

# NAB Monthly Business Survey

by NAB Group Economics

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January 2016



## Key Points:

- **The NAB Business Survey softened slightly in January**, although the deterioration was to a large extent **driven by a sharp decline in mining and wholesale** – conditions were generally mixed elsewhere – **and was largely concentrated in Western and South Australia** where the flow on effects from the mining slowdown (conditions -47) are clearly spreading. This suggests that fundamental conditions in the non-mining economy remain resilient. Business conditions eased back to +5 points in January (from +6), consistent with the long-run average, with all 3 major components (trade, profit and employment) edging back in the month. Employment conditions were the most disappointing, dropping back into negative territory, which is a continuation of the stark divergence from very strong employment outcomes reported by the ABS. This may also help to explain further deterioration in retail conditions, although the other major service sectors are consistently outperforming.
- **Capacity utilisation – a useful measure of the underlying health of the economy – regained a good deal of the lost ground from last month**, but remains below long run averages, hindered by a large drop in wholesale. Forward orders weakened in January, and despite remaining positive, suggest a moderation in growth momentum in the near term. Capex was also lower. **Business confidence continued to hold up in the face of turmoil in financial markets, despite the effects it appears to be having on sentiment globally.** Although confidence is subdued, it held steady in positive territory (+2), likely bolstered by the buoyant business conditions within Australia. Across industries confidence is mixed, although mining is the only industry where the confidence index is negative. Construction firms remain most confident, in keeping with the record pipeline of residential construction.
- The NAB Business Survey is yet to show a material negative impact on the non-mining sectors from recent financial market volatility and falling equity markets. However the longer these uncertainties continue the more the risk that they will flow through, even if lower oil prices are probably a net gain to the Australian outlook. Accordingly **we have not changed our view of the Australian economy** (see p4 for detail). Given our underlying expectation for the non-mining recovery to remain on track, we still see monetary policy as being on hold for an extended period (rather than the market expectation for another mid year cut). Looking forward, much depends on global uncertainties, domestic non- mining business conditions, unemployment and the currency.

**Table 1: Key monthly business statistics\***

	Nov 2015	Dec 2015	Jan 2016		Nov 2015	Dec 2015	Jan 2016
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	5	2	2	Employment	2	0	-1
Business conditions	10	6	5	Forward orders	3	4	1
Trading	16	12	9	Stocks	2	4	0
Profitability	12	7	5	Exports	1	1	0
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.6	0.8	0.6	Retail prices	0.6	0.5	0.3
Purchase costs	0.7	0.5	0.6		<i>Per cent</i>		
Final products prices	0.3	0.3	0.1	Capacity utilisation rate	80.8	80.1	80.6

\* 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 27 Jan to 2 Feb, covering over 400 firms across the non-farm business sector.

## Contents

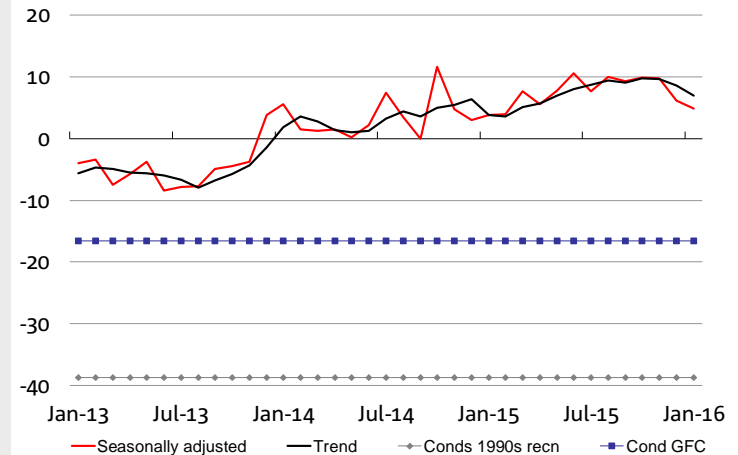
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# Analysis

- Business conditions eased again slightly in January, to be consistent with the long-run average of the series.** The deterioration was partly triggered by a sharp deterioration in wholesale, and remained largely confined to Western and South Australia (where the effects of the mining slowdown are most felt), suggesting that the overall picture of a recovering non-mining economy remains intact. However, subdued conditions outside of the major service sectors warrant monitoring. Business conditions eased to +5 index points (from +6), inline with the long-run average and above the post-GFC average of +2. The **moderation was experienced across all components** (sales, profits and employment), but readings were quite mixed across industries. The result for **employment conditions were somewhat disappointing**, dipping back into negative territory.
- Outside of mining, the **deterioration in business conditions was most pronounced in wholesale**, which fell 26 points in the month (mining plummeted 46 points in the month). Elsewhere results were mixed, with transport rising the most (up 7 points), most likely in response to dropping fuel prices. Retail conditions turned negative again in the month, while conditions in construction are subdued (0 points) given competing trends in residential and engineering construction. Consequently, half of the major industry groups in the survey are now reporting negative conditions – in trend terms, mining, wholesale and manufacturing are all negative (see p7). Service sectors (outside retail) are outperforming.
- Business confidence has thus far managed to remain in positive territory despite financial and commodity market turmoil, with the confidence index remaining unchanged at +2 index points in January. Changes in confidence did, however, vary by industry. While these are relatively subdued (below average) levels, confidence remains positive and does not suggest any overly disruptive effects from recent events (to date) – although the longer market uncertainties persist, the higher the risk of pass-through effects to confidence and activity.
- Changes in confidence were quite varied across industries in January.** The largest deterioration occurred in retail (down 7), followed by mining (down 6). It is not clear what caused the downgrade in retail confidence, although it is possible that the announcement of a high profile receivership had some impact at the margin. In contrast, finance/ property/ business services posted a notable increase (up 6). Mining confidence is lowest and is expected to remain weak, while construction confidence is the highest – a reflection of the extremely large residential construction pipeline.
- The deterioration in business conditions was concentrated in WA and SA, both recording a significant decline during the month – suggesting the drag from the mining sector may be broadening. SA also experienced a large drop in confidence, while Qld eased as well. **Looking through the monthly volatility shows conditions remaining very elevated in the major eastern states, and confidence tends to be better there as well.** These outcomes are consistent with the theme of economic rebalancing towards non-mining activity.

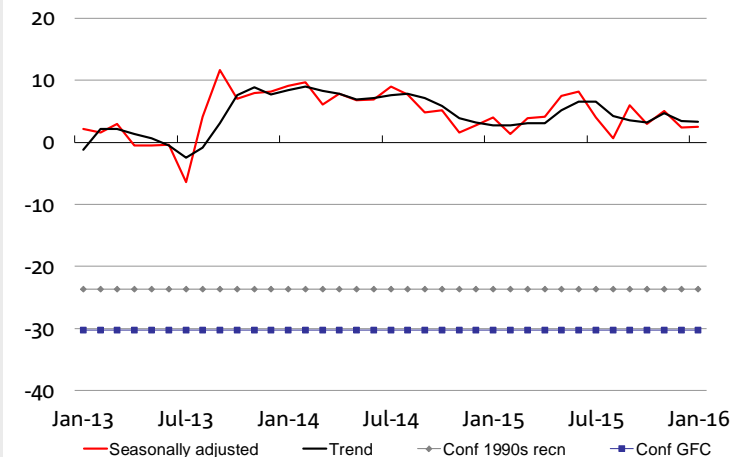
## Conditions eased again, but still solid

Business Conditions (net balance)



## Confidence resilient despite market turmoil

Business Confidence (net balance)

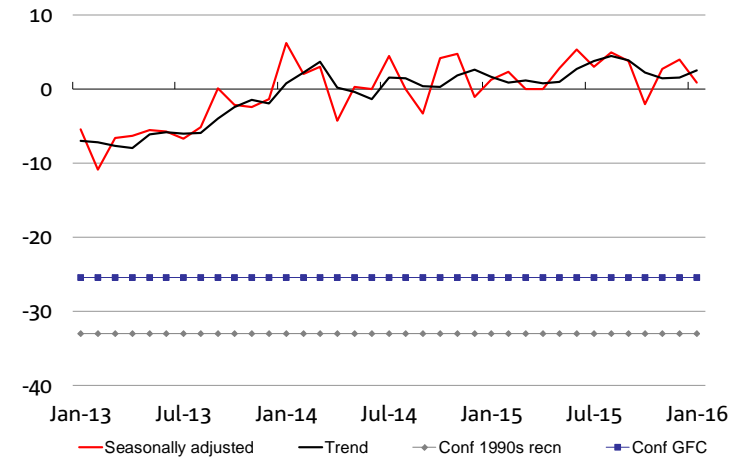


Excluding normal seasonal changes, how do you expect the business conditions facing your industry in the next month to change?

## Other activity indicators

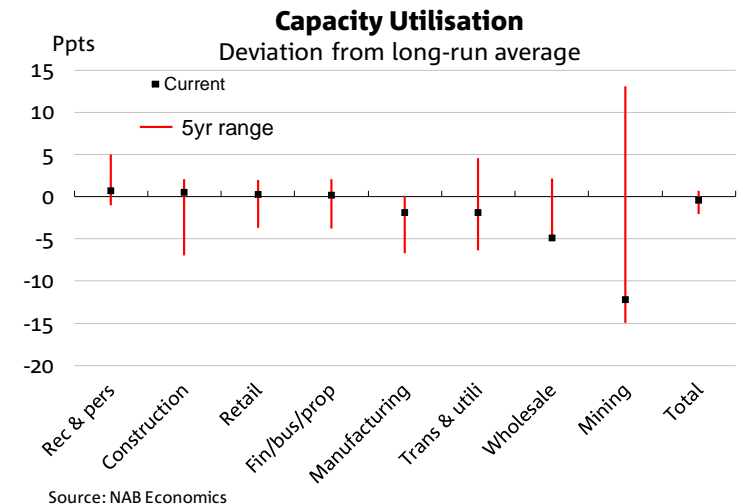
- The **forward orders** index has failed to gain momentum, but has managed to remain positive for the past three months. Nevertheless, at just +1 index point (down from +4), it **suggests fairly subdued business activity in the near-term** and is down from the highs of last year (+5) – making it more difficult to maintain business conditions at current levels.
- **The deterioration in orders was reported by a majority of industries**, although transport (up 3) and retail (up 1) improved, while manufacturing was unchanged. The largest declines took place in mining (down 18) and construction (down 14) – consistent with a moderation in building approvals in recent months (relative to previously rapid growth). In trend terms, mining orders remain quite weak at -9 index points, followed by wholesale (-3). Recreation & personal services is next weakest (-2), which may have implications for currently elevated business conditions in this sector in coming months. Elsewhere, trend orders are still strongest in construction (+9), reflecting a record pipeline of residential construction projects that is helping to offset a rapidly depleting pipeline of mining projects.
- NAB's measure of **capacity utilisation picked up in the month** (to 80.6% from 80.1%), despite softer trading conditions and a large drag from the wholesale sector (down 6.8 ppts), largely unwinding the decline recorded last month. Outcomes were quite mixed across industries; aside from wholesale, utilisation rates also fell notably in transport (down 1 ppts) and manufacturing (down 0.8 ppts). This was more than offset by higher capacity utilisation in retail (up 2.9 ppts), mining (up 1.6 ppts) and recreation & personal services (up 1.3 ppts) – construction posted a more modest rise. As a result of previous declines, trend utilisation rates have moderated notably, and remain well below pre-GFC levels – capacity utilisation in most industries is also only at (or below) long-run averages. Nevertheless, **capacity utilisation remains well up on previous lows**, coinciding with a significant improvement in the labour market.
- Despite the rise in capacity utilisation, the **capital expenditure index was slightly lower** in month at +5 index points, but while the index is down from the highs of 2015, it has sustained the prominent gains in the index over recent years – remaining consistent with its long-run average level. Average capex would **suggest solid growth in non-mining business investment** (which has a higher weighting in the survey). In trend terms, capex in recreation/personal services is the highest (+10 points) and transport & utilities is lowest (-1 points) – the only industry with a negative index (trend).
- Elsewhere in the survey, **cash flow** (not seasonally adjusted) was the strongest in transport, and the weakest in mining.

### Sales orders are subdued Forward Orders (net balance)



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

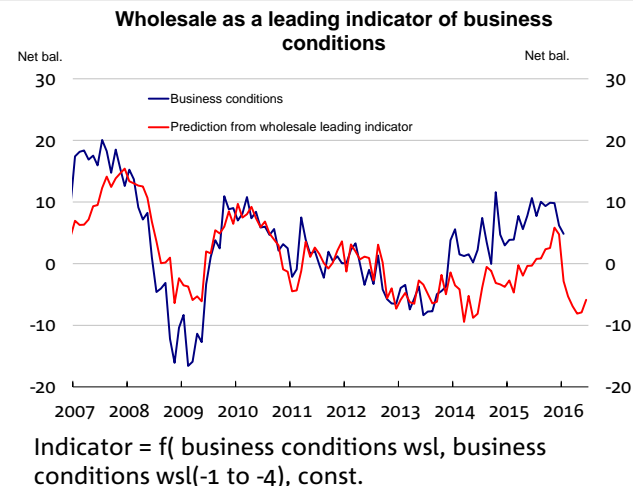
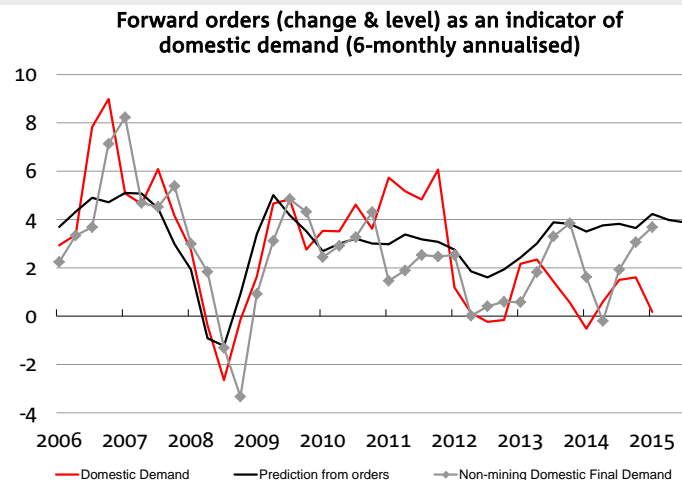
### Capacity utilisation by industry



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

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

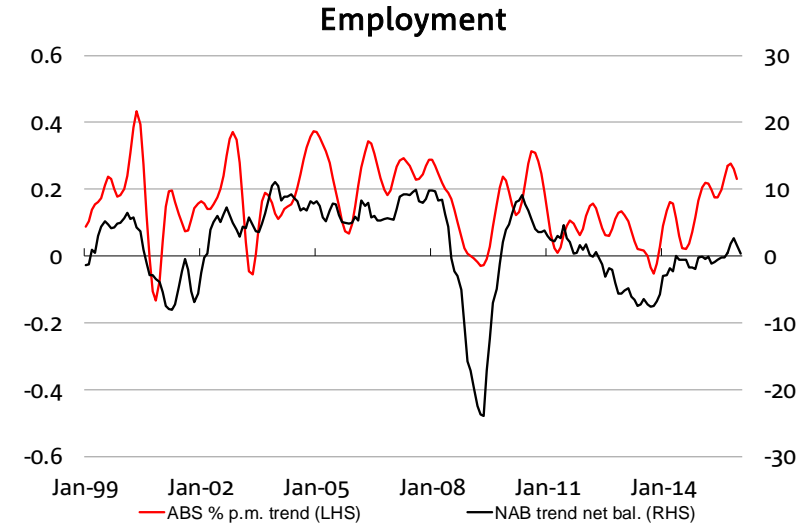
- We recently lowered our 2016 global forecasts to 3.0% in the face of a continuing sharp recession in Brazil, lower commodity prices, global equity market uncertainty and rising spreads – weakness in late 2015 in the USA has also not helped. Global growth continues to disappoint and remains sub-trend as the slowdown continues across many emerging market economies. The latest bout of financial market volatility and sliding commodity prices further illustrate the risks, which have become more weighted to the downside. Nor do we see much sign of a pick up in 2017 (3.3% forecast). These numbers remain significantly lower than recent IMF revised (down) global forecasts.
- While the international risks have tilted to the downside, the central case for the Australian economy remains for a moderate recovery across the non-mining economy over the next two years. Real GDP is forecast to pick up gradually to 2.7% in 2016 and 3.0% in 2017. While headwinds from lower mining investment will continue, strong activity and exports from services sectors should continue to support employment and, coupled with lower oil prices, household spending. The unemployment rate is expected to ease gradually to 5.5% by end-17. Amidst low commodity prices however, the terms of trade, national income and associated government revenue will remain weak. In addition, confidence channels will need to be closely watched for any evidence that current financial market volatility and equity market declines translate into more cautious spending and investment behaviour by households and businesses. From a monetary policy perspective, the RBA's central case scenario is closely aligned with our own, and we anticipate no change to monetary policy over the course of 2016. However, with the RBA's easing bias clearly in place, it will be important to monitor developments in global growth (especially China), the local labour market and the AUD for any shifts in the balance of risks.
- **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 Q4 and January to our model suggests that predicted domestic demand growth for Q4 2015 and Q1 2016 should be relatively steady.
- **Business conditions derived from our 'wholesale leading indicator' (below), which has previously had a good leading relationship with economic activity, would imply significantly 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. Consequently, this index may not be providing as useful a signal of the broader economy as was previously the case.



# Costs, prices & labour

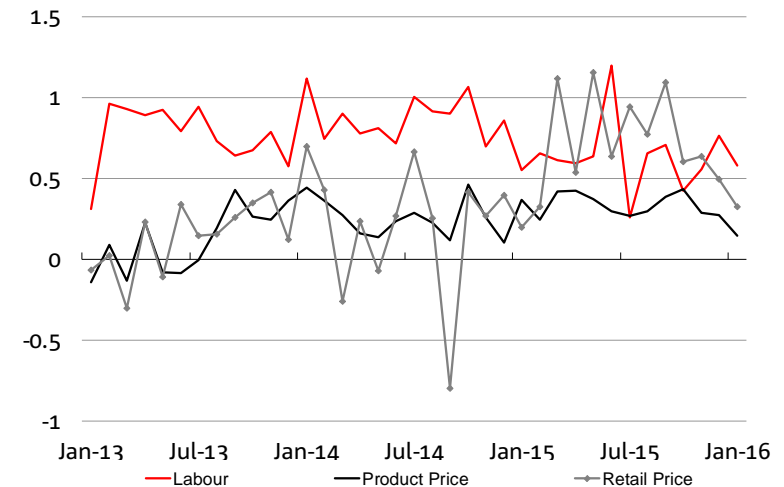
- The NAB Survey's employment index eased back into negative territory in January (to -1, from 0), pointing to less momentum in employment growth in the coming six months – suggesting annual job creation of around 170k (14k per month). This compares to a trend increase of 27.5k in December according to the ABS. The fall in employment conditions was particularly pronounced in a handful of industries, namely manufacturing (down 17), mining (down 14) and retail (down 7), consistent with weak business conditions for these industries. In contrast, transport recorded a reasonable gain (up 11), construction was the only other industry to see an increase (up 1). In trend terms, the employment index is still very negative for mining (-11 points), despite a modest improvement in the month, while finance/ property/ business and retail are reporting the strongest employment demand. However, retail employment slipped from the top position following big deteriorations in the past two months.
- Labour cost growth (a wage bill measure) decelerated slightly in the month (down 0.2 ppts), suggesting wage pressures remain well contained – at 0.6% (a quarterly rate). Moderate labour cost growth is consistent with the currently elevated – albeit improving – rate of unemployment, subdued inflation expectations, and an apparent shift in labour toward lower average income sectors (relative to high income industries such as mining). Labour cost inflation decelerated the most in recreation & personal services (down 0.6 ppts). Labour cost pressures are highest in transport (0.9%), but continue to fall in mining (-1.2%).
- Growth in purchase costs rose slightly to 0.6% in January (at a quarterly rate), rising 0.1 ppts in the month. This is below the long-run average and towards the lower end of growth rates seen since the GFC. More subdued growth in purchase costs is a little surprising given pressures on the currency, including renewed declines in the AUD TWI since the start of the year – although subdued inflation pressures have been a common theme globally. Growth in purchase costs accelerated the most in manufacturing (up 1.2 ppts), but fell the most in retail (down 0.7 ppts). Following the spike, purchase cost pressures are now highest in manufacturing and wholesale (both 1.3%, quarterly rate).
- Final product prices growth was lower in January at a quarterly rate of just 0.1%. Final prices growth was, however, mixed across industries, with the greatest slow-down occurring in mining (down 1.2 ppts), while construction experienced the largest – albeit still modest – pick up (0.2 ppts higher). Final prices continue to fall in mining (-1.5%, quarterly rate), but are rising elsewhere – price growth was highest in wholesale (0.6%). Retail prices were consistent with a CPI below the RBA's target inflation band (0.3%, quarterly rate).

## Employment losing momentum



## Price pressures generally subdued

### Costs & prices (% change at a quarterly rate)

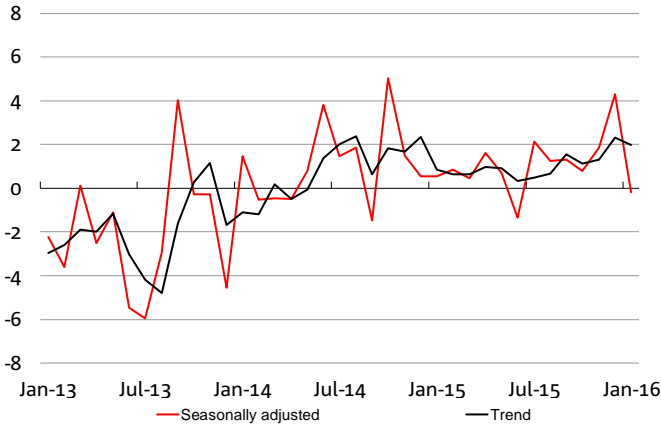


Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.

# More details on business activity

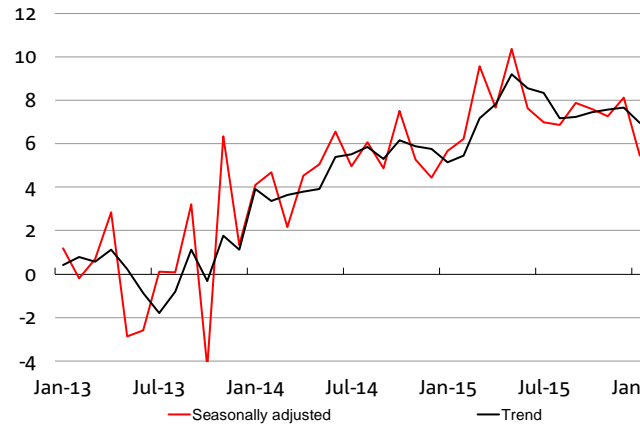
## Firms pull back on re-stocking

Stocks (net balance)



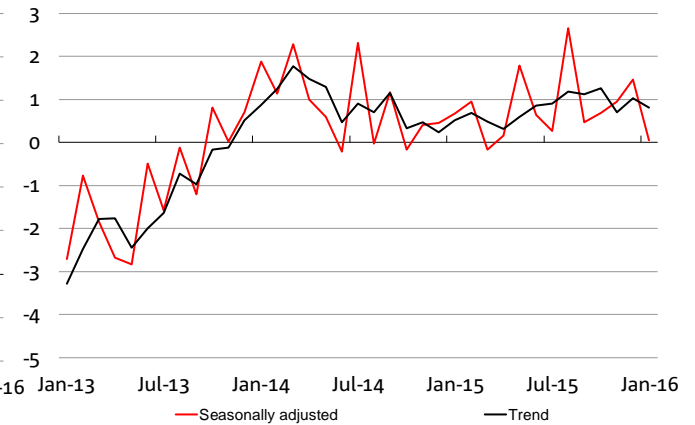
## Capex positive, but losing momentum

Capital Expenditure (net balance)



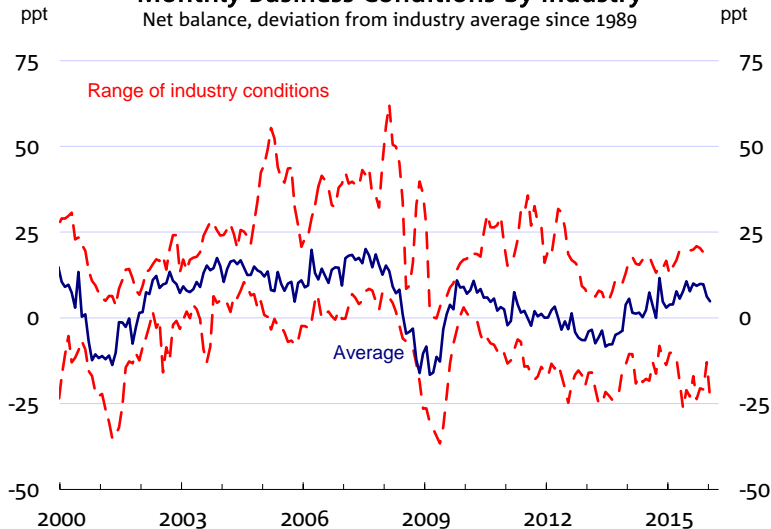
## Exports disappointingly soft

Exports (net balance)



## Range of conditions widens as mining and wholesale deteriorate sharply

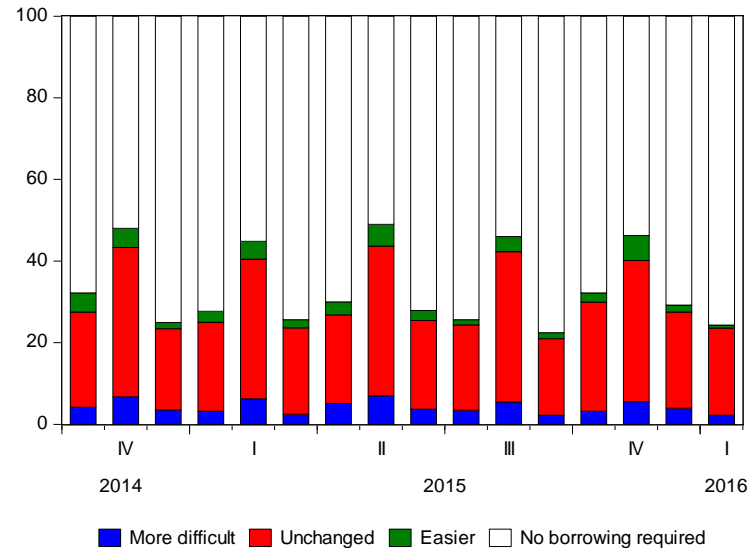
Monthly Business Conditions by Industry  
Net balance, deviation from industry average since 1989



Source: NAB

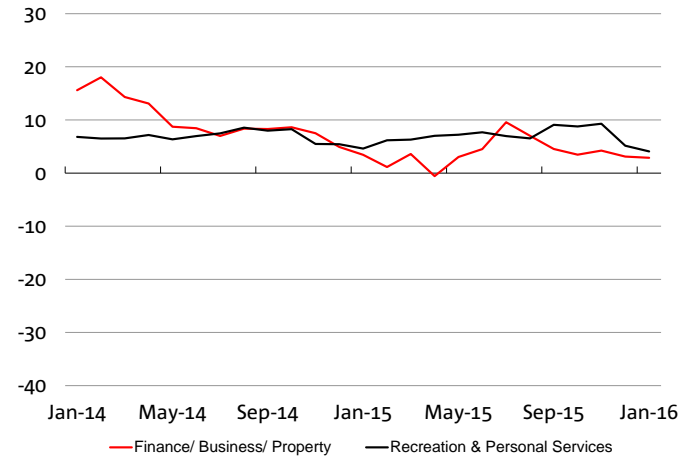
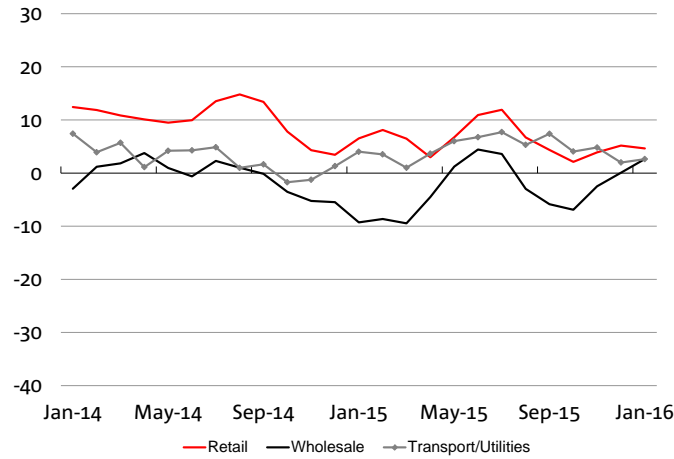
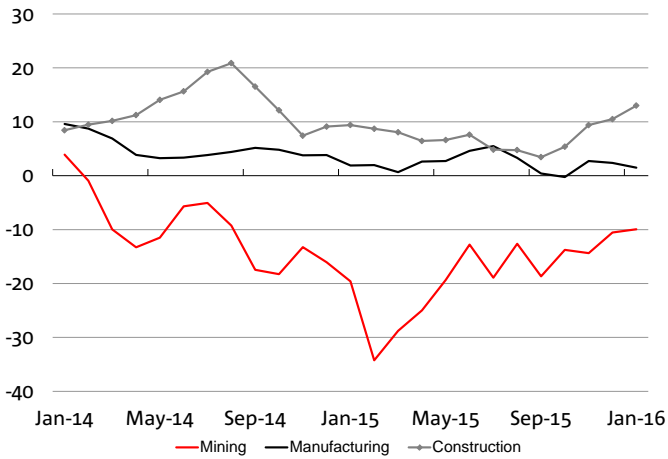
## Borrowing conditions deteriorate in past 3 months, and demand for credit fell

Borrowing conditions (% of firms)

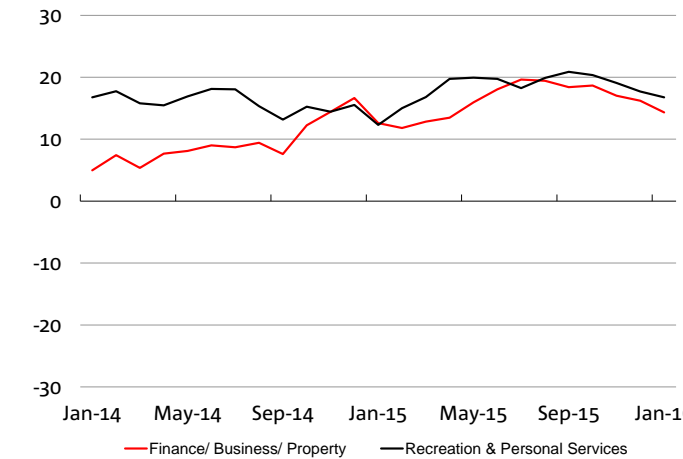
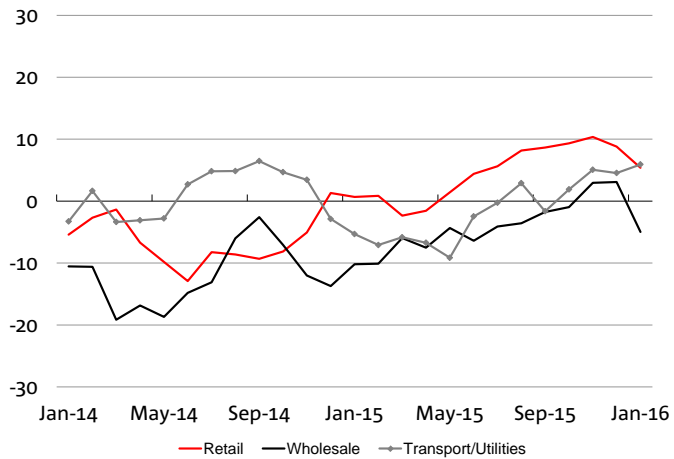
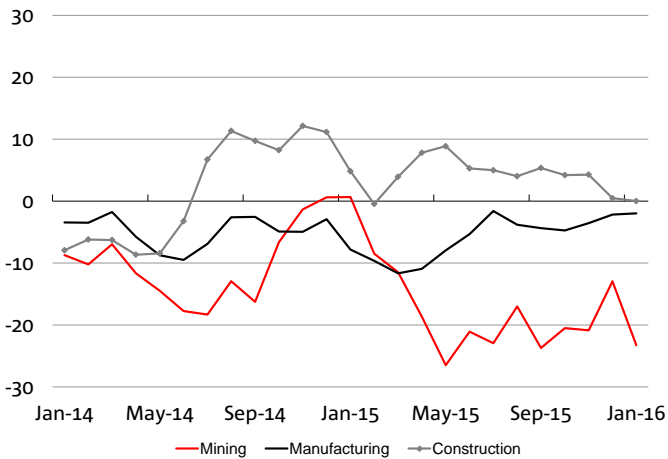


# More details on industries

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

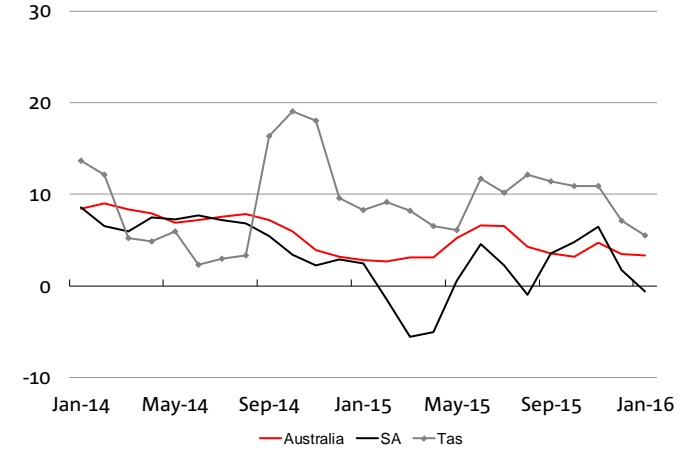
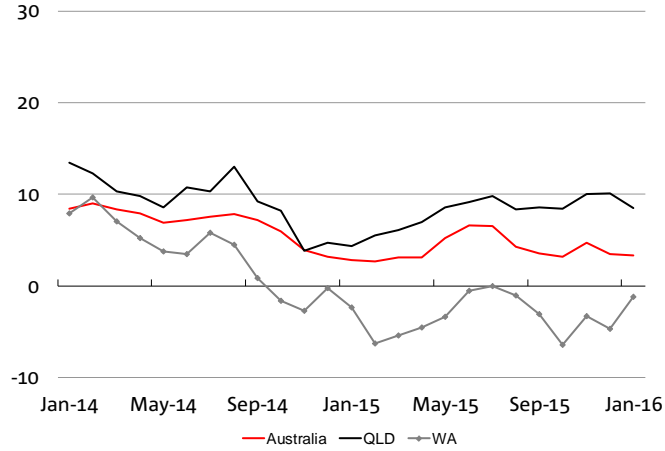
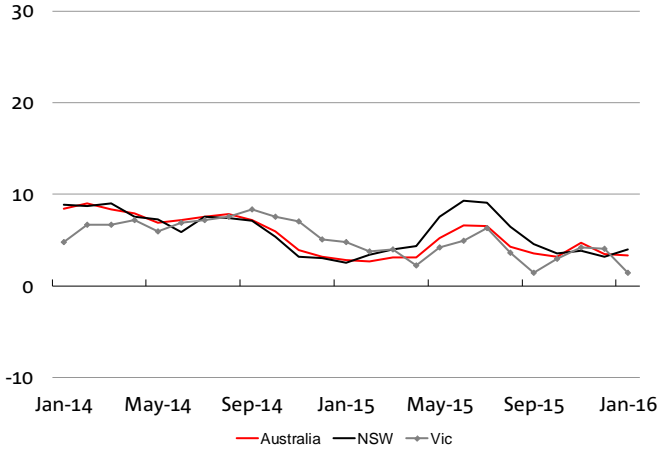


## Business conditions by industry (net balance): 3-month moving average

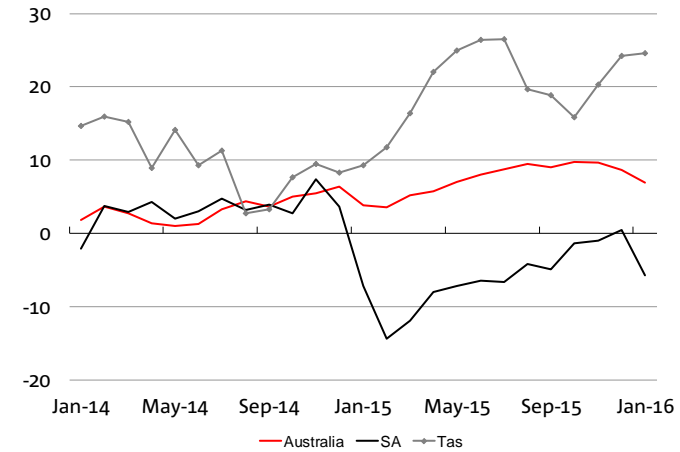
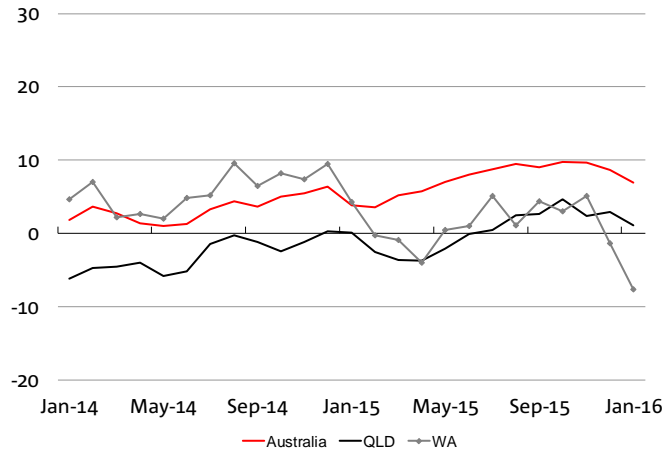
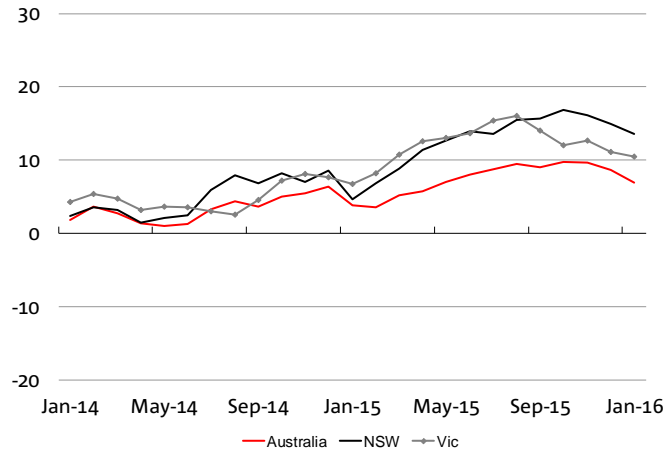


# More details on states

## 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)

Jan-2016	Mining	Manuf	Constrn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-1.2	0.3	0.8	0.6	0.6	0.9	0.5	0.8	0.6
Labour costs: previous	-2.1	0.8	1.2	0.4	0.2	1.1	1.1	1.1	0.8
Labour costs: change	0.9	-0.5	-0.4	0.2	0.4	-0.2	-0.6	-0.3	-0.2
Prices (final): current	-1.5	0.2	0.1	0.3	0.6	0.2	0.4	0.1	0.1
Prices (final): previous	-0.3	0.6	-0.1	0.5	0.5	0.4	0.4	0.0	0.3
Prices (final): change	-1.2	-0.4	0.2	-0.2	0.1	-0.2	0.0	0.1	-0.2
Purchase costs: current	0.0	1.3	0.3	0.2	1.3	0.1	0.5	0.9	0.6
Purchase costs: previous	-0.6	0.1	0.8	0.9	1.2	0.1	0.6	0.5	0.5
Purchase costs: change	0.6	1.2	-0.5	-0.7	0.1	0.0	-0.1	0.4	0.1

## Key state business statistics for the month

Jan-2016	Monthly Business Survey Data: By State						
	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	4	1	6	-7	1	-3	2
Bus. conf.: previous	3	-1	8	3	-2	5	2
Bus. conf.: change	1	2	-2	-10	3	-8	0
Bus. conf: current - Trend	4	1	8	-1	-1	6	3
Bus. conf: previous Trend	3	4	10	2	-5	7	3
Bus. conf.: change -Trend	1	-3	-2	-3	4	-1	0
Bus. conds: current	11	8	3	-19	-22	24	5
Bus. conds: previous	11	7	3	4	-4	26	6
Bus. conds: change	0	1	0	-23	-18	-2	-1
Bus. conds: current -Trend	14	11	1	-6	-8	25	7
Bus. conds: previous -Trend	15	11	3	0	-1	24	9
Bus. conds: change -Trend	-1	0	-2	-6	-7	1	-2

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