



NAB MONTHLY BUSINESS SURVEY SEPTEMBER 2018

CONDITIONS REMAIN HIGH, WITH CONFIDENCE AT AVERAGE

NAB Australian Economics

Key Messages from the Survey: *Business conditions seem to have stabilised at high levels in recent months following some sharp falls earlier and the dip in confidence last month appears to have been temporary. As such the Survey is reassuring about the current momentum in the economy. The ongoing strength in employment is especially encouraging. The only concern remains around lower forward orders – though volatile - is our best read of underlying demand. By industry, mining again is reporting the strongest outcomes and confidence. Against that, retail is weak and deteriorating. After showing some signs of building price pressures in recent months, surveyed measures of costs and prices generally eased in the month. Across the states, Tasmania continues to report the strongest conditions, followed by Victoria. Confidence continues to lag in NSW. This month we look in more detail on what the survey is saying about capacity utilisation as well as credit conditions.*

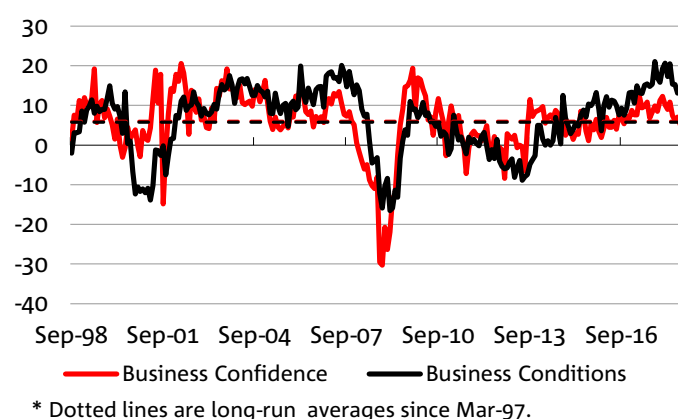
HIGHLIGHTS

- **How confident are businesses?** The business confidence index edged up to +6 index points in September (from +5) and is back around average after dipping last month.
- **How did business conditions fare?** The business conditions index also increased slightly to +15 index points (from a downwardly revised +14pts last month).
- **What components contributed to the result?** The result was driven by an increase in the employment index which rose 3pts to +12. Profitability was unchanged in the month, while trading conditions edged slightly lower.
- **What is the survey signalling for jobs growth?** The employment index (based on historical patterns) is consistent with jobs growth of over 20k per month. This should lead to further declines in the unemployment rate over the remainder of 2018.
- **Which industries are driving conditions?** Conditions rose in *recreation & personal services* and edged up in *manufacturing* and *wholesale*. *Transport & utilities*, *construction* and *Finance, business & property services* deteriorated in the month. *Mining* and *retail* also declined. In trend terms, conditions remained highest in *mining*, *construction* and *Finance, business & property services*. *Retail* remains weakest and is the only industry to record negative conditions.
- **Which industries are most confident?** Confidence (in trend terms) remains highest in *mining* with most other industries at around the average of national conditions. The *retail* and *wholesale* industries are a little below average.
- **Where are we seeing the best conditions by state?** Conditions (in trend terms) remain most favourable in *Tasmania (+18)*, followed by *Victoria (+17pts)* and *Queensland (+15pts)*. Conditions remain weakest in *South Australia (+7)*, while conditions are now well above average in *Western Australia (+11)* after sustaining the increases of late 2017.
- **What is confidence like across the states?** In trend terms, confidence is highest in *South Australia (+10)*, *Western Australia* and *Queensland* (both +8), followed by *Tasmania* and *Victoria* (both +6pts). *New South Wales* continues to lag (+4).
- **Are leading indicators suggesting further improvement?** The forward orders index decreased 3pts to +2, following a rebound last month, to be around average. Capacity utilisation edged lower but remains at a high level after trending up over recent years.
- **What does the Survey suggest about inflation and wages?** After showing tentative signs of a pick-up in price pressures over the past three months, surveyed cost and wage variables decreased in the month. On the input side, both labour and purchase cost pressures eased, while final products price growth edged lower. Retail prices showed weakness, recording a fall in the month after also having previously risen. Compared with history, surveyed price pressures remain weak.

TABLE 1: KEY STATISTICS

	Jul-18	Aug-18	Sep-18
	Net balance		
Business confidence	7	5	6
Business conditions	13	14	15
Trading	18	18	17
Profitability	11	14	14
Employment	10	9	12
Forward orders	2	5	2
Stocks	2	5	1
Exports	0	-1	0
	% change at quarterly rate		
Labour costs	0.9	1.3	0.9
Purchase costs	0.9	1.1	0.5
Final products prices	0.5	0.5	0.4
Retail prices	0.5	0.8	-0.1
	Per cent		
Capacity utilisation rate	82.2	82.3	82.1

CHART 1: CONDITIONS HIGH, CONFIDENCE AROUND AVERAGE



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 21 to 27 September 2018, covering over 400 firms across the non-farm business sector. Next release date: 13 November 2018.

NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

CAPACITY UTILISATION

- An important variable from the NAB business survey is firms' reported capacity utilisation. Capacity utilisation reflects both the current demand for a firm's output as well as the results of past investment decisions. It also impacts the investment decisions of firms.
- The aggregate measure of capacity utilisation has trended higher since 2012 and through it is below the levels reached in the lead-up to the GFC, it is currently at a high level.
- Looking at capacity utilisation by industry broadly reflects some well understood trends across sectors. Capacity utilisation is highest in mining, where rates are around 4% above average for that industry. This is unsurprising given the strength in demand for the sector's outputs over the last decade which spurred a large investment boom. Capacity utilisation is lowest in retail – again an unsurprising result reflecting the ongoing structural changes in that sector.
- In aggregate, capacity utilisation is an important macroeconomic variable given it reflects the balance between demand for firms' products and the ability to increase output. Currently the high degree of capacity utilisation points to increases in business investment (indeed the survey measure of capex remains high). It also signals that eventually price pressures will build, as demand begins to outweigh supply.

CHART 2: CAPACITY UTILISATION (%)

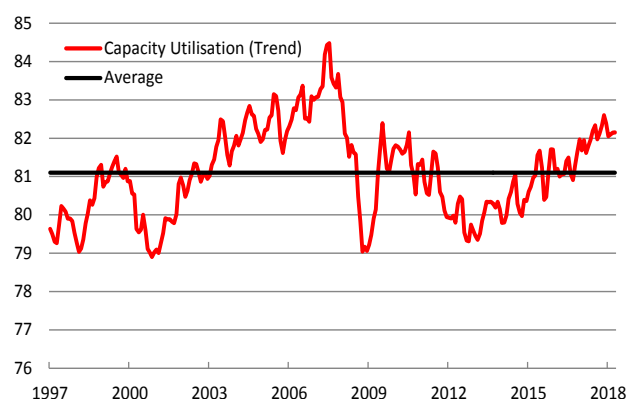
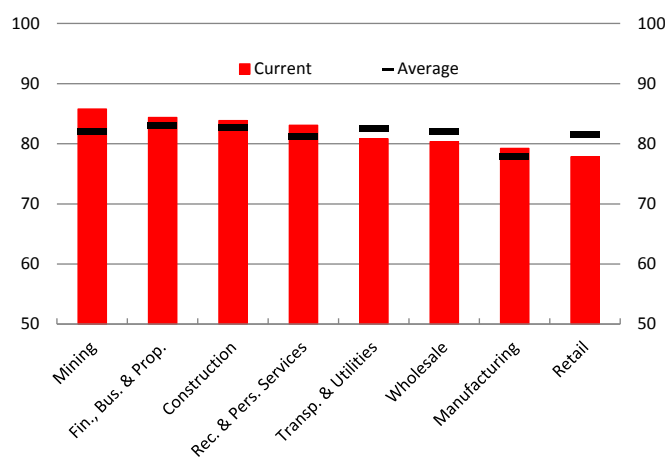


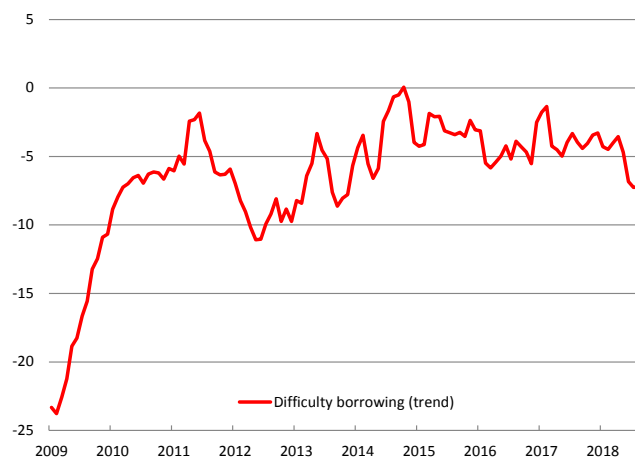
CHART 3: CAPACITY UTILISATION BY INDUSTRY (%)



BORROWING CONDITIONS

- Each month firms are asked about their borrowing requirements and the ease of obtaining funds to meet these borrowing requirements.
- The ability to borrow when and as required is important for firms to meet short-term cash flow constraints or, in the longer term, to undertake investments to maintain or increase their productive capacity.
- While a significant proportion of survey participants report that they have no borrowing needs each month (around 75% in the last month). The net balance of firms that do have borrowing requirements provides some indication of the degree in difficulty of obtaining funds. Over the past year, there has been a small tightening in borrowing conditions – but it has improved recently.
- While there has been a tightening in conditions over the past year it appears that the tightening in borrowing conditions has not been very significant. The tightening in conditions is smaller than experienced in 2011/2012, and significantly less than occurred during the GFC.

CHART 4: BORROWING CONDITIONS (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

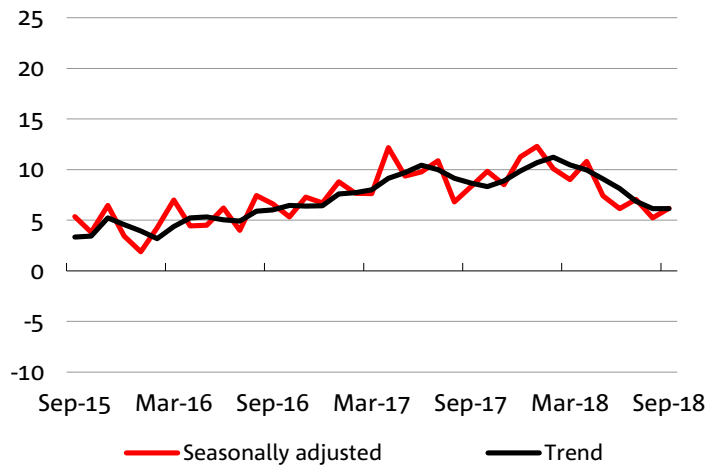


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

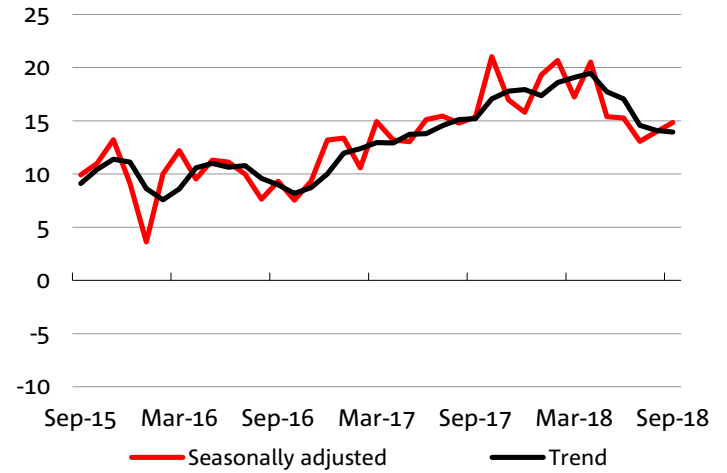


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

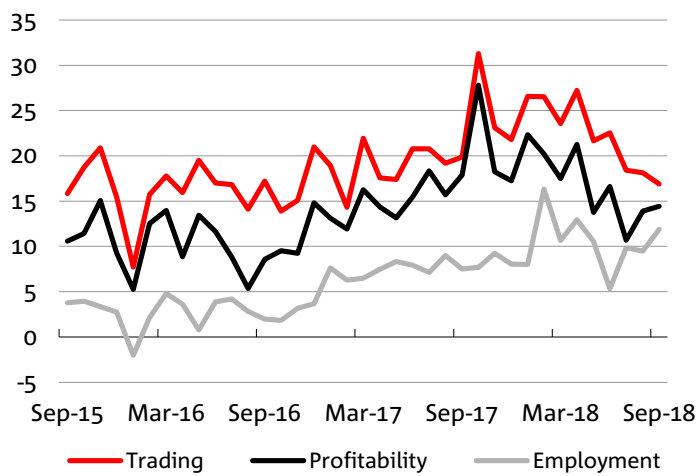


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

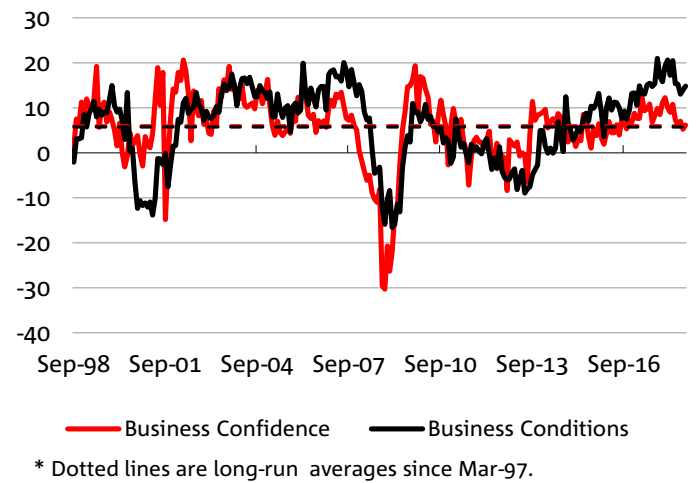


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

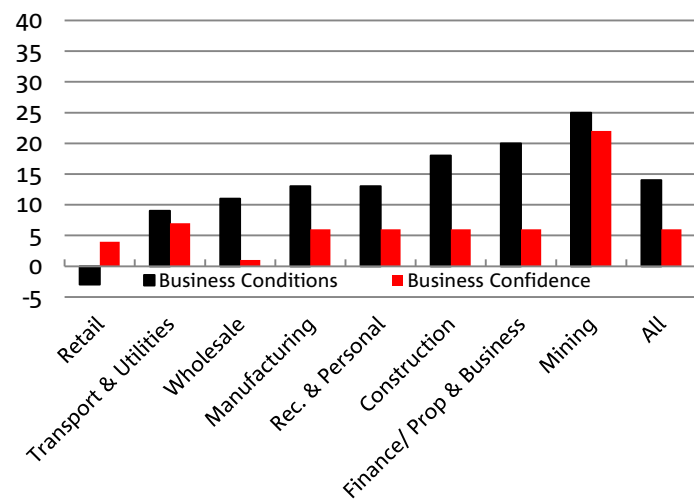
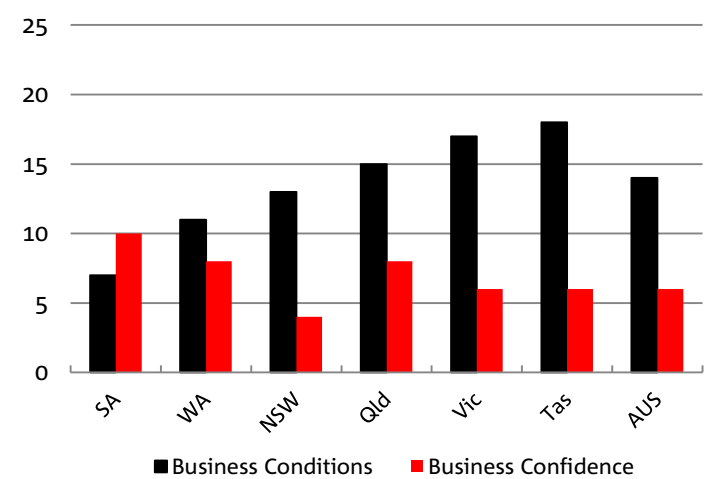


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

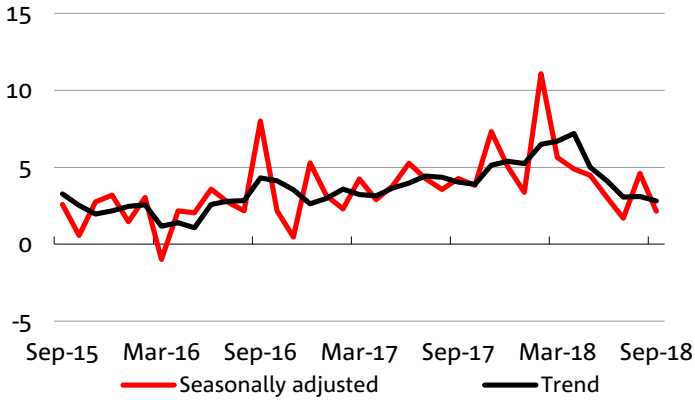


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

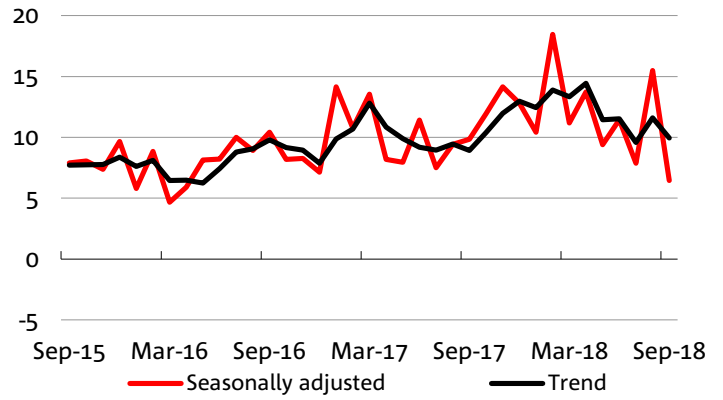


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

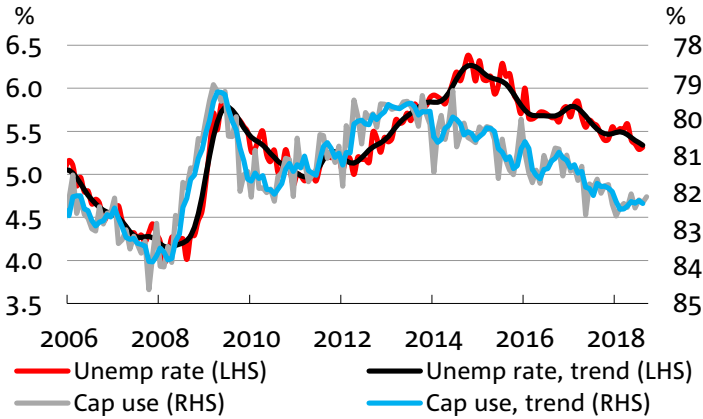


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

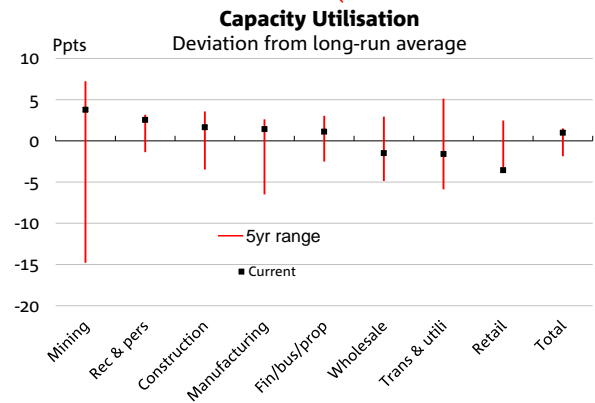


CHART 15: STOCKS (NET BALANCE)

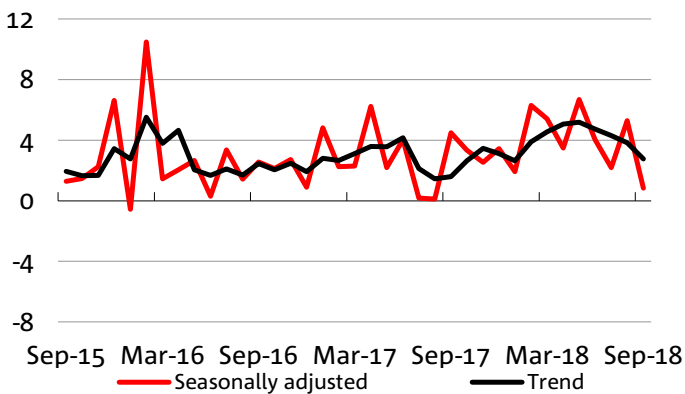


CHART 16: CASH FLOW (NET BALANCE)

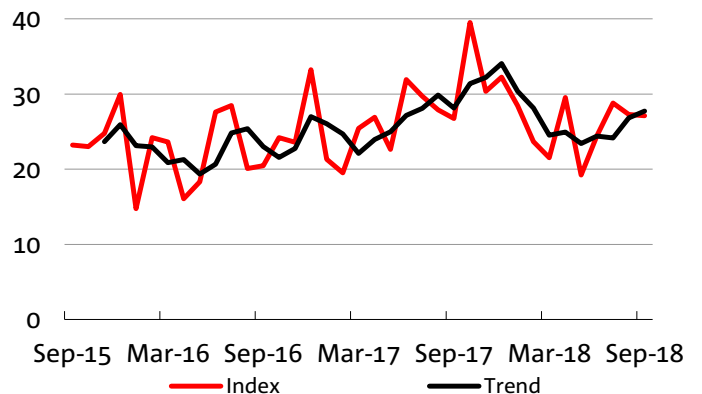


CHART 17: EXPORTS (NET BALANCE)

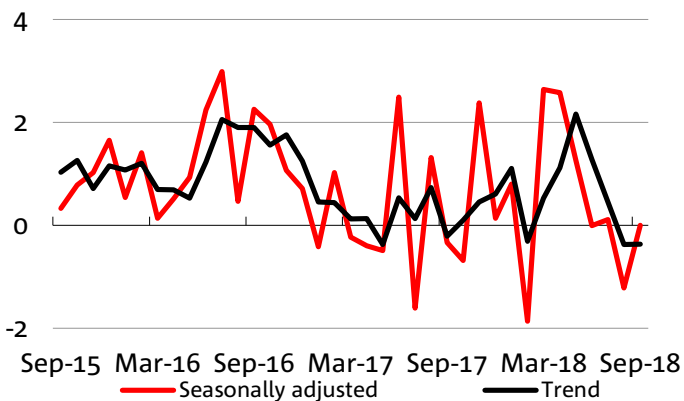
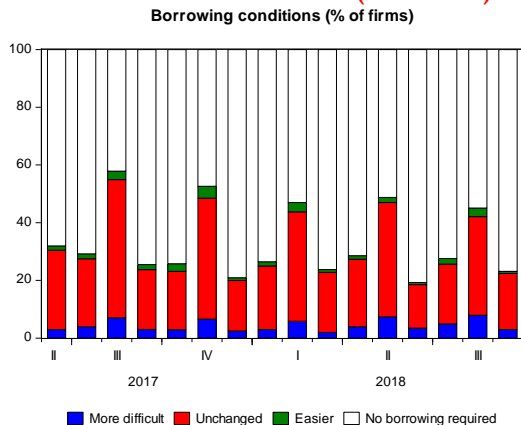


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 19: BUSINESS CONDITIONS (NET BALANCE) BY STATE

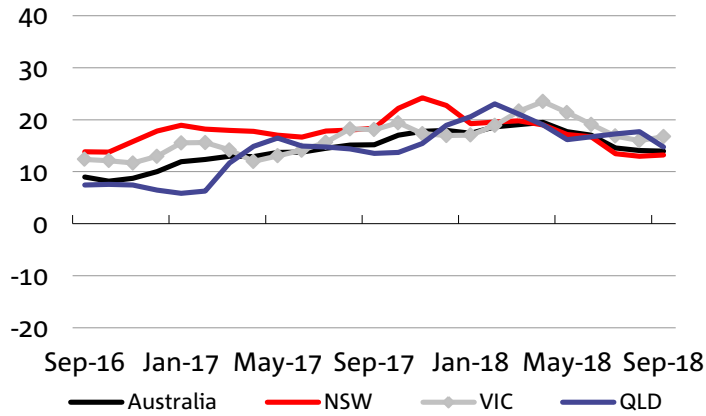


CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

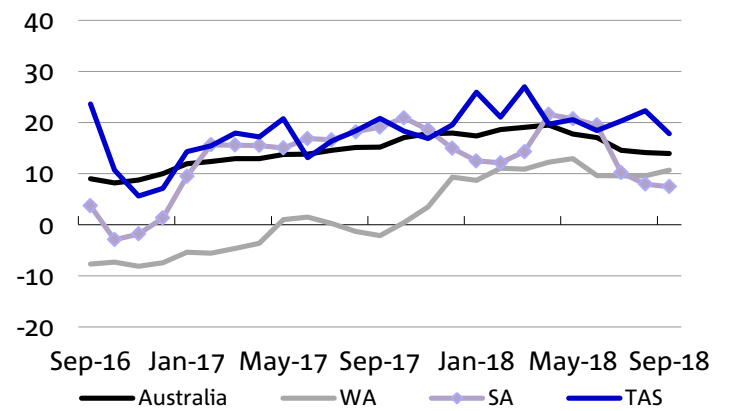


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

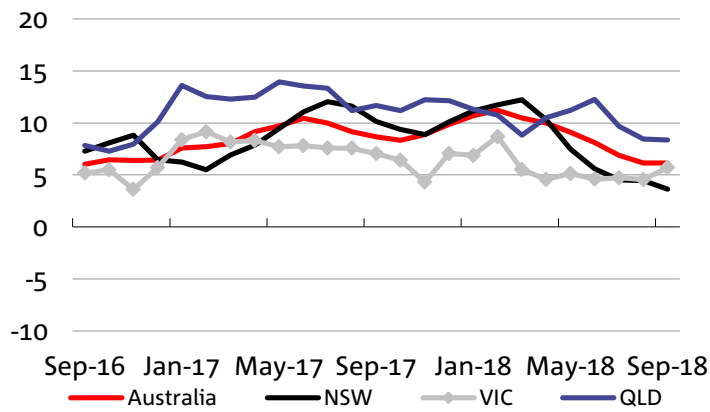


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

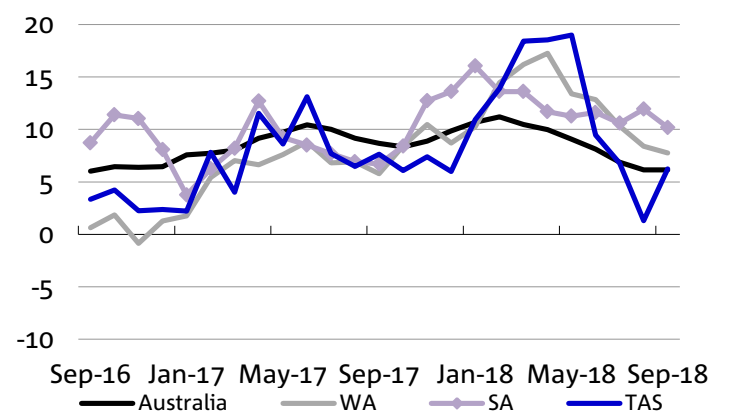


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

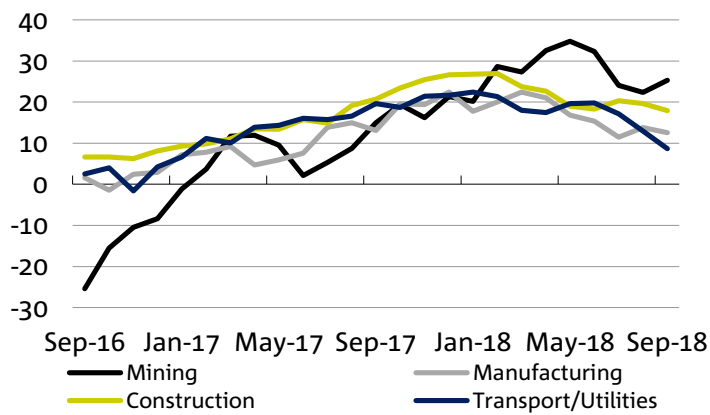


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

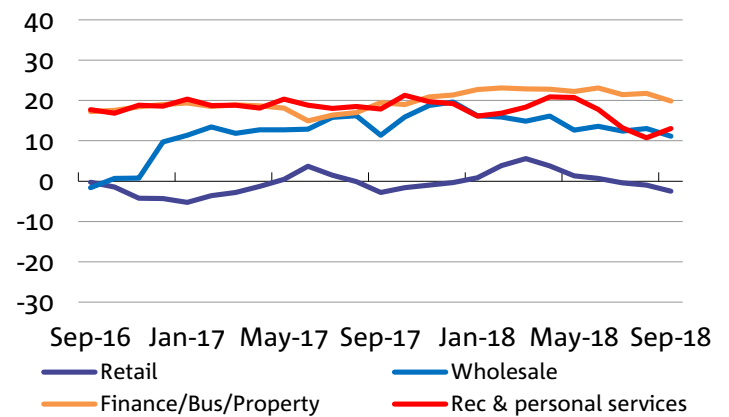


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

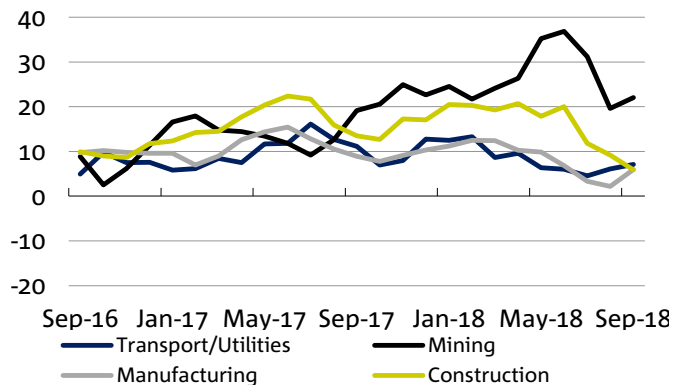
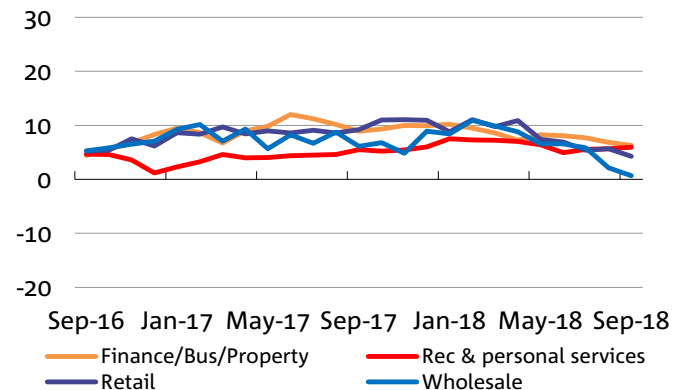


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

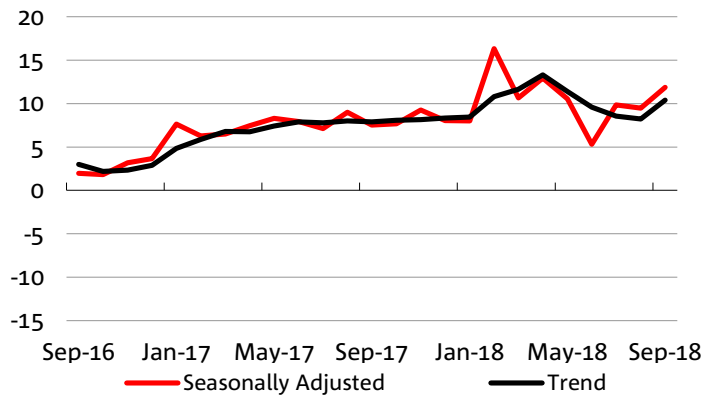


CHART 28: EMPLOYMENT (NAB VS ABS)

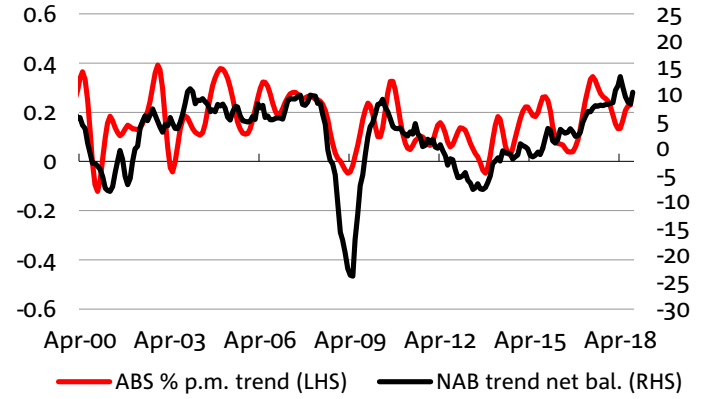


CHART 29: EMPLOYMENT BY INDUSTRY

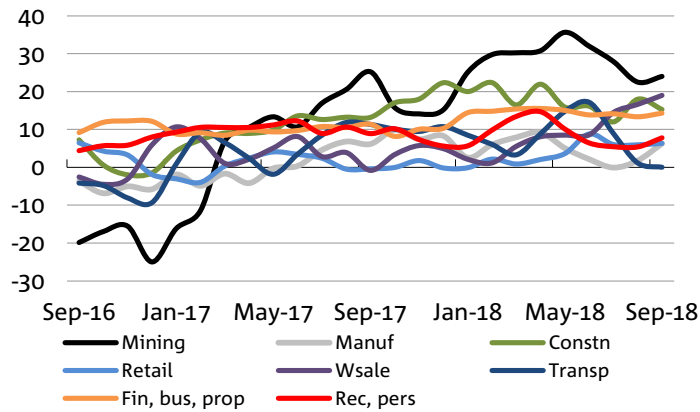


CHART 30: LABOUR COSTS GROWTH

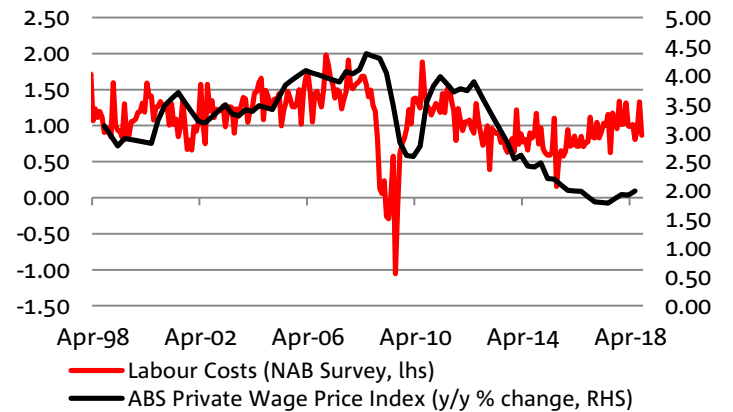


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

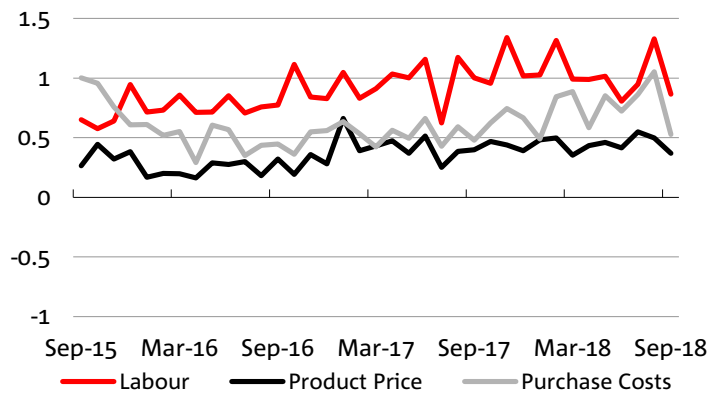
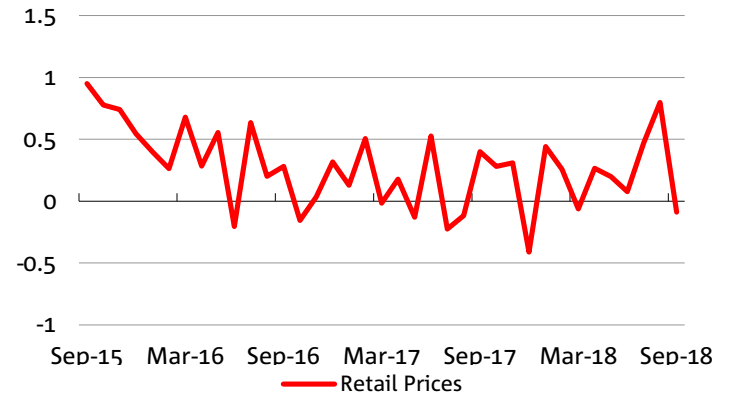


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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.