

# NAB QUARTERLY BUSINESS SURVEY

## 2018 Q1

By Group Economics

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## BUSINESS CONDITIONS STRONG AND BUSINESSES HAVE THEIR SAY ON TAX

The business conditions index in 2018 Q1 increased by 2pts to +17, its highest level since 2007 while the Business confidence index was unchanged at +7 index points a little above its historical average.

According to Alan Oster, NAB Group Chief Economist “Business conditions reached a new post-GFC high in this Quarter’s survey and while the monthly survey indicates conditions eased late in the quarter, the bottom line is that they remain strong reflecting robust trading conditions, profitability and employment growth.”

“Moreover, the strength in business conditions is broad based across industries, with conditions positive and also at, or above, their long-run average in all industries.” said Mr Oster.

A special question was asked in this survey about retailers expectations for the number of stores and their investment in their online sales process.

“While retail continues to lag other sectors, retailers were surprisingly optimistic about the number of stores over the next couple of years, with more expecting an increase than a fall. The Survey also further confirms that the future of retail is online – no one is planning to cut back their budget in developing this area of their business.” Mr Oster said.

Mr Oster indicated that “One concern coming out of the survey is the decline in confidence in a couple of sectors – finance and particularly property. While business conditions in the property sector are still decent, the cooling in housing markets and price growth being experienced appears to be weighing on sentiment.”

“The Survey results for March do not change our outlook for the Australian economy, with business conditions strong, leading indicators generally positive and employment indicators suggesting a tightening in the labour market”. Said Mr Oster.

“Our view has been 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 wage growth and inflation starting to strengthen. The Survey results suggest that conditions are in place for this to occur – employers are increasingly having difficulties finding suitable labour and while past experience suggests that wages can take a while to respond, in-time you would expect a response” Mr Oster said.

However, according to Mr Oster “The Survey also provides a warning that wages growth might have shifted down to a lower level; so while we expect to see some improvement in the future, wages growth at the levels seen pre-GFC seem a long way off”.

Another special question asked in the Survey related to company tax – what sized cut would be needed to improve the business outlook and how would the additional resources gained from a tax cut be used.

“There has been much debate about the appropriate level of corporate taxation for sustained growth and how business might respond in the face of corporate tax cuts, so our hope is that the Survey will help inform that debate.” Mr Oster said.

According to Mr Oster: “Looking at the size of corporate tax cuts necessary to better support business outcomes, one-fifth of businesses didn’t think a tax cut was necessary; 14% reported they did not pay tax in Australia; and 14% said they did not know. However, around half of the Survey respondents indicated that a tax cut (of an average of 6.7 percentage points) would improve their outlook with the most significant use of the tax cuts likely to be in the form of higher investment.”

For more information, please see the NAB Quarterly Business Survey report and the Special Report on Corporate Income Tax Cuts – From A Business Perspective.

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