

EMBARGOED UNTIL: 11:30AM AEDT, 13 FEBRUARY 2018

NAB MONTHLY BUSINESS SURVEY JANUARY 2018

FURTHER CONFIRMATION OF BUSINESS STRENGTH

NAB Australian Economics



Strong trend business conditions provide further confirmation of robust business activity in Australia. Strength was broad-based across industries outside of retail, although there has been some slippage in household services. Business confidence again improved, although this pre-dates recent market turbulence. Signs remain positive for investment and continued solid jobs growth.

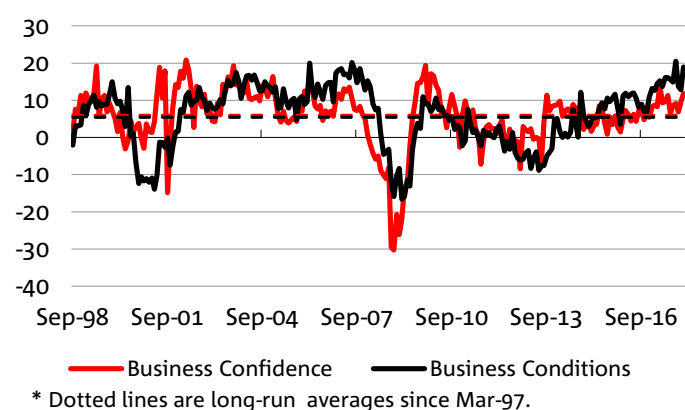
HIGHLIGHTS

- **How confident are businesses?** The business confidence index increased 2pts to +12 index points, the highest level since April 2017. This may reflect improved global economic conditions, and is an encouraging signal for investment. However, the survey was conducted prior to the recent turbulence in international financial markets.
- **How did business conditions change this month?** The business conditions index jumped by +6pts to a strong +19 index points, well above the long-run average of +5 index points. The business conditions index has been relatively volatile in recent months, with changes in seasonal patterns playing a part, however on a trend basis conditions remain elevated.
- **What components contributed to the result?** By component, both trading conditions (sales) and profitability posted strong gains while employment conditions were unchanged.
- **What is the survey signalling for jobs growth?** The employment index was unchanged in January, following several months in which it has trended down. It remains consistent with a solid rate of job creation of approximately 20k per month.
- **Which industries are driving conditions?** Business conditions are solid to strong across all major industry groups with the exception of retail. The construction industry in particular is performing well (see Themes of the month on page 2). While the retail sector continues to struggle, there has been some improvement in recent months and, on a trend basis, conditions turned neutral in January. In contrast, there has been some slippage in conditions in recreation & personal services to the lowest level in three years, a trend which bears close watching.
- **Which industries are most confident?** Mining and construction are the most confident. While mining has come off a little from its recent high, confidence in construction has recently been trending up (see Themes of the month on page 2). Retail confidence has held up surprisingly well given the weakness in conditions, although confidence has moderated recently.
- **Where are we seeing the best conditions by state?** Business conditions are at least solid across all states. Tasmania is the best performer in trend terms (+24 index points). Conditions in Queensland (+18), NSW (+17) and Victoria (+14) are also at high levels, while SA (+9) is also reporting above-average levels despite some recent declines. The December improvement in conditions in WA was largely maintained into the start of 2018 (at +7 index points).
- **What is confidence like across the states?** Business confidence is highest in trend terms in SA despite it having one of the lower readings on conditions. Similarly, the business confidence index for WA is above its reported level of business conditions (the lowest of all the states). Business confidence is tracking lower than conditions for the remaining states, although it remains at reasonable levels, particularly for Queensland and NSW.
- **What does the Survey suggest about inflation and wages?** Reads on inflation from the Survey were mixed this month. Purchase costs and final product price inflation eased slightly, but retail price growth returned to positive territory after being negative last month. Labour cost growth was slightly higher and suggests stronger wages growth than is being reported in the ABS' Wage Price Index (See Themes of the month on page 2).
- **Are leading indicators suggesting further improvement?** Capacity utilisation again moved higher in January to 82.7, well above the long-run average. This is a positive sign for business investment despite surveyed capex declining this month (see Themes of the month on page 2). Forward orders also eased a little but remain above their long-term average.

TABLE 1: KEY STATISTICS

	Nov-17	Dec-17	Jan-18
	Net balance		
Business confidence	7	10	12
Business conditions	14	13	19
Trading	19	18	26
Profitability	15	14	23
Employment	8	6	6
Forward orders	6	4	3
Stocks	2	2	1
Exports	2	0	1
	% change at quarterly rate		
Labour costs	1.2	0.8	0.9
Purchase costs	0.6	0.5	0.4
Final products prices	0.4	0.4	0.3
Retail prices	0.3	-0.4	0.4
	Per cent		
Capacity utilisation rate	81.7	82.3	82.7

CHART 1: LIFT IN CONDITIONS AND CONFIDENCE



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 24 January to 31 January, covering almost 410 firms across the non-farm business sector. Next release date is 13 March 2017.

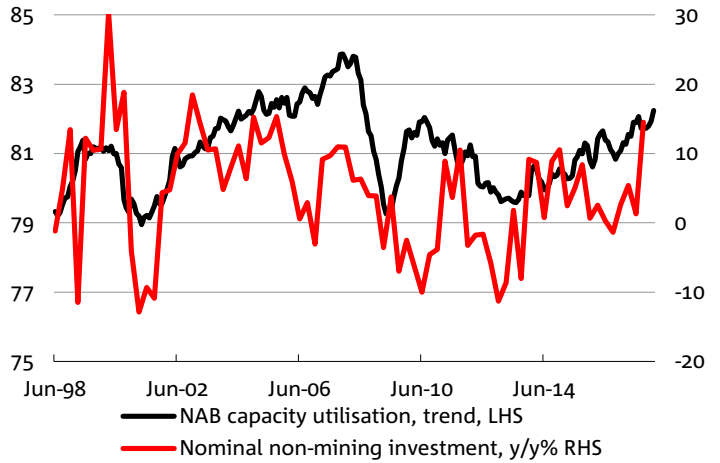
Contacts: Alan Oster – Chief Economist, Riki Polygenis – Head of Australian Economics, Antony Kelly – Senior Economist
 © National Australia Bank Limited ABN 12 004 044 937 AFSL and Australian Credit Licence 230686

NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

RIISING CAPACITY UTILISATION A POSITIVE SIGN FOR INVESTMENT

- The NAB business survey continues to send a positive signal for non-mining business investment. This is consistent with the most recent ABS Private Capex survey which points to much stronger non-mining investment in FY18.
- While the survey indicator of capital expenditure fell to its lowest level in six months on a trend basis, the broad pattern of a pick-up starting in 2017 is unchanged (see chart 12 on page 4).
- Moreover, the survey capacity utilisation indicator continues to trend up, suggesting that the recent lift in non-mining investment will be sustained. Capacity issues can also be addressed by taking on workers; a rise in the capacity utilisation indicator also tends to be associated with a decline in unemployment (see chart 13 on page 4).

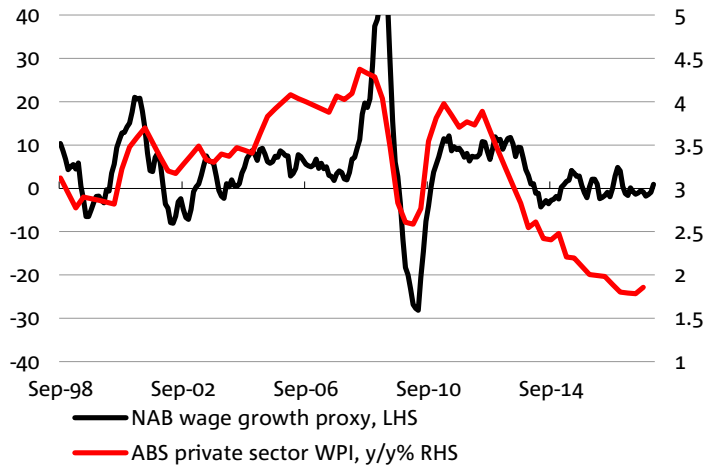
CHART 2: CAPACITY UTILISATION AND NON-MINING INVESTMENT



USING THE SURVEY TO GET A HANDLE ON WAGES GROWTH

- Growth in the ABS' Wage Price Index (WPI) has been tracking at very subdued levels.
- This has been in contrast to the NAB Business Survey labour cost measure which moved higher starting in 2016 (see chart 30 on page 6). However, the labour cost indicator is a 'wage bill' measure and so also reflects changes in employment. To address this we have constructed a wage growth proxy, which adjusts the labour costs measure for employment changes (as indicated in the Business Survey).
- While the wage growth proxy points to higher growth than reported in the WPI, it does not have the same recent pick-up as Business Survey labour cost measure. Rather, it points to an extended period of broadly stable, modest, wages growth.

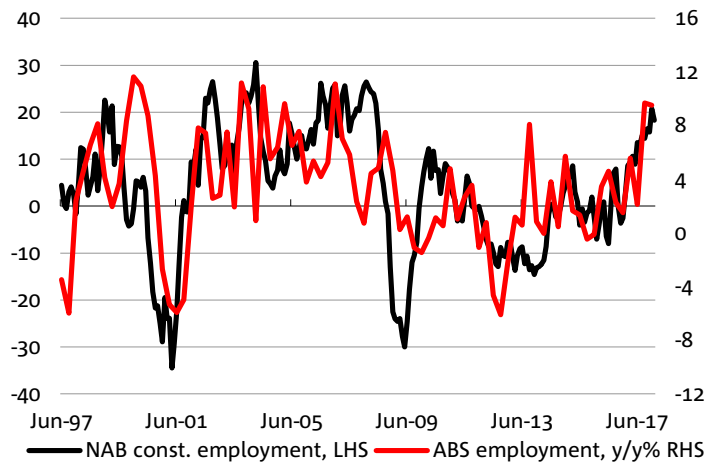
CHART 3: WAGE GROWTH - NAB VS ABS



CONSTRUCTION SECTOR GAINS TRANSLATING INTO JOBS

- There was a significant improvement in construction industry business conditions on a trend basis over 2017 and conditions remained elevated in January 2018. Construction confidence has also picked up in recent months despite headwinds coming from a softening housing market, particularly in Sydney. This probably reflects the still elevated residential construction pipeline, infrastructure construction and the lift in non-residential building approvals last year.
- The lift in conditions has been seen across all three components – trading conditions, profitability and employment. The survey's capacity utilisation indicator for the sector is at high levels consistent with plenty of work being available.
- The lift in employment is particularly significant given the rising share of employment found within the construction industry – it currently stands at around 9½%. The strength in the survey's employment indicator has been matched by the ABS employment data, with construction employment increasing by 10% last year.

CHART 4: CONSTRUCTION SECTOR EMPLOYMENT



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

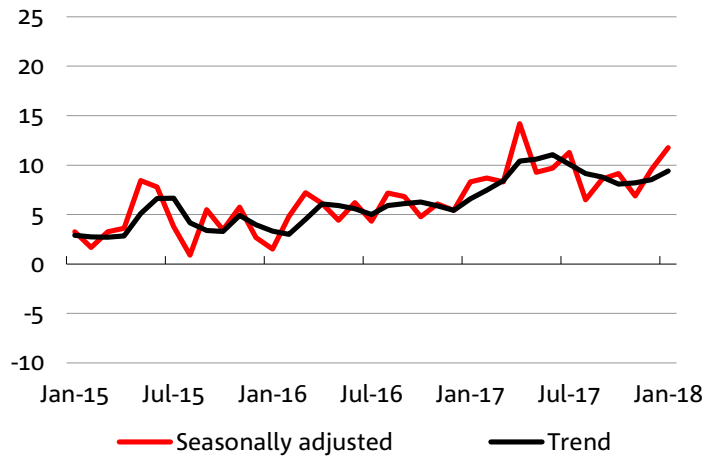


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

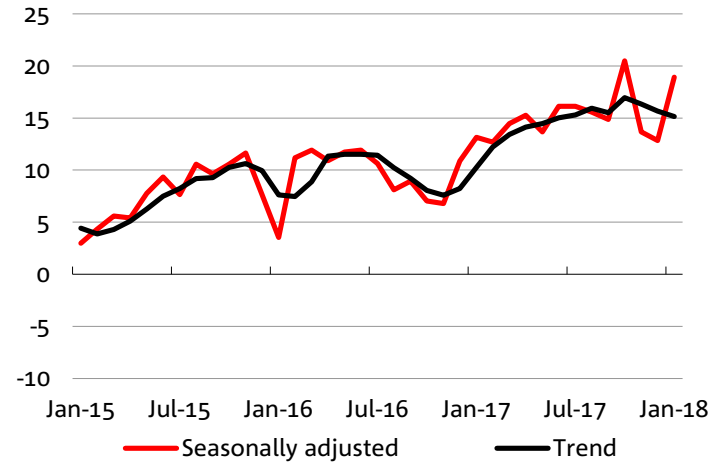


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

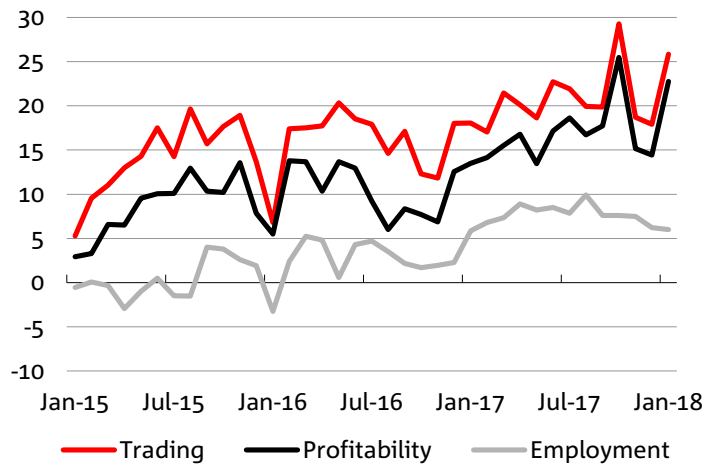


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

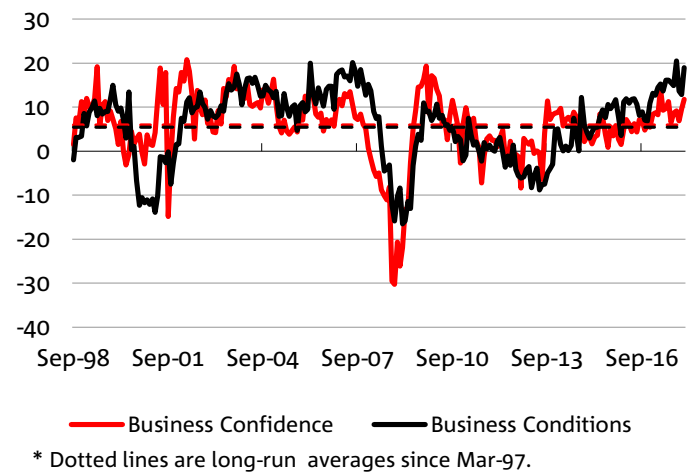


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

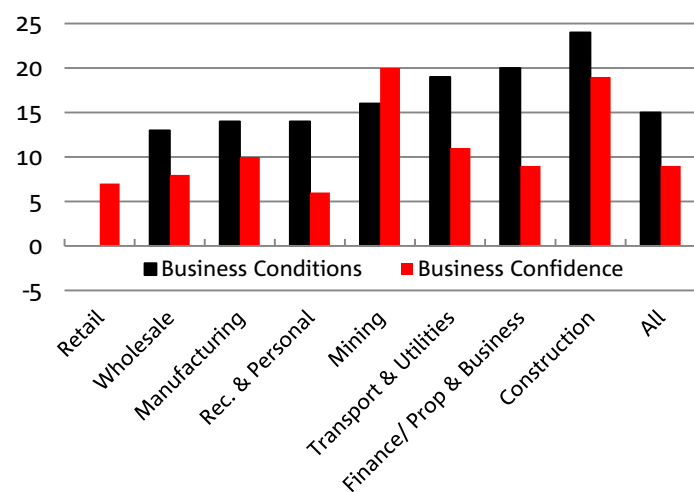
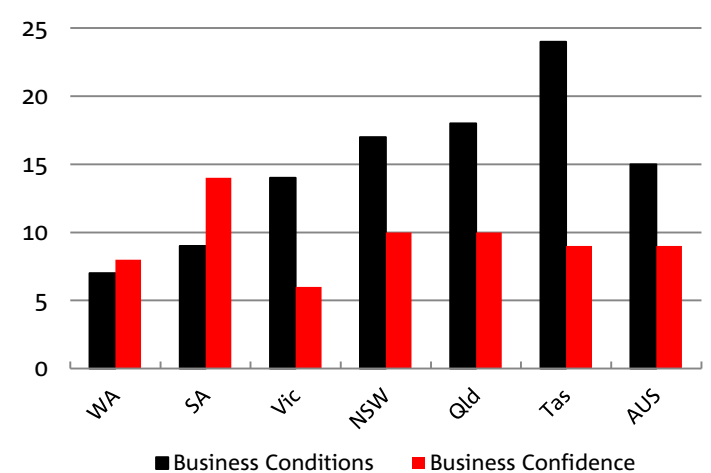


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

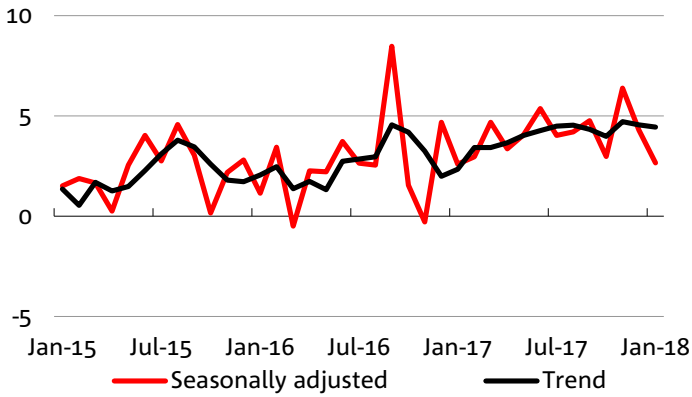


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

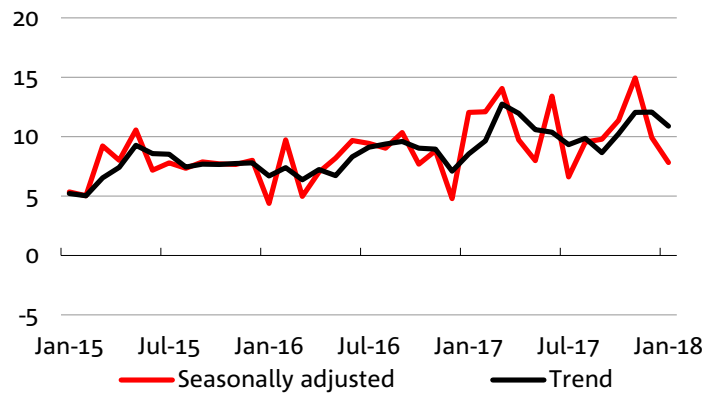


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

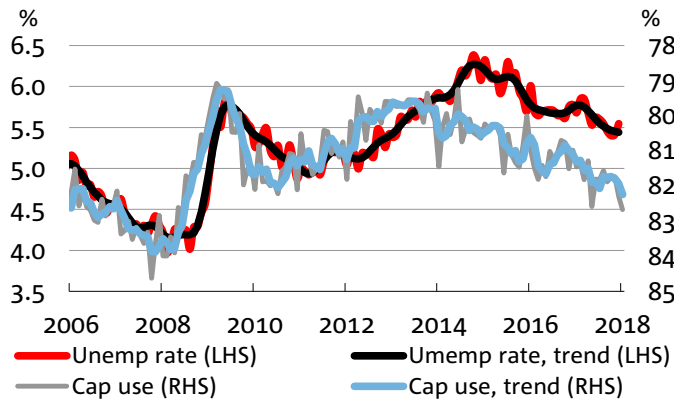


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

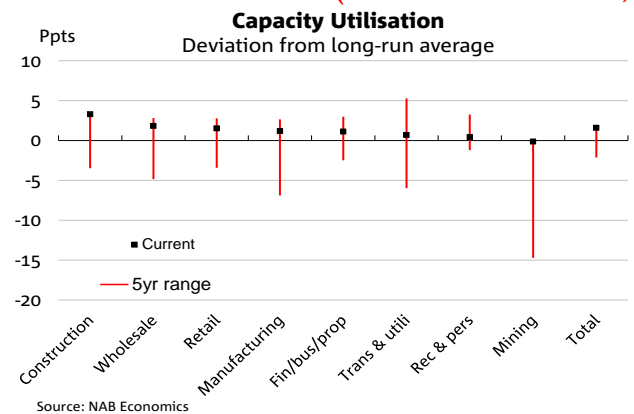


CHART 15: STOCKS (NET BALANCE)

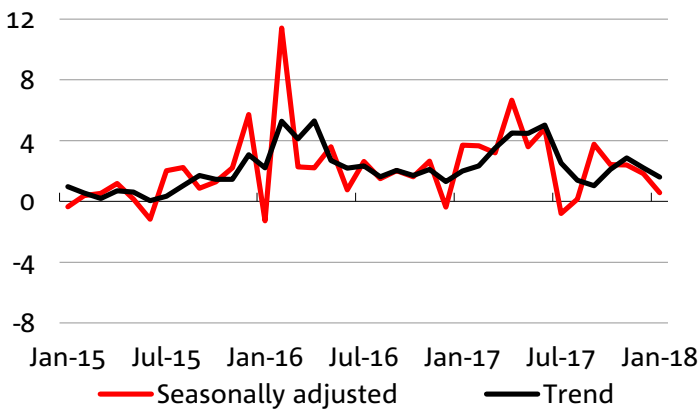


CHART 16: CASH FLOW (NET BALANCE)

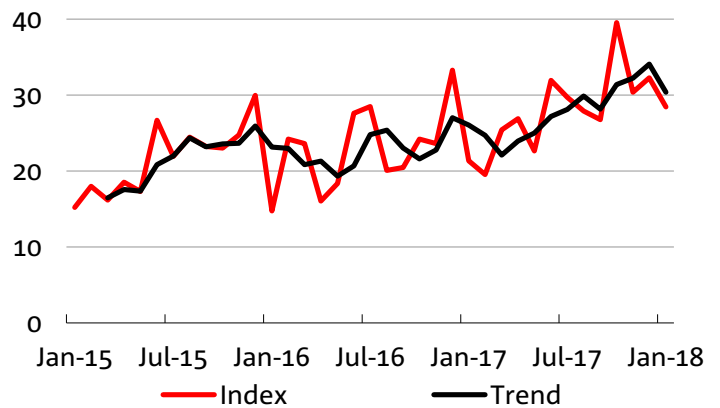


CHART 17: EXPORTS (NET BALANCE)

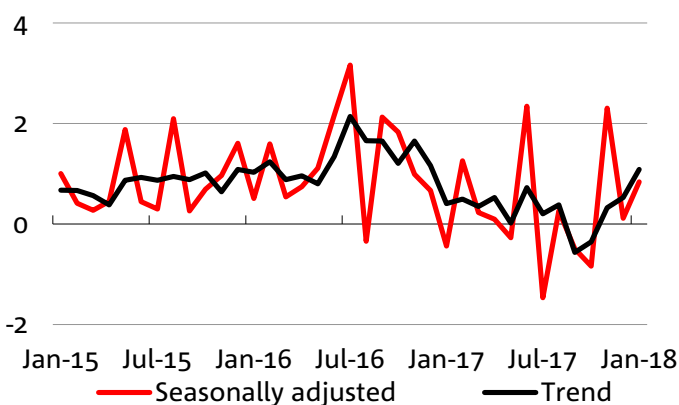
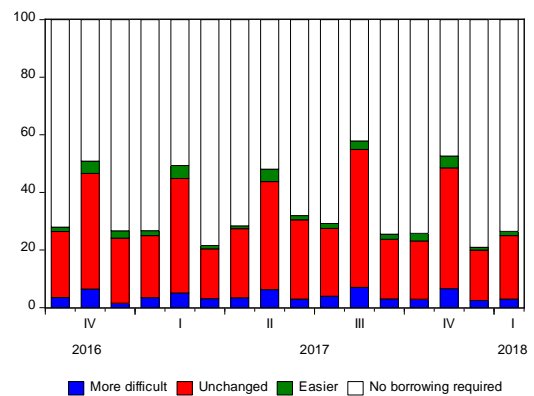


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 19: BUSINESS CONDITIONS (NET BALANCE) BY STATE

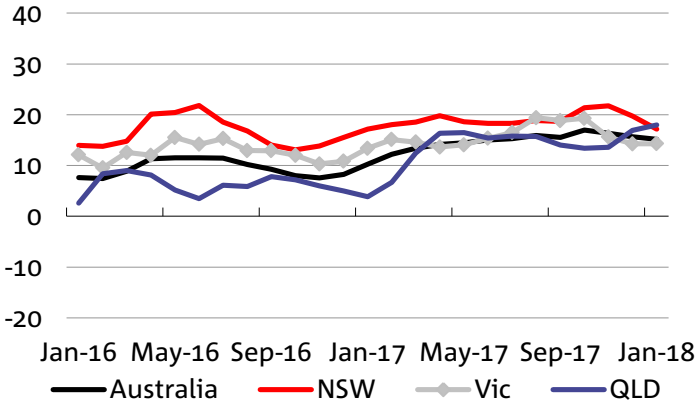


CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

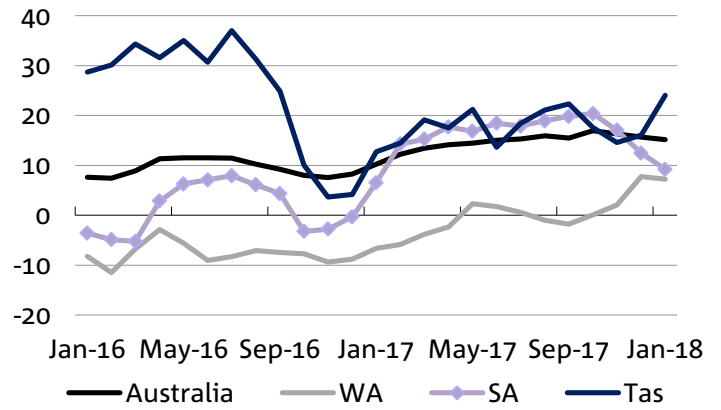


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

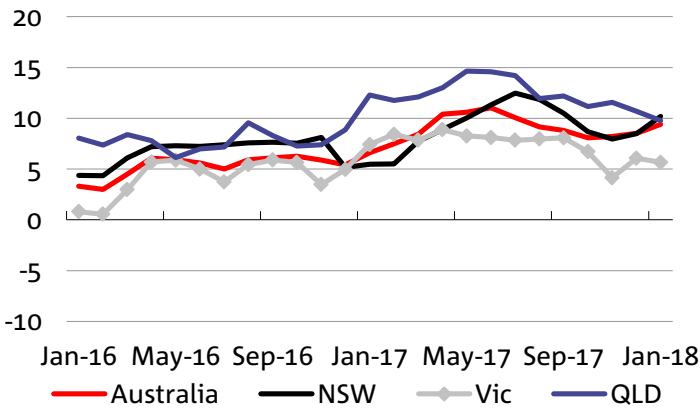


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

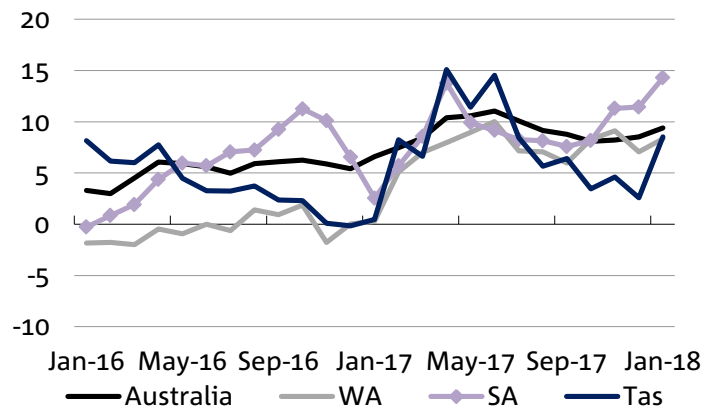


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

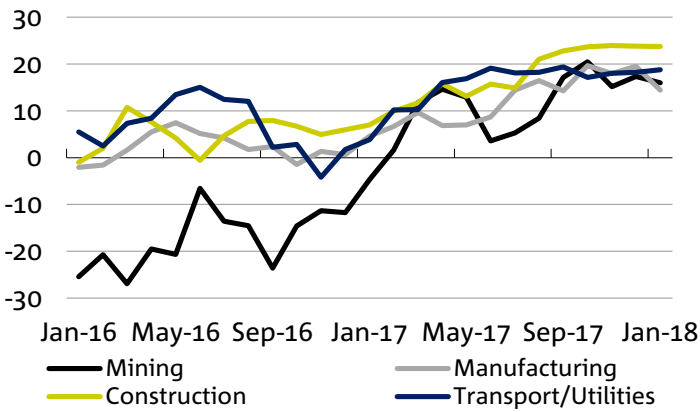


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

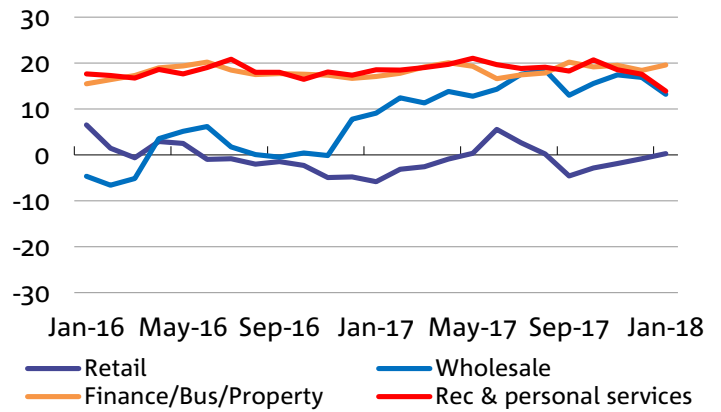


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

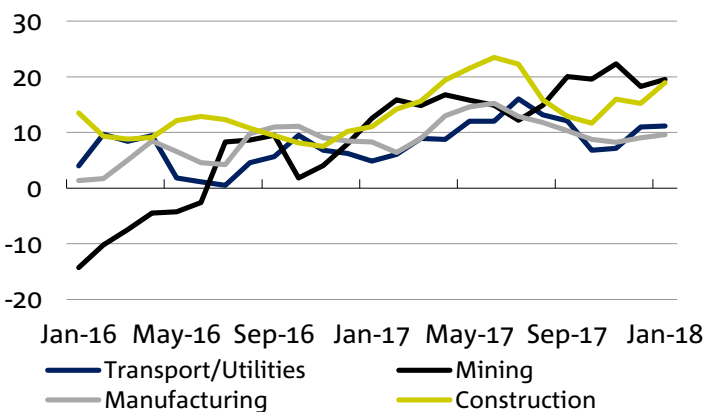
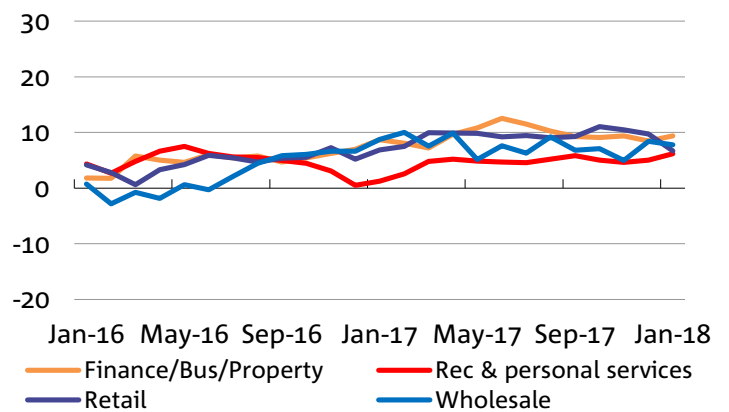


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

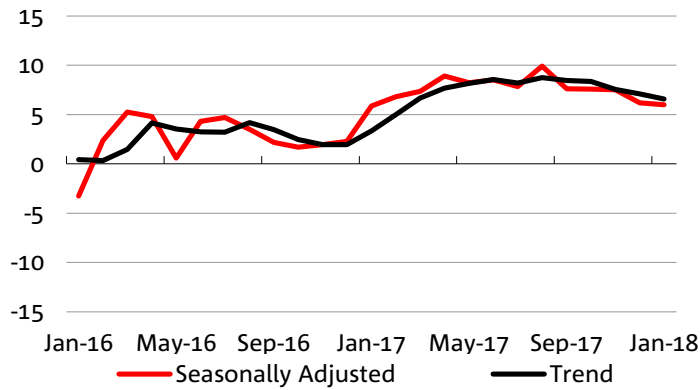


CHART 28: EMPLOYMENT (NAB VS ABS)

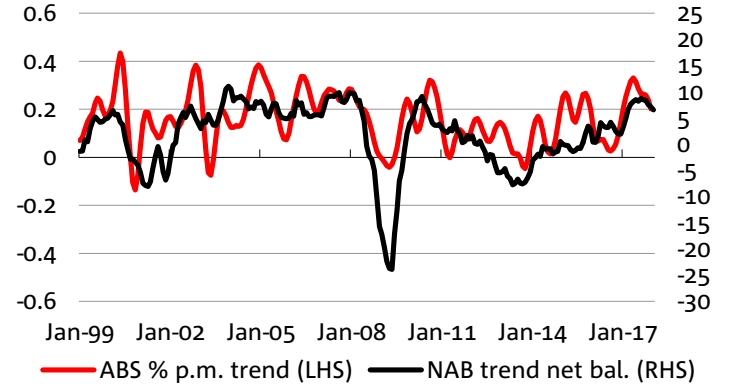


CHART 29: EMPLOYMENT BY INDUSTRY

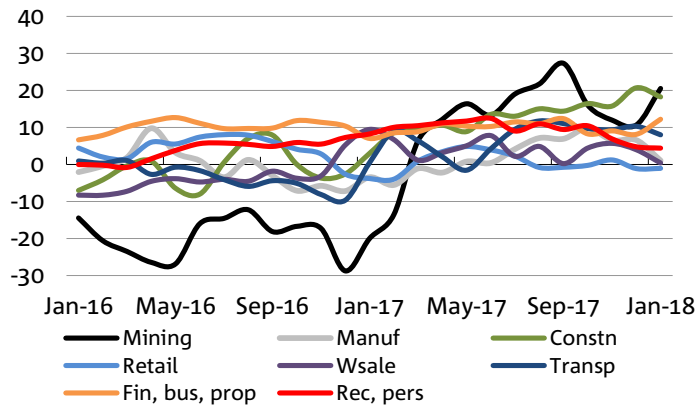


CHART 30: LABOUR COSTS GROWTH

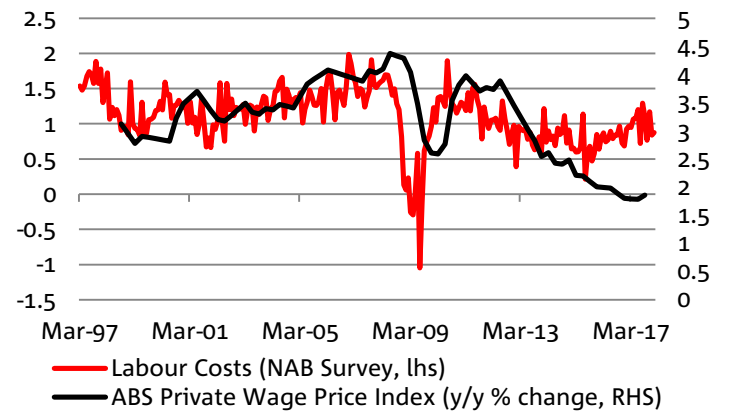


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

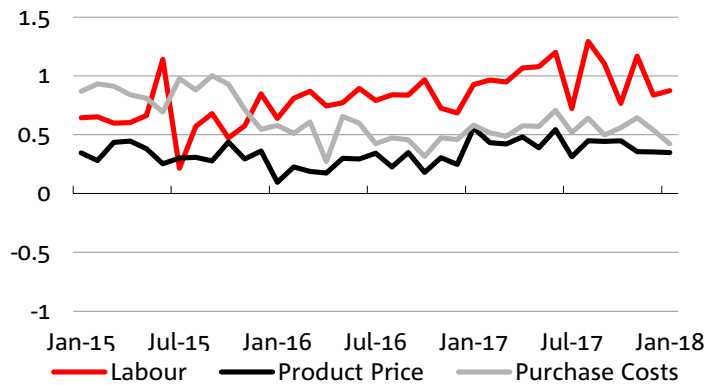
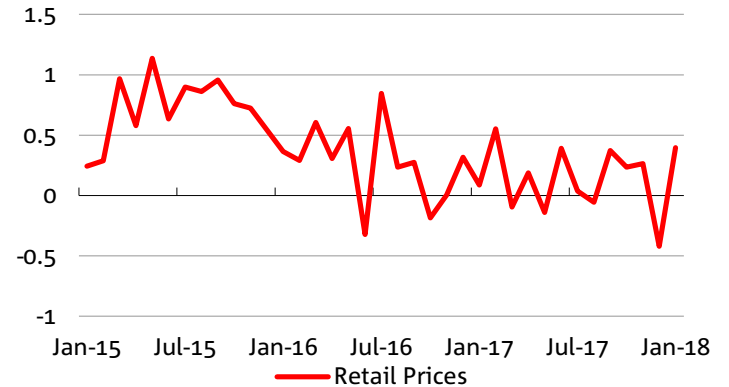


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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

Tony Kelly, Senior Economist

antony.kelly@nab.com.au

+61 3 9208 5049

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.

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	Margins (current, next 3 mth)
Business Conditions (current, next 3 mth, next 12 mth)	Overheads (current, next 3 mth)
Trading conditions (current, next 3 mth, next 12 mth)	Productivity growth
Profitability (current, next 3 mth, next 12 mth)	Number of employees
Employment (current, next 3 mth, next 12 mth)	Hours worked
Forward orders (current, next 3 mth)	Gross Sales
Stocks (current, next 3 mth)	Output/sales growth (current fiscal year)
Export orders (current, next 3 mth)	Average earnings (current fiscal year)
Capital expenditure (current, next 3 mth, next 12 mth, fiscal year)	Short term interest rate
Required rate of return on investment	Exporters hedged FX exposure (%)
Cash flow	Importers hedged FX exposure (%)
Labour costs (current, next 3 mth)	Months hedged (exporters)
Purchase costs (current, next 3 mth)	Months hedged (importers)
Final prices (current, next 3 mth)	Favourable hedge position (% of exporters)
Capacity Utilisation	Favourable hedge position (% of importers)
Borrowing index (current, next 3 mth)	Affected vs not affected by AUD
	Response to AUD (downsized, reduced, overheads, hedging, import substitution, focus on domestic market, other, don't know)
Borrowing demand (current, next 3 mth)	Driver of trading conditions (demand, wages/jobs, house prices, rates, exchange rate, tax/govt policy, seasonal, finance/working capital, company specific, other)
Constraints on output (demand, labour, materials, premises & plant, finance/working capital)	What will improve confidence (lower rates, more suitable labour, easier funding, government policy, higher demand, higher AUD, lower AUD, easier compliance, other)
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)	
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.