

NAB MONTHLY BUSINESS SURVEY

JULY 2017

NEXT RELEASE:
12 SEP 2017 – AUGUST MONTHLY



Key points:

- The strong run shown by the business sector continued in the July NAB Monthly Business Survey, with both business conditions and confidence seeing an improvement. **Business conditions rose by 1 point in June to hit +15 index points, which is the highest level for the series since early 2008 and is three times the long run average level.** There was, however, a renewed divergence across industries in the month as the improvement was driven primarily by professional services, while retail and wholesale softened considerably – again highlighting competitive pressures in retail and the difficulties facing households. **By component, there was a lift in profitability in July, but employment conditions were unchanged and trading/sales were modestly lower – albeit still at very high levels.** At current levels, the employment conditions index is pointing to a rate of jobs creation over coming months that should be sufficient to push the unemployment rate down a little further. While that will be a welcome sign for the RBA, signs of inflation pressures remain elusive. Price and wage measures in the Survey generally weakened again in the month – partly a reflection of elevated rates of underemployment – despite anticipated pressures from utilities prices. Retail price inflation dipped back into negative territory in July.
- The sustained strength in business conditions appears to have buoyed confidence, and has likely contributed to the steadily improving trend in business confidence since early last year. **The business confidence index rose by a solid 4 points in July, to be at +12 index points, which is twice the long-run average and similar to its pre-GFC levels.** However, while that has encouraging implications for employment and capital expenditure, the survey’s measure of capex actually deteriorated in the month (although it remains at above average levels). Other **leading indicators were also a little less upbeat**, with forward orders softening slightly and capacity utilisation rates unchanged.
- The persistent strength in employment conditions has made us a little more optimistic about the near-term outlook for the labour market. However, we remain apprehensive about how the disconnect between the business and consumer sectors will be resolved – especially in light of sluggish retail conditions in July. Additionally, the previously emphasised hurdles to growth – elevated underemployment, household debt and peaks in LNG exports and housing construction – remain firmly in place. These factors will weigh on the longer-term economic outlook, following a reacceleration of growth in coming quarters from the temporary disruptions to activity seen earlier in the year. Given the risks to the outlook, only tentative signs of moderation in the housing market, and a reluctance to see the AUD strengthen further, the RBA should be content with keeping interest rates on hold for an extended period. That said, the recent strength in employment growth and business conditions does give some reason for optimism, and if maintained could signal a change in the balance of risks on the horizon.

Table 1: Key monthly business statistics

	May 2017	Jun 2017	Jul 2017		May 2017	Jun 2017	Jul 2017
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	8	8	12	Employment	8	7	7
Business conditions	11	14	15	Forward orders	4	5	3
Trading	15	21	20	Stocks	3	4	0
Profitability	11	14	18	Exports	0	2	-1
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.9	1.1	0.6	Retail prices	-0.2	0.3	-0.1
Purchase costs	0.5	0.7	0.4		<i>Per cent</i>		
Final products prices	0.3	0.5	0.2	Capacity utilisation rate	82.6	81.9	81.9

* 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 25 July to 31 July, covering more than 400 firms across the non-farm business sector.

CONTACTS

Alan Oster, Group Chief Economist
+61 3 8634 2927

Riki Polygenis, Head of Australian
Economics, +61 475 986 285

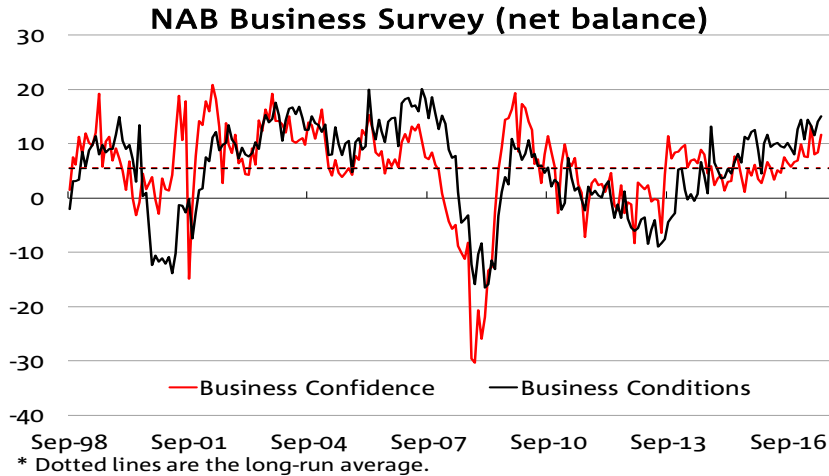
James Glenn, Senior Economist -
Australia, +61 2 9237 8017

CONTENTS

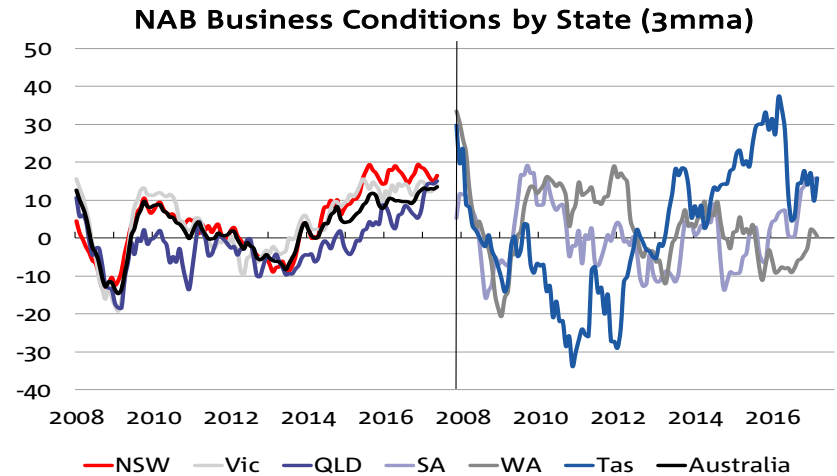
Key points	1
Key charts	2
Conditions, confidence & leading indicators	3
Labour, prices & borrowing	5
More details	6
Industry results	7
State results	8

KEY MONTHLY CHARTS

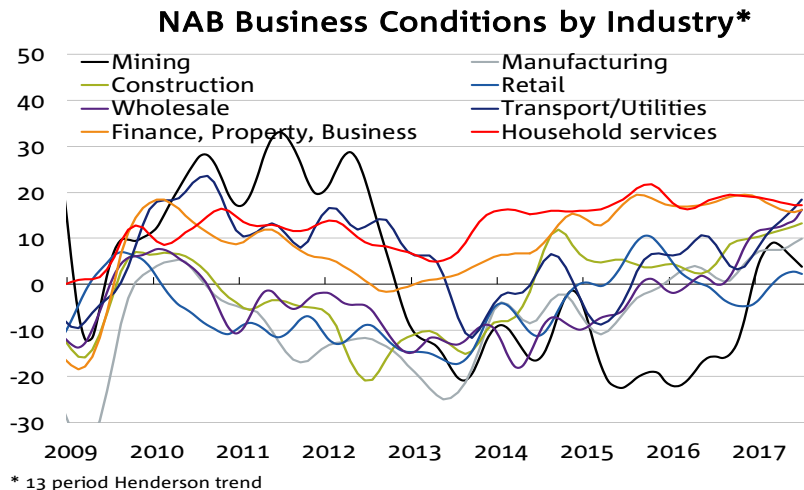
CONFIDENCE IS FOLLOWING BUSINESS CONDITIONS HIGHER – BOTH CURRENTLY AROUND PRE-GFC LEVELS



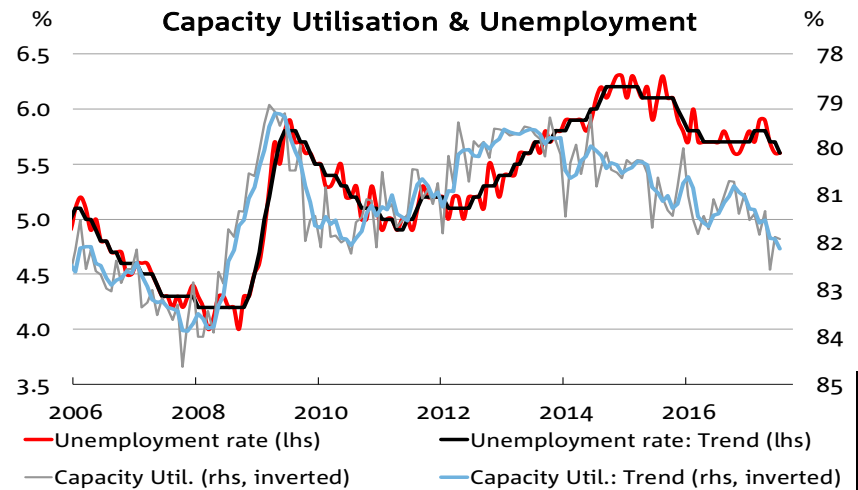
CONDITIONS HOLDING-UP IN MOST STATES. WA IS STILL SUBDUED BUT IS UP FROM PREVIOUS LOWS



ALL INDUSTRIES ARE POSITIVE, BUT MINING AND RETAIL APPEAR TO BE TRENDING DOWN AGAIN



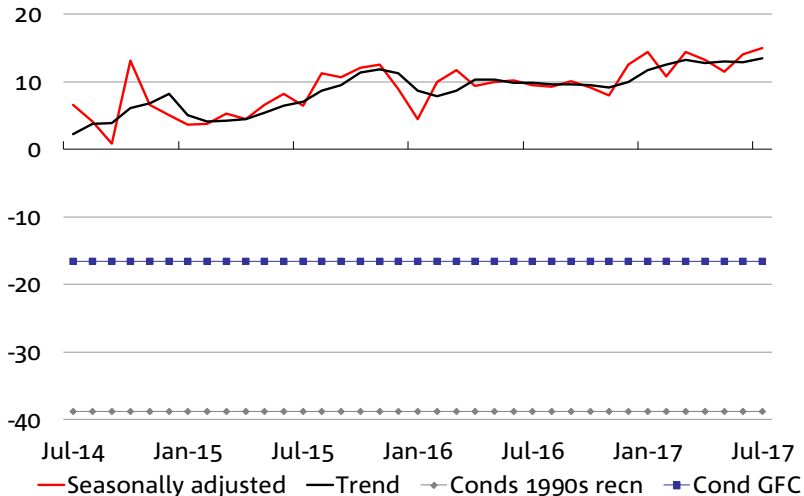
CAPACITY UTILISATION SHOWS LIMITED SLACK – CONSISTENT WITH DROP IN THE UNEMPLOYMENT RATE



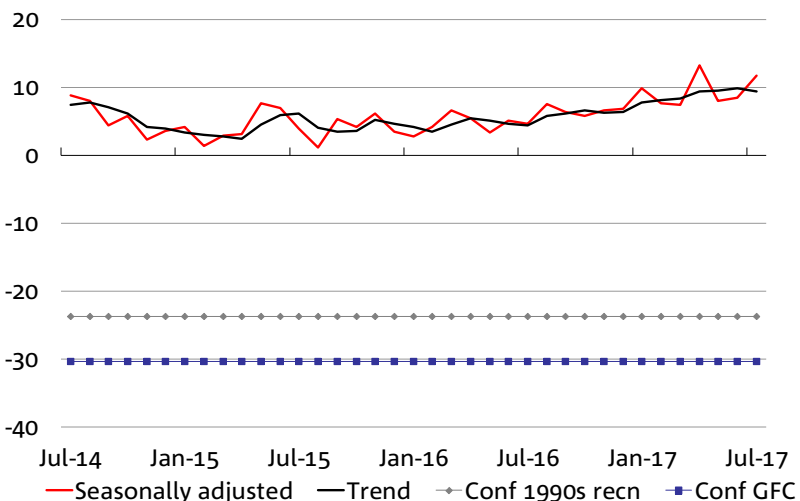
BUSINESS CONDITIONS AND FORWARD INDICATORS

Conditions continue their strong run, bolstering business confidence.

Business Conditions (net balance)



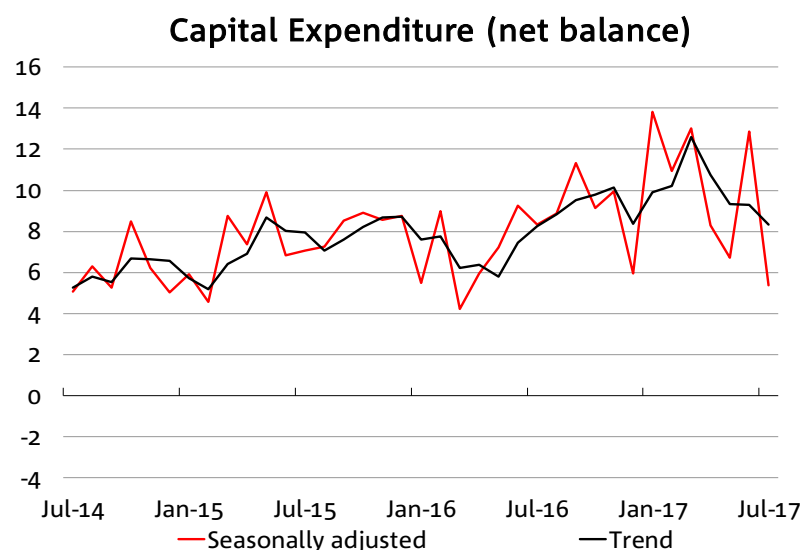
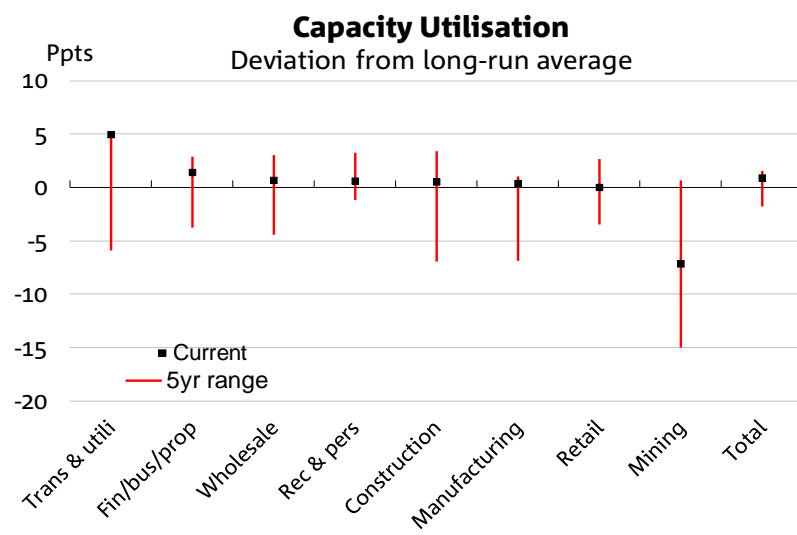
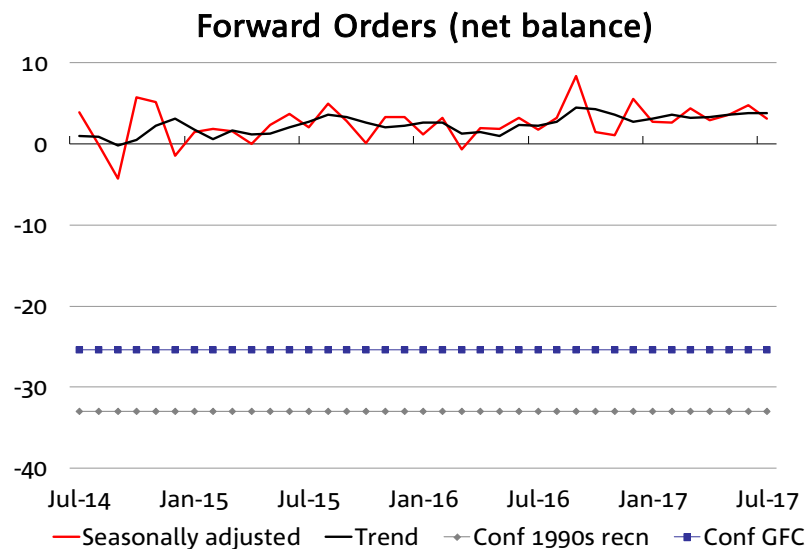
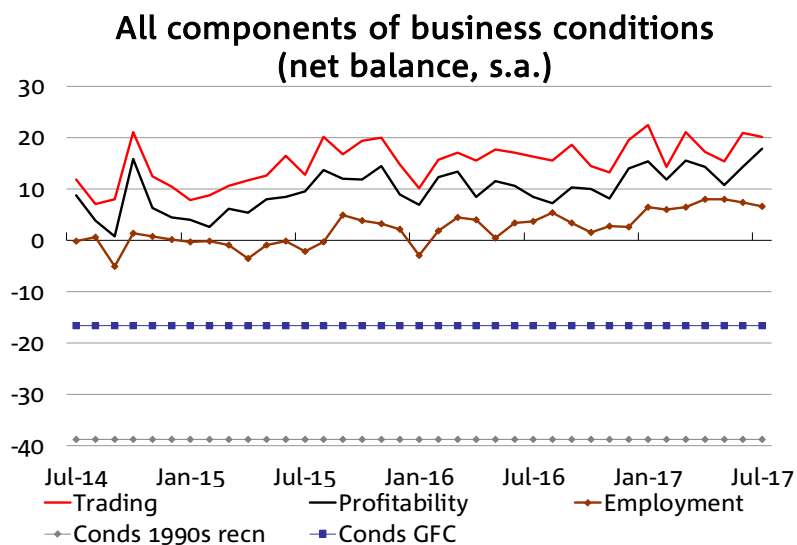
Business Confidence (net balance)



- The recent strength in **business conditions** was maintained going into the start of the third quarter. The business conditions index rose 1 point, to +15 index points, which is three times the long-run average (+5). Profitability was the only component to improve in the quarter, while employment conditions were unchanged and trading/sales moderated slightly – but remains at very elevated levels. In trend terms, business conditions are positive across all industries, but both retail and mining appear to have turned down again (more detail on p7).
- **Business confidence** has been chasing business conditions higher, and has likely seen some additional support from an improving global environment as well (although there are still some notable risks). The business confidence index rose 4 point in July, to +12 index points, which is double the long-run average for the series. Confidence levels are currently positive for all industries – even in mining and retail where conditions have not been as robust (see p7 for industry details).
- Business conditions fell in the month for most mainland **states**, NSW being the only exception (up 6). South Australia recorded the biggest moderation (down 4), followed by WA (down 3). Following the decline, WA has moved back into negative territory, while all the other mainland states are still looking solid. Abstracting from the usual monthly volatility, NSW has returned to the top spot for the mainland states, with trend conditions sitting at +16 index points. The other states are following close behind however, with QLD and SA each sitting on +15 index points and Victoria on +14. Despite a notable improvement in the past year or so, WA is still a notable underperformer, with trend conditions at just 0 index points. Meanwhile, business confidence is positive in all mainland states (in trend terms), even with WA recording a marked deterioration in July. Of the mainland states, confidence is highest in trend terms for Queensland (+13) and NSW (+11), but lowest in Victoria and WA at +7 index points (trend).
- The other leading indicators from the Survey point to a modest expansion ahead, but were generally a little less upbeat this month. The **forward orders** index was down slightly to +3 index points (above the long-run average of zero, see chart on p4), driven by falls in most industries (but a particularly large decline in mining orders, which have been very volatile). Surprisingly given the broader context, retail saw the biggest rise (up 14). Orders are still highest in construction (+22, in trend terms), consistent with a surprise bounce in residential building approvals for June. Trend orders are negative for retail (-1) and finance/ property/ business services (0).
- NAB's measure of **capacity utilisation** was unchanged in July (at 81.9%). Despite suggesting fairly limited levels of spare capacity, the Survey's **capex** measure pulled back to +5 index points, from +13 (see chart on p4). Capacity utilisation rates are currently above long-run averages for most industries in the Survey (see chart on p4 and industry detail on p7). Mining is sitting furthest below their long-run average.
- **Cash flow** (not seasonally adjusted) eased back slightly, but is still elevated (chart on p6). It is currently strongest in personal services, but weakest in mining.

BUSINESS CONDITIONS AND FORWARD INDICATORS (CONT.)

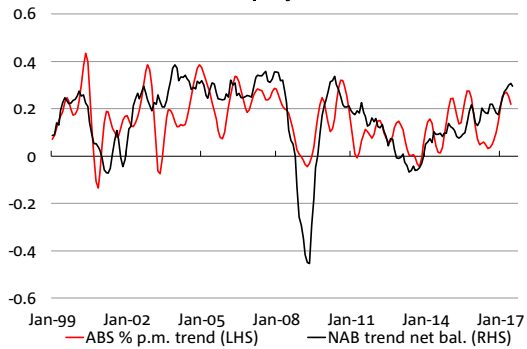
Components of business conditions & leading indicators



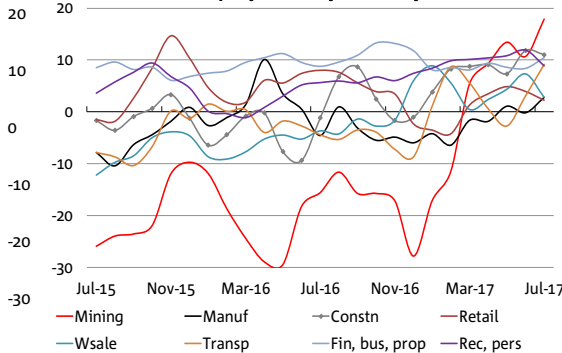
Source: NAB Economics

LABOUR DEMAND, COSTS, PRICES & BORROWING CONDITIONS

Employment



Employment by Industry



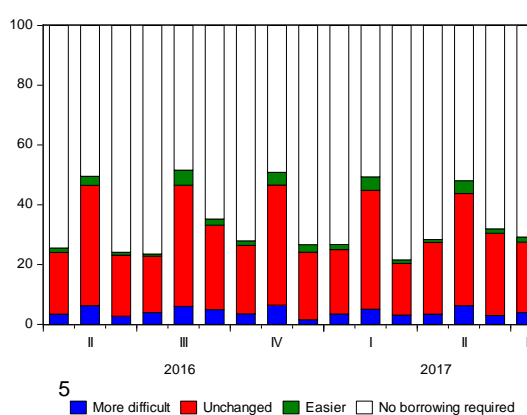
- **Employment conditions** were again steady in the month at levels that indicate a healthy rate of job creation in the economy. That is consistent with strong outcomes for employment growth seen in the ABS labour force survey and points to a continuation of solid jobs growth over coming months. The employment index remained at +7 index points, which is well above the long-run average for the series. This outcome points to an annual job creation rate of around 240k (around 20k per month) in coming months, which is sufficient to see the unemployment rate push lower (all else unchanged) – trend ABS employment growth was 26.5k in June.
- By industry, employment conditions picked-up sharply in transport and mining (up 15 and 25 points respectively). Wholesale dropped heavily (down 20), continuing its recent run of extreme volatility. In trend terms, mining and construction have the best employment conditions (at +18 and +11 index points respectively) – labour demand from mining has improved considerably in the survey over the past 6-months or more (see chart). No industries are showing negative employment conditions (trend), but manufacturing, wholesale and retail are all fairly subdued.

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

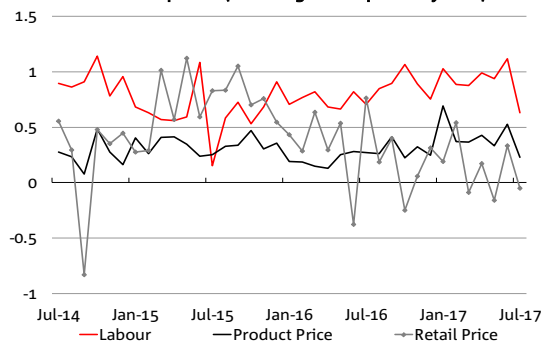
Jul-2017	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-0.7	0.7	0.6	1.0	0.3	0.6	0.6	1.0	0.6
Labour costs: previous	-0.2	0.9	1.6	0.6	1.3	0.9	1.2	1.2	1.1
Labour costs: change	-0.5	-0.2	-1.0	0.4	-1.0	-0.3	-0.6	-0.2	-0.5
Prices (final): current	0.3	0.7	0.2	-0.1	0.1	0.0	0.4	0.4	0.2
Prices (final): previous	0.1	0.5	0.4	0.3	0.4	0.3	0.5	0.6	0.5
Prices (final): change	0.2	0.2	-0.2	-0.4	-0.3	-0.3	-0.1	-0.2	-0.3
Purchase costs: current	0.4	0.3	0.4	0.0	0.5	0.1	0.9	0.3	0.4
Purchase costs: previous	-0.6	1.5	1.0	0.5	0.8	0.3	0.5	0.5	0.7
Purchase costs: change	1.0	-1.2	-0.6	-0.5	-0.3	-0.2	0.4	-0.2	-0.3

- **Labour costs** growth (a wage bill measure) eased in July, to 0.6% (a quarterly rate, previously 1.1%). Labour cost inflation had been subdued and this month's moderation (if maintained) unwinds the improvement seen since mid 2016. Labour cost pressures were particularly weak in mining (at -0.7%), despite improvements in employee demand, but were also subdued in wholesale (0.3%).
- Growth in **purchase costs** also moderated in the month, to 0.4% (a quarterly rate, previously 0.7%) – again, unwinding much of the progress seen in upstream price pressures. Growth in purchase costs decelerated most notably in manufacturing (down 1.2 pts), although most industries were lower. Overall, purchase cost pressures were weakest in retail (at 0%, quarterly rate), and strongest in personal services (+0.9%).
- There was little relief for margins however, as **final product prices** growth also eased to 0.2% (a quarterly rate), down from 0.5% – although that is counter to the improvement seen in profitability. Retail price inflation dropped back into negative territory, at -0.1% (from +0.4%), suggesting further headwinds to CPI. Prices are flat-to-rising in all other industries.

Borrowing conditions (% of firms)



Costs & prices (% change at a quarterly rate)



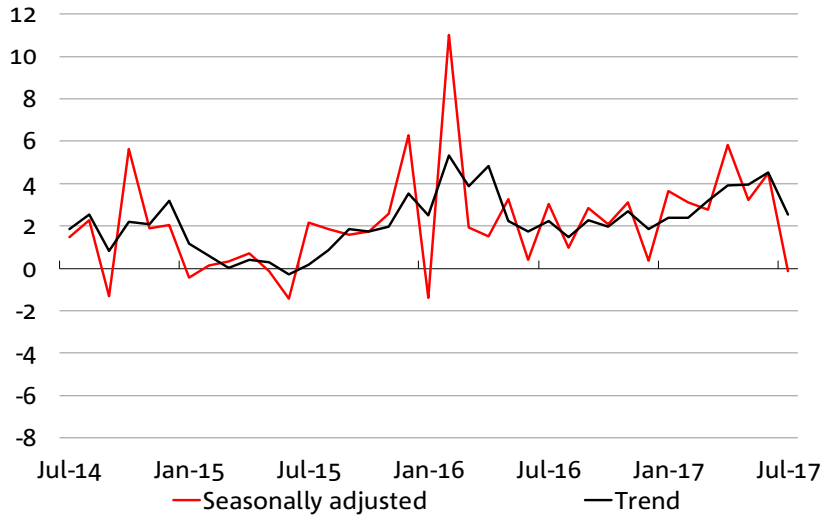
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.

- **Borrowing conditions** were broadly unchanged since April, with the index remaining negative – meaning that on balance, more firms found it more difficult to borrow than easier. Despite the negative index, the demand for credit has improved modestly in that time.

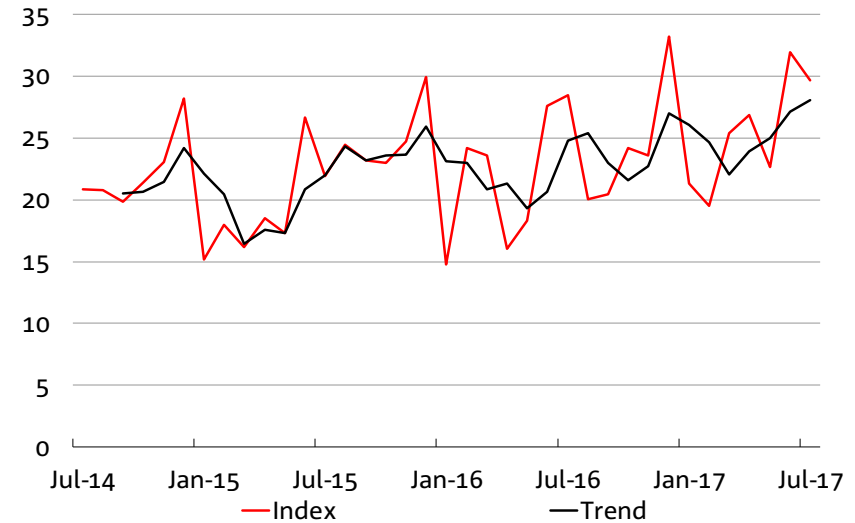
MORE DETAILS ON BUSINESS ACTIVITY

Restocking activity and exports dropped. Cash flows eased, but still elevated.

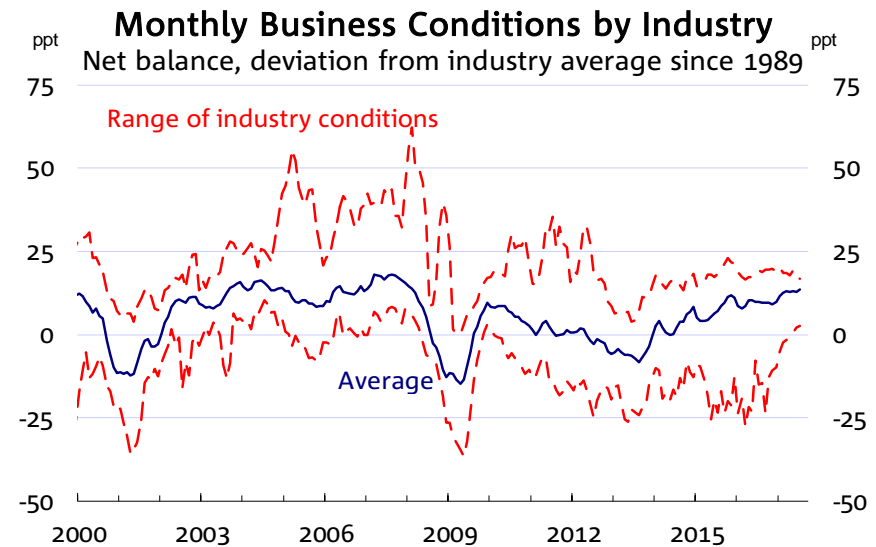
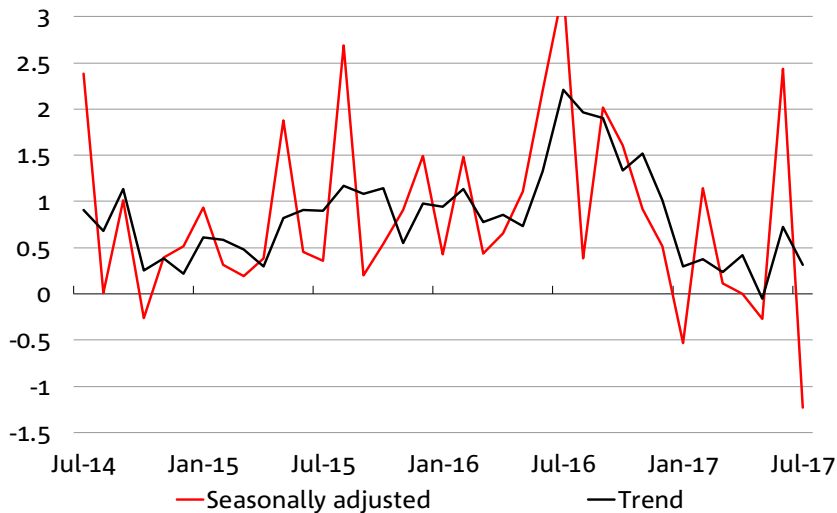
Stocks (net balance)



Cash Flows (net balance, nsa)



Exports (net balance)



Source: NAB

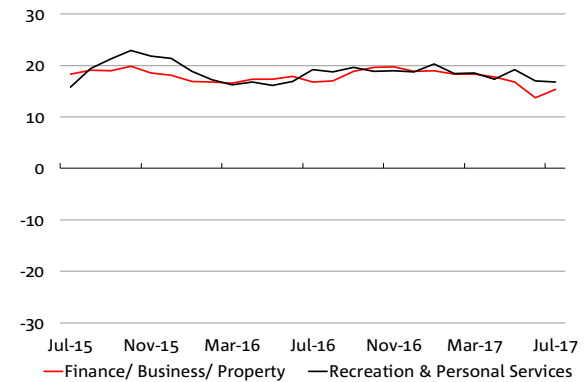
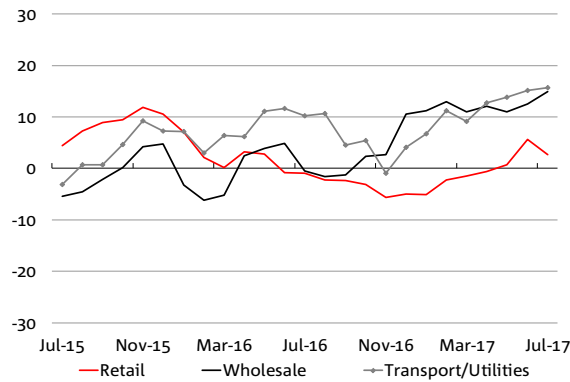
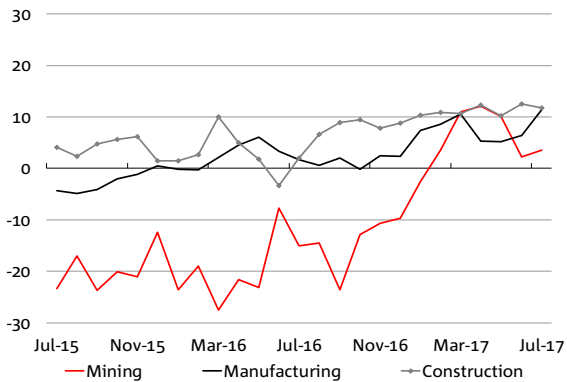


INDUSTRY BUSINESS CONDITIONS & CONFIDENCE

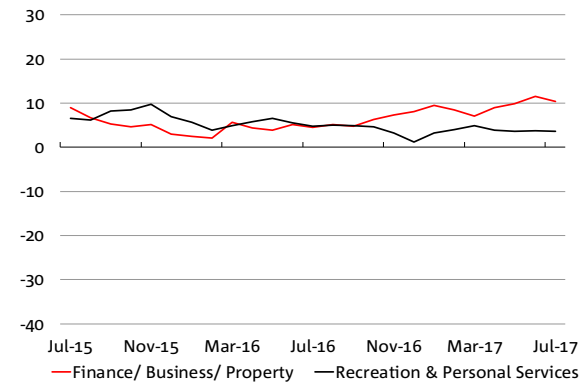
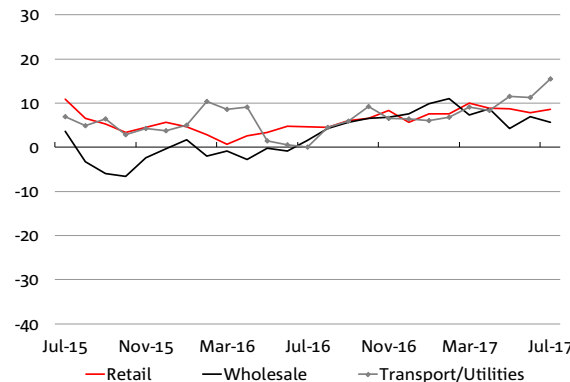
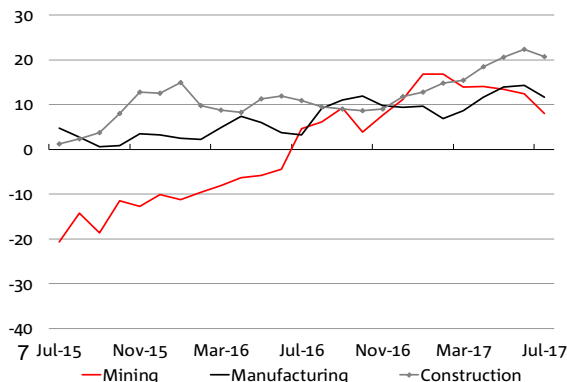
Retail and mining both back on shaky ground

- While most industries are reporting positive **business conditions**, retail conditions dipped back into negative territory in July. Fin/ prop/ bus services drove most of the improvement in business conditions for the month, although personal services, transport and mining each made positive contributions as well. All other industries deteriorated in the month, with the biggest drags coming from retail and wholesale. All industries are reporting positive business conditions in trend terms, although following the recent deterioration, mining and retail have both dipped and are close to moving back into negative territory. Trend conditions are still highest in recreation & personal services (+17), and lowest in retail (+3). **Business confidence** is positive in all industries and rose the most in transport during July (up 11), while construction had the largest fall (down 8). Nonetheless, construction (+21) was still the highest in trend terms and personal services were weakest (at +4).
- Forward orders** were down in July. Mining orders fell sharply (down 45), while (surprisingly) retail was the only industry to see a sizeable increase (up 14). Orders are highest in construction (+18, in trend terms), consistent with elevated residential building approvals, followed by manufacturing (+11). Trend orders are negative for retail (-1). Changes in **capacity utilisation** varied significantly across sectors, despite being unchanged at the aggregate level. However, most are seeing rates above their 5-year average – transport is the highest above (slide page 4). Personal services and mining **capital expenditure** are highest in trend terms, although most are positive (outside retail).

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



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

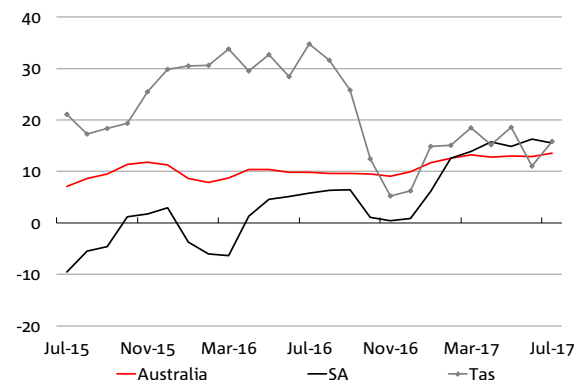
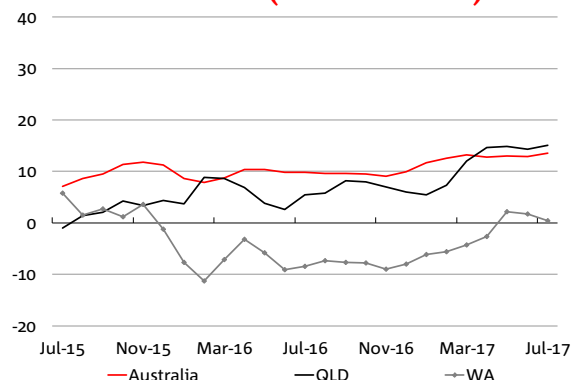
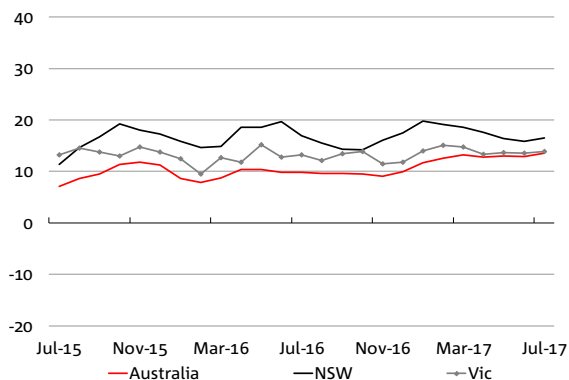


STATE BUSINESS CONDITIONS & CONFIDENCE

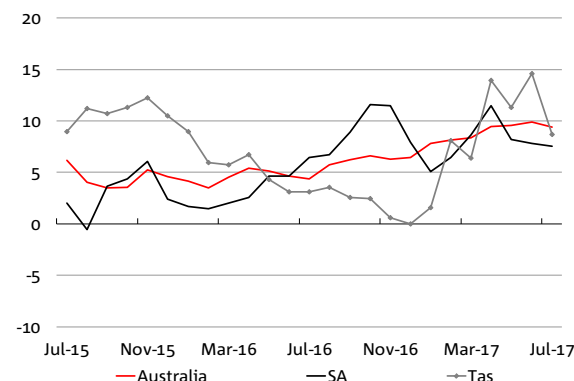
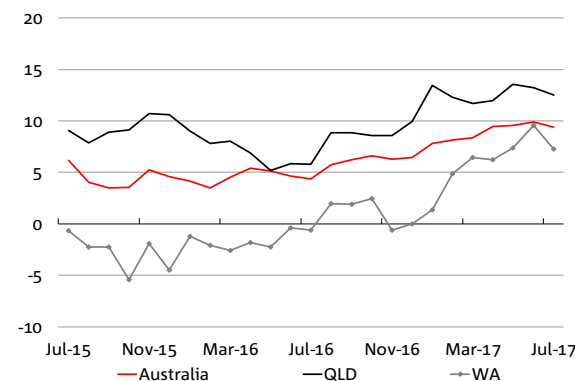
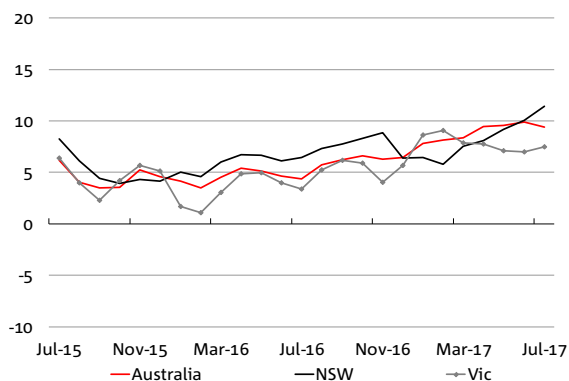
WA has taken a few steps back lately, but is still up from last year's lows

- Of the mainland states, the improvement in **business conditions** was confined to NSW (up 6). Despite Vic, Qld and SA all deteriorating, each continue to see solid levels of business conditions, while WA dipped back into negative territory (albeit neutral in trend terms). Abstracting from the usual monthly volatility, NSW has returned to the top spot for the mainland states, with trend conditions sitting at +16 index points. The other states are following close behind however, with QLD and SA each sitting on +15 index points and Victoria on +14. Despite a notable improvements in the past year or so, WA is still a notable underperformer, with trend conditions at just 0 index points.
- **Business confidence** is positive in all mainland states (in trend terms), even with WA recording a marked deterioration in July. Of the mainland states, confidence is highest in trend terms for Queensland (+13) and NSW (+11), but lowest in Victoria and WA at +7 index points (trend).
- **Employment conditions** (trend) are positive in all states, although WA dropped to just +2 index points in the quarter – still a notable improvement from the extremely negative levels seen in late 2016, suggesting the worst of the mining headwinds to the labour market may be behind us. Interestingly, the index is strongest for Queensland (+12), while NSW, Victoria and SA are all sitting around similar levels (+7-8).

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



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



Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities

Riki Polygenis
Head of Australian Economics
+61) 475 986 285

James Glenn
Senior Economist – Australia
+61) 455 052 519

Amy Li
Economist – Australia
+61 3) 8634 1563

Phin Ziebell
Economist – Agribusiness
+61) 475 940 662

Behavioural & Industry Economics

Dean Pearson
Head of Behavioural & Industry Economics
+(61 3) 8634 2331

Robert De lure
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 3837

Steven Wu
Economist – Behavioural & Industry Economics
+(613) 9208 2929

International Economics

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.

