



# MEDIA RELEASE

EMBARGOED – 1:00am, Tuesday 3 February 2015

## BUSINESS OUTLOOK COOLS

*Sales and profits expected to ease after Christmas boost*

After reporting a strong end to the year the business sector has trimmed its short-term outlook for sales and profits, while indicating plans to increase employment.

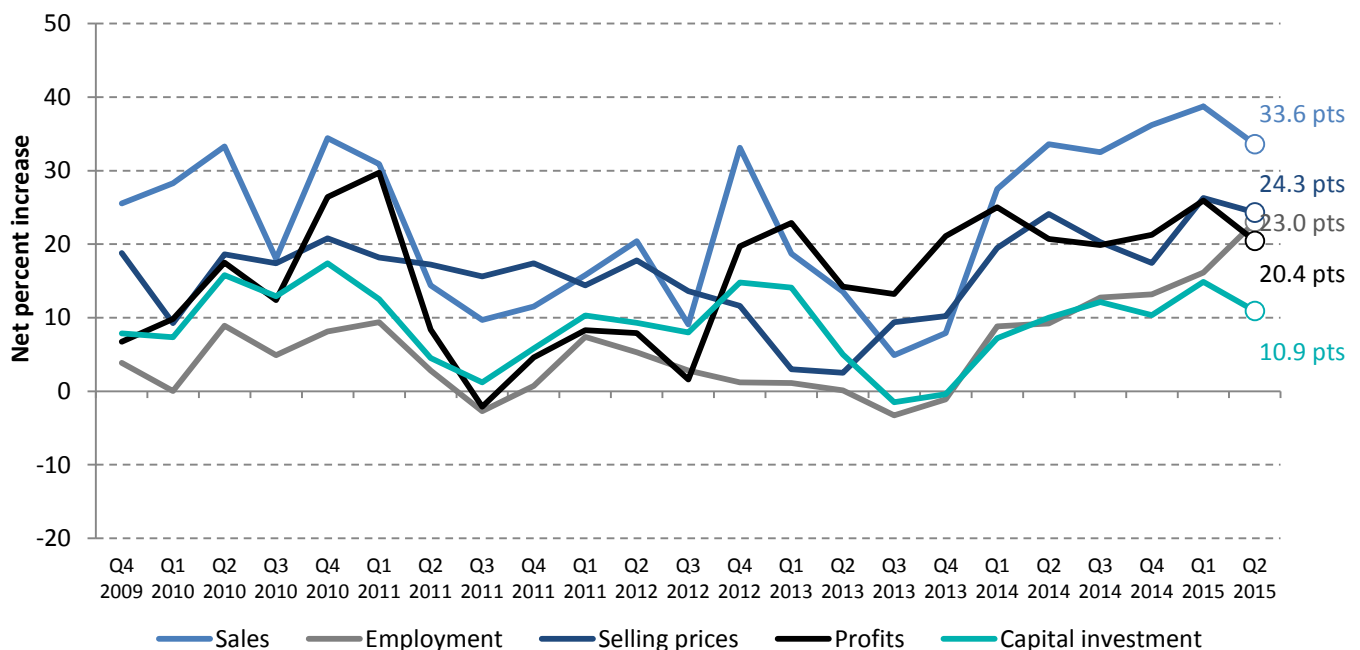
According to Dun & Bradstreet's *Business Expectations Survey*, the sales expectations index for Q2 2015 has eased to 33.6 points, down from the previous quarter's 10-year high of 38.7 points and flat compared to the same time last year. The correction comes as a fewer businesses expect increased sales in the next three months and slightly more anticipate reduced activity.

Additionally, the survey reveals a moderating outlook on earnings for the second quarter, with the profit expectations index dropping to 20.4 points, down from 25.9 points last quarter and 20.7 points a year earlier. Thirty-three per cent of businesses expect higher profits in the quarter ahead, while 13 per cent anticipate lower earnings and the majority flat results.

Despite the softer outlook for sales and earnings, employment expectations have lifted for a seventh consecutive quarter, indicating that a longer-term optimism exists among business owners. Thirty per cent of firms expect to hire during Q2 2015 compared to seven per cent that will reduce their staff numbers, lifting the employment expectations index to 23.0 points, up from 16.1 points last quarter and 9.2 points in 2014.

The outlook on employment is the most positive for 10 years and follows data from the ABS showing that the unemployment rate fell to 6.1 per cent, with more than 37,000 jobs added in December.

**Business expectations indices: Q4 2009 - Q2 2015**



\*The Business Expectations indices equal the difference between the percentage of businesses expecting an increase minus those expecting a decrease in sales, employment, selling prices, profits and capital investment.

The soft investment activity that was measured during 2014 appears set to continue through the first half of this year, with Dun & Bradstreet finding that just 18 per cent of respondents plan to increase capital investment during Q2 2015, while seven per cent will cut spending and 75 per cent will maintain current



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levels. The response has seen the capital investment index drop to 10.9 points, down from 14.9 points last quarter.

After lifting to a three-year high for the first quarter of 2015, slightly fewer businesses have reported an intention to raise their prices in the June quarter, taking the selling price expectations index down from 26.3 points to 24.3 points.

According to Gareth Jones, CEO of Dun & Bradstreet in Australia and New Zealand, the survey findings suggest that the business sector has reappraised its view of the economy’s immediate prospects.

“The healthy optimism that was recorded for the first quarter of year appears to have dissipated amid uncertainty about near-term economic growth and an unsettled operating environment,” said Mr Jones.

“Dun & Bradstreet now expects Australia to achieve real GDP growth of just 2.3 per cent this year, while last month the IMF downgraded its growth forecasts for both China and the world economy.”

“Confusing the local scene is a variable currency, falling oil price, sharemarket turbulence and fragile consumer confidence.

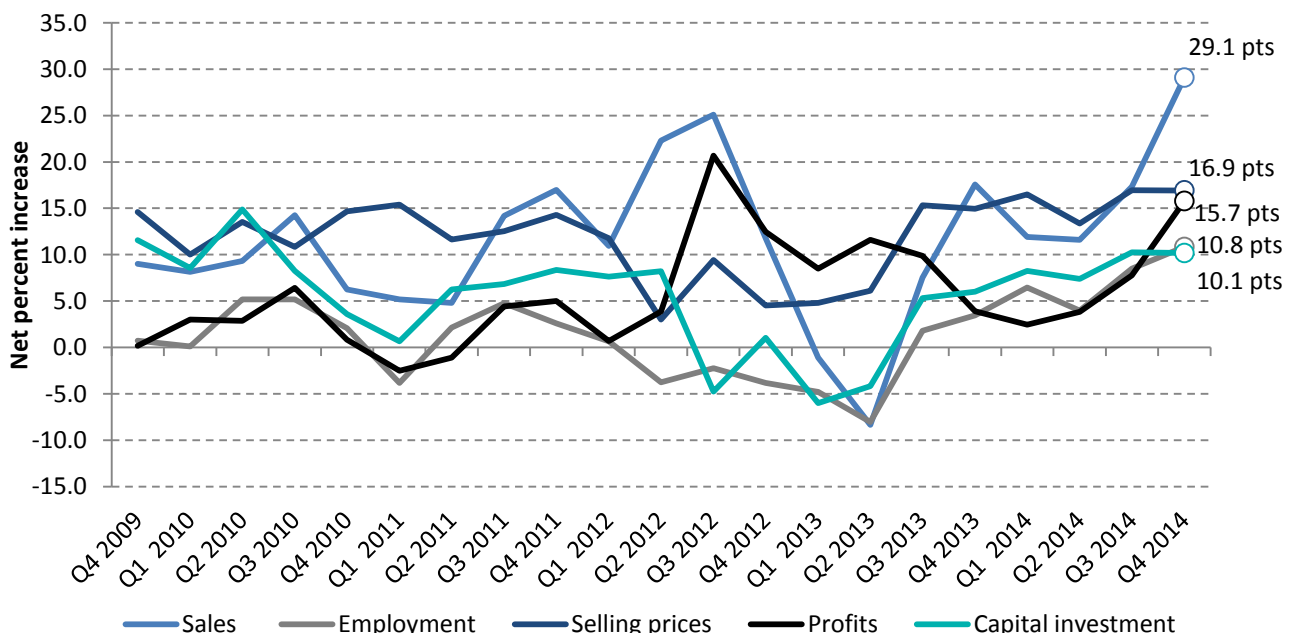
“While the *Business Expectations Survey* reveals that forward-looking expectations have softened, they do remain above their 10-year average. In addition, the actual performance reported by businesses for the end of 2014 was strong,” Mr Jones added.

Corresponding to a reported surge in consumer spending through the Christmas period, D&B’s survey has revealed a healthy increase in reported sales and profits for Q4 2014, particularly from businesses in the retail, finance, manufacturing and wholesale sectors.

Across all sectors, the actual sales index hit 29.1 points for Q4 2014, up from 17.3 in the previous quarter and 17.6 points a year earlier. Additionally, the actual profits index jumped to 15.8 points, up on 7.8 points in Q3 2014 and just 3.9 points the year before.

Reported employment activity also increased, while capital investment and selling prices during the fourth quarter of 2014 were relatively flat.

**Actual indices: Q4 2009 - Q4 2014**



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According to Stephen Koukoulas, Economic Advisor to Dun & Bradstreet, the June quarter findings have stalled the generally positive trend witnessed through the bulk of 2014.

“Given that the relative strength of the business outlook during 2014 coincided with below trend GDP growth and unemployment above six per cent, this recent dip in expectations suggests downside risks for the economy from an already soft starting point.”

“Of most concern is the drop in expectations for sales, profits and capital expenditure, all of which have weakened appreciably,” said Mr Koukoulas.

“There is, however, some good news in a further increase in hiring expectations which, if sustained, may help to keep a lid on the unemployment rate as the year unfolds,” Mr Koukoulas added.

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

### *Expectations index for the June quarter 2015*

- The **employment** expectations index has lifted to 23.0 points up from 16.1 points in the previous quarter, and 9.2 points a year ago.
- The **sales** index has fallen to 33.6 points, from 38.7 points in the previous quarter and 33.6 points a year earlier.
- **Profits** expectations for the quarter are down, with the index at 20.4 points from 25.9 points last quarter and 20.7 points last year.
- Plans for **capital investment** have eased to 10.9 points, from 14.9 points last quarter and up marginally from 10.0 points a year earlier.
- The **selling prices** index has decreased to 24.3 points from 26.3 points in the previous quarter, and flat compared to the 24.2 points recorded last year.

### *Issues expected to influence operations in the June quarter 2015*

- 73 per cent of businesses are **more optimistic** about growth in 2014 compared to 2013, while 21 per cent is less optimistic. Six per cent is undecided.
- **Cash flow** (23 per cent) and the **level of the Australian dollar** (23 per cent) are the two issues considered most likely to influence business operations in the next quarter, followed by wages and salaries growth (10 per cent) and interest rates (10 per cent).
- 34 per cent of businesses see **no major barrier** to achieving growth next year, while 17 per cent consider **weak demand** for their products as the likely obstacle.
- 38 per cent of businesses reported having a customer or supplier that became **insolvent**, or was otherwise unable to pay them in the past year.
- 46 per cent of businesses would choose to miss payments to **trade suppliers** if unable to pay all their bills on time, followed by a **credit card** (21 per cent).
- 39 per cent of businesses expect no impact from the current level of the **Australian dollar**, while 20 per cent expect a positive impact and 32 per cent a negative impact. Nine per cent is undecided.
- 17 per cent of businesses intend to seek **finance** or **new credit** in the quarter ahead to help their business grow, while 72 per cent will not. Eleven per cent is undecided.

### *Actual results reported for the December quarter 2014*

- **Actual employment** reported is up to 10.8 points, compared to 8.5 points last quarter and 3.5 points last year.
- **Sales** activity lifted compared to the previous quarter, from 17.3 points to 29.1 points, and up on last year's level of 17.6 points.
- The **actual profits** index lifted to 15.8 points, from 7.8 points last quarter and 3.9 points last year.
- **Capital investment** activity was unchanged from last quarter, at 10.2 points, while up from 6.0 points last year.
- **Selling prices** were unchanged in the last quarter, with the index at 16.9 points, and up slightly from 14.9 points last year.

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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 preliminary indexes for the latest quarters are based on approximately 409 responses obtained during January 2015.

## 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 6 to 10.

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## Sales outlook

*(Quarterly Net Index) (Down from 38.7 to 33.6)*

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

### Expectations

The June quarter 2015 sales expectations index is 33.6 points, down from 38.7 points in the previous quarter and 33.6 points in the year prior.

The index is now 19.6 points above its 10-year average of 14 points.

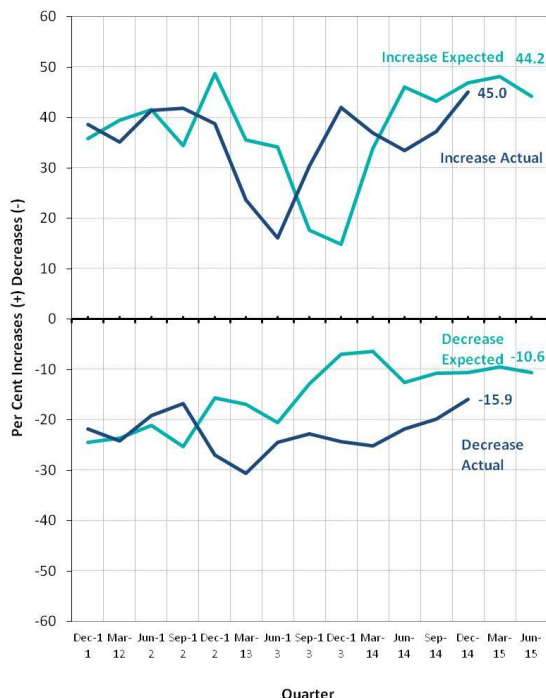
44.2 per cent of businesses expect an increase in their sales, while 10.6 per cent forecast a decrease, compared to the same time last year.

### Actual performance

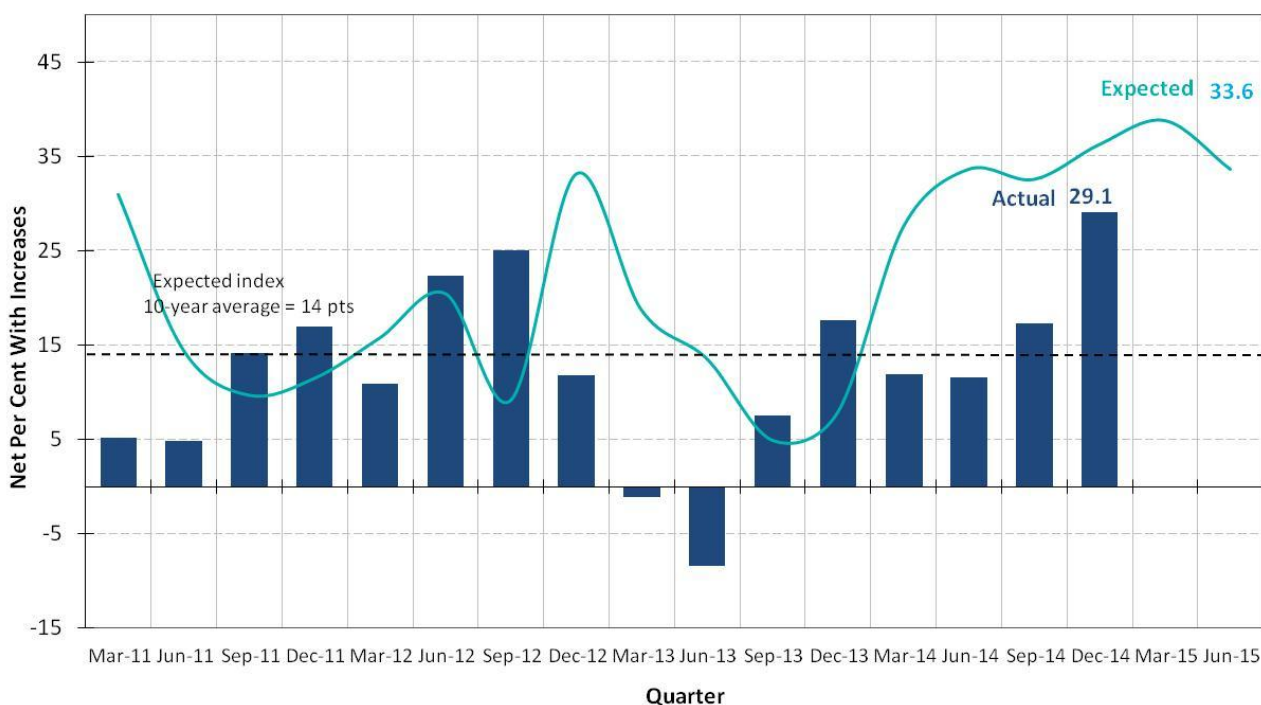
The actual sales index for the final quarter of 2014 is 29.1 points, an increase from 17.3 points in the previous quarter and up on the 17.6 points in 2013.

45.0 per cent of firms reported increased sales in the December quarter and 15.9 per cent had decreased sales compared to the previous year.

Sales: D&B Indexes  
Component Responses



Sales: D&B Index Mar Qtr 2011 to Mar Qtr 2015



## Profits outlook

(Quarterly Net Index) (Down from 25.6 to 20.4)

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

### Expectations

The outlook for profits in the June 2015 quarter is an index of 20.4 points, down from 25.6 points in the previous quarter and 20.7 points last year.

The outlook for profits is 13.0 points above the 10-year average index of 7.4.

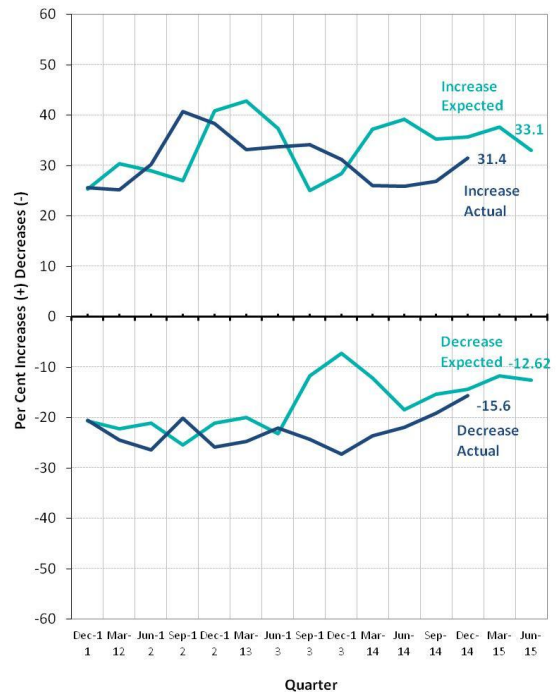
33.1 per cent of businesses expect an increase in their profits during the quarter ahead, while 12.6 per cent forecast a decrease, compared to last year.

### Actual performance

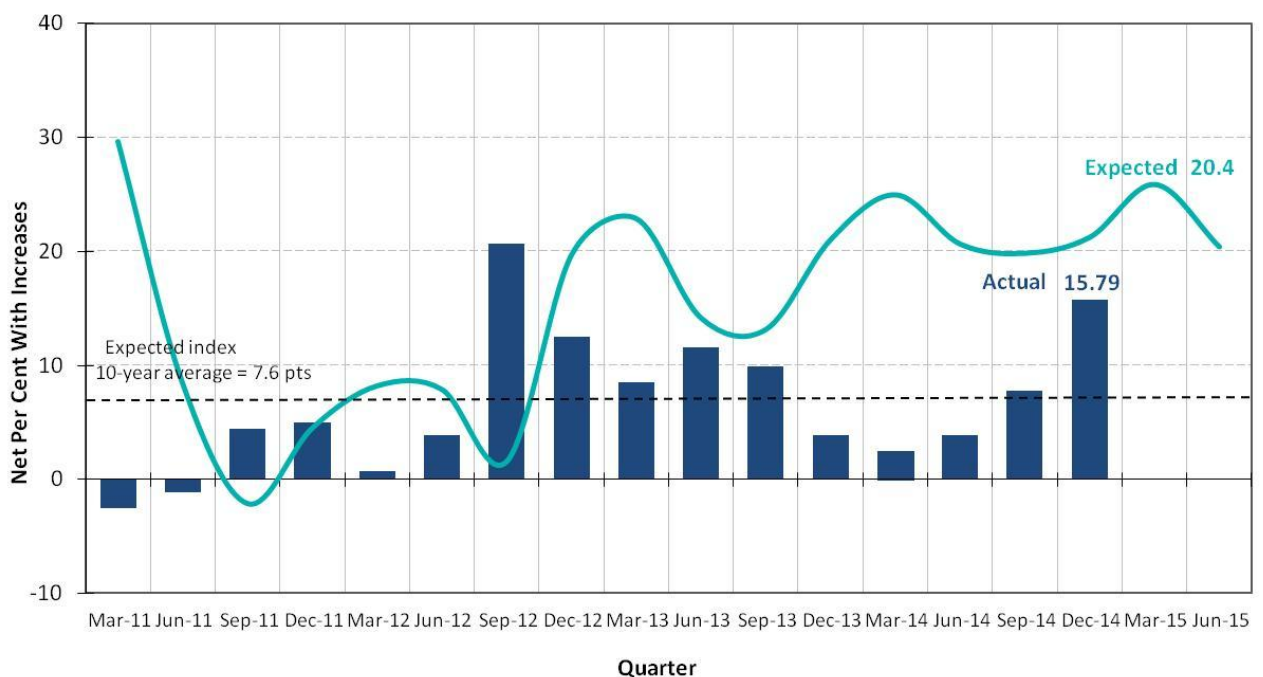
The actual profits index for the December 2014 quarter is 15.8 points, up from 7.8 points in the previous quarter and 3.9 points recorded a year earlier.

31.4 per cent of businesses increased their profits, while 15.6 per cent experienced a decrease.

Profits: D&B Indexes  
Component Responses



Profits: D&B Index MarQtr 2011 to Jun Qtr 2015



## Employment outlook

(Quarterly Net Index) (Up from 16.1 to 23)

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

### Expectations

The employment outlook for the June quarter 2015 has risen to 23 points, up from 16.1 points in the previous quarter and 9.2 points a year earlier.

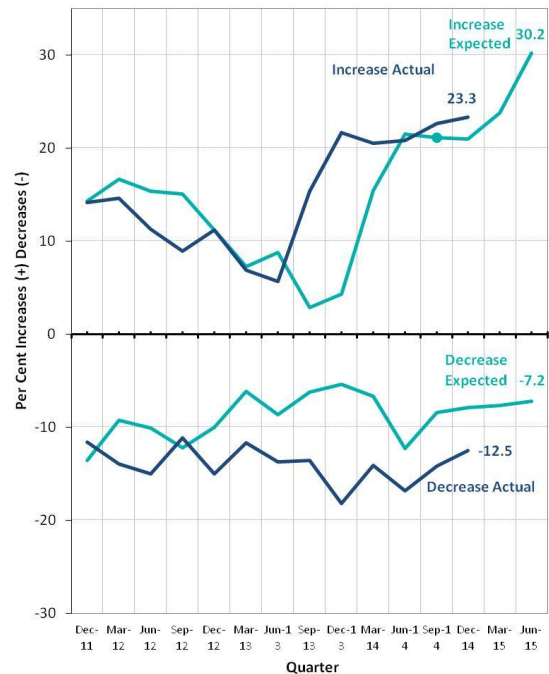
30.2 per cent of executives expect to employ more staff than compared to year ago, while 7.2 per cent expect to decrease their staff numbers.

### Actual performance

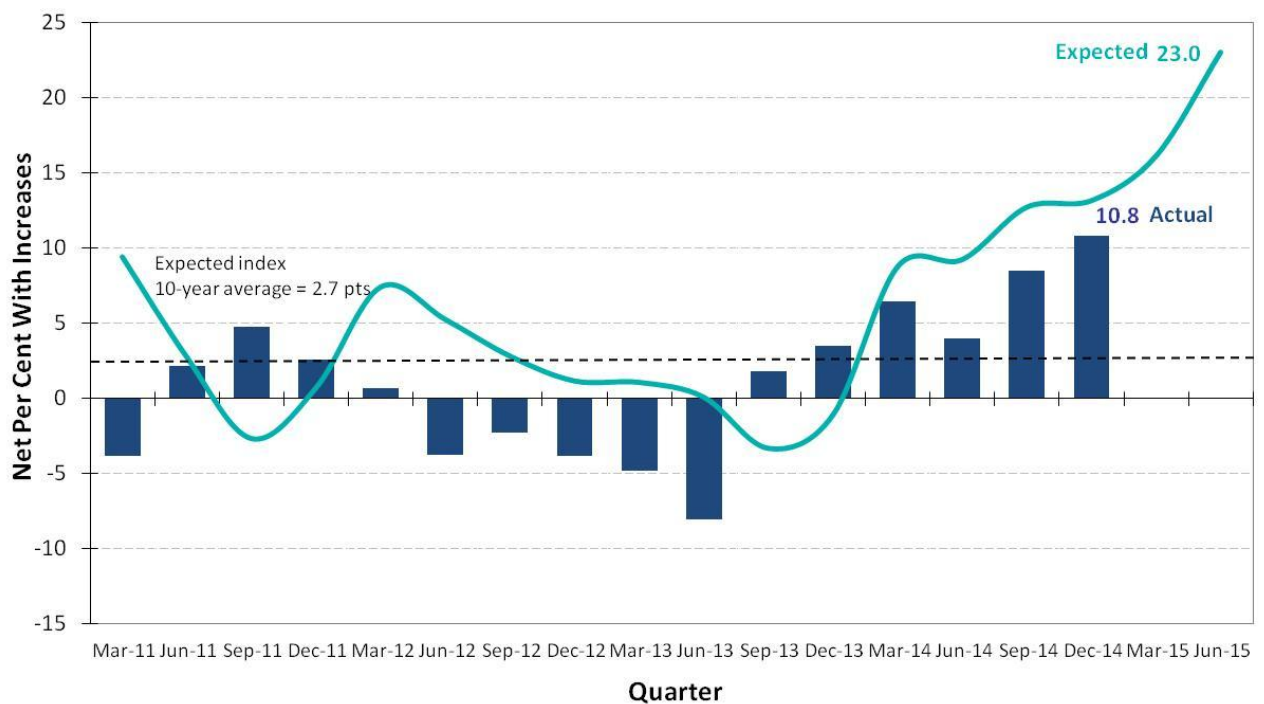
In the December quarter 2014, 23.3 per cent of businesses hired new staff, compared to the 12.5 per cent that reduced their employment levels.

At 10.8 points, the actual employment index is up from 8.5 points last quarter and 3.5 points last year.

Employees: D&B Indexes  
Component Responses



Employment: D&B index Mar Qtr 2011 to Jun Qtr 2015





## Capital Investment outlook

(Quarterly Net Index)(Up from 14.9 to 10.9)

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

### Expectations

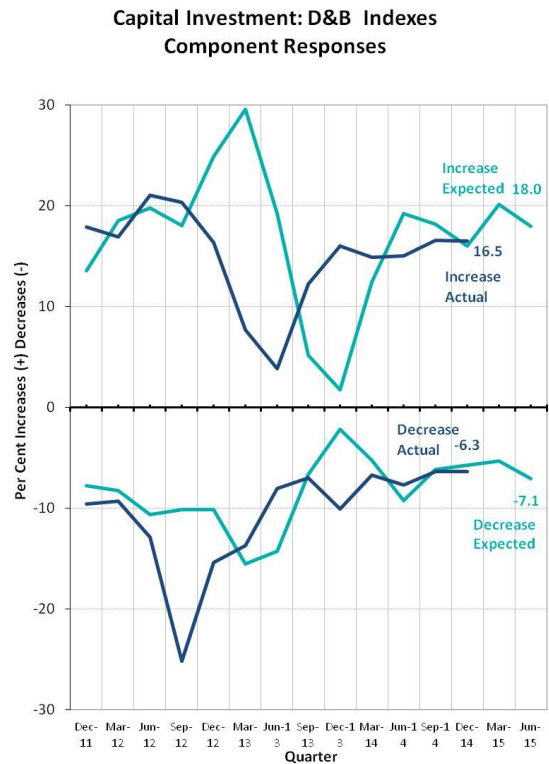
The capital investment outlook for the June quarter 2015 is 10.9 points, up from 10.0 points last year.

18 per cent of businesses expect an increase in their investment level, while 7.1 per cent forecast a decrease compared with a year earlier.

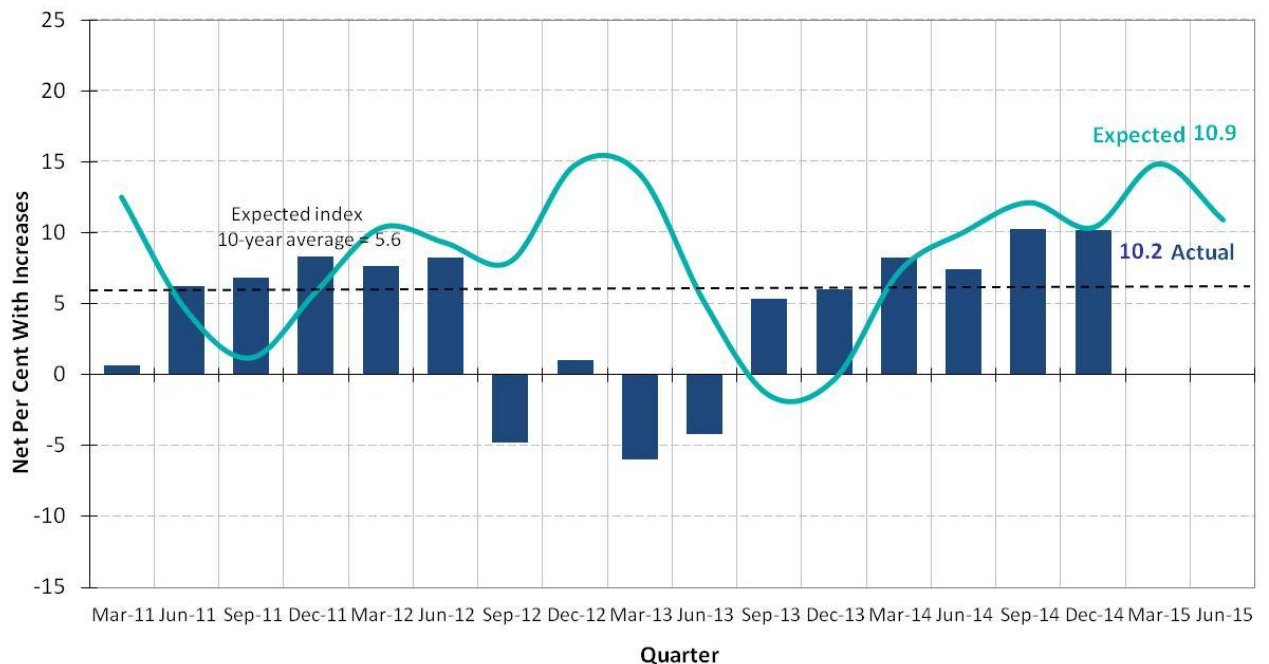
### Actual performance

For the December quarter 2014, the actual index for investment is 10.2 points.

16.5 per cent of firms increased their capital investment in the December quarter while 6.3 per cent decreased capital spending.



## Capital Investment: D&B Index Mar Qtr 2011 to Jun Qtr 2015



## Selling Prices outlook

(Quarterly Net Index) (Down from 26.3 to 24.3)

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 June quarter 2015 is 24.3 points, down from 26.3 points in the previous quarter and flat against the 24.2 points a year earlier.

The proportion of firms expecting to have higher selling prices in the quarter ahead is 29.3 per cent, with 5.0 per cent expecting to have lower prices.

### Actual performance

At 16.9 points, the actual prices index for the September 2014 quarter is unchanged from the previous quarter.

24.2 per cent of businesses increased the level of their selling prices, while 7.3 per cent had decreased, compared to the same time the previous year.

Selling Prices: D&B Indexes  
Component Responses



Selling Prices: D&B Index Dec Qtr 2010 to Jun Qtr 2015

