

CONFIDENCE AND CONDITIONS TICK UP

NAB Australian Economics



Key messages: Both conditions and confidence saw a small improvement in the month, though the latter remains well into negative territory, reflecting a sharp deterioration in Victoria and more generally, the degree of uncertainty in the economy as lockdowns persist and the timing of a full re-opening remains unknown. That said, business conditions are still elevated - and rebounded in both NSW and SA in the month – and remain well above average in all states. While there has clearly been some deterioration in the survey from early 2021, the deterioration in confidence and conditions, as well as capacity utilisation has not been as severe as early 2020 despite the severity and duration of lockdowns in the two largest states. In addition, forward orders are back to being well above average and capex despite pulling back from the levels seen in early 2021 is around average. The resilience of the survey during the current episode likely reflects the healthy momentum in the economy before the lockdowns, ongoing fiscal and monetary support as well as greater certainty that the lockdowns will end as vaccines roll out. While we expect a large hit to activity in Q3, the survey supports our view that once restrictions are eased, activity will rebound. Beyond the rebound, healthy business investment and hiring will need to be maintained to see ongoing growth in the economy – and for now, investment intentions and job vacancies continue to point to ongoing growth.

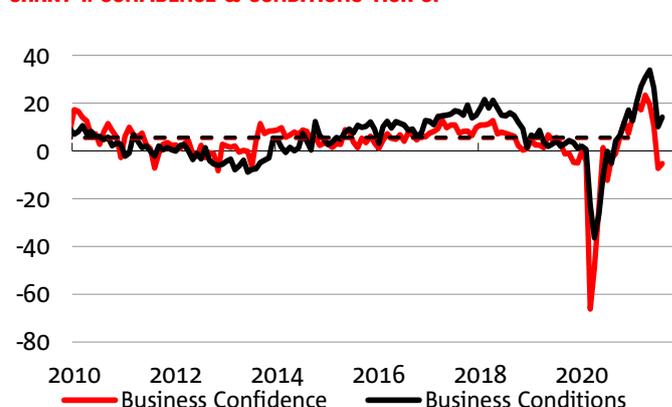
HIGHLIGHTS

- **How confident are businesses?** Confidence rose 2pts to -5 index points, remaining well below its long-run average.
- **How did business conditions fare?** Conditions rose 4pts to +14 index points – remaining well in positive territory and notably above its long-run and pre-COVID levels.
- **What components contributed to the result?** Both the trading (up 7pts to +19 index points) and profitability (up 10pts to +15 index points) sub-indexes rose in the month, partially unwinding some of last month's fall. The employment index fell 2pts to +9 index points, but like trading and profitability, remains above average.
- **Which industries are driving conditions?** Conditions rose in rec & personal, wholesale and mining, while construction and finance, business & property edged up. Conditions were weaker in retail and slightly lower in transport & utilities. Manufacturing was unchanged in the month.
- **Which industries are most confident?** Confidence fell in mining, construction, retail and rec & personal. Manufacturing and wholesale were unchanged, while transport & utilities and finance, business & property increased. In trend terms, confidence is now in negative territory in all in industries except mining, construction and manufacturing.
- **Where are we seeing the best conditions by state?** Conditions rebounded in NSW and SA, partially unwinding last month's declines. Qld and Tas saw similar sized declines, while WA edged higher. Overall, conditions remain strongest in the smaller states, but notably remain positive (and well above average) across all states.
- **What is confidence like across the states?** Confidence was weaker in Vic and WA but rose in the other states, led by Tas and NSW – which saw a large hit last month. Confidence is now negative in NSW and Vic and remains in positive territory in the other states.
- **Are leading indicators suggesting further improvement?** Forward orders saw a sharp rise in the month following the large fall in July and are now above average. However, capacity utilisation which better correlates with the level of activity declined by 1ppt and is now below average.
- **What does the survey suggest about inflation?** Price indicators continued to track at a relatively high rate with final products prices and input prices growth similar to the previous month. Labour costs growth edged up slightly.

TABLE 1: KEY STATISTICS

	Jun-21	Jul-21	Aug-21
	Net balance		
Business confidence	10	-7	-5
Business conditions	26	10	14
Trading	33	12	19
Profitability	27	5	15
Employment	19	11	9
Forward orders	15	-5	6
Stocks	9	3	0
Exports	-1	-2	-1
	% change at quarterly rate		
Labour costs	1.6	0.9	1.0
Purchase costs	2.0	1.9	1.9
Final products prices	1.3	1.1	1.2
Retail prices	2.2	1.2	1.2
	Per cent		
Capacity utilisation rate	83.3	81.0	80.0

CHART 1: CONFIDENCE & CONDITIONS TICK UP



* Dotted lines are long-run averages since Mar-97.

All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 17 to 30 August 2021, covering over 500 firms across the non-farm business sector.

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NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

DEVELOPMENTS IN STATE CONFIDENCE AND CONDITIONS

- The current lockdowns in Sydney and Melbourne have now persisted for around two months and the ACT for a month. While Qld, and to lesser extent WA and the NT have also gone through periods of lockdown, they have been relatively brief.
- Acknowledging the different nature of the lockdowns, the deterioration across the key survey variables has been less severe than March/April 2020 – though confidence and conditions have pulled back from the high levels seen in early 2021.
- While the timing of lockdowns on conditions has been evident at a state level, the improvement in NSW, and notwithstanding the deterioration in Qld and Tas in the month, sees conditions above average in all states. The largest states including NSW, Vic and QLD currently report conditions on average around 8pts softer than the smaller states.
- By industry, a larger dispersion for confidence and conditions has emerged. Conditions remain positive everywhere except transport & utilities. Rec & personal and retail are next weakest, likely reflecting the direct impacts of lockdowns, while all other industries remain above 10 index points.
- Confidence is broadly flat or negative in all industries outside of mining, reflecting the high degree of uncertainty at present as well as likely spillovers between sectors.
- Mining conditions remains a standout, where high prices and healthy demand continues to see solid outcomes in the sector.
- Capacity utilisation has pulled back across all states, except Tas, since aggregate capacity utilisation peaked at a very high level in April 2021. That said, capacity utilisation remains well above the levels seen in the first wave of pandemic-related shutdowns in April/May last year.
- Capacity utilisation in NSW (now lowest of all the states) and Qld have seen the largest pull-back, though SA and Vic are not far behind. On the mainland, WA has seen the smallest deterioration and sees the highest capacity utilisation (reflecting a long period with no extended lockdowns, and also the healthy outcomes in mining).
- While the impact of lockdowns on the economy is very real and will certainly weigh on some sectors more than others, the deterioration appears to have been less severe than the outcomes seen in the survey in early 2020.
- This could reflect less uncertainty on the path out of lockdowns – though the timing remains uncertain – as well as the fact that businesses know activity rebounds quickly as restrictions are eased. Government support is ongoing as is low interest rates and we remain optimistic that once restrictions are eased, the economy will again bounce back strongly.

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

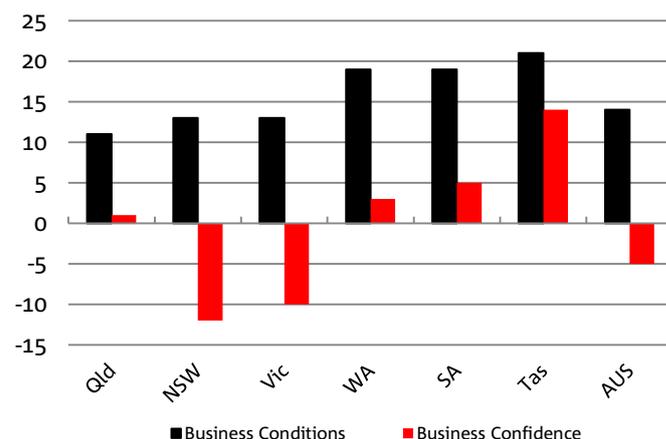


CHART 3: CONFIDENCE AND CONDITIONS BY INDUSTRY (NET BAL., SA)

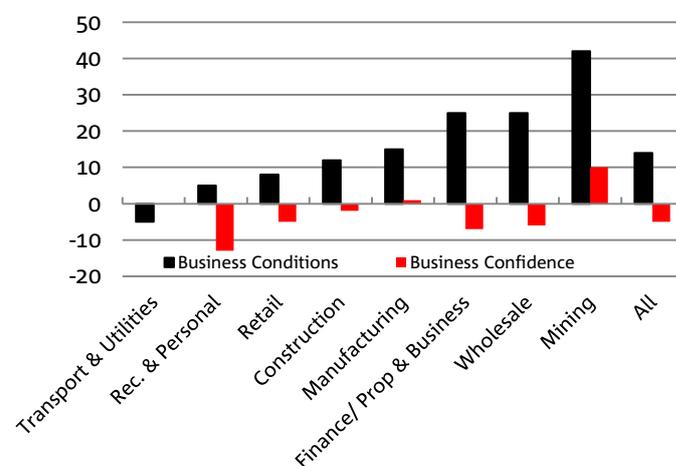
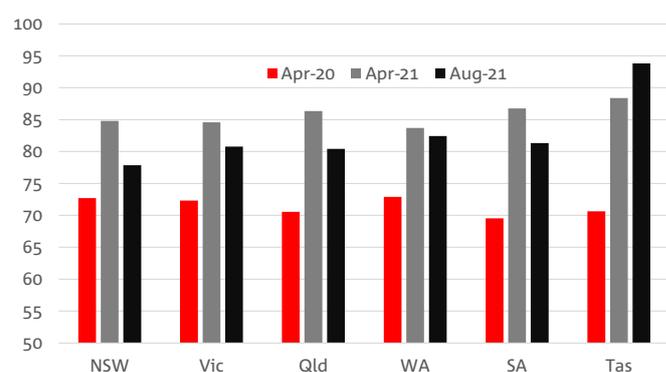


CHART 4: CAPACITY UTILISATION BY STATE (% SA)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

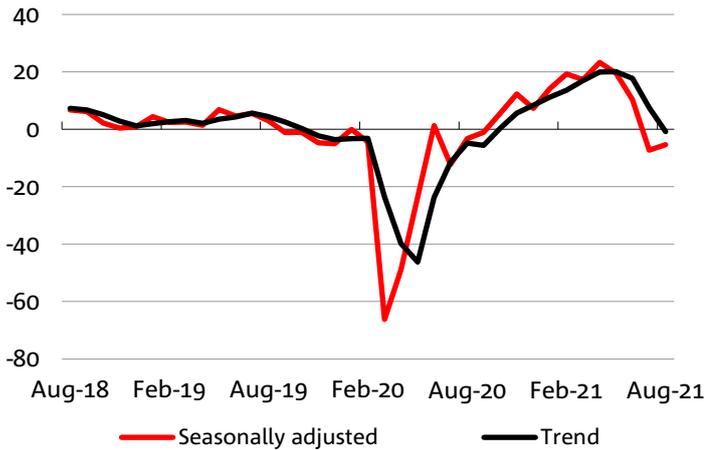


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

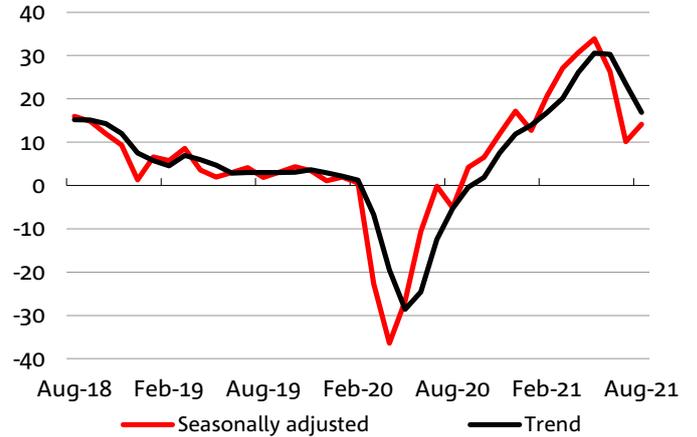


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

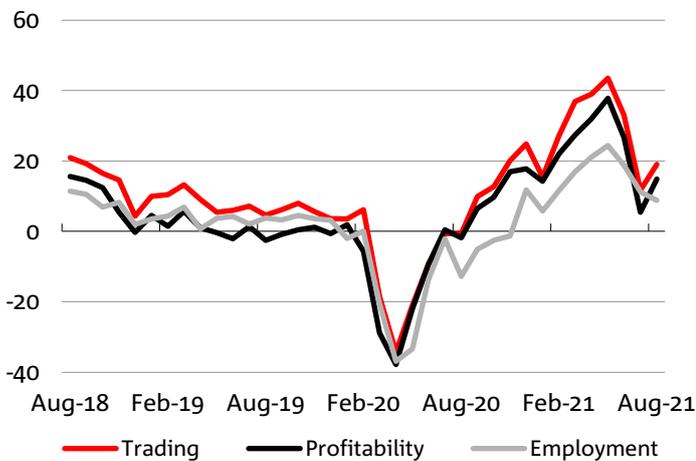


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

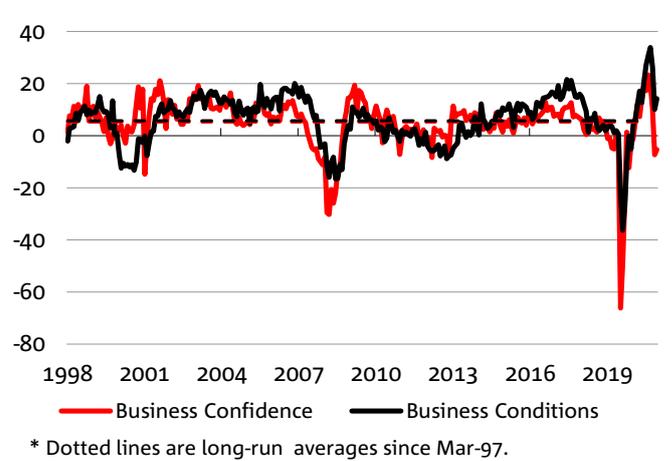


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

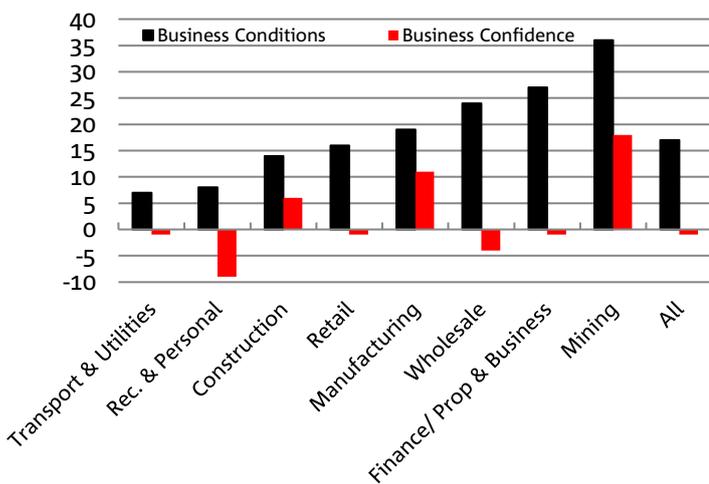
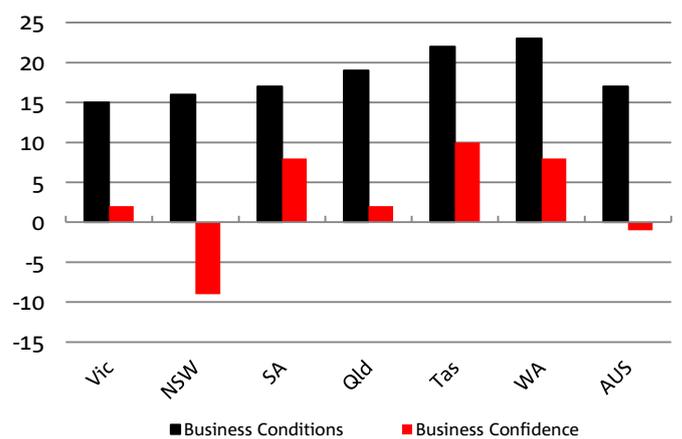


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

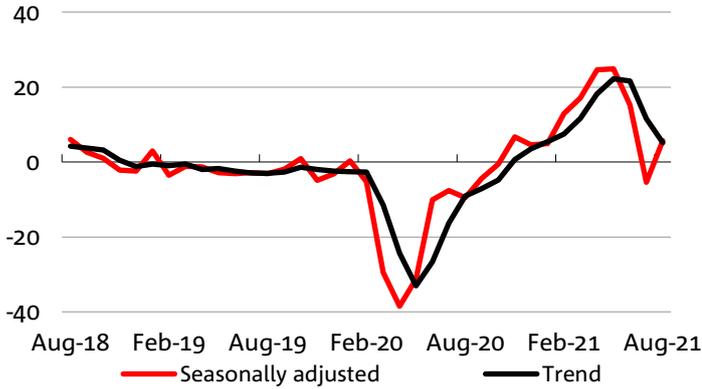


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

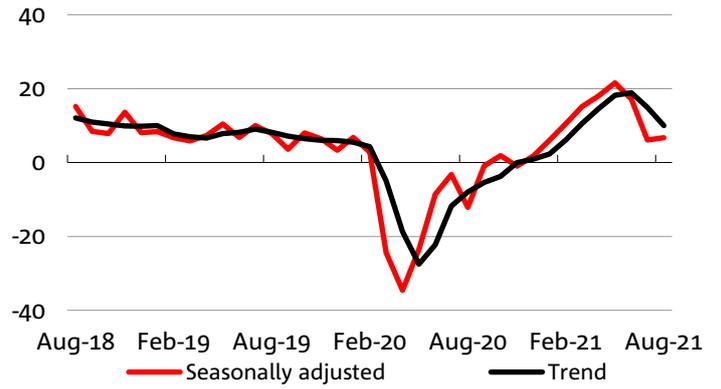


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

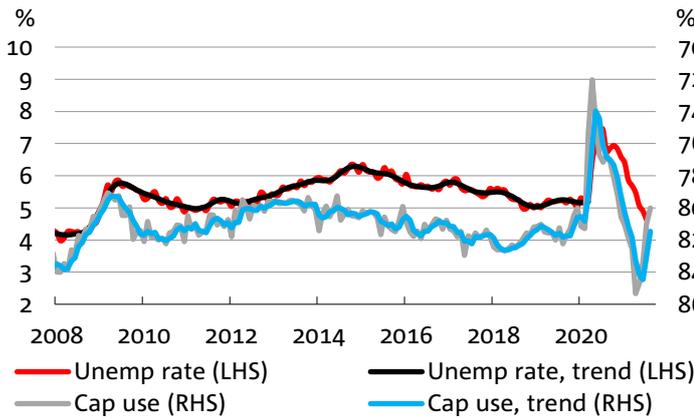


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

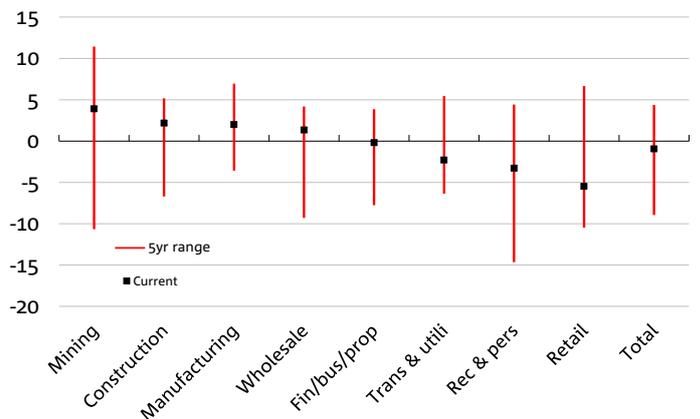


CHART 15: STOCKS (NET BALANCE)

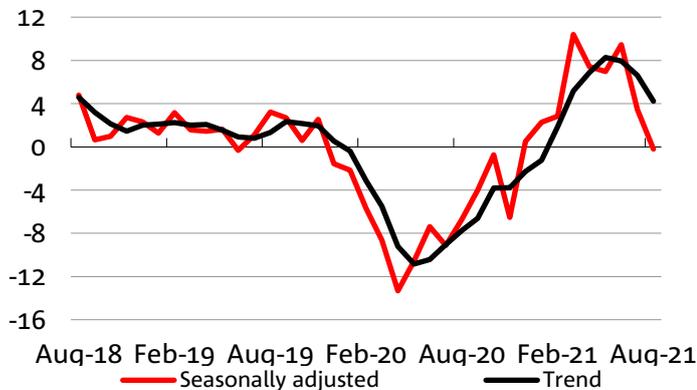


CHART 16: CASH FLOW (NET BALANCE)

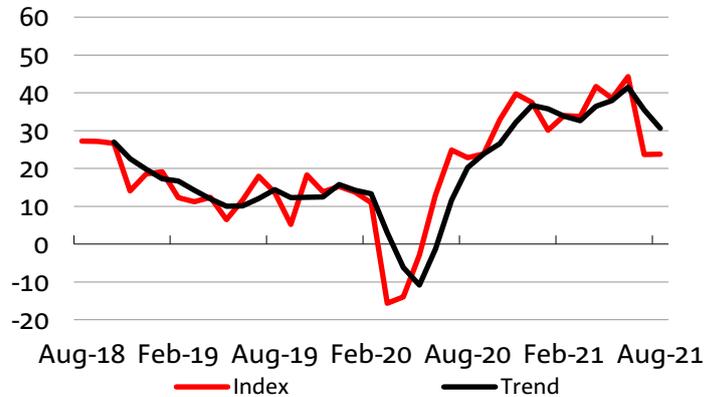


CHART 17: EXPORTS (NET BALANCE)

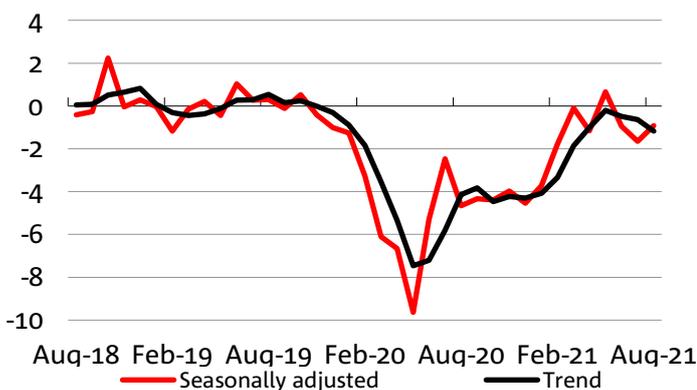
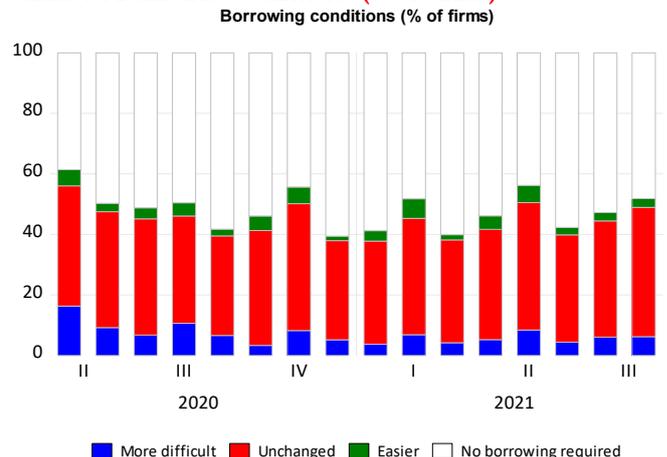


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

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

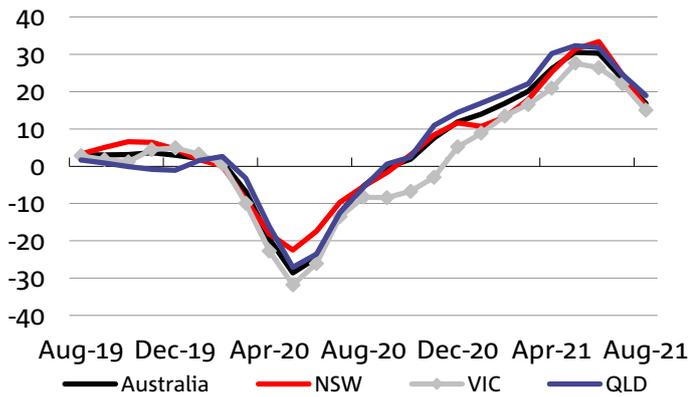


CHART 20: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

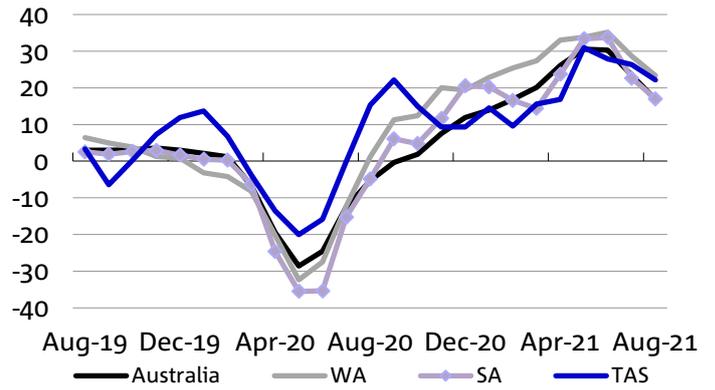


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

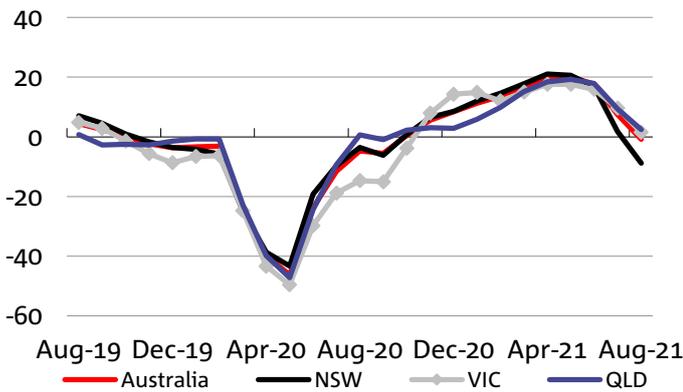


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

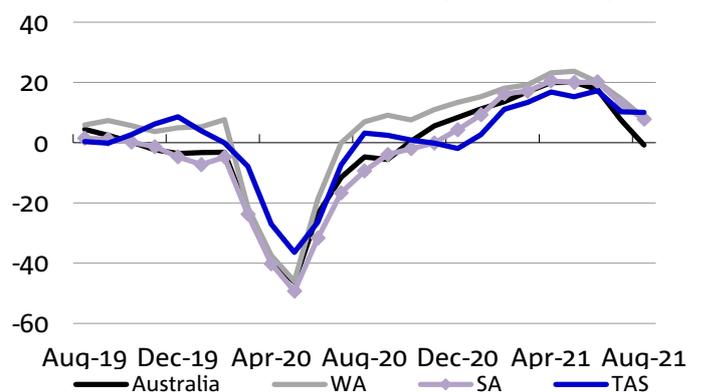


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

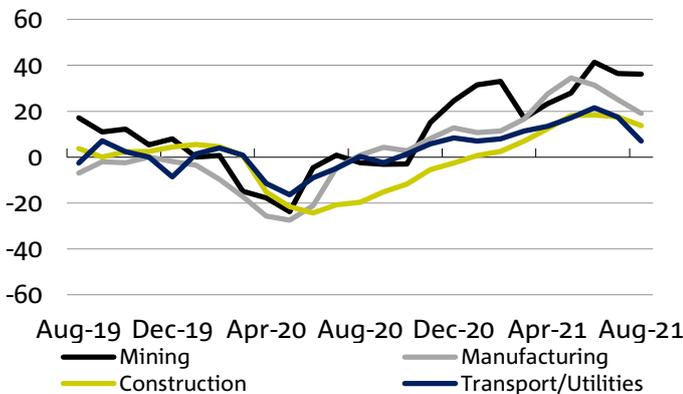


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

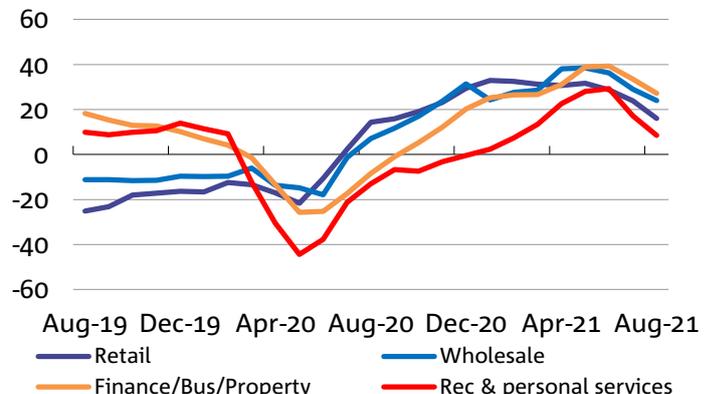


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

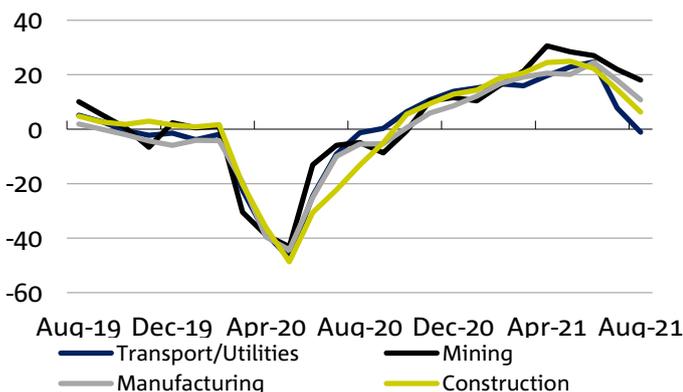
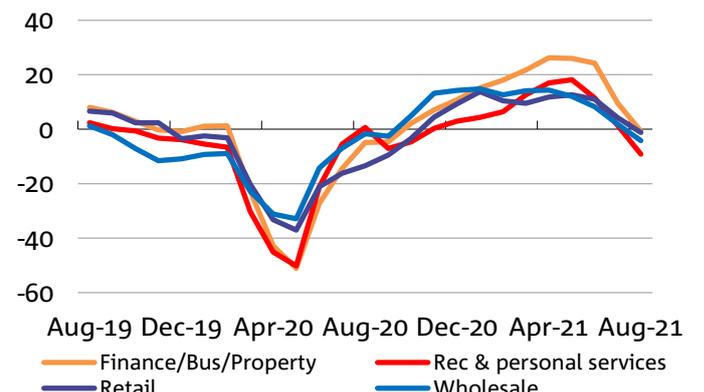


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

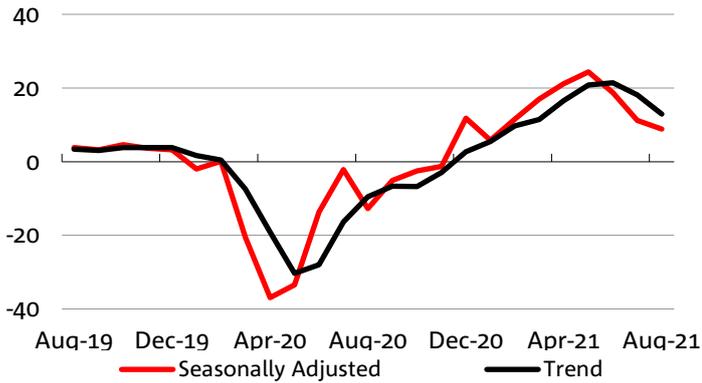


CHART 28: EMPLOYMENT (NAB VS ABS)

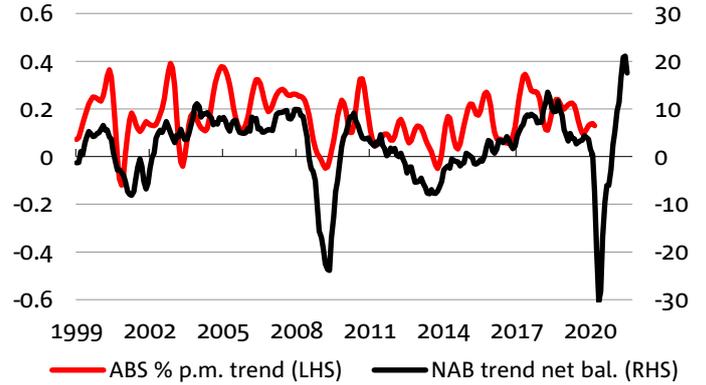


CHART 29: EMPLOYMENT BY INDUSTRY

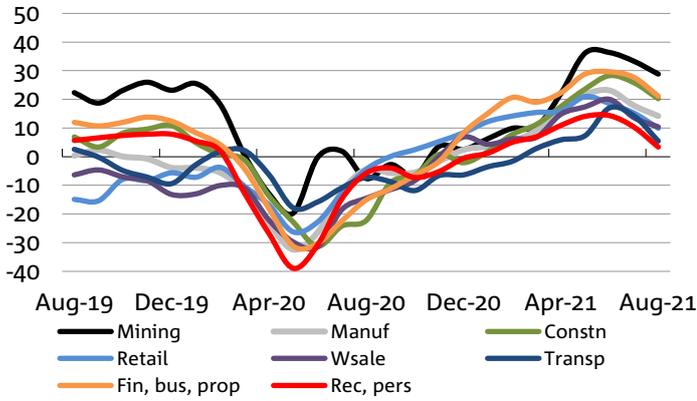


CHART 30: LABOUR COSTS GROWTH

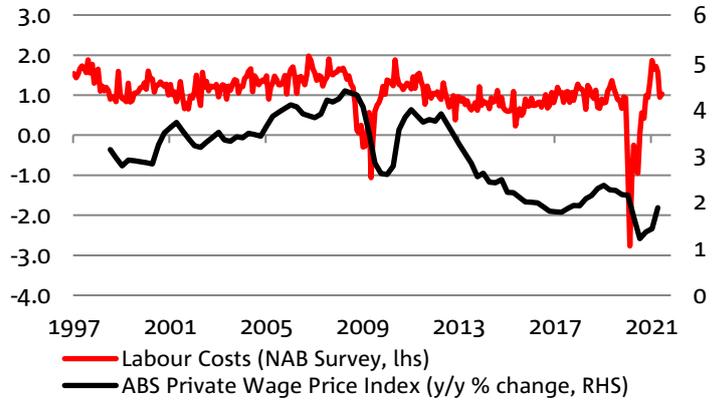


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

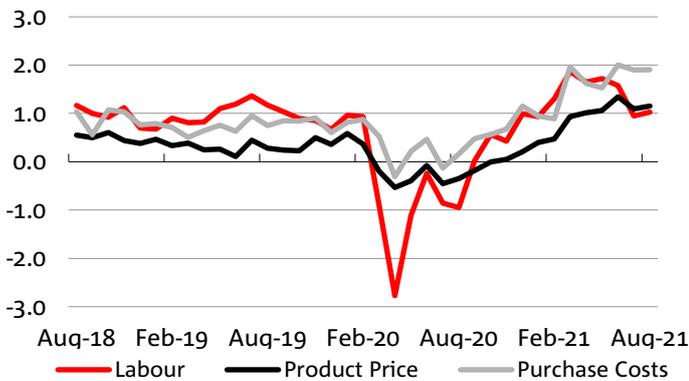
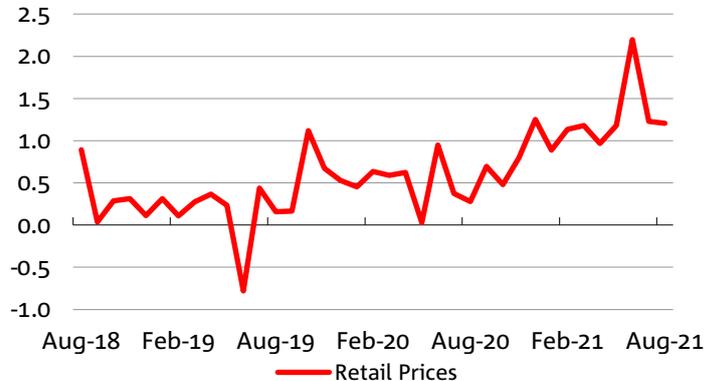


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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)