

# NAB Monthly Business Survey

by NAB Group Economics

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July 2015



## Key Points:

- The exuberant readings on business confidence seen in recent months was pared back in July (from +8 to +4). While confidence eased in most industries, much of the change stemmed from mining and construction firms (which includes a large share on non-residential and engineering firms), suggesting an escalation in Chinese growth concerns could be putting firms on alert. Confidence fell back below the long-run average, although the confidence index remains positive and the trend has held up around average levels.
- Business conditions also dropped back, falling 4 points to +6 index points in July. Looking through the month to month volatility, however, both conditions and confidence are suggesting a turnaround in the non-mining economy. All three components of conditions (trading, profitability and employment) fell in the month, with trading falling the most (down 8) and employment dipping back into negative territory. But despite the falls, both trading conditions and profitability remain relatively elevated. Conditions vary greatly across industries, but the service sectors continue to outperform. The 'bellwether' wholesale industry remains at weak levels, although this could reflect an element of margin squeeze due to AUD depreciation rather than a sign of weakness in the broader economy – wholesale purchase costs have increase considerably. Other leading indicators – such as forward orders and capacity utilisation – generally eased.
- Our GDP forecasts are marginally stronger than last month, with growth of 2.8% in 2015/16 and 3.2% in 2016/17. Our unemployment rate forecasts are unchanged from a peak of 6¼% following revisions last month. The divergence between weak medium-term expectations (particularly for non-mining investment) and stronger short-term indicators has become more pronounced. The RBA is expected to remain on hold until late 2016, although is likely to retain an easing bias until the non-mining recovery is further entrenched.

Table 1: Key monthly business statistics\*

	May 2015	Jun 2015	Jul 2015		May 2015	Jun 2015	Jul 2015
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	7	8	<b>4</b>	Employment	-1	1	<b>-1</b>
Business conditions	7	10	<b>6</b>	Forward orders	2	5	<b>2</b>
Trading	13	19	<b>11</b>	Stocks	1	-1	<b>3</b>
Profitability	8	10	<b>7</b>	Exports	2	1	<b>0</b>
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.5	1.3	<b>0.2</b>	Retail prices	1.1	0.5	<b>0.7</b>
Purchase costs	0.8	0.7	<b>0.8</b>		<i>Per cent</i>		
Final products prices	0.4	0.3	<b>0.2</b>	Capacity utilisation rate	80.8	81.3	<b>80.8</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 27 July to 31 July, covering over 400 firms across the non-farm business sector.

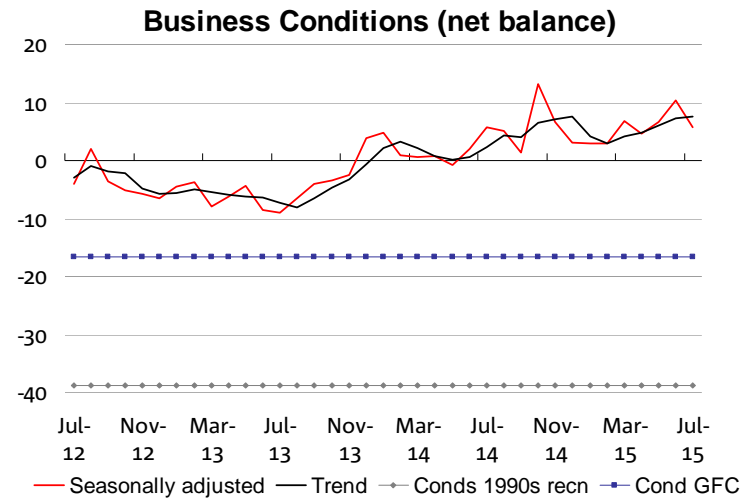
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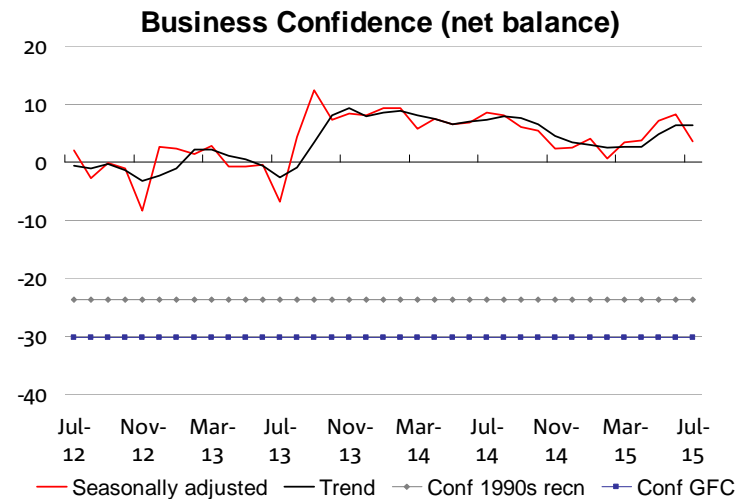
# Analysis

- Most of last month's gains in business conditions were unwound in July, with the index falling 4 points to +6 index points – but is still above the long run average of +5 index points (and not much different from the May month's reading). As such, the trend in business conditions is still rising (up 1 to +8 points) and points to a much stronger recovery in the non-mining economy than what headline domestic demand numbers from the National Accounts would suggest. Given the relatively higher labour intensity of the non-mining sector, these trends could bode well for labour demand and is consistent with the stronger than expected growth in official employment numbers reported by the ABS. In this context, it is a little perplexing to see that the employment component of business conditions continue to look soft, turning negative again in July. While the employment index has improved notably from its 2013 lows, the current level is more consistent with monthly employment growth of around 15k jobs per month, as opposed to the average monthly increase of more than 20k jobs since the start of the year, according to the ABS. In terms of the other components of business conditions, both trading conditions and profitability weakened but remain at elevated levels.
- Consistent with the fall in business conditions, confidence backtracked (down 4 points to +4). While most industries deteriorated, particularly large falls in mining and construction (which includes a large share of non-residential and engineering construction) suggests that an escalation of China growth concerns may have contributed to the decline. But despite weakening in July, the trend in business confidence remains a positive one, with the trend index holding up around its long run average level.
- Most industries reported a decline in business conditions and/or confidence in July. The mining industry saw big declines in both conditions and confidence (down 18 and 29 points respectively), although transport & utilities recorded the largest decline in conditions (down 23) despite a jump in confidence. In construction, a drop in confidence (down 12) was matched by a much smaller fall in conditions (down 3), which could reflect competing trends between residential and engineering construction activity. Service sectors continue to be the standout performers.
- There was a surprisingly large deterioration in NSW confidence (down 7), which was matched by a decline in business conditions (down 4). Looking through the monthly volatility, however, still shows NSW and Vic as the best performing mainland states, although Queensland is now the most confident. South Australia remains the notable underperformer.

## Conditions down, but trend still positive



## Confidence unwinding



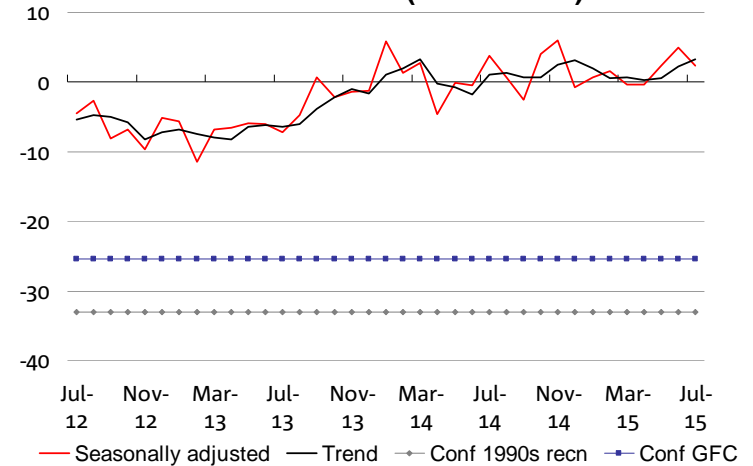
Excluding normal seasonal changes, how do you expect the business conditions facing your industry in the next month to change?

## Other activity indicators

- The forward orders index was down to +2 index points in July (from +5), although this is still above the long run average. This suggests only a modest pick up in demand for the near term. Last months surprising spike in mining orders was partially unwound in July (down 9 points), pushing the orders index well below all other industries, although it was the transport & utilities industry that saw the largest deterioration in orders during the month (down 19). Orders in wholesale (up 6), finance/ property/ business (up 5) and construction (up 3) all increased in the month, with the finance/ property/ business orders index the highest of the industry groupings, at +14. In trend terms, orders are still the weakest in mining (-14) followed by retail and wholesale (both -1), but are highest for finance/ property/ business services (+11) followed by construction (+6).
- A drop in forward orders and softer trading conditions coincides with an easing in capacity utilisation, to 80.8% (down from 81.3%). Despite the fall in the month, the trend continues to show a tightening of spare capacity, which bodes well for both non-mining business investment and the labour market. While capacity utilisation suggests an improvement in the unemployment rate and non-mining business investment from recent levels, it continues to be well below previous peaks and is only now in line with the long-term average. The fall in July was largely concentrated in mining (down 8.4 ppts) and transport & utilities (down 5.2 ppts), although utilisation rates for the majority of industries were flat to lower in the month. Construction (up 1.2 ppts) and manufacturing (up 0.3 ppts) were the only exceptions. Utilisation rates relative to long run averages vary considerably across industries, with the majority still below average.
- The capital expenditure index eased (down 1) in July to +6 index points – above its long-run average level (+5). The trend index was unchanged at +8 index points, which is still close to its post-GFC high. This points to a stronger expansion of non-mining business investment (which has a higher weighting in the survey) than ABS data currently indicate. Trend recreation & personal services capex is the highest (+18 points) and mining is the lowest (-24 points).
- Elsewhere in the survey, cash flow (not seasonally adjusted) was the strongest in fin/ prop/ bus services, and the weakest in mining.

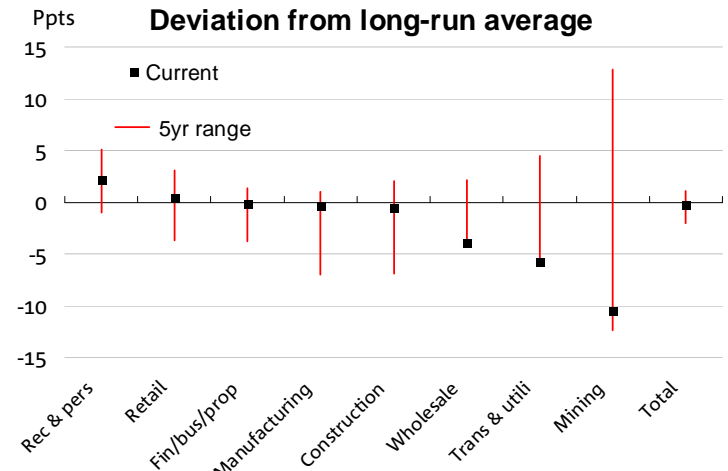
## Sales orders ease, trend still up

### Forward Orders (net balance)



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

## Capacity utilisation varied across industry

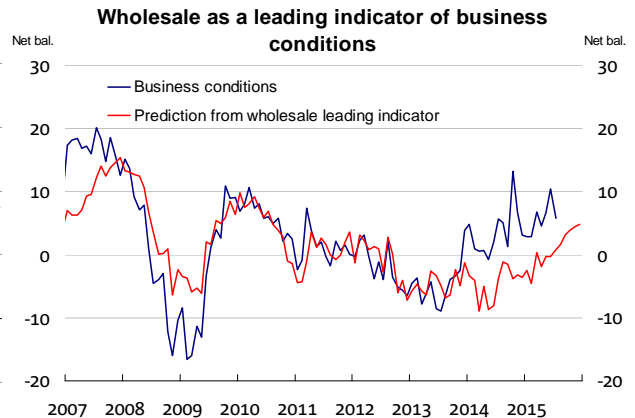
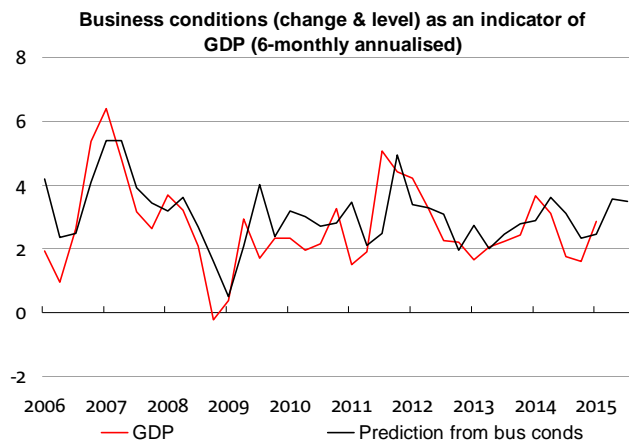
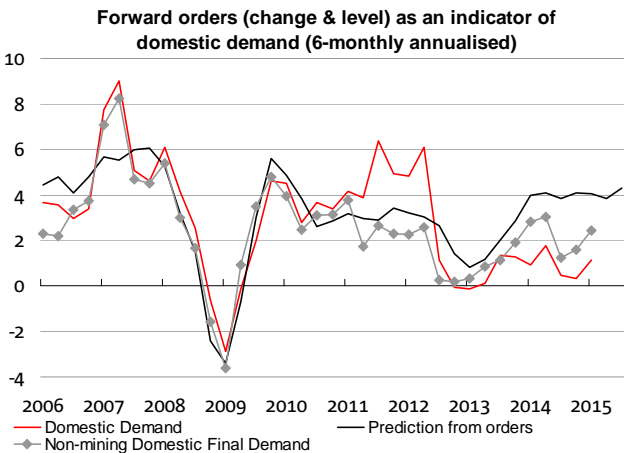


Source: NAB Economics

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 is running below trend and looks set to remain lacklustre, limiting the pace of expansion in commodity demand. Output has been growing faster recently in some of the big advanced economies (notably the US and UK) and the Greek crisis has had little impact on activity across the rest of the Euro-zone. Stagnation in growth across the emerging market economies has been disappointing and reflects the sluggish growth in world trade volumes and falling commodity prices. The bursting of the share market bubble will probably only worsen China's trend slowdown, recent Indian data is again disappointing and there is weakness across large parts of East Asia and Latin America – not a good environment for commodity prices. Overall, our forecast for global growth is broadly unchanged at 3.2% in 2015, 3.3% in 2016 and 3.4% in 2017.
- On Australia, our GDP forecasts are marginally stronger than last month, with growth of 2.8% in 2015/16 and 3.2% in 2016/17. Our unemployment rate forecasts are unchanged from a peak of 6¼% following revisions last month. The divergence between weak medium-term expectations (particularly for non-mining investment) and stronger short-term indicators has become more pronounced. Meanwhile, the AUD is acting as a stabiliser and helping to offset the impact of further declines in commodity prices and the terms of trade, with evidence of a pick up in net services exports (particularly tourism). The housing market in the eastern states remains strong, both in terms of construction and prices, while consumer spending indicators improved in June. The RBA is expected to remain on hold until late 2016, although is likely to retain an easing bias until the non-mining recovery is further entrenched. The risks to these forecasts are broadly balanced.
- Our model of 6-monthly annualised demand growth, using forward orders as a predictor, has continued to suggest stronger growth than the national accounts. This divergence can be partly explained by the greater representation of non-mining sectors in the business survey – headline growth in the National Accounts has masked recent improvements in non-mining domestic demand. Nevertheless, applying trend forward orders from July to our model suggests that predicted domestic demand growth for Q2 & Q3 will be little changed from the first quarter. In contrast, our business conditions model of GDP growth implies an improvement in Q2 and stability in Q3. Applying business conditions derived from our 'wholesale leading indicator' (below) would imply somewhat weaker GDP growth, although this could reflect margin squeeze from AUD depreciation given the difficulty passing on additional costs to retailers and final consumers.

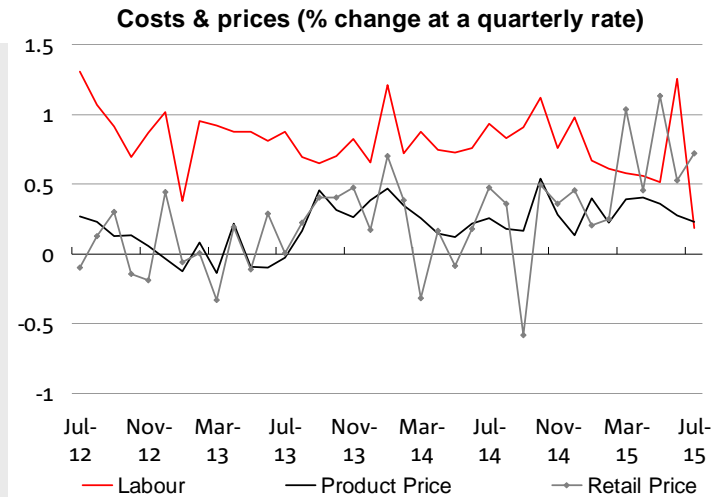


Indicator = f( business conditions wsl, business conditions wsl(-1 to -4), const.

# Costs and prices

- Last month's jump in labour costs growth (a wages bill measure) was more than unwound in July to just 0.2% (a quarterly rate). This result is a little surprising given the recent rise in the minimum wage (effective from the start of July). It is possible that firms pre-empted the hike given last month's spike, although retail labour cost did spike this month (up 1.5 ppts to 2.0%). Labour cost inflation accelerated the most in retail, followed by wholesale (up 0.7 ppts). Most other industries saw a deceleration in wages cost growth, with the largest slowdown occurring in recreation & personal services (down 1.8 ppts) and mining (down 1.7 ppt). ABS data on the labour market was somewhat mixed in July. Employment increased by a stronger than expected 38,500 jobs, yet the unemployment rate jumped to 6.3% (from 6.1%). Nonetheless, trend unemployment has generally turned out to be better than expected. Meanwhile, employment conditions in the survey remain relatively soft and are particularly weak in mining (-24) and transport/utilities (-14) – service sectors are reporting the strongest employment demand. An unemployment rate above 6%, restrained inflation expectations, and an apparent shift in labour back towards the non-mining states should all help to keep wage pressures relatively contained for the time being.
- Growth in purchase costs was up slightly to 0.8% in July (at a quarterly rate), which is broadly consistent with the average rate seen since the GFC. The lack of a sharp up-tick suggests that pass-through from a lower AUD has been relatively limited so far – or possibly offset elsewhere. Growth in purchase costs decelerated the most in transport/utilities and recreation & personal services (both down 0.6 ppts), but picked up considerably in wholesale (up 2.8 ppts), which could reflect higher import costs following AUD depreciation (the currency depreciated 5% against the USD in July and down more than 20% over the year).
- Final product prices growth was down slightly in July to a quarterly rate of 0.2%. Prices growth actually accelerated in most industries, but was more than offset by a deceleration in recreation & personal services (down 0.6 ppts) and finance/ property/ business services (down 0.3 ppts). Final retail prices growth rose from last month (up 0.2 ppts to 0.7%), and is above the average level of recent years – pointing to moderate upward pressure on inflation. Upstream price pressures (e.g. manufacturing and wholesale) are mixed. Wholesale prices growth was unchanged in the month, but is the highest across industries.

## Price pressures build, but still contained

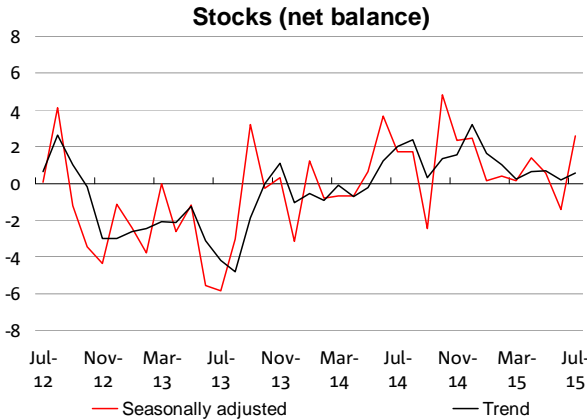


Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.

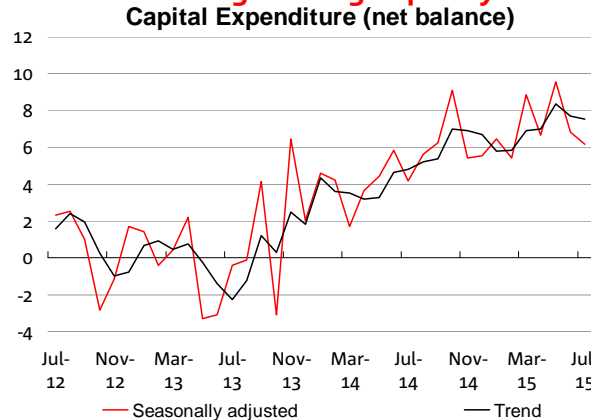


# More details on business activity

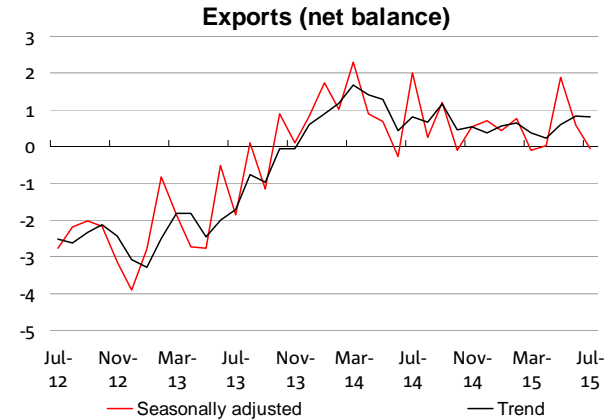
Sales positive, stocks jump



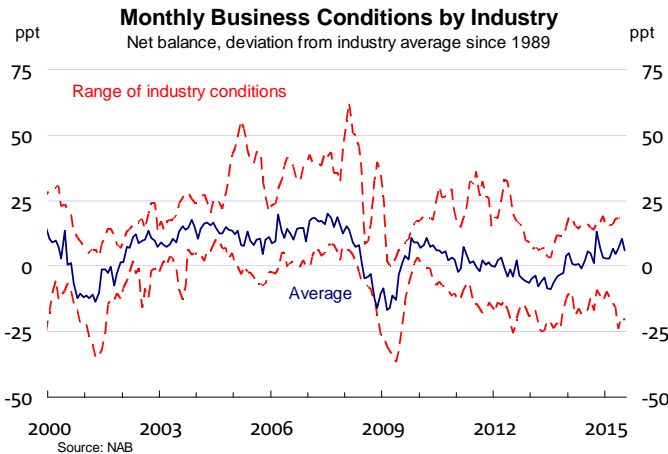
Capex ease, but still solid. Consistent with tightening capacity



Support for exports from AUD depreciation seems minimal

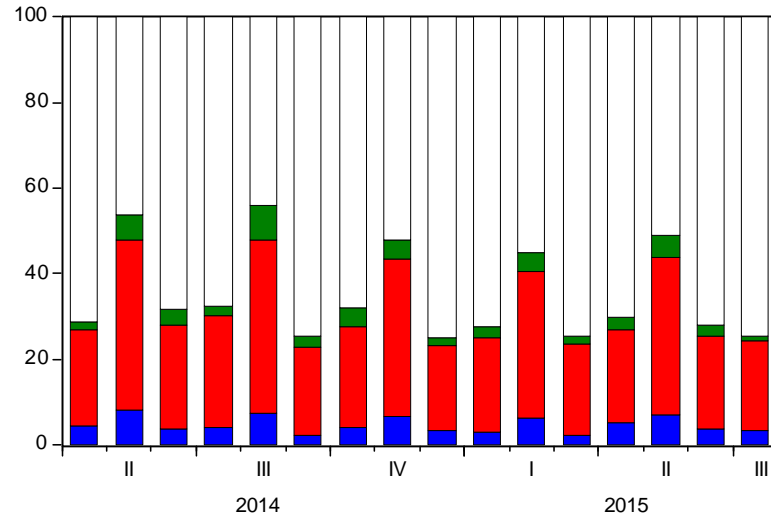


Range of conditions widened in July, due to worse mining and transport



Borrowing conditions worsened and demand for credit weakened in the past 3 months

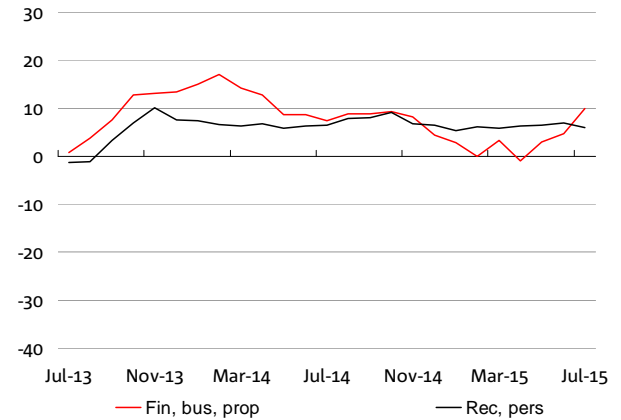
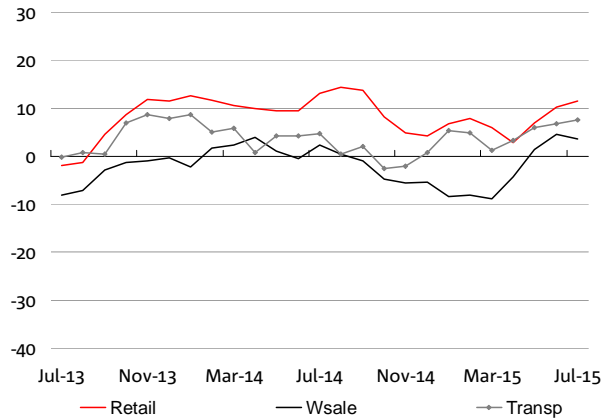
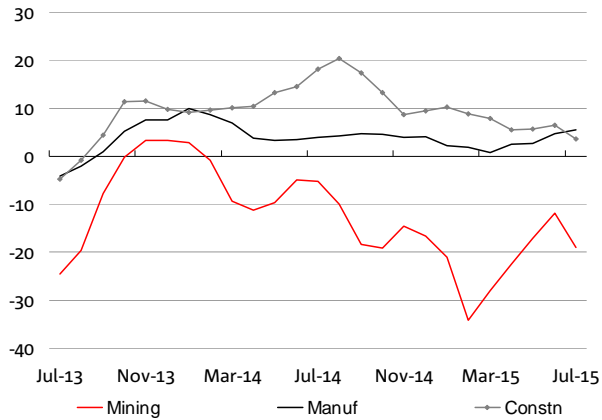
Borrowing conditions (% of firms)



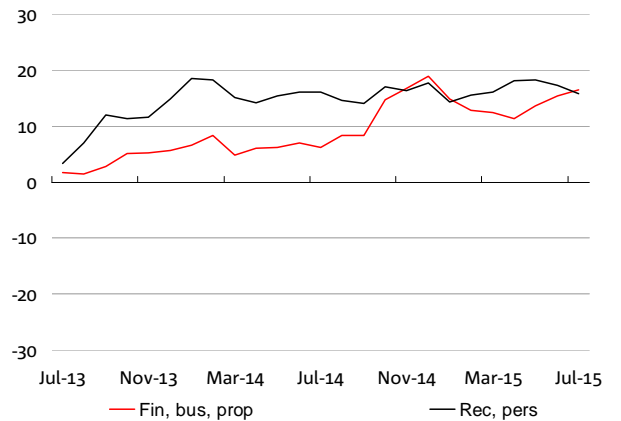
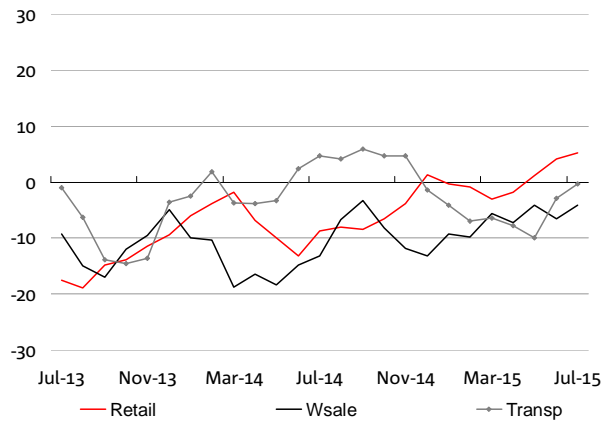
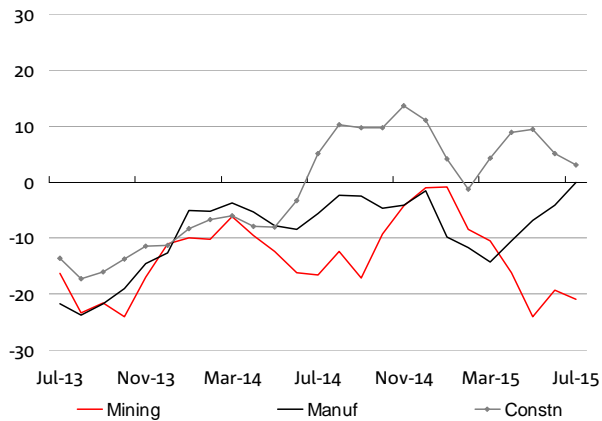
More difficult Unchanged Easier No borrowing required

# More details on industries

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

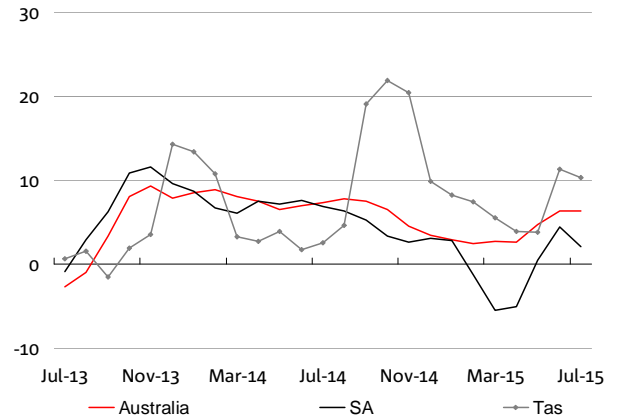
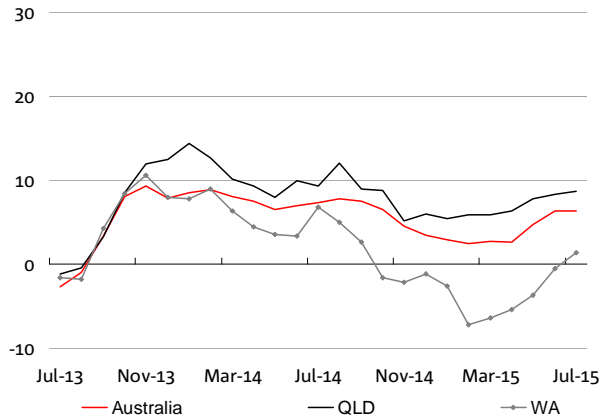
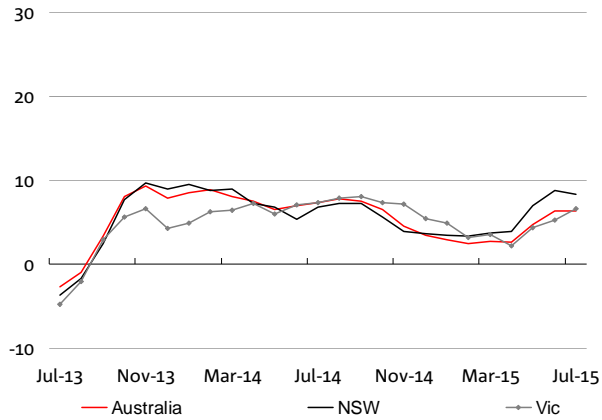


**Business conditions by industry (net balance): 3-month moving average**

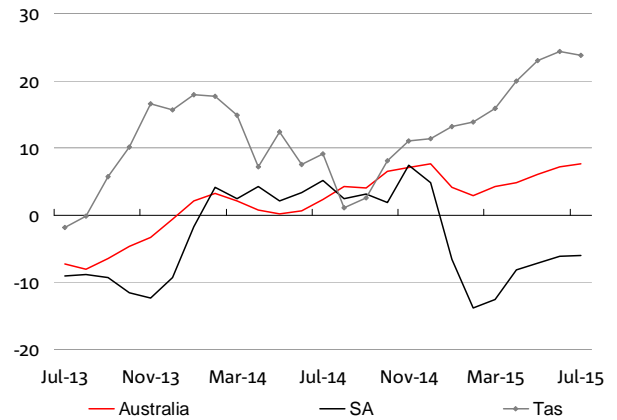
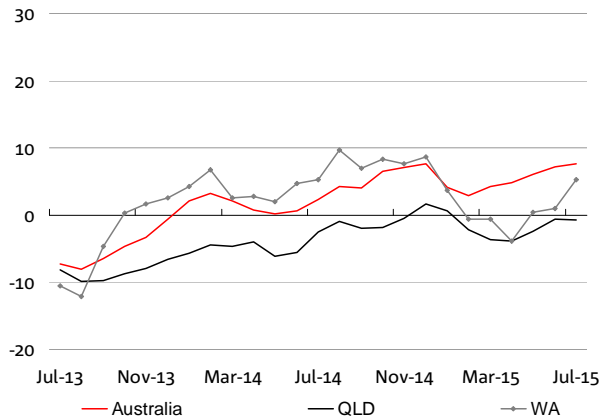
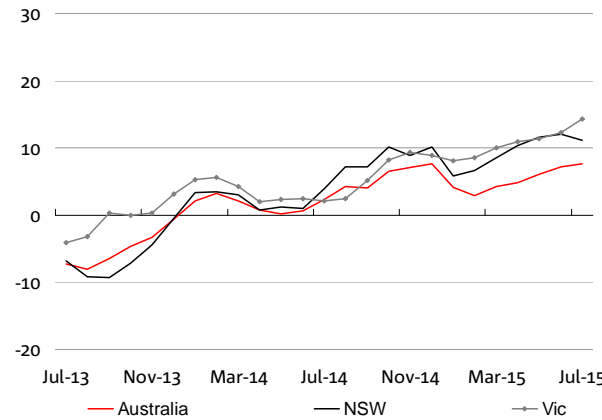


# More details on states

## 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)

Jul-2015	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-1.1	-0.4	0.0	2.0	0.3	-0.1	0.1	0.8	0.2
Labour costs: previous	0.6	0.9	0.4	0.5	-0.4	1.5	1.9	0.8	1.3
Labour costs: change	-1.7	-1.3	-0.4	1.5	0.7	-1.6	-1.8	0.0	-1.1
Prices (final): current	-1.5	0.5	0.3	0.7	1.2	1.1	0.0	-0.2	0.2
Prices (final): previous	-2.8	-0.4	0.1	0.5	1.2	-0.1	0.6	0.1	0.3
Prices (final): change	1.3	0.9	0.2	0.2	0.0	1.2	-0.6	-0.3	-0.1
Purchase costs: current	-0.8	1.6	0.2	1.0	3.5	0.5	0.3	0.5	0.8
Purchase costs: previous	-0.7	1.1	0.4	1.0	0.7	1.1	0.9	0.1	0.7
Purchase costs: change	-0.1	0.5	-0.2	0.0	2.8	-0.6	-0.6	0.4	0.1

## Key state business statistics for the month

Jul-2015	Monthly Business Survey Data: By State						
	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	3	5	9	-4	4	2	4
Bus. conf.: previous	10	7	7	4	8	22	8
Bus. conf.: change	-7	-2	2	-8	-4	-20	-4
Bus. conf: current - Trend	8	7	9	2	1	10	6
Bus. conf: previous Trend	9	5	8	4	-1	11	6
Bus. conf.: change -Trend	-1	2	1	-2	2	-1	0
Bus. conds: current	8	16	1	-11	1	29	6
Bus. conds: previous	12	17	0	3	5	14	10
Bus. conds: change	-4	-1	1	-14	-4	15	-4
Bus. conds: current -Trend	11	14	-1	-6	5	24	8
Bus. conds: previous -Trend	12	12	-1	-6	1	24	7
Bus. conds: change -Trend	-1	2	0	0	4	0	1

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