

NAB QUARTERLY BUSINESS SURVEY

2019 Q2

By Group Economics

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CONDITIONS EASE FURTHER, WHILE CONFIDENCE INCREASES

The business conditions index decreased 3pts to +1 in 2019 Q2 continuing the downtrend since early 2018 and is now just below average. Business confidence rose sharply, lifting to +6 index points after a 0 index point reading in Q1.

According to Alan Oster, NAB Group Chief Economist “The down trend in conditions continued in Q2 2019, and for the first time since 2014 the quarterly survey has now shown a below average reading. At face value the decline in conditions suggests the business sector has lost significant momentum over the past year and that we are unlikely to see a substantial pickup in growth in the Q2 national accounts”.

“The strong lift in confidence appears to be related to the outcome of the Federal election, with the bulk of the survey conducted post election day and also around the time of firming expectations of rate cuts. Based on the June Monthly Business survey we already know this effect was short-lived with confidence pulling back” said Mr Oster.

The decline in conditions has been broad-based over the past year, with all industries seeing a decline, and the slow-down evident across all states. Mining continues to see the most favourable conditions, while retail and property are now weakest. Across the states, NSW and VIC are only just positive, while the other mainland states are at the threshold of improving versus deteriorating.

“Unfortunately, there is evidence of a softening in activity almost everywhere. All industries have weakened and the pull-back is evident in all states” said Mr Oster.

Given the current focus on labour market developments for the future path of monetary policy, the slowing growth momentum and softness in leading indicators of employment warrant close watching. In the quarter, current and expected employment measures all deteriorated – though all remain above average. The share of firms reporting difficulty in finding suitable labour as a constraint on output ticked up in the quarter, and is elevated, but below pre-GFC levels. Over the past year, this measure has tracked broadly side-ways. Overall, it appears that while there is some tightness in some sectoral labour markets (e.g. mining) it is not yet tight enough nor broadly enough based to see significant nationwide wage rises.

“For now, the survey suggests ongoing employment growth but given the recent trends in the forward-looking measures, we will continue to watch closely. Our worry is that the slowdown in activity may translate into a more substantial weakening in labour demand” said Mr Oster.

Overall, price and wage measures in the survey continued to suggest weak inflationary pressures in the economy. Output prices growth edged lower in the quarter and input prices growth and the wage bill tracked sideways – all at a low level.

“Declining capacity utilisation and weak surveyed price measures suggest that inflation outcomes are likely to be meek for some time. The impact of labour demand on wage growth will remain an important dynamic in this sense – with slack already evident in the labour market, any weakening in labour demand could well see further action from the RBA on rates to bolster the economy” said Mr Oster.

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

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