

# NAB MONTHLY BUSINESS SURVEY

July 2018

By Group Economics

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## CONDITIONS EASE FURTHER

The business conditions index fell by 2pts to +12 index points in July, continuing its run of declines since April. Business confidence ticked up 1pt to +7 index points, an around average level.

According to Alan Oster, NAB Group Chief Economist “The business conditions index eased further this month, and has now fallen considerably since April. Despite falling over recent months, business conditions remain above average, suggesting favourable conditions have continued to persist through the middle of 2018”.

“The weakness in the month was driven by deterioration in both profitability and trading conditions, which was partially offset by a rise in the employment index” said Mr Oster.

According to Mr Oster “There was a welcome rebound in the employment index this month after the declines in each of the previous two months. Our mapping of this measure to the official employment statistics suggests that employment will grow at a stronger rate than the working-age population over the second half of 2018, which should see the unemployment rate gradually decline.”

Conditions eased across most industries in July, with the notable exception of the construction industry which rose relatively sharply; recreational and personal services and wholesale saw a small improvement in the month. The retail industry weakened further in the month.

“In trend terms, conditions in the mining sector remain highest, likely reflecting the higher than expected commodity prices over the past year, increases in productivity as projects enter the production phase and a general easing in cost pressures (though there have been some anecdotal reports of skills shortages more recently). Conditions in the construction sector also remain high, likely reflecting the large pipeline of both residential and infrastructure-related work. The retail sector remains clearly the weakest, declining again in the month, to see the retail conditions index fall to opts.” Mr Oster said.

Surveyed wage and price measures rose in July, though generally they suggest a continuation of the weak price pressures observed over recent years. Labour costs, purchase costs and final product price growth all lifted in the month – with the former no doubt reflecting the recent national wage increase. Growth in retail product prices lifted in July after the flat outcome in June.

“The survey continues to suggest generally weak inflation pressures in the economy, despite continued growth. Surveyed price, cost and wage measures of inflation all rose a little in the month though remain at relatively low levels”.

Leading indicators weakened a little in the month, but remain around average. Capacity utilisation edged slightly lower, but remains above average after trending higher over recent years. The forward orders index continued to decline and is now around average levels.

Business confidence remains around average, but below average forward orders in the recreation & personal services and construction industries appear to be weighing on confidence in New South Wales and Victoria (in trend terms).

“Overall, the survey results are broadly in line with our outlook for the economy for the rest of 2018. The business sector looks relatively healthy, and we expect to see enough employment growth to see a gradual reduction in spare capacity which should in time see a rise in wage growth, and a more general lift in inflation. Though we will be closely watching trends in the forward indicators which may be signalling some slowdown in the business sector” Mr Oster said.

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

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