

# NAB MONTHLY BUSINESS SURVEY

October 2019

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By Group Economics

## CONDITIONS REMAIN BELOW AVERAGE

**Key messages from the survey:** This month's survey results continue to point to only modest outcomes in the business sector, though forward-looking indicators have improved slightly and may be pointing to a stabilisation in conditions. Conditions and confidence each saw a small improvement in the month with conditions edging up 1pt and confidence lifting 2pts – though both remain below average. The improvement in conditions was driven by an uptick in trading and profitability with the employment index flat. Ongoing reads of below-average trading conditions and profitability, will likely put at risk the continued strength in the employment component. In trend terms, the strength in mining appears to have faded over recent months, and the services sectors now see the best conditions. Retail and wholesale remain weakest. By state, NSW currently sees the best conditions while QLD and Vic are weakest. Inflationary pressure remains weak, with final products prices still growing at a low rate – notwithstanding a pick-up in retail price growth in the month and input price growth tracking at a higher pace. Overall, our read is that the survey continues to point to weak outcomes in the private sector, and that business' own outlook is for more of the same. Acknowledging that the impact of recent rate cuts will take time to flow through the economy, it appears that the support provided by both fiscal and monetary policy this year has done little to offset the slowdown in the business sector.

Business conditions rose 1pt in October to +3 index points – around half the long-run average of 6 index points. The tick up was driven by an increase in trading (now +7 index points) and profitability (now 0 index points) in the month. The employment index was unchanged (+4 index points), and is around twice its long-run average.

Business confidence rose 2pts to +2 index points, with mining, construction, retail and finance, business & property services clustered round 3 index points (in trend terms).

According to Alan Oster, NAB Group Chief Economist “There was a small improvement in both confidence and conditions in October, but both indicators largely point to more of the same for the business sector – that is, the below average run of confidence and conditions has continued following a significant deterioration through the second half of 2018 and through to mid-2019”.

“Trading conditions have picked up in recent months, and profitability has improved but both are still below average. Despite the weakness in these metrics, employment demand appears to have remained healthy with the survey suggesting ongoing growth of around 18k per month. That said, should the weakness in trading and profitability continue, this may see a pull-back in firms hiring decisions” said Mr Oster.

“The retail industry has seen some improvement from the lows in mid-2019, but is still in deeply negative territory. Official data seem to align with this, given the ABS measure of quarterly retail sales saw its weakest print for some time in Q3” said Mr Oster.

“Elsewhere, the services sector appears to have held up best over the past year, with mining now also having shown some deterioration. Construction and manufacturing are likely to remain weak for some time given the broader trends in residential construction and global uncertainty” said Mr Oster.

Forward-looking indicators were slightly more positive in the month, with a rise in forwards orders and capex in addition to the rise in confidence. Capacity utilisation edged lower but remains above average.

“Overall, our assessment is that while the forward-looking indicators were slightly more positive in the month, we expect more of the same regarding the run of below-average reads for conditions. We will be closely watching the forward-looking indicators for a sustained pick-up which could translate to a more material improvement in conditions” Mr Oster said.

“The business sector has lost significant momentum over the past year or so, putting at risk the optimism around business investment and possibly employment going forward. Overall, we see this as a demand driven issue with private sector demand the weakest since the GFC. It may well be the case that the economy needs further stimulus in addition to the monetary and fiscal support provided so far to support demand and see a lift in business activity and confidence” said Mr Oster.

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

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