

# MEDIA RELEASE

EMBARGOED – 1:00am, Tuesday 3 June 2014

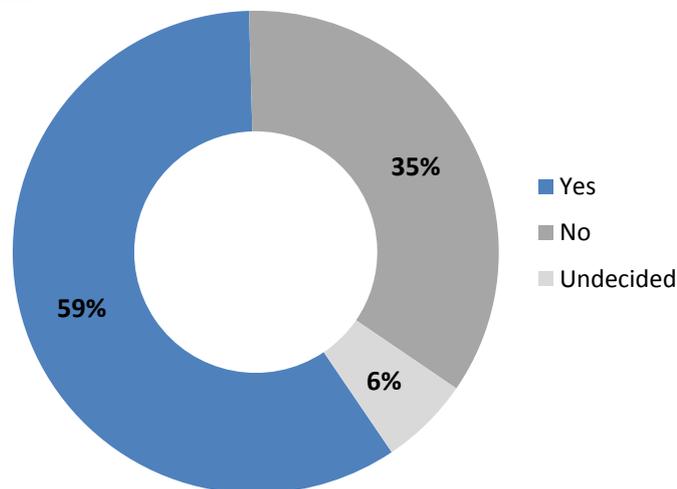
## MIXED OUTLOOK FOR NEW FINANCIAL YEAR

### *Federal budget creates worries for businesses*

Business expectations for the start of the new financial year are mixed across industries, with the outlook from manufacturers and wholesalers continuing recent positive gains, while retailers in particular anticipate a sharp drop in profitability on the back of falling consumer confidence.

In addition to the segmented outlook, Dun & Bradstreet's *Business Expectations Survey* for Q3 2014 has found that 59 per cent of businesses are concerned about the impact of the Federal Budget on their operations.

#### **Are you concerned about the impact the Federal Budget may have on your business?**



Despite the concern, and speculation the Australian currency is heading for parity with the US dollar, the manufacturing sector has raised its outlook for profits and sales to 10-year highs. D&B's survey has found that forty-six per cent of manufacturers anticipate higher profits in the third quarter while 15 per cent expect reduced earnings. Additionally, 57 per cent expect increased sales, while nine per cent forecast weaker trade.

Wholesalers are equally upbeat about business, with 43 per cent expecting a lift in their earnings in the next quarter compared to 18 per cent forecasting a fall. In addition, 56 per cent anticipate they will see stronger sales, compared to seven per cent which expect reduced activity.

The positive responses from manufacturers and wholesalers, however, have been offset by softer expectations from other industries.

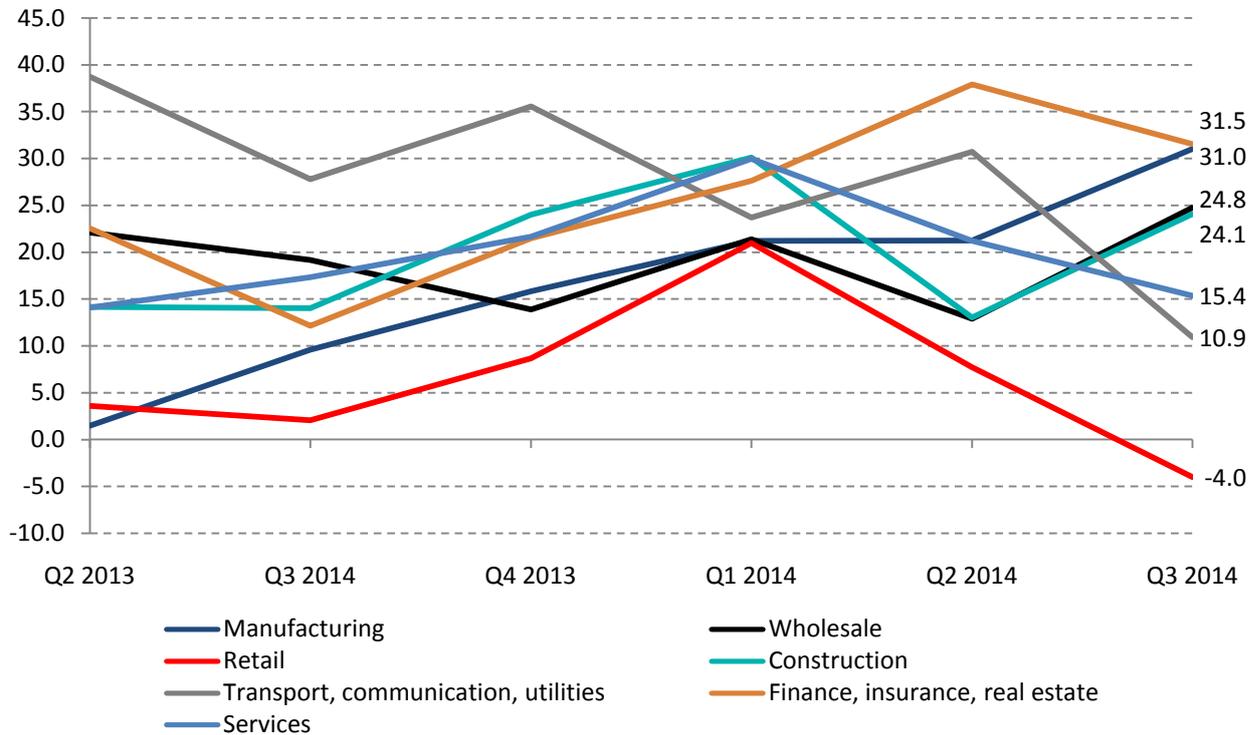
While the all-industries sales expectations index is flat, at 33.4, the profits expectations index has eased for a second consecutive quarter following a reassessment of earnings from the transportation, communications & utilities; finance, insurance & real estate; services; and retail sectors.

Retailers have significantly pulled back their expectations, with the sector's profits index dropping into negative territory for the first time since mid-2012. Compared to the 21 per cent forecasting a lift in earnings, 25 per cent of retailers are expecting a fall, which has taken the retail profits index to -4.0 points for Q3 2014, down from 7.7 points last quarter and 2.0 points in 2013.



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Profit expectations index: Q3 2014



“The fall in expected earnings for retailers is reflective of the mood among consumers, which has dropped significantly following the release of the budget,” said Gareth Jones, CEO of Dun & Bradstreet–Australia and New Zealand.

“Combined with soft wages growth, and signs from D&B’s *Consumer Financial Stress Index* that individuals are finding conditions more difficult, it’s unsurprising that many businesses expect to see spending levels fall away.

“Despite the slide in expected profits, the general outlook compared to last year is healthy, with the consolidation of hiring intentions, in particular, indicating there is optimism about the overall direction of the economy,” Mr Jones added.

In addition to 62 per cent of respondents indicating confidence about growth this year, compared to 2013, D&B’s survey reveals that business expectations have remained higher than last year despite marginal quarter-on-quarter declines in the sales, profits and selling prices indices.

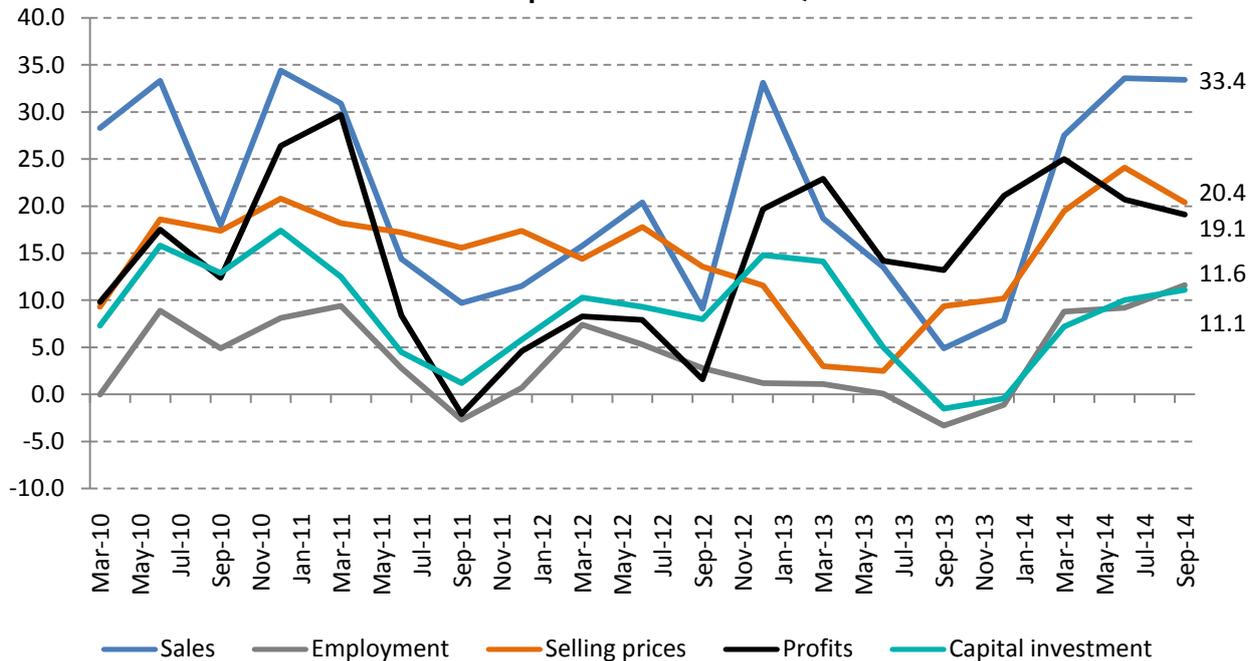
Encouragingly, following the better-than-expected 5.8 per cent unemployment rate released by the ABS last month, hiring expectations have lifted for a fourth consecutive quarter. Twenty-one per cent of businesses planning to add workers during Q3 2014, compared to the nine per cent intending to cut staff. This has taken the employment index to 11.6 points, up from 9.2 points last quarter and -3.3 points last year.

“Despite concerns from business about the potential impact of the budget, expectations are, on balance, favourable for the next three months,” said Stephen Koukoulas, Dun & Bradstreet’s Economic Advisor.



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**Business expectations indices: Q3 2014**



“Most positive is the expected ongoing lift in employment and capital investment; two critical areas which are now trending upwards after soft measures in the latter part of 2013.

“A slight concern for the economy is presented by the quarterly falls in profits and sales expectations, which if realised point to economic growth remaining only near trend.

“In a welcome sign for the inflation outlook, however, expected selling prices are edging lower after sharp rises through to the June quarter,” Mr Koukoulas noted.

“It does appear that inflation pressures are moderating, which may be due to the slightly higher Australian dollar over recent months.”

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## The latest D&B *Business Expectations Survey* shows:

### *Expectations index for the September quarter 2014*

- The **employment** expectations index has lifted to 11.6 points up from 9.2 points in the previous quarter, and -3.3 points a year ago.
- The **sales** index has eased slightly to 33.4 points, from 33.6 points in the previous quarter and 4.9 points a year earlier.
- **Profit** expectations for the quarter ahead have flattened out, with the index easing from 20.7 points last quarter to 19.1 points, while up from 13.2 points last year.
- Plans for **capital investment** have increased for a fourth consecutive quarter, lifting from 10.0 points to 11.1 points, and up from -1.5 points a year earlier.
- The **selling prices** index has fallen from 24.2 points to 20.4 points, although remains up on the 9.4 points measured at the same time last year.

### *Issues expected to influence operations in the September quarter 2014*

- 59 per cent of businesses are concerned about the impact the **Federal Budget** may have on their operations.
- 62 per cent of businesses are **more optimistic** about growth in 2014 compared to 2013, while 29 per cent are less optimistic. Nine per cent is undecided.
- **Cash flow** is identified as the issue most likely to influence business operations in the next quarter (26 per cent), followed by **wages** and **salaries** (14 per cent) and **interest rates** (12 per cent each).
- 34 per cent of businesses had customers or suppliers that became **insolvent**, or were otherwise unable to pay them, during 2013.
- 49 per cent of businesses would choose to miss payments to **suppliers** if unable to pay all their bills on time, followed by a business **credit card** (15 per cent) and **telephone** (nine per cent).
- 48 per cent of businesses expect no impact from the current level of the **Australian dollar**, while 16 per cent expect a positive impact and 22 per cent a negative impact. 14 per cent is undecided.
- 15 per cent of businesses intend to seek **finance** or **new credit** in the quarter ahead to help their business grow, while 76 per cent will not. Nine per cent is undecided.

### *Actual results for the March quarter 2014*

- **Actual employment** levels increased from 3.5 points to 5.7 points, keeping the index in positive territory for a third consecutive quarter.
- **Reported sales** activity fell compared to the previous quarter, from 17.6 points to 9.3 points, while the index was up on -1.1 points from the same time last year.
- The **actual profits** index fell to 0.3 points, down from 3.9 points in the previous quarter.
- **Capital investment** activity lifted slightly to 6.3 points from 6.0 points in the previous quarter.
- **Selling prices** were flat, moving from 14.9 points to 15.9 points, quarter-on-quarter.

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#### About Dun & Bradstreet

Established in 1887, Dun & Bradstreet is Australia and New Zealand's longest established credit information bureau. Backed by its extensive financial database, D&B helps businesses to make informed credit decisions, and consumers to access personal credit information.

D&B works across the entire credit lifecycle to deliver data-driven solutions in sales and marketing, credit reporting and debt management.

Through analysis of financial and behavioural information, D&B also provides current and predictive assessments of the economy, business conditions and credit activity.

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## About the Survey

Each month business owners and senior executives representing the manufacturing; wholesale; retail; construction; transport, communications and utilities; finance, insurance and real estate; and services sectors across Australia are asked if they expect increases, decreases or no changes in their upcoming quarterly sales, profits, employment, capital investment and selling prices. Since its introduction in Australia in 1988, the survey has proven to be a highly reliable measure of economic performance.

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.

## Methodology

Each month D&B asks a sample of executives if they expect an increase, decrease or no change in their quarter-ahead sales, profits, employees, capital investment 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 initial indexes for the latest quarters are based on approximately 800 responses obtained during April-May 2014.

## Charts and tables

It is 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 five to nine in the D&B *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 9.

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## Sales outlook

*(Quarterly Net Index) (Down from 33.6 to 33.4)*

The positive and negative components of the D&B net indexes are shown in the adjacent chart.

### Expectations

The September quarter 2014 sales expectations index is 33.4 points, down from 33.6 points in the previous quarter.

The index is now 21 points above its 10-year average of 12 points.

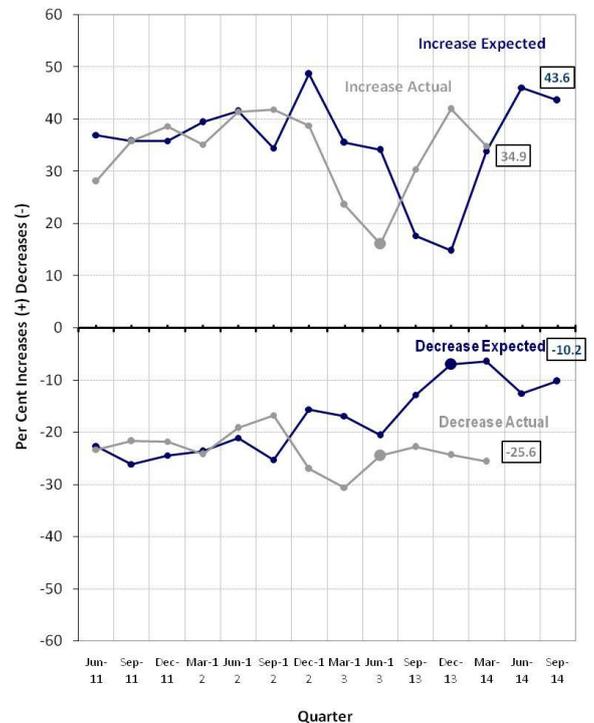
43.6 per cent of businesses expect an increase in their sales, while 10.2 per cent forecast a decrease, compared to the same time last year.

### Actual performance

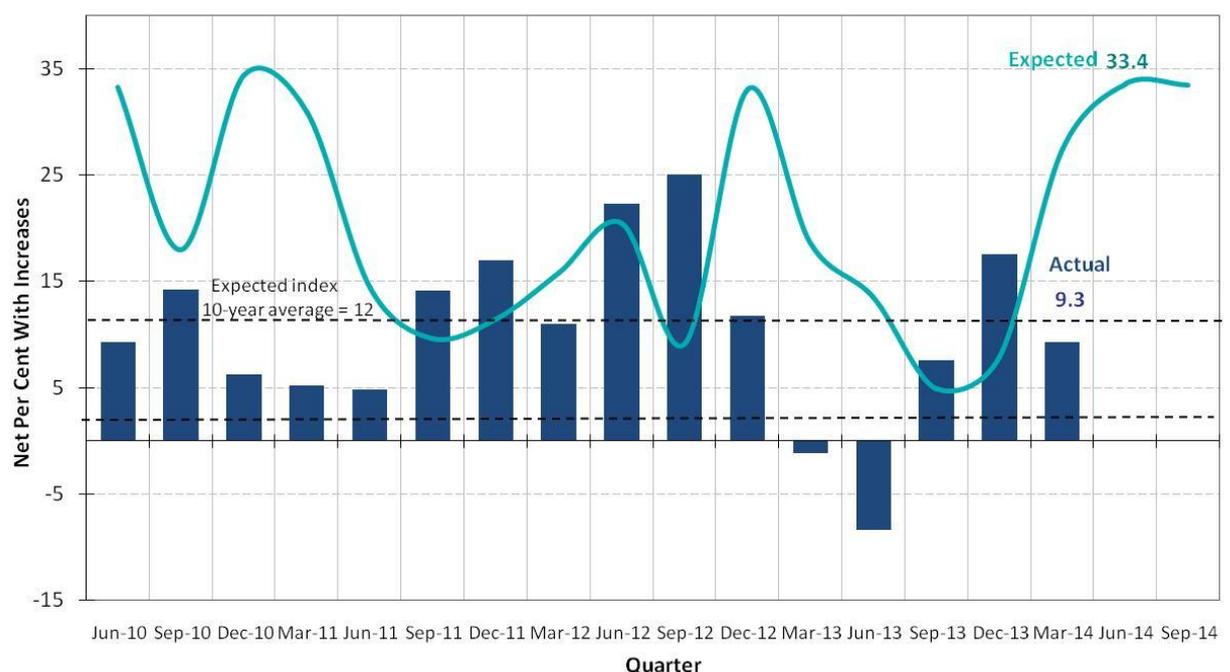
The actual sales index for the March quarter of 2014 is 9.3 points, a decrease from 17.6 points in the previous quarter.

34.9 per cent of firms increased their sales in the March quarter and 25.6 per cent had decreased sales compared to the previous year.

Sales: D&B Indexes  
Component Responses



Sales: D&B Index Jun Qtr 2010 to Sep Qtr 2014



## Profits outlook

*(Quarterly Net Index) (Down from 20.7 to 19.1)*

The positive and negative components of the D&B net indexes are shown in the adjacent chart.

### Expectations

The outlook for profits in the September 2014 quarter is an index of 19.1 points, a decline from 20.7 points in the previous quarter.

The outlook for profits is 13 points above the 10-year average index of 6.

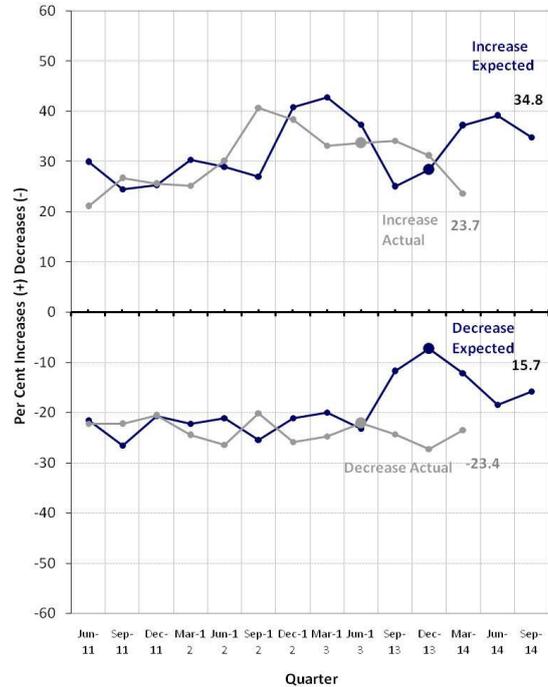
34.8 per cent of businesses expect an increase in their profits during the quarter ahead, while 15.7 per cent forecast a decrease, compared to last year.

### Actual performance

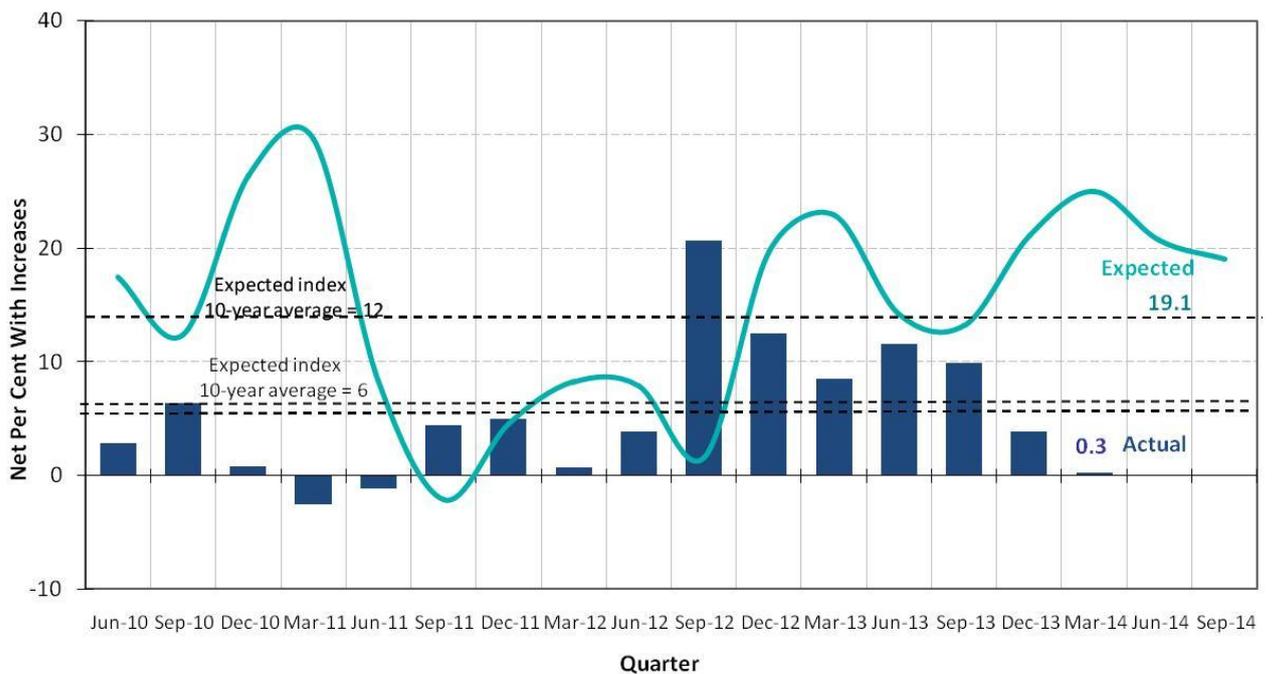
The actual net profits index for the March 2014 quarter is 0.3 points, down from 3.9 in the previous quarter.

23.7 per cent of businesses increased their profits, while 23.4 per cent experienced a decrease.

Profits: D&B Indexes  
Component Responses



Profits: D&B Index June Qtr 2010 to Sep Qtr 2014



## Employment outlook

*(Quarterly Net Index) (Up from 9.2 to 11.6)*

The positive and negative components of the D&B net indexes are shown in the adjacent chart.

### Expectations

The employment outlook for the September quarter 2014 has risen to 11.6 points, from 9.2 points in the previous quarter.

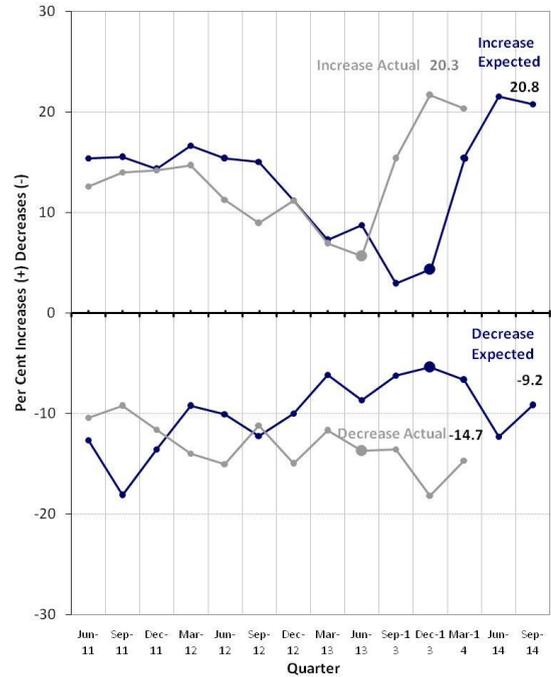
20.8 per cent of executives expect to employ more staff than compared to year ago, while 9.2 per cent expect to decrease their staff numbers.

### Actual performance

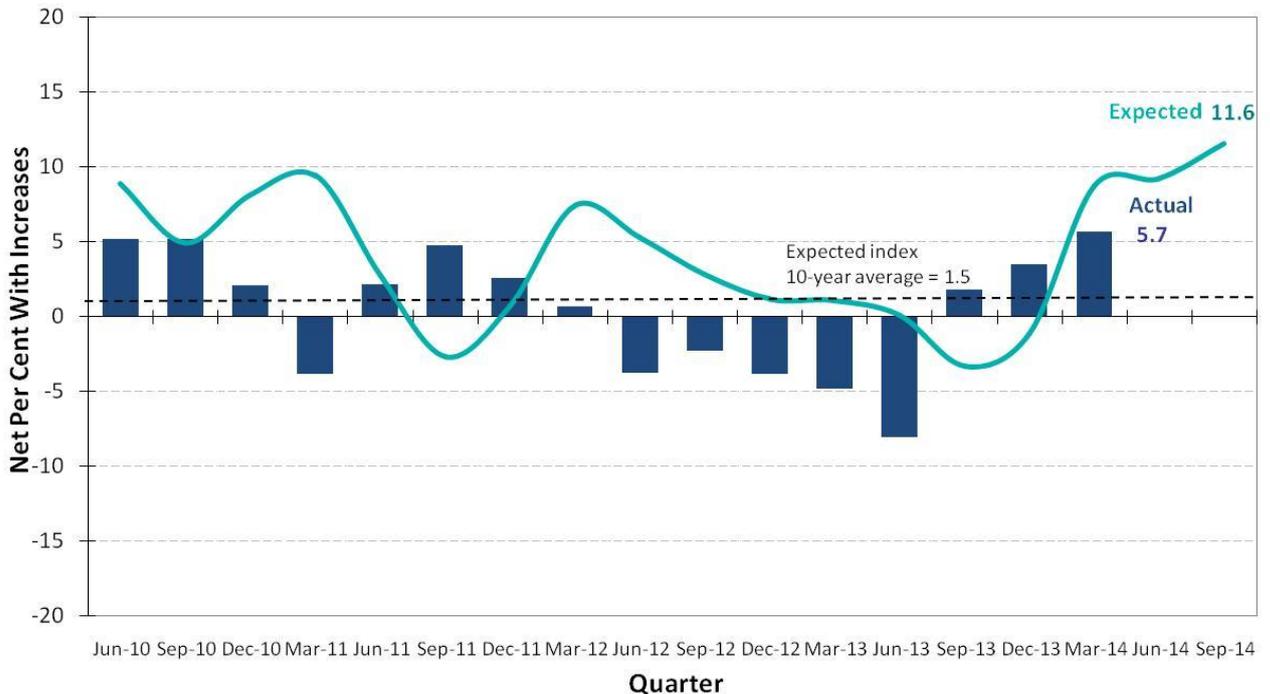
In the March quarter 2014, 20.3 per cent of businesses hired new staff, compared to the 14.7 per cent that reduced their employment levels.

Rising to 5.7 points, the actual index has now increased for three consecutive quarters.

**Employees: D&B Indexes  
Component Responses**



**Employment: D&B index Jun Qtr 2010 to Sep Qtr 2014**



## Capital Investment outlook

(Quarterly Net Index)(Up from 10.0 to 11.1)

The positive and negative components of the D&B indexes are shown in the adjacent chart.

### Expectations

The capital investment outlook for the September quarter 2014 is up from 10 points to 11.1 points.

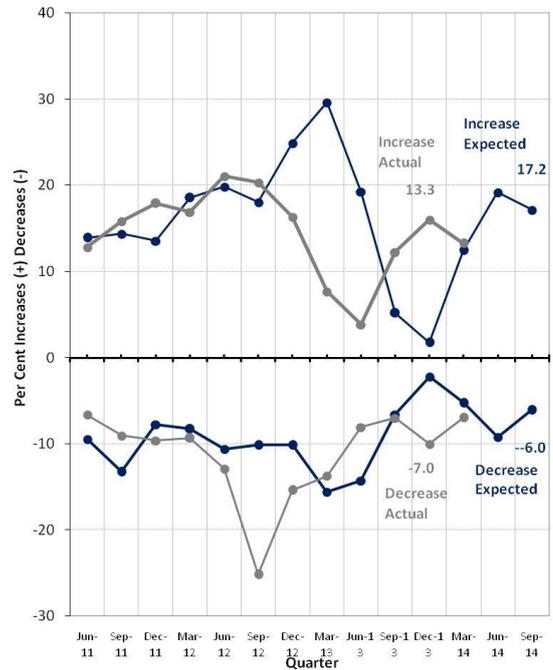
17.2 per cent of businesses expect an increase in their investment level, while 6.0 per cent forecast a decrease compared with a year earlier.

### Actual performance

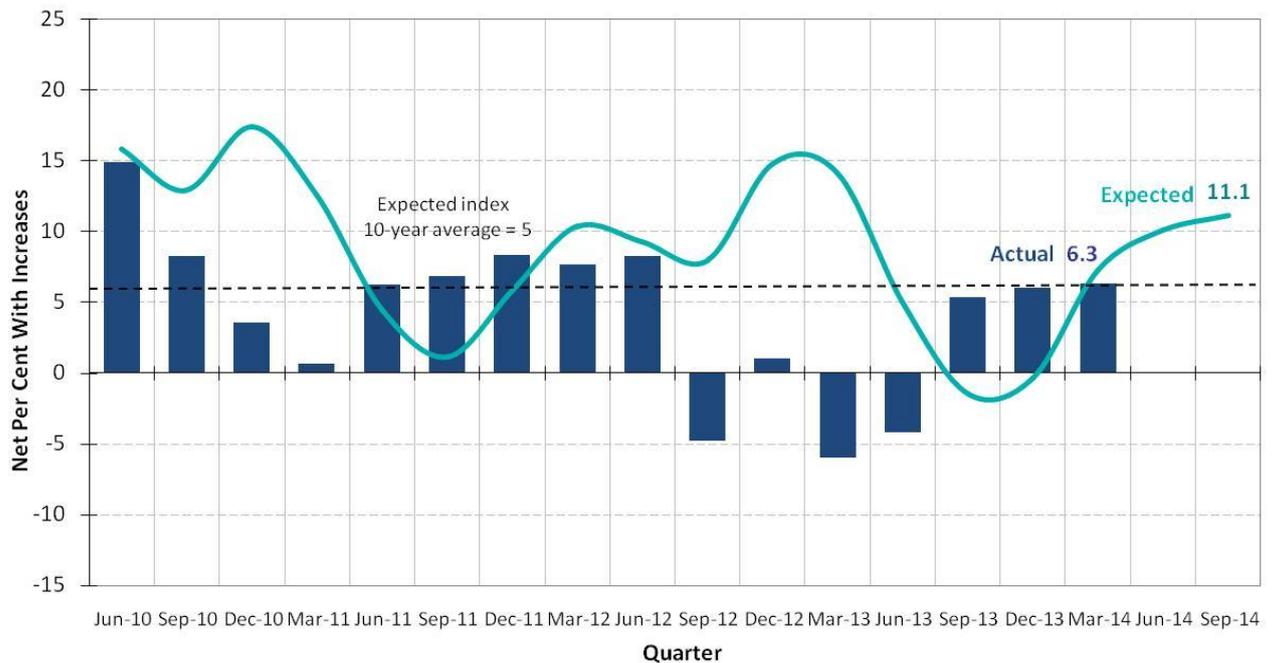
For the March quarter 2014, the actual index for investment is 6.3 points.

13.3 per cent of firms increased their capital investment in the March quarter while 7.0 per cent decreased capital spending.

Capital Investment: D&B Indexes  
Component Responses



Capital Investment: D&B Index Jun Qtr 2010 to Sep Qtr 2014



## Selling Prices outlook

(Quarterly Net Index) (Down from 24.2 to 20.4)

The positive and negative components of the D&B net indexes are shown in the adjacent chart.

### Expectations

The selling prices expectations index for the September quarter 2014 is 20.4 points, down from a level of 24.2 points in the previous quarter.

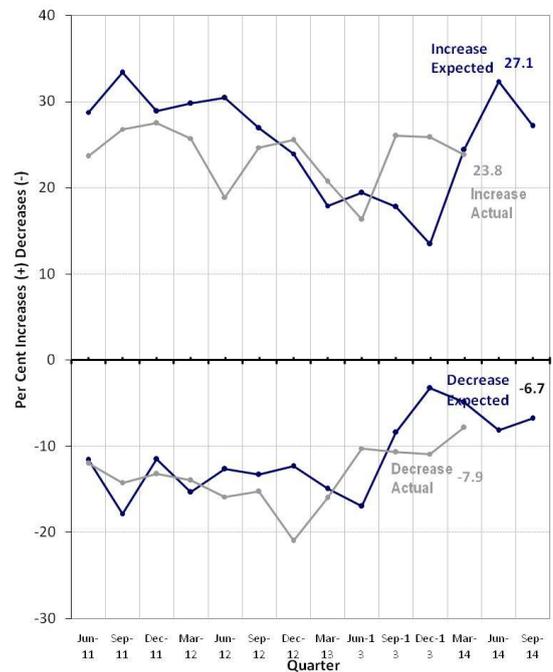
The proportion of firms expecting to have higher selling prices in the quarter ahead is 27.1 per cent, with 6.7 per cent expecting to have lower prices.

### Actual performance

At 15.9 points, the actual prices index for the March 2014 quarter is up marginally from 15.3 points in the previous quarter.

23.8 per cent of businesses increased the level of their selling prices, while 7.9 per cent had decreased, compared to the same time the previous year.

Selling Prices: D&B Indexes  
Component Responses



Selling Prices: D&B Index Jun Qtr 2010 to Sep Qtr 2014

