

NAB MONTHLY BUSINESS SURVEY

FEBRUARY 2017

NEXT RELEASE:
11 APR 2017 – MARCH MONTHLY



Key points:

- In February, the NAB Monthly Business Survey gave back the surprisingly strong gains seen in the previous month. Some payback was flagged in last month's Survey as temporary factors were thought to have been behind much of the spike in both business conditions and confidence. However, despite the pull-back, both of these indicators remain at levels consistent with solid business activity in the near-term, and are higher than through much of H2 2016. The **business conditions index dropped by 7 points in February, more than unwinding the 6 point jump in January, to be at +9 index points – still above the series long-run average.** The fall in business conditions was reflected across all three components of the index (trading conditions/sales, profitability and employment), although the bulk of the deterioration seems to have come from sales, which is now noticeably weaker than it was back in December. Profitability did not spike with the other components in January and saw only a small moderation. Employment also weakened slightly, but is still well up on December levels – an strong outcome and indicative of a strengthening underlying trend (which has been more encouraging than ABS labour market statistics). By industry, we remain concerned about retail conditions, but all other industries (including mining) recorded positive business conditions in February. Additionally, conditions are looking good across most states, with WA the main exception. **Cost price measures** in the Survey were mixed, although labour costs held up and retail prices accelerated (but are still relatively soft).
- **NAB's Business confidence index** dropped back a little as well in the month, but is still suggesting that business sentiment remains relatively upbeat – consistent with the overall tone seen in financial markets. The business confidence index fell **3 points to +7 index points in February**, which is slightly above the series long-run average. Other indicators were reasonably solid as well, with capacity utilisation rates holding up, consistent with a solid (albeit easing) read on capital expenditure. Forward orders, however, continue to look relatively muted.
- A drop in activity indicators had been anticipated for the February NAB Monthly Business Survey, meaning these results do not fundamentally change NAB's outlook for the economy. Indeed, business conditions are still at quite lofty levels, consistent with our expectation for the economy to enjoy solid rates of growth in the near-term. There are, however, still some points of concern such as the persistent weakness evident in retail conditions, which warrant close monitoring. Additionally, it is the longer-term growth picture that is more concerning, particularly as the contribution from LNG exports, temporarily higher commodity prices and the residential construction boom fade, putting pressure on the labour market. However, the RBA is increasingly putting emphasis on financial stability concerns, which is likely to impact the response of monetary policy. NAB Economics will release updated financial and economic forecasts tomorrow.

Table 1: Key monthly business statistics

	Dec 2016	Jan 2017	Feb 2017		Dec 2016	Jan 2017	Feb 2017
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	6	10	7	Employment	2	7	5
Business conditions	10	16	9	Forward orders	5	2	2
Trading	17	23	13	Stocks	0	3	3
Profitability	13	13	11	Exports	1	0	1
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.6	0.9	0.8	Retail prices	0.3	0.2	0.5
Purchase costs	0.5	0.5	0.5		<i>Per cent</i>		
Final products prices	0.2	0.7	0.3	Capacity utilisation rate	80.9	81.5	81.4

* 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 20 Feb to 28 Feb, covering more than 530 firms across the non-farm business sector.

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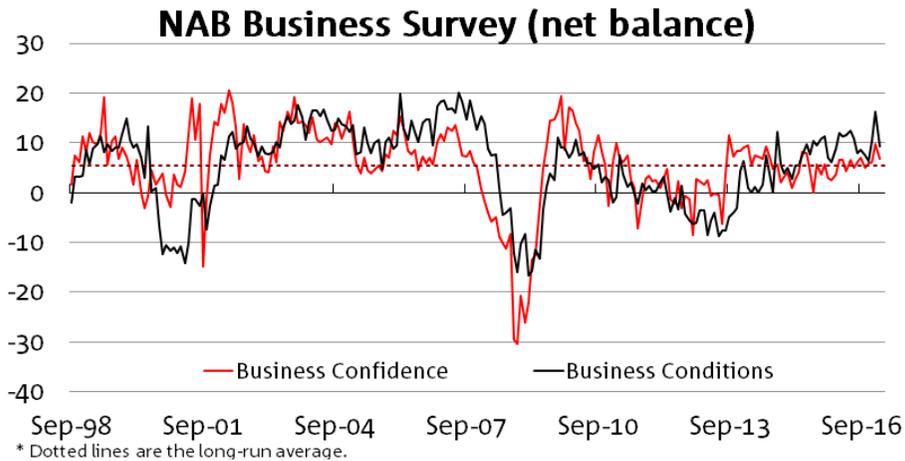
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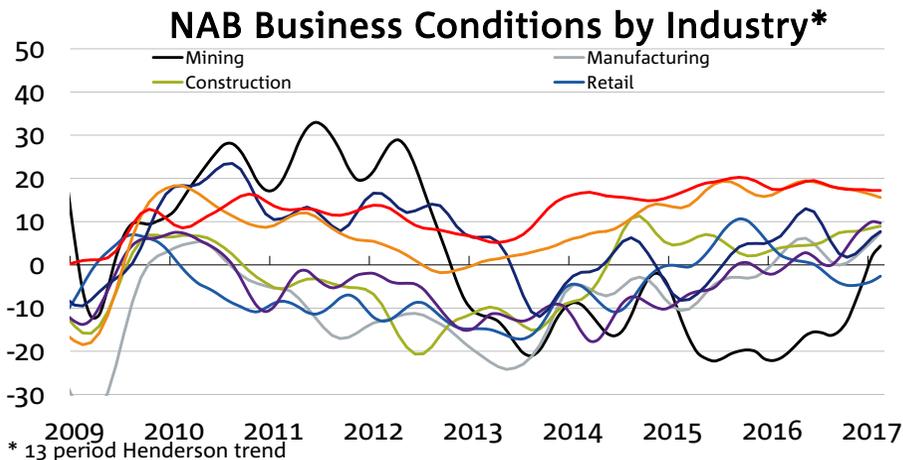
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KEY MONTHLY CHARTS

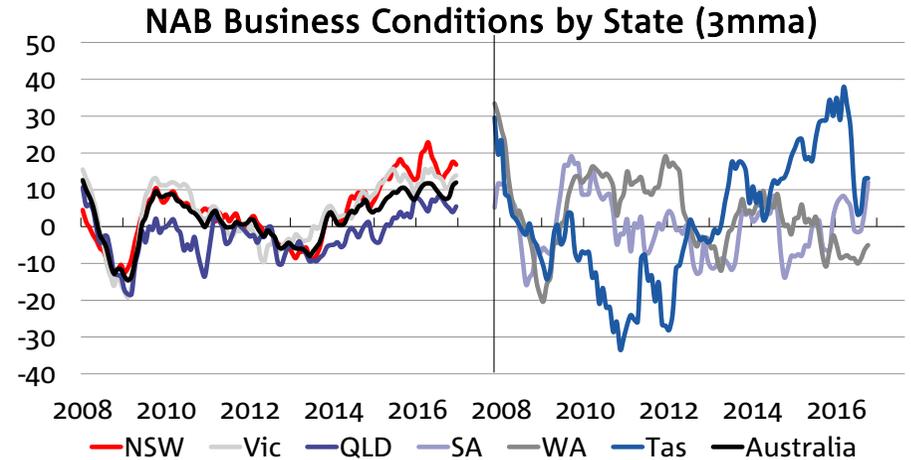
AS EXPECTED, BUSINESS CONDITIONS DROP FROM MULTI-YEAR HIGHS, BUT ARE STILL ELEVATED.



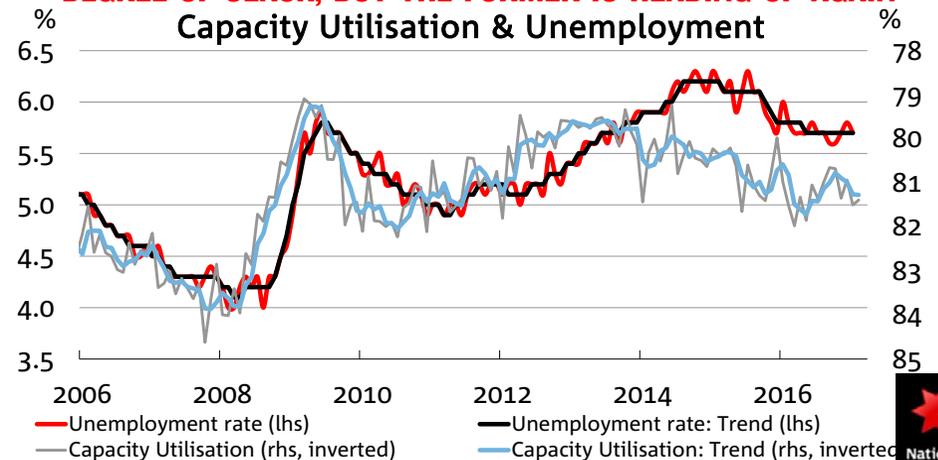
SERVICES STILL THE OUTPERFORMERS, BUT MOST ARE IMPROVING – RETAIL STABILISING AT WEAK LEVELS



CONDITIONS HAVE SHOWN A MORE POSITIVE TREND AGAIN IN MOST STATES EXCEPT QUEENSLAND – NSW THE HIGHEST



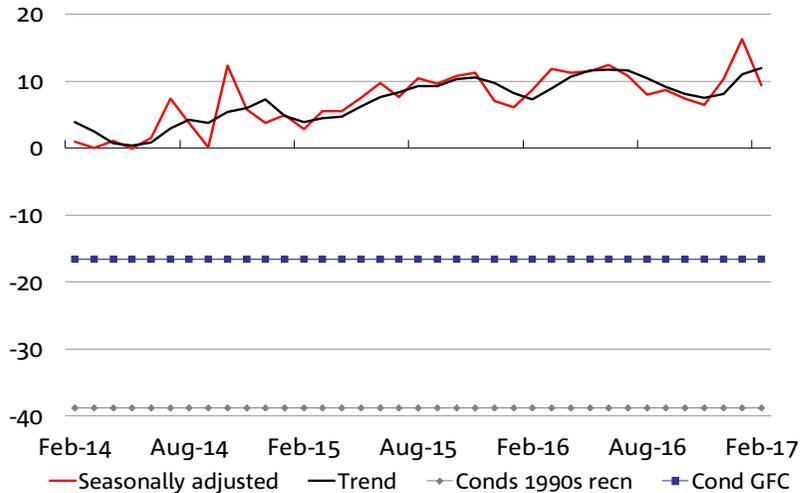
CAPACITY UTILISATION AND UNEMPLOYMENT INDICATE A DEGREE OF SLACK, BUT THE FORMER IS HEADING UP AGAIN



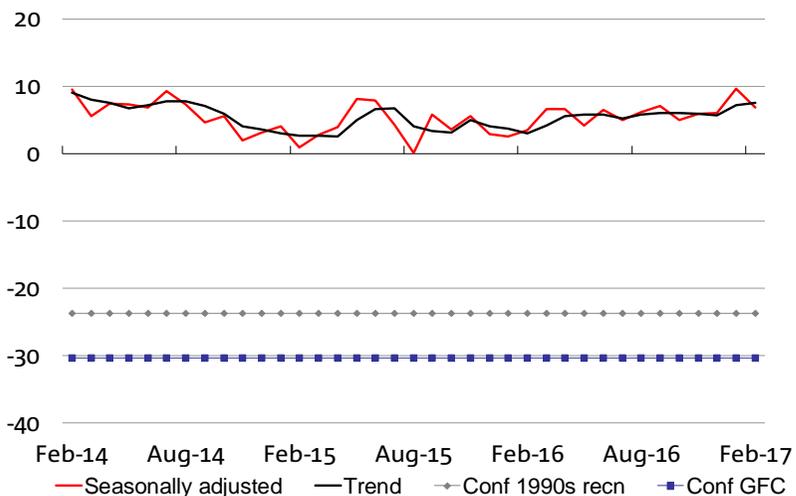
BUSINESS CONDITIONS AND FORWARD INDICATORS

Last month's gains were largely unwound (as expected)

Business Conditions (net balance)



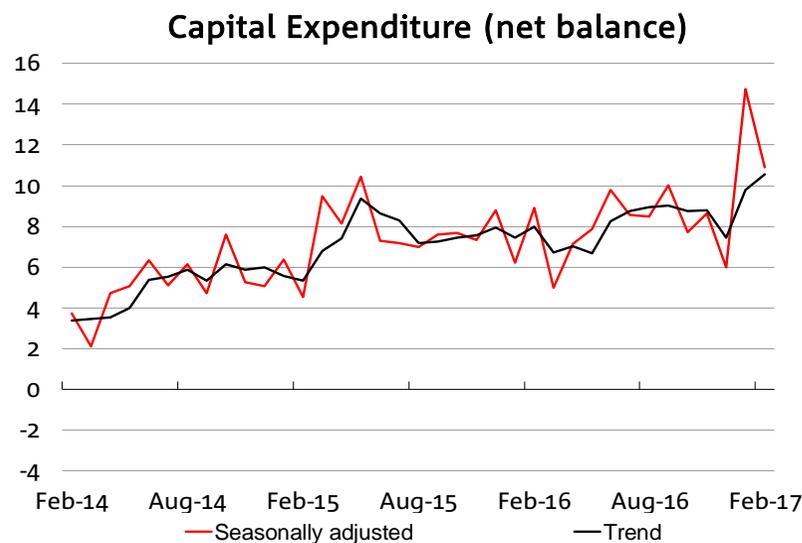
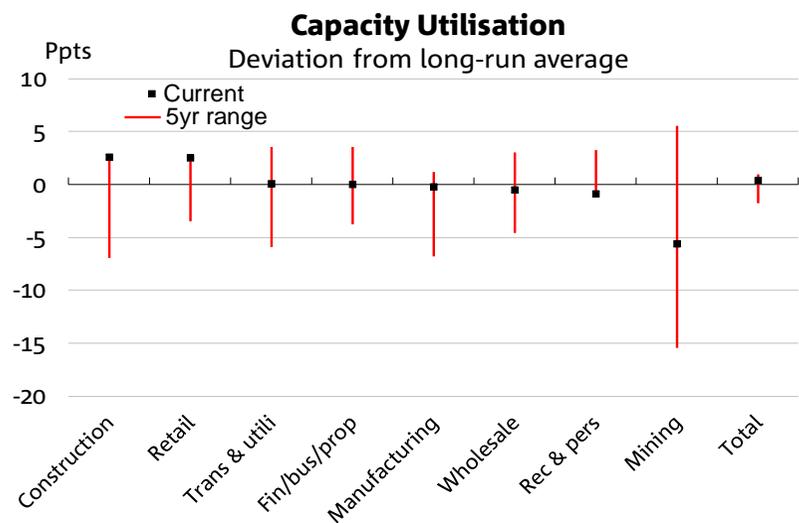
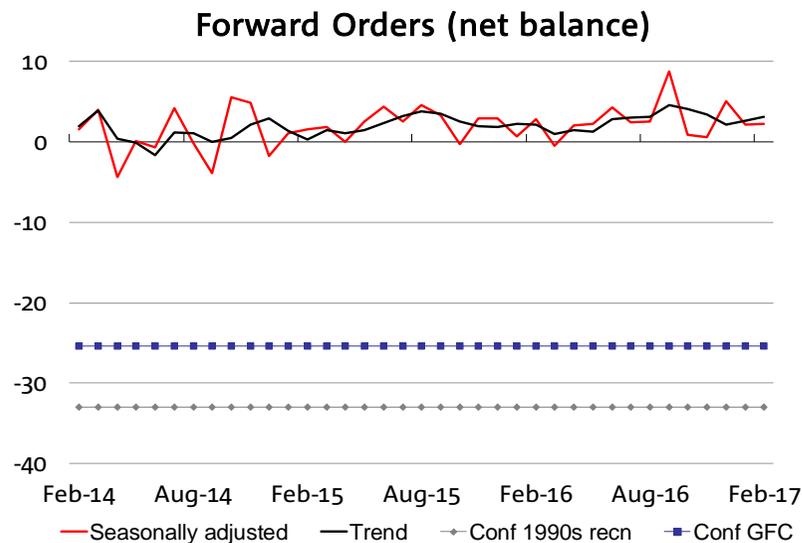
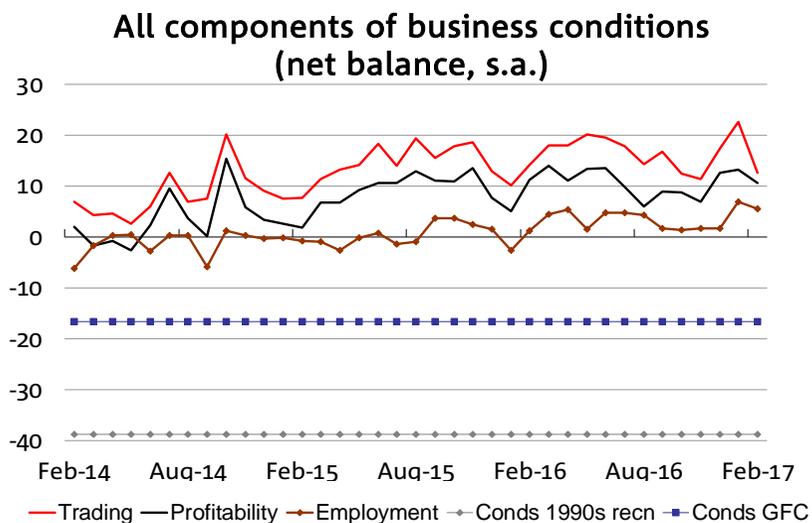
Business Confidence (net balance)



- The previous month's unexpected surge in **business conditions** was more than unwound in February, although the index remains at levels that point to solid rates of business activity at present. The business conditions index dropped 7 points, to +9 index points in seasonally-adjusted terms, which is still above the long-run average (+5). All components of business conditions were lower in the month. Trading conditions experienced the largest decline, yet remains at a solid level. Profitability and employment showed more moderate falls, both down 2 points, employment conditions are much higher than through most of 2016 (see chart on p5). Most industries are now enjoying positive business conditions (including mining), although we remain quite concerned about subdued conditions in the retail sector – zero in February, and negative in trend terms (see p7 for more industry details).
- **Business confidence** also gave back some ground in the month, but is still a touch above its December level. The trend appears to be gradually lifting, which is consistent with solid business conditions and an apparent improvement in global sentiment – also reflected in financial markets. This level is still slightly above the long-run average, and if sustained could see firms revise up their capital expenditure and hiring plans. The fact that business conditions are looking solid across most industries also points to macro factors driving the result, although there is still some significant variation across industries. Most industries also saw confidence ease in the month, although construction and wholesale were the exceptions (see p7 for details).
- **By state**, outcomes were quite mixed in this month's Survey, although most states are generally looking quite solid. NSW and WA saw the largest falls in business conditions, down 6 and 9 points respectively, although conditions in NSW still look quite good at +14 index points. WA on the other hand was very weak at -11 index points, the only state to be negative, despite positive conditions reported nationally in the mining industry. In contrast, SA saw a very large increase in conditions during the month. Looking through the monthly volatility, NSW maintains the highest conditions in trend terms (+17), followed by Victoria (+14). Meanwhile, WA is weakest (-5), followed by Qld (+5). In terms of confidence, Queensland is best in trend terms (see p8 for details).
- Leading indicators suggest a modestly positive near-term outlook. The **forward orders** index was unchanged at +2 index points (above the long-run average of zero), which suggests modestly positive near-term prospects for activity (see chart on p4). Mining and transport orders eased significantly this month, while half of the industries recorded a negative orders index. In contrast, construction order ramped up noticeably (see p7 for details).
- Despite the drop in trading conditions, NAB's measure of **capacity utilisation** held up reasonably well in February (easing to 81.4%, from 81.5%). At the same time, the Survey's **capex** measure eased a little but was still at a solid +11 index points (see chart on p4) – more upbeat than other investment indicators. Nevertheless, while capacity utilisation rates are solid at the aggregate level, they actually vary considerably across industries (relative to long-run average), which could have implications for the investment outlook (see chart on p4) – industry detail on p7.
- **Cash flow** (not seasonally adjusted) pulled back in the month, but remains reasonably solid (chart on p6) – currently strongest in mining, but weakest in construction.

BUSINESS CONDITIONS AND FORWARD INDICATORS (CONT.)

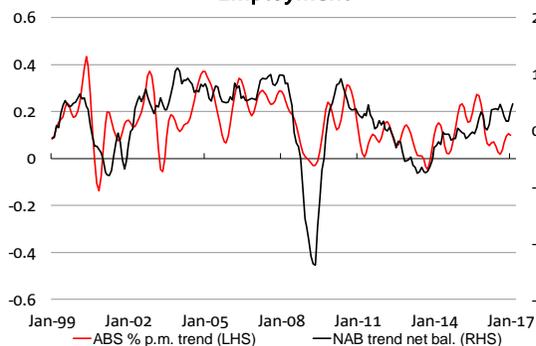
Components of business conditions & leading indicators



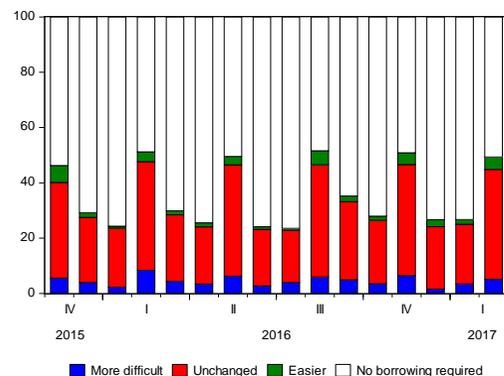
Source: NAB Economics

LABOUR DEMAND, COSTS, PRICES & BORROWING CONDITIONS

Employment



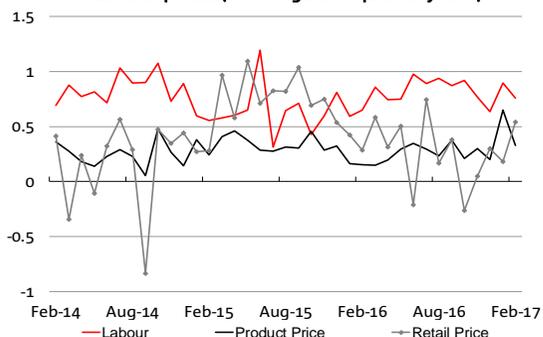
Borrowing conditions (% of firms)



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

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

Costs & prices (% change at a quarterly rate)



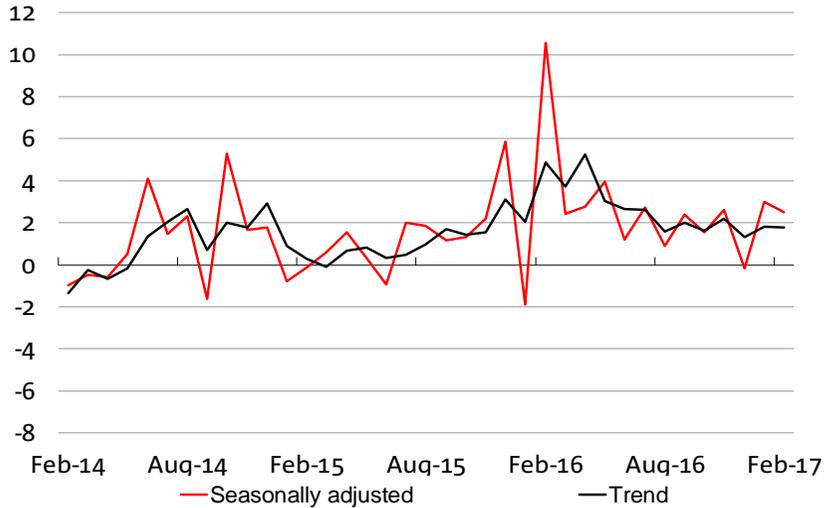
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.

- **Employment conditions** are notably higher so far this year, despite pulling back a little in February, and suggest better labour market conditions than the ABS Labour Force Survey. The employment index dropped by 2 points in the month to +5 index points, which is above the long-run average for the series. This outcome points to an annual job creation rate of around 216k (around 18k per month) in coming months, which is sufficient to see the unemployment rate ebb lower (all else unchanged) – trend ABS employment growth rose 11.9k in January.
- A majority of industry groups saw an decrease in employment conditions last month. The largest declines were in wholesale (down 17), followed by transport (down 4) while finance/ property/ business (FPB) services saw the biggest gain (up 11). Following the jump in February, FPB employment conditions are now the best in trend terms, along with recreation & personal services (both at +9). Meanwhile, mining was still the weakest (-12), followed by manufacturing (-7).
- **Labour costs** growth (a wage bill measure) stayed relatively elevated in February, at 0.8% (a quarterly rate), suggesting that there are some wage pressures present. Labour cost pressures were highest in transport (at 1.3%), but were still weakest in mining (-0.5%), suggesting there is still limited pass-through from higher commodity prices. Retail labour costs jumped, which may partly explain the weak profitability index for the industry.
- Growth in **purchase costs** was steady in the month, at 0.5% (a quarterly rate). This outcome is still below the long-run average, with recent commodity price rises not having much effect – possibly assisted by a buoyant AUD. Growth in purchase costs accelerated the most in mining (up 0.3 pts), while purchase costs decelerated the most for manufacturing (down 1.1 pts) followed by wholesale (down 0.7 pts). Overall, purchase cost pressures were highest in construction, transport and personal services (all 0.6%, quarterly rate), but were softest in mining, wholesale, manufacturing and FPB (all 0.3%).
- **Final product prices** growth in December rose just 0.3% (a quarterly rate, from 0.7%). However, retail price growth lifted to a rate of 0.5% (from 0.2%), which is more consistent the lower bound of the RBA's inflation target. Manufacturing (down 1.4 pts) had the largest deceleration in final prices growth, while mining (up 0.6 pts) saw the most acceleration. Prices are flat in transport and construction, while all other industries have rising prices, with mining prices seeing the fastest growth in the Survey (0.7%).
- 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 a touch in that time.

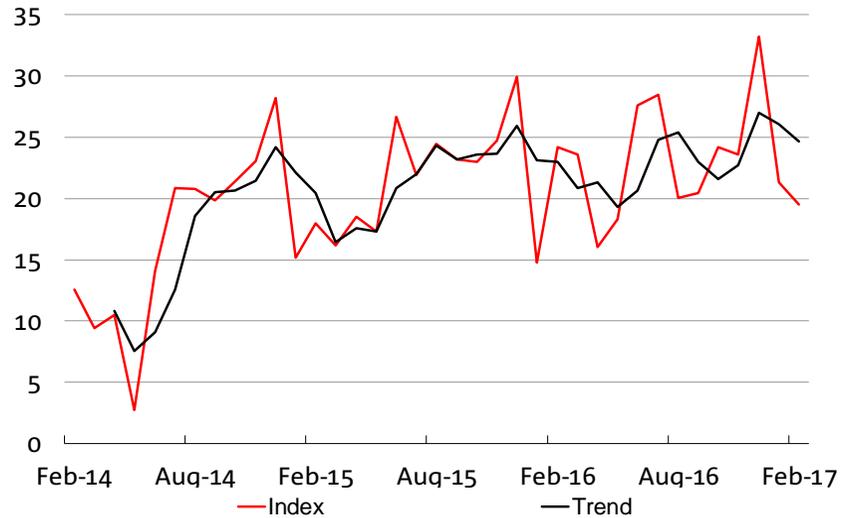
MORE DETAILS ON BUSINESS ACTIVITY

Restocking activity holding. Exports rebound. Cash flows down, but still solid.

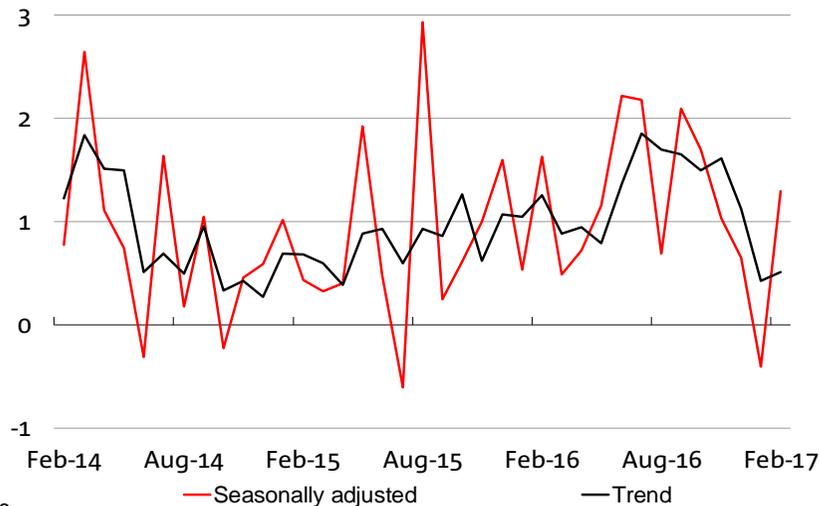
Stocks (net balance)



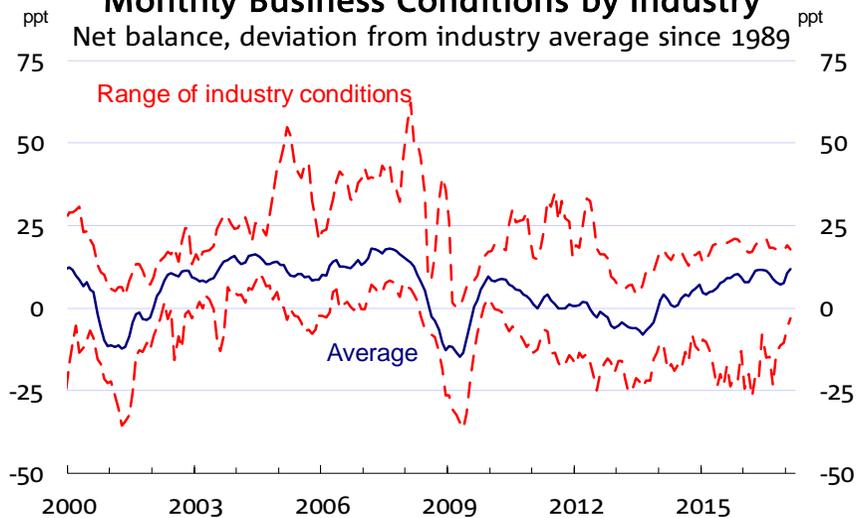
Cash Flows (net balance, nsa)



Exports (net balance)



Monthly Business Conditions by Industry

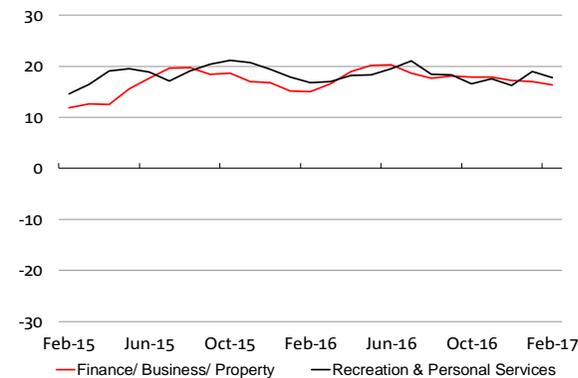
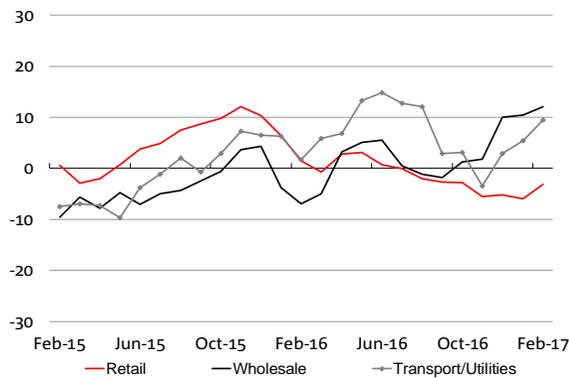
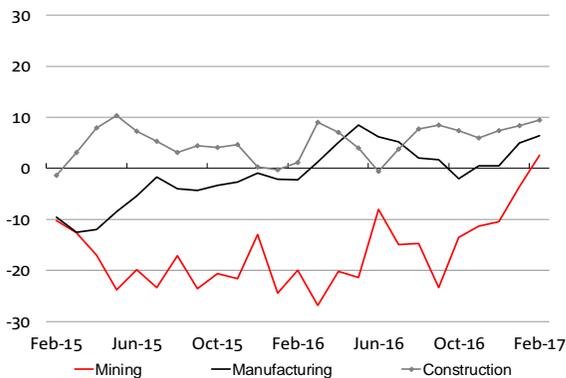


INDUSTRY BUSINESS CONDITIONS & CONFIDENCE

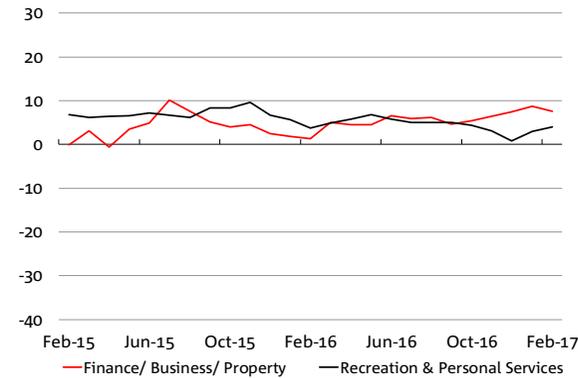
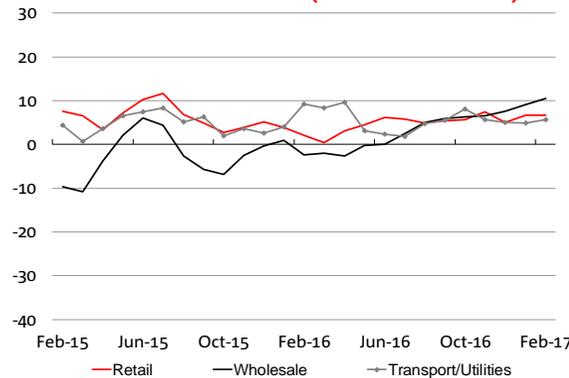
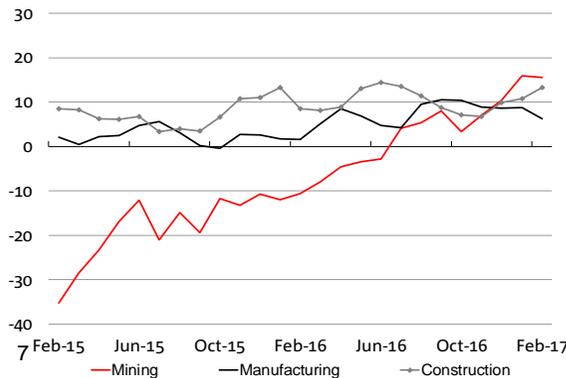
Outside of retail, most industries are looking solid in the Survey

- Most industries are showing solid, or improving, **business conditions**. The decline in business conditions this month was largely driven by a big deterioration in recreation & personal services (down 15), although transport and FPB were also lower. In trend terms (3mma), conditions are still highest in the two major service industries, personal services (+18) and FPB (+16), but lowest in retail (-3) – the only industry with negative business conditions (trend). Meanwhile, more than half of the major industries recorded a moderation in **business confidence** in February, with mining (down 9) and transport (down 8) seeing the biggest deterioration, while construction (up 9) improved the most. In trend terms, all industries reported positive confidence levels, but mining (+16) was the most confident, while personal services was weakest (at +4), despite high levels of business conditions (in trend terms).
- Forward orders** were steady in February. Big declines in mining (down 27) and transport (down 10), were offset by gains elsewhere, including a notable gain in construction orders (up 12). A couple of industries are seeing negative orders in trend terms, with both transport and wholesale at -5 index points. Construction is highest at +16 index points. **Capacity utilisation** was quite mixed, but is currently highest in construction, relative to the 5-year average (slide 4), which is consistent with an elevated pipeline of residential construction and a solid **capex** index – although personal services capex is highest in trend terms.

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



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

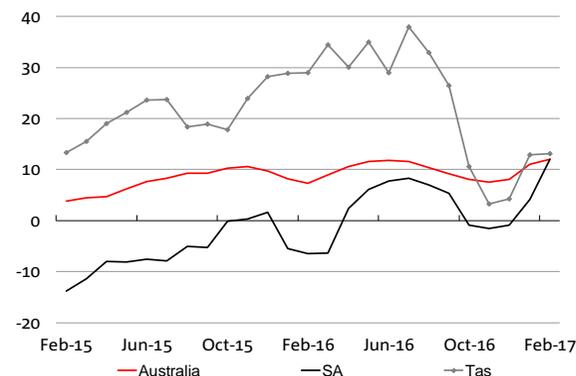
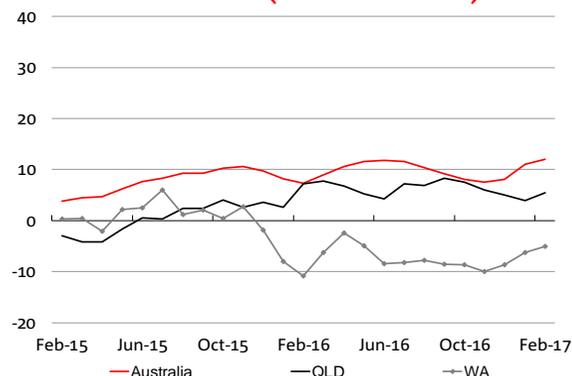
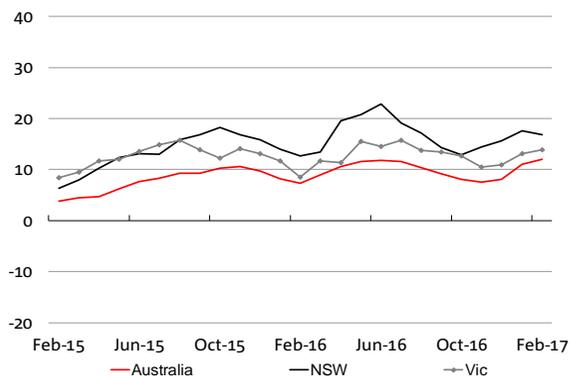


STATE BUSINESS CONDITIONS & CONFIDENCE

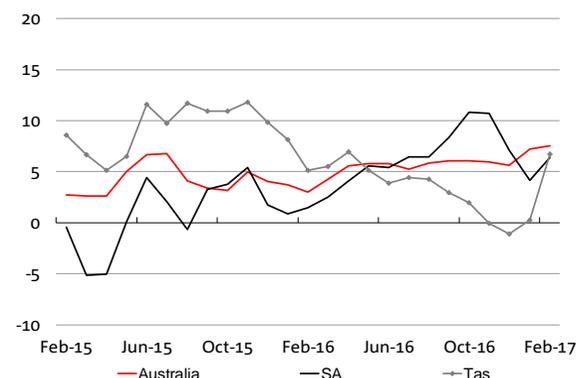
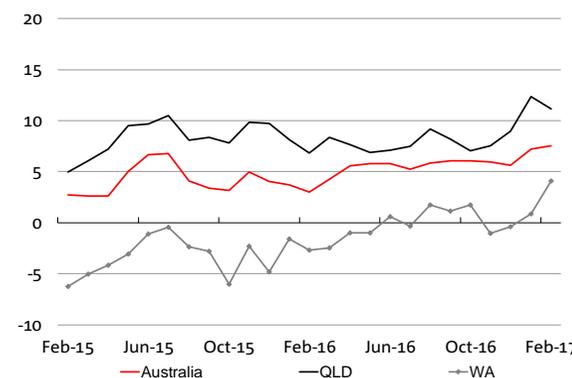
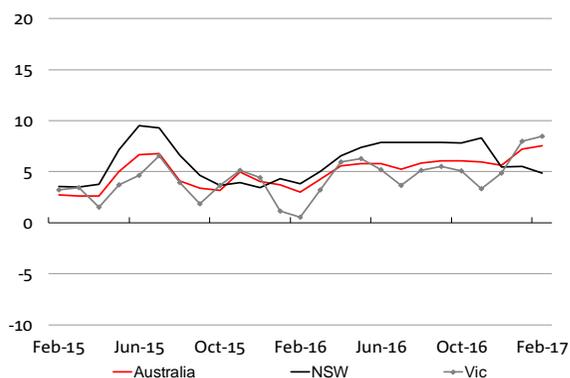
Poor conditions still evident in WA, but confidence is lifting

- Most states recorded more moderate **business conditions** in February, although South Australia (up 19) and Queensland (up 4) were the exceptions. Nonetheless, NSW is holding on to the number 1 position in trend terms (+14) – 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 -5 index points (trend). Encouragingly for SA, however, trend business conditions have moved sharply higher (to +12), after spending part of last year in negative territory. Overall, trend conditions are at, or approaching, their recent peaks for many states.
- On **business confidence**, all states continue to look relatively upbeat, although SA and Tas (both up 11) were the only states to rise in the February. Victoria (down 7) fell the most in the month, followed by Qld (down 4). Nonetheless, Qld is still the most confident of the mainland states (+11, trend), while WA is least confident (+4 points).
- Employment conditions** (trend) are positive in most states and are especially high in the major south-eastern states. However, both WA (-8) and Tas (-1) are currently negative. SA (up 6) recorded the biggest improvement in trend employment demand for a mainland state in January. Meanwhile, Tas was the only state to see a deterioration (down 1). 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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