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## D&B NATIONAL BUSINESS EXPECTATIONS

# Capital investment expectations reach pre-crisis levels

*Employment and selling prices the only indices to fall*

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

#### **Outlook for the March quarter 2010**

- Capital investment expectations are at the highest level in ten quarters – at an index of eight
- Selling price expectations have fallen to the lowest level ever recorded in the survey – also reaching an index of eight
- Employment expectations fell into negative territory reaching an index of -1
- Expectations for growth in inventories have reached the highest level in six years – reaching an index of 11
- Sales and profits expectations have risen again – with an index of 11 in sales and an index of nine for profits expectations

#### **Credit market conditions, debt levels and lagging trade payments**

- Thirty eight percent of firms reported a negative impact from credit market conditions (down one percent), while 10 percent experienced a positive impact (down 8 percent)
- Thirty percent of firms expect to reduce debt in the next three months, while nine percent expect to increase debt and 58 percent plan to maintain current levels of debt
- Forty four percent of executives are being negatively impacted by lagging business to business payment terms, a one percent rise since last month

#### **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, 34 percent expect interest rates to be the primary influence and 16 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 four. Eleven percent of firms spent more on capital investment while seven percent decreased capital expenditure
- Twenty seven percent of firms increased sales as compared to the September quarter 2008, while 34 percent of firms experienced lower sales
- Seven percent of businesses increased staff and 14 percent reduced employee numbers in September quarter 2009 compared with a year earlier
- The profits index remained in negative territory at an index of – 20. Fourteen percent of firms increased profits while thirty four percent of firms recorded lower profit numbers
- Twenty one percent of firms raised selling prices, while 11 percent decreased prices

Australian firms are expecting a positive start to the New Year with improved expectations for sales, profits, capital investment and inventory levels as broader signs of a strengthening economic recovery take hold. However, employment expectations have deteriorated slightly as firms deal with rising wages costs and interest rate rises.

These findings are from the latest D&B *Business Expectations Survey*, which examines expectations for the 2010 March quarter following the Christmas trading period.

Twelve percent of firms surveyed expect to increase capital investment, while just four percent are planning to decrease spending in this area. Capital investment has however come from a low base as firms reduced investment over the period of the economic crisis. Durables manufacturers have experienced the most significant increase in expectations (up 20 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.

Also demonstrating continued confidence in the outlook ahead, inventory expectations have reached their highest level in six years, up seven percentage points since the December quarter. Nineteen percent of executives expect to increase inventories in the March 2010 quarter, while eight percent plan to reduce stock levels. The expectations of durables manufacturing executives have reached the highest level in seven years, with 17 percent of firms expecting to increase stock levels in the March quarter.

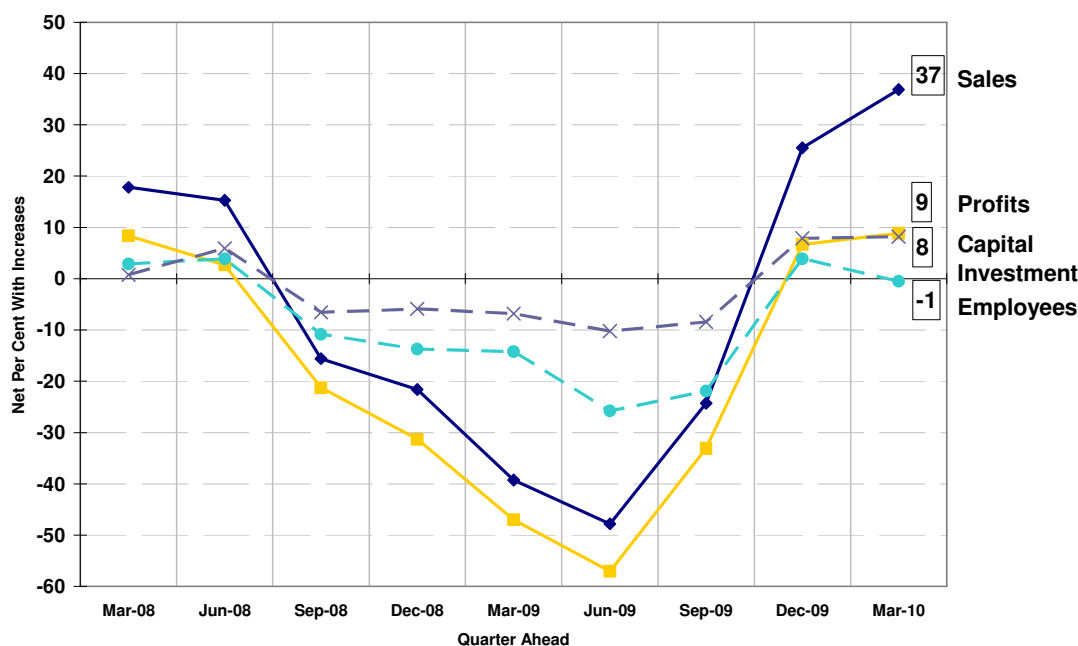
The outlook for sales and profits have also continued to improve. The sales index has risen a further 11 percentage points since the previous quarter. This is on top of a 50 percentage points rise in the previous quarter, the largest one-quarter rise in the history of the survey. Forty nine percent of firms expect an increase in sales and twelve percent a decrease in sales in March quarter 2010. The retail sector's expectations rose to a net 47 percentage points, almost doubling expectations from the December quarter (a net 24 percentage points) despite a small fall in the ABS retail sales figures for September. Further highlighting the significance of the turn-around, the positive sales outlook follows the September quarter actual results when 34 percent of firms experienced lower sales.

The profits index has made a small further advance, with twenty seven percent of executives now anticipating profits will increase in the March quarter. Executives in the retail sector have the highest expectations, with 34 percent expecting profits to increase and 20 percent a decrease. Expectations in the wholesale sector also remain high, rising by 45 percentage points since the September quarter. Thirty five percent expect an increase in profits and twenty two percent a decrease within the wholesale sector.

In perhaps the only concerning indicator for the quarter the preliminary index of employment expectations has dropped five points to an index of minus one percent. Six percent of firms are planning to increase staff levels and seven percent reduce employment numbers. These figures are however up 25 percentage points on the June quarter expected employment index figure of an all time low of minus twenty six percentage points. These expectations will need to improve however to reach the recently released Federal Government expected unemployment forecast of 6.75 percent for mid 2010, down from the May budget forecast of 8.5 percent.

For retailers the employment index is a net minus three with five percent expecting to increase employment and eight percent expecting to decrease staff numbers. Non-durables manufacturers are also in negative territory with six percent expecting to increase employment and eight percent expecting to decrease staff numbers. Durables manufacturers and wholesalers employment expectations remain in positive territory.

Expectations for selling prices have fallen by 67 percentage points since the March quarter 2009. One in five (21 percent) firms expects to raise prices in the March quarter, while 13 percent expect to lower prices. Wholesale executives have experienced the most significant drop in expectations for increased prices, falling 80 percentage points since the March 2009 quarter to a net index of minus three. Eighteen percent of firms expect to increase prices and twenty one to reduce prices within the wholesale sector in March quarter 2010. In the retail sector selling prices have dropped nine percentage points to a net 10 percent reflecting a need in that sector to continue to move stock after the Christmas and New Year sales periods have ended.



*D&B Expected Sales, Profits, Capital Investment and Employees Indices*

According to Dun & Bradstreet’s CEO Christine Christian, the continued improvement in capital investment expectations is an important sign for the recovery of the Australian business environment.

“Capital investment is crucial to Australian businesses being able to meet customer demand and return to economic prosperity in 2010. With the capital investment index remaining in positive territory for the second consecutive quarter this shows a dramatic improvement from the all time low reached in the June quarter of 2009,” said Ms Christian.

“Investment in business infrastructure is vital to promoting long-run economic growth through improvements in productivity and productive capacity. With inflation as a concern when there is not enough productive capacity to meet demand an increase in capital investment will play a critical role in reaching a modest level of inflation for an economic recovery.”

“If businesses can manage the balancing act of improving sales and profits through the principles of good cash flow management, while at the same time investing in their business to improve productivity, this bodes well for the Australian business outlook in the first quarter of 2010.”

The impact of credit market conditions on Australian businesses are continuing to decline. Thirty eight percent of firms indicated that credit market conditions are detrimentally impacting operations (a decrease of one percent in a month) while 10 percent report a positive impact (down eight percent since last month).

Rising business-to-business payment days have had a negative impact on four in ten (44 percent) firms. This is a one percent increase since last month. However, with business to business payment days improving by three days over the past quarter to reach 51.8 days, just above per financial crisis terms, there are some positive signs ahead.

The number of executives expecting interest rates to be the most significant influence on their business in the quarter ahead has fallen by two percent since last month. Thirty four percent of executives believe interest rates will be the primary influence on operations in the quarter ahead – a figure that may rise again following a 25 basis point increase in the cash rate by the Reserve Bank of Australia (RBA) in November. Meanwhile, 38 percent of firms surveyed rank wages growth as a major influence on their business and 16 percent consider fuel prices to be their primary concern. The influence of fuel prices has fallen 14 percent since June 2009 reflecting a reduction in prices over the same period.

Thirty per cent of executives plan to reduce their current business debt levels in the next three months, 10 percent reduce significantly and 20 per cent moderately. Only nine percent expect to increase their business debt and more than half (58 percent) plan to maintain current debt levels.

According to Dr Duncan Ironmonger, Dun & Bradstreet's economic consultant, the October D&B survey responses promise a continuation of the economic recovery into the New Year, driven by continued capital investment and further improvement in sales, profits and inventory growth.

“The survey also shows a remarkably low net proportion of executives expecting to increase selling prices in March quarter 2010. The selling prices expectations index of just eight points is the lowest recorded since the start of the survey in 1988 and two points lower than the previous low of ten points for June quarter 1992,” said Dr Ironmonger.

“Although the Reserve Bank has started to lessen the monetary stimulus and indicates it will continue to do this in the months ahead by gradually increasing the extremely low cash rate, executives have indicated they are less concerned about credit market conditions and the effect of interest rates on their business. Almost a third expects to reduce debt in the next three months.”

*The D&B index for expected sales is up 11 points to 37, with 49 percent of executives expecting an increase in sales and 12 percent expecting a decrease. The profits index is up two points to 9, with 27 percent of executives expecting profits to rise and 18 percent expecting a fall.*

*Employment expectations are down five points an index of -1, with 6 percent of executives expecting an increase in staff and 7 percent expecting a reduction. Capital investment expectations are unchanged at an index of 8, with 12 percent of executives expecting an increase and 4 percent expecting to cut spending. Inventories expectations are up seven points to an index of 11. The selling prices index is down 11 points to an index of 8, with 21 percent of firms expecting to raise prices and 13 percent expecting to decrease them.*

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#### Media Notes

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## About the survey

D&B Australasia conducted the latest Business Expectations Survey in October 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](http://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 preliminary indexes for the latest quarters are based on the 400 responses obtained in October 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.