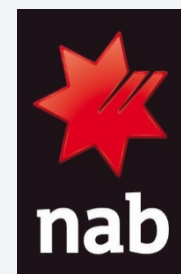


CONFIDENCE FALLS ON VIRUS FEARS

NAB Australian Economics



Key messages: The June survey was conducted through the period of rising cases in NSW and the early part of the subsequent lockdowns both there and in other states. Unsurprisingly, business confidence has taken a hit. This was particularly evident in NSW and Qld but confidence was generally softer elsewhere. Rec & personal services, which bears the brunt of social distancing and lockdowns, also took a large hit to confidence and is back in negative territory. That said, overall confidence remains around twice its long-run average after strengthening in early 2021. Business conditions also saw a sharp fall in the month, driven by a weaker read for Victoria. This likely reflects the impact of the lockdown that started in late May which was eased in a series of steps over June. Conditions generally remain elevated across the states despite the broad-based weakening in the month. Overall, the survey points to a solid outcome in the June quarter for economic activity – and continues to reflect the support of both fiscal and monetary policy. The experience of lockdowns to date, is that there is a fairly rapid rebound in activity as restrictions are removed – and with most survey indicators still at high levels, the hope is that there is no material easing in hiring and investment intentions which have been critical to the recovery. However, as the economy passes through the rebound phase and into a new period of growth, we would expect some normalisation across the survey variables. We will continue to watch both capacity utilisation and forward orders, which pulled back in the month but are still elevated, alongside confidence and conditions as the economy again enters a period of heightened uncertainty.

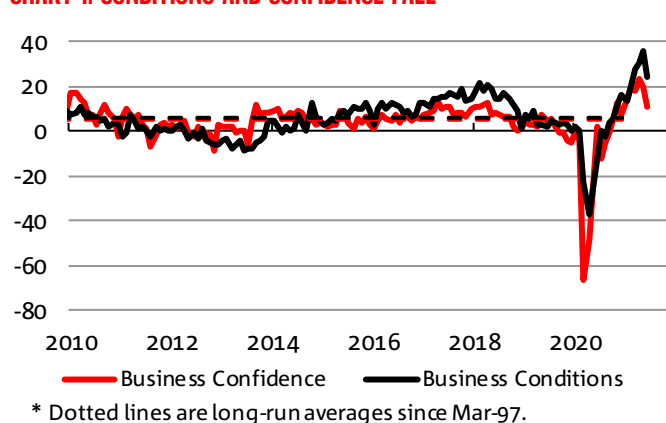
HIGHLIGHTS

- **How confident are businesses?** Confidence fell 9pts to +11 index points – but remains above average.
- **How did business conditions fare?** Conditions declined 12pts to +24 index points – from last month’s record high.
- **What components contributed to the result?** The fall in conditions was driven by a decrease in each subcomponent. Trading fell 10pts to +25 index points, profitability fell 14pts to +25 index points and the employment index pulled back 8pts to +17 index points. Despite the falls in the month each component remains elevated.
- **What is the survey signalling for jobs growth?** The pullback in the months signals a slowing in the pace of hiring at face value but remains well above average – pointing to further ongoing gains in the labour market.
- **Which industries are driving conditions?** The decline was led by decreases in finance, business & property and mining – though a number of other industries saw solid declines as well. Transport & utilities was unchanged in the month.
- **Which industries are most confident?** Confidence fell in all industries except mining and manufacturing. Recreation & personal saw a very large 27pt decline and is now back in negative territory, with all other industries remaining positive. Wholesale, retail and construction saw solid declines of 8-14 pts while finance, business & property fell 6pts.
- **Where are we seeing the best conditions by state?** Conditions declined in all states except WA. Vic saw an outsized decline of 18pts while NSW, QLD and SA saw declines of 3-6 pts. Tas declined by 16pts in the month.
- **What is confidence like across the states?** Confidence declined notably in NSW and Qld. WA and SA also declined, and Vic and Tas edged lower. Despite the weakness in the month, confidence remains tightly clustered between 17-20 index points across the states in trend terms.
- **Are leading indicators suggesting further improvement?** Forward orders came off the record highs reached last month but remains elevated, as does capacity utilisation which declined 1.1ppts in the month.
- **What does the survey suggest about inflation?** Inflation indicators picked up in the month, continuing their run of stronger reads.

TABLE 1: KEY STATISTICS

	Apr-21	May-21	Jun-21
Net balance			
Business confidence	24	20	11
Business conditions	30	36	24
Trading	38	45	35
Profitability	32	39	25
Employment	21	25	17
Forward orders	25	24	15
Stocks	7	7	9
Exports	-1	1	-1
% change at quarterly rate			
Labour costs	1.6	1.7	1.9
Purchase costs	1.5	1.4	2.1
Final products prices	0.9	1.0	1.5
Retail prices	0.9	1.0	2.1
Per cent			
Capacity utilisation rate	85.3	85.0	83.9

CHART 1: CONDITIONS AND CONFIDENCE FALL



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 18 to 30 June 2021, covering over 400 firms across the non-farm business sector.

Next release date: 10 August 2021.

Contacts: Gareth Spence – Senior Economist, Alan Oster – Chief Economist

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NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

STATE IMPACTS OF A SYNCHRONISED LOCKDOWN

- This month's survey was conducted between 18 and 30 June. While NSW had not quite yet entered the first stage of the current lockdown in the early part of the survey period, the Sydney metropolitan area, as well as a number of other capital cities, had locked down by the end of the field work.
- Throughout the pandemic the business survey has reflected the significant impacts of lockdowns and rapid rebounds. This month is no different, with a significant hit to confidence driven by declines in NSW and QLD – but broad-based across the states with border closures and fears of further virus spread weighing.
- The very high starting point for business confidence means that despite a large hit in the month, confidence remains high at around twice its long-run average and generally elevated across the states. We have also observed consistent rebounds in confidence following periods of brief lockdowns over the past year.
- The decline in confidence in the month was led by declines in NSW and Queensland, and to a lesser extent WA. Confidence was also softer across the other states likely reflecting the uncertainty of escalating border closures.
- In the month, the decline in conditions was driven by a softening in Vic reflecting the lockdown which was eased in a series of steps over the month. The decline in Vic business conditions was led by a softening in the trading and profitability sub-components which had been at very high levels in the previous month, though employment also pulled back. Tasmania, which can be volatile in the survey, also fell sharply.
- That said, conditions softened in all other states except WA in the month. This may reflect the impact of higher uncertainty over the progression of current lockdowns, including the impact of state borders again closing. To date, through the pandemic we have seen confidence and conditions rebound following periods of brief lockdowns – however, we do expect growth to normalise from here which could see both confidence and conditions do the same.
- The strength in confidence and conditions across states and industries in recent months, alongside healthy cash flow, has seen capex rebound strongly. Expectations in both official ABS data and the NAB Quarterly Business Survey show that investment plans have more than recovered from the hit seen at the peak of the pandemic.
- The pull back in capacity utilisation and forward orders in the month demonstrates the risks of virus spread. While capex and employment also pulled back, they remain elevated.
- For now, confidence and conditions generally remain elevated across the states and industries. Given past experiences of a rapid rebound from lockdowns, the hope is that both investment and hiring by businesses continues and becomes a key driver of the economy as public sector support is gradually wound back.

CHART 2: CONDITIONS BY STATE (NET BAL., SA)

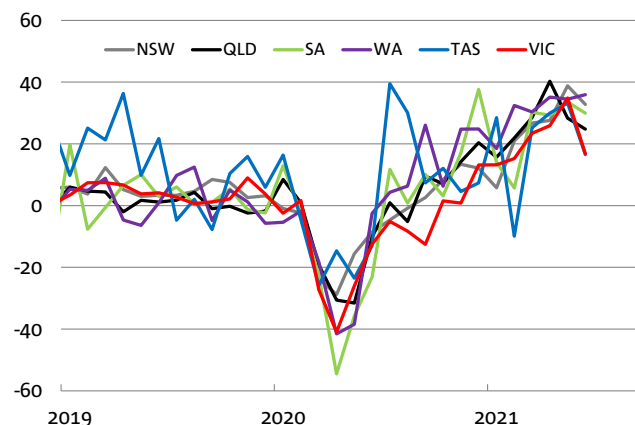


CHART 3: CONFIDENCE AND CONDITIONS BY INDUSTRY (NET BAL., SA)

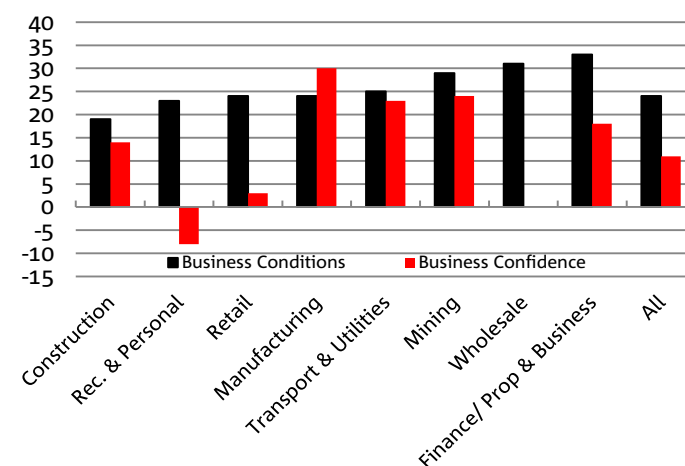
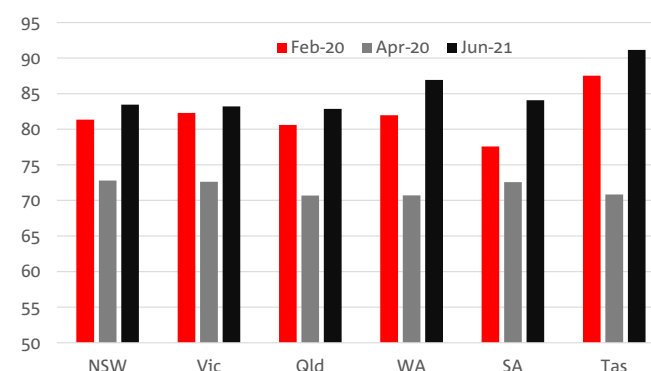


CHART 4: CAPACITY UTILISATION BY STATE (% SA)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

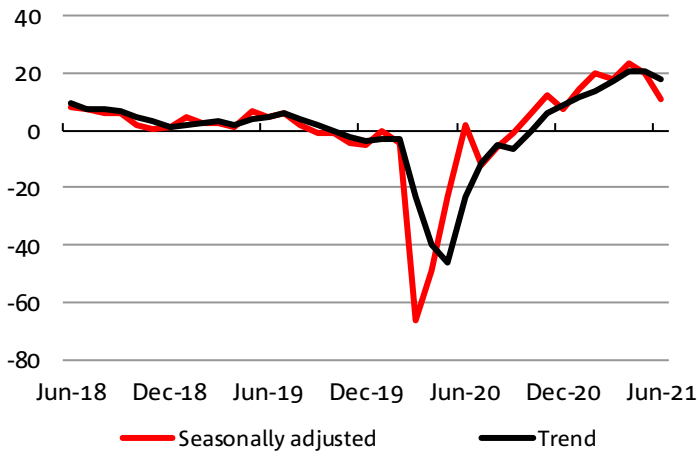


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

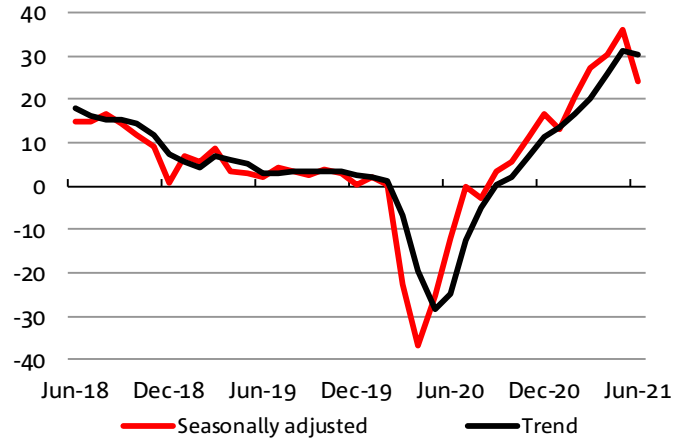


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

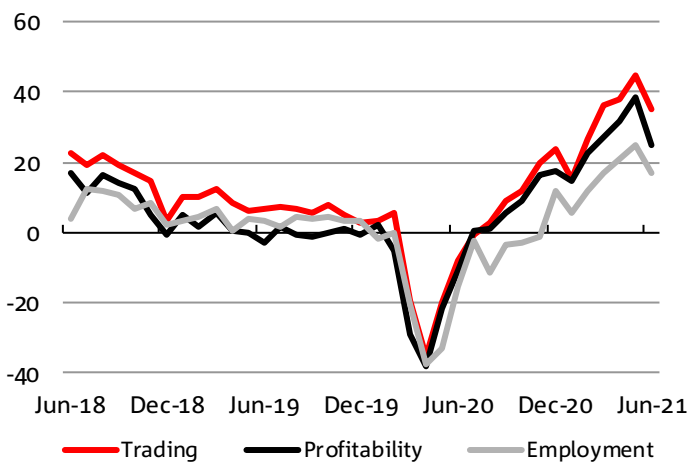


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

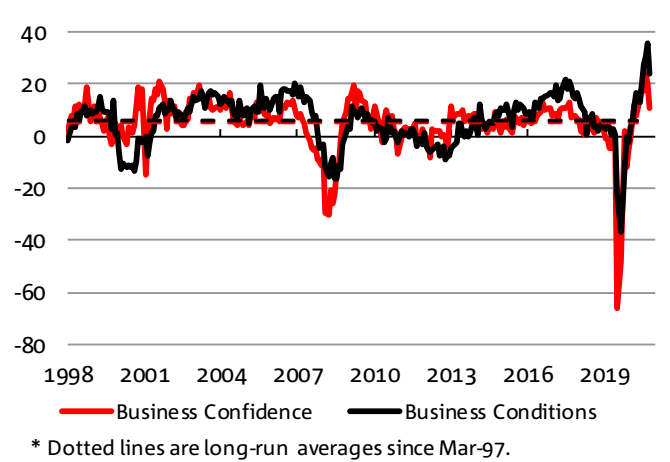


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

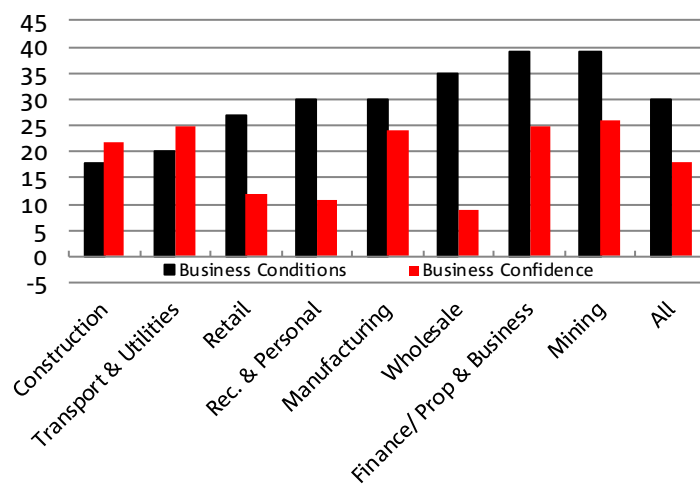
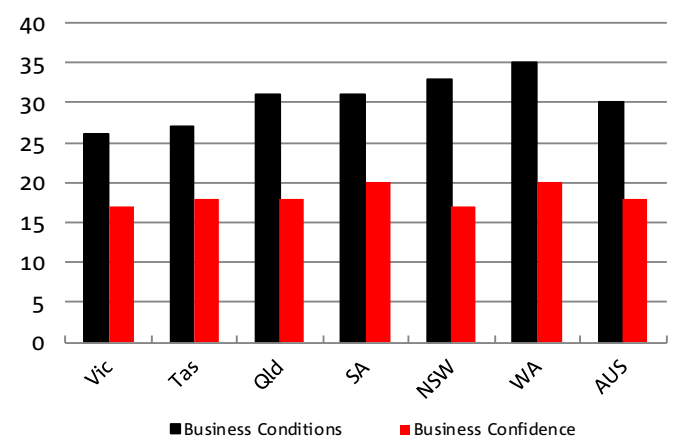


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

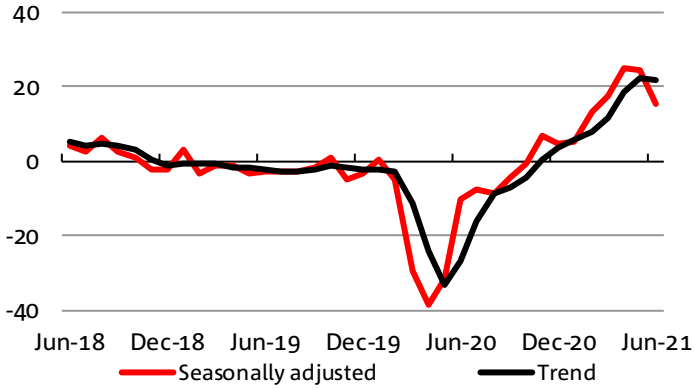


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

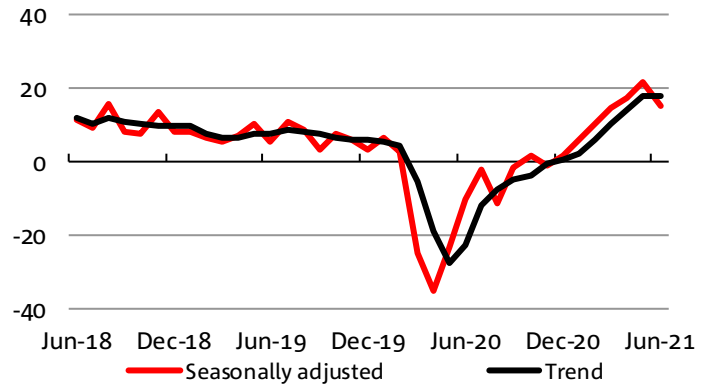


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

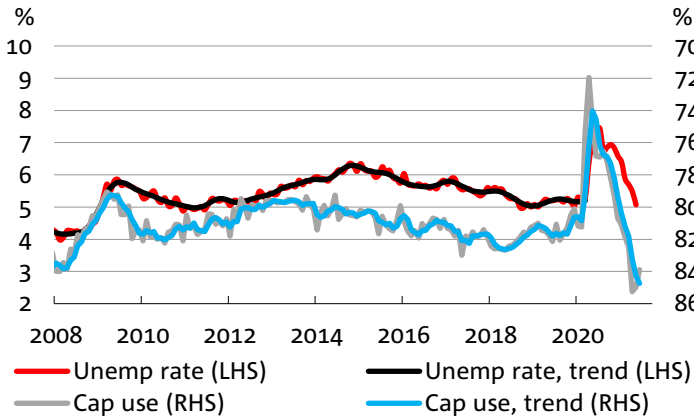


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

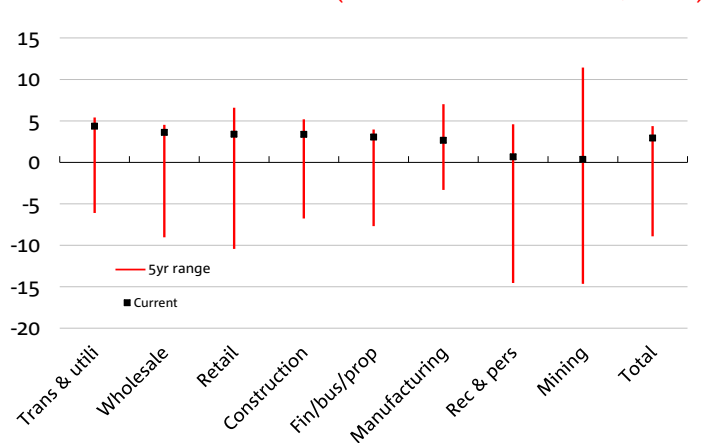


CHART 15: STOCKS (NET BALANCE)

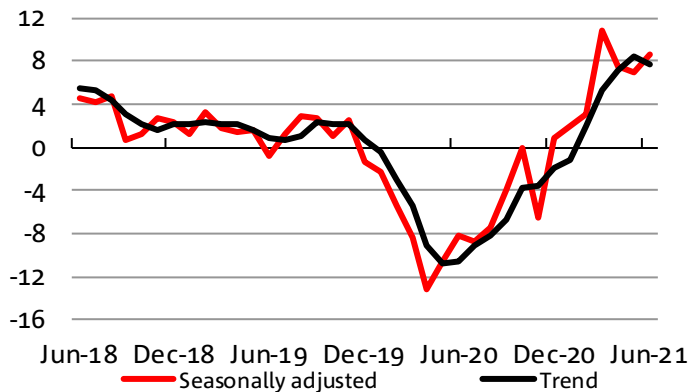


CHART 16: CASH FLOW (NET BALANCE)

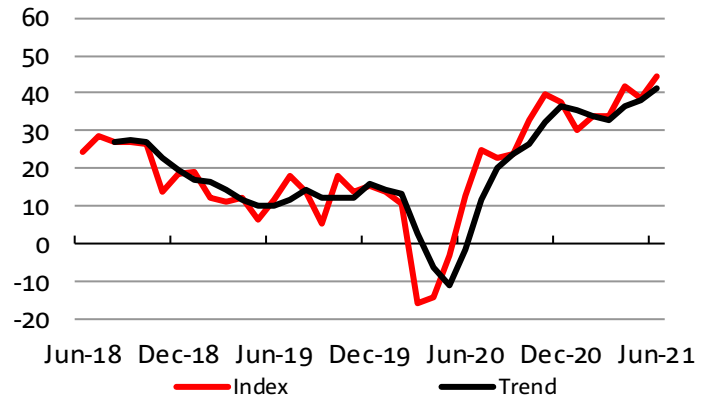


CHART 17: EXPORTS (NET BALANCE)

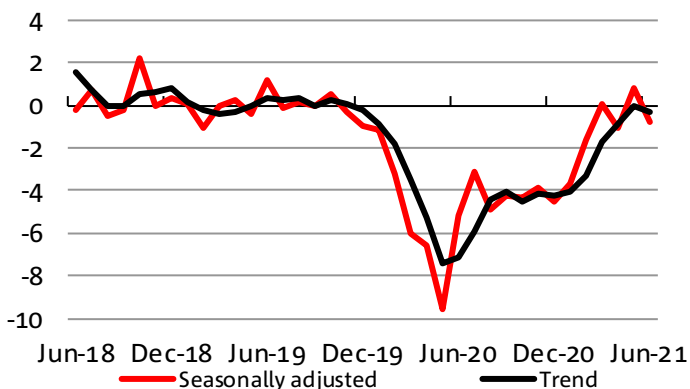
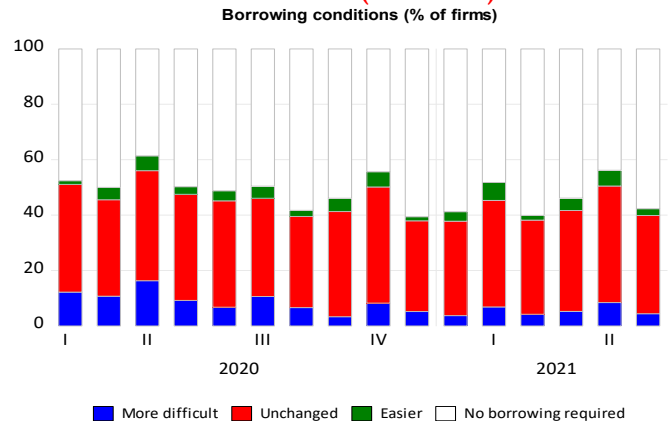


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 19: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

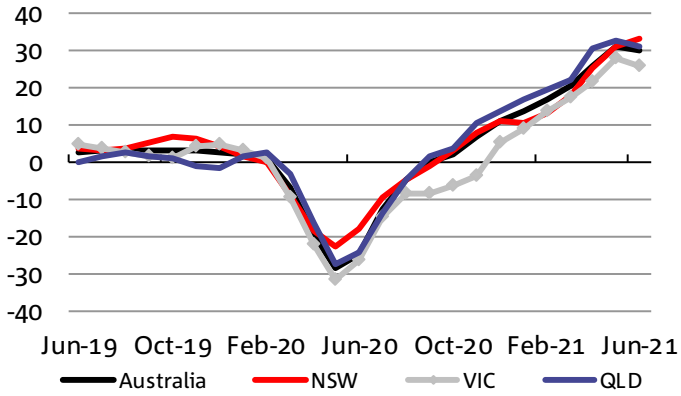


CHART 20: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

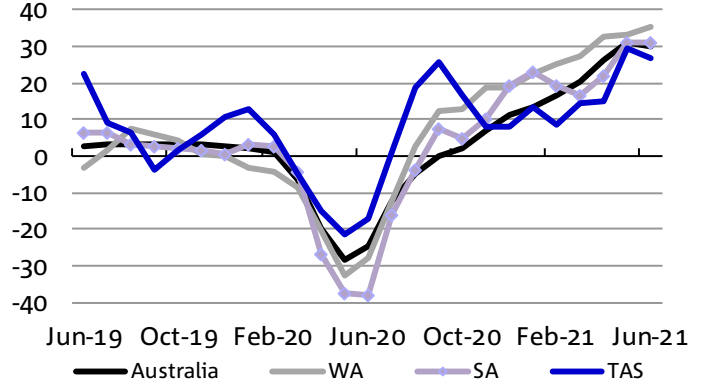


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

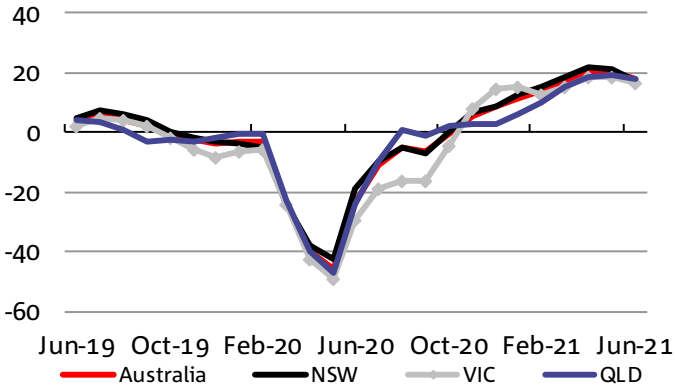


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

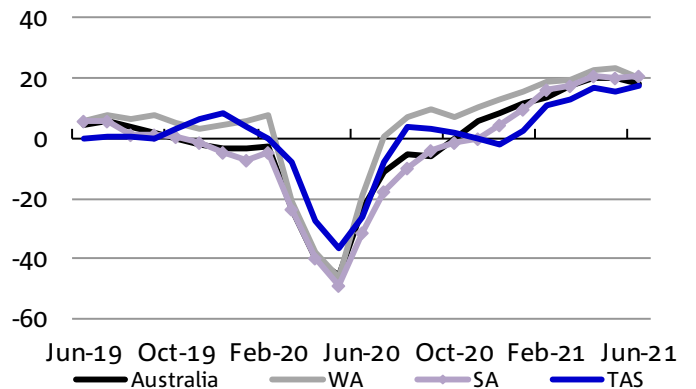


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

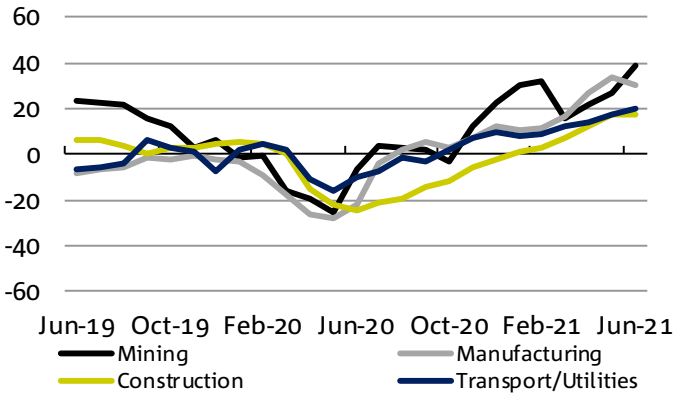


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

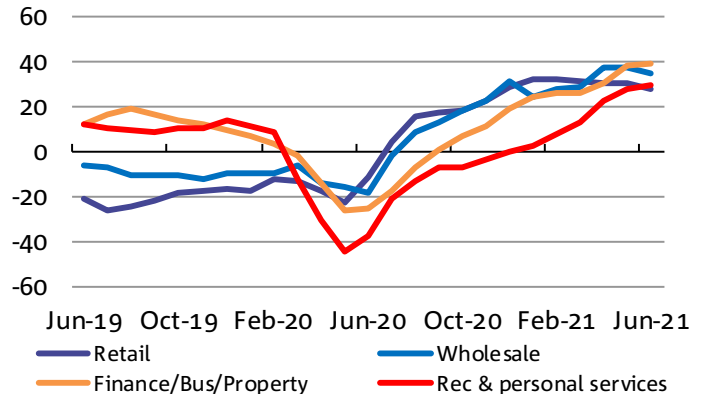


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

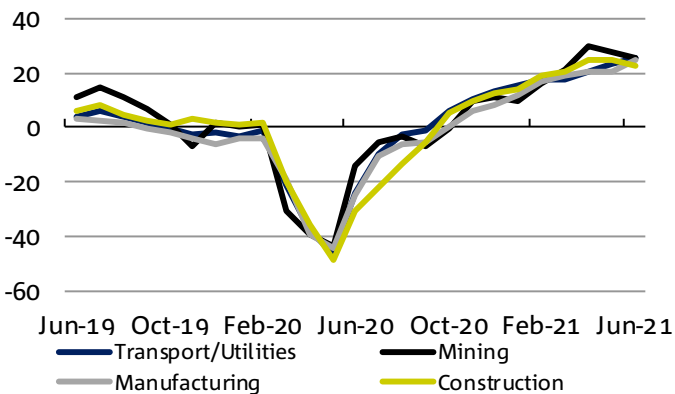
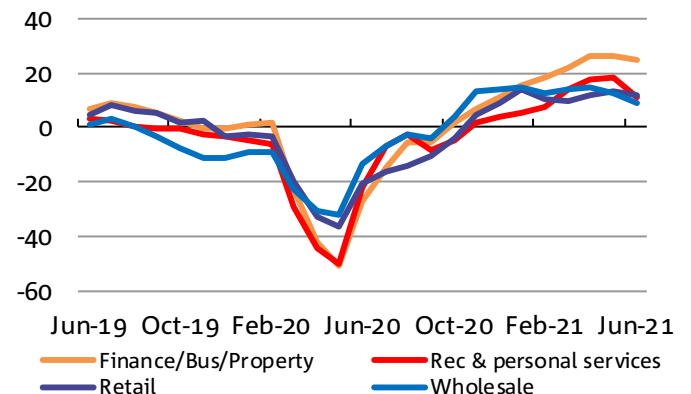


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

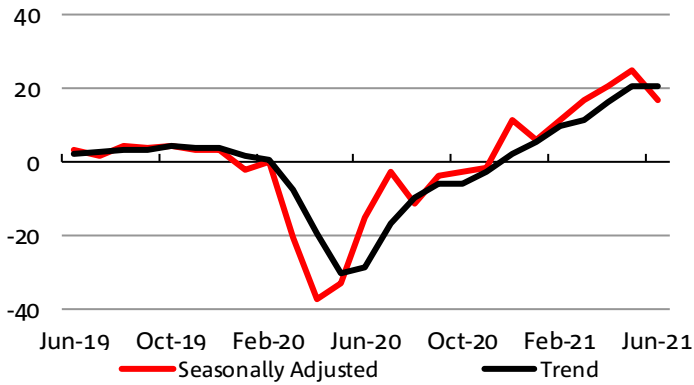


CHART 28: EMPLOYMENT (NAB VS ABS)

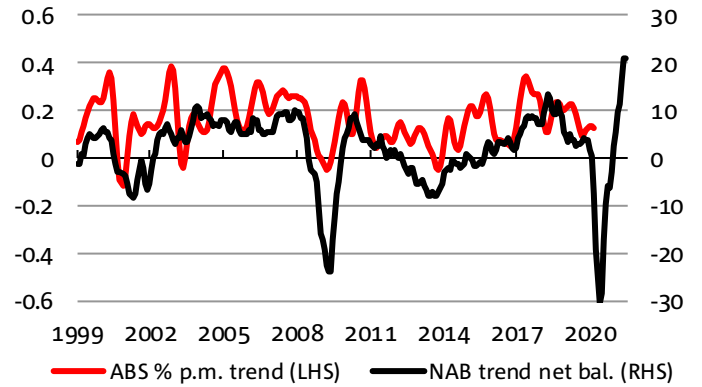


CHART 29: EMPLOYMENT BY INDUSTRY

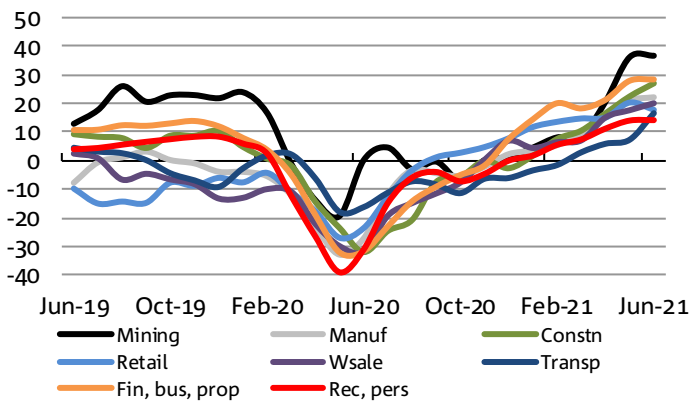


CHART 30: LABOUR COSTS GROWTH

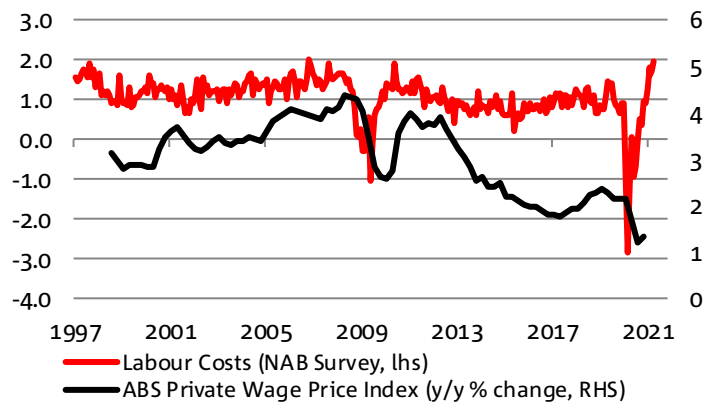


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

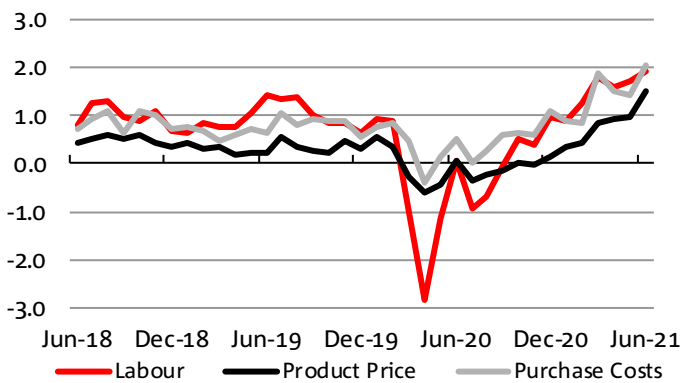
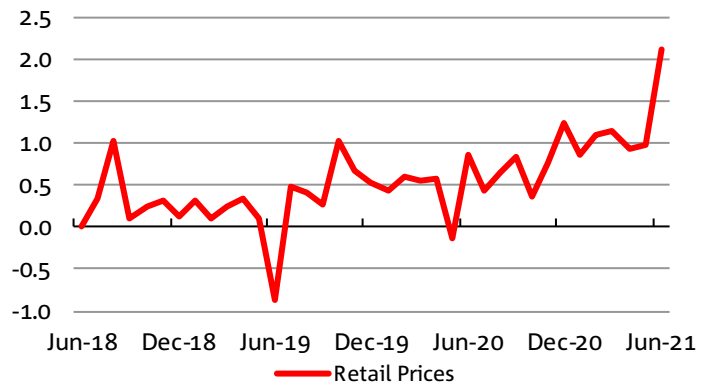


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



CONTACTS

Gareth Spence, Senior Economist

gareth.spence@nab.com.au

+61 0 436 606 175

Alan Oster, Group Chief Economist

Alan.Oster@nab.com.au

+61 0 414 444 652

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APPENDIX: LIST OF SERIES AVAILABLE TO SUBSCRIBERS[^]

MONTHLY BUSINESS SURVEY*

Business Confidence	Net balance
Business Conditions	Net balance
Trading Conditions	Net balance
Profitability	Net balance
Employment	Net balance
Forward Orders	Net balance
Stocks	Net balance
Exports	Net balance
Capital Expenditure (Capex)	Net balance
Cash Flow	Net balance
Labour Costs	% change at quarterly rate
Purchase Costs	% change at quarterly rate
Final Prices	% change at quarterly rate
Capacity Utilisation	Per cent
Borrowing Demand & Conditions	%; net balance

All series available on an industry basis for:

Mining
Manufacturing
Construction
Retail trade
Wholesale trade
Transport / Utilities
Finance / Property / Business Services
Recreation / Personal Services

All available on a state basis for:

New South Wales
Victoria
Queensland
WA
SA/NT
Tasmania

*All data available in original, seasonally adjusted and trend terms.

[^]Subscribers also receive a copy of the Subscriber details publication which contains a variety of extra charts and tables.

QUARTERLY BUSINESS SURVEY*

Business Confidence
Business Conditions (current, next 3 mth, next 12 mth)
Trading conditions (current, next 3 mth, next 12 mth)
Profitability (current, next 3 mth, next 12 mth)
Employment (current, next 3 mth, next 12 mth)
Forward orders (current, next 3 mth)
Stocks (current, next 3 mth)
Export orders (current, next 3 mth)
Capital expenditure (current, next 3 mth, next 12 mth, fiscal year)
Required rate of return on investment
Cash flow
Labour costs (current, next 3 mth)
Purchase costs (current, next 3 mth)
Final prices (current, next 3 mth)
Capacity Utilisation
Borrowing index (current, next 3 mth)

Borrowing demand (current, next 3 mth)

Constraints on output (demand, labour, materials, premises & plant, finance/working capital)

Constraints on profit (capital, demand, high AUD, low AUD, interest rates, labour, tax, wages, energy costs, other)
Constraint on employment (demand, confidence, cashflow, suitable labour, high wages, government policy, labour not at full capacity, other, don't know)

All series available on an industry basis for:

Mining (sub-groups: Mining Extraction, Mining Services)
Manufacturing (sub-groups: food beverage & tobacco, textile clothing footwear & leather, wood & paper product, printing publishing & recorded media, petroleum coal chemical & associated products, non-metallic mineral product, metal product, machinery & equipment, other)
Construction (sub-groups: Residential Building, Non-residential Building, Other Construction, Construction Services)
Retail trade (sub-groups: Food, Personal & Household Goods, Motor Vehicle Retailing & Services, Other Retail)
Wholesale trade
Transport / Utilities
Finance / Property / Business Services (sub-groups: Finance, Insurance, Services to Finance & Insurance, Property Services, Business Services)
Recreation / Personal Services (Sub-groups: Motion picture, Radio & Television Services, Libraries Museums & the Arts), Sports & Recreation, Personal Services, Accommodation Cafes & Restaurants, Health Services, Education, Other Services)

All series available on a state basis for:

New South Wales
Victoria
Queensland,
WA
SA/NT
Tasmania

*Data available in original, seasonally adjusted and trend terms.

Margins (current, next 3 mth)
Overheads (current, next 3 mth)
Productivity growth
Number of employees
Hours worked
Gross Sales
Output/sales growth (current fiscal year)
Average earnings (current fiscal year)

Short term interest rate
Exporters hedged FX exposure (%)
Importers hedged FX exposure (%)
Months hedged (exporters)
Months hedged (importers)
Favourable hedge position (% of exporters)
Favourable hedge position (% of importers)
Affected vs not affected by AUD
Response to AUD (downsized, reduced, overheads, hedging, import substitution, focus on domestic market, other, don't know)
Driver of trading conditions (demand, wages/jobs, house prices, rates, exchange rate, tax/govt policy, seasonal, finance/working capital, company specific, other)
What will improve confidence (lower rates, more suitable labour, easier funding, government policy, higher demand, higher AUD, lower AUD, easier compliance, other)