

NAB Monthly Business Survey

by NAB Group Economics

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April 2015



Key Points:

- Business confidence was unchanged in April, at relatively subdued levels. Until confidence lifts significantly it is difficult to see a sustained economic recovery developing – to date rate cuts have not appeared to do much and it will be interesting to see what if anything this week's Federal Budget will do. Interestingly, falls in confidence were confined to a small number of industries (professional services and construction). While less negative than in the past, confidence in mining remain the weakest along with finance/ property/ business.
- Business conditions retraced some – but not all of the gains reported in March. In trend terms, the recent upward trajectory of conditions remains intact and is broadly at levels consistent with average rates of activity over the history of the survey. All components of business conditions (trading, profitability and employment) weakened in April, with employment dipping back into negative territory. Changes in conditions varied considerably across industries in the month, with the recovery in the 'bellwether' wholesale industry proving short-lived and dropping back into negative territory. Construction also deteriorated, but remained positive, while mining was less negative in the month. Both the exports and orders index remain soft, while capacity utilisation and capex each eased back.
- Economic forecasts will be updated following the Federal Budget tomorrow, but are unlikely to change much from last month's. Recent signs of improvement in the economic partials are encouraging but the non mining sector needs to lift more to offset the impact on domestic demand of sharply lower mining investment and the hit to income from commodity prices. Consumers are still cautious. The biggest concern remains the weak intentions towards business investment. The RBA's rate cut in May was a line-ball decision in our view, but with partials improving and inflation expected to remain relatively subdued, the RBA is likely to remain on hold for some time unless unemployment rises more than expected (forecast to peak at 6.4% in late 2015).

Table 1: Key monthly business statistics*

	Feb 2015	Mar 2015	Apr 2015		Feb 2015	Mar 2015	Apr 2015
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	0	3	3	Employment	-1	0	-2
Business conditions	2	6	4	Forward orders	1	-1	-1
Trading	5	11	10	Stocks	1	0	2
Profitability	2	8	5	Exports	1	0	0
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.6	0.5	0.5	Retail prices	0.2	1.1	0.4
Purchase costs	0.9	0.8	0.7		<i>Per cent</i>		
Final products prices	0.2	0.4	0.4	Capacity utilisation rate	80.4	80.5	80.1

* 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 Apr to 30 Apr, covering over 410 firms across the non-farm business sector.

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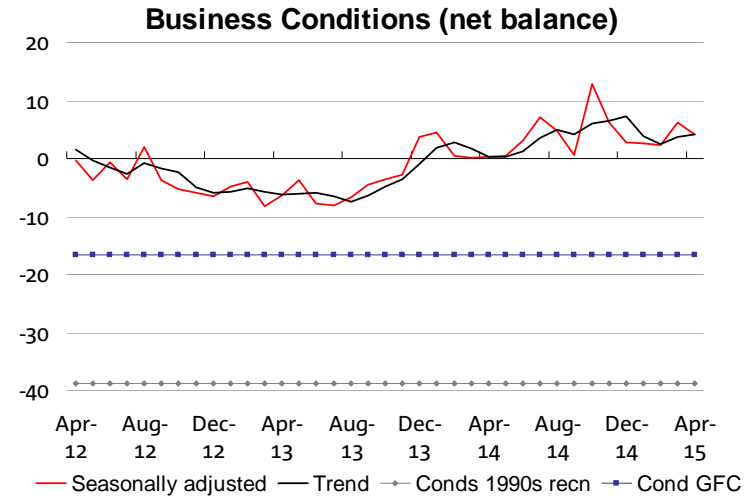
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Next release: 9 June 2015 (May monthly)

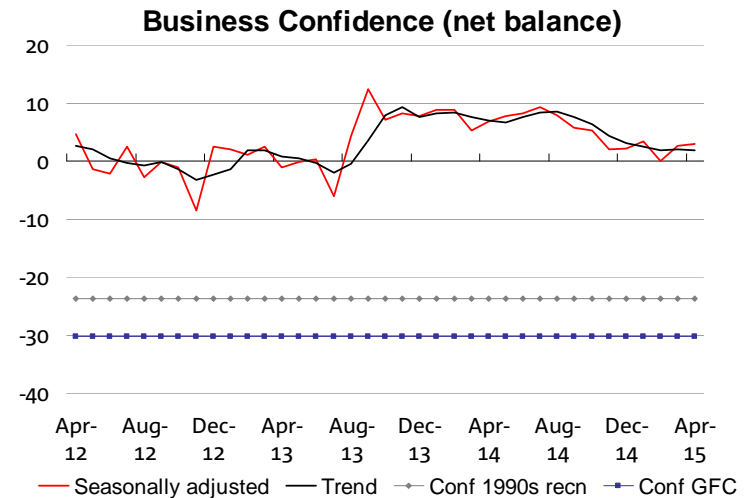
Analysis

- Some of the gains in business conditions recorded last month were unwound in April, but the index remains in line with long run averages – at +4 index points (from +6). Although conditions eased slightly, the trend has been broadly stable, to increasing slightly, which is consistent with the tentative signs of improvement in some of the recent economic data. Low interest rates are having a notable impact on the most sensitive sectors of the economy, like investor housing, and the recent rate cut in May should further contribute to these trends. Nevertheless, pass-through to the broader economy has been somewhat mixed. The lack of capital expenditure by business is of particular concern, and one that has been repeatedly flagged by the RBA. In this context, the drop in the capacity utilisation rate this months is an unwelcome sign – the rising trend also appears to have taken a breather. On the consumer side there have been some positive signs in terms of better retail sales and a more stable labour market (unemployment has eased from its peaks). However, it is less than clear at this stage whether these trends will be maintained. Turning to the survey results by industry, wholesale recorded the largest deterioration in conditions (down 13) following a surprisingly strong improvement last month. Construction had the next largest drop (down 10), although conditions remain positive – supported by the plentiful pipeline of construction activity. The biggest improvement occurred in mining (up 7), but the index remains at very low levels. The trend index remains strongest in service sectors, but weakest in manufacturing and mining (-10 and -12).
- Confidence appears to have stabilised, remaining at +3 index points in April, although this is still well below the long run average of the series. Consequently, confidence levels need to lift from here before any meaningful economic recovery can gain traction. The RBA’s rate cut in May should contribute to better confidence in coming months, although the response following the February cut suggests the impact may again be muted. There was a reasonably broad based improvement in confidence across industries in April, but a large fall in finance/ property/ business (down 9) and a more moderate decline in construction (down 2) were offsetting. The biggest improvement was in mining (up 8), although confidence remains low, followed by retail (up 7) – despite mixed indications on consumer confidence. Trend confidence is still highest in construction (+5), along with recreation & personal services (+5), but lowest in mining by a significant margin (-22).

Conditions eased, but trend heading up



Confidence stable at low levels



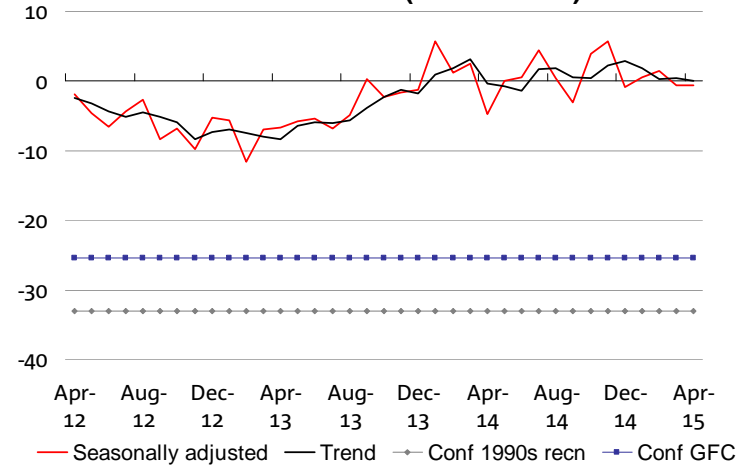
Excluding normal seasonal changes, how do you expect the business conditions facing your industry in the next month to change?

Forward indicators

- The forward orders index was unchanged at -1 points in April, which is consistent with the generally subdued levels of recent months. This outcome is marginally below the long-run average for the monthly series, suggesting a modest slowdown in demand in the near term. Orders dropped sharply in mining (down 45 points), while construction and recreation & personal services orders were also down notably in April (down 9 and 6 respectively). Despite dropping in April, forward orders remain highest in construction (+7), which is most likely a reflection of the ever growing stock of residential building approvals. Transport & utility (up 9) and manufacturing (up 6) were the only industries to report an improvement in forward orders this month. Orders are now weakest in trend terms for mining (-31) and wholesale (-6), but are strongest for construction (+11) recreation & personal services (+5).
- Soft forward orders and a slight easing in trading conditions coincided with a modest pull back in capacity utilisation, to 80.1% (down from 80.5%). More concerning is the fact that looking through the monthly volatility, it appears as though the rising trend since around mid-2013 has stalled. However, the decline in the month was not broad-based across the industries and was particularly pronounced in mining (down 4.2 pts). The next largest fall was in transport & utilities (down 3 pts). Utilisation rates relative to their long run averages varied considerably across industries, but the majority were below average. Recreational & personal services were the only industry noticeably above average (construction modestly above), while manufacturing, retail, wholesale, transport and especially mining were well below.
- The capital expenditure index eased (down 3) in April to +6 index points – slightly above its long-run average level (+5). Nevertheless, the trend index remained at +6 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 recreation & personal services capex is highest (+12 points) and mining is lowest (-6 points).
- Elsewhere in the survey, cash flow (not seasonally adjusted) was strongest in pers & rec services, and weakest in manufacturing.

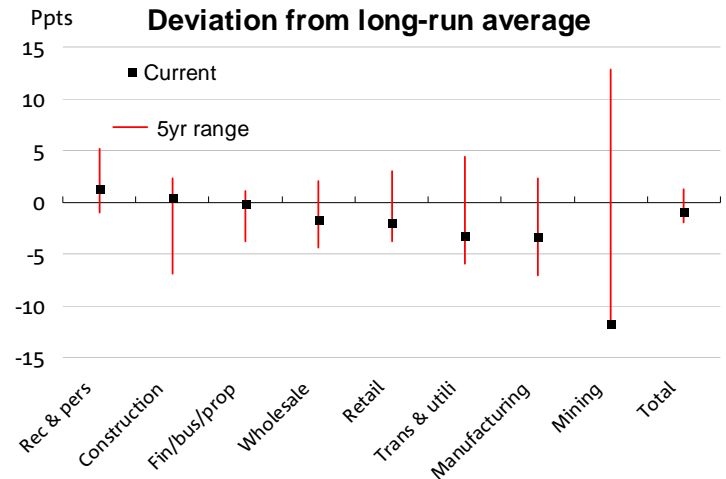
Sales orders still subdued

Forward Orders (net balance)



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

Capacity utilisation fell. Most industries below average



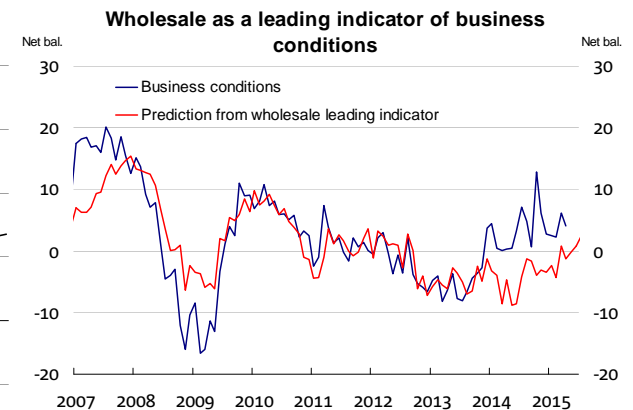
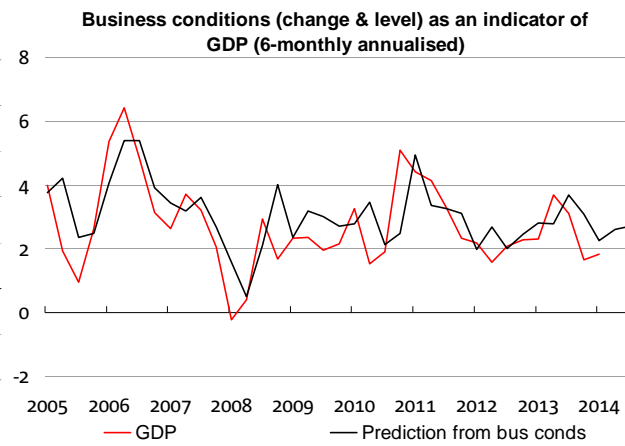
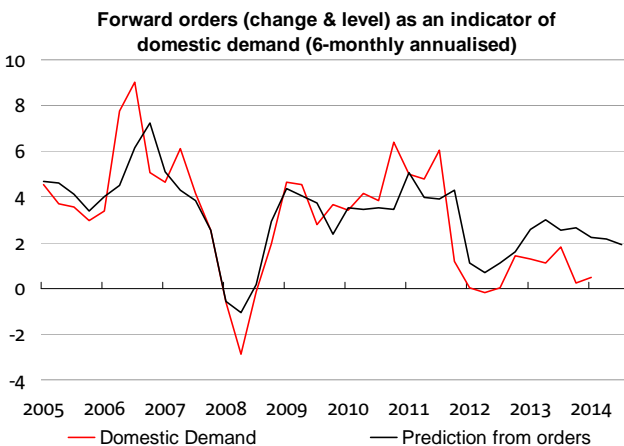
Source: NAB Economics

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

Implications for forecasts

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

- Revised domestic forecasts will be released tomorrow in conjunction with NAB Economics coverage of the Federal Budget.
- Global growth remains stuck at a sub-trend pace. After 3.3% in 2014 we now expect only 3.2% in 2015 (down from 3.4% previously). While the Euro-zone and Japan are experiencing upturns, first quarter US and UK data has been disappointing. We have delayed the Fed starting rate tightening until September (or later) and reduced US GDP growth in 2015 to 2.5%. March quarter business surveys did not suggest the acceleration in advanced economy growth which we required to achieve our former 2015 forecast, but they did not point to a marked slowdown either. With Chinese industrial 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.
- Domestic forecasts are at 2.3% for 2014/15 and around 3% for 2015/16. The economy is still struggling to offset the impact of falling mining investment on domestic demand, while low commodity prices are also crunching income flows and government finances. Against that non-mining investment remains a disappointment. Further falls in the AUD should help offset weakness in commodity prices. With ongoing growth in the out years expected to be around 3%, unemployment, after peaking at around 6.4% by end 2015, will remain elevated. Inflation will remain subdued in the near term as domestic demand remains sluggish - with little real wage growth. Core inflation will be at the middle of the RBA's target range by end 2015 and expected to remain within the target over the forecast period.
- The RBA cut in May was always going to be a line ball decision and came a little earlier than we had expected. While there is still the risk of further cuts, recent improvements in the economy suggest the RBA will pause for some time, with the next likely move to be up (although the timing will be very data dependent). We currently expect the first hike to be very late in 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 and April to our model suggests that predicted demand growth will ease over Q1 and Q2. Similarly, business conditions over predicted GDP growth in Q4. Based on robust business conditions in March and April, our model implies a slight improvement in GDP growth for Q1, which will steady in Q2. Applying business conditions derived from our 'wholesale leading indicator' (below) implies somewhat weaker GDP growth in coming quarters than the actual index.

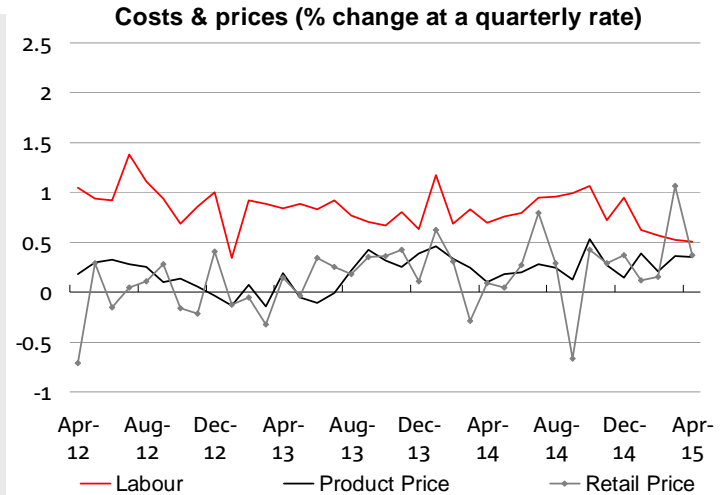


Indicator = f(business conditions wsl, business conditions wsl(-1 to -4), const.

Costs and prices

- Labour costs growth (a wages bill measure) was unchanged at 0.5% in April (a quarterly rate), which is consistent with the soft employment index and elevated unemployment rate. Labour cost inflation decelerated the most in transport & utilities (down 0.8 ppts), followed by manufacturing (down 0.2 ppts) and construction (down 0.1 ppts), but these were largely offset by a surprise acceleration in mining wages costs (up 2.8 ppts). Despite the jump this month, mining labour cost growth is expected to be weak (if not falling) due to the ongoing headwinds from lower commodity prices, the running down of investment projects, and general cost cutting efforts. Our expectation for weak domestic demand suggests there will continue to be a considerable amount of slack in the labour market, which along with expectations for subdued inflation pressures, should keep wage cost pressures contained in the near term. In terms of current labour market conditions, transport (-21 points), construction (-14 points) and wholesale (-13) reported the most modest demand for labour in the survey. In trend terms, employment demand was strongest in fin/ prop/ bus (+8), but weakest in transport (-17). Mining was also very weak at -14 points.
- Purchase cost growth eased very slightly to 0.7% in April (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). However, there is anecdotal evidence that firms are starting to feel pressure from higher purchase costs that they are unable to pass on to the consumer. Purchase costs decelerated the most in retail (down 1.2 ppts). Growth in purchase costs were mixed across most other industries. Purchase cost pressures facing manufacturers are strongest (1.8%, quarterly rate), and are weakest for fin/ prop/ bus (-0.1%, quarterly rate).
- Final product prices growth was unchanged in April (at a quarterly rate of 0.4%) suggesting some very modest relief for firms margins. Outcomes were mixed in the month across industries. The mining price contraction decelerated in the month (from -4.4% to -1.8%). Manufacturing and construction price growth accelerated the most (both up 0.6 ppts). Final prices growth for all other industries decelerated – the biggest occurring in retail (down 0.7 ppts). Upstream price pressures (e.g. manufacturing and wholesale) are showing the strongest growth in final prices (1.1% and 1.7%, on a quarterly basis). Prices growth is weakest in mining (-1.8%).

Price pressures subdued. Retail Spike last month largely unwound



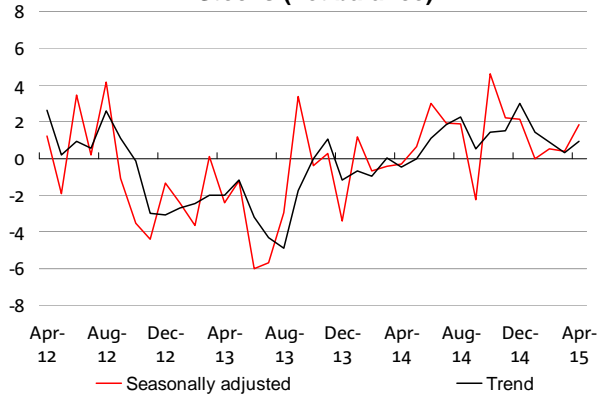
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.



More details on business activity

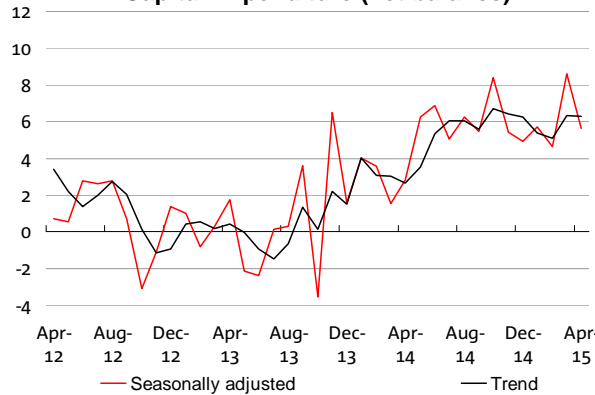
Re-stocking finally picking up

Stocks (net balance)



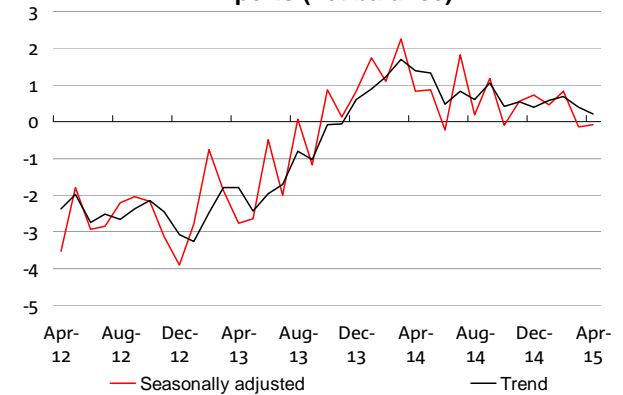
Capex down, but at positive levels

Capital Expenditure (net balance)



Exports not seeing much support from AUD depreciation

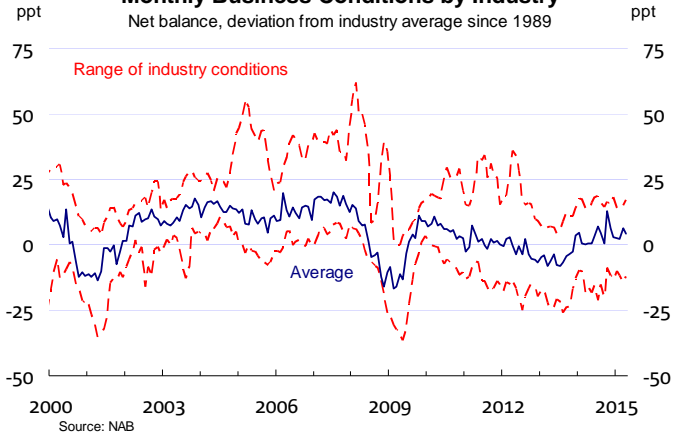
Exports (net balance)



Range of conditions remains wide, Weak mining vs strong services

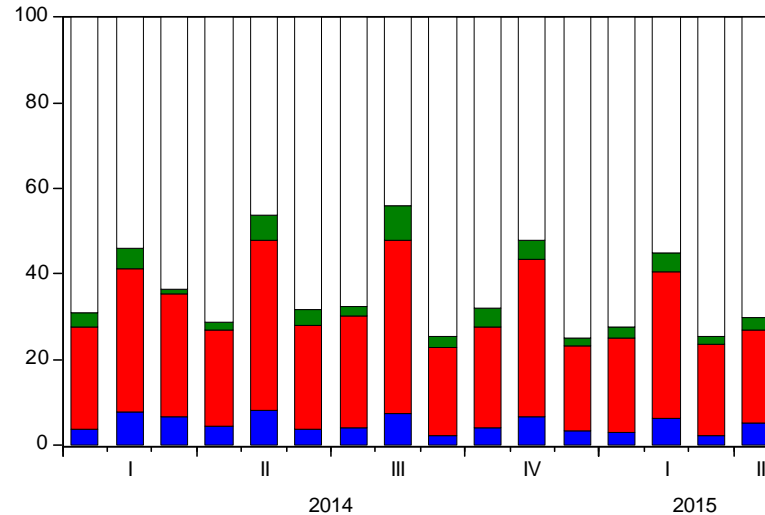
Monthly Business Conditions by Industry

Net balance, deviation from industry average since 1989



Borrowing conditions worsened, but demand a little better (relative to 3 months prior)

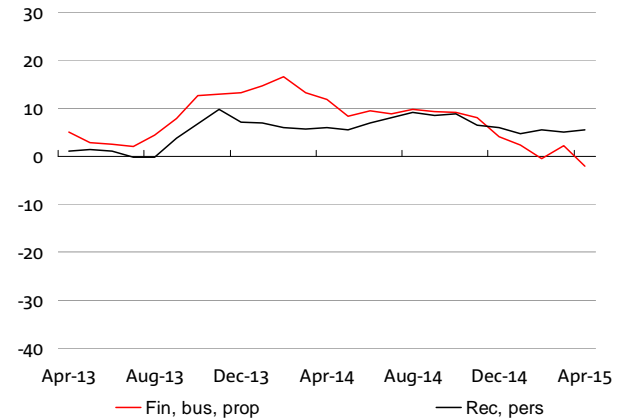
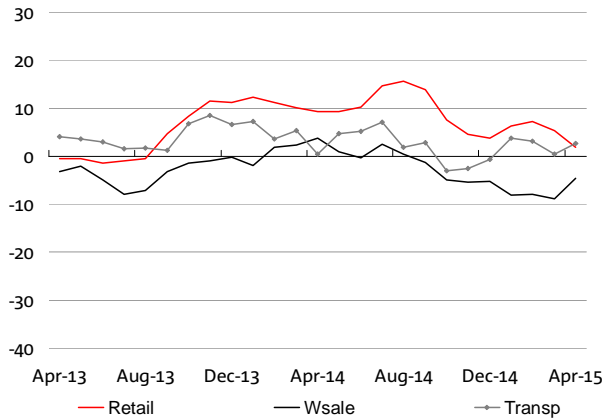
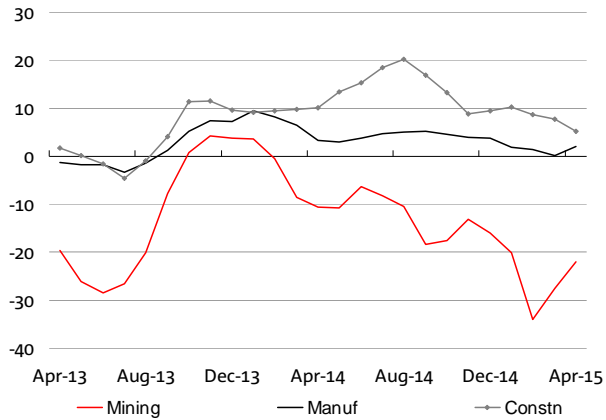
Borrowing conditions (% of firms)



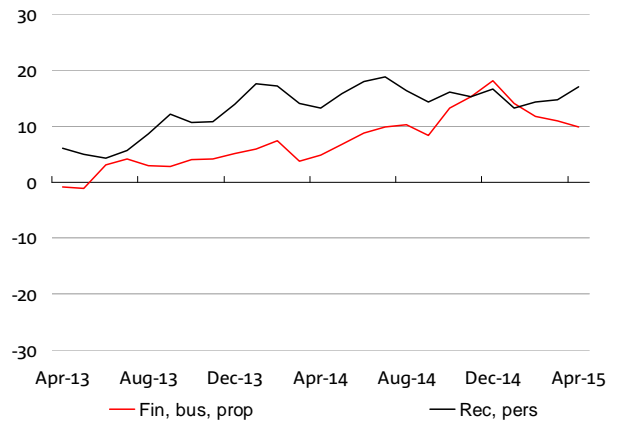
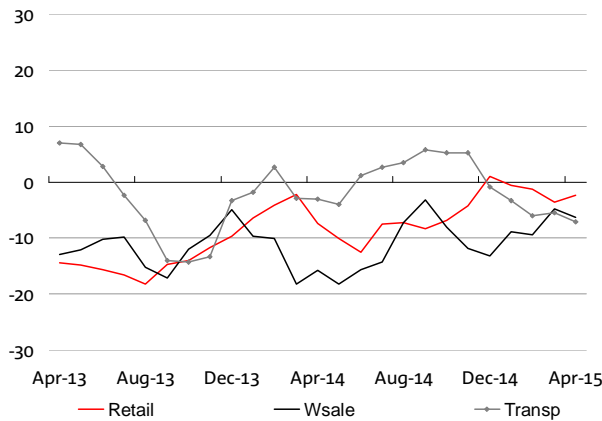
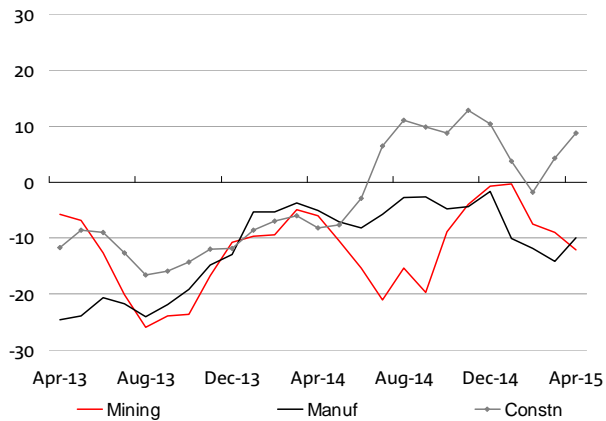
More difficult Unchanged Easier No borrowing required

More details on industries

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

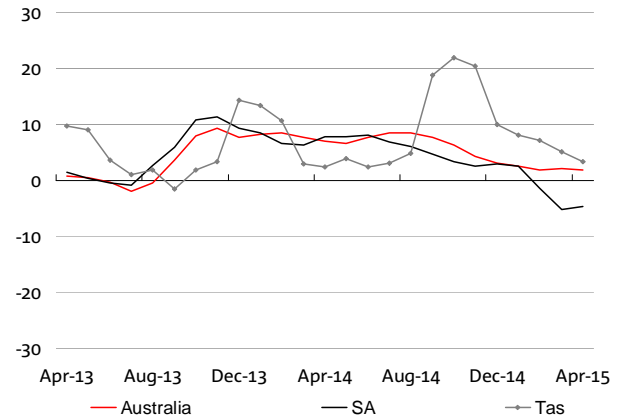
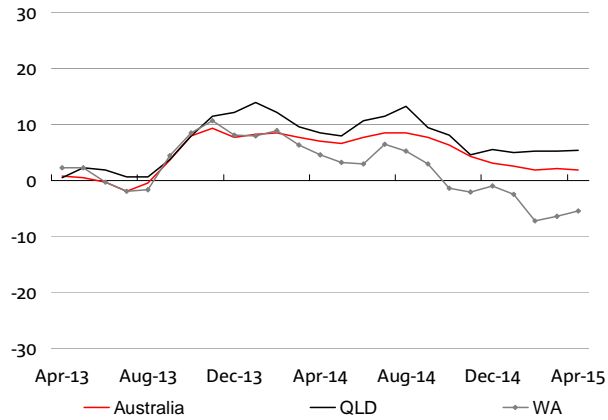
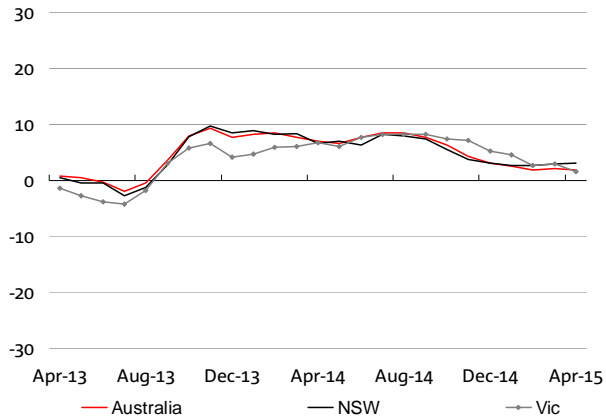


Business conditions by industry (net balance): 3-month moving average

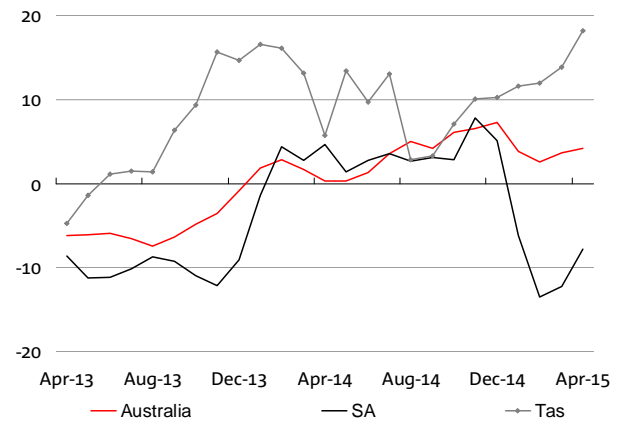
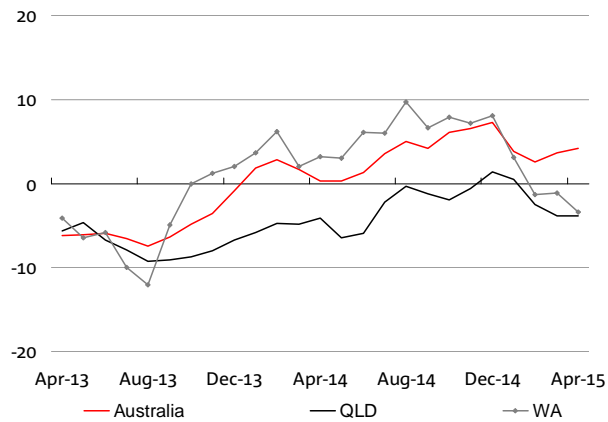
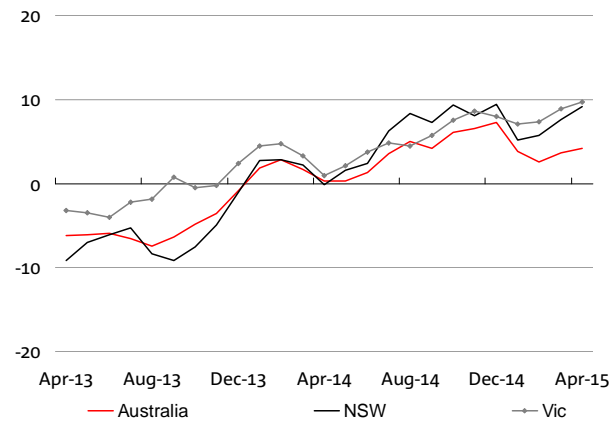


More details on states

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)

Apr-2015	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	0.8	0.5	1.1	0.4	-0.1	-0.2	0.8	0.7	0.5
Labour costs: previous	-2.0	0.7	1.2	0.1	-0.1	0.6	0.7	0.7	0.5
Labour costs: change	2.8	-0.2	-0.1	0.3	0.0	-0.8	0.1	0.0	0.0
Prices (final): current	-1.8	1.1	0.3	0.4	1.7	0.0	0.1	0.0	0.4
Prices (final): previous	-4.4	0.5	-0.3	1.1	2.1	0.2	0.5	0.2	0.4
Prices (final): change	2.6	0.6	0.6	-0.7	-0.4	-0.2	-0.4	-0.2	0.0
Purchase costs: current	0.1	1.8	1.3	0.5	1.5	0.2	0.5	-0.1	0.7
Purchase costs: previous	-1.9	1.4	0.4	1.7	1.7	0.3	0.6	0.2	0.8
Purchase costs: change	2.0	0.4	0.9	-1.2	-0.2	-0.1	-0.1	-0.3	-0.1

Key state business statistics for the month

Apr-2015	Monthly Business Survey Data: By State						
	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	4	0	7	4	-1	5	3
Bus. conf.: previous	4	3	4	-7	-1	-1	3
Bus. conf.: change	0	-3	3	11	0	6	0
Bus. conf: current - Trend	3	2	5	-5	-5	3	2
Bus. conf: previous Trend	3	3	5	-5	-6	5	2
Bus. conf.: change -Trend	0	-1	0	0	1	-2	0
Bus. conds: current	10	9	2	-10	-9	29	4
Bus. conds: previous	10	13	-5	0	3	8	6
Bus. conds: change	0	-4	7	-10	-12	21	-2
Bus. conds: current -Trend	9	10	-4	-8	-3	18	4
Bus. conds: previous -Trend	8	9	-4	-12	-1	14	4
Bus. conds: change -Trend	1	1	0	4	-2	4	0

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