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D&B NATIONAL BUSINESS EXPECTATIONS

Firms prepare to restock as confidence in economic outlook grows

The latest D&B National Business Expectations Survey shows...

Outlook for the March quarter 2010

- Expectations for growth in inventories are at the highest level in more than four years – up one point to an index of five
- Selling price expectations have fallen to the lowest level ever recorded in the survey – reaching an index of nine
- Sales and profits expectations have risen again – with a rise of two for sales and a rise of three for profits expectations
- Capital investment expectations are at the second highest level in ten quarters – at an index of seven
- Employment expectations fell from positive territory to an index of zero

Credit market conditions, debt levels and lagging trade payments

- Thirty one percent of firms reported a negative impact from credit market conditions (down six percent), while 7 percent experienced a positive impact (down four percent)
- Nineteen percent of firms expect to reduce debt in the next three months, while seven percent expect to increase debt and 70 percent plan to maintain current levels of debt
- Forty percent of executives are being negatively impacted by lagging business to business payment terms, a nine percent fall since July

Issues expected to influence operations in the March quarter 2010

- Thirty eight percent of executives rank wages growth as the primary influence on their business in March quarter 2010. Meanwhile, 33 percent expect interest rates to be the primary influence and 13 percent believe fuel prices will be their main concern in the quarter ahead

Actual for September quarter 2009

- Capital investment remained positive for a second consecutive quarter with an index of three. Twelve percent of firms spent more on capital investment while nine percent decreased capital expenditure
- Thirty percent of firms increased sales as compared to the September quarter 2008, while 32 percent of firms experienced lower sales
- Nine percent of businesses increased staff and 13 percent reduced employee numbers in September quarter 2009 compared with a year earlier
- The profits index remained in negative territory at an index of – 14. Seventeen percent of firms increased profits while thirty one percent of firms recorded lower profit numbers
- Twenty three percent of firms raised selling prices, while 12 percent decreased prices

Australian businesses are planning to start the New Year with a significant restocking of inventories as expectations of a strengthening economy fuel confidence about New Year sales and profits. In another positive sign for the economy firms are also reporting improved expectations for capital investment.

These findings are from the first Dun & Bradstreet Business Expectations Survey for the New Year which reports on business expectations for the March quarter.

Inventory expectations are now at their highest level in more than four years, up one point on the December quarter. Fourteen percent of executives expect to increase inventories in the March 2010 quarter, while nine percent plan to reduce stock levels. The expectations of durables manufacturing executives have reached the highest level in more than four years, with 15 percent of firms expecting to increase stock levels in the March quarter.

The increased contribution of stocks is seen as an important indicator of business confidence and represents a significant improvement since the low in the March quarter of an index of -11. The retail sector has seen the greatest improvement retuning to positive territory with an index of 3, up from a low of -12 in March 2009. Importantly both durable and non durable manufacturers have improved to indices of -2 and 2 respectively improving from -11 and -4 the quarter prior. This marked an end to the slashing of stocks that occurred during the credit crisis and is an indicator that the two manufacturing sectors are feeling more confident about the sustainability of Australia's economic performance.

The outlooks for sales and profits expectations have also continued to improve. The sales index has risen a further two percentage points since the previous quarter. This is on top of a 50 percentage point rise in the December 2009 quarter, the largest one-quarter rise in the history of the survey. Forty three percent of firms expect an increase in sales and fifteen percent a decrease in sales in March quarter 2010. The retail sector's expectations rose to a net 35 percentage points, the highest retail sales expectations index in more than six years.

The profits index has also made a minor further advance, with twenty eight percent of executives now anticipating profits will increase in the March quarter. Executives in the retail sector have the highest expectations, with 32 percent expecting profits to increase and 18 percent a decrease.

Expectations for selling prices have fallen by 66 percentage points since the March quarter of 2009. One in five (20 percent) firms expects to raise prices in the March quarter, while 11 percent expect to lower prices. Wholesale executives have experienced the most significant drop in expectations for increased prices, falling 75 percentage points since the March 2009 quarter to a net index of two. In the retail sector expectations of selling prices have dropped eleven percentage points to a net eight percent compared to a high of a net seventy six percentage points in the March quarter of 2009.

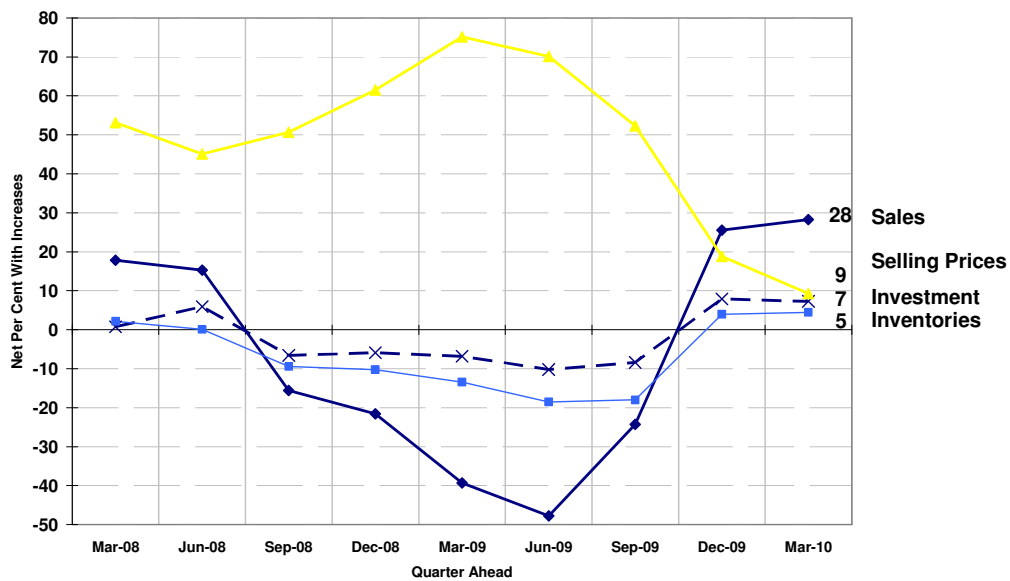
Twelve percent of firms surveyed expect to increase capital investment, while just five percent are planning to decrease spending in this area. Durables manufacturers have experienced the most significant increase in expectations (up 25 percentage points since the September quarter) as the capital investment index returned to positive territory. Actual capital investment has now had two positive quarters after five negative quarters from March 2008 to March 2009. Twelve percent of firms had more capital investment and nine percent less capital investment than in the September quarter of 2008.



MEDIA RELEASE

The final index of employment expectations for the quarter fell four percentage points to an index of zero. Seven percent of firms are planning to increase staff levels and seven percent reduce employment numbers. These figures are however a 26 percent improvement on the June quarter index off an all time low of minus twenty six percentage points. However, with the Federal Government closely watching employment levels as a key indicator of the strength of the economic recovery this number would be of some concern.

For durables manufacturers the employment index is a net plus three with ten percent expecting to increase employment and seven percent expecting to decrease staff numbers. Retailers are also in positive territory with six percent expecting to increase employment and five percent expecting to decrease staff numbers.



D&B Expected Sales, Selling Prices, Capital Investment and Inventories Indices

According to Dun & Bradstreet’s CEO Christine Christian, the expectation of increased stock levels is a sign that Australian firms are improving their business outlook well into 2010.

“The increased expectations to boost inventory levels in most sectors is a positive sign that Australian businesses believe that the economic turn around will continue well into 2010. Firms are unlikely to invest in stock if they have little belief that improving sales and profits levels will continue,” said Ms Christian.

“The increase in business confidence is a stark turn around from mid year when most indices were mired in negative territory. 2009 has been a challenging year for many businesses with the impact of the Global Financial Crisis hitting heavily across Australia and the globe. Executives will be hoping that their expectations for 2010 are met and they can enjoy a far more positive business environment than they have experienced over the past eighteen months.”



The impact of credit market conditions on Australian businesses is continuing to decline. Thirty one percent of firms indicated that credit market conditions are detrimentally impacting operations (a decrease of six percent in a month) while seven percent report a positive impact (down four percent since last month).

Rising business-to-business payment days are still having a negative impact on four in ten (40 percent) firms. However this is a one percent decrease since last month and a nine percent decrease since July. With business to business payment days improving to reach 51.8 days in the September 2009 quarter there are signs that this may continue to improve in the future.

The number of executives expecting wages growth to be the most significant influence on their business in the quarter ahead has risen by four percent since last month. Thirty eight percent of executives believe wages growth will be the primary influence on operations in the quarter ahead. Meanwhile, 33 percent of firms surveyed rank interest rates as the major influence on their business and 13 percent consider fuel prices to be their primary concern.

Nineteen per cent of executives plan to reduce their current business debt levels in the next three months, five percent reduce significantly and 14 per cent moderately. Only seven percent expect to increase their business debt and 70 percent plan to maintain current debt levels.

According to Dr Duncan Ironmonger, Dun & Bradstreet's economic consultant, the latest D&B survey indicates a much stronger business performance in 2010 than in 2009.

"Although expectations for growth in staff numbers are weak, expectations for growth in sales in the quarter ahead are at their highest level in six years. Businesses are backing up these expectations with intentions to make relatively strong increases in capital investment and inventories," said Dr Ironmonger.

"Partly due to the strong Australian dollar and lower costs of imports, firms have managed to keep selling price increases low and intend to continue this policy into 2010.

"The details behind the ABS national accounts for September quarter show that the apparently slower GDP growth was entirely due to a small decrease in exports and a large rise in imports; consumer spending, housing construction and public investment were growing strongly.

"Later data suggest a continuation of these areas of growth in the December quarter. In the three months to November employment grew by 100,000. Consequently 2009 is highly likely to show four quarters of positive economic growth in Australia – a strong base for more growth in 2010," Dr Ironmonger said.

The D&B index for expected sales is up two points to 28, with 43 percent of executives expecting an increase in sales and 15 percent expecting a decrease. The profits index is up three points to 10, with 28 percent of executives expecting profits to rise and 18 percent expecting a fall.

Employment expectations are down four points an index of 0, with 7 percent of executives expecting an increase in staff and 7 percent expecting a reduction. Capital investment expectations are down one point to an index of 7, with 12 percent of executives expecting an increase and 5 percent expecting to cut spending. Inventories expectations are up one point to an index of 5. The selling prices index is down 10 points to an index of 9, with 20 percent of firms expecting to raise prices and 11 percent expecting to decrease them.

Media Notes

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About the survey

D&B Australasia conducted the latest Business Expectations Survey in December 2009. Each quarter 1,200 business owners and senior executives representing major industry sectors across Australia are asked if they expect increases, decreases or no changes in their upcoming quarterly Sales, Profits, Employment, Capital Investment, Inventories and Selling Prices. Since its introduction in Australia in 1988, the Survey has proven to be a highly reliable measure of economic performance.

NOTE: The index figures used in the Survey represent the net percentage of Survey respondents expecting higher sales, profits, etc., compared with the same quarter of the previous year. The indices are calculated by subtracting the percentage of respondents expecting decreases from the percentage expecting increases.

Copies of these results can be viewed and downloaded from the D&B website at: www.dnb.com.au

Methodology

Each quarter D&B asks a sample of executives in manufacturing, wholesale and retail businesses across Australia if they expect an increase, decrease or no change in their quarter-ahead sales, profits, employees, capital investment, inventories 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.

The Australian survey began in March 1988 obtaining some 900 responses in the third month of each quarter. Since the middle of 1999, the survey has been conducted monthly, initially with about 300 responses each month. From September 2000, responses have been obtained from 400 executives each month.

From July 2005, to simplify the interpretation of the survey data, the results have been presented as a sequence of preliminary, interim and final indexes. The 400 responses from the first month of each quarter give preliminary estimates of the quarter-ahead expectations and the quarter behind actual indexes. The 400 responses from the second month of the quarter are combined with those from the first month as interim estimates of the indexes based on 800 responses. The 400 responses from the third month are combined with those from the first two months to give the final expectations and actual indexes based on all 1,200 responses obtained during each quarter.

In this issue, the final indexes for the latest quarters are based on the 1,201 responses obtained in October-December 2009.

Charts & Tables

Positive and Negative Component Responses. It is the common practice to present the results of business expectations surveys as indexes showing the net balance of the positive and negative responses. However, this method of aggregating responses loses relevant information about the relative proportions and rates of change of the two (positive and negative) groups.

Accordingly, the detailed charts at the top of pages 5 to 10 in the Dun & Bradstreet National Business Expectations Survey show separately the positive and negative components of each of the various indexes. These charts help provide a better insight into the expectations and performance of Australian business than that shown by movements in the simple aggregation of the positive and negative responses.

The aggregate net balance indexes are shown in the charts at the bottom of pages 5 to 10 and in the tables on pages 11 to 13.

About D&B

D&B is the world's leading provider of business-to-business credit, marketing and purchasing information and receivables management services. D&B manages the world's most valuable commercial database with information on more than 130 million companies.

Information is gathered in 209 countries, in 95 languages or dialects, covering 186 monetary currencies. The database is refreshed more than one million times daily as part of D&B's commitment to provide accurate, comprehensive information for its more than 150,000 customers.

The Australasian operations were bought out by the senior management group in August 2001. It was the first MBO of a wholly owned subsidiary in D&B's history worldwide.

Today Lazard Carnegie Wylie owns an approximate 90% stake in DBA and the local management team a 10% stake.

Strategies for future growth include developing DBA's commercial and consumer credit referencing business; expanding its receivables management outsourcing business; maintaining its lead in the development of unique credit and risk scoring products; and developing new products specifically tailored to the Australasian market. DBA currently employs over 500 people in Australia and New Zealand.