

# NAB MONTHLY BUSINESS SURVEY

## JANUARY 2017

NEXT RELEASE:  
14 MAR 2017 – FEBRUARY MONTHLY



### Key points:

- The strength witnessed in last month's NAB Monthly Business Survey continued into January, with both business conditions and confidence jumping to much higher levels. While these outcomes are certainly pointing to an improvement in the domestic economy after a soft patch through much of H2 2016, a degree of caution should still be exercised given the diverse and rapidly changing seasonal influences at this time of year (which potentially includes the shift in Chinese New Year to January this year). In terms of the headline numbers, the **business conditions index jumped by a solid 6 points in January, to +16 index points**, which is around pre-GFC boom levels. This month, another rise in trading conditions contributed to the outcome, but there was also a noticeable jump in employment conditions, which bodes well for the generally underperforming labour market – the employment index hit its highest level since 2011. Meanwhile, profits were unchanged at solid levels. By industry, last month's surprise spike in wholesale conditions was unwound (as anticipated), but that seems to have been more than offset at the aggregate level by improvements in personal services, while retail and mining are no longer negative. NSW enjoyed the bulk of the improvement in conditions, while the rest of the mainland states were relatively steady. **Cost price measures** in the Survey also lifted notably, suggesting a build in wage pressures, although retail price inflation remained very subdued.
- **Business confidence** also jumped in the month, aligning itself with the general enthusiasm seen in financial markets and more positive sentiment towards the global economic outlook. The business confidence index jumped **4 points to +10 index points in January**, which was well above the series long-run average. Responses on capital expenditure were also much more encouraging in January, consistent with a rise in capacity utilisation – although forward orders do not point to a continuation of that strength in the near-term.
- Recent strength in the NAB Business Survey is consistent with an anticipated rebound in economic activity, following the very weak Q3 2016 National Accounts. With that said, a confluence of seasonal factors suggests it is unwise to get too carried away with the result just yet, especially as key industries like retail remain extremely weak (despite improving in the month), which suggests the outlook for consumption remains cloudy. NAB Economics also have concerns for the longer-term growth picture, as the contribution from LNG exports, temporarily higher commodity prices and the residential construction boom fade, keeping pressure on the labour market. Nevertheless, in light of the recent flow of data, NAB's economic forecasts (which include expectations for the RBA's cash rate) are currently under review – to be published tomorrow.

**Table 1: Key monthly business statistics**

	Nov 2016	Dec 2016	Jan 2017		Nov 2016	Dec 2016	Jan 2017
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	6	6	<b>10</b>	Employment	2	2	<b>7</b>
Business conditions	6	10	<b>16</b>	Forward orders	1	5	<b>2</b>
Trading	11	17	<b>22</b>	Stocks	2	-1	<b>3</b>
Profitability	6	12	<b>12</b>	Exports	1	1	<b>0</b>
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.7	0.6	<b>1.0</b>	Retail prices	0.0	0.3	<b>0.2</b>
Purchase costs	0.5	0.4	<b>0.6</b>		<i>Per cent</i>		
Final products prices	0.3	0.2	<b>0.7</b>	Capacity utilisation rate	81.3	80.9	<b>81.5</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 27 Jan to 3 Feb, covering more than 400 firms across the non-farm business sector.

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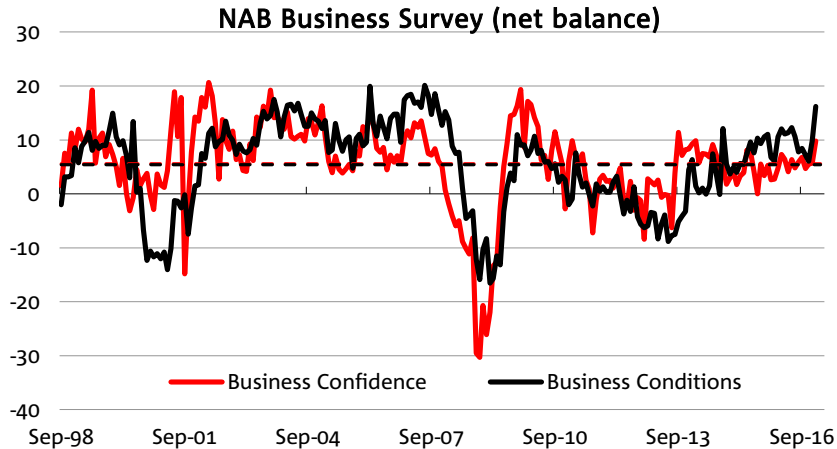
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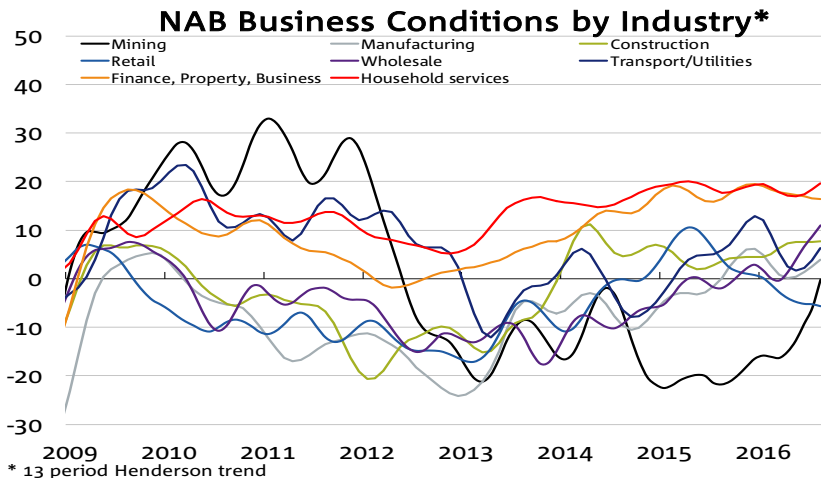
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# KEY MONTHLY CHARTS

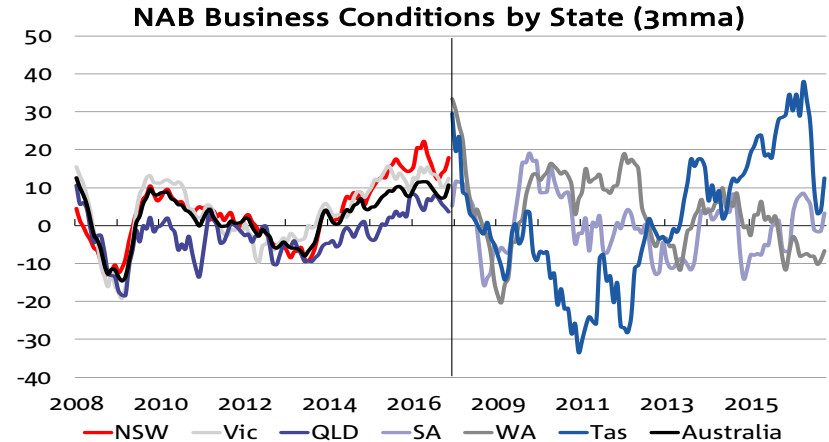
## BUSINESS CONDITIONS AT MULTI-YEAR HIGHS. CONFIDENCE ALSO BACK ABOVE AVERAGE



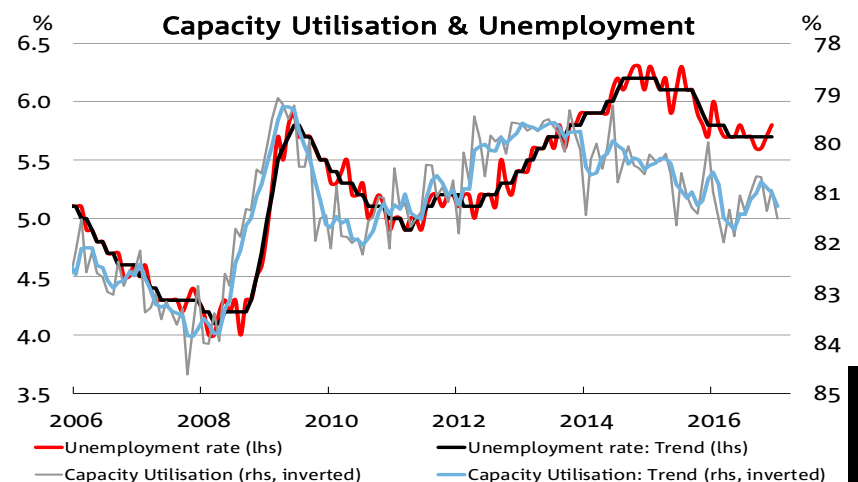
## SERVICES STILL THE OUTPERFORMERS, BUT MOST ARE IMPROVING – RETAIL A CONCERNING EXCEPTION.



## CONDITIONS TURNING UP AGAIN IN MOST STATES EXCEPT QUEENSLAND – NSW IS THE BEST PERFORMER



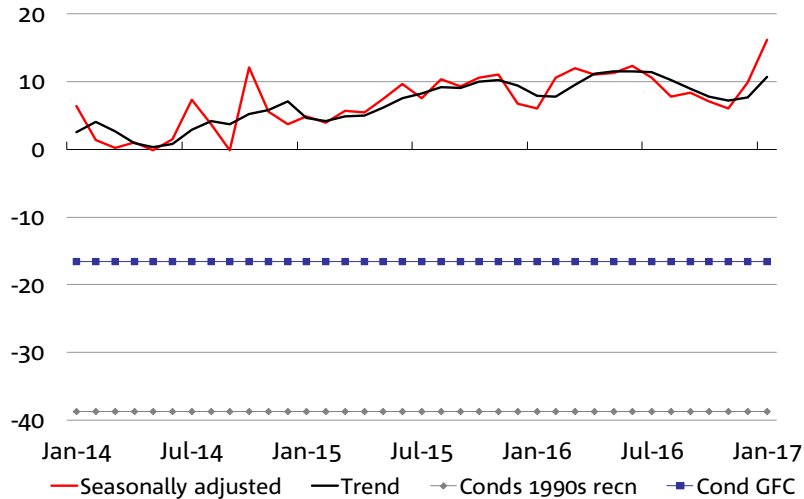
## CAPACITY UTILISATION AND UNEMPLOYMENT INDICATE A DEGREE OF SLACK, BUT THE FORMER IS HEADING UP AGAIN



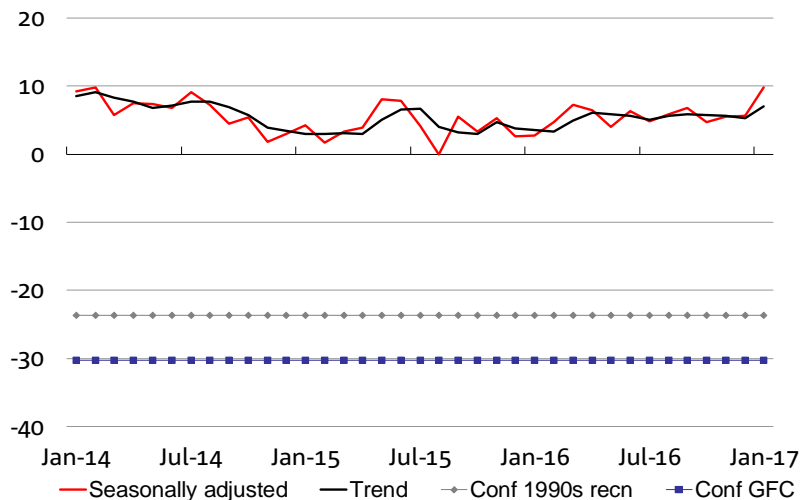
# BUSINESS CONDITIONS AND FORWARD INDICATORS

*Conditions rebounded, but could reflect temporary factors?*

**Business Conditions (net balance)**



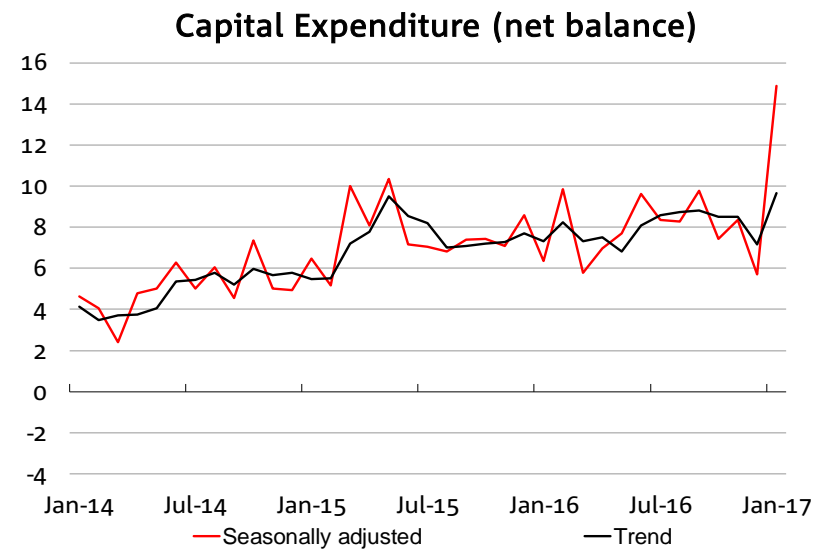
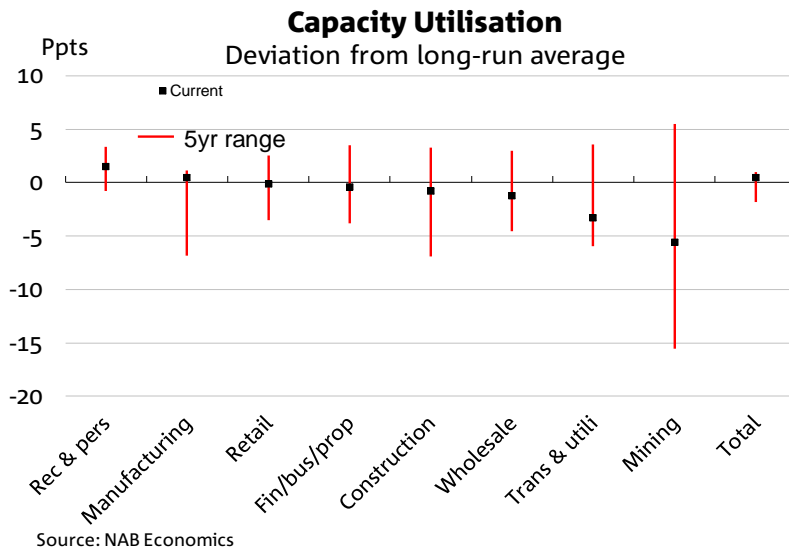
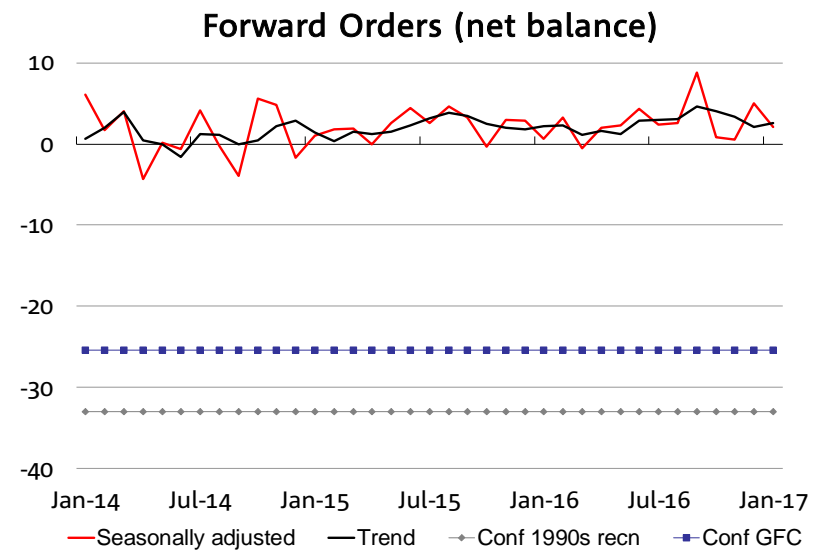
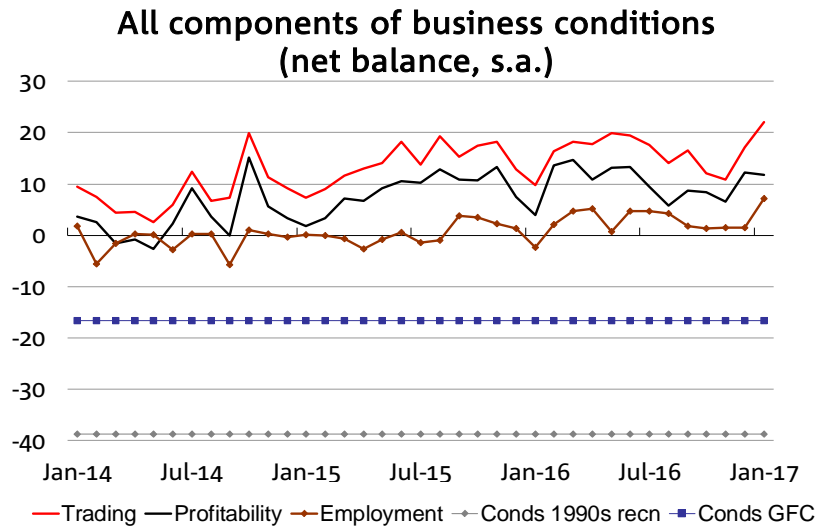
**Business Confidence (net balance)**



- **Business conditions** unexpectedly surged ahead in the month, pointing to very strong levels of business activity at present. However, seasonal adjustments did a fair degree of the heavy lifting, suggesting a degree of caution should be exercised when interpreting the results – conditions actually fell considerably in January when not adjusting for seasonality. The business conditions index jumped 6 points, to +16 index points in seasonally-adjusted terms, which is well above the long-run average (+5). By component, trading conditions lifted again, while profits were steady at an elevated +12 index points. Meanwhile, employment conditions improved considerably to +7 from +2 (see chart on p4), which is encouraging given disappointing outcomes of late in the labour market. As expected, the wholesale industry gave back the surprisingly strong gains seen in conditions last month, but that was more than offset by improvements elsewhere, while mining and retail were no longer negative in January. That said, the trend for retail remains very weak – a concern for the consumption outlook – and warrants monitoring (see p7).
- **Business confidence** also posted a stronger result in the month, rising 4 points to +10 index points, following the tone set by financial markets since late last year. This level is above the long-run average, and if sustained could see firms revise up their capital expenditure and hiring plans. Improving expectations for the global economy probably contributed to the change, although the improvement in confidence was not seen universally across industries. Confidence remains positive for all the major industry groupings in the Survey, but only half actually recorded an improvement in the month (see p7 for details).
- By state, much of the strength in this month's Survey was confined to NSW, with most other mainland states showing only modest gains, or even a deterioration. NSW business conditions were up 7 points in the month, to a level of +23 index points (+18 trend) – the highest of the mainland states by a clear margin. In contrast, both Victoria and SA fell (down 1), although the former is still seeing very elevated conditions. Nevertheless, WA was the only state with negative business conditions. In terms of confidence, Queensland is best in trend terms (see p8 for details).
- Leading indicators paint a mixed picture of the near-term outlook. The **forward orders** index dropped 3 points to +2 index points (albeit above the long-run average of zero), which suggests modestly positive near-term prospects for activity (see chart on p4). A majority of industries saw a fall in orders this month, but the drop was particularly large for retail and wholesale (see p7 for details).
- Consistent with the jump in trading conditions in January, NAB's measure of **capacity utilisation** rose this month, more than reversing the downward adjustment recorded last month (rising to 81.5%, from 80.9% last month). At the same time, the Survey's **capex** measure increased considerably (up 9 points) to +15 index points (see chart on p4). If a true reflection of investment activity, that outcome is clearly more upbeat than other investment indicators. Nevertheless, utilisation rates are still at or below long-term averages for most of the major industry groups, which pose a challenge to sustaining more elevated levels of investment (see chart on p4) – industry detail on p6.
- **Cash flow** (not seasonally adjusted) pulled back in the month, but remains reasonably solid (chart on p6) – currently strongest in personal service, but weakest in mining.

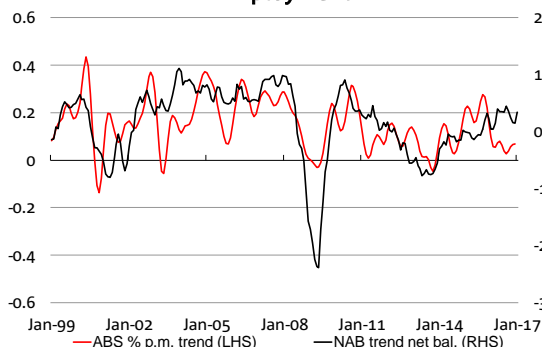
# BUSINESS CONDITIONS AND FORWARD INDICATORS (CONT.)

## Components of business conditions & leading indicators

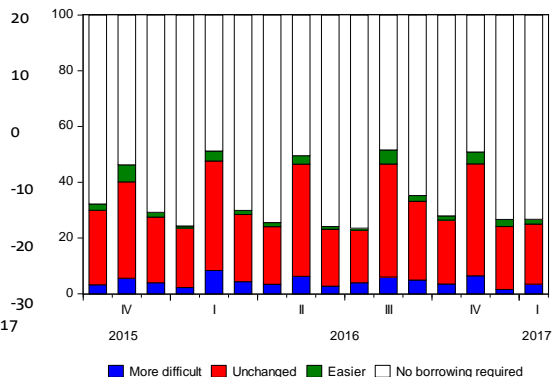


# LABOUR DEMAND, COSTS, PRICES & BORROWING CONDITIONS

Employment



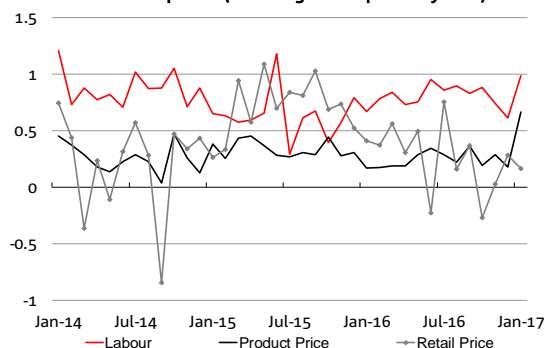
Borrowing conditions (% of firms)



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

Jan-2017	Mining	Manuf	Constn	Retail	Wsale	Tran. & utilis	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-1.0	1.9	0.8	0.3	1.3	0.8	1.1	0.6	1.0
Labour costs: previous	-1.0	0.6	0.2	1.3	0.5	0.0	0.7	1.0	0.6
Labour costs: change	0.0	1.3	0.6	-1.0	0.8	0.8	0.4	-0.4	0.4
Prices (final): current	0.1	1.8	0.9	0.2	0.8	-0.2	1.0	0.1	0.7
Prices (final): previous	-1.6	0.1	0.1	0.3	0.9	-0.1	0.4	0.2	0.2
Prices (final): change	1.7	1.7	0.8	-0.1	-0.1	-0.1	0.6	-0.1	0.5
Purchase costs: current	0.0	1.4	0.8	0.4	0.9	0.4	0.7	0.1	0.6
Purchase costs: previous	0.1	0.3	0.3	0.4	0.8	0.6	0.6	0.2	0.4
Purchase costs: change	-0.1	1.1	0.5	0.0	0.1	-0.2	0.1	-0.1	0.2

Costs & prices (% change at a quarterly rate)



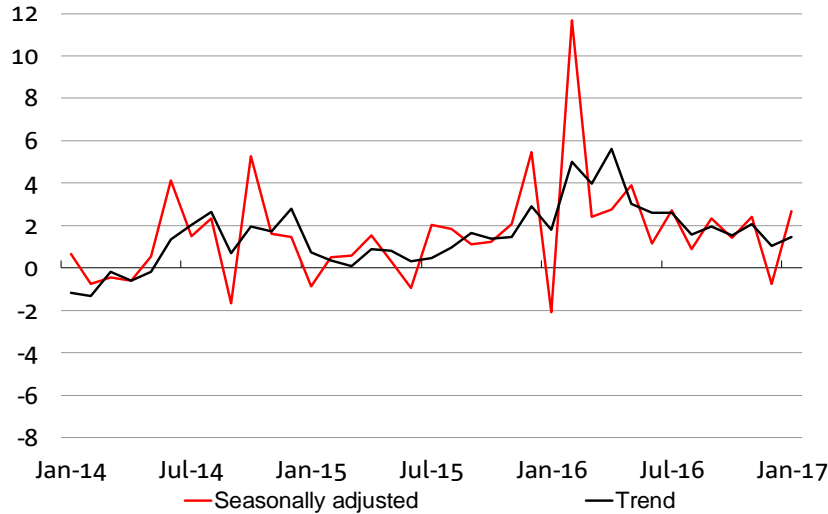
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.

- **Employment conditions** were bolstered by the improvement in trading conditions over January, once again pointing to better labour market outcomes than those seen in the ABS Labour Force Survey of late. The employment index jumped by 5 points in the month to +7 index points, which is above the long-run average for the series. This outcome points to an annual job creation rate of around 240k (around 20k per month) in coming months, which is sufficient to see the unemployment rate ebb lower (all else unchanged) – trend ABS employment growth rose 8.2k in December.
- Most industry groups saw an increase in employment conditions last month. The largest gains were in mining (up 33), followed by transport (up 20) while wholesale saw the biggest decline (down 18). Despite the jump in January, mining employment conditions remain the worst in trend terms (-17), while manufacturing was next weakest (-5). In contrast, the strongest employment demand (trend) was in personal services and wholesale (both +8), followed by finance/ property/ business services (+7).
- **Labour costs** growth (a wage bill measure) increased considerably in the month, suggesting a build-up in wage pressures to 1% (a quarterly rate). Labour cost pressures were highest in manufacturing (at 1.9%), but were still weakest in mining (-1%), suggesting no pass-through yet from higher commodity prices. Retail labour costs pulled back, which may help to explain a reasonably big improvement in profitability this month.
- Growth in **purchase costs** also picked up in the month, to 0.6% (a quarterly rate, from 0.4%). This outcome is still below the long-run average, with recent commodity price rises not yet having much effect. Growth in purchase costs accelerated the most in manufacturing (up 1.1 ppts), followed by construction (up 0.5 ppts). In contrast, purchase costs decelerated the most for transport (down 0.2 ppts). Overall, purchase cost pressures were highest in manufacturing (1.4%, quarterly rate), but were softest in mining (0%).
- **Final product prices** growth in December rose to 0.7% (a quarterly rate, from 0.2%). However, retail price growth softened to a very subdued rate of just 0.2%, which is well below the lower bound of the RBA's inflation target. Retail, wholesale and fin/ prop/ bus services (all down 0.1 ppts) each had a deceleration in final prices growth, while mining and manufacturing (both up 1.7 ppts) saw the most acceleration. Prices are falling in transport (-0.2%), while manufacturing prices saw the fastest rate of growth in the Survey (1.8%).
- Surprisingly, borrowing conditions improved from 3 months prior, although the index was still negative – meaning that on net, more firms found it more difficult to borrow than easier. The demand for credit also fell in that time.

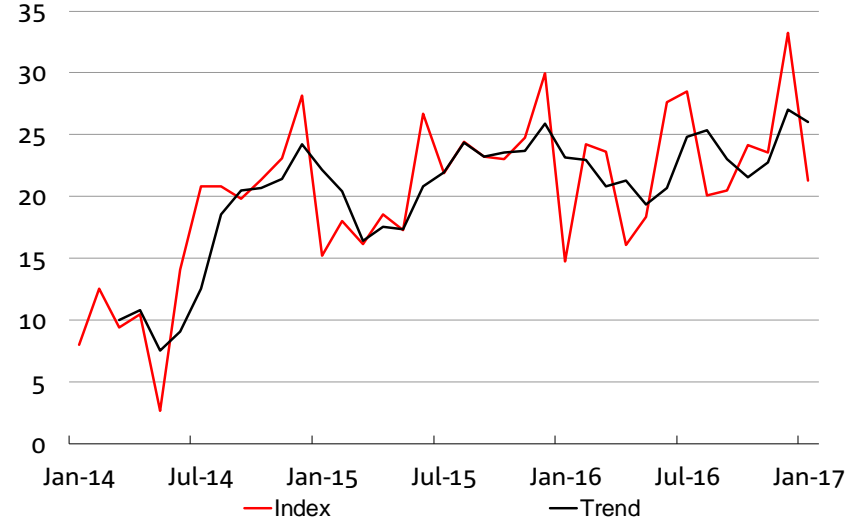
# MORE DETAILS ON BUSINESS ACTIVITY

*Restocking activity improved. Exports weaker. Cash flows down, but still solid.*

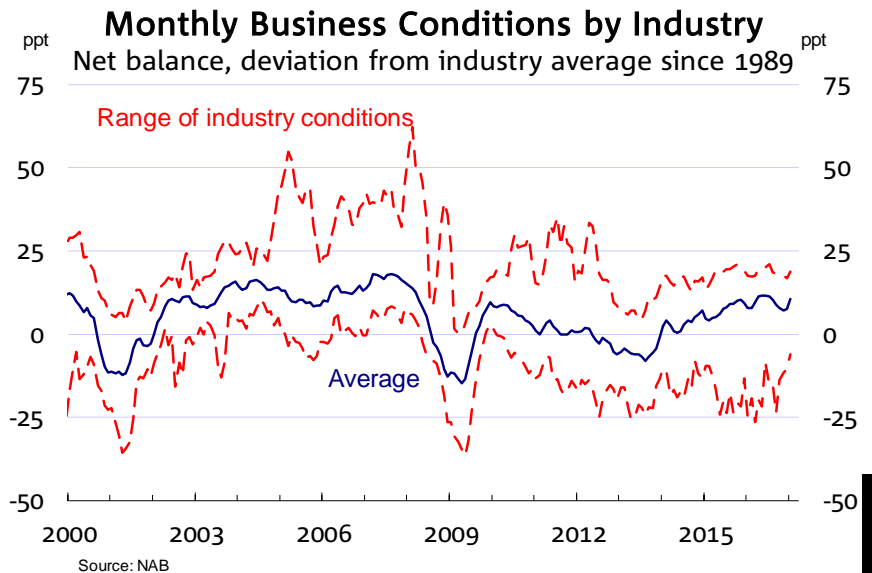
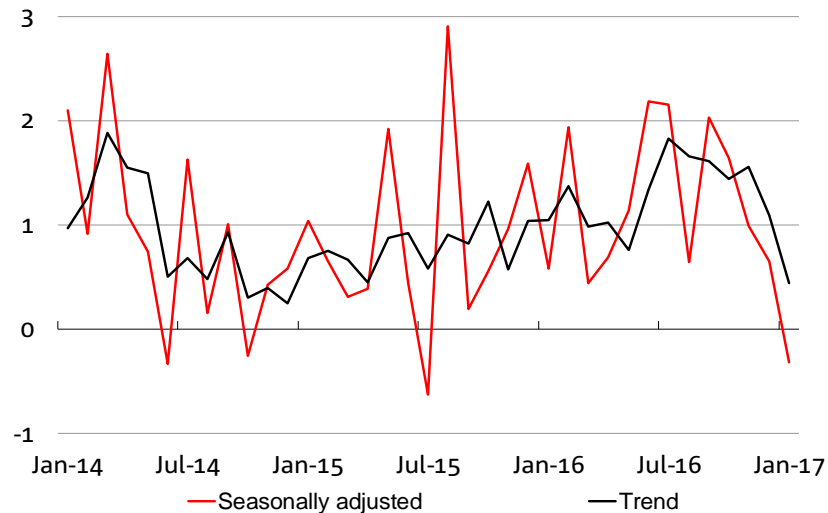
Stocks (net balance)



Cash Flows (net balance, nsa)



Exports (net balance)

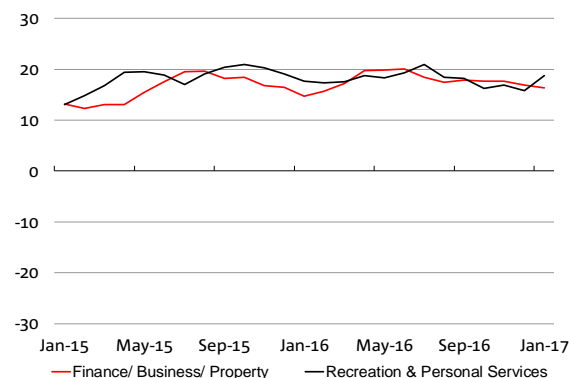
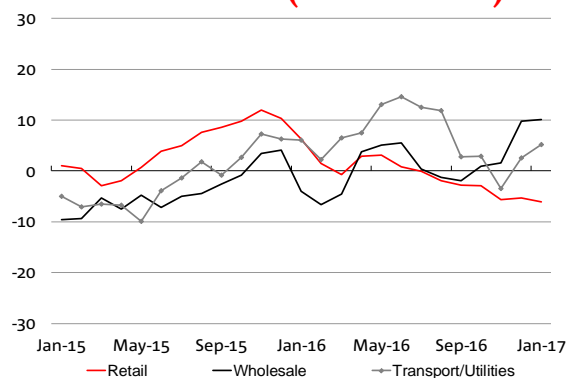
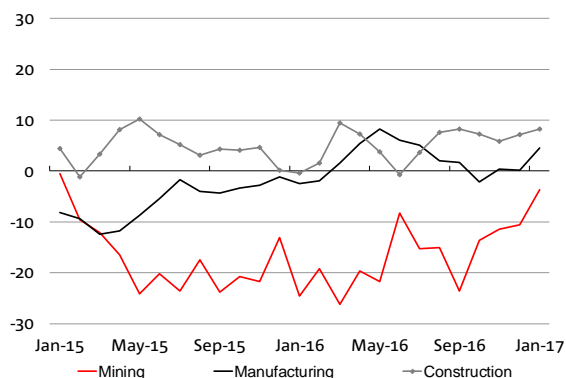


# INDUSTRY BUSINESS CONDITIONS & CONFIDENCE

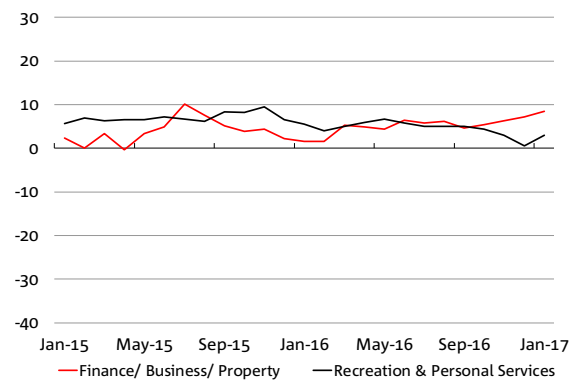
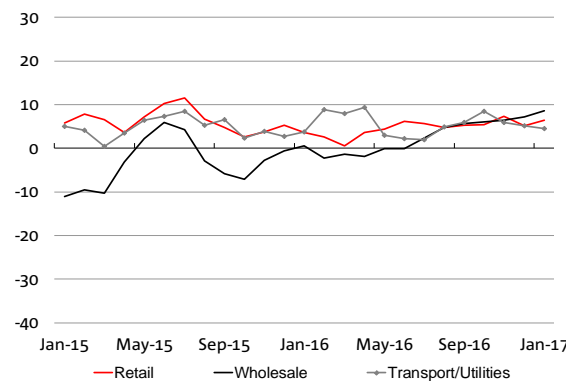
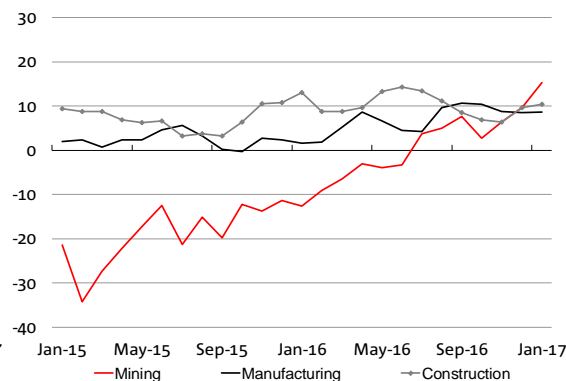
*Wholesale gave back last month's gains, but was offset elsewhere. Retail still soft*

- Outcomes for **business conditions** were quite varied across industries this month. As expected, wholesale gave back the surprising gains that were witnessed last month (down 34), but that was more than offset by improvements elsewhere. In trend terms (3mma), conditions are now highest in personal services (+19) and finance/ property/ business services (FPB, +16), but lowest in retail (-6) and mining (-4). The largest rise in **business confidence** this month came from personal services (up 10), while construction (down 4) saw the biggest deterioration. In trend terms, all industries reported positive confidence levels, but mining (+15) was the most confident, while personal services was weakest (at +3), despite having the highest levels of business conditions (in trend terms).
- There was a pull-back in **forward orders**, with more than half of industries seeing a deterioration. The biggest falls came from retail (down 25) and wholesale (down 13), which does not suggest much improvement in consumer activity in the near-term. In contrast, the biggest improvement in orders came from mining (up 12). Orders are mixed in trend terms, but are highest in construction (at +10), while wholesale and transport are weakest (both -2 index points). This month's rise in **capacity utilisation** was reflected in most industries, but mining (up 1 pts) had the biggest improvement in trend terms. In contrast, FPB and transport both had the biggest fall (down 0.2 ppt). Capacity utilisation in personal services is currently highest above 5-year average levels (slide 4), which is reflected in an elevated **capex** index – the highest in trend terms.

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



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

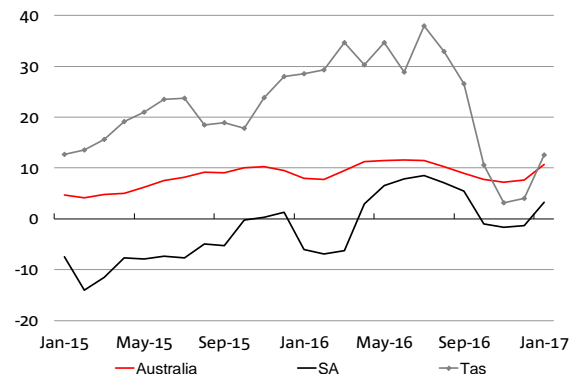
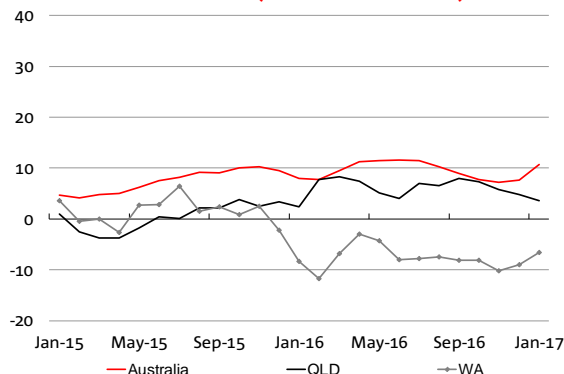
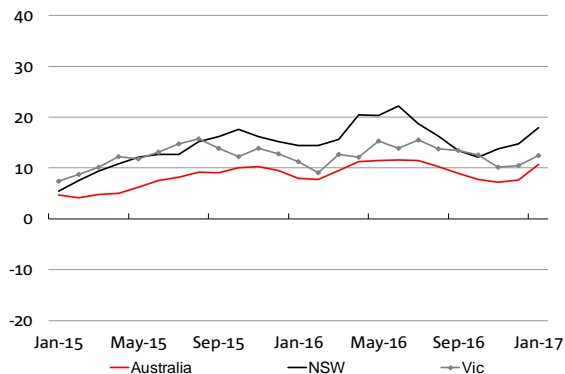


# STATE BUSINESS CONDITIONS & CONFIDENCE

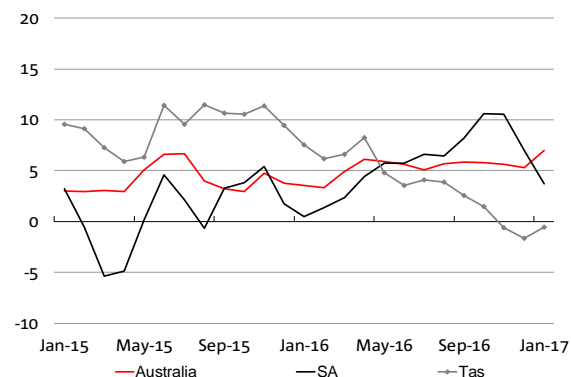
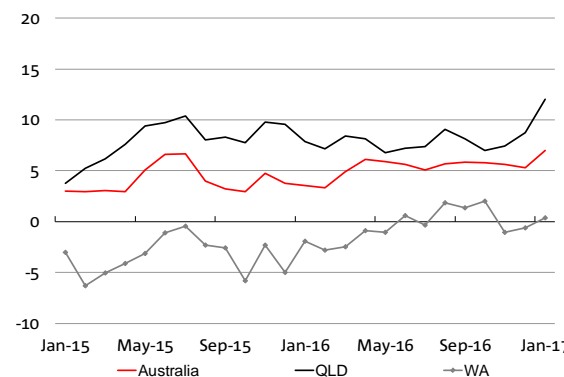
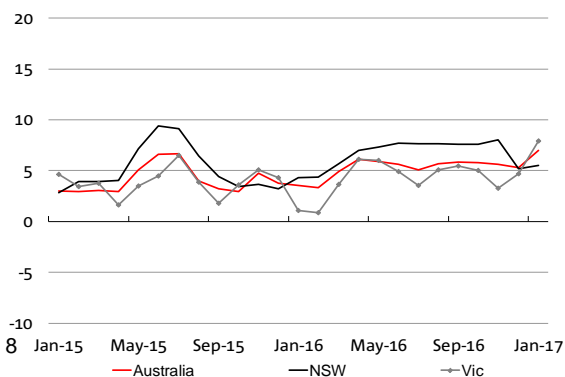
*Higher conditions in January driven almost completely by NSW*

- NSW experience most of the improvement in **business conditions** over January (up 7), while the other mainland states were flat to lower. Consequently, NSW further cemented its number one spot for the mainland states in trend terms (+18) – a position it has held for most of the past 18 months – while Victoria had the second highest level (+12). On the other hand, WA business conditions remained very low, at -7 index points (trend). Encouragingly for SA, however, trend business conditions moved out of negative territory (to +3). Overall, trend conditions are quickly returning back to their recent peaks for many states.
- On **business confidence**, most states continue to look relatively upbeat. NSW (up 9), Tas (up 5). Plus Vic & WA (both up 3) all improved, while Qld (down 3) and SA (down 1) were less confident than the previous month. Nonetheless, Qld is still the most confident of the mainland states (+12, trend), while WA is least confident (0 index points).
- Employment conditions** (trend) are positive in the major south-eastern states, while WA (-11) and Qld (-1) are looking soft. SA (up 7) recorded the biggest improvement in trend employment demand for a mainland state in January. Meanwhile, QLD was the only mainland state to see a deterioration (down 4). Trend employment conditions are strongest in NSW (+7) – somewhat counter to recent ABS employment data – followed by Vic (+5).

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



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





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