



14 February 2012

## Business conditions & confidence, January Confidence: up 1pt to +3, but remains weak Conditions: up 2pts to +2

- The business mood, while on the mend, remains weak at the start of 2012.
- Business conditions are at average levels.
- The growth divide between states and sectors remains pronounced.
- These were the key points from the NAB business survey for the month of January. The survey was conducted from 19 January to 2 February.
- The confidence index edged higher, following the drop last August, rising 1pt to +3 in January. This reading is below the historic average of +6. Some positive developments in Europe, better than expected US economic data and RBA rate cuts were all supportive of confidence.
- The business conditions index rose 2pts to +2, which is in line with the historic average of +1.
- A pronounced growth divide was evident in January, after appearing to moderate in December. Conditions are strong in only the mining sector, while they are negative for: manufacturing, construction, wholesale, retail and finance, property & business services.
- By state, conditions are positive for Western Australia, very weak in Tasmania and close to zero for the other states.
- Jobs growth is undershooting that implied by the business conditions index (see chart overleaf). While overall conditions are around average levels, activity is relatively weak in the job intensive sectors.
- Price and labour cost trends are consistent with subdued conditions across much of the economy. The January survey found that labour costs softened, with a marked moderation for the retail sector. Price inflation eased and was very subdued. Retail prices declined, suggesting that there was another round of significant retail discounting in the post Christmas period.

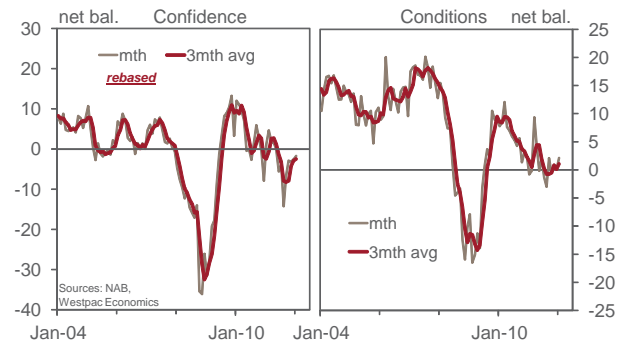
### Industry divide

The diverge in industry conditions was stark in January, with negative conditions apparent in the majority of sectors.

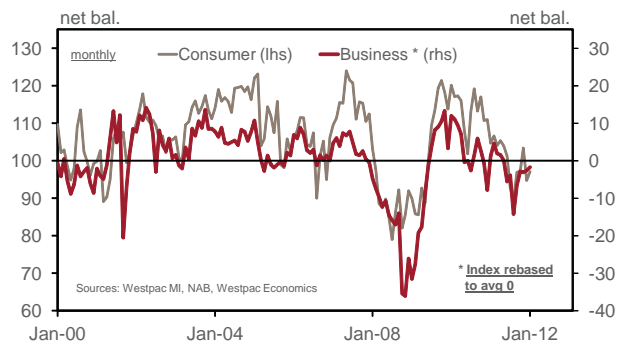
The mining sector remains alone as the only strong sector, with conditions at +18 (on a rebased basis).

Conditions are well below average for construction, manufacturing, retail, and finance, property & business services. The wholesale sector experienced a sharp drop in January, which was enough to return the 3 month average into negative territory.

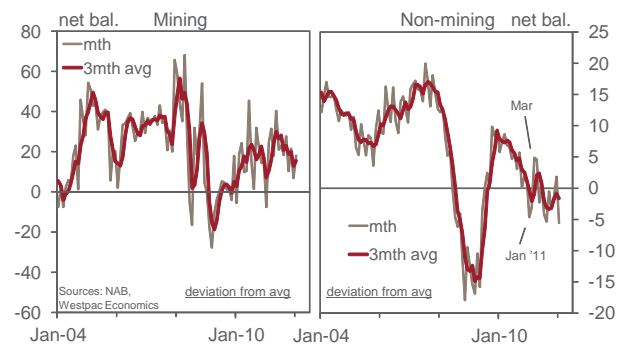
### Business conditions & confidence



### Confidence: weak



### Business conditions: industry divide



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Weak conditions across these sectors is evidence of a number of headwinds to growth. Notable constraints are: the high Australian dollar, patchy consumer spending, sluggish credit growth, weakness in residential and non-residential building activity, winding back of the fiscal stimulus package and the European crisis.

For retail, while conditions remained weak in January, RBA rate cuts may be providing some support. The survey reported that retail orders improved significantly and that confidence for the sector was at +6, in line with the historic average.

Confidence was at below average levels in each of the other industries, including - somewhat surprisingly - mining.

### State divide

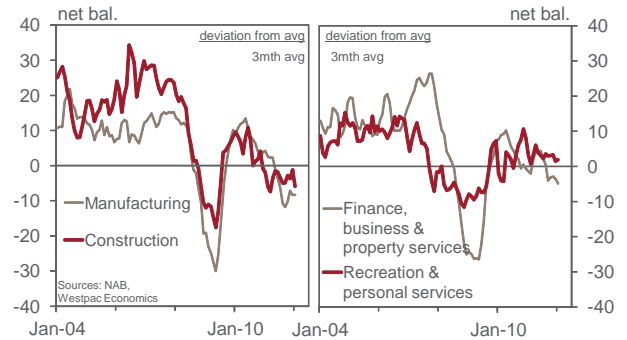
The mining state of Western Australia is the only one of the four major states to be enjoying relatively strong business conditions. That said, the index for the west moderated in January, to +5 (which is actually below the decade average for the state).

For Qld, the survey continues to report patchy conditions, with the index at +1 in January. This contrasts with official data which reports strong state demand growth during 2011. Taken together this information suggests that growth in the mining state of Qld is currently concentrated in a few major mining projects.

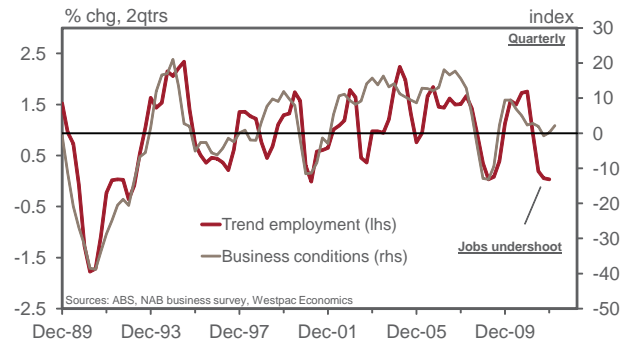
As for the non-mining states of NSW and Victoria, there was a clear loss of momentum during 2011, at a time when fiscal stimulus was being wound back. The conditions index has settled around zero for both of these states.

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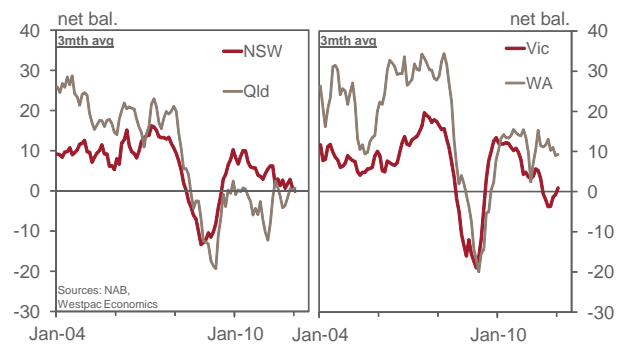
### Business conditions: by industry



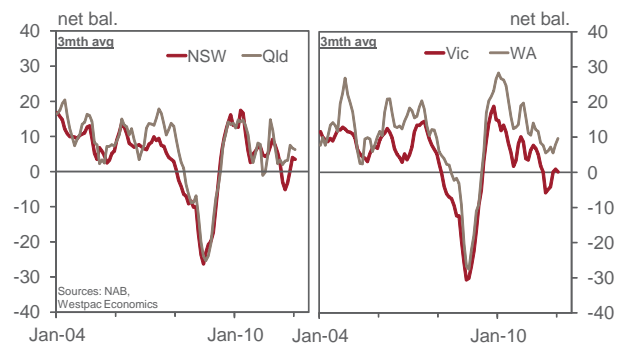
### Jobs undershoot conditions



### Business conditions: a state view



### Business confidence: a state view



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