

NAB Quarterly ASX 300 Business Survey

by NAB Group Economics

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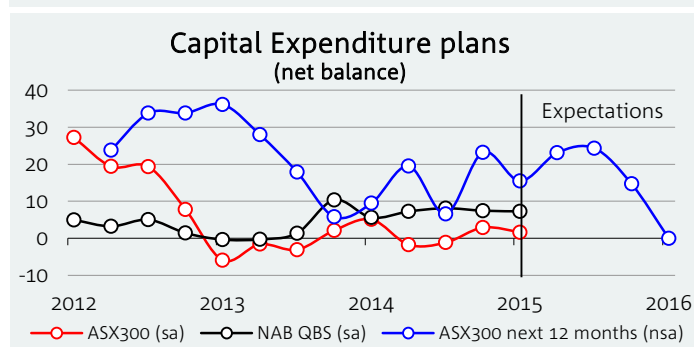
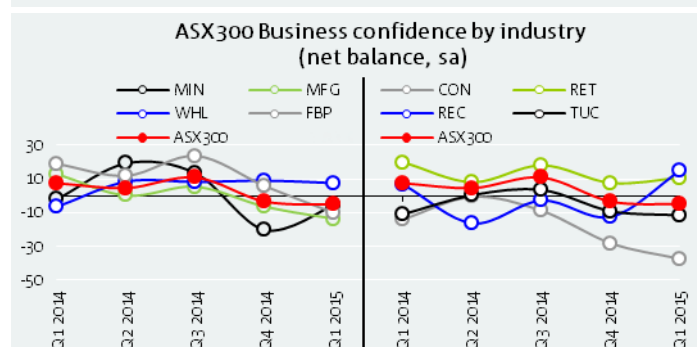
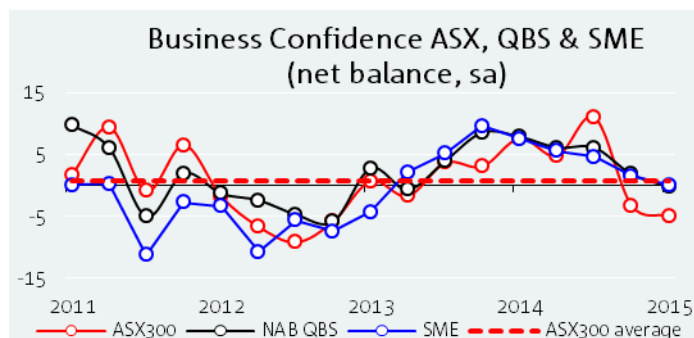
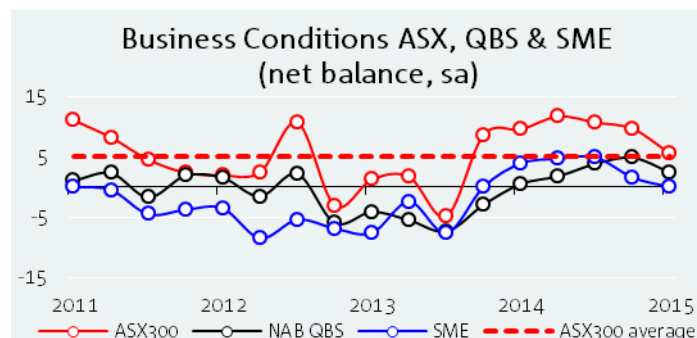
March Quarter 2015



ASX 300 business confidence fell further in Q1 2015 to remain well below the general economy. Sentiment is particularly weak among very large construction firms. Business conditions while still positive also fell, with trading, profitability and employment all lower. Conditions remain weakest among big construction & mining, fell most in recreational & personal services and are strongest in retail, finance/ property & manufacturing. Capital expenditure plans remain subdued, led by mining and wholesale. There was however, an encouraging improvement in capacity utilisation. Exports sales moderated, despite a weaker AUD, while final retail prices were broadly unchanged as firms benefited from low labour & purchase costs.

Survey highlights

- Confidence fell to -5 pts led by a very weak outcome in mining related construction (-37). Conditions still positive (+6) but fell (+10 Q4 2014). Conditions down heavily in rec & personal services (down -54 to -10), offsetting gains in transport, utilities, finance & business.
- Trading conditions fell -6 points to +11 points, with conditions very weak in construction (-41) and mining (-17).
- Profitability fell -5 to +12 points, led by big falls in recreation & personal services (down -74 to -22) and construction (down -23 to -49), which offset notable gains in transport & utilities (up 34 to +20) and finance, business & property (up 12 to +33).
- Employment conditions fell -4 points to -7 points, with conditions weakest in mining (down -7 to -38) and wholesale (down -5 to -25). Employment conditions fell most in large retail (down -17 to +25) but remain strongest overall.
- Encouragingly, forward orders increased in all industries (except recreation & personal services), capacity utilisation rose to its highest level in more than 4 years and stocks were run down. Export orders fell despite the lower AUD.
- Capital expenditure plans over the next twelve months remain subdued, led by mining (-35) and wholesale (-29).
- ASX 300 firms reported weaker margins and cash flow positions despite lower labour, purchase costs and overheads.



Key business statistics**

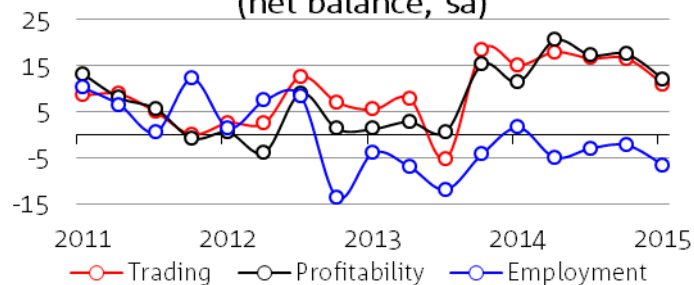
	ASX 300			NAB QBS		
	2014q4	2015q1	2015Q1	2014q4	2015q1	2015Q1
	<i>Net balance</i>			<i>Net balance</i>		
Business confidence	-3	-5	0	17	11	6
Business conditions				18	12	1
Current	10	6	2	-2	-7	0
Next 3 months	10	8	7	-3	8	2
Next 12 months	19	15	18	14	3	1
Capex plans (next 12)	15	0	21	5	0	1
	<i>% change</i>			<i>Percent</i>		
Labour costs	0.4	0.3	0.3	84.6	85.9	80.9
Purchase costs	0.1	0.1	0.4			
Final products prices	-0.1	-0.1	0.2			
Retail prices						
Capacity utilisation rate						

** All data seasonally adjusted and subject to revision. Fieldwork for this Survey was conducted from 23 February to 12 March 2015, covering around 80 firms across the ASX 300.

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Current Conditions

Business Components
(net balance, sa)

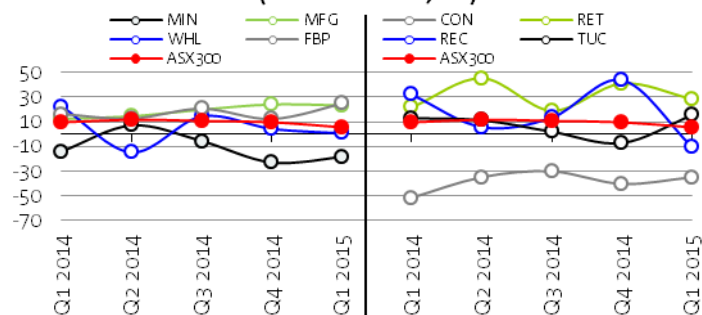


Business conditions among ASX 300 firms fell -4 to +6 points, with all components of the index lower. Trading conditions fell to +11 points (+17 in Q4 2014), while profitability edged down to +12 points (+18 in Q4 2014). Most worrying was the decline in employment conditions to -7 points (-2 in Q4 2014), - its weakest reading since Q2 2013.

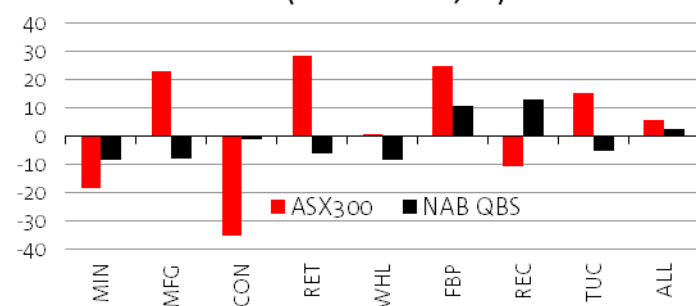
Conditions by industry are mixed. Despite some improvement, conditions are weakest in construction and mining and fell heavily in recreational & personal services (down -54 to -10). This offset solid gains in transport/utilities & finance/business.

Business conditions are strongest in very large retail, finance and manufacturing industries and significantly stronger the broader industry average. In contrast, business conditions in very large construction, mining & recreation are much weaker.

ASX300 Business conditions by industry
(net balance, sa)



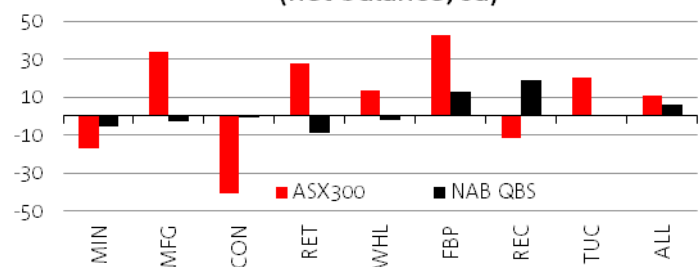
Business conditions current quarter
(net balance, sa)



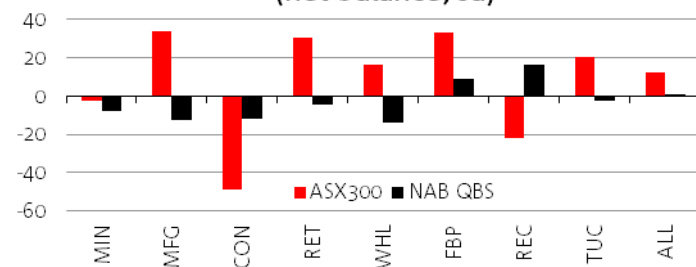
Overall trading conditions are weakest in construction (-41), mining (-17) and recreational & personal services (-12). Trading conditions improved most in finance/property (up 42 to +43) and now strongest overall, followed by manufacturing (+34).

Profitability fell heavily and is weakest in recreation (down -74 to -22) and to a lesser extent in construction (down -23 to -43). Profitability was strongest (but weaker) in manufacturing (down -7 to +34) and finance & business (up 12 to +33).

Trading conditions current quarter
(net balance, sa)

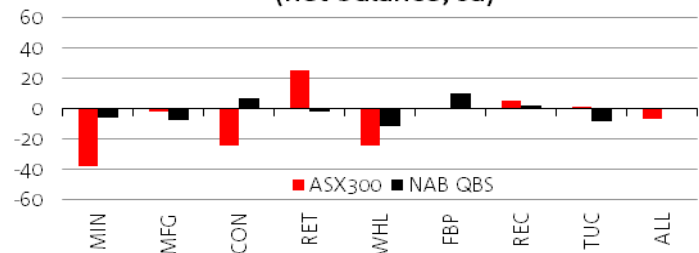


Profitability current quarter
(net balance, sa)



Employment conditions were weakest in mining (-38), wholesale (-25) and construction (-24). In contrast, large retail was most positive albeit weaker (down 17 to +25 points), with employment in recreation also weaker (down -15 to +5).

Employment current quarter
(net balance, sa)

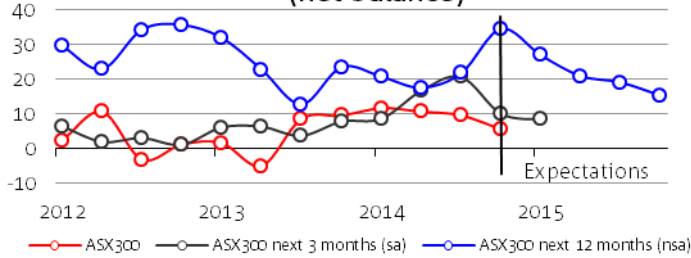


Forward Indicators

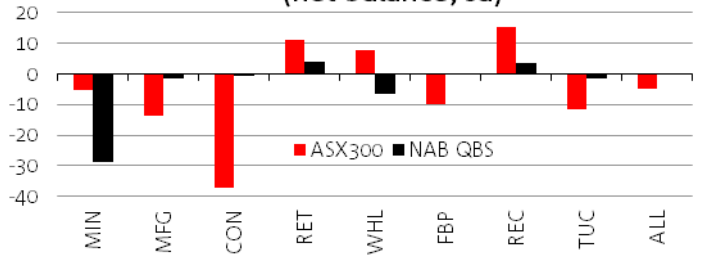
As expected, business conditions deteriorated over the quarter, and are forecast to weaken further over the next 3 and 12 months.

Weaker business confidence mainly driven by reversal in finance/business from +6 to -10 and declines in construction (down -9 to -37) & manufacturing (down -7 to -14).

Business Conditions expectations (net balance)



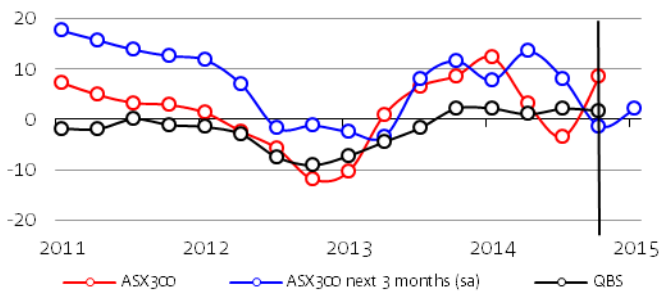
Business confidence current quarter (net balance, sa)



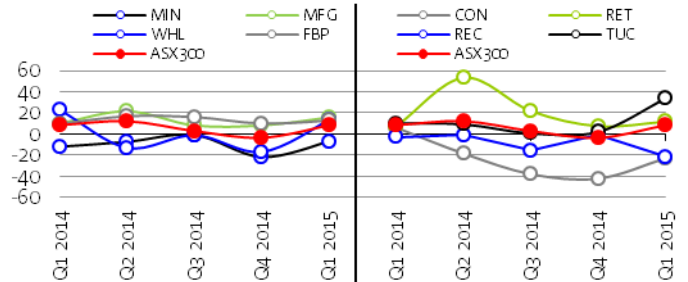
Somewhat surprisingly, forward orders for ASX 300 firms increased sharply, possibly due to lower AUD expectations. Large Australian companies also expect forward orders to improve in the short-term.

Forward orders improved in all industries, except recreation. Recreation (-21) and construction (-23) now the only industries reporting negative orders, although the decline in construction much less severe than in the last survey.

Forward orders (net balance, sa)



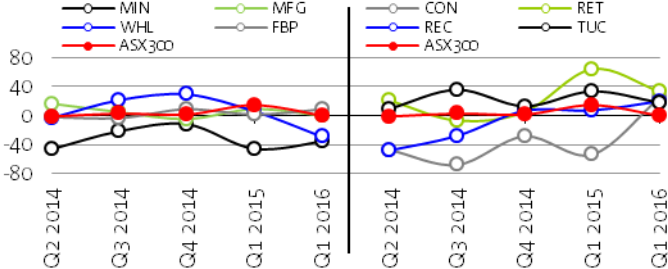
ASX300 Forward orders by industry (net balance, sa)



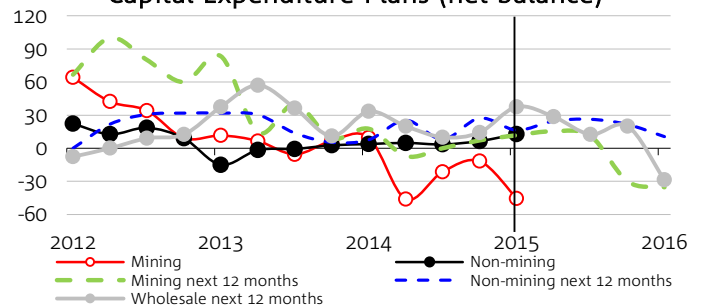
Across ASX 300 industries, there was a pick-up in capital expenditure in retail and transport/utilities. This was however offset by falls in mining, construction and wholesale.

Over the next twelve months, capital expenditure plans remain subdued, led by sharp declines in mining (-35) and wholesale (-29).

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



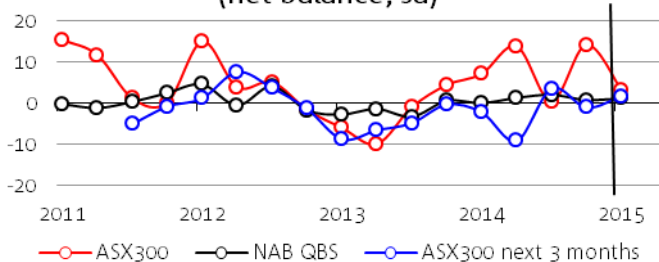
Capital Expenditure Plans (net balance)



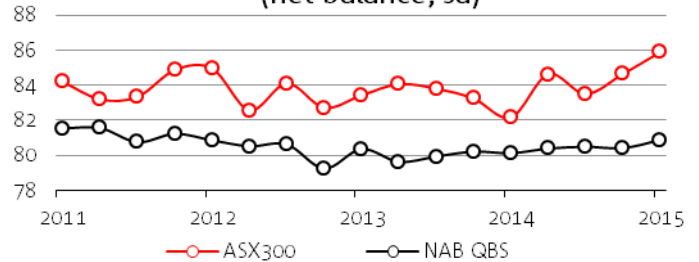
Stock levels fell with weaker confidence seemingly discouraging firms from re-stocking.

Capacity utilisation among ASX 300 firms rose to a 5 year high of 85.9%, well above the QBS average of 80.9%.

Stock levels (net balance, sa)



Capacity Utilisation (net balance, sa)

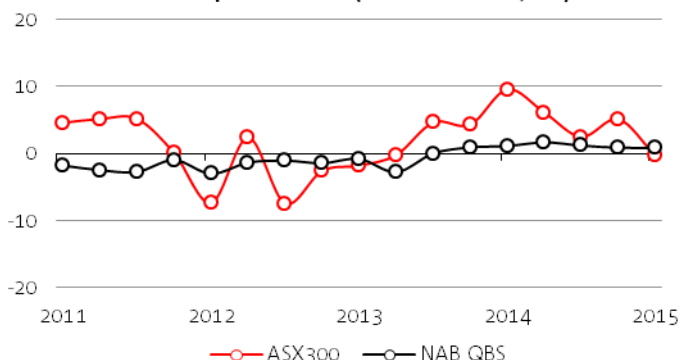


Exports

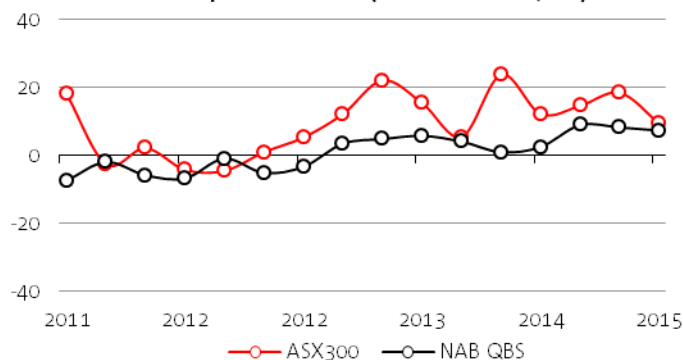
Despite the depreciation of the AUD, export sales fell -5 points to zero in Q1 2015. Export sales for ASX 300 firms were also slightly below the broader economy.

Export orders also declined to +9 from +18 in Q4 2014. However, export orders for very large firms remain slightly above the broader economy average.

Export sales (net balance, sa)



Export orders (net balance, sa)

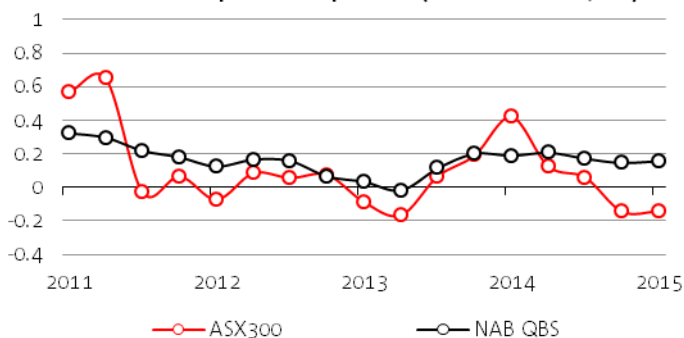


Prices and costs

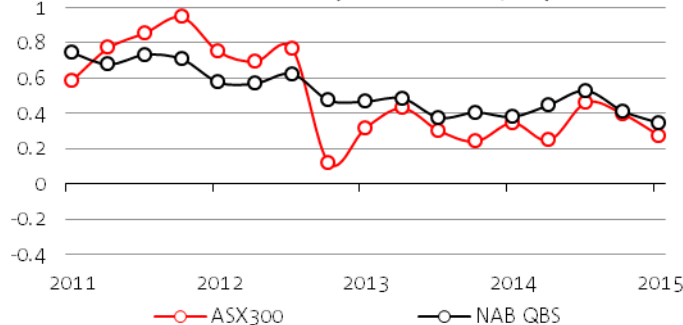
Final product prices for larger firms are still falling, but they have inched up in the broader economy.

Slack in the labour market is keeping labour costs down for all firms in the economy.

Final product prices (net balance, sa)



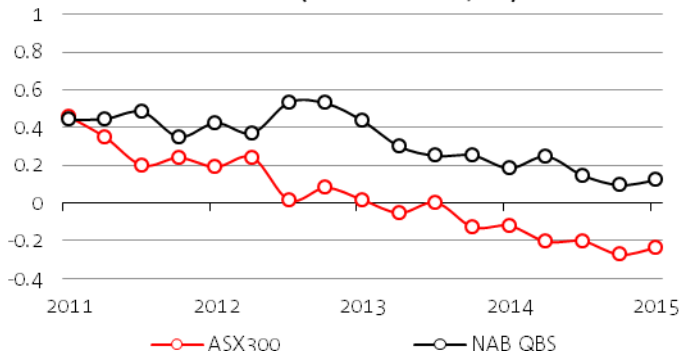
Labour costs (net balance, sa)



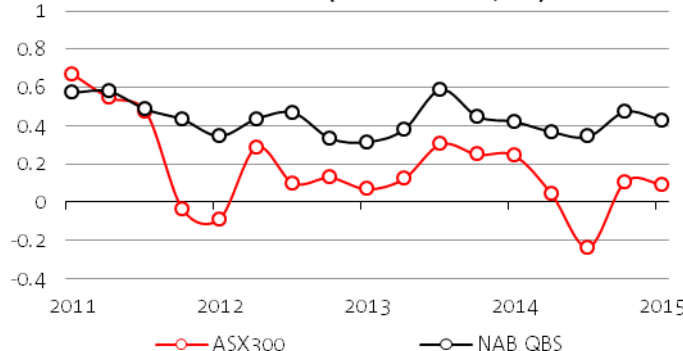
While overheads are reportedly increasing in the broader economy, they remain negative for ASX 300 firms.

In contrast, overall purchase costs are rising albeit at a slower rate, possibly in response to AUD weakness.

Overheads (net balance, sa)



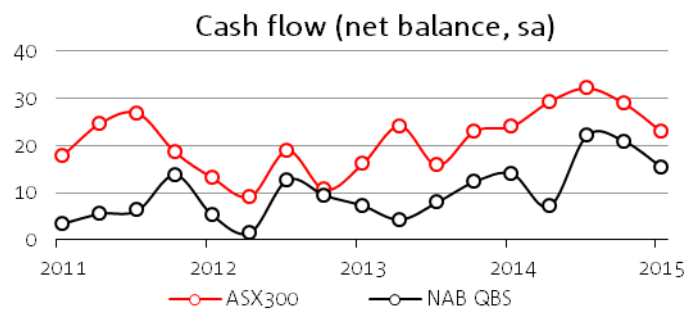
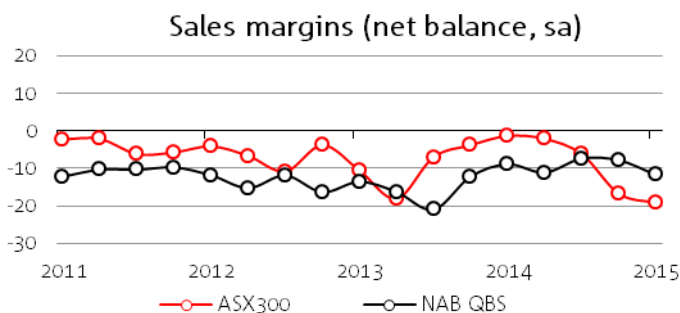
Purchase costs (net balance, sa)



Margins and cash flow

Sales margins deteriorated for ASX 300 firms and remain below the average for the broader economy.

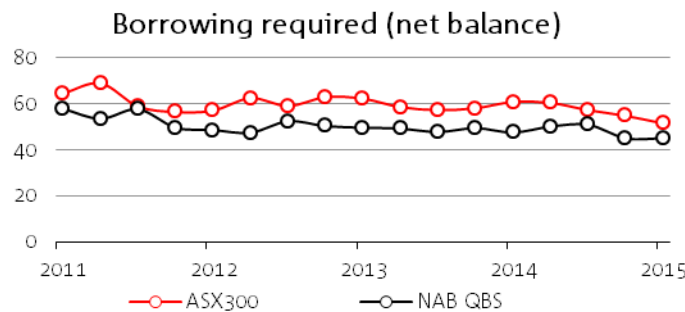
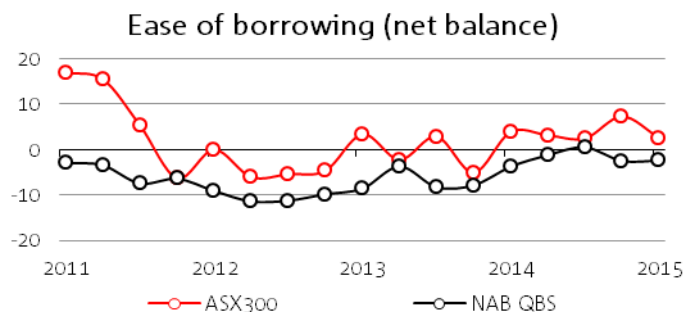
Cash flow positions for ASX 300 firms weakened further but continue to be stronger than for the broader economy.



Credit conditions

Despite the decrease in the cash rate target, ASX 300 firms reported tighter credit conditions over the quarter.

Demand for credit in the economy decreased for ASX 300 firms and has been consistently slowing since the start of 2014



Data appendix

ASX 300 Q1 2015	Mining	Manuf	Constn	Retail	Wsale	Trans & utils	Rec & pers	Fin, prop & bus	ASX 300	NAB QBS
Bus. conf.: current	-5	-14	-37	11	8	-11	15	-10	-5	0
Bus. conf.: previous	-20	-6	-28	8	9	-9	-12	6	-3	2
Bus. conf.: change	15	-7	-9	3	-1	-2	27	-16	-2	-2
Bus. conds: current	-18	23	-35	28	1	15	-10	25	6	2
Bus. conds: previous	-23	24	-40	41	4	-7	44	12	10	5
Bus. conds: change	5	-1	5	-13	-4	23	-54	13	-4	-2
Trad. conds: current	-17	34	-41	28	13	20	-12	43	11	6
Trad. conds: previous	-19	32	-45	41	14	6	57	1	17	9
Trad. conds: change	2	2	4	-13	-1	14	-69	42	-6	-3
Profitability: current	-3	34	-49	31	16	20	-22	33	12	1
Profitability: previous	-19	41	-25	33	16	-14	52	21	18	6
Profitability: change	17	-7	-23	-2	1	34	-74	12	-5	-4
Employment: current	-38	-2	-24	25	-25	2	5	0	-7	0
Employment: previous	-31	-2	-37	43	-19	-15	20	12	-2	0
Employment: change	-7	0	13	-17	-5	17	-15	-11	-4	0

net balance	Conditions - current	Conditions - next 3 months	Conditions - next 12 months	Confidence - next 3 months
ASX300	6	8	15	-5
QBS	2	7	18	0

net balance	Trading	Profitability	Employment	Sales margins	Forward orders	Stocks
ASX300	11	12	-7	-19	8	3
QBS	6	1	0	-12	2	1

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