

NAB MONTHLY BUSINESS SURVEY

March 2019

By Group Economics

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CONDITIONS RISE WHILE CONFIDENCE CONTINUES A BELOW AVERAGE RUN

Key messages from the survey: Survey results were mixed this month. Business conditions saw a welcome increase to above average levels with each subcomponent of the index rising. The employment index itself remains well above average, suggesting that for now, survey indicators of labour demand remain favourable. Against this, business confidence (the expectation for conditions going forward) weakened further in the month and continued the below average run. Other forward looking indicators – capacity utilisation and forward orders – showed some improvement but remain at or below average. The pattern of business conditions and confidence across states appears to have shifted somewhat with the gap between the east and west narrowing a little over recent months. Conditions remain most favourable in Tasmania and NSW, but have weakened in QLD and VIC. By industry, conditions remain most favourable in mining and weakest in retail. While the pickup in conditions this month is encouraging, conditions are well below the levels seen in early 2018 and forward indicators point to a risk of further slowing in momentum in the business sector. Elsewhere in the survey, measures of capex and cash flow generally continue to track down.

Business conditions rose by 3pts to +7 index points in March, driven by increases in each of the index components. Profitability (now +5) and trading (+12) are now just above average, while the employment index (+7) is well above average. Confidence fell 2pts in the month to 0 index points, continuing its below average run.

According to Alan Oster, NAB Group Chief Economist “The increase in business conditions is a welcome development after the weakening trend over the past 6 months, though with forward indicators still looking weak we will be watching closely over the next few months to assess whether conditions in the business sector weaken further”.

“The slowing in official economic activity data over the second half of 2018 was in line with the deterioration in business conditions, and despite the improvement in March, our overall assessment is that activity likely remained weak in the first quarter of 2019” said Mr Oster.

Conditions remain most favourable in Tasmania, followed by NSW and Victoria. The other states are at or below the national average, with SA recording the weakest business conditions.

“While conditions have declined across all states since their peak in early 2018, the east coast had generally seen better outcomes. This has narrowed somewhat in the last month but of the mainland states, NSW and Vic remain highest. Tasmania continues to see the strongest conditions overall” Mr Oster said.

“Across industries we continue to see the best conditions in mining and the services sector – recreation & personal, and finance, business and property services. While retail saw some improvement in the month, the goods distribution industries, including wholesale and retail remain weakest” Mr Oster said.

Forward looking indicators improved slightly in the month. Forward orders – though volatile of late – rose a touch but remains below average. Capacity utilisation also ticked up, but is only around average after declining in recent months. Capex and cash flow continue to trend down.

“While the increase in conditions is a positive outcome given the weakening across a range of other macro indicators, the forward looking parts of the survey suggest that there is some risk to this falling away. Forward orders are weak, and below average and capacity utilisation is now back to around average.” Mr Oster said.

“We will continue to watch the survey closely over coming months. With activity having already slowed, it is important to assess whether this is temporary or has persisted into 2019 – the survey suggests this may be the case at least for Q1. For now the survey suggests labour market conditions have remained healthy but we are also watching this closely given it may well be a lagging indicator” said Mr Oster.

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

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