

NAB MONTHLY BUSINESS SURVEY

May 2017

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By Group Economics

The May NAB Monthly Business Survey again pointed to an upbeat business sector, indicating an apparent disconnect with a seemingly disheartened household sector. Despite easing modestly in May, business conditions are still at very elevated levels, while solid trends across most states and industries are encouraging. Employment conditions are holding up well and are consistent with the recent improvements in employment growth reported by the ABS and suggests that we can expect solid employment growth to continue over coming months. Business confidence meanwhile unwound, after briefly caught up with conditions in April, although remains above its long run average. How the disparity between business and household conditions resolves itself will be critical to the outlook for growth. 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 is 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 tomorrow.

	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

BUSINESS CONDITIONS REMAIN ELEVATED, BUT CONFIDENCE PULLED-BACK FROM MULTI-YEAR HIGHS

Business conditions eased slightly in May, but are holding up at elevated levels. The business conditions index fell 1 point, to +12 index points, which is well above the long-run average (+5). In contrast, business confidence is looking less buoyant, although it has remained above long-run average levels. The confidence index dropped 6 points in May, to +7 index points – compared to a long-run average of +6 for the series.

According to Mr Alan Oster, NAB's Chief economist, "The business sector is looking quite upbeat, maintaining the apparent disconnect with a rather melancholy household sector. It is good to see that the strength has been quite broad-based, and even at the state level we have seen some significant improvements in Western Australia, which signals that the worst of the mining sector drag is probably behind us".

The slight moderation in business conditions during May was largely driven by construction and finance/ property/ business services, but all industries are recording positive business conditions – for only the second time since 2010. "The one patch of softness is in retail, where conditions were only neutral in trend terms, although that is unsurprising given the softer trends in the household sector. The major service industries on the other hand are still generally leading the way, although the gap is clearly closing as the underperformers lift" said Mr Oster. The mining industry has bounced back considerably in recent months, supported by elevated commodity prices.

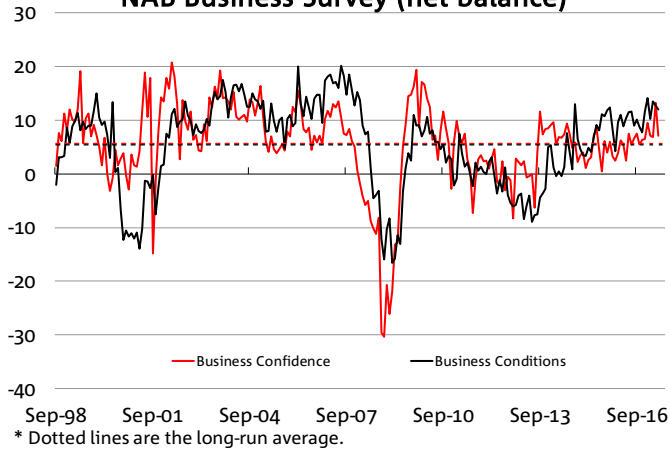
By component, profitability drove most of the moderation in the month, although employment conditions eased a little as well. Trading conditions (sales) held steady at very elevated levels. According to Mr Oster, "Profitability has remained elevated in the Survey for some time now, backed-up by solid profit outcomes in the first quarter National Accounts. Similarly, the current level of employment conditions is consistent with the recent improvements in ABS employment growth. 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 more solid employment growth to continue over coming months".

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.

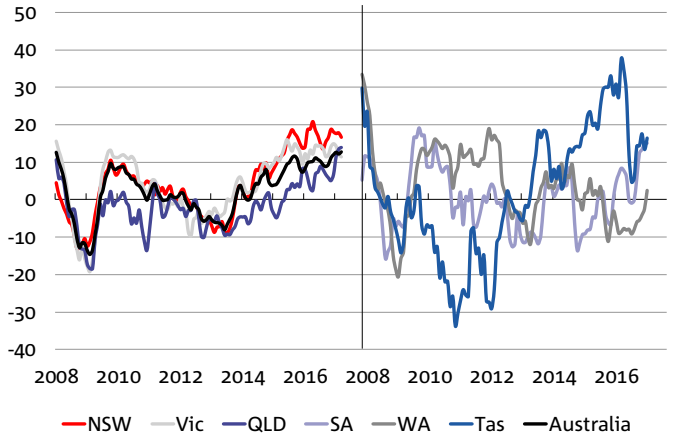
"Solid outcomes from the NAB Monthly Business Survey signal a divergence in conditions between the business and household sectors of the economy. How the disparity resolves itself will be critical to the outlook for growth. Optimists might point to solid employment conditions as providing the much needed 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 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", said Mr Oster. Updated economic forecasts will be released tomorrow.

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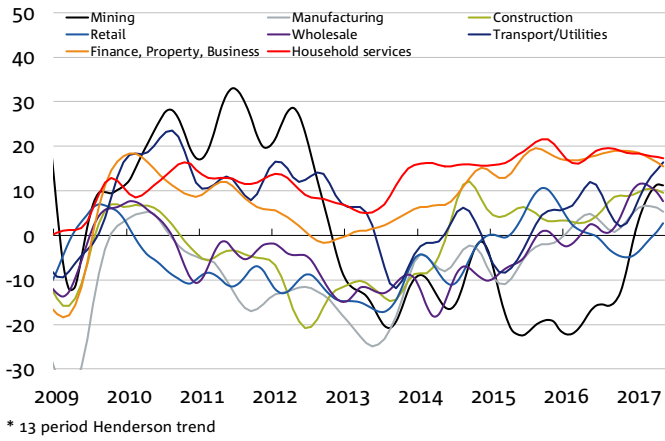
NAB Business Survey (net balance)



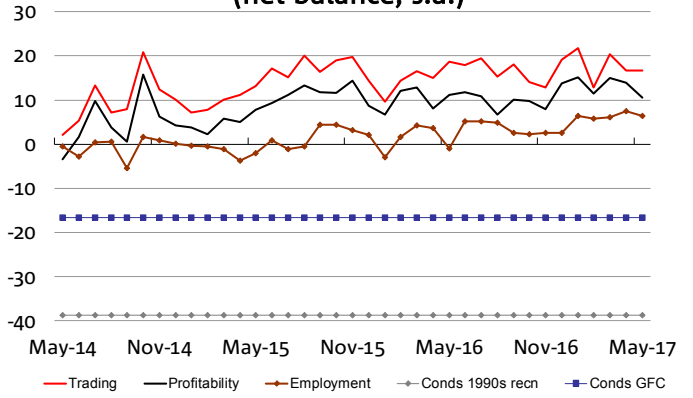
NAB Business Conditions by State (3mma)



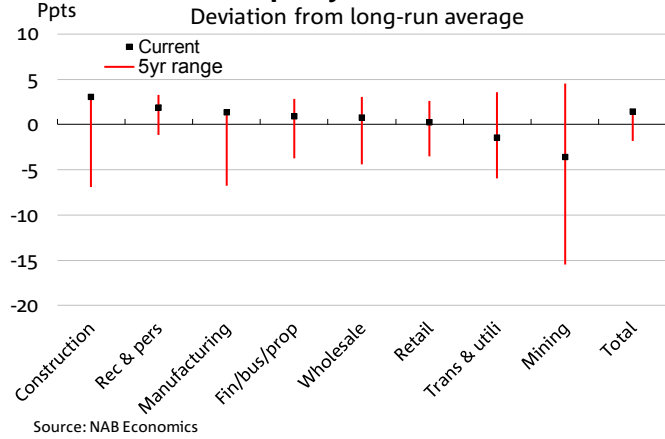
NAB Business Conditions by Industry*



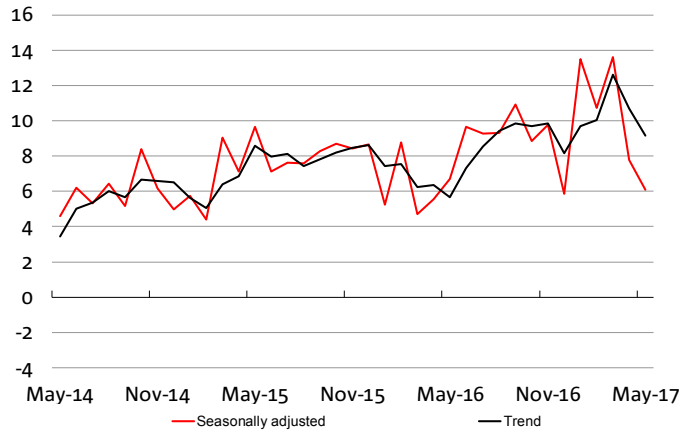
All components of business conditions (net balance, s.a.)



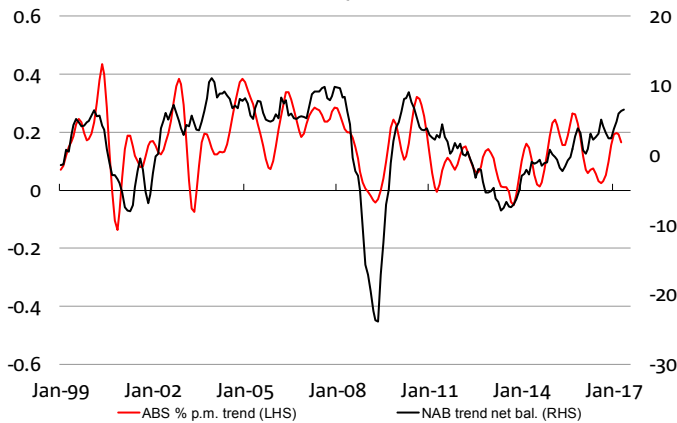
Capacity Utilisation



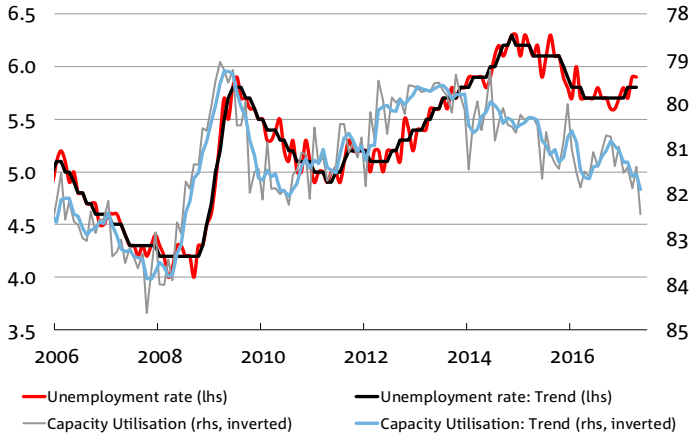
Capital Expenditure (net balance)



Employment



Capacity Utilisation & Unemployment



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