

# NAB Quarterly Business Survey Subscriber Details

by NAB Group Economics

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National  
Australia  
Bank



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Next release: 11 November 2014 (October monthly)

## Key Points:

- Business confidence was unchanged in Q3, remaining close to the post election highs of last year. However, our monthly survey shows that the momentum has turned, with confidence easing steadily over the quarter. Similarly, conditions were up in the quarter due to a surprisingly strong July result, but eased over the following two months. There was a slight lift in 12 month expectations.
- Sentiment was mixed across the states and industries, but we continue to see interest rate sensitive sectors, particularly construction, performing well due to low interest rates and strong investor demand (including foreign investors). Service industries remain relatively positive as well.
- The recent large depreciation in the AUD occurred after the survey period, so is not reflected in firms' responses to questions on AUD impacts. When responding, import competing and trade exposed sectors still considered the currency to be at unfavourable levels. Mining and retail reported the largest deterioration, although these firms are also among the most uncertain over what strategies to use to mitigate currency risks. (See our special survey question.)
- Outside of the services and construction sector, business conditions remain soft in levels terms. Recreation & personal services and finance/ property/ business services report the most positive business conditions, while mining continues to be very weak.
- Forward orders eased, suggesting sluggish domestic demand to continue in the near term. This is consistent with average rates of capacity utilisation, but suggests a lack of urgency for firms to invest – much stronger non-mining investment will be needed to achieve trend growth in domestic demand. Nevertheless, business investment intentions (next 12 months) rose slightly in the September quarter to be at above average levels. The most recent ABS Capital Expenditure Survey also suggests an increase in non-mining investment, but not enough to offset the coming 'cliff' in mining investment.
- Product price inflation remained subdued in the quarter - an annualised rate of 0.6% (0.2% in the quarter), reflecting softer purchase cost growth and subdued (albeit slightly higher) growth in labour costs. Retail prices lifted modestly.

**Table 1: Key quarterly business statistics\***

	2014q1	2014q2	2014q3		2014q1	2014q2	2014q3
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	8	6	6	Trading	6	4	7
Business conditions				Profitability	1	0	2
Current	1	1	3	Employment	-5	-1	0
Next 3 months	12	12	11	Forward orders	3	2	1
Next 12 months	24	24	25	Stocks	0	2	2
Capex plans (next 12)	18	21	22	Exports	1	2	1
	<i>% change</i>						
Labour costs	0.4	0.4	0.5	Retail prices	0.3	0.0	0.2
Purchase costs	0.5	0.3	0.2				
Final products prices	0.2	0.2	0.2	Capacity utilisation rate	80.1	80.3	80.6

\*\* All data seasonally adjusted, except purchase costs and exports. Fieldwork for this Survey was conducted from 25 August to 10 September 2014, covering over 900 firms across the non-farm business sector.

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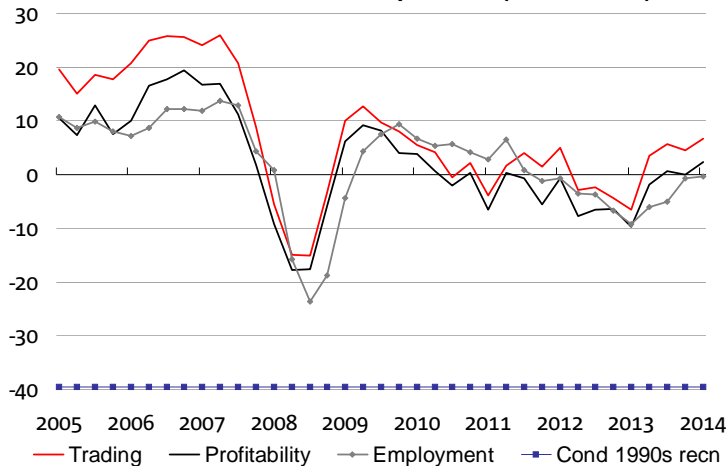
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# Trading Conditions

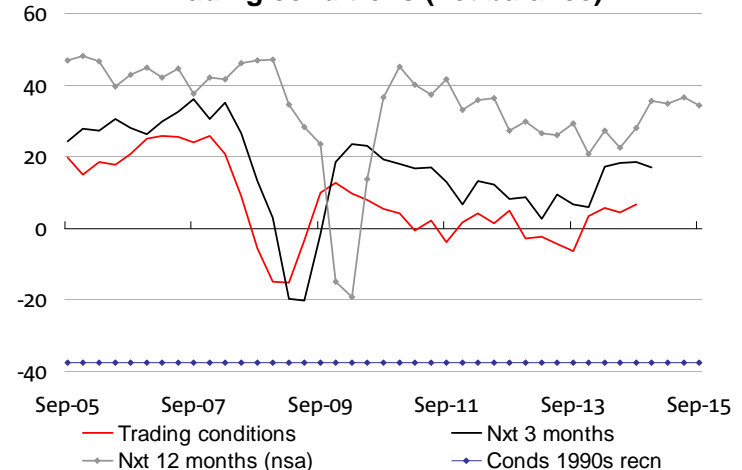
- The trading conditions index rose in the quarter (up 3), and remains the most positive component of business conditions, at +7 points. At this level, the index is now slightly above the long-run average of +5 points (since 1989). Trading activity strengthened for the majority of industries, with finance/ business/ property (down 3) and recreation & personal services (down 2), the only industries to record a deterioration in the quarter. Surprisingly, trading strengthened considerably for mining (up 24), despite signs of softening demand from top consumer China. Wholesale and construction also saw big increases (up 15 and 13 points respectively).
- In contrast to trading conditions, the exports index eased in the quarter, although it remains positive. Outcomes varied across industries (transport & utilities and mining deteriorated heavily).
- Trading conditions are now quite weak in mining (-7 points) and retail (-9 points), despite both industries recording an improvement in the quarter. Conversely, trading in the services sectors continues to outperform most other industries; rec & pers services (+18 points) and finance/ property/ business services (+11 points). Near-term (3-month ahead) trade expectations were down only slightly in the quarter, as were longer-term (12-month ahead) expectations; these were mixed across industries, but construction, manuf. and wholesale fell considerably.



**Business Conditions components (net bal, s.a.)**

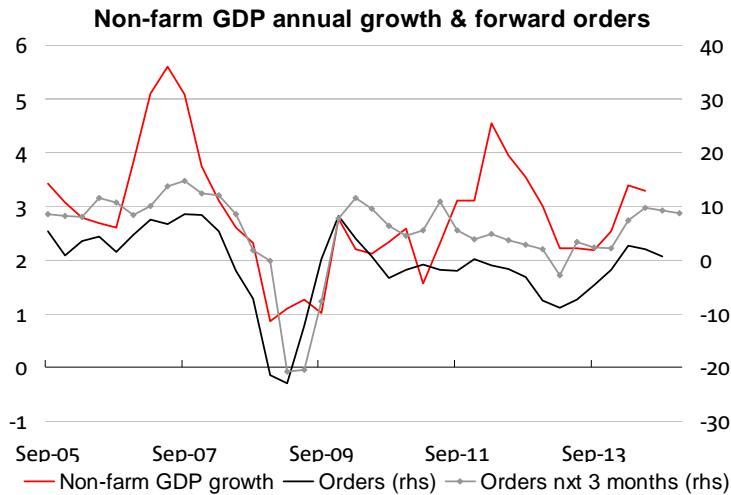


**Trading conditions (net balance)**



# Forward Orders

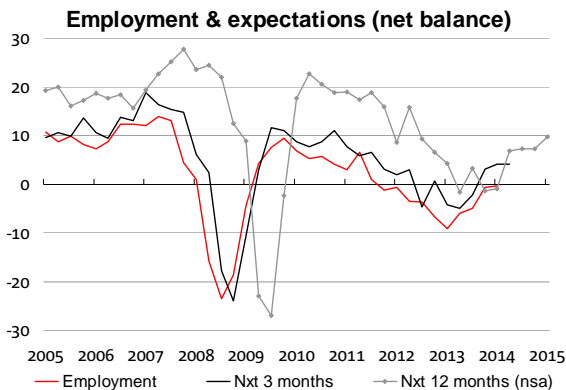
- Forward orders eased to +1 index points, implying only a moderate improvement in near-term demand. Near-term expectations for orders (next 3-months) are more positive, but the index is lower than in the June quarter. At current levels, forward orders still point to sub-trend growth which is likely to keep capacity utilisation low and employment conditions soft – the employment index improved modestly in the quarter, but still implies employment growth that is insufficient to prevent a rise in the unemployment rate; NAB expects the unemployment rate to reach around 6½% in coming months.
- Orders eased, reflecting mixed results across industries. Mining improved the most, up a surprisingly strong 37 points in the quarter, followed by wholesale (up 13). However, even after these improvements, orders remain quite weak for both (-6 and -5 index points respectively). Strong levels of building approvals are reflected in a more elevated index of forward orders for the construction industry, up 11 points to +18 index points for the September quarter. Retailing orders were down slightly to a soft -2 index points. Within retailing, orders weakened in personal & household goods, but strengthened for vehicles and ‘other’ retailing orders. Food retail orders were unchanged.



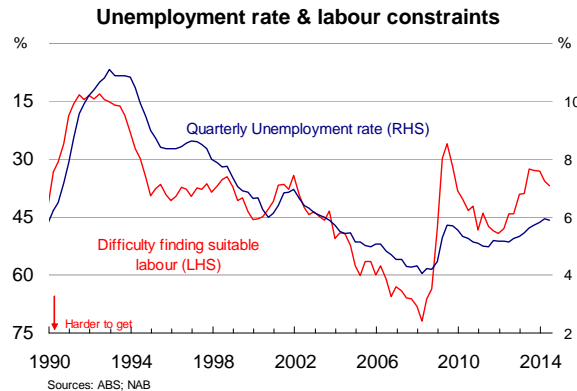
# Labour Market

- The employment index lifted marginally in the September quarter (up 1 point to 0 index points), although this is still only suggesting relatively modest rates of employment growth. These levels are consistent with some additional slack in the labour market that will see the unemployment rate lift a little further from its current level, which was 6.1% in September. Average hours worked lifted only slightly to 39.9 hours (from 39.8 hours) in the September quarter.
- Near-term employment expectations remained positive (albeit still soft at +4 index points), but longer term expectations improved again. This is a positive outcome given that the labour market has so far lagged improvements in the other components of business conditions (trading and profitability). Official labour force data for September needs to be interpreted with caution due to statistical anomalies, but nonetheless showed a slight rise in the unemployment rate (from 6.0% in June to 6.1%), hitting its highest level in more than a decade.
- Firms continue to report relative ease finding suitable labour.
- Annualised labour costs growth picked up pace to 2.0% in the quarter, although this is still well below the series average of 3.0% since 1989. The subdued pace of growth is consistent with soft employment conditions, with the ABS labour force survey posting a rise in the unemployment rate to a decade high of 6.1%. However, other indicators of labour market conditions, such as job vacancies, although soft, are pointed to an improvement in labour demand. Wage pressures are likely to remain fairly benign, with wage increases under EBAs expected to average just 2.7% over the next year, or 1.6% after allowing for productivity offsets.

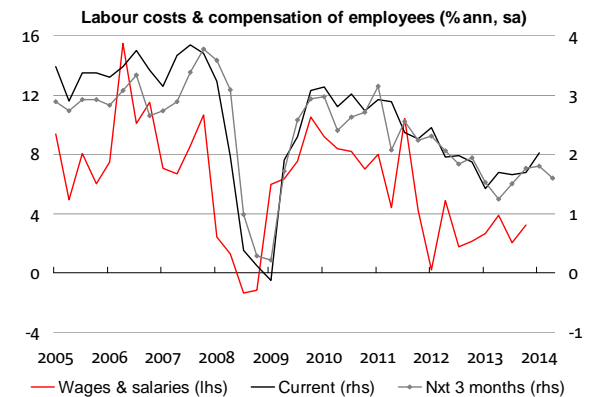
## Longer-term employment expectations better



## Labour still relatively easy to find



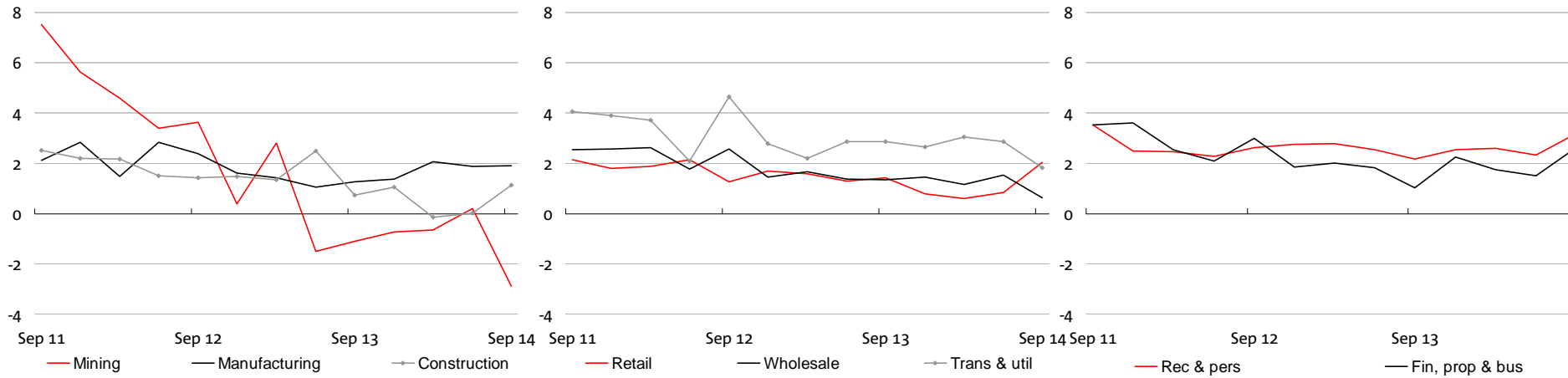
## Soft labour market restrain labour cost pressures



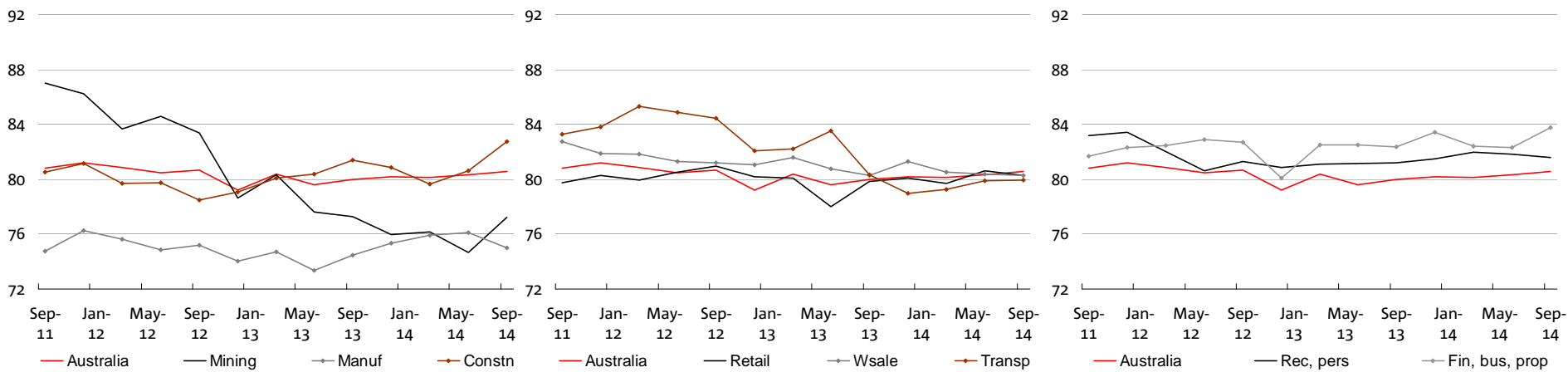
	Mining	Manuf	Const	Retail	Wsale	Trans	Rec. & pers.	Fin. prop. & bus.	Aust.
Expected EBA growth	1.3	2.7	3.0	2.6	2.2	2.7	2.7	2.7	2.7
Productivity offset	1.1	1.1	1.7	1.3	2.0	1.6	0.6	1.0	1.1
Net EBA growth	0.2	1.6	1.3	1.3	0.2	1.1	2.1	1.8	1.6

# Labour costs & capacity utilisation by industry

## Labour costs by industry (annualised quarterly growth, s.a.)

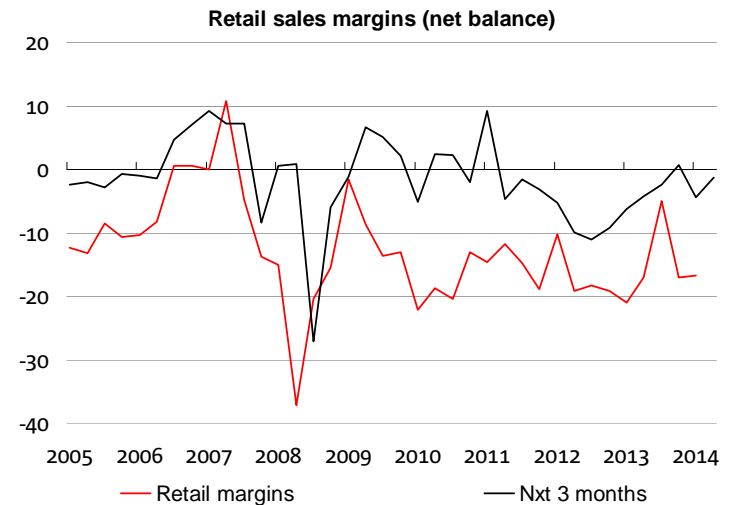
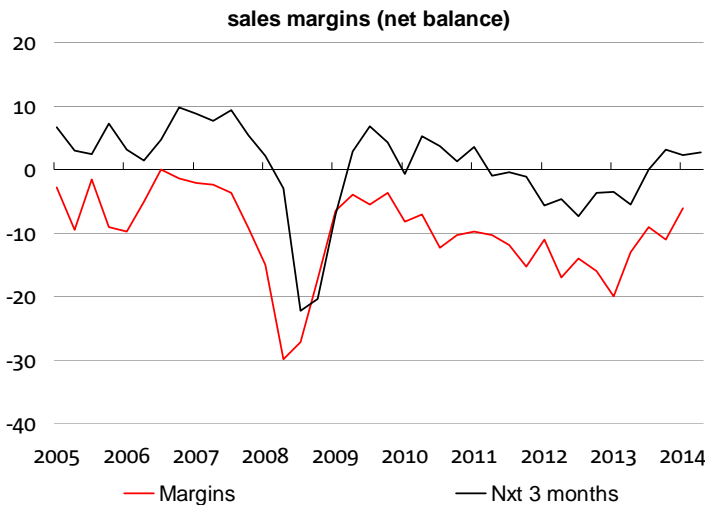


## Capacity utilisation by industry (s.a., per cent)



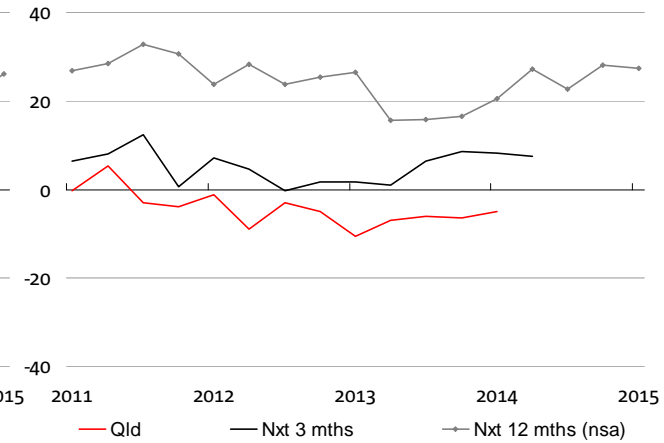
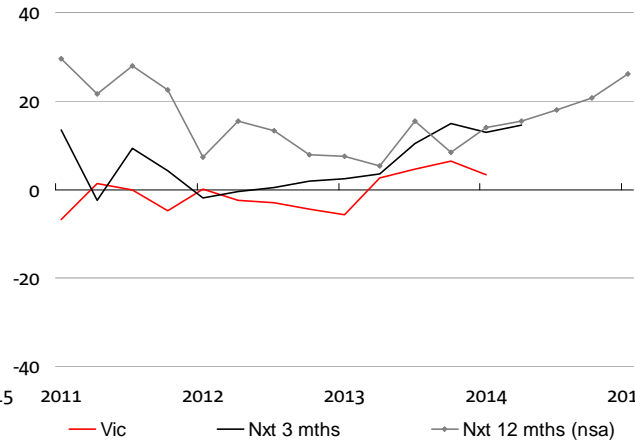
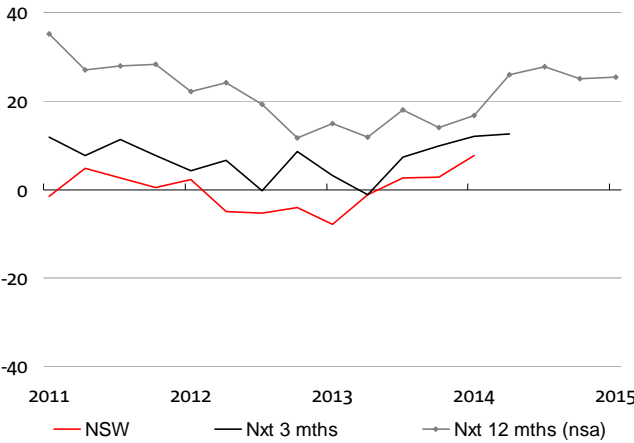
# Costs & margins

- Labour and purchase costs have continued to outstrip growth in firm's final product prices, although the spread to purchase costs has narrowed – suggesting some modest relief to profit margins. The spread with labour costs had also narrowed in previous quarters, but widened again in September as labour costs rose – a surprising result given existing slack in the labour market. Furthermore, with the AUD expected to continue on a downward track over 2015, importing firms are likely to experience renewed pressure from purchase costs. However, for now the removal of the carbon tax and lower energy costs are providing some relief for firms.
- Firms are continuing to record weak margins and expectations for next quarter only improved marginally (rising from +2 to +3 points). Firms' are expecting a slight easing in near-term labour cost and purchase cost growth, but this is largely offset by expectations for final product prices to ease as well. Margins for the majority of industries improved in the quarter, although the margins index remains negative for most of them (construction is the exception). It is particularly weak in retail and mining. The retail margins index was broadly similar to last quarter, following a noticeable decline.

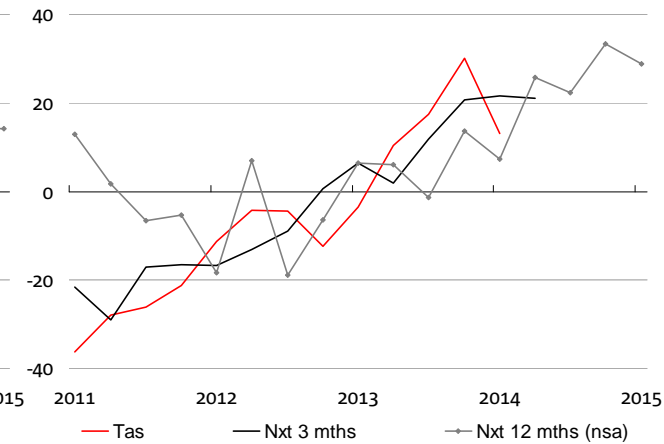
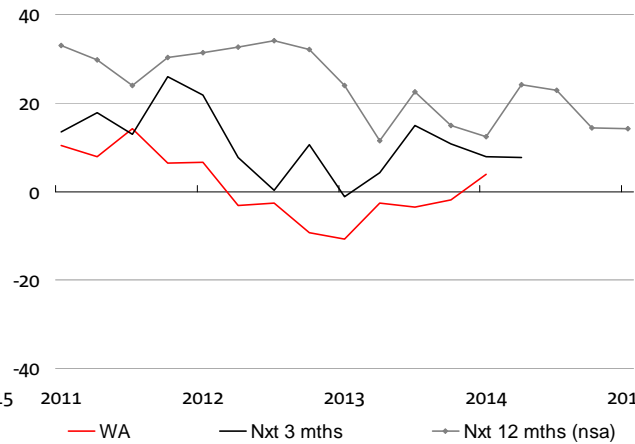
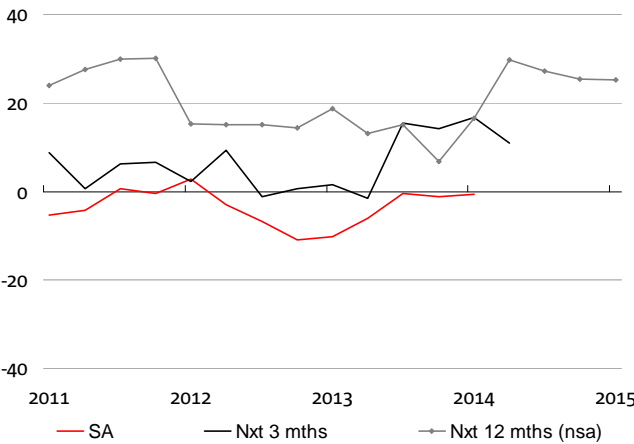


# More details on states

## Business conditions by state (net balance)



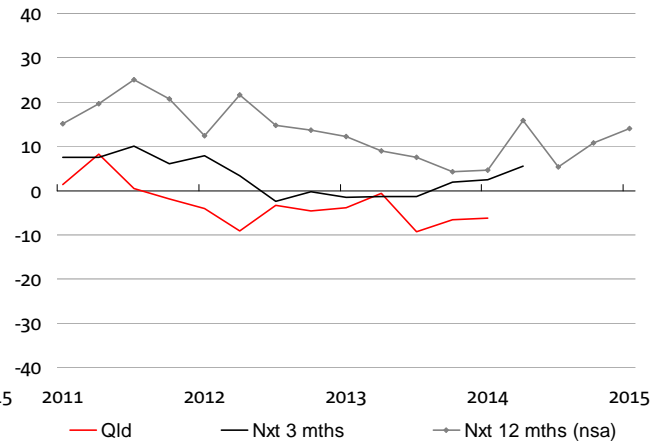
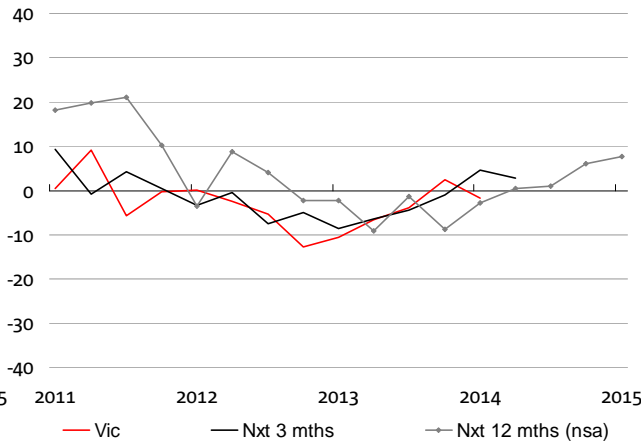
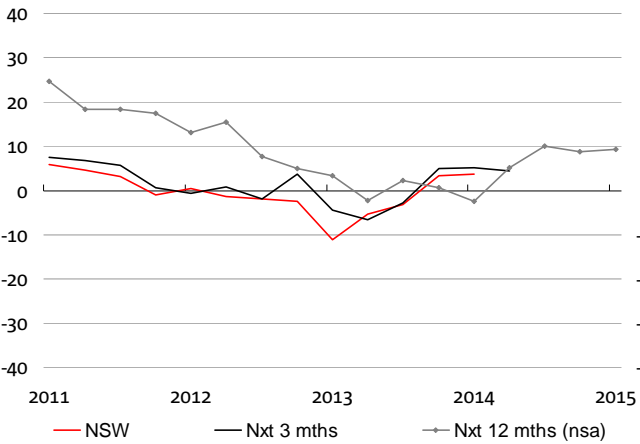
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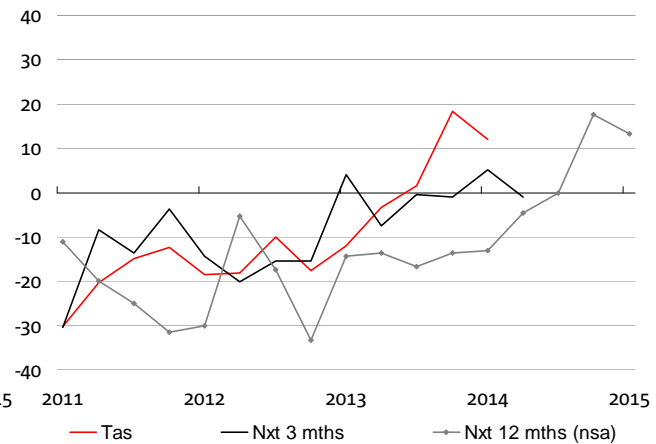
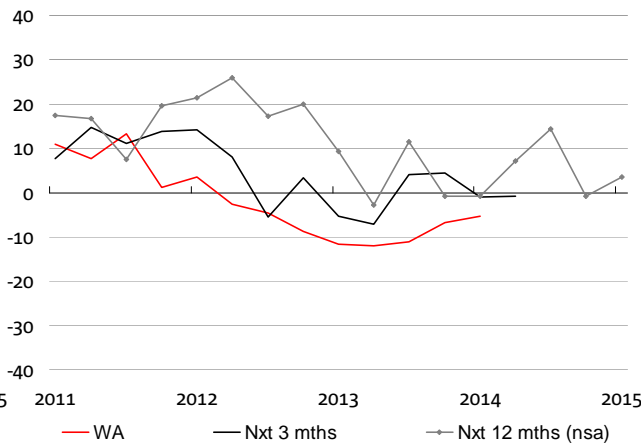
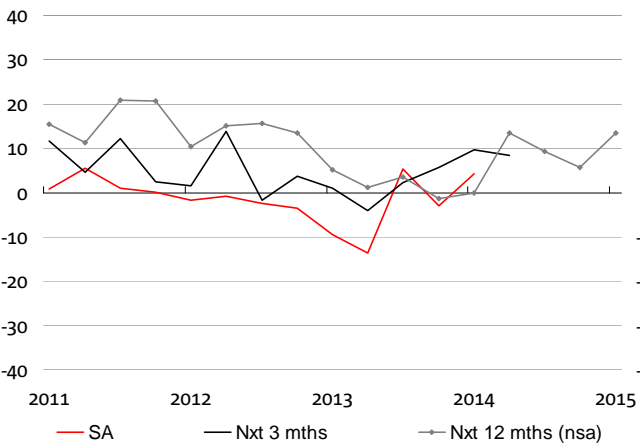


# More details on states

## Employment by state (net balance)

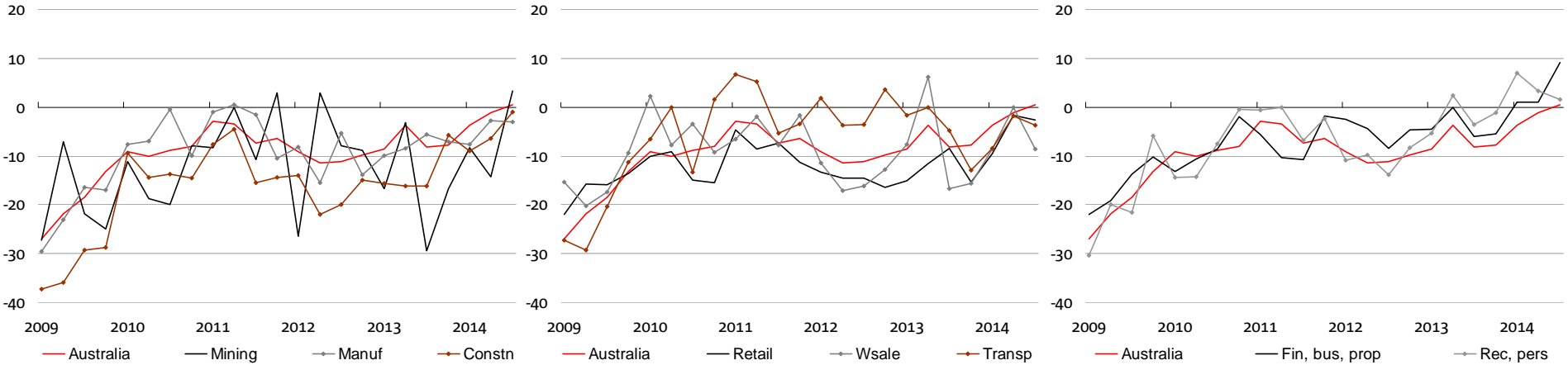


## Employment by State (net balance)

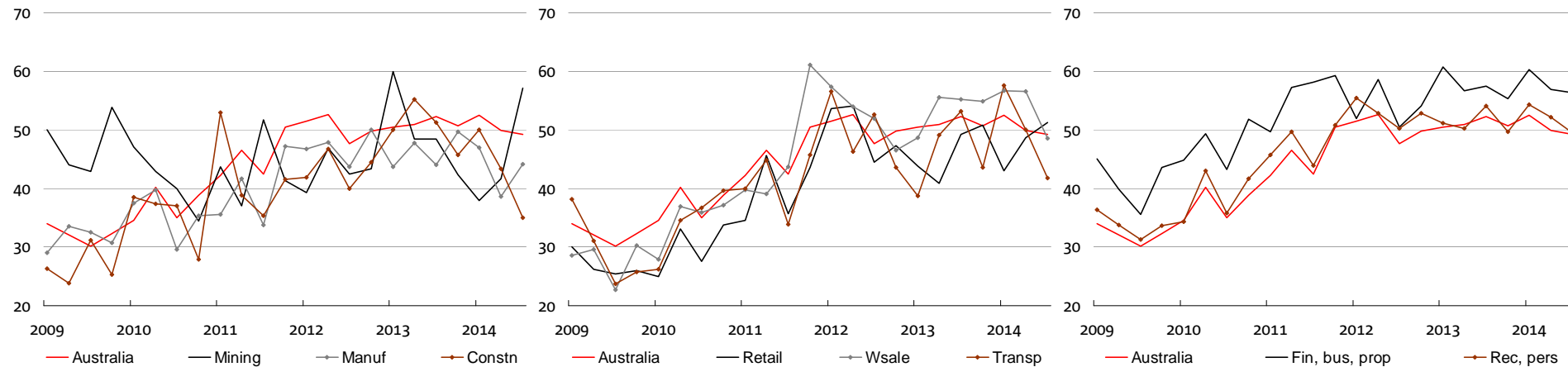


# Borrowing conditions

Ease of borrowing index (n.s.a., net balance, easier less more difficult)



Respondents requiring no borrowing (n.s.a., per cent)



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