



NAB MONTHLY BUSINESS SURVEY FEBRUARY 2019

CONDITIONS AND CONFIDENCE FALL – NOW BOTH BELOW AVERAGE

NAB Australian Economics

Key messages from the Survey: With a larger survey sample, both confidence and conditions settled at a lower level in February following the volatility over the New Year period. The decline in conditions was relatively broad-based in the month and continues a relatively sharp decline over the previous 6 months. The decline in confidence was more modest but the series has now been below average for some time. Forward orders fell to below average levels in the month, and capacity utilisation declined further suggesting that conditions are unlikely to regain much ground. The NAB Quarterly Business Survey to be released in April will provide a full set of business’s expectations for the key survey variables, which will provide a more detailed picture of where business’s think conditions will move over coming months. Across industries retail remains the weakest by some margin – and the only sector to record negative conditions in trend terms. The weakness is broad-based across retail sub-industries, but weakest in car retailing and household goods. The eastern states continue to show the best conditions across the mainland, but are less confident than WA and SA.

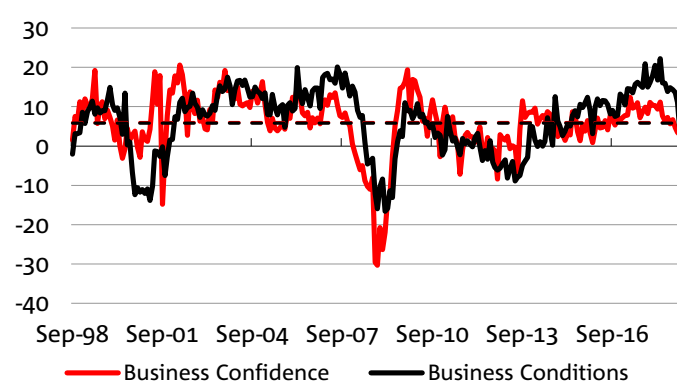
HIGHLIGHTS

- **How confident are businesses?** Business confidence fell 2 pts to +2 index points in the month and while confidence remains positive, it has now been below average since August last year.
- **How did business conditions fare?** Business conditions declined to +4 index points and are now below average following the volatility over the New Year period. Trend business conditions have declined to +5 – also below average.
- **What components contributed to the result?** The decline in February was driven by a fall in profitability (now +1 index points) and trading conditions (+8 index points). The employment index has remained resilient and was unchanged in the month (+5 index points).
- **What is the survey signalling for jobs growth?** At current levels, the employment index suggests ongoing employment growth of around 19k per month. This is slightly lower than the strong growth rates observed in 2018 but should still be enough to hold onto recent gains in the unemployment rate.
- **Which industries are driving conditions?** The decline in conditions in the month was broad-based across industries with the exception of *Finance, Business & property services* and *transport & utilities* which increased; *manufacturing* was unchanged. *Construction* saw a particularly sharp decline as did *mining*. In trend terms, conditions remain most favourable in *mining* and the services industries. *Retail* declined further and remains the weakest industry by a significant margin.
- **Which industries are most confident?** Confidence fell across most industries in February. In trend terms, confidence remains highest in *transport & utilities*. The services industries recorded the weakest outcomes for confidence.
- **Where are we seeing the best conditions by state?** Despite trending lower, conditions in trend terms continue to remain most favourable in the eastern mainland states, with *VIC* most favourable. Conditions appear weaker in *WA* and, in particular, *SA*. *Tas* continues to report the best conditions of all states.
- **What is confidence like across the states?** In trend terms, confidence is weakest in the eastern states, with *NSW* lowest (and below the national average); *VIC* and *QLD* are currently at the national average. *SA* is somewhat higher at 6, while *WA* and *Tas* are the most confident (+7).
- **Are leading indicators suggesting further improvement?** The forward orders index declined to -2 index points after turning positive last month – and is below average. Capacity utilisation continued to trend lower and is now below average levels.
- **What does the Survey suggest about inflation and wages?** Overall survey measures of prices and inflation remain weak. Input costs growth – including labour costs and purchases prices – edged up in the month. Output prices growth eased with growth in final products prices edging lower – including an easing in retail prices growth.

TABLE 1: KEY STATISTICS

	Dec-18	Jan-19	Feb-19
	Net balance		
Business confidence	3	4	2
Business conditions	3	7	4
Trading	8	10	8
Profitability	2	5	1
Employment	4	5	5
Forward orders	-1	2	-2
Stocks	3	3	3
Exports	1	0	-1
	% change at quarterly rate		
Labour costs	0.8	0.6	0.8
Purchase costs	0.6	0.6	0.7
Final products prices	0.4	0.4	0.3
Retail prices	0.1	0.2	0.1
	Per cent		
Capacity utilisation rate	81.9	81.4	80.9

CHART 1: CONFIDENCE AND CONDITIONS FALL



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

All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 25 February- 1 March 2019, covering over 500 firms across the non-farm business sector.

Next release date: 1 April 2019.

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

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NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

CAPACITY UTILISATION

- Aggregate capacity utilisation has eased over the past three months and is now just below average. Despite rising to relatively high levels over recent years the 1.7 ppt decline since early 2018 has seen capacity utilisation fall to just below average.
- Since early 2018 capacity utilisation, in trend terms, has declined in most industries. The relatively sharp decline over the past three months has been due to a decline in 6 of 8 industries, with particularly sharp declines in *mining*, *construction* and *wholesale*. Over the year, the largest decline has occurred in mining, with *construction* also seeing a particularly sharp decline in addition to the goods distribution industries - *wholesale* and *retail*.
- At current levels, capacity utilisation is at or below average across most industries with the exception of *mining*, *recreation & personal services* and *manufacturing*.
- Goods distribution industries such as *wholesale* and *retail* are most significantly below average.
- Capacity utilisation is an important indicator because it points to both current output compared to plan as well as future investment plans. It also signals the likely direction of inflationary pressure more broadly in the economy. The weakening in capacity utilisation is yet another sign that activity in the business sector has slowed through the second half of 2018.
- For now NAB Economics still forecasts relatively strong growth in business investment over the next two years. However, while we still see this as a support to the economy, the survey suggests there is a growing risk to this outlook.

EMPLOYMENT AND THE SURVEY

- Developments in the labour market are likely to impact the economic outlook in a number of ways over 2019. Ongoing employment growth would support consumption in aggregate and tighter labour markets should see further upward pressure on wage growth. A deterioration in the labour market could well see a renewed easing cycle by the RBA.
- While the labour market has shown resilience, despite a slowing in growth over the past 6 months or so, it is possible that there are lags between economic activity and the labour market. The resilience seen to date could just reflect the lagged strong growth in early 2018 and the fact we have not yet seen the effects of slowing activity in the labour market - but it may not be far away.
- Indicators of labour demand will be important in assessing if the labour market is at a turning point. For now the NAB survey measure of employment is still well above average and implies ongoing employment growth of 19k per month. At current population growth rates, this should be enough to see the labour market hold onto recent gains, but is a slower pace of growth than observed through 2018.
- The NAB quarterly survey expectations of employment 3- and 12 months ahead are still elevated – though they have eased over the past 6 months. An update on these indicators will be available in next month’s release of the NAB Quarterly Business Survey.

CHART 2: CAPACITY UTILISATION (DEVIATION FROM AVE, %)

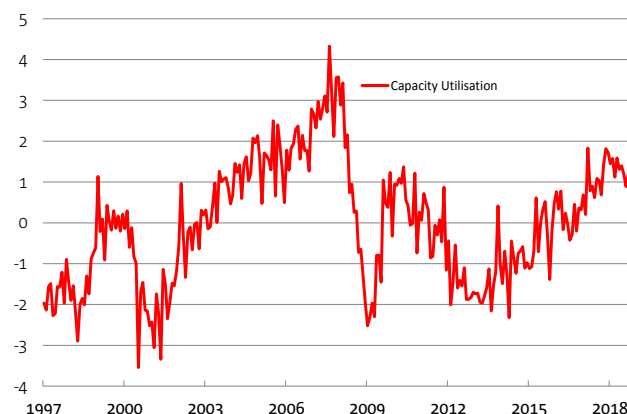


CHART 3: CAPACITY UTILISATION BY INDUSTRY (TREND, %)

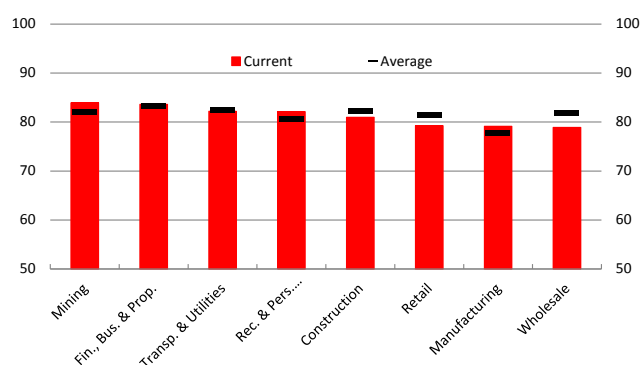


CHART 4: COMPONENTS OF BUSINESS CONDITIONS (NET BAL.)

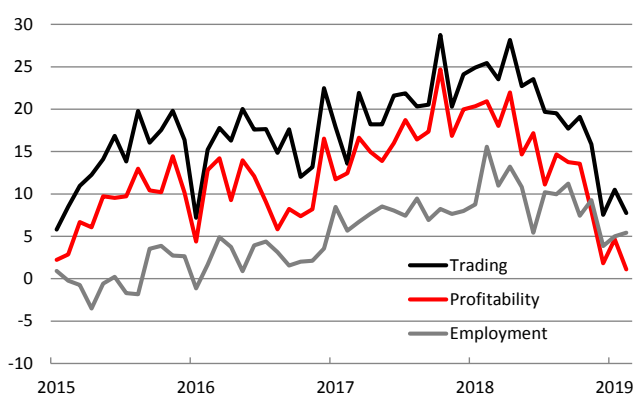
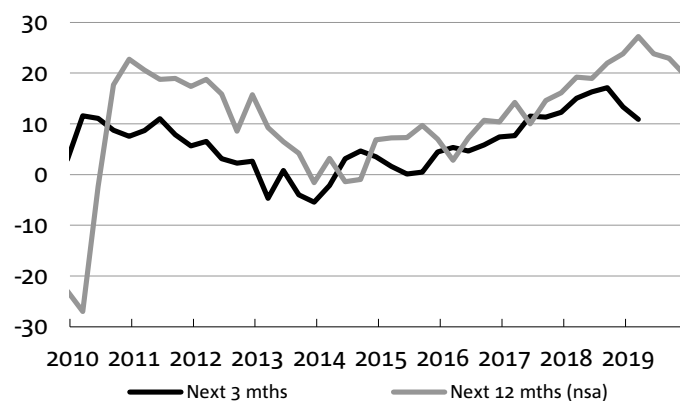


CHART 5: Q4 2018 EMPLOYMENT EXPECTATIONS (NET. BAL.)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 6: BUSINESS CONFIDENCE (NET BALANCE)

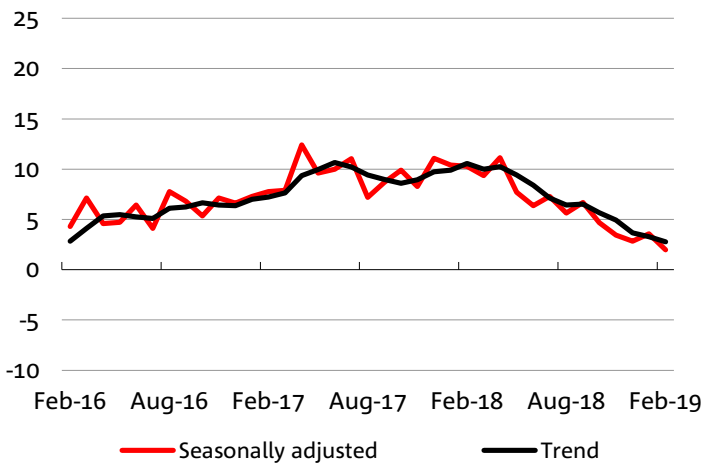


CHART 7: BUSINESS CONDITIONS (NET BALANCE)

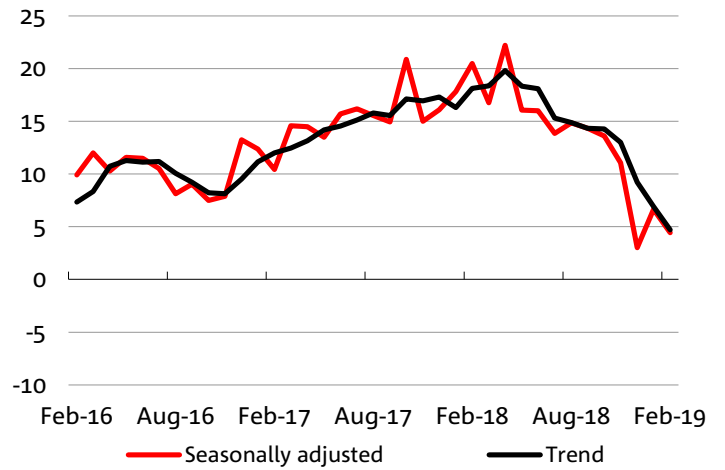


CHART 8: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

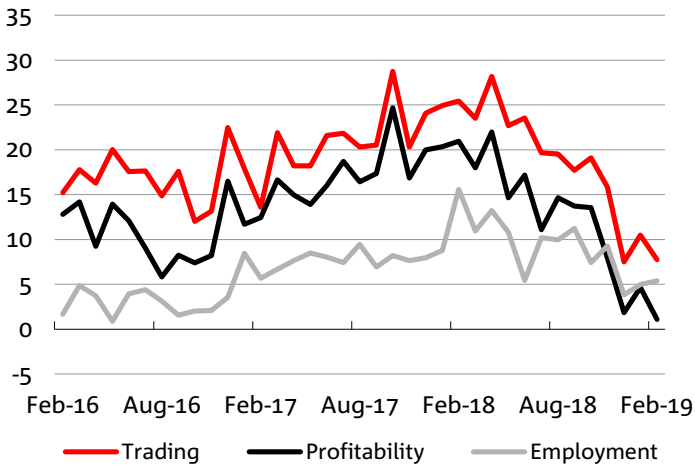


CHART 9: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

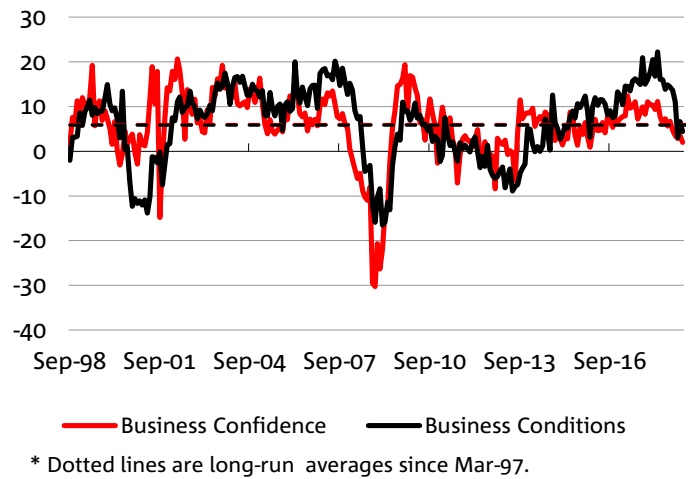


CHART 10: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

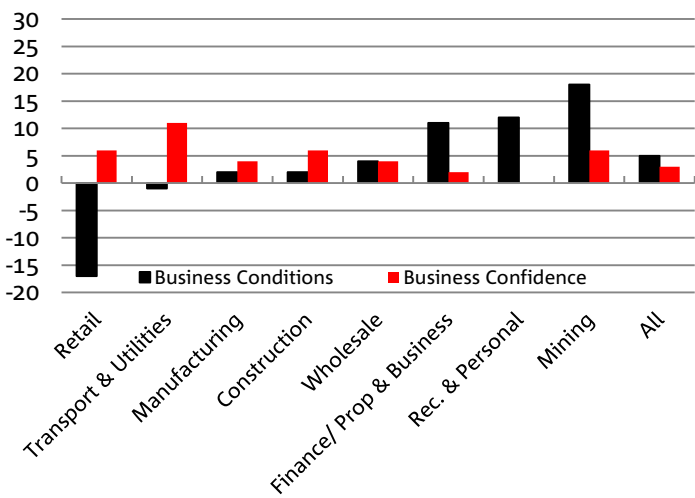
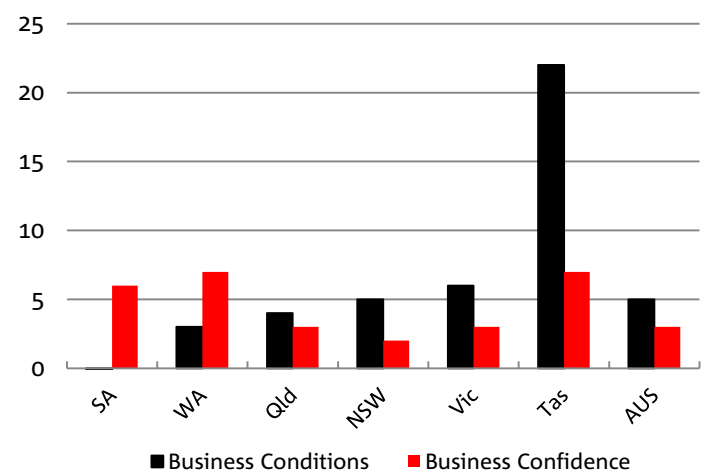


CHART 11: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 12: FORWARD ORDERS (NET BALANCE)

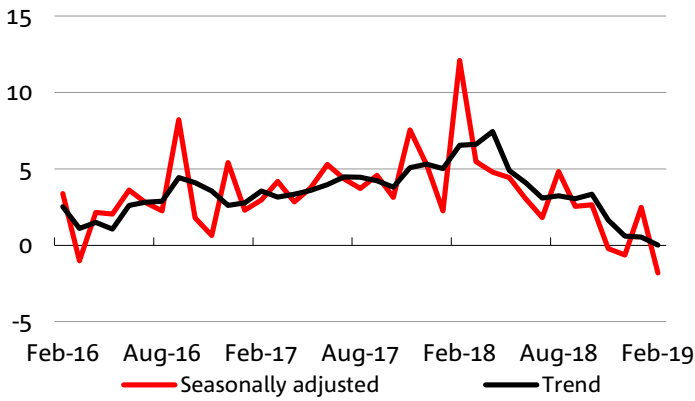


CHART 13: CAPITAL EXPENDITURE (NET BALANCE)

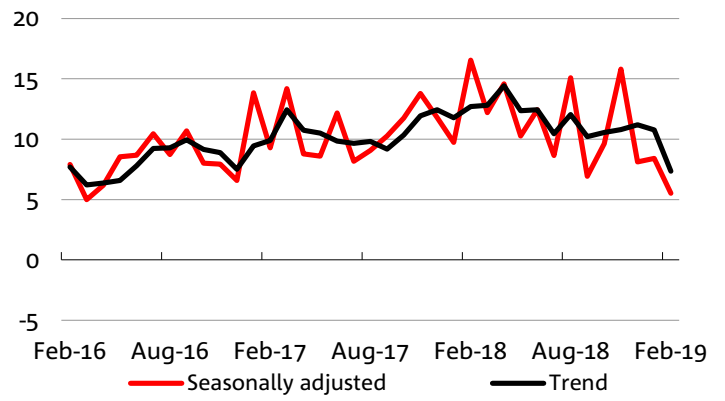


CHART 14: CAPACITY UTILISATION AND UNEMPLOYMENT

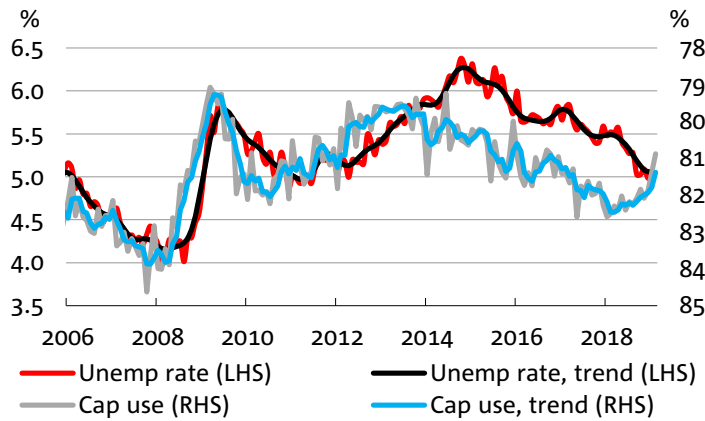


CHART 15: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

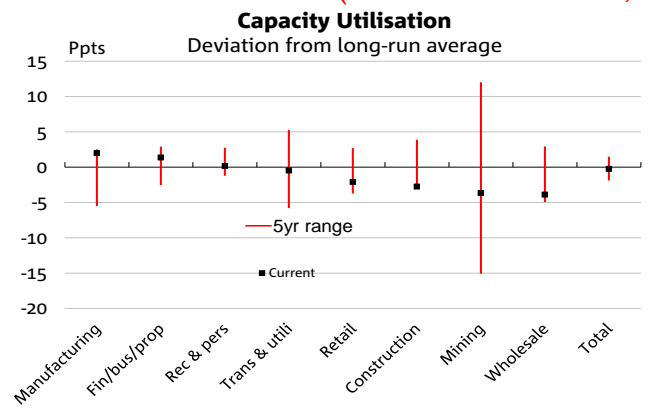


CHART 16: STOCKS (NET BALANCE)

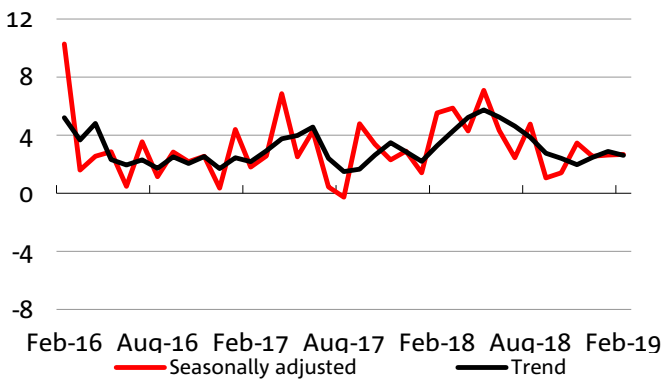


CHART 17: CASH FLOW (NET BALANCE)

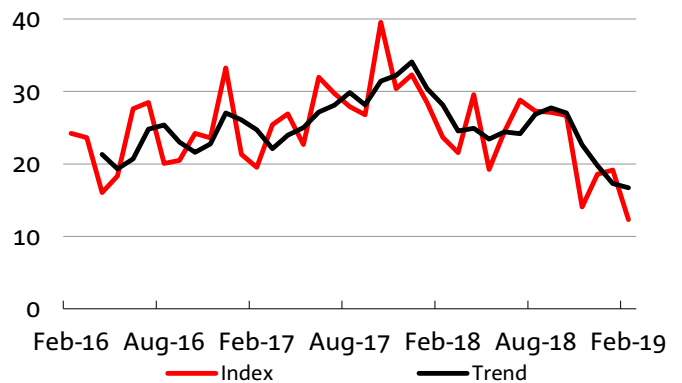


CHART 18: EXPORTS (NET BALANCE)

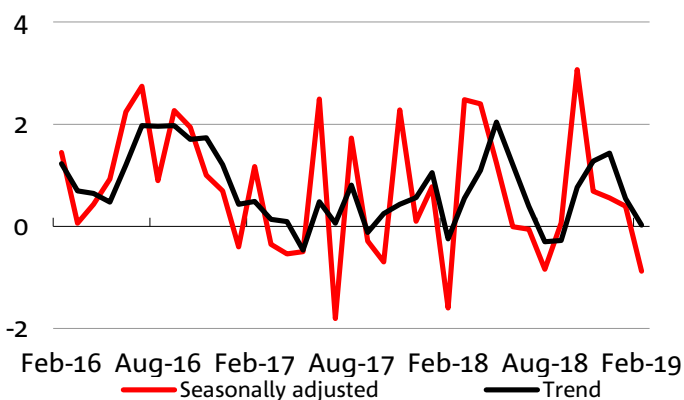
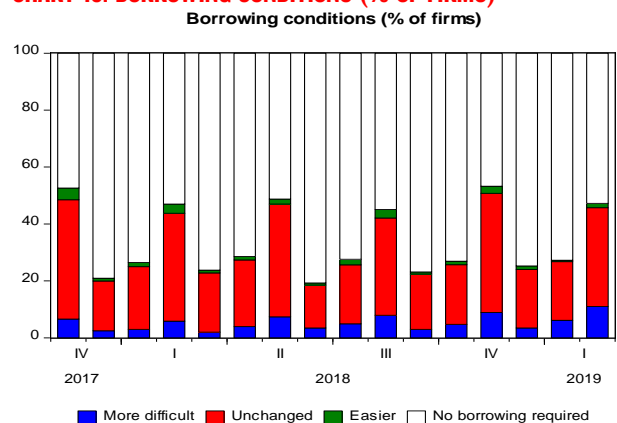


CHART 19: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

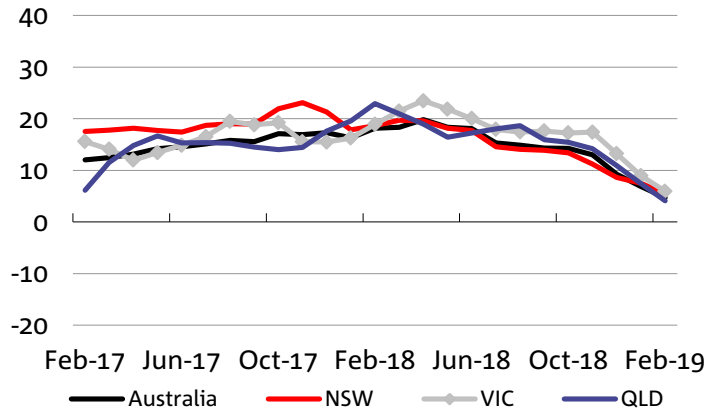


CHART 21: BUSINESS CONDITIONS (NET BALANCE) BY STATE

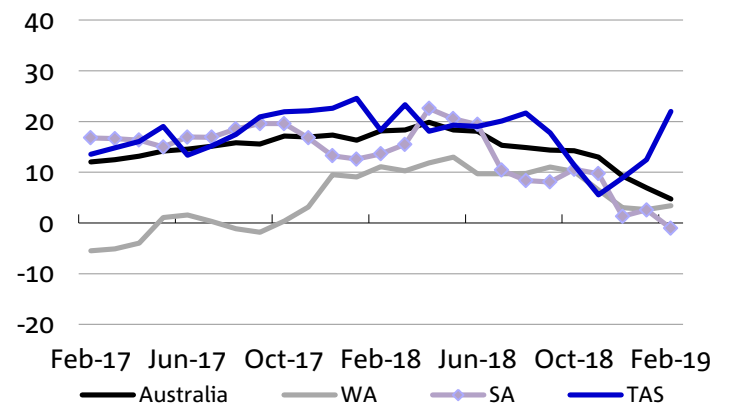


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

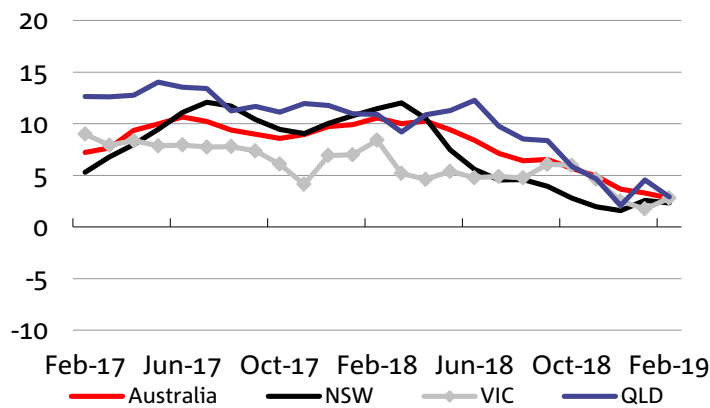


CHART 23: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

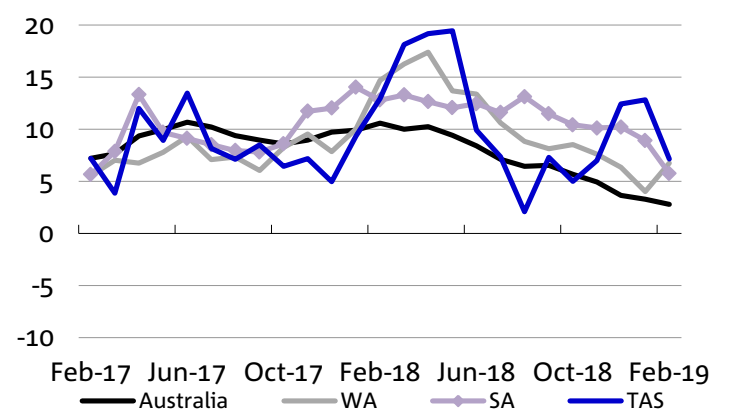


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

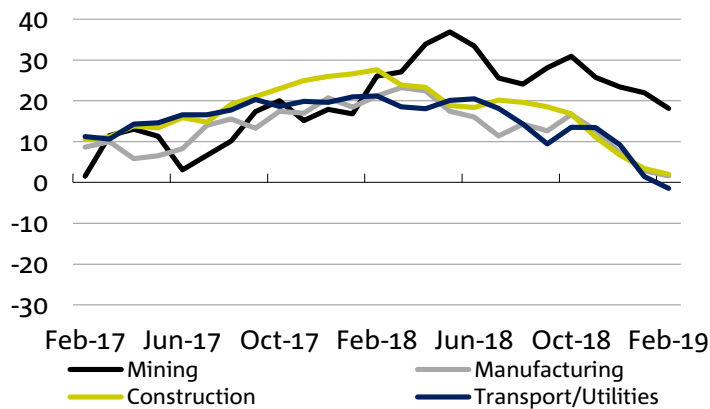


CHART 25: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

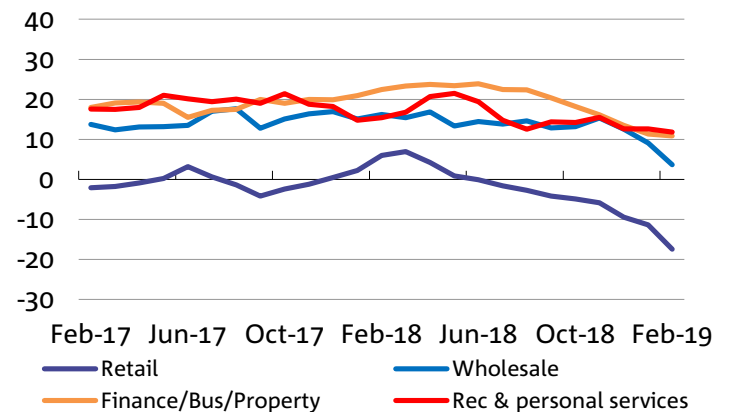


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

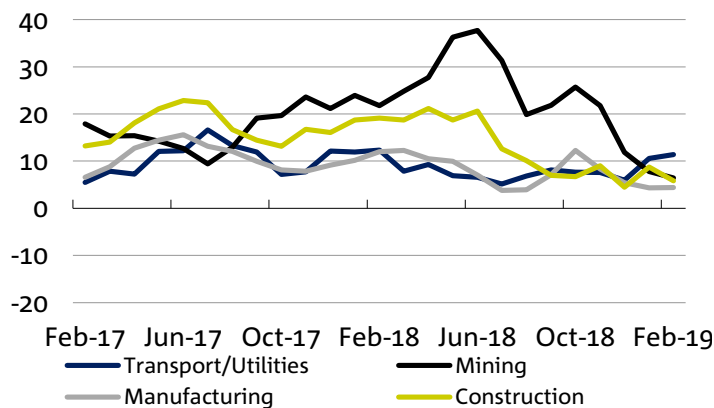
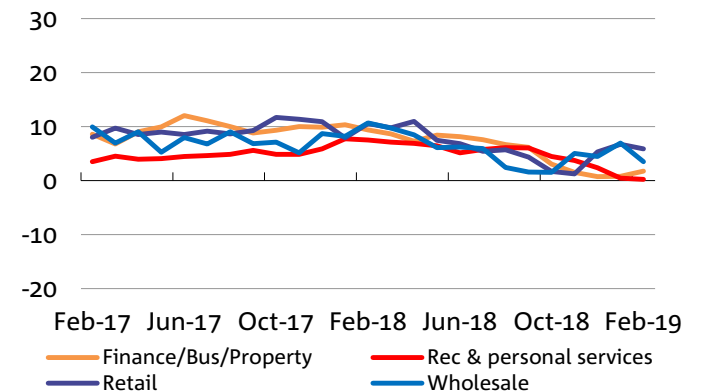


CHART 27: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 28: EMPLOYMENT

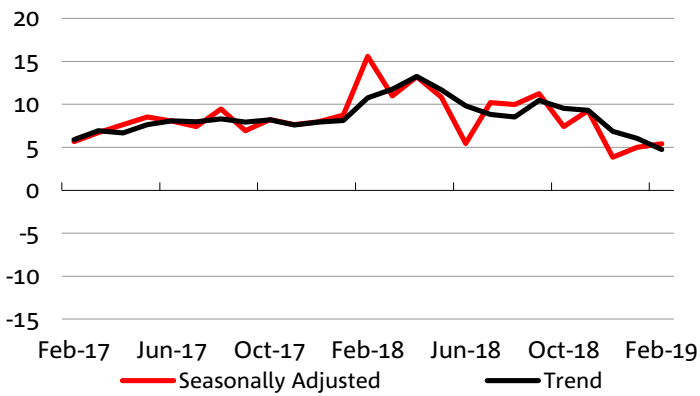


CHART 29: EMPLOYMENT (NAB VS ABS)

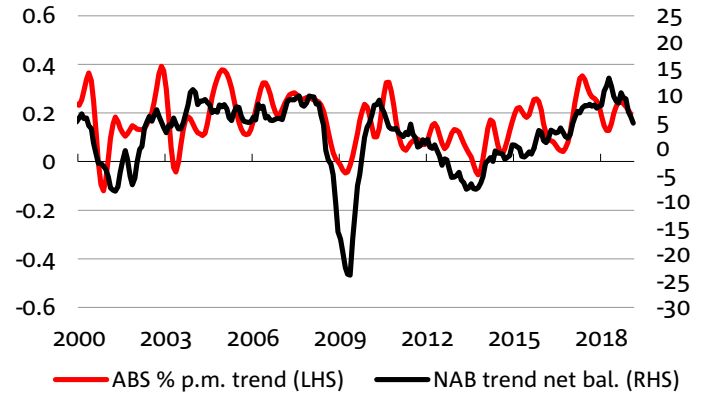


CHART 30: EMPLOYMENT BY INDUSTRY

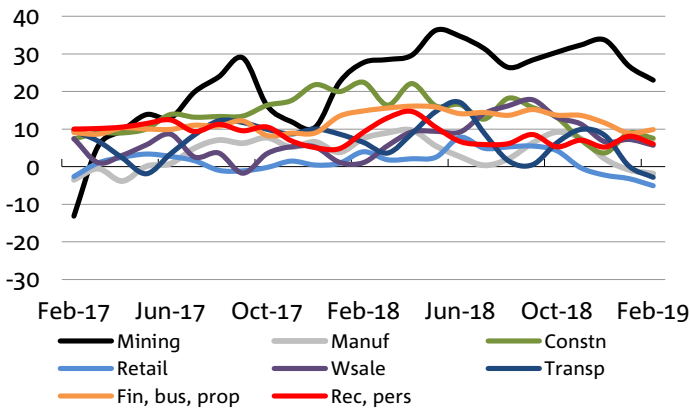


CHART 31: LABOUR COSTS GROWTH

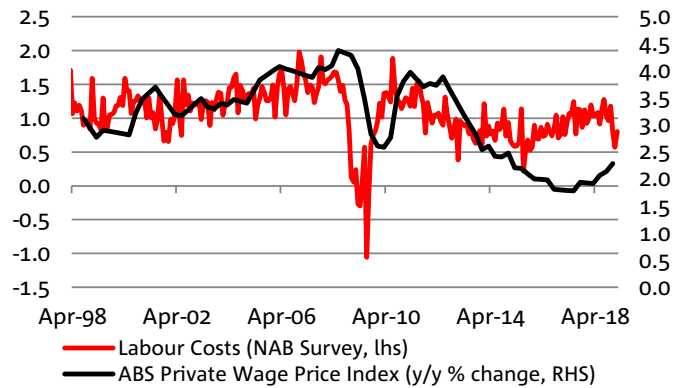


CHART 32: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

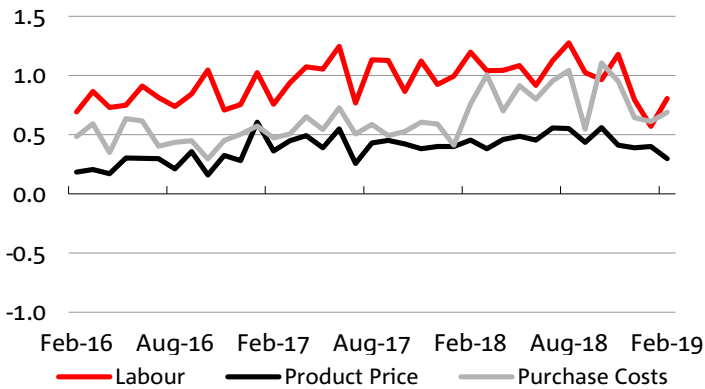
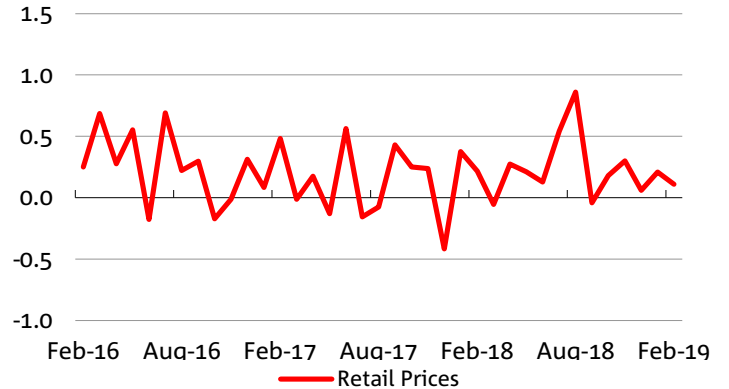


CHART 33: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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

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