

# NAB MONTHLY BUSINESS SURVEY

September 2017

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By Group Economics

Business conditions stayed rock solid in September, while confidence edged up following the big decline last month. Business conditions are holding at levels just 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 conditions at negative levels. Reads on the labour market from the Survey are generally quite encouraging, despite a slight pull-back in employment conditions this month – including a modest upward trend in labour costs. Signs of inflation pressures are, however, still quite mixed. Overall, results from the Survey are suggesting a very strong business sector in Australia. That is yet to translate into comparative strength in the broader economy, potentially signalling ongoing risk aversion by firms. In that context, it will be important to keep an eye on business confidence, which has started to trend lower in recent months (albeit holding modestly above long-run average levels).

	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

## BUSINESS CONDITIONS ARE STRONG, BUT RETAIL IS STILL A SIGNIFICANT CONCERN

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). Business confidence has been giving a much more mixed signal than conditions. The latter index ebbed higher, rising 2 points to +7, following a sharp deterioration last month, but that is only modestly above the long-run average for the series and the trend appears turned down again.

According to Mr Alan Oster, NAB's Chief Economist, "Business conditions at these levels tell us that the business sector in Australia is doing very well. We have certainly seen that reflected to some degree in areas like corporate profits and jobs growth, but other aspects of the economy – such as business investment – have been somewhat disappointing in comparison. In that context, it will be important to keep an eye on the recent softer trend in business confidence".

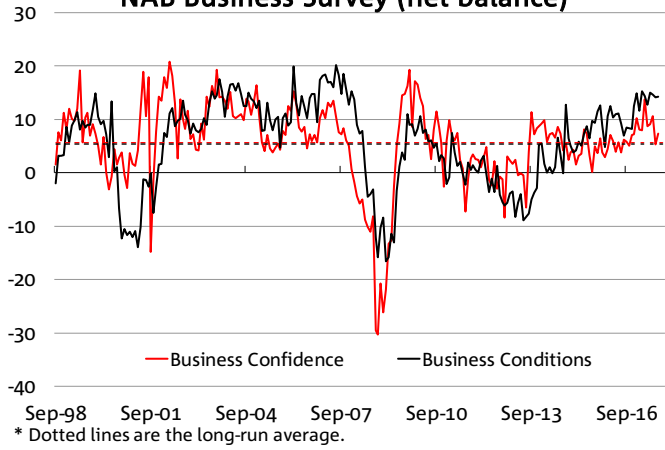
The construction industry is currently leading the way with the highest business conditions, although most industries are following close behind. Retail continues to be the main exception, with conditions in negative territory and apparently trending lower. "The sustained weakness in retail conditions should justifiably be raising doubts around expectations for any imminent (and sustained) rebound in consumer spending, although tough competition and other margin pressures are likely behind the result as well" said Mr Oster.

By component, employment conditions gave back last month's gains but that was offset by a rebound in both trading conditions (sales) and profitability. According to Mr Oster, "despite the pull-back in employment conditions this month, the index remains at levels that imply employment growth that is strong enough to put more downward pressure on the unemployment rate." Labour cost pressures (a wage bill measure) eased back a little in September, but have shown a modest upward trend in the Survey. "While this isn't a measure of average wages, it could suggest we may soon see some modest pass-through of tighter labour market conditions to average wages." said Mr Oster. The Survey's other measures of inflation were mixed.

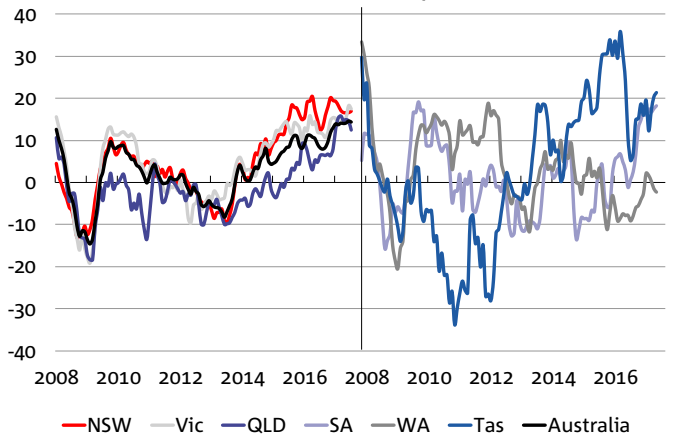
Meanwhile, the capacity utilisation rate rose this month, while the survey's measure of capex stayed at reasonable levels. Forward orders – which appear to be giving a more accurate read on the strength of the economy – eased back, albeit still suggesting quite solid non-mining demand.

"Limited pass-through of lofty business conditions to the broader economy could be 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. 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. 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" said Mr Oster. Updated economic forecasts will be released tomorrow.

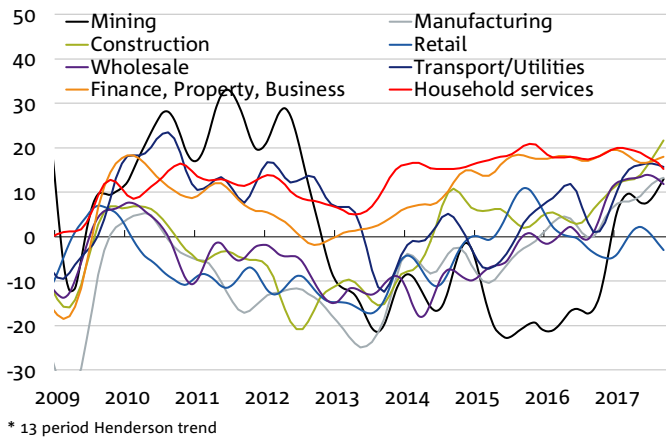
**NAB Business Survey (net balance)**



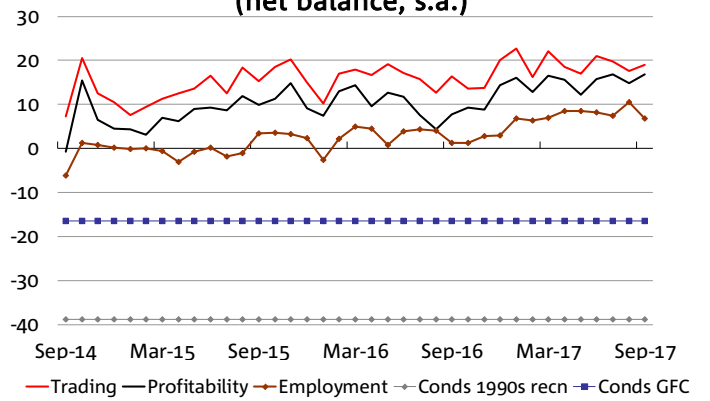
**NAB Business Conditions by State (3mma)**



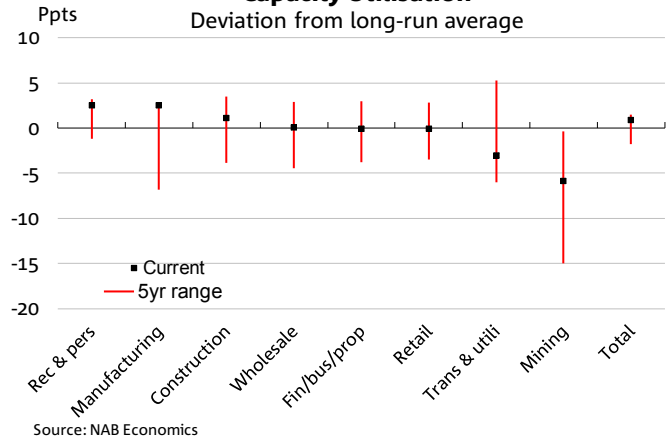
**NAB Business Conditions by Industry\***



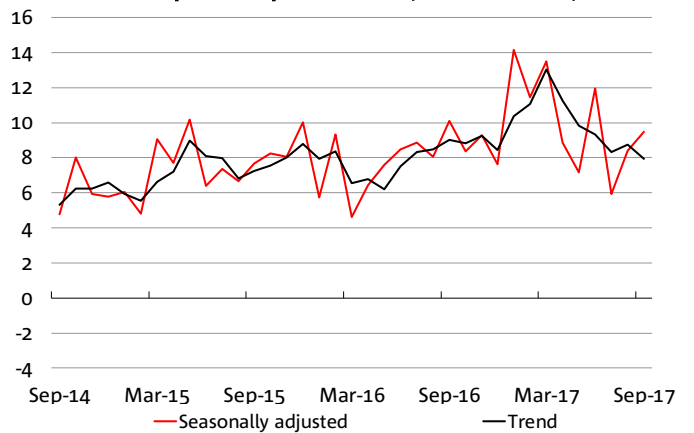
**All components of business conditions (net balance, s.a.)**



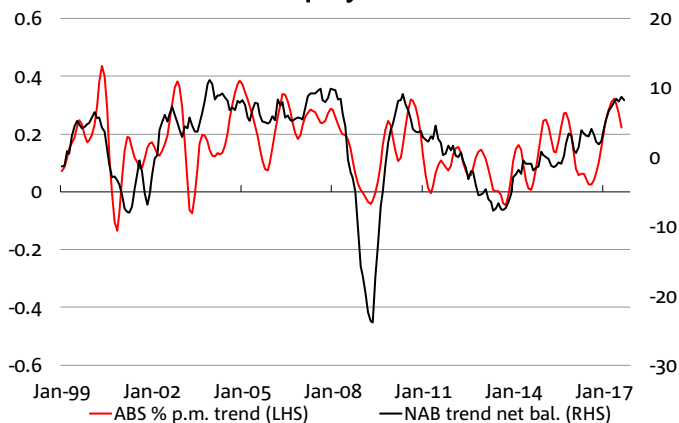
**Capacity Utilisation**



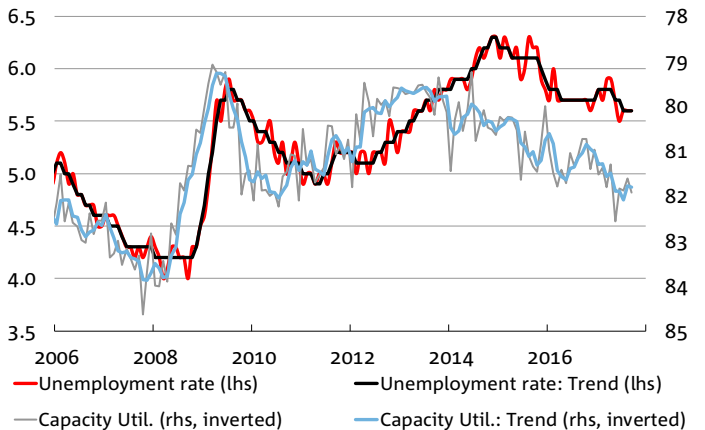
**Capital Expenditure (net balance)**



**Employment**



**Capacity Utilisation & Unemployment**



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