

NAB MONTHLY BUSINESS SURVEY

October 2018

By Group Economics

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CONFIDENCE AND CONDITIONS EASE

Key Messages from the survey: *Business conditions have eased back from the high levels seen earlier in the year but remain well above average. Forward orders (the most reliable indicator of domestic demand) remain a touch above average but significantly below levels reported in H1 2018. Confidence has also deteriorated through 2018, hovering at or below average in recent months. Retail continued to report weak outcomes in the month and recreational & personal services have eased since around mid-2018. The eastern states currently report the best conditions but have a less positive outlook than SA and WA. Overall, the survey suggests price pressures remain weak across both inputs and outputs, which is in line with official data pointing to prices (and wages) continuing to grow at relatively weak rates.*

Both the business conditions and confidence indexes declined 2pts to +12 and +4 index points respectively. At these levels, conditions remain well above average (even after declining from the highs seen earlier in 2018), while confidence is a little below average.

According to Alan Oster, NAB Group Chief Economist “Although conditions have eased since earlier in 2018, and have been a little volatile over recent months, business conditions remain well above average. This likely reflected a healthy business sector alongside the strength in economic growth through 2018”.

“The decline in the month was driven by weakness in the employment component – though at these levels the survey still suggests ongoing employment growth at around 20k per month. At this rate we should see recent labour market gains maintained” said Mr Oster.

According to Mr Oster “The profitability and trading conditions components have held up relatively well, and suggest that demand remains good, while costs have been contained”.

Conditions eased across most industries except construction, wholesale and transport and utilities. Overall, in trend terms, conditions remain highest in mining and lowest in retail – the only industry to currently record negative conditions.

“While the survey suggests conditions remain broadly favourable across industries, the retail industry remains weakest – and in trend terms continues to deteriorate. Retail has now lagged for some time and is unlikely to turn around anytime soon with the weaker outlook for the consumer and ongoing structural changes in the sector” Mr Oster said.

“Forward looking indicators appear to have stabilised recently, with forward orders remaining a touch above average levels in the month. Capacity utilisation edged lower in the month but remains above its long-run average, after trending up in recent years” said Mr Oster.

Measures of inflationary pressure remain weak overall though final product and input cost price growth were higher in the month. Labour costs growth edged lower suggesting that despite ongoing employment growth, wages growth remains weak.

“The survey continues to point to a healthy business sector, with profitability and trading conditions remaining high, and forward looking indicators still favourable. Employment appears to have dipped this month, but this comes after a run of strong gains in the labour market. We will watch this closely over coming months to see if this is just a temporary pause or a sign of a more durable slowdown in the labour market. Overall, the survey fits our view, that the labour market remains healthy, growth is solid but that wage and price pressure remains subdued in the economy more broadly” Mr Oster said.

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

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