



NAB MONTHLY BUSINESS SURVEY AUGUST 2018

CONDITIONS REBOUND, WHILE CONFIDENCE FALLS

NAB Australian Economics

Business conditions rebounded in August after easing in recent months. Although they remain below the highs seen earlier in the year, business conditions remain well above average. Confidence fell to below average levels in the month. Confidence fell in all states, except for QLD and WA which were flat, is lowest in Tasmania, and below average in NSW and VIC. Forward looking indicators rebounded a little in the month (and are above average). Mining continues to see the most favourable conditions, while retail continues to lag. Tasmania and Queensland saw the best conditions across the states, though generally conditions remain favourable across the country. Surveyed price and wage variables continue to show a gradual building of inflationary pressures.

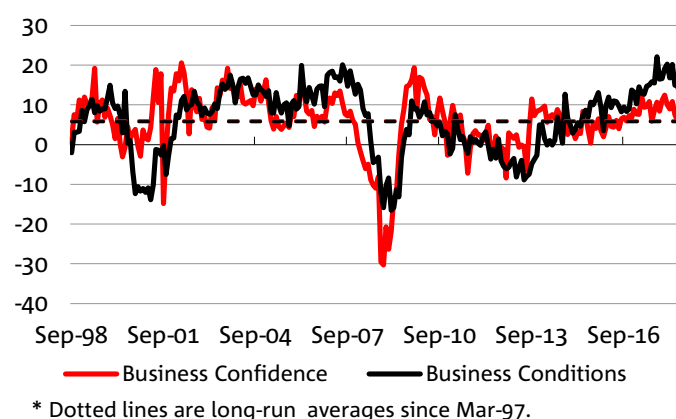
HIGHLIGHTS

- **How confident are businesses?** The business confidence index fell 3pts to +4 index points in August and is now a little below its long-run average.
- **How did business conditions fare?** The business conditions index rose 2pts to +15 index points (from an upwardly revised +13pts).
- **What components contributed to the result?** Increases in the profitability and trading indices drove the result, rising by 6pts and 1pt respectively. The employment index was unchanged at +10pts, after rebounding a little last month.
- **What is the survey signalling for jobs growth?** The employment index (based on historical patterns) is consistent with jobs growth of around 23k per month. This is consistent with a declining unemployment rate over the latter part of 2018.
- **Which industries are driving conditions?** Conditions rose in *mining, manufacturing, finance, business & property* and *retail*. Conditions deteriorated in *construction, wholesale and personal & recreation services*, while they edged slightly lower in *transport & utilities*. In trend terms, conditions remain highest in *mining, finance, business & property services* and *construction*. As has been the case for some time, retail is the weakest, being the only industry to record negative conditions.
- **Which industries are most confident?** Confidence (in trend terms) remains highest, in the *mining* (+20) and *construction* (+9) industries. Confidence is lowest in *wholesale* and *manufacturing*; the remaining industries are around the national average.
- **Where are we seeing the best conditions by state?** Conditions (in trend terms) remain most favourable in *Tasmania* (+21), Queensland (+18pts) and Victoria (+15pts). Conditions in *South Australia* are now the lowest across states, though they too remain above average at +8pts.
- **What is confidence like across the states?** Confidence declined across all states except Western Australia and Queensland in the month (flat). In trend terms, confidence is highest in South Australia (+12), followed by Western Australia and Queensland (both +8pts), is lowest in Tasmania (+2 pts) although *New South Wales* and *Victoria* continue to lag at +4pts.
- **Are leading indicators suggesting further improvement?** The forward orders index increased 3pts to +5, after having declined to around average levels in recent months. Capacity utilisation edged slightly higher in August, and remains above average after trending higher over recent years.
- **What does the Survey suggest about inflation and wages?** Surveyed cost and wage variables increased in the month. Final products prices edged lower – though retail price inflation rose. Overall, price pressures appear to have risen over recent months, but remain relatively weak compared with history.

TABLE 1: KEY STATISTICS

	Jun-18	Jul-18	Aug-18
	Net balance		
Business confidence	6	7	4
Business conditions	15	13	15
Trading	22	18	19
Profitability	16	10	16
Employment	6	10	10
Forward orders	3	2	5
Stocks	4	2	6
Exports	0	0	-1
	% change at quarterly rate		
Labour costs	0.8	0.9	1.3
Purchase costs	0.7	0.9	1.0
Final products prices	0.4	0.6	0.5
Retail prices	0.1	0.5	0.9
	Per cent		
Capacity utilisation rate	82.4	82.2	82.3

CHART 1: CONDITIONS REBOUND, WHILE CONFIDENCE FALLS



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 24 August to 31 August 2018, covering over 500 firms across the non-farm business sector.

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NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

WHICH INDUSTRIES ARE INVESTING

- The dynamics around business investment are an important part of the economic outlook over next few years. In aggregate business investment is expected to stabilise then begin to increase as the effect of the unwinding mining investment boom wanes, and growth in the non-mining sector lifts. Further supporting growth is likely to be some new investment in the mining sector and a higher level of ‘sustaining’ capex post-boom.
- The survey measure of ‘actual’ capex has trended higher in recent years, in line with the lift in business conditions and higher capacity utilisation. Capex rebounded in August after easing a little in recent months, but remains well above average following the increases in recent years.
- By industry, actual capex remains highest in mining, but is positive across all industries. All industries remain above their average levels except retail and transport which are notably lower.
- Construction capex remains strong and likely reflects the large pipeline of residential and non-residential construction work underway. As well as spill overs from the large volume of public infrastructure work underway.
- Investment in the retail sector is below average, likely reflecting the structural changes underway there. However investment remains positive possibly reflecting attempts in some sectors to reshape their business in order to meet the structural challenges ahead.

PROFITS IN THE BUSINESS SECTOR

- The NAB survey profitability index has recently pared back some of the gains made over the past two years – but remains at a relatively high level. The data are generally available before the release of official ABS company profit statistics.
- Recently released ABS data suggest profits increased by slightly less over Q2, and have eased over 2018 to date. This is in line with the signal from the profitability index over 2018 to date.
- Profitability has been lower in Q3 to date, when compared to Q2, but the uptick in August suggests that profits have stabilised at a relatively high level.
- Profits are an important indicator of business health as they reflect a firm’s ability to provide a return on invested capital, meet expenses and pay employees on an ongoing basis. Profits in some industries are also an important source of internal funding for expansions and investment projects. The current high levels, in combination with above average capacity utilisation suggest that the business sector is well placed to make capital expenditure decisions where suitable projects arise.

CHART 2: NON-MINING INVESTMENT AND NAB CAPEX

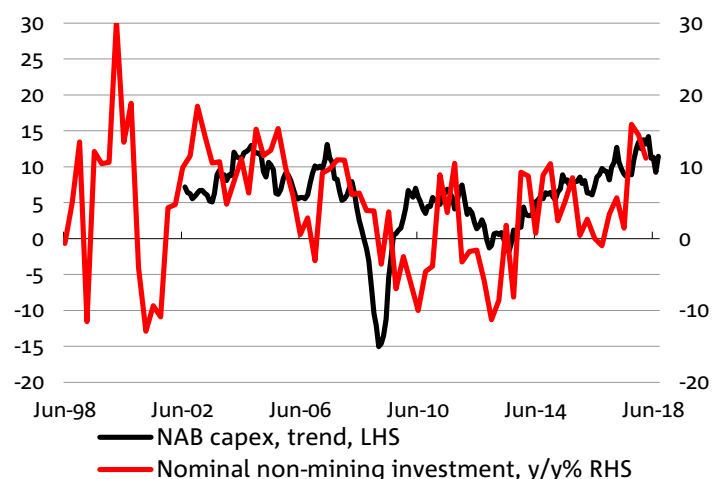


CHART 3: CAPEX BY INDUSTRY (NET BALANCE)

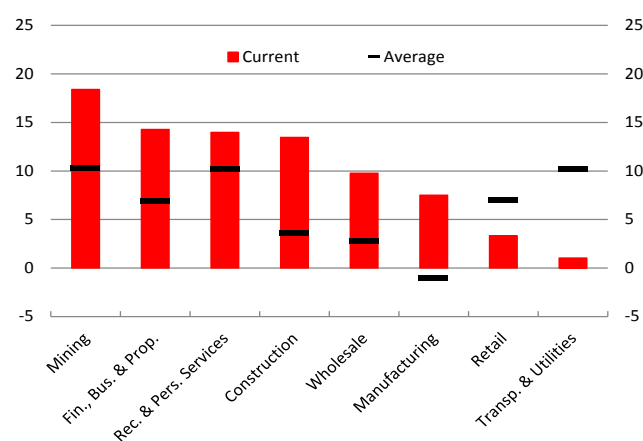
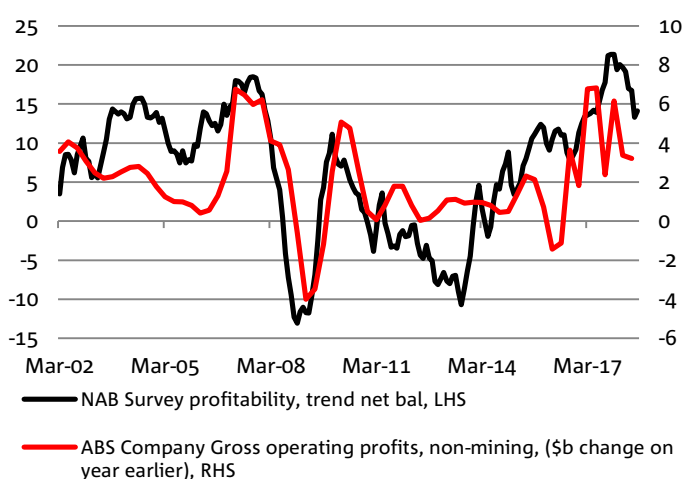


CHART 4: NON-MINING COMPANY PROFITS AND PROFITABILITY



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

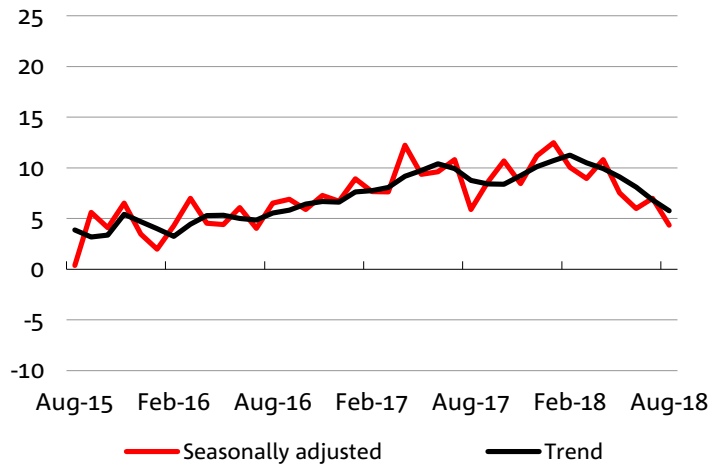


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

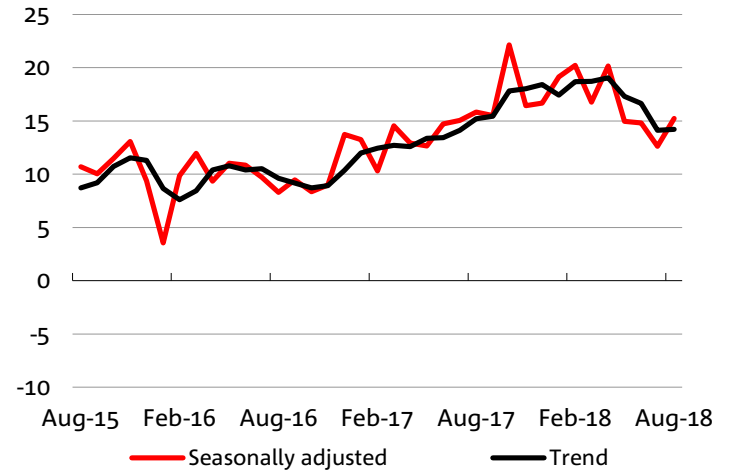


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

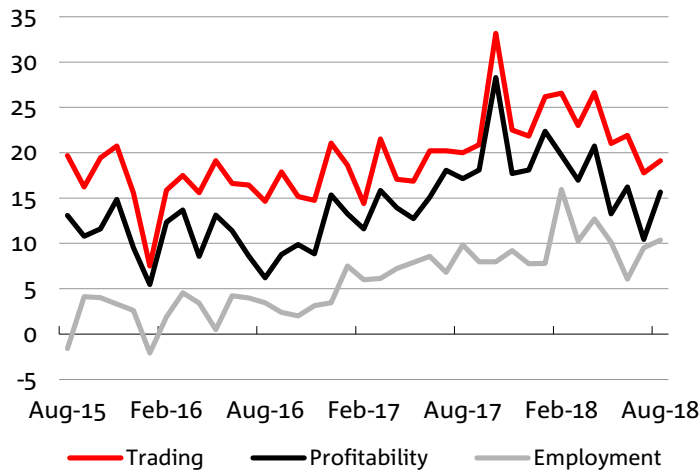


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

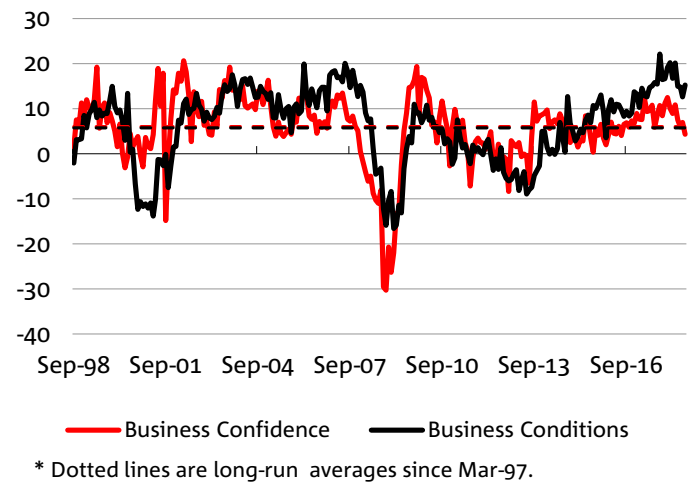


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

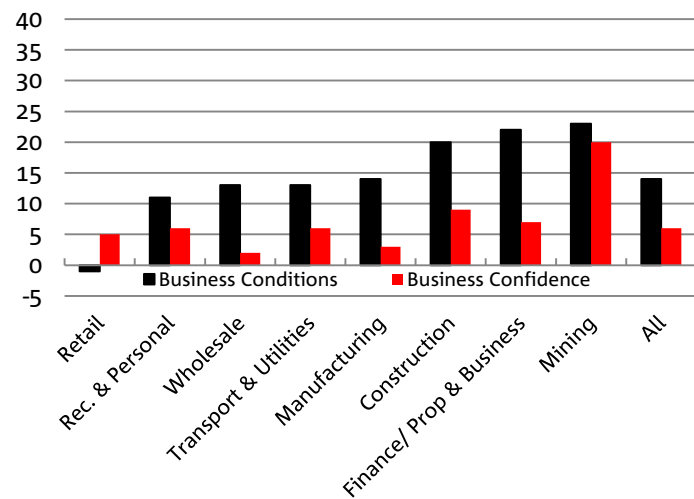
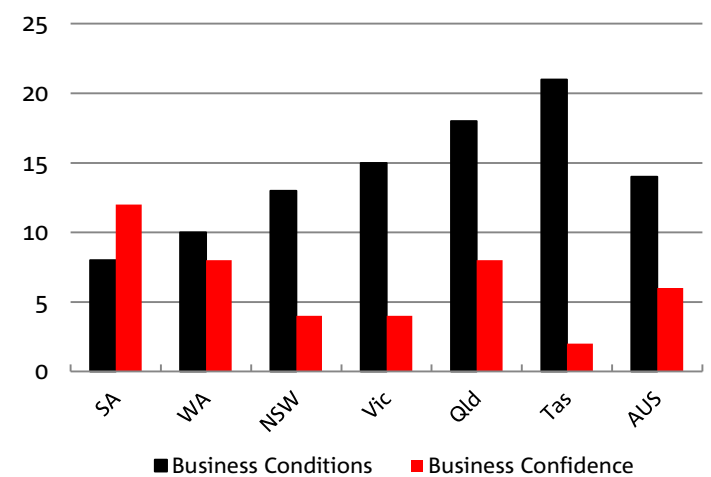


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

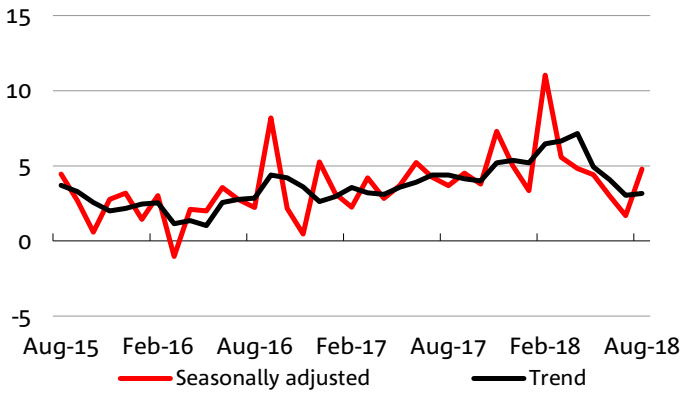


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

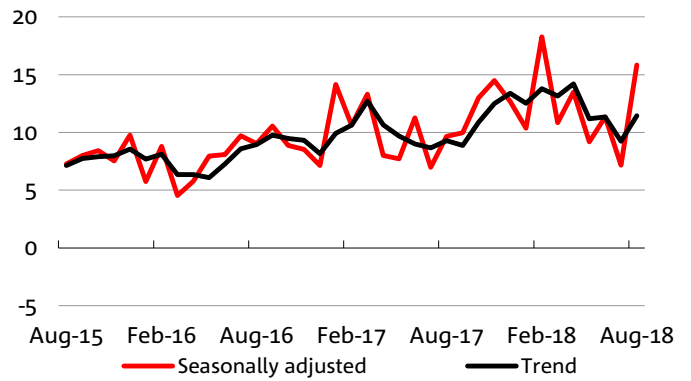


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

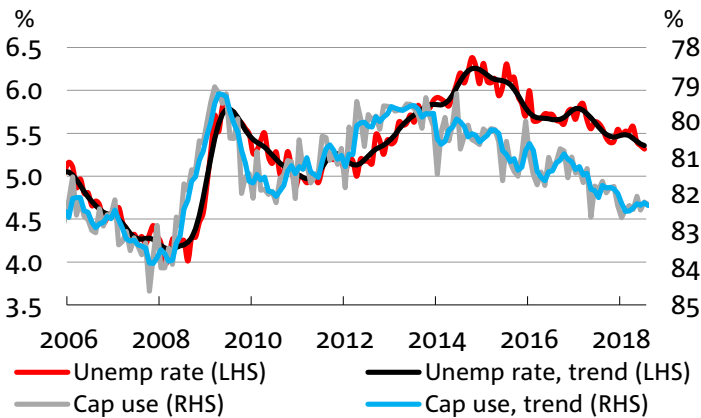


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

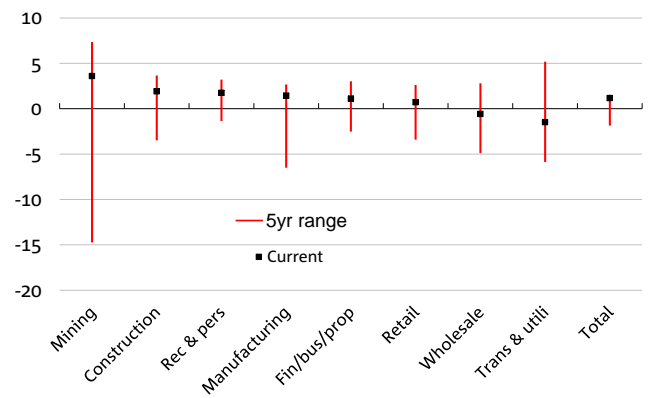


CHART 15: STOCKS (NET BALANCE)

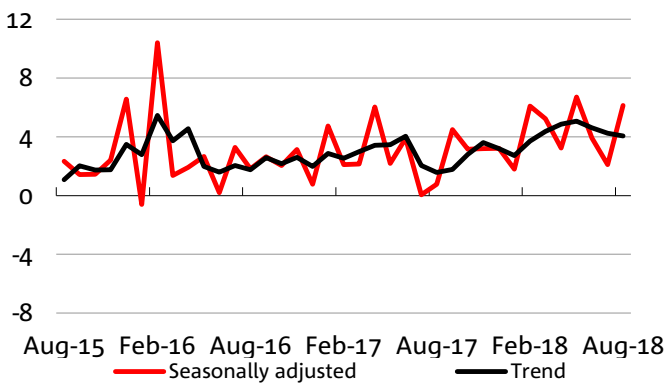


CHART 16: CASH FLOW (NET BALANCE)

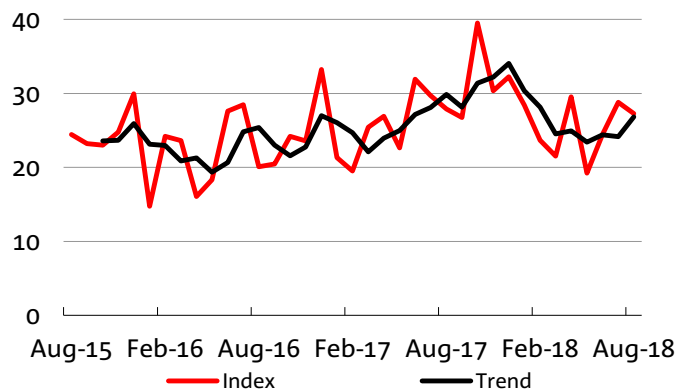


CHART 17: EXPORTS (NET BALANCE)

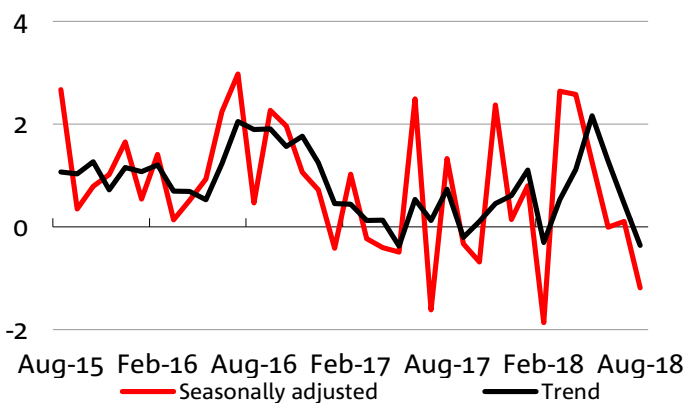
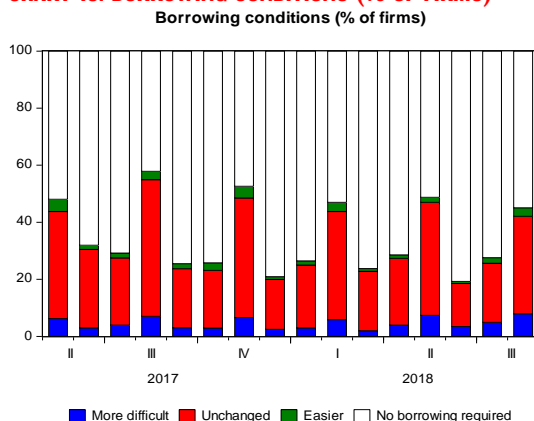


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 19: BUSINESS CONDITIONS (NET BALANCE) BY STATE

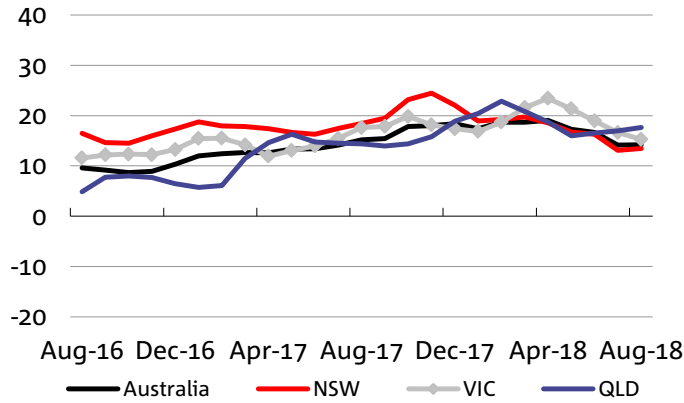


CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

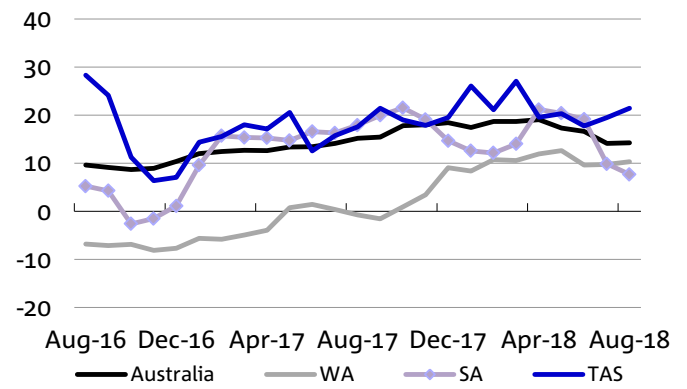


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

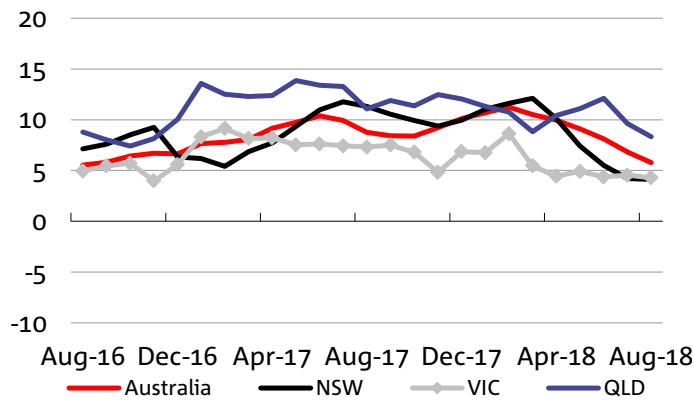


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

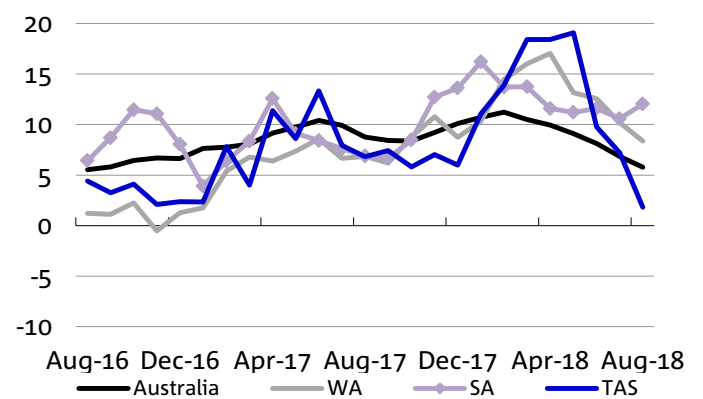


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

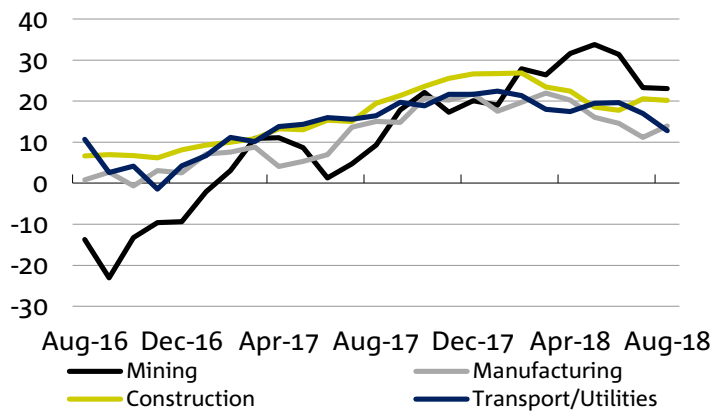


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

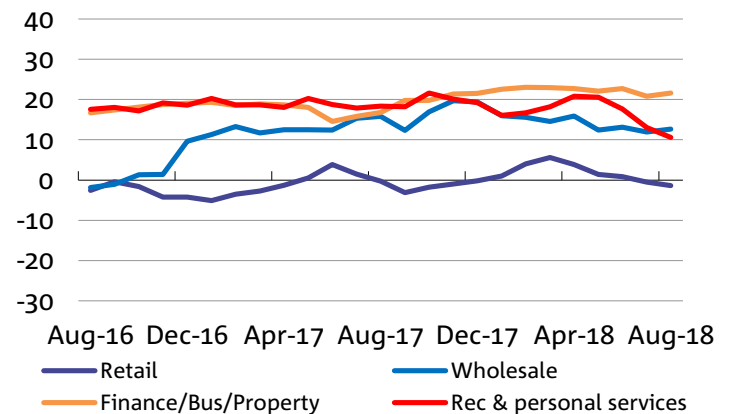


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

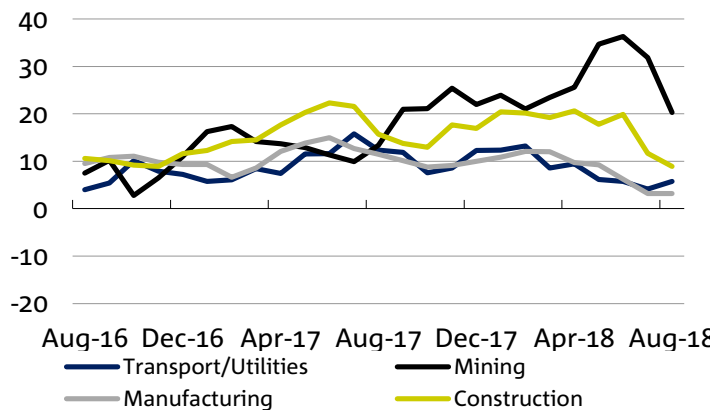
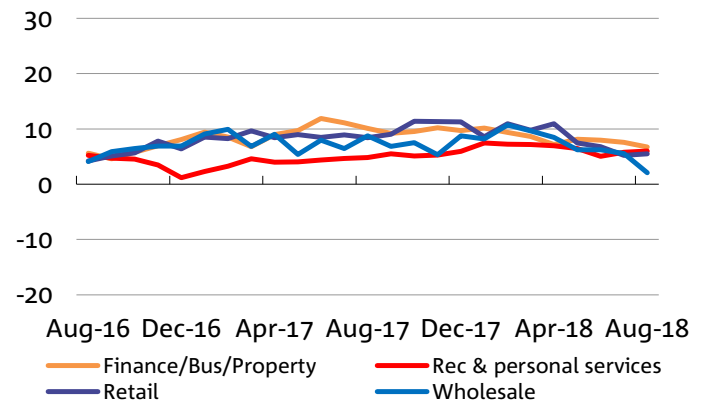


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

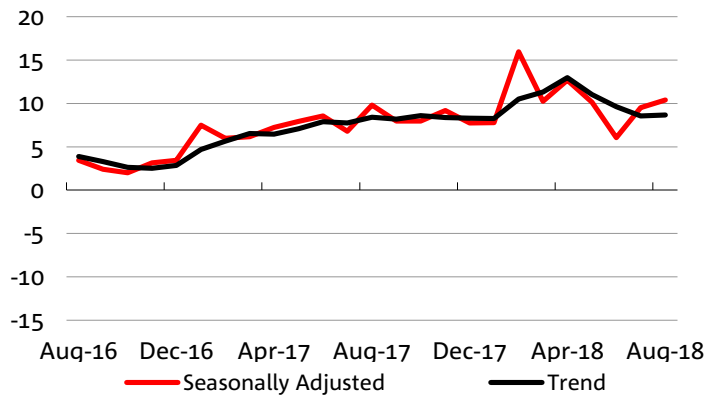


CHART 28: EMPLOYMENT (NAB VS ABS)

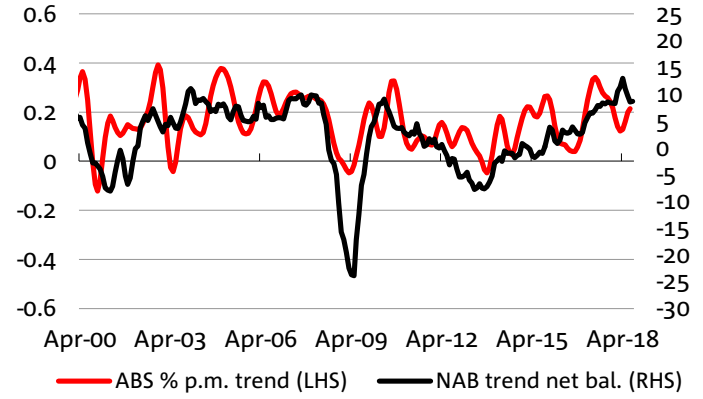


CHART 29: EMPLOYMENT BY INDUSTRY

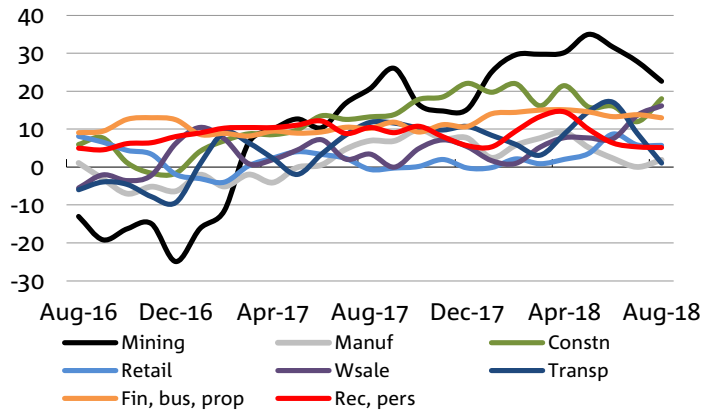


CHART 30: LABOUR COSTS GROWTH

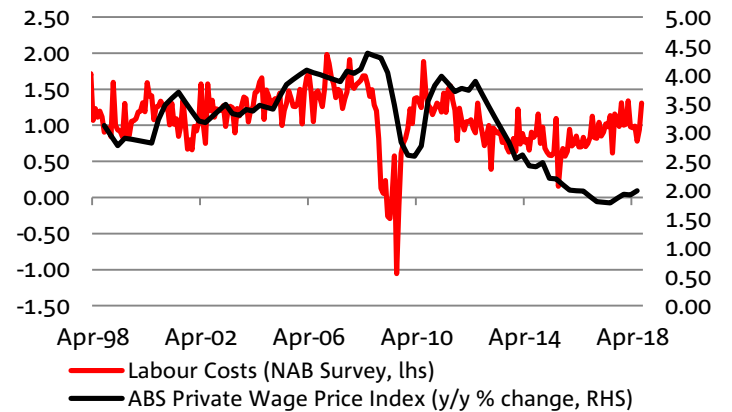


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

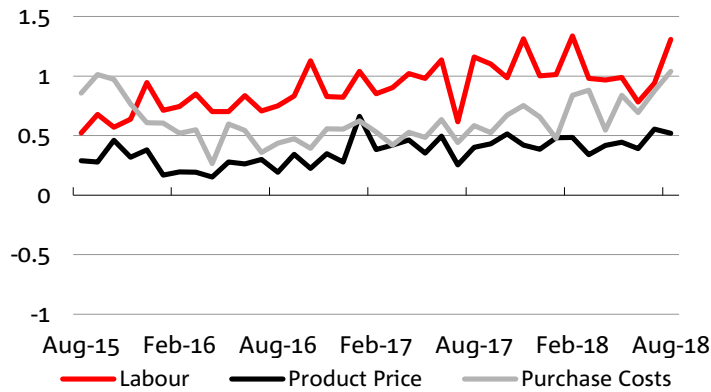
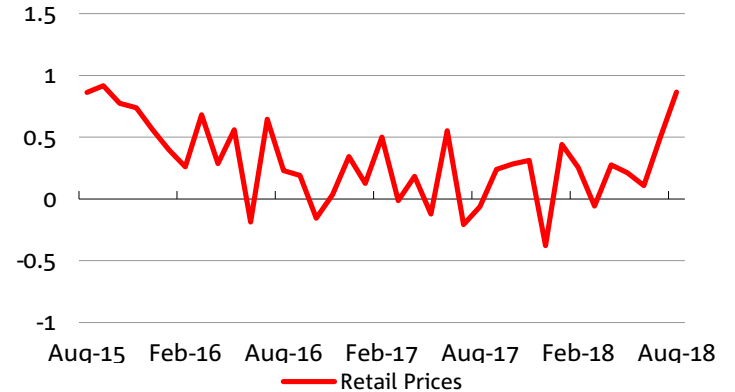


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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.