

NAB MONTHLY BUSINESS SURVEY

April 2018

By Group Economics

Embargoed until:
11:30am Tuesday 7 May 2018



BUSINESS CONDITIONS AT RECORD LEVELS

The business conditions index increased by 6pts to +21 index points, its equal highest level since the survey commenced in March 1997. The business confidence index also increased, by 2pts to +10 index points, and is well above its historical average of 6 index points.

According to Alan Oster, NAB Group Chief Economist “The record high in the business conditions index in the April Survey simply reinforces what has been evident since the middle of last year, that business activity in Australia is robust.”

Conditions increased in all industries except for manufacturing and retail and, in trend terms, are strongest in mining.

“Of some concern is that retail conditions turned negative for the first time this year” Mr Oster said.

“On a more positive note, concerns that retail weakness might be spreading to retail & personal services have been alleviated by a significant improvement in conditions in that industry over the last two months, particularly in April.”

By component, trading conditions (sales), profitability and employment conditions all posted strong gains in April and they remain well above their historical average.

According to Mr Oster “The improvement in the employment index was particularly welcome in the light of the ABS reporting a slowdown in jobs growth in recent months. Historically, the NAB Survey does a good job at looking through short-term cycles in the ABS data and so we think the labour market continues to improve.”

Changes in leading indicators were mixed this month, but remain at solid levels.

“While forward orders fell, on a trend basis they increased and point to a positive outlook for the non-mining economy, including employment and investment growth.” Mr Oster said.

According to Mr Oster “The survey continues to point to subdued inflation and wages growth.”

“The Survey results for March are consistent with our outlook for the Australian economy. The strength in business conditions and leading indicators suggest economic growth will strengthen and that over-time we should see strong jobs growth and falls in the unemployment rate. Falling unemployment should eventually translate into upwards pressure on private sector wages, at which point the RBA will be in a position to start increasing the current emergency low policy rate. Our current call is for the first move by the RBA to be late this year, but as hard evidence of a firming in wages growth is yet to appear in the data, and unemployment for the moment stuck at around 5.5%, the risk is that any action by the RBA will be delayed into 2019” Mr Oster said.

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

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