



Embargoed until: 11:30am Friday 26 September 2014

Introduction

Australia's future economic growth is closely aligned to the ongoing economic integration with the expanding Asia region.

Two-way trade in goods and services totalled \$647 billion in 2013, or around 42% of GDP. Our six largest Asian trading partners alone accounted for almost 50% of this trade.

The NAB Australia-Asia Business Engagement Index provides a unique measure of the size and intensity of business relationships of all Australian firms trading with Asia.

It draws on NAB's Business Surveys (the Quarterly Business Survey, ASX 300 and SME) to ask Australian businesses to assess their level of trade engagement.

The index differs from other measures of trade by capturing engagement at the business level rather than at the output level.

The survey measures all areas of trade in which Australian business is engaged (i.e. imports, exports and off-shoring of products and services). Engagement is captured across the types of trade, by country, by business size and by industry. Traditional measures of engagement using the volume or value of trade, typically weight engagement heavily toward commodity exports and larger firms.

The index provides a unique picture of where, to what extent, and how Australians firms are engaged:

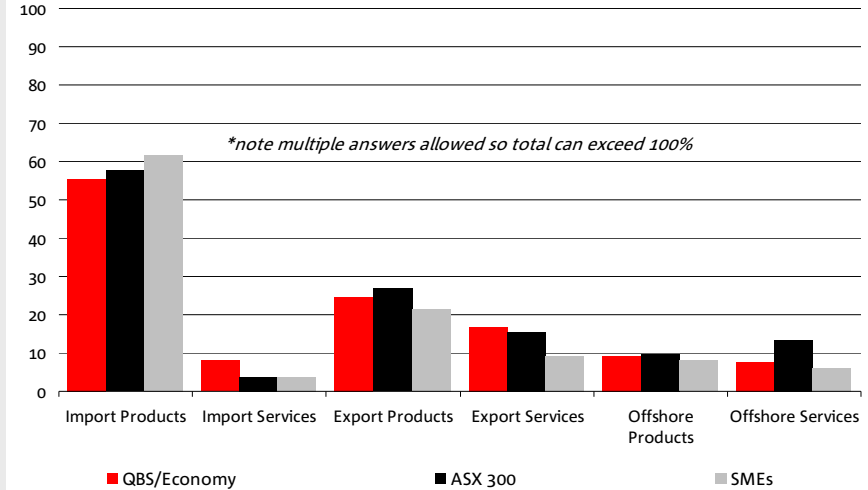
- Australia's engagement with Asia is dominated by product imports.
- Australia's engagement is clearly strongest with China across all sizes of business, but is higher for SMEs than the ASX 300.
- Outside of China, engagement is typically higher for the ASX 300 compared to SMEs for all countries except Taiwan and Hong Kong.
- By industry, while overall engagement is strong for Mining and Manufacturing product exports, it is also strong for Retail, Wholesale and Manufacturing through product imports, and Construction, Finance, Business, Property and Recreation, Personal Services, & Hospitality for service exports.
- Very few Australian businesses not currently engaged with Asia have any plans to commence a business relationship over the next year.



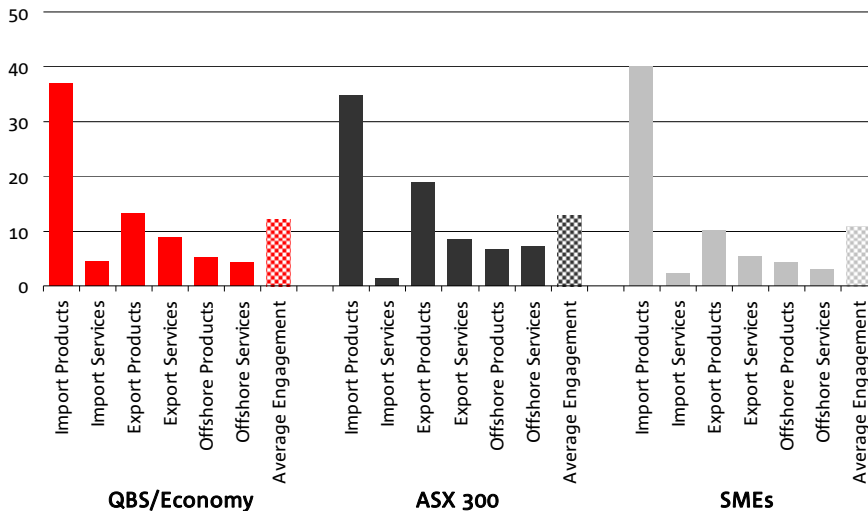
Highlights

- The **NAB Australia-Asia Business Engagement Index** is a measure of the size and intensity of business relationships of Australian firms based on their trading with Asia, by type of trade, by country, by industry and by business size.
- The Index is strongest for product imports (37) and weakest for services imports (4) and offshore services (4). SMEs and the ASX 300 are also most engaged through product imports, however the ASX 300 are much more engaged through product exports than SMEs.
- Australia's business engagement is clearly strongest with China across all sizes of business (engagement is even higher for SMEs than the ASX 300). The next most highly engaged countries are Singapore, Japan, Malaysia, Thailand and India.
- For the ASX 300, outside of China, engagement is strongest with Japan, Singapore, India, Thailand and Indonesia. Among SMEs, after China, Taiwan, Singapore, Japan and Hong Kong were most engaged.
- Industry engagement is strongest for Retail, Wholesale and Manufacturing through product imports, Mining and Manufacturing for product exports, and Construction, Finance, Business, Property and Recreation, Personal Services, Hospitality for service exports.

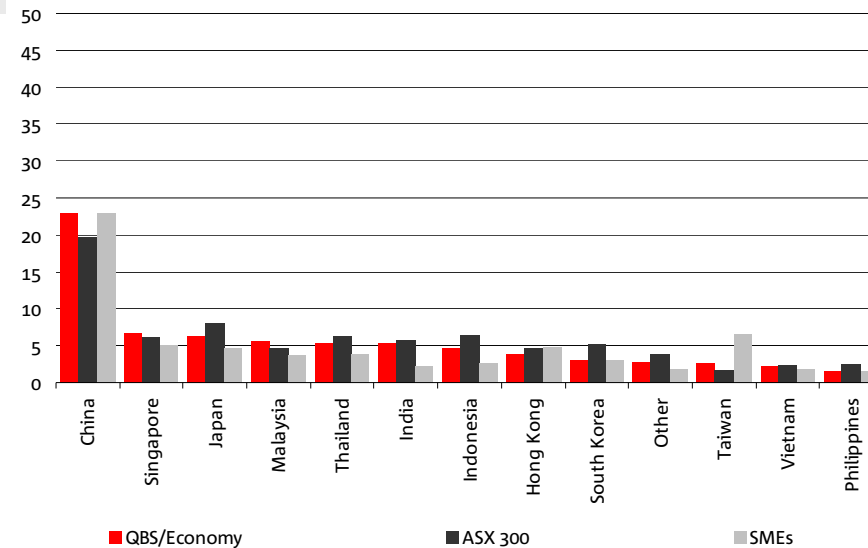
Business Engagement (by type) with Asia (% of engaged firms)



NAB Australia-Asia Business Engagement Index (proportion engaged by type and intensity)



Engagement by Country: Weighted by Type of Engagement



Australia's Business Engagement with Asia - Current & Next 12 months

- NAB's Quarterly Business Survey (QBS) has been tracking Australian business conditions and confidence for more than 22 years. It is widely regarded as a leading indicator of economic conditions in Australia. In this new addition to the survey, we asked Australian businesses to assess their level of trade engagement with Asia. ASX 300 and SMEs were also surveyed.
- As a first step, survey participants were asked whether they had a relationship with Asia, and to nominate the type of relationship. The survey measures all areas of trade in which Australian business is engaged (i.e. imports, exports and off-shoring of products and services). This measure of engagement does not address the intensity of engagement but simply whether a relationship exists.
- Australian business is clearly most engaged in terms of product imports (see chart 1). Around 55% of Australian firms that are engaged with Asia import products, with ASX 300 firms (58%) and SMEs (62%) importing more. Product exports was the next biggest area of engagement according to 25% of all firms, but was slightly higher for ASX 300 firms (27%) and lower for SMEs (21%). Trade engagement was lowest overall for services imports (8%), especially for ASX 300 firms (4%) and SMEs (4%).
- Those Australian companies already trading with Asia were then asked whether they planned to increase or decrease their engagement with the region in the next 12 months (chart 2). Overall engagement is expected to increase across all areas of trade. Engagement is expected to increase most for product imports, especially among ASX 300 companies. SMEs are also planning to import more products next year. In contrast, a smaller net balance of Australian firms are expecting to increase their product exports to Asia next year, led by SMEs.
- Although trade is expected to rise across all areas, in the case of products it is expected to rise most on the import side. For services, however, engagement is expected to rise more for exports. The gap between increased import product engagement and import services engagement is widest for ASX 300 companies.

CHART 1: Business Engagement (by type) with Asia
(% of engaged firms)

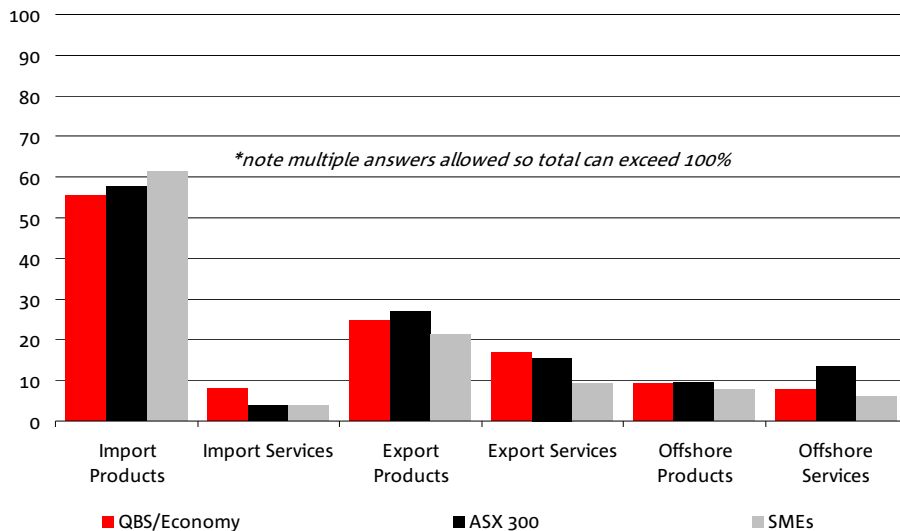
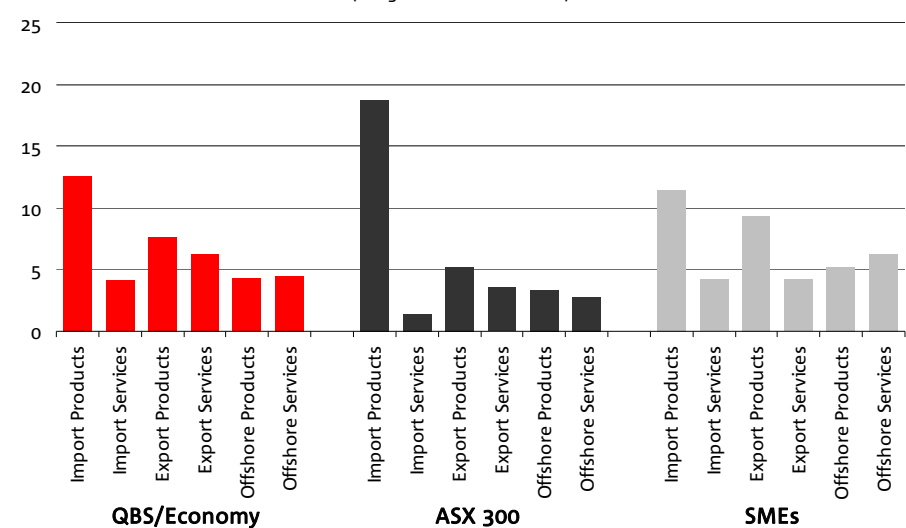


CHART 2: Business Engagement Plans with Asia: Next 12mths
(weighted net balance %)



Australia-Asia Business Engagement - Intensity & NAB's Index

- Firms engaged with Asia were then asked about the intensity of their engagement with responses converted to a scale from 0-100.
- The relationship was strongest for product imports across the economy followed by offshore services, and weakest for services exports (see chart 3), but overall the intensity of engaged firms across all types of trade is strong.
- There are however important differences in the level of intensity by business size. Those ASX300 companies already engaged with Asia are most intensely engaged in product exports and offshore products and least engaged in the importing of services. In contrast, SMEs trading with Asia are more highly engaged in product imports and least engaged in product exports.
- The **NAB Australia-Asia Business Engagement Index** (chart 4) is simply the combination of business engagement (chart 1) and engagement intensity (chart 3).
- When applied to all firms by adjusting for engagement, the relative importance of product imports becomes even more apparent - and across business size. While the "average" engagement score across the economy is 12, the score for product import engagement is 37, with the next highest being product exports at 13 (chart 4).
- The pattern of engagement in the index is broadly similar across business size, albeit, product import engagement is strongest for SMEs (40) and weakest for the ASX300 (35). Product export engagement is strongest for the ASX300 (19) and weaker for SMEs (10).
- Engagement scores are lowest for services imports and the off-shoring of services.

CHART 3: Engagement Intensity

(score out of 100 where 0 = "not at all engaged" and 100 = "completely engaged")

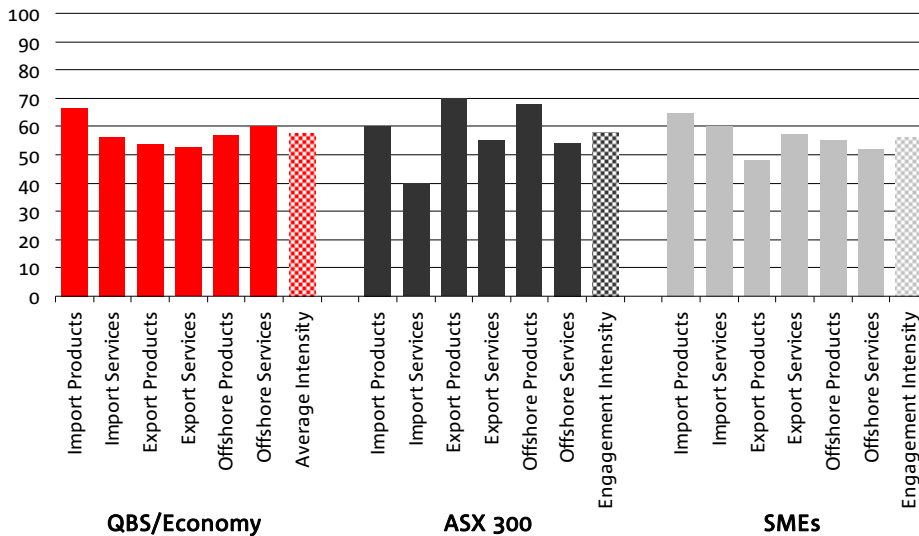
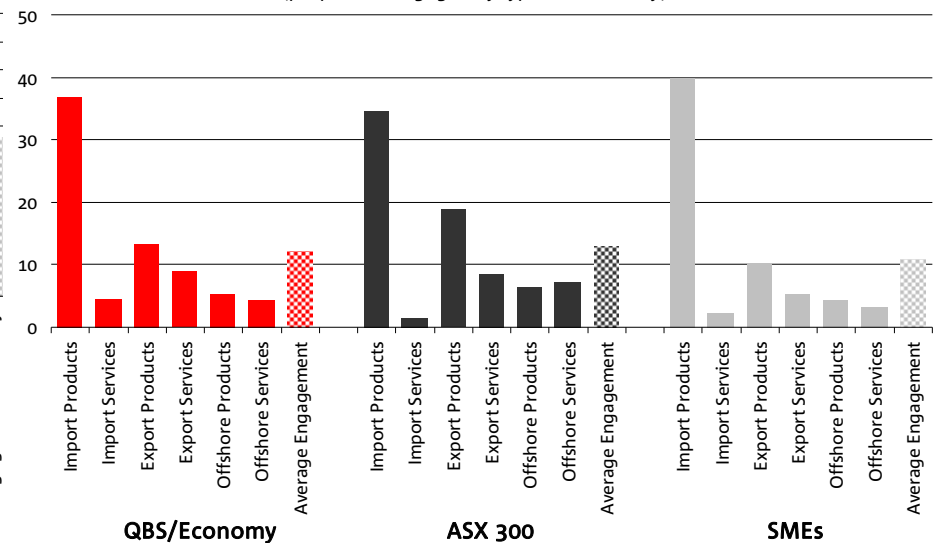


CHART 4: NAB Australia-Asia Business Engagement Index

(proportion engaged by type and intensity)



NAB Australia-Asia Business Engagement by Country

- The survey also looks at business engagement with Asia by country and the type of engagement.
- Overall, Australia's business engagement (weighted by type of engagement) is clearly strongest with China across all size of business (chart 5). Engagement is however higher for SMEs than the ASX 300. For the broad economy, the next most highly engaged countries include Singapore, Japan, Malaysia, Thailand and India.
- For the ASX 300, outside of China, engagement is strongest with Japan, Singapore, India, Thailand and Indonesia.
- Among SMEs, after China, Taiwan, Singapore, Japan and Hong Kong were most engaged.
- The type of engagement also varies across economy. For example, economy-wide engagement with China is strongest in product imports followed by off-shoring of product (chart 6).
- In contrast for the ASX 300, while products imports are still the highest form of engagement with China, export products, services imports and services exports also feature prominently (with the ASX 300 much more engaged in terms of exporting product compared with both the broader economy and SMEs) . Conversely, product off-shoring has a lower level of engagement than the broader economy.
- Among SMEs, product importing remains the highest form of engagement with China, however, off-shoring of products is much more significant than for both the wider economy and the ASX 300. SMEs are also significantly more engaged with China in terms of services imports.
- In general, SMEs are less engaged across all Asian economies compared with the wider economy and the ASX 300. There are however exceptions - SMEs are on average are more engaged with Taiwan and Hong Kong. In both cases, this reflects the greater importance of product imports for SMEs from both these countries (see additional country charts on pages 5-6).

CHART 5: Engagement by Country: Weighted by Type of Engagement

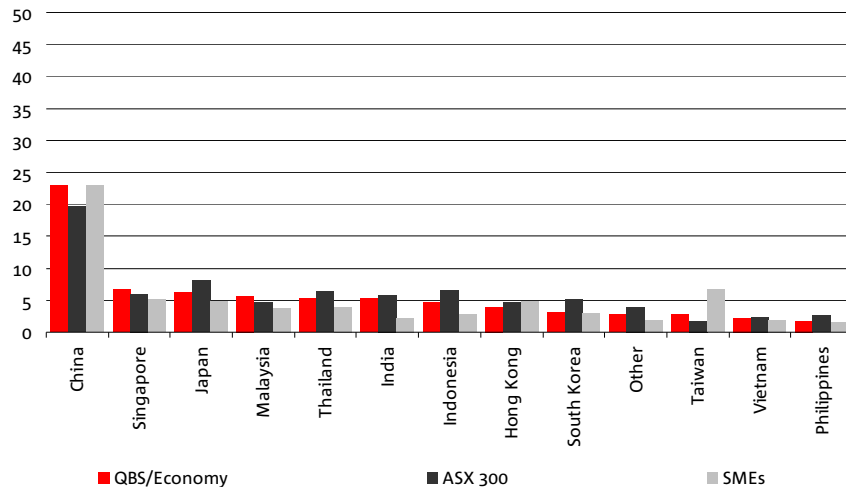
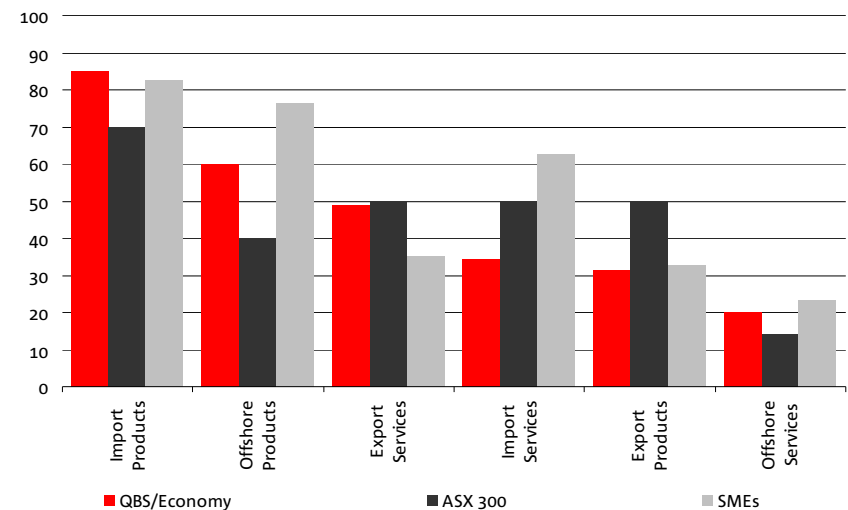


CHART 6: Business Engagement by Type - China



Australia-Asia Business Engagement - Selected Countries

CHART 7: Business Engagement by Type - Singapore

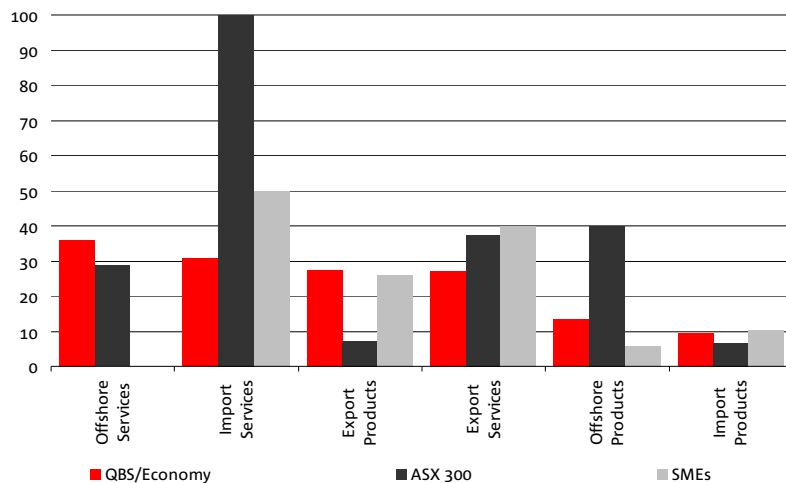


CHART 8: Business Engagement by Type - Japan

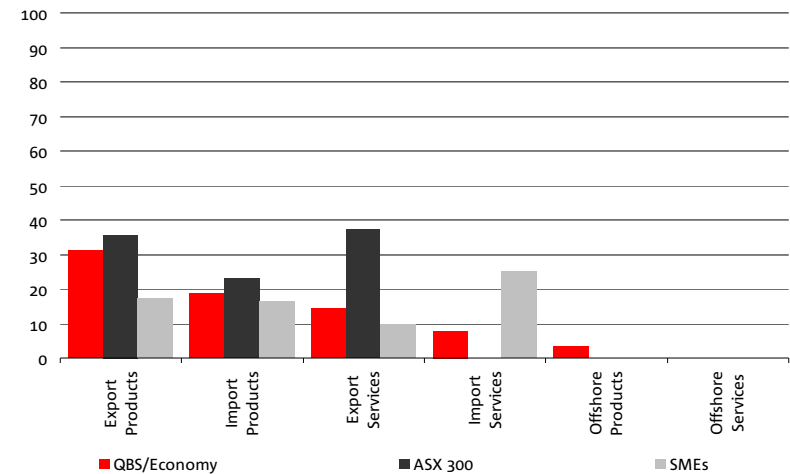


CHART 9: Business Engagement by Type - India

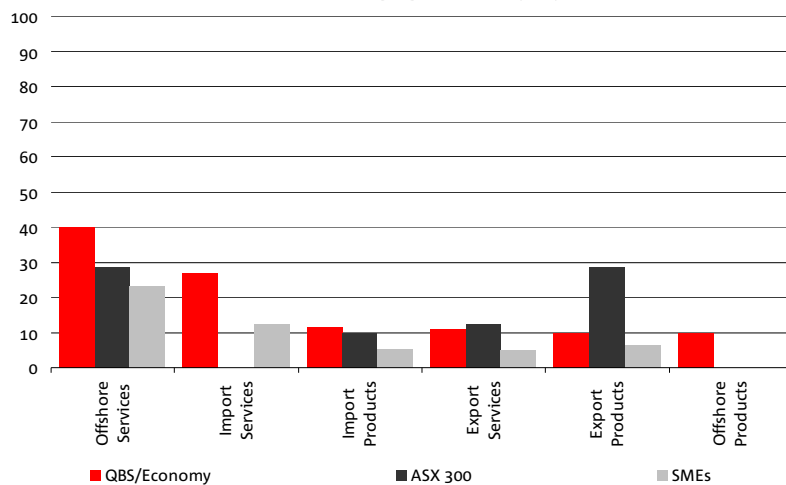
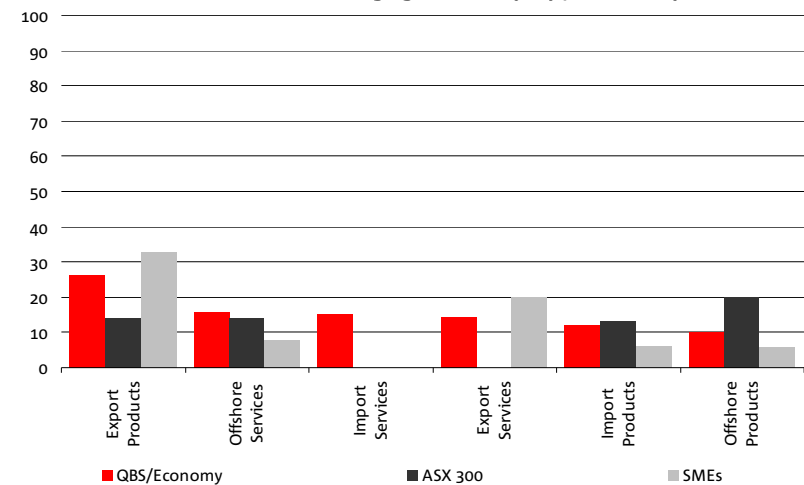


CHART 10: Business Engagement by Type - Malaysia



- Each country presents a different engagement profile by type and by business size.
- For example, the ASX 300 has a particularly strong level of engagement in relation to services imports and offshore products to Singapore, export services to Japan, product exports to India and offshore products to Malaysia. SMEs appear to be particularly engaged in regards to product exports to Malaysia, export services to Singapore and import services to Japan.

Australia-Asia Business Engagement - Selected Countries

CHART 11: Business Engagement by Type - Thailand

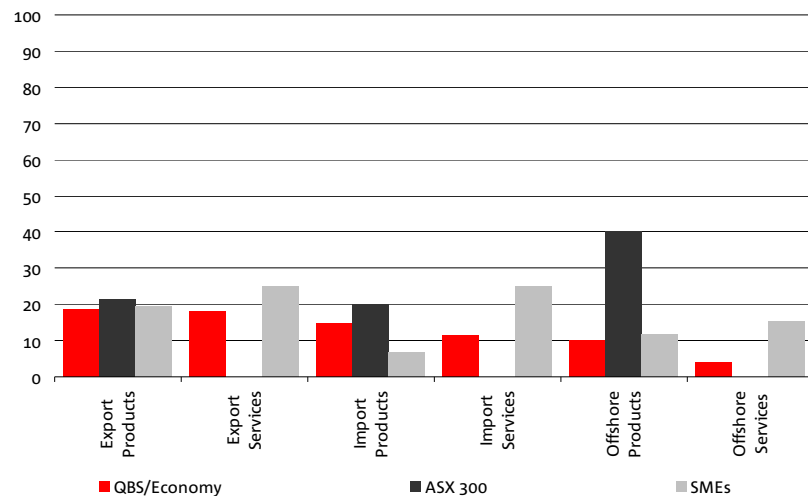


CHART 12: Business Engagement by Type - Indonesia

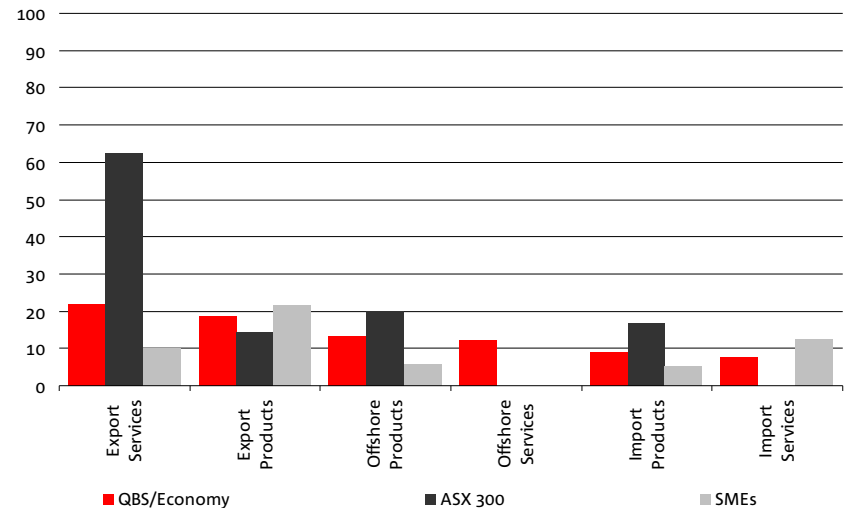


CHART 13: Business Engagement by Type - Hong Kong

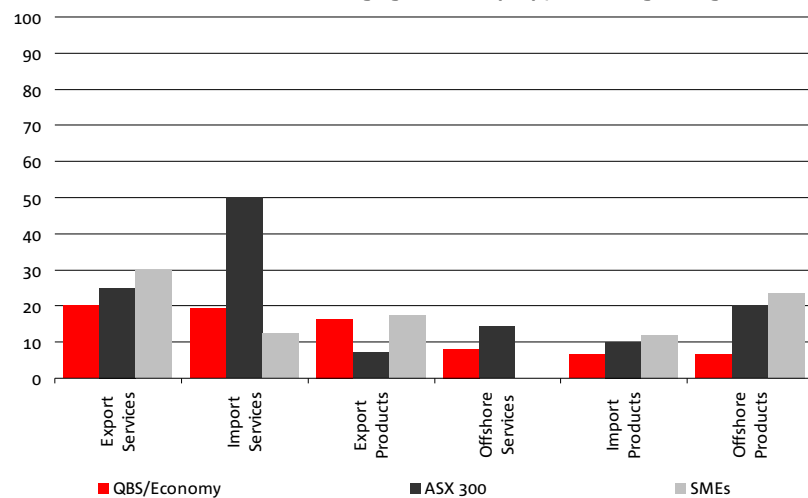
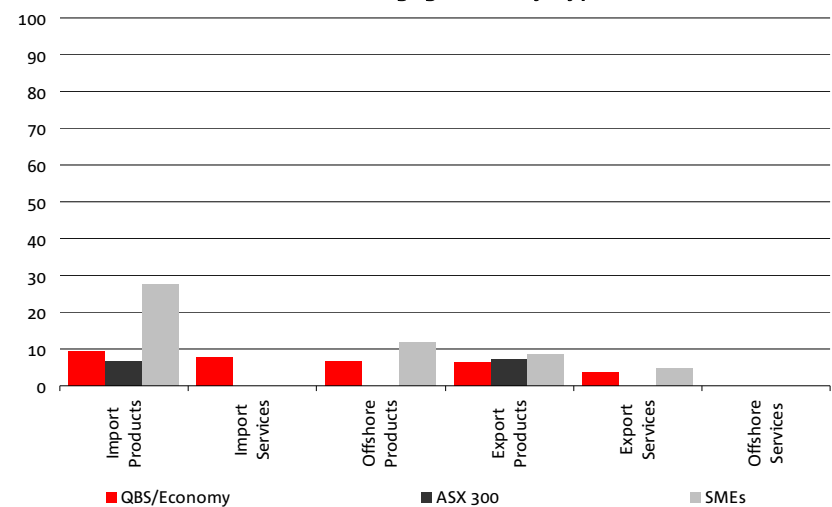


CHART 14: Business Engagement by Type - Taiwan



- The ASX 300 has a particularly strong level of engagement in relation to service exports to Indonesia, service imports from Hong Kong and offshore products from Thailand.
- SMEs appear to be particularly engaged in regards to services imports and offshore services with Thailand, service exports and offshore products to Hong Kong, and product imports with Taiwan.

Australia-Asia Business Engagement by Industry

- Engagement also varies widely by industry and by business size.
- For the economy as a whole (QBS), industry engagement is strongest for Retail, Wholesale and Manufacturing through product imports, Mining and Manufacturing for product exports, and Construction, Finance, Business, Property and Recreation, Personal Services, Hospitality for service exports.
- For the ASX 300, engagement is strongest among Retail, Wholesale, Manufacturing & Construction through product imports, Construction, Finance, Property & Business through service exports, Mining and Manufacturing through product exports and Finance, Property & Business through service imports.
- Among SMEs, trade engagement is dominated by Retail, Wholesale, Construction and Manufacturing through product imports. There is also a relatively strong level of engagement for Hospitality and Finance/Insurance through service exports.

CHART 15: Engagement with Asia by Industry: QBS

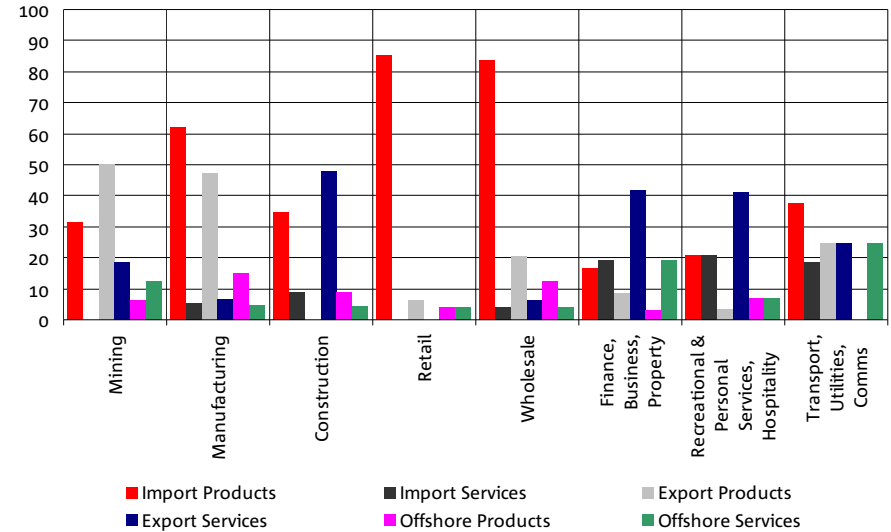


CHART 16: Engagement with Asia by Industry: ASX 300

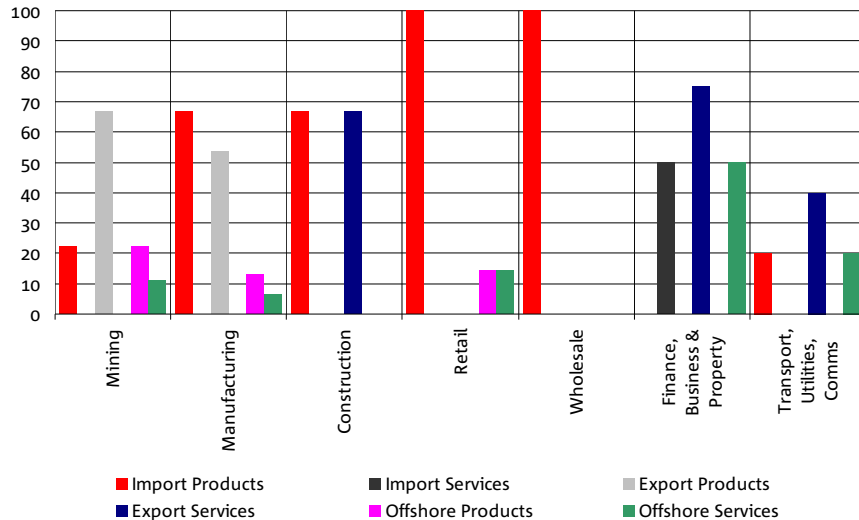
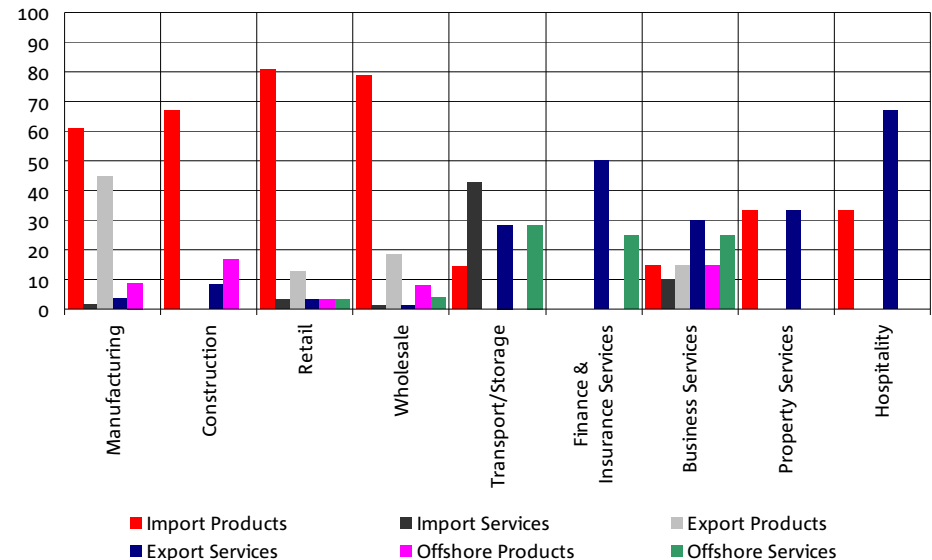


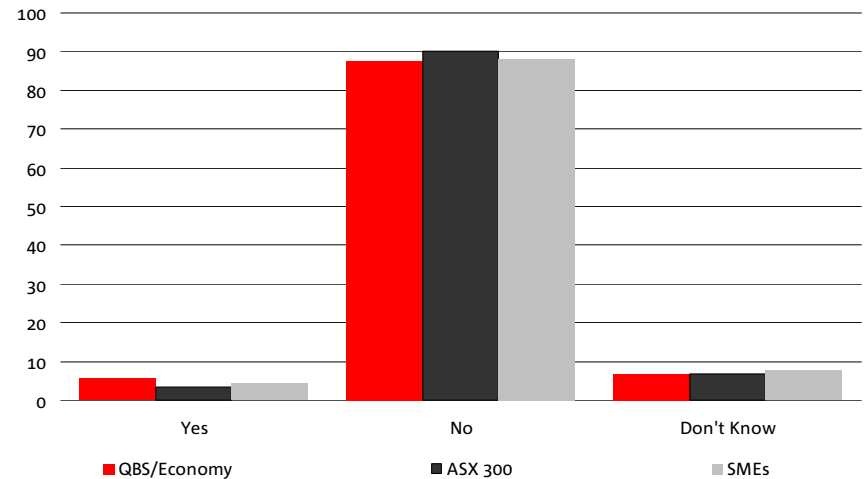
CHART 17: Engagement with Asia by Industry: SMEs



Australia-Asia Business Engagement - Next 12 Months (not currently engaged)

- Finally, the balance of the business survey respondents who were not included in this report (as they indicated that they had no engagement with Asia) were asked if this was likely to change over the next 12 months.
- Very few Australian businesses that are not currently engaged have any plans to commence a business relationship over the next year.
- Economy wide, less than 6% of Australian business not currently engaged are planning to commence trading with Asia in the next 12 months.
- Only 4.3% of SMEs and 3.3% of ASX 300 companies not currently engaged are planning to trade with the region next year.
- A very high number (around 90%) of Australian businesses - economy wide, ASX 300 companies and SMEs - have no plans to start trading with Asia next year.
- Relatively few (around 7-8%) were unsure about their future intentions.

CHART 18: Planning to Start Engagement with Asia in Next 12 Months if not Currently Engaged (%)



Appendix: About the NAB Australia-Asia Business Engagement Index

The **NAB Quarterly Business Survey (QBS)** has been tracking Australian business conditions and confidence for more than 22 years. It is widely regarded as a leading indicator of economic conditions in Australia.

The QBS covers over 900 firms across the non-farm business sector.

In this new addition to the survey, we asked Australian businesses to assess the extent of their business engagement with Asia.

Respondents were asked to assess to what extent their organisation was currently engaged with Asia and the intensity of that relationship across the following areas:

- Import products (including parts);
- Import services;
- Export products;
- Export services;
- “Offshore” (outsource overseas) products; and
- “Offshore” (outsource overseas) services

Results are presented for the broader Australian business community based on the QBS and for ASX 300 companies and SMEs.

Respondents were also asked to nominate those Asian countries in which they were most actively engaged.

Finally, survey participants were asked to identify the extent to which they were planning to change their activities in Asia over the next 12 months across all of the areas mentioned above.

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