

NAB Monthly Business Survey

by NAB Group Economics

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National
Australia
Bank

October 2014

Key Points:

- Clearly the most surprising feature of the Survey was the sharp jump in business conditions in October (the largest monthly increase in the history of the survey). The improvement driven by sales and profits was relatively broad based – unlike the (short-lived) jump in July. While welcome we remain cautious re the sustainability of the improvement. For example it does not sit well with further falls in business confidence and only marginal improvement in capacity utilisation. While the falling AUD may have helped many sectors, it is probably also behind the large falls in the wholesale and transport/utilities sectors. The jump in conditions also saw employment improve somewhat – consistent with other labour market partials.
- In that context the further fall in business confidence was surprising. This is the first time since 2012 that confidence has dropped below conditions, suggesting firms remain uncertain over near-term demand in their industry. Confidence levels vary greatly across industries, but services have consistently been the most optimistic. To complete the mixed messages about the future, forward orders improved significantly but conditions in the ‘bellwether’ wholesale industry are still quite weak.
- GDP forecasts up slightly: 2014/15 2.9% (was 2.8%) and 2015/16 3.2% (unchanged). Unemployment still to peak at around 6½% and no change in cash rate expected until tightening begins near the end of 2015.



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Table 1: Key monthly business statistics*

	Aug 2014	Sep 2014	Oct 2014		Aug 2014	Sep 2014	Oct 2014
<i>Net balance</i>				<i>Net balance</i>			
Business confidence	7	5	4	Employment	0	-5	2
Business conditions	4	1	13	Forward orders	0	-2	4
Trading	7	7	20	Stocks	2	-1	5
Profitability	3	1	15	Exports	0	1	0
<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>			
Labour costs	0.9	0.9	0.9	Retail prices	0.2	-0.7	0.4
Purchase costs	0.5	0.4	0.6	<i>Per cent</i>			
Final products prices	0.2	0.1	0.5	Capacity utilisation rate	80.6	80.2	80.4

* 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 27 Oct to 31 Oct, covering over 400 firms across the non-farm business sector.

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Next release:

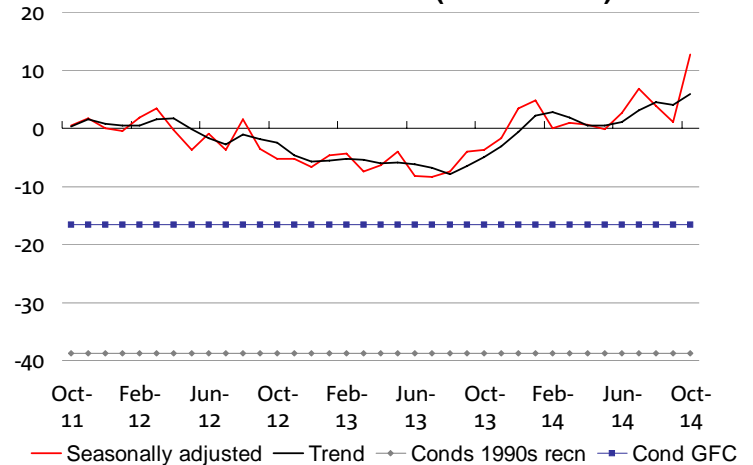
9 December 2014 (November monthly)

Analysis

- There was yet another unexpected jump in business conditions in October (up 12 to +13 index points), but unlike the (short-lived) increase in July, this improvement appears to be much more broad-based. This was also the largest monthly gain in the series since the survey began in 1998 and the index is now well above the long-run average of +5 points – its highest level since early 2008. However, the easing trend in business confidence suggests that the improvement may still be an aberration. The step up is unlikely to be sustained unless accompanied by a further lift in trend conditions, and/or a similar jump in business confidence over coming months. Indeed, other timely economic indicators generally do not support such a strong recovery in conditions. With consumers still cautious – notwithstanding the iPhone 6 related jump in September retail sales – and unemployment rising, it was particularly surprising to see retail conditions lift strongly (up 15) albeit to still low levels. Looking through the monthly volatility, the trend in business conditions improved by a more modest 2 points, to +6 index points – slightly above the long-run average of +5. Trend conditions rose the most in mining (up 10) and finance/ property/ business services (up 5 points), with the index strongest in service sectors. In contrast, mining, wholesale and retail are lowest (-8, -8 and -6 points respectively).
- In contrast, business confidence lost more ground in the month, reaching its lowest level since the pre election jump in mid 2013. The index dropped 1 points (to +4), with outcomes varying significantly across industries. Transport/utilities, mining and wholesale each report a negative confidence index (-13, -9 and -6 points respectively). Confidence fell the most in transport/utilities (down 18 points, despite recent weakness in oil prices), followed by manufacturing and wholesale (both down 3) – suggesting manufacturers are yet to see any offsetting lift in competitiveness as the AUD declines. All other industries improved in the month (surprisingly, mining rose the most). Looking through the monthly volatility, trend confidence was down 1 point (to +6), with construction highest (+11) and mining lowest (-15).

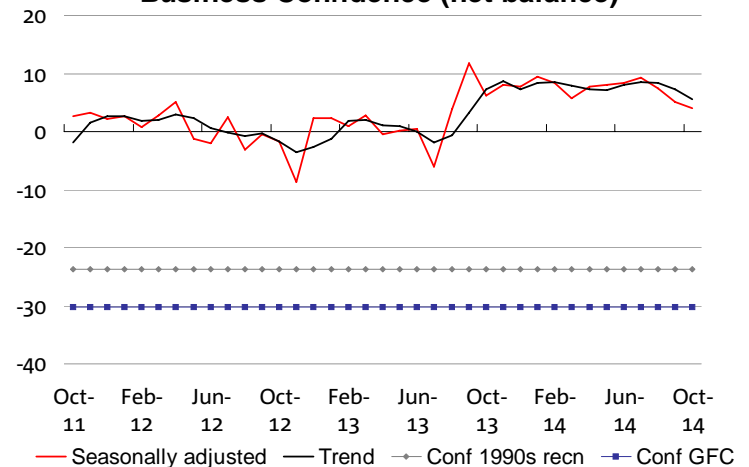
Conditions show surprise jump

Business Conditions (net balance)



Confidence continues to erode

Business Confidence (net balance)



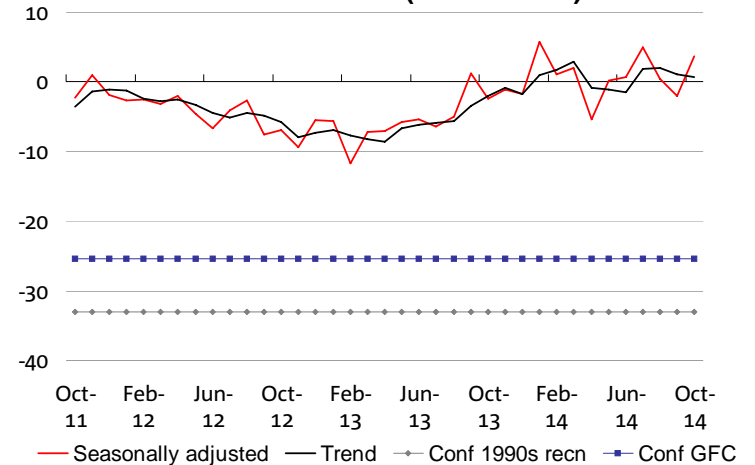
Excluding normal seasonal changes, how do you expect the business conditions facing your industry in the next month to change?

Forward indicators

- The forward orders index rose by 6 to +4 index points, after dipping to its lowest level since April last month. This is above the long-run average for the monthly series, suggesting near term demand may have lifted – prompting an apparent voluntary re-stocking by firms. That outcome reflected a particularly large jump in construction (up 31), although ABS data showed the number of residential building approvals declined in September. All industries outside of wholesale recorded stronger orders in the month. In trend terms, orders were unchanged at +1 point. Orders are now weakest in trend terms for retail (-6) and mining (-4), but remain strongest for construction (+12).
- Capacity utilisation tightened a little in October to 80.4%, although not to the extent the jump recorded in trading condition might have suggested. Nonetheless, trend utilisation rates have improved steadily since early 2013. Current capacity utilisation rates remain below the monthly survey average of 81.0% (from 1997), but are consistent with the longer-run average of 80.4% (from 1989). The wholesale industry recorded the largest rise (up 3.1 ppts), following a similarly sized decline the previous month. Mining is reporting the lowest utilisation rates relative to history (and fell the most during the month), while construction is currently furthest above its average. Overall, however, the majority of industries still report below average capacity usage.
- The capital expenditure index also lifted in October, up 4 points to +9 index points – above its long-run average level (+5). The trend index was also up 1, to +6 index points, which suggests a moderate expansion of non-mining business investment (which has a larger weighting in the survey). This trend is consistent with improving investment intentions outside of mining in the Q2 ABS Capex Survey. Trend transport/utilities and rec & pers services capex are highest (+16 and +13 points respectively).
- Elsewhere in the survey, cash flow (not seasonally adjusted) was strongest in rec/personal services, and weakest in retail.

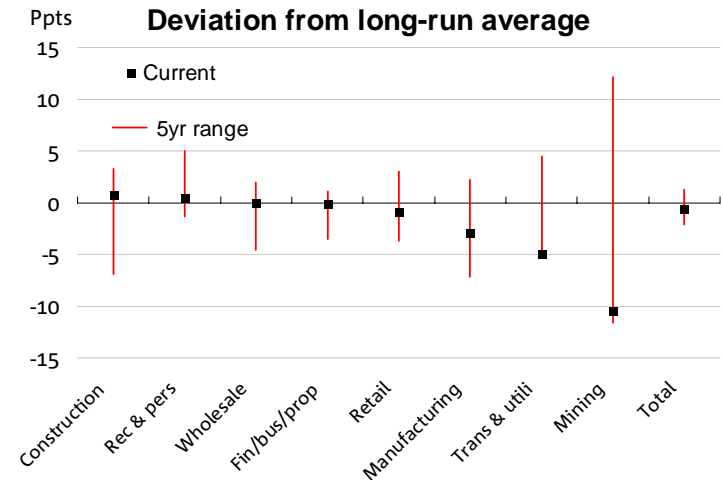
Sales orders lift – still subdued

Forward Orders (net balance)



Net balance of respondents with more orders from customers last month.

Capacity utilisation still mixed across industry



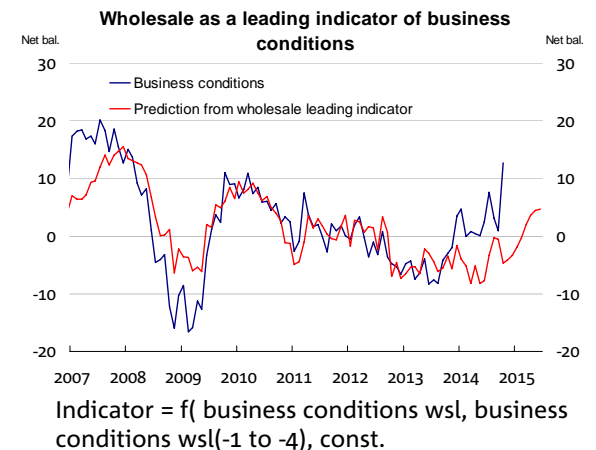
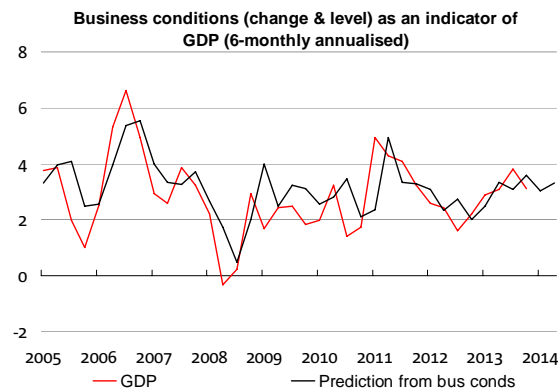
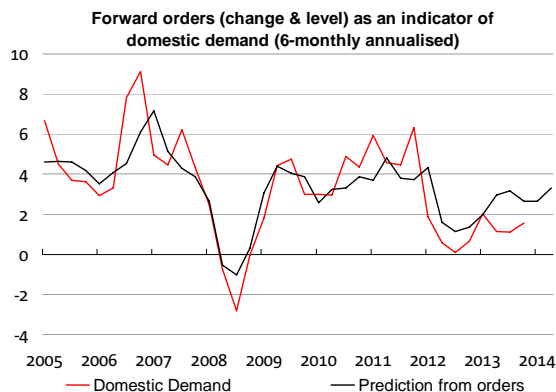
Source: NAB Economics

Full capacity is the maximum desirable level of output using existing capital equipment.

Implications for forecasts

For more information see latest [Global & Australian Forecasts](#)

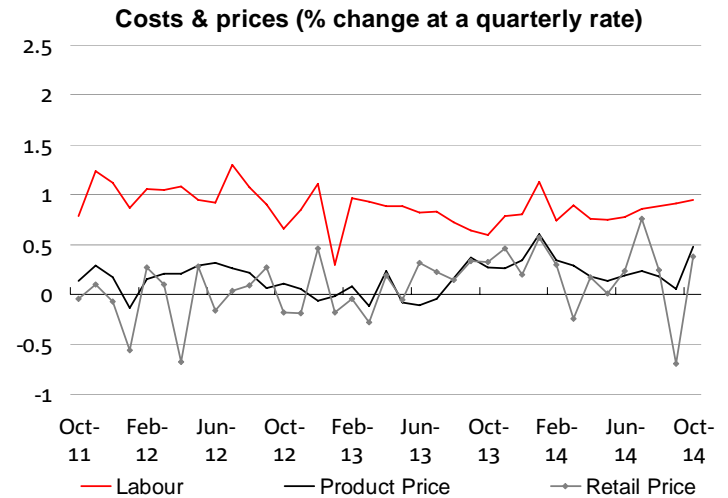
- Recent monthly economic indicators and business surveys show continued moderate global economic growth along with big variations between the major economies. Low interest rates, falling oil prices and smaller budget cutbacks in big advanced economies should underpin a gradual acceleration in growth to 3½% in 2015. Global economic growth remains heavily reliant on the continued good performance of China and the US with weakness across Japan, the Euro-zone and Latin America and a sluggish performance in Emerging East Asian economies.
- Jump in Australian business conditions points to strong start to Q4 but growth still constrained by weak terms of trade, soft labour market and signs of downturn in building cycle. GDP forecasts up slightly: 2014/15 2.9% (was 2.8%) and 2015/16 3.2% (unchanged). Unemployment still to peak at around 6½% and no change in cash rate expected until tightening begins near the end of 2015.
- Our model of 6-monthly annualised demand growth, using forward orders as a predictor, has been suggesting stronger growth than the national accounts in recent quarters. Nevertheless, applying trend forward orders for September to our model for Q3 (+1) suggests that predicted demand growth will be similar to Q2. However, trend orders for October suggest a slight improvement in demand growth for Q4. Similarly, business conditions over predicted GDP growth in Q2. Based on trend business conditions for September, our model implies slightly softer predicted GDP growth in Q3, but October's outcome suggests a slightly better Q4. Applying business conditions derived from our 'wholesale leading indicator' (below) implies much softer GDP growth over coming quarters.
- Wholesalers continue to lag well behind the rest of the economy, suggesting the industry continues to face significant challenges – AUD depreciation would exacerbate challenges facing wholesale importers. Wholesale conditions dropped further into negative territory (-17), which makes 25 out of 26 months where wholesale conditions have been negative. Based on past relationships, wholesale conditions have been a reasonably good predictor of overall business conditions – exhibiting strong statistical evidence of a leading relationship (Granger causality). The measures have diverged since late last year as broader conditions improved. The gap started to narrow recently, but opened up again this month. This indicator predicts much softer business conditions in Q3 than the regular conditions index and doesn't come back into line until 2015.



Costs and prices

- Labour costs growth (a wages bill measure) was unchanged at 0.9% in October, consistent with the slack labour market and modest wage growth. The downturn in mining investment and efforts of mining firms to control costs is continuing to have an impact on that sector's wages bill. Mining labour cost deflation ramped up 0.7 ppts in October to -2.0% – the largest decline of any industry by a noticeable margin. The only other industry to record falling labour costs was wholesale (-0.5%, down 0.4 ppts). In contrast, labour cost growth was strongest in manufacturing (2.0%) and construction (1.6%) – although both these industries continue to report relatively modest employment conditions. Labour market conditions are softest in mining and wholesale, consistent with labour cost deflation. Recently revised ABS labour market indicators are now more consistent with the employment trends seen in the NAB survey. Despite some improvement in the NAB employment index this month, the trend remains at levels that suggest limited wage pressures ahead.
- Purchase cost growth was up modestly to 0.6% in October (at a quarterly rate), which is well down on growth rates seen over H2 2013. Purchase costs accelerated in most industries – wholesale and manufacturing rose the most (up 0.6 and 0.4 ppts respectively). Mining and transport/utilities were the exceptions (down 0.3 and 0.1 ppts respectively). It is not surprising to see wholesale and manufacturing cost pressures lift as the AUD depreciates. Purchase cost pressures facing wholesalers are strongest (1.8%, quarterly rate), and are weakest for mining (-0.4%).
- Final product prices lifted noticeably in October (at a quarterly rate) suggesting some relief for firm's margins. Despite the rise, inflation remains relatively well contained. Retail prices jumped in October (0.4%), following a sharp fall the prior month. Upstream price pressures (e.g. manufacturing and wholesale) picked-up (up 1.2 and 0.3 ppts), possibly reflecting pass through of higher import costs (AUD depreciation). The mining sector continues to record price deflation (-0.9%), while prices growth is highest in rec/personal services (0.6%).

Price pressures build, but still contained



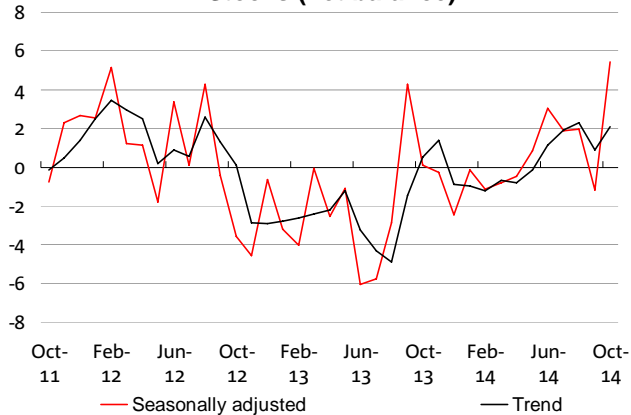
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.



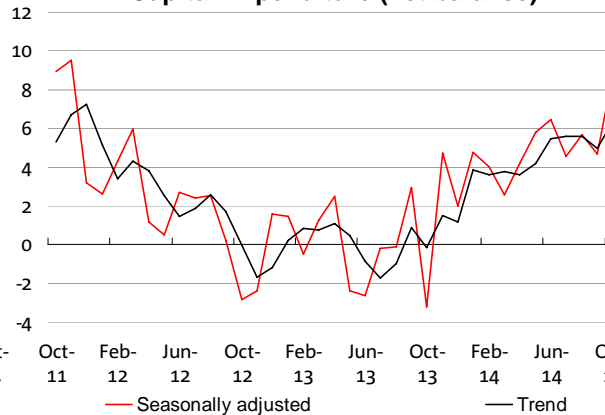
More details on business activity

Re-stocking responds to stronger orders

Stocks (net balance)

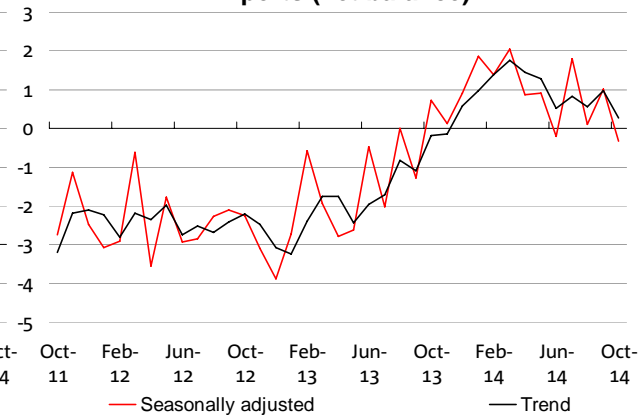


Capex gains momentum, despite Moderate utilisation rates
Capital Expenditure (net balance)



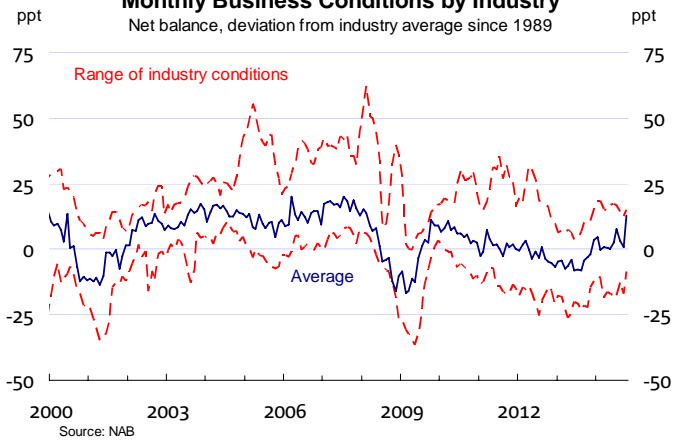
Exports dip despite AUD depreciation

Exports (net balance)



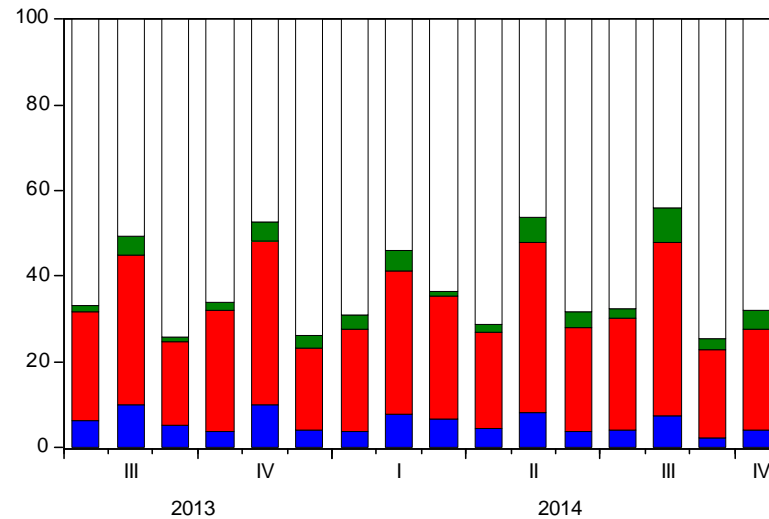
Range of conditions remains wide, due to very weak wholesale

Monthly Business Conditions by Industry
Net balance, deviation from industry average since 1989



Borrowing conditions improved, but demand for credit unchanged in past 3 months

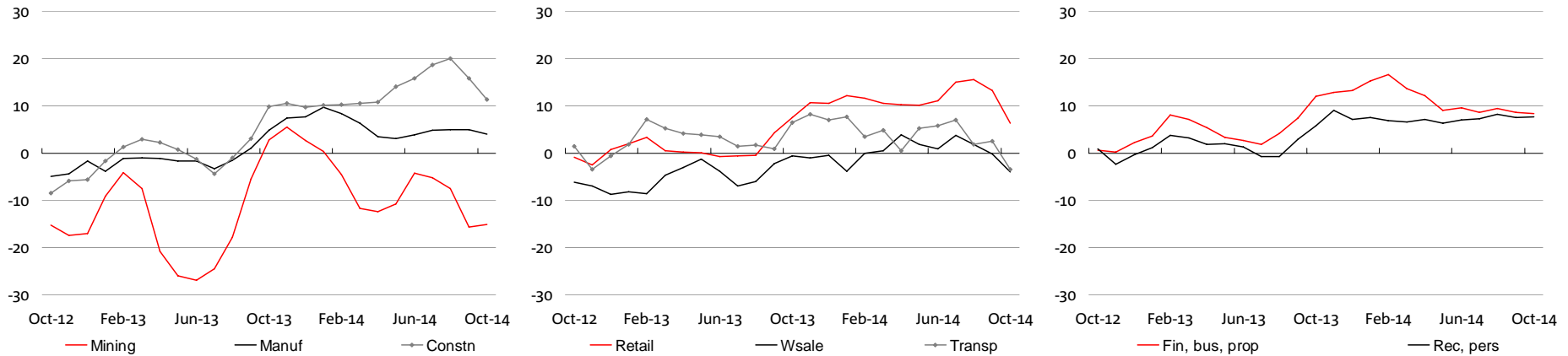
Borrowing conditions (% of firms)



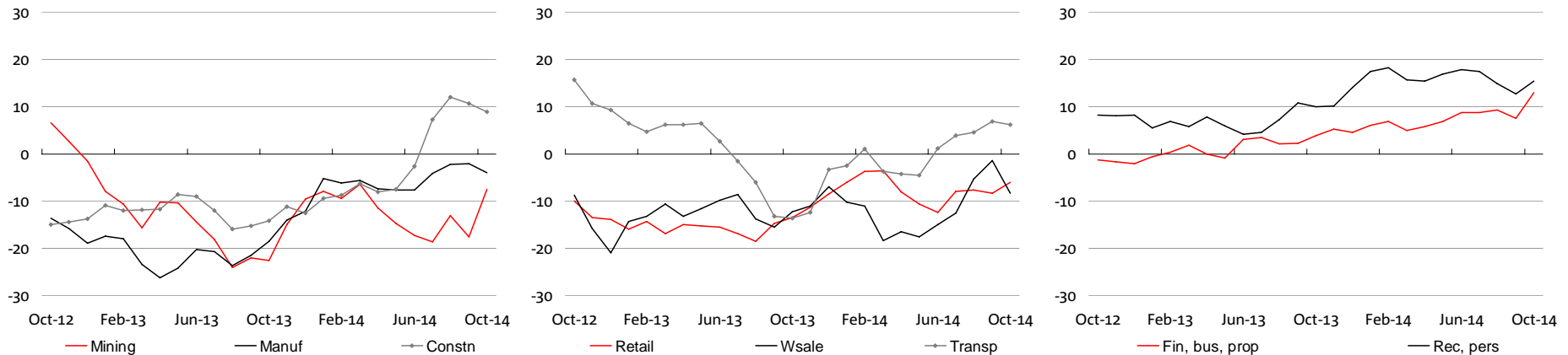
More difficult Unchanged Easier No borrowing required

More details on industries

Business confidence by industry (net balance): 3-month moving average

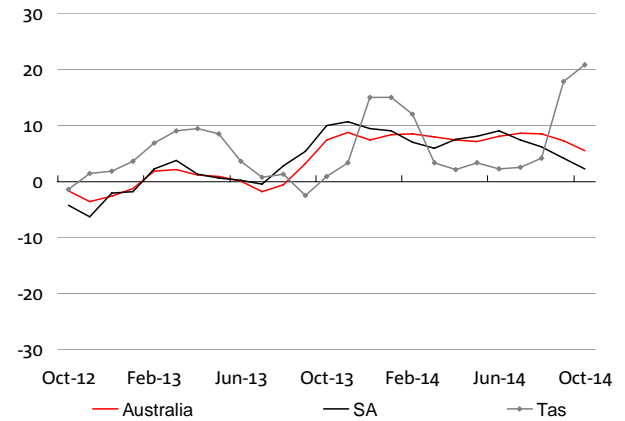
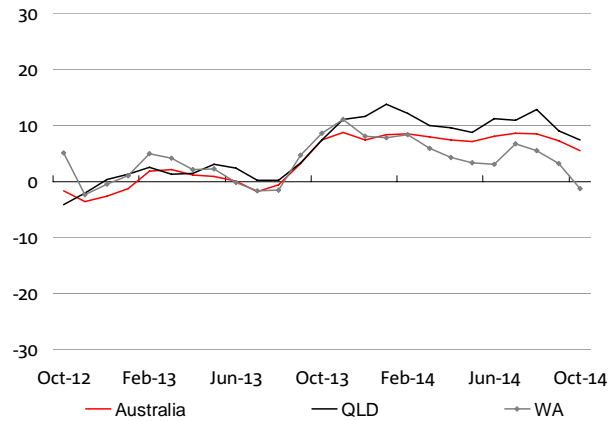
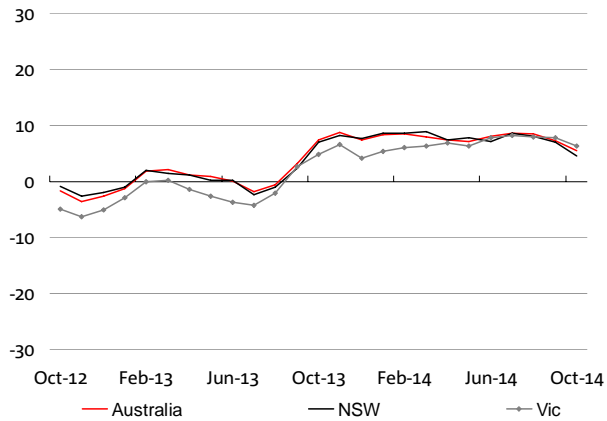


Business conditions by industry (net balance): 3-month moving average

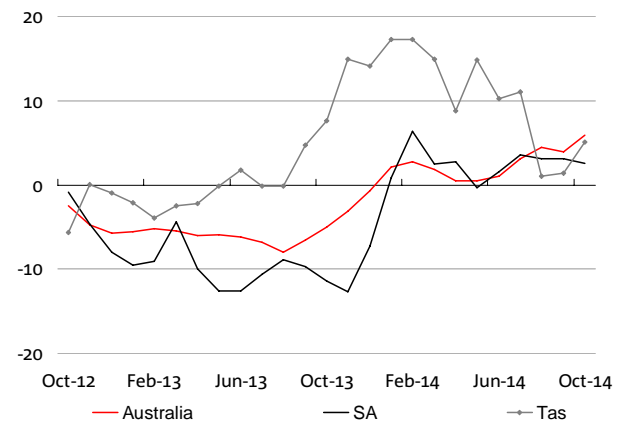
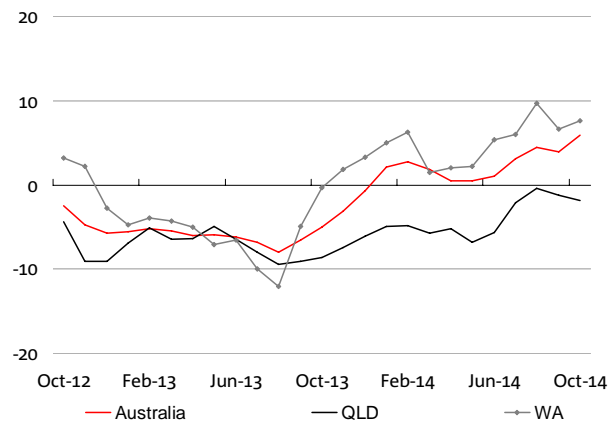
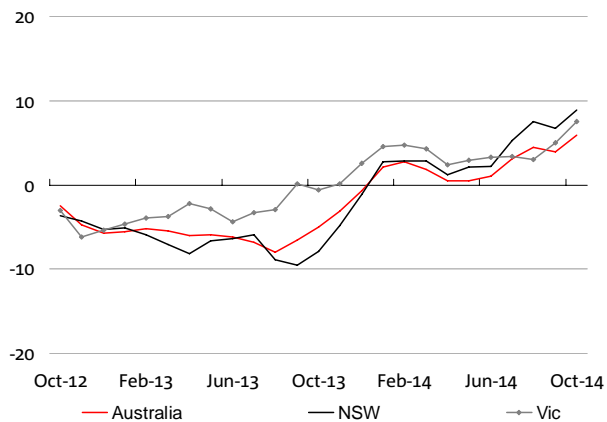


More details on states

Business confidence by state (net balance): 3-month moving average



Business conditions by state (net balance): 3-month moving average



Data appendix

Prices & costs by industry (% change at a quarterly rate)

Oct-2014	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-2.0	2.0	1.6	0.9	-0.5	0.6	1.1	1.3	0.9
Labour costs: previous	-1.3	0.3	0.1	0.5	-0.1	1.4	1.3	1.4	0.9
Labour costs: change	-0.7	1.7	1.5	0.4	-0.4	-0.8	-0.2	-0.1	0.0
Prices (final): current	-0.9	0.9	0.3	0.4	0.5	0.2	0.6	0.3	0.5
Prices (final): previous	-3.2	-0.3	-0.1	-0.7	0.2	0.3	0.3	0.3	0.1
Prices (final): change	2.3	1.2	0.4	1.1	0.3	-0.1	0.3	0.0	0.4
Purchase costs: current	-0.4	1.1	0.5	0.5	1.8	0.5	0.6	0.1	0.6
Purchase costs: previous	-0.1	0.7	0.3	0.4	1.2	0.6	0.3	0.1	0.4
Purchase costs: change	-0.3	0.4	0.2	0.1	0.6	-0.1	0.3	0.0	0.2

Key state business statistics for the month

Oct-2014	Monthly Business Survey Data: By State						
	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	3	4	7	2	0	14	4
Bus. conf.: previous	4	8	2	1	-6	36	5
Bus. conf.: change	-1	-4	5	1	6	-22	-1
Bus. conf: current - Trend	5	6	7	2	-1	21	6
Bus. conf: previous Trend	7	8	9	4	3	18	7
Bus. conf.: change -Trend	-2	-2	-2	-2	-4	3	-1
Bus. conds: current	17	10	4	10	11	10	13
Bus. conds: previous	1	11	-6	4	0	0	1
Bus. conds: change	16	-1	10	6	11	10	12
Bus. conds: current -Trend	9	8	-2	3	8	5	6
Bus. conds: previous -Trend	7	5	-1	3	7	1	4
Bus. conds: change -Trend	2	3	-1	0	1	4	2

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