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D&B NATIONAL BUSINESS EXPECTATIONS

Inflationary outlook eases as firms remain upbeat

Selling prices reach their lowest recorded levels

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

Outlook for the March quarter 2010

- Selling price expectations have fallen to the lowest level ever recorded in the survey – reaching an index of seven
- Capital investment expectations are at the second highest level in ten quarters – also at an index of seven
- Employment expectations fell into negative territory reaching an index of -1
- Expectations for growth in inventories are at the highest level in more than four years – unchanged on the December quarter index of four
- Sales and profits expectations have risen again – with a rise of four for sales and a rise of two for profits expectations

Credit market conditions, debt levels and lagging trade payments

- Thirty seven percent of firms reported a negative impact from credit market conditions (down one percent), while 11 percent experienced a positive impact (up one percent)
- Twenty percent of firms expect to reduce debt in the next three months, while nine percent expect to increase debt and 68 percent plan to maintain current levels of debt
- Forty one percent of executives are being negatively impacted by lagging business to business payment terms, a three percent fall since last month

Issues expected to influence operations in the March quarter 2010

- Thirty seven percent of executives rank interest rates as the primary influence on their business in March quarter 2010. Meanwhile, 34 percent expect wages growth to be the primary influence and 15 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 one. Ten percent of firms spent more on capital investment while nine percent decreased capital expenditure
- Twenty nine percent of firms increased sales as compared to the September quarter 2008, while 34 percent of firms experienced lower sales
- Eight 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 – 19. Fifteen percent of firms increased profits while thirty four percent of firms recorded lower profit numbers
- Twenty three percent of firms raised selling prices, while 12 percent decreased prices

The risk of rising inflation impacting the Australian economy appears to be declining with only a net seven percent of Australian firms expecting to raise their prices in the March quarter of 2010. In other positive signs for the business outlook expectations for sales and profits also improved.

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

Expectations for selling prices have fallen by 68 percentage points since the March quarter of 2009. One in five (19 percent) firms expects to raise prices in the March quarter, while 12 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. Fifteen percent of firms expect to increase prices and eighteen to reduce prices within the wholesale sector in March quarter 2010. 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. The expectation of a reduction in selling prices comes as the Reserve Bank (RBA) implements measures to ensure underlying inflation concerns are managed.

The outlooks for sales and profits expectations have also continued to improve. The sales index has risen a further four 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 six percent of firms expect an increase in sales and sixteen percent a decrease in sales in March quarter 2010. The retail sector's expectations rose to a net 40 percentage points, almost doubling expectations from the December quarter (a net 24 percentage points).

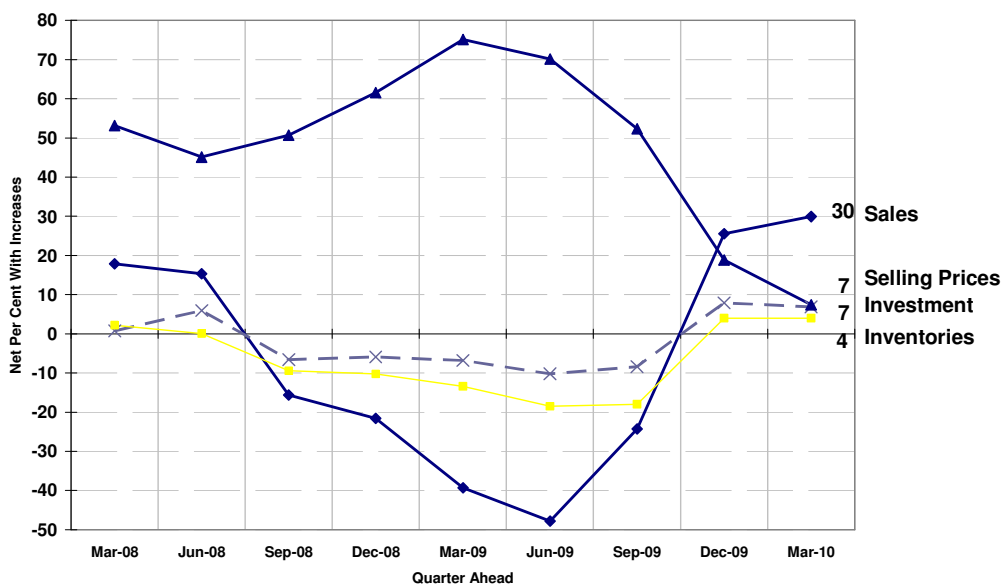
The profits index has also made a minor further advance, with twenty eight percent of executives now anticipating profits will increase in the March quarter. Executives in the retail sector have the highest expectations, with 35 percent expecting profits to increase and 19 percent a decrease. Expectations in the non-durables manufactures sector also remain high, rising by 49 percentage points since the September quarter. Twenty six percent expect an increase in profits and fifteen percent a decrease within the non-durables manufactures sector.

Twelve percent of firms surveyed expect to increase capital investment, while just five percent are planning to decrease spending in this area. Capital investment has however come from a low base as many firms reduced investment during the global financial crisis in order to maintain cash flow levels. 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 remained at their highest level in more than four years, unchanged at the December quarter index of four. Fourteen percent of executives expect to increase inventories in the March 2010 quarter, while ten percent plan to reduce stock levels. The expectations of non-durables manufacturing executives have reached the highest level in five years, with 13 percent of firms expecting to increase stock levels in the March quarter.

The employment outlook however has not improved in line with better sales and profits expectations and remains in negative territory. The interim index of employment expectations for the quarter fell five percentage 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 a 25 percentage point improvement on the June quarter expected employment index figure of an all time low of minus twenty six percentage points.

For retailers the employment index is a net plus one with six percent expecting to increase employment and five percent expecting to decrease staff numbers. Wholesalers are the most negative with seven percent expecting to increase employment and ten 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 a reduction in selling prices is a sign of success in the fight against inflation.

“A reduction in selling prices is crucial in helping the Australian economy return to prosperity without the concern of rising inflation. As the effect of the economic stimulus fades, the Australian dollar strengthens and concerns increase about the impact of interest rises the affordability of goods and services will become increasingly important in the months ahead,” said Ms Christian.

“In combination with the increased capital investment to meet capacity demands, lower expectations for increases in selling prices are a positive sign for business prosperity and for managing inflationary concerns.”

“As the economy recovers the businesses that will be best placed to succeed will be those that best managed their cash flow during the downturn. A continued focus on sound business and fiscal management is critical to businesses meeting their expectations for growth.”



The impact of credit market conditions on Australian businesses is continuing to decline. Thirty seven percent of firms indicated that credit market conditions are detrimentally impacting operations (a decrease of one percent in a month) while 11 percent report a positive impact (up one percent since last month).

Rising business-to-business payment days have had a negative impact on four in ten (41 percent) firms. This is a three percent decrease since last month. However, with business to business payment days improving by 5.6 days over the six months to reach 51.8 days, just above the levels experienced before the Global Financial Crisis 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 risen by three percent since last month. Thirty seven percent of executives believe interest rates will be the primary influence on operations in the quarter ahead a figure that may rise again following three 25 basis point increases in the cash rate by the Reserve Bank of Australia (RBA) in October, November and December. Meanwhile, 34 percent of firms surveyed rank wages growth as a major influence on their business and 15 percent consider fuel prices to be their primary concern.

Twenty per cent of executives plan to reduce their current business debt levels in the next three months, seven percent reduce significantly and 13 per cent moderately. Only nine percent expect to increase their business debt and two thirds (68 percent) plan to maintain current debt levels.

According to Dr Duncan Ironmonger, Dun & Bradstreet's economic consultant, the latest D&B survey shows that the rates of growth of sales, profits, inventories and investment in the first quarter of 2010 are likely to be positive and well ahead of the relatively weak experience of 2009.

"The survey also points to a much lower rate of inflation in the Australian economy in 2010," said Dr Ironmonger.

"The D&B survey supports the Reserve Bank's latest opinion that in 2010 Australian economic growth is likely to be back up close to trend and that inflation will be back down close to the target rate of two to three percent."

The D&B index for expected sales is up four points to 30, with 46 percent of executives expecting an increase in sales and 16 percent expecting a decrease. The profits index is up two points to 9, with 28 percent of executives expecting profits to rise and 19 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 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 unchanged at an index of 4. The selling prices index is down 12 points to an index of 7, with 19 percent of firms expecting to raise prices and 12 percent expecting to decrease them.

Media Notes

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About the survey

D&B Australasia conducted the latest Business Expectations Survey in November 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 interim indexes for the latest quarters are based on the 800 responses obtained in October-November 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.