

# NAB MONTHLY BUSINESS SURVEY

April 2017

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By Group Economics

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 increasing 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. 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. While these results support our view that economic growth will accelerate in H2 2017, following disruptions in Q2 from Cyclone Debbie, the longer-term economic outlook is somewhat less certain as important growth drivers (LNG exports, commodity prices and housing construction) begin to fade. Despite that, the RBA’s emphasis on financial stability concerns is expected to keep them on hold for the foreseeable future. Updated economic forecasts will be released as part of our post-Budget commentary.

|                       | Feb<br>2017                       | Mar<br>2017 | Apr<br>2017 |                           | Feb<br>2017                       | Mar<br>2017 | Apr<br>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        |

## BOTH BUSINESS CONDITIONS AND CONFIDENCE NOW AT MULTI-YEAR HIGHS

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. Meanwhile, Business confidence came more into line with business conditions in April, hitting its highest level since 2010 (up 7, to 13 index points).

According to Mr Alan Oster, NAB’s Chief economist, “business conditions were quite a bit stronger than we expected. However, that is partly because the level of conditions in Queensland did not deteriorate as much as first thought in the wake of Cyclone Debbie, although it did still fall appreciably. Even more encouraging is the fact that solid levels of business conditions have begun to look more uniform across industries and states”.

The improvement in business conditions during April was primarily driven by transport and retail, but the index is positive for most industries in the Survey. “The major service industries continue to be a standout in the economy, but when you look at the trend, almost all industries are experiencing positive conditions. Retail is still a concerning exception, but a notable improvement in the month of April was a step in the right direction. We do, however, remain somewhat cautious about the consumption and retail sector outlook given the challenges ahead” said Mr Oster. Mining industry trends remain positive overall, supported by elevated commodity prices, but conditions did drop back in April.

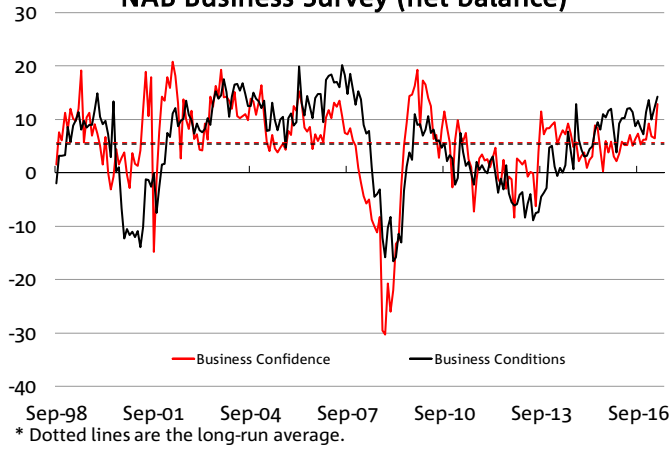
By component, employment conditions drove most of the improvement in business conditions this month, while profitability was steady. A drop in trading conditions (sales) was only partly offsetting and it remains the strongest component despite the moderation. According to Mr Oster, “the recent improvement in employment growth reported by the ABS helped reduce the gap that had emerged with NAB’s employment conditions index over a number of months. The further gain in NAB’s measure during April means more catch-up required, and if realised, implies a rate of job creation that would see the unemployment rate push lower, assuming the participation rate remains steady”.

Leading indicators from the Survey were more mixed in April, with the capacity utilisation rate dropping back, consistent with weaker capital expenditure, while forward orders were also slightly softer in the month. Despite that, Mr Oster said that, “even though some of these indicators were a little softer, they are still generally upbeat. Forward orders are suggesting positive near-term prospects for activity, and if current levels of confidence are sustained, that could also translate into an even better read on capex activity down the road.”

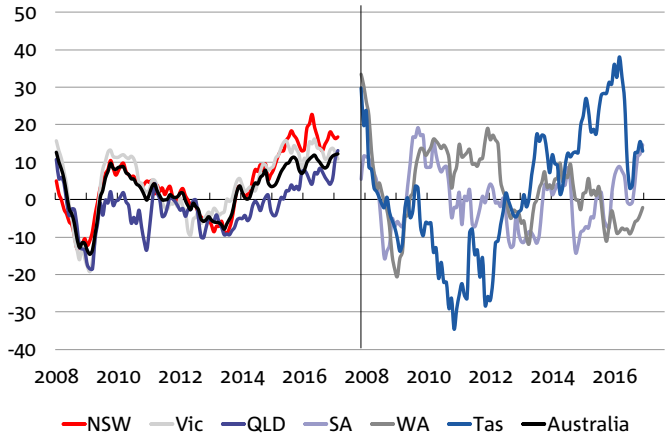
“The NAB Monthly Business Survey has consistently pointed to solid near-term economic activity in recent months despite potentially destabilising events such as Cyclone Debbie. Importantly, the Survey points to an ongoing improvement in employment conditions, which is a trend that is critical to the 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, such as LNG exports, commodity prices and housing construction, begins to fade. Despite that, the RBA’s emphasis on financial stability concerns are expected to keep them on hold for the foreseeable future”, said Mr Oster. Updated economic forecasts will be released as part of our post-Budget commentary.

NAB Monthly Business Survey

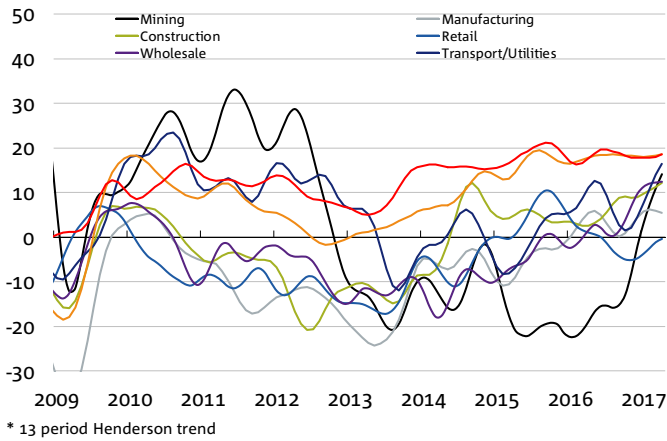
NAB Business Survey (net balance)



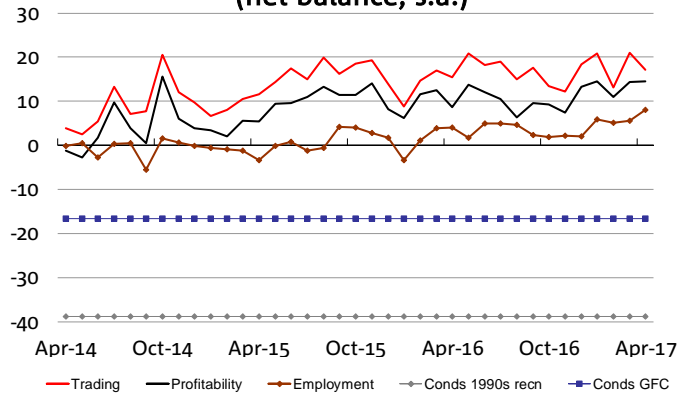
NAB Business Conditions by State (3mma)



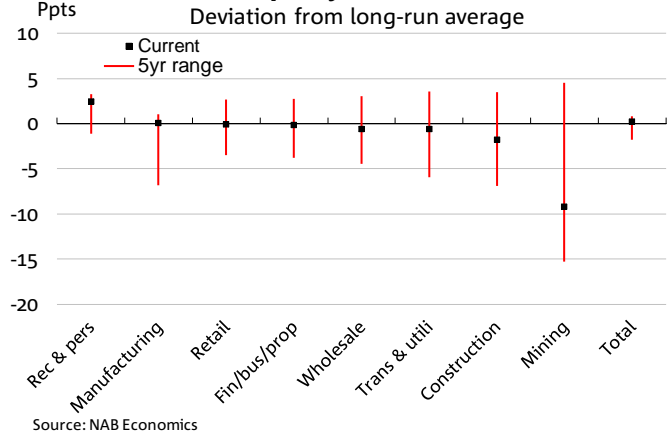
NAB Business Conditions by Industry\*



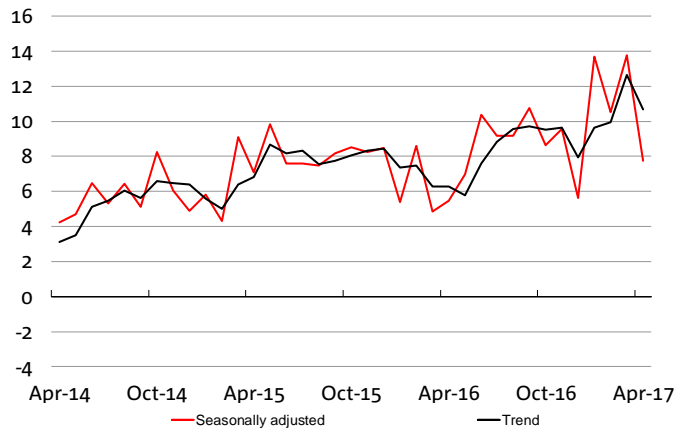
All components of business conditions (net balance, s.a.)



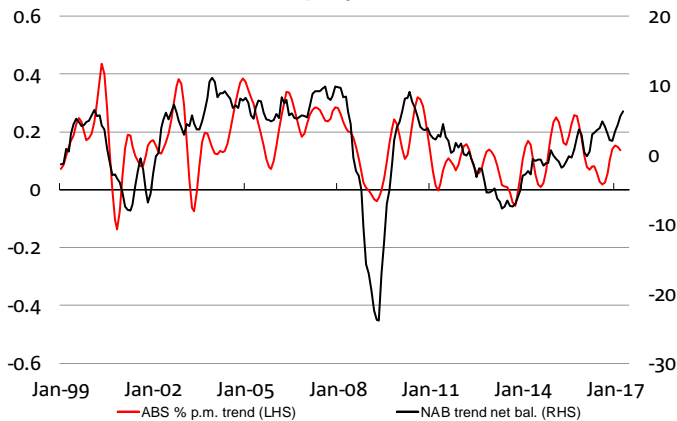
Capacity Utilisation



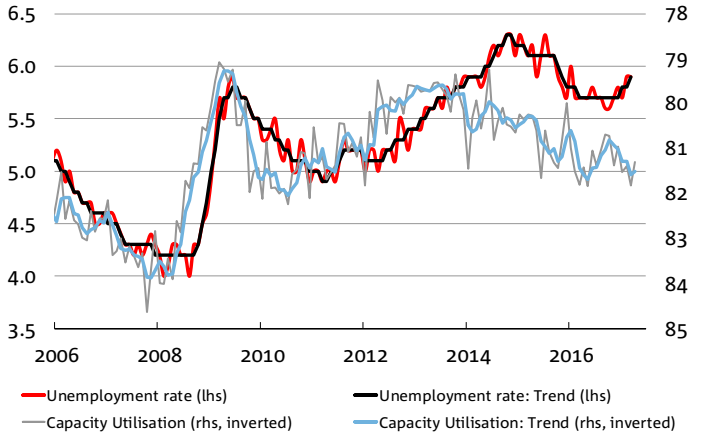
Capital Expenditure (net balance)



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

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