

NAB MONTHLY BUSINESS SURVEY

August 2017

By Group Economics

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Business conditions continued their solid run in August, but business confidence has taken a hit – although recent volatility suggests we should exercise caution when interpreting the result. Business conditions hit its highest level since early 2008, with most industries performing well, although retail remains a concern with conditions languishing in negative territory (neutral in trend terms). The recent run of economic data has (for the most part) been relatively upbeat, consistent with the strong results evident for some time in the NAB Business Survey. In combination with some encouraging reads on the labour market (including a jump in employment conditions in the NAB Survey), these trends could support the case to bring forward RBA rate hikes. However, there are few signs of inflation/wage pressures in the official data as yet, while relatively downbeat consumer confidence is still a point of concern (especially in light of poor retail conditions in the NAB survey). Additionally, given additional hurdles from underemployment, an elevated AUD, household debt and peaks in LNG exports and housing construction, the RBA is likely to proceed with extreme caution.

	Jun 2017	Jul 2017	Aug 2017		Jun 2017	Jul 2017	Aug 2017
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	9	12	5	Employment	8	7	11
Business conditions	14	14	15	Forward orders	5	3	4
Trading	20	19	18	Stocks	4	0	0
Profitability	15	16	15	Exports	2	-1	0
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	1.1	0.7	1.2	Retail prices	0.3	0.0	-0.1
Purchase costs	0.6	0.4	0.6		<i>Per cent</i>		
Final products prices	0.5	0.2	0.4	Capacity utilisation rate	81.9	81.9	81.6

BUSINESS CONDITIONS ARE STRONG. CONFIDENCE TAKES A HIT. SOME SIGNS OF INFLATION PRESSURE

Business conditions continued their solid run in August. The business conditions index rose by 1 point in August to hit +15 index points, which is the highest level for the series since early 2008 and is significantly higher than the long run average level. In contrast, business confidence took a hit, dropping back to slightly below the long-run average, although recent volatility suggests we should exercise caution when interpreting the result.

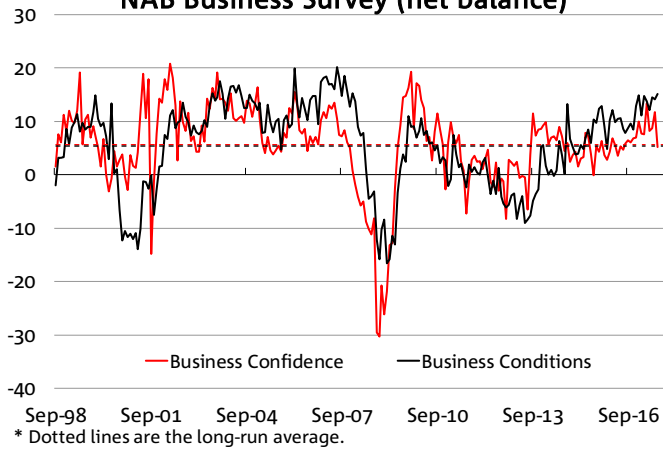
According to Mr Alan Oster, NAB's Chief economist, "It is probably too early to read much into the drop in confidence this month. While external shocks, such as the escalating tensions with North Korea, may have had some impact, we have actually asked for the first time in the Survey what firms see as being the most influential factors impacting confidence. For those indicating deterioration in confidence, the biggest concerns appear to be customer demand, government policy, as well as cost pressures – both energy and wages".

Most industries appear to be performing well, but retail remains a concern with retail conditions languishing in negative territory (neutral in trend terms). "We will be watching this trend closely as household consumption is a notable point of difference between our relatively subdued growth outlook and the RBA's more sanguine forecasts, and will be key to the economy's sustained return to trend growth." said Mr Oster. The major service industries meanwhile are still generally leading the way, although construction has stepped into the top position with support likely coming from infrastructure and residential construction activity.

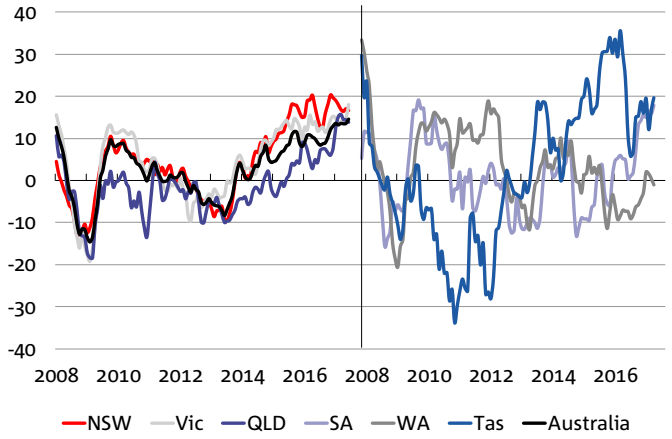
By component, there was a notable jump in employment conditions for August (to near record highs). Trading and profitability eased back slightly, but remain at very high levels. According to Mr Oster, "if employment conditions maintain these levels, that should see more than sufficient jobs creation to push the unemployment rate lower. It remains to be seen how some of the longer-term challenges, many of which may be structural, will impact the labour market, but for now we are more confident that the unemployment rate will continue to improve. If so, hopefully we will also make some inroads into generating some wages growth for the economy. On that point, there was a lift in a number of inflation measures from the Survey this month, particularly for labour costs." Meanwhile, the survey's measure of capex improved in the month, despite a slight rise in spare capacity, while forward orders rose modestly. "The recent run of economic data has (for the most part) been upbeat, consistent with the strong results evident for some time in the NAB Business Survey. Improvements in labour market indicators point to further falls in the unemployment rate, helping to mount a case to bring forward RBA rate rises. However, there are few signs of inflation/wage pressures in the official data as yet, while relatively downbeat consumer confidence is still a point of concern in light of poor retail conditions in the NAB survey – the consumption outlook is key to the economy's sustained return to trend growth. Additionally, the previously emphasised hurdles to growth – elevated underemployment, an elevated AUD, household debt and peaks in LNG exports and housing construction – remain firmly in place. Consequently, while the recent run of better data may shift the risks towards a sooner than expected hike in the RBA's cash rate, the risks will ensure that the RBA proceed with extreme caution." Updated economic forecasts will be released tomorrow.

NAB Monthly Business Survey

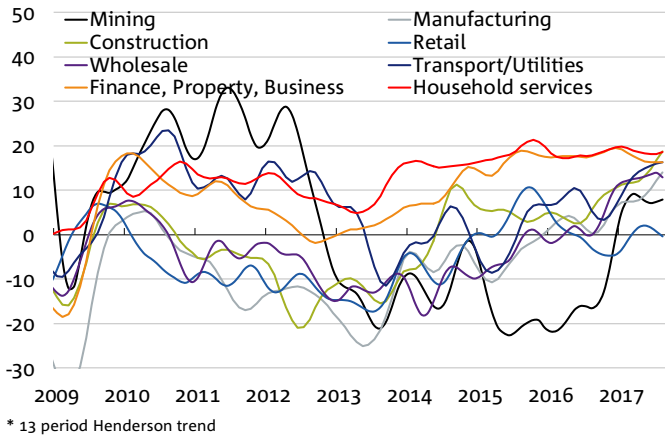
NAB Business Survey (net balance)



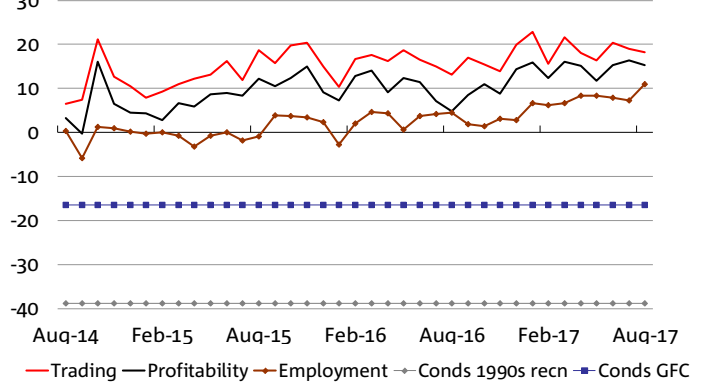
NAB Business Conditions by State (3mma)



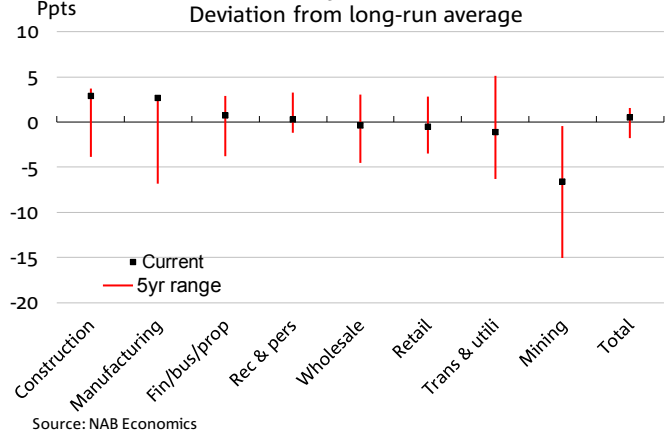
NAB Business Conditions by Industry*



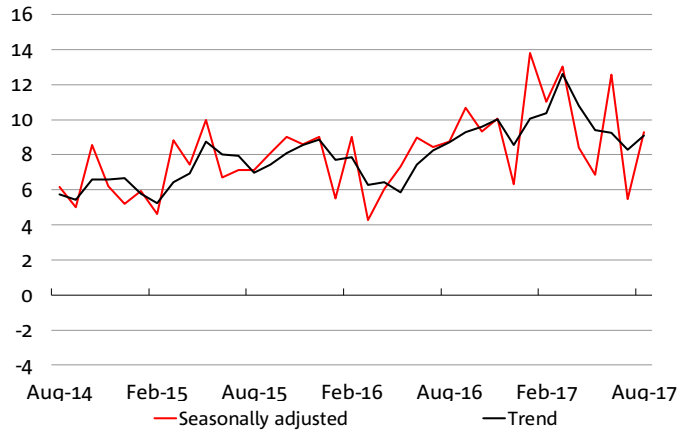
All components of business conditions (net balance, s.a.)



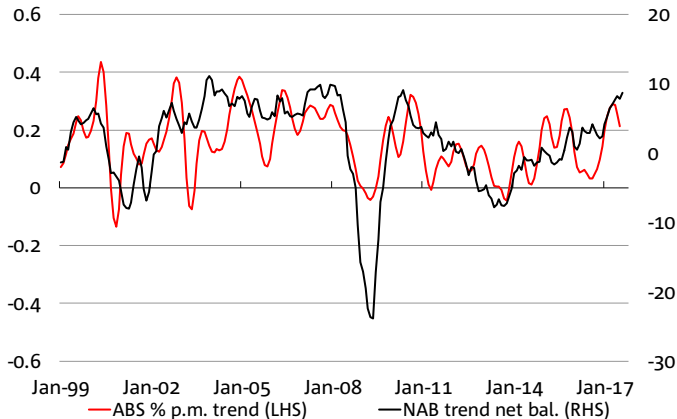
Capacity Utilisation



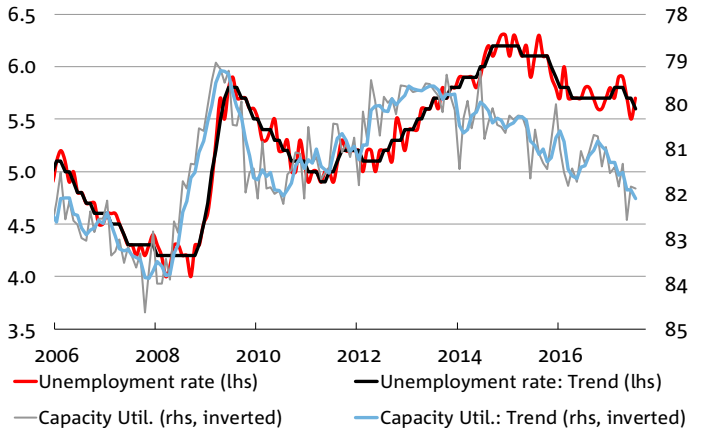
Capital Expenditure (net balance)



Employment



Capacity Utilisation & Unemployment



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