



NAB MONTHLY BUSINESS SURVEY JANUARY 2019

CONDITIONS SEE A MODERATE REBOUND. NAB ADJUSTS RATE CALL

NAB Australian Economics

Key messages from the Survey: Business conditions saw a moderate rebound in January after falling sharply in December. Some improvement was likely given the difficulty in addressing seasonality around the Christmas/New year period but even after this partial reversal, conditions and forward orders continue to trend lower and still show a sizeable decline over the past 6 months. There was no improvement in retail conditions. Confidence edged up but remains below average. The unusually sharp moves in conditions in South Australia and transport & utilities unwound somewhat in January. There was no rebound in NSW and Victoria - while SA and WA continue to lag. Of interest this month is a significant fall in capacity utilisation to levels only just above average. This may have implications for both future employment and capex plans. On the basis of this Survey and our forecasts NAB now expects the cash rate to remain unchanged for an extended period with downside risks (see: [NAB change to cash rate call – February 2019](#)).

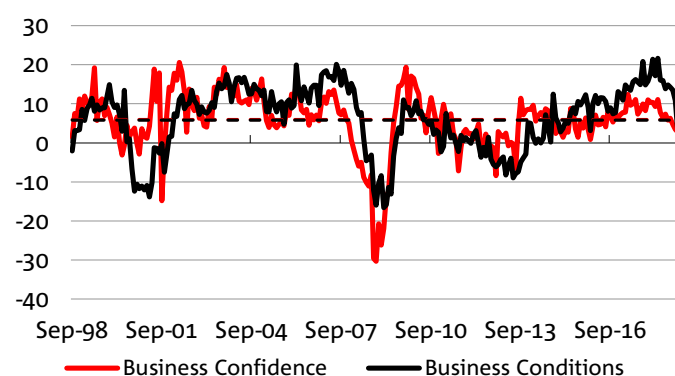
HIGHLIGHTS

- **How confident are businesses?** Business confidence edged up a point to +4 index points in the month. At these levels confidence remains below the long-run average.
- **How did business conditions fare?** Business conditions saw a moderate rebound after falling sharply last month. Conditions rose 4pts to +7 (6.6 points unrounded) index points to be just above the long-run average while the trend measure declined to a similar level.
- **What components contributed to the result?** January saw a lift in both trading (+3 pts) and profitability (+4 pts) to +10 and +5 index points, respectively. The employment index edged up 1pt to +5 index points in the month.
- **What is the survey signalling for jobs growth?** Based on historical relationships, the small increase in the employment index suggests an ongoing growth rate in employment at +19k per month. While slightly up on this month, this is a little slower than most of 2018.
- **Which industries are driving conditions?** Conditions rose in most industries, except for *Mining* and *finance, business & property services* which declined in the month, and *retail* which was unchanged at -14 points - the only industry to record negative conditions. In trend terms, *mining* remains strongest, followed by *recreational & personal services* and *finance, business & property* and *wholesale* which all remain above the national average.
- **Which industries are most confident?** In trend terms, confidence remains highest in *transport & utilities* and *construction*. Confidence in the services sector is significantly weaker with *personal & recreation services* and *finance, business & property services* only just positive.
- **Where are we seeing the best conditions by state?** Conditions rose in QLD, WA and SA (which has been volatile) in the month and were flat in NSW and VIC. In trend terms, conditions remain most favourable in the east across the mainland while Tas currently reports the strongest conditions of all states.
- **What is confidence like across the states?** Despite the recent volatility in conditions, confidence remains highest in SA and Tas (in trend terms). Confidence remains below average across the remaining states, with Vic only just positive (+1).
- **Are leading indicators suggesting further improvement?** The forward orders index rose to +2 index points after turning negative last month – but remains around average levels. Capacity utilisation declined further to 81.4% (from 81.9) and is now approaching long-run average levels (indeed it is around or below long-run averages levels in most industries).
- **What does the Survey suggest about inflation and wages?** Overall survey measures of prices and inflation remain weak. Retail prices growth edged up marginally in the month, but overall final prices growth remained flat. On the input side, both input prices and labour costs growth edged lower.

TABLE 1: KEY STATISTICS

	Nov-18	Dec-18	Jan-19
	Net balance		
Business confidence	3	3	4
Business conditions	11	3	7
Trading	15	7	10
Profitability	8	1	5
Employment	9	4	5
Forward orders	0	-1	2
Stocks	3	2	2
Exports	1	1	1
	% change at quarterly rate		
Labour costs	1.2	0.8	0.6
Purchase costs	1.0	0.7	0.6
Final products prices	0.4	0.4	0.4
Retail prices	0.3	0.1	0.2
	Per cent		
Capacity utilisation rate	82.1	81.9	81.4

CHART 1: CONDITIONS SEE A MODERATE REBOUND



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 24-31st January 2019, covering over 400 firms across the non-farm business sector.

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Contacts: Alan Oster – Chief Economist, Gareth Spence – Senior Economist

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NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

OUR ASSESSMENT OF THE UNDERLYING TRENDS

- Business conditions rebounded moderately in January after a sharp fall in December. Due to re-seasonal adjustment, the December figure was also revised up slightly. We had anticipated some rebound in the conditions with some unusual volatility in some of the components, but also noted that regardless, there is a strong signal in the down trend shown in business conditions through the second half of 2018.
- The decline over the past 6 months has still been relatively large even with the moderate increase in January. That said the decline is not yet as large as previous downturns - and in level terms conditions remains reasonable (around long run average levels). See chart 3. This clearly implies a slowing in momentum
- Business confidence also declined through 2018 and has been below average for some time. This suggests firms expect little improvement over time in business conditions.
- The decline in business conditions has occurred fairly broadly, with all industries except mining seeing a material decline through 2018. Conditions have also eased across states (though SA and Tas have been volatile of late). Both NSW and Victoria now have conditions around average.
- Conditions in the retail sector continue to weigh most on the business conditions index. The industry continues to be the only to record negative conditions (-14 seasonally adjusted and -11 trend terms). While the retail sector has faced a number of headwinds for some time (slow wage growth, high household debt and now potential wealth impacts) the conditions index weakened notably in the latter part of 2018.
- Surveyed sub-industry data suggest that conditions are now negative across all categories of retailing. In trend terms (smoothed using a 13-term Henderson trend), car retailing and personal & household goods remain weakest, though food and other retail have also weakened – and are also negative. This is consistent with a slowdown in housing turnover, as well as weak household income growth and low savings rates beginning to weigh on discretionary spending.
- Conditions in the services sector have also weighed on the aggregate index. Both *recreational & personal services* and *finance, business & property services* having also having weakened over 2018. This is consistent with both the consumer story as well as weakening conditions in the residential construction sector.

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

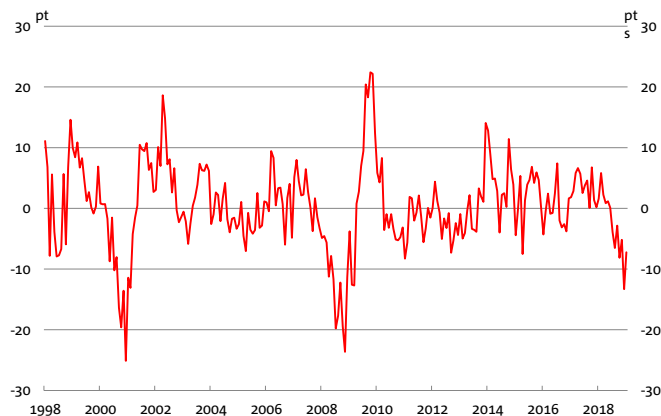


CHART 3: DEVIATIONS RELATIVE TO AVERAGE (PTS)

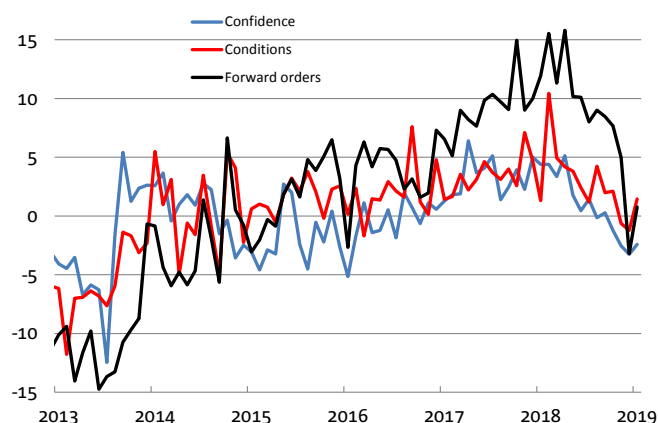


CHART 4: CONTRIBUTIONS TO BUSINESS CONDITIONS (PTS)

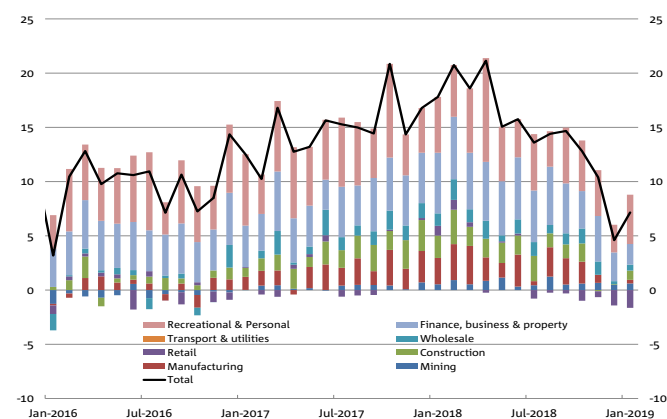
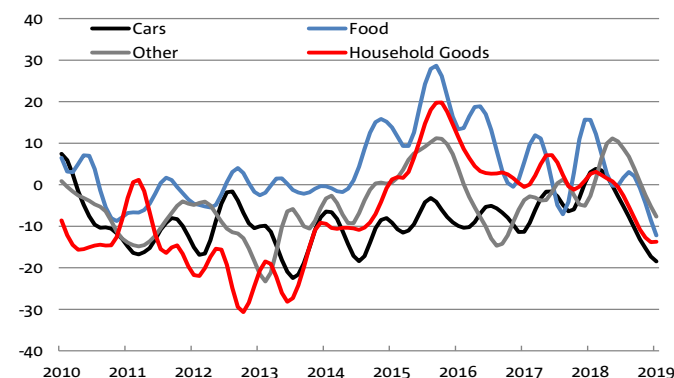


CHART 5: RETAIL SUB-SECTORS (NET BAL., 13-TERM HENDERSON TREND)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 6: BUSINESS CONFIDENCE (NET BALANCE)

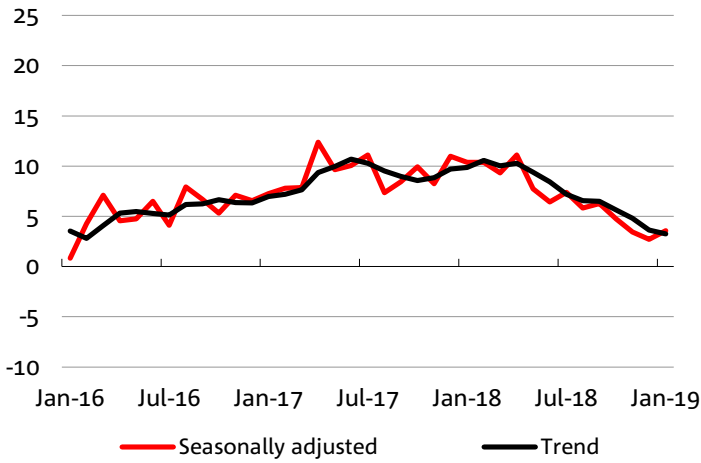


CHART 7: BUSINESS CONDITIONS (NET BALANCE)

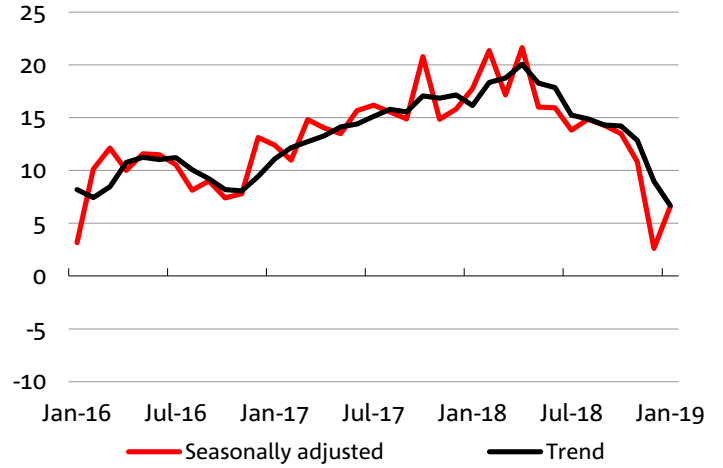


CHART 8: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

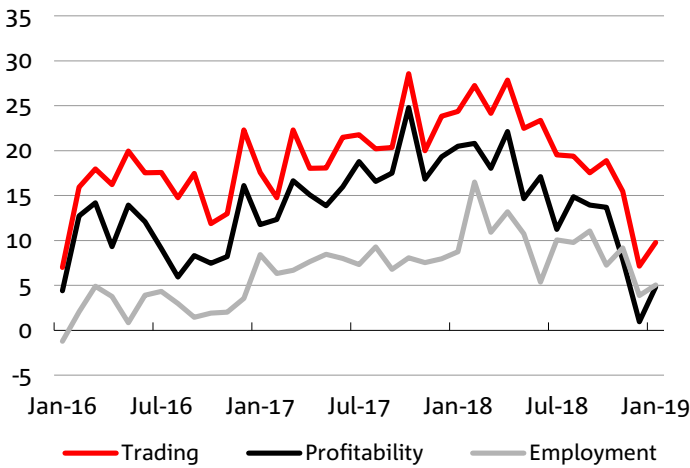


CHART 9: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

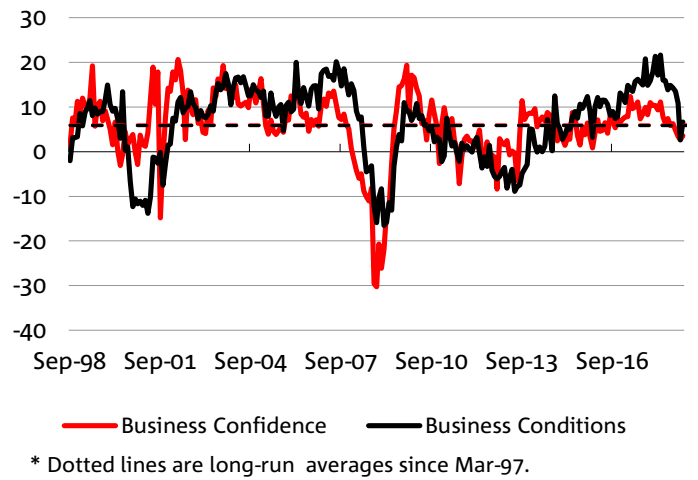


CHART 10: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

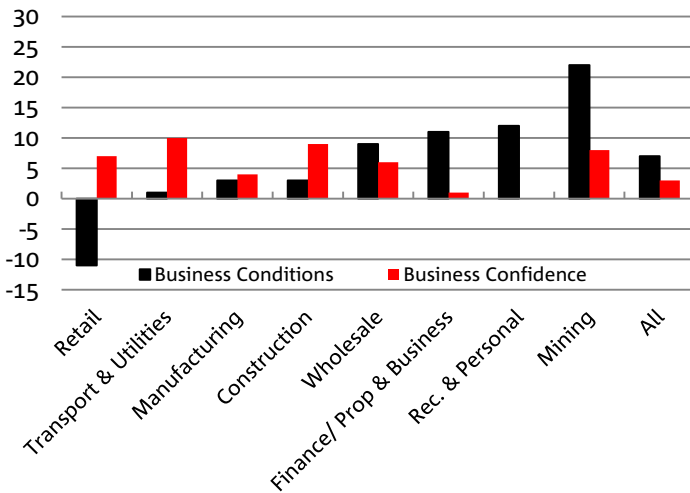
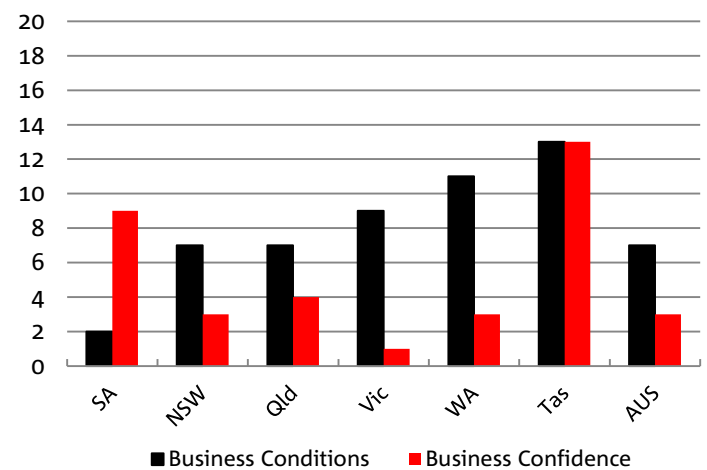


CHART 11: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 12: FORWARD ORDERS (NET BALANCE)

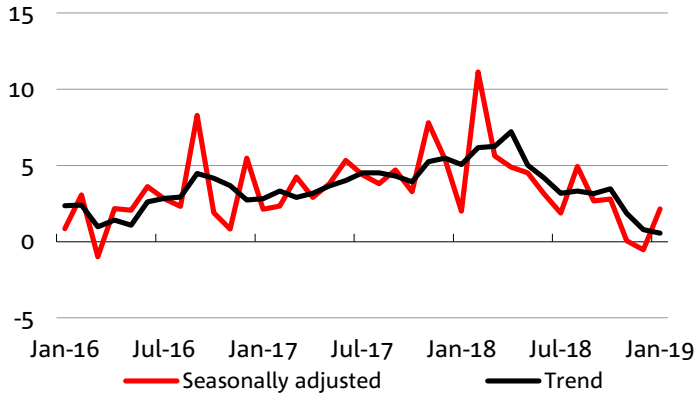


CHART 13: CAPITAL EXPENDITURE (NET BALANCE)

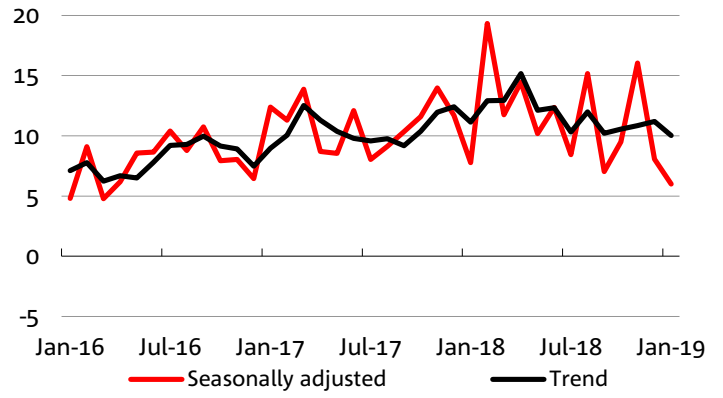


CHART 14: CAPACITY UTILISATION AND UNEMPLOYMENT

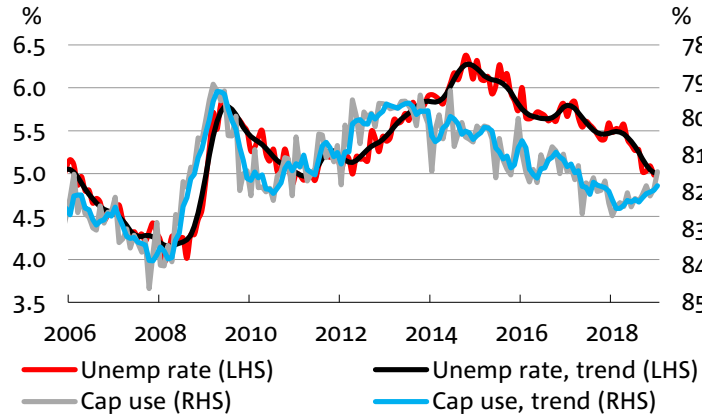


CHART 15: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

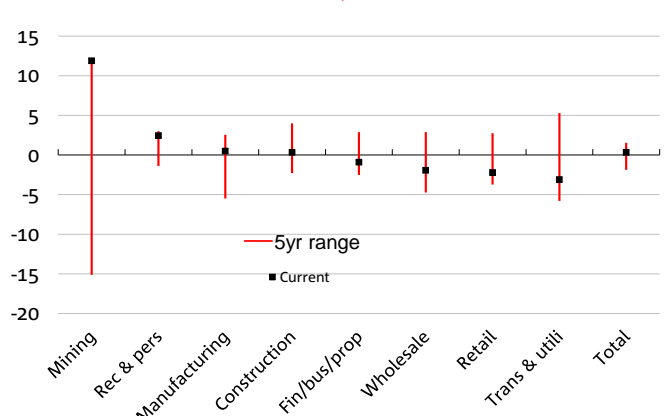


CHART 16: STOCKS (NET BALANCE)

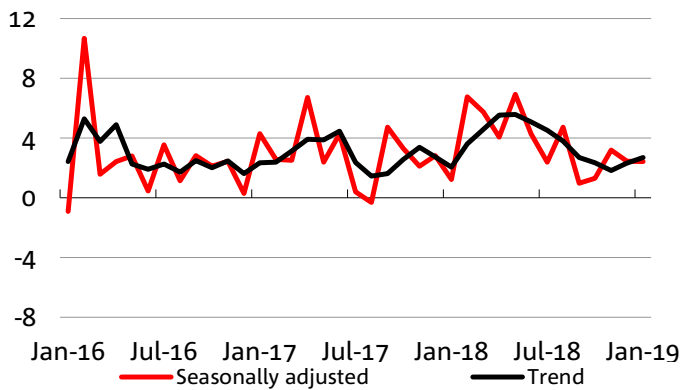


CHART 17: CASH FLOW (NET BALANCE)

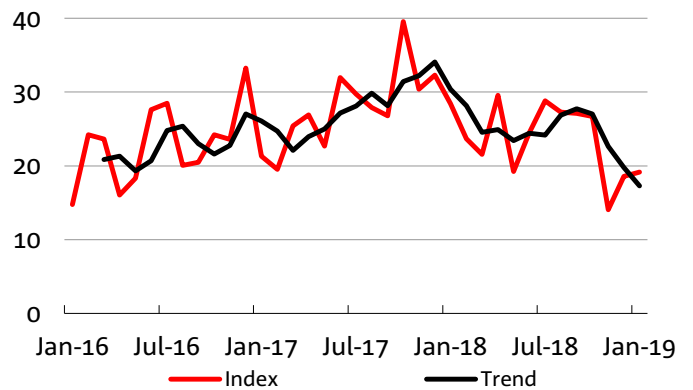


CHART 18: EXPORTS (NET BALANCE)

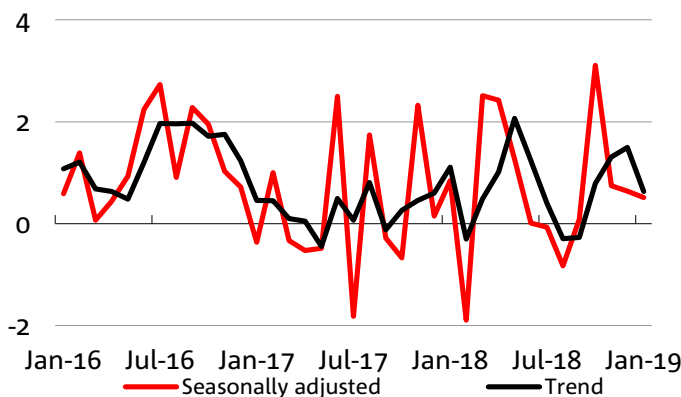
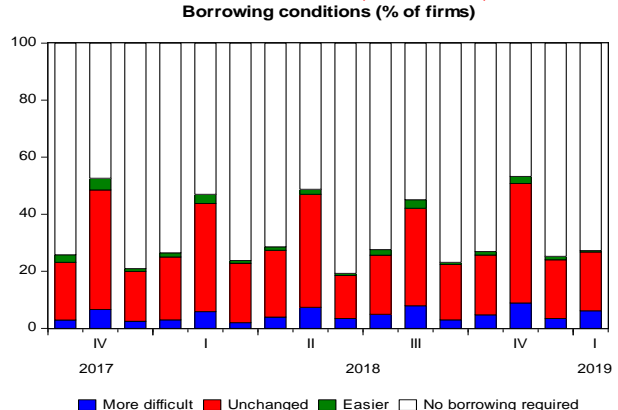


CHART 19: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

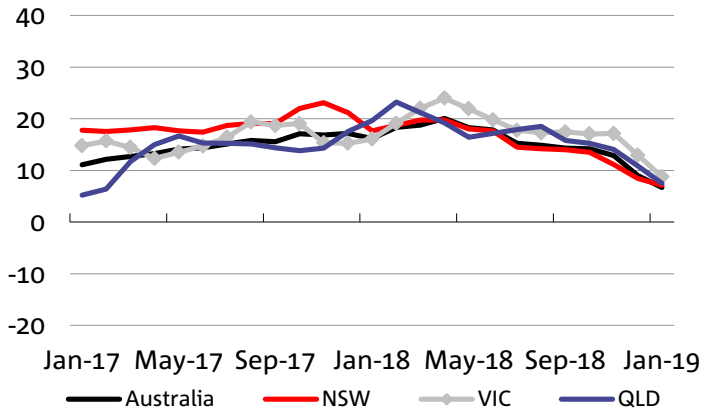


CHART 21: BUSINESS CONDITIONS (NET BALANCE) BY STATE

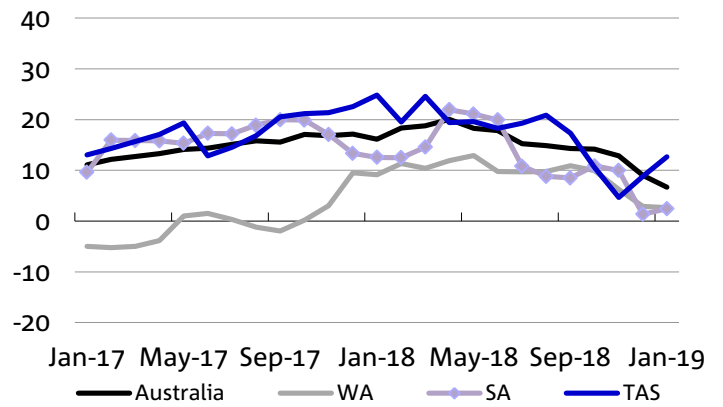


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

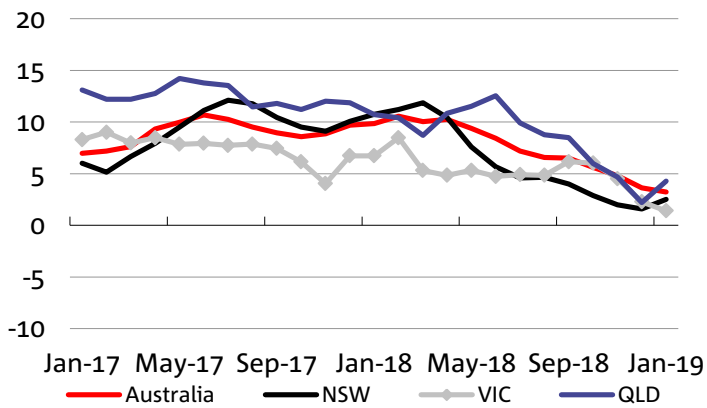


CHART 23: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

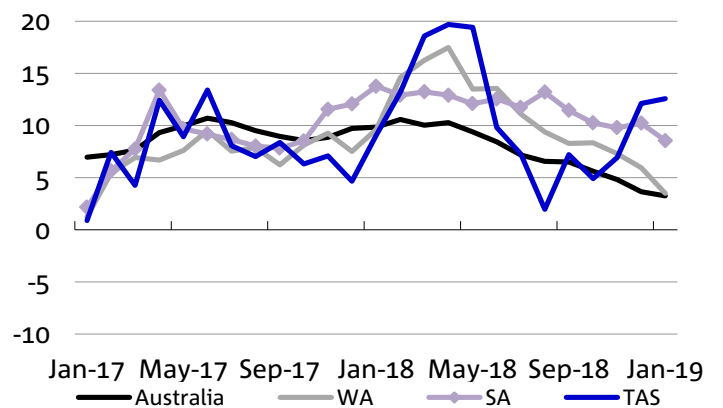


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

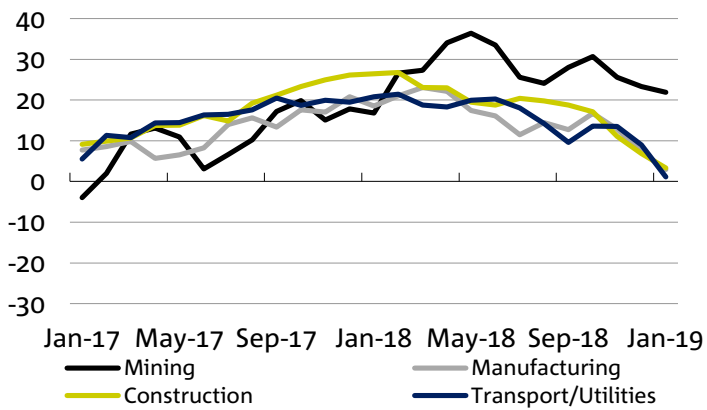


CHART 25: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

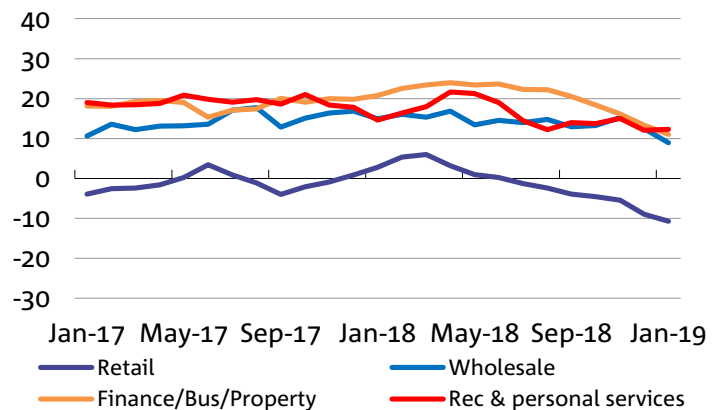


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

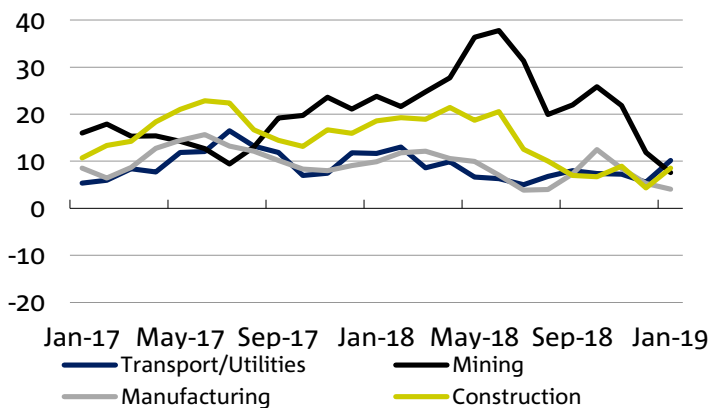
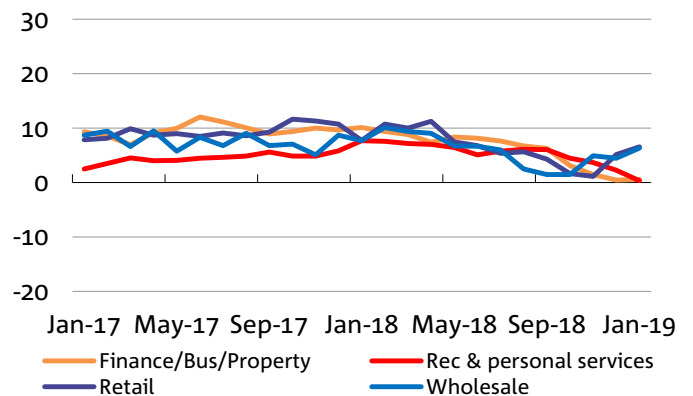


CHART 27: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 28: EMPLOYMENT

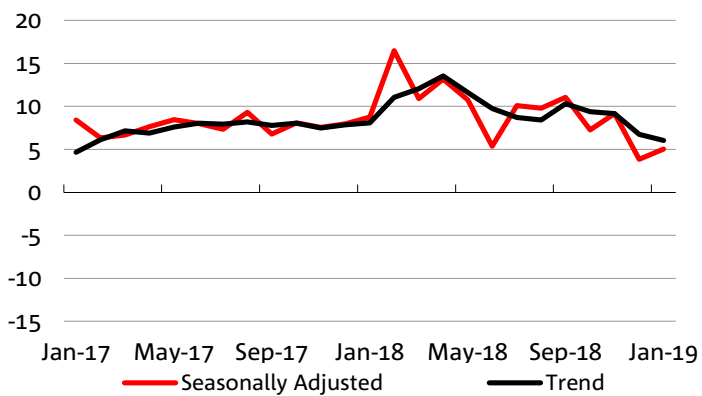


CHART 29: EMPLOYMENT (NAB VS ABS)

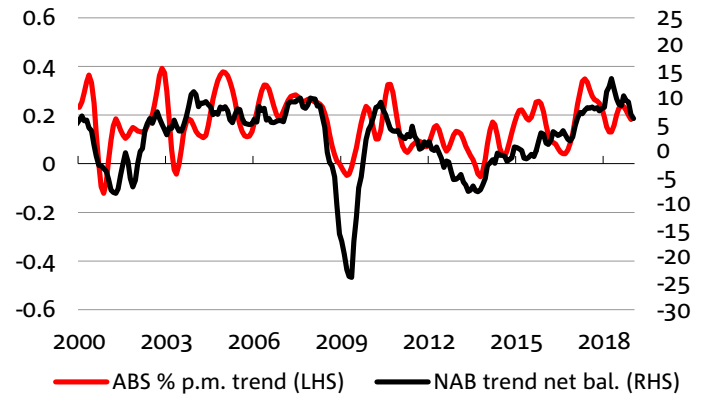


CHART 30: EMPLOYMENT BY INDUSTRY

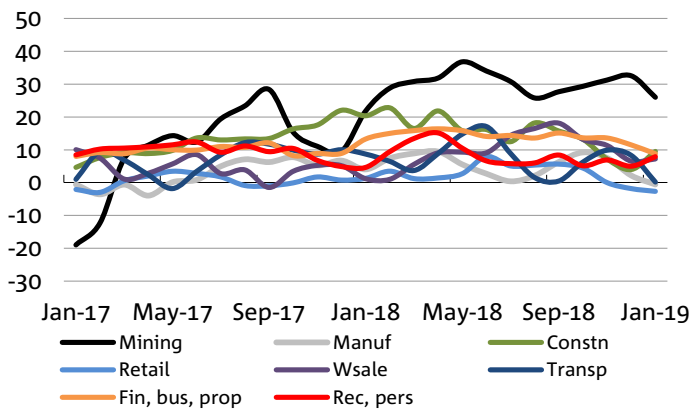


CHART 31: LABOUR COSTS GROWTH

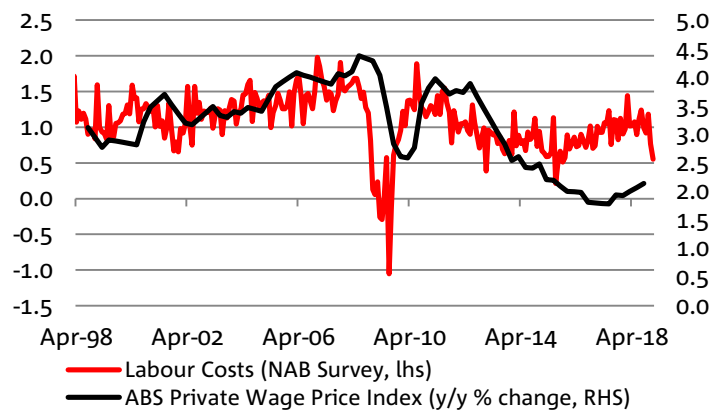


CHART 32: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

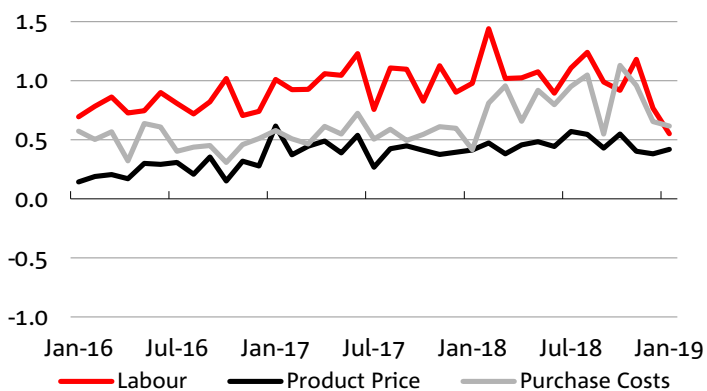
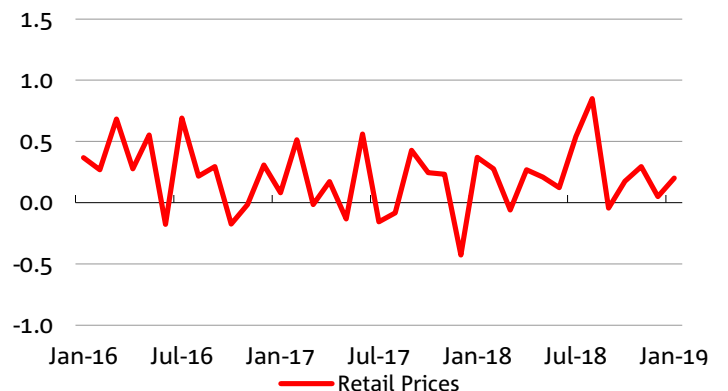


CHART 33: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



CONTACTS

Alan Oster, Group Chief Economist

Alan.Oster@nab.com.au

+613 8634 2927

Gareth Spence, Senior Economist

gareth.spence@nab.com.au

+61 0 436 606 175

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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.