

# NAB MONTHLY BUSINESS SURVEY

## SEPTEMBER 2016

NEXT RELEASE:  
20 OCT 2016 – SEPTEMBER QUARTER  
8 NOV 2016 – OCTOBER MONTHLY



### Key points:

- The **September NAB Monthly Business Survey suggests the confidence of firms in aggregate remain at reasonable levels (albeit varied by industry)**, despite the numerous uncertainties still lingering in the background – particularly those emanating from overseas. However, there is no hint that the RBA’s interest rate cut in early August had any further material impact on confidence in September after seemingly providing some support in August, although the counterfactual is impossible to measure. The **business confidence index held steady at +6 index points in September**, which is consistent with the long-term average. While we would like to see confidence at even higher levels as a precursor to stronger non-mining business investment, this is still a good outcome, underpinned by solid (albeit moderating) business conditions.
- **Business conditions (which is a combination of trading, profitability and employment conditions) rose modestly in September, to +8 index points (from +7), although it has eased in trend terms.** Nevertheless, even at these levels the index is still above its long-run average of +5 – having consistently remained above this level since early 2015. However, after some promising signs of a broad-based recovery earlier in the year, the strength in business conditions once again has become more heavily skewed towards major services industries during the month. We are also continuing to monitor negative trends in retail conditions, which deteriorated further in September – seemingly related to a jump in input costs. Despite easing in previous months, trading conditions and profitability have been the main drivers of elevated business conditions, and both rose noticeably in the month. Disappointingly, **employment conditions softened considerably, but remain positive – pointing to adequate employment growth. Inflation measures in the Survey were relatively mixed**, although retail prices lifted.
- While we are somewhat cautious about the narrowing of the industry base underlying business conditions, **results from the Survey remain reasonably consistent with our pre-existing views of the economy** – as far as it relates to the near-term outlook. It suggests a multi-speed economy, but one where most key non-mining sectors are performing well in the near-term. However, weakening retail conditions are a significant risk to our outlook, especially considering that consumption accounts for more than 50% of Australian GDP. **Beyond the near-term, we still expect the economy to slow into 2018 as momentum from commodity exports, housing construction and AUD depreciation is lost. Ongoing low inflation combined with a more subdued growth outlook is expected to jolt the RBA into action, cutting the cash rate by 25bp two more times in H2 2017.** NAB’s latest Australian economic forecasts will be available on Thursday.

**Table 1: Key monthly business statistics**

	Jul 2016	Aug 2016	Sep 2016		Jul 2016	Aug 2016	Sep 2016
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	4	6	<b>6</b>	Employment	5	4	<b>1</b>
Business conditions	9	7	<b>8</b>	Forward orders	2	2	<b>8</b>
Trading	16	13	<b>17</b>	Stocks	2	1	<b>2</b>
Profitability	8	4	<b>7</b>	Exports	2	1	<b>2</b>
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.8	0.8	<b>0.7</b>	Retail prices	0.6	0.1	<b>0.3</b>
Purchase costs	0.3	0.4	<b>0.3</b>		<i>Per cent</i>		
Final products prices	0.3	0.2	<b>0.4</b>	Capacity utilisation rate	81.4	81.0	<b>80.6</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 26 Sep to 30 Sep, covering over 380 firms across the non-farm business sector.

## CONTACTS

Riki Polygenis, Head of Australian Economics, +61 3 8697 9534 or +61 414 986 285

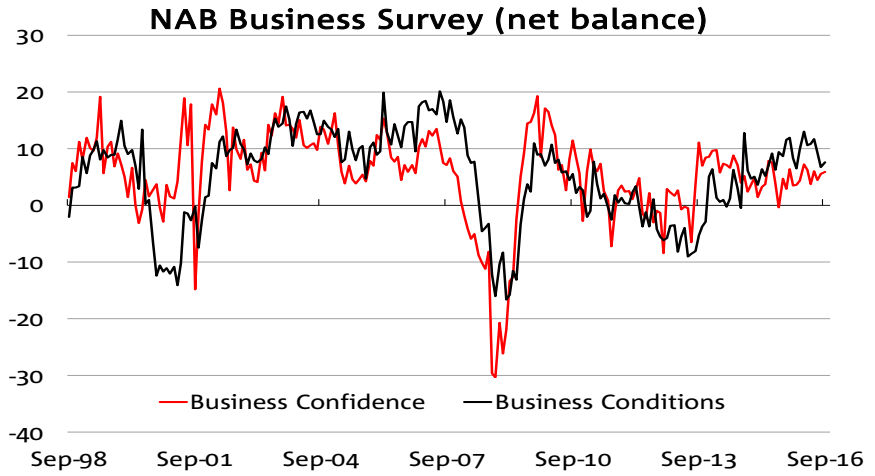
James Glenn, Senior Economist - Australia, +61 2 9237 8017

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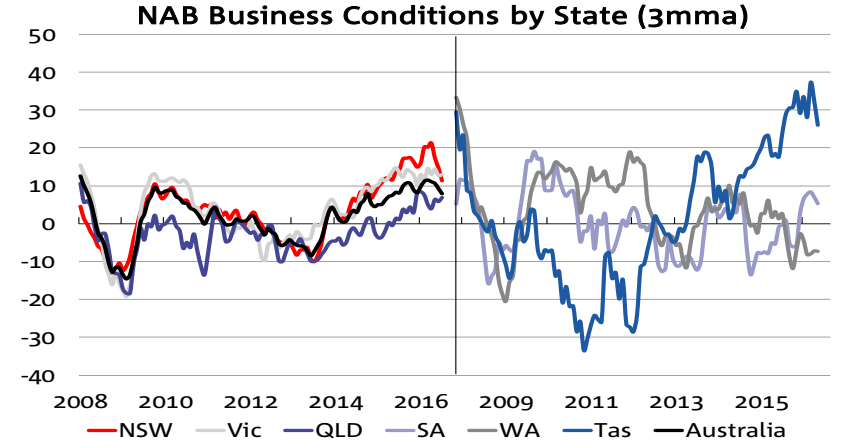
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# CHARTS OF THE MONTH

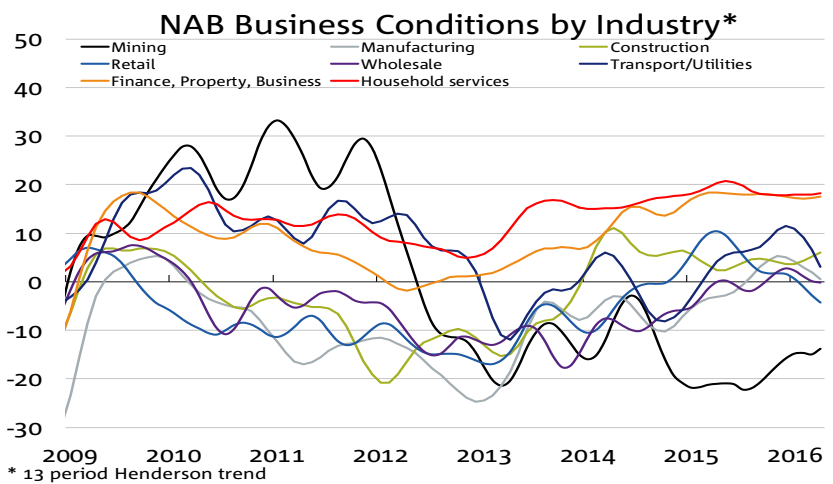
**BUSINESS CONDITIONS UP SLIGHTLY, AND ABOVE AVERAGE. BUSINESS CONFIDENCE UNCHANGED**



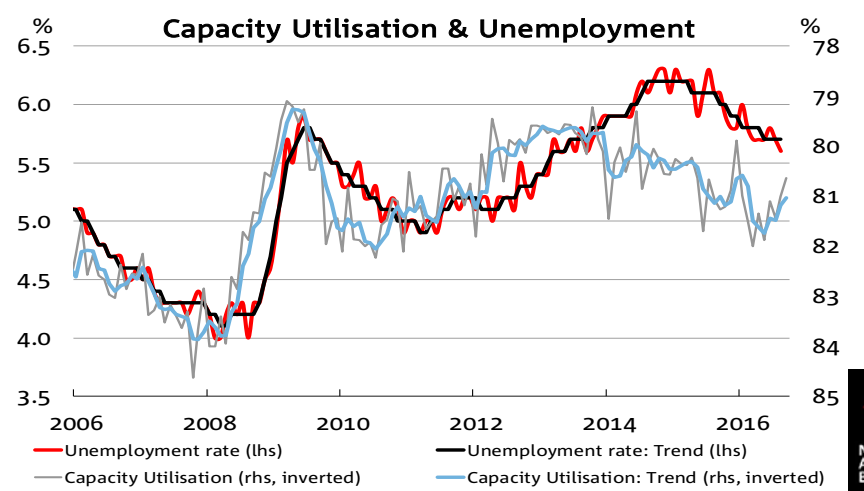
**DIVIDE BETWEEN WA AND THE REST OF THE STATES REMAINS, BUT NSW EASING FROM RECENT HIGHS**



**NON-MINING ECONOMY PERFORMING WELL. SERVICES STILL THE CLEAR OUTPERFORMERS**



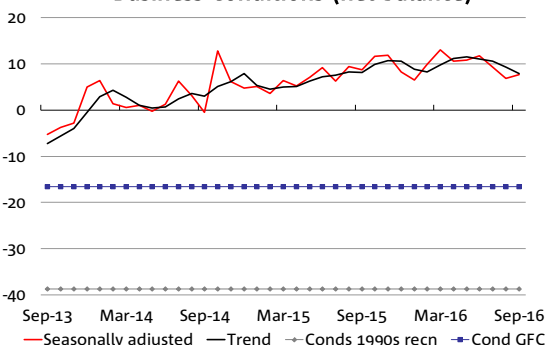
**CAPACITY UTILISATION AND THE LABOUR MARKET**



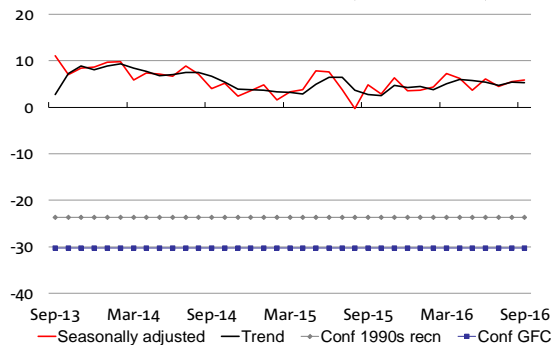
# BUSINESS CONDITIONS AND FORWARD INDICATORS

*Conditions and confidence steady. Near-term outlook improved*

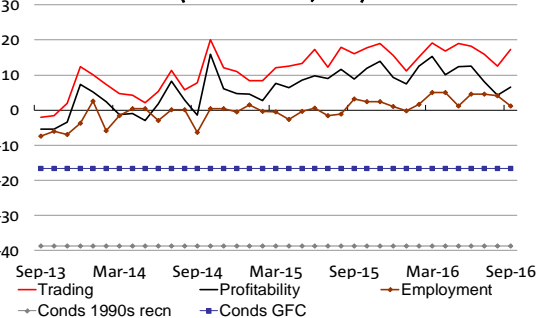
**Business Conditions (net balance)**



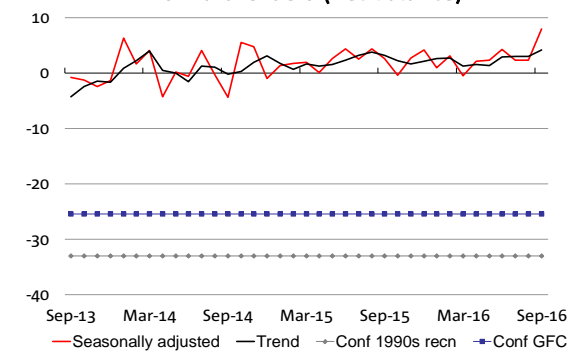
**Business Confidence (net balance)**



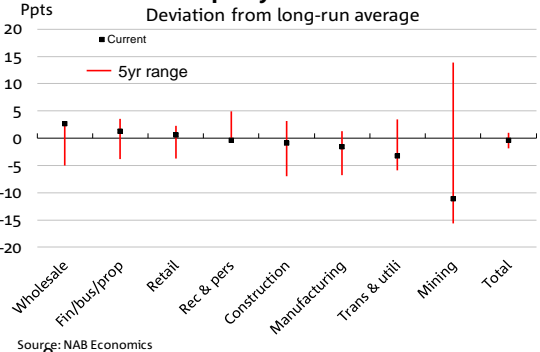
**All components of business conditions (net balance, s.a.)**



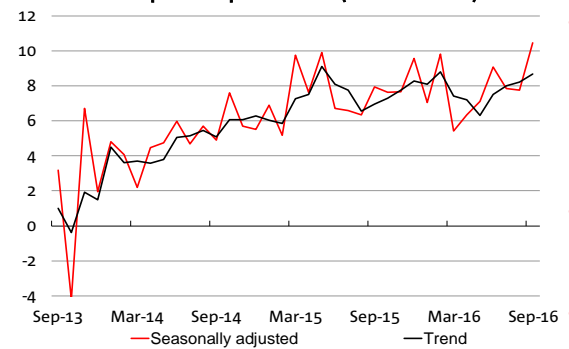
**Forward Orders (net balance)**



**Capacity Utilisation**



**Capital Expenditure (net balance)**



- Business conditions improved modestly in the month, following two consecutive monthly declines. The index rose by 1 point in September, to +8, which is above the long-run average – the 19<sup>th</sup> straight month of above-average conditions. By component, both trading conditions and profitability rebounded from their recent slide, but employment conditions deteriorated. Across industries, the strength in business conditions has looked increasingly narrow-based in recent months, with service industries being clear outperformers. The recent deterioration in retail conditions is of particular concern given the implications for consumption (the largest component of domestic demand) – industry details on p6.
- Firms continue to indicate that confidence has not faltered, despite uncertainties from events including Brexit and the upcoming US elections. The confidence index was unchanged at +6 index points in September – consistent with the long-run average. There are still very few hints that the RBA's interest rate cut back in August had any material impact on confidence, although the counterfactual is impossible to measure.

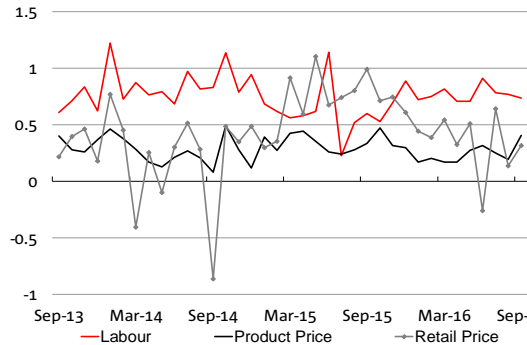
By state, business conditions are looking solid across most regions, with WA the main exception as headwinds from the mining sector continue to bite. NSW conditions rose in September, but eased notably in recent months, and has now been overtaken by Victoria as the mainland state with the highest index (in trend terms). In contrast, confidence is highest in NSW, QLD and SA (in trend terms). WA is the only state that is neutral (state detail on p7).

The near-term outlook has improved notably according to some of the Survey's leading indicators. The forward orders index jumped 6 points (to +8), and is well above the average of zero. Orders have been in positive territory for 10 of the past 11 months. This outcome suggests good near-term prospects for activity – consistent with solid business conditions (industry details on p6).

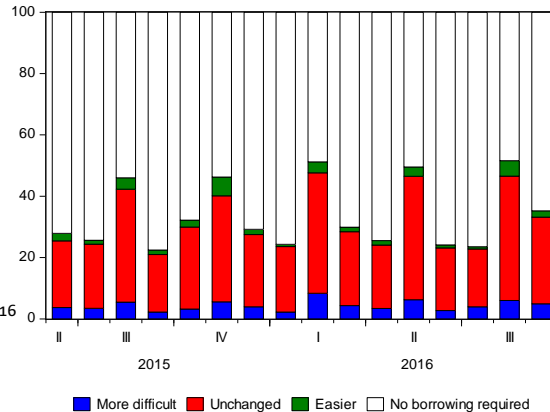
- However, NAB's measure of capacity utilisation eased back again in the month, with the trend now clearly heading south. Utilisation rates fell to 80.6% (from 81%), which is below the long-run average of 81%. The fall seems counter to the bounce in trading conditions, but capex remains elevated (suggesting additions to capacity). Utilisation rates are below long-term averages for most industries (see Chart) – industry detail on p6.
- The Survey's index of capital expenditure was solid, suggesting that new capacity is contributing to lower utilisation rates. At +10 index points, the indicator is more upbeat than other investment indicators.
- Cash flow (not seasonally adjusted) is looking solid, and was the strongest in recreational services, but weakest in retail.

# LABOUR, COSTS, PRICES & BORROWING CONDITIONS

Costs & prices (% change at a quarterly rate)



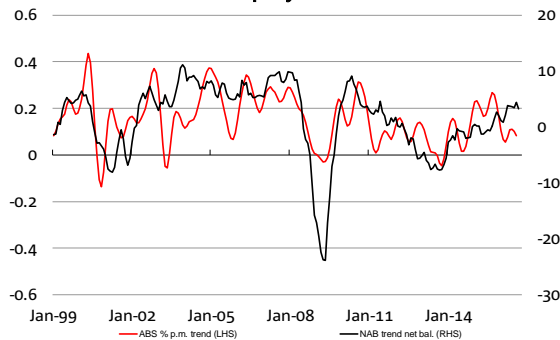
Borrowing conditions (% of firms)



- Employment conditions deteriorated in the month, unwinding the improvements seen since May and suggesting more subdued employment growth in the near-term. The employment index dropped to +1 index point (from +4), although this is consistent with the long-run average for the series. This outcome hints at an annual job creation rate of around 188k (around 16k per month) in coming months, which is only sufficient to steady the unemployment rate, with all else unchanged – trend employment growth was just 9.9k in August according to the ABS.
- By industry, the deterioration was largely driven by construction (down 9), retail (down 5) and manufacturing (down 4). The only industries to improve were mining (up 11) – albeit still negative – and wholesale (up 6). In trend terms, the employment index is still most negative for mining (-15 points), although transport & utilities (-3), wholesale (-2 points) and manufacturing (-2) are also negative. The strongest employment demand (trend) was in FPB services (+9).
- Labour cost growth (a wage bill measure) eased slightly in the month and 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 retail (at 1.2%), but were no longer falling in mining (0.4%).
- Growth in purchase costs was also down slightly in the month, to 0.3% (at a quarterly rate, from 0.4%). 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 wholesale (down 1.1 ppts), while construction saw the largest increase, up 0.7 ppts. Overall, purchase cost pressures were highest in construction (1%, quarterly rate), but softest in wholesale (-0.6%).
- Final product prices growth in September was up slightly to 0.4% (a quarterly rate, from 0.2%). Retail price growth rose by the same amount to 0.3% – although this is still well below the lower bound of the RBA's inflation target. Personal services (up 0.6 ppts) and manufacturing (up 0.4 ppts) saw the largest acceleration in final prices growth. In contrast, mining (down 0.3 ppts) had the biggest slowdown – despite a rise in the RBA commodity price index. Mining prices fell 0.5%, while price growth was highest in personal services (0.9%) – suggesting some widening of margins. Final prices inflation has generally not kept pace with the rise in input costs, restricting the rebound in profitability this month (relative to trading conditions).
- Borrowing conditions appear to have deteriorated over the past 3 months, although the demand for credit has increased noticeably.

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

Employment



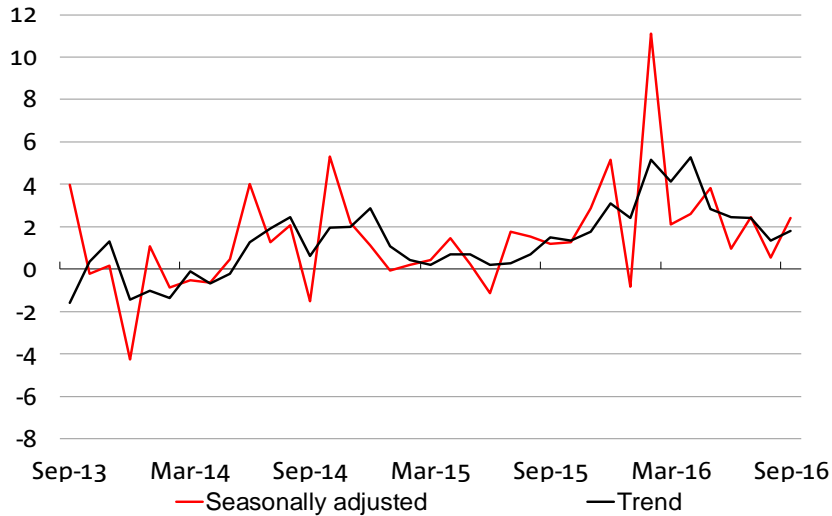
## PRICES & COSTS BY INDUSTRY (% CHANGE AT A QUARTERLY RATE)

Sep-2016	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	0.4	0.7	0.7	1.2	0.5	1.1	0.5	0.7	0.7
Labour costs: previous	-1.0	0.8	1.4	1.0	0.5	0.2	1.0	0.8	0.8
Labour costs: change	1.4	-0.1	-0.7	0.2	0.0	0.9	-0.5	-0.1	-0.1
Prices (final): current	-0.5	0.8	0.3	0.3	0.2	-0.2	0.9	-0.1	0.4
Prices (final): previous	-0.2	0.4	0.1	0.1	0.4	0.0	0.3	0.1	0.2
Prices (final): change	-0.3	0.4	0.2	0.2	-0.2	-0.2	0.6	-0.2	0.2
Purchase costs: current	-0.4	0.6	1.0	0.9	-0.6	0.5	0.3	0.2	0.3
Purchase costs: previous	-0.8	0.8	0.3	0.4	0.5	0.2	0.7	0.2	0.4
Purchase costs: change	0.4	-0.2	0.7	0.5	-1.1	0.3	-0.4	0.0	-0.1

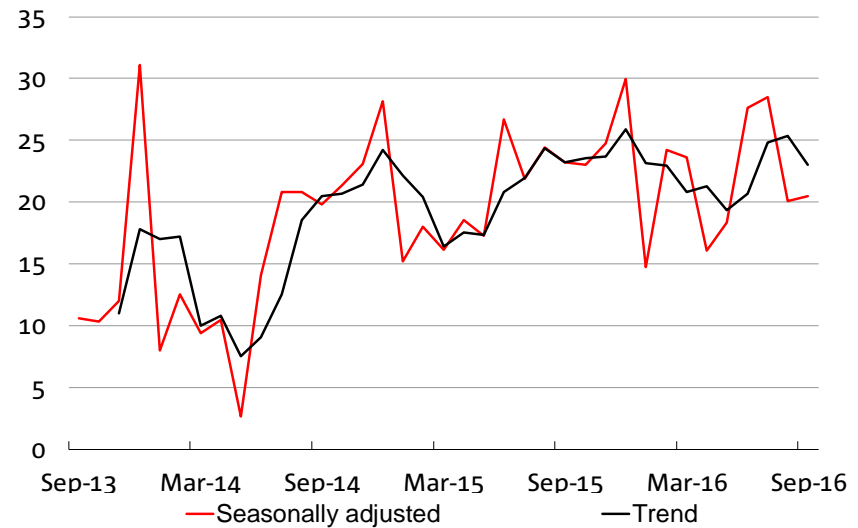
# MORE DETAILS ON BUSINESS ACTIVITY

*Re-stocking is modest, as are exports. Cash flows still very positive*

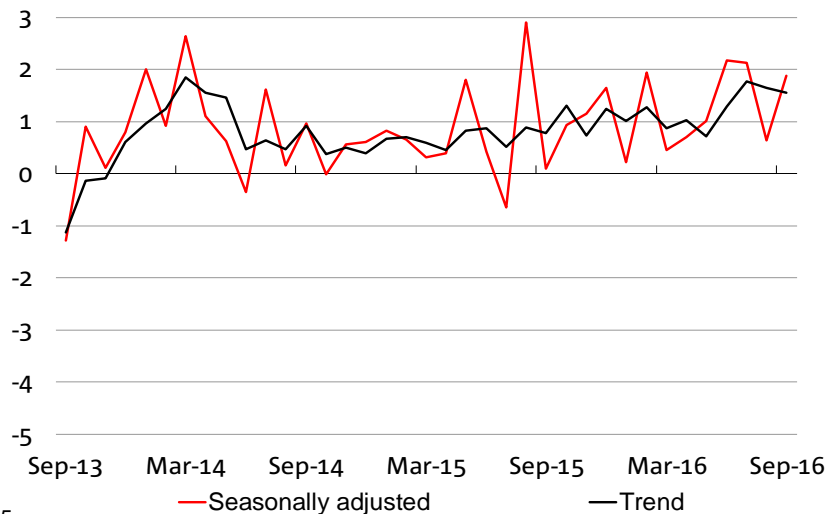
Stocks (net balance)



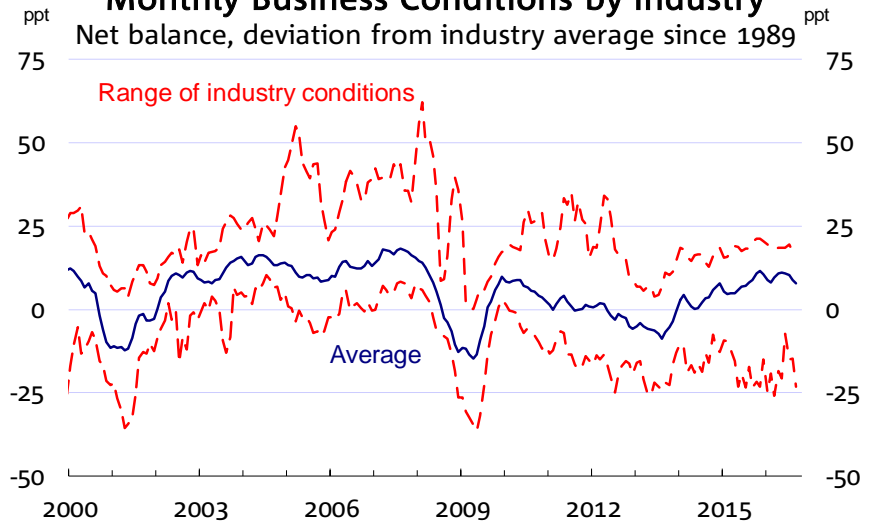
Cash Flows (net balance, nsa)



Exports (net balance)



Monthly Business Conditions by Industry



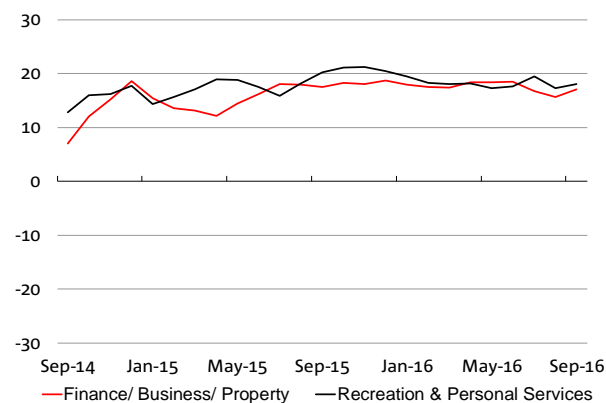
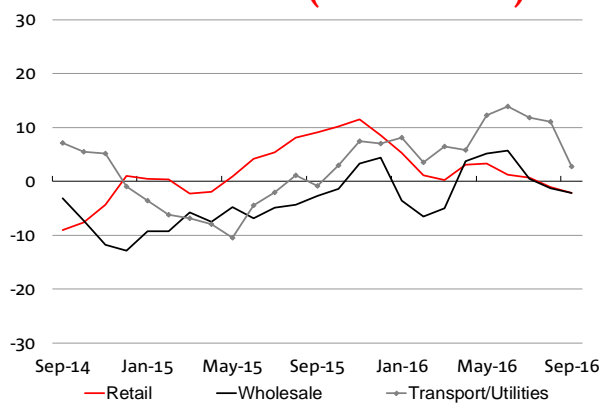
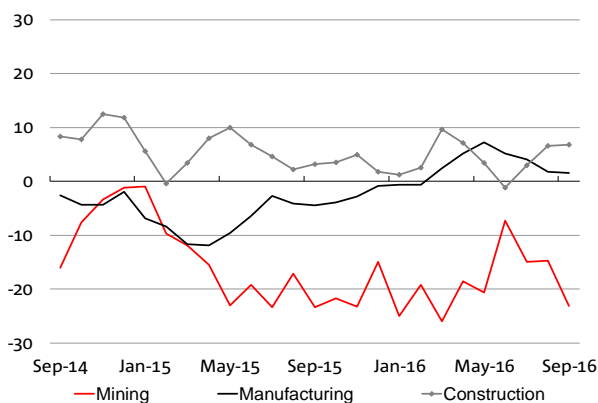
Source: NAB

# INDUSTRY BUSINESS CONDITIONS & CONFIDENCE

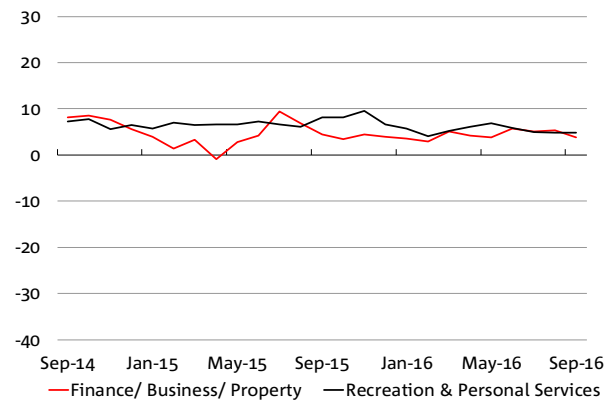
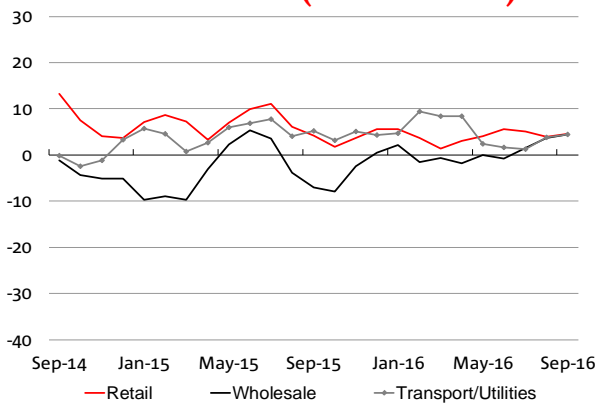
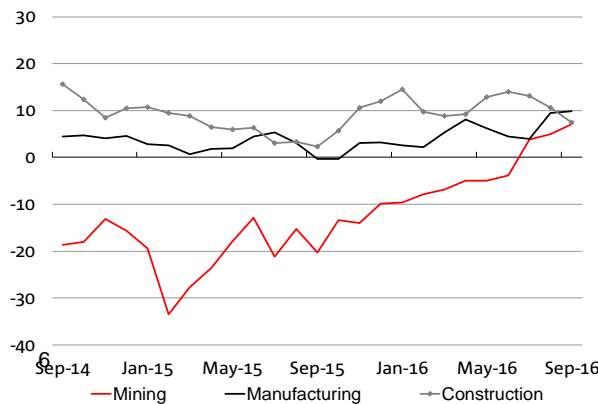
*Improved conditions are narrowly based, but confidence solid across the board*

- In the month, **business conditions** in recreation & personal services (up 13), FPB services (up 8) and manufacturing (up 8) improved the most, while lower transport (down 17) and retail (down 11) were largely offsetting. In trend terms (3mma), conditions are now highest in recreation & personal services (+18) and finance/ property/ business (FPB) (+17), but lowest in mining (-23) and retail and wholesale (both -2). The largest improvement in **business confidence** came from mining (up 9), while manufacturing (down 11) and construction (down 9) dropped right back in the months. Wholesale and transport each saw a modest deterioration as well (down 2). In trend terms, manufacturing (+10) was the most confident, while wholesale, transport and FPB services are now weakest (all +4).
- Changes in **forward orders** varied significantly across industries in the month, but wholesale (up 32) saw a particularly large jump, more than unwinding last months big drop. In contrast, construction eased the most (down 10). In trend terms, orders are positive for most industries excluding wholesale (-5) and retail (-1). In contrast, transport orders (trend) were highest at +9. Changes in **capacity utilisation** were mixed, with wholesale (up 4.7 pts) jumping the most, while mining (down 5.2 pts) had the greatest fall. Surprisingly, wholesale capacity utilisation is highest above 5-year average levels (slide 3) despite very subdued business conditions (trend). For **capex**, transport/utilities was the highest (+14 points) in trend terms and manufacturing was lowest (0 points), which may reflect ongoing structural headwinds to the industry.

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



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

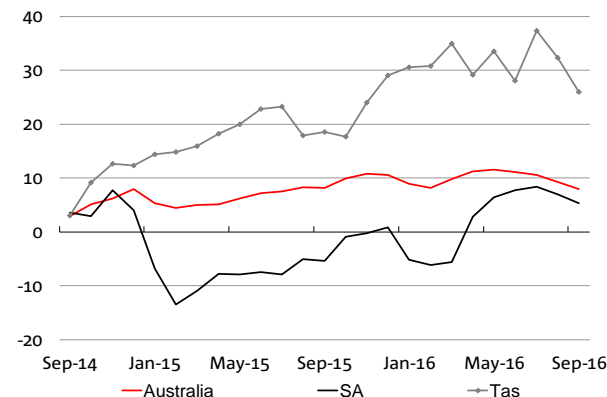
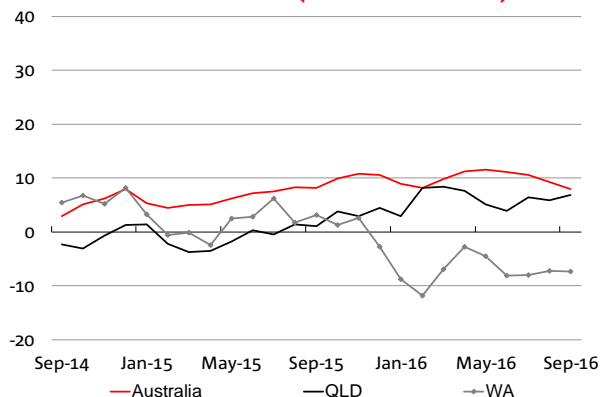
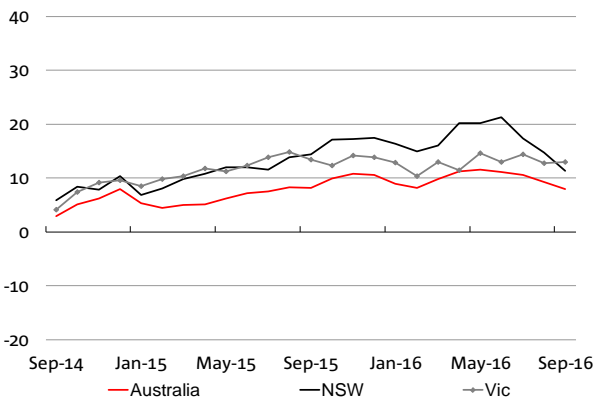


# STATE BUSINESS CONDITIONS & CONFIDENCE

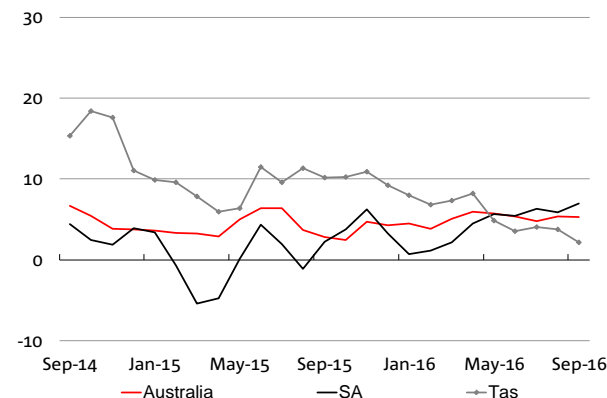
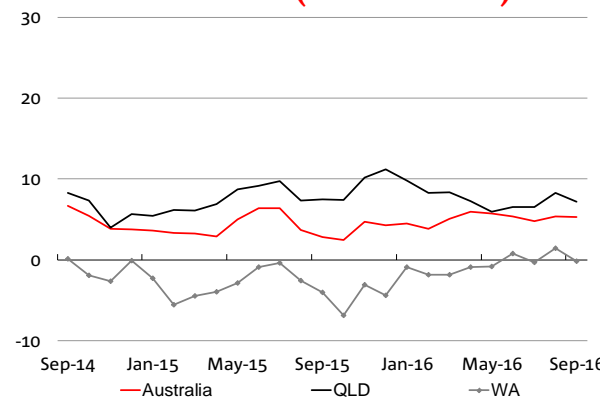
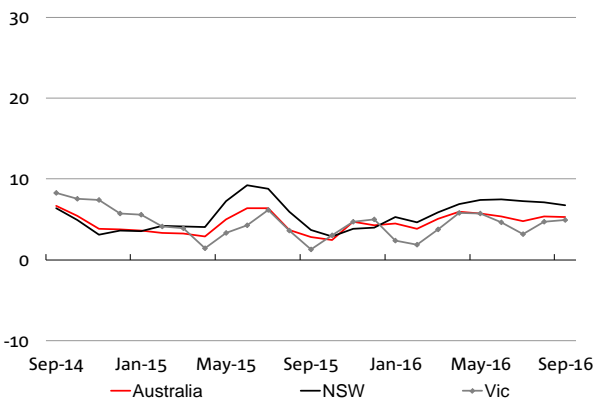
*Solid business environment seen in most states, but WA still underperforming*

- In trend terms, **business conditions** have continued to soften in NSW (down 4 to +11), with Victoria now taking position as the mainland state with the highest level of business conditions – the trend index in Victoria was +13. Higher commodity prices in recent months may have contributed to a jump in business conditions in Western Australia (up 7), although the index was unchanged in trend terms at a very soft -7. Business conditions in all other states were positive in September.
- On **business confidence**, Qld and WA both weaken in trend terms (down 1), although NSW and Victoria was also flat. Trend confidence only rose in SA this month (up 1). NSW, Qld and SA were most confident (all +7 in trend terms), while WA is still least confident (0 index points).
- **Employment conditions** (trend) are positive in all states outside of WA (-2), although WA saw the largest improvement of the mainland states during the month. Employment conditions deteriorated the most in SA (down 4), but the states employment index continues to look extremely good relative to the levels seen in recent years (+5). NSW has steadily eased from its recent peak of +11 (to +3), while Victoria has improved over that period and was steady in the month (at +6).

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



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



### Group Economics

Alan Oster  
Group Chief Economist  
+61 3 8634 2927

Jacqui Brand  
Personal Assistant  
+61 3 8634 2181

### Australian Economics and Commodities

Riki Polygenis  
Head of Australian Economics  
+61 3) 8697 9534

James Glenn  
Senior Economist – Australia  
+61 4)55 052 519

Vyanne Lai  
Economist – Australia  
+61 3) 8634 0198

Amy Li  
Economist – Australia  
+61 3) 8634 1563

Phin Ziebell  
Economist – Agribusiness  
+61 4) 75 940 662

### Behavioural & Industry Economics

Dean Pearson  
Head of Behavioural & Industry Economics  
+61 3) 8634 2331

Robert De lure  
Senior Economist – Behavioural & Industry Economics  
+61 3) 8634 4611

Brien McDonald  
Senior Economist – Behavioural & Industry Economics  
+61 3) 8634 3837

Steven Wu  
Economist – Behavioural & Industry Economics  
+613) 9208 2929

### International Economics

Tom Taylor  
Head of Economics, International  
+61 3 8634 1883

Tony Kelly  
Senior Economist – International  
+(61 3) 9208 5049

Gerard Burg  
Senior Economist – Asia  
+(61 3) 8634 2788

John Sharma  
Economist – Sovereign Risk  
+(61 3) 8634 4514

### Global Markets Research

Peter Jolly  
Global Head of Research  
+61 2 9237 1406

### Australia

**Economics**  
Ivan Colhoun  
Chief Economist, Markets  
+61 2 9237 1836

David de Garis  
Senior Economist  
+61 3 8641 3045

Tapas Strickland  
Economist  
+61 2 9237 1980

### FX Strategy

Ray Attrill  
Global Co-Head of FX Strategy  
+61 2 9237 1848

Rodrigo Catril  
Currency Strategist  
+61 2 9293 7109

### Interest Rate Strategy

Skye Masters  
Head of Interest Rate Strategy  
+61 2 9295 1196

Alex Stanley  
Senior Interest Rate Strategist  
+61 2 9237 8154

### Credit Research

Michael Bush  
Head of Credit Research  
+61 3 8641 0575

Simon Fletcher  
Senior Credit Analyst – FI  
+61 29237 1076

Andrew Jones  
Credit Analyst  
+61 3 8641 0978

### Distribution

Barbara Leong  
Research Production Manager  
+61 2 9237 8151

### New Zealand

Stephen Toplis  
Head of Research, NZ  
+64 4 474 6905

Craig Ebert  
Senior Economist  
+64 4 474 6799

Doug Steel  
Markets Economist  
+64 4 474 6923

Kymerly Martin  
Senior Market Strategist  
+64 4 924 7654

Jason Wong  
Currency Strategist  
+64 4 924 7652

Yvonne Liew  
Publications & Web Administrator  
+64 4 474 9771

### Asia

Christy Tan  
Head of Markets Strategy/Research, Asia,  
+ 852 2822 5350

Julian Wee  
Senior Markets Strategist, Asia  
+65 6632 8055

### UK/Europe

Nick Parsons  
Head of Research, UK/Europe,  
and Global Co-Head of FX Strategy  
+ 44207710 2993

Gavin Friend  
Senior Markets Strategist  
+44 207 710 2155

Derek Allassani  
Research Production Manager  
+44 207 710 1532

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