

NAB QUARTERLY BUSINESS SURVEY

SUBSCRIBER DETAILS: DECEMBER QUARTER 2017



Key points:

- The quarterly NAB Business Survey gives a more in-depth probe into the conditions facing Australian business than the monthly survey, and also provides extra information about how firms perceive the outlook for their respective industries.
- Business conditions (an average of trading conditions/sales, profitability and employment) rose a little further in Q4**, from already elevated levels driven by a lift in employment conditions. **Business conditions rose to +15 in Q4, which is well above the long run average of +1 and is its highest level since early 2008**. Business conditions were also positive in all industries for only the second time since early 2008. However, retail conditions continues to lag well behind the other industries, despite a notable improvement in the quarter.
- The quarterly Survey continued to show a disconnect between **business confidence (which dipped 2 points, to +6 index points)** and business conditions, although the monthly Survey indicated a reconvergence late in the quarter following a spike in confidence. Yet, despite reporting a slight deterioration in confidence during Q4, firms still indicated even stronger investment intentions over the next 12 months – consistent with the steady rise seen in capacity utilisation rates. **Firms that experienced a deterioration in confidence are largely pointing to wage costs, along with the business outlook and broader margin pressure as the primary factors behind the change** (detail on p4).
- Overall, most leading indicators improved in Q4 and are maintaining levels that suggest continued expansion in the next 12 months**. Forward orders were up, as were expectations for business conditions in both 3 months and 12 months time. The **capacity utilisation rate was up slightly** (at 82.5% compared with long-run average of 80.6%), which is an encouraging sign for both future labour demand and capital expenditure. Consistent with that, both **employment expectations and capex plans (next 12 months) strengthened**. That said, **growth in labour costs (a wage bill measure) steadied, but other indicators from the Survey are pointing to a tighter labour market**. In particular, **more firms indicated that it is more difficult to find suitable labour than it was a year ago** – an indicator which tends to be highly correlated with the unemployment rate (p7 & 8).
- Looking at the construction industry in more detail, residential construction conditions eased slightly, but remain quite positive despite concerns about oversupply, while other construction and construction services have been steadily improving (see p12 for details).
- The Survey is suggesting subdued inflationary pressures, but labour costs (a wage bill measure) are still well up from their recent lows**. Product price inflation rose modestly, while price growth for final products was steady – yet the Survey's margin index actually improved. Retail prices saw only modest growth in the quarter too, according to the Survey.

Table 1: Key quarterly business statistics*

	2017q2	2017q3	2017q4		2017q2	2017q3	2017q4
	Net balance				Net balance		
Business confidence	8	8	6	Trading	18	19	18
Business conditions				Profitability	12	15	15
Current	14	14	15	Employment	11	9	10
Next 3 months	22	21	24	Next 3 months	12	12	15
Next 12 months	27	28	31	Next 12 months	22	22	24
Capex plans (next 12)	26	27	29	Forward orders	6	6	9
% change				Stocks	5	3	3
Labour costs	0.6	0.7	0.6	Exports	1	2	2
Purchase costs	0.4	0.3	0.4	Retail prices (% change)	-0.1	0.1	0.1
Final products prices	0.2	0.2	0.2	Capacity utilisation rate	82.1	82.1	82.5

* All data seasonally adjusted, except purchase costs and exports. Fieldwork for this Survey was conducted from 20 Nov to 8 Dec 2017, covering more than 900 firms across the non-farm business sector.

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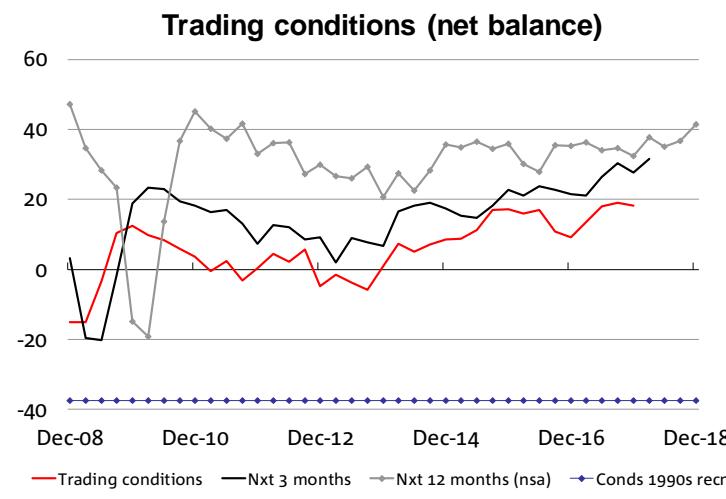
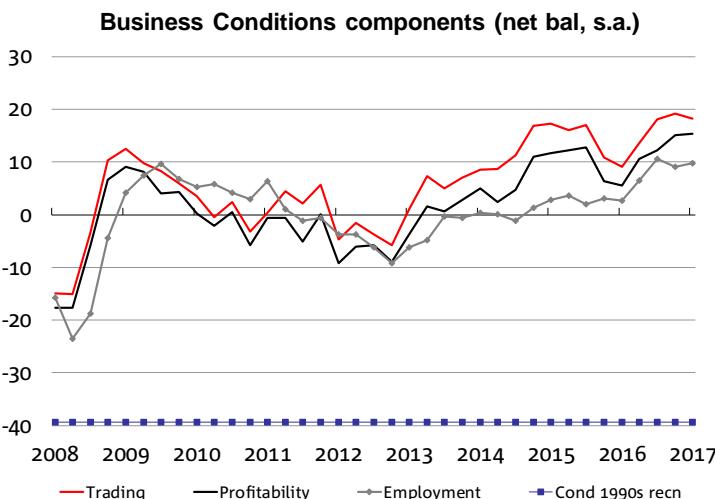
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TRADING CONDITIONS & EXPORTS

- Trading conditions have been one of the stronger elements of the NAB Business Survey and have been the strongest component of business conditions for multiple years. Trading conditions eased slightly in Q4 (down 1), to +18 index points, but the index remains close to its post-GFC period high. Near-term (3-month ahead) expectations for trading conditions improved on already elevated levels, while longer-term (12-month ahead) expectations also lifted.
- The exports index was unchanged in the quarter (at +2), which is a little above the series long run average. Meanwhile, near-term expectations for exports lifted, possibly reflecting optimism around the global growth outlook, although the Survey was taken prior to the recent rebound in the AUD. Export expectations (3-months ahead) are positive for all industries, with manufacturing currently the strongest (at +21), followed by construction and transport (both +18 points).

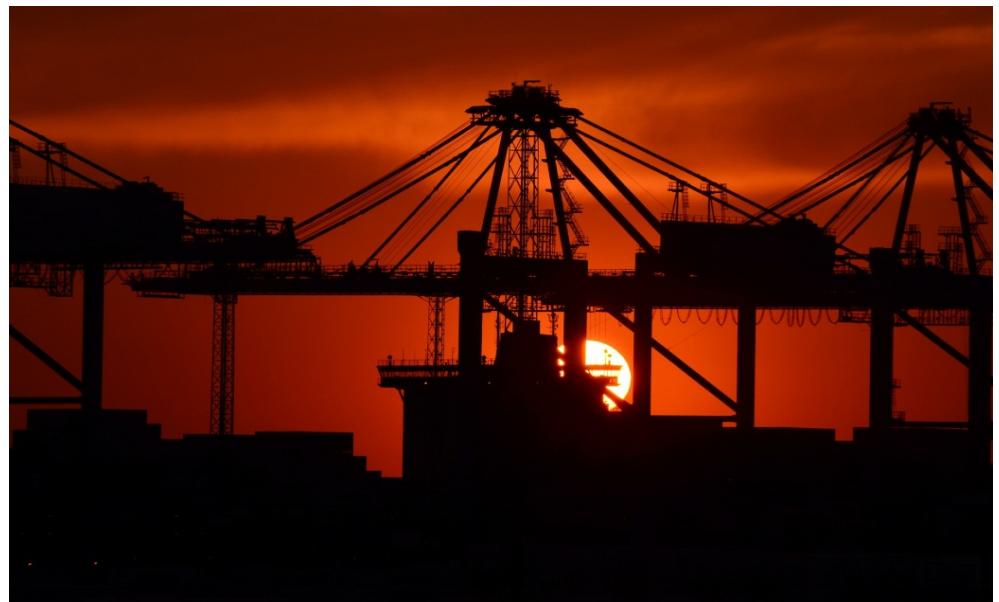
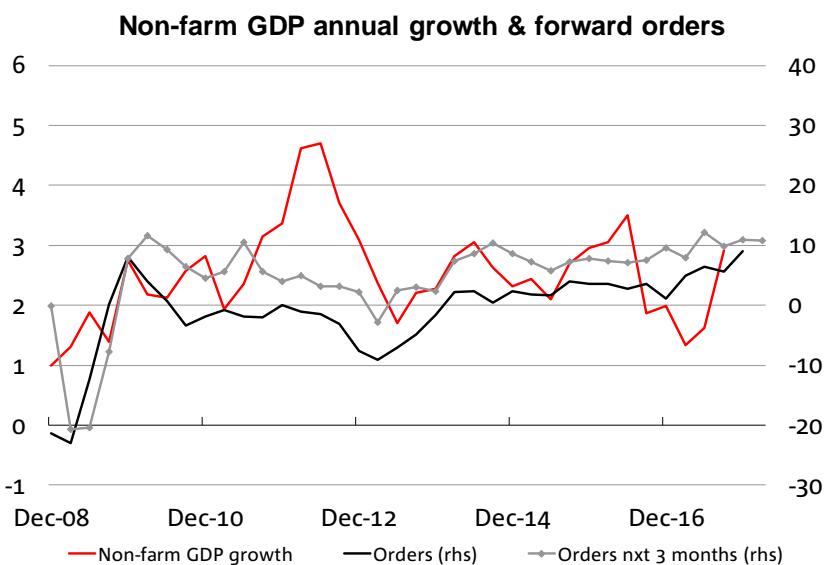
December quarter 2017	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Trad. condns: current	26	25	26	0	22	14	20	15	18
Trad. condns: previous	36	26	27	-2	16	19	21	21	19
Trad. condns: change	-10	-1	-1	2	6	-5	-1	-6	-1



FORWARD ORDERS

- **Forward orders** were up in the quarter (up 1), pushing the index even further above the long-run average for the series – pointing to reasonable momentum for business in the near term. Orders are highest in mining (+30) and construction (+28), while they are lowest in personal services (+2).
- **Retail orders** rebounded well in Q4, consistent with some better reads on retail sales and some indications of solid trading ahead of the Christmas period. However, there is some suggestion that retail numbers were artificially inflated for much of the quarter by sales of the new iPhone. Consequently, it may be too soon to definitively call a turnaround for the sector. That said, the improvement in retail orders for Q4 was driven by all retail sub-industries, including food, motor vehicles, personal & household items, and 'other' retail.

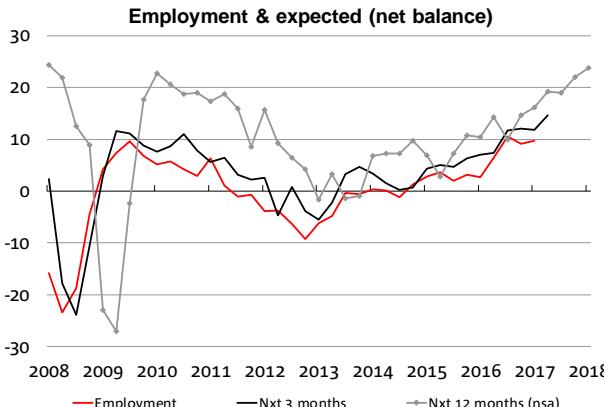
December quarter 2017	Mining	Manuf	Constn	Retail	Wsale	Tran. & utils	Rec. & pers.	Fin. prop. & bus.	Australia
Orders: current	30	13	28	8	6	9	2	4	9
Orders: previous	-3	19	24	-9	9	1	4	1	6
Orders: change	33	-5	3	17	-3	7	-2	3	3



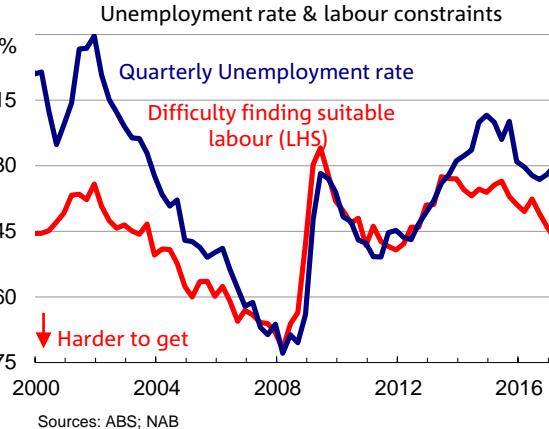
LABOUR MARKET

- The employment index from the Survey rose slightly this quarter, keeping the index at relatively elevated levels. The index rose 1 point in Q4, to +10 index points, suggesting rates of employment growth that, if sustained, should lead to additional improvement in the unemployment rate in the near-term. Meanwhile, average hours worked lifted again this quarter.
- Near-term employment expectations rose to +15 index points (from +12), which is above its long-run average. At the same time, longer-term expectations picked-up to multi-year highs. Again, these outcomes suggest that the unemployment rate ebb lower, with NAB forecasting the unemployment rate to gradually improve to around 5.4% by end-18.
- In an encouraging sign for future wages growth, firms indicated that it became significantly more difficult to find suitable labour – there has been a clear trend within the NAB Survey measure since around mid-2015. Given the elevated rate of underemployment in Australia, that result suggests that even though there continues to be a fair degree of slack in the labour market, there may be a deficit of workers with the right skills to match employers' needs.
- Annualised growth in labour costs eased slightly to 2.5% in the quarter (from 2.7%), which is below the series average of around 2.8% since 1989, although this does represent some lift in wage pressures over 2017. That said, the NAB measure is a wage bill measure, meaning solid jobs growth may be contributing to the result as opposed to unit labour costs. Despite a steady lift in the level of employment conditions and reports of greater difficulty finding suitable labour, wage cost pressures have not kept pace with business conditions through this recovery cycle – although are consistent with other measures of slack in the labour market such as the official underemployment rate. The Survey's measures of expectations for labour costs (next 3 months) is not indicating much more momentum in the near term, drop back near the lows of recent years. Wage increases under EBAs are expected to average 2.6% over the next year, or 1.7% after allowing for productivity offsets.

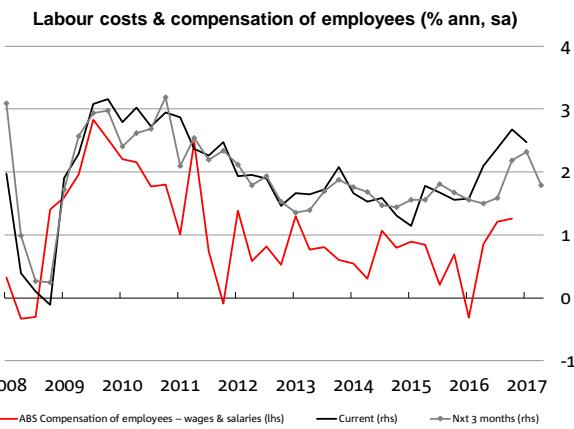
EMPLOYMENT EXPECTATIONS SOLID



SUITABLE LABOUR GETTING HARDER TO FIND



WAGE PRESSURES TENTATIVELY UP



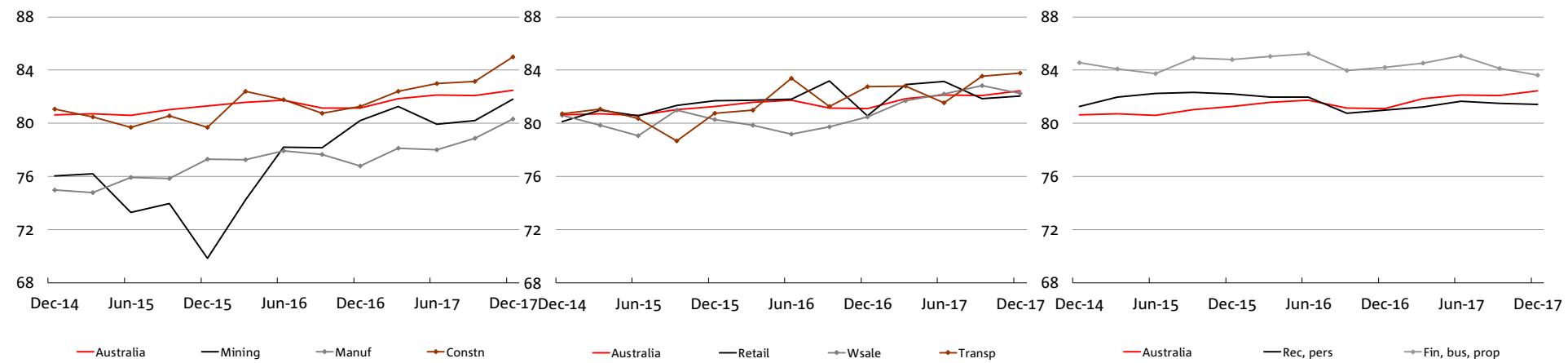
	Mining	Manuf	Const	Retail	Wsale	Trans	Rec. & pers.	Fin. prop. & bus.	Aust.
Expected EBA growth	2.3	2.5	3.5	2.3	2.6	1.5	2.7	2.7	2.6
Productivity offset	0.8	1.2	1.3	0.9	0.5	0.5	0.7	1.1	0.9
Net EBA growth	1.5	1.3	2.3	1.4	2.1	1.0	2.0	1.6	1.7

LABOUR COSTS & CAPACITY UTILISATION BY INDUSTRY

LABOUR COSTS BY INDUSTRY (ANNUALISED QUARTERLY GROWTH, S.A.)

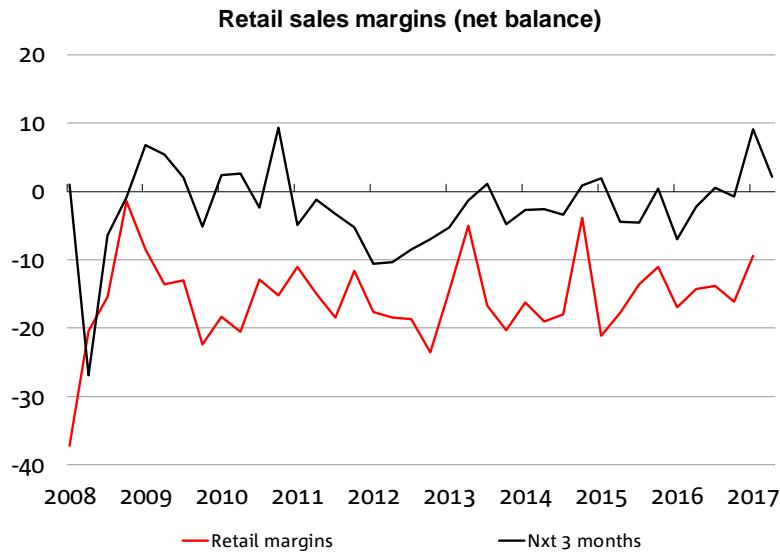
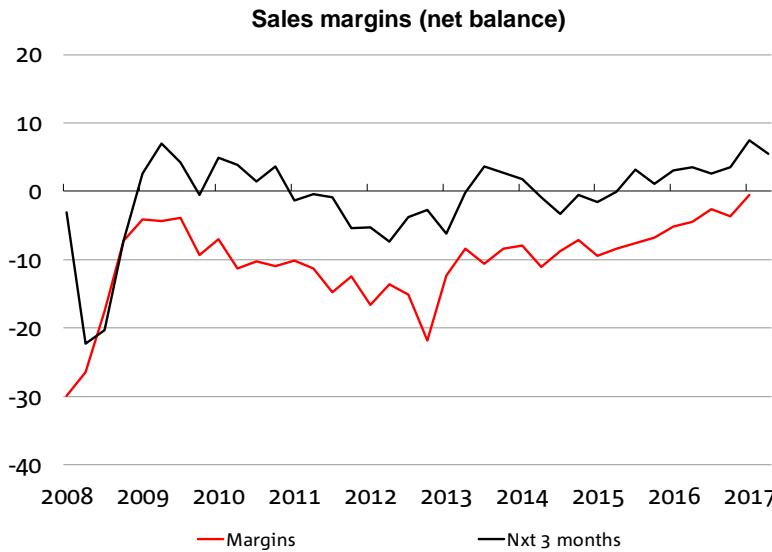


CAPACITY UTILISATION BY INDUSTRY (S.A., PER CENT)



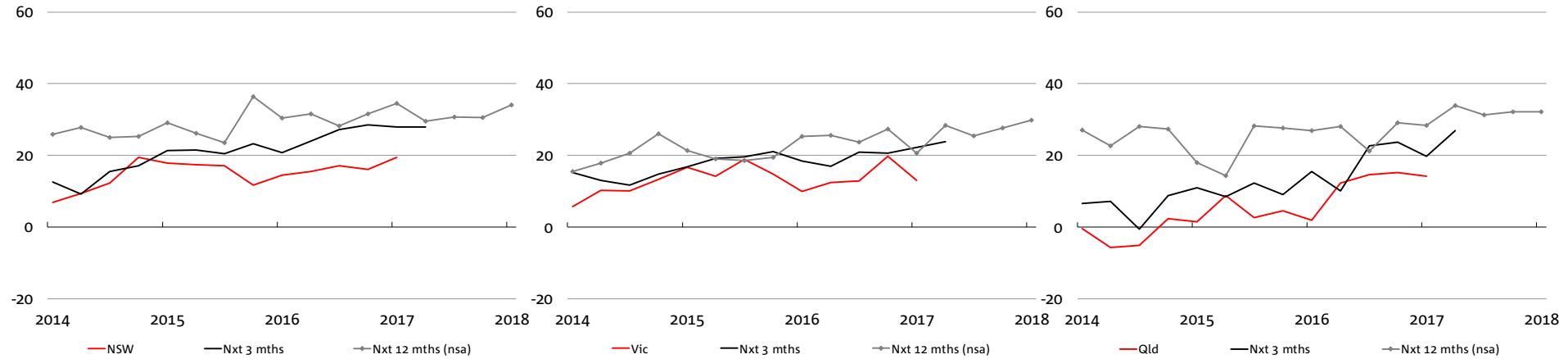
COSTS & MARGINS

- Growth in final product prices was unchanged at 0.9% annualised and a 0.2% quarterly rate. Both purchase cost and labour cost inflation were running faster than final product price inflation in Q4 (at a quarterly rate of 0.4% and 0.6% respectively). Mining, wholesale and construction each saw an acceleration in price inflation for final products. In levels terms, mining price inflation was strongest in the quarter (0.9%, quarterly rate), followed by wholesale (at 0.3%). In contrast, retail price inflation was weakest at 0.1%. Looking forward, inflation expectations for the next 3 months picked-up slightly, but still suggest that very subdued price pressures will persist, with final price inflation expected to be at around an annualised rate of 1.1% (0.8% for retail inflation).
- With input costs still growing faster than final prices, firms are reporting fairly poor profit margins. The margins index from the survey is in negative territory, although it has improved considerably over the past few years and is back around levels seen prior to the GFC – expectations for the next quarter were also positive, despite easing slightly in Q4. Mining, wholesale, manufacturing and construction all report a positive margins index in Q4 2017 – manufacturing and construction turning positive for the first time in a number of years. Retail is still seeing the worst profit margins, along with transport.

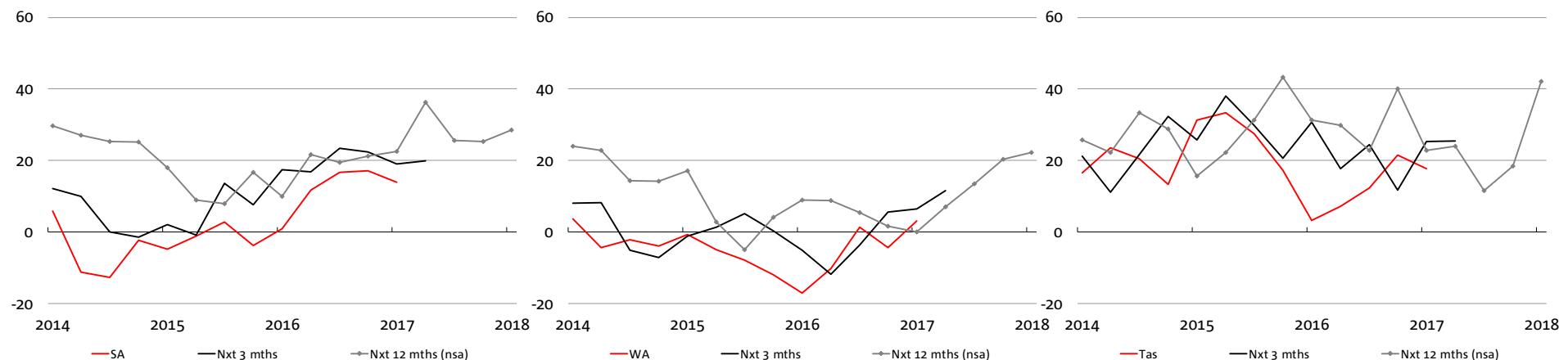


MORE DETAILS ON STATES

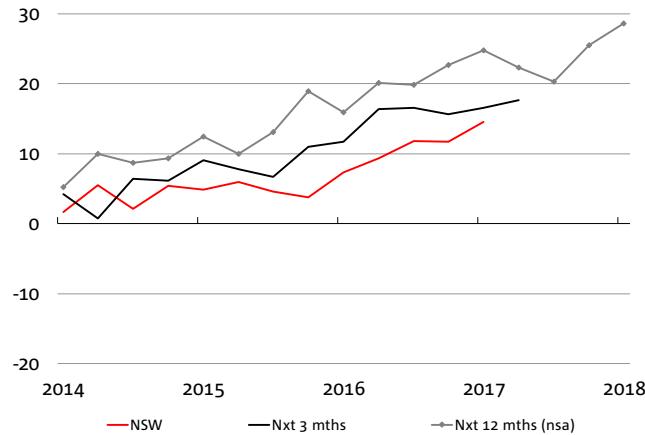
BUSINESS CONDITIONS BY STATE (NET BALANCE)



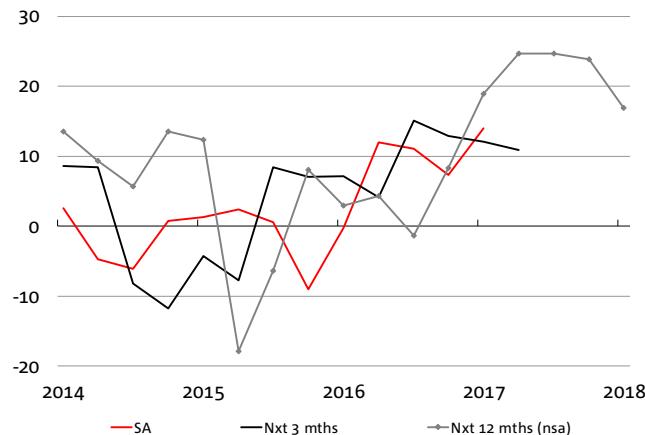
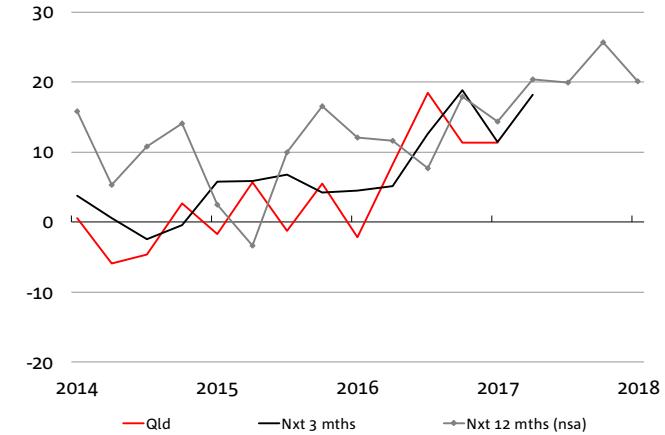
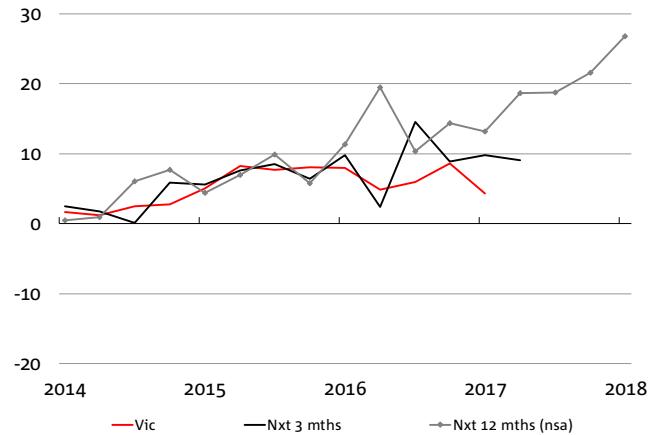
BUSINESS CONDITIONS BY STATE (NET BALANCE)



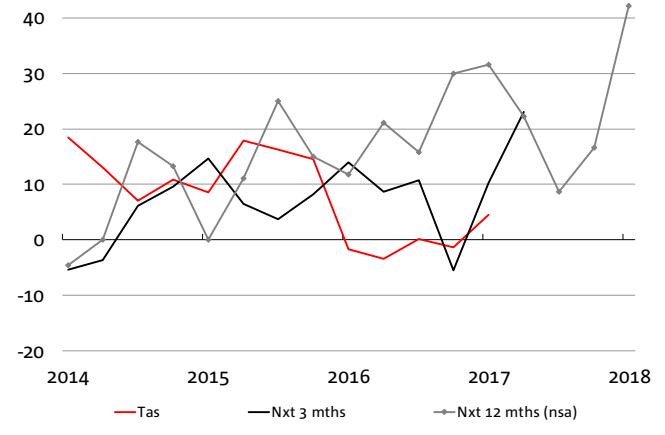
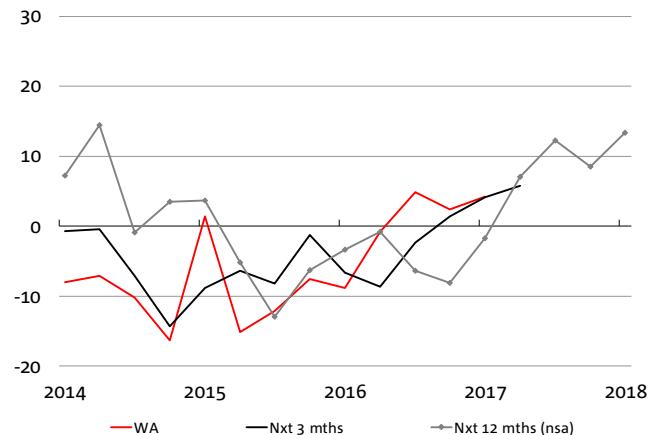
MORE DETAILS ON STATES



EMPLOYMENT BY STATE (NET BALANCE)

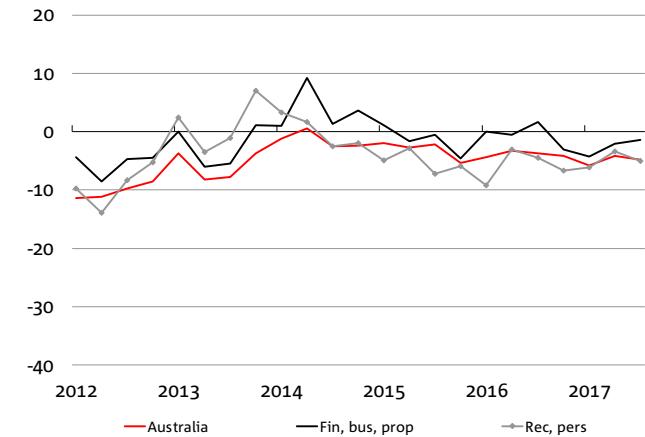
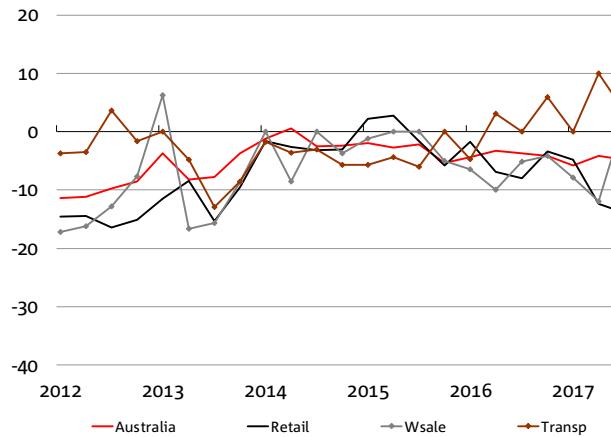
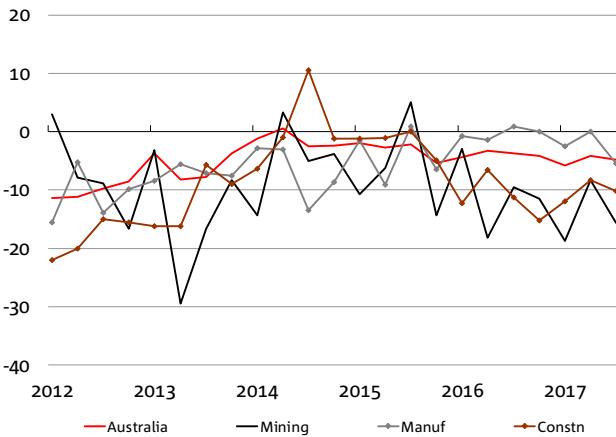


EMPLOYMENT BY STATE (NET BALANCE)

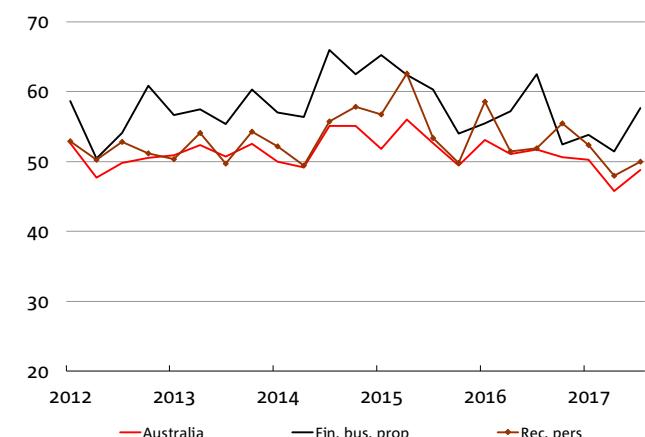
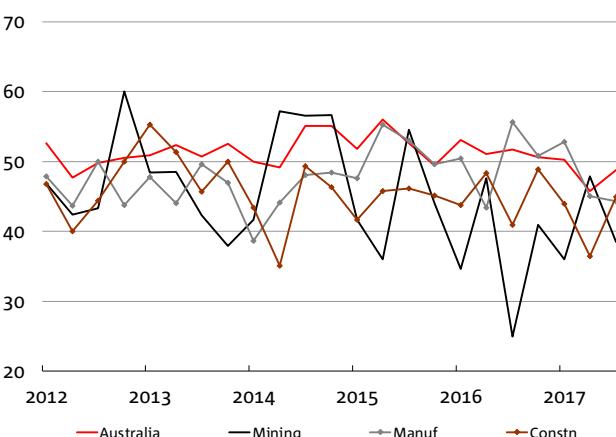


BORROWING CONDITIONS

EASE OF BORROWING INDEX (N.S.A., NET BALANCE, EASIER LESS MORE DIFFICULT)



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