



NAB MONTHLY BUSINESS SURVEY OCTOBER 2018

CONFIDENCE AND CONDITIONS EASE

NAB Australian Economics

Key Messages from the Survey: *Business conditions have eased back from the high levels seen earlier in the year but remain well above average. Forward orders (the most reliable relationship with domestic demand) remain a touch just above average but significantly below levels reported in H1 2018. Confidence has also deteriorated through 2018, hovering at or below average in recent months. Retail continued to report weak outcomes in the month and recreational & personal services have eased since around mid-2018. The eastern states currently report the best conditions but have a less positive outlook than SA and WA. Overall, the survey suggests price pressures remain weak across both inputs and outputs, which is in line with official data pointing to prices (and wages) continuing to grow at relatively weak rates.*

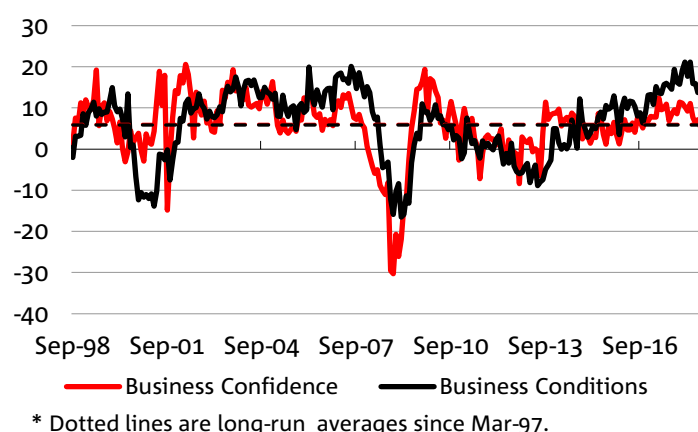
HIGHLIGHTS

- **How confident are businesses?** The business confidence index fell 2pts to +4 index points in October to be just below average.
- **How did business conditions fare?** The business conditions index also fell 2pts to +12 index points, though remains well above its long-run average of +6 index points.
- **What components contributed to the result?** The employment index declined 4pts to +7 index points in the month, and profitability fell 2pts to +12 index points. The trading conditions index edged up 1pt to +18 index points in October.
- **What is the survey signalling for jobs growth?** The employment index (based on historical patterns) is consistent with jobs growth of about 20k per month, which taken at face value would be enough to see the unemployment rate decline further, albeit at a slower rate than over recent months.
- **Which industries are driving conditions?** The decline in conditions was broad-based across industries with the exception of *construction, wholesale and transport & utilities*. In trend terms, conditions remained highest in *mining, finance, business & property services, construction and manufacturing*. *Retail* – already the weakest across all industries - weakened further in the month and remains the only industry to report deteriorating conditions.
- **Which industries are most confident?** Confidence (in trend terms) remains highest in *mining*, followed by *manufacturing*. *Retail* and *wholesale* confidence remain weakest, likely reflecting persistently weak conditions in the industry.
- **Where are we seeing the best conditions by state?** Conditions (in trend terms) remain most favourable in the eastern states with *Vic* (+17) leading the way, followed by *QLD* (+15pts) and *NSW* (+13pts). Conditions are now weakest in *Tas* (+9) which has pulled back over recent months. With *SA* and *WA* at +10 index points, all states remain above average.
- **What is confidence like across the states?** In trend terms, confidence is highest in *SA* (+9), followed by *WA* (+8), *QLD* (+6) while *NSW* continues to lag (+2).
- **Are leading indicators suggesting further improvement?** The forward orders index was stable in the month at +3 index points – just above average. Capacity utilisation edged lower for the second month in a row, but remains at a high level after trending up over recent years.
- **What does the Survey suggest about inflation and wages?** Both purchase costs and final products prices (including retail prices) edged up in the month, while labour costs (a wage bill measure) ticked down. The building price pressures evident in these survey measures through mid-2018 appear to have abated over the past two months. Overall, while the survey suggests ongoing employment growth, labour costs growth remains relatively contained and with weak conditions in retail at present, consumer price rises are likely to remain meek.

TABLE 1: KEY STATISTICS

	Aug-18	Sep-18	Oct-18
Net balance			
Business confidence	5	6	4
Business conditions	15	14	12
Trading	19	17	18
Profitability	15	14	12
Employment	10	11	7
Forward orders	5	3	3
Stocks	5	1	1
Exports	-1	0	3
% change at quarterly rate			
Labour costs	1.3	0.9	0.8
Purchase costs	1.0	0.6	1.1
Final products prices	0.5	0.4	0.6
Retail prices	0.8	-0.1	0.2
Per cent			
Capacity utilisation rate	82.2	82.1	81.8

CHART 1: CONDITIONS AND CONFIDENCE EASE



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 25 to 31 October 2018, covering over 400 firms across the non-farm business sector.

Next release date: 11 December 2018.

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NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

LABOUR MARKET DEVELOPMENTS – A SURVEY PERSPECTIVE

- While often volatile on a monthly basis, employment has continued to grow at a trend rate of around 25-30k per month over recent months. The unemployment rate has also declined to 5.0% - its lowest level in over 6 years. Wage price data for the September quarter is due to be released later in the week, and while we think the momentum in the labour market should see wages growth start to lift, we expect only a small uptick in the pace of growth.
- The NAB Survey employment index declined in the month, but still remains above average. Taken at face value, it suggests employment growth of around 20k per month. While this is lower than recent employment growth reported by the ABS, it is likely enough to erode further spare capacity in the labour market and see the unemployment rate fall further.
- With the unemployment rate declining to 5.0% in September (though still 5.2% in trend terms) there has been renewed focus on the level of full employment in Australia. There is considerable uncertainty about the precise level of full employment – many current estimates place this threshold around an unemployment rate of 5.0%. The theory goes that once the labour market reaches this point, the pace of wage growth should accelerate, as firms are forced to bid up wages in order to source the labour they require.
- The NAB Quarterly Business Survey asks participants about their difficulty in finding suitable labour. That is, is finding the right employees a constraint on output - a key indicator of spare capacity in the labour market. In aggregate, the results suggest that the labour market is has tightened over recent years, with a large proportion of firms now reporting this as a constraint.
- By industry, the difficulty in finding suitable labour – relative to historical averages - is highest in *mining*, followed by *recreational & personal services*. *Construction, manufacturing and retail* also report a relatively high degree of tightness at present. While *wholesale, transport & utilities* and *finance, business & property services* also report above average difficulty in finding suitable labour, they do not appear as constrained as other industries.
- While the difficulty in finding suitable labour does not appear as high as in the lead up to the GFC (where unemployment fell to 4%), it suggests conditions are tighter than they have been for some time. Accordingly, we believe wages growth should begin to pick up as firms compete harder for labour.
- While both the survey and official labour market data suggest that labour market conditions have been quite favourable for employees, both surveyed wage bill measures and the official wage price index suggest that enough spare capacity has remained in the labour market to constrain a significant pickup in wage growth. Indeed, we think that September quarter wage data to be released later this week will show a small rise in the pace of growth but that overall wage growth will remain low relative to history.

CHART 2: EMPLOYMENT GROWTH

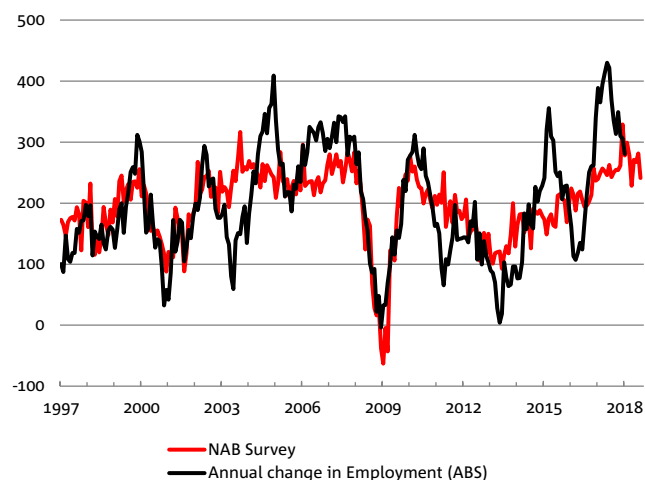


CHART 3: DIFFICULTY FINDING SUITABLE LABOUR AND UNEMPLOYMENT

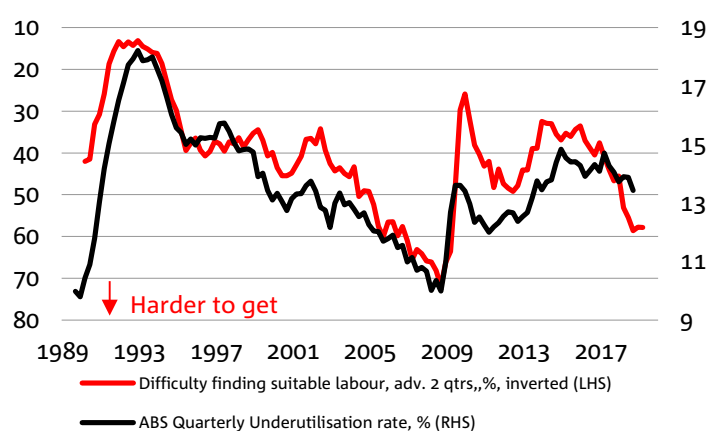


CHART 4: DIFFICULTY FINDING SUITABLE LABOUR BY INDUSTRY (%)

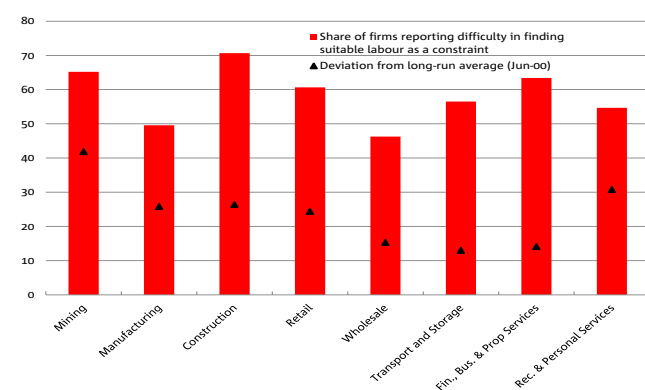
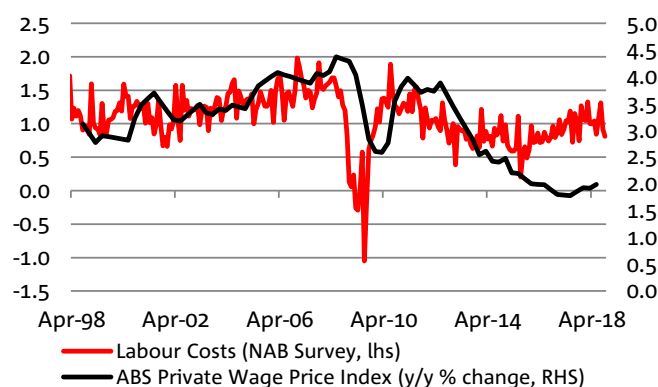


CHART 5: WAGE GROWTH AND LABOUR COSTS



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 6: BUSINESS CONFIDENCE (NET BALANCE)

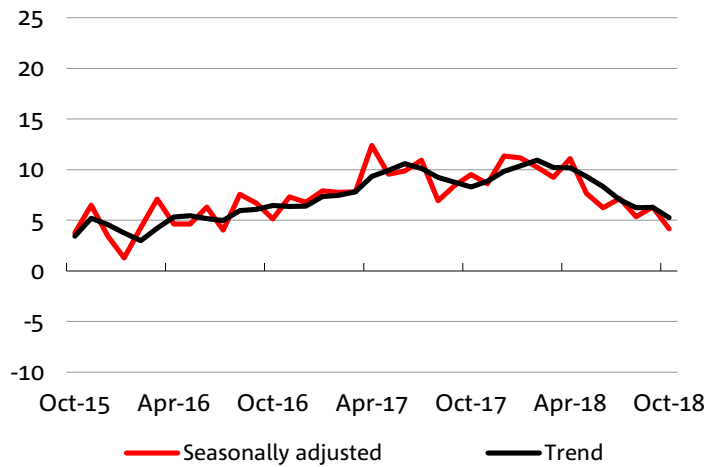


CHART 7: BUSINESS CONDITIONS (NET BALANCE)

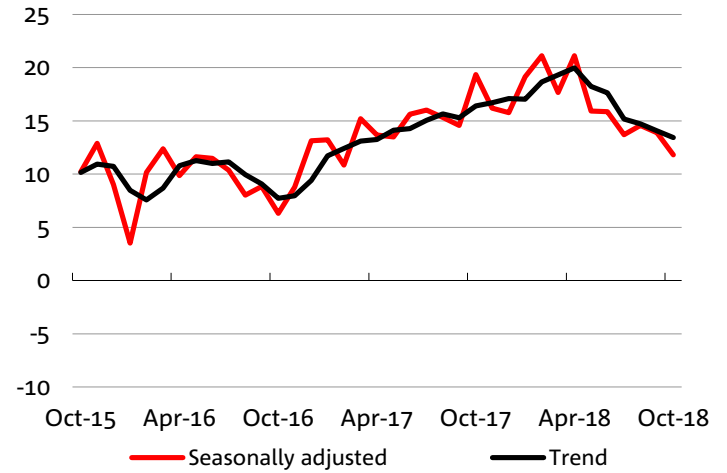


CHART 8: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

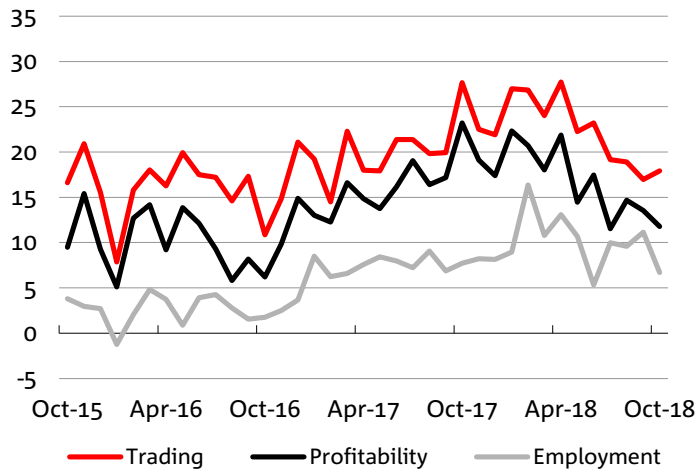


CHART 9: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

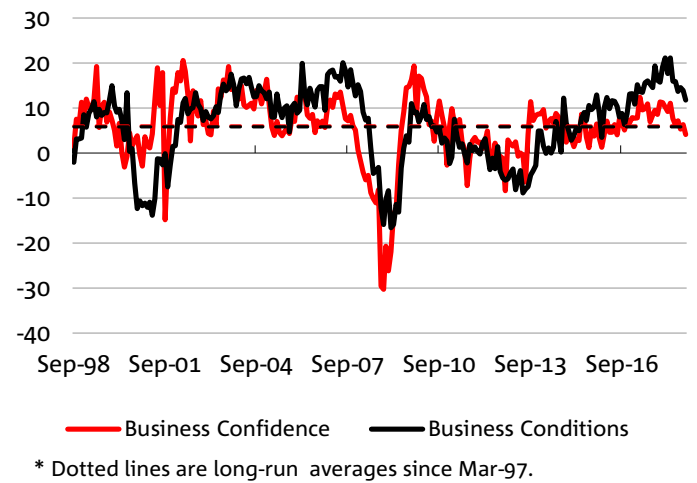


CHART 10: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

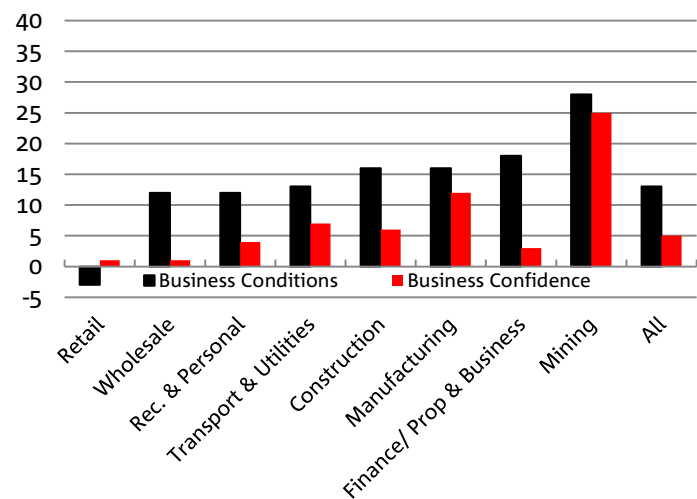
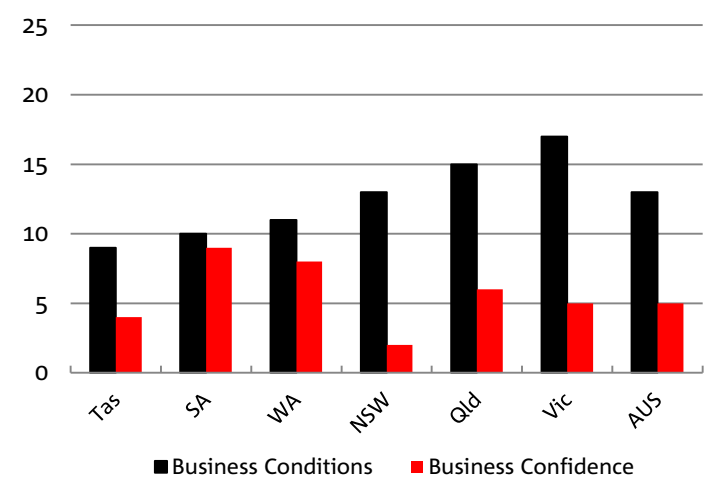


CHART 11: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 12: FORWARD ORDERS (NET BALANCE)

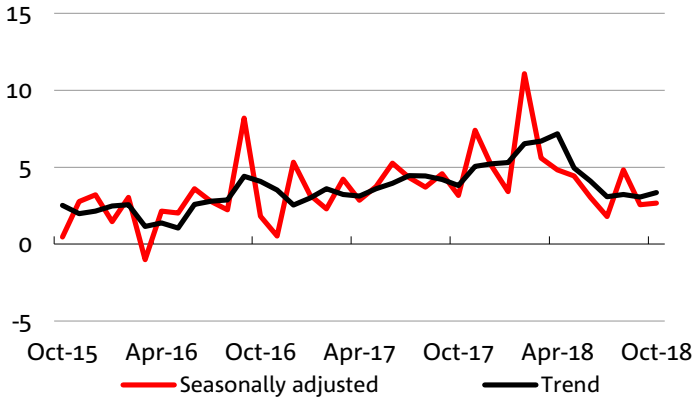


CHART 13: CAPITAL EXPENDITURE (NET BALANCE)

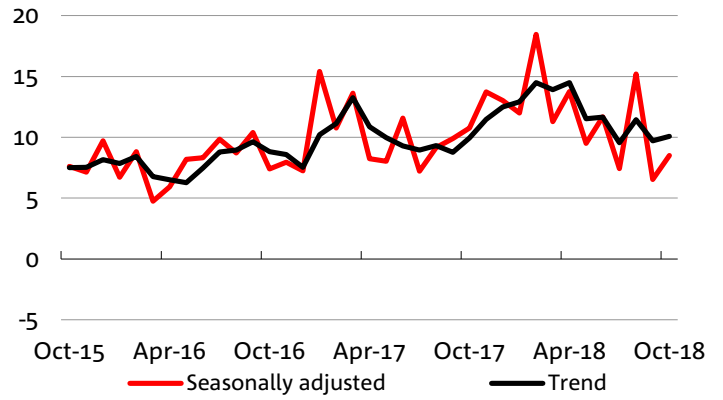


CHART 14: CAPACITY UTILISATION AND UNEMPLOYMENT

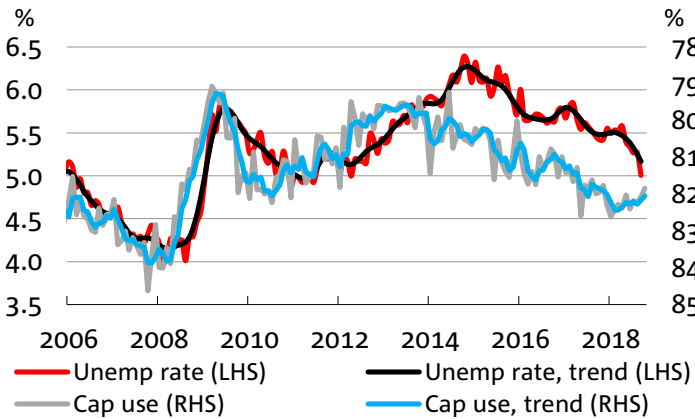


CHART 15: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

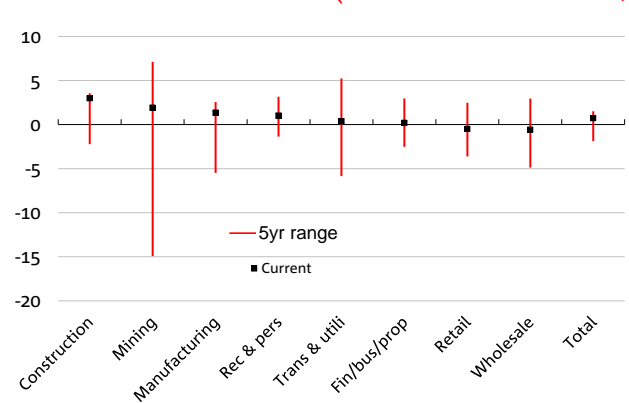


CHART 16: STOCKS (NET BALANCE)

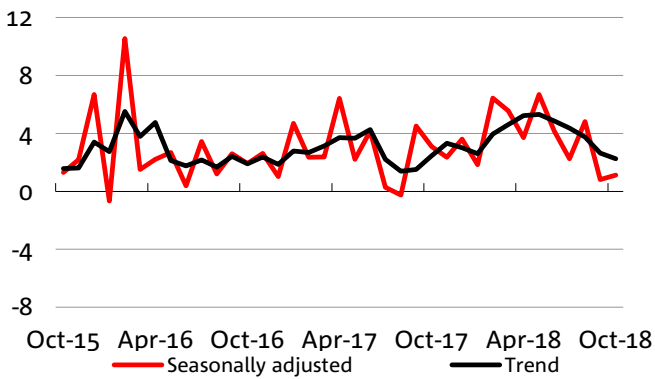


CHART 17: CASH FLOW (NET BALANCE)

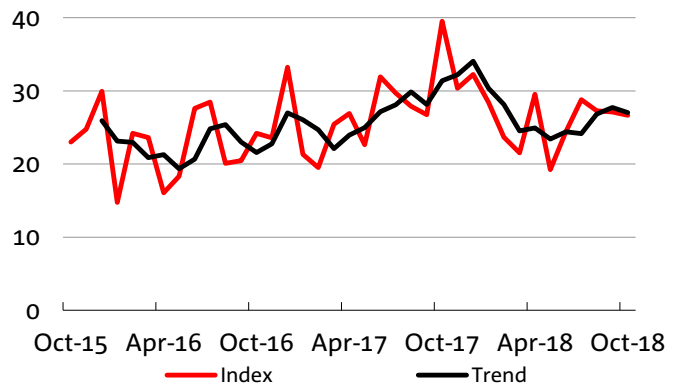


CHART 18: EXPORTS (NET BALANCE)

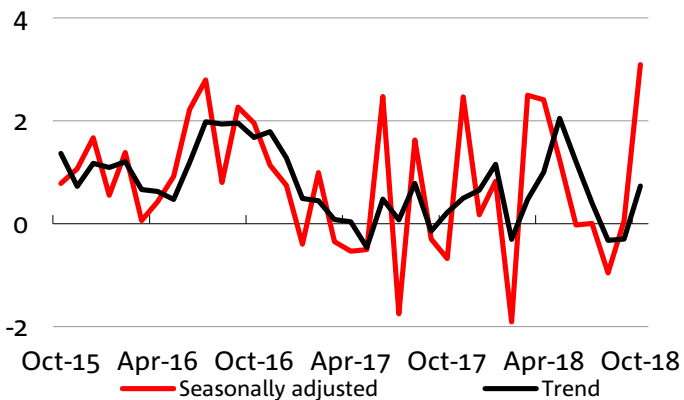
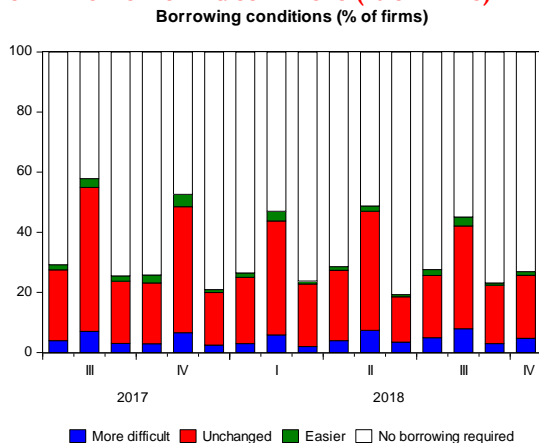


CHART 19: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

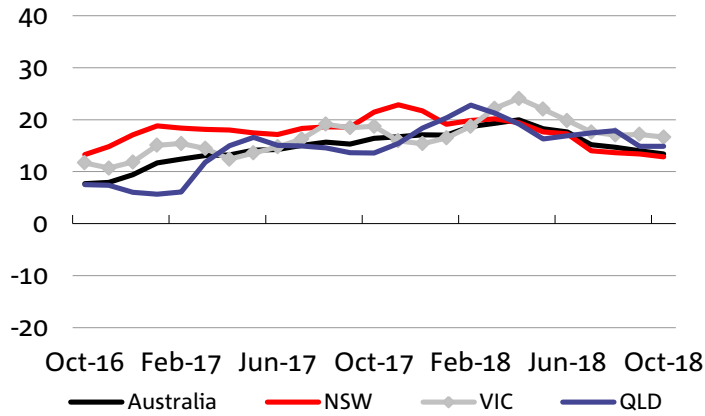


CHART 21: BUSINESS CONDITIONS (NET BALANCE) BY STATE

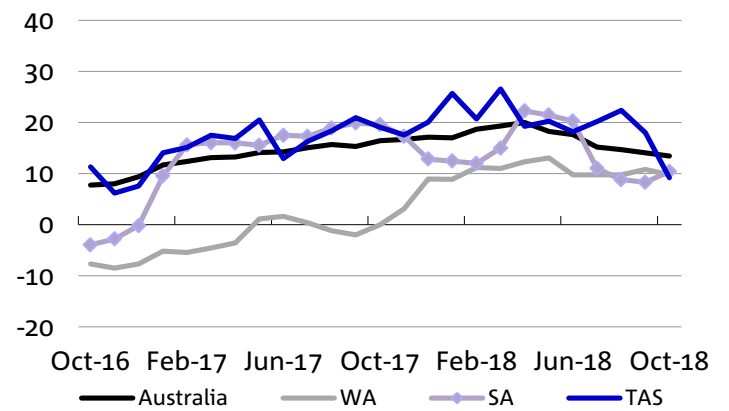


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

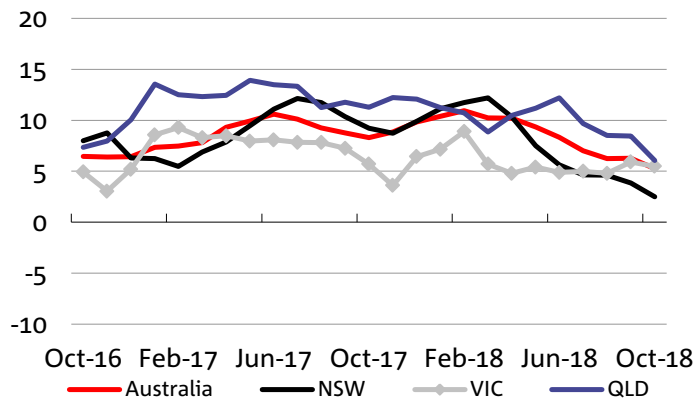


CHART 23: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

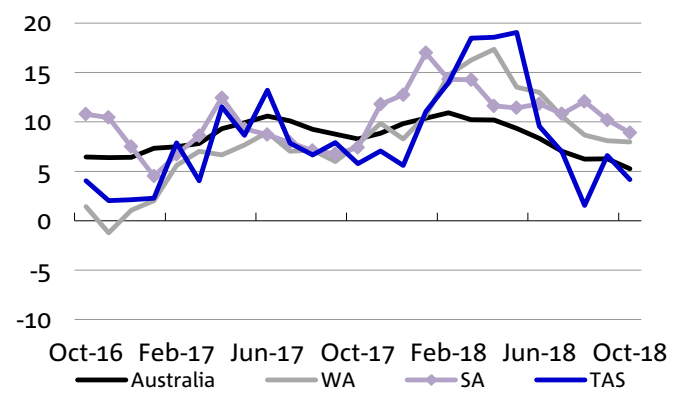


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

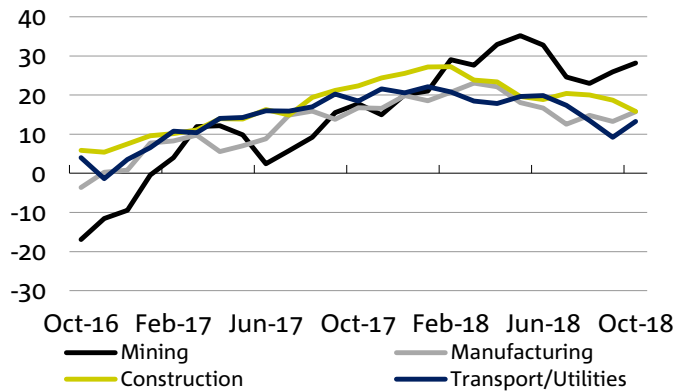


CHART 25: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

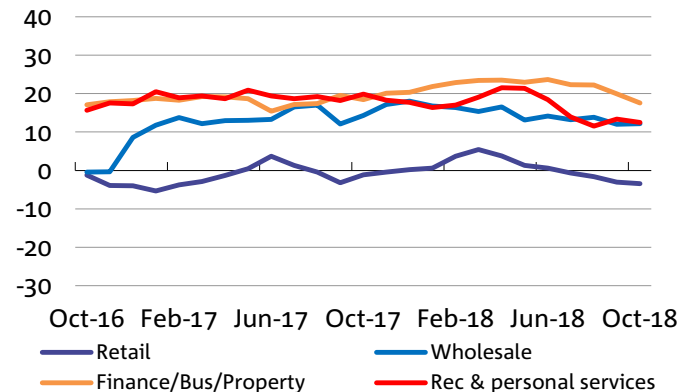


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

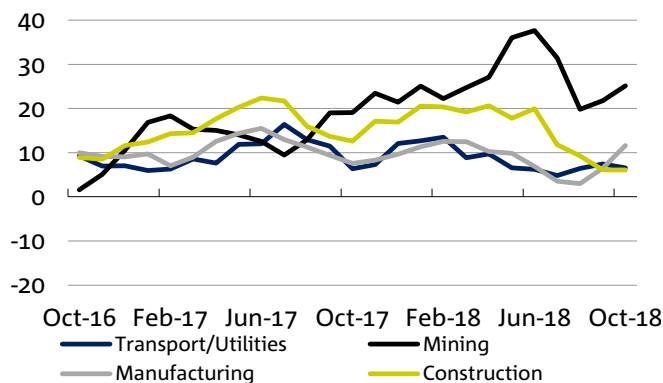
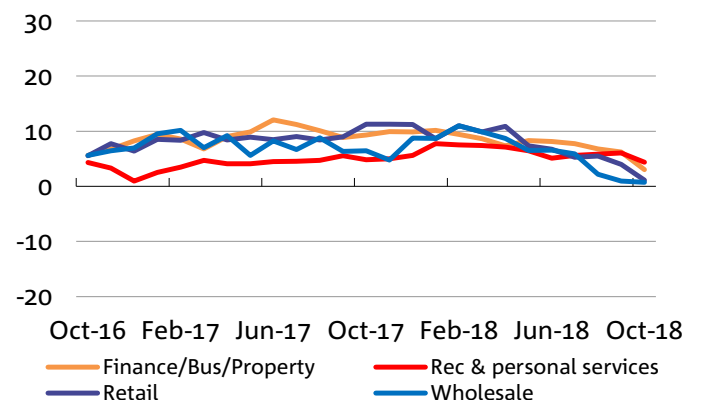


CHART 27: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 28: EMPLOYMENT

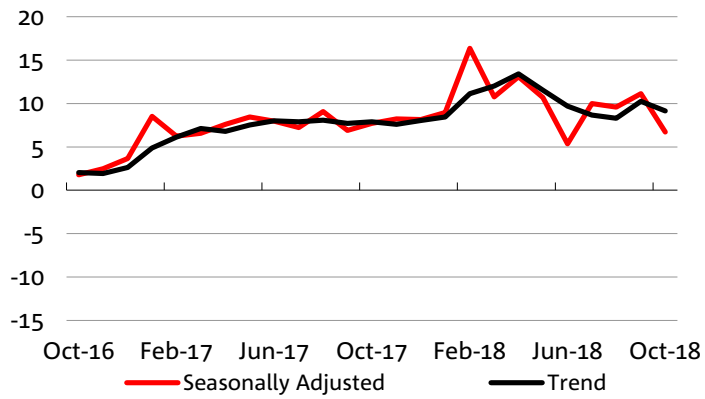


CHART 29: EMPLOYMENT (NAB VS ABS)

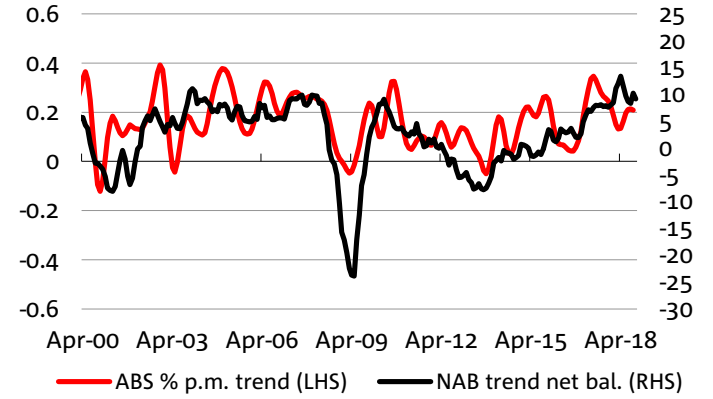


CHART 30: EMPLOYMENT BY INDUSTRY

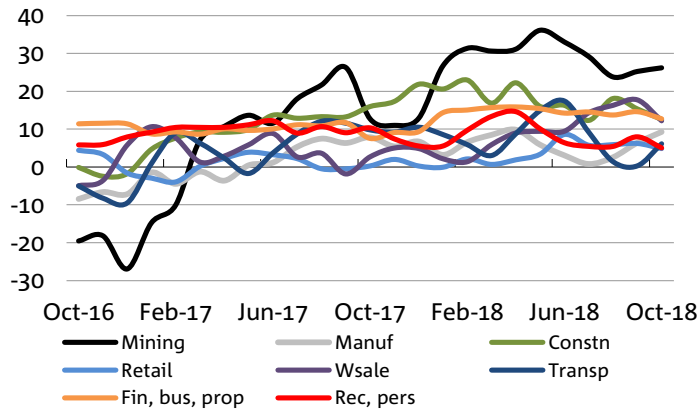


CHART 31: LABOUR COSTS GROWTH

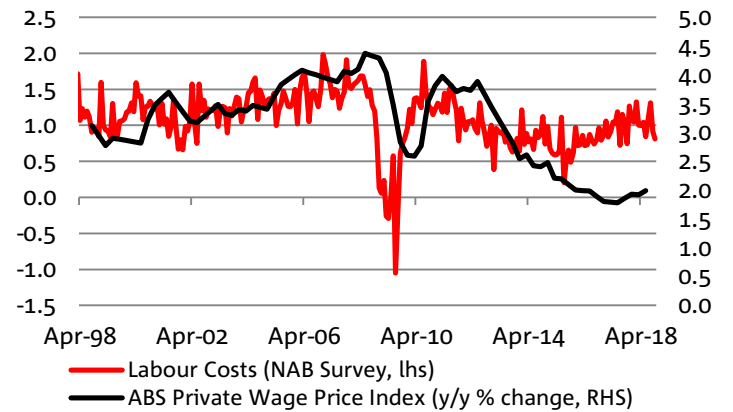


CHART 32: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

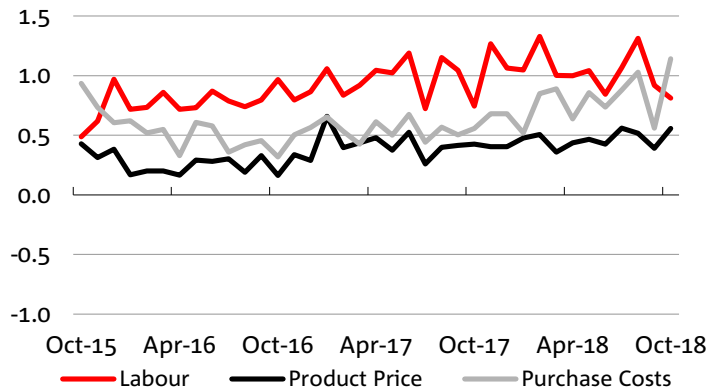
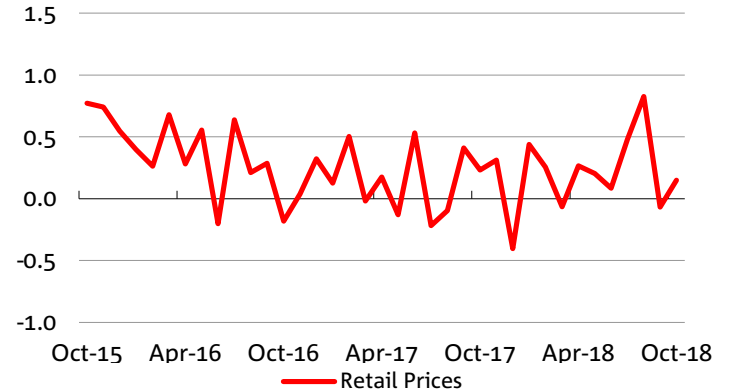


CHART 33: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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)	
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.