NAB Monthly Business Survey

by NAB Group Economics

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January 2015

National Australia Bank

Key Points:

- The fundamental story painted by the January Business Survey is still one of a soft economy, with little momentum, weakish confidence and considerable difference across sectors. At the margin the Survey was a touch softer than December. Business conditions were a little lower (on an un-rounded basis) from a downwardly revised December result. In January, sales deteriorated considerably, profits eased and employment remained soft. Thus business conditions are increasingly below long-run average. By industry, manufacturing deteriorated considerably, while most other industries were flat-to-lower – mining and wholesale were exceptions. Against that orders were up (albeit still soft), while non mining capex is still reasonable. However, a sharp –broad based – drop in capacity utilisation is a concern, as is weakness in the 'bellwether' wholesale industry.
- Business confidence edged up a little, but are still below long run averages. Confidence remains very weak in mining, consistent with lower commodity prices, but multi-year lows for the AUD likely contributed to a considerable improvement from last month. Changes in confidence were mixed across other industries. Retail reported a surprising improvement, while confidence in transport/utilities dropped back despite low oil prices.
- The economic forecasts are largely unchanged (see p4). The RBA cut the cash rate (25bps) one month sooner than we expected, in an attempt to boost a soft economy with rising unemployment. Our view is that the RBA will sit back and watch for a few months to see if more needs to be done. Fundamentally we still see the need for another cut to counter lower commodity prices and other domestic headwinds. We have brought forward our August cut to May – with a 30% probability of another cut thereafter. The timing and extent of the cuts will be heavily data dependent while a resurgent housing market would give the RBA reason to rethink its rate cutting inclinations.

Table 1: Key monthly business statistics*

	Nov 2014	Dec 2014	Jan 2014		Nov 2014	Dec 2014	Jan 2014
	Net balance				*Net balance*		
Business confidence	2	2	**3**	Employment	0	-1	**-1**
Business conditions	6	2	**2**	Forward orders	6	-1	**1**
Trading	11	9	**5**	Stocks	2	2	**0**
Profitability	6	2	**1**	Exports	1	1	**1**
	% change at quarterly rate				*% change at quarterly rate*		
Labour costs	0.7	0.9	**0.5**	Retail prices	0.3	0.3	**0.0**
Purchase costs	0.7	0.8	**0.9**		*Per cent*		
Final products prices	0.2	0.1	**0.4**	Capacity utilisation rate	80.4	80.5	**80.0**

* 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 Jan to 2 Feb, covering over 400 firms across the non-farm business sector.

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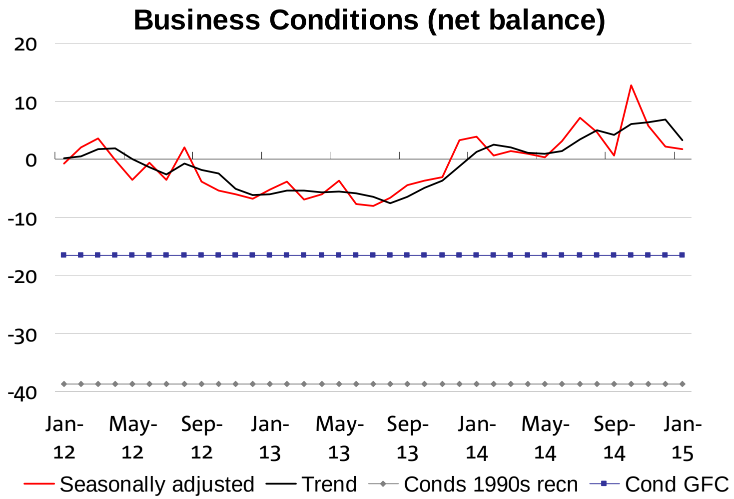
Next release: 10 March 2015 (February monthly)

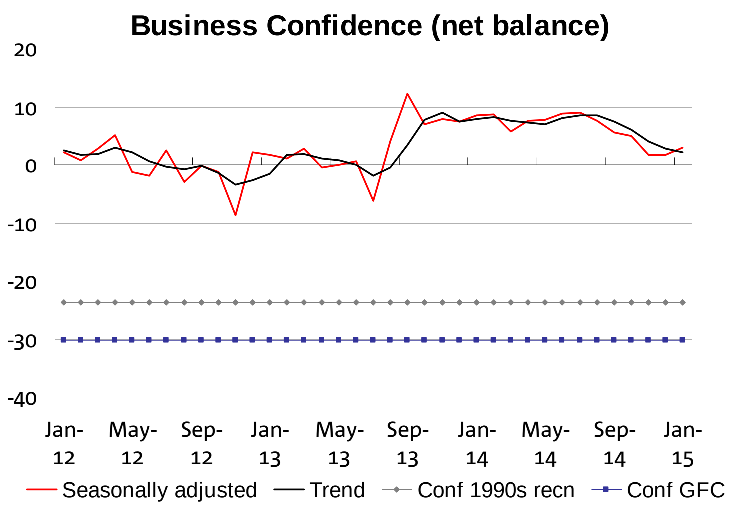
Analysis

- The trend in business conditions has lost momentum. Conditions have fallen for three consecutive months, with the index dropping another ½ a point in January (unchanged when rounded) to +2 index points – below the long run Monthly Survey average (+4). Both the survey and recent partial economic indicators are suggesting that low interest rates are having a positive effect, but has been limited to certain sectors. According to RP Data, house prices continued to rise in January (although not in all capital cities) and the pipeline of residential construction work remains large – despite a fall in building approvals in December. However, non-residential approvals remain subdued, which along with the ongoing contraction in mining investment, helps to explain the sharp deterioration in construction conditions recently (down 4 in January). Similarly, conditions were weaker in manufacturing (down 22), consistent with the contractionary AIG Manufacturing PMI for January. Falling mining investment, the winding down of the auto sector and soft business investment are factors, while the lower AUD is adding to import costs for some manufacturers. In contrast, the lower AUD may be helping mining companies, where conditions were up 12 points. Retail sales rose in December and were up a reasonably solid 1.5% in the December quarter. Nonetheless, it is largely a case of better volumes and lower prices, while weak personal credit, consumer confidence and a soft labour market contributing to a drop in retail conditions in January (down 8). The trend index is now strongest in service sectors, but weakest in manufacturing and wholesale (-10 and -9).
- Business confidence edged up in the month despite very few signs of improvement in many segments of the economy. Nevertheless, the trend in confidence is clearly down and sits at relatively soft levels. Confidence remains close to its lowest level since the pre election jump in mid 2013. The slight increase in January masks some fairly significant changes across industries. While mining (up 14), retail and fin/ prop/ bus (both up 12) improved materially, the level of mining confidence remains very weak. The jump in retail confidence was also a little surprising given weak sales.. Elsewhere, confidence fell the most in transport/utilities (down 13) – despite low oil prices – followed by wholesale (down 10) and manufacturing (down 9), which may reflect higher import costs from AUD depreciation along with other structural headwinds. Trend confidence is still highest in construction (+10) and lowest in mining by a significant margin (-19).

Conditions (modestly) ease again



Confidence stable, but soft

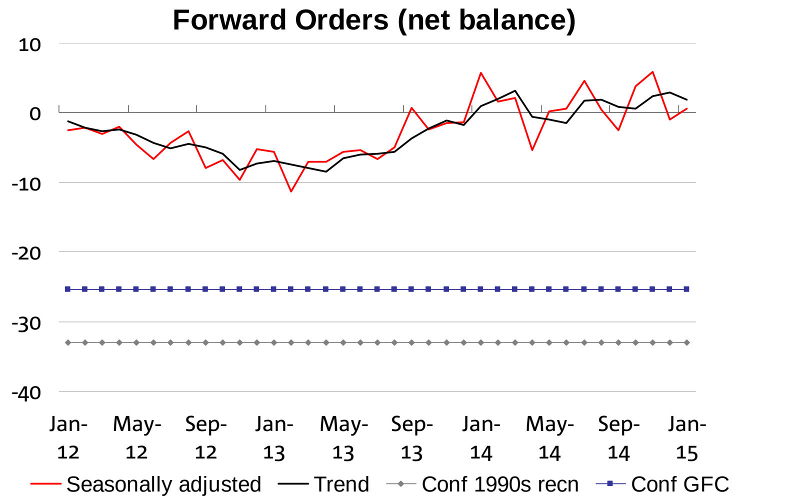


Excluding normal seasonal changes, how do you expect the business conditions facing your industry in the next month to change?

Forward indicators

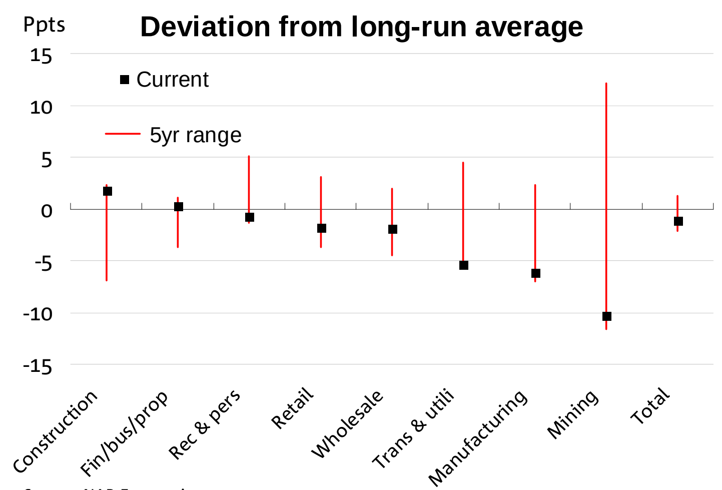
- The forward orders edged a little higher (up 2) to +1 point, which only partially unwinds the deterioration recorded in December. This is slightly higher than the long-run average for the monthly series, suggesting only a modest improvement in demand in the near term. The outcome reflected a particularly large jump in mining (up 29), which unwound the decline seen in December. Retail orders (up 8), recreation and personal services (up 7) and fin/prop/bus orders (up 2) also improved. In contrast, construction orders fell the most, down 15, followed by transport/utilities (down 11) and manufacturing (down 9). In trend terms, orders were actually 1 point lower at +2 points. Orders are now weakest in trend terms for transport/utilities (-8) and manufacturing (-6), but are strongest for construction and fin/prop/bus (both +5) which is consistent with the large (albeit stabilising) pipeline of residential construction projects remaining.
- Although conditions only eased modestly, a noticeable drop in trading performance was reflected in lower capacity utilisation (80.0%, down from 80.5%). This is the lowest utilisation rate since mid-2014. The deterioration was felt across most industries (construction and wholesale were exceptions), while all but construction and fin/bus/prop now have utilisation rates that are below their long run average. 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. In trend terms, the manufacturing sector recorded the largest fall (down 1.1 ppt), followed by wholesale (down 0.6 ppts). Construction rose the most (up 0.4ppts), followed by fin/ bus/ prop (up 0.1 ppts).
- The capital expenditure index was marginally better (up 1) in January at +5 index points – consistent with its long-run average level (+5). The trend index on the other hand was down 1 point to +5 index points. Both 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 wholesales capex is highest (+8 points) and manufacturing is lowest (0 points).
- Elsewhere in the survey, cash flow (not seasonally adjusted) was strongest in pers & rec services, and weakest in manufacturing.

Sales orders lift – still subdued



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

Capacity utilisation mostly weaker

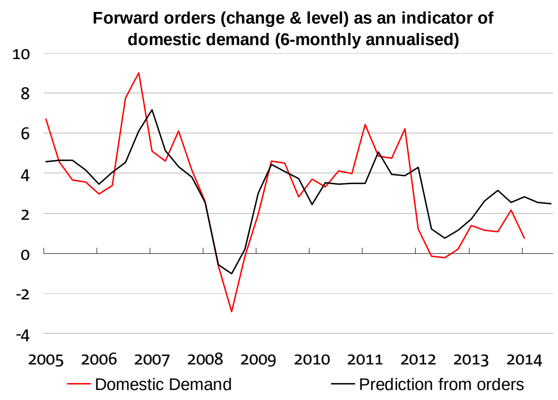


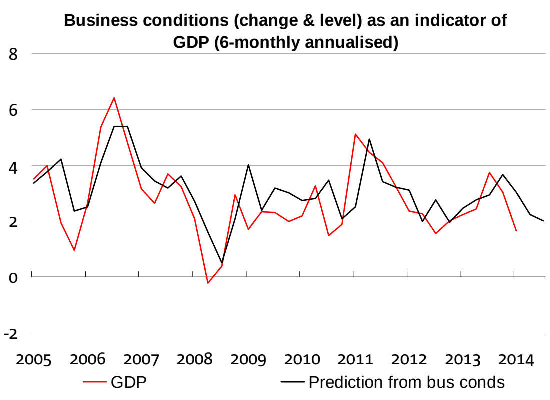
Source: NAB Economics

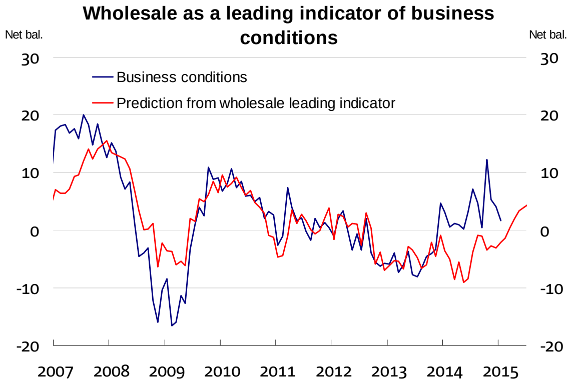
Full capacity is the maximum desirable level of output using existing capital equipment.

Implications for forecasts For more information see latest Global & Australian Forecasts

- We have not changed our global or domestic economic outlook from that published in last weeks GLOBAL AND AUSTRALIAN FORECASTS.
- Globally 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.
- Locally 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. At the margin we are similar to the RBA's MPS forecasts but slightly more optimistic in the medium term. Unemployment continues to deteriorate but peak lower (6.6%) and later(Q4 2015).
- The RBA cut the cash rate (25bps) one month sooner than we expected, in an attempt to boost a soft economy with rising unemployment. Our view is that the RBA will sit back and watch for a few months to see if more needs to be done. Fundamentally we still see the need for another cut to counter lower commodity prices and other domestic headwinds. We have brought forward our August cut to May – with a 30% probability of another cut thereafter. The timing and extent of the cuts will be heavily data dependent while a resurgent housing market would work in the opposite direction..
- 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 forward orders from the December quarter to our model suggests that predicted demand growth will be similar to Q3. Similarly, business conditions over predicted GDP growth in Q3. Based on Q4 business conditions and the January trend (+3), our model implies even softer predicted GDP growth in Q4 and Q1. Applying business conditions derived from our 'wholesale leading indicator' (below) implies much weaker GDP growth over coming quarters.





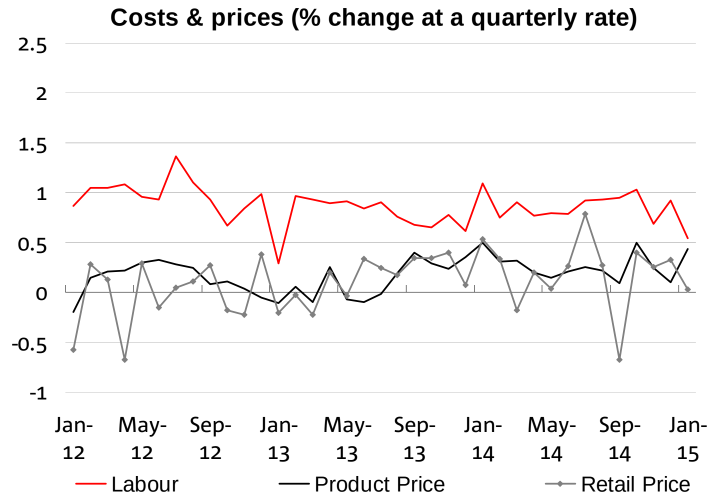


Indicator = f(business conditions wsl, business conditions wsl(-1 to -4), const.

Employment, costs and prices

- Labour costs growth (a wages bill measure) was lower at 0.5% in January (a quarterly rate), which is somewhat consistent with the soft employment index. Labour cost inflation decelerated the most in recreation & personal services (down 0.6 ppts), but wage cost pressures are currently weakest in retail and fin/ prop/ bus (both 0.2%, at a quarterly rate). Surprisingly, despite continued headwinds to the industry, this is the first month in over a year where mining labour cost growth has not been weakest – although the data can be volatile. In contrast, labour cost growth was highest in manufacturing (1.0%, at a quarterly rate), followed by wholesale (0.8%). 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 (assisted by low oil prices), should keep wage cost pressures contained in the near term. In terms of current labour market conditions, manufacturing and wholesale firms reported the most modest demand for labour in the survey (-27 and -12 points), which could be a reaction to comparatively stronger growth in labour costs. In trend terms, employment demand is strongest in fin/ bus/ prop (+5) and construction (+4), but weakest in manufacturing (-12), wholesale (-10) and mining (-1).
- Purchase cost growth lifted to 0.9% in January (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 has thus far been relatively limited (despite a clear impact on the December quarter headline CPI). Purchase costs accelerated the most in wholesale and manufacturing (up 2.0 ppts and 0.5 ppts), which is likely a reflection of AUD depreciation. Purchase cost pressures facing wholesalers are strongest (3.4%, quarterly rate), and are weakest for recreation & personal services (0.2%).
- Final product prices growth accelerated the most in January (at a quarterly rate) suggesting some moderate relief for firms margins. Nevertheless, retail prices eased back to suggest no growth in the month – indicating that consumer inflation pressures remain subdued. However, upstream price pressures (e.g. manufacturing and wholesale) accelerated noticeably (up 1.1 and 1.0 ppts). The mining sector continues to record price deflation (-1.9%), while prices growth is highest in manufacturing (1.2%).

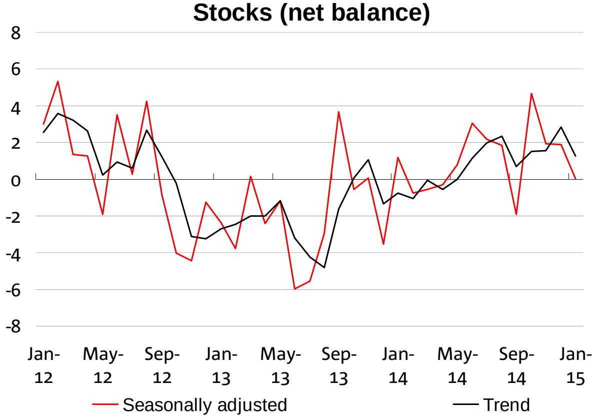
Price pressures still contained



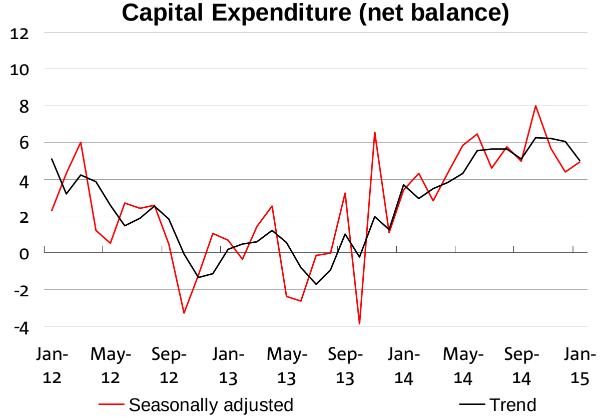
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.

More details on business activity

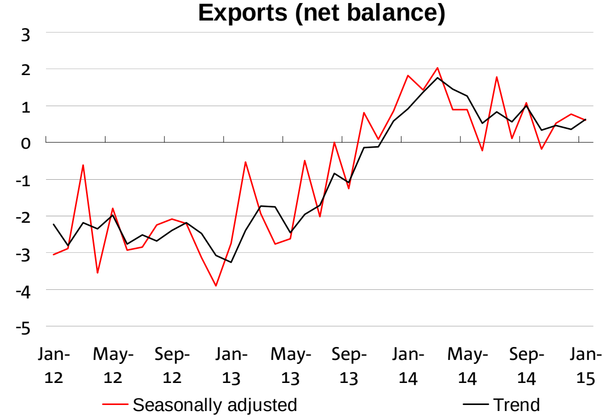
Soft conditions limit re-stocking



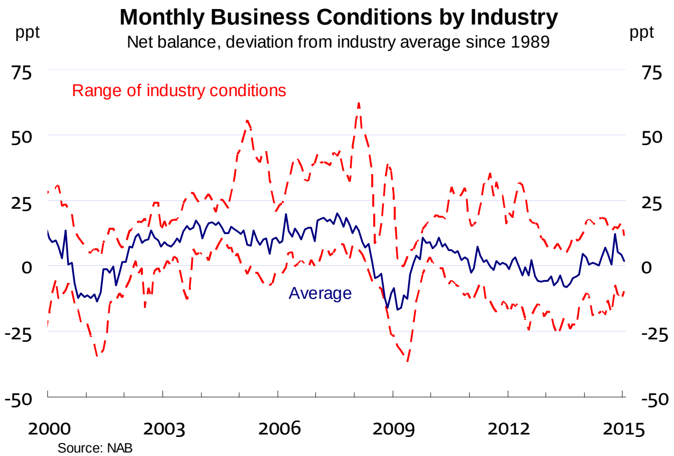
Capex relatively positive despite lower utilisation rates



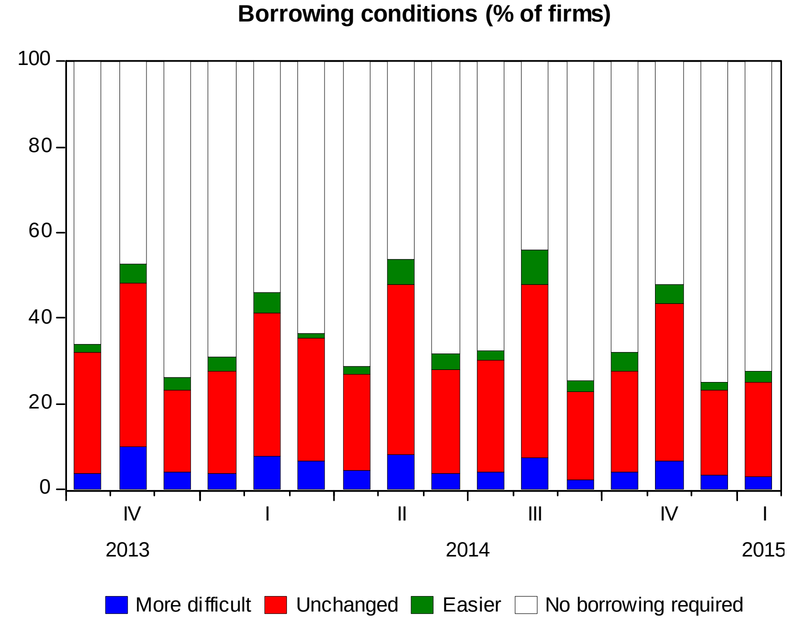
Exports fail to lift with AUD depreciation



Range of conditions remains wide, due to very weak manufacturing

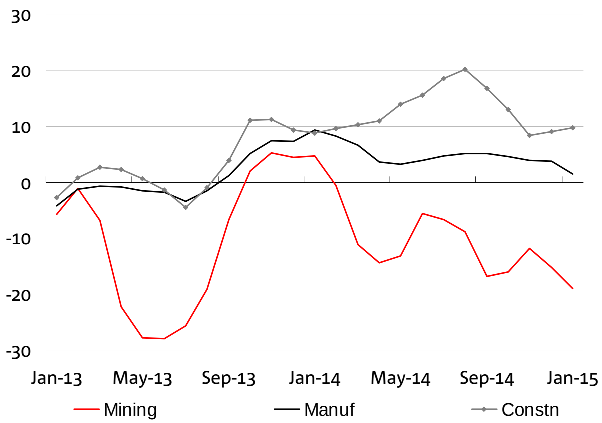


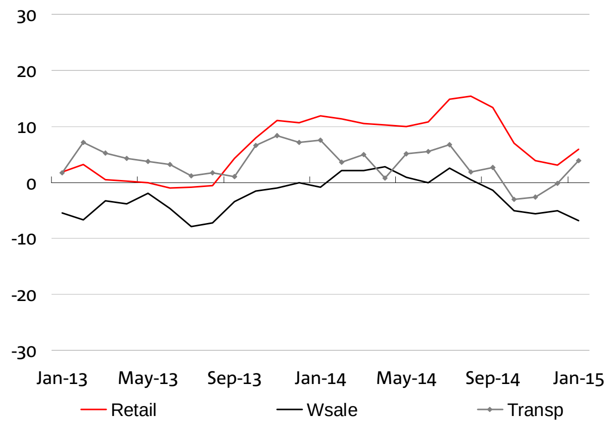
Borrowing conditions deteriorated and demand for credit weakened over the past 3 months

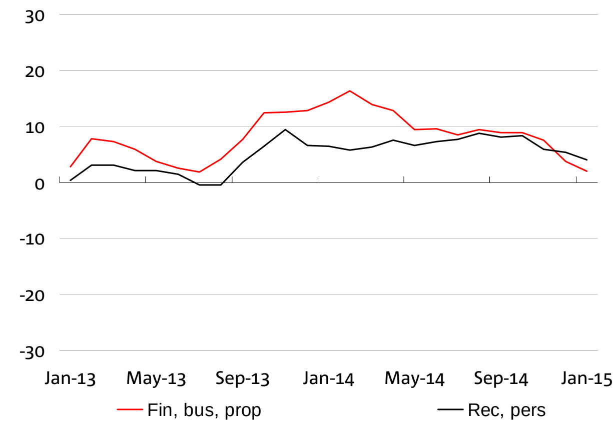


More details on industries

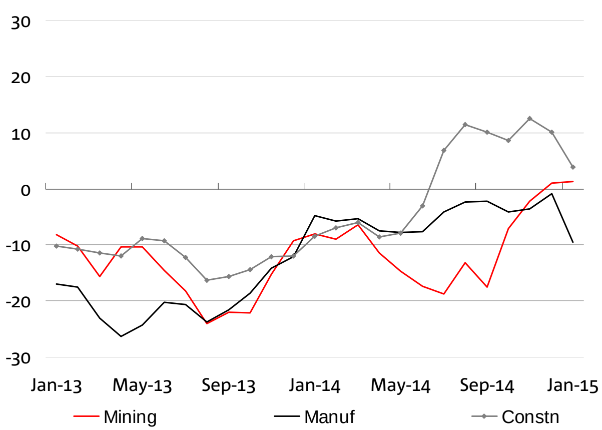
Business confidence by industry (net balance): 3-month moving average

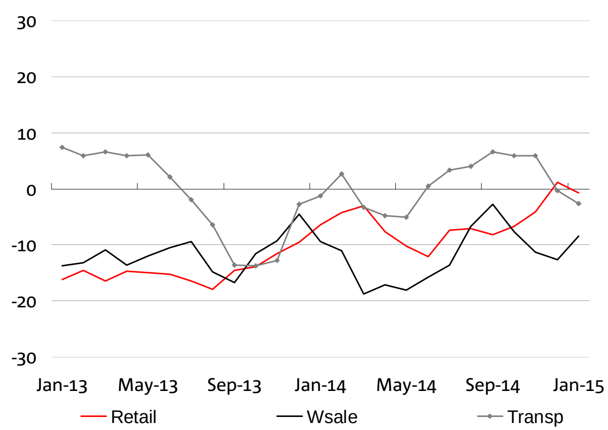


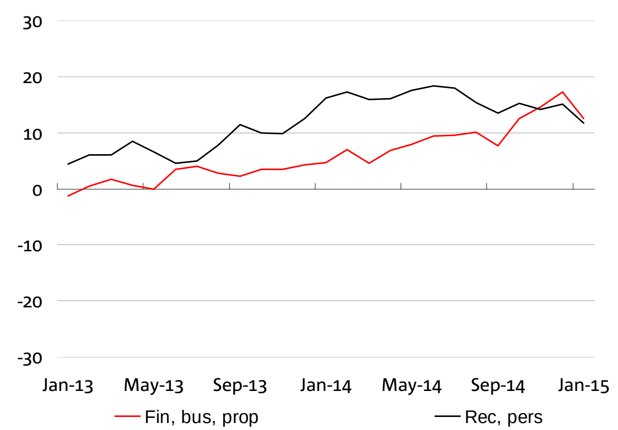




Business conditions by industry (net balance): 3-month moving average

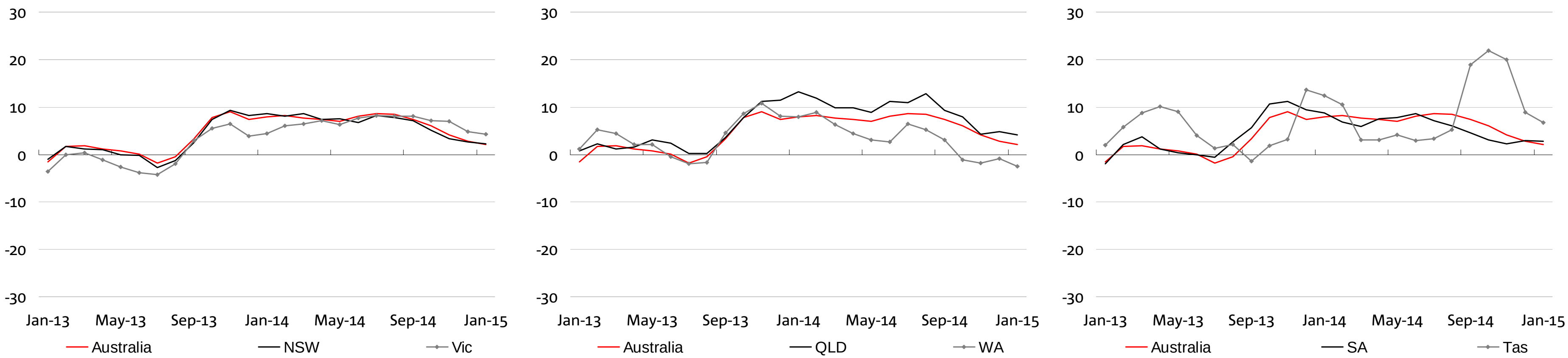




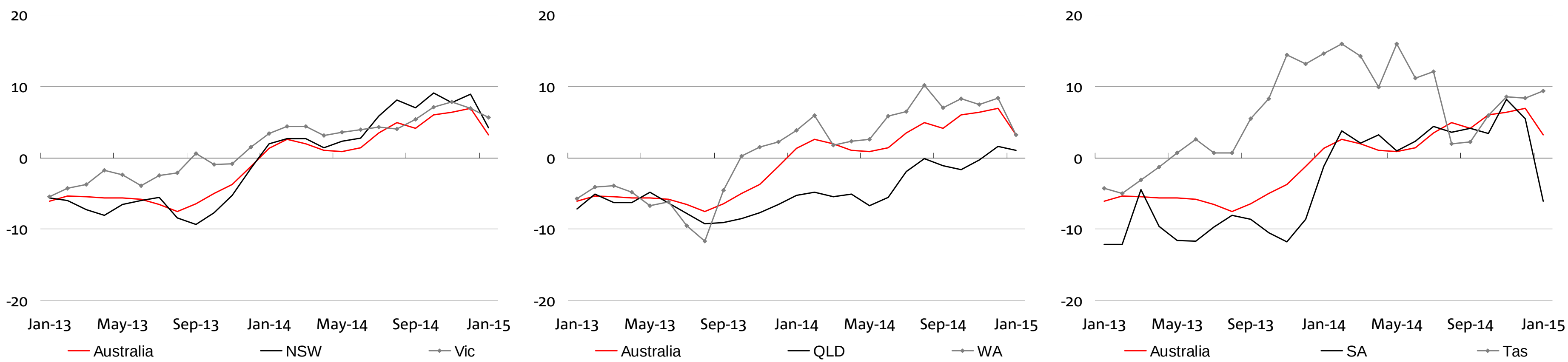


More details on states

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)

Jan-2015	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	0.6	1.0	0.4	0.2	0.8	0.7	0.7	0.2	0.5
Labour costs: previous	0.1	1.0	0.6	0.5	0.9	1.0	1.3	0.7	0.9
Labour costs: change	0.5	0.0	-0.2	-0.3	-0.1	-0.3	-0.6	-0.5	-0.4
Prices (final): current	-1.9	1.2	0.0	0.0	1.1	0.5	0.9	0.2	0.4
Prices (final): previous	-2.7	0.1	-0.2	0.3	0.1	0.1	0.3	0.4	0.1
Prices (final): change	0.8	1.1	0.2	-0.3	1.0	0.4	0.6	-0.2	0.3
Purchase costs: current	0.4	2.2	0.7	1.3	3.4	0.5	0.2	0.3	0.9
Purchase costs: previous	0.2	1.7	0.3	1.4	1.4	0.6	0.6	0.4	0.8
Purchase costs: change	0.2	0.5	0.4	-0.1	2.0	-0.1	-0.4	-0.1	0.1

Key state business statistics for the month

Jan-2015	Monthly Business Survey Data: By State						
	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	3	4	6	2	-4	8	3
Bus. conf.: previous	2	2	4	5	-4	4	2
Bus. conf.: change	1	2	2	-3	0	4	1
Bus. conf: current - Trend	2	4	4	3	-2	7	2
Bus. conf: previous Trend	3	5	5	3	-1	9	3
Bus. conf.: change -Trend	-1	-1	-1	0	-1	-2	-1
Bus. conds: current	3	5	3	-25	-3	14	2
Bus. conds: previous	4	7	-1	-3	3	0	2
Bus. conds: change	-1	-2	4	-22	-6	14	0
Bus. conds: current -Trend	4	6	1	-6	3	9	3
Bus. conds: previous -Trend	9	7	2	5	8	8	7
Bus. conds: change -Trend	-5	-1	-1	-11	-5	1	-4

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