

2nd Quarter Analysis 2018  
Interim Report

# Australian Business Expectations Survey



# Construction builds confidence

## Construction activity picks up following strong sales, profits

The headline Business Expectations Index is 16.8 percent higher than the same time last year, with solid results across all actuals sub-indices, except for capital investment. The Construction industry is driving business confidence heading into the second quarter of 2018, with illion's latest Business Expectations Survey revealing construction industry confidence has reached its highest level in five years. The sector's actual results for sales and profits during the December quarter of 2017 hit three-year highs.

“ Business expectations have maintained a positive outlook, although employment expectations for the June quarter edged lower. Nonetheless the overall picture is buoyant, with expectations for profits and selling prices the two strongest components. The expectations of the business sector fit with the recent news on the economy, which points to a gentle pickup in activity and strong profit growth. ”

Stephen Koukoulas  
illion Economic Adviser

“ Business confidence eased slightly lower in the February Business Expectations survey, although optimism for the second quarter remains strong. The latest results indicate a tightening labour market, with employment actuals up against a lack of skilled labour in some sectors. The two options to break this deadlock are declining demand or increased wages, and the latter would be preferable for business and consumer confidence. ”

Simon Bligh  
illion CEO



Employment Actuals  
highest since 2000



Shortage of skilled  
labour an issue for  
1 in 5 businesses



Construction  
confidence up 49.7%,  
highest in 5 years



Retail Expectations  
up 53.8%

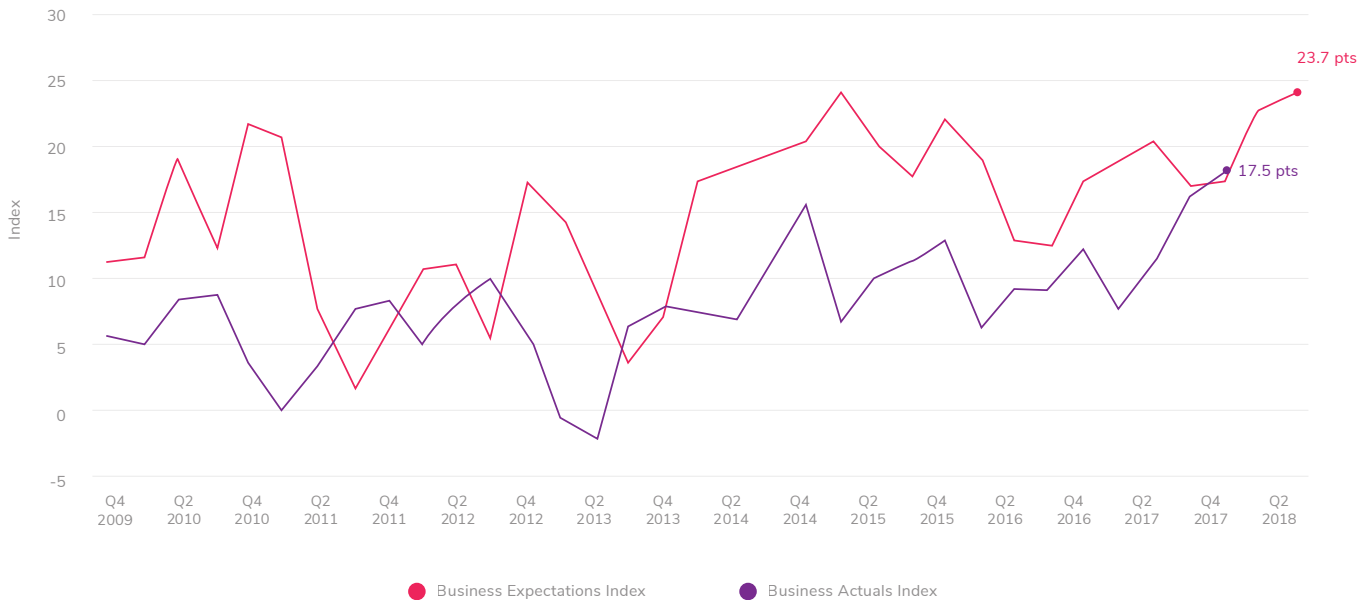
# Expectations hit three-year high

The illion Business Expectations index rose to 23.7 points in February, up 16.8 percent on the same period a year earlier and the highest level since 2015. While expectations for the sales, employment, selling prices and profits sub-indices improved on a year-on-year basis, capital investment expectations fell 8.5 percent to 12.2 points.

“ One of the problems for the economy in recent years has been the on-going weakness in capital investment. Business expectations for investment have improved over the past year but the pickup appears to have stalled for the June quarter. While not yet an issue in terms of implications for the economic outlook, any further decline in expected investment would be a concern. ”

Stephen Koukoulas  
illion Economic Adviser

Business Expectations Index - Q2 2018



# Construction gains momentum

Construction expectations for the June quarter soared to multi-year highs across sales, employment, selling prices and profits. Overall expectations for the second quarter of 2018 rose to a five-year high and are up 50 percent on the same period last year. Despite actual performance falling slightly, with employment and selling prices edging lower, sales and profits for the final quarter of 2017 were at their highest level since December 2014.

Construction Expectations Indices - Q2 2018



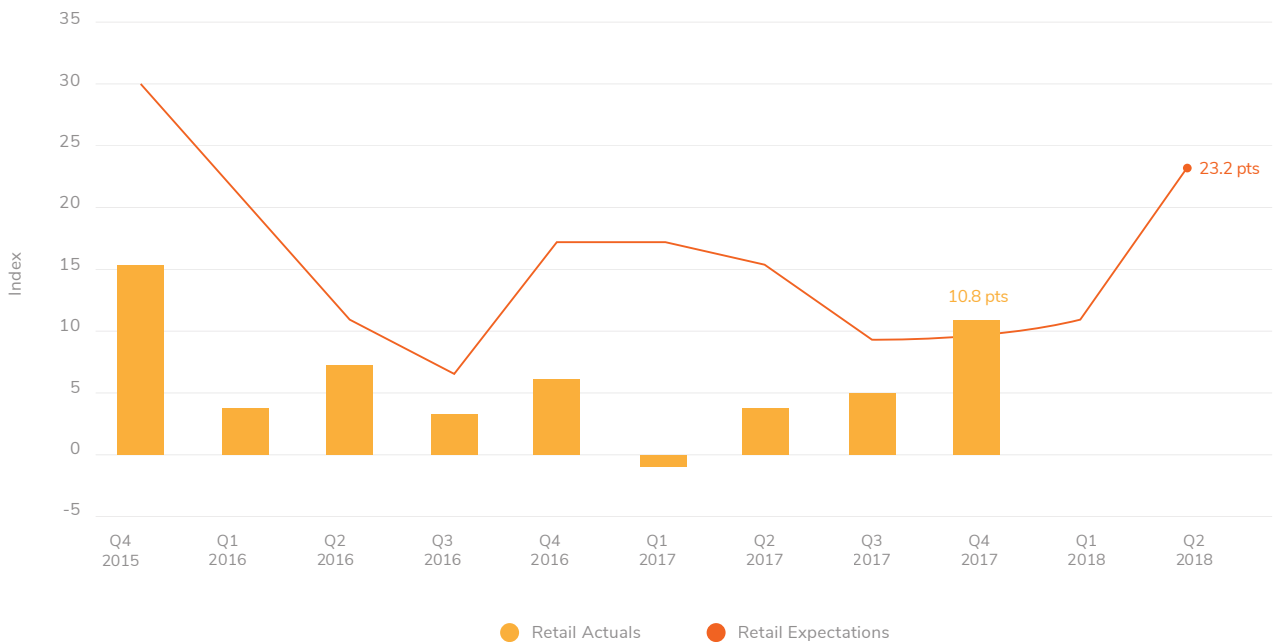
“ A stand-out in the Business Expectations Survey is the sharp improvement in the construction sector. The ongoing strength in dwelling construction is now benefiting from the strong pick up in public infrastructure spending and early signs of a turn in business investment. ”

Stephen Koukoulas  
illion Economic Adviser

# Retail optimism rebounds

Retailers are bouncing back, with expectations for the June quarter up 53.8 percent from the same period last year to 23.2 points - the highest result since December 2015. The Retail Actuals Index jumped 74.5 percent to 10.8 points, the highest level since December 2015. Million's February Business Expectations Survey found 1 in 3 retailers pointed to utilities and operating costs as the biggest obstacle to growth in the year ahead, in contrast to online selling by competitors, as identified in the previous two surveys. More than 70 percent of retailers said they were more optimistic about growth in 2018 compared to the previous year.

Retail Expectations Q2 2018 vs Actuals Q4 2017



“ Expected sales continue to move higher and remain well above the 10 year average. Encouragingly, retailers’ expectations for sales rose to the highest level since the December quarter 2015. Consumer spending will be an important part of the economy in 2018 after tough conditions in 2017. ”

Stephen Koukoulas  
Million Economic Adviser

# Employment skyrockets to 18-Year High

The Employment Actuals index soared 73 percent on the prior year to 14.6 points, the highest level since 2000. The result was buoyed by the transport, communications & utilities, and services industries, with the actual employment indices for those sectors more than doubling during the fourth quarter of 2017 compared to the prior corresponding period.

Employment Actuals Index



“After the stellar year for employment growth in 2017, expectations for employment have started to edge lower. While the level of expected employment remains solidly positive the drop in employment expectations suggests some slowing in the rate of job creation through to the middle of 2018.”

Stephen Koukoulas  
Illion Economic Adviser

# Business struggling to find skilled labour

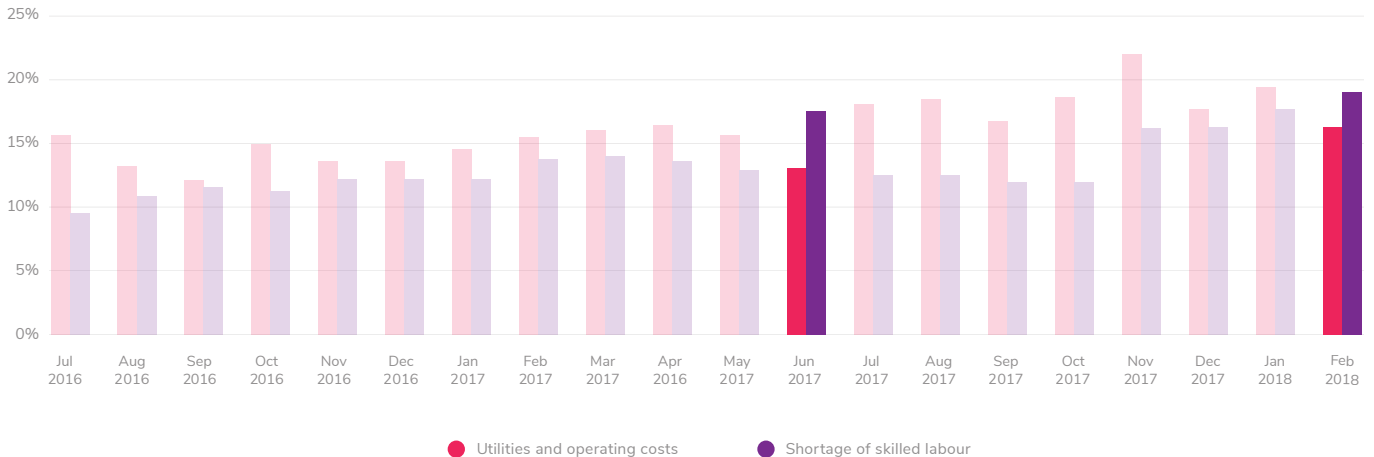
For around 1 in 5 businesses, a shortage of skilled labour is a significant concern in the year ahead, with the issue overtaking utilities and operating costs as the biggest barrier to growth. This is only the second time in two years skilled labour has emerged as the primary concern for business. A quarter of all manufacturing, construction, transportation, communication & utilities businesses said access to skilled labour was a barrier to growth. Online selling by competitors is also seen as an increasing concern for 1 in 3 wholesalers, compared to just 17 percent of wholesalers in the January survey.

“As business expectations continue to point to a positive outlook for the economy, firms are noting that a constant on business expansion is finding suitably skilled labour. This has overtaken utilities costs as the major constraint on what is a positive outlook. The difficulty in finding labour suggests that wage pressures could start to emerge through the course of 2018.”

Stephen Koukoulas  
Illion Economic Adviser

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

Skilled labour primary concern for business in Q2





# 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 827 responses obtained during January and February 2018.

Have a question?  
Contact us today.

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