

**EMBARGOED UNTIL: 11:30AM AEST, 7 MAY 2018**

# **NAB MONTHLY BUSINESS SURVEY** APRIL 2018

## **BUSINESS CONDITIONS AT RECORD LEVELS**

*NAB Australian Economics*



**There was a significant improvement in business conditions in April which are now at their equal highest level since the Monthly Business Survey commenced. The strength is generally broad based across industries although retail continues to lag. Business confidence also lifted, albeit by a smaller amount, and is well above average while at the same time leading indicators of future activity and employment remain positive.**

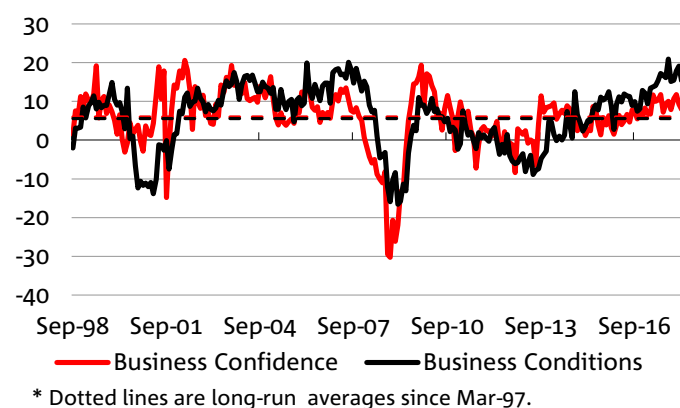
### **HIGHLIGHTS**

- **How confident are businesses?** The business confidence index increased 2pts to +10 index points in April, in the middle of the range it has been in over the last year and well above its historical average of +6 index points.
- **How did business conditions fare?** The business conditions index rose by 6pts to +21 index points, more than reversing last month's fall, reaching its equal highest level since the survey commenced in March 1997 (and also equalling the highest recorded level – in 1994 – in the longer-running NAB Quarterly Business Survey). In trend terms, the increase was smaller but it too is at an historical high.
- **What components contributed to the result?** Trading conditions (sales), profitability and employment conditions all posted strong gains in April and they remain well above their historical average.
- **What is the survey signalling for jobs growth?** The employment index increased +4 pts to +13. Based on historical patterns this is consistent with a robust rate of jobs growth, of around 24k per month. While the ABS employment data has softened in recent months, and the unemployment rate has been broadly unchanged for around a year, the employment index, and survey leading indicators of labour market conditions all point to this being a temporary phenomenon (see Themes of the Month on page 2).
- **Which industries are driving conditions?** Conditions increased in all industries except for manufacturing and retail. In trend terms, conditions are strongest in mining, followed by finance, business & property, construction, and recreation & personal services. Conditions are weakest in the retail sector which turned negative for the first time this year, although in trend terms they remained positive. On a more positive note, there was a large increase in personal & recreational services conditions, and the period of softening conditions that emerged late last year has been largely reversed.
- **Which industries are most confident?** On a trend basis, mining is the most confident, followed by construction. Confidence, in trend terms, is lowest in recreation and personal services, and finance, property & business.
- **Where are we seeing the best conditions by state?** Business conditions (in trend terms) are equal to or above their historical average in all states - they are highest in Victoria (+23 index points), followed by SA (+20), NSW and Tasmania (both +18). Conditions are more moderate in WA (+11) but continue to improve.
- **What is confidence like across the states?** Confidence is highest in trend terms in Tasmania (+17 index points) and WA (+16). Confidence in NSW, Queensland and SA is around the national average, but below average in Victoria (+4).
- **What does the Survey suggest about inflation and wages?** The survey continues to point to subdued inflation and wages growth. While retail prices, after declining in March, turned positive in April, purchase cost growth slowed. Final product prices and labour cost (wage bill) growth increased slightly but remained around their average level over the last year.
- **Are leading indicators suggesting further improvement?** Changes in leading indicators were mixed this month, but remain at solid levels. Capacity utilisation increased but forward orders eased. Forward orders have fallen by +7 pts over the last two months, but on a trend basis they increased slightly and point to a positive outlook for the non-mining economy (see Themes of the Month on page 2).

**TABLE 1: KEY STATISTICS**

	Feb-18	Mar-18	Apr-18
	Net balance		
Business confidence	9	8	<b>10</b>
Business conditions	19	15	<b>21</b>
Trading	25	21	<b>28</b>
Profitability	19	16	<b>22</b>
Employment	15	9	<b>13</b>
Forward orders	11	5	<b>4</b>
Stocks	6	5	<b>2</b>
Exports	-2	3	<b>3</b>
	% change at quarterly rate		
Labour costs	1.2	0.9	<b>1.0</b>
Purchase costs	0.7	0.9	<b>0.5</b>
Final products prices	0.4	0.3	<b>0.4</b>
Retail prices	0.2	-0.1	<b>0.2</b>
	Per cent		
Capacity utilisation rate	82.4	82.3	<b>82.5</b>

**CHART 1: CONDITIONS AT A RECORD HIGH**



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 23 April to 30 April 2018, covering over 400 firms across the non-farm business sector.

**Next release date is 12 June 2018.**

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# NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

## LABOUR MARKET CONDITIONS

- The ABS measure of employment growth weakened appreciably over February and March. While the increase in the number of jobs over the year to March was a still strong 367k, estimated employment has declined over the last two months.
- However, the ABS employment measure has swung around between periods of weak and strong employment growth in recent years. While it is possible that this simply reflects actual developments in the labour market it can also be caused by data volatility and other issues inherent with any survey, and so it is useful to corroborate against other, independent, measures.
- The Business Survey measure of employment has historically broadly tracked the ABS measure over time, but with fewer short-term cycles in the data. The employment index in April was, on a trend basis, at its highest level since the Survey began. Similarly, the Quarterly Business Survey employment index – which utilises a larger sample – is also consistent with robust jobs growth. The Business Surveys therefore caution against reading too much into the recent softening in ABS jobs growth data.
- Another related issue is that the unemployment rate has stalled at around the 5.5% level since May 2017, even as ABS employment growth continued to grow strongly. The NAB Survey measure of capacity utilisation has historically been a useful leading indicator of the unemployment rate. The rising trend in capacity utilisation evident since mid-2013 suggests that, in time, the unemployment rate will move lower.
- A shortcoming of the capacity utilisation measure is that it doesn't pick up the 'supply side' – i.e. increases in the number of people looking for work. However, this is not true of the Quarterly Business Survey measure of the difficulty of finding suitable labour, which also has been increasing, signalling a tightening labour market.

## FORWARD ORDERS STILL SOLID DESPITE RECENT DIP

- The forward orders index in the Business Survey has fallen from +11pt in February to +4 pts in April. However, this probably reflects a correction to a one-off high reading in February rather than signalling any fundamental change in the outlook. Rather, forward orders continue to send a positive signal about the outlook, particularly for the non-mining economy.
- On a Survey trend basis (a 3 month moving average) forward orders rose in April. An alternative approach to obtaining the underlying trend - a 13-period Henderson centred moving average (see Chart 4) – indicates orders have stabilised so far in 2018 at their highest level since the post-GFC recovery.
- Moreover, regardless of the choice of the approach used to trend the data in order to look through monthly volatility, orders remain comfortably above their historical average of +1pt.
- The trend move in forward orders has in the past been a good leading indicator of non-mining domestic demand growth. The current level of orders (and the broad trend over time) suggest that non-mining domestic demand growth is set to strengthen this year.

CHART 2: NAB SURVEY AND ABS EMPLOYMENT MEASURES

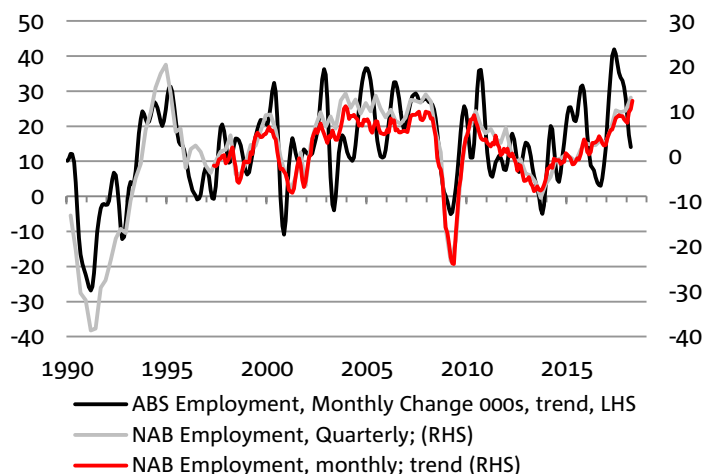


CHART 3: ABS UNEMPLOYMENT RATE & CAPACITY UTILISATION

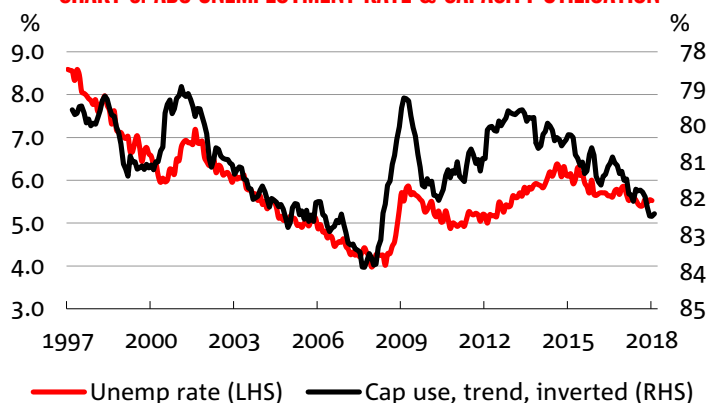
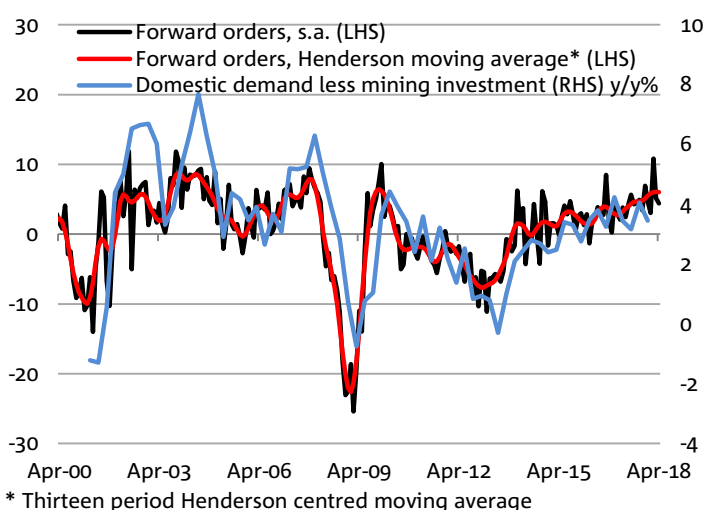
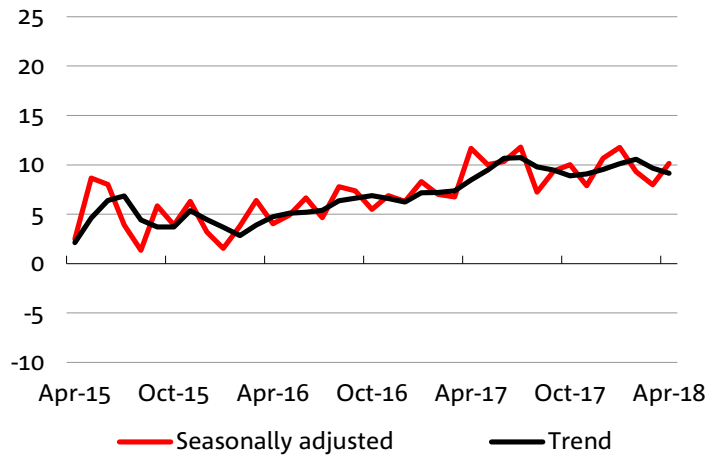


CHART 4: FORWARD ORDERS AND NON-MINING DOMESTIC DEMAND

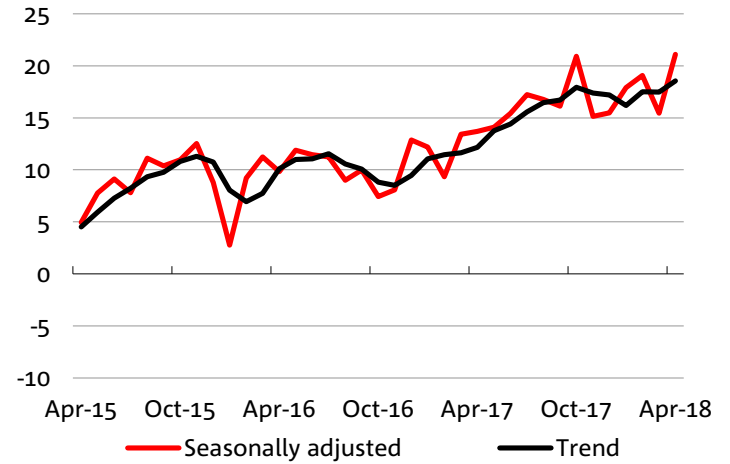


# NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

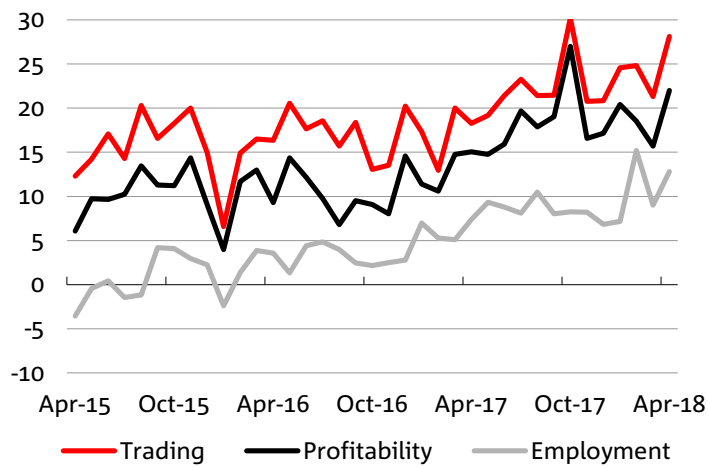
**CHART 5: BUSINESS CONFIDENCE (NET BALANCE)**



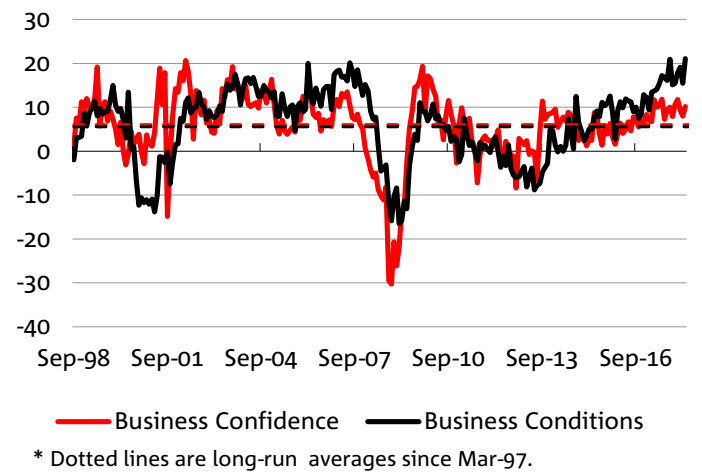
**CHART 6: BUSINESS CONDITIONS (NET BALANCE)**



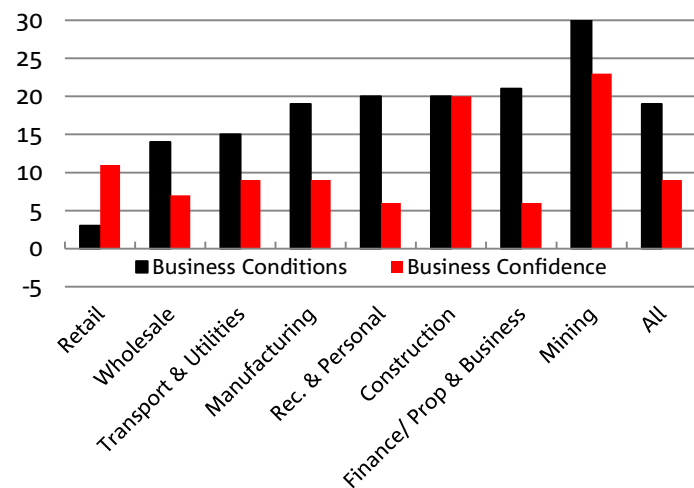
**CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.**



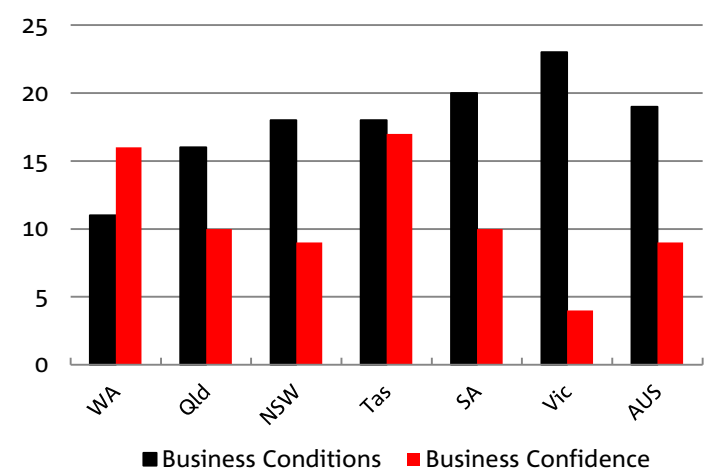
**CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE**



**CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)**

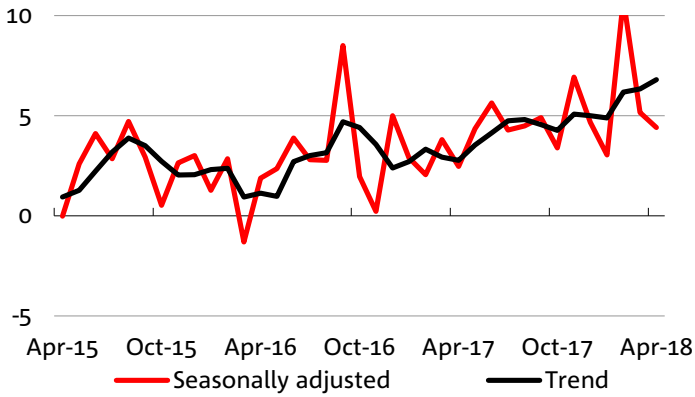


**CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)**

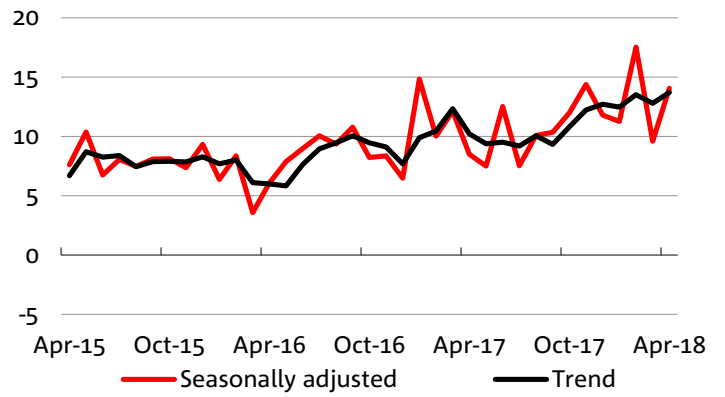


# NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

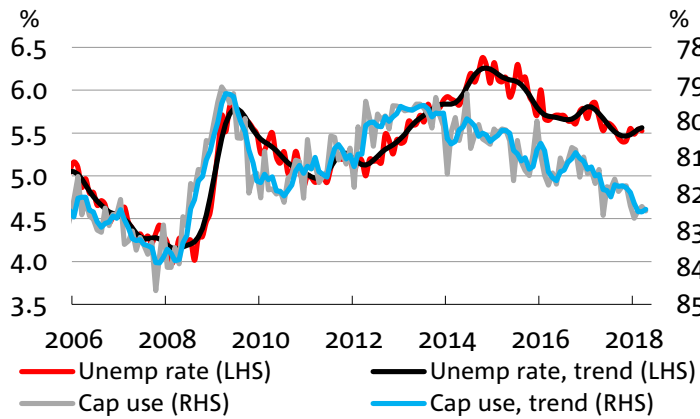
**CHART 11: FORWARD ORDERS (NET BALANCE)**



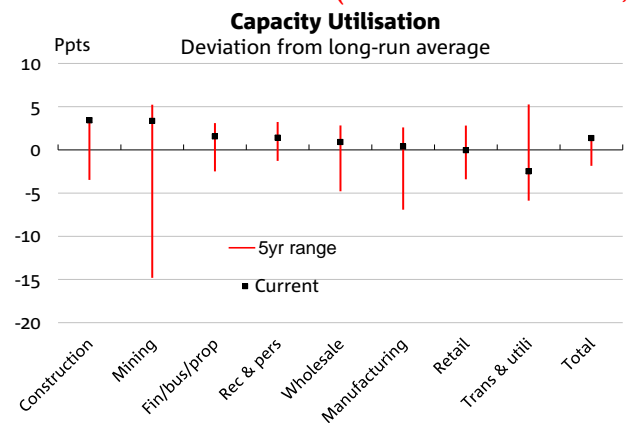
**CHART 12: CAPITAL EXPENDITURE (NET BALANCE)**



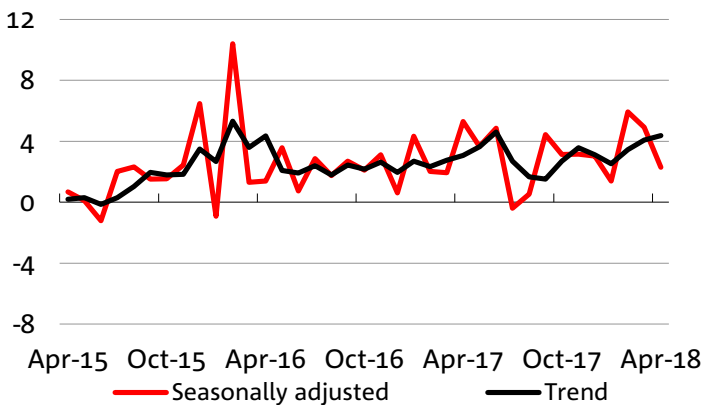
**CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT**



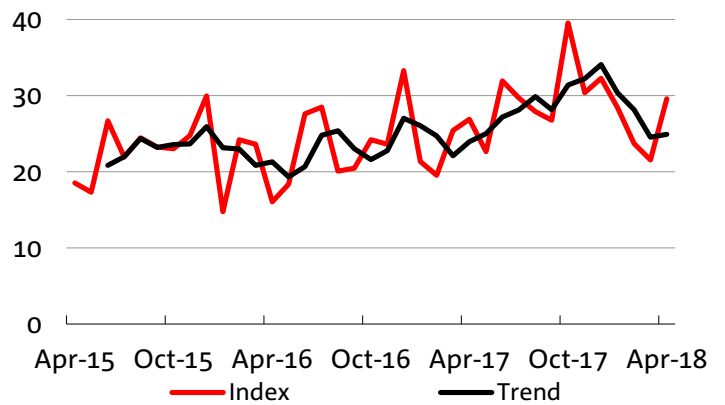
**CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)**



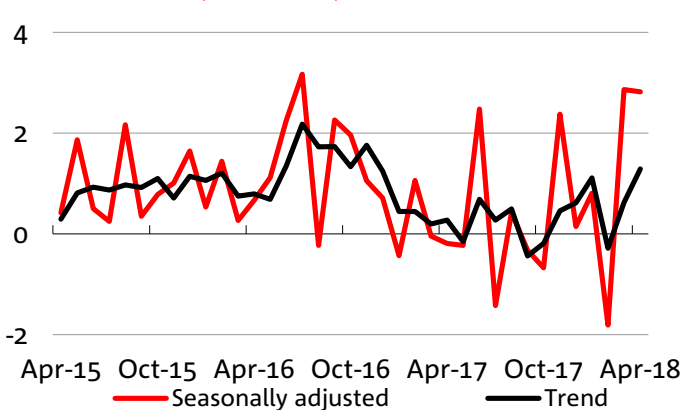
**CHART 15: STOCKS (NET BALANCE)**



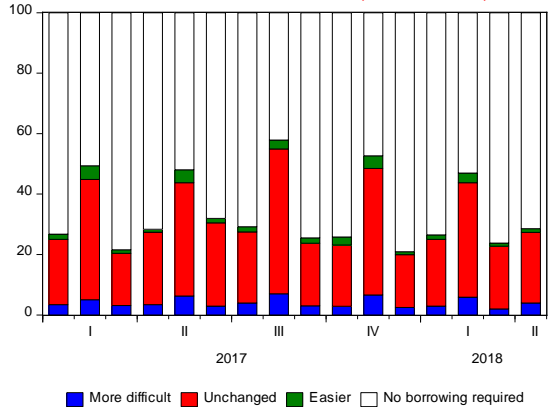
**CHART 16: CASH FLOW (NET BALANCE)**



**CHART 17: EXPORTS (NET BALANCE)**

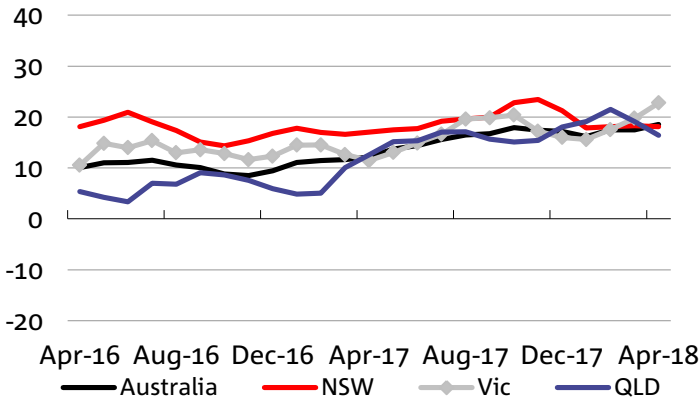


**CHART 18: BORROWING CONDITIONS (% OF FIRMS)**

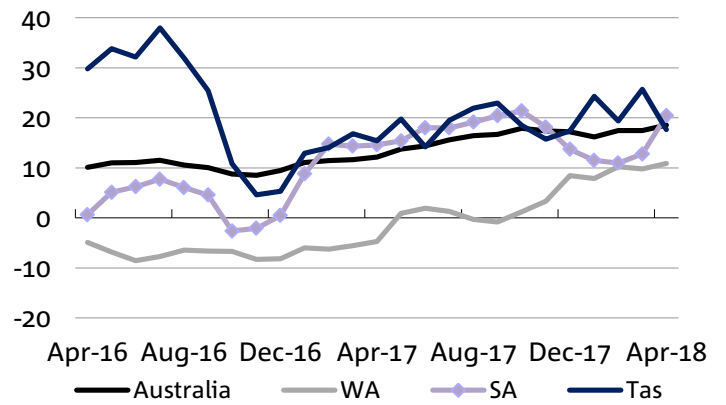


# NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

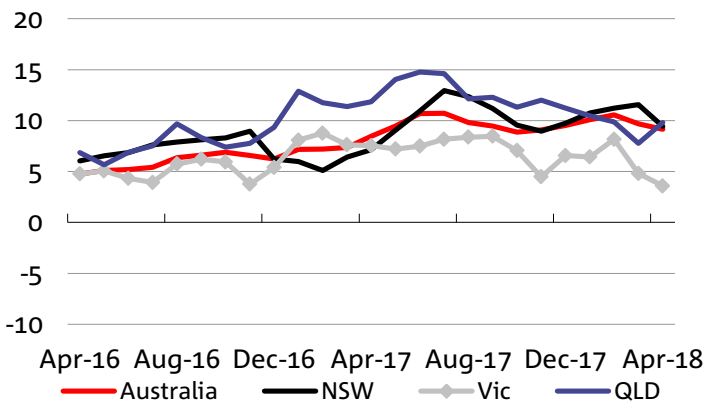
**CHART 19: BUSINESS CONDITIONS (NET BALANCE) BY STATE**



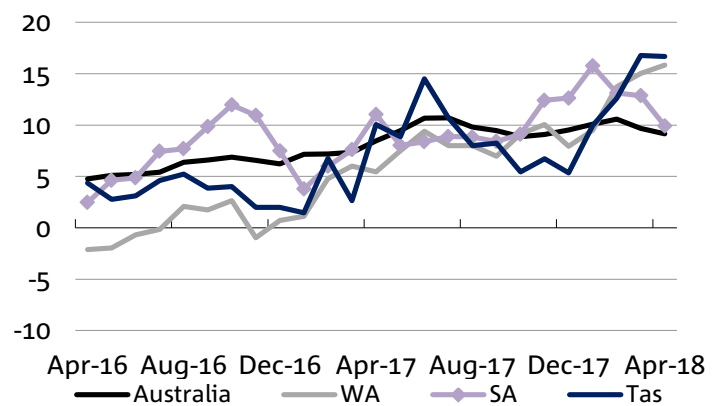
**CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE**



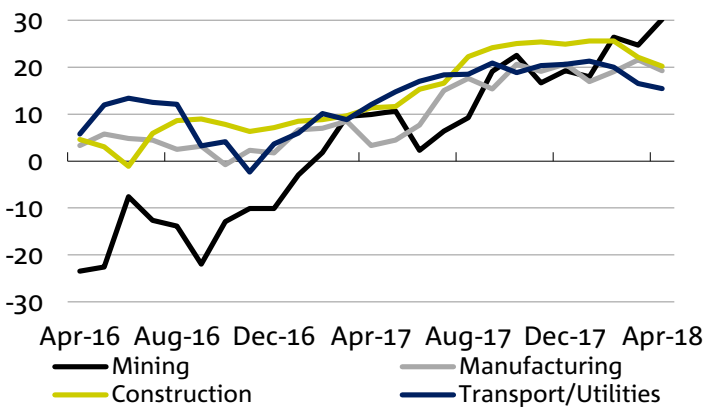
**CHART 21: BUSINESS CONFIDENCE BY STATE (NET BALANCE)**



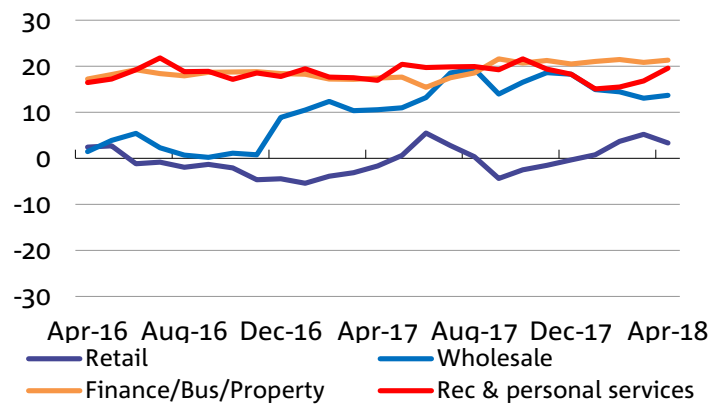
**CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)**



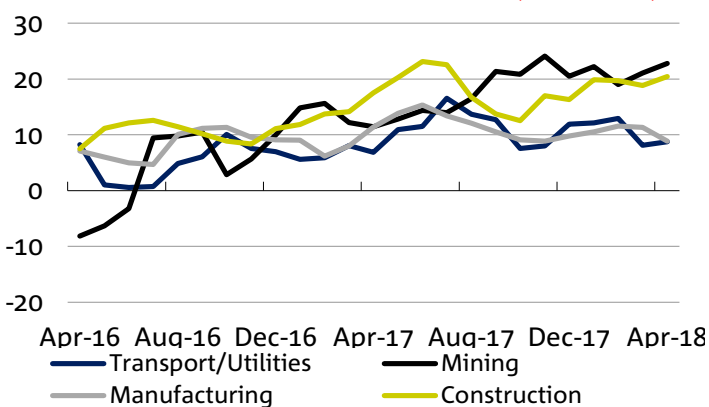
**CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)**



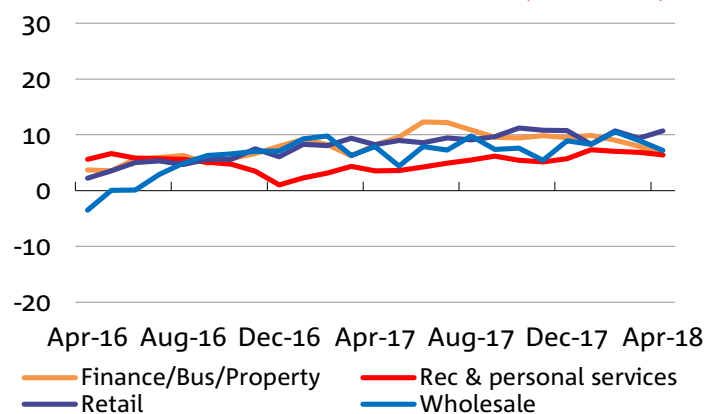
**CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)**



**CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)**

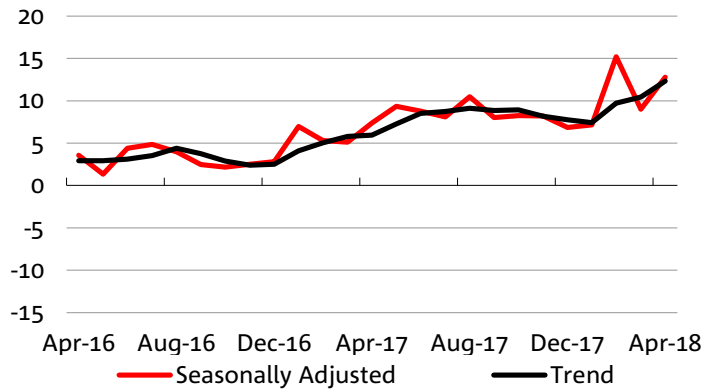


**CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)**

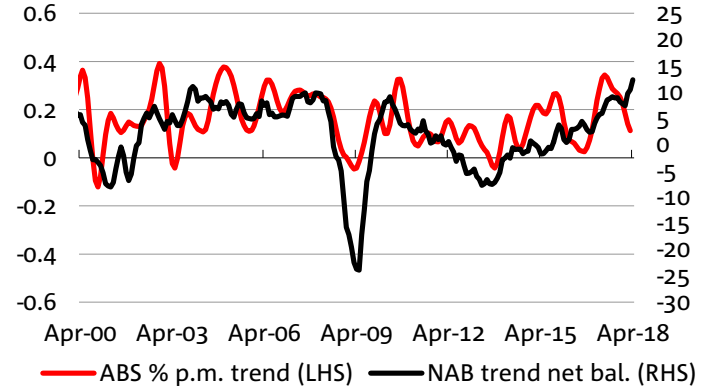


# NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

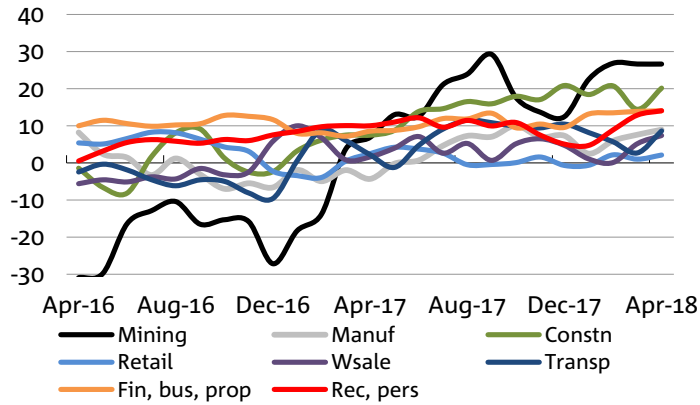
**CHART 27: EMPLOYMENT**



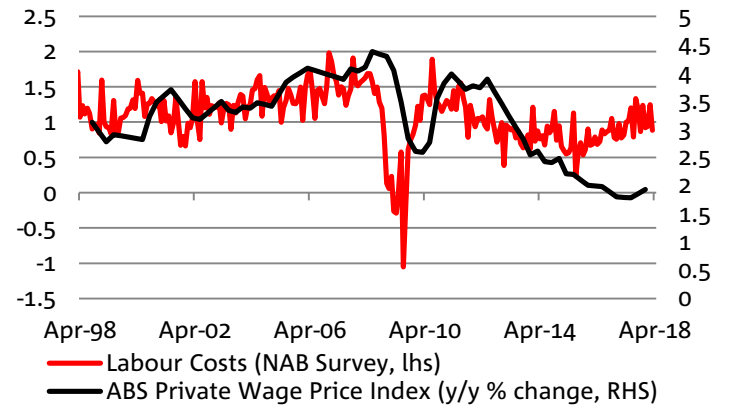
**CHART 28: EMPLOYMENT (NAB VS ABS)**



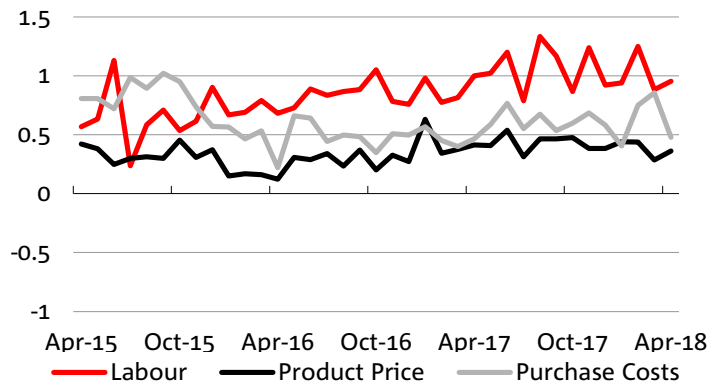
**CHART 29: EMPLOYMENT BY INDUSTRY**



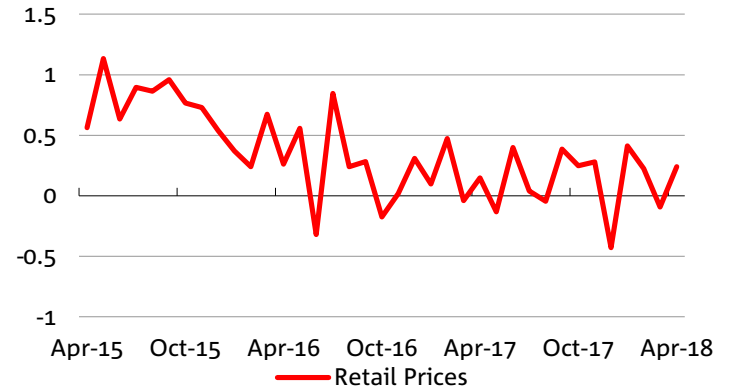
**CHART 30: LABOUR COSTS GROWTH**



**CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)**



**CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)**



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## APPENDIX: LIST OF SERIES AVAILABLE TO SUBSCRIBERS<sup>^</sup>

### MONTHLY BUSINESS SURVEY\*

Business Confidence	Net balance
Business Conditions	Net balance
Trading Conditions	Net balance
Profitability	Net balance
Employment	Net balance
Forward Orders	Net balance
Stocks	Net balance
Exports	Net balance
Capital Expenditure (Capex)	Net balance
Cash Flow	Net balance
Labour Costs	% change at quarterly rate
Purchase Costs	% change at quarterly rate
Final Prices	% change at quarterly rate
Capacity Utilisation	Per cent
Borrowing Demand & Conditions	%; net balance

***All series available on an industry basis for:***

Mining  
Manufacturing  
Construction  
Retail trade  
Wholesale trade  
Transport / Utilities  
Finance / Property / Business Services  
Recreation / Personal Services

***All available on a state basis for:***

New South Wales  
Victoria  
Queensland  
WA  
SA/NT  
Tasmania

\*All data available in original, seasonally adjusted and trend terms.

<sup>^</sup>Subscribers also receive a copy of the Subscriber details publication which contains a variety of extra charts and tables.



# QUARTERLY BUSINESS SURVEY\*

Business Confidence	Margins (current, next 3 mth)
Business Conditions (current, next 3 mth, next 12 mth)	Overheads (current, next 3 mth)
Trading conditions (current, next 3 mth, next 12 mth)	Productivity growth
Profitability (current, next 3 mth, next 12 mth)	Number of employees
Employment (current, next 3 mth, next 12 mth)	Hours worked
Forward orders (current, next 3 mth)	Gross Sales
Stocks (current, next 3 mth)	Output/sales growth (current fiscal year)
Export orders (current, next 3 mth)	Average earnings (current fiscal year)
Capital expenditure (current, next 3 mth, next 12 mth, fiscal year)	Short term interest rate
Required rate of return on investment	Exporters hedged FX exposure (%)
Cash flow	Importers hedged FX exposure (%)
Labour costs (current, next 3 mth)	Months hedged (exporters)
Purchase costs (current, next 3 mth)	Months hedged (importers)
Final prices (current, next 3 mth)	Favourable hedge position (% of exporters)
Capacity Utilisation	Favourable hedge position (% of importers)
Borrowing index (current, next 3 mth)	Affected vs not affected by AUD
	Response to AUD (downsized, reduced, overheads, hedging, import substitution, focus on domestic market, other, don't know)
Borrowing demand (current, next 3 mth)	Driver of trading conditions (demand, wages/jobs, house prices, rates, exchange rate, tax/govt policy, seasonal, finance/working capital, company specific, other)
Constraints on output (demand, labour, materials, premises & plant, finance/working capital)	What will improve confidence (lower rates, more suitable labour, easier funding, government policy, higher demand, higher AUD, lower AUD, easier compliance, other)
Constraints on profit (capital, demand, high AUD, low AUD, interest rates, labour, tax, wages, energy costs, other)	
Constraint on employment (demand, confidence, cashflow, suitable labour, high wages, government policy, labour not at full capacity, other, don't know)	
<b><i>All series available on an industry basis for:</i></b>	
Mining (sub-groups: Mining Extraction, Mining Services)	
Manufacturing (sub-groups: food beverage & tobacco, textile clothing footwear & leather, wood & paper product, printing publishing & recorded media, petroleum coal chemical & associated products, non-metallic mineral product, metal product, machinery & equipment, other)	
Construction (sub-groups: Residential Building, Non-residential Building, Other Construction, Construction Services)	
Retail trade (sub-groups: Food, Personal & Household Goods, Motor Vehicle Retailing & Services, Other Retail)	
Wholesale trade	
Transport / Utilities	
Finance / Property / Business Services (sub-groups: Finance, Insurance, Services to Finance & Insurance, Property Services, Business Services)	
Recreation / Personal Services (Sub-groups: Motion picture, Radio & Television Services, Libraries Museums & the Arts), Sports & Recreation, Personal Services, Accommodation Cafes & Restaurants, Health Services, Education, Other Services)	
<b><i>All series available on a state basis for:</i></b>	
New South Wales	
Victoria	
Queensland,	
WA	
SA/NT	
Tasmania	

\*Data available in original, seasonally adjusted and trend terms.