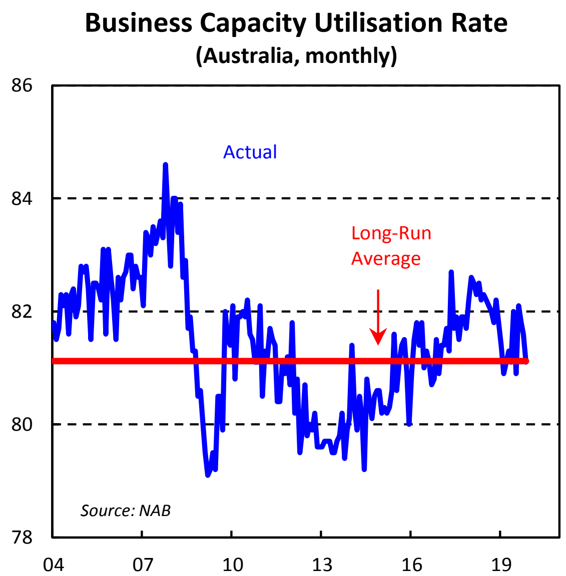
Data Snapshot

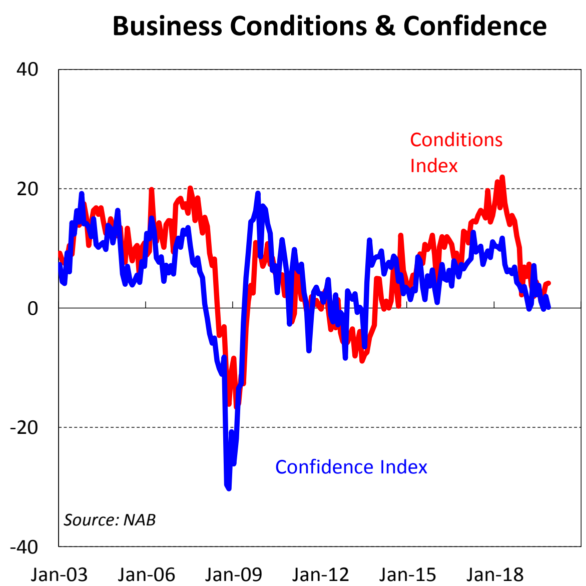
Tuesday, 10 December 2019

Business Confidence

Going Nowhere

- **Business sentiment remained sluggish in November. Businesses do not appear to see an improvement in conditions on the horizon.**
- **The business confidence index fell to 0 in November, from 2 in October. The business conditions index was unchanged at 4. Both conditions and confidence remain below their 10-year averages of 6 and 5, respectively.**
- **The sub-components of the conditions index were mixed over the month. A gain in profitability, to the highest since March, was offset by a modest decline in trading conditions. Employment was unchanged and is one of the few indicators in the survey that remains above its long-run average.**
- **The forward-looking components of the survey retreated in November. Forward orders were one of the few bright spots in last month's survey, but this index fell back into negative territory in November. Indeed, it has spent nine of the last ten months in contraction.**
- **A continued malaise in business sentiment suggests that business investment is unlikely to increase in coming months. Even allowing for the associated lags involved with the transmission of monetary policy, today's outcome adds to the case that further stimulus in the economy is needed.**





The NAB business survey showed that business sentiment remained sluggish in November. Business confidence has fallen over most of 2019 and businesses do not appear to see an improvement on the horizon. Forward-looking measures in the survey fell back in November and most indicators in the survey remained below their long-run average.

The business confidence index fell to 0 in November, from 2 in October. The business conditions index was unchanged at 4. Both conditions and confidence remain below their 10-year averages of 6 and 5, respectively.

A volatile global outlook and weakness in domestic private demand have been particular drags on growth in 2019. In November, the sub-components of the conditions index were mixed. Profitability increased to 3, which was its highest outcome since March, but was offset by a drop in trading conditions to 6. Employment remained the standout though; the employment sub-index was unchanged at 4 in November, which is above its long-run average.

The forward-looking components of the survey retreated in November. Forward orders were one of the few bright spots in last month’s survey, but it fell back into negative territory in November. Indeed, this sub index has spent nine of the last ten months in contraction.

Capacity utilisation also declined, registering 81.1% in November, which is down from the 2019 high of 82.0% (recorded in June).

By State, conditions worsened considerably in New South Wales and South Australia. All States saw a decline in conditions over the month except for Victoria and Tasmania.

Conditions in the mining sector continued to worsen, as commodity prices continue to trace lower. Construction sector firms also reported a deterioration in conditions with the residential construction downturn still further to run.

In trend terms, conditions are faring much better in the services industries while retail and goods-producing industries continue to struggle.

Outlook

Weak business investment has been a significant drag on economic growth in recent quarters. The continued sluggishness in business conditions and confidence suggests that business investment remains a downside risk to the outlook. The three rate cuts by the Reserve Bank (RBA) since June have failed to boost consumer spending. Monetary policy operates with a lag, and we expect the easier policy conditions in recent months will eventually flow through to consumer spending and result in an improvement in the business-operating environment. However, the low level of economic activity and continued uncertainty in the global economy suggests that the improvement will only be modest and further easing will be required.

We continue to expect two more cuts to the cash rate next year, before the RBA is forced to more seriously consider unconventional monetary policy.

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