

Business confidence at 10-month high Wholesale petrol price at 3½-month low NAB Business survey; Weekly petrol price

- **Business survey:** The NAB business conditions index fell from +3.3 points in April to +0.6 points in May. But the business confidence index rose from 0.1 points in April to a 10-month high of +7.3 points. It was the biggest lift in business confidence in almost 6 years.
- **Petrol:** According to the Australian Institute of Petroleum, the national average price of unleaded petrol fell by 2.0 cents in the past week to 143.7 cents a litre. Wholesale prices are near 3½-month lows.

The business survey has broad implications for investors and the economy. Movements in the petrol price can affect consumer spending, and in turn, prospects for retailers.

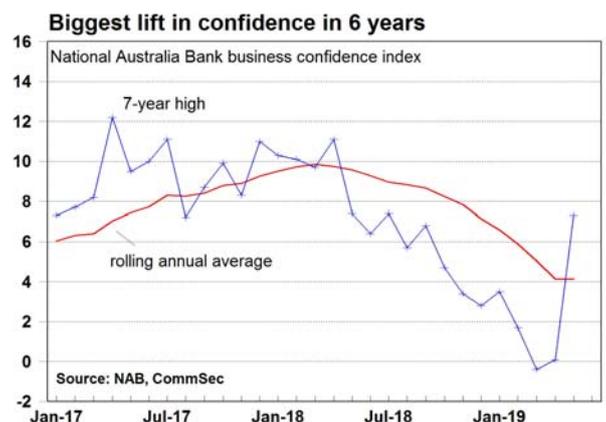
What does it all mean?

- The 'new economy' began on May 19. And while business conditions were never going to bounce immediately after the election, the sharp lift in consumer confidence is encouraging. Especially encouraging was a lift in the employment sub index back to levels in line with the long-term average or 'normal' level.
- The latest business story supports the recent Reserve Bank move to cut interest rates. But the lift in business confidence means the Reserve Bank doesn't need to rush with further monetary stimulus.
- Motorists have experienced relief at the bowser – that is, most motorists – prices are still high but in the process of falling in Melbourne. The good news is that wholesale prices are at the lowest levels seen since February. At that time pump prices were tracking near \$1.25 a litre. The bad news is that the new batch of lower prices may not last for too long if OPEC producers extend their agreement to restrain global supplies of crude. With prices fluctuating wildly across cities and from week to week, motorists must stay alert to secure the cheapest prices.

What do the figures show?

National Australia Bank Business Survey

- The NAB business conditions index fell from +3.3 points in April to +0.6 points in May. But the business confidence index rose from 0.1 points in April to a 10-month high of +7.3 points. The long-term average is +5.8 points.
- The survey was sent out on May 14 and interviewing started May 20.
- The rolling annual average business conditions index fell from +10.4 points to +9.1 points in May, below the record high of +17.3 points in June 2018, but above the long-run average of +6.0 points.
- The rolling annual average business confidence index was steady at +4.1 points, but below the long-run average of +5.9 points.



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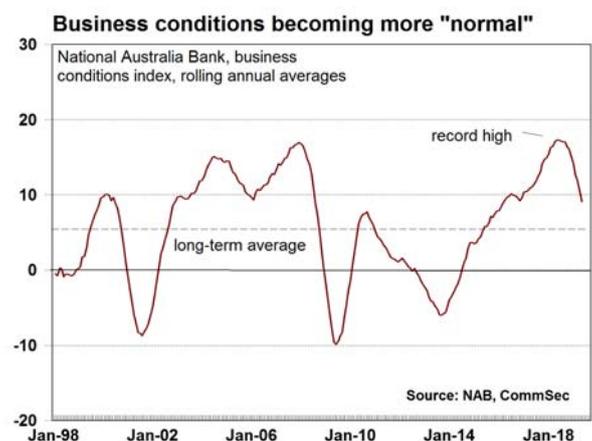
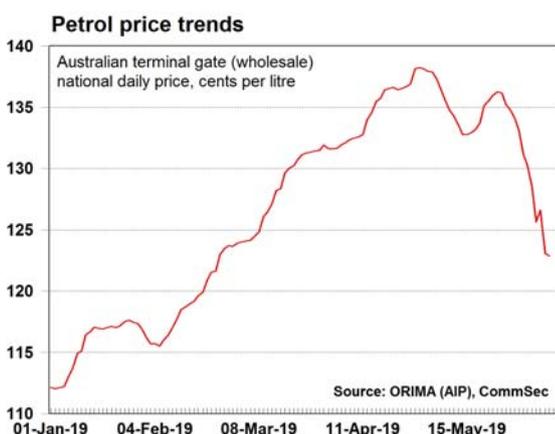
- **Key Components:** The index of trading conditions fell from +7.7 points to +2.6 points; employment rose from -1.2 points to +1.9 points; profitability fell from +0.8 points to -2.6 points; forward orders fell from -1.5 points -3.4 points.
- **Inflationary indicators:** The monthly reading of labour costs rose at a 1.0 per cent quarterly rate in May after a 0.6 per cent rise in April. Purchase costs rose at a 0.8 per cent quarterly rate (previously +0.5 per cent). Final product prices rose at a 0.2 per cent quarterly rate (previously +0.2 per cent). Retail prices rose at a 0.1 per cent quarterly rate (previously +0.4 per cent).
- **Capacity utilisation** fell from 81.1 per cent to 80.9 per cent, in-line with the long-term average.
- The proportion of firms reporting that they did not require credit fell from 70 per cent to 50 per cent.
- **NAB reported:** *“The decline in conditions was driven by a further weakening in retail, a decline in mining and smaller falls in transport & utilities and the services sector. In trend terms, conditions remain most favourable in mining and weakest in the goods distribution industries. Manufacturing is also negative after weakening in recent months.”*
- *“Confidence is at or below the national average (in trend terms) in all industries except mining, construction and manufacturing.”*
- *“For some time now, the survey has suggested inflationary pressure remains weak. Growth in prices across inputs and outputs continues to track a relatively slow pace, and in combination with lower capacity utilisation is unlikely to lift any time soon.”*
- *“At current levels, and based on historical relationships, the survey suggests that employment will likely grow around 18,000 per month, over the next 6 months. With ongoing strength in population growth, this rate of employment demand is unlikely to see further reductions in the unemployment rate.”*

Petrol prices

- According to the Australian Institute of Petroleum, the **national average price of unleaded petrol** fell by 2.0 cents to 143.7 cents a litre in the past week. The **metropolitan** price fell by 2.4 cents to 142.5 cents a litre with the **regional** price down by 1.2 cents to 146.1 cents a litre.
- **Average unleaded petrol prices across states and territories over the past week were:** Sydney (down by 7.1 cents to 132.4 c/l), Melbourne (up by 12.7 cents to 157.2 c/l), Brisbane (down by 8.7 cents to 135.3 c/l), Adelaide (down by 20.4 cents to 140.2 c/l), Perth (down by 4.7 cents to 141.2 c/l), Darwin (up 3.2 cents to 145.6 c/l), Canberra (down by 1.2 cents to 145.6 c/l) and Hobart (down by 0.2 cents to 154.8 c/l).
- **MotorMouth records the following average retail prices for capital cities today:** Sydney 129.8c; Melbourne 148.1c; Brisbane 130.3c; Adelaide 127.0c; Perth 145.7c; Canberra 144.9c; Darwin 145.2c; Hobart 153.8c.
- Today, the **national average wholesale (terminal gate) unleaded petrol price** stands at 122.9 cents a litre, down 7.3 cents over the week and at a 3½-month lows. The **terminal gate diesel price** stands at 130.9 cents a litre, down by 6.7 cents over the past week.
- Over the week to Friday, the **key Singapore gasoline price** fell by US\$1.50 or 2.2 per cent to a 3-month low of US\$68.20 a barrel. Gasoline was as low as US\$64.70 on June 6 but yesterday stood at US\$67.60. In Australian dollar terms, the Singapore gasoline price fell by \$2.92 or 3 per cent last week to \$95.70 a barrel or 60.19 cents a litre.

What is the importance of the economic data?

- The monthly **National Australia Bank business survey** is valuable in providing a timely reading about the health of Corporate Australia. Key indicators of business conditions such as orders, employment, profitability and



capacity use are covered together with a gauge on confidence levels.

- **Weekly figures on petrol prices** are compiled by ORIMA Research on behalf of the Australian Institute of Petroleum (AIP). National average retail prices are calculated as the weighted average of each State/Territory metropolitan and non-metropolitan retail petrol prices, with the weights based on the number of registered petrol vehicles in each of these regions. AIP data for retail petrol prices is based on available market data supplied by MotorMouth.

What are the implications for interest rates and investors?

- Aussie businesses can see light at the end of the tunnel – and it doesn't appear to be a train moving in the opposite direction. Political certainty combined with tax cuts, rate cuts, the minimum wage decision, lower petrol prices and support for lenders from regulators all point to more attractive business conditions ahead.
- The major uncertainty at present is the status of the US-China trade talks.
- Filling up the car with petrol is the single biggest weekly purchase for most families. Over the past month motorists in some capital cities have seen pump prices fall by 20-30 cents a litre. Unfortunately prices need to stay lower for longer to have a discernibly positive impact on retail spending.
- The gross retail margin for petrol retailers has crept up to near 6-month highs, suggesting more relief ahead for motorists at the bowser.
- CommSec has pencilled in another rate cut in August.

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