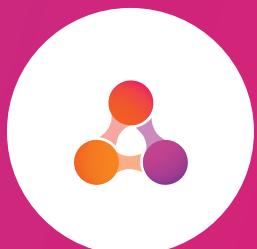


| March Quarter Analysis 2019
| Final Report

Australian Business Expectations Survey



Business confidence tanks

Soft start to new year

Business confidence for the March quarter has fallen across the board, with the Business Expectations Index for the March quarter 2019 down 7.1 per cent annually. The headline index saw significant declines in the sales, profit and investment sub-indices on both a quarterly and annual basis. The manufacturing sector is expecting a particularly grim start to the year, with expected sales plummeting 32.4 per cent year-on-year, while profit expectations have fallen 23 per cent. By contrast, retailers are expressing more optimism heading into 2019, with the sector reporting increases in both expected and actual sales, profits and capital investment.

“

There were sharp declines in expectations across all categories of the survey, with sales, profits, employment and capital investment all falling. If these expectations are realised, it is likely that economic performance over 2019 will significantly undershoot the latest forecasts from the Reserve Bank of Australia. Based on the latest survey data, the economy is likely to experience a soft landing in 2019, while any further downturn in business expectations will raise the possibility of significantly weaker economic conditions. ”

Stephen Koukoulas
illion Economic Adviser

“ The Final business expectations results for the March quarter reflect widespread uncertainty among Australian business. Local factors driving uncertainty include the approaching federal election, while everything from the flow of credit and residential house prices through to regulation and corporate governance will be impacted by the Royal Commission, due to deliver its final recommendations in early February. Globally, equity market turbulence in the US, Europe and Asia has carried into the new year. This is being compounded by additional unknowns such as US political division crystallising in the form of an extended government shutdown, Brexit entering its endgame and increasing signs of China’s economy slowing. Despite all the noise, Australia’s business landscape remains fundamentally sound, with unemployment historically low, exports holding firm and major long-term government projects either underway or about to start. ”

Simon Bligh
illion CEO



Bleak expectations for
the March quarter



Optimism at lowest point
since August 2017



Construction sector cash flow
concerns jump 44.1 per cent



Selling Prices
expectations up 38.9
per cent from
last year

Heavy declines across all indices

The Business Expectations index for the March quarter now stands at 20.9 points, down 12.9 per cent from the prior quarter and marking a fall of 7.1 per cent on a year-on-year basis. Meanwhile, the Actuals index followed a similar pattern, dropping 15.5 per cent between the June and September quarters, and down 3.7 per cent annually.

“ The latest illion Business Expectations survey shows a further moderation in economic conditions at the end of 2018, and indicates a potentially disconcerting start to 2019. The decline in the expectations index fits with recent economic news, which shows weaker economic growth, a sharp downturn in housing and weaker global conditions. The 15.5 per cent decline in the Actuals index could also point to a weak end to 2018, a view backed by recent disappointing official data for September quarter GDP. **”**

Stephen Koukoulas
illion Economic Adviser

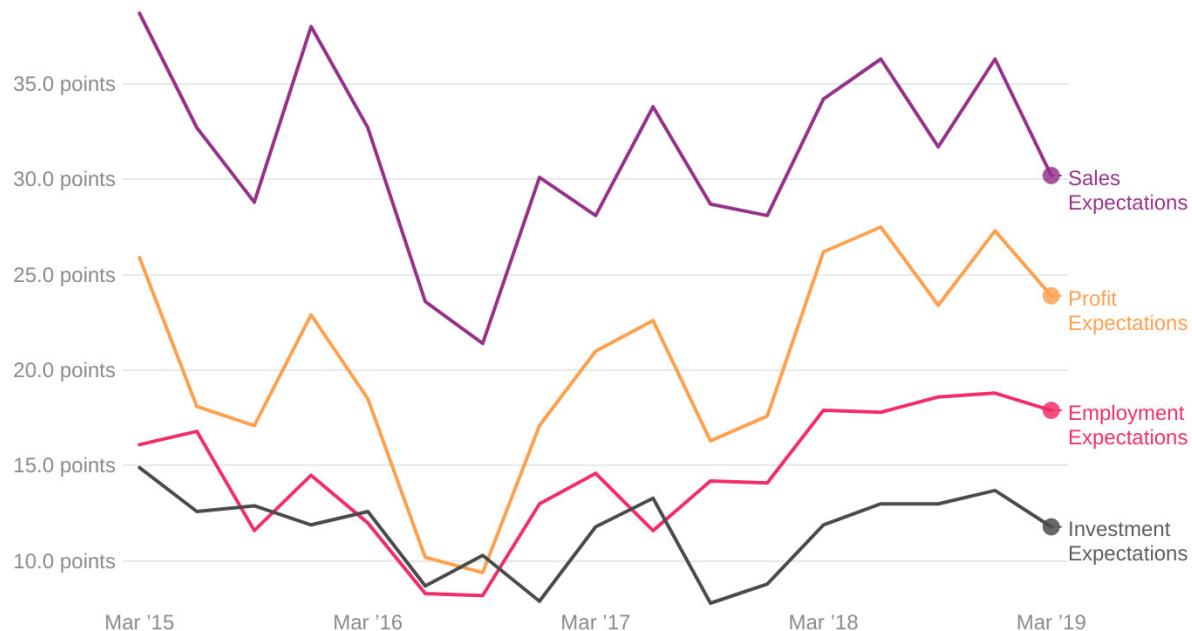
Business Expectations Index, March Quarter 2019



Bleak expectations for March quarter

Expectations for financial performance are down across the board, with the majority of industries predicting a significant slump heading into the March quarter. The most notable decline in expectations comes in the form of sales numbers, with the overall index dropping by 17 per cent to 30.2 points. Employee expectations also took a hit, with a reported 5 per cent decline, while profit forecasts slumped 12.5 per cent to 23.9 points. Expectations also appear to be on a downswing compared to the previous year, with sales down 11.7 per cent annually and the profit index 8.8 per cent lower.

Sub-indices Expectations, March Quarter 2019



“The reported decline in expectations came from all categories of the survey – sales, profits, employment and capital investment were all lower than the last uptake. If these expectations come to fruition, economical performance heading into the 2019 calendar year will significantly undershoot the latest forecasts from the Reserve Bank of Australia. **”**

Stephen Koukoulas
illion Economic Adviser

Cash flow key issue for construction sector

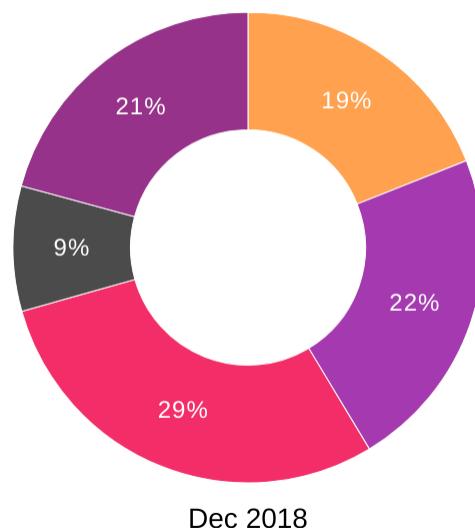
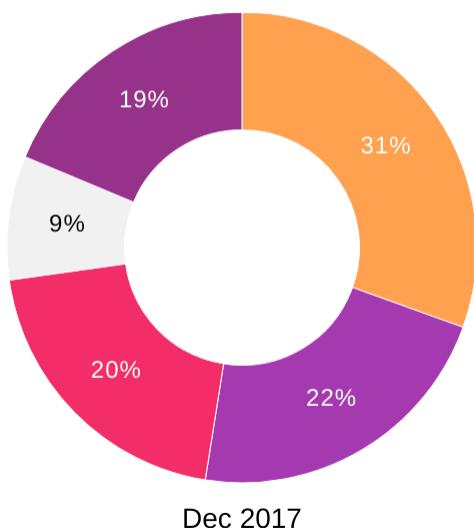
As the Christmas period and subsequent shutdown for many industries hits, survey results have shown that availability of cash flow is becoming a major issue. Of all the businesses surveyed, 17.8 per cent are expecting cash flow to have the most impact on their operations over the March 2019 quarter, compared to 16.2 per cent in the November survey and 16.2 per cent in the December 2017 survey. The construction sector expressed particular concern about this issue, with 29.3 per cent raising cash flow as the most important issue, compared with only 17 per cent in the November survey and 20.3 per cent a year earlier.

“ Despite the upbeat rhetoric from the RBA, including its on-going commentary that the “next move in official interest rates is more likely to be up than down”, financial markets are starting to price in the risk of interest rate cuts during 2019 on the back of the slowing that appears underway. The market appears to be giving a higher emphasis to the slowing in the economy than the RBA, including the recent downturn in business expectations, with the availability of cash, or lack thereof, causing major concerns. ”

Stephen Koukoulas
illion Economic Adviser

Construction Sector: Which issue will influence your business the most in the quarter ahead?

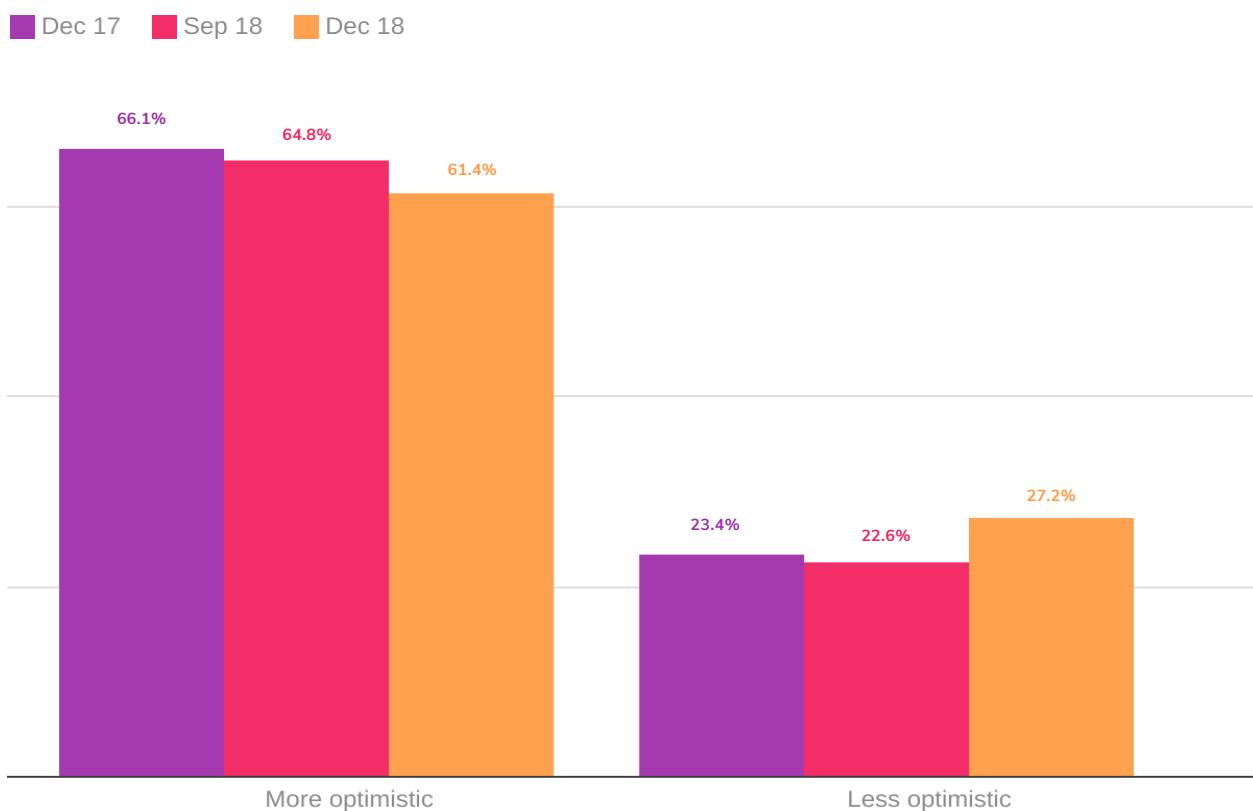
Consumer confidence Don't know Cash flow Interest rates Access to credit
 Other



Optimism at a low point

Businesses have become less optimistic on growth prospects, with 61.4 per cent of business owners and executives surveyed in December reporting an increase in optimism, down from 66.6 per cent in the November survey. Meanwhile, 27.2 per cent of businesses said they felt less optimistic about growth prospects, compared with only 20.9 per cent in November. The last time optimism responses fell so low was in August 2017.

Optimism at lowest point since August 2017



“

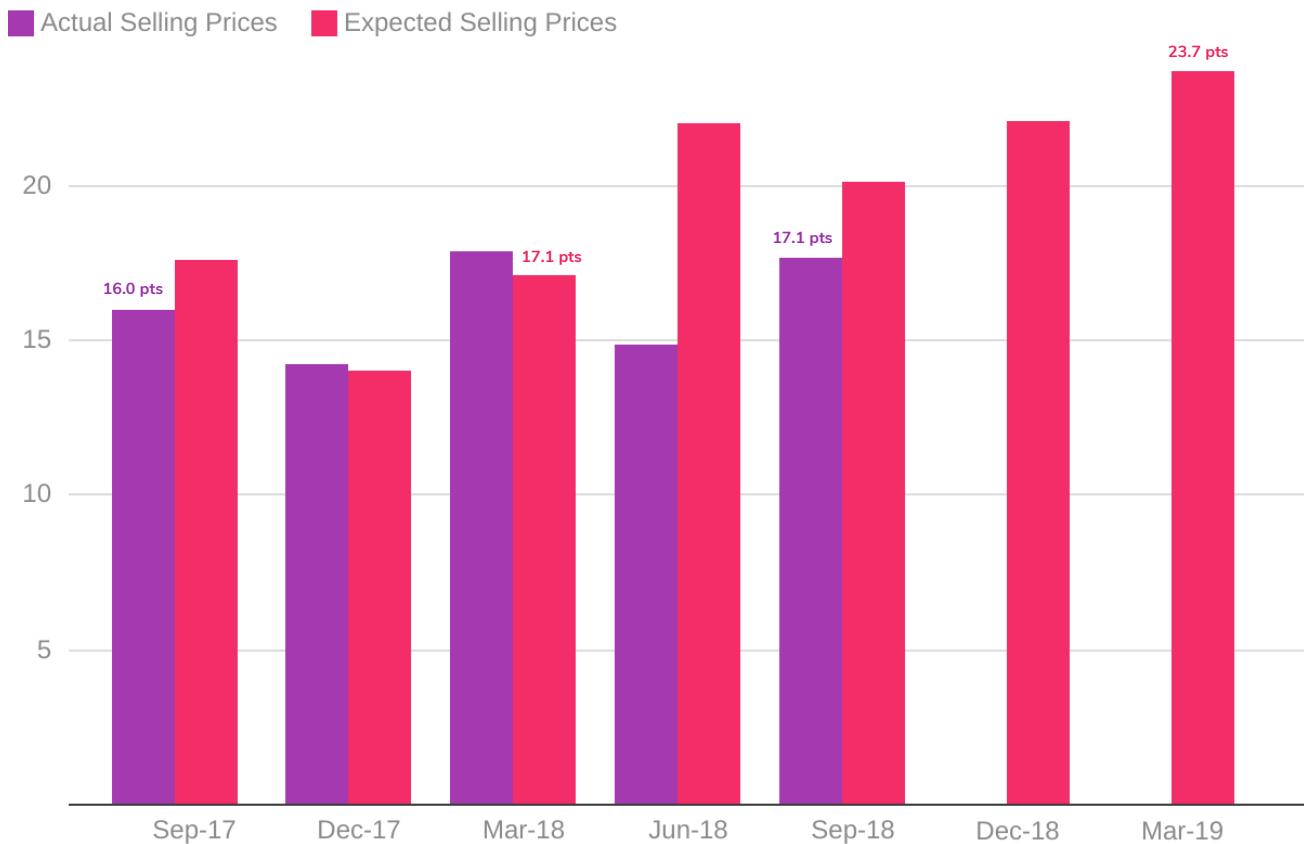
The slowdown in the economy is beginning to affect business optimism. While not at levels which would signal a hard landing for the economy into 2019, the decline in the number of firms which expressed an optimistic outlook for the March quarter, as well as the rise in pessimism, is pointing at a clear downside risk if the trend continues. ”

Stephen Koukoulas
illion Economic Adviser

Selling Prices Expectations up

Although the economy is expected to make a soft landing over 2019, one element of the data is at odds with this idea – both expected and actual indices for selling prices increased, with expectations up 7.6 per cent over the previous quarter, and up 38.9 per cent compared with the same time last year. Actual selling prices jumped 18.9 per cent over the previous quarter and up 10.9 per cent on the year-earlier period.

Selling Prices Index, March Quarter 2019



“

The lift in expected selling prices in the data is the one point that contradicts the business sector's slowing momentum. It is possible this increase was caused by inflation effects flowing on from the Australian dollar's recent weakness, but official data on the topic suggests inflation is currently low. ”

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 2018.

**Have a question?
Contact us today.**

publicrelations@illion.com.au