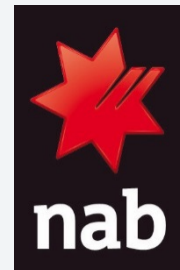


EMBARGOED UNTIL: 11:30AM AEST, 18 JULY 2019

NAB QUARTERLY BUSINESS SURVEY 2019 Q2

CONDITIONS EASE FURTHER, WHILE CONFIDENCE INCREASES



NAB Australian Economics

Business conditions continued to trend lower in Q2, after peaking in early 2018, to now be below average. The decline in the quarter was broad-based across industries and states, reflecting the general pattern over the past year. While confidence rose relatively sharply in the quarter – likely a post-election bounce as well as reflecting firmer expectations of rate cuts – other leading indicators suggest there will be little improvement in business conditions over coming quarters. Also, we now know that the kick in confidence had evaporated by the end of the quarter. Capacity utilisation and forward orders weakened further while expected business conditions over the next three months also eased. Labour market indicators, while still above average also weakened in the quarter. Expected employment in 3 and 12 months fell further suggesting the pace of growth in labour demand over the past year is unlikely to persist. Firms' reported difficulty in finding suitable labour edged up in the quarter, and while it continues to track at an elevated level, it remains well below the levels seen in the lead up to the GFC. Inflationary pressure remains weak, with final products price growth edging lower and input price growth flat at a relatively low level.

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) continued their downward trend, decreasing by 3pts to +1 - just below the long-run average of +2 index points. Trading, profitability and employment all declined in the quarter with only the latter now above average. Conditions declined across all states in Q2, except SA, which unwound a sharp fall in the previous quarter. With the deterioration in conditions over the past year having been broad-based across states, conditions are only just positive in NSW and VIC, while the remaining mainland states now lie at the threshold of improving v deteriorating conditions. Conditions are weakest in retail and remain most favourable in mining.
- **Business confidence** rose to +6 (from 0), possibly reflecting some post-election and rate cut optimism. Confidence increased across all industries except business services and finance. Wholesale saw a sharp improvement, but this follows a weak reading in the previous quarter. Confidence also rose in all states, with the exception of Tasmania, which edged lower. Confidence is highest in WA and SA, though the other mainland states are not far behind. Tasmania is the only state to record negative confidence. By industry, confidence remains highest in mining, with finance, retail and manufacturing the weakest.
- **Leading indicators** suggest there is likely to be little improvement in business conditions in the period ahead. Despite the sharp increase in confidence, other forward-looking indicators generally weakened further. Capacity utilisation continued to ease, forward orders fell further and expected conditions over the next three months were lower. Expected conditions and capex over the next 12 months ticked up but remain lower than 6 months ago.
- **Labour indicators** pulled back further in the quarter. Employment eased further, as did expectations of employment at the 3- and 12-month horizon. While both expected and current employment remain above average, the deterioration across these measures suggests some loss of momentum in the labour market. Difficulty finding suitable labour ticked up in the quarter but has broadly tracked sideways over the past year. It remains elevated but well below pre-GFC levels.
- Survey measures of **inflation pressures remain weak**. Final products price growth (retail prices were flat) edged lower in the quarter and is only just positive. Input prices and labour costs growth was flat in the quarter.
- Surveyed conditions in **construction industry subsectors** broadly reflect ongoing developments in the economy. Non-residential construction saw a sharp increase in the quarter, while conditions in engineering also increased. Residential construction saw a further easing; construction services were broadly flat in the quarter.

TABLE 1: KEY QUARTERLY BUSINESS STATISTICS

	2018q4	2019q1	2019q2		2018q4	2019q1	2019q2
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	1	0	6	Trading	14	7	1
Business conditions				Profitability	5	-1	-4
Current	9	4	1	Employment	9	7	4
Next 3 months	17	14	12	Next 3 months	11	9	5
Next 12 months	24	22	23	Next 12 months	23	19	16
Capex plans (next 12)	25	22	24	Forward orders	0	-2	-3
	<i>% change</i>			Stocks	5	5	1
Labour costs	0.7	0.6	0.6	Exports	0	0	0
Purchase costs	0.6	0.5	0.5	Retail prices (% change)	0.0	0.1	0.0
Final products prices	0.2	0.2	0.1				
				Capacity utilisation rate (%)	82.6	81.8	81.3

All data seasonally adjusted, except purchase costs and exports. Fieldwork for this survey was conducted from 14 May to 16 June, covering over 900 firms across the non-farm business sector.

Next release date is 17 October 2019.

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

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QUARTERLY FOCUS: LABOUR MARKET INDICATORS

Labour market update

- With the up-tick in the unemployment rate in early 2019 and given that developments in the labour market remain key to the outlook for monetary policy, we again look at the developments in the labour-related survey variables. The most significant updates for the quarterly survey include an employment index based on a larger sample, employment expectations as well as firms' reported difficulty in finding suitable labour.
- The employment index continued to decline in Q2 – in line with the monthly survey – from its peak in early 2018. At these levels the employment index remains above average – suggesting that demand for labour continues to grow – but suggests that the pace of growth has likely slowed.
- Importantly, firms' expectations for employment continue to trend down. Expectations for both 3- and 12-months ahead continued to decline in the June quarter. At current levels, both remain above average, but have declined somewhat from their peaks in 2018.
- Firms' reported difficulty in finding suitable labour ticked-up in the quarter and although it remains elevated, has tracked broadly side-ways over the past year or so. This is consistent with a low unemployment rate – albeit one that has deteriorated slightly in 2019 – but one that is above the level of full employment.
- Looking at responses on the difficulty in finding suitable labour by industry confirms a number of trends evident in other data and that there is a moderate level of tightness across most industries.
- In the mining sector, reported difficulty has risen significantly over the past few years – suggesting that as investment in the sector has levelled out and exports have grown against a backdrop of still high commodity prices, employment demand is again rising.
- The construction sector has also seen a significant increase over recent years, alongside the large volume of residential construction work as well as non-residential building and infrastructure work. This has eased a little recently as activity begins to wind back, particularly in the residential sector.
- Overall, developments in the labour market remain key to the broader economic outlook. While employment growth has continued at a relatively healthy pace the unemployment rate has deteriorated slightly over recent months. With the unemployment rate well above (and heading further away) from the NAIRU, it is likely that wage pressure will remain weak.

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

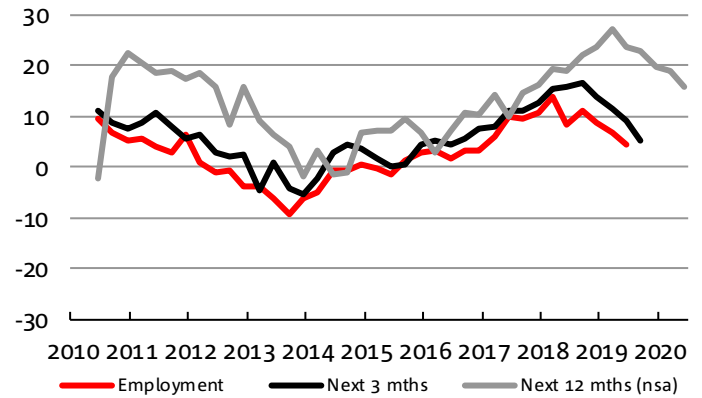


CHART 2: DIFFICULTY FINDING SUITABLE LABOUR (% OF FIRMS)

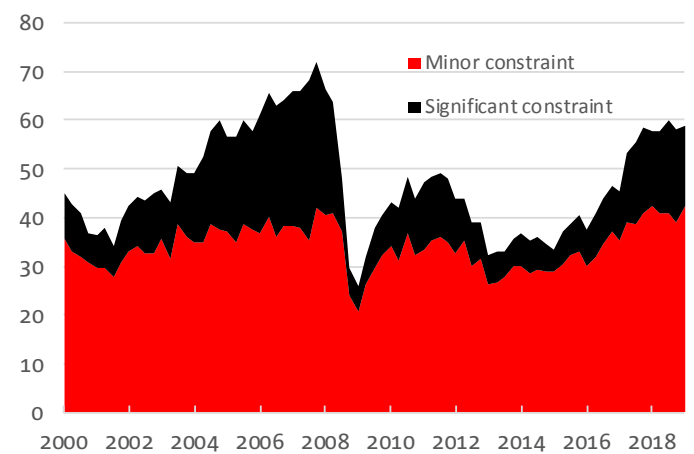
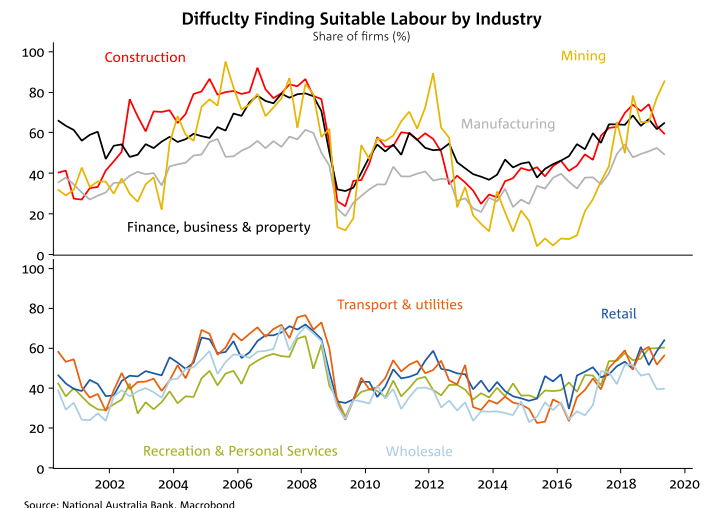


CHART 3: DIFFICULTY FINDING SUITABLE LABOUR BY INDUSTRY (NET BAL)



NAB QUARTERLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

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

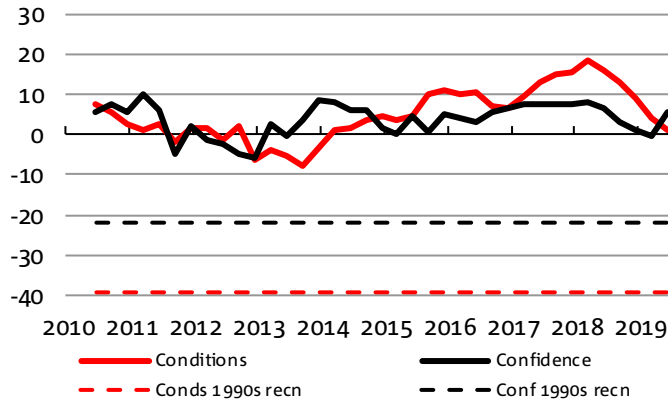
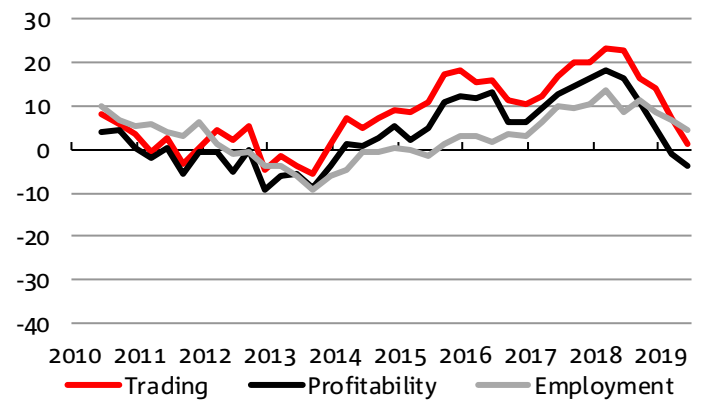


CHART 5: BUSINESS CONDITIONS COMPONENTS (NET BALANCE, S.A.)



DRIVERS OF BUSINESS CONFIDENCE

CHART 6: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE

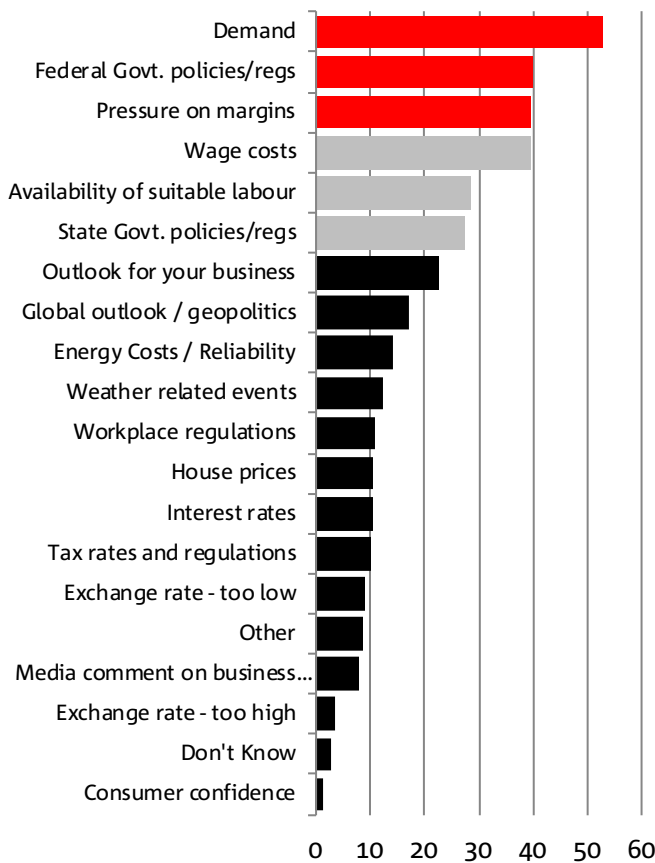


CHART 7: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – DETERIORATING CONDITIONS

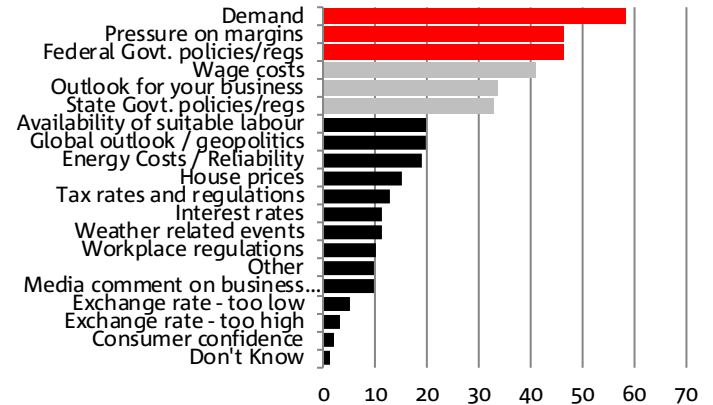
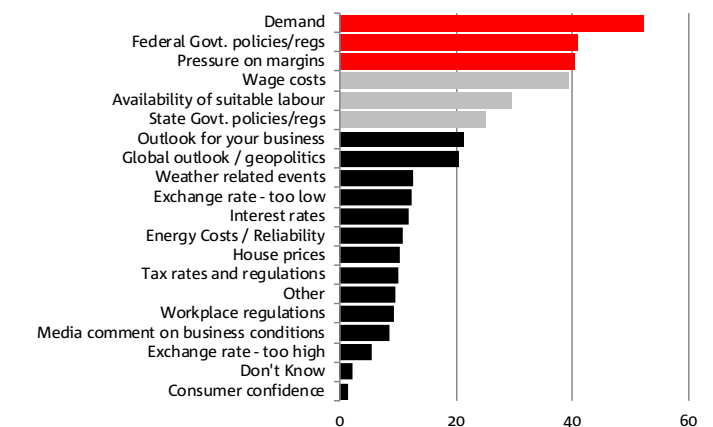


CHART 8: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – IMPROVING CONDITIONS



NAB QUARTERLY BUSINESS SURVEY – LEADING INDICATORS & INVESTMENT

CHART 9: BUSINESS CONDITIONS AND EXPECTATIONS (NET BALANCE)

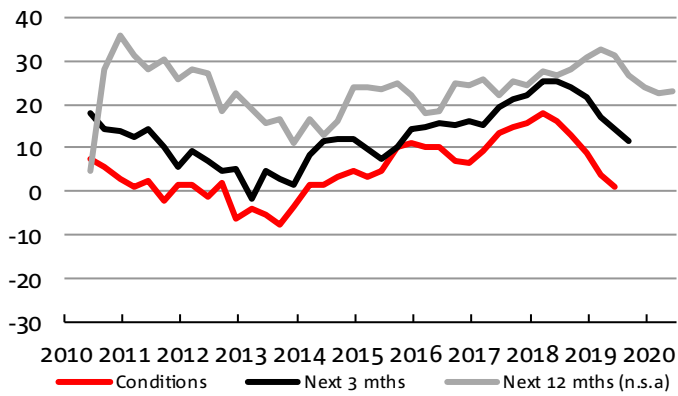


CHART 10: FORWARD ORDERS & EXPECTATIONS (NET BALANCE S.A.)

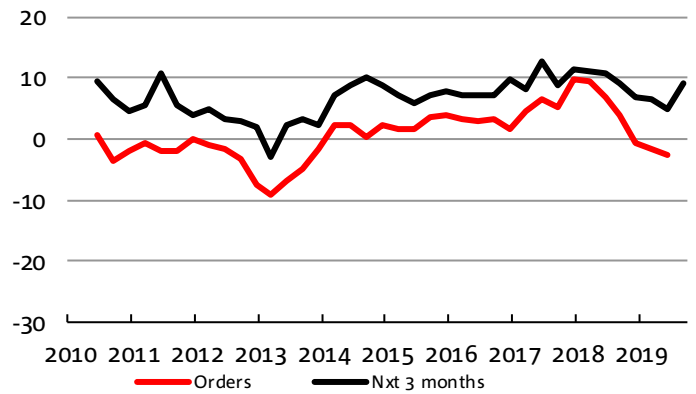


CHART 11: STOCKS (NET BALANCE S.A.)

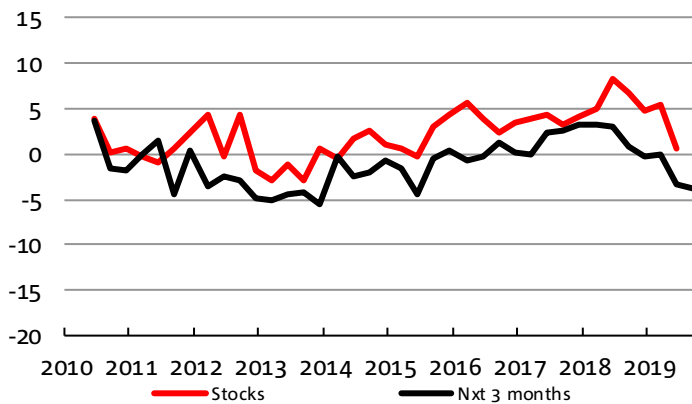


CHART 12: CAPACITY UTILISATION (PER CENT, S.A.)

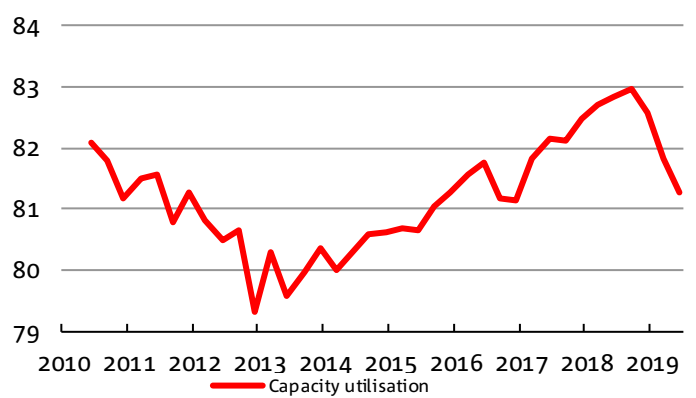


CHART 13: CAPACITY UTILISATION (PPT DEVIATION FROM LONG-RUN AVERAGE, 3 QTR MA)

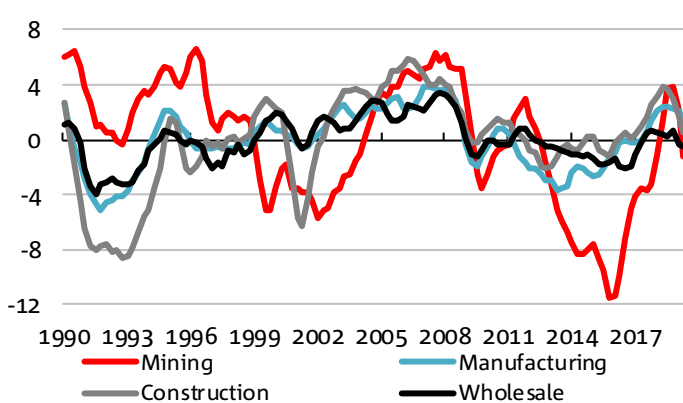
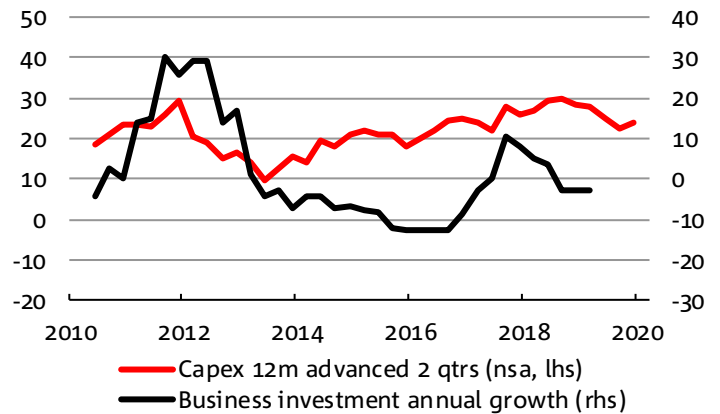


CHART 14: BUSINESS INVESTMENT & CAPEX PLANS



NAB QUARTERLY BUSINESS SURVEY – LABOUR MARKET

CHART 15: EMPLOYMENT & EXPECTATIONS (NET BALANCE)

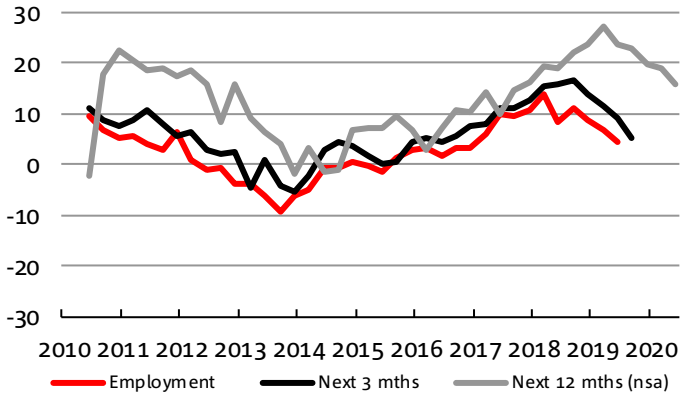


CHART 16: UNEMPLOYMENT RATE & LABOUR CONSTRAINTS

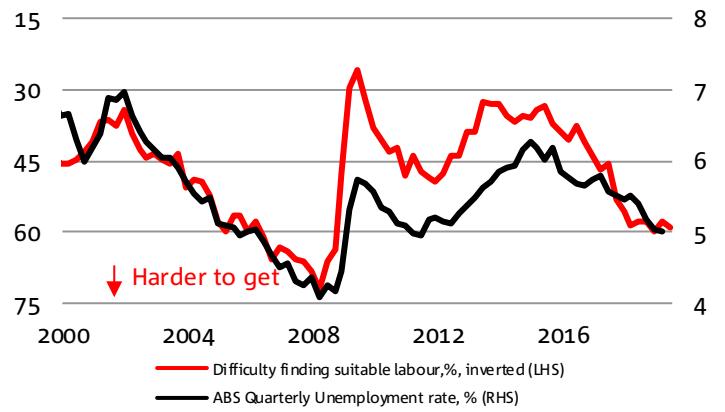


CHART 17: CHANGE IN AVERAGE HOURS WORKED (NSA)

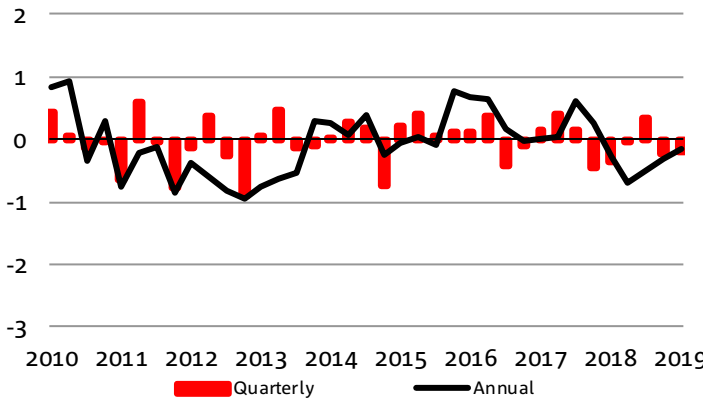


CHART 18: UNDERUTILISATION RATE & LABOUR CONSTRAINTS

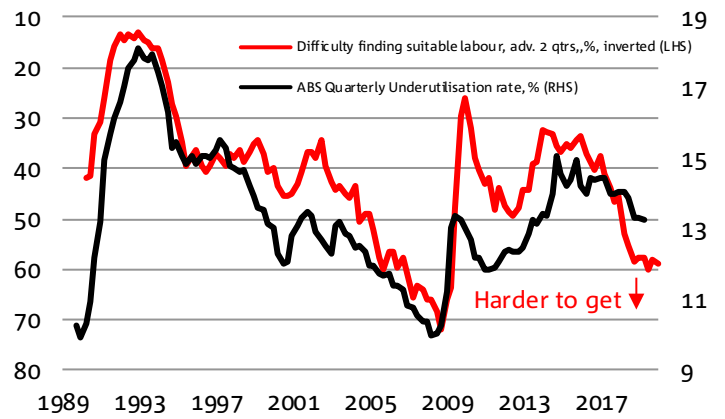


CHART 19: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)

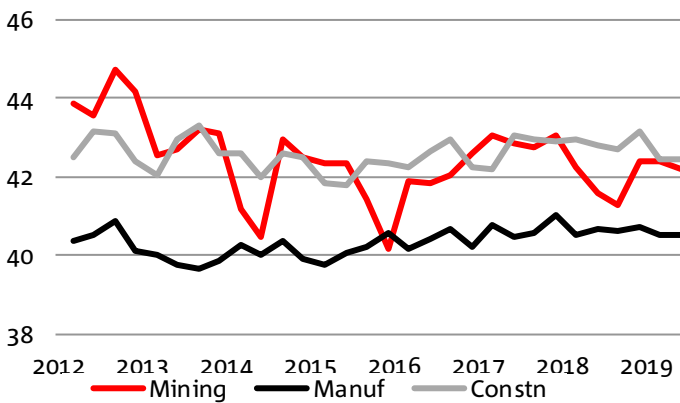


CHART 20: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)

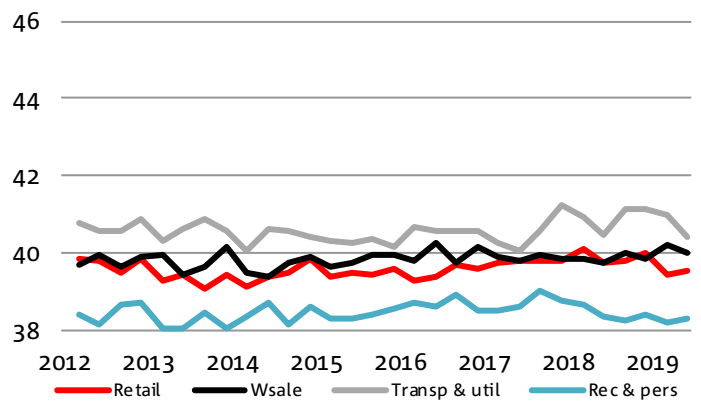
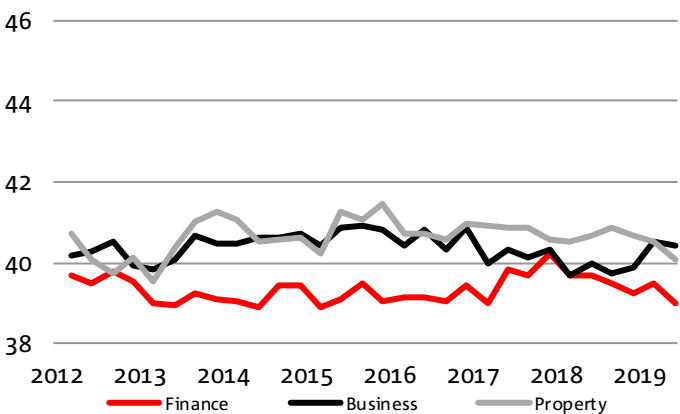


CHART 21: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)



NAB QUARTERLY BUSINESS SURVEY - MAJOR CONSTRAINTS ON FIRM OUTPUT

CHART 22: MAIN CONSTRAINTS ON FIRM OUTPUT

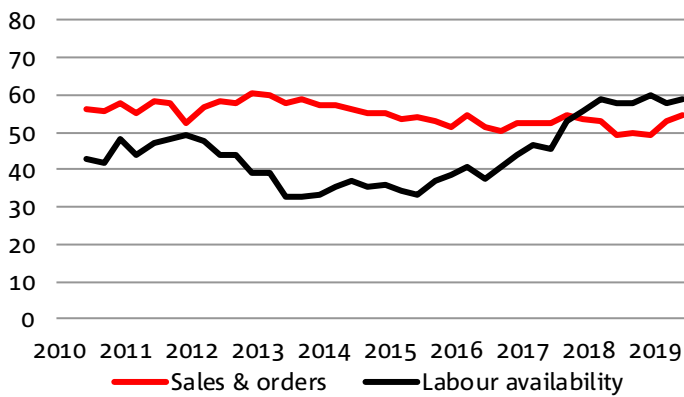
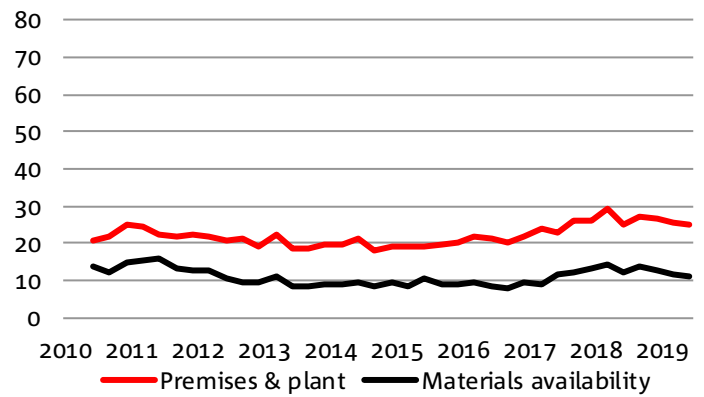


CHART 23: MAIN CONSTRAINTS ON FIRM OUTPUT



INFLATION PRESSURES

CHART 24: PRICES (% ANN, SA)

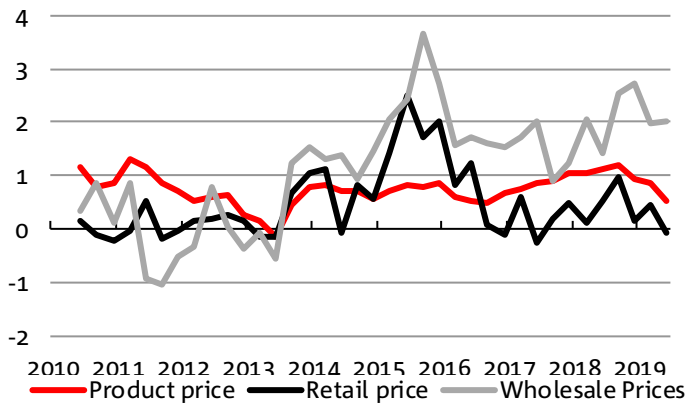
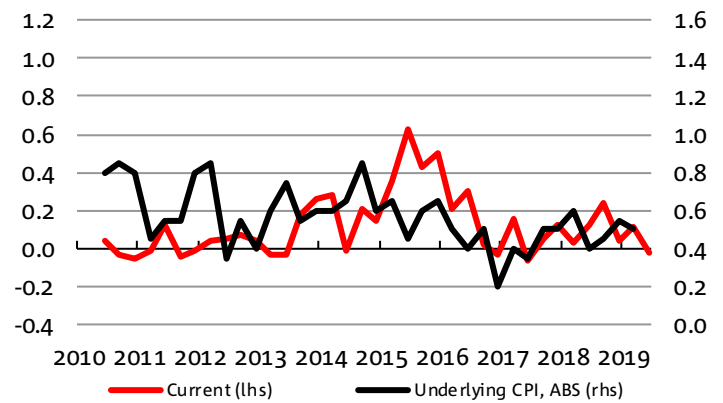


CHART 25: RETAIL PRICES (% P.Q.)



LABOUR COSTS (DETAILS)

CHART 26: LABOUR COSTS & COMPENSATION OF EMPLOYEES

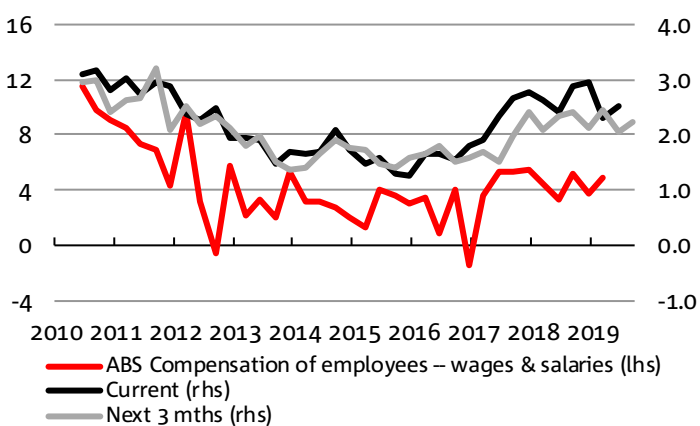
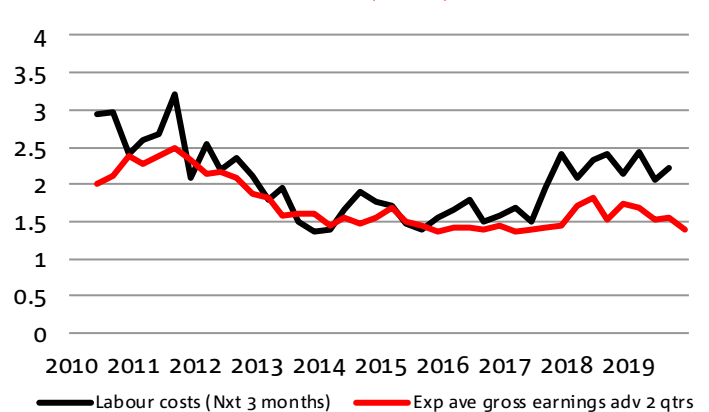


CHART 27: EXPECTED LABOUR COSTS (% ANN)



NAB QUARTERLY BUSINESS SURVEY – CONSTRUCTION INDUSTRY DETAILS

CHART 28: BUSINESS CONDITIONS BY INDUSTRY

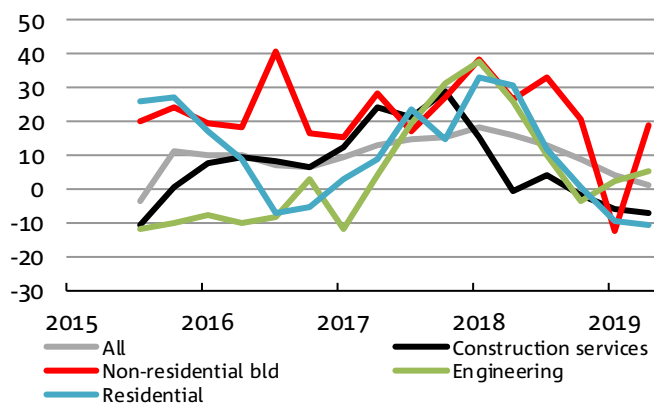


CHART 29: BUSINESS CONFIDENCE BY INDUSTRY

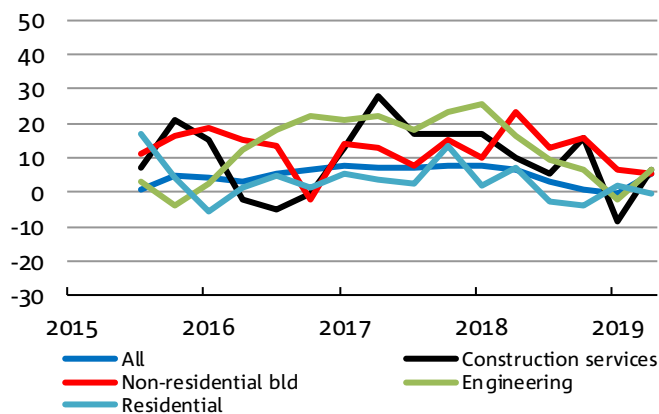


CHART 30: EMPLOYMENT CONDITIONS BY INDUSTRY

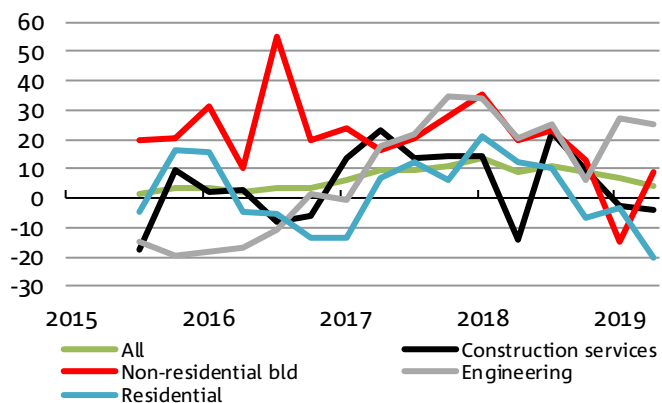
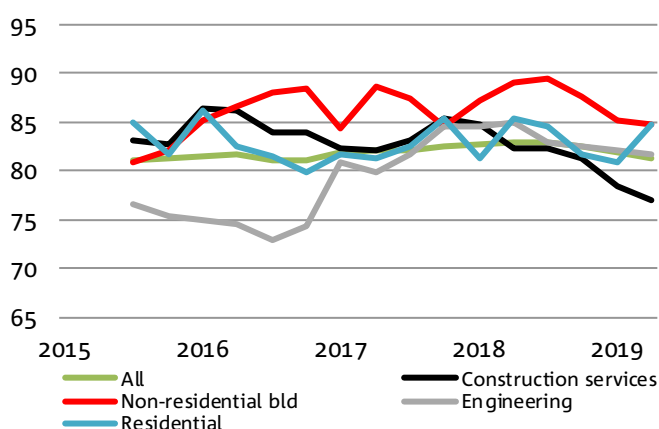


CHART 31: CAPACITY UTILISATION BY INDUSTRY



FINANCIAL MARKET EXPECTATIONS

- Around 58% of businesses surveyed in the June quarter expected interest rates will fall over the next year, while the number expecting no changes has declined to 32%. On average, businesses priced in around a 75% probability of a 25bps rate cut in the next 12 months. The RBA cut rates in both June and July by 25bps taking the cash rate to a new record low of 1.0%. With inflation posing little constraint, and clear spare capacity in the labour market the bank has acted to boost employment demand via higher growth which would see the unemployment rate fall further. NAB Economics forecasts that growth will remain weak in 2019 and only see a marginal improvement in 2020 and 2021 – all of which will see growth well below trend. With the unemployment rate deteriorating somewhat and inflation only reaching the bottom of the RBA's target band of 2-3% by the end of 2021 we see the RBA cutting by a further 25bps in November, and acknowledge the risk of further fiscal or monetary support in 2020. The timing of the next rate cut remains data dependent but could well occur sooner should the labour market deteriorate.
- Exchange rate expectations in the Survey (6-months-ahead) were slightly lower than Q1 2019 with business expecting an exchange rate of US70c 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

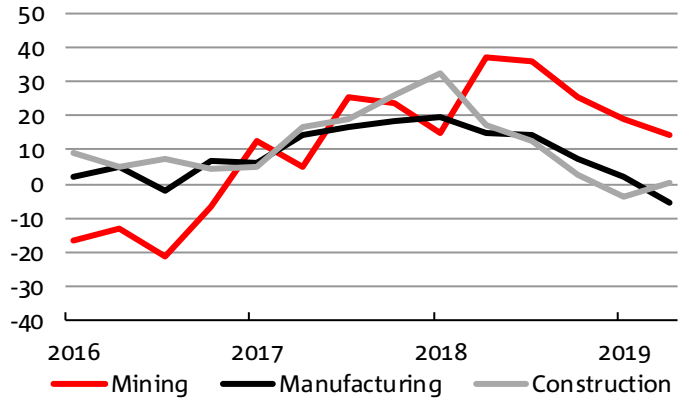


CHART 35: BUSINESS CONFIDENCE BY INDUSTRY

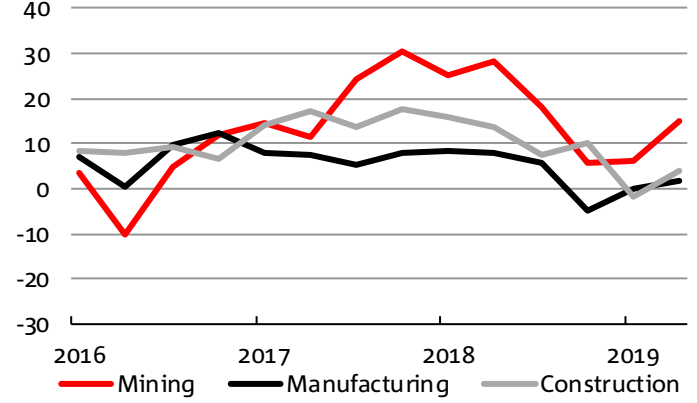


CHART 33: BUSINESS CONDITIONS BY INDUSTRY

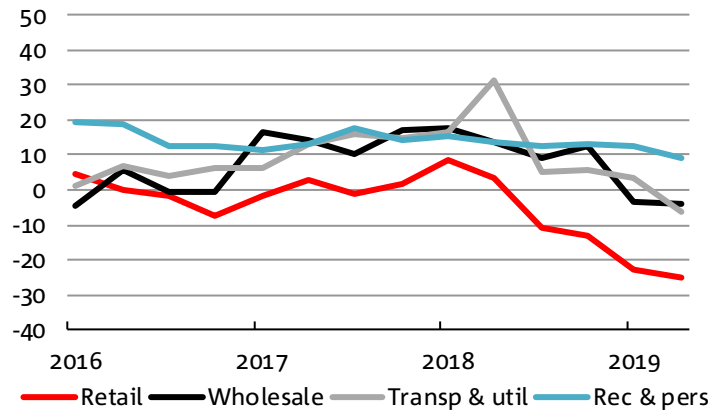


CHART 36: BUSINESS CONFIDENCE BY INDUSTRY

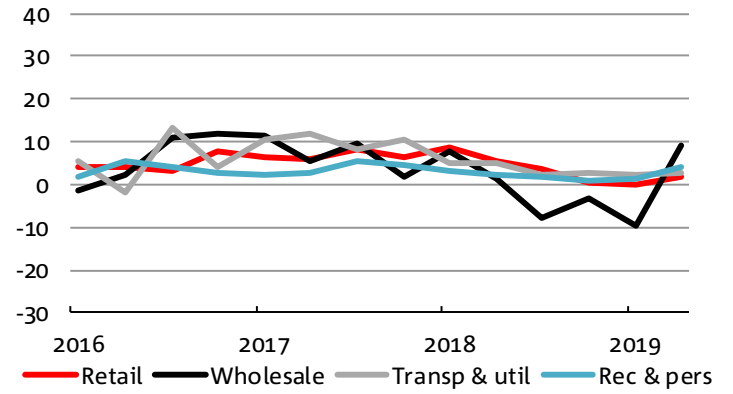


CHART 34: BUSINESS CONDITIONS BY INDUSTRY

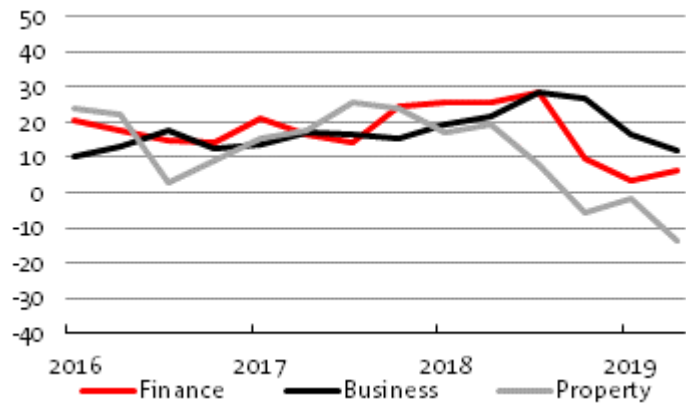
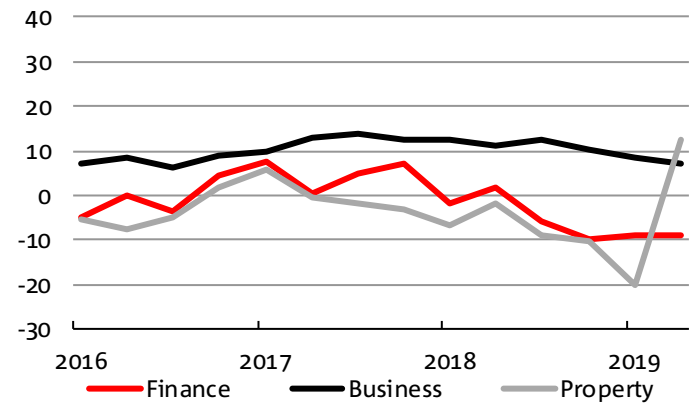


CHART 37: BUSINESS CONFIDENCE BY INDUSTRY



NAB QUARTERLY BUSINESS SURVEY – FURTHER DETAILS BY STATE

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

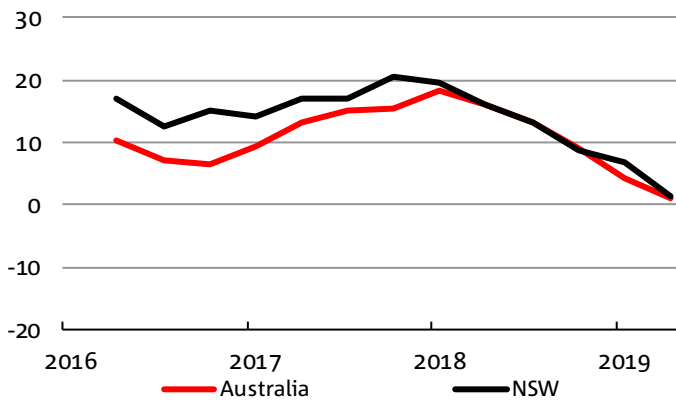


CHART 41: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A..)

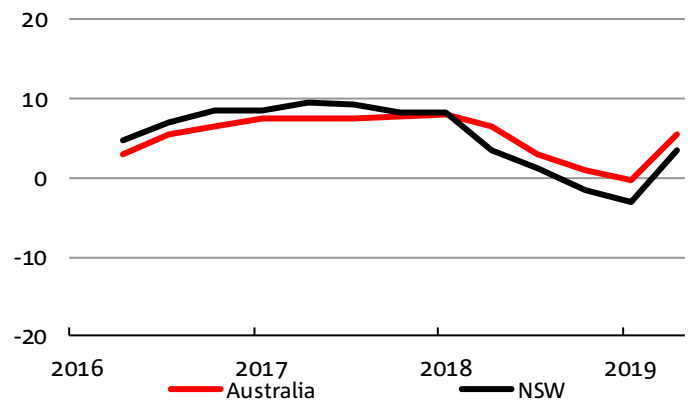


CHART 39: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

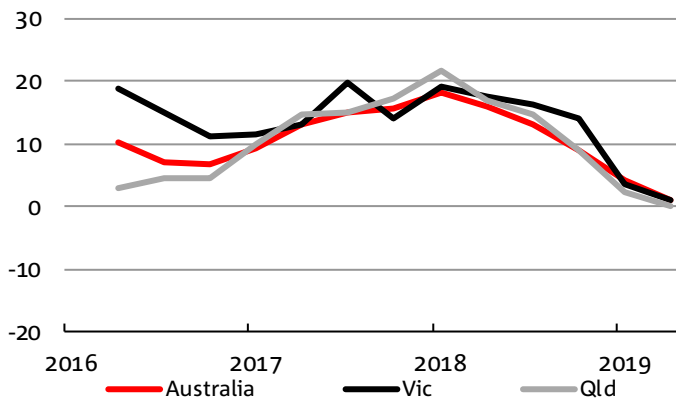


CHART 42: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A..)

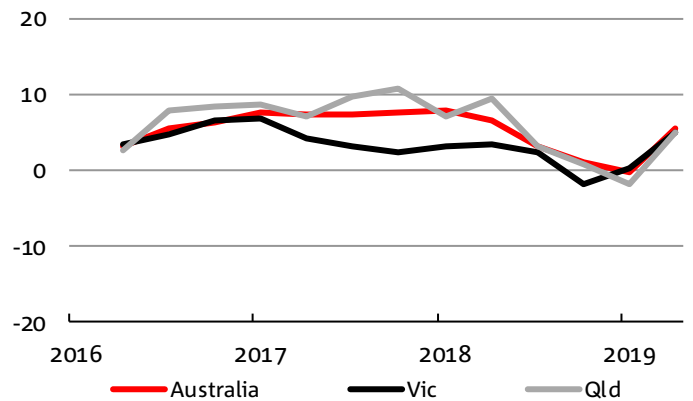


CHART 40: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

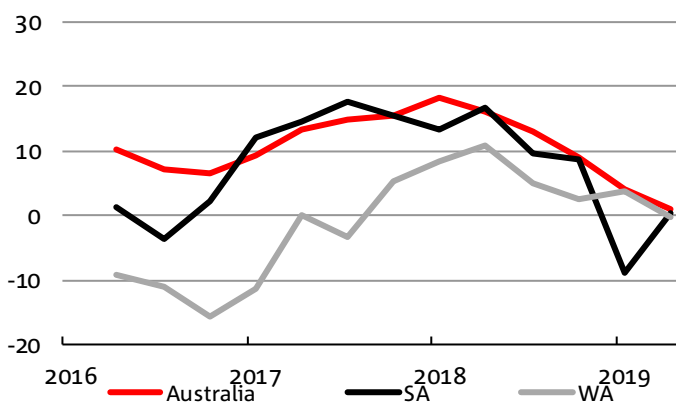
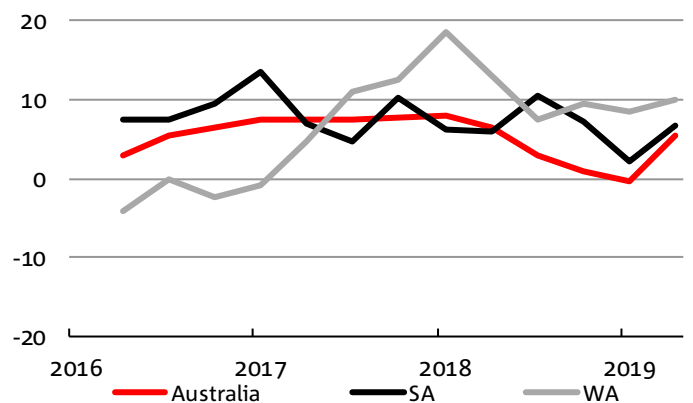


CHART 43: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A..)



NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX

	Quarterly					Monthly				
	2018q2	2018q3	2018q4	2019q1	2019q2	2019m2	2019m3	2019m4	2019m5	2019m6
Confidence	6	3	1	0	6	2	0	0	7	2
Conditions	16	13	9	4	1	4	7	3	1	3

	Quarterly					Monthly				
	2018q2	2018q3	2018q4	2019q1	2019q2	2019m2	2019m3	2019m4	2019m5	2019m6
Trading	23	16	14	7	1	9	11	7	3	6
Profitability	16	11	5	-1	-4	1	4	0	-2	-2
Employment	9	11	9	7	4	5	6	-2	2	5

	Quarterly ^(a)					Monthly				
	2019q1	2019q2	2019q3	2020q1	2020q2	2019m2	2019m3	2019m4	2019m5	2019m6
Conditions	4	1	NA	NA	NA	4	7	3	1	3
Conds. next 3m	17	14	12	NA	NA					
Conds. nxt 12m	33	31	27	22	23					
Orders	-2	-3	NA	NA	NA	-3	-1	-2	-4	-4
Orders next 3m	7	5	9	NA	NA					

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

	Quarterly ^(a)					Monthly				
	2018q3	2018q4	2019q1	2019q2	2019q3	2019m2	2019m3	2019m4	2019m5	2019m6
Capacity utilis.	83.0	82.6	81.8	81.3	NA	80.9	81.0	81.2	80.9	82.1
Stocks current	7	5	5	1	NA	3	1	1	1	-1
Stocks next 3m	1	0	0	-3	-4					

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

	2018q2	2019q1	2019q2
Constraints on output (% of firms)*			
Sales & orders	49.2	52.9	54.7
Labour	57.8	57.9	58.9
Premises & plant	25.0	25.7	24.9
Materials	12.3	11.9	11.3

* not s.a.

	Quarterly ^(a)					Monthly				
	2019q1	2019q2	2019q3	2020q1	2020q2	2019m2	2019m3	2019m4	2019m5	2019m6
Empl current	7	4	NA	NA	NA	5	6	-2	2	5
Empl next 3m	11	9	5	NA	NA					
Empl nxt 12m	27	24	23	19	16					

(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>2018q2</u>	<u>2018q3</u>	<u>2018q4</u>	<u>2019q1</u>	2019q2	<u>2019m2</u>	<u>2019m3</u>	2019m4	2019m5	2019m6
Business conditions										
NSW	16	13	9	7	1	3	13	4	2	3
VIC	17	16	14	4	1	7	7	6	0	4
QLD	17	15	9	2	0	4	3	-5	1	5
SA	17	10	9	-9	0	-6	-2	8	7	2
WA	11	5	3	4	0	5	6	-7	-7	2

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2018q2</u>	<u>2018q3</u>	<u>2018q4</u>	<u>2019q1</u>	2019q2	<u>2019m2</u>	<u>2019m3</u>	2019m4	2019m5	2019m6
Business confidence										
NSW	3	1	-2	-3	4	-1	-1	2	5	4
VIC	3	2	-2	0	5	4	-1	-6	9	2
QLD	9	3	1	-2	5	-1	3	0	5	3
SA	6	11	7	2	7	2	-1	4	11	0
WA	13	7	9	9	10	15	-1	1	6	2

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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.