

EMBARGOED UNTIL: 11:30AM AEST, 18 APRIL 2019

NAB QUARTERLY BUSINESS SURVEY 2019 Q1

CONDITIONS CONTINUE TO EASE AND CONFIDENCE TURNS NEGATIVE

NAB Australian Economics



Both business conditions and confidence declined in the quarter. Conditions continued its downward trend since peaking in early 2018 and is now only just above average, suggesting the loss of momentum in the business sector has continued into early 2019. Confidence and forward orders turned negative in the quarter suggesting the outlook for conditions remains weak. The falls in trading and profits in Q1 were significant. Also medium term expectations for conditions (3 and 12 months) and capital expenditure eased further. While the slowing in activity indicators continues unabated, attention has turned to the labour market (and the differences between activity and labour market indicators). In the Survey the decline in employment in Q1 (and expectations for Q2) were much more moderate and, in level terms, remain above average. Interestingly, firms reported that the difficulty in obtaining suitable labour edged lower – albeit it remains at elevated levels. Labour costs growth – a wage bill measure – edged lower also suggesting that wage pressure remains weak. Alongside the slowing in activity, the survey suggests that price pressures continue to track at a relatively subdued pace.

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 +4, and are now only just above the long-run average of +2. Both trading and profitability declined relatively sharply, though employment also edged lower. Conditions declined across all states in Q1, except WA and TAS. Conditions in TAS (though volatile) are most favourable, while conditions in SA are weakest and negative. NSW has relatively held up and while conditions in VIC, QLD and WA are still positive, they are now only around average +2 to +4 – compared with the national long-run average. By industry, mining and the services sector saw the best conditions, while retail remains weakest.
- **Business confidence** fell to -1 (from +1), continuing the run of below average results. Outcomes across industries were mixed. Construction and wholesale saw notable declines, while manufacturing saw the largest increase. Overall confidence remains highest in mining and weakest in wholesale and property. Confidence was lower in all states except Victoria and remains highest in WA.
- **Leading indicators** were generally a little weaker in Q1. Capacity utilisation declined further in the quarter, as did forward orders which are now negative. Expectations for business conditions for the next 3 and 12 months also declined but remain relatively elevated. Capex expectations for 3 and 12 months also eased.
- **Labour indicators** suggest ongoing strength in the labour market but that the pace of employment growth is slowing. The employment index declined in the quarter, as did expectations for the next 3 and 12 months. Labour costs growth (a wage bill measure) edged lower and the difficulty in suitable labour ticked down, but remains elevated.
- Overall, survey **inflation indicators were flat (at low levels) in the quarter**, though labour costs growth edged lower. Growth in final product prices and purchase costs was flat. Retail prices growth edged slightly higher but is very weak. Thus the survey continues to point to weak inflationary pressure in the economy.
- Looking at **construction industry subsectors** in more detail, conditions in non-residential building construction declined sharply in the quarter. Conditions in residential construction continued to ease, while construction services also declined. Conditions in engineering construction rose in the quarter.

TABLE 1: KEY QUARTERLY BUSINESS STATISTICS

	2018q3	2018q4	2019q1		2018q3	2018q4	2019q1
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	3	1	-1	Trading	16	14	7
Business conditions				Profitability	11	5	-1
Current	13	9	4	Employment	11	8	6
Next 3 months	22	16	14	Forward orders	4	0	-1
Next 12 months	27	24	22	Stocks	7	5	5
Capex plans (next 12)	28	25	22	Exports	0	0	0
	<i>% change</i>						
Labour costs	0.7	0.7	0.5	Retail prices (% change)	0.2	0.0	0.1
Purchase costs	0.6	0.5	0.5	Capacity utilisation rate (%)	83.0	82.6	81.8
Final products prices	0.3	0.2	0.2				

All data seasonally adjusted, except purchase costs and exports. Fieldwork for this survey was conducted from 25 February to 15 March 2019, covering over 900 firms across the non-farm business sector.

Next release date is 18 July 2019.

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

© National Australia Bank Limited ABN 12 004 044 937 AFSL and Australian Credit Licence 230686

QUARTERLY FOCUS: LABOUR MARKET

Labour market update

- The NAB Quarterly Business Survey contains a number of employment indicators at the state and industry level. Overall, the quarterly survey points to similar outcomes to the Monthly Business Survey. The employment index has eased from the highs in early 2018 but remains well above average, while trading conditions and profitability have eased more significantly.
- Expectations for employment 3 and 12 months ahead also edged lower in the quarter but remain elevated. These expectations suggest that labour demand is likely to remain solid but that firms are less optimistic than they were.
- By state, the employment index is highest in Tasmania and improved in Q1. Conditions eased in the other eastern states in the quarter but remain above average. Conditions in WA rose in the quarter and are now around levels seen in the other states. Conditions have weakened significantly in SA over recent quarters and is the currently the only state to show negative employment.
- Firms' reported difficulty in finding suitable labour ticked down in the quarter but remains elevated. This is in line with the tightening in the labour market that has occurred over the past year – and would suggest that upward pressure on wage growth should be emerging, but clearly that is not the case yet. That said, at present the level of difficulty in finding suitable labour remains well below the levels seen in the lead up to the GFC where wage growth was closer to 4%.
- The share of firms expecting wage pressures to increase over the next 6 months increased further in the quarter, suggesting that the falling unemployment rate, relatively high difficulty in finding suitable labour and ongoing demand for labour (employment growth) may be feeding through to higher wage expectations/pressure. However, at this point official and surveyed indicators of wages suggest wage growth remains modest, even after increasing slightly over the past year.
- Labour market dynamics are likely to remain a focus this year, as employment growth, the unemployment rate and progress on wage growth remain important factors for the economy. All three will remain important for the outlook for household income and in turn consumer spending – around 60% of GDP – which has grown only modestly in the second half of 2018. Wage growth and its impact on domestic labour costs and therefore inflation will also remain a focus. Both of these factors are likely to be important determinants of monetary policy going forward.
- For now our reading of the NAB survey labour market indicators – like other labour market indicators – suggests that labour demand remains relatively strong. Therefore the strength in the labour market is likely to persist in the near term. We expect these indicators to pull-back as the slowing in growth begins to feed through to the labour market with a lag.

CHART 1: NAB EMPLOYMENT AND EMPLOYMENT EXPECTATIONS (NET BAL)

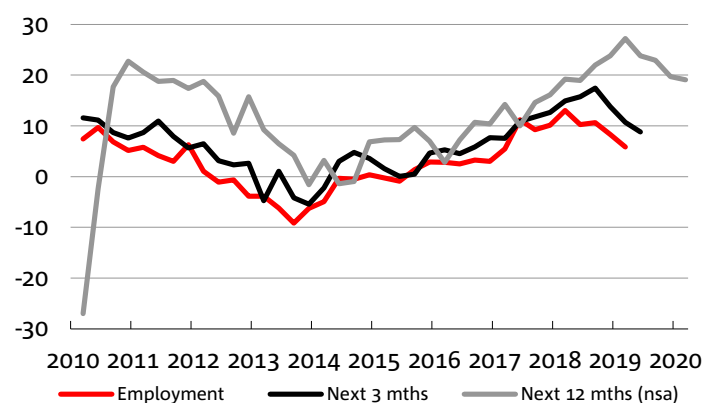


CHART 2: DIFFICULTY FINDING SUITABLE LABOUR (% OF FIRMS)

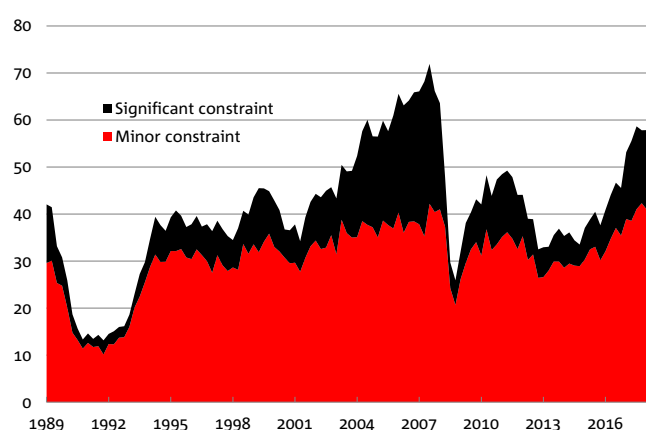
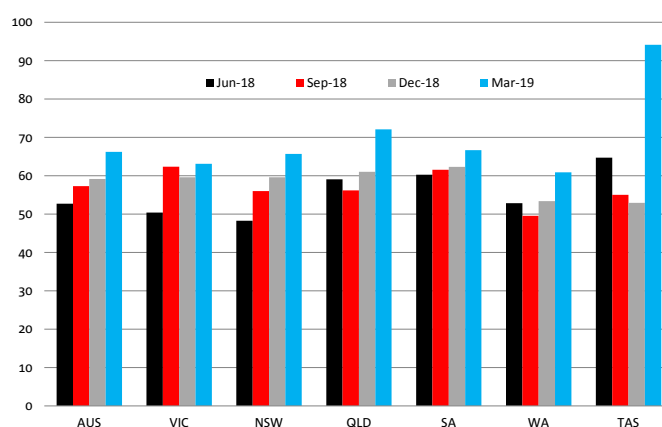


CHART 3: WAGE PRESSURES BY STATE (NET BAL)



NAB QUARTERLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

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

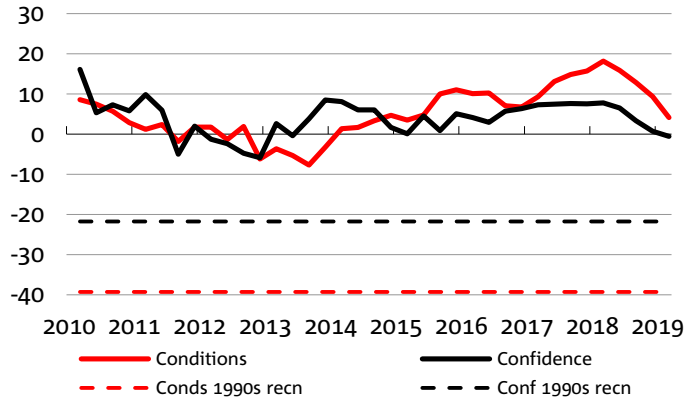
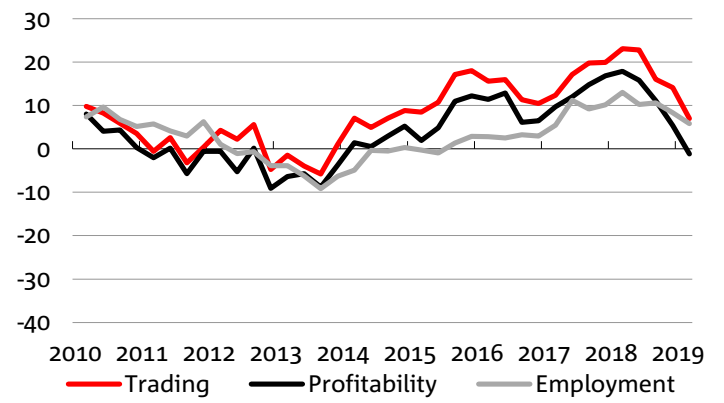


CHART 5: BUSINESS CONDITIONS COMPONENTS (NET BALANCE, S.A.)



DRIVERS OF BUSINESS CONFIDENCE

CHART 6: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE

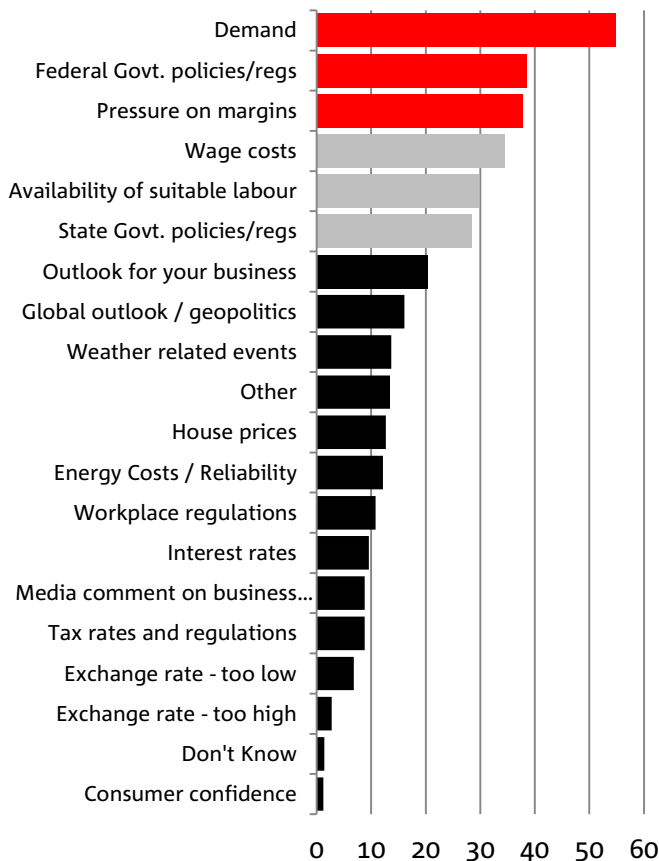


CHART 7: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – DETERIORATING CONDITIONS

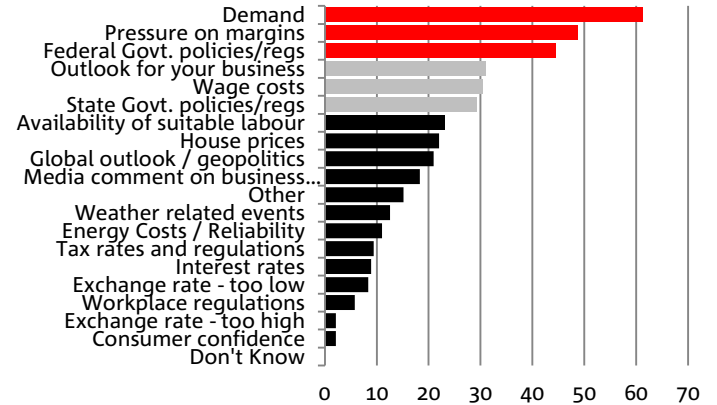
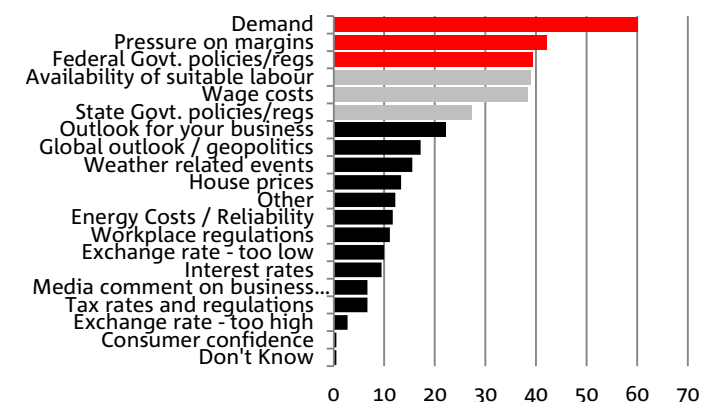


CHART 8: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – IMPROVING CONDITIONS



NAB QUARTERLY BUSINESS SURVEY – LEADING INDICATORS & INVESTMENT

CHART 9: BUSINESS CONDITIONS AND EXPECTATIONS (NET BALANCE)

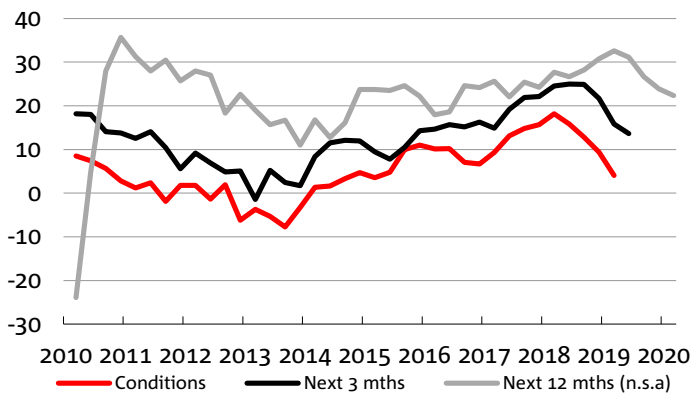


CHART 10: FORWARD ORDERS & EXPECTATIONS (NET BALANCE S.A.)

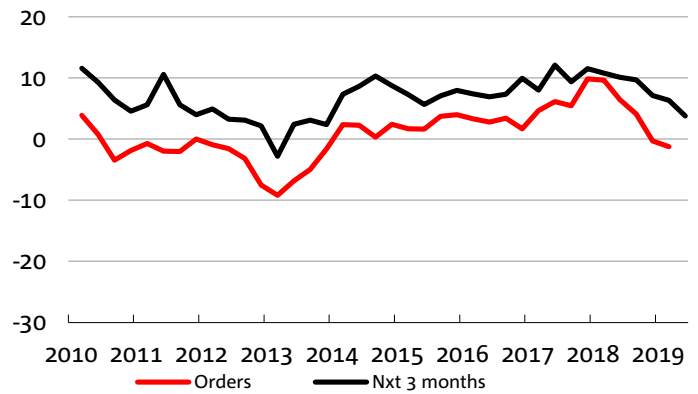


CHART 11: STOCKS (NET BALANCE S.A.)

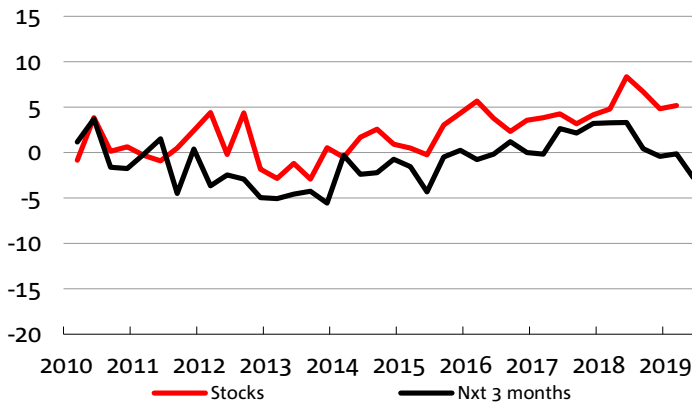


CHART 12: CAPACITY UTILISATION (PER CENT, S.A.)

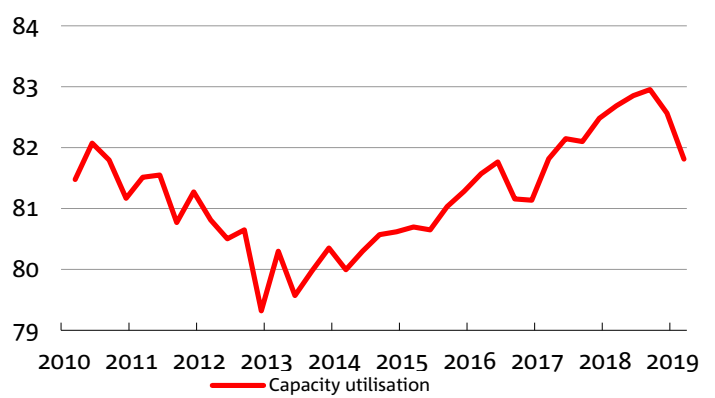


CHART 13: CAPACITY UTILISATION (PPT DEVIATION FROM LONG-RUN AVERAGE, 3 QTR MA)

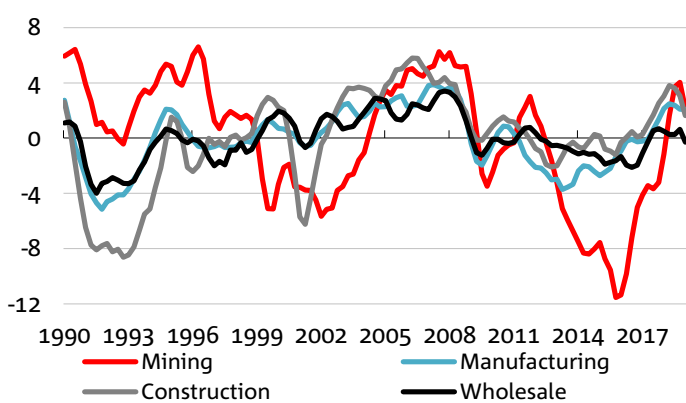
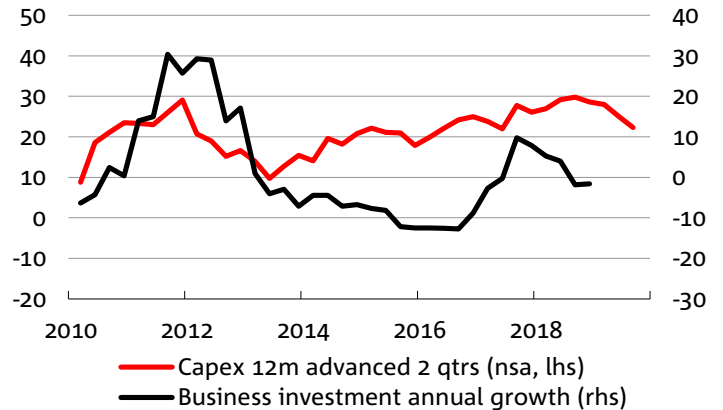


CHART 14: BUSINESS INVESTMENT & CAPEX PLANS



NAB QUARTERLY BUSINESS SURVEY – LABOUR MARKET

CHART 15: EMPLOYMENT & EXPECTATIONS (NET BALANCE)

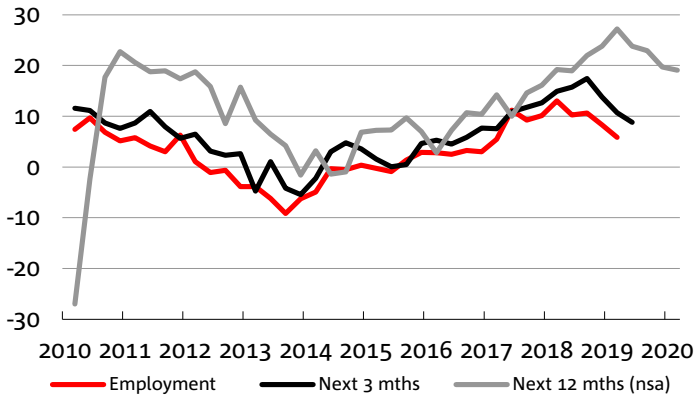


CHART 16: UNEMPLOYMENT RATE & LABOUR CONSTRAINTS

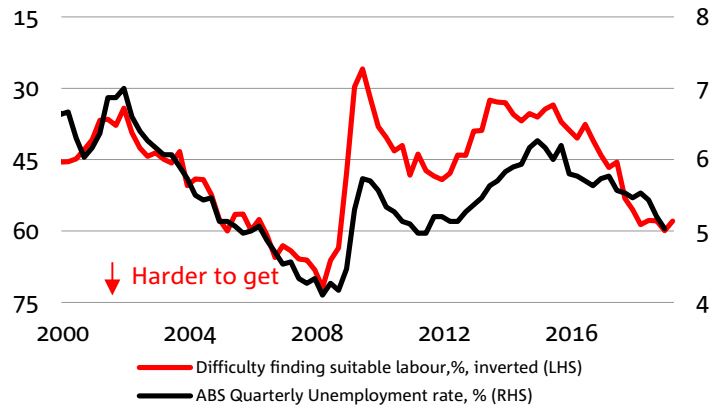


CHART 17: CHANGE IN AVERAGE HOURS WORKED (NSA)

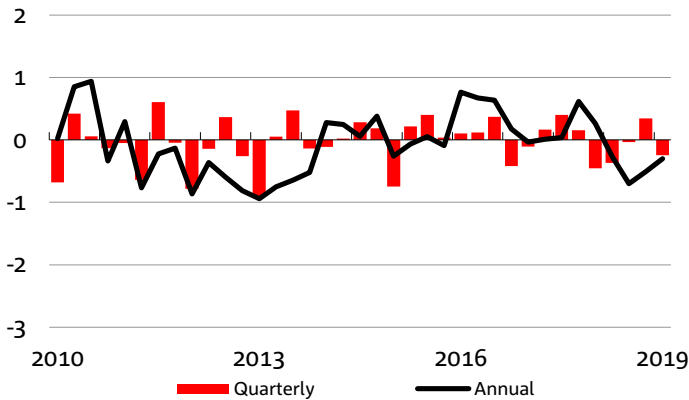


CHART 18: UNDERUTILISATION RATE & LABOUR CONSTRAINTS

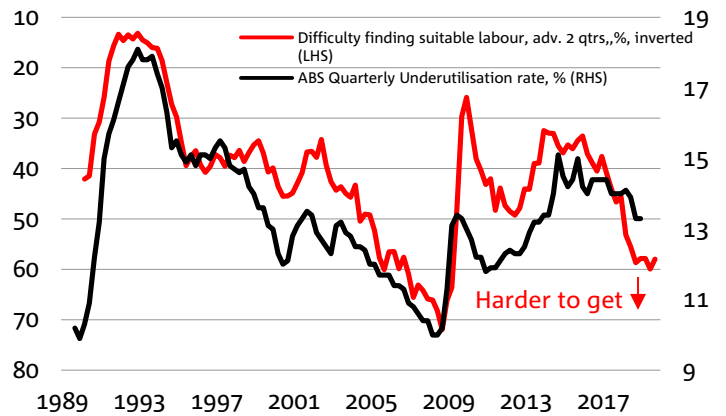


CHART 19: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)

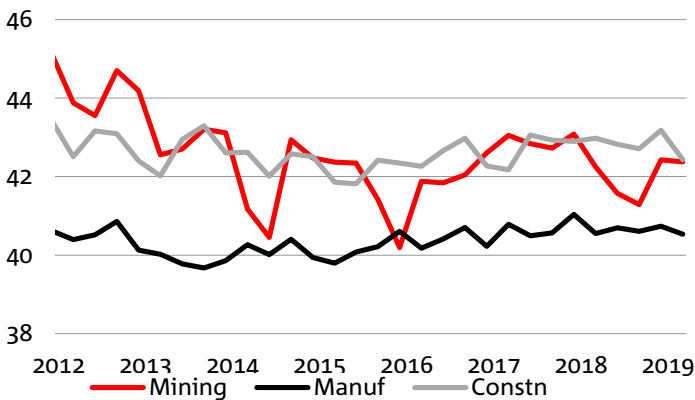


CHART 20: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)

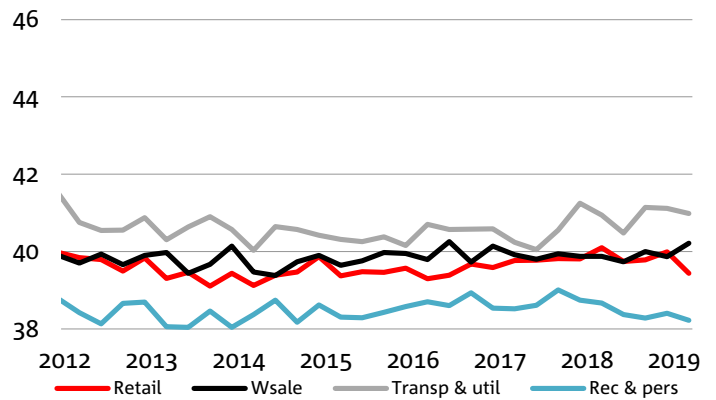
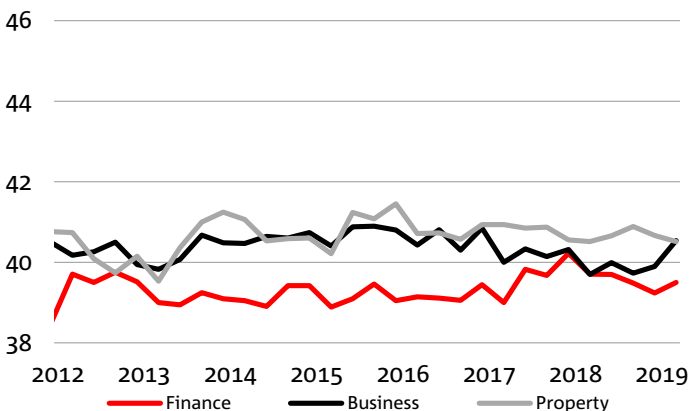


CHART 21: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)



NAB QUARTERLY BUSINESS SURVEY - MAJOR CONSTRAINTS ON FIRM OUTPUT

CHART 22: MAIN CONSTRAINTS ON FIRM OUTPUT

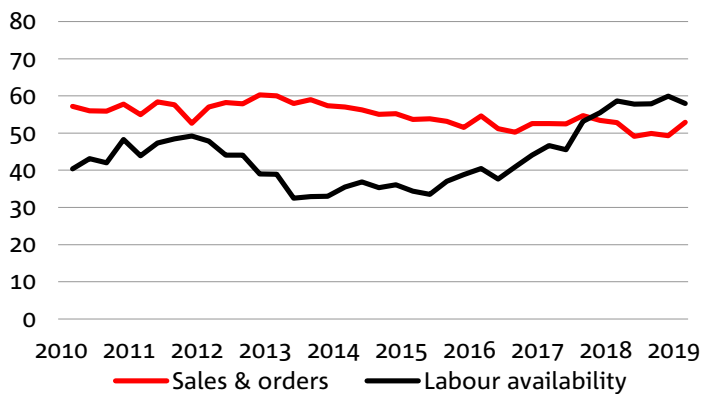
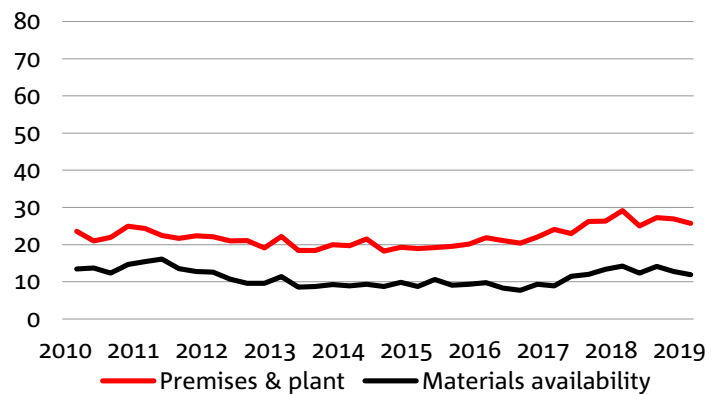


CHART 23: MAIN CONSTRAINTS ON FIRM OUTPUT



INFLATION PRESSURES

CHART 24: PRICES (% ANN, SA)

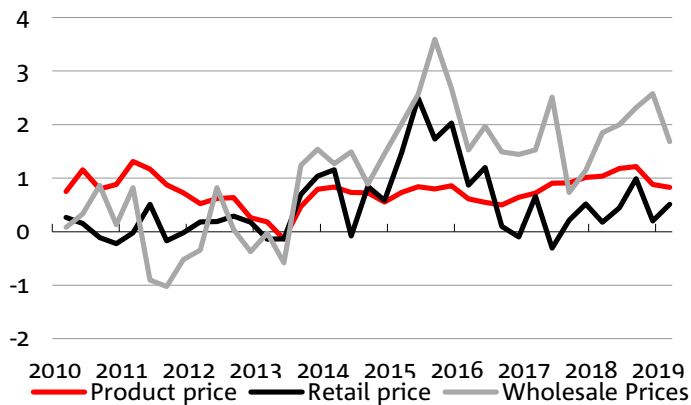
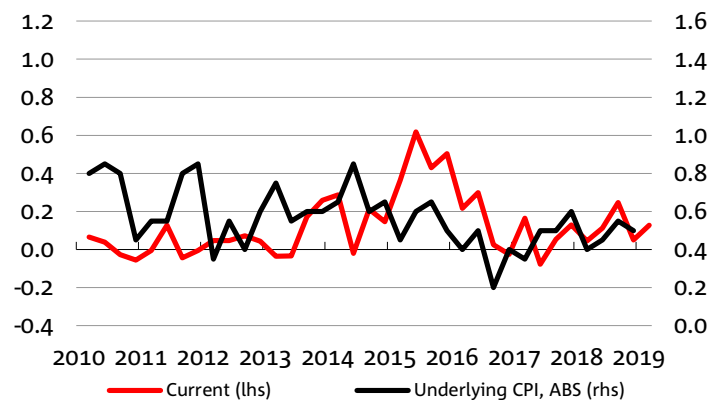


CHART 25: RETAIL PRICES (% P.Q.)



LABOUR COSTS (DETAILS)

CHART 26: LABOUR COSTS & COMPENSATION OF EMPLOYEES

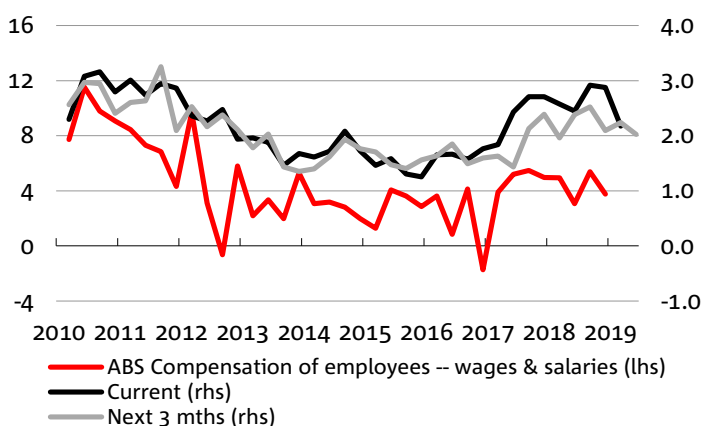
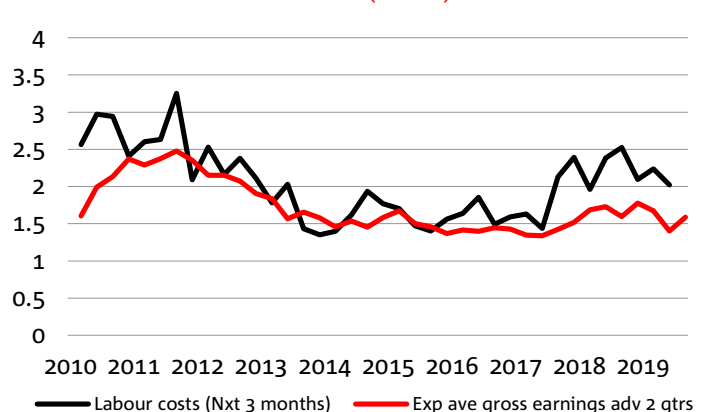


CHART 27: EXPECTED LABOUR COSTS (% ANN)



NAB QUARTERLY BUSINESS SURVEY – CONSTRUCTION INDUSTRY DETAILS

CHART 28: BUSINESS CONDITIONS BY INDUSTRY

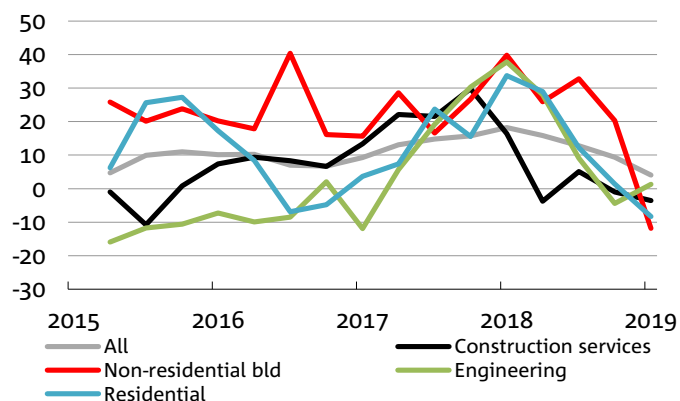


CHART 29: BUSINESS CONFIDENCE BY INDUSTRY

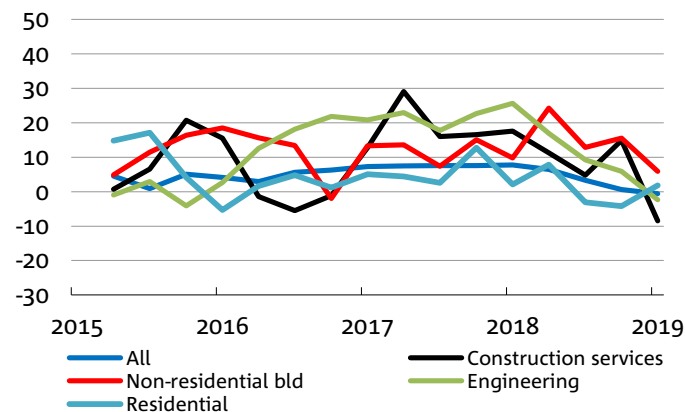


CHART 30: EMPLOYMENT CONDITIONS BY INDUSTRY

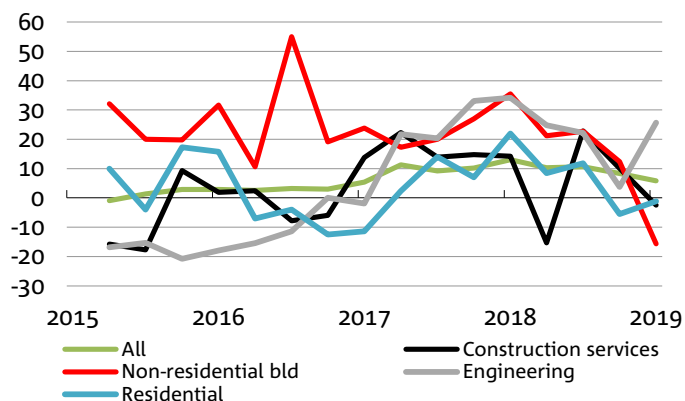
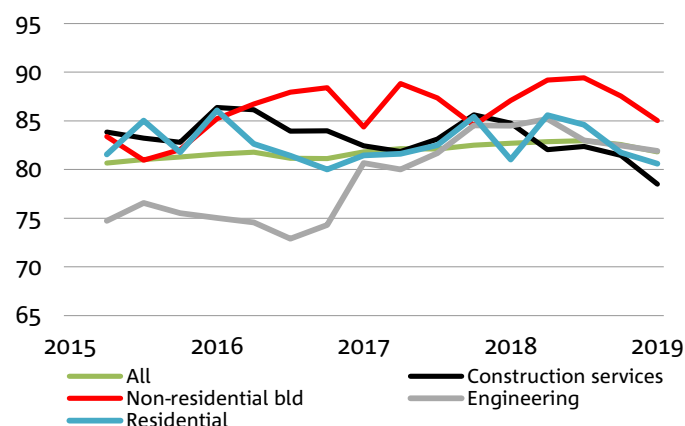


CHART 31: CAPACITY UTILISATION BY INDUSTRY



FINANCIAL MARKET EXPECTATIONS

- Around 60% of businesses surveyed in the March quarter expect interest rates will remain unchanged over the next year, while the number expecting an increase has fallen by around two-thirds to 11%. On average, businesses are pricing in around a 2% probability of a 25bps rate cut in the next 12 months, a significant change from a quarter ago where businesses expected a 60% chance of a hike over the next year. In March, NAB Economics changed our view on the expected path of the cash rate over the next two years. We now expect the RBA to cut rates twice in 2019, taking the cash rate to a new record low of 1%. The slowing in growth over the second half of 2018 and persistence of weaker business conditions in early 2019 is likely to see little further progress in reducing the unemployment rate. With inflation still below the RBA's target band and little risk of an overshoot, we think the RBA will move to bolster the economy on a 'least regrets' basis and see stronger growth, lower unemployment and inflation return to the target band sooner than it otherwise would have.
- Exchange rate expectations in the Survey (6-months-ahead) were slightly lower than Q4 2018 with business expecting the exchange rate of around US71.2c in six months' time. Expectations have tracked movements in the dollar over the year or so and current expectations largely reflect the prevailing level at the time the survey was conducted.

NAB QUARTERLY BUSINESS SURVEY – MORE DETAILS ON INDUSTRY

CHART 32: BUSINESS CONDITIONS BY INDUSTRY

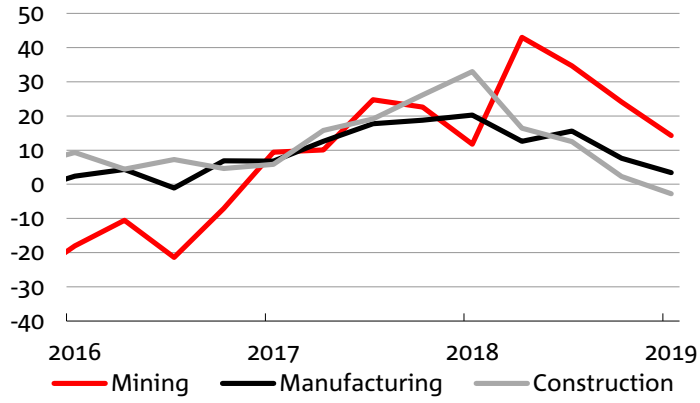


CHART 35: BUSINESS CONFIDENCE BY INDUSTRY

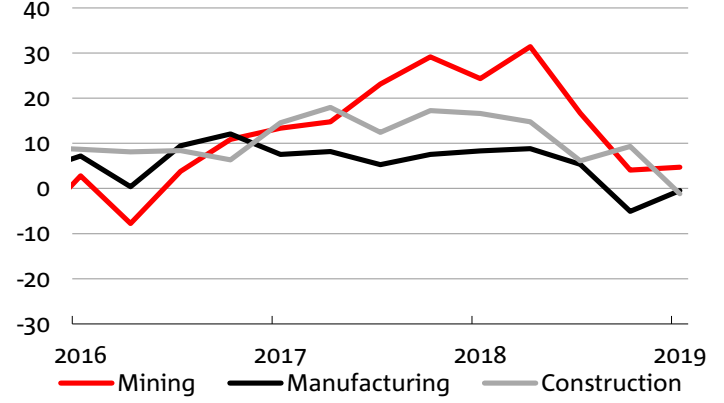


CHART 33: BUSINESS CONDITIONS BY INDUSTRY

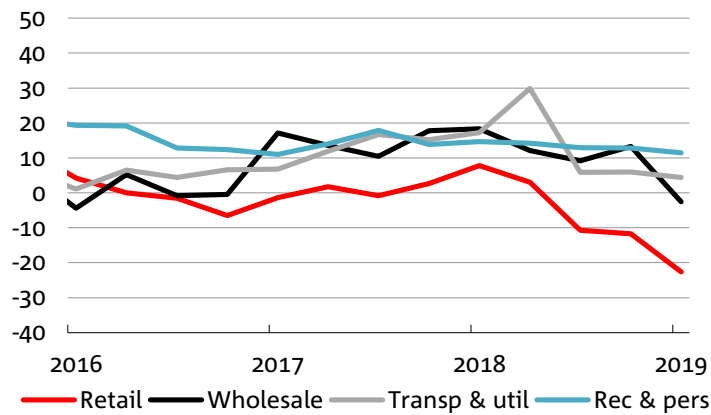


CHART 36: BUSINESS CONFIDENCE BY INDUSTRY

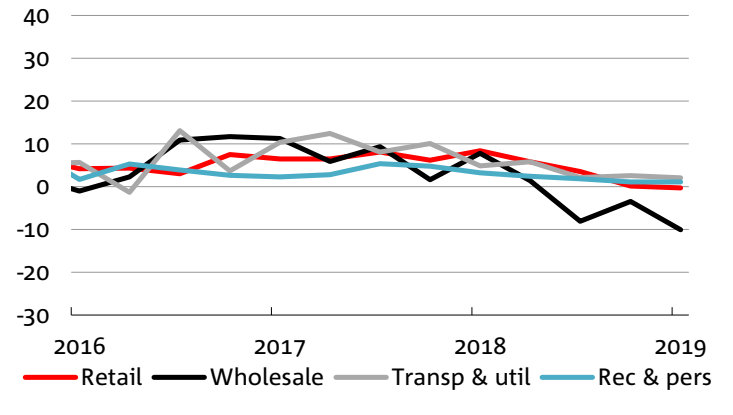


CHART 34: BUSINESS CONDITIONS BY INDUSTRY

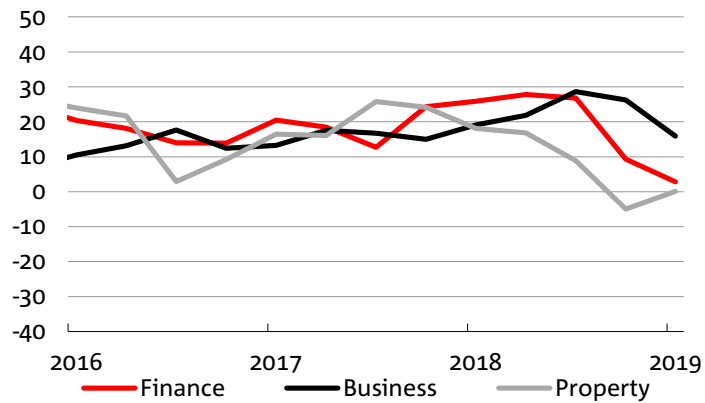
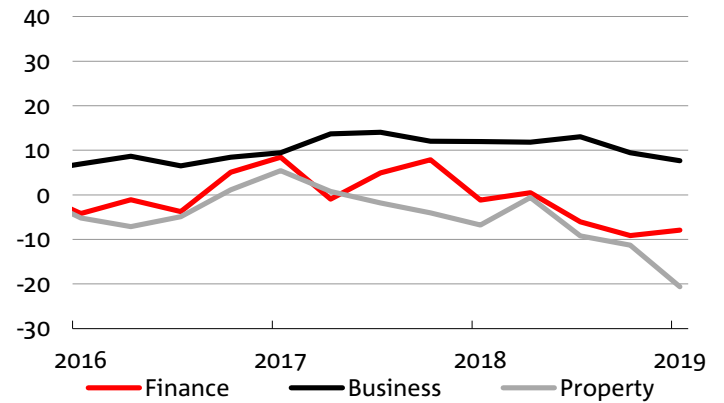


CHART 37: BUSINESS CONFIDENCE BY INDUSTRY



NAB QUARTERLY BUSINESS SURVEY – FURTHER DETAILS BY STATE

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

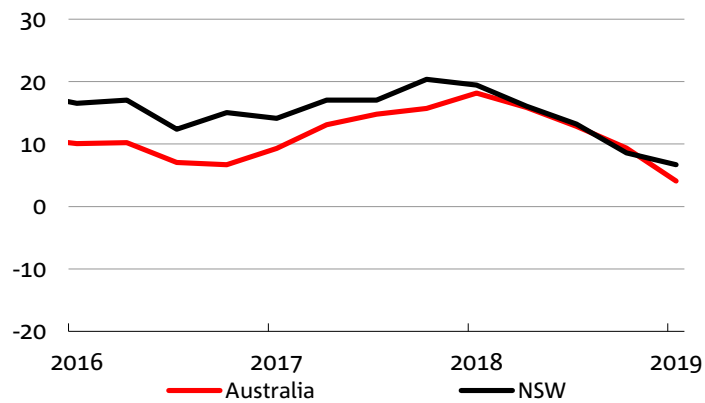


CHART 41: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A..)

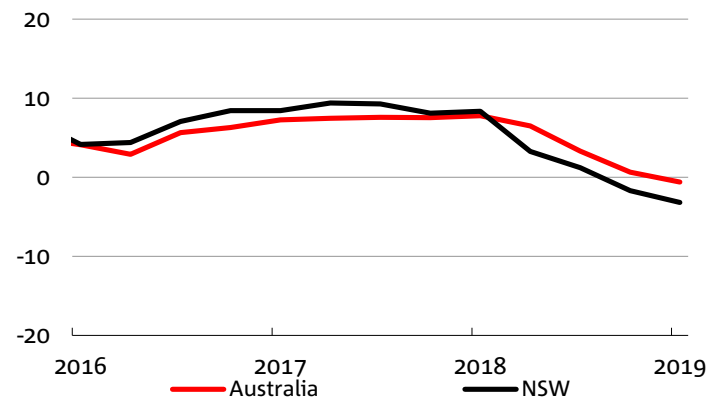


CHART 39: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

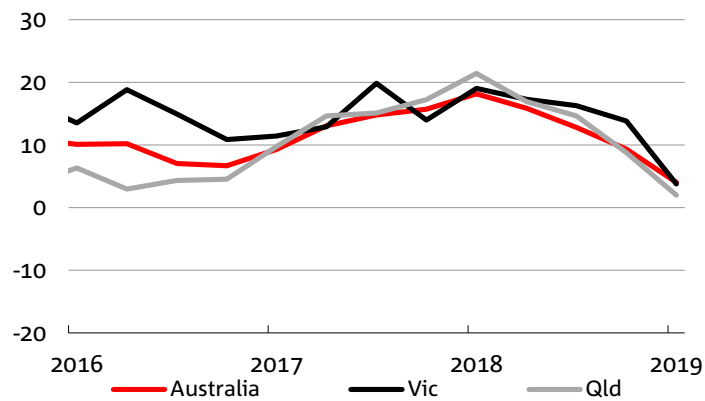


CHART 42: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A..)

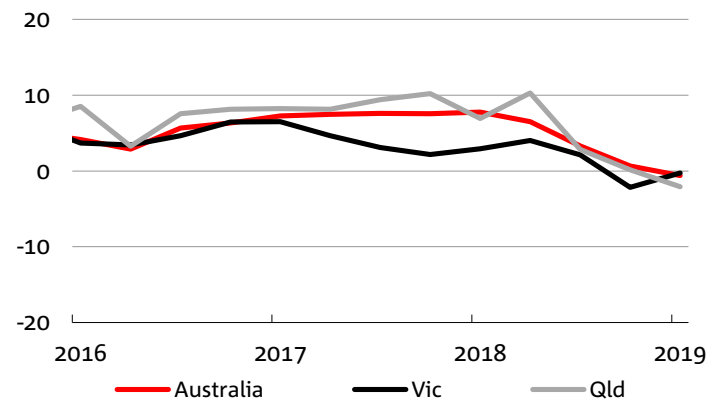


CHART 40: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

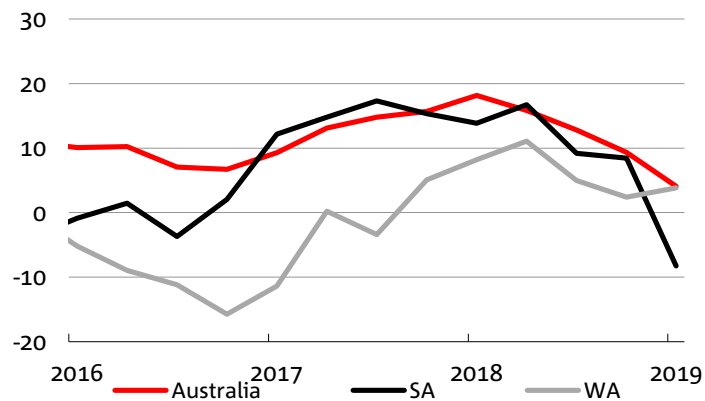
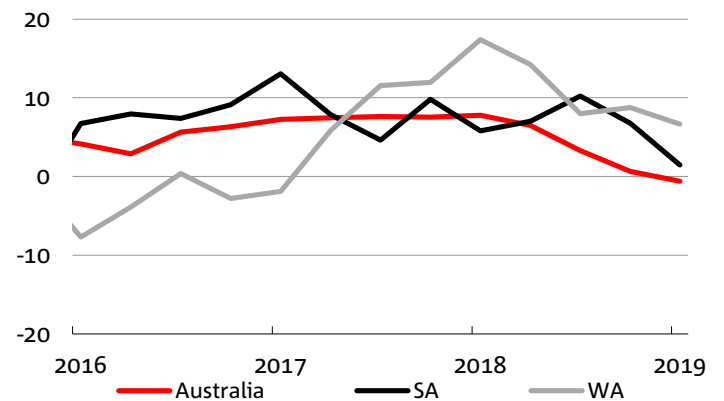


CHART 43: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A..)



NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX

	Quarterly					Monthly				
	2018q1	2018q2	2018q3	2018q4	2019q1	2018m11	2018m12	2019m1	2019m2	2019m3
Confidence	8	6	3	1	-1	3	3	3	2	0
Conditions	18	16	13	9	4	11	3	7	4	7

	Quarterly					Monthly				
	2018q1	2018q2	2018q3	2018q4	2019q1	2018m11	2018m12	2019m1	2019m2	2019m3
Trading	23	23	16	14	7	16	7	11	8	12
Profitability	18	16	11	5	-1	8	1	5	1	5
Employment	13	10	11	8	6	9	3	5	5	7

	Quarterly ^(a)					Monthly				
	2018q4	2019q1	2019q2	2019q4	2020q1	2018m11	2018m12	2019m1	2019m2	2019m3
Conditions	9	4	NA	NA	NA	11	3	7	4	7
Conds. next 3m	22	16	14	NA	NA					
Conds. nxt 12m	31	33	31	24	22					
Orders	0	-1	NA	NA	NA	0	-1	2	-2	-1
Orders next 3m	7	6	4	NA	NA					

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

	Quarterly ^(a)					Monthly				
	2018q2	2018q3	2018q4	2019q1	2019q2	2018m11	2018m12	2019m1	2019m2	2019m3
Capacity utilis.	82.9	83.0	82.6	81.8	NA	82.1	81.9	81.4	80.9	81.0
Stocks current	8	7	5	5	NA	3	3	3	3	1
Stocks next 3m	3	0	0	0	-3					

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

	2018q1	2018q4	2019q1
Constraints on output (% of firms)*			
Sales & orders	52.8	49.3	52.9
Labour	58.6	59.9	57.9
Premises & plant	29.1	26.9	25.7
Materials	14.2	12.8	11.9

* not s.a.

	Quarterly ^(a)					Monthly				
	2018q4	2019q1	2019q2	2019q4	2020q1	2018m11	2018m12	2019m1	2019m2	2019m3
Empl current	8	6	NA	NA	NA	9	3	5	5	7
Empl next 3m	14	11	9	NA	NA					
Empl nxt 12m	24	27	24	20	19					

(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>2018q1</u>	<u>2018q2</u>	<u>2018q3</u>	<u>2018q4</u>	<u>2019q1</u>	<u>2018m11</u>	<u>2018m12</u>	<u>2019m1</u>	<u>2019m2</u>	<u>2019m3</u>
Business conditions										
NSW	19	16	13	9	7	9	7	7	3	13
VIC	19	17	16	14	4	17	4	5	7	7
QLD	21	17	15	9	2	15	3	5	5	3
SA	14	17	9	8	-8	5	-15	17	-6	-2
WA	8	11	5	2	4	4	0	4	6	6

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2018q1</u>	<u>2018q2</u>	<u>2018q3</u>	<u>2018q4</u>	<u>2019q1</u>	<u>2018m11</u>	<u>2018m12</u>	<u>2019m1</u>	<u>2019m2</u>	<u>2019m3</u>
Business confidence										
NSW	8	3	1	-2	-3	0	2	6	-1	-2
VIC	3	4	2	-2	0	1	1	3	4	-1
QLD	7	10	3	0	-2	4	4	6	-1	3
SA	6	7	10	7	1	12	8	8	2	-1
WA	17	14	8	9	7	7	3	2	15	-2

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

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.

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.