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D&B NATIONAL BUSINESS EXPECTATIONS

Business expectations hit two-year low

Employment and capital investment dip

as profit expectations enter negative territory

The latest D&B National Business Expectations Survey shows…

Outlook for the September quarter 2011

- Sales expectations are down 4 points to an index of 10, the lowest of the last eight quarters and three 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 six points to an index of -3, the first negative in eight quarters and now five points below the 10-year average index of 2
- The inventories index is up three points to 4, one point above the 10-year average index
- A fall of four points has taken the capital investment index to 1, a rapid decline in just two quarters and now four points below the average index (5) of the last 10 years
- The selling prices index is down one point, being relatively steady for the last six quarters

Issues expected to influence operations in the September quarter 2011

- Twenty seven percent of executives rank interest rates as the primary influence on their business – this is a fall of two percent in a month and 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 – unchanged from last month
- Eighteen percent of firms believe fuel prices will be their main concern in the quarter ahead – a fall of eight percent in three months
- Seventeen percent of firms believe access to credit will be the most important business influence in the quarter ahead – down two percent since last month

Actual for the March quarter 2011

- Capital investment has just maintained a run of eight consecutive positive quarters, with a net index of one – 11 percent of firms increased investment and 10 percent cut spending
- Twenty seven percent of firms increased sales compared to the March quarter 2010, while 22 percent experienced lower sales
- Eleven percent of firms increased staff while 15 percent reduced employee numbers
- The profits index was down four points to an index of minus three – 20 percent of firms increased profits and 23 percent recorded lower earnings
- The selling price index was down one point to an index of 16 – twenty seven percent of firms raised prices and 12 percent decreased prices.

Profit and employment expectations have fallen into negative territory for the first time in two years and sales expectations, while still in positive territory have also hit two year lows. The findings from Dun & Bradstreet's latest *Business Expectations Survey*, which examines expectations for the September quarter, return key indices to levels seen just before the worst of the GFC and signals executives are uncertain about the start to the new financial year.

Interest rates remain the primary cause of concern among company executives, and three quarters will avoid accessing credit in the coming quarter as they wait for the Reserve Bank to make a move on interest rates. Capital expenditure expectations have declined rapidly over the last two quarters and employment growth is also expected to stall. More than 40 percent of executives will increase their cash reserves over the coming months, up from only a quarter in March and a further sign the majority are concerned about the coming year. However stock levels are expected to rise – the only sign of optimism from executives for the quarter.

Anticipated interest rate rises, largely in response to the strength of the mining sector, are likely to place further pressure on the retail and manufacturing industries. Sales expectations from the retail sector are in negative territory, and together with a dramatic drop in anticipated sales from non-durables manufacturing businesses, reflect an increasing gloomy view from the non-mining sector.

This climate of caution heading into the new financial year has been building since the March quarter. Increasingly pessimistic views on employment, capital expenditure and profits from non-mining executives seen recently in D&B's *Business Expectations Survey* are predictive of the stagnated employment growth and weak profits from these sectors, seen in recent data from the Bureau of Statistics.

Sales expectations

Sales expectations are now at their lowest level in two years, dropping four points to a net index of 10. 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 -1, which is 9 points below the overall index of 10. Wholesalers have a rise of eight points in sales expectations for the September quarter; Non-Durables Manufacturers a fall of 22 points.

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.

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Employment expectations

Employment expectations have also entered negative territory (-3); 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 flagging profits in the majority of sectors, as wage rises exacerbate an already strained area of the economy.

Capital investment expectations

The capital expectations index has declined 4 points to a net index of 1, which is a rapid decline in two quarters and now four points below the 10 year average. This fall in investment expectations follows a lower net index (1) for actual capital expenditure during the March quarter of 2011. While mining companies look to boost capital investment in order to see them through the boom, non-resource sector capital expenditure reflects poor sales and profit expectations and is likely to remain depressed well into the new financial year.

Inventory expectations

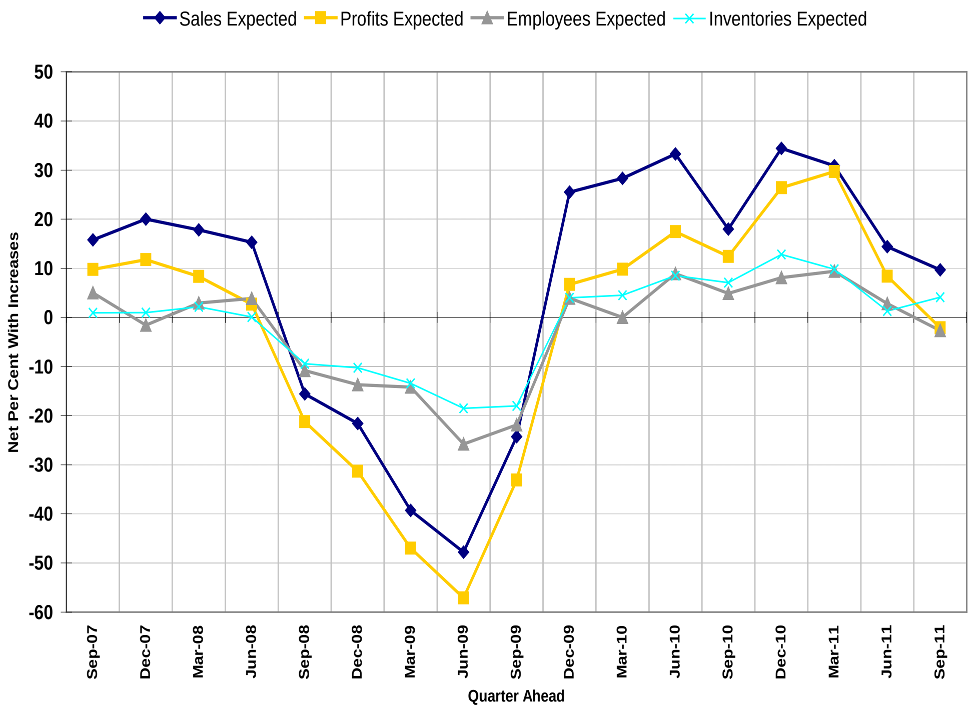
Inventory expectations are up three points, returning the index to one point above its 10 year average, with increases expected by wholesale, retail and non-durables manufacturing executives but durables manufacturing executives are planning to de-stock. The change in the inventories expectations index follows a positive actual inventories growth in March quarter 2011.

Dun & Bradstreet CEO Christine Christian believes the data show a persistent de-leveraging trend in line with a mentality of increasing caution.

“We are unlikely to see an improvement in the service and manufacturing sectors in the near future and this is breeding a culture of caution among these executives,” Ms Christian said.

“The low level of planned capital investment in the coming quarter reflects this and while understandable, is concerning - as capital investment has a run-on effect that helps boost related areas of the economy.”

“The dip in GDP growth we saw during the March quarter due to the flood damaged mining sector, and the fear this caused, indicates just how important the resource sector is to our overall economic performance,” Ms Christian said.



Expected Profits, Sales, Employment and Inventories Indices

The latest *Business Expectations Survey* also reveals that 41 percent of executives see that a continuing strong Australian dollar will have a positive impact on their business in the quarter ahead – for 18 percent a significant impact. Some 25 percent expect a high dollar to have a negative impact; for 33 percent it will have no impact.

Forty one percent of executives indicated that they intend to increase their cash reserves in the next three months – a rise of 16 percent from 25 per cent in March, the lowest recorded since this question was first asked in August 2010. Only 16 percent of executives are likely to seek finance or credit to grow their business in the quarter ahead, with 78 per cent not likely and 6 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 27 percent (down two percent since last month) and is still well down from the high level of concern in December last year This reflects the Reserve Bank having left the cash rate unchanged at 4.75 percent since November 2010.

According to Dr Duncan Ironmonger, Dun & Bradstreet's economic consultant, the Australian economy is returning to a much stronger rate of real economic growth in GDP of at least 4 percent in the new financial year. The disruption to growth due to the

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Queensland floods and cyclones is now behind us. The resources sector will be the main avenue for higher growth in the year ahead.

“The latest D&B survey reveals a sharp reduction in business expectations for growth in profits, employment and capital expenditure in the core sectors of manufacturing and retailing to well below their 10-year averages. Wholesalers are the least affected with increased expectations for growth in sales, capital investment, inventories and selling prices,” said Dr Ironmonger.

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About the survey

D&B Australasia conducted the latest Business Expectations Survey in June 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 final indexes for the latest quarters are based on the 1,202 responses obtained in April – June 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.