

NAB MONTHLY BUSINESS SURVEY

July 2019

By Group Economics

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BELOW AVERAGE CONFIDENCE AND CONDITIONS

Key messages from the survey: Broadly the picture from the business survey is unchanged from last month – the key message being that the business sector has lost significant momentum since early 2018 and that forward looking indicators do not point to an improvement in the near term. In the month, conditions edged lower but remains within its range over the past 4 months. Confidence ticked up after a sharp fall last month and a period of volatility around the Federal Election. Both remain clearly below their respective long-run averages. Forward orders are well below average (and negative), while capacity utilisation is now back around average - pointing to little improvement in the short-term. The decline in conditions and capacity utilisation appear to have fed into business decisions with the employment index and capex also weakening over the past year. Weakness in the retail industry continues to stand out, with conditions in that industry at recessionary levels – and declining further in the month. A worrying result, given we expected some boost to the industry following the post-election tax cuts. More broadly, the lift in confidence following the election appears to have faded with little impact on actual conditions. It appears that both the cut to interest rates and boost to tax rebates is yet to feed into the business sector and that the weakness in Q2 has persisted into Q3.

Business conditions fell 2 pts to +2 index points in July, driven by a decline in the employment sub-index. Trading conditions also edged lower, while reported profitability increased slightly in the month. All three sub-indexes are now again below average, with the decline in business conditions evident across most industries outside of mining over the past year.

Business confidence edged higher in the month to +4 index points, but remains below average. The lift 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, while confidence is softest in manufacturing and recreation & personal services.

According to Alan Oster, NAB Group Chief Economist “Business conditions declined slightly in the month. As we have noted in previous months, the decline in business conditions since early 2018 has been broad-based and has continued to track at below average levels in recent months. This is concerning, because while conditions remain positive, it points to a significant loss in momentum in the business sector”.

“Business confidence ticked-up in the month, following an easing last month, but is also below average. While there were some positive signs with a post-election lift in confidence, this bounce now looks to have been short lived with confidence also tracking at below average levels in the two months since the election” said Mr Oster.

“Business confidence in the retail sector saw a reasonable lift, likely related to the government’s tax cuts, but quite worryingly there appears to have been little boost to activity in the sector with conditions weakening further – the sector is currently facing recessionary levels of activity according to our measure” said Mr Oster.

Forward-looking indicators remain weak. Forward orders edged higher in the month but remain negative and well below average while capacity utilisation unwound its sharp spike last month and is now again just below average.

“Looking at the components of the survey that provide an indication of conditions going forward, we see little improvement. With both forward orders weak, and capacity utilisation a bit below average – both capex and employment growth are at risk” Mr Oster said.

“With a significant loss of momentum in activity, and inflation indicators remaining weak, the survey points to the need to the need for further stimulus in the economy. Indeed, we expect a further easing in interest rates from the RBA and think that some greater fiscal support will be needed from the government to kickstart growth” said Mr Oster.

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

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