

NAB MONTHLY BUSINESS SURVEY

April 2019

By Group Economics

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CONDITIONS AND EMPLOYMENT WEAKEN TO BELOW AVERAGE

Key messages from the survey: Overall, our read of the signal from the business survey is that the surprise jump in conditions last month was unwound this month – with business conditions, confidence and forward orders now all below average (a la February). A key development in the Survey this month was the sharp decline in the employment index to a below average read – the first since late 2016. Future readings of this index should be closely watched as, for the most part, leading indicators of the labour market have remained positive to date but could be expected to decline based on the prior slowing in economic activity. Looking forward, business confidence and forward orders suggest ongoing weakness in private sector momentum with growth likely to remain weak in coming quarters. Capacity utilisation remains around average but no longer suggests a strong outlook for employment and capex. Overall, price pressures remain weak across the costs variables (including wage bill growth), suggesting that in addition to a slowing in the pace of activity in the business sector, there still remains spare capacity in the labour market.

Business conditions fell 4pts to +3 index points in April with declines across each of the components. The employment index saw a particularly sharp decrease, falling to -1, while trading and profitability each declined by 4pts. All three components are now below average. Confidence edged up 1pt in the month to 0 index points, but remains well below average – suggesting little improvement in business conditions in coming months.

According to Alan Oster, NAB Group Chief Economist “The bounce in conditions in March was short-lived, as we expected given the weakness in forward looking indicators. While trading and profitability have previously dipped below average, this is the first time the employment index has shown signs of weakness. While employment has previously held up better – similar to official data – the impact of slowing activity and a weak outlook may now be flowing through to the labour market”.

“We will be watching future readings of the employment index to assess if this is a sustained signal - the index at these levels, based on historical relationships, suggests employment growth of 14k per month. This is a slowing from the rates seen through the second half of 2018 and early 2019. This is in accordance with our view that the slowing in growth will likely mean that no further progress is made on reducing the unemployment rate” said Mr Oster.

Business conditions declined across all mainland states except South Australia (from low levels) in the month. In trend terms, conditions remain most favourable in Tasmania, followed by NSW and Victoria. The other states are below the national average, with SA recording the weakest business conditions.

“The South-eastern states generally continue to show the most favourable business conditions on the mainland and Tasmania continues to standout overall. South Australia looks weak, and it is now clear Western Australia has again deteriorated after showing some signs of recovery in late 2017/early 2018. A year later, most of the improvement seems to have been reversed” Mr Oster said.

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

Forward looking indicators continue to suggest ongoing weakness in business conditions. In addition to below average confidence, forward orders remain negative and below average and while capacity utilisation ticked up, it is only around average and well below the levels seen at the end of 2018.

“The forward looking indicators of the survey continue to suggest that the weakening in conditions over the second part of 2018 is unlikely to be reversed any time soon. Conditions are still positive but below average, suggesting a loss in momentum but that for now the private sector continues to grow moderately” Mr Oster said.

“We will continue to watch the employment index as well as the other forward looking variables over coming months for further slowing. In particular, the readings of labour market related variables will remain important as, for now, the interest rate outlook appears to hinge on continuing strength in the labour market” said Mr Oster.

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

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