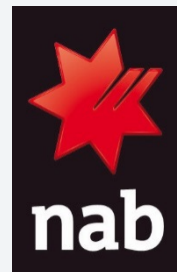


NAB MONTHLY BUSINESS SURVEY

February 2020

By Group Economics

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CONFIDENCE HEADS LOWER AND CONDITIONS NOW NEUTRAL

Key messages from the survey: Both confidence and conditions declined this month (after a period of stabilisation in conditions), though it appears too early to fully quantify the effect of the coronavirus with around 50% of firms reporting no impact to date. That is surprisingly small but, in our view, will clearly deteriorate going forward. Even so confidence is now firmly negative and business conditions appears to have renewed its previous downward trend – with both series well below long run averages. More importantly, forward orders deteriorated significantly and is quite negative. While the deterioration in the survey is not as large as we had feared, the notable decline in rec & personal confidence over the past two months, a decline in exports and the overall softening in forward orders (in part reflecting in weaker confidence) are all areas that would have been expected to show a virus impact. More broadly, the survey continues to suggest ongoing softness in the business sector with conditions and confidence having tracked below average for some time and capacity utilisation hovering around average in recent months. This has been reflected in reported capex falling to a below average level after trending lower over the past 18 months or so. The employment index ticked up in the month and is back around its long-run average despite the ongoing weakness in confidence, trading conditions and profitability. However, while it remains a bright spot in the survey it too has moderated, and implies a significantly slower pace of growth in employment when compared with 2018 and early 2019.

Both conditions and confidence declined in February. Conditions fell 2pts to 0 index points – led by a decline in profitability and small decline in trading conditions. The employment index ticked up in the month. Confidence is now firmly negative at -4 index points implying that businesses see further deterioration in conditions in the short term.

According to Alan Oster, NAB Group Chief Economist “Both conditions and confidence fell in the month, but not by as much as we had feared. That said, both continue to track below average and with forward orders weakening its likely we could see further deterioration”.

“The softening in conditions was broad-based across industries. Retail and wholesale were the exception but remain soft overall. The services sectors and construction remain most favourable but a softening in confidence, particularly for rec & personal could see this change” said Mr Oster.

“The eastern mainland states remain clustered around 1-3 index points in trend terms with WA lagging. Tasmania remains the standout – with conditions notably above the other states” said Mr Oster.

Leading indicators were softer in the month. Capacity utilisation edged lower and forward orders saw a decline to relatively low levels. Overall, these indicators alongside confidence suggest businesses see little improvement ahead.

“With leading indicators softer, it is unlikely we will see a material improvement in conditions in the near term. With conditions and confidence continuing to track below average – there are risks around future capex and employment growth. While employment remains a relative bright spot in the survey, at around average, capex has softened alongside the deterioration in conditions since early 2018 and is now below its long run average” Mr Oster said.

“We will closely watch the business survey for any impacts of the coronavirus. Our special question this month suggests around 50% of firms have been unaffected to date, and the bulk of those that have been report only a minor impact. However, it is very possible this number will rise as the spread of the virus continues – this would most likely result in a further deterioration in confidence and eventually reported business conditions” said Mr Oster.

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

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