

NAB Monthly Business Survey

by NAB Group Economics

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August 2014



National
Australia
Bank

Key Points:

- Business confidence remains resilient despite easing a little in August, supported by positive forward orders, subdued cost pressures and more stable consumer confidence. Positive business conditions are also helping despite falling back in the month. Confidence varies significantly across industries, with construction firms the most optimistic by a large margin.
- The jump in business conditions last month was surprising, so some payback in August was expected. The conditions index unwound most of July's narrowly based gains – manufacturing, construction and retail fell most. Forward orders also eased, but remain at levels implying stronger Q3 demand.
- A sharp drop in profits and sales drove the unwinding in August, although both remain positive. The employment index was unchanged at low levels, conforming with expectations of a relatively jobless recovery. Capex, capacity utilisation and forward orders all improved over the past 12 months, but trend conditions in the 'bellwether' wholesale industry remain weak. Our wholesale leading indicator implies soft underlying conditions and below trend economic growth in Q3, with moderate near-term demand growth in prospect.
- NAB forecasts broadly unchanged following modest Q2 GDP growth (as expected). Rates still on hold till late 2015 – with the move then up. Only a sharp deterioration in the labour market (not expected) could see rate cuts.

Table 1: Key monthly business statistics*

	Jun 2014	Jul 2014	Aug 2014		Jun 2014	Jul 2014	Aug 2014
	Net balance				Net balance		
Business confidence	8	10	8	Employment	-3	0	0
Business conditions	3	8	4	Forward orders	0	5	1
Trading	7	13	7	Stocks	3	2	2
Profitability	4	10	3	Exports	0	2	0
	% change at quarterly rate				% change at quarterly rate		
Labour costs	0.7	0.9	0.7	Retail prices	0.2	0.8	0.2
Purchase costs	0.5	0.5	0.5		Per cent		
Final products prices	0.2	0.2	0.2	Capacity utilisation rate	79.1	81.0	80.7

* All data seasonally adjusted and subject to revision. Cost and prices data are monthly percentage changes expressed at a quarterly rate. Fieldwork for this survey was conducted from 25 Aug to 2 Sep, covering over 500 firms across the non-farm business sector.



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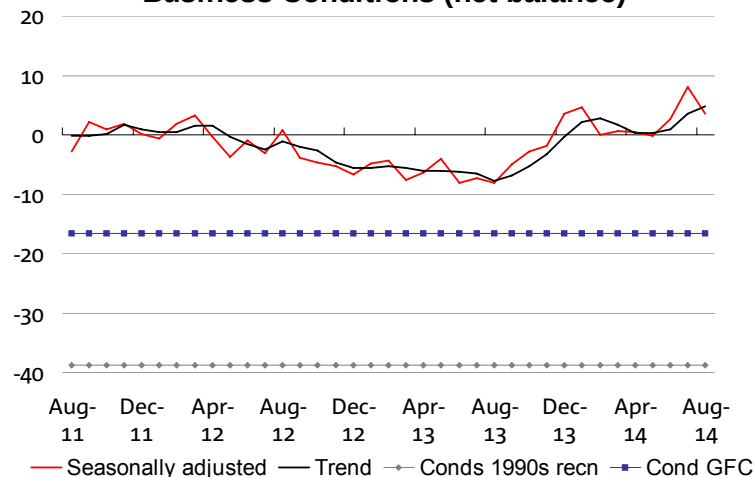
Next release: 14 October 2014 (September monthly)

Analysis

- The strong improvement in business conditions recorded in July was short lived, unwinding significantly last month. The business conditions index dropped 4 points in the month (following a 5 point increase in July) to +4 index points. At this level, business conditions are still well up on 2013, but are significantly lower than the pre-GFC years and slightly below the long run average of the series (+5 since 1997) – suggesting the moderate economic growth environment is set to continue. In large part, the decline in business conditions during the month reflects an unwinding of some of the narrowly based gains seen in July. This was particularly stark in manufacturing, which dropped 13 points, following an 18 point improvement in July, to -4 index points – equal second lowest of the industries (along with mining). Looking through the monthly volatility, the trend in business conditions still looks reasonably positive, lifting 1 point to its highest level since 2010 (+5 points). Trend conditions rose in all industries except rec & pers services, which fell 2 points, and fin/ prop/ bus (unchanged), but are mixed in levels terms. Mining, retail and wholesale are lowest (-12, -6 and -6 points respectively), consistent with lower commodity prices and wages growth. Retail conditions slipped in August – mainly on the back of poorer trading outcomes. Overall the consumer remains anxious but not as much as during the recent Budget debate and implies moderate on going retail sales. Unsurprisingly, construction activity is elevated, as are personal and business services (which have consistently outperformed).
- Business confidence eased back as well, but remains close to the improved levels seen since last years election. The index dropped 2 points (to +8), although outcomes vary significantly across industries. In July, most industries recorded a positive confidence index outside of mining. In August, mining, wholesale and transport & utilities were all negative (-10, -2 and -2 points respectively). Retail confidence remains positive, but fell sharply from last month (down 15 points) – consistent with our reservations over the optimism in July. Looking through the monthly volatility, trend confidence was unchanged (at +8), with construction and retail the highest. In trend terms, confidence is only negative in mining (-6), but soft in bellwether industries of wholesale and transport & utilities (both +2).

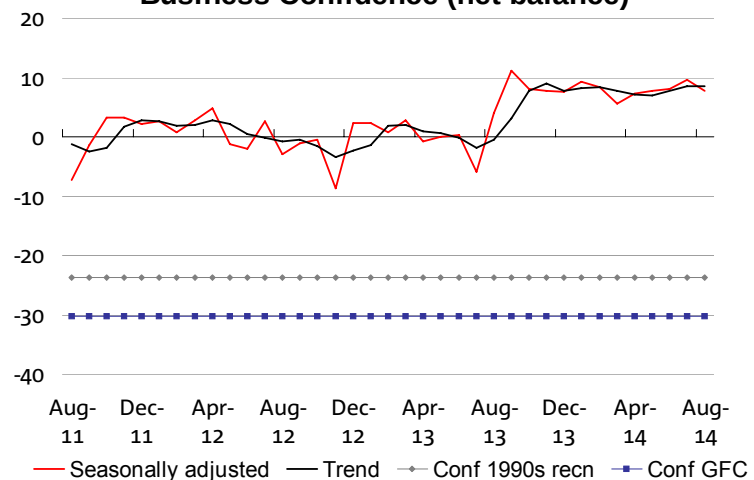
Conditions drop from 4 year high

Business Conditions (net balance)



Confidence surprisingly robust

Business Confidence (net balance)



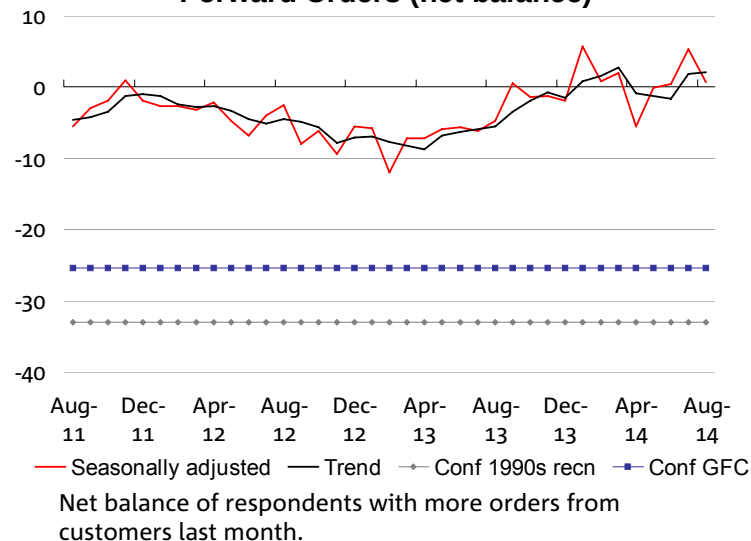
Excluding normal seasonal changes, how do you expect the business conditions facing your industry in the next month to change?

Forward indicators

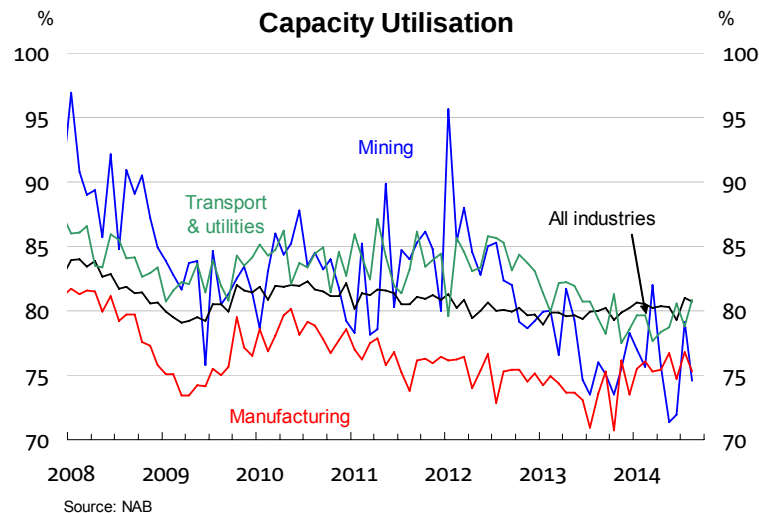
- The forward orders index dropped by 4 to +1 index points, unwinding the gain recorded last month. However, the index is still above the average for the monthly series, helping to explain the resilience in business confidence. The outcome reflected particularly large falls in manufacturing and transport & utilities (each down 13), both of which recorded strong – and largely unexpected – gains in July. Construction orders bounced again (up 17), which was the strongest gain across the industries. In trend terms, orders were unchanged at +2 points. Orders are now weakest in trend terms for wholesale (-3 points) and retail (-2), but are currently strongest for construction by a significant margin. Residential building approvals increased in July, following a fall in June, with the pipeline of work to be done remaining lengthy.
- Capacity utilisation eased a little in August to 80.7%, following a strong increase the previous month – the highest level since early 2012. This level is slightly below the monthly survey average of 81.1% (from 1997), but is above the long-run average of 80.4% (from 1989). The mining industry recorded the largest falls (down 4.7 ppts) and also has the lowest utilisation rates (74.6%) – a reflection of newly completed mining projects that are yet to ramp up to full production. Utilisation rates also fell for construction (down 2.0 ppts), manufacturing (down 1.3 ppts), fin/ prop/ bus (down 0.6 ppts) and retail (down 0.3 ppts). Despite easing, the surge in building approvals over the past year is keeping construction utilisation rates elevated (81.8%), while utilisation in personal and professional services are generally a little higher. All industries, besides personal services, are below long run averages.
- The capital expenditure index rose modestly in August, up 1 point to +5 index points – in line with long-run average levels. The trend index was unchanged, at +5 index points, suggesting a moderate expansion of non-mining business investment (which has a larger weighting in the survey). This trend is consistent with improving investment intentions outside of mining in the Q2 ABS Capex Survey. Trend rec & pers services and fin/prop/ bus capex are highest (both +10 points).
- Elsewhere in the survey, cash flow (not seasonally adjusted) was strongest in fin/prop/bus services, and weakest in retail.

Sales orders drop, but still positive

Forward Orders (net balance)



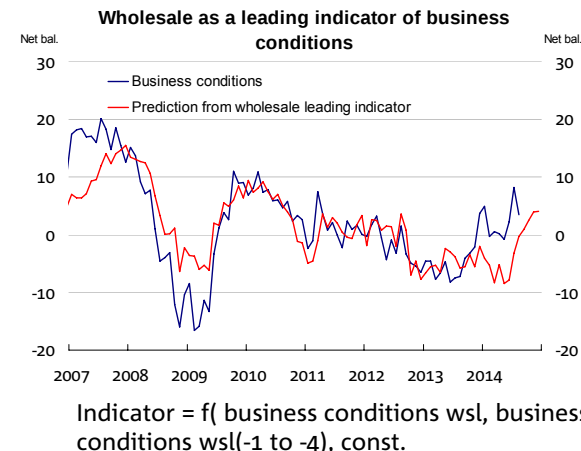
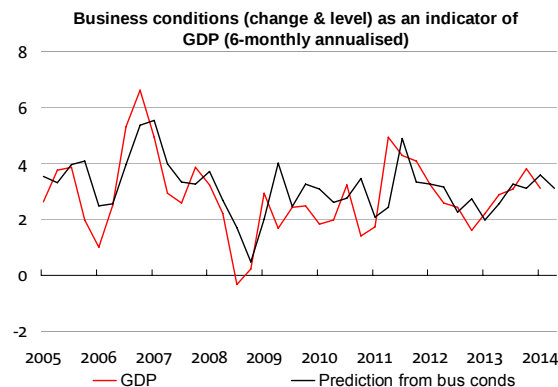
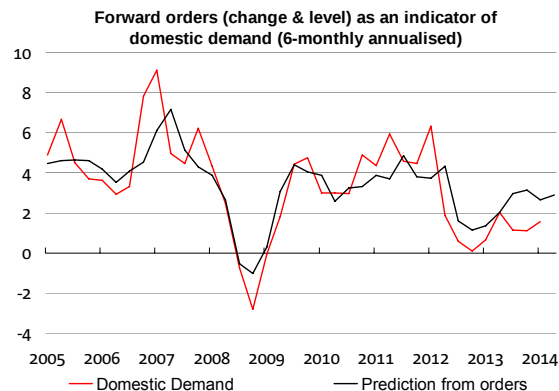
Capacity utilisation still mixed across industry



Full capacity is the maximum desirable level of output using existing capital equipment.

Implications for forecasts For more information see latest [Global & Australian Forecasts](#)

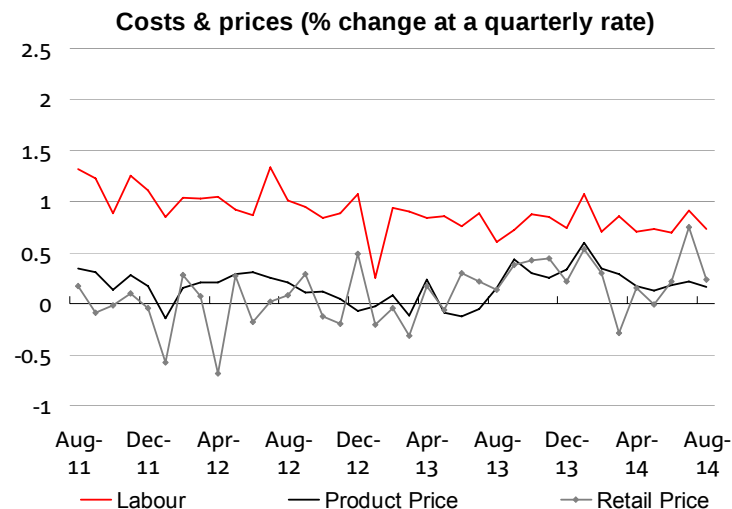
- Disappointing global growth continued into mid-2014 with stagnation in the Euro-zone sparking deflationary concern and ECB action while Japanese demand is still struggling to recover from April's tax rise. Solid economic upturns in the US, UK and Canada limiting the slowing in advanced economy growth while the anticipated softening in the emerging market economies is under way, pointing to another year of below-trend 3% growth. We still expect growth to accelerate to around trend through 2015 and 2016.
- Domestic GDP growth sub-par (0.5%) in Q2— with nominal GDP falling. Business conditions & confidence still positive but conditions give back most of August gains. Domestic forecasts revised marginally: 2014/15 2.9% (was 3.1%); 2015/16 3.4% (was 3.2%). Unemployment rate still to peak at 6½% by end-2014. Inflation at the bottom of the RBA target band. Cash rate still on hold until late 2015.
- Our model of 6-monthly annualised demand growth, using forward orders as a predictor, has been suggesting stronger growth than the national accounts in recent quarters. Nevertheless, applying trend forward orders for August to our model for Q3 (+2) suggests that predicted demand growth will strengthen a little. Similarly, business conditions over predicted GDP growth in Q2. Based on trend business conditions from the August monthly survey, our model implies slightly softer predicted GDP growth in Q3. Applying business conditions derived from our 'wholesale leading indicator' implies a smaller increase in GDP growth in Q3.
- Wholesalers made further progress in leaving behind the doldrums that have plagued the industry for the past 3-4 years. Wholesale conditions lifted into slightly positive territory for the first time since August 2012 (+1 points), although the trend remains weak (-6 points). Based on past relationships, wholesale conditions have been a reasonably good predictor of overall business conditions – exhibiting strong statistical evidence of a leading relationship (Granger causality). The measures have diverged since late last year as broader conditions improved, but the gap narrowed in August as wholesale lifted. This indicator predicts slightly softer business conditions in Q3 than the regular conditions index, but comes more into line in late 2014.



Costs and prices

- Labour costs growth (a wages bill measure) decelerated to 0.7% in August, from 0.9%, although July would have been affected by a hike in the minimum wage. Consistent with this, the deceleration in wage cost growth was largest for retail (down 1.9 ppts) – one of the largest employers of minimum wage workers. Labour cost changes varied across industries, with rec & personal services showing the next largest deceleration (down 0.2 ppts). In contrast, labour cost deflation eased for mining and construction. Labour cost growth was strongest in recreation & personal services (1.2%), financial/ property/ business services (1.0%) and transport & utilities (0.8%). Each of these industries also reported among the strongest employment conditions in the month. Labour market conditions are softest in mining in terms of both employment and labour costs (which continue to decline). Labour market indicators in Australia remain soft, with the trend unemployment rate unchanged at 6.1% in July, suggesting limited wage pressures ahead.
- Purchase cost growth was unchanged at 0.5% in August (at a quarterly rate), which is well down on growth rates seen over 2013. Purchase costs accelerated in construction (up 0.7 ppts), but decelerated for all other industries (the largest in mining, down 0.5 ppts). As residential construction activity ramps up, pressures on spare construction capacity may see cost pressures lift further. Purchase costs growth was strongest in manufacturing (0.7%, at a quarterly rate), but were weakest for mining (0%).
- Final product price growth remains subdued, staying unchanged at a quarterly rate of 0.2%, suggesting only little relief for firm's margins. This means the RBA can maintain their loose stance on monetary policy to allow greater traction for domestic demand. Last months sharp acceleration in retail prices was also unwound in August (down 0.6 ppts), which bodes well for the CPI outlook. Upstream price pressures (manufacturing and wholesale) are also reasonably subdued (down 1.1 ppts and unchanged respectively). The mining sector recorded the most price deflation (-0.6%), while prices growth is highest in manufacturing and personal & recreation services (both 0.3%).

Price pressures ease back after temporary spike



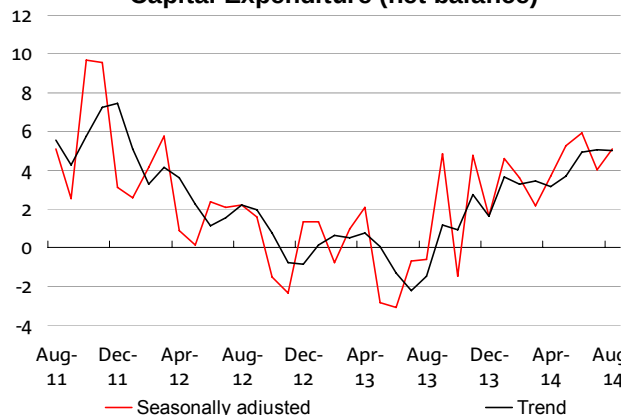
Based on respondent estimates of changes in labour costs and product prices. Retail prices are based on retail sector product price estimates.



More details on business activity

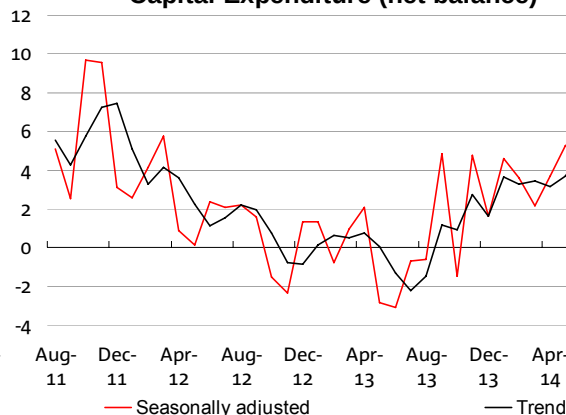
Solid sales encouraging re-stocking

Capital Expenditure (net balance)



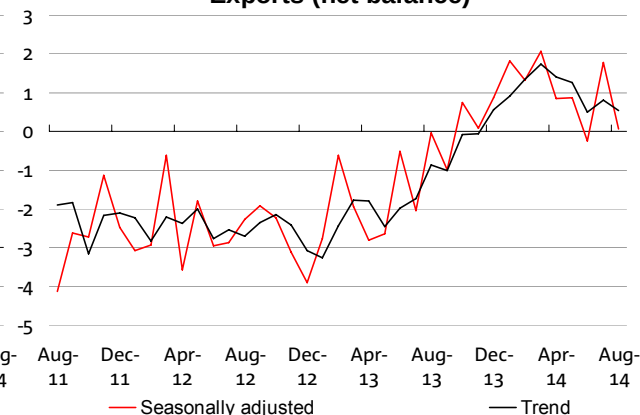
Capex remains still positive, good sign for non-mining investment

Capital Expenditure (net balance)



Exports increasing moderately

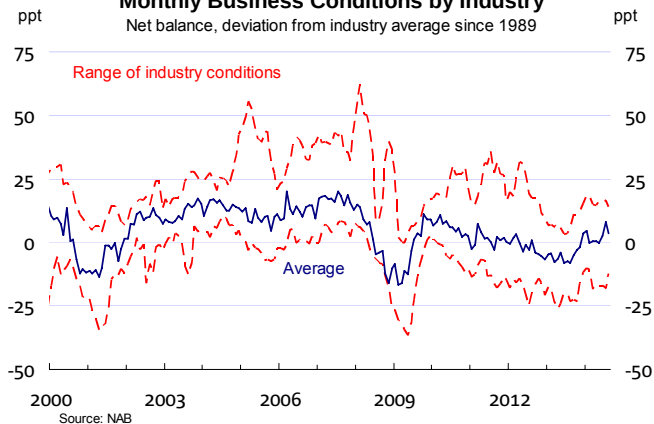
Exports (net balance)



Range of conditions remains wide, but narrowing

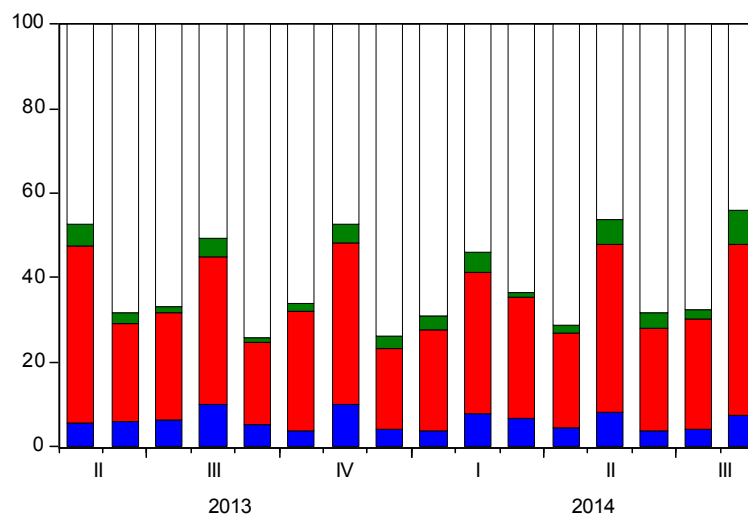
Monthly Business Conditions by Industry

Net balance, deviation from industry average since 1989



Borrowing conditions & demand for credit improved in past 3 months

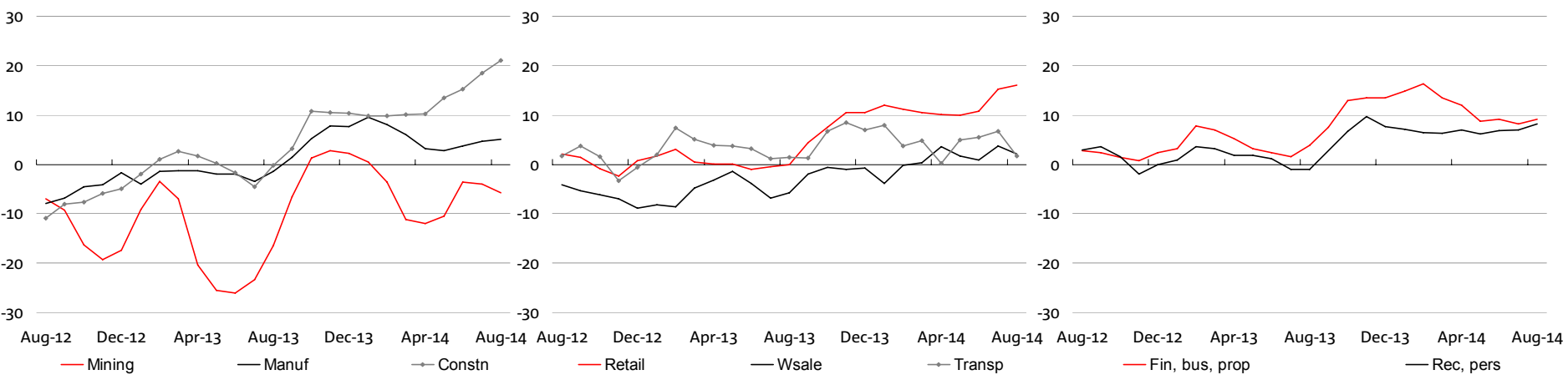
Borrowing conditions (% of firms)



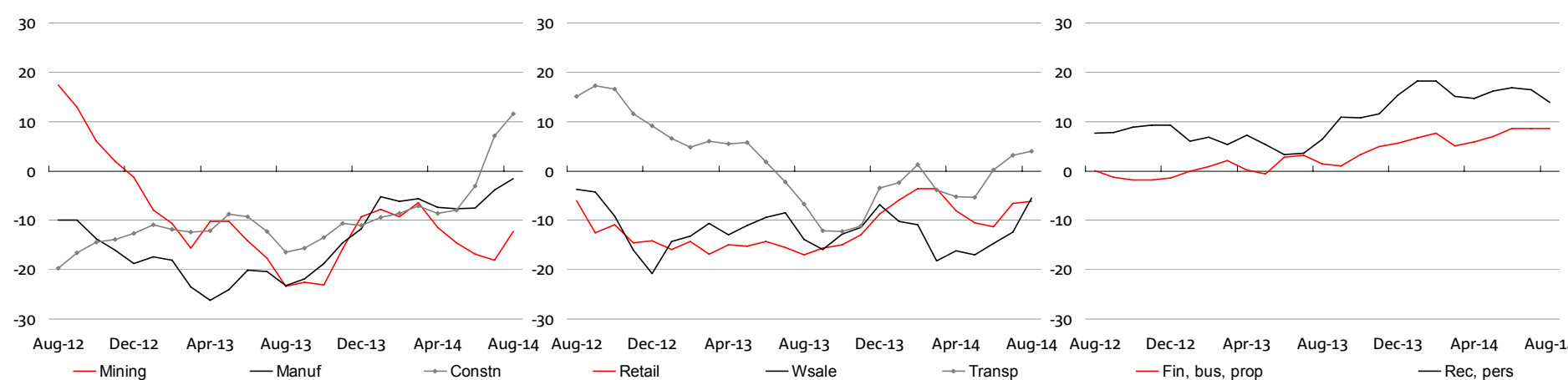
More difficult Unchanged Easier No borrowing required

More details on industries

Business confidence by industry (net balance): 3-month moving average

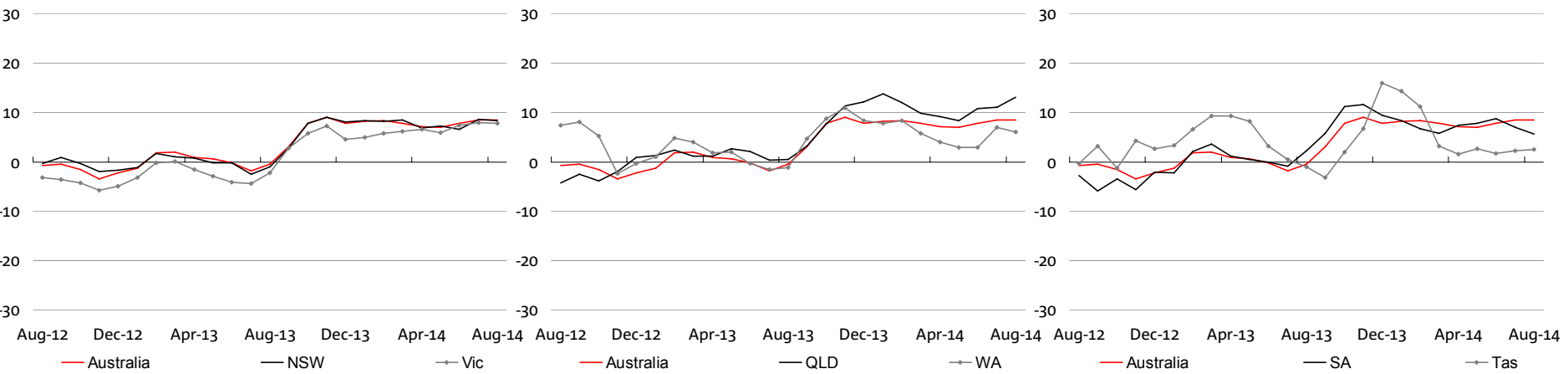


Business conditions by industry (net balance): 3-month moving average

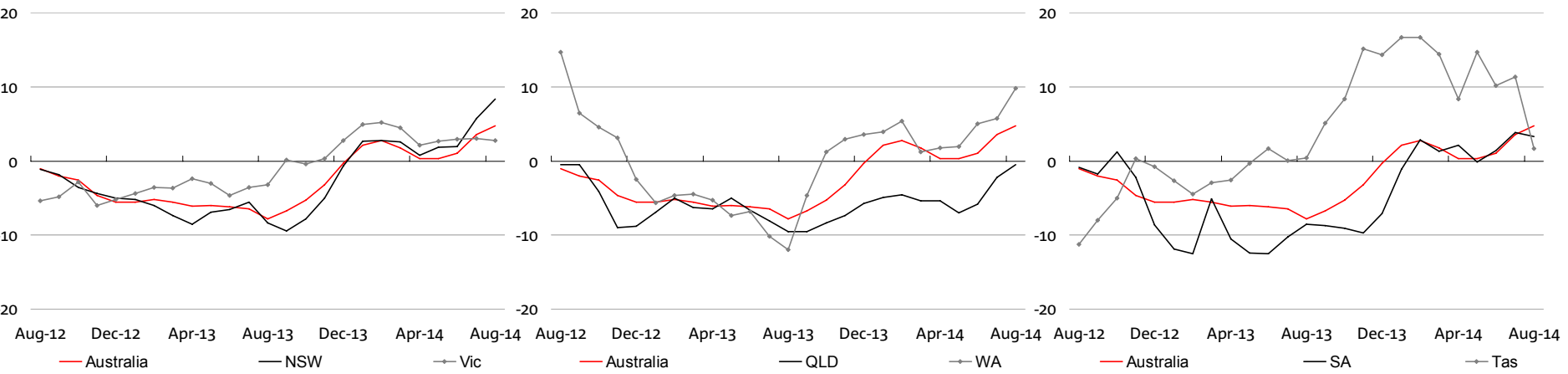


More details on states

Business confidence by state (net balance): 3-month moving average



Business conditions by state (net balance): 3-month moving average



Data appendix

Prices & costs by industry (% change at a quarterly rate)

Aug-2014	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Labour costs: current	-0.1	0.5	0.1	0.7	0.1	0.8	1.2	1.0	0.7
Labour costs: previous	-0.7	0.6	-0.4	2.6	0.1	0.9	1.4	0.9	0.9
Labour costs: change	0.6	-0.1	0.5	-1.9	0.0	-0.1	-0.2	0.1	-0.2
Prices (final): current	-0.6	0.3	-0.2	0.2	0.1	0.1	0.3	0.2	0.2
Prices (final): previous	-1.0	1.4	0.1	0.8	0.1	0.6	0.3	-0.2	0.2
Prices (final): change	0.4	-1.1	-0.3	-0.6	0.0	-0.5	0.0	0.4	0.0
Purchase costs: current	0.0	0.7	0.5	0.4	0.3	0.3	0.6	0.2	0.5
Purchase costs: previous	0.5	1.0	-0.2	0.6	0.7	0.4	0.8	0.3	0.5
Purchase costs: change	-0.5	-0.3	0.7	-0.2	-0.4	-0.1	-0.2	-0.1	0.0

Key state business statistics for the month

Aug-2014

Monthly Business Survey Data: By State

	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	7	7	14	3	3	8	8
Bus. conf.: previous	11	9	12	7	14	4	10
Bus. conf.: change	-4	-2	2	-4	-11	4	-2
Bus. conf: current - T	8	8	13	6	6	2	8
Bus. conf: previous T	9	8	11	7	7	2	8
Bus. conf.: change -T	-1	0	2	-1	-1	0	0
Bus. conds: current	10	2	-4	-5	12	7	4
Bus. conds: previous	12	2	6	12	8	-1	8
Bus. conds: change	-2	0	-10	-17	4	8	-4
Bus. conds: current -T	8	3	0	3	10	2	5
Bus. conds: previous -T	6	3	-2	4	6	11	4
Bus. conds: change -T	2	0	2	-1	4	-9	1

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