

Australian Economic Comment

Biz conditions hold 8-yr high, but confidence eases

Economics

Australia

May biz conditions hold at a still strong +10.1, staying well above average

NAB's survey of business conditions remained strong in May at +10.1 (UBS: 'steady', mkt: nf), after an upwardly revised +9.7 in April (was +9.2), and followed March's near 8-year high of +12.1. By industry, mining remained depressed (-11 after -25); but non-mining (un-weighted average) bounced to further above average (+8.4, after +7.3). On the weaker side, employment intentions retraced from a 5-year high (+0.8, after +4.4) – but the trend is still consistent with ongoing solid ~1½-2% y/y jobs growth. Meanwhile, the trend of selling prices remains near to a cycle low and suggests persistently very low CPI; while the wages bill also held near the weakest rate since the GFC. In contrast however, capacity utilisation has trended up to near the highest level since 2008 – which implies lower unemployment, and stands out as one of the few indicators implying rising inflation pressure (while a range of other data implies the risk of a [downward wage-price spiral](#)).

Business confidence falls back to +2.7, lowest since Aug-15, but still 'positive'

Elsewhere, business confidence eased back further in May to +2.7 (UBS: 'up', mkt: nf), the lowest level since Aug-15, after +5.3 in April. While confidence remains in 'positive' territory, it's stuck below its post-1997 average of +5.7.

Implications: strong biz conditions, but the RBA is (still) focussed on low CPI

Overall, the NAB business survey continued to paint a rosy picture of conditions, holding above average for over a year, the best trend since before the GFC. Normally, the easing of business confidence (which NAB notes is possibly due to election uncertainty) would suggest that conditions may moderate ahead. But, at least for now, conditions remain remarkably resilient. More broadly, the measures of inflation pressure (selling prices and wages) mostly remain weak, but the ongoing uptrend of capacity utilisation does stand out as signalling more pressure. For the RBA, the strength of business conditions is not 'new news', and did not stop them from cutting in May. Hence, we still see the RBA cutting another 25bp in August, but this is based on their increased focus on very low inflation, rather than underlying economic weakness.

George Tharenou

Economist

george.tharenou@ubs.com

+61-2-9324 3520

Scott Haslem

Economist

scott.haslem@ubs.com

+61-2-9324 3663

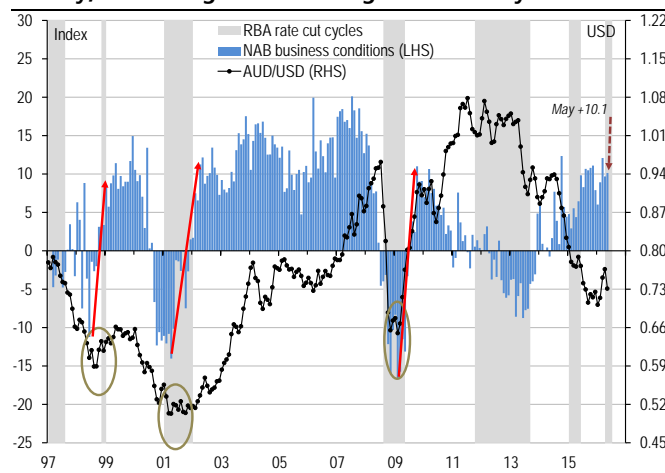
Jim Xu

Associate Analyst

jim.xu@ubs.com

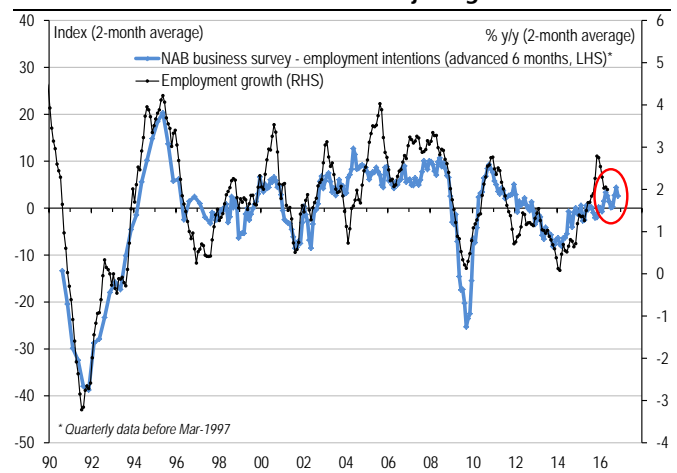
+61-2-9324 2665

Figure 1: NAB business conditions hold at a strong +10.1 in May, remaining above average for over a year now



Source: NAB, RBA, Datastream, UBS

Figure 2: Employment intentions eased, but the trend remains consistent with 1½% - 2% jobs growth



Source: ABS, NAB, UBS

NAB business survey (April 2016)

Figure 3: NAB business survey (index)

	Confidence	Conditions	Trading	Profits	Employment	New orders	Stocks	Labour cost (%)	Sell price (%)	Cap. Util. (%)
Jan-16	3.6	8.9	13.5	11.7	1.0	2.8	11.1	0.7	0.2	81.5
Feb-16	6.4	12.1	17.3	14.4	4.4	-0.9	2.1	0.8	0.1	82.0
Mar-16	5.3	9.7	15.3	9.4	4.4	1.6	2.5	0.6	0.1	81.4
Apr-16	2.7	10.1	20.1	12.2	0.8	2.0	3.8	0.6	0.3	82.0

Figure 4: Non-mining conditions also remain above ave.

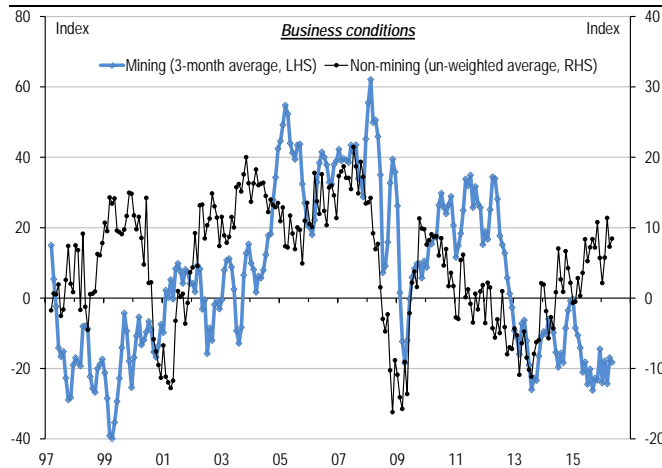


Figure 5: Trend in capacity utilisation still implies UR fall

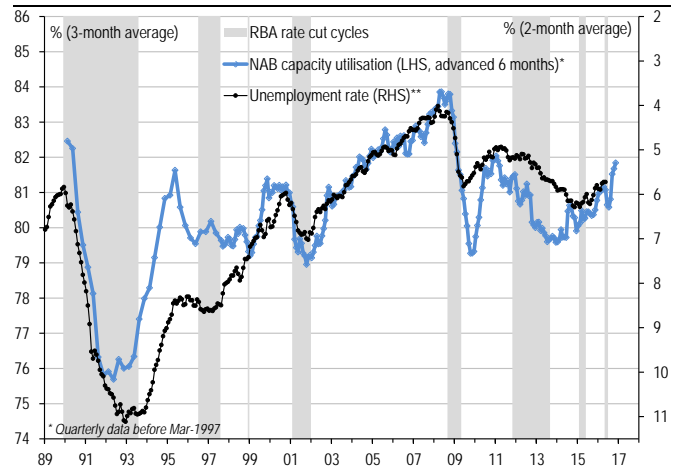


Figure 6: Business confidence eases, but still 'positive'

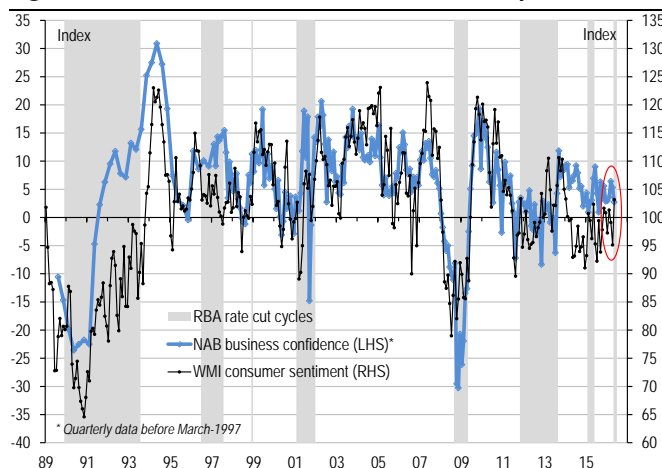


Figure 7: Strong conditions ~consistent with better GDP

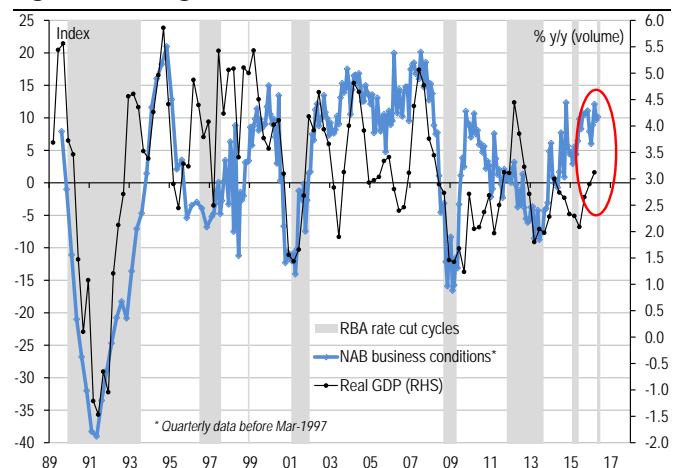


Figure 8: Selling prices remain near a multi-year low

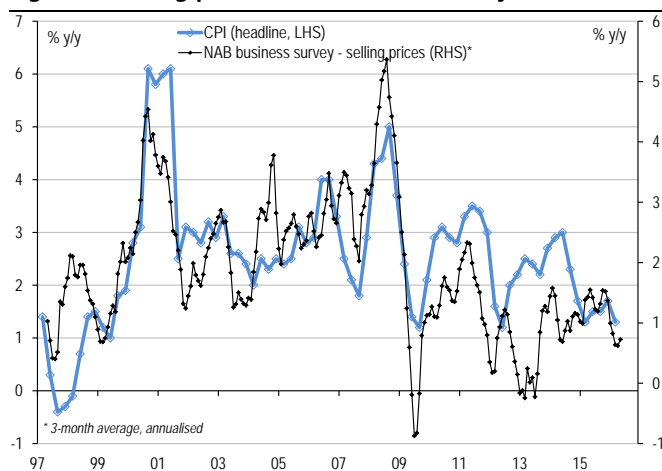
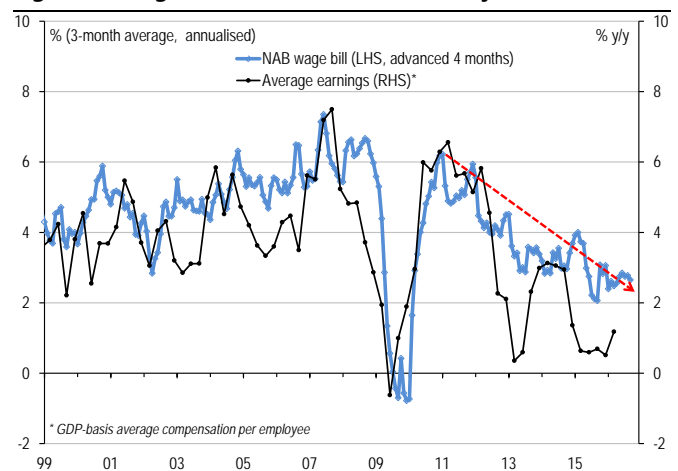


Figure 9: Wages bill steadies at a relatively weak level



Source: ABS, NAB, RBA, Westpac Melbourne Institute, UBS

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