

## Annual business trading conditions hit 4-year low Chinese annual food inflation hits 7½-year high

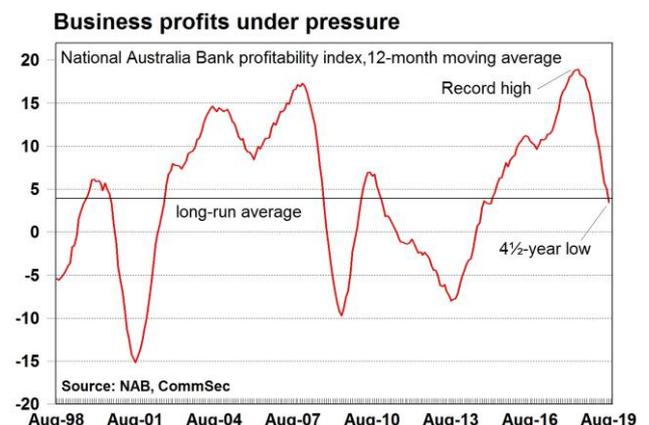
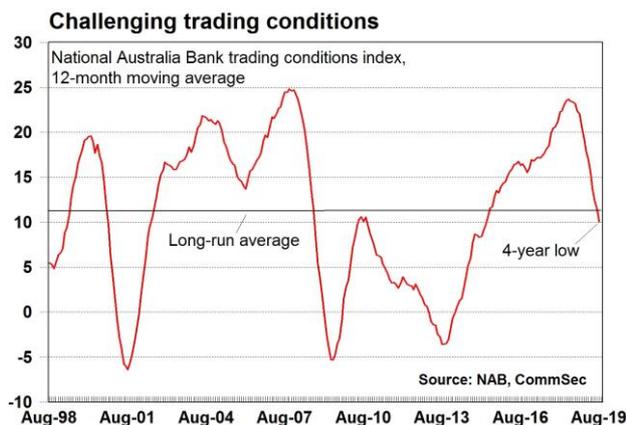
### NAB Business survey; Weekly consumer sentiment; China data

- **Business survey:** The NAB business confidence index fell from +3.8 points in July to +1.4 points in August. The long-term average is +5.9 points. And the business conditions index fell from +2.6 points in July to a near 5-year low of +0.5 points in August. The long-term average is +5.8 points.
- **Tough trading conditions:** The 12-month moving average of the NAB trading conditions index fell to a 4-year low of +10.1 points in August, down from +11.5 points in July. The long-term average is +11.3 points.
- **Profit pressure:** The 12-month moving average of the NAB profitability index fell to a 4½-year low of +3.5 points in August, down from +5.0 points in July. The long-term average is +4.6 points.
- **Consumer confidence:** The weekly ANZ-Roy Morgan consumer confidence rating fell by 1.0 per cent to 113.3 points, below the average of 114.4 points held since 2014, but above the longer term average of 113.1 points since 1990. Consumers' views towards their 'family finances over the next year' rose by 1.7 per cent to 28.5 points – the equal highest level in four months.
- **China inflation:** Chinese consumer prices rose by 2.8 per cent (forecast: 2.7 per cent) over the year to August. Annual food prices rose by 10 per cent – the strongest annual growth rate in 7½ years. Annual growth of producer prices fell from -0.3 per cent to -0.8 per cent – the biggest annual decline in 3 years.

*The business survey has broad implications for investors and the economy. The consumer confidence figures have implications for retailers, and other consumer-focussed businesses. The Chinese data have implications for the currency markets and therefore exporters and importers.*

### What does it all mean?

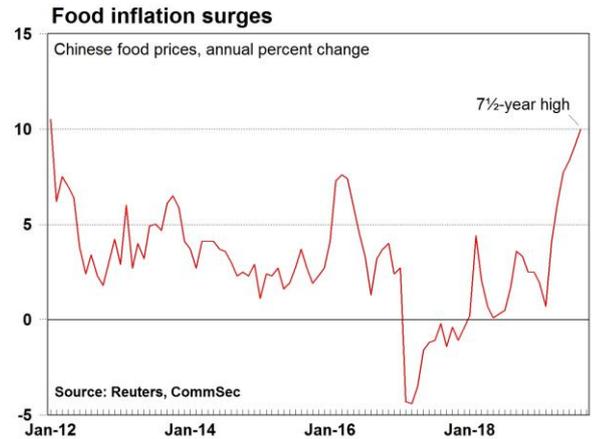
- The Aussie corporate reporting or earnings season has been and gone. CommSec tracks the earnings of Australia's largest listed companies. Our findings suggest that firms are struggling with the most challenging operating conditions in around a decade, despite continuing to pay out dividends to shareholders. In fact, only



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52.2 per cent of companies were able to lift profits for the year to June, underscoring firms' concerns about trading conditions. Trading conditions are now at the weakest level in August since April 2015 in 12-month moving average terms according to the NAB survey. Sluggish consumer spending, rising energy costs, the inability to lift product prices due to intense competition, global trade turmoil and interest rate sensitivity were identified by senior company managers as key concerns.

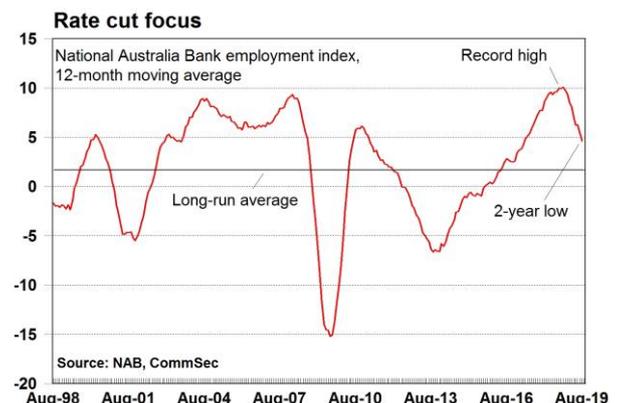
- Aussie businesses are facing mounting profit margin pressures as rising operating, input and labour costs weigh on already constrained balance sheets. In fact, the NAB profitability conditions index hit the lowest level since February 2015 in 12-month moving average terms in August.
- Consumer confidence ebbs and flows. Sentiment is still above the long-run average (since 1990), but consumers remain cautious – as reflected in disappointing July retail spending data released last Tuesday. Blanket coverage of Australia's slowing economy in the June quarter - the weakest annual GDP growth rate since September 2009 - would also have weighed on sentiment.
- Consumers' views towards their 'family finances over the next year' rebounded last week, however, to the equal highest level since late May, according to Roy Morgan and ANZ. Government tax relief, the lowest mortgage rates since the 1950s and the revival in East Coast property markets are likely behind the improvement. The Aussie dollar also lifted in value last week.



## What do the figures show?

### National Australia Bank Business Survey

- The NAB business confidence index fell from +3.8 points in July to +1.4 points in August. The long-term average is +5.9 points. And the business conditions index fell from +2.6 points in July to near 5-year lows of +0.5 points in August. The long-term average is +5.8 points.
- The survey was conducted in the period August 20-31 2019.
- The rolling annual average business confidence index fell from +3.6 points in July to +3.2 points in August, below the long-run average of +5.8 points.
- The rolling annual average business conditions index fell from +7.3 points in July to +6.1 points in August, marginally above the long-run average of +6.0 points.
- **Key Components:** The index of trading conditions fell from +6.8 points to +3.1 points; employment rose from -0.1 points to +1.6 points; profitability fell from +0.4 points to -2.6 points; forward orders fell from -3.2 points to -3.8 points; stocks rose from -0.4 points to +2.2 points; exports rose from -0.2 points to -0.1 points.
- **Inflationary indicators:** The monthly reading of labour costs rose at a 1.2 per cent quarterly rate in August after a 0.9 per cent rise in July. Purchase costs rose at a 0.6 per cent quarterly rate (previously +0.9 per cent). Final product prices rose at a 0.2 per cent quarterly rate (previously +0.5 per cent). Retail prices rose at a 0.1 per cent quarterly rate (previously +0.7 per cent).
- **Capacity utilisation** rose from 81.0 per cent to 82.0 per cent, above the long-term average of 81.1 per cent.
- The proportion of firms reporting that they did not require credit fell from 45 per cent to 40 per cent.
- **NAB reported:** *“Both business confidence and conditions declined in the month, with both now at +1 index point – well below long-run averages. This outcome suggests that momentum in the business sector continues to weaken, with both confidence and conditions well below the levels seen in 2018 – and is in line with the weak outcome for the private sector in the Q2 national accounts.”*
- *“Weaker conditions and a decline in forward orders (which are negative and well below average), have seen reported capex decline to around average. While capacity utilisation rose in August, it has been volatile in recent months and is a little below the levels seen a year ago.”*
- *“Despite the slowing in activity, and a pull-back in expansion plans, the employment index remains around average.”*
- *“At one end of the scale, mining continues to stand out, seeing the most favourable conditions and confidence, as*



well as elevated employment and capex. Retail on the other hand, remains weak despite a sharp improvement in the month, with conditions deeply negative. Construction and manufacturing are also weak, likely reflecting developments in the residential construction sector as well as weak domestic demand and globally weak confidence. The survey still suggests weak price pressures, which against a backdrop of slowing activity may well weaken further.”

### Consumer Sentiment

- The weekly ANZ-Roy Morgan consumer confidence rating fell by 1.0 per cent to 113.3 points. Consumer sentiment is below the average of 114.4 points held since 2014 but above the longer term average of 113.1 points since 1990.
- **Three** out of the **five** major components of the index **rose** last week:
  - The estimate of family finances compared with a year ago was **down** from +13.0 points to +11.7 points;
  - The estimate of family finances over the next year was **up** from +26.3 points to +28.5 points;
  - Economic conditions over the next 12 months was **up** from -7.2 points to -5.9 points;
  - Economic conditions over the next 5 years was **up** from +8.2 points to +10.1 points;
  - The measure of whether it was a good time to buy a major household item was **down** from +31.7 points to +22.3 points.
- The measure of inflation expectations **rose** from 4.2 per cent to 4.0 per cent.

### China inflation – August

- **Chinese consumer prices** rose by 0.7 per cent in August after rising by 0.4 per cent in July.
- Food prices rose 3.2 per cent in the month with non-food prices up 0.1 per cent. Pork prices rose 23.1 per cent.
- Ahead of the Mid-Autumn Festival, eggs, beef, lamb, duck and chicken prices rose by 2.0-5.9 per cent. Fresh vegetable prices rose 2.8 per cent, impacted by typhoons and hot weather.
- Over the year, consumer prices rose by 2.8 per cent. Food prices rose by 10 per cent - the most in 7½ years - while non-food prices rose 1.1 per cent.
- **Producer prices** fell 0.1 per cent in August. Over the year, producer prices fell 0.8 per cent – the most since August 2016 - after contracting 0.3 per cent in the year to July. Production materials fell 1.3 per cent on the year while “Living materials” (food, clothes, consumer goods) rose by 0.7 per cent.

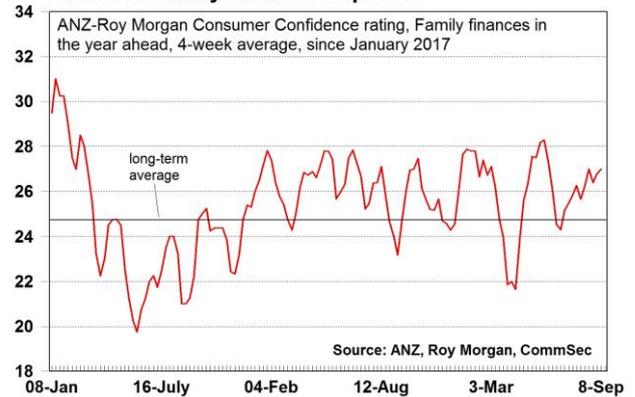
### What is the importance of the economic data?

- 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.
- The **ANZ/Roy Morgan weekly survey of consumer confidence** closely tracks the monthly Westpac/Melbourne Institute consumer sentiment index but the former measure is a timelier assessment of consumer attitudes and is now closely tracked by the Reserve Bank.
- **China’s National Bureau of Statistics** releases its monthly economic statistics around mid-month. Quarterly GDP data is released around the 19th of January, April, July and October. China’s Customs Office releases trade data, and the People’s Bank of China releases financial statistics, around the 10th of each month. China is Australia’s largest trading partner and changes in the Chinese economy have major implications for the Aussie economy.

### What are the implications for interest rates and investors?

- The latest business survey reflects weak private sector demand, tepid operating conditions and cautious investment spending intentions across Australia. Business conditions have fallen to near 5-year lows after reaching record highs 17 months ago. That said, capacity utilisation remains around long-run levels, employment conditions are around long-run average levels and mining investment is rebounding.

### Views on family finances improves



### Deflation fears



- Forward looking indicators of private sector investment appear more positive with the recent capital spending survey implying a lift in business investment intentions in 2019/20. NAB’s quarterly business survey – released next month – will be closely observed for movements in firm’s investment expectations following rate cuts in June and July.
- In our view, the NAB report supports recent Reserve Bank moves to cut interest rates, while potentially increasing the likelihood of further cuts in the coming months should non-mining business investment weaken further.
- Consumers are feeling “ok” at the moment. It is hoped that Aussie households will engage in some ‘retail therapy’ - spending their tax refunds on goods and services – rather than pay down debt.
- Online sales events in November could be the catalyst for an increase in discretionary spending, especially if the rebound in property prices takes hold. And the weaker value of the Aussie dollar against the greenback could encourage increased domestic travel and shopping at local malls. Certainly, the national savings rate fell back in the June quarter, especially with deposit rates continuing to fall as interest rates are cut.
- The September monthly consumer confidence index is due out tomorrow and expected to show a continued pick-up in sentiment towards the property market.
- The runaway lift in Chinese pork prices due to the ongoing swine fever outbreak could be a boon to Aussie meat exporters and farmers struggling with drought. With pork prices up 46.7 per cent over the year to August, Chinese consumers will be looking for meat protein substitutes with Australia well placed to benefit. According to Meat and Livestock Australia, 2019 beef exports are tracking 41,000 tonnes or 6 per cent ahead of last year.
- The Commonwealth Bank Group economists expect a rate cut in November and a follow up rate cut in February 2020.

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