

NAB MONTHLY BUSINESS SURVEY

SEPTEMBER 2017

NEXT RELEASE:
19 OCT 2017 – SEPTEMBER QUARTERLY
14 NOV 2017 – OCTOBER MONTHLY



Key points:

- Business conditions remained rock solid in September, while confidence edged up following the big decline recorded in the previous month. Business conditions were unchanged in September at +14 index points, which is only a little below the peaks experienced prior to the GFC (almost three times the long-run average). The construction industry is currently leading the way with the highest business conditions, although most industries are following close behind. Retail continues to be the main exception, with negative conditions continuing to raise doubts about the possibility of an imminent (and sustained) rebound in consumer spending – although tough competition and other margin pressures are likely underpinning the result as well. **By component, employment conditions gave back last month's gains but that was offset by a rebound in both trading conditions (sales) and profitability.** Despite the pull-back in employment conditions, the index remains at levels that imply solid growth in employment, which should be sufficient to put more downward pressure on the unemployment rate. The inflation picture in this month's survey was somewhat mixed, although a lift in retail prices and solid labour cost growth may come as a welcome sign for the RBA, despite upstream prices easing back a little.
- The business confidence index lifted by 2 points in September, to be at +7 index points – back to (marginally) above the long-run average. That said, global economic and political factors may result in further fluctuations in confidence that would pose a challenge to the outlook for hiring intentions and business investment. Nonetheless, it was encouraging to see the capacity utilisation rate rise, while the survey's measure of capex is at reasonable levels. Forward orders – which appear to be giving a more accurate read on the strength of the economy – eased back, albeit still suggesting quite solid non-mining demand. Meanwhile, export conditions appear adversely affected by the elevated AUD.
- Consistently good outcomes in the NAB Survey naturally point to a relatively strong business sector. However, such conditions have not passed through to investment quite as expected, potentially signalling ongoing risk aversion and a preference to use profits for balance sheet repair. Additionally, our previous concerns around the consumption outlook remain well entrenched, especially following very poor retail sales in August and stubbornly weak retail conditions in the NAB Survey – reflecting the numerous challenges still facing both retailers and consumers. That all said, we have seen the demand for labour strengthen and more hints of a slight pick-up in investment intentions recently. With the labour market poised to see further improvement going into 2018, the economy now seems better equipped to deal with the challenges it faces, which should leave the RBA with scope to commence a shift away from emergency stimulus settings by H2 2018 (NAB expect 25bp hikes in August and November 2018). However, elevated underemployment, an elevated AUD, household debt and peaks in LNG exports and housing construction are all potential hurdles that will ensure that the RBA proceeds with caution. **More details on our economic forecasts will be released tomorrow.**

Table 1: Key monthly business statistics

	Jul 2017	Aug 2017	Sep 2017		Jul 2017	Aug 2017	Sep 2017
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	11	5	7	Employment	7	10	7
Business conditions	15	14	14	Forward orders	3	4	3
Trading	20	18	19	Stocks	0	0	5
Profitability	17	15	17	Exports	-1	0	-1
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.7	1.2	1.0	Retail prices	0.0	-0.1	0.3
Purchase costs	0.5	0.6	0.4		<i>Per cent</i>		
Final products prices	0.3	0.4	0.4	Capacity utilisation rate	81.9	81.6	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 22 September to 28 September, covering almost 400 firms across the non-farm business sector.

CONTACTS

Alan Oster, Group Chief Economist
+61 3 8634 2927

Riki Polygenis, Head of Australian Economics, +61 475 986 285

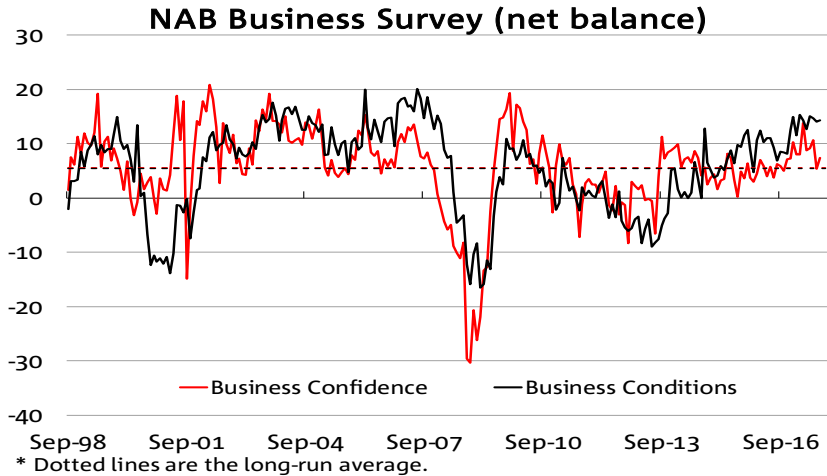
James Glenn, Senior Economist - Australia, +61 2 9237 8017

CONTENTS

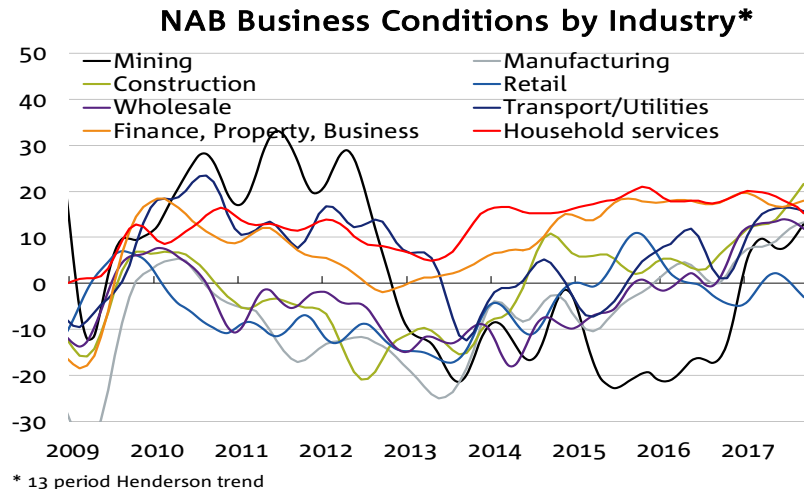
Key points	1
Key charts	2
Conditions, confidence & leading indicators	3
Drivers of business confidence	5
Labour, prices & borrowing	6
More details	7
Industry results	8
State results	9

KEY MONTHLY CHARTS

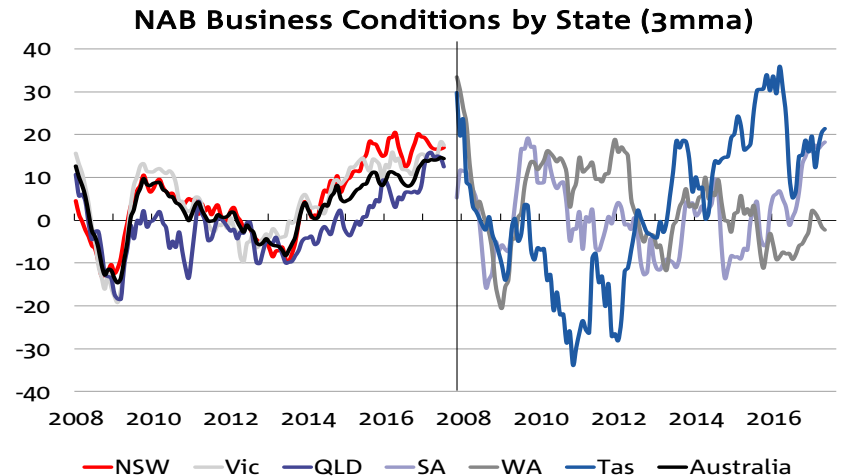
BUSINESS CONDITIONS ARE HOLDING FIRM. CONFIDENCE POSTED A PARTIAL REBOUND FROM LAST MONTH'S DIP



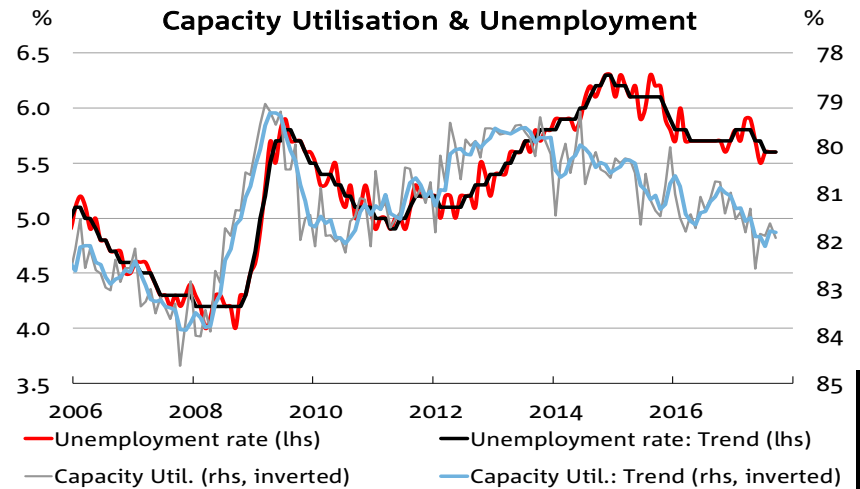
ALMOST ALL INDUSTRIES ARE POSITIVE, BUT RETAIL IS CONTINUING TO STRUGGLE WELL BEHIND



CONDITIONS HOLDING-UP IN MOST STATES. WA IS UP FROM PREVIOUS LOWS, BUT APPEARS TO BE TURNING DOWN AGAIN



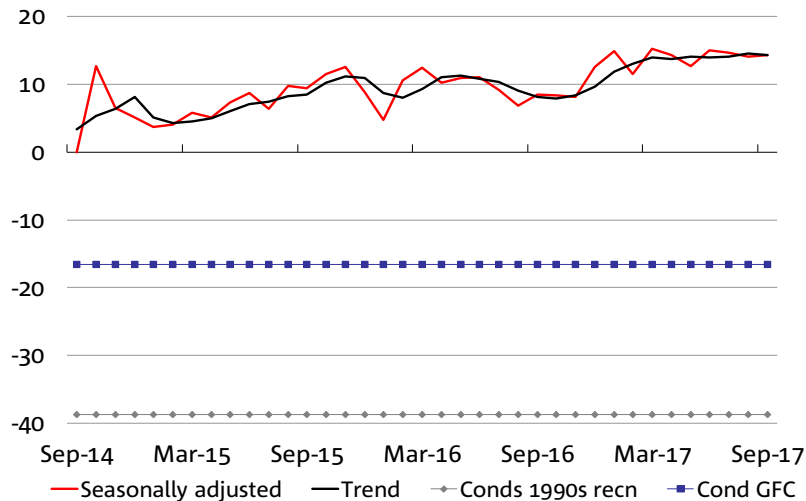
CAPACITY UTILISATION SHOWS LIMITED SLACK – CONSISTENT WITH THE DROP IN THE UNEMPLOYMENT RATE



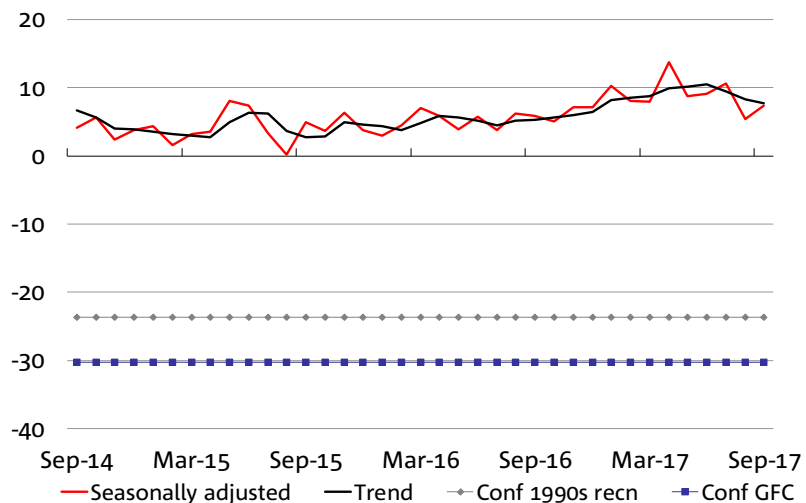
BUSINESS CONDITIONS AND FORWARD INDICATORS

Conditions holding at high levels. Confidence ebbed higher after big decline.

Business Conditions (net balance)



Business Confidence (net balance)

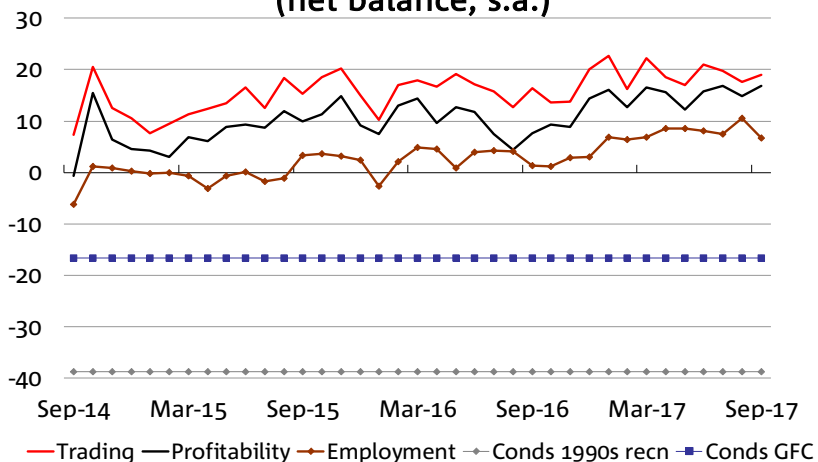


- **Business conditions** remained very strong in September, with the business conditions index holding steady at +14 index points – well above the long-run average (+5). In terms of the components, a fall in employment conditions was offset by improvements in both trading conditions (sales) and profitability. In trend terms, business conditions are positive and above long-run average levels for all industries excluding retail, although retail is a notable exception and is trending lower (more detail on p8).
- **Business confidence** has been giving a much more mixed signal than conditions. The index rose 2 points to +7 in September, following a sharp deterioration last month. This level is only modestly above the long-run average for the series and the trend appears to have peaked in recent months. It is still not clear to what extent this reflects exogenous factors (such as geopolitical tensions), although steady business conditions would suggest they are playing a role. Encouragingly though, confidence levels are currently positive for all industries in trend terms (see p7 for industry details).
- **By state** there were some big moves in **business conditions** during the month, but in trend terms most states were flat to modestly lower in September. WA remains the only state in negative territory, and despite being well up on its previous lows it appears to be trending down again, while all other states are looking very solid. Interestingly, South Australia has moved into the top spot for the mainland states, with trend conditions sitting at +18 index points. The other states are following close behind however, with NSW and Victoria at +17 and Qld on +12 index points. Meanwhile, **business confidence** is positive in all states, and most saw an improvement in September – NSW being the exception. Of the mainland states, confidence is highest in trend terms for Qld (+12), but lowest in WA at +4 index points.
- Forward orders, which have a close relationship with non-mining demand, eased back in September – although still point to a solid rate of growth. The index was down 1 point, to +3 index points, but that is still much better than the long-run average (zero, see chart on p4). However, the index was partially supported by a jump in mining orders (up 27), while manufacturing and construction saw some sizeable declines (down 13 and 6 points respectively). Despite that, orders are still highest in construction (+17, in trend terms), reflecting the still elevated level of residential building approvals. Trend orders are only negative for retail (-3).
- NAB's measure of **capacity utilisation** was higher in August (up 0.3ppts to 81.9%). The Survey's **capex** measure was also a little better, up 1 points to +9 index points, suggesting reasonable levels of investment activity (see chart on p4). The transport & utilities industry and mining are both reporting much higher than normal levels of spare capacity (see chart on p4 and industry detail on p7). In contrast, personal services, manufacturing and construction each have much more limited spare capacity than normal, which may trigger addition investment or labour hiring in those industries.
- **Cash flow** (not seasonally adjusted) eased back slightly, but is still elevated (chart on p7). It is currently strongest in transport & utilities, but weakest in mining, then retail.

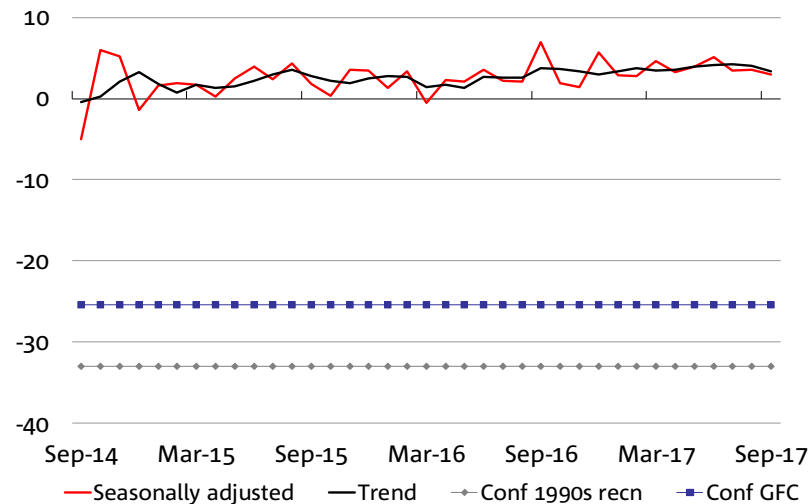
BUSINESS CONDITIONS AND FORWARD INDICATORS (CONT.)

Components of business conditions & leading indicators

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

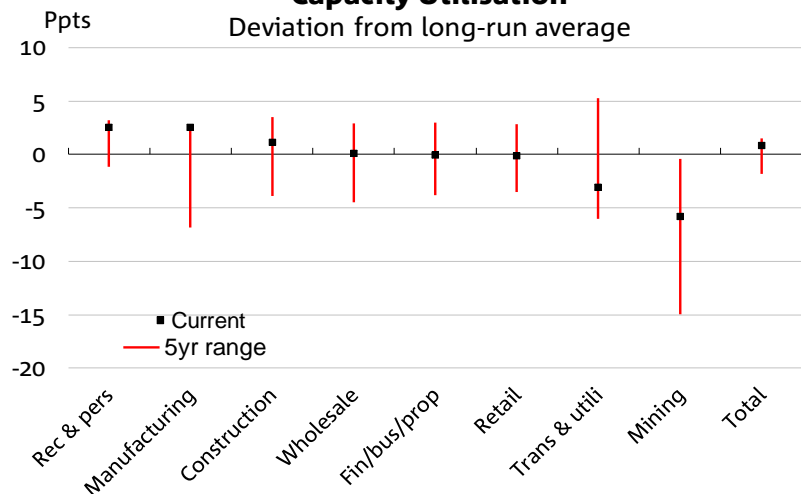


Forward Orders (net balance)



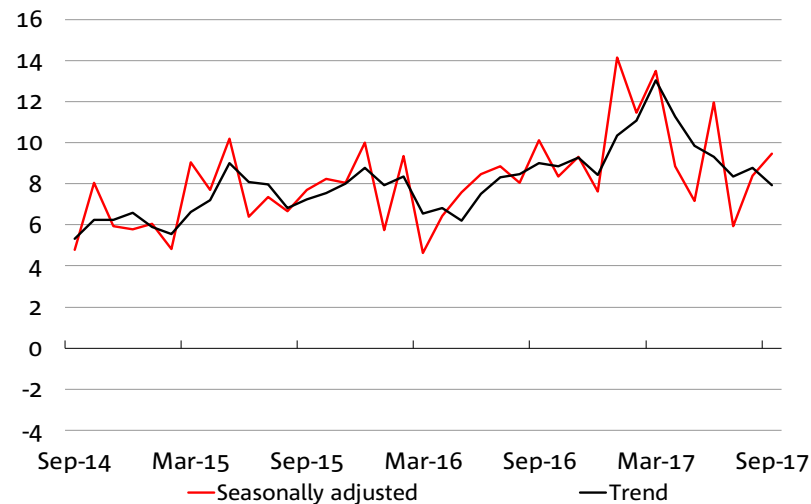
Capacity Utilisation

Deviation from long-run average



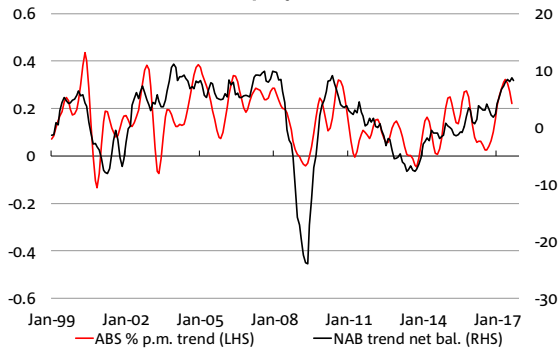
Source: NAB Economics

Capital Expenditure (net balance)

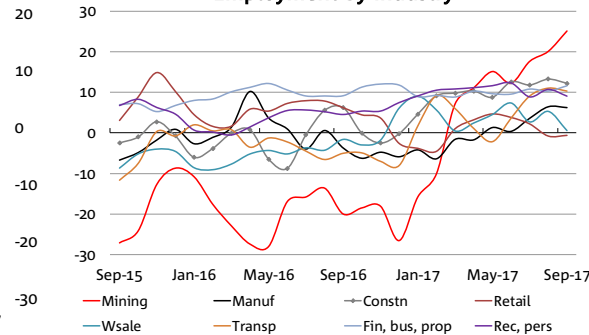


LABOUR DEMAND, COSTS, PRICES & BORROWING CONDITIONS

Employment



Employment by Industry



- **Employment conditions** eased back in September, but remain at very elevated levels in trend terms, which is consistent with other indicators that point to further tightening in the labour market. The ABS labour force survey has been showing strong job gains of late and job vacancies have picked up, which along with solid employment conditions in the NAB Survey, is suggesting more growth ahead. The employment index dipped by 3 points, to +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 27.1k in August.

- By industry, employment conditions fell the most in manufacturing (down 9), followed by personal services (down 8). Meanwhile, the largest pick-up was in mining (up 4). Mining and construction have the best employment conditions (at +25 and +14 index points respectively) – labour demand from mining has improved considerably in the survey over the past 6 months or more, but may be a temporary boost as major mining investments (namely in LNG) are completed (see chart). Retail is the only industry showing negative employment conditions.

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

Sep-2017	Mining	Manuf	Constn	Retail	Wsale	Trans&utils	Rec.&pers.	Fin,prop.&b us.	Australia
Labour costs: current	2.8	1.2	1.3	0.1	1.1	0.4	1.0	1.0	1.0
Labour costs: previous	1.1	1.5	1.2	0.9	1.1	1.4	1.5	0.9	1.2
Labour costs: change	1.7	-0.3	0.1	-0.8	0.0	-1.0	-0.5	0.1	-0.2
Prices (final): current	-0.1	0.4	0.7	0.3	1.3	0.4	0.4	0.2	0.4
Prices (final): previous	0.5	0.5	0.1	-0.1	0.6	0.2	0.7	0.4	0.4
Prices (final): change	-0.6	-0.1	0.6	0.4	0.7	0.2	-0.3	-0.2	0.0
Purchase costs: current	0.3	0.2	0.5	0.3	0.6	0.1	0.6	0.2	0.4
Purchase costs: previous	-0.2	0.4	1.3	0.5	0.8	0.3	0.6	0.4	0.6
Purchase costs: change	0.5	-0.2	-0.8	-0.2	-0.2	-0.2	0.0	-0.2	-0.2

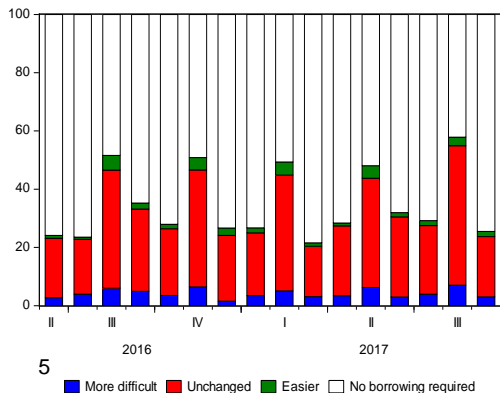
- **Labour costs** growth (a wage bill measure) eased in September, to 1% (a quarterly rate, previously 1.2%). Labour cost inflation has been relatively subdued, but appears to be trending higher. Wage pressures are strongest in mining and construction (at 2.8% & 1.3%), but softest in retail (0.1%).

- Growth in **purchase costs** also eased in the month, to 0.4% (a quarterly rate, previously 0.6%), pointing to relatively subdued upstream cost pressures. Growth in purchase costs decelerated most notably in construction (down 0.8 ppts), although most industries were lower. Overall, purchase cost pressures were strongest in wholesale and personal services (each at 0.6%, quarterly rate), and weakest in transport (0.1%).

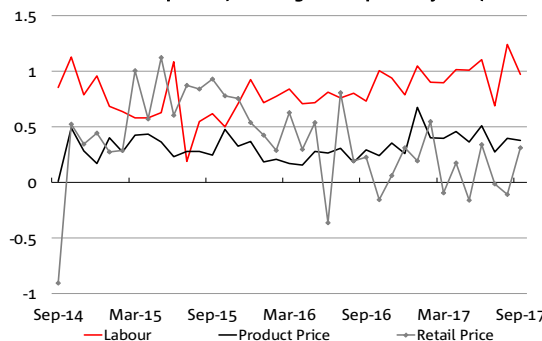
- **Final product prices** growth has consistently failed to keep up with input costs, putting pressure on margins. However, final price inflation was steady at 0.4% (a quarterly rate) this month, providing some modest relief as input inflation eased. Retail price inflation rebounded back into positive territory, at 0.3% (from -0.1%), although that still indicates a soft CPI. Prices are rising the most in construction, but falling modestly in mining.

- **Borrowing conditions** remained difficult in September, although the index did improve relate to three months prior, although demand for credit also eased. The index has been negative since early 2016, meaning that on balance, more firms found it more difficult to borrow than easier.

Borrowing conditions (% of firms)



Costs & prices (% change at a quarterly rate)



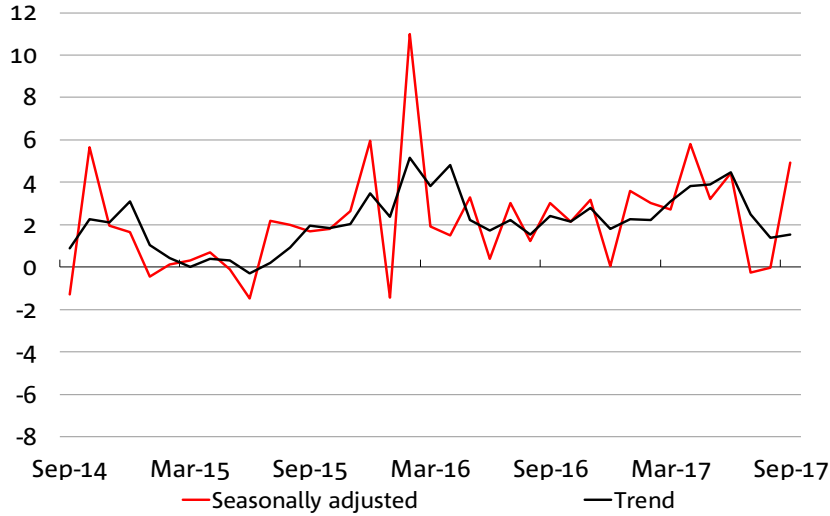
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.



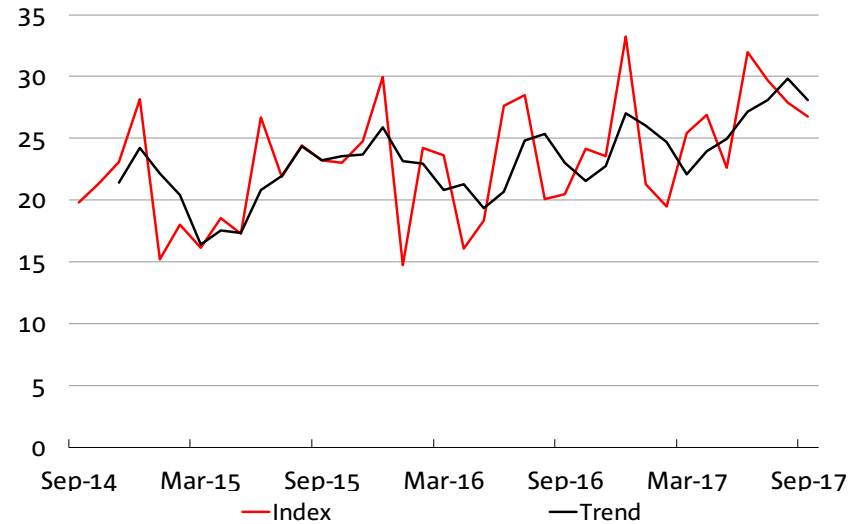
MORE DETAILS ON BUSINESS ACTIVITY

Export conditions deteriorating. Cash flows eased, but are elevated.

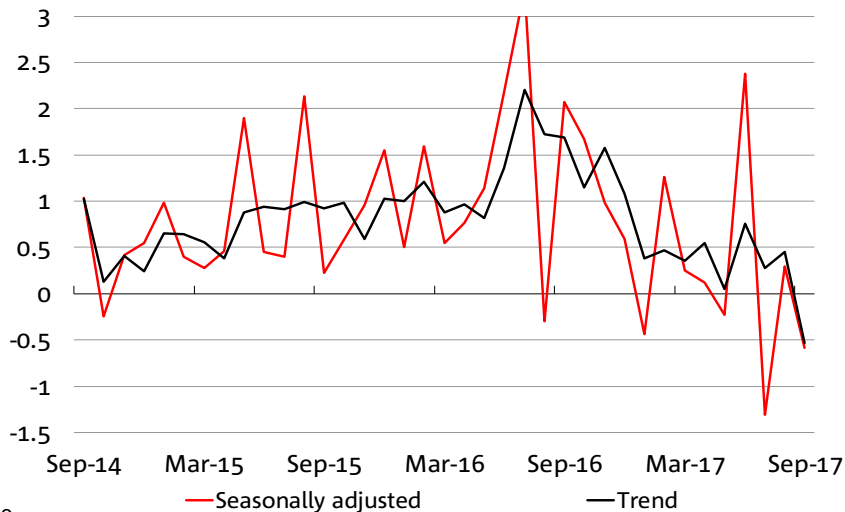
Stocks (net balance)



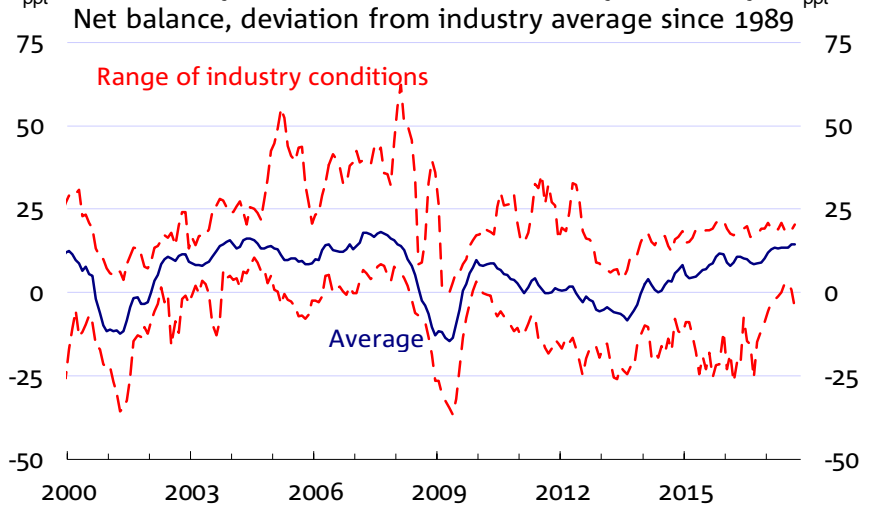
Cash Flows (net balance, nsa)



Exports (net balance)



Monthly Business Conditions by Industry

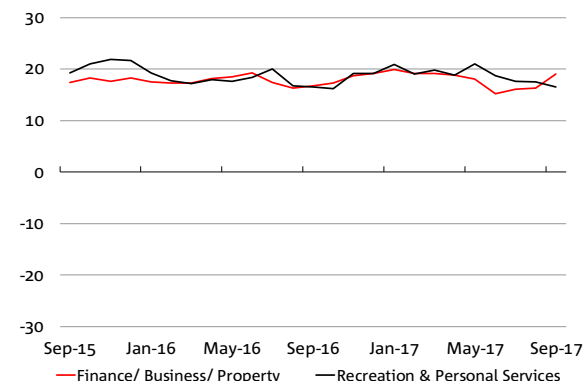
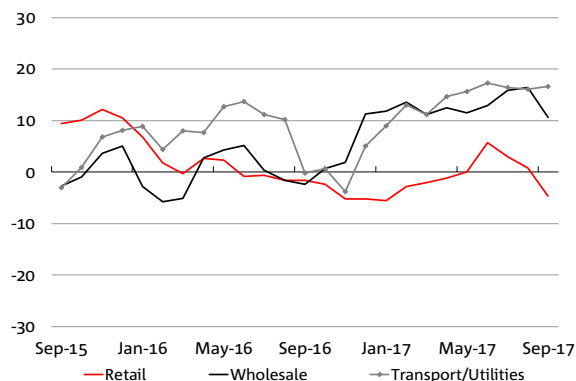
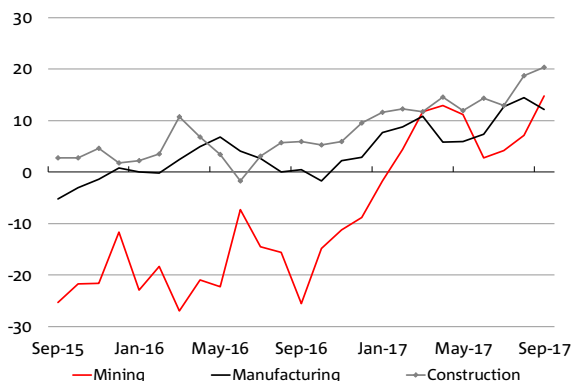


INDUSTRY BUSINESS CONDITIONS & CONFIDENCE

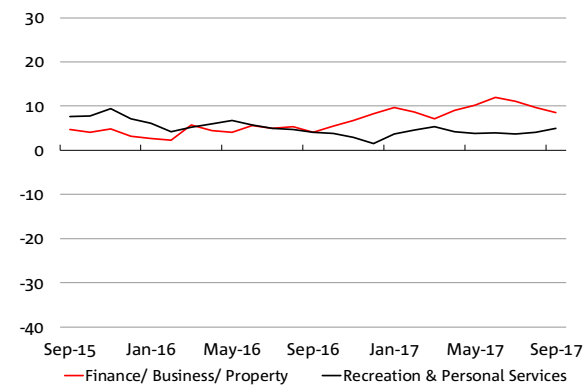
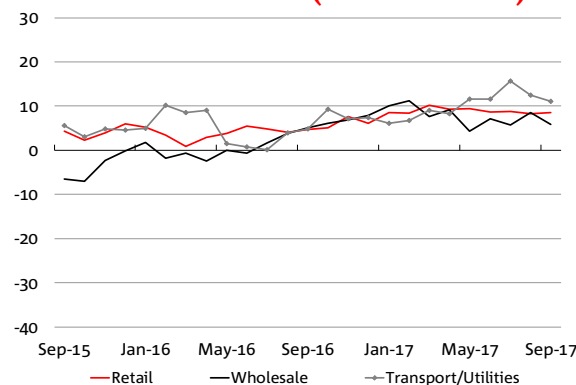
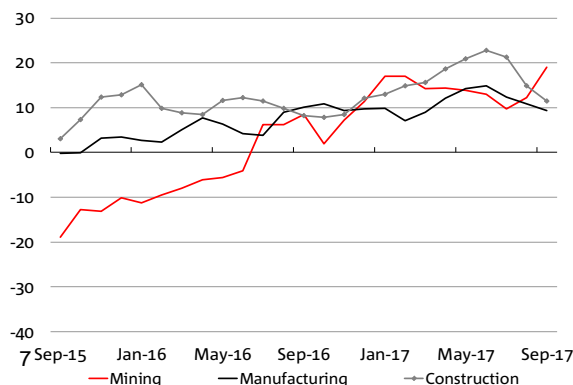
Retail continues to deteriorate despite reasonably confident firms

- Most industries are continuing to enjoy above average levels of **business conditions**. Retail is still the main exception, with conditions re-establishing a clear downward trend that has taken the index back into negative territory (-5, trend terms). In stark contrast, the construction industry has seen a steady improvement in conditions over the past year or more, likely spurred on by public investment in infrastructure and high levels of residential construction activity, and is currently seeing the highest levels of business conditions in the survey (+20 in trend terms). Meanwhile, mining has gone from strength to strength since mid last year, which might reflect a ramping up of exports and higher commodity prices, although prices for some bulks such as iron ore and coking coal have come off sharply of late.
- Despite the deterioration in retail conditions, **confidence** levels in the industry remain surprisingly upbeat. That could suggest an anticipated turn-around by firms, although weak retail **forward orders** suggest not. Elsewhere, business confidence was positive for all industries, with mining leading the way (+19, trend terms). At the aggregate level, forward orders eased slightly in September, with falls occurring in manufacturing (down 13), construction (down 6) and wholesale (down 4). Orders are highest in construction (+17, in trend terms), consistent with elevated residential building approvals, while they are negative for retail (-3). Mining and wholesale **capital expenditure** are highest in trend terms, although most are positive (retail (-3) and fin/prop/bus services (zero) are the exception).

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



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

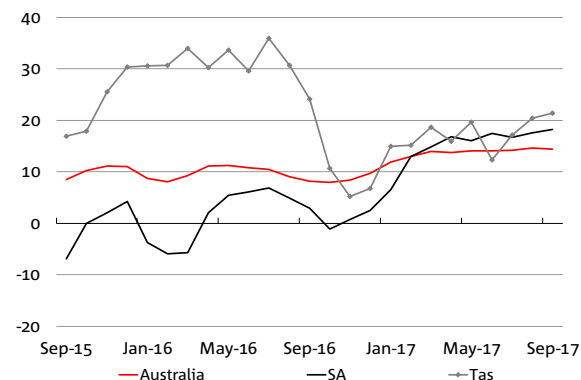
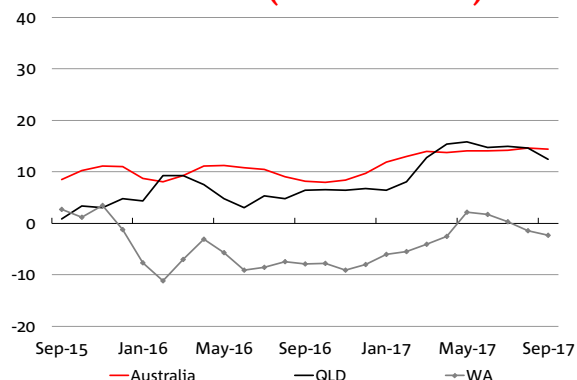
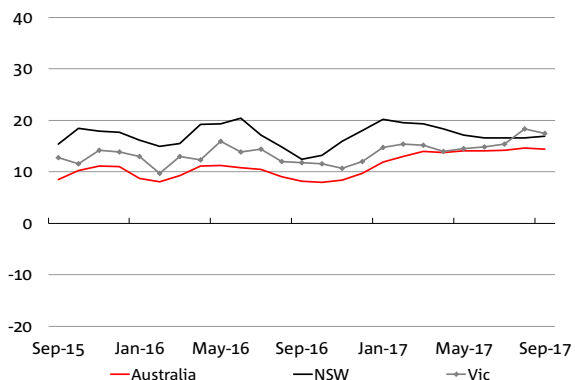


STATE BUSINESS CONDITIONS & CONFIDENCE

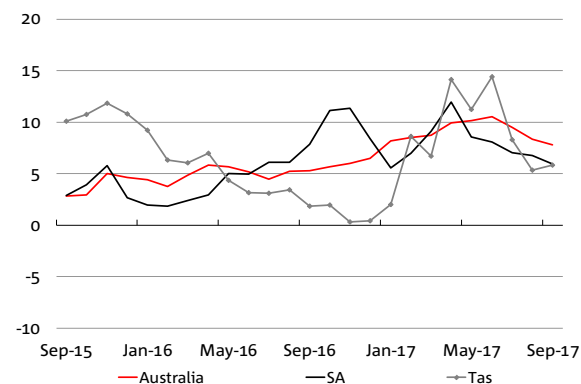
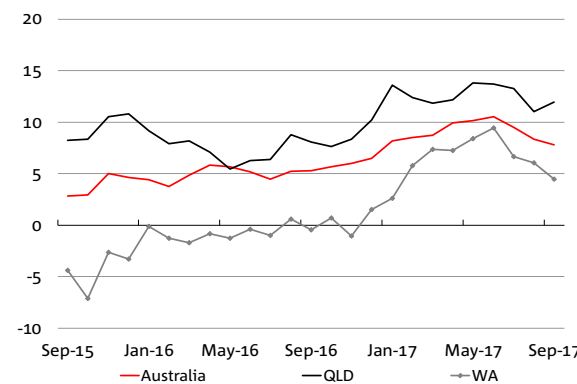
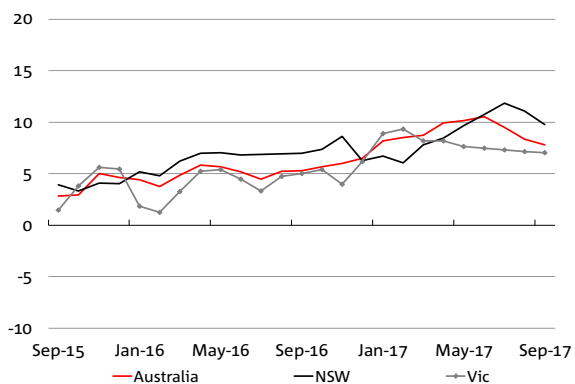
WA remains a standout, for the wrong reasons

- Of the mainland states, **business conditions** in September were higher for NSW (up 5) and Western Australia (up 3), but they were fully offset by falls in Victoria (down 10) and South Australia (down 6) – Tasmania also saw a sizeable decline. WA remains the only state in negative territory, while all other states remain quite solid. Abstracting from monthly volatility, SA has moved into the top spot for the mainland states, with trend conditions sitting at +18 index points. The other states are following close behind however, with NSW and Victoria at +17 and QLD on +12 index points. Conditions in WA have improved considerably since last year, but they are now clearly trending lower again (easing to -2 in trend terms). Tasmania continues to report the highest level of conditions.
- Most states saw an improvement in **business confidence** this month, although NSW was an exception. Of the mainland states, confidence is highest in trend terms for QLD (+12), but lowest in WA at +4 index points (trend).
- Employment conditions** (trend) are positive in all states. Consistent with trends in business conditions, the employment index is currently lowest in WA at just +1 index points, and while this is still a notable improvement from the extremely negative levels seen in late 2016, it has started to trend down again. NSW is now seeing the highest level of employment conditions, rising further in the month (to +12, trend terms), while QLD, Victoria and SA are all sitting around similar levels (+6-8).

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



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



Group Economics

Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities

Riki Polygenis
Head of Australian Economics
+61) 475 986 285

James Glenn
Senior Economist – Australia
+61) 455 052 519

Amy Li
Economist – Australia
+61 3) 8634 1563

Phin Ziebell
Economist – Agribusiness
+61) 475 940 662

Behavioural & Industry Economics

Dean Pearson
Head of Behavioural & Industry Economics
+(61 3) 8634 2331

Robert De lure
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 3837

Steven Wu
Economist – Behavioural & Industry Economics
+(613) 9208 2929

International Economics

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Global Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it. Please click [here](#) to view our disclaimer and terms of use.

