NAB MONTHLY BUSINESS SURVEY DECEMBER 2018
CONDITIONS END THE YEAR ON A CONCERNING LOW
NAB Australian Economics

Key Messages from the Survey: Business conditions fell sharply in December, and while caution should be taken when interpreting data around the Christmas/New Year period, this outcome continues the downward trend in conditions over the second half of 2018. At face value, the fall over the past 6 months suggests a significant slowing in the momentum of activity in the business sector – especially from the highs seen earlier in the year. The deterioration in conditions in the month was driven by declines across trading, profitability and employment and was relatively broad-based across states and industries. Conditions remain particularly weak in the retail industry which reports further ongoing deterioration. Capacity utilisation remains above average, though forward orders are below average (and falling) and alongside below average confidence suggests conditions are unlikely to rebound. Monitoring the future conditions and orders track will be critical regarding our outlook for the economy in 2019.
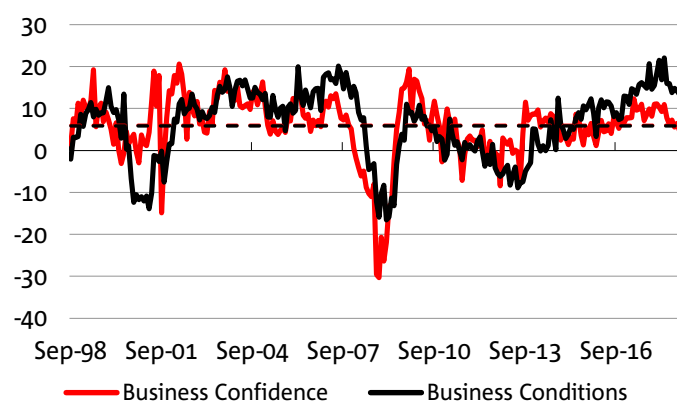
HIGHLIGHTS

- **How confident are businesses?** The business confidence index was unchanged at a below average level of +3 index points in December. Business confidence has now been below its long-run average level of +6 index points since Q4 2018.

- **How did business conditions fare?** Business conditions fell sharply – down 9pts to +2 index points in December. This is the largest monthly fall since the GFC and declines were broad-based across states and industries – nonetheless some caution should be taken when interpreting individual monthly moves.

- **What components contributed to the result?** The result was driven by declines in all sub-indexes with employment falling 5 pts to +4 index points, profitability falling 8pts to 0 index points and trading conditions declining to +7 index points.

- **What is the survey signalling for jobs growth?** At face value, the decline in the employment index suggests a slowing in the pace of employment growth to 18k per month from 22k per month.

- **Which industries are driving conditions?** *Mining* continues to see the most favourable conditions across industries by some margin (+22 in trend terms). *Retail* is weakest, and continues to be the only industry to record negative conditions in trend terms suggesting an ongoing deterioration in activity in the sector. See page two for a breakdown of developments by industry over the past 6 months.

- **Which industries are most confident?** Confidence (in trend terms) remains highest in *mining* – though this has eased in recent months. The remaining industries are currently at or below average with confidence now lowest in *Finance, business & property services*.

- **Where are we seeing the best conditions by state?** Across the mainland states, conditions remain most favourable in the east, with *VIC*, *QLD* and *NSW* recording the strongest conditions. *Tas* is also currently above average but has been volatile in recent months.

- **What is confidence like across the states?** Of the mainland states, confidence remains highest in *SA* (+9) and *WA* (+6), and below average at +2 in *NSW*, *VIC* and *QLD*. *Tas* – though volatile of late – remains highest at +12.

- **Are leading indicators suggesting further improvement?** The forward orders index fell to -1 index points, suggesting new orders deteriorated over the month. Capacity utilisation edged lower to 82.0% but remains relatively high after trending upwards in recent years.

- **What does the Survey suggest about inflation and wages?** Surveyed measures of prices and wages eased in December. Notably, retail prices were flat in the month. Overall, these measures suggest that inflationary pressure remains weak, with final products prices and input prices such as purchase costs and labour costs continuing to track at relatively low levels.

TABLE 1: KEY STATISTICS

	Oct-18	Nov-18	Dec-18
		Net balance	
Business confidence	5	3	**3**
Business conditions	13	11	**2**
Trading	18	15	**7**
Profitability	14	8	**0**
Employment	7	9	**4**
Forward orders	3	0	**-1**
Stocks	1	4	**2**
Exports	3	1	**1**
		% change at quarterly rate	
Labour costs	0.9	1.2	**0.7**
Purchase costs	1.1	1.0	**0.6**
Final products prices	0.6	0.4	**0.3**
Retail prices	0.2	0.3	**0.0**
		Per cent	
Capacity utilisation rate	81.8	82.1	**82.0**

CHART 1: CONDITIONS END THE YEAR ON A LOW

Business Confidence ▬▬ (red) Business Conditions ▬▬ (black)

* Dotted lines are long-run averages since Mar-97.

All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 8-14th January 2019, covering over 400 firms across the non-farm business sector.
Next release date: 12 February 2019.
Contacts: Alan Oster – Chief Economist, Gareth Spence – Senior Economist

NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

UNDERYING TRENDS IN BUSINESS CONDITIONS OVER THE PAST 6 MONTHS

- After peaking at relatively high levels earlier in 2018, the business conditions index has declined by around 20pts and is now below average. This month, we look at which industries and states have contributed to the decline in aggregate business conditions in the second half of 2018.

- First, it is worth noting that the decline in seasonally adjusted terms has been particularly large but given its high starting point, conditions remain positive – albeit at below average levels. In trend terms, conditions remain just above average at +9 index points.

- The deterioration is evident across each component of the business conditions index. Both trading conditions (demand) and profitability indexes are now both below average, while employment conditions are just above their long-run average.

- The decline in business conditions has been broad-based across industries with *mining* the only industry to record an improvement over the past 6 months. *Transport & utilities* have seen particularly sharp falls, though *manufacturing*, *construction*, *retail* and *finance, business & property services* have all declined by around 15pts or more. *Recreational & personal* services has declined by a relatively smaller amount but eased earlier in the year.

- The decline in conditions has also been relatively broad-based across states despite an ongoing story of quite distinct sets of economic conditions in each region. Indeed, the starting point in the business conditions index showed some divergence.

- The *retail* sector has recorded deteriorating conditions for the past 3 months in trend terms. Of the retail sub-sectors, *car retailing* and *personal & household goods* retailing are most negative. However, all four sub-categories including food, other as well as cars and household goods weakened further in December.

- The decline in conditions while particularly sharp in December continues the ongoing downtrend in business conditions since early 2018. Taken at face value, this suggests that business activity may have slowed significantly in the second half of the year, albeit from high levels. With trading conditions, profitability and confidence below average, survey readings in coming months will be particularly important for assessing the underlying trend in economic growth.

- Employment, capex and capacity utilisation remain above average. However, employment has declined recently and capex has been unusually volatile; moreover, as they can be lagging indicators their current above average readings may simply reflect the past strength in business conditions. Indeed, forward orders may suggest a slowing in future demand that could see further weakening in conditions.

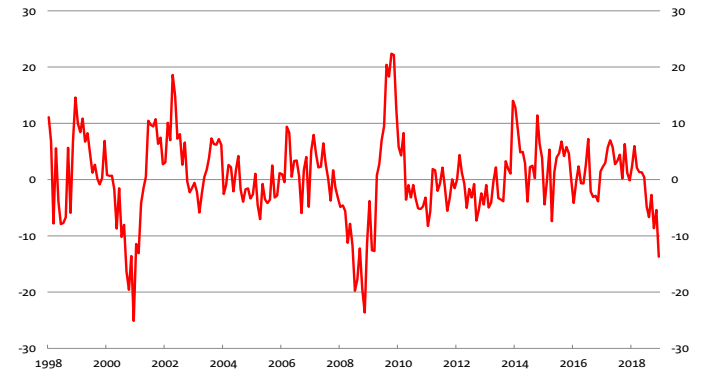## CHART 2: ROLLING 6-MONTH CHANGE IN BUSINESS CONDITIONS (PPT)

CHART 3: BUSINESS CONDITIONS COMPONENTS (NET BAL.)
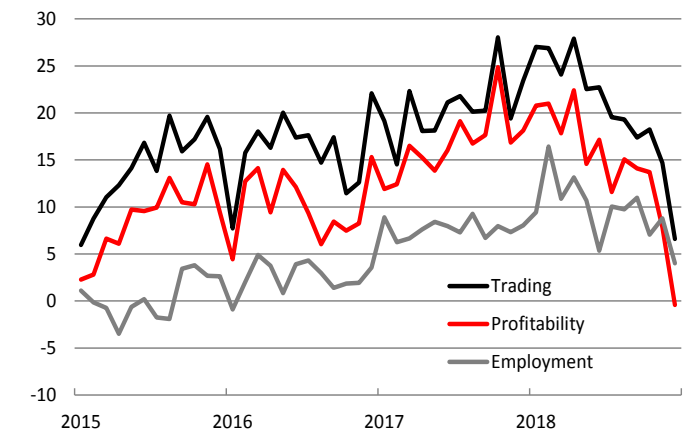
CHART 4: 6-MONTH CHANGE IN BUSINESS CONDITIONS BY INDUSTRY (PPT)
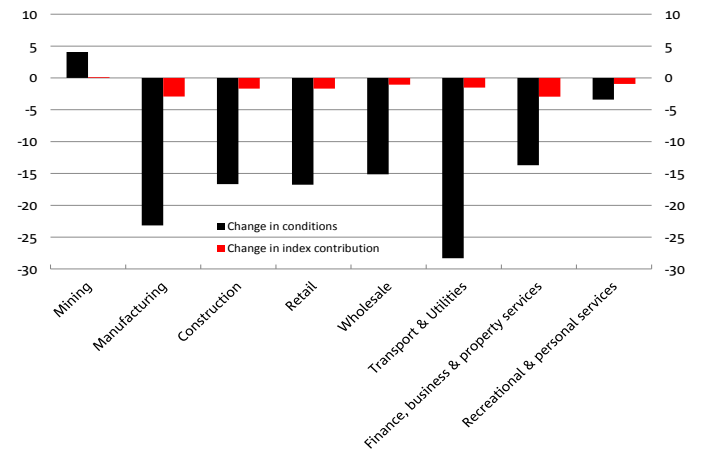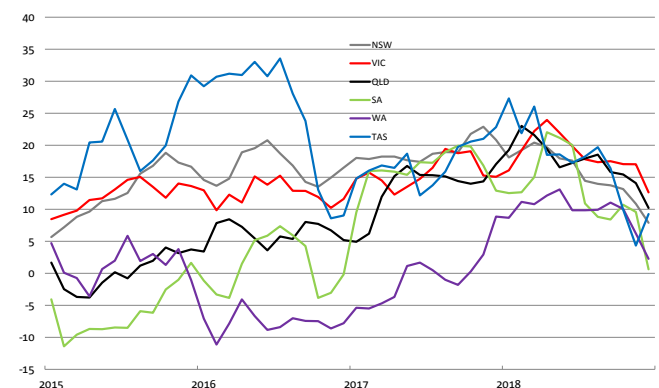
CHART 5: CONDITIONS BY STATE (NET BAL., TREND)

NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

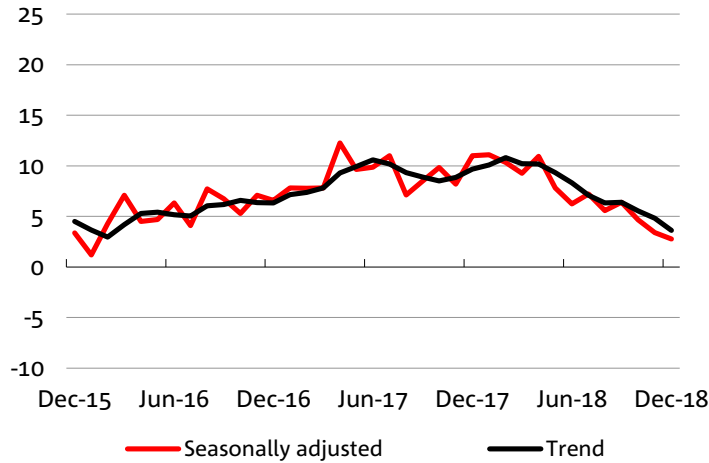## CHART 6: BUSINESS CONFIDENCE (NET BALANCE)

Seasonally adjusted — Trend

CHART 7: BUSINESS CONDITIONS (NET BALANCE)

Seasonally adjusted — Trend
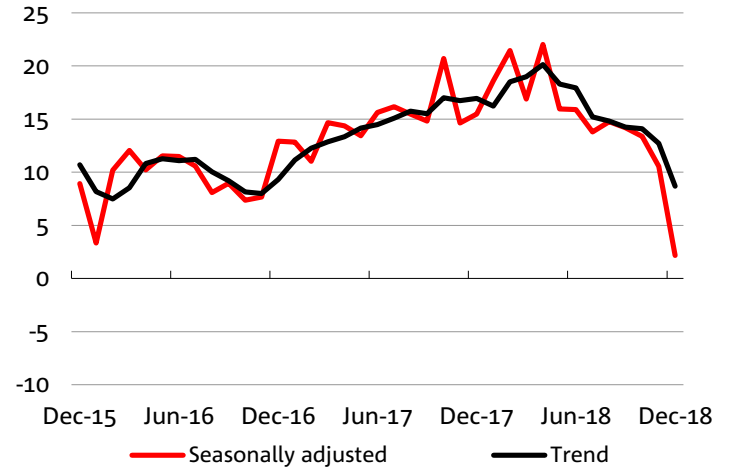
CHART 8: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

Trading — Profitability — Employment
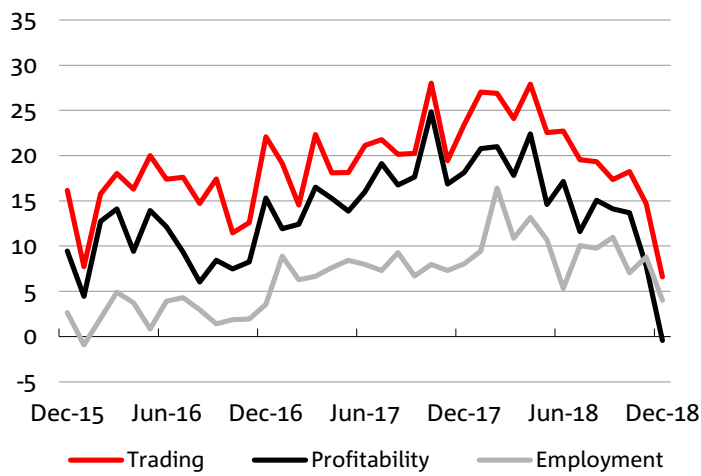
CHART 9: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

Business Confidence — Business Conditions

* Dotted lines are long-run averages since Mar-97.
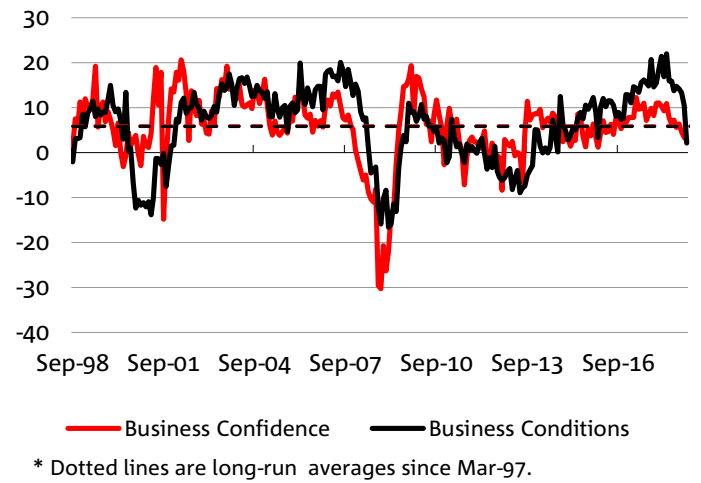
CHART 10: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

Business Conditions — Business Confidence

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

Business Conditions — Business Confidence
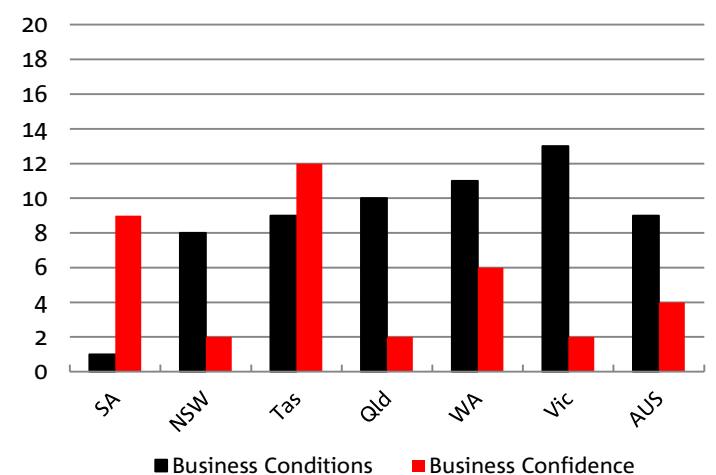
NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 12: FORWARD ORDERS (NET BALANCE)

Seasonally adjusted — Trend
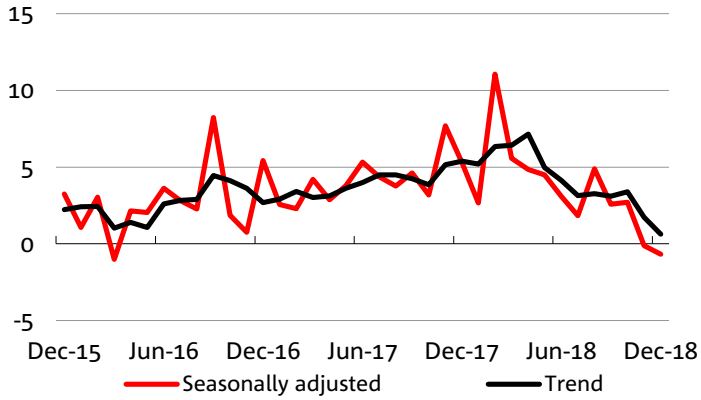
CHART 13: CAPITAL EXPENDITURE (NET BALANCE)

Seasonally adjusted — Trend
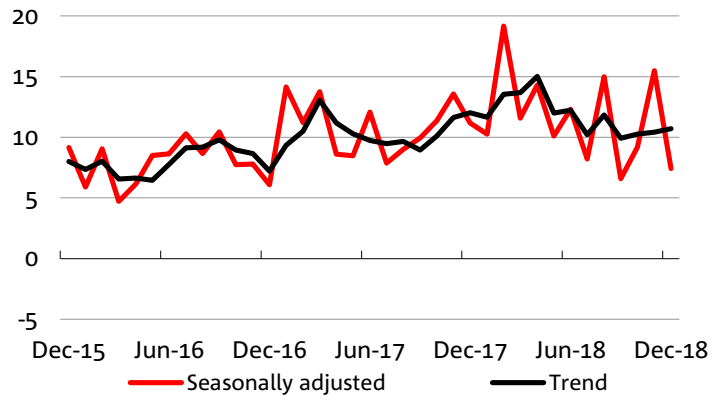
CHART 14: CAPACITY UTILISATION AND UNEMPLOYMENT

Unemp rate (LHS) — Unemp rate, trend (LHS)
Cap use (RHS) — Cap use, trend (RHS)
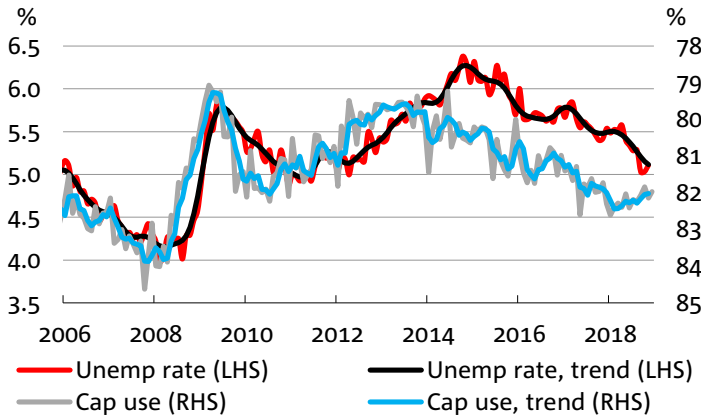
CHART 15: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

Rec & pers | Trans & utili | Manufacturing | Fin/bus/prop | Construction | Retail | Wholesale | Mining | Total

5yr range
Current
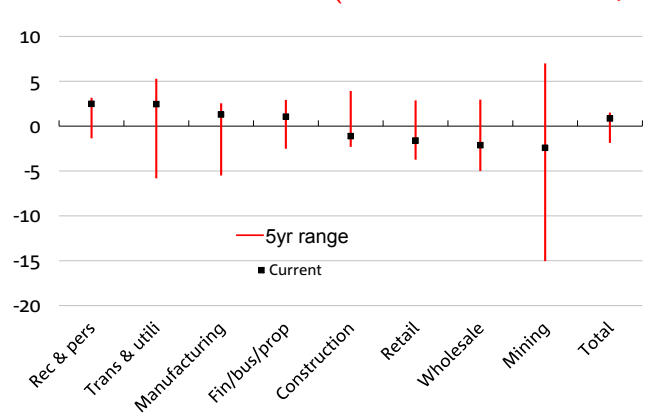
CHART 16: STOCKS (NET BALANCE)

Seasonally adjusted — Trend
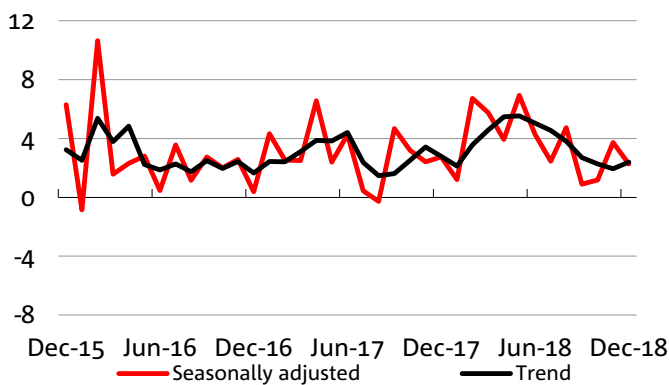
CHART 17: CASH FLOW (NET BALANCE)

Index — Trend
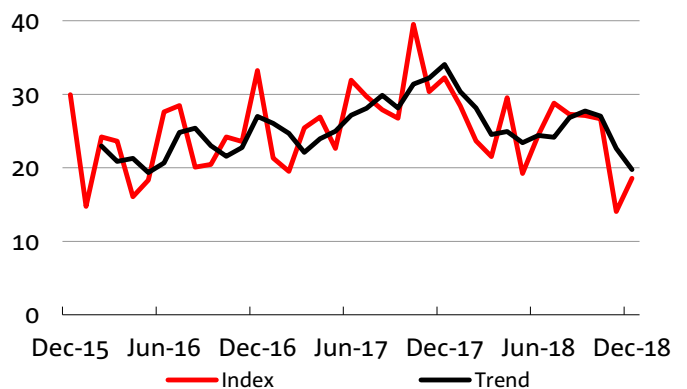
CHART 18: EXPORTS (NET BALANCE)

Seasonally adjusted — Trend

CHART 19: BORROWING CONDITIONS (% OF FIRMS)

Borrowing conditions (% of firms)

III | IV | I | II | III | IV
2017 | | 2018

More difficult | Unchanged | Easier | No borrowing required
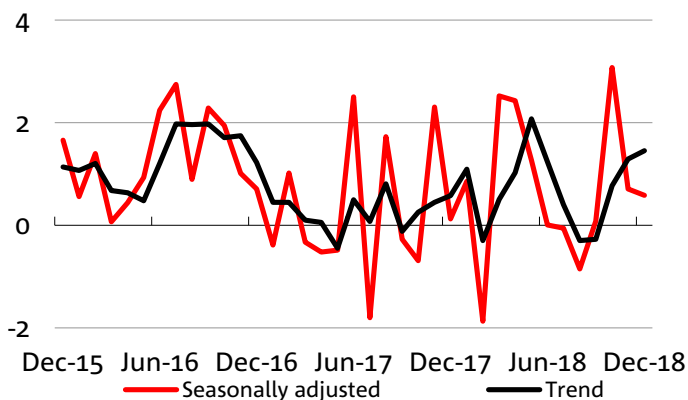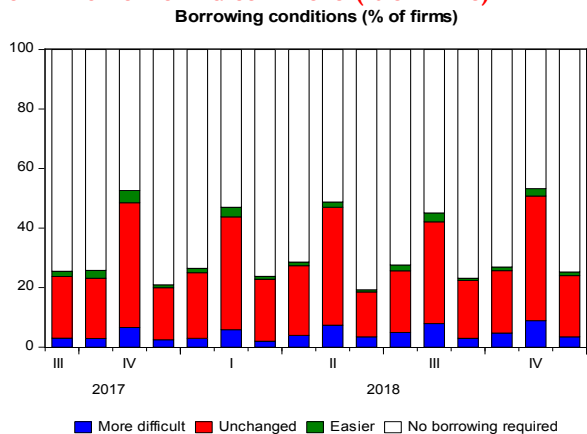
NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

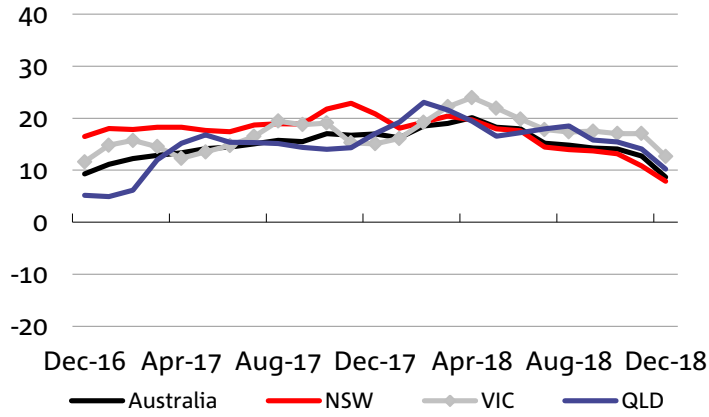## CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

Legend: Australia, NSW, VIC, QLD

CHART 21: BUSINESS CONDITIONS (NET BALANCE) BY STATE

Legend: Australia, WA, SA, TAS
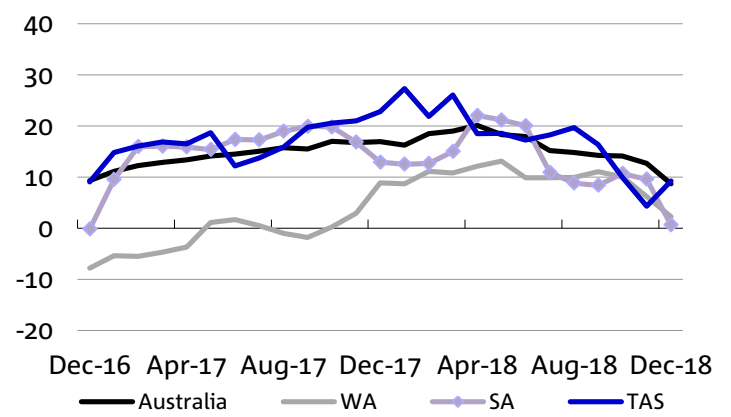
CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

Legend: Australia, NSW, VIC, QLD
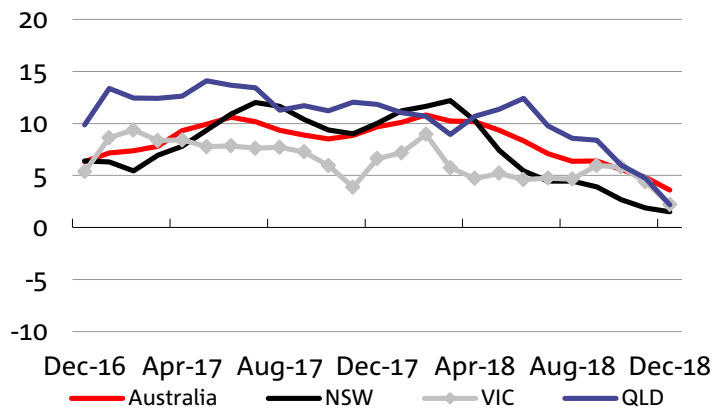
CHART 23: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

Legend: Australia, WA, SA, TAS
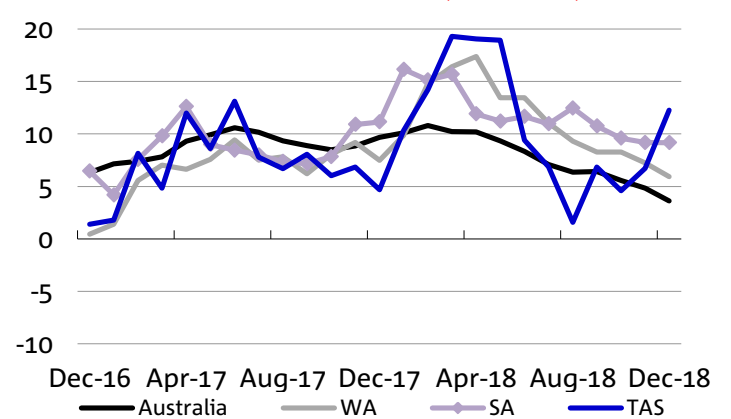
CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

Legend: Mining, Manufacturing, Construction, Transport/Utilities
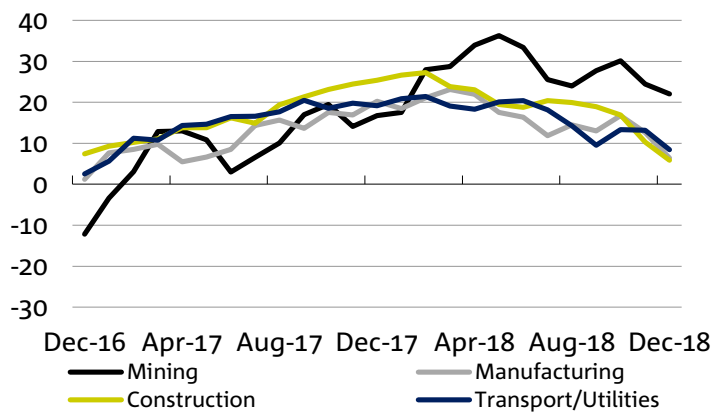
CHART 25: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

Legend: Retail, Wholesale, Finance/Bus/Property, Rec & personal services
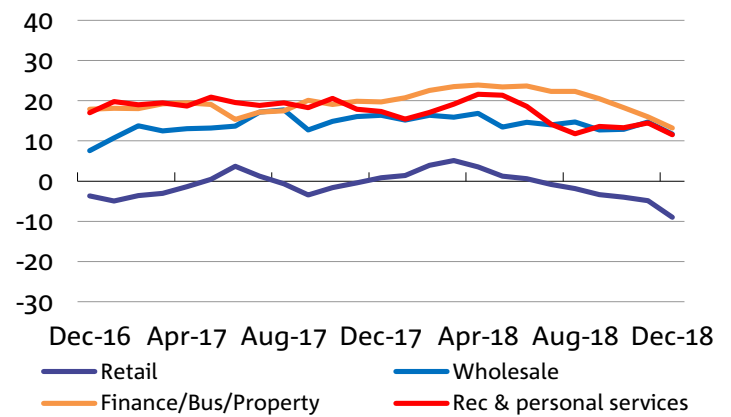
CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

Legend: Transport/Utilities, Mining, Manufacturing, Construction
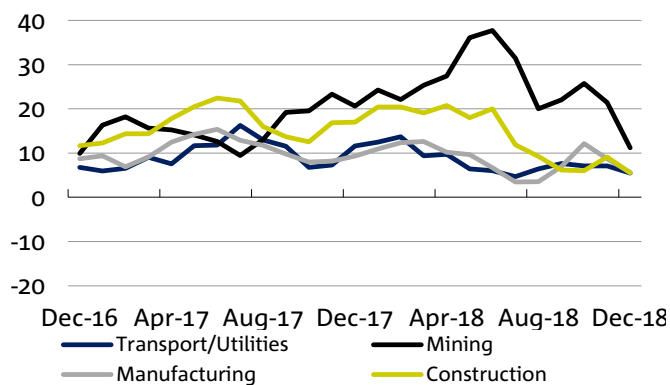
CHART 27: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

Legend: Finance/Bus/Property, Rec & personal services, Retail, Wholesale
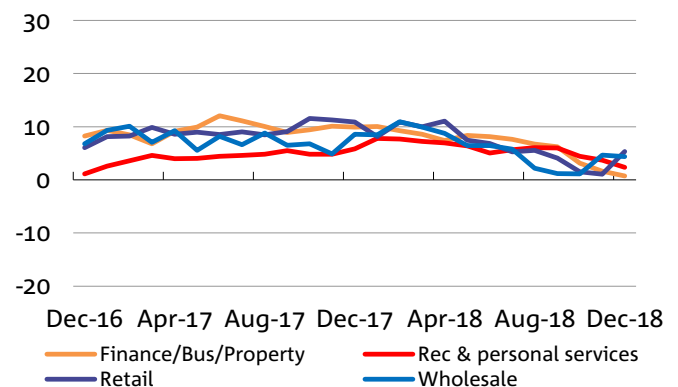
NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 28: EMPLOYMENT

Seasonally Adjusted — Trend
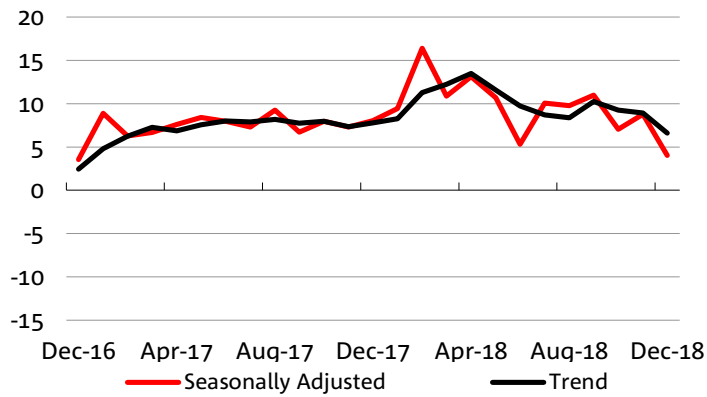
CHART 29: EMPLOYMENT (NAB VS ABS)

ABS % p.m. trend (LHS) — NAB trend net bal. (RHS)
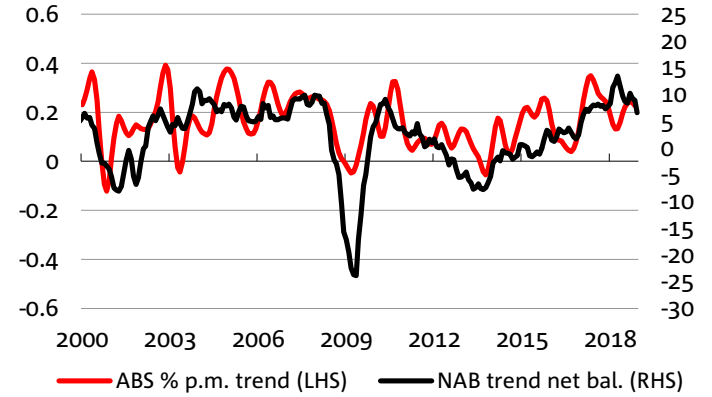
CHART 30: EMPLOYMENT BY INDUSTRY

Mining — Manuf — Constn
Retail — Wsale — Transp
Fin, bus, prop — Rec, pers
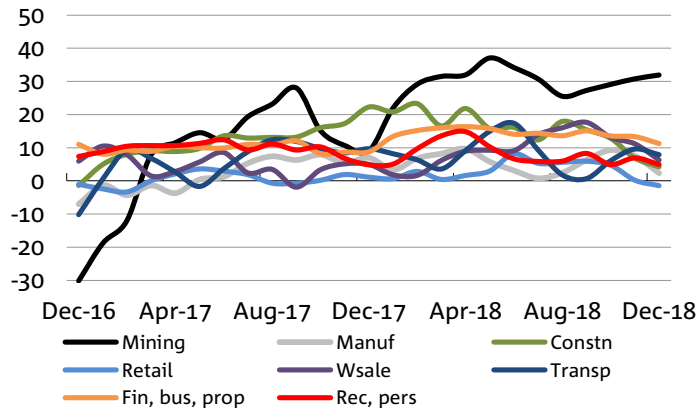
CHART 31: LABOUR COSTS GROWTH

Labour Costs (NAB Survey, lhs)
ABS Private Wage Price Index (y/y % change, RHS)
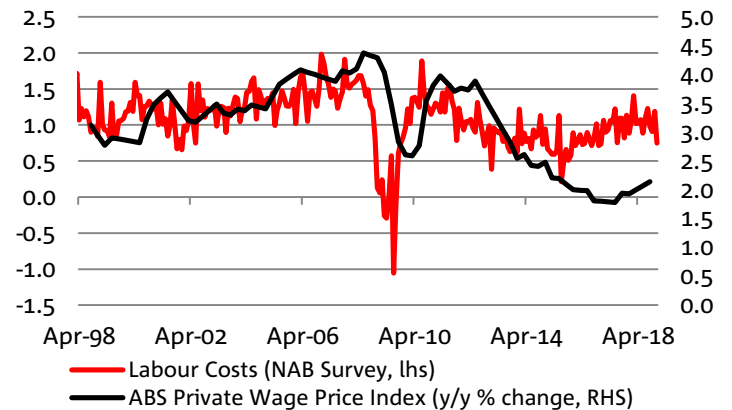
CHART 32: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

Labour — Product Price — Purchase Costs

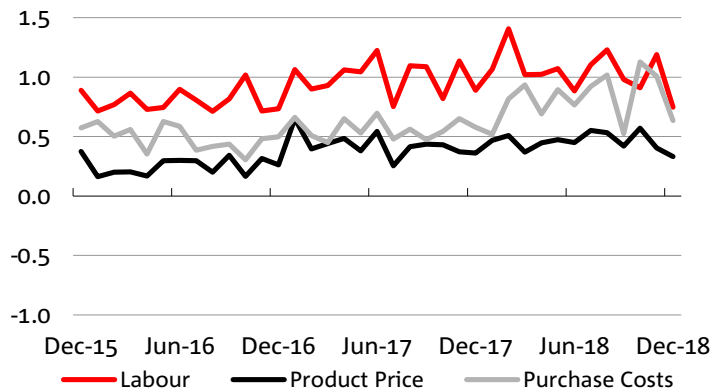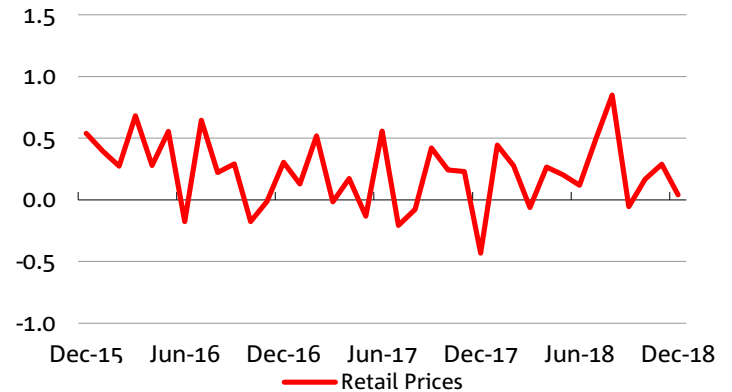## CHART 33: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)

Retail Prices

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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

Business Conditions (current, next 3 mth, next 12 mth)

Trading conditions (current, next 3 mth, next 12 mth)

Profitability (current, next 3 mth, next 12 mth)

Employment (current, next 3 mth, next 12 mth)

Forward orders (current, next 3 mth)

Stocks (current, next 3 mth)

Export orders (current, next 3 mth)

Capital expenditure (current, next 3 mth, next 12 mth, fiscal year)

Required rate of return on investment

Cash flow

Labour costs (current, next 3 mth)

Purchase costs (current, next 3 mth)

Final prices (current, next 3 mth)

Capacity Utilisation

Borrowing index (current, next 3 mth)

Borrowing demand (current, next 3 mth)

Constraints on output (demand, labour, materials, premises & plant, finance/working capital)

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)

Margins (current, next 3 mth)

Overheads (current, next 3 mth)

Productivity growth

Number of employees

Hours worked

Gross Sales

Output/sales growth (current fiscal year)

Average earnings (current fiscal year)

Short term interest rate

Exporters hedged FX exposure (%)

Importers hedged FX exposure (%)

Months hedged (exporters)

Months hedged (importers)

Favourable hedge position (% of exporters)

Favourable hedge position (% of importers)

Affected vs not affected by AUD

Response to AUD (downsized, reduced, overheads, hedging, import substitution, focus on domestic market, other, don't' know)

Driver of trading conditions (demand, wages/jobs, house prices, rates, exchange rate, tax/govt policy, seasonal, finance/working capital, company specific, other)

What will improve confidence (lower rates, more suitable labour, easier funding, government policy, higher demand, higher AUD, lower AUD, easier compliance, other)

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.