

NAB MONTHLY BUSINESS SURVEY MAY 2019

CONFIDENCE IMPROVES BUT CONDITIONS DECLINE FURTHER

NAB Australian Economics

Key messages from the Survey: Business conditions weakened further in the month and are now well below average – the key message remains that the private sector continues to lose momentum. The goods distribution industries (especially retail – which is clearly in recession) remain particularly weak, and manufacturing is not far behind. The services industries appear to be holding up better but have also seen a deterioration over the past year. By state, NSW continues to be the best performer on the mainland, while Tas also continues a strong run of readings. WA has weakened notably in 2019, despite the mining sector showing strength. Business confidence saw a post-election spike in May (while the Survey was sent out on 14 May, interviewing started on 20 May) while expectations of rate cuts may also have helped. However, the increase may not persist with other forward-looking indicators remaining weak. Worryingly, forward orders declined further, and capacity utilisation is now a touch below average. With activity continuing to lose momentum, and capacity utilisation declining, the survey continues to show weak price pressure across inputs and final products.

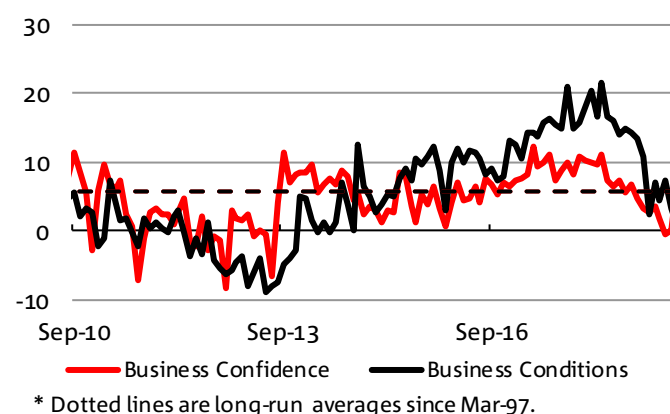
HIGHLIGHTS

- **How confident are businesses?** Business confidence rose sharply in May to +7 index points, but given its low starting point, only shows a just-above-average read. Confidence is probably post-election and rate cut expectations related.
- **How did business conditions fare?** Business conditions weakened further in the month, declining to +1 index points – and is now well below average. Conditions are around 20 pts below their peak in early 2018.
- **What components contributed to the result?** The fall in the month was driven by a decline in trading (down 5pts) and profitability (down 4pts). The employment index rose to its average level in the month but remains notably weaker than 3 months ago.
- **What is the survey signalling for jobs growth?** At current levels, and based on historical relationships, the survey suggests that employment will likely grow around 18k per month, over the next 6 months. With ongoing strength in population growth, this rate of employment demand is unlikely to see further reductions in the unemployment rate.
- **Which industries are driving conditions?** The decline in conditions was driven by a further weakening in retail, a decline in mining and smaller falls in transport & utilities and the services sector. In trend terms, conditions remain most favourable in mining and weakest in the goods distribution industries. Manufacturing is also negative after weakening in recent months.
- **Which industries are most confident?** Confidence is at or below the national average (in trend terms) in all industries except mining, construction and manufacturing.
- **Where are we seeing the best conditions by state?** Conditions fell in all states except QLD and WA in the month. In trend terms, conditions remain most favourable in Tas and NSW while WA is now negative.
- **What is confidence like across the states? In trend terms** confidence across states remains clustered at 1-2 index pts with the exception of SA – suggesting that notwithstanding the spike in the month, confidence remains well below average.
- **Are leading indicators suggesting further improvement?** Leading indicators remain weak. Forward orders fell further below average (becoming more negative), capacity utilisation is now a touch below average and the spike in confidence in the month could well be short-lived unless conditions and orders improve substantially.
- **What does the Survey suggest about inflation and wages?** For some time now, the survey has suggested inflationary pressure remains weak. Growth in prices across inputs and outputs continues to track a relatively slow pace, and in combination with lower capacity utilisation is unlikely to lift any time soon.

TABLE 1: KEY STATISTICS

	Mar-19	Apr-19	May-19
Net balance			
Business confidence	0	0	7
Business conditions	7	3	1
Trading	12	8	3
Profitability	4	1	-3
Employment	6	-1	2
Forward orders	-1	-2	-3
Stocks	1	1	1
Exports	0	-1	-1
% change at quarterly rate			
Labour costs	0.7	0.6	1.0
Purchase costs	0.5	0.5	0.8
Final products prices	0.4	0.2	0.2
Retail prices	0.3	0.4	0.1
Per cent			
Capacity utilisation rate	81.0	81.1	80.9

CHART 1: CONFIDENCE IMPROVES BUT CONDITIONS DECLINE FURTHER



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 14 - 24 May 2019, covering over 550 firms across the non-farm business sector.

Next release date: 9 July 2019.

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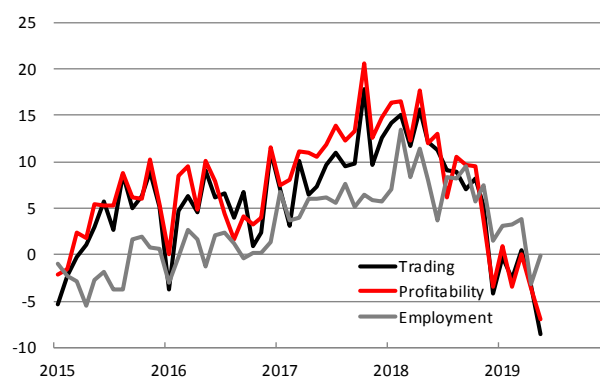
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NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

THE COMPONENTS OF BUSINESS CONDITIONS

- All three subcomponents of the business conditions index have declined over the past year. The decline in the trading and profitability indexes have been particularly sharp, given their high starting point and current low levels. The decline in the employment index has not been as dramatic, but it is also well below a year ago.
- At these levels, trading and profitability are well below average, while employment is at around its long-run average. Overall, this suggests that demand (trading conditions) has been weak and in combination with cost pressures, profits have also weakened. For now, firms appear to have pulled back on employment but still see demand for labour as around average.

CHART 2: COMPONENTS OF CONDITIONS (DEV FROM AVERAGE PTS.)



THE RETAIL INDUSTRY CONTINUES TO WEAKEN

- Conditions in the retail sector have lagged most other industries for some time. This has come as no surprise given the trends in household consumption and retail sales data. Ongoing structural changes in the sector are also likely to have weighted on activity in the sector.
- After showing some improvement starting in late 2017, conditions in the retail sector have deteriorated significantly since peaking in March 2018 (in trend terms). In seasonally adjusted terms, conditions in the sector are now around levels last seen in the GFC.
- By component, the weakness has been broad-based, though more pronounced in trading conditions and profitability. Employment has held up better but appears to now have been affected by the weakness in the other two components.
- Retail business confidence also weakened through 2018 reflecting a loss of optimism with ongoing structural change and a further slowing in consumption growth.
- Capex in the sector has again turned negative, likely reflecting the lagged effect of the earlier pull-back in activity and the trend decline in capacity utilisation.
- Smoothed data on retail sub-industries shows that conditions are particularly weak in car and other retailing. Food retailing has also deteriorated in recent months. Household goods retailing has improved somewhat in 2019 but also remains negative.
- Official data on consumption from the national accounts and retail sales reflect a similar pattern. Over the past year, the bulk of spending growth has come from spending on 'essentials', while household decisions on discretionary items appear to have been delayed.
- Going forward, we think that household restraint is likely to persist for some time, with household debt still high, wage growth low and the recent decline in house prices weighing on confidence in the sector. Further, the ongoing structural change and intense competition in the sector is likely to see further pressure on margins and drive further change in the sector. Tax changes may help consumers but the impact is still relatively marginal – and delayed.

CHART 3: RETAIL CONDITIONS AND CONFIDENCE (NET BAL, TREND)

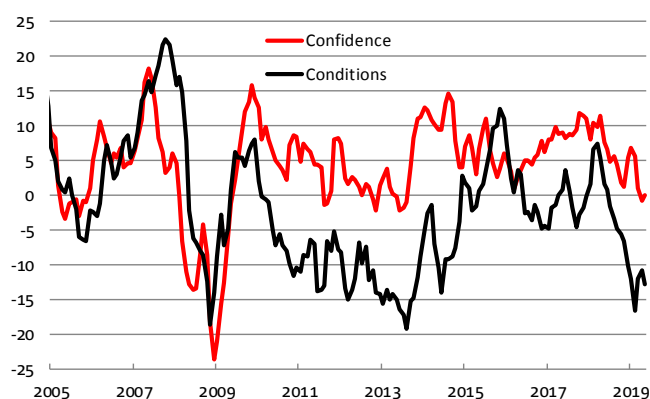
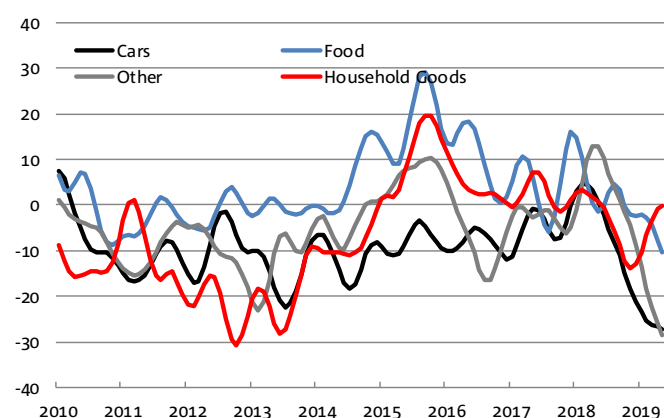


CHART 4: RETAIL INDUSTRIES (NET. BAL, 13-PERIOD HENDERSON TREND)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

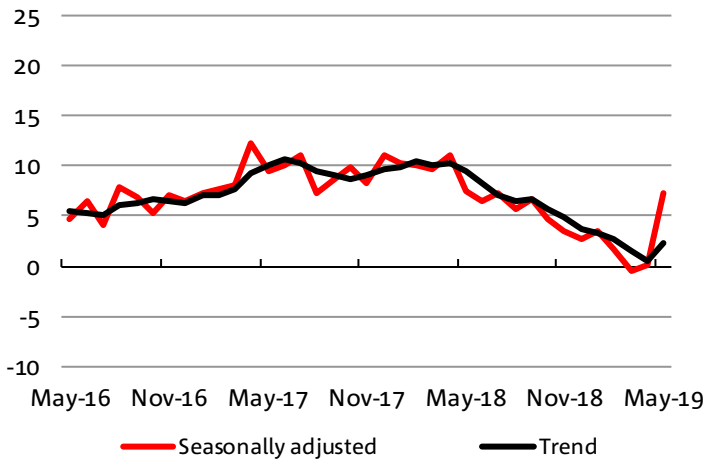


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

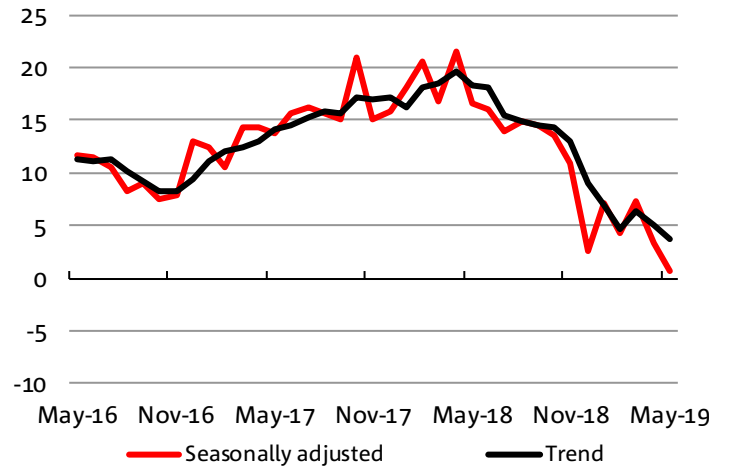


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

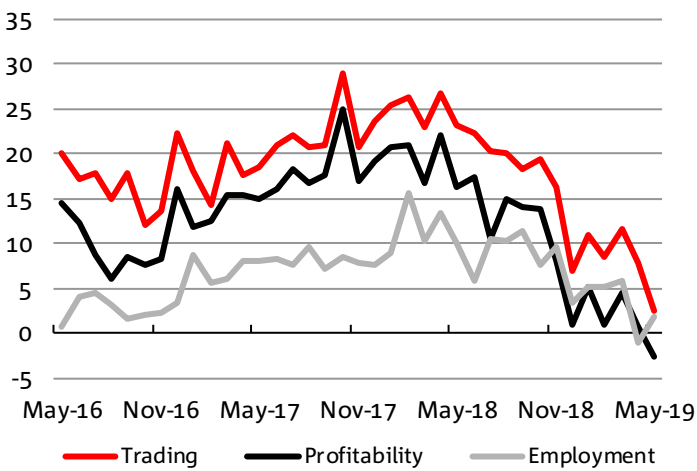


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

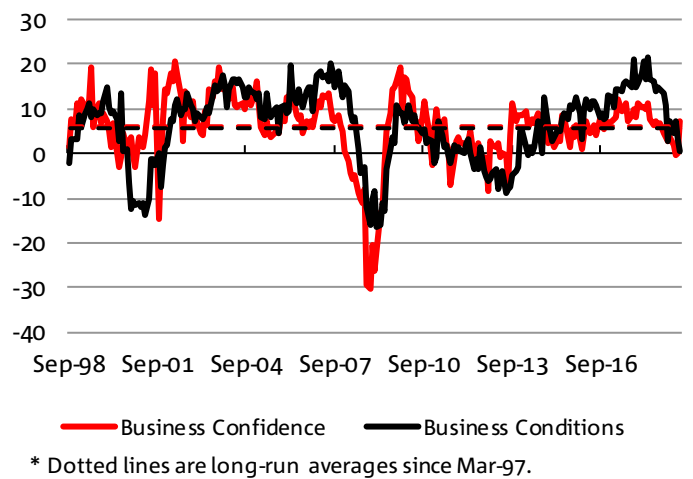


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

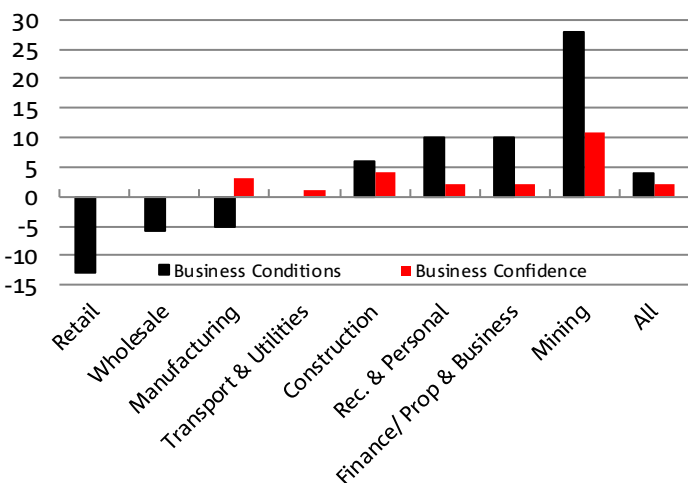
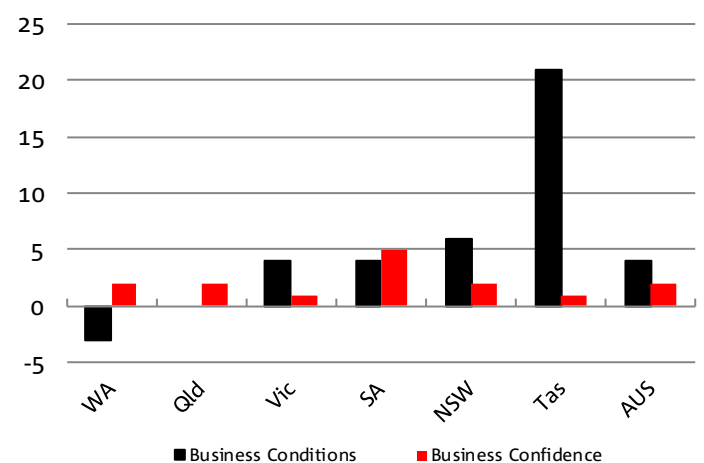


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

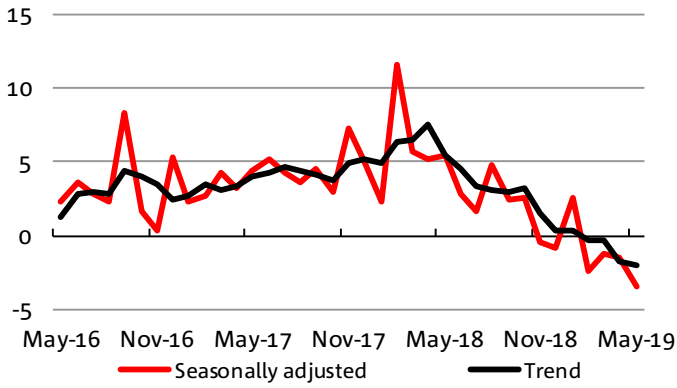


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

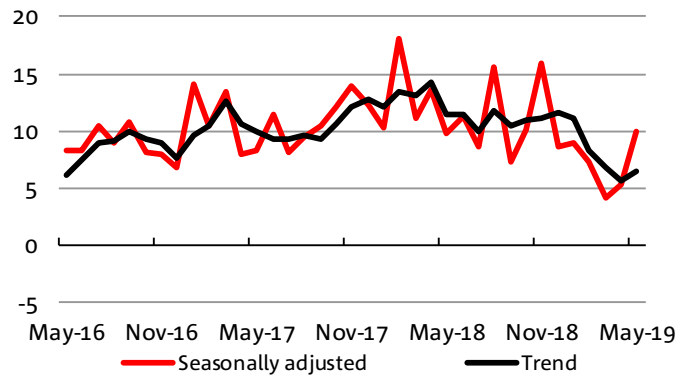


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

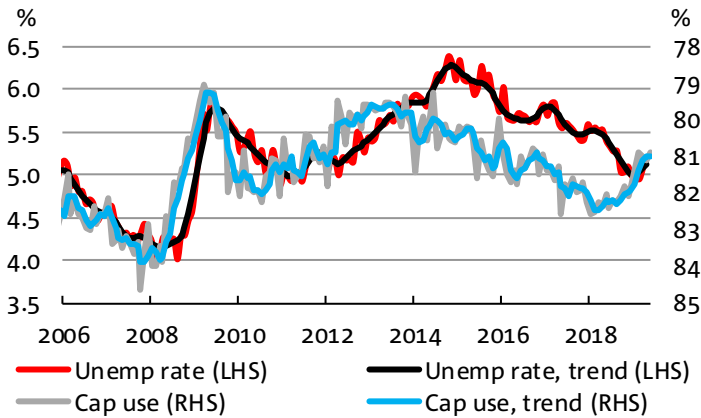


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

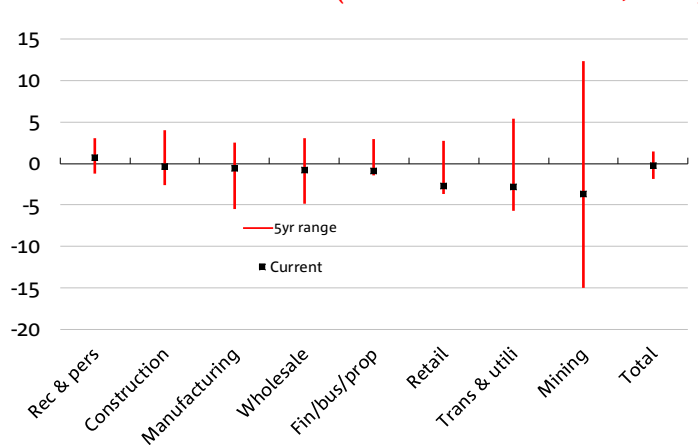


CHART 15: STOCKS (NET BALANCE)

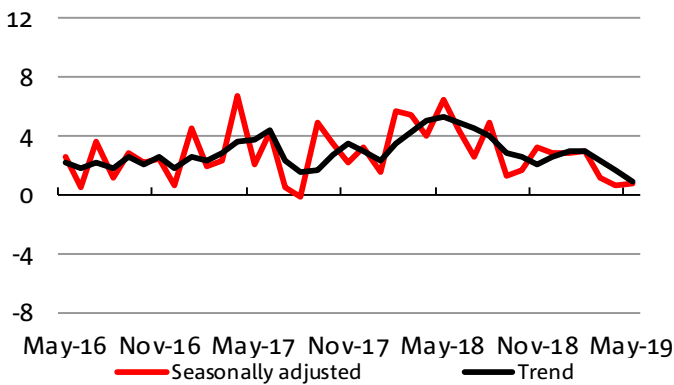


CHART 16: CASH FLOW (NET BALANCE)

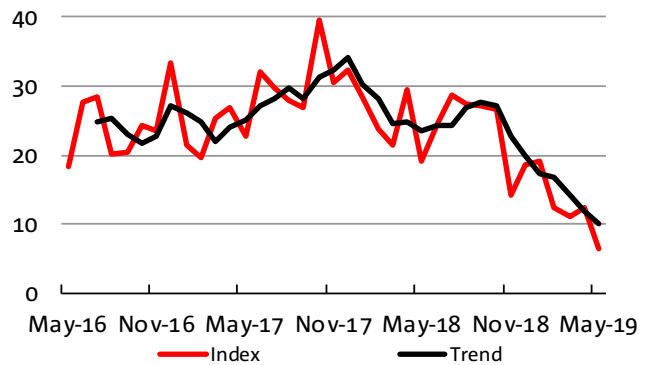


CHART 17: EXPORTS (NET BALANCE)

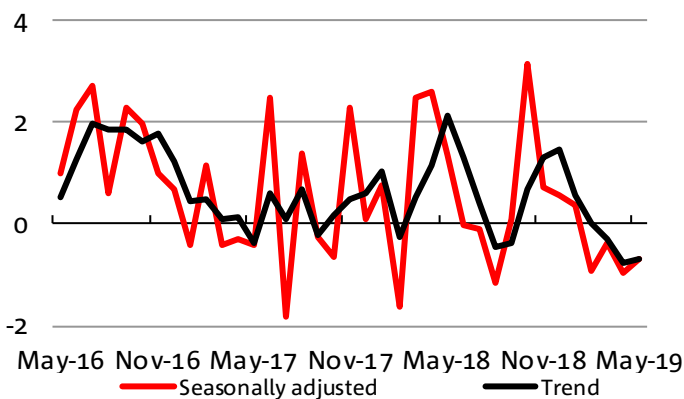
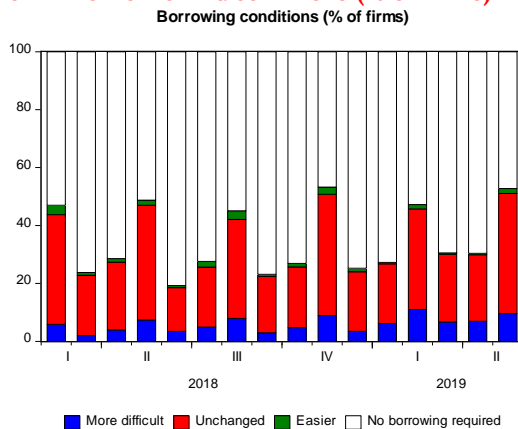


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 19: BUSINESS CONDITIONS (NET BALANCE) BY STATE

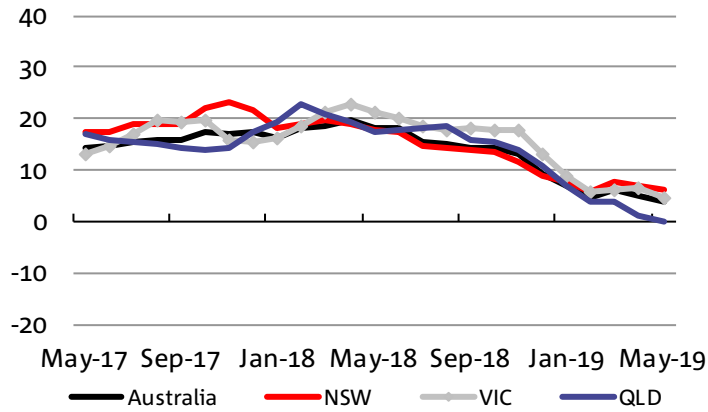


CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

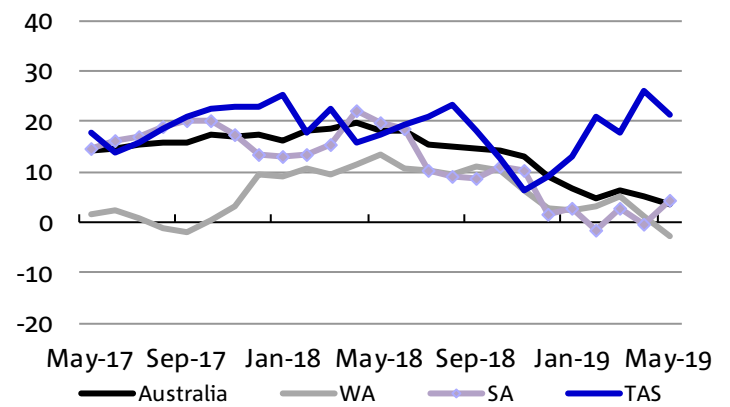


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

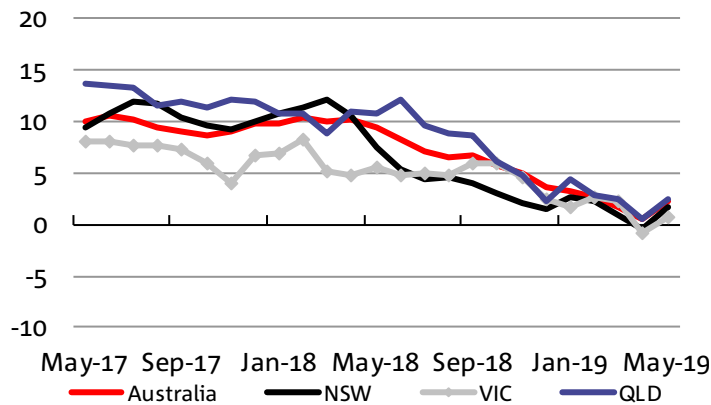


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

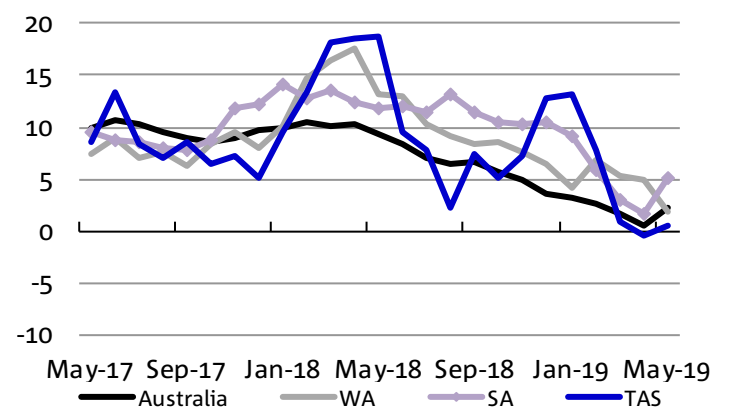


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

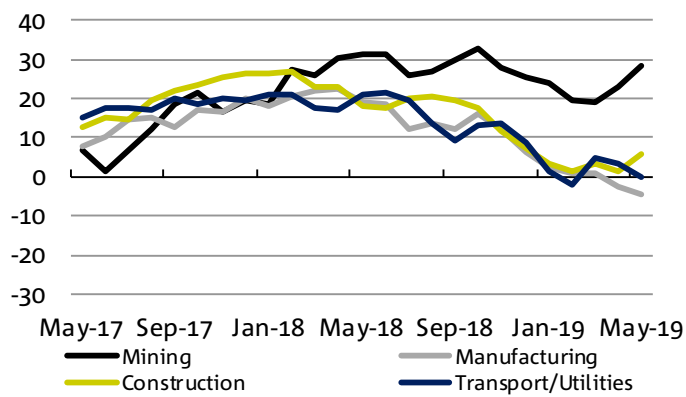


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

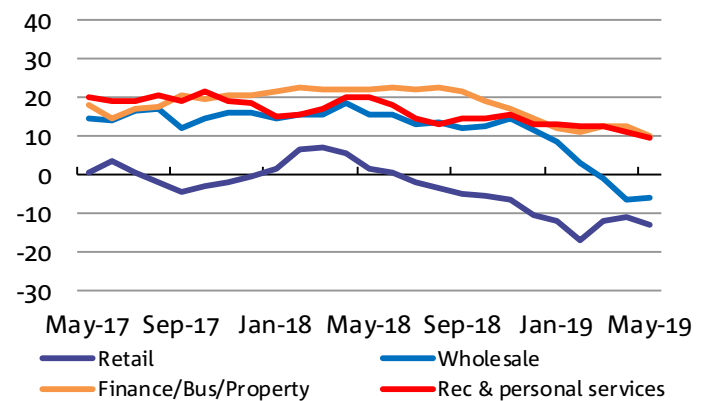


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

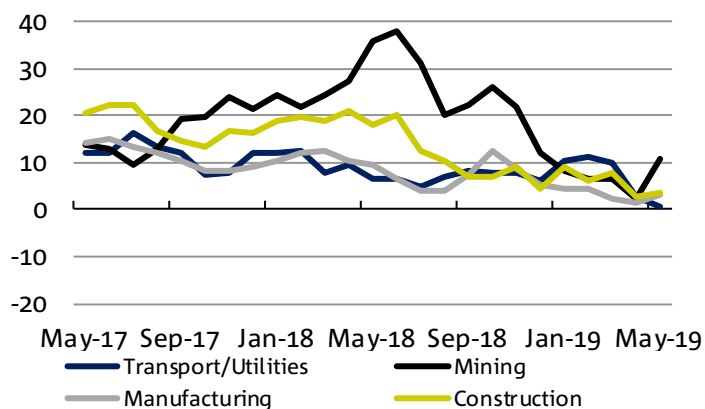
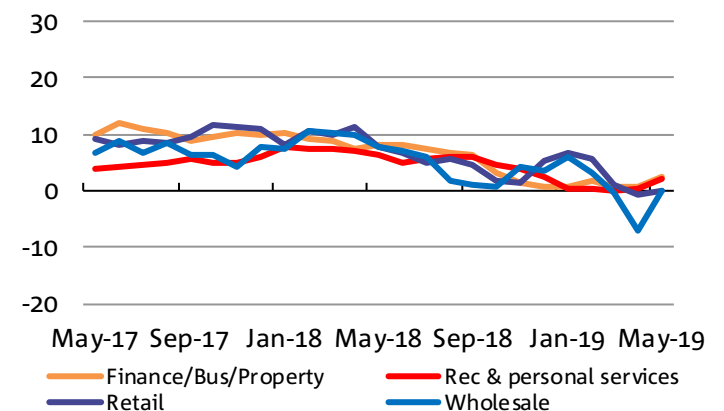


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

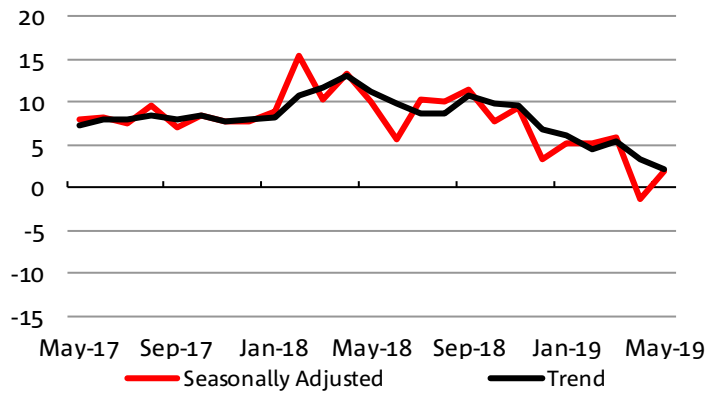


CHART 28: EMPLOYMENT (NAB VS ABS)

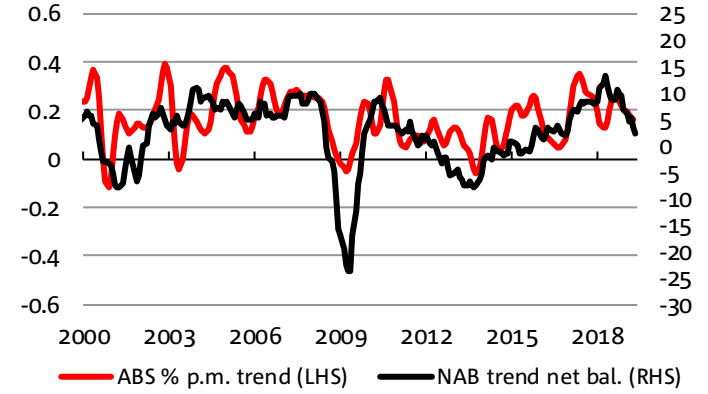


CHART 29: EMPLOYMENT BY INDUSTRY

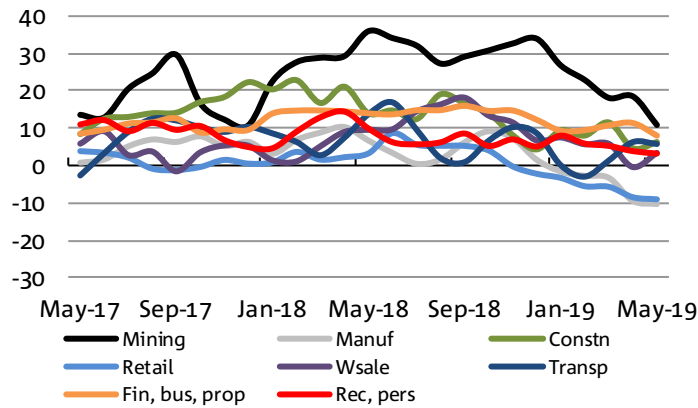


CHART 30: LABOUR COSTS GROWTH

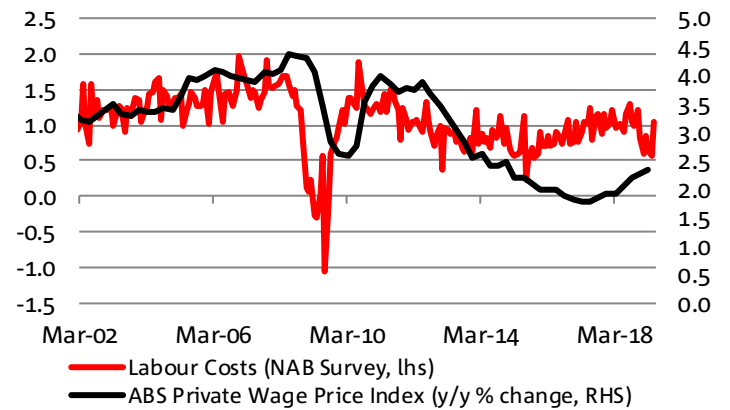


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

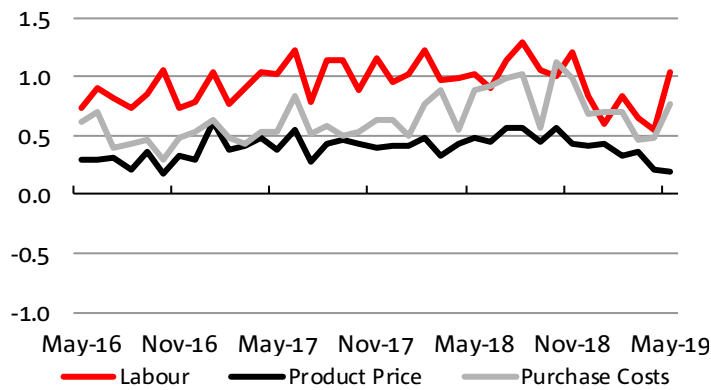
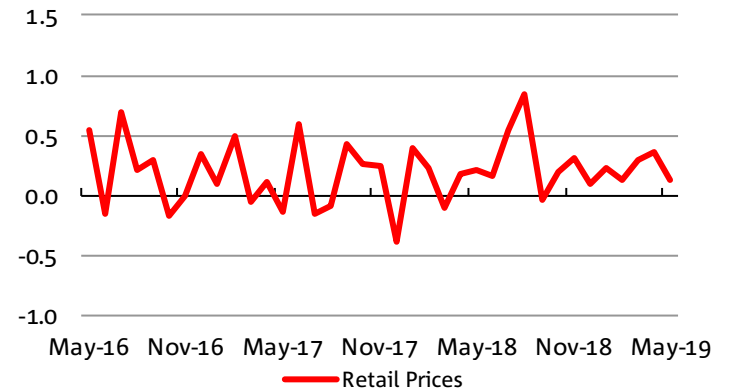


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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.