

NAB MONTHLY BUSINESS SURVEY FEBRUARY 2020

CONFIDENCE HEADS LOWER WITH CONDITIONS NOW NEUTRAL

NAB Australian Economics

Key messages from the Survey: Both confidence and conditions declined this month (after a period of stabilisation in conditions), though it appears too early to fully quantify the effect of the coronavirus with around 50% of firms reporting no impact to date. That is surprisingly small but, in our view, will clearly deteriorate going forward. Even so confidence is now firmly negative and business conditions appears to have renewed its previous downward trend – with both series well below long run averages. More importantly, forward orders deteriorated significantly and is quite negative. While the deterioration in the survey is not as large as we had feared, the notable decline in rec & personal confidence over the past two months, a decline in exports and the overall softening in forward orders (in part reflecting in weaker confidence) are all areas that would have been expected to show a virus impact. More broadly, the survey continues to suggest ongoing softness in the business sector with conditions and confidence having tracked below average for some time and capacity utilisation hovering around average in recent months. This has been reflected in reported capex falling to a below average level after trending lower over the past 18 months or so. The employment index ticked up in the month and is back around its long-run average despite the ongoing weakness in confidence, trading conditions and profitability. However, while it remains a bright spot in the survey it too has moderated, and implies a significantly slower pace of growth in employment when compared with 2018 and early 2019.

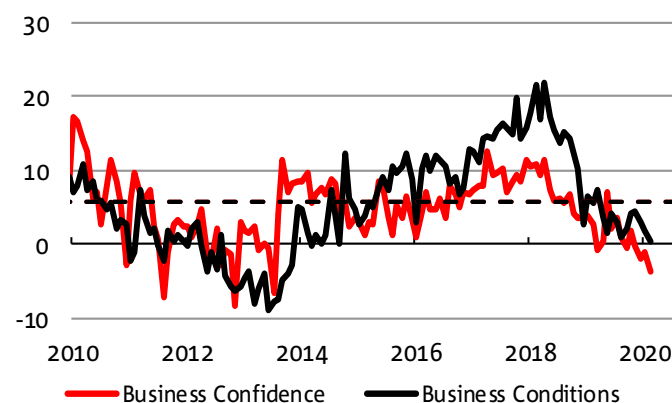
HIGHLIGHTS

- **How confident are businesses?** Confidence fell 3pts to -4 index points – its weakest level since 2013.
- **How did business conditions fare?** Conditions fell 2pts to 0 index points compared with a long-run average of 6 index points.
- **What components contributed to the result?** The profitability index declined 6pts to -5 index points and trading conditions edged 1pt lower. Partially offsetting this was an uptick in the employment index (+1pt), which is now around its average.
- **What is the survey signalling for jobs growth?** Based on historical relationships, the survey suggests that employment will grow at 17k per month over the next 6 months – up slightly from last month but well below a year ago.
- **Which industries are driving conditions?** All industries saw a decline in conditions in the month, except for retail (which surprisingly improved) and wholesale. Transport & utilities which has been volatile in recent months saw a sharp decline. In trend terms, conditions remain most favourable in the services sector and construction, and weakest in retail, wholesale and manufacturing.
- **Which industries are most confident?** Confidence was lower across all industries except mining, which rose slightly. In trend terms, confidence is weakest in rec & personal services and wholesale. It is also negative in retail and manufacturing. Mining is most optimistic.
- **Where are we seeing the best conditions by state?** Conditions were generally softer, except for WA and Vic which rose in the month. In trend terms, conditions remain best in Tas and weakest in WA. The other states remain clustered in the 1-3 index point range.
- **What is confidence like across the states?** Confidence fell in Tas and the eastern mainland states. SA and WA saw an improvement. Confidence, in trend terms, remains highest in WA, with the two largest states weakest in addition to a negative read for SA and neutral outcome for QLD. Tas remains positive.
- **Are leading indicators suggesting further improvement?** Leading indicators were softer in the month, with forward orders declining to well below average levels and capacity utilisation easing back to average in addition to the decline in confidence.
- **What does the survey suggest about inflation and wages?** Final products price inflation edged lower, despite an uptick in retail inflation. Purchase costs growth also ticked up, while labour costs growth was unchanged.

TABLE 1: KEY STATISTICS

	Dec-19	Jan-20	Feb-20
Net balance			
Business confidence	-2	-1	-4
Business conditions	3	2	0
Trading	6	5	4
Profitability	1	1	-5
Employment	4	1	2
Forward orders	-1	-1	-4
Stocks	-1	0	-6
Exports	-1	-1	-2
% change at quarterly rate			
Labour costs	0.9	0.9	0.9
Purchase costs	0.6	0.6	0.8
Final products prices	0.3	0.4	0.3
Retail prices	0.5	0.3	0.6
Per cent			
Capacity utilisation rate	80.9	81.3	81.1

CHART 1: CONFIDENCE AND CONDITIONS DECLINE



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

All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 18 February – 2 March 2020, covering over 500 firms across the non-farm business sector.

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NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

THE IMPACT OF COVID-19

- The spread of the coronavirus is likely to have a significant impact on global and domestic economic growth. For Australia, the immediate impact is likely to be on exports, with travel restrictions (and confidence) weighing on the education and tourism sectors. Recreation and retail are also likely to be affected. The impact on China, could also see significant disruption to global supply chains, and therefore also see an impact on domestic manufacturing and construction as well the ability of retailers to source goods.
- While it is too early to gauge the magnitude and duration of virus impacts, should the shock become protracted it is likely that slowing global growth and waning consumer and business confidence will also weigh on domestic growth. It is therefore likely that the overall impact on Australian business will be driven by both supply and demand-side factors.
- Ahead of the release of official data we have included a set of questions in the NAB Quarterly Survey regarding the virus's impact on business and business revenues to provide an initial impact on business conditions. Interim results suggest that to date, around 50% of respondents do not yet see an impact on their business. Just over 30% report minor impacts. Around 20% report moderate to major impacts. Unsurprisingly, a very marginal number of respondents report a net benefit.
- By industry, the results are mixed. Construction and retail appear to have suffered the least impact to date, while manufacturing, wholesale, transport & utilities and mining appear to have been most impacted with over 60% of firms in these industries reporting an impact to date. However, around 40-50% of firms in retail, finance, business & property and recreational and personal services also report an impact.
- Mining, transport & utilities and manufacturing report the most significant impact with a 1/3 and a ¼ of firms in each industry reporting a moderate or major impact. The share of firms reporting larger impacts in the remaining industries are clustered below 20%.
- While a significant impact on the economy will come from the supply/trade shock – our view is that monetary policy and fiscal policy working together will be important in addressing any demand-side and confidence impacts, as the virus spreads and the effect on the economy becomes clearer. A key issue for policy makers is whether they can address short-term impacts on business cashflow to avoid the closing of business and loss of jobs. To date, the bulk of survey respondents report no change in revenue, with the largest proportion of those who have reporting a 5-10% decline.
- Indeed, expect to see a policy response from both monetary and fiscal authorities as the virus progresses. The RBA cut rates in March and we expect another cut in April. The Federal government has also announced that a targeted set of fiscal support measures are imminent and will likely be announced in the coming week. Beyond that, we expect the RBA to move to unconventional monetary policy by mid-year, in the form of yield curve control – a form of quantitative easing. See: The Forward View – Australia - released tomorrow for more information.

CHART 2: IMPACT OF CORONAVIRUS ON BUSINESS (% OF FIRMS)

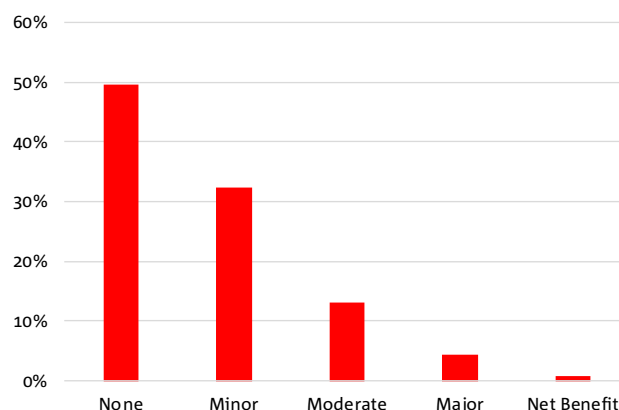


CHART 3: IMPACT ACROSS INDUSTRIES (% OF FIRMS)

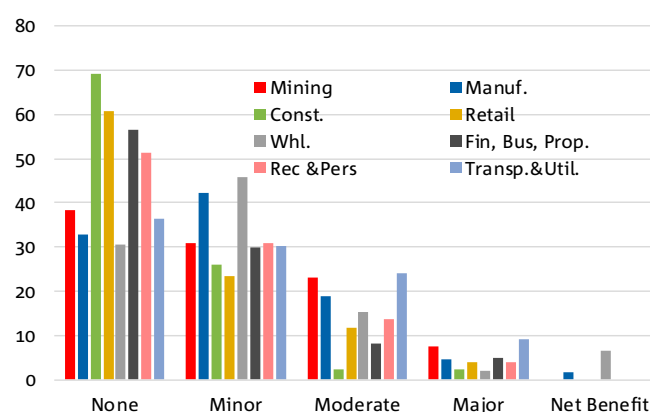
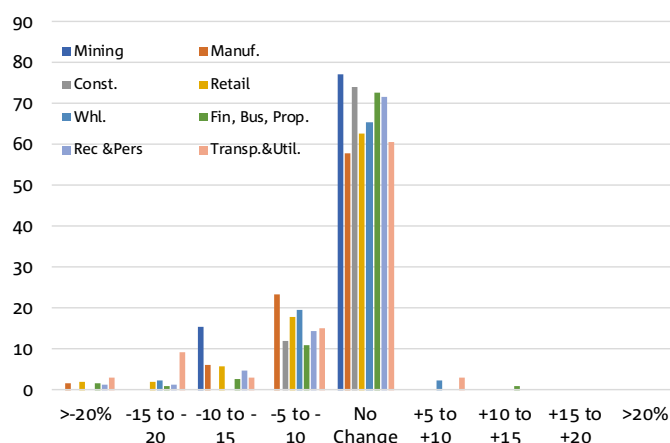


CHART 4: REVENUE IMPACTS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

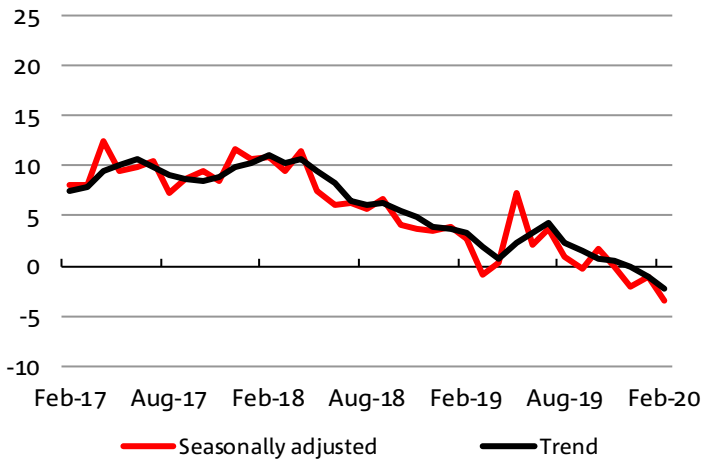


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

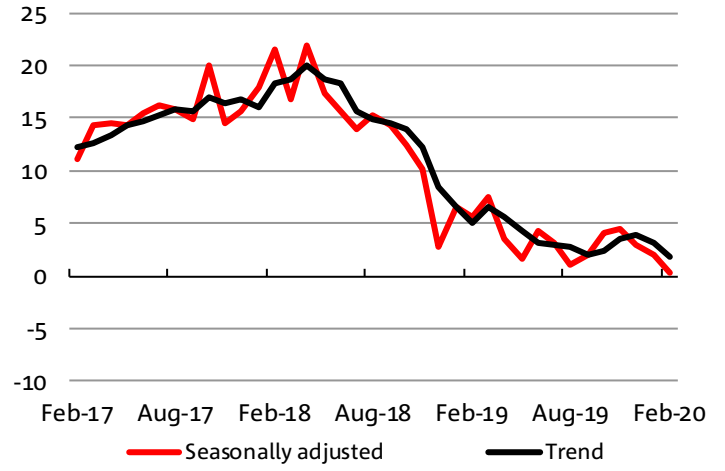


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

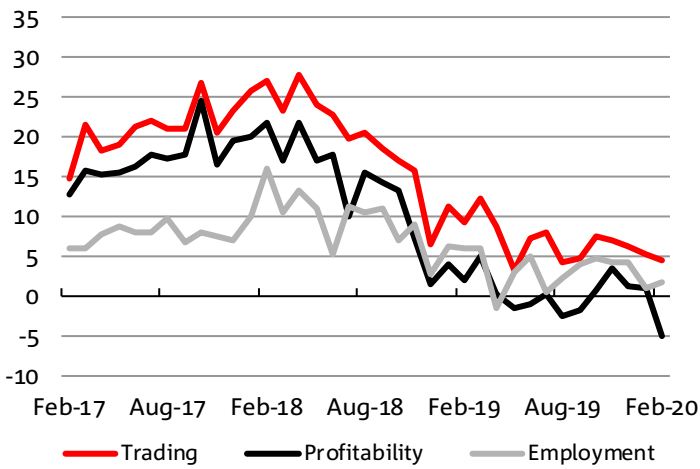


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

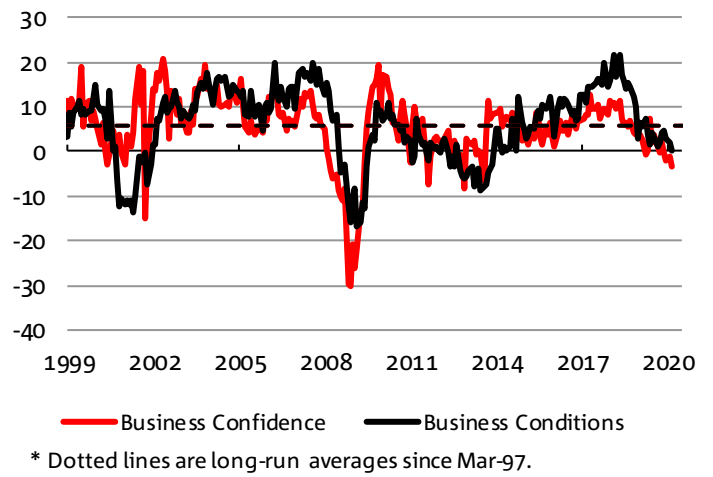


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

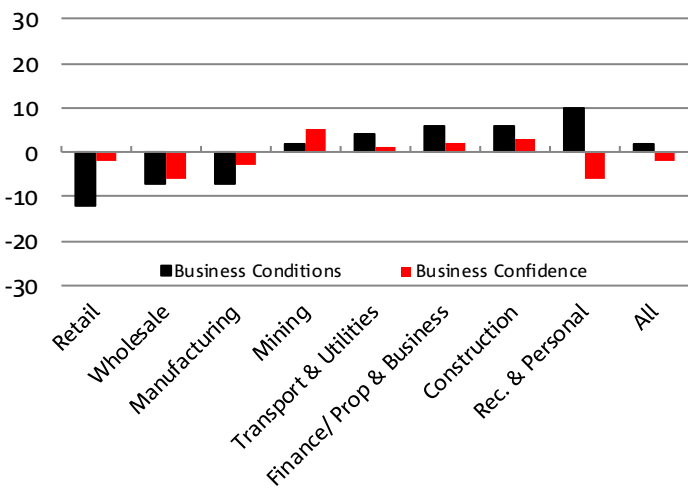
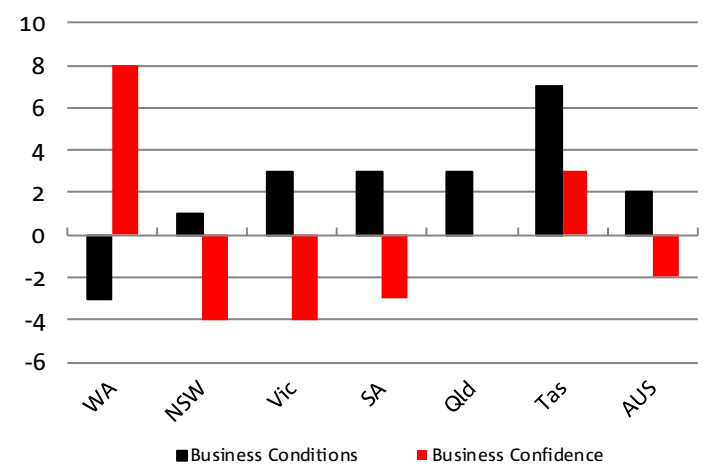


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

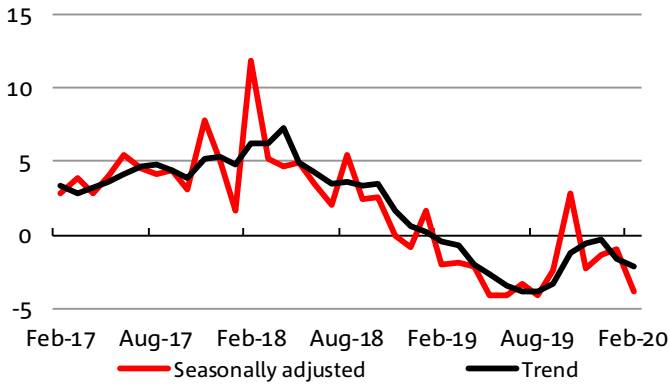


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

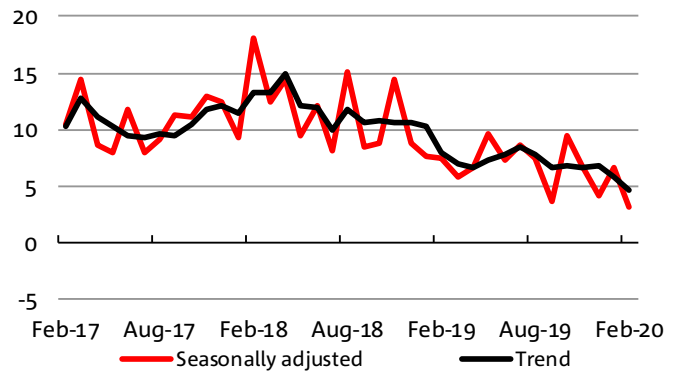


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

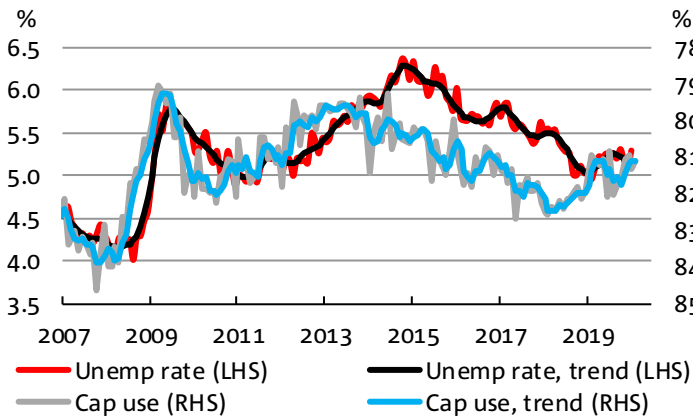


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

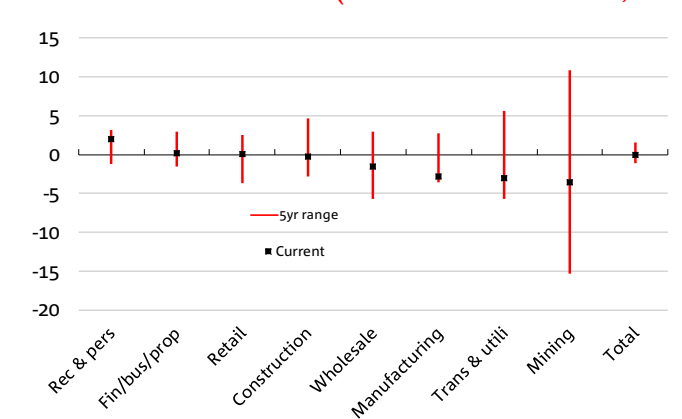


CHART 15: STOCKS (NET BALANCE)

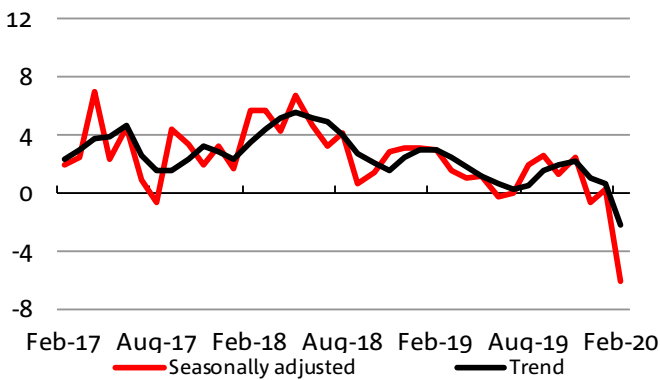


CHART 16: CASH FLOW (NET BALANCE)

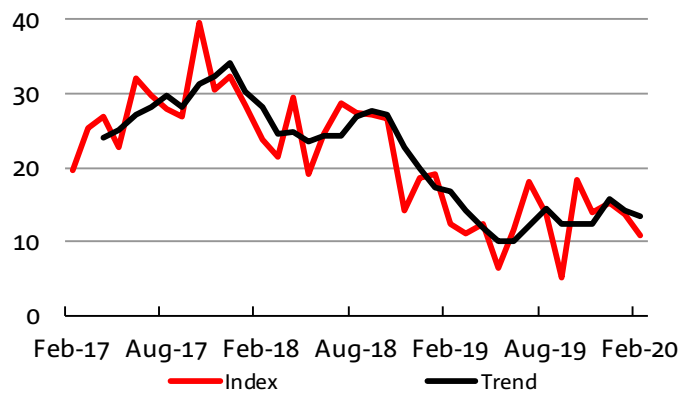


CHART 17: EXPORTS (NET BALANCE)

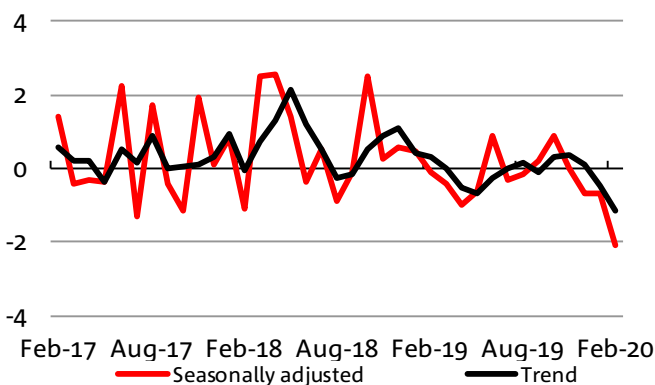
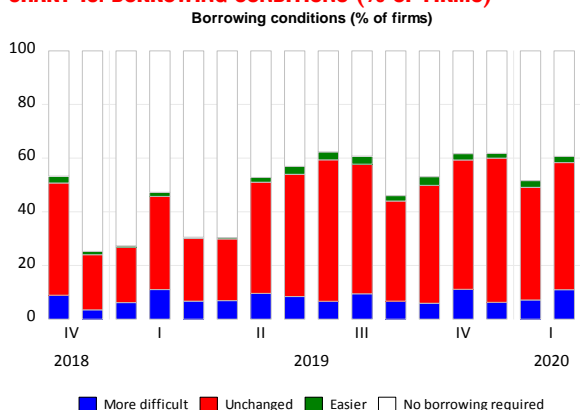


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 19: BUSINESS CONDITIONS (NET BALANCE) BY STATE

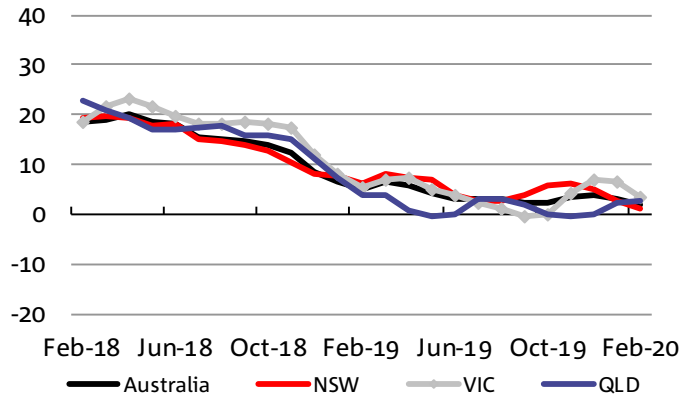


CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

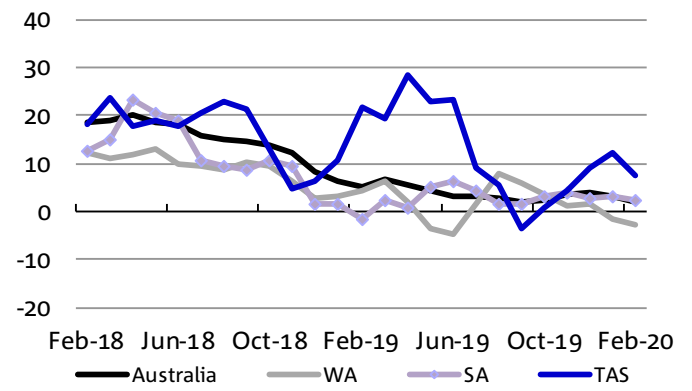


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

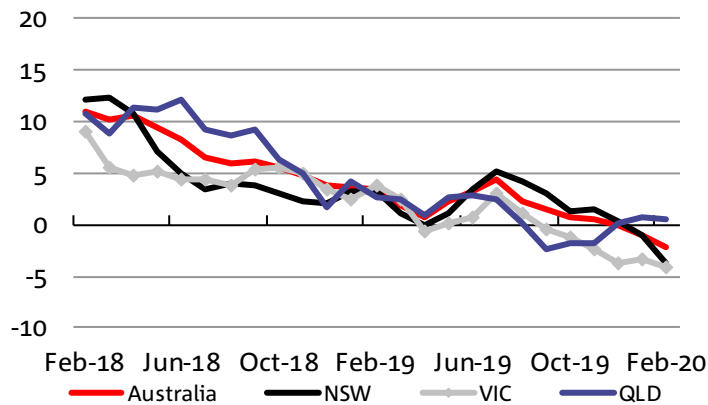


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

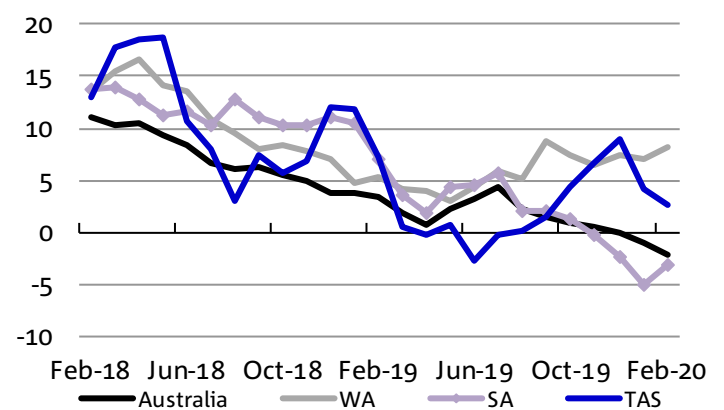


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

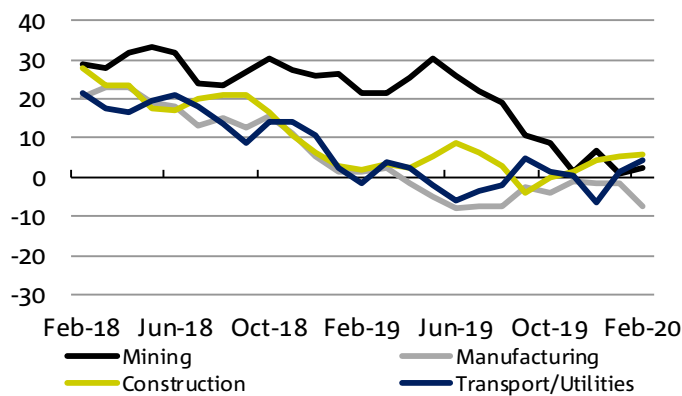


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

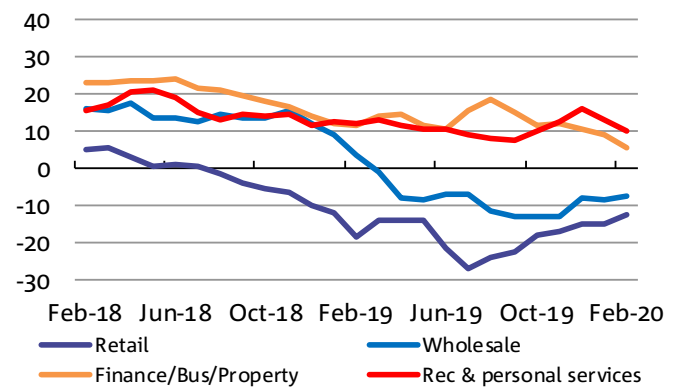


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

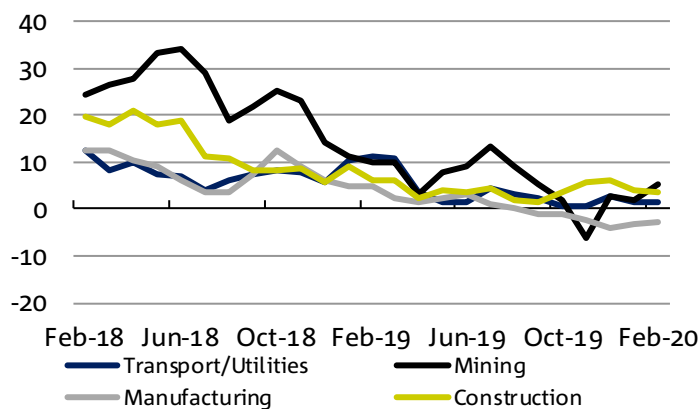
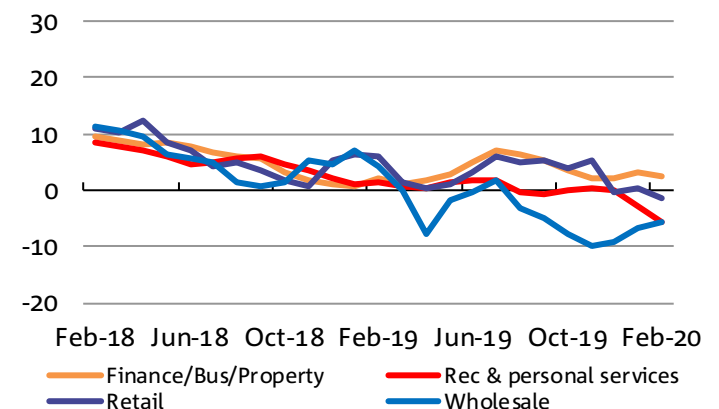


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

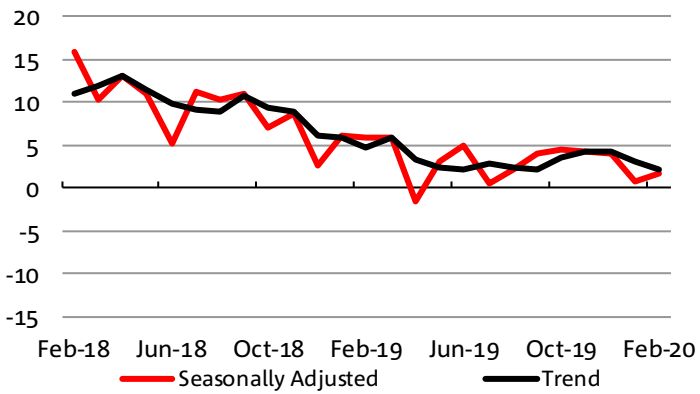


CHART 28: EMPLOYMENT (NAB VS ABS)

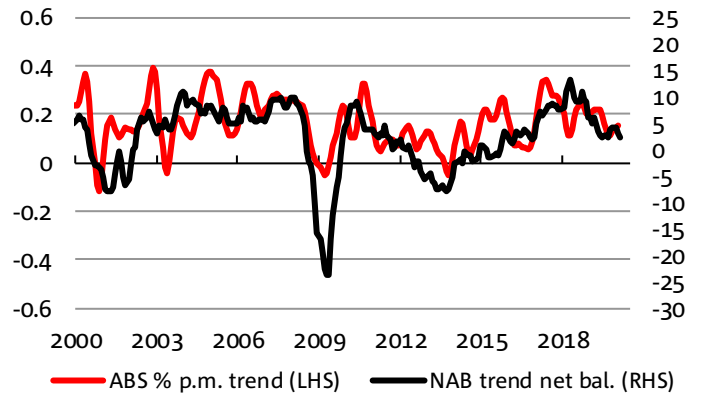


CHART 29: EMPLOYMENT BY INDUSTRY

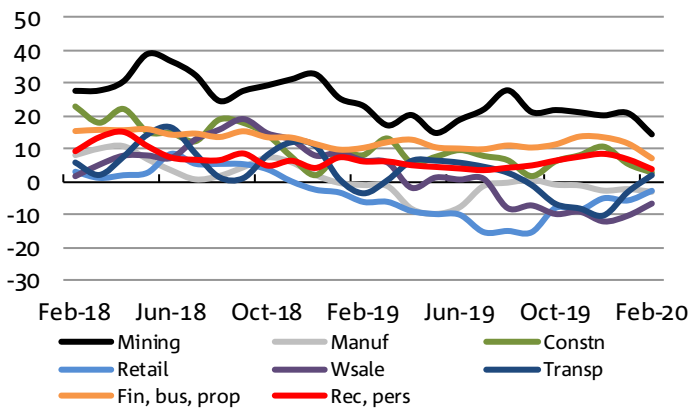


CHART 30: LABOUR COSTS GROWTH

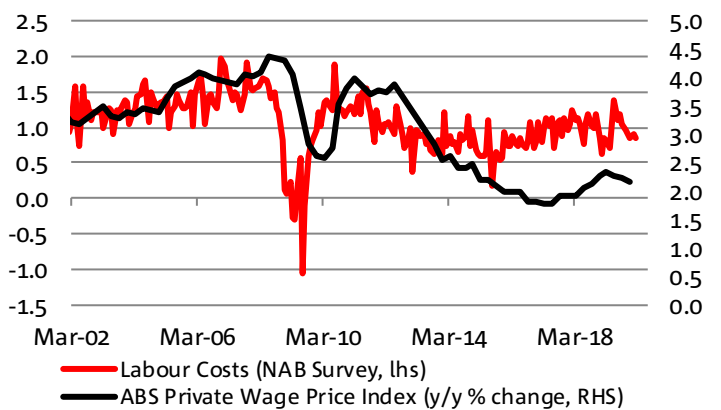


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

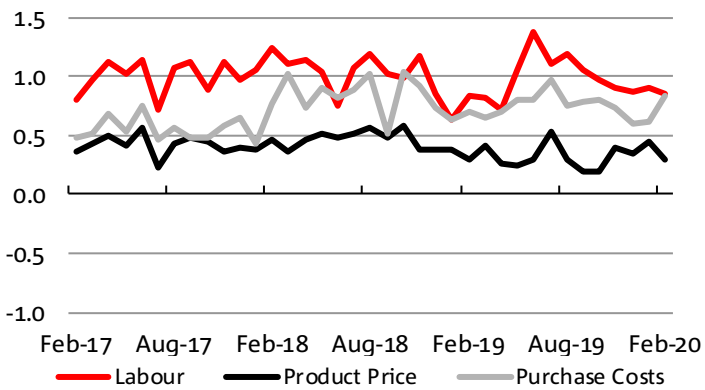
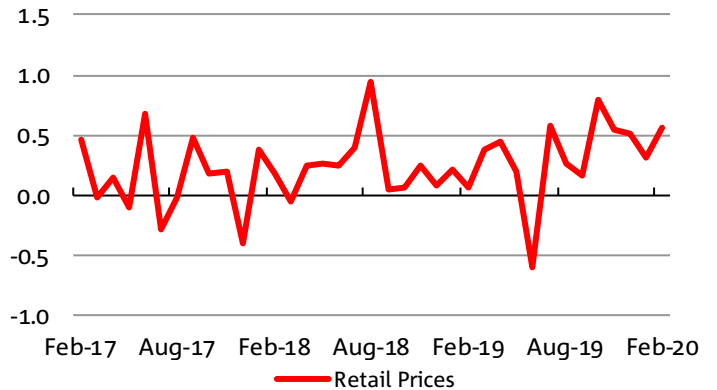


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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.