

NAB MONTHLY BUSINESS SURVEY

December 2017

By Group Economics

Embargoed until:
11:30am Tuesday 30 January 2018



CONFIDENCE LIFTED TO NARROW THE DIVIDE WITH BUSINESS CONDITIONS, INDICATING A STRONG BUSINESS SECTOR IN AUSTRALIA AT PRESENT

The business conditions index was unchanged at a strong +13 index points, which is well above the long-run average of +5 index points.

Meanwhile, the business confidence index bounced 4pts to +11 index points, the highest level since July 2017, perhaps driven by a stronger global economic backdrop. The jump has reversed the downward trend that had been apparent since around mid-2017.

According to Alan Oster, NAB Group Chief Economist “This has helped to narrow the perplexing gap between business conditions and confidence evident over the past couple of years, and is an encouraging signal for investment. That said, while business conditions have held at a high level through 2017, they have tended to outperform measures of activity in the national accounts in recent times.”

In contrast, forward orders have been giving a fairly accurate read of domestic non-mining economic activity as per the official national accounts. Forward orders have pulled back a touch on average in the past three months, although continued to suggest that growth in non-mining domestic demand should acceleration from H1 2017 and maintain that momentum in the early months of 2018.

By component, both trading conditions (sales) and profitability gained on already high levels, while employment conditions eased back a touch. According to Mr Oster, “the NAB Business Survey employment index has not experienced the same wild swings in recent years as the official employment survey from the ABS, and tends to suggest the official figures may be currently ‘overstating’ the degree of job creation. The employment index implies employment growth of a little less than 300K at present, and a slowdown to around 240K per annum over the next 6 months, or a monthly pace of around 20K per month. While suggesting some pull back in employment growth, this should still be sufficient to see the unemployment rate inch downwards, assuming no further large increase in the participation rate.”

Strong business conditions are broad-based across all major industry groups with the exception of retail. “The construction industry is performing well, thanks to support from a large pipeline of residential construction and stronger non-residential building approvals. Mining has also gone from being a major drag on the index to experiencing above average business conditions”, said Mr Oster

The retail sector continued to struggle with slightly negative business conditions, indicating a modest rate of contraction in the industry – the weakness is apparent across all the sub retail sectors. “However, despite the weak conditions, retail firms remain surprisingly upbeat when it comes to confidence. It is not clear what is driving this confidence, but it has been relatively unwavering over the whole of 2017”, said Mr Oster.

“Overall, the Survey results for December remain broadly in line with our view of the Australian economy. There continue to be a number of significant challenges to the outlook, but we remain hopeful that Australia will see temporarily above trend economic growth in coming quarters, thanks to support from improving business investment and elevated levels of infrastructure construction. Such an outcome should be sufficient to prompt the RBA to consider a gradual removal of emergency policy stimulus, although the RBA will need to see wages growth move upwards, at least gradually. Softer trends in some corners of the property market may also heighten their caution. We maintain our expectation for the first RBA hike to come in the second half of this year, but only if the labour market and wages improve further and the property market holds steady” said Mr Oster.

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 3) 8697 9534

James Glenn
Senior Economist – Australia
+(61 2) 9237 8017

Phin Ziebell
Economist – Australia
+61 (0) 475 940 662

Amy Li
Economist – Australia
+(61 3) 8634 1563

Industry Analysis

Dean Pearson
Head of Industry Analysis
+(61 3) 8634 2331

Robert De lure
Senior Economist – Industry
Analysis
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Industry
Analysis
+(61 3) 8634 3837

Steven Wu
Senior Analyst – Industry
Analysis
+(61 3) 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

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