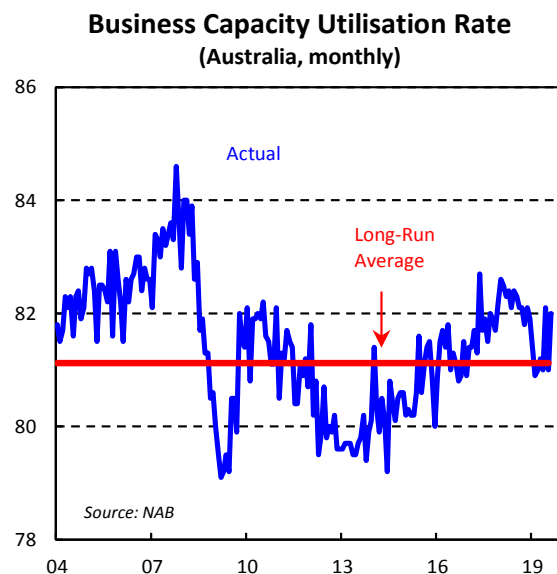
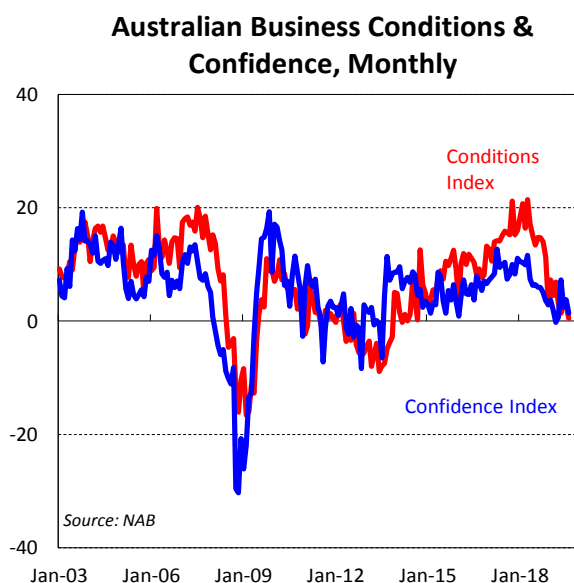


Business Confidence Reality Bites

- Business confidence and conditions fell in August, according to the NAB Monthly Business Survey. There was a 2-point fall in the conditions index to +1. The recent rate cuts and tax rebates have done little to cheer the mood of businesses who are taking their cues from a difficult operating environment and global uncertainty.
- The sub-components of the conditions index point towards a difficult operating environment. Profitability (-3) fell to the lowest since November 2013 while trading conditions deteriorated for the second consecutive month to +3. The employment index recovered from last month's fall to +2, but is still sitting just below its long-run average.
- The business confidence index was also weaker, falling 3 points to +1 in August, the lowest since just before the Federal election in April.
- Business confidence is a key ingredient for the transmission of rate cuts. Today's result signals that companies are wary about the outlook. Businesses (particularly non-miners) remain reticent to take advantage of the current low-interest rate environment to increase investment. Business investment has been sluggish in recent quarters, and business confidence remains below its long-run average, following a downward trend so far in 2019.



Businesses became more downbeat in August, according to the latest NAB Monthly Business Survey. Rate cuts and tax breaks are yet to show signs of flowing through to firms' bottom lines as global economic uncertainty hampers the outlook.

The business conditions index fell to +1 in August from +3 in July, led by a plunge in profitability to -3 (the lowest in almost 6 years) and trading conditions (+3). Another sub-component, employment, rose back near its long-run average to +2.

A 3-point drop in business confidence to +1 confirmed the gloomy picture canvassed by the business conditions index, suggesting pessimism regarding the outlook. Firms appear to be looking through the recent rate cuts and tax rebates and are instead focussing on a difficult operating environment and global uncertainty.

By State, the decline in confidence was registered across the board, except in Victoria and Queensland. In trend terms, confidence is most favourable in New South Wales and Western Australia.

By industry, the weakest conditions continued to be in retail, but a pickup in confidence in the sector suggests hope for better times ahead. Wholesale trade and manufacturing were also negative on balance. Conditions were strongest in the mining sector.

Capacity utilisation edged up over the month to 82%, above its long-run average. A higher capacity utilisation rate is usually a positive signal for employment and investment; however the measure has been volatile in recent months. Additionally, for firms to commit to further investment, they would also need to be confident about the outlook. The forward orders index deteriorated further to -4 in August, well below its long-run average and further negative from the -3 recorded in July.

Outlook

Business confidence is a key ingredient for the transmission of rate cuts. Today's result is a sign that companies have not yet reached a turning point in terms of their outlook. Businesses (particularly non-miners) have been reticent to take advantage of the current low-interest rate environment to increase investment. Recent national accounts data have shown that business investment has been constraining growth.

Existing rate cuts and tax breaks should prop up consumer spending and have a flow-on effect on businesses. Any effect is likely to be muted though, continued global uncertainty is likely to weigh on sentiment. With business conditions soft, and trending down so far in 2019, there is little hope for a sharp turnaround in growth in the coming quarter.

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