

NAB Quarterly ASX 300 Business Survey

by NAB Group Economics



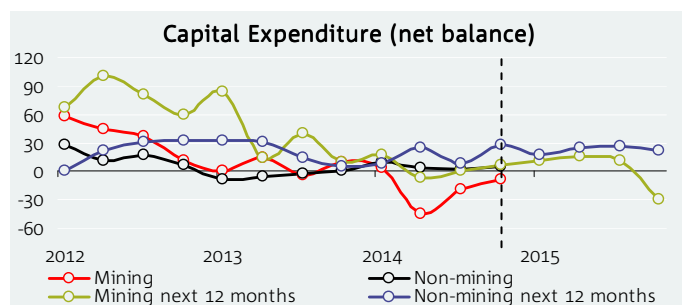
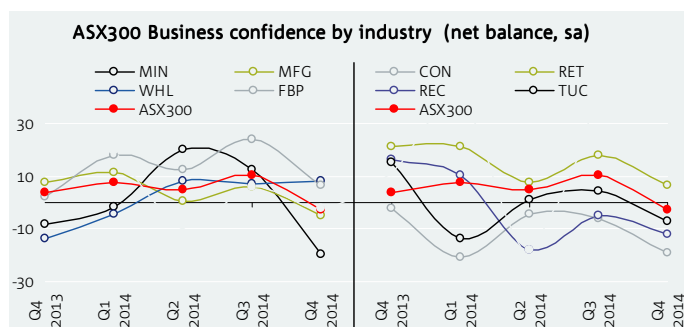
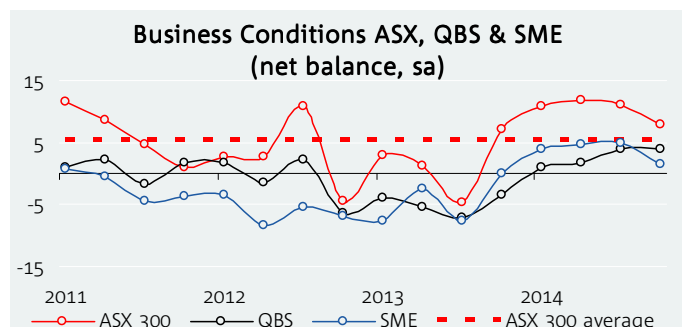
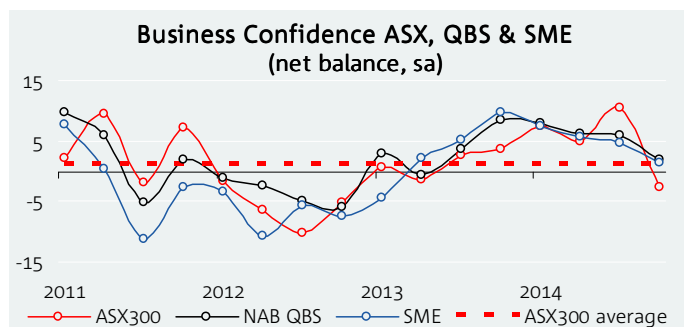
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December Quarter 2014

Big business in Australia is losing confidence, in turn affecting medium-term growth and capex expectations. Business confidence among ASX300 firms fell 13 points to -3 in Q4 (its weakest level since Q4'12) led by large mining firms. Overall confidence has now fallen below its long-term average and is weaker than for smaller companies and the broader economy. Confidence remains weakest in mining and construction (by some margin). Business conditions remain stronger than the border economy, but have also moderated - with large falls in mining and transport (both negative) offsetting solid gains in recreation and large retail. Big construction firms continue to report the weakest conditions overall (possibly reflecting the pullback in mining-related construction), followed by mining. Capital expenditure rose marginally in Q4 (driven by non mining investment), but there was a worrying deterioration in medium-term capex plans.

Other highlights

- Trading conditions were marginally weaker in Q4, with large falls in transport and mining companies offsetting improvements in recreation and large retail.
- Overall profitability was also lower (especially in transport/utilities) and now weaker than the broader economy.
- On a positive note, overall employment conditions improved (especially in large retail) but are still negative and weaker than for the broader economy.
- Stock levels rose significantly in Q4 (especially across manufacturing and large retail), while sales margins fell.
- Forward orders fell again (particularly in construction) and were well below expectations.
- Core inflation edged lower, although purchase costs rose slightly (possibly due to a weaker AUD).
- A lower AUD looks to be supporting higher export sales and export orders and may also explain higher stock levels.
- ASX 300 firms cite sales and orders as the biggest challenge facing their business next year, with demand levels the biggest challenge for profitability.



Key business statistics**

	ASX 300	NAB QBS		ASX 300	NAB QBS	
	2014q3	2014q4	2014q4	2014q3	2014q4	
	Net balance			Net balance		
Business confidence	10	-3	2	16	15	8
Business conditions				17	15	5
Current	11	8	4	-3	-1	0
Next 3 months	19	9	8	3	-3	2
Next 12 months	21	19	22	1	14	1
Capex plans (next 12)	24	15	21	3	5	1
Labour costs	0.4	0.4	0.4	<i>% change</i>		
Purchase costs	-0.2	0.1	0.5	0.0	-0.1	0.1
Final products prices	0.1	-0.1	0.1	<i>Percent</i>		
				Capacity utilisation rate	83.5	84.6
						80.4

** All data seasonally adjusted and subject to revision. Fieldwork for this Survey was conducted from 25 November to 13 December 2014, covering around 80 firms across the ASX 300.

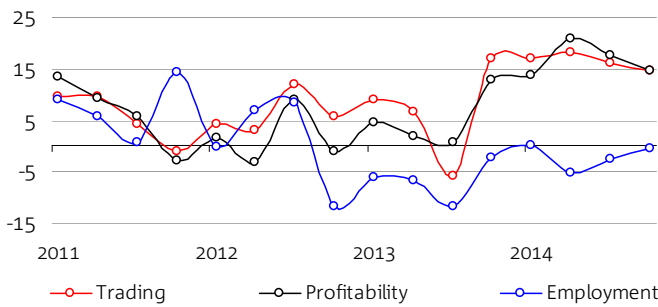
Alan Oster (Chief Economist)
(03) 8634 2927 0414 444 652

Karla Bulauan (Economist – Industry)
(03) 8641 4028

Dean Pearson (Head of Industry Analysis)
(03) 8634 2331

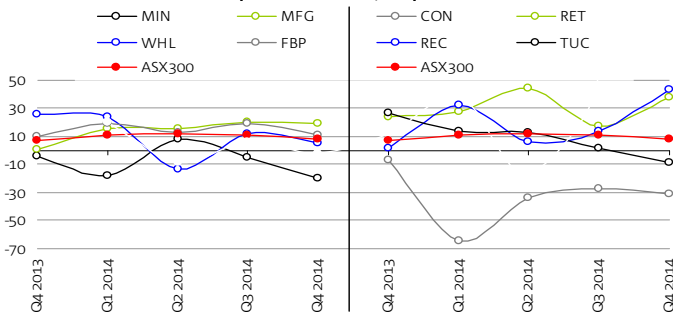
Current Conditions

Business Components (net balance, sa)



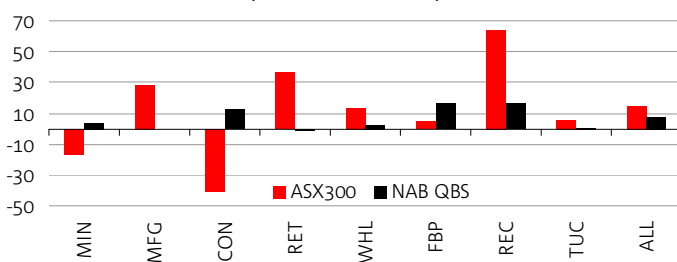
Business conditions lower in all industries except recreation (up +29) & retail (+20). Biggest fall was in mining (-16). Construction down -4 to -31 & weakest across all industries. Overall conditions also weak in mining (-20) & transport (-8).

ASX300 Business conditions by industry (net balance, sa)



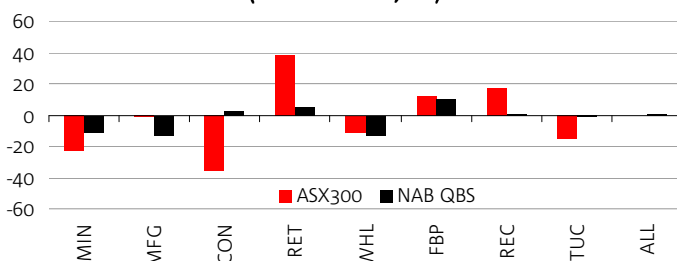
Trading conditions strongest in recreation (+64) and weakest in construction (-41) and mining (-18). A large number of retail (+36) and manufacturing (+28) firms are reporting positive trading conditions well ahead of the broader economy.

Trading conditions current quarter (net balance, sa)



While overall employment conditions were broadly unchanged, they remain deeply negative in construction (-36) and mining (-23). Employment conditions are strongest in large retail (+39) and significantly above the broader economy.

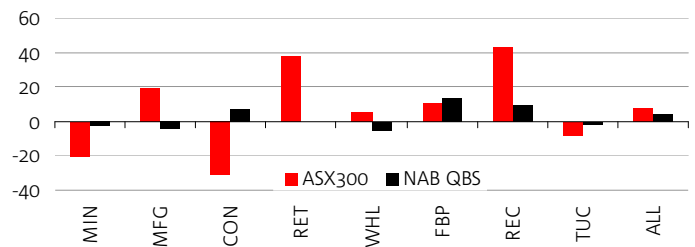
Employment current quarter (net balance, sa)



Business conditions for ASX300 firms fell 3 points to +8 in Q4. Although business conditions for large Australian firms deteriorated, they are still overall positive, above their long-term average and stronger than the broader economy. Weaker conditions reflected a drop in profitability and slightly weaker trading conditions, which offset stronger (albeit negative) employment conditions. Mirroring the results from our broader business survey, business conditions continue to show a patchwork economy (see below for industry detail).

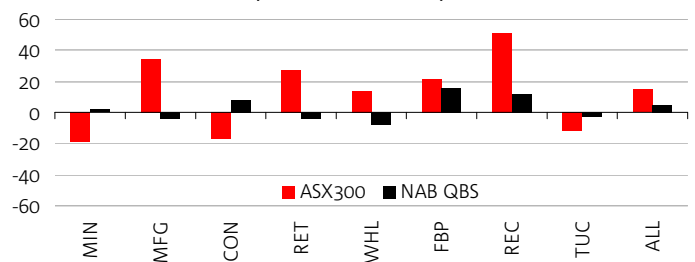
Overall business conditions strongest in recreational & personal services and much higher than broader economy. In contrast, conditions in construction and mining weakest overall and more than for the economy.

Business conditions current quarter (net balance, sa)



Strong trading conditions being reflected in improved profitability in recreation (+51), retail (+27) and manufacturing (+34). Negative trading conditions have seen profitability in the large construction (-17) and mining (-19) sector fall.

Profitability current quarter (net balance, sa)

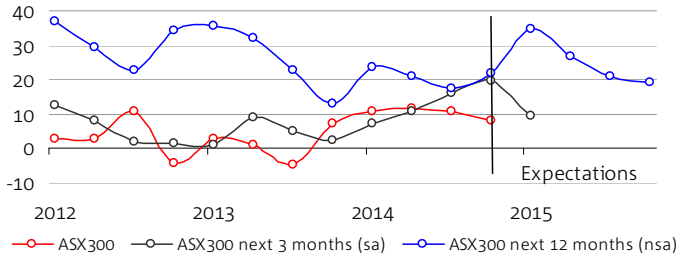


Forward Indicators

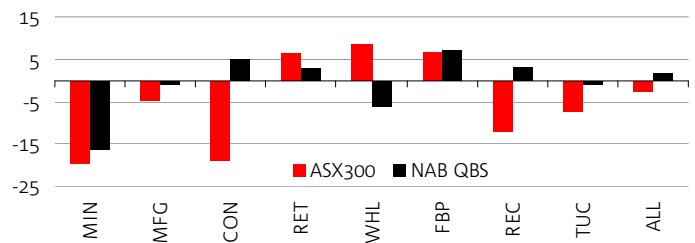
Actual business conditions among ASX 300 firms weakened marginally in Q4, but were significantly below expectations. With the general economy now softening, expectations for business activity - especially in the next 3 months - have also been scaled back.

Business confidence fell heavily in mining (-20) which has now replaced construction (-19) as the least confident sector in the ASX 300. Confidence among large wholesalers (+8) improved slightly. Finance/property (+7) and retail (+6) also positive, but confidence much lower than in Q3.

Business Conditions expectations
(net balance)



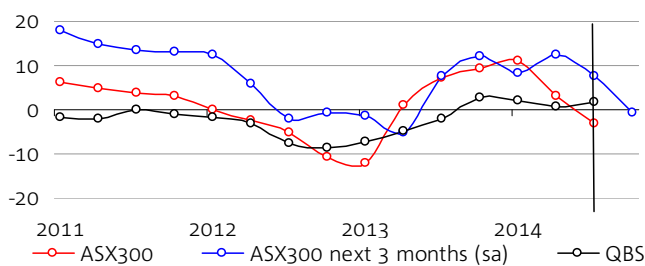
Business confidence current quarter
(net balance, sa)



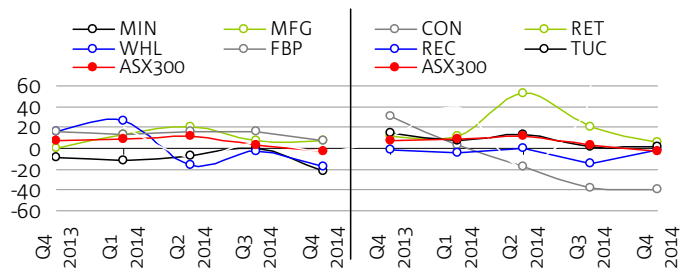
While NAB's broader business survey suggests that forward orders improved marginally in Q4, larger firms reported another big fall, suggesting some large firms are facing considerable headwinds. The outlook for forward orders remains negative.

The decline in forward orders was largely driven by construction (-39), mining (-21) and wholesale (-17). Forward orders also weaker for retail and finance/property but still overall positive in these sectors. Forward orders in manufacturing and transport were broadly unchanged.

Forward orders
(net balance, sa)



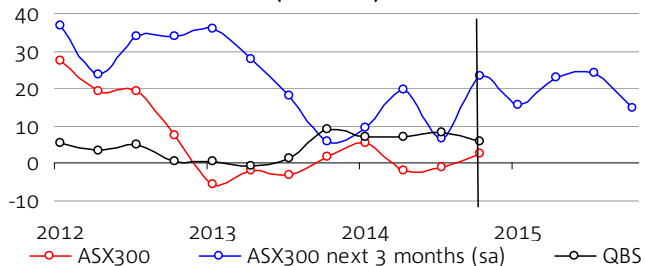
ASX300 Forward orders by industry
(net balance, sa)



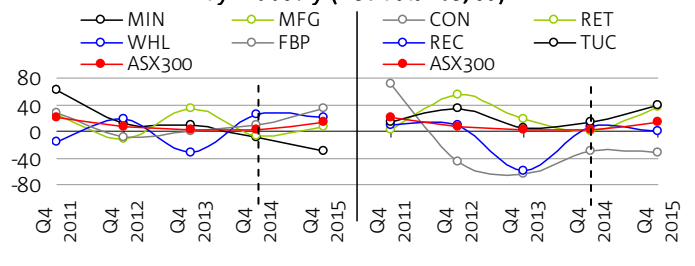
Capital expenditure plans edged marginally upwards for ASX300 firms and decreased in the broader economy. Planned investment expected to be lower over the next 12 months.

Capital expenditure plans improved most in construction (-29) but are still weakest overall. The survey also points to a small pick up in mining investment in Q4.

Capital Expenditure plans
(net balance)



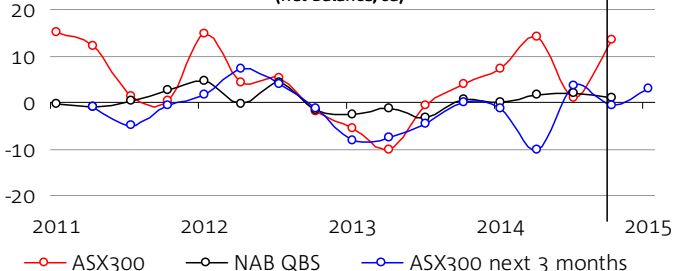
ASX300 Capital expenditure expectations by industry
(net balance, sa)



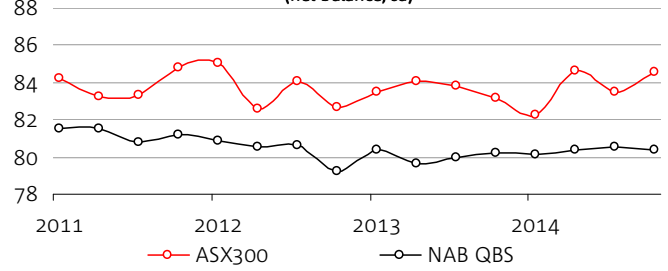
There was a noticeable increase in stock levels among ASX 300 firms (especially manufacturing). Higher stock levels may indicate re-stocking ahead of increased export orders.

Average capacity utilisation for ASX 300 firms rose to 85%. Where as capacity utilisation was notably higher for recreation and wholesale. It fell notably in transport and mining.

Stock levels
(net balance, sa)



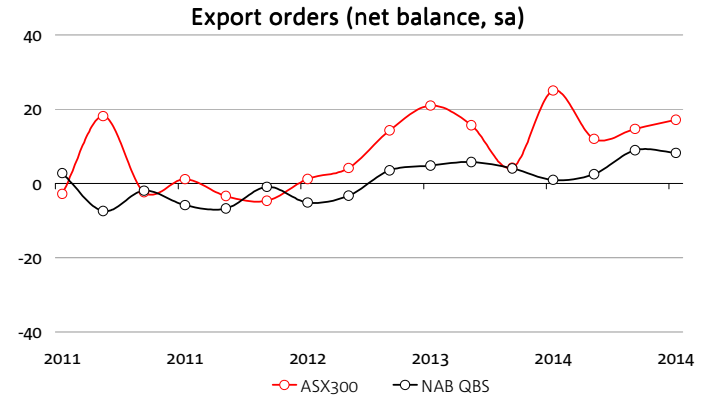
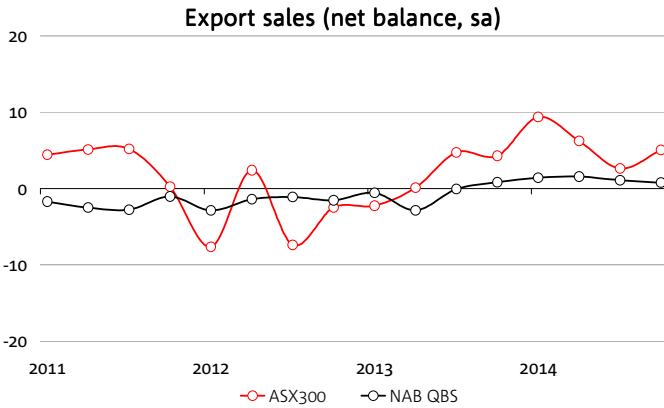
Capacity Utilisation
(net balance, sa)



Exports

After falling since mid 2014, export sales for ASX 300 firms increased in Q4, in line with the large depreciation in the AUD that took place during the survey period in December.

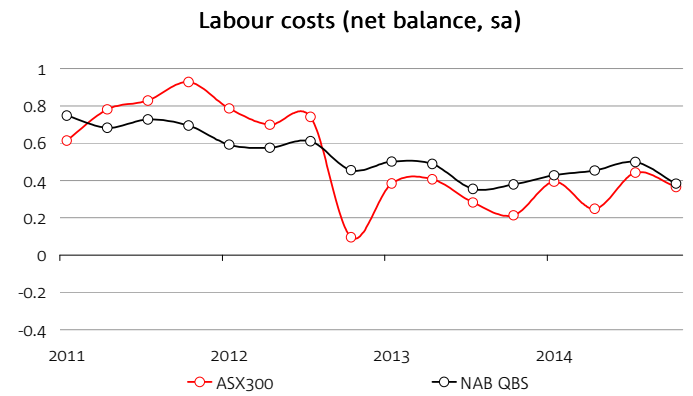
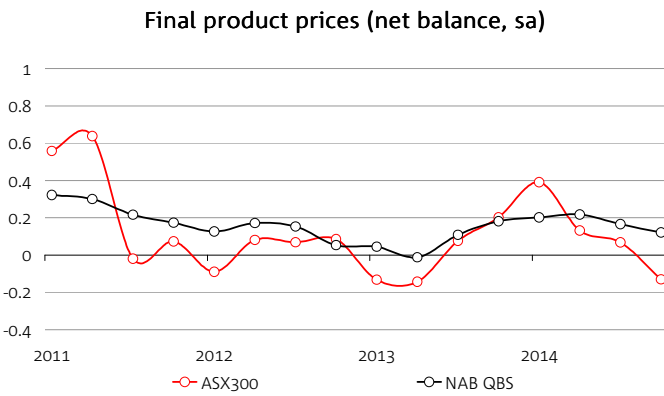
The lower AUD has also provided momentum for export orders among larger firms. This is in contrast to the broader economy where export orders have fallen.



Prices and costs

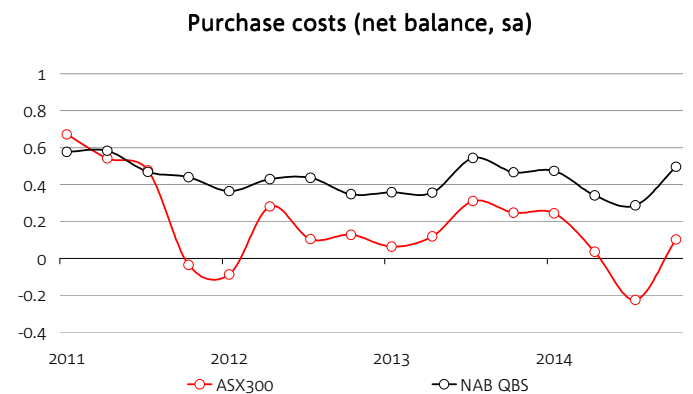
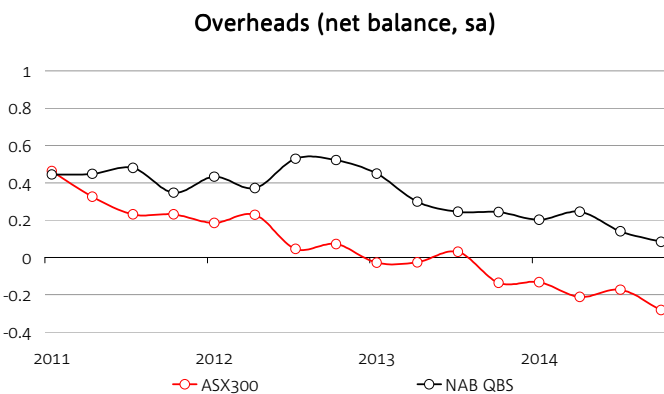
Product price inflation among ASX 300 firms fell -0.1% in the quarter, reflecting softer labour costs and overheads which offset higher purchase costs.

Labour costs continue to outstrip growth in final product prices, suggesting profit margins may have narrowed. This is also consistent with weaker profitability reported in Q4.



Overheads continued to trend down, maintaining a sizeable gap with the broader economy.

Purchase costs increased by 0.1% (-0.2% in Q3), with AUD depreciation likely contributing to higher costs for some firms.

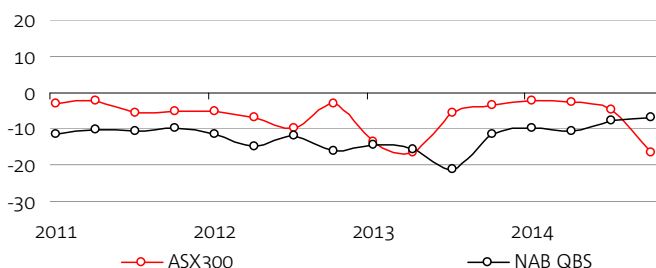


Margins and cash flow

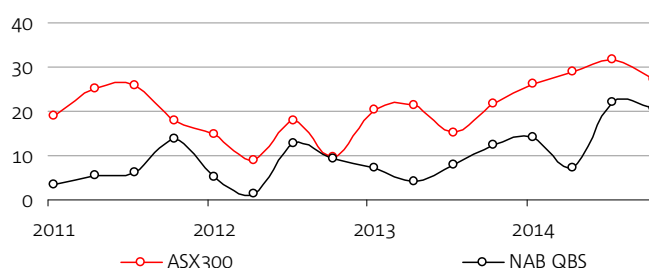
Sales margins for larger firms fell significantly in Q4 (its weakest result since Q2 2013) suggesting that rising demand may have been insufficient to offset rising costs.

Cash flow positions for ASX 300 have also weakened in Q4, but remain at relatively elevated levels and stronger than for the broader economy.

Sales margins (net balance, sa)



Cash flow (net balance, sa)

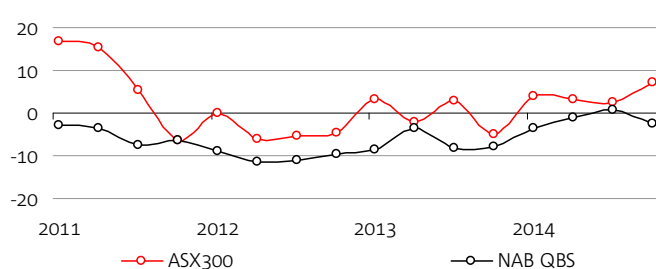


Credit conditions

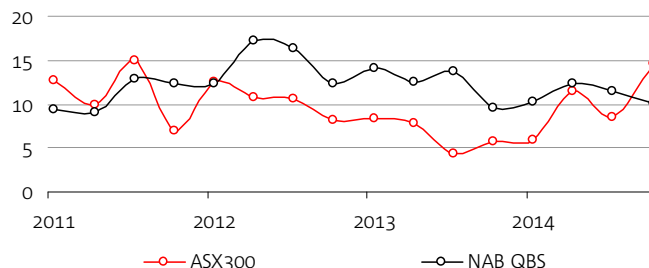
On average ASX 300 companies reported easier credit conditions in Q4, with borrowing conditions at their best levels since early 2011.

Despite weakening business activity, borrowing requirements for the next three months have also risen sharply, possibly reflecting easier access to credit.

Ease of borrowing (net balance)



Borrowing required (net balance)



Data appendix

ASX 300 Q4 2014	Mining	Manuf	Constn	Retail	Wsale	Trans & utils	Rec & pers	Fin, prop & bus	ASX 300	NAB QBS
Bus. conf.: current	-20	-5	-19	6	8	-7	-12	7	-3	2
Bus. conf.: previous	12	6	-6	18	7	4	-5	24	10	6
Bus. conf.: change	-32	-11	-13	-12	1	-12	-7	-17	-13	-4
Bus. conds: current	-20	19	-31	37	5	-8	43	11	8	4
Bus. conds: previous	-5	20	-27	17	11	1	13	19	11	4
Bus. conds: change	-16	-1	-4	20	-6	-10	29	-9	-3	0
Trad. conds: current	-18	28	-41	36	13	5	64	4	15	8
Trad. conds: previous	8	23	-26	12	19	33	32	13	16	8
Trad. conds: change	-26	5	-16	24	-6	-28	32	-9	-1	0
Profitability: current	-19	34	-17	27	14	-12	51	22	15	5
Profitability: previous	-8	40	-31	16	19	20	13	23	17	4
Profitability: change	-11	-6	14	11	-5	-32	38	-2	-3	1
Employment: current	-23	-2	-36	39	-11	-15	17	12	-1	0
Employment: previous	-16	-5	-29	29	-4	-46	-5	20	-3	0
Employment: change	-7	3	-7	10	-8	31	22	-8	2	1

net balance	Conditions - current	Conditions - next 3 months	Conditions - next 12 months	Confidence - next 3 months
ASX300	8	9	19	-3
QBS	4	8	22	2

net balance	Trading	Profitability	Employment	Sales margins	Forward orders	Stocks
ASX300	15	15	-1	-17	-3	14
QBS	8	5	0	-7	2	1

Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities

Vacant
Head of Australian Economics

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

Vyanne Lai
Economist - Agribusiness
+(61 3) 8634 0198

Phinn Ziebell
Economist - Australia
+(61) 0 475 940 662
Amy Li
Economist - Australia
+(61 3) 8634 1563

Industry Analysis

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

Robert De lure
Senior Economist - Industry Analysis
+(61 3) 8634 4611

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

Karla Bulauan
Economist - Industry Analysis
+(61 3) 86414028

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

Ivan Colhoun
Chief Economist, Markets
+61 2 9273 1836

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
Senior 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

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

Derek Allassani
Research Production Manager
+44 207 710 1532

Asia

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

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