

NAB Quarterly ASX 300 Business Survey

by NAB Group Economics

Embargoed until: 11:30am Thursday 30 October 2014

September Quarter 2014



National
Australia
Bank



Photo: Jetstar Airways <https://flic.kr/p/eUZMuA>

For more information contact: Alan Oster, Chief Economist: (03) 8634 2927 or 0414 444 652

Next release: January 2015

Key Points:

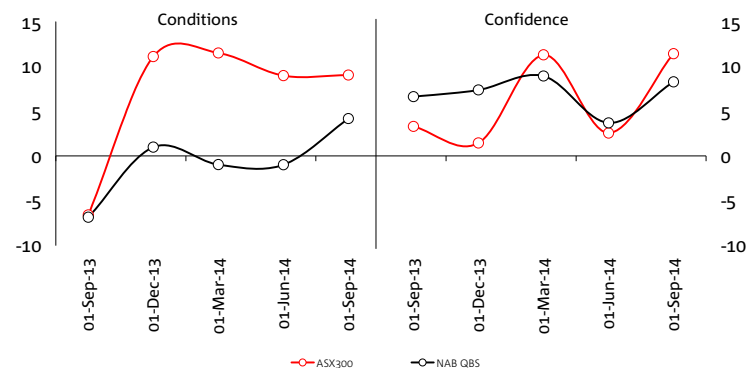
ASX 300 business confidence gained momentum in the September quarter, surpassing the broader economy. Conditions were broadly unchanged - trading and profitability were stronger, however the slight improvement was offset by deteriorating employment, which weakened to its worst level since this time last year – reflecting subdued domestic demand.

- NAB's quarterly index of business confidence surged for both ASX 300 and NAB QBS (latter unchanged when seasonally adjusted) - larger firms recorded a strong reading of +11 for Q3 (from +3 previously) slightly higher than the broader economy at +8 (up from +4). Among the larger firms, fin./ prop./ bus. services, retail and mining were strongest.
- The NAB ASX 300 index of business conditions was unchanged (at +9) – profitability and trading were more robust, but employment conditions diverged (particularly in mining and transport/ utilities/ communication) deteriorating to -7 (-4 previously).
- Larger Australian firms continued to limit product price rises, but the relief for firms from easing inflationary pressures in purchase and overhead costs was offset by higher labour cost. Lower stock levels indicate only tentative re-stocking as larger firms anticipate sluggish domestic demand.
- In the global economy, slower growth (particularly in China) appears to be weighing on ASX 300 export sales (China being one of Australia's largest trading partners). However, on a brighter note, export orders have improved and could be further supported by recent downward pressure on the AUD. The AUD is currently below ASX 300 dollar expectations.
- Looking ahead, forward indicators reflect Australia's slower pace of economic growth - domestic orders eased, capacity utilisation edged lower and capital expenditure (capex) remained soft, although capex plans for the near term improved sharply.

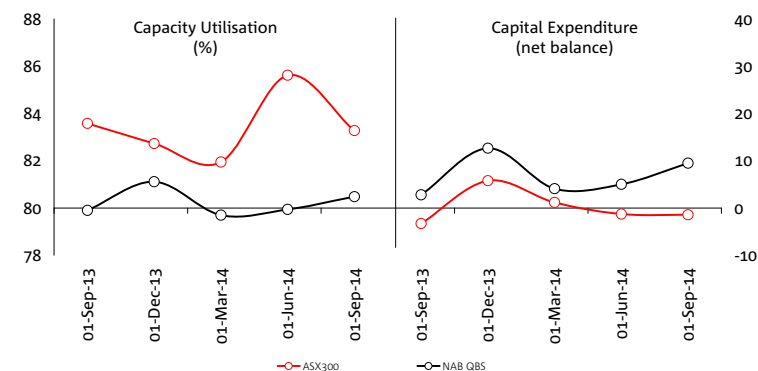
Table 1: Key monthly business statistics*

	ASX 300				ASX 300		
	2014q2	2014q3	2014q3		2014q2	2014q3	2014q3
	<i>Net balance</i>			<i>Net balance</i>			
Business confidence	3	11	8	Trading	15	17	9
Business conditions				Profitability	15	17	5
Current	9	9	4	Employment	-4	-7	-1
Next 3 months	14	20	15	Forward orders	10	4	1
Next 12 months	27	21	25	Stocks	10	1	2
Capex plans (next 12)	23	24	22	Exports	5	4	2
	<i>% change</i>			<i>% change</i>			
Labour costs	0.2	0.6	0.9	Retail prices	0.3	-0.1	0.2
Purchase costs	0.1	-0.2	0.4			<i>Percent</i>	
Final products prices	0.2	0.2	0.3	Capacity utilisation rate	85.6	83.3	80.5

Business conditions & confidence (net balance, nsa)



Capacity utilisation & capital expenditure



Contents

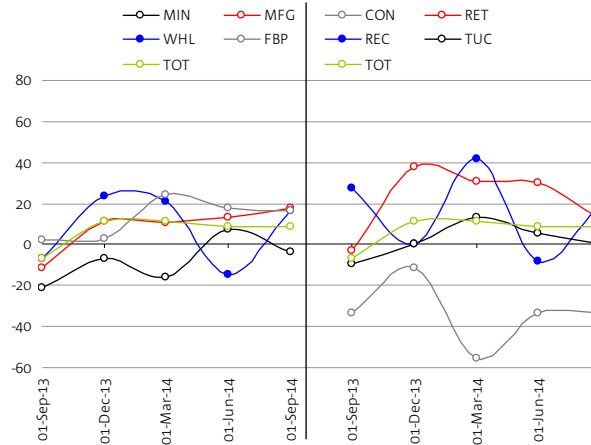
Key points	2
Industry analysis	3
Chart pack	5
Data appendix	8

* 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 August to 10 September 2014.

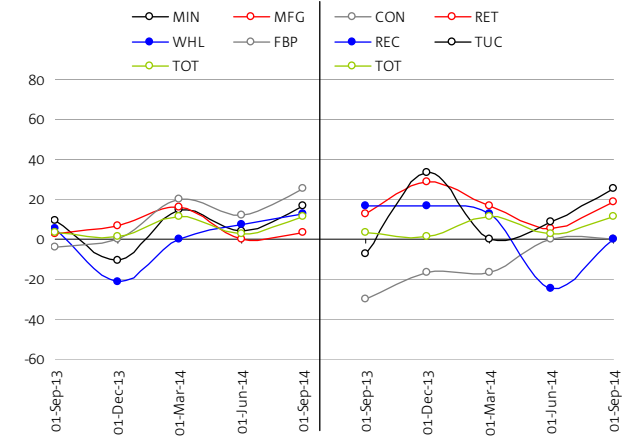
Industry analysis

- On an industry level, **business conditions** for ASX 300 firms were mixed.
- Stronger performers include recreational and personal services (RPS), manufacturing (MFG), wholesale (WHL) and finance/ business/ property (FBP).
- Weaker industries include construction (CON), transport/utilities/communication (TUC) and mining (MIN). These were being weighed down by deteriorating employment and lower profitability.
- Business confidence** for ASX 300 industries was positive.
- Supported by strength in residential markets, finance/ business/ property (FBP) was most confident at +25 index points. However, this was not translated into the construction (CON) sector as confidence remained around the zero mark for the second consecutive quarter. In contrast there was a noticeable increase in confidence in the mining (MIN) sector, recording its highest reading since Q1 2012.
- Among the stronger industries, retail (RET) confidence was surprising, recording +19 (from +5 previously) despite its weaker profitability and a sharp decline in trading conditions. The release of major products, seasonal factors and softer ASX 300 dollar expectations may have propped up the optimistic short-term outlook – although the potential for import inflation may mitigate some of these effects.

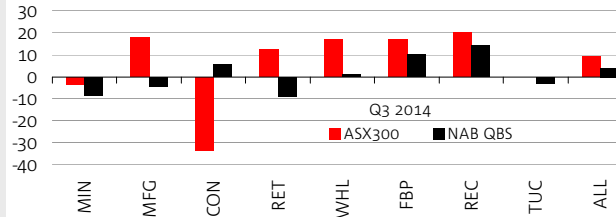
Business conditions (net balance, nsa)



Business confidence (net balance, nsa)



Business conditions (net balance, nsa)



Business confidence (net balance, nsa)

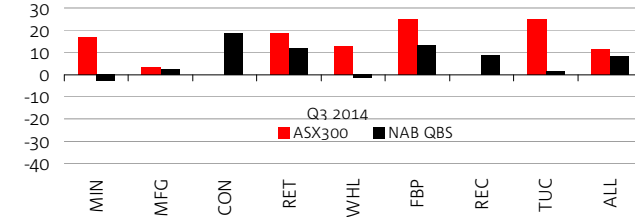


Photo by John Coppi, CSIRO
<http://www.scienceimage.csiro.au/image/4485/harvesting-wheat-at-blyth-in-the-mid-north-of-south-australia-1986/>

Industry analysis

- In line with the broader economy, **forward orders** for ASX 300 firms edged downwards to +4 (from +10 previously).
- Orders are weakest in construction (CON) but fell hardest in transport/ utilities/ communication (TUC) and recreational/ personal services (RPS).
- In comparison, forward orders in retail (RET), finance/banking/property (FBP) and manufacturing (MFG) were positive, but were somewhat lower compared to the previous quarter. Mining (MIN), wholesale (WHL) and transport/ utilities/ communication (TUC) returned zero net balances for orders.
- As anticipated, the NAB ASX 300 **capital expenditure** index (capex) for larger Australian firms deteriorated marginally for the second consecutive quarter (unchanged in rounded terms at -1).
- Capex was weakest for construction as planned business investment fell to -67 (from -50). Mining (MIN), recreational/ personal services (RPS) and finance/ business/ property (FBP) were slightly stronger compared to the previous quarter – although recording negative readings.
- In contrast, transport/ utilities/ communication (TUC), manufacturing (MFG) and wholesale (WHL) were positive.
- For the next twelve months we expect capex (in particular for manufacturing (MFG)) to rise, supported by very low interest rates.

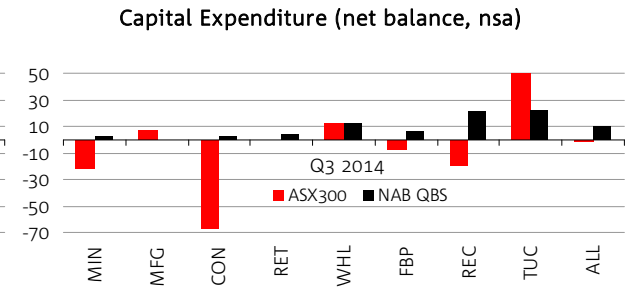
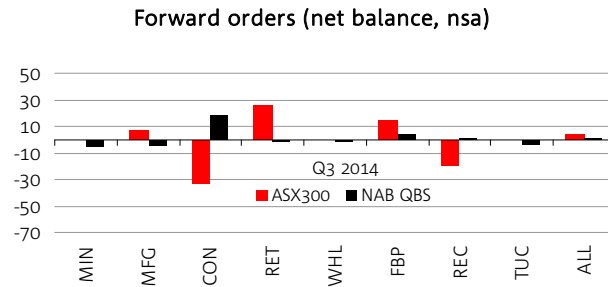
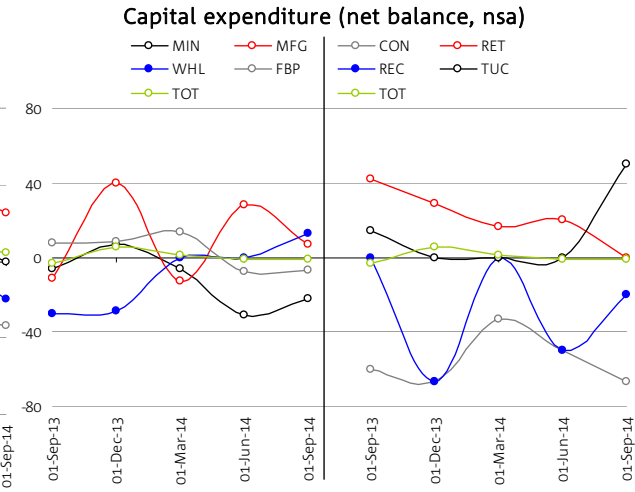
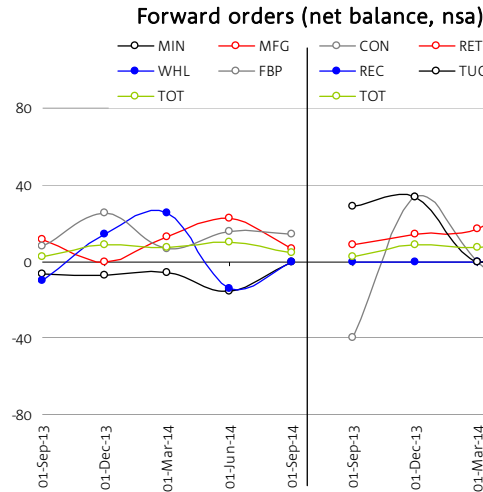
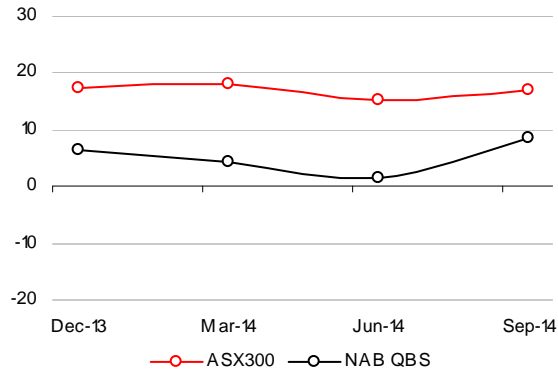


Chart pack

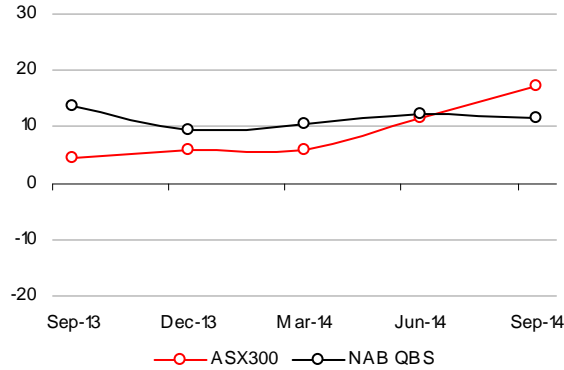
Trading conditions edged up a notch and is stronger for the broader economy

Trading conditions (net balance, nsa)



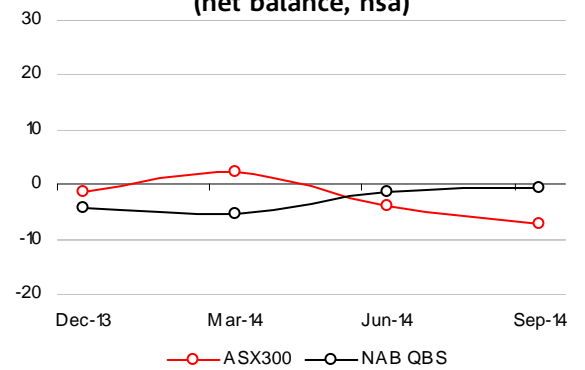
Profitability (traditionally weaker than the broader economy) strengthened for larger firms

Profitability (net balance, nsa)



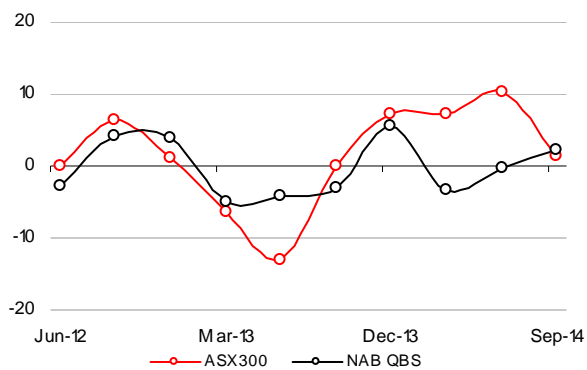
Employment in ASX 300 companies deteriorated More than the broader economy

Employment conditions (net balance, nsa)



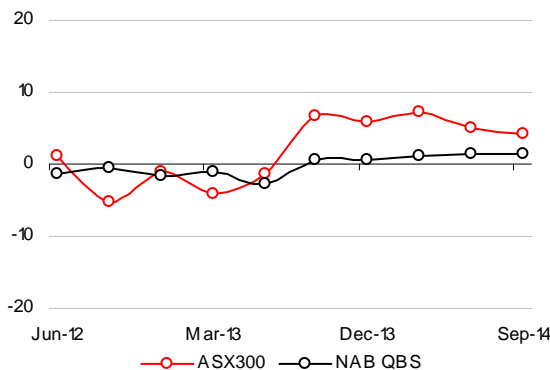
Larger firms de-stocked ahead of slowing domestic demand

Stock levels (net balance, nsa)



Export sales were broadly unchanged overall

Export sales (net balance, nsa)



The weaker AUD provided support for export orders in the economy

Export orders (net balance, nsa)

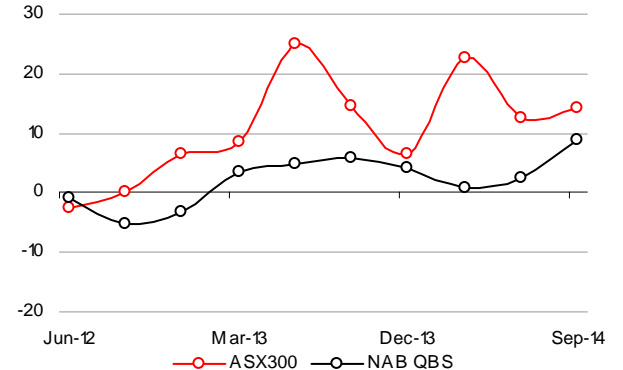
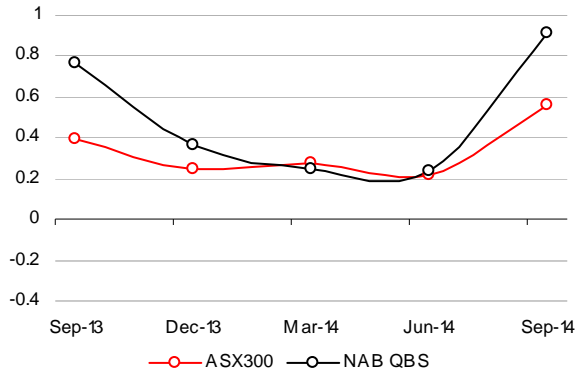


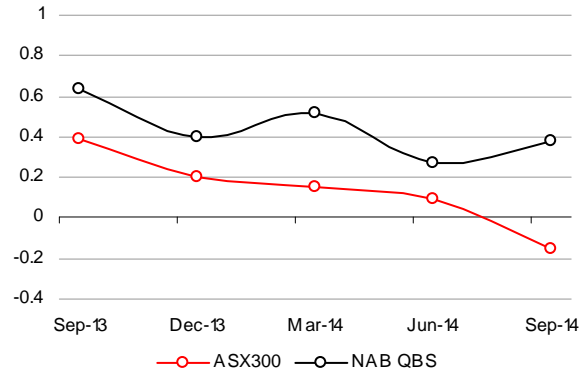
Chart pack continued

Inflationary cost pressures were marginally lower for ASX 300 firms relative to the broader economy – labour costs were significantly higher overall.

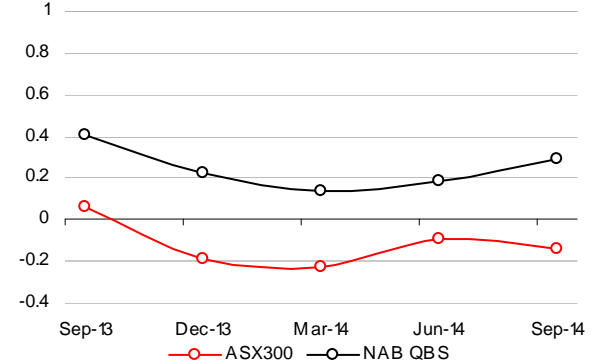
Labour costs (net balance, nsa)



Purchase costs (net balance, nsa)

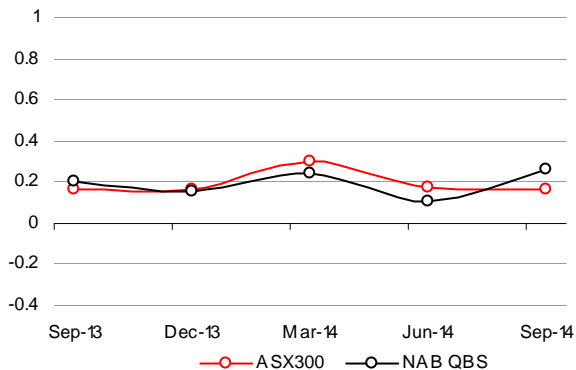


Overheads (net balance, nsa)



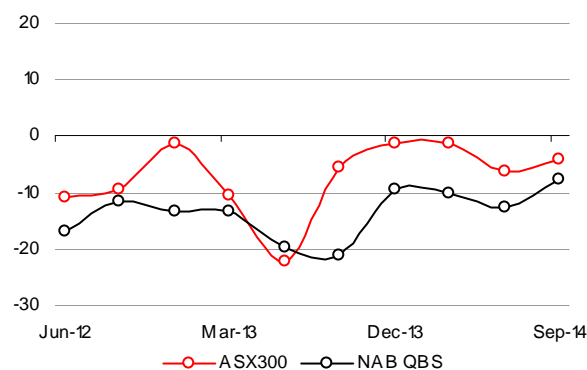
Final product inflation remained unchanged for larger firms and lower compared to QBS

Final product prices (net balance, nsa)



Sales margins gained momentum – the gap between ASX 300 firms and QBS narrowed

Sales margins (net balance, nsa)



Cash flow reached a survey high for both larger firms and the broader economy

Cash flow (net balance, nsa)

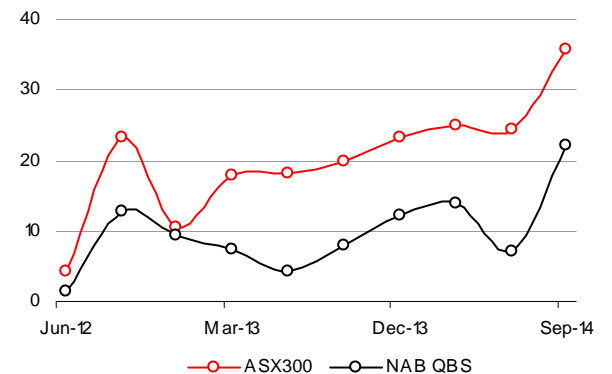
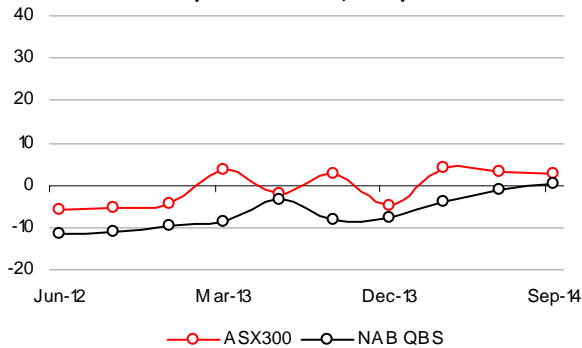


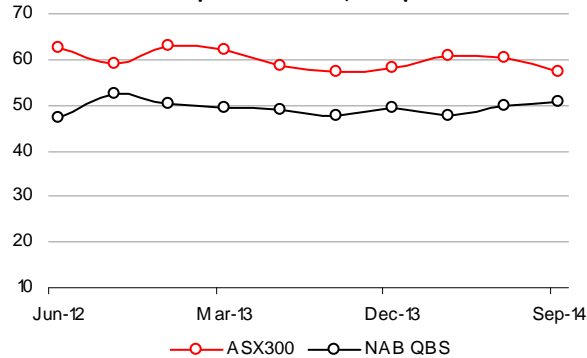
Chart pack continued

Credit conditions remained broadly unchanged **Credit demand slightly lower for large firms**

Ease of obtaining borrowings (net balance, nsa)

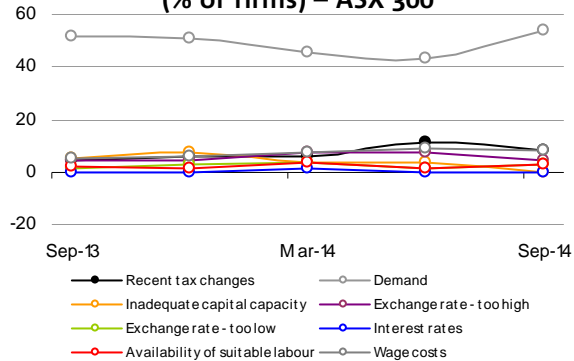


Borrowing required (net balance, nsa)



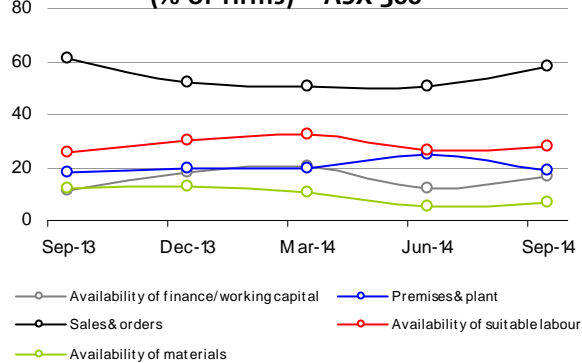
Demand continued to weigh on profitability

Constraints on profitability (% of firms) – ASX 300



Sales & orders are constraining output

Constraints on output (% of firms) – ASX 300



Data appendix

ASX 300 Q3 2014	MIN	MFG	CON	RET	WHL	WUC	REC	FBP	ASX 300	NAB QBS
Bus. conf.: current	17	3	0	19	13	0	0	25	11	8
Bus. conf.: previous	4	0	0	5	7	0	-25	12	3	4
Bus. conf.: change	13	3	0	14	5	0	25	13	9	5
Bus. conds: current	-4	18	-33	13	17	-8	20	17	9	4
Bus. conds: previous	8	13	-33	30	-14	11	-8	18	9	-1
Bus. conds: change	-11	5	0	-18	31	-19	28	-1	0	5
Trad. conds: current	11	27	-33	0	25	25	40	14	17	9
Trad. conds: previous	8	17	-25	40	0	33	0	15	15	1
Trad. conds: change	3	10	-8	-40	25	-8	40	-1	2	7
Profitability: current	0	33	-33	13	25	13	20	21	17	5
Profitability: previous	0	28	-25	30	-14	22	0	31	15	-3
Profitability: change	0	6	-8	-18	39	-10	20	-9	2	8
Employment: current	-22	-7	-33	25	0	-63	0	14	-7	-1
Employment: previous	15	-6	-50	20	-29	-22	-25	8	-4	-1
Employment: change	-38	-1	17	5	29	-40	25	7	-3	1

net balance	Conditions - current	Conditions - next 3 months	Conditions - next 12 months	Confidence - next 3 months
ASX300	9	20	21	11
QBS	4	15	25	8

net balance	Trading Conditions	Profitability	Employment	Sales margins	Forward orders	Stocks
ASX300	17	17	-7	-4	4	1
QBS	9	5	-1	-8	1	2

Author details

Economic Research

Alan Oster
Chief Economist
+61 3 8634 2927

Rob Brooker
Head of Australian
Economics &
Commodities
+61 3 8634 1663

James Glenn
Senior Economist
Australia &
Commodities
+61 3 8634 0198

Karla Bulauan
Economist
Australia &
Commodities
+61 3 8641 4028

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities

Rob Brooker
Head of Australian Economics
+61 3 8634 1663

James Glenn
Senior Economist – Australia
+(61 3) 9208 8129

Phin Ziebell
Economist – Agribusiness
+(61 3) 8634 0198

Karla Bulauan
Economist – Australia
+(61 3) 86414028

Industry Analysis

Dean Pearson
Head of Industry Analysis
+(61 3) 8634 2331

Robert De Iure
Senior Economist – Industry Analysis
+(61 3) 8634 4611

Brien McDonald
Economist – Industry Analysis
+(61 3) 8634 3837

Amy Li
Economist – Industry Analysis
+(61 3) 8634 1563

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

Spiros Papadopoulos
Senior Economist
+61 3 8641 0978

David de Garis
Senior Economist
+61 3 8641 3045

FX Strategy

Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Emma Lawson
Senior Currency Strategist
+61 2 9237 8154

Interest Rate Strategy

Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Rodrigo Catril
Interest Rate Strategist
+61 2 9293 7109

Credit Research

Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 29237 1076

Equities

Peter Cashmore
Senior Real Estate Equity Analyst
+61 2 9237 8156

Distribution

Barbara Leong
Research Production Manager
+61 2 9237 8151

New Zealand

Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Markets Economist
+64 4 474 6923

Kymerly Martin
Senior Market Strategist
+64 4 924 7654

Raiko Shareef
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia

Christy Tan
Head of Markets Strategy/Research, Asia,
+ 852 2822 5350

UK/Europe

Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+ 44207710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 2155

Tom Vosa
Head of Market Economics
+44 207710 1573

Simon Ballard
Senior Credit Strategist
+44 207 710 2917

Derek Allassani
Research Production Manager
+44 207 710 1532

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.