

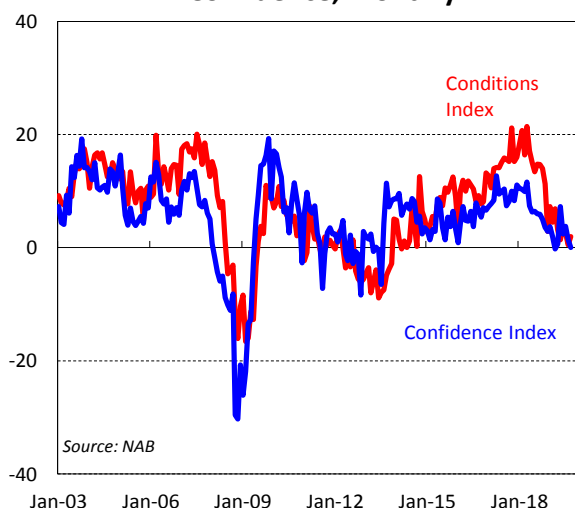
Tuesday, 8 October 2019



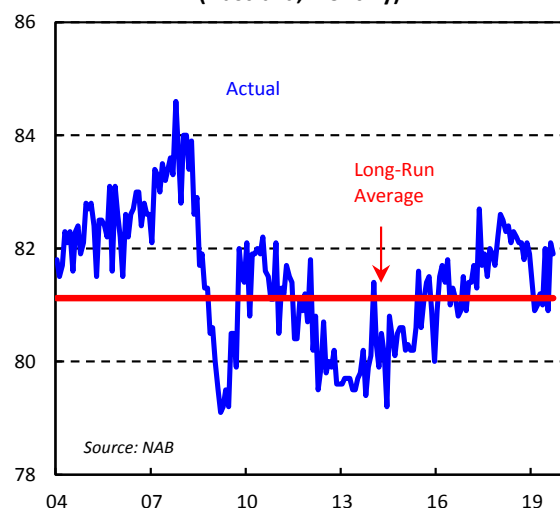
Business Confidence Sentiment Remains Weak

- The latest NAB Monthly Business Survey shows that business sentiment remained soft in September. Business confidence fell 1 point to 0, the lowest since March. Other parts of the survey suggested that the deteriorating trend in conditions could be steady, with the business conditions index rising 1 point to +2. Both business conditions and business confidence are below their 10-year averages of +6 and +5 respectively.
- All sub-components of business conditions improved in September, including trading, profitability, employment and forward orders. Employment conditions registered a further improvement to the highest since June, suggesting further resilience in the labour market.
- Business operating conditions have turned markedly weaker in 2019. While some solace can be gleaned from September's improvement, conditions remain soft. Taken together, lacklustre business confidence and a paucity of data showing a turnaround in household consumption suggest that rate cuts from the RBA and tax breaks are yet to have a material impact on economic growth.

Australian Business Conditions & Confidence, Monthly



Business Capacity Utilisation Rate (Australia, monthly)



Australian businesses remained relatively downbeat in September, but the downward spiral in sentiment appears to be abating. The NAB Monthly Business Survey for September showed a 1 point rise in the business conditions index to +2, while the business confidence index fell a further 1 point to 0.

The rise in the business conditions index was supported by better trading conditions and employment, while the drag from profitability turned less negative. In August, the index measuring profitability was the weakest since 2013. September's result (-2) pared some of that negativity, but the index remains well below its long run average. Trading conditions (+4) were also below their long run average (+10), but improved from last month.

Mirroring the positive underlying trend in official data for net employment, the employment index picked up in September to +4. The recent solid employment numbers have not been enough to offset rising population and labour force participation, which has left the unemployment rate higher. The sluggish level of business confidence and continued malaise in operating conditions suggests that there remains a risk that investment intentions will be downgraded over the coming quarters and adds headwinds to the prospect of continued employment growth.

In response to a slowdown in economic growth, the RBA has cut rates three times this year, and the Federal government announced tax breaks to low and middle income households for the 2018-19 financial year. The increase in the overall business conditions index in September, as well as a turnaround reported in the retail sector suggests that some of the impact of the cumulative stimulus is beginning to be felt. However, the fall in business confidence, and the low level of business conditions, indicates that the effects have been mild at best.

Other industries to report an improvement in conditions in September were manufacturing and transport & utilities. Retailing conditions remained the most negative (in trend terms), reflecting the ongoing strains on the consumer.

By State, conditions in trend terms remain most upbeat in Western Australia and New South Wales and are the weakest in Tasmania. New South Wales, Victoria and South Australia all saw an improvement in conditions over the month and deteriorated in Western Australia.

For firms to commit to further investment, they would also need to be confident about the outlook. The fall in business confidence and the continued low level of most other measures in the survey, including forward orders, points to a subdued outlook for growth.

Outlook

Business operating conditions turned markedly weaker in 2019. The latest business confidence reading confirms that conditions remain soft, however some solace can be gleaned from the slowing trend. Taken together, lacklustre business confidence and a paucity of data showing a turnaround in household consumption suggest that rate cuts from the RBA and tax breaks are yet to have a material impact on economic growth.

We expect the impact of rate cuts and tax breaks will seep through. The cumulative effect of the stimulus to date and the prospect of more will prop up consumer spending and business conditions from their current low levels. Any effect is likely to be muted though, as continued global uncertainty weighs on growth.

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