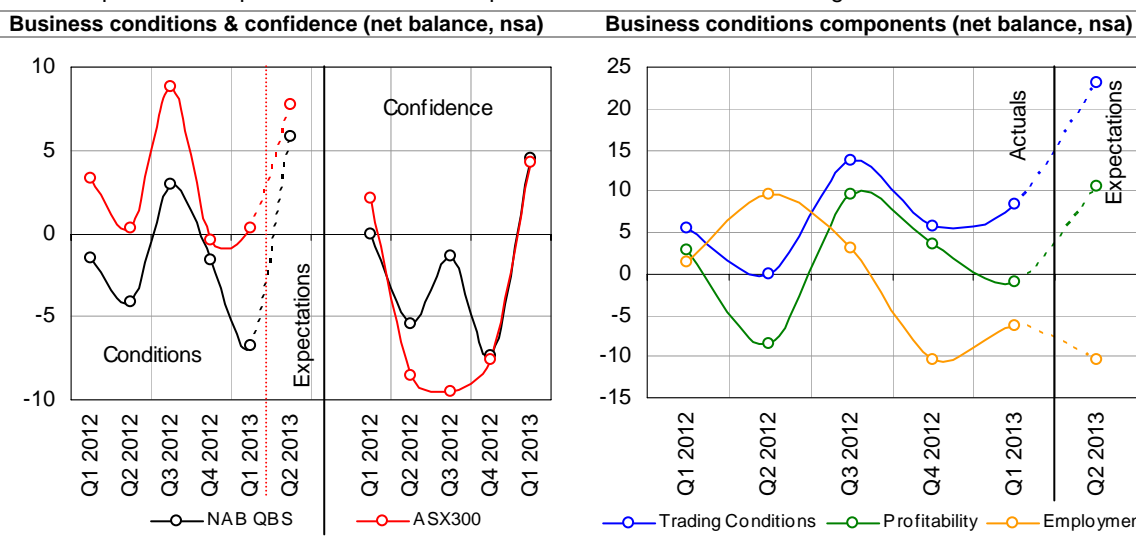


Quarterly ASX 300 Business Survey March 2013

ASX 300 show greater resilience than the broader economy in Q1, with conditions stable. Finance, Business & Property considerably stronger. Confidence rebounded but weaker forward orders & stocks point to potential softness in the next quarter.

- Business conditions for the ASX 300 were stable in March, remaining neutral at 0 points – in contrast to declines recorded in NAB's Quarterly Business Survey (QBS), which was down to -7 points. Aggregate results mask significant movements by industry, with the Finance, Business & Property Services sector considerably stronger, while Retail and Manufacturing weakened. ASX 300 firms expect conditions to improve, up to +8 points, in Q2.
- Business confidence improved across the economy, with confidence levels for the ASX 300 and QBS moving in lockstep, from -8 points to +4 points. Manufacturing, the Finance, Business & Property Services sector and Mining were the main contributors to the rebound for the ASX 300.
- Softness in the domestic economy was evident in deteriorating measures of sales margins, forward orders and stocks for the ASX 300 – with trends for the ASX 300 in line with the economy average.
- Cost pressures have remained comparatively soft across the economy in recent quarters. In particular, ASX 300 firms reported falling prices for purchases and overheads in Q1, but also falling product prices – with each of these measures down around -0.1%.
- ASX 300 capacity utilisation recovered in Q1 (after a dip in the December quarter). However there was a sharp fall in capital expenditure, with the ASX 300 in line with the broader economy at -3 points (down from +12 points in Q4 2012). Most sectors recorded declines, with Retail, the Transport, Utilities & Communications sector and Wholesale contributing the most to the declines.
- The cashflow position of the ASX 300 improved in the quarter, up from +10 points to +18 points. This strengthening was counter to a weaker trend for the broader economy.
- Firms in the ASX 300 viewed demand as less of a constraint on their profitability and output – compared with a peak in the December quarter. There was minimal change in the QBS measures.



Key quarterly business statistics**

Q1 2013	ASX300	NAB QBS	ASX300	NAB QBS
	Net balance		Net balance	
Business confidence	4	4	Trading	-5
Business conditions			Profitability	-9
- Current	0	-7	Employment	-5
- Next 3 months	8	6	Forward orders	-11
- Next 12 months	24	17	Stocks	-5
Capex plans (next 12 months)	9	13	Export sales	-1
	% change		% change	
Labour costs	0.26	0.32	Retail prices	-0.01
Purchase costs	-0.13	0.34	Capacity utilisation rate	83.6
Final product prices	-0.06	0.08		80.0

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** All data non-seasonally adjusted. Cost and prices data are percentage changes expressed at a quarterly rate. All other data are net balance indexes, except capacity utilisation, which is an average rate, expressed as a percentage. Fieldwork for this Survey was conducted from 25 February to 13 March 2013.

Analysis

Business conditions for Australia's larger firms remained stable in the first quarter of 2013, in contrast to deteriorations recorded in NAB's broader Quarterly Business Survey (QBS).

Respondents to our ASX 300 survey recorded a net balance of 0 points in March, essentially unchanged from the level recorded in December.

Conditions at a sub-sector level were mixed, with considerably stronger conditions in the Finance, Business & Property Services sector, while Retail and Manufacturing were weaker (the latter having the weakest conditions overall). (See page 6)

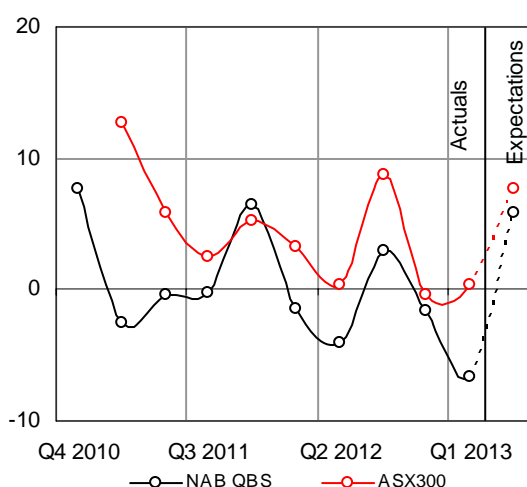
In contrast, business conditions continued to decline for the broader economy, with firms in the QBS recording a net balance of -7 points (on a non-seasonally adjusted basis), down from -2 points in Q4.

The ASX 300 have stronger expectations for conditions in the short term, however the gap between these firms and the QBS is expected to narrow significantly in Q2 2013. ASX 300 firms recorded a net balance of +8 points for the period, compared with +6 points for the broader economy.

The key drivers of stronger ASX 300 conditions in the second quarter are the Mining and (to a lesser extent) the Finance, Business & Property Services sector, while conditions in Recreational & Personal Services (an outperformer in recent quarters) are expected to weaken significantly.

ASX 300 conditions hold steady as the broader economy softened

Business conditions (net balance, nsa)



net balance	Conditions – current	Conditions – next 3 months	Conditions – next 12 months	Confidence – next 3 months
ASX 300	0	8	24	4
NAB QBS	-7	6	17	4

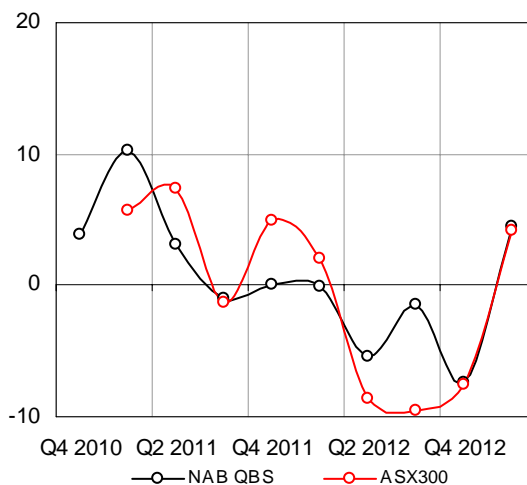
Business confidence improved across the economy in Q1 2013, with confidence levels in both surveys moving in lockstep.

Firms in both the ASX 300 and QBS recorded stronger confidence levels in March – at +4 points, compared with -8 points in the December quarter.

Among ASX 300 firms, the largest improvements in confidence were recorded in Manufacturing (albeit a sector where confidence remains marginally negative), Mining and the Finance, Business & Property Services sector. In contrast, confidence in ASX 300 Retail declined sharply – down to neutral levels.

Confidence levels for ASX 300 and QBS move in lockstep

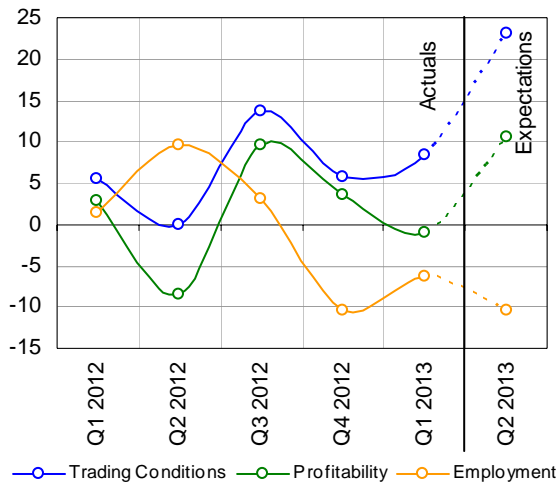
Business confidence (net balance, nsa)



net balance	Trading Conditions	Profitability	Employment	Sales margins	Forward orders	Stocks
ASX 300	8	-1	-6	-11	-12	-6
NAB QBS	-5	-9	-5	-13	-11	-5

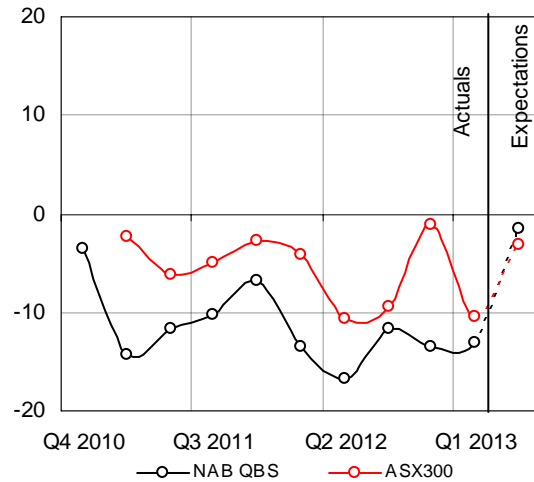
Weaker profits counter improved trading & employment trends

Business conditions components (net balance, nsa)



Sales margins deteriorate for ASX 300, closer to QBS levels

Sales Margins (net balance, nsa)



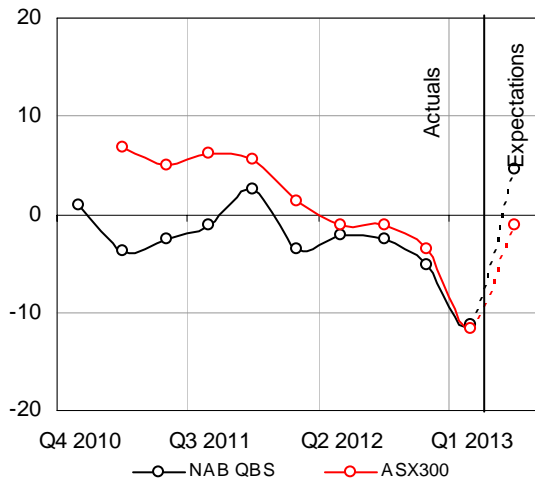
There were divergent trends in the individual components of business conditions in the first quarter. Trends for employment were less negative – at -6 points (from -10 points in Q4) – while trading conditions were slightly improved, up to +8 points (from +6 points previously). In contrast, the measure of profitability deteriorated, falling from +3 points to -1 point.

The expected strengthening in conditions in Q2 are driven by improving trends in trading conditions and profitability, however these factors are tempered by negative expectations around employment.

The weakening profitability for ASX 300 firms during the quarter is evident in the measure of sales margins. This measure was comparatively strong in Q4 2012 (at -1 point), but it deteriorated in Q1 2013 to -11 points. In contrast, margins in the QBS were stable, at -13 points. Firms in both surveys expect less negative conditions in Q2, at -2 points in the QBS and -3 points in the ASX 300.

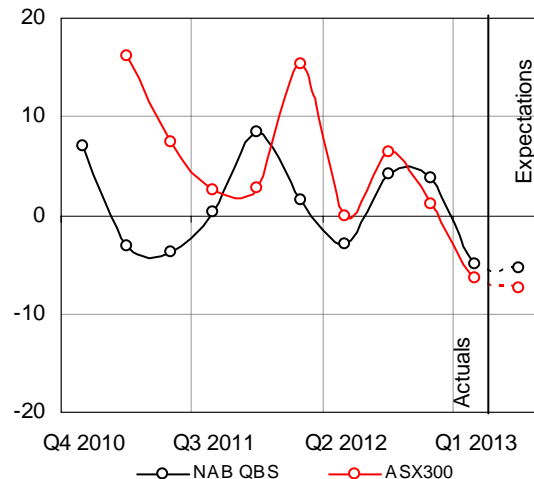
Forward orders declined across the economy

Forward Orders (net balance, nsa)



Stock levels turned negative in Q1; little change expected next quarter

Stock levels (net balance, nsa)

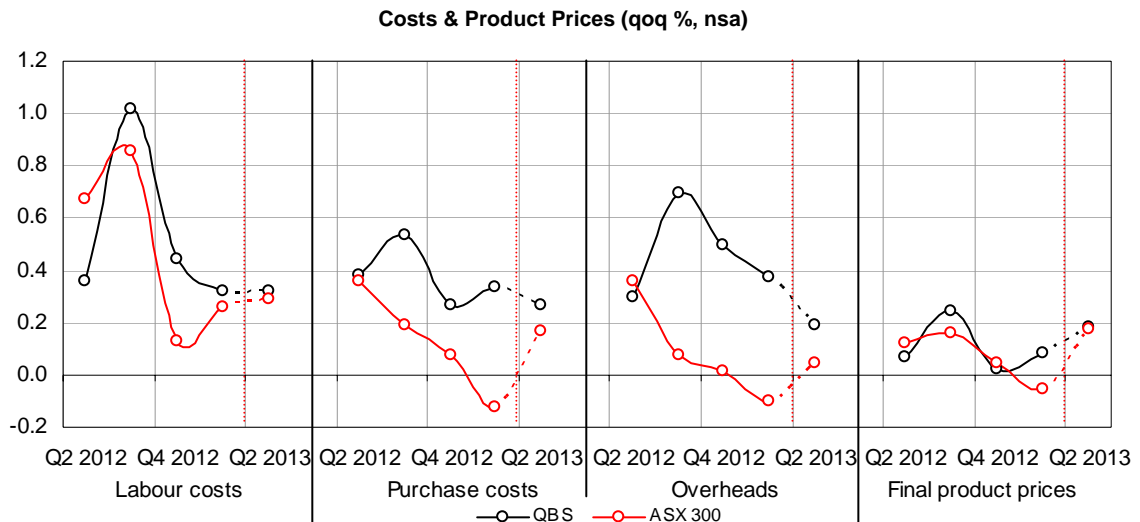


Forward orders for the ASX 300 also deteriorated considerably in Q1 2013, recording a net balance of -12 points (compared with -3 points in the December quarter). This decline was broadly in line with trends recorded in the QBS, which saw forward orders fall to -11 points (from -5 points previously). Expectations for forward orders were stronger for the broader economy – with QBS firms anticipating orders at +5 points in Q2, compared with relatively neutral levels in the ASX 300 survey, at -1 point.

Stock levels for ASX 300 firms declined in Q1 (albeit less significantly than was anticipated in our previous survey) – down to -6 points (from +1 point in Q4 2012). There was a similar trend in the QBS, with stocks down to -5 points (from +4 points in December). In the short term, firms anticipate stock levels to remain comparatively weak.

Both of these measures are indicative of softness in the economy in Q1 2013.

Cost pressures softer for ASX 300, compared with peaks in 2012; purchase costs & overheads turned negative, along with product prices



Cost pressures have remained comparatively soft across the economy in recent quarters. In particular, ASX 300 firms reported falling prices for purchases and overheads in Q1 – at -0.1% for both measures. Mining and Manufacturing recorded the largest declines in these measures. In contrast, the broader economy recorded increases in these measures of +0.3% and +0.4% respectively.

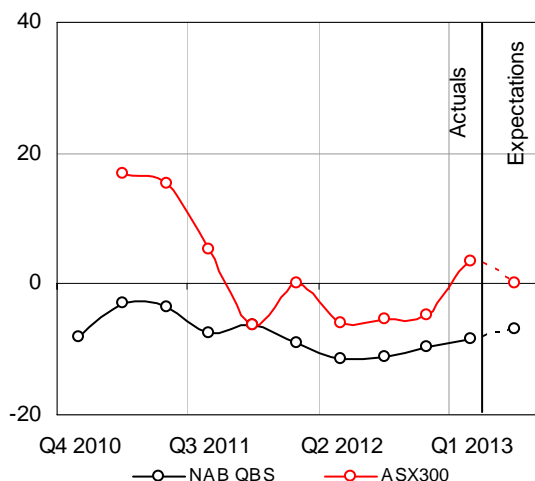
Labour costs were a little higher for the ASX 300 in the March quarter, but at +0.3% it was marginally lower than the level in the QBS, and weaker than recent peaks. Manufacturing and Retail saw the largest increases in ASX 300 labour costs.

In line with softening cost pressures, prices for final products have also been weaker in recent quarters. ASX 300 firms reported declines in prices in Q1 2013 – at -0.1%, down from 0% in the December quarter. In contrast, trends in the QBS were stronger, with an increase of +0.1%.

Expectations for Q2 are mixed for the ASX 300. Labour costs are expected to increase at a similar rate – at around +0.3%. A larger turn around is expected for purchase costs, increasing by +0.2%, following the decline in Q1. Final product prices are tipped to improve – up by +0.2% - in line with expectations in the QBS.

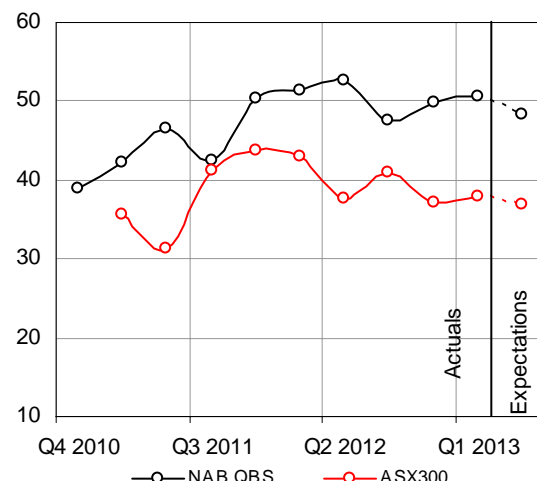
Borrowing conditions improve for ASX 300; back to neutral in Q2

Ease of obtaining borrowings (net balance, nsa)



Borrowing requirements marginally softer in Q1 2013

No borrowings required (% , nsa)

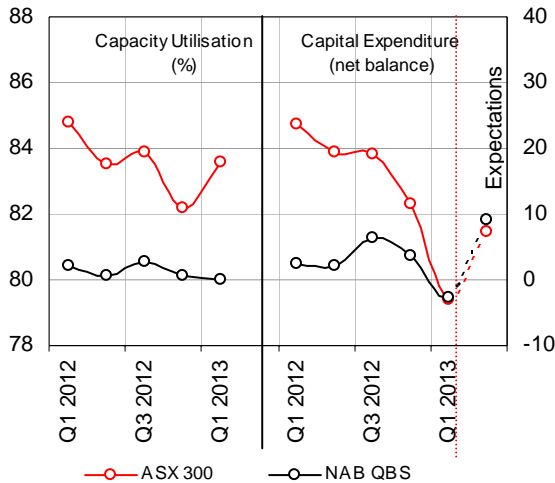


Firms in the ASX 300 reported an improvement in borrowing conditions in the March quarter, with the ease of obtaining borrowings turning positive, at +3 points (the first positive level since the second half of 2011). In contrast, borrowing conditions for the QBS remained negative, at -9 points (compared with -10 points previously). In the short term, ASX 300 firms expect borrowing conditions to soften again, down to neutral levels in Q2 2013, but stronger than the broader economy.

The number of firms reporting that they have no borrowing requirements edged higher in both surveys in Q1 2013. Around 38% of ASX 300 firms (from 37% previously) and 50% of firms in the QBS reported no requirements.

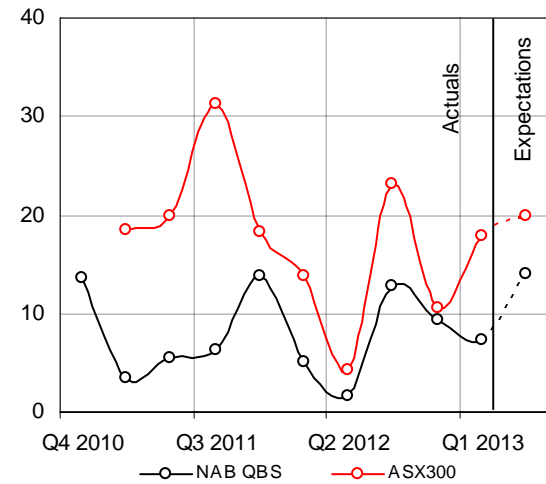
ASX 300 capacity utilisation recovered, but capex fell sharply

Capacity Utilisation and Capital Expenditure



Cashflow trends diverge, with a strong improvement for ASX 300

Cashflow (net balance, nsa)



ASX 300 capacity utilisation recovered in Q1 2013 – moving back up to 84% (from 82% in the December quarter). Capacity utilisation in the QBS was largely unchanged, remaining at around 80%.

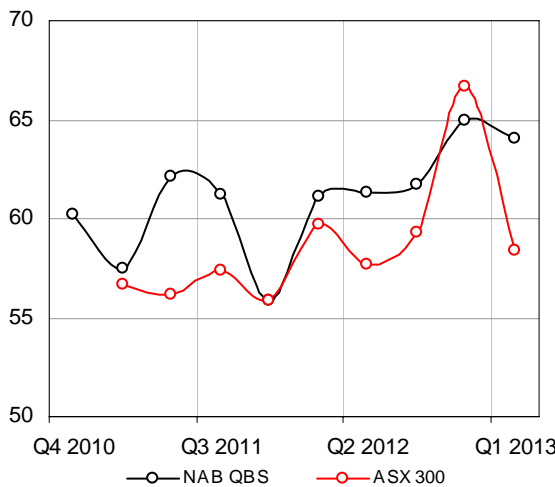
In contrast, capital expenditure trends were negative across the economy. Firms in both the ASX 300 and QBS recorded a net balance of -3 points, with this representing a significant decline for the ASX 300, down from +12 points previously. Retail and the Transport, Utilities & Communications sector contributed the bulk of the decline for the ASX 300. Short term expectations are for an improvement in expenditure, at +7 points for the ASX 300 and +9 points for the QBS.

Trends in cashflows were divergent in the March quarter – with an improvement in our ASX 300 survey in contrast to a slight deterioration in the QBS. Firms in the ASX 300 recorded a net balance of +18 points (from +10 points previously), while the QBS recorded +7 points (down from +9 points in the December quarter). The main contributors to the stronger cashflow for the ASX 300 were the Finance, Business & Property Services sector and Manufacturing, while there was a sharp decline in the Transport, Utilities & Communications sector.

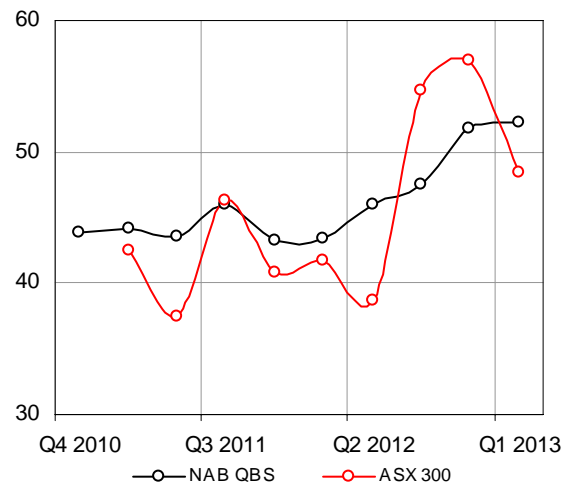
Firms in both surveys expect improved cashflows in Q2 – with a modest increase in the ASX 300, up to +20 points, and a stronger gain for the QBS, to +14 points.

ASX 300 firms view demand as less of a constraint on their business than the broader economy

Constraints on output (% of firms) – Sales & Orders



Main constraint on profitability (% of firms) - Demand



Demand remains the key constraint on the economy at present – however, it appeared to be less of a concern for firms in the ASX 300 in March. Around 58% of ASX 300 firms identified 'Sales & Orders' as a key constraint on output at present (down from 67% in the December quarter), while 48% of firms nominated demand as the main constraint for profitability – down from 57% previously). In contrast, there was minimal change in these concerns for firms in the QBS.

Industry analysis

Business conditions: Gap between strongest and weakest narrowed in Q1, with most sectors weaker – albeit performing more strongly than the QBS

Despite **business conditions** being broadly unchanged for the ASX 300 in the March quarter, this masked some significant movements by industry.

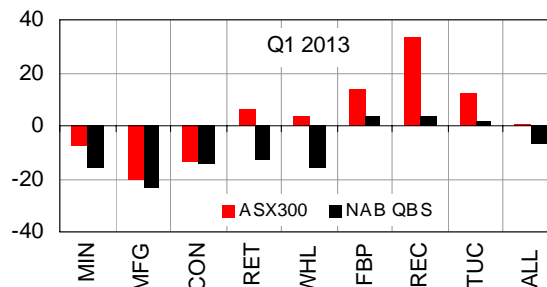
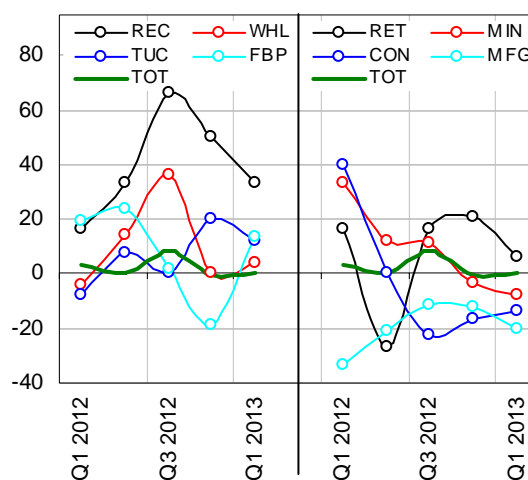
The gap between the strongest and weakest performing sectors has narrowed significantly across the past two quarters, with **Recreational & Personal Services (REC)** (the strongest performing sector in the ASX 300 over the past year) pulling back to +33 points (from +50 points in December). In contrast, **Manufacturing** eased more modestly, down to -20 points.

The largest mover in the quarter was the **Finance, Business & Property Services (FBP)** sector. In Q4 2012, this sector recorded the weakest conditions at -19 points, however it rebounded in the March quarter to +14 points.

Short term expectations for ASX 300 firms are markedly different by industry, with the anticipated improvement in conditions driven by a recovery in **Mining** (which has deteriorated over the past year) and further gains for **FBP**.

When compared with conditions in the QBS, ASX 300 firms outperformed their industry peers across all categories, with the largest disparities in the **REC, Wholesale** and **Retail** sectors.

Business conditions (net balance, nsa)



Business confidence: Trends for the ASX 300 are closer aligned to the QBS, with Construction the main outlier

Trends in **business confidence** also converged for the ASX 300 in Q1 2013, with improving confidence among previously weaker sectors contributing to the overall upward trend.

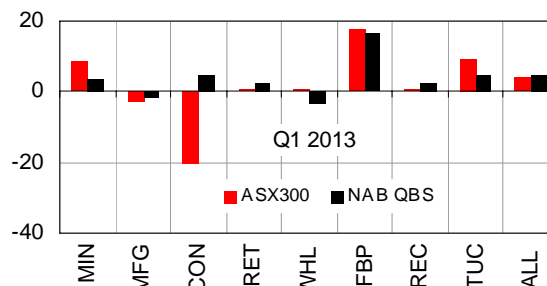
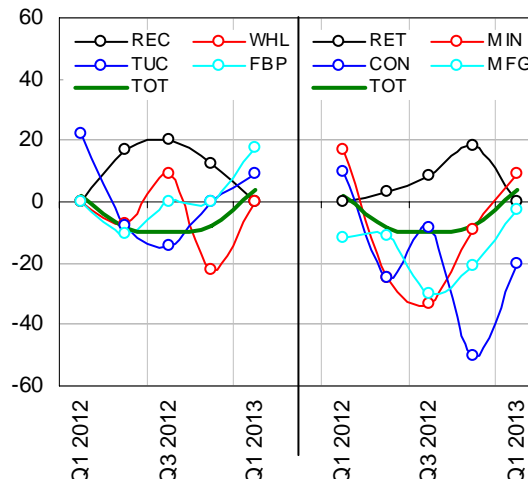
The strongest sector – and the one of the main contributors to the overall increase – is **FBP**, at +18 points, up from 0 points previously. Other sectors with comparatively strong confidence levels are **Mining** at +9 points (from -9 points in Q4 2012) and **Transport, Utilities & Communications (TUC)**, at +9 points (previously 0 points).

Construction recorded the weakest levels of confidence, at -20 points – albeit the sector was less negative than the December quarter (-50 points).

Other sectors recorded broadly neutral confidence levels, with **REC** and **Retail** deteriorating to this level, while **Wholesale** and **Manufacturing** improved (with the latter being the largest contributor to the improving aggregate trend).

For most sectors, there is minimal difference in the confidence levels between the ASX 300 and QBS. The main exception is **Construction**, where the ASX 300 is considerably weaker than the QBS (-20 points vs. +5 points). To a lesser extent, there are also notable differences in **Mining** and **TUC**, which recorded stronger confidence for ASX 300 firms.

Business confidence (net balance, nsa)



Capital expenditure: Capex declines across most ASX 300 sectors, with Retail, TUC and Wholesale the main contributors to the aggregate fall

The negative trend for **capital expenditure** is evident across the bulk of individual industries.

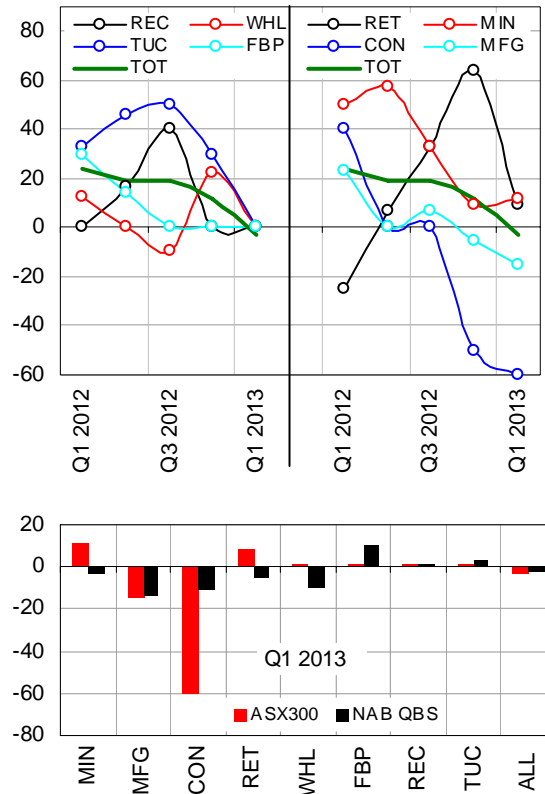
The strongest level of capital expenditure in the March quarter was in the **Mining** sector, at +12 points. While this is marginally stronger than the level recorded in December, it is well below those recorded in the first half of 2012.

In contrast, **Construction** recorded the weakest level for capex, at -60 points (down from -50 points previously).

Most sectors recorded declines, with **Retail, Transport, Utilities & Communications (TUC), and Wholesale** contributing the most to the declines.

There were some notable differences in capex between the ASX 300 and the QBS. ASX 300 **Construction** and **Finance, Business & Property Services (FBP)** recorded weaker capex levels (particularly in the case of the former), while **Mining, Retail** and **Wholesale** capex plans were comparatively stronger for ASX 300 firms.

Capital expenditure (net balance, nsa)



Forward orders: Steep declines in Wholesale and TUC led to weaker ASX 300 forward orders

The deterioration in **forward orders** for the ASX 300 was largely driven by steep declines in the **Transport, Utilities & Communications (TUC)** sector and **Wholesale**.

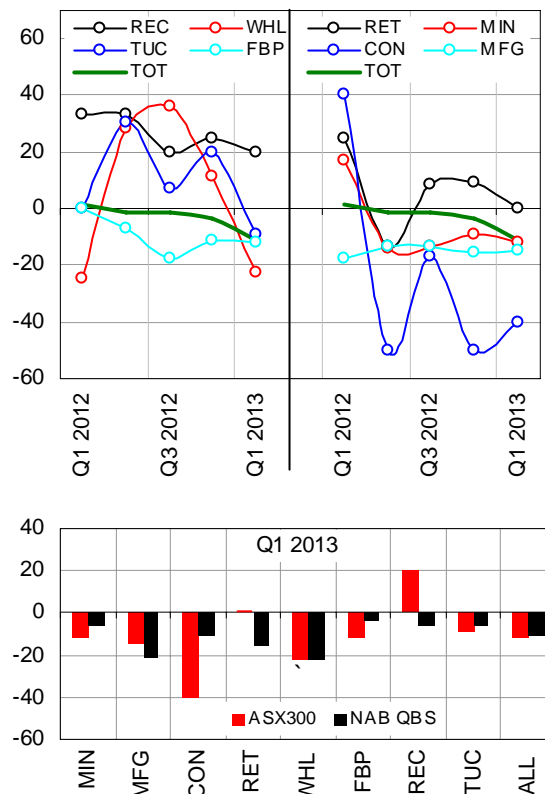
Wholesale fell to -22 points in Q1 2013 (compared with +11 points in the December quarter). The **TUC** sector declined to -9 points in Q1, from +20 points previously.

Trends for **Construction** were less negative in the March quarter – albeit still firmly negative at -40 points (but improved from -50 points in Q4 2012).

Recreational & Personal Services (REC) was the only sector to record positive levels for orders, at +20 points, however this was softer than the +25 points in the December quarter.

Forward orders were marginally softer for the ASX 300 than the broader economy, with this trend driven by weaker levels in **Construction, FBP, Mining** and **TUC**. In contrast, both **REC** and **Retail** recorded considerably stronger levels for orders.

Forward orders (net balance, nsa)



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