

EMBARGOED UNTIL: 11:30AM AEDT, 7 FEBRUARY 2019

# NAB QUARTERLY BUSINESS SURVEY 2018 Q4

## CONDITIONS CONTINUE TO EASE WITH LOW CONFIDENCE

*NAB Australian Economics*



Conditions in the business sector continued to ease in Q4 from their peak in Q1, although they remain just above average, consistent with an ongoing healthy level of activity in the business sector. Nonetheless, this does signal some loss in momentum through the latter part of 2018 and indeed the December monthly survey, despite showing signs of volatility, suggests conditions weakened further late in the quarter. The decline in conditions has occurred across most industries, and is evident across all states. Forward looking indicators have deteriorated somewhat - confidence is below average, while expectations for conditions 3 and 12 months ahead and future capex eased and forward orders were flat. Price pressures remain weak, despite capacity utilisation remaining relatively high. With reported difficulty in finding suitable labour continuing to edge higher, the survey does point to some further tightening in the labour market and, with ongoing employment growth, a continued gradual rise in wage growth.

### HIGHLIGHTS

- The quarterly NAB Business Survey provides a more in-depth probe into the conditions facing Australian business than the monthly survey, and also examines additional information about how firms perceive the outlook for their industries.
- **Business conditions** (an average of trading conditions/sales, profitability and employment) decreased by 5pts to +8, continuing the easing trend seen through 2018. The decline was driven by a fall across each of the components. Conditions declined across all states in Q4, and are lowest in WA. Conditions in Vic remain highest. Conditions deteriorated in most industries except *wholesale* and *transport & utilities*. *Retail* was also unchanged but is the only industry to currently report negative conditions.
- **Business confidence** fell to +1 (from +3), also having trended down through 2018. Confidence fell in all mainland states except WA and also rose in Tas. Confidence is now negative in NSW and Vic and only just positive in QLD. There appears to be some divergence across the country, with the other states still above average. Across industries the decline was broad-based, with the exceptions being construction and wholesale which rose, and transport which was unchanged. Despite the ongoing slowdown in the residential property sector, construction is now the most confident industry.
- **Leading indicators** were generally a little weaker in Q4. Capacity utilisation edged lower but remains high after drifting higher in recent years. The forward orders index declined to 0 in Q4 – around its average – suggesting that overall businesses have seen little growth in the pipeline of orders. Expectations for business conditions for the next 3 and 12 months also declined but remain relatively elevated. Capex plans pulled back but also remain high.
- **Labour indicators** suggest ongoing strength in the labour market but that the pace of employment growth is slowing. The employment index fell in the quarter, as did expectations for the next 3 and 12 months. Labour costs growth (a wage bill measure) ticked down in the quarter and overall continues to track at a relatively modest pace. The reported difficulty in finding suitable labour edged higher in the quarter however, suggesting higher wage growth may be on the horizon.
- Overall, survey **inflation indicators eased slightly in the quarter** and continue to suggest weak inflationary pressures across the economy. Growth in product prices edged lower, with retail prices unchanged in the quarter. Input (purchase cost) price growth also continues to track at a muted rate.
- Looking at **construction industry subsectors** in more detail, conditions in both residential and non-residential construction declined in the quarter. Construction and engineering services also declined further in the quarter, and with both indexes negative, conditions continue to deteriorate in these sectors.

TABLE 1: KEY QUARTERLY BUSINESS STATISTICS

	2018q2	2018q3	2018q4		2018q2	2018q3	2018q4
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	7	3	1	Trading	23	16	13
Business conditions				Profitability	15	11	5
Current	16	13	8	Employment	9	10	8
Next 3 months	25	21	16	Next 3 months	17	13	11
Next 12 months	31	27	24	Next 12 months		23	20
Capex plans (next 12)	29	28	25	Forward orders	6	4	0
	<i>% change</i>			Stocks	8	6	4
Labour costs	0.6	0.7	0.6	Exports	2	0	0
Purchase costs	0.5	0.5	0.5				
Final products prices	0.3	0.3	0.2	Retail prices (% change)	0.1	0.2	0.0

Capacity utilisation rate 82.8 82.9 82.7

All data seasonally adjusted, except purchase costs and exports. Fieldwork for this survey was conducted from 23 November to 14 December 2018, covering over 930 firms across the non-farm business sector.

Next release date is 18 April 2019.

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# QUARTERLY FOCUS: LABOUR MARKET AND CONSTRUCTION

## Labour market update

- The share of firms reporting increased difficulty in finding suitable labour increased slightly in the December quarter and is around its highest level since the lead up to the GFC – where wage growth was much higher.
- This suggests that with the decline in the unemployment rate over the second half of 2018, it is likely that wage pressure will begin to build. This is likely to occur slowly, as despite ongoing solid growth in employment, the tightening in the labour market has been gradual.
- Given the ongoing focus on the tepid pace of wage growth, we have continued to ask the special question about firm’s expectations for wage growth over the next 6 months. Overall, the results show a broadly similar pattern to previous quarters, though they do show a shift towards building wage pressure - albeit still gradually.
- The share of firms expecting wage pressure increase ‘somewhat’ has risen to over 40%, compared with around 25% six months ago. The share of firms expecting a ‘moderate’ increase also having increased over the past 6 months.
- Over the past 6 months, the expectations of wage pressures have increased across all industries except retail and transport. The industries reporting the greatest expectations for building wage pressures are mining and construction, which has increased notably over the past three surveys.
- Based on historical relationships, the business survey continues to suggest employment growth of around 18-20k per month. While this is a little slower than the rates implied by the survey earlier in the year (and actual employment growth), this implies that the labour market should hold onto the gains made through 2018. It also suggests any further gains are likely to be even more gradual. As a result we expect wage growth to continue to pick up, but it will remain a gradual process.
- We will continue to watch both forward indicators of employment growth and measures of labour market slack (and their transmission to wages growth) from both the business survey and other sources. While labour market conditions remain solid, the fact it likely lags activity in the economy more broadly points to some risk of a slight slowing in the pace of gains. Indeed, labour market outcomes remain a significant factor for the path of monetary policy and monitoring leading indicators is likely to provide an early read on any shift in the outlook.

CHART 1: UNEMPLOYMENT AND DIFFICULTY FINDING LABOUR (NET BAL)

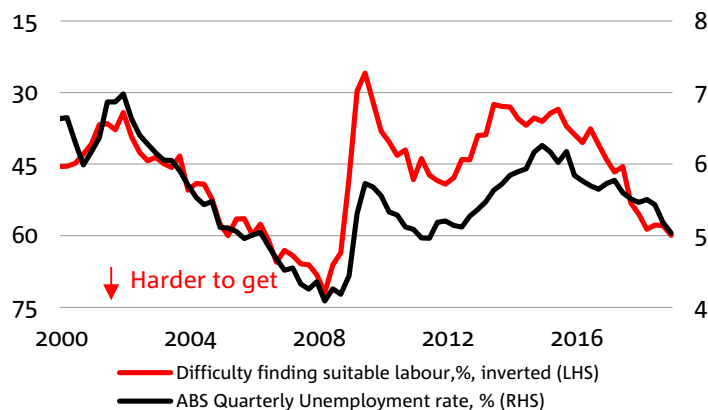


CHART 2: DISTRIBUTION OF EXPECTED WAGE PRESSURES (% OF FIRMS)

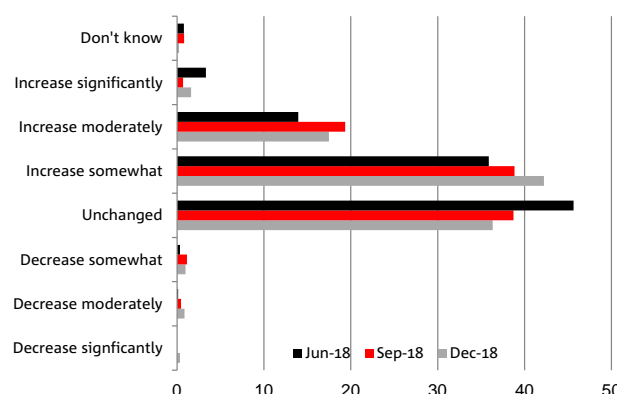
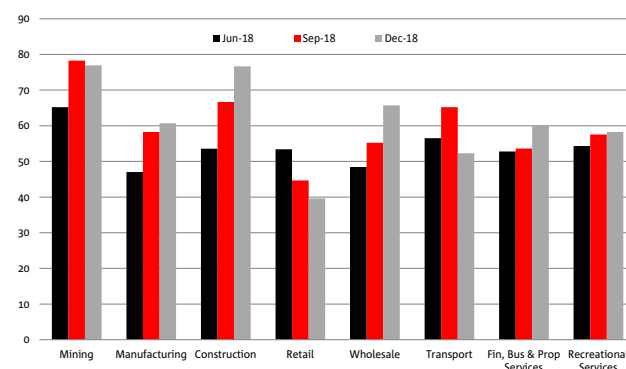


CHART 3: WAGE PRESSURES BY INDUSTRY (NET BAL)



# NAB QUARTERLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 4: BUSINESS CONDITIONS & CONFIDENCE (NET BALANCE S.A.)

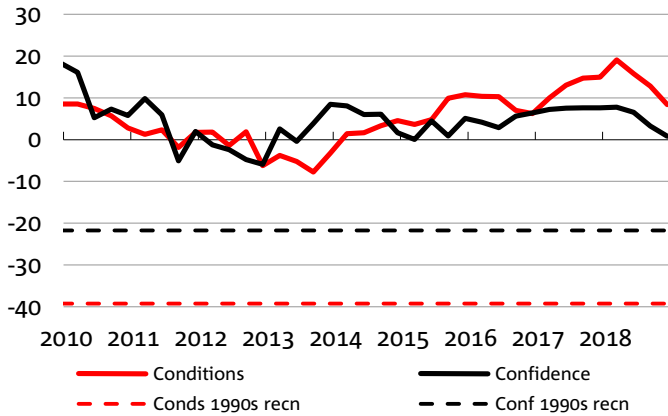
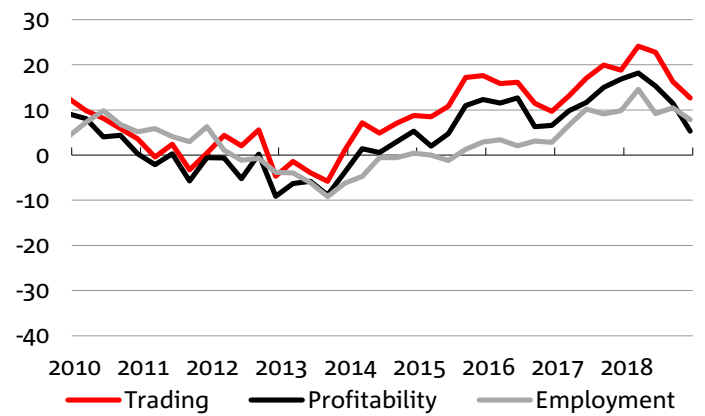


CHART 5: BUSINESS CONDITIONS COMPONENTS (NET BALANCE, S.A.)



## DRIVERS OF BUSINESS CONFIDENCE

CHART 6: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE

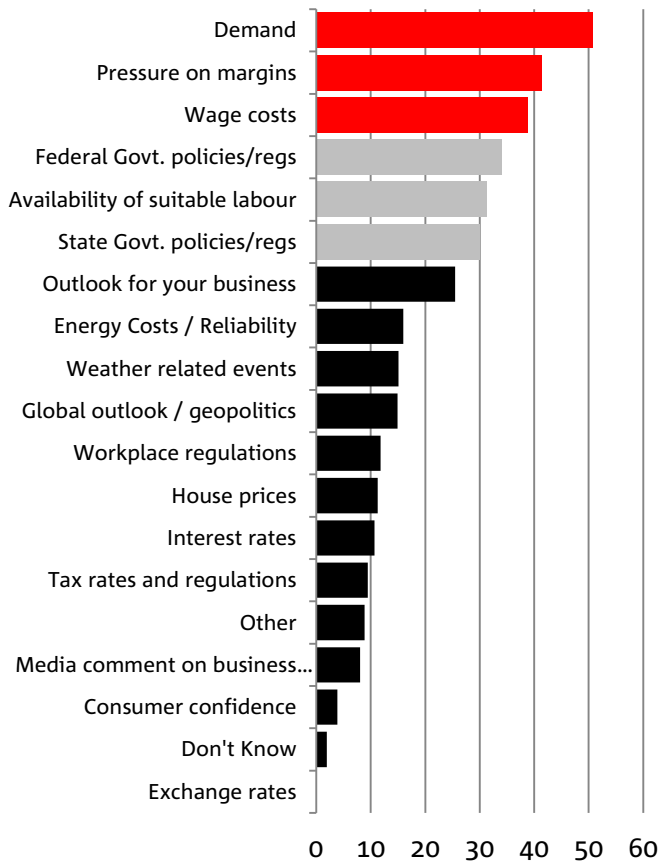


CHART 7: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – DETERIORATING CONDITIONS

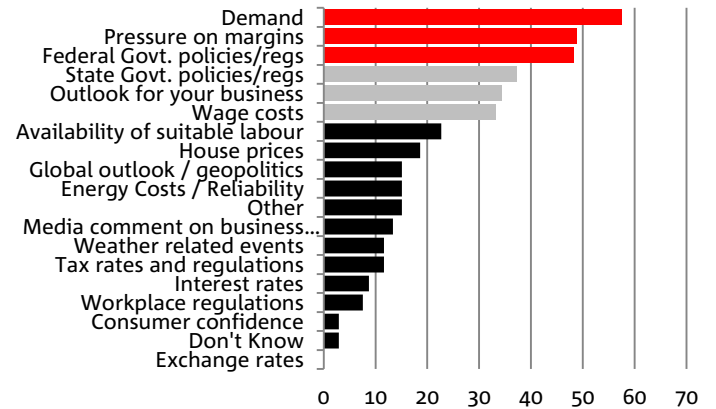
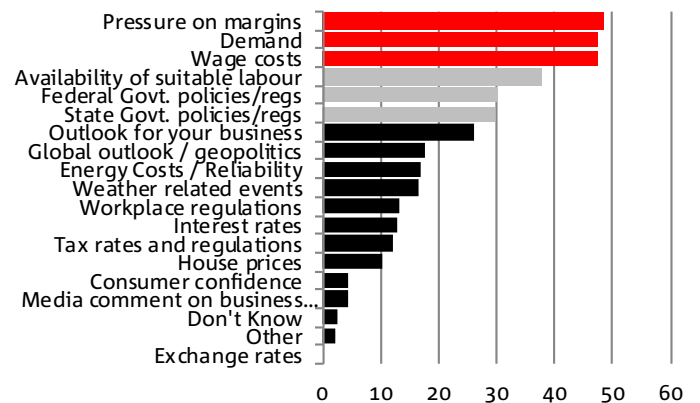
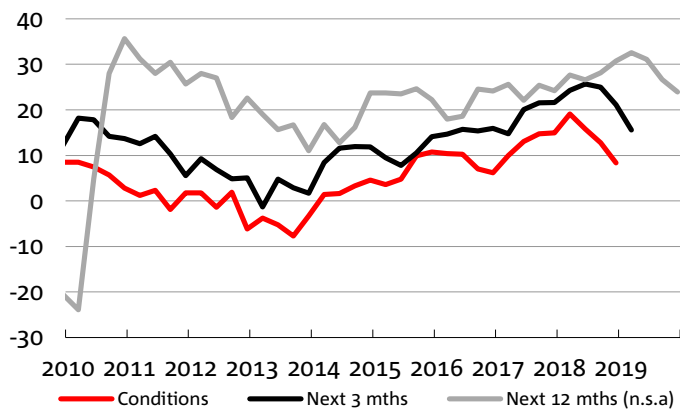


CHART 8: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – IMPROVING CONDITIONS

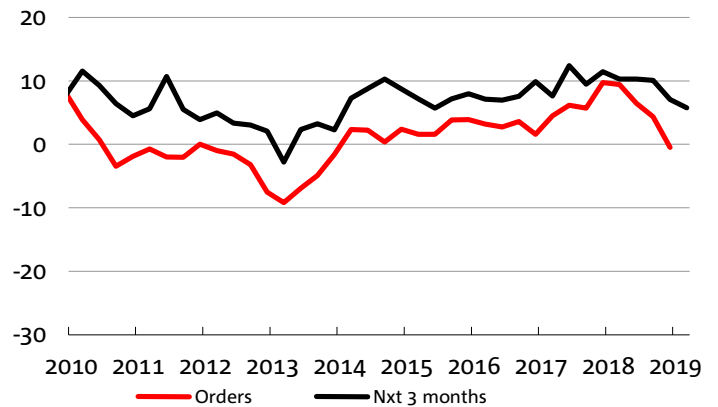


# NAB QUARTERLY BUSINESS SURVEY – LEADING INDICATORS & INVESTMENT

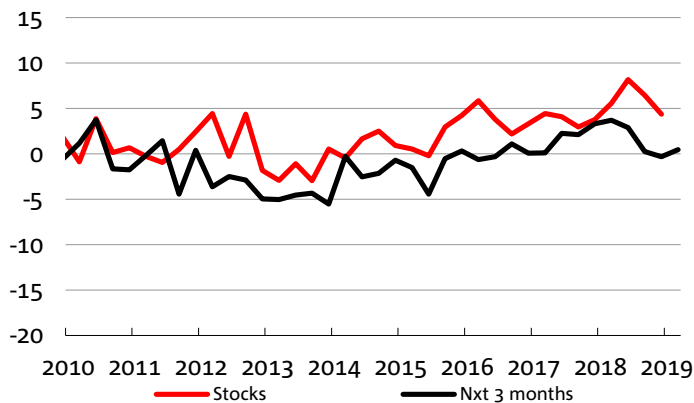
**CHART 9: BUSINESS CONDITIONS AND EXPECTATIONS (NET BALANCE)**



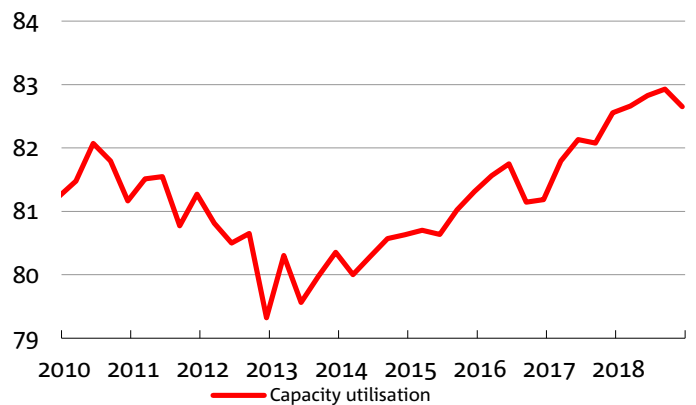
**CHART 10: FORWARD ORDERS & EXPECTATIONS (NET BALANCE S.A.)**



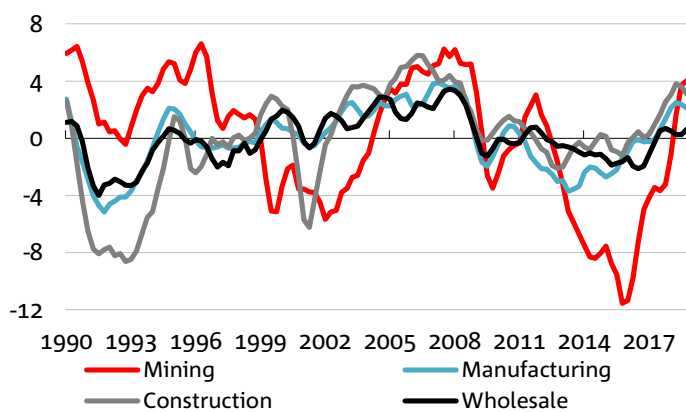
**CHART 11: STOCKS (NET BALANCE S.A.)**



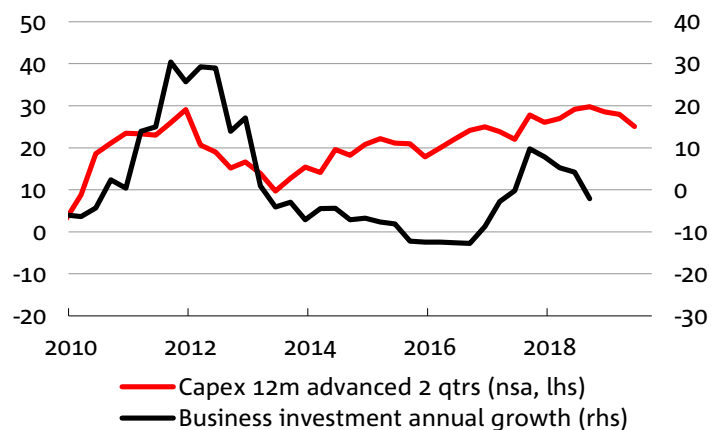
**CHART 12: CAPACITY UTILISATION (PER CENT, S.A.)**



**CHART 13: CAPACITY UTILISATION (PPT DEVIATION FROM LONG-RUN AVERAGE, 3 QTR MA)**

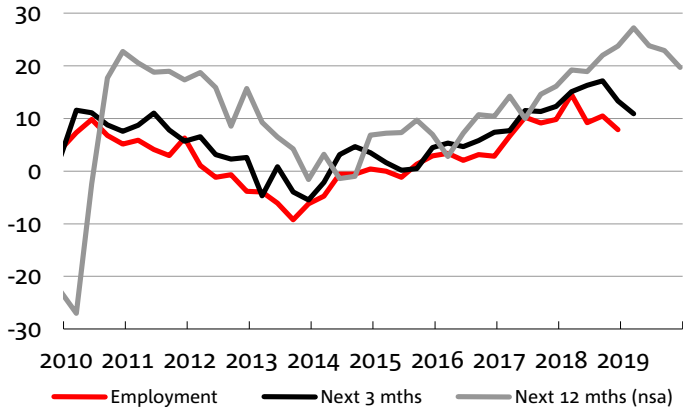


**CHART 14: BUSINESS INVESTMENT & CAPEX PLANS**

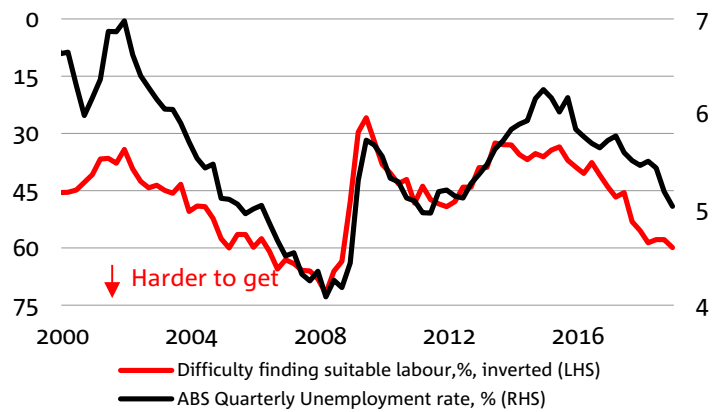


# NAB QUARTERLY BUSINESS SURVEY – LABOUR MARKET

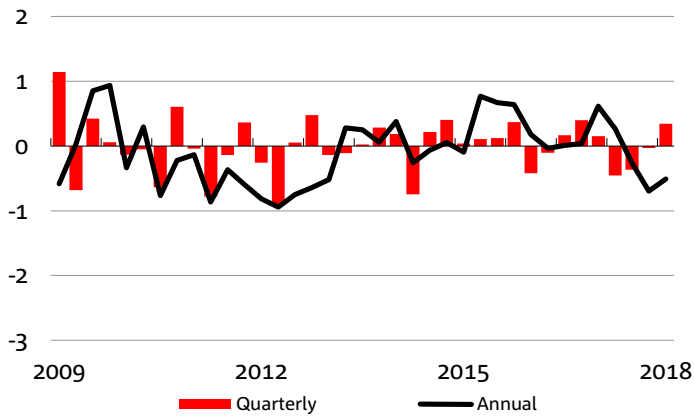
**CHART 15: EMPLOYMENT & EXPECTATIONS (NET BALANCE)**



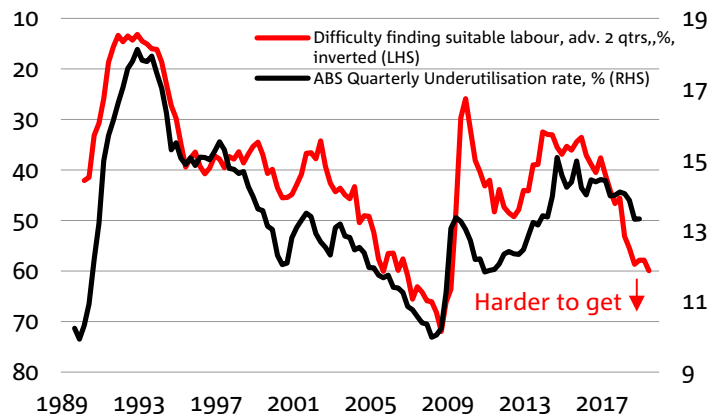
**CHART 16: UNEMPLOYMENT RATE & LABOUR CONSTRAINTS**



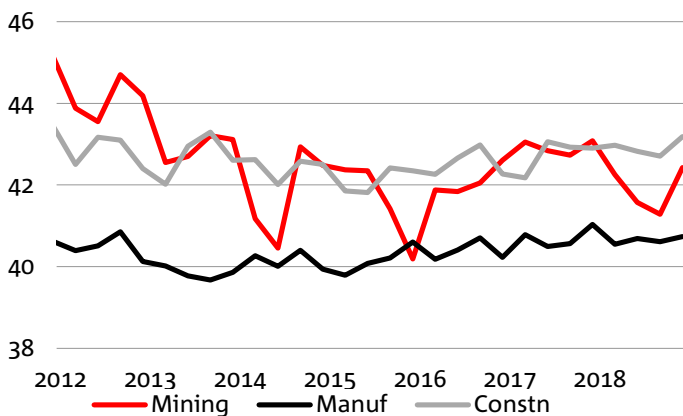
**CHART 17: CHANGE IN AVERAGE HOURS WORKED (NSA)**



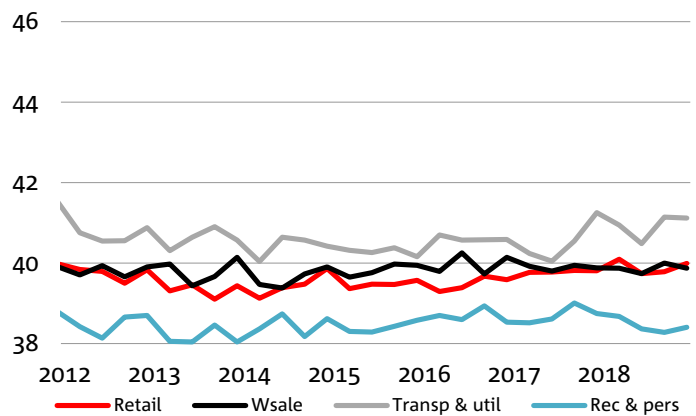
**CHART 18: UNDERUTILISATION RATE & LABOUR CONSTRAINTS**



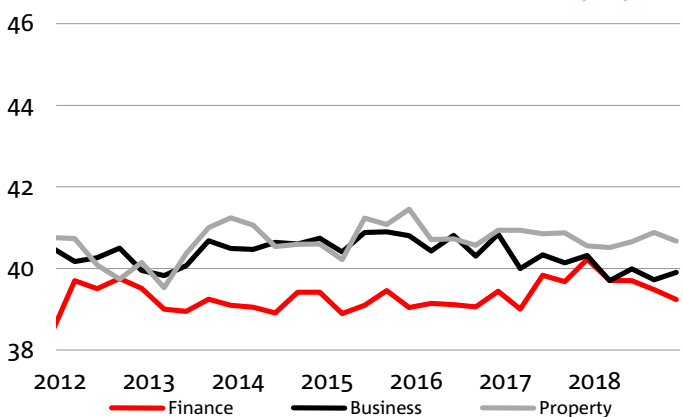
**CHART 19: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



**CHART 20: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



**CHART 21: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



# NAB QUARTERLY BUSINESS SURVEY - MAJOR CONSTRAINTS ON FIRM OUTPUT

CHART 22: MAIN CONSTRAINTS ON FIRM OUTPUT

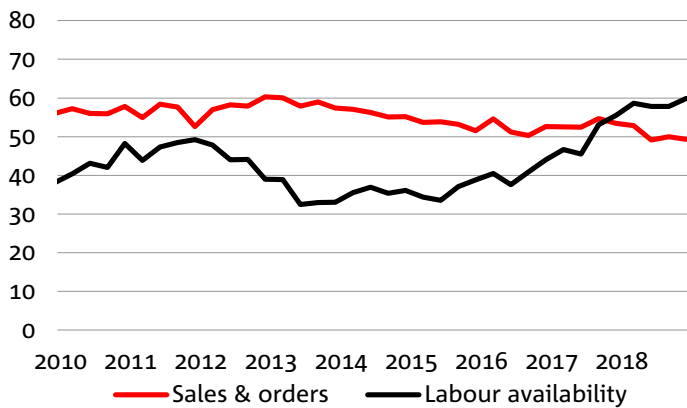
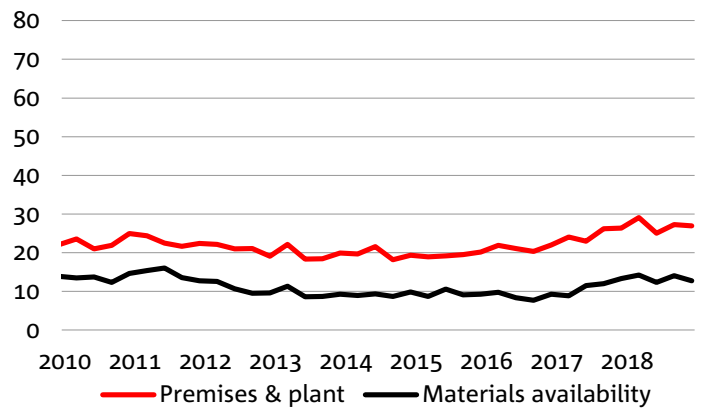


CHART 23: MAIN CONSTRAINTS ON FIRM OUTPUT



## INFLATION PRESSURES

CHART 24: PRICES (% ANN, SA)

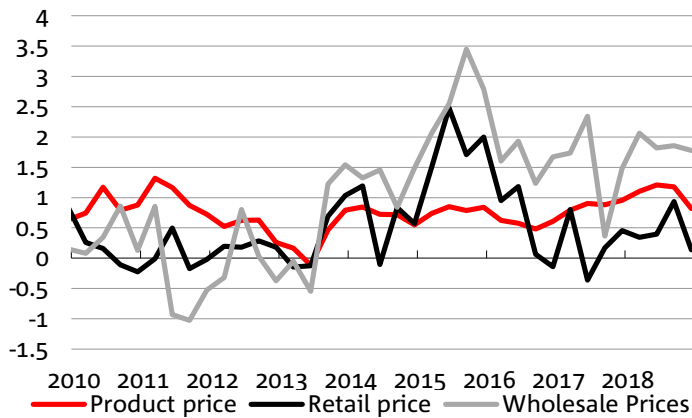
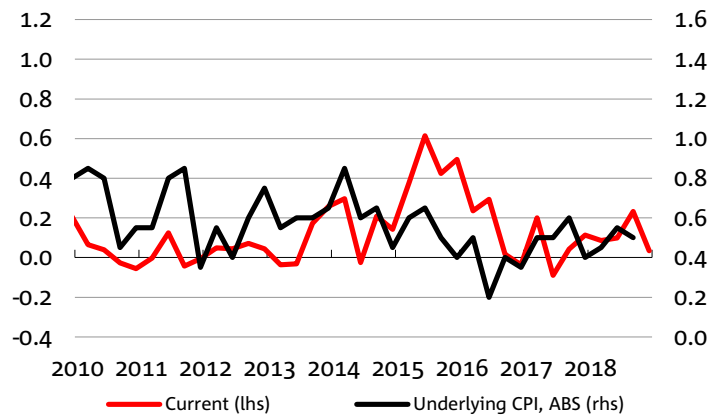


CHART 25: RETAIL PRICES (% P.Q.)



## LABOUR COSTS (DETAILS)

CHART 26: LABOUR COSTS & COMPENSATION OF EMPLOYEES

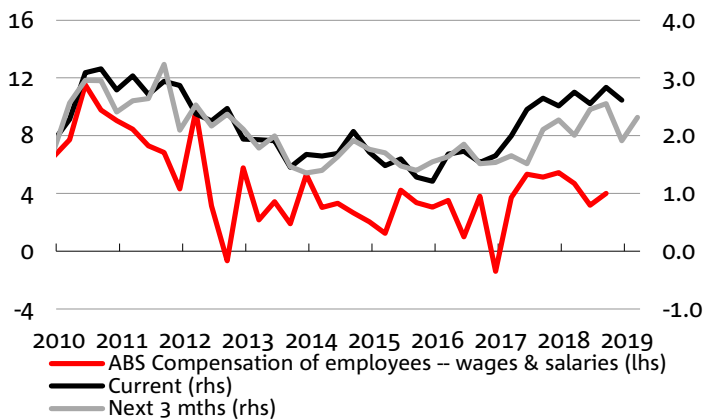
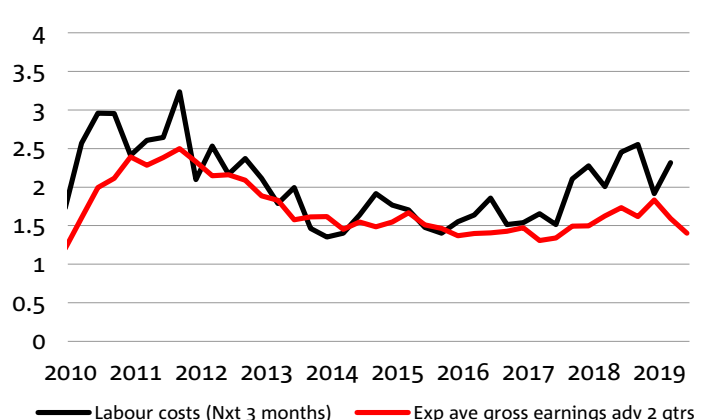
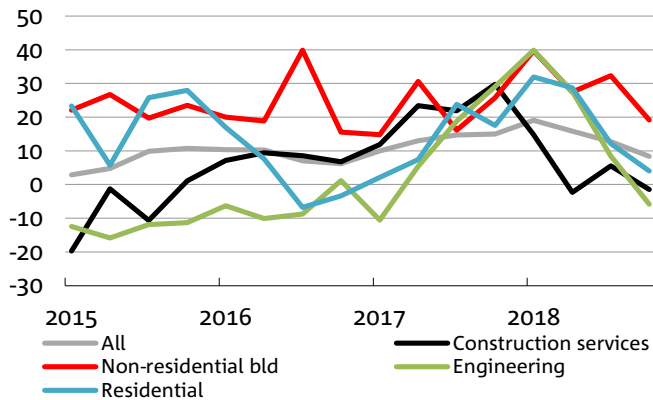


CHART 27: EXPECTED LABOUR COSTS (% ANN)

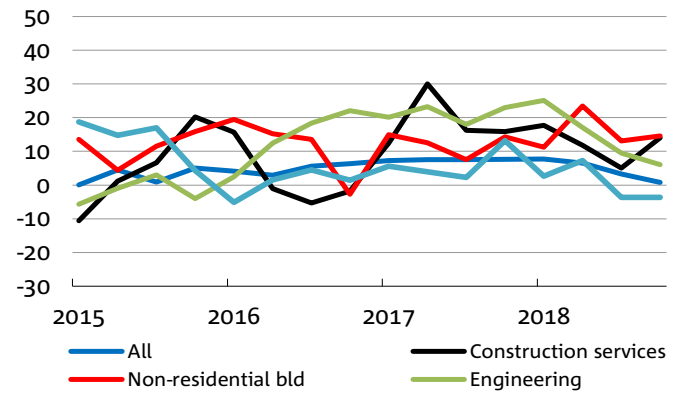


# NAB QUARTERLY BUSINESS SURVEY – CONSTRUCTION INDUSTRY DETAILS

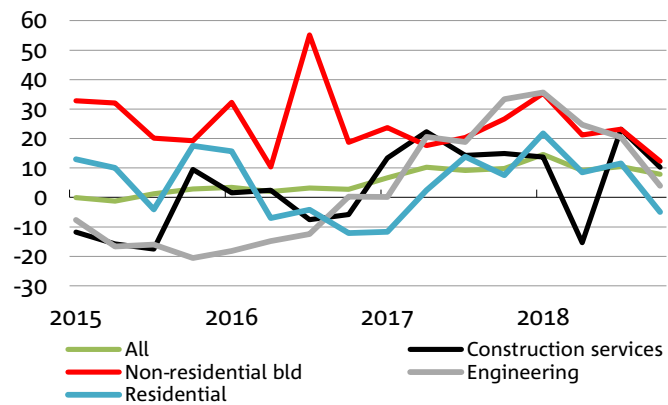
**CHART 28: BUSINESS CONDITIONS BY INDUSTRY**



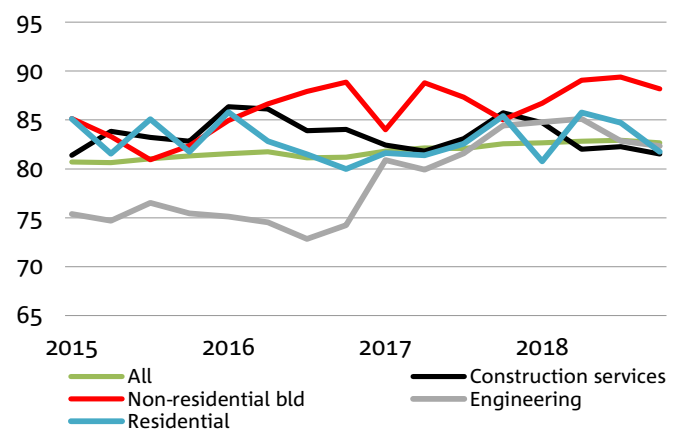
**CHART 29: BUSINESS CONFIDENCE BY INDUSTRY**



**CHART 30: EMPLOYMENT CONDITIONS BY INDUSTRY**



**CHART 31: CAPACITY UTILISATION BY INDUSTRY**

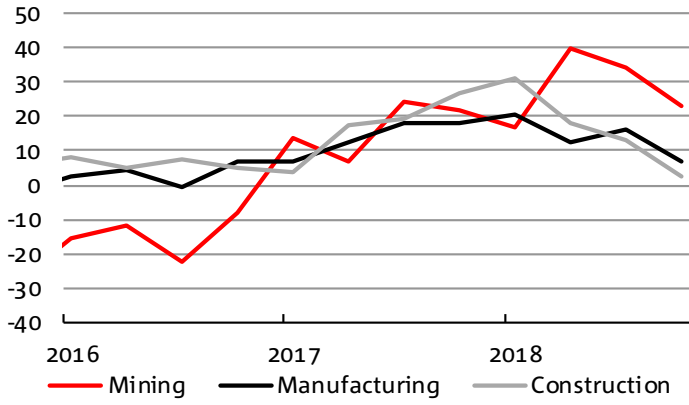


## FINANCIAL MARKET EXPECTATIONS

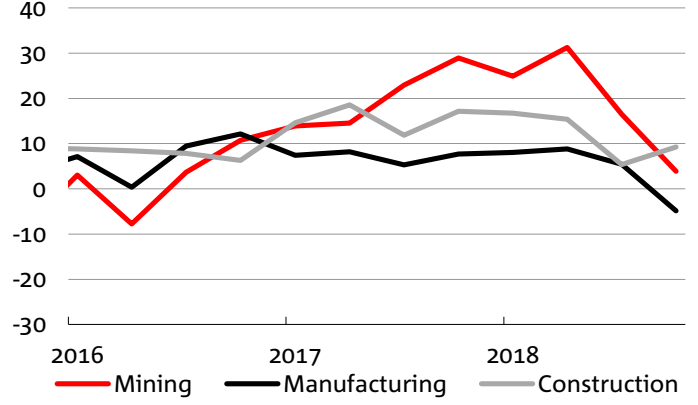
- Around 30% of businesses surveyed in the December quarter expect interest rates will rise over the next year, with the majority (60%) expecting rates to remain unchanged. On average, businesses are pricing in around a 60% probability of a 25bps rate hike in the next 12 months, down from around 90% in Q3. In December, NAB Economics' pushed out our expectation for the first rate hike to the second half of 2020. Our view is that the next move in rates is still likely up with growth continuing at an above trend pace, the labour market tightening a little further and wage growth lifting. These factors should see inflation return to the middle of the band and the RBA begin to lift rates towards neutral. We expect that progress towards this will be more gradual than previously expected and the RBA will look for hard evidence of a genuine rise in inflationary pressure before lifting rates.
- Exchange rate expectations in the Survey (6-months-ahead) were unchanged at US72.5c from Q3, after declining earlier in the year. Expectations have tracked movements in the dollar over the year and current expectations largely reflect the prevailing level at the time the survey was conducted. Since the time of the survey fieldwork, the dollar has traded lower, but it remains our expectation that the dollar will trade nearer 75c by the end of 2019 based on current interest rate differentials and commodity prices.

# NAB QUARTERLY BUSINESS SURVEY – MORE DETAILS ON INDUSTRY

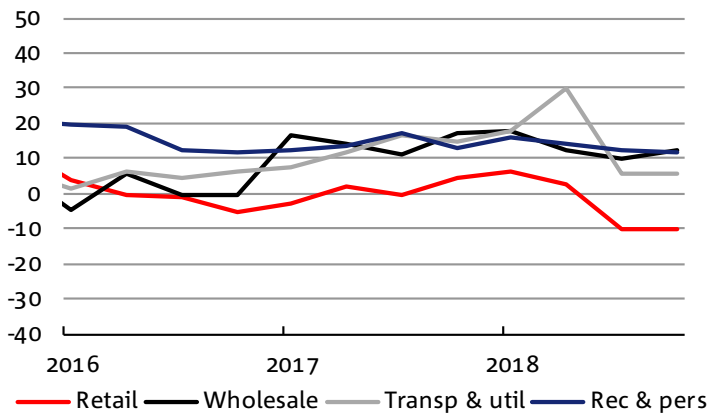
**CHART 32: BUSINESS CONDITIONS BY INDUSTRY**



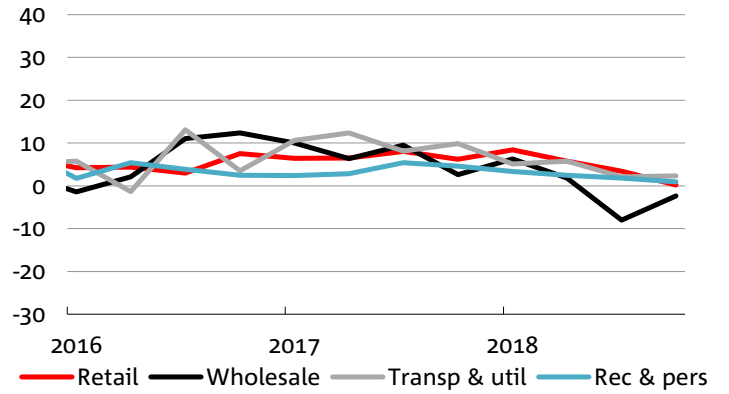
**CHART 35: BUSINESS CONFIDENCE BY INDUSTRY**



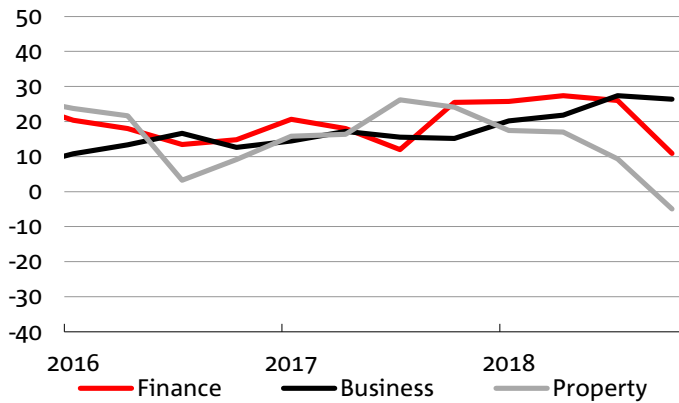
**CHART 33: BUSINESS CONDITIONS BY INDUSTRY**



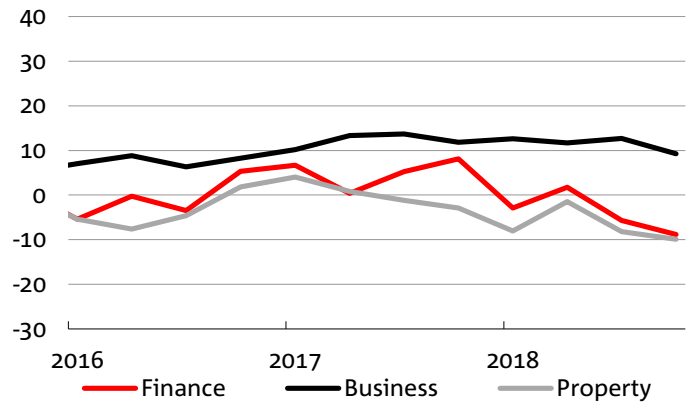
**CHART 36: BUSINESS CONFIDENCE BY INDUSTRY**



**CHART 34: BUSINESS CONDITIONS BY INDUSTRY**



**CHART 37: BUSINESS CONFIDENCE BY INDUSTRY**





# NAB QUARTERLY BUSINESS SURVEY – FURTHER DETAILS BY STATE

CHART 38: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

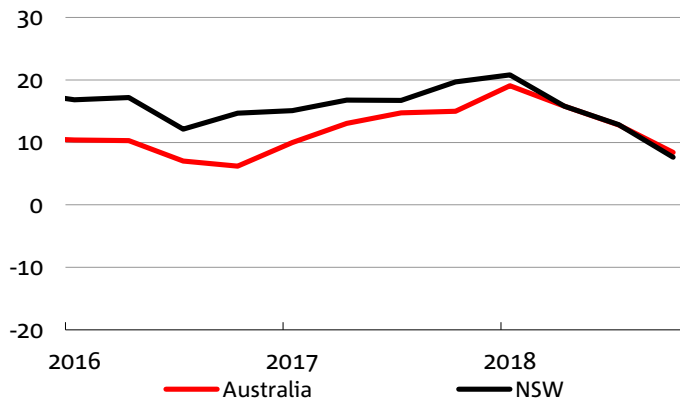


CHART 41: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)

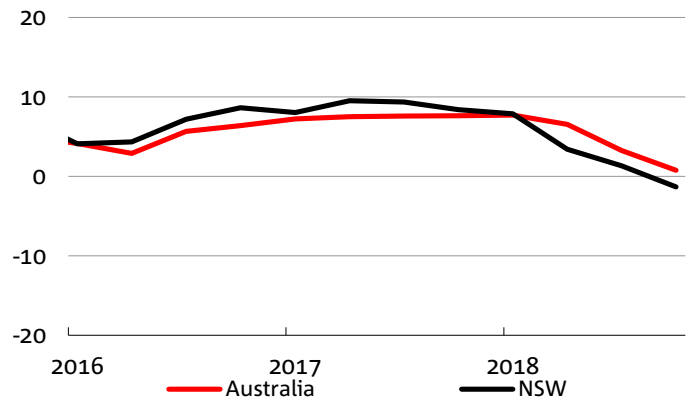


CHART 39: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

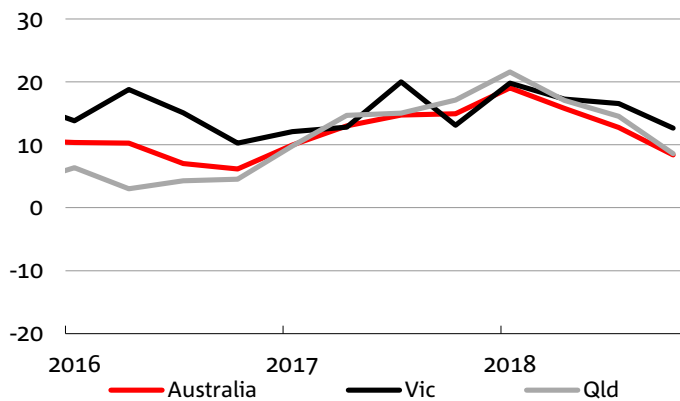


CHART 42: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)

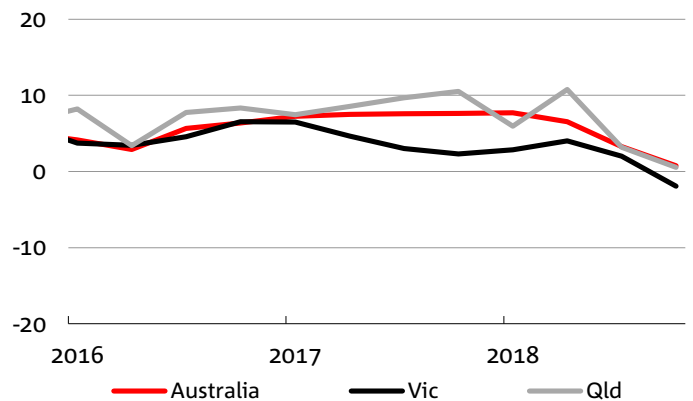


CHART 40: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

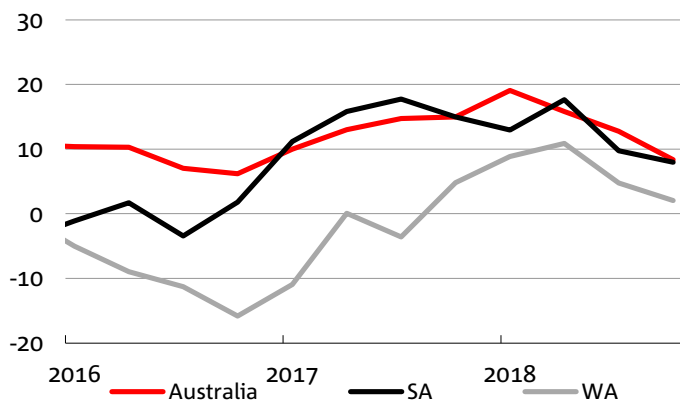
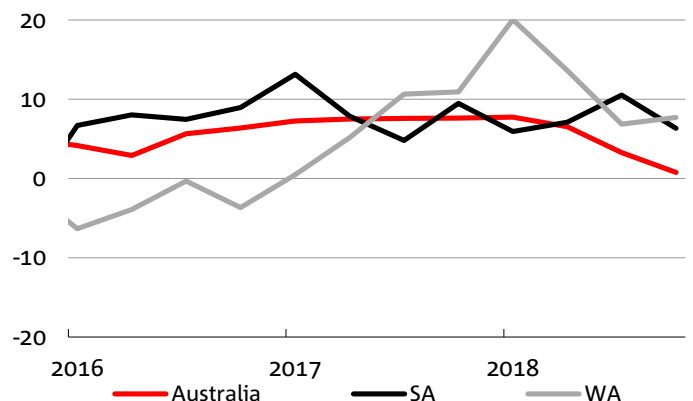


CHART 43: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)



# NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX

	Quarterly					Monthly				
	2017q4	2018q1	2018q2	2018q3	2018q4	2018m8	2018m9	2018m10	2018m11	2018m12
Confidence	8	8	7	3	<b>1</b>	6	6	5	3	3
Conditions	15	19	16	13	<b>8</b>	15	14	13	11	2

	Quarterly					Monthly				
	2017q4	2018q1	2018q2	2018q3	2018q4	2018m8	2018m9	2018m10	2018m11	2018m12
Trading	19	24	23	16	<b>13</b>	19	17	18	15	7
Profitability	17	18	15	11	<b>5</b>	15	14	14	8	0
Employment	10	15	9	10	<b>8</b>	10	11	7	9	4

	Quarterly <sup>(a)</sup>					Monthly				
	2018q3	2018q4	2019q1	2019q3	2019q4	2018m8	2018m9	2018m10	2018m11	2018m12
Conditions	13	<b>8</b>	NA	NA	NA	15	14	13	11	2
Conds. next 3m	25	21	<b>16</b>	NA	NA					
Conds. nxt 12m	28	31	33	27	<b>24</b>					
Orders	4	<b>0</b>	NA	NA	NA	5	3	3	0	-1
Orders next 3m	10	7	<b>6</b>	NA	NA					

(a) Quarter to which expectation applies. Business conditions next 12 months not seasonally adjusted.

	Quarterly <sup>(a)</sup>					Monthly				
	2018q1	2018q2	2018q3	2018q4	2019q1	2018m8	2018m9	2018m10	2018m11	2018m12
Capacity utilis.	82.7	82.8	82.9	<b>82.7</b>	NA	82.2	82.1	81.8	82.1	82.0
Stocks current	6	8	6	<b>4</b>	NA	5	1	1	4	2
Stocks next 3m	4	3	0	0	<b>0</b>					

(a) Quarter to which expectation applies. All data are seasonally adjusted.

	2017q4	2018q3	2018q4
Constraints on output (% of firms)*			
Sales & orders	53.4	49.9	<b>49.3</b>
Labour	55.5	57.8	<b>59.9</b>
Premises & plant	26.3	27.3	<b>26.9</b>
Materials	13.3	14.1	<b>12.8</b>

\* not s.a.

	Quarterly <sup>(a)</sup>					Monthly				
	2018q3	2018q4	2019q1	2019q3	2019q4	2018m8	2018m9	2018m10	2018m11	2018m12
Empl current	10	<b>8</b>	NA	NA	NA	10	11	7	9	4
Empl next 3m	17	13	<b>11</b>	NA	NA					
Empl nxt 12m	22	24	27	23	<b>20</b>					

(a) Quarter to which expectation applies. Employment conditions next 12 months not seasonally adjusted.

# NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX – STATE TABLES

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2017q4</u>	2018q1	2018q2	2018q3	<b>2018q4</b>	<u>2018m8</u>	2018m9	<b>2018m10</b>	2018m11	<b>2018m12</b>
Business conditions										
NSW	20	21	16	13	<b>8</b>	16	14	10	9	5
VIC	13	20	17	17	<b>13</b>	16	18	17	16	5
QLD	17	22	17	15	<b>9</b>	18	12	16	14	1
SA	15	13	18	10	<b>8</b>	8	10	14	5	-16
WA	5	9	11	5	<b>2</b>	15	10	5	3	-2

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2017q4</u>	2018q1	2018q2	2018q3	<b>2018q4</b>	<u>2018m8</u>	2018m9	<b>2018m10</b>	2018m11	<b>2018m12</b>
Business confidence										
NSW	8	8	3	1	<b>-1</b>	2	3	2	0	2
VIC	2	3	4	2	<b>-2</b>	5	7	5	1	0
QLD	11	6	11	3	<b>1</b>	7	11	-1	4	3
SA	9	6	7	11	<b>6</b>	12	6	10	11	6
WA	11	20	14	7	<b>8</b>	9	7	9	6	3

## CONTACTS

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# APPENDIX: LIST OF SERIES AVAILABLE TO SUBSCRIBERS<sup>^</sup>

## 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.

<sup>^</sup>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)	
<b>All series available on an industry basis for:</b>	
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)	
<b>All series available on a state basis for:</b>	
New South Wales	
Victoria	
Queensland,	
WA	
SA/NT	
Tasmania	

\*Data available in original, seasonally adjusted and trend terms.