

NAB MONTHLY BUSINESS SURVEY

APRIL 2017

NEXT RELEASE:
13 JUNE 2017 – MAY MONTHLY



Key points:

- The NAB Monthly Business Survey posted another strong result in April, with both business conditions and confidence improving – pointing to ongoing strength in business activity in the near-term. In addition to elevated levels of business conditions, improvements appear to have become increasingly broad-based (across states and industries). Interestingly, conditions in Qld did not deteriorate as much as expected in the wake of Cyclone Debbie, although it did still fall appreciably. **The business conditions index has been above their long-run average level since early 2016 and rose another 2 points in April, to be at +14 index points.** The improvement this month came despite a moderation in trading conditions, with higher employment conditions and steady profitability more than offsetting. The recent improvement in employment growth (reported by the ABS) helped reduce the gap with NAB employment conditions that had existed for a number of months, but the gain in NAB's measure during April means there is more catch-up required. Most industries are reporting solid levels of business conditions, but the improvement in the month was mainly driven by transport, and (encouragingly) retail which has been lagging well behind other industries of late. Cost price measures in the Survey were a little higher, with retail prices moving back into positive territory (albeit still at very soft levels).
- In recent months we have noted the sizeable divergence in confidence relative to business conditions, with the later being much stronger. That gap has largely closed this month following a jump in business confidence. This could suggest that firms have put aside peripheral concerns (many of which may have stemmed from global events) to focus more on the improving performance within their own business. **The business confidence index rose 7 points to +13 index points in April,** which is more than double the long-run average and its highest result since early 2010. However, other indicators were more mixed, with the **capacity utilisation** rate dropping back, consistent with weaker **capital expenditure**, while **forward orders** were also slightly softer in the month.
- The NAB Monthly Business Survey has consistently pointed to solid near-term economic activity in recent months despite potentially destabilising events such as Cyclone Debbie. Importantly, the Survey points to an ongoing improvement in employment conditions – a trend that is critical to the likely path of the RBA's cash rate. **Consequently, we remain confident in our outlook for economic growth to accelerate in H2 2017, following some likely disruption in Q2 from Cyclone Debbie.** That said, recent weakness in retail conditions is a concern, although this month's rise is a step in the right direction. **The longer-term economic outlook is somewhat less certain, however,** as important growth drivers (LNG exports, commodity prices and housing construction) begin to fade. Despite that, the RBA's emphasis on financial stability concerns are expected to keep them on hold for the foreseeable future. Updated economic forecasts will be released as part of our post-Budget commentary.

Table 1: Key monthly business statistics

	Feb 2017	Mar 2017	Apr 2017		Feb 2017	Mar 2017	Apr 2017
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	7	6	13	Employment	5	6	8
Business conditions	10	12	14	Forward orders	2	4	3
Trading	13	21	17	Stocks	3	3	7
Profitability	11	14	14	Exports	1	0	0
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.8	0.8	1.0	Retail prices	0.5	-0.1	0.2
Purchase costs	0.5	0.4	0.5		<i>Per cent</i>		
Final products prices	0.4	0.3	0.4	Capacity utilisation rate	81.4	81.8	81.3

* 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 21 Apr to 28 Apr, covering more than 400 firms across the non-farm business sector.

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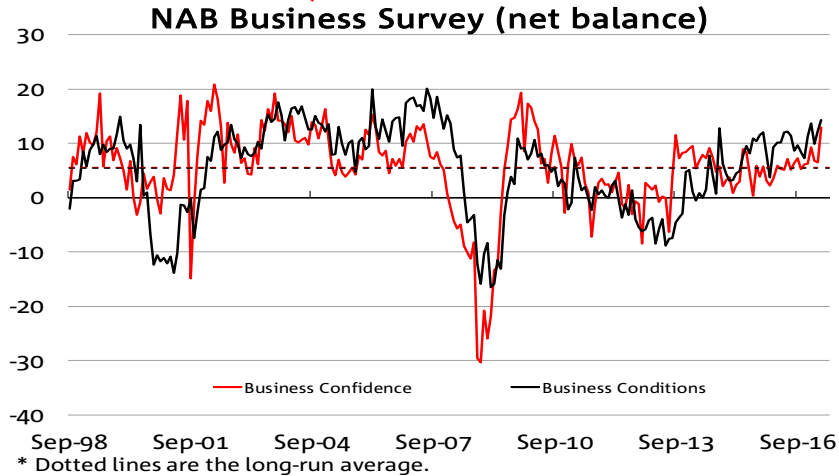
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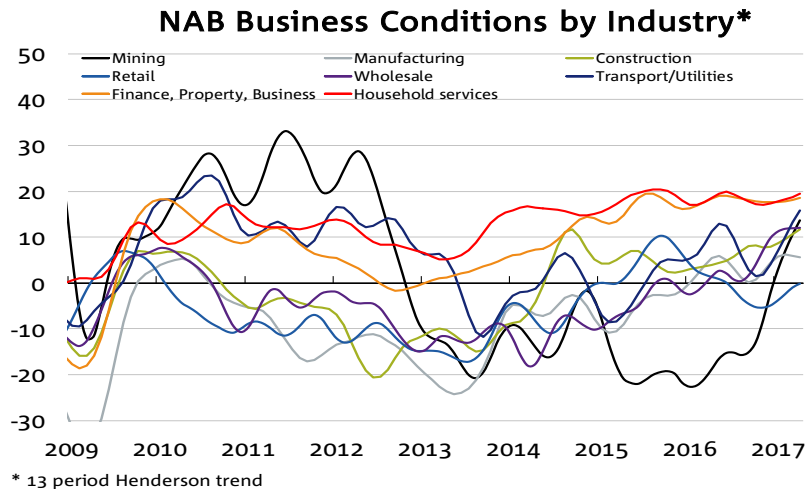
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KEY MONTHLY CHARTS

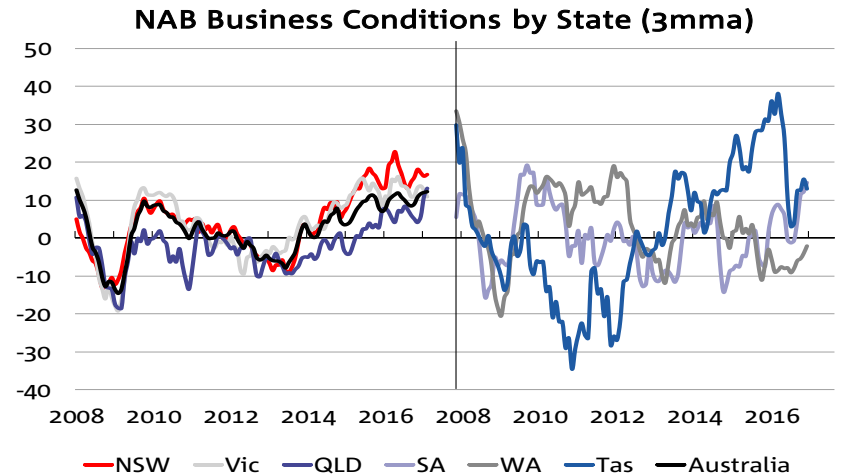
BUSINESS CONDITIONS LIFT AGAIN AS CONFIDENCE JUMPS TO SIMILAR LEVELS (FOLLOWING A PERIOD OF DIVERGENCE)



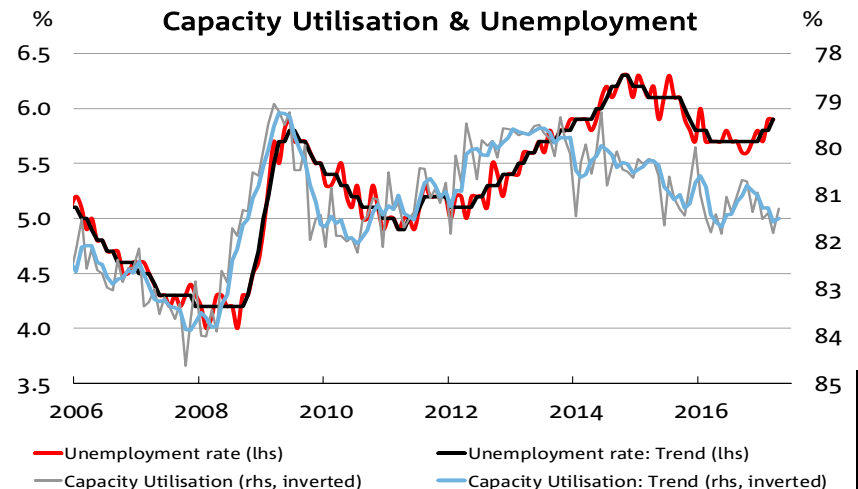
SERVICES STILL THE OUTPERFORMERS, BUT MOST ARE IMPROVING – RETAIL RISING, BUT STILL AT WEAK LEVELS



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



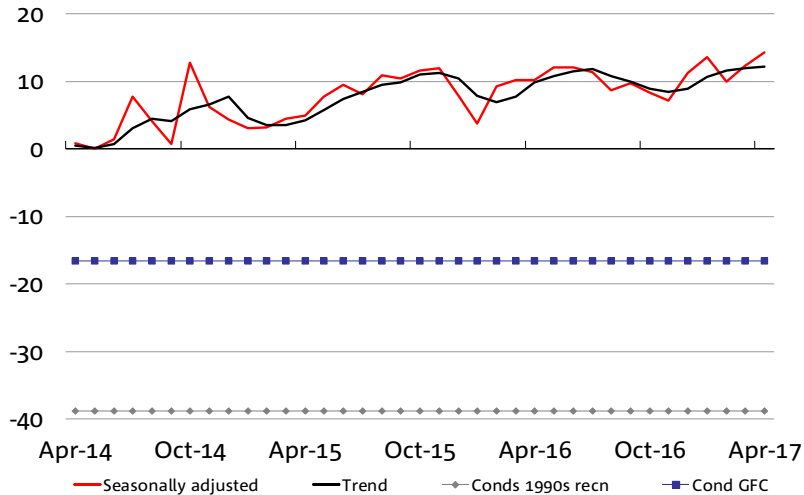
CAPACITY UTILISATION SHOWS LESS SLACK IN THE ECONOMY THAN THE UNEMPLOYMENT RATE INDICATES



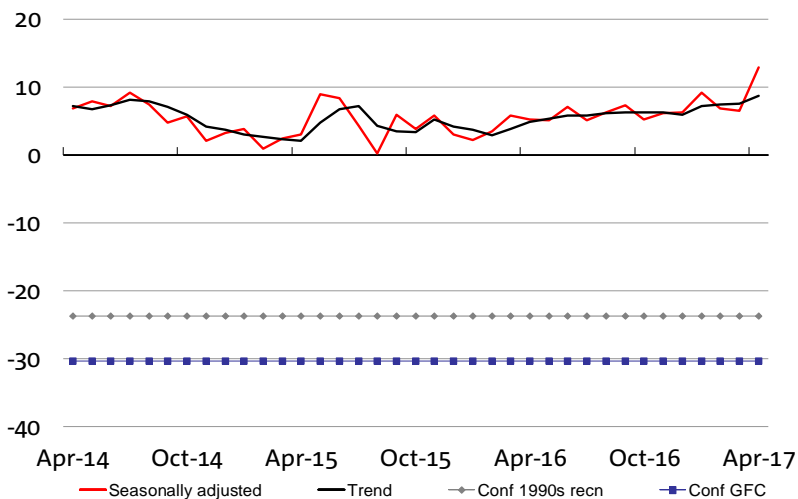
BUSINESS CONDITIONS AND FORWARD INDICATORS

Conditions still very strong and confidence has caught up (other indicators mixed)

Business Conditions (net balance)



Business Confidence (net balance)

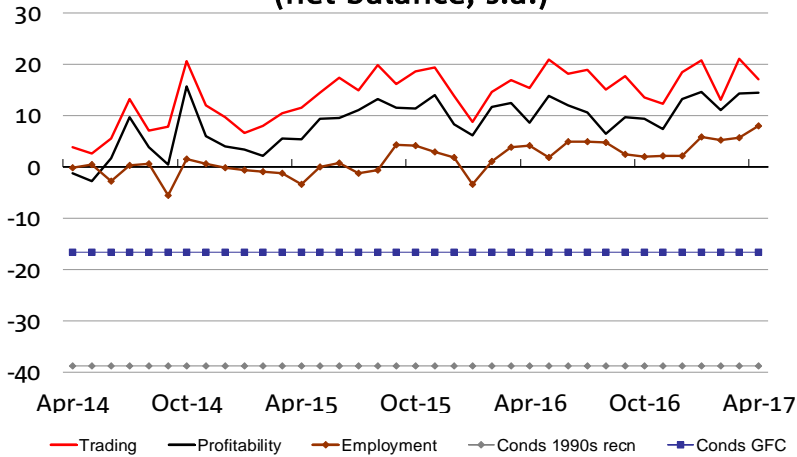


- **Business conditions** strengthened from already elevated levels in April, further cementing the positive narrative on current business activity in recent surveys. The business conditions index rose 2 points, to +14 index points, which is well above the long-run average (+5) and its highest level since early 2008. By component, employment conditions drove most of the improvement in the month, while profitability was steady. A drop in trading conditions (sales) was only partly offsetting and it remains the strongest component despite the moderation. Solid levels of business conditions have begun to look more uniform across industries, although transport and retail drove most of the improvement in the month of April – although trend retail conditions continue to lag behind the other industries.
- **Business confidence** came more into line with business conditions in April, hitting its highest level since 2010. It is not clear what triggered the sudden reversal in the divergence between the two measures, but it does suggest that periphery concerns have taken a back seat. The business confidence index jumped 7 points in April, to +13 index points, which is more than double the long-run average for the series. Confidence levels vary across industries, but all are currently positive, even in trend terms (see p7 for industry details).
- **By state**, outcomes were somewhat mixed as both NSW and South Australia experienced gains of 3 points, while Victoria and Queensland deteriorated (down 5 and 9 points respectively). Nonetheless, business conditions are currently positive in all states, although WA is slightly negative in trend terms – but has clearly improved off the back of higher commodity prices. Looking through the monthly volatility, NSW has the best business conditions (+17), followed by South Australia (+15). Business confidence is also quite positive in all states, even with WA recording a slight moderation in April. Of the mainland states, confidence is highest in trend terms for Queensland and South Australia (both +11). WA is lowest at +6 index points.
- Other leading indicators were generally less upbeat, although they still point to a modestly positive near-term outlook. The **forward orders** index was down 1 point, to +3 index points (above the long-run average of zero), which suggests positive near-term prospects for activity (see chart on p4). Construction orders rebounded this month, while mining orders dropped sharply. Orders are highest in construction (+23, in trend terms), consistent with a recent rebound in residential building approvals, followed by manufacturing (+6). Trend orders are negative for mining (-9), retail (-4) and wholesale (-2). See p7 for details.
- Reflecting the slight moderation in trading conditions, NAB's measure of **capacity utilisation** fell in April (decreasing to 81.3%, from 81.8%). At the same time, the Survey's **capex** measure pulled-back sharply, although is still at a solid +8 index points (see chart on p4). 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. Only personal services currently sits above its long-run average.
- **Cash flow** (not seasonally adjusted) maintained the previous gain and sits at a solid level (chart on p6) – currently strongest in personal services, but weakest in mining.

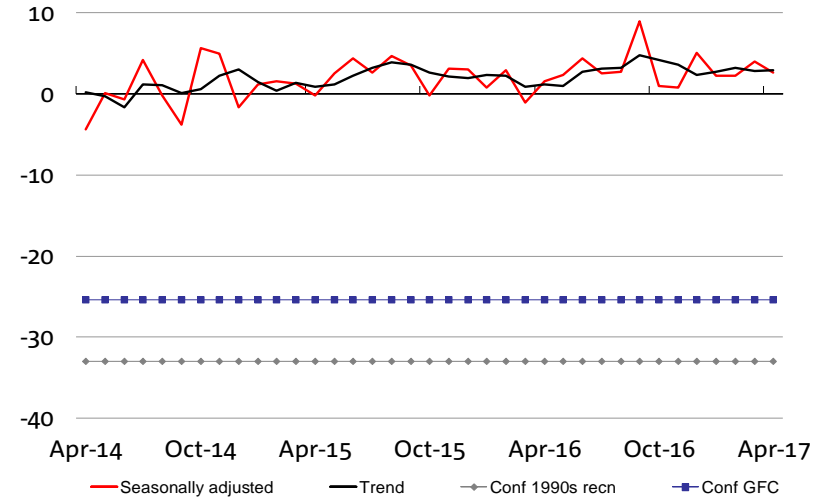
BUSINESS CONDITIONS AND FORWARD INDICATORS (CONT.)

Components of business conditions & leading indicators

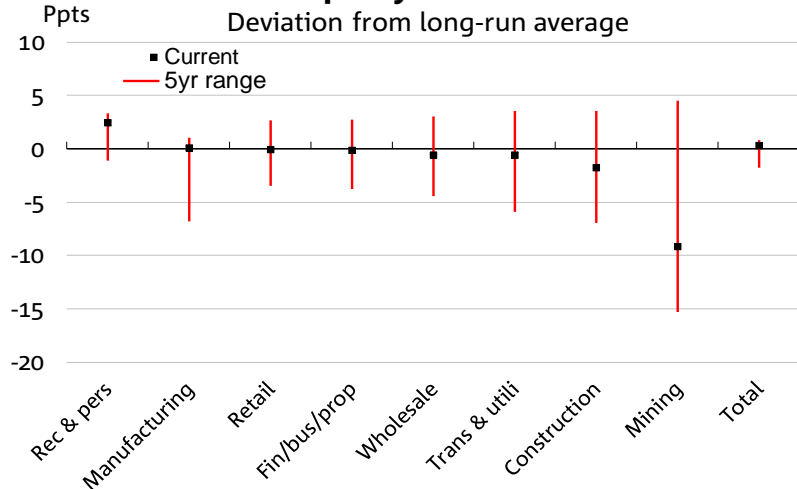
All components of business conditions (net balance, s.a.)



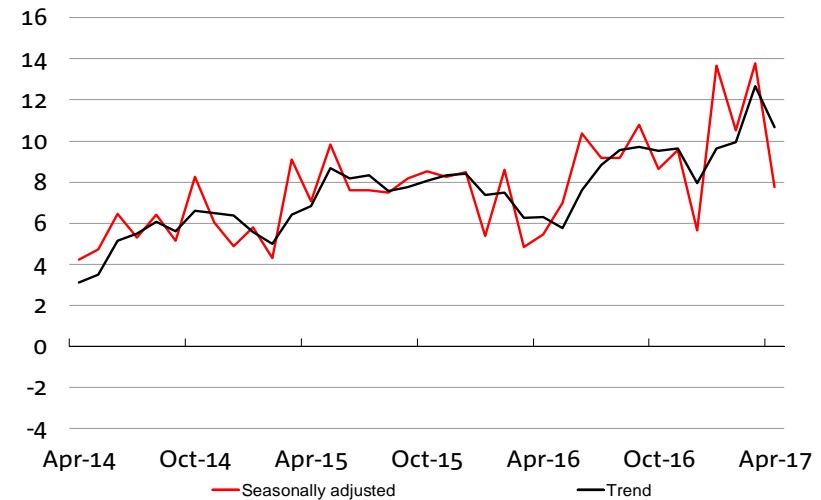
Forward Orders (net balance)



Capacity Utilisation



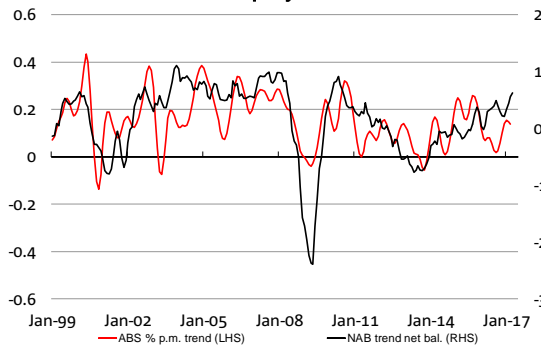
Capital Expenditure (net balance)



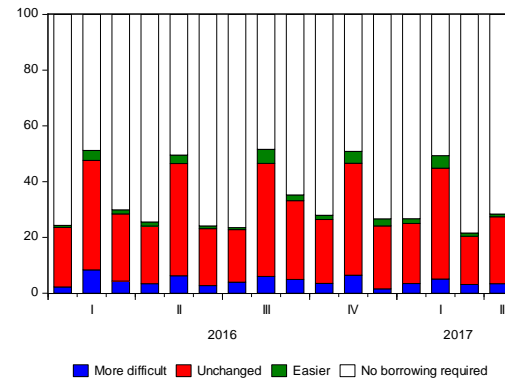
Source: NAB Economics

LABOUR DEMAND, COSTS, PRICES & BORROWING CONDITIONS

Employment



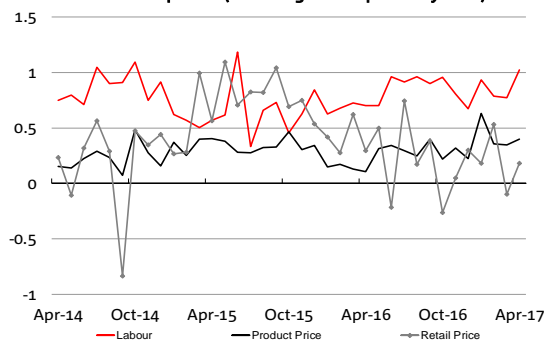
Borrowing conditions (% of firms)



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

Apr-2017	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	1.2	1.0	0.3	0.8	0.7	1.0	1.4	1.0	1.0
Labour costs: previous	1.9	0.8	0.1	0.6	1.7	0.0	1.1	0.8	0.8
Labour costs: change	-0.7	0.2	0.2	0.2	-1.0	1.0	0.3	0.2	0.2
Prices (final): current	-0.8	0.8	1.1	0.2	0.5	0.2	0.3	0.3	0.4
Prices (final): previous	0.2	0.6	0.2	-0.1	0.4	0.0	0.7	-0.1	0.3
Prices (final): change	-1.0	0.2	0.9	0.3	0.1	0.2	-0.4	0.4	0.1
Purchase costs: current	-0.1	0.8	1.1	0.5	0.7	0.5	0.4	0.1	0.5
Purchase costs: previous	-0.2	0.6	0.2	0.1	0.6	0.2	0.6	0.2	0.4
Purchase costs: change	0.1	0.2	0.9	0.4	0.1	0.3	-0.2	-0.1	0.1

Costs & prices (% change at a quarterly rate)



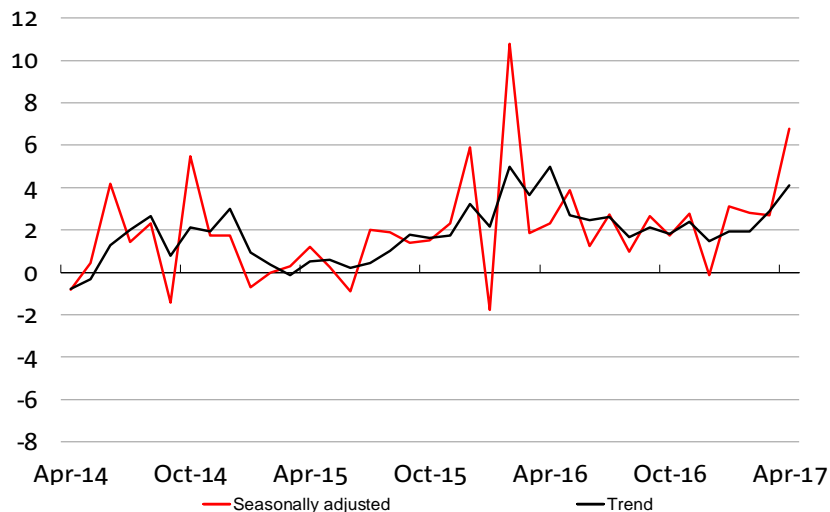
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.

- **Employment conditions** strengthened in the month to levels that would indicate a healthy rate of job creation in the economy – suggesting scope for further pick up in official measures of employment growth. The employment index rose 2 points, to +8 index points, which is above the long-run average for the series. This outcome points to an annual job creation rate of around 245k (around 20k per month) in coming months, which is sufficient to see the unemployment rate push lower (all else unchanged) – trend ABS employment growth rose to 16.5k in March.
- Most industries recorded an improvement in employment conditions for April. There was a particularly large increase in transport (up 13), partly unwinding a sharp decline last month. In contrast, manufacturing (down 11) and mining (down 8) were the only industries to fall. In trend terms, personal services employment conditions are the highest (+10), along with fin/ prop/ bus services (at +9). Meanwhile, manufacturing was the only negative at -3 index points.
- **Labour costs** growth (a wage bill measure) accelerated in April, from 0.8% to 1% (a quarterly rate), suggesting that there are some wage pressures present. Labour cost pressures were highest in personal services (at 1.4%), followed by mining (at 1.2%) despite giving up ground in the month. Labour costs are now weakest in construction (0.3%). Retail labour costs rose, but a larger acceleration in final product prices is consistent with a notable improvement in the retail profitability index (although it is still soft).
- Growth in **purchase costs** rose slightly in the month, to 0.5% (a quarterly rate), from 0.4% -- suggesting upstream price pressures are building only gradually. Growth in purchase costs accelerated the most in construction (up 0.9 ppts), while personal and professional services saw the only deceleration (down 0.2 and 0.1 ppts respectively). Overall, purchase cost pressures were highest in construction (at 1.1%, quarterly rate), and softest in mining (-0.1%).
- **Final product prices** growth in April was slightly higher at just 0.4% (a quarterly rate), up from 0.3%. Retail price growth lifted back into positive territory, at 0.2% (from -0.1%), although this is still well below the lower bound of the RBA's inflation target. Construction (up 0.9 ppts) accelerated the most, while mining (down 1 ppts) decelerated sharply. Prices are falling in mining (-0.8%, quarterly rate), while construction prices are seeing the fastest growth (1.1%).
- **Borrowing conditions** deteriorated since January, and the index is negative – meaning that on balance, more firms found it more difficult to borrow than easier. Despite that, the demand for credit rose modestly in that time.

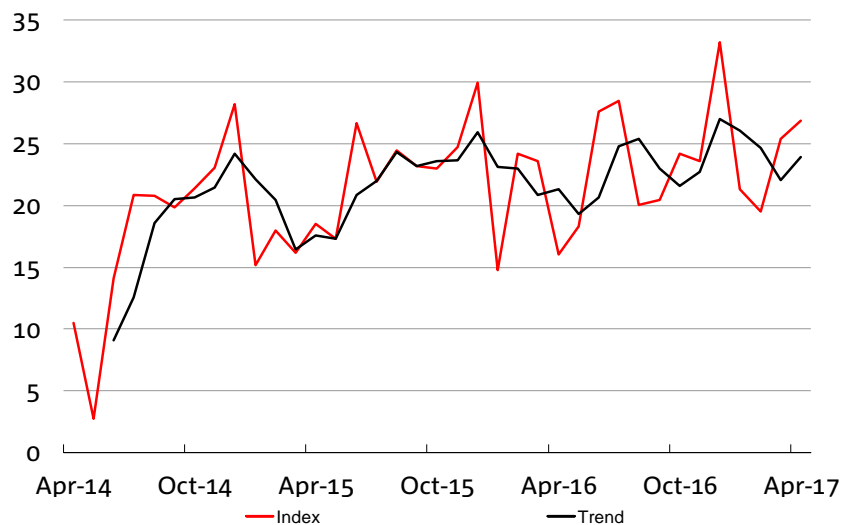
MORE DETAILS ON BUSINESS ACTIVITY

Restocking activity spiked, but exports are still soft. Cash flows holding up.

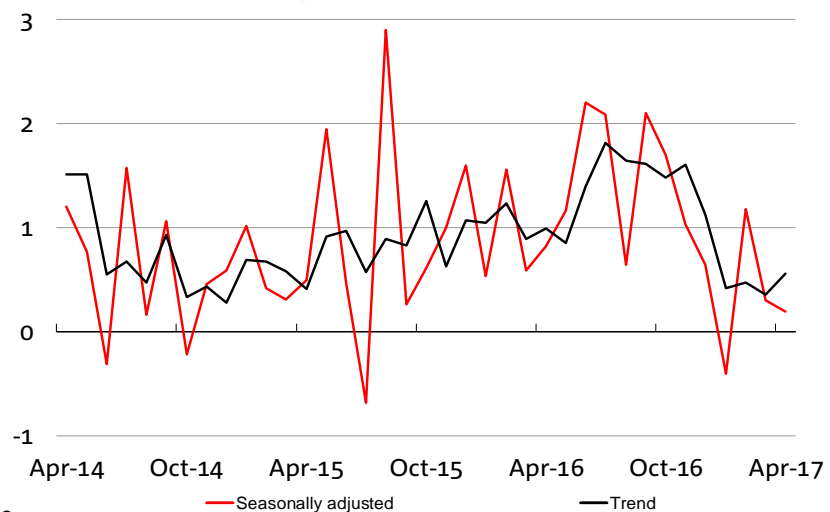
Stocks (net balance)



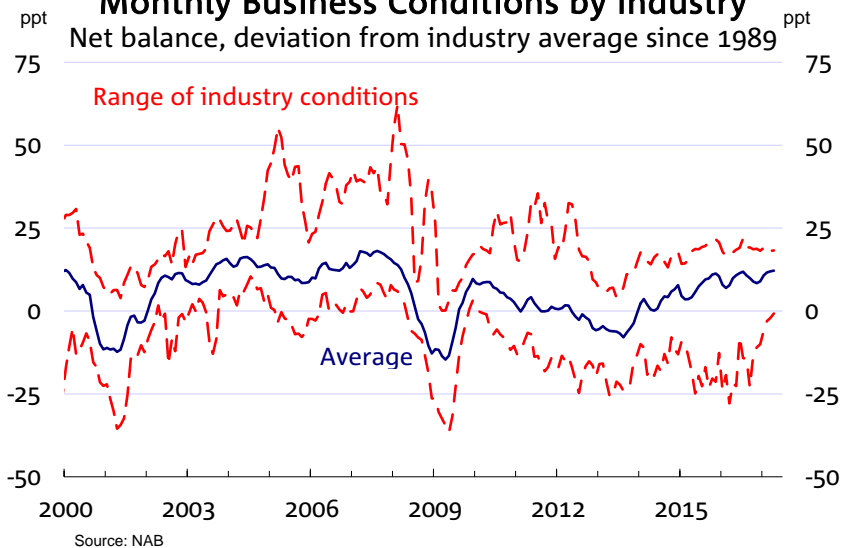
Cash Flows (net balance, nsa)



Exports (net balance)



Monthly Business Conditions by Industry
Net balance, deviation from industry average since 1989

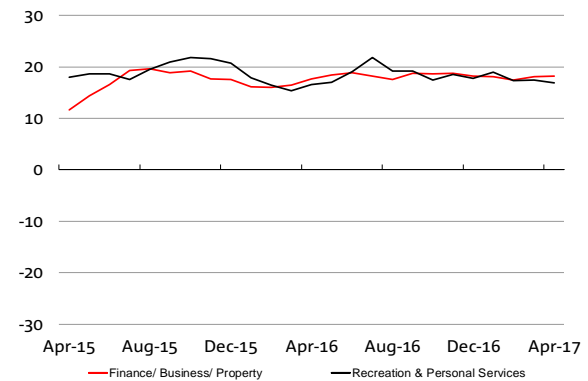
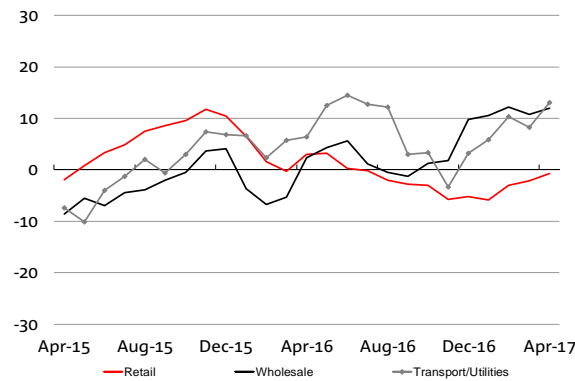
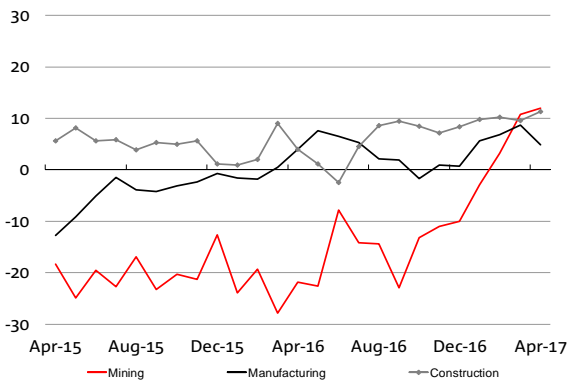


INDUSTRY BUSINESS CONDITIONS & CONFIDENCE

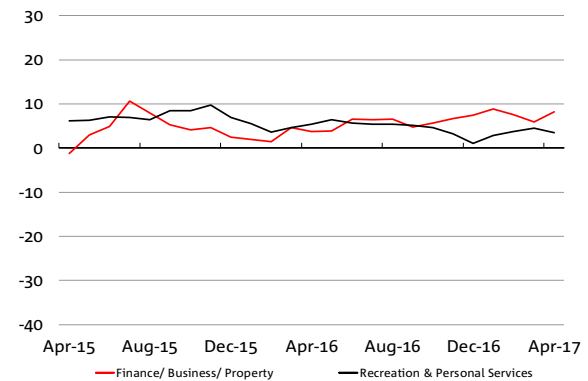
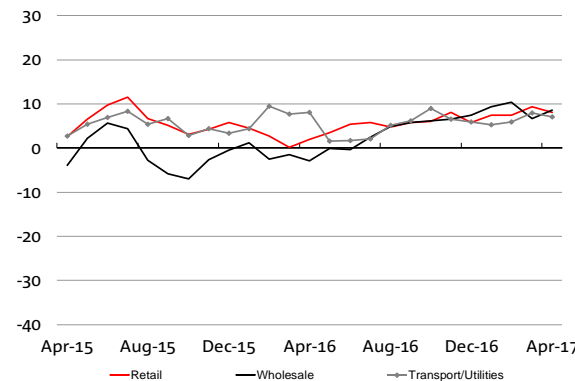
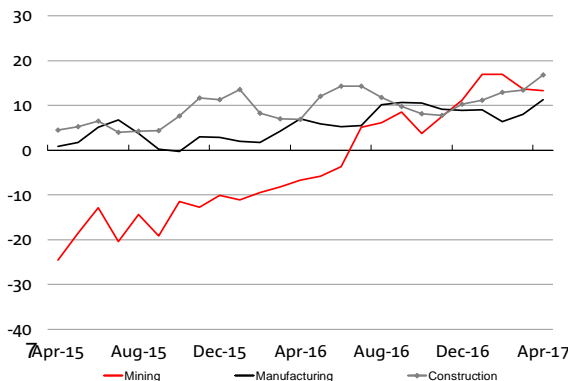
Strength is relatively broad-based. Retail still soft, but improved.

- Solid levels of **business conditions** have begun to look more uniform across industries. Transport and retail drove most of the improvement in the month of April (up 21 and 10 points respectively) – although trend retail conditions continue to lag behind the other industries. In contrast, business conditions deteriorated the most in wholesale (down 25) followed by mining (down 14). Retail is the only industry reporting negative business conditions in trend terms (-1), while finance/ property/ business services is highest (+18). **Confidence** levels vary across industries, but all are currently positive, even in trend terms. Wholesale (up 17) and manufacturing (up 10) saw the biggest improvement, while transport (down 2) was the only industry to deteriorate in the month. In trend terms, construction (+17) and mining (+13) were the most confident, while personal services was weakest (at +3), despite very high levels of business conditions (in trend terms).
- **Forward orders** were down slightly in April. Construction orders rebounded this month (26), while mining orders dropped sharply (down 23). Orders are highest in construction (+23, in trend terms), consistent with a recent rebound in residential building approvals, followed by manufacturing (+6). Trend orders are negative for mining (-9), retail (-4) and wholesale (-2). Meanwhile, construction is highest at +23 index points. **Capacity utilisation** was generally softer, but is currently highest in personal services relative to the 5-year average (slide 4). Mining **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

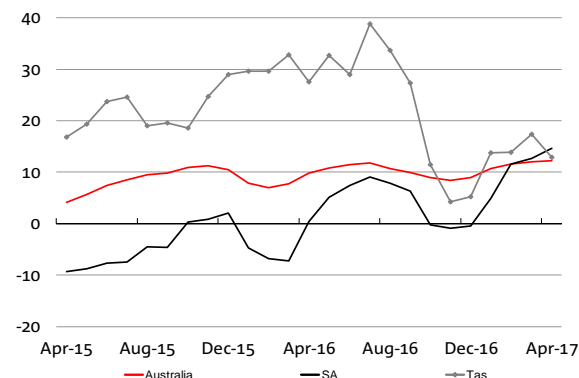
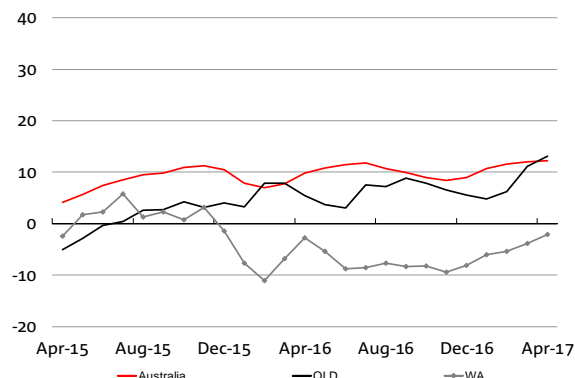
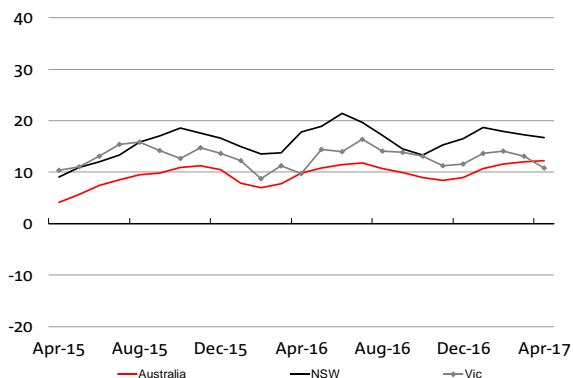


STATE BUSINESS CONDITIONS & CONFIDENCE

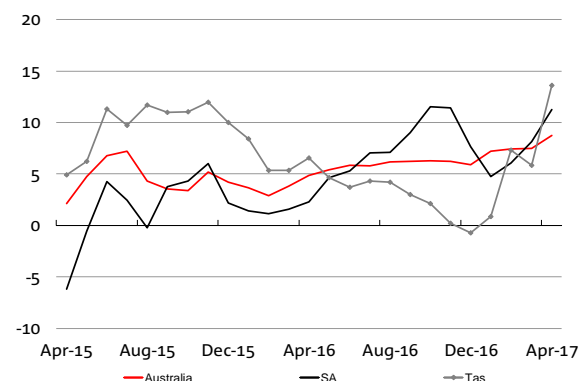
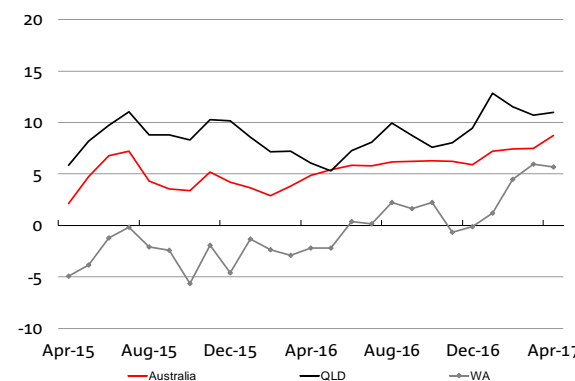
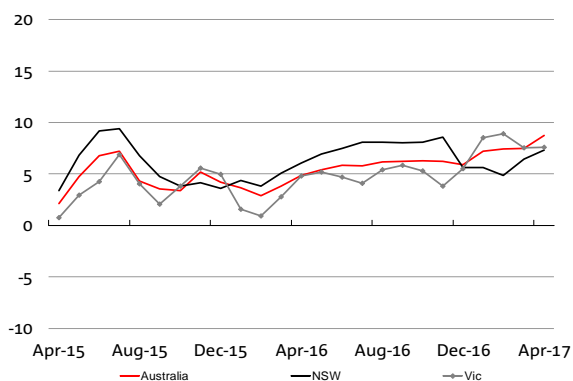
All states are showing a solid, or improving, business environment

- Outcomes for **business conditions** were somewhat mixed as both NSW and South Australia experienced gains of 3 points, while Victoria and Queensland deteriorated (down 5 and 9 points respectively). Nonetheless, business conditions are currently positive in all states, although WA is slightly negative in trend terms – but has clearly improved off the back of higher commodity prices. Looking through the monthly volatility, NSW has the best business conditions (+17), followed by South Australia (+15).
- **Business confidence** is also quite positive in all states, even with WA recording a slight moderation in April (down 2). Of the mainland states, confidence improved the most in NSW (up 7), followed by Victoria (up 6), but of those state, confidence is highest in trend terms for Queensland and South Australia (both +11). WA is lowest at +6 index points, but has still improved considerably from the negative levels seen in H1 2016.
- **Employment conditions** (trend) are positive in all states, including WA which improved sharply in the month (up 13 points, to +13) – a significant improvement from the extremely negative levels seen in late 2016, suggesting the worst of the mining headwinds on the labour market may be behind us.

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



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



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