

NAB Monthly Business Survey

by NAB Group Economics

May 2015



Key Points:

- The recent Federal Budget and interest rate cut appears to have had a positive impact on business confidence – which moved up significantly in May - from +3 to +7 index points. This is the highest level of confidence since August 2014 and has helped to turn the trend more positive. Confidence was significantly higher in retail / wholesale (possibly associated with expectations from the Small Business Package) and finance, business and property services. Mining confidence, on the other hand, fell significantly (to -30 points).
- The pick-up in confidence could also reflect improved business conditions. Business conditions rose from +4 to +7 points in May (and the highest read since October 2014), further cementing the upward trend seen over recent months. All components of the conditions index (trading, profitability and employment) improved in the month, although a meaningful recovery in employment remains absent – the index is still negative. Conditions vary greatly across industries and a number reported a deterioration – again the largest fall was in mining. Conditions remain most positive in service sectors. The ‘bellwether’ wholesale industry improved, but remains weak (transport was weak also). Encouragingly, leading indicators such as forward orders improved, as did capacity utilisation and capex spending.
- On the economy we have fine tuned but not fundamentally changed our forecasts. The big picture is still one where the domestic economy is struggling to offset the impact of sharply lower mining investment – as again highlighted in the Q1 National Accounts. While there has been some improvement in recent data, capex expectations in the non-mining sector have weakened, businesses remain reluctant to employ and consumers remain cautious. With future domestic demand still weak, unemployment is expected to rise a touch to around 6.4% by the end of 2015 and remain relatively high for some time. Our forecasts suggest the RBA is finished cutting. We see the next move in rates as up – but not till late 2016 (and with a lower end point for the cash rate of around 3.5%).

Table 1: Key monthly business statistics*

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	Mar 2015	Apr 2015	May 2015		Mar 2015	Apr 2015	May 2015
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	3	3	7	Employment	0	-2	-1
Business conditions	6	4	7	Forward orders	-1	-1	2
Trading	11	11	13	Stocks	0	2	1
Profitability	8	5	8	Exports	0	0	2
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.5	0.5	0.6	Retail prices	1.0	0.4	1.2
Purchase costs	0.8	0.7	0.8		<i>Per cent</i>		
Final products prices	0.4	0.4	0.4	Capacity utilisation rate	80.5	80.1	80.8

* 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 May to 1 Jun, covering over 540 firms across the non-farm business sector.

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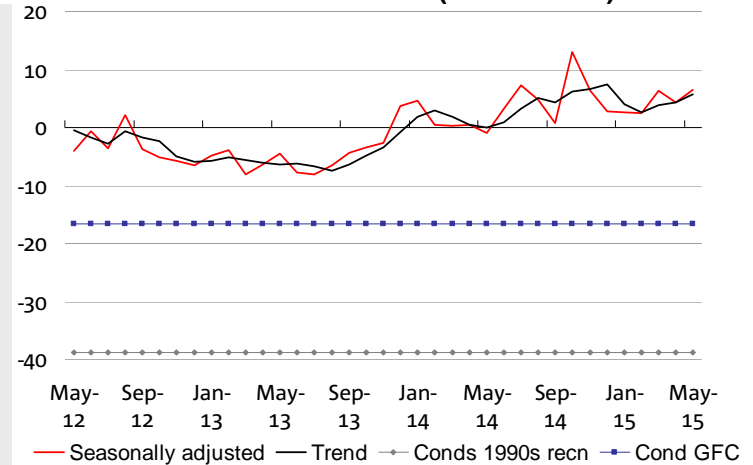
Next release: 14 July 2015 (June monthly)

Analysis

- Business conditions lifted by 3 points in May, reaching +7 index points – its highest level since October of last year and above the series long run average (+4). This has helped to cement the steady upward trend we have seen in recent months and is a welcome sign that the non mining sector may be improving in the face of policy adjustments and a lower currency. Low interest rates continue to support the housing sector and while momentum has slowed recently, housing and business credit continues to grow at a robust pace. While consumption in Q1 was very modest and retail sales subdued in recent months, both retail conditions and confidence improved notably in May. Also on a positive note, capex and capacity utilisation as measured by the NAB Business Survey are looking more favourable. We are thus seeing something of a difference between short term data - which is improving – and longer term expectations which are not. Indeed the most recent ABS data continues to show declining investment intentions by non-mining firms – a discouraging trend given the large drag coming from mining investment. Turning to the survey results by industry, manufacturing recorded the largest improvement in conditions (up 14), which could suggest the industry is finally seeing some benefits from the lower AUD – although looking through monthly volatility, conditions remain soft (albeit improving). The biggest deterioration was in mining (down 23), with the index at very low levels. The trend index is strongest in service sectors, but weak in mining, transport and manufacturing (-22, -9 and -6 respectively).
- Confidence appears to have received a boost from interest rate cuts, better conditions and perhaps some relief over a more politically sellable Budget compared to last year. The index jumped significantly to +7 index points in May (from +3), which is its highest level since August last year and is slightly above long run average levels. We noted last month that a more pronounced lift in confidence was needed following the last RBA rate cut, and in that context the May result is encouraging. However, maintaining the improvement may be more difficult. Changes in confidence were relatively mixed across industries this month. Confidence dropped heavily in mining (down 23), followed by moderate falls in recreation & pers services (down 3) and transport (down 2). All other industries posted an improvement – the largest occurring in fin/ prop/ business services (up 18). Trend confidence is now the highest in construction, retail and rec/pers services (all +6), but are the lowest in mining by a significant margin (-18).

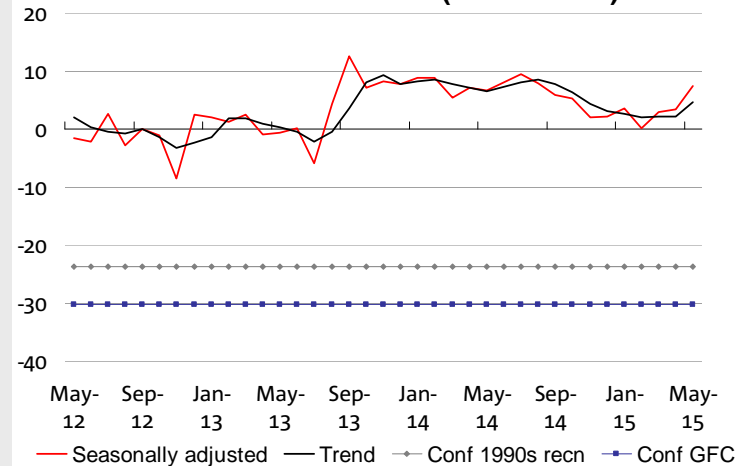
Conditions lifted, trend heading up

Business Conditions (net balance)



Confidence jumped to highest this year

Business Confidence (net balance)



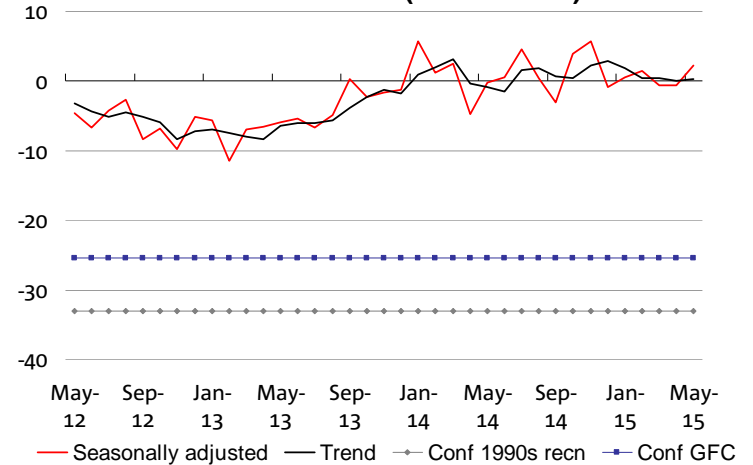
Excluding normal seasonal changes, how do you expect the business conditions facing your industry in the next month to change?

Forward indicators

- The forward orders index was up to +2 points in May (from -1), which is above the long run average but still relatively subdued. This is suggesting a modest pick up in demand in the near term. Orders rose sharply in mining (up 32 points) following an even larger drop last month – keeping the index very negative. Orders in fin/ prop/ bus services were also up by a solid amount in the month (up 13). Orders only deteriorated in transport (down 15) and manufacturing (down 4). Consistent with a solid pipeline of largely residential projects, construction orders remain the highest, along with fin/ prop/ bus services (both +11). Orders are still the weakest in trend terms for mining (-33) and wholesale (-5), but are strongest for construction (+12) and recreation & personal services (+4).
- A lift in forward orders and stronger trading conditions coincides with a notable pick-up in capacity utilisation, to 80.8% (up from 80.1%). However, looking through the monthly volatility, it may still be that the previous rising trend (from mid-2013) has stalled. The rise in capacity utilisation in May was reasonably broad-based but was particularly pronounced in mining (up 1.8 ppts) and retail (up 1.5ppts). In contrast, construction (down 1.3 ppts) and wholesale (down 0.8 ppts) were the only industries to see a decline in utilisation rates. Utilisation rates relative to their long-run averages vary considerably across industries, but the majority are below average in trend terms. Recreational & personal services were the only industry noticeably above average (fin/ bus/ prop modestly above), while manufacturing, wholesale, transport and especially mining were well below.
- The capital expenditure index rose (up 4) in May to +10 index points – well above its long-run average level (+5). The trend index also rose (up 2) to +8 index points, which is its highest level since before the GFC. This suggests a stronger expansion of non-mining business investment (which has a larger weighting in the survey) than ABS data currently indicate. Trend recreation & personal services capex is the highest (+19 points) and mining is the lowest (-11 points).
- Elsewhere in the survey, cash flow (not seasonally adjusted) was the strongest in fin/ prop/ bus services, and the weakest in mining.

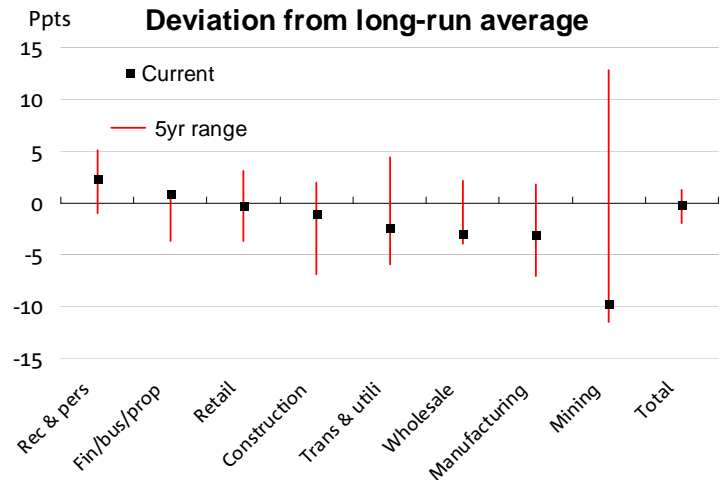
Sales orders point to modest growth

Forward Orders (net balance)



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

Capacity utilisation up. Most industries below average



Source: NAB Economics

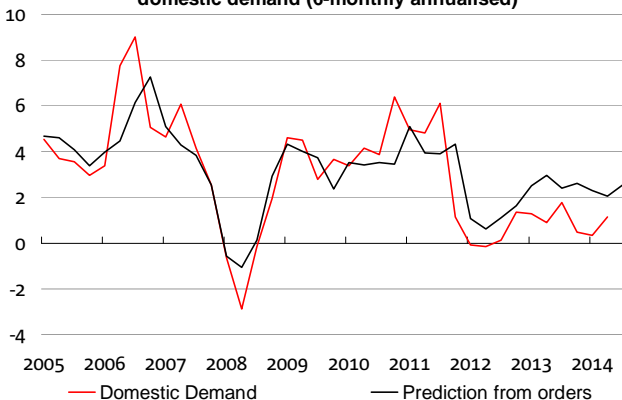
Full capacity is the maximum desirable level of output using existing capital equipment.

Implications for forecasts

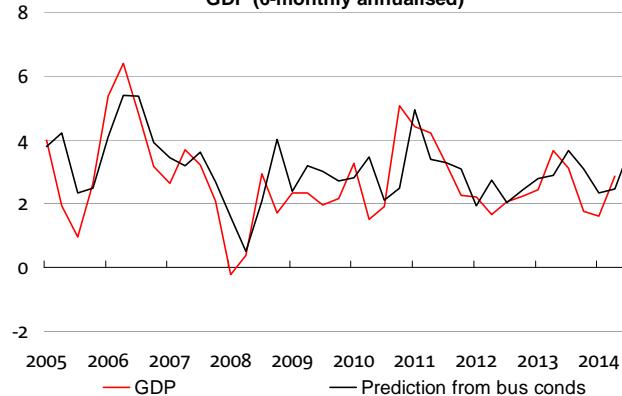
For more information see latest [Global & Australian Forecasts](#)

- There was no evidence of an acceleration in the pace of global growth in early 2015. Weak GDP results in the US, UK and Canada outweighed a pick-up in Japan and the Euro-zone and similarly mixed trends among the big emerging economies saw China slowing, India picking up and Brazil still very weak. The monthly manufacturing output and world trade numbers were soft, particularly the latter, and the business surveys do not show any clear evidence yet of an imminent lift in growth momentum. Our forecast is for more of the same this year with global growth staying around 3¼% in 2015, followed by a modest upturn in 2016 (largely driven by the US).
- On Australia, there is a growing difference between more optimistic short-term data and weaker longer-run expectations. But while some of the partials have improved on the back of a further rate cut and a well received Budget (for business), weakening longer-run capex expectations in the non-mining sector are still a concern. Businesses are still reluctant to employ and consumers remain cautious. Revisions to our growth forecasts have been minor – 2014/15 2.4%(was 2.3%), 2015/16 2.6%(was 2.9%) and unchanged in 2016/17 at 3.0%. The slightly stronger pace from late 2016 largely reflects faster exports as more resource projects come on stream. With domestic demand likely to remain weak, unemployment will rise a touch to around 6.4% by the end of 2015 and stay high for some time.
- Based on our forecasts for activity, the labour market and inflation, we see the RBA as finished cutting – albeit they could still cut if our (and their) forecasts are not achieved. We also see the next move in interest rates as up – but not till late 2016 (and with a lower end point for the cash rate of around 3.5%)
- Our model of 6-monthly annualised demand growth, using forward orders as a predictor, has continued to suggest stronger growth than the national accounts, although the gap narrowed in Q1 2015. Nevertheless, applying trend forward orders from May to our model suggests that predicted demand growth will lift a little more in Q2. In contrast, our business conditions model under-predicted GDP growth in Q1. Based on robust business conditions in May, our model implies further improvements in GDP growth for Q2. However, applying business conditions derived from our ‘wholesale leading indicator’ (below) would imply somewhat weaker GDP growth in the coming quarter than the actual index.

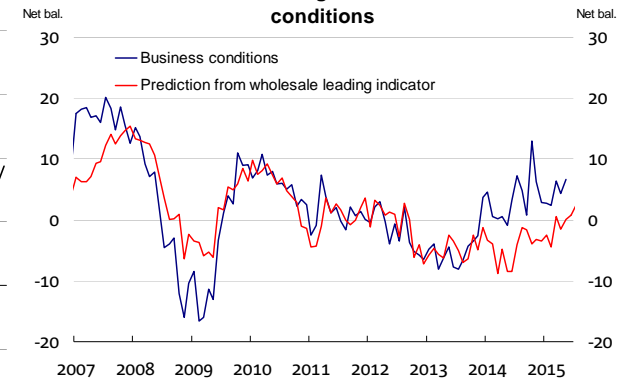
Forward orders (change & level) as an indicator of domestic demand (6-monthly annualised)



Business conditions (change & level) as an indicator of GDP (6-monthly annualised)



Wholesale as a leading indicator of business conditions



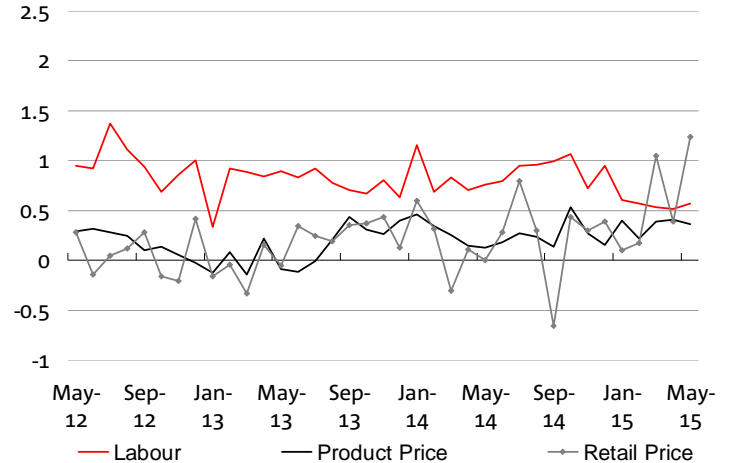
Indicator = f(business conditions wsl, business conditions wsl(-1 to -4), const.

Costs and prices

- Growth in labour costs (a wages bill measure) was only a little stronger in May at 0.6% (a quarterly rate). This continues to be consistent with the soft employment index and an elevated unemployment rate. Labour cost inflation accelerated the most in transport & utilities (up 1 ppt), followed by finance/ property/ business services (up 0.5 ppts), but these were largely offset by a sharp deceleration in mining wages costs (down 2.7 ppts) and construction (down 1.3 ppts). Mining labour costs have been falling due to the ongoing headwinds from lower commodity prices, the running down of investment projects, and general cost cutting efforts. According to ABS data, the mining sector has shed nearly 50k jobs over the past 12 months. 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, mining (-40 points), transport (-15 points) and wholesale (-14) reported the most modest demand for labour in the survey. In trend terms, employment demand was the strongest in fin/ prop/ bus (+9), but weakest in mining (-25). Transport was also very weak at -16 points.
- Purchase costs growth rose very slightly to 0.8% in May (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. Purchase costs growth decelerated the most in mining (down 1.9 ppts), but picked up the most in retail and finance/ property/ business services (both up 0.6 ppts). Growth in purchase costs was mixed across most industries. Purchase cost pressures facing wholesalers are strongest (1.6%, quarterly rate), and are weakest for mining (-1.8%, quarterly rate).
- Final product prices growth was unchanged again in May at a quarterly rate of 0.4%. Prices growth was generally more subdued across industries, but with some key exceptions. Final retail prices growth spiked again this month (up 0.8 ppts) and could point to additional upward pressure in the CPI in the near term. In contrast, the mining price contraction accelerated in the month (from -1.9% to -2.5%), after showing signs of moderation in April. Upstream price pressures (e.g. manufacturing and wholesale) are showing reasonable growth in final prices (0.4% and 1.1%, on a quarterly basis), although they both slowed in the month. Prices growth is weakest in mining (-2.5%).

Price pressures subdued. Retail prices spike again

Costs & prices (% change at a quarterly rate)



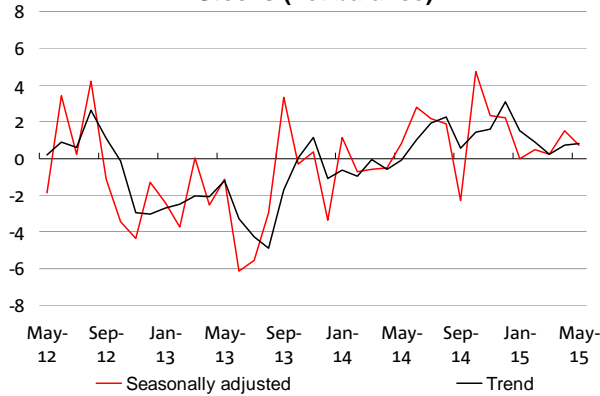
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.



More details on business activity

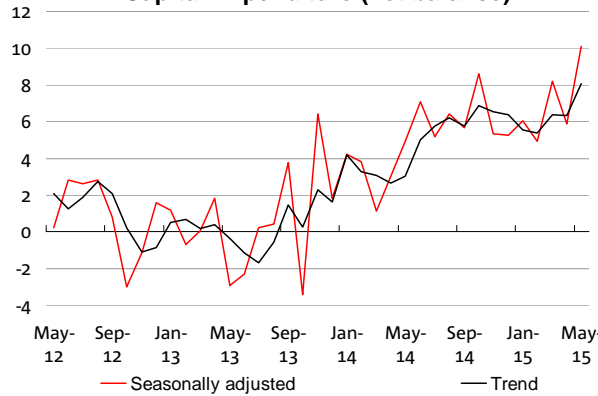
Re-stocking has been tentative

Stocks (net balance)



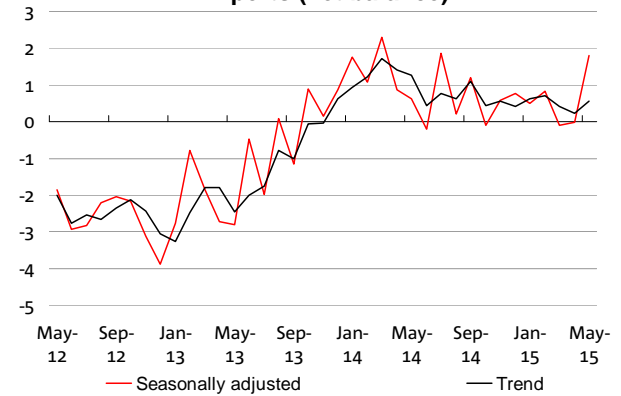
Capex much stronger. In contrast to ABS data

Capital Expenditure (net balance)



Exports jumped, possibly assisted by lower AUD

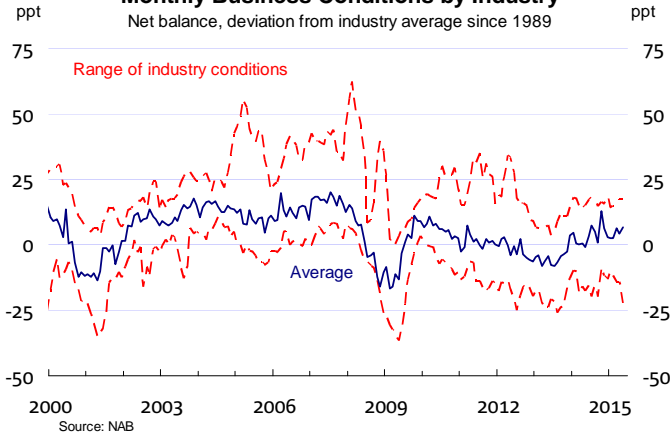
Exports (net balance)



Range of conditions remains wide, Weak mining vs strong services

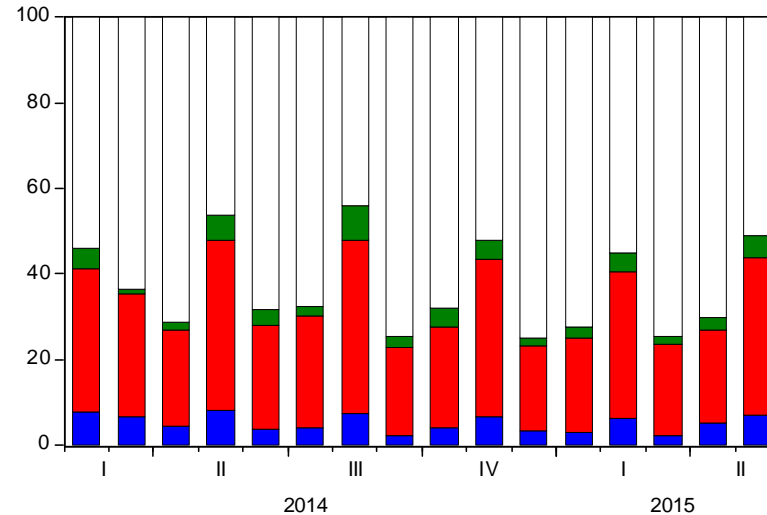
Monthly Business Conditions by Industry

Net balance, deviation from industry average since 1989



Borrowing conditions a little better. Demand also a little stronger (relative to 3 months prior)

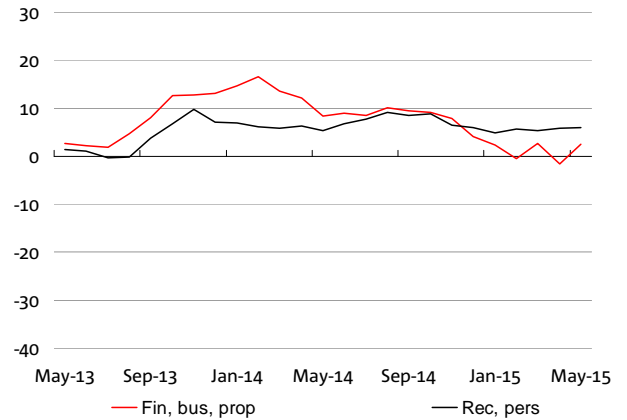
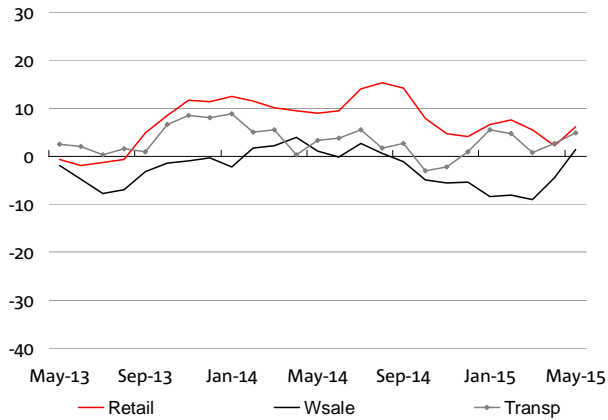
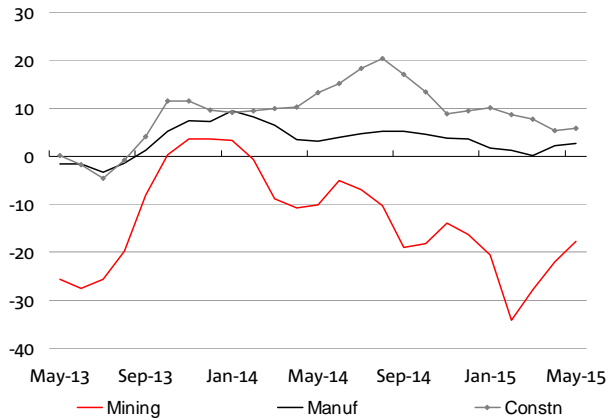
Borrowing conditions (% of firms)



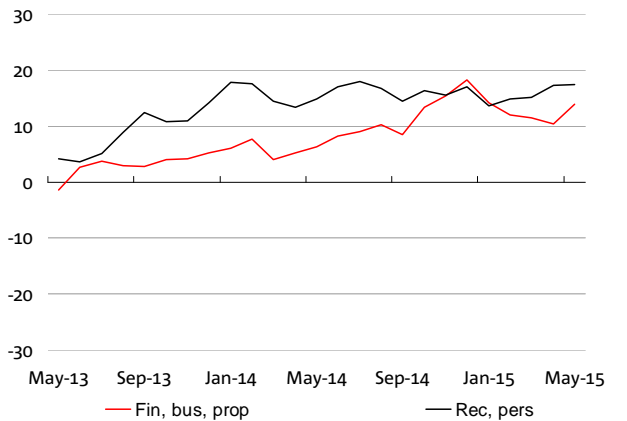
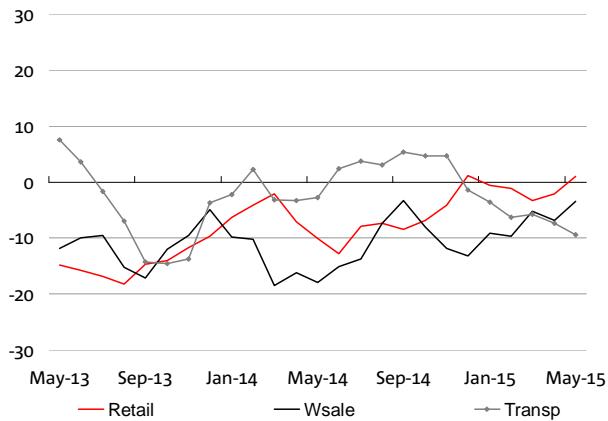
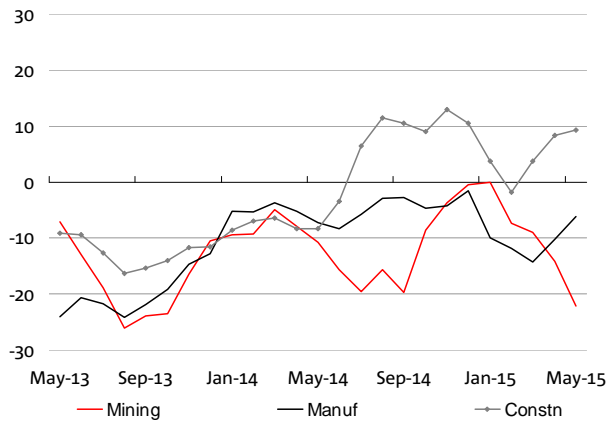
More difficult Unchanged Easier No borrowing required

More details on industries

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

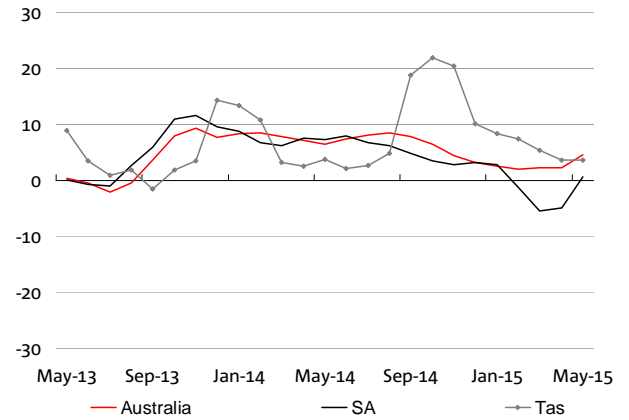
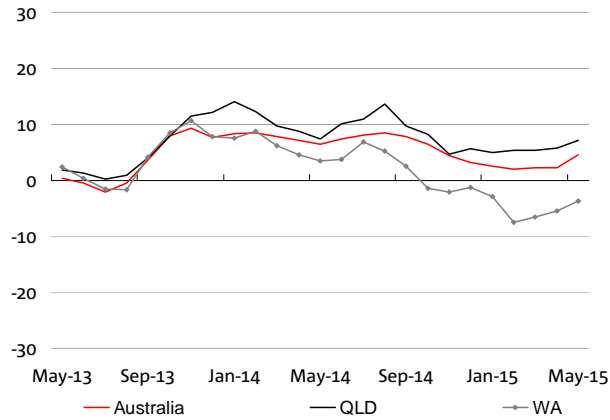
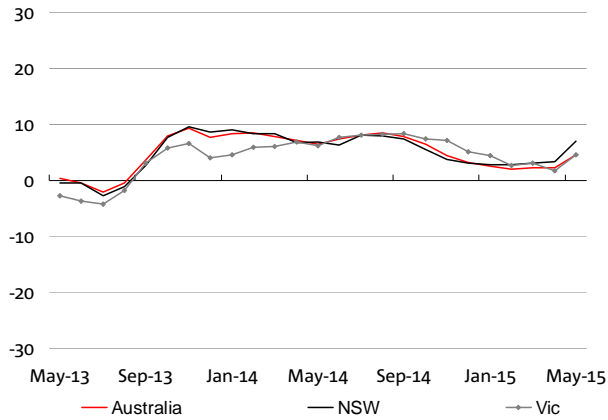


Business conditions by industry (net balance): 3-month moving average

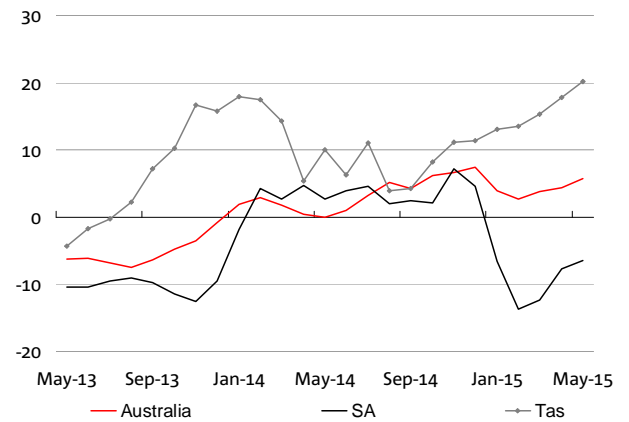
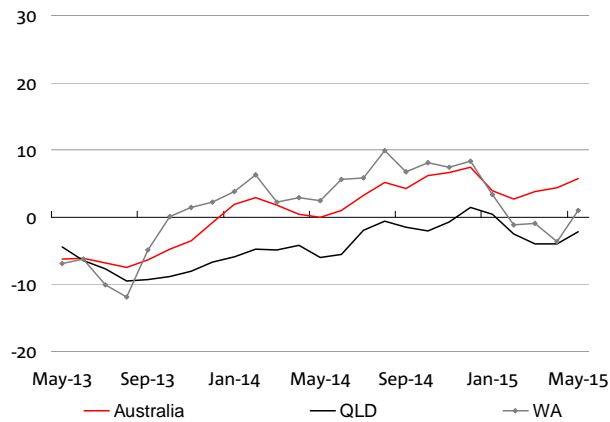
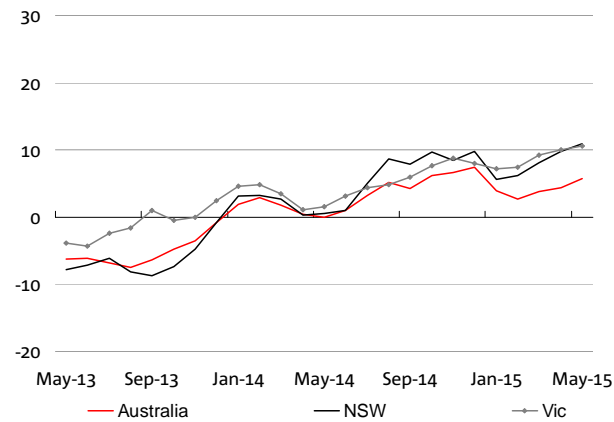


More details on states

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)

May-2015	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-1.8	0.2	-0.2	0.5	0.3	0.8	0.9	1.2	0.6
Labour costs: previous	0.9	0.5	1.1	0.4	-0.1	-0.2	0.8	0.7	0.5
Labour costs: change	-2.7	-0.3	-1.3	0.1	0.4	1.0	0.1	0.5	0.1
Prices (final): current	-2.5	0.4	0.2	1.2	1.1	0.0	0.3	0.1	0.4
Prices (final): previous	-1.9	1.1	0.3	0.4	1.7	0.1	0.1	0.0	0.4
Prices (final): change	-0.6	-0.7	-0.1	0.8	-0.6	-0.1	0.2	0.1	0.0
Purchase costs: current	-1.8	1.3	0.8	1.2	1.6	0.0	0.6	0.5	0.8
Purchase costs: previous	0.1	1.8	1.1	0.6	1.7	0.2	0.5	-0.1	0.7
Purchase costs: change	-1.9	-0.5	-0.3	0.6	-0.1	-0.2	0.1	0.6	0.1

Key state business statistics for the month

May-2015	Monthly Business Survey Data: By State						
	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	13	10	9	6	-9	6	7
Bus. conf.: previous	4	0	8	4	-1	5	3
Bus. conf.: change	9	10	1	2	-8	1	4
Bus. conf: current - Trend	7	4	7	1	-4	4	5
Bus. conf: previous Trend	3	2	6	-5	-6	4	2
Bus. conf.: change -Trend	4	2	1	6	2	0	3
Bus. conds: current	12	9	-3	-9	10	25	7
Bus. conds: previous	10	9	1	-10	-11	26	4
Bus. conds: change	2	0	-4	1	21	-1	3
Bus. conds: current -Trend	11	11	-2	-6	1	20	6
Bus. conds: previous -Trend	10	10	-4	-8	-4	18	4
Bus. conds: change -Trend	1	1	2	2	5	2	2

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