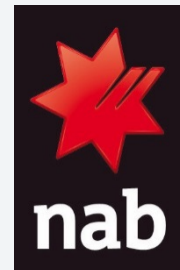


EMBARGOED UNTIL: 11:30AM AEDT, 17 OCTOBER 2019

NAB QUARTERLY BUSINESS SURVEY 2019 Q3

CONFIDENCE DECLINES WHILE CONDITIONS REMAIN BELOW AVERAGE



NAB Australian Economics

Overall the results of the survey for Q3 point to ongoing weakness in the business sector. Conditions edged higher but remain well below average, with the retail and wholesale industries particularly weak. Confidence decreased sharply in the quarter, unwinding the election-related spike last quarter - and is now well below average. Looking forward, short and medium-term expectations for conditions weakened, and while forward orders improved slightly, they remain negative. Though capacity utilisation and employment intentions held up, expected capex over the next year declined. Taken together, these indicators suggest the deteriorating trend in activity may again accelerate. Elsewhere in the survey, price pressures remain weak, with retail (and final products) prices still rising at low rates, despite labour and other input costs continuing to track at a slightly higher rate. Despite the unemployment rate edging higher in 2019, firms' reported difficulty in finding suitable labour also ticked up in the quarter – and is elevated but below the levels seen prior to the GFC. This suggests wage growth is likely to remain modest.

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) edged up in Q3, but remain below average. The small improvement was driven by an increase in trading conditions and a slight improvement in profitability (which remains negative). The employment index fell 1pt to +5 in the quarter. Across the states, conditions were higher in *WA, NSW*, while *QLD* saw a small improvement. *Vic* and *SA* edged lower in Q3, while *Tas* saw a relatively sharp deterioration. Despite the sharp deterioration in the quarter, conditions remain most favourable in *Tas*, followed by *WA* and *NSW*. *Vic* and *SA* are currently weakest with conditions at -1 index point. Outside of *mining*, the *services* sectors currently see the most favourable conditions. Despite a notable improvement in the quarter, conditions remain very weak in *retail*, while *wholesale*, *manufacturing* and *transport & utilities* are also negative.
- **Business confidence** declined sharply (-7pts) to -2 index points in Q3 – following the post-election lift in Q2. Confidence declined across all industries, and is now negative across most sectors outside of *mining*, except for *finance & business services* and *transport & utilities*. Confidence declined across all states in the quarter, with *QLD* recording the largest fall. Overall, confidence remains highest in *WA*. *Tas* is weakest, though *QLD* has also fallen to low levels.
- **Leading indicators** suggest there is likely to be little improvement in business conditions in the period ahead. Alongside the decline in confidence, expected conditions at 3 and 12 months declined. Capex expectations over the next 12 months also edged lower. Offsetting some of this weakness, capacity utilisation increased after declining last quarter.
- **Labour indicators** were mixed in the quarter. The employment index edged lower, while expectations for the next 3 months increased. Further out, expected employment was unchanged. The difficulty finding suitable labour ticked up in the quarter, and remains elevated, but is lower than the levels seen prior to the GFC.
- Survey measures of **inflation pressures remain modest**. Final products price growth was flat, and although retail inflation edged higher, it remains very weak. On the inputs side, labour costs edged higher but only point to a moderate growth, while input price growth was unchanged.
- Surveyed conditions in **construction industry sub-sectors** broadly reflect ongoing developments in the economy. Conditions in engineering construction and construction services improved in the quarter, though the non-residential building sector fell sharply after recording a strong increase last quarter. Residential construction saw an improvement in the quarter, but remains negative.

TABLE 1: KEY QUARTERLY BUSINESS STATISTICS

	2019q1	2019q2	2019q3		2019q1	2019q2	2019q3
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	0	5	-2	Trading	7	2	4
Business conditions				Profitability	-1	-4	-3
Current	4	1	2	Employment	7	6	5
Next 3 months	15	12	9	Next 3 months	10	5	10
Next 12 months	22	23	20	Next 12 months	20	16	16
Capex plans (next 12)	22	24	21	Forward orders	-2	-3	-2
	<i>% change</i>			Stocks	5	1	2
Labour costs	0.6	0.6	0.7	Exports	0	0	0
Purchase costs	0.5	0.5	0.5	Retail prices (% change)	0.1	0.0	0.1
Final products prices	0.2	0.2	0.2				
				Capacity utilisation rate (%)	81.8	81.3	82.6

All data seasonally adjusted, except purchase costs and exports. This survey was conducted from 20 August to 12 September, covering over 900 firms across the non-farm business sector.

Next release: 6 February 2020.

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

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QUARTERLY FOCUS: INVESTMENT INDICATORS

The outlook for investment from the survey

- Business investment is an important component of growth – both directly contributing to current output as well as driving future productivity growth and employment demand as businesses expand. To date, NAB Economics has remained optimistic of investment (as has the RBA) with business capex a key offset to the weakness in consumption growth and the downturn in housing construction in our forecasts.
- However, business decisions are not made in isolation and with consumer demand growth weak, housing construction falling and global uncertainty high, there are questions around how much business will invest over the next few years.
- Surveyed capex edged higher in Q3, but remains broadly around its long-run average after declining since early 2018. Expected capex – both in the next 3 and 12 months – are also both broadly around average with flat short-term expectations in the quarter and longer-term expectations decreasing.
- In the quarter there was a decline in expectations for the next 12 months across most industries, except for *manufacturing* and *recreation & personal services*.
- *Mining* saw a notable decline in the quarter, and is now around average after trending lower for the past year or so. Nonetheless, expected investment remains higher than the levels seen in the wake of the mining boom, which saw sharp declines in investment in the sector.
- In addition to the standard questions on capex the NAB Quarterly Business survey also asks firms about their expected growth rate for investment over the next financial year. The first estimate for 2019/20 was released with the Q1 survey (+4.5%). The third expectation for this financial year in the Q3 survey suggests the expected growth rate for the year has fallen slightly to 3.8%.
- Overall our assessment is that the Business survey points to only a modest expansion in business investment over the next year or so. We remain optimistic that firms' will see spill overs from the large pipeline of infrastructure work. However, we acknowledge the risk that weakening consumer demand, declining dwelling investment and heightened global uncertainty could well see restraint in capex spending, despite very low interest rates and above average capacity utilisation. The ABS capex survey in late November will provide an important update on how investment intentions are tracking in official data.

CHART 1: SURVEY CAPEX (NET BAL, DEV. FROM AVE.)

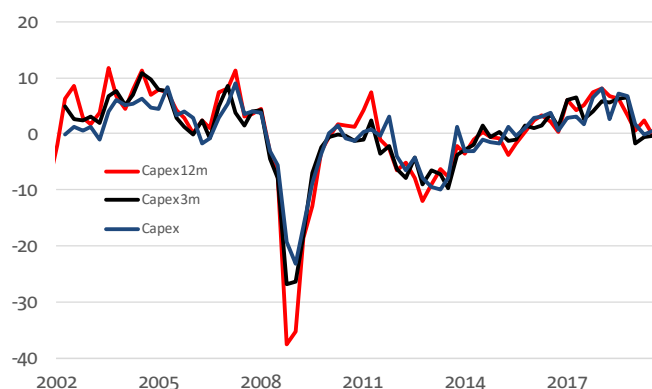


CHART 2: EXPECTED CAPEX BY INDUSTRY (NET BAL, DEV. FROM AVE.)

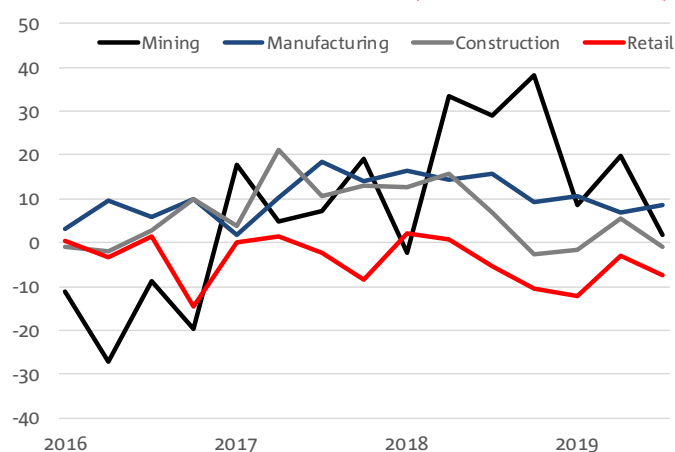
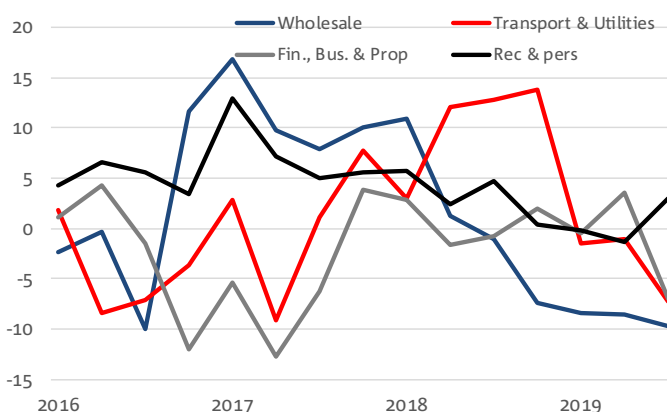


CHART 3: EXPECTED CAPEX BY INDUSTRY (NET BAL, DEV. FROM AVE.)



NAB QUARTERLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

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

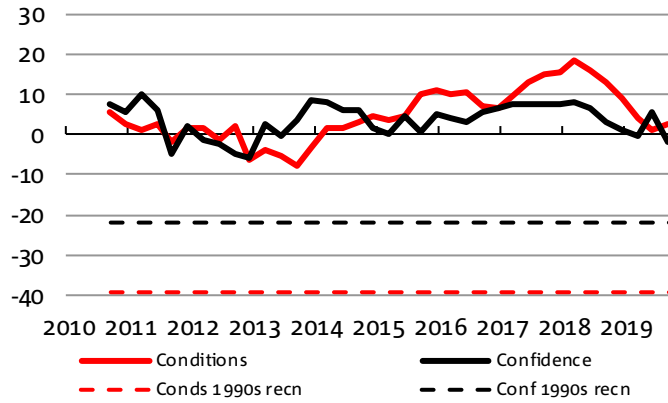
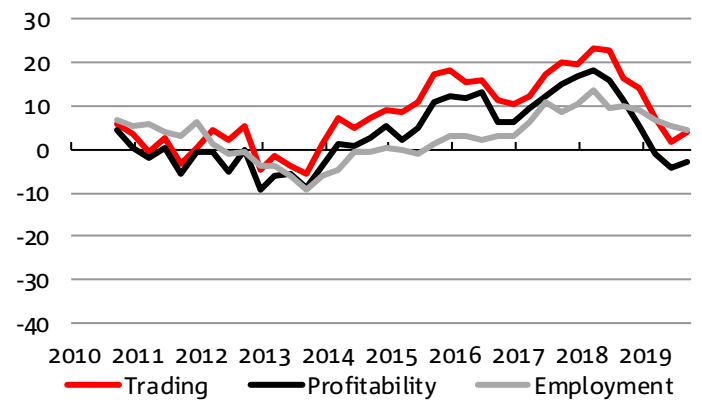


CHART 5: BUSINESS CONDITIONS COMPONENTS (NET BALANCE, S.A.)



DRIVERS OF BUSINESS CONFIDENCE

CHART 6: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE

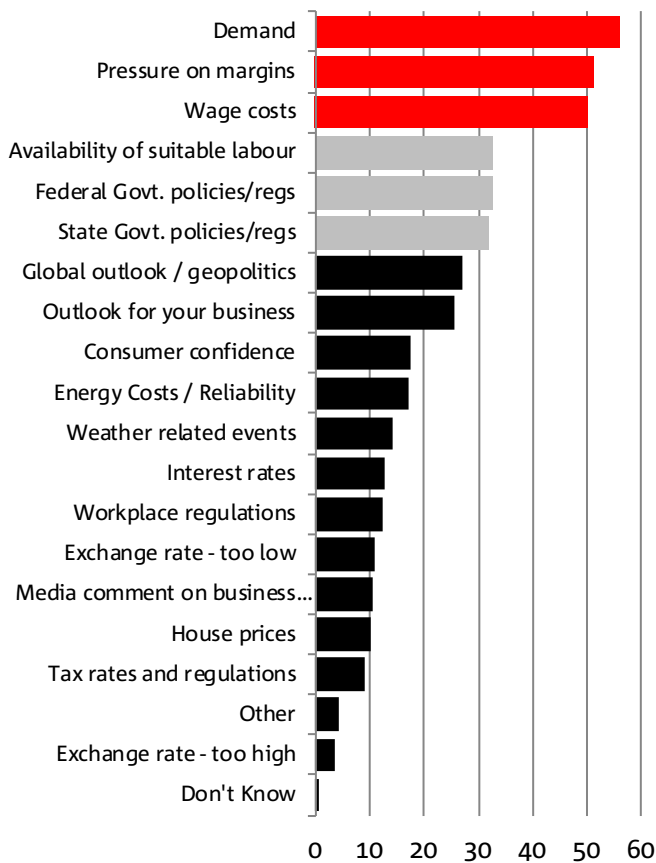


CHART 7: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – DETERIORATING CONDITIONS

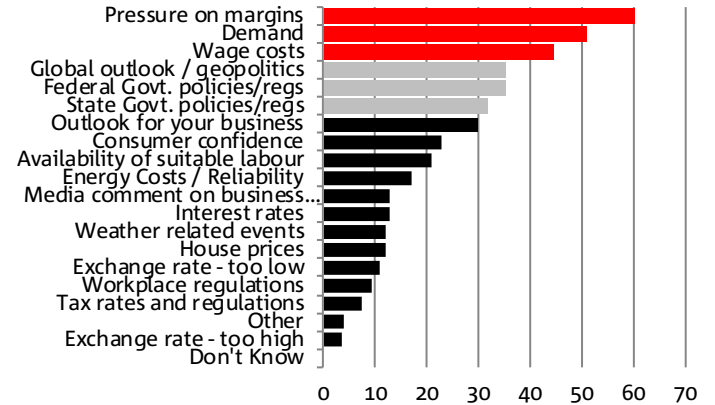


CHART 8: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – IMPROVING CONDITIONS



NAB QUARTERLY BUSINESS SURVEY – LEADING INDICATORS & INVESTMENT

CHART 9: BUSINESS CONDITIONS AND EXPECTATIONS (NET BALANCE)

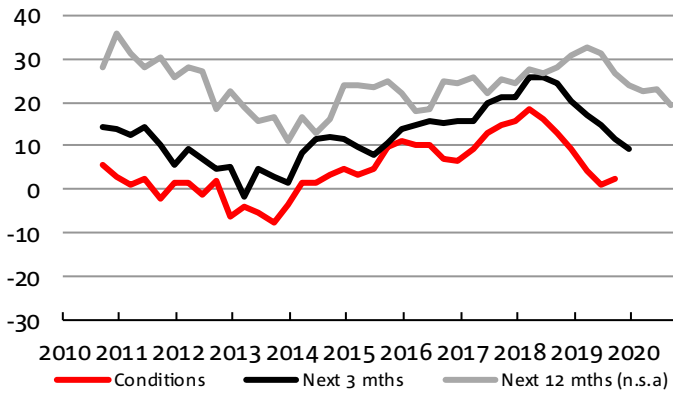


CHART 10: FORWARD ORDERS & EXPECTATIONS (NET BALANCE S.A.)

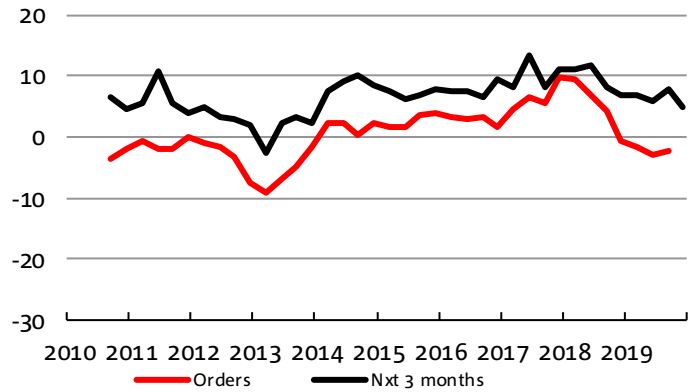


CHART 11: STOCKS (NET BALANCE S.A.)

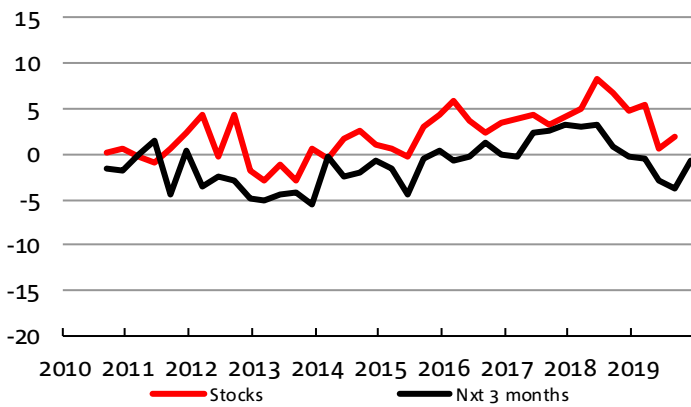


CHART 12: CAPACITY UTILISATION (PER CENT, S.A.)

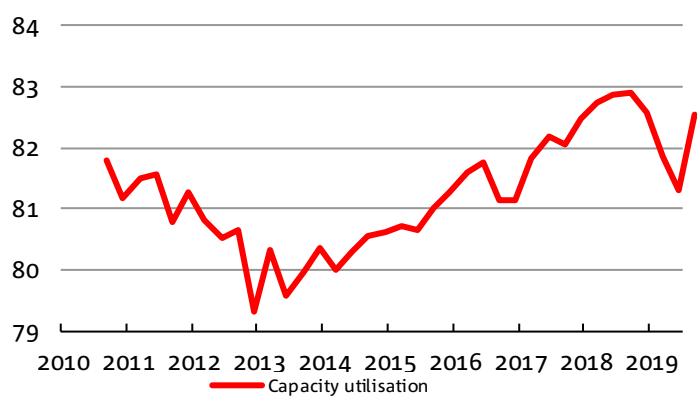


CHART 13: CAPACITY UTILISATION (PPT DEVIATION FROM LONG-RUN AVERAGE, 3 QTR MA)

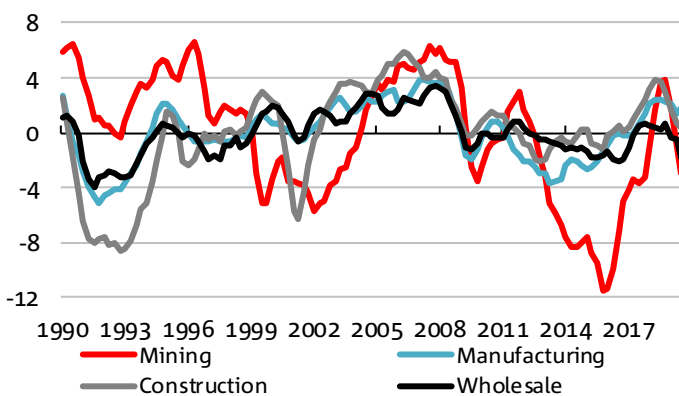
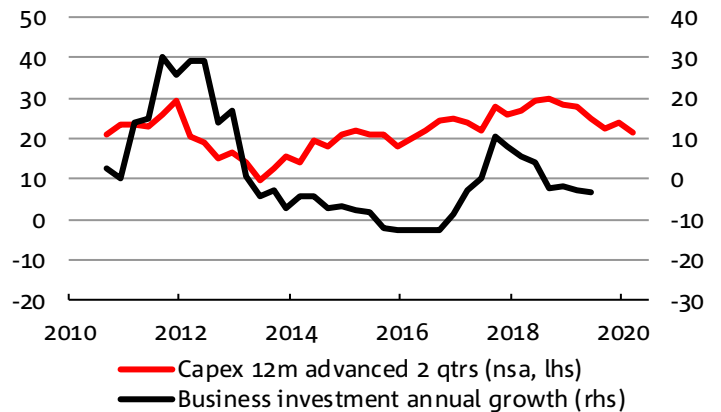


CHART 14: BUSINESS INVESTMENT & CAPEX PLANS



NAB QUARTERLY BUSINESS SURVEY – LABOUR MARKET

CHART 15: EMPLOYMENT & EXPECTATIONS (NET BALANCE)

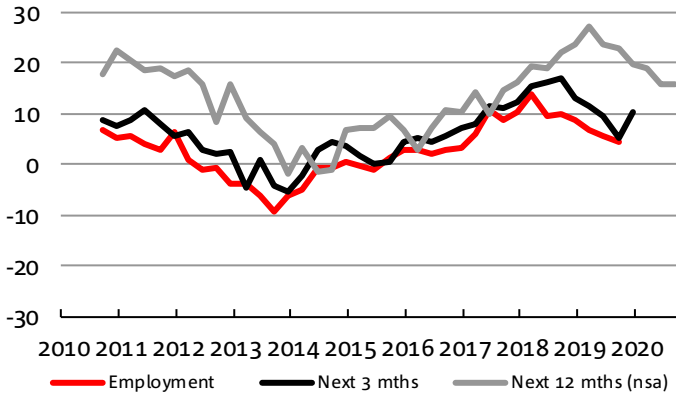


CHART 16: UNEMPLOYMENT RATE & LABOUR CONSTRAINTS

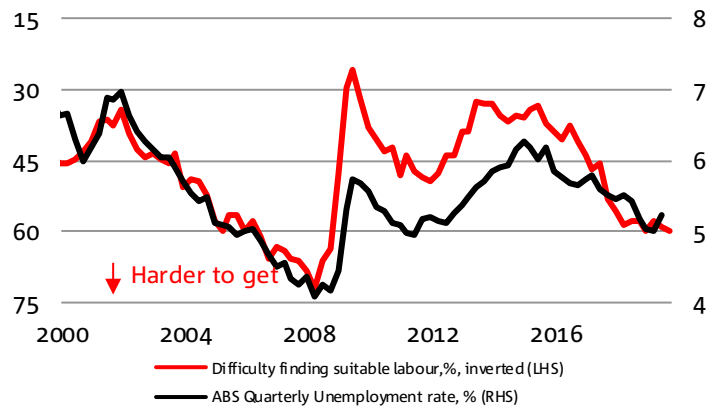


CHART 17: CHANGE IN AVERAGE HOURS WORKED (NSA)

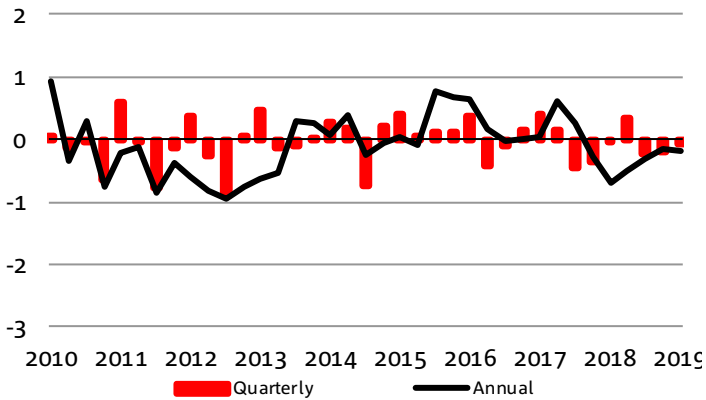


CHART 18: UNDERUTILISATION RATE & LABOUR CONSTRAINTS

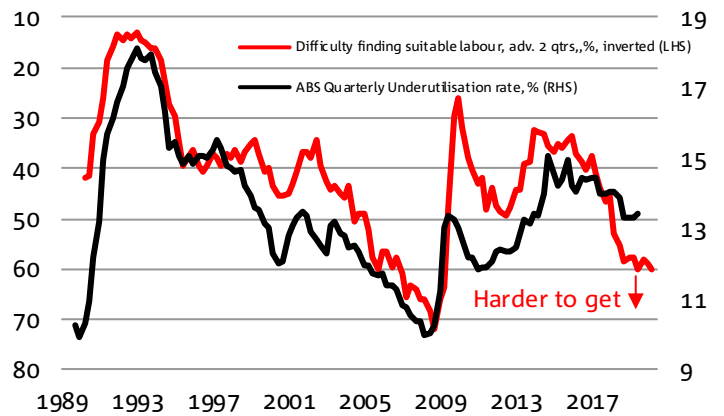


CHART 19: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)

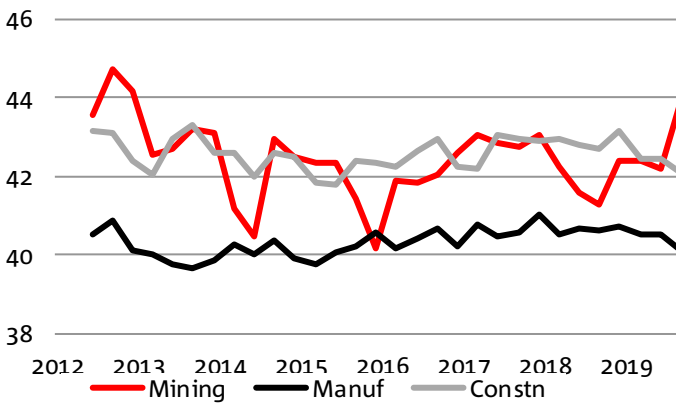


CHART 20: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)

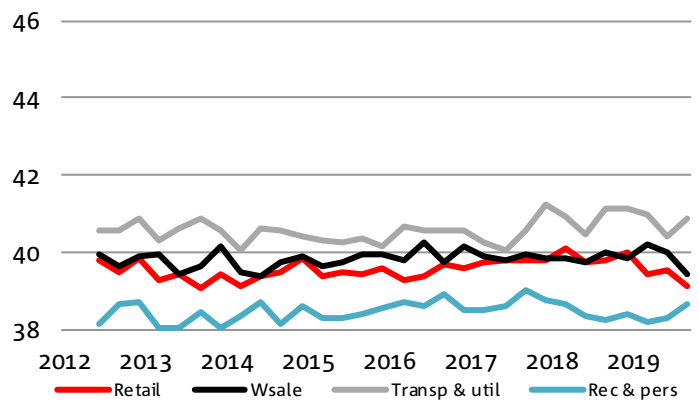
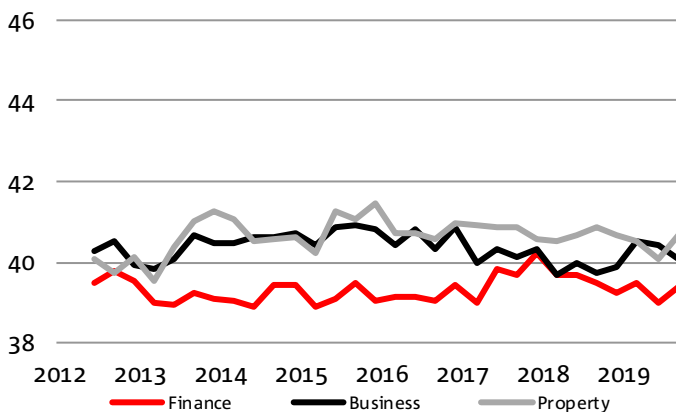


CHART 21: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)



NAB QUARTERLY BUSINESS SURVEY - MAJOR CONSTRAINTS ON FIRM OUTPUT

CHART 22: MAIN CONSTRAINTS ON FIRM OUTPUT

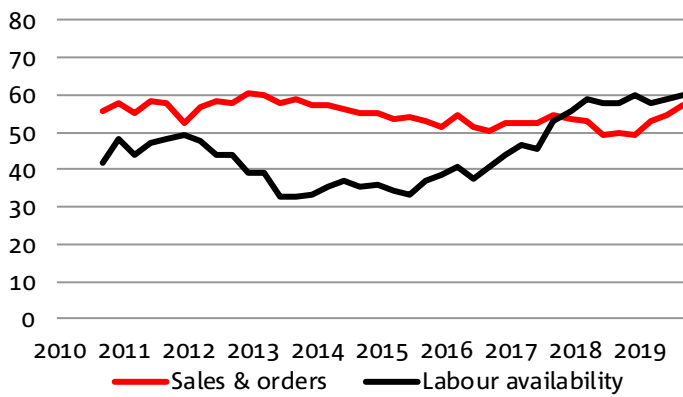
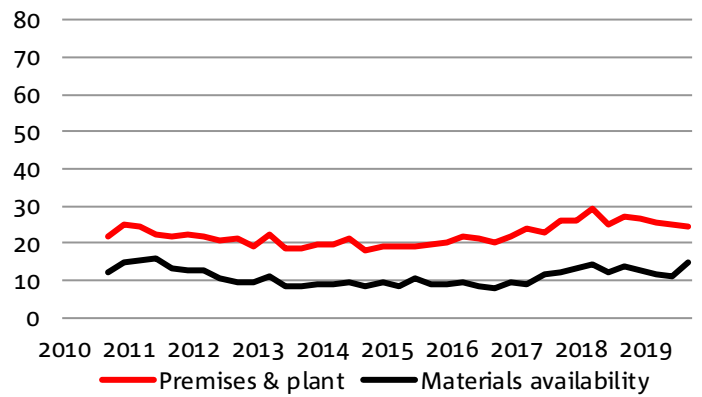


CHART 23: MAIN CONSTRAINTS ON FIRM OUTPUT



INFLATION PRESSURES

CHART 24: PRICES (% ANN, SA)

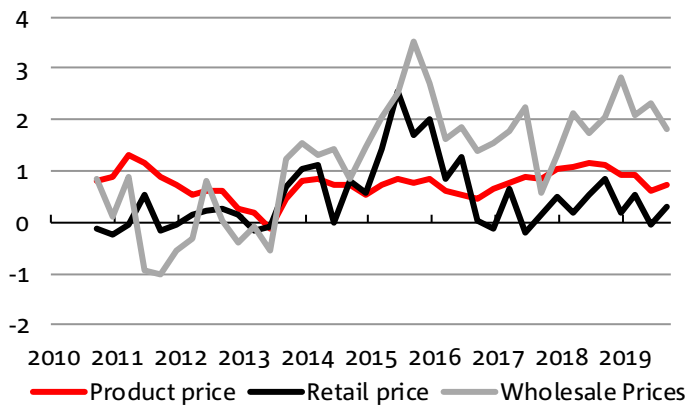
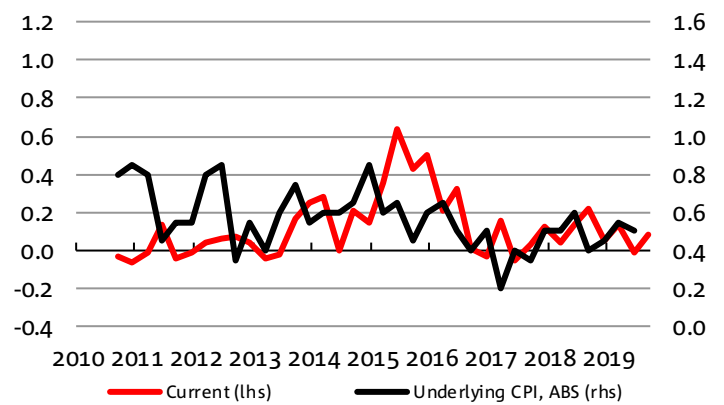


CHART 25: RETAIL PRICES (% P.Q.)



LABOUR COSTS (DETAILS)

CHART 26: LABOUR COSTS & COMPENSATION OF EMPLOYEES

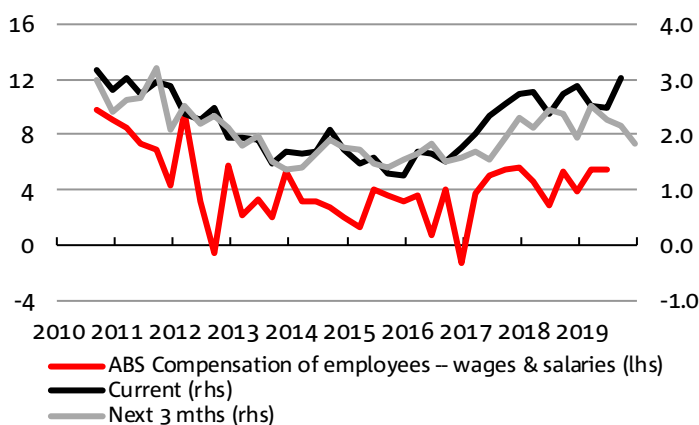
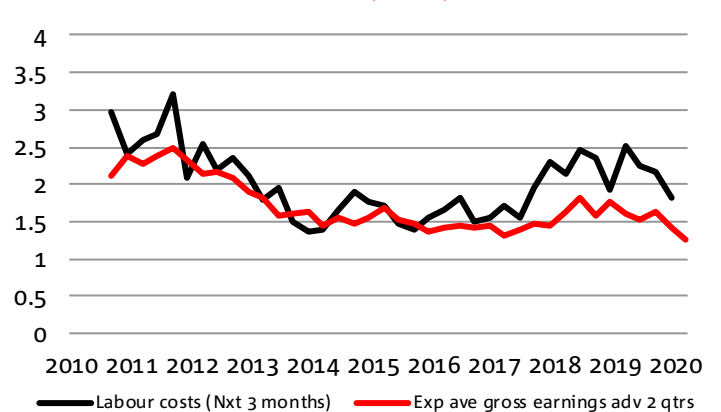


CHART 27: EXPECTED LABOUR COSTS (% ANN)



NAB QUARTERLY BUSINESS SURVEY – CONSTRUCTION INDUSTRY DETAILS

CHART 28: BUSINESS CONDITIONS BY INDUSTRY

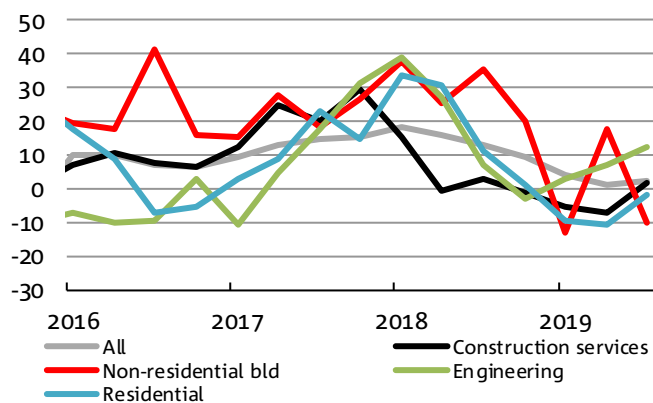


CHART 29: BUSINESS CONFIDENCE BY INDUSTRY

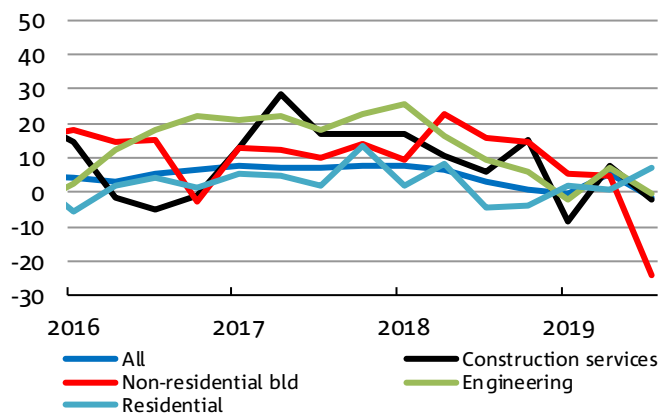


CHART 30: EMPLOYMENT CONDITIONS BY INDUSTRY

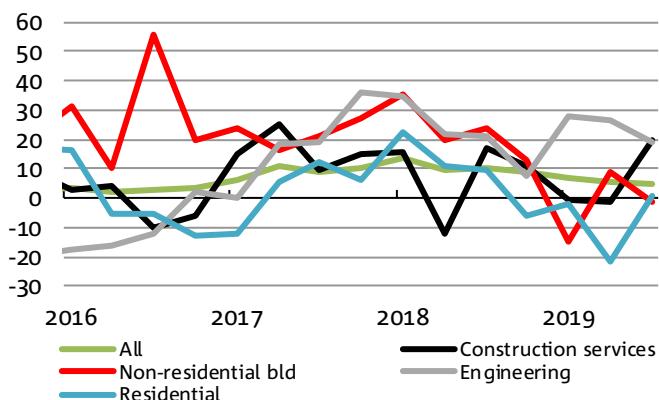
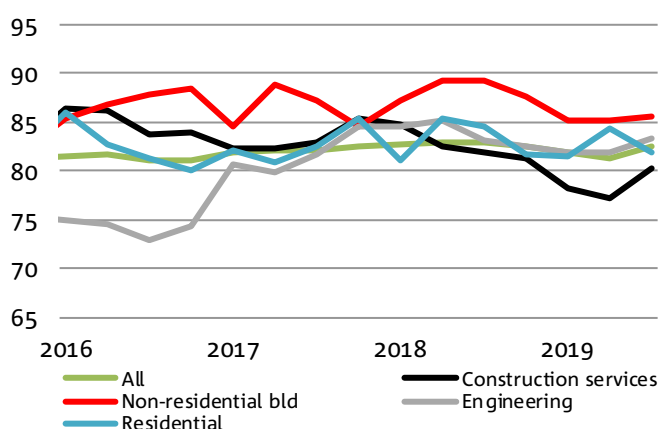


CHART 31: CAPACITY UTILISATION BY INDUSTRY



FINANCIAL MARKET EXPECTATIONS

- The survey was conducted prior to the most recent rate cut in October but following the back to back cuts in June and July. At the time, around 50% of businesses surveyed in the September quarter expected interest rates to fall over the next year, while the number expecting no changes rose to 38%. On average, businesses priced in around a 72% probability of a 25bps rate cut in the next 12 months. 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 December, and acknowledge risk of another cut alongside a move to unconventional policy in H1 2020 should significant support from fiscal policy fail to materialise.
- Exchange rate expectations in the Survey (6-months-ahead) were slightly lower than Q2 2019 with business expecting an exchange rate of US68.60c 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

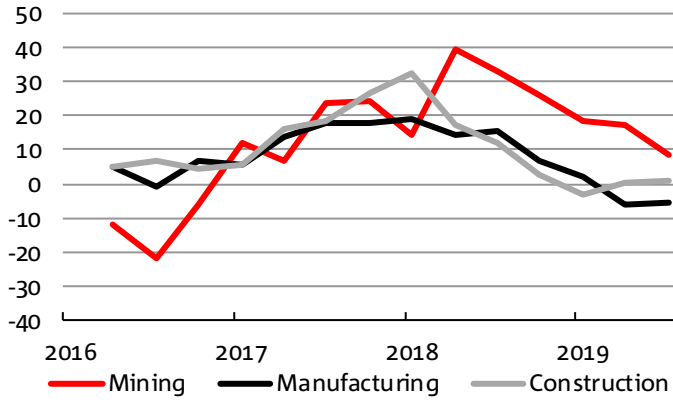


CHART 35: BUSINESS CONFIDENCE BY INDUSTRY

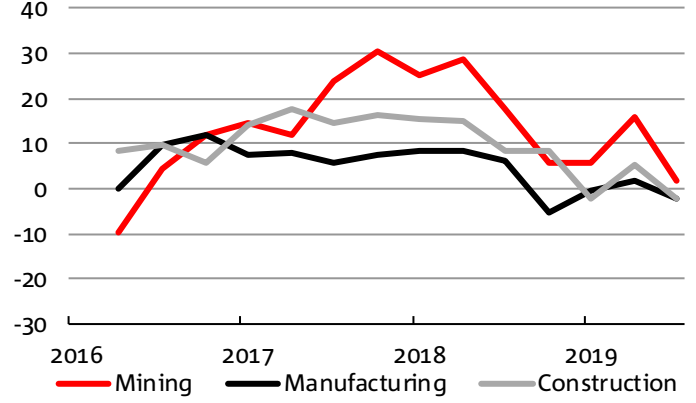


CHART 33: BUSINESS CONDITIONS BY INDUSTRY

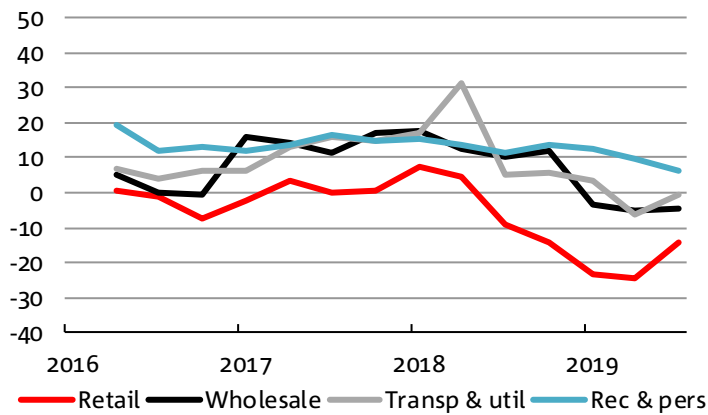


CHART 36: BUSINESS CONFIDENCE BY INDUSTRY

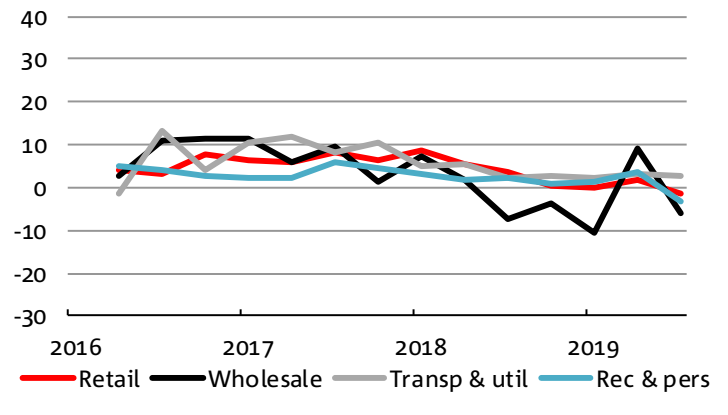


CHART 34: BUSINESS CONDITIONS BY INDUSTRY

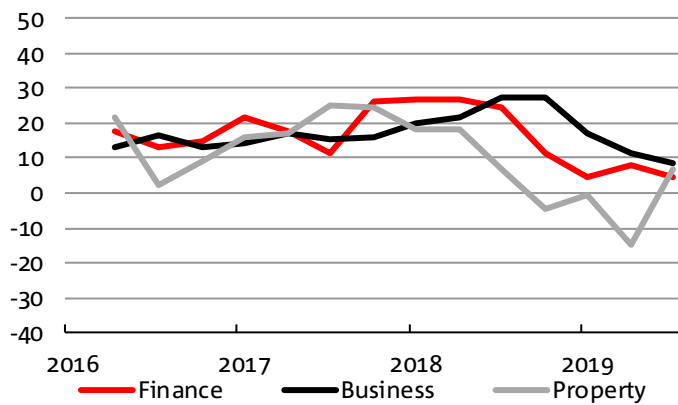
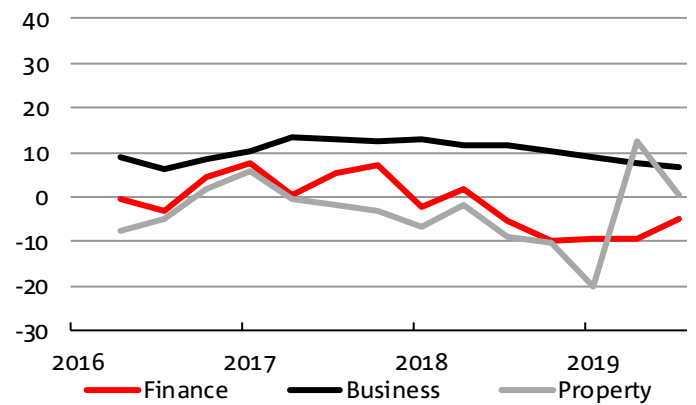


CHART 37: BUSINESS CONFIDENCE BY INDUSTRY



NAB QUARTERLY BUSINESS SURVEY – FURTHER DETAILS BY STATE

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

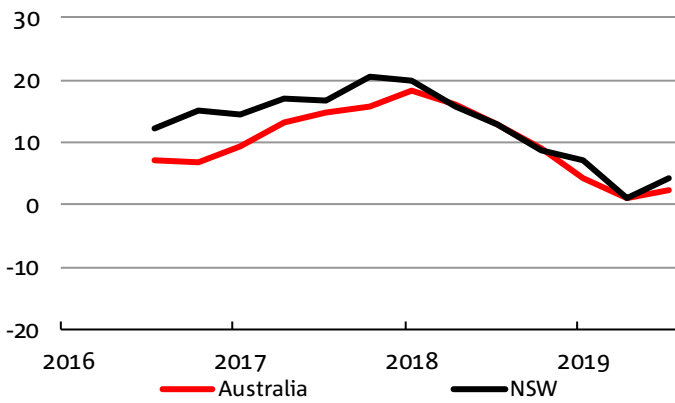


CHART 41: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)

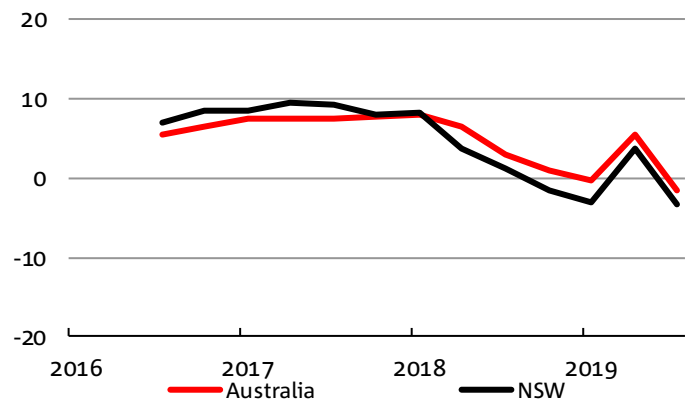


CHART 39: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

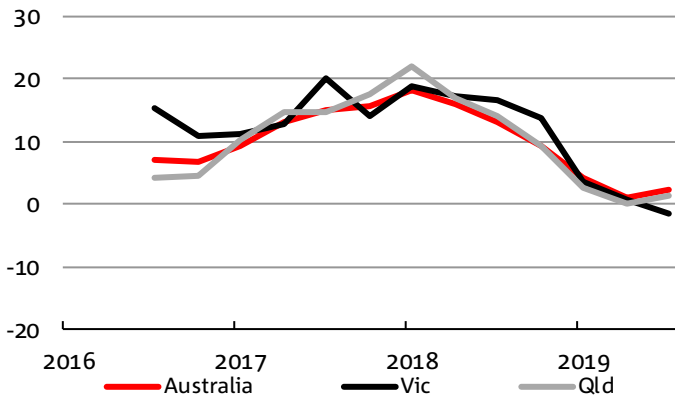


CHART 42: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)

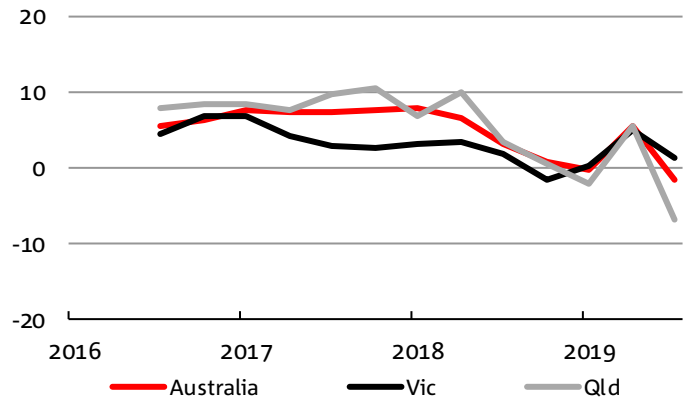


CHART 40: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

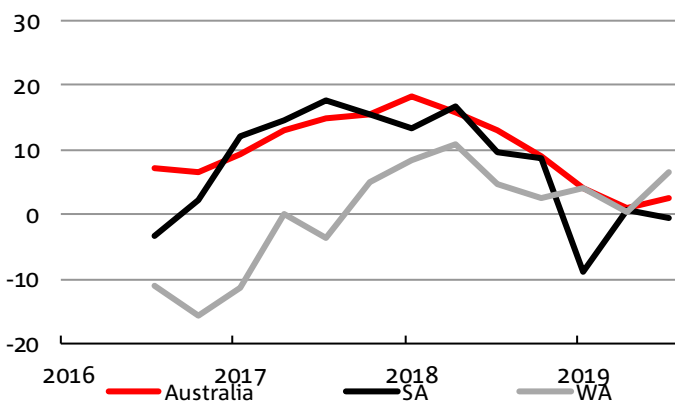
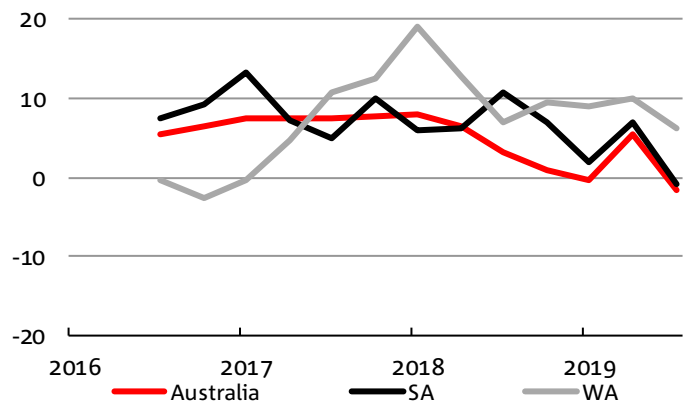


CHART 43: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)



NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX

	Quarterly					Monthly				
	2018q3	2018q4	2019q1	2019q2	2019q3	2019m5	2019m6	2019m7	2019m8	2019m9
Confidence	3	1	0	5	-2	7	2	4	1	0
Conditions	13	9	4	1	2	1	4	3	1	2

	Quarterly					Monthly				
	2018q3	2018q4	2019q1	2019q2	2019q3	2019m5	2019m6	2019m7	2019m8	2019m9
Trading	16	14	7	2	4	3	7	7	3	4
Profitability	11	5	-1	-4	-3	-2	-1	0	-3	-2
Employment	10	9	7	6	5	3	4	0	2	3

	Quarterly ^(a)					Monthly				
	2019q2	2019q3	2019q4	2020q2	2020q3	2019m5	2019m6	2019m7	2019m8	2019m9
Conditions	1	2	NA	NA	NA	1	4	3	1	2
Conds. next 3m	15	12	9	NA	NA					
Conds. nxt 12m	31	27	24	23	20					
Orders	-3	-2	NA	NA	NA	-4	-4	-3	-4	-2
Orders next 3m	6	8	5	NA	NA					

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

	Quarterly ^(a)					Monthly				
	2018q4	2019q1	2019q2	2019q3	2019q4	2019m5	2019m6	2019m7	2019m8	2019m9
Capacity utilis.	82.6	81.8	81.3	82.6	NA	81.0	82.0	80.9	82.1	81.9
Stocks current	5	5	1	2	NA	1	0	0	2	2
Stocks next 3m	0	0	-3	-4	-1					

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

	2018q3	2019q2	2019q3
Constraints on output (% of firms)*			
Sales & orders	49.9	54.7	57.5
Labour	57.8	58.9	60.0
Premises & plant	27.3	24.9	24.5
Materials	14.1	11.3	14.7

* not s.a.

	Quarterly ^(a)					Monthly				
	2019q2	2019q3	2019q4	2020q2	2020q3	2019m5	2019m6	2019m7	2019m8	2019m9
Empl current	6	5	NA	NA	NA	3	4	0	2	3
Empl next 3m	10	5	10	NA	NA					
Empl nxt 12m	24	23	20	16	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>2018q3</u>	<u>2018q4</u>	<u>2019q1</u>	<u>2019q2</u>	2019q3	<u>2019m5</u>	<u>2019m6</u>	2019m7	<u>2019m8</u>	<u>2019m9</u>
Business conditions										
NSW	13	9	7	1	4	1	3	1	2	9
VIC	17	14	4	1	-1	0	4	1	-3	-1
QLD	14	9	3	0	1	1	4	3	1	0
SA	10	9	-9	1	-1	7	3	1	-1	2
WA	5	3	4	0	6	-8	2	12	10	-5

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2018q3</u>	<u>2018q4</u>	<u>2019q1</u>	<u>2019q2</u>	2019q3	<u>2019m5</u>	<u>2019m6</u>	2019m7	<u>2019m8</u>	<u>2019m9</u>
Business confidence										
NSW	1	-2	-3	4	-3	4	4	7	1	1
VIC	2	-2	0	5	1	8	1	1	3	-3
QLD	3	0	-2	6	-7	5	3	-1	-2	-5
SA	11	7	2	7	-1	11	0	7	0	0
WA	7	9	9	10	6	6	2	6	4	14

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Important Notice

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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)

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.

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)