

# NAB MONTHLY BUSINESS SURVEY

March 2018

By Group Economics

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## BUSINESS CONDITIONS COME OFF THE BOIL, BUT STILL HOT

The business conditions index declined by 6pts to +14 index points, although it remains well above its historical average. The business confidence index fell by 2pts to +7 index points, and it is now only just above its historical average of 6 index points.

According to Alan Oster, NAB Group Chief Economist “Not only do the well above average business conditions continue to point to robust business activity in Australia, it is also broadly based as conditions were equal to, or above, their historical average in all industries.”

By component, Trading conditions (sales), profitability and, in particular, employment conditions all fell. However, on a trend basis there was little or no change and all components remain above average.

According to Mr Oster “Historically, the NAB Survey profitability measure has broadly lined up with changes in the ABS measure of non-mining company profits and at its current level it is pointing to further solid gains in reported company profits. Moreover, the employment index is consistent with a solid level of jobs growth of around 21k per month.”

Leading indicators in the survey softened this month, with capacity utilisation easing slightly, while forward orders gave up much of last month’s spike.

“While forward orders and capacity utilisation – important leading indicators – declined this month, on a trend basis they both remain at multiple year highs, a positive sign for the non-mining economy, including employment and investment growth.” Mr Oster said.

Conditions are strongest in mining in trend terms, and are equal to, or above, their historical average in all industries.

According to Mr Oster: “While retail continues to underperform, on a trend basis it reached its highest level in nine months. It was also pleasing to see that personal & recreational services moved higher arresting the recent downwards trend, although we would want to see this continue into coming months to be confident that activity has stabilised.”

Final product price inflation remains muted and retail prices declined. However, purchase cost growth has been moving higher since late 2016. “The gradual trend rise in purchase costs provides a tentative sign of inflationary pressures, although it would need to keep rising to provide a convincing signal that core CPI inflation is about to move back within the RBA’s target band” said Mr Oster.

“The Survey results for March do not change our outlook for the Australian economy. The strength in business conditions and leading indicators are consistent with stronger economic growth in coming quarters and the Survey employment index is pointing to strong jobs growth which should reduce unemployment, and put gradual upwards pressure on private sector wages. We expect that towards the end of this year the RBA will be in a position to start increasing the current emergency low policy rate although it will depend heavily on the data flow – particularly for wages and inflation - and the risk is that any action by the RBA will be delayed” Mr Oster said.

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

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