

NAB Monthly Business Survey

by NAB Group Economics

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Key Points:

- There was a partial recovery in **business confidence** in September as the Government's leadership uncertainties were resolved, while financial market volatility and emerging market concerns have moderated from the heights of the previous month – although market concerns remain elevated. The business confidence index rose 4 points, to +5, which more than unwound last month's decline, but is still well below the mid-year peak. Additionally, the improvement in **confidence was not broad-based** across industries, falling in mining, construction and finance.
- **Business conditions** held steady at an above average +9 index points in September. By component, **employment** is finally improving, turning positive and increasing to its highest level since mid-2011. In contrast, both **trading conditions and profitability** eased back, although they remain at elevated levels. **Services sectors continue to outperform**, while mining and manufacturing were the only industries to report negative business conditions in September – although there was a notable deterioration in both retail and finance/ property/ business services. **Leading indicators have been positive**, although forward orders eased slightly in the month. **Capacity utilisation** has been trending higher, which augurs well for non-mining business investment and the labour market.
- Overall, **the business survey suggest a good degree of resilience in what appears to be a building non-mining sector recovery**. This is particularly apparent in industries thought to be highly responsive to currency changes in the near-term, including personal and business services. Weak commodity prices and falling mining investment will remain a drag on economic activity and downside risks from offshore remain pronounced. However, we find it difficult to mount a case for further policy easing on purely domestic grounds **and view market pricing for another 25bp cut over the coming 6 months as overly pessimistic**.

Table 1: Key monthly business statistics*

	Jul 2015	Aug 2015	Sep 2015		Jul 2015	Aug 2015	Sep 2015
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	4	1	5	Employment	-1	-1	4
Business conditions	6	9	9	Forward orders	3	5	3
Trading	12	19	15	Stocks	2	1	0
Profitability	9	10	8	Exports	0	3	0
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.2	0.5	0.6	Retail prices	0.8	0.7	1.2
Purchase costs	0.7	0.8	1.0		<i>Per cent</i>		
Final products prices	0.2	0.3	0.2	Capacity utilisation rate	80.9	81.2	81.3

* 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 Sep to 30 Sep, covering over 400 firms across the non-farm business sector.

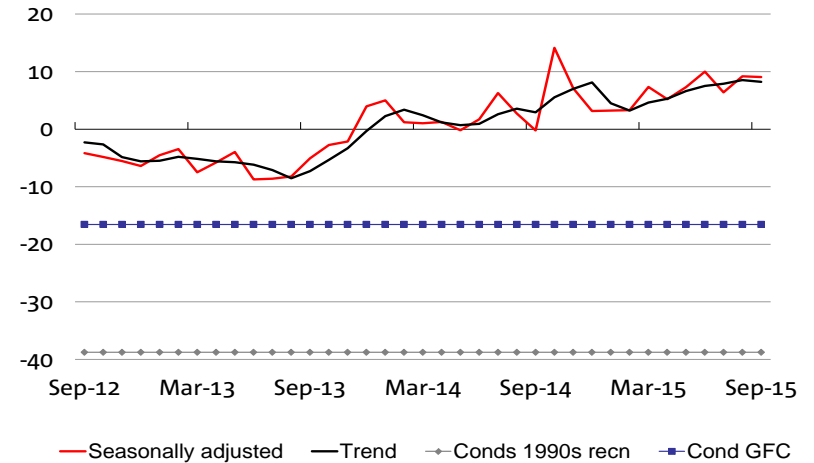
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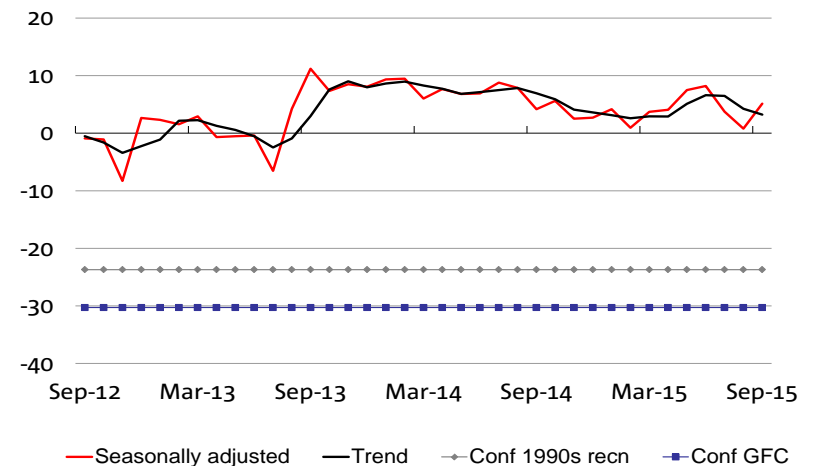
Analysis

- Business conditions** are holding on to the solid gains obtained over the past year, despite the significant headwinds generated by financial market volatility and the mining sector. The business conditions index was unchanged in September, at +9 index points, which was well above the long-run average of +5 and the post-GFC average of around +2. Consistently above-average outcomes (since March) suggest that the improved momentum in the non-mining economy is not merely an aberration, but has become much more ingrained – increasingly supported by other partial indicators of the domestic economy. By component, the **employment index** managed to close some of the gap with trading and profitability, having lagged well behind for much of the past year. This brings the employment index more into line with the recent strength in other labour market partials. Both the **trading and profitability** measures eased a little in September, but remain relatively elevated.
- There remains, however, a **notable divergence in business conditions across industries**. **Services industries continue to outperform**, while the mining industry trails well behind. It is promising though that mining and manufacturing were the only industries to report negative conditions – just the second time only two industries have been negative since mid-2011. A majority of industries recorded an improvement in the month, but retail gave back some of last months sizable gains – in contrast to a bounce in retail sales for August (ABS).
- Business confidence** recorded a partial recovery in September, increasing to +5 index points (from +1). It is not clear to what extent this reflects the change in leadership of the Liberal Party, as solid business conditions and some dissipation of financial market jitters may have also contributed to the result.
- Not all industries saw a lift in confidence**, however, with the improvement largely concentrated in transport/utilities (up 14) and personal services (up 12). Both these industries are enjoying the highest confidence levels (at +13 and +16 points respectively), while unsurprisingly mining firms were least confident (at -14).
- There was a surprising jump in WA business conditions in September, while NSW gave back some of last month’s gains. Looking through monthly volatility, however, conditions were still very strong in NSW and Victoria. Business confidence showed similar trends, although Queensland remains the highest of the mainland states (in trend terms).

Conditions steady and solid levels
Business Conditions (net balance)



Confidence partially bounces back
Business Confidence (net balance)

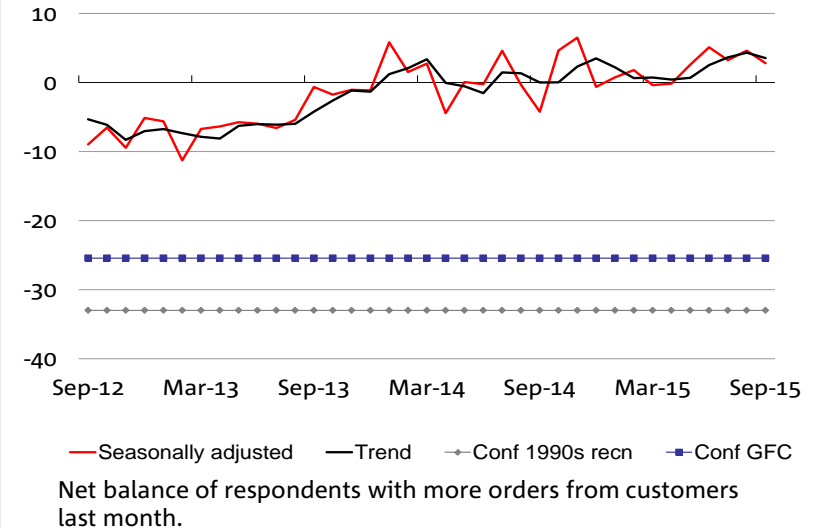


Excluding normal seasonal changes, how do you expect the business conditions facing your industry in the next month to change?

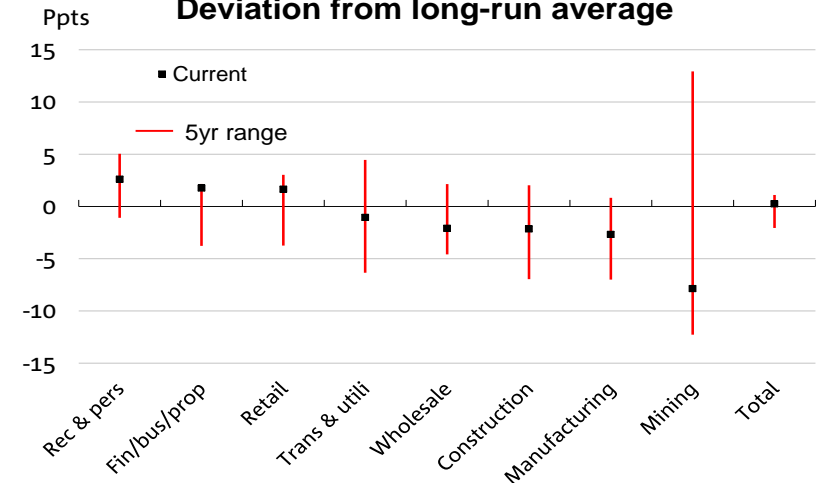
Other activity indicators

- The forward orders index eased to +3 index points in September (from +5), although this was still above the long run average. Mining and wholesale recorded the largest drop in the orders index (both down 8), followed by finance/ property/ business services (down 5), while the largest improvement came from construction (+7). Orders are now strongest in construction (+19), suggesting that strength in residential construction may be helping to offset sharp falls in mining engineering construction. In contrast, the orders index is currently weakest in mining (-17), followed by wholesale (-3). In trend terms, the relative performance in orders is similar, although construction (+12) is followed closely by fin/prop/bus (+10), with the next best being transport/utilities (at +3). Trend orders are weakest for mining (-13) and manufacturing (-1).
- Despite an easing in trading conditions, capacity utilisation rose modestly in the month to 81.3% (from 81.2%), its equal highest rate since early 2012. Although capacity utilisation is still below pre-GFC levels, the trend continues to show improvement, which provides some optimism on the outlook for non-mining business investment and the labour market. However, utilisation rates relative to long run averages vary considerably across industries, with more than half below their respective long run averages. In the month of September, there was a surprisingly jump in mining capacity utilisation (up 3.4 ppts), while transport/utilities recorded an even larger increase (up 4.3 ppts). These more than offset more moderate declines in wholesale (down 2.9 ppts), construction (down 1.4 ppts) and finance/ property/ business services (down 0.4 ppts).
- The capital expenditure index was slightly better in September at +7 index points – above its long-run average level (+5). The trend index was unchanged at +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 (+18 points) and mining is the lowest (-26 points). Transport & Utilities are the only other industry to record a negative capex index in trend terms, at -3 points.
- Elsewhere in the survey, cash flow (not seasonally adjusted) was the strongest in recreation & personal services, and the weakest in manufacturing. Mining was positive for the first time in 5 months.

Sales orders ease, and are subdued Forward Orders (net balance)



Capacity utilisation by industry Deviation from long-run average



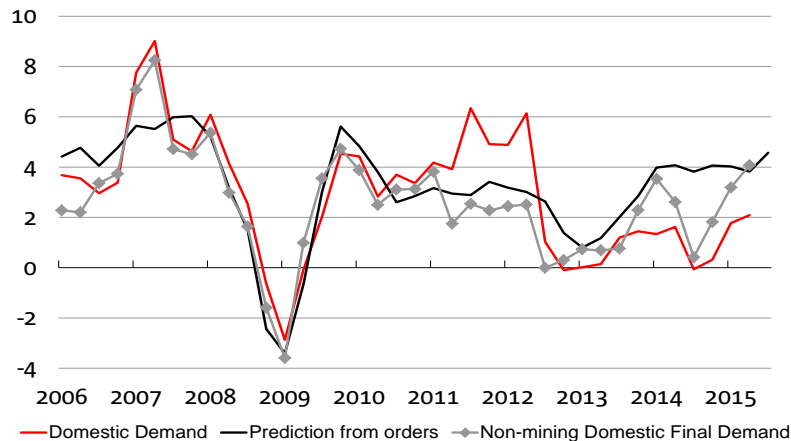
Source: NAB Economics

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

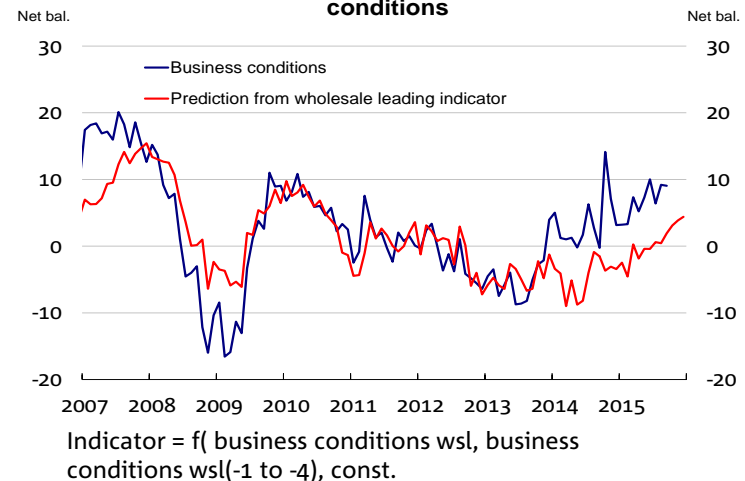
Implications for forecasts For more information see latest [Global & Australian Forecasts](#)

- Global growth remains sluggish and below trend and, unlike the IMF, our forecasts do not envisage much pick-up in the next couple of years. Although the emerging economies are still growing much faster than the big advanced economies, the focus of market attention has been shifting toward the former as falling commodity prices, the prospect of higher US interest rates, a build-up in debt and uncertainty over the pace of Chinese growth weigh on sentiment. By contrast, growth in the advanced economies picked up in mid-2015 and there is much less market focus on the problems with the Greek economy. Commodity exporting economies and their currencies have come under more pressure as sluggish global growth and the Chinese industrial slowdown lowers global commodity prices.
- In Australia, the ongoing high level of business conditions and trend improvement in key leading indicators such as capacity utilisation supports our view that the gradual recovery in the non-mining economy is becoming more resilient. Low interest rates and the lower AUD are providing support, with strength particularly evident across services sectors of the economy, including but not limited to tourism-related activity. Our domestic forecasts are unchanged this month, with real GDP expected to expand by 2.4% in 2015/16 and 3.1% in 2014/15. The unemployment rate remains elevated for an extended period, but does ease to 6% by end 2015/16 and to 5¾ by end 2016/17, given structural shifts back towards more labour-intensive sectors. There remain clear downside risks from offshore, and weak commodity prices and falling mining investment will remain a drag. However, we find it difficult to mount a case for further policy easing on purely domestic grounds and view market pricing for another 25bp cut over the coming 6 months as overly pessimistic.
- 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 September to our model suggests that predicted domestic demand growth for Q3 could be a little stronger than in Q2.
- Business conditions derived from our ‘wholesale leading indicator’ (below), which has previously had a good leading relationship with economic activity, would imply a somewhat weaker business environment than the headline index suggest – although this could reflect margin squeeze from AUD depreciation given the difficulty passing on additional costs to retailers and final consumers.

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



Wholesale as a leading indicator of business conditions

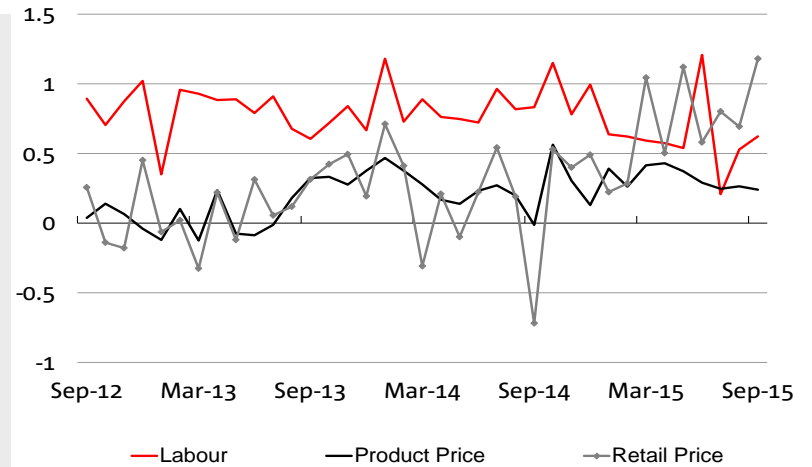


Costs, prices & labour

- Labour costs growth (a wages bill measure) accelerated slightly in the month (up 0.1 ppts), but remains at relatively subdued levels – at 0.6% (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 wholesale (up 0.6 ppts), although the rate of growth remains subdued (0.2%). In contrast, wages growth decelerated the most in mining (down 1.9 ppts), followed by finance/ property/ business (down 0.4 ppts). ABS data on the labour market showed another solid increase in new jobs (up 17,500), helping the unemployment rate improve slightly to 6.2%. Although there have been questions raised about the accuracy of the official labour statistics, solid employment growth is consistent with a jump in NAB's measure of employment conditions (up 5 to +4 index points) to its highest level since around mid-2011. The improvement in employment conditions was partially driven by a large jump in mining and transport & utilities employment, although the mining index remains quite weak (-10 points). The employment index is also very negative for wholesale (-6 points), while manufacturing is negative as well (-1 point). In contrast, service industries (including retail) are reporting the strongest employment demand.
- Growth in purchase costs was up slightly to 1% in September (at a quarterly rate), which is in line with the long-run average and above the average rate seen since the GFC. Recent acceleration could suggest increased pass-through from a lower AUD – although the response to AUD movements to date has been relatively muted. Growth in purchase costs accelerated the most in retail (up 1 ppts), but eased notably in construction (down 0.5 ppts).
- Final product prices growth was slightly lower in September at a quarterly rate of 0.2%. This could imply that firms are continuing to find it difficult to pass on higher purchase costs on to the end consumer – consistent with this month's drop in profitability. Changes in prices growth were quite mixed across industries, with the greatest pick-up occurring in mining (up 1.6 ppts), reflecting an increase in non-rural commodity prices (in AUD terms) over September – although mining prices growth was still negative in the Survey. Construction price growth eased the most (down 0.5 ppts). Final retail prices growth jumped (up 0.5 ppts to 1.2%), pointing to moderate upward pressure on inflation. Wholesale prices pressures were also elevated at 1.6%, the highest across industries.

Consumer price pressures building

Costs & prices (% change at a quarterly rate)



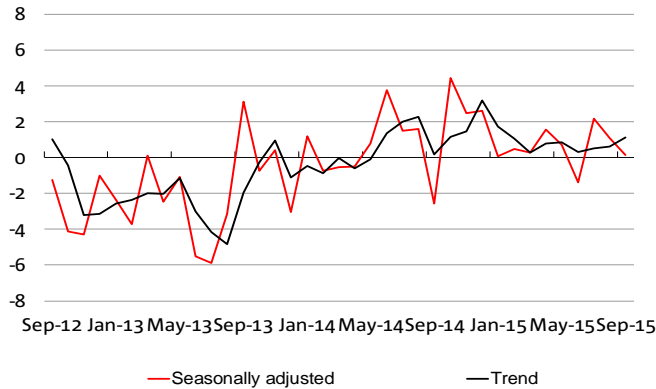
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.



More details on business activity

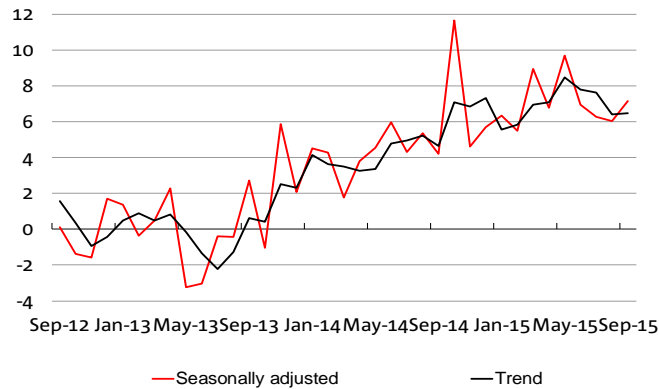
Firms reluctant to re-stock

Stocks (net balance)



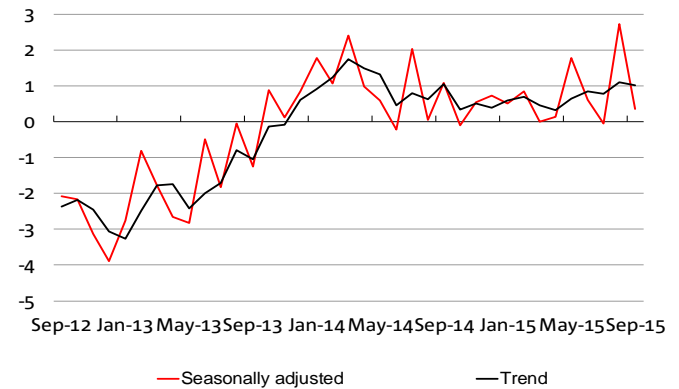
Capex momentum may have stalled, but at solid levels

Capital Expenditure (net balance)



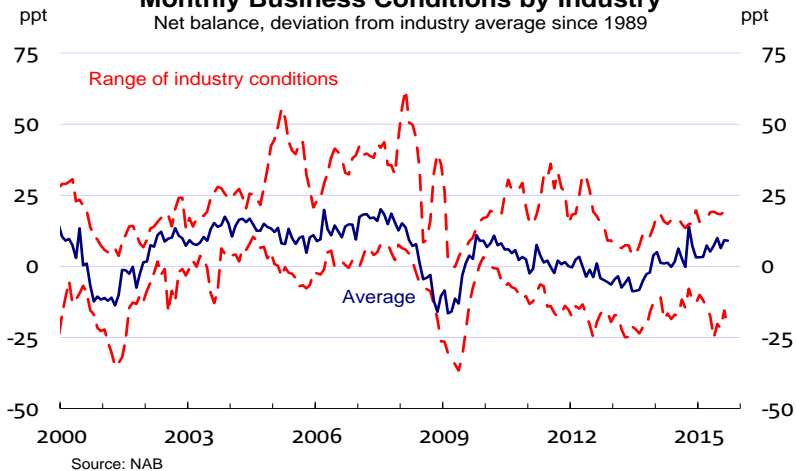
Exports dip despite AUD assistance

Exports (net balance)



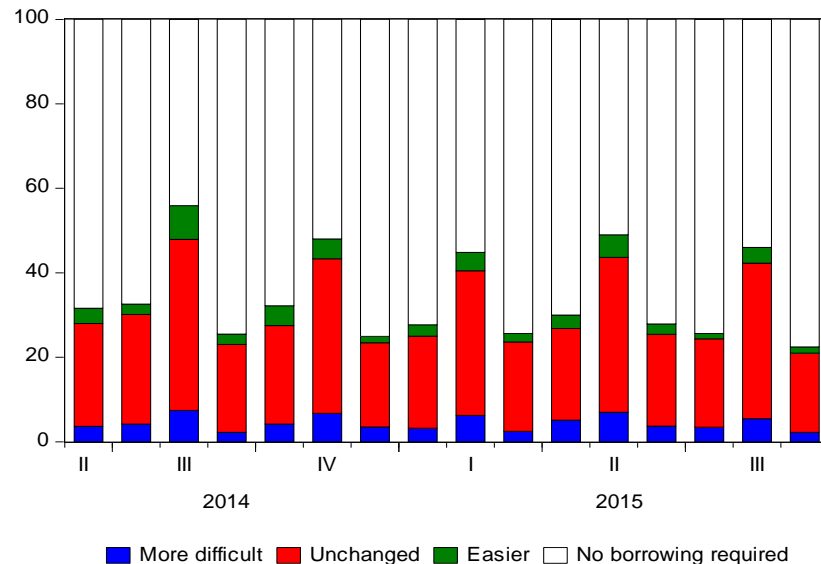
Range of conditions remains wide, due to weak mining/strong services

Monthly Business Conditions by Industry
Net balance, deviation from industry average since 1989



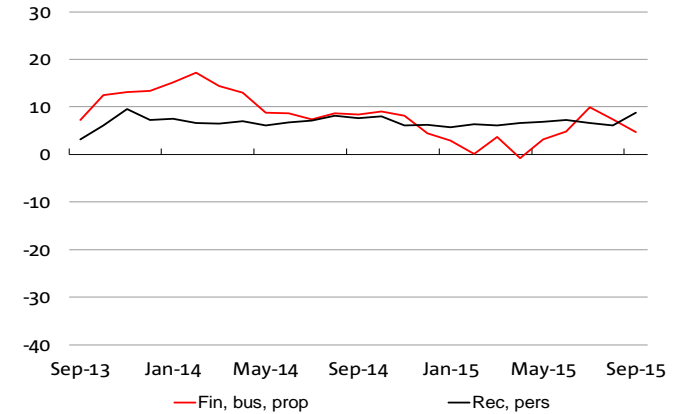
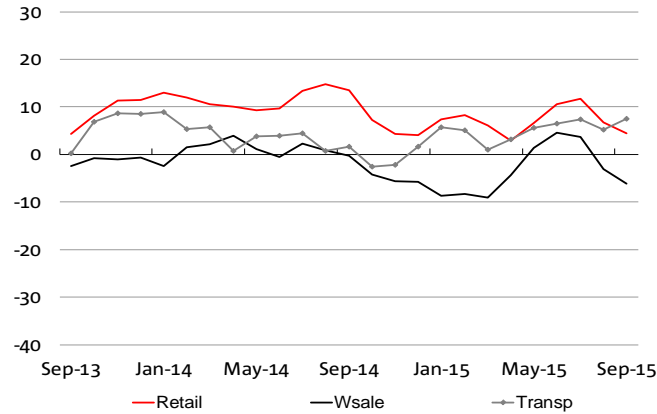
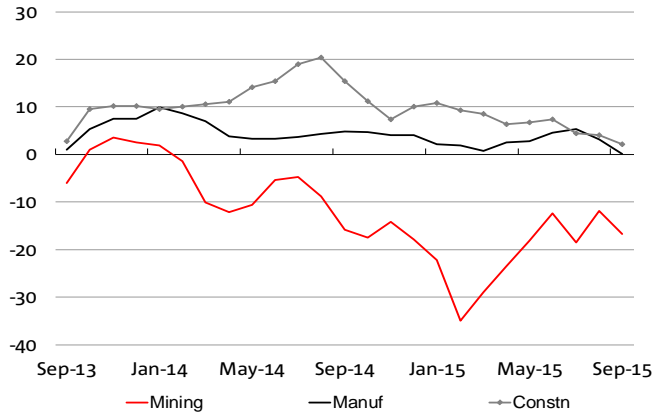
Borrowing conditions improved, but demand for credit falls in past 3 months

Borrowing conditions (% of firms)

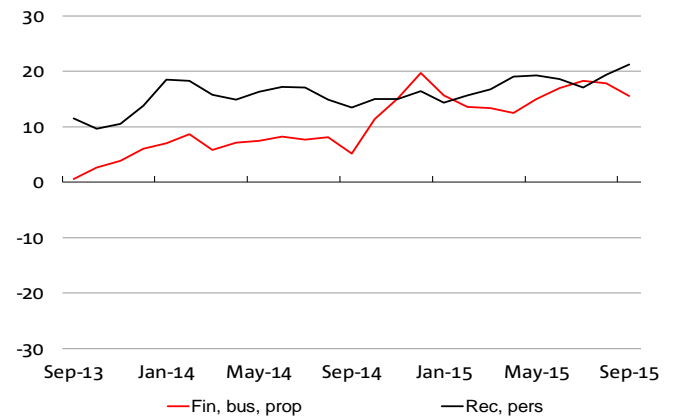
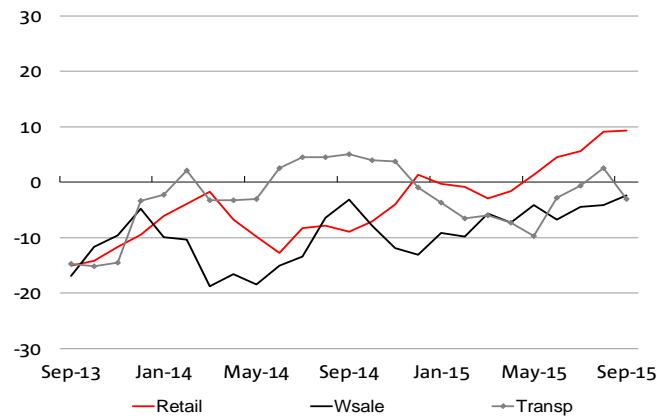
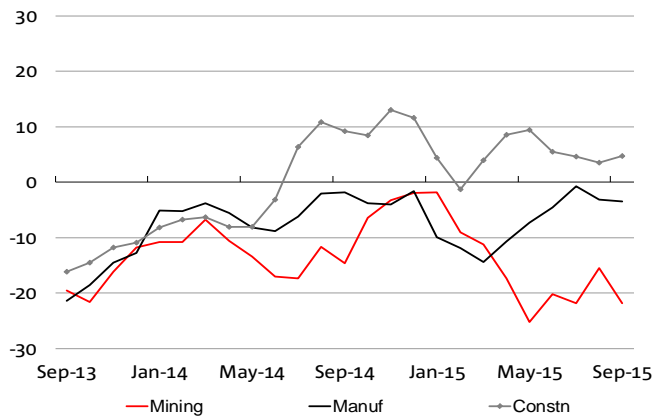


More details on industries

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

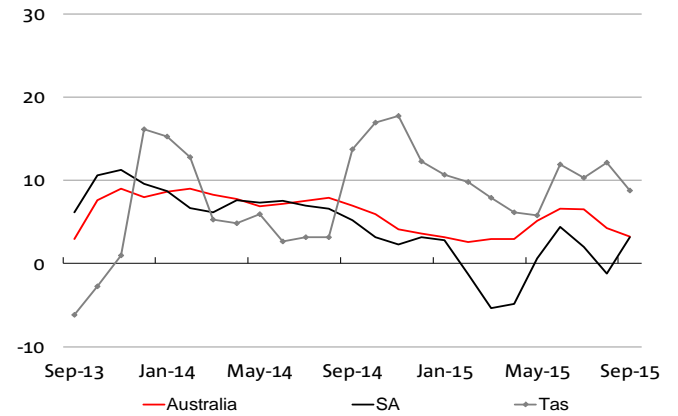
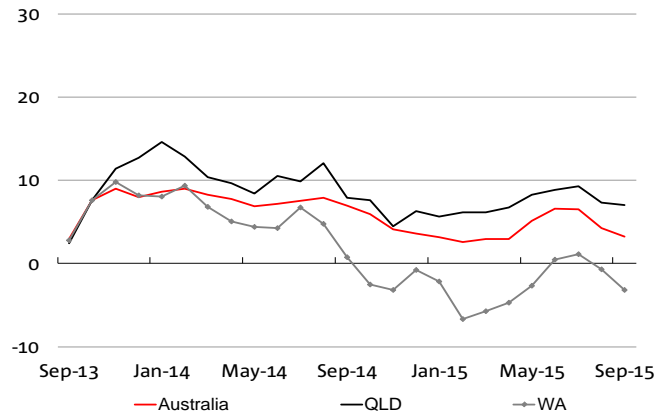
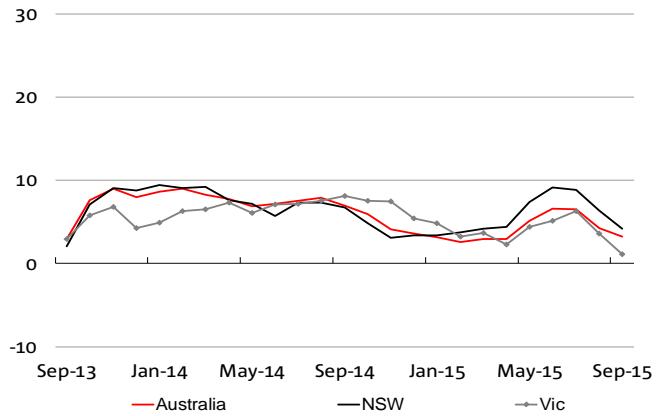


Business conditions by industry (net balance): 3-month moving average

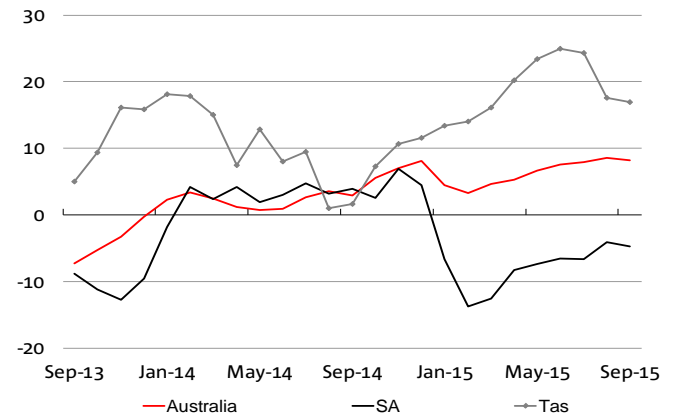
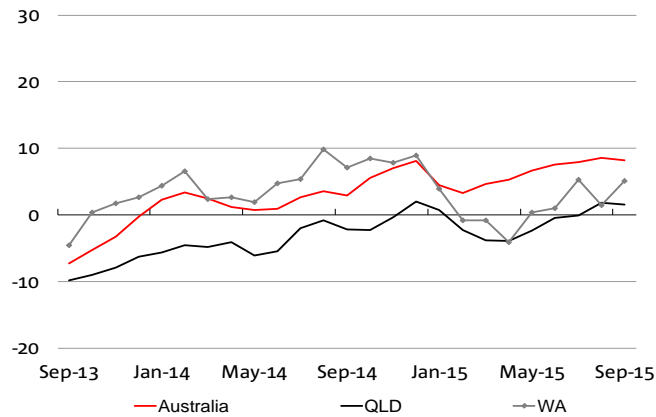
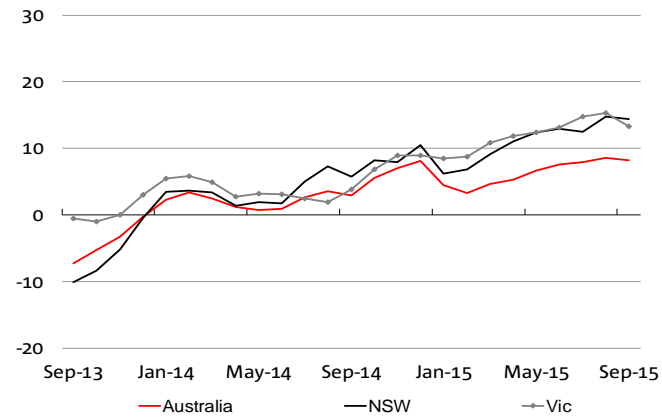


More details on states

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)

Sep-2015	Mining	Manuf	Constrn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-3.1	0.4	0.9	0.7	0.2	0.7	1.0	0.4	0.6
Labour costs: previous	-1.2	0.6	0.8	0.5	-0.4	0.5	0.9	0.8	0.5
Labour costs: change	-1.9	-0.2	0.1	0.2	0.6	0.2	0.1	-0.4	0.1
Prices (final): current	-0.5	0.1	-0.2	1.2	1.6	0.5	0.3	-0.1	0.2
Prices (final): previous	-2.1	0.2	0.3	0.7	1.2	-0.1	0.3	0.1	0.3
Prices (final): change	1.6	-0.1	-0.5	0.5	0.4	0.6	0.0	-0.2	-0.1
Purchase costs: current	-0.4	1.8	-0.2	2.3	3.4	0.7	0.6	0.2	1.0
Purchase costs: previous	-0.2	0.9	0.3	1.3	2.9	0.7	0.5	0.4	0.8
Purchase costs: change	-0.2	0.9	-0.5	1.0	0.5	0.0	0.1	-0.2	0.2

Key state business statistics for the month

Sep-2015	Monthly Business Survey Data: By State						
	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	4	-1	6	17	2	10	5
Bus. conf.: previous	4	0	4	-4	-13	13	1
Bus. conf.: change	0	-1	2	21	15	-3	4
Bus. conf: current - Trend	4	1	7	3	-3	9	3
Bus. conf: previous Trend	6	4	7	-1	-1	12	4
Bus. conf.: change -Trend	-2	-3	0	4	-2	-3	-1
Bus. conds: current	12	11	0	0	16	13	9
Bus. conds: previous	21	13	3	-3	-2	9	9
Bus. conds: change	-9	-2	-3	3	18	4	0
Bus. conds: current -Trend	14	13	2	-5	5	17	8
Bus. conds: previous -Trend	15	15	2	-4	1	18	9
Bus. conds: change -Trend	-1	-2	0	-1	4	-1	-1

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