

NAB Monthly Business Survey

by NAB Group Economics

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August 2015



Key Points:

- Business conditions point to a further improvement in the non-mining economy, even as jitters in financial markets weigh on confidence. The conditions index jumped 5 points to +11 in August, after losing a little ground last month, lifting the trend index to its highest level since late 2009. By component, both trading conditions and profitability recorded a notable improvement, but the employment index remains at very subdued levels. This outcome adds to the mounting evidence that AUD depreciation and record low interest rates are having the desired effect and helping to offset the weakness in mining. Even so, outcomes vary significantly by industry. Services sectors continue to outperform, while retail has improved considerably. The 'bellwether' wholesale industry remains weak, but probably reflects margin squeeze due to AUD depreciation as other leading indicators (aggregate forward orders and capacity utilisation) have improved.
- Confidence pared back further in August (from +4 to +1), unwinding the post budget gains and hitting its lowest level since mid-2013. While confidence tends to track conditions quite closely, recent financial market ructions and China growth concerns appear to have had an unnerving effect on business – albeit not enough to send confidence into negative territory (a good outcome given the degree of market volatility). Confidence eased in most industries, although mining and construction recovered some of last month's sharp declines.
- Q2 GDP growth was below expectations, although this was partly a result of one-off factors. Due to the lower base, our 2015/16 GDP forecast is now 2.4% (was 2.8%) while the 2016/17 forecast is unchanged at 3.1%. The unemployment rate is expected to ease to 6% through 2015/16 and to 5¾ in 2016/17. Financial market and Chinese growth risk are front of mind, but are balanced at this stage by growing momentum in the local non mining sector. The RBA is expected to remain on hold until late 2016 (see p4).

Table 1: Key monthly business statistics*

	Jun 2015	Jul 2015	Aug 2015		Jun 2015	Jul 2015	Aug 2015
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	8	4	1	Employment	1	-1	-1
Business conditions	10	6	11	Forward orders	5	3	5
Trading	18	12	20	Stocks	-1	2	1
Profitability	10	7	12	Exports	1	0	3
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	1.2	0.2	0.5	Retail prices	0.6	0.8	0.7
Purchase costs	0.8	0.7	0.9		<i>Per cent</i>		
Final products prices	0.3	0.2	0.2	Capacity utilisation rate	81.3	80.9	81.2

Contents

Key points	1
Analysis	2
Other activity indicators	3
Implications for forecasts	4
Costs & prices	5
More details	6

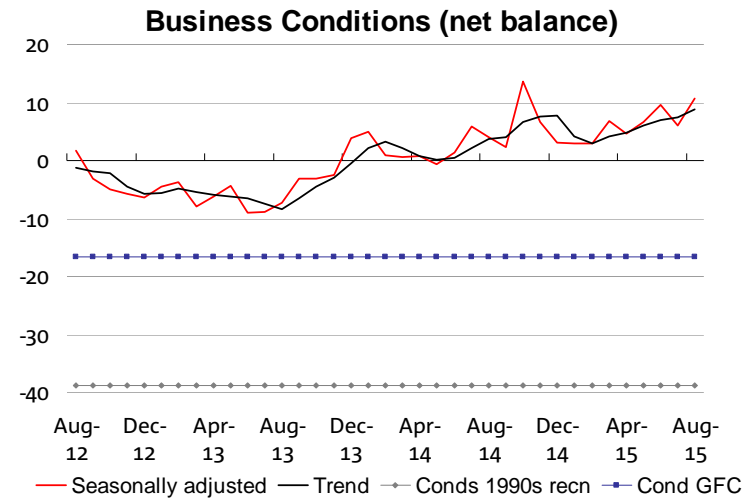
* All data seasonally adjusted and subject to revision. Cost and prices data are monthly percentage changes expressed at a quarterly rate. Fieldwork for this survey was conducted from 24 Aug to 28 Aug, covering over 500 firms across the non-farm business sector.

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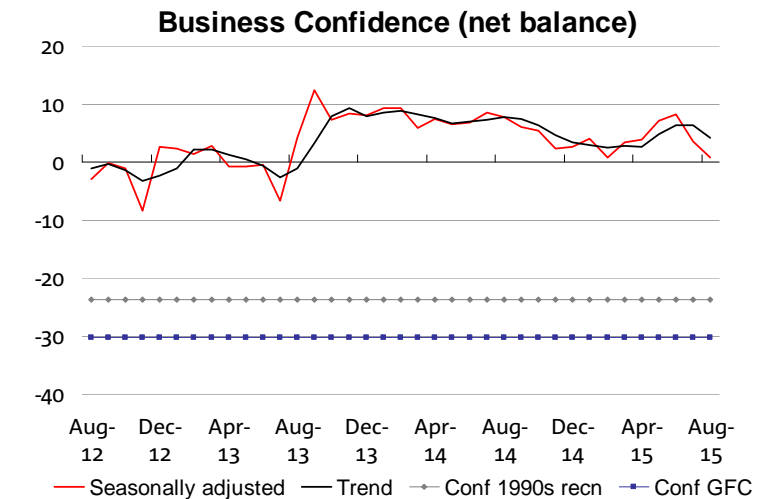
Analysis

- Business conditions more than recouped last month's losses, maintaining the steady improvement in trend conditions seen since the start of the year. The index jumped 5 points to +11 index points, which is well above the long run average of +5 index points, while the trend rose 2 points (to +9 points) – the 6th consecutive monthly increase. This outcome adds to recent evidence that the long anticipated recovery in the non-mining economy is gaining momentum, even though mining weakness largely masks the improvement in headline indicators (such as the recent National Accounts). The rise in conditions in the month also came about despite significant ructions in financial markets, which have weighed on confidence. But while the trading and profitability components of the index have improved markedly, employment continues to lag well behind – a trend that is difficult to reconcile with strong employment growth reported by the ABS. The divergence may be partly explained by the variation in industry trends as employment conditions are much more positive in finance/ business/ property services and personal & recreation services, which tend to be quite labour intensive – certainly, ABS data show that the largest job gains in the past year have been in health, professional services and hospitality.
- While confidence tends to track conditions fairly closely, recent volatility in financial markets and concerns over the health of the Chinese economy saw confidence dip further (down 3) to just +1 index point. Most industries weakened, although mining and construction rose following large falls in July. Following this month's decline, post Budget gains have been completely unwound and the trend has turned down, although it remains positive. Ongoing uncertainty abroad (particularly in China) may see confidence remain under pressure.
- Most industries reported a rise in business conditions, but a fall in confidence. The retail industry saw the largest rise in conditions (up 13 to +17 points), and has been positive for a number of months, but had a large decline in confidence (down 8 to +1 point). Manufacturing was the only industry to record a fall in conditions (down 7). Service sectors continue to be the standout performers, although construction currently has the highest confidence index (up 10 points in August to +6).
- NSW conditions bounced back from a surprise fall in both confidence and business conditions in the previous month. Conditions are strongest in the non-mining states of NSW (+22) and Victoria (+12), consistent with industry trends. Confidence is a little more mixed, with Queensland recording the highest index of the mainland states in trend terms (+7), followed by NSW (+6).

Conditions bounce back, trend heading higher



Confidence unwinding



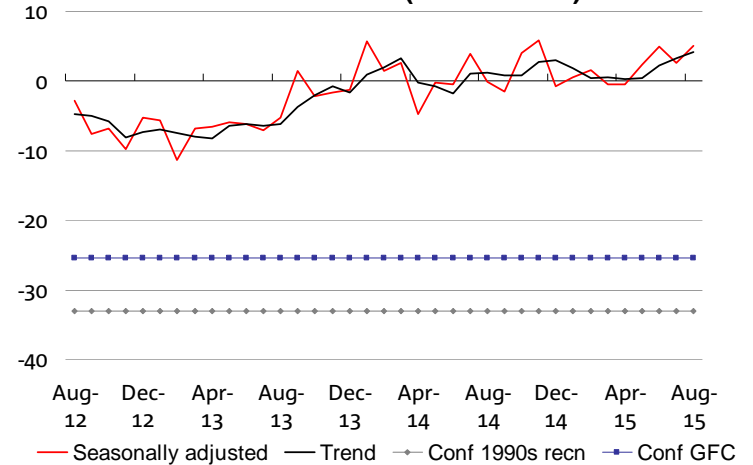
Excluding normal seasonal changes, how do you expect the business conditions facing your industry in the next month to change?

Other activity indicators

- The forward orders index was up to +2 index points in August (to +5), significantly above the long run average. This suggests a possible pick up in near term demand. Retail and transport & utilities recorded the largest jump in the orders index (both up 12), while the largest deterioration came from manufacturing (-6). Finance/ property/ business was the only other industry to see the orders index fall (down 3), although it remains at fairly elevated levels (equal highest with construction, at +11). In contrast, the orders index is currently weakest in mining (-9), followed by manufacturing (-3). In trend terms, orders are still the weakest in mining (-7), despite a notable improvement, followed by retail (-1). Trend orders are highest for finance/ property/ business services (+12) and construction (+6).
- A lift in forward orders and much stronger trading conditions have raised capacity utilisation rates to 81.2% (up from 80.9%), close to its highest rate since early 2012. Despite a fall in the previous 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 currently around the long-term average. Surprisingly, the jump in August was largely concentrated in wholesale (up 5.3 ppts), although finance/ property/ business saw a solid increase as well (up 2.2 ppts). The biggest fall in utilisation rates was seen in manufacturing (down 2.8 ppts), although mining, construction, transport and retail all recorded more moderate declines. Utilisation rates relative to long run averages vary considerably across industries, with roughly half below and half above average.
- The capital expenditure index was unchanged in August at +6 index points – above its long-run average level (+5). The trend index was down slightly to +6 index points, a touch below 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 (+13 points) and mining is the lowest (-22 points).
- Elsewhere in the survey, cash flow (not seasonally adjusted) was the strongest in recreation & personal services, and the weakest in mining.

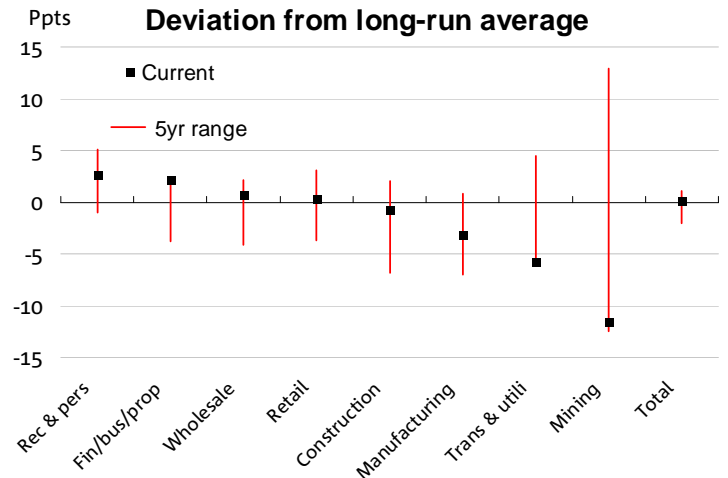
Sales orders up, trend rising

Forward Orders (net balance)



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

Capacity utilisation varied across industry

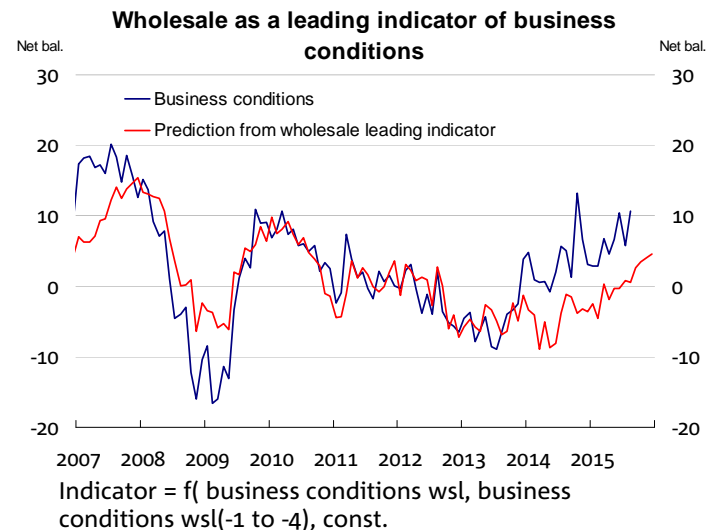
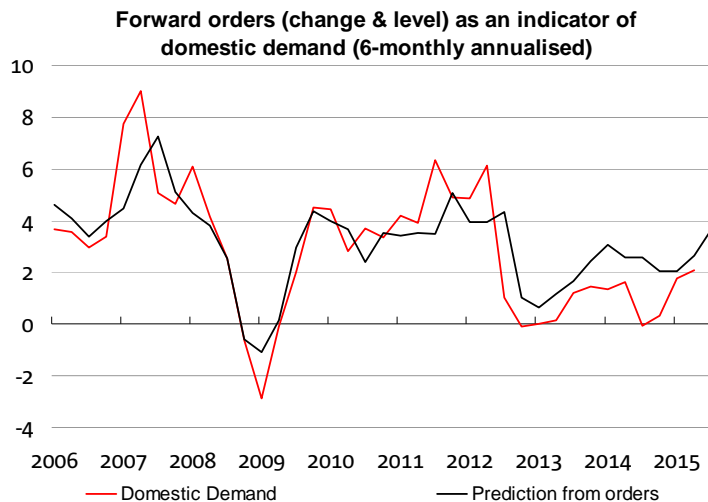


Source: NAB Economics

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

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

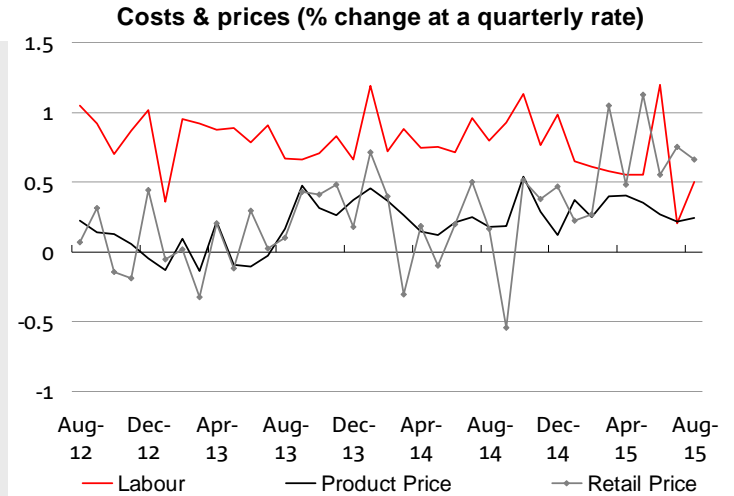
- Global growth remains sluggish and below trend and we have slightly lowered our forecasts to take account of weaker than expected outcomes in India, Canada and Brazil. The pace of growth in the big advanced economies has picked up, mainly reflecting a US recovery from weak first quarter growth. In contrast, Japan and the Euro-zone are not growing strongly and Canada is in recession. Emerging market economies drive most global growth and they are slowing - with falling world trade volumes and softer commodity prices eroding incomes, spending and output across much of East Asia, Latin America and S Africa. The bursting of the Chinese share market bubble and the authorities' confusing response adds further unwelcome volatility and uncertainty to an already uninspiring outlook.
- On Australia, Our GDP forecasts for 2015/16 have been revised downwards to 2.4% (from 2.8%) due to a lower base following the disappointing Q2 outcome, while the forecast for 2016/17 is broadly unchanged at 3.1%. Income growth will remain weak as lower commodity prices flow through to export earnings, corporate profits, government revenues and ultimately labour earnings. A sharp drop in mining investment will not be offset by investment in other sectors. Meanwhile, mining export volumes will contribute strongly to economic growth, and the lower AUD is providing a "natural hedge" and supporting net exports, particularly of services such as tourism. Signs of improvement in more labour intensive sectors should help the unemployment rate drift down to 6% by end 2015/16 and to 5¾% by end 2016/17, particularly given slower population growth. For now, financial market and China growth risks are maintaining the RBA's easing bias, but offsets from growing momentum in the local non-mining sectors suggests rates will remain on hold (until late 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. 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 forward orders from August to our model suggests that predicted domestic demand growth for Q3 will be a little stronger than in Q2. Applying business conditions derived from our 'wholesale leading indicator' (below) would imply somewhat weaker domestic demand growth, although this could reflect margin squeeze from AUD depreciation given the difficulty passing on additional costs to retailers and final consumers.



Costs and prices

- Labour costs growth (a wages bill measure) accelerated in the month (up 0.3 ppts), but remains at relatively subdued levels – at 0.5% (a quarterly rate). Subdued labour cost growth is consistent with the currently elevated rate of unemployment and relatively subdued inflation expectations. Labour cost inflation accelerated the most in manufacturing (up 1.2 ppts), followed by construction and recreational & personal services (up 0.8 ppts). In contrast, wages growth decelerated the most in retail (down 0.8 ppts) – following July’s rise in the minimum wage – followed by wholesale (down 0.7 ppts). 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 (-31), transport/utilities (-18) and manufacturing (-11) – 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 0.9% in August (at a quarterly rate), which is only slightly above 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 accelerated the most in mining (up 0.6 ppts), but eased notable in manufacturing (down 0.5 ppts), despite likely higher import costs following AUD depreciation (the currency depreciated 2% against the USD in July and down more than 23% over the year) – trade weighted depreciation has been a little less at -15.3% y/y.
- Final product prices growth was unchanged in August at a quarterly rate of 0.2%. Changes in prices growth were quite mixed across industries, with the greatest pick up occurring in finance/ property/ business services (up 0.3 ppts), while transport & utilities eased the most (down 1.2 ppts). Final retail prices growth eased slightly from last month (down 0.1 ppts to 0.7%), but 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 still contained



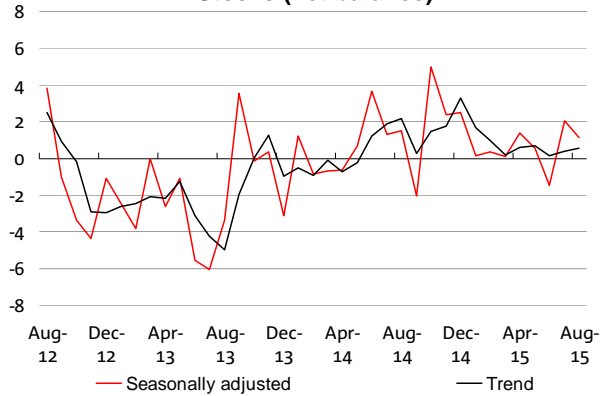
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.



More details on business activity

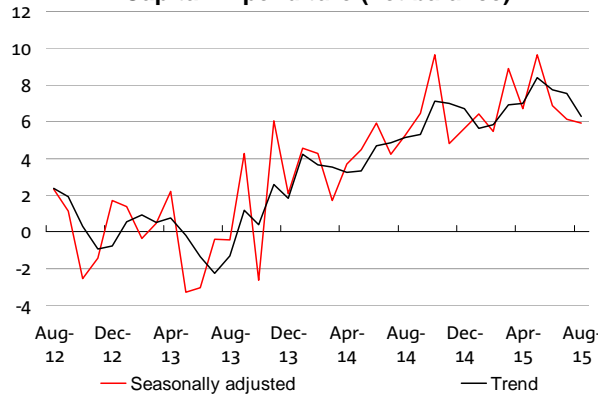
Signs of tentative restocking

Stocks (net balance)



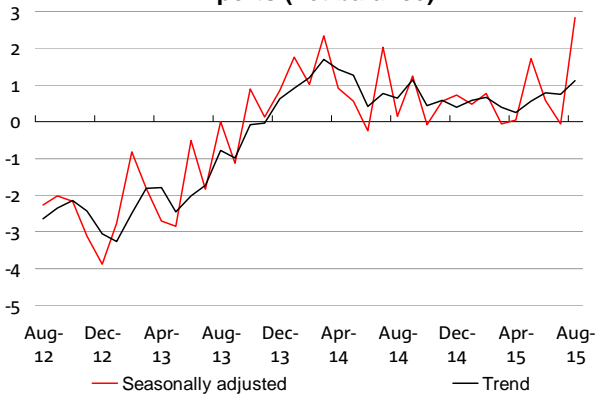
Capex ease, but still solid. Consistent with tightening capacity

Capital Expenditure (net balance)



Exports much stronger, finally seeing support from AUD

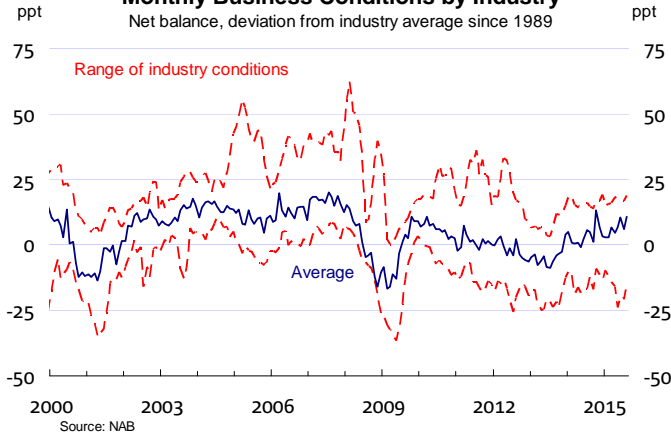
Exports (net balance)



Range of conditions widened in August, due to strong personal services

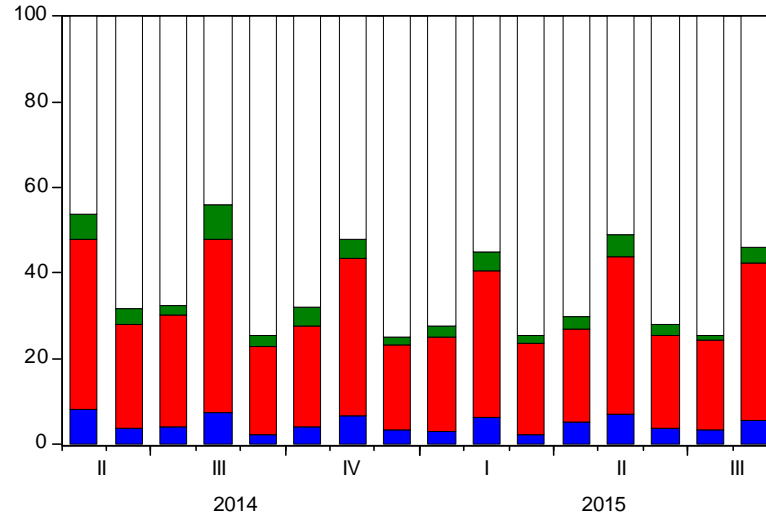
Monthly Business Conditions by Industry

Net balance, deviation from industry average since 1989



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

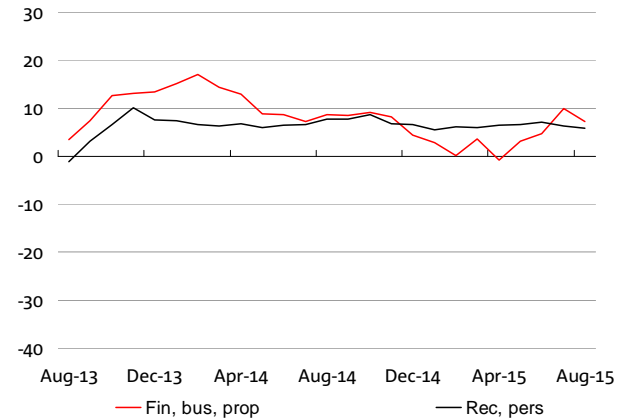
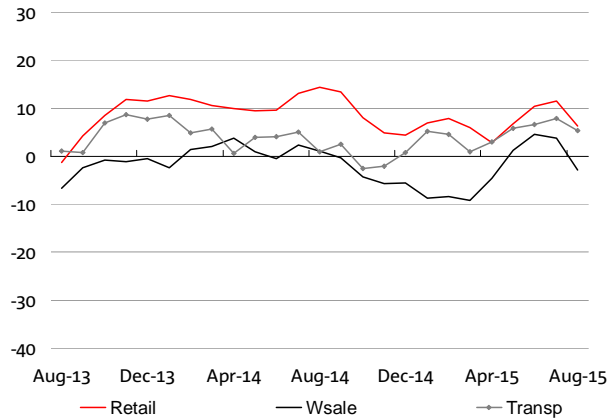
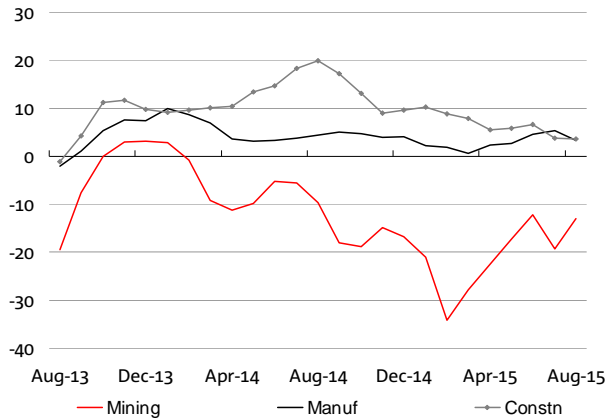
Borrowing conditions (% of firms)



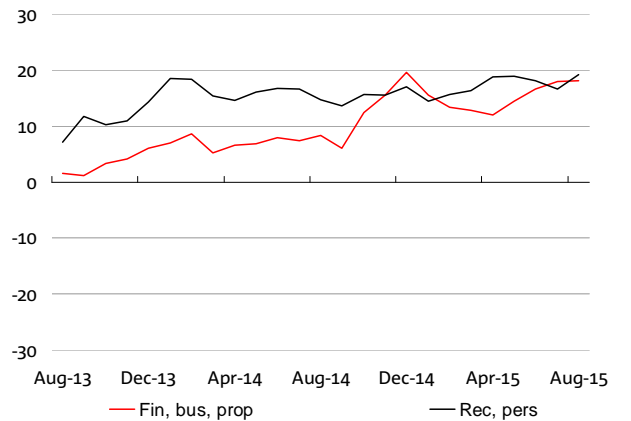
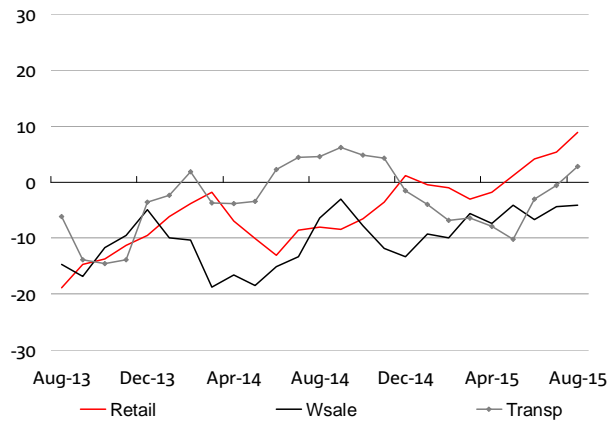
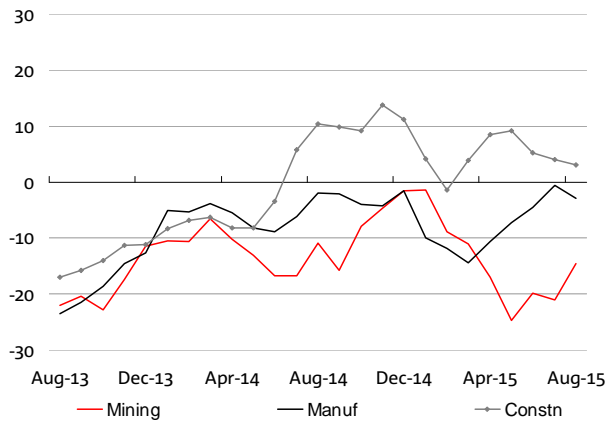
More difficult Unchanged Easier No borrowing required

More details on industries

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

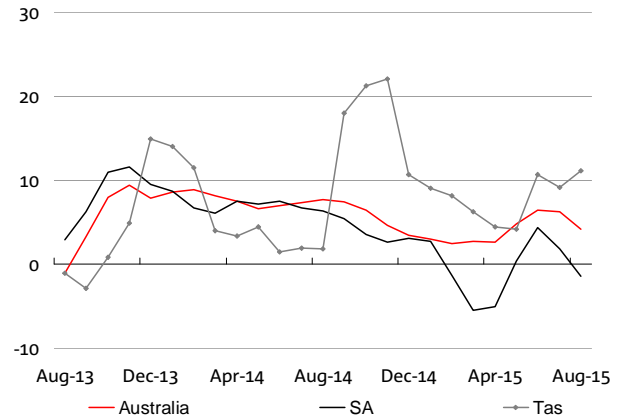
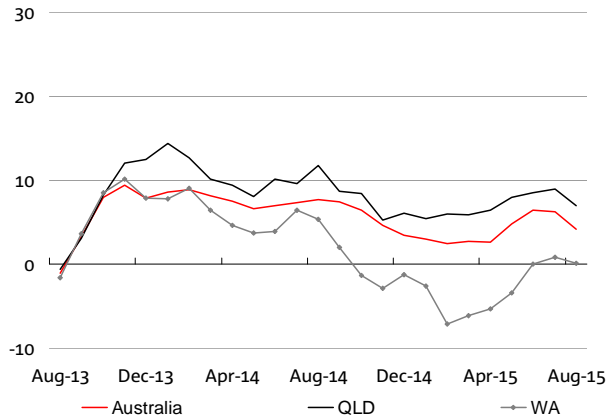
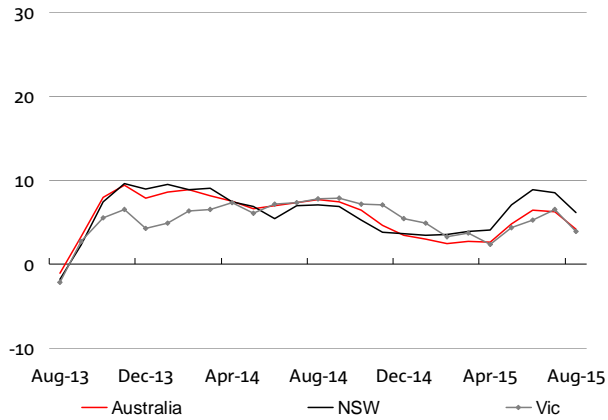


Business conditions by industry (net balance): 3-month moving average

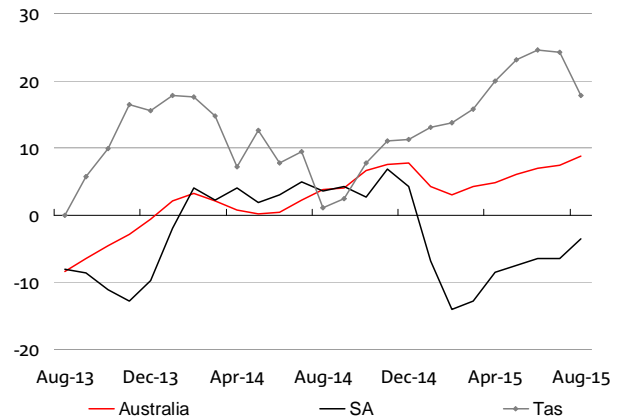
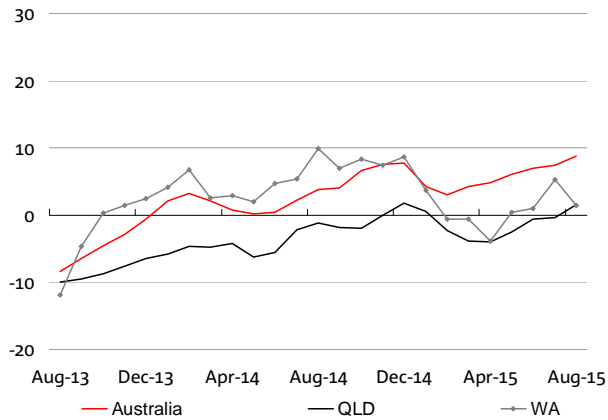
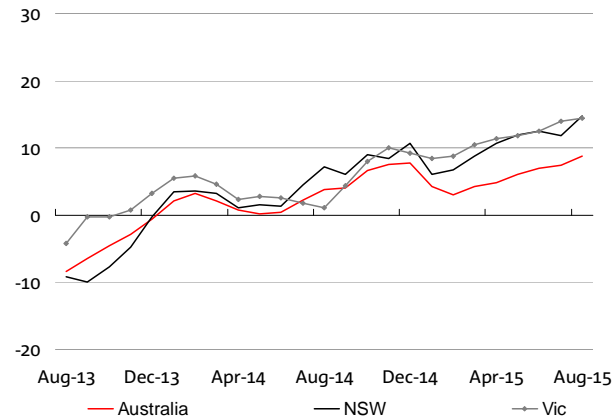


More details on states

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)

Aug-2015	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-1.2	0.5	0.8	0.5	-0.4	0.5	0.9	0.6	0.5
Labour costs: previous	-1.1	-0.7	0.0	1.3	0.3	-0.1	0.1	0.8	0.2
Labour costs: change	-0.1	1.2	0.8	-0.8	-0.7	0.6	0.8	-0.2	0.3
Prices (final): current	-2.1	0.2	0.3	0.7	1.2	-0.1	0.3	0.1	0.2
Prices (final): previous	-1.7	0.5	0.3	0.8	1.2	1.1	0.1	-0.2	0.2
Prices (final): change	-0.4	-0.3	0.0	-0.1	0.0	-1.2	0.2	0.3	0.0
Purchase costs: current	-0.2	0.9	0.3	1.3	3.3	0.7	0.5	0.4	0.9
Purchase costs: previous	-0.8	1.4	0.2	1.1	3.2	0.5	0.4	0.5	0.7
Purchase costs: change	0.6	-0.5	0.1	0.2	0.1	0.2	0.1	-0.1	0.2

Key state business statistics for the month

Aug-2015	Monthly Business Survey Data: By State						
	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	4	1	4	-4	-10	12	1
Bus. conf.: previous	4	4	10	-4	1	1	4
Bus. conf.: change	0	-3	-6	0	-11	11	-3
Bus. conf: current - Trend	6	4	7	-1	0	11	4
Bus. conf: previous Trend	9	7	9	2	1	9	6
Bus. conf.: change -Trend	-3	-3	-2	-3	-1	2	-2
Bus. conds: current	22	12	3	-2	-2	9	11
Bus. conds: previous	9	15	2	-11	1	30	6
Bus. conds: change	13	-3	1	9	-3	-21	5
Bus. conds: current -Trend	15	14	2	-4	1	18	9
Bus. conds: previous -Trend	12	14	0	-6	5	24	7
Bus. conds: change -Trend	3	0	2	2	-4	-6	2

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