

NAB MONTHLY BUSINESS SURVEY JULY 2019

BELOW AVERAGE CONFIDENCE AND CONDITIONS

NAB Australian Economics

Key messages from the Survey: Broadly the picture from the business survey is unchanged from last month – the key message being that the business sector has lost significant momentum since early 2018 and that forward looking indicators do not point to an improvement in the near term. In the month, conditions edged lower but remains within its range over the past 4 months. Confidence ticked up after a sharp fall last month and a period of volatility around the Federal Election. Both remain clearly below their respective long-run averages. Forward orders are well below average (and negative), while capacity utilisation is now back around average – pointing to little improvement in the short-term. The decline in conditions and capacity utilisation appear to have fed into business decisions with the employment index and capex also weakening over the past year. Weakness in the retail industry continues to stand out, with conditions in that industry at recessionary levels – and declining further in the month. A worrying result, given we expected some boost to the industry following the post-election tax cuts. More broadly, the lift in confidence following the election appears to have faded with little impact on actual conditions. It appears that both the cut to interest rates and boost to tax rebates is yet to feed into the business sector and that the weakness in Q2 has persisted into Q3.

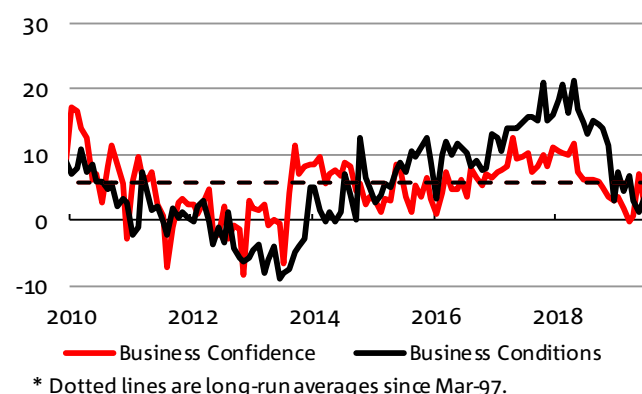
HIGHLIGHTS

- **How confident are businesses?** Confidence edged higher in the month, but remains below average at +4 index points.
- **How did business conditions fare?** Business conditions recorded a small fall in July (from a small upward revision last month) to +2 index points. While conditions remain positive, they are below the long-run average of +6 index points.
- **What components contributed to the result?** The fall in conditions was driven by a fall in the employment sub-index and a small fall in trading conditions. The profitability index ticked up, but remains around 0 index points – the threshold of improvement versus deterioration.
- **What is the survey signalling for jobs growth?** Based on historical relationships, the survey suggests that employment will grow around 15k per month over the next 6 months, which is unlikely to see a material improvement in the unemployment rate going forward.
- **Which industries are driving conditions?** *Construction, retail and wholesale* saw sharp declines in the month, partially offset by increases in *mining, transport & utilities and finance, business & property services*. Overall, in trend terms, conditions remain most favourable in mining, while retail remains weakest. *Manufacturing and wholesale* are also weak.
- **Which industries are most confident?** Confidence generally strengthened in the month (and saw a small rise in *retail* on the back of tax cuts), but was lower in *mining* and edged down in *manufacturing*. Outside of *mining*, in trend terms, confidence is highest in *finance, business & property services* and weakest in *manufacturing and rec & personal services*.
- **Where are we seeing the best conditions by state?** Conditions fell in all states in the month, except *WA* which saw a large spike. In trend terms, conditions are bunched across the mainland states at 2-4 index points, while *Tas* remains highest.
- **What is confidence like across the states?** Confidence rose in all states, except *QLD* (fall) and *VIC* (flat). In trend terms, confidence remains highest in *SA* and weakest in *Tas* (though the latter has been volatile).
- **Are leading indicators suggesting further improvement?** Leading indicators remain weak. Forward orders rose slightly in the month but remain negative (and well below average). Capacity utilisation unwound its increase last month and is now back to around average levels.
- **What does the Survey suggest about inflation and wages?** Overall, the survey continues to point to weak inflationary pressures in the economy. Both input costs and final products (including retail after falling last month) rose in the month. Labour costs growth unwound some of its spike in June.

TABLE 1: KEY STATISTICS

	May-19	Jun-19	Jul-19
	Net balance		
Business confidence	7	2	4
Business conditions	1	4	2
Trading	3	7	6
Profitability	-2	-1	0
Employment	2	5	0
Forward orders	-4	-4	-3
Stocks	1	0	0
Exports	-1	1	0
	% change at quarterly rate		
Labour costs	0.9	1.5	1.1
Purchase costs	0.7	0.7	1.0
Final products prices	0.2	0.2	0.5
Retail prices	0.1	-0.7	0.7
	Per cent		
Capacity utilisation rate	80.9	82.1	80.9

CHART 1: BELOW AVERAGE CONFIDENCE AND CONDITIONS



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 19 - 31 July 2019, covering over 400 firms across the non-farm business sector.

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NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

RETAIL WEAKNESS

- The official ABS measure of retail sales for June – notwithstanding an improvement late in the quarter – showed that the volume of retail sales has slowed to its lowest rate since the 1990s recession. This follows a weak result in Q1 – which saw household consumption growth slow and given its large share of GDP – around 60% - contribute to a very weak outcome for private sector growth.
- The retail component of the NAB Business Survey has mirrored this slowing in growth, with a persistent fall in business conditions in the sector since early last year. Conditions in retail are now at their lowest level since the 1990s recession and below the trough seen in the GFC. This marked deterioration in conditions comes after a significant period of the industry underperforming the rest of the economy, and at a time where policy makers have begun to provide some support to households through lower interest rates and tax relief.
- The sharp deterioration in retail conditions has been driven by a decline across each sub-component of the business conditions index. In trend terms, profitability is now at -35 index points – suggesting that margins have been squeezed with costs remaining high despite a decline in trading conditions (sales), which is now around -25 index points in trend terms. Unsurprisingly, the weakness in trading and profitability has seen the employment index in the sector decline sharply as well.
- Though volatile at the sub-sector level, it appears the weakness is broad-based within the retail sector. Car retailing appears very weak, followed by food and household goods. Other retailing has improved recently but remains weak at -10 index points.
- Despite the weakness in activity and a capacity utilisation index well below average, Capex in retail remains positive at +1 index points in trend terms, but has weakened recently.
- Overall, NAB Economics' view is that the weakness in the retail sector will persist for some time. Weak household income growth and high debt levels have continued, with the prior run up in the prices of essentials and impacts of weaker household wealth having all contributed to increased thrift by households.
- Despite our weak outlook for the consumer, the recent run of weakness has still come as some surprise and is worrying for the overall pace of growth in the economy – especially in the context of the recent policy support by the RBA and government. It also appears that the weakening momentum has continued into Q3. It is likely that recent interest rate cuts will provide some support to the sector, as will tax cuts, though both are likely to lag to some degree, with little evidence of a boost to the sector so far in early Q3.

CHART 2: RETAIL SALES GROWTH (%)

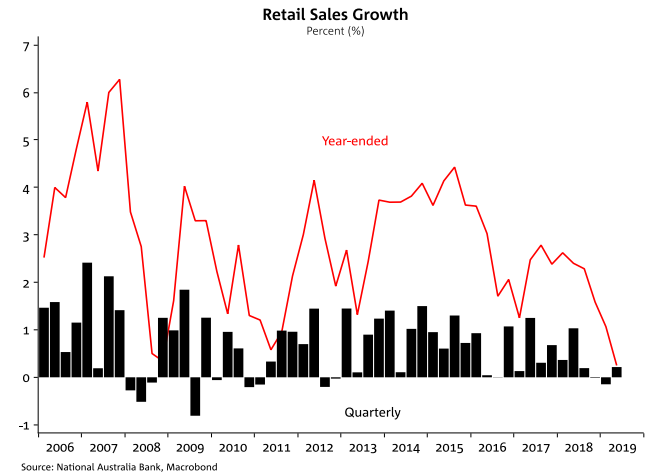


CHART 3: RETAIL CONDITIONS AND CONFIDENCE (NET. BAL, TREND)

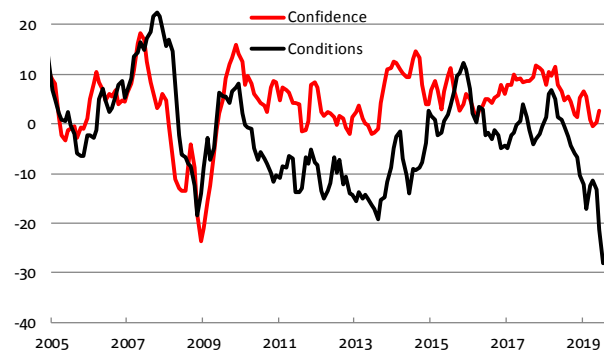


CHART 4: COMPONENTS OF RETAIL CONDITIONS (NET BAL. TREND)

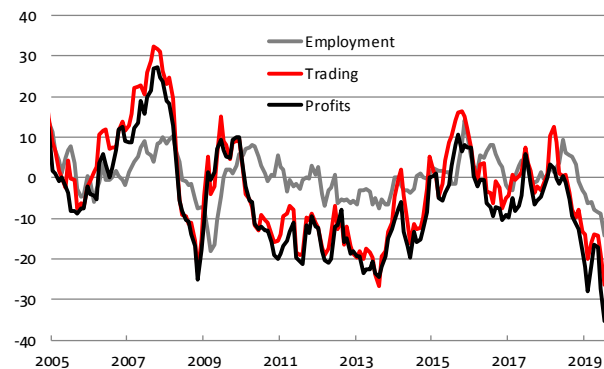
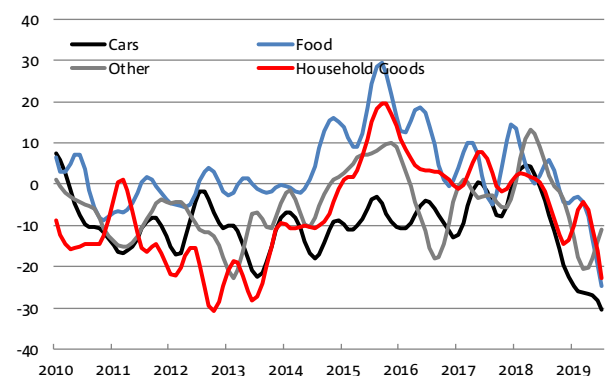


CHART 5: SUB-SECTOR CONDITIONS (NET. BAL, HENDERSON TREND)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 6: BUSINESS CONFIDENCE (NET BALANCE)

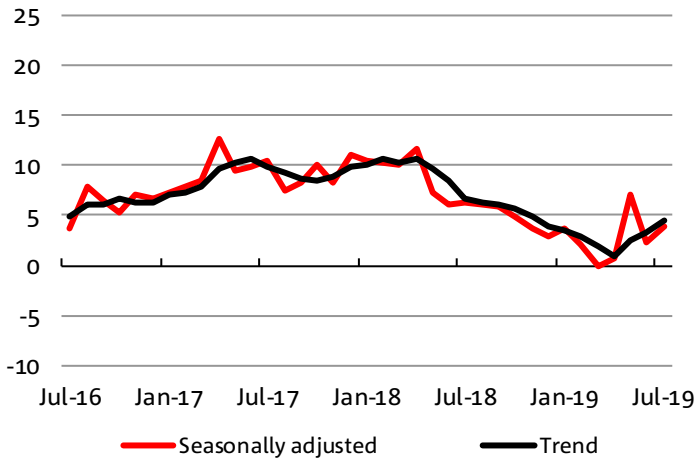


CHART 7: BUSINESS CONDITIONS (NET BALANCE)

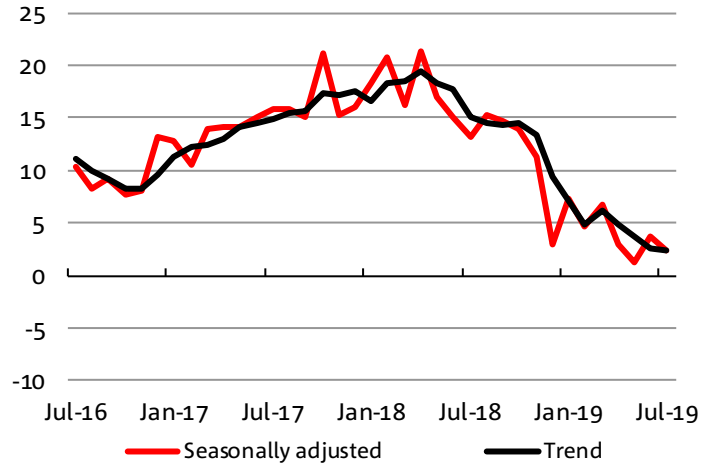


CHART 8: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

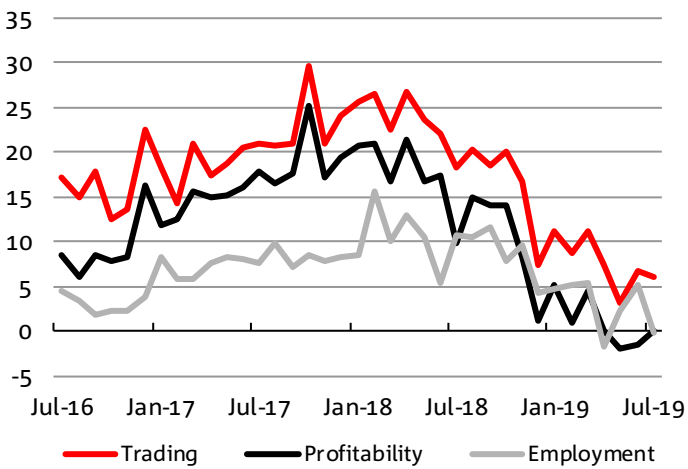


CHART 9: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

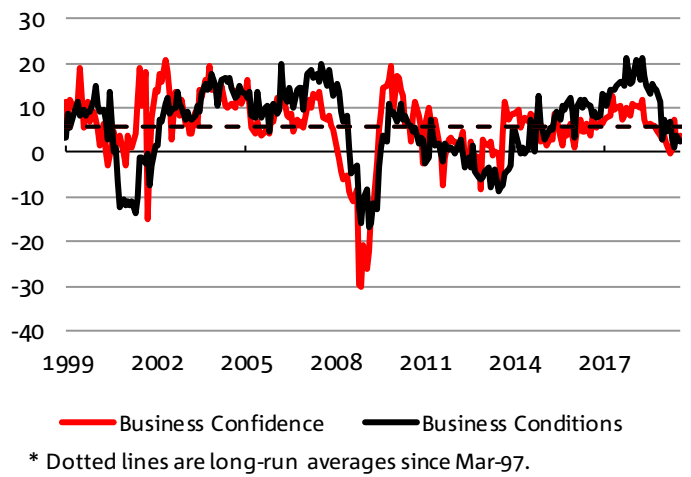


CHART 10: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

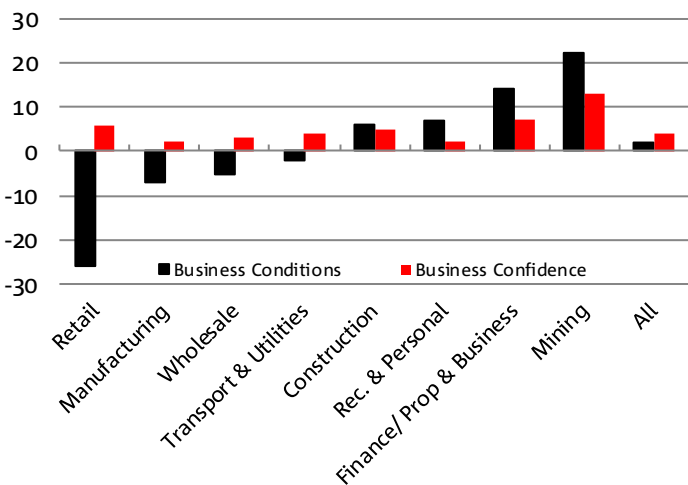
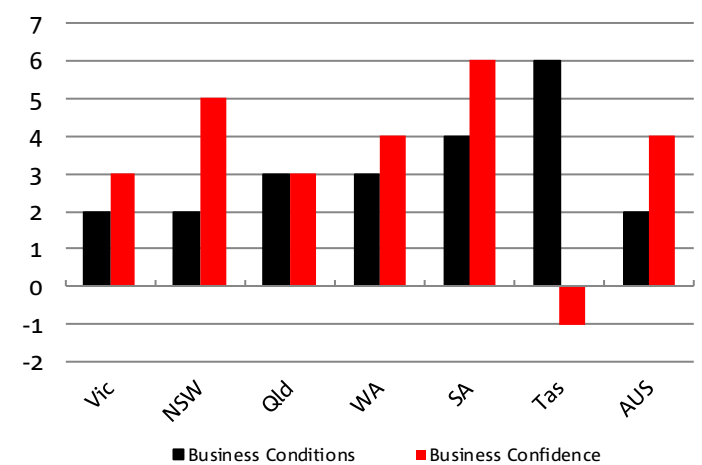


CHART 11: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 12: FORWARD ORDERS (NET BALANCE)

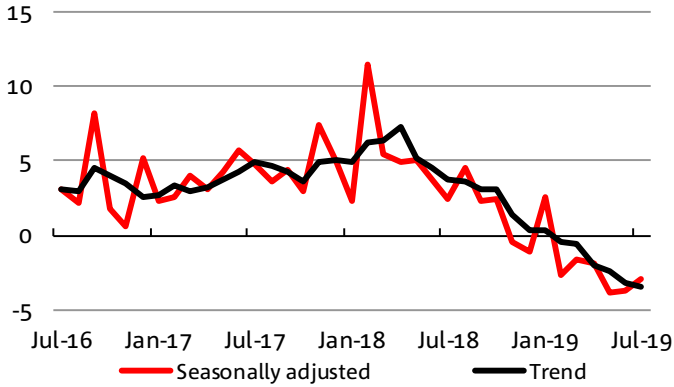


CHART 13: CAPITAL EXPENDITURE (NET BALANCE)

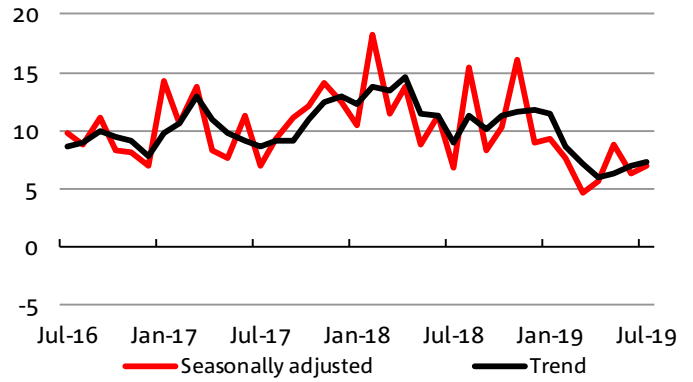


CHART 14: CAPACITY UTILISATION AND UNEMPLOYMENT

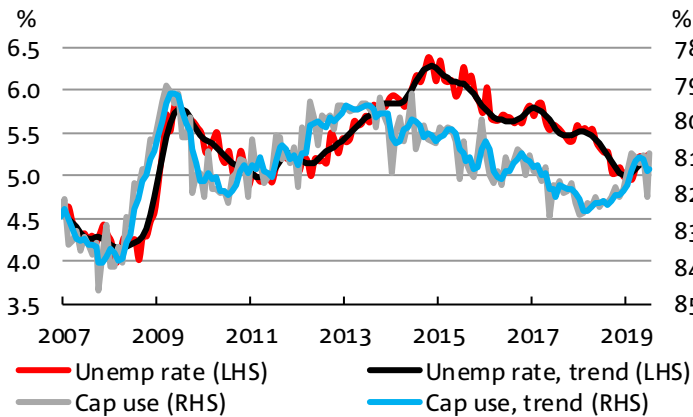


CHART 15: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

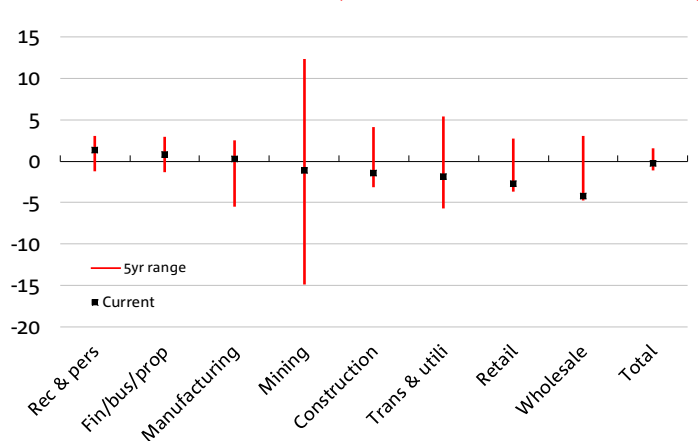


CHART 16: STOCKS (NET BALANCE)

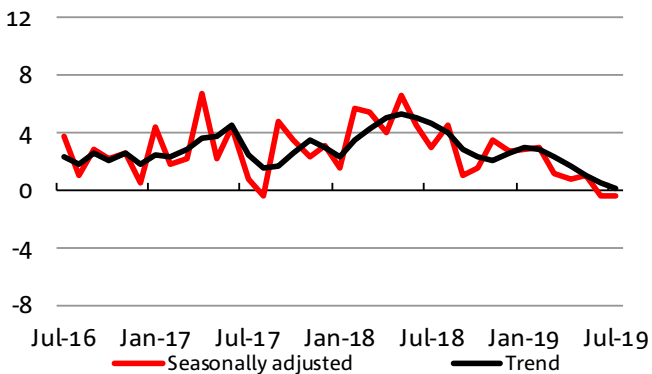


CHART 17: CASH FLOW (NET BALANCE)

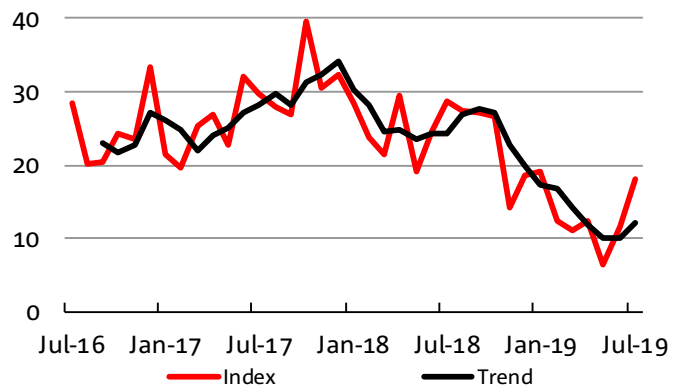


CHART 18: EXPORTS (NET BALANCE)

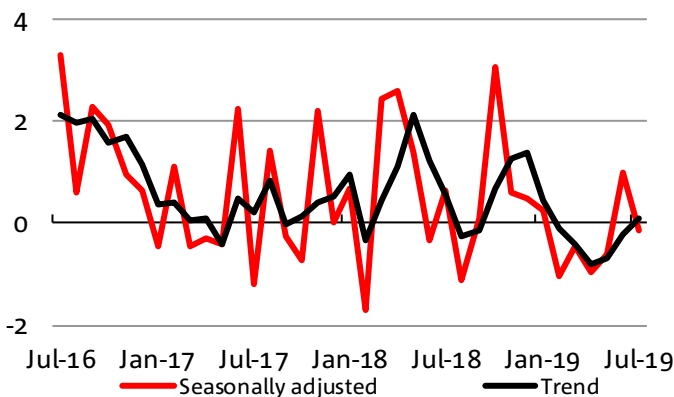
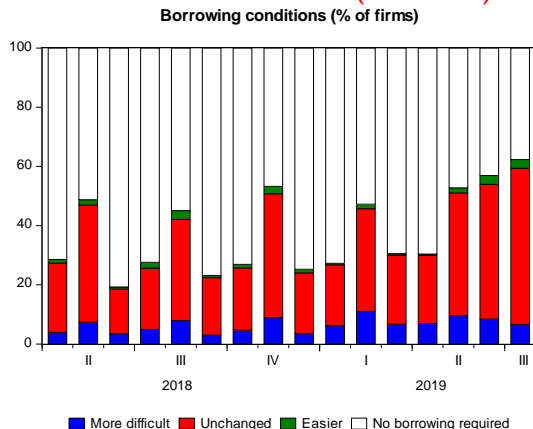


CHART 19: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

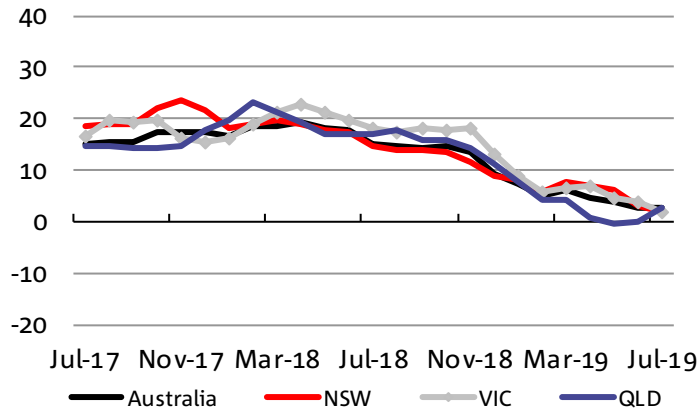


CHART 21: BUSINESS CONDITIONS (NET BALANCE) BY STATE

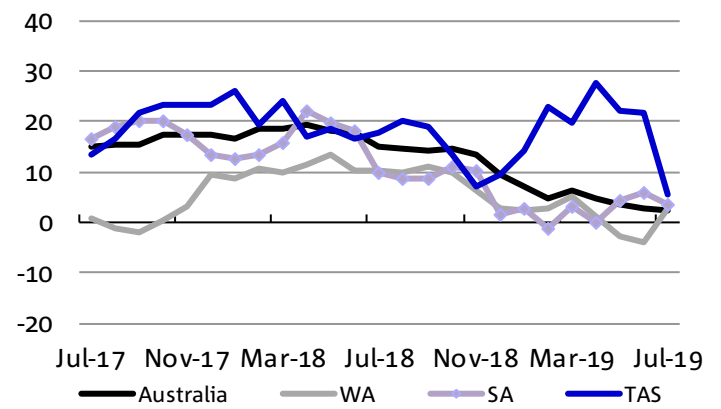


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

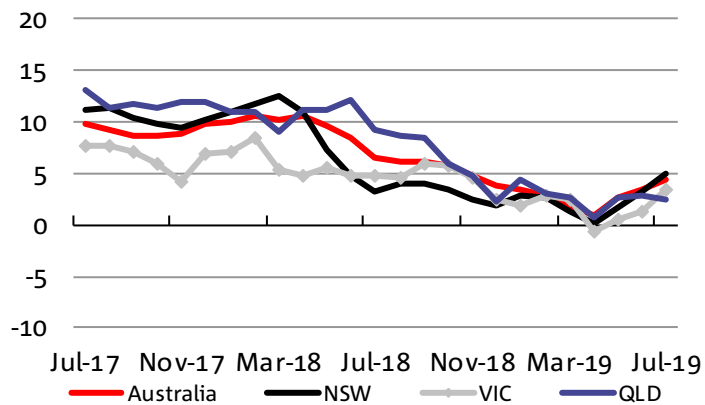


CHART 23: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

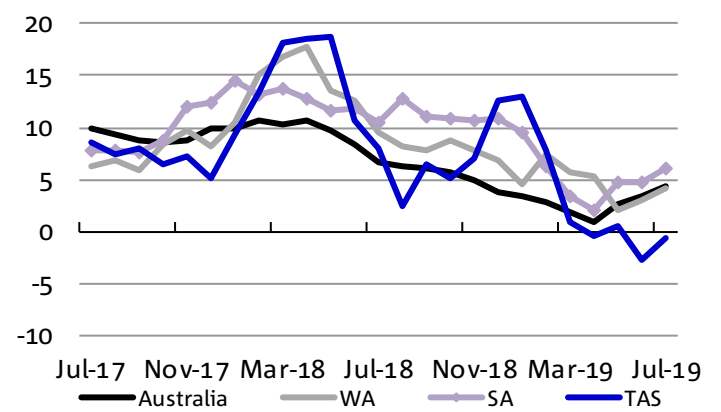


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

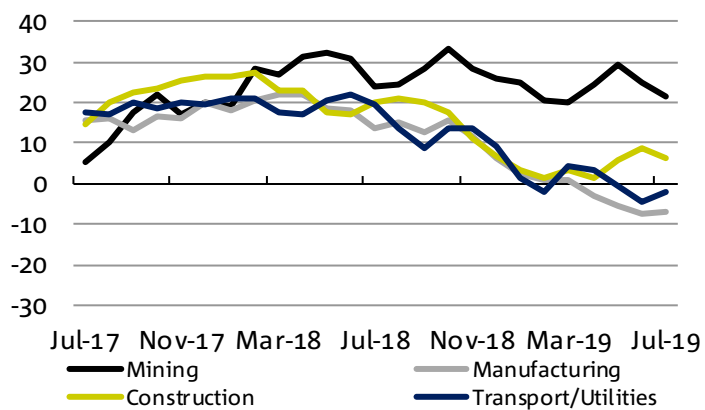


CHART 25: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

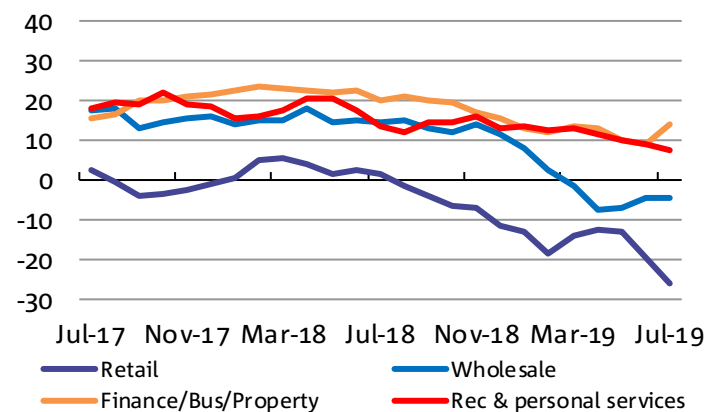


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

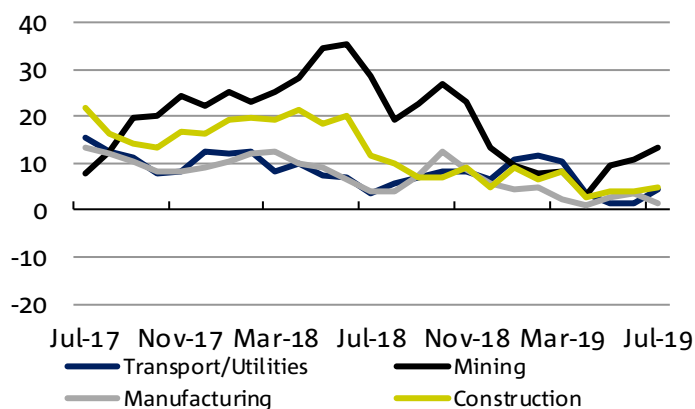
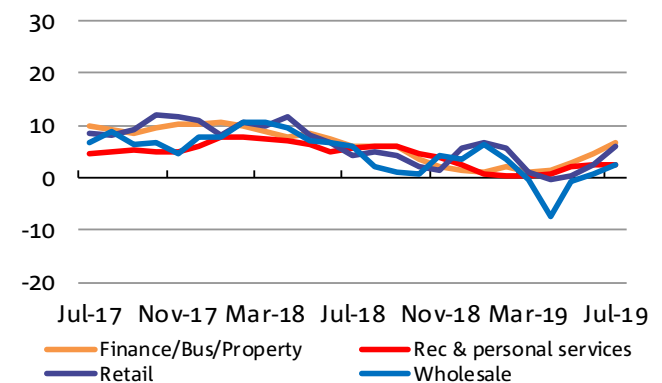


CHART 27: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 28: EMPLOYMENT

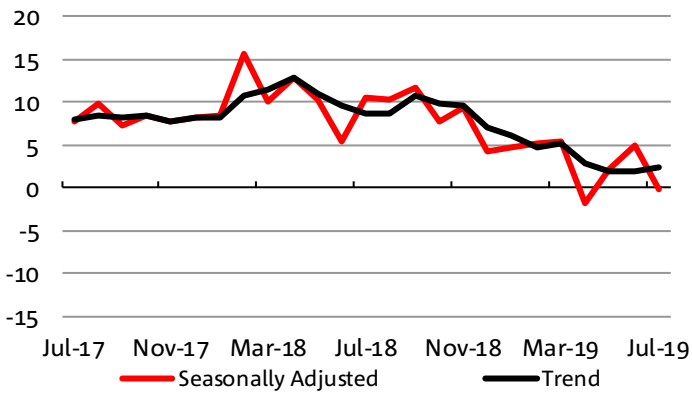


CHART 29: EMPLOYMENT (NAB VS ABS)

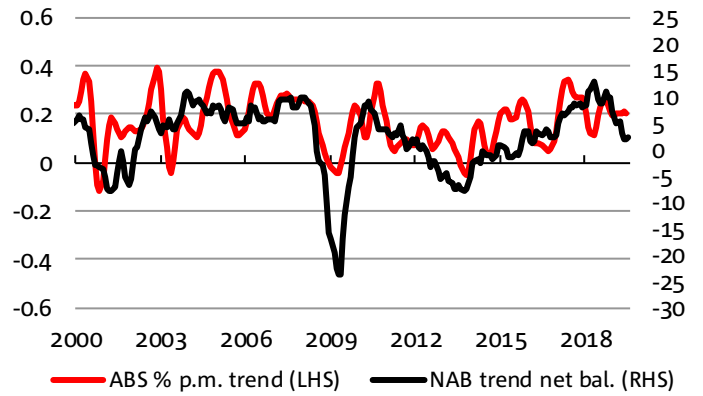


CHART 30: EMPLOYMENT BY INDUSTRY

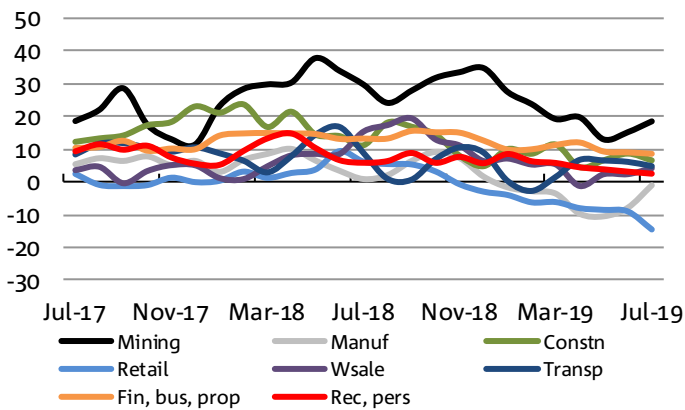


CHART 31: LABOUR COSTS GROWTH

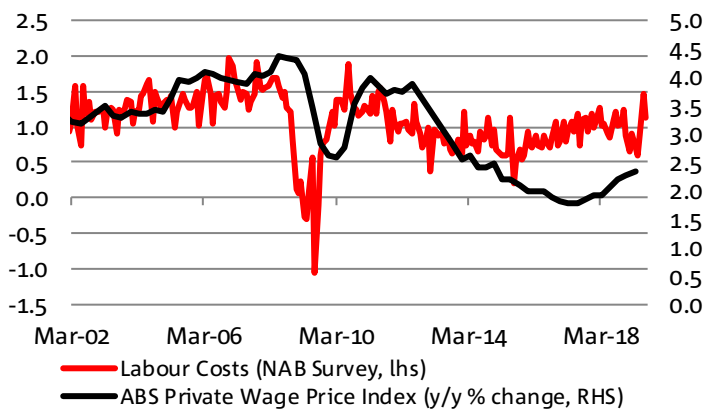


CHART 32: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

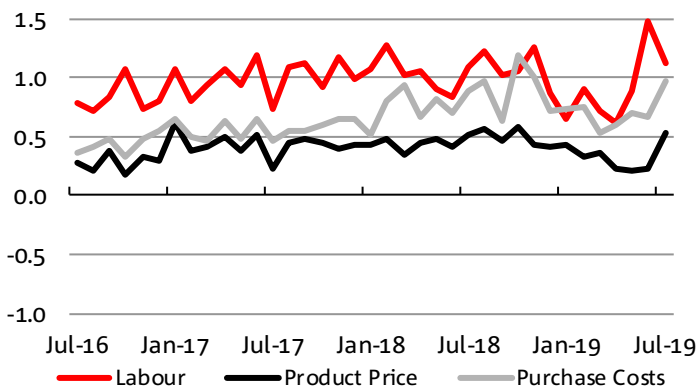
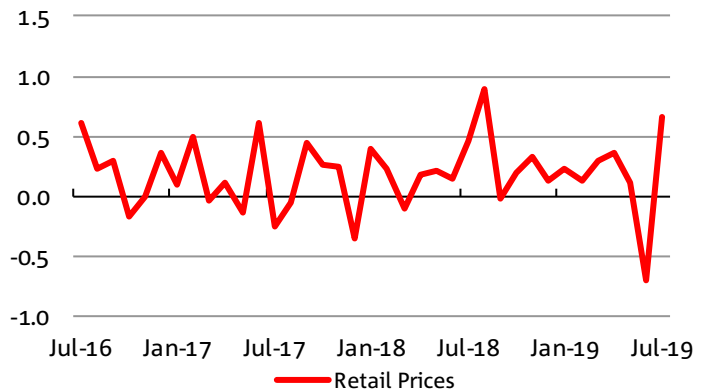


CHART 33: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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.