

NAB MONTHLY BUSINESS SURVEY

February 2017

By Group Economics

Embargoed until:
11:30am Tuesday 14 March 2017



The February NAB Monthly Business Survey gave back the surprisingly strong gains seen in the previous month although both conditions and confidence remain at above average levels. 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. There are 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.

	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

BUSINESS SURVEY SUGGESTS SOLID NEAR-TERM ACTIVITY, DESPITE EASING FROM MULTI-YEAR HIGH

The previous month's unexpected surge in Business conditions was more than fully 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). Business confidence also gave back some ground, but has not quite returned to its December level (falling 3, to +7 index points).

According to Mr Alan Oster, NAB's Chief Economist, "we were not surprised to see business conditions drop back from their multi-year highs, having flagged in last month's Survey that we suspected a number of temporary factors probably underpinned the unbelievably strong result. Even so, conditions are still holding up at levels that would make you reasonably comfortable about the near-term growth prospects for the economy, putting aside some of the concerning trends we are seeing in retail".

Most industries are showing solid, or improving, business conditions, although the decline in business conditions this month was largely driven by a big deterioration in recreation & personal services and smaller falls in transport and finance/ property/ business services. "We saw the big service industries drive the moderation in business conditions this month, but even after pulling-back a little, these industries continue to lead the non-mining recovery", said Mr Oster. He added that, "it is encouraging to see so many industries reporting solid levels of business conditions, but it is hard to look past the disappointing results from retail, especially given the importance of consumption to the growth outlook. On a brighter note though, the industry seems to have lifted its demand for labour since last year".

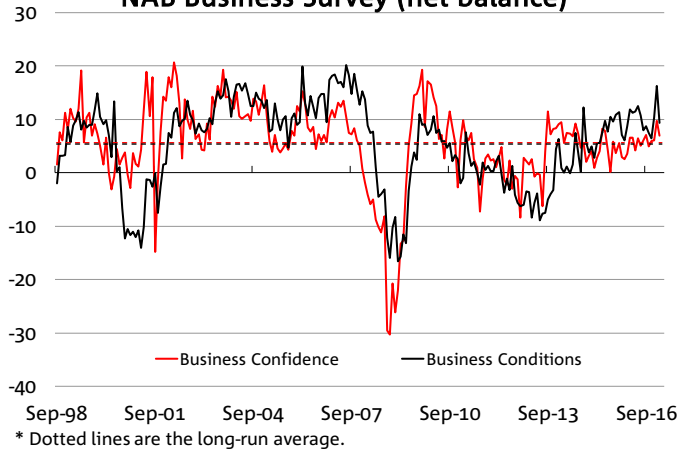
Within business conditions, a decline in trading conditions drove much of the fall in conditions, although profitability eased as well – both remain quite positive overall however. Employment conditions also eased slightly, but the trend remains quite positive. According to Mr Oster, "the trend in employment conditions has improved notably in the past two months, to a point where the index now suggests the economy should be producing enough jobs to bring down the unemployment rate should the participation rate remain steady." However, the NAB employment index has been suggesting faster employment growth than the ABS Labour Force Survey in recent months.

Leading indicators suggest a modestly positive near-term outlook. Forward orders were steady at above the long-run average, while the capacity utilisation rate stayed at solid levels (albeit below its recent peak). According to Mr Oster, "forward orders are pointing to modestly positive near term prospects for activity, although may not be enough to sustain the current levels of business conditions. Nonetheless, diminished spare capacity is an encouraging sign for business investment and the labour market".

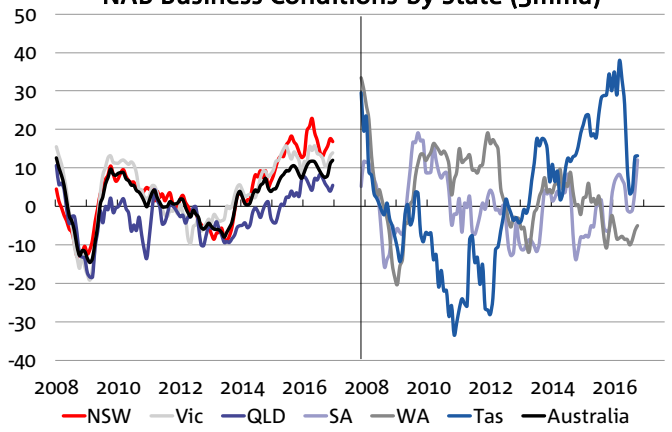
"Business conditions are still at quite lofty levels, consistent with our expectation for the economy to enjoy solid rates of growth in the near-term. However, it is the longer-term growth picture that we are more concerned about, particularly as the contributions from LNG exports, temporarily higher commodity prices and the residential construction boom fade, putting pressure on the labour market. However, the RBA has made it clear that they are putting increased emphasis on financial stability concerns, which is likely to impact the response of monetary policy", said Mr Oster. NAB Economics will release updated financial and economic forecasts tomorrow.

NAB Monthly Business Survey

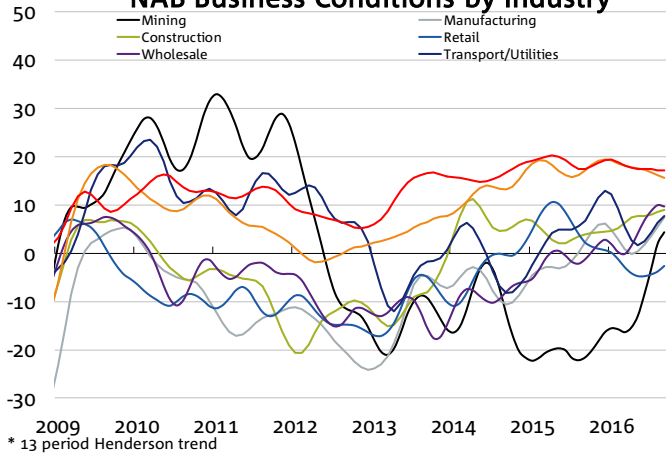
NAB Business Survey (net balance)



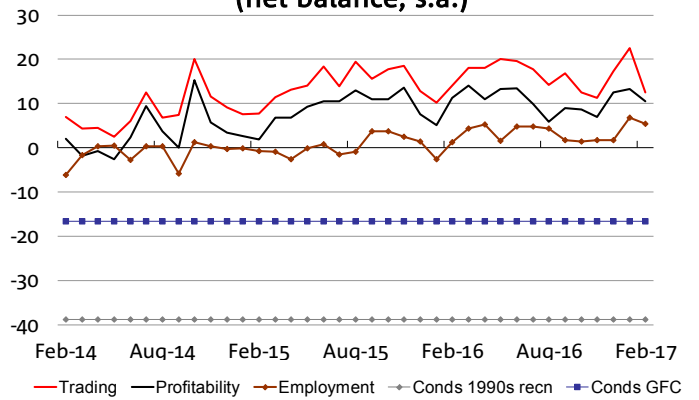
NAB Business Conditions by State (3mma)



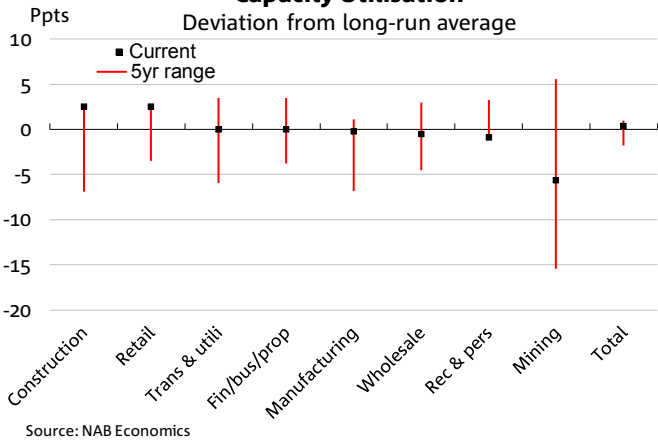
NAB Business Conditions by Industry*



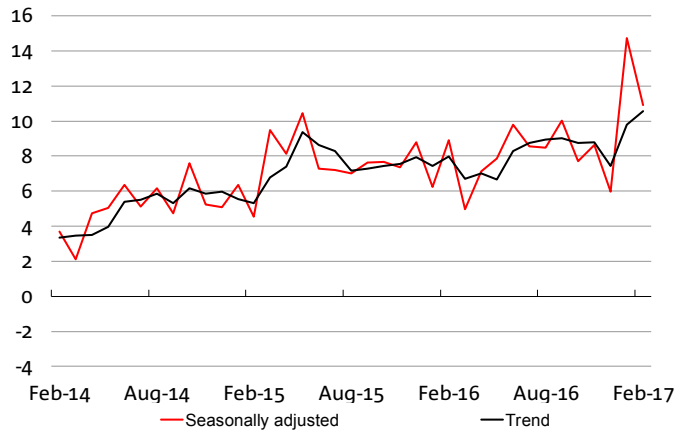
All components of business conditions (net balance, s.a.)



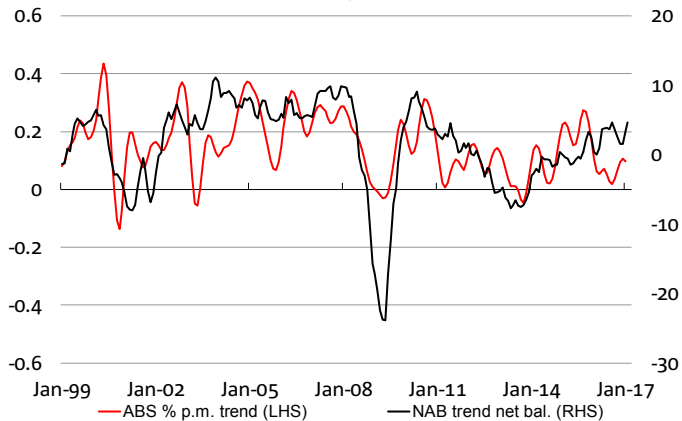
Capacity Utilisation



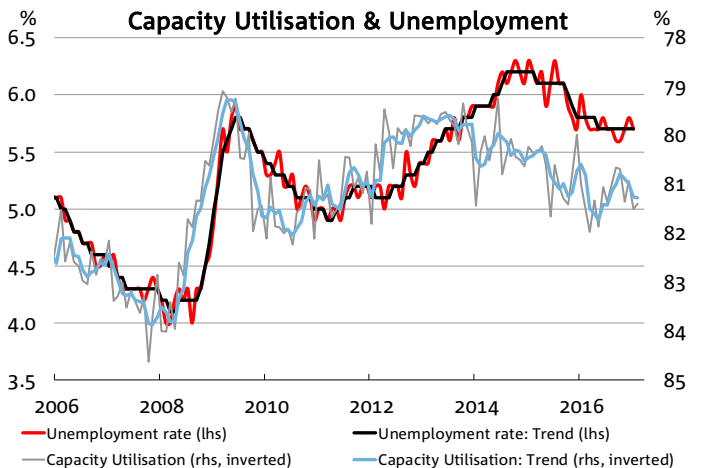
Capital Expenditure (net balance)



Employment



Capacity Utilisation & Unemployment



Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities

Riki Polygenis
Head of Australian Economics
+(61 3) 8697 9534

James Glenn
Senior Economist – Australia
+(61 2) 9237 8017

Phin Ziebell
Economist – Australia
+61 (0) 475 940 662

Amy Li
Economist – Australia
+(61 3) 8634 1563

Industry Analysis

Dean Pearson
Head of Industry Analysis
+(61 3) 8634 2331

Robert De lure
Senior Economist – Industry
Analysis
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Industry
Analysis
+(61 3) 8634 3837

Steven Wu
Senior Analyst – Industry
Analysis
+(61 3) 9208 2929

International Economics

Tom Taylor
Head of Economics,
International
+(61 3) 8634 1883

Tony Kelly
Senior Economist –
International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.