

NAB QUARTERLY BUSINESS SURVEY

2019 Q4

By Group Economics

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CONFIDENCE DECLINES, WHILE CONDITIONS REMAIN BELOW AVERAGE

Business conditions appear to have reached a trough, edging higher for the second consecutive quarter. Conditions rose 2pts to +4 index points but are well below levels seen in early 2018. Business confidence was unchanged at -1 index points and is well below average, suggesting firms to do not expect a material turnaround in activity in the near term.

According to Alan Oster, NAB Group Chief Economist “It appears that business conditions have stabilised edging 3pts higher over the past two quarters. While they remain positive, they have declined significantly over the past 18 months or so”.

“Business confidence was unchanged but is still negative. Essentially, firms are telling us that they don’t expect a material improvement in activity going forward” said Mr Oster.

Conditions across the states were mixed, with a significant improvement in SA and Vic. They were weaker in Tas, Qld and WA. By industry, the services sectors continue to report the most favourable conditions (outside of mining), while retail and wholesale remain weakest, with manufacturing also weak.

“The softening in business conditions has been broad-based, but services industries have held up better. Retail and wholesale on the other hand are in very weak territory” said Mr Oster.

Leading indicators generally softened in the quarter. Expected business conditions at 3- and 12-months were lower, as was capacity utilisation. Forward orders improved but are at a neutral level – that is firms don’t see an improvement in orders. Expected employment at 3 months edged lower while expectations further out were unchanged.

“Our assessment is that forward looking indicators have not seen a major deterioration this quarter, but they certainly don’t imply significant improvement in business conditions going forward. We think business conditions have stabilised but probably won’t shoot the lights out going forward” said Mr Oster.

The survey continues to point to weak inflationary pressure, though notably retail prices growth has seen a small rise in recent quarters – but remains low. Margin pressure continues to be an issue with input price growth (including labour costs) continuing to outpace growth in final products prices.

“The survey broadly fits with our overall read of the economy. A weak private sector – particularly in the consumer space and only modest inflation pressure. There also appears some risk around the outlook for the labour market and business investment. We think more policy support is needed and that this is still likely to occur in 2020, but for now the RBA appears in wait and see mode with labour market conditions still faring well” said Mr Oster.

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

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