MEDIA RELEASE

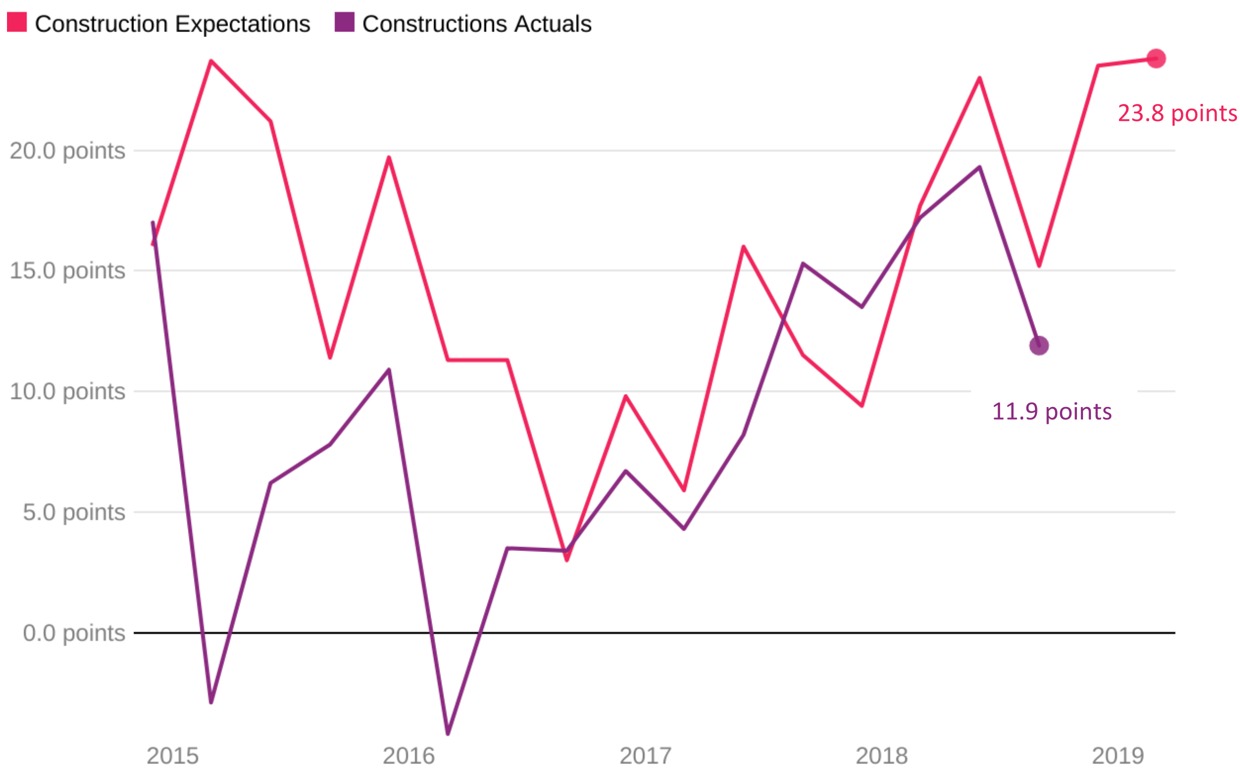
Construction woes weigh on index

Business Expectations – Quick Update
Interim Results, March Quarter 2019

4 December 2018 – illion's latest business expectations survey has confirmed a cooling economic outlook. The composite expectations index fell to its weakest level since the December quarter 2017, while the actuals index dipped to its lowest level since the September quarter 2017.

The economy is on a path to slower growth. The falls in the indexes fit with the general theme of the economy in recent months, which has seen a range of indicators, particularly as they relate to housing, pointing to a period of weaker growth.

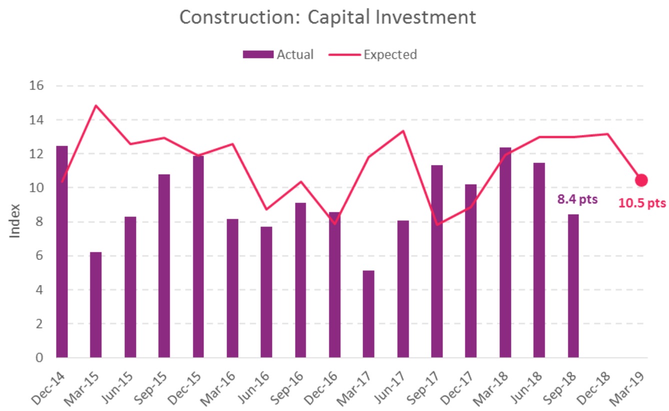
The construction sector appears to be on the cusp of a slowing in activity. A decline in dwelling construction activity and the pull-back in non-residential investment are starting to weigh on actual and expected capital expenditure in construction. Credit for property developers has also tightened appreciably since around the middle of 2018 and this is feeding into a concerning outlook for the construction sector.

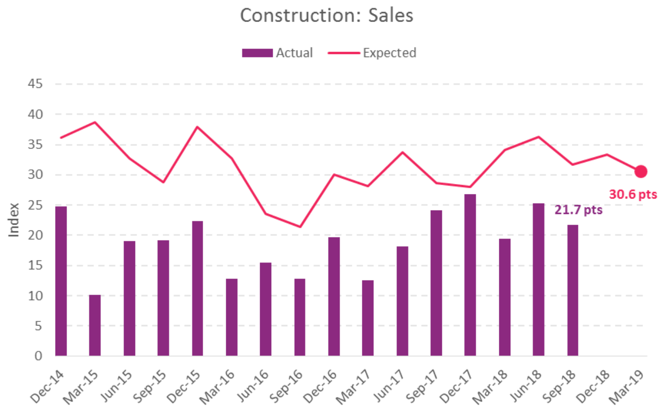


Source: illion Data Registries

The latest business expectations survey, which was conducted before the Wentworth by-election, indicates the economy is growing at a solid (but not spectacular) pace. The results align with the range of official economic data, which shows the economy expanding at a rate close to the long run

In terms of the sub-components of the index, all indicators were weaker. Most concern came from the 12.4 per cent annual decline in expectations for capital investment, which is one area of the economy the Reserve Bank has been forecasting to grow solidly into 2019. Actual capital investment also fell sharply.





Expected sales for the March quarter 2019 also fell, dropping 8.2 per cent between quarters and signalling a material slowing in the economy. The fall was concentrated in manufacturing, although this was partly offset by a more positive tone from retailers. The rebound in retail sentiment was particularly surprising after business failures hit an historic high for the sector during the September 2018 quarter.

Expected employment, which a year ago had been strong, is now trending lower. This suggests further progress in reducing the unemployment rate will be difficult to achieve. Indeed, it is likely that the unemployment rate will edge higher into the March quarter 2019.

Overall, the expectations data point to the economy starting 2019 on a weaker note. This will likely see the RBA further push back the timing of its expected interest rate hike and if on the next few quarters there are any further signs of weakness, it may open the door for an interest rate cut.

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Media enquiries
David Kemp, Head of Communications
david.kemp@illion.com.au
03 9828 3329