

NAB MONTHLY BUSINESS SURVEY

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By Group Economics

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ELEVATED BUSINESS CONDITIONS & CONFIDENCE POINT TO A ROBUST BUSINESS SECTOR IN AUSTRALIA AT PRESENT

The business conditions index jumped 6pts to a strong +19 index points, which is well above the long-run average of +5 index points.

According to Alan Oster, NAB Group Chief Economist “The large rise in the NAB Monthly Business Survey business conditions index provides further confirmation of robust business activity in Australia. While the index can bounce around from month-to-month due to changes in seasonal patterns, conditions remain elevated on a trend basis.”

The business confidence index also rose by 2pts to +12 index points, its highest level since April 2017. According to Mr Oster “The rise in confidence may reflect the improved global economic backdrop, but it is important to note that the survey was conducted before the current turbulence in international financial markets”

Leading indicators in the survey are generally positive. “While forward orders have eased a little they remain above average and capacity utilisation has been trending up which is a good sign for both future investment and employment” Mr Oster said.

By component, both trading conditions (sales) and profitability posted strong gains while employment conditions were unchanged. “The employment index remains consistent with a solid rate of job creation of approximately 20K per month, which is less rapid than the current trend rate of 25K per month, but should be enough to put further downward pressure on the unemployment rate over the first half of the year”, said Mr Oster.

Business conditions are solid to strong across all major industry groups with the exception of retail. The construction industry in particular is performing well. “The improvement in construction conditions over the last twelve months is due to improved trading conditions, profitability and employment, and probably reflects the still elevated residential construction pipeline, infrastructure construction and the gains in non-residential building approvals last year. The lift in employment is particularly significant given the rising share of employment found within the construction industry.”

On a less positive note, the slippage in conditions in recreation & personal services to the lowest level in three years bears close watching and, together with the ongoing weakness in retail conditions, points to continued softness in consumer activity” said Mr Oster.

“The Survey results for January are broadly in line with our view of the Australian economy. We are hopeful that Australia will see stronger economic growth in coming quarters, due to the strength in the labour market, business activity and infrastructure spending, despite the challenge of only modest consumption growth and the peaking in LNG exports and housing construction. This would probably prompt the RBA to consider a gradual removal of emergency policy stimulus, as long as there are signs of wages strengthening. We still expect the first RBA hike to come in the second half of this year if unemployment falls further and wages show improvement, although the risk is that the RBA will move later as it has indicated that it is in no rush to lift rates” said Mr Oster.

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