

# NAB MONTHLY BUSINESS SURVEY DECEMBER 2019

## CONFIDENCE ENDS THE YEAR ON A LOW

*NAB Australian Economics*

**Key messages from the Survey:** The final monthly business survey of 2019 provides further evidence that activity stabilised in Q4. Conditions edged 1pt lower in the month to +3 index points – another below average result and one that is well below the level seen in early 2018. Confidence weakened, falling 2pts to -2 index points, the lowest read since mid-2013. While broadly stable, forward looking indicators do not imply a material improvement in the near term. Forward orders remain weak and capacity utilisation is just below average. Capex has pulled back over the year, and is now also below average. A bright spot remains the employment index, which at +4 index points is above average and implies reasonable ongoing employment demand. While the deterioration in conditions since mid-2018 has been broad-based, NSW and Vic currently see the best conditions on the mainland, as do the service industries. Retail has improved slightly over recent months, but remains deeply in negative territory and, alongside wholesale, the weakest of all industries. Notwithstanding the decline in confidence, the impact of the bushfires (which began in late December) is not yet apparent in these results. We will closely watch the results of the January survey for any indication of the impact of the fires on the business sector.

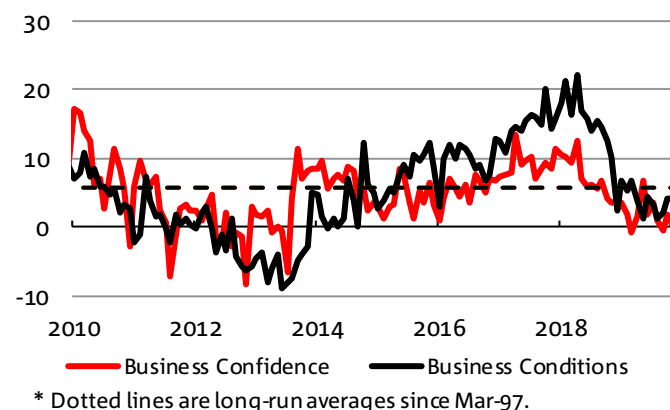
### HIGHLIGHTS

- **How confident are businesses?** Confidence fell another 2pts in December to -2 index points.
- **How did business conditions fare?** Conditions edged 1pt lower in the month and is around 3pts below average.
- **What components contributed to the result?** There were falls in both profitability (by -2pts) and trading (by -1pt). The employment index was unchanged at +4 index points.
- **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.
- **Which industries are driving conditions?** A rise across most industries – led by large increases in wholesale and mining – was offset by a large fall in finance, business & property services in the month. In trend terms, the services sector continues to have strong conditions, while goods distribution including retail and wholesale remain weakest. Mining now lies around the middle of the pack with an easing in conditions over the second half of 2019.
- **Which industries are most confident?** The decline in confidence was led by a fall in retail and construction, with rec & personal and manufacturing also declining. There was a large increase in mining, and rises in wholesale, transport & utilities and finance, business and property services. In trend terms, confidence is weakest in wholesale while manufacturing is also negative. Construction is most optimistic.
- **Where are we seeing the best conditions by state?** Conditions weakened across all states in the month, except NSW which was flat and Qld which edged higher. Overall, in trend terms, conditions remain most favourable in Tas followed by NSW and Vic. The other states are below the national average with Qld weakest at 0 index points.
- **What is confidence like across the states?** Confidence rose sharply in WA (related to the increase in mining), and was higher in Qld and Tas. The other states saw declines. In trend terms, confidence is highest in Tas and WA and weakest in Vic.
- **Are leading indicators suggesting further improvement?** While confidence weakened, forward orders saw a small improvement - but remain negative. Capacity utilisation remains just below average. Taken together, forward indicators suggest ongoing weakness in conditions.
- **What does the survey suggest about inflation and wages?** Final products price inflation eased slightly, though retail inflation was unchanged at 0.5% in quarterly terms. Input costs continue to outpace end prices, but overall the survey suggests inflationary pressure remains weak.

**TABLE 1: KEY STATISTICS**

	Oct-19	Nov-19	Dec-19
	Net balance		
Business confidence	2	0	-2
Business conditions	4	4	3
Trading	7	6	5
Profitability	1	3	1
Employment	5	4	4
Forward orders	3	-2	-1
Stocks	1	3	-1
Exports	1	0	-1
	% change at quarterly rate		
Labour costs	0.9	0.8	0.8
Purchase costs	0.8	0.7	0.5
Final products prices	0.2	0.5	0.3
Retail prices	0.8	0.5	0.5
	Per cent		
Capacity utilisation rate	81.6	81.0	80.9

**CHART 1: CONFIDENCE ENDS THE YEAR ON A LOW**



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 2-17 January 2020, covering 400 firms across the non-farm business sector.

**Next release date: 11 February 2020.**

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# NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

## EMPLOYMENT BY INDUSTRY

- The labour market was a key focus of policy makers through 2019. Despite employment capping off a second consecutive year of strong growth, the unemployment rate edged marginally higher, ending the year 0.1 ppt higher at 5.1%. Essentially the ongoing strength in employment demand has been met by a strong rise in labour force participation. This relatively large 'supply response' has been associated with meek wage outcomes for workers as spare capacity has persisted at high levels.
- The strength in labour demand by employers has been reflected in the NAB business survey. This component of business conditions has been the consistent stand out in 2019 – hovering around twice its long run average, despite the ongoing weakness in trading conditions and profitability.
- At +4 index points in the December survey, the employment index points to ongoing employment growth of 18k per month over the next six months. This is slightly weaker than the average rate seen through 2019 in the labour force survey. It suggests growth in labour demand will continue at a rate high enough to prevent the unemployment rate rising further. Therefore, the outlook remains positive for labour demand despite the pull-back in trading conditions and profitability.
- By industry, the aggregate result continues to be driven by strength in the services sectors. In the non-mining sector, both rec & personal and finance, business & property services see employment above their long run average. The construction sector also currently sees strong (and above average) employment demand. Mining remains a stand out with employment demand well above its long-run average and highest of all industries.
- The goods distribution industries, including wholesale, retail and transport & utilities are all well below average (and negative). Manufacturing is negative but performing better than its long-run average.
- The employment index remains positive across all states, except for SA. In addition to Tas, NSW and Vic (the two largest, most diversified states) see healthiest employment growth.
- Overall, labour demand will remain a significant focus in 2020 with the labour market a key focal point for monetary policy. A lower unemployment rate would see stronger income growth and greater wage pressure – two factors that have suppressed consumer spending over the past year. However, despite the strength in employment demand, labour market outcomes over the past couple of years have not been sufficient to see the unemployment rate fall to a level consistent with full employment where we would begin to see stronger wage pressure.
- While the employment index remains favourable, there are risks to the outlook for employment with forward looking indicators continuing to point to modest outcomes for activity – and other indicators of labour demand are mixed. Econometric evidence also suggests that weaker growth will ultimately slow employment demand.

CHART 2: CONDITIONS COMPONENTS (NET. BAL, TREND)

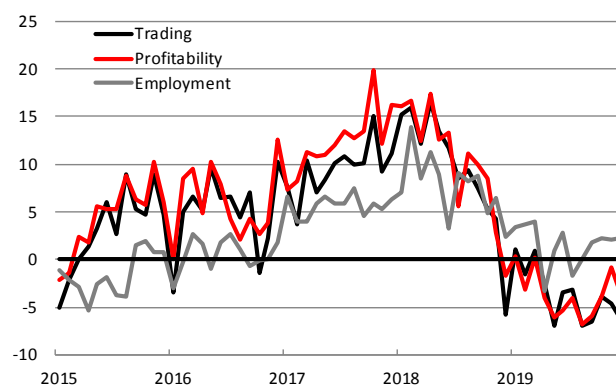


CHART 3: EMPLOYMENT BY INDUSTRY (NET. BAL, TREND)

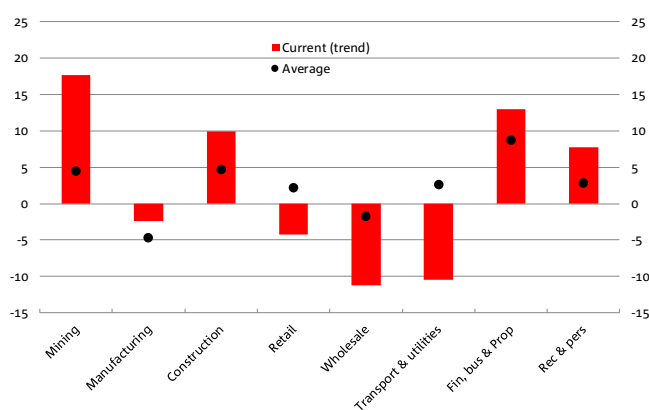
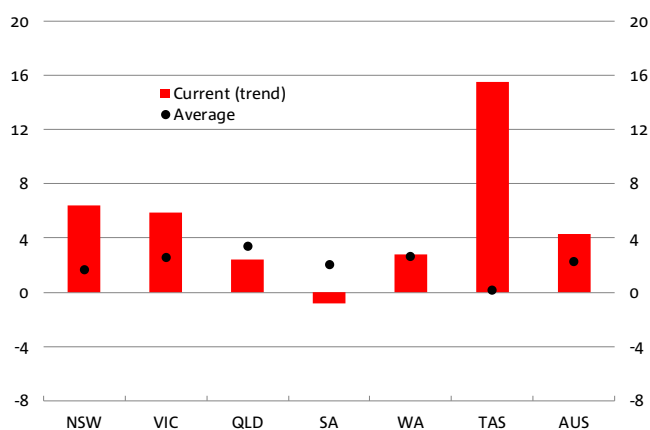
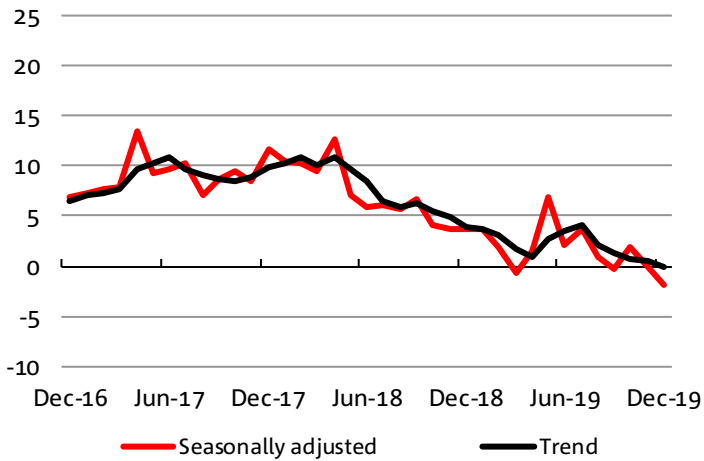


CHART 4: EMPLOYMENT BY STATE (NET. BAL, TREND)

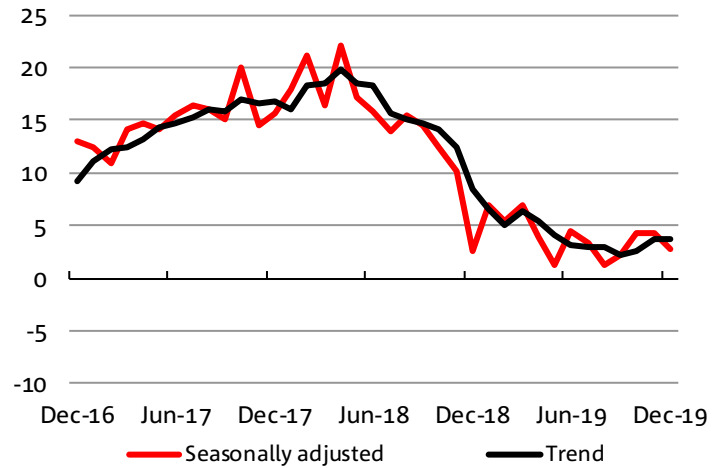


# NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

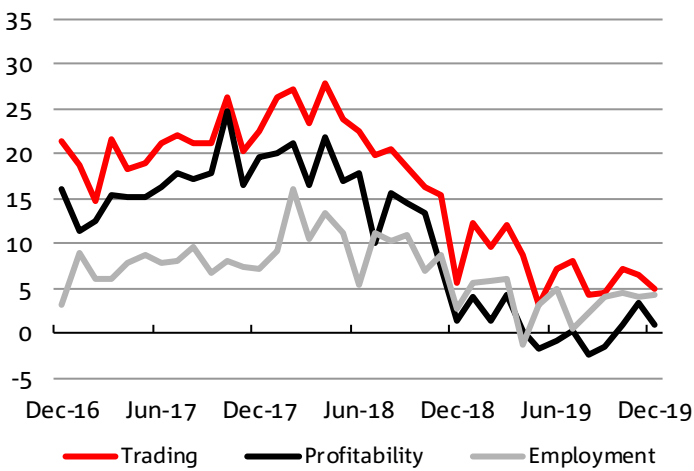
**CHART 5: BUSINESS CONFIDENCE (NET BALANCE)**



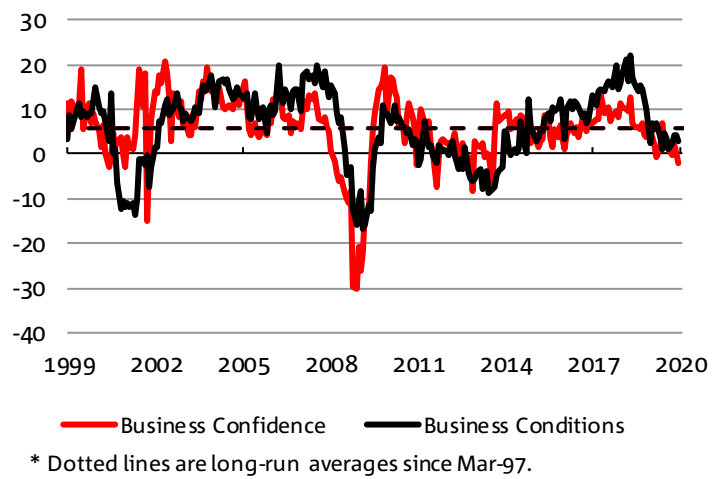
**CHART 6: BUSINESS CONDITIONS (NET BALANCE)**



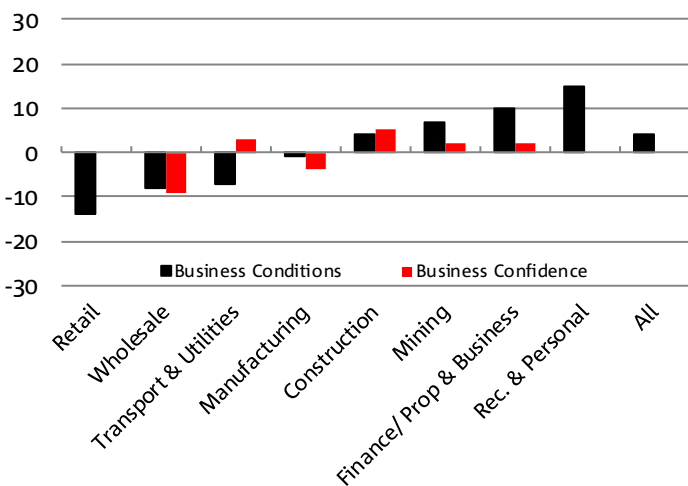
**CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.**



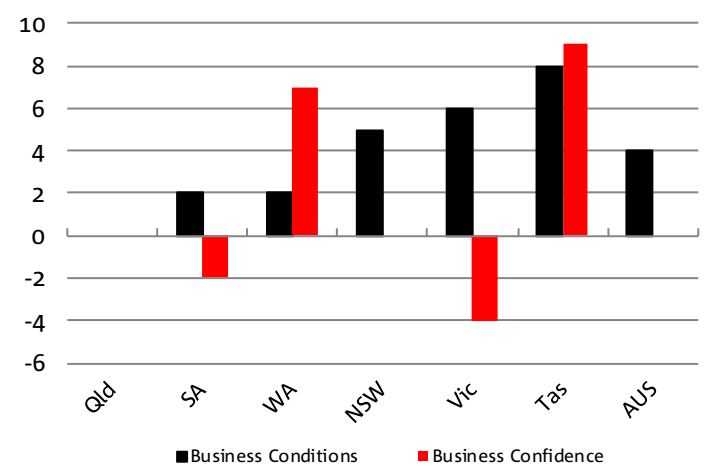
**CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE**



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

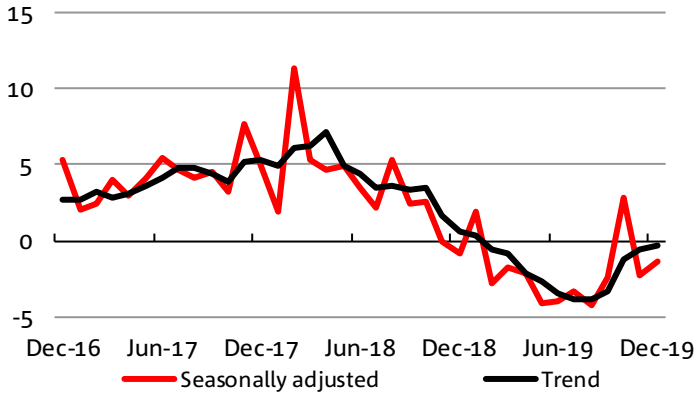


**CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)**

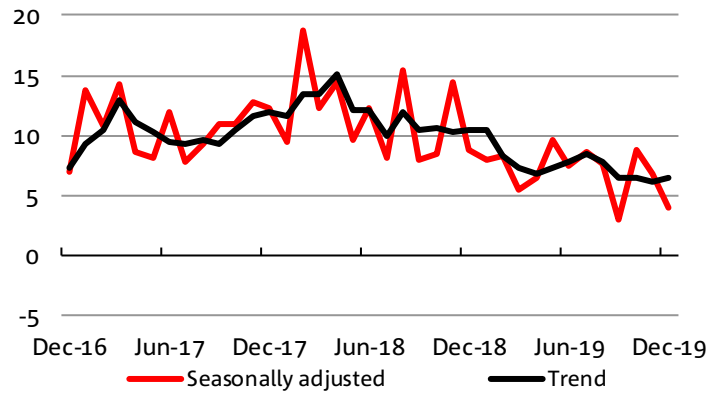


# NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

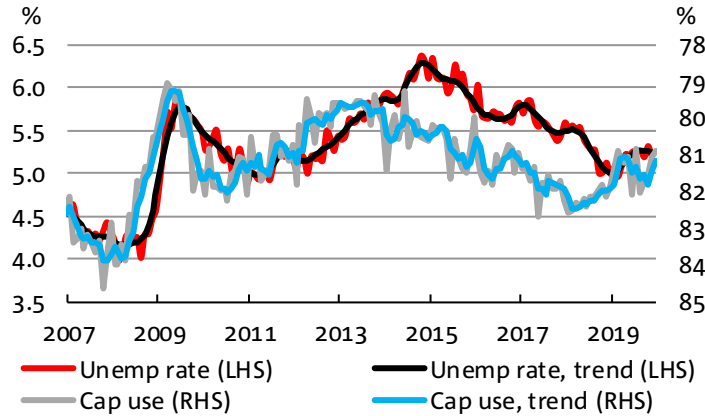
**CHART 11: FORWARD ORDERS (NET BALANCE)**



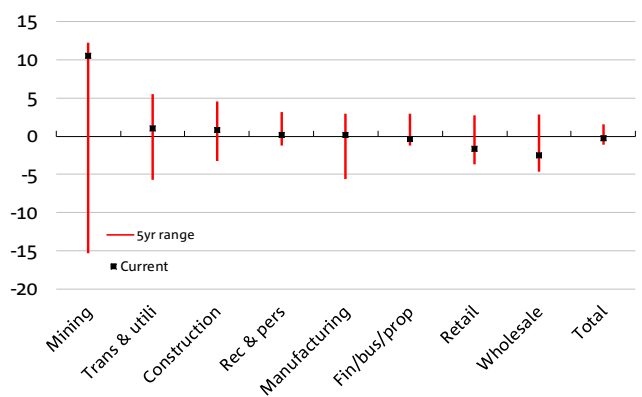
**CHART 12: CAPITAL EXPENDITURE (NET BALANCE)**



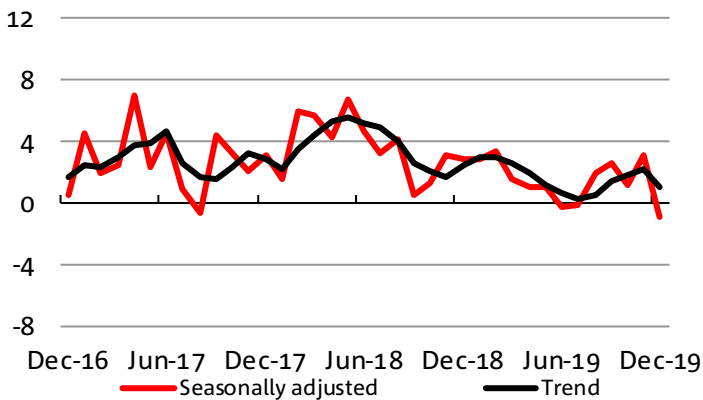
**CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT**



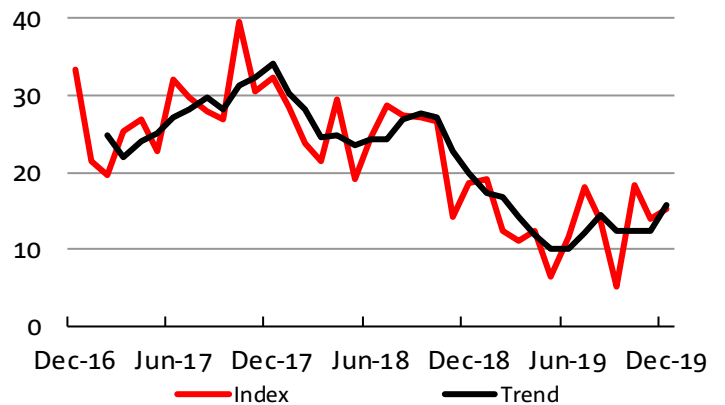
**CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)**



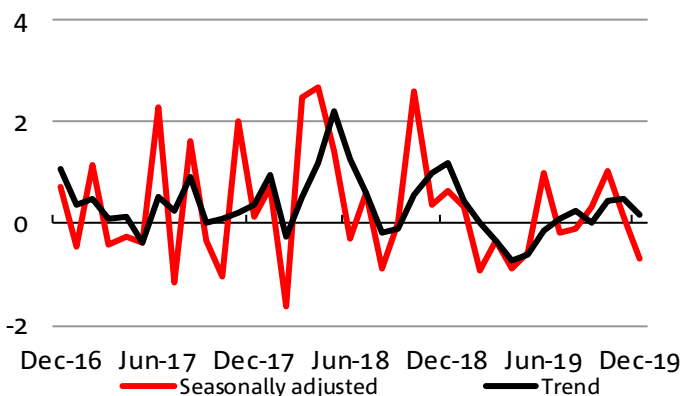
**CHART 15: STOCKS (NET BALANCE)**



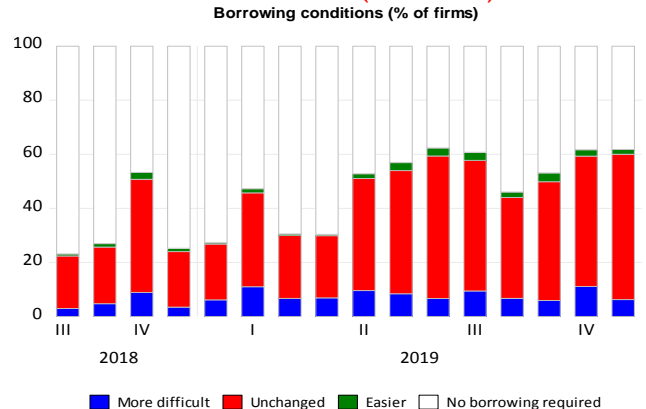
**CHART 16: CASH FLOW (NET BALANCE)**



**CHART 17: EXPORTS (NET BALANCE)**

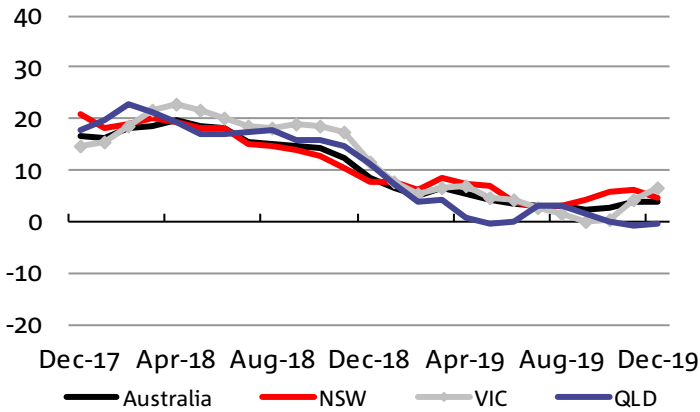


**CHART 18: BORROWING CONDITIONS (% OF FIRMS)**

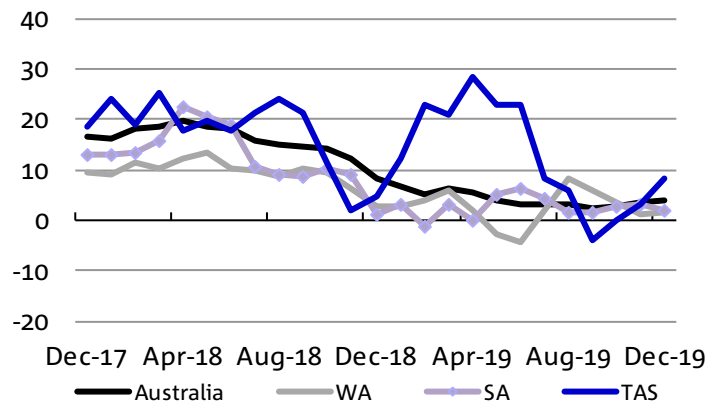


# NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

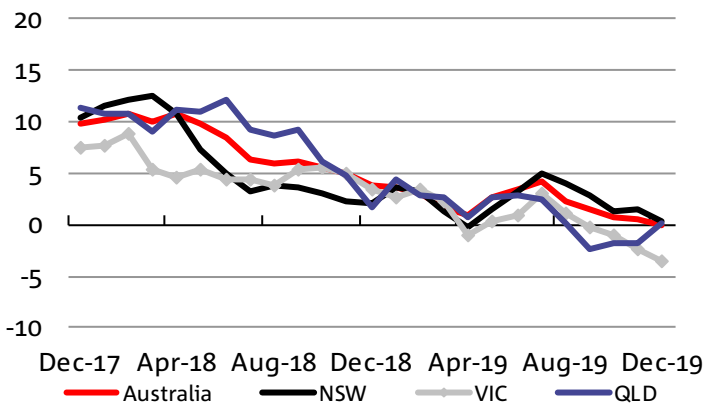
**CHART 19: BUSINESS CONDITIONS (NET BALANCE) BY STATE**



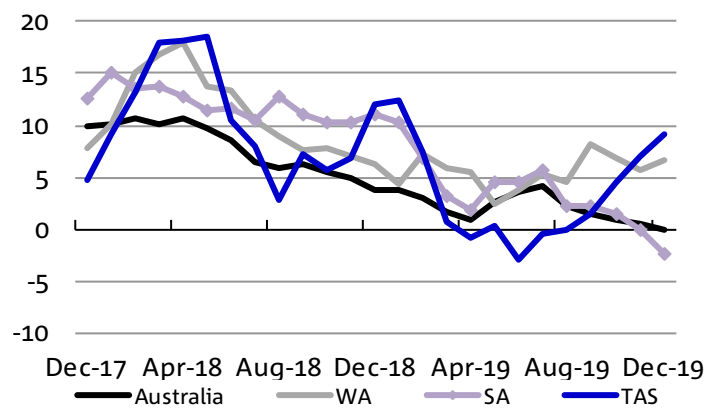
**CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE**



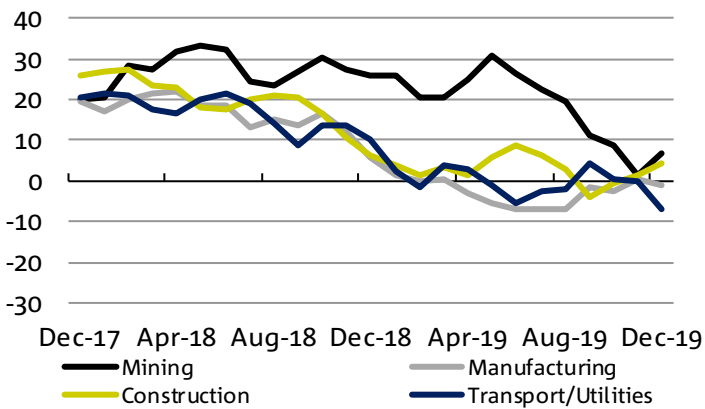
**CHART 21: BUSINESS CONFIDENCE BY STATE (NET BALANCE)**



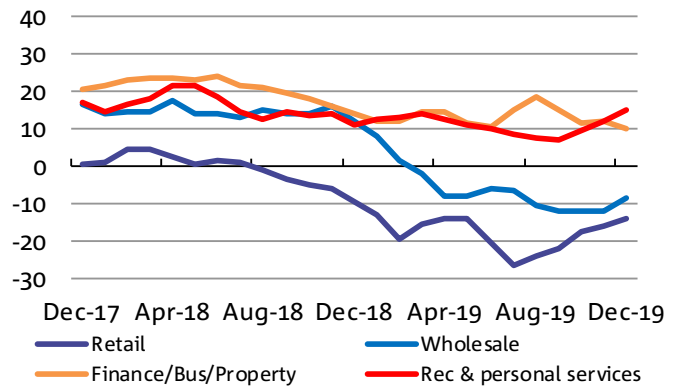
**CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)**



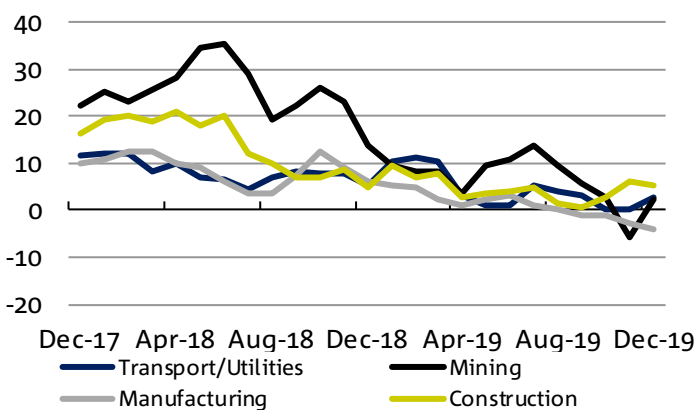
**CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)**



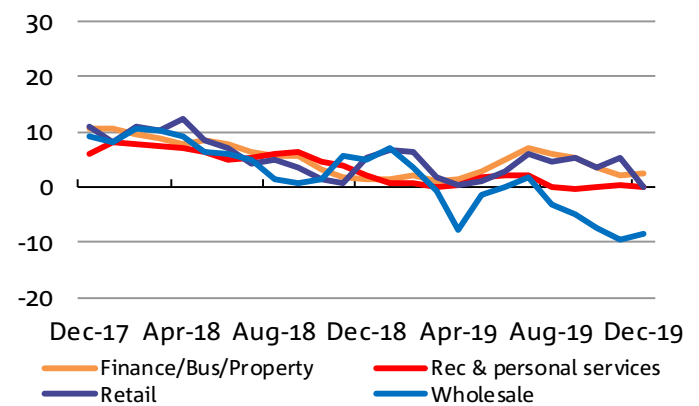
**CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)**



**CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)**

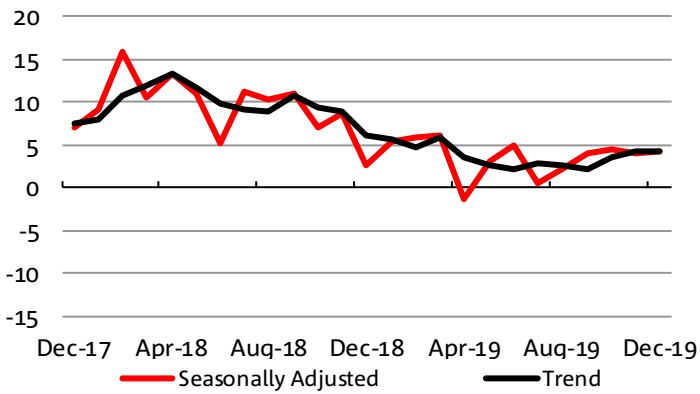


**CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)**

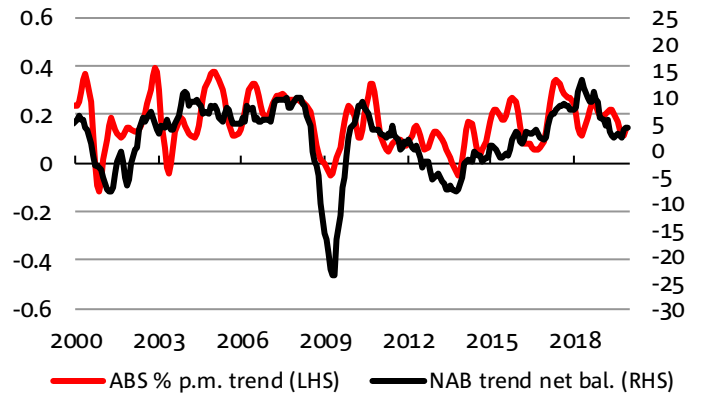


# NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

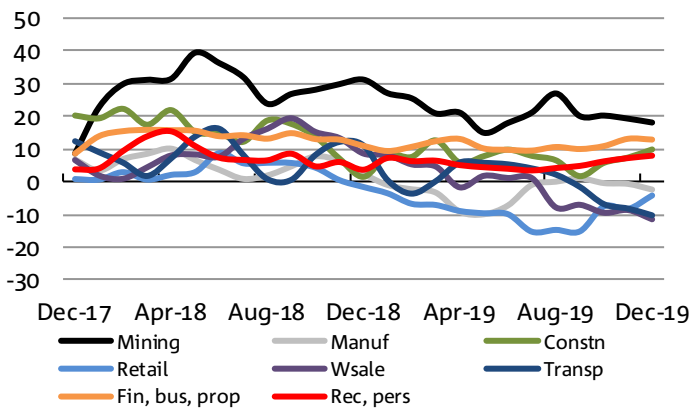
**CHART 27: EMPLOYMENT**



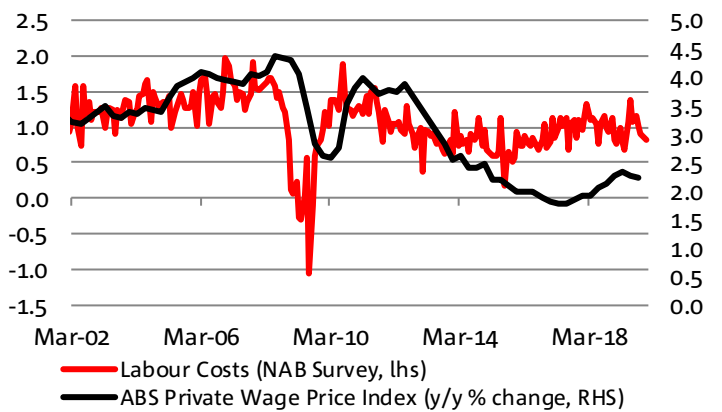
**CHART 28: EMPLOYMENT (NAB VS ABS)**



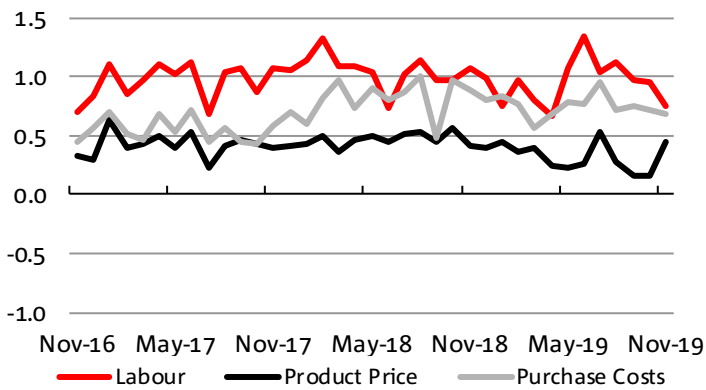
**CHART 29: EMPLOYMENT BY INDUSTRY**



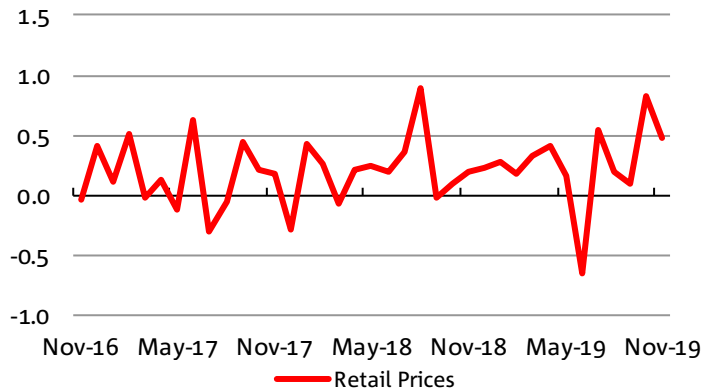
**CHART 30: LABOUR COSTS GROWTH**



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



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



## CONTACTS

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## APPENDIX: LIST OF SERIES AVAILABLE TO SUBSCRIBERS<sup>^</sup>

### 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.

<sup>^</sup>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)	
<b><i>All series available on an industry basis for:</i></b>	
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)	
<b><i>All series available on a state basis for:</i></b>	
New South Wales	
Victoria	
Queensland,	
WA	
SA/NT	
Tasmania	

\*Data available in original, seasonally adjusted and trend terms.