

NAB QUARTERLY BUSINESS SURVEY

December Quarter 2017 *(Embargoed until 11.30am Thursday 8th February)*

By Group Economics



Business conditions continued to look very healthy in the December quarter NAB Quarterly Business Survey. Business confidence was not quite as exuberant, widening the divide between the two measures, although the timelier NAB Monthly Business Survey has seen the gap narrow following a spike in confidence late in the quarter. That seems more consistent with the solid expectations evident in today's results when it comes to both the near-term and longer-term outlook for business. Investment expectations are looking strong for the year ahead, with most industries (outside retail) sitting above long-run average levels. Employment intentions were also higher, while the increased difficulty firms are having finding suitable labour suggests further labour market tightening.

	2017q2	2017q3	2017q4		2017q2	2017q3	2017q4
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	8	8	6	Trading	18	19	18
Business conditions				Profitability	12	15	15
Current	14	14	15	Employment	11	9	10
Next 3 months	22	21	24	Next 3 months	12	12	15
Next 12 months	27	28	31	Next 12 months		22	24
Capex plans (next 12)	26	27	29	Forward orders	6	6	9
	<i>% change</i>			Stocks	5	3	3
Labour costs	0.6	0.7	0.6	Exports	1	2	2
Purchase costs	0.4	0.3	0.4	Retail prices (% change)	-0.1	0.1	0.1
Final products prices	0.2	0.2	0.2	Capacity utilisation rate	82.1	82.1	82.5

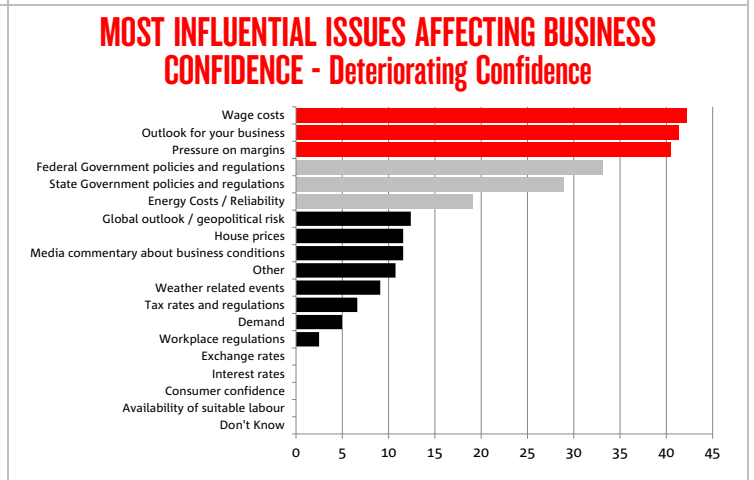
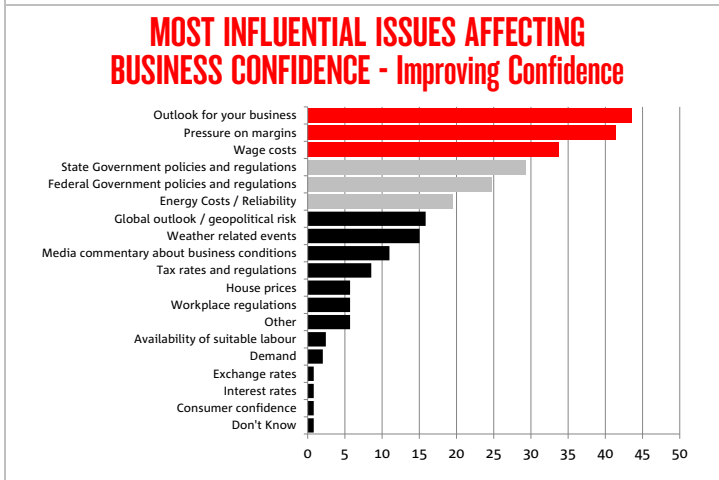
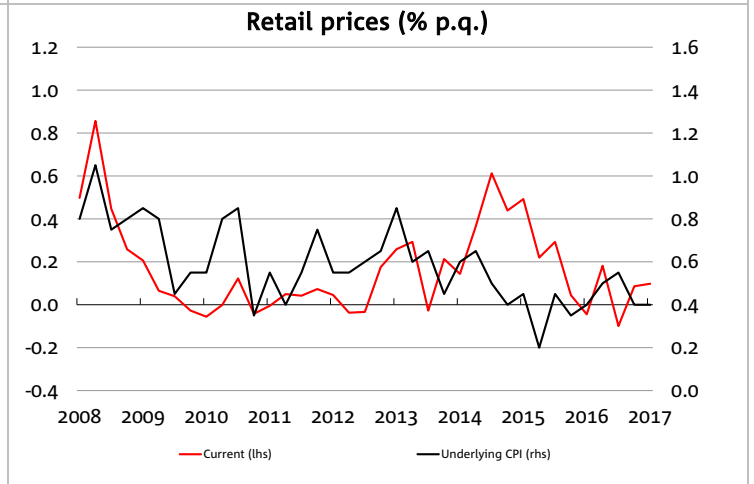
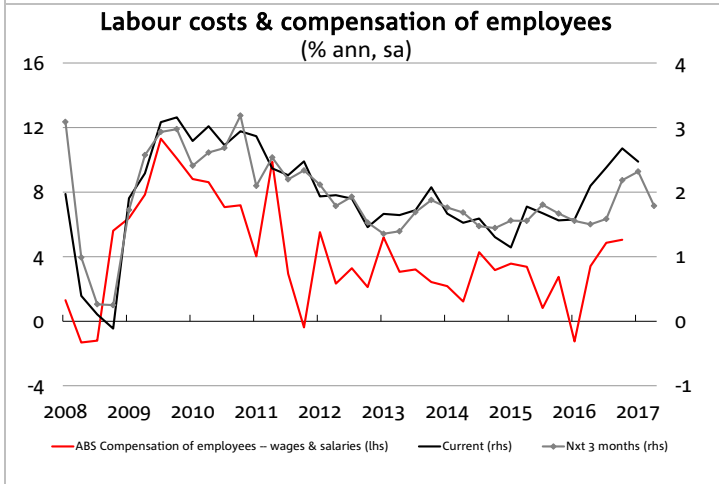
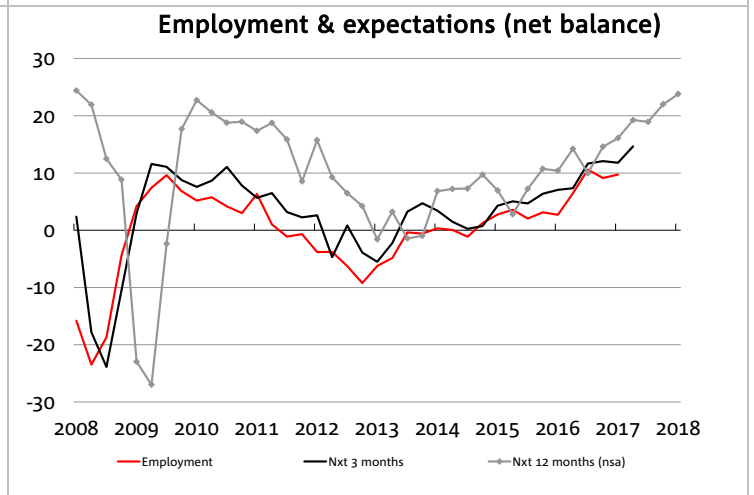
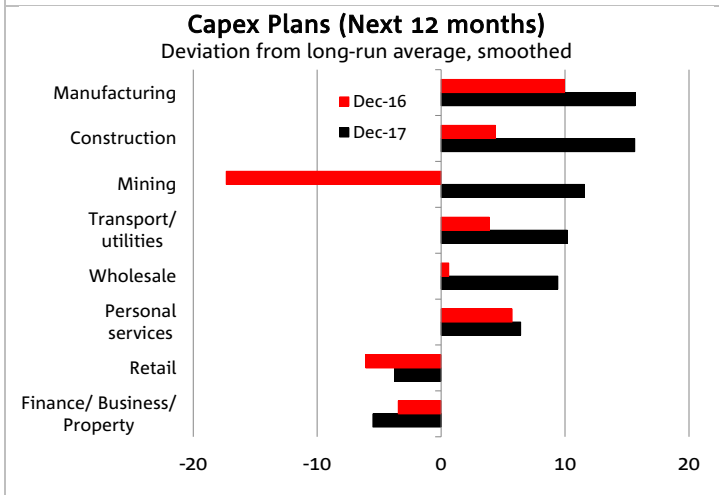
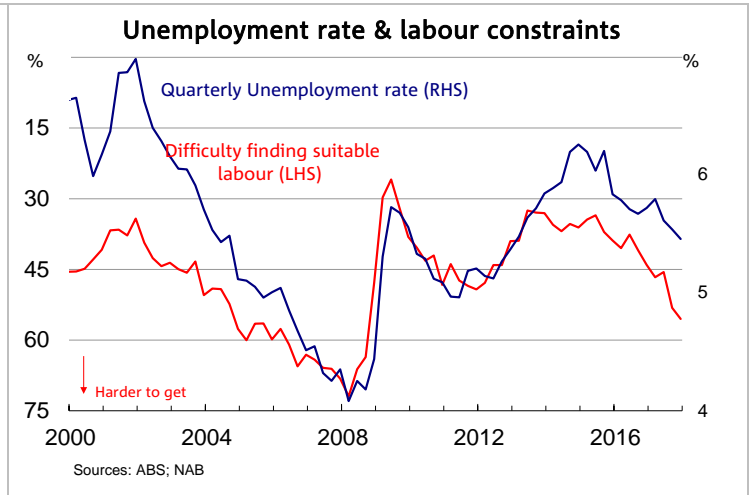
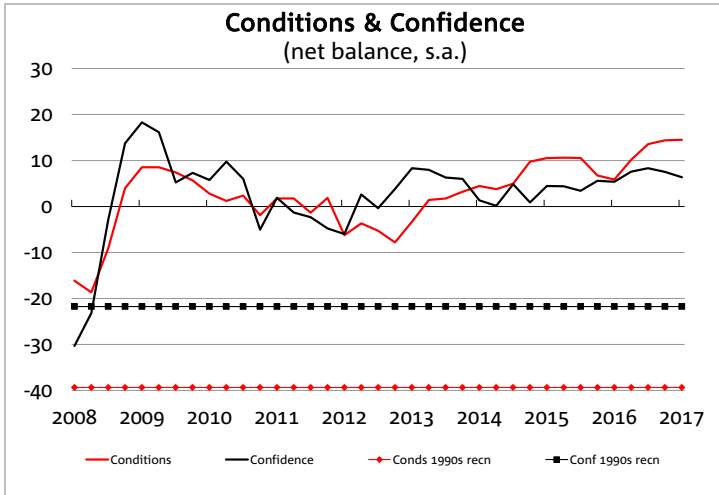
The headline conditions and confidence numbers were broadly consistent with what we have seen in the Monthly iteration of the Survey, although the bounce in the month of December is yet to be reflected in the quarterly data. The business conditions index (an average of trading/sales, profitability and employment) rose 1 point, to +15 in the December quarter – which is well above the long-run average – driven by improvements in employment, while trading conditions eased slightly and profitability was steady. Employment conditions have been holding up at levels that suggest we are likely to see further improvement in unemployment over coming quarters. Meanwhile, the business confidence index eased slightly to +6 points in the quarter, which is only a little above the average.

According to NAB Group Chief Economist Alan Oster, “the monthly Survey suggested that confidence improved a lot towards the end of the quarter, so we are not too concerned about the softer outcome. However, when we ask firms about the factors having the biggest impact on confidence, those indicating a deterioration in confidence appear to be most concerned about wage pressures, despite the fact that we have only seen fairly modest wage growth in the economy to date. It is unclear whether this means we are likely to see a pick-up in wages from here, or conversely, even more restraint as firms attempt to preserve margins.”

Almost all industries reported very elevated levels of business conditions for the December quarter, but despite some improvement since Q3 (inching back into positive territory), the retail sector continues to lag well behind the rest. “The health of the retail sector remains quite critical to the economic given that consumption makes up the lion’s share of the economy. If subdued business conditions are telling us something about the mindset of the consumer, then faster and more sustainable growth will be more of a challenge if things don’t improve. However, we are clearly seeing steady improvements in the labour market, which look set to continue for the time being and should help lift the industry out of its slump if consumers are encouraged to go out and spend” said Mr Oster. “The Survey’s measure of both near-term and longer-term (1 year ahead) hiring intentions picked up, while firms are reporting increased difficulty finding suitable labour, which tends to have a high correlation with the unemployment rate and could foreshadow some upward momentum in wages growth.”

Most indicators on how firms perceive the outlook facing their business and the economy have improved. According to Mr Oster, “firms generally expect the recent strength in business conditions to continue, not only in the next 3-months, but a year from now, with 12-month ahead expectations hitting their highest level since 2010. That is not only translating into better hiring intentions, but capex plans for the year ahead have been very strong as well, especially in areas like manufacturing and construction”

There are still very few signs of inflationary pressures in the Survey, despite expectations of a lift off the back of higher energy costs and firms apparent concerns around labour costs. The Quarterly Survey’s measure of retail prices stayed in modestly positive territory in Q4, but lacks any convincing trend. “Despite no real signs of inflation to date, indications on the health of Australia’s business sector are generally pretty outstanding according to the Survey. So, while there are still mixed signals in some aspects, it seems more likely than not that the economic recovery remains on track, which will see the labour market tighten further and gradually lead into a lift in inflation pressures” said Mr Oster.



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