

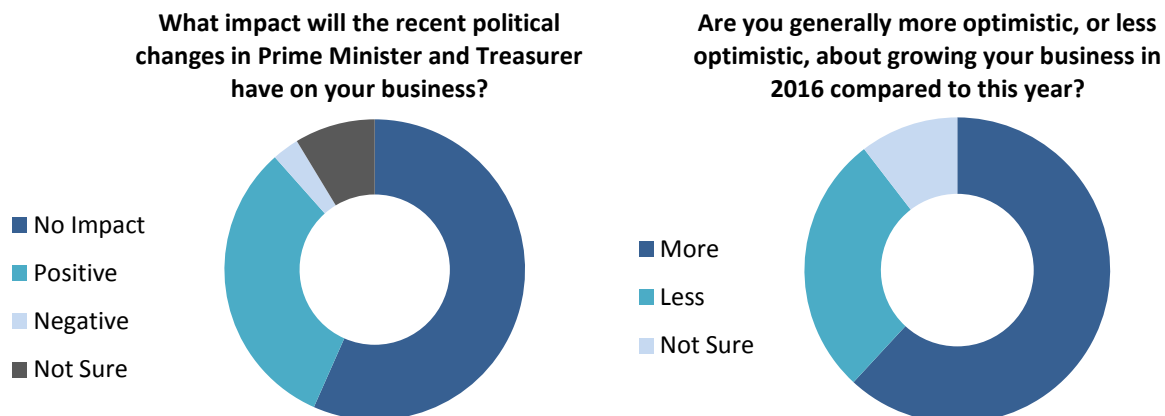
EMBARGOED – 1:00 am, Tuesday 3 November 2015

Leadership change fails to boost confidence

The optimism seen in September's *Business Expectations Survey* has waned in October, with businesses flagging a drop in sales, selling prices, employment, profit and investment in the first quarter of 2016. A decrease across all expected indices has not been seen since the June quarter of 2013.

Dun & Bradstreet's Business Expectations Index, the average of the survey's measures of sales, profits, employment and investment, has dropped to 17.7 points for Q1 2016, down from 21.8 points for Q4 2015. However, the index is still up slightly from the low of 17.2 points recorded for Q3 2015.

The disparity between expected activity and actual activity has narrowed to 5.4 points in the September quarter, down from 9.9 points in the June quarter and significantly lower than its annual high of 17.3 points in the March quarter of 2015.



While the Business Expectations Index for Q1 2016 has edged lower, the measure of optimism remains relatively high, with 62 per cent of businesses feeling more optimistic about growing their business in 2016 compared to 2015, down slightly from 66 per cent in the previous quarter. However, the recent change in Prime Minister and Treasurer does not appear to have influenced the general outlook, with 57 per cent of respondents expecting no change to their business operations as a result of the leadership spill. It is worth noting that, of the remainder, 32 per cent expect a positive impact, with just 3 per cent expecting a negative impact, while 9 per cent are unsure.

According to Adam Siddique, Head of Group Development at Dun & Bradstreet, the latest results suggest business remains in a strong position, but underlying demand is insufficient to spur investment and borrowing.

"The business sector has delivered a broadly positive or indifferent response to the changes in Canberra, although this hasn't translated into more optimistic expectations. It seems businesses need more time to gauge what, if any, impact the new leadership will have on their outlook.

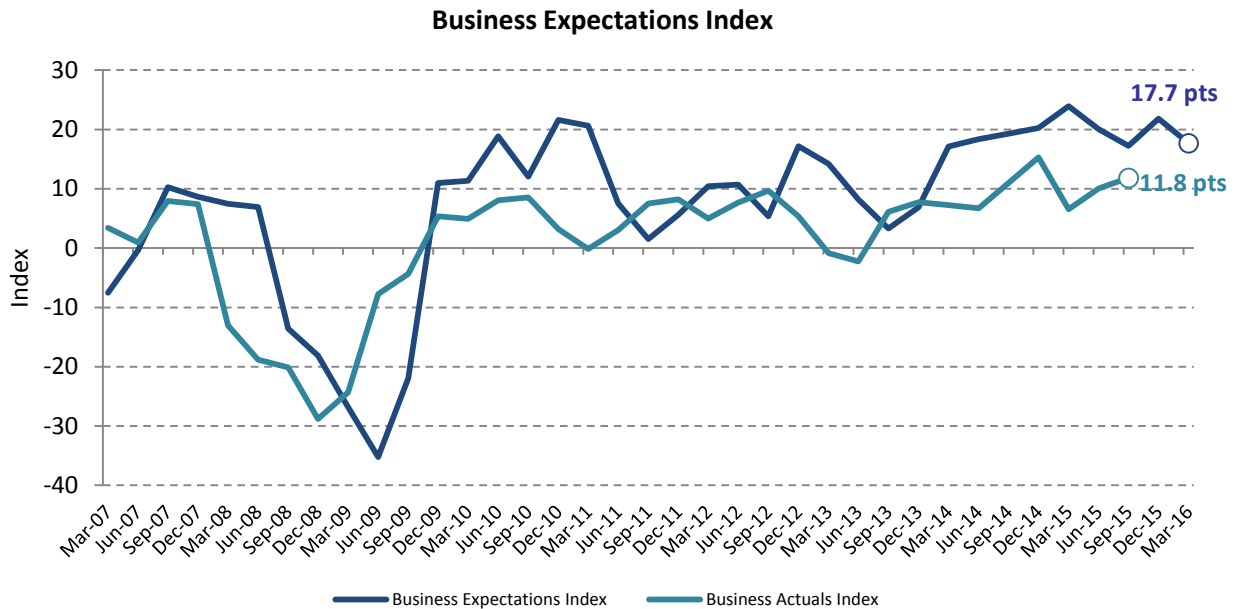
"While preliminary, these latest results also indicate a concerning downward trend across all key readings. Combined with our recent *Trade Payments Analysis* report, we're increasingly seeing a corporate landscape

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comprised of businesses with strong balance sheet positions, but lacking the confidence to exploit the generally benign economic conditions through borrowing or investment of surplus capital,” Mr Siddique said.

“The deciding factors that could break the deadlock remain demand and consumer confidence. The subsequent surveys will demonstrate whether businesses expect these key metrics to shift significantly in the short- to medium-term,” he added.



The Business Expectations Index is an aggregate of the survey's measures of sales, profits employment and investment expectations.

“The narrowing of the gap between expectations and actual results is good to see, as it indicates business owners are better able to assess demand, which will enable them to identify revenue generating price points for goods and services,” Mr Siddique said.

The decline in business expectations was observed across six of the seven industries surveyed, with Construction the exception. Within the construction sector, all expected indices for the March quarter increased. The sharpest rise was in the Sales Index, which surged from 30.7 to 44.9 points.

Meanwhile, all industries except Wholesale and Transport, Communications & Utilities reported an increase in business activity for the September quarter. The Wholesale sector's Business Actuals Index dropped from 15 points in the June quarter to -3.3 points in the September quarter, while the Transport, Communications & Utilities Business Actuals Index fell from 14.1 points to 6.8 points.

The lowered expectations for the March quarter come despite an increase in the Sales, Employment and Profit Actual Indices for the September quarter, bringing the Business Actuals Index up to 11.8 points from 10.1 points in the previous quarter.

Capital Investment was the only actuals index that fell in Q3, dropping to 6 points, down from 8.3 points in Q2.

Some 19 per cent of businesses said they had increased capital investment spending in the September quarter, while 11 per cent said they had decreased spending in this area. The vast majority (62 per cent)

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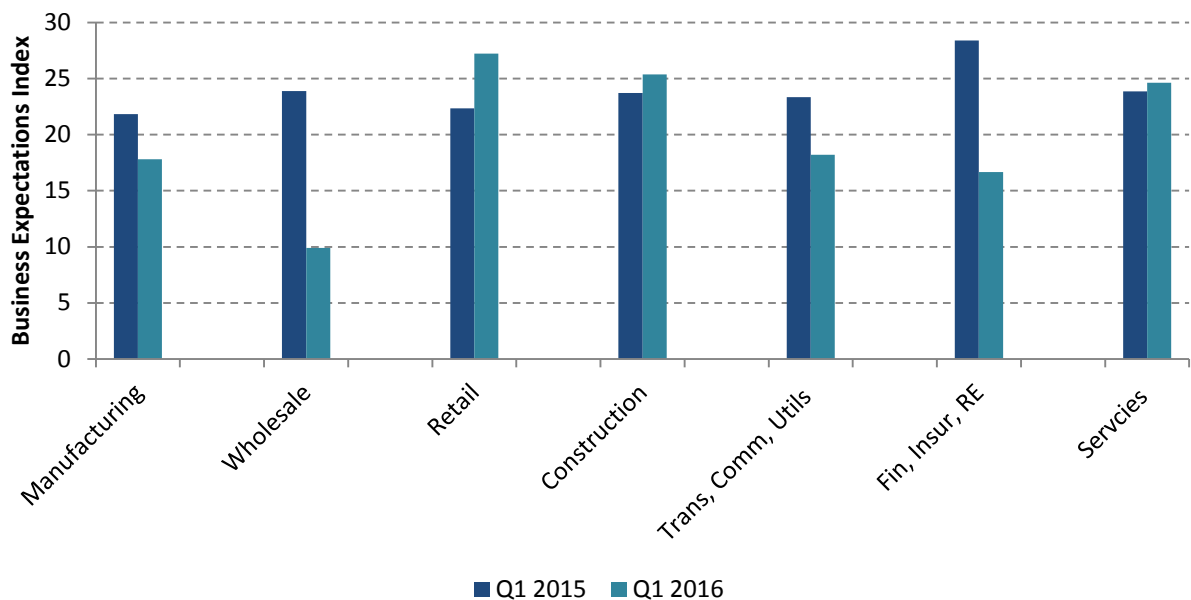


said they had not made any change to their capital investment spend in Q3, or were unsure. This trend was neatly reflected by Capital Investment expectations for the first quarter of 2016, with 21 per cent of businesses saying they expect to increase spending, 11 per cent expecting to spend less and 60 per cent expecting no change/unsure. Borrowing intentions remained low, with 75 per cent of businesses saying they were unlikely to seek finance or credit in Q1 2016.

According to Stephen Koukoulas, Economics Advisor to Dun & Bradstreet, “The recent political changes in Canberra have not been enough to see the business sector maintain its previously quite upbeat expectations for the economy. Indeed, since the change in leadership, the Business Expectations Index has dropped to its lowest level since the survey was conducted in the June quarter of 2015.

“The majority of businesses think that the political changes will have no impact on their activity even though one-third are expecting Mr Turnbull as Prime Minister to have a policy structure that will improve their business prospects”, Mr Koukoulas said.

Q1 2015 vs Q1 2016 by industry



“More worryingly, all of the main sub-components are trending lower; most notably, the key readings for expected sales, employment and capital expenditure are pointing down. This does not bode well for the economy as 2015 draws to an end and 2016 approaches. It is a sharp reversal from the generally upbeat tone to business expectations that prevailed throughout most of 2015,” Mr Koukoulas added.

“The faltering in business conditions leaves open the possibility of the RBA cutting interest rates some time in future, although for now, it will be hoping that its more upbeat view for the economy for 2016 will be delivered with the current level of interest rates”, Mr Koukoulas noted.

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For more information please contact:

James Malkin
malkinj@dnb.com.au
+61 3 9828 3273

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The latest D&B Business Expectations Survey shows:

Expectations index for the March quarter 2016:

- The **Employment** Expectations Index has decreased to 12.4 points, down from 14.5 points in the previous quarter and 16.1 points a year ago.
- The **Sales** Expectations Index has dropped to 33.0 points, down from 38.0 points in the previous quarter and 38.7 points a year ago.
- **Profits** expectations for the quarter have fallen to 17.8 points, compared to 22.9 points in the previous quarter and 25.9 points at the same time last year.
- Plans for **Capital Investment** are down to 7.5 points from 11.9 points in the previous quarter and 14.9 points in Q1 2015.
- The **Selling Prices** Expectations Index has dropped back to 13.7 points, down from 16.2 points in the previous quarter and 26.3 points at the same time last year.

Issues expected to influence operations in the March quarter 2016:

- 62 per cent of businesses are **more optimistic** about growth in the next 12 months compared to 2015, while 28 per cent are less optimistic and 10 per cent are undecided.
- **Consumer confidence** (34 per cent) is identified as the issue most likely to influence business operations in the next quarter, followed by the **level of the dollar** (16 per cent) and **cash flow** (14 per cent).
- 21 per cent of businesses see **weak demand for their products and services** as the biggest barrier to growth in the year ahead, while 15 per cent see **utilities and operating costs as the biggest barrier**. 13 per cent consider **a shortage of skilled labour** and another 13 per cent view **cash flow** as the main barrier.
- 32 per cent of businesses reported having a customer or supplier that became **insolvent**, or was otherwise unable to pay them in the past year.
- 43 per cent of businesses would choose to miss payments to **trade suppliers** if unable to pay all their bills on time, followed by a **business loan or overdraft** (18 per cent) and a credit card (14 per cent).
- 30 per cent of businesses would prefer a **higher Australian dollar** and 18 per cent a **lower dollar**, while 47 per cent think that **it doesn't matter**.
- 16 per cent of businesses intend to seek **finance** or **new credit** in the quarter ahead to help their business grow, while 75 per cent will not. 9 per cent are undecided.
- While the majority (57 per cent) of businesses say the recent **change in Prime Minister and Treasurer** will have **no effect** on their business, 32 per cent expect it to have a **positive impact**, with just 3 per cent expecting a **negative impact**.

Actual results reported for the September quarter 2015:

- **Actual employment** reported is up to 7.1 points from 5.6 points in the previous quarter, but down from 8.5 points last year.
- **Sales** activity increased to 21.6 points, up from 19.0 points in the previous quarter and 17.3 points last year.
- The **Actual Profits Index** surged from 7.3 points in Q2 2015 to 12.5 points, considerably higher than the 7.8 points recorded at the same time last year.
- **Capital investment** activity dropped to 6.0 points, down from 8.3 points in the previous quarter and 10.2 points last year.
- **Selling prices** spiked, with the index up to 13.5 points from 8.9 points in the previous quarter, but down from 16.9 points last year.

About Dun & Bradstreet

Established in 1887, Dun & Bradstreet is Australia and New Zealand's longest established 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. The Business Expectations Index is a composite of four of the five indices surveyed: sales, profits, employment and capital investment.

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 interim indexes for the latest quarters are based on approximately 400 responses obtained during October 2015.

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 6 to 10.

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Sales outlook

(Quarterly Net Index) (33.0 points, down from 38.0)

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

Expectations

The March quarter 2016 Sales Expectations Index is 33.0 points, down from 38.0 points in the previous quarter and 38.7 points in the year prior.

The index is now 19.6 points above its 10-year average of 13.4 points.

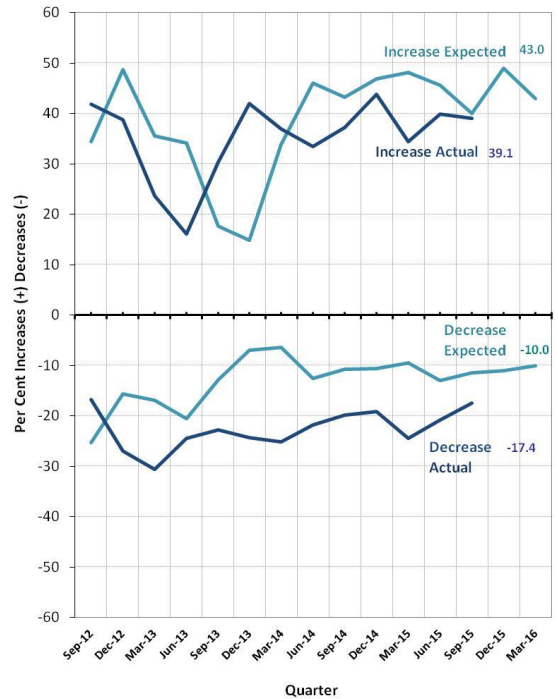
43.0 per cent of businesses expect an increase in their sales, while 10.0 per cent forecast a decrease, compared to the same time last year.

Actual performance

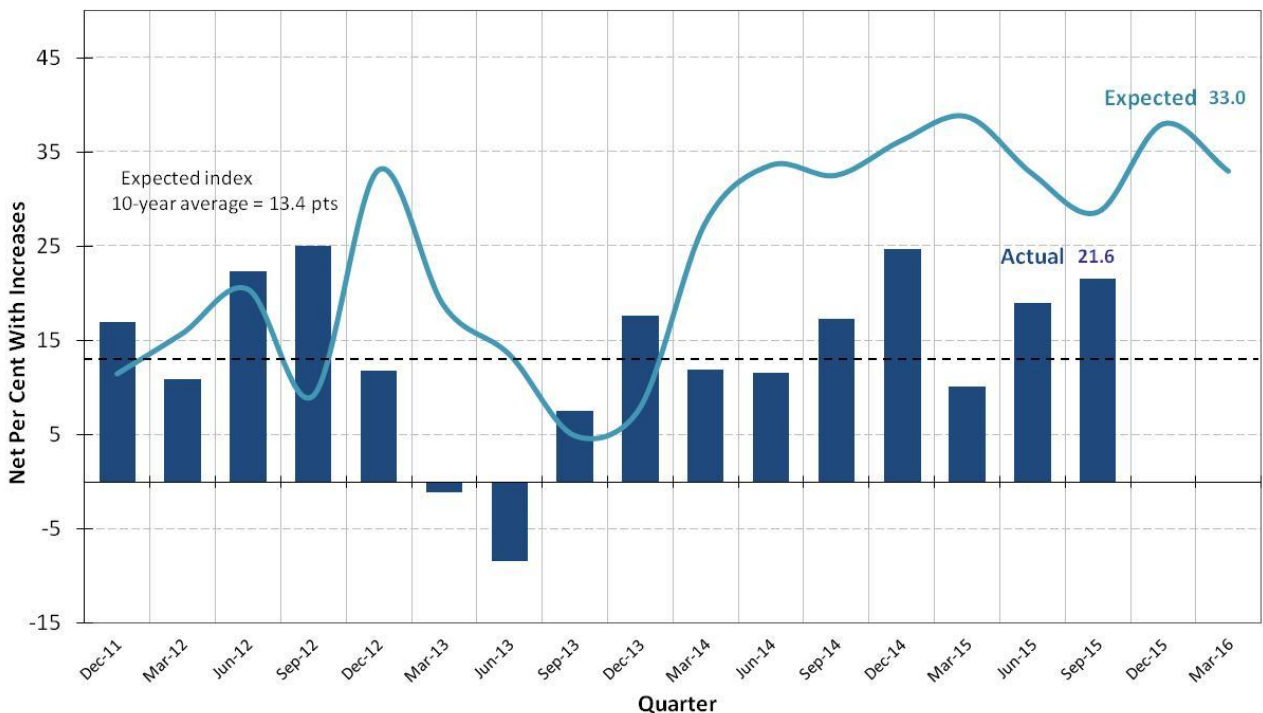
The Actual Sales Index for the third quarter of 2015 is 21.6 points, up from 19.0 points in the previous quarter and 17.3 points a year earlier.

39.1 per cent of firms reported increased sales in the September quarter and 17.4 per cent had decreased sales compared to the previous year.

Sales: D&B Indexes
Component Responses



Sales: D&B Index Dec Qtr 2011 to Mar Qtr 2016





Profits outlook

(Quarterly Net Index) (17.8 points, down from 22.9)

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

Expectations

The outlook for profits in the March 2016 quarter is an index of 17.8 points, down from 22.9 points in the previous quarter and 25.9 points last year.

The outlook for profits is 12.5 points above the 10-year average index of 5.3 points.

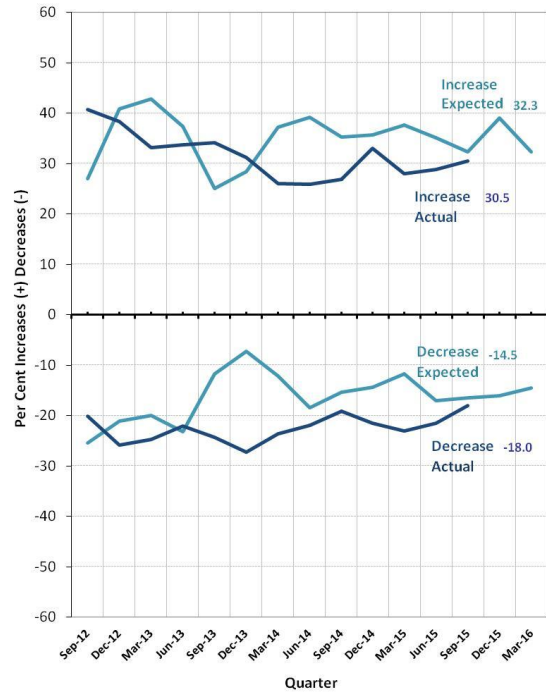
32.3 per cent of businesses expect an increase in their profits during the quarter ahead, while 14.5 per cent forecast a decrease, compared to last year.

Actual performance

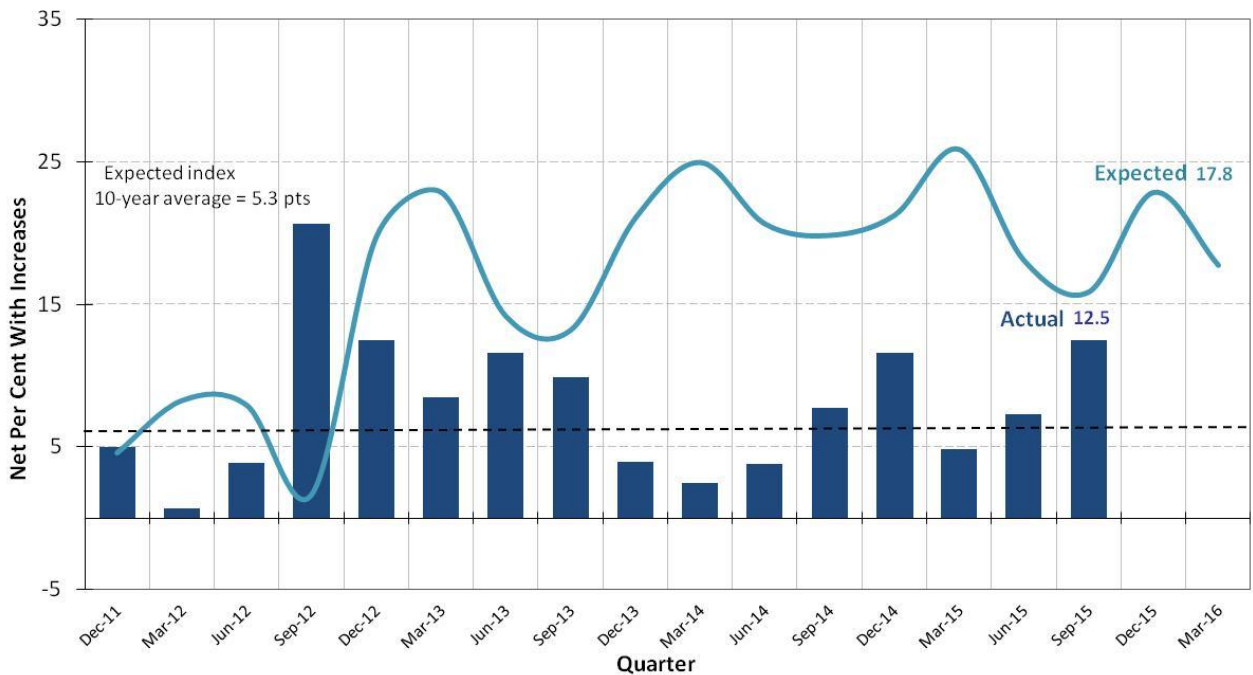
The actual profits index for the September 2015 quarter is 12.5 points, up from 7.3 points in the previous quarter and above the 7.8 points recorded a year earlier.

30.5 per cent of businesses increased their profits, while 18.0 per cent experienced a decrease.

Profits: D&B Indexes
Component Responses



Profits: D&B Index Dec Qtr 2011 to Mar Qtr 2016





Employment outlook

(Quarterly Net Index) (12.4 points, down from 14.5)

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

Expectations

The employment outlook for the March quarter 2016 has decreased to 12.4 points, down from 14.5 points in the previous quarter and 16.1 points a year earlier.

The outlook for employment is 10.4 points above the 10-year average index of 2.0.

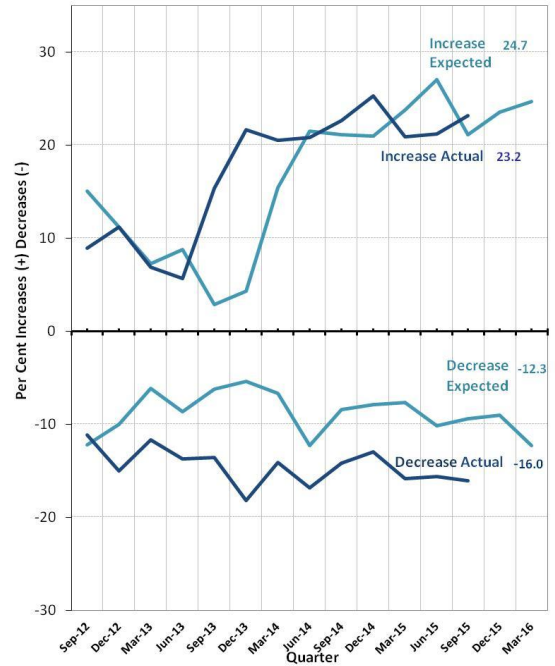
Some 24.7 per cent of executives expect to employ more staff compared to a year ago, while 12.3 per cent expect to decrease their staff numbers.

Actual performance

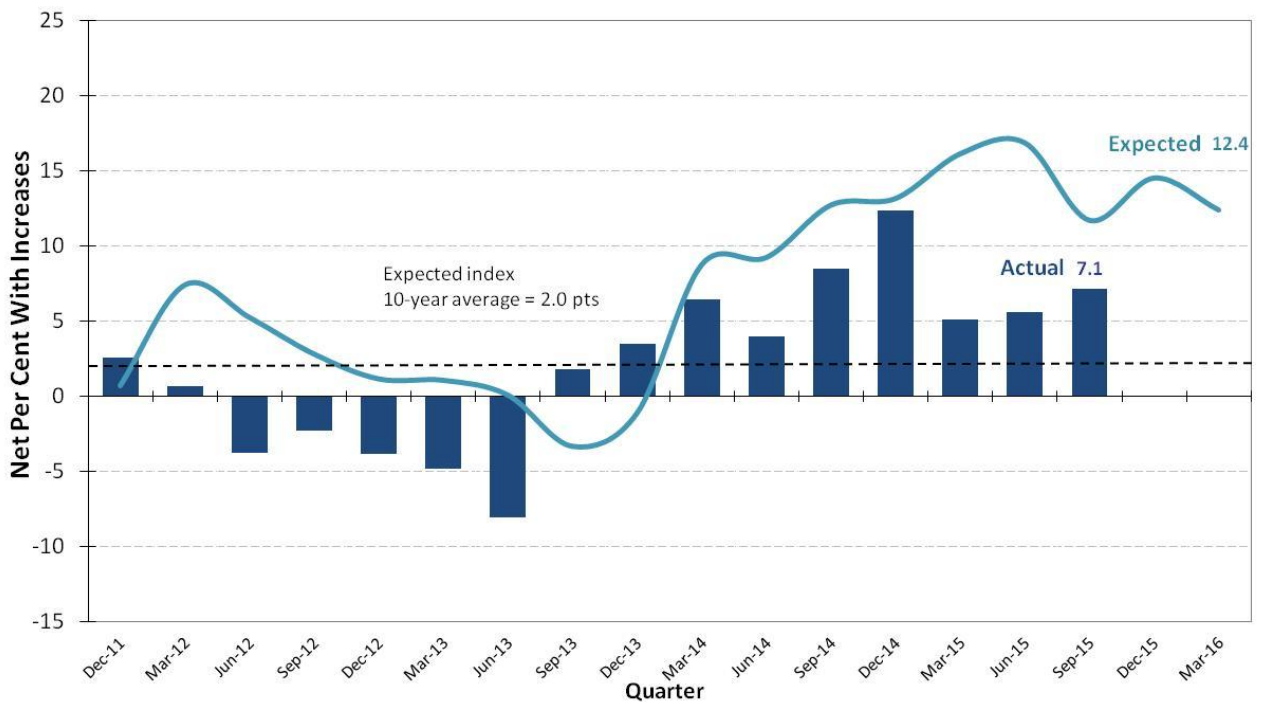
In the September quarter 2015, 23.2 per cent of businesses hired new staff, compared to the 16.0 per cent that reduced their employment levels.

At 7.1 points, the actual employment index is up from the 5.6 points last quarter but down from the 8.5 points recorded at the same time last year.

Employees: D&B Indexes
Component Responses



Employment: D&B index Dec Qtr 2011 to Mar Qtr 2016





Capital Investment outlook

(Quarterly Net Index) (7.5 points, down from 11.9)

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

Expectations

The capital investment outlook for the March quarter 2016 is 7.5 points, down from 11.9 in the previous quarter and 14.9 points last year

The outlook for capital investment is 1.7 points above the 10-year average index of 5.8 points.

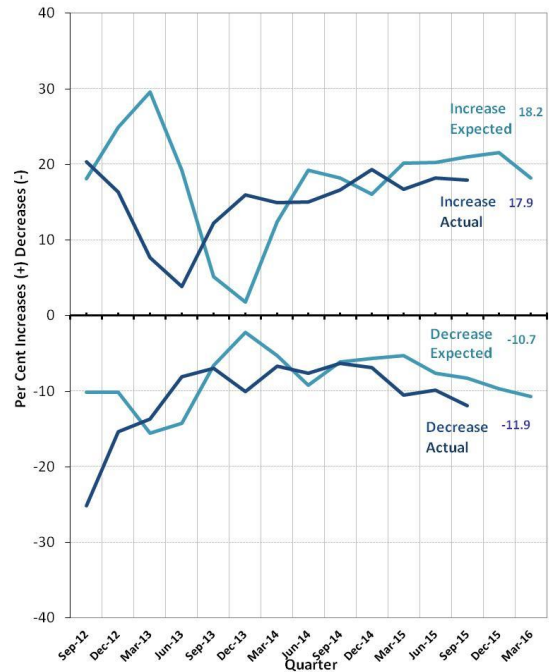
While 18.2 per cent of businesses expect an increase in their investment level, 10.7 per cent forecast a decrease compared with a year earlier.

Actual performance

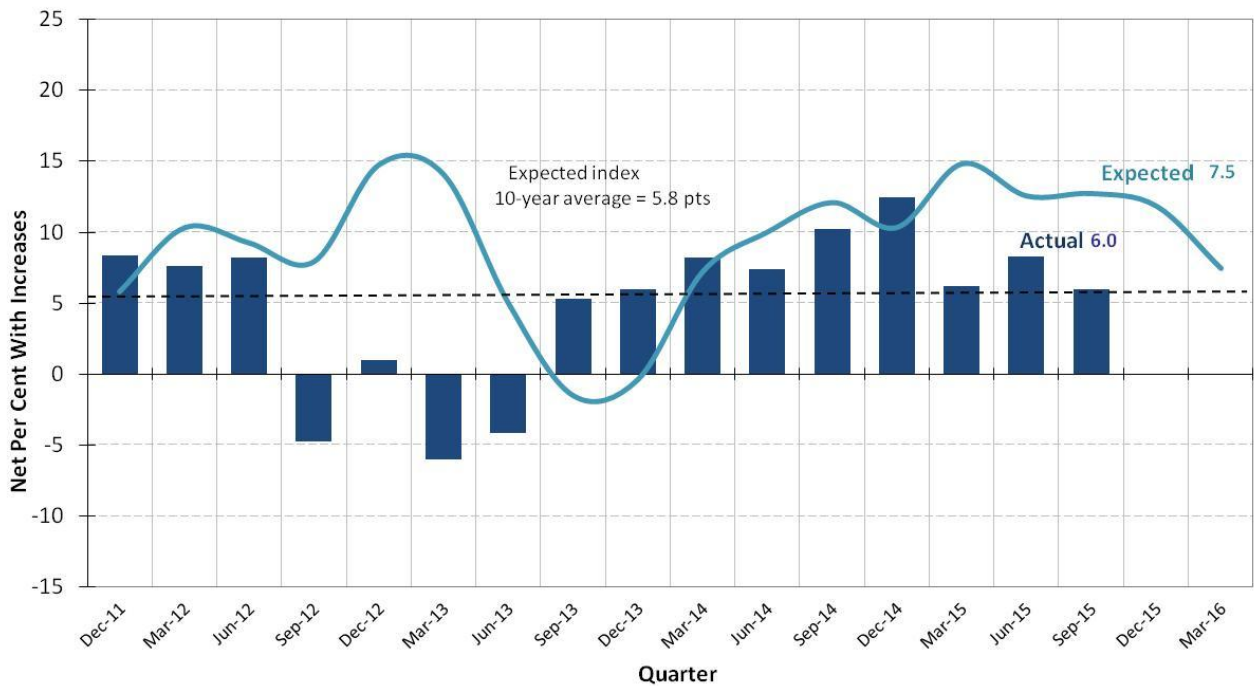
For the September quarter 2015, the actual index for investment is 6.0 points, down from 8.3 in the previous quarter and 10.2 a year ago.

17.9 per cent of firms increased their capital investment in the June quarter, while 11.9 per cent decreased capital spending.

Capital Investment: D&B Indexes
Component Responses



Capital Investment: D&B Index Dec Qtr 2011 to Mar Qtr 2016





Selling Prices outlook

(Quarterly Net Index) (13.7 points, down from 16.2)

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 March quarter 2016 is 13.7 points, down from 16.2 points in the previous quarter and down from the 26.3 points recorded a year earlier.

The outlook for selling prices is 14.2 points lower than the 10-year average of 27.9 points.

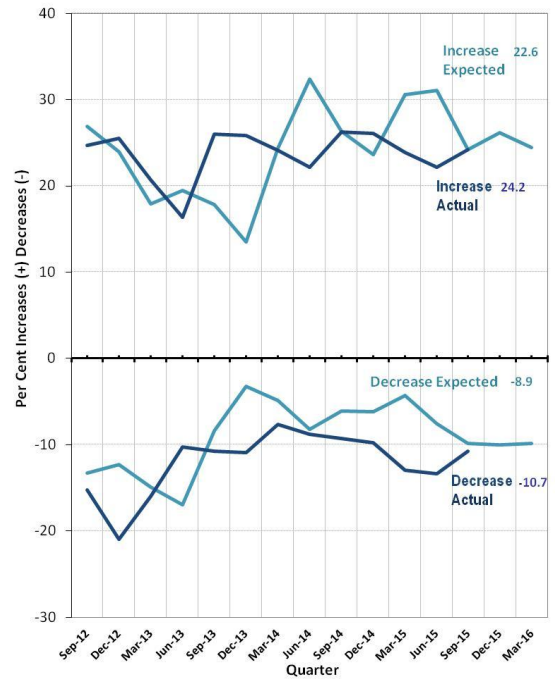
The proportion of firms expecting to have higher selling prices in the quarter ahead is 22.6 per cent, with 8.9 per cent expecting to have lower prices.

Actual performance

At 13.5 points, the actual Selling Prices Index for the September 2015 quarter is up from 8.9 points in the previous quarter but down from 16.9 points last year.

24.2 per cent of businesses increased the level of their selling prices, while 10.7 per cent had decreased, compared to the same time the previous year.

Selling Prices: D&B Indexes
Component Responses



Selling Prices: D&B Index Dec Qtr 2011 to Mar Qtr 2016

