

Thursday, 7 February 2019

Business Confidence drops to lowest since August 2015 in January

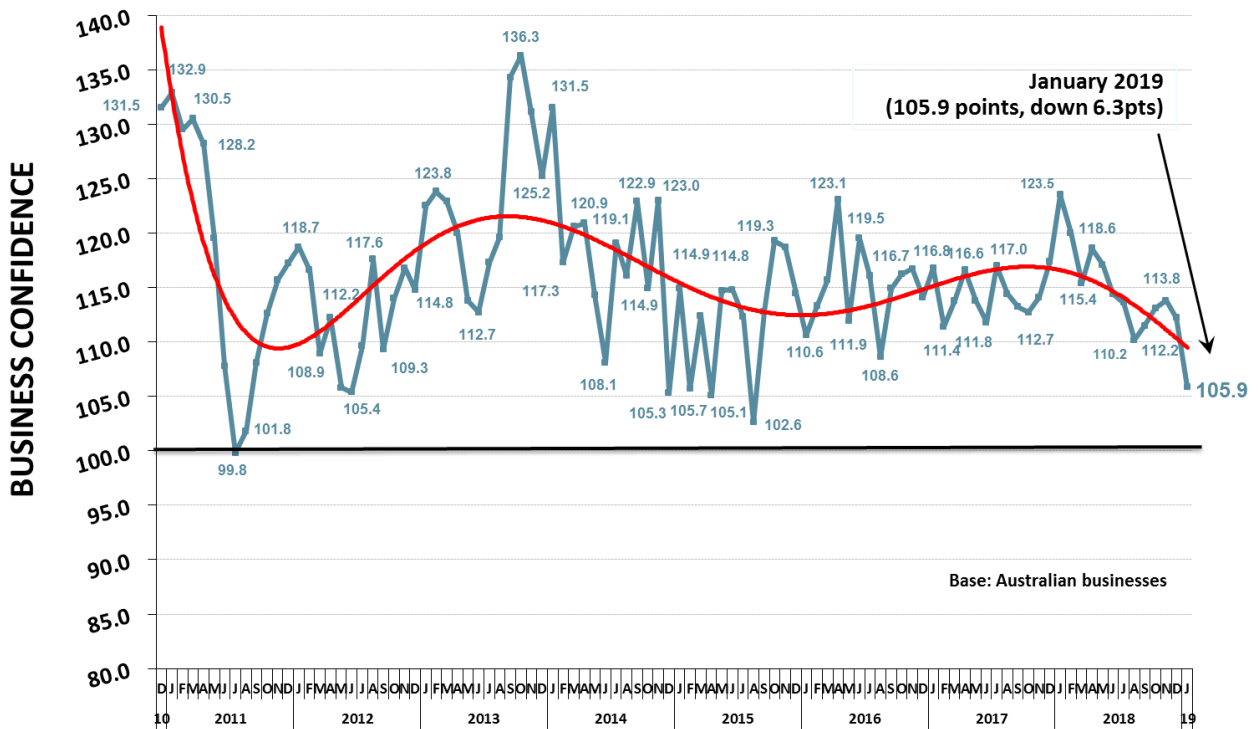
Roy Morgan Business Confidence fell by 6.3pts (-5.6%) to 105.9 in January to start 2019 at its lowest for nearly three-and-a-half years since August 2015. The drop in Business Confidence in January was unusual as the indicator has increased in seven out of eight years in January.

Business Confidence begins 2019 a significant 17.6pts below its level of a year ago in January 2018 and 11.1pts below its long-term average of 116.0 as Australia faces several months of uncertainty leading into a Federal Election set to be held in May.

Perhaps reflecting the uncertainty surrounding the outcome of the Federal Election it was the indicator concerning Australia's economic prospects over the next 12 months which drove this month's fall. Now a bare majority of 50.6% (up 9.6ppts) of businesses expect economic 'bad times' for Australia over the next 12 months compared to 41.1% (down 7.3ppts) that expect 'good times'. A 16.9pt turnaround.

Roy Morgan Business Confidence in January is now significantly below the latest weekly [ANZ-Roy Morgan Consumer Confidence, which is at 118.1 on February 2/3, 2019.](#)

Roy Morgan Monthly Business Confidence -- Australia



Source: Roy Morgan Business Single Source, Dec 2010-Jan 2019. Average monthly sample over the last 12 months=840.

January drop in Business Confidence driven by concerns about next 12 months

- Driving this month's fall in Business Confidence was a rise in concern about prospects for the Australian economy over the next 12 months with 50.6% (up 9.6ppts) of businesses expecting 'bad times' for the Australian economy over the next 12 months (**the highest figure for this indicator since August 2011**) while 41.1% (down 7.3ppts) of businesses now expect 'good times' for the Australian economy over the next year (**the lowest figure for this indicator since July 2011**);
- In addition respondents are significantly more worried about the performance of the business over the next 12 months with 25.4% (up 6.7ppts) now expecting the business to be 'worse off' financially this

time next year (**a new record high figure for this indicator**) while 44.7% (up 0.9ppts) expect the business to be 'better off' financially;

- Despite concerns about the year ahead, an increasing number of businesses now 39.4% (up 2.7ppts), say the business is 'better off' financially than this time last year greater than the 33.9% (up 4.5ppts) saying its 'worse off' (**the highest figure for this indicator for over a year since September 2017**);
- Longer-term views on the Australian economy remain relatively confident in January with 48.8% (down 0.6ppts) of businesses expecting 'good times' for the Australian economy over the next five years and 41.3% (up 1.3ppts) now expecting 'bad times';
- A plurality of businesses, now 47.4% (down 3.1ppts) say the next 12 months will be a 'good time to invest in growing the business', while only 40.9% (up 2.3ppts) say it will be a 'bad time to invest'.

Business Confidence falls most for larger businesses with over 200 employees

In line with the month-on-month decrease, Roy Morgan Business Confidence for the three months to January 2019 has fallen 7.7pts to 110.6 compared to the same period a year ago.

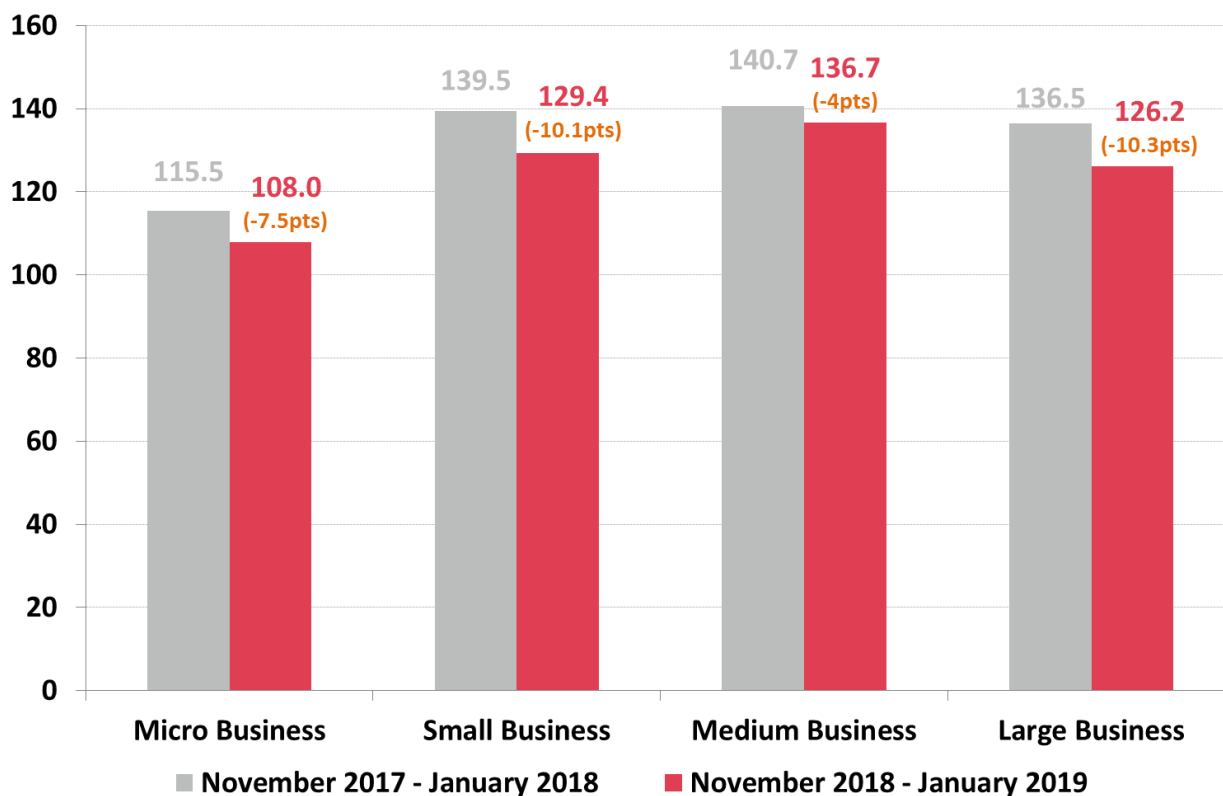
Analysing the trends for Business Confidence by size of business shows significant declines for all sizes of business in the three months to January 2019 compared to the same period a year ago. However, it is larger businesses with over 200 employees that have declined the most, down by 10.3pts to 126.2.

Interestingly, it is medium sized businesses, with a head count of 20-199 employees, who retain the highest level of Business Confidence at 136.7, down only 4pts from a year ago and still well into positive territory.

Small businesses, with 5-19 employees, have also lost a significant degree of confidence over the past year down by 10.1pts to 129.4 although this is still significantly higher than the overall figure of 110.6.

Once again it is the Micro businesses, with fewer than five employees, who are doing it toughest and have the lowest Business Confidence of any size of business at 108 in the three months to January 2019. This is down 7.5pts from a year ago and remains below the national average. The Business Confidence for this segment has not dipped below the neutral level of 100 for over seven years since mid-2011.

Business Confidence by business size* (employee numbers) Jan. 2018 cf. Jan. 2019



Source: Roy Morgan Business Single Source, November 2017 – January 2018, n=2,615 and November 2018 – January 2019, n=2,405. * Micro businesses are under 5 employees, Small businesses are 5-19 employees, Medium-sized businesses are 20-199 employees and Large businesses are 200 employees or more.

Michele Levine, CEO Roy Morgan, says the uncertainties surrounding the political environment as we face a Federal Election in the next few months, as well as the continuing declines in house prices in Australia's two largest cities, appear to have significantly dented confidence:

"Roy Morgan Business Confidence fell by 6.3pts (-5.6%) in January to 105.9. This is the lowest ever Business Confidence for the month of January and represents only the second time the index has fallen in what has traditionally been the strongest month of the year. Business Confidence has averaged well over 120 for January over the last eight years (2011-2018).

"The decline in Business Confidence to begin 2019 comes amidst a slew of poor economic news with significant declines in house prices in Sydney and Melbourne over the last 12 months now joined by lower than expected retail trade figures for December.

"The [ABS retail trade estimates for December released this week show retail trade declining by 0.4% \(seasonally adjusted\) in the month of December](#), usually a strong month for retail in the lead-up to Christmas. The poor result for December did follow a stronger than expected November (up 0.5%), however when combined with falling house prices it is concerning.

"Analysing Business Confidence on a State by State level shows it is Australia's largest State powering the downward trend in the index. Business Confidence in NSW hit a record low below 100 in January which is not that surprising when one considers that Sydney house prices have now fallen by over 10% since peaking in 2017 and the State has considerable political uncertainty with a State Election due next month (March) and a Federal Election in three months (May).

"There were also monthly declines in Victoria and SA, but increases in Tasmania and the resource rich states of Queensland and WA. These results are also not that surprising when one considers Australia had the second biggest trade surplus on record in December 2018 of [\\$3.7 billion seasonally adjusted according to the ABS](#) built on exports of commodities led by iron ore, coal and natural gas which are heavily concentrated in Queensland and WA.

"Looking at Business Confidence by size of business shows that it is the Micro businesses with fewer than five employees that are the most concerned by business conditions early in 2019. The rolling three-month Business Confidence for Micro businesses has fallen to only 108, down 7.5pts on a year ago. Larger businesses with more employees have also suffered declines in confidence but remain generally positive.

"In January a majority of 11 out of the 19 industries measured reported a decline in Business Confidence and now nearly a third of industries (6) have a negative Business Confidence below the neutral level of 100.

"The industries dragging Business Confidence down in January with a rating below 100 include Retail trade, Finance & insurance, Electricity, gas, water & waste, Agriculture, forestry & fishing and Personal, repair & other services. In contrast, industries which have a higher Business Confidence are led by Mining, Education & training, Wholesale trade and Manufacturing."

Roy Morgan Business Confidence results in January are based on 825 interviews with a cross-section of Australian businesses. Business Confidence is above the 8yr average (116.0).

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About Roy Morgan

Roy Morgan is the largest independent Australian research company, with offices in each state of Australia, as well as in the United States and the United Kingdom. A full service research organisation specialising in omnibus and syndicated data, Roy Morgan has over 75 years' experience in collecting objective, independent information on consumers.

Margin of Error

The margin of error to be allowed for in any estimate depends mainly on the number of interviews on which it is based. Margin of error gives indications of the likely range within which estimates would be 95% likely to fall, expressed as the number of percentage points above or below the actual estimate. Allowance for design effects (such as stratification and weighting) should be made as appropriate.

Sample Size	Percentage Estimate			
	40%-60%	25% or 75%	10% or 90%	5% or 95%
1,000	±3.0	±2.7	±1.9	±1.3
5,000	±1.4	±1.2	±0.8	±0.6
10,000	±1.0	±0.9	±0.6	±0.4
50,000	±0.4	±0.4	±0.3	±0.2