

NAB Monthly Business Survey

by NAB Group Economics

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February 2016



Key Points:

- The Australian economy appears to be performing better than many had expected, and this month's business survey gives no signs that this is wavering. **The NAB Business Survey showed a notable improvement in business conditions during February**, jumping to +8 points, more than unwinding the decline from last month, which was primarily driven by Australia's mining states. **Conditions remain particularly robust in service based industries**, which are leading the way in what has proven to be a resilient recovery in the non-mining economy. **All three components of conditions (trade, profit and employment) improved during the month**, and it was particularly encouraging to see employment move back into positive territory after showing mild signs of faltering recently – although it still suggests softer employment growth than the official labour market statistics.
- Forward indicators were more positive as well. **Capacity utilisation, which provides a useful measure of the underlying health of the economy, jumped to 81.5% in February – its highest level since early 2012**, and is above long-run average levels. This is consistent with a pick up in the capex index, which hit its highest reading in nine months. **Forward orders were also stronger**, lifting to well above average levels, suggesting a pick up in growth momentum in the near term. Despite the lift in conditions and some apparent respite in financial markets, **business confidence simply held steady at the subdued – albeit positive – levels seen in recent months**. Across industries confidence remains quite mixed, although all but two (mining and wholesale) were positive.
- Solid outcomes in the NAB Business Survey in late 2015 (and industry differences) were confirmed by the Q4 National Accounts – and hence their strength was not a surprise to us. The latest Survey confirms continuing non-mining momentum in early 2016. The service sectors have very much stepped up and are now driving an impressive rebound in non-mining domestic demand. In contrast, the outlook for the global economy remains downbeat and there is still much fear of contagion. Against that the key drivers of local strength remain intact (especially low rates and a more competitive currency) **and hence we have not changed our view of the Australian economy outlook – and especially continuing non-mining strength**. That means monetary policy should remain on hold for an extended period (rather than the market expectation for another cut by year end). However, much depends on global uncertainties and whether global contagion ultimately weakens momentum in the domestic non-mining sector – and hence unemployment. AUD strength is another risk.

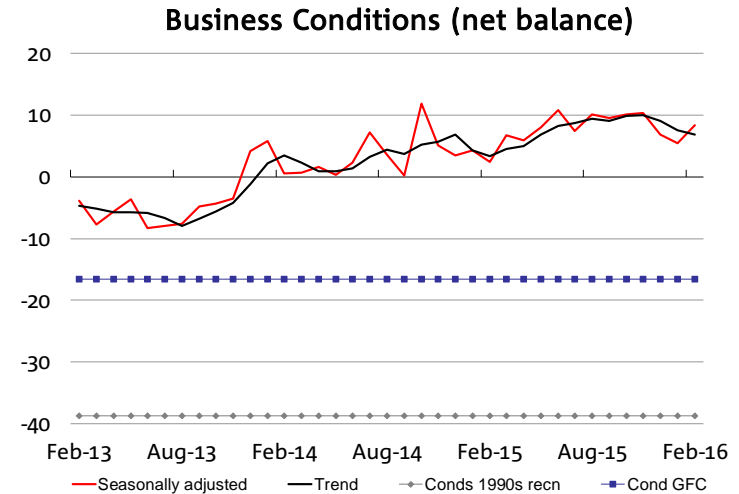
Table 1: Key monthly business statistics*								Contents	
	Dec 2016	Jan 2016	Feb 2016		Dec 2016	Jan 2016	Feb 2016		
	<i>Net balance</i>				<i>Net balance</i>				
Business confidence	2	3	3	Employment	0	-1	1	Key points	1
Business conditions	7	5	8	Forward orders	4	1	3	Analysis	2
Trading	13	10	12	Stocks	5	-1	11	Other activity indicators	3
Profitability	8	6	11	Exports	2	0	2	Implications for forecasts	4
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>				
Labour costs	0.8	0.6	0.7	Retail prices	0.5	0.3	0.3	Costs & prices	5
Purchase costs	0.5	0.5	0.4		<i>Per cent</i>				
Final products prices	0.3	0.1	0.1	Capacity utilisation rate	79.9	80.9	81.5	More details	6

* 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 22 to 26 Feb, covering over 500 firms across the non-farm business sector.

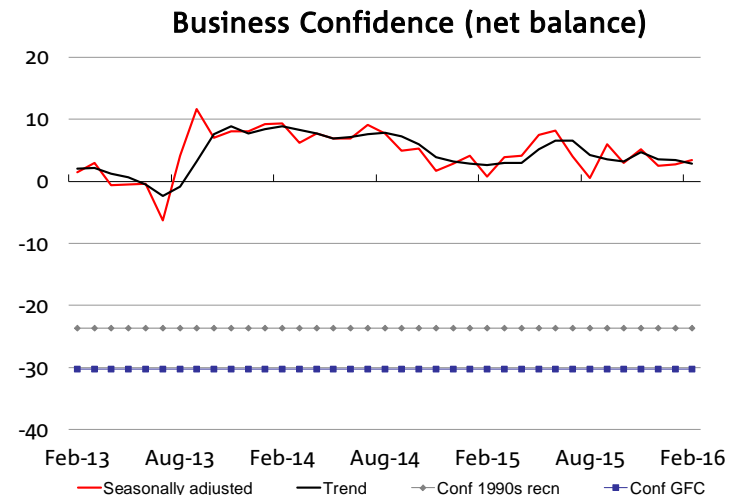
Analysis

- **Business conditions jumped in February to +8 (previously +5), to again sit noticeably above the long-run average of the series (+5).** The improvement more than offset the decline seen last month, which was primarily driven by the mining states. The persistent strength in business conditions provides reassurance that the non-mining recovery remains resilient, despite the challenges (particularly from abroad). However, subdued conditions outside of construction and the major service sectors reemphasises the uneven nature of growth. The **improvement in conditions was experienced across all components** (sales, profits and employment), but readings were quite mixed across industries. The result for **employment conditions was encouraging**, lifting back into positive territory – although still much softer than official labour statistics suggest.
- Conditions in both mining (up 41) and wholesale (up 25) bounced back following a particularly pronounced declines last month. Construction also improved by a solid 12 points in the month, consistent with ongoing strength in the residential sector, while retail conditions also jumped (up 9) – having turned negative last month. Overall, the services versus mining split continues in February – in trend terms, mining, wholesale and manufacturing are all negative (see p7). Service sectors (outside retail) remain the clear outperformers.
- Business confidence did not lift in response to the improvement in business conditions and a tempering of financial market anxieties. Nevertheless, confidence remains steady at positive (albeit moderate) levels (+3 index points), suggesting the previous volatility in financial markets has not been overly disruptive – suggesting the risk of negative pass-through to activity may have subsided. There was, however, some significant variation in confidence across industries in the month.
- **Confidence is positive across most industries**, however, only half recorded an improvement in the month – fully offset by the half that deteriorated. The largest improvement occurred in transport & utilities (up 12), followed by mining (up 7). Subdued petrol prices and better conditions in related industries such as wholesale, may have contributed to better confidence in transport. In contrast, construction posted a notable decline (down 5), but still had the second highest level of confidence. In trend terms, mining confidence is lowest and is expected to remain weak, while construction confidence is highest – a reflection of the large residential construction pipeline.
- Business conditions improved, or were unchanged, in all states other than Victoria (down 2). WA saw the biggest improvement, although conditions in the state remained very weak, while Qld conditions also jumped considerably. **Looking through the monthly volatility shows conditions remaining very elevated in NSW and turning strongly up in Qld. Vic while strong has slipped recently while suffering continues in the mining states of WA and SA.**

Conditions recover from last months decline



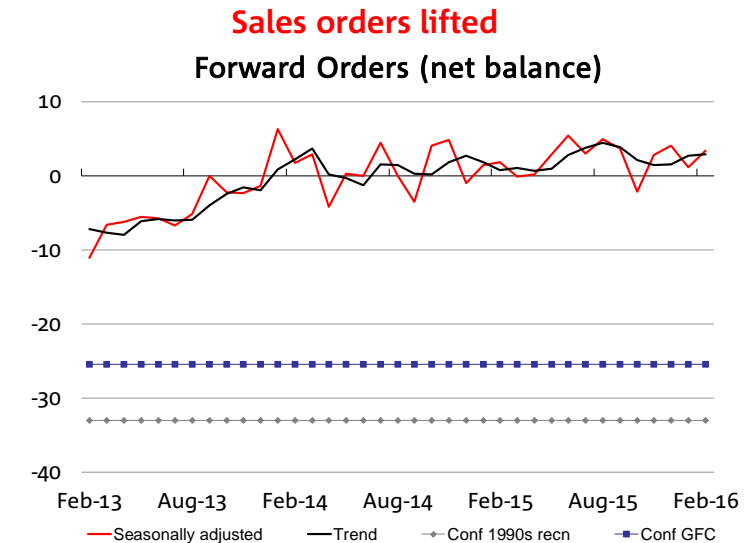
Confidence resilient despite market turmoil



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

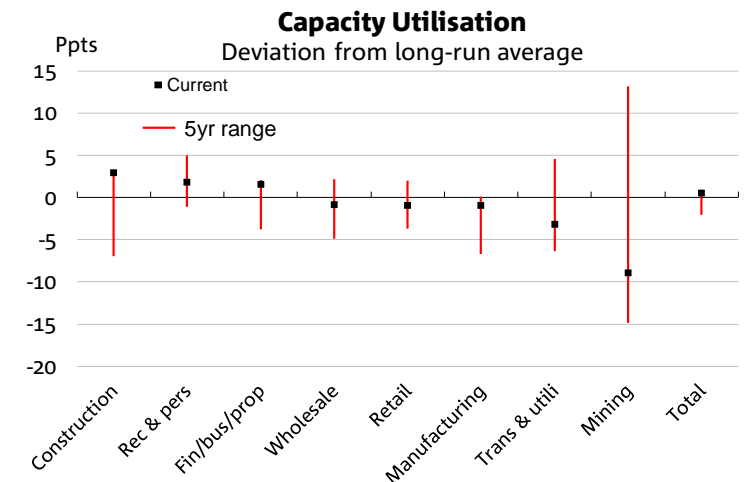
Other activity indicators

- Leading indicators were generally more positive in February. The **forward orders** index gained a little more momentum, and has managed to remain positive for the past three months. At +3 index points (up from +1), the index is above the long run average and **suggests better business activity in the near-term** – although orders are down from the highs of last year (+5).
- The rise in orders was most evident in construction (up 23)**, although recreation & personal services (up 8) and retail (up 5) also improved, while manufacturing was unchanged. The lift in construction orders came despite a notable pullback in residential approvals in recent months – albeit the pipeline in residential construction remains huge. The largest declines took place in mining (down 8) and wholesale (down 6). In trend terms, wholesale orders are now the weakest at -9 index points, followed by retail (-3) and recreation & personal services (-2) – possible suggesting some lost momentum in the services driven recovery. Elsewhere, trend orders are still strongest in construction (+15), reflecting a record pipeline of residential construction projects that is helping to offset a rapidly depleting pipeline of mining projects.
- NAB's measure of **capacity utilisation picked up again in the month** (to 81.5% from 80.9% and a long run average of 81%), consistent with stronger trading conditions and a big increase from the wholesale sector (up 3.9 ppts). Outcomes were generally better for most industries; aside from retail (down 1.1 ppts) and transport & utilities (down 0.6 ppts). Elsewhere higher capacity utilisation was broad-based – with wholesale (up 3.9 ppts), mining (up 3 ppts), construction (up 2.2 ppts), and finance/property/ business services (up 1.3 ppts) showing the biggest gains. Following this months gain, the capacity utilisation rate is back at its highest level since early 2012, lifting the trend – which has softened notably of late. Nevertheless, capacity utilisation is still only at (or below) long-run averages for many industries.
- Consistent with improving leading indicators, the **capital expenditure index was notably higher** in month at +10 index points (from +6) – consistent with pre-GFC levels of investment. The outcome **suggest solid growth in non-mining business investment** (which has a higher weighting in the survey). This is a welcome sign given the importance of business investment to the longer term growth outlook, and in the context of further weakness in capex expectations reported by the ABS. In trend terms, capex in recreation/personal services is the highest (+14 points) and mining is unsurprisingly the lowest (-4 points) – the only industry with a negative index (trend).
- Elsewhere in the survey, **cash flow** (not seasonally adjusted) was the strongest in recreation & personal services, and the weakest in mining.



Net balance of respondents with more orders from customers last month.

Capacity utilisation by industry

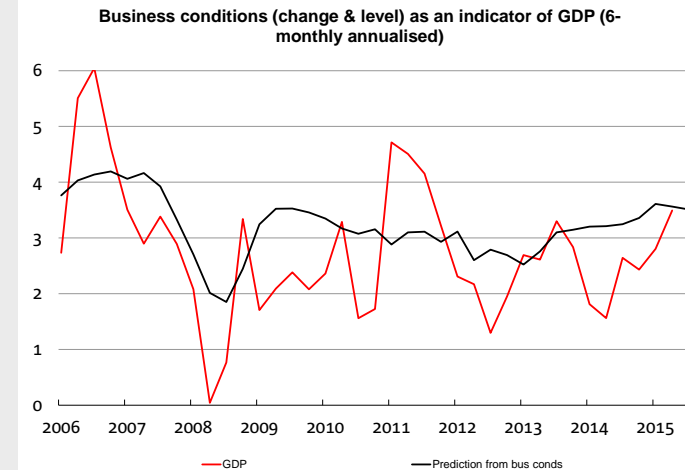
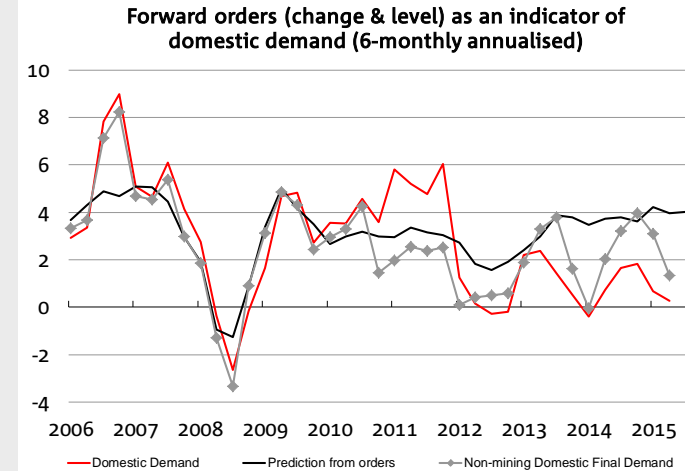


Source: NAB Economics

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

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

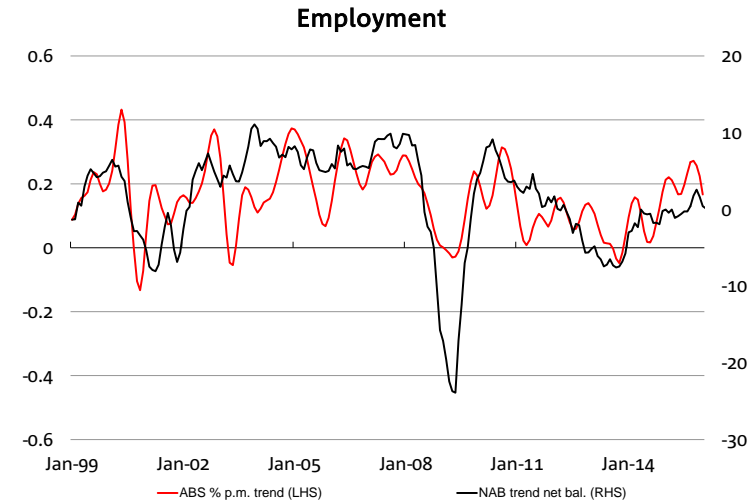
- We are not expecting any acceleration in global growth in 2016 - with another year of growth a touch below 3% (very sub trend). We have modestly cut our 2016 growth numbers to take account of a deeper than expected recession in Brazil. A combination of the winding down of the current phase of market instability – which should limit the scale of the damage caused to household wealth, business appetites for investment and hiring and bank willingness to lend - central bank willingness to support demand , together with lower commodity prices and data that show the world economy is still growing (modestly) underpin our view that we will see downbeat but continuing growth. However there remains the real risk of further periods of market volatility and hence downside risks to our forecasts. To achieve sustainably faster growth would require serious reforms (for which there appears little appetite). In the near term Australian Major Trading Partner growth is likely to remain around 4 ¼%.
- In Australia, the recovery across the non-mining economy remains on track despite elevated risks. Q4 GDP figures revealed an economy running at 3%/y, and our estimates suggest non-mining GDP was growing at near 4%. Meanwhile, business conditions are resilient in the face of an uncertain global backdrop and weak commodity prices, although the divergence between mining and non-mining states is becoming more pronounced. The rotation towards services activity continues, and is supporting the labour market. National income growth however will remain weak as the terms of trade declines and low wages growth will cap household consumption growth. Overall, real GDP forecasts are largely unchanged with a pick up from an average of 2.5% in 2015 to 2.7% in 2016 and 2.9% in 2017, although our newly-extended forecasts imply some loss of momentum in 2018 to 2.5%. The unemployment rate will ease gradually to just above 5½% by end-16 and then remain broadly steady. Domestic conditions suggest the RBA is very much on hold but retains an easing bias amidst elevated global risks. Key focus will be on whether the non-mining sector maintains momentum and the future path of the unemployment rate.
- **Our model of 6-monthly annualised demand growth, using forward orders as a predictor, has continued to suggest stronger growth than the National Accounts.** This divergence can be partly explained by the greater representation of non-mining sectors in the business survey – headline growth in the National Accounts had masked recent improvements in non-mining domestic demand, although some of the momentum has begun to wane. Applying forward orders for February to our model suggests solid domestic demand growth for Q1 2016.
- Similarly, business conditions have over predicted GDP growth, although the gap has begun to close more recently. **Based on robust business conditions in February, our model implies steady (solid) GDP growth for Q1 2015.** Applying business conditions derived from our ‘wholesale leading indicator’ implies somewhat weaker GDP growth, but this index has been more affected by industry specific factors of late (e.g. margin squeeze from AUD depreciation). Consequently, this index may not be providing as useful a signal of the broader economy as was previously the case.



Costs, prices & labour

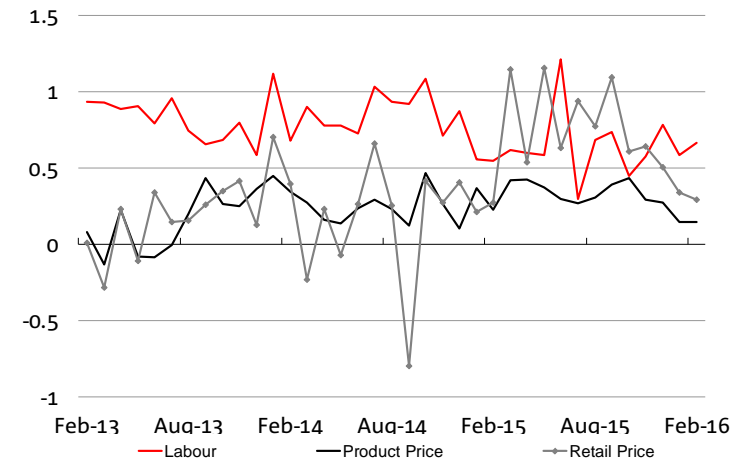
- The NAB Survey's employment index pushed back into positive territory in February (to +1, from -1). Although this still suggests more subdued employment growth than the official ABS statistics, it is certainly a welcome sign. This outcome points to annual job creation of around 180k (15k per month). This compares to a trend increase of 19.8k in January according to the ABS. The rise in employment conditions was particularly pronounced in construction (up 22) and retail (up 16), consistent with better business conditions for both and higher capacity utilisation in construction (utilisation rates actually fell in retail). In contrast, transport & utilities was the only industry to record a deterioration (down 11). In trend terms, the employment index is still very negative for mining (-17 points), followed by wholesale (-8 points) and construction (-3). The strongest employment demand is in finance/ property/ business services (6), followed by transport & utilities (1).
- Labour cost growth (a wage bill measure) accelerated slightly in the month (up 0.1 pts), but still suggest relatively contained wage pressures – at 0.7% (a quarterly rate). Restrained labour cost growth is consistent with the currently improving – albeit elevated – rate of unemployment, subdued inflation expectations, an apparent shift in labour toward lower average income sectors, and a reduction in previously high incomes seen in industries such as mining. Labour cost pressures are highest in finance/ property/ business (1.1%), but still falling in mining (-0.6%).
- Growth in purchase costs eased slightly to 0.4% in February (at a quarterly rate), falling 0.1 pts in the month. This is below the long-run average and towards the lower end of growth rates seen since the GFC. More subdued growth in purchase costs is a little surprising given the pressure from currency depreciation – although subdued inflation pressures have been a common theme globally. Growth in purchase costs decelerated the most in manufacturing and finance/ property/ business (both down 0.6 pts), but rose the most in retail (up 0.4 pts). Purchase cost pressures are now highest in wholesale (1%, quarterly rate) and retail (0.6%, quarterly rate).
- Final product prices growth was broadly unchanged in February at a quarterly rate of just 0.1%. Final prices growth was, however, mixed across industries, with the greatest slow-down occurring in construction (down 0.4 pts), while mining experienced the largest pick up (1 pts higher) – although prices are still falling (down 0.5%, quarterly rate). Prices are flat to rising elsewhere, with price growth highest in wholesale (0.5%). Growth in retail prices (0.3%, quarterly rate) was consistent with a CPI below the RBA's target inflation band.

Employment positive, albeit subdued



Price pressures generally subdued

Costs & prices (% change at a quarterly rate)

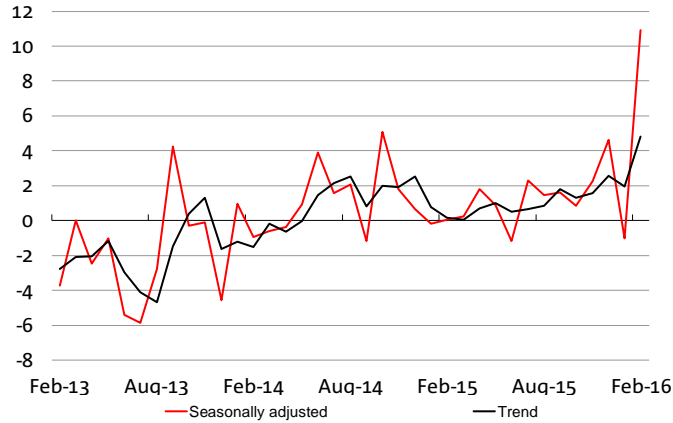


Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.

More details on business activity

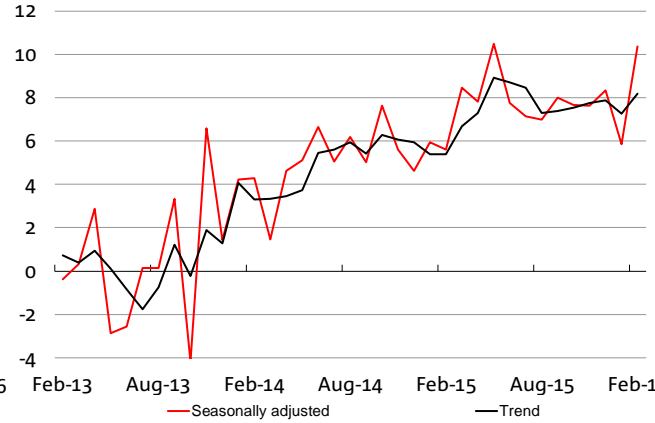
Surprise spike in re-stocking

Stocks (net balance)



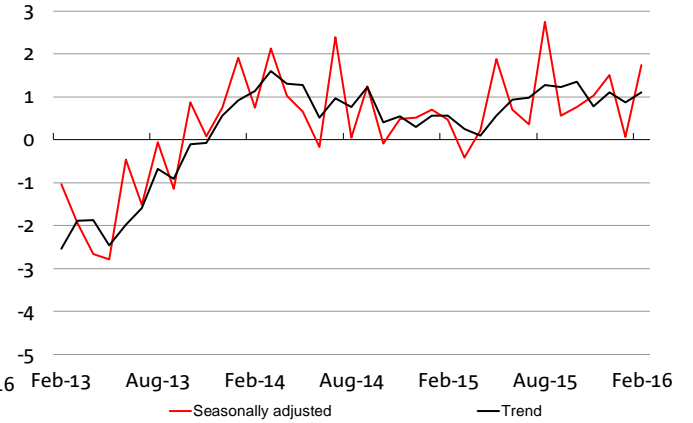
Strong outcome for capex

Capital Expenditure (net balance)



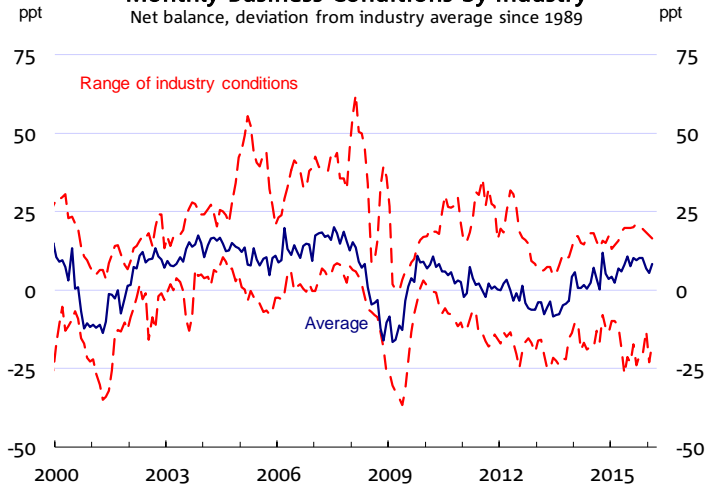
Exports a little better

Exports (net balance)



Range of conditions narrows as mining and wholesale rebound

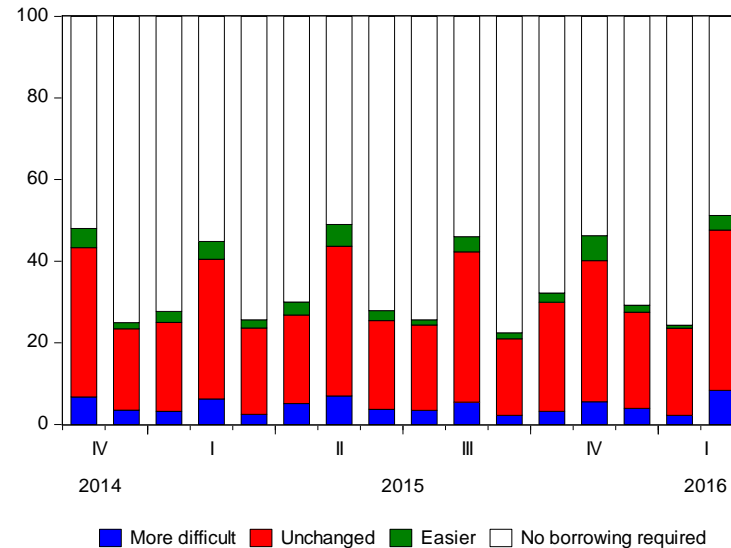
Monthly Business Conditions by Industry
Net balance, deviation from industry average since 1989



Source: NAB

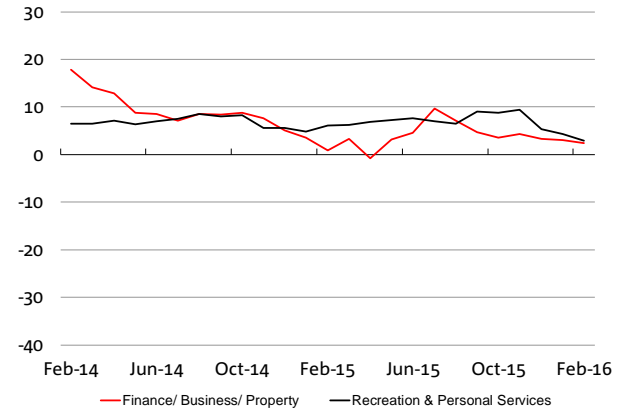
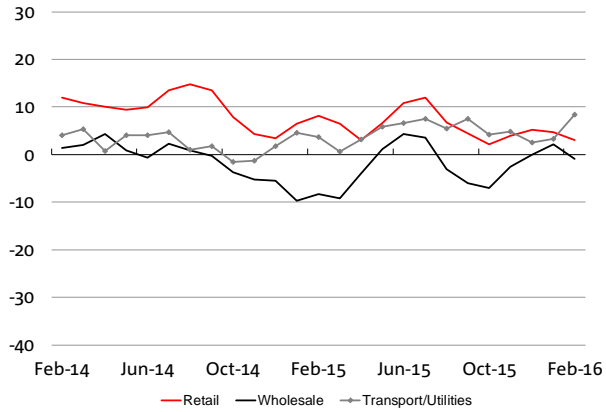
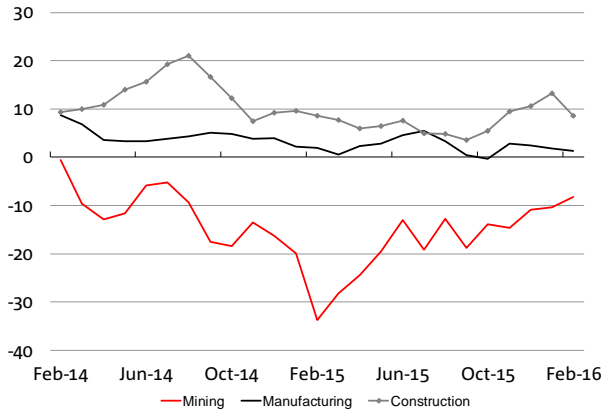
Borrowing conditions deteriorate in past 3 months, although demand for credit rose

Borrowing conditions (% of firms)

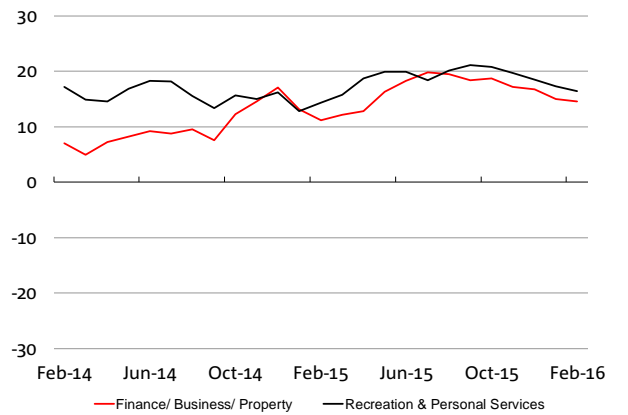
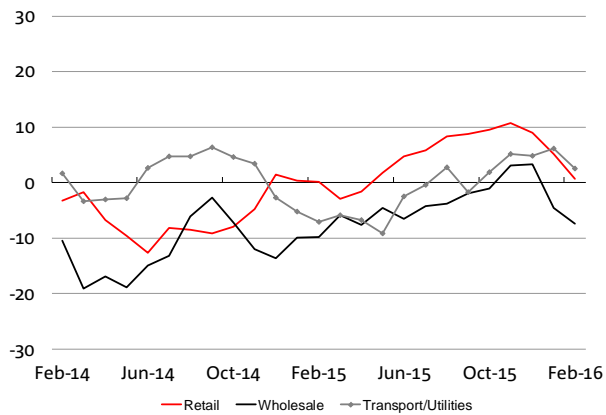
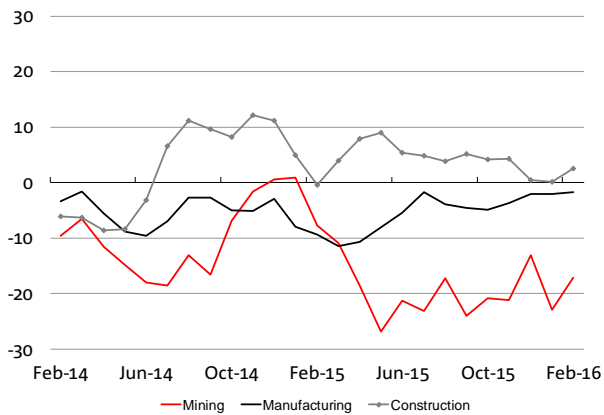


More details on industries

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

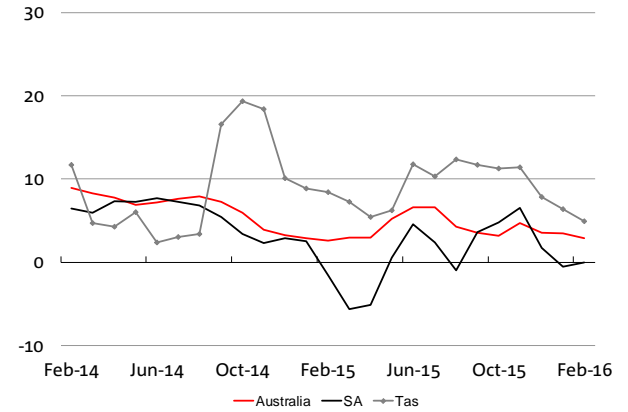
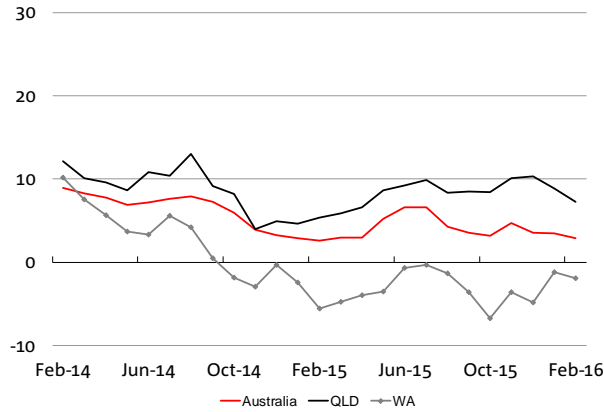
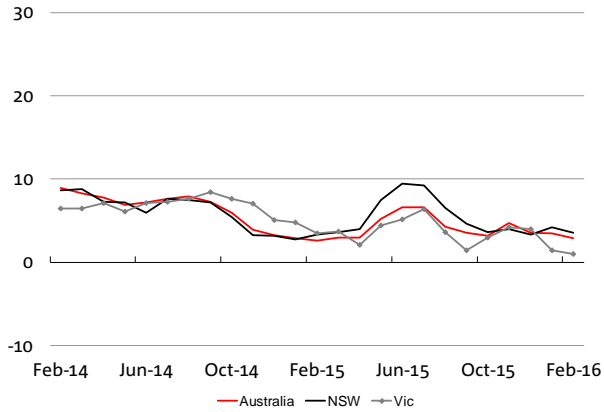


Business conditions by industry (net balance): 3-month moving average

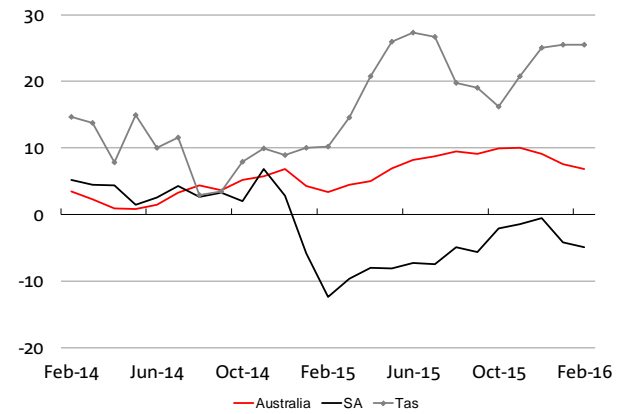
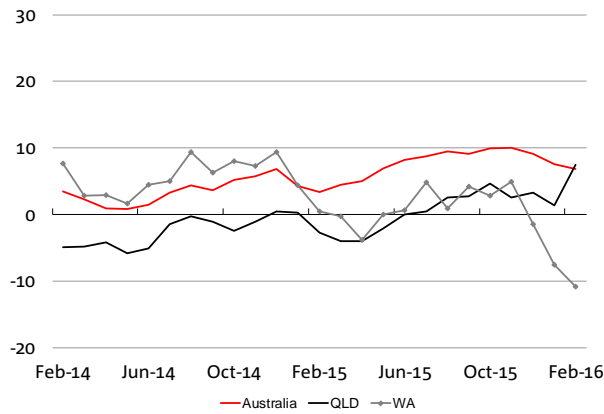
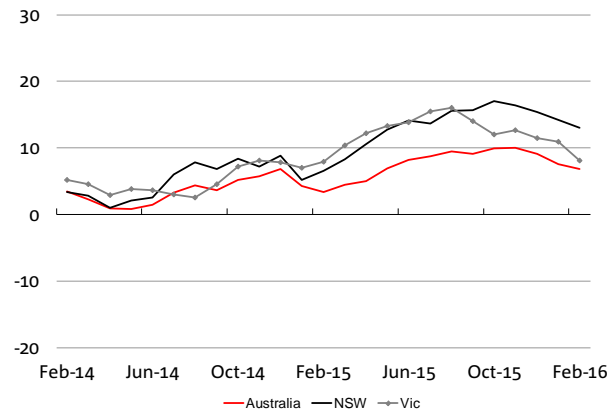


More details on states

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-2016	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-0.6	0.7	0.4	0.3	0.2	0.3	1.0	1.1	0.7
Labour costs: previous	-1.3	0.3	0.9	0.6	0.7	0.9	0.5	0.9	0.6
Labour costs: change	0.7	0.4	-0.5	-0.3	-0.5	-0.6	0.5	0.2	0.1
Prices (final): current	-0.5	0.3	-0.3	0.3	0.5	0.0	0.1	0.1	0.1
Prices (final): previous	-1.5	0.2	0.1	0.3	0.6	0.2	0.4	0.1	0.1
Prices (final): change	1.0	0.1	-0.4	0.0	-0.1	-0.2	-0.3	0.0	0.0
Purchase costs: current	-0.3	0.5	0.0	0.6	1.0	0.3	0.5	0.3	0.4
Purchase costs: previous	0.0	1.1	0.3	0.2	1.4	0.1	0.5	0.9	0.5
Purchase costs: change	-0.3	-0.6	-0.3	0.4	-0.4	0.2	0.0	-0.6	-0.1

Key state business statistics for the month

Feb-2016	Monthly Business Survey Data: By State						
	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	4	3	7	3	-4	11	3
Bus. conf.: previous	4	1	6	-6	1	-2	3
Bus. conf.: change	0	2	1	9	-5	13	0
Bus. conf: current - Trend	4	1	7	0	-2	5	3
Bus. conf: previous Trend	4	1	9	-1	-1	6	3
Bus. conf.: change -Trend	0	0	-2	1	-1	-1	0
Bus. conds: current	15	7	16	-5	-6	24	8
Bus. conds: previous	12	9	3	-12	-22	24	5
Bus. conds: change	3	-2	13	7	16	0	3
Bus. conds: current -Trend	13	8	8	-5	-11	25	7
Bus. conds: previous -Trend	14	11	1	-4	-8	25	8
Bus. conds: change -Trend	-1	-3	7	-1	-3	0	-1

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