

NAB MONTHLY BUSINESS SURVEY

SUBSCRIBER DETAILS, JANUARY 2017

NEXT RELEASE:
14 MAR 2017 – FEBRUARY MONTHLY



Key points:

- The strength witnessed in last month's NAB Monthly Business Survey continued into January, with both business conditions and confidence jumping to much higher levels. While these outcomes are certainly pointing to an improvement in the domestic economy after a soft patch through much of H2 2016, a degree of caution should still be exercised given the diverse and rapidly changing seasonal influences at this time of year (which potentially includes the shift in Chinese New Year to January this year). In terms of the headline numbers, the **business conditions index jumped by a solid 6 points in January, to +16 index points**, which is around pre-GFC boom levels. This month, another rise in trading conditions contributed to the outcome, but there was also a noticeable jump in employment conditions, which bodes well for the generally underperforming labour market – the employment index hit its highest level since 2011. Meanwhile, profits were unchanged at solid levels. By industry, last month's surprise spike in wholesale conditions was unwound (as anticipated), but that seems to have been more than offset at the aggregate level by improvements in personal services, while retail and mining are no longer negative. NSW enjoyed the bulk of the improvement in conditions, while the rest of the mainland states were relatively steady. **Cost price measures** in the Survey also lifted notably, suggesting a build in wage pressures, although retail price inflation remained very subdued.
- **Business confidence** also jumped in the month, aligning itself with the general enthusiasm seen in financial markets and more positive sentiment towards the global economic outlook. The business confidence index jumped **4 points to +10 index points in January**, which was well above the series long-run average. Responses on capital expenditure were also much more encouraging in January, consistent with a rise in capacity utilisation – although forward orders do not point to a continuation of that strength in the near-term.
- Recent strength in the NAB Business Survey is consistent with an anticipated rebound in economic activity, following the very weak Q3 2016 National Accounts. With that said, a confluence of seasonal factors suggests it is unwise to get too carried away with the result just yet, especially as key industries like retail remain extremely weak (despite improving in the month), which suggests the outlook for consumption remains cloudy. NAB Economics also have concerns for the longer-term growth picture, as the contribution from LNG exports, temporarily higher commodity prices and the residential construction boom fade, keeping pressure on the labour market. Nevertheless, in light of the recent flow of data, NAB's economic forecasts (which include expectations for the RBA's cash rate) are currently under review – to be published tomorrow.

Table 1: Key monthly business statistics

	Nov 2016	Dec 2016	Jan 2017		Nov 2016	Dec 2016	Jan 2017
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	6	6	10	Employment	2	2	7
Business conditions	6	10	16	Forward orders	1	5	2
Trading	11	17	22	Stocks	2	-1	3
Profitability	6	12	12	Exports	1	1	0
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	0.7	0.6	1.0	Retail prices	0.0	0.3	0.2
Purchase costs	0.5	0.4	0.6		<i>Per cent</i>		
Final products prices	0.3	0.2	0.7	Capacity utilisation rate	81.3	80.9	81.5

* 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 27 Jan to 3 Feb, covering more than 400 firms across the non-farm business sector.

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CONTENTS

Key points	1
Main indicators	2
Employment details	3
Retail focus	6
Credit demand & availability	8
Detailed tables	9

Subscriber details: major indicators

Figure 1: Business confidence
Confidence (net balance)

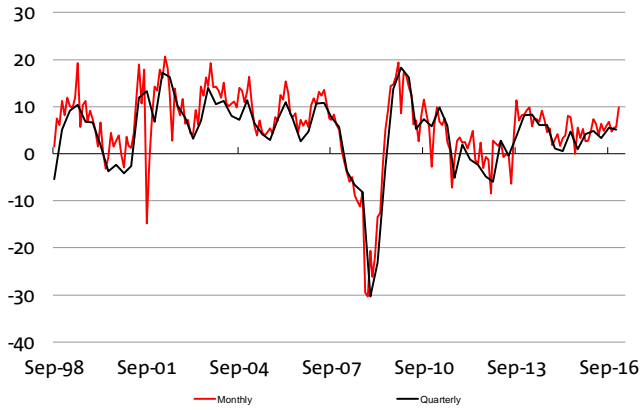


Figure 2: Business Conditions
Conditions (net balance)

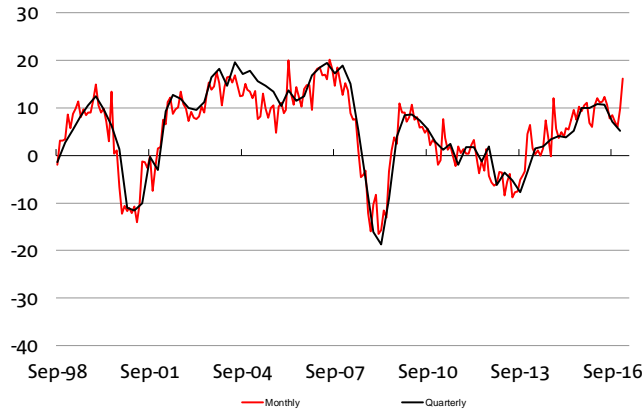


Figure 3: Domestic sales & exports
Sales (net balance)

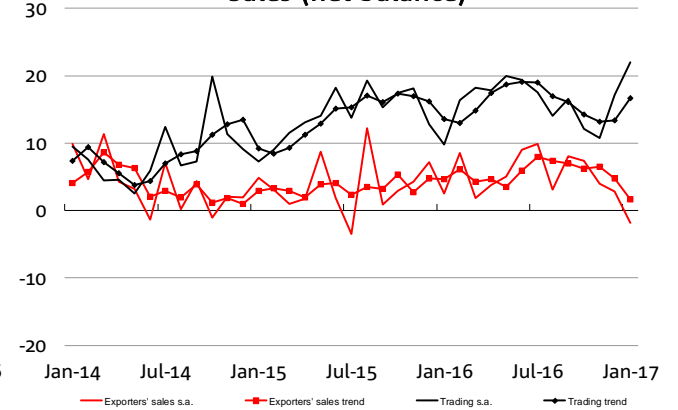


Figure 4: Re-stocking activity
Stocks (net balance, s.a.)

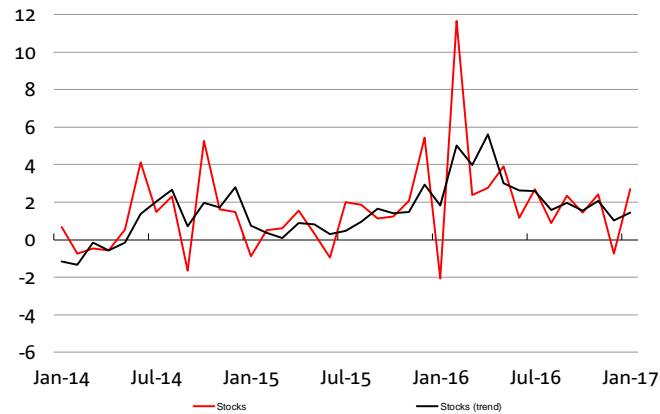


Figure 5: New Orders
Forward Orders (net balance, s.a.)

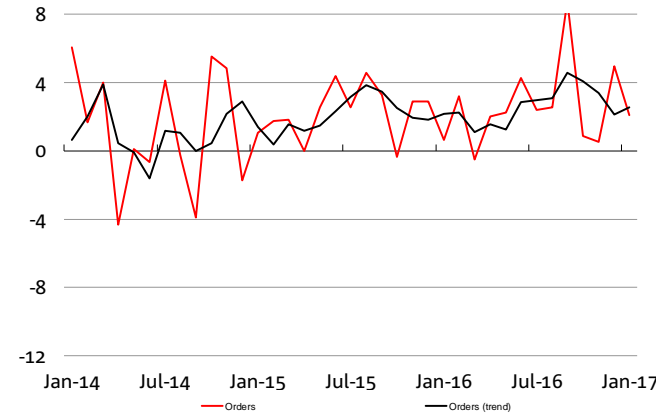
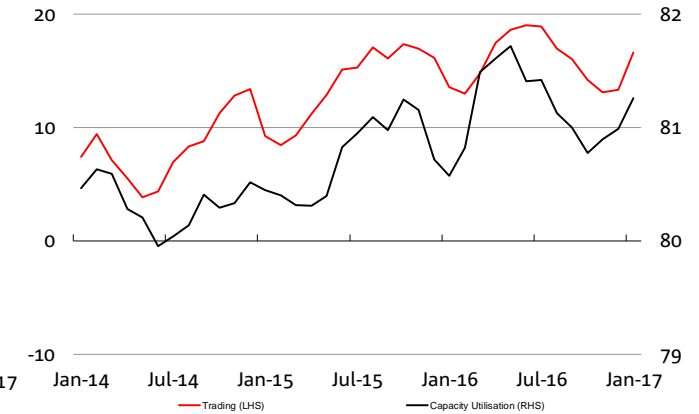


Figure 6: Utilisation rates and trading conditions
Trading cond. & capacity (trend)



Employment: long view

- The NAB employment index has a strong statistical relationship with ABS employment data going back to the late 1980s and appears to lead annual employment growth by around 6 months. In this respect, improved outcomes for the index 6 months ago suggest better near term labour market outcomes than we have seen recently in the ABS data. Employment conditions in the Survey have steadily improved over recent years and jumped higher in January after losing some ground in prior months. Current levels are consistent with annual growth in employment of around 240k per annum (in the year to June 2017) or 20k jobs per month over the next 6 months – a rate above the current trend employment growth (8.2k), and enough to see the unemployment rate ebb lower (all else unchanged).
- The employment index jumped by 5 points in the month to +7 index points, which is above the long-run average for the series. Most industry groups saw an increase in employment conditions last month. The largest gains were in mining (up 33), followed by transport (up 20) while wholesale saw the biggest decline (down 18). Despite the jump in January, mining employment conditions remain the worst in trend terms (-17), while manufacturing was next weakest (-5). In contrast, the strongest employment demand (trend) was in personal services and wholesale (both +8), followed by finance/ property/ business services (+7).
- Our expectation for the labour market is that economic activity and soft wages growth will maintain a good level of job creation. However, this will be largely offset by additional labour supply, keeping the unemployment rate relatively steady around 5¾%.

Figure 7: ABS employment data looking soft. NAB employment conditions relatively more upbeat.

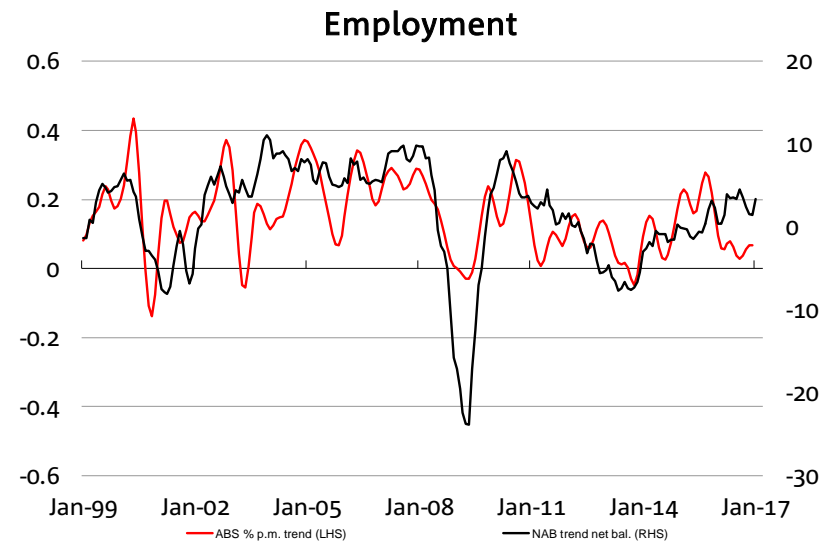
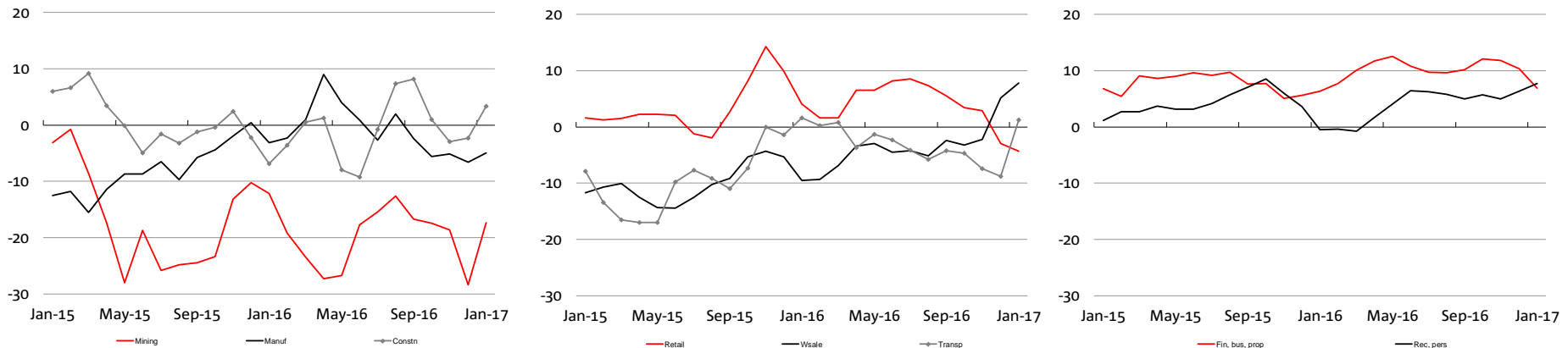


Figure 8: Employment by industry (net balance) – 3-month moving average



Employment (cont.)

Figure 9: Labour costs by industry (per cent) – % change at a quarterly rate, seasonally adjusted

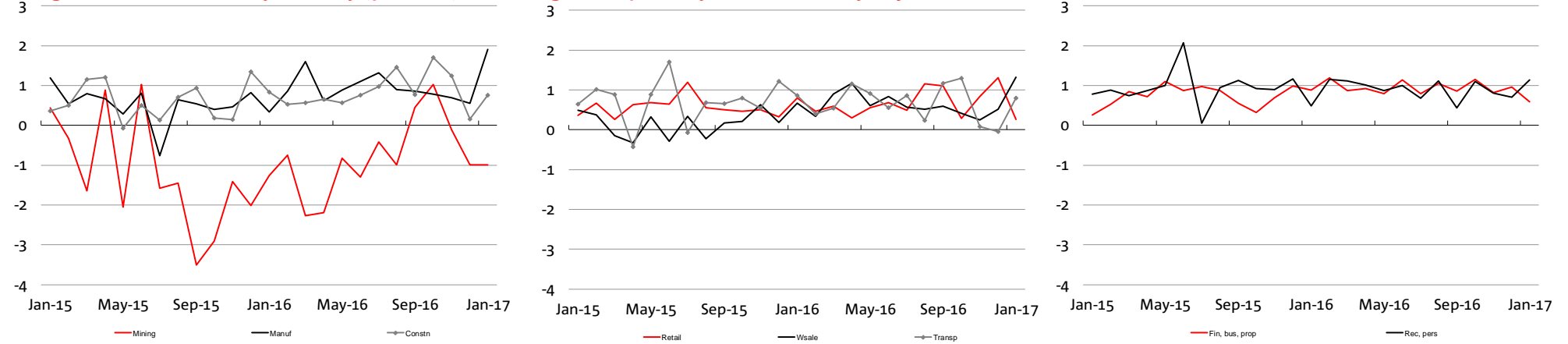
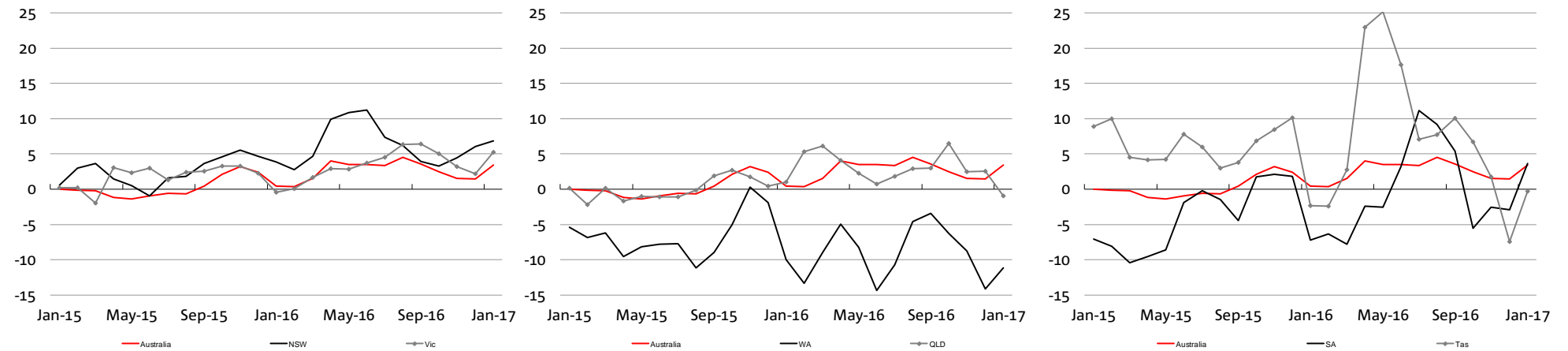
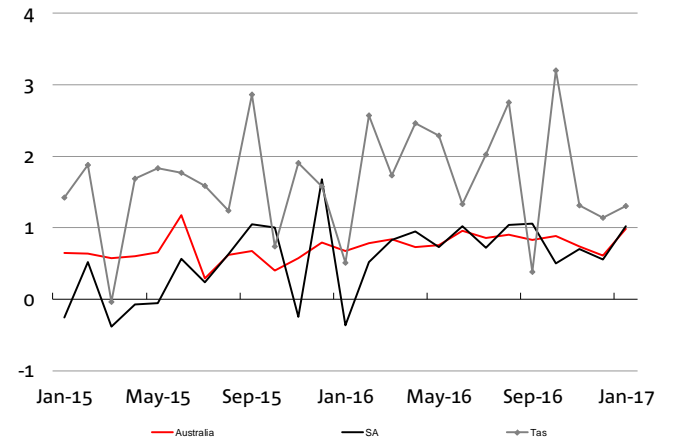
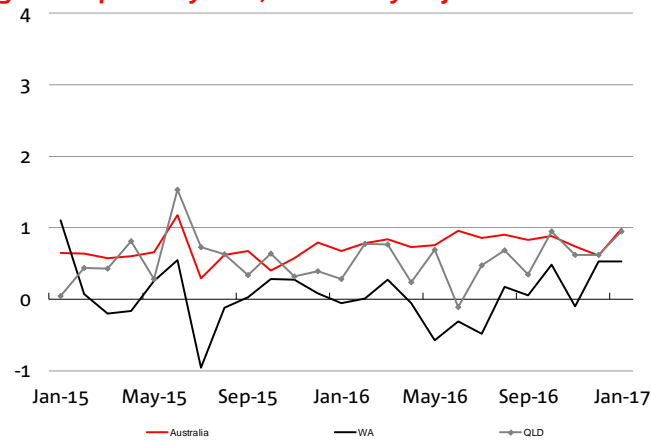
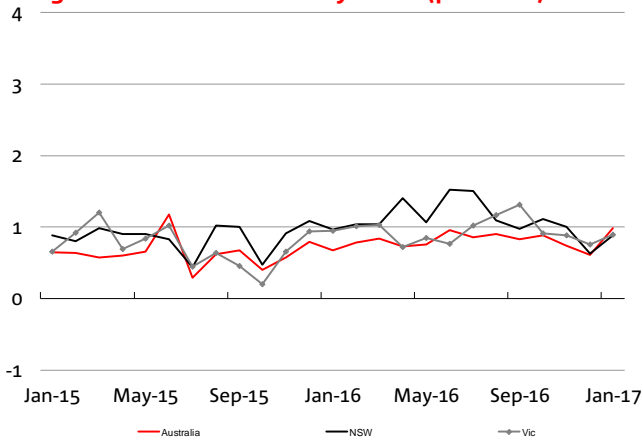


Figure 10: Employment by state (net balance) – 3-month moving average



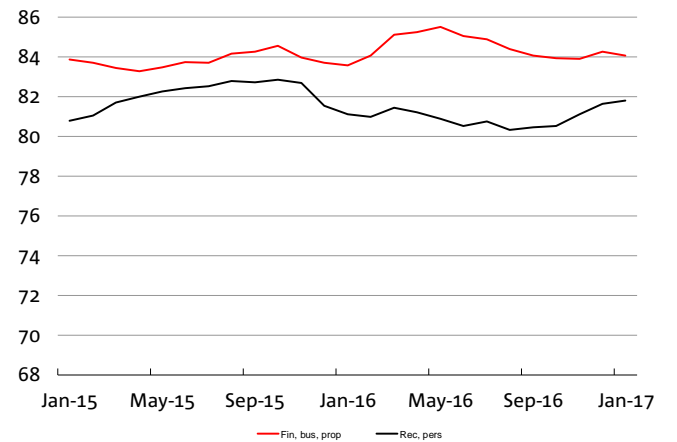
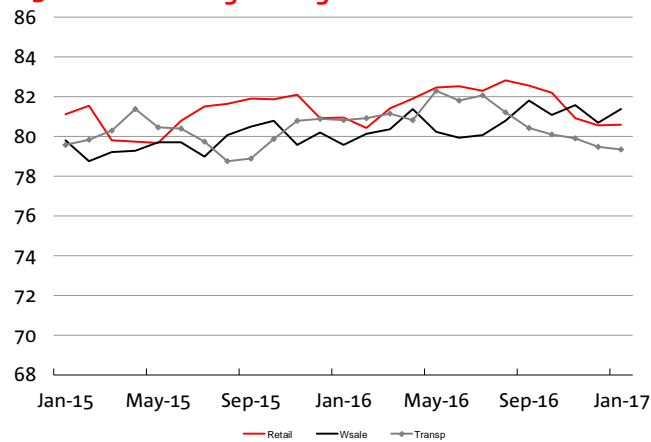
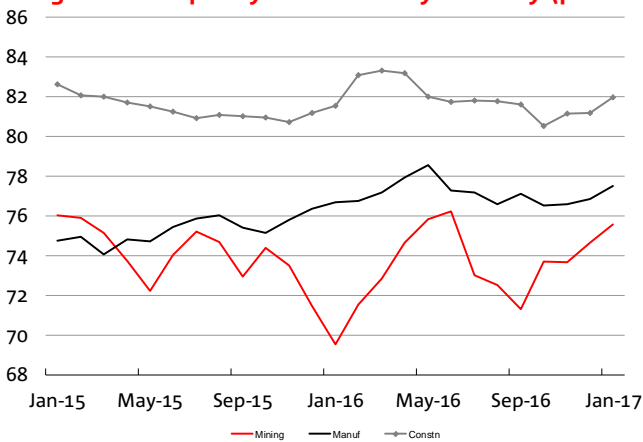
Employment (cont.)

Figure 11: Labour costs by state (per cent) – % change at a quarterly rate, seasonally adjusted



Capacity utilisation

Figure 12: Capacity utilisation by industry (per cent) – 3-month moving average



Retail focus

- Despite a better result in January, survey results for the retail industry remain very much on the weak side. The trend conditions index fell by another point in the month, pushing it further into negative territory (-6), which is well below the national average and now suggests retail is the worst performing industry in the Survey. As an outlier, these results suggest there may be industry specific factors at play. Weak nominal retail sales (according to the ABS) in recent months are consistent with retail trading conditions in the Survey, which remain negative in trend terms. Nonetheless, there was a strong improvement in the employment conditions according to the Survey, and was the most improved component of business conditions – coinciding with a noticeable pull back in labour costs during January.
- Consumer sentiment measures have generally improved recently – the NAB Consumer Survey for Q4 2016 showed that consumers were a little less anxious heading into Christmas last year. However, that did not translate into spending behaviour according to the Survey, as consumers said they remain very conservative particularly for “non-essentials”.
- Retail orders were less encouraging than last month, which suggests a turnaround for the industry is unlikely in the near-term. Yet, that is hard to reconcile with retail confidence, which rose in the month (up 1 to +6 in trend terms).
- Retail reported slightly lower final price inflation, falling from 0.3% to 0.2% (quarterly rate), suggesting that competition pressures continue to loom large in the industry. Meanwhile, labour cost inflation dropped back (to 0.3%, from 1.3%), while purchase cost inflation was steady (at 0.4%). Costs have generally grown faster than final prices, but the slowdown in labour cost pressures may have contributed to the apparent improvement in profitability for January.

Figure 13: Business conditions by industry

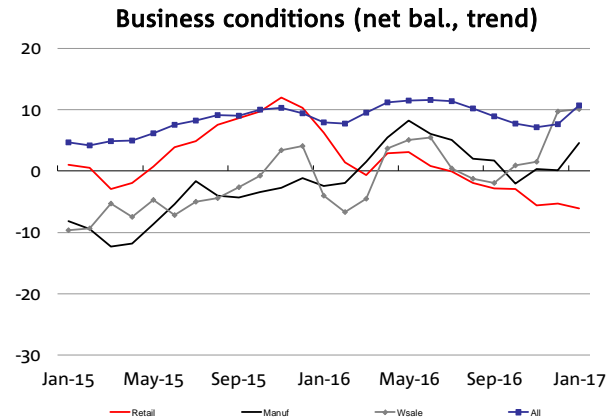


Figure 14: Retail costs & prices

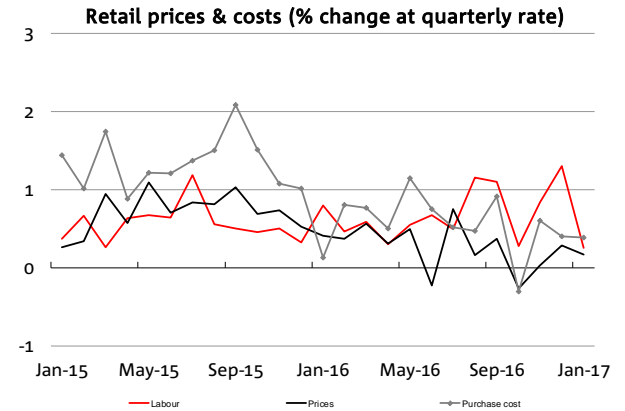
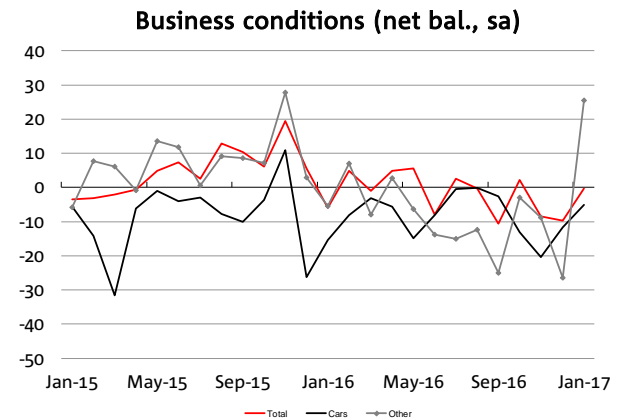
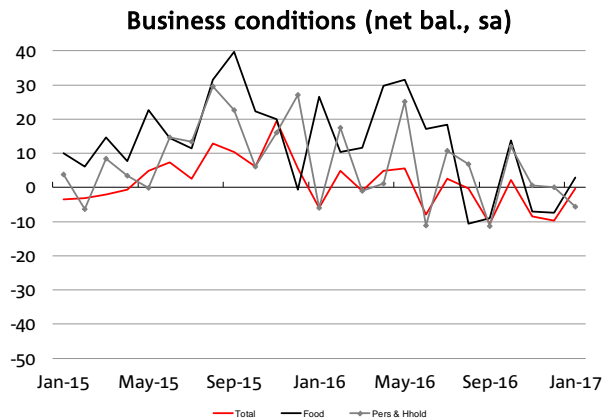


Figure 15: Retail sub-sectors – Most subsectors strengthened (household goods being the exception). ‘Other’ retail saw a particularly sharp recovery in January.



State detailed table

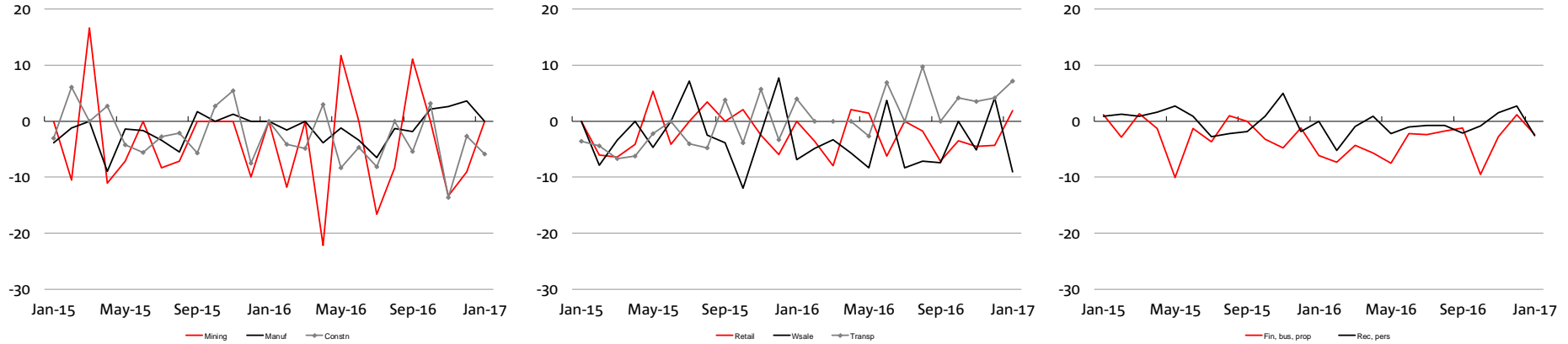
Jan-2017

Monthly Business Survey Data: By State

	NSW	VIC	Qld	SA	WA	Tasmania	Australia
Bus. conf.: current	9	12	11	1	6	4	10
Bus. conf.: previous	0	9	14	2	3	-1	6
Bus. conf.: change	9	3	-3	-1	3	5	4
Bus. conf: current - Trend	6	8	12	4	0	-1	7
Bus. conf: previous Trend	5	5	9	7	-1	-2	5
Bus. conf.: change -Trend	1	3	3	-3	1	1	2
Bus. conds: current	23	14	4	4	-2	19	16
Bus. conds: previous	16	15	4	5	-2	13	10
Bus. conds: change	7	-1	0	-1	0	6	6
Bus. conds: current -Trend	18	12	4	3	-7	13	11
Bus. conds: previous -Trend	15	10	5	-1	-9	4	8
Bus. conds: change -Trend	3	2	-1	4	2	9	3

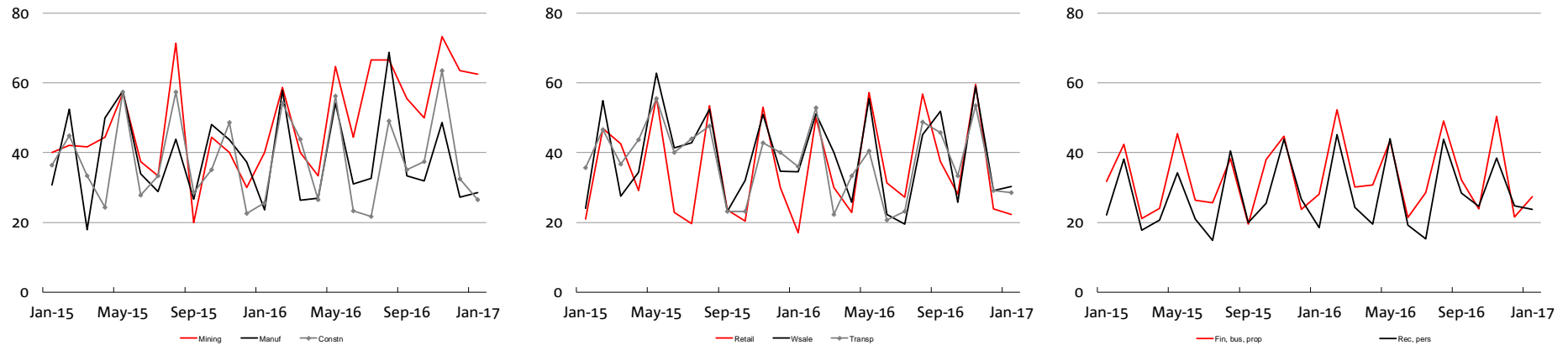
Credit demand & availability

Figure 22: Ease of borrowing index by industry (% of firms) – easier subtract more difficult



Note: compare outcomes to 3 months prior

Figure 23: Demand for credit by industry (% of firms) – borrowing required in month



Note: compare outcomes to 3 months prior

Detailed table A

	Nov-16	Dec-16	Jan-17		Nov-16	Dec-16	Jan-17
	%	%	%		%	%	%
Business confidence for next period				Total labour costs			
Significant improvement	2	3	3	3% or more	4	2	4
Minor improvement	24	23	30	2% to less than 3%	8	5	4
No change	59	60	57	1.5% to less than 2%	4	1	2
Minor deterioration	14	13	10	1% to less than 1.5%	5	2	3
Significant deterioration	1	2	1	0.5% to less than 1%	5	2	2
Index	5	5	12	Less than 0.5%	2	3	3
Business conditions				No change	65	82	78
Very poor	2	1	2	Less than -0.5%	0	0	0
Poor	16	13	15	-0.5% to less than -1%	1	1	0
Satisfactory	55	55	59	-1% to less than -1.5%	1	1	0
Good	23	23	19	-1.5% to less than -2%	1	0	0
Very good	4	8	4	-2% to less than -3%	2	0	1
Index	9	17	6	-3% or more	2	1	2
Trading				Average (%)#	0.4	0.2	0.2
Very poor	1	2	1	Purchase costs			
Poor	17	12	16	3% or more	2	1	2
Satisfactory	47	45	53	2% to less than 3%	4	2	3
Good	28	29	23	1.5% to less than 2%	4	1	2
Very good	5	12	6	1% to less than 1.5%	5	2	3
Index	15	28	12	0.5% to less than 1%	4	2	5
Profitability				Less than 0.5%	3	3	2
Very poor	3	2	2	No change	72	87	82
Poor	19	15	20	Less than -0.5%	0	1	0
Satisfactory	46	45	50	-0.5% to less than -1%	1	0	0
Good	26	27	20	-1% to less than -1.5%	1	0	0
Very good	6	11	6	-1.5% to less than -2%	0	0	0
Index	10	22	4	-2% to less than -3%	1	1	0
				-3% or more	1	1	0
				Average (%)#	0.3	0.1	0.2

Figures are expressed as quarterly percentage changes.

See Quarterly Business Survey for technical data and definitions. All data in original terms. Seasonally adjusted data are available by direct subscription and/or external data providers (such as Bloomberg, Thomson Reuters & Ecwin).

Detailed table B

	Nov-16	Dec-16	Jan-17		Nov-16	Dec-16	Jan-17
Employment				Price of final products			
Much less	1	0	1	3% or more	3	1	4
Less	13	11	9	2% to less than 3%	5	1	4
Unchanged	70	76	76	1.5% to less than 2%	2	1	2
More	16	13	13	1% to less than 1.5%	2	2	2
Much more	0	0	0	0.5% to less than 1%	3	1	1
Index	3	1	3	Less than 0.5%	2	1	1
Forward orders				No change	73	90	81
Much less	1	1	2	Less than -0.5%	2	0	1
Less	10	8	10	-0.5% to less than -1%	2	1	0
Unchanged	31	29	25	-1% to less than -1.5%	1	1	0
More	13	12	11	-1.5% to less than -2%	0	0	0
Much more	1	2	2	-2% to less than -3%	3	1	0
Not applicable	43	49	50	-3% or more	1	1	1
Index	2	5	0	Average (%)#	0.2	0.0	0.3
Stocks				Current output level			
Much less	0	0	0	Full capacity	13	15	12
Less	8	10	11	90% of full capacity	30	26	26
Unchanged	38	38	35	80% of full capacity	27	27	25
More	14	11	9	70% of full capacity	16	16	21
Much more	2	2	2	60% of full capacity	6	7	7
Not applicable	38	39	42	Below 60%	3	4	5
Index	7	3	0	No response	3	4	5
				Capacity utilisation rate	81.9	81.5	79.7

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