

NAB MONTHLY BUSINESS SURVEY AUGUST 2019

CONFIDENCE AND CONDITIONS BOTH DECLINE

NAB Australian Economics

Key messages from the Survey: Both business confidence and conditions declined in the month, with both now at +1 index point – well below long-run averages. This outcome suggests that momentum in the business sector continues to weaken, with both confidence and conditions well below the levels seen in 2018 – and is in line with the weak outcome for the private sector in the Q2 national accounts, prompting us to review our outlook for interest rates which will be released alongside tomorrow’s updated set of forecasts. Weaker conditions and a decline in forward orders (which are negative and well below average), have seen reported capex decline to around average. While capacity utilisation rose in August, it has been volatile in recent months and is a little below the levels seen a year ago. Despite the slowing in activity, and a pull-back in expansion plans, the employment index remains around average. At one end of the scale, mining continues to stand out, seeing the most favourable conditions and confidence, as well as elevated employment and capex. Retail on the other hand, remains weak despite a sharp improvement in the month, with conditions deeply negative. Construction and manufacturing are also weak, likely reflecting developments in the residential construction sector as well as weak domestic demand and globally weak confidence. The survey still suggests weak price pressures, which against a backdrop of slowing activity may well weaken further.

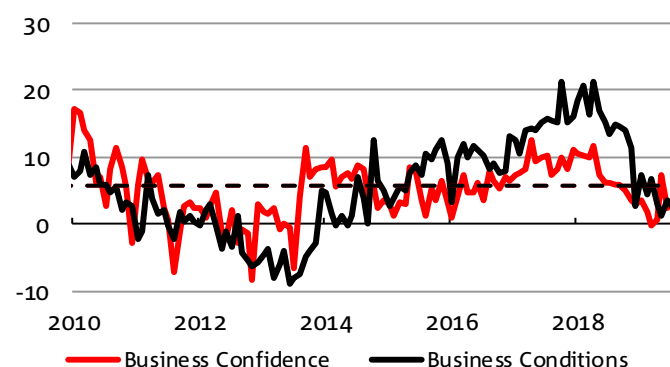
HIGHLIGHTS

- **How confident are businesses?** Confidence fell 3pts in August, to +1 index points. This compares with its long run average of 6 index points.
- **How did business conditions fare?** Business conditions continued their below average run in the month, declining to +1 index points – just above the threshold of improving versus deteriorating conditions.
- **What components contributed to the result?** Trading (now 3 index points) and profitability (now -3 index points) drove the decline in conditions in the month. The employment index ticked up 2pts to +2 index points – to be around average.
- **What is the survey signalling for jobs growth?** Based on historical relationships, the survey suggests that employment will grow around 16k per month over the next 6 months – well below the levels implied by the survey 6 months ago.
- **Which industries are driving conditions?** *Transport & utilities* and *finance, business & property services* and *mining* drove the decline in the month, which was partially offset by an improvement in the retail sector. In trend terms, retail remains weakest, followed by *wholesale* and *manufacturing* which are also negative. Conditions remain most favourable in *mining*.
- **Which industries are most confident?** Confidence was generally lower across all industries, except for *mining* and *manufacturing* which edged higher. Overall, outside of *mining*, confidence remains highest in *finance, business & property services* and *retail*; for the latter, this suggests that while conditions are weak, there remains some optimism for a turnaround.
- **Where are we seeing the best conditions by state?** Conditions fell in all states in the month, except *Tas* and *NSW*. In trend terms, conditions are most favourable in *WA* with the other states compressed in the 1-3 index point range. This is a turnaround from earlier in the year where conditions in the east had generally remained more favourable.
- **What is confidence like across the states?** Confidence fell in all states, except *VIC* (increase) and *QLD* (flat). In trend terms, confidence is compressed at 0-4 index points, though is most favourable in *NSW* and *WA*.
- **Are leading indicators suggesting further improvement?** Forward orders edged lower in the month and is negative in addition to being well below average. Capacity utilisation rose in the month to around average, but has been volatile of late. Overall, in addition to business confidence, these indicators suggest that conditions are unlikely to lift in the near term.
- **What does the Survey suggest about inflation and wages?** Growth in final products prices weakened in the month and remains low. Growth in labour costs rose slightly and has drifted up from the low levels seen in early 2019.

TABLE 1: KEY STATISTICS

	Jun-19	Jul-19	Aug-19
	Net balance		
Business confidence	2	4	1
Business conditions	4	3	1
Trading	7	7	3
Profitability	-1	0	-3
Employment	5	0	2
Forward orders	-4	-3	-4
Stocks	0	0	2
Exports	1	0	0
	% change at quarterly rate		
Labour costs	1.2	0.9	1.2
Purchase costs	0.7	0.9	0.6
Final products prices	0.2	0.5	0.2
Retail prices	-0.7	0.7	0.1
	Per cent		
Capacity utilisation rate	82.1	81.0	82.0

CHART 1: CONFIDENCE AND CONDITIONS BOTH 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 20 - 31 August 2019, covering over 570 firms across the non-farm business sector.

Next release date: 8 October 2019.

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NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

FIRMS' INVESTMENT OUTLOOK

- The recent release of the Q2 national accounts as well as the ABS Capital Expenditure survey and the building activity survey have provided an update on how business investment is tracked in official aggregated data. Overall, these measures suggest that, outside of mining (which now looks to have troughed), investment in the business sector has been only modest.
- The NAB Business Survey measure of capex has reflected this weakness, declining over the past year, to now be around average. This is unsurprising given the pull-back in activity measures as well as easing capacity utilisation. Heightened uncertainty around global trade tensions and growth have also potentially weighed.
- By industry, mining remains the standout, with current levels of capex well above average – suggesting that the winddown of the mining boom is now complete.
- At the other end of the scale, transport & utilities and retail are both well below average and weakest across all industries. The services sectors are close to their long-run averages – likely reflecting their better outcomes for conditions compared with other industries over the past year.
- Overall, NAB Economics' view is that we are still optimistic on business investment but that there is growing risk around this view. Manufacturing and construction businesses who are carrying out much of the large pipeline of public infrastructure work, are likely to see a boost to demand. However, with private sector growth stalling, there is a substantial risk that other sectors of business do not see a rise in demand for their products and hold off on planned investment.
- Next month's NAB quarterly business survey will provide an update on firm's expectations of capex in the near term (next 3 months) and over the next year. This will be an important update on investment intentions following the weaker-than-expected outcomes in Q2 as well as a reduction in the cash rate to a new record low of 1.0% and some small support from tax cuts, weighed against rising global uncertainty and a depreciation of the dollar.

CHART 2: CAPEX (NET. BAL, DEVIATION FROM AVERAGE)

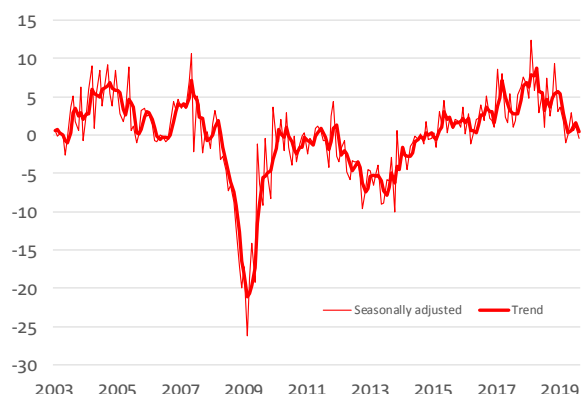
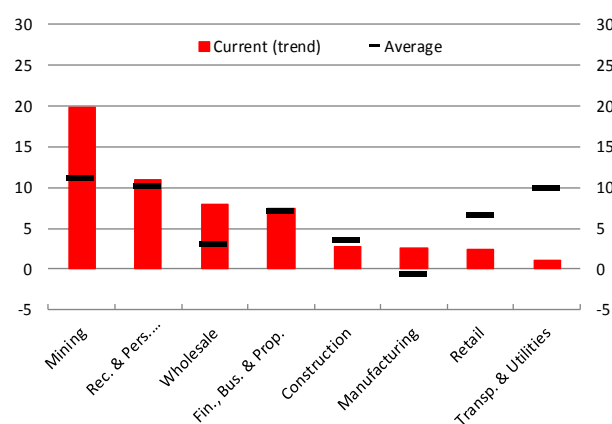


CHART 3: CAPEX BY INDUSTRY (NET. BAL)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 4: BUSINESS CONFIDENCE (NET BALANCE)

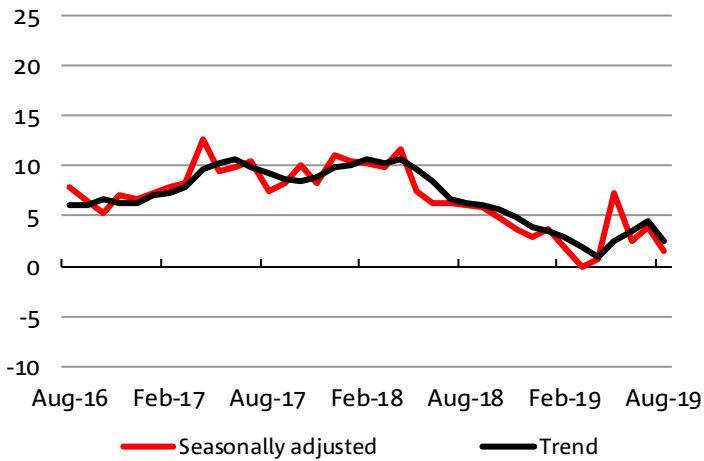


CHART 5: BUSINESS CONDITIONS (NET BALANCE)

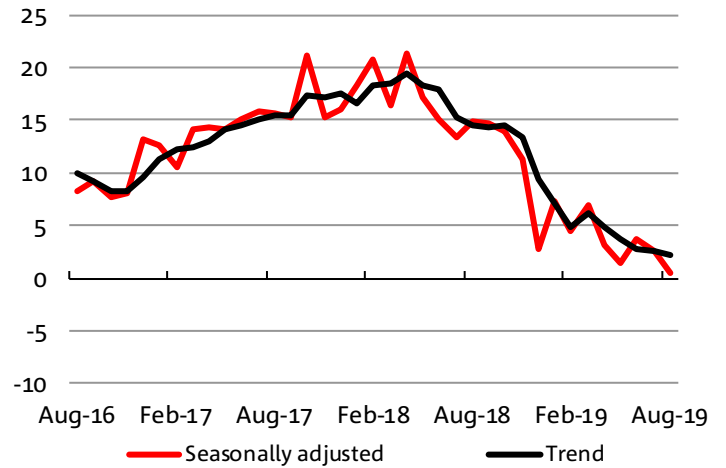


CHART 6: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

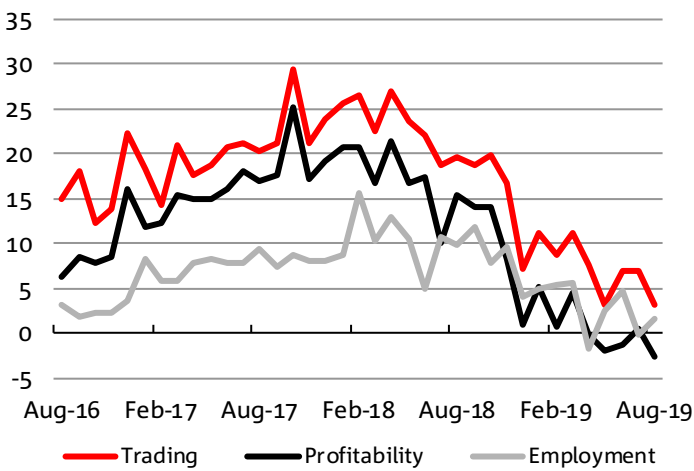


CHART 7: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

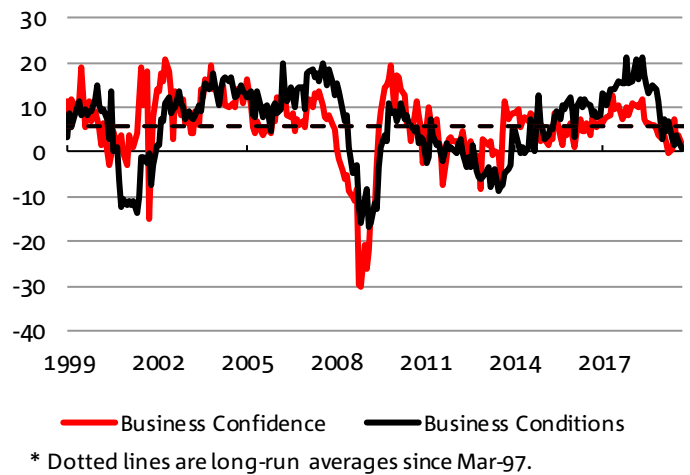


CHART 8: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

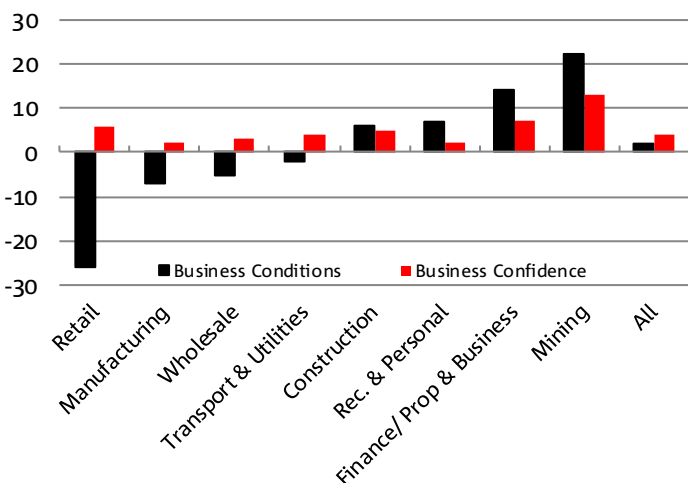
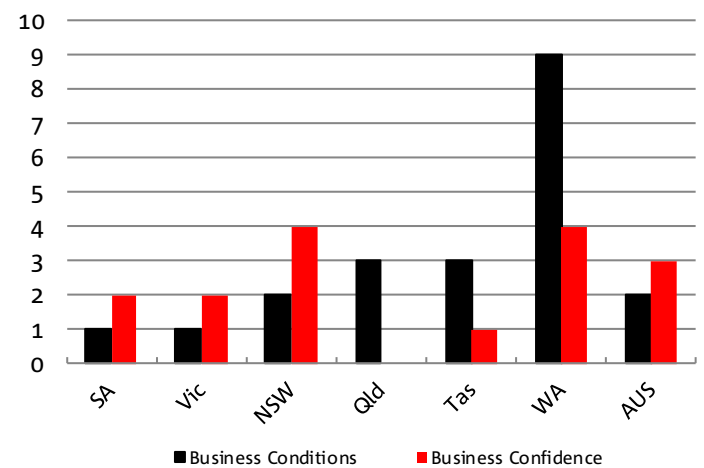


CHART 9: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 10: FORWARD ORDERS (NET BALANCE)

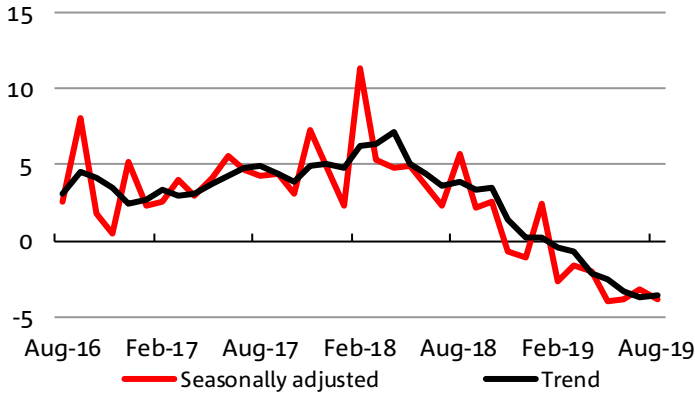


CHART 11: CAPITAL EXPENDITURE (NET BALANCE)

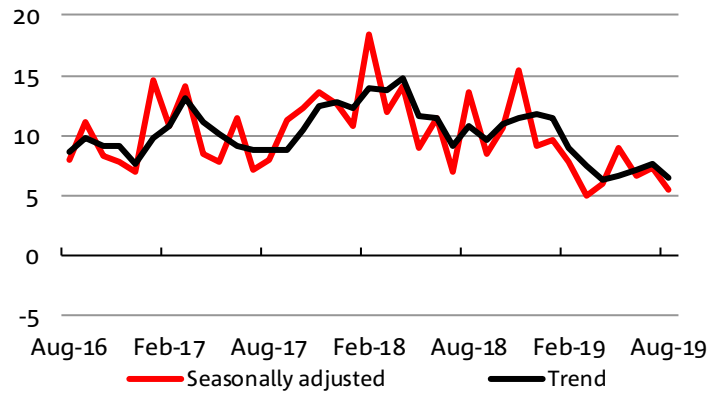


CHART 12: CAPACITY UTILISATION AND UNEMPLOYMENT

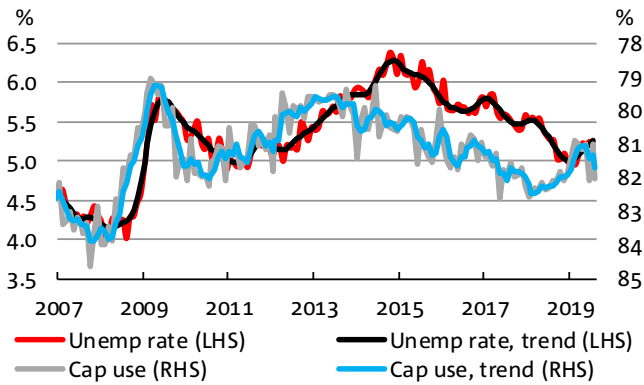


CHART 13: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

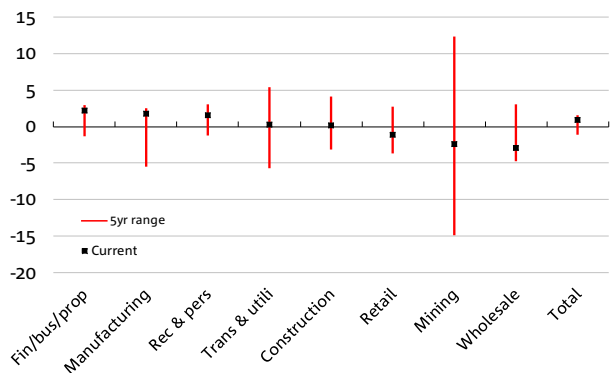


CHART 14: STOCKS (NET BALANCE)

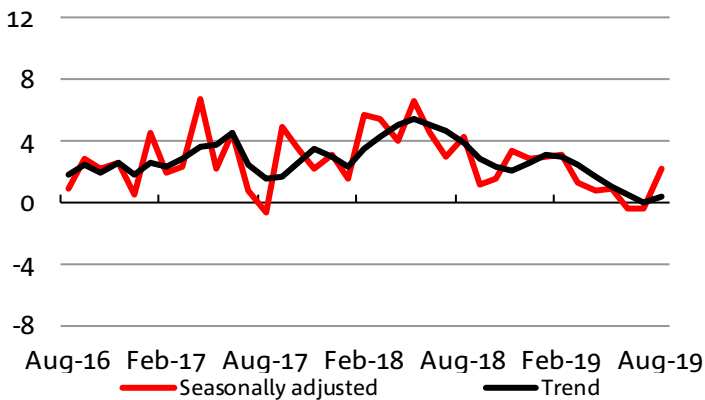


CHART 15: CASH FLOW (NET BALANCE)

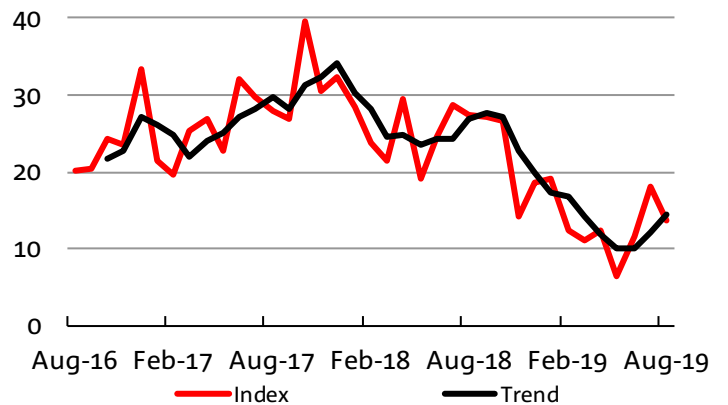


CHART 16: EXPORTS (NET BALANCE)

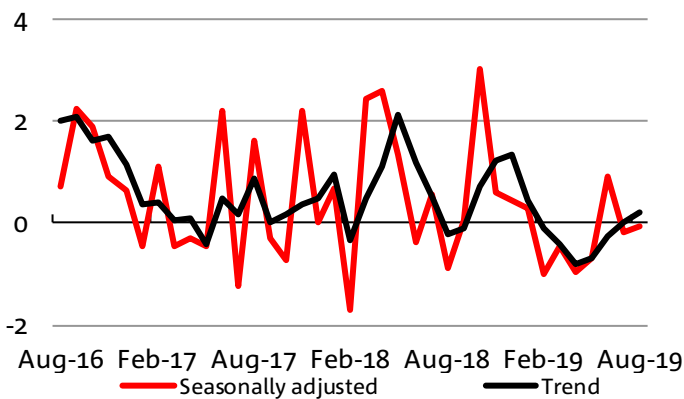
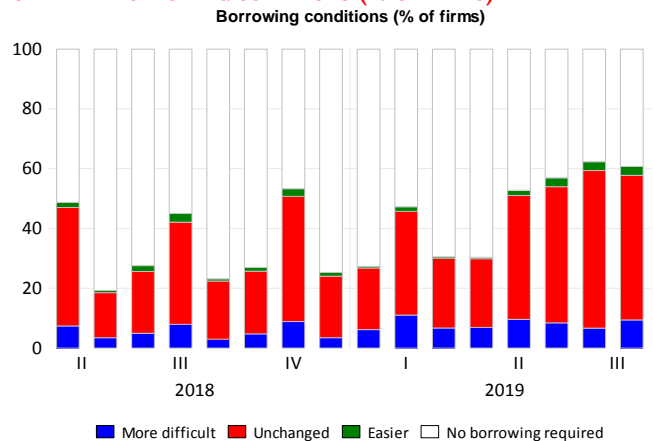


CHART 17: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 18: BUSINESS CONDITIONS (NET BALANCE) BY STATE

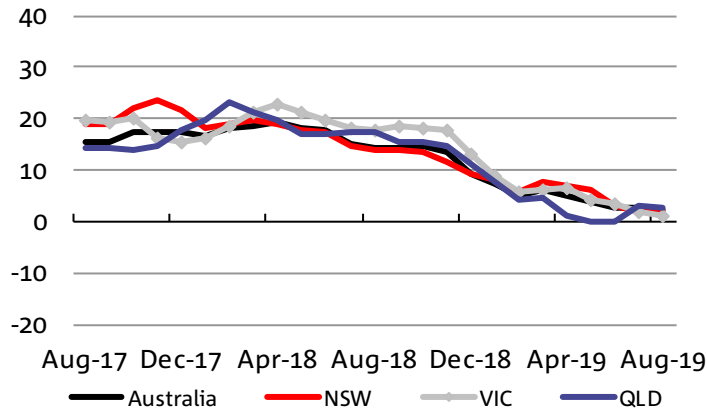


CHART 19: BUSINESS CONDITIONS (NET BALANCE) BY STATE

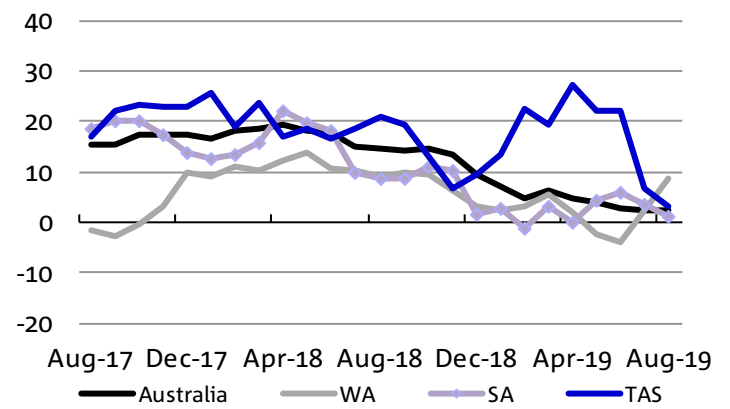


CHART 20: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

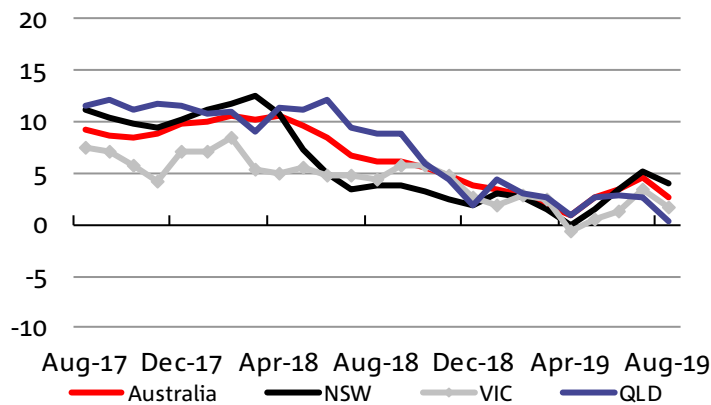


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

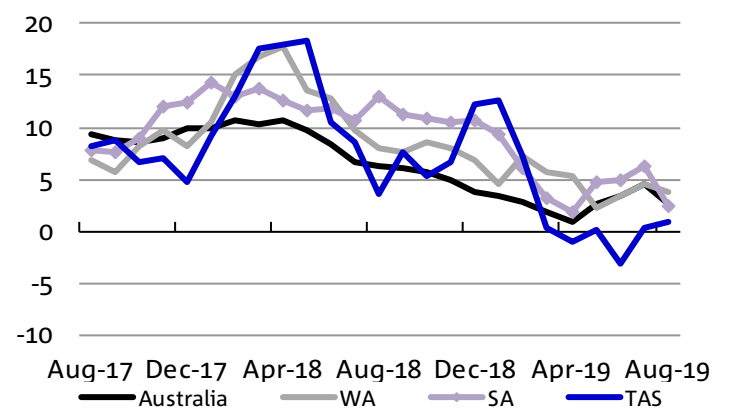


CHART 22: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

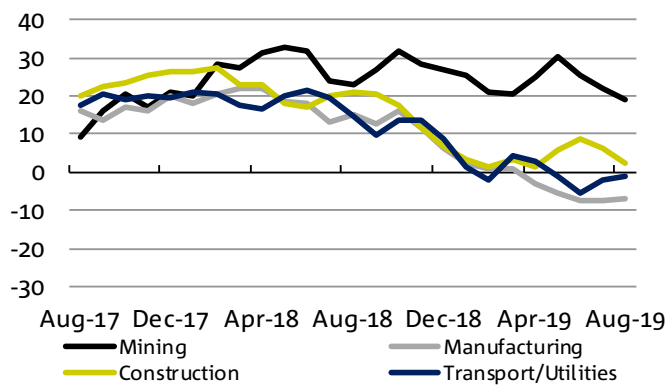


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

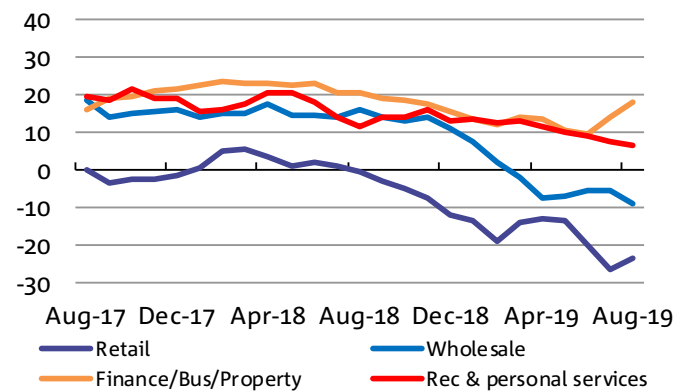


CHART 24: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

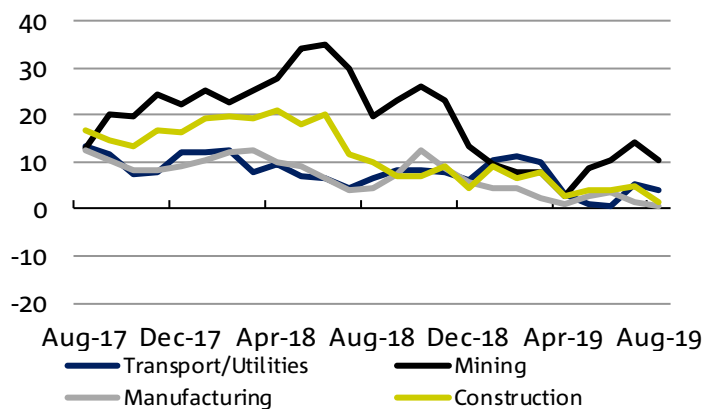
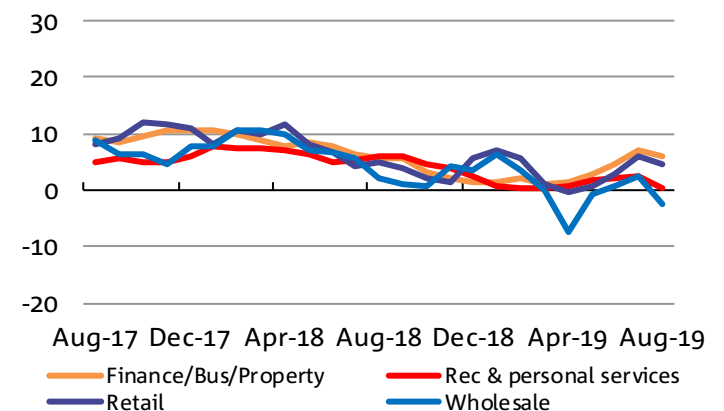


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 26: EMPLOYMENT

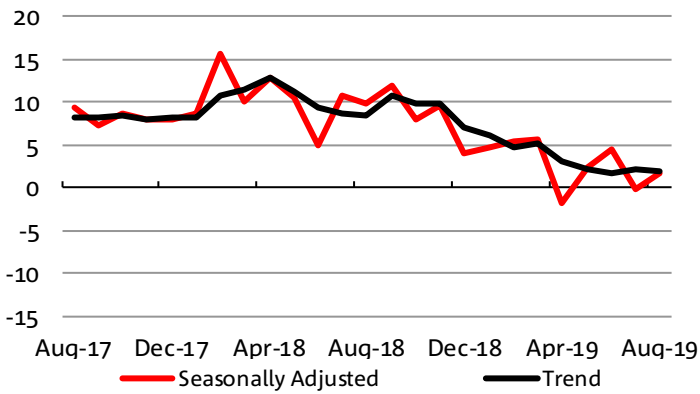


CHART 27: EMPLOYMENT (NAB VS ABS)

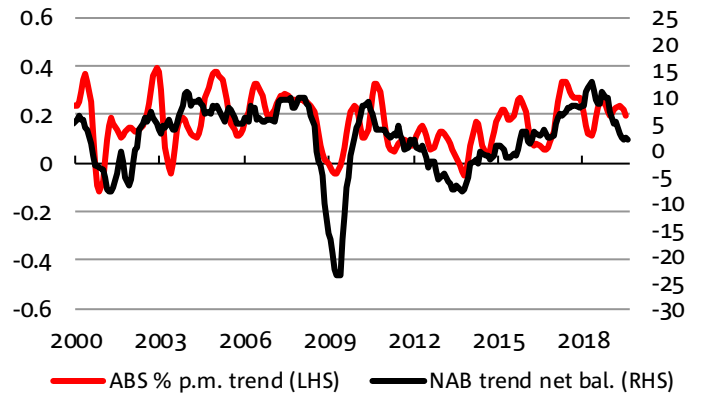


CHART 28: EMPLOYMENT BY INDUSTRY

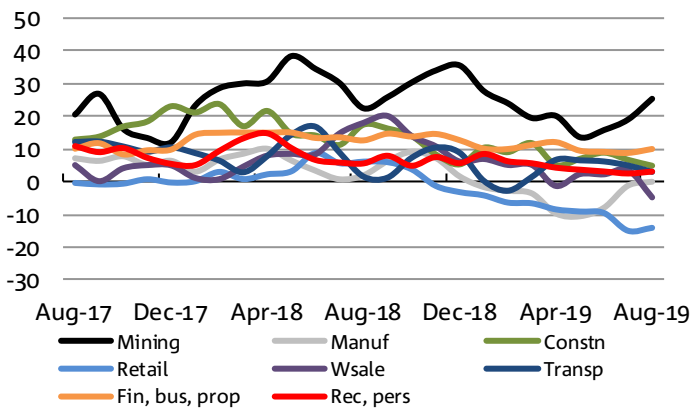


CHART 29: LABOUR COSTS GROWTH

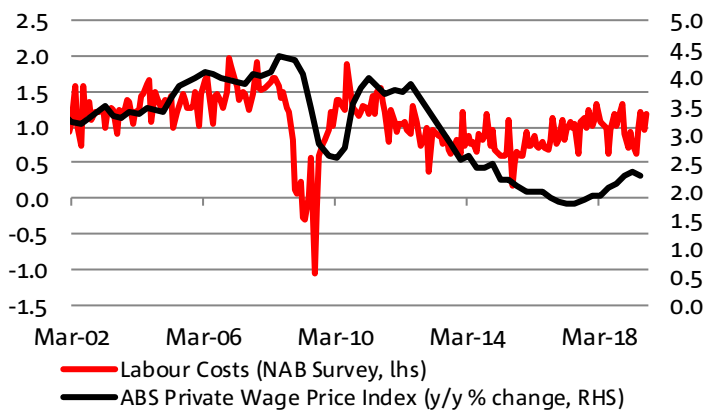


CHART 30: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

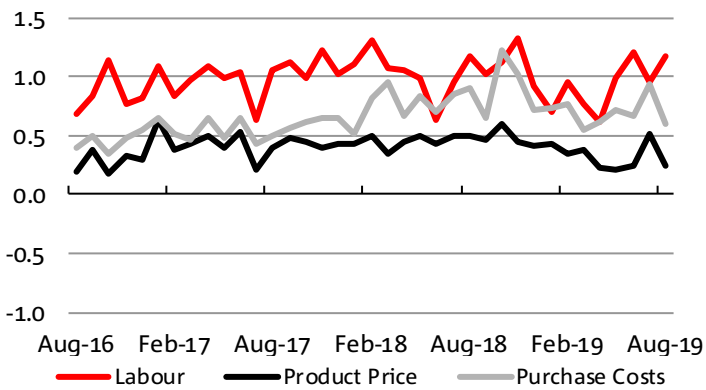
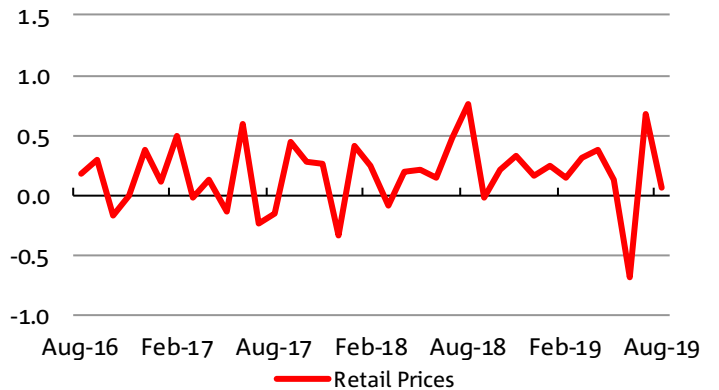


CHART 31: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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.