

# NAB MONTHLY BUSINESS SURVEY

## JUNE 2017

NEXT RELEASE:  
20 JULY 2017 – JUNE QUARTERLY  
8 AUGUST 2017 – JULY MONTHLY



National  
Australia  
Bank

### Key points:

- The June NAB Monthly Business Survey was another positive one for the business sector, indicating further improvement in both business conditions and confidence. **Business conditions rose by a solid 4 points in June, to be at +15 index points – back to around pre-GFC levels and well above the long-run average.** Most industries are performing well in the Survey, which reflects positively on the broader economic environment, although condition in the mining sector have dropped back into negative territory reflecting movements in major commodity prices. In contrast, the retail sector is finally showing an improvement, although it is still notably softer than most other industries in the Survey. **The lift in business conditions this month was largely driven by stronger trading conditions (sales) and profitability, suggesting a much needed lift in demand, while employment conditions were steady.** Although they did not improve, employment conditions are at levels that would indicate enough employment growth to lower the unemployment rate over coming months – and is consistent with reads on the labour market reported by the ABS. That said, other indicators, such as the underemployment rate, suggest there is still a fair degree of slack in the labour market, which is weighing on wages growth. Nonetheless, **price measures in the survey suggest a slight lift in wages costs**, while other price pressure rose as well. Retail prices jumped back into positive territory and are more consistent with the bottom of the RBA's inflation target band.
- Business confidence has lagged behind business conditions for a long time, and that trend continued in June. **The business confidence index rose by a more modest 1 point in the month, to be at +9 index points**, although that is still well above the long-run average for the series (+6) and is an encouraging outcome in terms of its implications for employment and capital expenditure. Other leading indicators were upbeat, with **capital expenditure** rebounding, despite some pull-back in **capacity utilisation rates**, while **forward orders** drifted up further for the month.
- The divergence between the household and business sectors continued into June. That said, 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 will resolve itself in a favourable manner. 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 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. Recent data flows have however been more encouraging, and if maintained could raise the prospect of a change in the balance of risks.

**Table 1: Key monthly business statistics**

	Apr 2017	May 2017	Jun 2017		Apr 2017	May 2017	Jun 2017
	Net balance				Net balance		
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
	% change at quarterly rate				% change at quarterly rate		
Labour costs	1.0	1.0	1.2	Retail prices	0.2	-0.1	0.5
Purchase costs	0.5	0.5	0.8		Per cent		
Final products prices	0.4	0.4	0.5	Capacity utilisation rate	81.3	82.5	81.9

\* 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 26 June to 30 June, covering more than 400 firms across the non-farm business sector.

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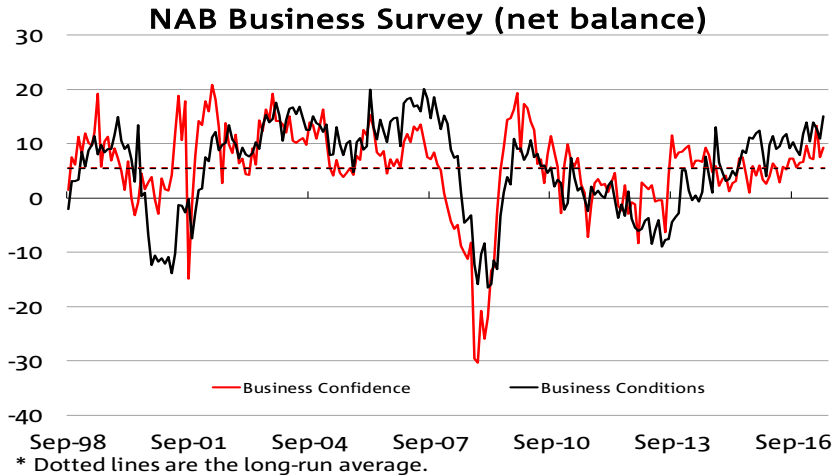
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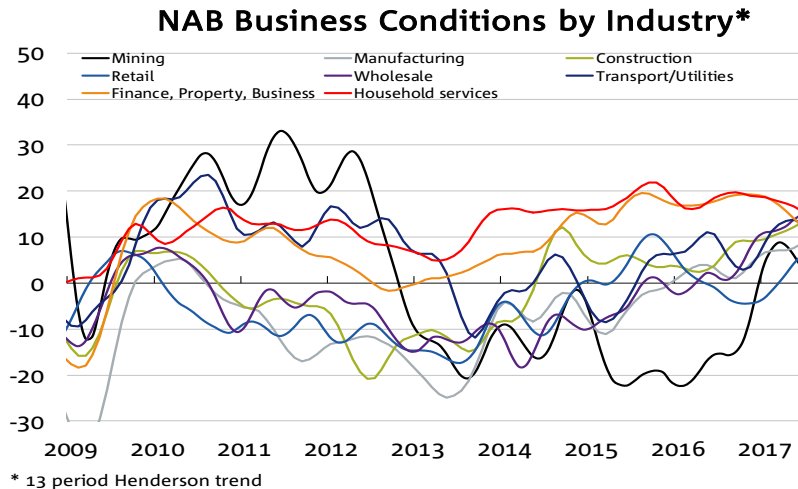
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# KEY MONTHLY CHARTS

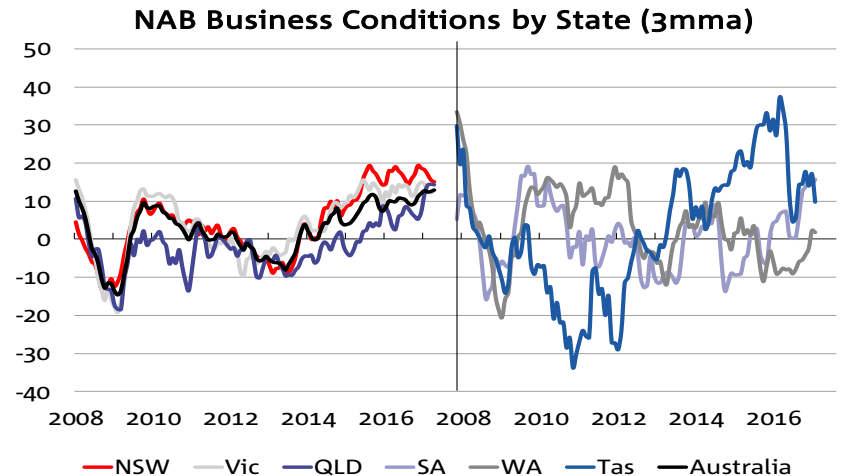
**BUSINESS CONDITIONS AROUND PRE-GFC LEVELS. CONFIDENCE DRIFTED HIGHER IN THE MONTH**



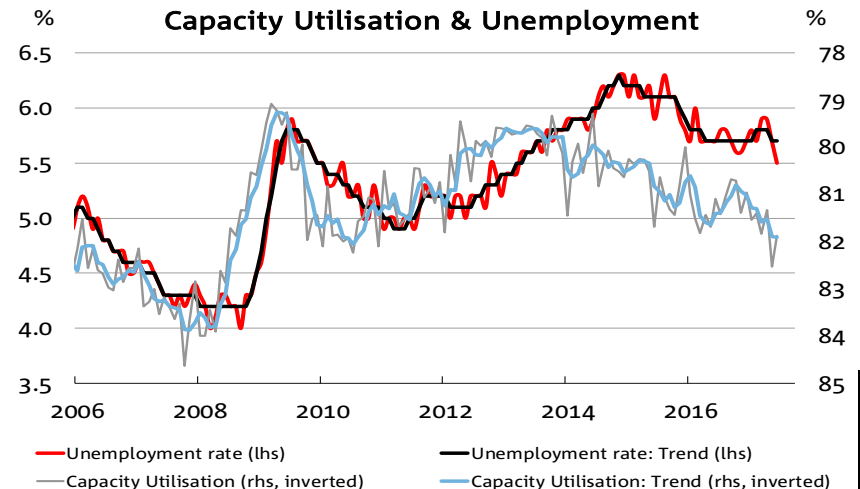
**SERVICES NOW ONLY MARGINAL OUTPERFORMERS. MOST ARE IMPROVING, BUT MINING HAS TURNED DOWN AGAIN**



**CONDITIONS ARE SOLID IN MOST STATES. WA IS STILL SUBDUED BUT HAS CLEARLY IMPROVED**



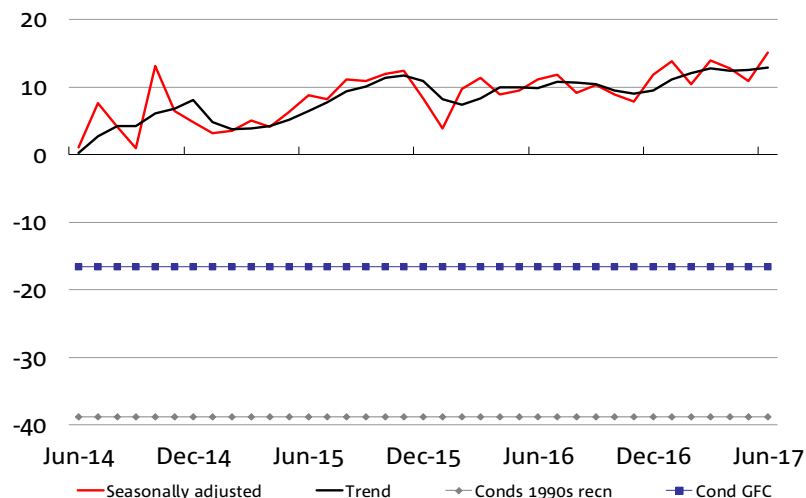
**CAPACITY UTILISATION SHOWS LIMITED SLACK – CONSISTENT WITH DROP IN THE UNEMPLOYMENT RATE**



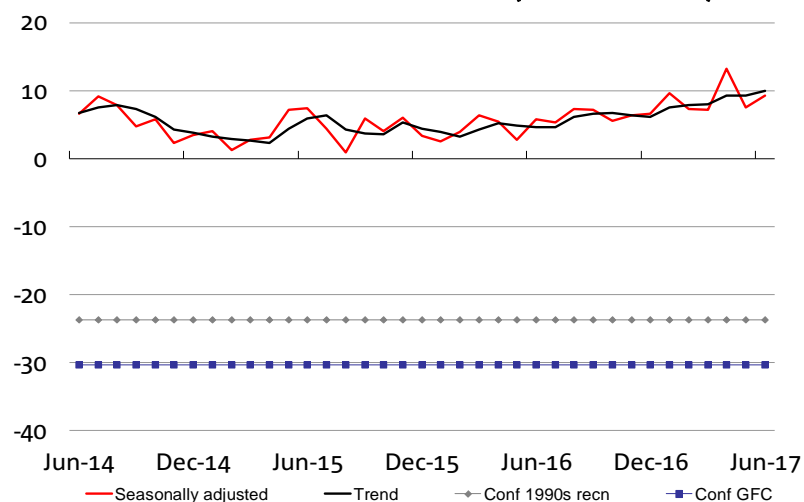
# BUSINESS CONDITIONS AND FORWARD INDICATORS

*Conditions hit another multi-year high. Confidence up slightly.*

**Business Conditions (net balance)**



**Business Confidence (net balance)**

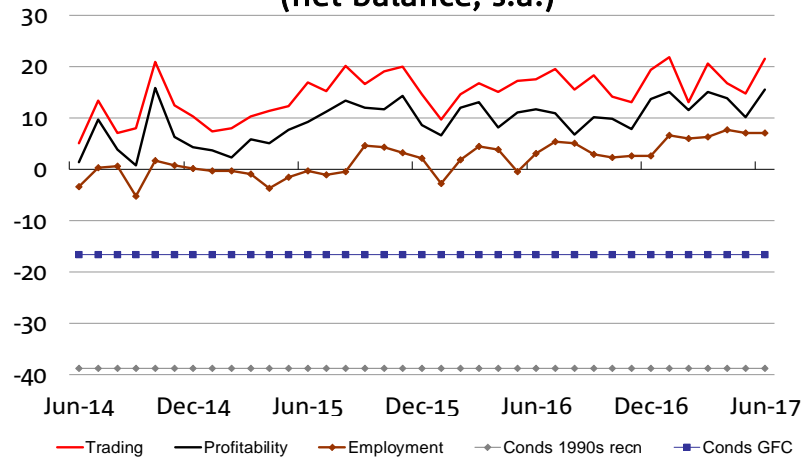


- **Business conditions** hit another multi-year high, returning back to around pre-GFC levels in June. The business conditions index rose 4 points, to +15 index points, which is well above the long-run average (+5). By component, trading conditions (sales) and profitability drove most of the increase (chart on page 4), which is an indication that demand is seeing a much needed improvement. Employment conditions were steady at solid levels. Business conditions are also looking quite solid across most industries and states, which suggests the recovery is becoming more entrenched (more detail on p7).
- **Business confidence** rose only slightly in June, but while it has continued to be less buoyant than business conditions, it has held up above long-run average levels. Lingering uncertainty around the outlook is likely driving the wedge between confidence and conditions, although the degree to which this reflects global versus domestic factors is difficult to gauge. The business confidence index rose 1 point in June, to +9 index points, which is above the long-run average for the series (+6). Confidence levels are currently positive for all industries – even in mining where conditions have turned down – but the magnitude varies (see p7 for industry details).
- **By state**, changes in business conditions were split across the mainland states, with Queensland (up 8), NSW and Victoria (both up 5) each rising, while South Australia (down 4) and Western Australia (down 1) were both down in the month. Despite that, all states are sitting in positive territory. Interestingly, looking through the volatility, South Australia has emerged to have the highest level of trend conditions (+16), overtaking NSW (+15). At the other end of the spectrum, WA is still the most subdued (at +1) although conditions there have improved notably over the past 12 months. Business confidence is also positive in all mainland states, even with NSW and Qld recording a deterioration in June. Of the mainland states, confidence is highest in trend terms for Queensland (+13), NSW (+10) and WA (+10). Surprisingly, confidence is lowest in Victoria at +7 index points (trend).
- Other leading indicators continue to point to a modestly positive near-term outlook. The **forward orders** index was up slightly to +4 index points (above the long-run average of zero), which suggests positive near-term prospects for activity (see chart on p4). Mining orders rose the most this month, but tend to be very volatile, while construction and transport saw the biggest decline (down 5 points each). Nonetheless, orders are still highest in construction (+22, in trend terms), consistent with elevated (albeit shrinking) level of residential building approvals. Trend orders are negative for retail (-8) and finance/property/ business services (-1).
- Despite the lift in trading conditions, NAB's measure of **capacity utilisation** eased in June (to 81.9%, from 82.5%). Still, the Survey's **capex** measure rebounded to a solid +13 index points (see chart on p4). Capacity utilisation rates are currently above long-run averages for half of the industries in the Survey (see chart on p4 and industry detail on p7). Mining is sitting furthest below their long-run average.
- **Cash flow** (not seasonally adjusted) rebounded to solid levels in June (chart on p6). It is currently strongest in wholesale, but weakest in retail.

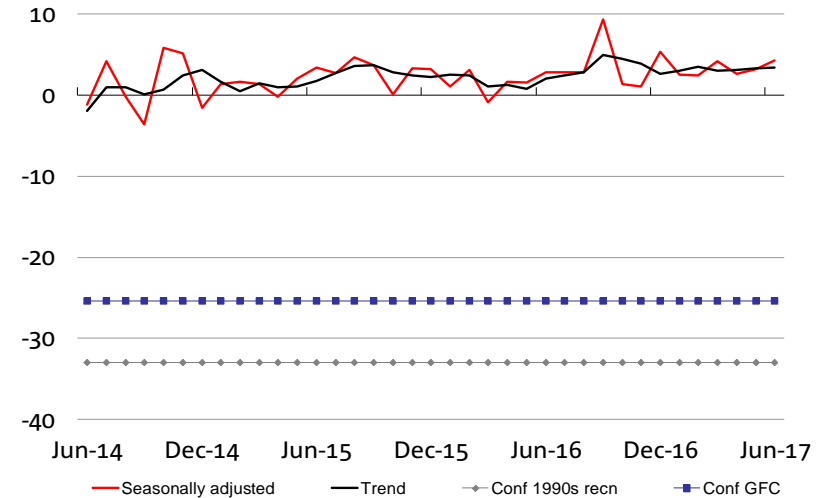
# BUSINESS CONDITIONS AND FORWARD INDICATORS (CONT.)

## Components of business conditions & leading indicators

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

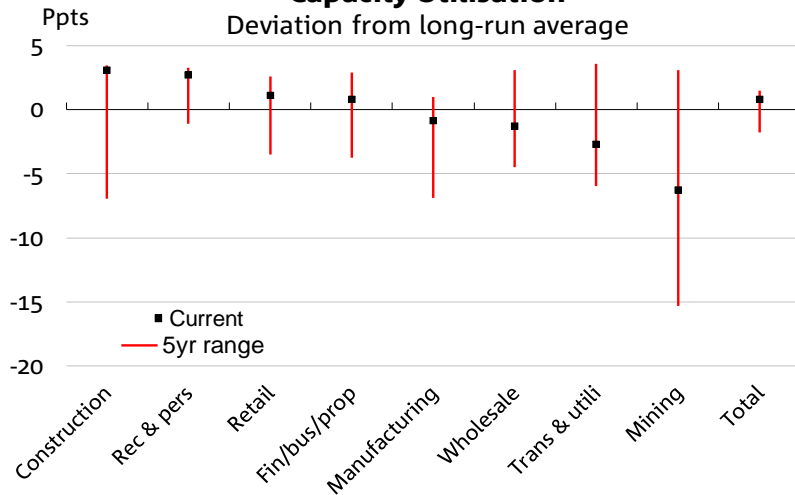


**Forward Orders (net balance)**



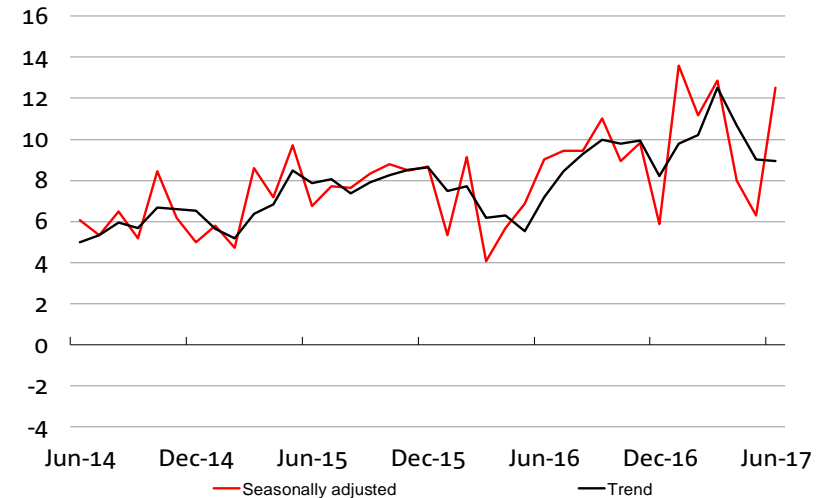
**Capacity Utilisation**

Deviation from long-run average



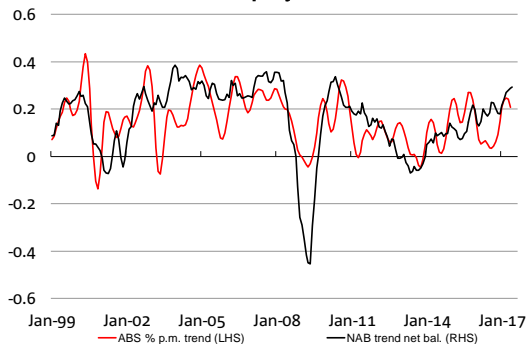
Source: NAB Economics

**Capital Expenditure (net balance)**

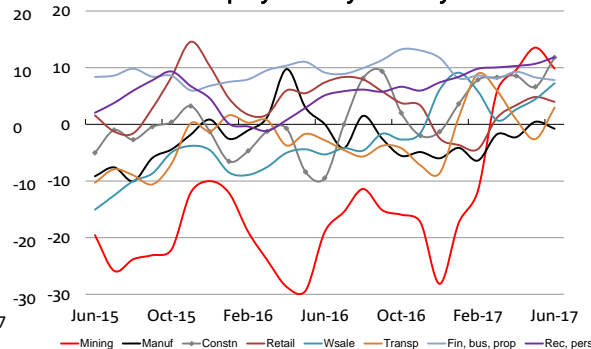


# LABOUR DEMAND, COSTS, PRICES & BORROWING CONDITIONS

Employment



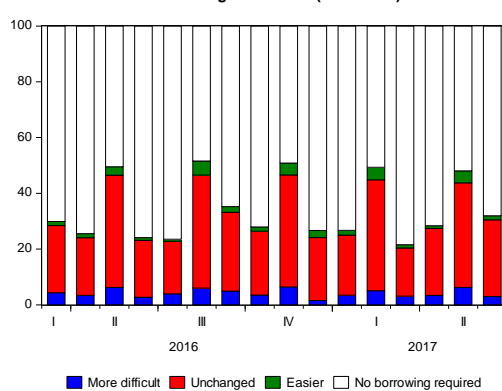
Employment by Industry



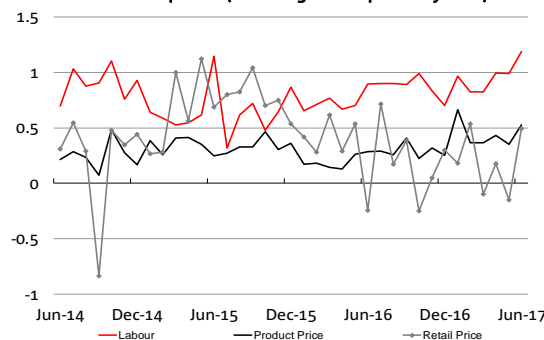
## PRICES & COSTS BY INDUSTRY (% CHANGE AT A QUARTERLY RATE)

Jun-2017	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-0.1	1.0	1.7	0.7	1.3	0.9	1.2	1.4	1.2
Labour costs: previous	-0.2	1.0	0.7	0.6	0.5	0.9	1.3	1.2	1.0
Labour costs: change	0.1	0.0	1.0	0.1	0.8	0.0	-0.1	0.2	0.2
Prices (final): current	0.1	0.5	0.4	0.5	0.4	0.3	0.6	0.4	0.5
Prices (final): previous	0.5	0.3	0.3	-0.1	0.6	-0.3	0.5	0.7	0.4
Prices (final): change	-0.4	0.2	0.1	0.6	-0.2	0.6	0.1	-0.3	0.1
Purchase costs: current	-0.6	1.6	1.0	0.5	0.6	0.3	0.5	0.6	0.8
Purchase costs: previous	0.6	0.5	0.8	0.5	0.8	0.1	0.5	0.3	0.5
Purchase costs: change	-1.2	1.1	0.2	0.0	-0.2	0.2	0.0	0.3	0.3

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.

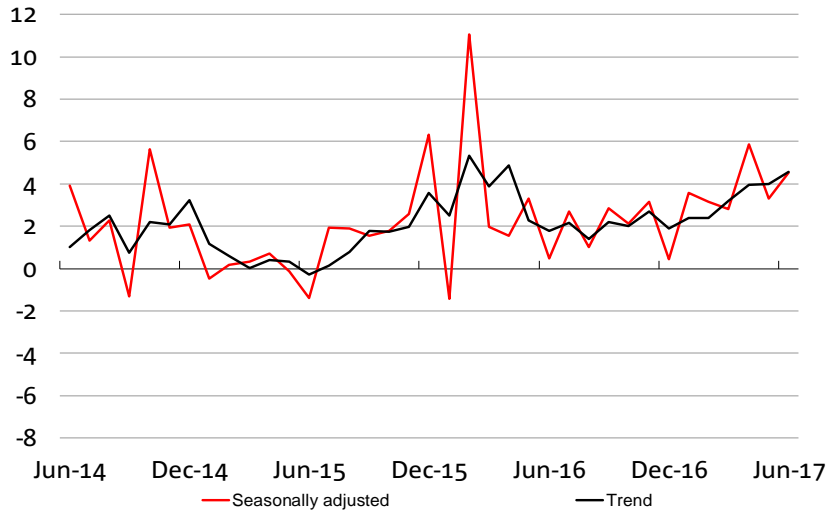
- **Employment conditions** were steady in the month at levels that indicate a healthy rate of job creation in the economy. That is consistent with the recent lift in employment growth evident in the ABS labour force survey and suggests the strength is likely to continue into coming months. The employment index remained at +7 index points, which is well above the long-run average for the series. This outcome points to an annual job creation rate of around 240k (around 20k per month) in coming months, which is sufficient to see the unemployment rate push lower (all else unchanged) – trend ABS employment growth was 25.1k in May.
- By industry, employment conditions rebounded sharply in wholesale (up 23), while construction saw the next largest increase (up 15). In contrast, retail (down 9) had the biggest deterioration. In trend terms, construction and personal services now have the best employment conditions (at +12 index points), followed closely by mining, which has improved considerably in the past 6-months (see chart). Meanwhile, manufacturing was the only negative at -1 index point.
- **Labour costs** growth (a wage bill measure) rose in May, to 1.2% (a quarterly rate, previously 1%). Labour cost inflation is subdued, but has been trending higher. Labour cost pressures were highest in construction (at 1.7%), but weakest in mining (-0.1%), despite mining firms indicating strong demand for labour in the past 6 months.
- Growth in **purchase costs** was also up in the month, at 0.8% (a quarterly rate, previously 0.5%) – suggesting upstream price pressures are gradually building. Growth in purchase costs accelerated most notably in manufacturing (up 1.1 ppts), while mining (down 1.2 ppts) saw the largest deceleration. Overall, purchase cost pressures were highest in manufacturing (at 1.6%, quarterly rate), and softest in mining (-0.6%).
- **Final product prices** growth in May was slightly higher at 0.5% (a quarterly rate), up from 0.4%. Retail price growth jumped back into positive territory, at 0.5% (from -0.1%), which is consistent with the lower bound of the RBA's inflation target. Retail and transport (up 0.6 ppts) accelerated the most, while mining (down 0.4 ppts) had the largest deceleration. Prices are rising in all industries, albeit very modestly in mining, with prices for personal services seeing the fastest growth (0.6%).
- **Borrowing conditions** improved since March, although the index is still negative – meaning that on balance, more firms found it more difficult to borrow than easier. Despite the negative index, the demand for credit has improved in that time.



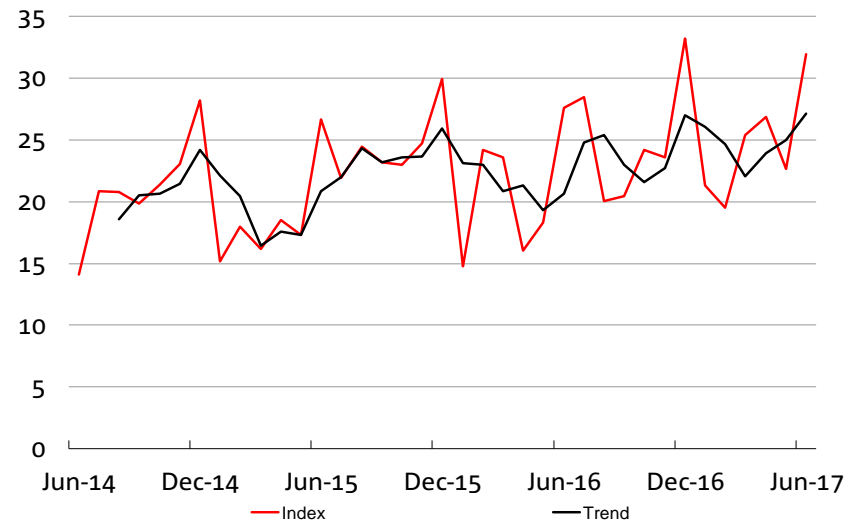
# MORE DETAILS ON BUSINESS ACTIVITY

*Restocking activity holding up, while cash flows and exports rebounded.*

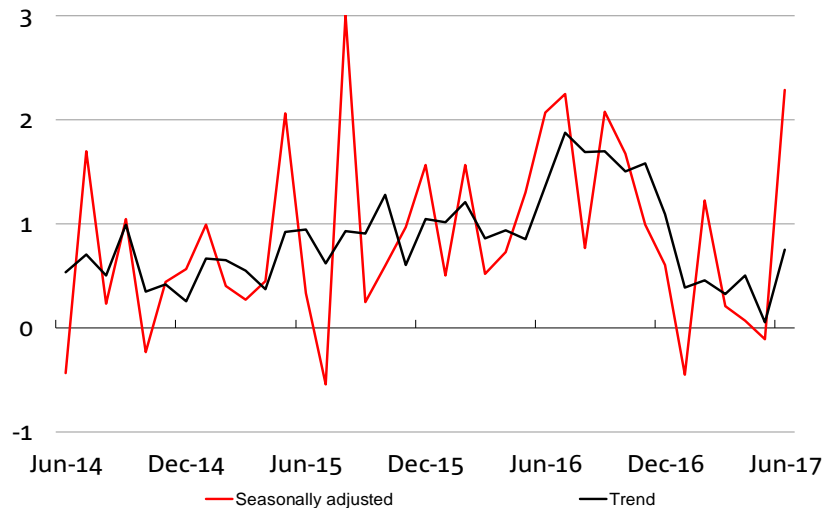
Stocks (net balance)



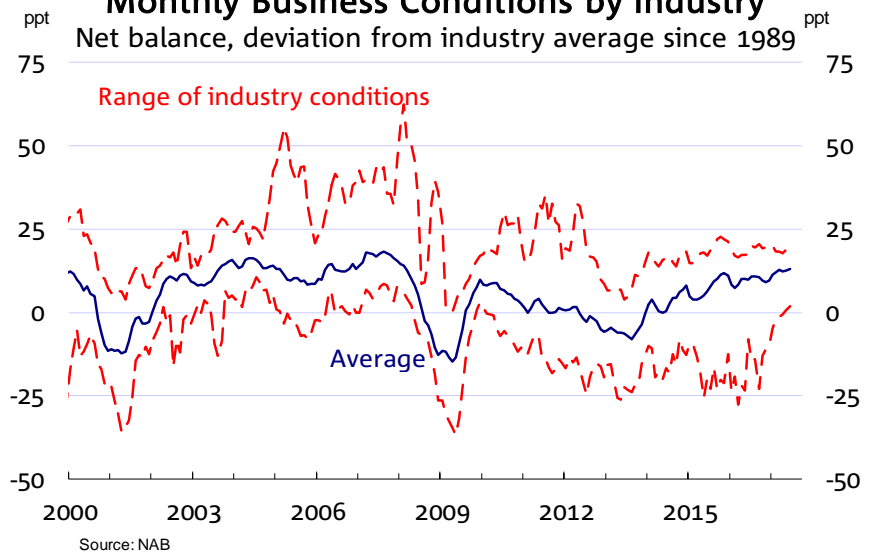
Cash Flows (net balance, nsa)



Exports (net balance)



Monthly Business Conditions by Industry

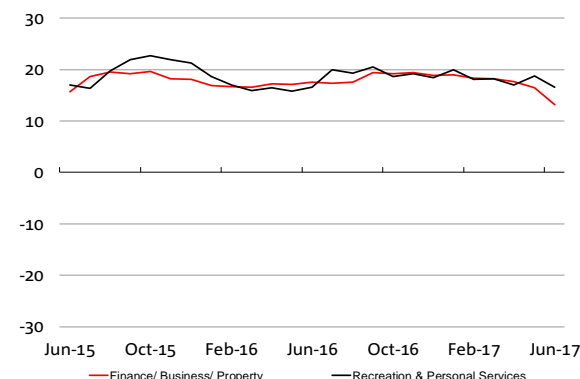
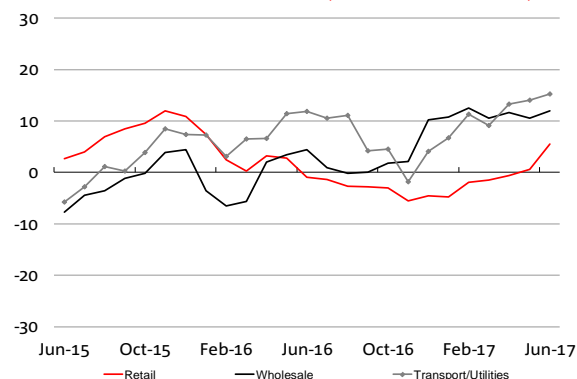
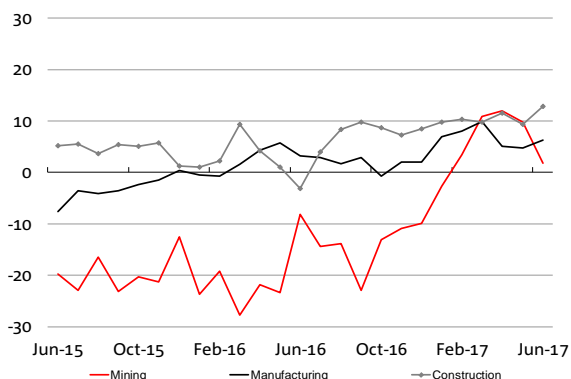


# INDUSTRY BUSINESS CONDITIONS & CONFIDENCE

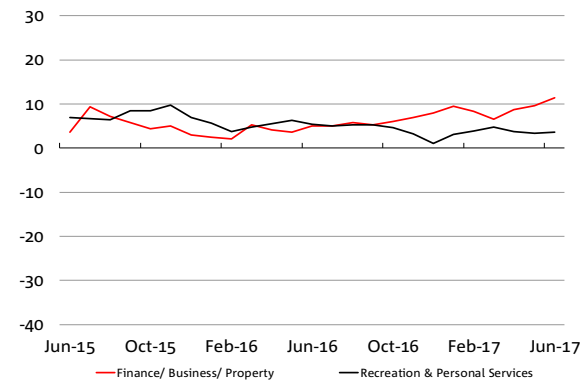
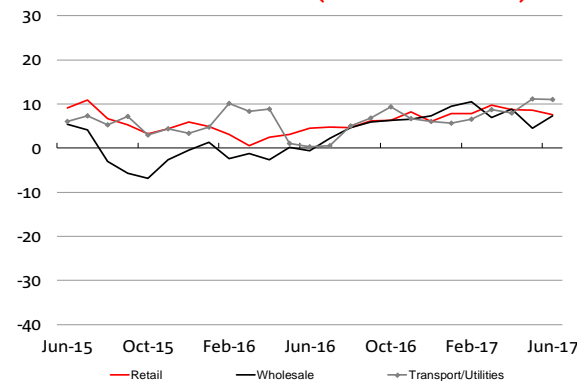
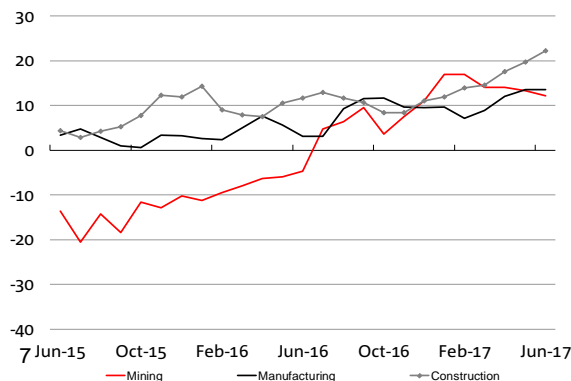
*Most industries are looking solid. Retail improving, but mining turning back down*

- Mining conditions dipped back into negative territory in June, but all other industries remained positive. Wholesale, construction and manufacturing each drove most of the improvement in **business conditions** during the month, up 25, 16 and 7 points respectively. However, a number of industries saw a decline in conditions, with mining falling the most (down 10). All industries are reporting positive business conditions in trend terms, although following the recent deterioration, mining has again replaced retail as the worst performing sector. Meanwhile, retail is starting to show a consistent improvement in conditions, having languished in negative territory for much of the past 12 months. Trend conditions are still highest in recreation & personal services (+17). **Business confidence** is positive in all industries and rose the most in wholesale during June (up 7), while retail and transport had the largest falls (down 4). In trend terms, construction (+22) was highest and personal services were weakest (at +4).
- Forward orders** were up in June. Mining orders rose sharply (up 35), while construction and transport orders weakened the most (down 5). Orders are highest in construction (+22, in trend terms), consistent with elevated (albeit falling) residential building approvals, followed by manufacturing (+10). Trend orders are negative for retail (-8) and fin/ prop/ bus (-1). A majority of industries reported lower **capacity utilisation** rates in June, but half are still above their 5-year average -- construction is the highest above its average (slide 4). Mining and personal services **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

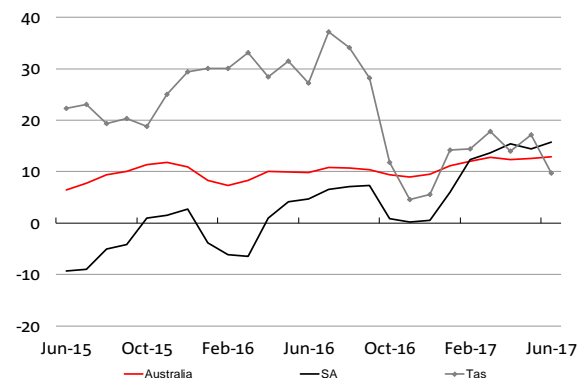
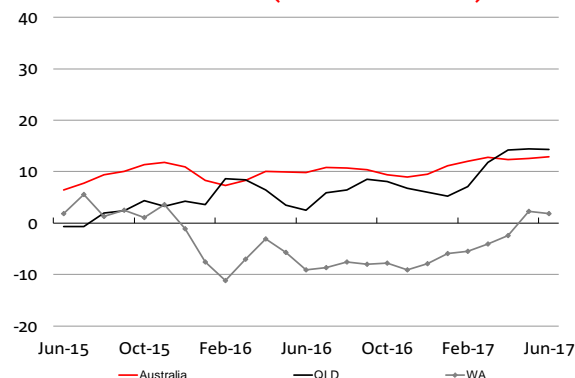
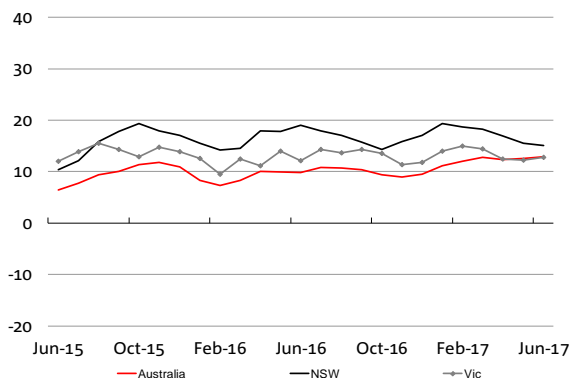


# STATE BUSINESS CONDITIONS & CONFIDENCE

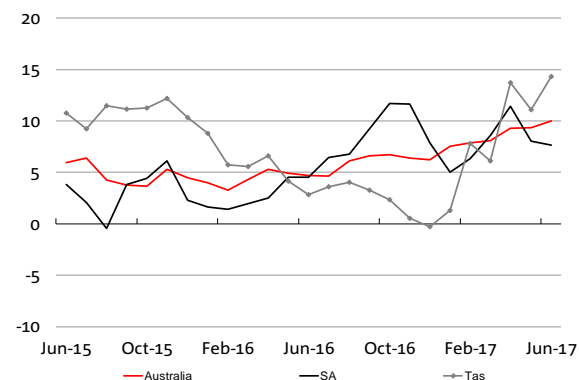
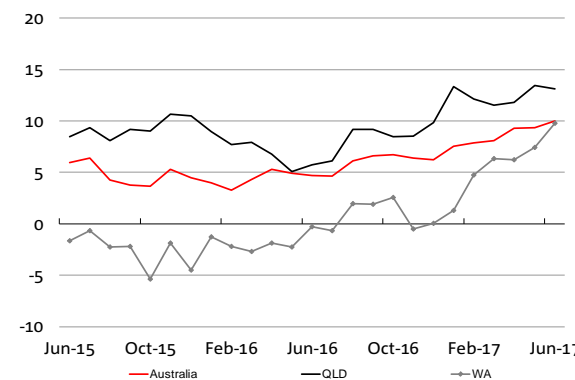
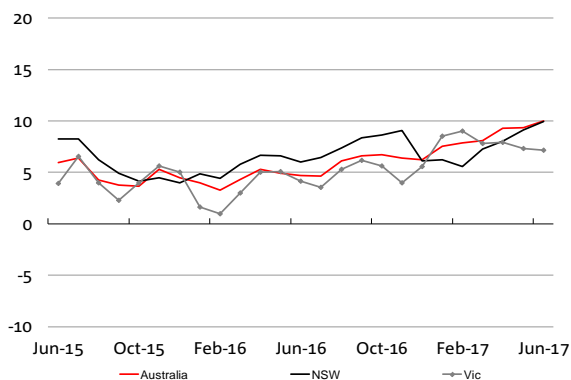
## *Mining and 'semi-mining' states are catching back up*

- Changes in **business conditions** were split across the mainland states, with Queensland (up 8), NSW and Victoria (both up 5) each rising, while South Australia (down 4) and Western Australia (down 1) were both down in the month. Despite that, all states are sitting in positive territory. Interestingly, looking through the volatility, South Australia has emerged to have the highest level of trend conditions (+16), overtaking NSW (+15). At the other end of the spectrum, WA is still the most subdued (at +1) although conditions there have improved notably over the past 12 months.
- **Business confidence** is also positive in all mainland states, even with NSW and Qld recording a deterioration in June. Of the mainland states, confidence is highest in trend terms for Queensland (+13), NSW (+10) and WA (+10). Surprisingly, confidence is lowest in Victoria at +7 index points (trend).
- **Employment conditions** (trend) are positive in all states, including WA (steady at +6) – a significant improvement from the extremely negative levels seen in late 2016, suggesting the worst of the mining headwinds to the labour market may be behind us. Interestingly, the index is strongest for Queensland (+13) and South Australia (+12), while NSW, Victoria and WA are all sitting around similar levels (+6).

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



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





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