The NAB Quarterly Business Survey is providing some mixed signals about the outlook. For the most part, leading indicators from the Survey were less encouraging in Q4. Firms responding to the Survey continue to indicate solid investment intentions, although there was a slight pullback in the quarter, consistent with another fall in capacity utilisation rates. Longer-term employment expectations were higher as well, although there were some signs of softer demand for labour in the quarter. Conditions in the mining industry are showing signs of stabilising as commodity prices rise, but retail conditions remain a concern, pushing further into negative territory. The Survey’s read on inflation remains very subdued and points to an absence of wage pressures.

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 businesses, and provides extra information about how firms perceive the outlook for their industries.

There was another moderation in business conditions (an average of trading conditions (sales), profitability and employment) during the December quarter, falling 2 points to +5 index points, driven by softer outcomes across all three components. According to NAB Group Chief Economist Alan Oster, “business conditions have remained a little above their long-run average levels, although it did soften through the second half of 2016. That said, the relative stability of business confidence gives us some comfort, although we still think it has to improve from here to encourage the degree of business investment the economy needs”.

These outcomes are similar to those seen in NAB’s monthly Survey, although they do not give much hint of the surprising spike in conditions seen in the December Survey. However, new information in this survey relates to how firms perceive the outlook facing their business and the economy. According to Mr Oster, “leading indicators were probably a little less encouraging this quarter, but firms are still telling us that the near-term outlook is reasonably good. Their expectations for business conditions in both the near and longer term are relatively solid, despite being pared back a little in the quarter, while a similar trend could be seen in hiring and capital expenditure intentions.”

Other leading indicators from the Survey are fairly mixed. “Capacity utilisation rates are still well up on where they were a couple of years ago, but notable declines in the past two quarters suggest the trend has turned. While investment and employment intentions are holding up for now, a continuation of the trend for capacity utilisation could see firms scale back their plans considerably. It is, however, encouraging seeing that some firms are now saying that it is a little harder to obtain suitable labour, which could translate into stronger wages growth, and hopefully consumption, going forward. Given the weakness in retail conditions lately, more household consumption is sorely needed” said Mr Oster.

Retail conditions remained poor, pushing further into negative territory in the month. There is, however, a high degree of variation in conditions between industries, with personal and professional services continuing to lead the way. “Given the importance of consumption to the outlook, the current weakness in retail conditions is a real concern. At the same time though, we are seeing signs that the mining industry, which has been such a big drag in recent years, may be starting to stabilise” said Mr Oster.

The Survey is also continuing to show very moderate inflation pressures, which are also working to keep wage pressures contained. According to Mr Oster, “there is nothing in this Survey to suggest we should be concerned about business activity in the immediate future, and the RBA will be glad to see that. However, some of the trends could suggest a loss of momentum in the longer term, should they continue. There is also little to no sign that inflation or wage pressures are picking up materially”.

The table below shows the net balance for various indicators from the December Quarter 2016 NAB Quarterly Business Survey:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2016Q2</th>
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<th>2016Q4</th>
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<tr>
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<td>Business conditions</td>
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<tr>
<td>Current employment</td>
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<td>Next 12 months</td>
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<td>22</td>
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<td>Capex plans (next 12)</td>
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<tr>
<td>Purchase costs</td>
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<td>Final products prices</td>
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</tr>
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