

# NAB MONTHLY BUSINESS SURVEY **JUNE 2018**

## CONFIDENCE AND CONDITIONS HOLD STEADY



*NAB Australian Economics*

There was little change in headline business conditions and confidence in June, following the pull-back in May. Conditions remain well above average after increasing in early 2018, with the strength spread across most industries. Conditions in the retail industry continue to lag those of the other industries. Business confidence continued to hover at an around average level after also easing recently. While forward looking indicators have weakened a little, they still point to favourable business conditions for the rest of 2018.

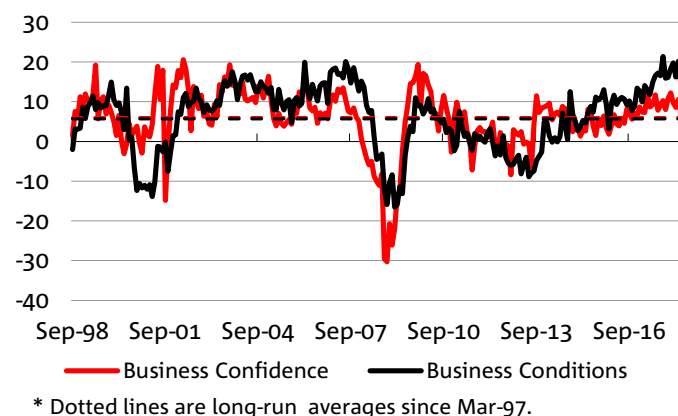
### HIGHLIGHTS

- **How confident are businesses?** The business confidence index edged down 1pt to +6 index points in June, continuing an around-average trend after easing back in recent months.
- **How did business conditions fare?** The business conditions index ticked up by 1pt to +15 index points after the pull-back in the previous month. Overall, conditions remain highly favourable with the index around 9 index points above the long-run average.
- **What components contributed to the result?** The trading and profitability indices rose in the month (by 3 and 5pts respectively), while the employment index declined for a second month in a row to +5 index points.
- **What is the survey signalling for jobs growth?** Despite two consecutive months of falls, the employment index - based on historical patterns - is consistent with jobs growth around 20k per month, slightly above the rate required to keep the unemployment rate constant.
- **Which industries are driving conditions?** Conditions improved in *manufacturing, construction, wholesale and financial, property & business services* in June. These gains were offset by a sharp decline in the *mining* industry, while *transport & utilities and recreational & personal services* also fell. Despite the sharp decrease in the month, in trend terms conditions remain strongest in the *mining* industry. Conditions in the *retail* industry continue to lag at +1pt in trend terms.
- **Which industries are most confident?** Confidence remains highest in trend terms in the *mining and construction* industries. Confidence, in trend terms, is lowest in *recreation & personal services*; the remaining industries remain at or around the national average in trend terms.
- **Where are we seeing the best conditions by state?** Conditions (in trend terms) remain most favourable in *South Australia* and *Tasmania*, though all states remain well above average. Conditions in *Western Australia* continue to lag the other states.
- **What is confidence like across the states?** Confidence is highest in trend terms in *Queensland* and *Western Australia* (both +12 index points) followed by *South Australia* (+10). Confidence in *New South Wales* and *Victoria* continues to lag the other states (+5 and +4).
- **What does the Survey suggest about inflation and wages?** Surveyed prices, costs and wages variables continue to suggest weak price pressures in the economy. Labour cost, purchase cost and final products prices growth all edged lower in June. Retail prices tracked sideways in the month, with no growth after increasing at a relatively low pace recently.
- **Are leading indicators suggesting further improvement?** Key leading indicators were mixed in the month. Capacity utilisation edged slightly higher in June, reversing the small decline in May and is at a relatively high level. Forward orders fell 2pts in June. In trend terms, both continue to point to a positive outlook for the non-mining economy.

**TABLE 1: KEY STATISTICS**

	Apr-18	May-18	Jun-18
	Net balance		
Business confidence	11	7	6
Business conditions	20	14	15
Trading	26	20	23
Profitability	20	12	17
Employment	12	9	5
Forward orders	5	4	2
Stocks	3	7	4
Exports	3	1	0
	% change at quarterly rate		
Labour costs	0.9	1.0	0.8
Purchase costs	0.6	0.9	0.7
Final products prices	0.4	0.5	0.4
Retail prices	0.2	0.2	0.0
	Per cent		
Capacity utilisation rate	82.4	82.0	82.4

**CHART 1: CONFIDENCE AND CONDITIONS HOLD STEADY**



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 25 June to 29 June 2018, covering over 400 firms across the non-farm business sector. **Next release date is 14 August 2018.**

# NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

## EXPLORING THE SURVEY'S CASHFLOW MEASURE

- Since 2010 the NAB survey has included a question on business cash flow. While the measure is closely related to profitability, it is a broader concept of business health, capturing the ability of businesses to collect revenue in a timely manner and meet outflows as they are due. Poor cash flow may limit a business's ability to undertake required capex as well as source new debt funding.
- The business cash flow index has risen over the past year in line with the increases in profitability and trading indices. Despite easing a little recently (in trend terms) it remains at a high level. The fact that cash flow has tracked profitability closely recently suggests that in addition to remaining profitable, firms have had little difficulty collecting revenue and meeting payments as they fall due, including both the ability to use short-term financing.
- By industry, cash flow remains most positive in *transport & storage, finance, business & property services* and *recreational & personal services*. The *retail* sector lags most other industries – likely reflecting the ongoing structural issues facing the sector.
- Cash flow in the *construction* sector has fallen since the end of last year. While, it still remains positive, it may reflect the cooling in the housing market where price growth has slowed and lending standards have tightened.

## A MINI BOOM IN THE MINING INDUSTRY

- Both business conditions and confidence in trend terms are highest in the mining industry – well above most other industries. Commodity prices have risen, export demand continues to grow, while it is likely that cost pressures seen at the height of the boom have abated and productivity has risen as projects ramp up to capacity.
- With the last of the large LNG investment projects entering the operational phase over the next year or so, we expect investment in the sector to continue to fall back to more normal levels, though we expect this pace of decline to tail off. As the sector stabilises at this new high level of output, however, it is likely that a higher level of sustaining capex, expansions and productivity enhancing investments in order to maintain the new higher level of output.
- In trend terms, the Survey measure of capacity utilisation rose to its highest level since early 2012 in June. The share of firms increasing capex peaked in April but remains relatively high after falling recently. Capex expectations for the next 12 months from the quarterly survey have also moved higher.
- Employment growth has also risen in the sector. The high level of capacity utilisation and strength in employment has seen an emergence of renewed cost pressures in the sector, with the labour cost index rising to levels last seen close to the peak of the mining boom. This is in line with anecdotal evidence of increased competition for construction related employment with large public and private infrastructure projects.

CHART 2: BUSINESS CONDITIONS AND CASH FLOW (TREND TERMS)

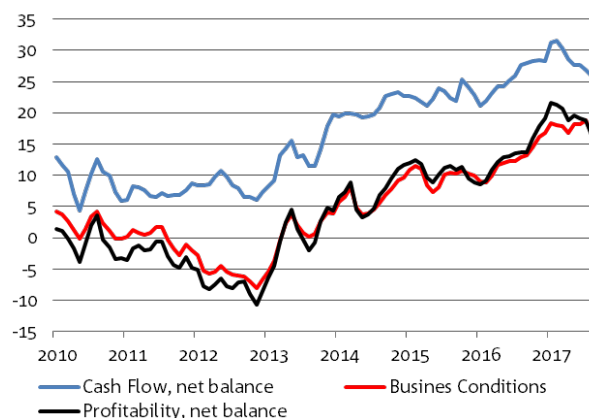


CHART 3: CASH FLOW BY INDUSTRY (TREND, NET BALANCE)

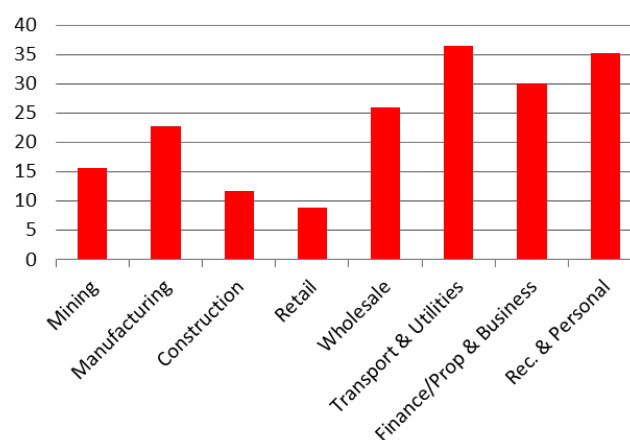


CHART 4: MINING CAPEX AND CAPACITY UTILISATION

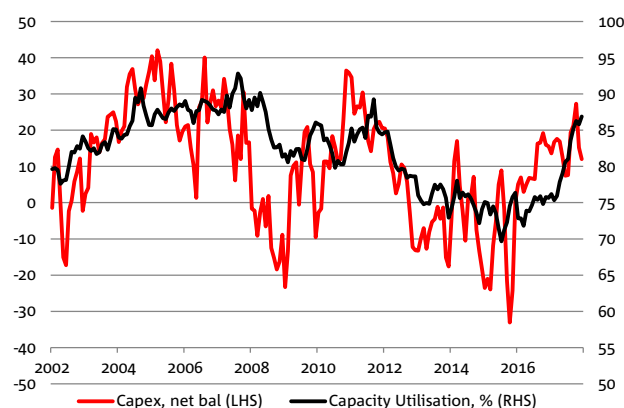
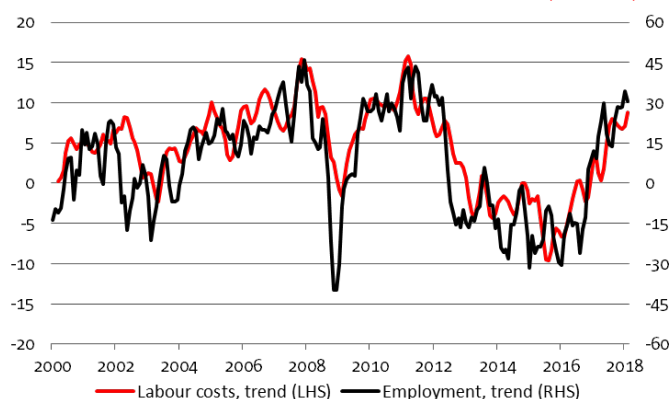
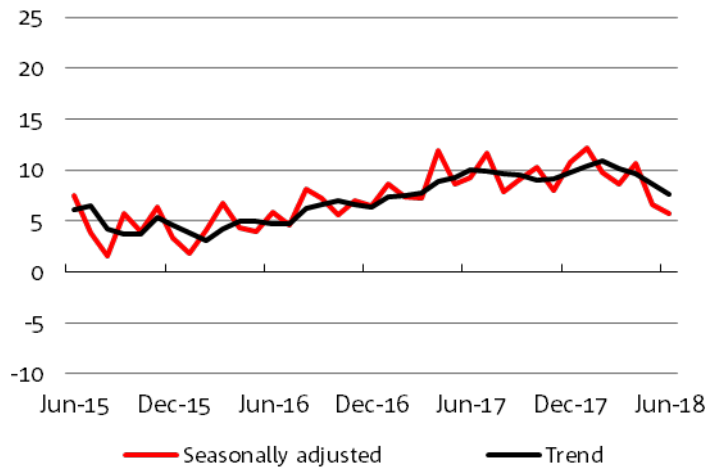


CHART 5: MINING LABOUR COSTS AND EMPLOYMENT (NET BAL)

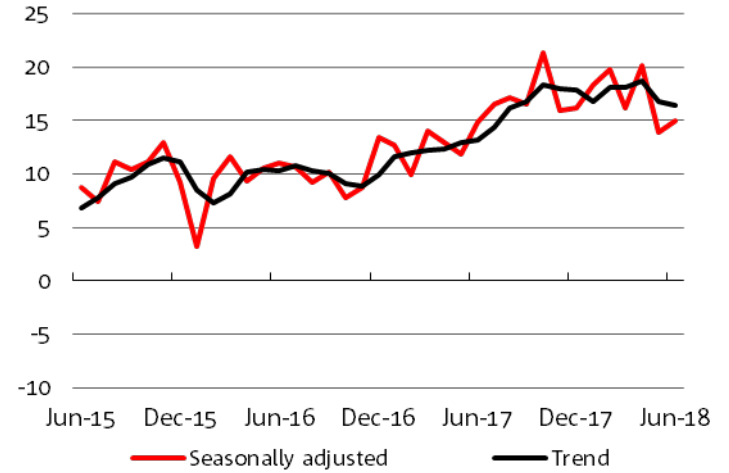


# NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

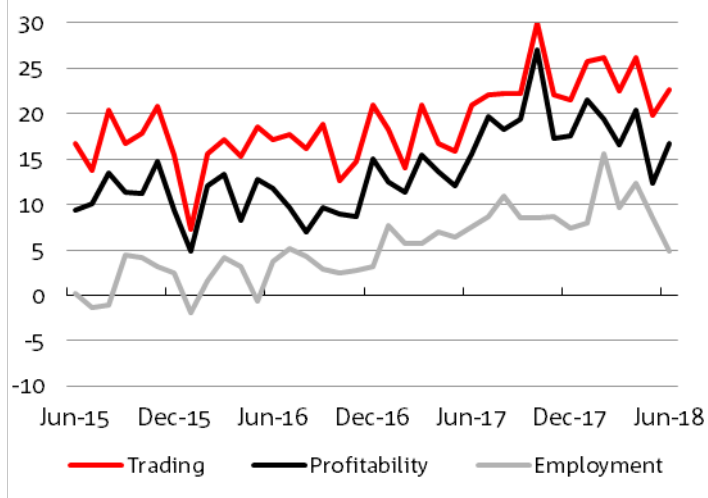
**CHART 5: BUSINESS CONFIDENCE (NET BALANCE)**



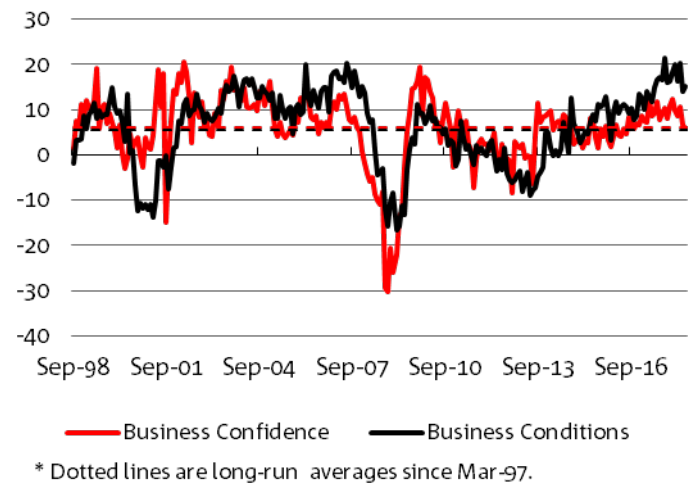
**CHART 6: BUSINESS CONDITIONS (NET BALANCE)**



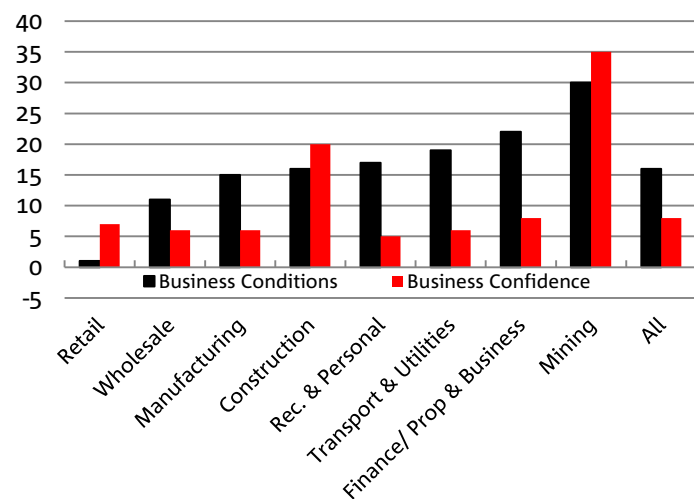
**CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.**



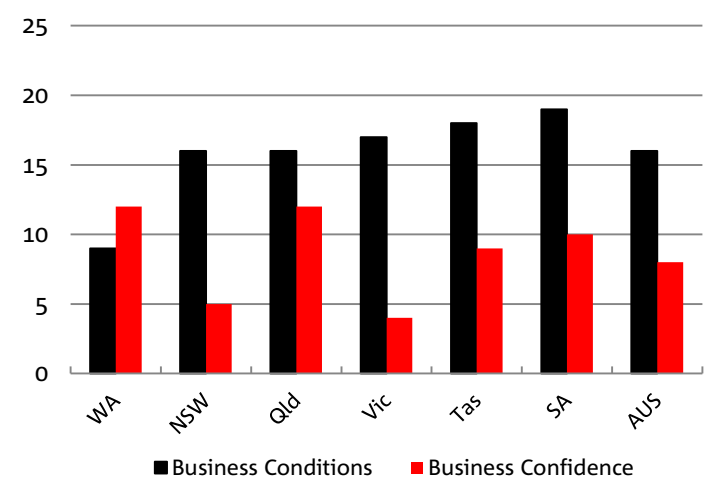
**CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE**



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

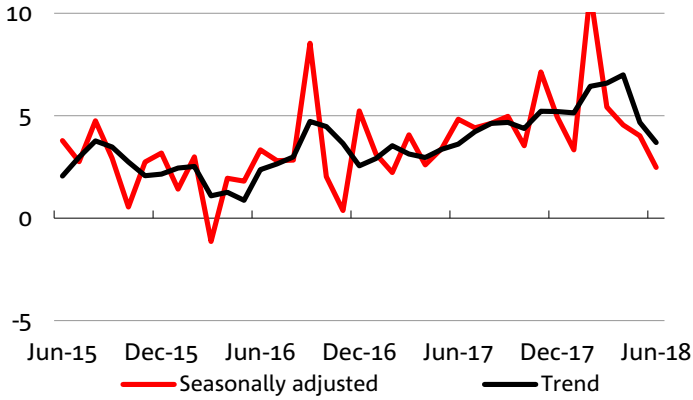


**CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)**

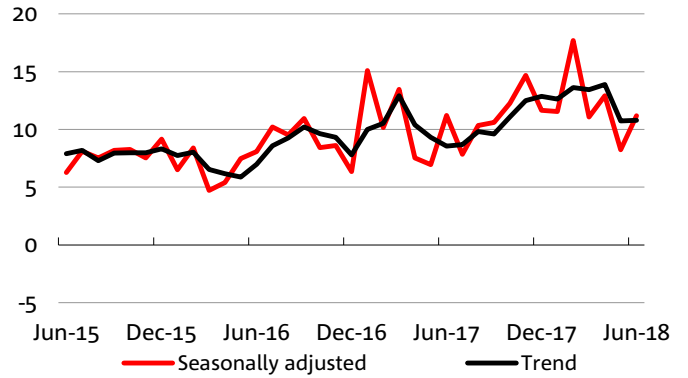


# NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

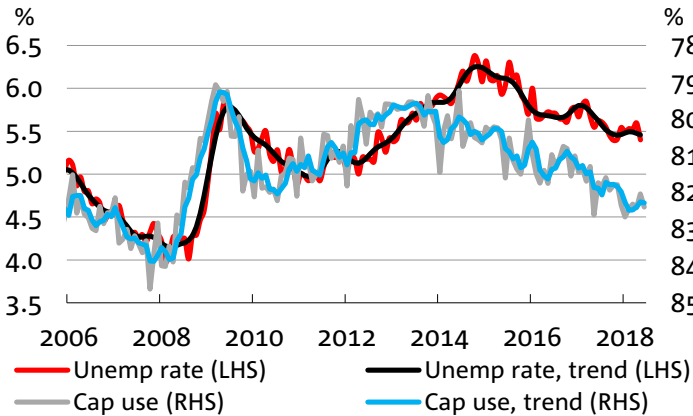
**CHART 11: FORWARD ORDERS (NET BALANCE)**



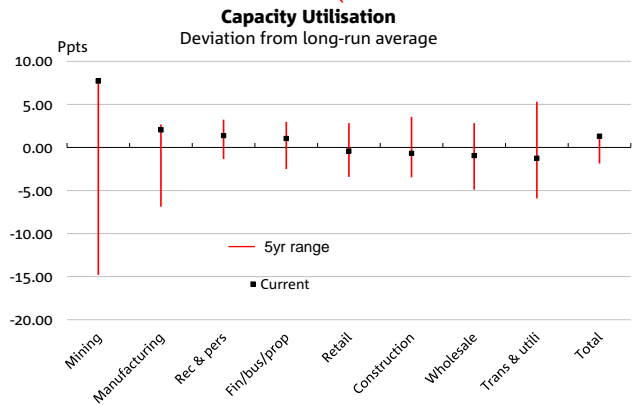
**CHART 12: CAPITAL EXPENDITURE (NET BALANCE)**



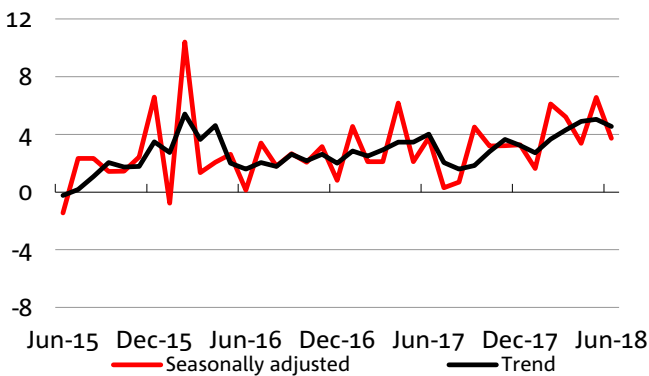
**CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT**



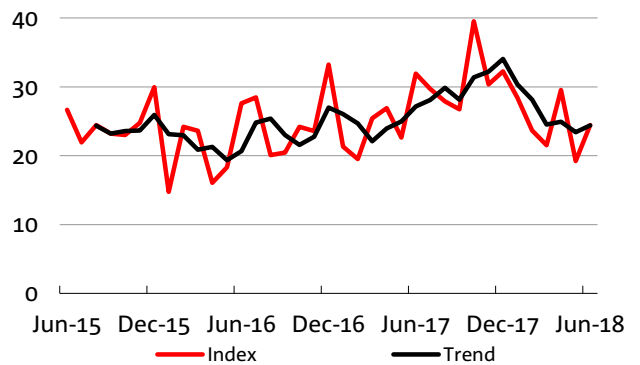
**CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)**



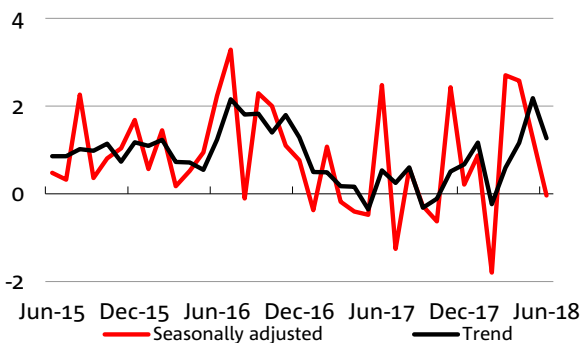
**CHART 15: STOCKS (NET BALANCE)**



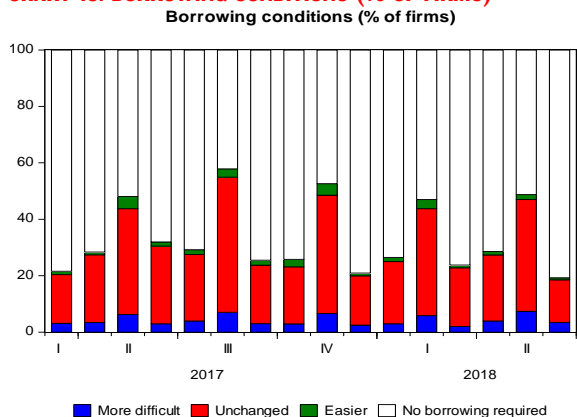
**CHART 16: CASH FLOW (NET BALANCE)**



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

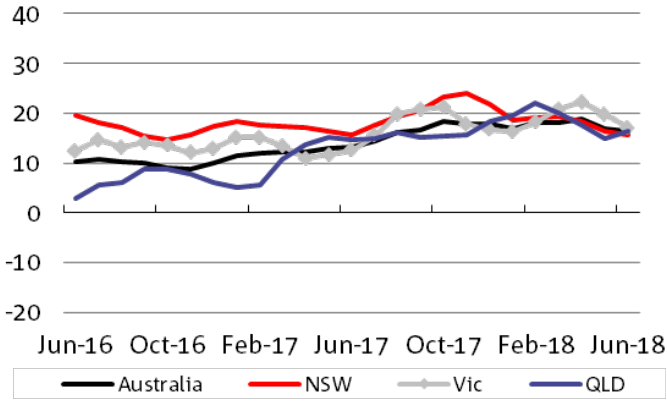


**CHART 18: BORROWING CONDITIONS (% OF FIRMS)**

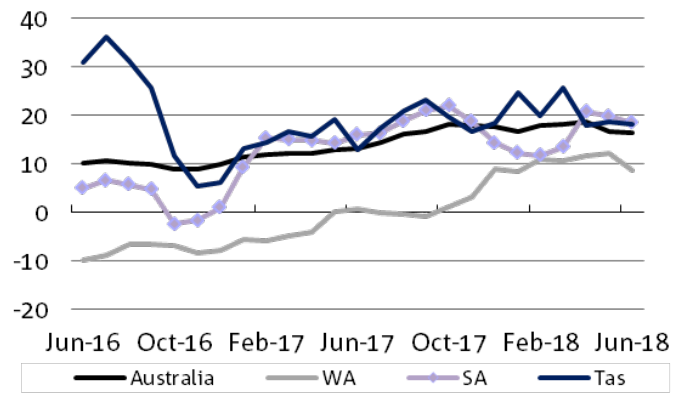


# NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

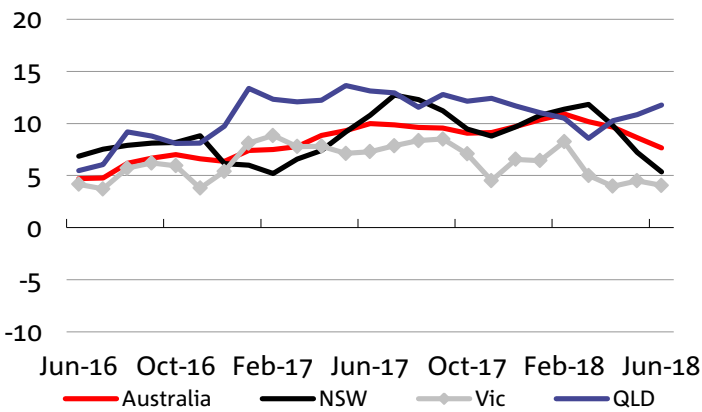
**CHART 19: BUSINESS CONDITIONS (NET BALANCE) BY STATE**



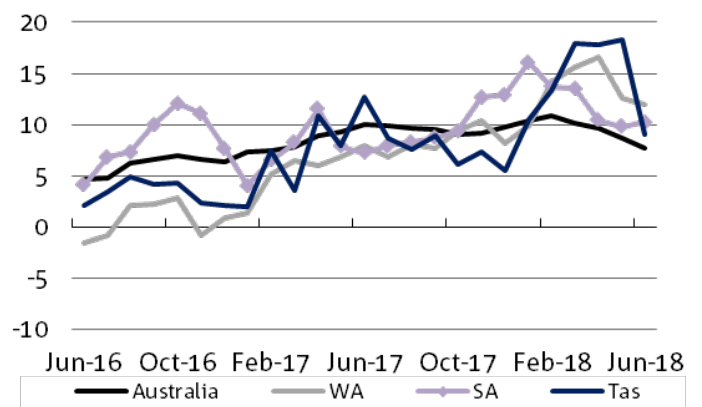
**CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE**



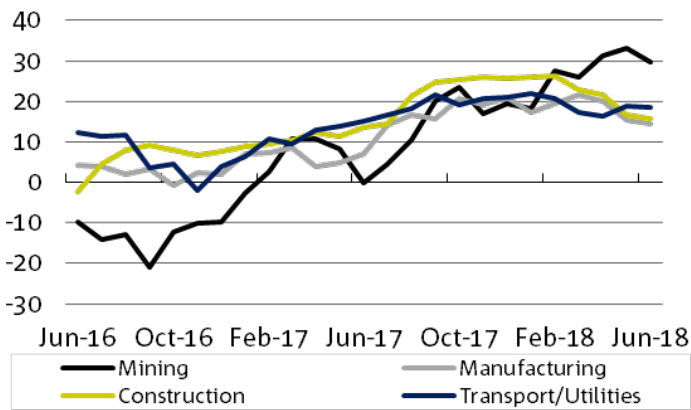
**CHART 21: BUSINESS CONFIDENCE BY STATE (NET BALANCE)**



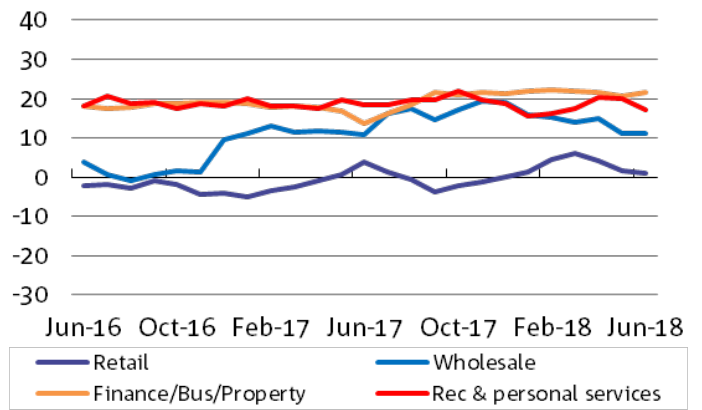
**CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)**



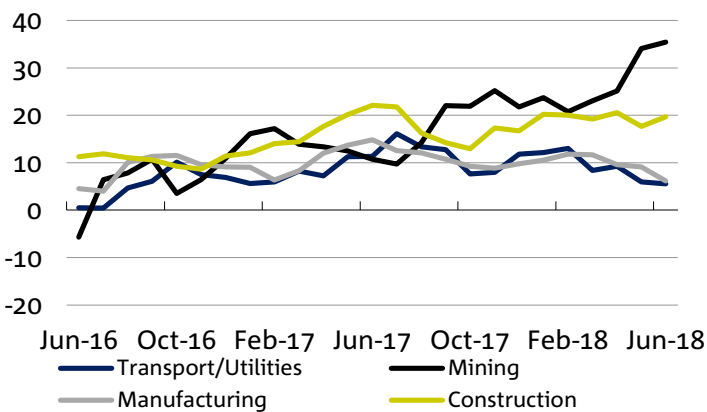
**CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)**



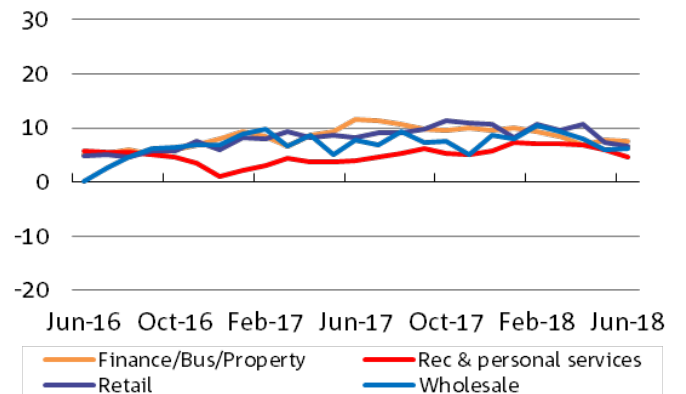
**CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)**



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

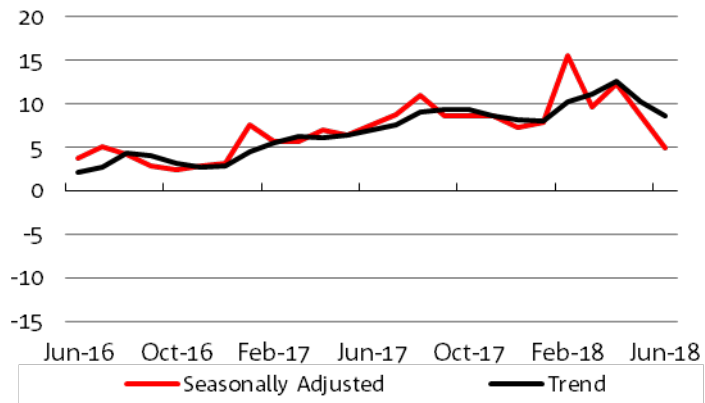


**CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)**

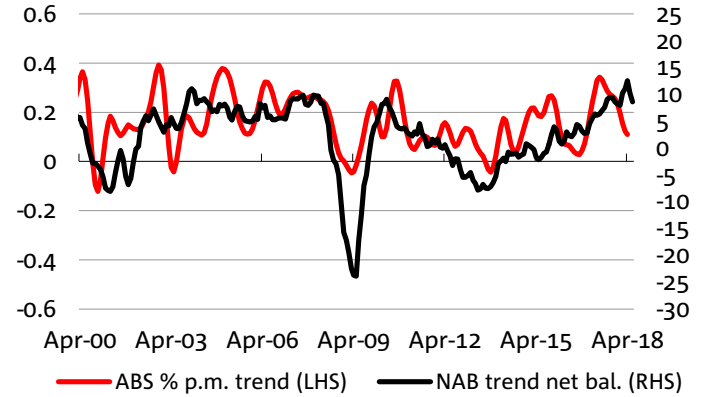


# NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

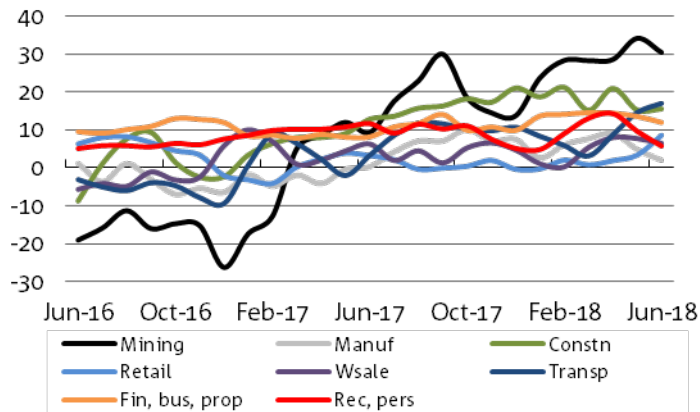
**CHART 27: EMPLOYMENT**



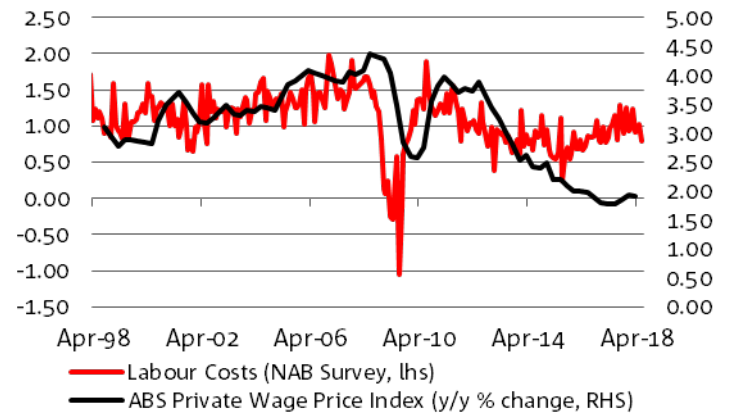
**CHART 28: EMPLOYMENT (NAB VS ABS)**



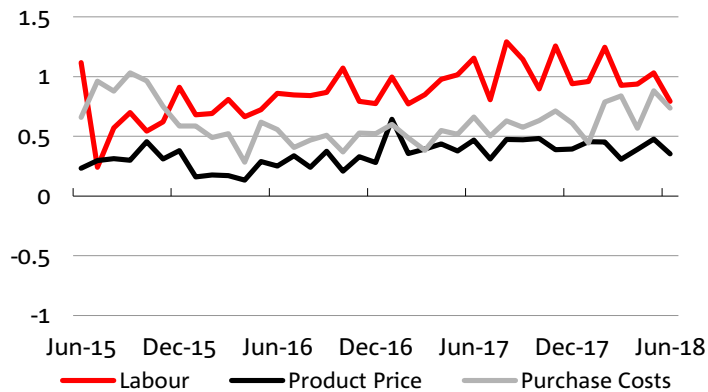
**CHART 29: EMPLOYMENT BY INDUSTRY**



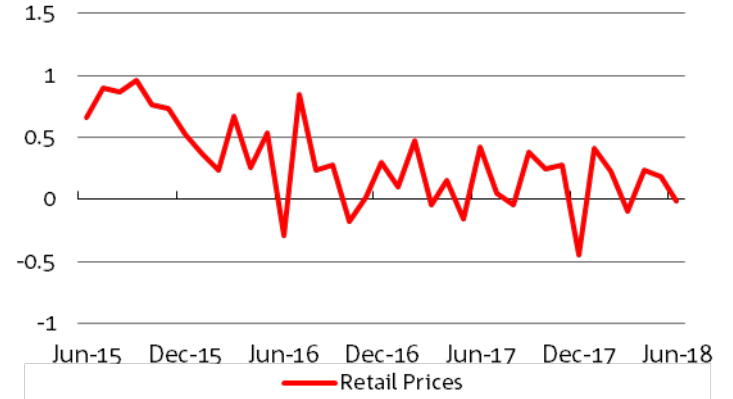
**CHART 30: LABOUR COSTS GROWTH**



**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>All series available on an industry basis for:</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>All series available on a state basis for:</b>	
New South Wales	
Victoria	
Queensland,	
WA	
SA/NT	
Tasmania	

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