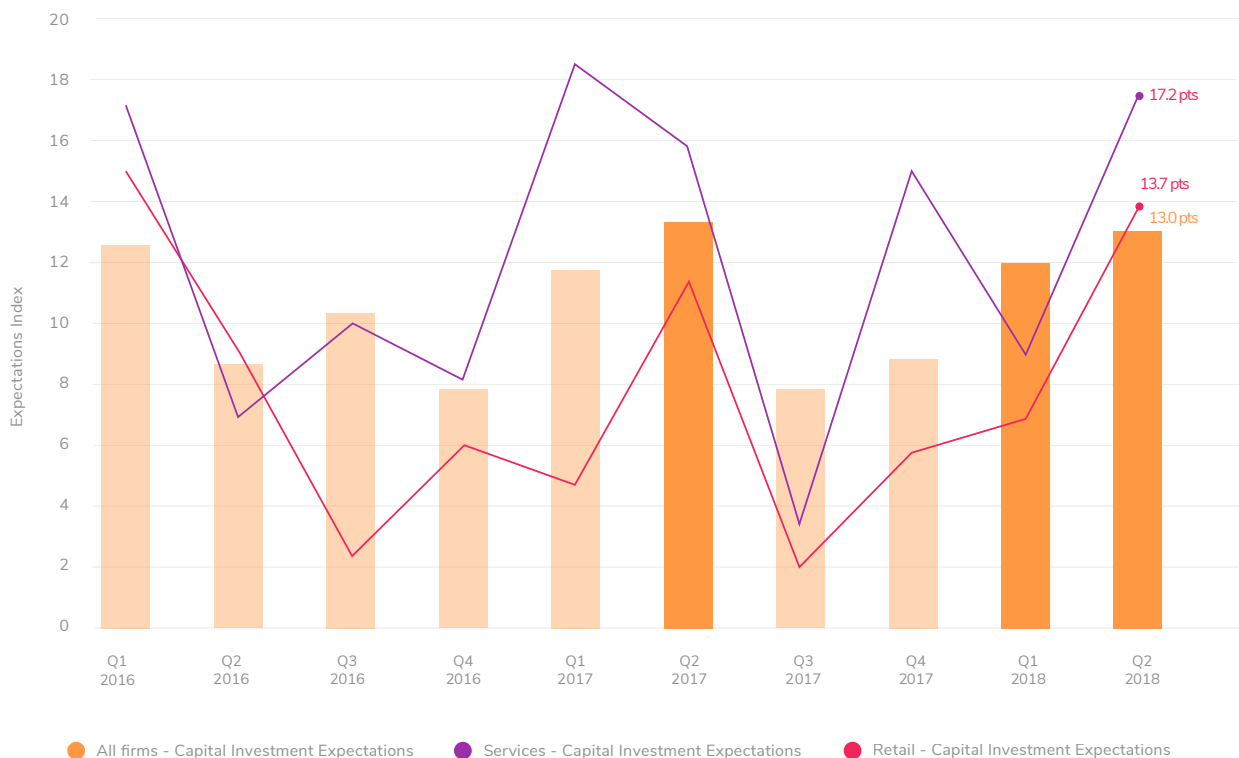
F.I.R.E Actual Profits - Q4 2017



Capital Investment plans increase for third consecutive quarter

Businesses are expecting to increase capital expenditure in the next quarter, with the index up 8.6 percent on the March quarter. Expectations for capital increased for the third consecutive quarter to 13.0 points, although this was on par with the 13.3 points recorded for the same period last year. The rise comes amid growing support from the business community for the federal government's plan to cut the corporate tax rate from 30 percent to 25 percent. The standout sectors are Retail and Services, with their respective capital investment indices doubling from the previous quarter. The Retail and Services sectors are also the most optimistic about growing their businesses in 2018 compared to last year. Around 76 percent of retailers and 72 percent of services firms said they are more optimistic, compared to the all firms average of 69 percent.

Capital Investment Expectations - Services & Retail



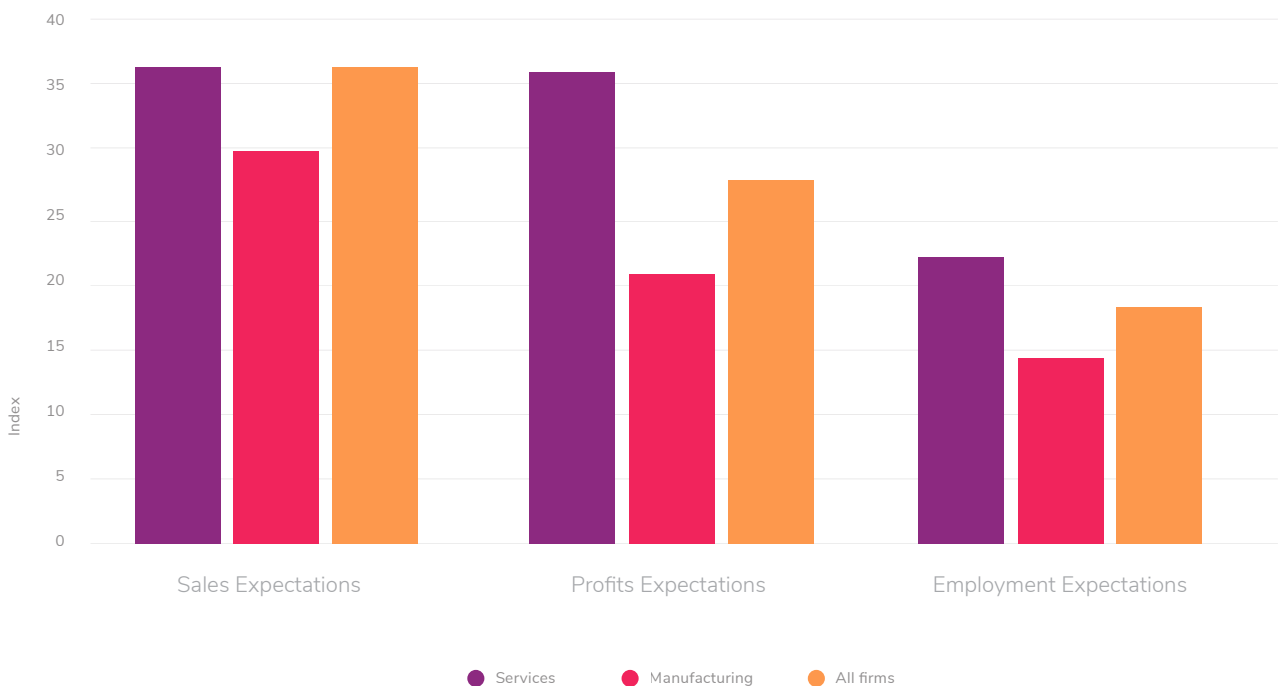
“In line with the recent data on business investment, firms are expecting to increase their capital expenditure over the next two quarters. The expected pick up is relatively moderate and it follows five years where business investment, especially in mining and related industries, has been very weak. A pick up in business investment is one of the key themes for the government as it frames the budget, which will be handed down in May.”

Stephen Koukoulas
Illion Economic Adviser

Services lead while Manufacturers lag

Manufacturing expectations have slumped 30 percent on the previous quarter's record 27.1 points to 18.9 points, with the sector's sales and profits indices falling behind both the previous quarter and the same time last year. The Business Expectations Survey also found 1 in 3 Manufacturers have had customers or suppliers become insolvent or unable to pay them in the past 12 months. The sector pointed to cash flow as its second-biggest barrier to growth in the year ahead, after utilities and operating costs. By contrast, expectations in the Services sector have hit a three-year high to 27.7 points, an 11 percent increase on the same time a year ago. The difference in the confidence of the two sectors is indicative of the shift in the Australian economy away from manufacturing and consumption of goods.

Manufacturing vs Services vs All firms Q2 Expectations



“ There was a significant downturn in the manufacturing sector, with sales and profits expectations weakening. In addition to surging energy costs and trade payment flow problems, other issues specific to manufacturing are linked to the impact of the Australian dollar, which remains relatively high, and a ramping up of global competition from low cost producers. Until the Aussie dollar falls, many Australian manufacturers will continue to operate in a difficult trading environment. The upbeat outlook for the services sector remains heavily influenced by the changing spending patterns of Australian consumers. The services sector now accounts for around three-quarters of the economy. ”

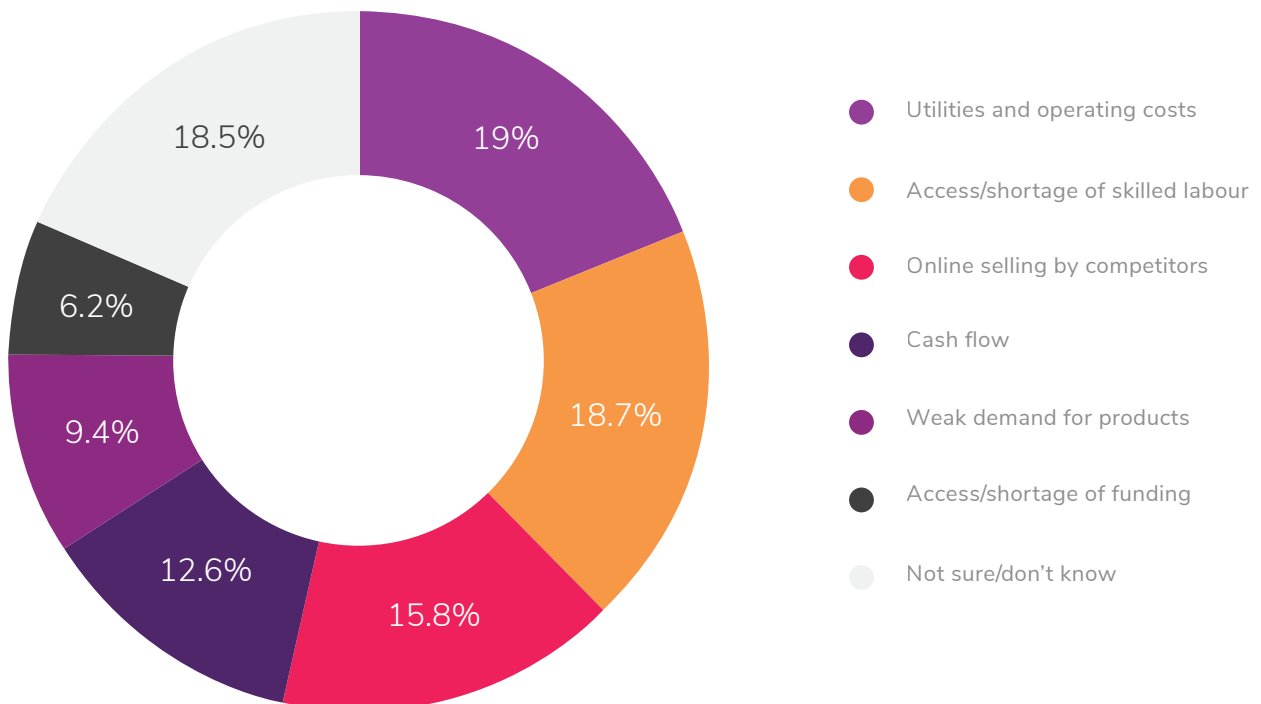
Stephen Koukoulas
Illion Economic Adviser

Operating costs and skilled labour top list of major obstacles

Utilities and operating costs, as well as shortage of skilled labour, remain the biggest barriers to growth in the year ahead. Shortage of skilled labour is the biggest barrier for 1 in 4 Construction firms, while 23.7 percent of Manufacturers view utilities and operating costs as their primary concern.

“ Factors cited by the business sector as the major obstacles for expansion are rising utility and operating costs and a shortage of skilled labour. The growing scarcity of skilled labour is at odds with the official labour force data, which shows unemployment at 5.6 per cent, little changed in recent years, and a high underemployment rate. The retail sector is the most exposed to the growth of on-line selling by competitors. ”

What is the biggest barrier to growth for your business for the year ahead?



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 1,239 responses obtained during January, February and March 2018.

Have a question?
Contact us today.

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