

NAB MONTHLY BUSINESS SURVEY

November 2019

Embargoed until:
11:30am Tuesday 10 December 2019



By Group Economics

CONDITIONS STABILISING

Key messages from the survey: Business conditions tracked sideways in the month, and appear to have stabilised at low levels, after declining significantly between mid-2018 and 2019. At the industry level, the divergence between the goods related industries (the weakest) and the services sector (the strongest) widened. The construction and manufacturing sectors have stabilised after previous large falls. Mining has also seen a significant pull-back on lower commodity prices. By state, NSW and Tas currently see the best conditions, while Qld is now weakest. The recent optimism in forward-looking indicators unwound somewhat this month, with confidence falling back to 0 index points and forward orders reversing last month's increase, to again be below-average and negative. Capacity utilisation has eased over the past two months and is now back around average. Surveyed price measures suggest that inflationary pressure remains weak but has risen somewhat in recent months (including retail in the face of higher input costs). Businesses also continue to face margin pressures with input costs growth continuing to outpace the growth in final products prices. Overall, the business survey is consistent with ongoing weakness in GDP growth (especially private demand) and suggests there has been little improvement in Q4 for GDP. With conditions below average and confidence also weak, there is a risk that employment growth slows and that investment will remain weak despite spill-over demand from public sector spending and a stabilisation in mining.

Business conditions were unchanged in November at +4 index points (upwardly revised from last month). The employment index was unchanged at +4 index points, while trading conditions edged 1pt lower to +6. Profitability rose 3 pts to +3 index points. At these levels, the employment index remains above average but both trading conditions and profitability are below average.

Business confidence fell 2pts to 0 index points – unwinding the increase last month and remaining well below its long-run average of +6 index points.

According to Alan Oster, NAB Group Chief Economist “Business conditions appear to have stabilised with readings of between +2 and 4 over the past 3 months. The survey has tracked broadly sideways in recent months after showing a significant deterioration between early-2018 and mid-2019”.

“While conditions appear to have stabilised in aggregate, the gap between the worst performing industries – the goods related industries – and services widened further. Mining has also weakened substantially in recent months after having been the standout industry in the survey for some time. Also, unsurprisingly construction and manufacturing are at modest levels with the slowdown in housing construction and global confidence key headwinds” said Mr Oster.

“By state, conditions are most positive in NSW and Tas. Qld is now weakest – a very different picture to a year or so ago, where the east coast was the clear standout. WA and SA have been more mixed but currently see more modest outcomes. Overall, the weakening conditions since early 2018 has been evident across the country” said Mr Oster.

Forward-looking indicators weakened in the month, largely unwinding their improvement over recent months. Forward orders fell to -2 index points, unwinding their increase in October, while capacity utilisation and Capex edged lower – and are now both around average. Overall confidence also dipped back to 0 index points suggesting that on average firms see no change in business conditions going forward.

“Some of the positivity we saw in previous months with the forward-looking components in the business survey appears to have faded. Therefore, while we think conditions are stabilising, we don't see a significant recovery as being imminent” Mr Oster said.

“The business survey has mirrored the weakening in private sector demand over the past year or so. Retail, wholesale and transport & utilities are currently very weak and reflect the moribund consumer sector with official data also showing the weakest outcomes there since the early 1990s. Also reflected in the survey are the trends in construction and manufacturing in the economy more broadly. So while public sector spending has been a key support to growth over the last year, we are not seeing as many spill-overs as hoped into private sector business confidence – it appears to be more affected by the weak consumer at present” said Mr Oster.

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

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