

NAB MONTHLY BUSINESS SURVEY

NOVEMBER 2017

NEXT RELEASE:
30 JAN 2018 – DECEMBER MONTHLY



Key points:

- **Last month's surprise spike in business conditions was more than unwound in November, although we had flagged the high likelihood of a pull-back.** Despite the drop, business conditions remained at a reasonably solid +12 index points (down 9), which is still well above the long-run average for the series. The deterioration was experienced across most industries in the survey, although construction was a clear exception as it continues to see the benefits of a large residential property pipeline, infrastructure spending, and an apparent lift in non-residential construction activity. The retail industry still sits at the other end of the spectrum, dipping back into negative territory this month. **By component, the big jumps in trading conditions (sales) and profitability were unwound, while the employment index held steady at previous levels – still implying solid employment growth and moderate downward pressure on the unemployment rate.** There were some modest signs of upstream and wage price pressures in the Survey this month, although pass-through to end users remains quite elusive.
- **The business confidence index continued its recent (gradual) downward trend, falling 3 points, to +6 index points in November.** Firms indicated that since the last quarterly NAB Business Survey, wage pressures had become more of a concern in instances where business confidence had deteriorated. Concerns about the demand outlook also feature prominently, although that does not appear to have had an adverse impact on either the Survey's measure of capex or employment demand. Meanwhile, capacity utilisation rates were steady this month. Encouragingly, **forward orders, which appear to be giving a more accurate read on the strength of the non-mining economy, lifted this month** while export conditions were also a little better (the AUD weakened against major trade-weighted currencies in November).
- **Solid business investment was a clear standout in last week's National Accounts for Q3. The result was consistent with the underlying strength long evident in NAB's Business Survey, and is broadly expected to continue given the still lofty levels of business conditions – even after the pullback this month.** However, the weakness in household consumption in Q3 was just as striking. Such subdued demand is clearly having an impact on retail conditions and there is little evidence in the Survey that the situation will improve. That said, some tentative signs of wage growth in the Survey will be encouraging for consumer spending if sustained, which is a possibility given the ongoing strength in demand for labour – employment conditions in the Survey still point to further modest improvement in the unemployment rate. Overall, we still think the RBA will be in a position to commence a shift away from emergency stimulus settings by H2 2018 (NAB expect 25bp hikes in August and November 2018). That said, potential hurdles from underemployment, household debt, an elevated AUD and peaks in LNG exports and housing construction will ensure that the RBA proceeds with caution. **More details on our economic forecasts will be released tomorrow.**

Table 1: Key monthly business statistics

	Sep 2017	Oct 2017	Nov 2017		Sep 2017	Oct 2017	Nov 2017
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	8	9	6	Employment	7	7	7
Business conditions	14	21	12	Forward orders	5	3	6
Trading	19	30	16	Stocks	4	2	2
Profitability	17	26	15	Exports	0	-1	2
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	1.1	0.8	1.2	Retail prices	0.4	0.2	0.2
Purchase costs	0.5	0.5	0.7		<i>Per cent</i>		
Final products prices	0.4	0.4	0.3	Capacity utilisation rate	81.9	81.7	81.7

* 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 20 November to 26 November, covering 530 firms across the non-farm business sector.

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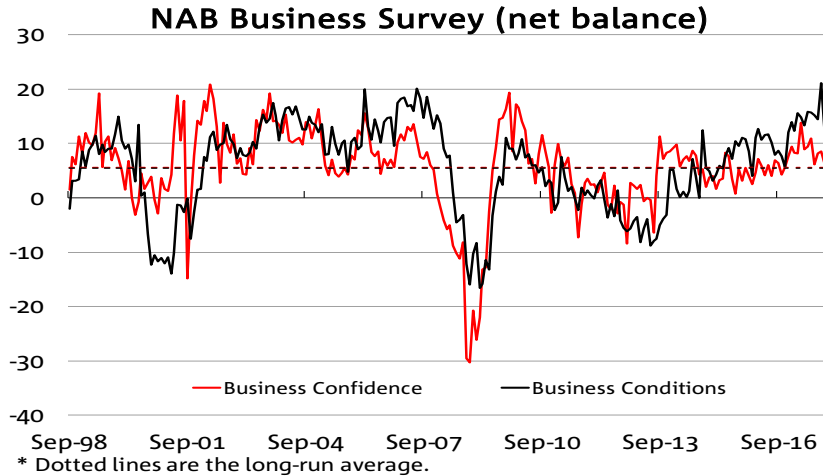
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CONTENTS

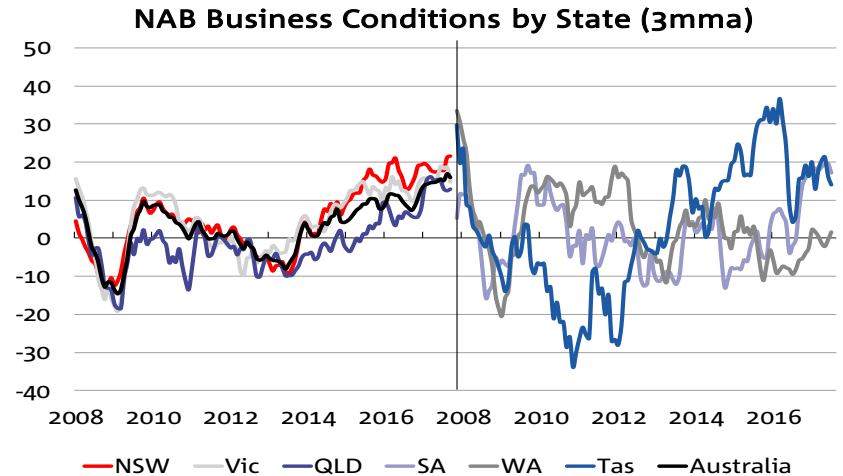
Key points	1
Key charts	2
Conditions, confidence & leading indicators	3
Labour demand & costs	5
Prices & borrowing	6
More details	7
Industry results	8
State results	9

KEY MONTHLY CHARTS

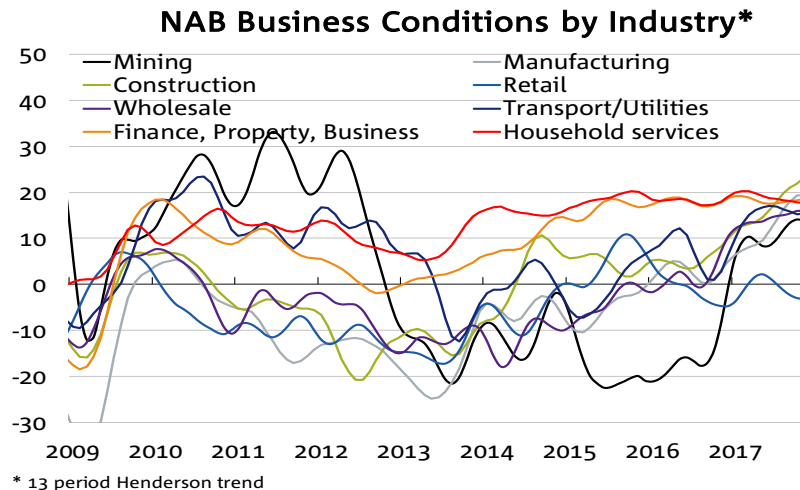
BUSINESS CONDITIONS GAVE BACK LAST MONTH'S GAINS, BUT ARE STILL ELEVATED. CONFIDENCE IS TRENDING LOWER



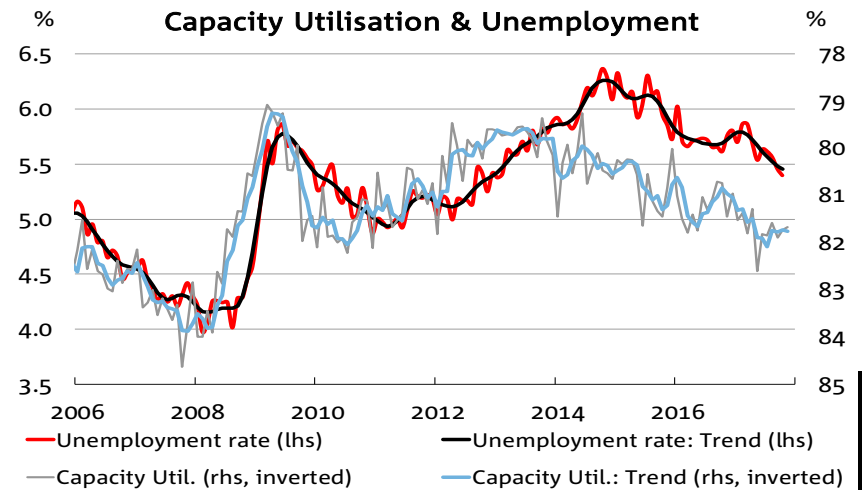
CONDITIONS HOLDING-UP IN MOST STATES, BUT WA STILL TRAILING BEHIND



MOST INDUSTRIES LOOKING SOLID. RETAIL HAS DIPPED BACK INTO NEGATIVE TERRITORY



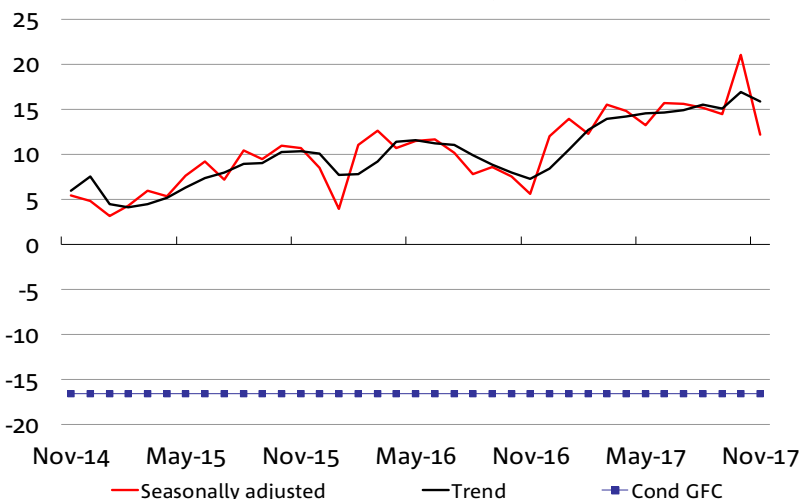
CAPACITY UTILISATION SHOWS LIMITED SLACK – CONSISTENT WITH A TIGHTER LABOUR MARKET



BUSINESS CONDITIONS AND FORWARD INDICATORS

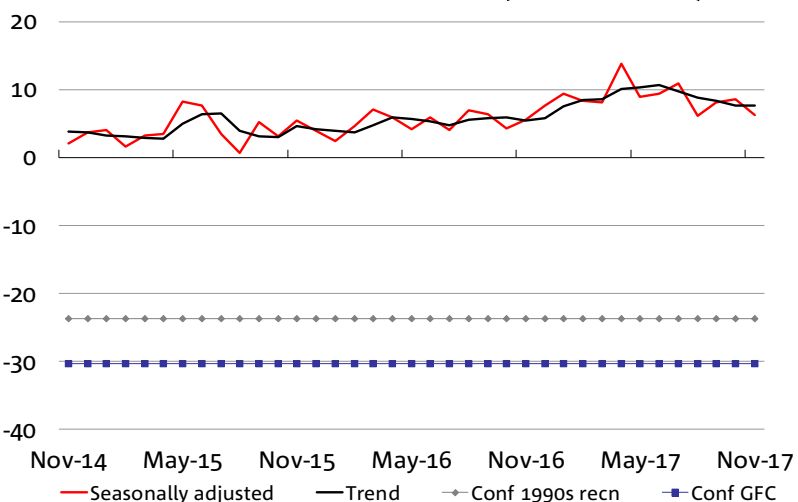
Conditions drop back, but still elevated. Confidence is trending lower.

Business Conditions (net balance)

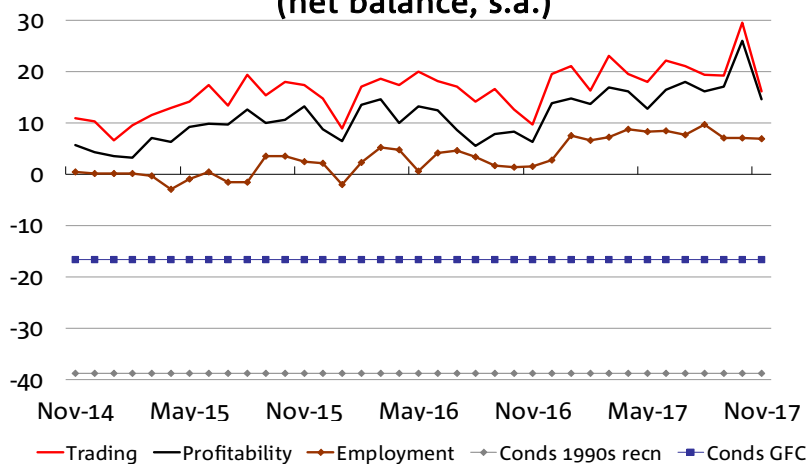


- **Business conditions** more than gave back the sharp gains from last month, with the business conditions index falling 9 points to +12 index points – albeit still well above the long-run average (+5). In terms of the components, all of the volatility has come from trading conditions (sales) and profitability, although both remain at elevated levels. Meanwhile, employment conditions were steady at less lofty (but still solid) track. In trend terms, business conditions remain well into positive territory for all industries excluding retail (more detail on p8).
- **Business confidence** is currently in line with long-run average levels, at +6 index points (down from +9 last month), although there has been a notable downward trend in the series since around the middle of the year. It is possible that firms are reacting to some of the political uncertainties that are present, however, responses in the survey suggest that wage pressures have played a much larger role for firms with lower confidence since the Q2 Survey – on par with an uncertain demand outlook. Confidence levels are currently positive for all industries (see p8 for industry details).
- **By state** there was a deterioration in **business conditions** across all mainland states in November, although all maintained a positive index – WA remains much more subdued than other states however. In trend terms, NSW maintained its top position, with trend conditions at +22, while SA is closest behind at +17. **Business confidence** was positive in most states, although Victoria recorded a surprise negative despite its relatively good economic performance – and may rebound in coming months. Of the mainland states, confidence is highest in trend terms for Qld (+11), but lowest in Vic at +4 index points (see p9 for state details).

Business Confidence (net balance)



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



DRIVERS OF BUSINESS CONFIDENCE

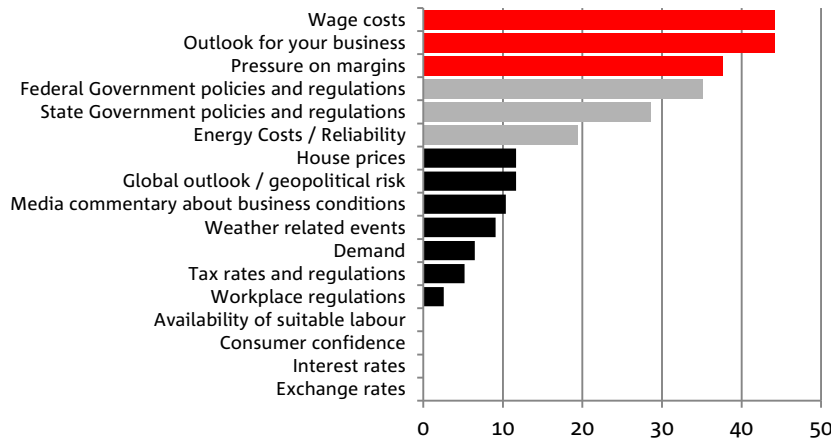
Wage costs are now a much bigger concern for firms with falling confidence.

Most influential issues affecting business confidence

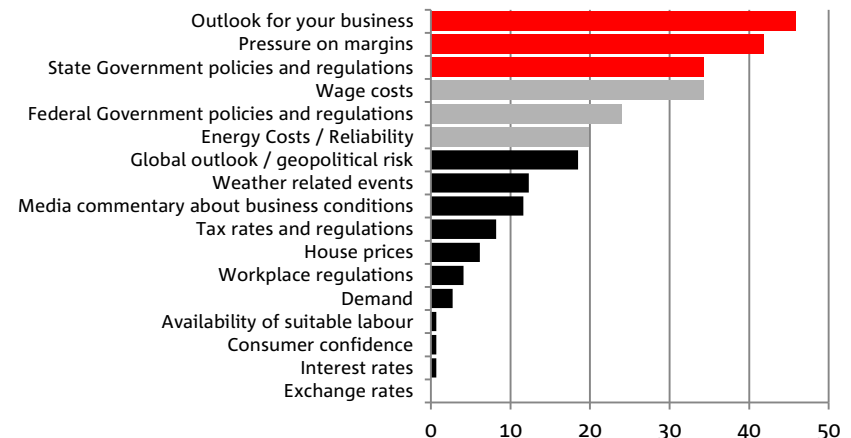


- This month we again added a question in the NAB Business Survey which asks firms about what are the most influential factors impacting their confidence. This question will remain in the Survey going forward, but will only be asked on a quarterly basis.
- The results provide an interesting insight into what is at the forefront of business concerns in Australia. We are still seeing a number of common themes across firms when responding to this question, regardless of whether firms indicated an improvement or a deterioration in confidence recently. In particular, firms tend to be particularly concerned with the outlook for customer demand, pressure on margins, and government policy.
- Costs also tend to feature prominently, although this was much more apparent for wage costs this quarter, with concerns around energy apparently easing back a little. Importantly, firms reporting a deterioration in business confidence placed much greater importance on wage costs than they did last quarter – now on par with the business outlook as their primary concern.
- Geopolitical risks still did not feature in the top 5 concerns for firms. Additionally, it is surprising that lacklustre consumer confidence has not registered as more of a concern for business. For firms reporting weaker confidence, none pointed to consumer confidence as a primary reason for the deterioration.

Most influential issues affecting business confidence - Deteriorating Confidence



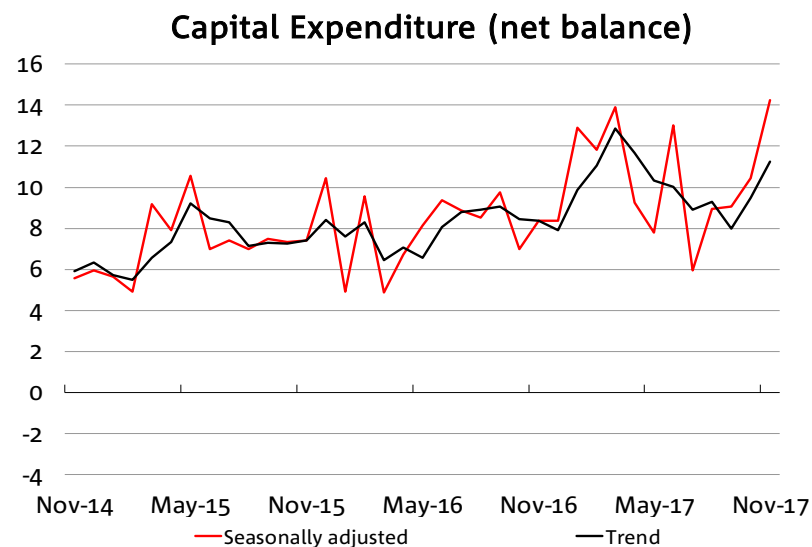
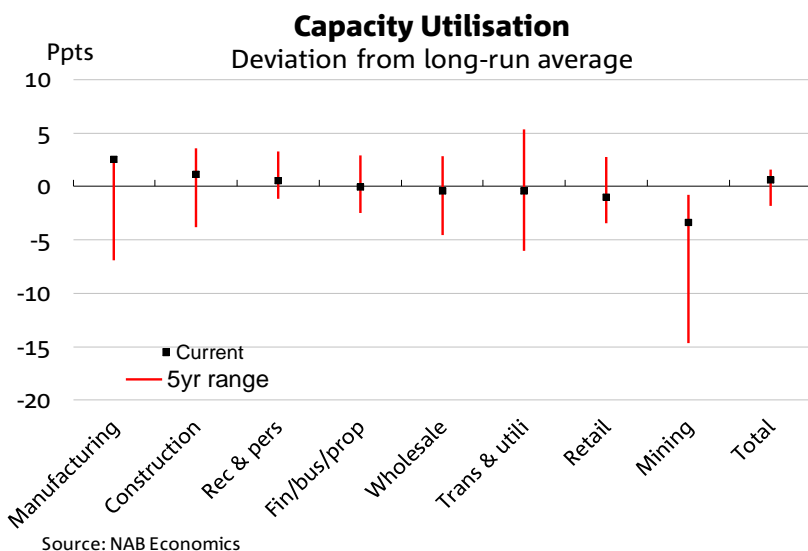
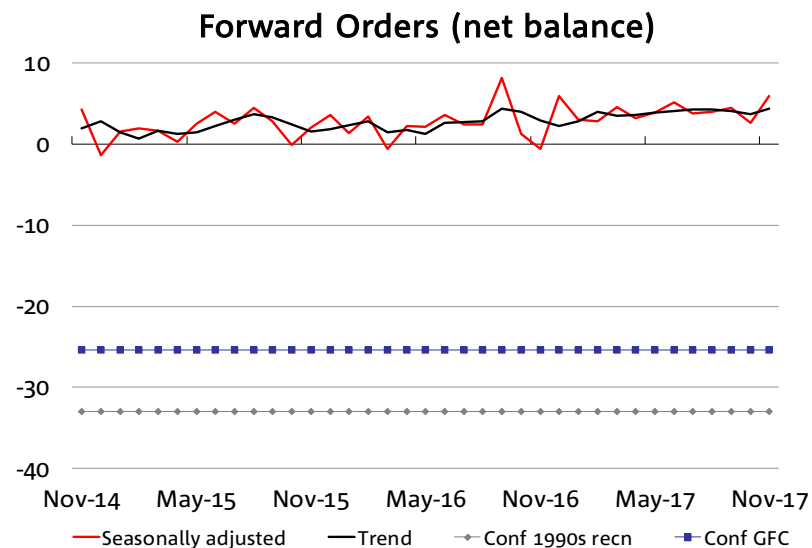
Most influential issues affecting business confidence - Improving Confidence



BUSINESS CONDITIONS AND FORWARD INDICATORS (CONT.)

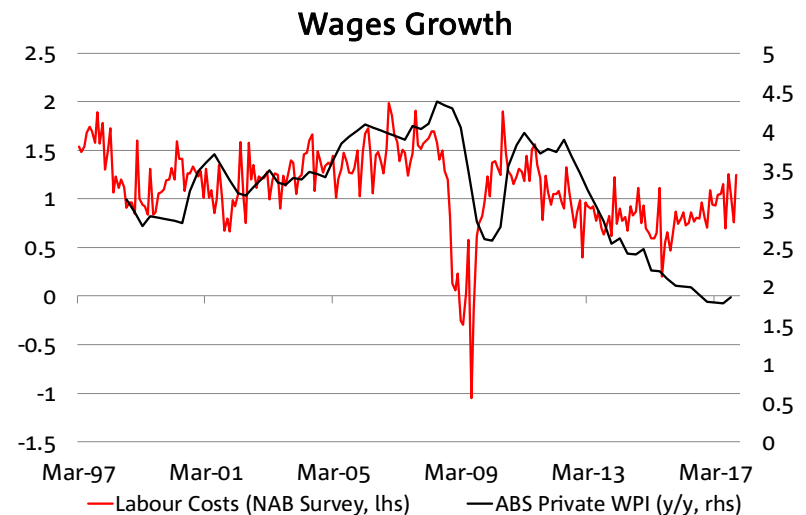
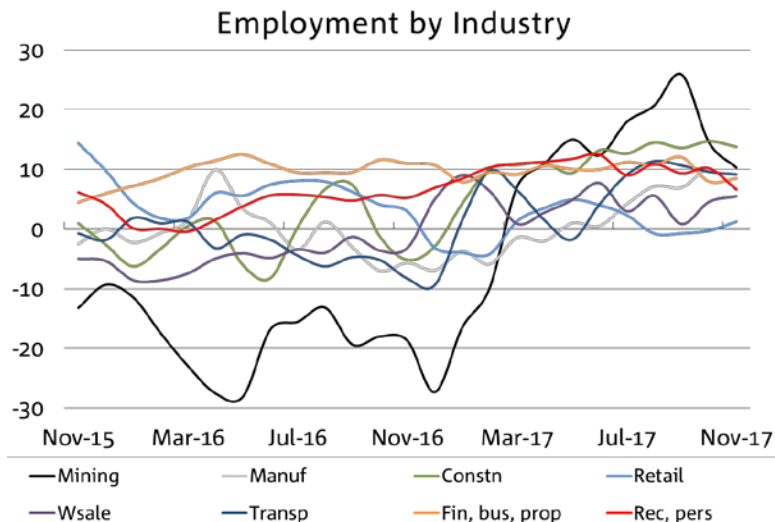
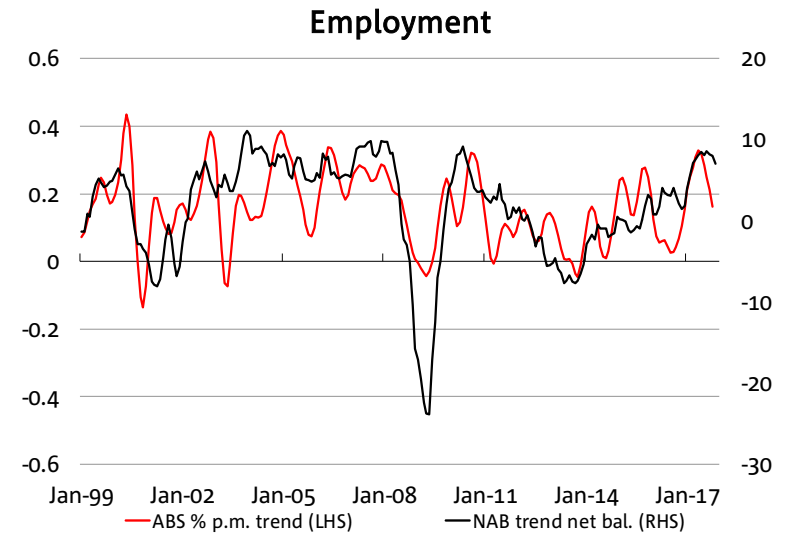
Components of business conditions & leading indicators

- **Forward orders** lifted in November, which is an encouraging sign given its close correlation with momentum in non-mining demand. The index was up 3 points, to +6 index points, which is notably better than the long-run average (zero). Most industries saw a rise in orders during the month, although mining saw an especially large rebound, having shown significant volatility in recent months. There was also an encouraging improvement in retail orders, which might be helping to sustain retail confidence at positive levels (despite easing back this month). In contrast, wholesale orders were unchanged, while personal services orders eased modestly (down 1). Orders were highest in mining (+28 in trend terms), but construction orders are also elevated (+16, in trend terms), reflecting strong residential building activity and improvements in the non-residential sector.
- NAB's measure of **capacity utilisation** was unchanged at 81.7% in November, sustaining the long term positive trend. The mining and retail industries reported spare capacity that was most above normal levels (see industry detail on p8). In contrast, manufacturing, construction and major services industries had much more limited spare capacity than normal, which may trigger additional investment or labour hiring in those industries. The Survey's **capex** measure strengthened again in November, up 4 points to +14 index points, suggesting good levels of investment activity.
- **Cash flow** (not seasonally adjusted) dropped, but are still at elevated levels (chart on p7). It is currently strongest in transport, but weakest in mining (then retail).



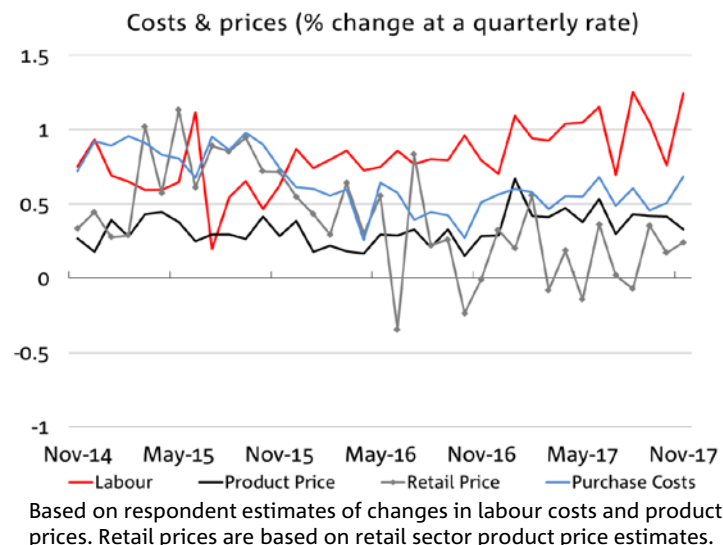
LABOUR DEMAND AND COSTS

- Employment conditions** were steady in November, staying at reasonably solid levels and keeping in line with indications from other data sources, which show that the labour market has continued to tighten. Monthly employment growth has slowed down a little in recent months according to the ABS labour force survey, but the pace of job creation has remained more than sufficient to put downward pressure on the unemployment rate. Solid employment conditions in the NAB Survey suggest the labour market should continue to strengthen in the near-term. 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 20k in October. NAB expect the unemployment rate to gradually drift toward 5% over the next 2 years.
- By industry, a majority of industries actually saw a deterioration in the employment index for November, but that was offset by strength in finance/ property/ business services (up 10 points) and to less an extent mining. The biggest deterioration in the month came from manufacturing (down 13 points), followed by transport (down 5). Looking through the monthly volatility, construction now has the best employment conditions (at +14 index points), followed by mining (+10) which has improved considerably in the survey since the start of this year although recent falls might suggest a loss of momentum as major mining investments (namely in LNG) are completed. Retail still has very soft employment conditions, but the trend is now modestly positive. **Labour costs** growth (a wage bill measure) rebounded somewhat in November, to 1.2% (a quarterly rate, previously 0.8%). Labour cost inflation has been relatively subdued, but trending higher, and suggests higher wage inflation than the ABS WPI (although that could partly reflect strong employment growth). Wage pressures are strongest in mining (at 1.6%), but softest in construction (0.6%).



OTHER COSTS, PRICES & BORROWING CONDITIONS

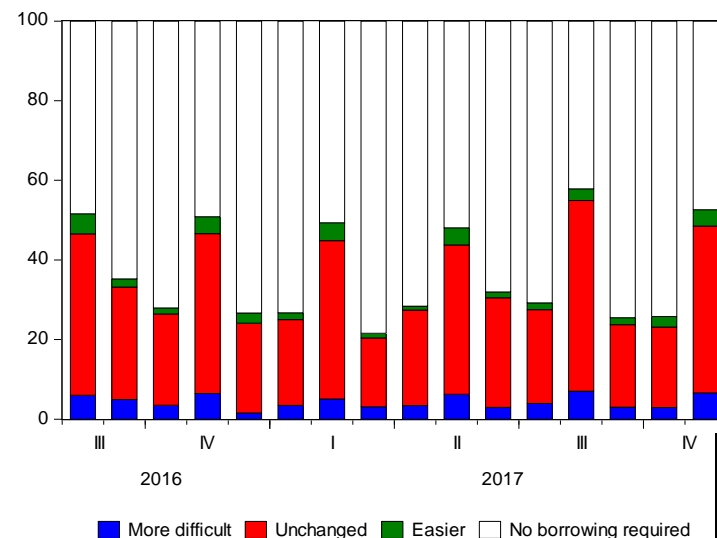
- Growth in **purchase costs** rose modestly in the month, to 0.7% (a quarterly rate, previously 0.5%). This still suggests relatively moderate upstream cost pressures, although momentum is up from H2 last year and is running ahead of other inflation measures. Growth in purchase costs accelerated the most in manufacturing (up 1.1 ppts), while transport decelerated the most (down 0.3 ppts). Overall, purchase cost pressures were strongest in manufacturing (at 1.7%, quarterly rate), and weakest in construction (0.3%) – a surprise given the levels of activity in the sector.
- **Final product prices** growth has again failed to keep up with input costs. Final price inflation eased 0.1 ppt to 0.3% (a quarterly rate) this month, which is well below both purchase cost inflation and labour cost inflation. Retail price inflation remains notably absent also – although it managed to remain in slightly positive territory at 0.2% (unchanged from last month) – which might indicate another soft CPI for Q4 to date. Prices are rising the most in mining, while retail and personal services prices are the softest – a reflection of the cautious spending behaviour by consumers.
- **Borrowing conditions** remained negative in November, although the index has improved of late. Despite that, the demand for credit appears to have softened from 3 months ago. The borrowing index has been negative since early 2016, meaning that on balance, more firms found it more difficult to borrow than easier.



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

Nov-2017	Mining	Manuf	Constn	Retail	Wsale	Trans&utils	Rec.&pers.	Fin,prop.& bus.	Australia
Labour costs: current	1.6	1.0	0.6	0.9	1.2	1.1	1.4	1.0	1.2
Labour costs: previous	1.0	1.1	0.6	0.4	1.3	0.9	0.7	0.7	0.8
Labour costs: change	0.6	-0.1	0.0	0.5	-0.1	0.2	0.7	0.3	0.4
Prices (final): current	1.1	0.3	0.4	0.2	0.4	0.6	0.2	0.3	0.3
Prices (final): previous	2.0	0.9	-0.6	0.2	0.9	0.4	0.3	0.3	0.4
Prices (final): change	-0.9	-0.6	1.0	0.0	-0.5	0.2	-0.1	0.0	-0.1
Purchase costs: current	1.0	1.7	0.3	0.5	0.9	0.4	0.4	0.4	0.7
Purchase costs: previous	0.4	0.6	0.4	0.2	0.7	0.7	0.5	0.6	0.5
Purchase costs: change	0.6	1.1	-0.1	0.3	0.2	-0.3	-0.1	-0.2	0.2

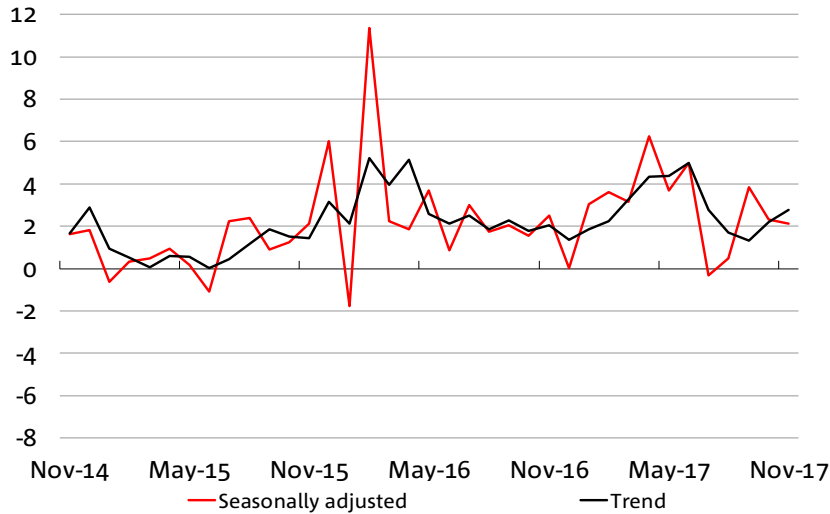
Borrowing conditions (% of firms)



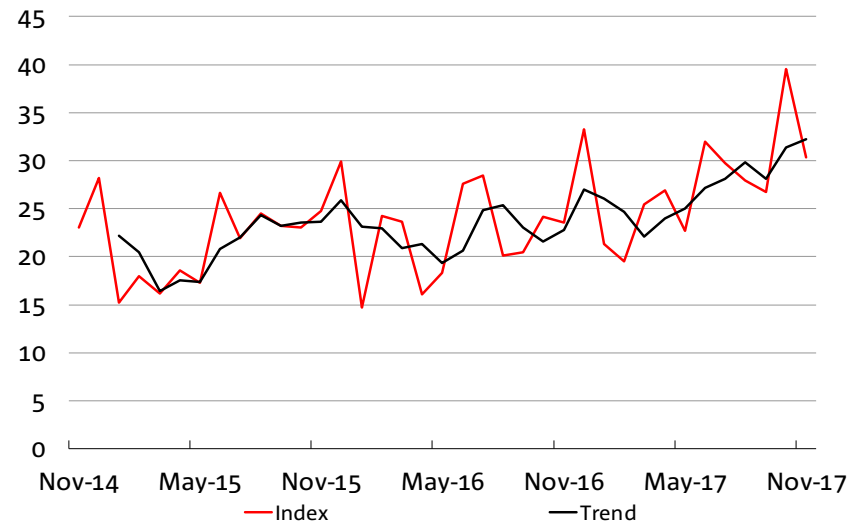
MORE DETAILS ON BUSINESS ACTIVITY

Export conditions rebound on softer AUD. Cash flows still elevated despite drop.

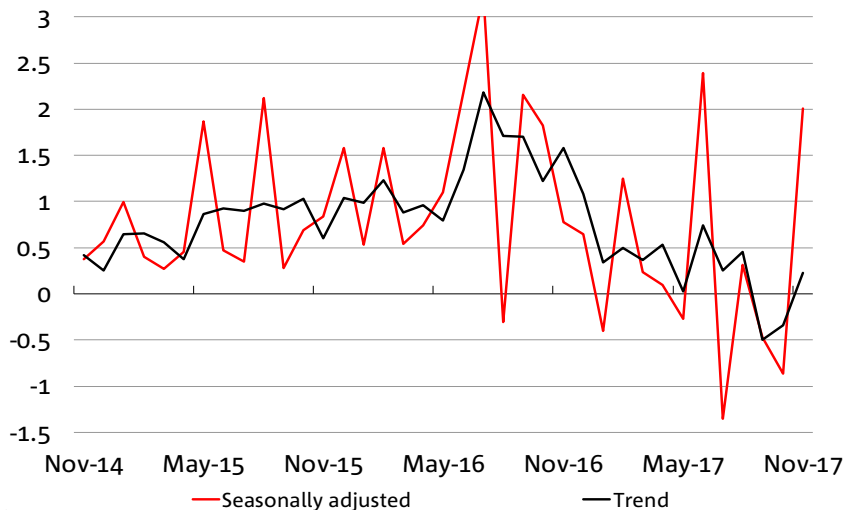
Stocks (net balance)



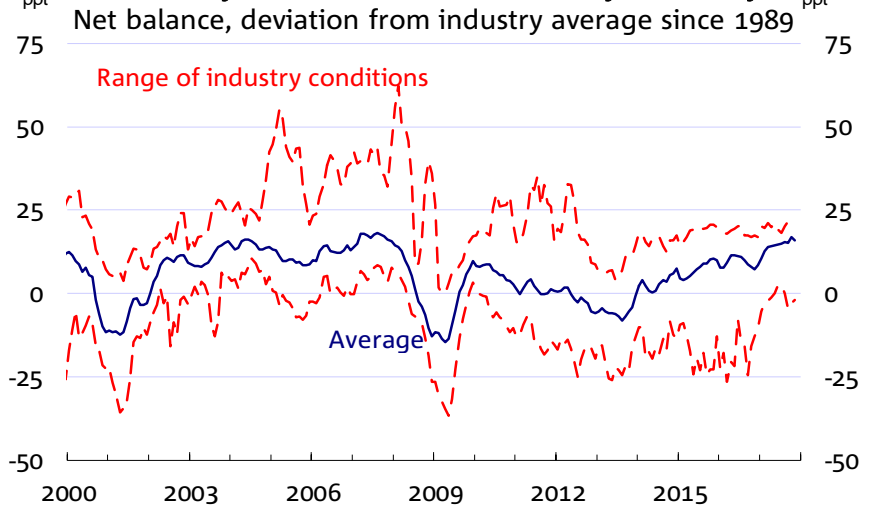
Cash Flows (net balance, nsa)



Exports (net balance)



Monthly Business Conditions by Industry

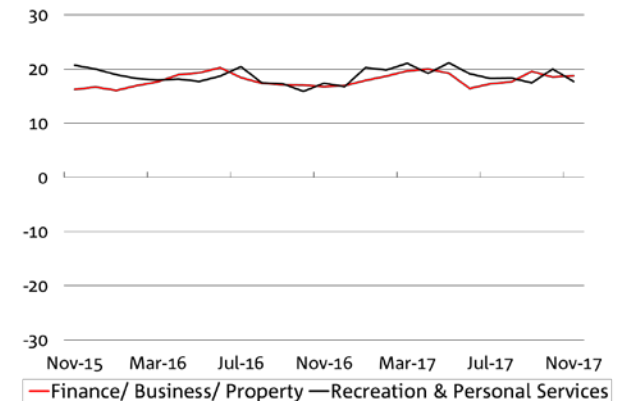
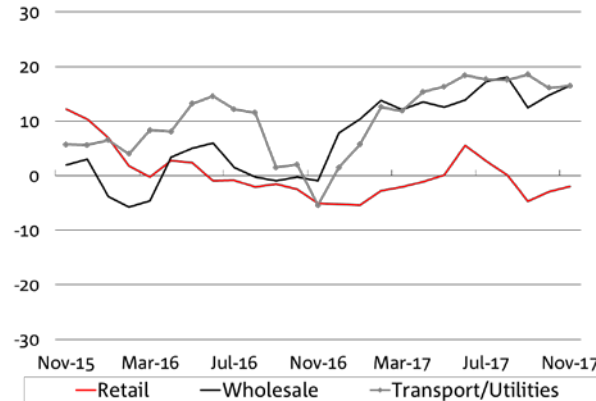
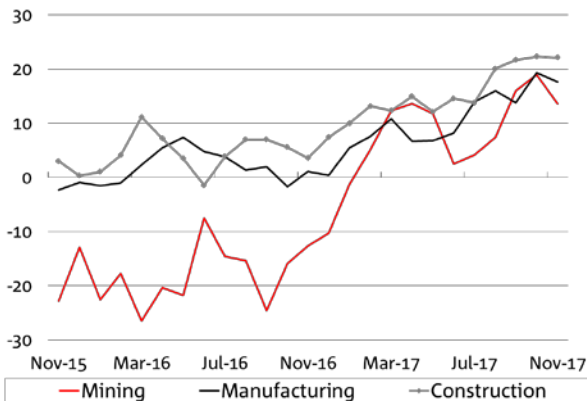


INDUSTRY BUSINESS CONDITIONS & CONFIDENCE

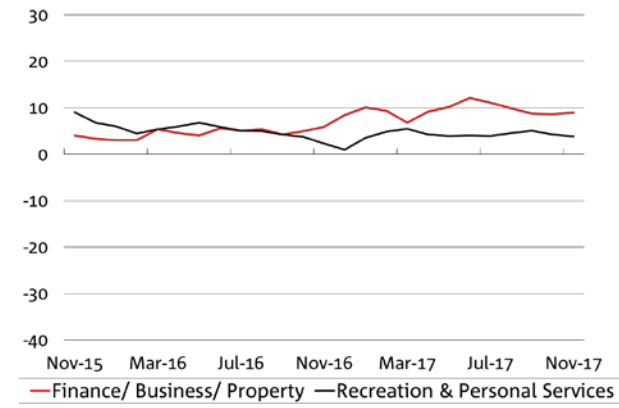
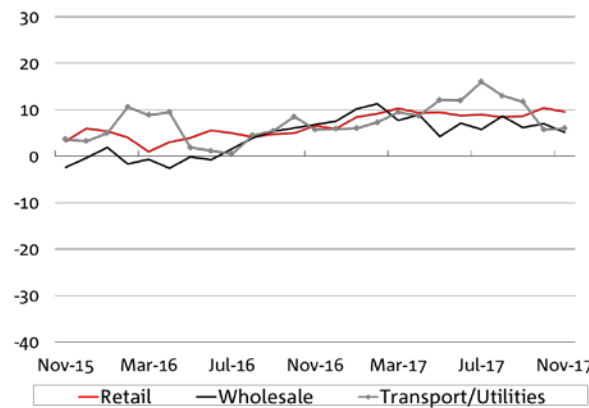
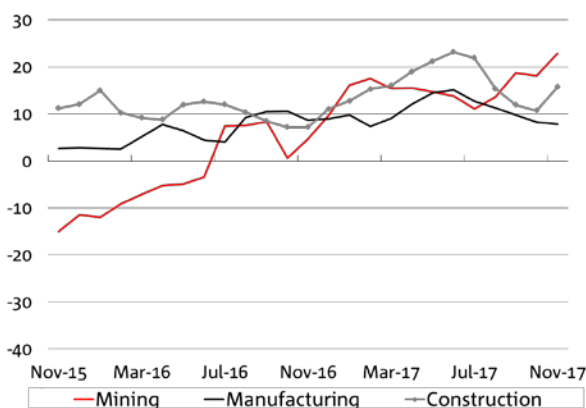
Business conditions and confidence are solid across most sectors

- The fall in **business conditions** during November was relatively broad-based across industries, with construction recording the only increase. Despite the falls, all industries outside of retail are still seeing quite elevated levels of conditions. The construction industry is performing incredibly well (+22 index point, in trend terms), thanks to support from both a large pipeline of residential construction and a likely improvement in non-residential construction activity. Meanwhile, given some of the disappointing reads on consumer spending of late, it is no real surprise that retail conditions continues to languish in negative territory (-2 in trend terms).
- Business confidence** has remained in positive territory across all industries in November, however, we are seeing a clear downward trend in confidence at the aggregate level. Construction, manufacturing and transport appear to be the major drivers behind the moderation, although confidence in each of these sectors remains fairly elevated in trend terms. In contrast, confidence in the mining industry appears to have gone from strength to strength, which could be interesting in terms of the implications for future capex. Confidence is currently the weakest for personal services in trend terms (+4), but strongest in mining (+23).

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



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

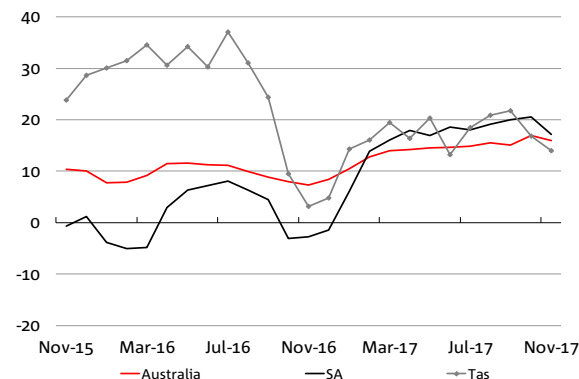
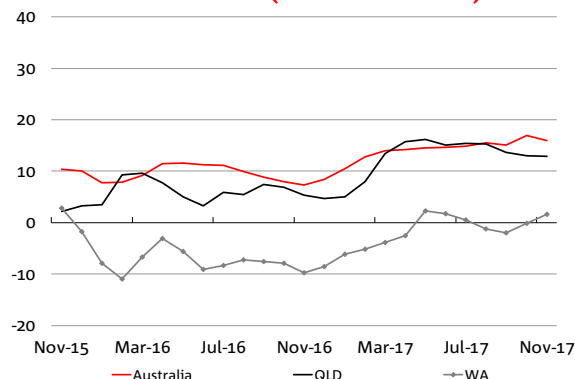
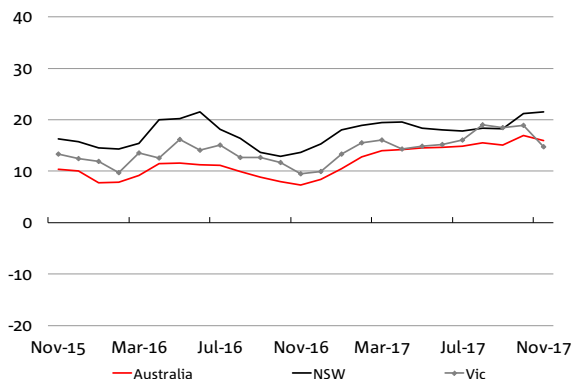


STATE BUSINESS CONDITIONS & CONFIDENCE

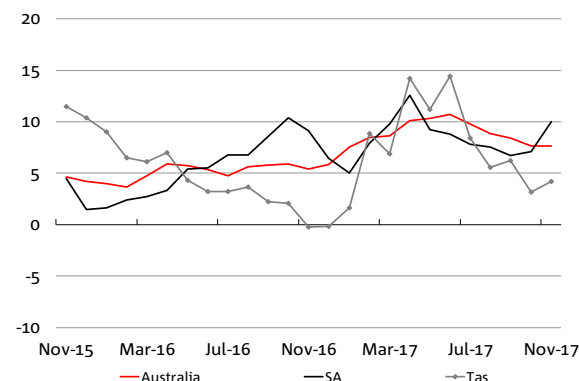
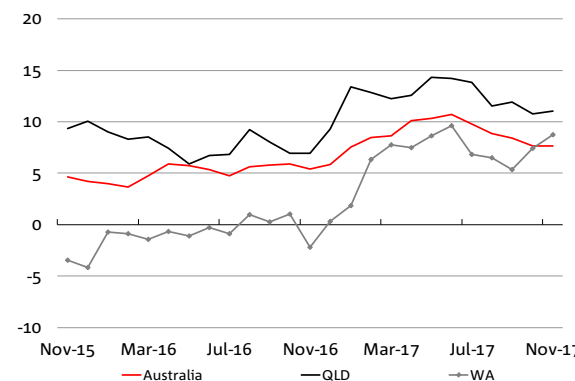
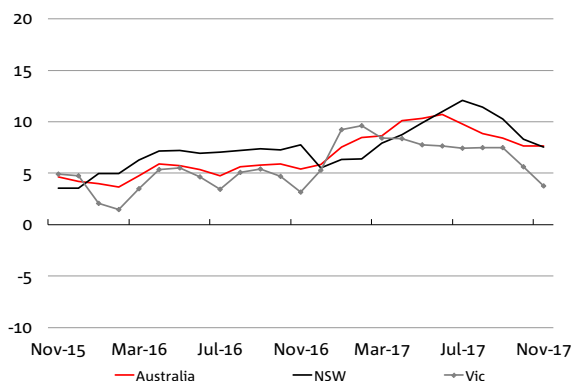
NSW still seeing the best conditions. Surprise drop in Victorian confidence

- **Business conditions** were lower in all mainland states in November, but the trend was more mixed. NSW saw the biggest drop (down 13), having seen the biggest gains last month. Look through the volatility however, NSW has maintained its top position across the states (+22 index points, trend). Most other states are following close behind, with SA at +17 (trend), Victoria at +15 (trend) and Qld on +13 index points (trend). Conditions in WA have improved since last year, but are still at quite subdued levels (currently at +2 in trend terms), albeit with a modest upward trend at present.
- The change in **business confidence** was a little more varied across the states this month. WA recorded an improvement (up 6), while SA was unchanged in November. The other mainland states deteriorated, with Victoria seeing a surprising decline into negative territory (down 7 to -1 index points). In trend terms, the level of confidence is still highest for Qld (+11), while Victoria is the lowest of the mainland states at +4 index points (trend) – a surprise given some of the broader economic trends.
- **Employment conditions** (trend) are positive in all states outside of WA (currently -3 index points), which has continued to worsen in recent months – albeit still a notable improvement from the extremely negative levels seen in late 2016. NSW is seeing the highest level of employment conditions by a significant margin, rising 1 point in the month (to +13, trend terms), while QLD, Victoria and SA are all sitting around similar levels (+5-7).

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



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



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