

# NAB MONTHLY BUSINESS SURVEY

## October 2016

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By Group Economics

The NAB Monthly Business Survey is now suggesting some moderation in the non-mining economic recovery, with the aggregate level of business conditions trending lower – although it remains above long-run average levels. Business confidence was also down in the month. The recent moderation in some NAB Business Survey indicators is a concerning trend that warrants close monitoring, but our assessment is that the deterioration to date is not (yet) enough to warrant a significant change in the outlook. However, this may change if the recent trends were to continue. Beyond the near-term, impetus from commodity exports and housing construction will fade which will see the economy slow into 2018. Two more 25bp rate cuts are still expected from the RBA next year in response to on-going low inflation and a more subdued growth outlook. NAB's latest Australian economic forecasts will be available on Thursday.

	Aug 2016	Sep 2016	Oct 2016		Aug 2016	Sep 2016	Oct 2016
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	6	6	<b>4</b>	Employment	4	1	<b>0</b>
Business conditions	7	8	<b>6</b>	Forward orders	2	9	<b>0</b>
Trading	13	17	<b>11</b>	Stocks	1	2	<b>1</b>
Profitability	5	7	<b>7</b>	Exports	1	2	<b>2</b>
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.8	0.8	<b>0.8</b>	Retail prices	0.1	0.3	<b>-0.3</b>
Purchase costs	0.4	0.4	<b>0.2</b>		<i>Per cent</i>		
Final products prices	0.2	0.4	<b>0.1</b>	Capacity utilisation rate	81.0	80.6	<b>80.5</b>

## BUSINESS CONDITIONS ABOVE AVERAGE, BUT THE WEAKER TREND SUGGESTS A LOSS OF MOMENTUM

Above-average business conditions in the October NAB Monthly Business Survey indicates solid performance in the non-mining economy, however, the emerging downward trend might suggest the recovery is running out of steam sooner than previously thought. The business conditions index (an aggregation of trading conditions (sales), profitability and employment) fell in October, to +6 index points (from +8), its lowest level since May 2015. The business confidence index also fell to +4 index points (from +6) in October.

According to Mr Oster, NAB's Chief Economist, "we are becoming a little more concerned about some of the trends we are starting to see in the Business Survey. While conditions are still at above average levels, if the recent trajectory continues we could be looking at an economy that is rapidly losing momentum. In fact, we are clearly more concerned than the RBA about the near term outlook. In addition to that, business confidence is also back below average levels. That will need to change if the RBA hopes to see their anticipated recovery in non-mining business investment."

Business conditions continue to look quite varied across the major industry groups in the survey. "While there was some narrowing in business conditions between non-mining industries in the month, this was partially the result of deterioration in conditions for the best performing (services based) industries. There was, however, a noticeable improvement in retail conditions, although the trend remains quite soft" said Mr Oster.

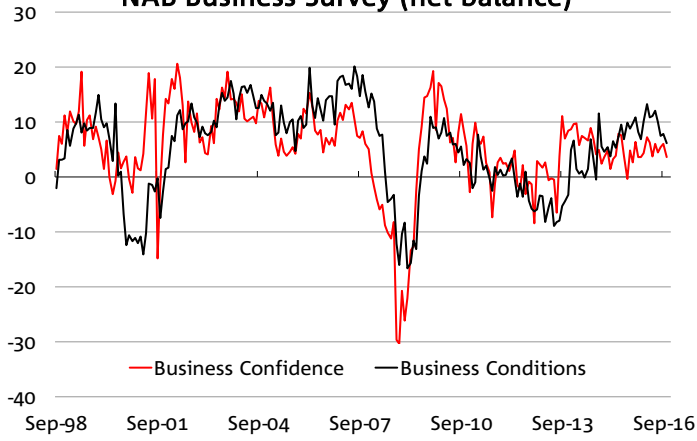
Within business conditions, both trading and employment conditions deteriorated – although the former remains elevated – while profitability was steady. "Softer employment conditions are a concern, particularly with the index now threatening to drop back into negative territory. Any further weakening would suggest future employment growth that is inadequate to prevent a deterioration in the unemployment rate", said Mr Oster.

Meanwhile, the survey's leading indicators of near-term business activity were also less encouraging this month. In particular, forward orders dropped sharply to zero, the first time the index has not been positive since March. Capacity utilisation rates, which are relevant to future employment and capital expenditure growth, continued its recent decline as well. According to Mr Oster, "both of these trends suggest some risk to both the near-term outlook and longer-term economic prospects. Although with that said, we have continued to be pleasantly surprised by the strength in the Survey's capex indicator". NAB's capex indicator at +7 index points is more upbeat than other investment indicators.

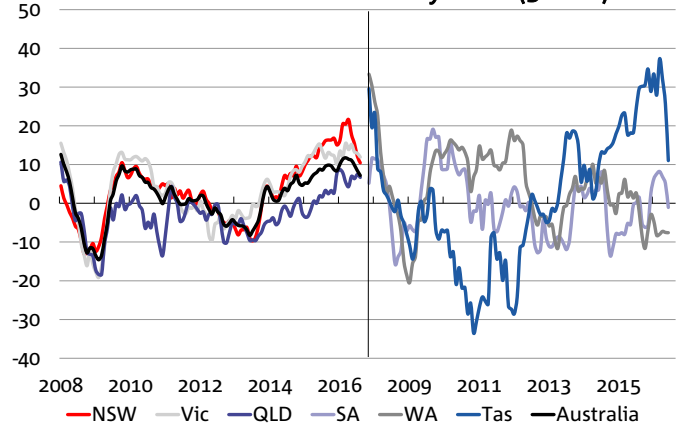
"The recent moderation in some NAB Business Survey indicators is a concerning trend that warrants close monitoring, but our assessment is that the deterioration to date is not (yet) enough to warrant a significant change in the outlook", said Mr Oster. "However, if the recent trends were to continue, it would be unsettling and imply that the non-mining recovery has started to run out of steam earlier than expected. For now though, we would only be looking to slightly lower 2017 forecasts and remain reasonably comfortable with the near-term outlook, which is expected to be supported by commodity exports and the housing construction cycle. That said we are clearly more concerned than the RBA about the near term outlook. Beyond the near-term, impetus from those growth drivers will fade which will see the economy slow into 2018. Two more 25bps rate cuts are still expected from the RBA next year in response to ongoing low inflation and a more subdued growth outlook". NAB's latest Australian economic forecasts will be available on Thursday.

NAB Monthly Business Survey

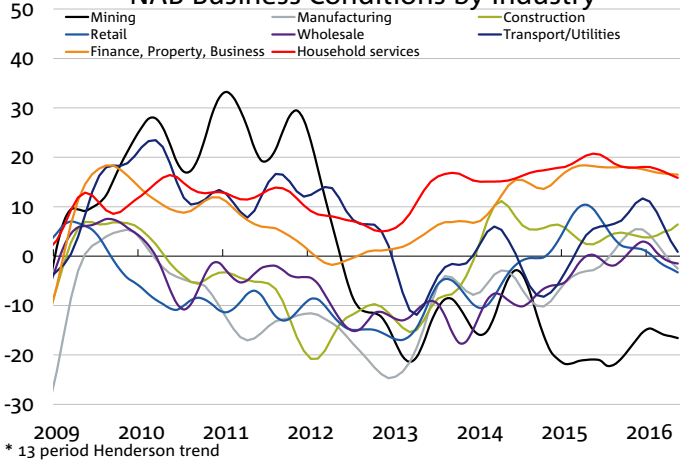
NAB Business Survey (net balance)



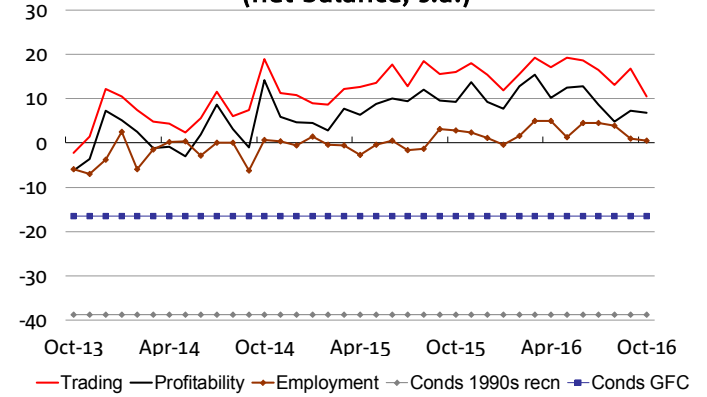
NAB Business Conditions by State (3mma)



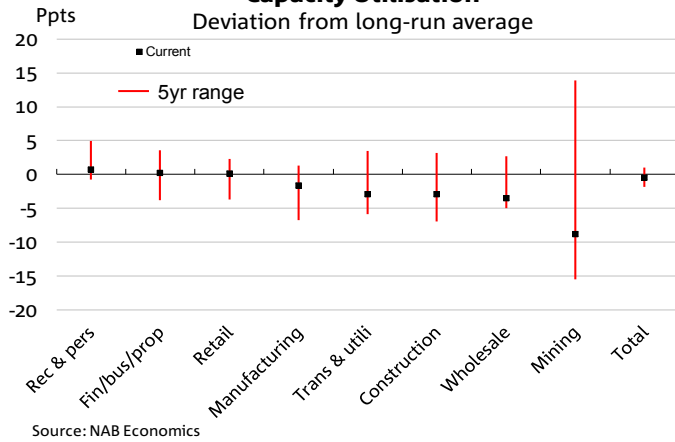
NAB Business Conditions by Industry\*



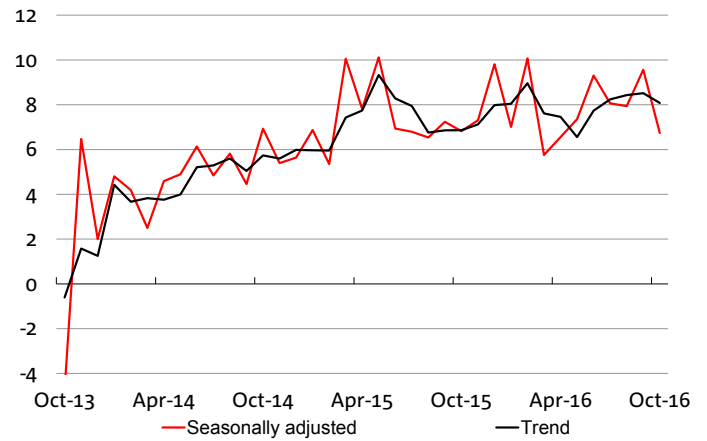
All components of business conditions (net balance, s.a.)



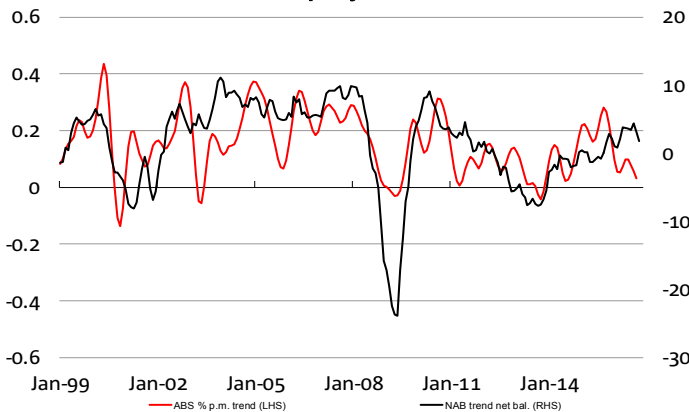
Capacity Utilisation



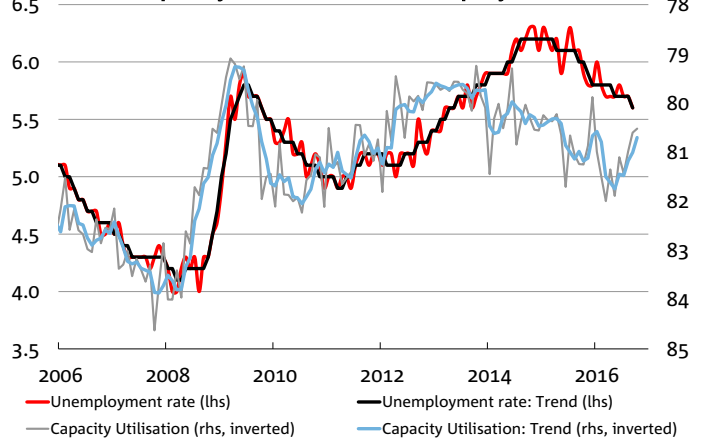
Capital Expenditure (net balance)



Employment



Capacity Utilisation & Unemployment



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