

NAB QUARTERLY BUSINESS SURVEY

2018 Q2

By Group Economics

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FAVOURABLE BUSINESS CONDITIONS PERSIST

The business conditions index in 2018 Q2 decreased by 2pts to +15, but remains well above its long-run average. Business confidence edged 1pt lower to +7 index points, a little above its historical average.

According to Alan Oster, NAB Group Chief Economist “Business conditions have pulled back slightly from the highs seen in Q1, though the monthly survey indicates conditions held steady late in the quarter, suggesting that momentum in the business sector has not weakened further. Overall, trading conditions, profitability and employment conditions remain quite favourable.”

“The strength in business conditions continues to be 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 business’s perceptions of wage pressures over the past 6 months and their outlook for the next 6.

“Most businesses expect current wage pressures to persist or only pick-up only slightly over the next 6 months with relatively few businesses expecting a significant or large rise in wage pressures. Overall, it appears the outcome for wages is likely to follow similar patterns to the past 6 months where the bulk of firms only saw modest if any increase in wage pressures” Mr Oster said.

Mr Oster indicated that “One concern coming out of the survey is that confidence remains a little lower than expected when compared to other surveyed forward looking indicators. Indeed, the monthly survey suggests that there has been a pull-back in forward orders over recent months, which while still suggesting favourable conditions, may be signalling a slow-down in the business sector. Similarly, the employment index in the monthly survey has eased moderately over recent months.”

“The 2018 Q2 Survey results do not change our outlook for the Australian economy, with business conditions strong and leading indicators are still positive overall. That said, the recent run of data late in the quarter suggest some risks have emerged around forward orders and employment growth” Said Mr Oster.

“Our view has been that economic growth will remain robust over the next couple of years and the associated employment growth will gradually see the spare capacity in the labour market fall. This will occur gradually and lead to a gradual lift in wage growth towards 2.5%. We think that this rise in domestic labour costs will have fed through to inflation by around mid-next year with enough evidence for the RBA to begin lifting rates from the current low levels. However, our outlook remains highly data dependent, as to date official data show little evidence of a pickup in wage growth. Indeed, the NAB Business Survey continues to suggest generally subdued inflation pressures in the economy, albeit with some isolated evidence of tightening in some sectors” Mr Oster said.

However, according to Mr Oster “The Survey also suggests that wages growth is likely to remain broadly similar over the rest of 2018 as in the first half. So while our baseline is for the labour market to tighten and wages growth to pick-up, there is an emerging risk of slowing employment growth and lower resulting wage growth acceleration”.

For more information, please see the NAB Quarterly Business Survey report and the Special Report on Firm’s Perceptions on wage pressures.

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