

December Quarter Analysis 2018

Final Report

# Australian Business Expectations Survey



# Business confidence edges up

## Cautiously optimistic outlook for year end

Business confidence has improved over the latest quarter, with illion's Business Expectations survey showing small increases in both expected and actual results. The retail sector delivered a seasonal rebound in its outlook for December, following a bout of pessimism last quarter. Meanwhile sentiment in the construction sector has also been fairly positive. The only areas of concern were employment and capital investment, for which businesses expressed a more cautious outlook.

“The results from the latest Business Expectations survey are reasonably solid, but not spectacular. The actual sales index increased significantly over the June quarter and further improvement is expected, albeit at a more moderate pace, in the December quarter. Profits followed a similar pattern, with improvements in both actual and expected indices.”

Stephen Koukoulas  
illion Economic Adviser

“The latest survey results paint an optimistic picture across the wider Australian business community, especially in the retail sector as we approach its busiest time of year for sales. Some areas of concern remain, however, particularly on the employment front. For the broader economic landscape, the recent turmoil in federal politics, as well as risks from global trade protection policies, has the potential to undermine business confidence over the final three months of the year.”

Simon Bligh  
illion CEO



Rising concerns over  
interest rates



Slight dip in  
employment  
expectations



Businesses cautious on  
capital investment



Turnaround in retail  
sentiment

# Headline index suggests modest growth ahead

The Business Expectations index for the December quarter now stands at 22.2 points, up 2.3 per cent from the previous quarter and representing an increase of 29.4 per cent compared with the same time last year. The Actuals index also followed a similar pattern, with the figure standing at 18 points, representing a quarter-on-quarter increase of 14.3 per cent and a jump of 64.3 per cent compared with the year-earlier result.

“ Business expectations for the December quarter increased slightly from the September quarter, but still stand marginally below the recent June quarter peak. It is fair to suggest that overall business conditions are consistent with recent economic growth. The actual level of activity has risen 2.6 per cent in the June quarter to its highest level since 2004, consistent with recent GDP growth. ”

Stephen Koukoulas  
Million Economic Adviser

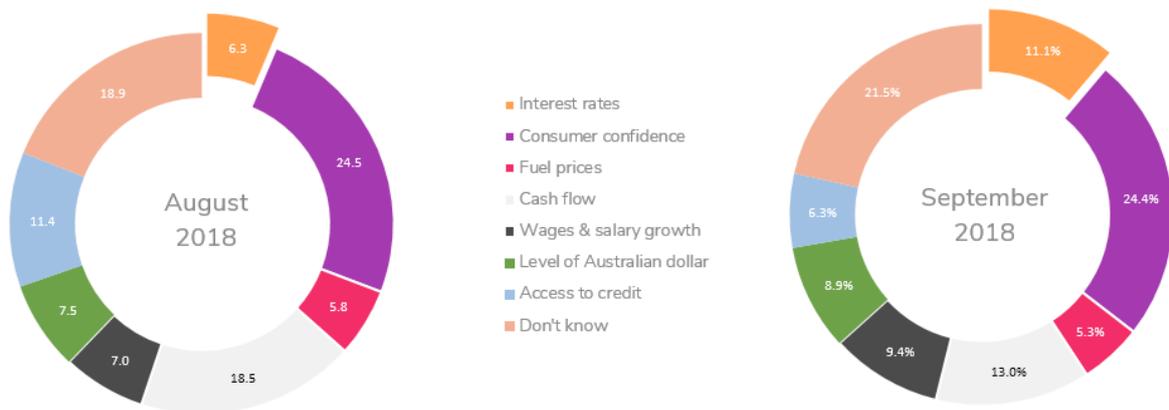
Business Expectations Index – December quarter 2018



# Rising concern over interest rates

Businesses are increasingly concerned over the impact of interest rate changes, with 11.1 per cent of firms surveyed in September stating interest rates were likely to have the most significant impact on their operations over the December quarter. In contrast, only 7.3 per cent of businesses surveyed in July and 6.3 per cent of businesses in August cited interest rates as their biggest concern.

Thinking about the quarter ahead, which issue do you think will influence the operations of your business the most?



“Increases in bank interest rates over the past few months, independent of changes in official interest rates, suggest a vulnerability to future monetary policy tightening. However, the RBA is unlikely to increase official interest rates any time soon, given the general weakness in the consumer side of the economy and recent declines in house prices.”

Stephen Koukoulas  
Illion Economic Adviser

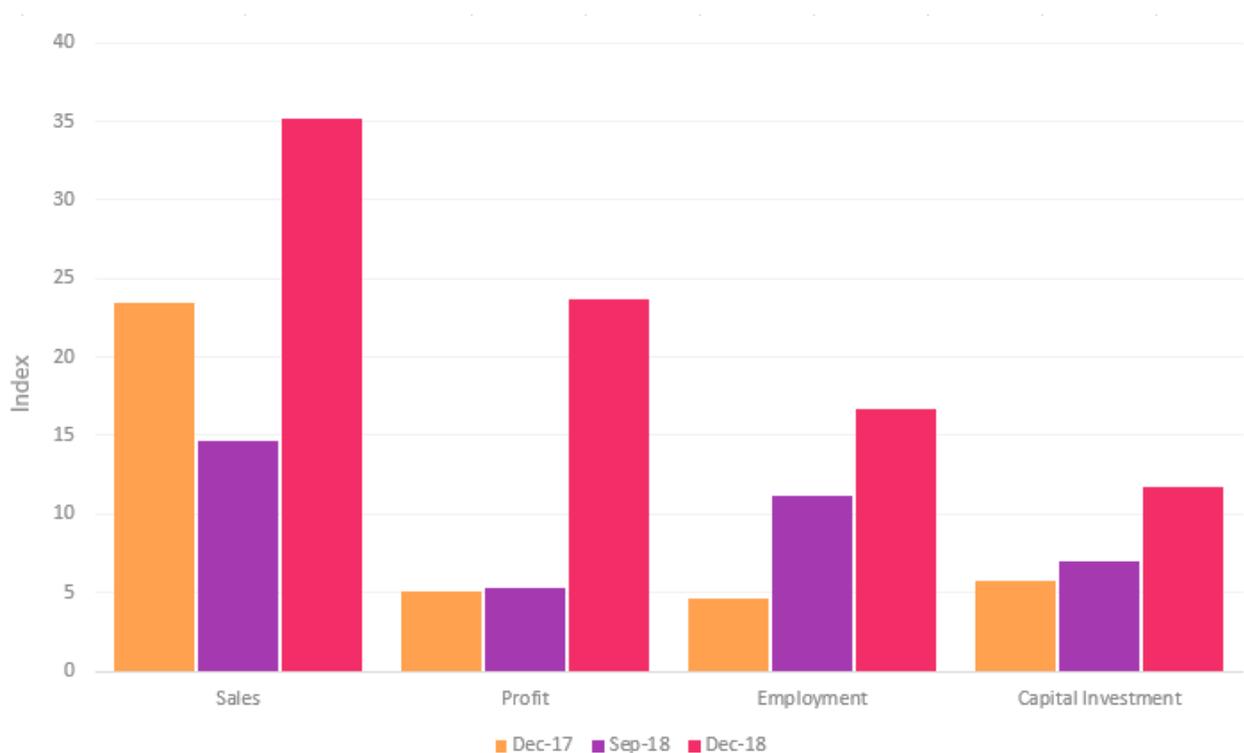
# Retail sentiment improves

The retail sector is reporting high expectations for the December quarter, marking a significant turnaround compared with prior expectations for the September quarter. In particular, sales expectations have skyrocketed from 14.7 points to 35.2 points, while profit expectations have jumped from 5.3 points to 23.7 points. Additionally, actual performance over the quarter defied pessimistic expectations, with the Actuals index moving from -0.2 points to 9.4 points.

“ Retailers are mildly optimistic about the end of year sales period, with an increase across all Expectations components for the December quarter, following a particularly weak outlook for the September quarter. The performance of the retail sector has a significant impact on the overall economy, given that retail spending accounts for around one-quarter of all GDP. ”

Stephen Koukoulas  
Illion Economic Adviser

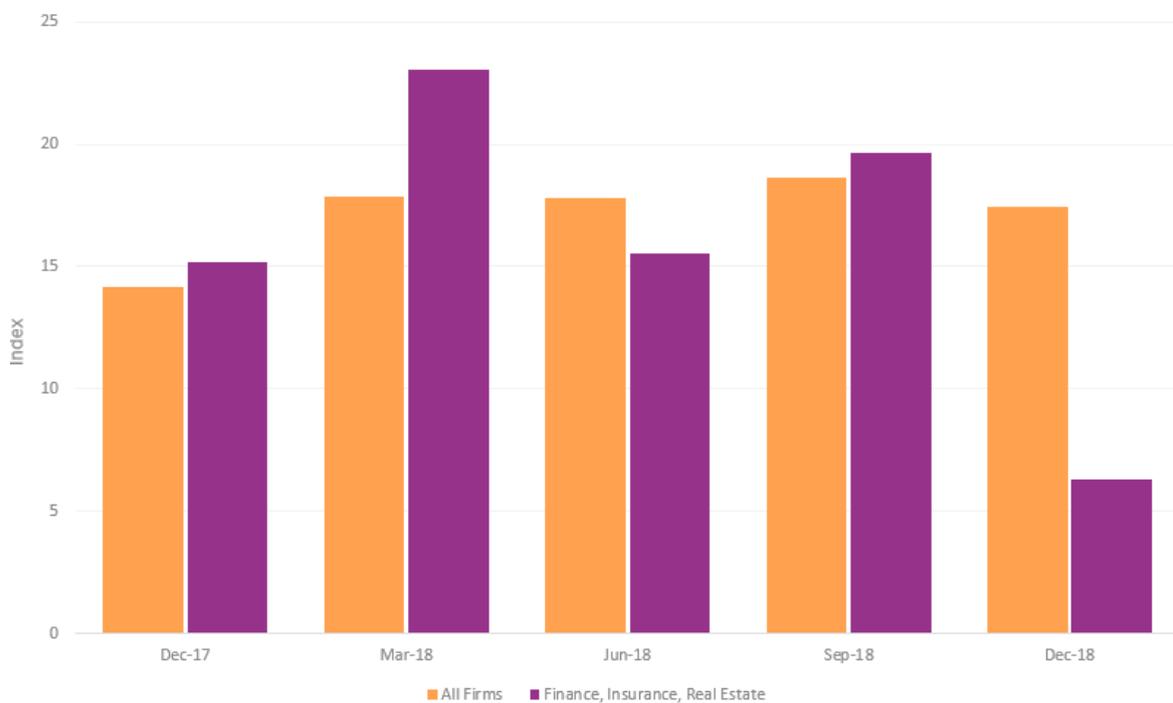
Retail – Expectations



# Employment expectations dip slightly

The employment expectations index has fallen by 7 per cent compared with the previous quarter, dropping to 17.4 points, although the figure still represents a 23.2 per cent increase compared with the year-earlier period. Employment expectations in the finance, insurance and real estate sector plummeted from 19.7 points to just 6.3 points, marking its lowest index result since September 2016.

Employment – Expectations



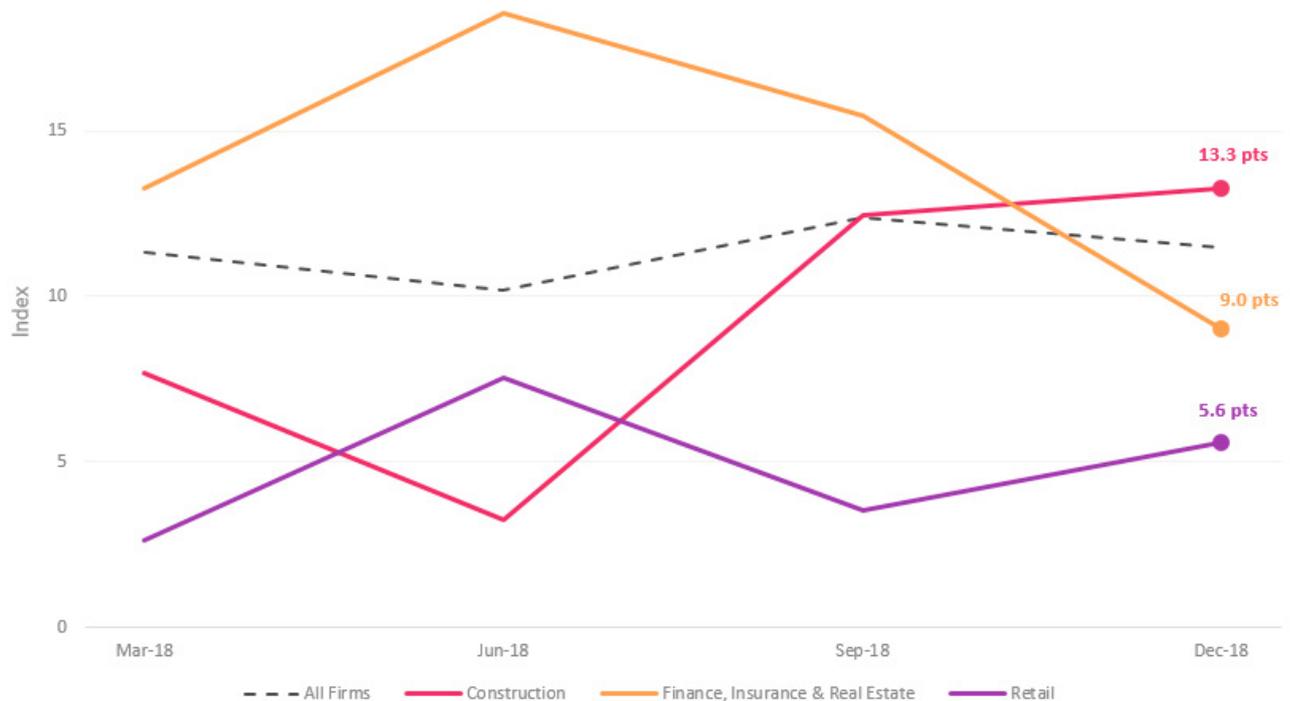
“The picture for employment is problematic. Despite strong figures in the prior quarter, expectations for the final quarter of 2018 have fallen sharply, suggesting softer employment growth over the remainder of the year. This could also indicate the official unemployment rate, which declined to a 6 year low of 5.3 per cent, is reaching a low point unless hiring intentions suddenly pick up in the next few months.”

Stephen Koukoulas  
Illion Economic Adviser

# Businesses cautious on capital investment outlook

The outlook for capital investment has faltered over the latest quarter, with the expectations index increasing by only 1.5 per cent, while actual capital investment figures have declined by 8 per cent. In particular, the manufacturing sector recorded a drastic 40.3 per cent fall in capital investment expectations and a 26.2 per cent decline in the Actuals index.

Capital Investment index – Actual indices



“ Capital expenditure is also on the soft side, with firms reporting only a small increase in expected capital investment and a decline in actual investment. The result aligns with the official data on private sector business investment, which has been flat to lower in recent times. ”

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 July, August and September 2018.

Have a question?  
Contact us today.

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