

NAB MONTHLY BUSINESS SURVEY

July 2016

By Group Economics

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For a while now, the NAB Business Survey has provided a relatively consistent message on the health of the Australian economy. It continues to show a steady recovery in non-mining activity, with the services sectors clearly leading the way. But while the Survey points to a reasonably upbeat outlook for the near to medium-term, longer term risks are becoming increasingly apparent, particularly going into 2018 as resource exports start to level off and dwelling construction turns negative. These headwinds may require additional policy action to support growth, especially if the RBA hopes to see inflation return to within its target band. Both global and domestic disinflationary pressures are expected to keep CPI inflation below the target band for an extended period, while structural shifts in the economy and modest economic growth will leave the unemployment rate under pressure. To stabilise the unemployment rate (at around 5½%) we expect the RBA will feel the need to provide further medium term support through two more 25bp cuts in May and August 2017 (to a new low of 1%). And thereafter raises the prospect of the RBA thinking about the use of non-conventional monetary policy measures.

	May 2016	Jun 2016	Jul 2016		May 2016	Jun 2016	Jul 2016
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	3	5	4	Employment	1	4	4
Business conditions	10	11	8	Forward orders	2	4	2
Trading	18	17	16	Stocks	4	1	2
Profitability	12	12	7	Exports	1	2	3
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.7	0.9	0.7	Retail prices	0.5	-0.2	0.8
Purchase costs	0.6	0.7	0.3			<i>Per cent</i>	
Final products prices	0.3	0.3	0.3	Capacity utilisation rate	81.9	81.2	81.5

NAB BUSINESS SURVEY SUGGESTING NEAR-TERM STRENGTH. LONGER-TERM OUTLOOK UNCERTAIN

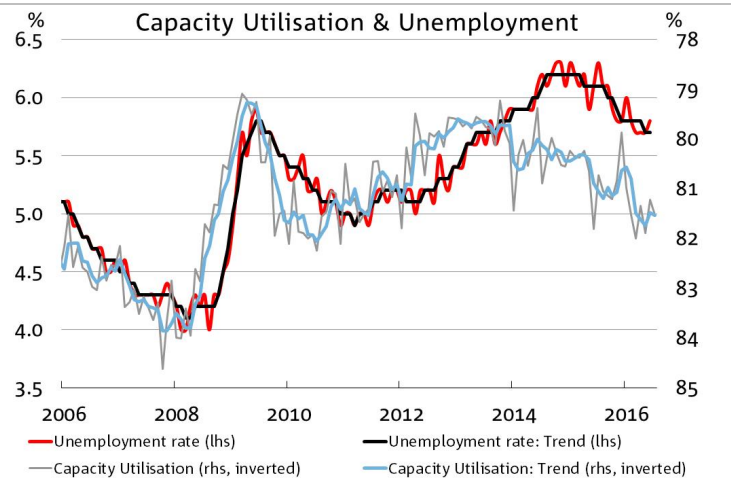
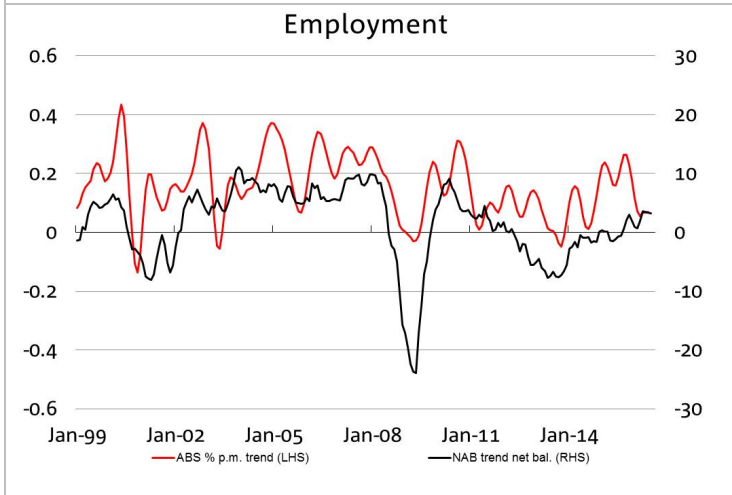
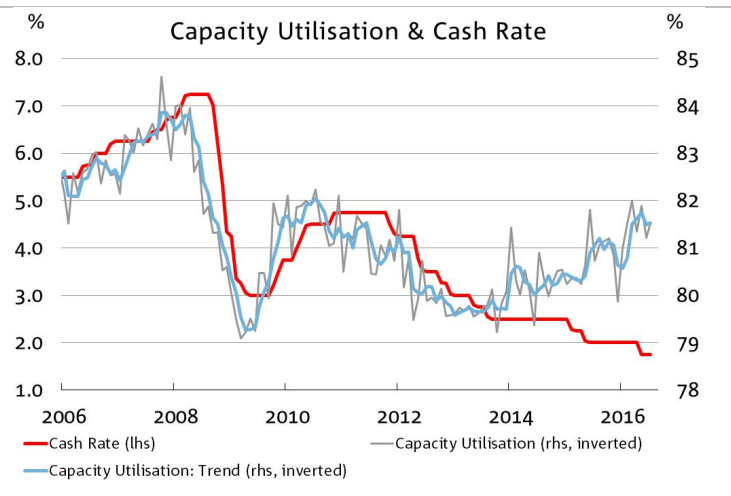
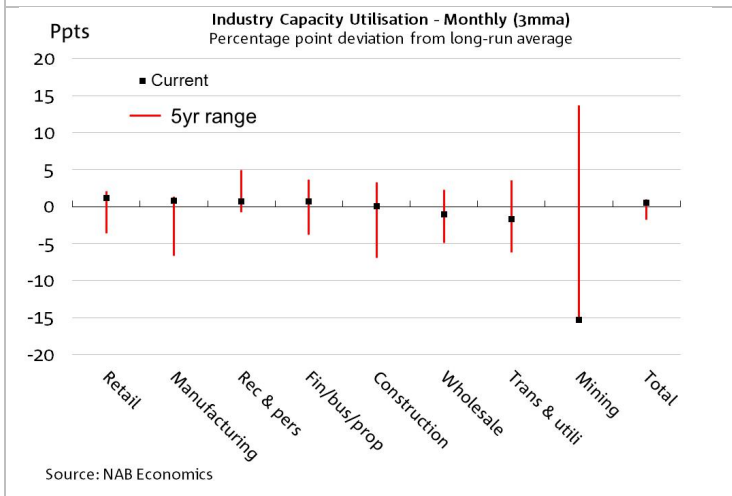
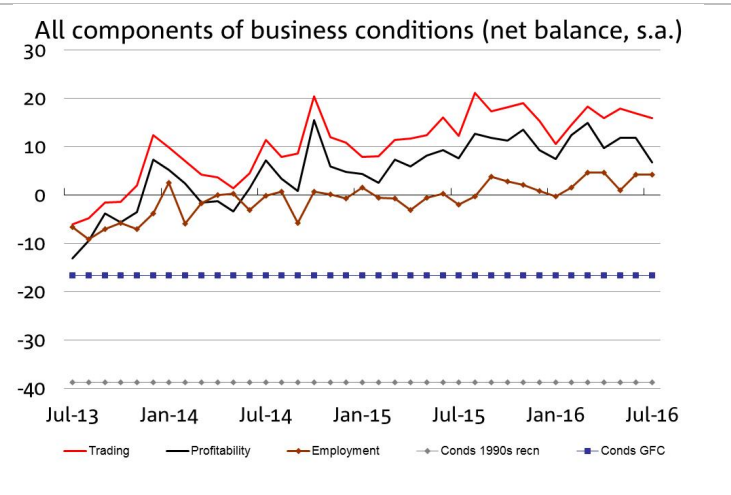
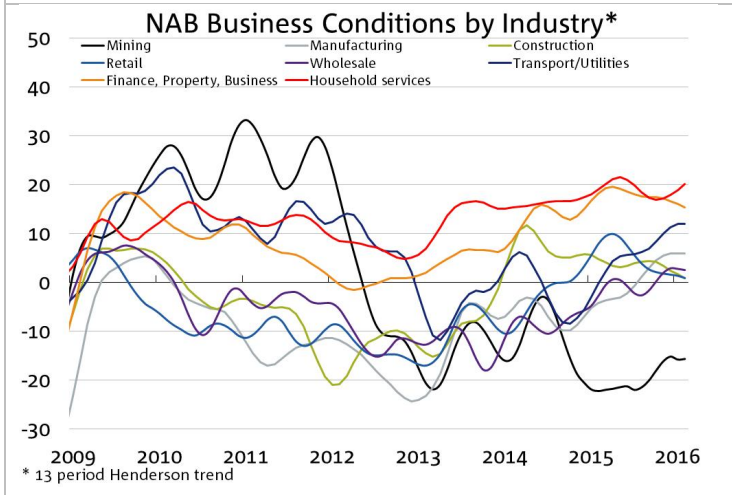
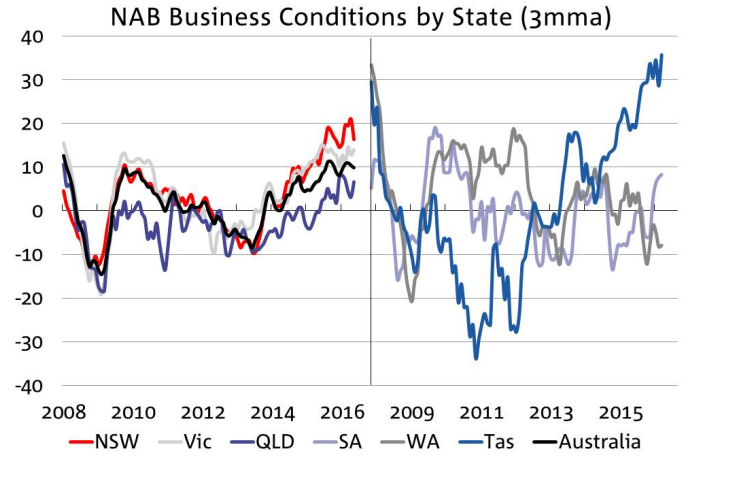
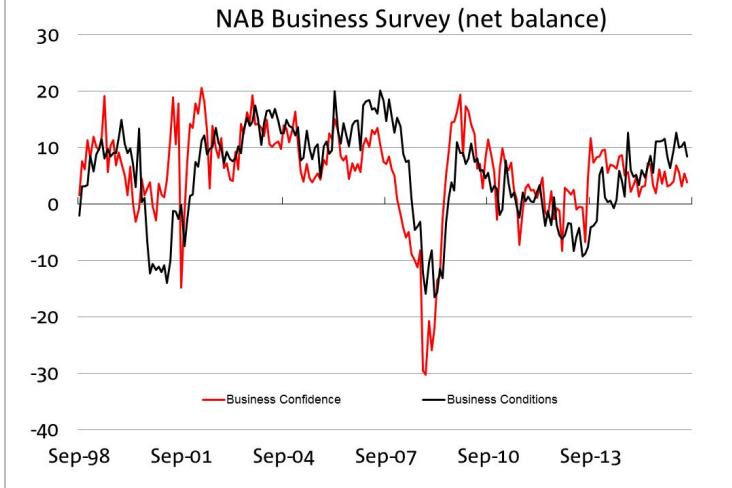
The July NAB Monthly Business Survey was conducted after firms had more time to digest the likely implications (if any) for the business stemming from Brexit and the Federal election. The headline numbers were not significantly changed in the month, with business confidence remaining positive, albeit easing, while business conditions (an aggregation of trading conditions (sales), profitability and employment) stayed relatively elevated despite losing some ground.). The business confidence index eased slightly to +4 index points in July (from +5), which is modestly below the average of +6. Business conditions dropped back as well in July, to +8 index points (from +11), but this is still quite an elevated level that sits well above the long run average of +5. While trading conditions and profitability were the main driver of elevated business conditions, both of these contributed to the deterioration during the month. The employment component managed to hold onto the gains seen in June.

According to Mr Oster, NAB's Chief Economist, "the resilience of business confidence appears to stem largely from the fact that firms are still experiencing very elevated levels of business conditions – noting that the Survey was also conducted prior to the RBA recent decision to cut the cash rate 25bps." In response to the implications of the results, Mr Oster said, "although some of the headline measures from the Survey eased a little in the month, we continue to be encouraged by the results. The outcome is still suggesting that the near-term outlook for the non-mining economy is a good one, which is helping prop up demand for labour, albeit primarily in the major eastern states. Interestingly, the employment index has exhibited a better trend than official labour market statistics".

There were some notable differences in business conditions across industries this month. The largest deterioration was in mining, followed by big falls in transport and wholesale. Retail saw the largest improvement, following a weak result last month. On the industry trends, Mr Oster notes that "the contribution from major industries suggests a relatively mixed bag, with service sectors continuing to be the best performers. Signs of a broadening recovery in recent months have again become more obscure following sharp deteriorations in transport and wholesale – although the recovery in retail conditions was encouraging. This was also reflected in a spike in the Survey's measure of retail prices, although this has seen a fair bit of volatility recently."

The Survey's leading indicators are pointing to a solid near-term outlook. Forward orders eased a little, but have been positive for 8 of the past 9 months. NAB's measure of capacity utilisation partially recovered from last month's drop, showing a positive trend and supporting the index of capital expenditure. However, Mr Oster has pointed out that "while the Survey suggests strength in the near-term, the longer term risks are becoming increasingly apparent, particularly going into 2018 as resource exports flatten and dwelling construction turns negative. These headwinds will require additional policy action to support growth and lift inflation back within the RBA's target band. We now see the RBA doing two more 25bp cuts in May and August 2017 (to a new low of 1%). And thereafter raises the prospect of the RBA thinking about the use of non-conventional monetary policy measures".

NAB Monthly Business Survey



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