NAB Monthly Business Survey
Subscriber Details

by NAB Group Economics

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Next release: 13 September 2016 (August monthly)

July 2016

National Australia Bank

Key Points:

- **Business sentiment has shown great resilience to external shocks in the July NAB Monthly Business Survey**, with firms choosing to remain focussed on the positive trends within their own business. Despite the cacophony of events – including Brexit and the recent Federal election – that have posed a risk to market sentiment in the past month or so, **firms are continuing to report positive levels of business confidence (albeit a little below average levels)**. The **business confidence index eased slightly to +4 index points in July** (from +5), which is modestly below the average of +6. 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.
- **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.** The contribution from major industries suggest 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 a recovery in retail conditions was encouraging. While trading conditions and profitability have been the main driver of elevated business conditions, both of these contributed to the deterioration during the month. **Encouragingly, the employment component managed to hold onto the gains seen in June, suggesting ongoing employment growth.** Inflation measures in the Survey generally stayed soft, although there was a surprise spike in retail prices.
- 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 5 ½%) 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 considering the use of non conventional monetary policy measures.

Table 1: Key monthly business statistics*

	May 2016	Jun 2016	**Jul 2016**		May 2016	Jun 2016	**Jul 2016**
	Net balance				*Net balance*		
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**
	% change at quarterly rate				*% change at quarterly rate*		
Labour costs	0.7	0.9	**0.7**	Retail prices	0.5	-0.2	**0.8**
Purchase costs	0.6	0.7	**0.3**		*Per cent*		
Final products prices	0.3	0.3	**0.3**	Capacity utilisation rate	81.9	81.2	**81.5**

* 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 25 to 29 July, covering around 400 firms across the non-farm business sector.

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Subscriber details: major indicators

Figure 1: Business confidence

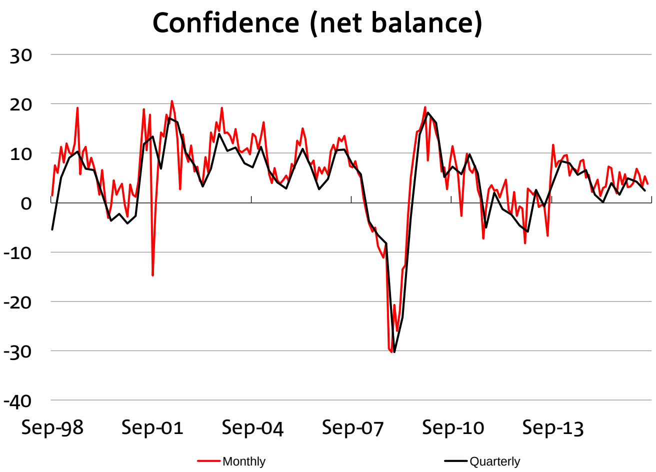


Figure 2: Business Conditions

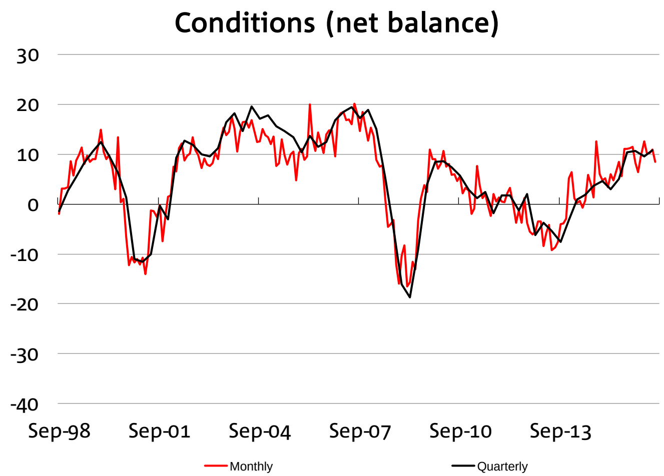


Figure 3: Domestic sales & exports

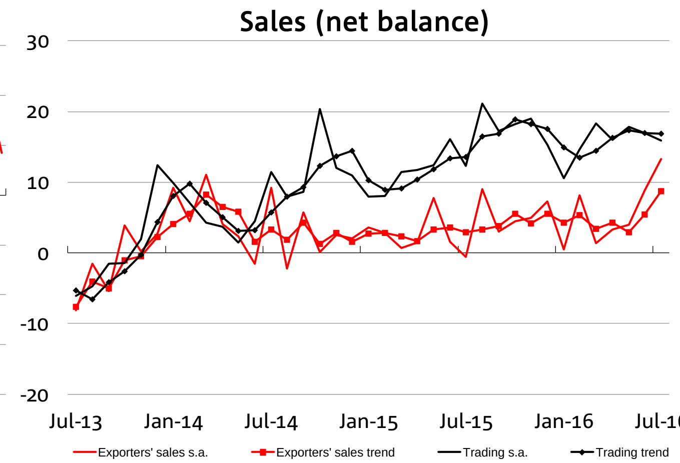


Figure 4: Re-stocking activity

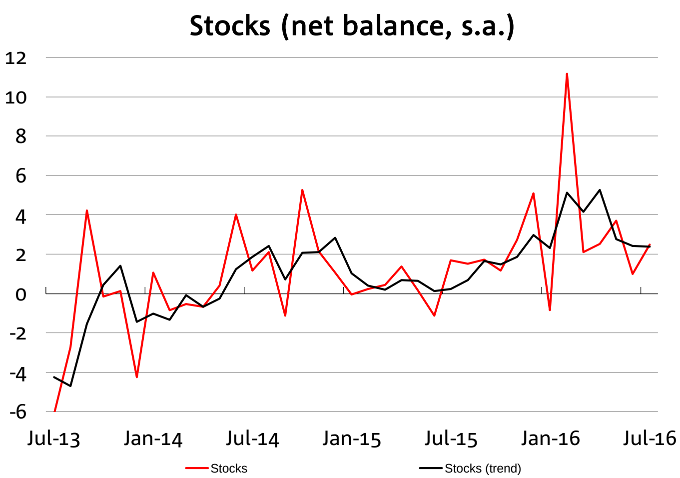


Figure 5: New Orders

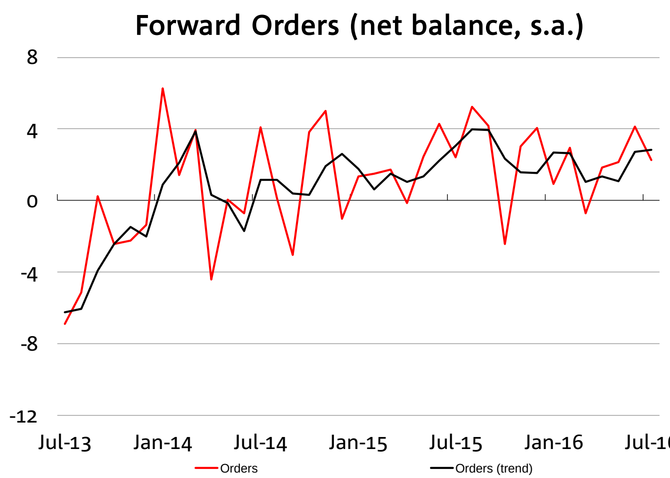
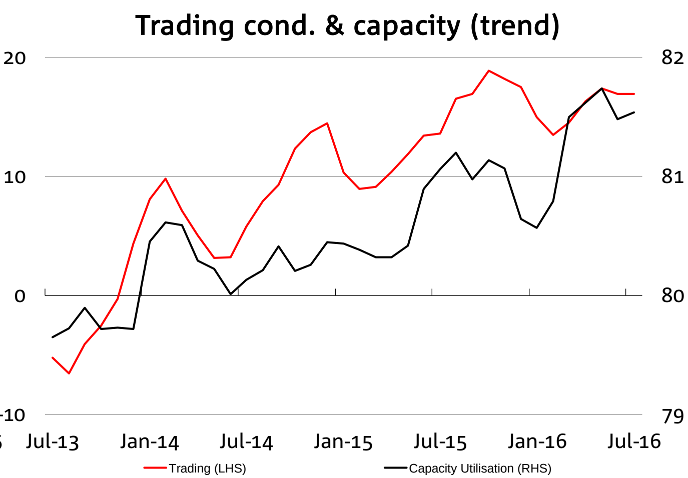


Figure 6: Utilisation rates and trading conditions



Employment: long view

- The NAB employment index has a strong statistical relationship with ABS employment data going back to the late 1980s and appears to lead annual employment growth by around 6 months. In this respect, improved outcomes for the index 6 months ago suggest a solid labour market in the near term. Employment conditions recovered in June, with the current reading for employment in the Survey consistent with annual growth in employment of over 210k per annum (in the year to November 2016) or 18k jobs per month over the next 6 months – a rate above the current trend employment growth (8k), and could see the unemployment rate ease slightly.
- The NAB Survey's employment index held on to the solid gain from last month and is consistent with strong trading conditions – the index stayed at +4 index points in July. Despite the solid result, more than half of the industry groupings in the Survey recorded weaker employment conditions this month. The worst decline was in mining, while construction saw a large jump – likely reflecting high rates of residential construction activity. Service sectors are generally suggesting solid labour demand, with the trend for personal services holding up, following a soft patch in late 2015/early 2016.
- Our expectation for the labour market is that solid rates of economic activity and soft wages growth will maintain a good level of job creation. However, this will be largely offset by additional labour supply, keeping the unemployment rate relatively steady near current levels (a little over 5½%) A further 50K jobs are also expected to be lost in the mining sector.

Figure 7: ABS employment data losing momentum. NAB employment conditions are trending the other way.

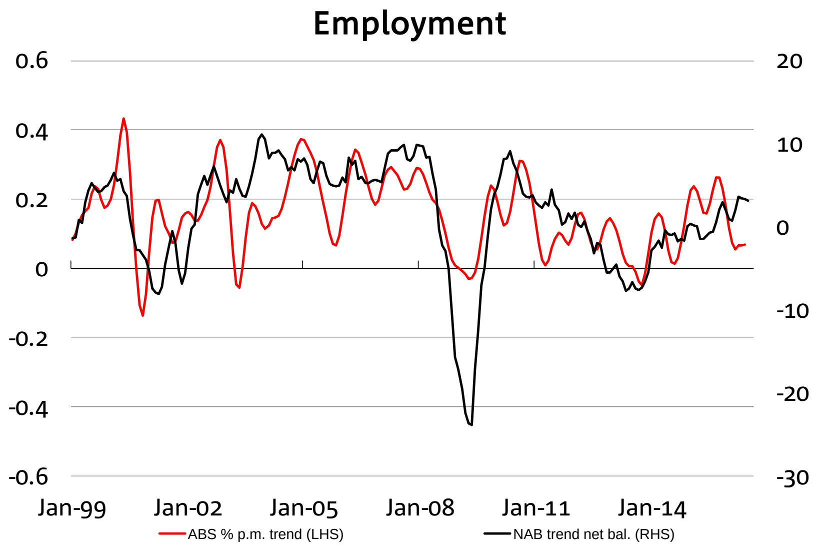
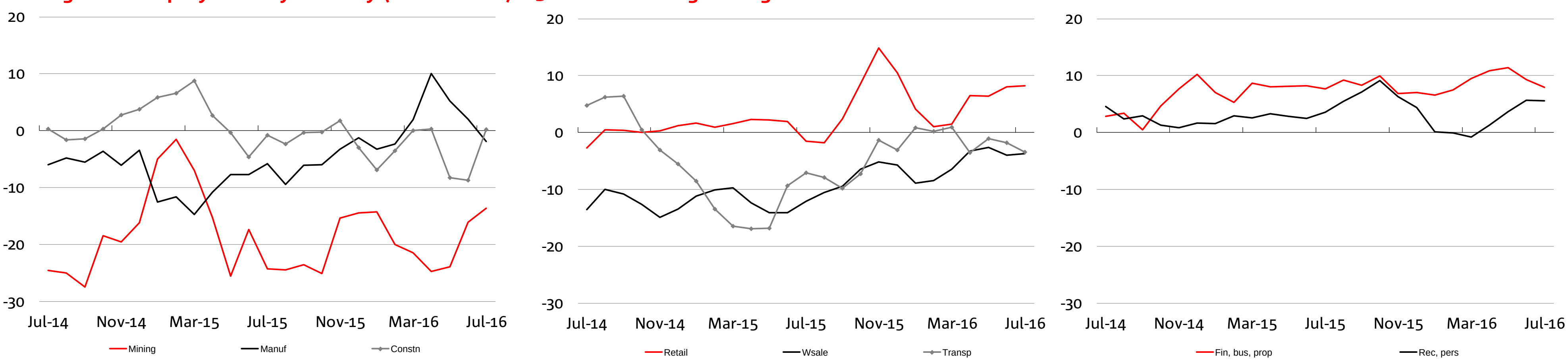


Figure 8: Employment by industry (net balance) – 3-month moving average



Employment (cont.)

Figure 9: Labour costs by industry (per cent) – % change at a qtrly rate, seasonally adjusted

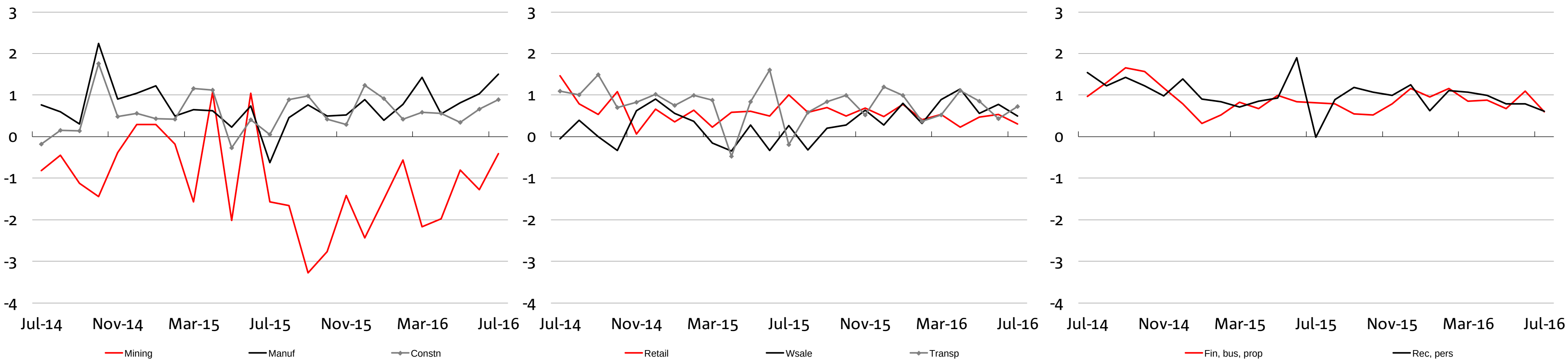
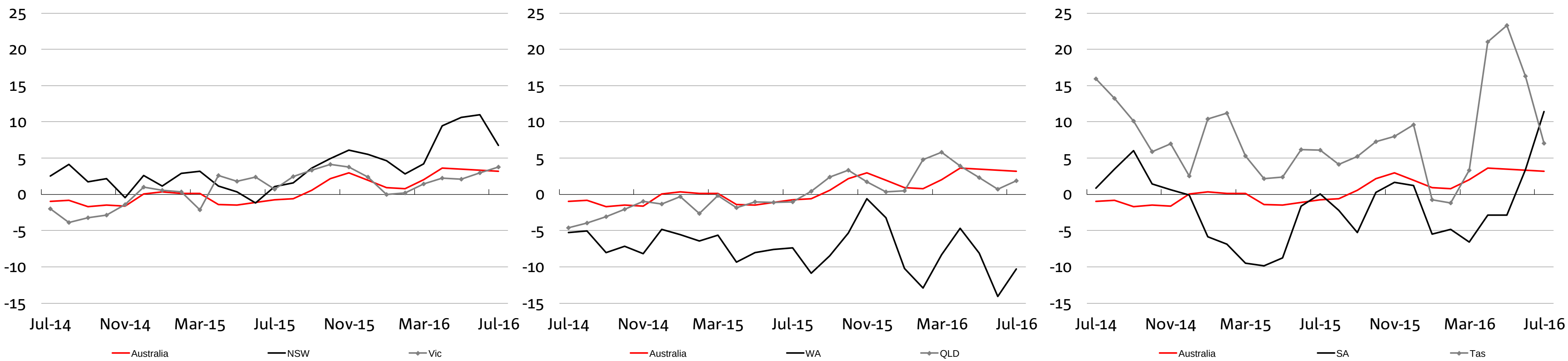
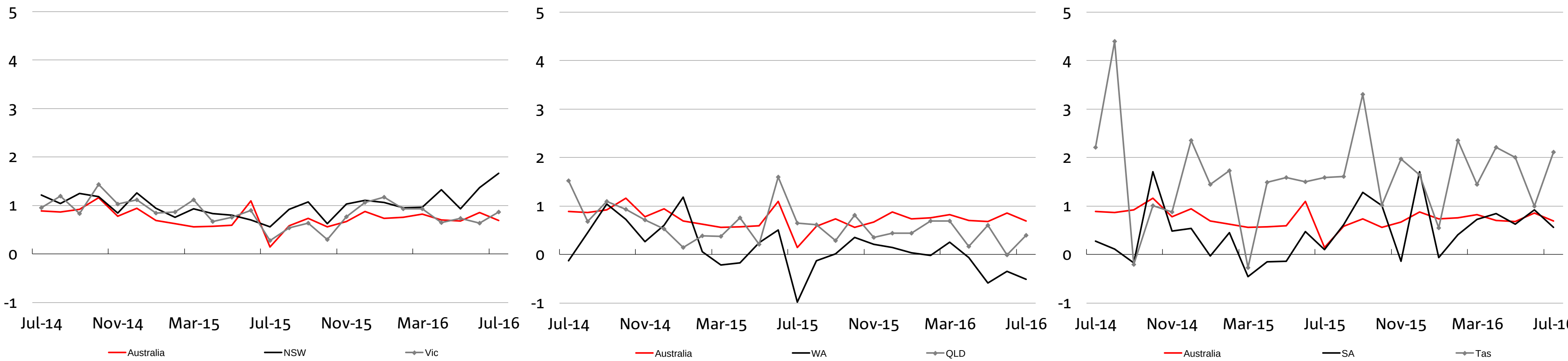


Figure 10: Employment by state (net bal.) – 3-month moving average



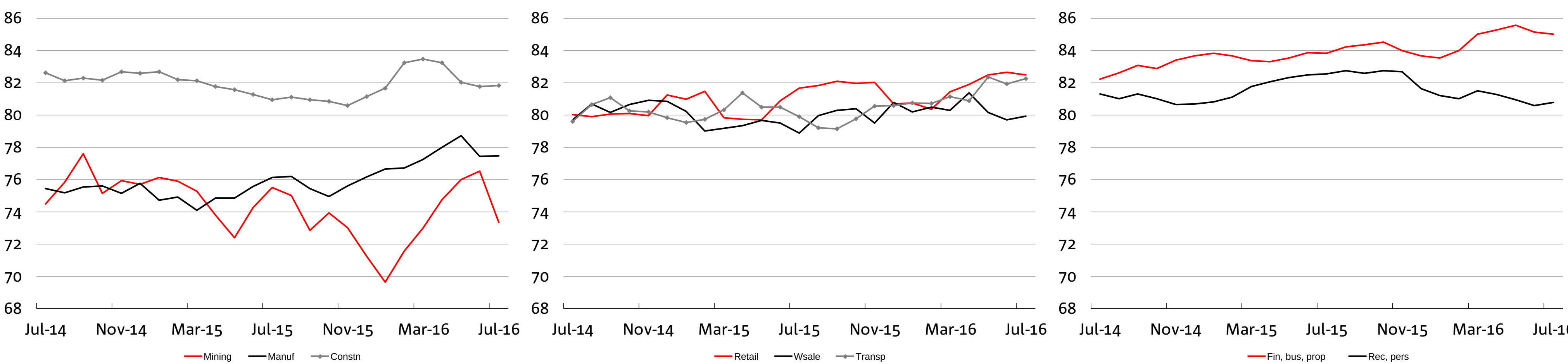
Employment (cont.)

Figure 11: Labour costs by state (per cent) – % change at a quarterly rate, seasonally adjusted



Capacity utilisation

Figure 12: Capacity utilisation by industry (per cent) – 3-month moving average



Retail focus

- The retail industry outcomes in the NAB Monthly Business Survey were somewhat mixed in July, but still suggest a subdued trend. The business conditions index for retail jumped notably in July, lifting out of negative territory, but the trend is still well below the national average, suggesting it is likely to be industry specific factors that are at play, rather than widespread weakness in demand. Soft growth in retail sales and very subdued (albeit improved) retail trading conditions this month suggest that demand within the industry has stayed weak. This could reflect a more uncertain outlook for the housing market, although other headwinds to consumption remain – including very weak wages growth and elevated levels of household debt. Weak demand and competitive pressures are also limiting firms' ability to pass on costs, impacting retail profitability.
- Retail conditions jumped 12 points to +4 index points in July, although the trend remained at +1 index point – slightly below the series average.
- Consumer sentiment has improved. The NAB Consumer Survey for Q2 2016 showed that consumer anxiety continued to ease, but spending behaviour remained relatively restrained in terms of discretionary spending. Other measures of consumer sentiment weakened in July, although arguably held up relatively well in light of Brexit and domestic political uncertainty. There may also be a (probably temporary) improvement in confidence following the RBA's announced rate cut in August.
- However, retail orders weakened notably – suggesting a soft near-term outlook – although retailer confidence was steady.
- Retail reported a notable increase in final price inflation, possibly in response to recent cost pressures/margin squeeze – rising from -0.2% to 0.8% (quarterly rate), above the RBA CPI target band. In contrast, both purchase cost and labour cost inflation eased slightly (to 0.4% and 0.3% respectively, quarterly rate).

Figure 13: Business conditions by industry

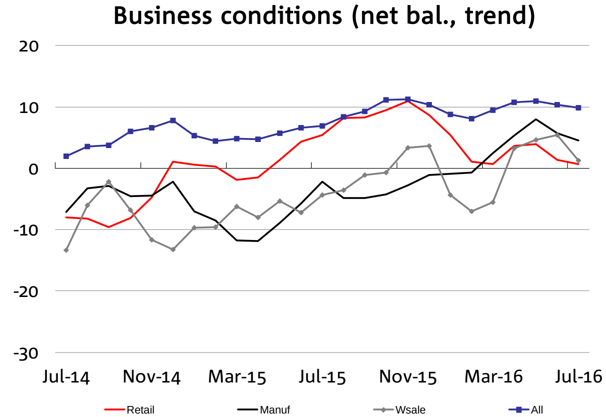


Figure 14: Retail costs & prices

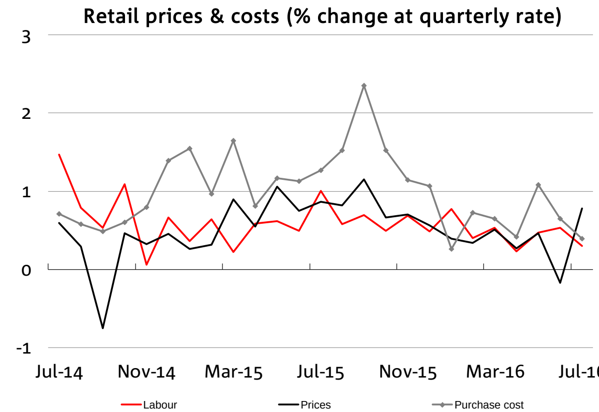
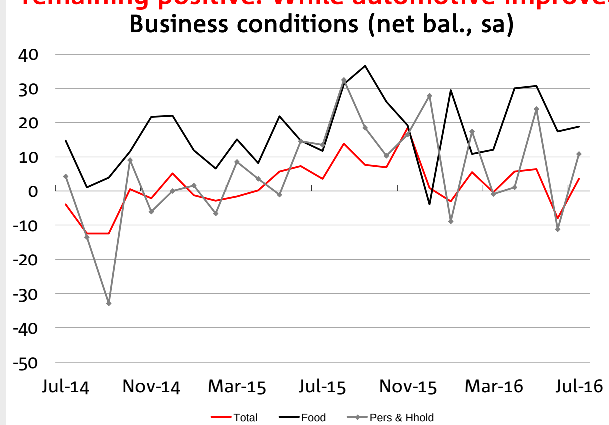
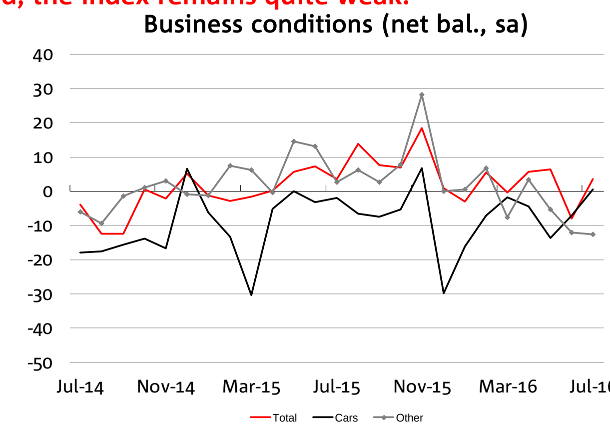


Figure 15: Retail sub-sectors – Most subsectors deteriorated, with food the only sub-sector remaining positive. While automotive improved, the index remains quite weak.





State focus: QLD

- According to the NAB Business Survey, firms have remained quite resilient to the cacophony of external events that threatened to shake the foundations of the non-mining recovery. Business conditions are elevated and confidence remains positive, albeit easing in the month. While the major eastern (non-mining) states have generally been the biggest standout, reflecting a shift back towards non-mining drivers of growth, Queensland has been more of a mixed bag given both the importance of mining in some regions and more diverse regions elsewhere (particularly in the south-east). Business conditions in Qld saw an increase in July, rising 9 points to +11 index points, a level that is above the national average. However, business conditions in Qld have been quite volatile, reflecting the numerous economic cross-winds, with trend conditions lagging behind most other states (besides the other major mining state of WA).
- The improvement in (trend) business conditions for Qld was primarily driven by very strong increases in trading conditions (sales), although profitability and employment both increased as well. Despite the improvement in July, employment demand has continued to lag behind activity measures in the Survey. However, the trend has started to turn around this month, having steadily weakened since early in the year.
- Leading indicators for NSW from the Survey were quite mixed in July. Business confidence was down sharply, although it was flat in trend terms – leaving the trend only slightly below the historic average. In contrast, trend forward orders improved and are above average levels – suggesting a better near-term outlook – although the index is still well below recent highs. Despite this, capacity utilisation is trending down again, which suggests less potential for an improvement in the state's labour market and business investment outlook. Nonetheless, the survey's index of trend capital expenditure improved in July.

Figure 16: NSW Business conditions (3mma)

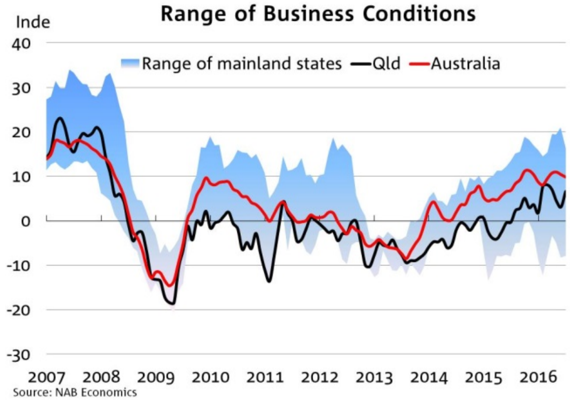


Figure 17: QLD Business Confidence (3mma)

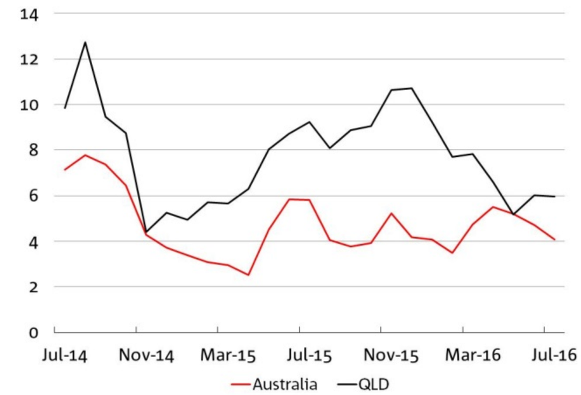


Figure 18: QLD Trend Components

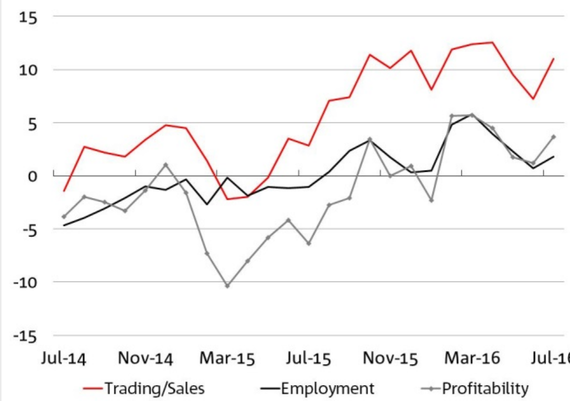


Figure 19: QLD Forward Orders (3mma)

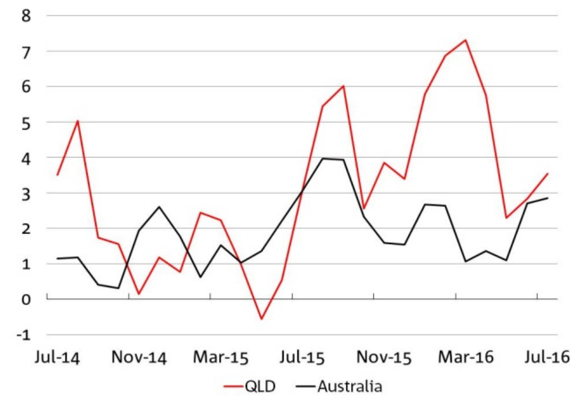


Figure 20: QLD Capacity Utilisation (3mma)

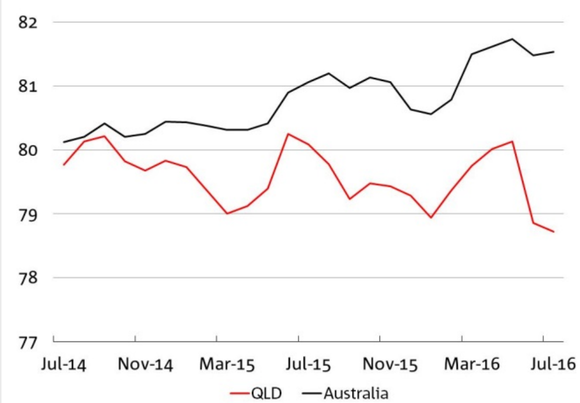
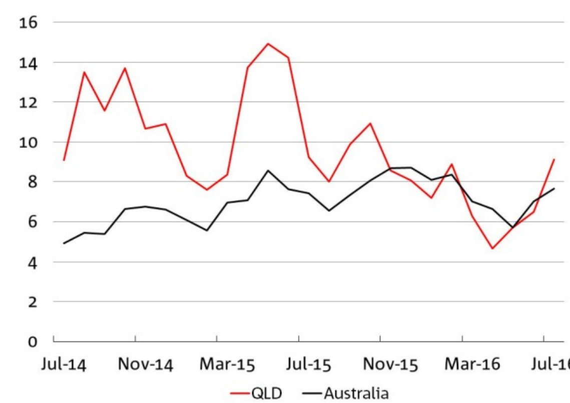


Figure 21: QLD Capex (3mma)



State focus: South Australia

- South Australian firms appear to have remained optimistic in the wake of a state Budget aimed at promoting the economy and jobs. Additionally, the NAB Business Survey has been suggesting that the economy was already showing some signs of life, even before the state Budget was handed down. Business conditions were steady at solid levels in July, remaining ahead of both Queensland and WA in trend terms and further closing the gap with the national average. The improving trend in business conditions had largely been led by a steady improvement in trading conditions (sales), and to a lesser degree profitability, but that is starting to change with better employment doing much of the heavy lifting more recently.
- The trend employment index for South Australia was very strong in July, consistent with improvements in the state's trend unemployment rate, and was the highest of all the mainland states in the month. This result might also suggest that employment in SA is set to pick-up, having remained relatively flat for a number of years. It is still not clear what impact the Government's recent policy announcements will have on the employment index going forward, especially given the 'heavy lifting' needed to offset expected job losses, particularly from the auto industry. Yet, trend business confidence held up reasonably well this month, which is an encouraging sign for the outlook.
- Trend in the business survey suggest that a turnaround in the state's economy is on the cards. However, structural (and other) challenges remain crucial to the outlook. Additional business investment is also needed to expand the state's productive capacity and build jobs. Encouragingly, the survey measure of capex has been steadily improving since mid-2015, and spare capacity has shrunk – although capacity utilisation is slightly below its recent peak.

Figure 16: SA Business conditions (3mma)

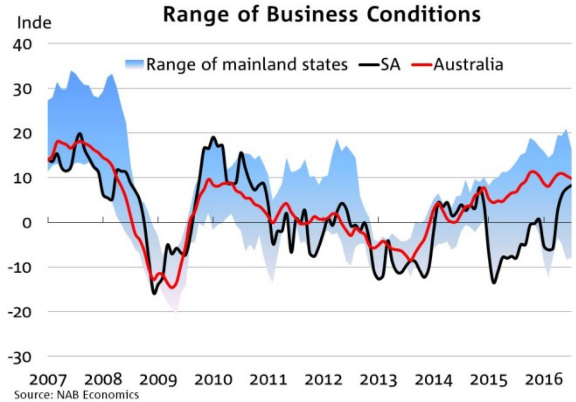


Figure 17: SA Business Confidence (3mma)

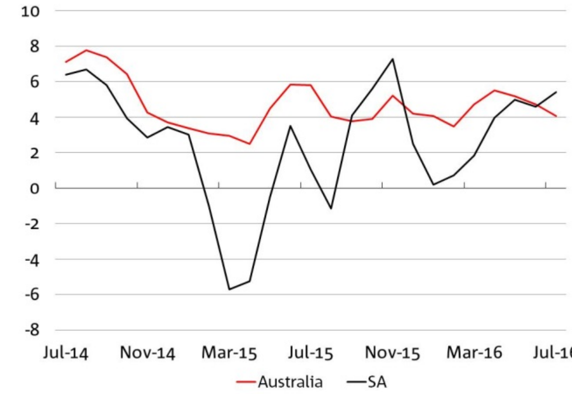


Figure 18: SA Trend Components

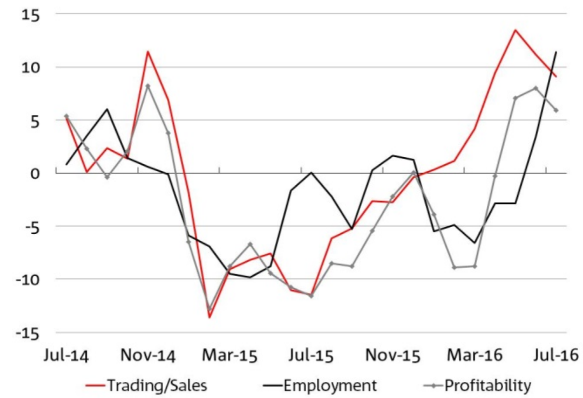


Figure 19: SA Forward Orders (3mma)

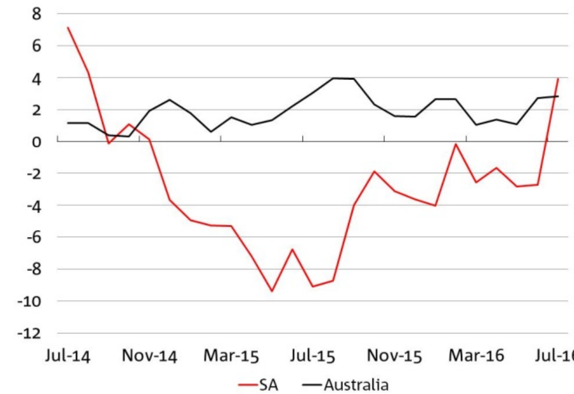


Figure 20: SA Capacity Utilisation (3mma)

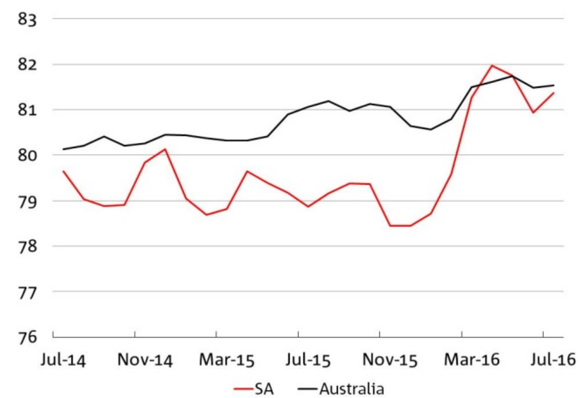
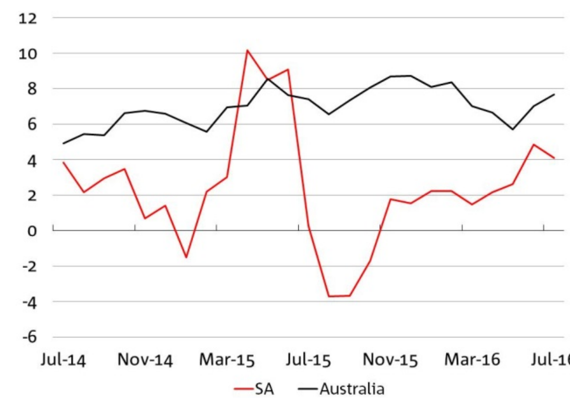
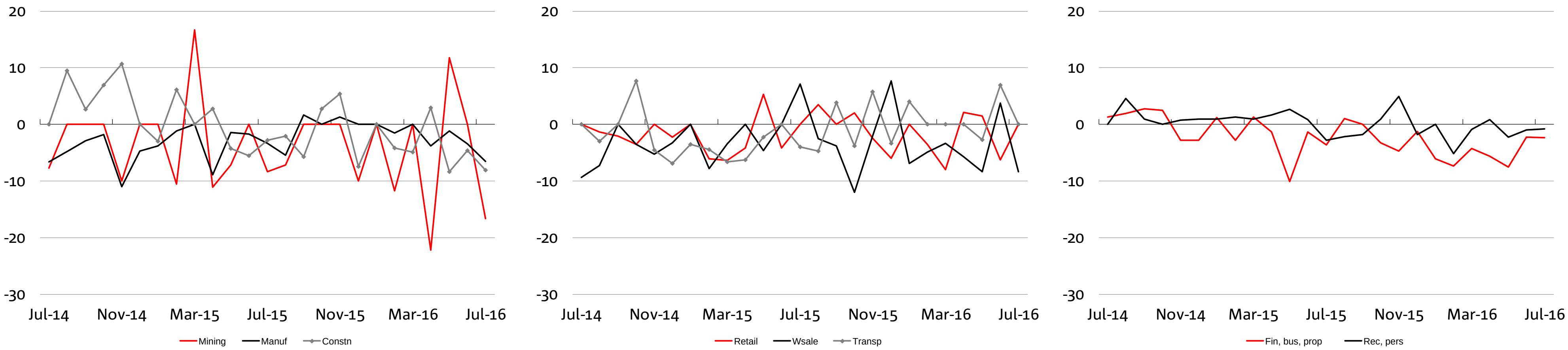


Figure 21: SA Capex (3mma)



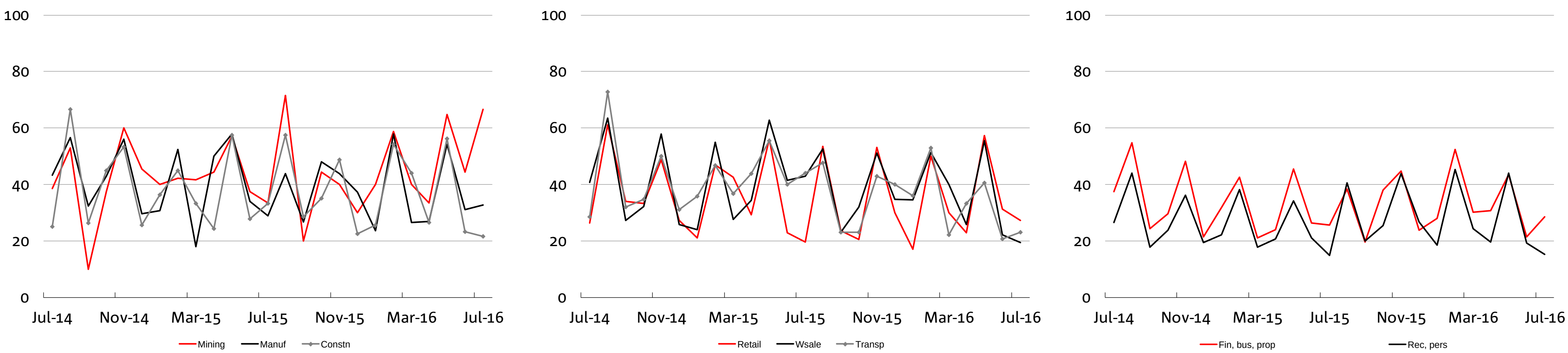
Credit demand & availability

Figure 22: Ease of borrowing index by industry (% of firms) – easier subtract more difficult



Note: compare outcomes to 3 months prior

Figure 23: Demand for credit by industry (% of firms) – borrowing required in month



Note: compare outcomes to 3 months prior

Detailed table A

	May-16	Jun-16	Jul-16
	%	%	%
Business confidence for next period			
Significant improvement	2	2	**2**
Minor improvement	18	22	**22**
No change	63	61	**62**
Minor deterioration	16	14	**13**
Significant deterioration	2	1	**1**
Index	1	4	**6**
Business conditions			
Very poor	2	1	**1**
Poor	17	14	**15**
Satisfactory	53	56	**58**
Good	24	25	**22**
Very good	3	4	**4**
Index	8	14	**10**
Trading			
Very poor	2	2	**1**
Poor	16	14	**16**
Satisfactory	48	46	**50**
Good	29	32	**27**
Very good	5	6	**6**
Index	16	22	**17**
Profitability			
Very poor	3	1	**1**
Poor	21	18	**20**
Satisfactory	43	46	**49**
Good	29	30	**25**
Very good	5	5	**4**
Index	9	16	**8**

	May-16	Jun-16	Jul-16
	%	%	%
Total labour costs			
3% or more	4	4	**7**
2% to less than 3%	5	4	**19**
1.5% to less than 2%	3	2	**5**
1% to less than 1.5%	4	1	**4**
0.5% to less than 1%	3	2	**2**
Less than 0.5%	4	1	**3**
No change	69	79	**54**
Less than -0.5%	0	1	**0**
-0.5% to less than -1%	1	0	**1**
-1% to less than -1.5%	0	0	**1**
-1.5% to less than -2%	0	1	**0**
-2% to less than -3%	2	2	**1**
-3% or more	4	3	**1**
Average (%)#	0.2	0.1	**0.9**
Purchase costs			
3% or more	3	3	**1**
2% to less than 3%	5	2	**3**
1.5% to less than 2%	5	1	**3**
1% to less than 1.5%	3	0	**3**
0.5% to less than 1%	3	2	**2**
Less than 0.5%	2	1	**3**
No change	73	88	**82**
Less than -0.5%	1	0	**1**
-0.5% to less than -1%	1	1	**0**
-1% to less than -1.5%	1	0	**0**
-1.5% to less than -2%	1	0	**1**
-2% to less than -3%	1	1	**0**
-3% or more	1	0	**0**
Average (%)#	0.3	0.2	**0.2**

Figures are expressed as quarterly percentage changes.

See Quarterly Business Survey for technical data and definitions. All data in original terms. Seasonally adjusted data are available by direct subscription and/or external data providers (such as Bloomberg, Thomson Reuters & Ecowin).

Detailed table B

	May-16	Jun-16	Jul-16
Employment			
Much less	1	0	**0**
Less	15	11	**10**
Unchanged	69	74	**75**
More	15	14	**14**
Much more	1	1	**1**
Index	0	3	**5**
Forward orders			
Much less	1	1	**0**
Less	11	7	**10**
Unchanged	32	30	**33**
More	12	12	**10**
Much more	1	1	**1**
Not applicable	43	48	**45**
Index	1	5	**2**
Stocks			
Much less	1	1	**0**
Less	10	10	**8**
Unchanged	39	38	**40**
More	13	7	**8**
Much more	1	1	**1**
Not applicable	36	43	**42**
Index	2	-2	**1**

	May-16	Jun-16	Jul-16
Price of final products			
3% or more	4	2	**3**
2% to less than 3%	4	1	**4**
1.5% to less than 2%	2	0	**2**
1% to less than 1.5%	3	1	**2**
0.5% to less than 1%	2	1	**2**
Less than 0.5%	1	0	**1**
No change	74	88	**81**
Less than -0.5%	1	1	**1**
-0.5% to less than -1%	1	0	**0**
-1% to less than -1.5%	1	1	**1**
-1.5% to less than -2%	1	1	**0**
-2% to less than -3%	3	1	**1**
-3% or more	3	2	**1**
Average (%)#	0.1	0.0	**0.2**
Current output level			
Full capacity	16	14	**14**
90% of full capacity	28	24	**24**
80% of full capacity	26	31	**31**
70% of full capacity	15	16	**19**
60% of full capacity	7	7	**6**
Below 60%	5	4	**3**
No response	5	4	**3**
Capacity utilisation rate	81.6	81.0	**81.0**

Figures are expressed as quarterly percentage changes.

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