

NAB QUARTERLY BUSINESS SURVEY

March Quarter 2017 *(Embargoed until 11.30am Thursday 20th April)*

By Group Economics



The NAB Quarterly Business Survey generally paints an encouraging picture of both current business activity and the outlook. Leading indicators mostly improved in Q1 2017, which has been reflected in better outcomes in terms of investment and hiring intentions going forward. Both near and longer-term employment expectations recorded solid improvements and a greater proportion of firms reporting difficulties finding suitable labour. Meanwhile, capex plans for the next 12 months hit their highest level since mid-2011, consistent with a rebound in capacity utilisation rates this quarter. The mining industry is showing more signs of turning a corner with a strong bounce in mining conditions and elevated confidence levels. Meanwhile, retail trends are still a concern despite showing some improvement in the quarter. The Survey's read on inflation remains very subdued and points to an absence of wage pressures.

	2016q3	2016q4	2017q1		2016q3	2016q4	2017q1
	Net balance				Net balance		
Business confidence	6	6	6	Trading	12	10	10
Business conditions				Profitability	7	6	8
Current	7	6	8	Employment	3	3	5
Next 3 months	17	14	19	Next 3 months	7	7	11
Next 12 months	25	24	28	Next 12 months	7	16	19
Capex plans (next 12)	24	22	28	Forward orders	4	1	4
	% change			Stocks	2	3	4
Labour costs	0.4	0.5	0.4	Exports	1	2	2
Purchase costs	0.3	0.3	0.2	Retail prices	0.1	0.0	0.2
Final products prices	0.1	0.2	0.2	Capacity utilisation rate	81.1	81.0	81.9

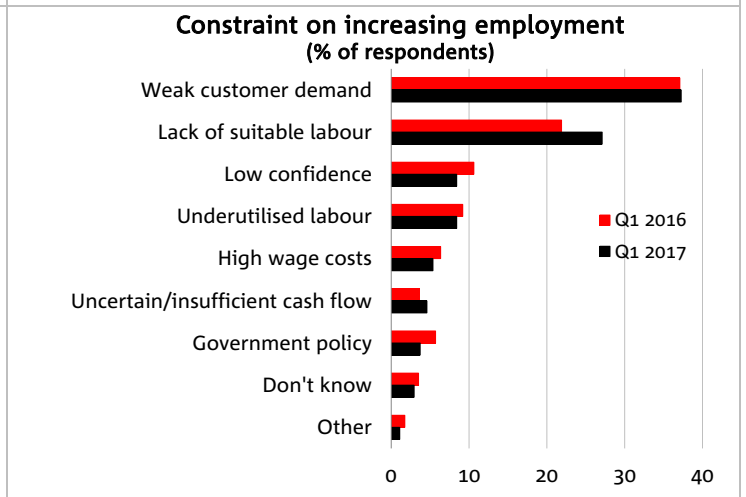
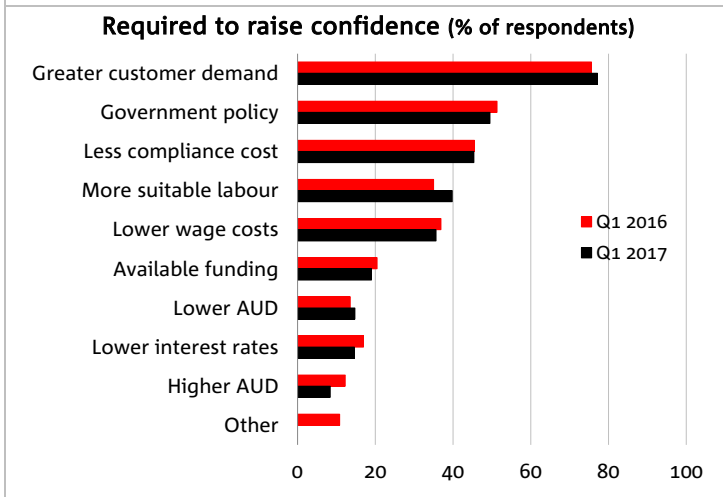
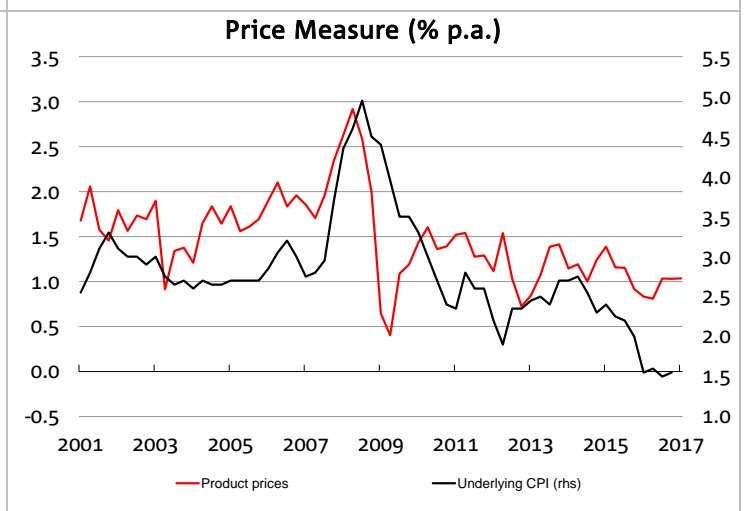
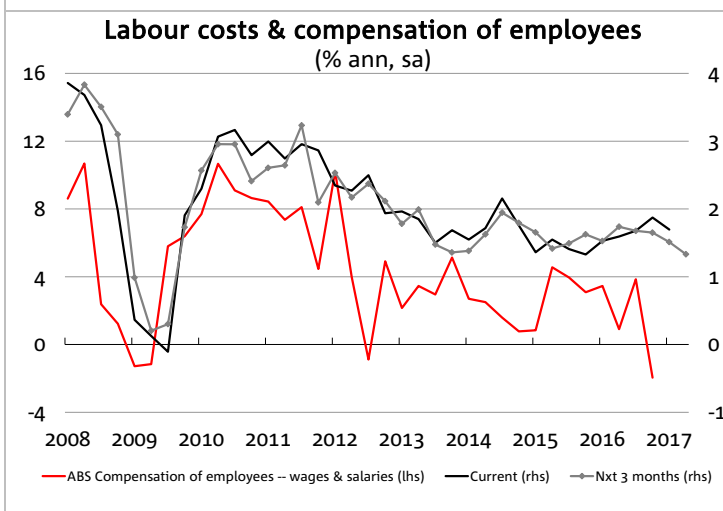
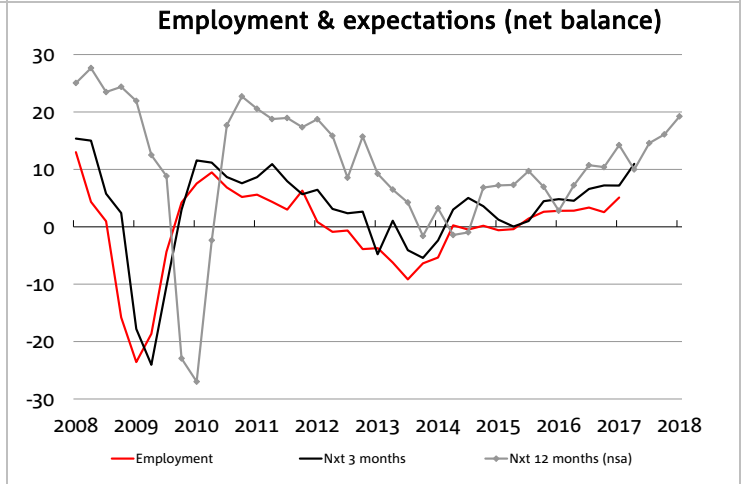
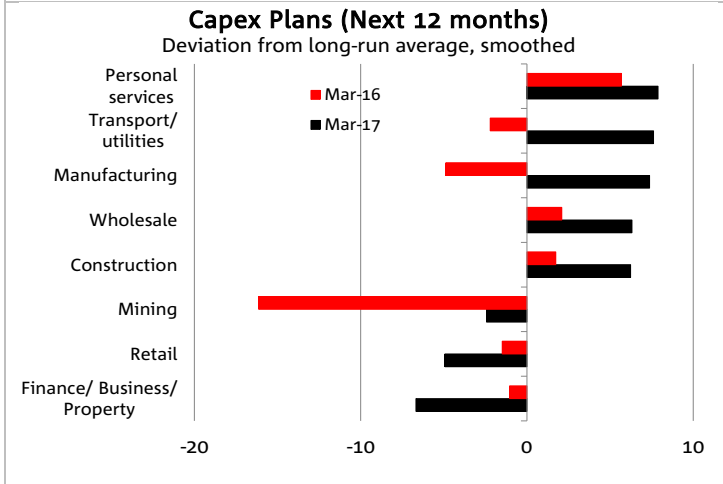
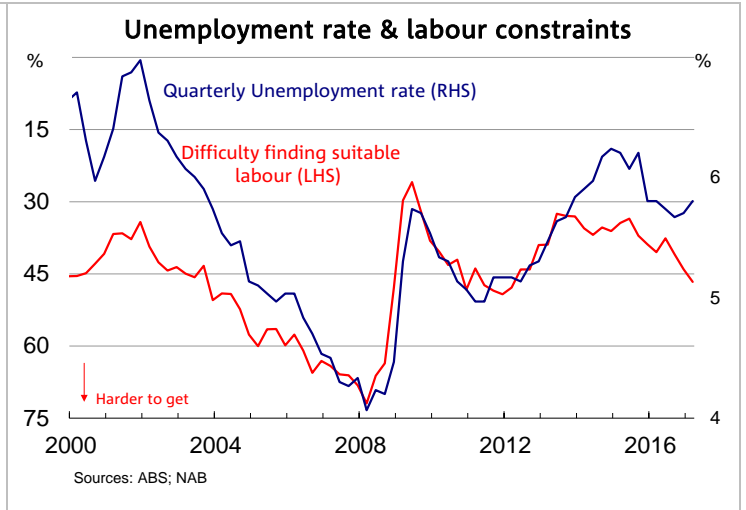
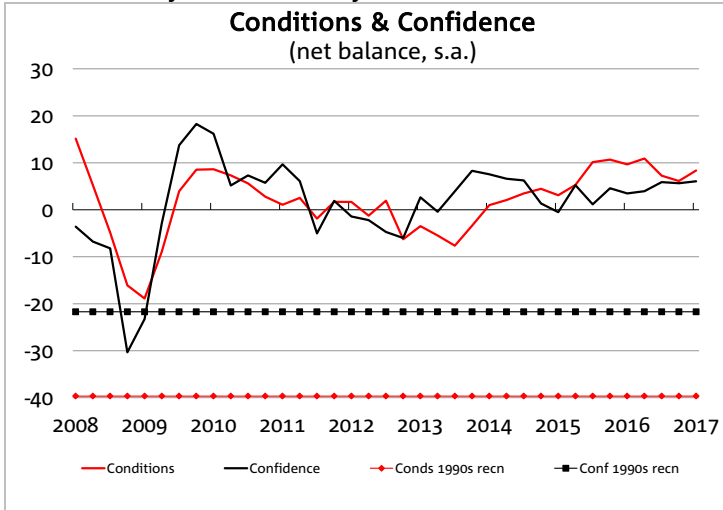
The quarterly iteration of the NAB Business Survey provides additional insights into Australian business beyond that offered by the regular NAB Monthly Business Survey. This publication grants a more in-depth probe into the conditions facing Australian businesses, and provides extra information about how firms perceive the outlook for their industries. It also is based on a sample size of around twice that of the Monthly Survey. Business conditions (an average of trading conditions/sales, profitability and employment) improved in the March quarter, albeit not to the extent seen in the monthly Survey, driven by an increase in profitability and employment. The conditions index rose 2 points, to +8 index points, which is well above the long-run average. According to NAB Group Chief Economist Alan Oster, "The quarterly Survey allows us to look through some of the volatility that is often present in the monthly indicators to give us a clearer picture of what is going on. The results tell us that the economy has clearly improved, but at a more modest pace than we saw in the March Monthly Business Survey. Meanwhile, business confidence has barely moved in the past year, but is holding above long-run average levels".

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 more encouraging across the board in the March quarter, with firms telling us that the near-term outlook is looking even more upbeat. Their expectations for business conditions in both the near and longer term improved noticeably in the quarter, while a similar trend could be seen in both their hiring and capital expenditure intentions."

Most of the other leading indicators from the Survey were more positive as well. "Forward orders recovered the lost ground from the previous quarter, while capacity utilisation rates were higher in the quarter, which is helping to underpin expectations for labour demand and capital expenditure. Employment expectations in both the near and medium-term have hit multi-year highs and firms are also indicating that it has become harder to find suitable labour. That all points to a tighter labour market than the ABS unemployment rate is currently suggesting. Similarly, capex plans (next 12 months) reached their highest level since 2011" said Mr Oster.

Business conditions were also positive for all industries other than retail, with service industries still performing best. Mining conditions are clearly seeing support from higher commodity prices, pushing back into positive territory for the first time since 2012. "The weakness in retail is clearly a concern given the importance of consumption to the outlook. However, we are increasingly confident that the mining sector will pose less of a drag on the economy, particularly as mining firms indicate a turnaround in their hiring intentions. It remains to be seen though whether these trends will continue should commodity prices moderate as we expect" said Mr Oster.

Despite the clear improvement in activity indicators, the Survey still points to very subdued inflationary pressures – working to keep wage pressures contained. According to Mr Oster, "these results suggest solid rates of business activity in the near term, although do not include likely disruptions from Cyclone Debbie, while the leading indicators point to even better outcomes in the next 12 months. However, we continue to anticipate some significant headwinds from 2018 as LNG exports and the housing construction cycle peak. That, combined with the lack of inflationary pressures in the Survey suggests the RBA will remain on the sidelines for an extended period".



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 Iure
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.