

NAB Monthly Business Survey

by NAB Group Economics

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February 2015



National
Australia
Bank

Key Points:

- The RBA's 25bp cut to interest rates in February did not appear to have the desired effect on firms 'animal spirits', with confidence actually deteriorating in the month. The index is now at its lowest level since before the Federal election in 2013 and is well below the long run average. The fall was relatively broad based, suggesting common factors such as political and economic uncertainty, are driving this result. Mining and retail reported the largest decline, while manufacturing and wholesale were the only industries to report a rise in confidence (although both remain soft).
- Business conditions were unchanged in February, with each of the components (trading, profit, employment) holding broadly steady – the employment index improved only marginally. This level of conditions is pointing to below trend rates of activity. By industry, manufacturing and construction improved the most, more than unwinding a surprise drop in construction last month to be in positive territory again. In contrast, mining dropped sharply in line with weaker commodity markets and less favourable movements in the AUD. Orders were up (albeit still soft), as is capacity utilisation, which is helping support reasonable levels of non-mining capex (although recent ABS data raises questions over the longer-term outlook). In contrast, the 'bellwether' wholesale industry weakened even further.
- The economic forecasts are largely unchanged (see p4). As NAB expected, in March the RBA decided to wait and see what impact its February cut would have on confidence and asset prices. The domestic economy, in early 2015, has not gained momentum and indeed business confidence is lower. Inflation will continue to slow. We still see another rate cut in coming months – most likely May but the April meeting is live and data-dependent. We are not forecasting a second cut to below 2% but the chances of that happening are rising (35-40% chance) as unemployment increases. Rate rises are expected to begin by H2 2016 with the cash rate reaching 3% by late 2017

Table 1: Key monthly business statistics*

	Dec 2014	Jan 2014	Feb 2014		Dec 2014	Jan 2014	Feb 2014
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	2	3	0	Employment	-1	-1	0
Business conditions	3	2	2	Forward orders	-1	1	2
Trading	9	5	5	Stocks	2	0	1
Profitability	2	2	2	Exports	1	1	1
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.9	0.6	0.6	Retail prices	0.3	0.0	0.1
Purchase costs	0.8	0.8	0.9		<i>Per cent</i>		
Final products prices	0.1	0.4	0.2	Capacity utilisation rate	80.6	79.9	80.4

* All data seasonally adjusted and subject to revision. Cost and prices data are monthly percentage changes expressed at a quarterly rate. Fieldwork for this survey was conducted from 23 Feb to 27 Feb, covering over 570 firms across the non-farm business sector.

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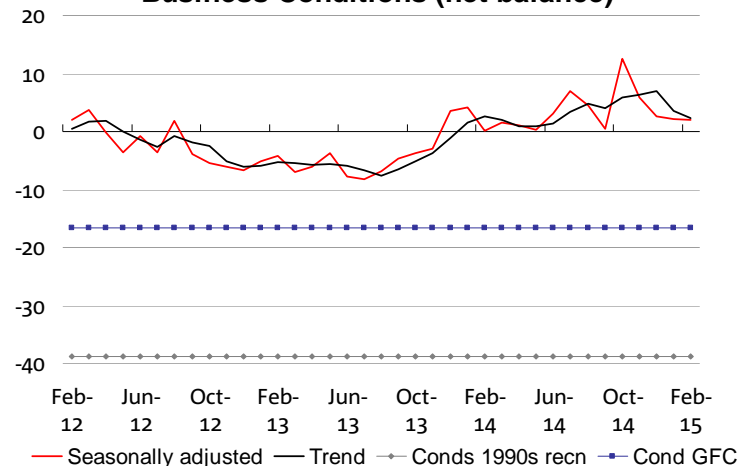
Next release: 14 April 2015 (March monthly)

Analysis

- Business conditions appear to have stabilised at low levels in recent months, although the trend continues to head downwards. The index remained at +2 index points, which is below the Monthly Survey average of +4. Both the survey and recent economic indicators are suggesting that the economy has stabilised, but at quite soft levels. Nevertheless, recent improvements in business credit – and ongoing strength in housing credit – suggests that low interest rates are having some impact. Yet despite this, the most recent ABS Private Capital Expenditure Survey showed that investment intentions of non-mining firms in 2015/16 were disappointingly weak. This further highlights the divergence currently being experienced across sectors of the economy. The residential property sector remains the main highlight, with prices continuing to rise in some markets (especially Sydney) and the pipeline of residential construction remaining elevated (although mostly in medium density housing). By industry, construction recorded a strong improvement (up 13 points) in February, more than unwinding the surprise decline the previous month. This is consistent with a sharp rise in building approvals during January, which were again dominated by apartments, although house approvals rose as well. Similarly, conditions bounced back in manufacturing (up 13), although the level of manufacturing conditions remains contractionary – consistent with the AIG Manufacturing PMI for February. In contrast, weak commodity markets and less favourable movements in the AUD continue to weigh on mining conditions (down 14). The trend index is now strongest in service sectors, but weakest in manufacturing and wholesale (-11 and -9).
- The RBA's 25bp rate cut appears to have done little to improve business confidence in the month. The confidence index dropped by 3 points to 0 index points, which is its lowest level since before the Federal election in 2013. Confidence also fell across all industries except manufacturing and wholesale, suggesting common factors such as political and broader economic uncertainty may be at play – perhaps the rate cut acted as a stark reminder of the significant headwinds facing the economy. Declines in confidence were most pronounced in mining (down 22), which is unsurprising given the current phase of the commodity cycle. Retail conditions posted the next largest decline (down 10), despite a lift in consumer confidence post rate cut – suggesting firms are more concerned about a continuation of modest retail sales and other constraints on consumers. Trend confidence is still highest in construction (+9) and lowest in mining by a significant margin (-33).

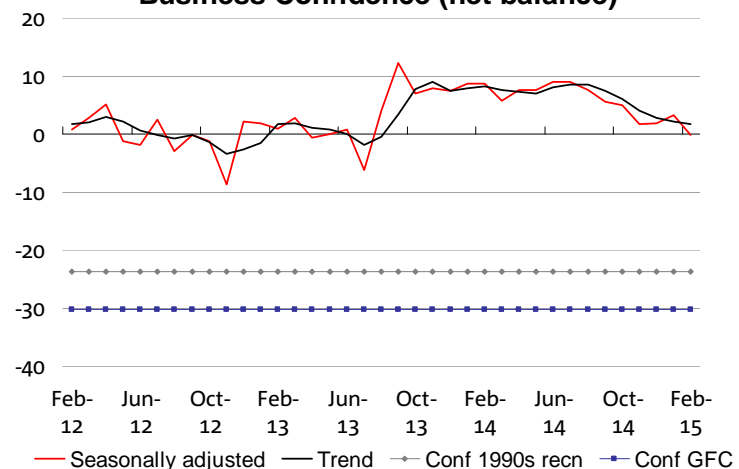
Conditions stabilise at low levels

Business Conditions (net balance)



Confidence continues to erode

Business Confidence (net balance)



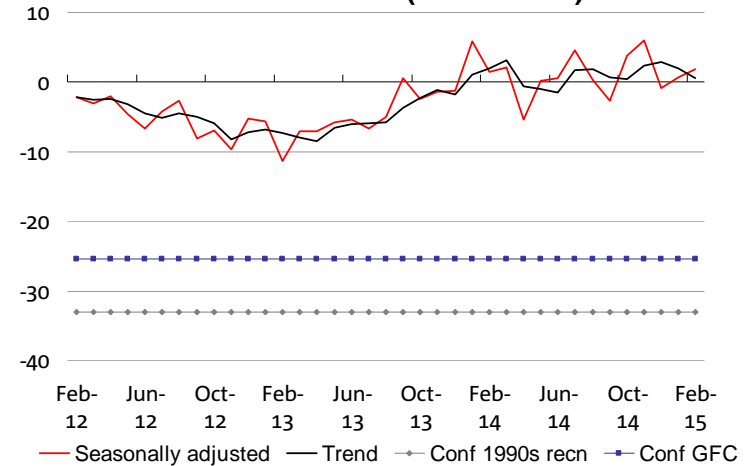
Excluding normal seasonal changes, how do you expect the business conditions facing your industry in the next month to change?

Forward indicators

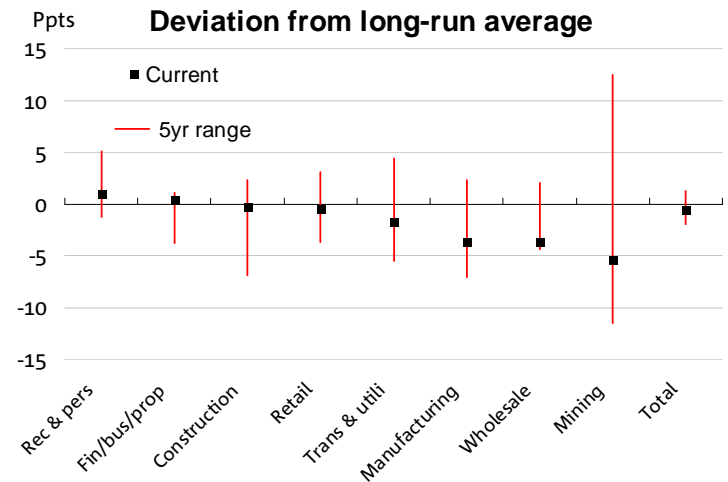
- The forward orders edged a little higher (up 1) to +2 points, which only further unwinds the deterioration recorded in December. This is a little higher than the long-run average for the monthly series, suggesting only a modest improvement in demand in the near term. The outcome reflected a particularly large jump in transport & utilities (up 19) and construction (up 15), which has offset a particularly large drop in mining (down 24). Manufacturing orders (up 8) and retail orders (up 2) also improved. In contrast, wholesale orders fell the most after mining, down 6. In trend terms, orders eased slightly to +1 point (from +2). Orders are now weakest in trend terms for mining (-16) and transport & utilities (-8), but are strongest for construction and recreation & personal services (both +4), the former being consistent with the large pipeline of residential construction.
- Trading conditions were unchanged and orders only improved modestly in February, yet capacity utilisation improved notably to 80.4% (from 79.9%). This has largely unwound last months drop. The improvement was experienced across most industries (construction and wholesale were exceptions), with the biggest increase coming from mining – possibly reflecting the commencement of production from recently completed projects. Nevertheless, mining continues to report among the lowest rates of capacity utilisation. Utilisation rates are below their long run average for most industries, except for the services sector. Mining is reporting the lowest utilisation rates relative to history and has shown the most variation over the past 5 years (consistent with the phases of the mining investment boom). Recreation & personal services is currently furthest above its average.
- The capital expenditure index eased marginally (down 1) in February to +4 index points – slightly below its long-run average level (+5). The trend index was unchanged at +5 index points. This suggests a moderate expansion of non-mining business investment (which has a larger weighting in the survey). However, this is in contrast to the 2014Q4 ABS Capex Survey which showed a contraction in non-mining investment plans for 2015-16. Trend wholesales capex is highest (+9 points) and construction is lowest (-3 points).
- Elsewhere in the survey, cash flow (not seasonally adjusted) was strongest in pers & rec services, and weakest in manufacturing.

Sales orders lift – still subdued

Forward Orders (net balance)



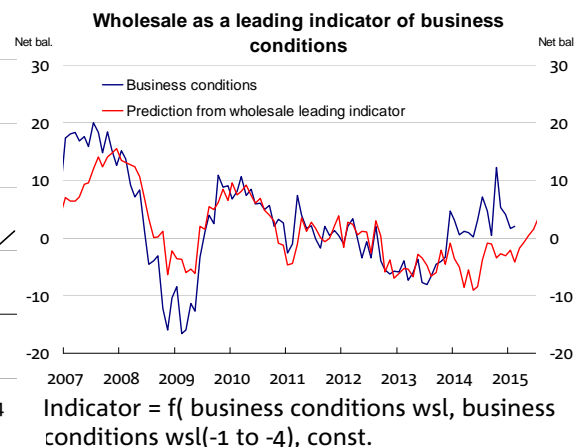
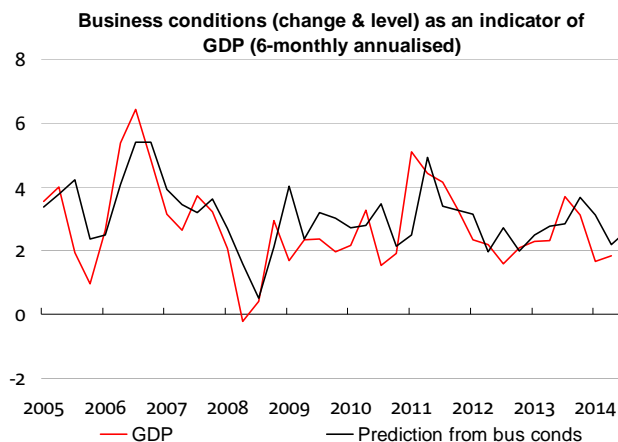
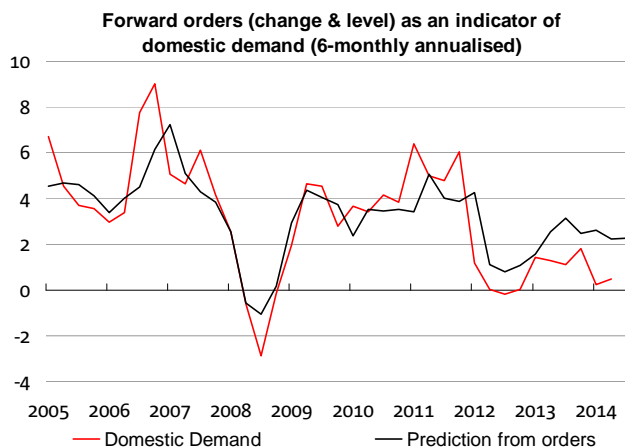
Capacity utilisation below average for most industries



Full capacity is the maximum desirable level of output using existing capital equipment.

Implications for forecasts For more information see latest [Global & Australian Forecasts](#)

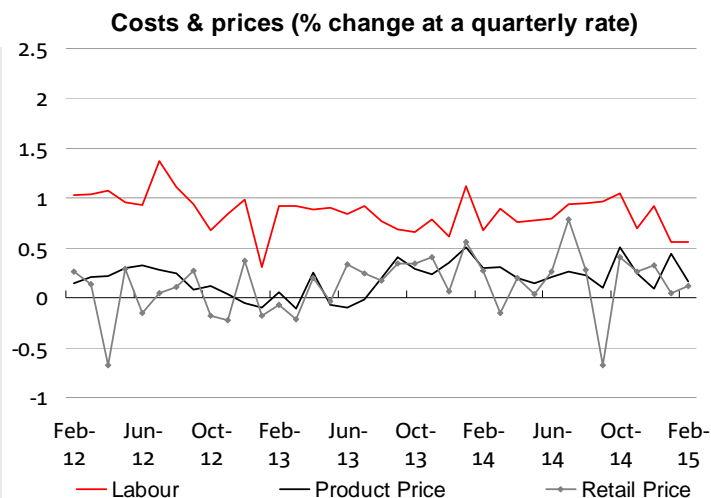
- Global growth remains around 3% and, although the business surveys show a lift in sentiment in key advanced economies, there is still no clear evidence that the expected upturn in global growth to 3½% by the end of the year has commenced. Weaker prices for oil and other commodities will benefit spending power in most big advanced economies as well as in China, but that same weakness is weighing on demand across a range of primary exporting nations. World trade remains sluggish, holding down growth in export-oriented areas like East Asia but the lower Euro should help towards its predicted recovery in growth.
- Locally, we have not changed our near term GDP forecasts (2.3% in 2014/15). The Q4 national accounts continue to show a domestic economy struggling to offset the impact of falling mining investment. While investment in dwellings is improving the boost to consumption is likely to fade (recent soft retail sales) with on going caution in consumer attitudes. At the same time falling iron ore and non rural commodity prices have significantly reduced income flows. We have slightly softened the expected kick in 2015/16 from lower oil prices and rate cuts – and now expect GDP growth of 3.0% (was 3.2%). That reflects weaker expectations for non-mining investment, the potential of a sharper fall in mining investment, and renewed consumer caution as unemployment continues to rise (now expected to reach 6.7% by end 2015). An early view of 2017 sees GDP growth of around 3% and unemployment falling back to 6% by end 2017.
- We still see another rate cut by the RBA in coming months – most likely May but the April meeting is live and data dependent. We are not forecasting a second cut to below 2% in 2015 but the chances of that are rising (35-40% chance) as unemployment rises. Rate rises are expected to begin by H2 2016 with the cash rate reaching 3% by late 2017
- Our model of 6-monthly annualised demand growth, using forward orders as a predictor, has continued to suggest stronger growth than the national accounts in recent quarters. Nevertheless, applying forward orders from February to our model suggests that predicted demand growth will be similar to Q4 (meaning soft). Similarly, business conditions over predicted GDP growth in Q4. Based on February business conditions, our model implies a slight improvement in GDP growth for Q1. Applying business conditions derived from our 'wholesale leading indicator' (below) implies much weaker GDP growth over coming quarters.



Costs and prices

- Labour costs growth (a wages bill measure) was unchanged at 0.6% in February (a quarterly rate), which is somewhat consistent with the soft employment index and rising unemployment rates. Labour cost inflation decelerated the most in manufacturing (down 0.6 ppts), but wage cost pressures are currently weakest in mining (0.2%, at a quarterly rate) – a reflection of weak commodity markets, the winding up of the investment boom, and ongoing attempts by mining companies to contain costs. In contrast, labour cost growth was highest in transport & utilities and recreation & personal services (both 0.8%, at a quarterly rate). Our expectation for domestic demand suggest there will continue to be a considerable amount of slack in the labour market, which along with expectations for subdued inflation pressures (assisted by low oil prices), should keep wage cost pressures contained in the near term. In terms of current labour market conditions, transport & utilities are actually reporting the most modest demand for labour in the survey (-14 points), which may be a reaction to relatively stronger growth in labour costs. In trend terms, employment demand is strongest in construction (+5) and fin/prop/ bus (+4), but weakest in manufacturing (-10) and transport & utilities (-10).
- Purchase cost growth lifted a little to 0.9% in February (at a quarterly rate), which is above the average rate seen since the GFC. This suggests some pressure from previous AUD depreciation, while that pass-through from lower petrol prices has thus far been relatively limited (despite a clear impact on the December quarter headline CPI). Purchase costs accelerated the most in recreation & personal services (up 0.4 ppts). Growth in purchase costs decelerated across most other industries, which could reflect the more stable currency during the month. Purchase cost pressures facing wholesalers are strongest (2.8%, quarterly rate), and are weakest for mining (-0.2%, quarterly rate).
- Final product prices growth decelerated in February (at a quarterly rate) suggesting there was no added relief for firms margins. Construction and retail prices were the only ones to accelerate in the month, but the latter remains at modest levels – indicating that consumer inflation pressures remain subdued. Upstream price pressures (e.g. manufacturing and wholesale) eased noticeably (down 0.8 and 0.7 ppts). The mining sector continues to record price deflation (-2.2%), while prices growth is highest in recreation & personal services (0.5%).

Price pressures remain subdued



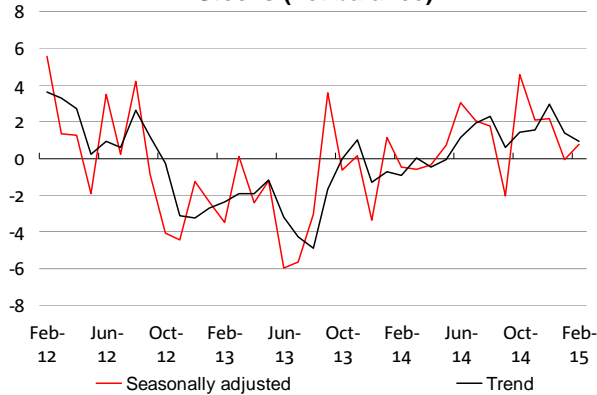
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.



More details on business activity

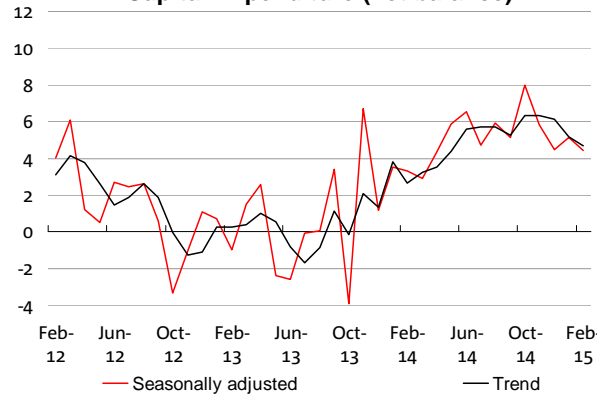
Re-stocking has remained limited

Stocks (net balance)



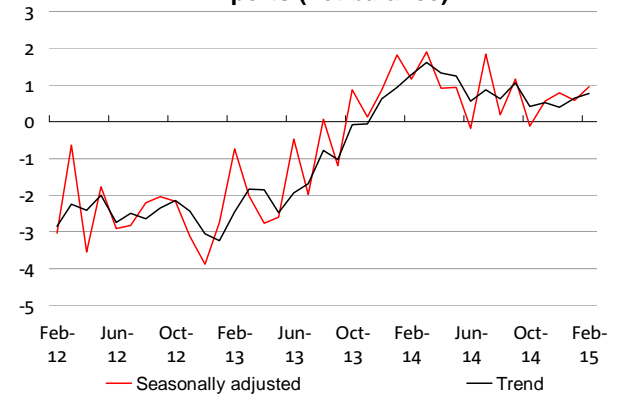
Capex positive, but is losing momentum

Capital Expenditure (net balance)



Exports finally seeing some support from AUD depreciation

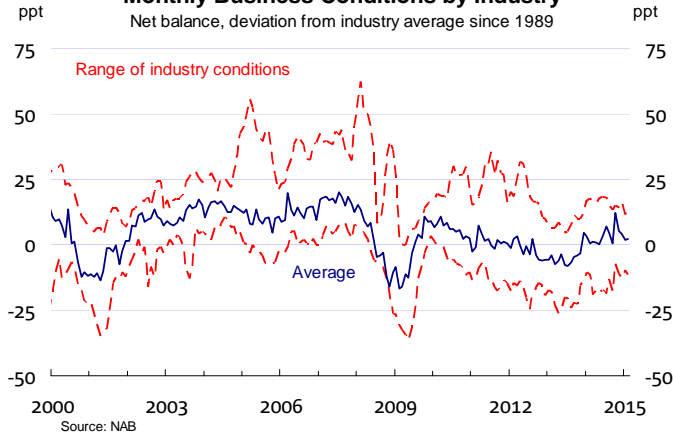
Exports (net balance)



Range of conditions slightly wider, due to weak manufacturing

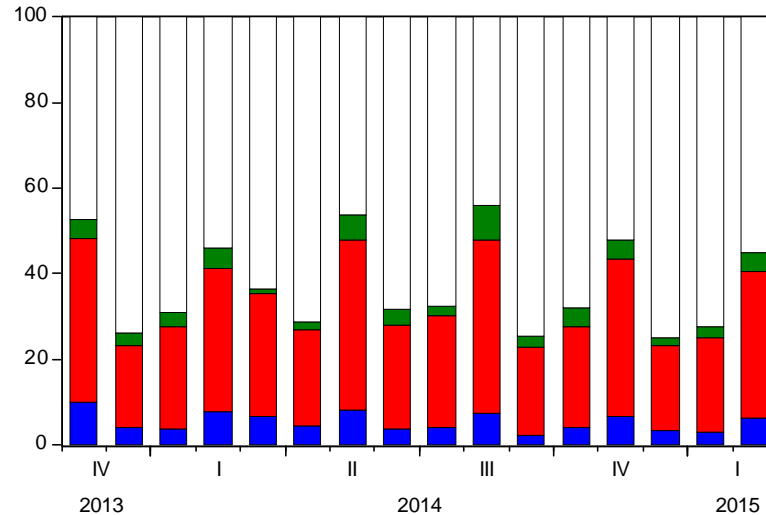
Monthly Business Conditions by Industry

Net balance, deviation from industry average since 1989



Borrowing conditions slightly better, but demand for credit weaker (relative to 3 months prior)

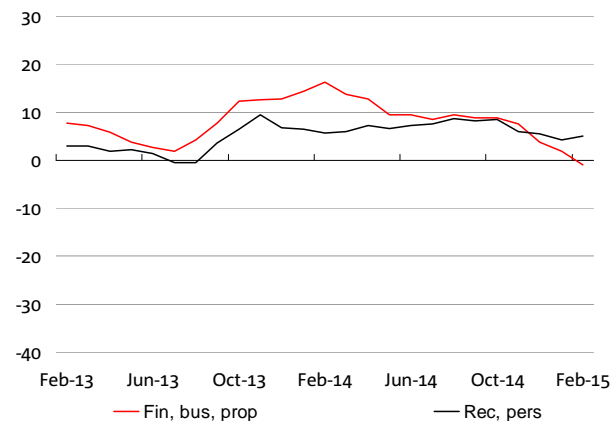
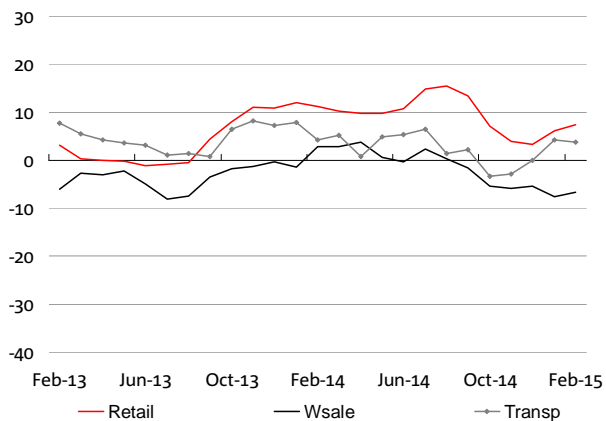
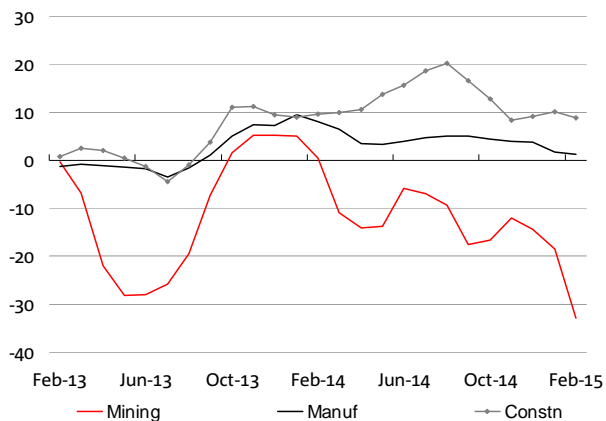
Borrowing conditions (% of firms)



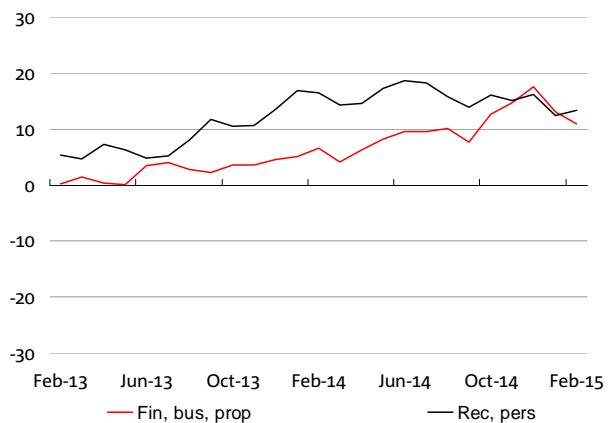
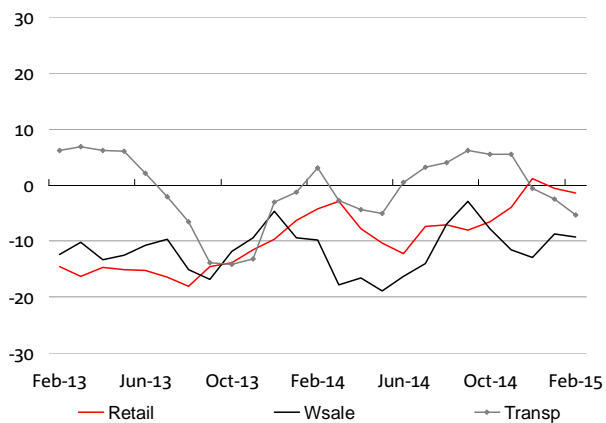
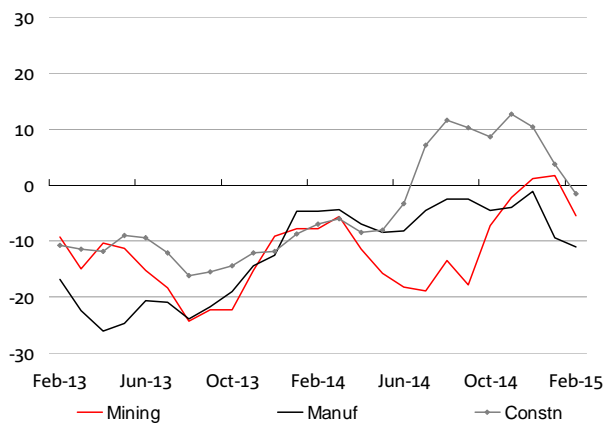
More difficult Unchanged Easier No borrowing required

More details on industries

Business confidence by industry (net balance): 3-month moving average

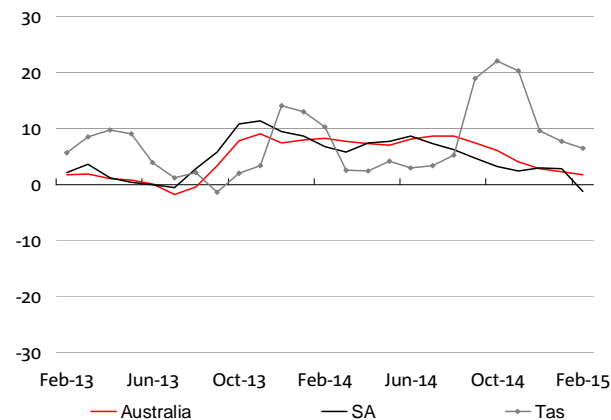
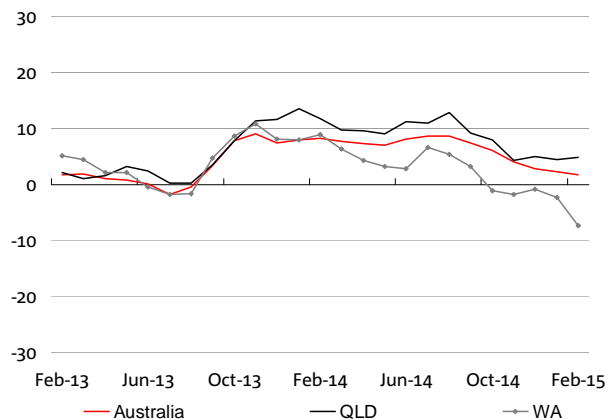
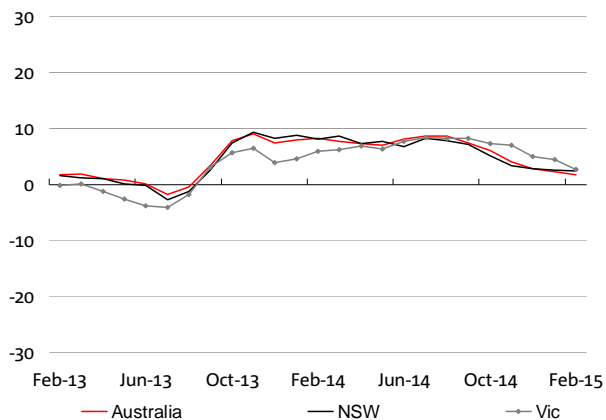


Business conditions by industry (net balance): 3-month moving average

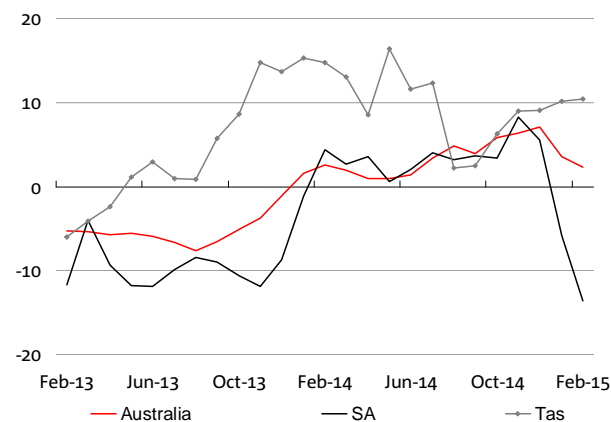
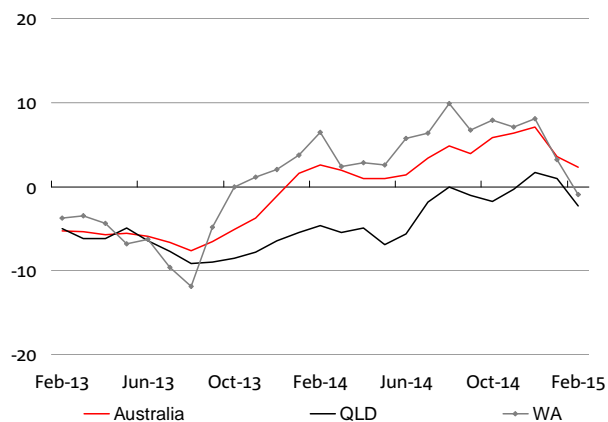
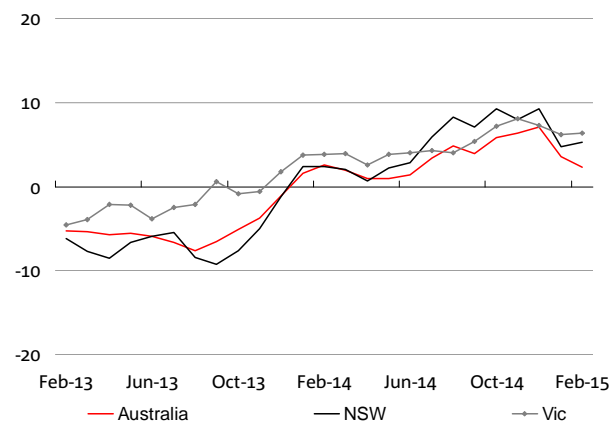


More details on states

Business confidence by state (net balance): 3-month moving average



Business conditions by state (net balance): 3-month moving average



Data appendix

Prices & costs by industry (% change at a quarterly rate)

Feb-2015	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	0.2	0.4	0.3	0.5	0.3	0.8	0.8	0.4	0.6
Labour costs: previous	0.6	1.0	0.4	0.2	0.7	0.7	0.7	0.3	0.6
Labour costs: change	-0.4	-0.6	-0.1	0.3	-0.4	0.1	0.1	0.1	0.0
Prices (final): current	-2.2	0.4	0.3	0.1	0.4	0.1	0.5	-0.2	0.2
Prices (final): previous	-2.1	1.2	0.0	0.0	1.1	0.5	0.8	0.2	0.4
Prices (final): change	-0.1	-0.8	0.3	0.1	-0.7	-0.4	-0.3	-0.4	-0.2
Purchase costs: current	-0.2	2.0	0.5	0.7	2.8	0.0	0.6	0.1	0.9
Purchase costs: previous	0.4	2.1	0.7	1.3	3.4	0.5	0.2	0.3	0.8
Purchase costs: change	-0.6	-0.1	-0.2	-0.6	-0.6	-0.5	0.4	-0.2	0.1

Key state business statistics for the month

Feb-2015	Monthly Business Survey Data: By State						
	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	1	1	5	-11	-15	5	0
Bus. conf.: previous	3	4	6	2	-4	9	3
Bus. conf.: change	-2	-3	-1	-13	-11	-4	-3
Bus. conf: current - Trend	2	3	5	-1	-7	6	2
Bus. conf: previous Trend	3	4	4	3	-2	8	2
Bus. conf.: change -Trend	-1	-1	1	-4	-5	-2	0
Bus. conds: current	8	6	-9	-14	-4	16	2
Bus. conds: previous	4	6	2	-24	-2	15	2
Bus. conds: change	4	0	-11	10	-2	1	0
Bus. conds: current -Trend	5	6	-2	-14	-1	10	2
Bus. conds: previous -Trend	5	6	1	-6	3	10	4
Bus. conds: change -Trend	0	0	-3	-8	-4	0	-2

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