

1st Quarter Analysis 2018
Interim Report

Australian Business Expectations Survey



Business forecasts bumper profits in 2018

Business Actuals Index supports expectations

Business confidence is at its highest level since the beginning of 2015, according to illion's latest Business Expectations Survey, with companies set to boost employee numbers in the first quarter of 2018 on the back of bumper expectations for profits. The bullish outlook was supported by an 81.9 percent annual rise in the Business Actuals Index, which hasn't reached its current level of 16.6 points since June 2004. In line with expectations, the result was driven by strong reported results for actual profits.

“ The business sector is entering 2018 with the Business Expectations Index at the highest level since 2015. This optimistic tone is reflected in other data for the business sector where capital expenditure is recovering after around 5 years of decline. ”

Stephen Koukoulas
illion Economic Adviser

“ It is great to see business close out the year on a confident note. This bodes well for the beginning of 2018, which judging by the latest Business Expectations results is set to be an active year for business growth. The outlook for profits is the strongest it has been for some time across a diverse range of sectors, suggesting the underlying foundation of Australia's corporate landscape remains solid. ”

Simon Bligh
illion CEO



1 in 5 Retailers
expecting negative
Amazon impact



Profits expectations
highest in 7 years



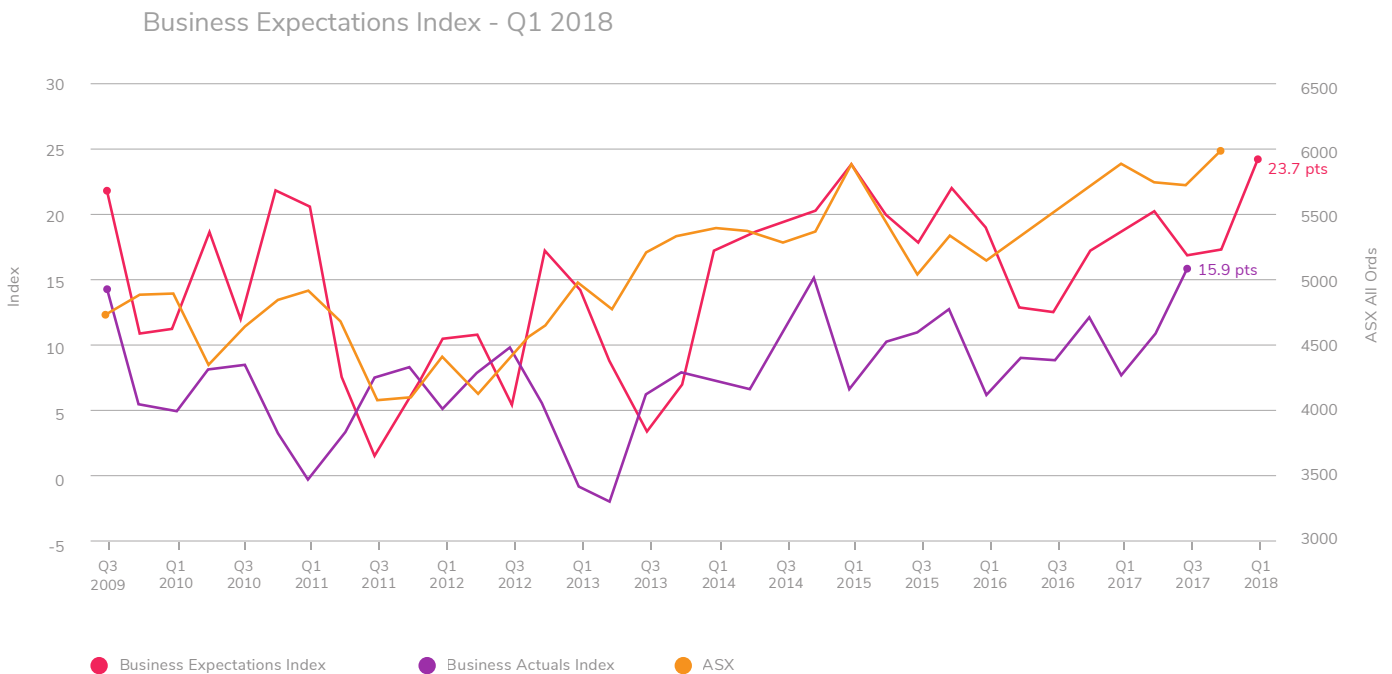
30.4% of business
sees consumer demand
as the biggest influence
in Q1 2018



Financial, Insurance
and Real Estate
Expectations highest
since 2013

Profit expectations drive index

Illion's November Business Expectations Survey reveals business confidence is at the highest level since the first quarter of 2015. At 24.9 points, the index is up 31.8 percent compared to the same period last year, primarily driven by bullish expectations for profits and employment in the first quarter of 2018.



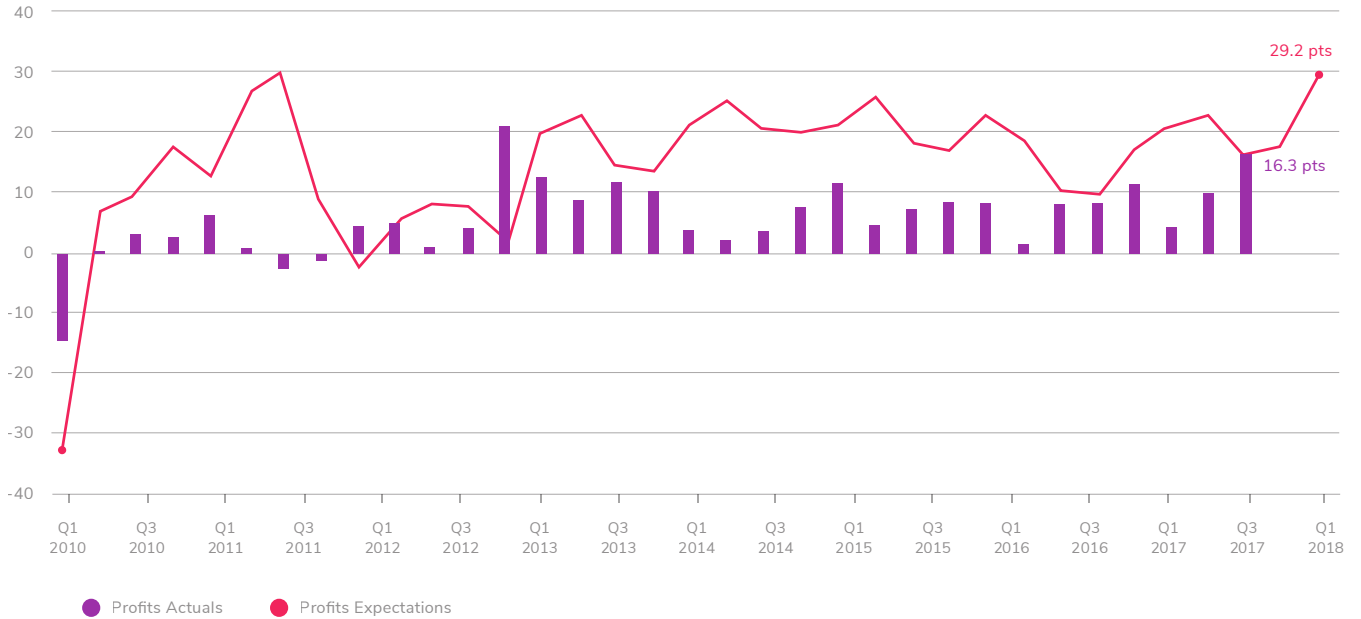
“ One of the standouts from the Illion survey was the surge in expectations for profits, with low interest rates and strong cash flows feeding into this upbeat outlook. In the context of this strength in profits, it is also noteworthy that the ASX has risen strongly through 2017, with the ASX recently breaking above 6,000 points. ”

Stephen Koukoulas
Illion Economic Adviser

Profits set to rocket

Finance, Insurance and Real Estate businesses had the highest expectations for the new year, reporting the highest overall Business Expectations result for this sector since Q3 2015. The Transport, Communications and Utilities sector is also feeling confident, reaching its highest business expectations level since the final quarter of 2012.

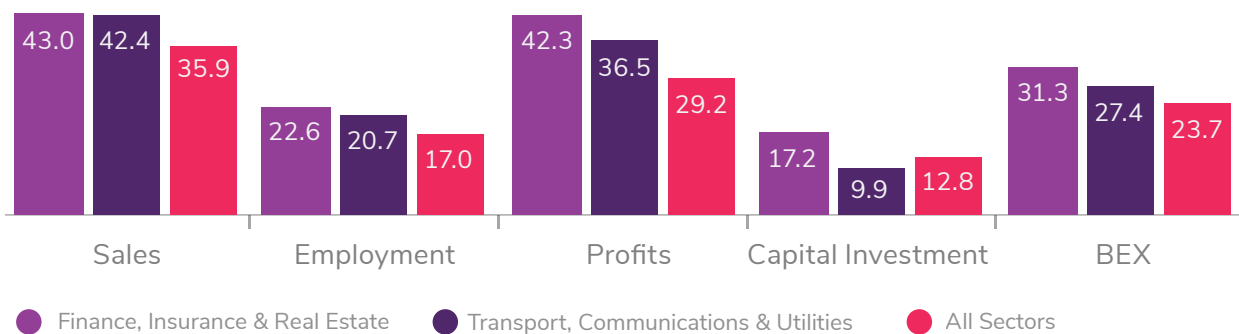
Expectations for Profits highest since 2011



“Corporate profits are getting a boost from lower costs, which are being driven by record low interest rates and on-going low wages growth. The surge in expected profits is occurring at a time of solid gains in the ASX, which has risen strongly through the course of 2017. If this upbeat outlook for profits comes to fruition, further gains in the ASX would be likely.”

Stephen Koukoulas
Illion Economic Adviser

Finance, Insurance & Real Estate and Transport, Communications & Utilities Expectations - Q1 2018



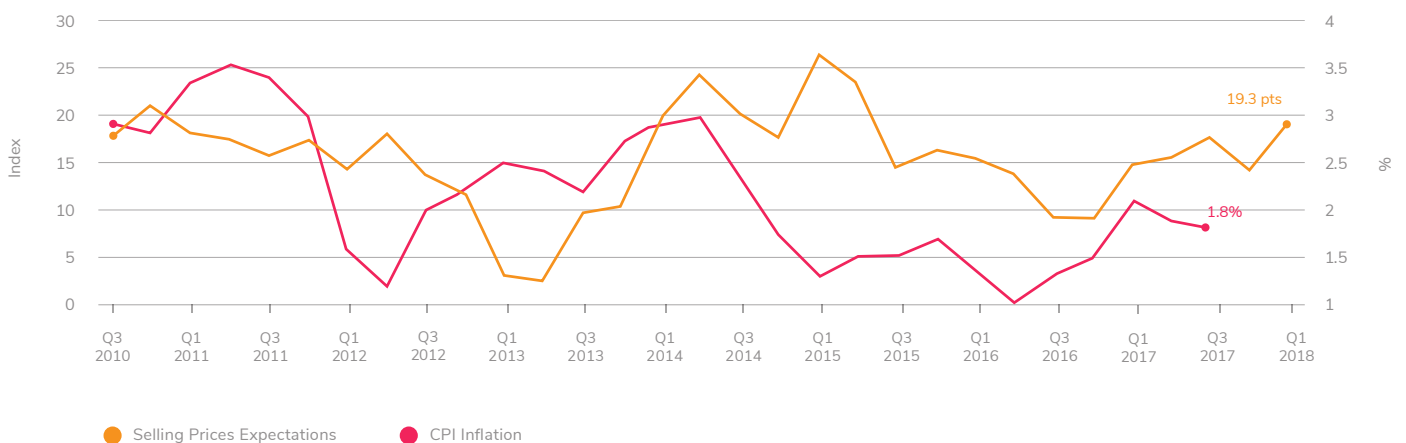
Will rates rise in 2018?

Across all sectors, one in five firms would like to see a higher dollar, while just one in ten would prefer to see the currency fall. There was wide variation between industries, however, with just 6.9 percent of Services businesses preferring to see the dollar rise, compared to 33.3 percent of Wholesalers. At present, Wholesalers seem most likely to get their wish, although debate over when interest rates will rise is ongoing. Some of the froth has also been blown off the rampant housing markets in New South Wales and more recently Victoria, adding further uncertainty to the Reserve Bank's decision.

“ In terms of the inflation outlook, the still very well contained level of expected selling prices suggests price pressures are low. This is consistent with the persistently low inflation rate that has been evident in recent years. It also fits with the benign inflation outlook recently forecast by the Reserve Bank and is consistent with official interest rates remaining low until well into 2018 and perhaps beyond. ”

Stephen Koukoulas
Illion Economic Adviser

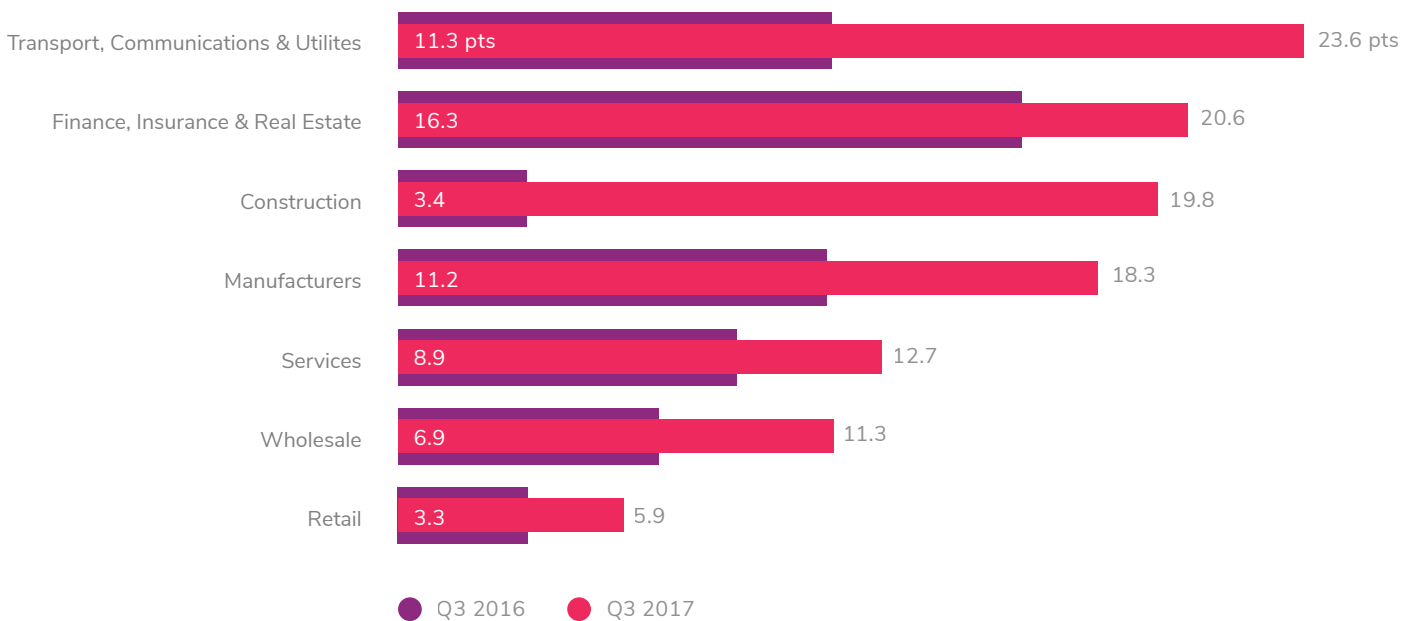
Selling Prices Expectations remain steady



Confidence boosted by Actuals

Weak consumer sentiment has taken the place of capital investment as the weakest link hindering business growth. With household debt at a record high, persistently low wage growth and ongoing uncertainty surrounding when interest rates will rise, it makes sense for consumers to exercise caution and reduce debt. However, consumer confidence will need to gain momentum to provide firm backing for medium to long-term investment decisions.

Business Actuals Index by Sector - Q3 2017



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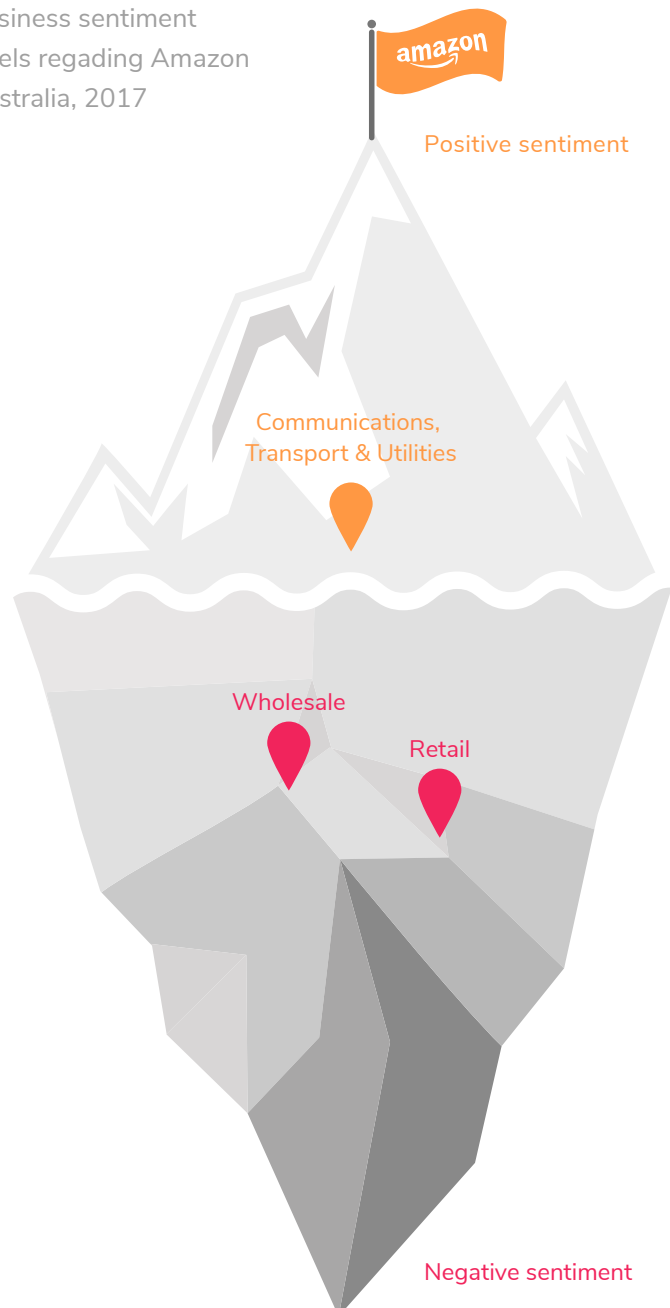
The actual performance of the business sector in the September quarter was at a 13 year high, signalling buoyant conditions in the economy as 2017 draws to a close. Expectations for employment continue to improve, in line with the more positive tone in the official labour force data which has shown a strong 3 per cent lift in total employment over the past year. ”

Stephen Koukoulas
 illion Economic Adviser

Consumers waiting on the sidelines

A cautious consumer is more likely to shop around for the best deals, which is likely to play into Amazon's hands as it rolls out its Australian offering. Unsurprisingly, businesses operating in the Retail and Wholesale sectors were more concerned about the potential negative impact Amazon will have on their business. Overall, one in ten businesses expect Amazon to have a negative impact. This rises to one in five for retailers and wholesalers. Just over 10 percent of Transport, Communications and Utilities businesses expect Amazon to have a positive impact on their operations, compared to the average of 4.6 percent for all sectors.

Business sentiment levels regarding Amazon Australia, 2017



“ At a time when the retail sector is one of the weakest aspects of the economy, the arrival of Amazon into Australia is seen as a concern for one in ten businesses. For retail and wholesale, the arrival of Amazon is expected to have a negative impact on their businesses. The Amazon business model to aggressively discount selling prices is another factor likely to keep inflation pressures in check. ”

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 800 responses obtained during October and November 2017.

Have a question?
Contact us today.

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