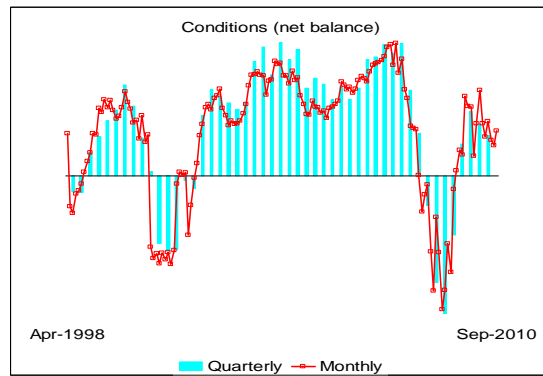
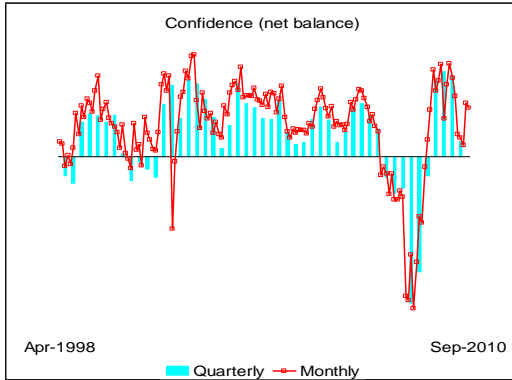


Subscriber details (cont.)

Confidence & conditions

Business conditions for the non-farm sector improved 2 points to 7 points in September, a touch above average. They are weaker than what they were 6 months ago, but are stronger than year ago levels. Near-term confidence however, continues to remain strong, despite easing a point to 10 points. Businesses are experiencing reasonable outcomes, but are increasingly optimistic about the near term outlook.

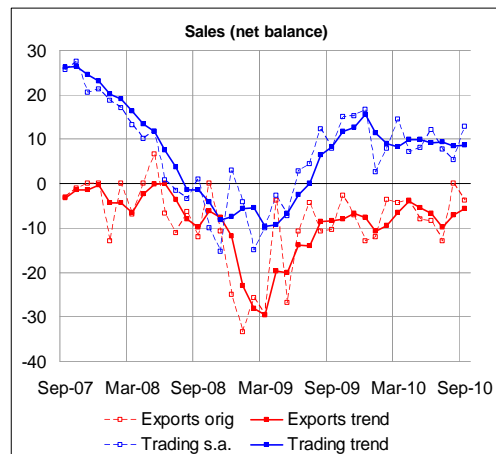


Sales

Sales improve strongly, exports contract

In seasonally adjusted terms, NAB's Trading Conditions Index rose sharply – by 8 points to 13 points. Within sales, results were particularly strong in mining, construction and recreational services. Retailing was poor; there were falls in transport and manufacturing – although both these sectors recorded positive turnover.

With exports contracting, the improvement in sales appears to be solely driven by domestic trading conditions.



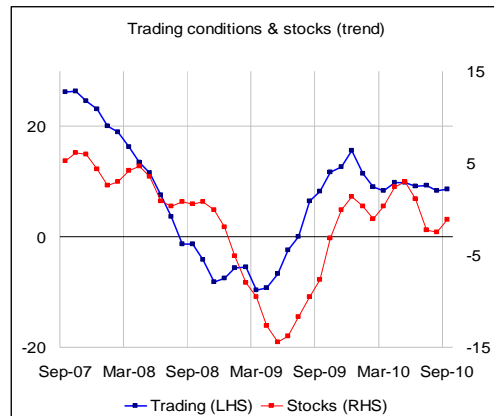
Subscriber details (cont.)

Stocks & sales

Stocks diverge from current pace of sales

In seasonally adjusted terms, there was a modest buildup in stocks: the index improved 6 points to 3 points. There was also a modest improvement in trend terms, the index rising a point to -1 point. Stock levels (in trend terms) are still below the current pace of sales growth (see chart). This divergence may indicate an improvement in production over the coming months.

Stock levels were higher in mining, wholesale, construction and in personal/household goods retailing. Conversely, car retailers experienced modest destocking.

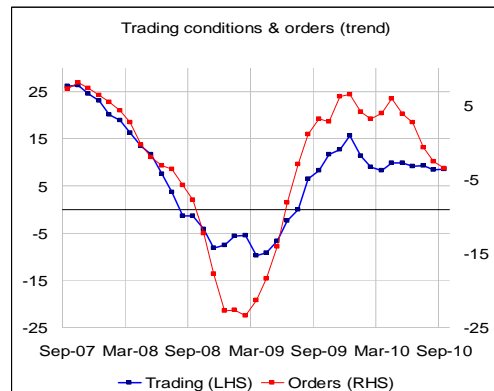


Orders & sales

Forward orders still poor in trend terms

In seasonally adjusted terms, forward orders – a leading indicator of activity – rose sharply, by 9 points to a positive reading of 3 points. In trend terms, however, forward orders deteriorated – down 1 point to a poor -4 points.

Orders were stronger in mining, construction and wholesale. By contrast, retailing (particularly car retailing) was poor.

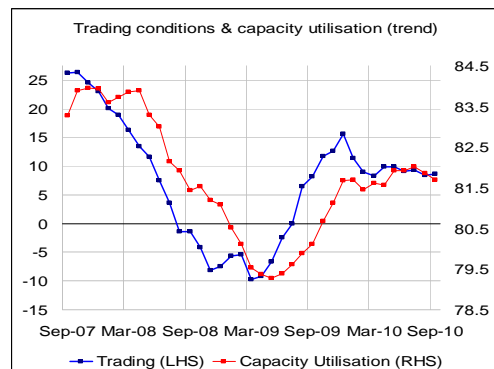


Capacity utilisation & sales

Trend capacity utilisation down a touch

In seasonally adjusted terms, capacity utilisation rose 0.4% to 81.6% in September – but remains well below the recent peak of about 84% in November 2007. However, in trend terms it was down slightly, from 81.8% to 81.7%: consistent with the current level of sales (see chart, right hand side).

Usually, sales and profits tend to lead capacity utilisation (and employment).



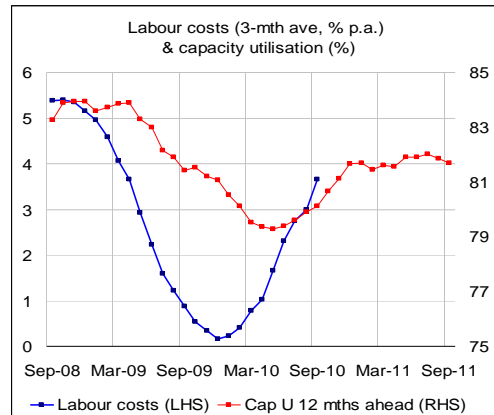
Subscriber details (cont.)

Capacity utilisation & labour costs

In annual terms, labour costs have continued to grow, driven by very strong rises over the 3 months to September. In the year ended September, labour costs rose sharply: up 4.2% (c.f. 4% in August). It appears that labour costs have run ahead of the post GFC recovery in capacity utilisation (see chart).

On a 3 month ended annualised basis, labour costs rose by 6.3% in September, higher than the 5.9% recorded in August. This is the strongest 3-month annualised growth in the history of the monthly survey, and is indicative of emerging wage pressures.

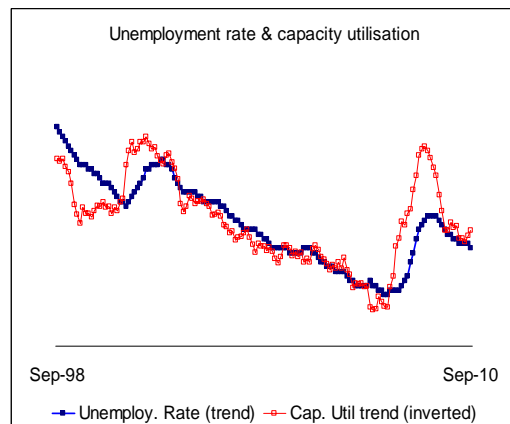
Labour costs continue to rise



Capacity utilisation & unemployment: long view

Based on long-term relationships (see chart), the unemployment rate is broadly consistent with the rate of capacity utilisation, suggesting some near term stability in the unemployment rate. Beyond that, further reductions in unemployment will depend on whether forward orders remain strong, and the strength of labour demand as measured by the employment index.

Unemployment to stabilise in near term



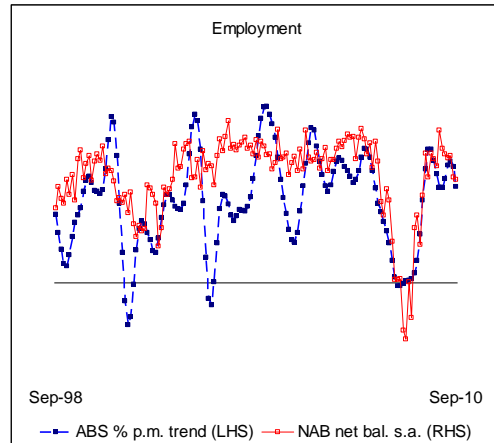
Subscriber details (cont.)

Employment: long view

Overall, the survey indicates a continued easing in employment conditions – although they still remain positive, consistent with modest job gains. In seasonally adjusted terms, the Employment index fell 1 point to 2 points. Moreover, it also fell in trend terms, down 1 point to 4 points.

On the basis of long-term relationships (see chart), the NAB Employment index suggests that the labour market is broadly in line with recent rates of trend employment growth from the ABS Labour Force survey – despite easing employment conditions in September.

Job gains ease

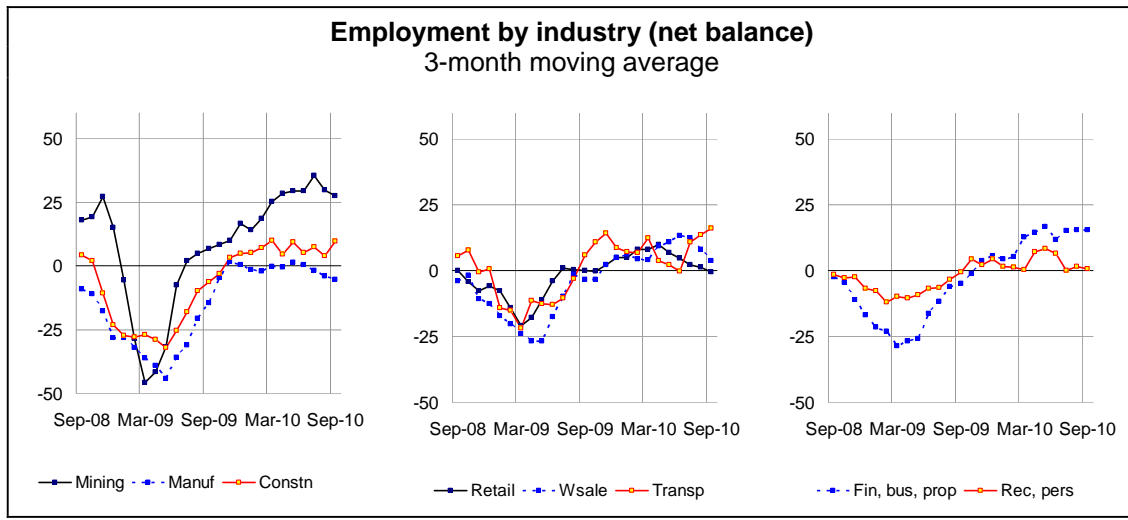


Employment by sector

Trend employment disparate: mining very strong; manufacturing weaker

As mentioned above, employment conditions fell in trend terms, but varied considerably across sectors. Construction and transport recorded strong improvements. Conversely, mining, wholesale, and to a lesser extent, retail and wholesale declined.

In terms of *levels*, employment conditions in mining were the strongest, by far – followed by finance/business/property and transport. Manufacturing was poor and the weakest sector overall. Retail and recreational services were also weak, but stronger than manufacturing.



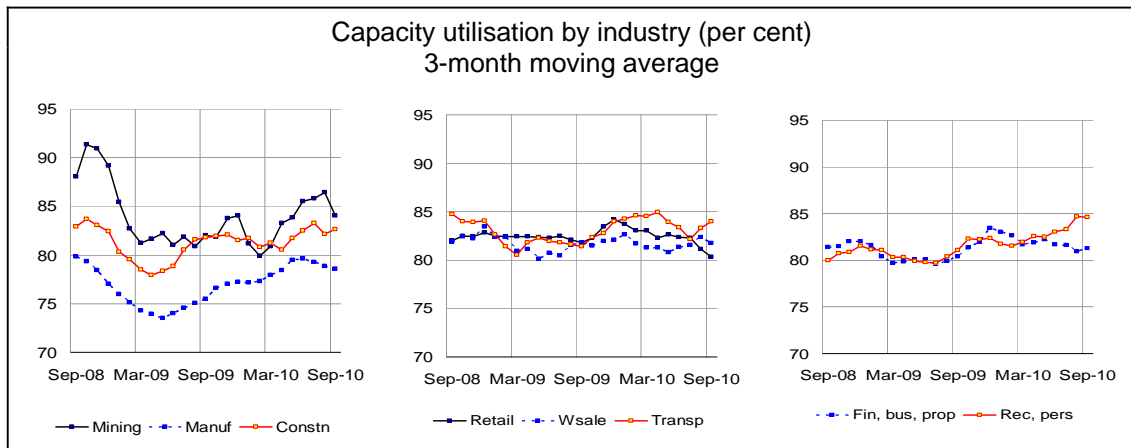
Subscriber details (cont.)

Capacity utilisation by sector

Trend capacity utilisation down a touch; high in mining & recreation, lower in manufacturing

Capacity utilisation rose 0.4% in seasonally adjusted terms. In trend terms, however, it fell slightly, down 0.1% to 81.7%. There was a marked variation across sectors. Recreational/personal services was the strongest, followed by mining; manufacturing was the weakest, followed by retail.

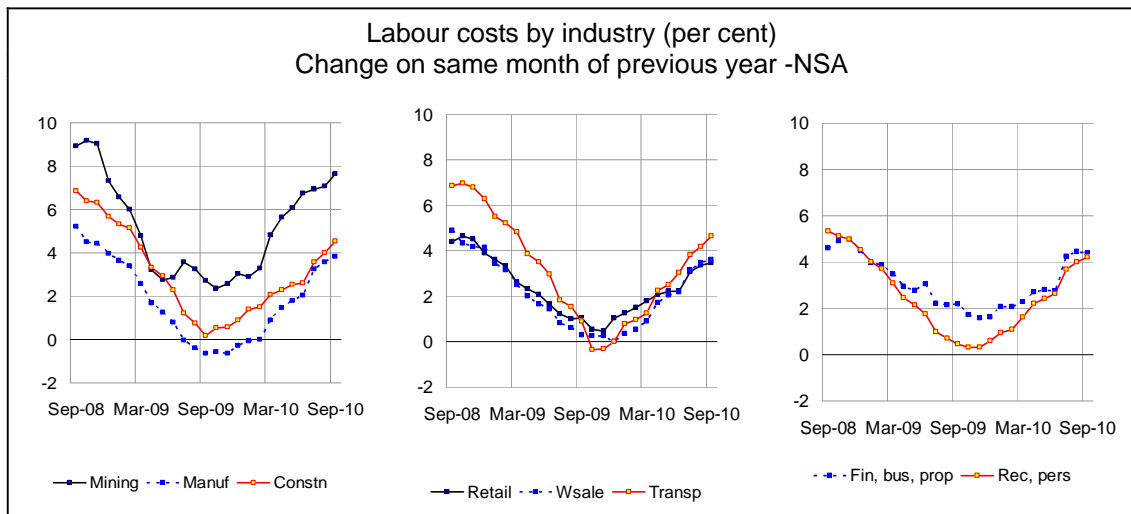
In terms of monthly *trend movements*, the biggest improvement was in transport & utilities (+0.6%), followed by construction (+0.5%) and finance/property/business services (+0.4%). Conversely, there were large declines in mining (-2.4%); retail (-0.8%) and wholesale (-0.7%) also fell.



Labour costs by sector

Labour costs increase; mining very strong

Labour costs (a wage bill measure) continue to gain momentum. Over the year to September 2010, they rose 4.2%, the strongest annual increase since December 2008. Moreover, the rise in labour costs in September was broad based – although there remained appreciable sectoral differences. The wage bill for mining continues to surge ahead – up a staggering 7.7% over the year to September. The FBP (+4.8%) sector, transport (+4.6%), construction (+4.5%) and recreational services sector (+4.4%) also recorded above average growth in labour costs. Retail (+3.5%), wholesale (+3.6%) and manufacturing (+3.8%) recorded below average rises in annual labour costs.



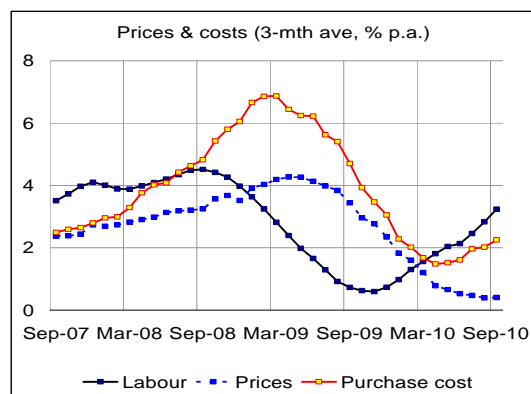
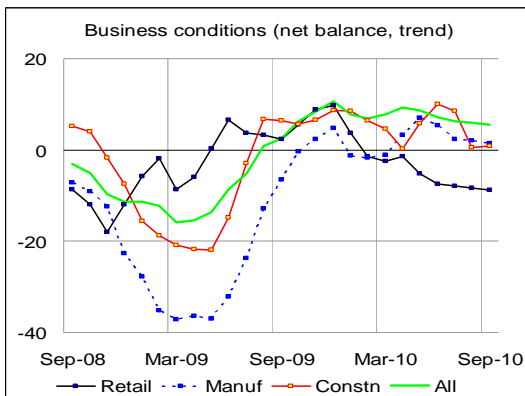
Subscriber details (cont.)

Retail focus

Retail well below the industry average. Prices decline, but labour costs up sharply

In trend terms, putting aside the monthly volatility, retailing continues to trail other cyclical sectors, and is significantly below the overall industry average. These results reflect challenging conditions in the retail sector during 2010.

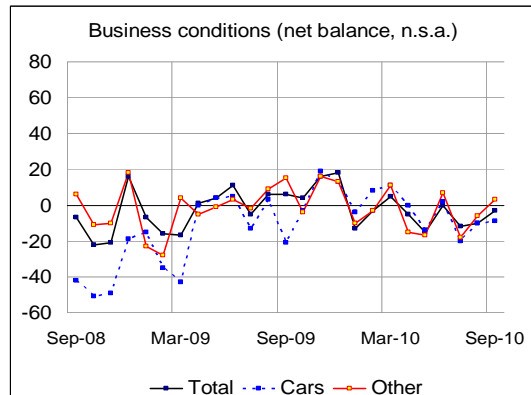
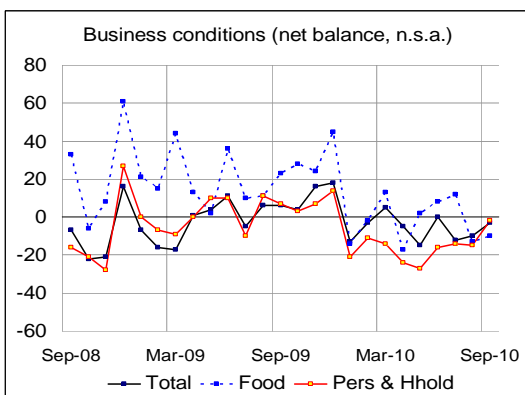
Retail prices contracted by -0.2% on a 3-monthly basis. In annual terms, this translated to a very modest 0.4% rise – similar to last month, but a historical low for the series. Purchase costs also contracted by -0.2% - due in part to exchange rate effects - to rise by 3.2% over the year to September. Labour costs increased further, up 3.2% – the strongest since January 2009. Taken together, these results suggest tightening retail margins.



Business conditions by retail sub-sector

Most segments still struggling

In unadjusted terms, retailing conditions are significantly weaker than year ago levels, when retail benefited from the lagged effects of Government stimulus payments, as well as low interest rates. All categories of retail (ex-other) recorded poor outcomes. This time around, food retailing was the worst performing, followed by car retailing. Household/personal goods retailing did comparatively better, but was still poor – and has generally been the weakest component of retailing over 2010.



Credit Conditions

Credit conditions ease; demand for credit falls

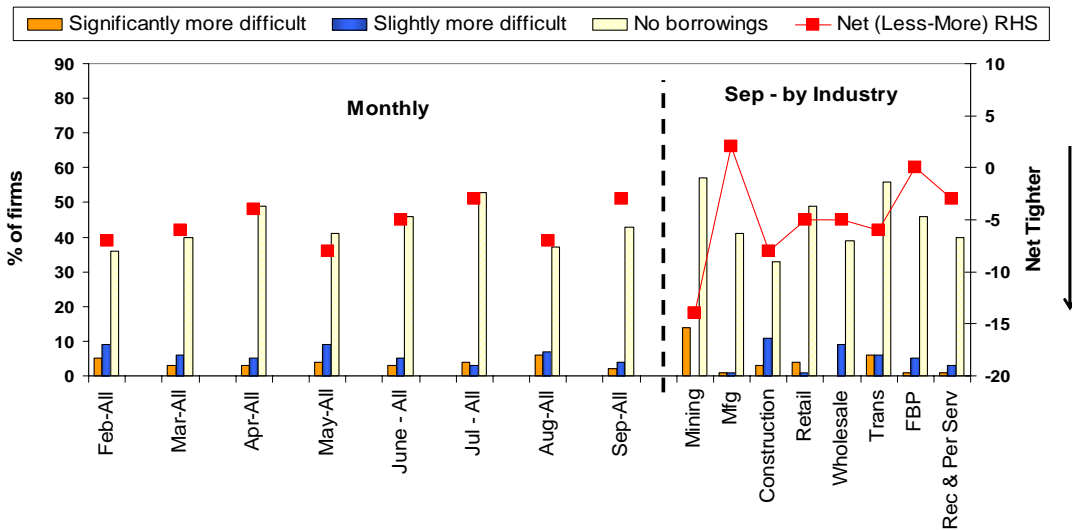
Credit conditions have eased in September to a net reading of -3% (c.f. -7% in August), reversing the tightening in August. The proportion of firms finding credit either significantly or slightly *difficult* was 6% (c.f. 13% in August). Conversely, 3% (c.f. 6% in August) found credit conditions either significantly or slightly *easier*. Moreover, 43% of firms did *not require* any borrowings, well above last month's 37%, signifying a fall in borrowing requirements.

Across industries, the tightest conditions prevailed in mining; construction and transport also found credit relatively difficult to access. On the other hand, firms in manufacturing, finance/business/property services and recreational services found credit comparatively less difficult to access.

Demand for credit was muted in mining, transport, retail and finance/business/property services. The relatively lower demand for debt financing from miners, in part, may reflect miners increasing their equity issuance to capitalise on strong commodity prices.

Firms in the construction, manufacturing and wholesale sectors had higher borrowing requirements. A combination of higher borrowing requirements and tight credit may pose a few difficulties for parts of the construction sector.

Difficulty in Obtaining Finance



| | Jul % | Aug % | Sep % | | Jul % | Aug % | Sep % |
|--|-----------|-----------|-----------|----------------------------------|-------------|-------------|-------------|
| Business confidence for next period | | | | Total labour costs | | | |
| Significant improvement | 1 | 3 | 4 | 3% or more | 22 | 19 | 5 |
| Minor improvement | 27 | 31 | 38 | 2% to less than 3% | 10 | 13 | 4 |
| No change | 51 | 50 | 46 | 1.5% to less than 2% | 3 | 5 | 2 |
| Minor deterioration | 18 | 13 | 12 | 1% to less than 1.5% | 4 | 5 | 4 |
| Significant deterioration | 2 | 2 | 1 | 0.5% to less than 1% | 5 | 6 | 6 |
| Index | 4 | 11 | 16 | Less than 0.5% | 2 | 2 | 3 |
| Business conditions | | | | No change | 51 | 44 | 72 |
| Very poor | 1 | 2 | 1 | Less than -0.5% | 0 | 1 | 0 |
| Poor | 16 | 17 | 14 | -0.5% to less than -1% | 1 | 0 | 1 |
| Satisfactory | 61 | 57 | 59 | -1% to less than -1.5% | 0 | 1 | 0 |
| Good | 20 | 22 | 21 | -1.5% to less than -2% | 0 | 1 | 1 |
| Very good | 2 | 3 | 4 | -2% to less than -3% | 0 | 1 | 0 |
| Index | 5 | 6 | 10 | -3% or more) | 0 | 1 | 0 |
| | | | | Average (%) | 3.6# | 1.2# | 1.1# |
| Trading | | | | Purchase costs | | | |
| Very poor | 1 | 2 | 2 | 3% or more | 4 | 5 | 1 |
| Poor | 17 | 19 | 14 | 2% to less than 3% | 3 | 7 | 2 |
| Satisfactory | 57 | 52 | 52 | 1.5% to less than 2% | 4 | 3 | 1 |
| Good | 22 | 23 | 26 | 1% to less than 1.5% | 3 | 6 | 3 |
| Very good | 3 | 4 | 6 | 0.5% to less than 1% | 4 | 8 | 8 |
| Index | 8 | 6 | 17 | Less than 0.5% | 5 | 3 | 3 |
| Profitability | | | | No change | 71 | 59 | 72 |
| Very poor | 2 | 3 | 1 | Less than -0.5% | 1 | 0 | 1 |
| Poor | 21 | 20 | 19 | -0.5% to less than -1% | 0 | 1 | 1 |
| Satisfactory | 50 | 49 | 48 | -1% to less than -1.5% | 1 | 1 | 2 |
| Good | 23 | 24 | 25 | -1.5% to less than -2% | 1 | 1 | 1 |
| Very good | 2 | 4 | 5 | -2% to less than -3% | 2 | 1 | 2 |
| Index | 3 | 4 | 10 | -3% or more) | 1 | 1 | 1 |
| | | | | Average (%) | 0.8# | 0.5# | 0.3# |
| Employment | | | | Price of final products | | | |
| Much less | 0 | 1 | 0 | 3% or more | 8 | 7 | 2 |
| Less | 10 | 12 | 9 | 2% to less than 3% | 4 | 5 | 1 |
| Unchanged | 75 | 69 | 77 | 1.5% to less than 2% | 1 | 2 | 1 |
| More | 15 | 18 | 13 | 1% to less than 1.5% | 2 | 3 | 2 |
| Much more | 0 | 1 | 0 | 0.5% to less than 1% | 2 | 3 | 2 |
| Index | 5 | 6 | 4 | Less than 0.5% | 1 | 2 | 1 |
| Forward orders | | | | No change | 73 | 68 | 86 |
| Much less | 1 | 2 | 1 | Less than -0.5% | 0 | 0 | 1 |
| Less | 16 | 16 | 12 | -0.5% to less than -1% | 0 | 1 | 0 |
| Unchanged | 33 | 25 | 33 | -1% to less than -1.5% | 2 | 2 | 1 |
| More | 10 | 12 | 15 | -1.5% to less than -2% | 1 | 1 | 0 |
| Much more | 0 | 1 | 2 | -2% to less than -3% | 2 | 2 | 1 |
| Not applicable | 40 | 45 | 38 | -3% or more) | 2 | 3 | 1 |
| Index | -7 | -5 | 4 | Average (%) | 0.9# | 0.3# | 0.3# |
| Stocks | | | | Current output level | | | |
| Much less | 1 | 1 | 1 | Full capacity | 14 | 14 | 14 |
| Less | 16 | 15 | 9 | 90% of full capacity | 26 | 26 | 28 |
| Unchanged | 42 | 41 | 44 | 80% of full capacity | 31 | 28 | 28 |
| More | 11 | 12 | 16 | 70% of full capacity | 22 | 21 | 19 |
| Much more | 0 | 1 | 1 | 60% of full capacity | 6 | 7 | 5 |
| Not applicable | 29 | 30 | 27 | Below 60% | 1 | 2 | 3 |
| Index | -5 | -2 | 7 | No response | 0 | 3 | 2 |
| | | | | Capacity utilisation rate | 81.6 | 81.4 | 81.8 |

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, Thomsons & Ecowin).

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