

NAB MONTHLY BUSINESS SURVEY

November 2018

By Group Economics

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DOWNWARD TREND CONTINUES

Key Messages from the survey: *Both business conditions and confidence continued their downward trend in November. Since around mid-2018 it appears the business sector has lost some momentum – albeit the level of activity remains reasonable. Declines in business confidence to below average levels also suggest businesses’ outlook is for momentum to ease further. Indeed, forward orders (the most reliable indicator of domestic demand) fell in the month and are now below average for the first time since late 2016. While conditions across most industries remain above average, conditions in the retail industry continue to lag – with retail the only sector to report deteriorating conditions. This was indeed confirmed by the release of the Q3 national accounts which saw weaker growth in consumption & a large run-up in retail inventories. By state, the eastern seaboard currently reports the best conditions but now has a less positive outlook than SA & WA. This month we also have a special report on what businesses report is driving conditions lower – including the impact of lower house prices, which to date have not had a significant impact.*

Both the business conditions and confidence indexes declined 2pts in the month to be +11 and +3 index points respectively. Despite declining in the second half of 2018, conditions remain well above average. Business Confidence, however, has hovered at or below average over the last six months.

According to Alan Oster, NAB Group Chief Economist “The downtrend in conditions has continued in November. While the business sector remains relatively healthy, this trend suggests that the business sector has lost some momentum since late 2017 and early 2018. Confidence is now below average, suggesting that businesses themselves think momentum will slow further”.

“The decline in the month was driven by falling profitability and lower turnover. On the positive side, employment rebounded a little and continues to suggest relatively robust growth in the workforce” said Mr Oster.

Conditions eased sharply in construction, and declined in transport, manufacturing and mining. Retail and finance, business & property services saw a small improvement in the month. In trend terms, the pattern of strength in mining and weakness in retail continued in November.

“Conditions in the retail industry continue to deteriorate. For some time retail conditions have lagged those of other industries and it appears there has been little improvement leading into the holiday season. The ongoing weakness in retail business conditions suggests that the weakness in consumer spending is likely to have continued into Q4” Mr Oster said.

“The recent weakness in consumer spending is unsurprising given the headwinds faced by households. Weak wage growth has meant household income continues to grow at a relatively subdued rate, while households already face high debt levels and now pressure on household wealth with falling house prices” said Mr Oster.

This month we released a special report on the impact of falling house prices on business conditions. In general, house prices are ranked well behind other factors such as consumer demand and wage costs when it comes to constraints on business conditions. For more information please see: [Special Report – Why Business Conditions have Weakened Recently](#)

“While falling house prices have garnered much media attention of late, businesses do not yet suggest they are having a material impact. Falling house prices in themselves may have a ‘wealth effect’ on households but given the prior large run up the impact of the declines to date is unclear. Also lower turnover of house sales and less housing construction activity is likely to have additional negative impacts on both the consumer and house building” Mr Oster said.

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

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