

# NAB MONTHLY BUSINESS SURVEY

July 2017

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By Group Economics

The strong run shown by the business sector continued in the July NAB Monthly Business Survey, with both business conditions and confidence seeing an improvement. Business conditions rose to its highest level since early 2008, although there were signs of a renewed divergence across industries. The sustained strength in business conditions appears to have buoyed confidence, and has likely contributed to the steadily improving trend in business confidence since early last year. Persistent strength in the Survey's measure of employment conditions has made us a little more optimistic about the near-term outlook for the labour market. However, we remain apprehensive about how the disconnect between the business and consumer sectors will be resolved – especially in light of sluggish retail conditions in July. While the apparent strengthening of the labour market gives some reason for optimism, the RBA should be content with keeping interest rates on hold for a while yet given lingering risks to the outlook. Only tentative signs of moderation in the housing market and reluctance to see the AUD strengthen further are also reason to expect the RBA to remain on hold.

	May 2017	Jun 2017	Jul 2017		May 2017	Jun 2017	Jul 2017
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	8	8	<b>12</b>	Employment	8	7	<b>7</b>
Business conditions	11	14	<b>15</b>	Forward orders	4	5	<b>3</b>
Trading	15	21	<b>20</b>	Stocks	3	4	<b>0</b>
Profitability	11	14	<b>18</b>	Exports	0	2	<b>-1</b>
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.9	1.1	<b>0.6</b>	Retail prices	-0.2	0.3	<b>-0.1</b>
Purchase costs	0.5	0.7	<b>0.4</b>		<i>Per cent</i>		
Final products prices	0.3	0.5	<b>0.2</b>	Capacity utilisation rate	82.6	81.9	<b>81.9</b>

## SOLID BUSINESS CONDITIONS HELP TO LIFT CONFIDENCE. PRICE AND WAGES GROWTH SUBDUED

The recent strength in business conditions was maintained going into the start of the third quarter. The business conditions index rose 1 point, to +15 index points, which is three times the long-run average (+5). Similarly, the business confidence index rose 4 points in July, to +12 index points. Confidence has been fairly volatile, and while not as lofty as business conditions, the index is still double its long-run average.

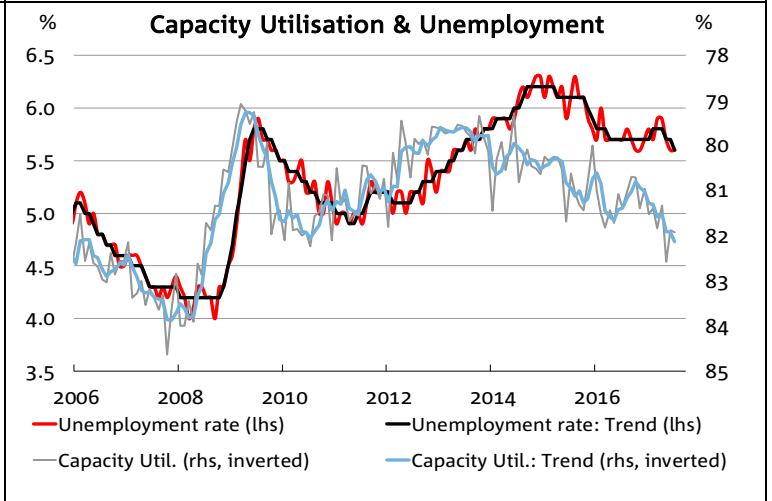
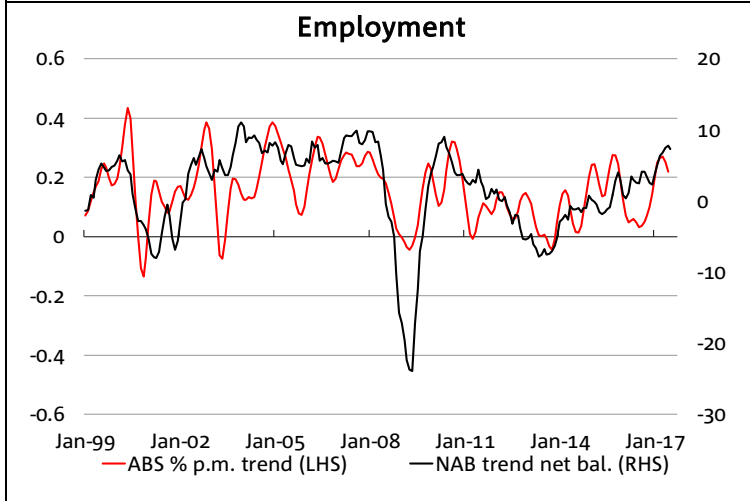
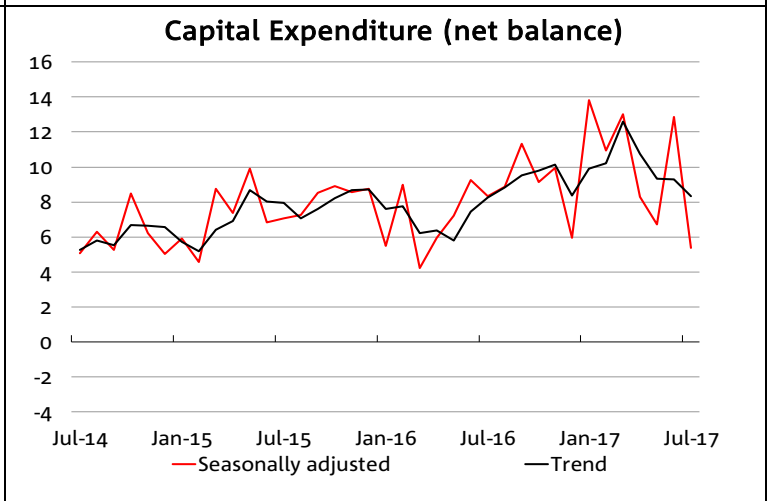
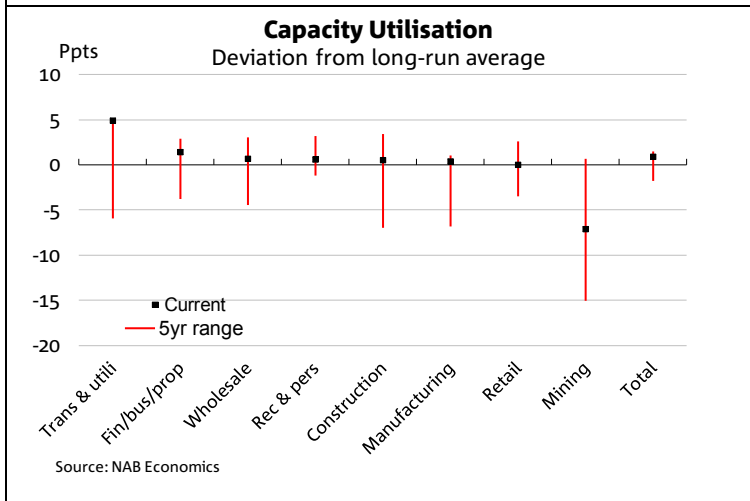
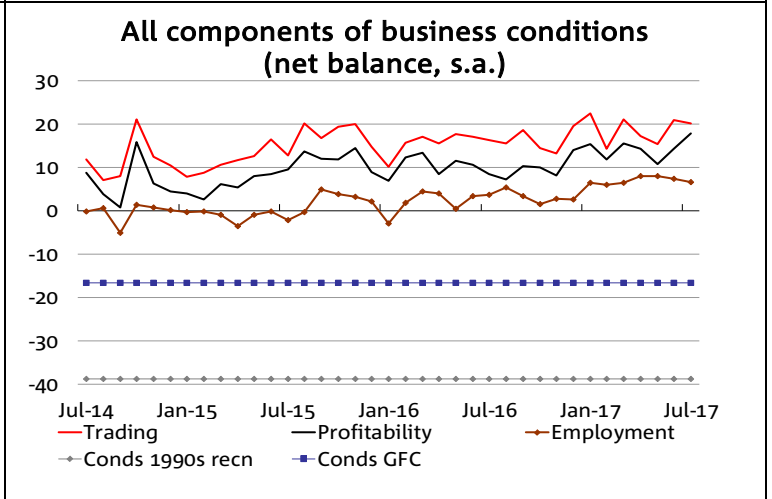
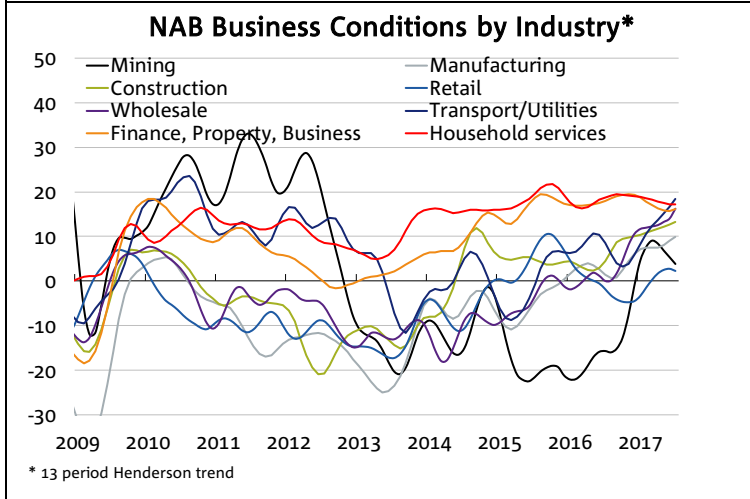
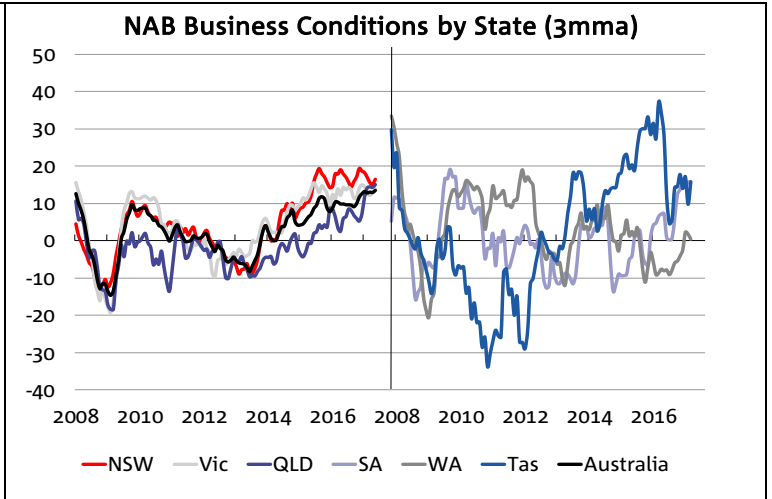
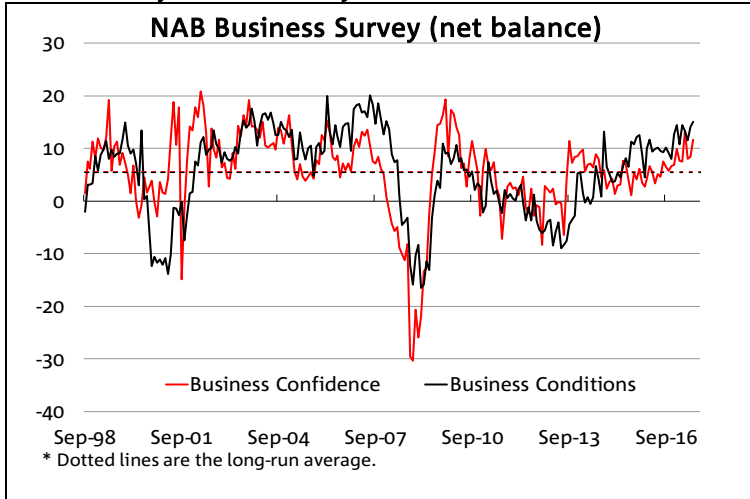
According to Mr Alan Oster, NAB's Chief economist, "The strong run shown by the business sector continued in the July, with both business conditions and confidence seeing an improvement. Business confidence has gradually been chasing business conditions higher for some time, and has likely seen some additional support this year from an improving global environment as well, although there are still some notable risks".

There was, however, a renewed divergence across industries in the month as the improvement was driven primarily by professional services, while retail and wholesale softened considerably – again highlighting competitive pressures in retail and the difficulties facing households. "Every time we think the retail sector might be closing the gap with the more upbeat parts of the economy, it seems to suffer a setback. Retail conditions have generally improved since the lows of late last year, but the trend appears to be turning down again, with retail once again the worst performing industry in the Survey" said Mr Oster. The major service industries meanwhile are still generally leading the way, although most industries outside of retail and mining are performing well.

Profitability was the only component of business conditions to improve in the quarter, while employment conditions were unchanged and trading/sales moderated slightly – but remains at very elevated levels. According to Mr Oster, "The persistent strength in employment conditions has made us a little more optimistic about the near-term outlook for the labour market. That said, there are still longer-term challenges to domestic demand, which will have implications for the labour market, while the ABS underemployment rate is also suggesting that there is still a fair degree of slack in the labour market". Other leading indicators in the Survey were also a little less upbeat, with forward orders softening slightly and capacity utilisation rates unchanged.

"We remain apprehensive about how the disconnect between the business and consumer sectors will be resolved – especially in light of sluggish retail conditions in July. Additionally, the previously emphasised hurdles to growth – elevated underemployment, household debt and peaks in LNG exports and housing construction – remain firmly in place. These factors will weigh on the longer-term economic outlook, following a reacceleration of growth in coming quarters from the temporary disruptions to activity seen earlier in the year. Given the risks to the outlook, only tentative 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. That said, the recent strength in employment growth and business conditions does give some reason for optimism, and if maintained could signal a change in the balance of risks on the horizon". Updated economic forecasts will be released tomorrow.

**NAB Monthly Business Survey**



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