

NAB MONTHLY BUSINESS SURVEY

MAY 2017

NEXT RELEASE:
11 JULY 2017 – JUNE MONTHLY



Key points:

- The business sector continued to look upbeat in the May NAB Monthly Business Survey, maintaining the apparent disconnect with a seemingly disheartened household sector. **Business conditions eased modestly in May, down 1 point to +12 index points, but these levels are still well above the long-run average.** The strength looks to be quite broad-based, with all industries recording positive business conditions for only the second time since 2010 – although conditions are only neutral for retail in trend terms, weighed down by the softer trends in the household sector. The moderation in business conditions this month was largely driven by softer profitability, although employment conditions also eased slightly while trading conditions (sales) held steady at fairly elevated levels. Despite easing slightly, employment conditions (trend) are holding at solid levels that are consistent with the recent improvements in employment growth reported by the ABS. That has helped to close the previous departure between the NAB and ABS measures of employment, while the NAB index suggests that we can expect solid employment growth to continue over coming months. Price measures in the Survey were stable-to-lower, with retail prices moving back into negative territory, while input cost inflation was steady and final product prices eased (from already subdued levels).
- Business confidence has been less buoyant than business conditions, suggesting that there are some peripheral factors still weighing on firms' perceptions of the operating environment. Confidence briefly caught up with conditions in April, but that was quickly unwound this month. That said, confidence is still modestly above long-run average levels. **The business confidence index fell 6 points in May to +7 index points – compared to a long-run average of +6.** Other leading indicators were generally encouraging, with the **capacity utilisation** rate rising, despite some pull-back in **capital expenditure**, while **forward orders** were steady in positive territory for the month.
- Solid outcomes from the NAB Monthly Business Survey signal a divergence in conditions between the business and household sectors of the economy. How the disparity resolves itself will be critical to the outlook for growth. Optimists might point to solid levels of employment conditions as providing the much needed catalyst to lift the household sector out of its current funk. However, significant structural headwinds still pose a hurdle that will prove difficult to overcome, keeping wages growth subdued and consumers cautious with their spending. **We continue to expect economic growth to accelerate in H2 2017, following weather related disruptions in the first half of the year, but the longer-term outlook could be less sanguine in our view 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 tomorrow.

Table 1: Key monthly business statistics

	Mar 2017	Apr 2017	May 2017		Mar 2017	Apr 2017	May 2017
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	7	13	7	Employment	6	7	6
Business conditions	14	13	12	Forward orders	4	3	3
Trading	20	17	17	Stocks	3	6	3
Profitability	15	14	10	Exports	0	0	0
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.8	1.0	1.0	Retail prices	-0.1	0.2	-0.2
Purchase costs	0.4	0.5	0.5		<i>Per cent</i>		
Final products prices	0.4	0.4	0.3	Capacity utilisation rate	81.9	81.4	82.4

* 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 22 May to 26 May, covering more than 510 firms across the non-farm business sector.

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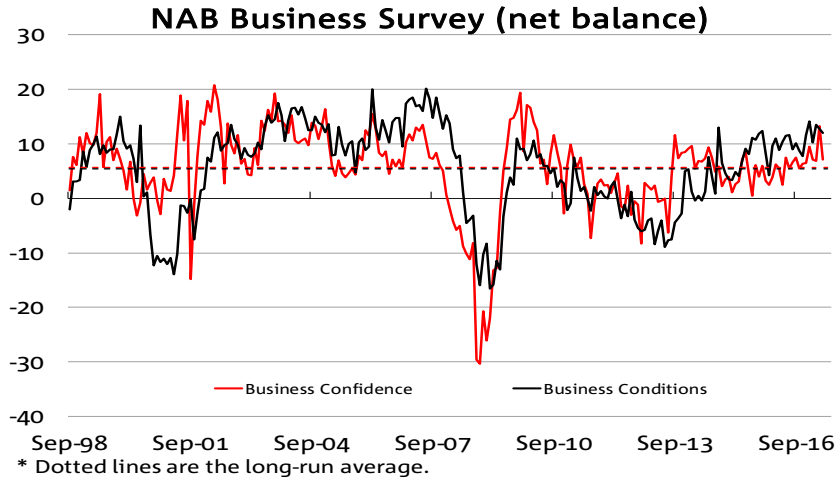
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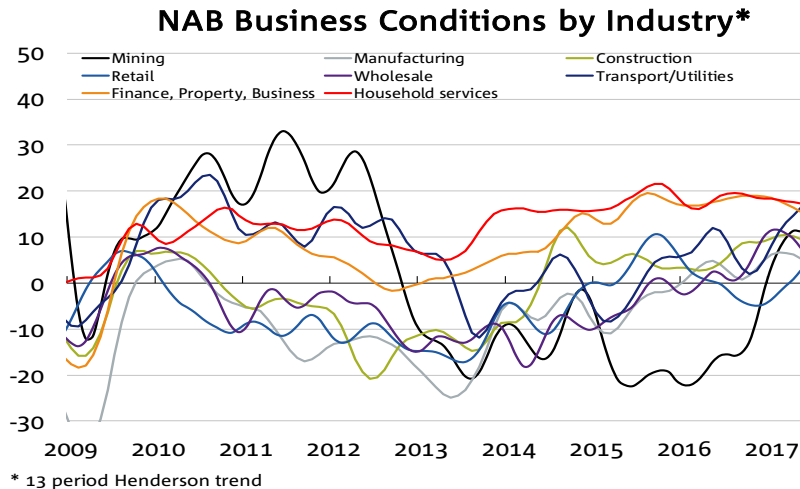
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KEY MONTHLY CHARTS

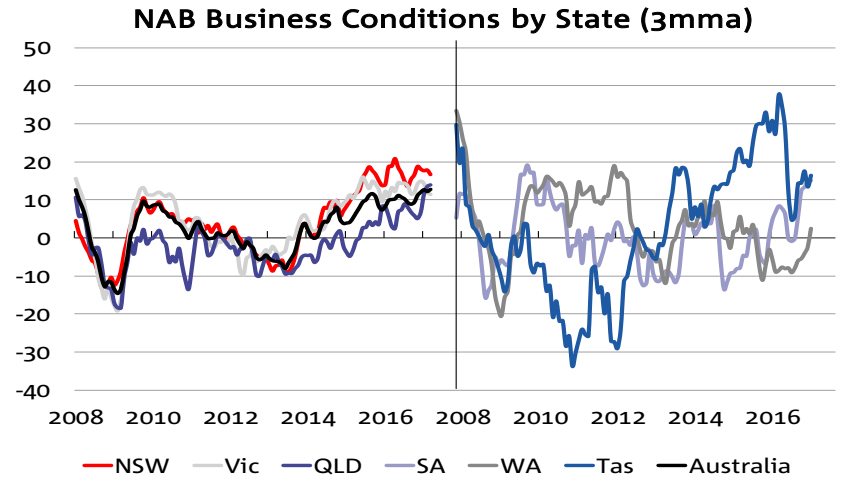
BUSINESS CONDITIONS STAY BUOYANT, BUT CONFIDENCE GAVE BACK APRIL'S GAIN



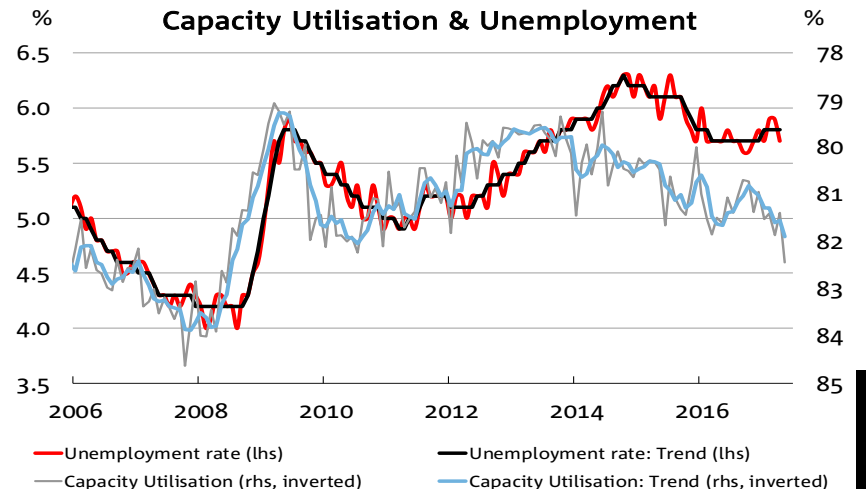
SERVICES STILL THE OUTPERFORMERS, BUT MOST ARE IMPROVING – RETAIL RISING, BUT STILL LAGS BEHIND



CONDITIONS HAVE SHOWN A MORE POSITIVE TREND AGAIN IN MOST STATES – WA IS NO LONGER NEGATIVE



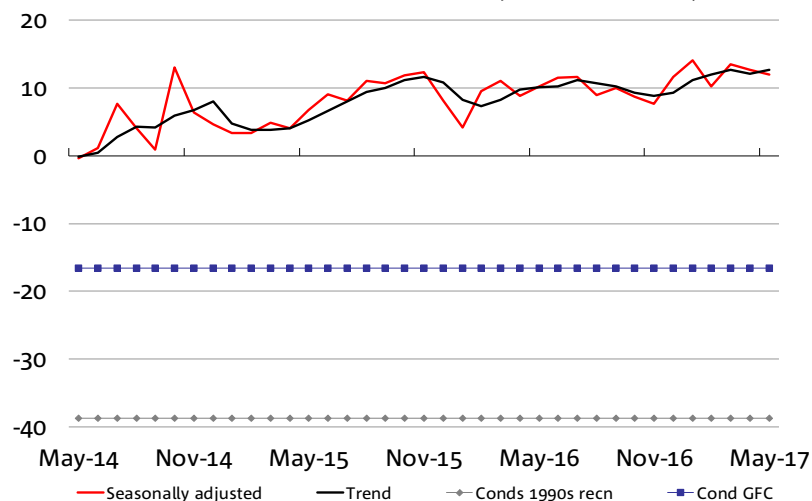
CAPACITY UTILISATION SHOWS LESS SLACK IN THE ECONOMY THAN THE UNEMPLOYMENT RATE INDICATES



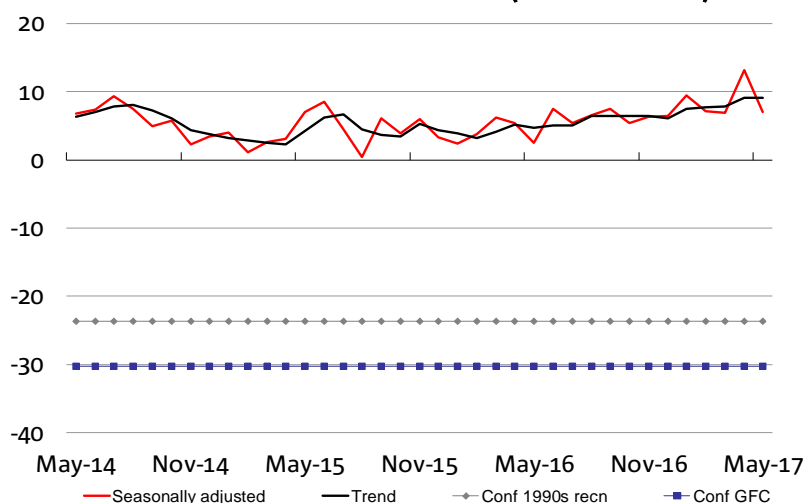
BUSINESS CONDITIONS AND FORWARD INDICATORS

Conditions still buoyant, but confidence eased back (other indicators steady)

Business Conditions (net balance)



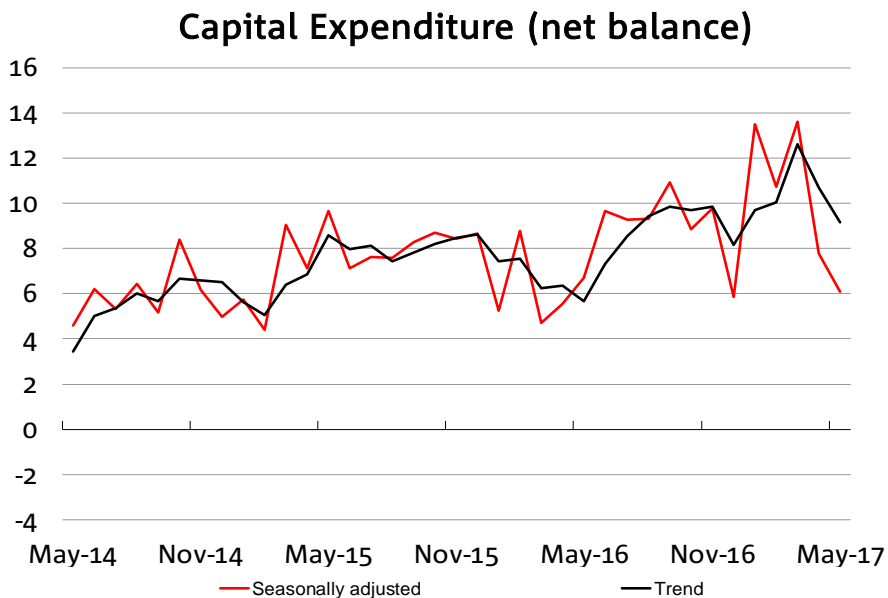
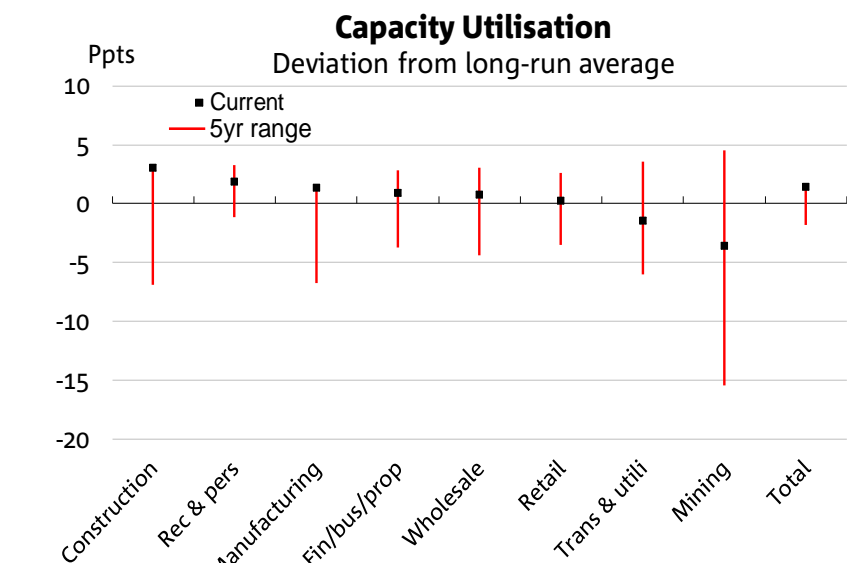
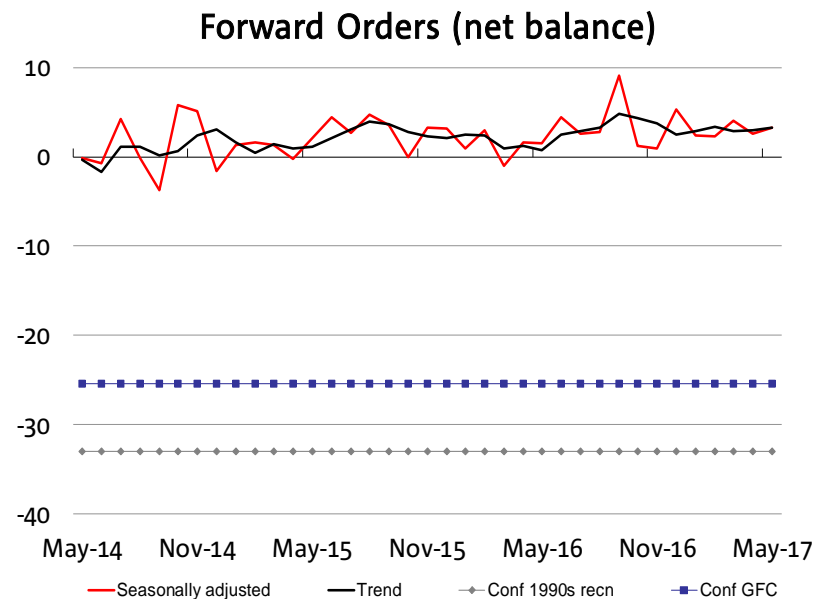
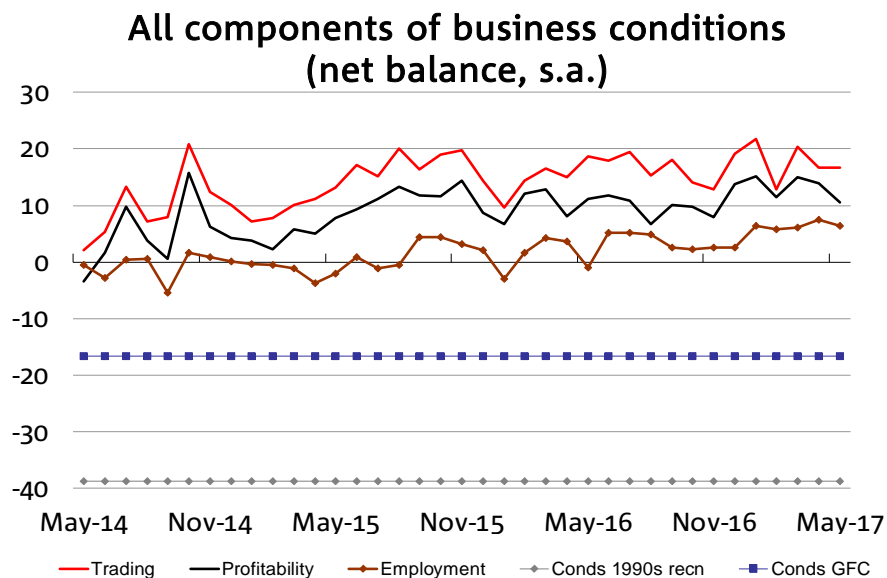
Business Confidence (net balance)



- **Business conditions** eased slightly in May, but are holding up at elevated levels that provide a positive narrative around the business sector in Australia. The business conditions index fell 1 points, to +12 index points, which is well above the long-run average (+5). By component, profitability drove most of the slight moderation in the month, although employment conditions eased a little as well. Trading conditions (sales) held steady at very high levels (chart on page 4). All three components of business conditions are looking quite solid, while the strength has also been relatively broad-based across industries – suggesting the recovery in conditions has become well entrenched (more detail on p7).
- **Business confidence** dropped back in May and are again looking less buoyant than business conditions – although it has held up above long-run average levels. The wedge between confidence and conditions is likely a reflection of the heightened uncertainty around the outlook, although the degree to which this reflects global versus domestic factors is difficult to gauge. The business confidence index dropped 6 points in May, to +7 index points, which is modestly above the long-run average for the series (+6). Confidence levels vary across industries, but none are currently negative (see p7 for industry details).
- **By state**, business conditions were flat-to-higher for most states, with NSW being the main exception (down 11). South Australia saw the biggest gain of the mainland states (up 10), while Victoria, Queensland and WA were all unchanged. Overall, business conditions are currently positive in all states, while the trend for WA has tipped back into positive territory for the first time since 2015 – assisted by higher commodity prices and rising resource export volumes. Looking through the monthly volatility, NSW has the best business conditions (+17) of the mainland states, followed by South Australia (+15). Business confidence is also positive in all mainland states, even with Vic and SA recording a deterioration in May. Of the mainland states, confidence is highest in trend terms for Queensland (+13) and NSW (+9). WA and Vic are lowest at +7 index points.
- Other leading indicators were generally encouraging, pointing to a modestly positive near-term outlook. The **forward orders** index was steady at +3 index points (above the long-run average of zero), which suggests positive near-term prospects for activity (see chart on p4). Construction orders dropped the most this month, while mining orders rebounded. Nonetheless, orders are still highest in construction (+21, in trend terms), consistent with relatively elevated residential building approvals, followed by transport (+9). Trend orders are negative for retail (-6), mining (-4) and finance/ property/ business services (-1).
- Reflecting elevated levels of trading conditions, NAB's measure of **capacity utilisation** rose in May (increasing to 82.4%, from 81.4%). Meanwhile, the Survey's **capex** measure pulled-back substantially, although is still at a solid +6 index points (see chart on p4). Capacity utilisation rates are currently above long-run averages for most industries, which is encouraging for the investment outlook (see chart on p4 and industry detail on p7). Only transport and mining sit below their long-run average.
- **Cash flow** (not seasonally adjusted) dropped a little, but sits at a solid level (chart on p6). It is currently strongest in transport, but weakest in construction.

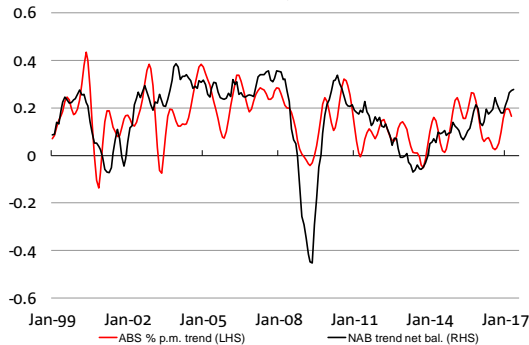
BUSINESS CONDITIONS AND FORWARD INDICATORS (CONT.)

Components of business conditions & leading indicators

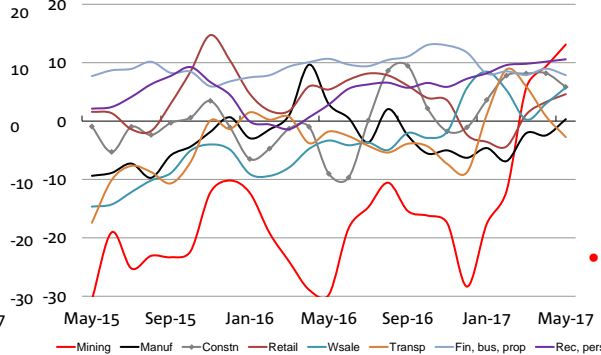


LABOUR DEMAND, COSTS, PRICES & BORROWING CONDITIONS

Employment



Employment by Industry



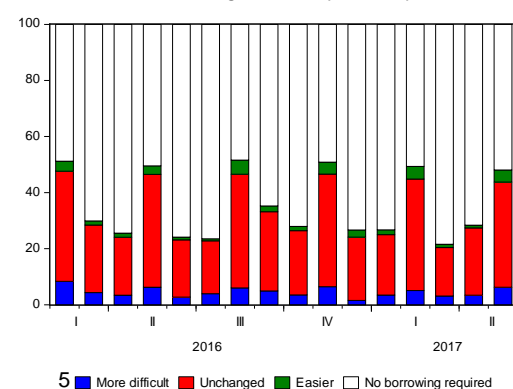
- **Employment conditions** eased slightly in the month, but has stayed at levels that indicate a healthy rate of job creation in the economy. That is consistent with the recent lift in employment growth according to ABS data and suggests the strength is likely to continue in coming months. The employment index fell 1 points, to +6 index points, which is well above the long-run average for the series. This outcome points to an annual job creation rate of around 230k (around 19k per month) in coming months, which is sufficient to see the unemployment rate push lower (all else unchanged) – trend ABS employment growth was 19.9k in March.
- Changes in employment conditions varied across industries in May. There was a particularly large decline in wholesale (down 17), which was followed by construction (down 7). In contrast, manufacturing (up 6) had the biggest increase. Surprisingly, mining now has the best employment conditions (in trend terms) at +13 index points, while personal services were next highest (at +11). Meanwhile, transport was the only negative at -4 index points.

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

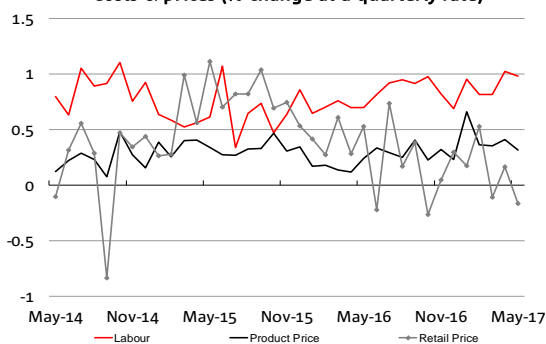
May-2017	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-0.3	1.1	0.7	0.6	0.5	0.8	1.2	1.2	1.0
Labour costs: previous	1.2	1.1	0.3	0.8	0.7	1.1	1.3	0.9	1.0
Labour costs: change	-1.5	0.0	0.4	-0.2	-0.2	-0.3	-0.1	0.3	0.0
Prices (final): current	0.4	0.2	0.3	-0.2	0.6	-0.3	0.5	0.7	0.3
Prices (final): previous	-0.8	0.9	1.1	0.2	0.7	0.2	0.4	0.3	0.4
Prices (final): change	1.2	-0.7	-0.8	-0.4	-0.1	-0.5	0.1	0.4	-0.1
Purchase costs: current	0.6	0.4	0.6	0.5	0.7	0.1	0.5	0.3	0.5
Purchase costs: previous	-0.1	0.9	1.0	0.5	0.8	0.5	0.5	0.1	0.5
Purchase costs: change	0.7	-0.5	-0.4	0.0	-0.1	-0.4	0.0	0.2	0.0

- **Labour costs** growth (a wage bill measure) was steady in May, at 1% (a quarterly rate). Labour cost inflation remains modest, but has been trending slightly higher. Labour cost pressures were highest in personal and fin/ prop/ bus services (both at 1.2%). Labour cost inflation was weakest in mining (-0.3%), despite mining firms indicating strong demand for labour in the month.
- Growth in **purchase costs** was also unchanged in the month, at 0.5% (a quarterly rate) – suggesting upstream price pressures are building only gradually. Growth in purchase costs accelerated notably in mining (up 0.7 ppts), while manufacturing (down 0.5 ppts) saw the largest deceleration. Overall, purchase cost pressures were highest in wholesale (at 0.7%, quarterly rate), and softest in transport (0.1%).
- **Final product prices** growth in May was slightly lower at just 0.3% (a quarterly rate), down from 0.4%. Retail price growth dropped back into negative territory, at -0.2% (from 0.2%), which is well below the lower bound of the RBA's inflation target. Mining (up 1.2 ppts) accelerated the most, while construction (down 0.8 ppts) decelerated sharply. Other than retail, prices are also falling in transport (-0.3%, quarterly rate), while fin/ prop/ bus services prices are seeing the fastest growth (0.7%).
- **Borrowing conditions** deteriorated since February, and the index is negative – meaning that on balance, more firms found it more difficult to borrow than easier. Consistent with that, the demand for credit has eased slightly in that time.

Borrowing conditions (% of firms)



Costs & prices (% change at a quarterly rate)

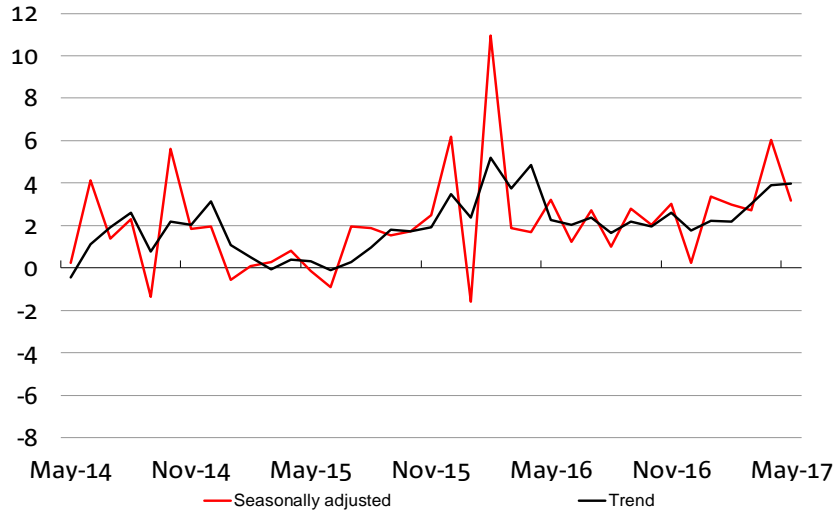


Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.

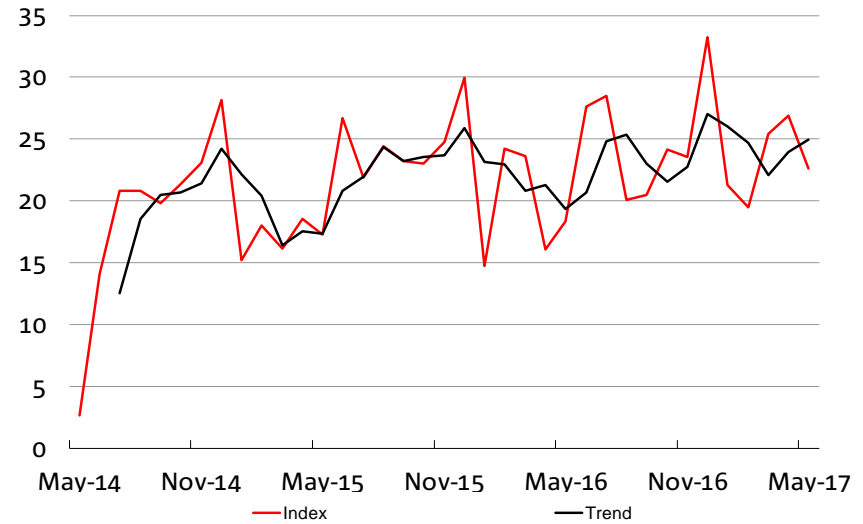
MORE DETAILS ON BUSINESS ACTIVITY

Restocking activity and cash flows holding up, but exports are softening.

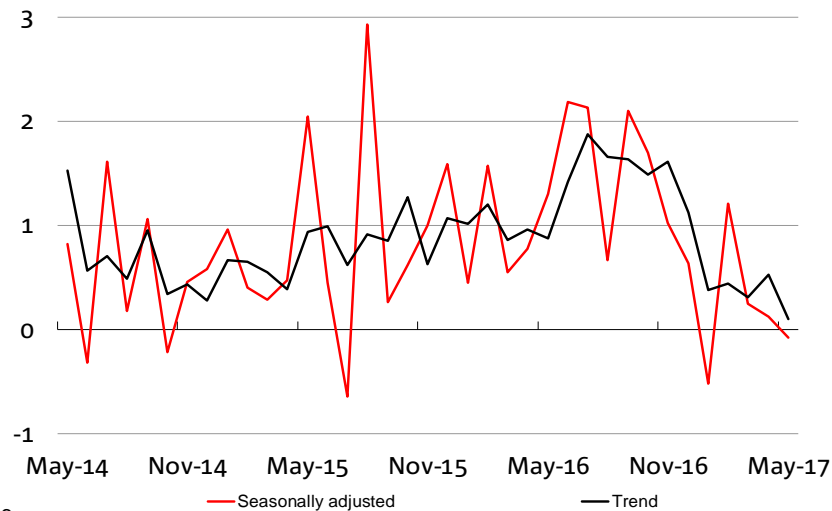
Stocks (net balance)



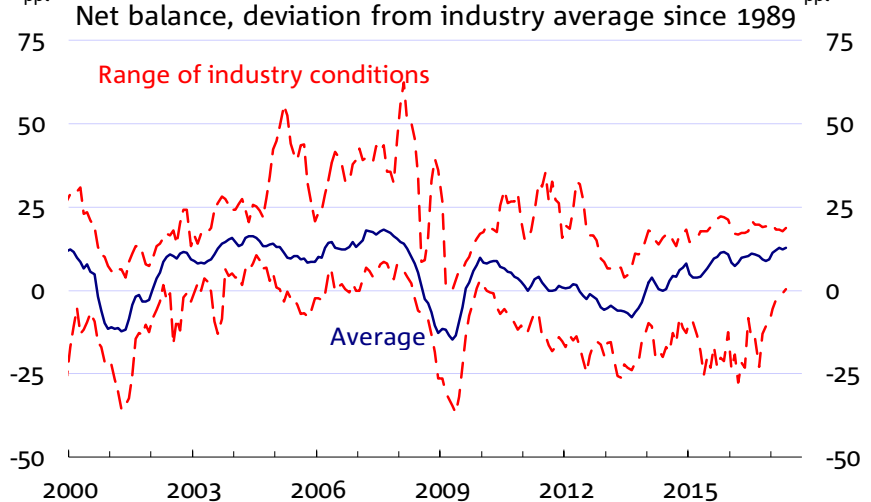
Cash Flows (net balance, nsa)



Exports (net balance)



Monthly Business Conditions by Industry

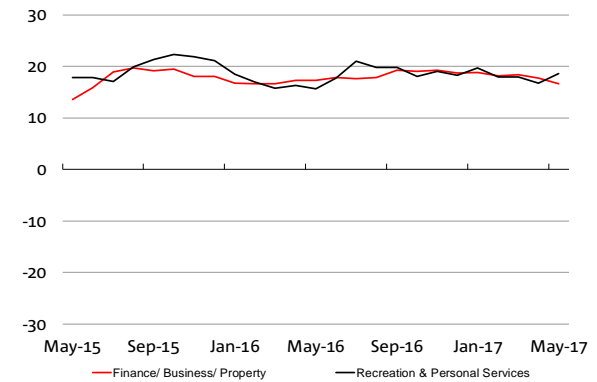
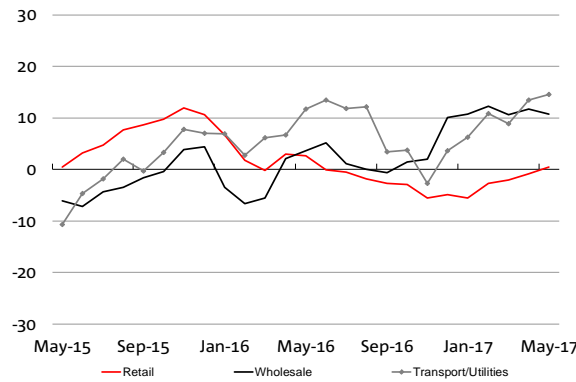
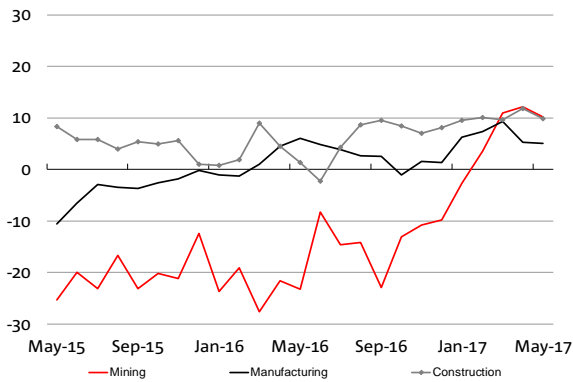


INDUSTRY BUSINESS CONDITIONS & CONFIDENCE

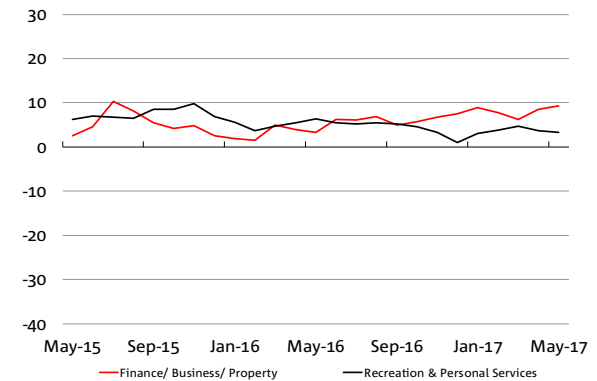
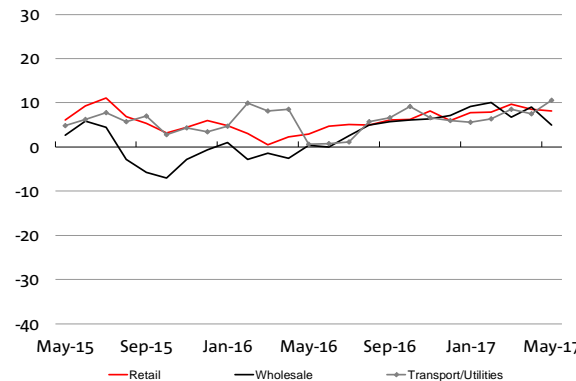
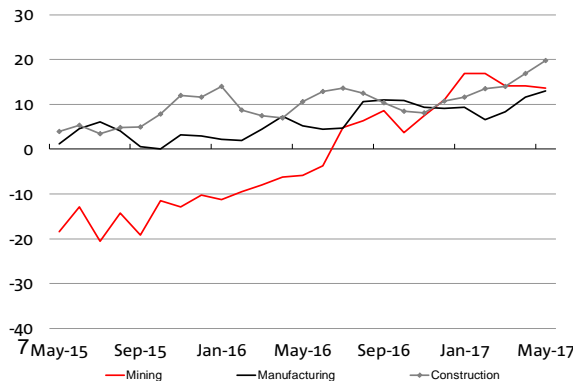
Recovery is looking broad-based. Mining has rebounded. Retail slowly improving.

- The broad based improvement in **business conditions** has continued, with all industries reporting a positive index in May, although some did soften from the previous month, driving the moderation in aggregate conditions. Construction and fin/ prop/ business services underpinned much of the moderation this month (down 12 and 4 points respectively). Partially offsetting that was an improvement in conditions for manufacturing (up 11) and wholesale (up 2). Retail is the only industry not reporting positive business conditions in trend terms (0 index points), while recreation & personal services is highest (+19). No industries are reporting negative **confidence** levels either, despite the drop-back in the aggregate index. Construction (up 7) and transport (up 4) saw the biggest improvement, while wholesale (down 16) deteriorated the most. In trend terms, construction (+20) and mining (+14) were the most confident, while personal services was weakest (at +3), despite solid business conditions.
- Forward orders** were unchanged in May. Construction orders continued their volatile run, dropping 15 points in the month, while mining orders rebounded (up 19). Orders are highest in construction (+21, in trend terms), consistent with a recent rebound in residential building approvals, followed by transport (+9). Trend orders are negative for retail (-6), mining (-4) and fin/ prop/ bus (-1). **Capacity utilisation** was higher for most industries, but is currently highest in construction relative to the 5-year average (slide 4). Mining **capital expenditure** 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

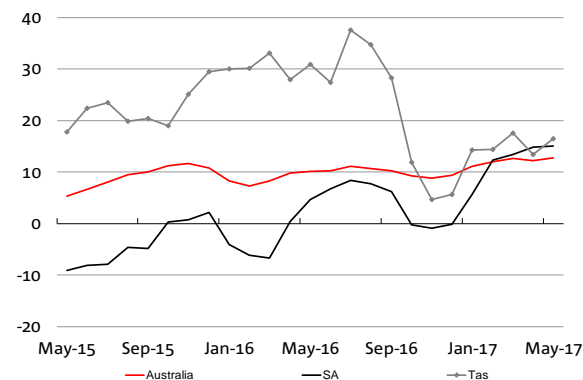
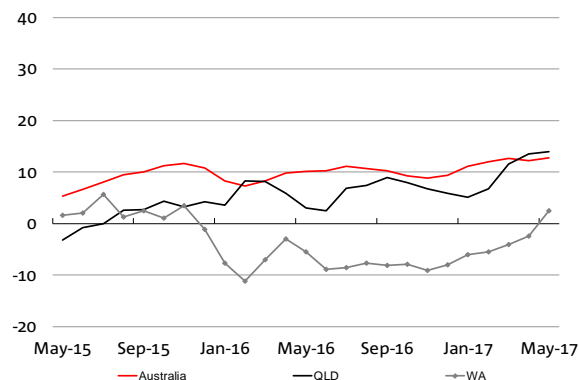
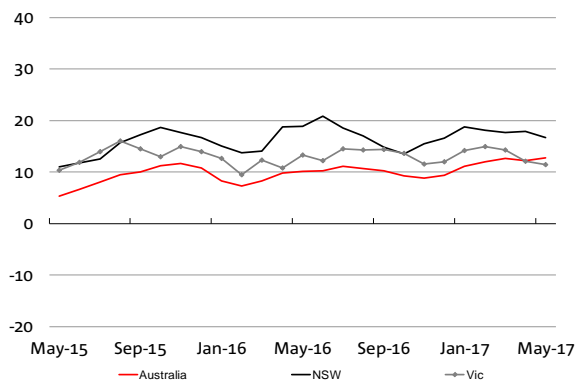


STATE BUSINESS CONDITIONS & CONFIDENCE

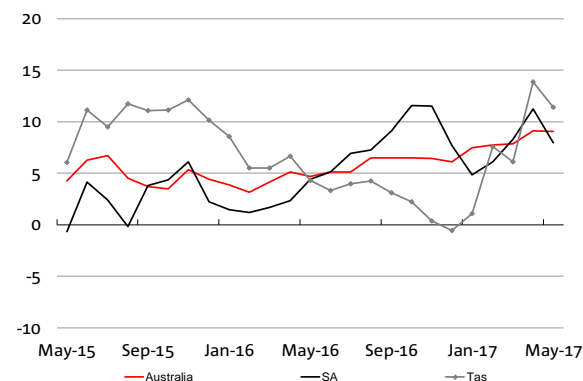
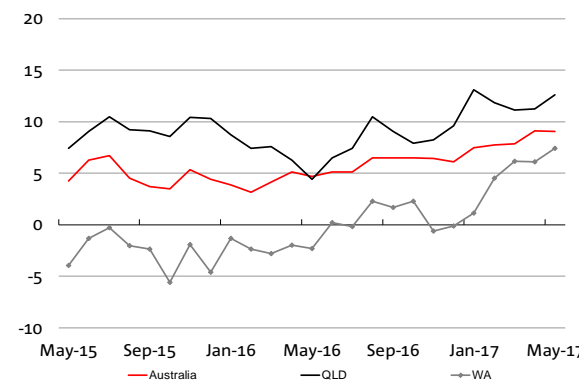
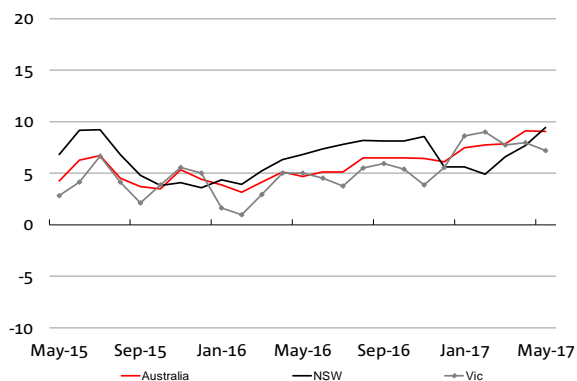
State level responses are also showing broad-based recovery

- Outcomes for **business conditions** were varied, although only NSW saw a deterioration in the month (down 11), while South Australia and Tasmania both improved (each up 10 points). Nonetheless, business conditions are currently positive in all states, even in WA where trend conditions are positive for the first time since 2015. Looking through the monthly volatility, NSW still has the best business conditions of the mainland states (+17), followed by South Australia (+15).
- **Business confidence** is similarly positive in all mainland states, even with South Australia and Victoria seeing significant falls in the index for May (down 10 and 9 points respectively). None of the mainland states saw confidence improve in the month, but both NSW and Western Australia remained steady, while Queensland fell only slightly (down 1). Of the mainland states, confidence is highest in trend terms for Queensland (+13), followed by NSW (+9). Victoria and WA are the lowest at +7 index points, although the latter has seen a steady improvement from the negative levels seen in H1 2016.
- **Employment conditions** (trend) are positive in all states, including WA (up 2 points, to +6) – 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. Interestingly, the index is strongest for South Australia (+13) and Queensland (9).

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



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



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