

NAB MONTHLY BUSINESS SURVEY

February 2019

By Group Economics

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CONFIDENCE AND CONDITIONS FALL – NOW BOTH BELOW AVERAGE

Key messages from the survey: With a larger survey sample, both confidence and conditions settled at a lower level in February following the volatility over the New Year period. The decline in conditions was relatively broad-based in the month and continues a relatively sharp decline over the previous 6 months. The decline in confidence was more modest but the series has now been below average for some time. Forward orders fell to below average levels in the month, and capacity utilisation declined further suggesting that conditions are unlikely to regain much ground. The NAB Quarterly Business Survey to be released in April will provide a full set of business's expectations for the key survey variables, which will provide a more detailed picture of where business's think conditions will move over coming months. Across industries retail remains the weakest by some margin – and the only sector to record negative conditions in trend terms. The weakness is broad-based across retail sub-industries, but weakest in car retailing and household goods. The eastern states continue to show the best conditions across the mainland, but are less confident than WA and SA.

Business conditions fell by 3 pts to +4 index points in February, driven by declines in profitability (now +1) and trading (+8) sub-indexes. Employment was unchanged at +5. Confidence fell 2pts in the month to +2 index points.

According to Alan Oster, NAB Group Chief Economist “Conditions declined in February to below average levels – with profitability and trading now below average. While monthly movements in conditions have been hard to interpret in the early part of the year, this survey is based on a larger sample and surveyed well after the January period and suggests that conditions have materially deteriorated further to below average levels in 2019”.

“The employment index has remained resilient to date, likely reflecting that labour demand decisions typically lag economic activity. This is consistent with published ABS data which shows that growth has slowed, but employment growth and the unemployment rate remain relatively healthy. Leading indicators of the labour market will be important over the next few months as we assess the lags between output and employment” said Mr Oster.

In trend terms, conditions remain strongest in the eastern mainland states – though Tasmania remains highest overall. Confidence is generally higher in SA and WA suggesting business' outlook is better than recent experience.

“Conditions remain most favourable in the east, though confidence is weakest in NSW and VIC suggesting there might be some further pullback there. In contrast SA and WA see some improvement in train, though are starting from a low base” Mr Oster said.

Forward looking indicators weakened in the month. Forward orders – though volatile of late – declined in the month to below average levels. Capacity utilisation also declined further and is now below average – and is at or below average across most industries. More detail on forward looking indicators will be released in the Q1 quarterly survey in April.

“Forward looking indicators point to an ongoing weakness in business conditions. Confidence remains below average, forward orders are negative and capacity utilisation is trending lower. This may have important implications for both future investment and employment decisions of business” Mr Oster said.

“While the decline in conditions has been broad-based across industries, retail remains the standout. It has now reported negative conditions for 5 months and with the outlook for the consumer remaining weak, we see little improvement on the horizon” Mr Oster said.

“Following the release of the national accounts for Q4 2018 – which showed growth has materially slowed in the private sector, the business survey suggests that there has been little improvement in the first two quarters of the first quarter in 2019. This suggests some further growing risks to our outlook for business investment in 2019” said Mr Oster.

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

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