Economics Weekly

This week's economic highlights

- The NAB **Business Conditions** and **Business Confidence** Indexes rose in July to be at 'net optimism' levels. However, the consumer-oriented **ANZ-Roy Morgan Consumer Confidence Index** and **Westpac-MI Consumer Sentiment** Index both fell. These mixed sentiment results reflect the further increases in the cash rate by the Reserve Bank.
- **Nominal business turnover** continues to improve in most industries. Industry-facing sectors (such as utilities, mining and professional services) were strongest, while consumer-facing sectors (arts & recreation, media and retail) all fell.
- The ABS reported fewer **filled jobs**, with all states and territories indicating an easing in filled jobs in the month to mid-July. The influence of school holidays on the labour market, end of financial year reporting and absenteeism may have impacted the number of payroll jobs reported in this period.

Australian economic data

Economic data released this week indicate modest improvements in business conditions but an easing in consumer confidence in July and early August.

- The monthly **NAB index of business conditions** bounced back 6 points to +20 index points in July (see chart 1). Results above zero indicate 'net positive' conditions in the NAB business survey. Trading conditions (up 8 points to +27), profits (up 4 points to +17) and employment (up 6 points to +17) all improved. Conditions were positive in the construction, recreation & personal services and mining industries and broadly stable in others. All industries indicated upbeat conditions in trend terms.
- The monthly **NAB index of business confidence** increased by 5 points to +7 index points in July to be marginally above its long-run average, after falling below average in June 2022 (see chart 2). Results above zero indicate 'net optimistic' confidence. Confidence rose majorly in the construction, retail, wholesale, manufacturing and mining industries with only small increases in other industries. In trend terms, retail remained in negative territory, as did wholesale and mining.
- **The weekly ANZ-Roy Morgan consumer confidence index** fell by 4.5% to 80.3 points in the week ending 7 August, more than offsetting the recovery recorded in the last three weeks (see charts 3 and 4). This follows the Reserve Bank cash rate in of 0.50% in August, the fourth increase since November 2020. Results below 100 points indicate 'net pessimism' in this survey. Consumer confidence around current economic conditions declined to the lowest level since September 2020.

- ANZ economists noted that "*Household inflation expectations increased 0.1 percentage point to 5.6% despite petrol prices falling for a fourth consecutive week. Demand for housing has been dropping, along with house prices. That and rising interest rates caused confidence among homeowners to drop 7% last week. So far in 2022, household spending has been robust despite very weak consumer sentiment, with strong employment gains, high levels of household saving and a desire to travel more than offsetting concerns about the rising cost of living. It remains to be seen whether this divergence between confidence and spending can continue*."

- **The monthly Westpac-MI Index of Consumer Sentiment** decreased by 3% to 81.2 points in early August (see chart 5). Results below 100 points indicate 'net pessimism' in this survey. The index has been on a downward trend following the recent peak in November 2021 and is now 22.9% below the November reading (105.3 points). Westpac economists suggested that they "*expect the cash rate to rise by a further 150 basis points by February next year. Respondents holding a mortgage were particularly unnerved by the rate rise. Their confidence fell by 8.9% compared to modest moves from tenants (0.2%) and those owners who do not have a mortgage (-2.1%).*

- The latest release of the ABS 'experimental indicator' of **monthly business turnover** (gross sales of goods and services) indicated increases during June, in 8 of the 13 industry divisions month on month (m/m) (see charts 6-8). The largest increases in nominal business sales in June 2022 (m/m) were in utilities (+16.7%), mining (+5.7%) and professional services (+5.2%). The largest falls in business turnover were in arts & recreation services (-3.6%), information media & telecommunications (-2.1%) and retail trade (-1.9%).

Latest Australian labour market data

The ABS count of payroll jobs for employees who are paid through the ATO single-touch payroll system (covering around 80% of all employees but excluding self-employed and other non-payroll workers) showed modest easing in jobs. The influence of school holidays on the labour market, end of financial reporting and employee absences due to illnesses may have impacted the number of payroll jobs reported in this period. These data showed that as of 16 July 2022:

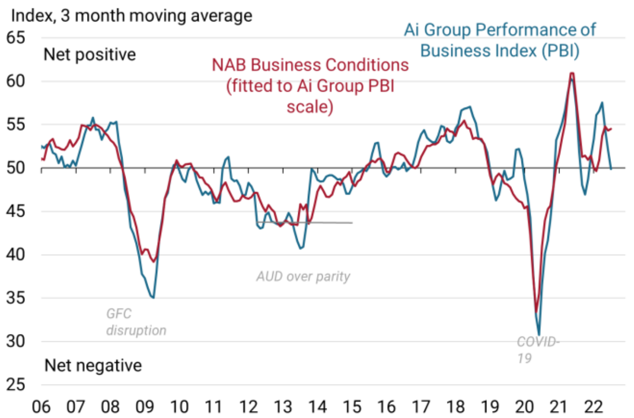
- The national **number of employees paid through the ATO payroll system decreased by 0.8%** over the month to 16 July, to be 4.5% higher than one year earlier.

- The number of employees who were paid through the ATO payroll system **declined in all states and territories** in the month to 16 July 2022. The number of paid employees fell the most in the Northern Territory (-1.3%) and Victoria (-1.1%). Compared to one year earlier, the number of paid employees rose notably in NSW (+7.2%), South Australia (+4.0%) and Victoria (+3.9%).

- **14 of the 19 industry categories saw a rise in payroll jobs** compared to one year earlier, with the largest increases in arts & recreation (+13.9%), education & training (+8.0%), information media & telecomms (+7.3%) and mining (+5.3%). The largest decreases were in construction (-3.6%) and manufacturing (-1.7%).

Chart 1: The NAB index of business conditions rose by 6 points to +20 index points in July, closely in line with Ai Group's monthly performance of services index, published earlier in July (report online here).

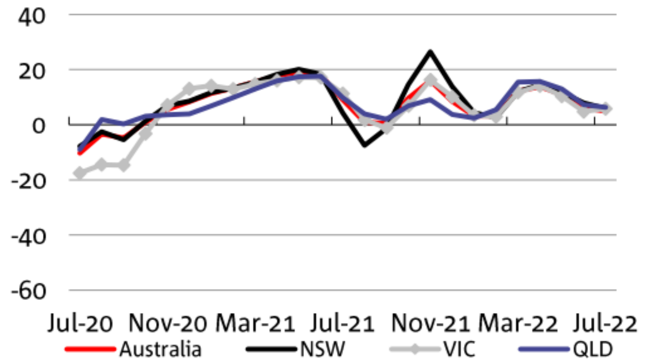
Australian PBI* and NAB business conditions index, 3 month moving average to July 2022



* Ai Group *Australian Performance of Business Index* is a weighted composite of Ai Group's Australian PMI, Australian PCI and Australian PSI. Source: Ai Group-and NAB, July 2022.

Chart 2: The NAB index of business confidence rose by 5 points to +7 index points in July to be marginally above its long-run average, after falling below average in June 2022.

NAB business confidence indexes, Australia and selected states, June 2020 to July 2022 (trend)



Source: NAB, *Monthly Business Survey*, July 2022.

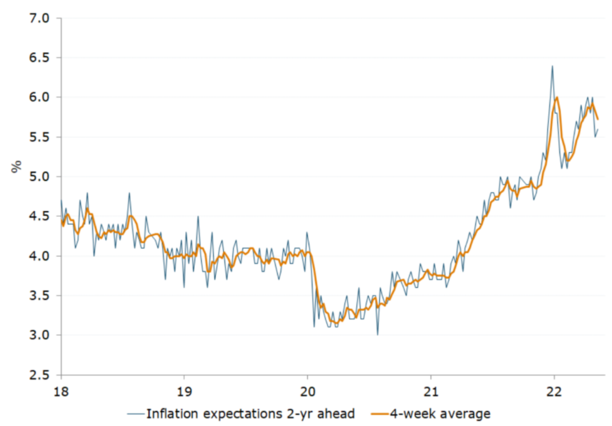
Chart 3: The **ANZ-Roy Morgan consumer confidence index** (weekly) fell by 4.5% w/w to 80.3 points in the week to 7 August, more than offsetting the recovery recorded in the last three weeks. This is after the Reserve Bank increased the cash rate for the fourth time since November 2020 by another 0.50%.

ANZ-Roy Morgan Consumer Confidence Index, 2014 to 2022

Source: ANZ-Roy Morgan, *Australian Consumer Confidence,* August 1-7 2022

Chart 4: Weekly inflation expectations increased by 0.1 percentage point to 5.6% despite the fall in petrol prices for the fourth consecutive week. Its four-week moving average declined by 0.1 percentage point to 5.7%.

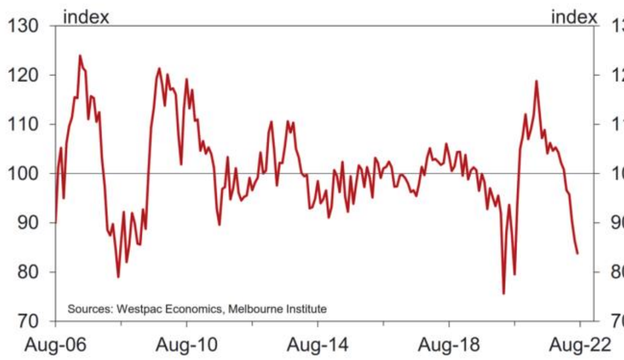
Inflation expectations, 2018 to 2022



Source: ANZ-Roy Morgan, *Australian Consumer Confidence,* August 1-7 2022

Chart 5: The monthly Westpac-MI Index of Consumer Sentiment decreased by 3% to 81.2 points in early August. The index has been on a downward trend since the recent peak in November 2021 and is now 22.9% below the November reading.

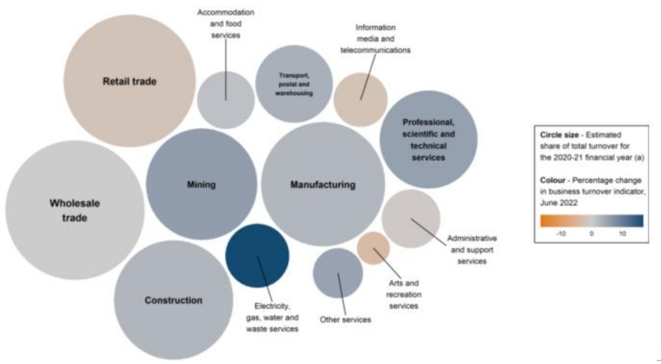
Westpac-MI Consumer Sentiment Index, August 2006 to August 2022



Source: Westpac-MI, *Consumer Sentiment*, August 2022.

Chart 6: The ABS index of business turnover showed that 8 of the 13 major industry categories for which data are available had higher nominal business turnover in June 2022 than they had in May 2022. Arts & recreation and information media & telecommunications were the sectors with the largest falls in June 2022.

Relative size of total industry turnover (sales in 2020-21) and ABS index of business turnover, June 2022



Source: ABS, *Monthly Business Turnover Indicator*, June 2022.

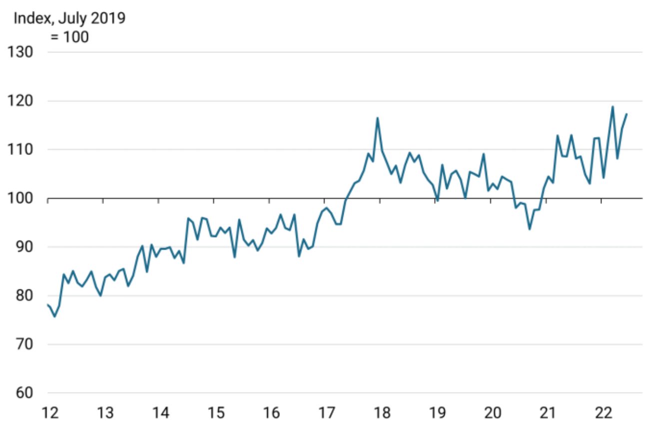
Chart 7: The ABS index of business turnover showed that monthly business sales by **manufacturers** are at an all-time high.

ABS index of business turnover, manufacturing, Jan 2012 to June 2022

Source: ABS, *Monthly Business Turnover Indicator*, June 2022.

Chart 8: The ABS index of business turnover indicated that monthly business sales by **construction** businesses have been volatile in 2022.

ABS index of business turnover, construction, Jan 2012 to June 2022



Source: ABS, *Monthly Business Turnover Indicator*, June 2022.

This week's data and events 8 August – 12 August 2022

Day	Date	Data/event	Data period
Tue	09 Aug	ABS, Monthly Business Turnover Indicator	June 2022
Tue	09 Aug	NAB, Monthly Business Survey	July 2022
Tue	09 Aug	ANZ-Roy Morgan, Australian Consumer Confidence	August 1-7 2022
Tue	09 Aug	Westpac-MI, Consumer Sentiment	August 2022
Thu	11 Aug	ABS, Weekly Payroll Jobs and Wages	Week ending 16 July 2022

Next week's data and events 15 August – 19 August 2022

Day	Date	Data/event	Data period
Tue	16 Aug	ABS, Overseas Arrivals and Departures	June 2022
Wed	17 Aug	ABS, Wage Price Index	June 2022
Thu	18 Aug	ABS, Labour Force	July 2022
Thu	18 Aug	Average Weekly Earnings	May 2022

Ai Group Industry Performance Indicators

Australian Performance of Manufacturing Index®	July 2022	52.5 ▼
Australian Performance of Construction Index®	July 2022	45.3 ▼
Australian Performance of Services Index®	July 2022	51.7 ▲

Seasonally adjusted. Arrows represent direction of movement relative to last observation. Source: Ai Group.

Australian economy: latest annual growth rates and RBA forecasts (as of Aug 2022)

% change over the year	Dec 2021	Jun 2022	Dec 2022	Jun 2023	Dec 2023	Jun 2024	Dec 2024
Gross domestic product (GDP)	**4.2**	3.5	3.2	2.3	1.8	1.8	1.7
Household consumption	3.5	4.6	4.9	2.8	2.4	2.3	2.2
Dwelling investment	5.3	−1.7	1.7	2.5	−0.1	−2.6	−4.8
Business investment	6.4	1.6	4.9	5.9	6.6	5.7	4.6
Public demand	5.1	6.3	3.6	−0.5	−0.7	0.8	1.8
Gross national expenditure	5.0	4.1	3.7	1.5	1.5	1.8	1.9
Imports	1.0	5.0	11.4	6.2	4.0	3.0	2.9
Exports	−2.6	2.3	8.6	9.8	5.1	2.8	2.2
Terms of trade	10.3	6.8	2.6	−14.6	−8.9	−4.4	−1.6
Real household disposable income	3.7	3.9	−0.9	−3.1	−0.9	0.9	1.5
Unemployment rate (qtr average, %)	**4.2**	3.8	3.4	3.4	3.5	3.7	4.0
Employment	2.1	3.2	4.4	2.2	1.4	1.1	0.9
Average wage rates (WPI)	**2.3**	2.6	3.0	3.4	3.6	3.8	3.9
Trimmed mean inflation (CPI)	**2.6**	4.9	6.0	5.0	3.8	3.3	3.0
Headline inflation (CPI)	3.5	6.1	7.8	6.2	4.3	3.5	3.0

▭ = actual. ▭ = forecast. Sources: ABS, various data; RBA 'baseline scenario' in *Statement on Monetary Policy*, August 2022.

Forecasts 3 August. Forecasts are conditioned on a path for the cash rate broadly in line with expectations derived from surveys of professional economists and financial market pricing. Other forecast assumptions: TWI at 63, A$ at US$0.69 and Brent crude oil price at US$94bbl. Assumed rate of population growth is broadly in line with the profile set out in the Aus Gov 2022/23 Budget.

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