

# NAB Monthly Business Survey

by NAB Group Economics

Embargoed until:  
11:30am Tuesday 27 January 2015

December 2014



National  
Australia  
Bank

## Key Points:

- The Survey again shows a patchwork economy with little-to-no momentum building. In December, conditions eased for the second successive month after October's surprisingly strong result. As a result conditions are now a touch below the long run average. Additionally, forward orders fell back significantly (broad based) suggesting soft demand conditions will continue in the near term. On the other hand, levels of capacity utilisation edged up a touch. The fall in conditions was driven by all three components (sales, profits and employment), with employment the weakest and now below long run averages - again pointing to sub-trend employment growth. By industry, the deterioration was particularly pronounced in construction and mining.
- Business confidence improved a touch, but was flat to one decimal point. More importantly confidence remains well below long run averages. Falls in commodity prices underlie substantial declines in mining confidence. Lower oil prices appear have contributed to a kick in optimism in transport/utilities firms (now the most confident). Most other sectors reported flat to improved confidence. As noted above, other leading indicators are not promising while the 'bellwether' wholesale industry remains very weak.
- Moves in commodity prices produce a sharper "v" in our activity forecasts. Unemployment to continue to deteriorate but peak lower (6.6%) and later(Q4 2015). Still expect two rate cuts in 2015 but timing very dependent on data flow and could start a touch later (see p4 for details).



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**Table 1: Key monthly business statistics\***

	Oct 2014	Nov 2014	Dec 2014		Oct 2014	Nov 2014	Dec 2014
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	5	1	2	Employment	2	0	-1
Business conditions	12	5	4	Forward orders	4	5	-1
Trading	19	11	9	Stocks	5	2	1
Profitability	14	5	4	Exports	0	0	1
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	1.0	0.7	0.9	Retail prices	0.4	0.2	0.3
Purchase costs	0.6	0.6	0.8		<i>Per cent</i>		
Final products prices	0.5	0.2	0.1	Capacity utilisation rate	80.4	80.5	80.6

\* 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 9 Jan to 15 Jan, covering over 400 firms across the non-farm business sector.

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## Next release:

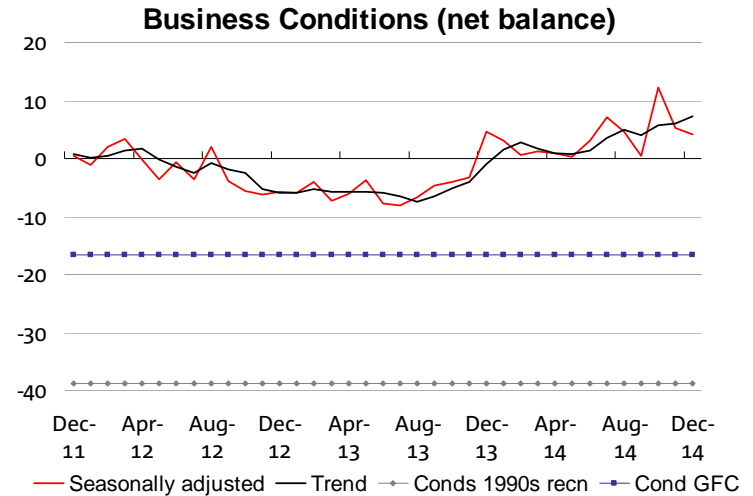
5 February 2015 (December quarterly)

10 February 2015 (January monthly)

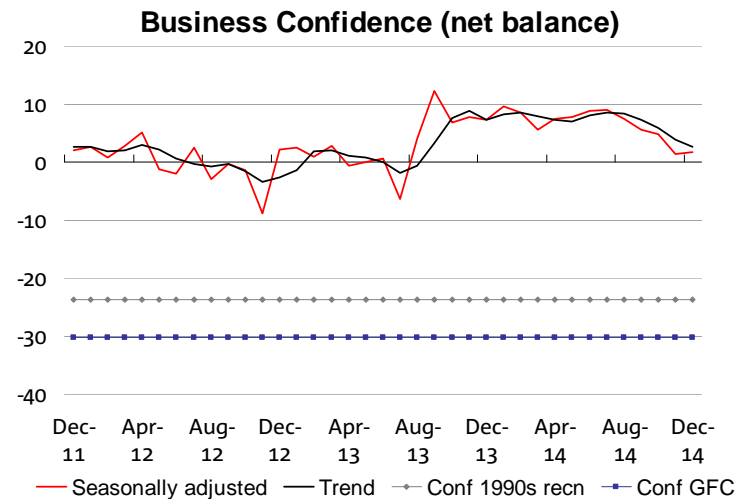
# Analysis

- The strong result for business conditions in October now clearly looks to be an anomaly, with the index easing in subsequent months. Business conditions fell by 1 point in December to +4 index points, which is within a point (below) of the long run Monthly Survey average. In trend terms, conditions have improved steadily over the past year and a half, although December's result is being supported entirely by the surprisingly strong outcome in October (which will wash out next month). Other indicators of economic activity for December have been somewhat mixed. The fall in construction conditions was surprising if one looks at the residential sector – where building approvals strengthened significantly. However the series also covers mining construction and it is possible that the latter is outweighing the former. Our judgment is that conditions in construction should strengthen in coming months. The official labour market also showed surprising resilience in December, but could reflect a statistical catch up (relative to other labour market partials). Certainly the employment series in the Survey has weakened and is now below average levels. With soft business confidence and weak forward orders there is doubt that the strength in the official estimates can be maintained. Across industries, the decline in conditions was heavily concentrated in construction (down 24) and mining (down 19), while both transport/utilities and fin/prop/bus fell (down 7 and 6 respectively). All other industries improved, with retail reporting the strongest gain (up 6). The trend index is strongest in service sectors and construction, but weakest in wholesale and manufacturing (-13 and -1).
- Business confidence edged up in the month, but to one decimal place was unchanged. More importantly the trend in confidence is clearly down and at relatively soft levels. Confidence remains at its lowest level since the pre election jump in mid 2013. The index movements reflected two major differing movements. On the negative side there were large declines in mining and fin/prop/bus (down 34 and 10 points). On the positive side transport/utilities improved significantly (up 14), to be the most optimistic industry (oil price related) and service sectors improved somewhat. Elsewhere most sectors were flat. Trend confidence in construction is highest (+9) followed by recreation and personal services (+5). In contrast, mining is lowest by a significant margin (-18). The higher than expected budget deficit in the Government's MYEFO did not seem to have a big impact on confidence.

## Conditions ease for second month



## Confidence up slightly, but at soft levels



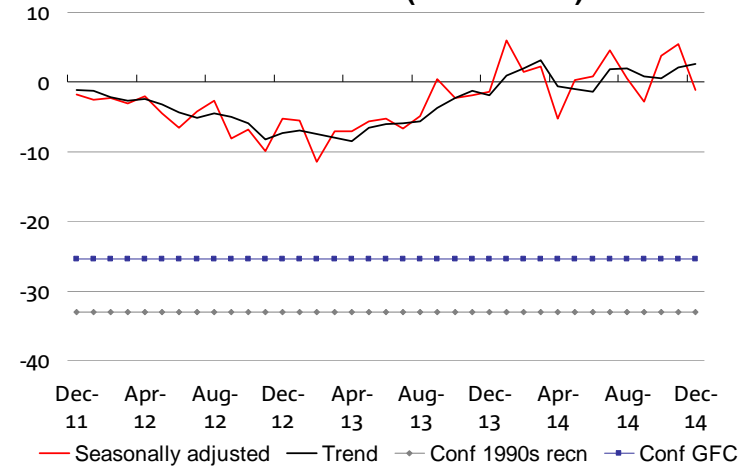
Excluding normal seasonal changes, how do you expect the business conditions facing your industry in the next month to change?

# Forward indicators

- The forward orders index dropped to -1 index points (from +5), giving back most of the gains from recent months. This is below the long-run average for the monthly series, suggesting demand was likely subdued in early 2015. The outcome reflected a particularly large drop in mining (down 53) and fin/prop/bus (down 14) orders, although most other industries (other than manufacturing) reported fewer orders in December. In trend terms, orders were up just 1 point at +3 points. Orders are now weakest in trend terms for retail (-4) and manufacturing (-3), but are strongest for construction (+15) and fin/prop/bus which is consistent with the large pipeline of residential construction projects remaining.
- Despite the slight easing in conditions, capacity utilisation actually tightened a little further in December to 80.6%, although utilisation rates relative to history still vary significantly across industries. 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). Retail is currently furthest above its average. Overall, however, more than half of industries still report below average capacity usage. In trend terms, utilisation rates have improved steadily since early 2013, but remain below the monthly survey average of 81.0% (from 1997). The retail sector recorded the largest rise in trend (up 1 ppt), followed by manufacturing (up 0.5 ppts). Transport/utilities fell the most (down 1.1ppts), followed by mining (down 0.8 ppts).
- The capital expenditure index was unchanged in December at +5 index points – consistent with its long-run average level (+5). The trend index was also unchanged at +6 index points, suggesting 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 rec & pers services capex is highest (+10 points) and mining is lowest (-3 points).
- Elsewhere in the survey, cash flow (not seasonally adjusted) was strongest in fin/ prop/ bus, and weakest in manufacturing.

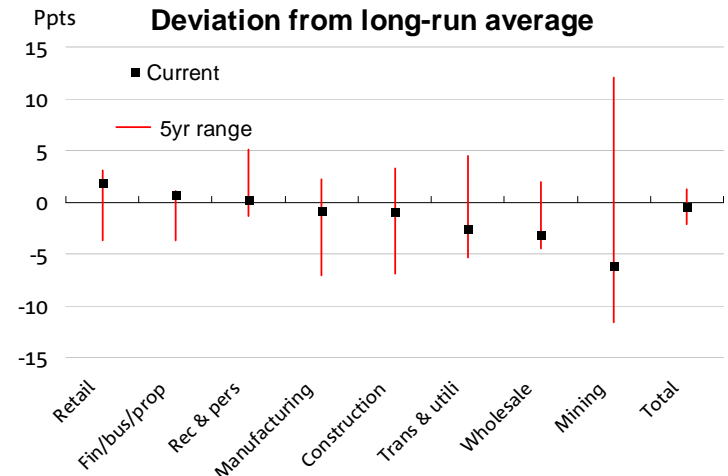
## Sales orders turn negative

### Forward Orders (net balance)



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

## Capacity utilisation still mixed across industry



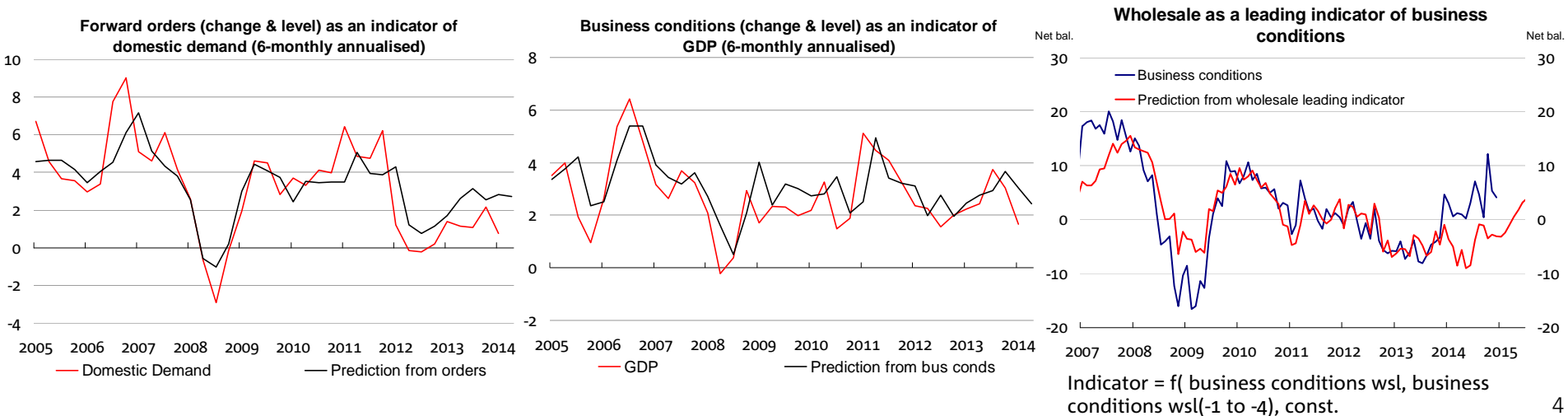
Source: NAB Economics

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

# Implications for forecasts

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

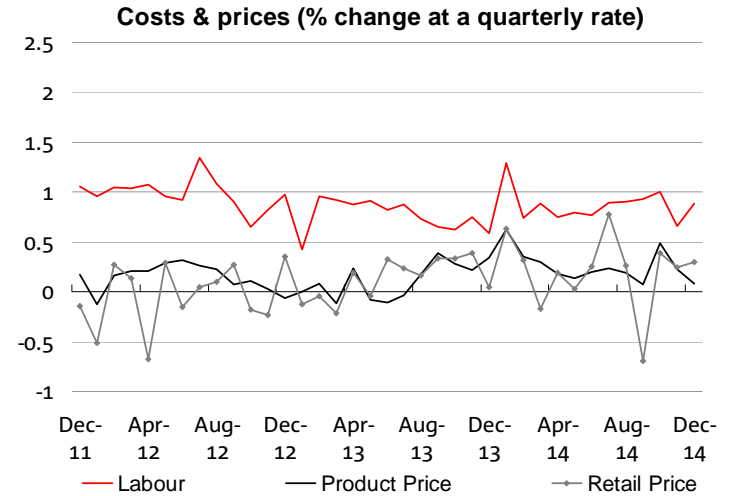
- Moderate sub-trend global growth continues with a diversity of economic conditions (solid expansion in US, UK, India and China, weakness in Euro-zone, Japan, Latin America). Falling oil prices should boost global activity, although the impact varies between oil exporting and importing countries. Our estimates are conservative but lower oil prices still boost our forecasts for the US, Japan, Euro-zone, India, China and non-Japan Asia while Russia and other big energy suppliers are revised down. Adding in the other (mainly negative) recent changes in the environment gives growth going from 3% last year to 3½% in 2015 and 2016.
- Fully factoring in lower oil and other commodity forecasts have created a larger “v” in the shape of our activity forecasts – softer in the near term (2014/15) as iron ore/coal effects dominate but stronger in the medium term (2015/16) reflecting oil prices, rate cuts and marginally stronger MTP growth and exports. Cuts to national incomes and lower inflation are key short term outcomes. Unemployment to continue to deteriorate but peak lower (6.6%) and later(Q4 2015). Still expect two rate cuts in 2015 but timing very dependent on data flow and could start a touch later.
- 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 December to our model for Q4 (+3) 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 December, 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 is generating concerns for wholesale importers. Wholesale conditions improved modestly, but remain well into negative territory (-10), which makes 27 out of 28 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 diverged over 2014 as broader conditions improved, but the gap has narrowed recently. This indicator predicts much softer business conditions in Q4 than current levels.



# Costs and prices

- Labour costs growth (a wages bill measure) was higher at 0.9% in December (a quarterly rate), which is somewhat inconsistent with the decline in the employment index. Labour cost inflation accelerated the most in retail (up 0.6 pts), but wage cost pressures are currently strongest in recreation & personal services (1.3%, at a quarterly rate), as well as transport/utilities (1%, at a quarterly rate) – these are all industries that recorded a solid pick up in actual hours worked late last year. In contrast, growth in mining wages continue to lag behind other industries as firms look to control costs during the mining investment (and commodity price) downturn. Nevertheless, mining labour cost inflation ticked up to 0.1% in December following more than a year of declines. Our expectation for domestic demand suggest there will continue to be a considerable amount of slack in the labour market, which along with expectations for subdued inflation pressures more broadly, should keep wage cost pressures contained in the near term. In terms of current labour market conditions, mining and wholesale firms reported the most modest demand for labour in the survey (-20 and -12 points), while recreation and personal services were strongest in the month (+4). 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 also lifted to 0.8% in December (at a quarterly rate), which is above the average rate seen since the GFC. This suggests some pressure from AUD depreciation, while that pass-through from lower petrol prices was relatively limited in December – although purchase cost growth for transport/utilities did ease (down 0.2 pts). Purchase costs accelerated the most in retail and manufacturing (up 0.9 pts and 0.7 pts), which is likely a reflection of AUD depreciation. Purchase cost pressures facing manufacturers are strongest (1.8%, quarterly rate), and are weakest for mining (0.1%).
- In contrast, final product prices eased in December (at a quarterly rate) suggesting firm’s margins are being squeezed further. This result again shows that consumer inflation pressures remain subdued, with retail price inflation at just 0.3%. Upstream price pressures (e.g. manufacturing and wholesale) eased (down 0.2 and 0.3 pts). The mining sector continues to record price deflation (-2.7%), while prices growth is highest in fin/prop/bus services (0.4%).

## Signs of moderate upstream price pressures



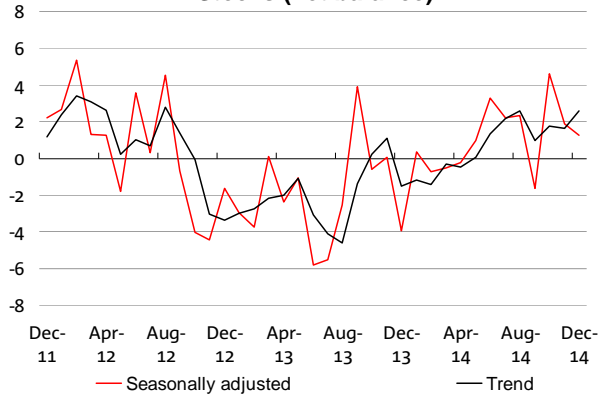
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.



# More details on business activity

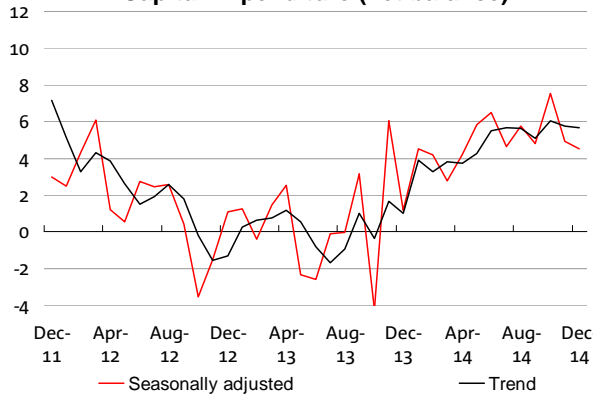
## Re-stocking slows along with orders

Stocks (net balance)



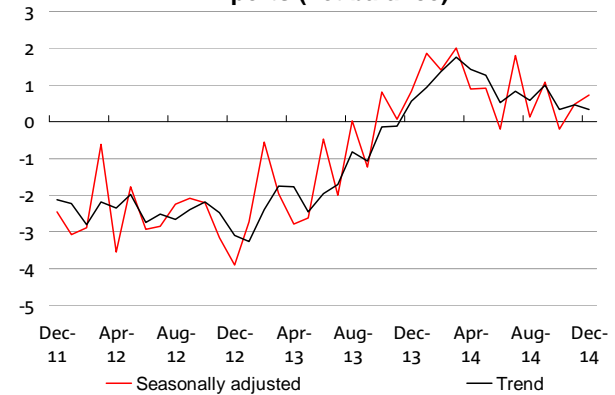
## Capex losing some momentum, although utilisation rates up

Capital Expenditure (net balance)



## Exports yet to see significant support from AUD depreciation

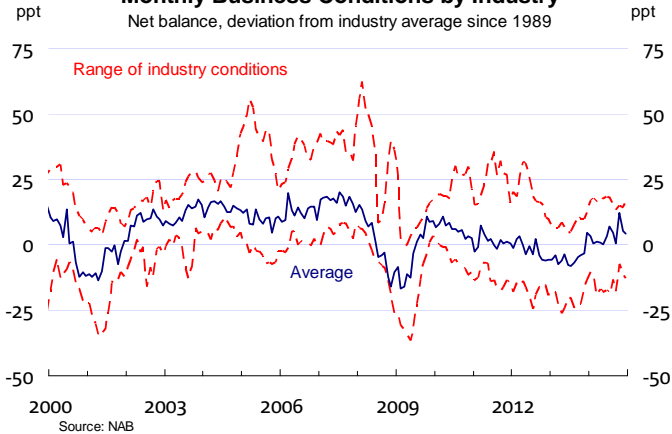
Exports (net balance)



## Range of conditions remains wide, due to very weak wholesale & mining

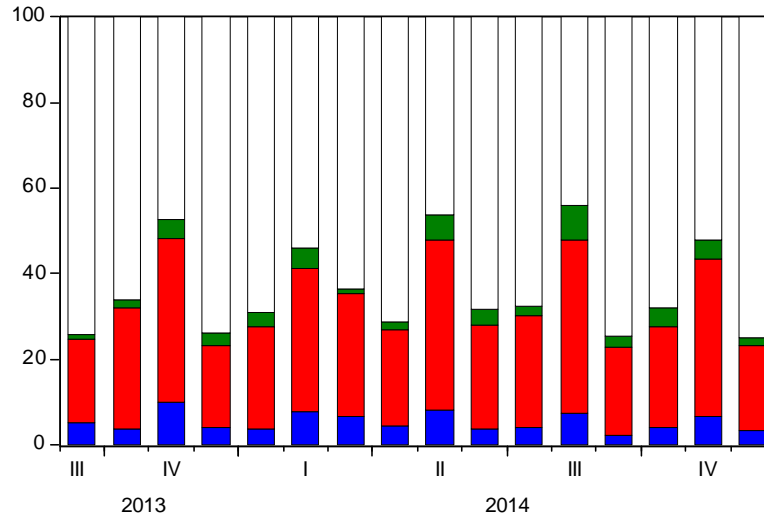
Monthly Business Conditions by Industry

Net balance, deviation from industry average since 1989



## Borrowing conditions unchanged, but demand for credit slightly lower in past 3 months

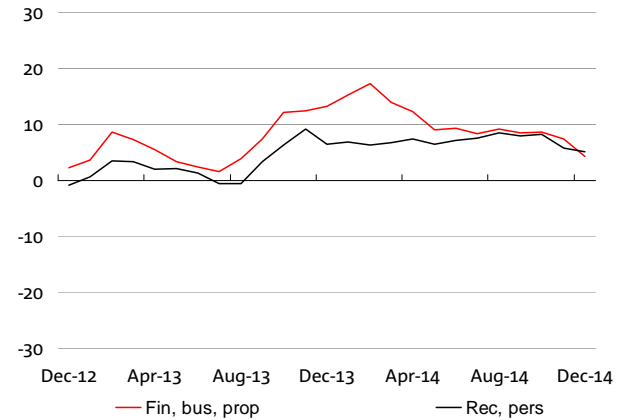
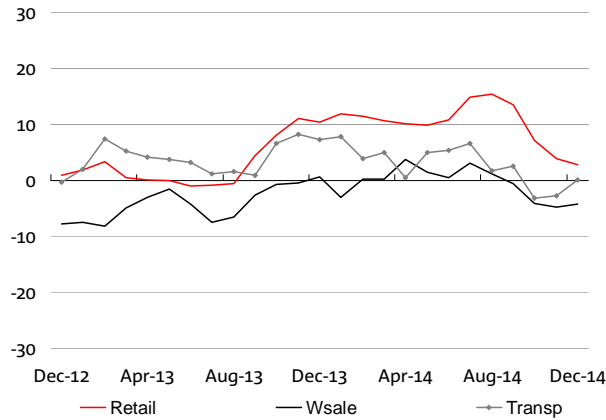
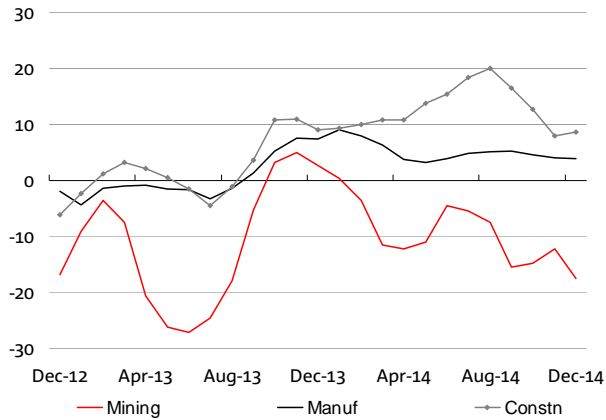
Borrowing conditions (% of firms)



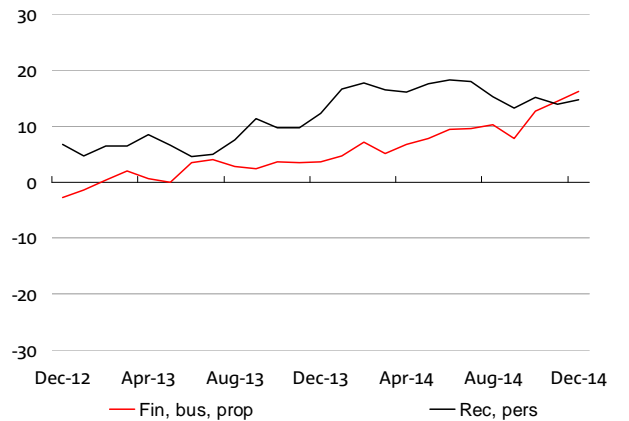
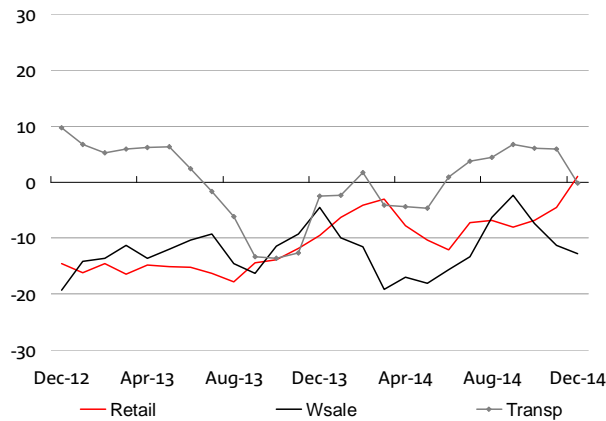
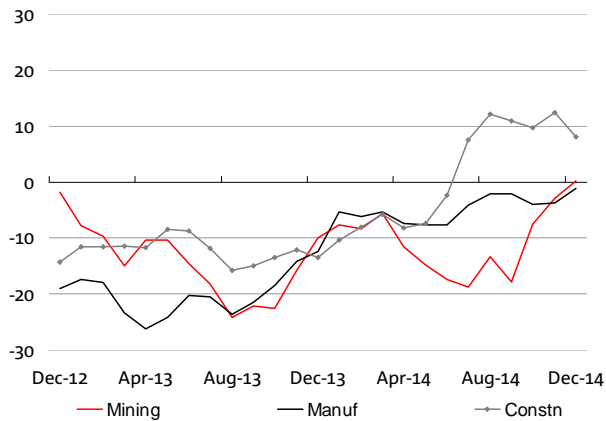
More difficult Unchanged Easier No borrowing required

# More details on industries

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

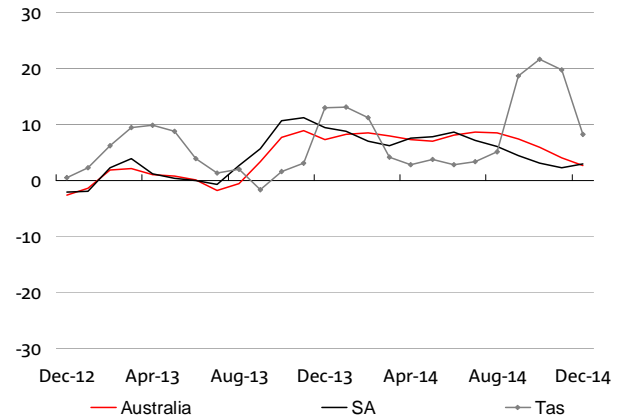
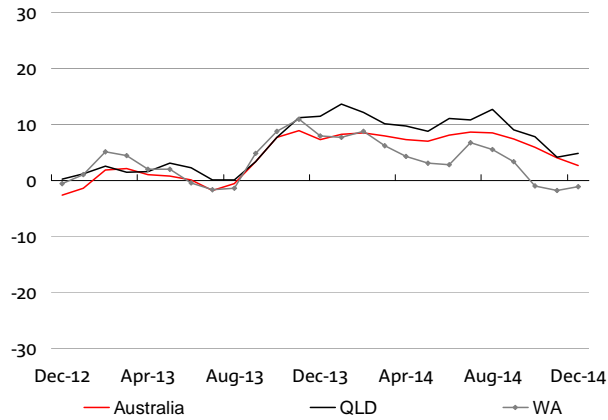
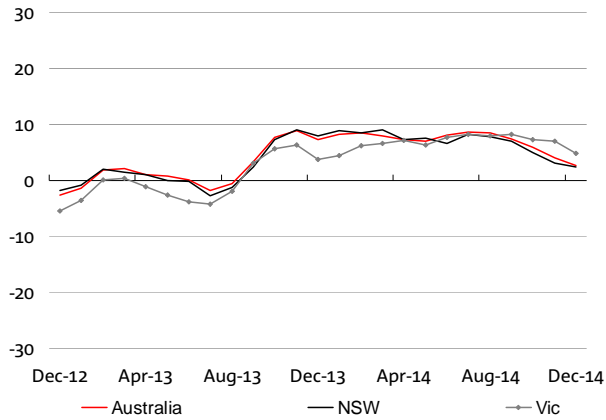


## Business conditions by industry (net balance): 3-month moving average

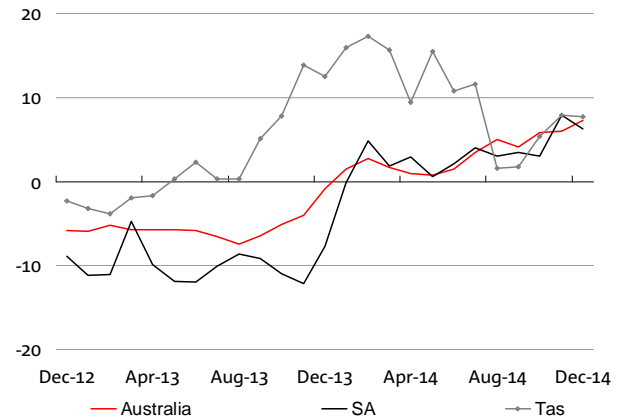
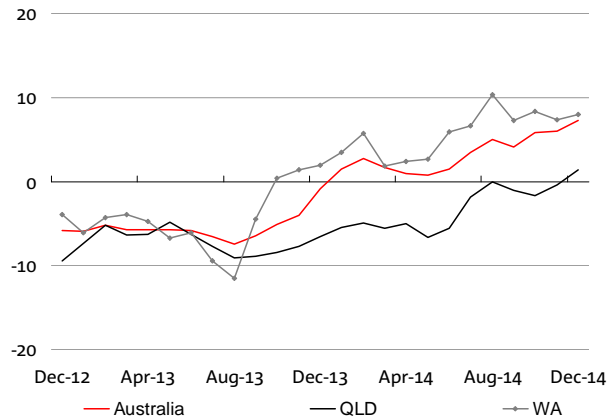
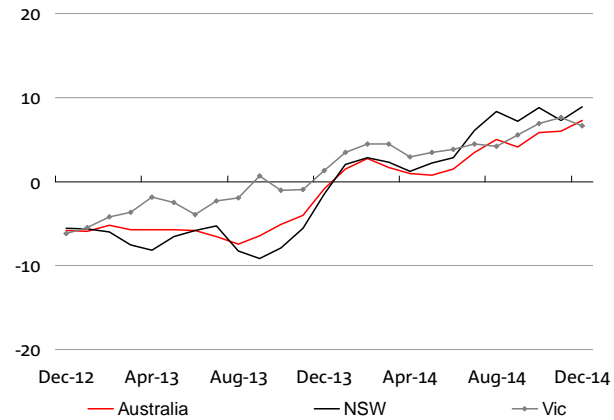


# More details on states

## 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)

Dec-2014	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	0.1	0.9	0.6	0.5	0.8	1.0	1.3	0.8	0.9
Labour costs: previous	-0.1	0.8	0.4	-0.1	0.6	0.7	0.9	1.0	0.7
Labour costs: change	0.2	0.1	0.2	0.6	0.2	0.3	0.4	-0.2	0.2
Prices (final): current	-2.7	0.1	-0.2	0.3	0.0	0.2	0.3	0.4	0.1
Prices (final): previous	-3.0	0.3	0.2	0.2	0.3	0.2	0.4	0.3	0.2
Prices (final): change	0.3	-0.2	-0.4	0.1	-0.3	0.0	-0.1	0.1	-0.1
Purchase costs: current	0.1	1.8	0.2	1.5	1.3	0.6	0.6	0.4	0.8
Purchase costs: previous	0.0	1.1	0.5	0.6	1.5	0.8	0.6	0.2	0.6
Purchase costs: change	0.1	0.7	-0.3	0.9	-0.2	-0.2	0.0	0.2	0.2

## Key state business statistics for the month

Dec-2014	Monthly Business Survey Data: By State						
	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	2	2	4	5	-4	2	2
Bus. conf.: previous	1	6	3	1	0	8	1
Bus. conf.: change	1	-4	1	4	-4	-6	1
Bus. conf: current - Trend	2	5	5	3	-1	8	3
Bus. conf: previous Trend	3	7	4	2	-2	20	4
Bus. conf.: change -Trend	-1	-2	1	1	1	-12	-1
Bus. conds: current	5	7	-1	0	3	0	4
Bus. conds: previous	5	5	1	9	9	13	5
Bus. conds: change	0	2	-2	-9	-6	-13	-1
Bus. conds: current -Trend	9	7	1	6	8	8	7
Bus. conds: previous -Trend	7	8	0	8	7	8	6
Bus. conds: change -Trend	2	-1	1	-2	1	0	1

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