

NAB MONTHLY BUSINESS SURVEY

January 2019

By Group Economics

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CONDITIONS SEE A MODERATE REBOUND. NAB ADJUSTS RATE CALL

Key messages from the survey: Business conditions saw a moderate rebound in January after falling sharply in December. Some improvement was likely given the difficulty in addressing seasonality around the Christmas/New year period but even after this partial reversal, conditions and forward orders continue to trend lower and still show a sizeable decline over the past 6 months. There was no improvement in retail conditions. Confidence edged up but remains below average. The unusually sharp moves in conditions in South Australia and transport & utilities unwound somewhat in January. There was no rebound in NSW and Victoria - while SA and WA continue to lag. Of interest this month is a significant fall in capacity utilisation to levels only just above average. This may have implications for both future employment and capex plans. On the basis of this Survey and our forecasts NAB now expects the cash rate to remain unchanged for an extended period with downside risks (see: [NAB change to cash rate call – February 2019](#)).

Business conditions rose by 4 pts to +7 index points in July, driven by an increase in trading (now +10), profitability (+5) and employment (+5). Confidence rose 1pt in the month to +4, but remains below average.

According to Alan Oster, NAB Group Chief Economist “Conditions rebounded somewhat after the sharp decline last month. We had noted that seasonality and statistical volatility may have driven some of the result but that the trend in conditions had been down. The January survey confirms this, and while we don’t think activity in the business sector has crashed, we think that there has been some loss in momentum”.

“While the aggregate rebounded in January, retail business conditions remain weak. This follows on from the recently released official retail sales data that showed a decline in December and only small rise in volumes for the quarter as a whole. Car sales and household goods continue to show the weakest and falling conditions in our survey – this is consistent with the broader macro story at present” said Mr Oster.

In trend terms, conditions remain strongest in the eastern mainland states – albeit there was no change in conditions in NSW and Victoria - with SA and WA lagging somewhat. Confidence is generally higher in SA and WA suggesting business’ outlook is better than recent experience.

“Confidence is weakest in the east, with VIC and NSW now quite low” Mr Oster said.

Forward looking indicators were mixed in the month. Forward orders rose in January to be above average, after weakening last month. Capex and capacity utilisation declined in the month. The fall in capacity utilisation was large and is now only just above average levels – with most industries actually below average levels. This may have implications for both future employment and capex plans.

“Forward orders improved and is now marginally above average level in the month, which is more promising for future activity. However, we have seen some volatility in this measure recently so will be watching future readings closely” Mr Oster said.

“The business sector is an important part of our economic outlook. For now we expect business investment to still provide support to the economy over the next few years with a bit of extra support from infrastructure spill-overs and possibly even some new mining investment. The business survey is consistent with ongoing growth in the sector. However, we remain cautious, and will be looking for the next reading to see whether there is any further deterioration” Mr Oster said.

“Based on the confirmation that conditions have deteriorated further and our current set of forecasts we now see the RBA staying in neutral for the foreseeable future, though think the next move could be down rather than up based on the current trajectory of growth and growing downside risks” said Mr Oster.

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

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