BUSINESS CONDITIONS AT A RECORD HIGH

The business conditions index moved 3pts higher to +21 index points. This is a record high since the monthly survey commenced in March 1997, although the same measure in NAB’s quarterly survey reached this level in 1994.

According to Alan Oster, NAB Group Chief Economist “The record level for the NAB Monthly Business Survey business conditions index indicates that business activity in Australia is robust. Moreover, the strength in conditions is broad based across industry groups.”

In contrast, the business confidence index declined by 2pts to +9 index points. According to Mr Oster “The fall in confidence may reflect the turbulence seen in international financial markets in early February, but confidence remains above average suggesting that the impact was relatively limited”.

Leading indicators in the survey strengthened this month, including a large rise in forward orders. “While data can be volatile from month-to-month, forward orders have been on a rising trend for several years now signalling an improved outlook for the non-mining economy. Similarly, capacity utilisation is trending higher which is a positive for both future investment and employment” Mr Oster said.

By component, employment conditions recorded a large rise - moving to a record high. Both trading conditions (sales) and profitability, already at high levels, had small gains. “If the surge in the employment index is maintained you would expect to see jobs growth of around 27k per month. While this is below the average monthly growth rate in jobs recorded by the ABS over the last twelve months, the bottom line is that strong jobs growth will not be ending any time soon, which is good news for getting the unemployment rate down”, said Mr Oster.

The strength in business conditions is broad-based with all major industry groups reporting above-average conditions. According to Mr Oster “The gap between the best and the softest performing industries is at a relatively low level with even the underperforming retail sector recording its highest reading in eight months. That said, the trend down in personal & recreational services over the past four months needs to be watched closely as it could indicate that softness in consumer spending is broadening beyond retail.”

In that context retail price measures remain very subdued and the rise in labour costs (a wages bill concept in the Survey) appears more related to the surge in employment than wages per se.

“The Survey results for February reinforce our views on the outlook for the Australian economy. After last week’s release of below expectation GDP growth data, the strength in business conditions and leading indicators makes us more confident that Australia will see stronger economic growth in coming quarters on the back of LNG exports, and business and government investment. This will sustain strong jobs growth, reduce unemployment, and put gradual upwards pressure on private sector wages. We expect by late 2018 the RBA will feel relaxed enough about the domestic fundamentals to cautiously start withdrawing the stimulatory policy stance it is currently running. However, it will depend heavily on the data flow and the risk is that the RBA will delay rate rises until early 2019” said Mr Oster.

For more information, please see the NAB Monthly Business Survey report.
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