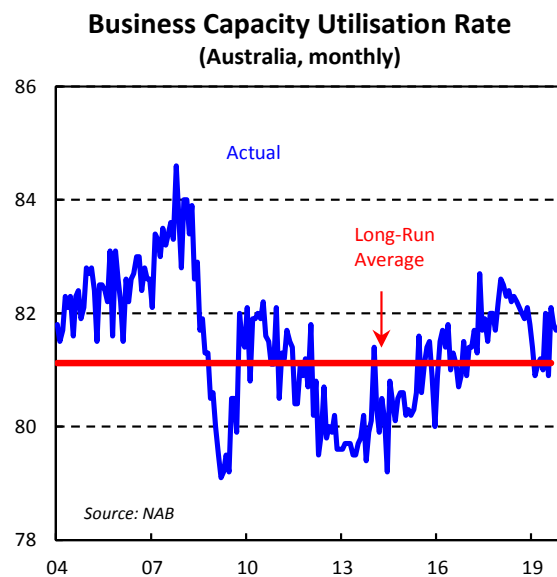
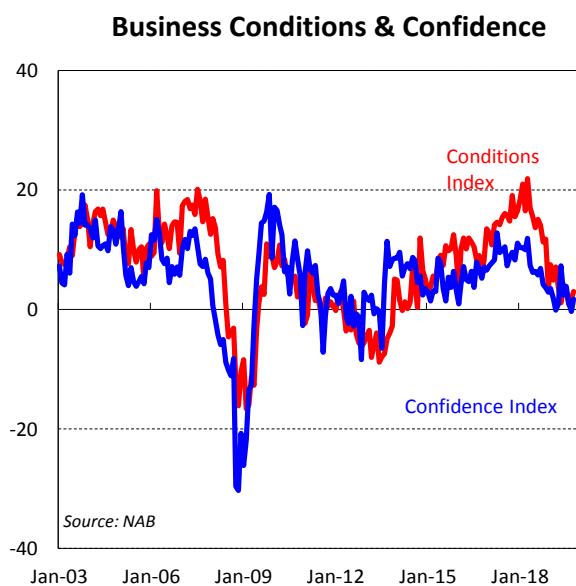


Business Confidence

Confidence Issues

- Business sentiment ticked up over the month in October, but remains well below its long-run average. The NAB monthly business survey has shown that business confidence and operating conditions have languished in 2019, despite easier monetary policy and tax breaks.
- The confidence index rebounded from 0 in September to 2 in October, while conditions registered a 1 point increase to 3. Despite the latest increases, both confidence and conditions remain below their 10-year averages of 5 and 6, respectively.
- All sub-components of the conditions index lifted over the month, but continue to point to challenges in the operating environment. The biggest gain was in the trading conditions which rose 3 points to 7, its highest value since July.
- On a positive note, forward orders rose 5 points to 3 in October, its first positive outturn in a year. Capacity utilisation fell marginally over the month to 81.7% from 81.8%, but appears to have settled just above its long-run average.
- The reluctance of businesses to respond positively to rate cuts presents a downside risk to economic growth.



Business sentiment edged higher October, according to the latest NAB monthly business survey. Despite the improvement over the month, most indicators in the survey remain well below average and point to continued uncertainty in the business environment.

The conditions index registered its second consecutive monthly increase, up 1 point to 3 in October. Confidence rose 2 points to 2. Both indicators are at their highest since July, but remain below their 10-year averages of 6 and 5, respectively.

Sentiment has languished for most of 2019, notwithstanding a brief reprieve in the wake of reduced uncertainty following the Federal election. The volatile global outlook and weak demand conditions have had a particularly dampening effect on the profitability index, which has been below the 0 neutral level for 4 of the last 6 months. It rose 2 points to 0 in October.

The other components of the conditions index –trading conditions and employment– stood at 7 and 4 respectively.

The bright spot of the report was the forward-looking indicators.

Forward orders rose 5 points to 3 in October, its first positive outturn in a year. Capacity utilisation fell marginally over the month to 81.7% from 81.8%, but appears to have settled just 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.

There was an increase in the confidence index registered across all States except for Western Australia. The conditions index also experienced a broad increase. All States except for New South Wales and Queensland picked up in the month.

By industry, retailers continue to do it tough, although registered a small increase in the conditions component. Services, mining and construction companies all fared better over the month. The services sector overtook mining as the best performing conditions index.

Outlook

The reluctance of both businesses and consumers to respond positively to rate cuts is a key downside risk to economic growth. We continue to expect that the easier policy conditions in recent months will support consumer spending and result in an improvement in business balance sheets and confidence. The ongoing weakness in domestic demand and prevailing global uncertainty dampens prospects though. Economic growth is expected to remain below trend over the coming year.

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