

# NAB MONTHLY BUSINESS SURVEY

## June 2017

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By Group Economics

The June NAB Monthly Business Survey was again positive for the business sector. Business conditions hit another multi-year high, with most industries performing well. Stronger trading conditions (sales) and profitability drove the improvement, while employment conditions were steady. Business confidence saw a more modest lift, but is still well above the long-run average for the series. These upbeat outcomes are in stark contrast to some of the trends evident in the household sector, but recent reads from the retail industry and labour market could see the disparity resolve itself favourably. We expect economic growth to accelerate in H2 2017, following weather related disruptions in H1 this year, but the longer-term outlook could easily underperform the RBA's upbeat expectations as important growth drivers (LNG exports, commodity prices and housing construction) begin to fade. Given the risks to the outlook, signs of moderation in the housing market, and a reluctance to see the AUD strengthen further, the RBA should be content with keeping interest rates on hold for an extended period (mid 2019). That said, the recent flow of economic data has been more encouraging and, if maintained, could soon signal a shift in the balance of risk. Updated economic forecasts will be released tomorrow.

	Apr 2017	May 2017	Jun 2017		Apr 2017	May 2017	Jun 2017
<i>Net balance</i>				<i>Net balance</i>			
Business confidence	13	8	9	Employment	8	7	7
Business conditions	13	11	15	Forward orders	3	3	4
Trading	17	15	21	Stocks	6	3	5
Profitability	14	10	15	Exports	0	0	2
<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>			
Labour costs	1.0	1.0	1.2	Retail prices	0.2	-0.1	0.5
Purchase costs	0.5	0.5	0.8	<i>Per cent</i>			
Final products prices	0.4	0.4	0.5	Capacity utilisation rate	81.3	82.5	81.9

## BUSINESS CONDITIONS HIT ANOTHER MULTI-YEAR HIGH. CONFIDENCE ALSO IMPROVED.

Business conditions hit another multi-year high, returning back to around pre-GFC levels in June. The business conditions index rose 4 points, to +15 index points, which is well above the long-run average (+5). Meanwhile, business confidence rose only slightly in June, but despite being less buoyant than business conditions, has held up above long-run average levels.

According to Mr Alan Oster, NAB's Chief economist, "We continue to be pleasantly surprised by just how upbeat the business sector is, given the context of a fairly beleaguered household sector that has been weighed down by limited wages growth and record levels of debt. In fact, there is even tentative evidence that we are now starting to see some positive spill-overs from the business sector to the broader economy".

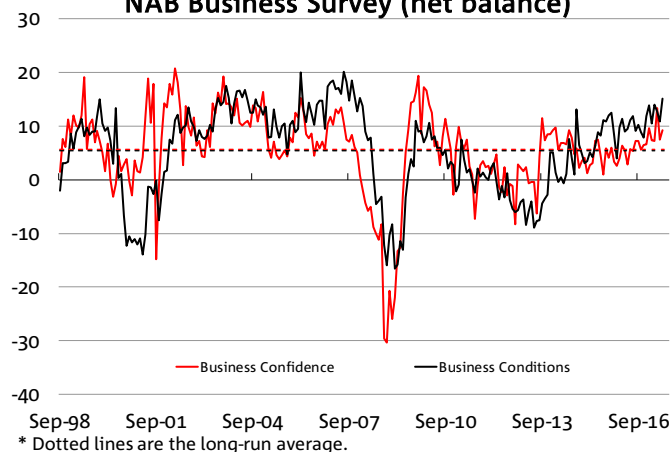
Wholesale, construction and manufacturing each drove most of the improvement in business conditions in June, but conditions are also looking quite solid across most industries and states, which suggest the recovery is becoming more entrenched. "One of the real positives to come out of this month's Survey has been the partial recovery in retail conditions, which had languished in negative territory for much of the past year. Trend retail conditions pushed sharply higher in June and overtook the mining industry, which has turned down recently and is once again the worst performing industry in the Survey" said Mr Oster. The major service industries meanwhile are still generally leading the way, although the gap with most other industries is clearly closing as the underperformers lift.

The lift in business conditions this month was largely driven by stronger trading conditions (sales) and profitability, while employment conditions were steady. According to Mr Oster, "the jump in sales and profits suggest we are seeing a much needed lift in demand. Also, while employment conditions did not improve, they remain at levels that would indicate enough employment growth to lower the unemployment rate over coming months. That is important at a time when other indicators, such as the ABS underemployment rate, suggest there is still a fair degree of slack in the labour market". Other leading indicators were robust, with capital expenditure rebounding from recent lows despite some pull-back in capacity utilisation rates, while forward orders drifted up further for the month.

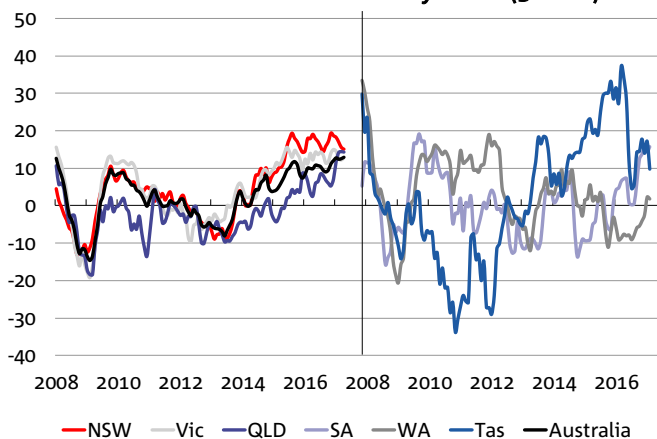
"The retail industry is showing some signs of improvement, which along with better than expected retail sales and employment growth in May, could mean the disparity in trends between the business and household sectors will resolve itself favourably. There are, however, still significant hurdles to be overcome as the ongoing slack in the labour market (keeping wages growth subdued), and record levels of household debt, pose a significant long-term headwind to consumer spending. We expect economic growth to rebound from temporary disruptions in H2 2017, but the longer-term outlook could easily underperform the RBA's upbeat expectations as important growth drivers (LNG exports, commodity prices and housing construction) begin to fade. Given the risks to the outlook, signs of moderation in the housing market, and a reluctance to see the AUD strengthen further, the RBA should be content with keeping interest rates on hold for an extended period (mid 2019). That said, recent economic data has been more encouraging and could be signalling a shift in the balance of risk.". Updated economic forecasts will be released tomorrow.

## NAB Monthly Business Survey

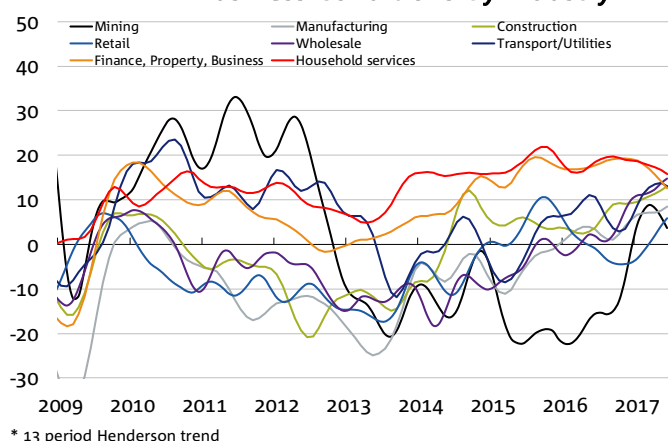
### NAB Business Survey (net balance)



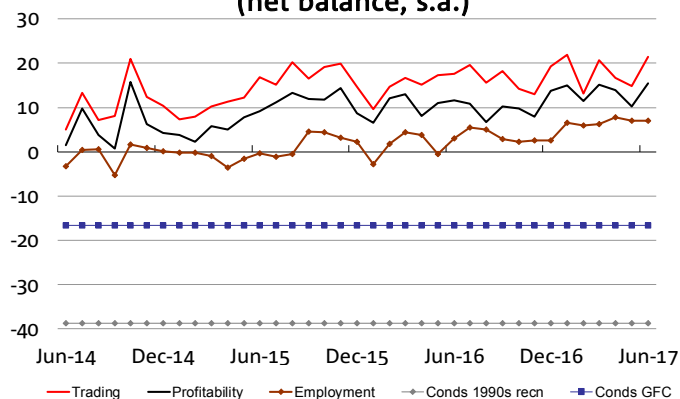
### NAB Business Conditions by State (3mma)



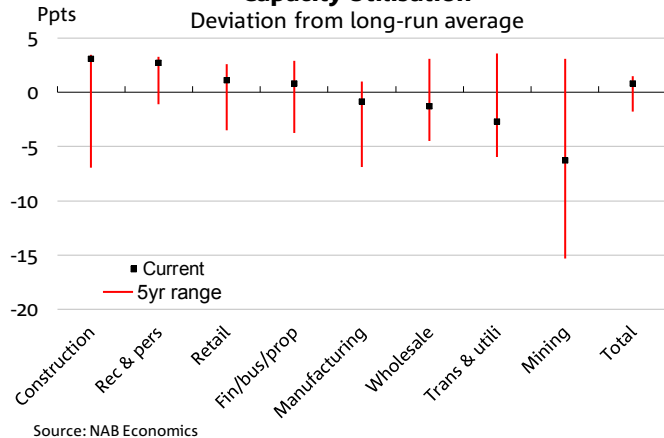
### NAB Business Conditions by Industry\*



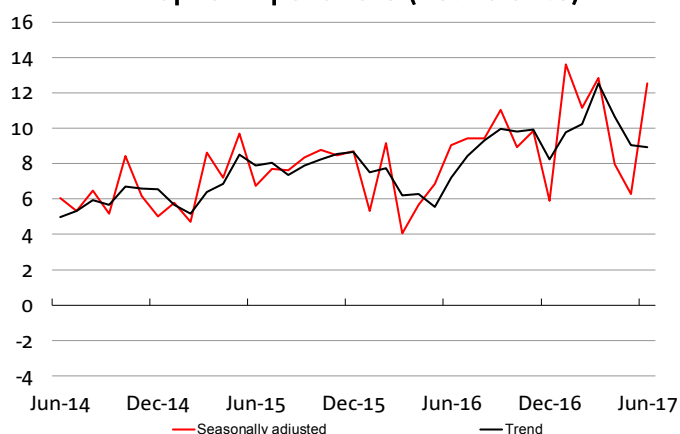
### All components of business conditions (net balance, s.a.)



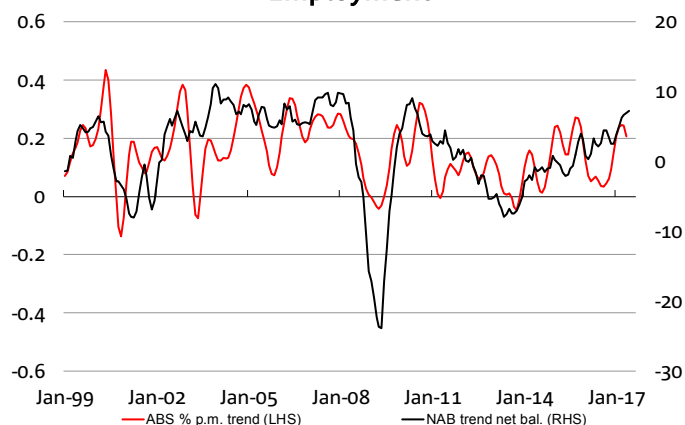
### Capacity Utilisation



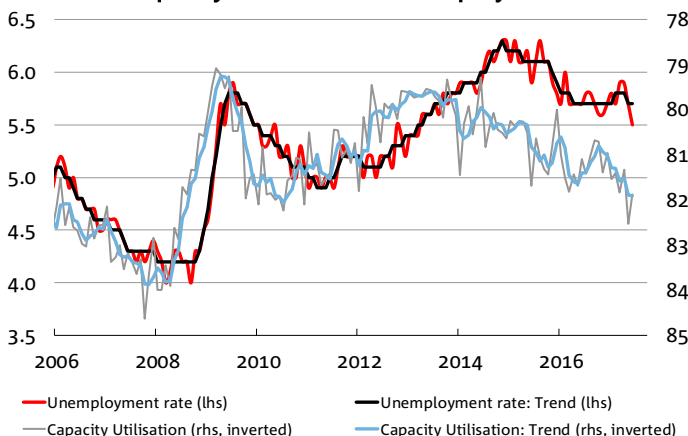
### Capital Expenditure (net balance)



### Employment



### Capacity Utilisation & Unemployment



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