

NAB MONTHLY BUSINESS SURVEY

June 2019

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By Group Economics

CONFIDENCE KICK SHORT-LIVED, CONDITIONS REMAIN BELOW AVERAGE

Key messages from the survey: Overall, the survey results for June continue to suggest that the business sector has lost significant momentum over the past year or so. Business confidence largely unwound the bounce in May and while business conditions rose in the month, they remain below average. The recent run of results also suggest that the economy is unlikely to record a significant pickup in growth in Q2. Further, forward orders also remain below average (and are negative), suggesting a near-term turn around in business activity is unlikely. Capacity utilisation on the other hand saw a sharp rise in the month, though this comes after a notable weakening earlier in the year. Survey measures of inflationary pressure remain very weak, with output price growth remaining low and the retail prices showing an outright decline in the month. The weakening in momentum has been broad-based across the business sector over the past year, with all industries having weakened. Retail also continues to show ongoing malaise, with reported business conditions at a level last seen in the GFC - while manufacturing has also shown steep declines.

Business conditions rose 2 pts to +3 index points in June, driven by a lift in the employment and trading sub-indexes; profitability was flat in the month. At current levels, the employment index is well above average, while the trading and profitability indexes are below their long-run average levels. Overall, the business conditions index remains well below its long-run average level of +6 index points after having trended lower since peaking in early 2018. Conditions remain highest in mining, and weakest – by some way – in retail.

Business confidence fell 5pts in the month to +2, after increasing sharply in May. The decline in confidence was broad-based across industries in the month. Overall, in trend terms, business confidence remains highest in mining, as it has for some time. Outside of mining, finance, business & property services remain most optimistic followed by construction and manufacturing.

According to Alan Oster, NAB Group Chief Economist “Business confidence appears to have unwound its spike in May, which we think was driven by a short-term election bounce and increased optimism around a renewed interest rate easing cycle by the RBA”.

“While business conditions increased slightly in the month, they remain well below average after trending lower for over a year now. The decrease in conditions has been relatively broad-based across states and industries – suggesting that there has been sector wide loss of momentum over the past year” said Mr Oster.

Forward-looking indicators were mixed in the month, but continue to suggest that business conditions are unlikely to improve significantly in coming months. In addition to below average business confidence, forward orders remain well below average (and negative). Capacity utilisation saw a more positive outcome, increasing sharply in the month, with a number of industries seeing an improvement. However, it remains below the highs seen in 2018 and remains lower in trend terms.

“Forward looking indicators suggest that there is unlikely to be a material improvement in conditions over the next few months with forward orders remaining very weak. This suggests the pipeline of demand is weak and is consistent with below average confidence” Mr Oster said.

“Two positives in the month were employment and capacity utilisation. The employment index rebounded to be well above average and is important in the context of the outlook for the labour market. For now, labour market developments appear to be the key driver of monetary policy, with weak wage growth seeing both slower household income growth and weak inflationary pressure. Both a tighter labour market and higher capacity utilisation would see inflation pressures build – so we will continue to watch to see if the improvement in these measures is sustained” Mr Oster said.

“Indeed, survey measures of inflation for both inputs and outputs remain weak. This is particularly evident in retail, where we have now significant evidence of weak household consumption across a range of measures” said Mr Oster.

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

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