

2nd Quarter Analysis 2018  
Preliminary Report

# Australian Business Expectations Survey



# Profits Exceed Expectations

## Business outlook bright for Q2

Confidence continues to rise as Australian businesses predict healthy profits well into the year, according to illion's latest Business Expectations Survey. The Preliminary survey for the June quarter boosted the Business Expectations Index to its highest level since December 2003, representing a 31% annual rise.

“ Businesses continue to anticipate a strong first half of 2018 with the illion Business Expectations Survey lifting to its highest level since 2003. Of great encouragement also was a sharp rise in the 'actual' performance of the business sector, a result which bodes well for the official December quarter GDP data which are not released until 7 March. ”

Stephen Koukoulas  
illion Economic Adviser

“ Momentum from the March quarter forecast appears to have carried over for the Q2 outlook. The Preliminary report for a quarter always provides interesting results, so we'll wait to see how this unfolds over the next two months. Despite the buoyant mood among business, consumer sentiment remains the key factor for converting optimism into results and for that to rise sustainably we need to see wages grow. ”

Simon Bligh  
illion CEO



Profits Actuals  
exceeds  
Expectations



Expectations for  
Selling Prices  
rise 77.5%



Skilled labour shortage  
an issue for 1 in 3  
Construction firms



Wholesale  
Expectations Index  
highest since 2003

# Expectations Continue to Rise

illion's Business Expectations Survey reveals business confidence has reached its highest level since Q4 2015. The positive outlook was supported by the Business Actuals Index, which at 15.8 points has risen 80.6 percent in a year and is now at its highest level since March 2004. Expectations in the Construction industry have increased to 17.7 points, a level almost three times higher than the same time last year. Meanwhile manufacturing confidence is at the highest level since June 2003.

“ The main driver of this positive tone was a sharp upswing in profits, although the other components of survey – sales, selling prices and employment were also higher. The broad-based nature of the lift in business expectations bodes well for the economy in the near term, which is likely to confirm the RBA will hold interest rates steady. ”

Stephen Koukoulas  
illion Economic Adviser

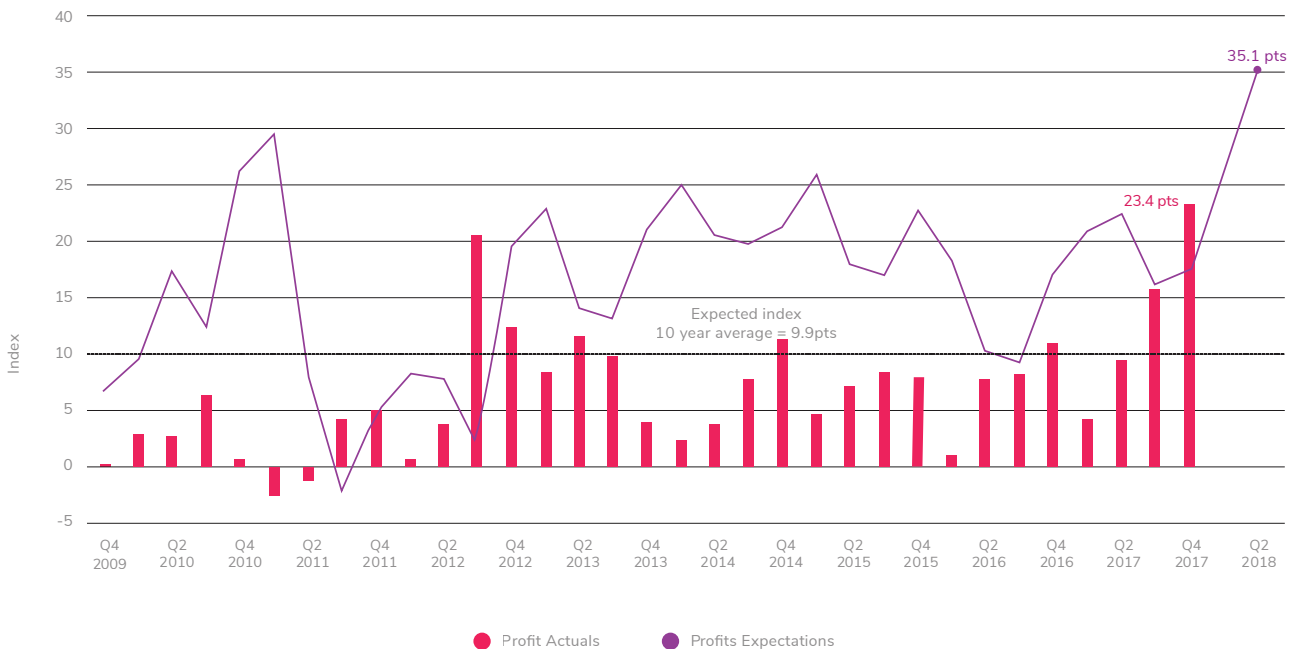
Business Expectations Index - Q1 2018



# Actual Profits Beat Expectations

Profits continues to serve as the key driver pushing the headline index higher. At 31.1 points the Profits Expectations index has increased 55 percent year-on-year, reaching its highest level since December 2003. The surge in optimism is underpinned by the Actuals index for Profits, which for the final quarter of 2017 surpassed expected results, the first time this has happened in almost six years. Among the sectors, expectations for Profits were highest for Wholesale (49 points) and Services (46.4 points).

Profits Expectations vs Actuals



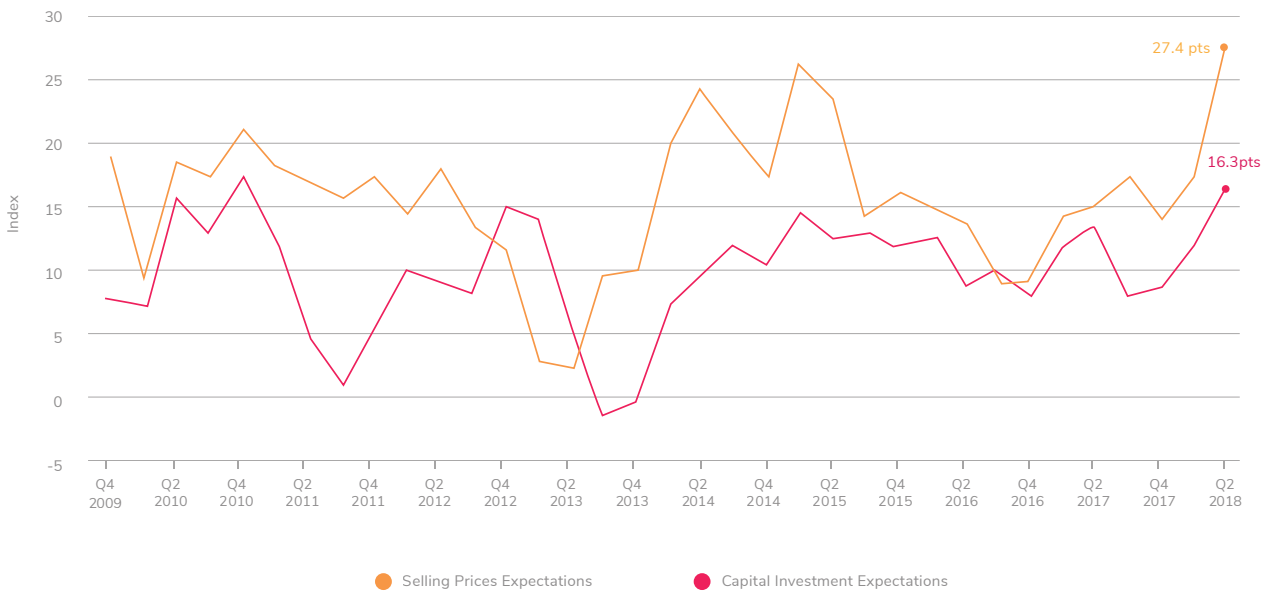
“ The standout factor in the illion survey was the sharp rise in expected profits and the fact that actual profits in the December quarter exceeded expectations. It is noteworthy that these profit expectations are occurring at a time when the ASX is trading at its highest level in a decade. Profits are likely being boosted by a mix of solid sales growth, low interest rates and low wage payments. ”

Stephen Koukoulas  
illion Economic Adviser

# Higher Prices Boosting Investment?

Selling Prices has historically served as a leading indicator for Capital Investment Expectations, so the current trajectory is a highly encouraging sign for business investment. At 27.4 points, the Selling Prices Index has increased 77.5% since the same time last year.

Selling Prices and Capital Investments - Q2 2018



“ After several years of weakness, capital investment edged higher during the first half of 2017. Expected capital investment has risen further in the first half of 2018, reaching its highest level since December 2010. Based on these results, capital expenditure will provide a solid foundation for the economy into 2018. The Selling Prices index rose to its highest level since 2009, well above the 10 year average of 21.9 points. Low inflation has been a critical factor in allowing the RBA to leave interest rates at 1.5 percent. Should the surge in expected selling prices feed into a lift in actual inflation by the middle of 2018, the RBA will be pleased to have inflation back within the 2 to 3 per cent target band. ”

Stephen Koukoulas  
illion Economic Adviser

# Who Gets Paid Last?

Historically suppliers have drawn the short straw when businesses are struggling to pay bills. We have noticed a more recent trend, however, which has seen credit cards emerge as the most likely option for a missed or late payment for some sectors.

**Q: If you find yourself unable to pay all of your bills, which would you choose to pay late/miss?**

These were the top responses by sector:

## Suppliers



48.7%  
Manufacturers



41.7%  
Wholesale



38.2%  
Transport,  
Communication & Utilities



36.6%  
Construction

## Business credit card



41.5%  
Retail



28.6%  
Finance, Insurance  
& Real Estate



25.0%  
Services

“

In a potential warning for banks, business have indicated an increasing tendency to miss a credit card payment if confronted with cash flow problems. With other illion data confirming [a rise in personal bankruptcies](#) through 2017, any disappointment in economic conditions would show up in credit stress for businesses. ”

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 400 responses obtained during January 2018.

Have a question?  
Contact us today.

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