



NAB MONTHLY BUSINESS SURVEY MAY 2018

DESPITE A PULL-BACK, CONDITIONS REMAIN STRONG

NAB Australian Economics

There was a pull-back in business conditions in May after reaching historical highs last month, though they remain at relatively high levels. The strength is generally broad-based across industries although retail continues to lag. Business confidence fell back to average levels but indicators of future activity and employment continue to suggest robust outcomes for the business sector.

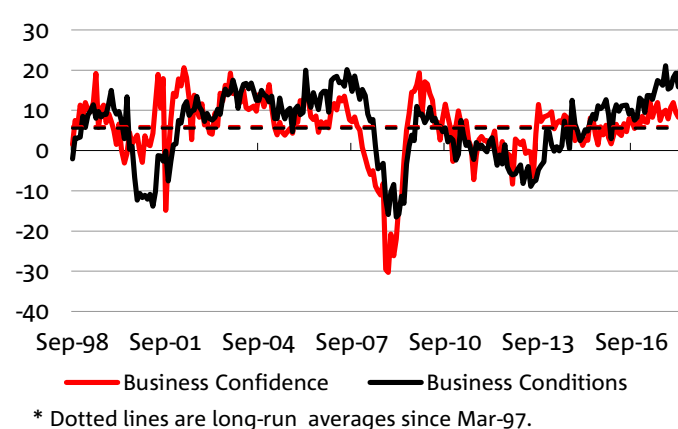
HIGHLIGHTS

- **How confident are businesses?** The business confidence index decreased 5pts to +6 index points in May, falling back to be around its historical average after rising in April. There has been a large gap between business conditions and confidence for a while, but this is normal when conditions are strong. Confidence is better explained by forward looking indicators in the survey and they suggest that it has in recent months generally been at the level expected although it was somewhat on the soft side in May (see Themes of the Month on page 2)
- **How did business conditions fare?** The business conditions index fell by 6pts to +15 index points – suggesting a pull-back in conditions from the historical highs reached last month. Despite this easing, business conditions remain favourable.
- **What components contributed to the result?** The result was driven by declines across all components in May, with the profitability index declining particularly sharply.
- **What is the survey signalling for jobs growth?** The employment index decreased 5pts to +8. Based on historical patterns this is consistent with a solid rate of jobs growth around 21k per month.
- **Which industries are driving conditions?** Conditions decreased in all industries except for transport & utilities and retail. In trend terms, conditions are strongest in mining, followed by finance, business & property, recreation & personal services and transport & utilities. Conditions are weakest in the retail sector which only just remains positive in trend terms.
- **Which industries are most confident?** On a trend basis, mining and construction remain the most confident. Confidence, in trend terms, is lowest in recreation and personal services, wholesale and transport & utilities.
- **Where are we seeing the best conditions by state?** Conditions (in trend terms) remain strongest in Victoria and South Australia (both +20 index points), followed by Tasmania (+18 index points) and New South Wales (+17 index points). Despite an improvement in the month, conditions in Western Australia continue to lag that of other states.
- **What is confidence like across the states?** Confidence is highest in trend terms in Tasmania (+18 index points) and Western Australia (+12). Queensland and South Australia are slightly above the National average; New South Wales and Victoria continue to lag the other states at below average levels.
- **What does the Survey suggest about inflation and wages?** Surveyed wages and inflation variables continue to suggest low wage and price growth. Retail price growth tracked sideways after picking up in April though remains low; purchase cost growth rose to its highest rate since late 2015 in the month. Final product prices and labour cost (wage bill) growth edged up in May but remain around their average level over the last year.
- **Are leading indicators suggesting further improvement?** Capacity utilisation and forward orders edged lower in May. In trend terms, both continue to point to a positive outlook for the non-mining economy.

TABLE 1: KEY STATISTICS

	Mar-18	Apr-18	May-18
	Net balance		
Business confidence	8	11	6
Business conditions	16	21	15
Trading	22	28	22
Profitability	16	22	13
Employment	9	13	8
Forward orders	5	5	4
Stocks	5	3	7
Exports	3	3	1
	% change at quarterly rate		
Labour costs	0.9	0.9	1.0
Purchase costs	0.8	0.5	0.9
Final products prices	0.3	0.4	0.5
Retail prices	-0.1	0.2	0.2
	Per cent		
Capacity utilisation rate	82.3	82.4	82.0

CHART 1: AN EASING IN CONDITIONS AND CONFIDENCE



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 23 May to 30 May 2018, covering over 500 firms across the non-farm business sector. Next release date is 10 July 2018.

NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

UNDERSTANDING THE CONDITIONS/CONFIDENCE GAP

- A large gap between the Business Survey business conditions and confidence indices has been apparent for a while (Chart 1). This is despite the two indices having a similar historical average.
- However, a simple comparison of their historical averages hides the fact that conditions tend to be higher than confidence when conditions are strong. Conversely, when conditions are weak, confidence tends to be higher. If history is any guide, a sustained significant narrowing in the gap is unlikely until business conditions start to turn down, as the business conditions index leads movements in the conditions/confidence gap (Chart 2).
- Business conditions are calculated as the average of three separate indices relating to recent actual experience in employment, profitability and trading conditions (sales). In contrast, business confidence is based on a single, forward looking, question about expected business conditions in the near future.
- Given the forward looking nature of the business confidence index it is not surprising that historically it has been better explained by indicators in the survey that are considered to be leading indicators. A model that uses forward orders and capacity utilisation generally provides a good explanation of confidence (Chart 3). There was a 25 month period between late 2014 and early 2016 when confidence was below the model estimate (except for one month) but since then, looking through the volatility, confidence has been around the level that would you expect given the level of forward orders and capacity utilisation, although confidence in May was on the low side.
- However, while conditions in aggregate are often higher than confidence when times are good, it does not follow that industries experiencing stronger conditions have a large gap to their confidence measure – e.g. robust construction conditions are matched by an equally high confidence reading (see Chart 9). More importantly the relationship between conditions and confidence over time varies by industry, so which industries are driving movements in conditions could potentially influence the relationship between conditions and confidence in aggregate.
- The NAB Quarterly Business Survey includes a question on what are the key drivers of business confidence. The largest differentials between conditions and confidence (on a trend basis) in May were in the Finance, Property & Business; Recreation & Personal services; and Transport, Storage & utilities (TSU) industries. Chart 4, shows the top drivers for these industries (the transport/storage sub-sector for TSU) and the all industry aggregate. There are a lot of similarities in confidence drivers across these different groups – in particular, the importance, of wage costs is broadly similar. However, there are some large differences. For example, for Recreational & personal services margins are a less important factor than in other industries while energy costs/reliability is the fourth most important factor but in the finance, property & business sector it ranks only 16th.

CHART 2: BUS. CONDITIONS & THE CONDITIONS/CONFIDENCE GAP

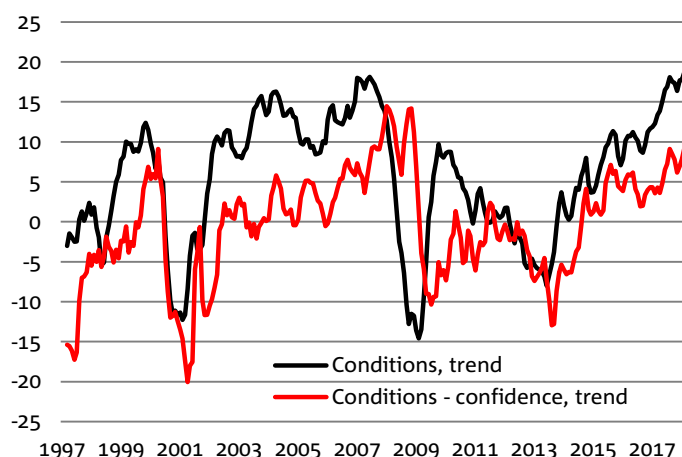


CHART 3: MODELLING BUSINESS CONFIDENCE

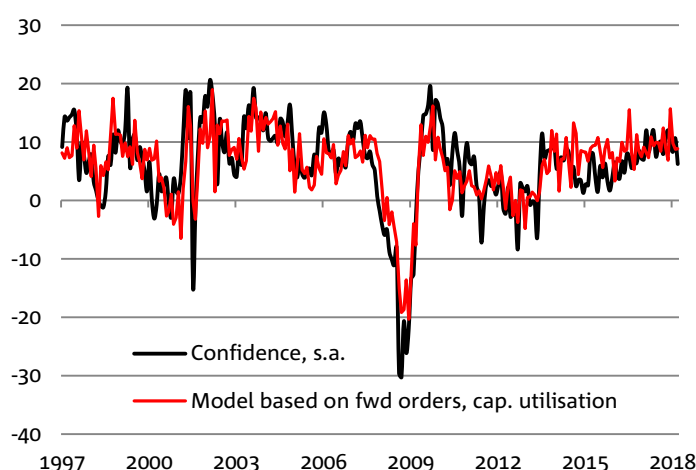


CHART 4: TOP DRIVERS OF BUS. CONFIDENCE, 2018 Q1

Rank	All industries	Transport & Storage	Finance, Bus & Property	Recr. & Pers. Services
1	Pressure on margins	State Govt.	Federal Govt.	Wages
2	Wage costs	Margins	Margins	Federal Govt
3	Federal Govt. policies/regs	Wages	Wages	State Govt.
4	State Govt. policies/regs	Federal Govt...	Bus. Outlook	Energy
5	Outlook for your business	Bus. Outlook	State Govt.	Margins
6	Demand	Workplace regs	Global	Demand
7	Energy Costs / Reliability	Energy	Demand	Bus. Outlook
8	Global outlook/geopolitics	weather events		
...				
below 8th		Demand/Global	Energy	Global

For finance, property & business federal government/policies & regulations are a key factor, while the Transport/storage sector is more concerned with State governments.

In summary, the current gap between conditions and confidence is not unusual and not a source for concern in itself. So far this year confidence has generally been around the level we would expect to see given other forward looking indicators in the survey, although this month's reading is a little on the soft side. At an industry level, there is variation in the relationship between conditions and confidence. Even for those sectors where the business conditions index is well above the confidence index, the drivers of confidence vary by industry in some respects (although there are also common elements).

NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

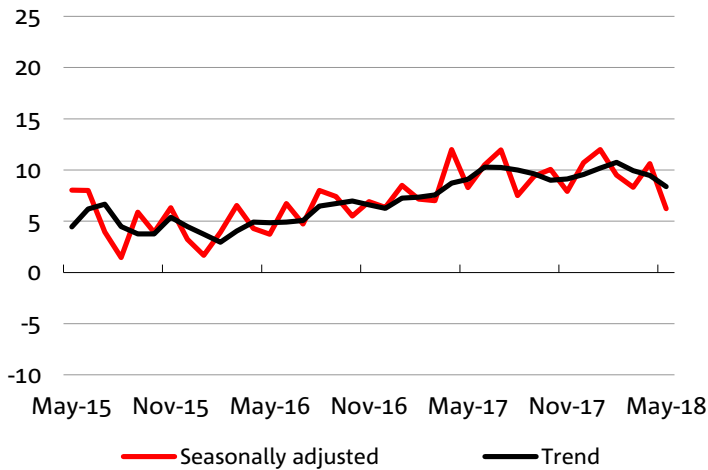


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

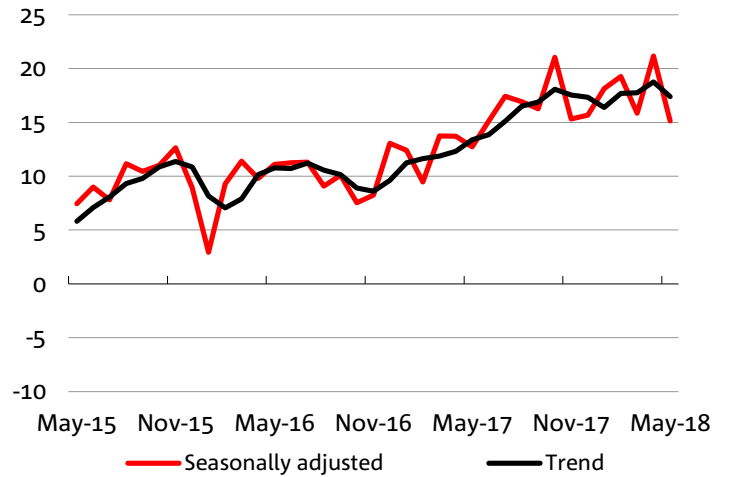


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

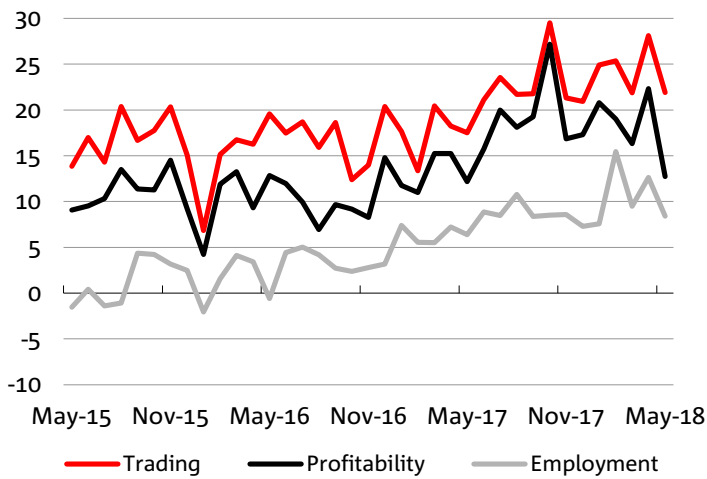


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

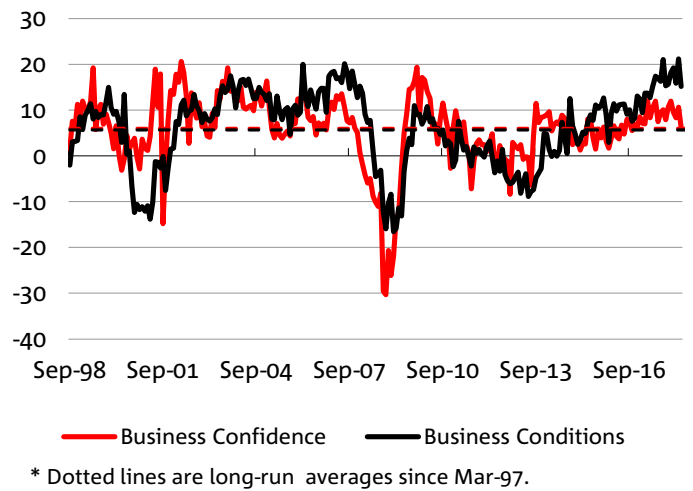


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

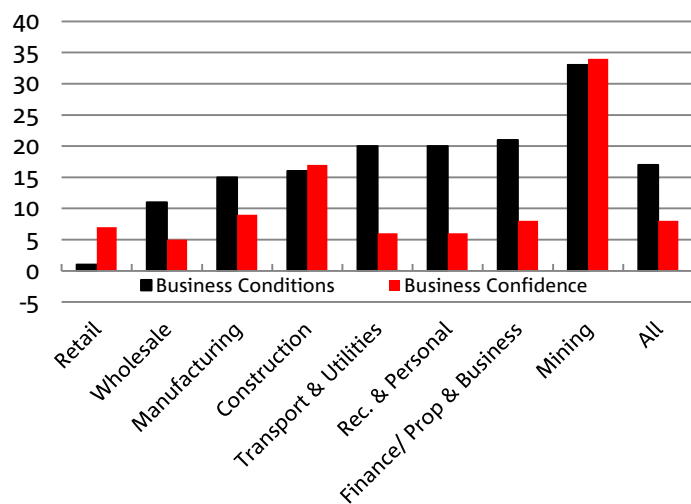
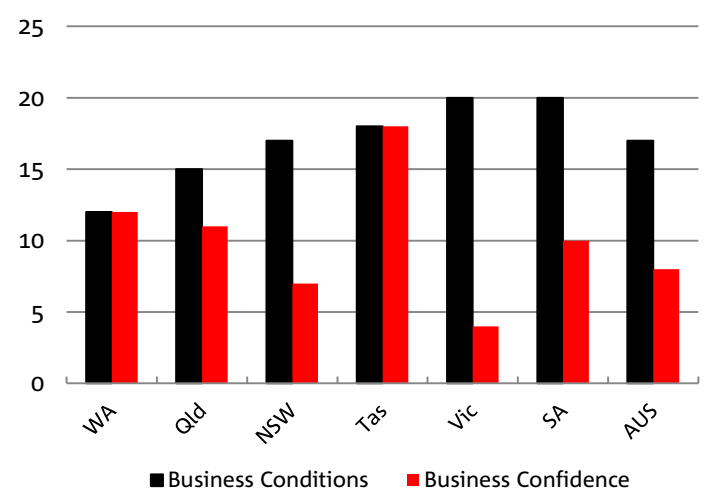


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

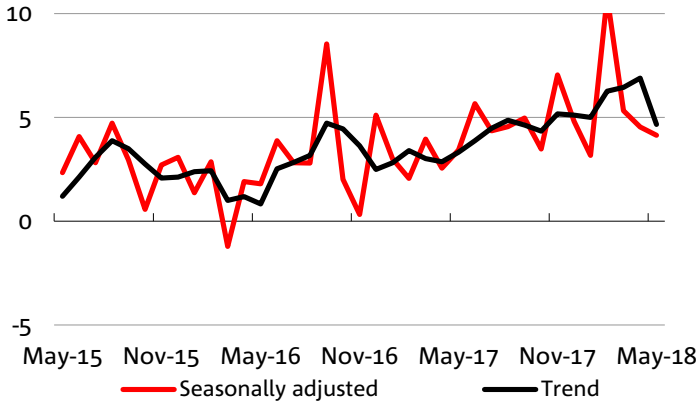


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

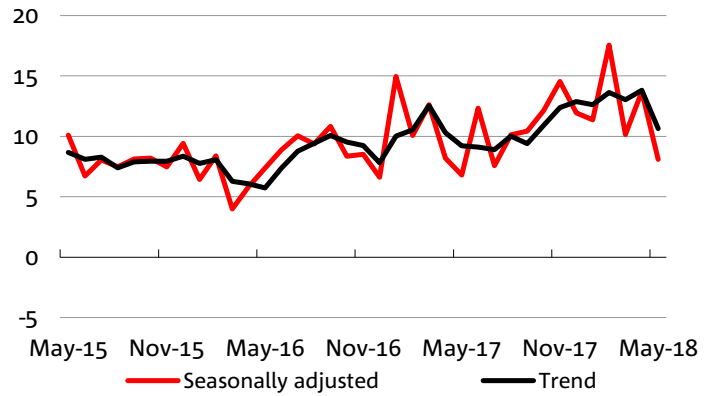


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

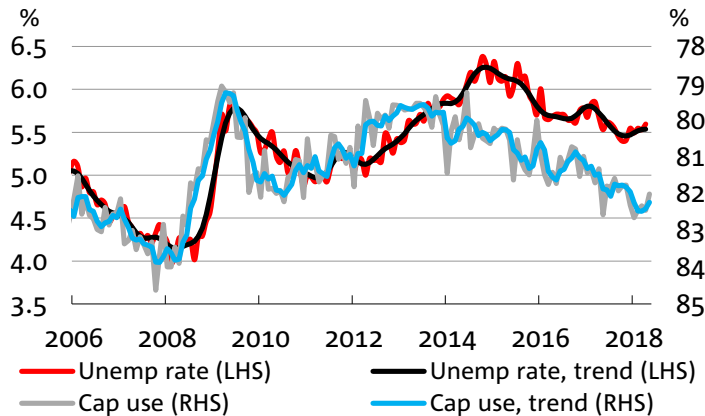


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

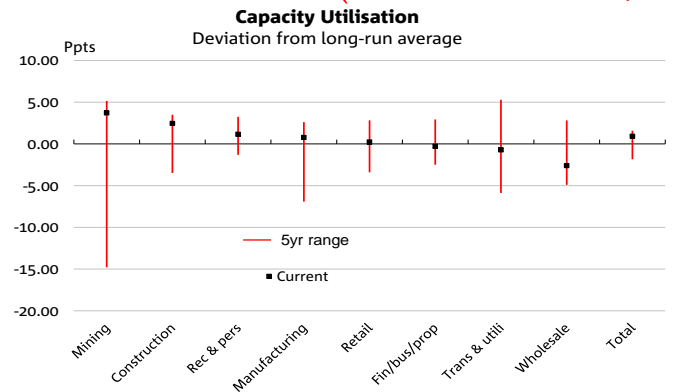


CHART 15: STOCKS (NET BALANCE)

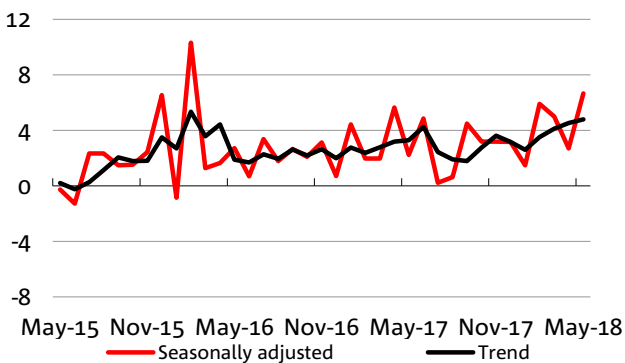


CHART 16: CASH FLOW (NET BALANCE)

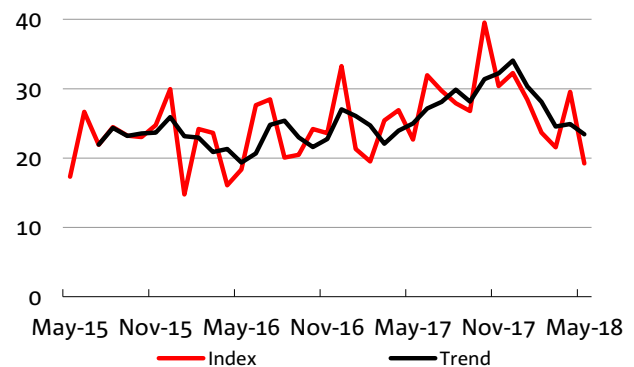


CHART 17: EXPORTS (NET BALANCE)

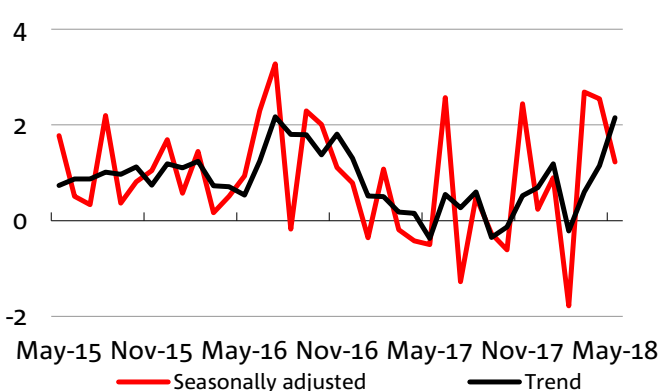
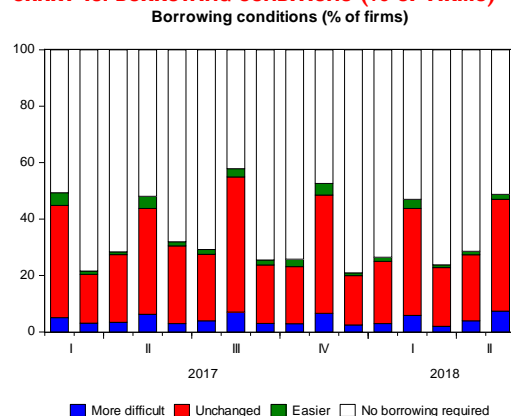


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 19: BUSINESS CONDITIONS (NET BALANCE) BY STATE

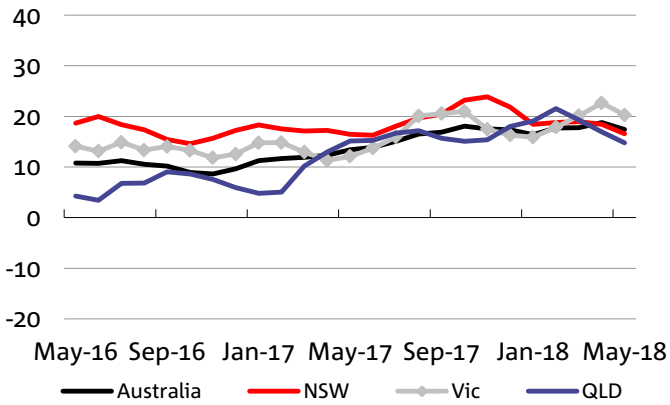


CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

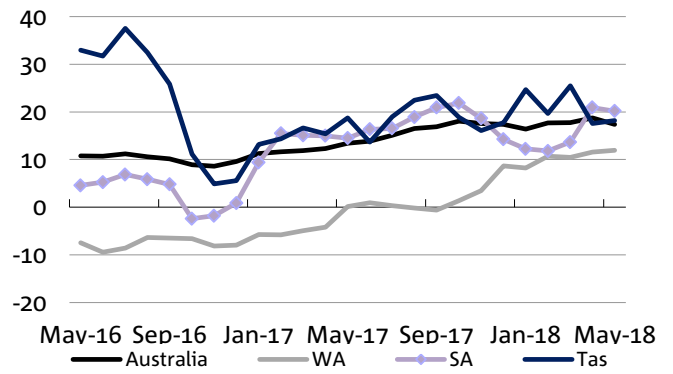


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

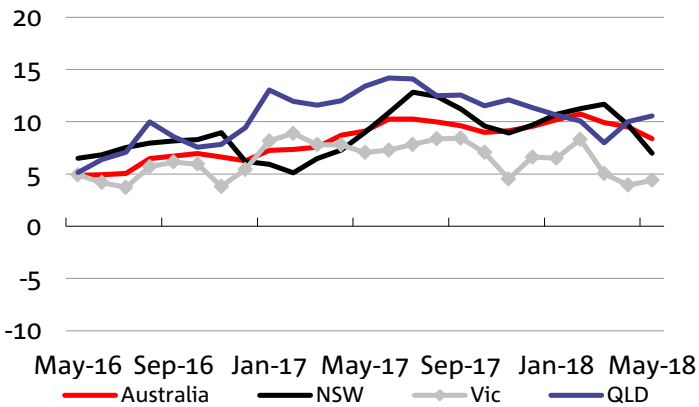


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

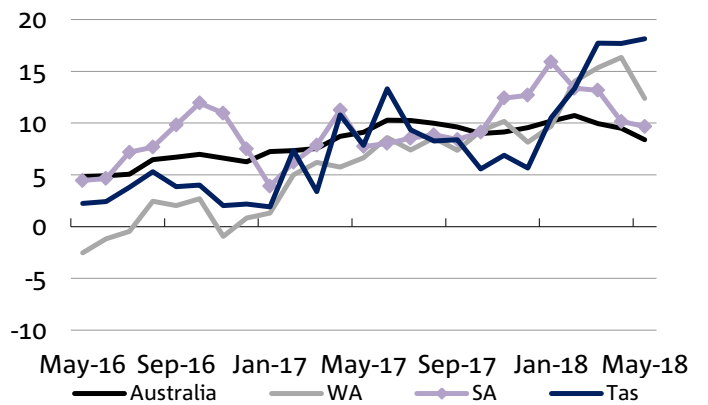


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

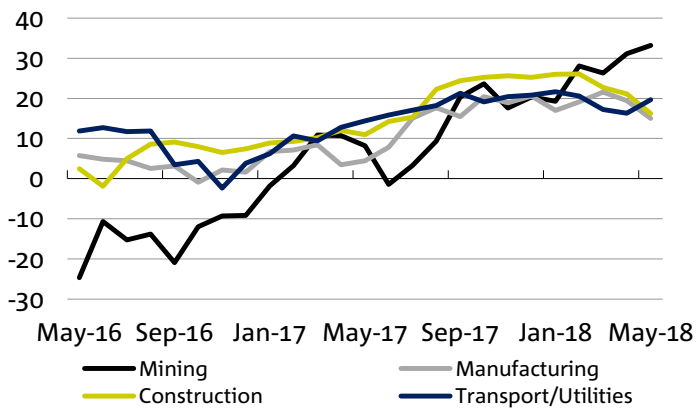


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

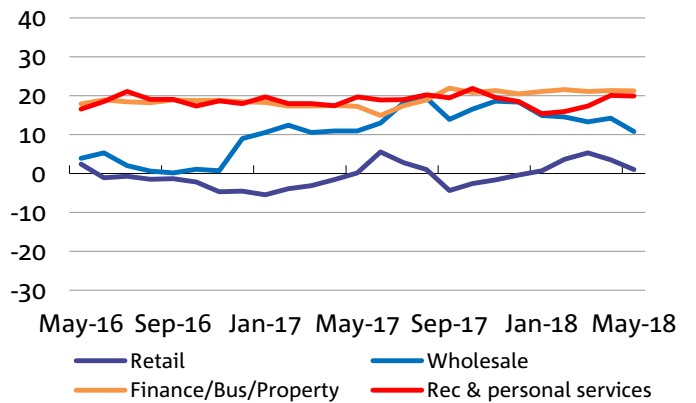


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

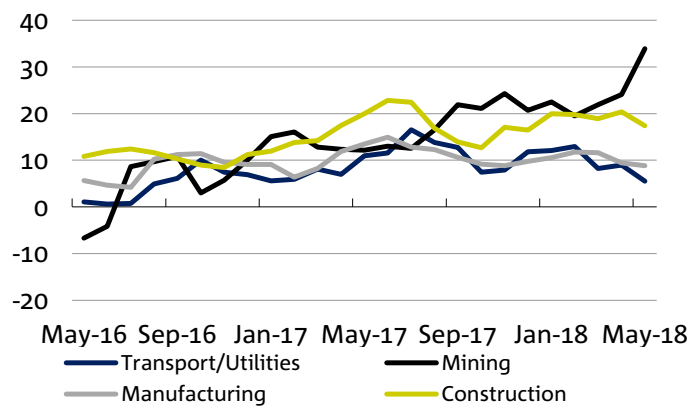
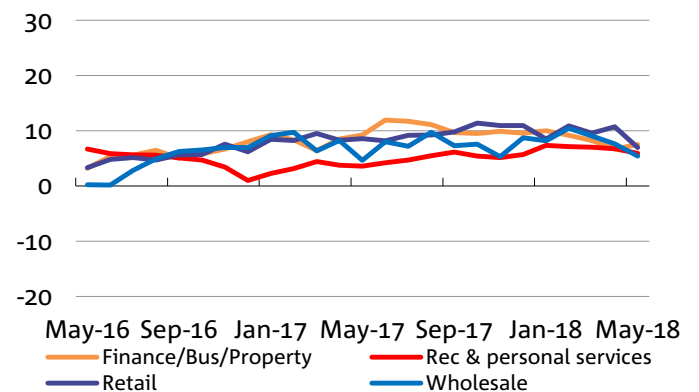


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

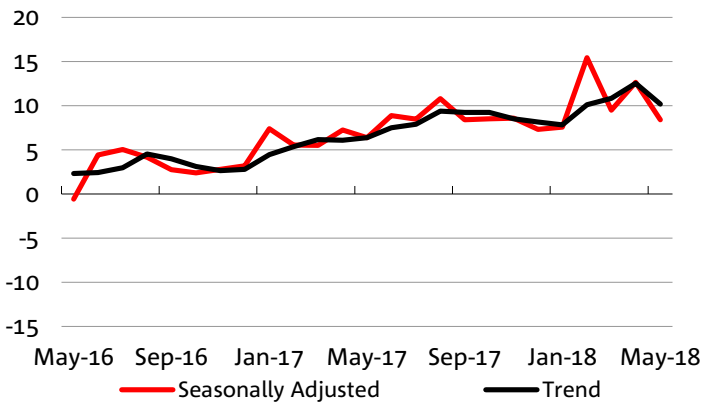


CHART 28: EMPLOYMENT (NAB VS ABS)

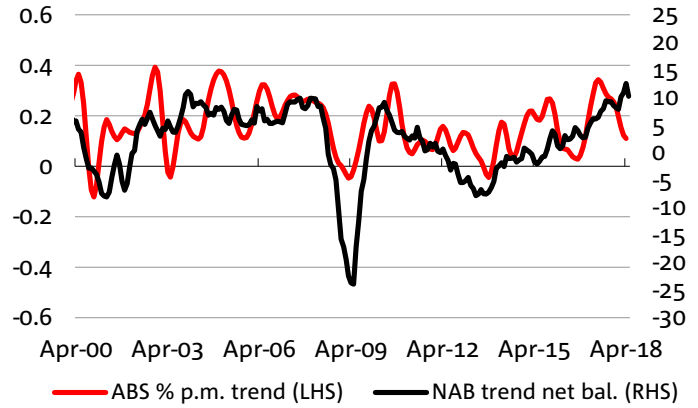


CHART 29: EMPLOYMENT BY INDUSTRY

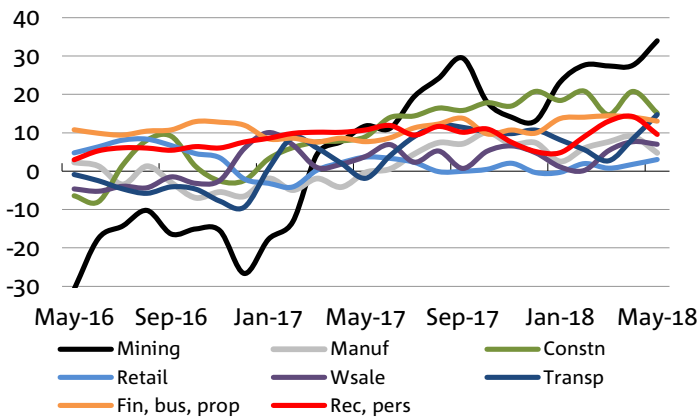


CHART 30: LABOUR COSTS GROWTH

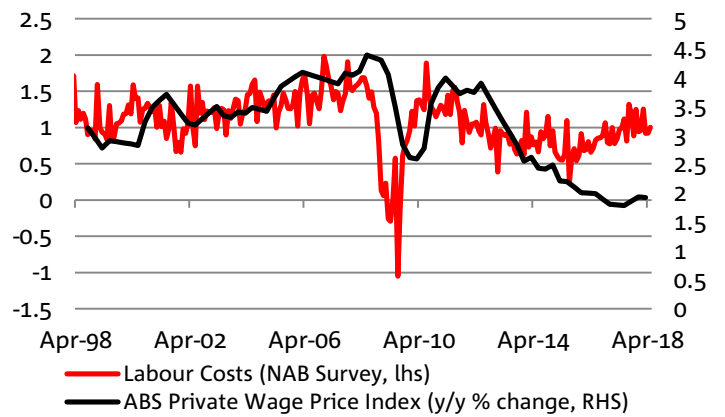


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

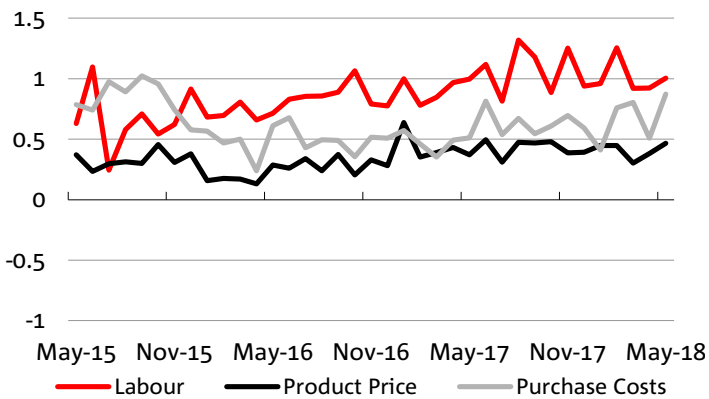
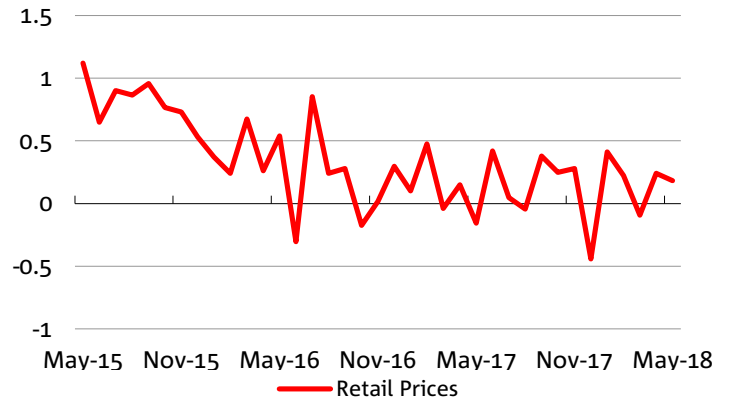


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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APPENDIX: LIST OF SERIES AVAILABLE TO SUBSCRIBERS[^]

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.

[^]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)	
<i>All series available on an industry basis for:</i>	
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)	
<i>All series available on a state basis for:</i>	
New South Wales	
Victoria	
Queensland,	
WA	
SA/NT	
Tasmania	

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