

# NAB MONTHLY BUSINESS SURVEY

## AUGUST 2016



### Key points:

- Despite some moderation in business conditions, **results from the NAB Monthly Business Survey remain reasonably upbeat**. Business sentiment has proven to be resilient to negative influences over recent months, which has flowed through to more stable (and above average) levels of labour demand. **The business confidence index rose slightly to +6 index points in August** (from +4), which is consistent with the long-term average of +6. Solid outcomes for business conditions have likely underpinned business confidence in recent months, but the RBA's 25bp cut to the cash rate may have further bolstered sentiment in August – although the improvement in confidence was not broad based.
- **Business conditions (which is a combination of trading, profitability and employment conditions) eased back further in August, to +7 index points (from +9)**. While this is the lowest level of business conditions since the start of the year, the index is still above its long-run average level (+5) – having consistently remained above this level since early 2015. **The strength in business conditions remains largely confined to the major services and construction industries, while relatively subdued conditions in wholesale and retail warrant close monitoring** – particularly in light of disappointing consumption growth in the Q2 National Accounts. Trading conditions and profitability have been the main drivers of elevated business conditions, but while both of these eased in August, **employment conditions held steady – pointing to ongoing employment growth**. Inflation measures in the Survey generally stayed soft, with retail prices pulling back sharply.
- The results from this month's survey remain **broadly consistent with our prior view of the economy and the near-term outlook**. It points to a **patchy, but sustained, improvement in the non-mining economy**, with the major services sectors and construction leading the way. That said, recent negative movements in retail and wholesale conditions will be a cause for concern should they continue, and we are watching to see if they represent the start of a new trend. **Beyond the near-term, as the effects of previous AUD depreciation, higher commodity exports and the housing construction cycle begin to wane, the outlook becomes more uncertain**. All of these factors are expected to come to a head around 2018, and the economy will likely require additional policy support from the RBA ahead of this to firm up growth and stabilise the unemployment rate. NAB economics currently expect two more 25bp cuts by the RBA in mid 2017. NAB's latest Australian economic forecasts will be available on Thursday.

**Table 1: Key monthly business statistics**

	Jun 2016	Jul 2016	Aug 2016		Jun 2016	Jul 2016	Aug 2016
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	6	4	<b>6</b>	Employment	4	4	<b>4</b>
Business conditions	11	9	<b>7</b>	Forward orders	4	2	<b>2</b>
Trading	18	15	<b>12</b>	Stocks	1	2	<b>1</b>
Profitability	12	8	<b>4</b>	Exports	2	2	<b>1</b>
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.9	0.6	<b>0.7</b>	Retail prices	-0.2	0.8	<b>0.1</b>
Purchase costs	0.6	0.3	<b>0.4</b>		<i>Per cent</i>		
Final products prices	0.3	0.2	<b>0.2</b>	Capacity utilisation rate	81.1	81.5	<b>81.0</b>

\* 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 22 Aug to 26 Aug, covering over 530 firms across the non-farm business sector.

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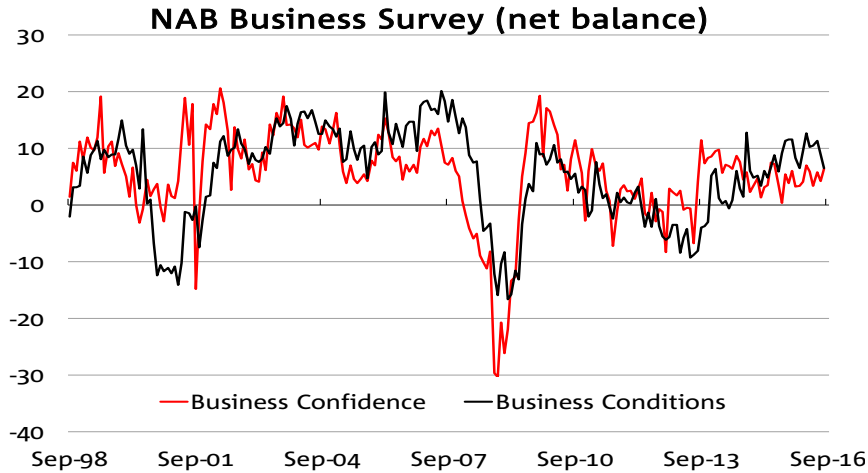
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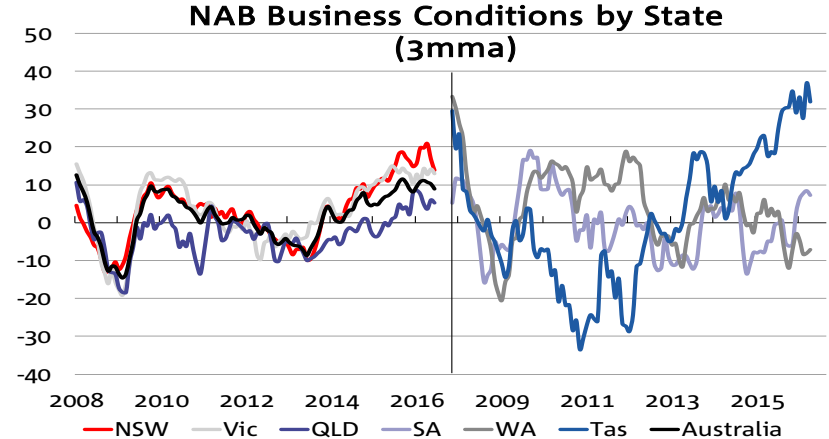
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# CHARTS OF THE MONTH

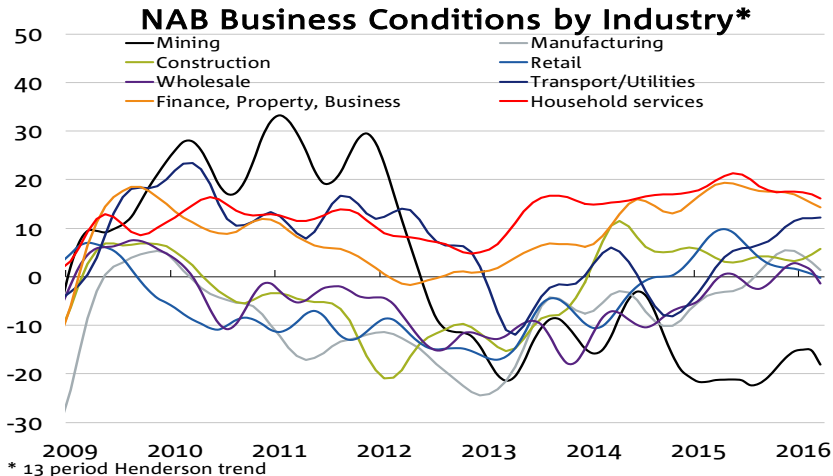
**BUSINESS CONDITIONS EASING, BUT STILL ABOVE AVERAGE. CONFIDENCE HOLDING UP.**



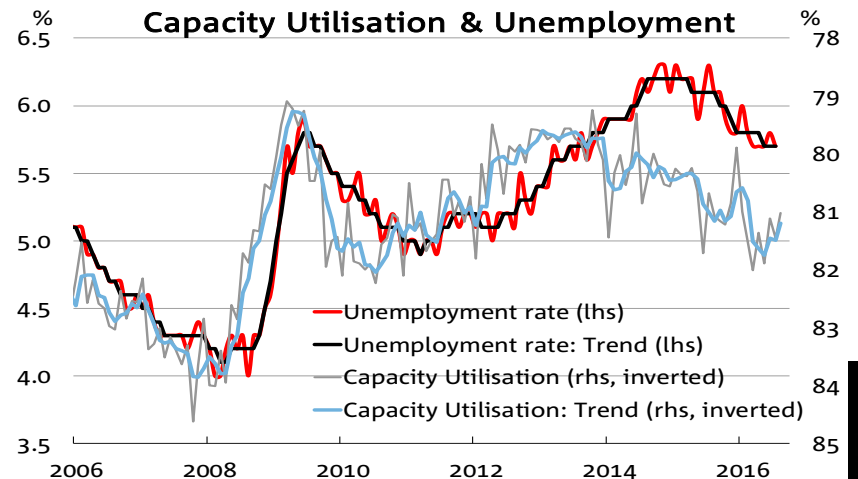
**DIVIDE BETWEEN WA AND THE REST OF THE STATES REMAINS, BUT NSW EASING FROM RECENT HIGHS**



**NON-MINING ECONOMY PERFORMING WELL. SERVICES HIGHEST, BUT EASING**

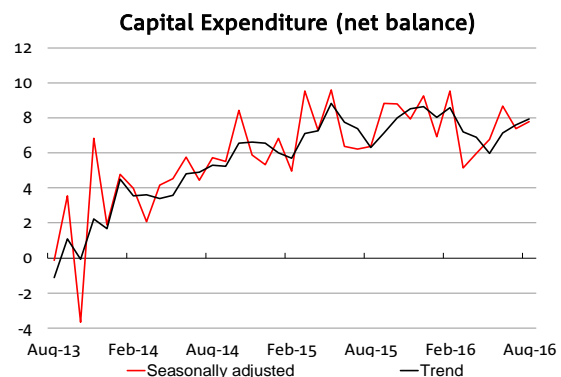
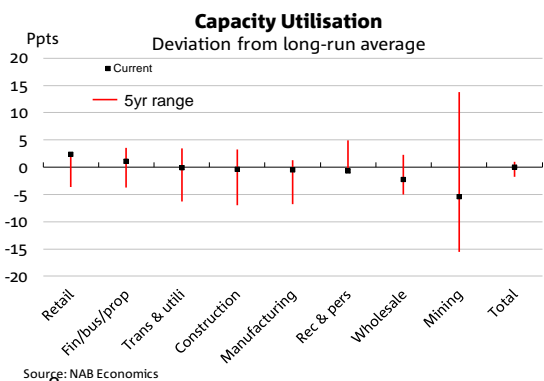
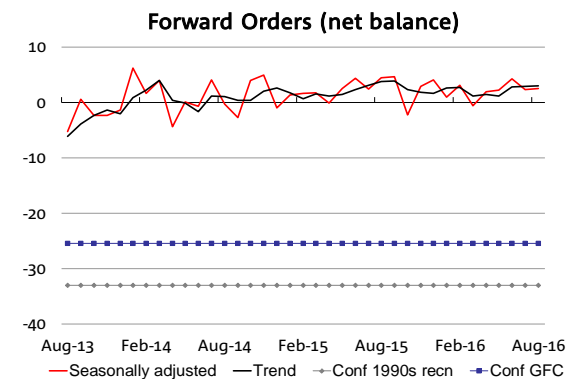
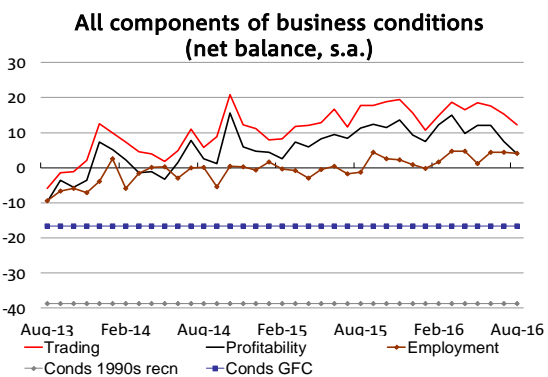
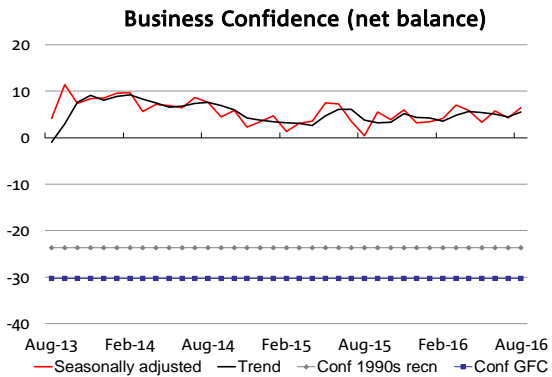
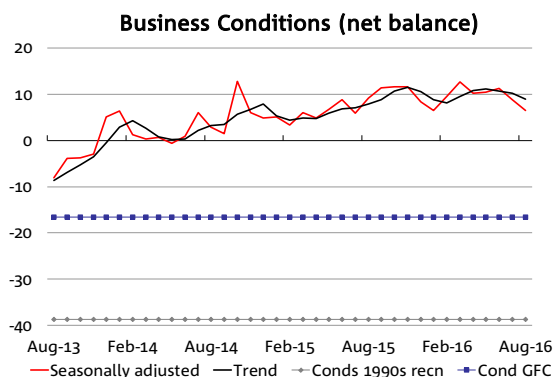


**CAPACITY UTILISATION AND THE LABOUR MARKET**



# BUSINESS CONDITIONS AND FORWARD INDICATORS

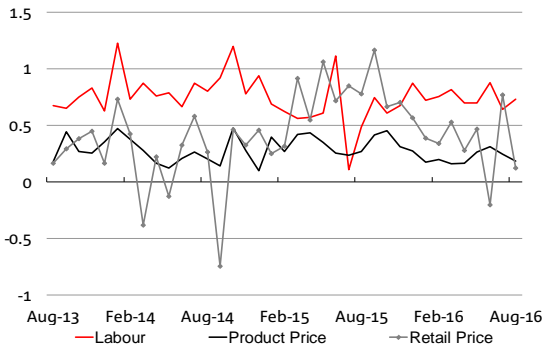
## Near-term outlook remains positive



- Business conditions suggest a positive near-term outlook for the non-mining economy, despite easing by 2 points, to +7. By component, both trading conditions and profitability eased further from elevated levels, while employment conditions were steady. Across industries, there are very few signs now that the non-mining recovery is extending beyond major services and the construction (residential sector). A trend deterioration in wholesale and retail conditions are counter to expectations for a broadening economic recovery, and warrants close monitoring (industry details on p6).
- The resilience of business confidence continued into August, with the index rising 2 points to +6 index points – consistent with the long-run average. While the RBA cash rate may have contributed, the improvement was not broad-based across industries (industry details on p6).
- By state, business conditions are looking solid across most regions, with WA the main exception as headwinds from the mining sector continue to bite. NSW conditions have eased notably in recent months, however, despite having the highest index of the mainland states on average over the past three months. Confidence is positive in all states (state detail on p7).
- The near-term outlook continues to look reasonably good according to some of the Survey's leading indicators. The forward orders index was steady at an above average +2, having remained in positive territory for 9 of the past 10 months. This outcome suggests good near-term prospects for activity – consistent with solid levels of business conditions (industry detail on p6).
- NAB's measure of capacity utilisation dropped back in the month, which could suggest a turn in the long running improving trend. Utilisation rates fell to 81% (from 81.5%), which is in line with the long-run average of 81%. The increase is consistent with elevated levels of trading conditions, although both capex and employment remained positive in the month (adding to capacity). Utilisation rates are now above long-term average levels for less than half of industries (see Chart) – industry detail on p6.
- The Survey's index of capital expenditure has remained solid, which could suggest that new capacity has contributed to lower utilisation rates, rather than just lower demand. At +8 index points, the capex indicator looks to be more upbeat on investment than reads from the ABS.
- Cash flows (not seasonally adjusted) are looking solid, and were the strongest in transport & utilities and recreational services, but weakest in retail.

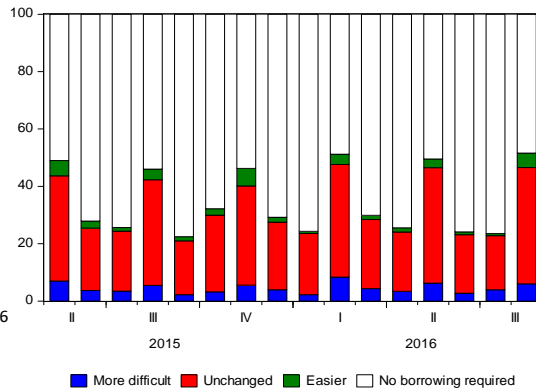
# LABOUR, COSTS, PRICES & BORROWING CONDITIONS

Costs & prices (% change at a quarterly rate)

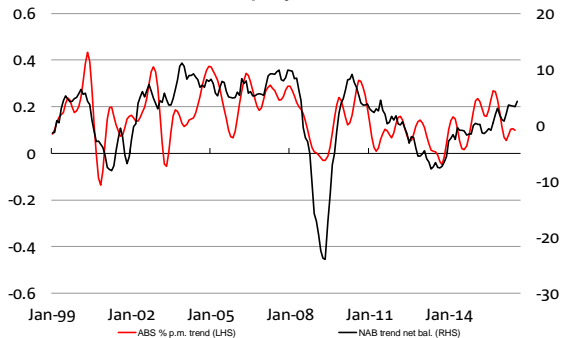


Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.

Borrowing conditions (% of firms)



Employment



## PRICES & COSTS BY INDUSTRY (% CHANGE AT A QUARTERLY RATE)

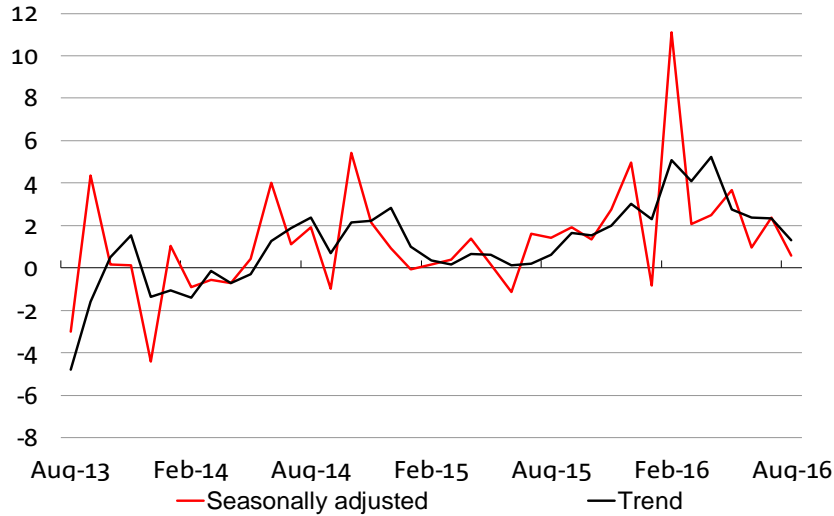
Aug-2016	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-1.0	0.7	1.4	1.0	0.3	0.2	1.0	0.9	0.7
Labour costs: previous	-0.4	1.3	0.9	0.3	0.5	0.6	0.6	0.6	0.6
Labour costs: change	-0.6	-0.6	0.5	0.7	-0.2	-0.4	0.4	0.3	0.1
Prices (final): current	-0.2	0.3	0.0	0.1	0.4	0.0	0.3	0.1	0.2
Prices (final): previous	-1.5	0.9	0.7	0.8	0.5	0.6	0.3	-0.3	0.2
Prices (final): change	1.3	-0.6	-0.7	-0.7	-0.1	-0.6	0.0	0.4	0.0
Purchase costs: current	-0.8	0.7	0.2	0.3	0.5	0.2	0.7	0.2	0.4
Purchase costs: previous	-0.8	0.6	0.6	0.4	-0.1	0.5	0.5	0.0	0.3
Purchase costs: change	0.0	0.1	-0.4	-0.1	0.6	-0.3	0.2	0.2	0.1

- Employment conditions managed to hold steady in the month, despite further easing in trading conditions, suggesting further employment growth in the near term. The employment index remained at +4 index point, which is above the long-run average for the series. Recent outcomes hint at an annual job creation rate of around 212k (around 18k per month) in coming months, which should be sufficient to lower the unemployment rate further, with all else unchanged, although this compares to a trend increase of just 11.8k in July according to the ABS.
- However, outcomes were mixed across industries with construction (down 8), and wholesale (down 5) seeing the biggest declines. In contrast, mining (up 17) and transport & utilities (up 8) saw the biggest improvement. In trend terms, the employment index was still most negative for mining (-10 points), although wholesale (-5 points) and transport & utilities (-4) are also negative. The strongest employment demand (trend) was in construction and FPB services (both +8).
- Labour cost growth (a wage bill measure) rose slightly in the month, but still shows that wage pressures remain relatively contained at 0.7% (a quarterly rate). Restrained labour cost growth is consistent with relatively subdued inflation expectations, a lack of worker confidence in the labour market and other shifts in the composition of employment. Labour cost pressures were highest in construction (at 1.4%), but still falling in mining (-1%).
- Growth in purchase costs was also up only slightly in the month, to 0.4% (at a quarterly rate, from 0.3%). This outcome was well below the long-run average, suggesting pass-through from currency depreciation remains elusive. Subdued inflation pressures have been a common theme globally, but higher purchase costs had been expected to some degree given anticipated currency effects. Growth in purchase costs decelerated the most in construction (down 0.4 ppts), followed by transport (down 0.3 ppts). Wholesale saw the largest increase, up 0.6%. Overall, purchase cost pressures were highest in manufacturing and recreational services (both 0.7%, quarterly rate), but softest in mining (-0.8%).
- Final product prices growth in July was unchanged at just 0.2% (a quarterly rate), although retail price growth dropped to just 0.1% – well below the lower bound of the RBA's inflation target – suggesting a continuation of recent weakness in the CPI and national accounts deflators. A majority of industries saw weaker prices growth in the months, with construction and retail inflation decelerating the most (both down 0.7 ppts). Mining prices fell 0.2%, while price growth was highest in wholesale (0.4%) – suggesting some pass through of higher purchase costs. Final prices inflation has not kept pace with the rise in input costs, contributing to the pull-back in profitability.
- Consistent with the cash rate cut, borrowing conditions have improved over the past 3 months, and the demand for credit has increased.

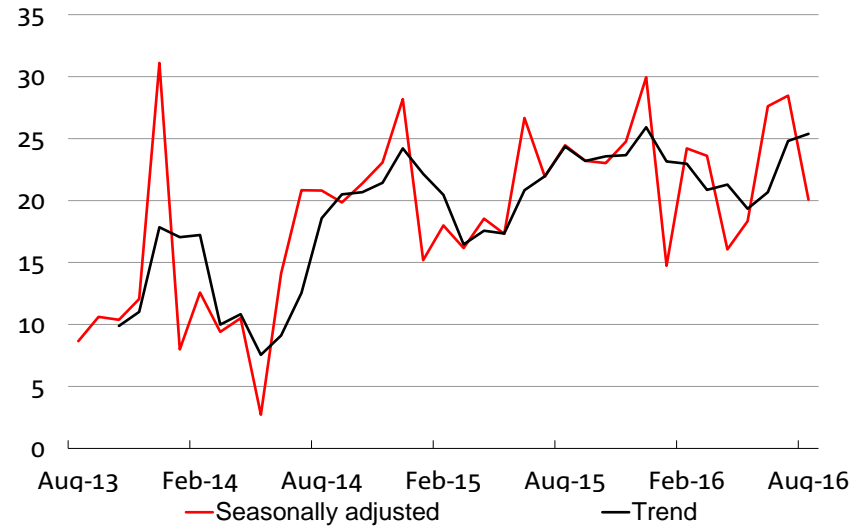
# MORE DETAILS ON BUSINESS ACTIVITY

*Re-stocking has slowed, as well as exports. Cash flows still very positive*

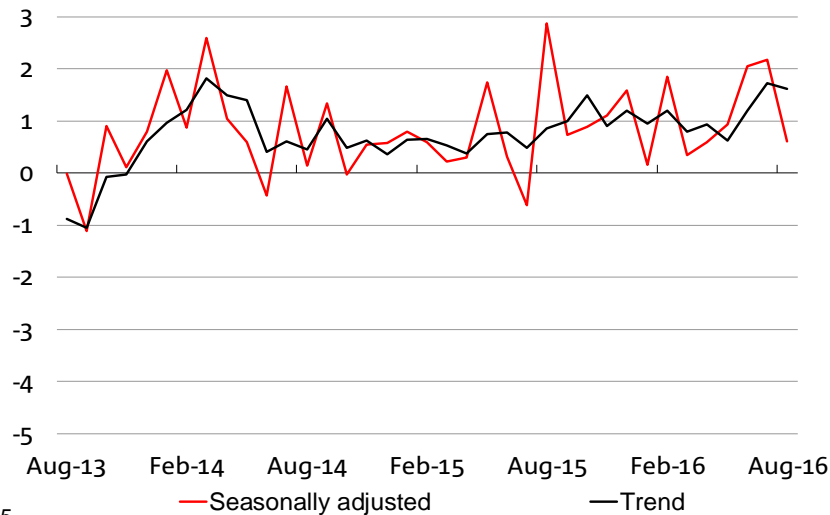
**Stocks (net balance)**



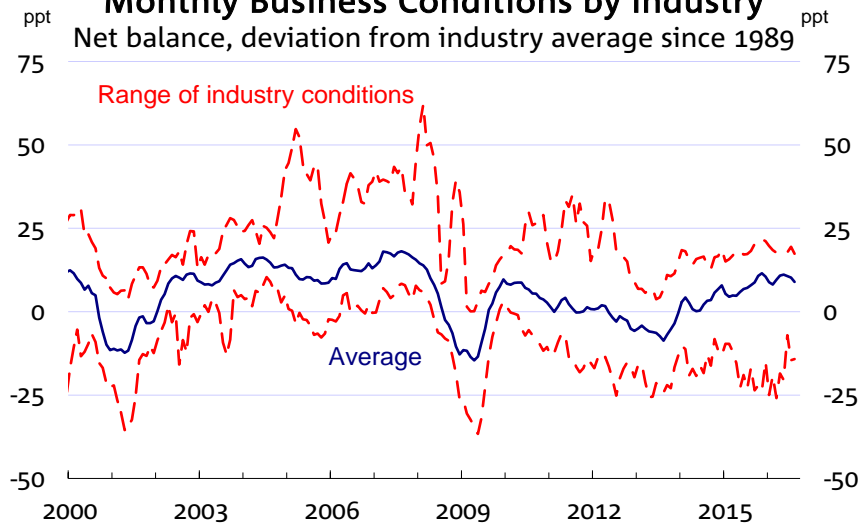
**Cash Flows (net balance, nsa)**



**Exports (net balance)**



**Monthly Business Conditions by Industry**



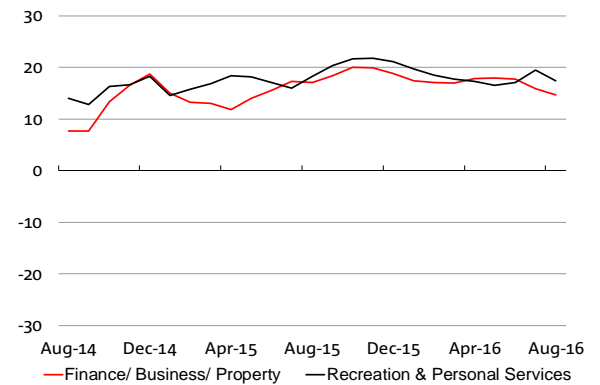
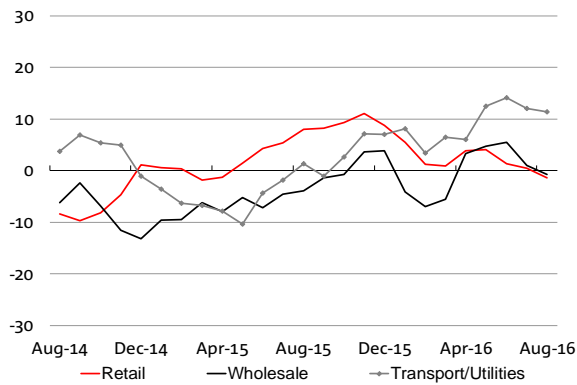
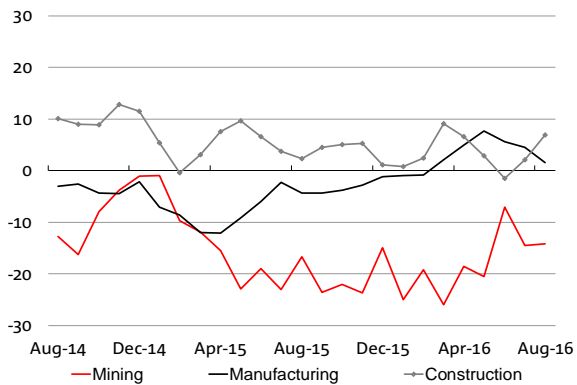
Source: NAB

# INDUSTRY BUSINESS CONDITIONS & CONFIDENCE

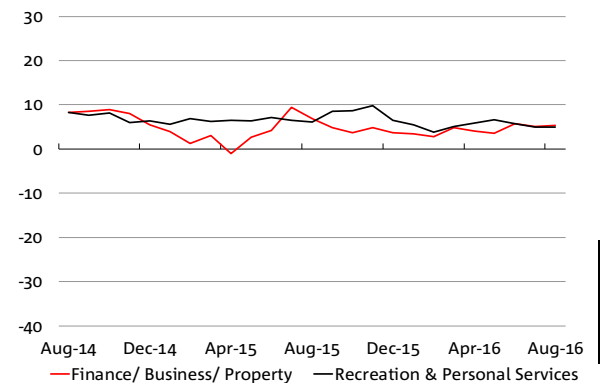
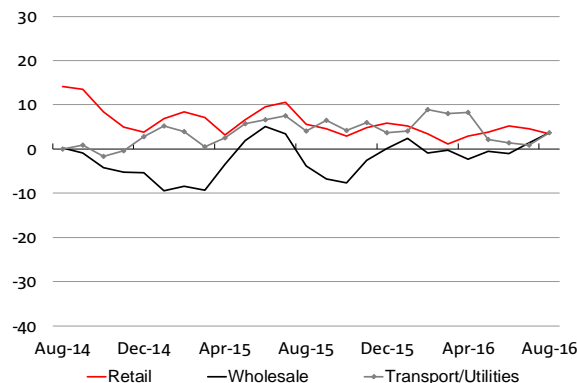
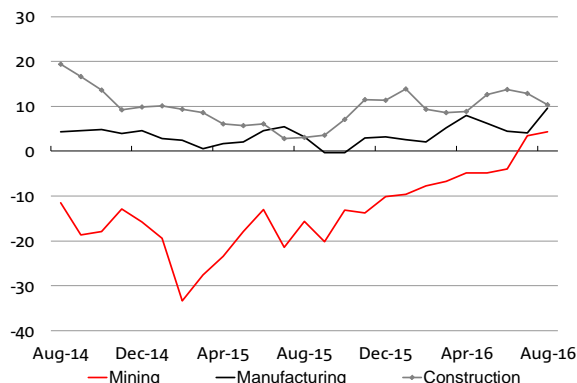
*Signs of a broad-based recovery are elusive, but confidence solid across the board*

- In the month, **business conditions** in recreation & personal services (down 12) and manufacturing (down 9) weakened the most, while higher mining (up 36) and wholesale (up 12) were only partly offsetting. In trend terms (3mma), conditions are now highest in recreation & personal services (+17) and finance/ property/ business (FPB) (+15), but lowest in mining (-14) and retail and wholesale (both -1). The largest improvement in **business confidence** came from manufacturing (up 8), while construction (unchanged) and retail (down 3) did not see any improvement from the rate cut. Mining deteriorated the most, down 19 points. In trend terms, construction and manufacturing (both +10) were the most confident, while retail is now weakest (+3).
- Changes in **forward orders** varied across industries in the month, but wholesale (down 25) saw a particularly large drop, while mining (up 17) rose the most. In trend terms, orders are positive for most industries excluding mining (-8) and wholesale (-6). In contrast, construction orders (trend) were highest at +8. Changes in **capacity utilisation** were mixed, with mining (up 10.1 ppts) jumping the most, while recreation & personal services (down 1.4 ppts) had the greatest fall. In trend terms, **capex** in transport/utilities was the highest (+16 points) and construction was lowest (+3 points), which may reflect the impact of rapidly falling mining investment/engineering construction. Surprisingly, retail capacity utilisation is highest above average levels (slide 4) despite relatively subdued business conditions.

## BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE): 3-MONTH MOVING AVERAGE



## BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE): 3-MONTH MOVING AVERAGE

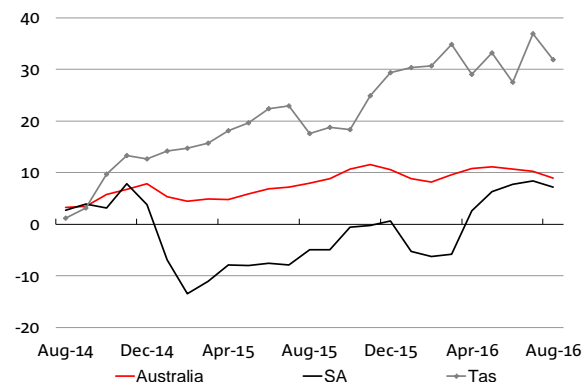
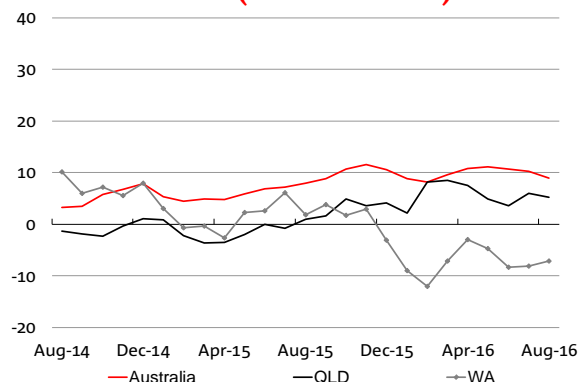
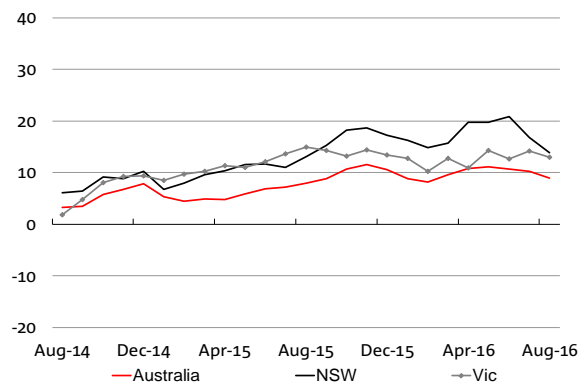


# STATE BUSINESS CONDITIONS & CONFIDENCE

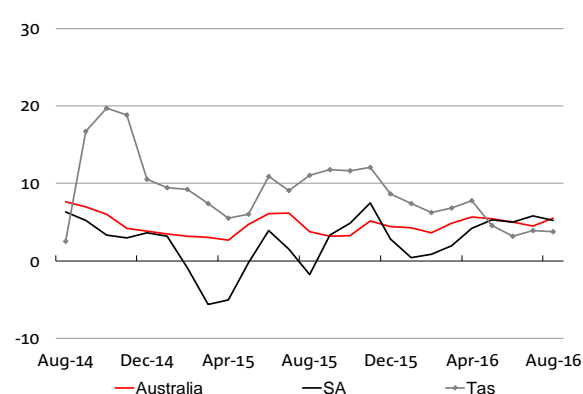
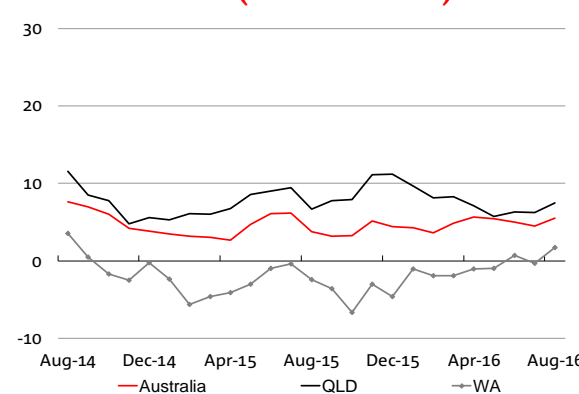
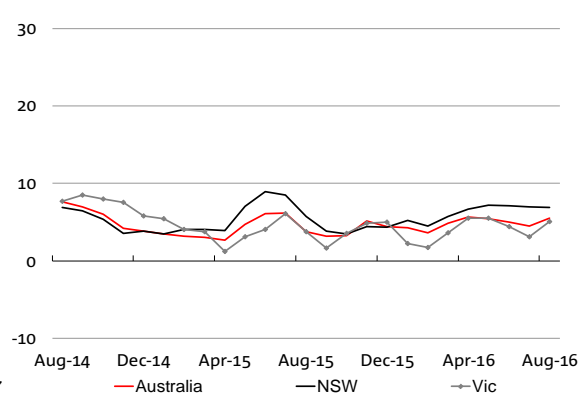
*Solid business environment seen in most states, but WA still underperforming*

- There were some large fluctuations in Survey outcomes by state. In trend terms, however, **business conditions** softened in NSW (down 3 to +14), although it is still the strongest mainland state – marginally ahead of Victoria (+13). Surprisingly, Western Australia was the only state to see a (modest) improvement in trend business conditions this month, although the level of its index remains especially weak (-7). Business conditions in all other states was positive in August.
- On **business confidence**, SA was the only state to weaken in trend terms (down 1, to +5), although NSW was also flat (at +7). Trend confidence rose the most in Victoria and WA (up 2, to +5 and +2 respectively). NSW and Qld were most confident, while WA is still least confident in trend terms.
- **Employment conditions** (trend) are positive in all states outside of WA (-4), although WA saw the largest improvement during the month. Employment conditions deteriorated the most in SA (down 2), but the states employment index remains the highest of all the states (+9). NSW has steadily eased from its recent peak (to +6), while Victoria has improved over that period (to +7).

## BUSINESS CONDITIONS BY STATE (NET BALANCE): 3-MONTH MOVING AVERAGE



## BUSINESS CONFIDENCE BY STATE (NET BALANCE): 3-MONTH MOVING AVERAGE



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