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D&B NATIONAL BUSINESS EXPECTATIONS

Business expectations continue to fall

Capital expenditure halts and firms shed employees as sales projections dip

The latest D&B National Business Expectations Survey shows…

Outlook for the September quarter 2011

- Sales expectations are down 6 points to an index of 8, the lowest of the latest eight quarters and five points below the 10-year average index of 13
- A decrease of 10 points has taken the profits expectations index to -2, eight points below the 10-year average index of 6
- Employment expectations are down seven points to an index of -4, the first negative in eight quarters and now six points below the 10-year average index of 2
- The inventories index is up two points to 3, just equal to the 10-year average index
- A fall of six points has taken the capital investment index to -1, a rapid decline in just two quarters and now well below the average index (5) of the last 10 years
- The selling prices index is unchanged at 17, being relatively steady for the last six quarters

Issues expected to influence operations in the September quarter 2011

- Twenty nine percent of executives rank interest rates as the primary influence on their business – this is a rise of four percent in a month but still well down from the high level of concern in December last year (40 percent)
- Twenty three percent of firms expect wages growth to be the primary influence on operations – up three percent in a month
- Twenty percent of firms believe fuel prices will be their main concern in the quarter ahead – a fall of six percent in two months
- Nineteen percent of firms believe access to credit will be the most important business influence in the quarter ahead – up one percent since last month

Actual for the March quarter 2011

- Capital investment has ended a run of seven consecutive positive quarters, with a net index of zero – nine percent of firms increased investment and nine percent cut spending
- Twenty seven percent of firms increased sales compared to the March quarter 2010, while 21 percent experienced lower sales
- Eleven percent of firms increased staff while 14 percent reduced employee numbers
- The profits index was down three points to an index of minus two – 19 percent of firms increased profits and 21 percent recorded lower earnings
- The selling price index was unchanged at an index of 15 – twenty six percent of firms raised prices and 11 percent decreased prices.

Executives are increasingly pessimistic about the outlook for the new financial year, despite selling prices remaining steady and the majority of firms experiencing sales growth during the March quarter. Those in the manufacturing, wholesale and retail sectors will allocate less capital to fixed assets and take on less staff in the coming quarter, as profit expectations from key decision makers falls well below the 10-year average. These are the results of the latest Dun & Bradstreet *Business Expectations Survey* that examines expectations for the September quarter of 2011.

With the sales outlook at the lowest level in eight quarters, firms will either actively reduce employee numbers or simply stall the recruitment process during the September quarter. Nor will the vast majority of executives be seeking access to credit, as many Fseek to shore up cash reserves over the coming months.

However, despite the Reserve Bank's temporary halt on interest rate hikes, interest rates are still the greatest cause for concern amongst Australian business executives.

Sales expectations

Sales expectations are now at their lowest level in two years, dropping six points to a net index of 8. Expectations are particularly weak for the retail sector, which continues to struggle to entice consumer spending even with sustained discounting. Sales expectations for retailers sit at a net index of -5, which is 13 points below the overall index of 8. Wholesalers are the only sector to have a rise in sales expectations for the September quarter.

Profits expectations

The decline in sales expectations is flowing through to the outlook for profits with the overall profits index dropping 10 points to a net index of -2, the first negative index in two years. The profits expectations index is now 8 points below the 10-year average of 6.

Employment expectations

Employment expectations have also entered negative territory (-4); the first time this has occurred in eight quarters. This transition into negative expectations for the September quarter follows on from the percentage of firms that already reduced employee numbers during the March quarter. A possible reduction in staff numbers in the new financial year reflects growing concerns over wages growth and its impact on profit.

Capital investment expectations

The capital expectations index has declined 6 points to a net index of -1, which is a rapid decline in two quarters and now six points below the 10 year average. This fall in investment expectations follows a lower net index (0) for actual capital expenditure during the March quarter of 2011. This dip in expected capital expenditure mirrors Reserve Bank concerns for the manufacturing sector in light of increasing overseas competition. This is in direct contrast to the strong rise in recent and projected capital expenditure within the mining sector.

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Inventory expectations

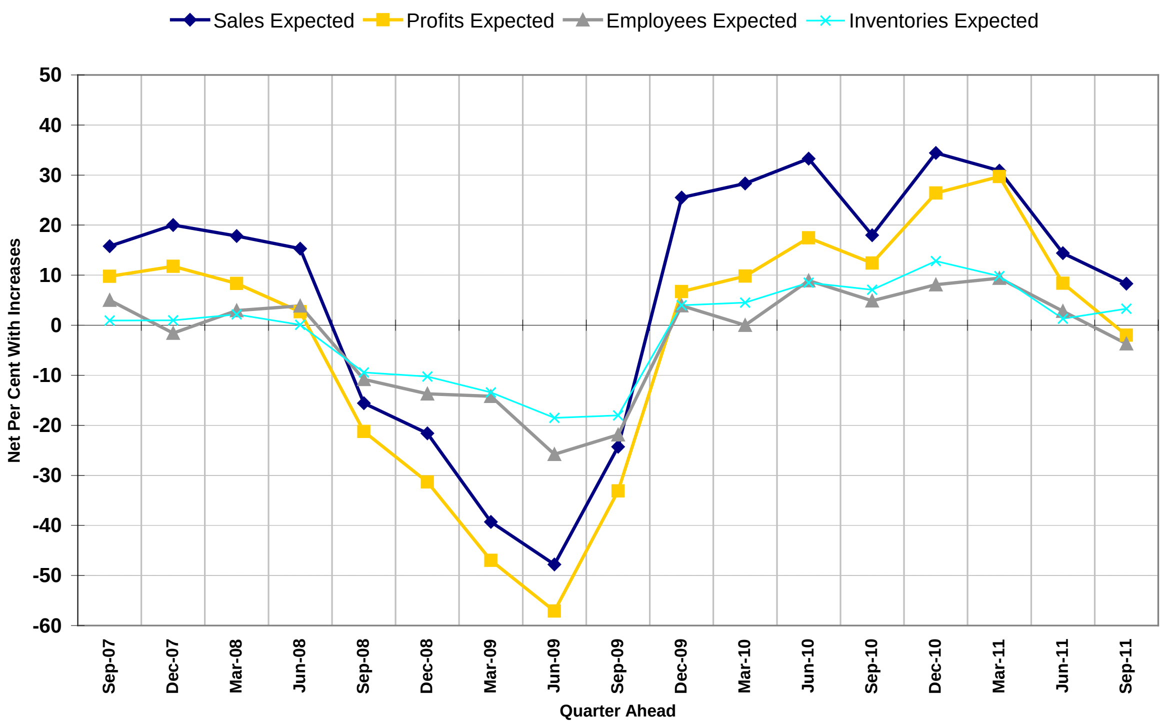
Inventory expectations are up two points, returning the index to its 10 year average, with increases expected by wholesale and retail executives but with manufacturing executives planning to de-stock. The change in the inventories expectations index follows negative actual inventories growth in December quarter 2010.

Dun & Bradstreet CEO Christine Christian believes the data show the emergence of a de-leveraging trend among local businesses.

“These figures are an indication of increasing caution from executives as a result of the conservative consumer. Ultimately, the lure of cheaper imports is hurting the local manufacturing sector and this is reflected in projected sales levels and profit expectations that have hit their lowest point in two years,” Ms Christian said.

“Retail has always formed a significant role in the economy but with consumers continuing to feel the effects of last year’s interest rate hike retailers are becoming more conservative with profit projections. In particular the continuously strong dollar is having a two pronged effect, encouraging some consumers offshore while also making importing easier for a percentage of businesses.”

“The data show a clearly delineated, two-speed economy whereby the success of the mining industry is masking the problems currently being experienced by the other sectors,” Ms Christian said.



Expected Profits, Sales, Employment and Inventories Indices

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The latest *Business Expectations Survey* also reveals that 35 percent of executives see that a continuing strong Australian dollar will have a positive impact on their business in the quarter ahead – for 15 percent a significant impact. Some 24 percent expect a high dollar to have a negative impact; for 40 percent it will have no impact.

Thirty seven percent of executives indicated that they intend to increase their cash reserves in the next three months – a rise of 12 percent from 25 per cent in March, the lowest recorded since this question was first asked in August 2010. Only 17 percent of executives are likely to seek finance or credit to grow their business in the quarter ahead, with 68 per cent not likely and 15 per cent not sure.

The number of firms indicating that access to credit will be the most significant influence on their business in the quarter ahead is 19 percent (up one percent since last month).

According to Dr Duncan Ironmonger, Dun & Bradstreet's economic consultant, the Australian economy is now through the short-term downturn due to floods and cyclones. Restoring roads, other infrastructure and damaged buildings is already contributing to a recovery. Investment in the resources sector is charging ahead but other sectors are still waiting for a recovery in household spending.

"The latest D&B survey reveals a sharp reduction in business expectations for growth in sales, profits, employment and capital expenditure to well below their 10-year averages. Retailers are perhaps the worst affected with two consecutive negative quarters of expected profits growth," said Dr Ironmonger.

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About the survey

D&B Australasia conducted the latest *Business Expectations Survey* in May 2011. 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 801 responses obtained in April - May 2011.

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. D&B underwent a secondary buy-out during 2007, with Lazard Carnegie Wylie (then Carnegie Wylie) purchasing an approximate 90% stake in the operations (the local management team retained a 10% stake).

On August 31, 2010 the Dun & Bradstreet Corporation (US) acquired Dun & Bradstreet Australia and New Zealand from LCW.

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.