

1st Quarter Analysis 2018

Final Report

Australian Business Expectations Survey



Business Confidence at Two-Year High

Manufacturers ready to invest

A resilient Construction sector and resurgent Manufacturing industry have the most confident outlook for the first quarter of 2018, according to illion's latest Business Expectations Survey. Driven by strong expectations for profits, selling prices, capital investment and employment, both sectors topped the final indices for the March quarter, with manufacturing confidence at its highest level since June 2003.

“ 2018 is starting on a positive note for the economy with both business expectations and the actual performance of the business sector at multi-year highs. It would appear that the positive tone from a stronger global economy, together with low interest rates and a competitive level for the Australia dollar are all providing a tail wind for the business sector. ”

Stephen Koukoulas
illion Economic Adviser

“ Our Final report for the March quarter of 2018 confirms business confidence is buoyant. Expectations for profits and employment emerged as key drivers early on, but capital investment planning is also showing signs of growth, which is crucial for sustained momentum. The Manufacturing and Construction sectors appear to be in particularly good spirits as we start the year, which is another positive, signalling the underlying strength of the economy. ”

Simon Bligh
illion CEO



Manufacturing
actuals highest
since 2004



One in three
Wholesalers wants
higher dollar



Construction expectations
highest since 2015



Capital Investment
actuals up
80.6 percent

Expectations Highest Since 2015

illion's Business Expectations Survey reveals business confidence has reached its highest level since Q4 2015. The positive outlook was supported by the Business Actuals Index, which at 15.8 points has risen 80.6 percent in a year and is now at its highest level since March 2004. Expectations in the Construction industry have increased to 17.7 points, a level almost three times higher than the same time last year. Meanwhile business expectations for manufacturers are at their highest level since June 2003.

“ The main driver of this positive tone was a sharp upswing in profits, although the other components of survey – sales, selling prices and employment were also higher. The broad-based nature of the lift in business expectations bodes well for the economy in the near term, which is likely to confirm the RBA will hold interest rates steady. ”

Stephen Koukoulas
illion Economic Adviser

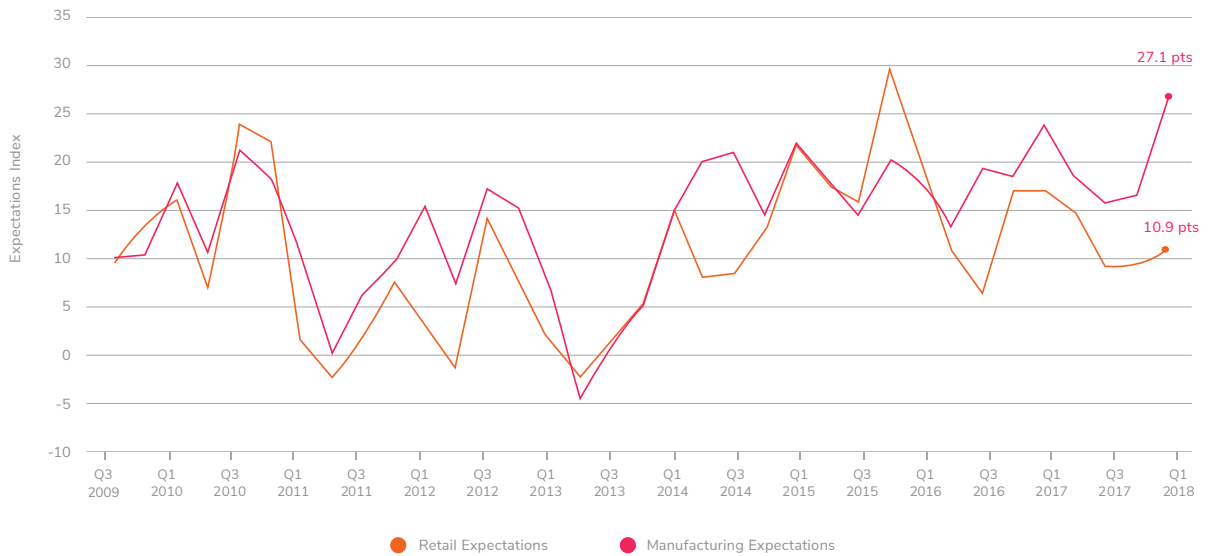
Business Expectations Index - Q1 2018



Makers March as Retail Struggles

Expectations in the Manufacturing sector reached multi-year highs across several sub-indices. The strong result is testament to the resilience of Australian manufacturers in the face of last year's automotive plant closures and ongoing concerns over energy costs. The one factor that could weigh on the sector in the coming months is the shortage of skilled labour, which was the top barrier to growth flagged by the sector in the latest survey.

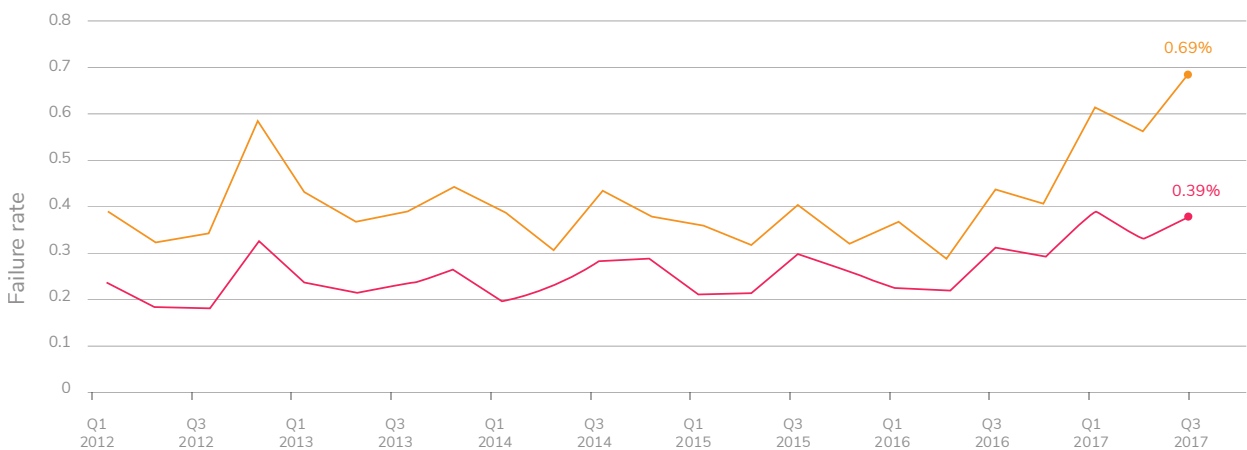
Manufacturing vs Retail Expectations



“The good news in the business expectations survey was focused in Construction and Manufacturing, both are in a strong upswing. Construction is continuing to be supported by ongoing resilience in new housing activity, buoyant public infrastructure spending and a reasonably widespread recovery in business investment. Manufacturing firms that were able to withstand the global financial crisis and the Australian dollar above parity are now in a healthy financial position, buoyed by a stronger global economy and a lower Australian dollar.”

Stephen Koukoulas
 illion Economic Adviser

Business failure rate: Manufacturing vs Retail



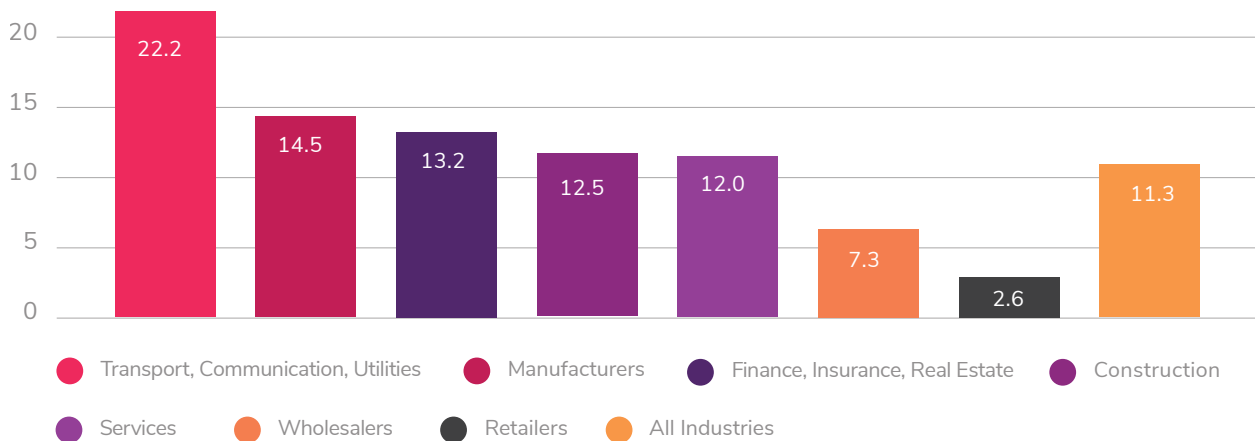
Capital Investment Rising?

The Capital Investment Actuals index for all industries rose to 11.3 points for the quarter to September 2017, representing a 24.6 percent annual increase. The Transport, Communications & Utilities sector has the highest index score for Actual investment, while Retail languishes at the bottom. Expectations for Capital Investment remain muted, however, down 7.5 percent on this time last year at 10.9 points.

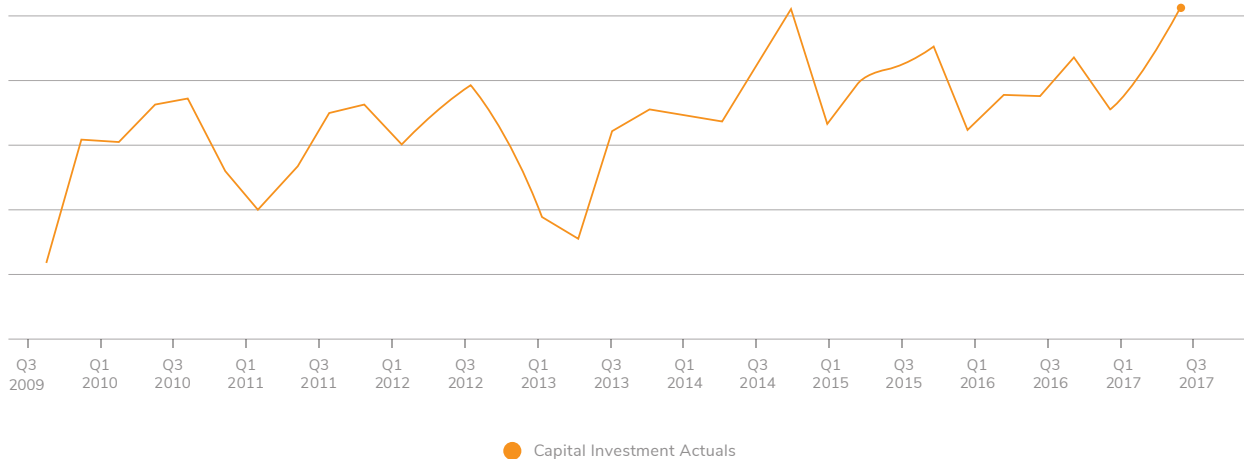
“ There remains a significant divergence between sectors, reflecting a change in patterns in the multispeed economy. Retailers continue to indicate severe weakness in terms of actual performance and expectations, which reflects one of the main themes of 2017, namely the fragile financial position of consumers. Weak wages growth in concert with record high debt levels are constraining income and hence purchasing power of the household sector. ”

Stephen Koukoulas
Illion Economic Adviser

Capital Investment Actuals - Q3 2017



Capital Investment Actuals: All Industries Q3 2017



Potential Road Bumps in the Year Ahead

Consumer confidence remains a key factor for business, with almost one third of businesses (31.9 percent) citing this as having the most influence on operations in the coming quarter. However, when asked 'What is the primary barrier to growth for Q1 2018?' the top response across all industries was utilities and operating costs.

A more in-depth look at this dataset reveals the wide divergence across industries:

Biggest barrier to growth by sector

27% 

Manufacturers - Access/shortage of skilled labour

27% 

Retail - Online selling by competitors

18% 

Wholesale - Online selling by competitors

20% 

Construction - Weak demand for products

28% 

Transport, Communication & Utilities -
Utilities & operating costs

18% 

Finance, Insurance & Real Estate -
Utilities & operating costs

24% 

Services - Access/shortage of skilled labour

“ Inflation risks, measured in the form of expectations for selling prices, are increasing moderately but from a low base. Given the link between this aspect of business expectations and the official inflation rate, this suggests the official inflation rate is likely to remain low in the early part of 2018. Expectations for selling prices will be a key factor in the interest rate deliberations of the Reserve Bank of Australia, with any further upturn likely to spark early speculation about an interest rate rise. ”

Stephen Koukoulas
Illion Economic Adviser

Our methodology

Each month, illion 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.

In this issue, the final indexes for the latest quarter are based on approximately 1,200 responses obtained during October, November and December 2017.

Have a question?
Contact us today.

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