EMBARGOED UNTIL: 11:30AM AEDT, 8 OCTOBER 2019

NAB MONTHLY BUSINESS SURVEY SEPTEMBER 2019

CONDITIONS REMAIN BELOW AVERAGE

NAB Australian Economics

Key messages from the Survey: **Business conditions recorded a sixth consecutive below-average month, pointing to ongoing weakness in the business sector. In the month, conditions edged up 1pt and confidence edged lower. While both conditions and confidence remain below average levels +6 index points – the broad-based trend decline since mid-2018 appears to have slowed. In the month, profitability and trading conditions remained below average, contrasting with the employment index, which edged up and is now above average. This mirrors official data that show ongoing strong employment growth but subdued consumer spending. At present, retail and wholesale (the goods distribution industries) are weakest – a reflection of conditions in the household sector. Manufacturing and construction are also weak, reflecting the dynamics in the housing sector and possibly some impact from global trade turmoil. Forward indicators remain mixed, but overall suggest that conditions are likely to continue a below-average trend. Likewise, price indicators suggest inflationary pressure is likely to remain weak. Recent rate cuts as well as the tax refunds appear to have driven some improvement in the retail sector, but with conditions remaining deeply negative it is unlikely to have been enough support to see a material turn-around in the sector.**

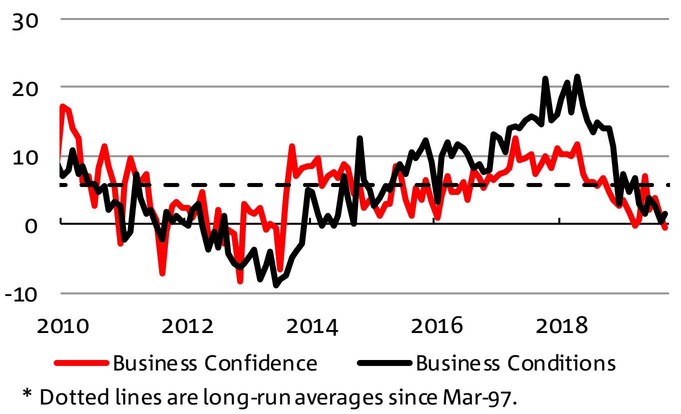
HIGHLIGHTS

- **How confident are businesses?** Confidence edged 1pt lower in September and now lies at 0 index points, compared with its long-run average of +6 index points.
- **How did business conditions fare?** Conditions ticked up 1pt in the month to +2 index points, recording its sixth consecutive below-average read.
- **What components contributed to the result?** Trading, profitability and employment all edged up 1pt in the month, with only the latter to record an above-average result.
- **What is the survey signalling for jobs growth?** Based on historical relationships, the survey suggests that employment will rise around 18k per month over the next 6 months – short of the outcomes seen over the past few months.
- **Which industries are driving conditions?** *Manufacturing* and *transport & utilities* saw sharp increases in the month, while *mining* (a relatively small survey weight) saw a large fall. In trend terms, *retail* and *wholesale* remain weakest, while *construction* and *manufacturing* are also negative. The *services* sectors and mining currently see the best conditions.
- **Which industries are most confident?** Confidence fell in all industries except *retail* and *construction* which rose and *recreation & personal services,* which was flat. Overall, *mining* remains most confident in trend terms, though it appears optimism has faded somewhat over recent months in the sector. *Manufacturing*, *construction* and *recreation & personal services* are weakest.
- **Where are we seeing the best conditions by state?** Conditions rose in *NSW*, *Vic* and *SA* in the month, while *WA* saw a sharp fall. In trend terms, conditions remain most favourable in *WA* and *NSW* which are above the national average. The other mainland states are clustered at -1 to 1 index point, while *Tas* remains weakest.
- **What is confidence like across the states?** Confidence fell in *VIC*, *QLD* and *Tas* in the month. In trend terms, confidence is compressed at 0 to +3 index points, with the exception of *WA*, which is a little stronger.
- **Are leading indicators suggesting further improvement?** Forward orders edged up in the month but remains negative (and below average). Capacity utilisation declined slightly but remains above average. These indicators in combination with business confidence point to a continuation of below-average business conditions.
- **What does the survey suggest about inflation and wages?** Final products prices growth (including retail) edged lower in the month and suggest overall weak rates of inflation. On the inputs side, purchase costs growth ticked up, while growth in labour costs edged lower. Notably, these costs continue to grow faster than output prices.

TABLE 1: KEY STATISTICS

	Jul-19	Aug-19	Sep-19
		Net balance	
Business confidence	4	1	**0**
Business conditions	3	1	**2**
Trading	7	3	**4**
Profitability	0	-3	**-2**
Employment	0	2	**3**
Forward orders	-3	-4	**-2**
Stocks	0	2	**2**
Exports	0	0	**0**
		% change at quarterly rate	
Labour costs	1.0	1.1	**0.9**
Purchase costs	0.9	0.6	**0.7**
Final products prices	0.5	0.2	**0.1**
Retail prices	0.6	0.1	**0.0**
		Per cent	
Capacity utilisation rate	80.9	82.1	**81.9**

CHART 1: CONDITIONS REMAIN BELOW AVERAGE



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 18 - 30 September 2019, covering over 400 firms across the non-farm business sector.

Next release date: 12 November 2019.

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

NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

RETAIL SECTOR UPDATE

- Official retail sales data showed an increase of 0.4% m/m in August, following a flat outcome in July. While the outcome was a slight improvement from previous months, taken together with the outcome for July it suggests that household consumption growth has remained weak in Q3.
- With household consumption accounting for around 60% of the economy – there is a risk that we continue to see weak growth overall, especially when combined with the ongoing decline in dwelling investment.
- From the business perspective, the NAB Monthly Business Survey suggests that there was little improvement in the sector in September with conditions improving but remaining very low in trend terms.
- In trend terms, both trading and profitability in retail improved in the month, but remain relatively low. Employment was unchanged but is around its lowest level since the GFC.
- The weakness is broad-based across industries. Household goods is weakest and continues to weaken. Conditions in car sales retailing have improved this year, but also remain low.
- Conditions in food retailing are slightly better and have improved recently but remain at their lowest level for some time.
- Retail business confidence has improvement in 2019, and is a little elevated when compared with other industries. This suggests that while conditions are very weak, business remain optimistic.
- The consumer and spending growth in the economy remains a focus, especially against the back drop of the recent tax cuts and their anticipated impact on consumer spending. NAB Economics' view is that consumer weakness is likely to persist for some time with the dynamics of weak income growth, high debt levels and stretched budgets.

CHART 2: RETAIL CONDITIONS AND CONFIDENCE (NET. BAL, TREND)

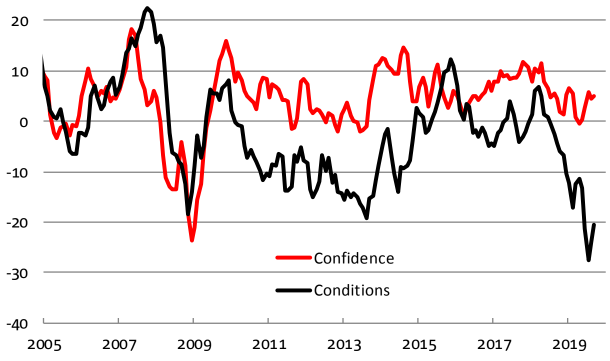


CHART 3: CONDITIONS COMPONENTS (NET. BAL, TREND)

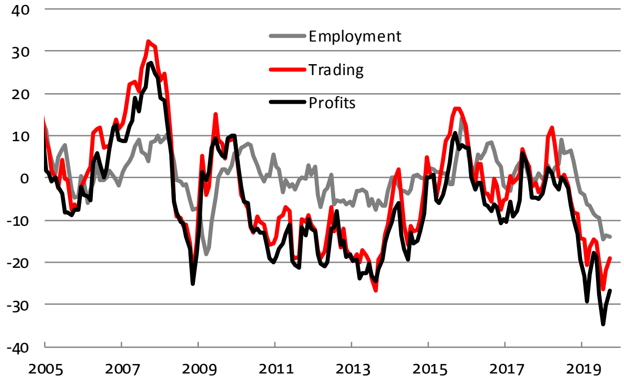
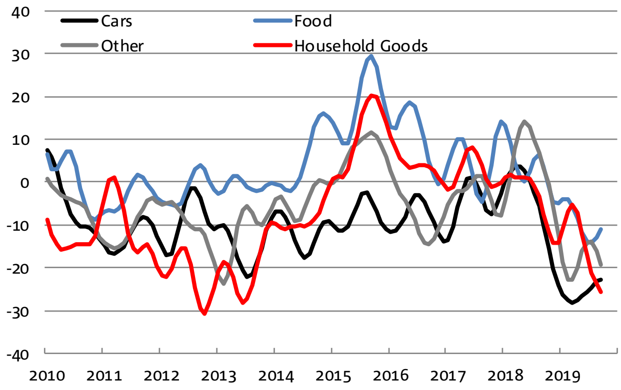


CHART 4: RETAIL CONDITIONS BY SUB-INDUSTRY (NET. BAL, HENDERSON TREND)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

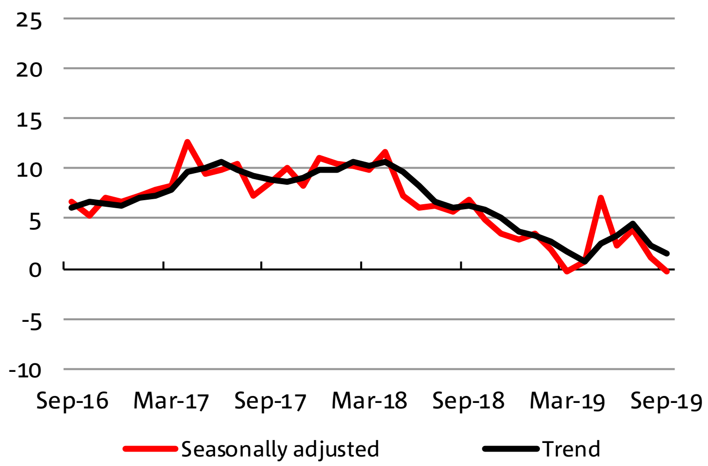


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

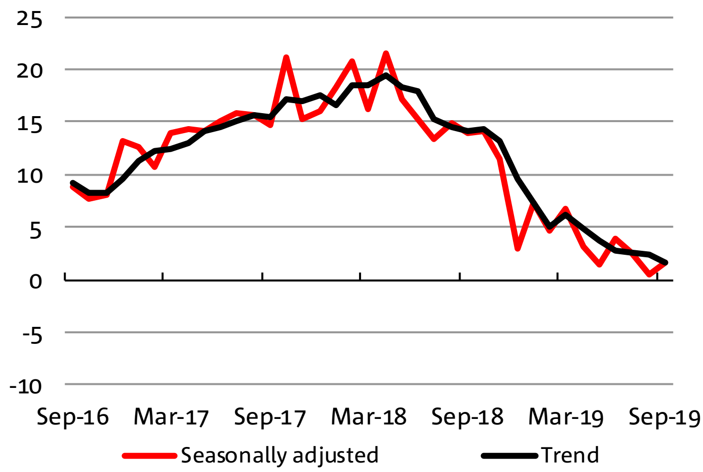


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

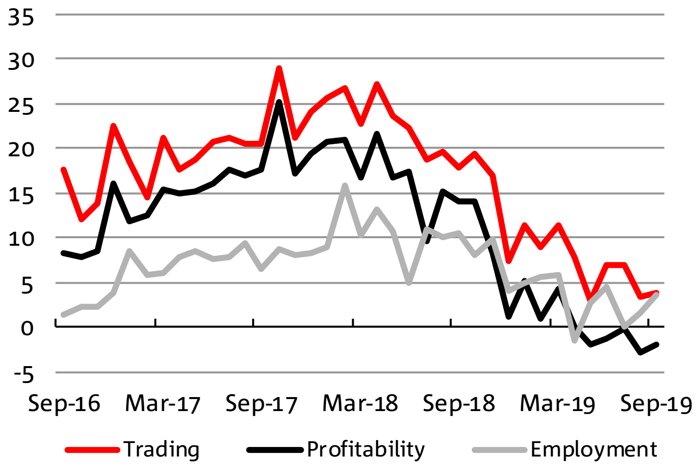
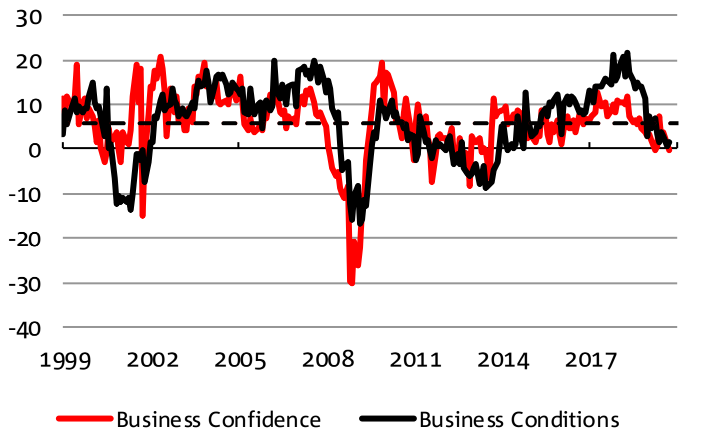


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE



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

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

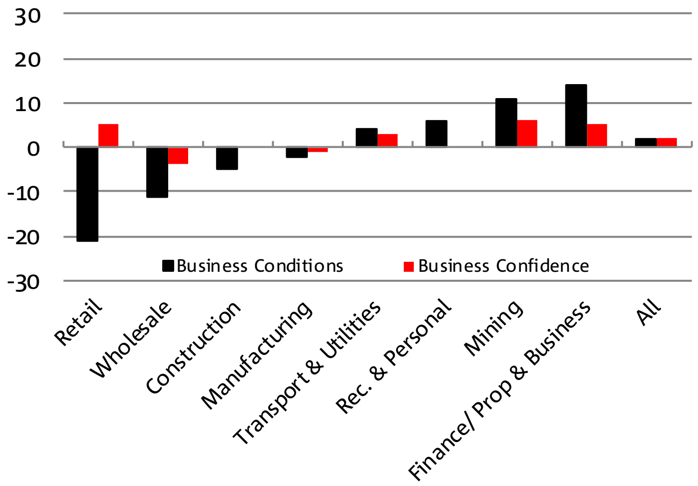
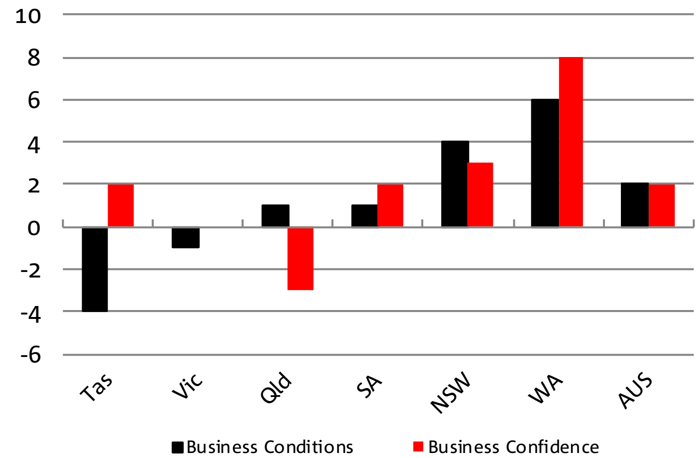


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

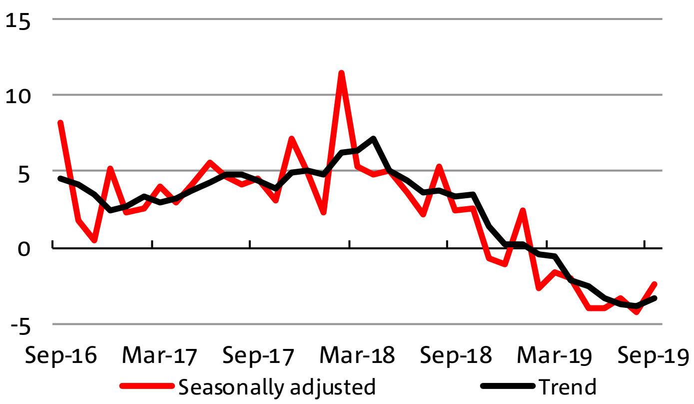


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

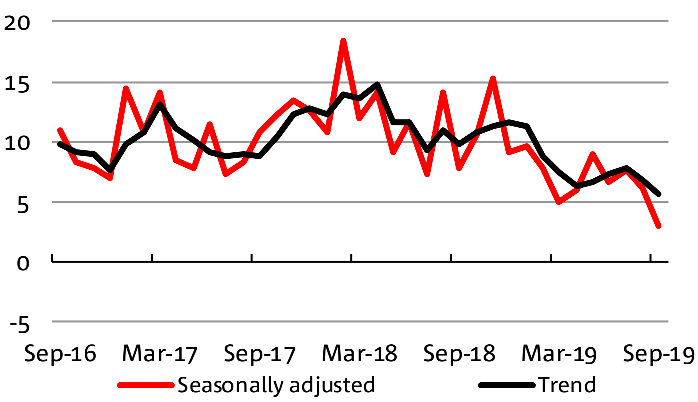


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

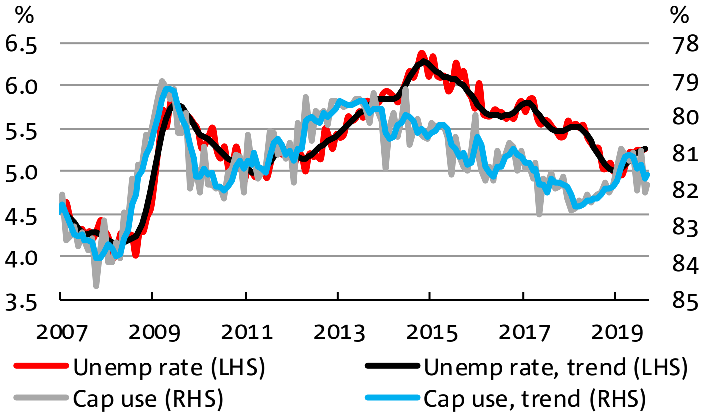


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

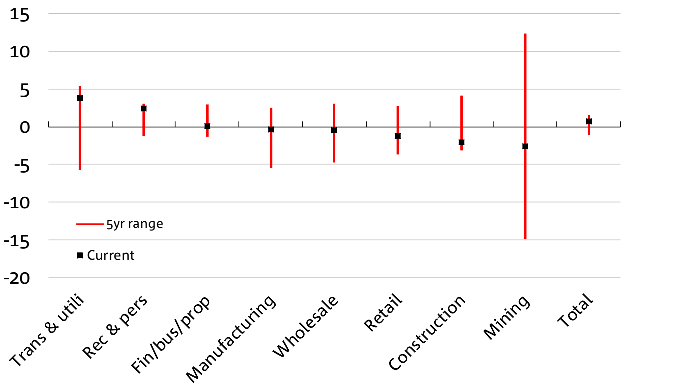


CHART 15: STOCKS (NET BALANCE)

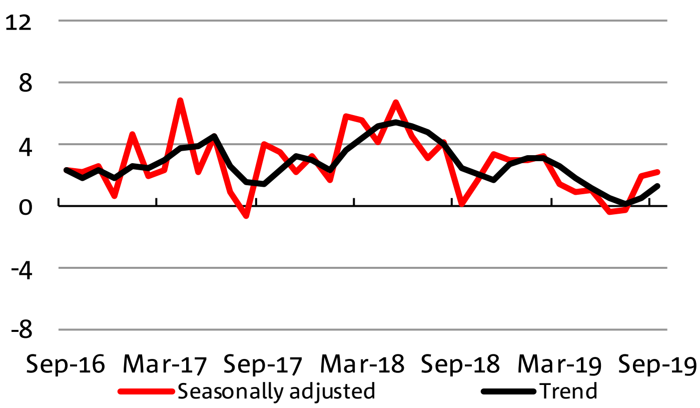


CHART 16: CASH FLOW (NET BALANCE)

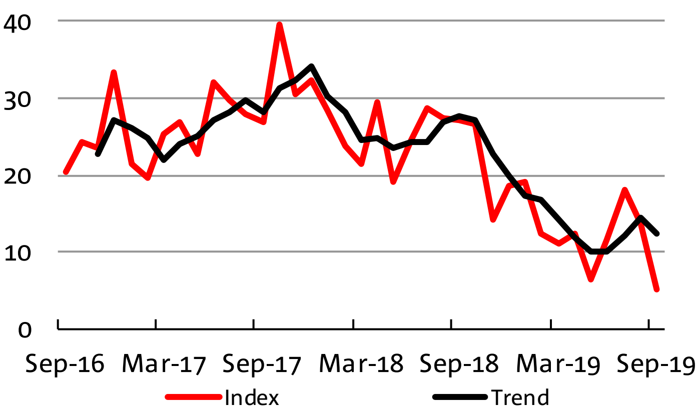


CHART 17: EXPORTS (NET BALANCE)

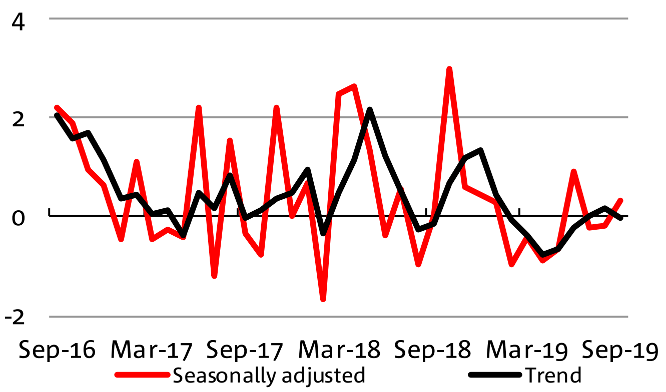
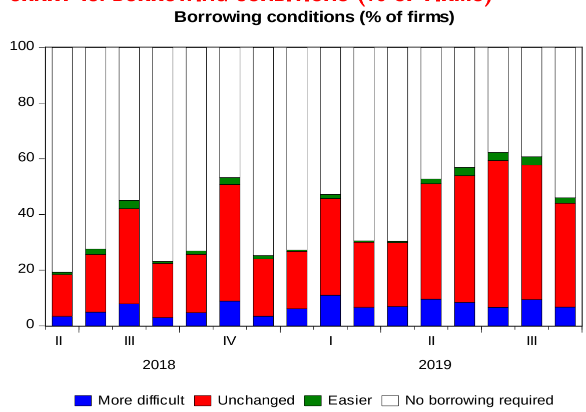


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 19: BUSINESS CONDITIONS (NET BALANCE) BY STATE

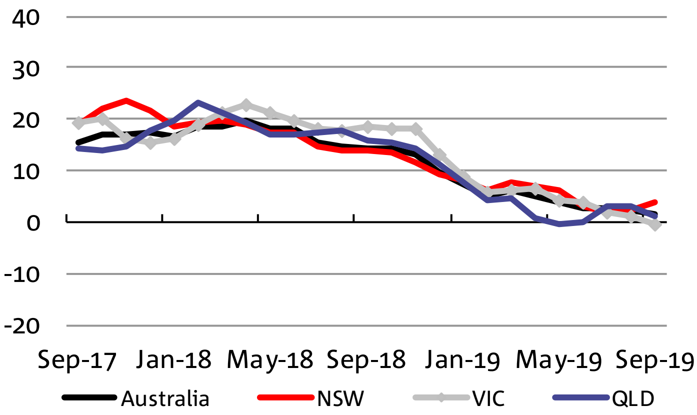


CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

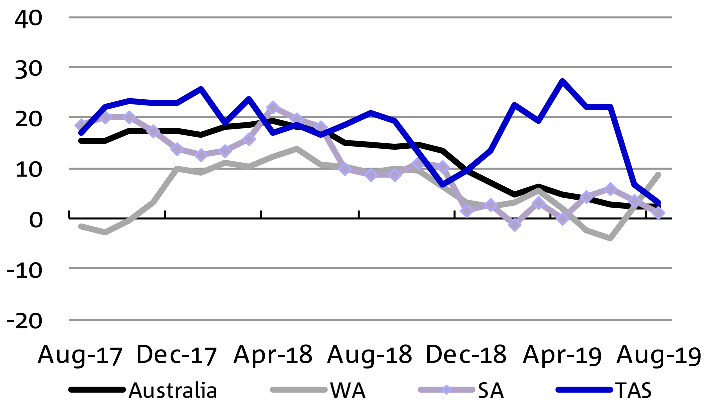


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

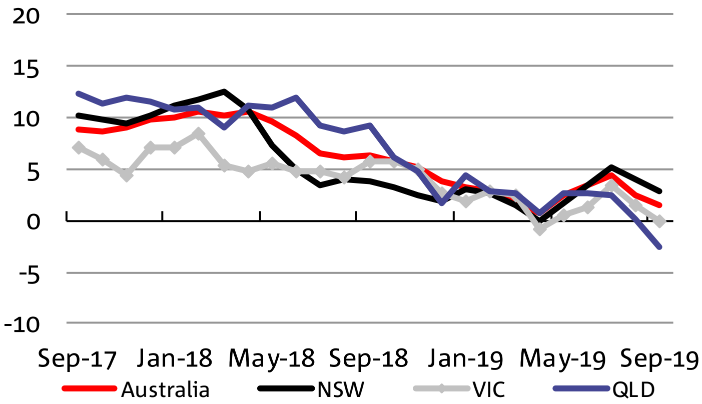


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

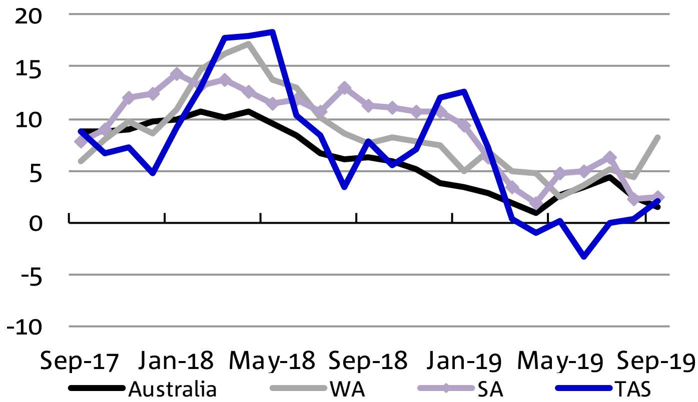


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

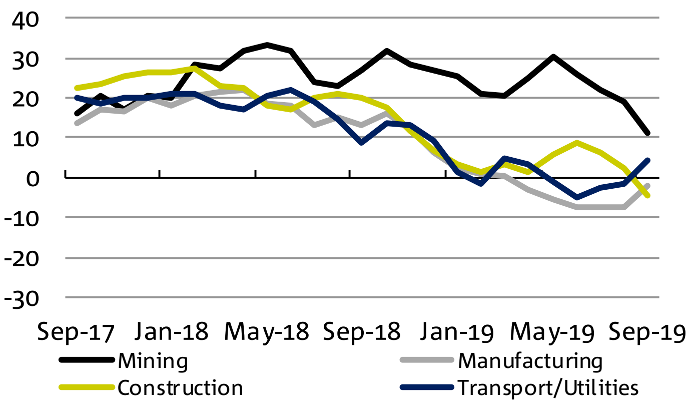


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

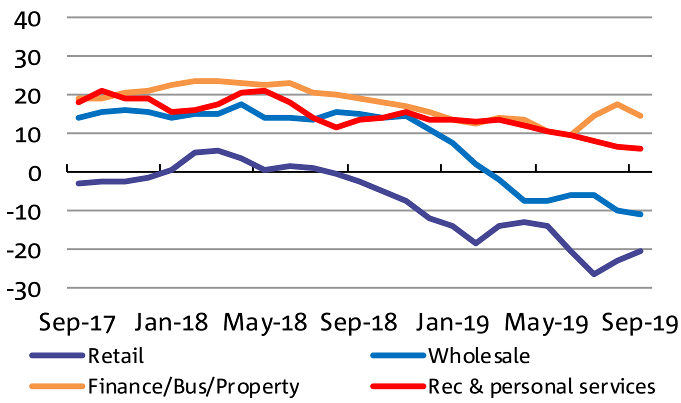


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

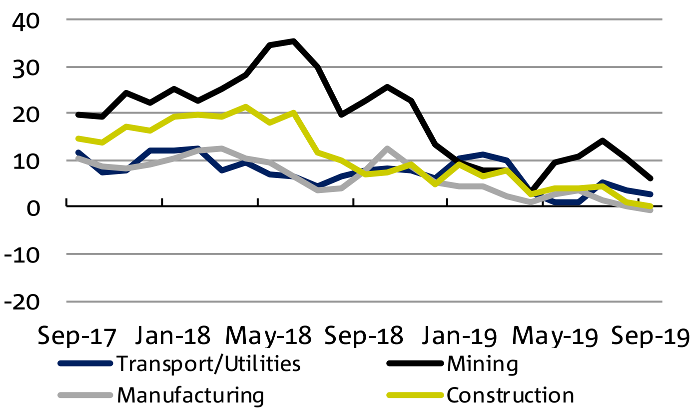
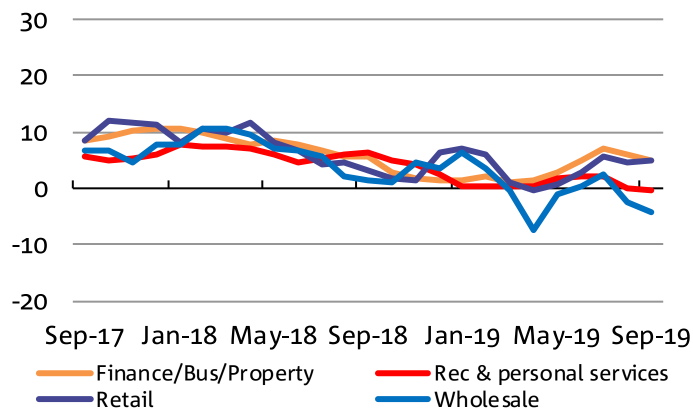


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

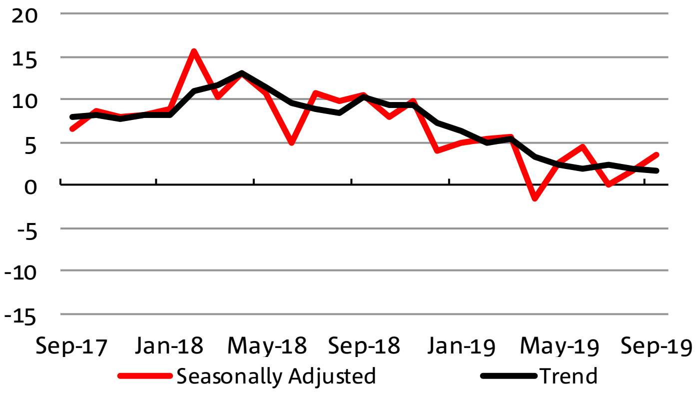


CHART 28: EMPLOYMENT (NAB VS ABS)

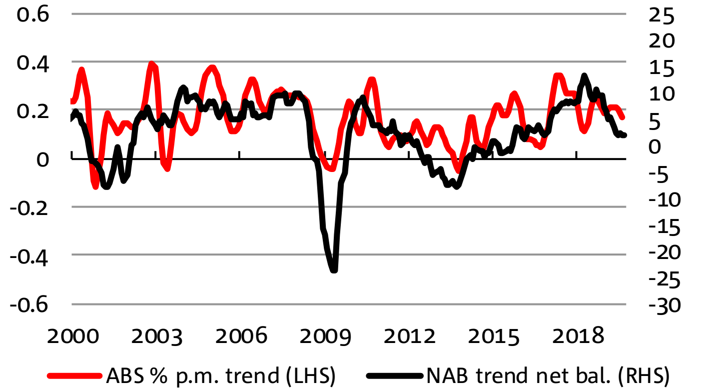


CHART 29: EMPLOYMENT BY INDUSTRY

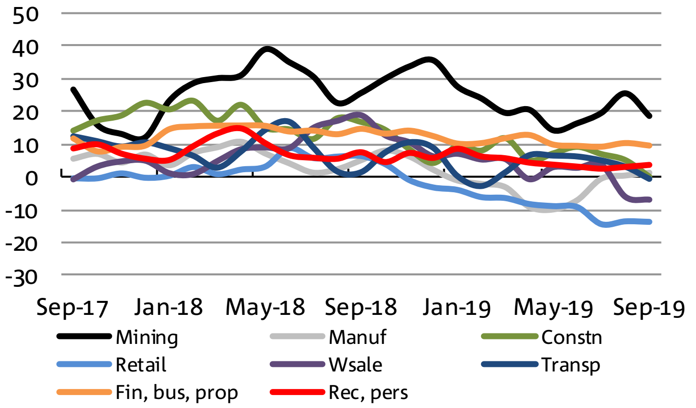


CHART 30: LABOUR COSTS GROWTH

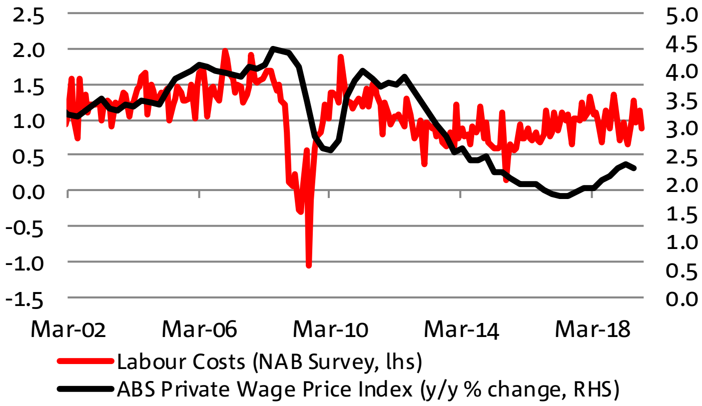


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

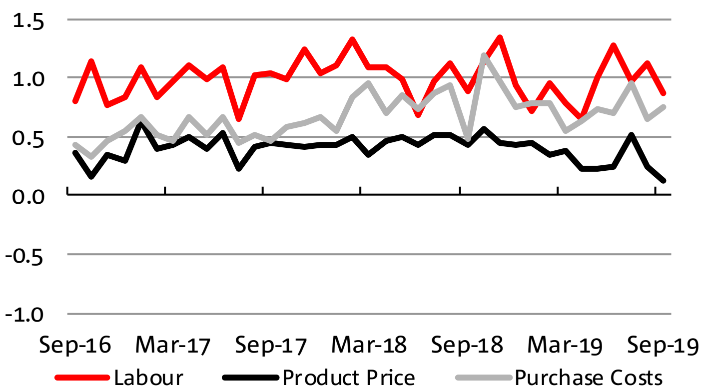
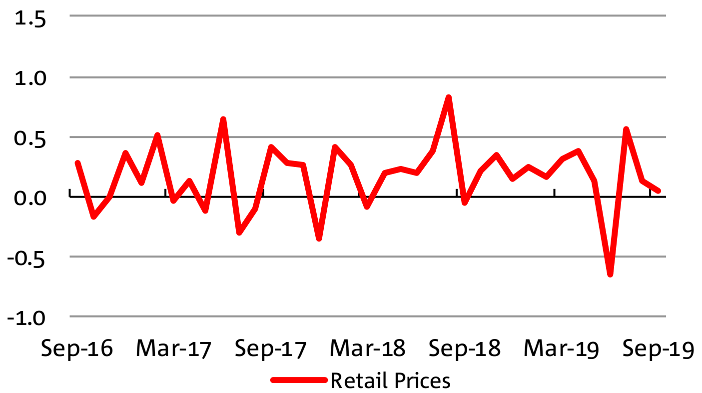


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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

Business Conditions (current, next 3 mth, next 12 mth)

Trading conditions (current, next 3 mth, next 12 mth)

Profitability (current, next 3 mth, next 12 mth)

Employment (current, next 3 mth, next 12 mth)

Forward orders (current, next 3 mth)

Stocks (current, next 3 mth)

Export orders (current, next 3 mth)

Capital expenditure (current, next 3 mth, next 12 mth, fiscal year)

Required rate of return on investment

Cash flow

Labour costs (current, next 3 mth)

Purchase costs (current, next 3 mth)

Final prices (current, next 3 mth)

Capacity Utilisation

Borrowing index (current, next 3 mth)

Borrowing demand (current, next 3 mth)

Constraints on output (demand, labour, materials, premises & plant, finance/working capital)

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)

Margins (current, next 3 mth)

Overheads (current, next 3 mth)

Productivity growth

Number of employees

Hours worked

Gross Sales

Output/sales growth (current fiscal year)

Average earnings (current fiscal year)

Short term interest rate

Exporters hedged FX exposure (%)

Importers hedged FX exposure (%)

Months hedged (exporters)

Months hedged (importers)

Favourable hedge position (% of exporters)

Favourable hedge position (% of importers)

Affected vs not affected by AUD

Response to AUD (downsized, reduced, overheads, hedging, import substitution, focus on domestic market, other, don't' know)

Driver of trading conditions (demand, wages/jobs, house prices, rates, exchange rate, tax/govt policy, seasonal, finance/working capital, company specific, other)

What will improve confidence (lower rates, more suitable labour, easier funding, government policy, higher demand, higher AUD, lower AUD, easier compliance, other)

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.