

# NAB Monthly Business Survey

by NAB Group Economics

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November 2015



## Key Points:

- **The NAB Business Survey is showing encouraging resilience in the non-mining sector recovery**, as business conditions hold-up at well above average levels. Business conditions remained at +10 index points in November, supported by strong trading conditions and profitability. In contrast, employment conditions disappointed – albeit still positive. **Service sectors (including retail) are outperforming in terms of business conditions**, while mining and manufacturing were both negative. In fact, the survey is showing a widening gap between deteriorating mining/mining services (-21) and the rest of the economy, as mining continues to weaken. **Capacity utilisation – a useful measure of the underlying health of the economy – eased a little this month**, but the trend remains distinctly positive, which bodes well for business investment and the labour market. **Forward orders also recovered some of the lost ground from last month**, shifting back into positive territory – indicative of on going near term strength.
- **Business confidence recouped some of last months decline**, but remains somewhat subdued in light of the persistent strength in business conditions. The confidence index rose to +5 index points, which is still marginally below the long run average. Given improved prospects for the domestic economy (outside of mining), relatively subdued confidence is most likely a reflection of the uncertain global economic environment. **The improvement was reasonably broad based**, with no industry groups reporting a deterioration in the month (although mining remains negative).
- Consistently above average business conditions are an encouraging sign that the apparent non-mining sector recovery continues to gain traction, despite relatively muted levels of business confidence. Although better business conditions have not been felt uniformly across the economy, underperforming industries (outside of mining) have gradually been gaining ground in recent months – providing further evidence of a more entrenched non-mining recovery. Despite a number of downside risks (mostly stemming from offshore), should non-mining sectors maintain their current momentum, our view is that further RBA cuts are unlikely. Monetary policy is expected to remain on hold for an extended period.

Table 1: Key monthly business statistics\*

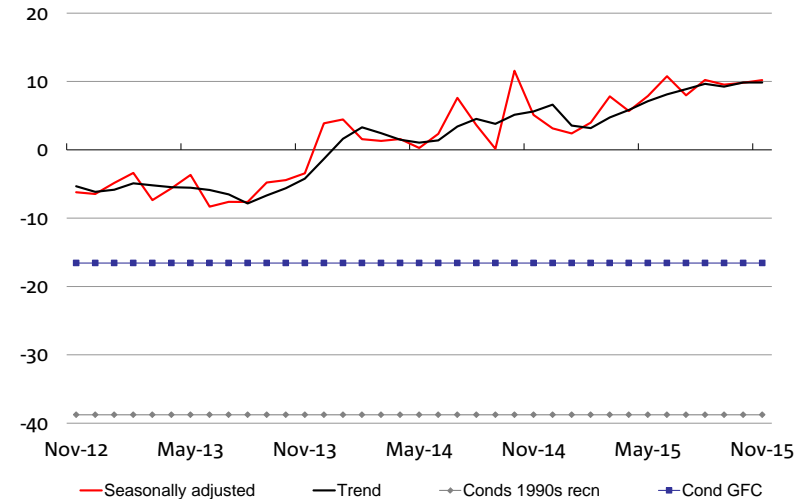
	Sep 2015	Oct 2015	Nov 2015		Sep 2015	Oct 2015	Nov 2015	Contents
	<i>Net balance</i>				<i>Net balance</i>			
Business confidence	6	3	5	Employment	3	3	1	<a href="#">Key points</a> 1
Business conditions	10	10	10	Forward orders	3	-3	2	<a href="#">Analysis</a> 2
Trading	15	16	18	Stocks	1	0	1	<a href="#">Other activity indicators</a> 3
Profitability	10	10	13	Exports	0	1	1	<a href="#">Implications for forecasts</a> 4
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>			
Labour costs	0.7	0.4	0.5	Retail prices	1.1	0.6	0.6	<a href="#">Costs &amp; prices</a> 5
Purchase costs	0.9	0.8	0.7		<i>Per cent</i>			
Final products prices	0.4	0.4	0.3	Capacity utilisation rate	81.2	81.2	80.9	<a href="#">More details</a> 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 23 Nov to 11 Dec, covering over 500 firms across the non-farm business sector.

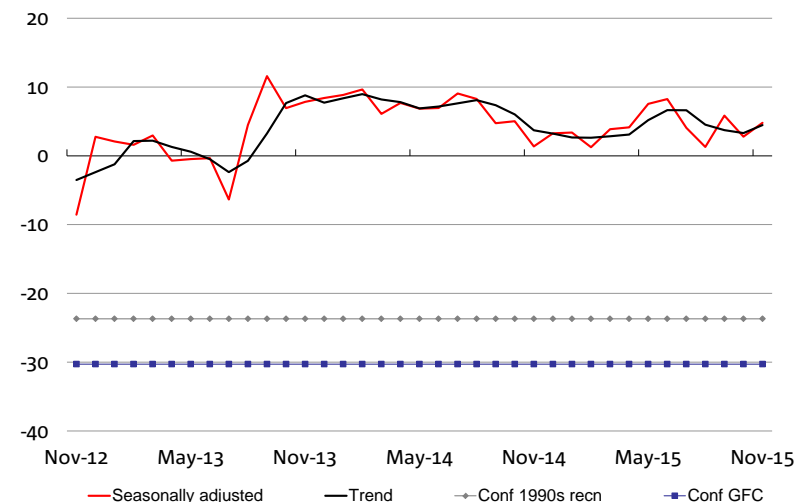
# Analysis

- **Business conditions** are holding steady at above average levels, adding to signs of a building recovery in the non-mining economy. The business conditions index was unchanged in November, at +10 index points, which was well above the long-run average of +5 and the post-GFC average of around +2. By component, **trading conditions and profitability** have been the main drivers of conditions, and an improvement in November helped to offset a deterioration in the **employment index** – which remains disappointingly soft. This outcome is a little surprising in light of recent strong outcomes in other labour market partials.
- Despite a gradually closing gap, there remains a notable dispersion in business conditions across industries. Nevertheless, only 2 of the 8 major industry groups (mining and manufacturing) are reporting negative conditions. **Services industries (including retail) are outperforming**, while the mining industry trails well behind. A majority of industries improved in the month, but finance/ property/ business services and mining both posted a notable deterioration. While interest rate and AUD sensitive industries have generally outperformed, improvements in areas such as retail and wholesale in November are an encouraging sign that the recovery is becoming more entrenched.
- **Business confidence** has been surprisingly subdued in the context of elevated business conditions, although the index recouped some of the previous months losses in November. Business confidence rose to +5 index points, up from +3, which is a positive result but still moderately below the long run average. While the various cross-winds are difficult to disentangle, improving prospects for the domestic economy (evidence by elevated business conditions) suggest that offshore factors may be having a disproportionate influence on confidence.
- **The lift in confidence was broad-based**, with no industries reporting a deterioration during the month – although confidence levels remain negative in the mining sector. The improvement was most pronounced in construction (up 18) and somewhat surprisingly in wholesale (up 12). Recreation & personal and construction enjoyed the highest confidence levels in trend terms (both at +9 points), while mining firms were least confident (at -14).
- In trend terms, **business conditions in NSW and Victoria remain the highest of the mainland states**, with conditions improving notably for both states in the month. In contrast, trend conditions are negative for SA and remain relatively subdued in Qld (as last months gains proved to be short lived). In contrast, confidence is highest in Qld (in trend terms), followed by SA, while confidence is still negative in WA despite a jump during the month.

**Conditions steady and solid levels**  
Business Conditions (net balance)



**Confidence recoups some of last months loss**  
Business Confidence (net balance)



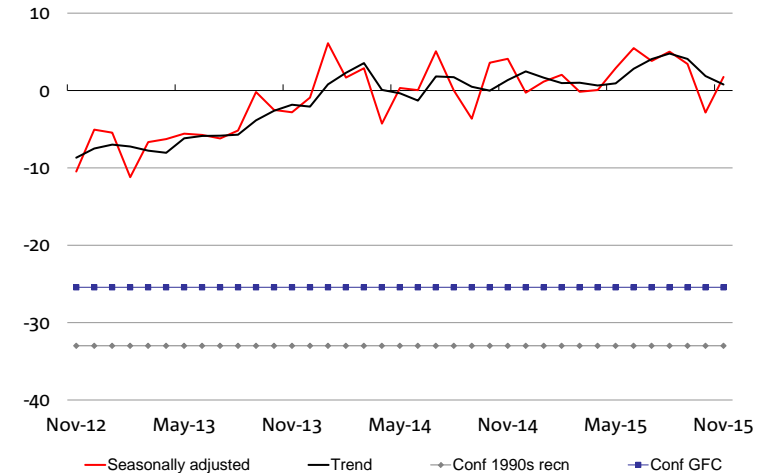
Excluding normal seasonal changes, how do you expect the business conditions facing your industry in the next month to change?

## Other activity indicators

- The **forward orders** index recovered some of last month's loss in November, rising to +2 index points, from -3. This remains below the recent high of +5 (in August), but is above the long run average of the series. **While this suggests a modest expansion in activity in the near-term, this level is not particularly encouraging** and could partly explain presently soft levels of business confidence – despite relatively elevated conditions. **The change in orders was also varied across industries**, with mining orders falling sharply (down 23), and transport & utilities, recreation & personal services and construction all posting declines. In contrast, there was a solid bounce in orders for retail, wholesale, manufacturing and finance/ property/ business. Orders are still strongest in construction (+11), suggesting that strength in residential construction may be helping to offset sharp falls in mining engineering construction. In contrast, outside of mining (-34), the orders index was next weakest in recreation & personal services (-1). All other industry groupings were positive. In trend terms, however, half of the industry groups are reporting negative orders, with mining the worst (-22), followed by wholesale (-3). Construction is highest (+15) in trend terms, followed by transport/utilities (at +7).
- NAB's measure of **capacity utilisation eased back in November** (to 80.9% from 81.2%), despite better trading conditions, although the decline was particularly heavy in the mining industry; relatively mixed elsewhere. **Despite easing back in the month, utilisation rates have been trending clearly higher** since around early 2013 and has coincided with an apparent improvement in the labour market. Nevertheless, utilisation rates remain subdued relative to pre-GFC levels and are below average for most industries, which may help to explain persistently weak investment intentions in the official data. While mining deteriorated the most in November (down 8.3 ppts), manufacturing improved the most (up 2.3 ppts) followed by wholesale (up 1.1 ppts).
- Consequently, the **capital expenditure index was slightly lower** in November at +6 index points, and has been easing since earlier in the year – **although still above its long-run average level** (+5). Above average capex **points to a stronger expansion of non-mining business investment** (which has a higher weighting in the survey). Capex in fin/ prop/ bus services is the highest (+11 points) and transport & utilities is lowest (-7 points). Only mining and transport & utilities are recording a negative capex index in trend terms.
- Elsewhere in the survey, **cash flow** (not seasonally adjusted) was the strongest in recreation & personal services, and the weakest in mining. The construction cash flow index was also negative.

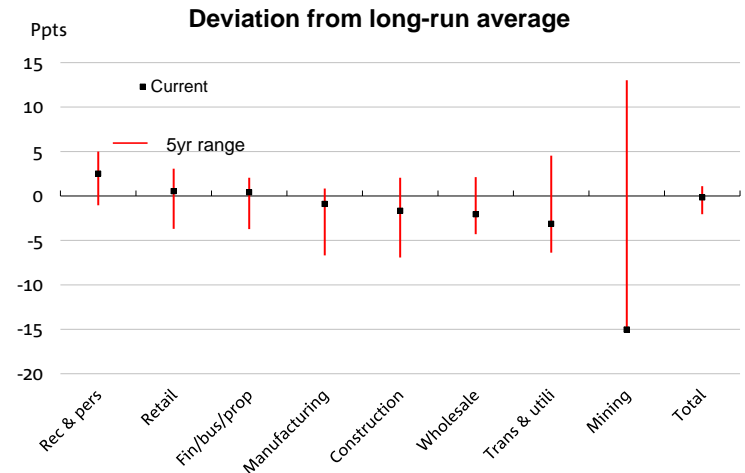
## Sales orders partially recover, but still subdued

### Forward Orders (net balance)



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

## Capacity utilisation by industry



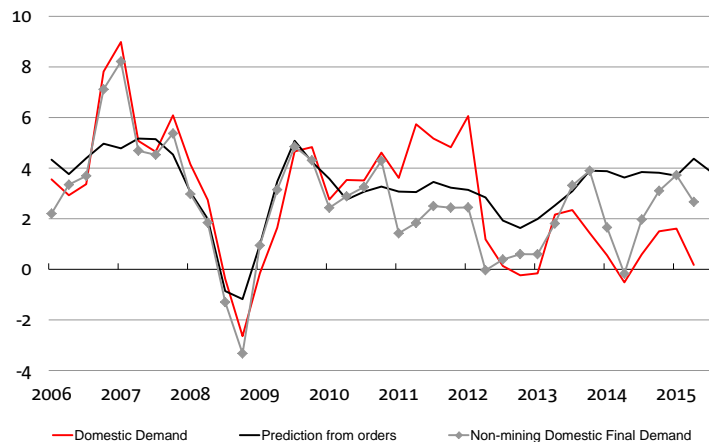
Source: NAB Economics

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

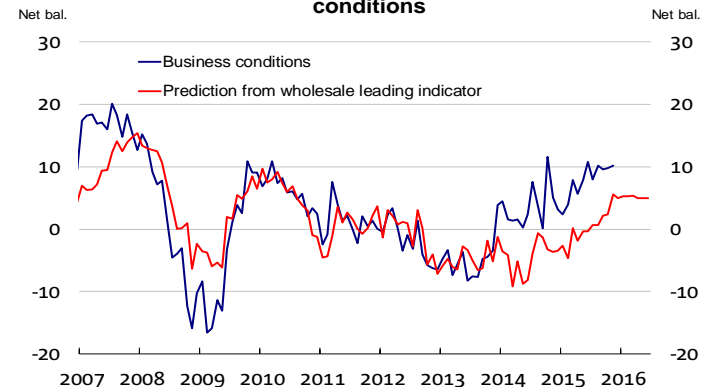
# Implications for forecasts For more information see latest [Global & Australian Forecasts](#)

- Although some of the risks hanging over global markets have abated, recent global economic growth and the outlook remains lacklustre. Global growth remains stuck around the 3¼% seen since mid-2012 as lower commodity prices, capital flow reversals and central banks focused on getting inflation back toward target take a toll on the pace of expansion in the big emerging market economies that have underpinned most global growth.
- In Australia, Q3 GDP figures were consistent with our view that the recovery across the non-mining recovery is broadening, and recent business survey results suggest this momentum continued into Q4. Despite this, downgraded commodity price forecasts have prompted a lowering of our real GDP growth forecasts, as another 11½% drop in the terms of trade in 2016 weighs further on national incomes. Real GDP is now forecast to pick up more gradually to 2.7% in 2016 and 3.0% in 2017 (previously 2.9% and 3.2% respectively). Our unemployment rate forecasts are only a fraction higher however - as the composition of growth tilts towards more labour-intensive sectors - easing gradually to 5.8% by end-16 and 5.7% by end-17. At this stage, the RBA has indicated that providing “stable” monetary policy and allowing the greenshoots to flourish may be more helpful for the economy. An easing bias does remain amidst low inflation, weak commodity prices and concerns around trading partner growth. But at this stage, the central bank is unlikely to provide further support to the domestic economy absent a global shock or a surprise increase in unemployment.
- **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 November to our model suggests that predicted domestic demand growth for Q4 could be a little softer than in Q3.
- **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 suggests** – although this could reflect margin squeeze from AUD depreciation given the difficulty passing on additional costs to retailers and final consumers. But while wholesales have been soft for quite some time, the industry did manage to gain some ground on aggregate business conditions during the month.

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



Wholesale as a leading indicator of business conditions



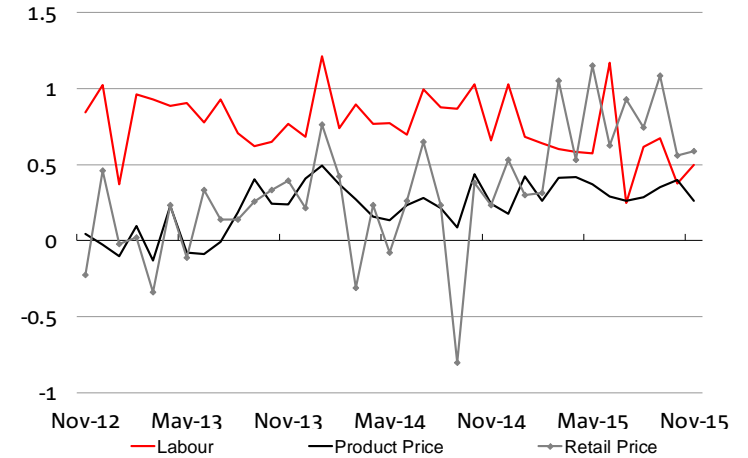
Indicator = f( business conditions wsl, business conditions wsl(-1 to -4), const.

# Costs, prices & labour

- The NAB Survey's employment index eased back in November (to +1), pointing to somewhat slower momentum in employment growth in the coming 6 months – suggesting annual job creation of around 190k (nearly 16k per month). This compares to a trend increase of 18.5k in October according to the ABS. There was significant variation in employment conditions across industries in the NAB Survey. Surprisingly, mining rose sharply (up 20), although the index remains weak (-4) while retail had the next largest increase (up 7). In contrast, recreational & personal services decreased the most (down 13), followed by wholesale (down 5). In trend terms, the employment index is very negative for mining (-13 points), while service industries (including retail) are reporting the strongest employment demand.
- Labour costs growth (a wages bill measure) accelerated slightly in the month (up 0.1 ppts), but remains fairly subdued – at 0.5% (a quarterly rate). Subdued labour cost growth is consistent with the currently elevated rate of unemployment and relatively subdued inflation expectations – although labour market partials have generally become more positive. Surprisingly, labour cost inflation accelerated the most in mining (up 1.4 ppts), although in absolute terms mining labour costs are still in decline (-1%). In contrast, transport & utilities recorded the largest deceleration in labour costs (down 0.5 ppts).
- Growth in purchase costs eased to 0.7% in November (at a quarterly rate), falling 0.1 ppts in the month. This is below the long-run average and consistent with rates seen since the GFC. This outcome could reflect an increase in the AUD TWI in recent months (although it is still down significantly over the year), along with the relatively subdued inflation pressures globally. Growth in purchase costs decelerated the most in manufacturing (down 0.8 ppts) and retail (down 0.4 ppts). Despite easing, purchase cost pressures remain highest in wholesale (1.8%, quarterly rate) and retail (1%), while purchase costs have continued to fall in mining.
- Final product prices growth was slightly lower in November at a quarterly rate of 0.3%. Subdued labour cost growth appears to have helped firms absorb generally higher purchase cost pressures without materially impacting their margins – consistent with strong profitability outcomes in the Survey. Final prices growth was mostly unchanged-to-lower across industries, with the greatest slow-down occurring in transport & utilities (down 0.4 ppts). Final prices continue to fall in mining (-1.6%, quarterly rate) and construction (-0.2%), while price growth was highest in wholesale (0.9%) and retail (0.6%) – the latter suggest relatively subdued inflation, consistent with the middle of the RBA's CPI inflation band.

## Price pressures remain subdued

Costs & prices (% change at a quarterly rate)

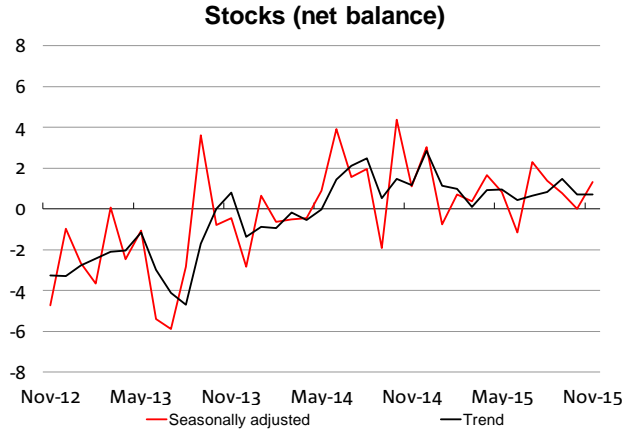


Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.

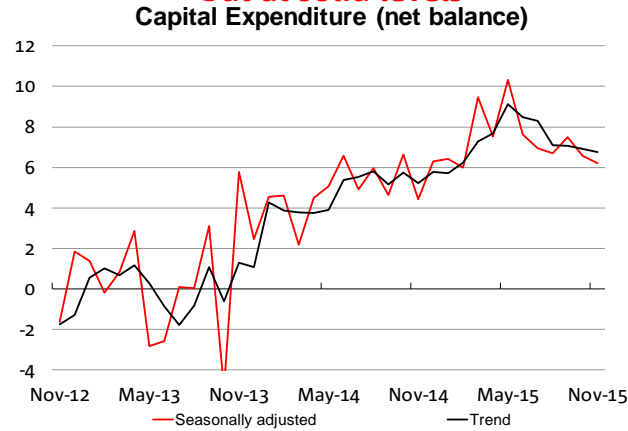


# More details on business activity

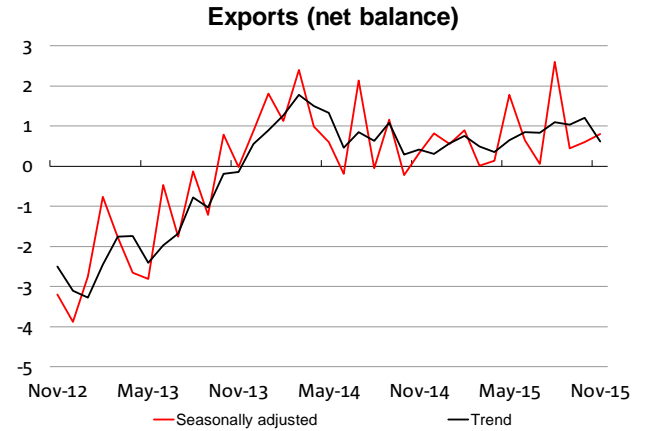
## Firms only tentatively re-stocking



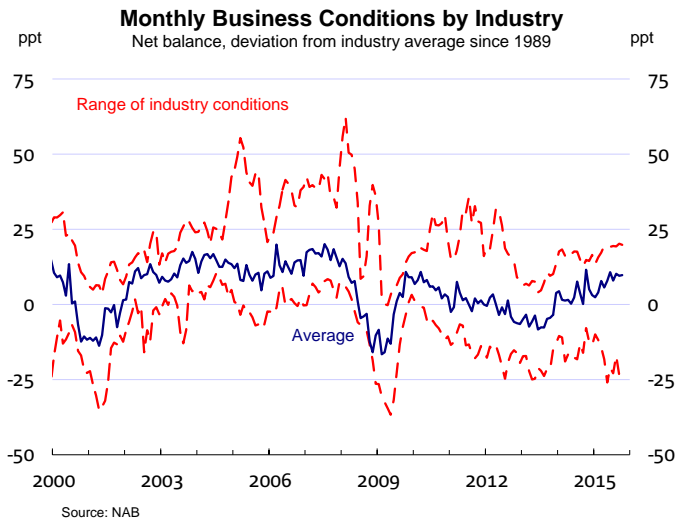
## Capex momentum may have stalled, but at solid levels



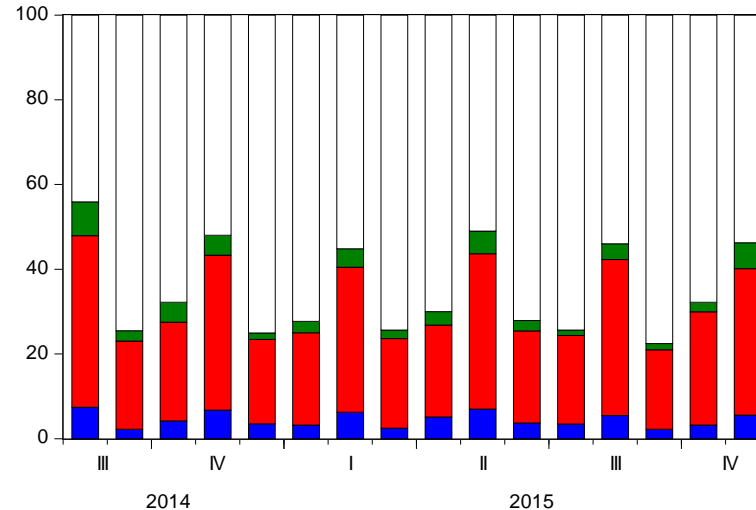
## Exports soft despite AUD assistance



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



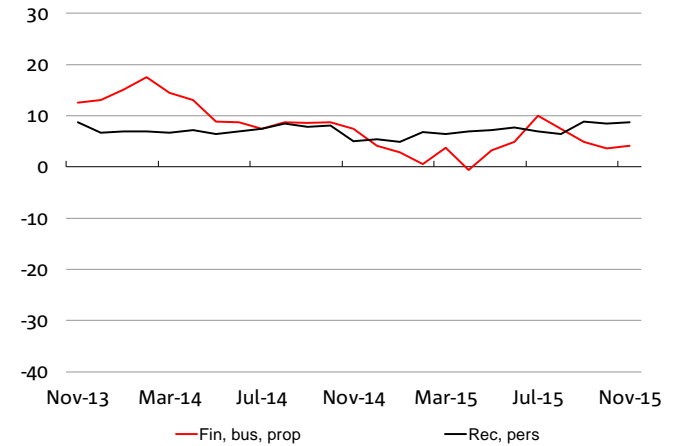
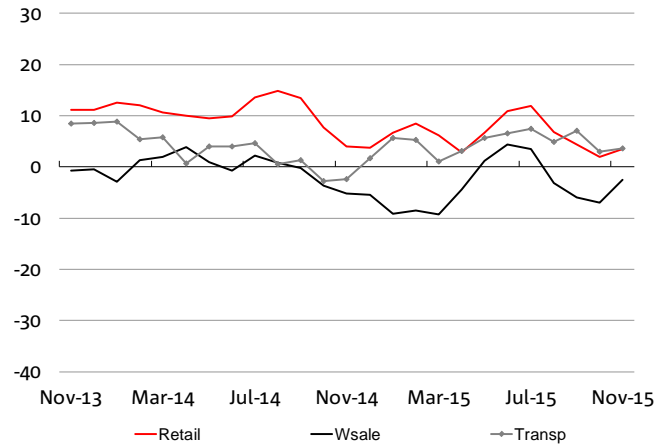
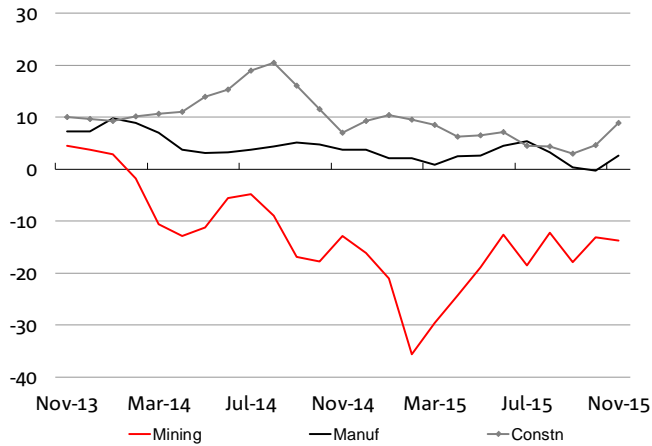
## Borrowing conditions improved in past 3 months, and demand for credit rose



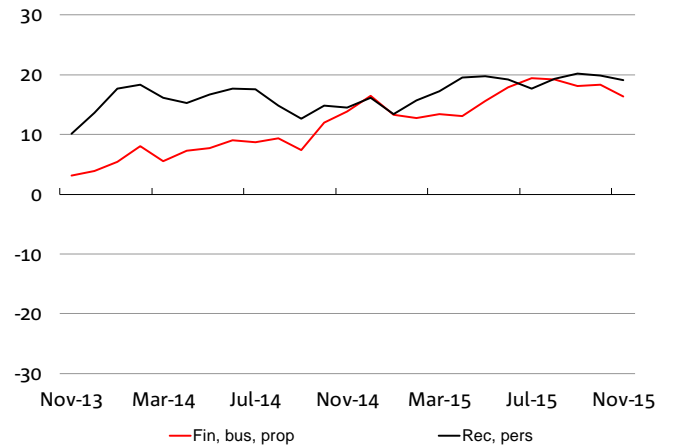
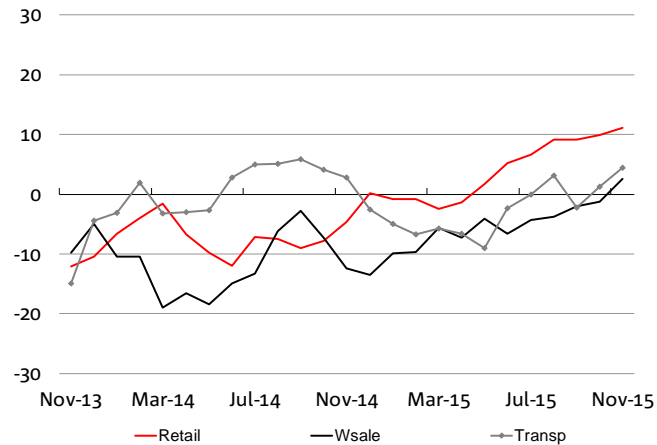
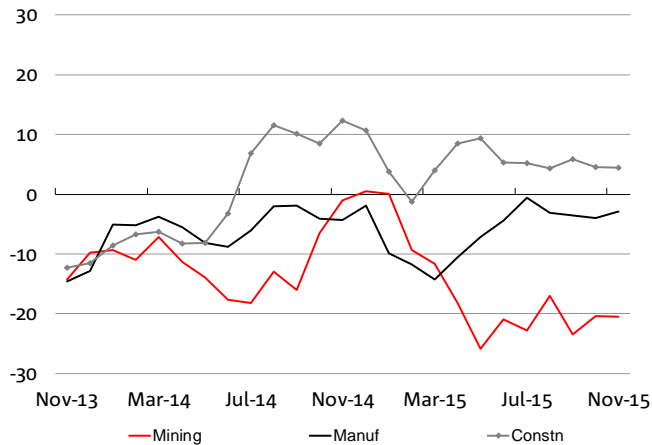
More difficult Unchanged Easier No borrowing required

# More details on industries

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

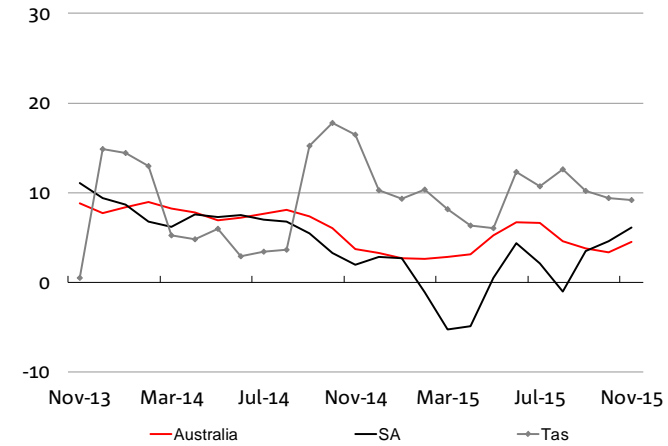
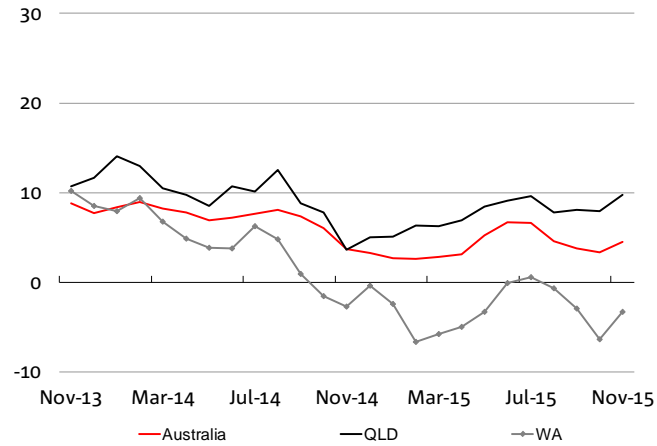
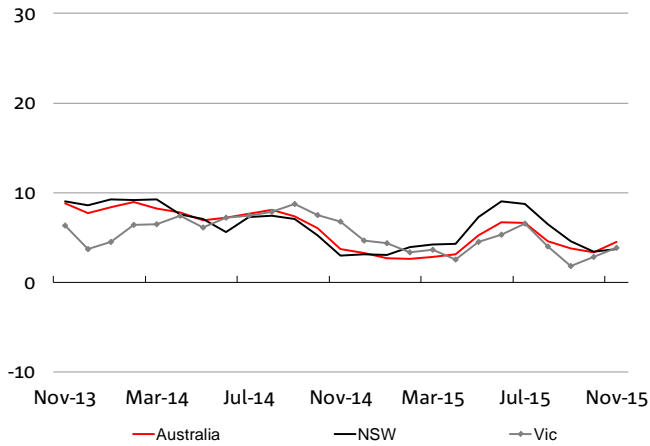


## Business conditions by industry (net balance): 3-month moving average

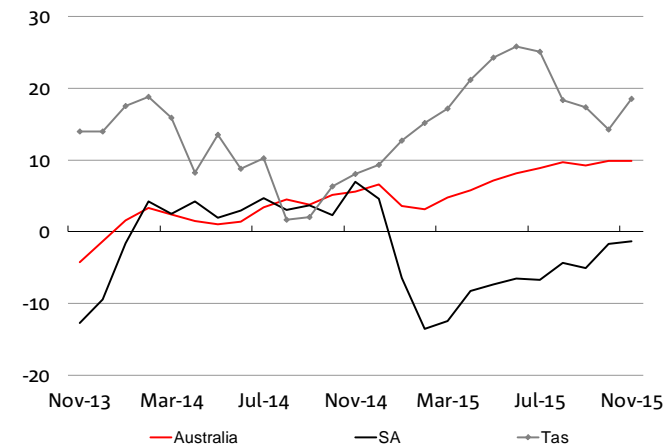
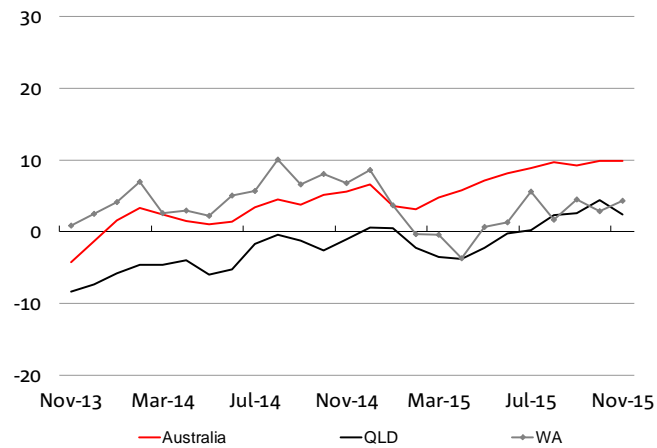
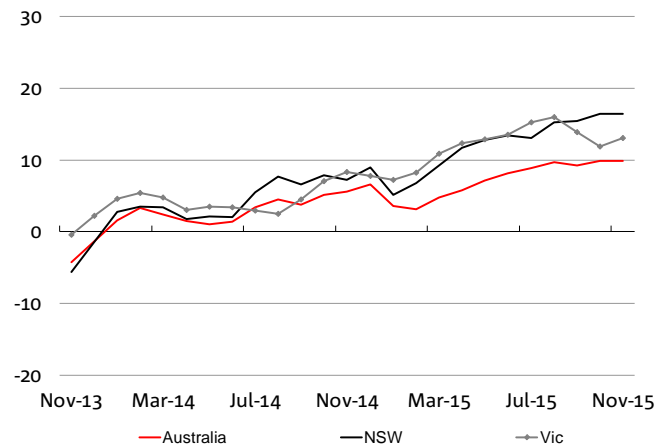


# More details on states

## 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)

Nov-2015	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-1.0	0.4	0.2	0.5	0.5	0.4	0.8	0.6	0.5
Labour costs: previous	-2.4	0.3	0.3	0.3	0.1	0.9	0.9	0.3	0.4
Labour costs: change	1.4	0.1	-0.1	0.2	0.4	-0.5	-0.1	0.3	0.1
Prices (final): current	-1.6	0.2	-0.2	0.6	0.9	0.0	0.4	0.1	0.3
Prices (final): previous	-1.7	0.3	0.1	0.6	1.2	0.4	0.6	0.1	0.4
Prices (final): change	0.1	-0.1	-0.3	0.0	-0.3	-0.4	-0.2	0.0	-0.1
Purchase costs: current	-0.1	0.7	0.1	1.0	1.8	0.6	0.7	0.4	0.7
Purchase costs: previous	-0.4	1.5	0.1	1.4	2.0	0.3	0.8	0.4	0.8
Purchase costs: change	0.3	-0.8	0.0	-0.4	-0.2	0.3	-0.1	0.0	-0.1

## Key state business statistics for the month

Nov-2015	Monthly Business Survey Data: By State						
	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	5	4	11	1	-2	13	5
Bus. conf.: previous	1	8	10	0	-10	1	3
Bus. conf.: change	4	-4	1	1	8	12	2
Bus. conf: current - Trend	4	4	10	6	-3	9	4
Bus. conf: previous Trend	3	3	8	5	-6	9	3
Bus. conf.: change -Trend	1	1	2	1	3	0	1
Bus. conds: current	20	17	-3	-2	2	22	10
Bus. conds: previous	14	10	8	-1	-4	21	10
Bus. conds: change	6	7	-11	-1	6	1	0
Bus. conds: current -Trend	16	13	2	-1	4	19	10
Bus. conds: previous -Trend	16	12	4	-2	3	14	10
Bus. conds: change -Trend	0	1	-2	1	1	5	0

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