EMBARGOED UNTIL: 11:30AM AEST, 22 JULY 2021

NAB QUARTERLY BUSINESS SURVEY 2021 Q2

CONDITIONS AT A RECORD HIGH IN Q2

NAB Australian Economics

Business conditions increased for the fourth consecutive quarter in Q2, reaching a record high level and highlighting the speed of the recovery from last year's recession. All components of business conditions – profitability, trading and employment – posted strong gains. In contrast, there was a small decline in business confidence, although it remains well above average. The fall in confidence possibly reflects the Victoria lockdown that started during the survey period (in late May) as well as, with recovery well advanced, that growth was likely to move back down to more normal levels. Moreover, survey leading indicators also generally improved and are mostly at elevated levels. This includes measures of employment and capex expectations and with capacity utilisation also at a record high this points to continued strength in business investment and hiring. With the survey only partially reflecting the late May Victoria lockdown, it suggests that the economy had considerable momentum ahead of recent and current lockdowns.

HIGHLIGHTS

- **Business conditions** (an average of trading conditions/sales, profitability, and employment) rose strongly to +32 index points, a record high; the sub-components - profitability, trading conditions and employment – also lifted to their highest recorded levels. Most mainland states saw strong gains, particularly NSW, and while WA saw the smallest rise its conditions were already elevated and are still the strongest of any state. The increase in conditions in Victoria came despite the lockdown in the second half of the survey period, though conditions did decline in the June monthly Business Survey. By industry, all industries saw conditions improve; wholesale and finance, business & property reported the strongest conditions, while transport and utilities the weakest (but still well above average).
- **Business confidence** declined to +17 index points (from +19). All industries experienced a decline, but the largest falls came in wholesale and retail. While confidence in retail was the lowest confidence of any industry, it remained above average (as in all other industries). By state, confidence increased in WA, Tas and Qld, but declined elsewhere, including Victoria, likely influenced by the lockdown that started during the survey period. Victoria had the lowest confidence of any state (+12), with most other states around +17-208pts except for WA where confidence was the highest (+26).
- **Leading indicators** generally improved again in Q1. Forward orders lifted notably and now sit near survey highs, and expectations for orders in 3 months were unchanged at an elevated level. Indicators of future business investment were also positive - capacity utilisation spiked to its highest recorded level, and capex expectations 3mths and 12mths out increased and are at high levels. Expectations for employment, profits and trading conditions in 3 and 12 months also improved (apart from profits at the 12-month horizon) some to record highs.
- **Labour indicators** showed considerable strength. The employment index jumped 10pts to a record high. Similarly, expected employment at the 3 and 12-month horizons rose further, also reaching new highs. However, businesses are finding it harder to find employees – with reported difficulty of finding suitable labour resetting last quarter's record high.
- **Survey measures of inflation** are at their highest level in over a decade. Purchase costs, final product prices and retail price inflation, which dipped in early-to-mid 2020, have since accelerated and in Q2 reached their highest level since 2008 (final product prices, purchases costs) or 2009 (retail prices). Labour cost growth also rose – this can reflect employment gains but a special survey question on past and expected increases in wages also suggests some short-term wage pressure.
- All **construction industry sub-sectors** saw further gains in conditions and are well above average. Consistent with other indicators of residential investment, residential construction conditions were particularly strong.

TABLE 1: KEY QUARTERLY BUSINESS STATISTICS

	2020q4	2021q1	**2021q2**		2020q4	2021q1	**2021q2**
		Net balance				*Net balance*	
Business confidence	16	19	**17**	Trading	20	26	**38**
Business conditions				Profitability	15	22	**32**
Current	12	20	**32**	Employment	2	13	**23**
Next 3 months	20	28	**36**	Forward orders	8	14	**23**
Next 12 months	24	31	**33**	Stocks	-1	5	**11**
Capex plans (next 12)	31	34	**37**	Exports	-4	-1	**0**
	% change						
Labour costs	0.3	0.7	**1.2**	Retail prices (% change)	0.4	0.6	**0.8**
Purchase costs	0.4	0.6	**0.9**				
Final products prices	0.1	0.3	**0.6**	Capacity utilisation rate (%)	80.4	82.3	**85.0**

All data seasonally adjusted, except purchase costs and exports. This survey was conducted from 18 May to 10 June 2021, covering over 900 firms across the non-farm business sector.

Next release: 21 October 2021.

Contacts: Alan Oster – Chief Economist, Antony Kelly – Senior Economist

NAB QUARTERLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 1: BUSINESS CONDITIONS & CONFIDENCE (NET BALANCE S.A.)

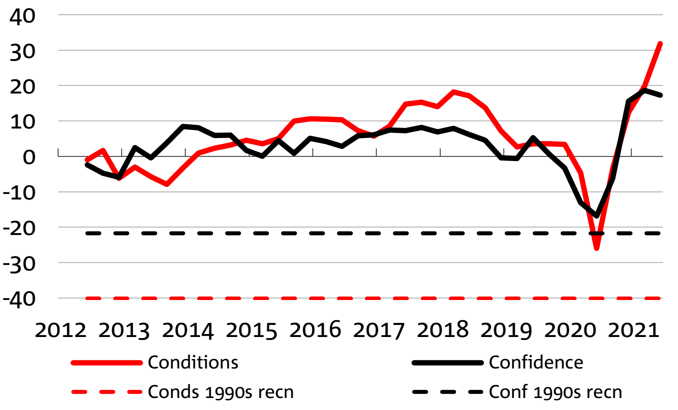
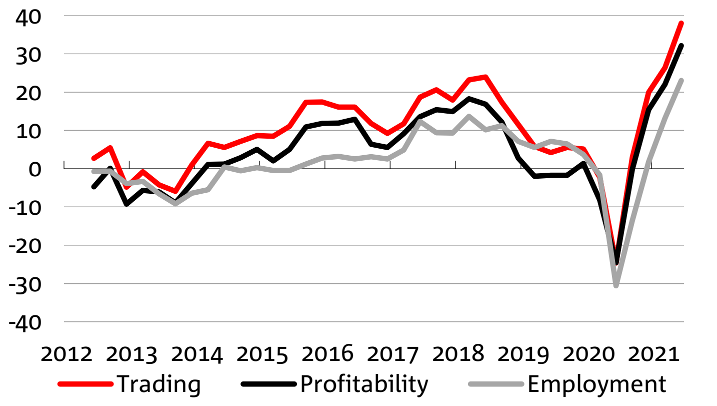


CHART 2: BUSINESS CONDITIONS COMPONENTS (NET BALANCE, S.A.)



DRIVERS OF BUSINESS CONFIDENCE

CHART 3: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE

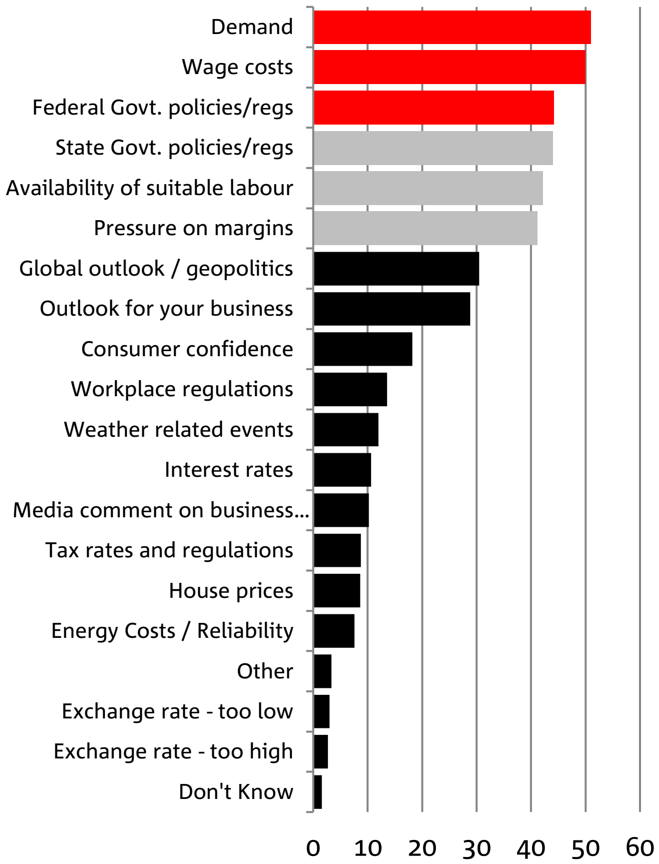


CHART 4: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – DETERIORATING CONDITIONS

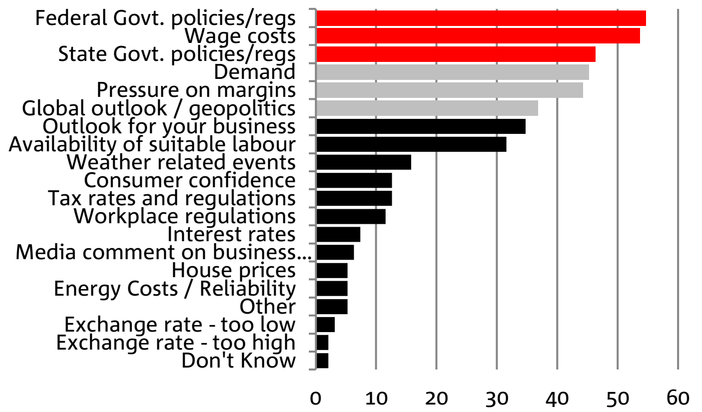
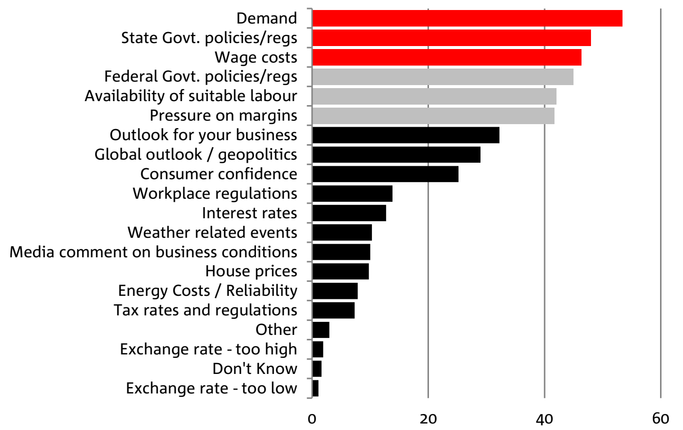


CHART 5: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – IMPROVING CONDITIONS



NAB QUARTERLY BUSINESS SURVEY – LEADING INDICATORS & INVESTMENT

CHART 6: BUSINESS CONDITIONS AND EXPECTATIONS (NET BALANCE)

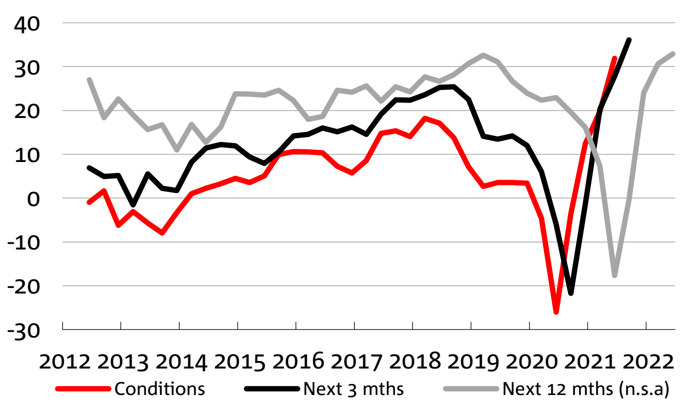


CHART 7: FORWARD ORDERS & EXPECTATIONS (NET BALANCE S.A.)

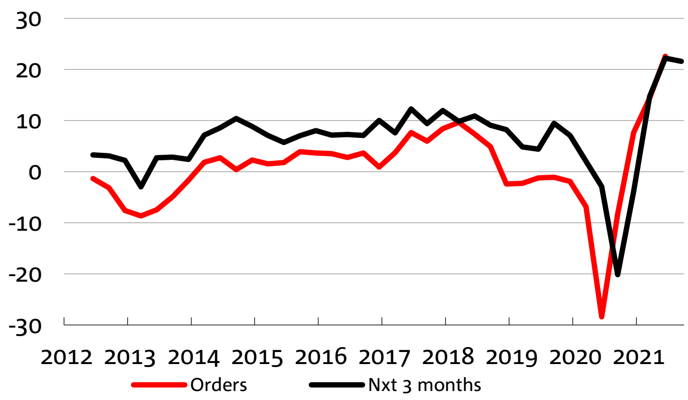


CHART 8 STOCKS (NET BALANCE S.A.)

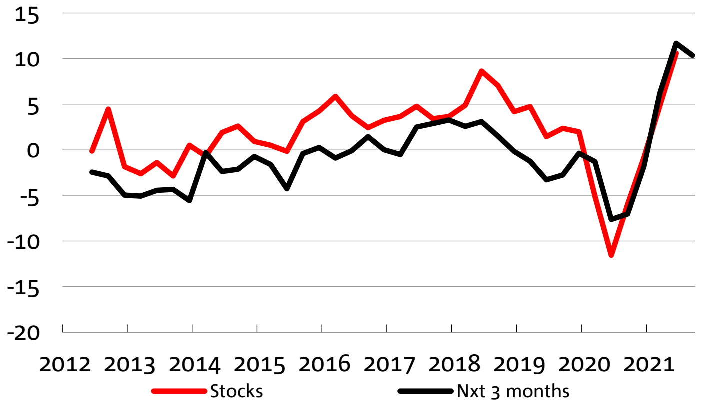


CHART 9: CAPACITY UTILISATION (PER CENT, S.A.)

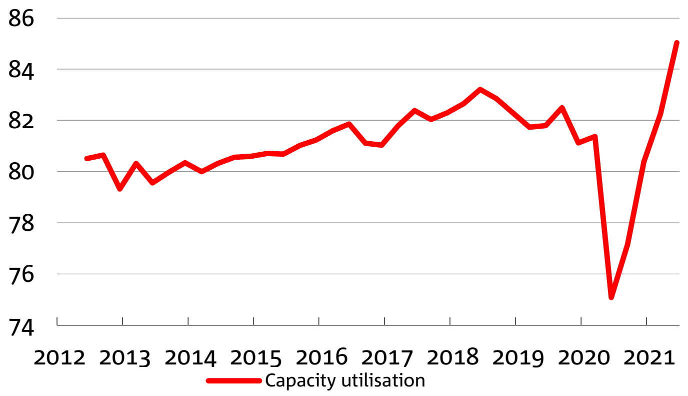


CHART 10: CAPACITY UTILISATION (PPT DEVIATION FROM LONG-RUN AVERAGE, 3 QTR MA)

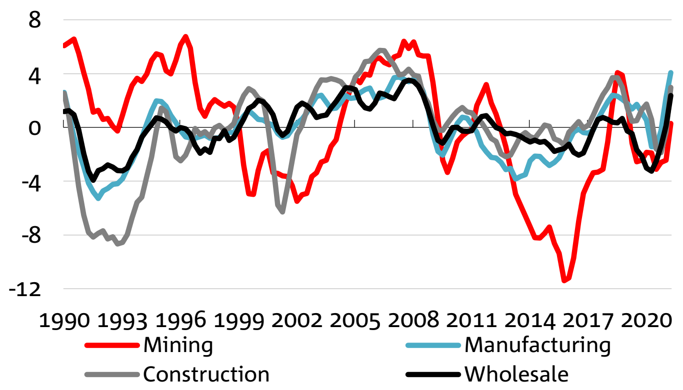
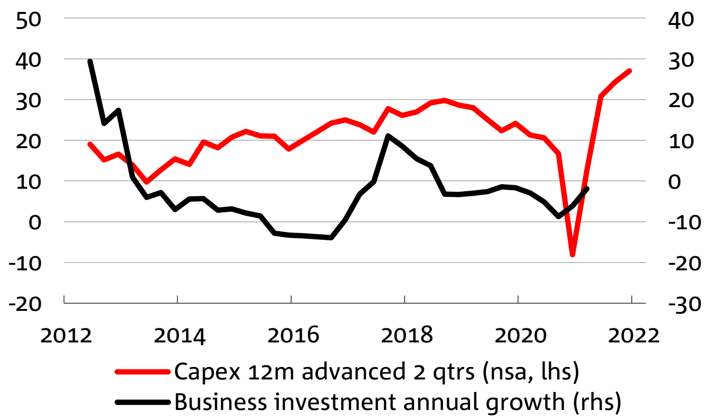


CHART 11: BUSINESS INVESTMENT & CAPEX PLANS



NAB QUARTERLY BUSINESS SURVEY – LABOUR MARKET

CHART 12: EMPLOYMENT & EXPECTATIONS (NET BALANCE)

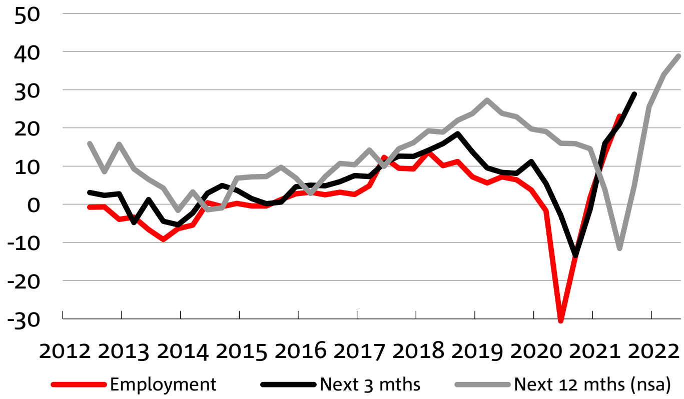


CHART 13: UNEMPLOYMENT RATE & LABOUR CONSTRAINTS

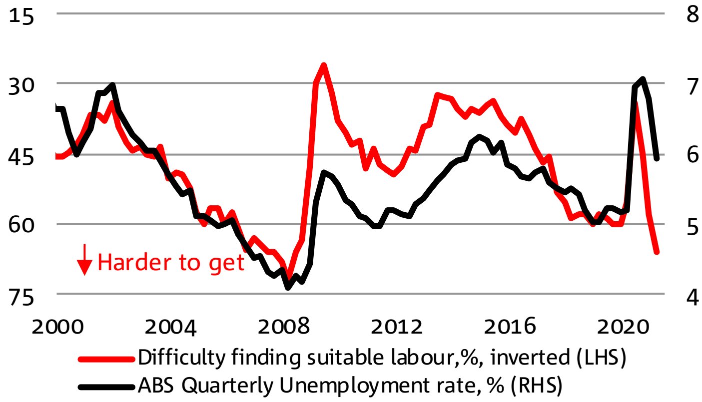


CHART 14: CHANGE IN AVERAGE HOURS WORKED (NSA)

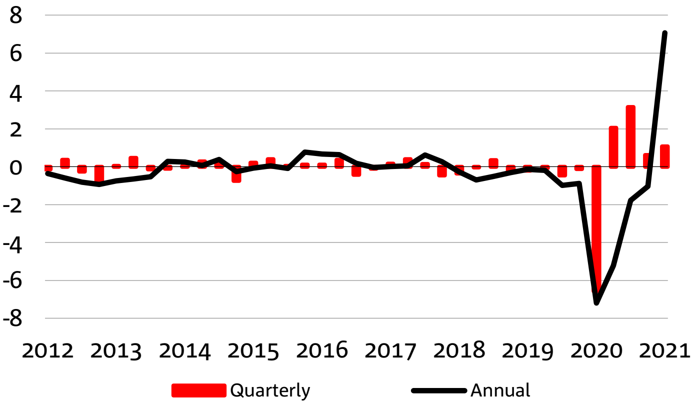


CHART 15: UNDERUTILISATION RATE & LABOUR CONSTRAINTS

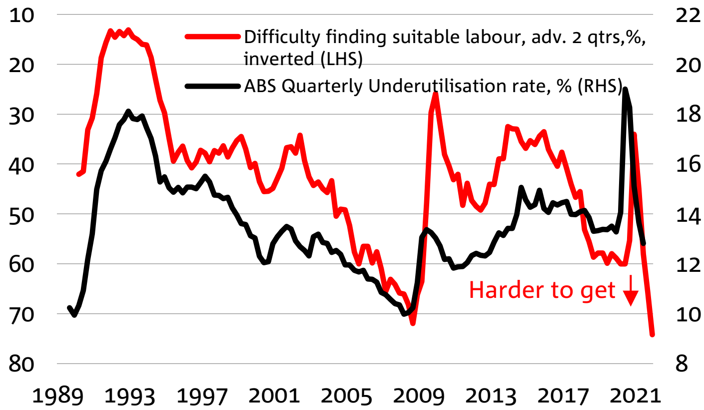


CHART 16: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)

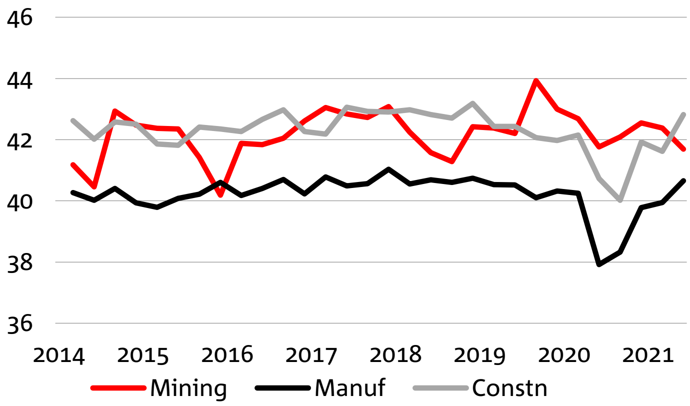


CHART 17: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)

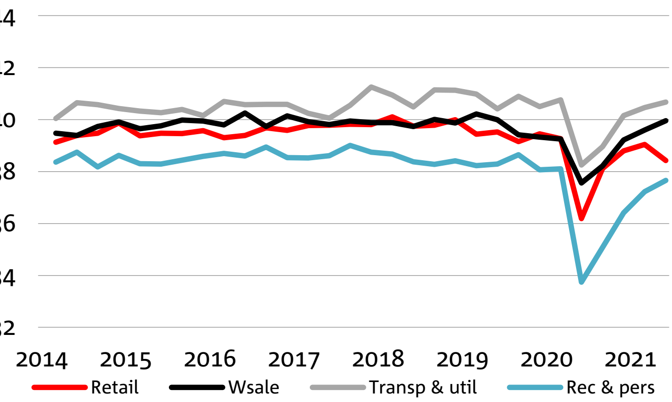
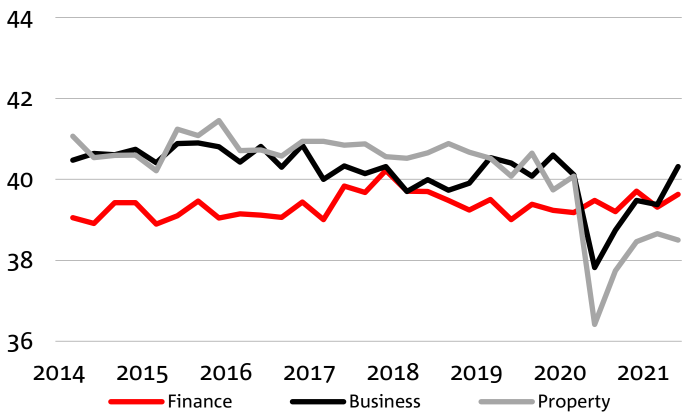


CHART 18: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)



NAB QUARTERLY BUSINESS SURVEY - MAJOR CONSTRAINTS ON FIRM OUTPUT

CHART 19: MAIN CONSTRAINTS ON FIRM OUTPUT

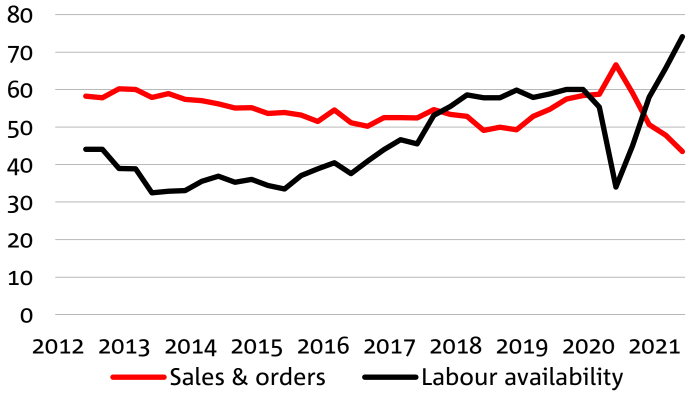
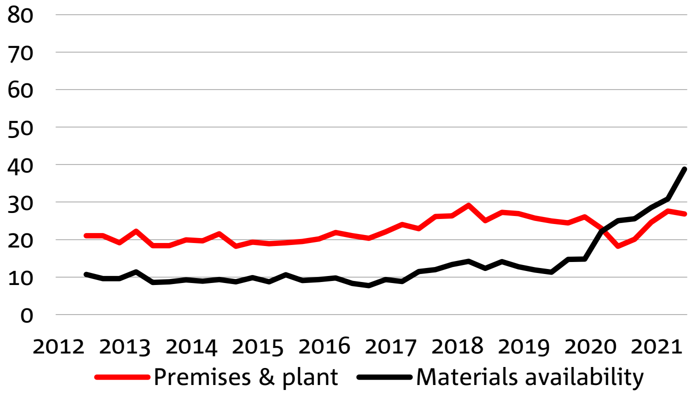


CHART 20: MAIN CONSTRAINTS ON FIRM OUTPUT



INFLATION PRESSURES

CHART 21: PRICES (% ANN, SA)

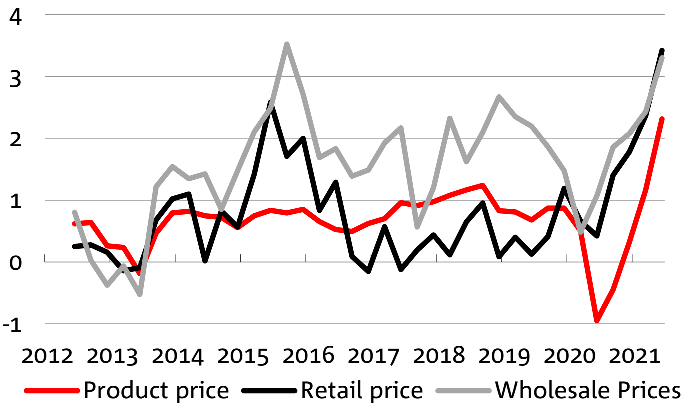
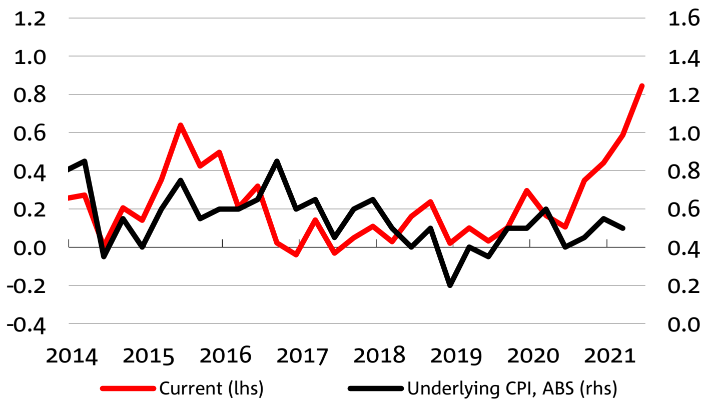


CHART 22: RETAIL PRICES (% P.Q.)



LABOUR COSTS (DETAILS)

CHART 23: LABOUR COSTS & COMPENSATION OF EMPLOYEES

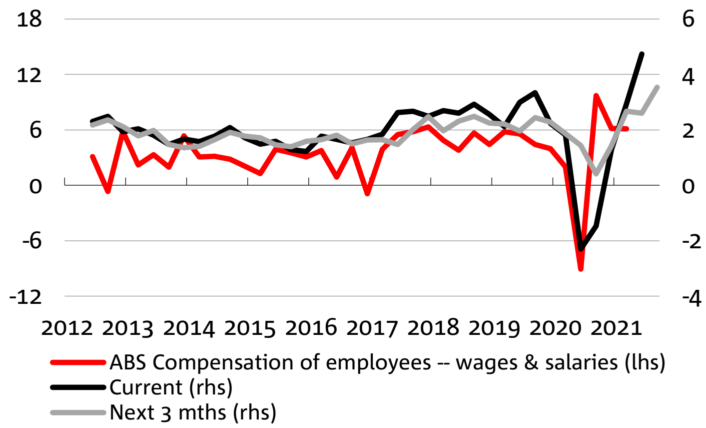
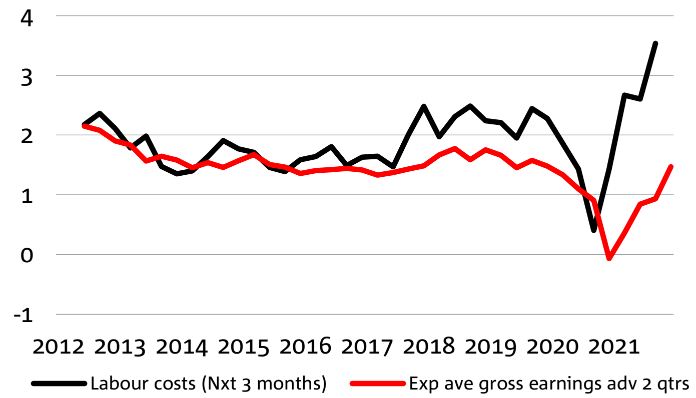


CHART 24: EXPECTED LABOUR COSTS (% ANN)



NAB QUARTERLY BUSINESS SURVEY – CONSTRUCTION INDUSTRY DETAILS

CHART 25: BUSINESS CONDITIONS BY INDUSTRY

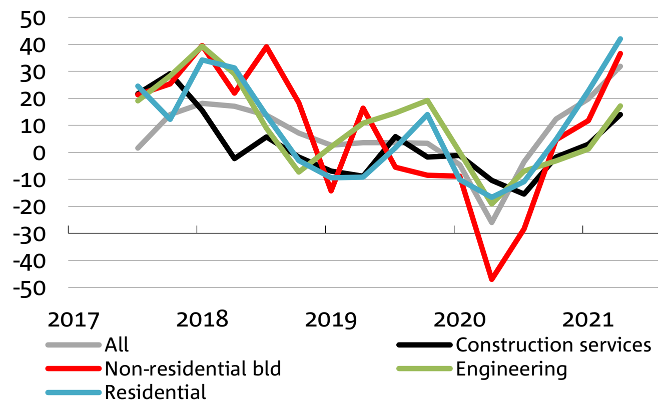


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY

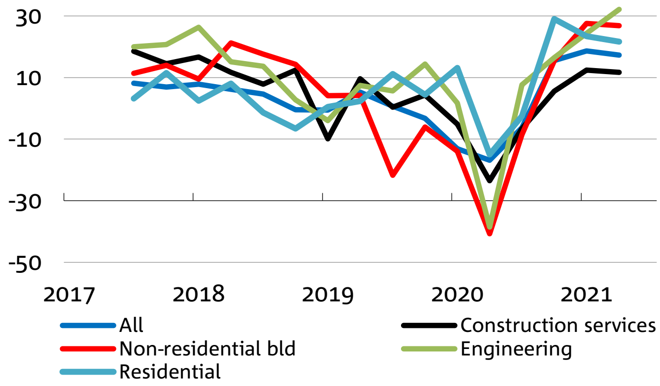


CHART 27: EMPLOYMENT CONDITIONS BY INDUSTRY

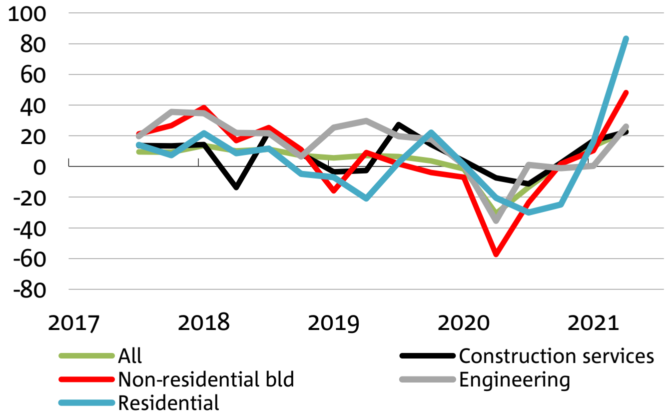
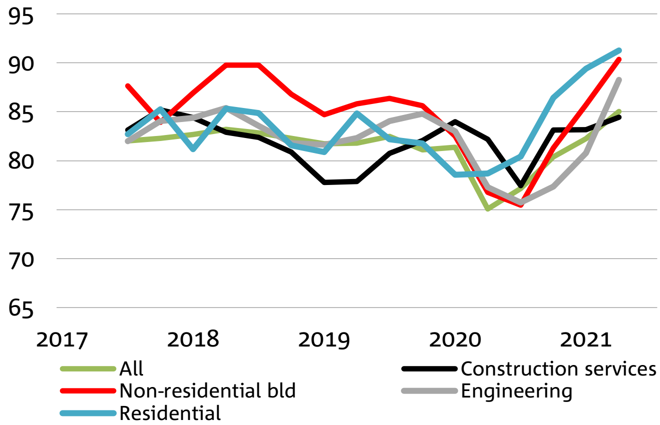


CHART 28: CAPACITY UTILISATION BY INDUSTRY



FINANCIAL MARKET EXPECTATIONS

- On average, surveyed businesses expect little change in short-term interest rates over the next 12 months; indeed, most respondents expect no change at all, and the average expected change is just 13bps. Since the previous survey, rate expectations have eased a little. NAB Economics expects that the cash rate will remain on hold (at 0.1%) at until early 2024, although there is some risk of an earlier (mid-to-late 2023) rate hike.
- The average expectation is for the AUD/USD exchange rate to be US78.18c in six months. This is not significantly different to the previous (Q1) survey but a little bit higher than the prevailing exchange rate at the time of the survey. While the exchange rate has since depreciated (US73.24c as at 20 July), NAB Economics expects the exchange rate to appreciate from here and to end 2021 at around US83c, before easing over 2022.

NAB QUARTERLY BUSINESS SURVEY – MORE DETAILS ON INDUSTRY

CHART 29: BUSINESS CONDITIONS BY INDUSTRY

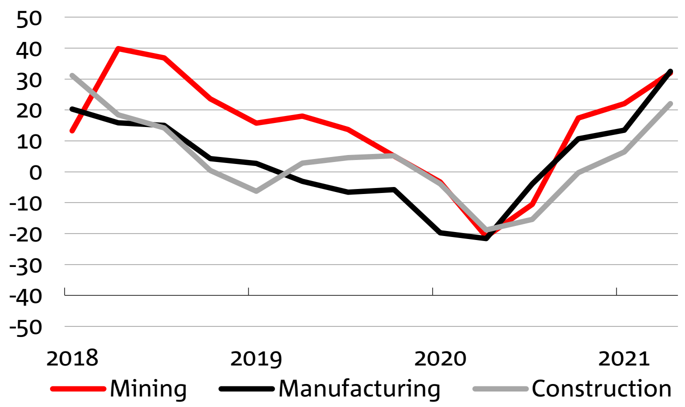


CHART 32: BUSINESS CONFIDENCE BY INDUSTRY

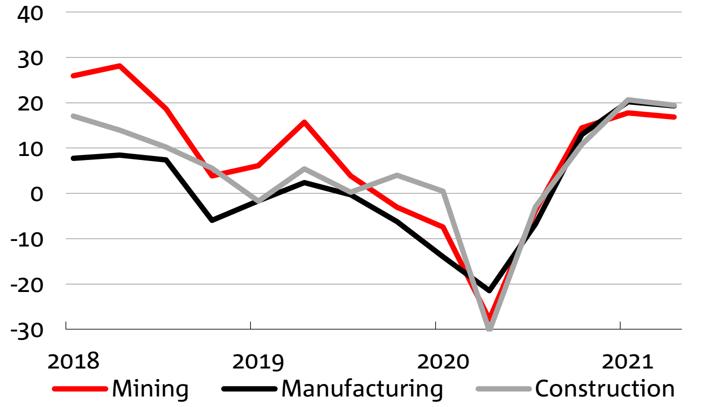


CHART 30: BUSINESS CONDITIONS BY INDUSTRY

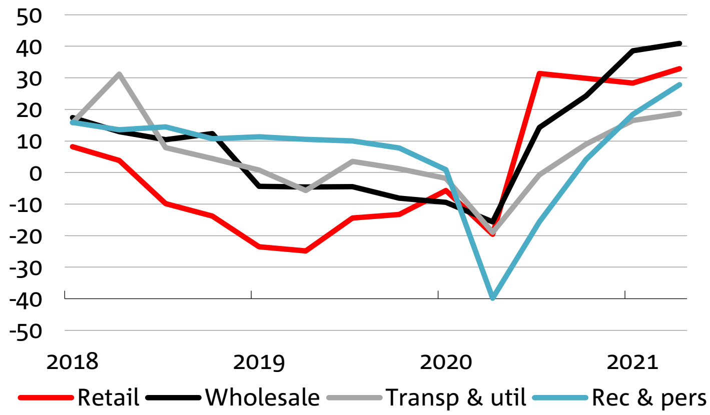


CHART 33: BUSINESS CONFIDENCE BY INDUSTRY

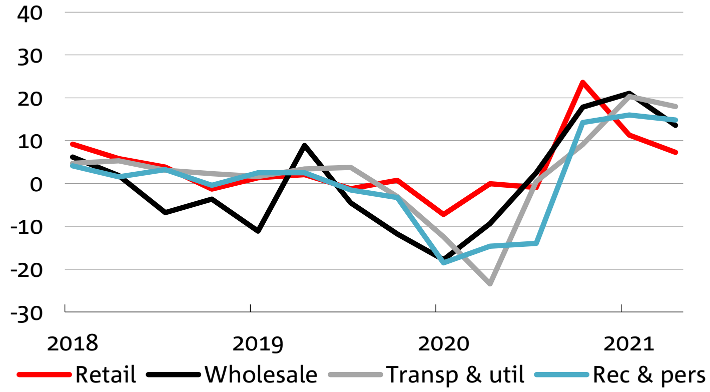


CHART 31: BUSINESS CONDITIONS BY INDUSTRY

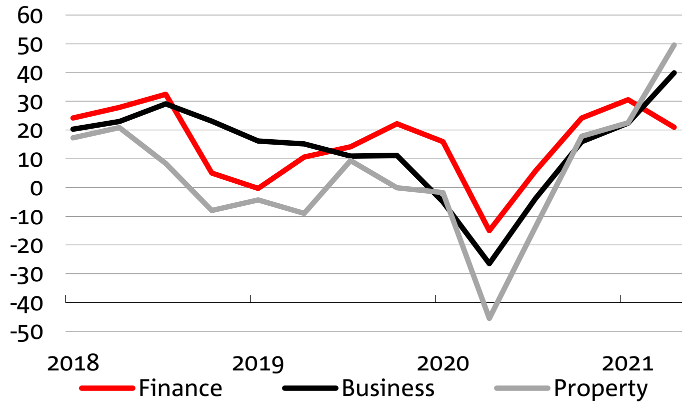
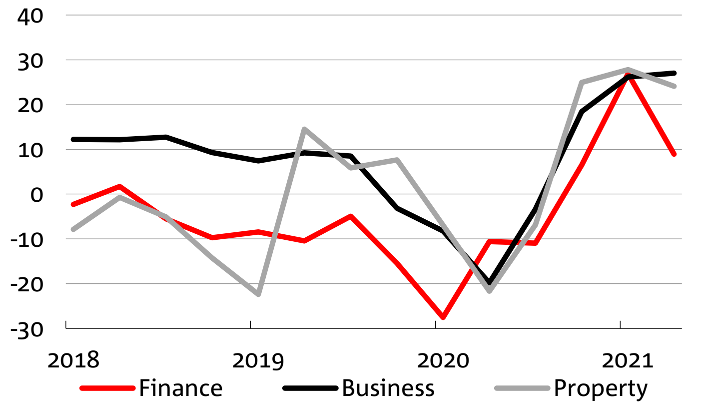


CHART 34: BUSINESS CONFIDENCE BY INDUSTRY



NAB QUARTERLY BUSINESS SURVEY – FURTHER DETAILS BY STATE

CHART 35: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

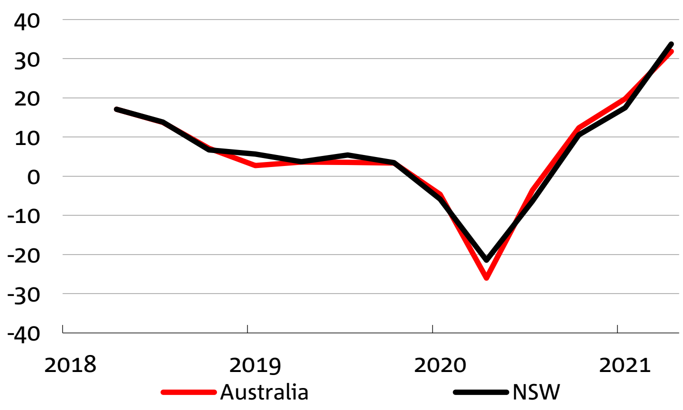


CHART 38: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A..)

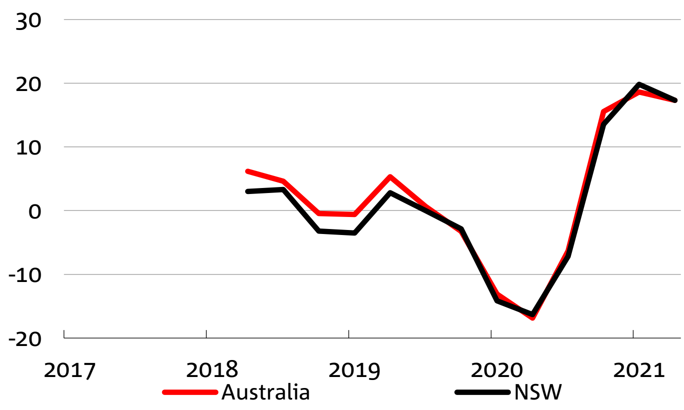


CHART 36: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

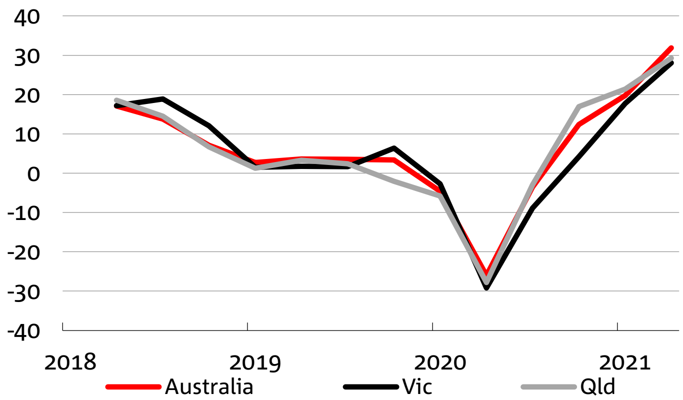


CHART 39: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A..)

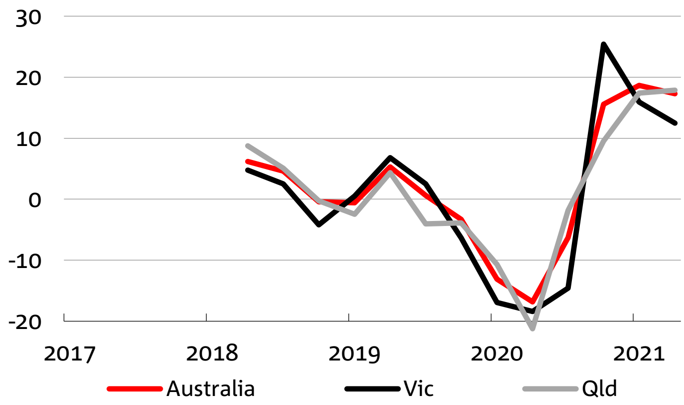


CHART 37: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

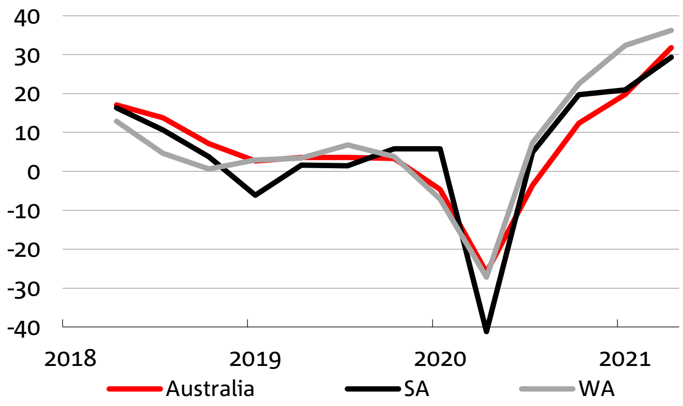
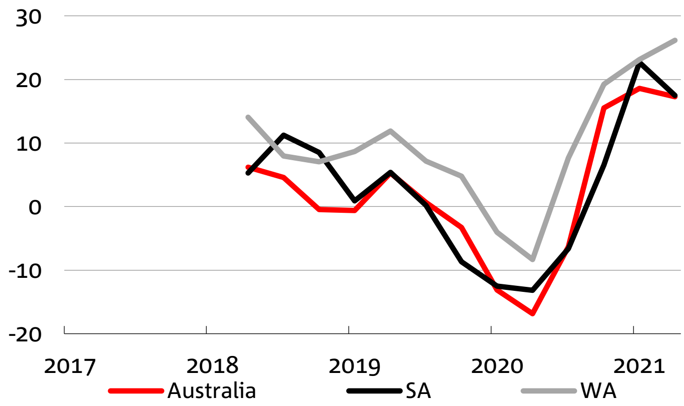


CHART 40: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A..)



NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX

	Quarterly					Monthly				
	2020q2	2020q3	2020q4	2021q1	**2021q2**	2021m2	2021m3	**2021m4**	**2021m5**	**2021m6**
Confidence	-17	-6	16	19	**17**	20	18	24	20	11
Conditions	-26	-4	12	20	**32**	20	27	30	36	24

	Quarterly					Monthly				
	2020q2	2020q3	2020q4	2021q1	**2021q2**	2021m2	2021m3	**2021m4**	**2021m5**	**2021m6**
Trading	-25	3	20	26	**38**	27	36	38	45	35
Profitability	-25	0	15	22	**32**	22	27	32	39	25
Employment	-31	-14	2	13	**23**	12	17	21	25	17

	Quarterly[(a)]					Monthly				
	2021q1	2021q2	2021q3	2022q1	**2022q2**	2021m2	2021m3	**2021m4**	**2021m5**	**2021m6**
Conditions	20	**32**	NA	NA	NA	20	27	30	36	24
Conds. next 3m	20	28	**36**	NA	NA					
Conds. nxt 12m	7	-18	0	31	**33**					
Orders	14	**23**	NA	NA	**NA**	13	17	25	24	15
Orders next 3m	15	22	**22**	NA	NA					

(a) Quarter to which expectation applies. Business conditions next 12 months not seasonally adjusted.

	Quarterly[(a)]					Monthly				
	2020q3	2020q4	2021q1	2021q2	**2021q3**	2021m2	2021m3	**2021m4**	**2021m5**	**2021m6**
Capacity utilis.	77.2	80.4	82.3	**85.0**	NA	81.8	82.5	85.3	85.0	83.9
Stocks current	-6	-1	5	**11**	NA	3	11	7	7	9
Stocks next 3m	-7	-2	6	12	**10**					

(a) Quarter to which expectation applies. All data are seasonally adjusted.

	2020q2	2021q1	**2021q2**
Constraints on output (% of firms)*			
Sales & orders	66.6	47.9	**43.5**
Labour	34.0	65.8	**74.2**
Premises & plant	18.2	27.6	**26.8**
Materials	25.1	30.9	**38.8**

** not s.a.*

	Quarterly[(a)]					Monthly				
	2021q1	2021q2	2021q3	2022q1	**2022q2**	2021m2	2021m3	**2021m4**	**2021m5**	**2021m6**
Empl current	13	**23**	NA	NA	NA	12	17	21	25	17
Empl next 3m	16	21	**29**	NA	NA					
Empl nxt 12m	4	-12	5	34	**39**					

(a) Quarter to which expectation applies. Employment conditions next 12 months not seasonally adjusted.

NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX – STATE TABLES

	Quarterly					*Monthly*				
	2020q2	2020q3	2020q4	2021q1	**2021q2**	2021m2	2021m3	**2021m4**	**2021m5**	**2021m6**
Business conditions										
NSW	-21	-6	11	18	**34**	21	27	28	39	33
VIC	-29	-9	4	18	**28**	15	23	26	35	17
QLD	-28	-3	17	21	**29**	22	29	40	28	25
SA	-41	5	20	21	**29**	6	30	29	34	30
WA	-27	7	22	32	**36**	32	30	35	34	36

	Quarterly					*Monthly*				
	2020q2	2020q3	2020q4	2021q1	**2021q2**	2021m2	2021m3	**2021m4**	**2021m5**	**2021m6**
Business confidence										
NSW	-16	-7	14	20	**17**	22	18	25	21	5
VIC	-18	-15	25	16	**12**	15	19	20	15	14
QLD	-21	-2	10	17	**18**	20	11	25	22	7
SA	-13	-7	7	23	**18**	22	17	24	21	17
WA	-8	8	19	23	**26**	21	24	24	22	14

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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*

The Quarterly NAB Business Survey provides a more in-depth probe into the conditions facing Australian business than the monthly survey, and also examines additional information about how firms perceive the outlook for their industries.

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)

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)

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.