

# NAB MONTHLY BUSINESS SURVEY

## DECEMBER 2016

NEXT RELEASE:  
9 FEB 2017 – DECEMBER QUARTERLY  
14 FEB 2017 – JANUARY MONTHLY



### Key points:

- The NAB Monthly Business Survey for December indicates a reprieve from the steady moderation in business conditions seen late last year. While encouraging, a closer look at the details raises some doubts over the sustainability of any rebound. The **business conditions index jumped by a solid 5 points in December, to +11 index points**, which is close to the highs of mid-2016. Once again, movements in business conditions were largely driven by trading conditions and profitability (both of which saw large gains), while the index of employment conditions remained unchanged at relatively subdued levels. By industry, **retail continued to disappoint with the weakest level of business conditions**, followed by mining. In contrast, **wholesale drove much of the improvement in business conditions this month**, which is a surprising result given much more subdued conditions in related industries such as manufacturing and retail – and might suggest that we can expect a degree of payback next month. That said, particular strength in Victoria is consistent with other signs of improvement in the economy. **Inflation measures** in the Survey were generally subdued, consistent with CPI outcomes, but retail price growth lifted.
- Business confidence** has held up quite well and is remarkably steady given the context of major uncertainties both at home and abroad. That said, the level of confidence has not picked up to reflect the overall strength in business conditions seen over the past year or more. Business confidence was **unchanged at +6 index points in December**, consistent with the series long-run average. In order to see the sort of lift in non-mining investment the economy needs, however, confidence will have to break above these levels. That said, the capex measure in the Survey remains positive, despite losing some ground. Capacity utilisation also fell, but forward orders strengthened.
- A spike in business conditions could point to a stronger outlook, but we remain cautious given that some aspects of the Survey suggest the rebound might prove to be temporary. **Weakness in retail conditions is particularly concerning** given the importance of household consumption to the economic outlook. In addition, we are **not seeing any real signs in the Survey of a convincing recovery in non-mining investment** – crucial to both near-term and longer-term growth prospects (although the drag from the mining sector should soon ease). While some ‘bounce-back’ from the weather affected Q3 GDP can be expected, a return to a subdued growth track thereafter still seems likely as the positive effects from the housing construction cycle, commodity exports, and (temporarily) higher commodity prices wash out. **Two more 25bp rate cuts are still expected from the RBA this year in response to ongoing low inflation and a more subdued growth outlook.**

Table 1: Key monthly business statistics

|                       | Oct<br>2016                       | Nov<br>2016 | Dec<br>2016 |                           | Oct<br>2016                       | Nov<br>2016 | Dec<br>2016 |
|-----------------------|-----------------------------------|-------------|-------------|---------------------------|-----------------------------------|-------------|-------------|
|                       | <i>Net balance</i>                |             |             |                           | <i>Net balance</i>                |             |             |
| Business confidence   | 5                                 | 6           | 6           | Employment                | 1                                 | 1           | 1           |
| Business conditions   | 7                                 | 6           | 11          | Forward orders            | 1                                 | 0           | 5           |
| Trading               | 11                                | 10          | 20          | Stocks                    | 1                                 | 2           | -2          |
| Profitability         | 8                                 | 6           | 14          | Exports                   | 2                                 | 1           | 1           |
|                       | <i>% change at quarterly rate</i> |             |             |                           | <i>% change at quarterly rate</i> |             |             |
| Labour costs          | 0.9                               | 0.7         | 0.6         | Retail prices             | -0.3                              | 0.0         | 0.3         |
| Purchase costs        | 0.3                               | 0.5         | 0.4         |                           | <i>Per cent</i>                   |             |             |
| Final products prices | 0.2                               | 0.3         | 0.2         | Capacity utilisation rate | 80.7                              | 81.3        | 80.8        |

\* 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 10 Jan to 16 Jan, covering nearly 400 firms across the non-farm business sector.

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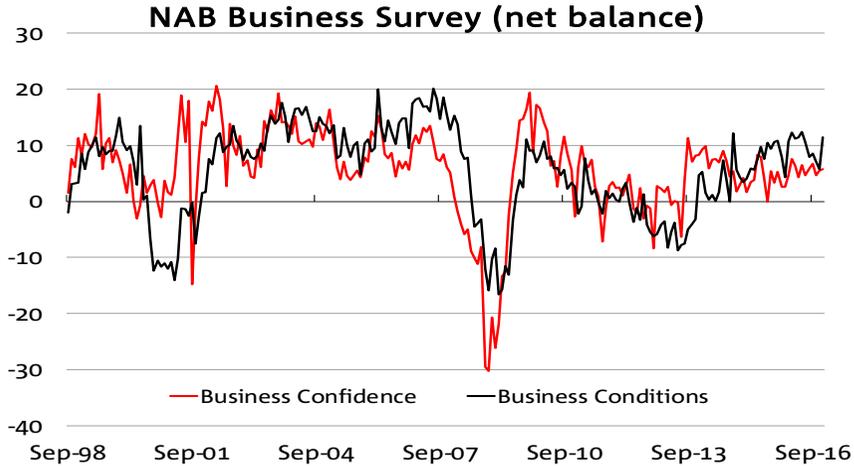
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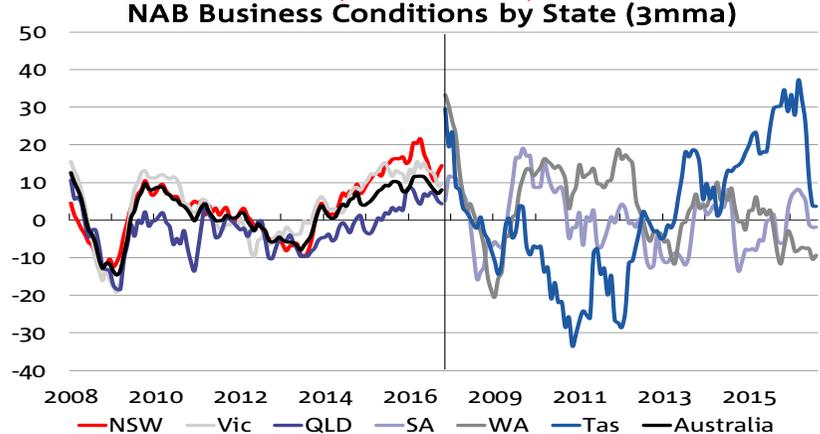
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# KEY MONTHLY CHARTS

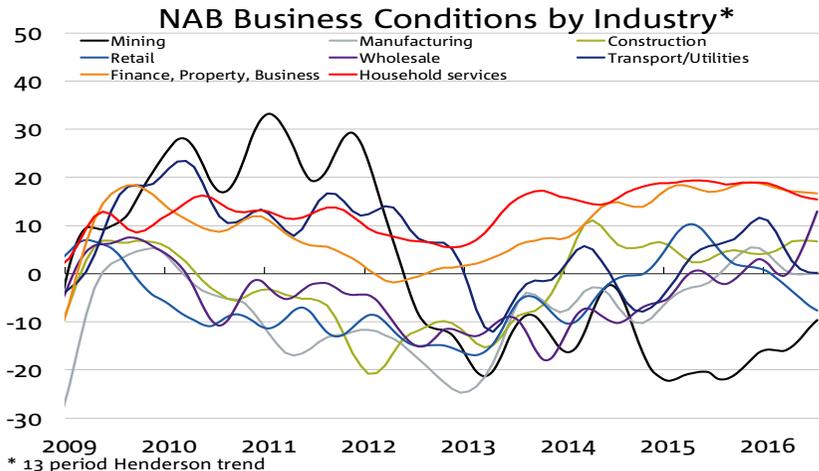
**BUSINESS CONDITIONS BOUNCE, BUT MAY NOT LAST. CONFIDENCE IS STEADY, BUT NEED TO LIFT FURTHER**



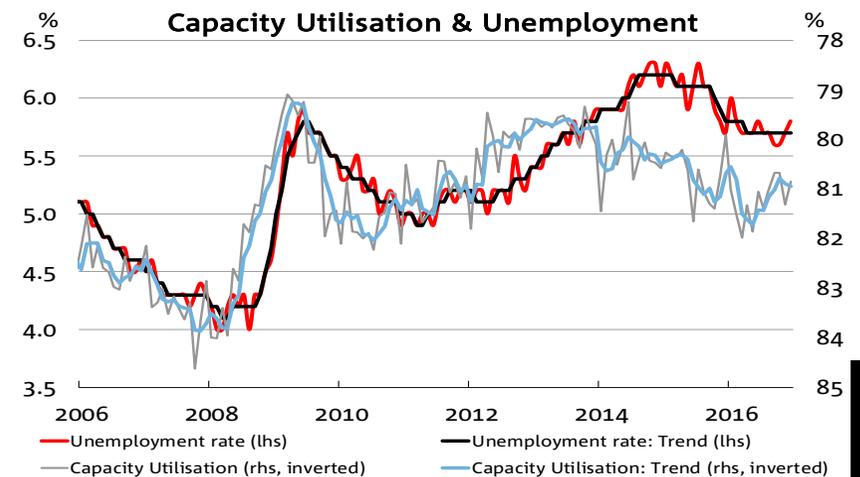
**CONDITIONS IN WA REMAIN WEAK. MOST OTHER STATES ALSO SHOW A SOFT TREND (EXCEPT NSW)**



**SERVICES STILL THE OUTPERFORMERS, BUT TREND EASING. WHOLESALE SURPRISINGLY STRONG. RETAIL DISAPPOINTING**



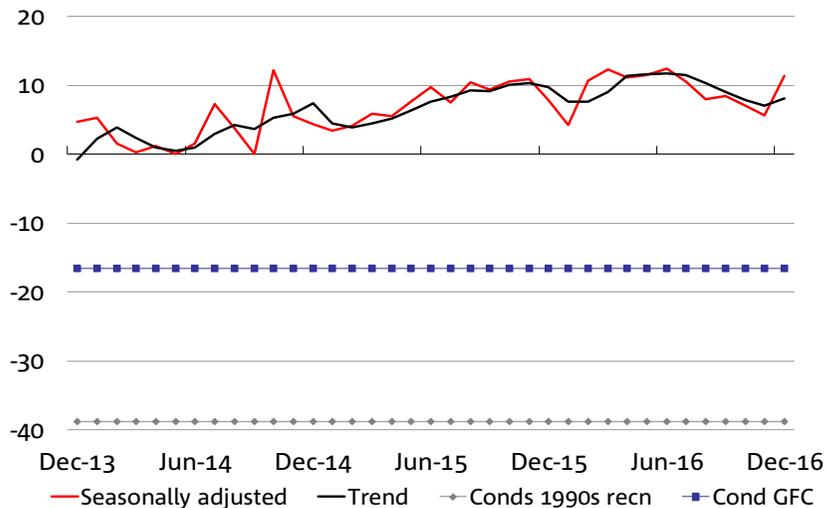
**BOTH CAPACITY UTILISATION AND UNEMPLOYMENT INDICATE A DEGREE OF SLACK REMAINS**



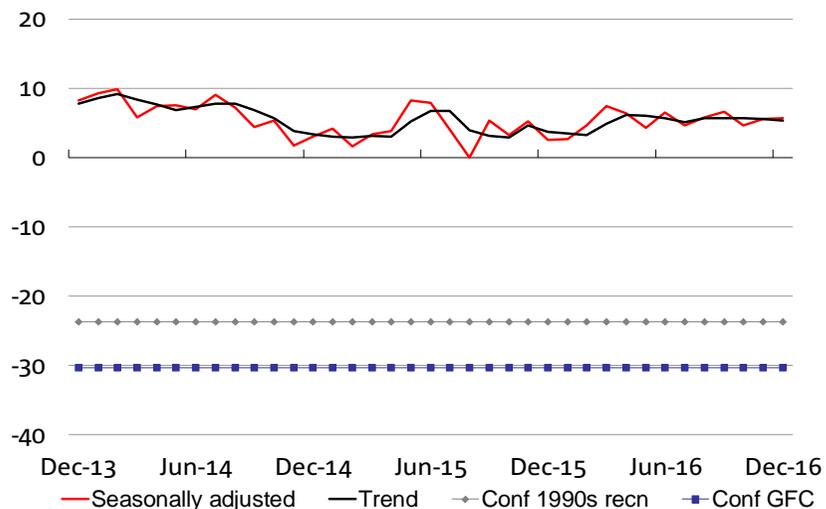
# BUSINESS CONDITIONS AND FORWARD INDICATORS

*Conditions rebounded, but will it last? Near-term outlook improved as well*

**Business Conditions (net balance)**



**Business Confidence (net balance)**

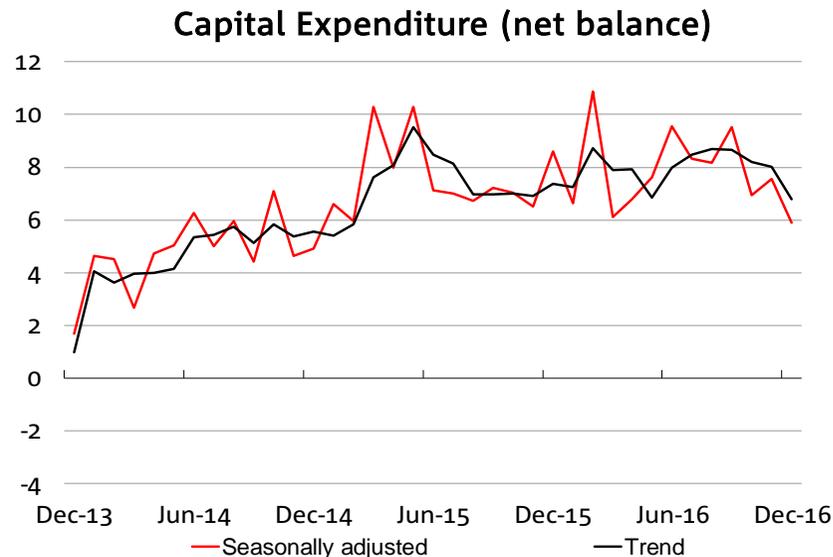
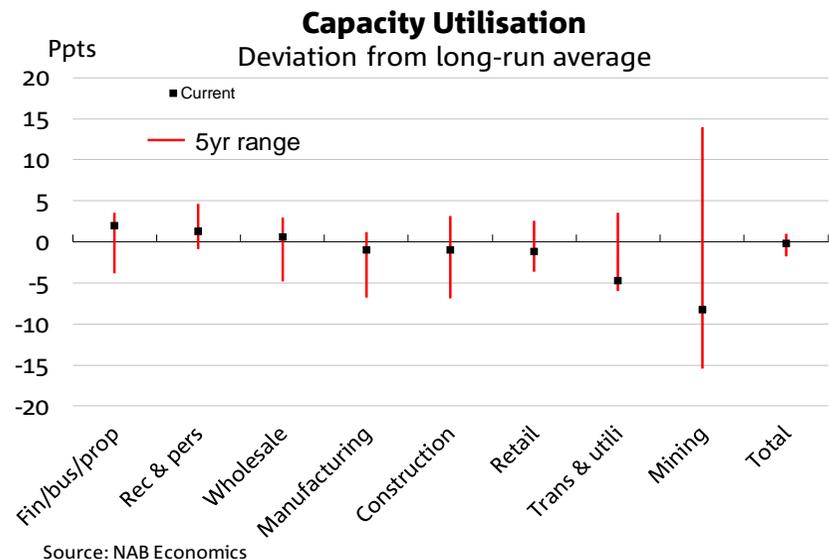
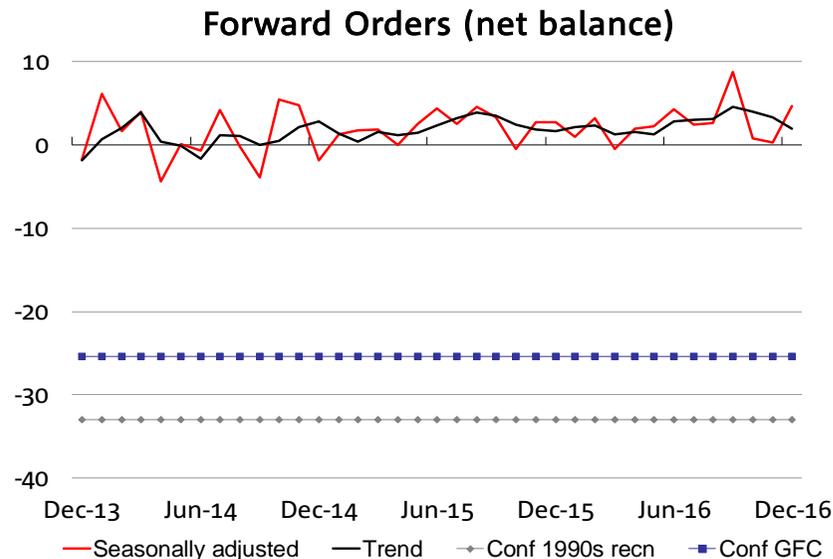
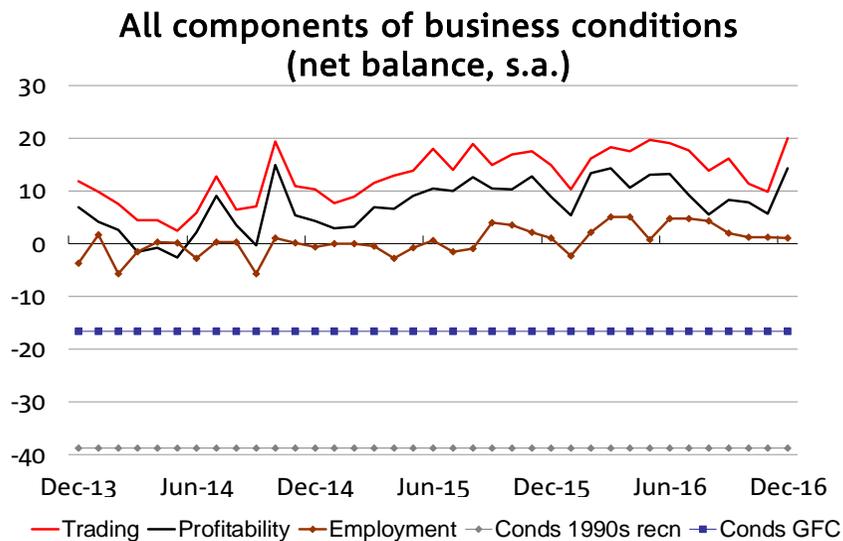


- Business conditions saw an impressive rebound this month, largely unwinding the steady downward trend seen since mid-2016. The business conditions index jumped 5 points, to +11 index points, which is well above the long-run average for the series (+5). However, the rebound in conditions largely reflects surprisingly strong improvements in some industries (see below), while other indicators from the Survey were mixed. Consequently, we are cautious about the implications of this spike as it could prove to be short-lived. By component, the jump was completely driven by higher trading conditions and profitability, while the employment index was unchanged at relatively subdued levels. (see chart on p4). Most industries saw an improvement in the month, but big jumps were seen in wholesale and transport, which is a little hard to reconcile with fairly subdued conditions in many other industries. Retail is particularly concerning as conditions deteriorated further, making it the worst performing industry for another month – details on p7.
- Meanwhile, business confidence has been quite steady over the past year, and December was no different. The confidence index was unchanged at +6 index points, consistent with the long-run average. While stable confidence levels are encouraging, it does not seem to reflect business conditions that are well above average – which might suggest there is still a high degree of concern about global uncertainties. By industry, confidence is positive across most groups in trend terms, although personal services is a surprise exception (given very high business conditions) – see p7 for details.
- By state, business conditions rose across the board, with WA seeing the biggest gain (up 15), although the level (at -2) remains quite weak. Meanwhile, NSW and Qld saw the smallest gains, up 1. In trend terms, conditions continue to look solid in the two biggest eastern states, while Qld is also positive (NSW is highest at +14). The downward trend for both NSW and Vic also appears to have stalled in the month. WA remains the weakest by a significant margin. In terms of confidence, Qld is currently best in trend terms – see p8 for details.
- On balance, the near-term outlook improved marginally in this month’s Survey. The forward orders index jumped 5 points to +5 index points (above the long-run average of zero), which suggests good near-term prospects for activity (see p4). Most industries saw a rise in orders this month, but the increase was particularly large for retail (despite reports of poor business conditions) – see p7 for details.
- Despite the jump in December trading conditions and orders, however, NAB’s measure of capacity utilisation dropped this month, and could suggest a return to the downward trend that emerged from mid last year (falling to 80.8%, from 81.3% last month). At the same time, the Survey’s capex measure fell a little in the month (down 2 points) to +6 index points (see chart on p4), although that is not a bad result and perhaps is more upbeat than other investment indicators. 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 wholesale, but weakest in retail.



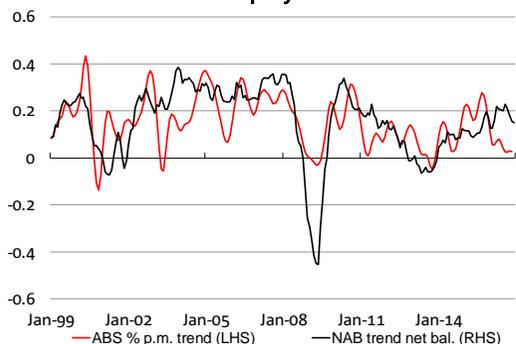
# BUSINESS CONDITIONS AND FORWARD INDICATORS (CONT.)

## Components of business conditions & leading indicators

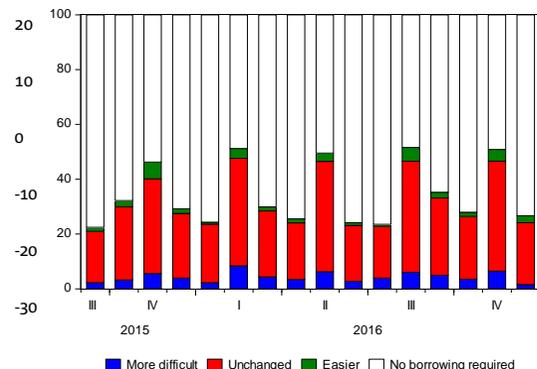


# LABOUR DEMAND, COSTS, PRICES & BORROWING CONDITIONS

Employment



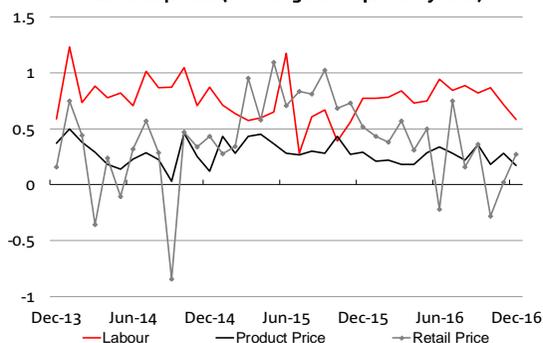
Borrowing conditions (% of firms)



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

| Dec-2016                 | Mining | Manuf | Constn | Retail | Wsale | Tran. & utils | Rec. & pers. | Fin. prop. & bus. | Australia |
|--------------------------|--------|-------|--------|--------|-------|---------------|--------------|-------------------|-----------|
| Labour costs: current    | -0.9   | 0.5   | 0.1    | 1.2    | 0.5   | 0.0           | 0.6          | 0.9               | 0.6       |
| Labour costs: previous   | -0.1   | 0.7   | 1.2    | 0.8    | 0.2   | 0.1           | 0.8          | 0.8               | 0.7       |
| Labour costs: change     | -0.8   | -0.2  | -1.1   | 0.4    | 0.3   | -0.1          | -0.2         | 0.1               | -0.1      |
| Prices (final): current  | -1.4   | 0.1   | 0.1    | 0.3    | 0.9   | -0.1          | 0.3          | 0.2               | 0.2       |
| Prices (final): previous | 2.2    | 0.3   | 0.2    | 0.0    | 0.7   | 0.0           | 0.5          | 0.0               | 0.3       |
| Prices (final): change   | -3.6   | -0.2  | -0.1   | 0.3    | 0.2   | -0.1          | -0.2         | 0.2               | -0.1      |
| Purchase costs: current  | 0.1    | 0.3   | 0.3    | 0.4    | 0.8   | 0.6           | 0.6          | 0.2               | 0.4       |
| Purchase costs: previous | -0.2   | 0.6   | 0.5    | 0.6    | 0.6   | 0.4           | 0.7          | 0.2               | 0.5       |
| Purchase costs: change   | 0.3    | -0.3  | -0.2   | -0.2   | 0.2   | 0.2           | -0.1         | 0.0               | -0.1      |

Costs & prices (% change at a quarterly rate)



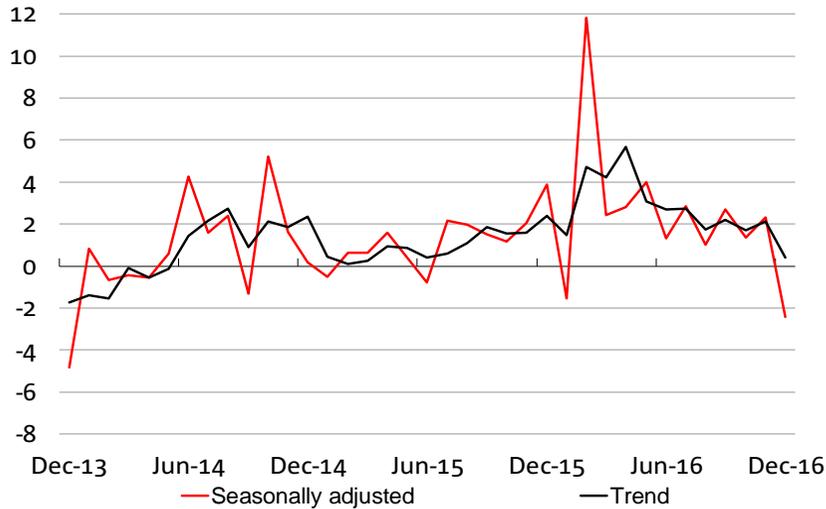
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.

- Employment conditions were unchanged at relatively subdued levels in December, 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 (all else unchanged) – trend ABS employment growth rose 8.2k in December.
- Half of the industry groups saw an increase in employment conditions last month, which was offset by declines elsewhere. The largest gains were in wholesale (up 26), while retail saw the biggest decline (down 20). Mining employment conditions remain the worst in trend terms (-29), after seeing a big fall in the month, while transport was the next weakest (-9) – more than half of industries have a negative trend employment index. In contrast, the strongest employment demand (trend) was in FPB services (+10), followed by recreation & personal services (+6).
- Labour cost growth (a wage bill measure) eased slightly in the month and shows that wage pressures remain relatively contained at 0.6% (a quarterly rate). Labour cost pressures were highest in retail (at 1.2%), but were still weakest in mining, showing a notable decline – despite the recent strength in commodity prices. Very high retail labour costs are likely contributing to pressures on retail margins, especially given the apparent weakness in demand conditions.
- Growth in purchase costs eased slightly in the month, to 0.4% (at a quarterly rate, from 0.5%). This outcome was below the long-run average, suggesting recent commodity price rises are not yet having much effect. Interestingly, the Survey is not showing much evidence of a lift in construction costs, although it is possible that deflationary pressures from mining investment are offsetting positive pressures in the residential sector. Growth in purchase costs accelerated the most in mining (up 0.3 pts), followed by wholesale and transport (both up 0.2 pts). These were offset by deceleration in most other industries, with manufacturing easing the most (down 0.3 pts). Overall, purchase cost pressures were highest wholesale (0.8%, quarterly rate), but softest in mining (0.1%).
- Final product prices growth in December eased to 0.2% (a quarterly rate, from 0.3%). Retail price growth improved, but remains quite soft at 0.3%, which is well below the lower bound of the RBA's inflation target. Mining (down 3.6 pts) saw the largest deceleration in final prices growth. Prices are falling in mining (-1.4%, a quarterly rate) and transport (-0.1%), while wholesale prices grew the most (0.9%) – which might point to higher downstream prices in coming months.
- Surprisingly, borrowing conditions improved from 3 months prior and were positive for the first time since November 2015. However, demand for credit fell.

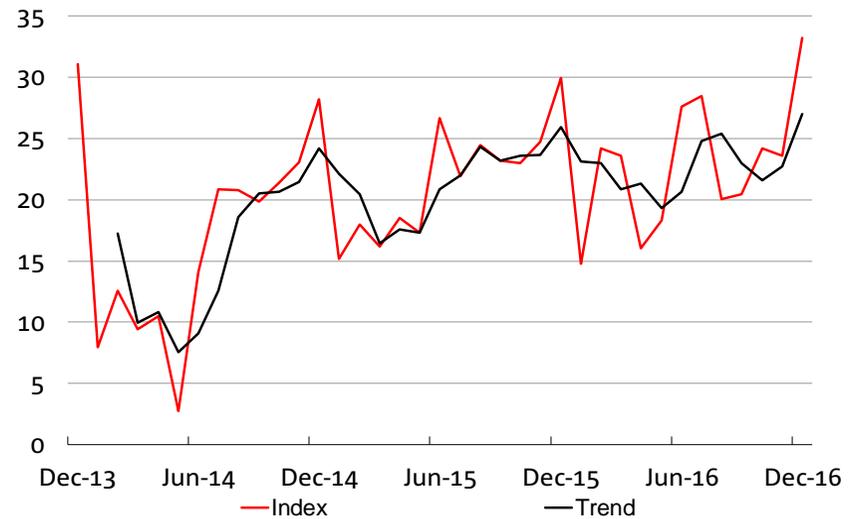
# MORE DETAILS ON BUSINESS ACTIVITY

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

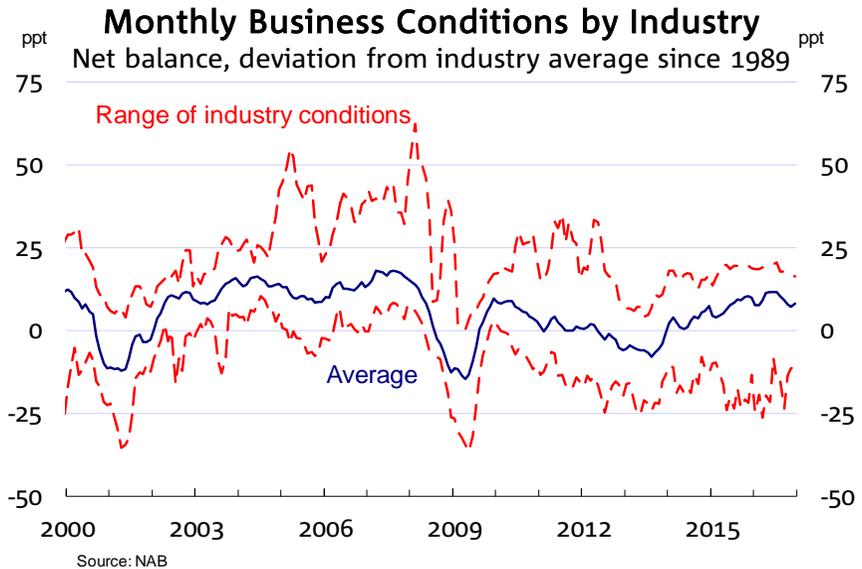
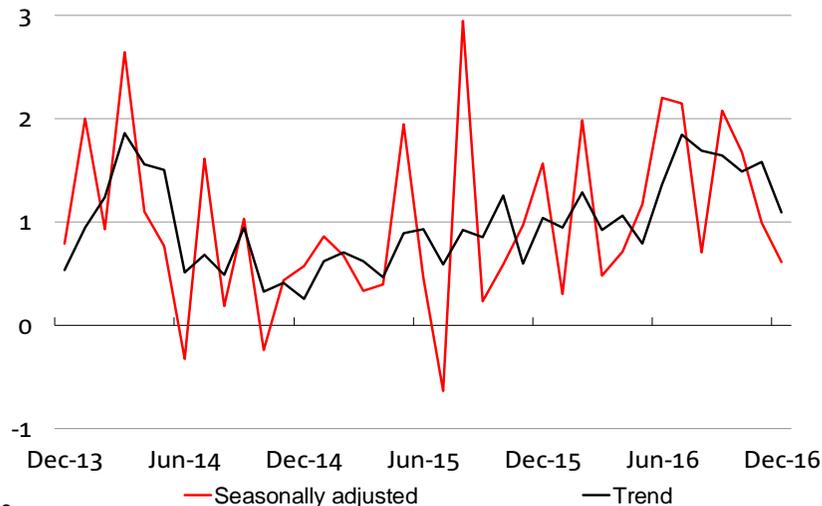
Stocks (net balance)



Cash Flows (net balance, nsa)



Exports (net balance)

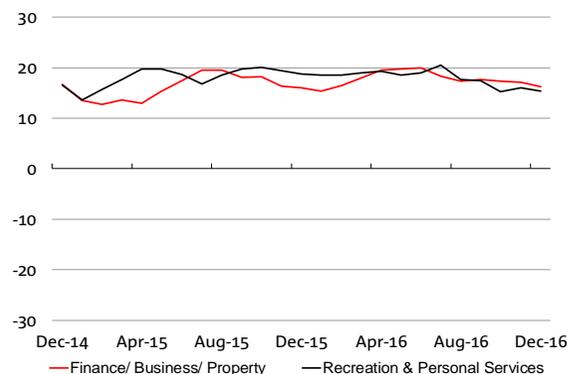
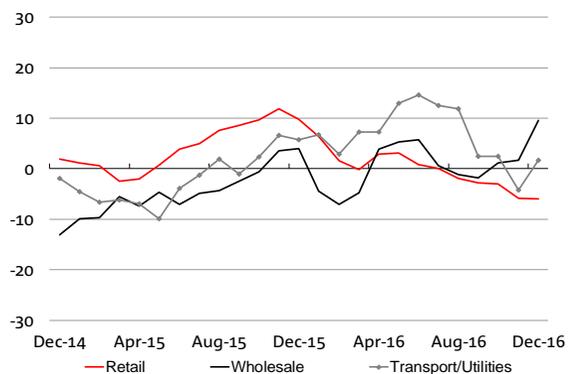
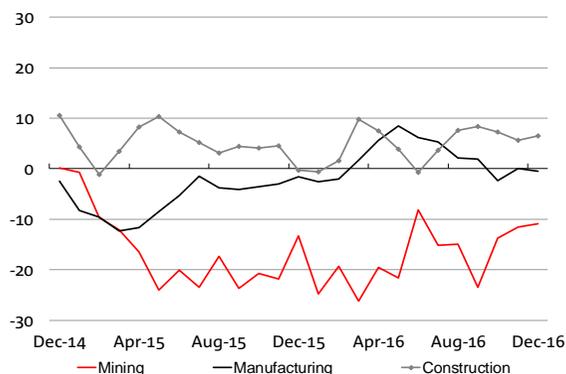


# INDUSTRY BUSINESS CONDITIONS & CONFIDENCE

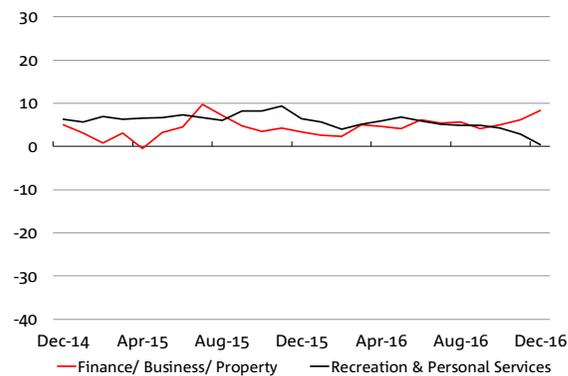
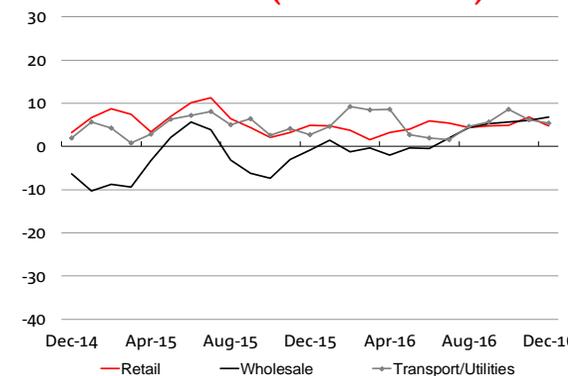
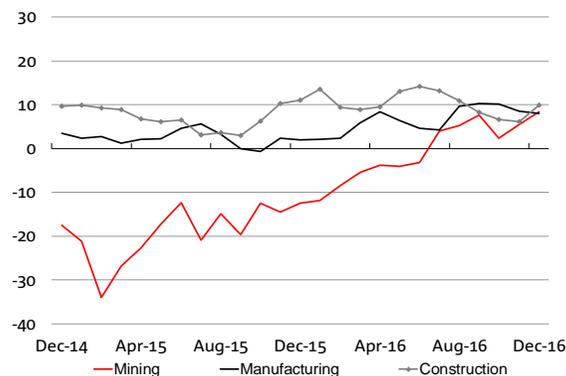
*Wholesale underpinned the jump in conditions. Retail is still a concern*

- The improvement in **business conditions** this month was most pronounced in wholesale (up 27) and transport & utilities (up 18). In contrast, manufacturing and retail (both down 2) were the only industries to record a deterioration in the month. In trend terms (3mma), conditions are still highest in finance/ property/ business (FPB) (+16) and recreation & personal services (+15), but lowest in mining (-11) and retail (-6). The largest rise in **business confidence** came from mining (up 9), while manufacturing (down 7) saw the biggest deterioration. In trend terms, all industries reported neutral or positive confidence levels, but construction (+10) was the most confident, while personal services was weakest (at 0), despite high levels of business conditions.
- There was an encouraging jump in **forward orders**, with most industries seeing an improvement. The biggest gains came from retail (up 23), mining (up 13) and recreation & personal services (up 10). In contrast, the biggest deterioration in orders came from manufacturing (down 7) and FPB (down 3), which were the only industries to weaken. Orders are mixed in trend terms, but are highest in manufacturing and construction (both +7), while mining is especially weak (-11). This month's drop in **capacity utilisation** was reflected in half of the industries, but transport (down 3.1 ppts) had the biggest contraction. In contrast, FPB had the biggest improvement (up 1 ppt). Capacity utilisation in FPB is currently highest above 5-year average levels (slide 3), which is reflected in an elevated **capex** index (although rec & personal services is highest in trend terms).

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



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

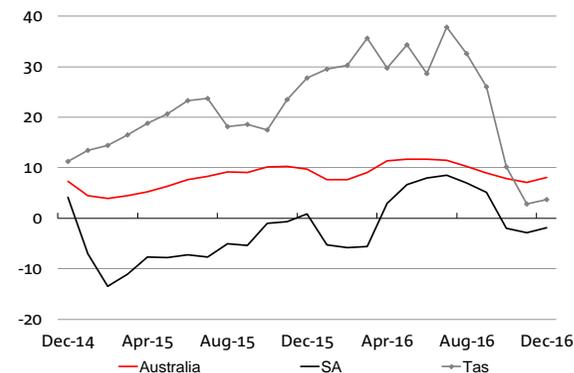
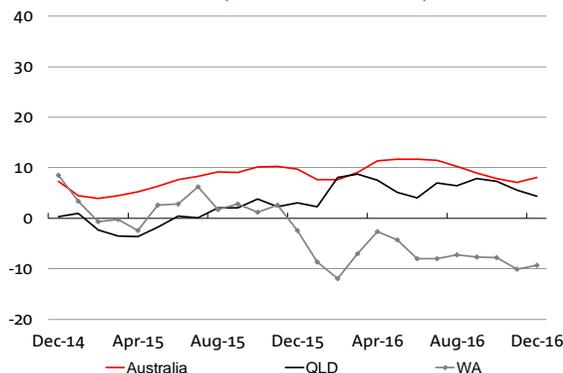
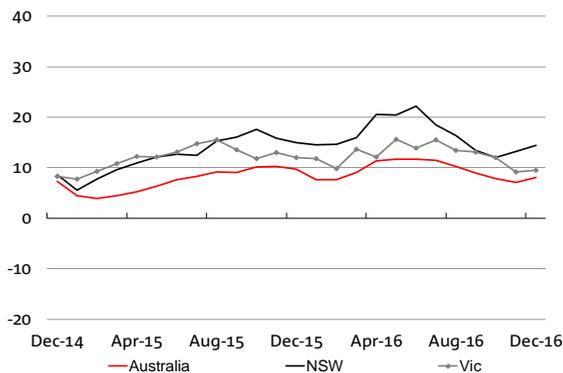


# STATE BUSINESS CONDITIONS & CONFIDENCE

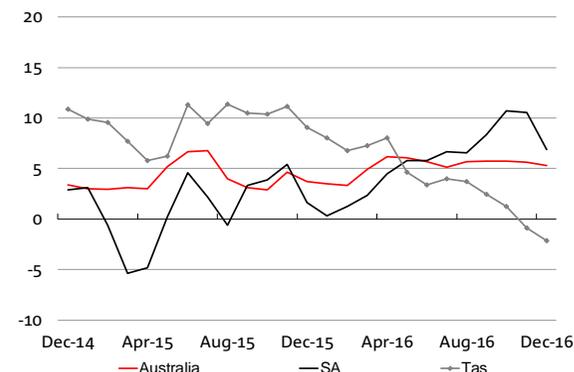
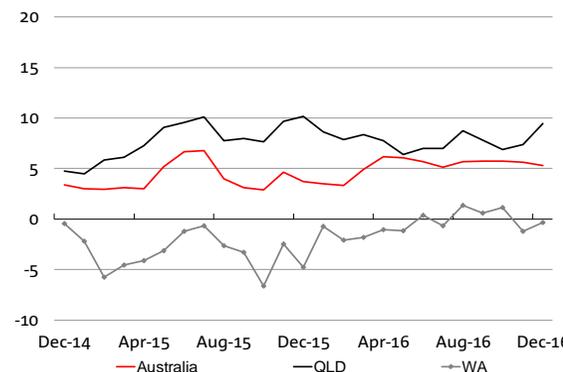
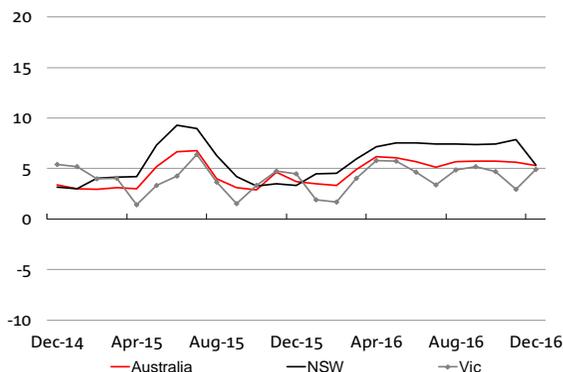
*Conditions improved in all states, but trends are still down on recent peaks*

- All states saw better **business conditions** in December, with WA and Victoria both showing the best improvements in the month. Nevertheless, NSW maintains the number one spot for the mainland states in trend terms (+14) – a position it has held for most of the past 18 months – while Victoria had the second highest level (+10). On the other hand, WA business conditions are especially low, despite the big gains in the month, at -9 index points (trend). SA is also reporting negative trend business conditions (-2), despite also seeing a solid improvement in the monthly index. Overall, trend conditions are now well off their recent peaks in many states.
- On **business confidence**, outcomes were relatively mixed in trend terms for December. Vic (up 2), Qld (up 2) & WA (up 1) all improved, while SA (down 4), NSW (down 3) and Tasmania (down 1) were all lower. Qld is now the most confident state (+9, trend), having overtaken SA (+7). WA is still least confident (-2 index points).
- Employment conditions** (trend) are positive in the major eastern states, while WA (-14), Tasmania (-7) and SA (-4) are looking soft. NSW (up 2) was the only state to see a trend improvement in the month. The worst deterioration for a mainland state was in WA (down 5). Despite improving in the last two months, NSW has eased from its recent peak of +11 (to +6), while Victoria has softened somewhat of late (from +6 in October, to +2 currently).

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



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



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