EMBARGOED: 1.00am, Tuesday 4 February 2014

MEDIA RELEASE

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SALES EXPECTATIONS HIT 10-YEAR HIGH

Higher selling prices raise inflation concerns

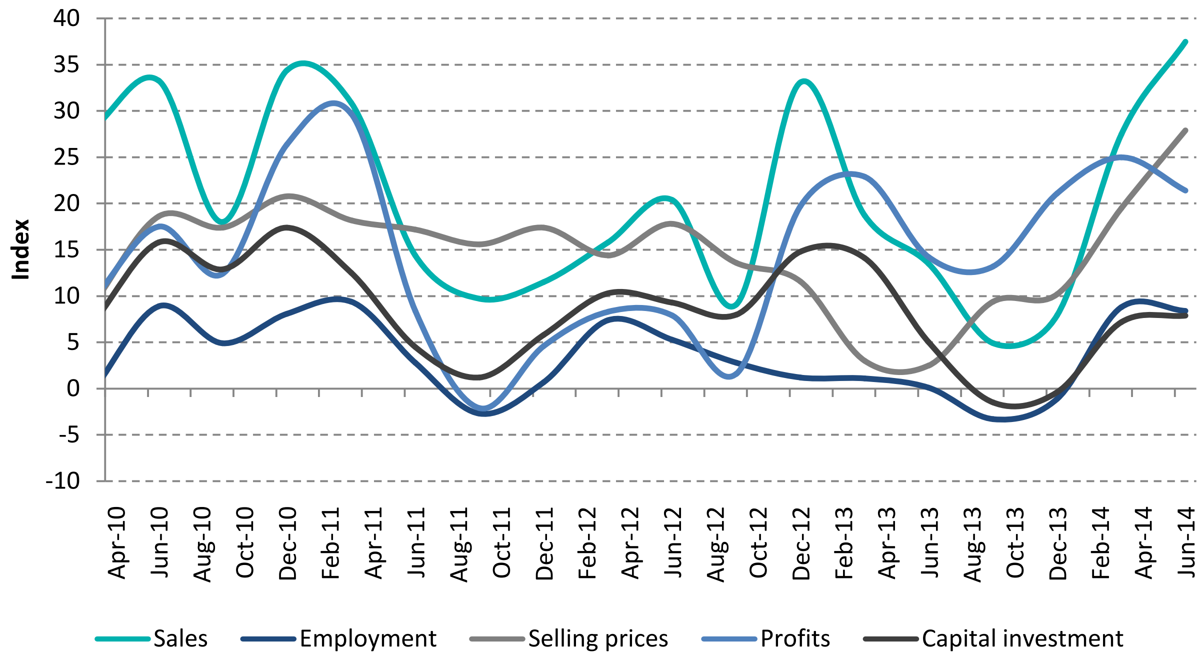
The outlook for stronger sales activity has surged to a 10-year high, with 47 per cent of businesses expecting increased trade during the June quarter as confidence builds about the year ahead.

Findings from Dun & Bradstreet's latest *Business Expectations Survey* show the sales expectations index has risen for a third consecutive quarter to hit 37.5 points for Q2 2014, its highest level since Q4 2003.

According to D&B, business confidence has been building since the final quarter of 2013, with a lower Australian dollar, record-low interest rates and healthy Christmas trade feeding through to a stronger 2014 outlook. Most recently, the *Business Expectations Survey* has found that 70 per cent of businesses are more optimistic about growth this year compared to 2013. In addition, 38 per cent expect higher profits, 20 per cent intend to borrow to expand their business, and 32 per cent do not see any major barrier to their growth.

Although a lower currency and borrowing costs are supporting domestic consumer spending and have eased operating conditions for many businesses, D&B's survey indicates that inflationary pressures are building. The selling prices index for the June quarter has jumped to 27.9 points, its highest level since Q3 2009, as 35 per cent of businesses indicate they will raise prices compared to seven per cent which plan to discount. This outlook follows recent official inflation numbers showing a 0.8 per cent jump in the consumer price index for the December quarter.

Business expectations: Q2 2014



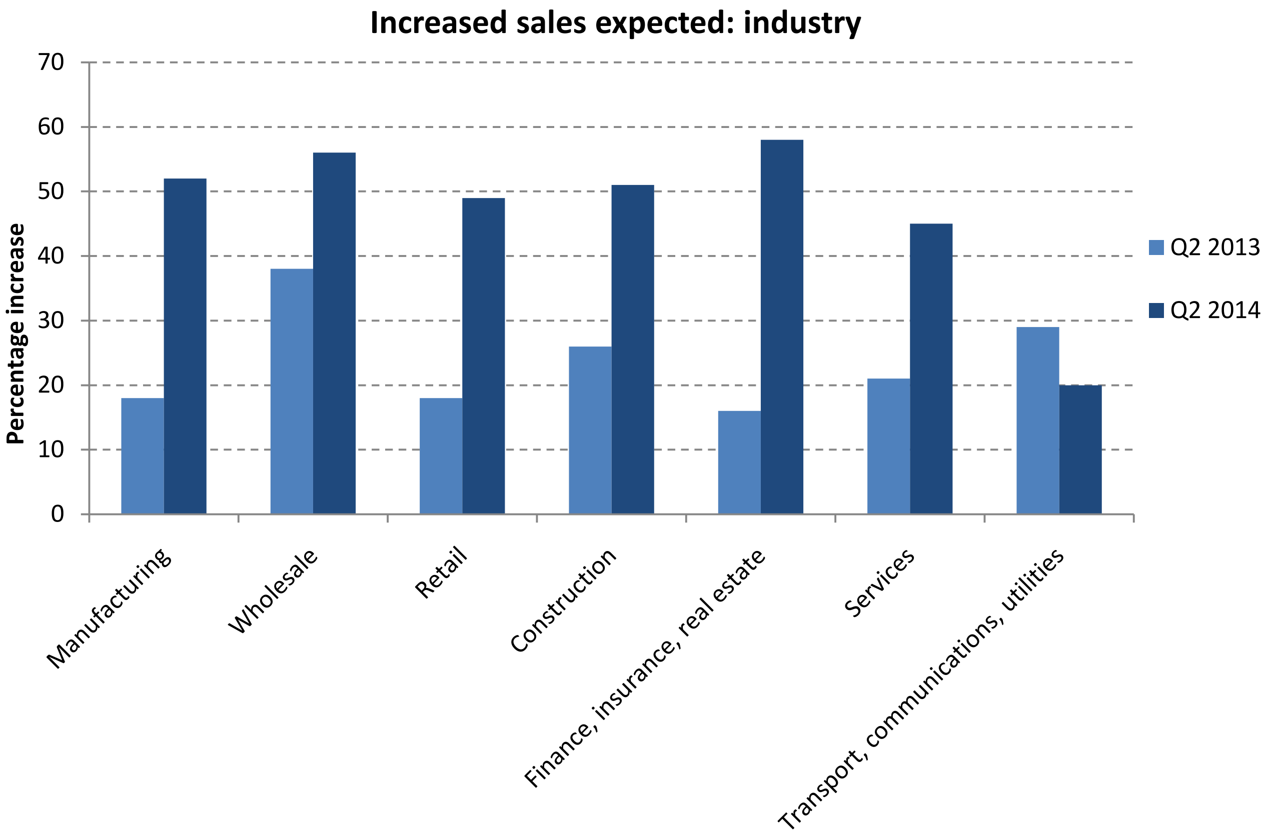
"The steep lift in sales expectations is a confident statement from the business sector, which is viewing this year with healthy levels of optimism," said Gareth Jones, CEO of Dun & Bradstreet.

"These recent findings consolidate a broad pick-up in the business outlook that was first observed in the final quarter of last year with more positive expectations for sales, profits, employment and investment.

"Of equally positive note, firms are reporting fewer obstacles to growth this year and revealing a greater willingness to start accessing credit to expand their operations.

"Among the survey's findings, however, the continued rise in the selling price index and forecasts of higher unemployment this year have the potential to curb future sales activity," Mr Jones added.

With the exception of the transport, communications and utilities sector, an improved sales outlook has been reported across all industries surveyed. The finance, insurance and real estate sector is particularly positive, with 58 per cent expecting increased sales in Q2 2014, compared to 18 per cent at the same time last year.



"The upswing in the economy continues to unfold, although the only moderate levels for expected employment and capital expenditure suggest a fully-fledged upswing may still be a few months away," said Stephen Koukoulas, Economic Adviser to Dun & Bradstreet.

"It is encouraging to see a strong lift in firms' expected sales; a sure sign that GDP growth is on track to accelerate in the first half of 2014.

"It appears that inflation pressures are building rapidly, with expected selling prices surging to a five-year high," Mr Koukoulas added.

"This price outlook from the business sector follows the recent official inflation data which confirmed an uncomfortably sharp rise in inflation over the latter part of 2013. The expectations for higher selling prices suggest even more upside inflation risks into 2014.

"For the RBA, the *Business Expectations Survey* is good news. The economy is clearly responding to an easy monetary policy and the lower Australian dollar – perhaps too well, and it would be no surprise to see it start hiking interest rates in the months ahead."

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The latest D&B *National Business Expectations Survey* shows:

Outlook for the June quarter 2014

- The employment expectations index has eased to 8.4 points, down from 8.8 points in the previous quarter, although higher than its 0.1 points a year earlier.
- The sales index has risen strongly to 37.5 points, up from 27.5 points in the previous quarter and 13.5 points from a year earlier.
- Profit expectations for the quarter ahead have flattened out, with the index easing from 25 points last quarter to 21.4 points.
- Plans for capital investment have increased for a second consecutive quarter, lifting from 7.2 points to 8.0 points.
- The selling prices index has jumped to 27.9 points, up from 19.5 points last quarter and from 2.5 points a year earlier.

Issues expected to influence operations in the June quarter 2014

- 70 per cent of businesses are more optimistic about growth in 2014 compared to 2013, while 25 per cent are less optimistic. Five per cent are undecided.
- Cash flow is identified as the issue most likely to influence business operations in the next quarter (28 per cent), followed by the level of the dollar (22 per cent), and wages and salary growth (12 per cent).
- 42 per cent of businesses have had customers or suppliers that became insolvent, or were otherwise unable to pay them, during 2013.
- 49 per cent of businesses would choose to miss payments to suppliers if unable to pay all their bills on time, followed by their business credit card (17 per cent) and utilities bills (10 per cent).
- 36 per cent of businesses expect no impact from the current level of the Australian dollar, while 27 per cent expect a positive impact and 31 per cent a negative impact. Six per cent is undecided.
- 20 per cent of businesses intend to seek finance or new credit in the quarter ahead to help their business grow, while 78 per cent will not. Two per cent is undecided.

Actual results for the December quarter 2013

- Actual employment levels increased from 1.8 points to 3.3 points, keeping the index in positive territory for a second consecutive quarter.
- Reported sales activity improved for the second consecutive quarter to reach 20.6 points, up from 7.5 points in the September quarter.
- Profits eased in Q4 2013 to 4.8 points, down from 9.9 points in the previous quarter.
- Capital investment activity consolidated, lifting from 5.3 points in the quarter previous to 8.3 points.
- Selling prices strengthened, rising from 15.3 points to 18.2 points quarter-on-quarter.

About Dun & Bradstreet

Established in 1887, Dun & Bradstreet is Australia and New Zealand's oldest credit information bureau. Backed by its extensive financial database, D&B helps businesses to make informed credit decisions, and consumers to access personal credit information.

D&B works across the entire credit lifecycle to deliver data-driven solutions in sales and marketing, credit reporting and debt management.

Through analysis of financial and behavioural information, D&B also provides current and predictive assessments of the economy, business conditions and credit activity.

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About the Survey

Each month business owners and senior executives representing the manufacturing; wholesale; retail; construction; transport, communications and utilities; finance, insurance and real estate; and services sectors across Australia are asked if they expect increases, decreases or no changes in their upcoming quarterly sales, profits, employment, capital investment and selling prices. Since its introduction in Australia in 1988, the survey has proven to be a highly reliable measure of economic performance.

The index figures used in the survey represent the net percentage of survey respondents expecting higher sales, profits, etc., compared with the same quarter of the previous year. The indices are calculated by subtracting the percentage of respondents expecting decreases from the percentage expecting increases.

Methodology

Each month D&B 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.

The Australian survey began in March 1988 obtaining some 900 responses in the third month of each quarter. Since the middle of 1999, the survey has been conducted monthly, initially with about 300 responses each month. From September 2000, responses have been obtained from 400 executives each month.

From July 2005, to simplify the interpretation of the survey data, the results have been presented as a sequence of preliminary, interim and final indexes. The 400 responses from the first month of each quarter give preliminary estimates of the quarter-ahead expectations and the quarter behind actual indexes. The 400 responses from the second month of the quarter are combined with those from the first month as interim estimates of the indexes based on 800 responses. The 400 responses from the third month are combined with those from the first two months to give the final expectations and actual indexes based on all 1,200 responses obtained during each quarter.

In this issue, the initial indexes for the latest quarters are based on 411 responses obtained during January 2014.

Charts and tables

It is common practice to present the results of business expectations surveys as indexes showing the net balance of the positive and negative responses. However, this method of aggregating responses loses relevant information about the relative proportions and rates of change of the two (positive and negative) groups.

Accordingly, the detailed charts at the top of pages five to nine in the D&B *National Business Expectations Survey* show separately the positive and negative components of each of the various indexes. These charts help provide a better insight into the expectations and performance of Australian business than that shown by movements in the simple aggregation of the positive and negative responses.

The aggregate net balance indexes are shown in the charts at the bottom of pages 5 to 9.

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Sales outlook

(Quarterly Net Index) (Up from 27.5 to 37.5)

The positive and negative components of the D&B net indexes are shown in the adjacent chart.

Expectations

The March quarter 2014 sales expectations index is 37.5 points, up from 27.5 points in the previous quarter.

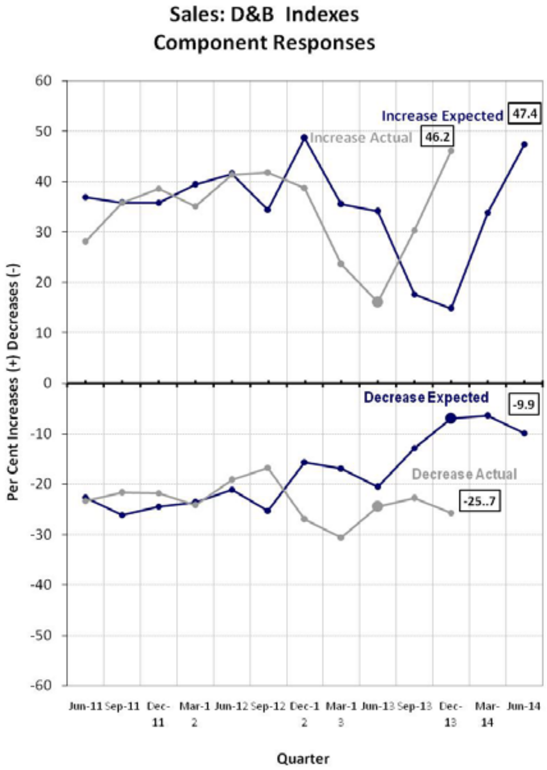
The index is now above its 10-year average of 12 points.

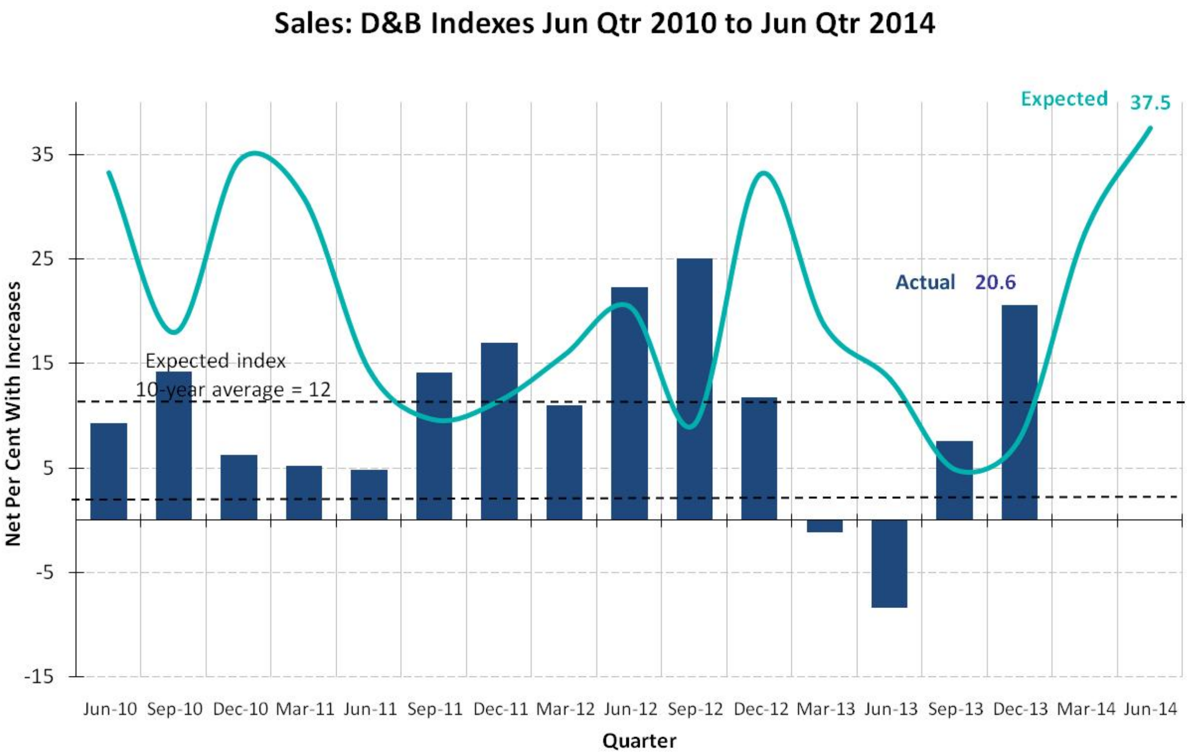
47.4 per cent of businesses expect an increase in their sales, while 9.9 per cent forecast a decrease, compared to the previous time last year.

Actual performance

The actual sales index for the December quarter is 20.6 points, an increase from 7.5 points in the previous quarter.

46.2 per cent of firms increased their sales in the December quarter and 25.7 per cent had decreased sales compared to the previous year.





Profits outlook

(Quarterly Net Index) (Down from 25.0 to 21.4)

The positive and negative components of the D&B net indexes are shown in the adjacent chart.

Expectations

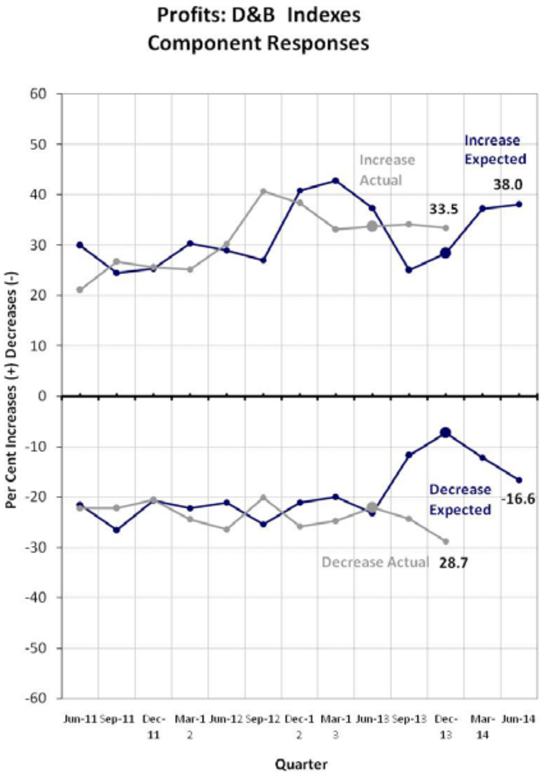
The outlook for profits in the June 2014 quarter is an index of 21.4 points, a decline from 25.0 points in the previous quarter. The outlook for profits is 15 points above the 10-year average index of 6.

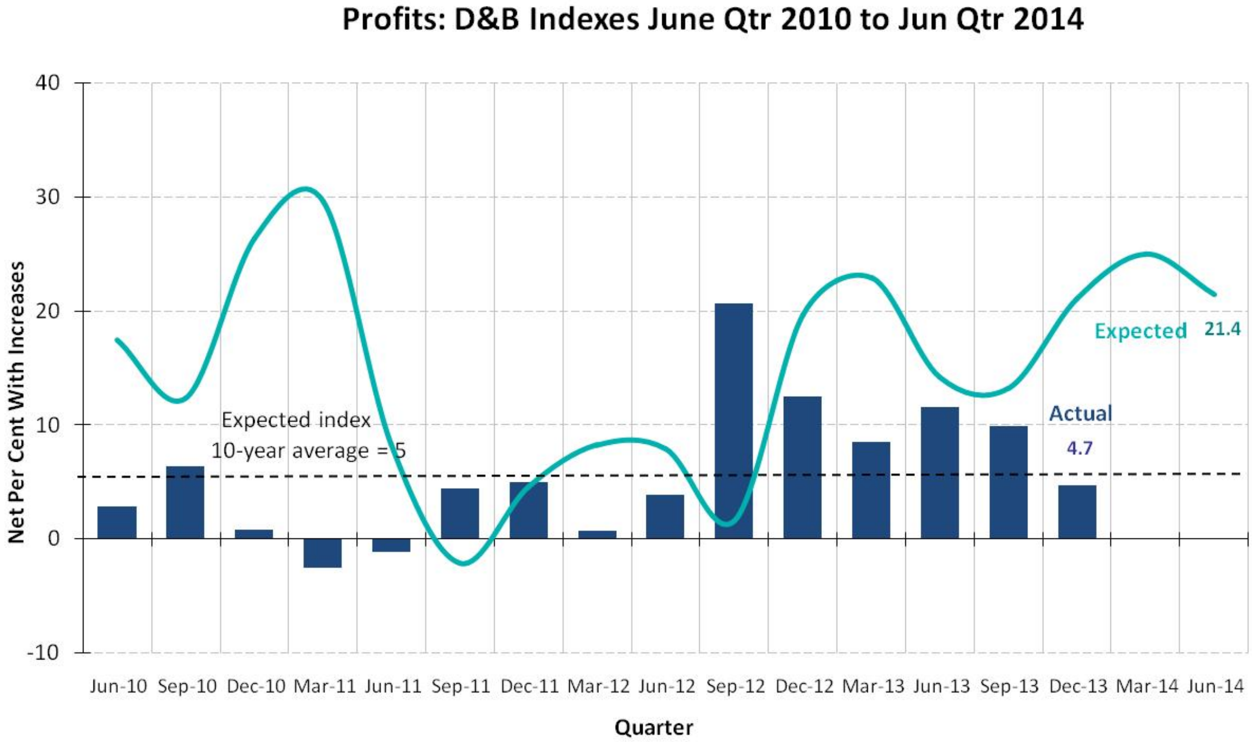
38 per cent of businesses expect an increase in their profits during the June quarter, while 16.6 per cent forecast a decrease, compared to last year.

Actual performance

The actual net profits index for the December 2013 quarter is 4.7 points, down from 9.9 in the previous quarter.

33.5 per cent of businesses increased their profits, while 28.7 per cent experienced a decrease.





Employment outlook

(Quarterly Net Index) (Down from 8.8 to 8.4)

The positive and negative components of the D&B net indexes are shown in the adjacent chart.

Expectations

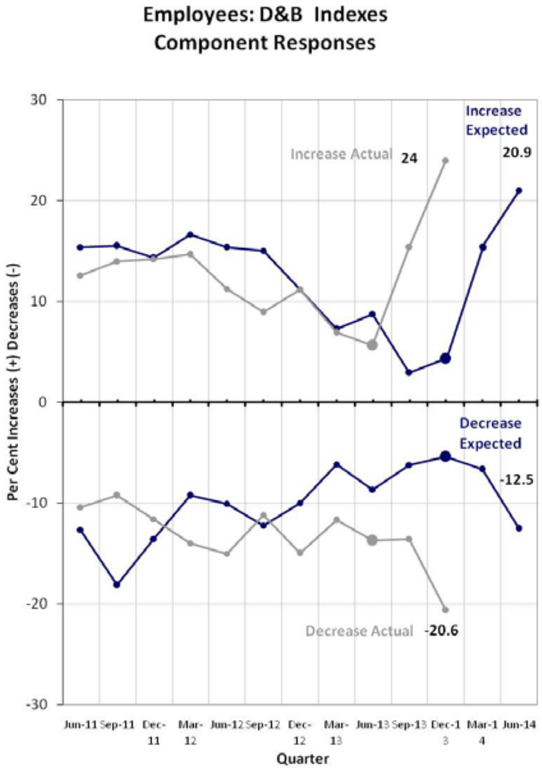
The employment outlook for the June quarter 2014 has eased to 8.4 points, from 8.8 points in the previous quarter.

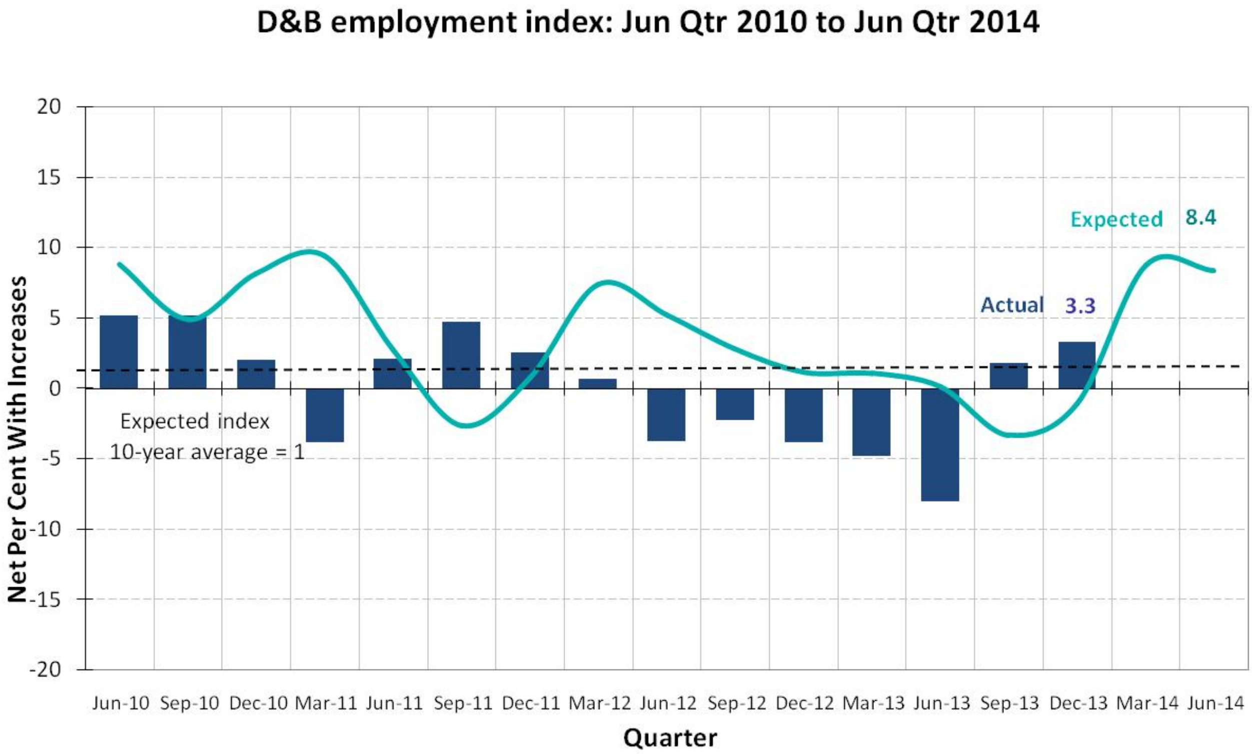
20.9 per cent of executives expect to employ more staff than compared to year ago, while 12.5 per cent expect to decrease their staff numbers.

Actual performance

In the December quarter, 23.9 per cent of businesses hired new staff, compared to the 20.6 per cent that reduced their employment levels.

At 3.3 points, the actual index increased from 1.8 points in the previous quarter.





Capital Investment outlook

(Quarterly Net Index)(Up from 7.2 to 8.0)

The positive and negative components of the D&B indexes are shown in the adjacent chart.

Expectations

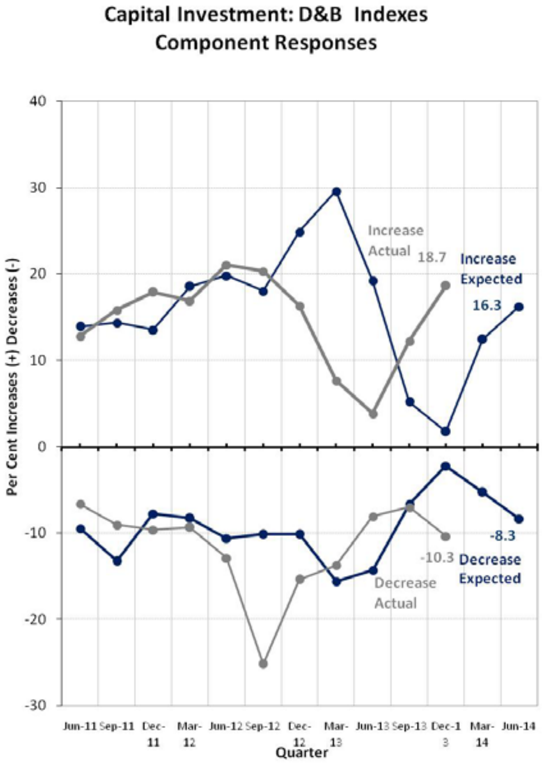
The capital investment outlook for the June quarter 2014 is up from 7.2 points to 8 points.

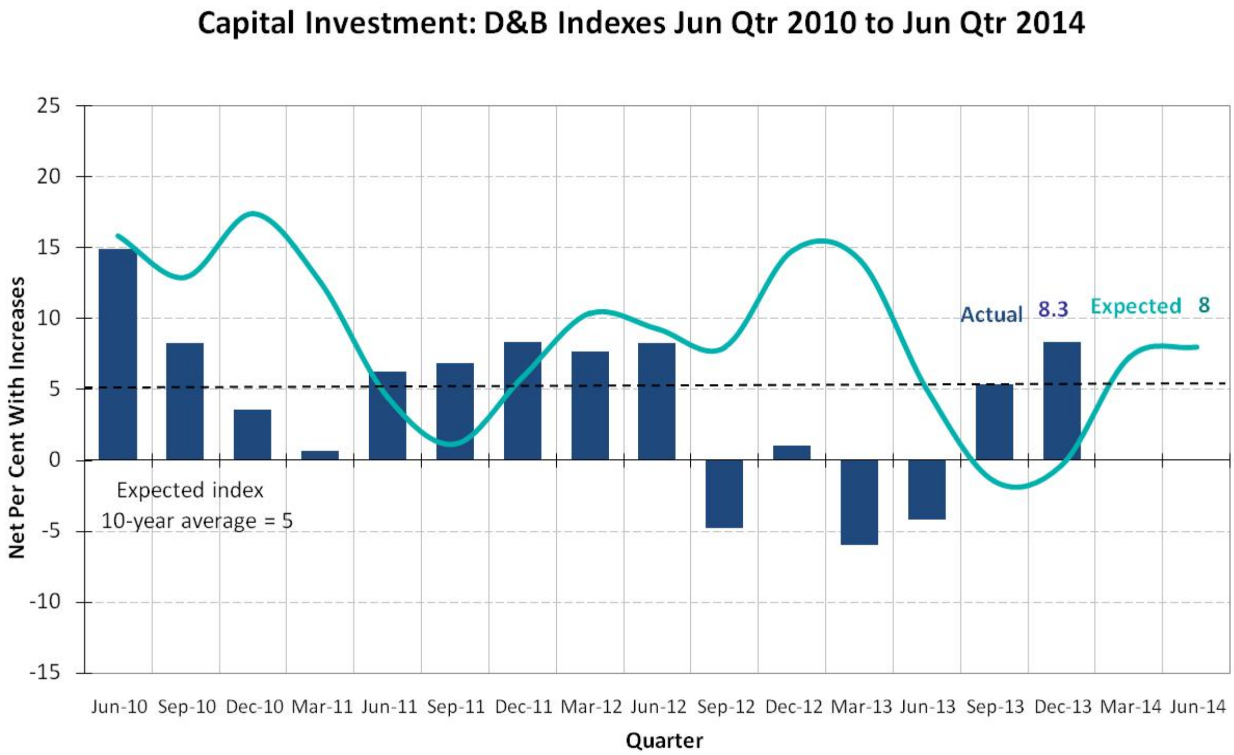
16.3 per cent of businesses expect an increase in their investment level, while 8.3 per cent forecast a decrease compared with a year earlier.

Actual performance

For the December quarter 2013, the actual index for investment is 8.3 points.

18.7 per cent of firms increased their capital investment in the December quarter while 10.3 per cent decreased capital spending.





Selling Prices outlook

(Quarterly Net Index) (Up from 19.5 to 27.9)

The positive and negative components of the D&B net indexes are shown in the adjacent chart.

Expectations

The selling prices expectations index for the June quarter 2014 is 27.9 points, up from a level of 19.5 in the previous quarter.

The proportion of firms expecting to have higher selling prices in the March quarter 2014 is 34.6 per cent, with 6.6 per cent expecting to have lower prices.

Actual performance

At 18.2 points, the actual prices index for the June 2013 quarter has increased from 14.9 points in the previous quarter.

30.5 per cent of businesses increased the level of their selling prices, while 12.2 per cent had decreased, compared to the same time the previous year.