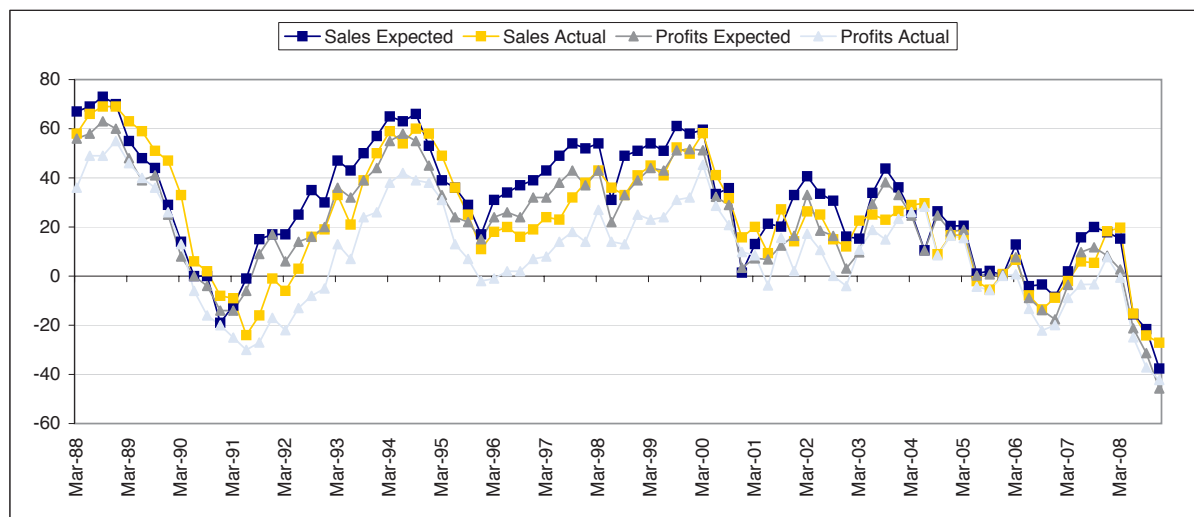


Australian executives predicted the 2008 downturn

Looking back 12 months to the start of 2008, challenges were just starting to creep up on Australian businesses. Significant impacts from the US-led credit crisis had not yet been felt and the economy hadn't begun its dramatic slowdown. However Dun & Bradstreet's *Business Expectations Survey* showed that Australian executives were anticipating deteriorating conditions, with the expected indexes for sales, profits and capital investment all starting a downward trend. Inflation – which had been an issue for businesses throughout 2007 – looked set to continue, with 60% of firms expecting to raise prices in the first quarter.

Sales and profits begin the downward slide

As 2008 progressed, the expectations of Australian firms became a reality. The downward trend in the expected sales and profits index, which began in the March quarter and continued throughout the year, was followed by poor sales and profits outcomes. By the September quarter of 2008, 44% of firms were experiencing lower sales and 45% were facing lower profits.

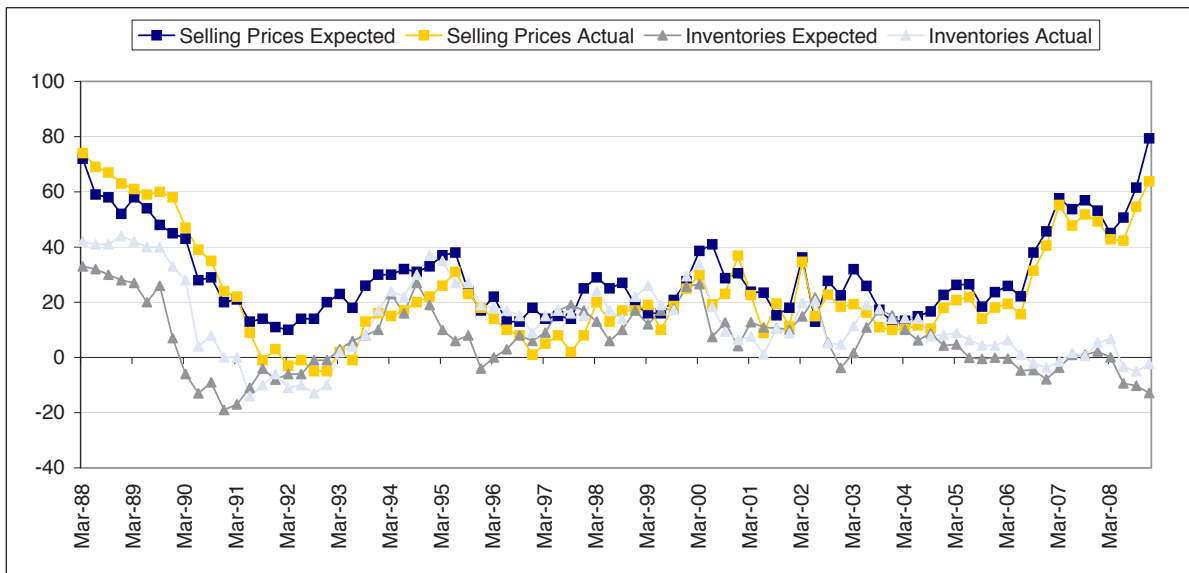


D&B Expected and Actual Sales and Profits Indexes – 1988-2008

Prices continue to rise as inventories fall

By the time we reached the June quarter of 2008, the expected index for selling prices was the only indicator which remained in positive territory. Expectations for increased prices continued to climb as firms were forced to raise their prices to cover costs (67% of firms increased prices in the September 2008 quarter). Selling price expectations finished 2008 at the highest level ever recorded by the survey (79% of firms anticipate that they will raise prices in the March 2009 quarter), indicating that despite the slowing economy, price rises will continue to be an issue throughout 2009. The latest Monetary Policy Statement echoes this sentiment, with the RBA indicating that a reduction of inflation to the target zone is expected to take some time.

The outlook for inventories began to decline in the March quarter of 2008 and the actuals index followed the same trend. By the September quarter, lower sales and difficulties accessing funds had caused the actuals index to enter negative territory. The expected index is now at the lowest level recorded since the June quarter of 1991 (an index of -13).



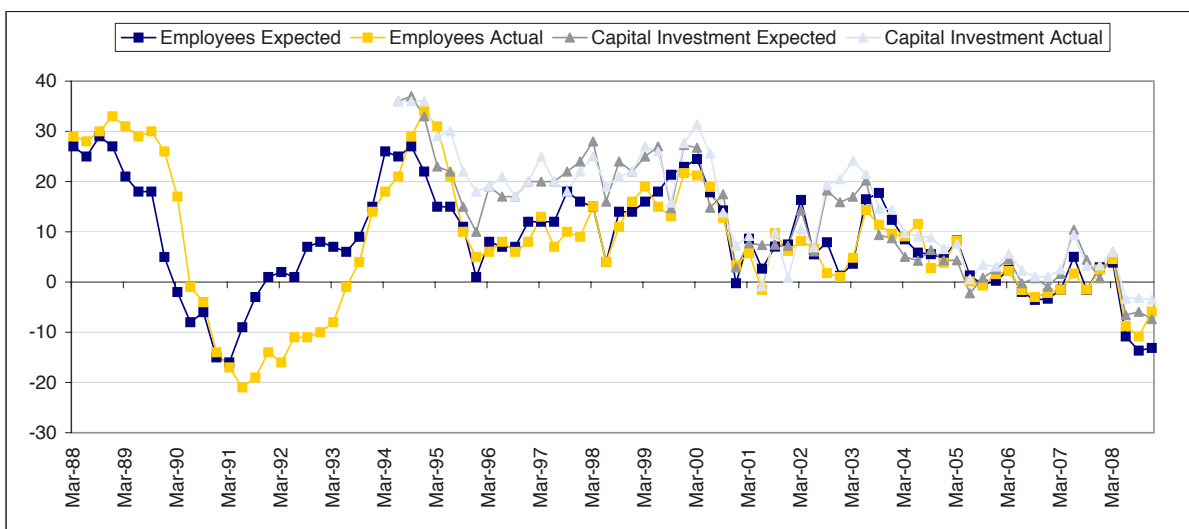
D&B Expected and Actual Selling Prices and Inventories Indexes – 1988-2008

Employees and capital investment indexes head into negative territory

The capital investment indexes (expected and actual) also entered negative territory during 2008. The RBA's latest Monetary Policy Statement indicates that difficulty accessing finance is a growing constraint on firms' investment plans, a trend which was evident in the declining capital investment indexes throughout the year.

The higher cost of debt, tighter lending standards and restricted access to funding markets will continue to weigh on investment activity in 2009, with 10% of firms indicating that capital investment will decrease in the March quarter.

The softening of labour market conditions experienced in recent months follow a step decline in the expected employment index in the June 2008 quarter. The prospect of further declines in the job market are evident, with 19% of firms are expecting to have fewer staff in the March 2009 quarter than they did a year ago.



D&B Expected and Actual Employees and Capital Investment Indexes – 1988-2008

Looking back over the life of the survey reveals that Australian businesses have been right time and time again. Now, at the start of a new year, executives are expecting further falls in sales, profits, employment and capital investment, and continued increases in prices. Australian firms must prepare for continued challenges in 2009.