

Business conditions fall sharply as strong \$A continues to bite, NAB survey shows

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The Linfox robot-palletising plant in Virginia, Brisbane. Picture by Patrick Hamilton *Source:* The Australian

SENTIMENT in Australia's business sector deteriorated sharply during May as executives complained of a two-speed economy with the much weaker non-mining sectors such as retail and manufacturing dragging on confidence, according to a leading monthly survey.

National Australia Bank's monthly poll of business managers showed conditions for firms deteriorated in May. Its index of business conditions fell 4 points to an index reading of plus 1 point. The bank's index of business confidence fell 1 point to plus 6 points.

Trading conditions, profitability, forward orders and employment all fell, while overall business conditions returned to levels last seen around January's Queensland floods.

Part of the weak outlook was attributed to the high Australian dollar, with conditions in construction, wholesale and manufacturing described as "very poor".

In contrast, mining conditions improved sharply to the strongest in the survey's history at plus 50 points, suggesting Australia's two-speed economy was persisting, NAB said.

The report said that the weakness in conditions appeared to have dampened business confidence levels, though confidence remains quite varied across sectors.

"The high Australian dollar may be eroding sentiment in manufacturing and wholesale," NAB said.

As a result NAB has downgraded its 2011 growth forecasts to 1.8 per cent from 2.1 per cent and expects the next rate hike from the Reserve Bank of Australia in August, with one more hike by year end.

Additional reporting: AAP