

NAB MONTHLY BUSINESS SURVEY

December 2016

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By Group Economics

The December NAB Monthly Business Survey indicated a reprieve from the steady moderation in business conditions seen late last year. That outcome points to a stronger outlook for the economy, but we remain cautious given other aspects of the Survey that suggest the rebound might prove to be temporary. Weakness in retail conditions is particularly concerning, while we are not seeing any real signs in the Survey of a convincing recovery in non-mining investment – crucial to both near-term and longer-term growth prospects (although the drag from the mining sector should soon ease). While some ‘bounce-back’ from the weather affected Q3 GDP can be expected, a return to a more subdued growth track thereafter still seems likely as the positive effects from the housing construction cycle, commodity exports, and (temporarily) higher commodity prices washes out. Two more 25bp rate cuts are still expected from the RBA this year in response to on-going low inflation and a more subdued growth outlook.

	Oct 2016	Nov 2016	Dec 2016		Oct 2016	Nov 2016	Dec 2016
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	5	6	6	Employment	1	1	1
Business conditions	7	6	11	Forward orders	1	0	5
Trading	11	10	20	Stocks	1	2	-2
Profitability	8	6	14	Exports	2	1	1
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.9	0.7	0.6	Retail prices	-0.3	0.0	0.3
Purchase costs	0.3	0.5	0.4		<i>Per cent</i>		
Final products prices	0.2	0.3	0.2	Capacity utilisation rate	80.7	81.3	80.8

A REBOUND IN BUSINESS CONDITIONS FOR DECEMBER, BUT WILL IT LAST?

Business conditions saw an impressive rebound this month, largely unwinding the steady downward trend seen since mid-2016. The business conditions index (an average of trading conditions (sales), profitability and employment) jumped 5 points, to +11 index points, which is well above the long-run average for the series (+5). Meanwhile, business confidence has been quite steady over the past year, and December was no different. The confidence index was unchanged at +6 index points, consistent with the long run average.

According to Mr Alan Oster, NAB’s Chief Economist, “the rebound in business conditions is certainly encouraging, but at this stage we are not getting too carried away with the result. Stronger business conditions in December largely reflected unexpectedly strong improvements in some industries, which might not be sustained, while other indicators were generally mixed as well. As for business confidence, the stability we have seen for some time now has been welcome, but it does not fully reflect the strength in business conditions. That might suggest that business still has a high degree of concern about global uncertainties in particular”.

By industry, the improvement in business conditions in December was most pronounced in wholesale and transport & utilities, while manufacturing and retail recorded deterioration. “We were a little surprised by the strength in wholesale, particularly given much more subdued conditions in related industries such as manufacturing and retail. Retail is now the weakest industry in the Survey, which is concerning given the importance of household consumption to the outlook”, said Mr Oster. Looking through monthly volatility, service industries remain the best performers.

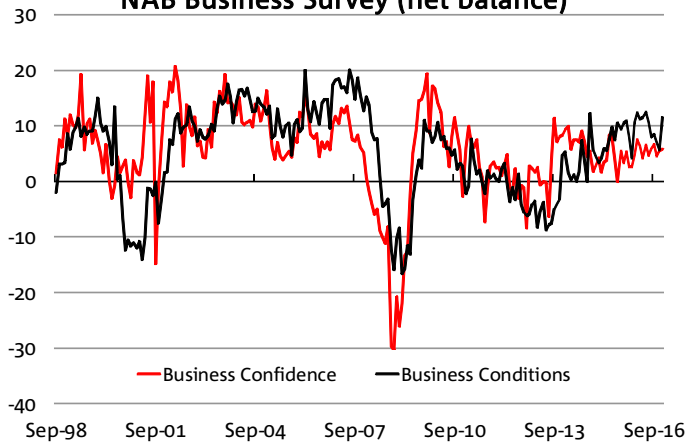
Within business conditions, the jump was completely driven by higher trading conditions and profitability, while the employment index was unchanged at relatively subdued levels. According to Mr Oster, “employment conditions have remained stubbornly muted and suggest the labour market is still not generating enough jobs to bring the unemployment rate down from its elevated level. That said, the employment index does point to slightly stronger employment growth than we have been seeing from the ABS Labour Force Survey of late”.

The near-term outlook improved marginally in this month’s Survey, with the forward orders index jumping above its long-run average level. However, the capacity utilisation rate, which is relevant to future employment and capital expenditure, eased back. According to Mr Oster, “the outcome for forward orders suggests good near-term prospects for activity, but the drop in capacity utilisation warrants monitoring, especially if it points to a continuation of the downward trend seen over the second half of 2016”.

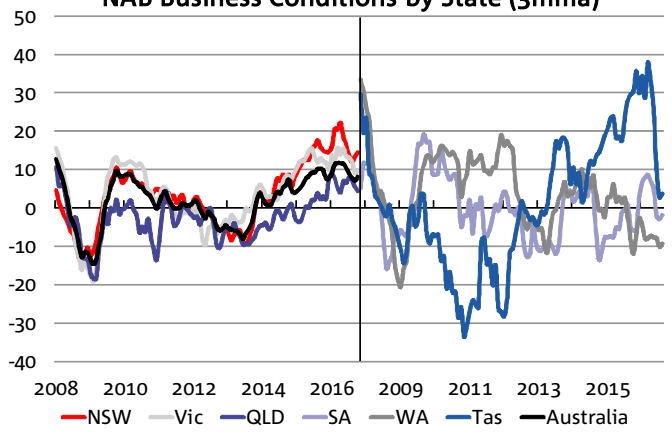
“The headline results from the Survey indicate some upside risk to the outlook, but the mixed results below the surface suggest a degree of caution is warranted. Importantly, we are not seeing any real signs of a convincing recovery in non-mining investment in the Survey, which is crucial to both near-term and longer-term growth prospects” said Mr Oster. While some ‘bounce-back’ from the weather affected Q3 GDP can be expected, a return to a more subdued growth track thereafter still seems likely as the positive effects from the housing construction cycle, commodity exports, and (temporarily) higher commodity prices wash out. Two more 25bp rate cuts are still expected from the RBA this year in response to ongoing low inflation and a more subdued growth outlook. NAB Economics will be issuing an update on the economic outlook in coming weeks.

NAB Monthly Business Survey

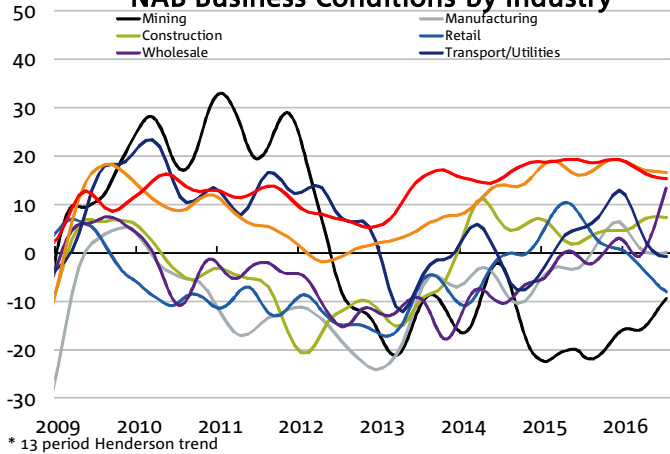
NAB Business Survey (net balance)



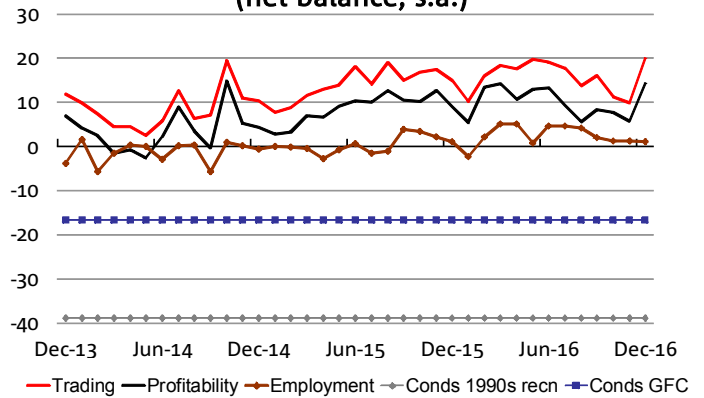
NAB Business Conditions by State (3mma)



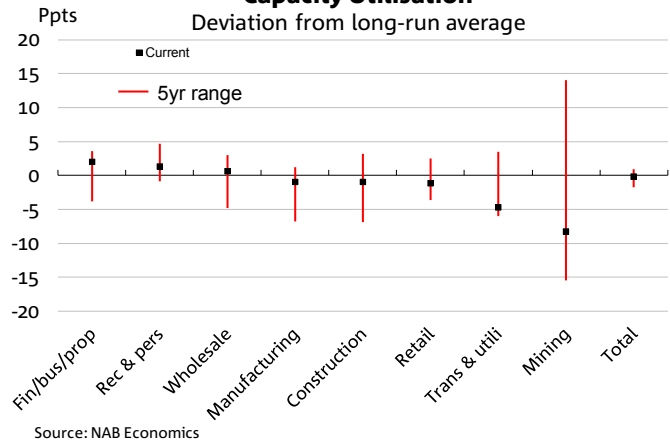
NAB Business Conditions by Industry*



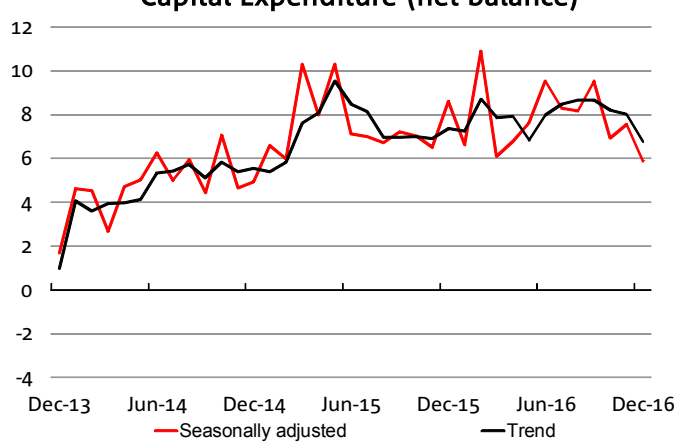
All components of business conditions (net balance, s.a.)



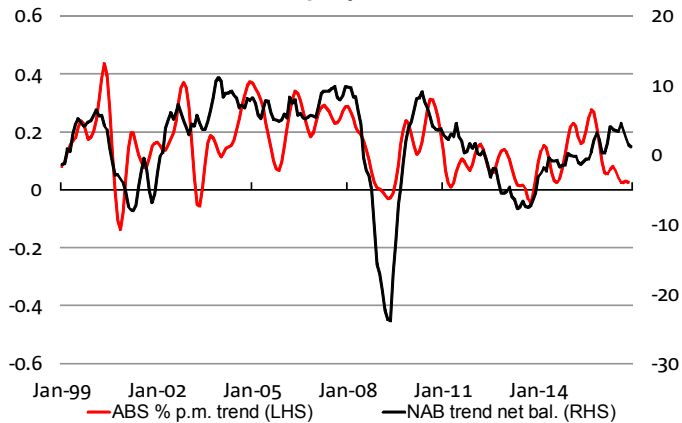
Capacity Utilisation



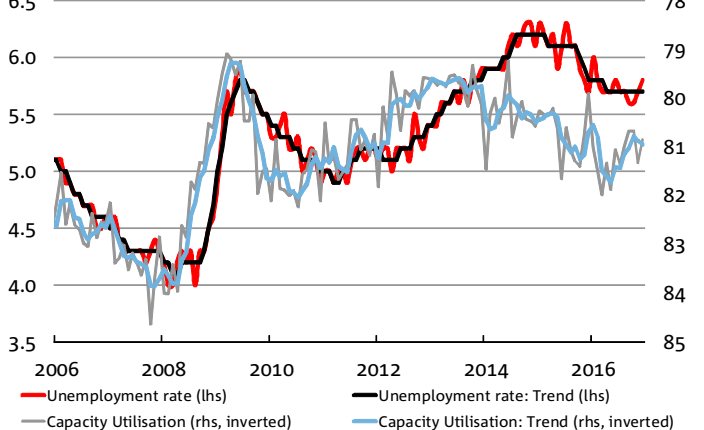
Capital Expenditure (net balance)



Employment



Capacity Utilisation & Unemployment



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