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 they 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

<table>
<thead>
<tr>
<th>Dec-17</th>
<th>Jan-18</th>
<th>Feb-18</th>
</tr>
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<tbody>
<tr>
<td>Business confidence</td>
<td>10</td>
<td>11</td>
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<tr>
<td>Business conditions</td>
<td>14</td>
<td>18</td>
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<tr>
<td>Trading</td>
<td>19</td>
<td>25</td>
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<tr>
<td>Profitability</td>
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<td>19</td>
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<td>Employment</td>
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<tr>
<td>Forward orders</td>
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<td>3</td>
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<tr>
<td>Stocks</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Exports</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

% 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 |

Capacity utilisation rate

| 82.3 | 82.7 | 82.5 |

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

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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.

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

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.

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

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 strong 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 4: NAB VERSUS ABS EMPLOYMENT
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### APPENDIX: LIST OF SERIES AVAILABLE TO SUBSCRIBERS^""

### MONTHLY BUSINESS SURVEY*

<table>
<thead>
<tr>
<th>Statistical Measure</th>
<th>Data Type</th>
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<tr>
<td>Business Confidence</td>
<td>Net balance</td>
</tr>
<tr>
<td>Business Conditions</td>
<td>Net balance</td>
</tr>
<tr>
<td>Trading Conditions</td>
<td>Net balance</td>
</tr>
<tr>
<td>Profitability</td>
<td>Net balance</td>
</tr>
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<td>Employment</td>
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<td>Forward Orders</td>
<td>Net balance</td>
</tr>
<tr>
<td>Stocks</td>
<td>Net balance</td>
</tr>
<tr>
<td>Exports</td>
<td>Net balance</td>
</tr>
<tr>
<td>Capital Expenditure (Capex)</td>
<td>Net balance</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>Net balance</td>
</tr>
<tr>
<td>Labour Costs</td>
<td>% change at quarterly rate</td>
</tr>
<tr>
<td>Purchase Costs</td>
<td>% change at quarterly rate</td>
</tr>
<tr>
<td>Final Prices</td>
<td>% change at quarterly rate</td>
</tr>
<tr>
<td>Capacity Utilisation</td>
<td>Per cent</td>
</tr>
<tr>
<td>Borrowing Demand &amp; Conditions</td>
<td>%; net balance</td>
</tr>
</tbody>
</table>

**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)
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)

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)

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.