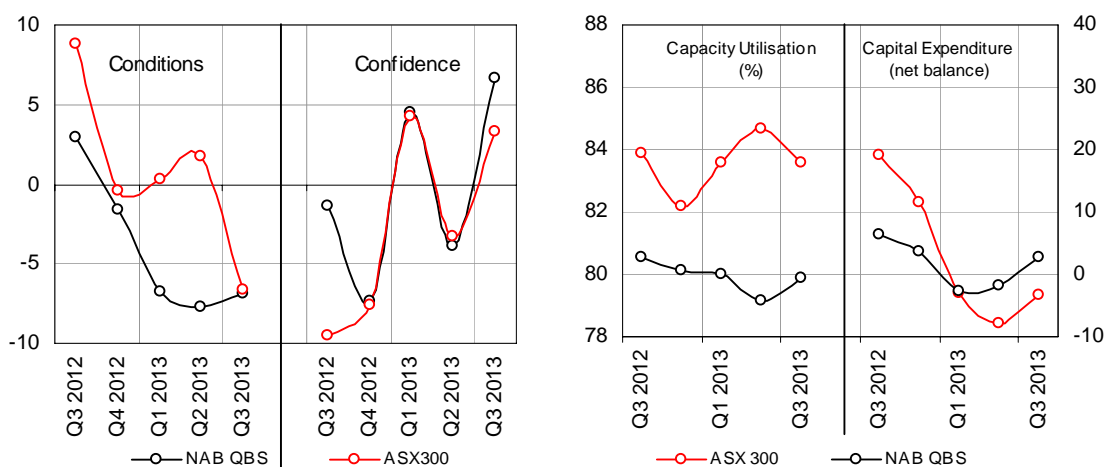


Quarterly ASX 300 Business Survey September 2013

Business conditions for larger firms fell in September – in line with the broader economy – but confidence rebounded (back to positive territory). Forward orders much stronger. Capacity Utilisation edges lower while investment intentions remain mute. Retail prices improving but still weak.

- Larger firms reported a sharp fall in business conditions in the September quarter – down to -7 points (from +2 points in our previous survey) – a level that was in line with the broader economy (which was little changed). Most industries recorded weaker conditions, particularly the Transport, Utilities & Communications sector and Manufacturing.
- The weaker trend in overall business conditions for the ASX 300 was driven by falls in the measures for employment and trading conditions, while the profitability measure remained positive.
- In contrast to conditions, there was a rebound in business confidence across the economy – although the gains were marginally less for larger firms (at +3 points from -3 points in June) than for the broader economy (at +7 points). Among larger firms, confidence trends were stronger for Mining and Manufacturing, while they were weaker for Transport, Utilities & Communications.
- A range of measures indicate a possible end to the discounting cycle among larger firms – with sales margins and final product prices rising in the September quarter, along with the share of firms reporting that demand was a constraint on their output (a measure which fell during the discounting cycle across the first half of 2013).
- Large firms were able to control cost pressures more effectively than the rest of the economy in September – with lower rates of growth for labour and purchase costs, as well as overheads, while final product prices increased at a similar rate.
- Capital expenditure remains weak among larger firms, although it was slightly improved when compared with June. Trends differ between individual industries, with strong trends in Manufacturing and Finance, Business & Property Services and negative trends for Wholesale and Mining.

Business conditions & confidence (net balance, nsa) Capacity Utilisation and Capital Expenditure



Key quarterly business statistics**

	ASX 300	NAB QBS		ASX 300	NAB QBS	
	Q2 2013	Q3 2013		Q2 2013	Q3 2013	
	Net balance			Net balance		
Business confidence	-3	3	Trading	5	-4	
Business conditions			Profitability	3	1	
- Current	2	-7	Employment	-3	-16	
- Next 3 months	4	3	Forward orders	-14	2	
- Next 12 months	21	18	Stocks	-13	0	
Capex plans (next 12)	19	7	Export sales	-1	7	
	% change			% change		
Labour costs	0.39	0.39	Retail prices	0.08	0.27	
Purchase costs	0.27	0.39		Per cent		
Final product prices	-0.26	0.16	Capacity utilisation rate	84.6	83.6	
					79.9	

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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 26 August to 11 September 2013.

Analysis

Business conditions for Australia's largest firms deteriorated sharply in the September quarter, bringing them back in line with the broader economy.

Conditions for ASX 300 firms fell to -7 points in Q3 (compared with +2 points in June). This is the lowest level for conditions recorded since the survey commenced in Q1 2011.

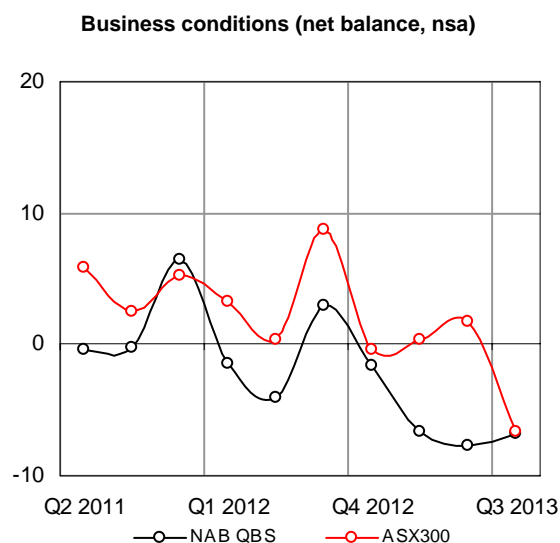
Most industries saw declines in conditions in the quarter, with the deterioration in the overall measure driven by falls in the broad Transport, Utilities & Communications sector and Manufacturing (see page 6).

In contrast, there was minimal change to conditions in NAB's Quarterly Business Survey (QBS), edging up to -7 points (on a non-seasonally adjusted basis), compared with -8 points previously.

Short term expectations are considerably stronger in both surveys. Firms in the QBS anticipate conditions to improve to +5 points in the December quarter, while expectations among the ASX 300 lag slightly at +3 points.

The Mining, Retail, Wholesale and Manufacturing sectors are the main contributors to the anticipated improvement for larger firms.

Deterioration in conditions in Q3 brings ASX 300 back in line with broader economy



net balance	Conditions – current	Conditions – next 3 months	Conditions – next 12 months	Confidence – next 3 months
ASX 300	-7	3	18	3
NAB QBS	-7	5	16	7

Counter to the weakness in business conditions in Q3, **business confidence** strengthened in both surveys, although the gains were less significant for larger firms.

Confidence among ASX 300 firms trended up to +3 points in Q3, compared with -3 points in our previous survey.

The stronger level of ASX 300 confidence was primarily driven by stronger trends for Mining and Manufacturing, while levels were weaker for Wholesale and Transport, Utilities & Communications (see page 6).

Similarly, confidence was stronger for firms in the QBS – which increased to +7 points (from -4 points in the June quarter).

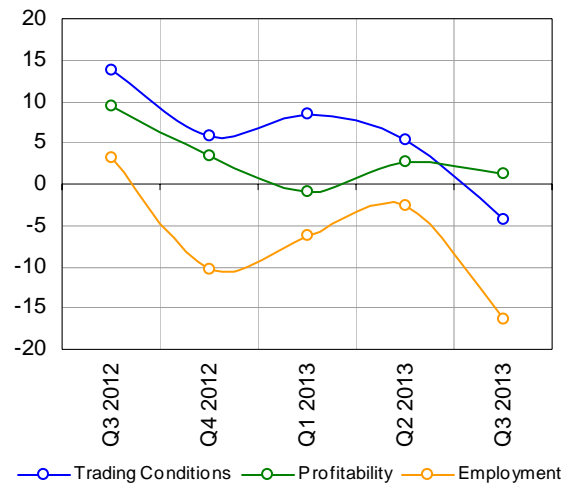
Confidence improves in Q3, but ASX 300 slightly less confident than QBS



net balance	Trading Conditions	Profitability	Employment	Sales margins	Forward orders	Stocks
ASX 300	-4	1	-16	-5	2	0
NAB QBS	-4	-7	-9	-21	-4	-3

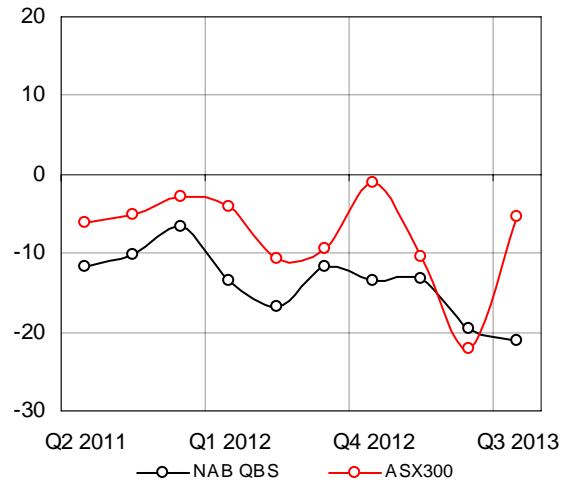
Trading and employment weaker in Q3; profits more stable

Business conditions components (net balance, nsa)



Steeply negative sales margins reverse in Q3

Sales Margins (net balance, nsa)

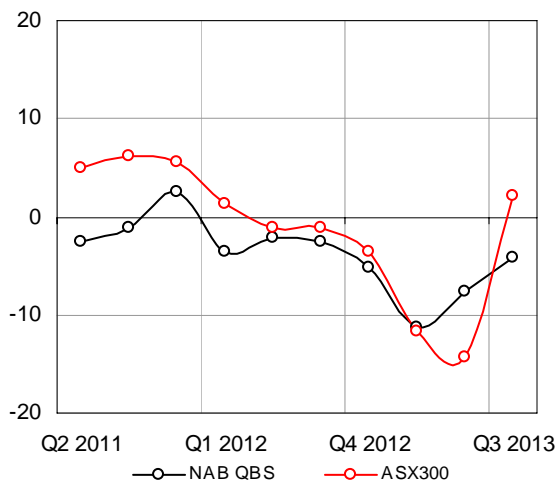


The negative trend in ASX 300 business conditions was driven by deteriorations in the employment and trading conditions measures. Employment pulled back sharply – down to -16 points (from -3 points in Q2), while trading conditions fell to -4 points (from +5 points in our previous survey). Profitability for the ASX 300 was less volatile, edging down to +1 point from +3 points. Stronger trading conditions are the main contributor to the expected improvement in conditions in Q4.

Trends in sales margins diverged in the September quarter between the two surveys. Margins for the ASX 300 were negative – at -5 points – but this was a considerably stronger trend when compared with -22 points recorded in Q2. For the broader economy, there was a further deterioration in margins, down to -21 points, from -20 points in June. ASX 300 firms expect sales margins to turn positive in Q4, up to +3 points, while margins are less negative in the QBS at -5 points. The shift in margins for the ASX 300 may signal the end of a discounting cycle that was evident across the past few quarters.

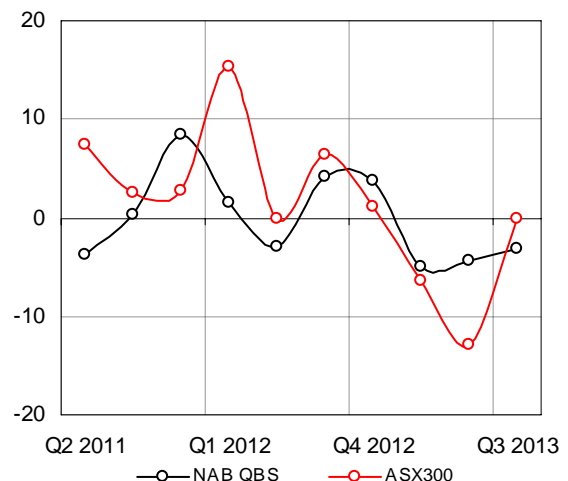
Forward orders strongest for ASX 300 since late 2011

Forward Orders (net balance, nsa)



ASX 300 stock levels back to neutral, after two negative quarters

Stock levels (net balance, nsa)

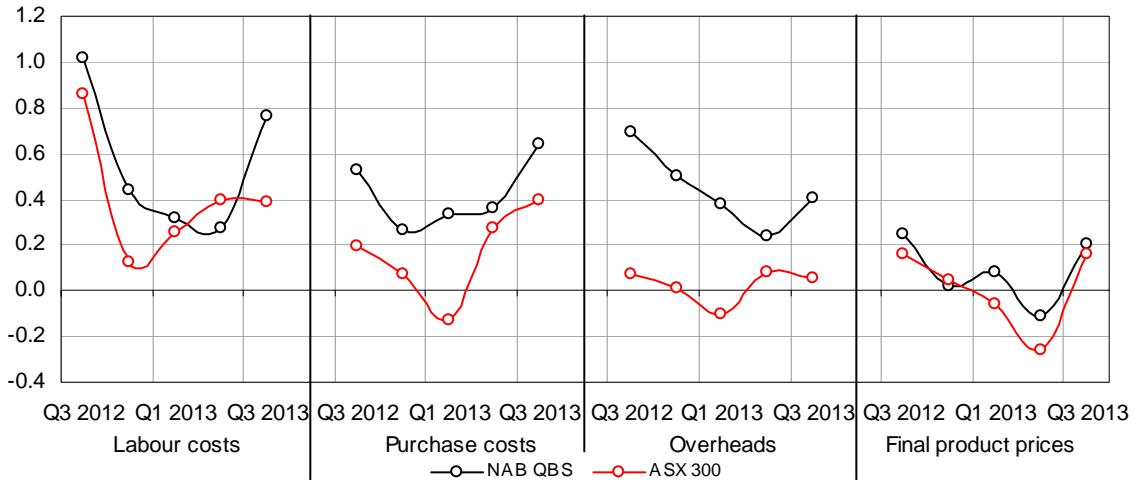


Trends for ASX 300 forward orders were considerably stronger in the September quarter – moving up to +2 points (from -14 points in Q2), the strongest level since Q4 2011. Orders remained negative for the broader economy – but less negative than in the June quarter – at -4 points (compared with -8 points previously). Short term expectations are stronger in both surveys, with ASX 300 firms at +5 points and QBS firms at +4 points for Q4.

Stock levels also rebounded for the ASX 300, moving back up to 0 points, from -13 points in our previous survey. In contrast, there was minimal change for the broader economy, edging up to -3 points (from -4 points in June).

**ASX 300 contain cost pressures in Q3, as pressures rise in the QBS.
Rising final product prices may signal end of discounting phase**

Costs & Product Prices (qoq %, nsa)



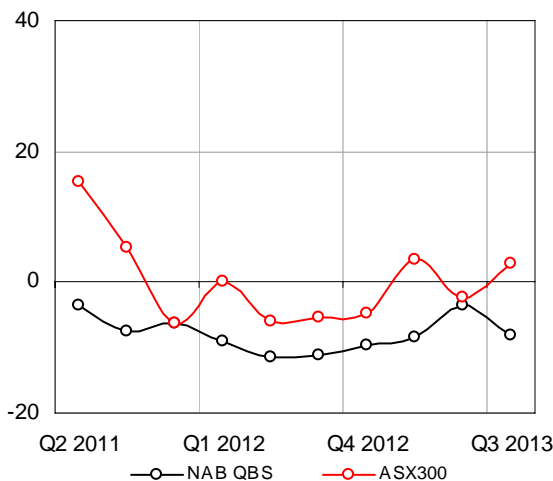
In the September quarter, ASX 300 firms generally enjoyed advantages in costs when compared with the broader economy. Growth in labour costs and overheads remained stable for the ASX 300, at +0.4% and +0.1% respectively, while there was a modest uptick in purchase costs, up to +0.4% (from +0.3% previously). In contrast, cost trends in the QBS were negative – with labour costs rising by +0.8%, purchase costs up to +0.6% and overheads increasing by +0.4%.

There was a significant change to final product prices in the September quarter – with an increase in prices for the ASX 300, following a clear downward trend over the past few quarters. Product prices increased by +0.2% in the quarter (compared with -0.3% in June), which may signal the end of the discounting phase.

The expectations for costs and prices in Q4 are somewhat mixed for the ASX 300 – with negative trends in labour and purchase costs (both slightly stronger than the levels recorded in the QBS) countered by positive trends in overheads and final product prices.

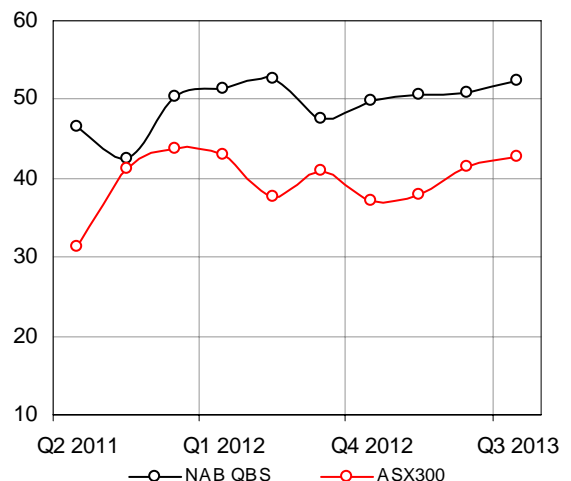
Borrowing conditions diverge, with an improvement for ASX 300

Ease of obtaining borrowings (net balance, nsa)



Share of firms with no borrowing requirement edges higher

No borrowings required (% , nsa)

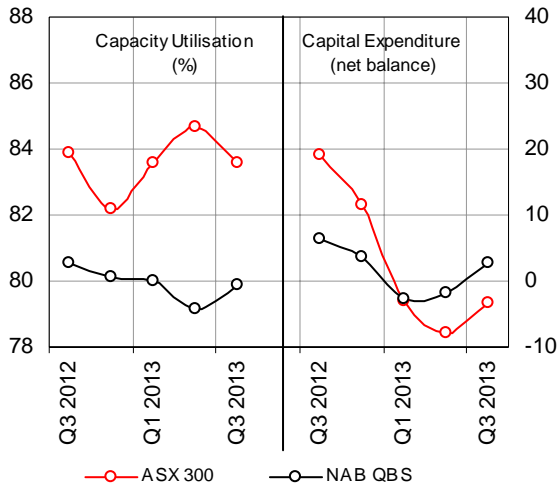


There was an improvement in borrowing conditions for ASX 300 firms in Q3 – with the measure up to +3 points (from -2 points previously). In contrast, borrowing conditions worsened for the broader economy, down to -8 points in the QBS. In the short term, large firms expect conditions to weaken – back down to -2 points in the December quarter.

A slightly higher share of firms in both surveys reported that they had no borrowing requirements in Q3, at 43% of ASX 300 firms (from 42% in Q2) and 52% in the QBS (from 51% previously). Firms in both surveys expect a downward trend next quarter – to 38% for the ASX 300 and 49% for the QBS.

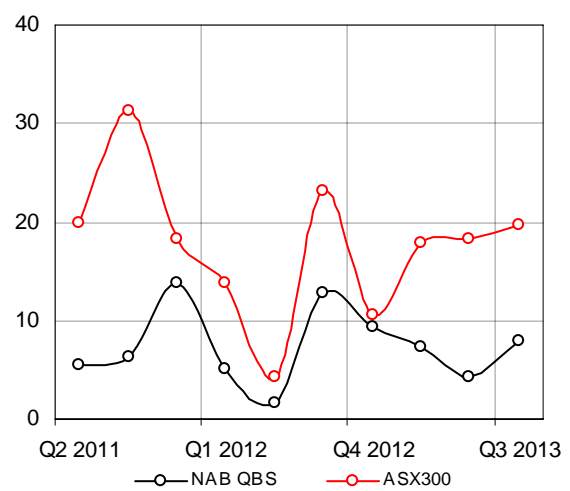
ASX 300 capex still negative but tipped to rise in Q4

Capacity Utilisation and Capital Expenditure



Cashflow trends for the ASX 300 continue to outperform

Cashflow (net balance, nsa)



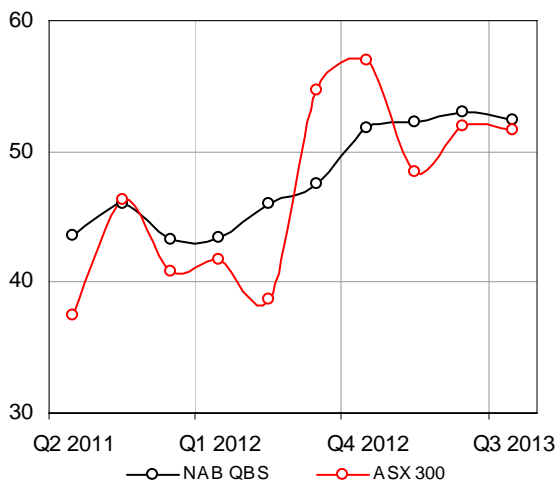
There remains a significant gap in capacity utilisation between the ASX 300 and broader economy – albeit the gap narrowed a little in Q3, with ASX 300 utilisation down to 84% (from 85% in June), while utilisation in the QBS recovered to 80% (from 79% previously).

Capital expenditure remains weak among the ASX 300 – having deteriorated sharply over the past few quarters. Capex in the September quarter remained negative, at -3 points (but up from -8 points in June). Capex trends diverge considerably between individual industries with the ASX 300, with strong trends in Manufacturing and Finance, Business & Property Services and negative trends for Wholesale and Mining (see page 7).

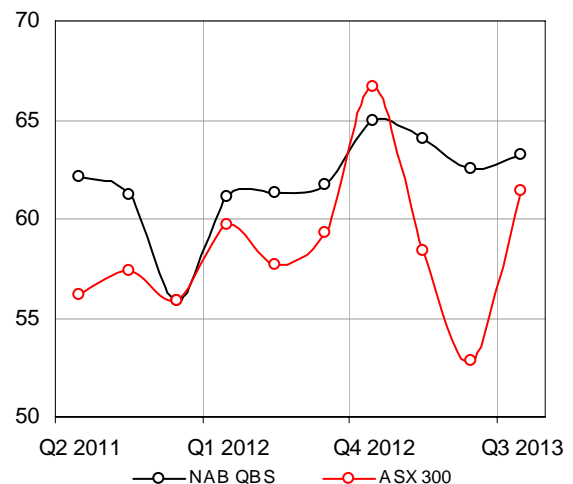
Cashflow trends remain considerably stronger for the ASX 300 than firms in the QBS – with ASX 300 cashflow at +20 points in Q3 (up from +18 points in Q2). Cashflow for QBS firms improved, up to +8 points (from +4 points in June). Firms in both surveys have similar expectations for Q4, with ASX 300 firms anticipating a decline to +14 points, and firms in the QBS expecting an improvement to this level.

Demand identified as a more important constraint on output in Q3 – may indicate that the discounting phase has come to an end

Main constraint on profitability (% of firms) - Demand



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



Demand remains the main constraint for profitability for respondents to both of our surveys, with around 52% of firms identifying this constraint – a level similar to our previous survey.

In contrast, there was a sharp rebound in the share of ASX 300 firms reporting Sales & Orders as a constraint on output, up to 63% in September (compared with 52% in June). Combined with trends for final product prices and sales margins, it appears consistent with the end of the discounting cycle.

Industry analysis

Business conditions: Transport and Manufacturing push overall conditions lower. Recreational services strongest, while Construction remains weak

Most industries recorded weaker levels of **business conditions** in Q3. The main contributors to the overall decline in conditions in the quarter were **Transport, Utilities & Communication (TUC)** (one of the more volatile sectors in our survey, which fell to 0 points from +50 points previously) and **Manufacturing** (down to -14 points from +3 points).

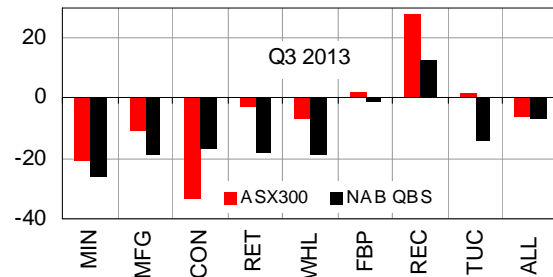
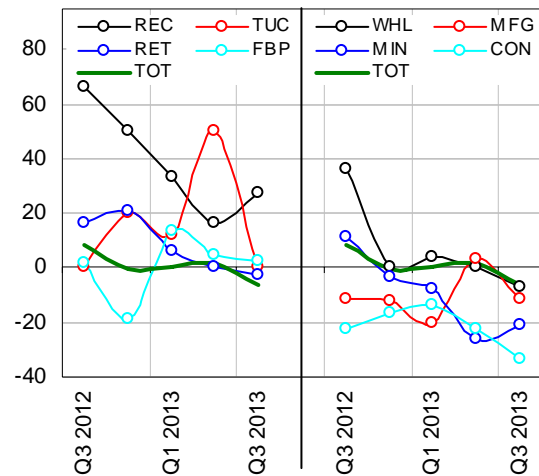
In contrast, trends improved for **Mining** (albeit remaining the second most negative industry overall), at -21 points (from -26 points previously) and **Recreational & Personal Services (REC)** – the strongest performer at +28 points (from +17 points in Q2).

Compared with the trends in the QBS, most ASX 300 firms recorded stronger conditions – with the exception of **Construction** (-33 points for ASX 300 firms and -17 points in the QBS).

The similar levels recorded for aggregate business conditions reflect the differing industry composition of both surveys, with higher shares for **Manufacturing** in the ASX 300 and **REC** in the QBS.

The improvement in expected business conditions for the ASX 300 in Q4 is driven by gains in **Mining, Retail, Wholesale and Manufacturing**.

Business conditions (net balance, nsa)



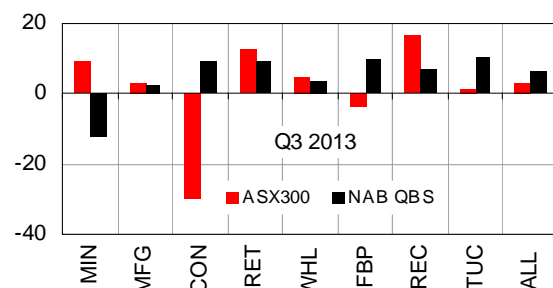
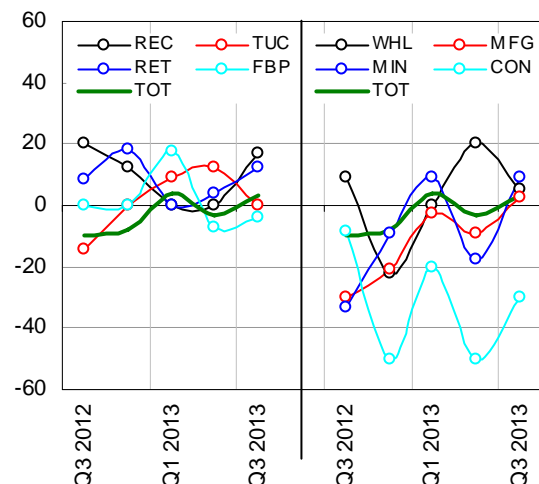
Business confidence: Mining, Manufacturing and Recreational Services push confidence back into positive territory

Despite an overall stronger trend for **business confidence**, trends at the industry level were mixed. The main contributors to the improved level of confidence were **Mining** and **Manufacturing** – both of which returned to positive territory – and to a lesser extent **Recreational & Personal Services (REC)**, which has the strongest level of confidence overall.

In contrast, there were negative trends for **Wholesale** and **Transport, Utilities & Communications (TUC)**.

Confidence levels between the ASX 300 and QBS show some disparity at the industry level. This is particularly the case in **Construction**, with ASX 300 firms at -30 points (the weakest overall) compared with +9 points in the QBS. Similarly, ASX 300 **Mining** recorded confidence at +9 points, versus -12 points in the QBS.

Business confidence (net balance, nsa)



Forward orders: The pickup in orders was primarily seen in Finance, Business & Property Services, Retail and Manufacturing

After several quarters of declines in **forward orders**, the rebound recorded in Q3 was driven by stronger trends in **Finance, Business & Property Services (FBP), Retail and Manufacturing**.

There were notable declines in orders for **Wholesale and Transport, Utilities & Communications (TUC)** (albeit the latter had the strongest level for orders overall at +18 points).

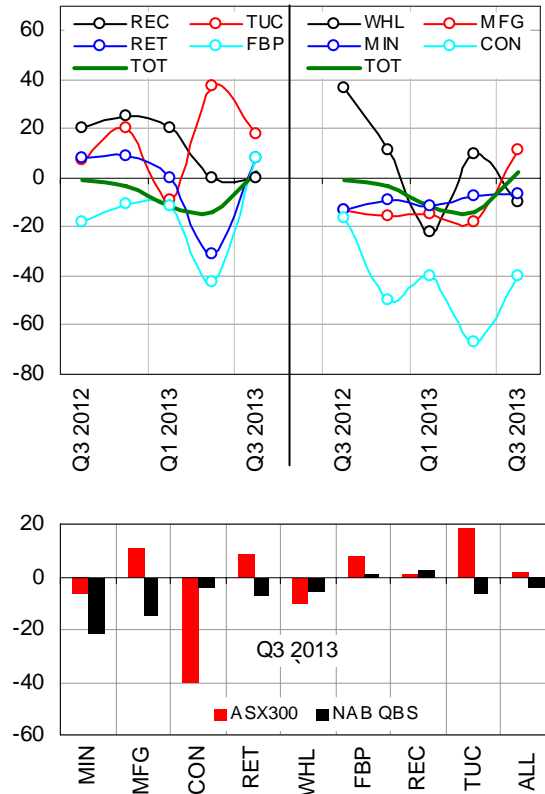
There remains a wide gap between the strongest orders (in TUC) and the weakest (in Construction) – although this gap narrowed in Q3.

Overall, forward orders for the ASX 300 were stronger than the broader economy, however ASX 300 **Construction** (which recorded the weakest level overall at -40 points) and **Wholesale** both recorded weaker levels than these sectors in the QBS.

In contrast, orders are considerably stronger for ASX 300 firms in **Manufacturing, TUC, Retail and Mining**.

Expected gains in forward orders next quarter are driven by improved trends in **Mining and FBP**, however **Manufacturing and Retail** expect a softening trend – both sectors back to 0 points.

Forward orders (net balance, nsa)



Capital expenditure: ASX 300 capex remains negative overall. Manufacturing, FBP & Retail stronger in Q3; Wholesale & Mining weaker

Capital expenditure was slightly improved when compared with the June quarter, but remained negative (and below the level in the QBS).

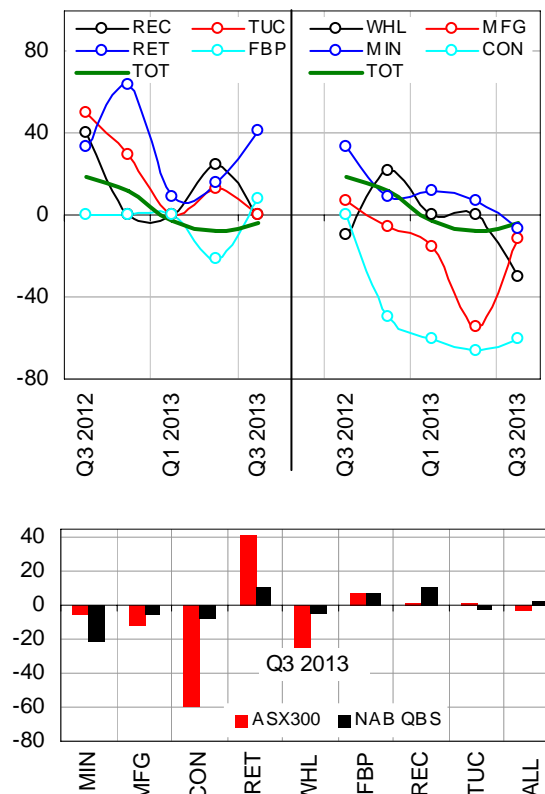
The less negative trend for capex was driven by improvements in **Manufacturing** (which remained negative) and **Finance, Business & Property Services (FBP)**, while **Retail** also improved – with this sector being the strongest overall.

In contrast, all other sectors recorded negative trends for capital expenditure, with the largest declines being in **Wholesale and Mining**.

The wide gap between the strongest and weakest sectors is in stark contrast to the results from the QBS. Capex was considerably stronger for ASX 300 firms in the **Retail and Mining** (despite the latter being negative) their QBS competitors, while **Construction, Wholesale and Recreational & Personal Services** recorded weaker levels.

Firms in both surveys anticipate stronger capital expenditure in the December quarter – with minimal difference in the level in both surveys. The improved trend for the ASX 300 is driven largely by **Wholesale and Retail**.

Capital expenditure (net balance, nsa)



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