

NAB MONTHLY BUSINESS SURVEY

NOVEMBER 2016

NEXT RELEASE:
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Key points:

- The November NAB Monthly Business Survey gave more hints of a moderation in the non-mining economic recovery. **Business conditions slid further in the month, dropping back to long-run average levels for the first time since April 2015** – largely driven by profitability and trading conditions (sales), as employment conditions were steady at already subdued levels. However, in spite of the declining trend in business conditions, **business confidence has remained relatively resilient**, tracking broadly sideways in recent times and showing a modest improvement in November. For the month of November, **the business conditions index dropped 2 points, to +5 index points**, which is in line with the series long-run average. **The retail industry continues to be a major drag on conditions**, despite signs of improved retail sales recently, and now has the equal worst business conditions (along with mining). Inflation measures in the Survey remained subdued, with retail price growth remaining flat – despite notable increases in upstream retail costs.
- In the context of numerous global uncertainties and weakening business conditions, the resilience of business confidence has been encouraging. With that said, it is not clear what effect (if any) the recent US election result has had on confidence. **The business confidence index rose 1 point, to +5 index points in November** – although this is slightly below the series long-run average (+6). But while confidence has been relatively resilient, it is not at levels conducive of higher levels of investment activity – confirmed by disappointingly soft investment intentions in the recent ABS Capex Survey. Nonetheless, the capex measure in the NAB Business Survey remained positive this month, consistent with an increase in capacity utilisation rates, although forward orders remained soft.
- We are becoming increasingly concerned about the underlying momentum in the economy as evidence mounts that the non-mining economy is losing steam. The downward trend in business conditions and signs of weakness in the Q3 National Accounts – beyond one-off influences such as poor weather – lend further support to this view. For now though, we expect to see a fair degree of ‘bounce-back’ next quarter, before the economy resumes its relatively subdued growth track, characterised by muted domestic demand. This view of the near-term outlook is significantly weaker than the RBA’s. Both the housing construction cycle and commodity exports are expected to peak in the relative near-term, compounding the challenge to growth further out. Meanwhile, the rally in commodity prices is expected to be short-lived, and is unlikely to translate into higher investment or wages at this point in the commodity cycle. **Two more 25bp rate cuts are still expected from the RBA next year in response to ongoing low inflation and a more subdued growth outlook.** NAB’s latest economic forecasts will be available Thursday.

Table 1: Key monthly business statistics

	Sep 2016	Oct 2016	Nov 2016		Sep 2016	Oct 2016	Nov 2016
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	6	4	5	Employment	1	1	1
Business conditions	8	7	5	Forward orders	9	0	0
Trading	16	11	10	Stocks	3	1	2
Profitability	8	7	5	Exports	2	2	1
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.8	0.9	0.7	Retail prices	0.3	-0.2	0.0
Purchase costs	0.4	0.3	0.5		<i>Per cent</i>		
Final products prices	0.3	0.2	0.3	Capacity utilisation rate	80.7	80.7	81.3

* 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 21 Nov to 29 Nov, covering over 510 firms across the non-farm business sector.

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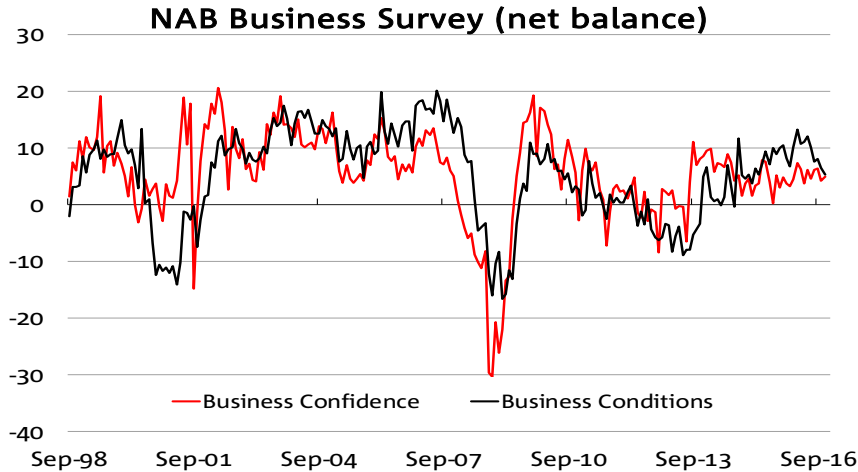
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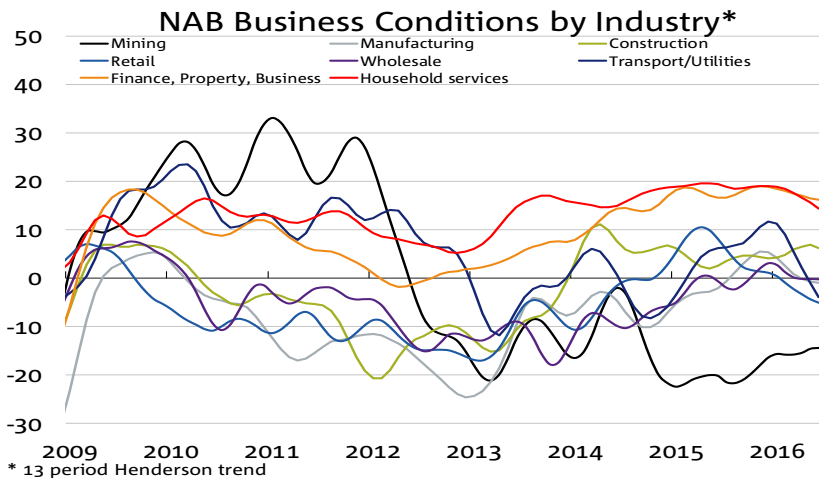
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CHARTS OF THE MONTH

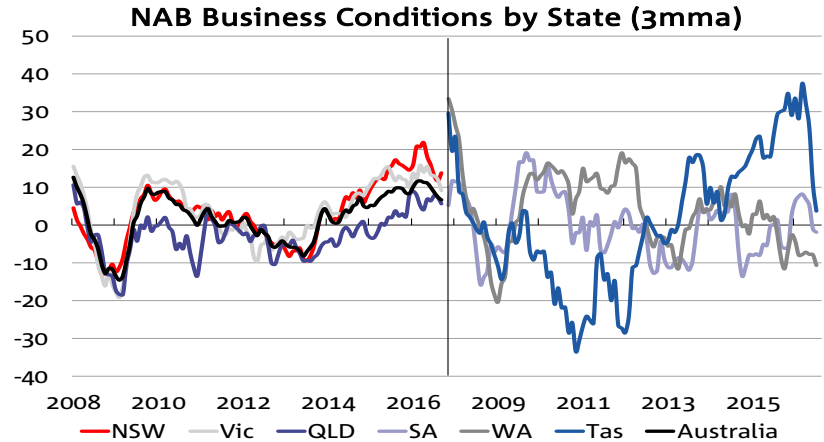
BUSINESS CONDITIONS CONTINUING TO WEAKEN. BUSINESS CONFIDENCE REMAINS SOMEWHAT RESILIENT



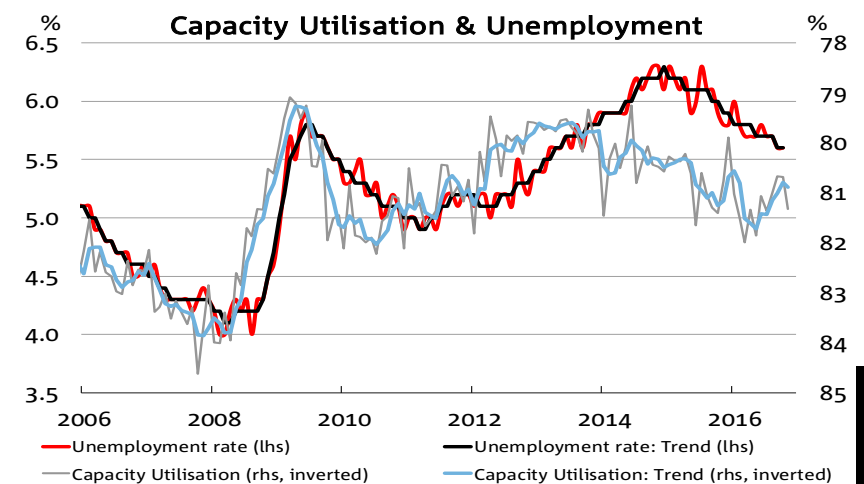
SERVICES STILL THE BEST OUTPERFORMERS, BUT EASING. RETAIL AND TRANSPORT ARE DISAPPOINTING



WA IS WEAK AND DROPPING FURTHER. MOST OTHER STATES ALSO SHOW A SOFTER TREND



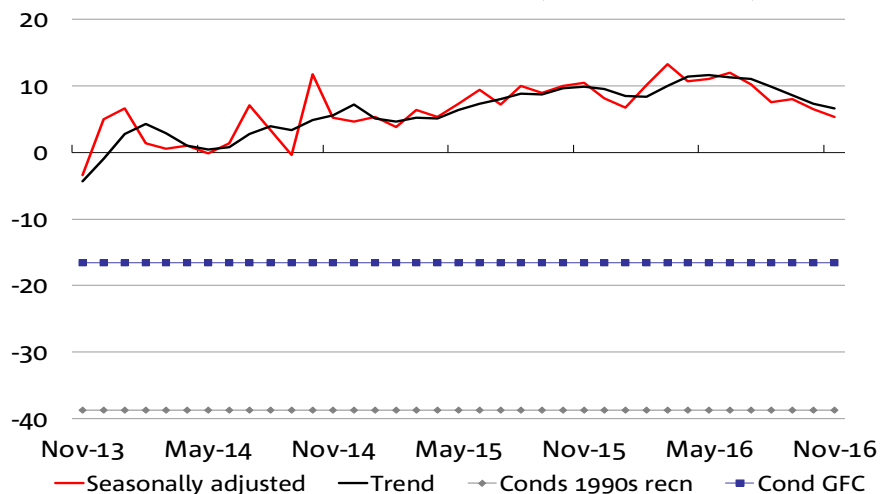
CAPACITY UTILISATION AND THE LABOUR MARKET



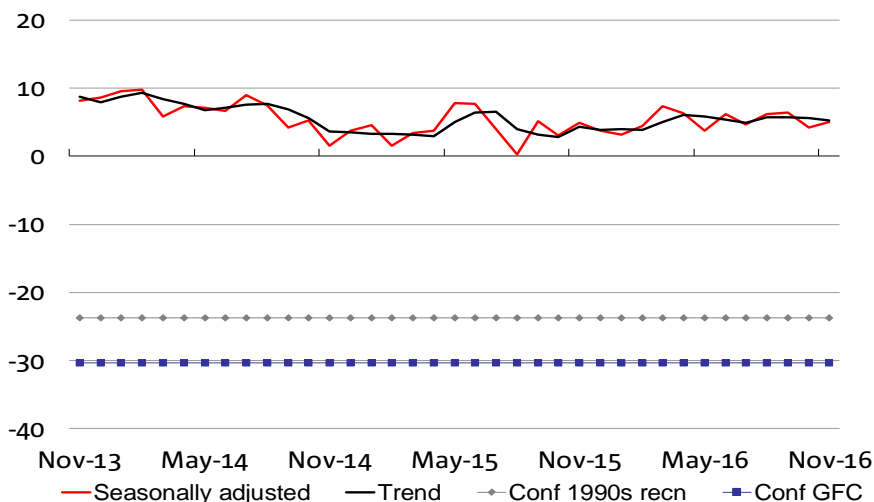
BUSINESS CONDITIONS AND FORWARD INDICATORS

Conditions at their lowest in over 1½ years. Near-term outlook subdued

Business Conditions (net balance)



Business Confidence (net balance)

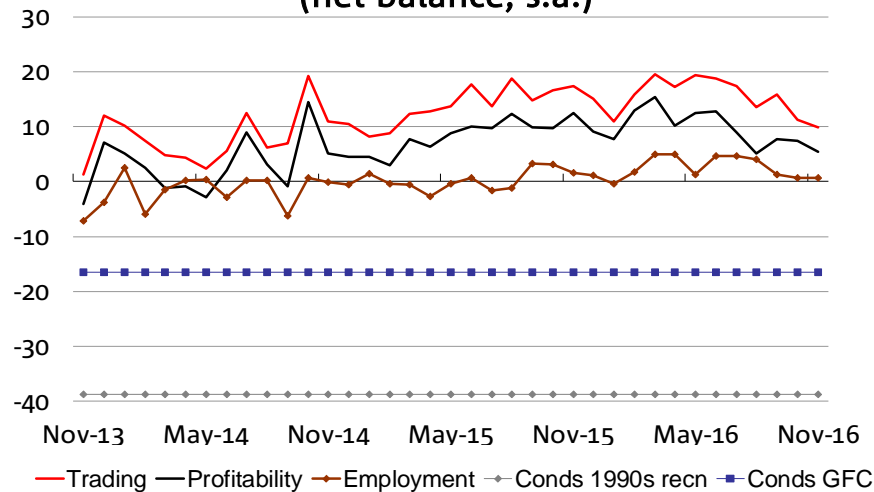


- Business conditions have steadily eased in recent months, back to the long-run average level – the lowest outcome since April 2015. While this is not a bad result, the trend is raising concerns about the direction of the non-mining recovery in the near-term. The business conditions index fell by 2 points in November, to +5, which is equal to the long-run average. By component, both trading conditions and profitability declined in November, although both remain relatively positive (see chart on p4). Employment conditions were unchanged at subdued levels. Outcomes across industries were quite mixed, although retail was a significant drag in the month and has fallen to very low levels (equal lowest with mining). Transport has also performed poorly. Mining improved the most in the month, but remains weak, while service industries are the best performers – industry details on p7.
- Business confidence meanwhile picked up modestly in the month and has remained reasonably steady for some time. The response following the US election seems relatively muted, although given the context of weakening business conditions, the true impact is difficult to gauge. The confidence index rose 1 point to +5 index points in November – a little below the long-run average (+6). By industry, confidence is positive across all groups in trend terms – see p7 for details.
- By state, business conditions fell appreciably in WA (down 9 points), followed by Queensland. In contrast, NSW conditions jumped 5 points. In trend terms, conditions continue to look solid in all three of the major eastern states – although NSW has exhibited a clear downward trend and Victoria has started to moderate as well. Nevertheless, NSW is again the strongest state in trend terms, having fallen behind Victoria in recent months. WA remains the weakest by a significant margin. In terms of confidence, SA is currently best in trend terms – see p8 for details.
- The near-term outlook continued to look subdued in this month's Survey. The forward orders index was unchanged at 0 index points (consistent with the long-run average), which suggests fairly moderate near-term prospects for activity (see p4). A deterioration in retail, wholesale and personal services were offset elsewhere, with manufacturing seeing the most improvement.
- Despite some of the signs of weakness, including lower trading conditions, NAB's measure of capacity utilisation rebounded a little this month, unwinding nearly half of its recent declines (rising to 81.3%, from 80.7%). At the same time, the Survey's capex measure was steady in the month at positive levels (+7), and is more upbeat than other investment outlook indicators, albeit at lower levels than in previous months (see chart on p4). Utilisation rates are below long-term averages for more than half of the major industry groups (Chart on p4) – industry detail on p6.
- Cash flow (not seasonally adjusted) is looking solid, and was the strongest in recreational services, but weakest in mining.

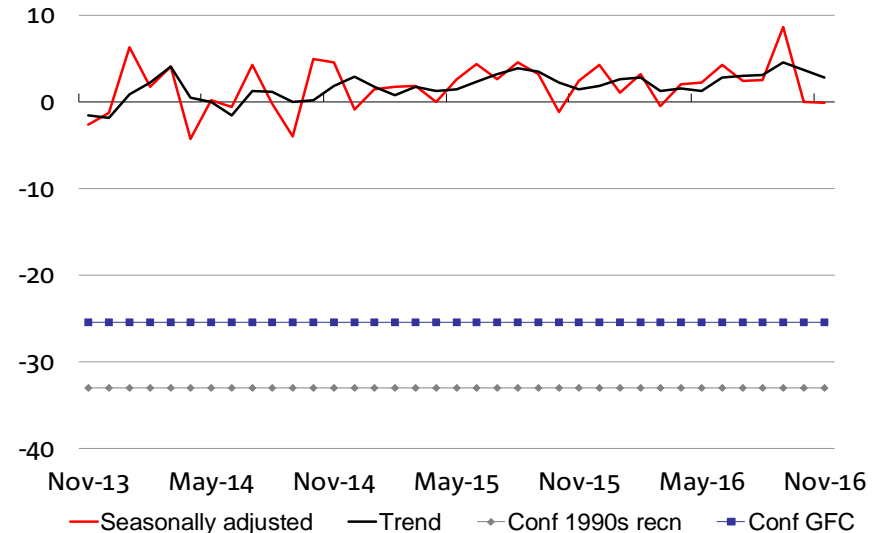
BUSINESS CONDITIONS AND FORWARD INDICATORS (CONT.)

Components of business conditions & leading indicators

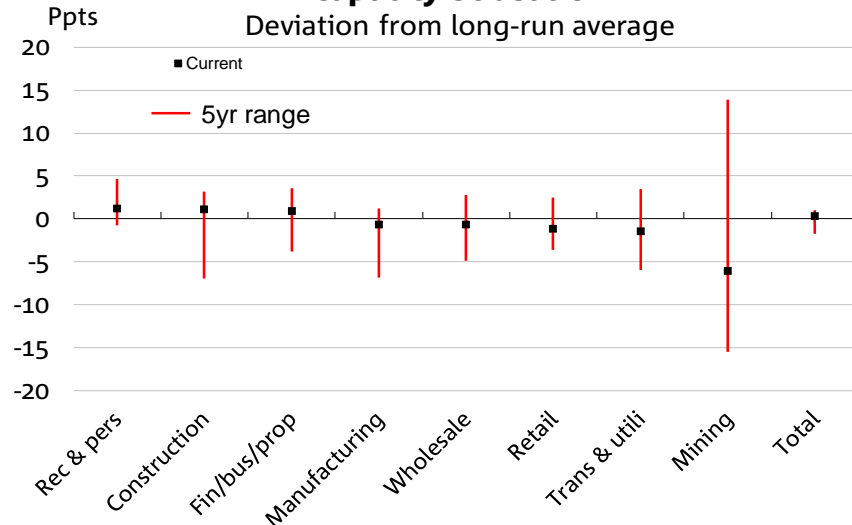
All components of business conditions
(net balance, s.a.)



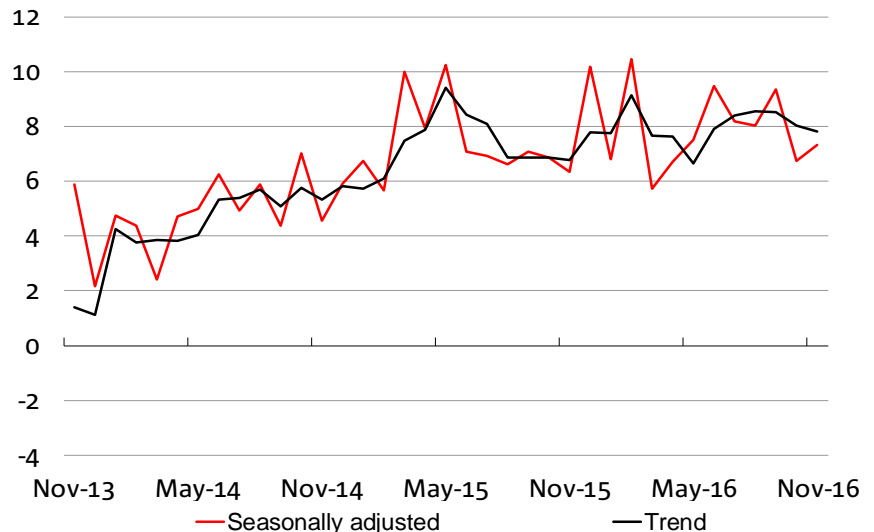
Forward Orders (net balance)



Capacity Utilisation

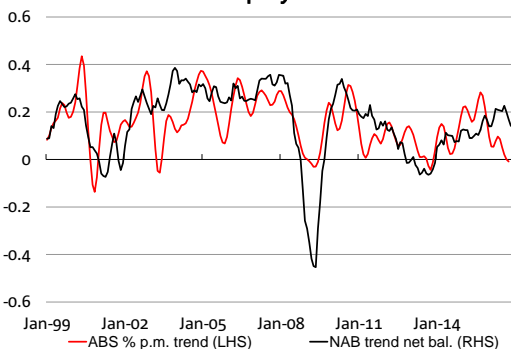


Capital Expenditure (net balance)

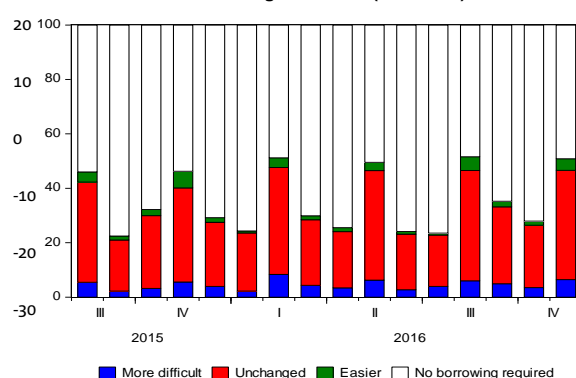


LABOUR, COSTS, PRICES & BORROWING CONDITIONS

Employment



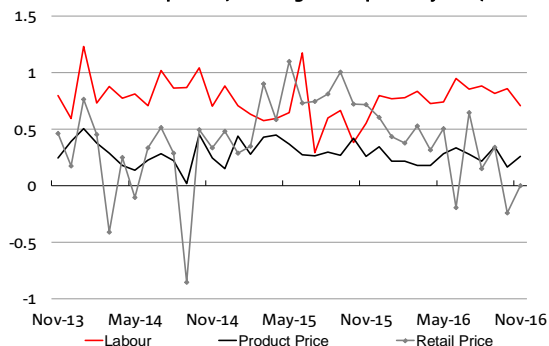
Borrowing conditions (% of firms)



PRICES & COSTS BY INDUSTRY (% CHANGE AT A QUARTERLY RATE)

Nov-2016	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-0.1	0.7	1.2	0.8	0.2	0.1	0.8	0.8	0.7
Labour costs: previous	1.0	0.7	1.6	0.3	0.4	1.3	1.1	1.0	0.9
Labour costs: change	-1.1	0.0	-0.4	0.5	-0.2	-1.2	-0.3	-0.2	-0.2
Prices (final): current	2.2	0.3	0.2	0.0	0.6	0.0	0.4	0.0	0.3
Prices (final): previous	-0.5	0.5	0.5	-0.2	0.9	0.3	0.2	-0.4	0.2
Prices (final): change	2.7	-0.2	-0.3	0.2	-0.3	-0.3	0.2	0.4	0.1
Purchase costs: current	-0.2	0.6	0.5	0.6	0.6	0.4	0.7	0.2	0.5
Purchase costs: previous	-1.4	0.8	0.2	-0.2	0.4	0.3	0.4	0.2	0.3
Purchase costs: change	1.2	-0.2	0.3	0.8	0.2	0.1	0.3	0.0	0.2

Costs & prices (% change at a quarterly rate)



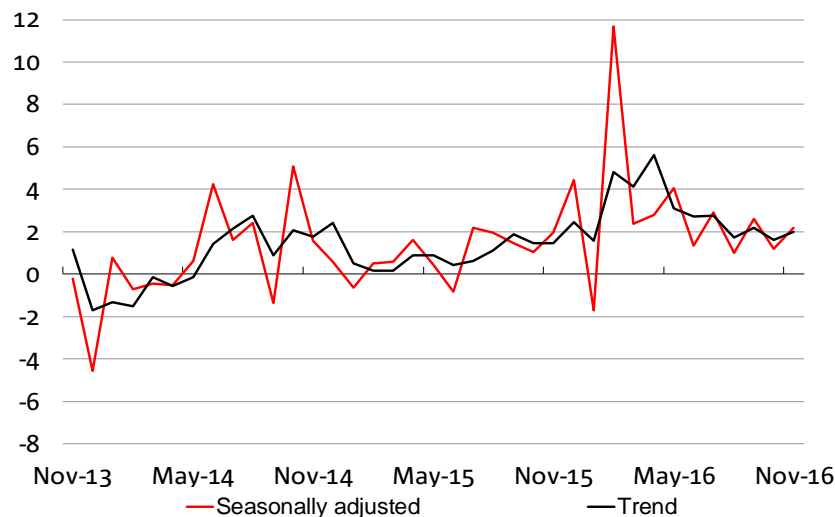
- Employment conditions were steady at relatively subdued levels in November, albeit pointing to better labour market outcomes than recent employment data from the ABS. The employment index remained at +1 index points, which is in line with the long-run average for the series. This outcome points to an annual job creation rate of around 180k (around 15k per month) in coming months, which is only sufficient to steady the unemployment rate, with all else unchanged – trend employment growth fell 1.7k in October according to the ABS.
- Most industries actually saw an increase in employment conditions last month, but that was offset by declines in personal and professional services (both down 5 points). Of the rest, mining improved the most (up 15), followed by manufacturing (up 9). Despite the improvement, mining employment conditions remain the worst in trend terms (-19), with transport being the next weakest (-8). Manufacturing (-5), construction (-4) and wholesale (-3) are all negative as well. In contrast, the strongest employment demand (trend) was in FPB services (+11).
- Labour cost growth (a wage bill measure) eased slightly in the month and shows that wage pressures remain relatively contained at 0.7% (a quarterly rate). Labour cost pressures were highest in construction (at 1.2%), but were weakest in mining, which showed a modest decline – despite the recent strength in commodity prices. Retail labour costs picked up in the month (to 0.8%), contributing to pressures on retail margins
- Growth in purchase costs were also up slightly in the month, to 0.5% (at a quarterly rate, from 0.3%). This outcome was still below the long-run average, suggesting recent commodity price rises are not yet having much effect. Subdued inflation pressures have been a common theme globally and the magnitude of currency effects on prices has been much more muted than expected in Australia. Growth in purchase costs accelerated the most in mining (up 1.2 ppts), followed by retail (up 0.8 ppts), while manufacturing was the only industry to see a deceleration, down 0.2 ppts. Overall, purchase cost pressures were highest in personal services (0.7%, quarterly rate), but softest in mining (-0.2%).
- Final product prices growth in September rose to 0.3% (a quarterly rate, from 0.2%). Retail price growth remains quite weak (0%), which is well below the lower bound of the RBA's inflation target. Construction, wholesale and transport (all down 0.3 ppts) each saw the largest deceleration in final prices growth. In contrast, mining (up 2.7 ppts) had the biggest acceleration, consistent with higher commodity prices. Retail, transport and professional services prices were all flat this month, while mining prices grew the most (2.2%). Final prices inflation has generally not kept pace with the rise in input costs.
- Borrowing conditions appear to have deteriorated from 3 months prior, while the demand for credit has fallen as well.



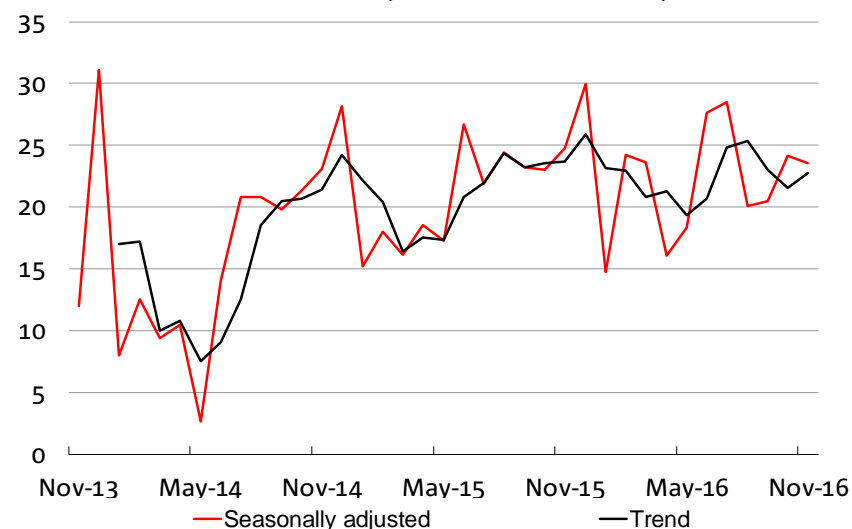
MORE DETAILS ON BUSINESS ACTIVITY

Firms reluctant to restock. Exports weaker. Cash flows holding up.

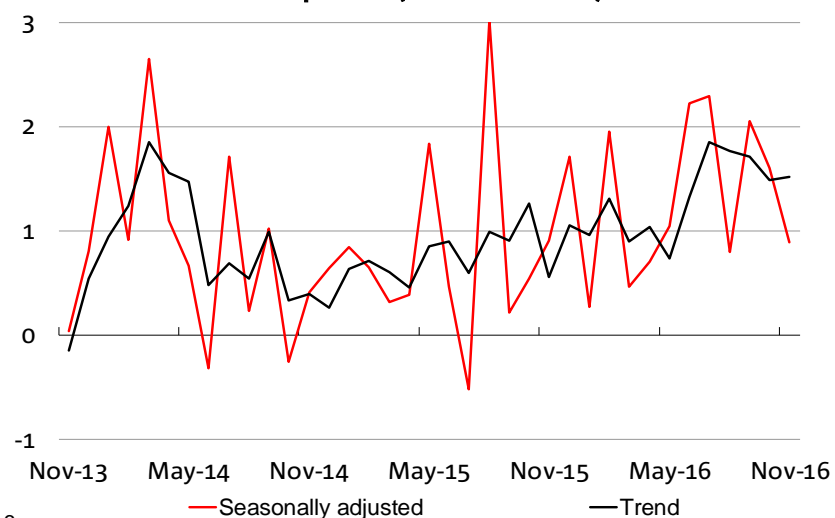
Stocks (net balance)



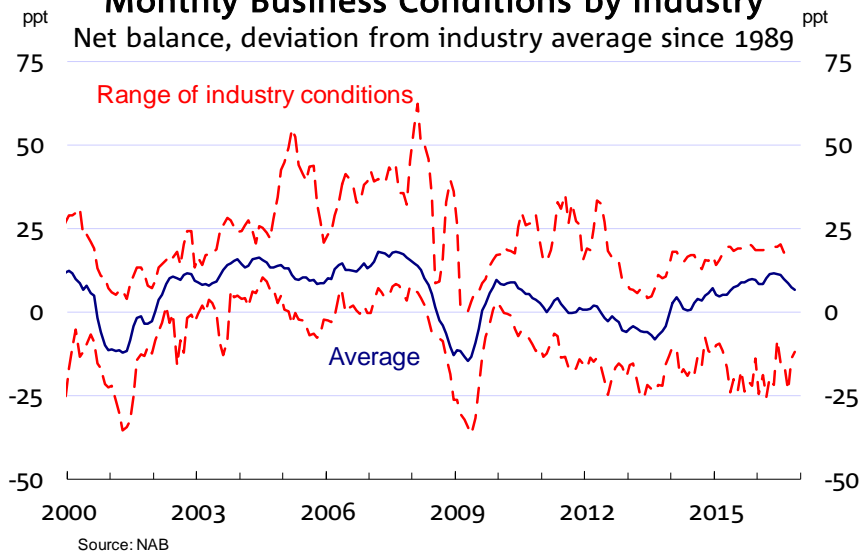
Cash Flows (net balance, nsa)



Exports (net balance)



Monthly Business Conditions by Industry

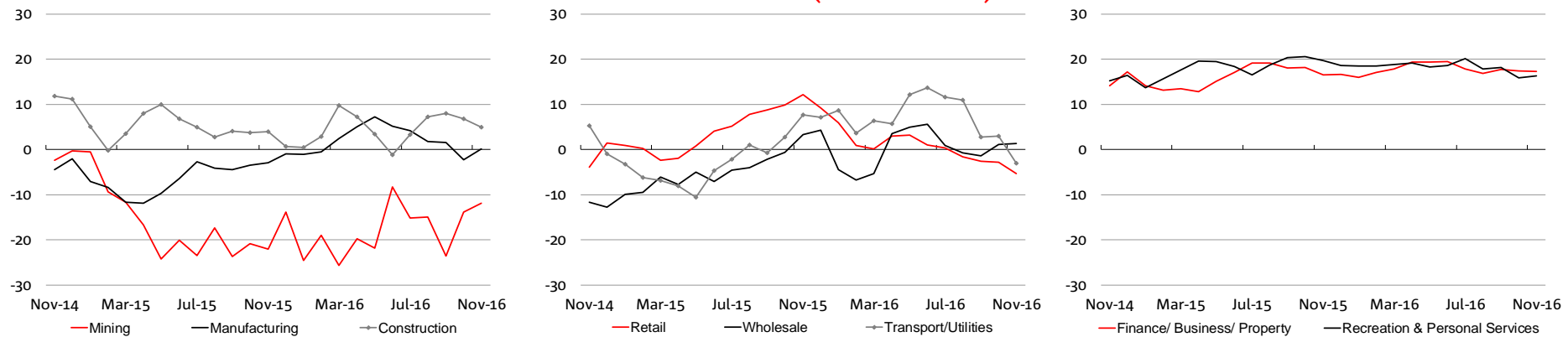


INDUSTRY BUSINESS CONDITIONS & CONFIDENCE

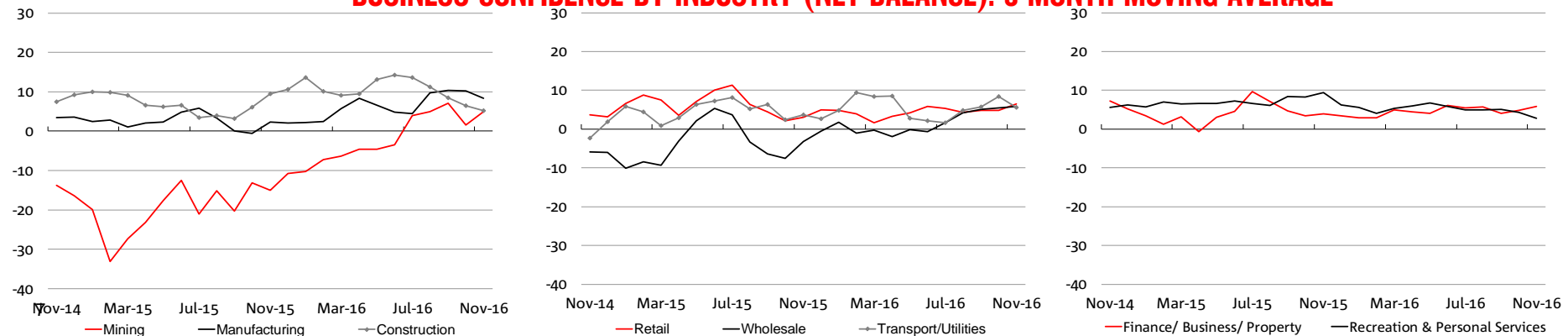
Confidence is positive for all industries, but concerning trend in retail conditions

- The deterioration in **business conditions** this month was most pronounced in retail (down 10) and transport & utilities (down 9), while recreation & personal services was the only other industry to fall (down 3). In contrast, mining (up 13) and manufacturing (up 9) were the most improved industries – although conditions in mining remain quite subdued overall. In trend terms (3mma), conditions are still highest in finance/ property/ business (FPB) (+17) and recreation & personal services (+16), but lowest in mining (-12) and retail (-5). The largest rise in **business confidence** came from mining (up 9), while transport (down 12) saw the biggest improvement – coinciding with the recent OPEC agreements. In trend terms, all industries are reporting positive confidence levels, but manufacturing (+8) was the most confident, while personal services is weakest (at +3).
- A majority of industries reported better **forward orders** in the month, but that was offset by a deterioration in the key industries of personal services (down 5), retail (down 3) and wholesale (down 3). In contrast, the biggest improvement was seen in manufacturing (up 10). In trend terms, orders are positive for most industries excluding retail (-2) and mining and personal services (both 0). Manufacturing orders (trend) were highest at +10. **Capacity utilisation** improved across industries, although retail (down 1.1 pts) saw a particularly large contraction. Construction jumped (up 4.3%), which might reflect an improvement in weather conditions. Capacity utilisation in personal services is currently highest above 5-year average levels (slide 3). Consequently, personal services also had the highest **capex** index (+15) in trend terms. Construction is lowest (-2).

BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE): 3-MONTH MOVING AVERAGE



BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE): 3-MONTH MOVING AVERAGE

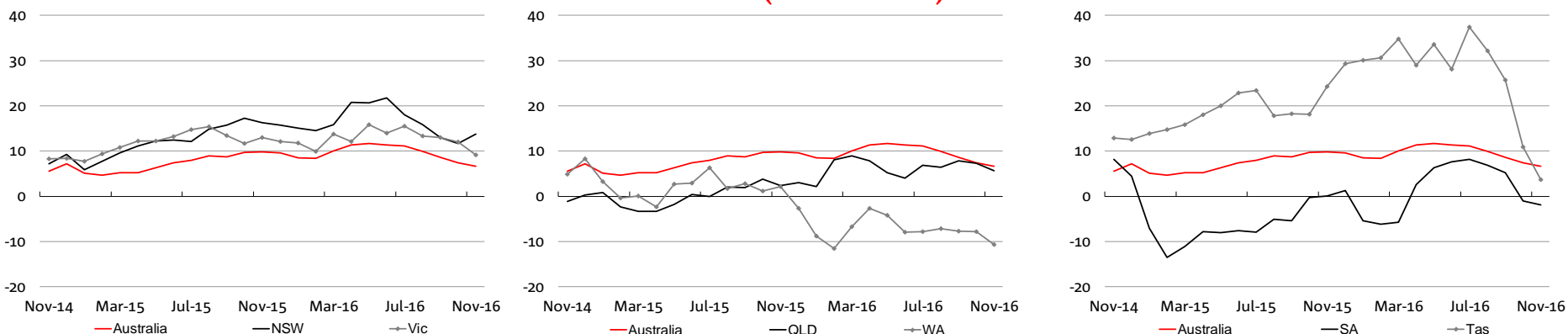


STATE BUSINESS CONDITIONS & CONFIDENCE

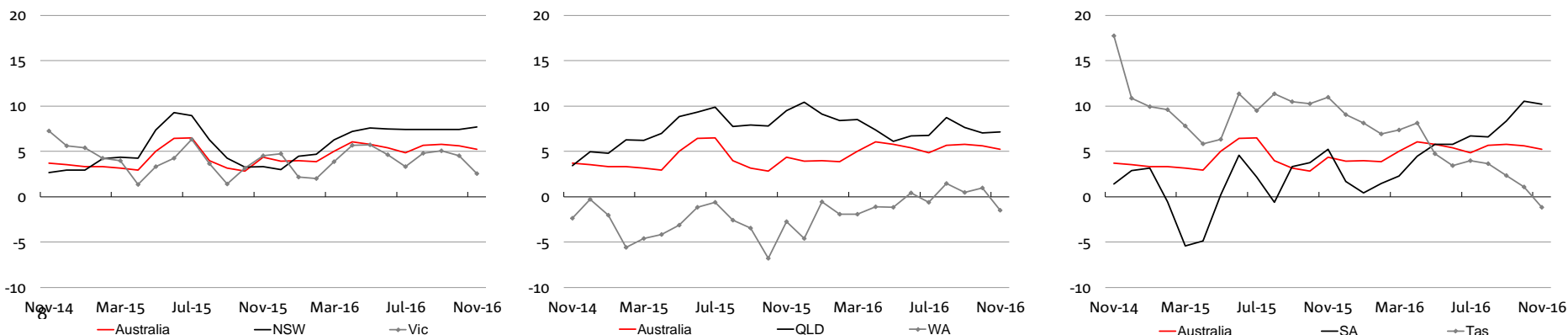
NSW a little better, but still watching trend. WA looking very weak

- In trend terms, **business conditions** are now well off their recent peaks in most states. NSW saw a solid improvement in the month, lifting the trend 2 point to +14, but this is well down on the highs of the past year – a concerning trend given the importance of NSW in the non-mining economic recovery. Nevertheless, NSW is now back in top place, followed by Victoria (down 3 to +9 index points). WA business conditions are especially low and appear to be deteriorating, down 3 to -11 index points (trend). SA is also reporting negative trend business conditions (-2), despite seeing a big improvement in the monthly index.
- On **business confidence**, most states other than NSW (up 1) were flat-to-lower in trend terms. Vic, WA & Tasmania all eased by 2 point, while SA was down 1 point and QLD was flat. SA is still most confident (+10 in trend terms), followed by NSW (+8) and QLD (+7), while WA is still least confident (-1 index points).
- Employment conditions** (trend) are positive in most states, with WA and SA (-6 and -3 respectively) the exception. Nevertheless, other than NSW (up 1), SA was the only other state to see a trend improvement in the month (up 3). The worst deterioration for a mainland state was in Qld (down 4). NSW has eased from its recent peak of +11 (to +4), while Victoria has softened somewhat of late (from +6 in September, to +3).

BUSINESS CONDITIONS BY STATE (NET BALANCE): 3-MONTH MOVING AVERAGE



BUSINESS CONFIDENCE BY STATE (NET BALANCE): 3-MONTH MOVING AVERAGE



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