

December Quarter Analysis 2019

Final Report

# Australian Business Expectations Survey



# Business clings to optimism despite bleak reality

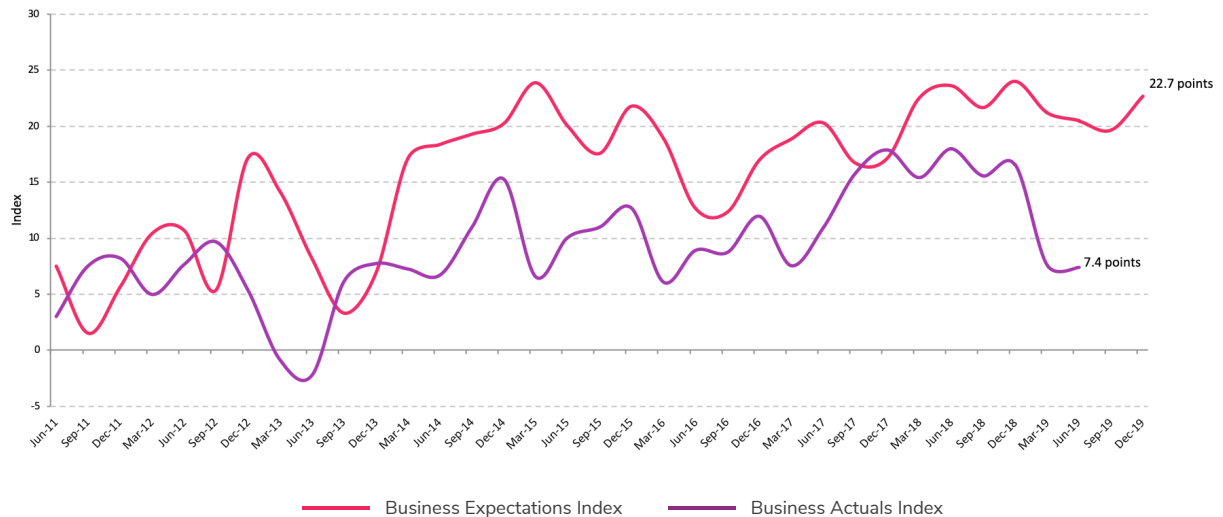
The latest Business Expectations survey has revealed a deep sense of pessimism from Australian businesses, driven by sharp declines in sentiment from the construction and retail sectors.

Although expectations for the December 2019 quarter increased slightly on a quarterly basis, all measurements declined on a year-on-year basis. Meanwhile, the Actuals index has fallen to its lowest point since March 2016, resulting in a record gap between expectations and actual performance.

“The latest Business Expectations index is consistent with the slow, sub-trend economic growth expected over the remainder of 2019. The latest quarterly increase appears to be seasonal, given that expectations for all components are lower compared with the December quarter last year. With the significant gap between business expectations and their actual performance, the optimism felt by businesses throughout 2019 has been dashed by the reality of a weak economy, squeezed profits and disappointing actual sales.”

Stephen Koukoulas  
Illion Senior Economist

Business Expectations index – Q3 2019



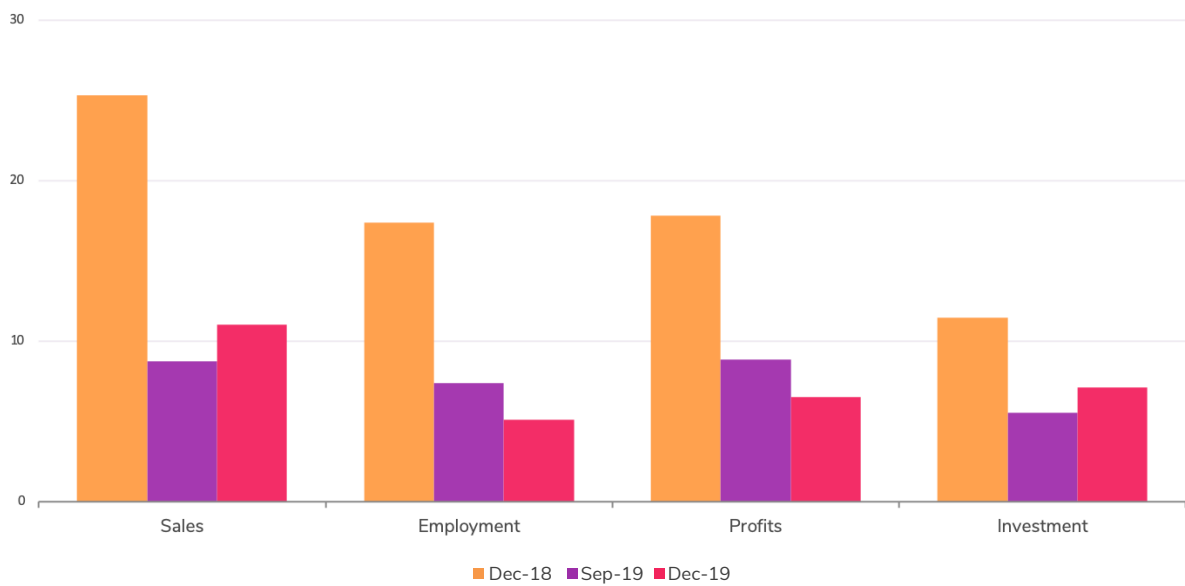
“A perfect storm of global trade tensions, political uncertainty and dampening economic growth – both in Australia and across the world – are contributing to a bleak outlook for the December quarter. Barring a sudden uptick in confidence over the next few months, this sense of pessimism may continue well into 2020.”

Simon Bligh  
Illion CEO

# Actuals index drops to low point

The Expectations index increased 15.4 per cent from the previous quarter, but was down 5.5 per cent on a year-on-year basis. The Actuals index dipped 2.9 per cent on a quarterly basis, but when compared with the year-earlier period, the figure plummeted almost 60 per cent. In particular, the employment index fell to less than one-third of the year-earlier figure, marking its lowest level since March 2017.

Actual Index





Construction  
confidence down



Selling price indices  
down on every  
measure



Retail hopes down  
in wake of difficult  
March quarter



Election result  
provides small boost  
to business

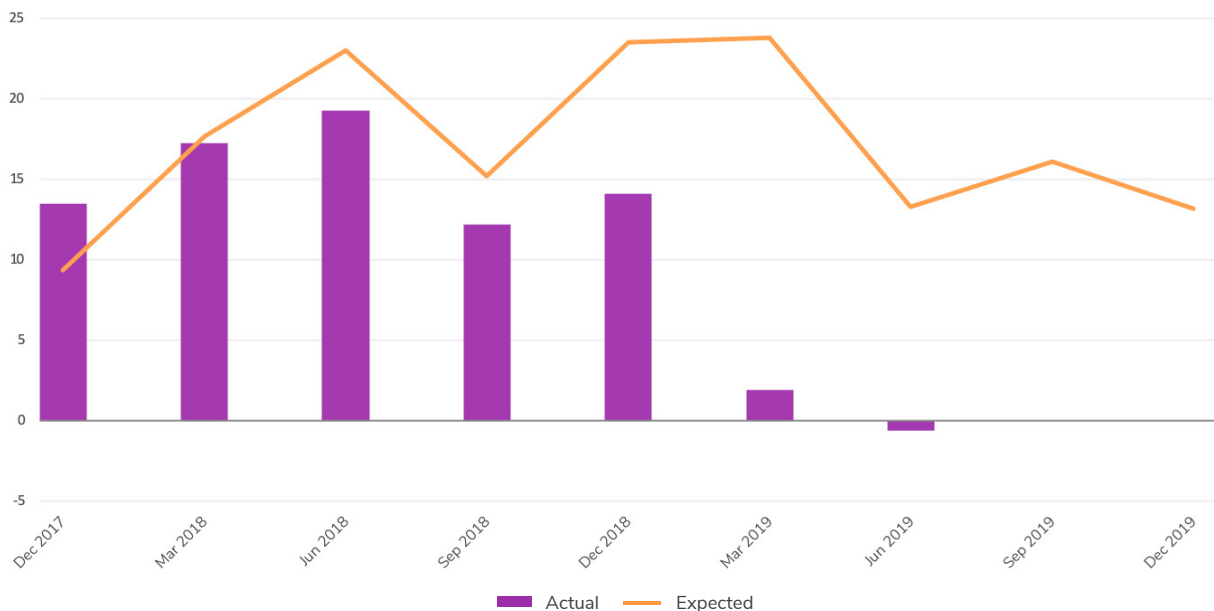
# Construction sector confidence plummets

As foreshadowed by illion's June report on the Australian construction sector, businesses are expecting a difficult December quarter, with the Expectations index plummeting 18 per cent quarter-on-quarter and falling by more than 40 per cent compared with the year-earlier period. The June report also forecast a weakening in activity over the remainder of 2019 – a view now echoed by the latest BEX survey. The sector's poor outlook comes in the wake of a difficult March quarter, with the Actuals index dropping below zero for the first time since September 2016.

“The decline in construction is consistent with official data. The sector is being dragged down by sharp falls in residential construction and a fall in dwelling approvals in recent months, pointing to a declining pipeline of new activity into 2020. However, despite the weakness in new dwelling construction, house prices are recovering from a two-year slump. Low interest rates and generally favourable conditions are likely to spark further strong increases in house prices over the next few years.”

Stephen Koukoulas  
illion Senior Economist

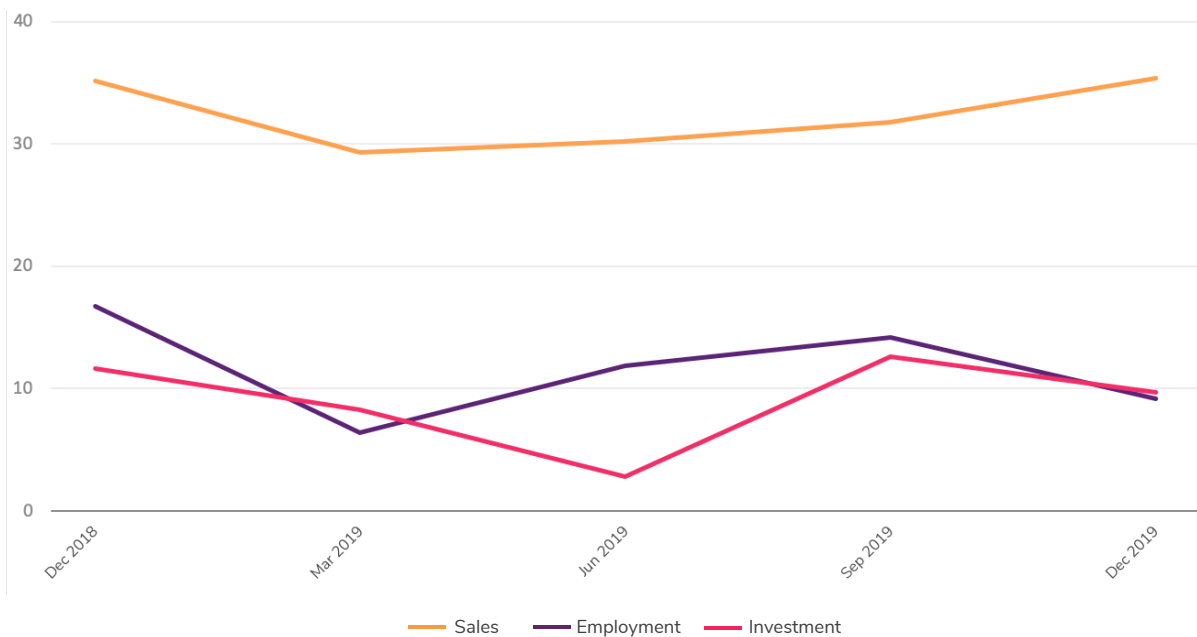
Construction expectations and actual performance



# Retailers hesitant on holiday spend

Despite a slight bump in sales expectations, retailers are hesitant to hire new employees over the Christmas quarter, with employment expectations down by 35.2 per cent on a quarterly basis, and falling by 45 per cent year-on-year. Capital investment is also expected to suffer, with the figure dropping 23 per cent from the last quarter and 16.9 per cent year-on-year.

Retail expectations indices (quarter-on-quarter)



“Following the passing of income tax cuts and the RBA’s recent interest rate reductions, both of which were expected to improve consumer cash flow and spending, there was a short-lived rise in expectations and confidence. However, with the recent official retail sales data for July showing a fall in spending, a mood of pessimism has returned.”

Stephen Koukoulas  
 illion Senior Economist

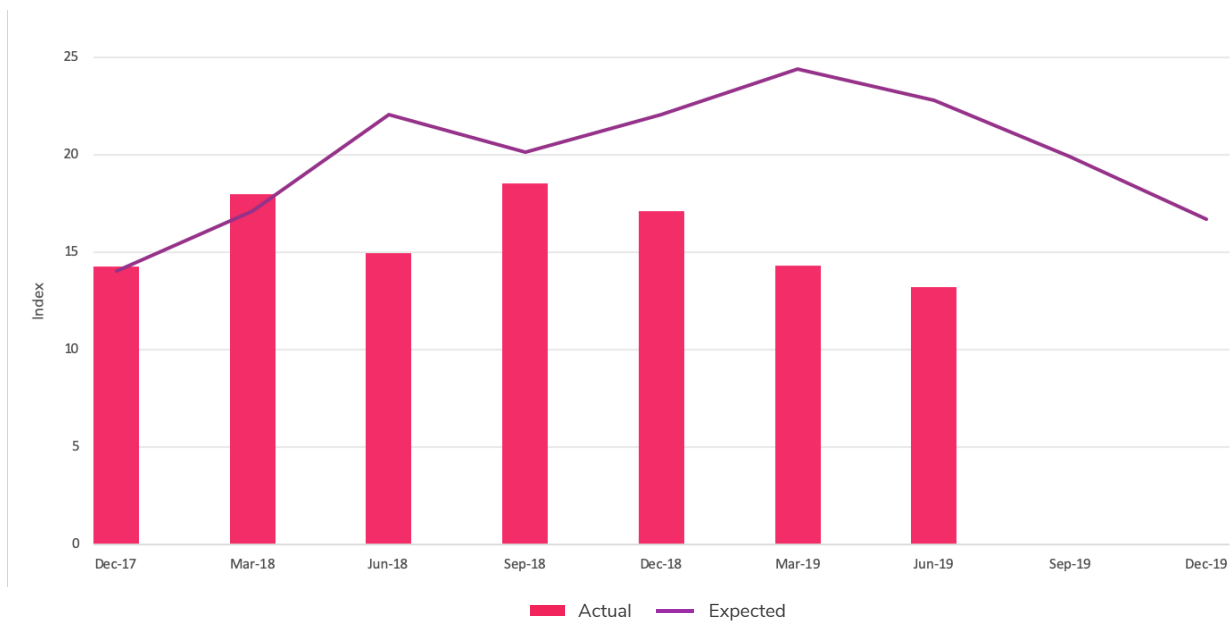
# Selling price increases dampened

Businesses are unlikely to increase their prices over the December quarter, with the Selling Prices Expectations index falling 16 per cent from the prior quarter and nearly 25 per cent year-on-year, bringing the figure to its lowest point since December 2017. In particular, the sharpest year-on-year declines came from the construction sector (down by almost 50 per cent), retailers (36 per cent) and the services sector (35 per cent).

“Businesses are signalling a continuation of low inflation over the near term, with expected selling prices dipping lower in the December quarter. This will be a cause of concern for the Reserve Bank, which is targeting inflation of 2 to 3 per cent. Low inflation has been a key driver of recent RBA rate cuts, and is also the reason why the futures market is expecting further interest rate cuts in coming months”

Stephen Koukoulas  
Illion Senior Economist

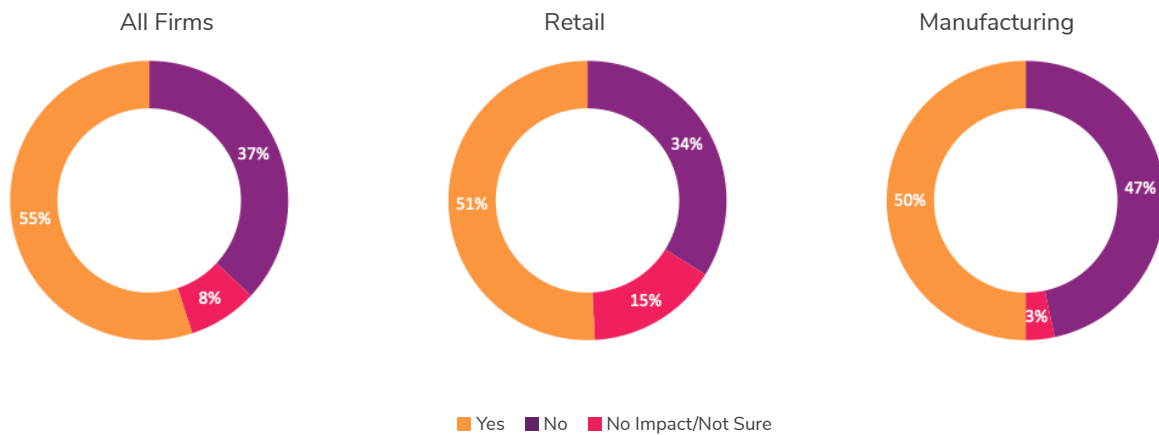
Selling Prices



# Business optimistic about federal government

Businesses are expecting the results of the federal elections in May to have a positive impact on their performance over the remainder of 2019, with 36.9 per cent holding positive expectations, while only 8.1 per cent believed it would negatively impact their operations. Manufacturers were particularly optimistic, with 46.7 per cent expecting a positive impact, although retailers were less convinced, with a positive response of only 33.9 per cent.

Do you expect the results of the recent federal election to have a positive or negative impact on your business over the remainder of 2019?



“The lack of optimism from the retail sector on the impact of the new federal government may reflect weak sentiment within the sector. However, the result is still somewhat surprising, considering the income tax cuts which accompanied this year’s tax returns.”

Stephen Koukoulas  
Illion Senior Economist



# 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 indices for the latest quarter are based on approximately 1,200 responses obtained during July, August and September 2019.

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Have a question?  
Contact us today.

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