

Subscriber Details

January 2011

Queensland floods crunch business conditions & exports, suggesting flat March quarter. But confidence recovers – signalling the expected short term nature of the hit to activity.

- Business conditions fell sharply in January in the aftermath of the Queensland and Victorian floods. Mining, manufacturing, construction and finance were badly hit, and conditions fell to GFC levels in Queensland. Outside Queensland, conditions deteriorated into negative territory. Special survey on Queensland flood impacts (also released today) shows significant national disruption and business losses over 5% in January. See also a special report (page2) on the impact of Queensland floods in January survey.
- Confidence rebounded strongly nationally, and especially in Queensland – consistent with a relief rally. However the results pre date cyclone Yasi. Further, forward orders, stocks and capacity utilisation all declined. The survey is consistent with domestic demand running at an annual rate of around 2¾% in Q1 and non-farm GDP of 1¾%.
- Labour costs pressures softened but there are signs of life for inflation.

Implications for NAB forecasts*:

- Global growth forecasts unchanged at 4½% for 2011. Encouraging signs of accelerating growth in some of the big developed economies in late 2010. But weather and tighter policy affected UK. Chinese growth still strong but tighter policy to slow growth to around 9%. India, Latin America and non Japan Asia, while strong, likely to moderate in 2011, but Japan struggling. Global growth of around 4¼% into 2012.
- Australian growth forecast also unchanged at 2½% in 2011, reflecting the impact of Queensland, Victorian and Tasmanian floods, including Large falls in mining, transport, tourism and farming. Our impact (0.9%) in 2010/11 is larger than Commonwealth's (0.5%). And the near term hit over Dec / March is estimated at 1½%. Q1 weakness likely to be followed by investment boost as infrastructure is repaired giving growth of 3.5% through 2011 and 3.9% in 2012.
- RBA to look through temporary flood effects on food prices. Next hike to 5% still to be in May, but may be postponed because of flood disruption (to peak at 5¼% by August 2011). RBA will be watching cost pressures during reconstruction phase. Exchange and core inflation (2¾% during 2011) forecasts unchanged, but headline inflation up to 3¾% by Q3.

*Latest global & Australian forecasts released 1 February.

Key monthly business statistics**

	Nov 2010	Dec 2010	Jan 2011		Nov 2010	Dec 2010	Jan 2011
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	6	-3	4	Employment	4	5	0
Business conditions	4	6	-6	Forward orders	-2	-3	-5
Trading	4	9	-7	Stocks	1	5	-1
Profitability	2	3	-10	Export sales	-8	-3	-20
	<i>% change at quarterly rate</i>				<i>% change at quarterly rate</i>		
Labour costs	1.1	0.8	0.9	Retail prices	0.3	0.2	0.0
Purchase costs	0.2	0.8	0.8		<i>Per cent</i>		
Final products prices	0.4	0.5	0.5	Capacity utilisation rate	80.9	82.3	80.5

** All data seasonally adjusted, except purchase costs and export sales. Cost and prices data are percentage changes expressed at a quarterly rate. All other data are net balance indexes, except capacity utilisation, which is an average rate, expressed as a percentage. Fieldwork for this Survey was conducted from 27 January to 2 February, covering over 400 firms across the non-farm business sector.

For more information contact:
Alan Oster, Chief Economist
(03) 8634 2927 0414 444 652

Next release:
22 February 2011 (December quarterly)
8 March 2011 (February monthly)

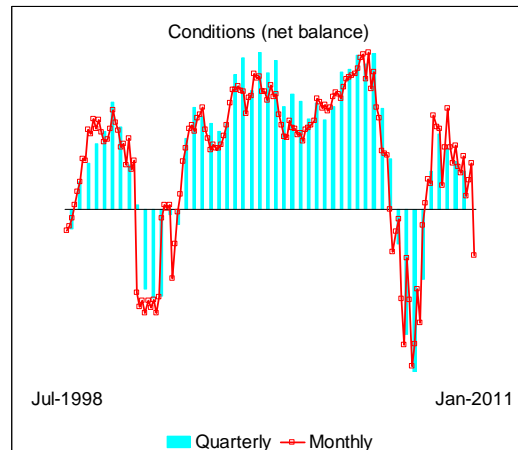
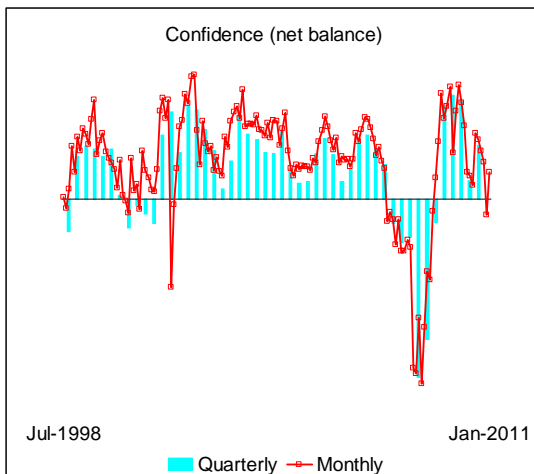
Subscriber details (cont.)

Confidence & conditions

Confidence improves, but conditions plunge and turn poor

Near-term confidence improved sharply, with businesses now modestly optimistic about the near term outlook. Business confidence improved 7 points to a reading of +4 points. All States (ex Tasmania) reported positive confidence levels. Interestingly, Queensland was the most optimistic with businesses believing that the outlook for Queensland could only get better. Business conditions for the non-farm business sector, however, plunged 12 points to a poor reading of -6 points: the weakest reading since May 2009, and the second biggest monthly fall in the history of the survey. Conditions were poor across all states, with Queensland extremely weak at -26 points.

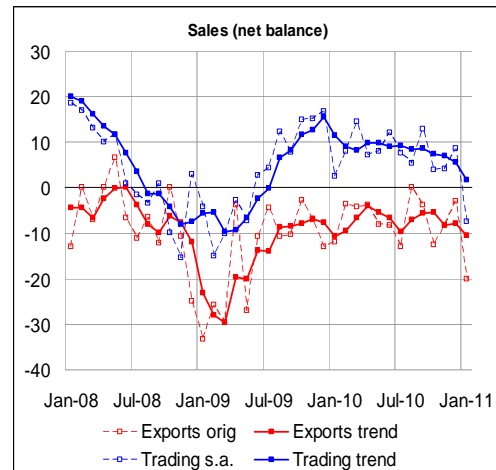
Put another way, businesses are facing tough conditions, but are moderately optimistic about the near term outlook, suggesting that current difficulties may only be temporary.



Sales

Sales very weak and poor, exports nosedive

In seasonally adjusted terms, NAB's Trading Conditions Index declined by 16 points to -7 points, similar to May 2009's reading. Poor outcomes were recorded across all sectors except for transport and utilities (with utilities better performing) and recreational services. Mining (-40) and wholesale (-41) were particularly weak. Retail (-18), construction and manufacturing (both at -17) were also very poor. Exports fell further into negative territory, implying that the domestic sector was comparatively better performing – although both segments struggled in January.



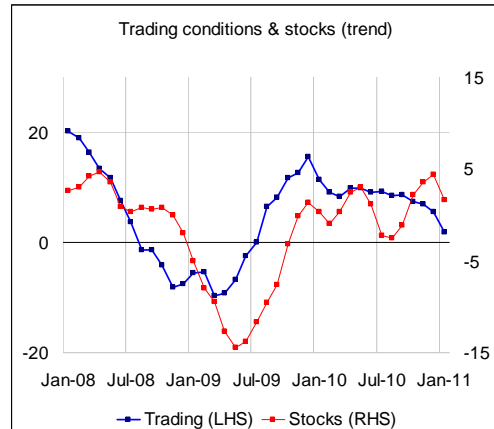
Subscriber details (cont.)

Stocks & sales

Stocks stronger than sales in trend terms

In seasonally adjusted terms, the stocks index fell 6 points to -1 point. In trend terms, they also fell, but remained positive at 2 points. Stock levels (in trend terms) continue to run ahead of the current pace of sales (see chart).

Stocks were run down considerably in mining, construction and retail.



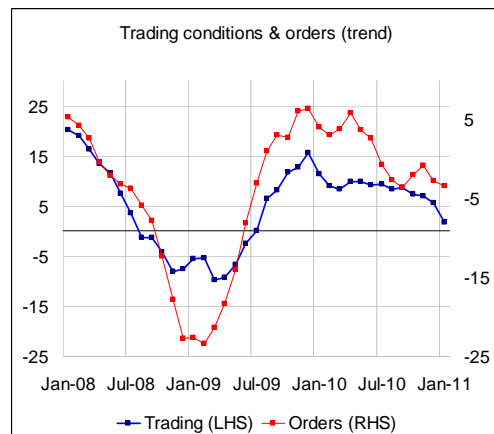
Orders & sales

Forward orders still trending down

In seasonally adjusted terms, forward orders – a leading indicator of activity – weakened further, by 2 points to -5 points. In trend terms, forward orders remained stable at -3 points. With orders still a bit stronger than sales, we should expect an improvement in trading conditions over the period ahead.

Orders (not seasonally adjusted) were particularly weak in construction; they were also weak in retail, wholesale, manufacturing and finance/business/property services. Against that, orders in mining were very strong.

Across states, orders were poor everywhere except for WA. Orders in Queensland were very poor; Victoria also recorded poor orders. WA was the standout, benefiting from strong mining orders.



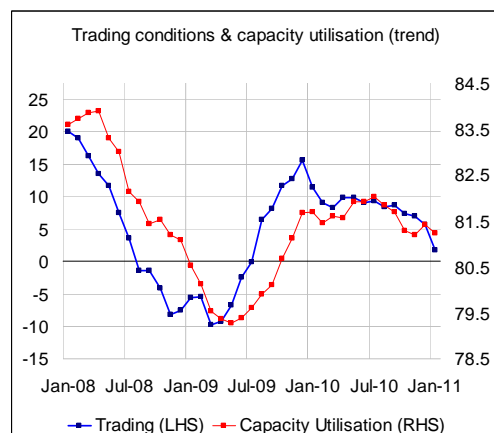
Capacity utilisation & sales

Capacity utilisation declines

In seasonally adjusted terms, capacity utilisation fell sharply, by 1.8% to 80.5% in January – considerably below the pre-GFC peak of over 84% in November 2007. In trend terms, national capacity utilisation fell modestly, by 0.2% to 81.2%.

The level of sales is well below the current rate of capacity utilisations, suggesting limited scope for near term improvements in capacity utilisation.

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



Subscriber details (cont.)

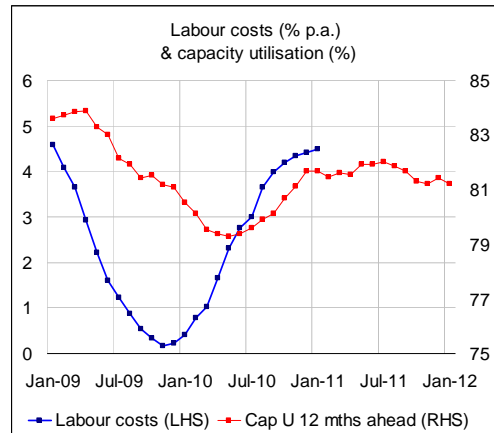
Capacity utilisation & labour costs

In annual terms, labour costs (a wage bill concept) have continued to increase, but there are signs that the growth rate may be peaking in line with the earlier stabilisation of capacity utilisation (see chart).

On a 3-month ended annualised basis, labour costs rose by 3.8% in January, down from 4.2% in December, and 4.7% recorded in November. This may reflect flat employment outcomes in January.

In seasonally adjusted terms, capacity utilisation fell sharply, down -1.8% to 80.5%: the weakest reading since September 2009. In trend terms, it declined by a relatively modest -0.2% to 81.2%.

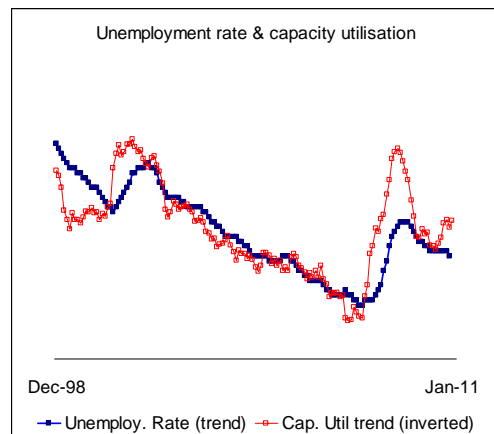
Labour costs stabilise, as capacity utilisation eases



Capacity utilisation & unemployment: long view

The modest fall in trend capacity utilisation in January is consistent with a stable unemployment rate based on long-term relationships (see chart). Further changes in the unemployment rate may very well depend on future movements in capacity utilisation.

Unemployment to stabilise in near term



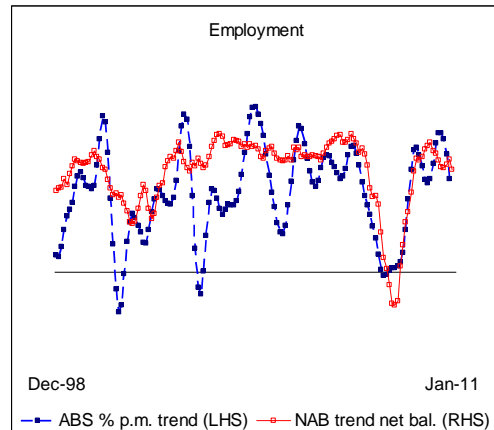
Subscriber details (cont.)

Employment: long view

The Employment Index fell by 5 points to a reading of 0 points, or a flat outcome overall. In trend terms the Employment Index fell 2 points to 3 index points.

On the basis of long-term relationships (see chart), at its current level, the index is consistent with reasonably solid employment growth.

NAB employment in line with ABS

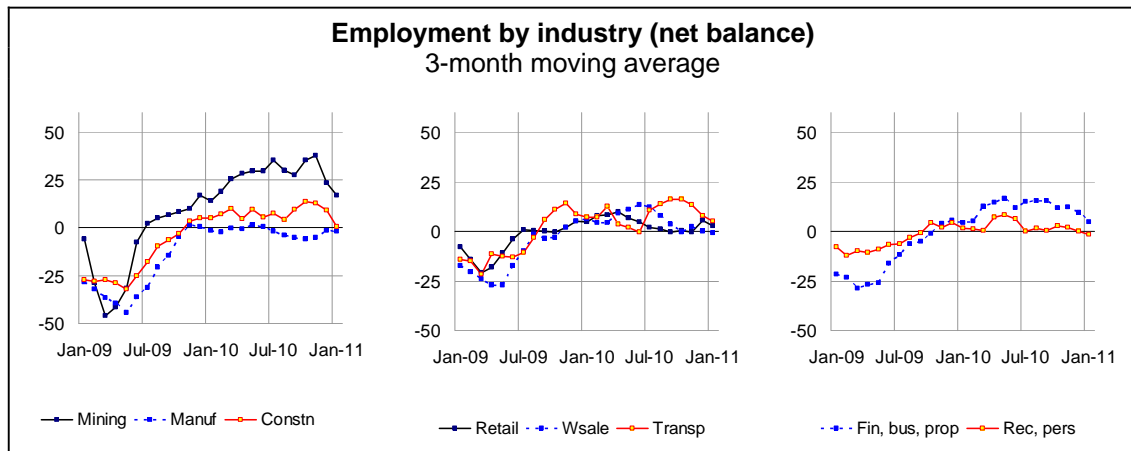


Employment by sector

Trends very weak in construction and mining

In terms of *movements*, trend employment declined across all sectors, with falls in construction and mining the most marked. Conversely, there were only moderate declines in trend wholesale and manufacturing employment.

In *levels*, trend employment conditions in mining remain the strongest. Reasonable index levels were also reported in transport/utilities and finance/business/property services. The Employment Index was negative in manufacturing, wholesale and recreational services.

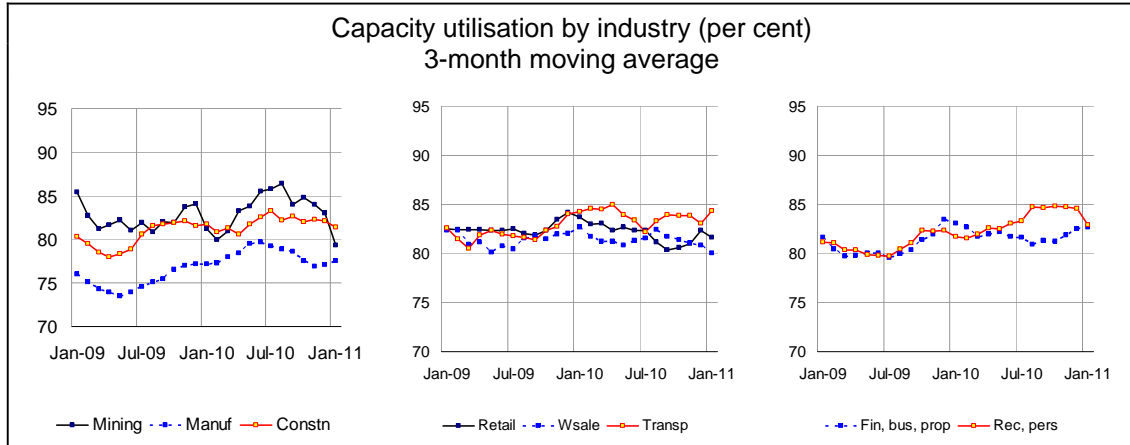


Subscriber details (cont.)

Capacity utilisation by sector *Trend capacity utilisation down; high in transport, low in manufacturing*

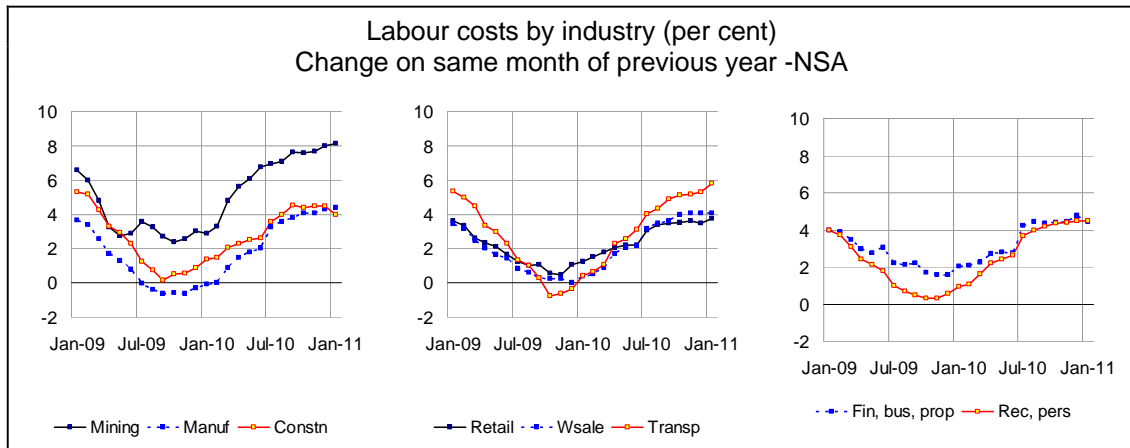
Capacity utilisation fell 1.8% points in seasonally adjusted terms to 80.5%. In trend terms it fell -0.2% points to 81.2%. Trend capacity utilisation was lowest in manufacturing (77.5%) and wholesale (80.0%). It was highest in transport & utilities (84.3%), followed by recreational services (82.9%) and finance/business/property services (82.6%).

In terms of monthly *trend movements*, the biggest improvement was in transport & utilities (+1.3% points), with the utilities component being the principal driver. Against that, there were notable declines in mining (-3.7% points) and recreational services (-1.7%).



Labour costs by sector *Mining very strong, retail weak*

Labour costs (a wage bill measure) continue to rise but there are signs that the growth rate is stabilising. Over the year to January 2011, they rose 4.5%, similar to last month. The wage bill for mining grew by a very high 8.1% over the year to January, The transport & utilities (+5.8%) sector was well above average, while retail (+3.8%) recorded the weakest labour cost growth.

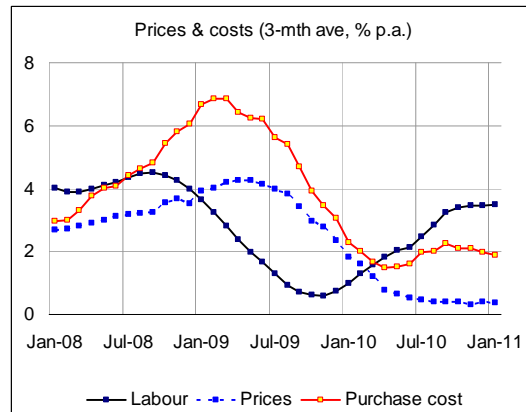
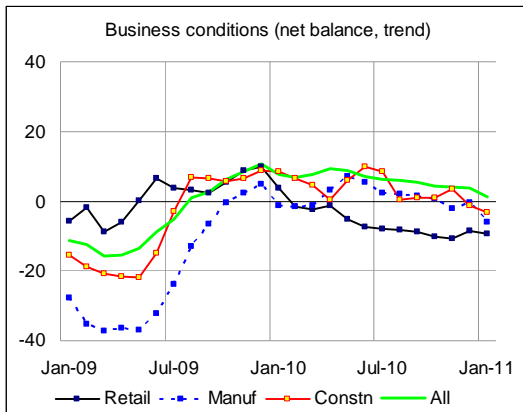


Subscriber details (cont.)

Retail focus *Retail well below industry average. Prices still subdued & margins under pressure*

In terms of business conditions, retailing remains the weakest of the cyclical sectors (in trend terms), although it has been joined in negative territory by manufacturing and construction. The retail trend did edge down a touch in January, after recording an improvement in December.

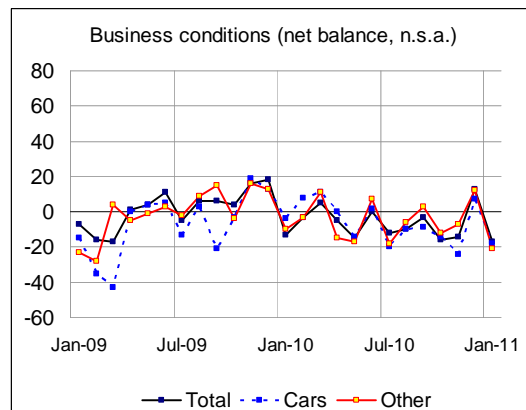
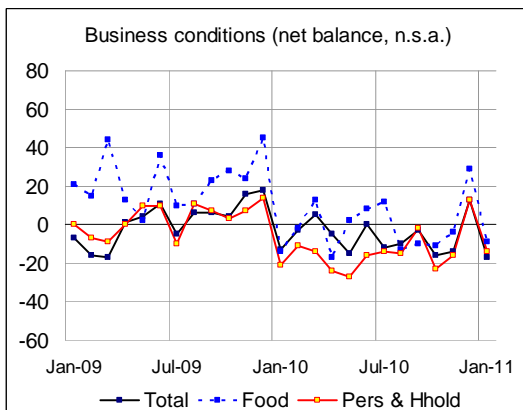
Retail prices were flat on a 3-monthly basis and up only 0.4% in annual terms. In unadjusted terms, food retailing showed a notable increase, reflecting higher food prices. Purchase costs increased 0.4% (from 0.5%), and the annual rate of increase edged down to 1.9% (from 2%). Annual labour costs growth remained stable at 3.5%. Taken together, these results suggest continuing pressure on retail margins.



Business conditions by retail sub-sector

All segments struggling, food less so

In unadjusted terms, retailing conditions remain weaker than year ago levels, given the absence of government stimulus payments and higher interest rates. There was a very sharp deterioration in January (in seasonally adjusted terms), following December's improvement. All segments of retailing struggled, with food retailing performing relatively better. Car retailing was particularly weak (see below).



Credit Conditions

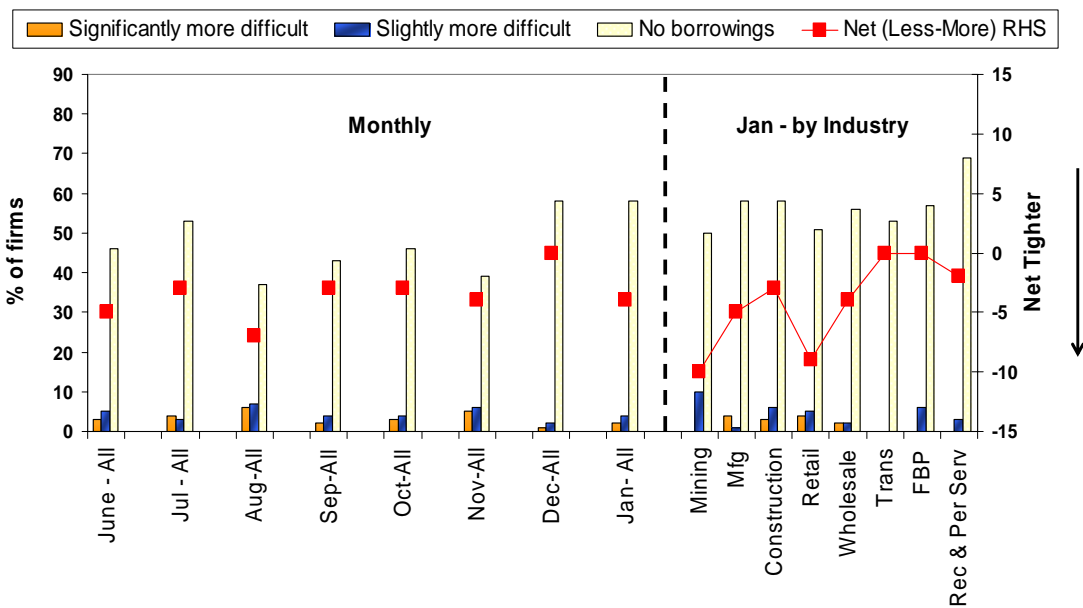
Credit conditions tighten; demand for credit modest

Credit conditions tightened in January with a net reading of -4% (0% in December). The proportion of firms finding credit either significantly or slightly *difficult* was 6% (c.f. 3% in December). Conversely, 2% (c.f. 3% in December) found credit conditions either significantly or slightly *easier*. Moreover, 58% of firms did *not require* any borrowings, similar to last month, but indicating very modest borrowing requirements.

Across industries, the tightest conditions prevailed in mining and retail. On the other hand, firms in transport and finance/business/property services found credit relatively easier to access.

Demand for credit was low in recreational services. Mining and retail had relatively higher borrowing requirements.

Difficulty in Obtaining Finance



	Nov	Dec	Jan		Nov	Dec	Jan
	%	%	%		%	%	%
Business confidence for next period				Total labour costs			
Significant improvement	3	2	4	3% or more	8	7	6
Minor improvement	25	20	32	2% to less than 3%	9	2	3
No change	50	52	41	1.5% to less than 2%	5	2	1
Minor deterioration	17	20	19	1% to less than 1.5%	5	3	2
Significant deterioration	4	5	4	0.5% to less than 1%	7	3	5
Index	3	-4	6.8	Less than 0.5%	3	3	3
Business conditions				No change	59	75	75
Very poor	2	1	5	Less than -0.5%	1	0	0
Poor	18	15	23	-0.5% to less than -1%	1	1	1
Satisfactory	54	58	57	-1% to less than -1.5%	0	0	1
Good	24	22	13	-1.5% to less than -2%	1	0	0
Very good	3	4	2	-2% to less than -3%	1	0	1
Index	7	10	-13	-3% or more)	2	2	2
				Average (%)	0.7#	0.3#	0.9#
Trading				Purchase costs			
Very poor	2	2	6	3% or more	4	6	4
Poor	20	16	28	2% to less than 3%	5	5	4
Satisfactory	48	47	49	1.5% to less than 2%	4	3	2
Good	26	29	15	1% to less than 1.5%	4	3	3
Very good	4	6	2	0.5% to less than 1%	7	3	5
Index	8	16	-16	Less than 0.5%	38	3	5
Profitability				No change	58	73	72
Very poor	3	2	8	Less than -0.5%	1	0	0
Poor	23	18	28	-0.5% to less than -1%	2	2	1
Satisfactory	43	50	46	-1% to less than -1.5%	2	1	0
Good	28	25	15	-1.5% to less than -2%	2	0	0
Very good	3	5	2	-2% to less than -3%	3	1	1
Index	5	10	-19	-3% or more)	2	2	2
				Average (%)	0.2#	0.3#	0.8#
Employment				Price of final products			
Much less	0	0	1	3% or more	4	4	4
Less	10	10	13	2% to less than 3%	5	1	2
Unchanged	71	77	76	1.5% to less than 2%	3	1	2
More	18	13	9	1% to less than 1.5%	3	2	1
Much more	0	0	1	0.5% to less than 1%	4	1	3
Index	7	3	-4	Less than 0.5%	3	2	2
Forward orders				No change	69	85	82
Much less	1	1	1	Less than -0.5%	1	0	1
Less	12	14	13	-0.5% to less than -1%	2	1	0
Unchanged	30	26	76	-1% to less than -1.5%	1	1	1
More	14	10	9	-1.5% to less than -2%	1	1	0
Much more	1	1	1	-2% to less than -3%	2	1	1
Not applicable	42	48	1	-3% or more)	3	1	0
Index	1	-4	-4	Average (%)	0.2#	0.1#	0.7#
Stocks				Current output level			
Much less	1	1	2	Full capacity	13	19	13
Less	12	13	18	90% of full capacity	29	26	23
Unchanged	37	35	38	80% of full capacity	29	27	27
More	18	18	11	70% of full capacity	20	18	21
Much more	3	2	1	60% of full capacity	5	5	9
Not applicable	30	31	29	Below 60%	2	2	6
Index	8	5	-8	No response	2	3	1
				Capacity utilisation rate	81.8	82.8	79.2

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, Thomsons & Ecowin).

DISCLAIMER: "While care has been taken in preparing this material, National Australia Bank Limited (ABN 12 004 044 937) does not warrant or represent that the information, recommendations, opinions or conclusions contained in this document ("Information") are accurate, reliable, complete or current. The Information has been prepared for dissemination to professional investors for information purposes only and any statements as to past performance do not represent future performance. The Information does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. In all cases, anyone proposing to rely on or use the Information should independently verify and check the accuracy, completeness, reliability and suitability of the Information and should obtain independent and specific advice from appropriate professionals or experts.

To the extent permissible by law, the National shall not be liable for any errors, omissions, defects or misrepresentations in the Information or for any loss or damage suffered by persons who use or rely on such Information (including by reasons of negligence, negligent misstatement or otherwise). If any law prohibits the exclusion of such liability, the National limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. The National, its affiliates and employees may hold a position or act as a price maker in the financial instruments of any issuer discussed within this document or act as an underwriter, placement agent, adviser or lender to such issuer."

UK Disclaimer: So far as the law and the FSA Rules allow, National Australia Bank Limited ("the Bank") disclaims any warranty or representation as to the accuracy or reliability of the information and statements in this document. The Bank will not be liable (whether in negligence or otherwise) for any loss or damage suffered from relying on this document. This document does not purport to contain all relevant information. Recipients should not rely on its contents but should make their own assessment and seek professional advice relevant to their circumstances. The Bank may have proprietary positions in the products described in this document. This document is for information purposes only, is not intended as an offer or solicitation nor is it the intention of the Bank to create legal relations on the basis of the information contained in it. No part of this document may be reproduced without the prior permission of the Bank. This document is intended for Investment Professionals (as such term is defined in The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001) and should not be passed to any other person who would be defined as a private customer by the rules of the Financial Services Authority ("FSA") in the UK or to any person who may not have experience of such matters. Issued by National Australia Bank Limited A.C.N. 004 044 937, 88 Wood Street, London EC2V 7QQ. Registered in England BR1924. Head Office: 500 Bourke Street, Melbourne, Victoria. Incorporated with limited liability in the state of Victoria, Australia. Regulated by the FSA in the UK.

U.S. DISCLAIMER: This information has been prepared by National Australia Bank Limited or one of its affiliates or subsidiaries ("NAB"). If it is distributed in the United States, such distribution is by nabSecurities, LLC which accepts responsibility for its contents. Any U.S. person receiving this information wishes further information or desires to effect transactions in any securities described herein should call or write to nabSecurities, LLC, 28th Floor, 245 Park Avenue, New York, NY 10167 (or call (877) 377-5480). The information contained herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable and no guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose. Any opinions or estimates expressed in this information is our current opinion as of the date of this report and is subject to change without notice. The principals of nabSecurities, LLC or NAB may have a long or short position or may transact in the securities referred to herein or hold or transact derivative instruments, including options, warrants or rights with securities, or may act as a market maker in the securities discussed herein and may sell such securities to or buy from customers on a principal basis. This material is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action. It is intended for the information of clients only and is not for publication in the press or elsewhere.