

EMBARGOED UNTIL: 11:30AM AEST, 19 JULY 2018

NAB QUARTERLY BUSINESS SURVEY 2018 Q2

FAVOURABLE BUSINESS CONDITIONS PERSIST

NAB Australian Economics



After strengthening to historically high levels in Q1, business conditions eased in Q2 but remain well above average. Conditions remain favourable across all states and most industries. Business confidence weakened in Q2 but remains a little above average. Overall, leading indicators continue to suggest favourable business conditions in 2018 and some tightening in the labour market. They also point to favourable conditions for business investment growth. This quarter we asked a special set of questions on recent and anticipated wage pressures faced by businesses (pages 2-3).

HIGHLIGHTS

- The quarterly NAB Business Survey provides a more in-depth probe into the conditions facing Australian business than the monthly survey, and also examines additional information about how firms perceive the outlook for their industries.
- **Business conditions** (an average of trading conditions/sales, profitability and employment) decreased by 2pts to +15, easing back a little from the highs seen in Q1 - the monthly business survey suggests that conditions have held steady late in the quarter. The decrease was a result of falling profitability and employment conditions, while trading conditions remained flat. Overall, conditions remain favourable, and a pattern of broad-based strength remains evident at the industry level, with most industries at or above average in Q2. Conditions are particularly favourable in the mining sector, likely reflecting higher commodity prices, growing exports, abating cost pressures and rising productivity. Conditions in retail are still weakest.
- **Business confidence** edged slightly lower to +7 (from a revised +8), to be just above average, where it has hovered for some time. Confidence increased sharply in TAS in the quarter and is now the highest of all the states. Of the mainland states, confidence is strongest in WA and QLD, both well above the national average, likely reflecting the renewed confidence in the mining sector which remains high (+32 compared to a long-run average of +5). Confidence in the construction industry edged lower in Q2 but remains at a high level – while the housing market is cooling the pipeline of work remains high, and the construction sector is also being supported by the high level of infrastructure-related work as well.
- **Leading indicators** were mixed in Q2. Capacity utilisation ticked up to be at its highest level since 2009, with utilisation highest in the mining and construction industries. The forward orders index fell in the quarter, and even further in the monthly survey taken at quarter end, but it remains above average. While this suggests some weakening in future conditions we do not foresee a significant slowing in business activity as yet. In fact, expectations for business conditions over the next three months were unchanged, and for next twelve months remain high despite easing slightly. Consistent with the rise in capacity utilisation, capex and employment plans for the next 12 months remain elevated.
- **Labour indicators** suggest little change in momentum in the labour market. The employment index declined in the quarter but remains above average. Growth in labour costs (a wage bill measure) was flat, but is expected to increase slightly over the next three months. We expect the labour market to tighten gradually over 2018 in line with firm's difficulty in finding suitable labour remaining elevated – notwithstanding a small decline in the quarter.
- **Survey inflation indicators tracked sideways in the quarter.** The range of both input and final price indicators (labour costs, purchase costs and final products prices) suggest little, if any significant price pressures. Retail prices growth also tracked sideways at a very low rate. Wholesale price inflation slowed in the quarter, suggesting some further downstream price weakness.
- Looking at the **construction industry** in more detail, conditions declined across all sub-sectors with construction services turning negative after previous declines. Confidence was generally weaker with the exception of non-residential building which rose notably in the quarter.

TABLE 1: KEY QUARTERLY BUSINESS STATISTICS

	2017q4	2018q1	2018q2		2017q4	2018q1	2018q2
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	7	8	7	Trading	21	22	22
Business conditions				Profitability	17	17	15
Current	16	17	15	Employment	11	13	8
Next 3 months	26	24	24	Forward orders	9	9	6
Next 12 months	31	33	31	Stocks	4	5	8
Capex plans (next 12)	29	30	29	Exports	2	0	2
	<i>% change</i>						
Labour costs	0.7	0.6	0.6	Retail prices (% change)	0.1	0.1	0.1
Purchase costs	0.4	0.4	0.4	Capacity utilisation rate	82.5	82.7	82.8
Final products prices	0.3	0.3	0.3				

All data seasonally adjusted, except purchase costs and exports. Fieldwork for this Survey was conducted from 23 May to 13 June 2018, covering more than 900 firms across the non-farm business sector.

Next release date is 18 October 2018.

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QUARTERLY FOCUS: FIRM'S PERSPECTIVES ON WAGE PRESSURES

- In addition to the regular survey questions around wage and labour costs, this quarter we asked a special question on evolution of wage pressures faced by businesses over the preceding and next 6 months. Overall, the results suggest that wage pressure is expected to rise a little but not significantly from the outcomes seen over the previous 6 months, with the bulk of employers only expecting modest increases in wage pressures.
- Wage growth across the economy has garnered much attention recently. Both official and survey measures of wages growth suggest recent pay rises for workers have been modest compared with history. The WPI for private sector employees slowed to 1.9% y/y in Q1 while survey measures of labour costs growth and expected wage growth have trended down over the past two years. Wage growth has been clustered around 2% for most states with the notable exceptions of Western Australia (which has been a little weaker over the past year) and Tasmania which has been a little stronger.
- Wage growth is an important topic in the context of a highly uncertain outlook for the consumer and for inflation which has tracked just below the RBA's target band for some time. Households face a high debt burden, slowing growth in wealth (due to slower house price growth), and tighter budgets due to the sharp increases in prices of non-discretionary items such as electricity and gas. The outlook for wages has also become a key factor in the outlook for monetary policy as weaker wages growth has fed through to lower domestic inflation pressure more generally via weaker labour cost growth.
- The weakness in wages is likely the result of both structural and cyclical forces in the labour market. There has been some spare capacity in the labour market for some time now, and despite strong employment growth over 2017, the unemployment rate remains a little above the rate consistent with full capacity. Weaker consumer price inflation has also likely lowered employee's inflation expectations and hence wages demands. In addition the changing nature of work and the decline in collective bargaining are likely to have weakened employees bargaining power in a structural sense.
- The results suggest relatively weak wage pressures over the previous 6 months with over 52% of firms reporting no change in wage pressures (little increase in wage rates). Looking forward, businesses expect some pick-up in wage pressure with the share of unchanged wage pressure falling to 46% - that is 53% expect some increase in the next 6 months, compared with 47% over the past 6 months.
- Chart 1 reflects suggests that the distribution of wage pressure is bunched around no to small increases in wage pressure. It suggests that only a minority of firms expect larger wage increases. It also reflects the downward nominal rigidity of wages with almost no firms expecting a decrease in wage pressure.

CHART 1: DISTRIBUTION OF EXPECTED WAGE PRESSURES (% OF FIRMS)

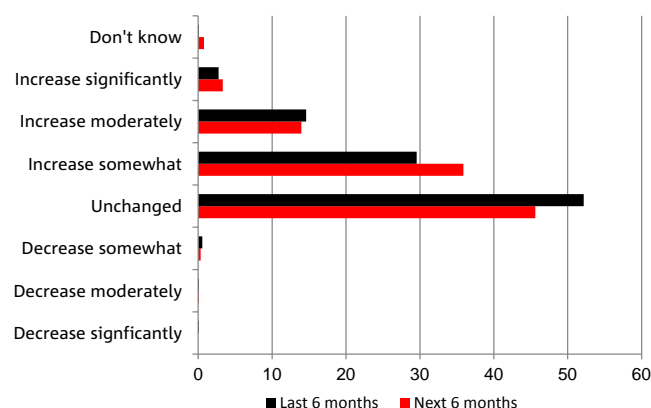


CHART 2: WAGE PRESSURES BY STATE (NET BAL)

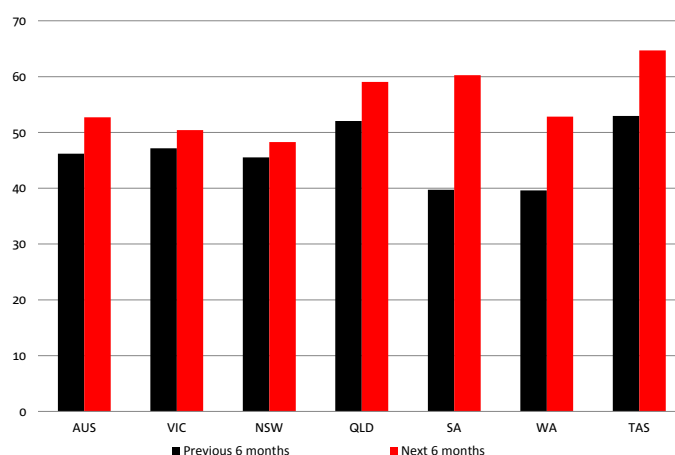
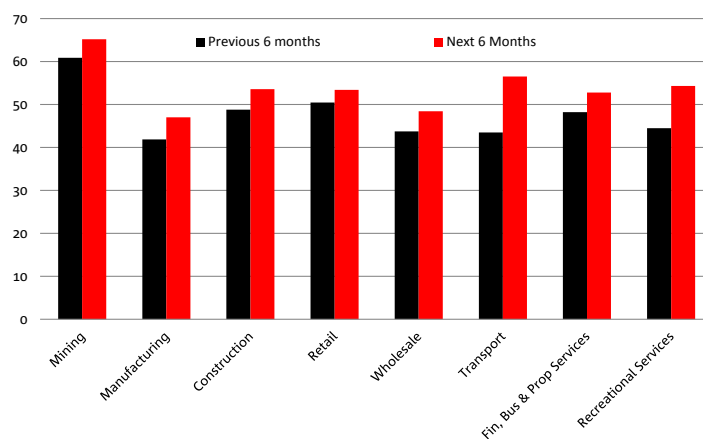


CHART 3: WAGE PRESSURES BY INDUSTRY (NET BAL)



- By state, the largest expected increase in wages pressure is in SA and WA, where wage pressures have been weakest over the previous 6 months compared with the other states. In contrast the outlook for wages growth remains a little weaker in NSW and Victoria, with 50% or less of firms having, or expecting, to experience, rising wage pressure.
- The distribution of expected wage increases is broadly similar across states, with the bulk of firms expecting either unchanged or only “somewhat” increased wage pressure. Close to 50% of business expect to wage pressures will be unchanged over the next 6 months in VIC and NSW. In SA and QLD the share of firms expecting unchanged wage pressure is a little lower at closer to 40%.
- The share of firms expecting to see wage pressure increase moderately or significantly is highest in SA and QLD. However while the results indicate this, there doesn’t appear to be a large gap between the states.
- By industry, we see a similar pattern of results with most firms expecting unchanged or wages pressures only expected to increase somewhat.
- Mining appears to face the largest pressure on wages with 30% of respondents expecting no change and 40% expecting a moderate pickup. The highest proportions of respondents expecting moderate and significant increases in wages pressure also occurs in this industry.
- Wage pressures appear weakest in manufacturing and wholesale, with 50% of respondents in these industries expecting wage pressures to remain unchanged over the next 6 months and relatively low proportions expecting larger increases in wage pressures.
- These results are consistent with NAB’s view for the economy, wages and inflation more generally. We – like the RBA - expect only a gradual pick-up in wage growth over the next few years. We believe some spare capacity remains in the labour market and that with the outlook for output and employment growth that the spare capacity will be gradually reduced and the unemployment rate will fall.
- As the unemployment rate falls we expect wages growth to have picked up enough to begin feeding through inflation pressures more generally and the RBA to begin lifting rates from the current lows by around mid-next year. However, our view on this remains highly data dependent with little sign of a persistent lift in wage growth to date. This survey’s special question suggests that beyond some isolated pockets – such as mining – wages pressures are likely to remain weak over the rest of 2018.
- However, other survey indicators suggest that there is likely to be some increase in the pace of wage growth over the next year. Leading indicators such as the difficulty finding suitable labour and expectations for annual earnings increase point to strengthening wages growth.

CHART 4: WAGE PRESSURE - DISTRIBUTION BY STATE (% OF FIRMS)

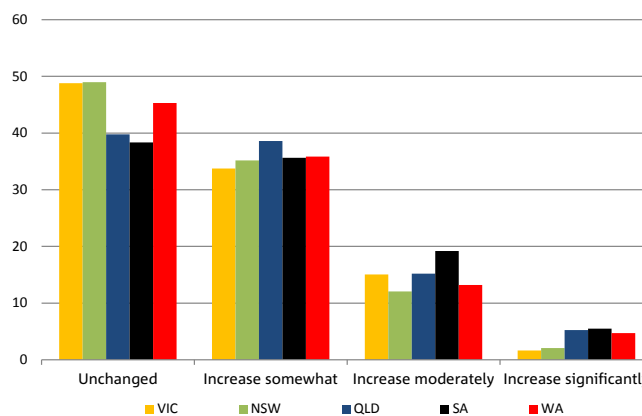


CHART 5: WAGE PRESSURE - DISTRIBUTION BY INDUSTRY (% OF FIRMS)

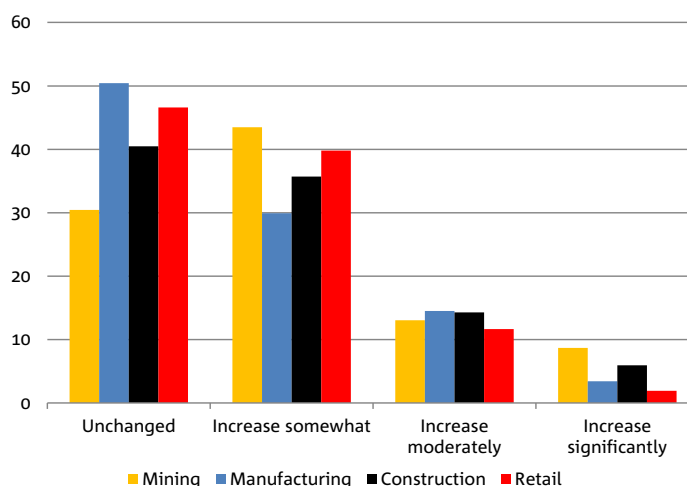
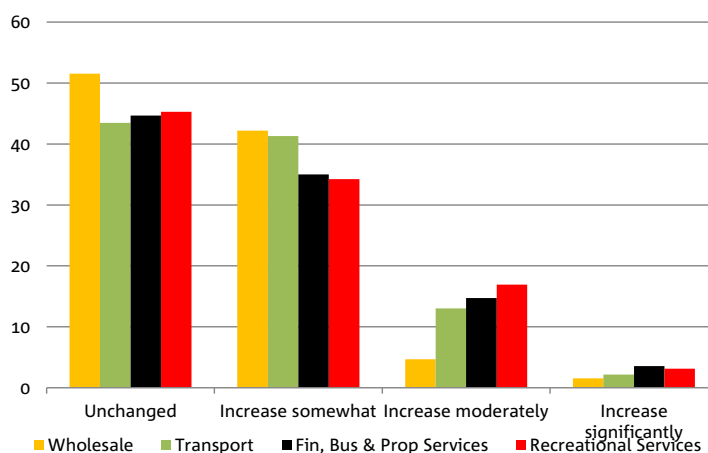


CHART 6: DISTRIBUTION BY INDUSTRY CONT'D (% OF FIRMS)



NAB QUARTERLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 7: BUSINESS CONDITIONS & CONFIDENCE (NET BALANCE S.A.)

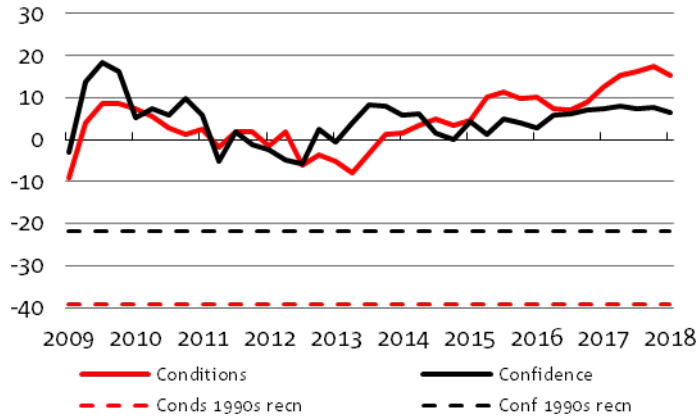
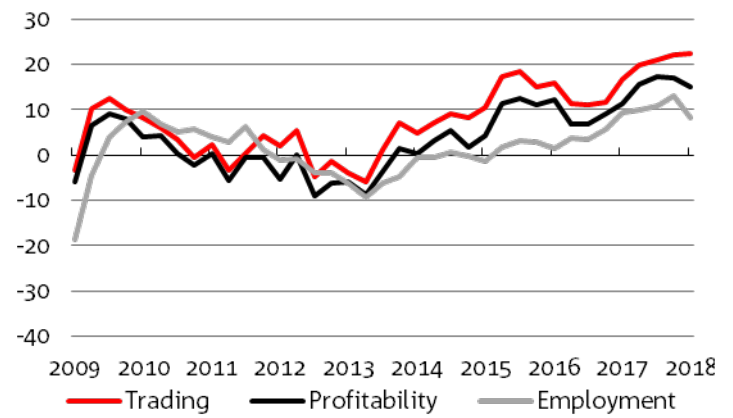


CHART 8: BUSINESS CONDITIONS COMPONENTS (NET BALANCE, S.A.)



DRIVERS OF BUSINESS CONFIDENCE

CHART 9: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE

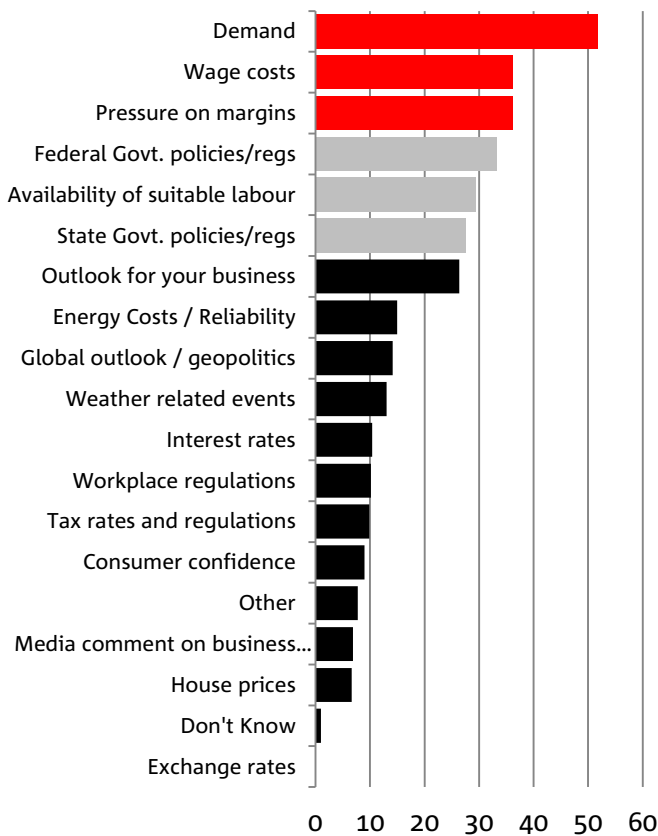


CHART 10: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – DETERIORATING CONDITIONS

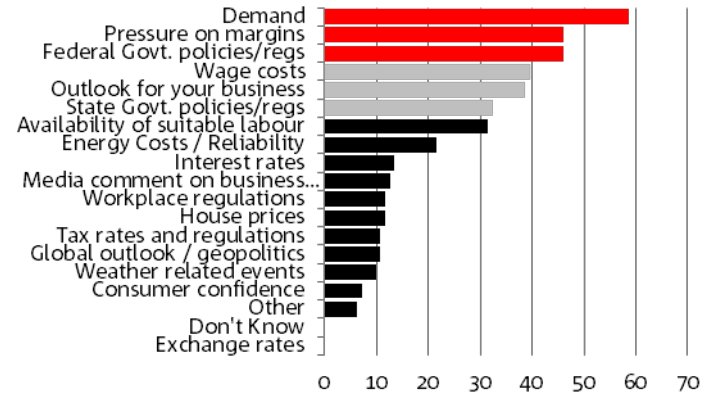
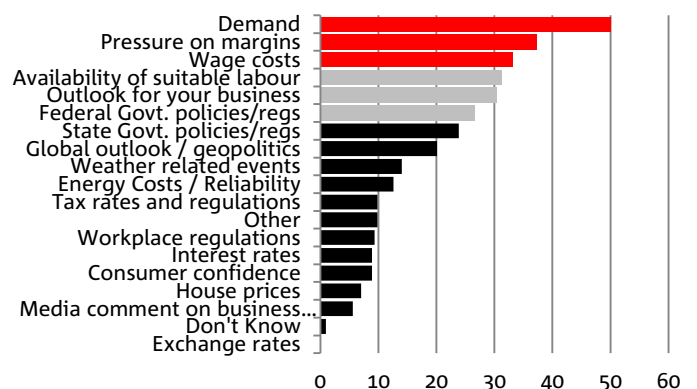


CHART 11: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – IMPROVING CONDITIONS



NAB QUARTERLY BUSINESS SURVEY – LEADING INDICATORS & INVESTMENT

CHART 12: BUSINESS CONDITIONS AND EXPECTATIONS (NET BALANCE)

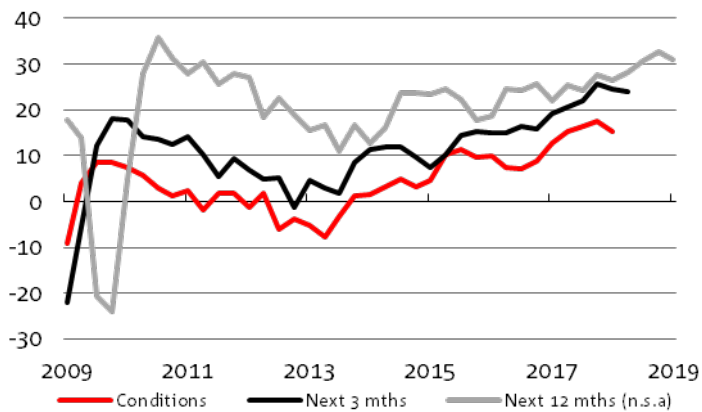


CHART 13: FORWARD ORDERS & EXPECTATIONS (NET BALANCE S.A.)

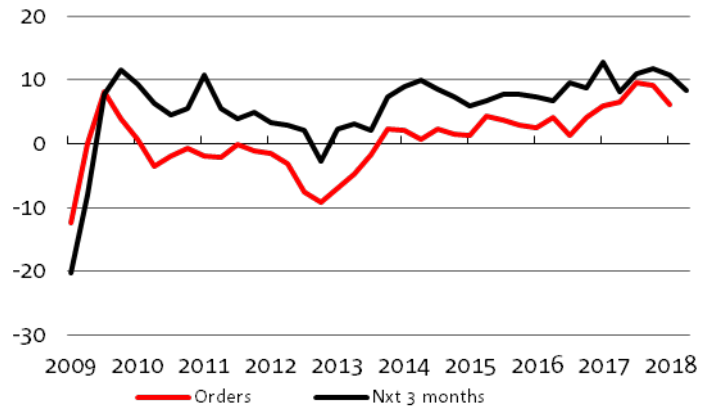


CHART 14: STOCKS (NET BALANCE S.A.)

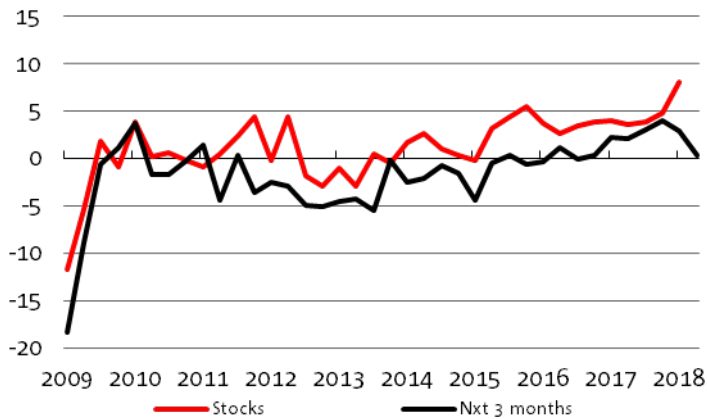


CHART 15: CAPACITY UTILISATION (PER CENT, S.A.)

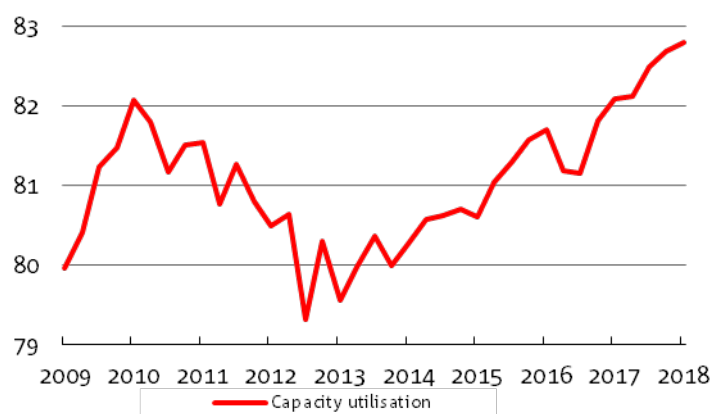


CHART 16: CAPACITY UTILISATION (PPT DEVIATION FROM LONG-RUN AVERAGE, 3 QTR MA)

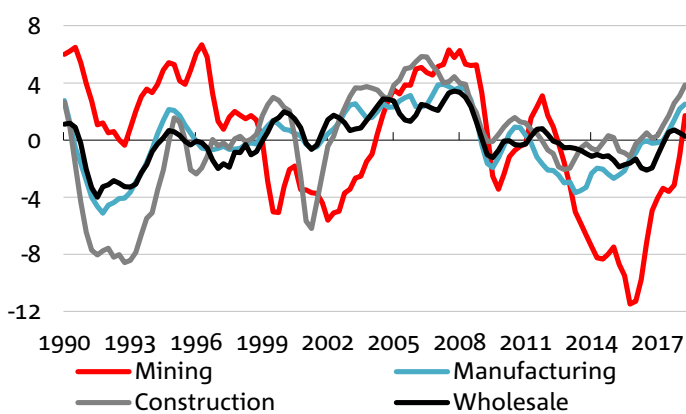
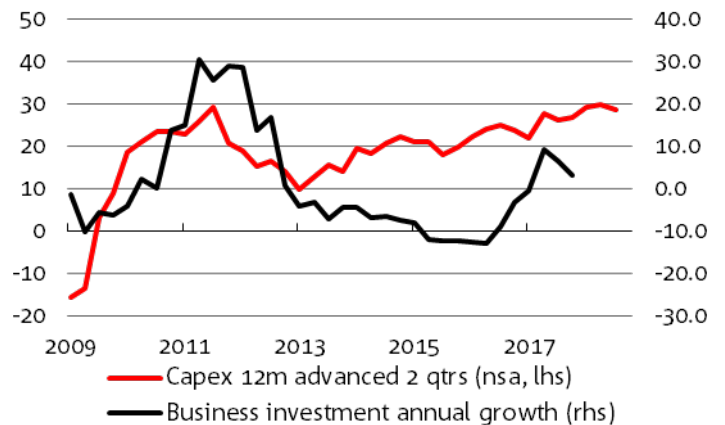


CHART 17: BUSINESS INVESTMENT & CAPEX PLANS



NAB QUARTERLY BUSINESS SURVEY – LABOUR MARKET

CHART 18: EMPLOYMENT & EXPECTATIONS (NET BALANCE)

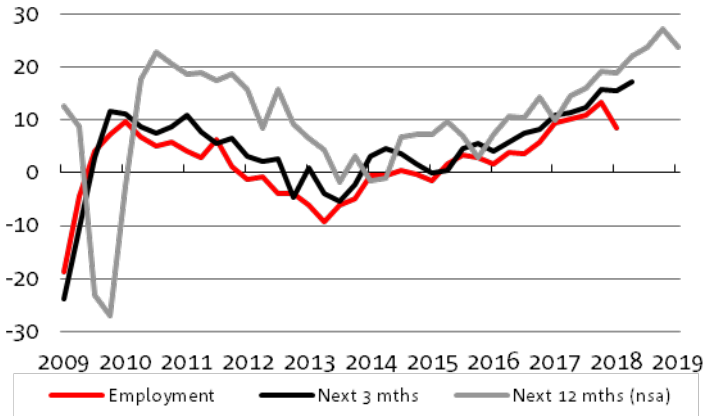


CHART 19: UNEMPLOYMENT RATE & LABOUR CONSTRAINTS

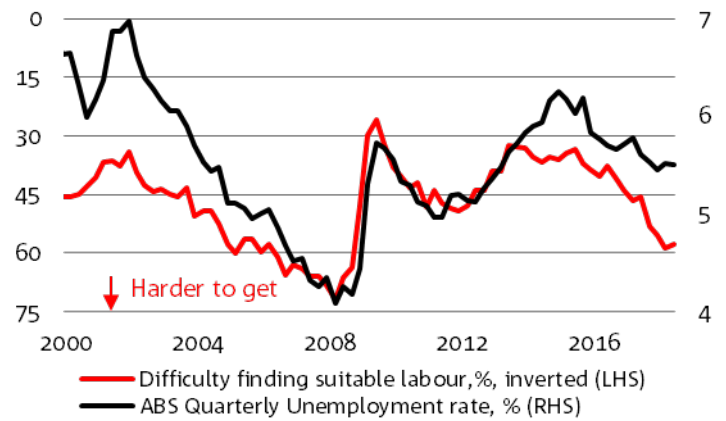


CHART 20: CHANGE IN AVERAGE HOURS WORKED (NSA)

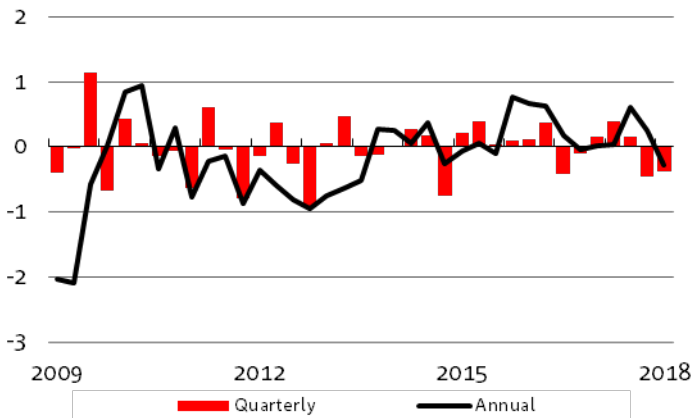


CHART 21: UNDERUTILISATION RATE & LABOUR CONSTRAINTS

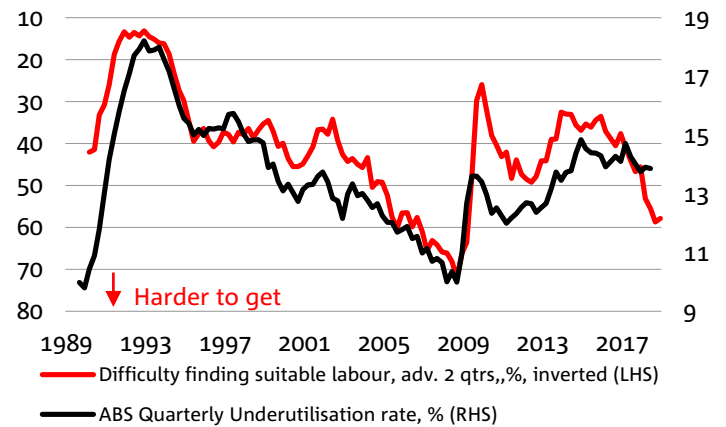


CHART 22: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)

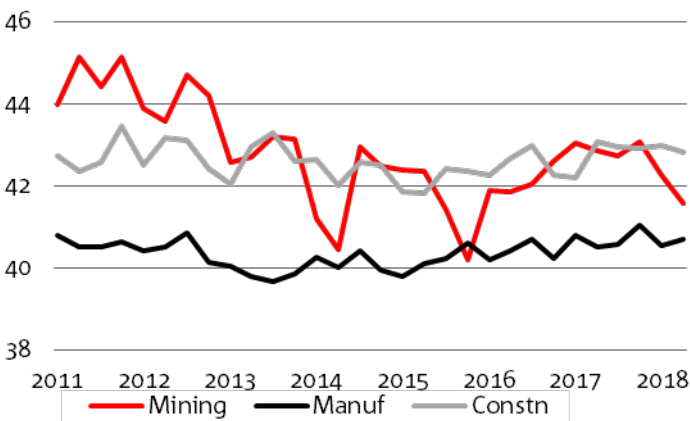


CHART 23: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)

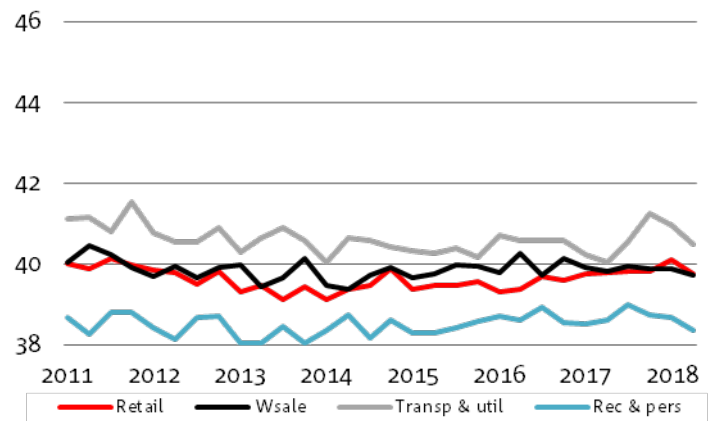
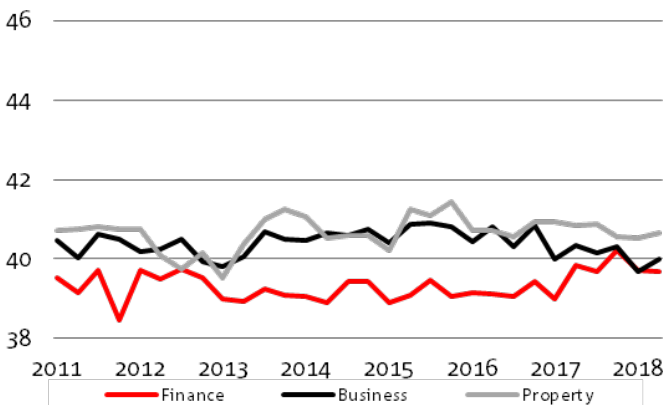


CHART 24: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)



NAB QUARTERLY BUSINESS SURVEY - MAJOR CONSTRAINTS ON FIRM OUTPUT

CHART 25: MAIN CONSTRAINTS ON FIRM OUTPUT

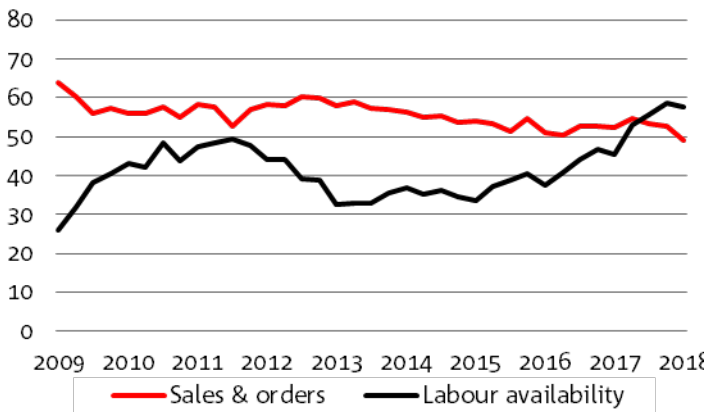
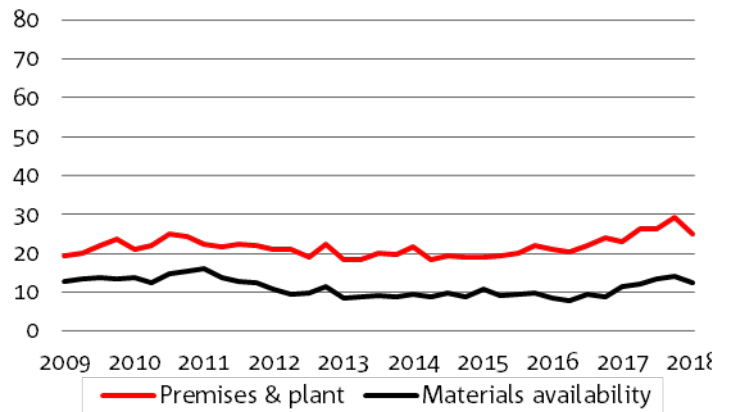


CHART 26: MAIN CONSTRAINTS ON FIRM OUTPUT



INFLATION PRESSURES

CHART 27: PRICES (% ANN, SA)

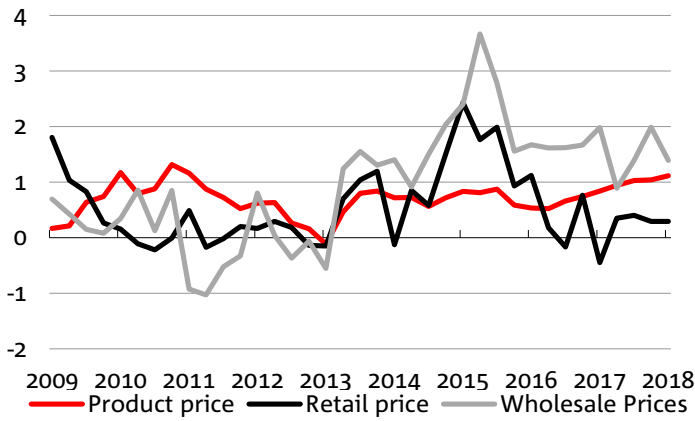
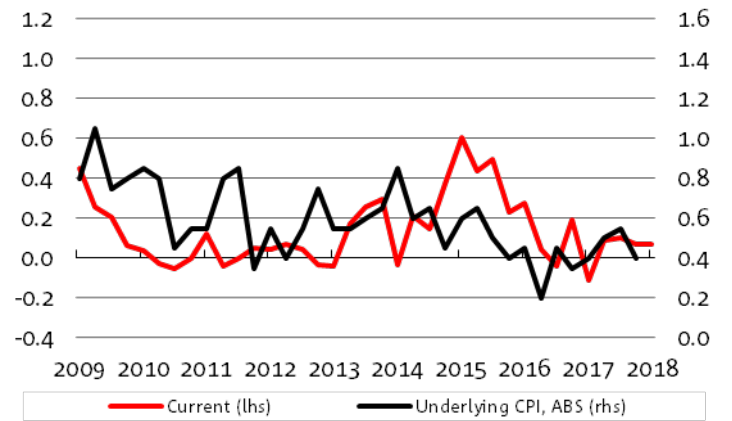


CHART 28: RETAIL PRICES (% P.Q.)



LABOUR COSTS (DETAILS)

CHART 29: LABOUR COSTS & COMPENSATION OF EMPLOYEES

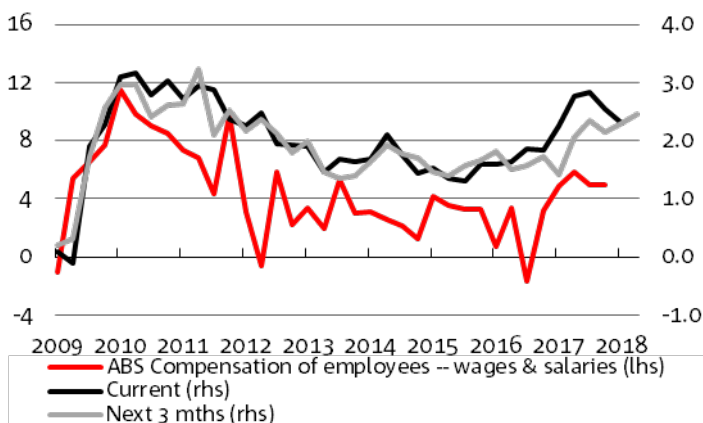
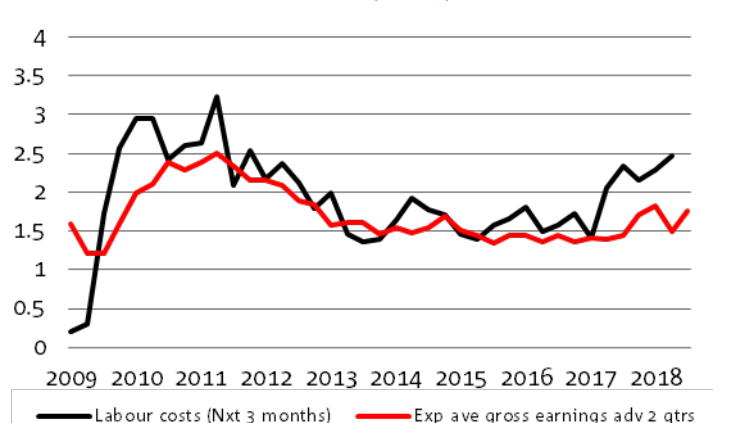


CHART 30: EXPECTED LABOUR COSTS (% ANN)



NAB QUARTERLY BUSINESS SURVEY – CONSTRUCTION INDUSTRY DETAILS

CHART 31: BUSINESS CONDITIONS BY INDUSTRY

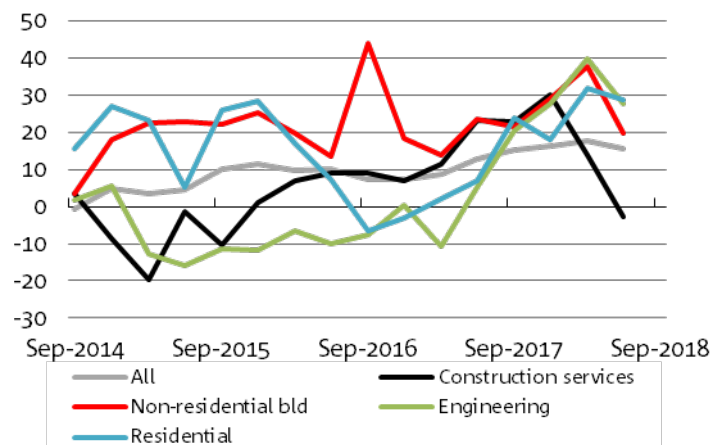


CHART 32: BUSINESS CONFIDENCE BY INDUSTRY

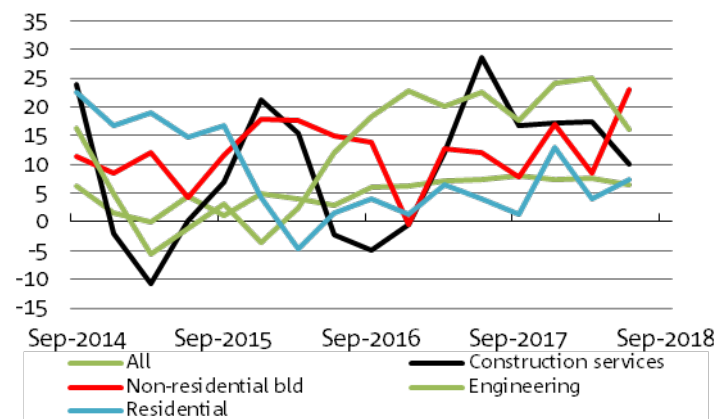


CHART 33: EMPLOYMENT CONDITIONS BY INDUSTRY

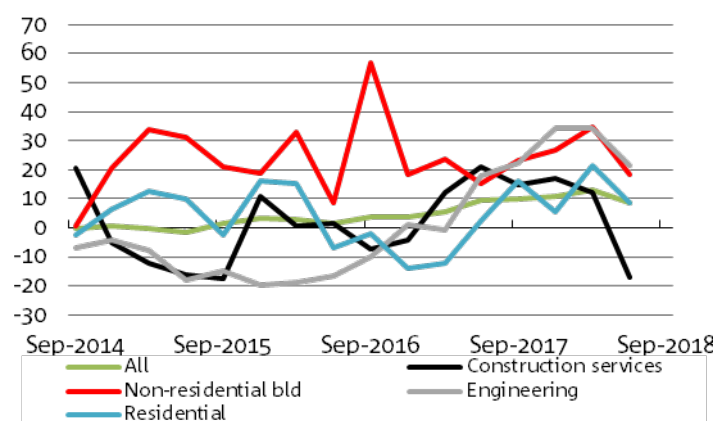
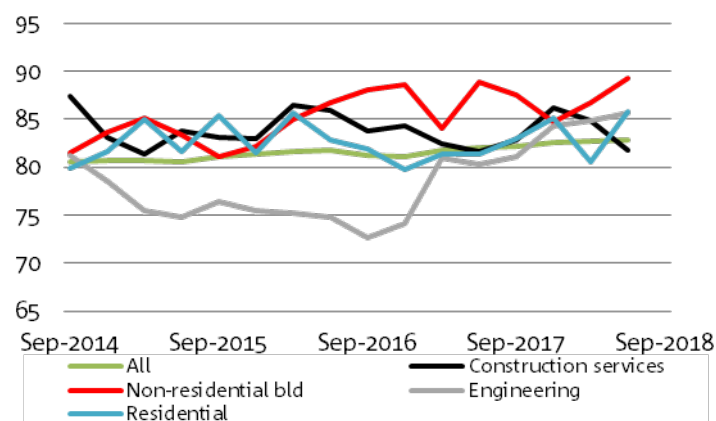


CHART 34: CAPACITY UTILISATION BY INDUSTRY



FINANCIAL MARKET EXPECTATIONS

- On average, businesses are pricing in around a 70% probability of a 25bp rate hike in the next 12-months. NAB Economics' view is that the RBA will first raise rates around mid-2019 but that this is highly data dependent. The RBA will want clear evidence that wages growth has lifted from current low rates and that this is feeding through to domestic inflation pressures before beginning the rates normalisation process. However, both their and our view is that the pick-up in wages growth will only be gradual.
- Exchange rate expectations in the Survey (6-months-ahead) fell to around US\$0.75 from closer to US\$0.78 in Q1. This is a touch higher than the exchange rate at the time of the survey, but consistent with the slight easing over the past quarter.

NAB QUARTERLY BUSINESS SURVEY – MORE DETAILS ON INDUSTRY

CHART 35: BUSINESS CONDITIONS BY INDUSTRY

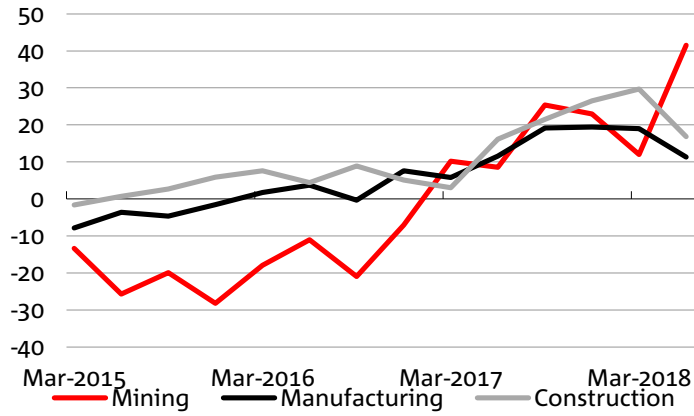


CHART 38: BUSINESS CONFIDENCE BY INDUSTRY

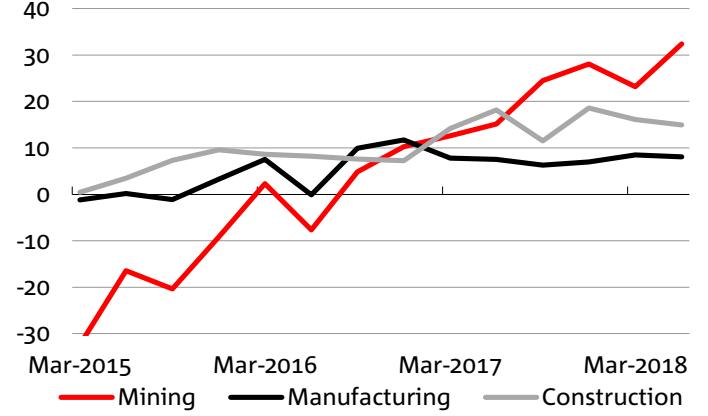


CHART 36: BUSINESS CONDITIONS BY INDUSTRY

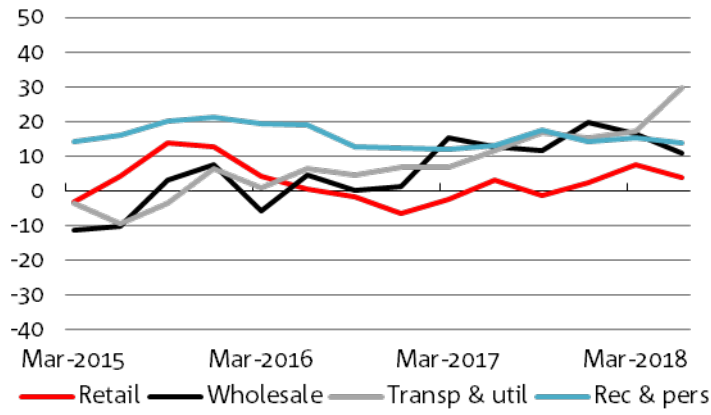


CHART 39: BUSINESS CONFIDENCE BY INDUSTRY

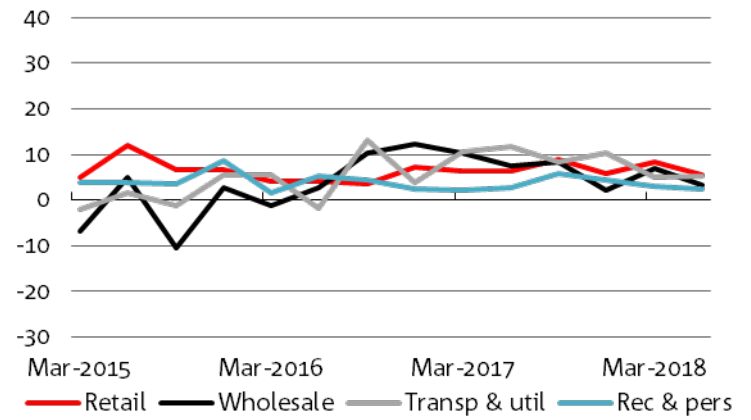


CHART 37: BUSINESS CONDITIONS BY INDUSTRY

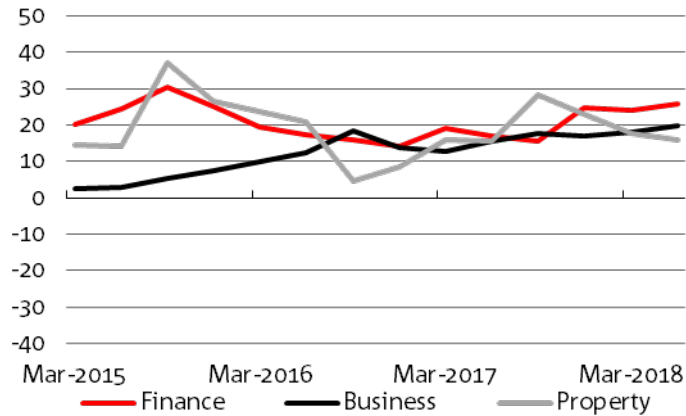
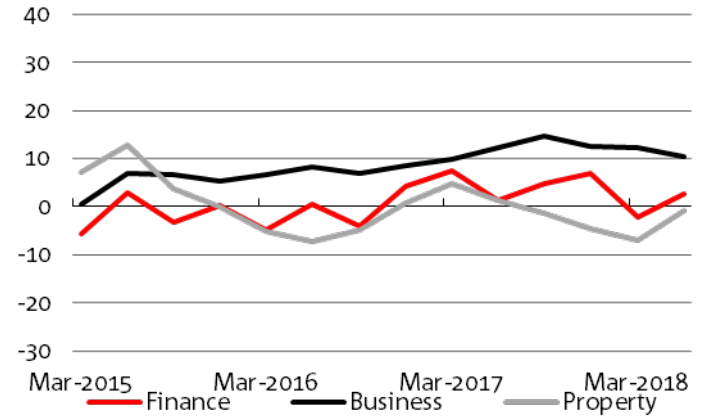


CHART 40: BUSINESS CONFIDENCE BY INDUSTRY



NAB QUARTERLY BUSINESS SURVEY – FURTHER DETAILS BY STATE

CHART 41: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

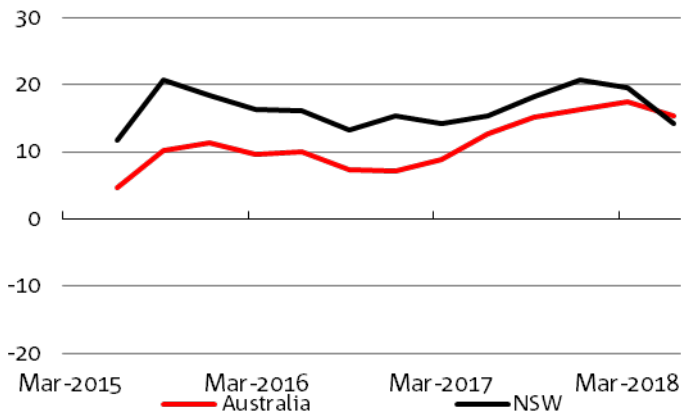


CHART 44: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)

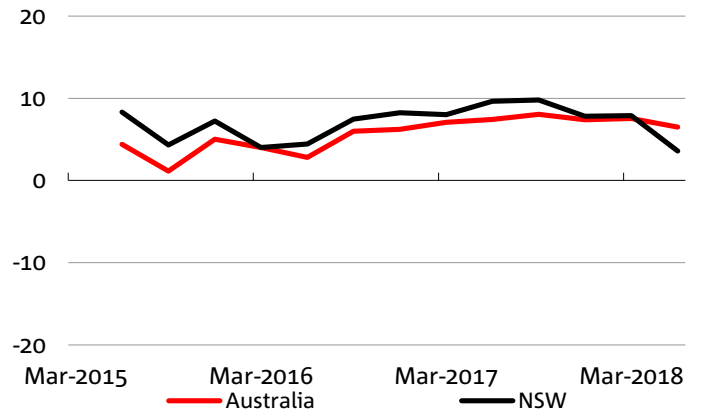


CHART 42: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

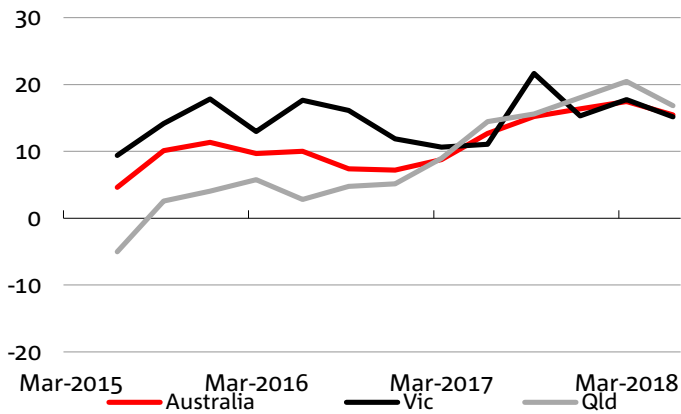


CHART 45: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)

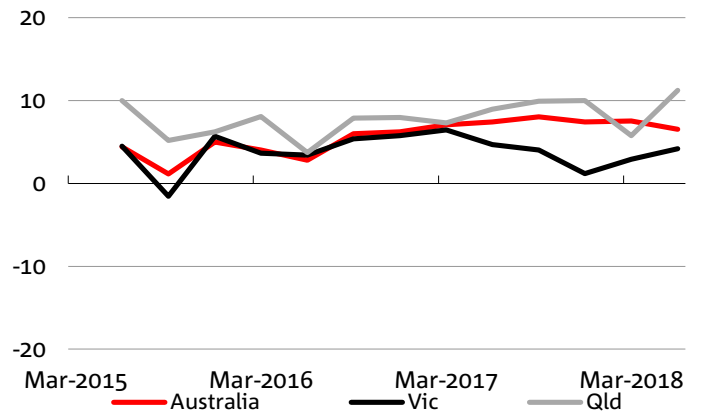


CHART 43: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

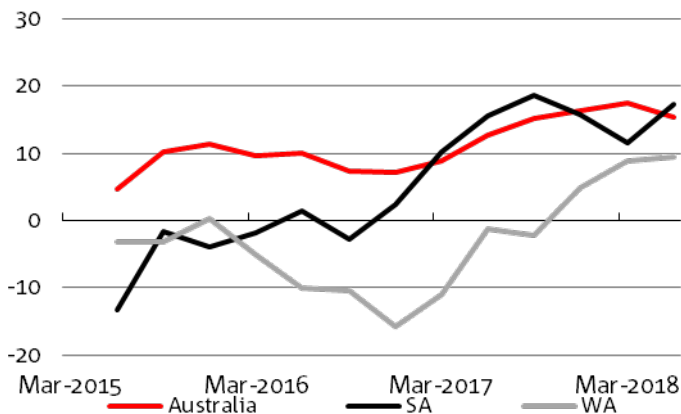
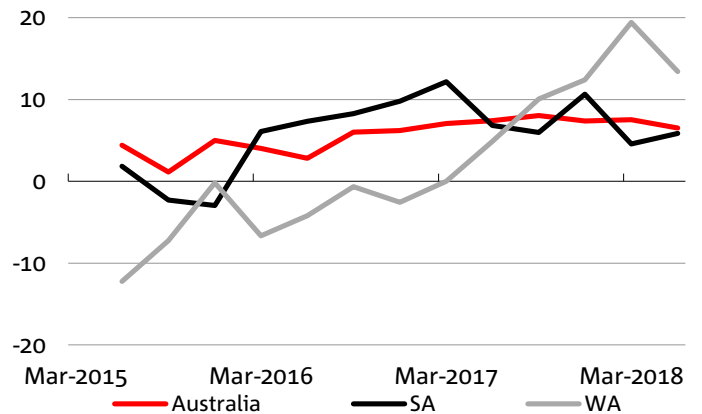


CHART 46: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)



NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX

	Quarterly					Monthly				
	2017q2	2017q3	2017q4	2018q1	2018q2	2018m2	2018m3	2018m4	2018m5	2018m06
Confidence	7	8	7	8	7	10	9	11	7	6
Conditions	13	15	16	17	15	20	16	20	14	15

	Quarterly					Monthly				
	2017q2	2017q3	2017q4	2018q1	2018q2	2018m2	2018m3	2018m4	2018m5	2018m06
Trading	17	20	21	22	22	26	23	26	20	23
Profitability	11	16	17	17	15	19	17	20	12	17
Employment	10	10	11	13	8	16	10	12	9	5

	Quarterly ^(a)					Monthly				
	2018q1	2018q2	2018q3	2019q1	2019q2	2018m2	2018m3	2018m4	2018m5	2018m06
Conditions	17	15				20	16	20	14	15
Conds. next 3m	26	24	24							
Conds. nxt 12m	28	27	28	33	31					
Orders	9	6				11	5	5	4	2
Orders next 3m	12	11	8							

(a) Quarter to which expectation applies. Business conditions next 12 months not seasonally adjusted.

	Quarterly ^(a)					Monthly				
	2017q3	2017q4	2018q1	2018q2	2018q3	2018m2	2018m3	2018m4	2018m5	2018m06
Capacity utilis.	82.1	82.5	82.7	82.8		82.4	82.3	82.4	82.0	82.4
Stocks current	4	4	5	8		6	5	3	7	4
Stocks next 3m	2	3	4	3	0					

(a) Quarter to which expectation applies. All data are seasonally adjusted.

	2017q4	2018q1	2018q2
Constraints on output (% of firms)*			
Sales & orders	53.4	52.8	49.2
Labour	55.5	58.6	57.8
Premises & plant	26.3	29.1	25.0
Materials	13.3	14.2	12.3

* not s.a.

	Quarterly ^(a)					Monthly				
	2018q1	2018q2	2018q3	2019q1	2019q2	2018m2	2018m3	2018m4	2018m5	2018m06
Empl current	13	8				16	10	12	9	5
Empl next 3m	16	15	17							
Empl nxt 12m	19	19	22	27	24					

(a) Quarter to which expectation applies. Employment conditions next 12 months not seasonally adjusted.

NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX – STATE TABLES

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2017q2</u>	<u>2017q3</u>	<u>2017q4</u>	<u>2018q1</u>	<u>2018q2</u>	<u>2018m2</u>	<u>2018m3</u>	<u>2018m4</u>	<u>2018m5</u>	<u>2018m06</u>
Business conditions										
NSW	15	18	21	20	14	21	15	19	15	12
VIC	11	22	15	18	15	22	22	23	14	14
QLD	14	16	18	20	17	23	17	13	14	22
SA	16	19	16	12	17	16	14	33	13	10
WA	-1	-2	5	9	9	12	16	7	13	6

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2017q2</u>	<u>2017q3</u>	<u>2017q4</u>	<u>2018q1</u>	<u>2018q2</u>	<u>2018m2</u>	<u>2018m3</u>	<u>2018m4</u>	<u>2018m5</u>	<u>2018m06</u>
Business confidence										
NSW	10	10	8	8	4	10	11	8	3	5
VIC	5	4	1	3	4	3	4	5	5	3
QLD	9	10	10	6	11	9	8	14	10	11
SA	7	6	11	5	6	8	9	15	6	10
WA	5	10	12	19	13	26	9	15	14	7

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

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