

# NAB QUARTERLY BUSINESS SURVEY

## 2018 Q4

By Group Economics

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### CONDITIONS CONTINUE TO EASE

The business conditions index decreased 5pts to +8 in 2018 Q4 continuing the downtrend since early 2018 but it remains above average given the relatively high peak earlier in the year. Business confidence also fell, declining 2pts to +1 index points and is now well below average levels.

According to Alan Oster, NAB Group Chief Economist “Business conditions continued to ease in Q4 and while they remain above average, forward looking indicators point to potential further weakness. Forward orders have declined to below average levels, and while capacity utilisation remains high, firm’s expectations for capex over this year have declined. Businesses’ own expectations for conditions and employment over the next 3 and 12 months also suggest a further pull-back. In addition, business confidence has now tracked below average for half a year.”

“Over the year, the easing in conditions has been broad-based across most industries. Of particular note has been the weakness in retail, which continues to report deteriorating conditions. Our survey is from the business perspective, but this trend is in line with other consumer side indicators such as retail sales and consumer confidence in the December quarter” said Mr Oster.

“Conditions weakened further late in the quarter, with the December monthly survey showing a sharp fall to +2 (and below average) in the month. While interpreting data around the Christmas/New year period can be difficult, this outcome suggests the trend towards a loss in momentum has continued. We will look to the next monthly survey to assess just how far conditions have fallen” said Mr Oster.

Surveyed Labour market indicators suggest ongoing strength in the labour market but that the pace of employment growth is slowing. The employment index fell in the quarter, as did expectations for the next 3 and 12 months. Labour costs growth (a wage bill measure) ticked down in the quarter and overall continues to track at a relatively modest pace. The reported difficulty in finding suitable labour edged higher in the quarter however, suggesting higher wage growth may be on the horizon.

“For now the survey reflects ongoing employment growth, at a magnitude that should see recent labour market gains maintained, but becoming more gradual. The recent fall in the unemployment rate has been reflected in a slight further tightening in the labour market with the share of firms reporting greater difficulty in sourcing suitable labour increasing in the quarter. Our special question on expected wage pressures also suggests wage growth will continue to rise, but only slowly” said Mr Oster.

Mr Oster indicated that “With the labour market a lagging indicator of activity, we continue to monitor business activity closely, as well as the labour indicators themselves. Should the slowdown in conditions materialise in output growth – it is likely that the labour market could see less improvement than expected. For now things are still reasonably positive but we do see some growing risk”.

“The January monthly survey will provide an important update on how conditions and forward indicators have tracked in the first month of 2019” said Mr Oster.

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

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