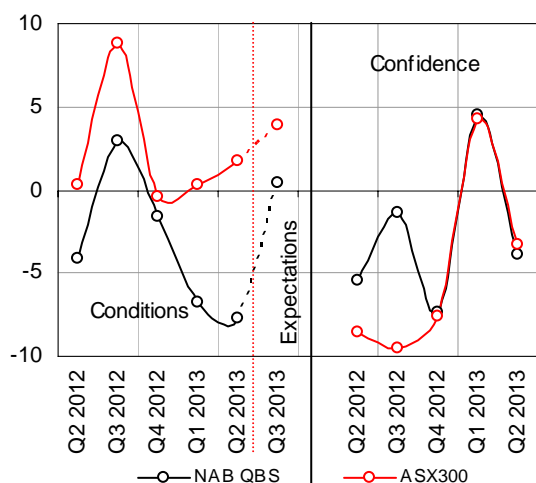


Quarterly ASX 300 Business Survey June 2013

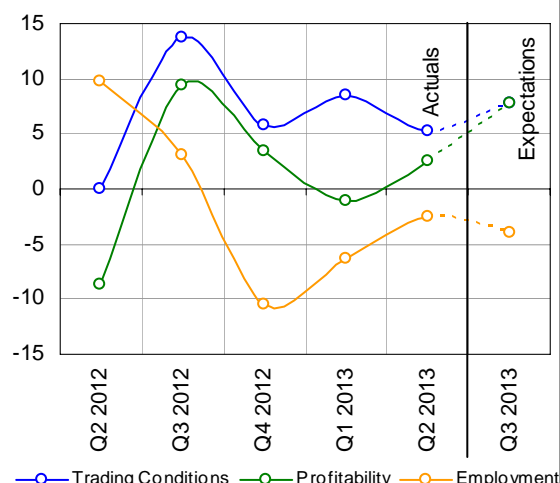
Stronger conditions for ASX 300 in Q2 – widening the gap to the economy – but confidence fell sharply. Mining conditions fell, now the weakest among ASX 300 firms. Discounting among ASX 300 may be evident. Stocks & orders point to weakness in domestic economy

- ASX 300 firms recorded a slight improvement in business conditions in June, up to +2 points, while trends in NAB's Quarterly Business Survey (QBS) deteriorated a little further – down to -2 points. The improvement in conditions for the ASX 300 was driven by gains in the Transport, Utilities & Communications sector and Manufacturing. There was a decline in conditions for Mining – which recorded the weakest conditions overall, highlighting the transition in the sector over recent quarters.
- Counter to the trends for conditions, business confidence weakened across the economy – with ASX 300 confidence trending in line with the broader economy over the past three quarters. Mining, Finance, Business & Property Services and Construction contributed to this decline.
- The relative softness in the domestic economy remains evident in the measures of sales margins, forward orders and stocks – with each of these measures deteriorating further in the ASX 300 survey than the QBS.
- Cost trends generally worsened for the ASX 300 in the June quarter – with stronger growth in labour costs, and both purchase costs and overheads increasing, while final product prices deteriorated further.
- Capacity utilisation was up for the ASX 300 in Q2, but investment fell sharply – with the capital expenditure measure weaker than that of the broader economy. Manufacturing, the Finance, Business & Property Services sector and Mining contributed most to this decline.
- Cashflows for the ASX 300 were considerably stronger than the broader economy – remaining at +18 points, while conditions in the QBS deteriorated, down to +4 points from +7 points in March.
- While demand was seen as the main constraint for profitability among ASX 300 firms, it was seen as less of an issue for output. These divergent trends may be consistent with further discounting among these firms.

Business conditions & confidence (net balance, nsa)



Business conditions components (net balance, nsa)



Key quarterly business statistics**

Q2 2013	ASX300	NAB QBS	ASX300	NAB QBS
	Net balance		Net balance	
Business confidence	-3	-4	Trading	5
Business conditions			Profitability	3
- Current	2	-8	Employment	-3
- Next 3 months	4	0	Forward orders	-14
- Next 12 months	21	13	Stocks	-13
Capex plans (next 12 months)	19	15	Export sales	-1
	% change		% change	
Labour costs	0.39	0.27	Retail prices	0.08
Purchase costs	0.27	0.36	Capacity utilisation rate	84.6
Final product prices	-0.26	-0.11		79.1

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

** All data non-seasonally adjusted. 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 May to 13 June 2013.

Analysis

Larger firms in Australia recorded slightly stronger **business conditions** in the June quarter, in stark contrast to weakening conditions for the broader economy.

Respondents to our ASX 300 survey recorded a net balance of +2 points (compared with 0 points in Q1).

Trends remain divergent at an individual industry level. The slight strengthening in aggregate business conditions was driven by a strong improvement for Manufacturing (from steeply negative conditions in Q1) and Transport, Utilities and Communications (see page 6).

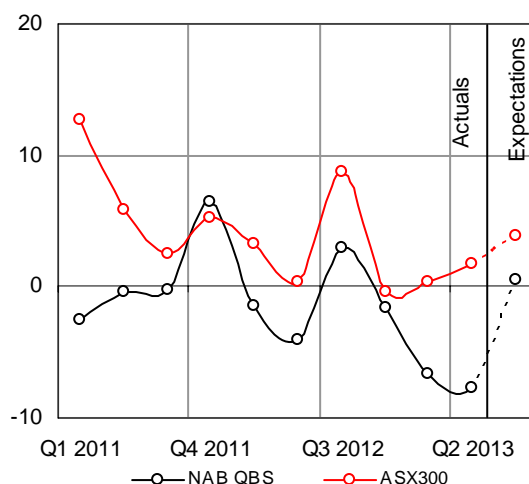
In contrast, business conditions in NAB's Quarterly Business Survey (QBS) deteriorated a little further in Q2, down to -8 points (on a non-seasonally adjusted basis), from -7 points previously.

Short term expectations are marginally stronger for the ASX 300, recording a net balance of +4 points for Q3 2013. The gap between the ASX 300 and the broader economy is tipped to narrow, with a strong recovery anticipated in the QBS, back up to 0 points.

The key driver of the expected improvement in ASX 300 conditions next quarter is Retail, while Mining, Manufacturing and Finance, Business & Property Services also exhibit stronger trends. In contrast, Transport, Utilities and Communications is tipped to soften.

Modest gains for ASX 300 widens the gap to the economy in Q2

Business conditions (net balance, nsa)



net balance	Conditions – current	Conditions – next 3 months	Conditions – next 12 months	Confidence – next 3 months
ASX 300	2	4	21	-3
NAB QBS	-8	0	13	-4

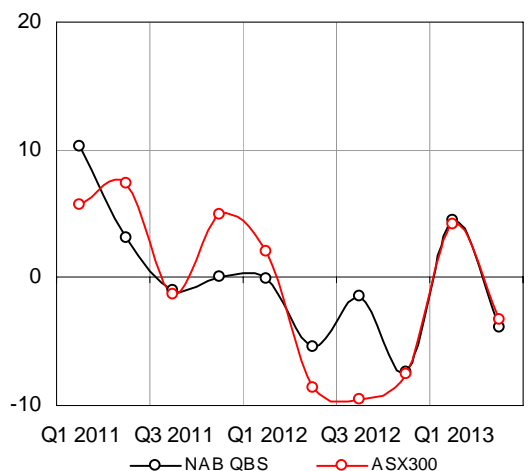
Despite the improved conditions for the ASX 300, **business confidence** weakened across the economy in Q2 2013, continuing the trend of close correlation between the two surveys.

Firms in the ASX 300 recorded a net balance of -3 points in our latest survey (compared with +4 points previously), while confidence in the QBS fell to -4 points (from +4 points in March).

For the ASX 300, the decrease in confidence was driven primarily by the Mining and the Finance, Business & Property Services sector, while confidence in Wholesale improved (see page 6).

ASX 300 confidence continues to trend in line with the economy

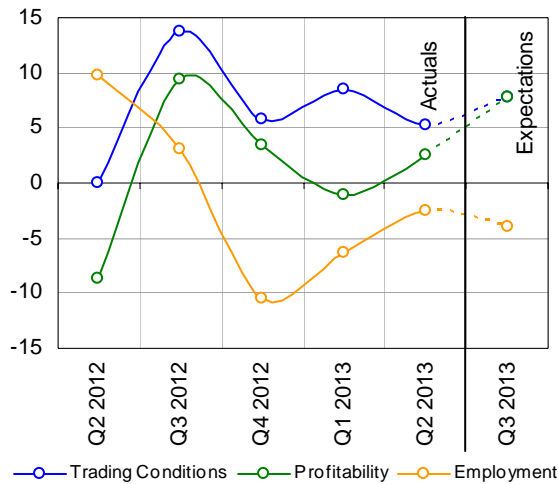
Business confidence (net balance, nsa)



net balance	Trading Conditions	Profitability	Employment	Sales margins	Forward orders	Stocks
ASX 300	5	3	-3	-22	-14	-13
NAB QBS	-7	-10	-7	-20	-8	-4

Profits and employment push ASX 300 conditions a little higher

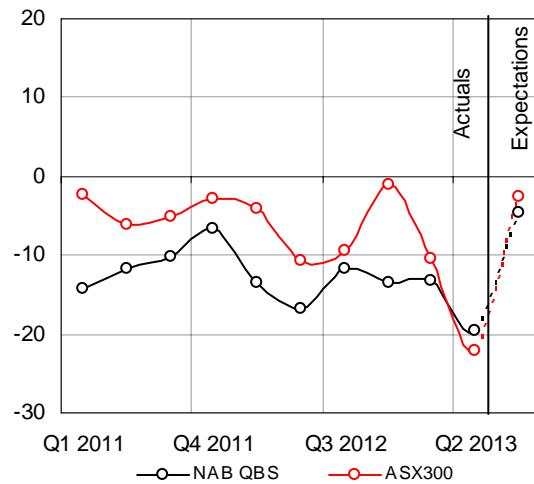
Business conditions components (net balance, nsa)



Improving trends for employment and profitability drove the increase in aggregate business conditions. Employment levels remain negative – at -3 points (but improved from -6 points in Q2), while profitability was +3 points, from -1 point previously. In contrast, trading conditions eased back to +5 points (from +8 points in March). Profitability is the key component driving the increase in expected conditions in Q3, with gains in trading conditions offset by a softening in trends for employment.

Sales margins fall sharply in June quarter for ASX 300

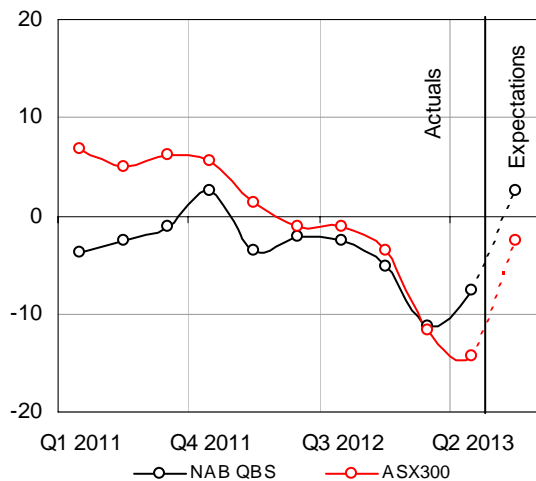
Sales Margins (net balance, nsa)



The improved trends for profitability were somewhat at odds with weakening trends in sales margins. ASX 300 firms recorded at net balance of -22 points in the June quarter, down from -11 points in our previous survey. Margins also declined in the QBS, though less significantly – down to -20 points from -13 points previously. The decline in margins may indicate a further signs of discounting among ASX 300 firms.

Forward order trends worsened for ASX 300, slight uptick for QBS

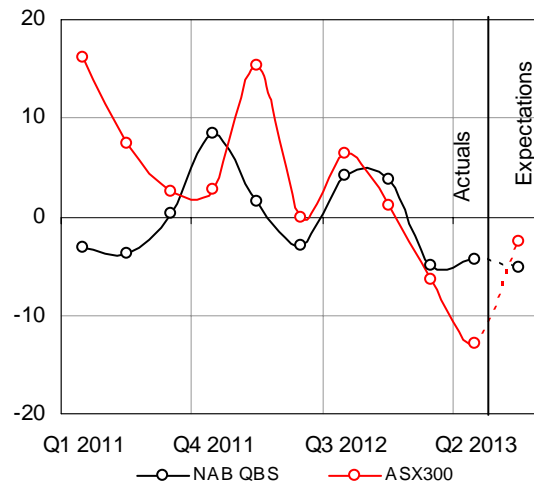
Forward Orders (net balance, nsa)



Forward orders have continued to deteriorate for the ASX 300– with the measure at -14 points in June, down from -12 points previously. In contrast, forward order trends improved for the broader economy, albeit remaining negative at -8 points (from -12 points in the March quarter). Short term expectations are also stronger in the QBS, at +3 points, compared with -3 points for ASX 300 firms.

ASX 300 stocks fall further in June, counter to stabilising trend in QBS

Stock levels (net balance, nsa)

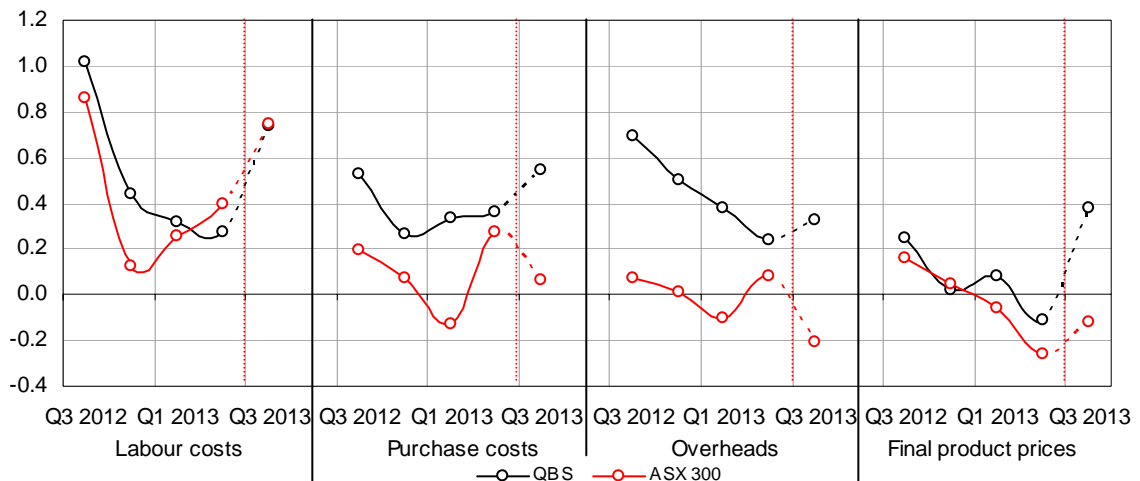


Stock levels for the ASX 300 also declined further in the June quarter, down to -13 points (from -6 points in Q1), while the measure was unchanged for the QBS at -4 points. ASX 300 firms tip a rebound – albeit to still negative levels of -3 points in Q3, while stocks are expected to ease to -5 points for the QBS.

The current levels for both forward orders and stocks are indicative of softness in the economy at the present time.

ASX 300 firms faced rising costs in the June quarter, as final prices weakened further

Costs & Product Prices (qoq %, nsa)



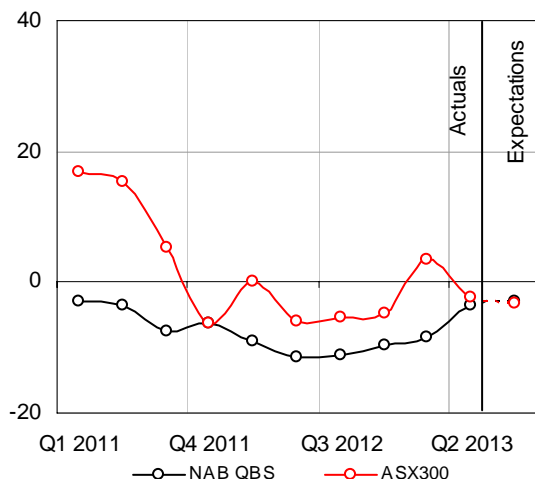
Cost trends generally worsened for the ASX 300 in the June quarter – with stronger growth in labour costs, and both purchase costs and overheads increasing (after recording declines in Q1). Labour costs increased by +0.4% in Q2, compared with +0.3% in the QBS. Purchase costs and overheads for the ASX 300 increased by +0.3% and +0.1% respectively (compared with declines of -0.1% for both measures last quarter).

As cost pressures increased during the quarter, final product prices deteriorated further – in line with weaker sales margins. ASX 300 prices fell by -0.3% in June, compared with -0.1% in the QBS.

The expectations for Q3 are highly mixed among the ASX 300. Labour costs are tipped to increase significantly – back up to +0.7% (in line with expectations for the broader economy), while trends for both purchase costs and overheads are expected to soften. ASX 300 respondents anticipate further falls in final product prices at -0.1%, in contrast to strong expectations in the QBS.

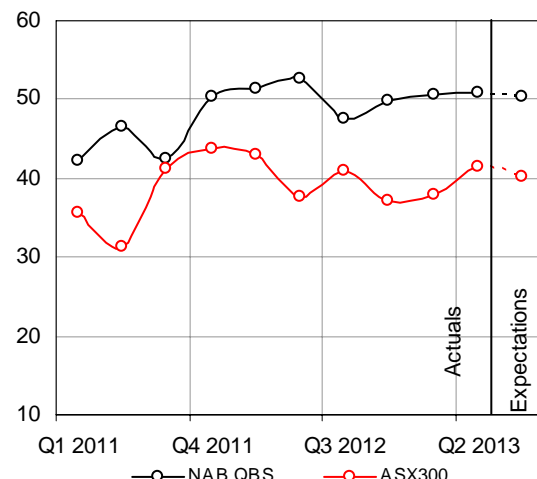
Borrowing conditions back to negative for the ASX 300 in Q2

Ease of obtaining borrowings (net balance, nsa)



A larger share of ASX 300 report no borrowing requirements

No borrowings required (% , nsa)

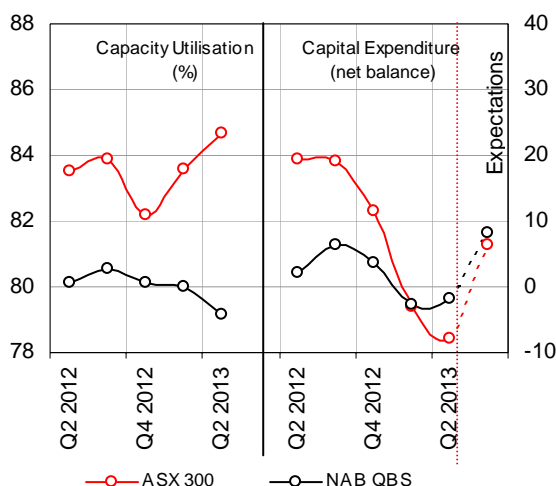


Borrowing conditions softened in Q2 for the ASX 300 – with ease of obtaining borrowings falling to -2 points (from +3 points in the March quarter) – in line with the broader economy. Short term expectations are essentially flat – with both surveys recording a net balance of -3 points for Q3 2013.

A slightly larger share of firms in the ASX 300 reported no borrowing requirements in Q2 – at 42% (compared with 38% in March), while the share in the QBS was flat at 51%. For ASX 300 firms, only a modest decline in this share is expected in the third quarter, down to 40%.

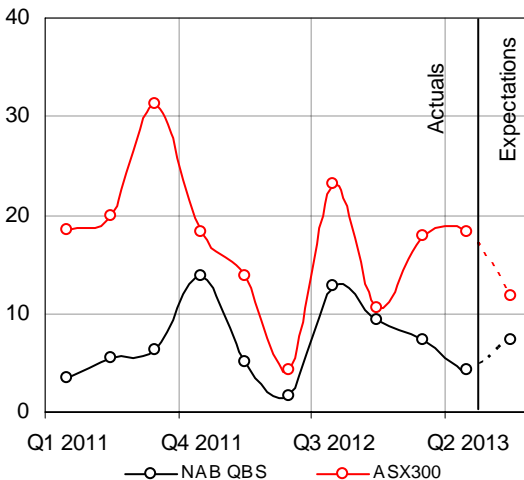
CapU rises for the ASX 300, but capex has fallen significantly

Capacity Utilisation and Capital Expenditure



Cashflow trends remain divergent, with ASX 300 outperforming

Cashflow (net balance, nsa)



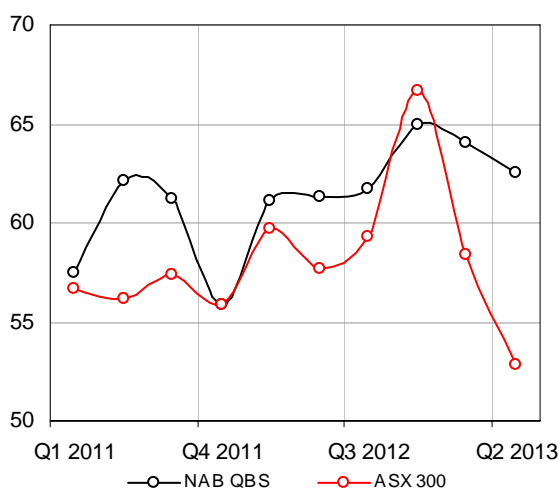
Trends for capacity utilisation diverged between the two surveys – with ASX 300 firms reporting stronger utilisation, at 85% (compared with 84% in March), while utilisation fell to 79% in the QBS (from 80% previously).

Capital expenditure trends have continued to deteriorate over recent quarters – with ASX 300 capital expenditure at -8 points in Q2 (compared with -2 points in the QBS). Capex for the ASX 300 has fallen sharply over the past year – in Q2 2012, it was +20 points. Manufacturing, Finance, Business & Property Services (FBP) and Mining contributed most to the decline this quarter (see page 7).

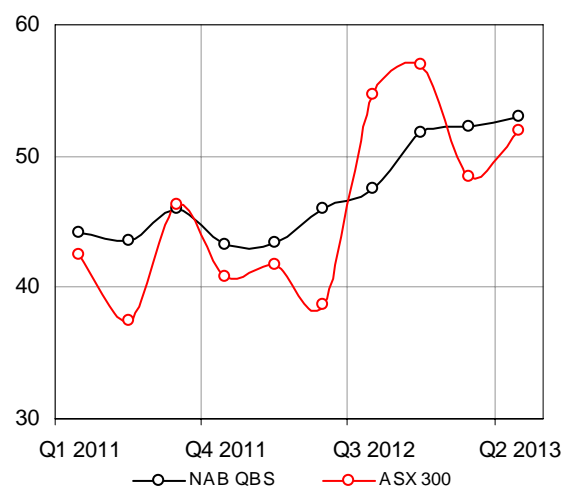
Firms in the ASX 300 report considerably stronger cashflow trends than the broader economy. ASX 300 firms recorded a net balance of +18 points, unchanged from the level in Q1, while cashflow for the QBS declined to +4 points (from +7 points previously). The main contributors to the decline were Mining, Manufacturing and FBP. Short term expectations are for cashflow trends to converge – with a pickup in the QBS and declines anticipated in the ASX 300 survey.

Demand is less of a constraint on ASX 300 output, but still impacts profits – discounting may have been a characteristic of larger firms in Q2

Constraints on output (% of firms) – Sales & Orders



Main constraint on profitability (% of firms) - Demand



There was a notable decline in the number of ASX 300 firms noting Demand (Sales & Orders) as a constraint on their output – with the share falling from 58% of firms in Q1 to 53% in June. Firms in the QBS continued to cite sales & orders as a key constraint – at 63% in our latest survey (down from 64%).

In contrast, demand remains the main constraint on profitability in both surveys – at 52% for ASX 300 firms and 53% for the QBS. The divergent trends in these measures for the ASX 300 may be consistent with further discounting among these firms.

Industry analysis

Business conditions: Transport and Manufacturing push overall conditions higher, but Mining continues to soften – now the weakest sector

There remain some highlight divergent trends in **business conditions** by industry. Only two sectors recorded significant improvements in Q2 – **Transport, Utilities & Communications (TUC)** – the strongest sector at +50 points (from +12 points previously) – and **Manufacturing**, which moved up from -20 points to +3 points.

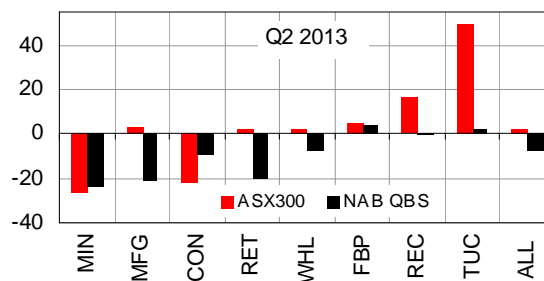
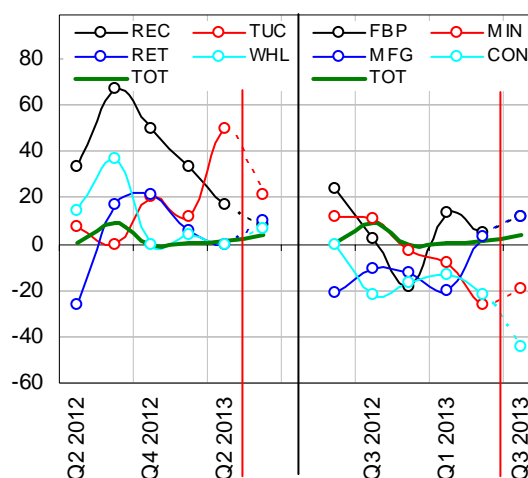
These positive trends were countered by a decline in the **Mining** sector, with conditions falling to -26 points (from -8 points previously) – the weakest level overall, highlighting the transition that has occurred in the sector over recent quarters.

There was also a large decline for the **Recreational & Personal Services (REC)** sector, although this had a lower impact on the overall level of conditions due to a limited sample size.

In terms of expectations, the modest improvement expected in business conditions is driven by stronger trends in **Retail, Mining, Manufacturing** and **Finance, Business & Property Services (FBP)**, but tempered by negative trends in **TUC** and **Construction**.

Compared with trends in the QBS, ASX 300 firms recorded stronger business conditions in **TUC**, **Manufacturing**, **Retail** and **REC**, but weaker conditions in **Construction** and **Mining**.

Business conditions (net balance, nsa)



Business confidence: Lower levels for confidence led by Mining, Finance, Business & Property and Construction, while Wholesale was stronger

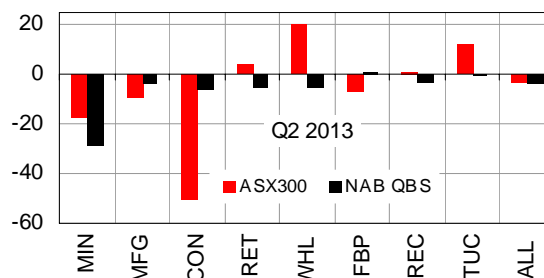
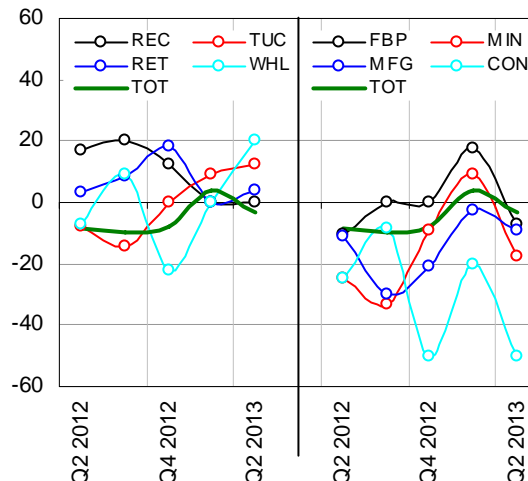
After narrowing considerably in Q1, the range of **business confidence** by industry widened again the June quarter.

The overall decrease in confidence was driven by falls in confidence for **Mining** (down to -18 points from +9 points in Q1) and **Finance & Property Services (FBP)**, which fell to -7 points (from +18 points previously). **Construction** also fell sharply, down to -50 points from -20 points in March.

In contrast, there was a considerable improvement in **Wholesale** confidence, rising up to +20 points from 0 points in our previous survey – making this sector the strongest overall.

Business confidence has tracked closely between the ASX 300 and QBS in recent quarters – however trends are quite different at an industry level. Confidence levels were considerably stronger for ASX 300 firms in the **Wholesale, Transport, Utilities & Communications (TUC)** and **Mining** sectors (despite the Mining sector recording the second weakest level of confidence overall), while **Construction** and **FBP** recorded weaker levels of confidence among ASX 300 firms than the broader economy.

Business confidence (net balance, nsa)



Forward orders: Retail and FBP drive lower level for orders in Q2, but Retail expectations are positive for Q3

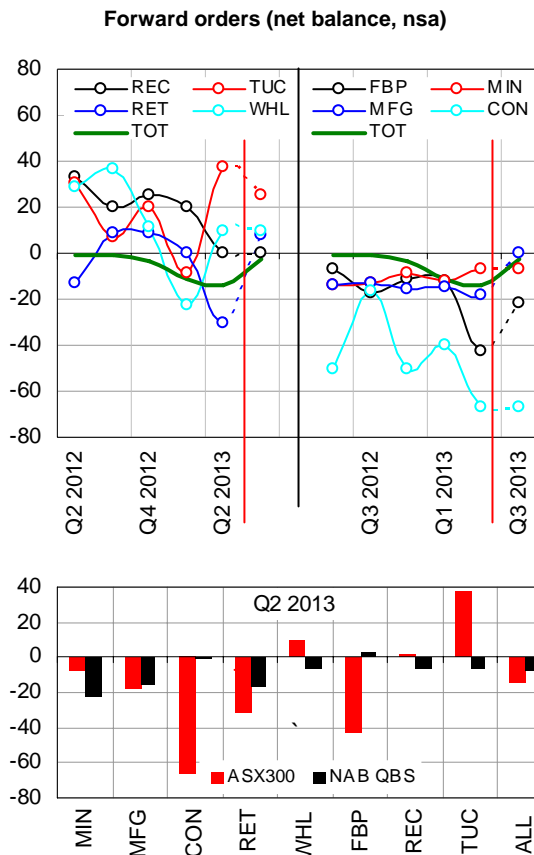
Trends for **forward orders** by industry were quite divergent in the June quarter. The overall decline was driven by falls in **Retail** and **Finance, Business & Property Services (FBP)**.

Forward orders for **Retail** fell to -31 points (from 0 points previously). **FBP** orders declined to -43 points (from -12 points in March). There was also a considerable decrease in **Recreational & Personal Services (REC)**, down to 0 points from +20 points previously.

In contrast, trends for forward orders improved for **Transport, Utilities & Communications (TUC)** (at +38 points in Q2 from -9 points previously) and **Wholesale** (+10 points compared with -22 points in Q1).

The less negative expectations for Q3 2013 are driven primarily by **Retail** – with the sector recording a net balance of +8 points. Expected orders are also less negative for **FBP**.

The range of forward orders by industry was considerably wider for the ASX 300 in Q2 than in the QBS. Orders were considerably stronger for **TUC**, **Wholesale** and **Mining**, and considerably weaker for **Construction**, **FBP** and **Retail**.



Capital expenditure: Declines in capex driven by Manufacturing, FBP and Mining in Q2, while they drive an uptick in expectations for Q3

The deterioration in **capital expenditure** in Q2 was driven by declines in just three sectors.

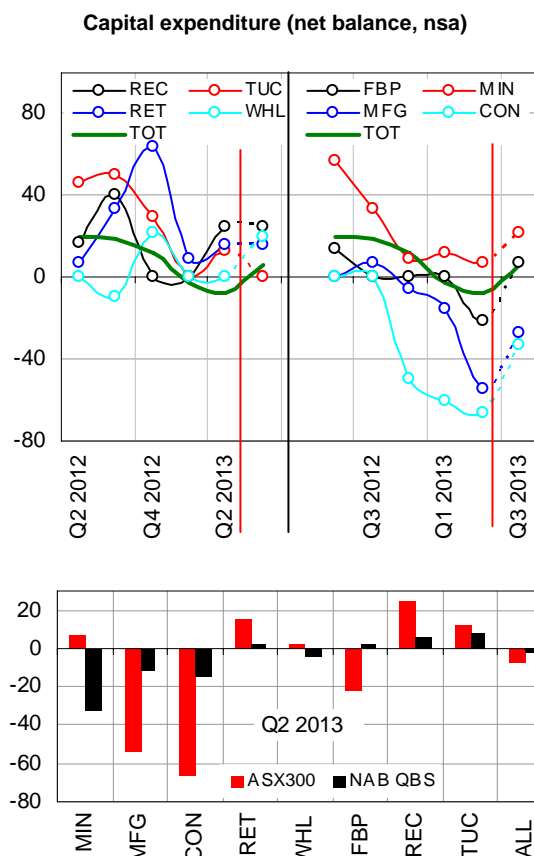
Manufacturing recorded the most significant decrease – down to -67 points (from -15 points in the March quarter).

The **FBP** sector also saw a steep fall, down to -21 points from 0 points previously.

The decrease in **Mining** was less significant – although the sector has deteriorated considerably over the past year – down to +7 points in Q2, from +12 points in our previous survey.

ASX 300 firms anticipate an improving trend for capital expenditure in Q3 2013 – excluding **REC** (which is unchanged) and **TUC**, which is tipped to decline to 0 points. The improvement is driven by improving trends in both **FBP** and **Manufacturing**.

On average, ASX 300 firms recorded weaker trends for capital expenditure than the broader economy. This was driven by the **Construction**, **Manufacturing** and **FBP** sectors, while **Mining**, **REC** and **Retail** recorded stronger conditions than the levels in the QBS.



Macroeconomic, Industry & Markets Research

Australia

Alan Oster	Group Chief Economist	+(61 3) 8634 2927
Jacqui Brand	Personal Assistant	+(61 3) 8634 2181

Rob Brooker	Head of Australian Economics & Commodities	+(61 3) 8634 1663
Alexandra Knight	Economist – Australia	+(61 3) 9208 8035
Vyanne Lai	Economist – Agribusiness	+(61 3) 8634 0198

Dean Pearson	Head of Industry Analysis	+(61 3) 8634 2331
Gerard Burg	Economist – Industry Insight & Analysis	+(61 3) 8634 2788
Robert De Iure	Economist – Property	+(61 3) 8634 4611
Brien McDonald	Economist – Industry Analysis & Risk Metrics	+(61 3) 8634 3837

Tom Taylor	Head of International Economics	+(61 3) 8634 1883
John Sharma	Economist – Country Risk	+(61 3) 8634 4514
Tony Kelly	Economist – International	+(61 3) 9208 5049
James Glenn	Economist – International	+(61 3) 9208 8129

Global Markets Research - Wholesale Banking

Peter Jolly	Global Head of Research	+(61 2) 9237 1406
Robert Henderson	Chief Economist Markets - Australia	+(61 2) 9237 1836
Spiros Papadopoulos	Senior Economist – Markets	+(61 3) 8641 0978
David de Garis	Senior Economist – Markets	+(61 3) 8641 3045

New Zealand

Tony Alexander	Chief Economist – BNZ	+(64 4) 474 6744
Stephen Toplis	Head of Research, NZ	+(64 4) 474 6905
Craig Ebert	Senior Economist, NZ	+(64 4) 474 6799
Doug Steel	Markets Economist, NZ	+(64 4) 474 6923

London

Tom Vosa	Head of Market Economics - Europe	+(44 20) 7710 1573
David Tinsley	Market Economist – Europe	+(44 20) 7710 2910

Foreign Exchange

Sydney	+800 9295 1100
Melbourne	+800 842 3301
Wellington	+800 64 642 222
London	+800 747 4615
New York	+1 800 125 602
Singapore	+(65) 338 0019

Fixed Interest/Derivatives

Sydney	+(61 2) 9295 1166
Melbourne	+(61 3) 9277 3321
Wellington	+800 64 644 464
London	+(44 20) 7796 4761
New York	+1877 377 5480
Singapore	+(65) 338 1789

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.