NAB MONTHLY BUSINESS SURVEY

THE STATE OF PLAY ACCORDING TO BUSINESS - DECEMBER 2017

NAB Australian Economics
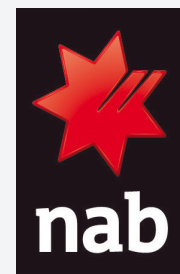
The NAB Monthly Business Survey indicate a strong business sector in Australia at present, with conditions holding steady at well-above average levels and confidence almost catching up this month. This is having positive spillovers into job creation, although employment growth may slow somewhat from here.
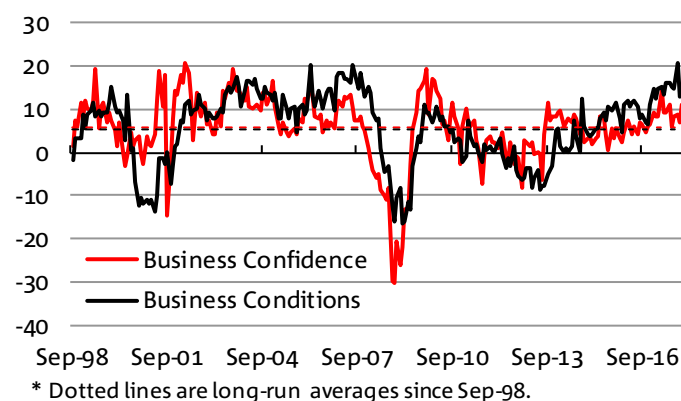
HIGHLIGHTS

- **How confident are businesses?** The business confidence index bounced 4pts to +11 index points, the highest level since July 2017, perhaps driven by a stronger global economic backdrop. 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.

- **How did business conditions change this month?** The business conditions index was unchanged at a strong +13 index points, which is well above the long-run average of +5 index points.

- **What components contributed to the result?** By component, both trading conditions (sales) and profitability gained on already high levels, while employment conditions eased back a touch.

- **What is the survey signalling for jobs growth?** The employment index pulled back a little in December, and while it remains consistent with a solid rate of job creation, it does suggest employment growth may ease back from current extraordinary heights (See Themes of the Month on page 2).

- **Which industries are driving conditions?** 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. The retail sector meanwhile continues to struggle with slighty negative business conditions, indicating a modest rate of contraction in the industry (see Themes of the Month on page 2).

- **Which industries are most confident?** Mining and construction are the most confident, with the latter picking up in recent months after trending down between July and October, suggesting that a positive outlook for non-residential construction may be offsetting any concerns around apartment oversupply and a slowdown in the Sydney housing market. In contrast, retail confidence is surprisingly strong, and well above reported conditions (see Themes of the Month on page 2).

- **Where are we seeing the best conditions by state?** Business conditions are strong across all states, with NSW the clear outperformer in trend terms (+19 index points). Conditions in Queensland (+17) and Tasmania (+16) are also at historically high levels, while Victoria (+13) and SA (+12) are also reporting above-average levels. Conditions in WA also improved through 2017 although remain a fair way behind the other states (at +7 index points).

- **What is confidence like across the states?** Business confidence is strongest in trend terms in Queensland and SA and to a lesser extent NSW. Confidence is also reasonable in WA, and is in line with business conditions in the state. Victoria and Tasmania meanwhile are reporting levels of confidence which are lower than their reported level business conditions.

- **What does the Survey suggest about inflation and wages?** Reads on inflation from the Survey were on the softer side this month, with labour costs, purchase costs and final product price inflation all easing back and retail prices turning negative.

- **Are leading indicators suggesting further improvement?** Capacity utilisation picked up to 82.2% in December, well above the long-run average for the monthly survey of 81.1%. This bodes well for business investment, although surveyed capex pulled back a little this month. Forward orders also eased a little, but on the whole are suggestive of solid momentum in non-mining activity in late 2017 and into early 2018 (see Themes of the month on page 2).

KEY STATISTICS

	Oct-17	Nov-17	Dec-17
	Net balance		
Business confidence	9	7	**11**
Business conditions	20	13	**13**
Trading	29	17	**18**
Profitability	26	14	**15**
Employment	7	7	**6**
Forward orders	3	6	**4**
Stocks	2	2	**1**
Exports	-1	2	**0**
	% change at quarterly rate		
Labour costs	0.8	1.2	**0.8**
Purchase costs	0.5	0.7	**0.6**
Final products prices	0.4	0.4	**0.3**
Retail prices	0.2	0.3	**-0.4**
	Per cent		
Capacity utilisation rate	81.7	81.7	**82.2**

GAP BETWEEN CONDITIONS AND CONFIDENCE NARROWS

* Dotted lines are long-run averages since Sep-98.

Contacts: Alan Oster – Chief Economist, Riki Polygenis – Head of Australian Economics, James Glenn – Senior Economist
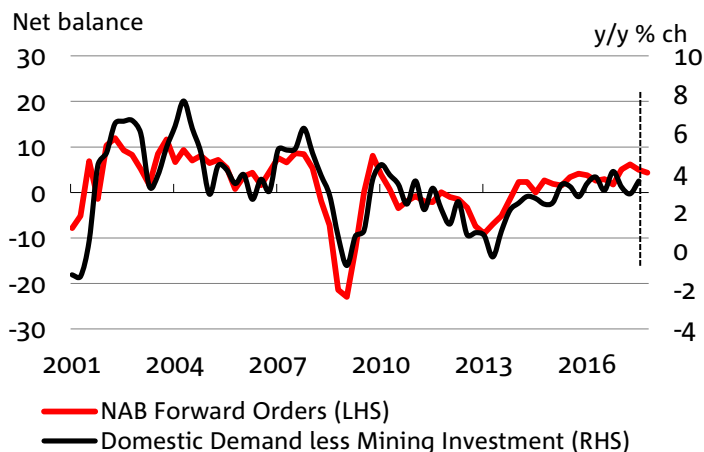
NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

FORWARD ORDERS SUGGEST PICKUP IN OFFICIAL ACTIVITY MEASURES IN LATE 2017

- 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.

- However, forward orders have been giving a fairly accurate read of domestic non-mining economic activity evident as per the national accounts.

- Forward orders have pulled back a touch on average in the past three months, although continued to suggest that non-mining domestic demand continued to grow at an annualised rate of 4% or more in the final quarter of the year – a notable acceleration from H1 2017. Forward orders also suggest a continuation of current momentum in the early months of 2018.

EMPLOYMENT GROWTH TO EASE BACK FROM CURRENT STATOSPHERIC HEIGHTS BUT REMAIN STRONG

- Official employment figures show extraordinary employment growth of over 400K over the year to December.

- The NAB Business Survey employment index on the other hand has not experienced the same wild swings in recent years, 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. This should still be sufficient to see the unemployment rate inch downwards, assuming no further large increase in the participation rate.
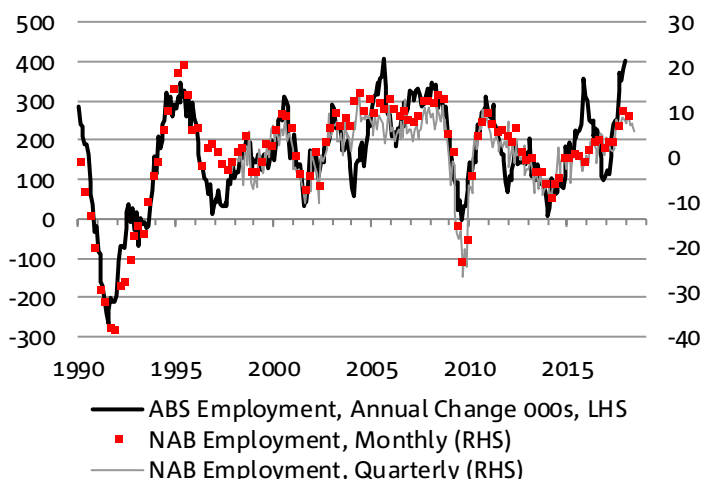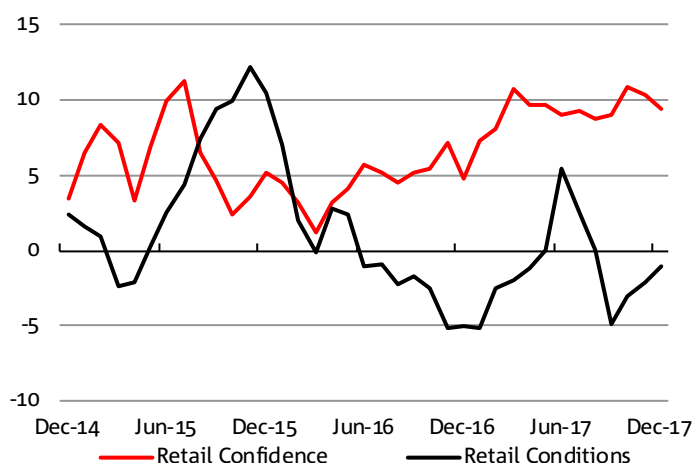
## RETAIL CONSISTENTLY UNDERPERFORMS

- The retail industry has been a consistent underperformer in the NAB Business Survey, and is the only industry reporting negative business conditions (-1 in trend terms, -2 in seasonally adjusted terms).

- The weakness is apparent across all the sub retail sectors, which includes food, personal & household items, vehicles and 'other' retail.

- Within total business conditions, profitability and trading conditions are mildly negative while employment conditions are strongly negative. Final retail prices also weakened sharply in December into negative territory, and are running at a slower rate than labour costs and purchases costs, pointing to margin compression.

- Despite weak conditions though, 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.

FORWARD ORDERS AND NON-MINING DOMESTIC DEMAND

NAB Forward Orders (LHS)
Domestic Demand less Mining Investment (RHS)

EMPLOYMENT, NAB VS ABS

ABS Employment, Annual Change 000s, LHS
NAB Employment, Monthly (RHS)
NAB Employment, Quarterly (RHS)

RETAIL INDUSTRY CONFIDENCE AND CONDITIONS

Retail Confidence   Retail Conditions

NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

BUSINESS CONFIDENCE (NET BALANCE)

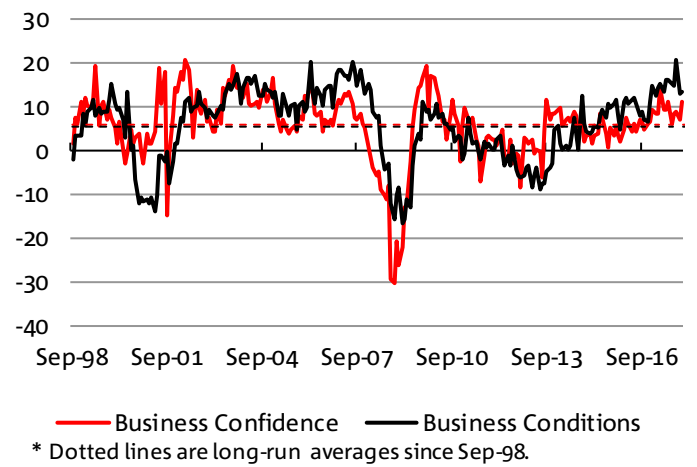Seasonally adjusted — Trend

BUSINESS CONDITIONS (NET BALANCE)

Seasonally adjusted — Trend
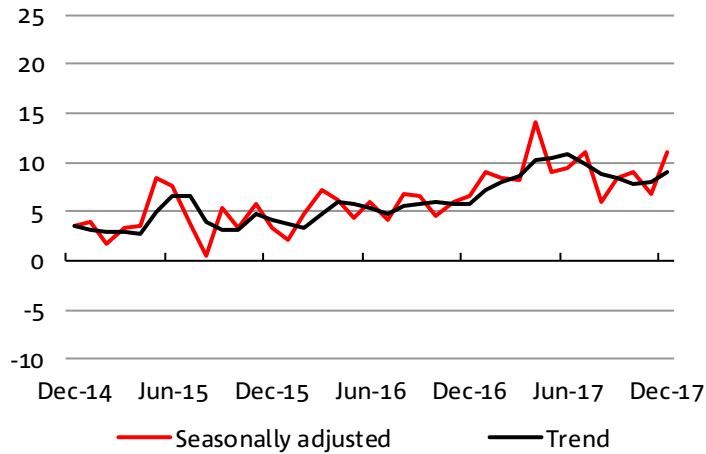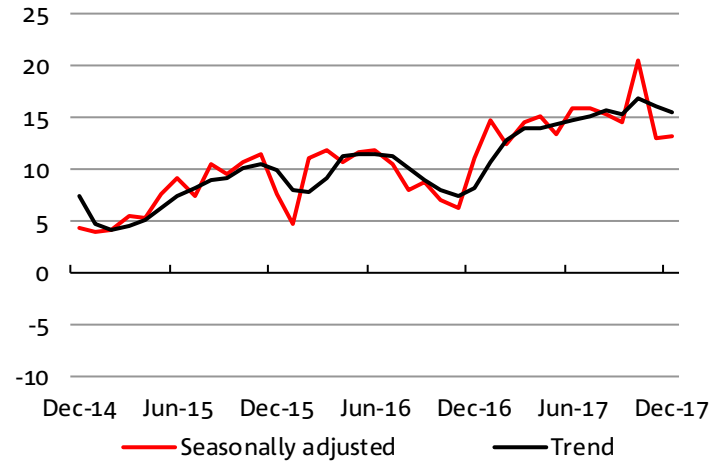
COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

Trading — Profitability — Employment
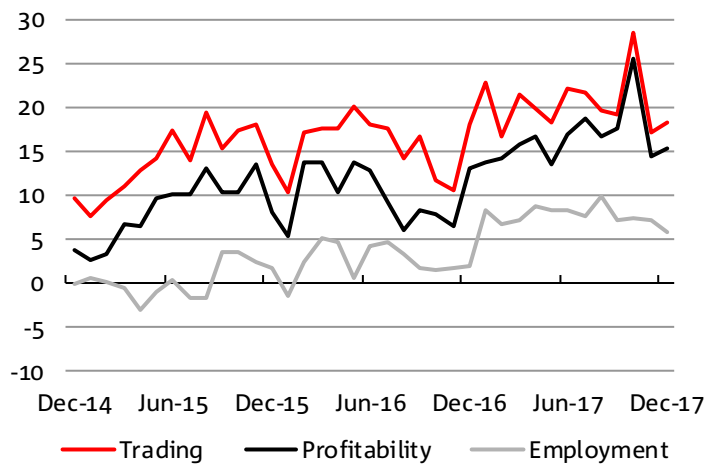
BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

Business Confidence — Business Conditions

* Dotted lines are long-run averages since Sep-98.

BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

Business Conditions ■ Business Confidence ■
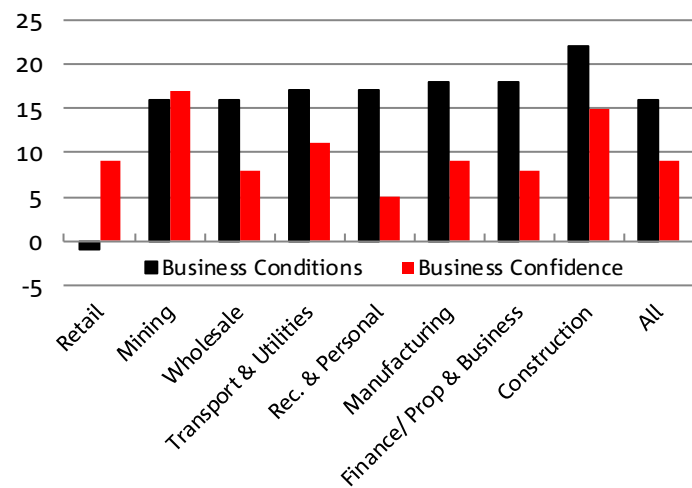
BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)

Business Conditions ■ Business Confidence ■
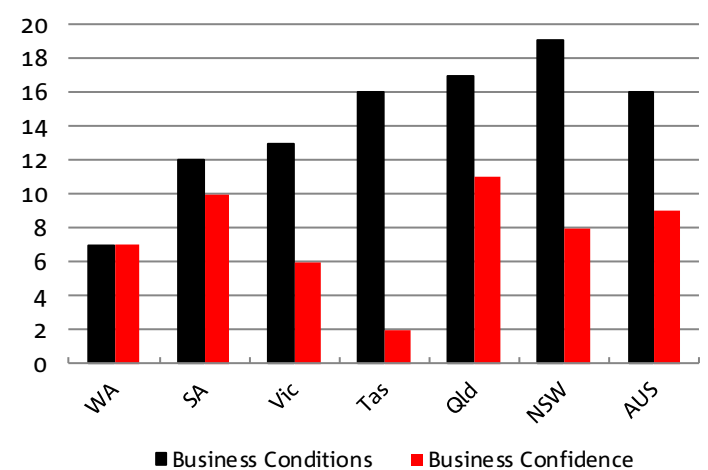
NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS
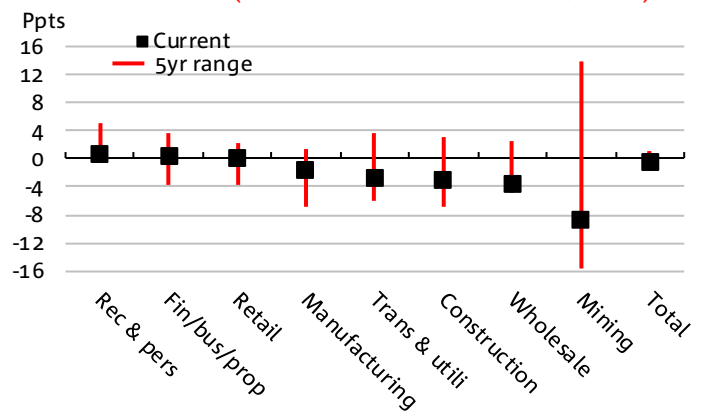
FORWARD ORDERS (NET BALANCE)

Seasonally adjusted — Trend
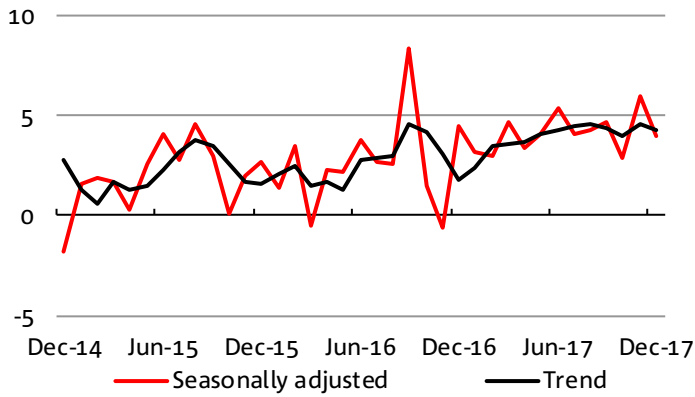
CAPITAL EXPENDITURE (NET BALANCE)

Seasonally adjusted — Trend
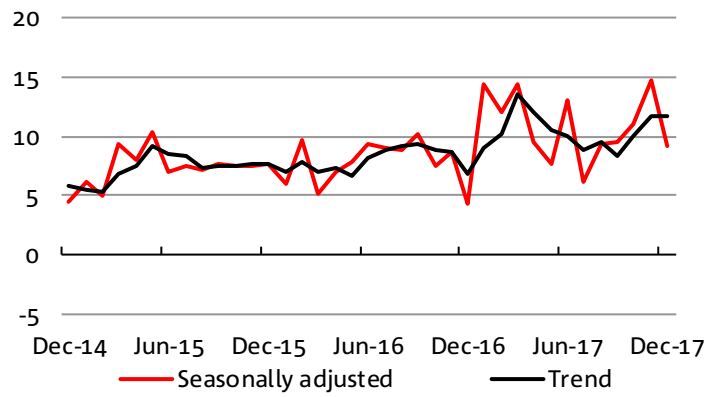
CAPACITY UTILISATION AND UNEMPLOYMENT

Unemp rate (LHS) — Umemp rate, trend (LHS)
Cap use (RHS) — Cap use, trend (RHS)
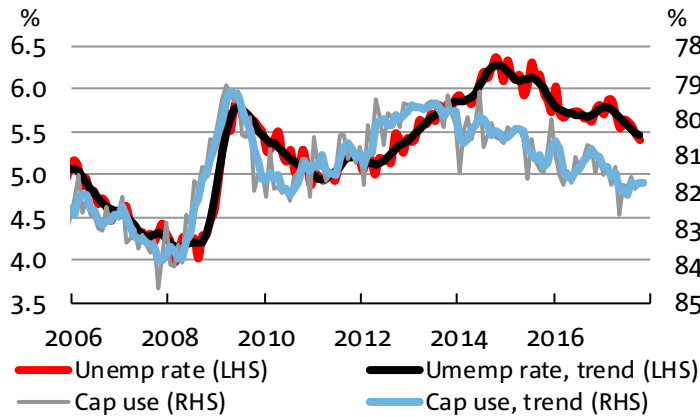
CAPACITY UTILISATION (PPT DEVIATION FROM LR AVERAGE, TREND)

Current
5yr range

Rec & pers, Fin/bus/prop, Retail, Manufacturing, Trans & utili, Construction, Wholesale, Mining, Total

STOCKS (NET BALANCE)

Seasonally adjusted — Trend

CASH FLOW (NET BALANCE)

Index — Trend

EXPORTS (NET BALANCE)

Seasonally adjusted — Trend
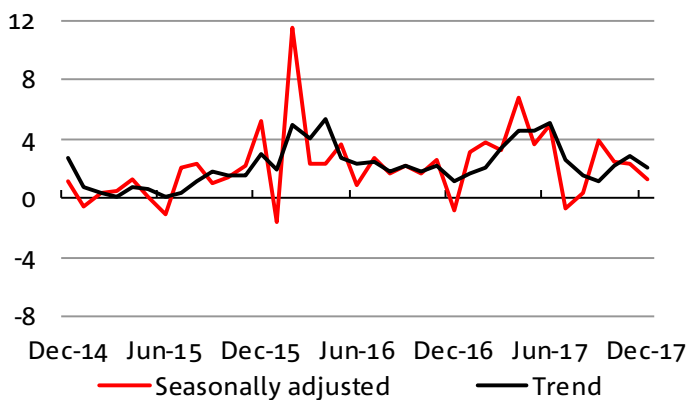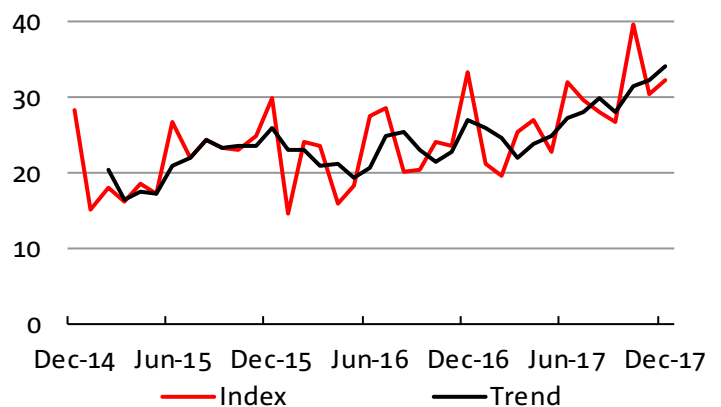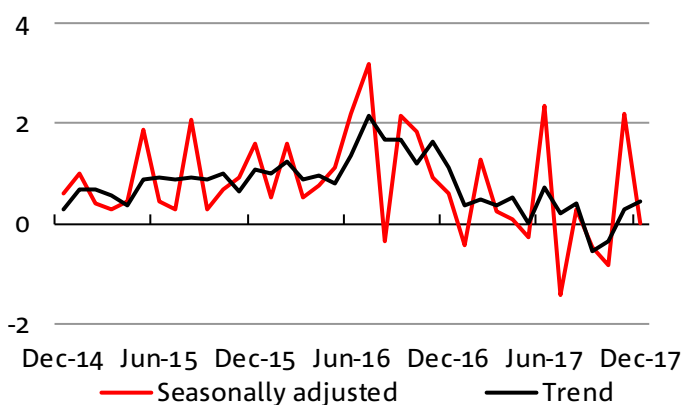
Borrowing conditions (% of firms)

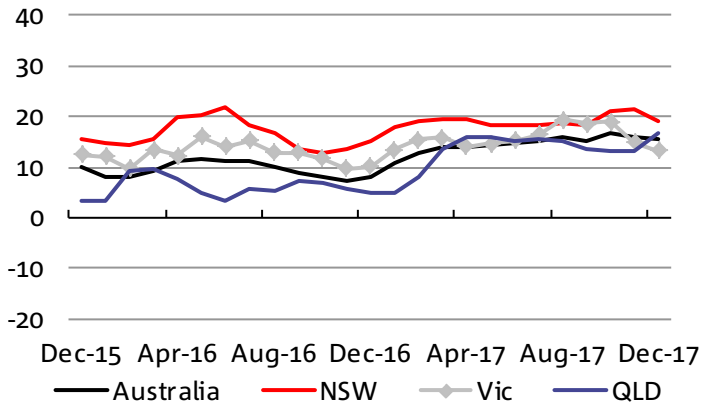III | IV | I | II | III | IV
2016 | 2017

More difficult | Unchanged | Easier | No borrowing required
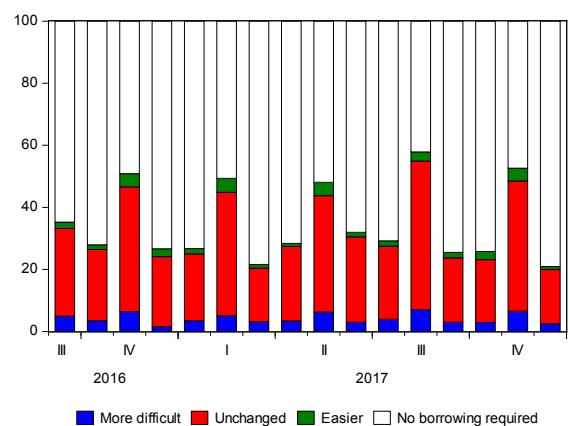
NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

BUSINESS CONDITIONS (NET BALANCE) BY STATE
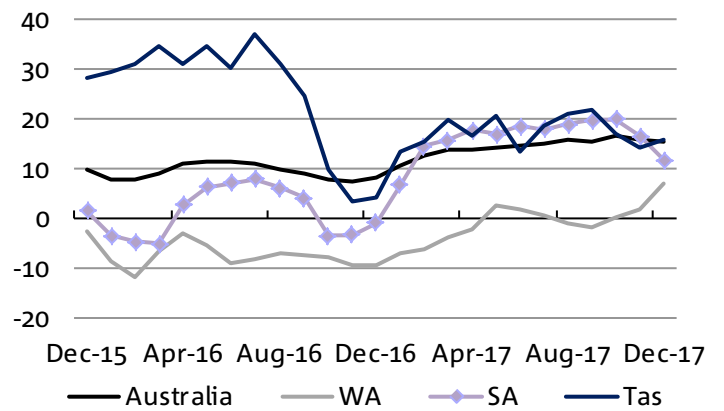
Legend: Australia, NSW, Vic, QLD

BUSINESS CONDITIONS (NET BALANCE) BY STATE

Legend: Australia, WA, SA, Tas

BUSINESS CONFIDENCE BY STATE (NET BALANCE)

Legend: Australia, NSW, Vic, QLD

BUSINESS CONFIDENCE BY STATE (NET BALANCE)

Legend: Australia, WA, SA, Tas

BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

Legend: Mining, Manufacturing, Construction, Transport/Utilities

BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

Legend: Finance/Bus/Property, Rec & personal services, Retail, Wholesale

BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

Legend: Mining, Manufacturing, Construction, Transport/Utilities

BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

Legend: Finance/Bus/Property, Rec & personal services, Retail, Wholesale
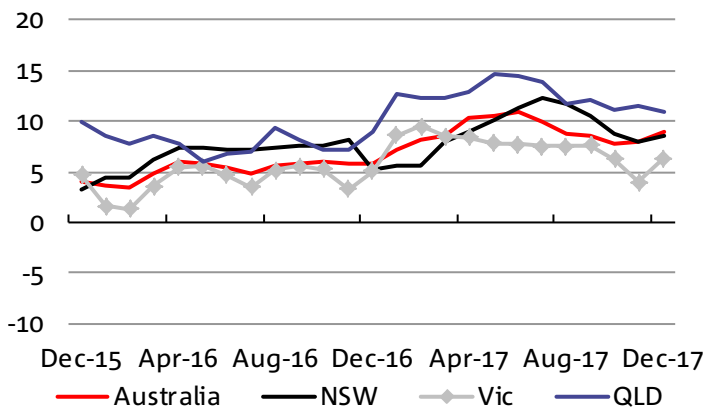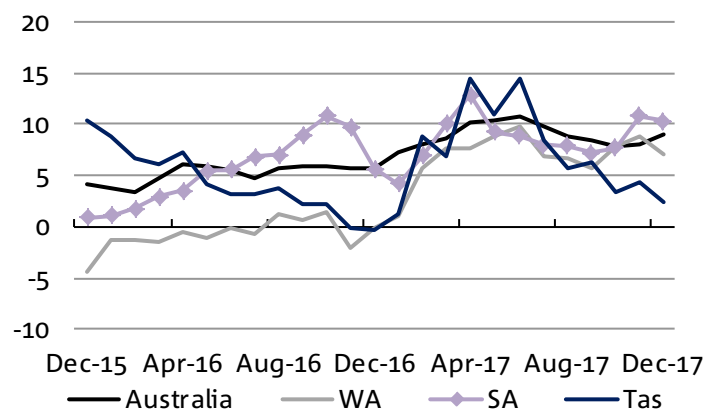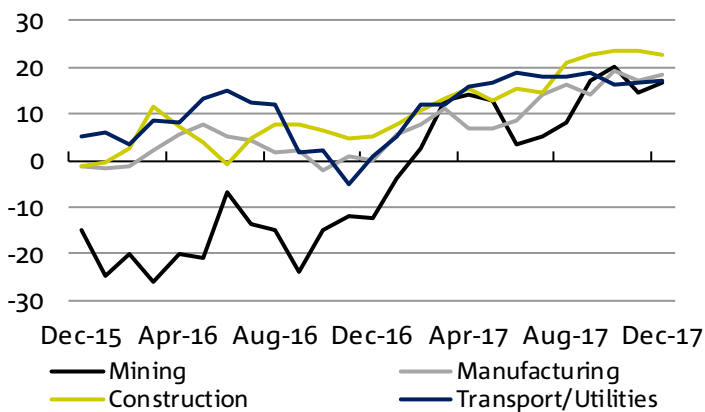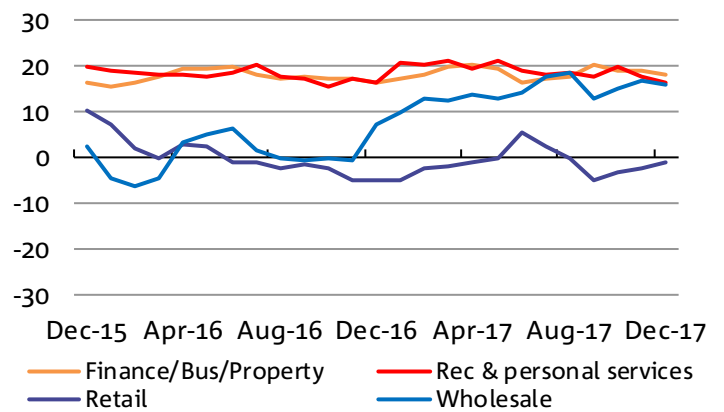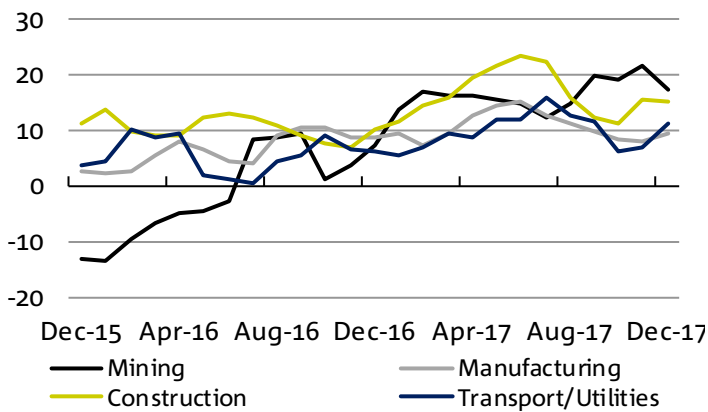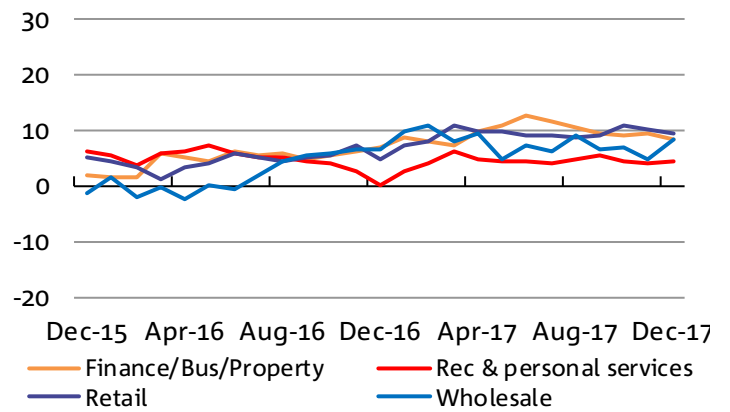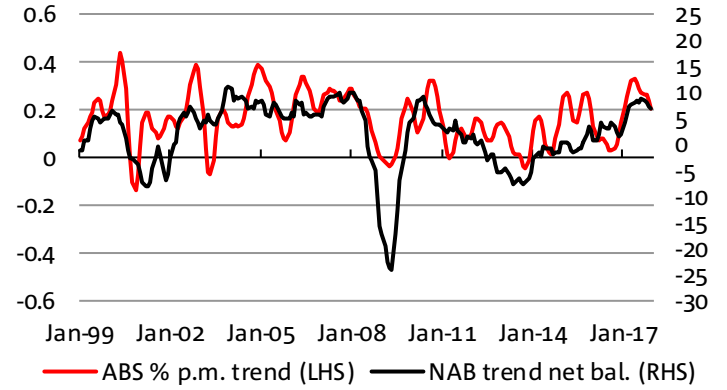
NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

EMPLOYMENT

- Seasonally Adjusted
- Trend

EMPLOYMENT (NAB VS ABS)
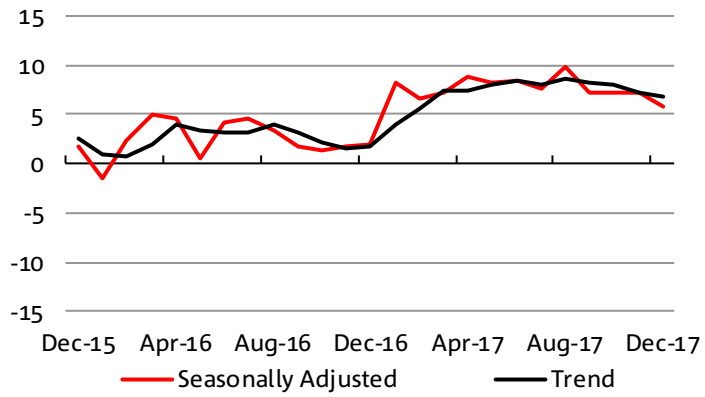
- ABS % p.m. trend (LHS)
- NAB trend net bal. (RHS)

EMPLOYMENT BY INDUSTRY

- Mining
- Manuf
- Constn
- Retail
- Wsale
- Transp
- Fin, bus, prop
- Rec, pers

WAGES GROWTH

- Labour Costs (NAB Survey, lhs)
- ABS Private Wage Price Index (y/y % change, RHS)
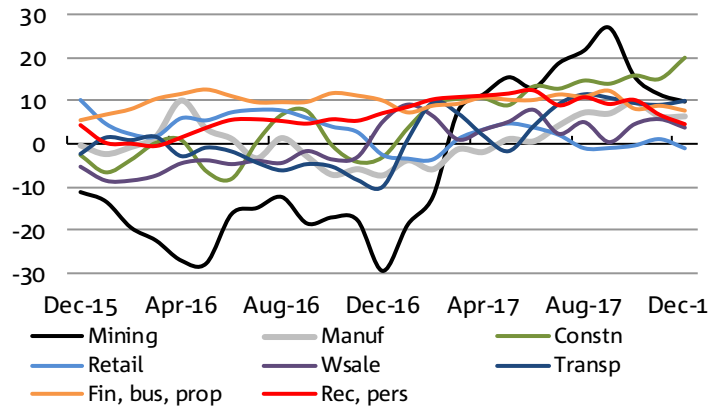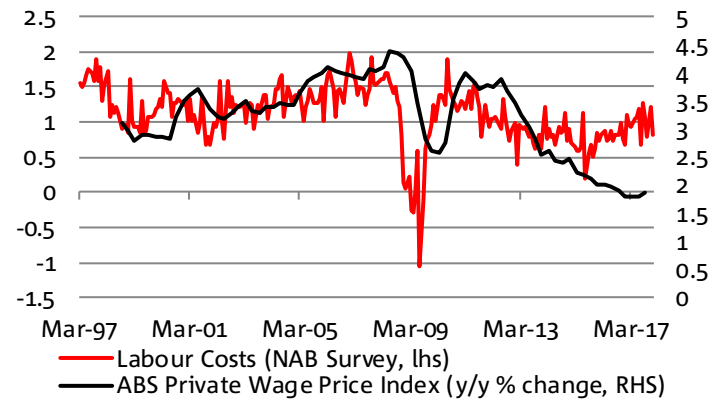
COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

- Labour
- Product Price
- Purchase Costs
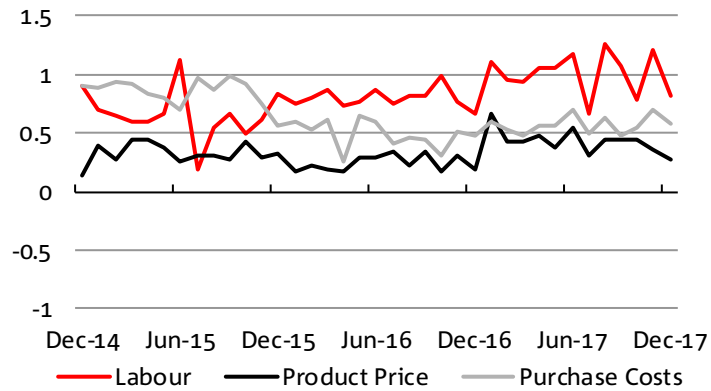
RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)

- Retail Prices
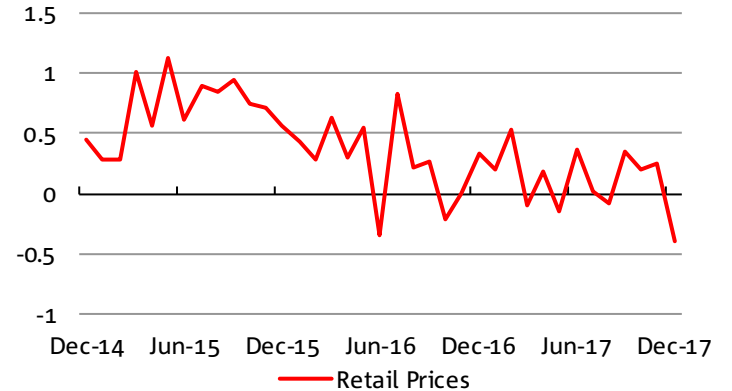
CONTACTS

Alan Oster, Group Chief Economist

Alan.Oster@nab.com.au

+613 8634 2927

Riki Polygenis, Head of Australian Economics

riki.polygenis@nab.com.au

+61 475 986 285

James Glenn, Senior Economist

james.glenn@nab.com.au

+61 55052519

APPENDIX: LIST OF SERIES AVAILABLE TO SUBSCRIBERS^

MONTHLY BUSINESS SURVEY*

Business Confidence	Net balance
Business Conditions	Net balance
Trading Conditions	Net balance
Profitability	Net balance
Employment	Net balance
Forward Orders	Net balance
Stocks	Net balance
Exports	Net balance
Capital Expenditure (Capex)	Net balance
Cash Flow	Net balance
Labour Costs	% change at quarterly rate
Purchase Costs	% change at quarterly rate
Final Prices	% change at quarterly rate
Capacity Utilisation	Per cent
Borrowing Demand & Conditions	%; net balance

All series available on an industry basis for:

Mining

Manufacturing

Construction

Retail trade

Wholesale trade

Transport / Utilities

Finance / Property / Business Services

Recreation / Personal Services

All available on a state basis for:

New South Wales

Victoria

Queensland

WA

SA/NT

Tasmania

*All data available in original, seasonally adjusted and trend terms.

^Subscribers also receive a copy of the Subscriber details publication which contains a variety of extra charts and tables.

QUARTERLY BUSINESS SURVEY*

Business Confidence

Business Conditions (current, next 3 mth, next 12 mth)

Trading conditions (current, next 3 mth, next 12 mth)

Profitability (current, next 3 mth, next 12 mth)

Employment (current, next 3 mth, next 12 mth)

Forward orders (current, next 3 mth)

Stocks (current, next 3 mth)

Export orders (current, next 3 mth)
Capital expenditure (current, next 3 mth, next 12 mth, fiscal year)

Required rate of return on investment

Cash flow

Labour costs (current, next 3 mth)

Purchase costs (current, next 3 mth)

Final prices (current, next 3 mth)

Capacity Utilisation

Borrowing index (current, next 3 mth)

Borrowing demand (current, next 3 mth)

Constraints on output (demand, labour, materials, premises & plant, finance/working capital)

Constraints on profit (capital, demand, high AUD, low AUD, interest rates, labour, tax, wages, energy costs, other)
Constraint on employment (demand, confidence, cashflow, suitable labour, high wages, government policy, labour not at full capacity, other, don't' know)

Margins (current, next 3 mth)

Overheads (current, next 3 mth)

Productivity growth

Number of employees

Hours worked

Gross Sales

Output/sales growth (current fiscal year)

Average earnings (current fiscal year)

Short term interest rate

Exporters hedged FX exposure (%)

Importers hedged FX exposure (%)

Months hedged (exporters)

Months hedged (importers)

Favourable hedge position (% of exporters)

Favourable hedge position (% of importers)

Affected vs not affected by AUD
Response to AUD (downsized, reduced, overheads, hedging, import substitution, focus on domestic market, other, don't know)
Driver of trading conditions (demand, wages/jobs, house prices, rates, exchange rate, tax/govt policy, seasonal, finance/working capital, company specific, other)
What will improve confidence (lower rates, more suitable labour, easier funding, government policy, higher demand, higher AUD, lower AUD, easier compliance, other)

All series available on an industry basis for:

Mining (sub-groups: Mining Extraction, Mining Services)
Manufacturing (sub-groups: food beverage & tobacco, textile clothing footwear & leather, wood & paper product, printing publishing & recorded media, petroleum coal chemical & associated products, non-metallic mineral product, metal product, machinery & equipment, other)

Construction (sub-groups: Residential Building, Non-residential Building, Other Construction, Construction Services)

Retail trade (sub-groups: Food, Personal & Household Goods, Motor Vehicle Retailing & Services, Other Retail)

Wholesale trade

Transport / Utilities
Finance / Property / Business Services (sub-groups: Finance, Insurance, Services to Finance & Insurance, Property Services, Business Services)
Recreation / Personal Services (Sub-groups: Motion picture, Radio & Television Services, Libraries Museums & the Arts), Sports & Recreation, Personal Services, Accommodation Cafes & Restaurants, Health Services, Education, Other Services)

All series available on a state basis for:

New South Wales

Victoria

Queensland,

WA

SA/NT

Tasmania

*Data available in original, seasonally adjusted and trend terms.