



NAB MONTHLY BUSINESS SURVEY JULY 2018

CONDITIONS EASE FURTHER

NAB Australian Economics

Business conditions fell again in July and have eased notably from the high levels recorded earlier this year. Confidence ticked up in the month but continues to hover around its long-run average. Surprisingly, the weakest levels of confidence are reported in New South Wales and Victoria. Forward looking indicators also weakened further in the month – though remain at or above average. By industry, mining saw the most favourable conditions, while retail continues to lag. Across the states, Tasmania and Queensland saw the best conditions, while Western Australia continued to lag the other states.

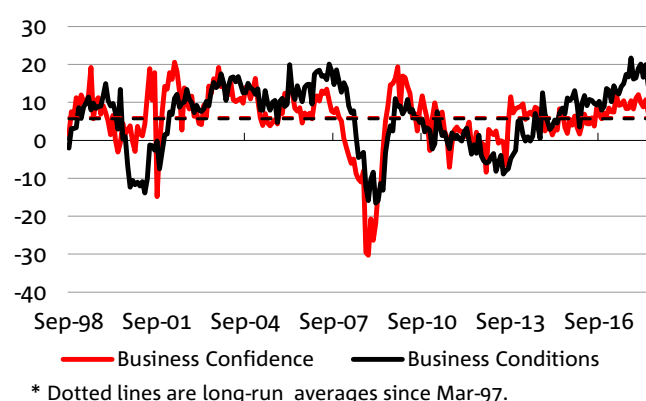
HIGHLIGHTS

- **How confident are businesses?** The business confidence index ticked up 1pt to +7 index points in July and remains around average.
- **How did business conditions fare?** The business conditions index fell 2pts to +12 index points following an unchanged outcome in June. Conditions remain well above the long-run average of +6 but have now eased notably since April.
- **What components contributed to the result?** The trading and profitability indices fell in the month (by 4 and 5pts respectively), while the employment index rose to +10 index points (reversing last month's decline).
- **What is the survey signalling for jobs growth?** The employment index - based on historical patterns - is consistent with jobs growth around 23k per month, which should see the unemployment rate continue to edge lower over the rest of 2018 (see page 2 for a more detailed look at the survey measure of employment).
- **Which industries are driving conditions?** Conditions fell in *manufacturing, retail, finance, business & property, transport & utilities*, and *mining* in July. This was partially offset by a sharp increase in *construction* and smaller increases in *personal & recreation services* and *wholesale*. In trend terms, conditions remain highest in *mining, construction* and *finance, business & property services*. *Retail* remains weakest.
- **Which industries are most confident?** Confidence remains highest, in trend terms, in the *mining* (+32) and *construction* (+11) industries. Confidence is lowest in *transport & utilities* and *manufacturing*; the remaining industries remain at or around the national average.
- **Where are we seeing the best conditions by state?** Conditions (in trend terms) remain most favourable in *Tasmania* (+19), *Queensland* (+17) and *Victoria* (+16) though all states remain at or well above average. Conditions in *Western Australia* continue to lag the other states as they have done for some time now.
- **What is confidence like across the states?** In trend terms, confidence is highest in *South Australia* (+10), followed by *Western Australia* and *Queensland* (both +9). Confidence in *New South Wales* and *Victoria* was again the weakest (both +4).
- **What does the Survey suggest about inflation and wages?** Surveyed price, cost and wage variables generally edged higher in the month, though overall continue to suggest weak price pressures in the economy. Labour cost, purchase cost and final products prices growth all rose in July. Retail inflation picked up in the month after a flat outcome in June – though still remains relatively weak.
- **Are leading indicators suggesting further improvement?** The forward orders index declined again, falling to +1 which is around its long-run average. Capacity utilisation edged slightly lower in July, but remains above average after trending higher over recent years.

TABLE 1: KEY STATISTICS

	May-18	Jun-18	Jul-18
	Net balance		
Business confidence	7	6	7
Business conditions	14	14	12
Trading	21	21	17
Profitability	13	15	10
Employment	9	5	10
Forward orders	4	3	1
Stocks	7	4	2
Exports	1	0	0
	% change at quarterly rate		
Labour costs	0.9	0.7	1.1
Purchase costs	0.8	0.7	0.9
Final products prices	0.4	0.4	0.6
Retail prices	0.2	0.0	0.5
	Per cent		
Capacity utilisation rate	82.0	82.4	82.2

CHART 1: CONDITIONS EASE FURTHER



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 25 July to 31 July 2018, covering over 400 firms across the non-farm business sector.
Next release date: 11 September 2018.

NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

EMPLOYMENT INDICATOR

- The employment index is an important component of the business conditions index. Employment decisions reflect business dynamics such as demand for products, output productivity and the ability to source labour inputs as required.
- A simple mapping equation between the surveyed employment index and official labour statistics has shown a tight relationship with employment growth based on a 6-month lead. This simple model has predicted turning points with some accuracy over the cycles in employment since the mid-1990s.
- While the employment index has eased a little over recent months, implying some slowdown in employment growth, it currently suggests employment growth of around 23k per month over the next 6 months. Assuming a constant participation rate and steady population growth, this is enough to reduce the unemployment rate by around 0.1ppts a month.
- By industry, the employment index remains highest in the *mining* industry where conditions more broadly have improved significantly over the past year with higher than expected commodity prices and signs of an uptick in new and sustaining capex. Employment remains relatively high in *finance, business & property services* as well as *construction*. The *retail, recreation & personal services* and *manufacturing* industries have the weakest outlook for employment.

FORWARD ORDERS

- Forward orders provide a key barometer of the outlook for business as these orders represent the pipeline of work.
- Indeed, alongside the rise in business conditions, the forward orders index has drifted higher over recent years. Forward orders by its nature, is a leading indicator of the outlook for the business sector as it represents the expected pipeline of work.
- However, forward orders have declined relatively sharply recently, and in trend terms and have fallen back to average levels. The last time forward orders were at this level was in mid-2016.
- The *mining* industry continues to see the strongest results for forward orders, with the current reading, in trend terms, well above the industry average. Orders are above average in most industries, except *construction* and *recreational & personal services*.
- The outlook for the business sector is key to our forecasts over the next couple of years. With favourable business conditions and continued growth in demand, we expect businesses to expand employment and also increase their investment to meet growing demand. While forward orders remain around average (which still implies growth in the sector), the declines over recent months suggest that there is some risk of a pull-back in business activity that warrants close watching over coming months.

CHART 2: EMPLOYMENT GROWTH AND THE NAB SURVEY (000'S)

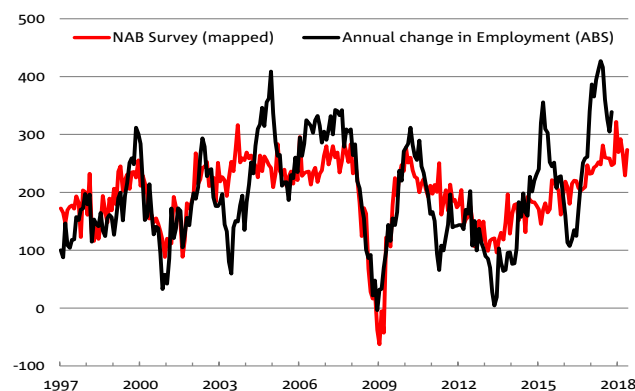


CHART 3: EMPLOYMENT BY INDUSTRY (NET BALANCE)

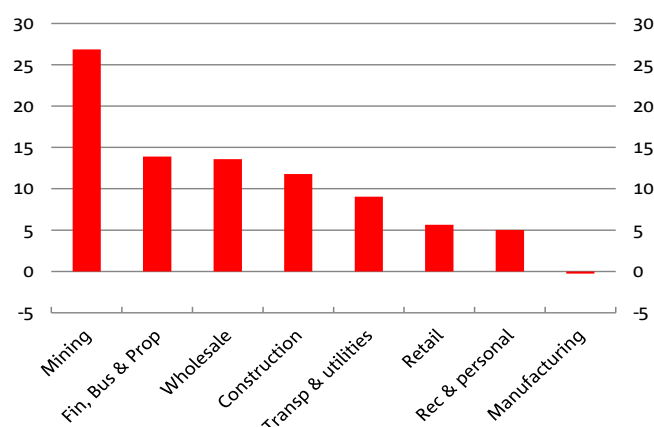


CHART 4: FORWARD ORDERS AND DOMESTIC DEMAND GROWTH

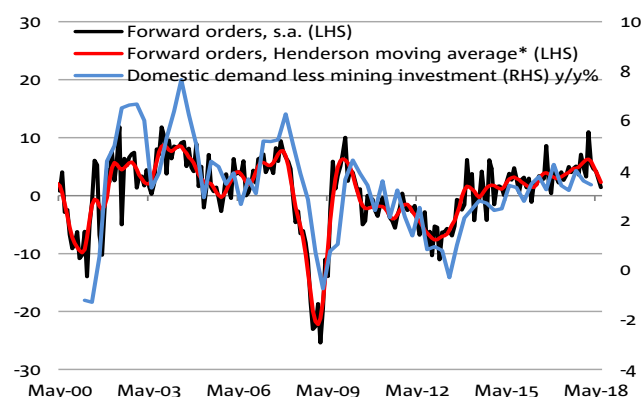
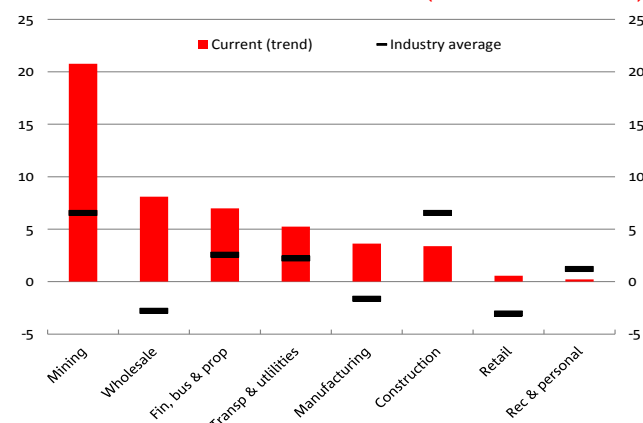


CHART 5: FORWARD ORDERS BY INDUSTRY (NET BALANCE, TREND)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 6: BUSINESS CONFIDENCE (NET BALANCE)

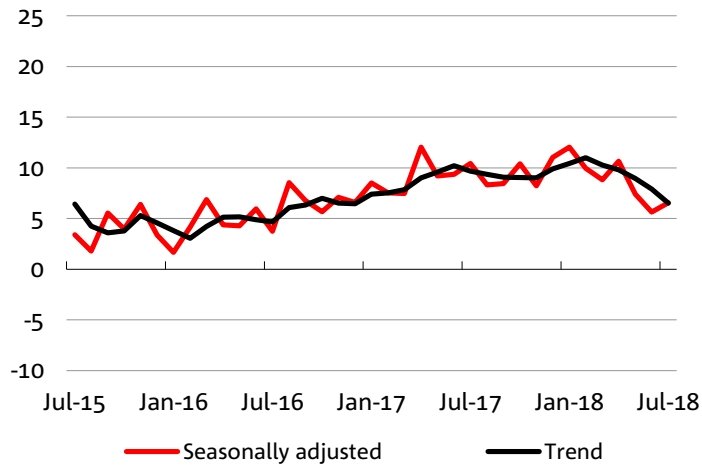


CHART 7: BUSINESS CONDITIONS (NET BALANCE)

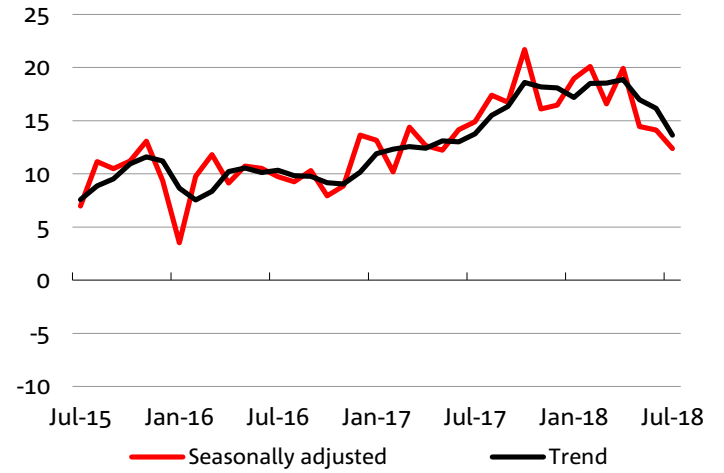


CHART 8: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

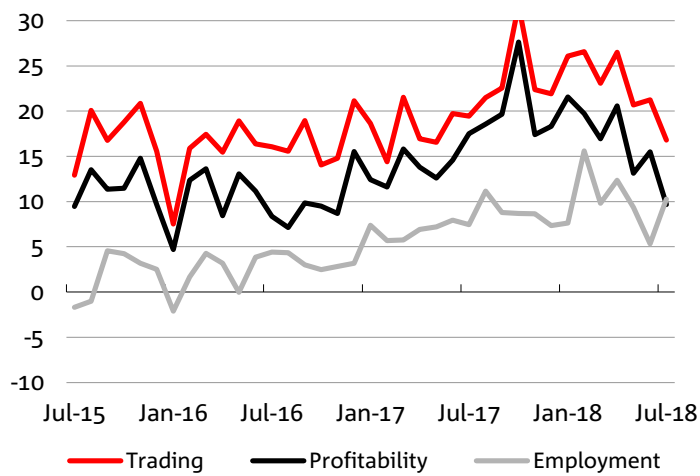


CHART 9: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

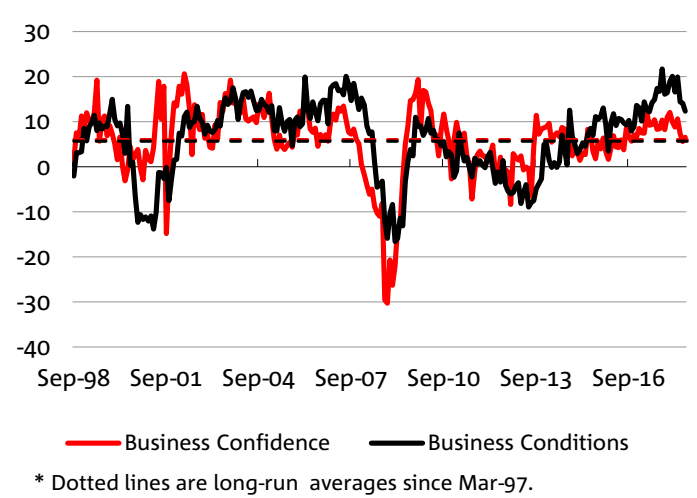


CHART 10: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

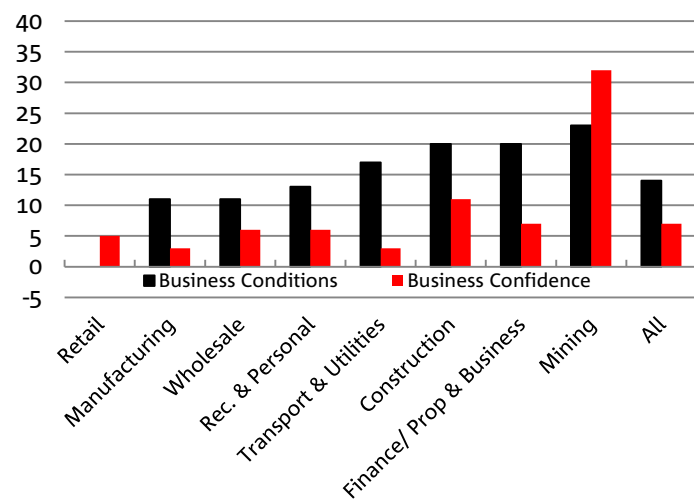
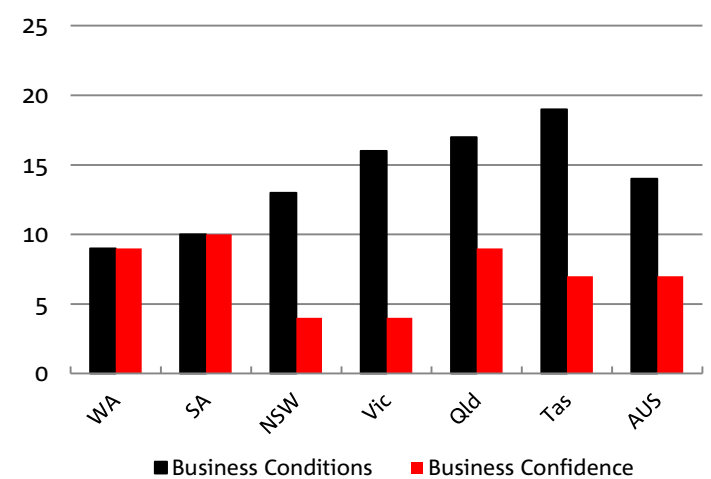


CHART 11: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 12: FORWARD ORDERS (NET BALANCE)

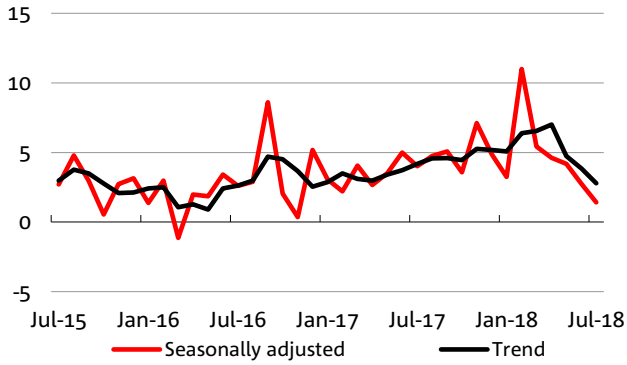


CHART 13: CAPITAL EXPENDITURE (NET BALANCE)

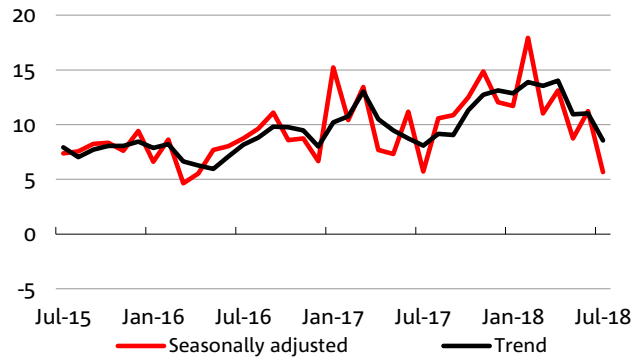


CHART 14: CAPACITY UTILISATION AND UNEMPLOYMENT

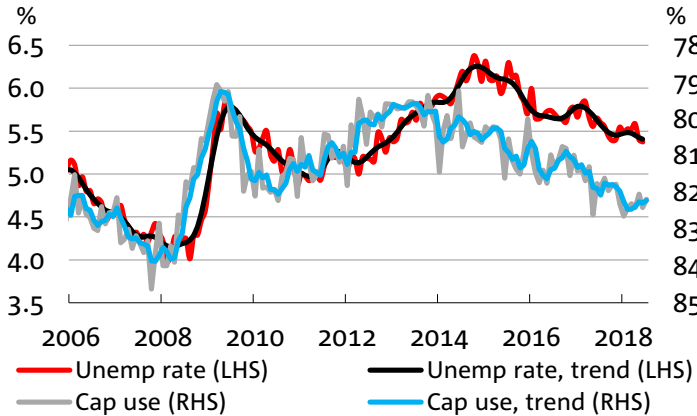


CHART 15: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

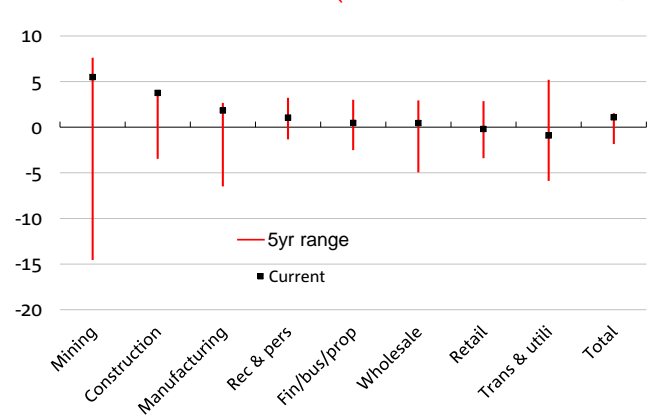


CHART 16: STOCKS (NET BALANCE)

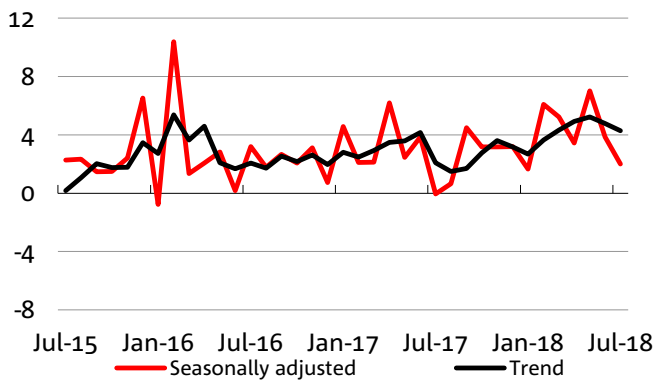


CHART 17: CASH FLOW (NET BALANCE)

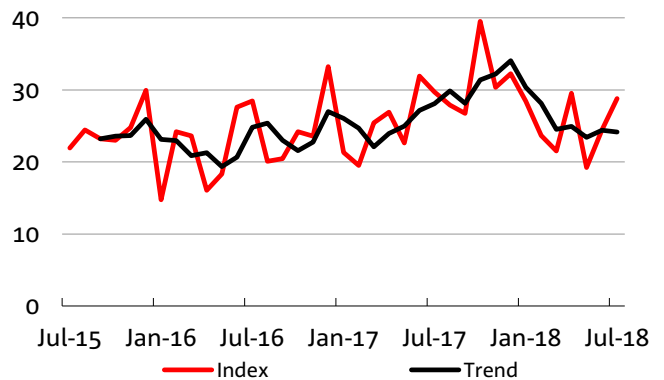


CHART 18: EXPORTS (NET BALANCE)

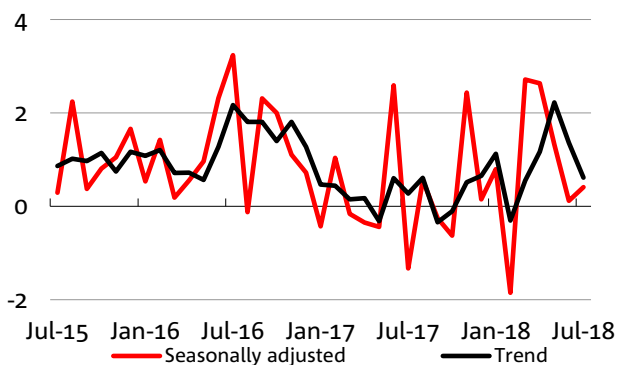
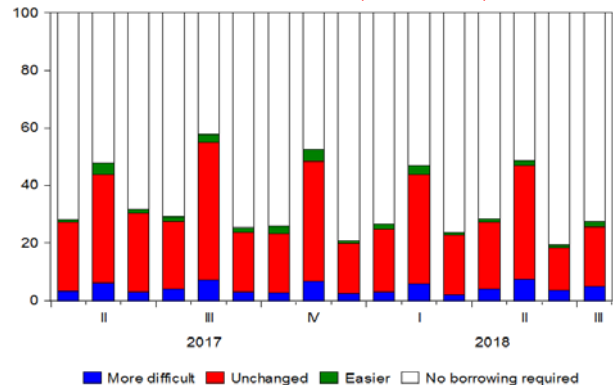


CHART 19: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

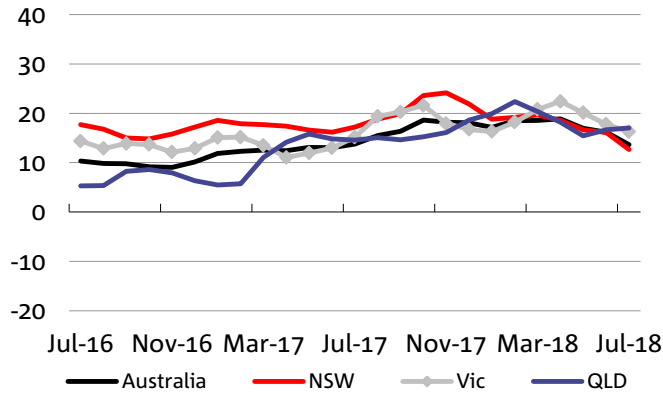


CHART 21: BUSINESS CONDITIONS (NET BALANCE) BY STATE

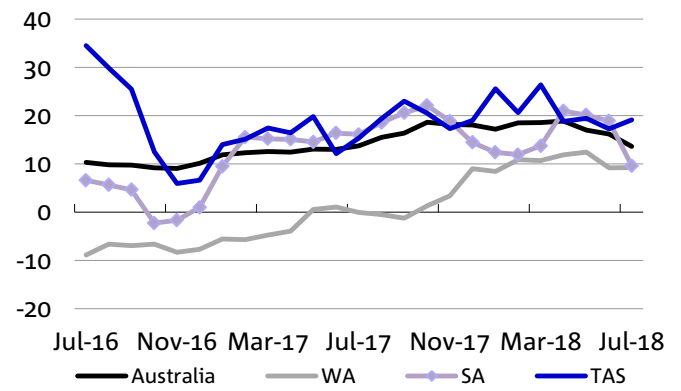


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

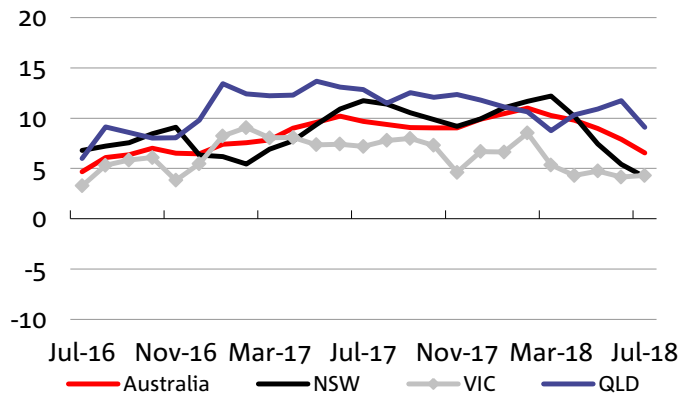


CHART 23: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

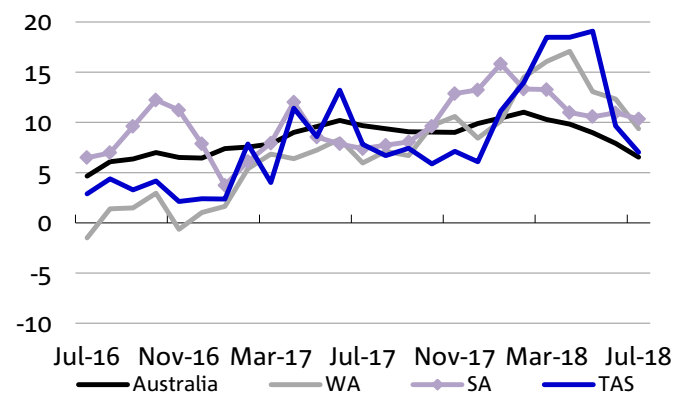


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

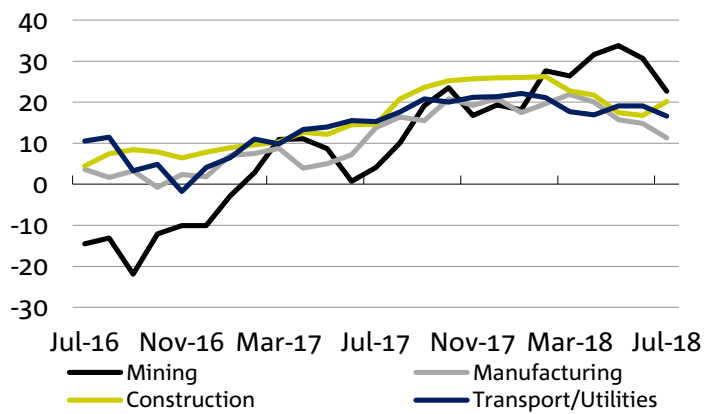


CHART 25: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

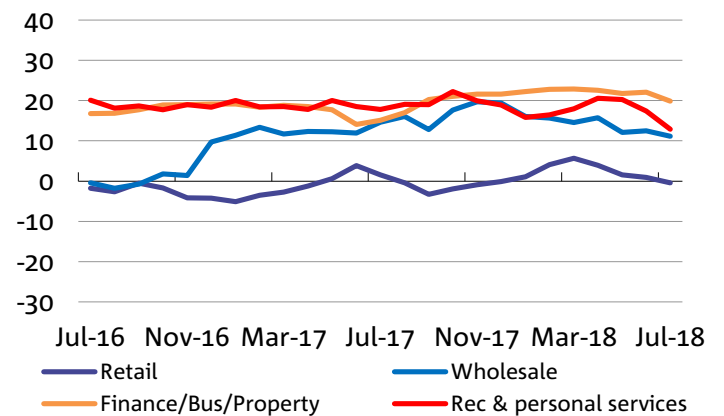


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

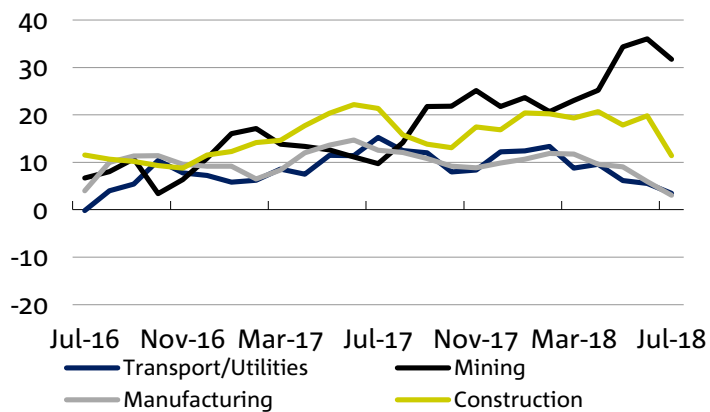
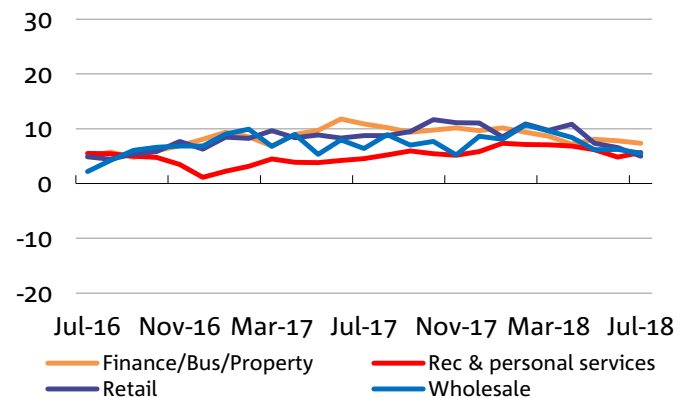


CHART 27: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 28: EMPLOYMENT

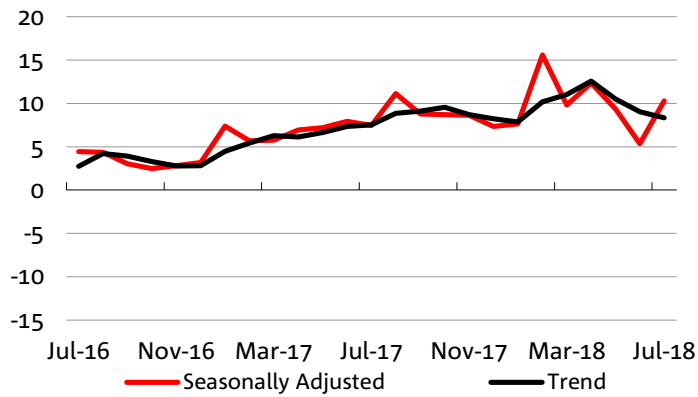


CHART 29: EMPLOYMENT (NAB VS ABS)

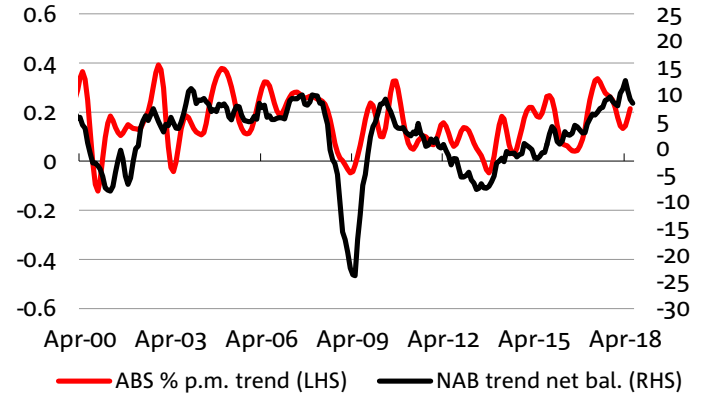


CHART 30: EMPLOYMENT BY INDUSTRY

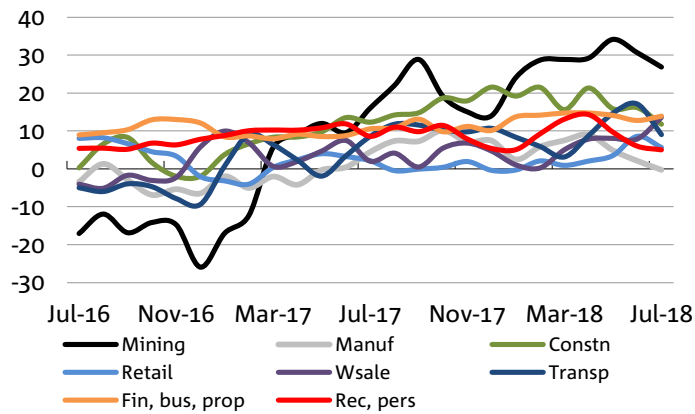


CHART 31: LABOUR COSTS GROWTH

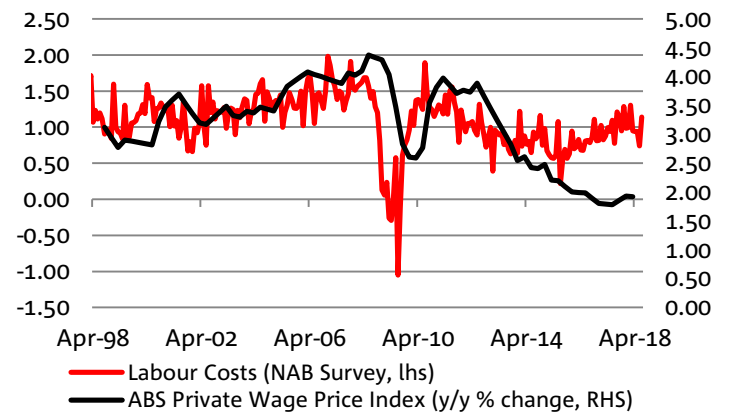


CHART 32: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

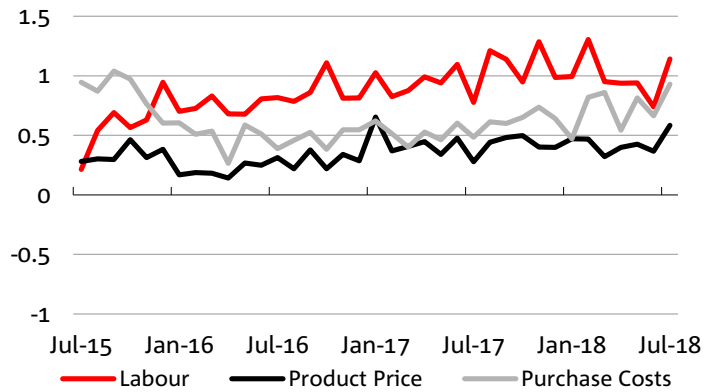
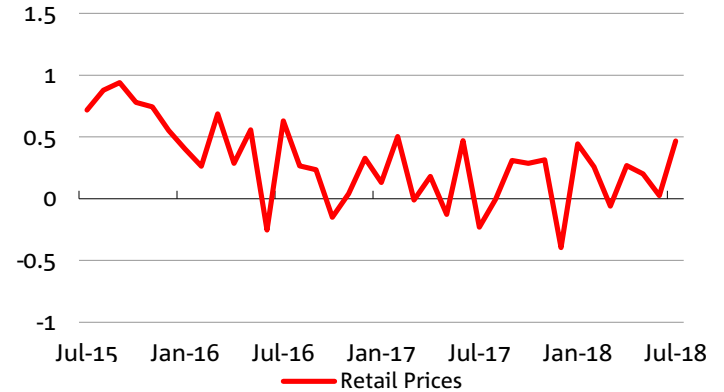


CHART 33: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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.