



NAB MONTHLY BUSINESS SURVEY NOVEMBER 2018

DOWNWARD TREND CONTINUES

NAB Australian Economics

Key Messages from the Survey: *Both business conditions and confidence continued their downward trend in November. Since around mid-2018 it appears the business sector has lost some momentum – albeit the level of activity remains reasonable. Declines in business confidence to below average levels also suggest businesses’ outlook is for momentum to ease further. Indeed, forward orders (the most reliable indicator of domestic demand) fell in the month and are now below average for the first time since late 2016. While conditions across most industries remain above average, conditions in the retail industry continue to lag – with retail the only sector to report deteriorating conditions. This was indeed confirmed by the release of the Q3 national accounts which saw weaker growth in consumption & a large run-up in retail inventories. By state, the eastern seaboard currently reports the best conditions but now has a less positive outlook than SA & WA. This month we also have a [special report](#) on what businesses report is driving conditions lower – including the impact of lower house prices, which to date have not had a significant impact.*

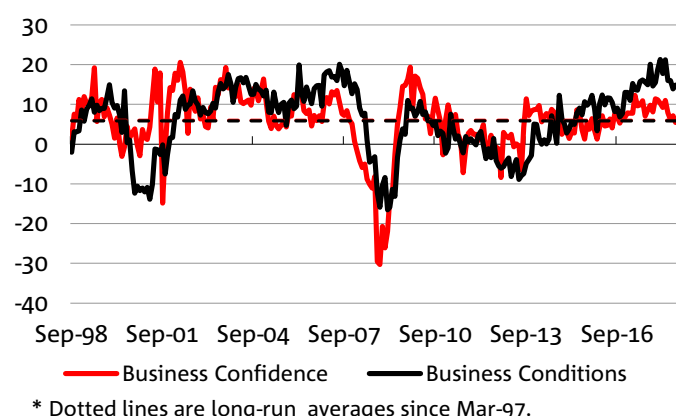
HIGHLIGHTS

- **How confident are businesses?** The business confidence index fell 2pts to +3 (from an upwardly revised October print). While still positive, the recent run of readings suggests confidence has been below average in the latter part of 2018.
- **How did business conditions fare?** The business conditions index also fell 2pts to +11 index points, continuing the downtrend which began in mid-2018. Despite easing notably in H2 2018, conditions remain well above average.
- **What components contributed to the result?** The decline in the month was driven by profitability, which fell 5pts, and trading conditions which declined 2pts. The employment index rose 2pts to a relatively high +9 index points.
- **What is the survey signalling for jobs growth?** While the employment index has declined from high levels earlier in the year, it still implies a solid rate of employment growth. Based on historical patterns these levels are consistent with jobs growth of about 20k per month. Taken at face value this should be enough to see the unemployment rate decline further over the next 6 months, albeit at a slower rate than in previous months.
- **Which industries are driving easing conditions?** Construction saw a sharp fall in conditions this month (but has been volatile) while *transport, manufacturing* and *mining* also saw a decline in the month. *Retail* and *finance, business & property services* saw small improvements in the month. In trend terms, conditions are highest in *mining* and weakest in *retail*.
- **Which industries are most confident?** Confidence (in trend terms) remains highest in *mining*, followed by *manufacturing and construction*. *Retail, finance, business & property services and recreational & personal services* remain the weakest.
- **Where are we seeing the best conditions by state?** Conditions weakened across the mainland states in November and increased a little in *Tas*. In trend terms, conditions remain highest in the eastern states, with *Vic* and *QLD* the strongest.
- **What is confidence like across the states?** Confidence weakened in *Vic, NSW* and *WA*, but rose in *QLD* and *Tas*. In trend terms, confidence remains highest in *SA*, followed by *WA* and *Tas*. Confidence is weakest in *NSW* and *Vic*.
- **Are leading indicators suggesting further improvement?** The forward orders index is now below average after falling to zero index points. Capacity utilisation edged up to 82.1% - and remains relatively high after trending up in recent years.
- **What does the Survey suggest about inflation and wages?** Overall surveyed price and cost measures suggest that inflationary pressure in the economy remains weak. Both purchase costs and final products prices edged lower in the month – though retail prices ticked up. Labour costs (a wage bill measure) rose slightly but most likely reflects ongoing employment growth, with wage price measures generally remaining weak – though a slight uptick in purchase costs suggests margin pressure may be building.

TABLE 1: KEY STATISTICS

	Sep-18	Oct-18	Nov-18
	Net balance		
Business confidence	7	5	3
Business conditions	14	13	11
Trading	18	17	15
Profitability	14	13	8
Employment	11	7	9
Forward orders	3	3	0
Stocks	1	1	4
Exports	0	3	1
	% change at quarterly rate		
Labour costs	1.0	0.9	1.2
Purchase costs	0.5	1.1	1.0
Final products prices	0.4	0.5	0.4
Retail prices	-0.1	0.2	0.3
	Per cent		
Capacity utilisation rate	82.1	81.8	82.1

CHART 1: CONFIDENCE AND CONDITIONS EASING TREND CONTINUES



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 25 to 30 November 2018, covering over 400 firms across the non-farm business sector. Next release date: 29 January 2019.

NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

DEVELOPMENTS IN THE RETAIL SECTOR

- Following two relatively solid quarterly outcomes, the Q3 national accounts suggest household consumption growth has slowed to a modest 2.5% over the year. This reflected lower spending on discretionary items with the only growth occurring in finance & insurance services, transport services and food. Alongside the weakness in spending, the household saving ratio declined further in Q3 painting a bleaker outlook going forward. More recent data on retail trade suggest a modestly stronger outcome in the first month of Q4 – though this may include some payback from recent weak outcomes.
- This weakness in consumer demand would be expected to weigh on businesses, with weaker demand for their products and compression of their margins as a result of increased competition.
- Indeed, the NAB business survey has for some time suggested conditions in the retail sector are lagging those of other industries. Moreover, retail is currently the only industry to record deteriorating conditions (-4 index points).
- The deterioration is evident across each component of the business conditions index. In trend terms, retail businesses have been reporting deteriorating trading conditions (turnover) and profitability for most of 2018. More recently the retail employment index has also weakened but has generally remained positive.
- The NAB Monthly Business Survey records responses by four retail sub-industries. While volatile at this sub-industry level, smoothing the data shows that household goods retailing and car sales have been particularly hard hit. Food retailing has improved recently, but remains at a relatively low level. Through 2018, other retailing has also weakened.
- For some time, NAB Economics has forecast only modest growth for household consumption. We believe a confluence of headwinds will continue to weigh on consumer spending over the next two years. Ongoing weak wage growth has weighed on household income growth for some time. While it appears to date that households have maintained spending by reducing their rate of saving, this cannot continue indefinitely. High debt levels and slower growth in household wealth are also likely to weigh on sentiment. Therefore we think the outlook for the retail sector is likely to remain relatively weak.

CHART 2: RETAIL CONFIDENCE AND CONDITIONS (NET BAL., TREND)

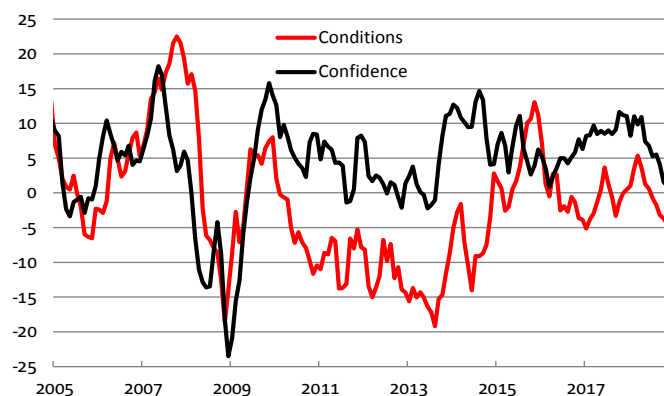


CHART 3: BUSINESS CONDITIONS COMPONENTS (NET BAL., TREND)

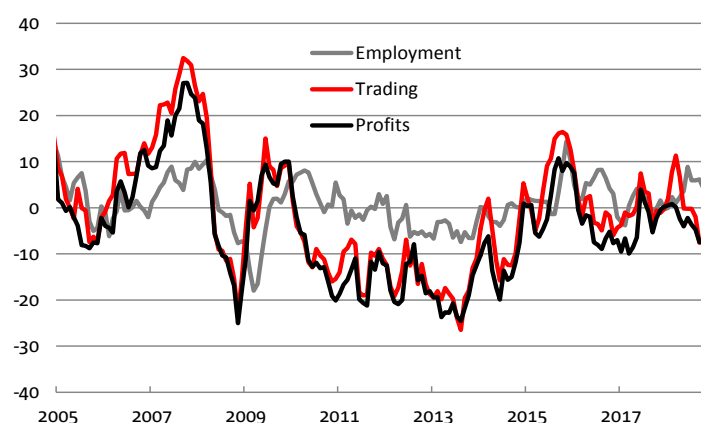
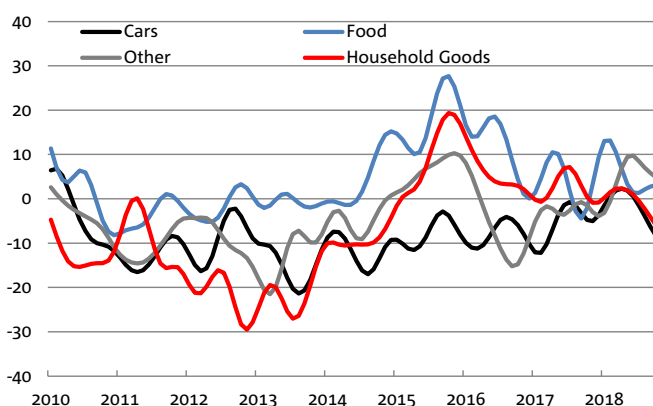


CHART 4: CONDITIONS BY RETAIL SUB-INDUSTRY (NET BAL., SMOOTHED USING 13-PERIOD HENDERSON TREND)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

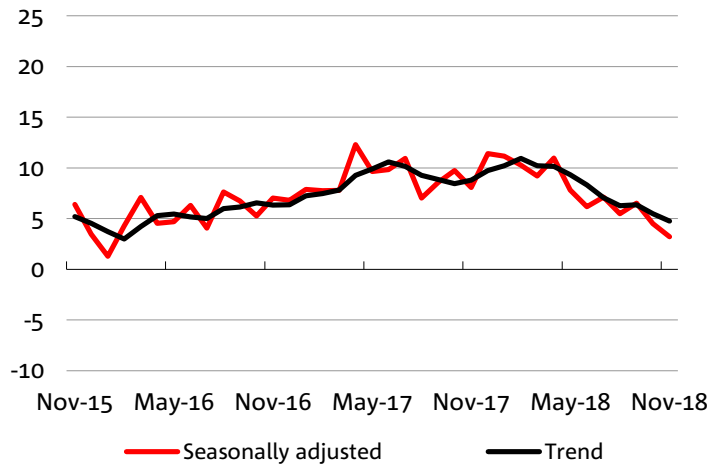


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

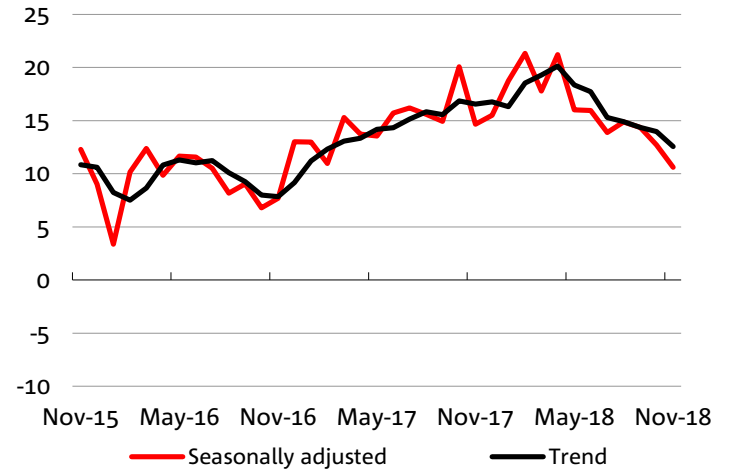


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

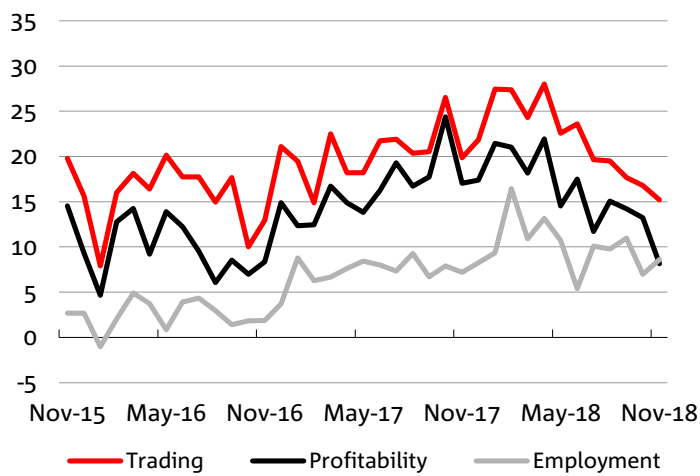


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

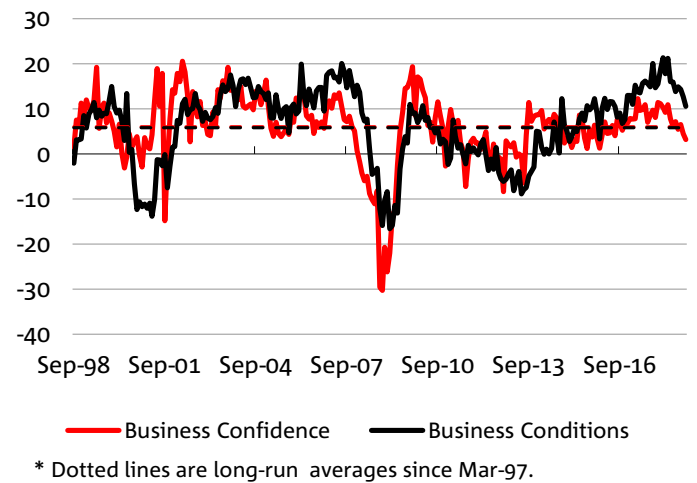


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

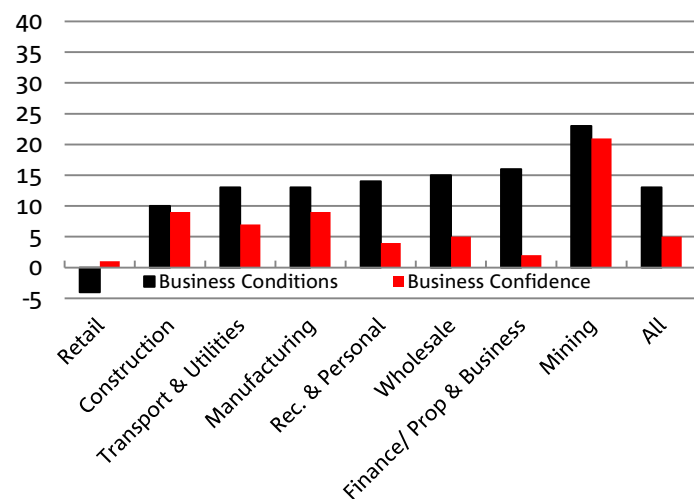
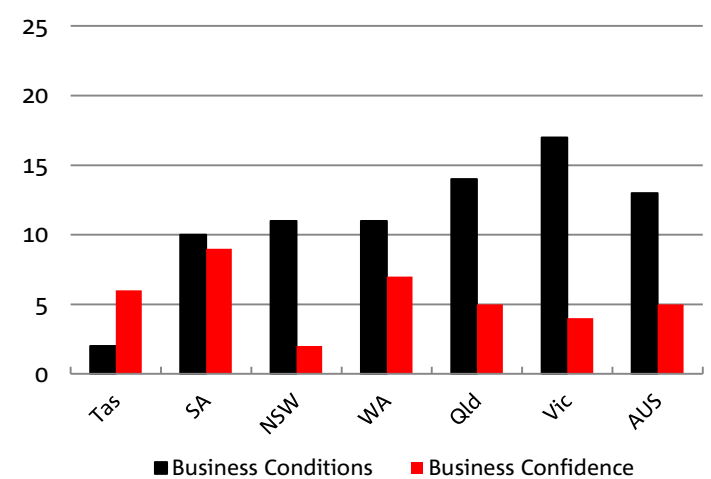


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

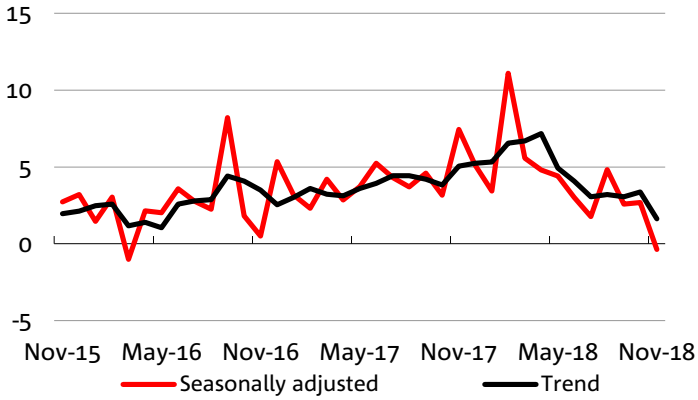


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

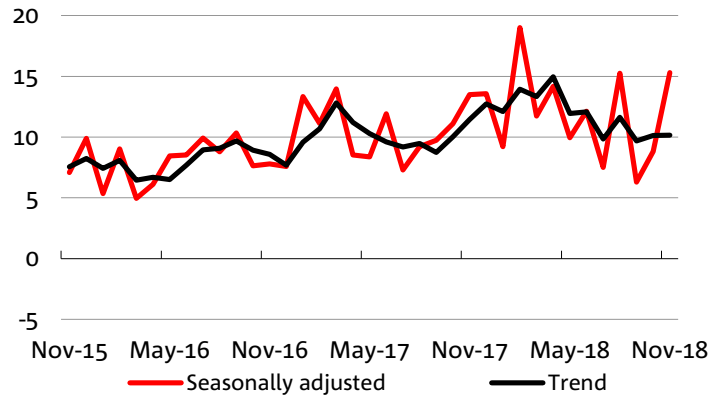


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

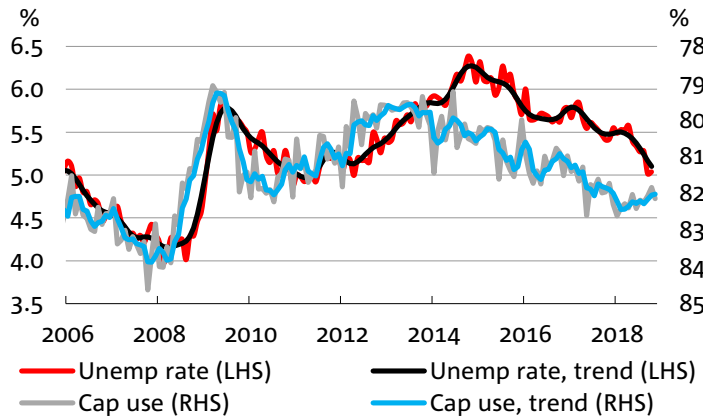


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

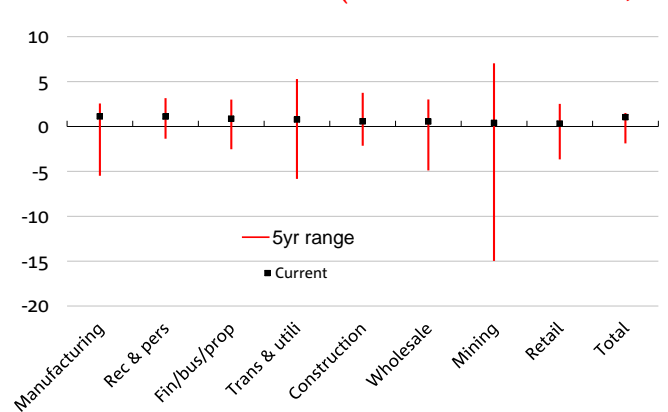


CHART 15: STOCKS (NET BALANCE)

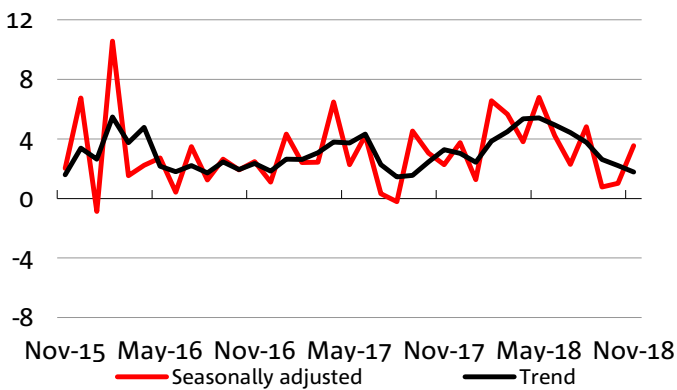


CHART 16: CASH FLOW (NET BALANCE)

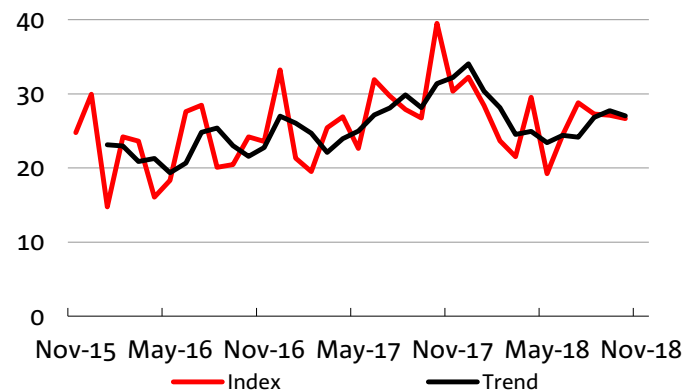


CHART 17: EXPORTS (NET BALANCE)

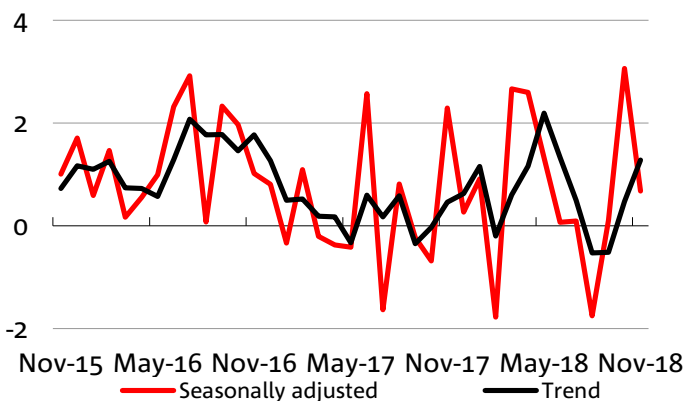
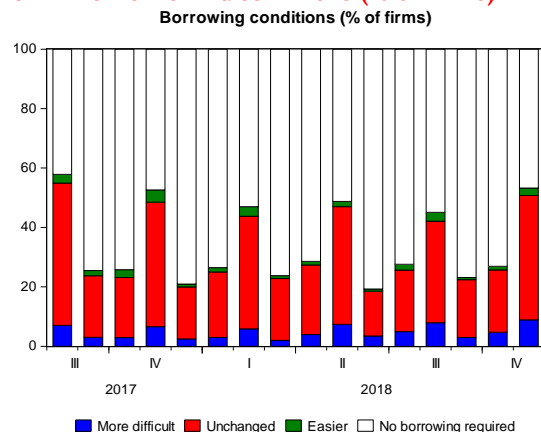


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 19: BUSINESS CONDITIONS (NET BALANCE) BY STATE

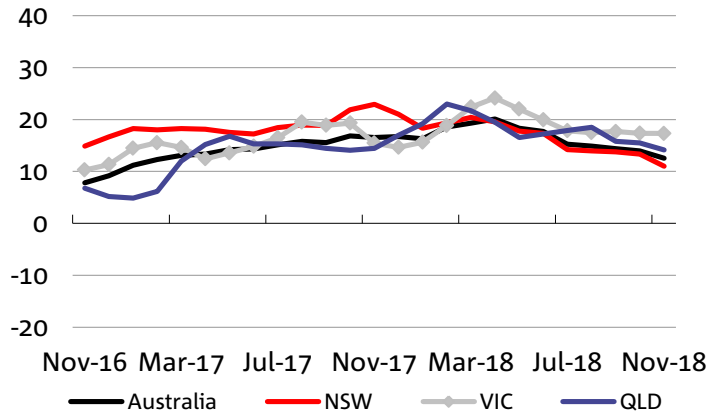


CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

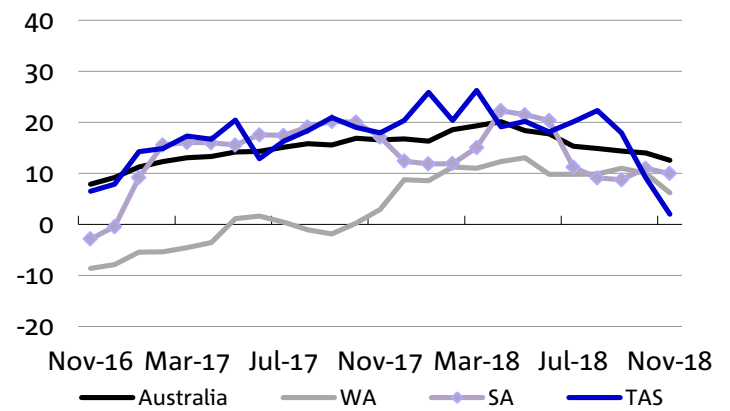


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

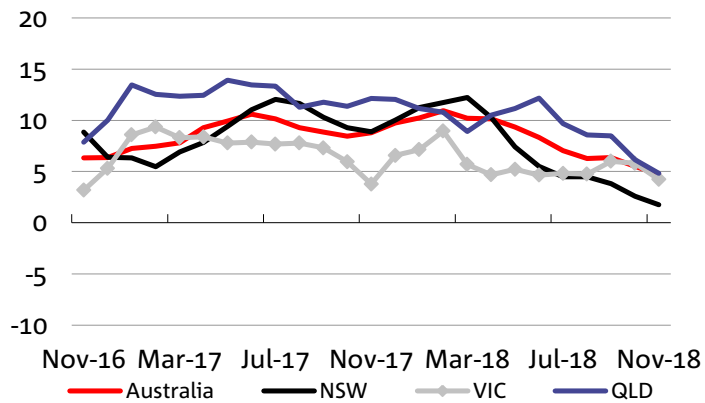


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

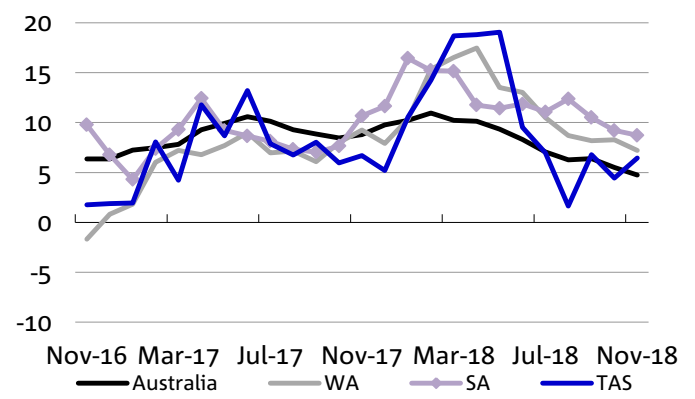


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

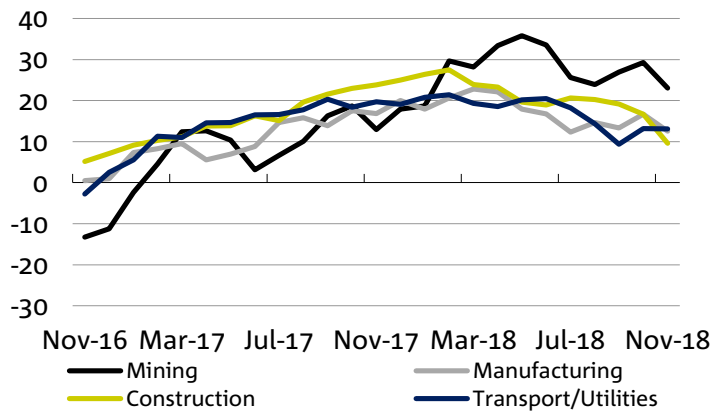


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

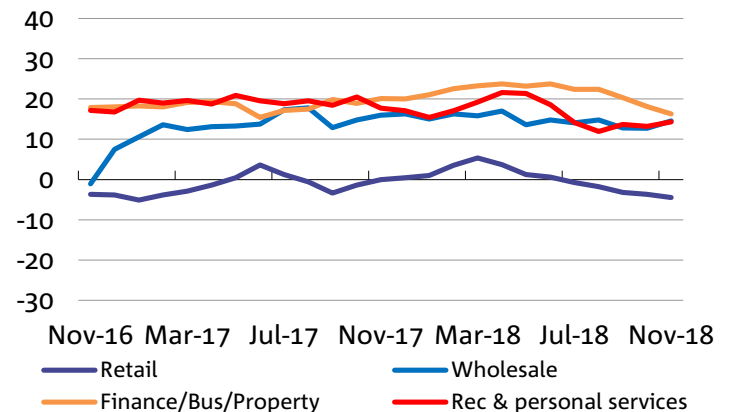


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

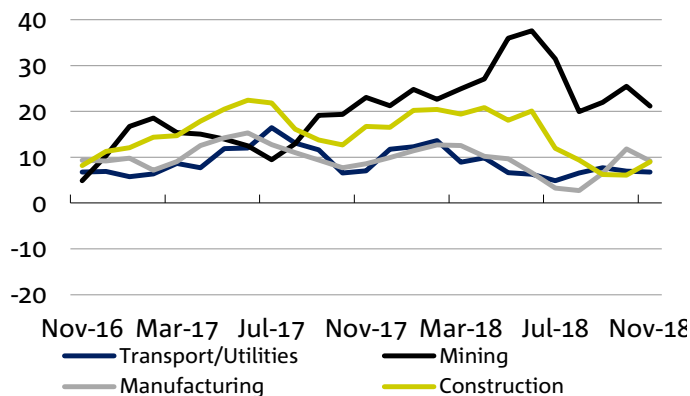
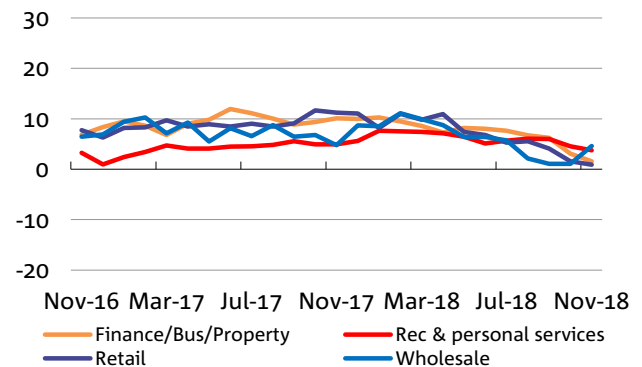


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

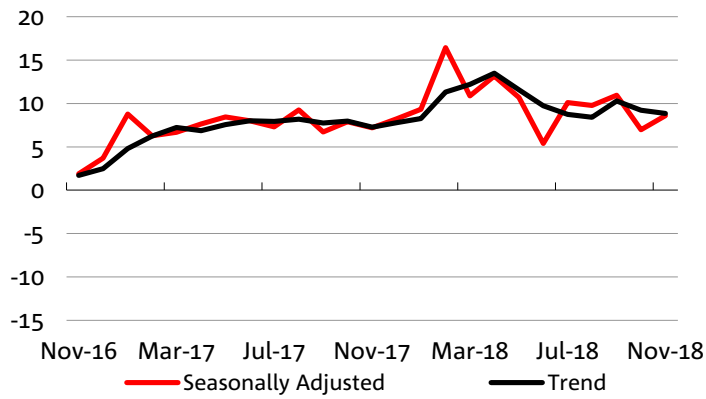


CHART 28: EMPLOYMENT (NAB VS ABS)

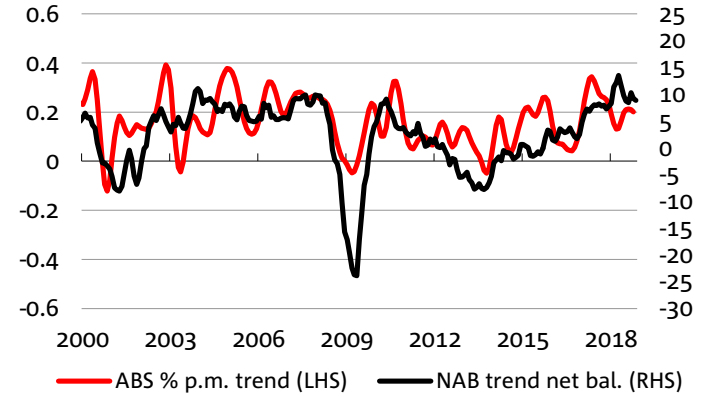


CHART 29: EMPLOYMENT BY INDUSTRY

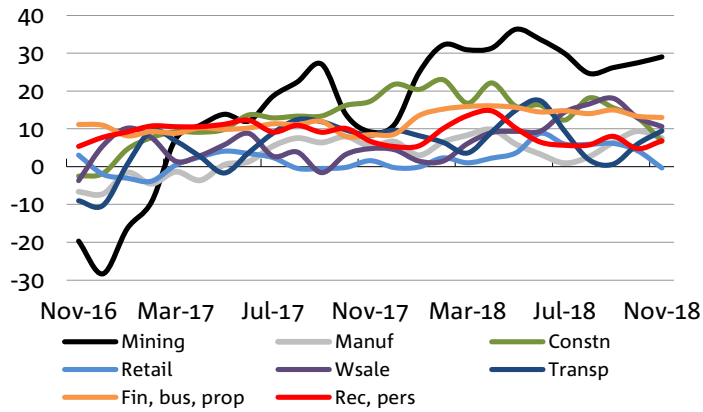


CHART 30: LABOUR COSTS GROWTH

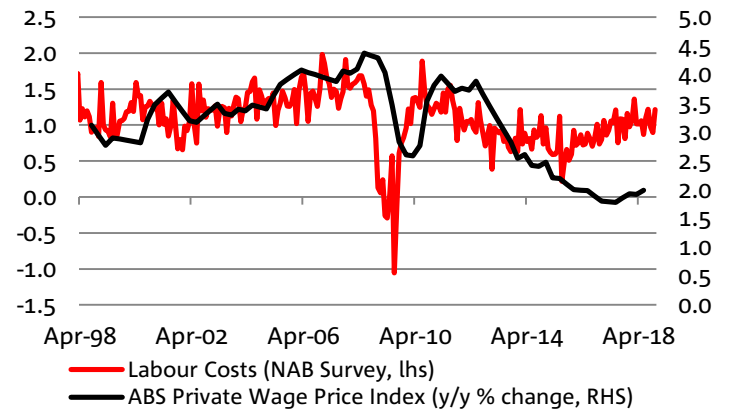


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

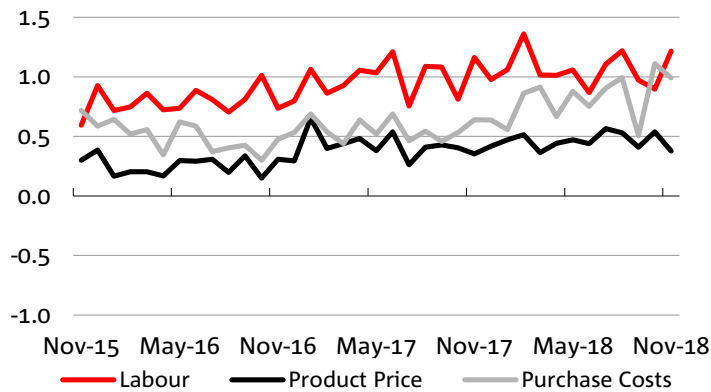
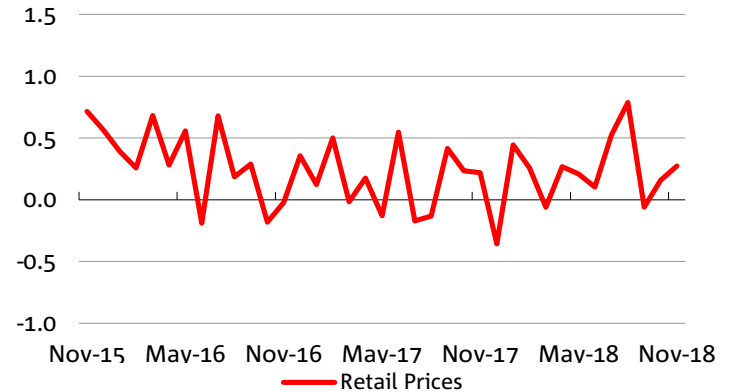


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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)	
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.