

**EMBARGOED UNTIL: 11:30AM AEDT, 13 MARCH 2018**

# NAB MONTHLY BUSINESS SURVEY FEBRUARY 2018

## BUSINESS CONDITIONS SURGE

*NAB Australian Economics*



**Business conditions were at a record high in February, with the broad-based strength across industries. While retail continues to record the softest business conditions, it has been showing improvement. Business confidence eased, perhaps reflecting financial market volatility early in the month, but remains above average. Signs remain positive for investment and continued robust jobs growth.**

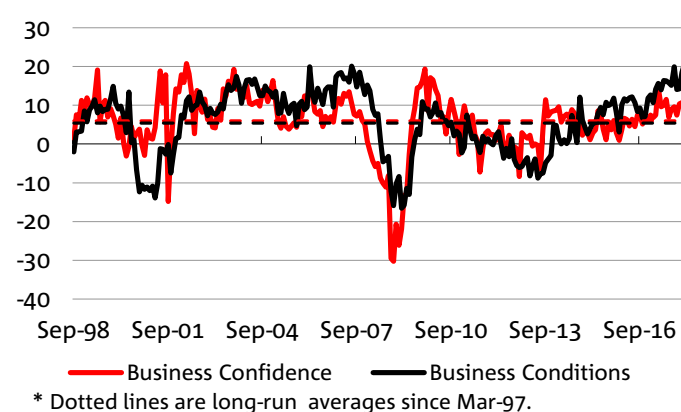
### HIGHLIGHTS

- **How confident are businesses?** The business confidence index fell 2pts to +9 index points. The decline may reflect turbulence in international financial markets in early February, but confidence remains above its historical average of 6 index points suggesting that the impact has been relatively limited so far.
- **How did business conditions fare?** The business conditions index increased a further +3pts to a +21 index points. This is a record high since the monthly survey commenced in March 1997, although the equivalent measure in NAB's quarterly survey reached the same level in 1994. On a trend basis, conditions are at the highest level since late 2007, just before the GFC.
- **What components contributed to the result?** Both trading conditions (sales) and profitability, already at high levels, posted small gains while employment conditions recorded a large rise, increasing to 16 index points, a record high.
- **What is the survey signalling for jobs growth?** If the recent surge is sustained, the employment index points to a robust level of jobs growth of approximately 27k per month, although this remains below the average monthly employment growth recorded by the ABS over the twelve months to January (see themes of the month on page 2).
- **Which industries are driving conditions?** Strength appears broad-based with all major industry groups reporting above-average conditions (see Themes of the Month on page 2). On a trend basis, conditions were strongest in construction, mining, finance, and property & business services. While the retail sector continues to underperform, it recorded its highest reading in eight months, although changing seasonal patterns mean that caution is required in interpreting this result. Personal & recreational services have also trended down in the past four months, and while they remain above average, it is a trend worth watching to see if softness in consumer spending is broadening beyond retail.
- **Which industries are most confident?** On a trend basis, mining and construction are the most confident, while confidence is lowest in recreation and personal services, although it is still around its historical average.
- **Where are we seeing the best conditions by state?** Business conditions are strong across all states. In trend terms, they are highest in Queensland (+22 index points), with Tasmania (+20), NSW (+19) and Victoria (+17) also elevated. Trend conditions continue to improve in WA (+10), its equal highest level since 2012. In SA (+9) business conditions are at above their historical average level and improved in February, although have declined in trend terms in recent months.
- **What is confidence like across the states?** Confidence is highest in trend terms in WA (+14 index points) and SA (+12), despite the latter falling sharply in February on a monthly basis (perhaps due to some pre-election uncertainty in addition to broader financial market volatility). Business confidence is at above average levels in the other states.
- **What does the Survey suggest about inflation and wages?** Inflation measures were mixed. While purchase cost growth was up to its highest level in over two years - final product price inflation was unchanged and retail price growth slowed. Labour cost growth was higher, likely reflecting the jump in employment rather than wage growth.
- **Are leading indicators suggesting further improvement?** Overall, leading indicators strengthened this month. While capacity utilisation gave up a little of last month's large rise, on a trend basis it is at its highest level since mid-2008. Moreover, forward orders jumped from +3 index points to +11 index points; even allowing for monthly volatility this signals an improved outlook for the non-mining economy (see Themes of the Month on page 2).

**TABLE 1: KEY STATISTICS**

	Dec-17	Jan-18	Feb-18
	Net balance		
Business confidence	10	11	9
Business conditions	14	18	21
Trading	19	25	27
Profitability	16	19	21
Employment	6	6	16
Forward orders	4	3	11
Stocks	2	1	7
Exports	0	1	-2
	% change at quarterly rate		
Labour costs	0.9	0.9	1.3
Purchase costs	0.5	0.4	0.8
Final products prices	0.4	0.4	0.4
Retail prices	-0.4	0.4	0.2
	Per cent		
Capacity utilisation rate	82.3	82.7	82.5

**CHART 1: LIFT IN CONDITIONS**



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 16 February to 23 February 2018, covering almost 530 firms across the non-farm business sector. **Next release date is 10 April 2018.**

**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

## BROAD BASED STRENGTH IN CONDITIONS

- The NAB business survey not only shows that business conditions are robust, but that this strength is broadly based across industries.
- On a trend basis, business conditions are above average in each industry group. Moreover, the gap between the best and the softest performing industries is at a relatively low level (see chart opposite). Similarly, the range between the top and bottom performing state is at a relatively low level.
- A top-to-bottom gap may simply reflect a single extreme at either end of the distribution. However calculating the gap for the industries other than the top/bottom extremes does not change the conclusion. Similarly, the standard deviation (a statistical measure of dispersion) across industries is also at a relatively low level.

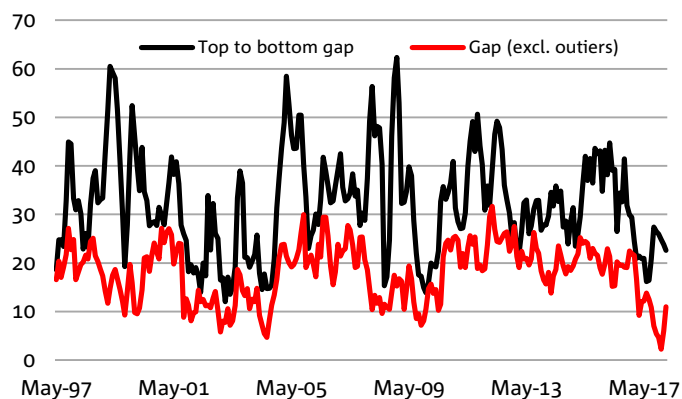
## SURGE IN FORWARD ORDERS CONFIRMS A RISING TREND

- There was a sizeable increase in forward orders in February from +3 index points to +11. There were particularly large increases in orders for wholesale, mining, manufacturing and, to a lesser extent, in retail and finance, property & business. Taken literally, new orders at this level is consistent with non-mining domestic demand growth approaching 6%.
- As with any survey, the data can be volatile from month-to-month. History tells us that large jumps or declines in forward orders (outside of recessions and the subsequent recovery) are often reversed.
- However, this should not obscure the fact that forward orders have been on a rising trend for several years now; something we highlight in the chart opposite using a 13 period Henderson centred moving average to smooth out the monthly volatility.

## GAP BETWEEN ABS AND NAB EMPLOYMENT NARROWS

- For a while there has been a large gap between employment growth reported by the Australian Bureau of Statistics (ABS) and the NAB Business Survey employment indicator.
- According to the ABS, over the year to January 2018, employment grew by over 400k, or around 33k a month. The NAB Business Survey employment index had been consistent with jobs growth of around 20k a month, but the February reading, if sustained, would see this move up to 27k.
- While this is below the current reported rates of jobs growth, the bottom line is that both the ABS and NAB Business survey are pointing to robust jobs growth in Australia. Historically, NAB Business Survey employment has tended to lead the ABS data by six months. This suggests that the strength in employment growth will not be ending any time soon.

CHART 2: TREND BUSINESS CONDITIONS –HIGHEST TO LOWEST GAP\*



\* Difference between highest and lowest industry conditions. Excl. outliers gap is difference between 2nd highest & 2nd lowest.

CHART 3: NAB SURVEY FORWARD ORDERS & NON-MINING DOMESTIC DEMAND

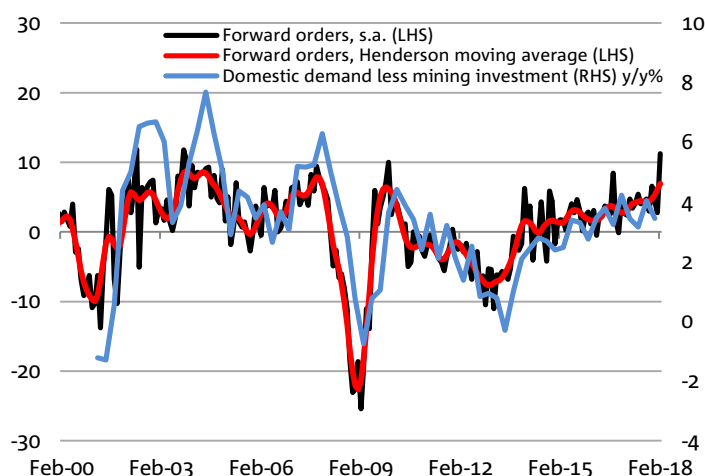
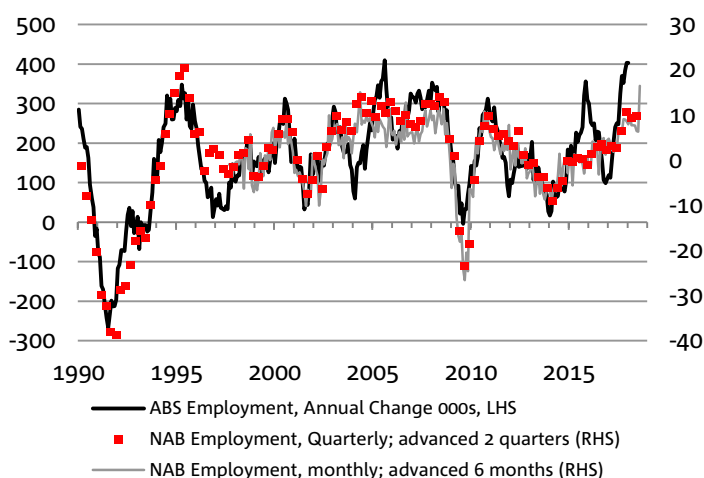
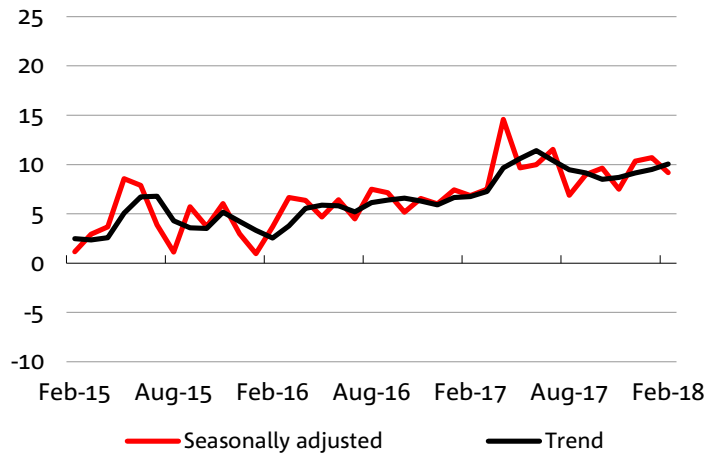


CHART 4: NAB VERSUS ABS EMPLOYMENT

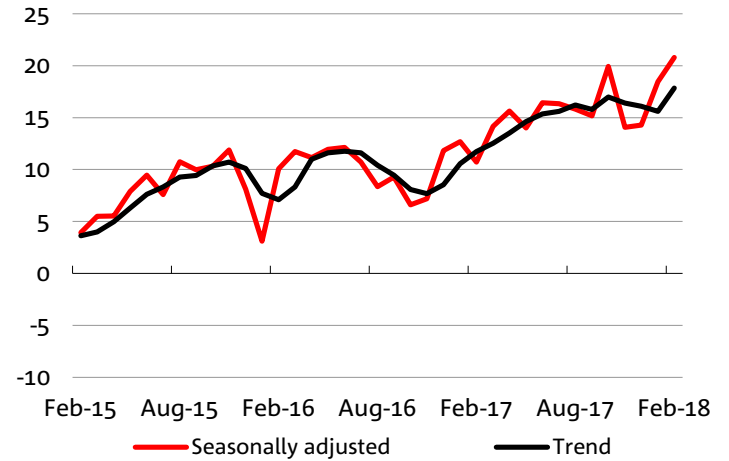


# NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

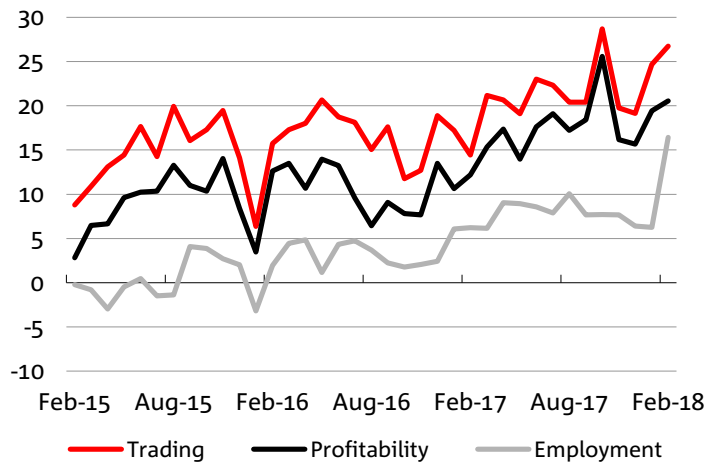
**CHART 5: BUSINESS CONFIDENCE (NET BALANCE)**



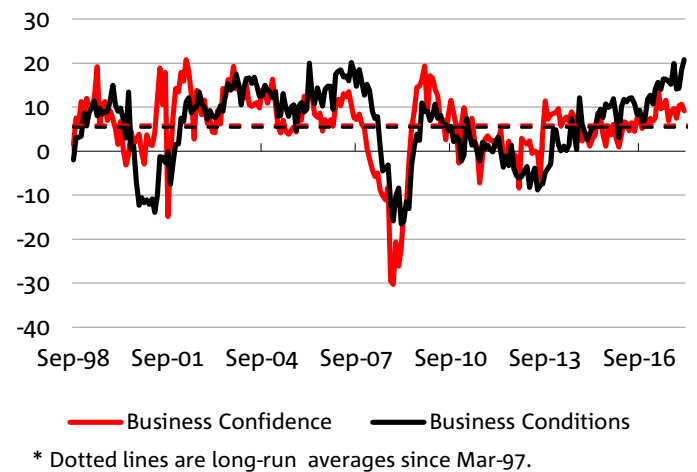
**CHART 6: BUSINESS CONDITIONS (NET BALANCE)**



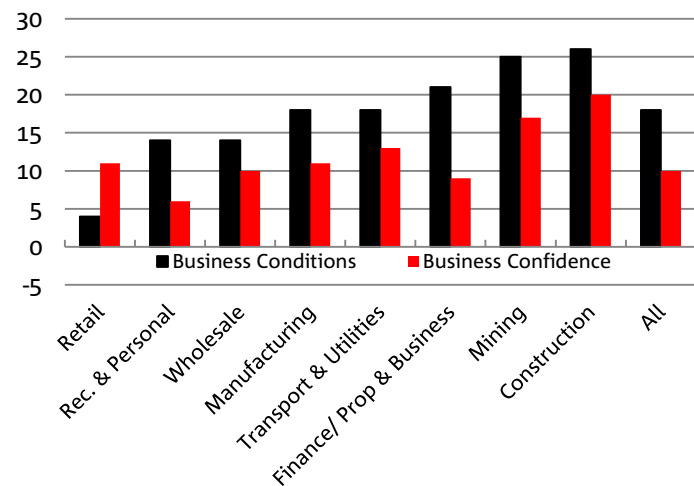
**CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.**



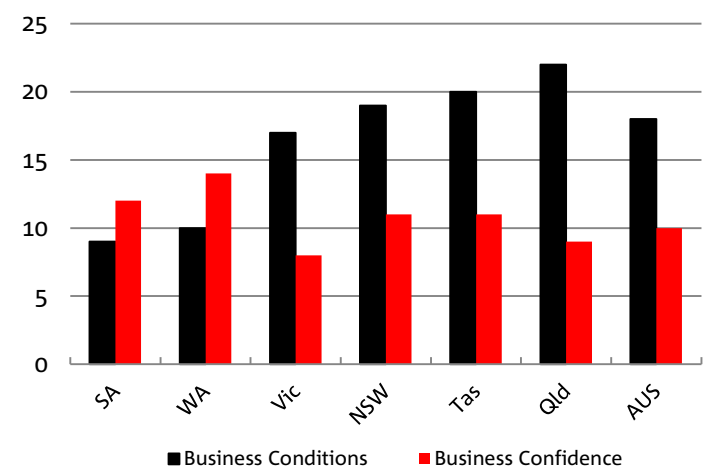
**CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE**



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

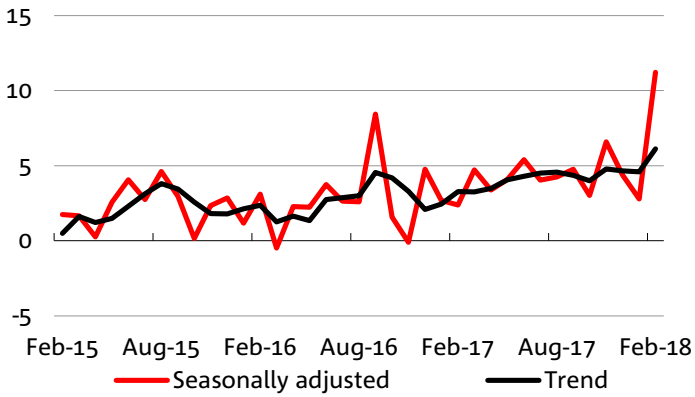


**CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)**

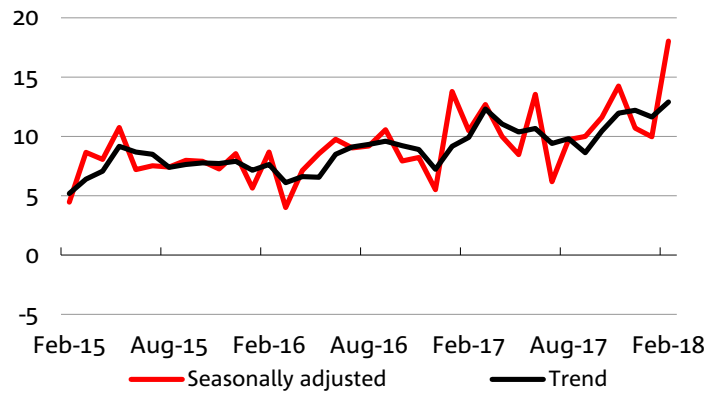


# NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

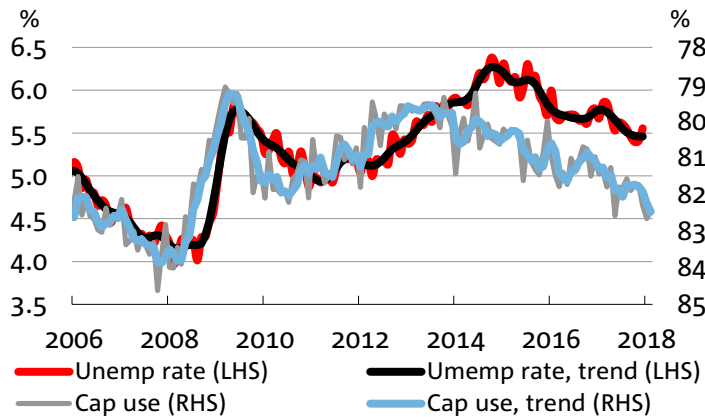
**CHART 11: FORWARD ORDERS (NET BALANCE)**



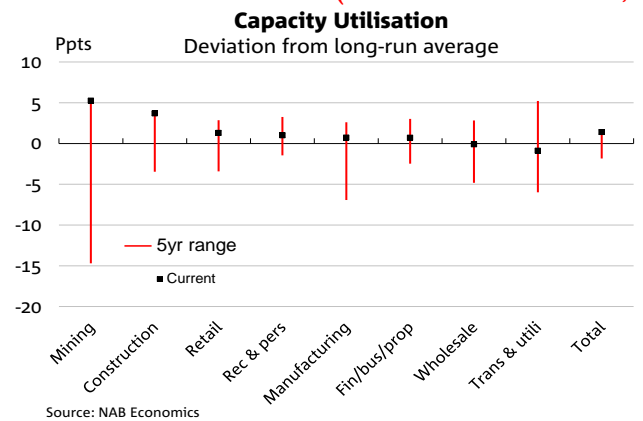
**CHART 12: CAPITAL EXPENDITURE (NET BALANCE)**



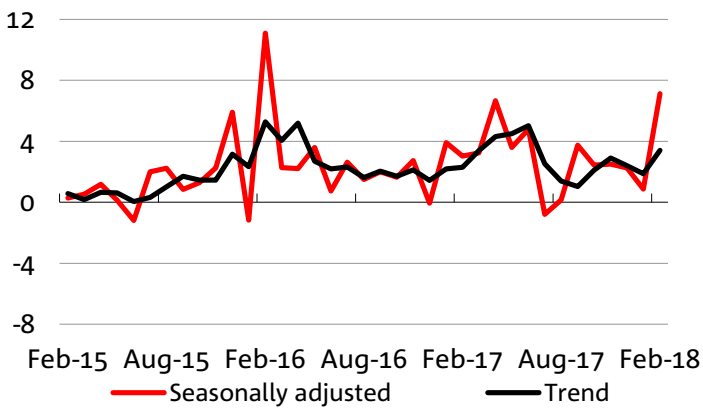
**CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT**



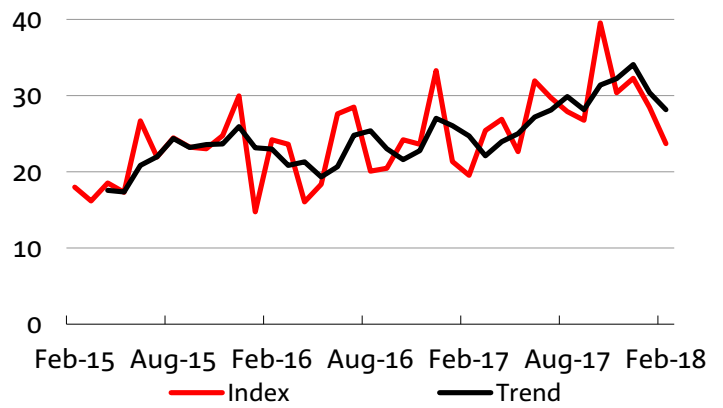
**CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)**



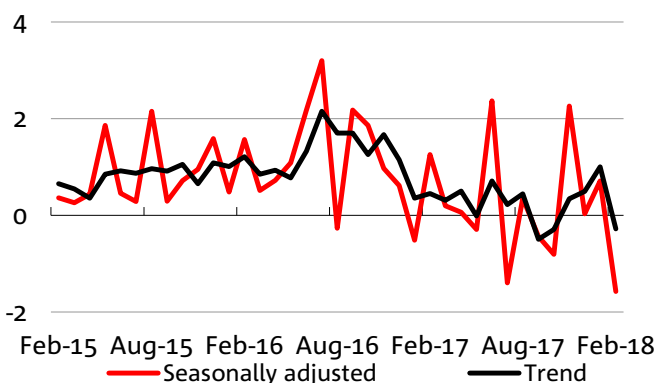
**CHART 15: STOCKS (NET BALANCE)**



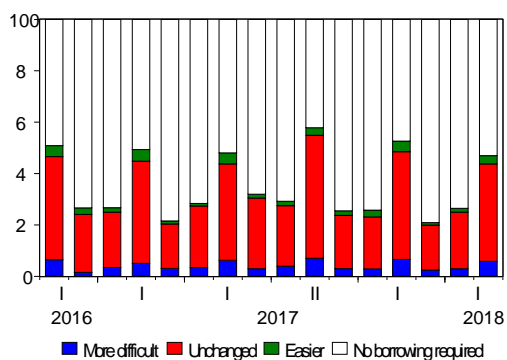
**CHART 16: CASH FLOW (NET BALANCE)**



**CHART 17: EXPORTS (NET BALANCE)**

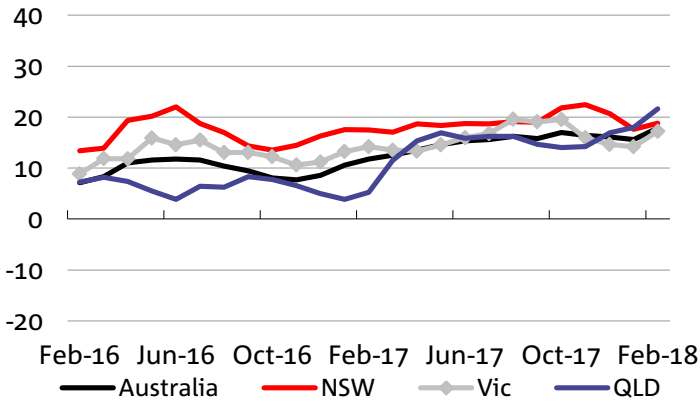


**CHART 18: BORROWING CONDITIONS (% OF FIRMS)**

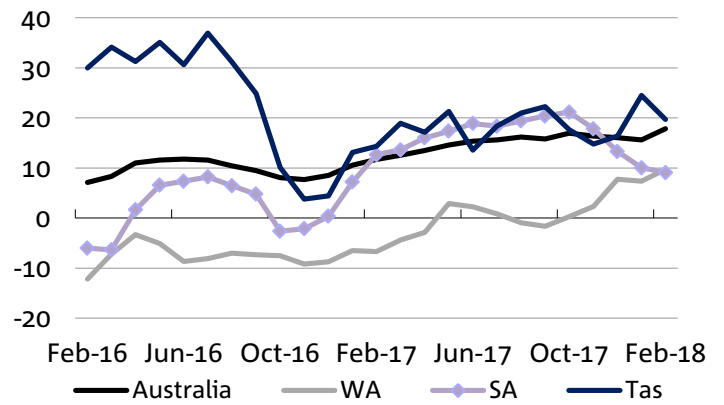


# NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

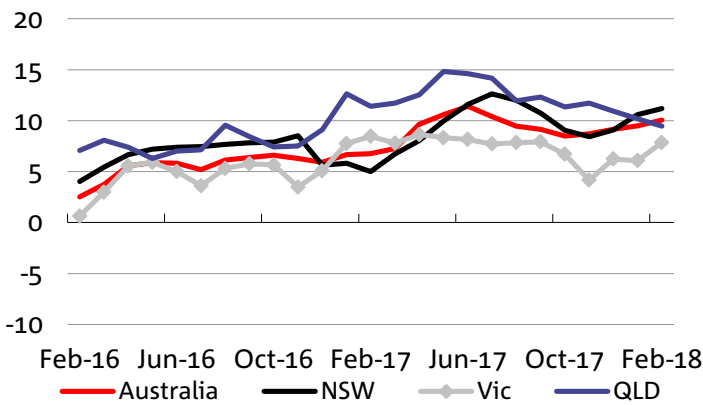
**CHART 19: BUSINESS CONDITIONS (NET BALANCE) BY STATE**



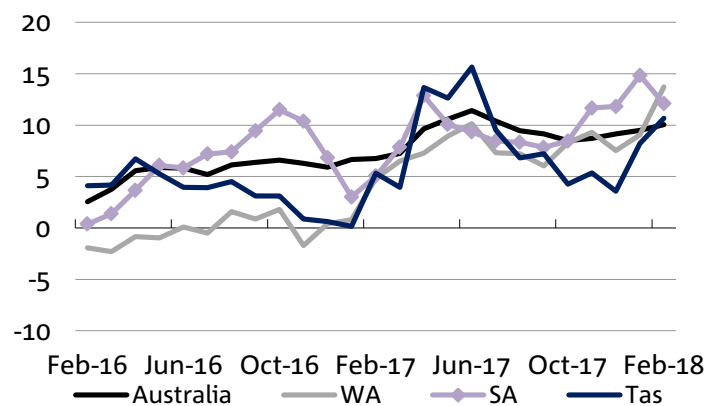
**CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE**



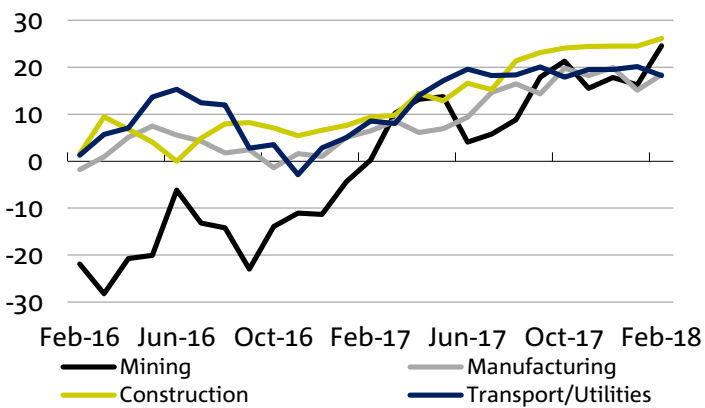
**CHART 21: BUSINESS CONFIDENCE BY STATE (NET BALANCE)**



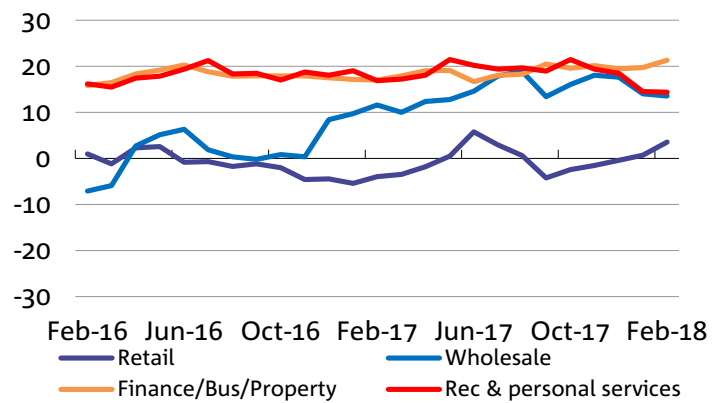
**CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)**



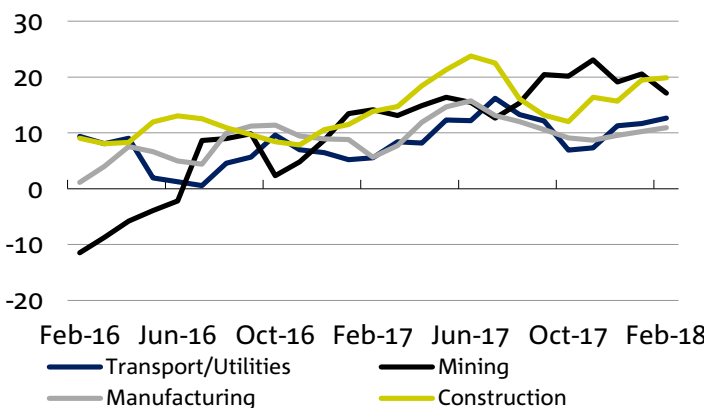
**CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)**



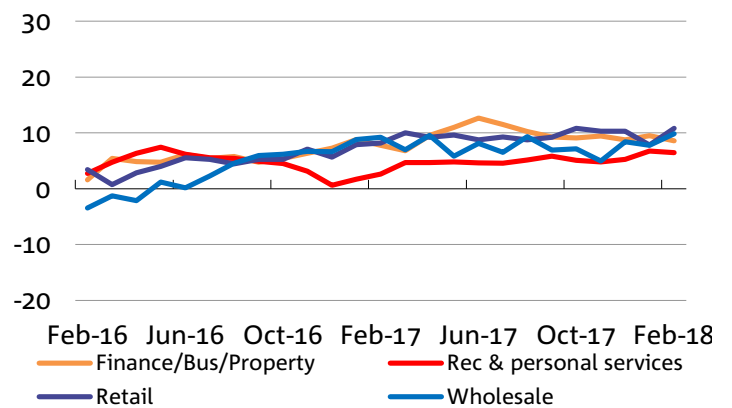
**CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)**



**CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)**

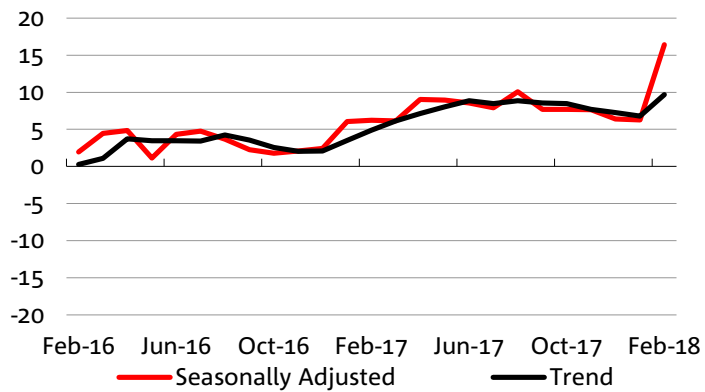


**CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)**

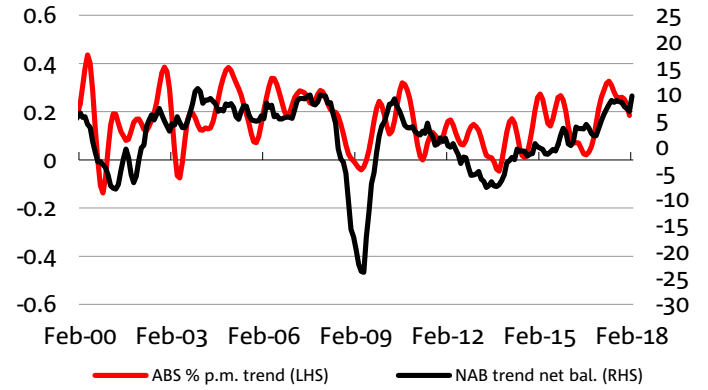


# NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

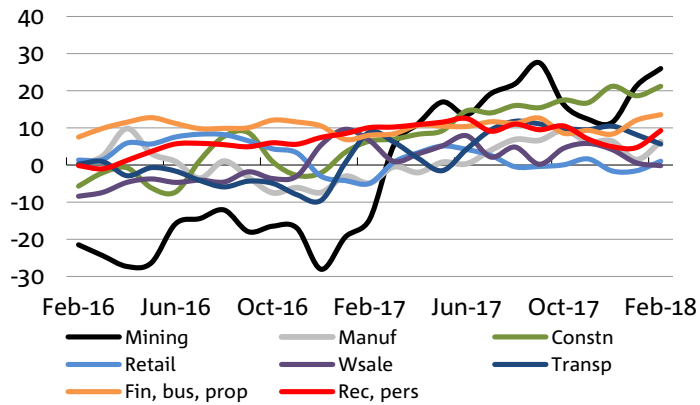
**CHART 27: EMPLOYMENT**



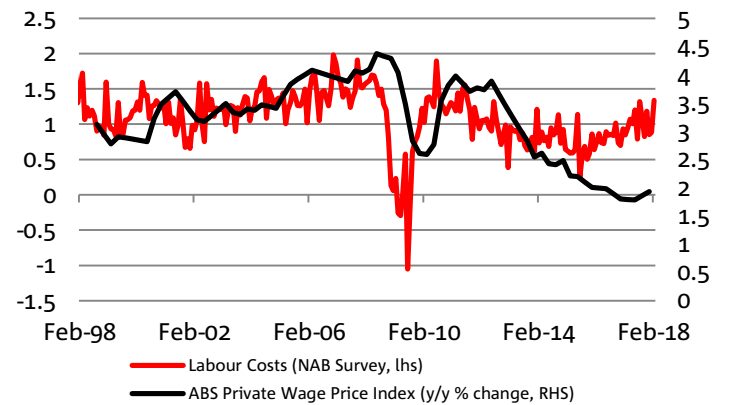
**CHART 28: EMPLOYMENT (NAB VS ABS)**



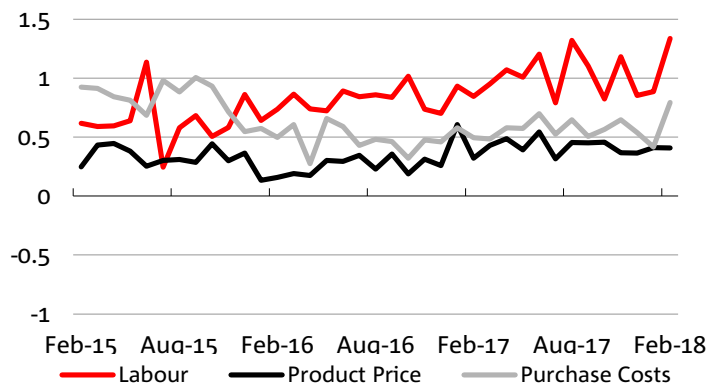
**CHART 29: EMPLOYMENT BY INDUSTRY**



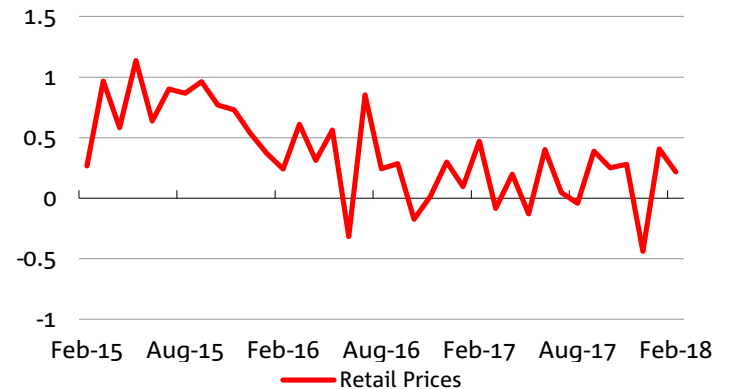
**CHART 30: LABOUR COSTS GROWTH**



**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](mailto:Alan.Oster@nab.com.au)

+613 8634 2927

Riki Polygenis, Head of Australian Economics

[riki.polygenis@nab.com.au](mailto:riki.polygenis@nab.com.au)

+61 475 986 285

Tony Kelly, Senior Economist

[antony.kelly@nab.com.au](mailto: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<sup>^</sup>

### 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.

<sup>^</sup>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)	
<b><i>All series available on an industry basis for:</i></b>	
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)	
<b><i>All series available on a state basis for:</i></b>	
New South Wales	
Victoria	
Queensland,	
WA	
SA/NT	
Tasmania	

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