

NAB MONTHLY BUSINESS SURVEY

March 2017

By Group Economics

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Results from the March NAB Monthly Business Survey point to an overall healthy economy that is gaining momentum, at least in the near-term. Business conditions hit their highest level since the GFC in March, although Cyclone Debbie may be behind the smaller representation of Northern Queensland firms in the March sample, potentially overstating the magnitude of the improvement in conditions. Meanwhile, business confidence outcomes have been perplexing, diverging somewhat from business conditions of late – albeit staying at solid levels – while weak Survey outcomes in retail are still a point of concern. Business conditions are consistent with NAB’s outlook for economic growth to accelerate in H2 2017, following some likely disruption in Q2 from Cyclone Debbie. However, the longer-term outlook remains less compelling, particularly as major 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.

	Jan 2017	Feb 2017	Mar 2017		Jan 2017	Feb 2017	Mar 2017
	<i>Net balance</i>				<i>Net balance</i>		
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
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.9	0.8	0.7	Retail prices	0.2	0.5	-0.1
Purchase costs	0.6	0.5	0.3		<i>Per cent</i>		
Final products prices	0.6	0.3	0.3	Capacity utilisation rate	81.5	81.4	81.9

BUSINESS CONDITIONS THEIR HIGHEST SINCE THE GFC, BUT CONFIDENCE IS SLOW TO LIFT

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. Despite the clear strength in conditions, business confidence has been relatively lacklustre, remaining below the peaks of recent years (falling 1, to +6 index points).

According to Mr Alan Oster, NAB’s Chief economist, “the bounce in business conditions this month came as a bit of a surprise, especially the big improvement in Queensland in light of the likely disruptions from Cyclone Debbie in late March. One possibility is that ‘Debbie’ is having the unexpected effect of overstating conditions in March given that the cyclone coincided with a lower response rate from firms in Northern Queensland. Even so, conditions have improved almost across the board to levels that suggest a strong economy in the near-term. That includes WA, which has been looking better of late and suggests the worst of the mining downturn may be behind us.”

Most industries are showing solid or improving business conditions, although in March the improvement was primarily driven by the major services sectors and wholesale. “The strength of the major service industries is still a key theme in the Survey, but we are clearly seeing other industries catching up. The mining industry has been particularly impressive, having lagged well behind in recent years to now be one of the better performers in terms of business conditions, off the back of higher commodity prices and an improved global demand outlook” said Mr Oster. In contrast, the retail industry continues to be a concern with conditions falling further, dropping into negative territory. Mr Oster added that, “the apparent weakness in retail is driving our relatively downbeat outlook for consumption”.

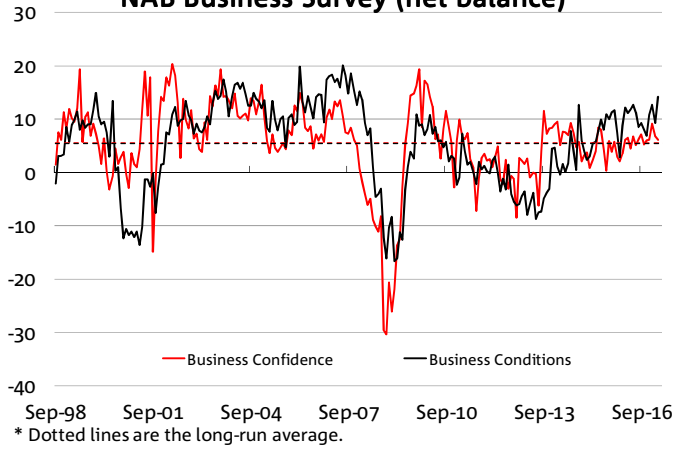
Within business conditions, trading conditions (sales) drove most of the improvement in the months, although profitability also saw a more modest increase. Employment conditions were unchanged in the month, although holding at a level that suggests a healthier labour market than official statistics. According to Mr Oster, “we are encouraged by the trend seen in employment conditions as it tells us that the economy should be creating enough jobs to bring down the unemployment rate, assuming the participation rate remains steady. That said, the ABS Labour Force Survey appears to be saying otherwise.”

Leading indicators were reasonably solid in March, with the capacity utilisation rate lifting, consistent with a solid read on capital expenditure, while forward orders also rose in the month. According to Mr Oster, “forward orders suggest positive near-term prospects for the economy, and even though business confidence has been relatively muted relative to business conditions, reads on business investment from the Survey have managed to strengthen”.

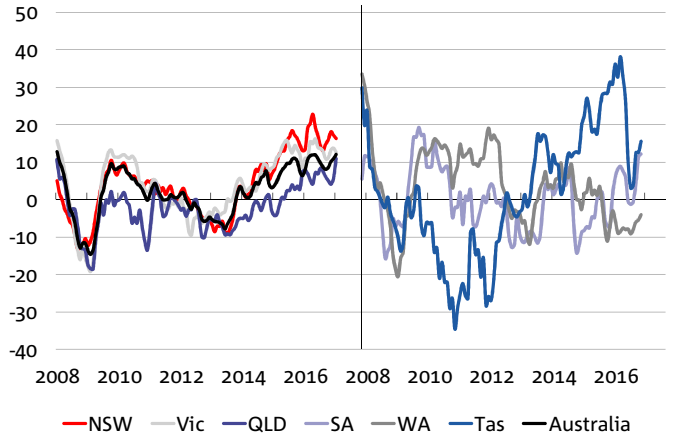
“The March NAB Monthly Business Survey results are encouraging in terms of the near-term economic outlook. This is consistent with NAB’s forecast for economic growth to accelerate in H2 2017, following some likely disruption in Q2 from Cyclone Debbie. However, there is still cause to be cautious about the longer-term outlook, particularly as other growth drivers, including 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”, said Mr Oster. NAB Economics will release updated financial and economic forecasts tomorrow.

NAB Monthly Business Survey

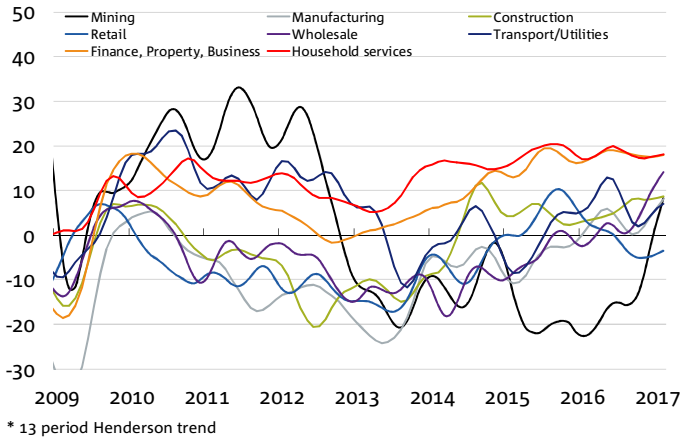
NAB Business Survey (net balance)



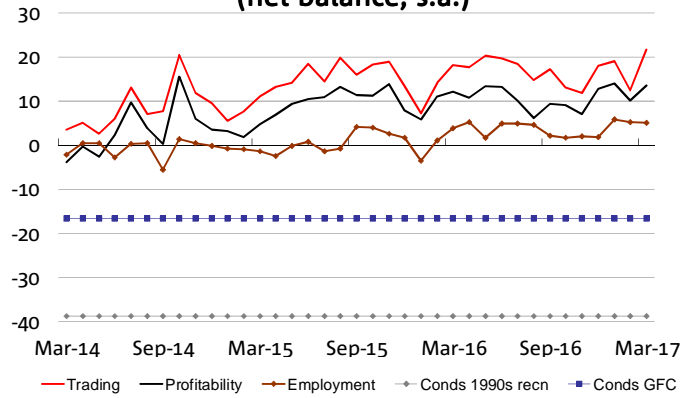
NAB Business Conditions by State (3mma)



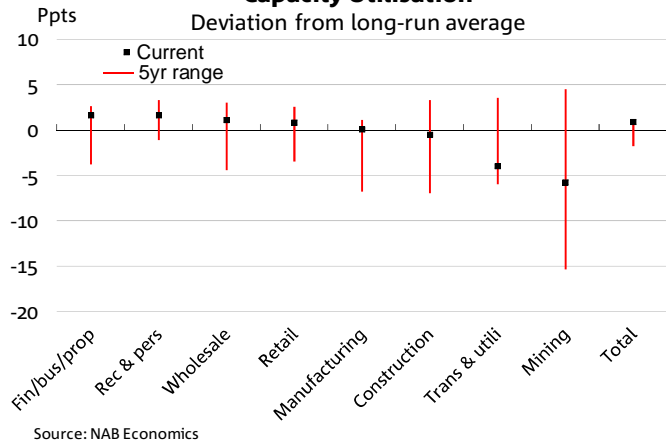
NAB Business Conditions by Industry*



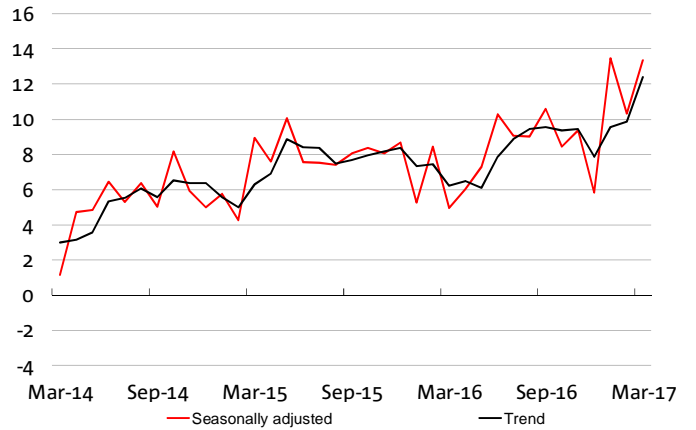
All components of business conditions (net balance, s.a.)



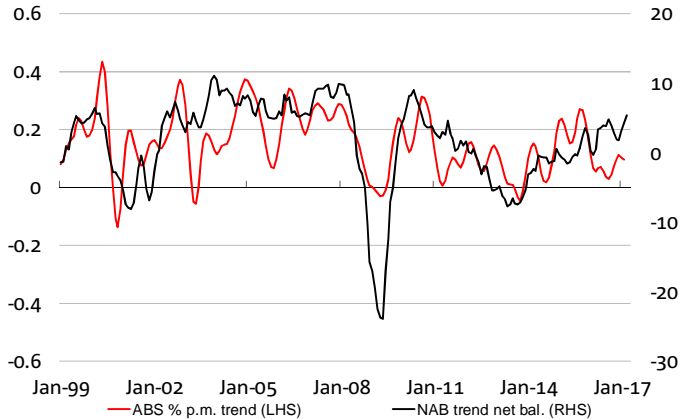
Capacity Utilisation
Deviation from long-run average



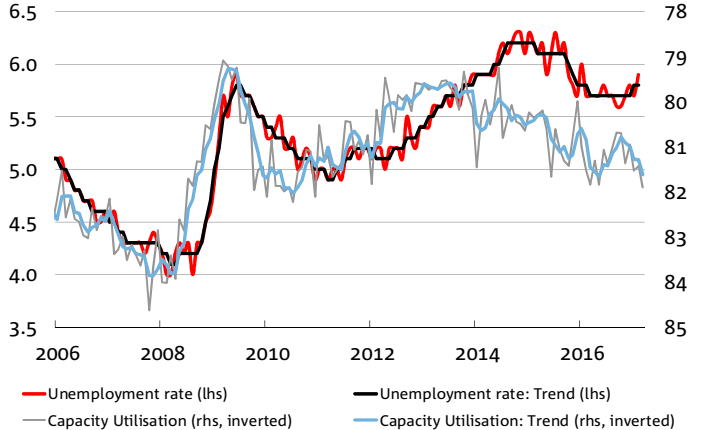
Capital Expenditure (net balance)



Employment



Capacity Utilisation & Unemployment



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