

# NAB MONTHLY BUSINESS SURVEY

## November 2017

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By Group Economics

Last month's surprise spike in business conditions was more than unwound in November, although that was partly expected. Despite the drop, business conditions remain well above the long-run average and are at solid levels across most of the economy. Forward orders were stronger as well. The construction industry is looking particularly good, but the retail sector is still lagging behind. Additionally, most states are seeing very solid business conditions, although WA is only moderately positive. The Survey's employment index held steady at previous levels, pointing to adequate jobs growth that should further lower the unemployment rate. Wage costs picked-up this month, coinciding with reports from some firms that wage costs are impacting confidence. Last week's National Accounts again highlighted the growing divide between the relatively upbeat business sector and seemingly restrained households. The NAB Survey suggests that trend may continue going into Q4, and we are continuing to watch the softer trends in confidence and the retail sector, as both can have significant implications for the outlook.

	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

## BUSINESS CONDITIONS DROP BUT ARE STILL ELEVATED. TENTATIVE SIGNS OF WAGE GROWTH

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). Meanwhile, 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.

According to Alan Oster, NAB Group Chief Economist “we expected to see last month's spike in business conditions unwound fairly quickly as it both came as a bit of a surprise, and was also out of sorts with what we were seeing in some of the other leading indicators from the survey, such as forward orders. But even after this decline, business conditions are still very much above the long-run average and suggest to us that Australian business are quite happy with how things are going. That said, we are paying close attention to what now appears to be a downward trend in business confidence as that could naturally have some implications for decisions around hiring and investment. Meanwhile, forward orders – which have had a close relationship with non-mining activity – were stronger this month”.

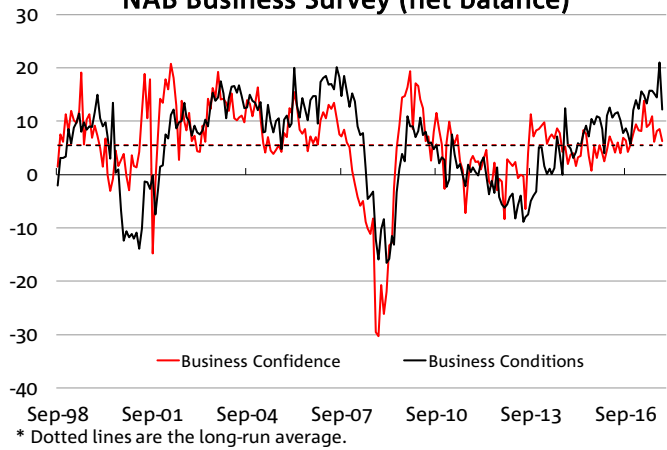
Most industries reported weaker business conditions in November, although almost all are at very elevated levels. “The construction industry has been a clear standout in the Survey and was the only industry where business conditions did not fall in November. The industry continues to see the benefits of a large residential property pipeline, infrastructure spending, and an apparent lift in non-residential construction activity”, said Mr Oster. The retail industry still sits at the other end of the spectrum, dipping back into negative territory this month. Mr Oster added that “the subdued conditions in retail have been a major concern for some time now, and that was manifested in a very disappointing outcome for household consumption in the third quarter National Accounts. We may see a bit of a rebound in Q4, but retailers do not appear to be seeing it.”

By component, the big jumps in trading conditions (sales) and profitability were unwound this month. According to Mr Oster, “in contrast to the other components, NAB's employment index has been reassuringly steady over recent months, holding at levels that suggest further job gains and lower employment, which may help to spur a turnaround in wages growth and therefore consumer spending. Indeed, we saw some tentative signs of higher wages in the Survey, although that does appear to be weighing on the confidence of some firms as well.” Meanwhile, the capacity utilisation rate was steady this month, but the survey's measure of capex was much stronger.

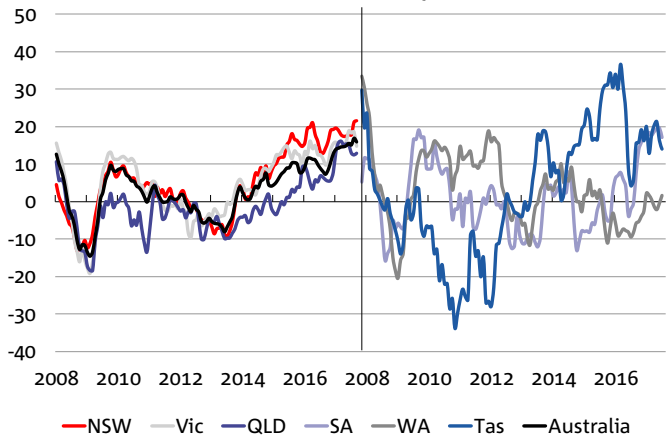
“Overall, there was nothing in this month's Survey that would prompt us to alter our view of the Australian economy. We remain cautiously optimistic that Australia will see temporarily above trend economic growth in coming quarters, and while there are still some significant challenges to the outlook, support from business investment and infrastructure construction should be enough to prompt the RBA to consider a gradual removal of emergency policy stimulus. We maintain our expectation for the first RBA hike to come in the second half of next year, but only if the labour market and wages improve further” said Mr Oster. Updated economic forecasts will be released tomorrow.

NAB Monthly Business Survey

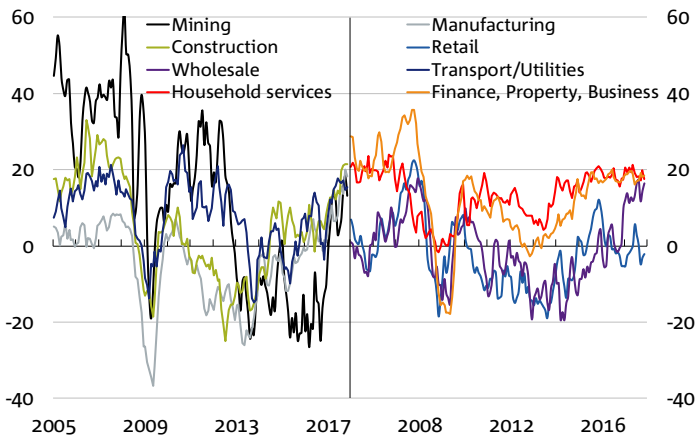
NAB Business Survey (net balance)



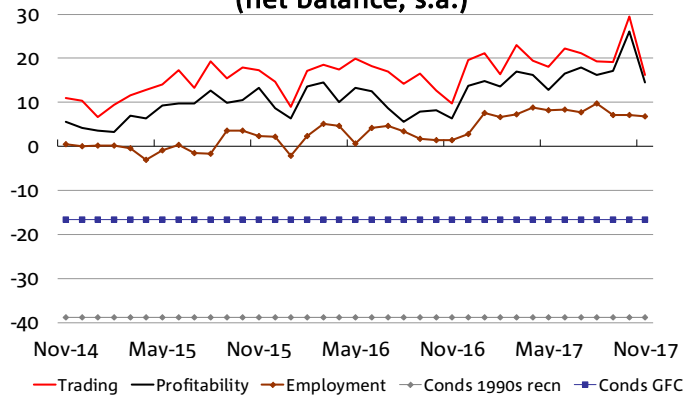
NAB Business Conditions by State (3mma)



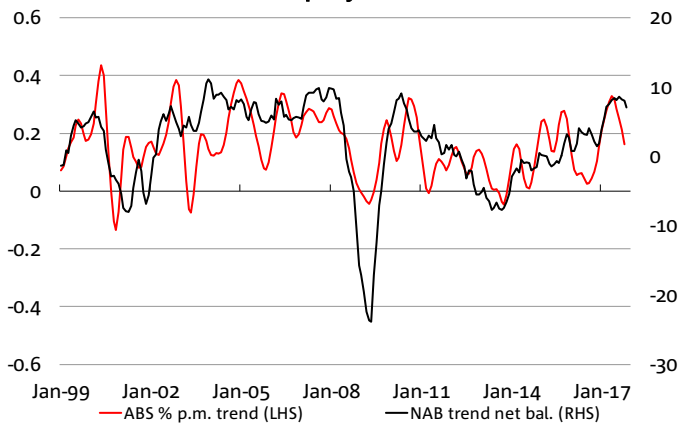
NAB Business Conditions by Industry (3mma)



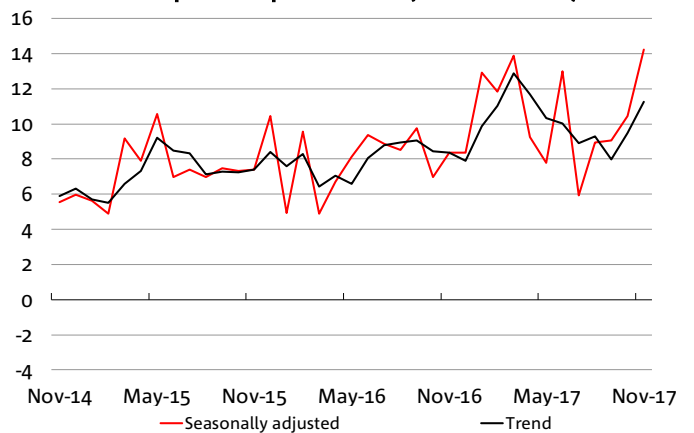
All components of business conditions (net balance, s.a.)



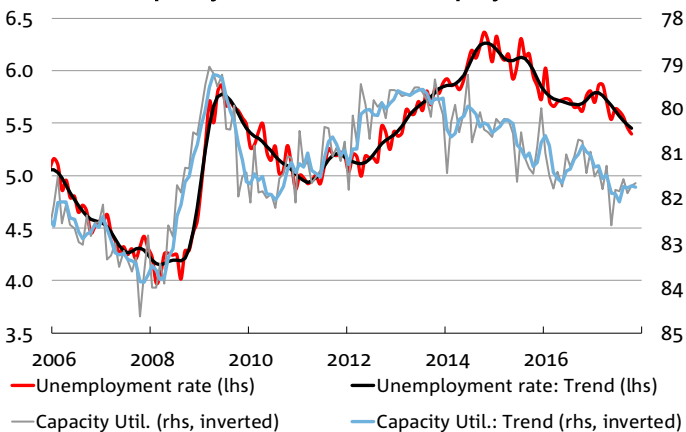
Employment



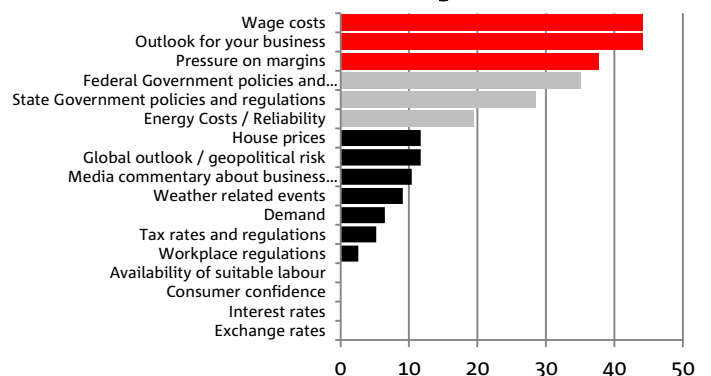
Capital Expenditure (net balance)



Capacity Utilisation & Unemployment



Most influential issues affecting business confidence - Deteriorating Confidence



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