

# NAB Monthly Business Survey

by NAB Group Economics

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National  
Australia  
Bank

March 2015

## Key Points:

- There were some tentative signs of improvement in the NAB Monthly Business Survey for March – with the post RBA cut fall in confidence reversed in March. Surprisingly, the lift was particularly pronounced in mining, although confidence is still lowest for this industry. Elsewhere outcomes were mixed, suggesting some industry specific factors are also at play. Transport & utilities posted the second largest gain, while retail and manufacturing were the only industries to deteriorate.
- In March business conditions recorded a notable lift, with each component (trading, profit, employment) posting an improvement – although employment continues to be relatively muted. This level of conditions is pointing to a slightly above average rate of activity, although the trend is somewhat softer. If maintained it could well boost confidence further. By industry, there was a surprisingly strong improvement in conditions for the ‘bellwether’ wholesale industry, while construction improved significantly as well. In contrast, mining and retail were the only industries to record a (slight) deterioration. The export index is yet to respond to the more favourable AUD, while orders are soft (and down slightly). Capacity utilisation and capex, encouragingly, both improved.
- The economic forecasts have been fine tuned but are largely unchanged (see p4). The big picture in Australia is still one where the non mining sector is struggling to offset the impact on domestic demand of sharply lower mining investment. Further falls in commodity prices are crunching income flows. The consumer remains cautious but recent retail sales have been more encouraging. The RBA decided to hold again in April (as NAB expected) to wait and see the response to the February cut. Inflation continues to slow. We still see another rate cut in coming months – most likely May – but could be delayed if the non mining economy recovery becomes more entrenched. We are not expecting two rate cuts – as currently priced by the market - that would require a much weaker economy and labour market.

Table 1: Key monthly business statistics\*

	Jan 2015	Feb 2015	Mar 2015		Jan 2015	Feb 2015	Mar 2015
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	3	0	<b>3</b>	Employment	-1	-1	<b>0</b>
Business conditions	2	2	<b>6</b>	Forward orders	1	1	<b>0</b>
Trading	6	5	<b>10</b>	Stocks	0	1	<b>1</b>
Profitability	2	2	<b>8</b>	Exports	0	1	<b>0</b>
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.6	0.6	<b>0.5</b>	Retail prices	0.1	0.1	<b>1.1</b>
Purchase costs	0.9	0.9	<b>0.7</b>		<i>Per cent</i>		
Final products prices	0.4	0.2	<b>0.3</b>	Capacity utilisation rate	80.0	80.4	<b>80.5</b>

\* 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 25 Mar to 31 Mar, covering over 400 firms across the non-farm business sector.

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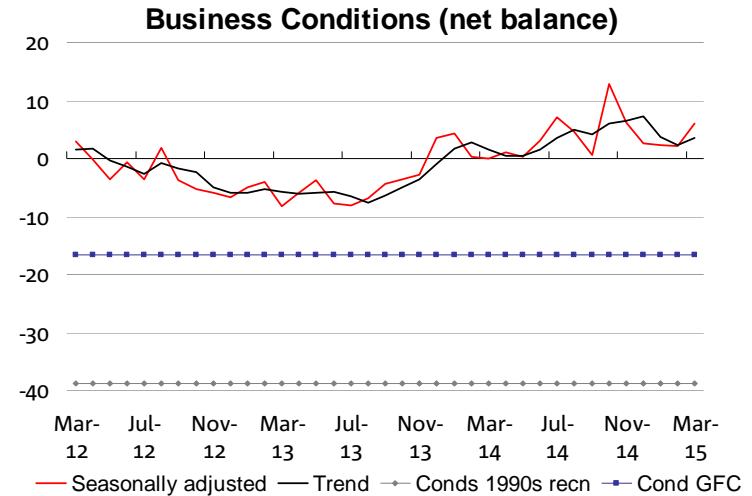
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Next release: 23 April 2015 (March quarterly); 11 May 2015 (April monthly)

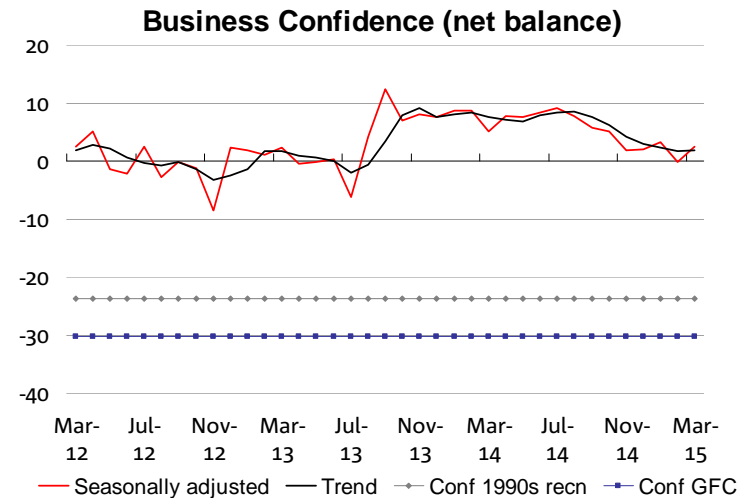
# Analysis

- Business conditions reversed their recent downward trajectory in March, although improvements remain largely confined to those industries that were already outperforming. The index jumped to +6 index points, which is above the Monthly Survey average of +4. This is consistent with some economic indicators that are suggesting the economy may be stabilising, albeit at relatively soft levels. Low interest rates are continuing to have a notable impact on the particularly sensitive sectors of the economy, like investor housing, but pass-through to the broader economy has been somewhat limited. The lack of a turn around in non-mining investment intentions (both according to ABS and NAB data) is still a major concern, while a reacceleration in Sydney house prices suggest that the RBA's capacity to stimulate investment via monetary channels (interest rates) could be severely constrained – they already consider interest rates to be uncomfortably low. Nevertheless, business credit growth has improved in recent months and ABS data on retail sales are suggesting that consumer spending may be a little better than expected. Turning to the survey results by industry, wholesale recorded a surprisingly strong improvement (up 17 points) in March, which is only its second positive reading since late 2012. Construction was also strong (up 13), consistent with the plentiful pipeline of construction activity. Most other industries recorded modest improvements, although mining and retail recorded modest declines (both down 1). The trend index remains strongest in service sectors, but weakest in manufacturing and mining (-14 and -8).
- Any positive impact on confidence from the RBA's February rate cut was likely eroded by offsetting factors – such as the Government's leadership spill – but, some of these factors have begun to fade. Consequently, confidence lifted by 3 points in March, unwinding the decline experienced in the previous month. However, much of the improvement was driven by a particularly large jump in mining confidence (up 29), while outcomes in other industries were generally mixed. Confidence deteriorated in retail, dipping into negative territory for the first time since mid-2013. This is consistent with NAB's survey of consumer anxiety, which showed that uncertainty over government policy, in addition to cost of living pressures, made consumers more anxious in Q1 2015 and affected their discretionary spending. Trend confidence is still highest in construction (+8) and lowest in mining by a significant margin (-27).

## Conditions post a notable bounce



## Confidence up, but still soft



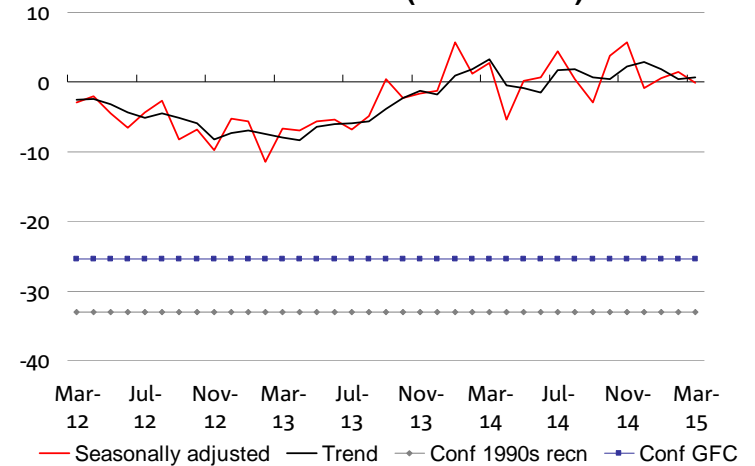
Excluding normal seasonal changes, how do you expect the business conditions facing your industry in the next month to change?

# Forward indicators

- The forward orders index ebbed a little lower (down 1) to 0 points in March, which is consistent with the generally subdued levels of recent months. This outcome is broadly in line with the long-run average for the monthly series, suggesting only a modest improvement in demand in the near term. The outcome masks some diverse movements across industries. Orders jumped in mining (up 11 points), but remain very subdued in light of sluggish Chinese demand. Construction and wholesale orders were also up notably in March (up 7 and 5 respectively). The lift in wholesale is a little surprising, although the industry does have some close ties with the construction sector, which is in the midst of an apartment construction boom. These were offset by a fall in transport & utility orders (down 6) and smaller declines in manufacturing, retail and professional services. In trend terms, orders rose slightly to +1 point (from 0). Orders are now weakest in trend terms for mining (-11) and transport & utilities (-7), but are strongest for recreation & personal services (+7) and construction (+5).
- Despite fewer orders, a jump in trading conditions coincides with a modest increase in capacity utilisation, at 80.5% (up from 80.4%). This is a continuation of the broad upward trend in capacity utilisation since mid-2013. The improvement was not experienced across all industries, with retail and mining both reporting substantial falls (down 2 ppts and 1.5 ppts respectively). Utilisation rates relative to their long run averages vary considerably across industries. Recreational & personal services are the only industry noticeably above average, while manufacturing, retail, wholesale and especially mining are well below.
- The capital expenditure index lifted (up 5) in March to +9 index points – above its long-run average level (+5) and the strongest result since 2011. The trend index was up as well to +7 index points. This suggests a moderate expansion of non-mining business investment (which has a larger weighting in the survey). However, this is in contrast to the 2014Q4 ABS Capex Survey which showed a contraction in non-mining investment plans for 2015-16. Trend wholesales capex is highest (+9 points) and construction is lowest (-1 points).
- Elsewhere in the survey, cash flow (not seasonally adjusted) was strongest in pers & rec services, and weakest in mining.

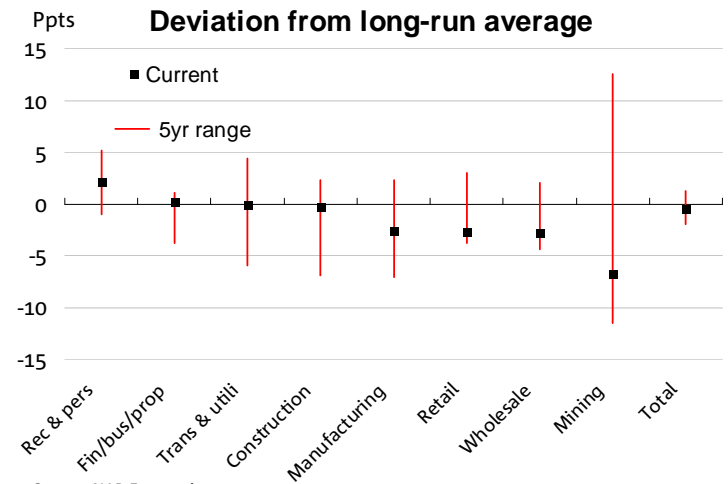
## Sales orders still subdued

### Forward Orders (net balance)



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

## Capacity utilisation up, but varies across industries

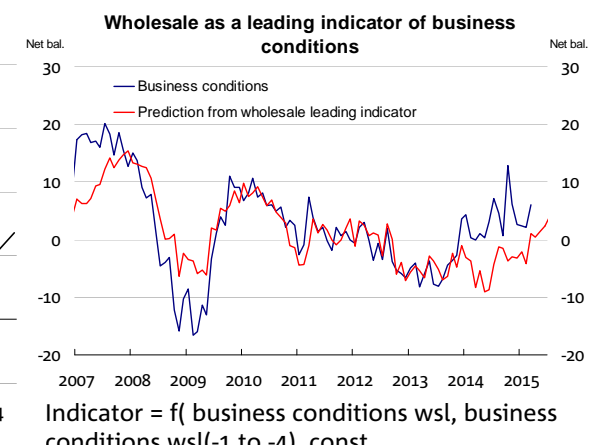
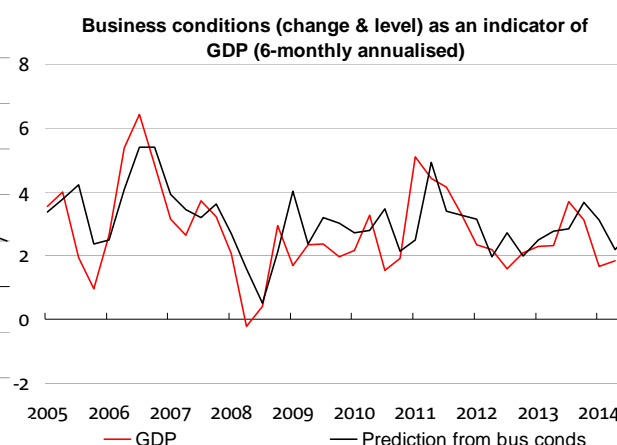
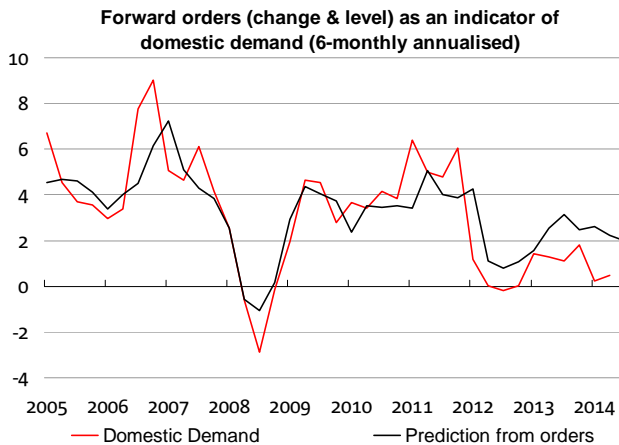


Source: NAB Economics

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

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

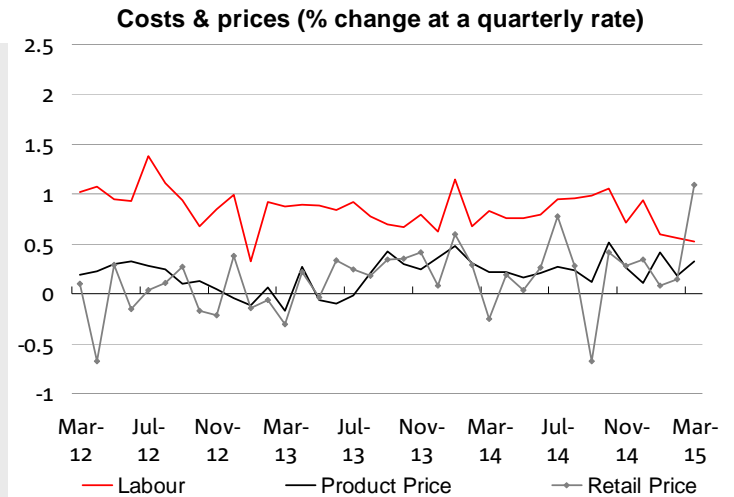
- Global growth remains stuck at a sub-trend pace. After 3.3% in 2014 we now expect only 3.4% in 2015. While the Euro-zone and Japan are experiencing upturns, recent US data has disappointed. We have delayed the Fed starting till September (or later) and reduced US GDP in 2015 to 2.7%. March quarter business surveys do not suggest any acceleration in advanced economy growth – which we require to achieve the 2015 forecast. With Chinese growth slowing and weak outcomes across the rest of East Asia and Latin America, there is no evidence of an upturn in emerging market economy growth either.
- We have fine tuned, but not fundamentally changed our domestic forecasts – 2.3% for 2014/15 and 3% for 2015/16. The economy is still struggling to offset the impact of falling mining investment on domestic demand. Further sharp fall in commodity prices (especially iron ore) crunch income flows (now in excess of \$50bn per annum) and government finances. The ultimate hit from mining could be bigger than previously feared. Against that non mining investment remains surprisingly weak. But further falls in the AUD should help offset further weakness in commodity prices. With on going growth in the out years expected to be around 3%, unemployment, after peaking at around 6.7% by end 2015, will remain high. Inflation will slow further as domestic demand remains sluggish - with little real wage growth. That together with lower oil prices pushes headline inflation to around 1% by mid 2015 with core inflation falling to the bottom of the RBA’s target range (below) by Q3 2015 – remaining in the bottom half of the target range till H2 2016.
- We still see another rate cut – most likely May but it is possible that if the economy continues to improve, the cut could be further delayed. We are not forecasting a second cut to below 2% - we see that possibility at 35-40% - significantly below the market’s current view (fully priced). We see rate rises by late 2016.
- Our model of 6-monthly annualised demand growth, using forward orders as a predictor, has continued to suggest stronger growth than the national accounts. Nevertheless, applying trend forward orders from March to our model suggests that predicted demand growth will be similar to Q4 (meaning soft). Similarly, business conditions over predicted GDP growth in Q4. Based on stronger business conditions in March, our model implies a slight improvement in GDP growth for Q1. Applying business conditions derived from our ‘wholesale leading indicator’ (below) implies much weaker GDP growth over coming quarters (although the spread has narrowed).



# Costs and prices

- Labour costs growth (a wages bill measure) was down slightly to 0.5% in March (a quarterly rate), which is consistent with the soft employment index and rising unemployment rates. Labour cost inflation decelerated the most in mining (down 2.2 ppts) and wage cost pressures are also weakest in this industry (-2%, at a quarterly rate) – a reflection of weak commodity markets, the winding down of the investment boom, and ongoing attempts by mining companies to contain costs. In contrast, labour cost growth was highest in construction, followed by finance/ property/ business services and manufacturing (1.2%, 0.7% and 0.7% respectively, at a quarterly rate). 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, mining (-37 points), and transport & utilities (-12 points) are reporting the most modest demand for labour in the survey consistent with falling labour costs and the shift away from labour intensive investment in the industry. In trend terms, employment demand is strongest in construction (+10) and fin/ prop/ bus (+9), but weakest in manufacturing (-15).
- Purchase cost growth eased a little to 0.7% in March (at a quarterly rate), which is broadly consistent with the average rates seen since the GFC. The lack of a sharp up tick suggests that pass-through from a lower AUD has been relatively limited – or possibly offset elsewhere (e.g. lower oil prices). Purchase costs accelerated the most in retail (up 0.9 ppts). Growth in purchase costs decelerated across most other industries. Purchase cost pressures facing retailers are strongest (1.7%, quarterly rate), and are weakest for mining (-1.9%, quarterly rate).
- Final product prices growth accelerated slightly in March (at a quarterly rate) suggesting some modest relief for firms margins. Mining and construction prices were the only ones to decelerate in the month, with the former showing substantial price declines – consistent with falling commodity prices. Retailers appear to have passed on the spike in purchase costs, which could possibly be AUD related, although the survey suggests the price jump was largely confined to smaller retailers. Upstream price pressures (e.g. manufacturing and wholesale) were mixed. Manufacturing prices were flat, while wholesale prices accelerated by 1.7 ppts. Prices growth is highest in wholesale (2.2%).

## Price pressures subdued, but retail spikes



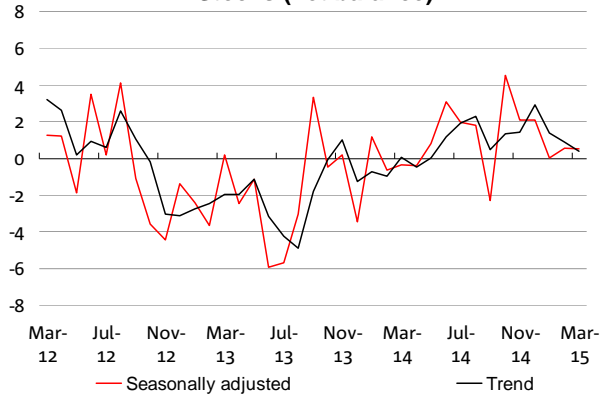
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.



# More details on business activity

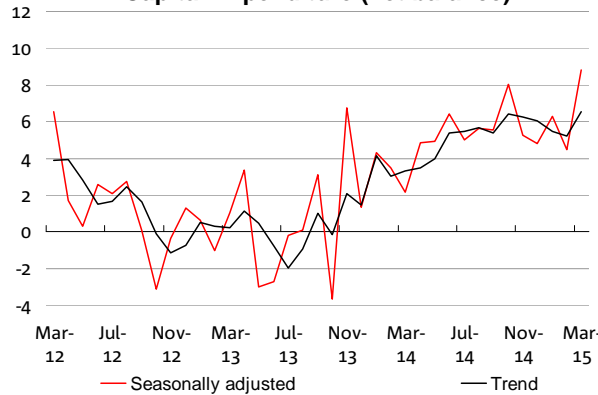
## Re-stocking has remained limited

Stocks (net balance)



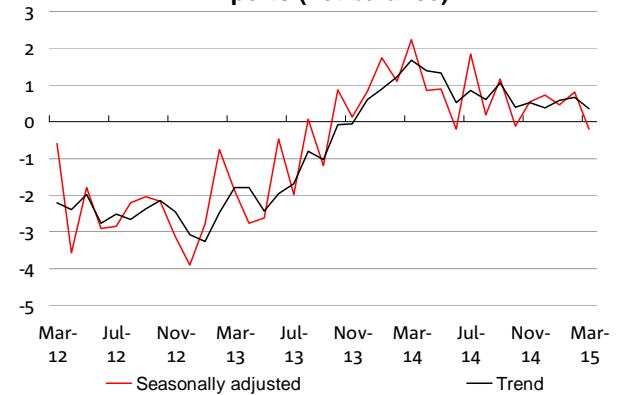
## Capex shows surprising jump

Capital Expenditure (net balance)



## Exports not seeing much support from AUD depreciation

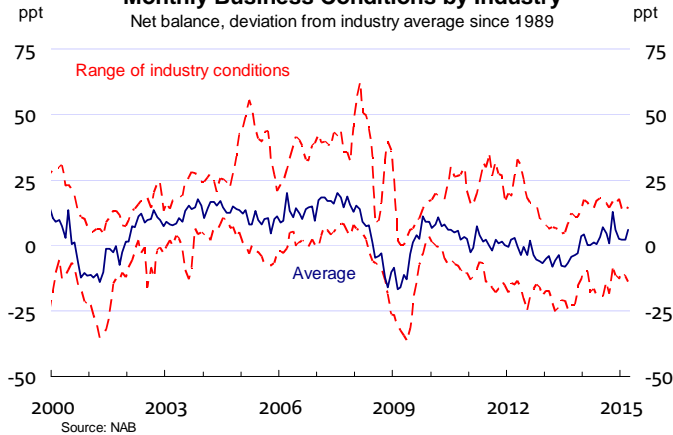
Exports (net balance)



## Range of conditions remains wide, Weak mining vs strong services

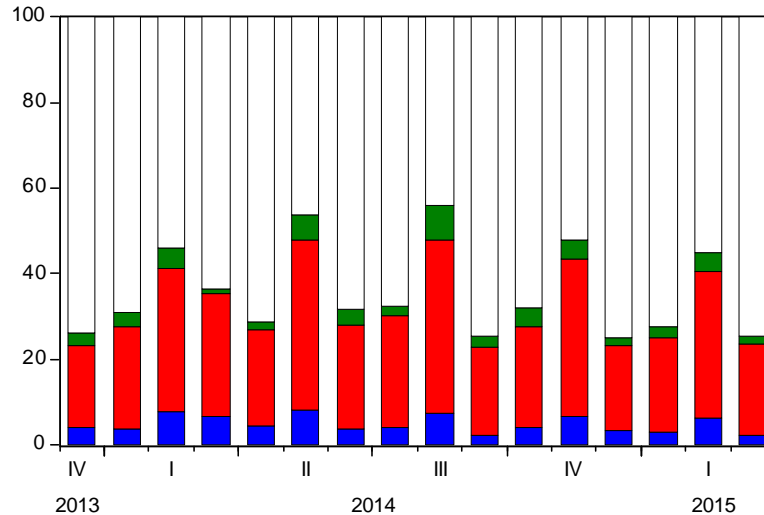
### Monthly Business Conditions by Industry

Net balance, deviation from industry average since 1989



## Borrowing conditions slightly better. Demand for credit up a little (relative to 3 months prior)

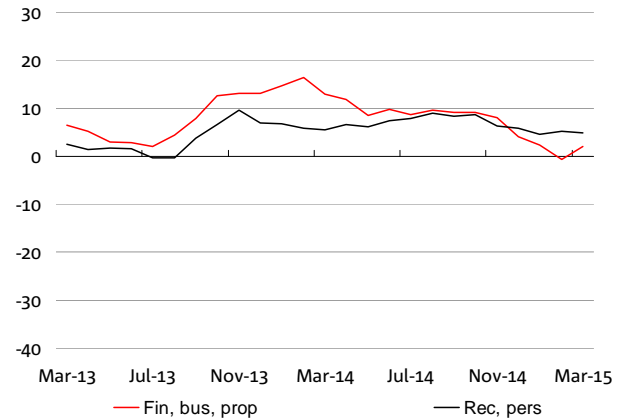
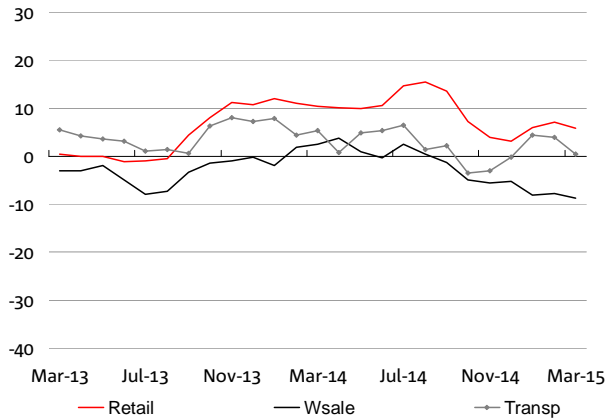
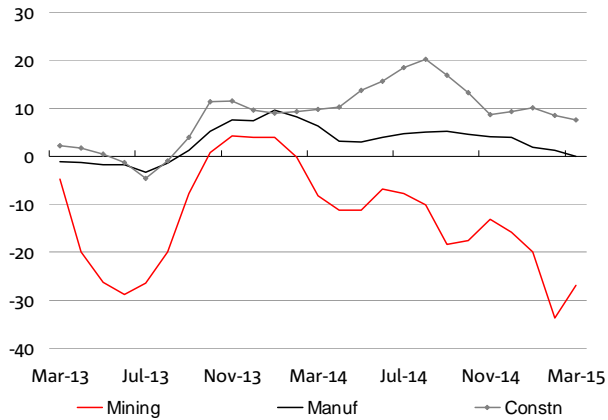
### Borrowing conditions (% of firms)



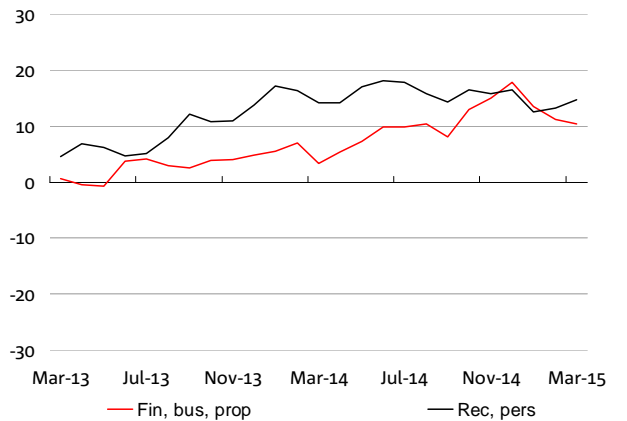
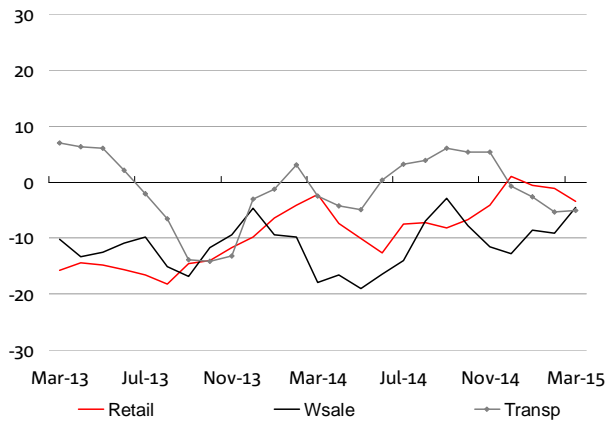
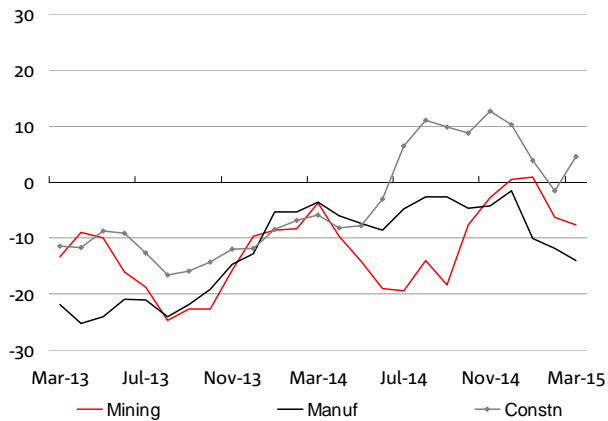
More difficult Unchanged Easier No borrowing required

# More details on industries

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



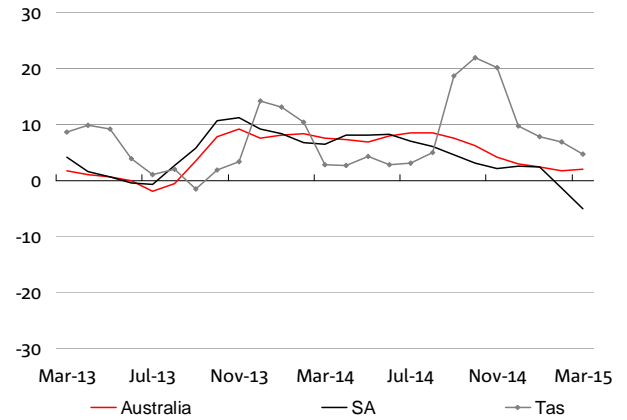
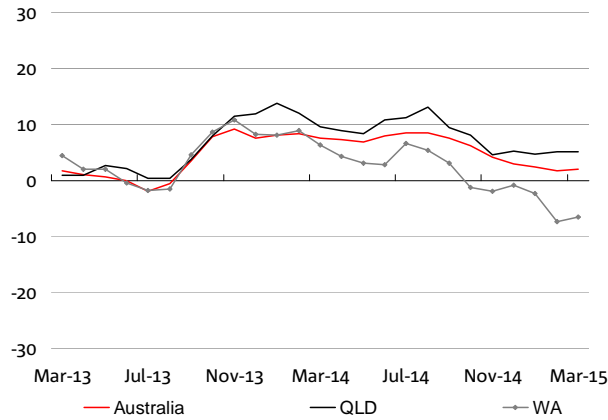
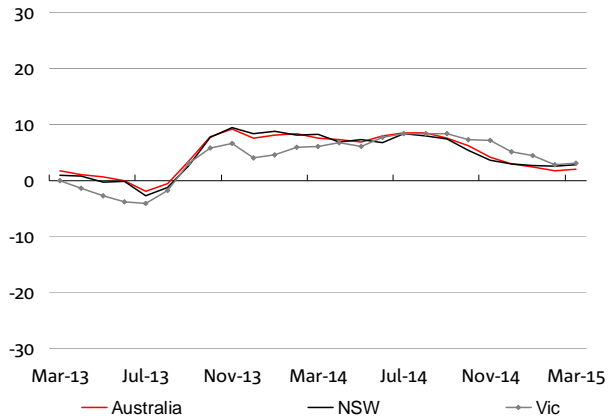
## Business conditions by industry (net balance): 3-month moving average



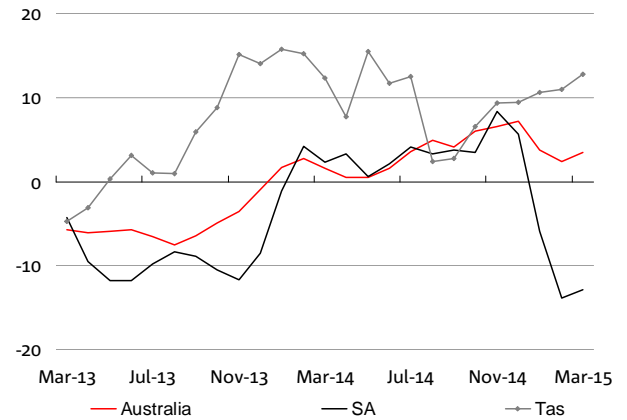
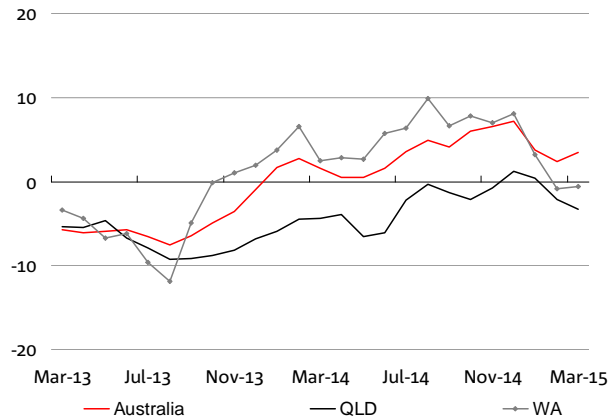
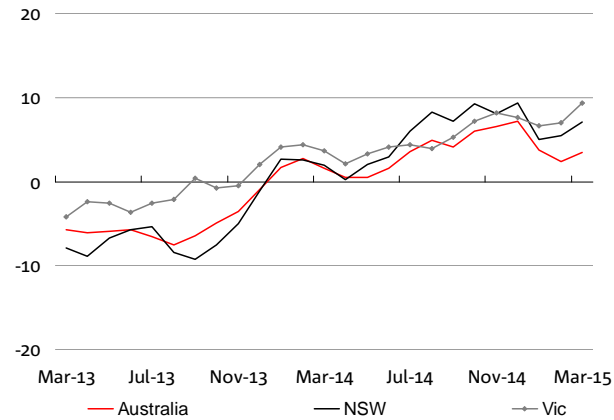


# More details on states

## 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)

Mar-2015	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-2.0	0.7	1.2	0.1	0.0	0.6	0.6	0.7	0.5
Labour costs: previous	0.2	0.4	0.3	0.5	0.3	0.9	0.8	0.5	0.6
Labour costs: change	-2.2	0.3	0.9	-0.4	-0.3	-0.3	-0.2	0.2	-0.1
Prices (final): current	-4.4	0.4	-0.3	1.1	2.2	0.2	0.5	0.2	0.3
Prices (final): previous	-2.2	0.4	0.3	0.1	0.5	0.1	0.5	-0.1	0.2
Prices (final): change	-2.2	0.0	-0.6	1.0	1.7	0.1	0.0	0.3	0.1
Purchase costs: current	-1.9	1.3	0.3	1.7	1.5	0.3	0.5	0.2	0.7
Purchase costs: previous	-0.2	1.9	0.5	0.8	2.5	0.0	0.6	0.1	0.9
Purchase costs: change	-1.7	-0.6	-0.2	0.9	-1.0	0.3	-0.1	0.1	-0.2

## Key state business statistics for the month

Mar-2015	Monthly Business Survey Data: By State						
	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	4	3	4	-7	-1	-1	3
Bus. conf.: previous	1	1	5	-10	-15	6	0
Bus. conf.: change	3	2	-1	3	14	-7	3
Bus. conf: current - Trend	3	3	5	-5	-7	5	2
Bus. conf: previous Trend	2	3	5	-1	-7	7	2
Bus. conf.: change -Trend	1	0	0	-4	0	-2	0
Bus. conds: current	9	15	-4	0	4	7	6
Bus. conds: previous	7	7	-7	-15	-3	16	2
Bus. conds: change	2	8	3	15	7	-9	4
Bus. conds: current -Trend	7	9	-3	-13	-1	13	4
Bus. conds: previous -Trend	5	7	-2	-14	-1	11	2
Bus. conds: change -Trend	2	2	-1	1	0	2	2

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