

NAB Quarterly ASX 300 Business Survey

by NAB Group Economics

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June Quarter 2015



Business confidence rose sharply for ASX 300 firms in the June quarter (back to levels seen elsewhere in the economy) although conditions were broadly unchanged. Capital expenditure also gained momentum (from +1 to +21 points), but mining remains depressed. Cap ex now stands at its strongest level since Q1 2012, driven by large gains in finance and property. However, somewhat surprisingly longer term capital expenditure expectations remain subdued, notwithstanding a massive surge in construction expectations.

- Among the business conditions sub components, ASX 300 trading conditions rebounded to +20, reaching a new survey high after falling to a flat 13 in the previous quarter. Profitability remains lacklustre shedding half of its Q1 2015 value (to +6 from +13 previously) and fell to its weakest level since Q3 2013.
- Despite the decrease in cost pressures and an increase in final product prices, profitability weakened due to ongoing negative sales margins (albeit improving slightly over the quarter). Employment improved marginally but remained negative at -6 (from -7 previously).
- Mining related cap-ex improved marginally over the quarter but remains negative. This compares to non-mining cap-ex which now stands at its strongest level since survey commencement, bouncing back to 31 index points (from 17 in the previous quarter). Over the next twelve months large construction plan to ramp up their business investment.
- Forward orders fell slightly, stock levels and export sales increased, while export orders remained broadly unchanged.

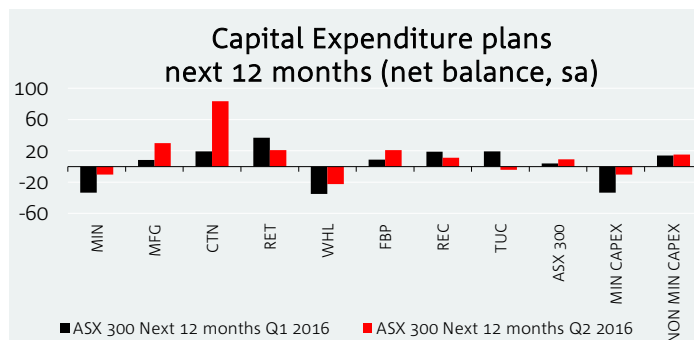
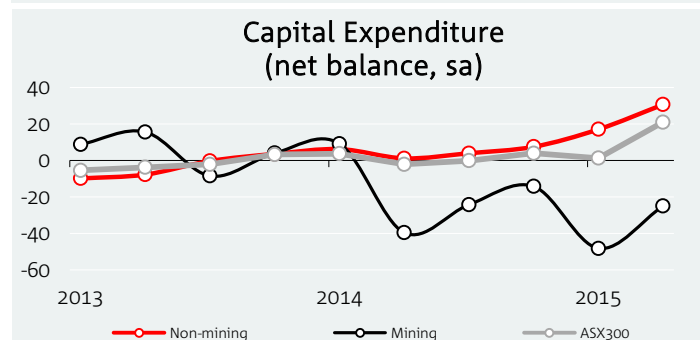
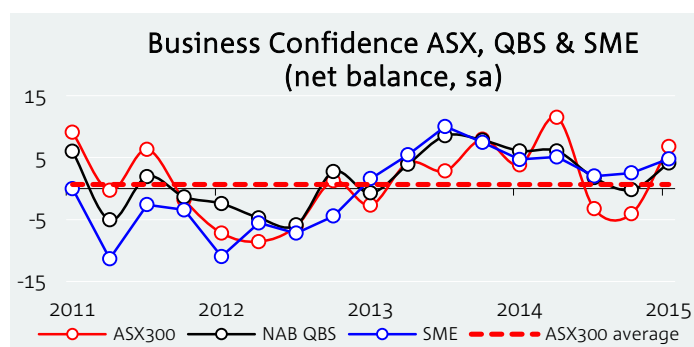
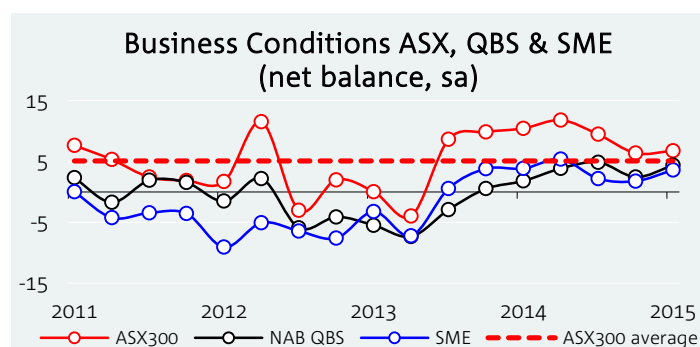


Table 1: Key business statistics**

	ASX 300		NAB QBS	ASX 300		NAB QBS	
	2015q1	2015q2 Net balance	2015q2	2015q1	2015q2 Net balance	2015q2	
Business confidence	-4	7	4	Trading	13	20	11
Business conditions				Profitability	13	6	4
Current	6	7	4	Employment	-7	-6	-1
Next 3 months	10	13	10	Forward orders	9	4	1
Next 12 months	15	25	19	Stocks	4	7	0
Capex plans (next 12)	4	9	18	Exports	-1	1	1
Labour costs	0.3	0.0	0.4			% change	
Purchase costs	0.1	0.0	0.4	Retail prices	0.8	1.0	0.7
Final products prices	-0.2	0.0	0.2	Capacity utilisation rate	85.8	86.2	80.9

** All data seasonally adjusted and subject to revision. Fieldwork for this Survey was conducted from 25 May to 11 June 2015, covering around 80 firms across the ASX 300.

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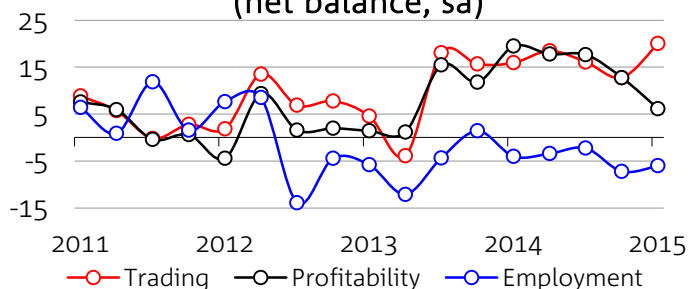
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Current Conditions

Business Components (net balance, sa)



Business conditions edged marginally upwards in the June quarter, driven largely by more favourable trading conditions.

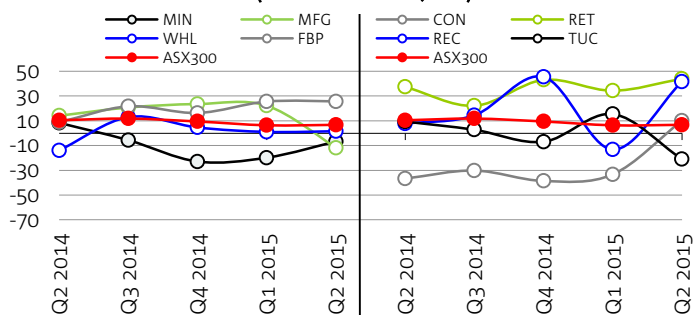
Trading conditions rebounded to +20 index points, reaching a new survey high after falling to a flat 13 in the previous quarter. Similarly, employment conditions gained momentum, albeit remaining in negative territory, improving to -6 index points from -7 previously.

Profitability took a hit; more than halving its March quarter value to 6 (from 13 previously) and now stands at its weakest level since September quarter 2013. The deterioration was led by prolonged negative sales margins.

Across industries, conditions remain mixed; recreational & personal services grew strongest and are now tracking close to retail, which retains its leading position. Large construction experienced stronger conditions while transport/ utilities/ communications and manufacturing declined.

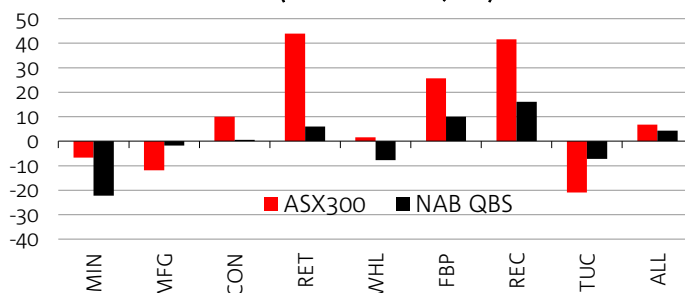
Among ASX 300 industries, large retailers, recreational & personal services and finance/property set the most positive tone and are noticeably more robust compared to their QBS counterparts. Large construction improved markedly over the quarter and is stronger than the QBS. Meanwhile, mining, manufacturing & transport/utilities remain depressed.

ASX300 Business conditions by industry (net balance, sa)



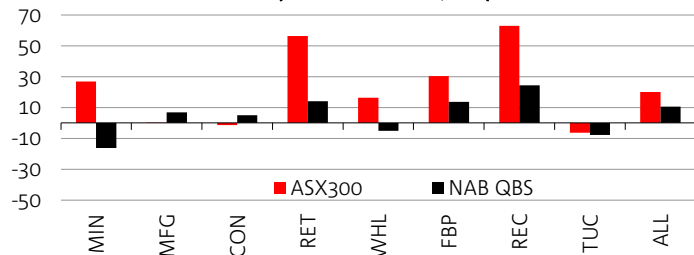
Trading conditions are more favourable across ASX300 firms compared to the overall economy, with all but construction and transport/utilities remaining positive.

Business conditions current quarter (net balance, sa)

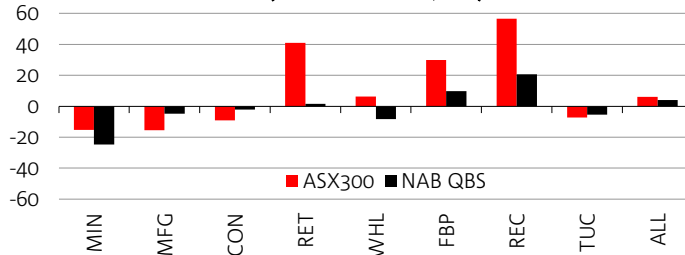


Strong profitability conditions in retail, finance/property, wholesale and recreational services were offset by weakness among all other ASX300 industries.

Trading conditions current quarter (net balance, sa)

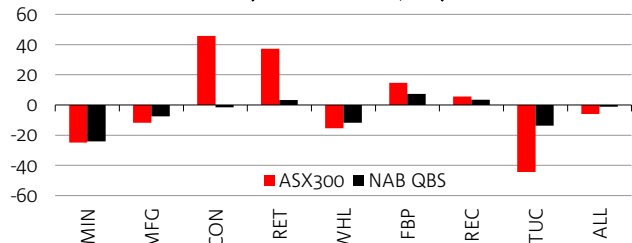


Profitability current quarter (net balance, sa)



Employment conditions for ASX300 firms were strongest in construction, retail, finance/property and recreational and personal services. However, deteriorating conditions among all other industries have kept employment in the red, particularly transport and mining.

Employment current quarter (net balance, sa)

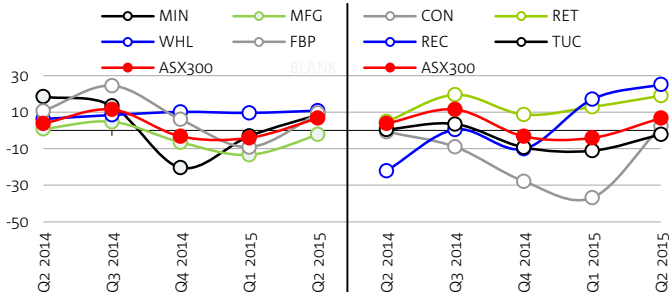


Forward Indicators

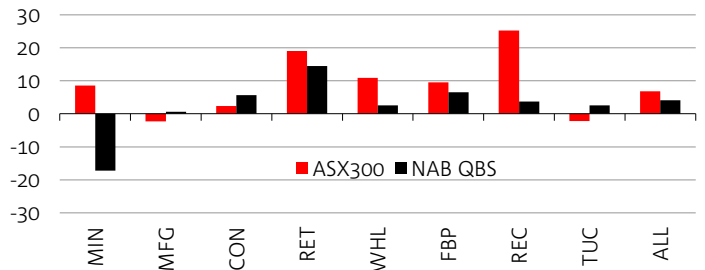
Business confidence among Australia's largest firms increased across all industries, despite manufacturing and transport & utilities remaining negative. Over the quarter, recreational services remain the most confident, followed by retail, with construction improving the most.

Confidence among ASX300 firms rose out of negative territory from a previous reading of -4 to +7 in the June quarter. Most ASX 300 firms appear more optimistic compared to broader economy (QBS), with only construction, manufacturing and transport and utilities the exception.

ASX300 Business confidence by industry (net balance, sa)



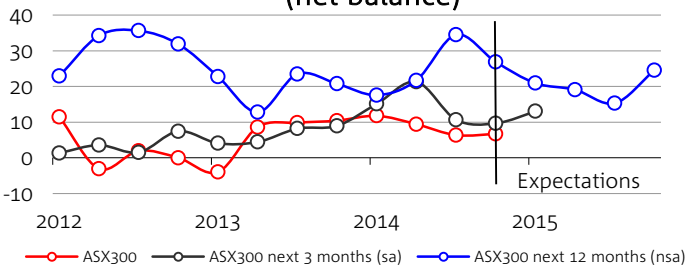
Business confidence current quarter (net balance, sa)



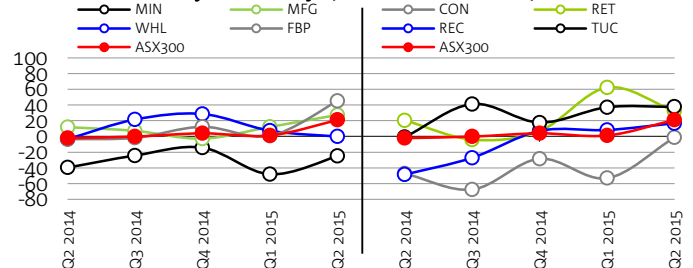
Business conditions are expected to improve over the next quarter, led by stronger trading conditions and an improvement in employment - albeit still negative. The outlook for profitability remains less optimistic and business conditions over the next twelve months remain soft.

Capital expenditure among the ASX 300 firms now stands at its highest level since Q1 2012 (reaching +21 in Q2 2015). Most industries improved, with only retail and wholesale falling. The robust results were led by finance/property. Mining cap-ex improved, but remained in the red.

Business Conditions expectations (net balance)



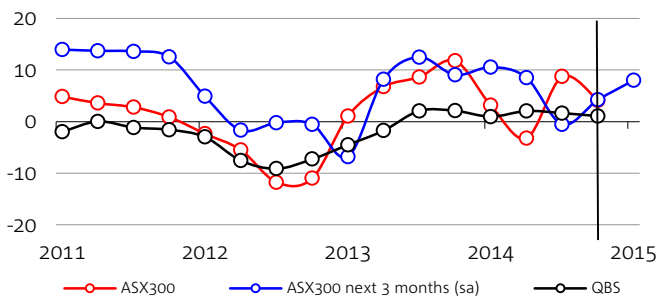
ASX300 Capital expenditure by industry (net balance, sa)



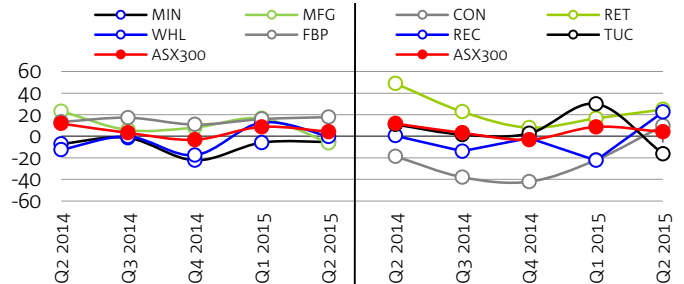
Forward orders for ASX firms fell to +4 (from +9 previously), which may indicate that firms are anticipating slower domestic demand over the next quarter.

Transport/Utilities experienced a large contraction in forward orders, declining to -16 (from +30 previously). In contrast, recreational/personal services and construction improved.

Forward orders (net balance, sa)



ASX300 Forward orders by industry (net balance, sa)

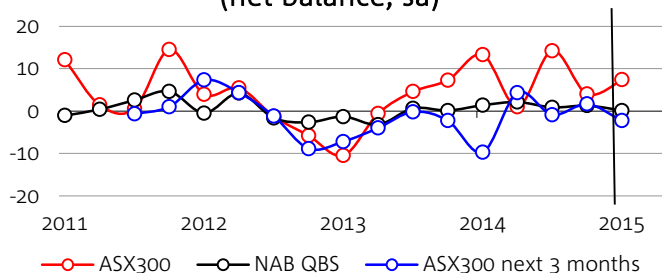


Stocks and Capacity Utilisation

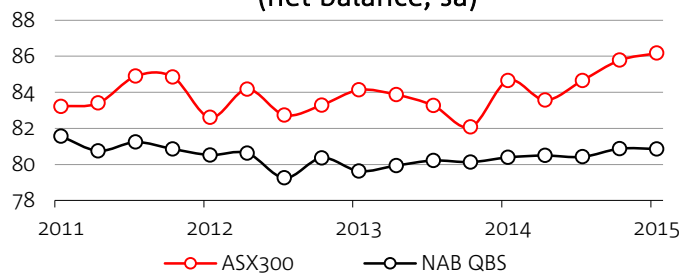
Stock levels among ASX300 firms increased and are now marginally higher compared to the broader economy.

Capacity utilisation increased to 86.2% (from 85.8% previously) and is much stronger than the QBS (80.9%).

Stock levels
(net balance, sa)



Capacity Utilisation
(net balance, sa)

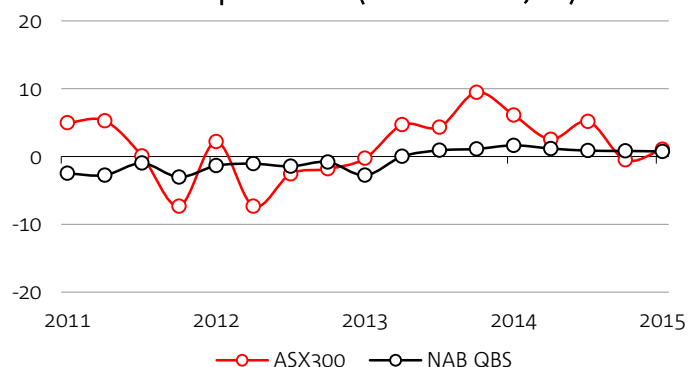


Exports

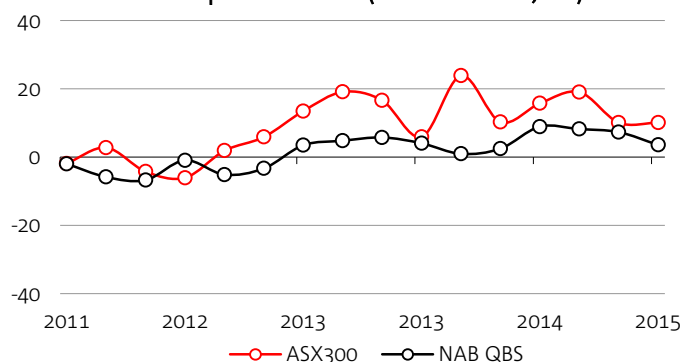
Export sales for ASX300 firms gained momentum (increasing to 1) but remain lower than the long run average index of 2.

Export orders remained broadly unchanged for ASX300 firms, diverging from the decrease experienced by QBS firms.

Export sales (net balance, sa)



Export orders (net balance, sa)

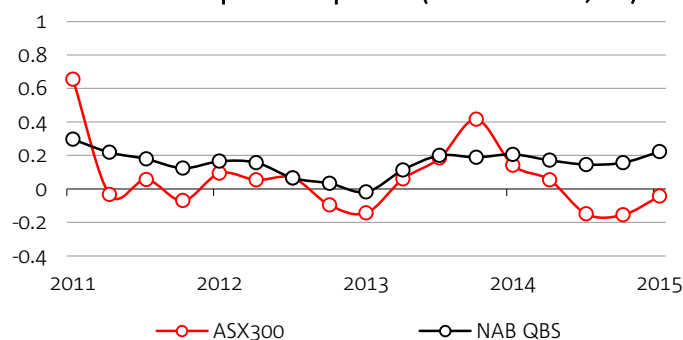


Prices and costs

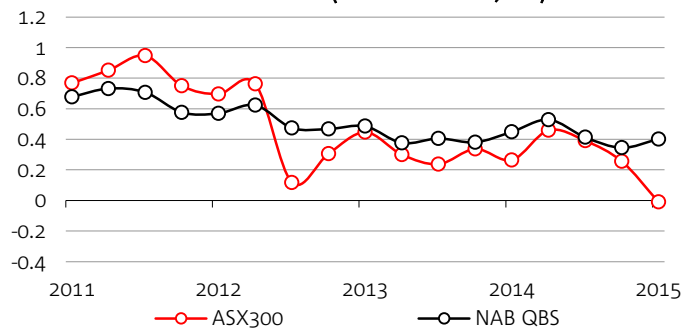
Final product prices have increased marginally for both ASX300 firms and QBS firms.

Labour costs eased significantly for ASX 300 firms and are now notably lower than the QBS.

Final product prices (net balance, sa)



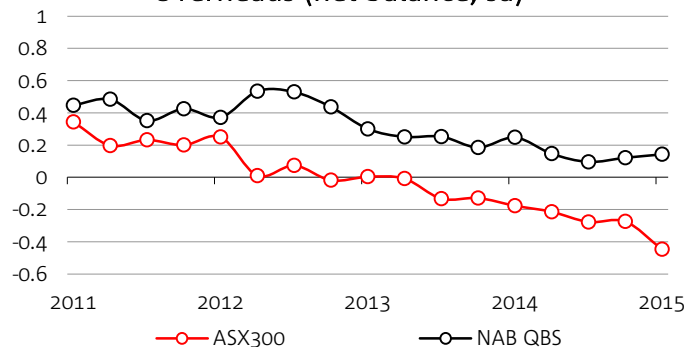
Labour costs (net balance, sa)



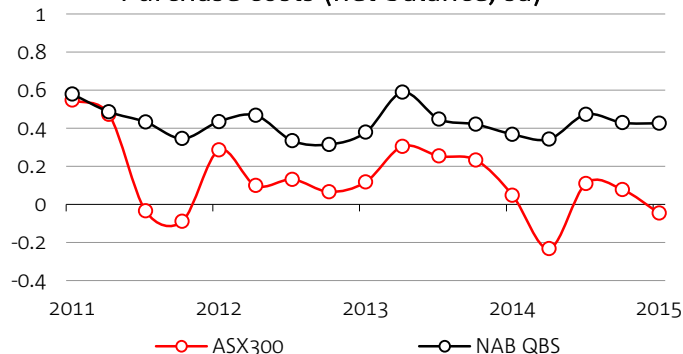
ASX300 firms continue to benefit from easing cost pressures arising from overheads.

Purchase costs have also continued downward and are now in negative territory.

Overheads (net balance, sa)



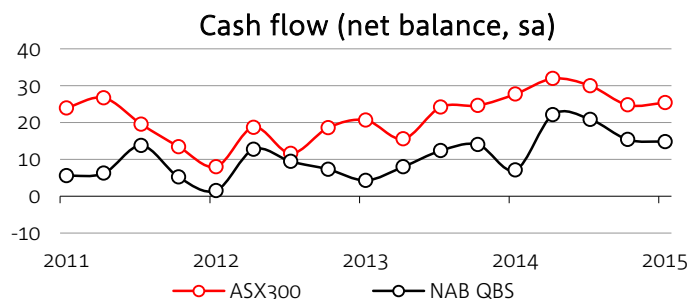
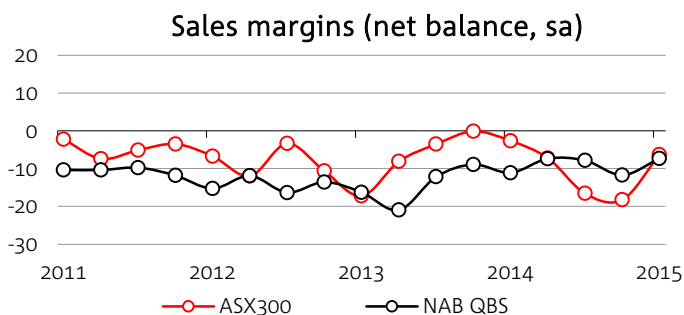
Purchase costs (net balance, sa)



Margins and cash flow

Sales margins for ASX300 firms remain negative, albeit improving slightly.

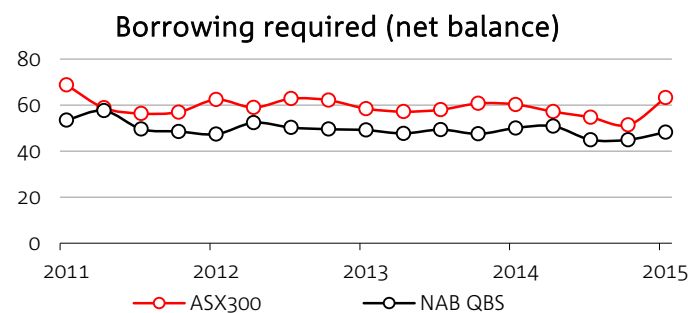
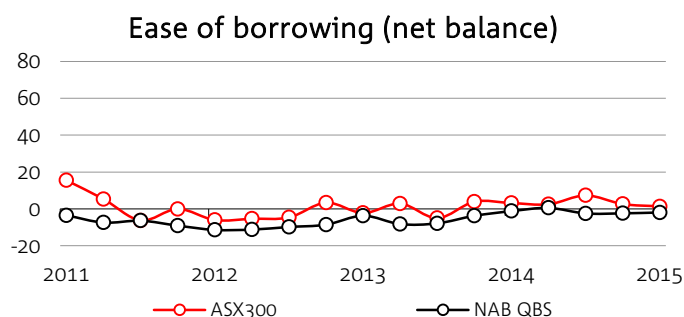
Cash flow among ASX300 firms improved slightly and decreased marginally for NAB QBS firms.



Credit conditions

Firms reported better credit conditions among the broader economy when compared to ASX300 firms.

Around 63% of ASX300 firms and 48% of QBS firms surveyed cited that they require an increase in credit.



Data appendix

ASX 300 Q1 2015	Mining	Manuf	Constn	Retail	Wsale	Trans& utils	Rec.&pe rs.	Fin,prop.& bus.	ASX 300	NAB QBS
Bus. conf.: current	9	-2	2	19	11	-2	25	10	7	4
Bus. conf.: previous	-3	-13	-37	13	10	-11	17	-9	-4	0
Bus. conf.: change	12	11	39	6	1	9	8	19	11	4
Bus. conds: current	-7	-12	10	44	2	-21	42	26	7	4
Bus. conds: previous	-20	22	-33	34	1	15	-13	26	6	2
Bus. conds: change	13	-34	43	10	1	-36	55	0	1	2
Trad. conds: current	27	0	-1	57	16	-6	63	30	20	11
Trad. conds: previous	-16	33	-41	35	14	20	-15	42	13	6
Trad. conds: change	43	-33	40	21	2	-26	77	-11	7	5
Profitability: current	-15	-15	-9	41	6	-7	56	30	6	4
Profitability: previous	-5	34	-49	37	16	22	-22	33	13	1
Profitability: change	-10	-50	40	4	-10	-29	79	-3	-7	3
Employment: current	-25	-12	46	37	-15	-44	6	15	-6	-1
Employment: previous	-41	-3	-22	30	-27	1	6	6	-7	0
Employment: change	16	-8	68	7	11	-45	-1	9	1	-1
net balance	Conditions - current		Conditions - next 3 months		Conditions - next 12 months		Confidence - next 3 months			
ASX300	7		13		25		7			
QBS	4		10		19		4			

net balance	Trading	Profitability	Employment	Sales margins	Forward orders	Stocks
ASX300	20	6	-6	-6	4	7
QBS	11	4	-1	-7	1	0

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