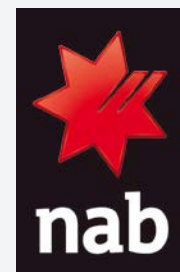


EMBARGOED UNTIL: 11:30AM AEDT, 10 APRIL 2018

NAB MONTHLY BUSINESS SURVEY MARCH 2018

BUSINESS CONDITIONS COME OFF THE BOIL, BUT STILL HOT

NAB Australian Economics



There was a noticeable fall in business conditions in March, unwinding the gains seen over the two prior months. Nevertheless, conditions remain well above average, with reasonably broad based strength across industries although retail continues to lag. Business confidence eased again and is now only just above its long-term average, although leading indicators remain at solid levels, as is the employment index.

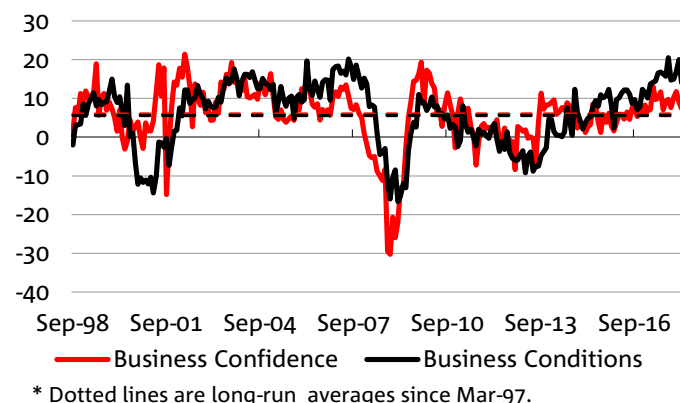
HIGHLIGHTS

- **How confident are businesses?** The business confidence index fell 2pts to +7 index points and is now only just above its historical average of 6 index points. The survey was conducted shortly after US President Trump's announcement of tariffs on at least \$50 billion of Chinese imports, which may have affected sentiment.
- **How did business conditions fare?** The business conditions index declined by 6pts to +14 index points more than giving up its gains in the previous two months. Nevertheless, it remains well above its historical average of +5.5 index points and was unchanged in trend terms.
- **What components contributed to the result?** Trading conditions (sales), profitability and, in particular, employment conditions all fell. However, on a trend basis there was little or no change and all components remain above average. The strength in profitability is a positive sign for non-mining sector profits and investment (see Themes of the Month on page 2).
- **What is the survey signalling for jobs growth?** Despite declining in March, the employment index is still consistent with a solid level of jobs growth - approximately 21k per month. While this remains below the average monthly employment growth recorded by the ABS over the twelve months to February, it is above the ABS' current trend estimate of 19k.
- **Which industries are driving conditions?** Conditions declined in all industries except for manufacturing and personal & recreational services. Conditions are strongest in mining in trend terms, and are equal to, or above, their historical average in all industries. The retail sector continues to underperform other sectors, although on a trend basis, it recorded its highest reading in nine months. Personal & recreational services moved higher arresting, for now, the downwards trend evident since last October.
- **Which industries are most confident?** On a trend basis, mining is the most confident; the strength in mining confidence and conditions reflects changes in commodity prices (see Themes of the Month on page 2). Confidence, in trend terms, 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 (in trend terms) are equal to or above their historical average in all states - they are highest in Tasmania (+25 index points), followed by Victoria (+20), Queensland (+19), NSW (+17). Conditions are more moderate in SA (+11 in trend terms) and WA (+9).
- **What is confidence like across the states?** Confidence is highest in trend terms in WA and Tasmania (+15 index points) followed by SA (+12) and is at above average levels in the other states, although only marginally so in Victoria, the state with the lowest business confidence (+5).
- **What does the Survey suggest about inflation and wages?** Final product price inflation remains muted and retail prices declined. However, purchase cost growth has been moving higher since late 2016 providing a tentative sign of inflationary pressure (see Themes of the Month on page 2). Labour cost (wage bill) growth moderated after rising the previous month.
- **Are leading indicators suggesting further improvement?** Overall, leading indicators softened this month but remain at solid levels. While capacity utilisation eased slightly, and forward orders gave up much of last month's spike, on a trend basis they remain at their highest level since mid-2008 and early 2010 respectively.

TABLE 1: KEY STATISTICS

	Jan-18	Feb-18	Mar-18
		Net balance	
Business confidence	12	9	7
Business conditions	17	20	14
Trading	24	24	20
Profitability	20	18	14
Employment	7	16	9
Forward orders	3	11	5
Stocks	1	6	5
Exports	1	-2	3
	% change at quarterly rate		
Labour costs	0.9	1.3	0.8
Purchase costs	0.4	0.8	0.8
Final products prices	0.4	0.4	0.3
Retail prices	0.4	0.2	-0.1
	Per cent		
Capacity utilisation rate	82.7	82.5	82.4

CHART 1: CONDITIONS FELL IN MARCH BUT REMAIN AT A HIGH LEVEL



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 23 March to 29 March 2018, covering over 400 firms across the non-farm business sector.

Next release date is 7 May 2018.

Contacts: Alan Oster – Chief Economist, Antony Kelly – Senior Economist

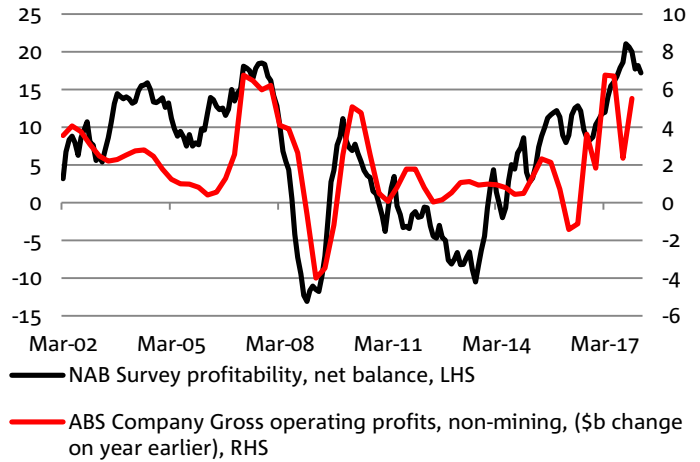
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NAB MONTHLY BUSINESS SURVEY - THEMES OF THE MONTH

POSITIVE OUTLOOK FOR NON-MINING PROFITS

- The NAB business survey profitability index has been trending up since late 2016. While in the last few months it has come off its late 2017 peak it still remains at a very solid level.
- Historically, the NAB Survey profitability measure has broadly lined up with changes in the ABS measure of non-mining company profits. At its current level, the profitability indicator points to further solid gains in reported company profits.
- Increasing company profits can be a positive for business investment. This is particularly so in the current environment in which businesses appear reluctant to fund investment using credit but instead appear to be relying more on internal financing.

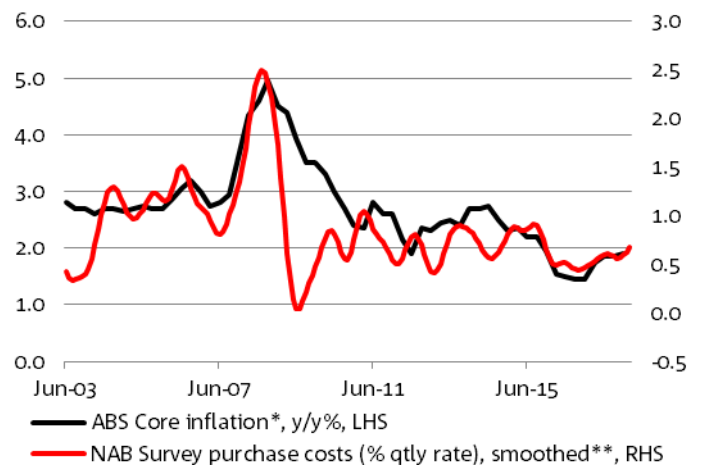
CHART 2: NAB PROFITABILITY AND ABS COMPANY PROFITS



LOOKING FOR INFLATION

- Annual CPI inflation has been below the Reserve Bank of Australia's 2-3% target band for most of the last three years. It currently sits just below the band on both a headline and underlying or core basis.
- The NAB Business Survey measure of final product price growth has, if anything, been muted for a longer period of time – essentially tracking sideways at a lower level since the GFC.
- The NAB Business Survey measure of purchase costs has been rising since late 2016, providing some tentative signs of inflationary pressure. However, it would need to keep rising to provide a convincing signal that core CPI inflation is about to move back within the RBA's target band.

CHART 3: NAB SURVEY PURCHASE COSTS AND CORE CPI INFLATION

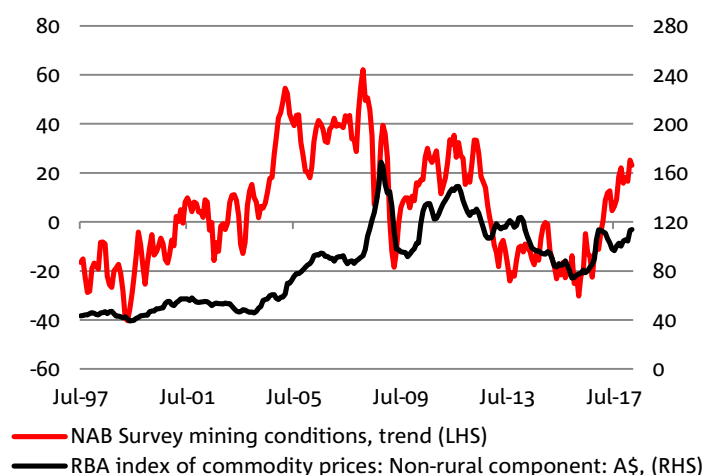


* Average of weighted median and trimmed mean inflation. **Thirteen period Henderson moving average

HOW LONG MINING STAYS ON TOP DEPENDS ON COMMODITY PRICES

- On a trend basis, the industry with the highest level of both business conditions and confidence is mining. The last time this occurred was in May 2012.
- As with the drop following the May 2012 peak, the revival in mining business conditions and confidence since their 2015/2016 lows has coincided with a shift in non-rural commodity prices.
- In both episodes, the mining confidence index led changes in conditions. As such, the fact that mining confidence has largely held onto its recent gains (see Chart 25) is a positive sign for mining conditions readings in coming months. However, our expectations are for commodity prices to ease over the rest of the year, particularly for bulks such as iron ore and metallurgical coal. If realised this would place pressure on mining sector conditions and confidence later this year.

CHART 4: MINING CONDITIONS AND COMMODITY PRICES



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

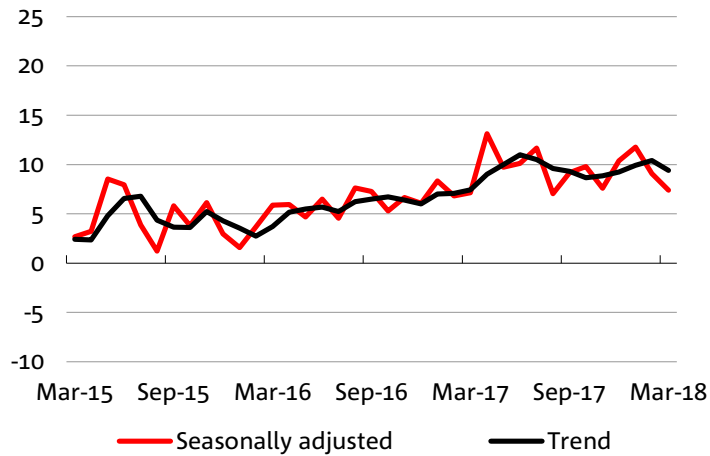


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

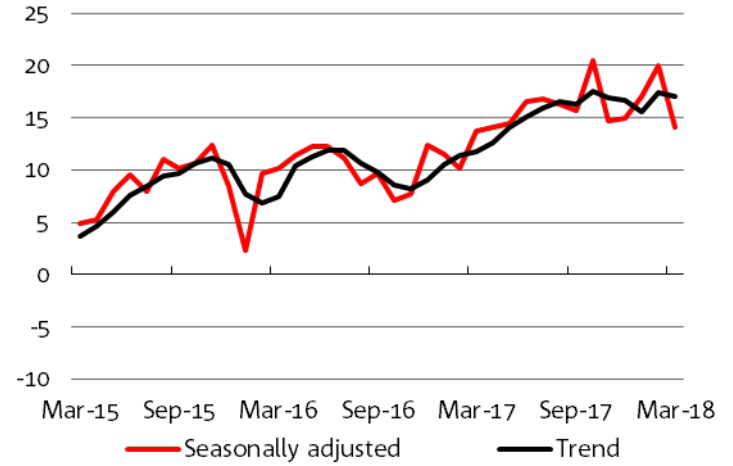


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

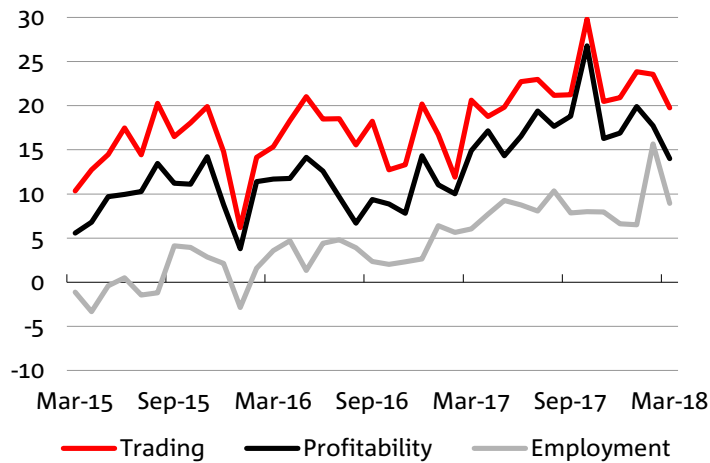


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

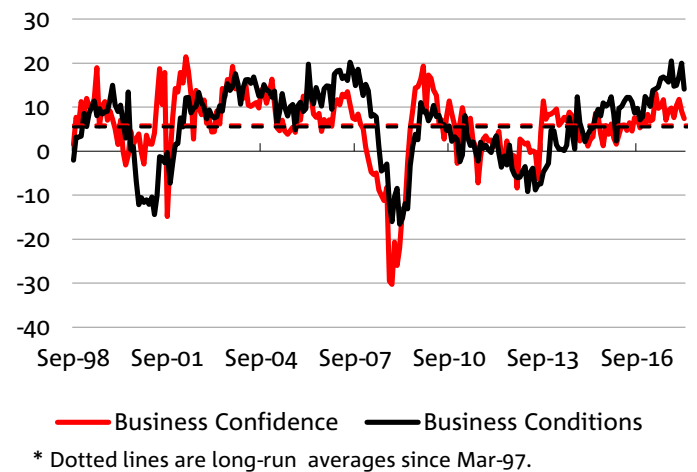


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

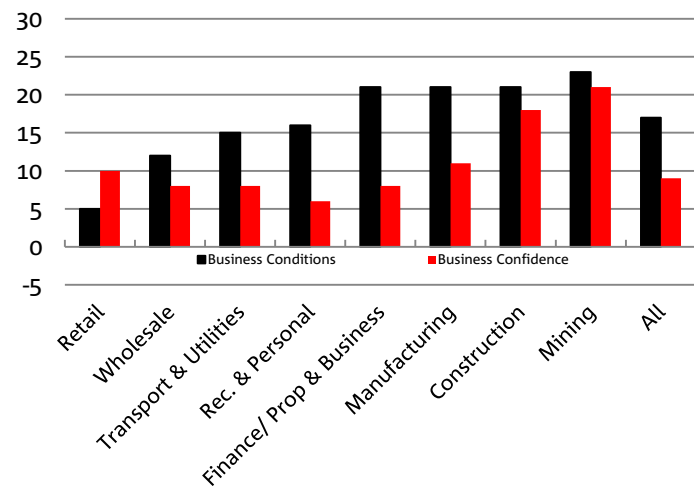
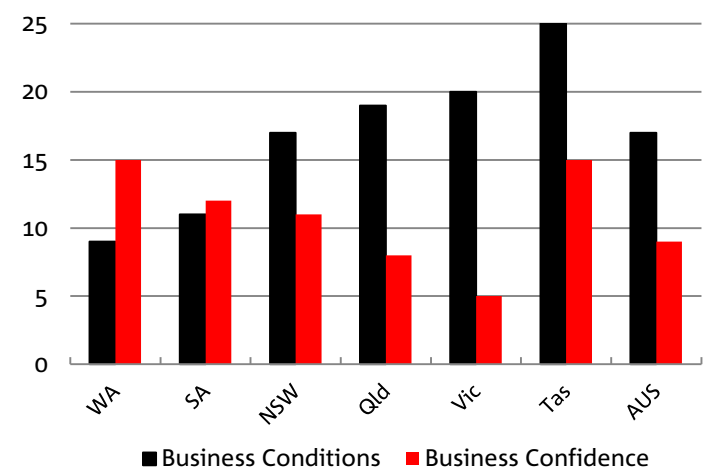


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

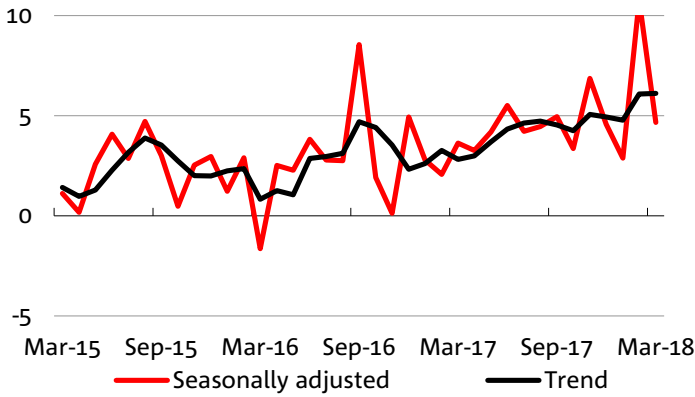


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

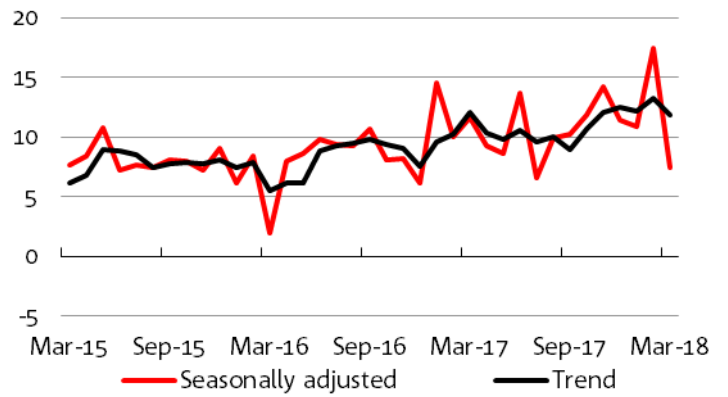


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

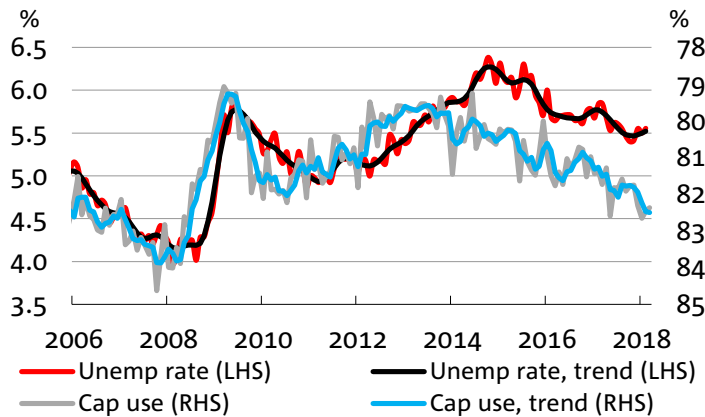


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

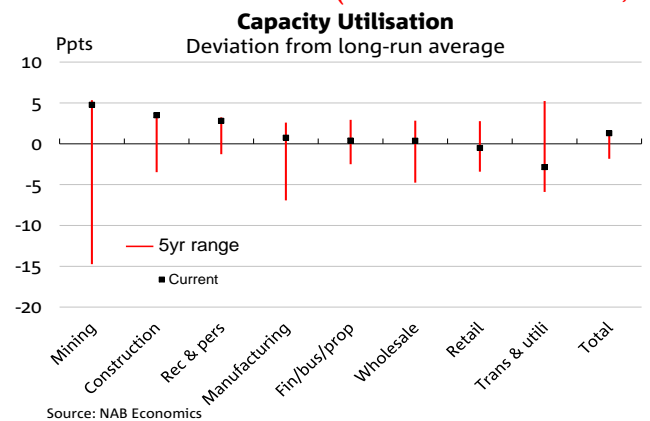


CHART 15: STOCKS (NET BALANCE)

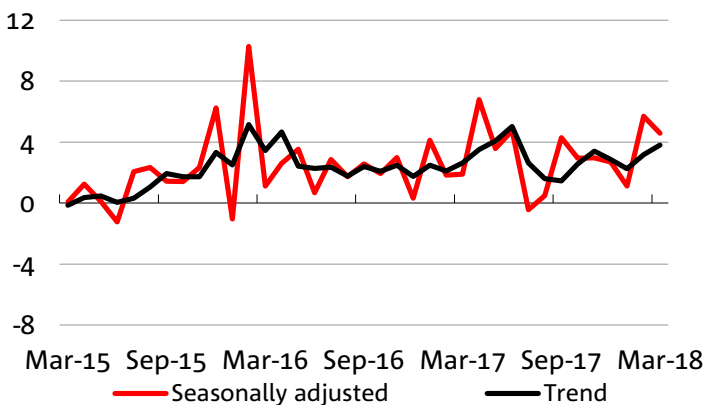


CHART 16: CASH FLOW (NET BALANCE)

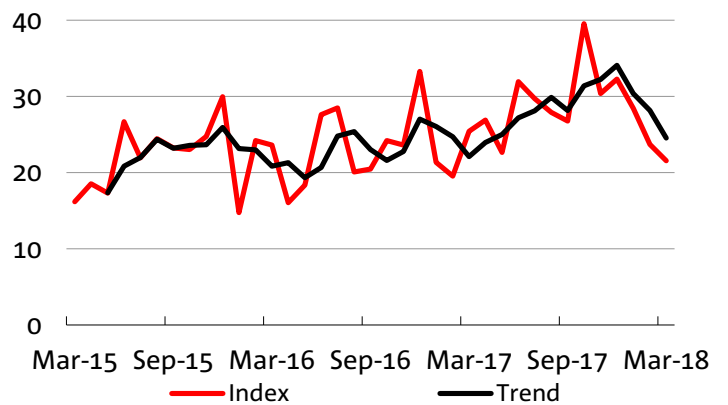


CHART 17: EXPORTS (NET BALANCE)

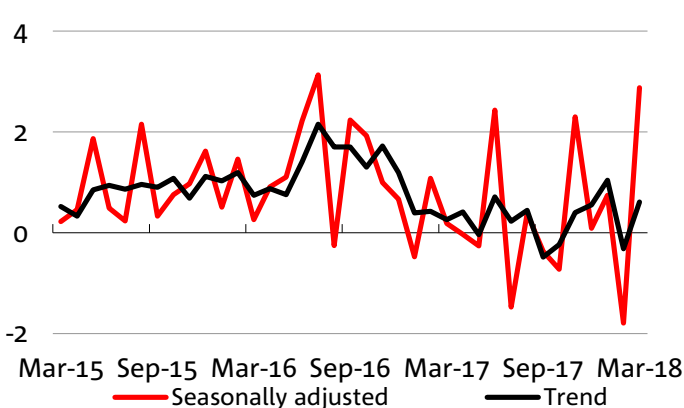
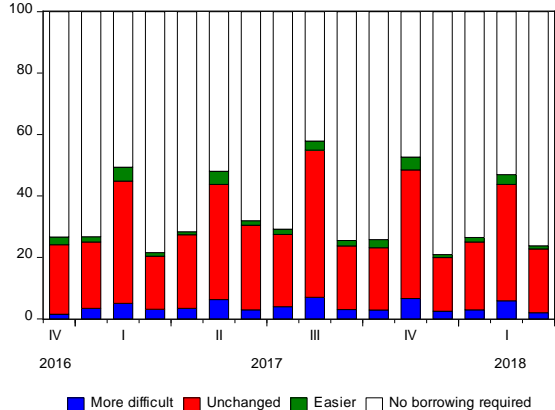


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 19: BUSINESS CONDITIONS (NET BALANCE) BY STATE

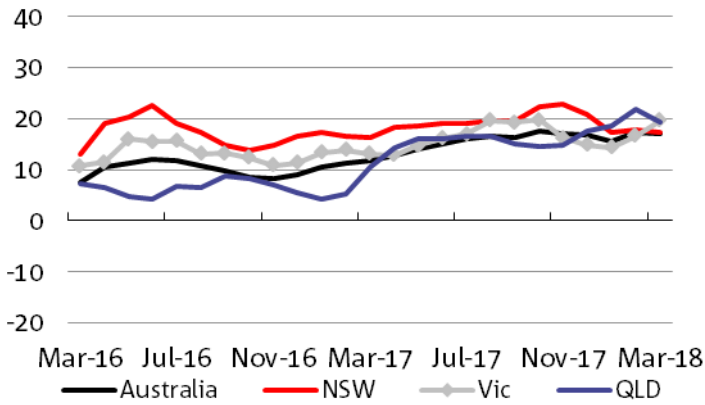


CHART 20: BUSINESS CONDITIONS (NET BALANCE) BY STATE

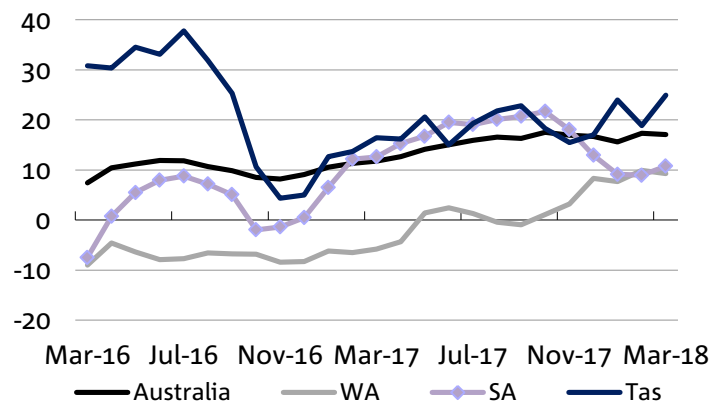


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

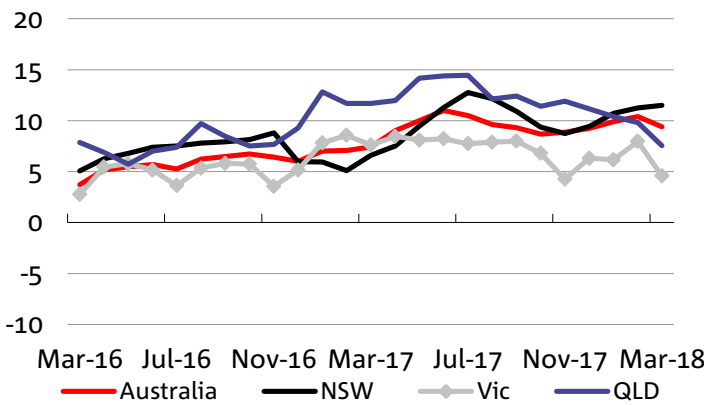


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BALANCE)

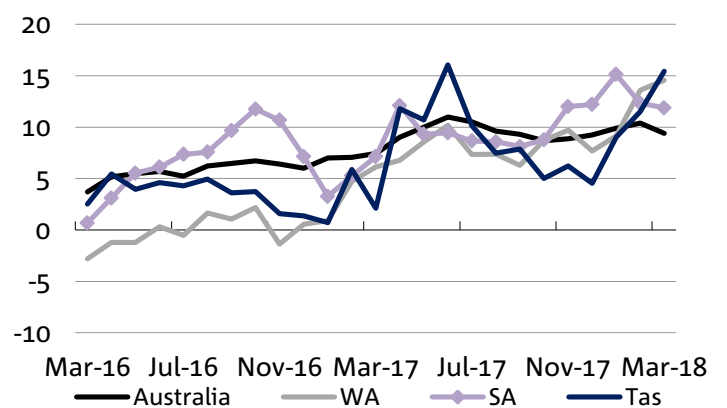


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

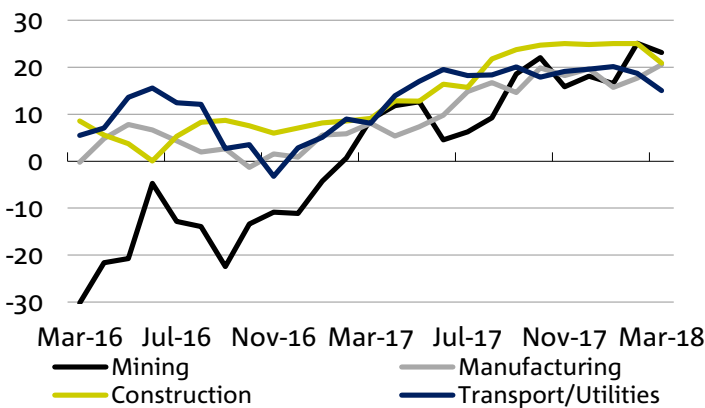


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BALANCE)

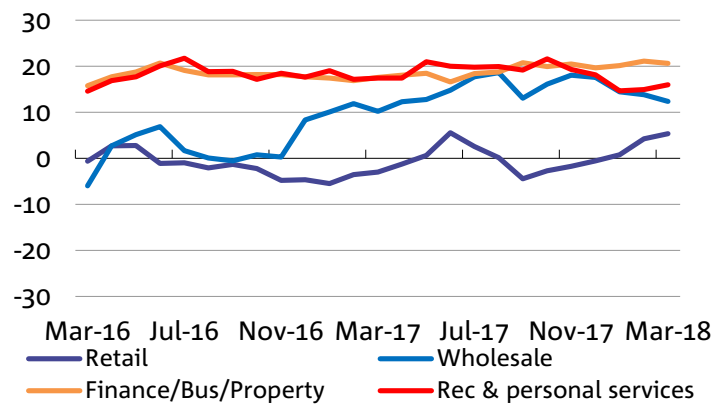


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)

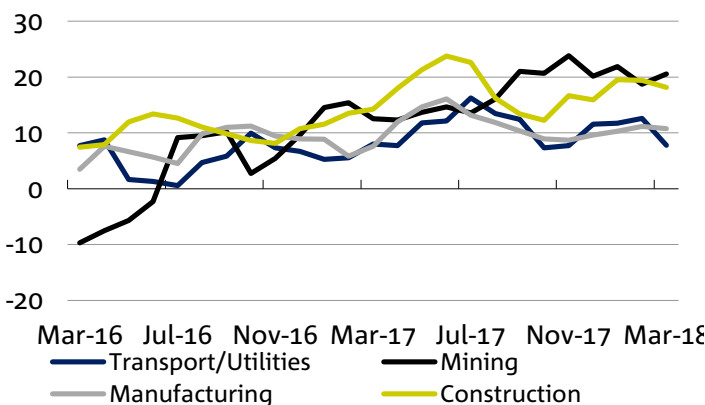
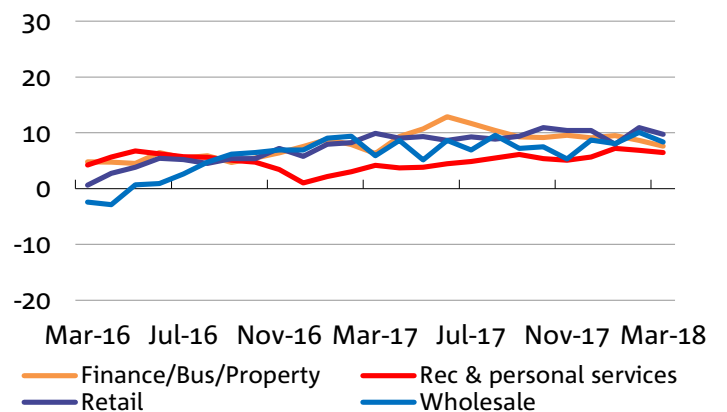


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BALANCE)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

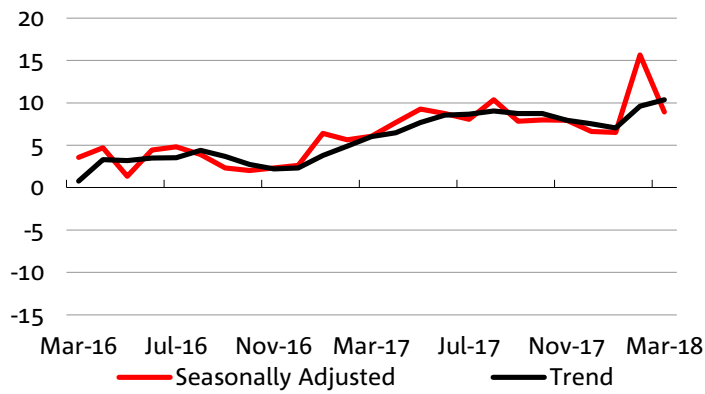


CHART 28: EMPLOYMENT (NAB VS ABS)

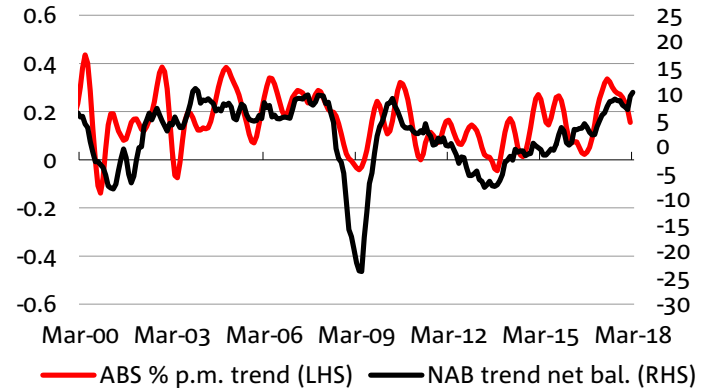


CHART 29: EMPLOYMENT BY INDUSTRY

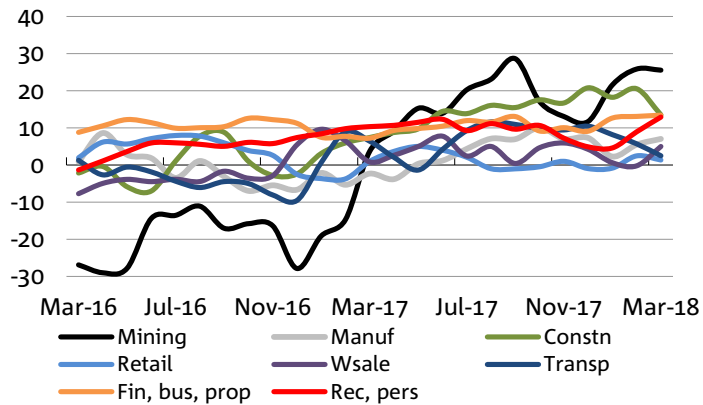


CHART 30: LABOUR COSTS GROWTH

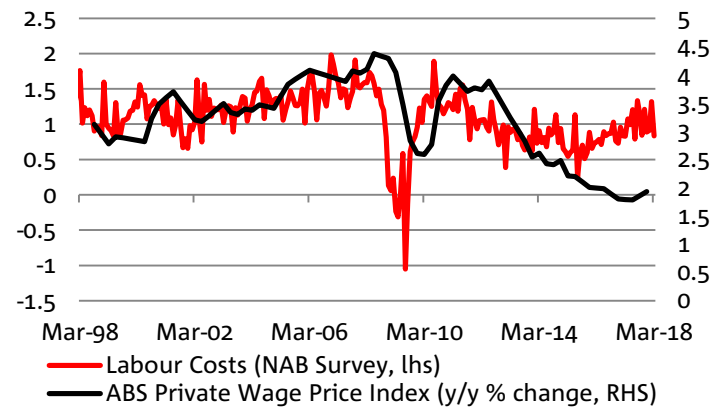


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

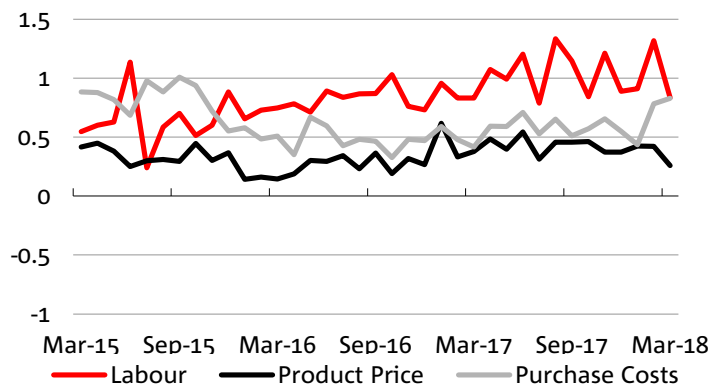
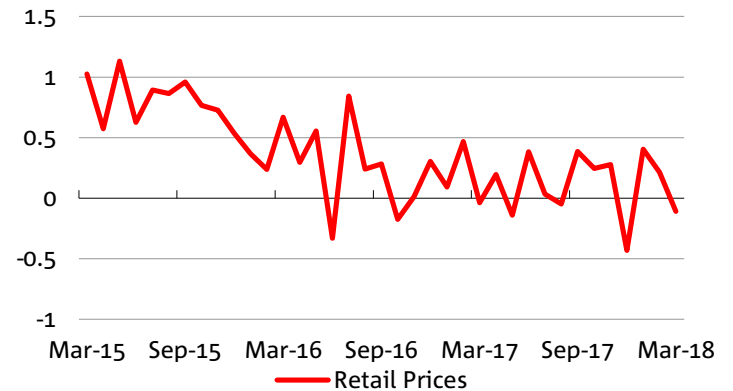


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



CONTACTS

Alan Oster, Group Chief Economist

Alan.Oster@nab.com.au

+613 8634 2927

Tony Kelly, Senior Economist

antony.kelly@nab.com.au

+61 3 9208 5049

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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.