

NAB QUARTERLY BUSINESS SURVEY

September Quarter 2016 *(Embargoed until 11.30am Thursday 20th October)*

By Group Economics



Leading indicators from the NAB Quarterly Business Survey tend to point to an ongoing recovery for the non-mining economy, at least in the near-term, although the momentum appears to have slowed for some series. Responding firms continue to indicate solid investment intentions, despite some pullback in capacity utilisation rates, which is encouraging, as is the improvement in expected labour demand. However, recent trends in retail have become a concern, and warrant close monitoring, with retail trading conditions turning negative. The Survey is still showing very subdued inflation measures, despite solid indicators of activity, which could signal yet another soft CPI outcome for Q3 – although the CPI will need to be very weak to prompt an additional cut to the cash rate from the RBA this year.

	2016q1	2016q2	2016q3		2016q1	2016q2	2016q3
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	4	3	5	Trading	16	17	11
Business conditions				Profitability	12	12	6
Current	11	11	7	Employment	3	2	3
Next 3 months	17	15	14	Next 3 months	5	6	6
Next 12 months	26	22	25	Next 12 months		10	15
Capex plans (next 12)	24	25	24	Forward orders	4	3	4
	<i>% change</i>			Stocks	6	4	2
Labour costs	0.4	0.4	0.4	Exports	1	2	0
Purchase costs	0.3	0.3	0.2	Retail prices	0.2	0.3	0.1
Final products prices	0.2	0.1	0.1	Capacity utilisation rate	81.7	81.9	81.1

The quarterly iteration of the NAB Business Survey provides additional insight into Australian business than the regular NAB Monthly Business Survey. This publication offers a more in-depth probe into the conditions facing Australian business, and provides extra information about how firms perceive the outlook for their industries.

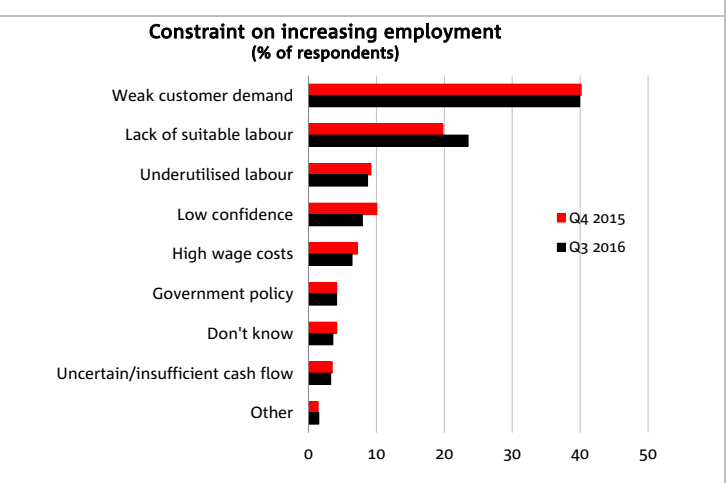
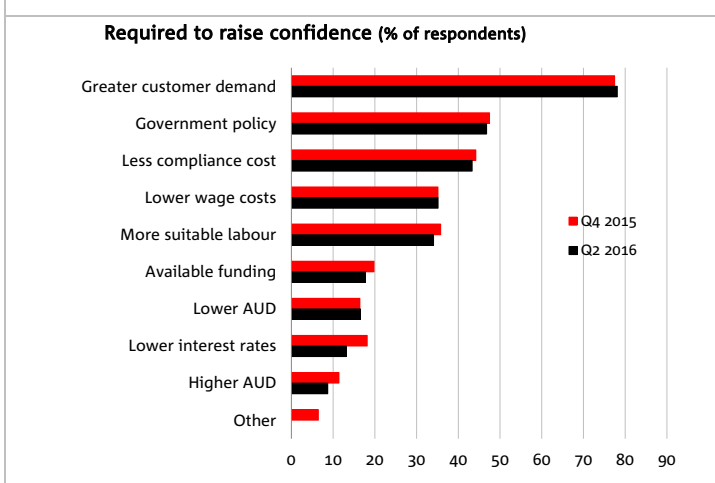
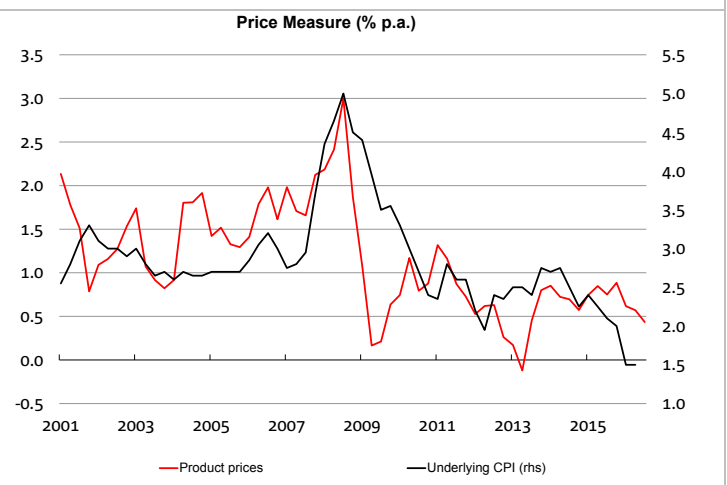
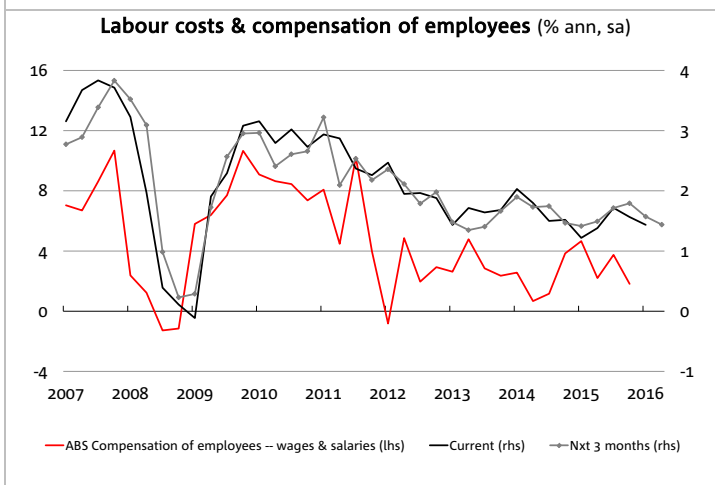
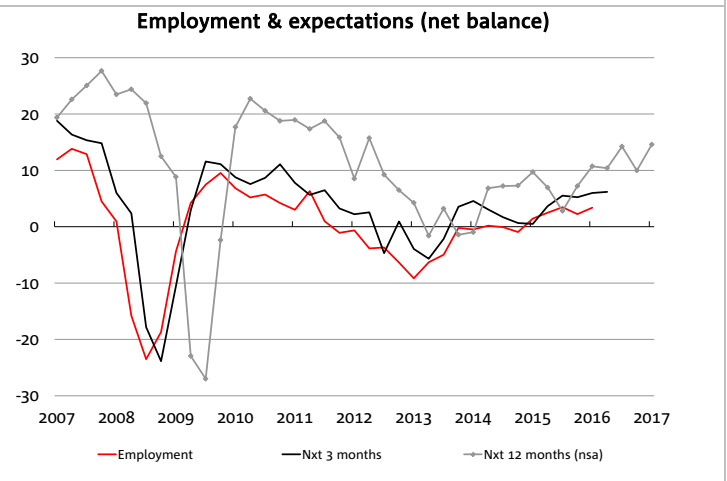
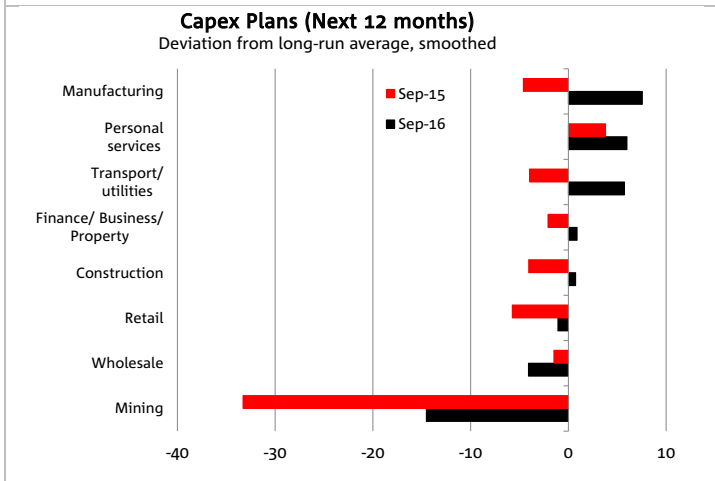
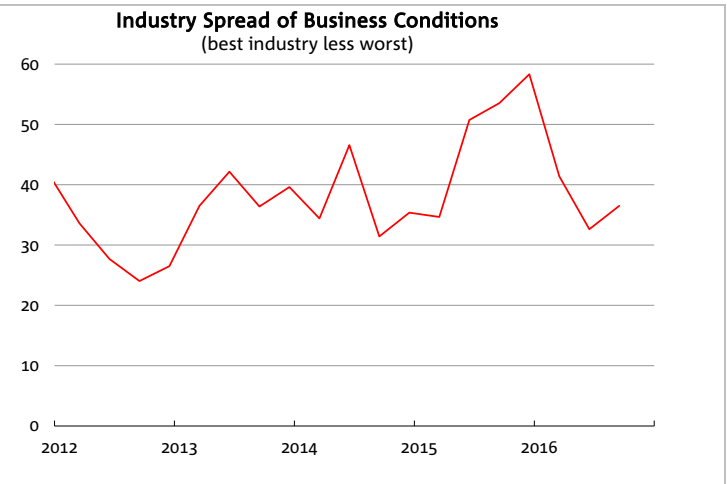
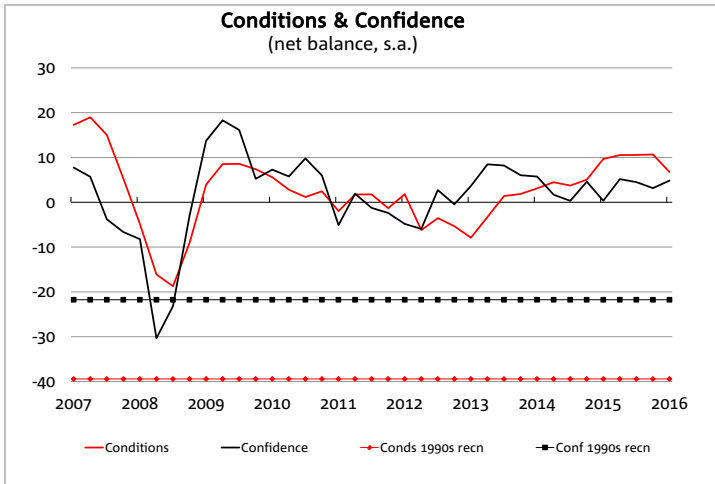
There was a slight moderation in business conditions in the September quarter, falling 4 points to +7 index points, driven by a drop in trading conditions and profitability. However, according to NAB Group Chief Economist Alan Oster, “business conditions are still well above long-run average levels and are consistent with solid rates of activity in the non-mining economy right now. At the same time, confidence levels improved slightly, which suggests to us that firms are still reasonably comfortable about their operating environment, even with the numerous uncertainties emanating from overseas”.

While these outcomes do not differ hugely from the monthly Survey, new information in this survey relates to how firms perceive the outlook facing their business and the economy. According to Mr Oster, “firms’ are telling us that the near-term outlook is still a good one. They don’t anticipate any clear deterioration in business conditions over the next 3-12 months, while hiring intentions for the next year actually picked up markedly and capital expenditure plans remain much stronger than what some other indicators might suggest”.

Other leading indicators are generally still quite good too, although some momentum has been lost. “Capacity utilisation took a step back, unwinding the gains from recent quarters, although the longer term trend is still very much a positive one. That is helping to support investment and employment intentions shown by firms. We have even started to see some signs that firms are finding it a little harder to obtain suitable labour, which could translate into stronger wages growth down the road” said Mr Oster.

However, strong evidence of a more broad based non-mining recovery appeared to stall in Q3. On this, Mr Oster said “the service sectors continue to be the clear outperformers, despite softening a little in Q3. The spread of conditions between the major service industries and the worst performers widened a little in the quarter, in part driven by a concerning deterioration in retail and wholesale conditions. Given the importance of household consumption to the growth outlook, this is something we will continue to monitor closely”.

The Survey is also continuing to show very moderate inflation pressures, which is also working to keep wage pressures contained. Firms expect both their own prices and labour cost growth to remain relatively subdued in the coming quarter. According to Mr Oster, “the outlook for business activity in this Survey should make the RBA reasonably comfortable, but the inflation picture is less encouraging. However, in light of recent housing market trends, on balance we think a rate cut this year is unlikely, barring an extremely weak Q3 CPI outcome”.



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 2) 9237 8017

Vyanne Lai
Economist – Australia
+(61 3) 8634 0198

Phin Ziebell
Economist – Australia
+61 (0) 475 940 662

Amy Li
Economist – Australia
+(61 3) 8634 1563

Industry Analysis
Dean Pearson
Head of Industry Analysis
+(61 3) 8634 2331

Robert De Iure
Senior Economist – Industry
Analysis
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Industry
Analysis
+(61 3) 8634 3837

Steven Wu
Senior Analyst – Industry
Analysis
+(61 3) 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

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.