

NAB Monthly Business Survey

by NAB Group Economics

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November 2014



National
Australia
Bank

Key Points:

- Last months spike in business conditions was again short-lived, pulling back towards long run average levels in November. Despite the drop, the overall trend is still looking much better than 12-18 months prior, while levels of capacity utilisation have continued to improve. Orders held up reasonably well, which reflects well on near-term demand. The fall in conditions was driven by all three components (sales, profits and employment), although the last remains the weakest, pointing to only very modest growth in employment – insufficient to prevent a further rise in the unemployment rate. But while last months spike was relatively broad based, the pull back in November was much more mixed across industries – concentrated in retail, manufacturing and service industries. We are yet to see any clear beneficiaries of the AUD depreciation.
- Firms uncertainty over the outlook for their industries was reflected in a further erosion of business confidence. Confidence levels vary greatly across industries, although the spread narrowed considerably in the month. Services have been replaced with construction as the most optimistic. Other leading indicators are mixed. Forward orders maintained last months rise, but the ‘bellwether’ wholesale industry remains weak.
- Softer commodities and labour market outlook mean we have changed our rate call to two cuts of 25 bp in March and August 2015, then on hold until late 2016. GDP forecasts cut reflecting weaker history and terms of trade: 2014/15 2.5% (was 2.9%); 2015/16 3.0% (was 3.2%). Unemployment rate now to peak at around 6¾% (was 6½%).



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Table 1: Key monthly business statistics*

	Sep 2014	Oct 2014	Nov 2014		Sep 2014	Oct 2014	Nov 2014
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	5	5	1	Employment	-5	2	0
Business conditions	1	13	5	Forward orders	-3	4	4
Trading	8	20	11	Stocks	-2	4	1
Profitability	0	15	6	Exports	1	0	0
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.9	1.0	0.6	Retail prices	-0.7	0.4	0.2
Purchase costs	0.4	0.6	0.6		<i>Per cent</i>		
Final products prices	0.1	0.5	0.2	Capacity utilisation rate	80.2	80.4	80.5

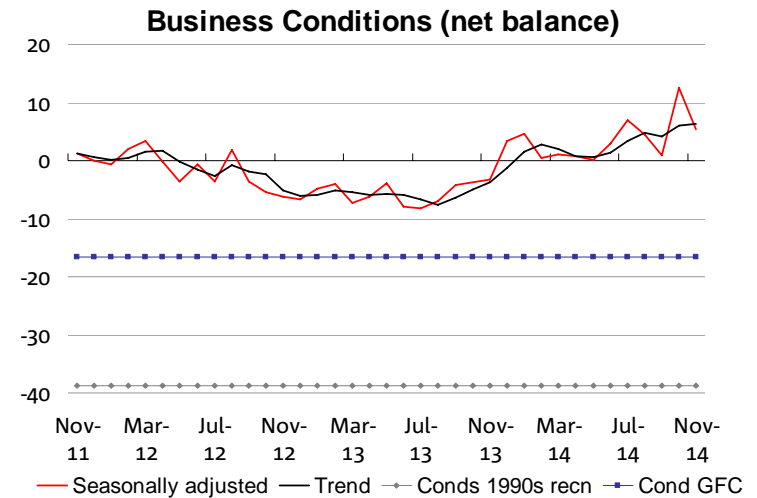
* All data seasonally adjusted and subject to revision. Cost and prices data are monthly percentage changes expressed at a quarterly rate. Fieldwork for this survey was conducted from 24 Nov to 28 Nov, covering over 400 firms across the non-farm business sector.

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Next release:
27 January 2015 (December monthly)

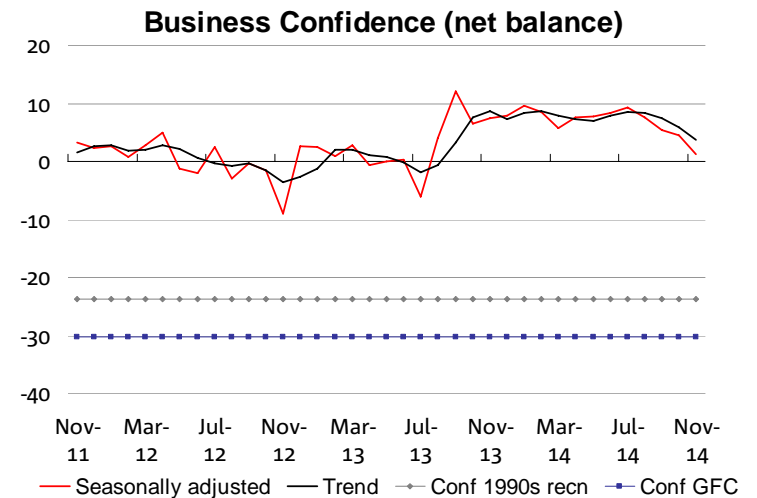
Analysis

- Last month's sharp gain in business conditions was pared back in November, falling 8 points to +5 index points. Despite the drop, business conditions have improved steadily in trend terms over the past 12-18 months and are currently consistent with the long run average for the series. This suggests an ongoing, albeit moderate, improvement in business activity for the month. However, other indicators of the economy have started to look more mixed. In particular, GDP growth disappointed relevant to most expectations in the September quarter, while more timely indicators have varied. Commodity prices have fallen heavily in recent months, which is expected to weigh heavily on domestic demand. The unemployment rate remains at a cyclical high (6.2%) which is keeping consumer confidence subdued, while previously lofty business confidence has been steadily eroding. Nevertheless, retail sales lifted in the two months to October (albeit from modest levels) – although retailers actually reported weaker conditions in the NAB survey – and building conditions have stabilised at elevated levels. While last months spike in business conditions was relatively broad based, the pull back in November was much more mixed across industries – concentrated in retail, manufacturing and service industries. In trend terms, conditions only deteriorated in wholesale (down 4) and recreation & personal services (down 1 point). The trend index is strongest in service sectors and construction. In contrast, wholesale, retail and manufacturing are lowest (-10, -4 and -4 points respectively).
- Business confidence also lost more ground in the month, continuing the trend seen since mid-year. Confidence is now at its lowest level since the pre election jump in mid 2013. The index dropped 4 points (to +1), with outcomes varying significantly across industries. Wholesale, mining and transport/utilities each report negative confidence (-6, -5 and -2 points respectively). Confidence fell most in recreation/personal services (down 8 points), followed by finance/ property/ business (down 5) and retail (down 4 points). Transport/utilities improved the most in the month, possibly supported by falling energy/oil prices. Looking through the monthly volatility, trend confidence was flat to down for most industries, with construction falling the most (down 5 points). Nevertheless, trend confidence in construction is equal highest along with finance/ property/ business (+7). In contrast, mining is lowest by a significant margin (-12).

Conditions fall back from surprise jump



Confidence continues to erode



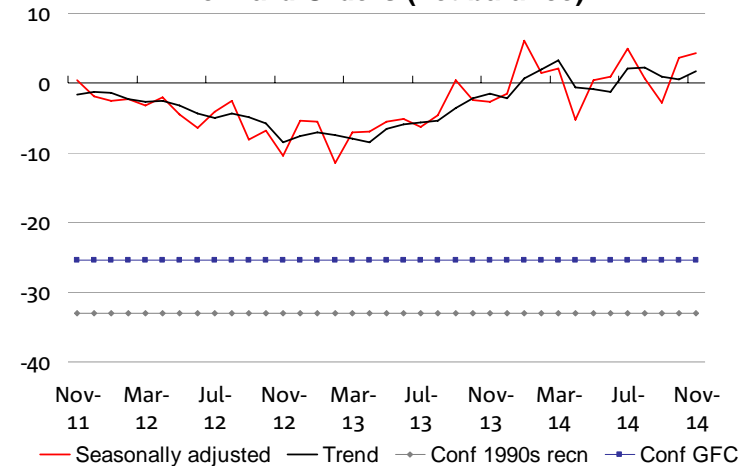
Excluding normal seasonal changes, how do you expect the business conditions facing your industry in the next month to change?

Forward indicators

- The forward orders index was unchanged at +4 index points, holding on to the gains that followed a five month low in September. This is above the long-run average for the monthly series, suggesting near term demand may have lifted – encouraging firms to continue replenishing their inventories. That outcome reflected a particularly large jump in orders in mining (up 22) and wholesale (16), which is probably a reflection of strength in construction (given subdued conditions elsewhere, particularly retail). Orders were mixed across the other industries. In trend terms, orders were up just 1 point at +2 points. Orders are now weakest in trend terms for retail (-6) and manufacturing (-4), but are strongest for finance/ property/ business (+9) and construction (+8).
- Despite a drop in conditions and confidence in November, capacity utilisation actually tightened a little further to 80.5%, although utilisation rates relative to history still vary significantly across industries. 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 in the quarterly survey of 80.4% (from 1989). The mining industry recorded the largest rise (up 4.6 ppts), following by transport/utilities (up 3.7 ppts). Mining is still reporting the lowest utilisation rates relative to history and has shown the most variation over the past 5 years (consistent with the phases of the mining investment boom). Construction is currently furthest above its average, albeit only marginally. Overall, however, half of industries still report below average capacity usage.
- The capital expenditure index eased back in November, down 3 points to +4 index points – slightly below its long-run average level (+5). The trend index was also down 1, to +5 index points, but still suggests a moderate expansion of non-mining business investment (which has a larger weighting in the survey). This trend is consistent with intentions to grow investment outside of mining expressed in the Q3 ABS Capex Survey. Trend transport/utilities and rec & pers services capex are highest (+14 and +11 points respectively).
- Elsewhere in the survey, cash flow (not seasonally adjusted) was strongest in mining, and weakest in wholesale.

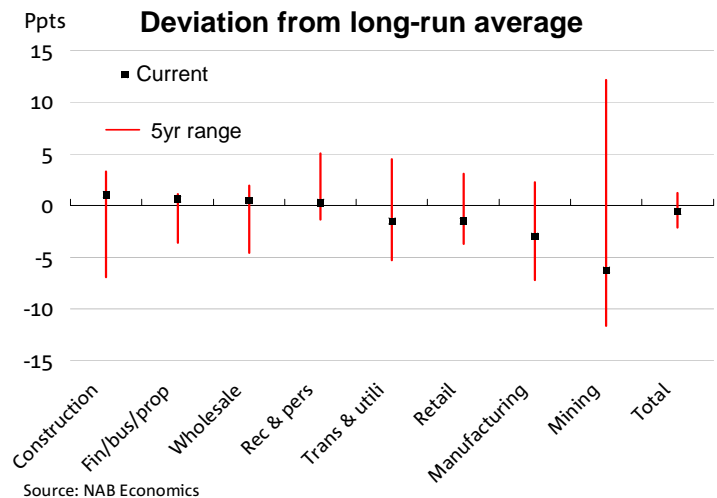
Sales orders stay up – but still subdued

Forward Orders (net balance)



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

Capacity utilisation improving – mixed across industry

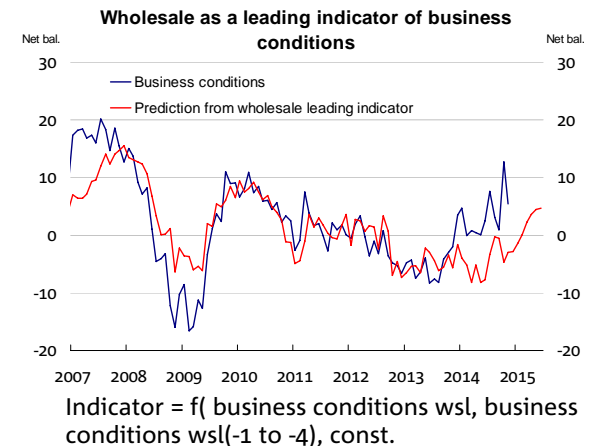
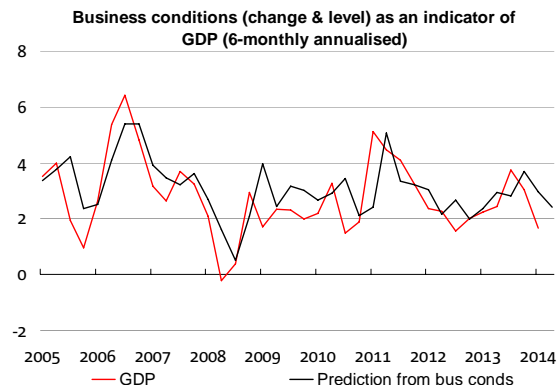
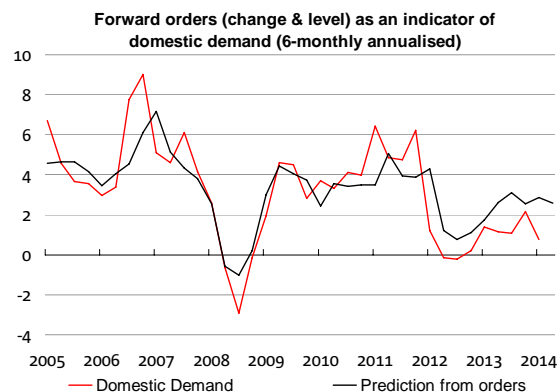


Source: NAB Economics

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

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

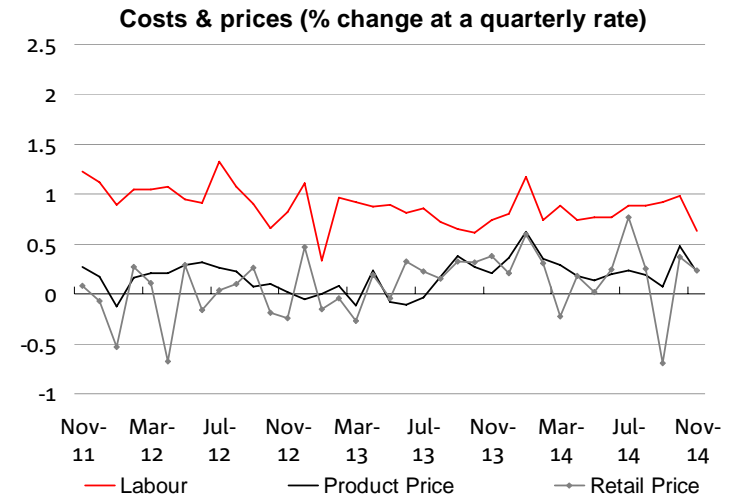
- Recent monthly economic indicators and business surveys show continued moderate global economic growth along with big variations between economies. Low interest rates, falling oil prices and smaller budget cutbacks in big advanced economies underpin faster growth of 3½% in 2015 and 2016. Global economic growth should remain heavily reliant on an upturn in India accompanied by continued good performance in China and the US. Headwinds to global growth should come from weakness across Japan, the Euro-zone and Latin America.
- Softer commodities outlook and prospect of more severe deterioration in labour market mean we have changed our rate call to two cuts of 25 bp in March and August 2015, then on hold until late 2016. GDP forecasts cut reflecting weaker history and terms of trade: 2014/15 2.5% (was 2.9%); 2015/16 3.0% (was 3.2%). Unemployment rate now to peak at around 6¾% (was 6½%).
- 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 November to our model for Q4 (+2) suggests that predicted demand growth will be similar to Q3. Similarly, business conditions over predicted GDP growth in Q3. Based on trend business conditions for November, our model implies even softer predicted GDP growth in Q4. Applying business conditions derived from our 'wholesale leading indicator' (below) implies much weaker 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 raise costs facing wholesale importers. Wholesale conditions improved modestly, but remain well into negative territory (-11), which makes 26 out of 27 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, but the gap has narrowed since last month. This indicator predicts much softer business conditions in Q4 than current levels.



Costs and prices

- Labour costs growth (a wages bill measure) was lower at 0.6% in November (a quarterly rate), consistent with the slack labour market and modest wage growth. Mining wages were more stable in the month, having fallen recently as mining firms look to control costs during the mining investment (and commodity price) downturn. Mining labour cost deflation eased back to -0.1% in November from -2.0% the prior month. Significant slack in the labour market is starting to filter through to a number of industries, with wholesale and transport/utilities the only ones not to see a deceleration in wage inflation. Wage cost pressures are now strongest in finance/ property/ business (0.9%, at a quarterly rate), followed by recreation & personal services (0.8%). In contrast, these pressures are weakest in mining by a significant margin (-0.1%), followed by retail (flat). Despite some of these trends, firms are reporting especially soft labour market conditions in wholesale and manufacturing, as well as very moderate conditions in recreation & personal services. Although trend employment conditions in the NAB survey have improved notably over the past 12 months, the index has started to stabilise at levels that are still very subdued.
- Purchase cost growth was unchanged at 0.6% in October (at a quarterly rate), which is well down on growth rates seen over H2 2013. Purchase costs accelerated modestly in mining (up 0.3 ppts), transport/utilities (up 0.2 ppts), finance/ property/ business (up 0.1 ppts) and retail (up 0.1 ppts). For some of these industries this may be in part a reflection of the lower AUD. In contrast, costs eased in wholesale (down 0.3 ppts), manufacturing (down 0.2 ppts) and construction (down 0.1 ppts). Purchase cost pressures facing wholesalers are strongest (1.4%, quarterly rate), and are weakest for mining (-0.1%).
- Final product prices also eased in November (at a quarterly rate) suggesting very little relief for firm's margins. This result highlights that inflation pressures have remained subdued. Retail price inflation moderated in November (0.2%), following a pick up the prior month. Upstream price pressures (e.g. manufacturing and wholesale) also eased (down 0.6 and 0.2 ppts). The mining sector continues to record price deflation (-3.4%), while prices growth is highest in rec/personal services (0.4%).

Price pressures still contained



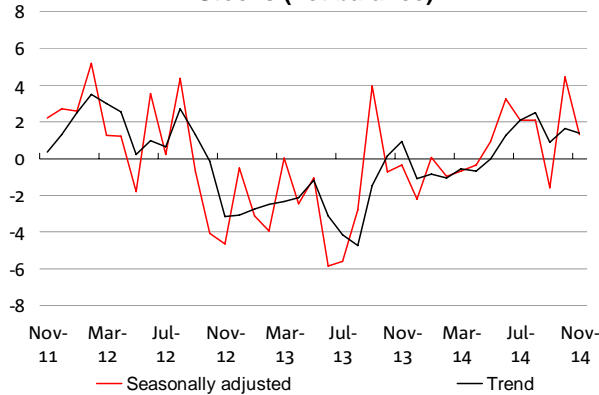
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.



More details on business activity

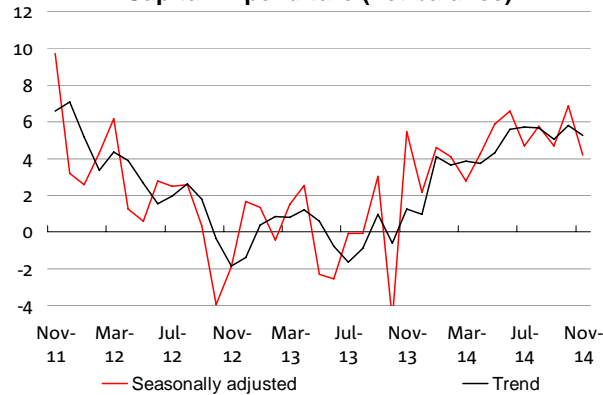
Firms continue re-stocking on positive sales

Stocks (net balance)



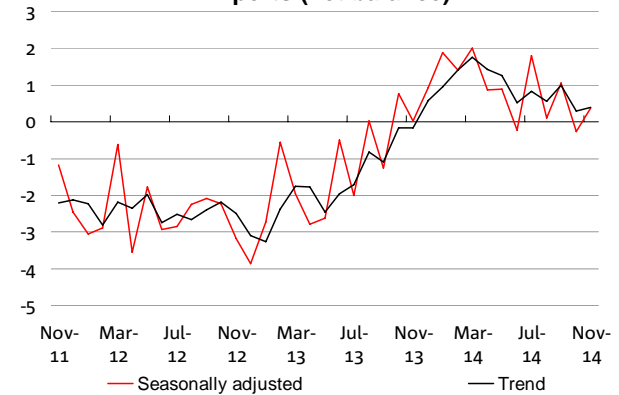
Capex loses some momentum, despite better utilisation rates

Capital Expenditure (net balance)



Exports lift, but are still soft

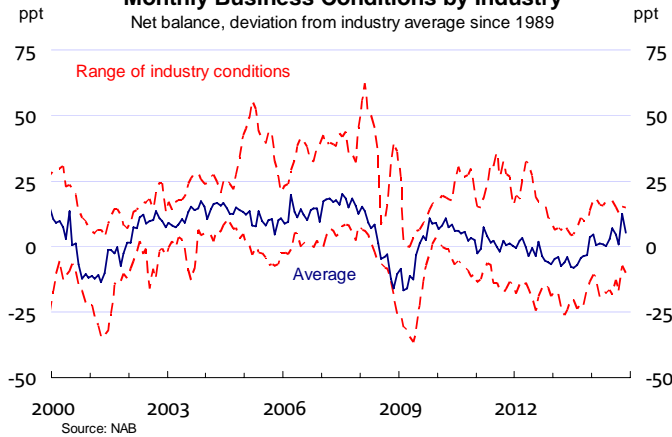
Exports (net balance)



Range of conditions remains wide, due to very weak wholesale

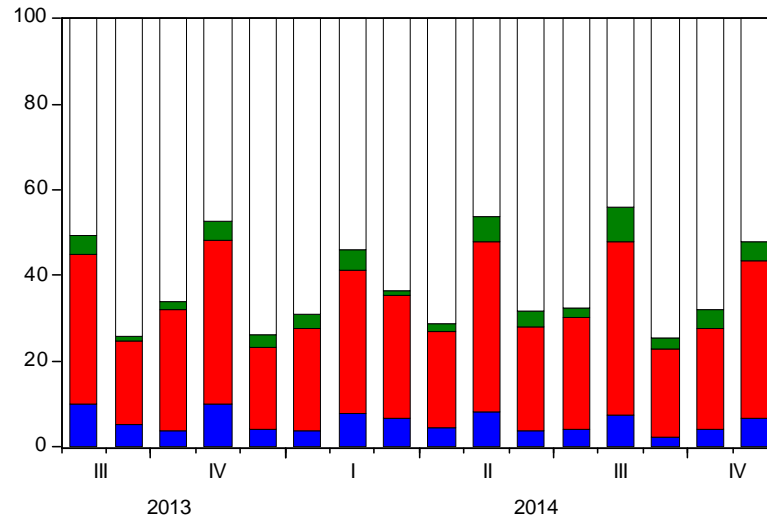
Monthly Business Conditions by Industry

Net balance, deviation from industry average since 1989



Borrowing conditions deteriorated as has the demand for credit in the past 3 months

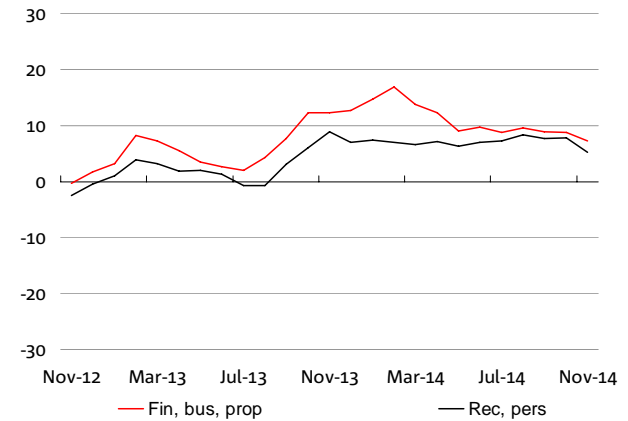
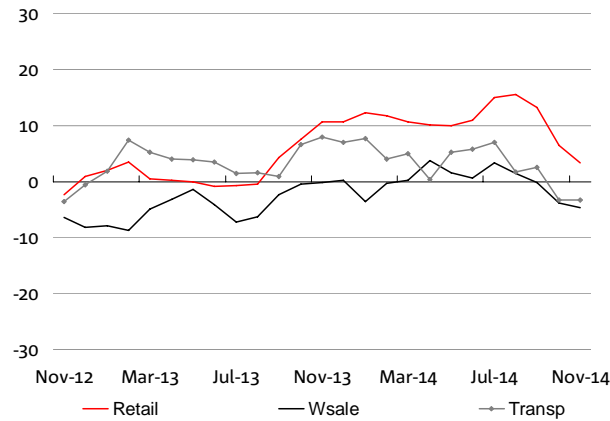
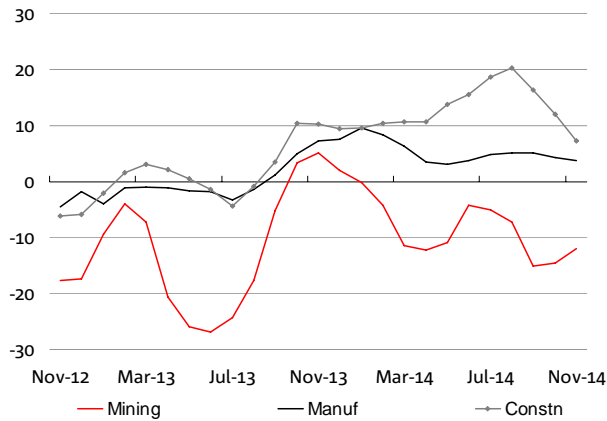
Borrowing conditions (% of firms)



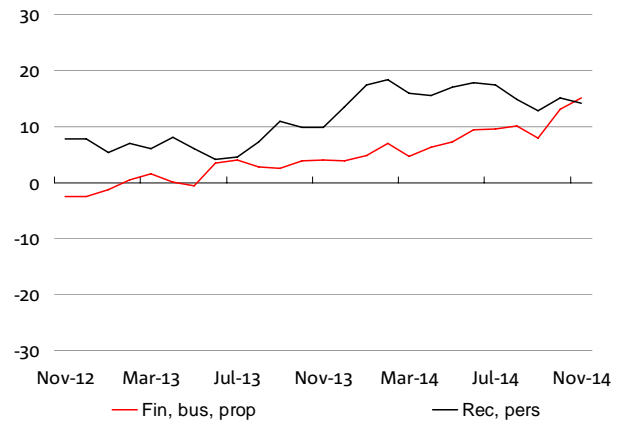
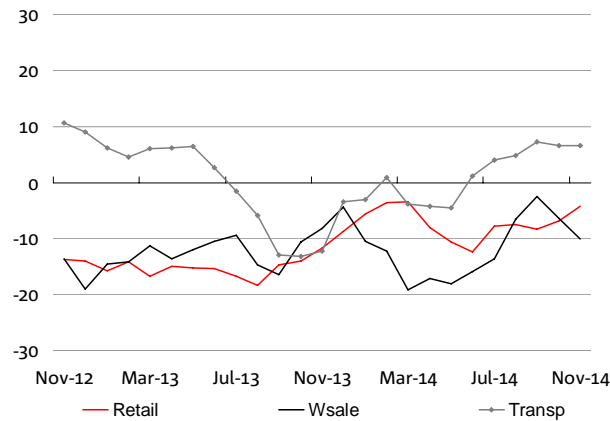
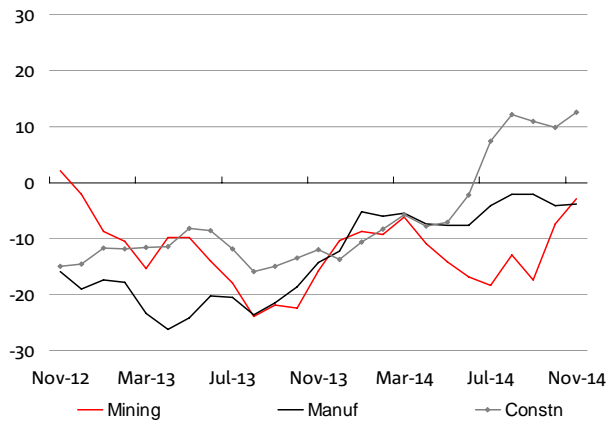
More difficult Unchanged Easier No borrowing required

More details on industries

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

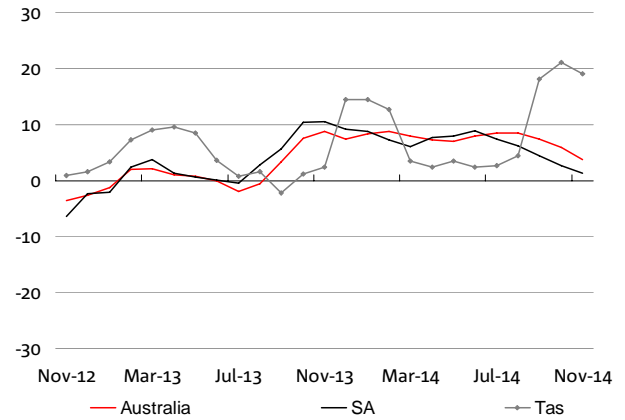
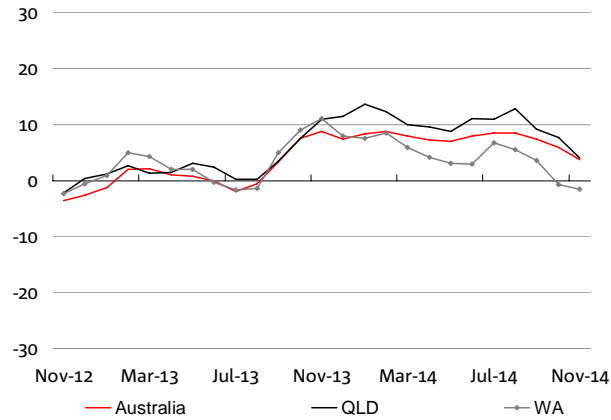
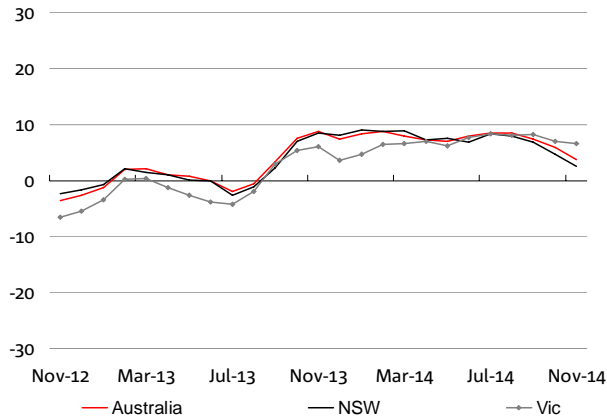


Business conditions by industry (net balance): 3-month moving average

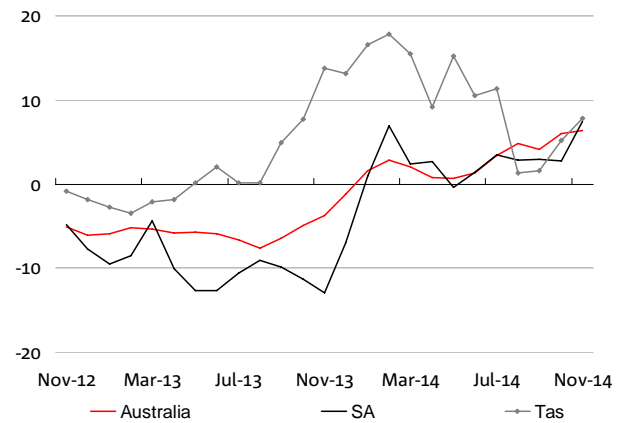
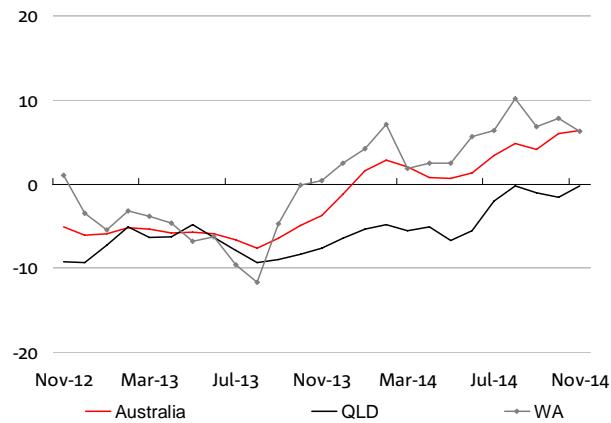
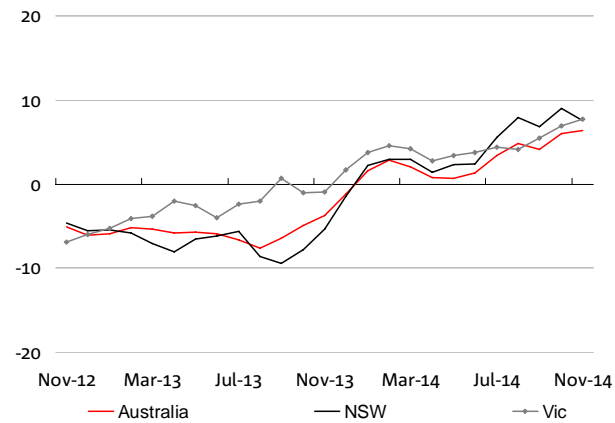


More details on states

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)

Nov-2014	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-0.1	0.7	0.3	0.0	0.6	0.6	0.8	0.9	0.6
Labour costs: previous	-2.0	2.0	1.6	0.9	-0.4	0.6	1.1	1.3	1.0
Labour costs: change	1.9	-1.3	-1.3	-0.9	1.0	0.0	-0.3	-0.4	-0.4
Prices (final): current	-3.4	0.3	0.2	0.2	0.3	0.2	0.4	0.3	0.2
Prices (final): previous	-1.0	0.9	0.3	0.4	0.5	0.2	0.6	0.3	0.5
Prices (final): change	-2.4	-0.6	-0.1	-0.2	-0.2	0.0	-0.2	0.0	-0.3
Purchase costs: current	-0.1	1.0	0.4	0.6	1.4	0.8	0.6	0.2	0.6
Purchase costs: previous	-0.4	1.2	0.5	0.5	1.7	0.6	0.6	0.1	0.6
Purchase costs: change	0.3	-0.2	-0.1	0.1	-0.3	0.2	0.0	0.1	0.0

Key state business statistics for the month

Nov-2014	Monthly Business Survey Data: By State						
	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	0	6	3	0	0	7	1
Bus. conf.: previous	3	5	8	2	0	14	5
Bus. conf.: change	-3	1	-5	-2	0	-7	-4
Bus. conf: current - Trend	2	7	4	1	-2	19	4
Bus. conf: previous Trend	5	7	8	3	-1	21	6
Bus. conf.: change -Trend	-3	0	-4	-2	-1	-2	-2
Bus. conds: current	5	5	1	8	7	13	5
Bus. conds: previous	17	8	5	11	12	10	13
Bus. conds: change	-12	-3	-4	-3	-5	3	-8
Bus. conds: current -Trend	8	8	0	7	6	8	6
Bus. conds: previous -Trend	9	7	-2	3	8	5	6
Bus. conds: change -Trend	-1	1	2	4	-2	3	0

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