

# NAB MONTHLY BUSINESS SURVEY

September 2019

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By Group Economics

## CONDITIONS REMAIN BELOW AVERAGE

**Key messages from the survey:** Business conditions recorded a sixth consecutive below-average month, pointing to ongoing weakness in the business sector. In the month, conditions edged up 1pt and confidence edged lower. While both conditions and confidence remain below average levels +6 index points – the broad-based trend decline since mid-2018 appears to have slowed. In the month, profitability and trading conditions remained below average, contrasting with the employment index, which edged up and is now above average. This mirrors official data that show ongoing strong employment growth but subdued consumer spending. At present, retail and wholesale (the goods distribution industries) are weakest – a reflection of conditions in the household sector. Manufacturing and construction are also weak, reflecting the dynamics in the housing sector and possibly some impact from global trade turmoil. Forward indicators remain mixed, but overall suggest that conditions are likely to continue a below-average trend. Likewise, price indicators suggest inflationary pressure is likely to remain weak. Recent rate cuts as well as the tax refunds appear to have driven some improvement in the retail sector, but with conditions remaining deeply negative it is unlikely to have been enough support to see a material turn-around in the sector.

Business conditions rose 1pt in September to +2 index points. This continues the below average run of business conditions but suggests that the trend weakening since mid-2018 has slowed. In the month, the increase was driven by a 1pt rise in each of the trading (now +4 index points), profitability (now -2 index points) and employment (now +3 index points) sub-indexes. Both trading and profitability remain below average while employment is now just above its long-run average.

Business confidence edged 1pt lower – now at 0 index points, the threshold between improving and deteriorating confidence in aggregate. It remains below its long-run average of +6 index points.

According to Alan Oster, NAB Group Chief Economist “The results of the September survey suggest more of the same for the business sector. Conditions edged up, and confidence was marginally lower, but both remain below their long run average – well below the levels seen just over a year ago. This suggests that activity in the business sector has slowed and we fear the risk that this spreads to both investment and employment intentions”.

“At present there are some key themes in the business sector. There is a downturn in housing construction and this has some way to play out. The consumer is weak, with low income growth and high debt levels having been a factor for some time. Global uncertainty is heightened on the back of trade ructions – and the exchange rate has depreciated. More positively, public sector spending has been a support to the business sector with a large pipeline of work underway” said Mr Oster.

“These factors have seen particular weakness in the ‘goods’ related part of the business survey with particular weakness in retail, wholesale, construction and manufacturing. Services sectors have generally held up better, and mining, while volatile recently, is also still a positive” said Mr Oster.

Forward-looking indicators are mixed. Capacity utilisation fell slightly in the month, but remains above average. Forward orders edged higher but are below average.

“In combination with weak confidence, leading indicators generally suggest that conditions will remain around where they are going forward. To date, employment has mirrored the strength in the official labour market data, though the suggested pace of employment growth has slowed somewhat. Surveyed capex has declined further and is now below average – the quarterly survey for Q3 released next week will give us an indicator of firms’ intentions for investment in the period ahead” Mr Oster said.

“We continue to watch the business sector closely – the housing downturn and the weakness in the retail sector are likely to continue to play out further, adding to private sector weakness in the economy. Rate cuts will help but will lag and with a weak consumer and higher global uncertainty, we are unlikely to see a material improvement in the short-term” said Mr Oster.

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

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