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NAB MONTHLY BUSINESS SURVEY

MARCH 2017

NEXT RELEASE:
20 APRIL 2017 – MARCH QUARTERLY
9 MAY 2017 – APRIL MONTHLY



Key points:

- **Results from the March NAB Monthly Business Survey indicate an overall healthy economy that appears to be gaining momentum, at least in the near-term.** Business conditions have been fairly volatile of late, but the underlying trend has been encouraging – as is evident in service sector strength and the commodity price inspired jump in mining and Western Australia. That said, **Cyclone Debbie may well be overstating the magnitude of the kick in conditions** as the number of respondents in the Survey from Queensland (and especially North Queensland) was the lowest since 2011. That is, the kick in Queensland conditions (up 12 to +20) may reflect a large concentration of respondents in the stronger South East vis-a-vis a struggling North Queensland. **Overall, business conditions index jumped 5 points in March, to be at +14 index points – and is trending well above long-run averages.** Stronger trading conditions (sales) drove most of the improvement in business conditions, with the other components (employment and profitability) flat-to-modestly higher. The NAB employment index was stable and still suggests a healthier labour market than official ABS statistics. The lift in business conditions was not uniform across industries, however, with the major services sectors and wholesale making the largest contribution. In contrast, the retail industry continues to be a concern with conditions falling further, dropping into negative territory. Cost price measures in the Survey were modestly lower, while final prices were flat – although retail prices were much weaker (falling in quarterly terms). There was also evidence of higher commodity prices having an inflationary impact on the wages bill in mining.
- **Business confidence outcomes have been more perplexing**, diverging somewhat from business conditions of late – albeit staying at solid levels. At this stage it is not clear what is driving a wedge between the two measures - global political uncertainty is a likely candidate although longer-term domestic uncertainties cannot be ruled out either. **The business confidence index fell 1 point to +6 index points in February**, which is in line with the series long-run average. Meanwhile, other indicators were reasonably solid, with the **capacity utilisation** rate lifting, consistent with a solid read on **capital expenditure**, while **forward orders** also rose in the month.
- The March NAB Monthly Business Survey results are encouraging in terms of the near-term economic outlook. It suggests an improving labour market (in contrast to official measures) and an environment where non-mining business investment should continue to recover. **This is consistent with NAB's outlook for economic growth to accelerate in H2 2017, following some likely disruption in Q2 from Cyclone Debbie. However, recent volatility and ongoing weakness in the retail sector suggests there is still cause to be cautious about the longer-term outlook**, particularly as other growth drivers (LNG exports, commodity prices and housing construction) begin to fade. Meanwhile, the RBA has emphasised its financial stability concerns, which are expected to keep them on hold for the foreseeable future. NAB Economics will release updated financial and economic forecasts tomorrow.

Table 1: Key monthly business statistics

| | Jan 2017 | Feb 2017 | Mar 2017 | | Jan 2017 | Feb 2017 | Mar 2017 |
|-----------------------|----------------------------|-------------|-------------|---------------------------|----------------------------|-------------|-------------|
| | Net balance | | | | Net balance | | |
| Business confidence | 9 | 7 | 6 | Employment | 6 | 5 | 5 |
| Business conditions | 13 | 9 | 14 | Forward orders | 2 | 2 | 4 |
| Trading | 19 | 12 | 22 | Stocks | 3 | 3 | 3 |
| Profitability | 14 | 10 | 13 | Exports | -1 | 1 | 0 |
| | % change at quarterly rate | | | | % change at quarterly rate | | |
| Labour costs | 0.9 | 0.8 | 0.7 | Retail prices | 0.2 | 0.5 | -0.1 |
| Purchase costs | 0.6 | 0.5 | 0.3 | | Per cent | | |
| Final products prices | 0.6 | 0.3 | 0.3 | Capacity utilisation rate | 81.5 | 81.4 | 81.9 |

* 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 Mar to 31 Mar, covering more than 410 firms across the non-farm business sector.

NAB Group Economics

CONTENTS

| | |
|---|---|
| Key points | 1 |
| Key charts | 2 |
| Conditions, confidence & leading indicators | 3 |
| Labour, prices & borrowing | 5 |
| More details | 6 |
| Industry results | 7 |
| State results | 8 |

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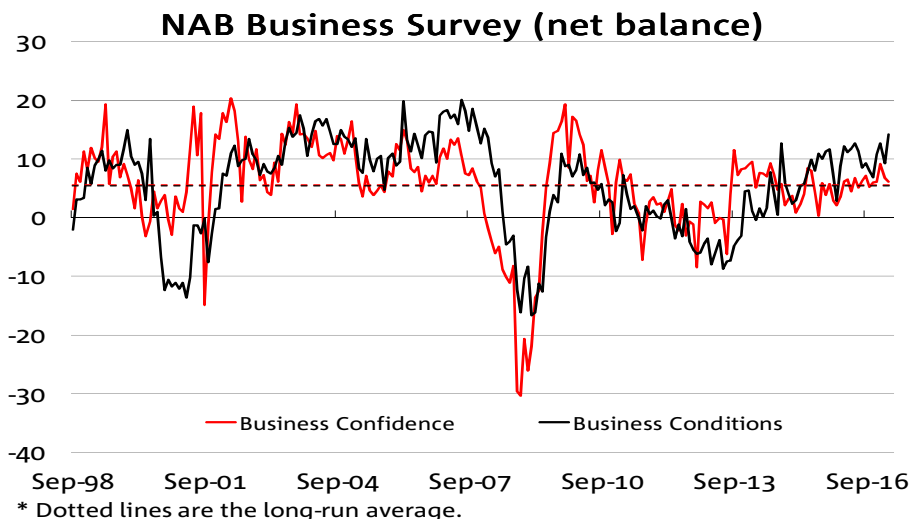
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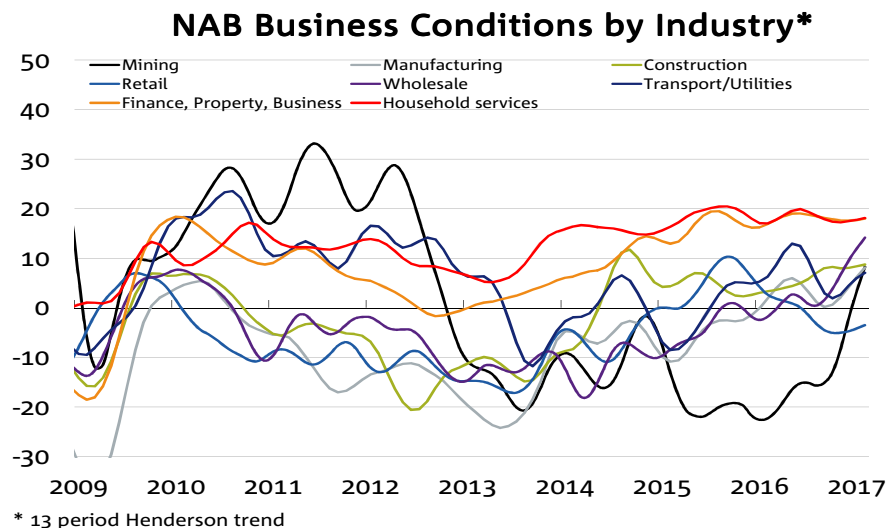
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KEY MONTHLY CHARTS

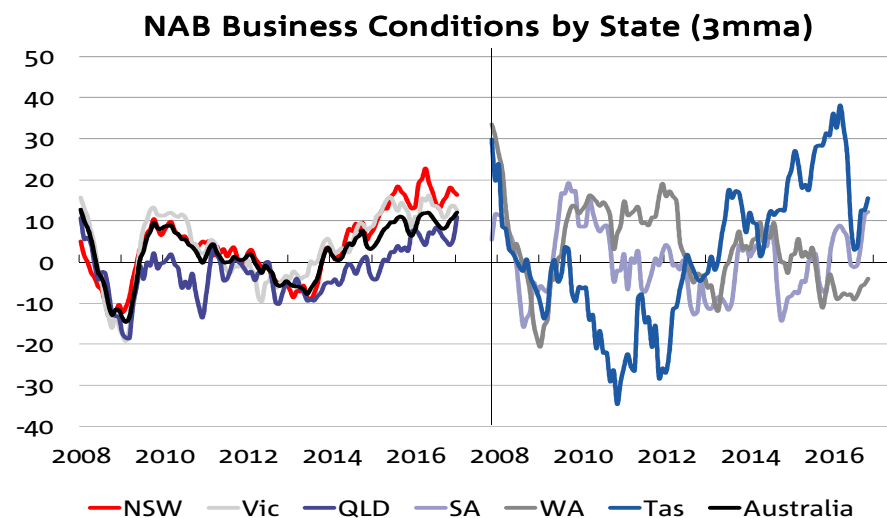
BUSINESS CONDITIONS POST A REBOUND TO QUITE ELEVATED LEVEL. CONFIDENCE IS RELATIVELY MUTED



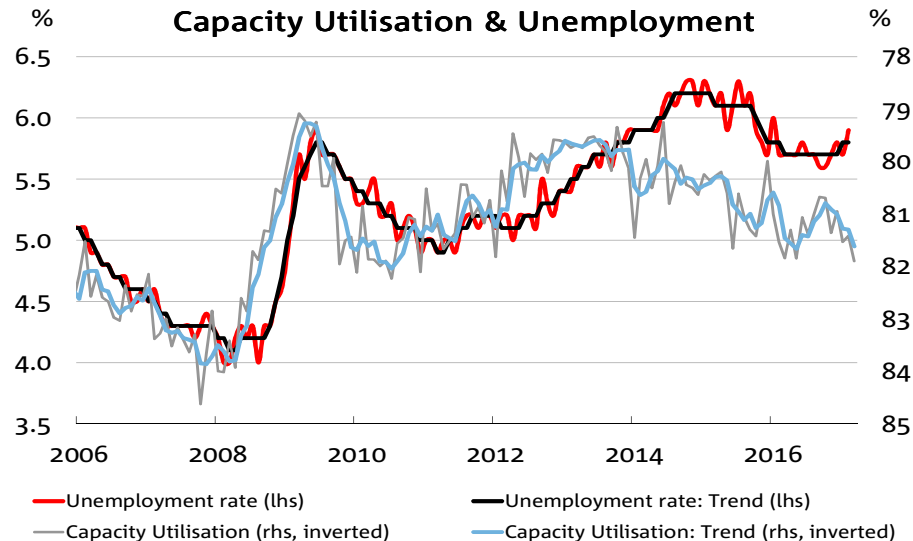
SERVICES STILL THE OUTPERFORMERS, BUT MOST ARE IMPROVING – RETAIL STABILISING AT WEAK LEVELS



CONDITIONS HAVE SHOWN A MORE POSITIVE TREND AGAIN IN MOST STATES – WA STILL NEGATIVE, BUT RISING



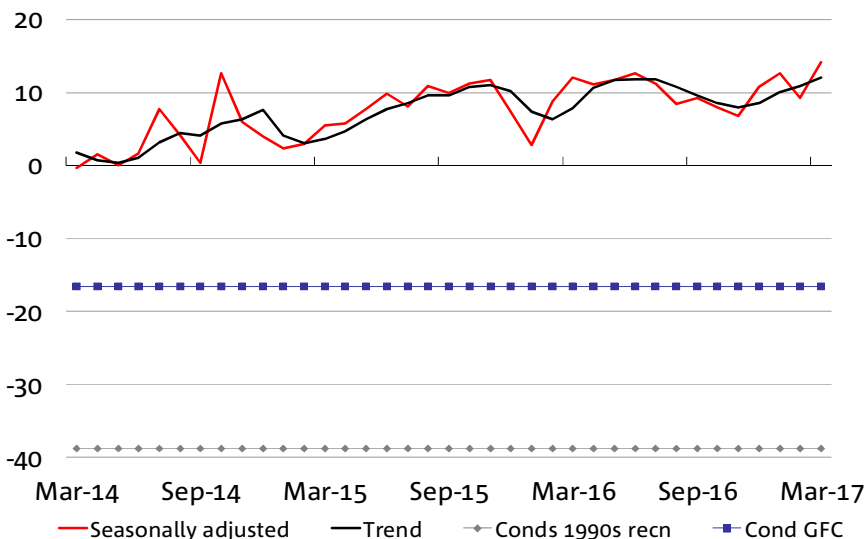
CAPACITY UTILISATION AND UNEMPLOYMENT INDICATE A DEGREE OF SLACK, BUT THEY ARE CURRENTLY DIVERGING



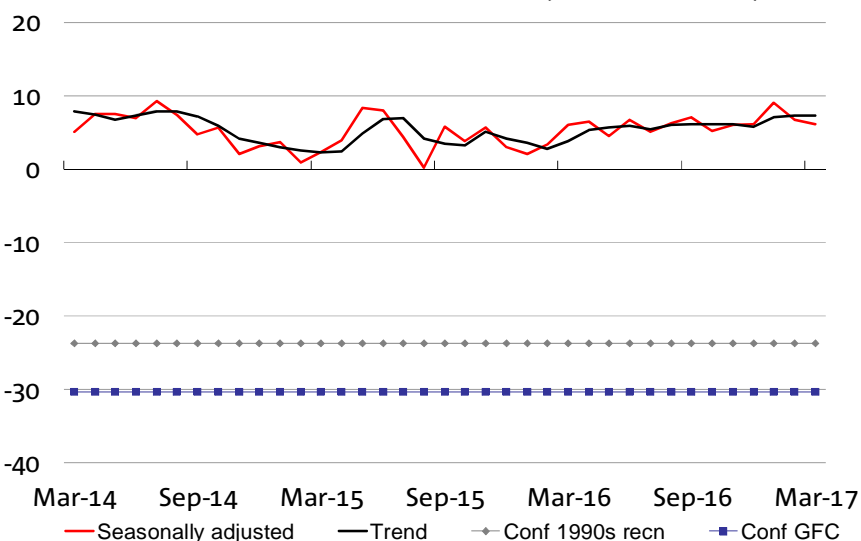
BUSINESS CONDITIONS AND FORWARD INDICATORS

Conditions clearly trending up again and leading indicators improved

Business Conditions (net balance)



Business Confidence (net balance)

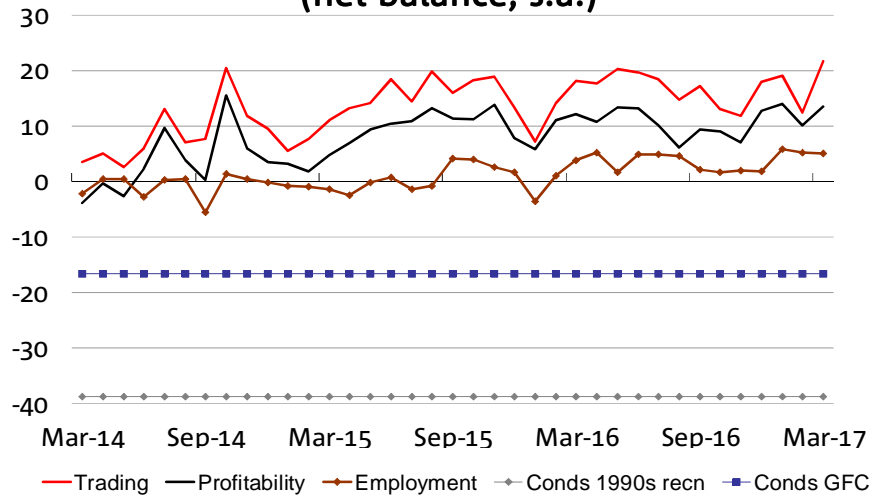


- **Business conditions** more than recovered from last month's drop, re-establishing a clear upward trend for the series. The business conditions index jumped 5 points, to +14 index points, which is well above the long-run average (+5) and its highest level since the Global Financial Crisis. By component, trading conditions (sales) drove most of the improvement in the months, although profitability also saw a more modest increase. Employment conditions were unchanged in the month, although holding at a level that suggests a healthier labour market than official statistics. The rise in business conditions was not uniform across industries, with major services and wholesale driving most of the improvement. Mining has also improved considerably off the back of higher commodity prices. Meanwhile, retail continues to disappoint, with conditions dipping into negative territory in the month – the only industry with negative conditions.
- Despite the clear strength in conditions, **business confidence** has been relatively lacklustre, remaining below the peaks of recent years. With global sentiment apparently improving and business conditions at quite elevated levels, a more pronounced lift in confidence might have been expected, which might imply a degree of concern lingering around the prevailing tail risks. The business confidence index fell 1 point in March, to +6 index points, which is in line with the long-run average for the series. Confidence levels vary across industries, but most are currently positive with wholesale the only exception (see p7 for industry details).
- **By state**, South Australia was the only state to record a decline in business conditions during the month, down 13 points following a spike in February – although conditions were positive in all states in March. Meanwhile, both Queensland and WA (12 & 15 points respectively) posted the largest gains for the month (of the mainland states), which might reflect the surprising resilience of the recent rally in bulk commodity prices. Cyclone Debbie may well be exaggerating the kick in conditions as the number of respondents in the Survey from Queensland (and especially North Queensland) was the lowest since 2011. The kick in Queensland conditions (up 12 to +20) may well reflect a larger concentration of respondents in the stronger South East vis a vis a struggling North Queensland. Looking through the monthly volatility, NSW maintains the highest conditions of the mainland states in trend terms (+16), followed by Victoria (+13) - while WA is weakest (-4).
- Leading indicators generally improved and suggest a modestly positive near-term outlook. The **forward orders** index was up 2 points, to +4 index points (above the long-run average of zero), which suggests positive near-term prospects for activity (see chart on p4). Mining, transport and wholesale orders rose significantly this month, while no industries recorded a negative orders index in March – although construction orders did weaken considerably (see p7 for details).
- Consistent with higher trading conditions, NAB's measure of **capacity utilisation** rose in March (increasing to 81.9%, from 81.4%). At the same time, the Survey's **capex** measure was up in the month to a reasonably solid +13 index points (see chart on p4) – more upbeat than other investment indicators. By industry, capacity utilisation rates vary considerably relative to long-run averages, which could have implications for the investment outlook (see chart on p4) – industry detail on p7.
- **Cash flow** (not seasonally adjusted) rebounded somewhat in the month and sits at a solid level (chart on p6) – currently strongest in wholesale, but weakest in retail.

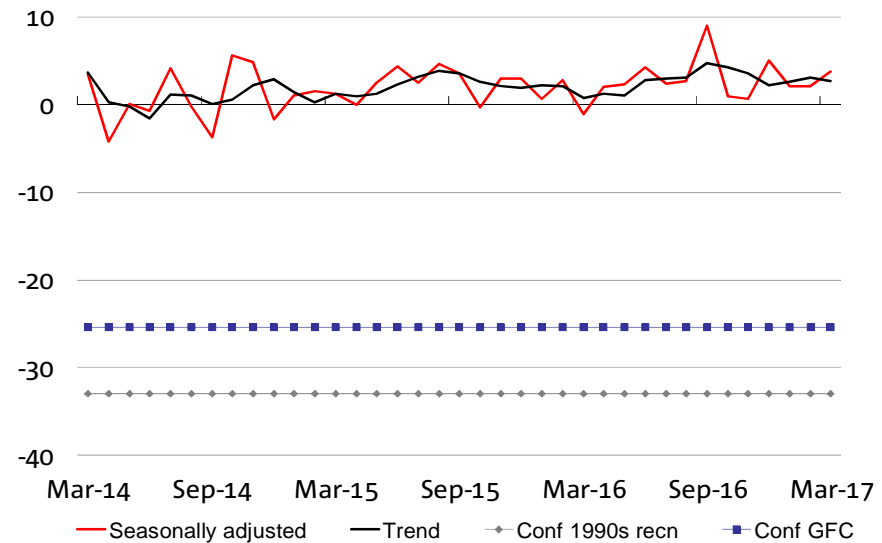
BUSINESS CONDITIONS AND FORWARD INDICATORS (CONT.)

Components of business conditions & leading indicators

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

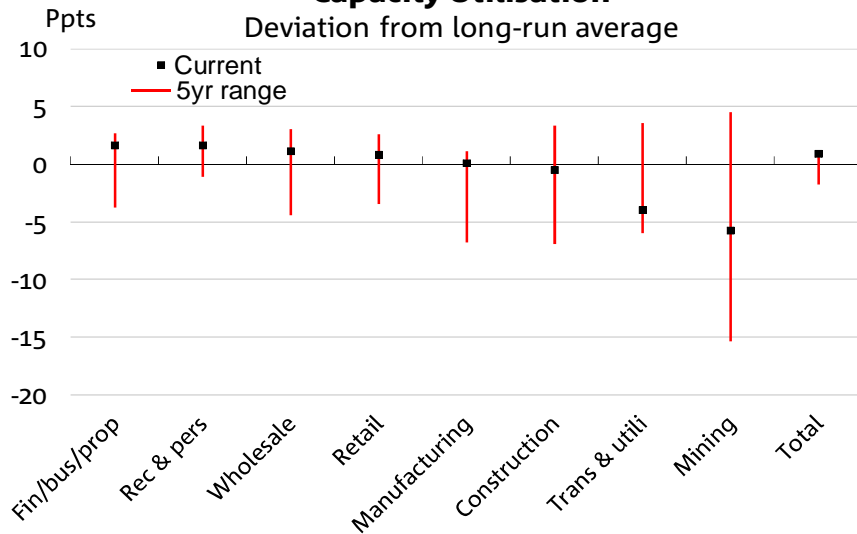


Forward Orders (net balance)



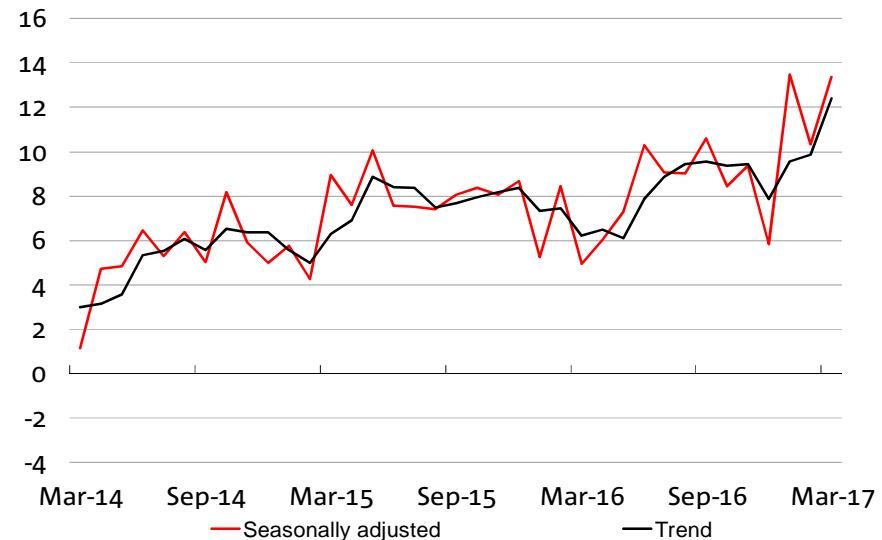
Capacity Utilisation

Deviation from long-run average

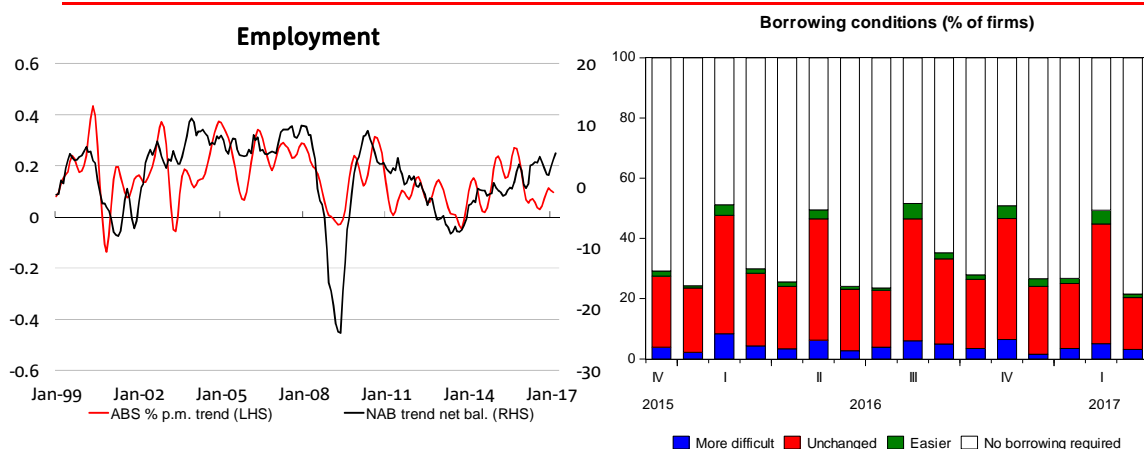


Source: NAB Economics

Capital Expenditure (net balance)

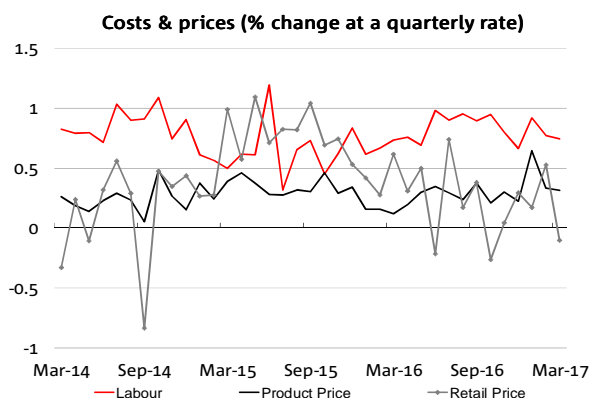


LABOUR DEMAND, COSTS, PRICES & BORROWING CONDITIONS



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

| Mar-2017 | Mining | Manuf | Constn | Retail | Wsale | Tran. & utils | Rec. & pers. | Fin. prop. & bus. | Australia |
|--------------------------|--------|-------|--------|--------|-------|---------------|--------------|-------------------|-----------|
| Labour costs: current | 2.2 | 0.8 | 0.1 | 0.5 | 1.7 | 0.0 | 1.1 | 0.8 | 0.7 |
| Labour costs: previous | -0.5 | 0.4 | 1.1 | 0.7 | 0.5 | 1.3 | 0.8 | 1.0 | 0.8 |
| Labour costs: change | 2.7 | 0.4 | -1.0 | -0.2 | 1.2 | -1.3 | 0.3 | -0.2 | -0.1 |
| Prices (final): current | 0.2 | 0.5 | 0.1 | -0.1 | 0.4 | 0.0 | 0.6 | -0.1 | 0.3 |
| Prices (final): previous | 0.7 | 0.4 | 0.0 | 0.5 | 0.4 | 0.0 | 0.4 | 0.2 | 0.3 |
| Prices (final): change | -0.5 | 0.1 | 0.1 | -0.6 | 0.0 | 0.0 | 0.2 | -0.3 | 0.0 |
| Purchase costs: current | -0.2 | 0.6 | 0.2 | 0.1 | 0.5 | 0.2 | 0.5 | 0.2 | 0.3 |
| Purchase costs: previous | 0.3 | 0.4 | 0.6 | 0.6 | 0.3 | 0.6 | 0.6 | 0.3 | 0.5 |
| Purchase costs: change | -0.5 | 0.2 | -0.4 | -0.5 | 0.2 | -0.4 | -0.1 | -0.1 | -0.2 |



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 unchanged in the month, but it generally points to a healthier labour market than official statistics. The employment index was unchanged at +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 11.6k in February.
- There was no clear theme for employment conditions across industries in March. There were large declines in transport (down 25), followed by finance/ property/ business services (down 7) while wholesale saw the biggest gain (up 20). There was also some indication that higher commodity prices is helping mining employment, with the index up 18 points in March. In trend terms, personal services employment conditions are now the highest (+9), along with fin/ prop/ bus services (at +8). Meanwhile, manufacturing was the only negative at -3 index points.

Labour costs growth (a wage bill measure) stayed relatively elevated in February, at 0.7% (a quarterly rate), suggesting that there are some wage pressures present. Labour cost pressures were highest in mining (at 2.2%), following a large jump in the month, while costs are now weakest in transport (0%). Retail labour costs continue to outstrip retail prices, which may partly explain the weak profitability index for the industry.

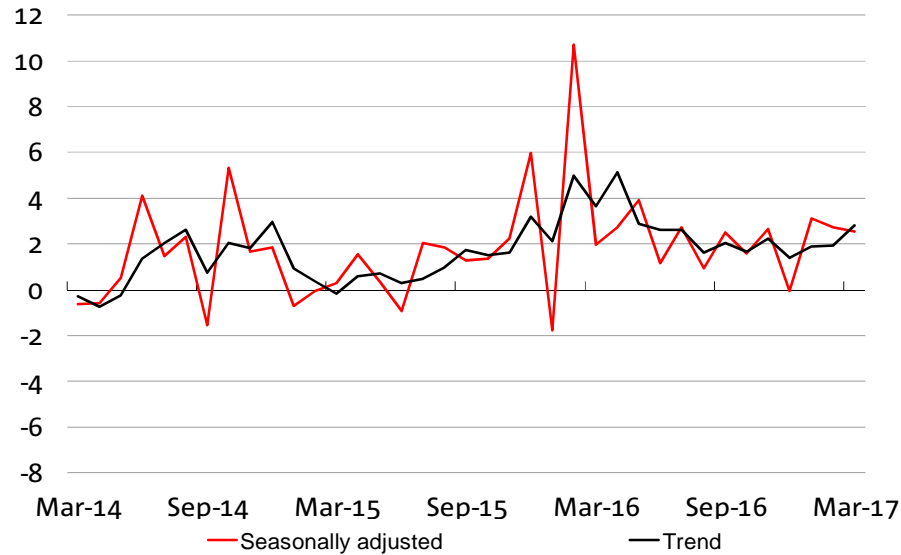
Growth in **purchase costs** eased slightly in the month, to 0.3% (a quarterly rate), from 0.5% – suggesting that upstream price pressures remain elusive. Growth in purchase costs decelerated the most in mining and retail (both down 0.5 ppts), while manufacturing and wholesale saw the only acceleration (both up 0.2 ppts). Overall, purchase cost pressures were highest in manufacturing (at 0.6%, quarterly rate), but were softest in mining, at -0.2%.

- **Final product prices** growth in March was steady at just 0.3% (a quarterly rate). However, retail price growth dropped sharply to a rate of -0.1% (from 0.5%), which is well below the lower bound of the RBA's inflation target. Mining (down 0.5 ppts) had the next largest deceleration in final prices growth, while personal services (up 0.2 ppts) saw the most acceleration. Prices are falling in retail and fin/ prop/ bus services (both -0.1%, quarterly rate), while personal services prices are seeing the fastest growth (0.6%).
- **Borrowing conditions** deteriorated since last December, and the index is negative – meaning that on balance, more firms found it more difficult to borrow than easier. The demand for credit also fell in that time.

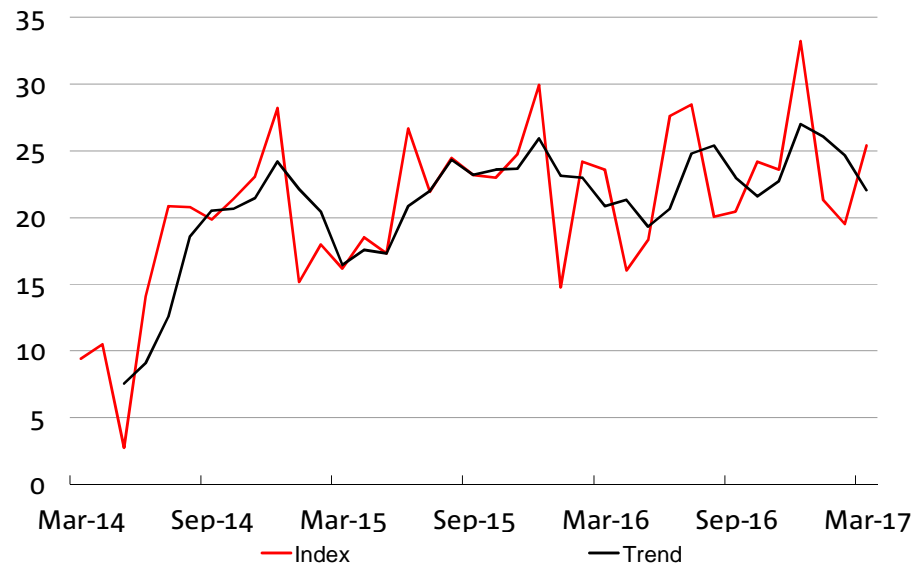
MORE DETAILS ON BUSINESS ACTIVITY

Restocking activity holding up. Exports soft. Cash flows looking solid.

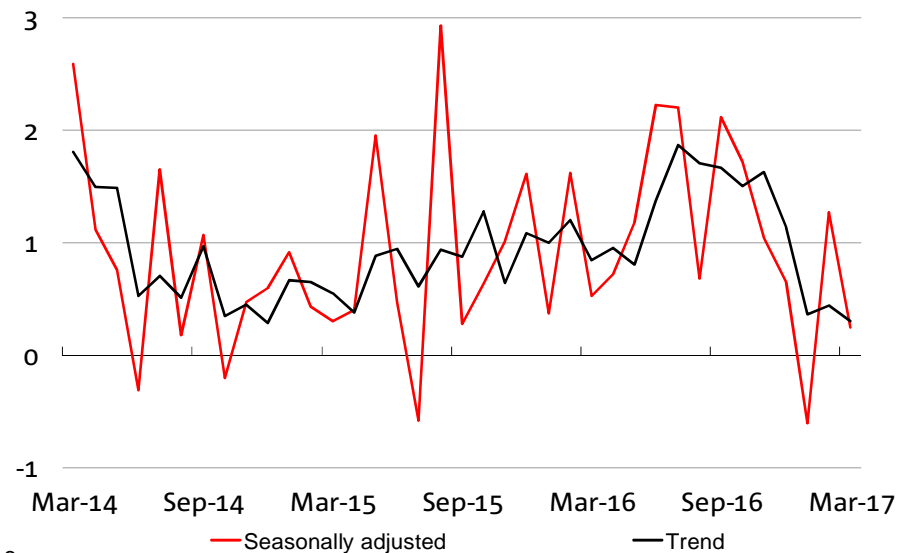
Stocks (net balance)



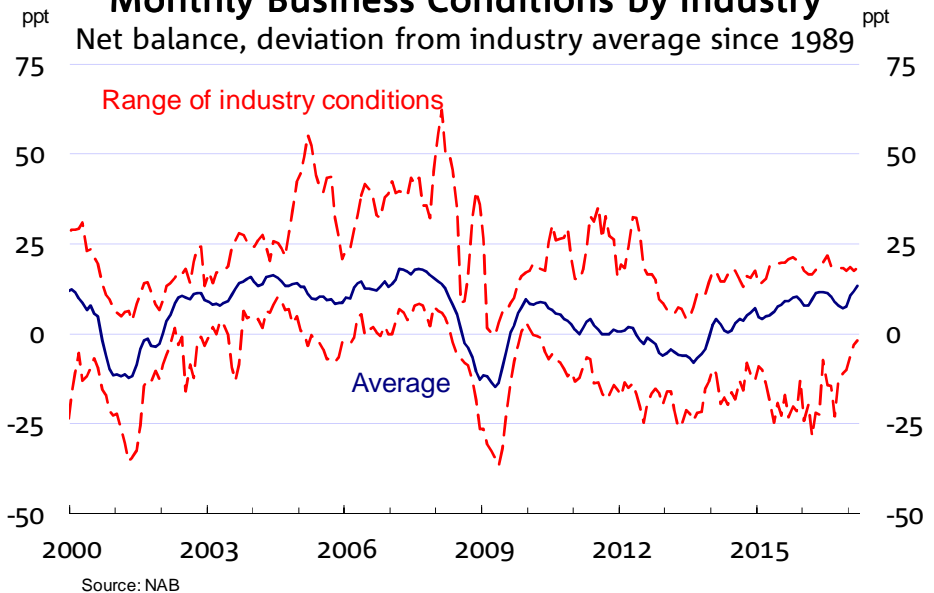
Cash Flows (net balance, nsa)



Exports (net balance)



Monthly Business Conditions by Industry

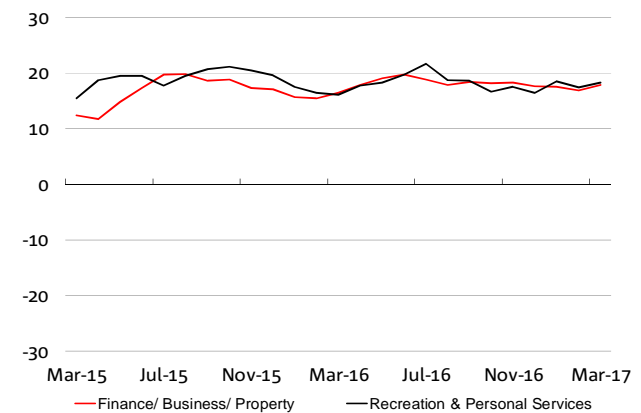
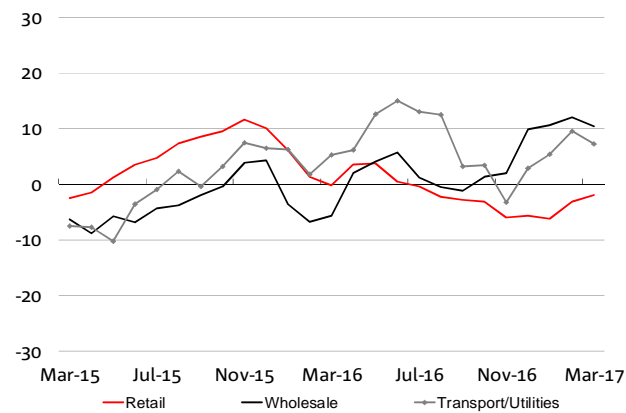
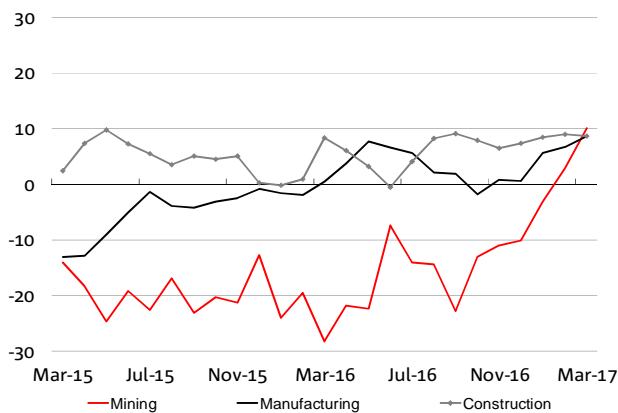


INDUSTRY BUSINESS CONDITIONS & CONFIDENCE

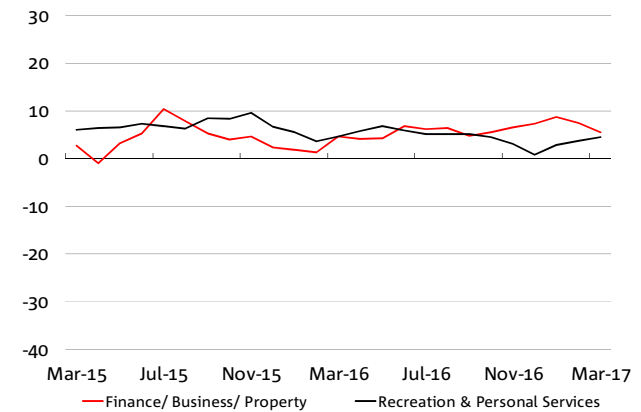
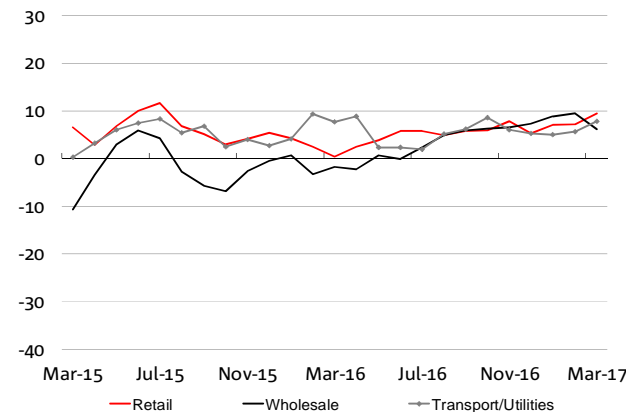
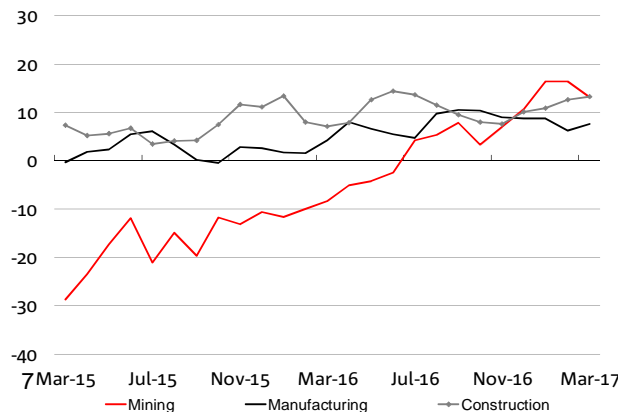
Retail remains a concern, while mining posted a sharp recovery

- The rise in **business conditions** was not uniform across industries, with major services and wholesale driving most of the improvement. Wholesale conditions rose the most (up 19), followed by personal services (up 11) and fin/ prop/ bus services (up 8). Mining has also improved considerably (up 7 in March) off the back of higher commodity prices. Meanwhile, retail continues to disappoint, with conditions dipping into negative territory in the month (down 6 points, to -6) – the only industry with negative conditions. Meanwhile, **confidence** levels vary across industries, but most are currently positive with wholesale the only exception. Wholesale (down 13) and personal services (down 3) saw the biggest deterioration, while transport (up 7) improved the most. In trend terms, all industries reported positive confidence levels, but mining and construction (both +13) were the most confident, while personal services was weakest (at +4), despite very high levels of business conditions (in trend terms).
- Forward orders** were up in March. A big decline in construction (down 16) and a more modest deterioration in fin/ prop/ bus (down 5), was more than offset by gains elsewhere, including a notable gain in transport orders (up 22). A few industries are seeing negative orders in trend terms, with wholesale at -5 index points and both transport and retail at -3 index points. Construction is highest at +15 index points. **Capacity utilisation** was again mixed, but is currently highest in fin/ prop/ bus, relative to the 5-year average (slide 4). Personal services **capex** is highest in trend terms, although all industries are positive.

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



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

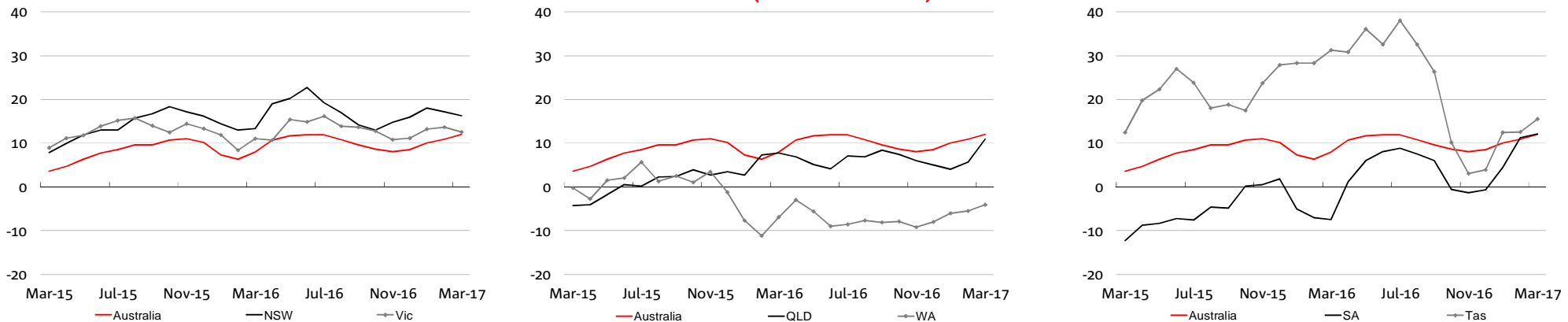


STATE BUSINESS CONDITIONS & CONFIDENCE

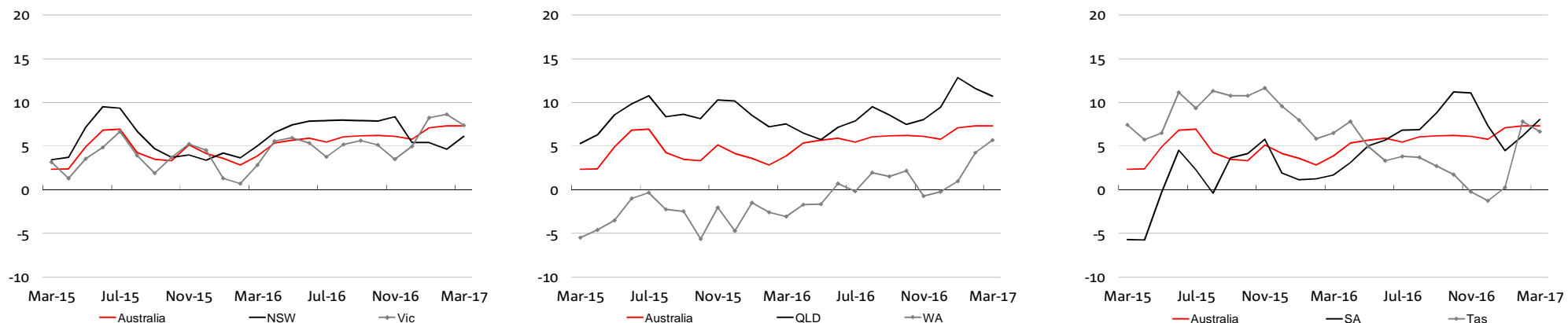
Business Survey suggests WA is gradually stabilising, bolstering confidence

- South Australia was the only one to record a decline in **business conditions** during the month, down 13 points following a spike in February – although conditions were positive in all states in March. Meanwhile, both Queensland and WA (12 & 15 points respectively) posted the largest gains for the month (of the mainland states), which might reflect the surprising resilience of the recent rally in bulk commodity prices. That said, switching in the sample between the South East and Northern Queensland (coinciding with Cyclone Debbie) may have exaggerated the strength in Queensland business conditions. Looking through the monthly volatility, NSW maintains the highest conditions of the mainland states in trend terms (+16), followed by Victoria (+13). Meanwhile, WA is weakest (-4).
- Business confidence** was more mixed, with NSW and SA down, Vic flat and the two big mining states higher. Qld is still the most confident state in trend terms, while NSW and WA are lowest – despite the former having the highest conditions in trend terms.
- Employment conditions** (trend) are positive in all states outside of WA – although the mining state has seen a notable improvement in recent months.

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



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



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