

EMBARGOED UNTIL: 7:30AM AEDT, 9 NOVEMBER 2021

NAB MONTHLY BUSINESS SURVEY OCTOBER 2021

CONDITIONS AND CONFIDENCE RISE OUT OF LOCKDOWN

NAB Australian Economics



Key messages: Business conditions and confidence rose in October as lockdowns came to an end in both NSW and Victoria. Each of the trading conditions, profitability and employment subcomponents contributed to the improvement in conditions, which was driven by gains in NSW. Confidence also rose, building on the turnaround seen in September, driven by Victoria as businesses anticipated reopening at the end of the month (largely after the survey period). Retail, business, finance & property, and personal & recreation services all saw large confidence improvements. Capacity utilisation also rebounded to 81.5% and forward orders rose strongly – with both now back above average. The survey also continues to show a build-up in price pressures in the economy with the impact of elevated goods demand alongside supply chain disruptions and border restrictions pushing input cost inflation to the highest level in a decade. On the output side, products prices continue to track at a high rate, although retail price growth eased considerably. These pressures could well persist over coming months before goods demand and the labour market normalise. Overall, the results provide first indications of a strong rebound in activity as the major states emerge from lockdowns, with more improvement likely in November as Victorian restrictions continue to ease. While the demand-side is seeing a healthy rebound the supply side will likely recover more gradually, and amidst strong growth the ability of business to pass on costs will have notable implications for margins and inflationary pressure more generally.

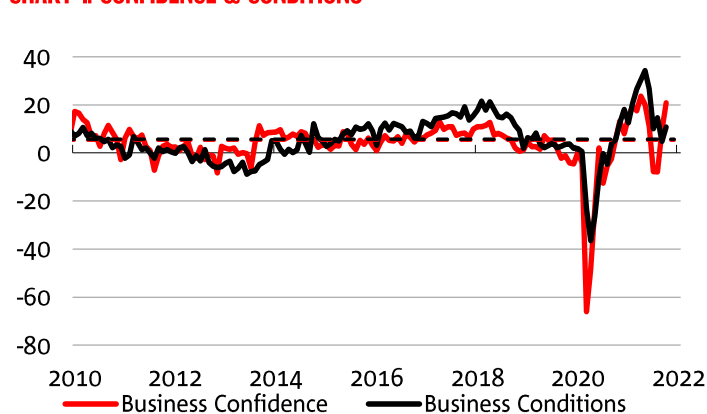
HIGHLIGHTS

- **How confident are businesses?** Confidence rose 11pts to +21 index points, returning to strongly positive territory. The seasonally adjusted result for September was revised down 3pts to +10 index points.
- **How did business conditions fare?** Conditions rose 6pts to +11 index points in October, rising back above the long-run average after edging below in September.
- **What components contributed to the result?** All components of conditions rebounded. Trading conditions remained the strongest of the three components, up 7pts to +17 index points. Profitability rose 6pts to +8 index points, while employment also rose 5pts to +6 index points.
- **Which industries are driving conditions?** Conditions recovered in mining after a large fall in September, to 28 index points in trend terms. The month also saw large rebounds in construction (up 16pts), recreation & personal services (up 15pts), and manufacturing (up 9pts), while transport & utilities fell sharply (down 28pts). In trend terms, conditions remained strongest in mining, wholesale, and finance, property & business services, with recreation & personal services weakest.
- **Which industries are most confident?** Confidence improved noticeably in retail (up 22pts), finance, property & business (up 19pts), recreation & personal services (up 10pts), mining (up 8pts) and manufacturing (up 8pts). In trend terms, confidence is now back in positive territory across all industries, though mining and recreation & personal services currently trail the rest.
- **Where are we seeing the best conditions by state?** NSW led the rebound in conditions, up 21pts, while Vic, SA, and WA were all lower. In trend terms, WA, Tas, and Qld have the highest level of conditions.
- **What is confidence like across the states?** Victoria led the rebound in confidence, up 18pts, followed by Qld and SA, while confidence fell in Tas. In trend terms, NSW leads the pack, while all states have now returned to positive territory.
- **Are leading indicators suggesting improvement?** Capacity utilisation recovered in October, back up to 81.5 percent. Forward orders also rebounded to +15 index points (after turning negative in September). Capital expenditure slipped lower.
- **What does the survey suggest about inflation?** Inflation indicators remain elevated, with purchase cost growth reaching decade highs and labour costs growth also rising in October. Output price growth was steady but retail price growth eased.

TABLE 1: KEY STATISTICS

	Aug-21	Sep-21	Oct-21
	Net balance		
Business confidence	-8	10	21
Business conditions	15	5	11
Trading	20	10	17
Profitability	15	2	8
Employment	9	1	6
Forward orders	6	-1	15
Stocks	-1	0	-1
Exports	-1	-2	-2
	% change at quarterly rate		
Labour costs	1.3	0.7	1.3
Purchase costs	1.9	1.8	2.7
Final products prices	1.2	1.1	1.1
Retail prices	1.3	2.0	0.9
	Per cent		
Capacity utilisation rate	80.1	78.2	81.5

CHART 1: CONFIDENCE & CONDITIONS



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

All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 19 to 29 October 2021, covering over 400 firms across the non-farm business sector.

Next release date: 14 December 2021.

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

© National Australia Bank Limited ABN 12 004 044 937 AFSL and Australian Credit Licence 230686

NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

UNPACKING PRICE PRESSURES IN THE NAB BUSINESS SURVEY

- With attention focused on inflation pressures building in the economy, price measures in the NAB Monthly and Quarterly Business Surveys highlight how underlying business costs are contributing to this pressure.
- Looking at the monthly survey's headline price measures (Chart 2), final product price growth and retail price growth have both risen sharply in 2021 and remained elevated through the recent lockdown period, reaching highs last seen prior to the global financial crisis. While official inflation data have not always tracked with survey measures, trimmed-mean CPI also edged up in the September Quarter.
- The question remains as to whether these price pressures are the result of temporary factors related to the COVID-19 pandemic or reflect broader inflationary pressure in the economy that will persist as recovery continues.
- Looking at labour cost and purchase cost growth suggests temporary factors may be at play (Chart 3). The past year has seen purchase costs growth rise rapidly, reaching 2.7% (in quarterly terms) in October, a level not seen since 2008. The significant rise in purchase costs likely reflects the continued disruption to global supply chains that has characterised the COVID period. When these disruptions abate, purchase price pressures should also ease.
- Labour costs, which reflect both increased employment and wage pressures, rose in early 2021 as the workforce expanded, but have dropped back in recent months as lockdowns have been in place and employment has declined. While labour costs will rise again as employment recovers, underlying wage pressures are likely to build more slowly.
- The major constraints on output reported in the NAB Quarterly Business Survey tell a similar story (Chart 4). The share of firms reporting availability of materials as a major constraint has risen dramatically over the year, to 43% - more than 20ppts above average and significantly higher than at any point in the history of the series.
- The share of firms reporting difficulty in finding suitable labour as a constraint is also high – about as high as during the mining boom period, and somewhat higher than in the period prior to the pandemic. Border closures, lockdowns, testing and isolation requirements, and longer-term factors may all be playing a role here.
- By industry, the most recent monthly data suggest labour cost pressures are concentrated in the wholesale, manufacturing, and (to a lesser extent) construction sectors (Chart 5). By contrast, almost all industries are reporting elevated purchase cost growth, highlighting the widespread impacts of supply chain disruptions across the economy.
- Overall, survey data suggest that COVID-related disruptions to supply chains, as well as impacts on the labour market, have been key factors driving price growth in recent months – although the risk remains that these factors translate into higher ongoing price pressures. Until these factors ease, a clear read on the longer-term outlook for inflation remains difficult.

CHART 2: NAB SURVEY PRICE MEASURES (QTLY RATE) AND CPI

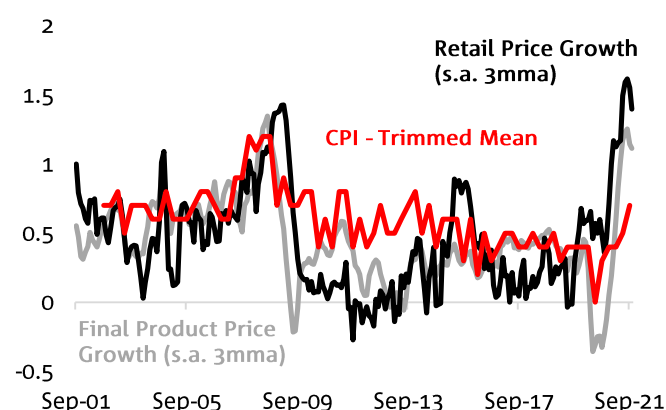


CHART 3: NAB SURVEY COST GROWTH MEASURES

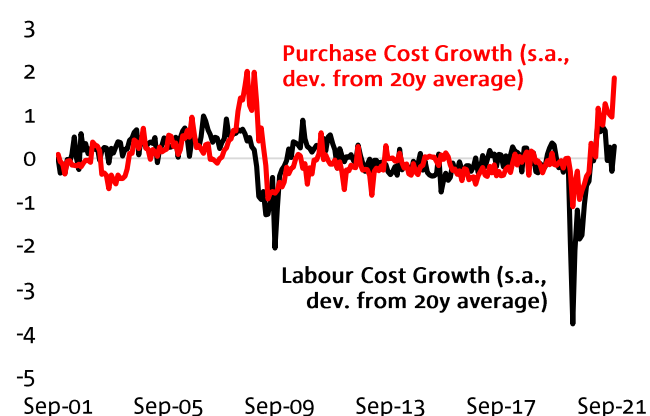


CHART 4: CONSTRAINTS ON OUTPUT (SHARE OF FIRMS, QTLY)

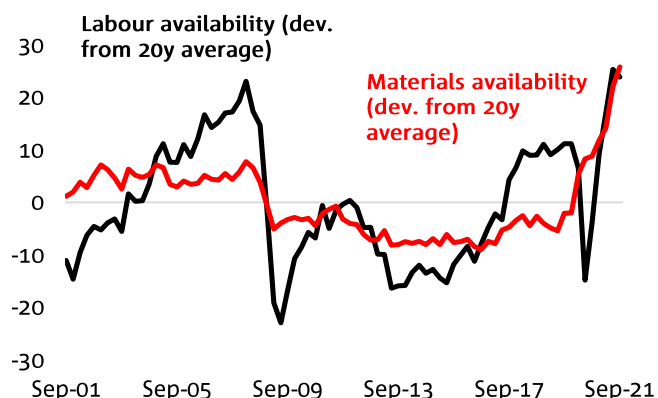
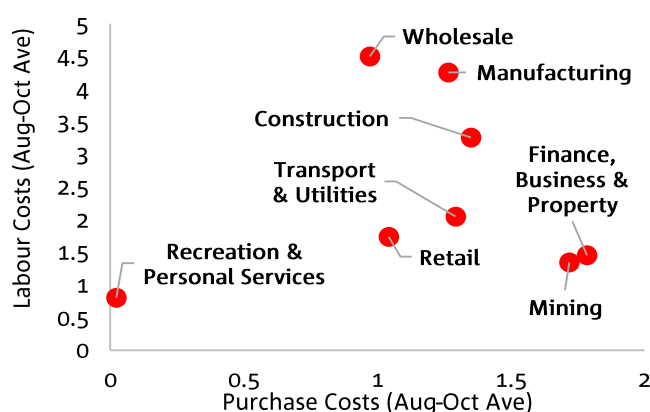


CHART 5: COST GROWTH MEASURES BY INDUSTRY



Source: NAB Business Surveys, ABS

NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 6: BUSINESS CONFIDENCE (NET BALANCE)

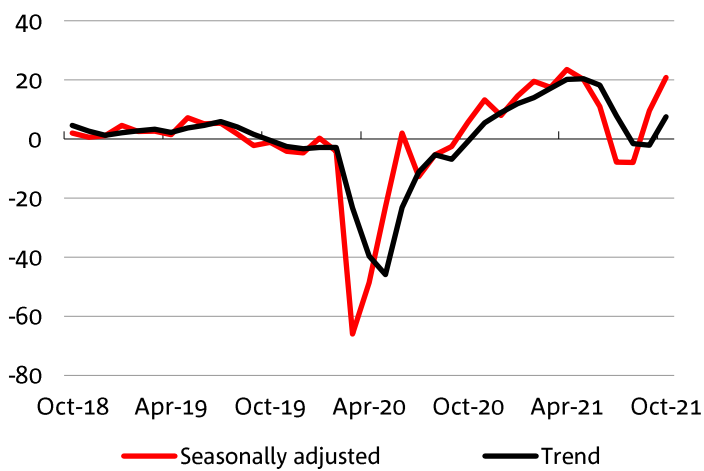


CHART 7: BUSINESS CONDITIONS (NET BALANCE)

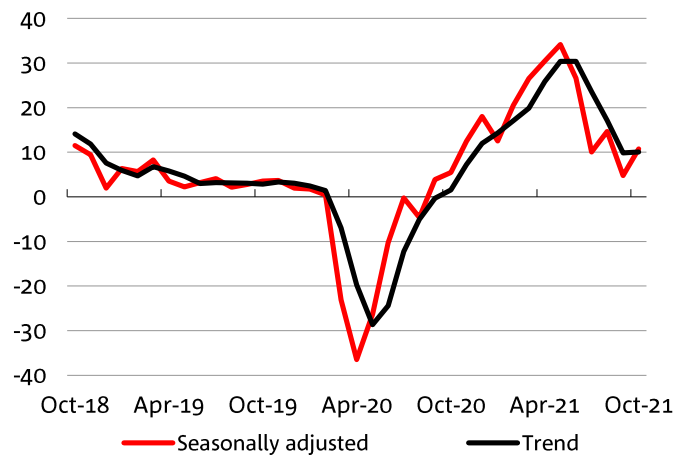


CHART 8: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

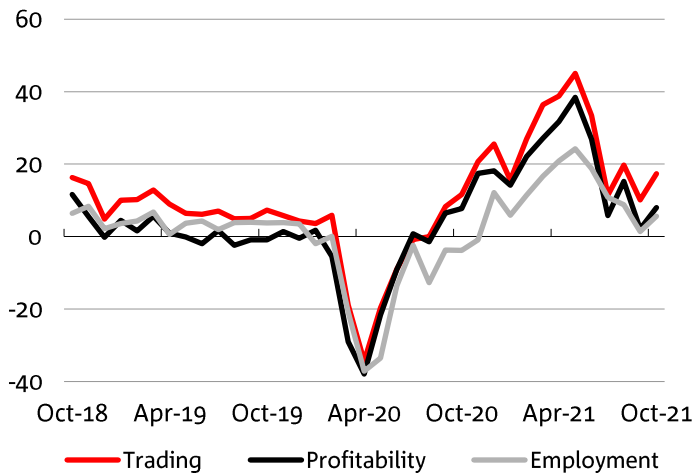


CHART 9: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

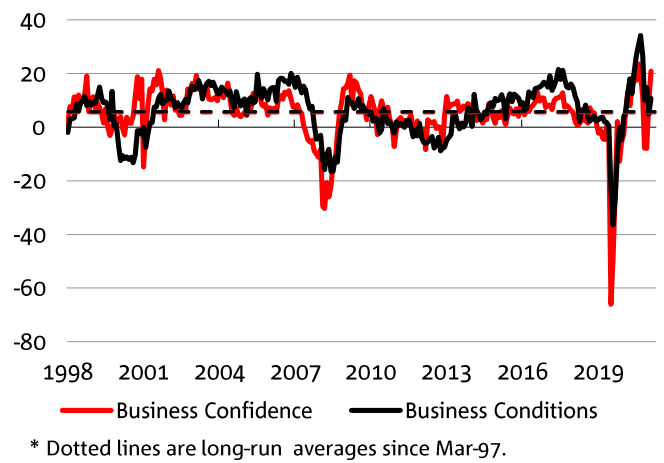


CHART 10: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

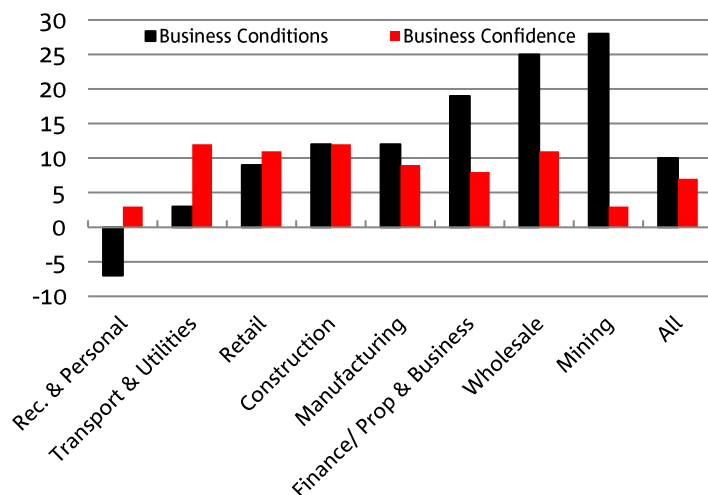
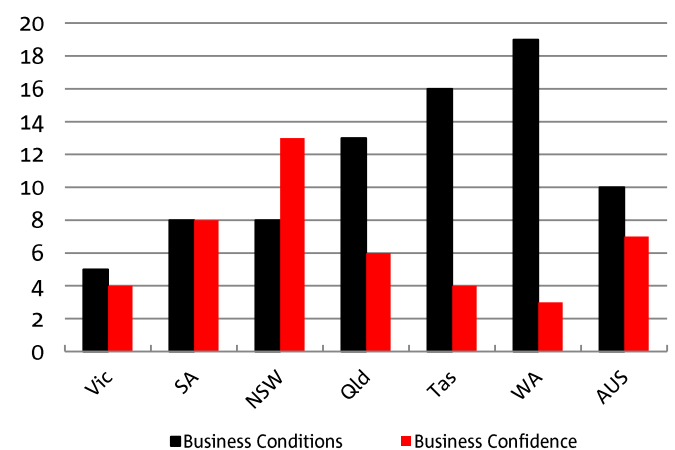


CHART 11: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 12: FORWARD ORDERS (NET BALANCE)

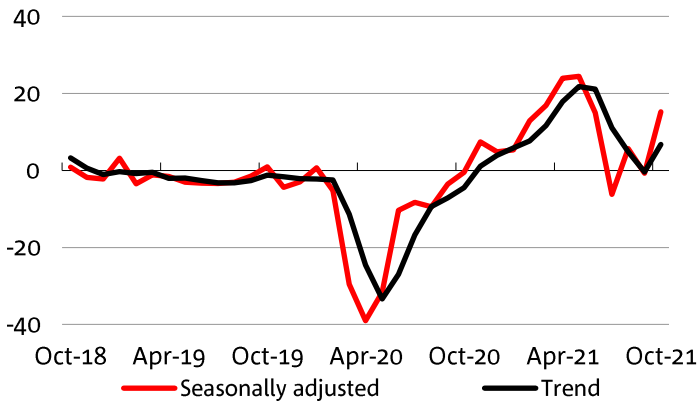


CHART 13: CAPITAL EXPENDITURE (NET BALANCE)

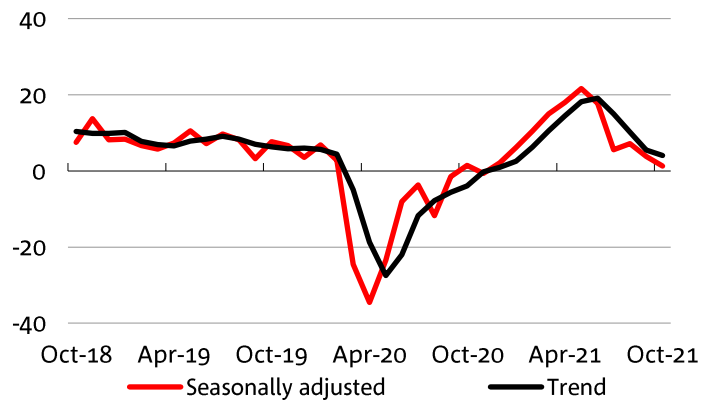


CHART 14: CAPACITY UTILISATION AND UNEMPLOYMENT

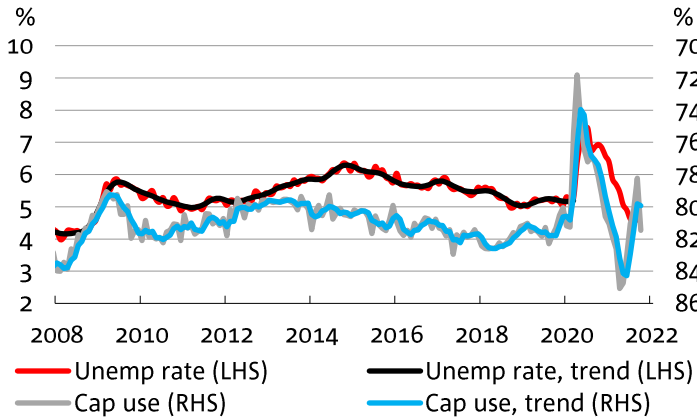


CHART 15: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

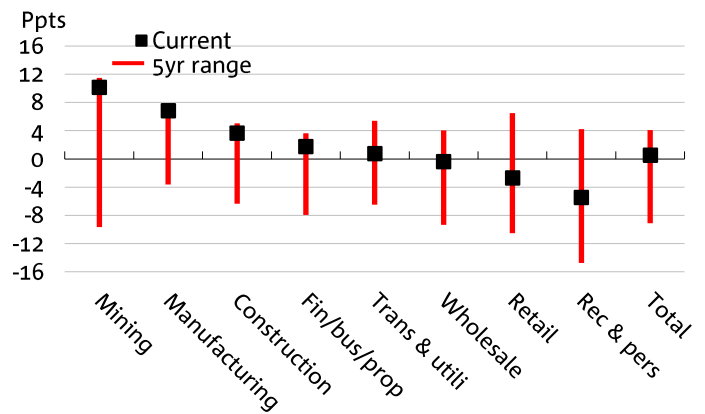


CHART 16: STOCKS (NET BALANCE)

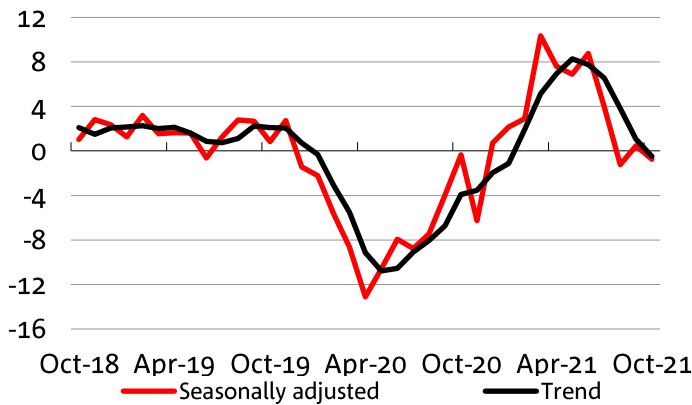


CHART 17: CASH FLOW (NET BALANCE)

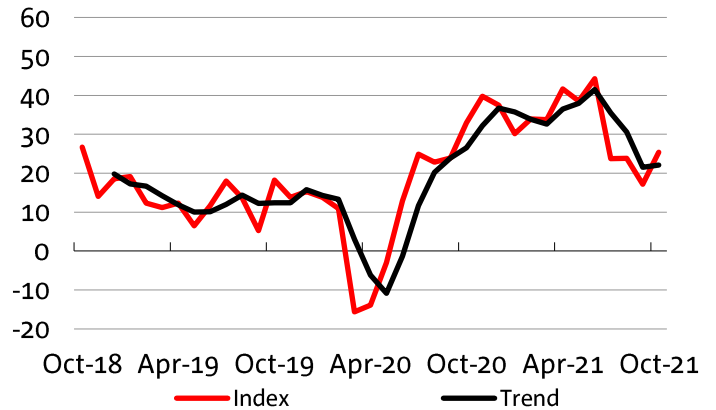


CHART 18: EXPORTS (NET BALANCE)

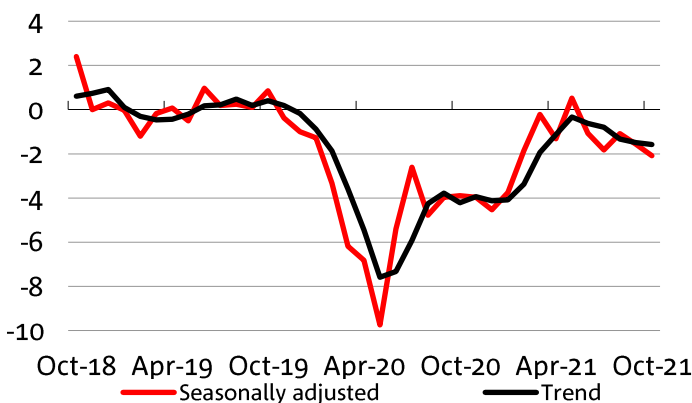
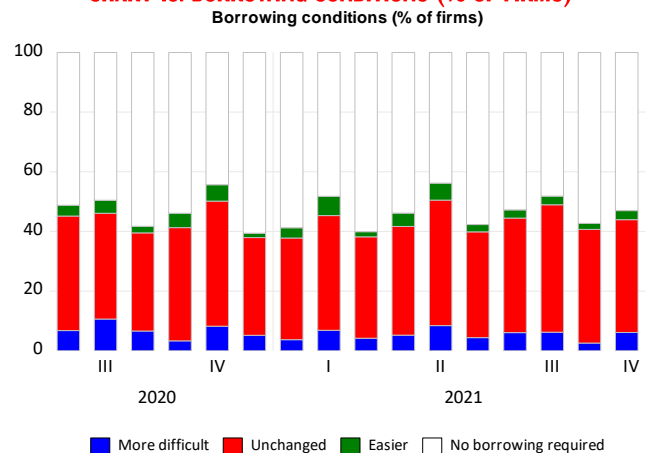


CHART 19: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

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

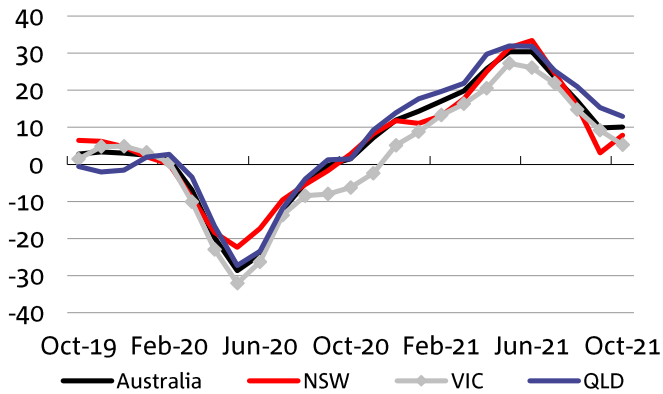


CHART 21: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

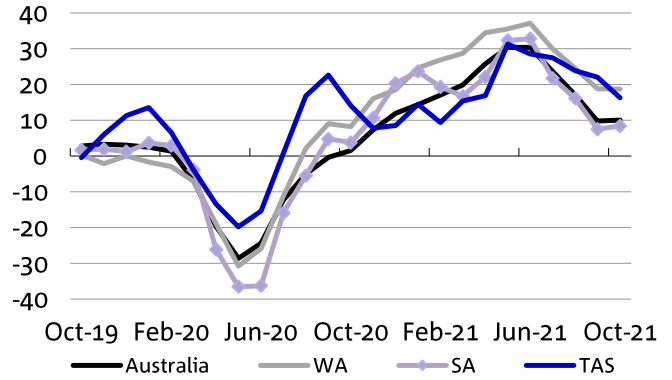


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

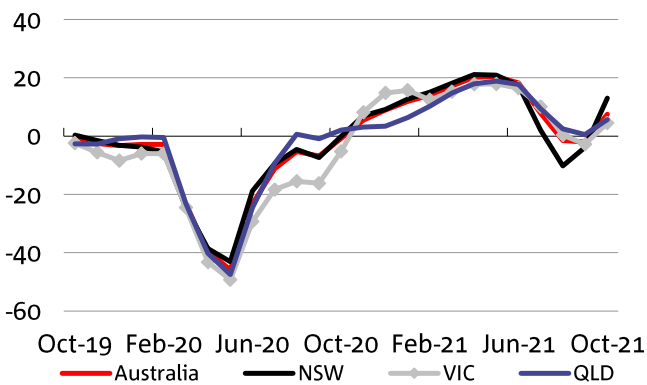


CHART 23: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

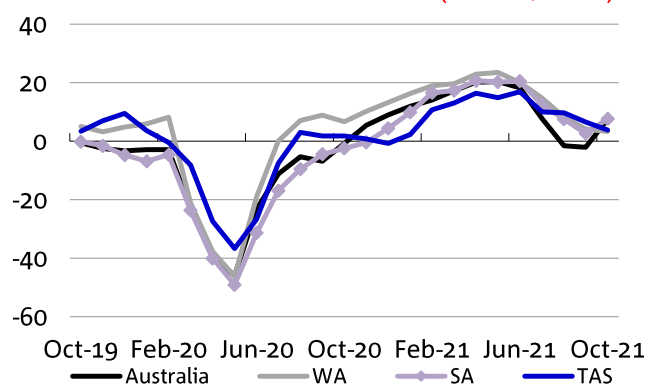


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

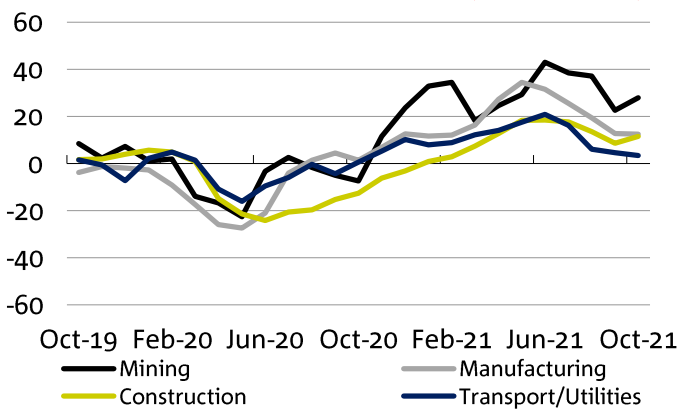


CHART 25: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

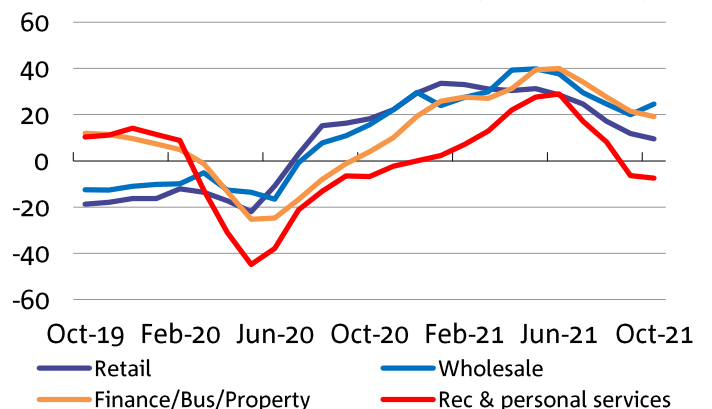


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

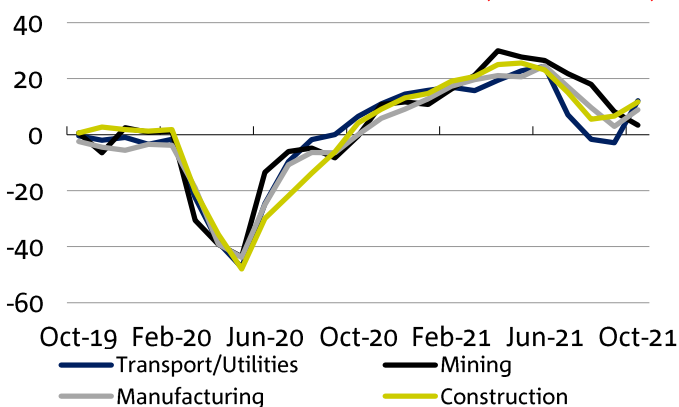
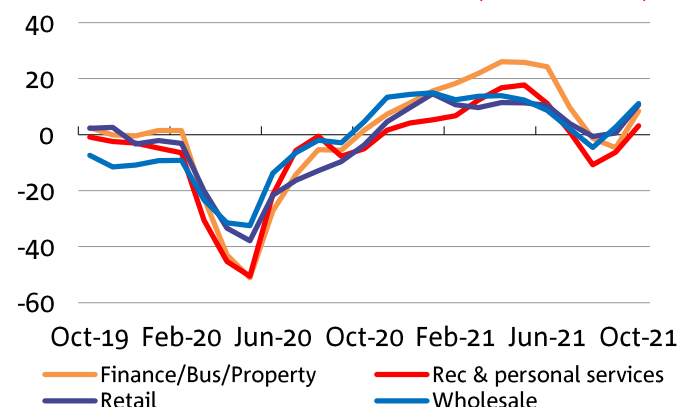


CHART 27: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 28: EMPLOYMENT

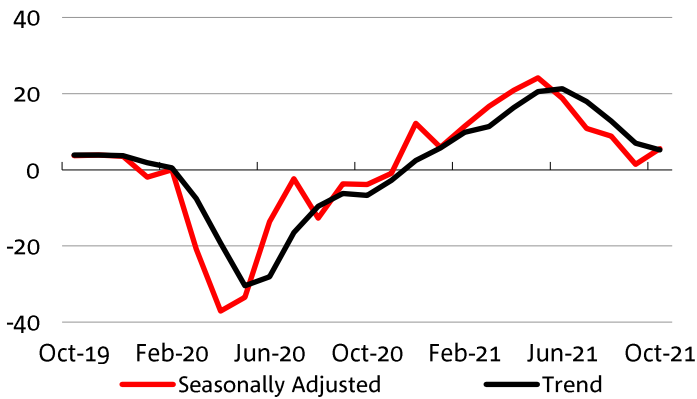


CHART 29: EMPLOYMENT (NAB VS ABS)

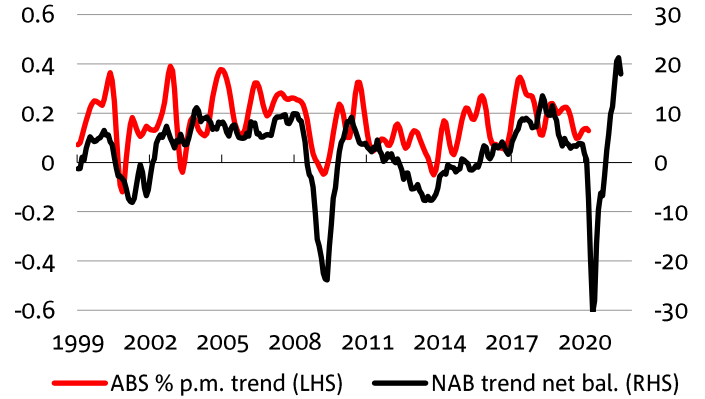


CHART 30: EMPLOYMENT BY INDUSTRY

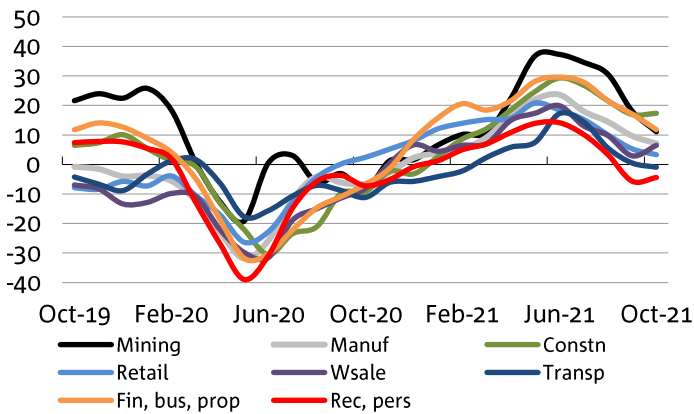


CHART 31: LABOUR COSTS GROWTH

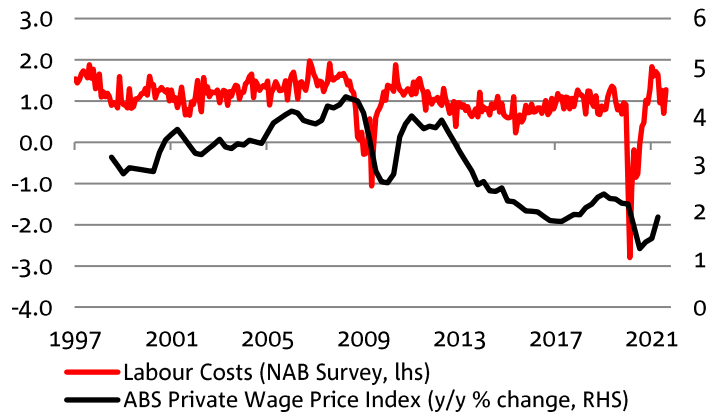


CHART 32: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

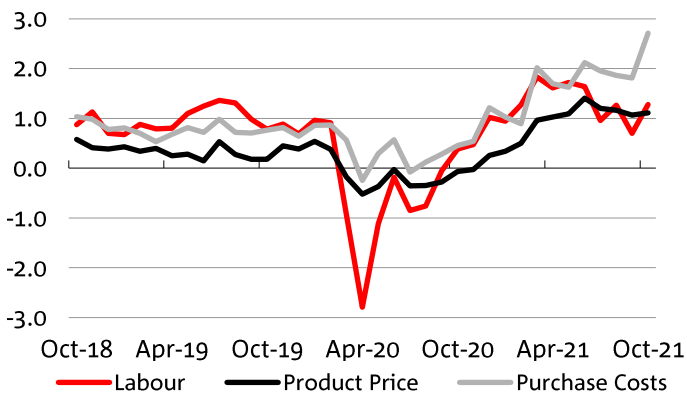
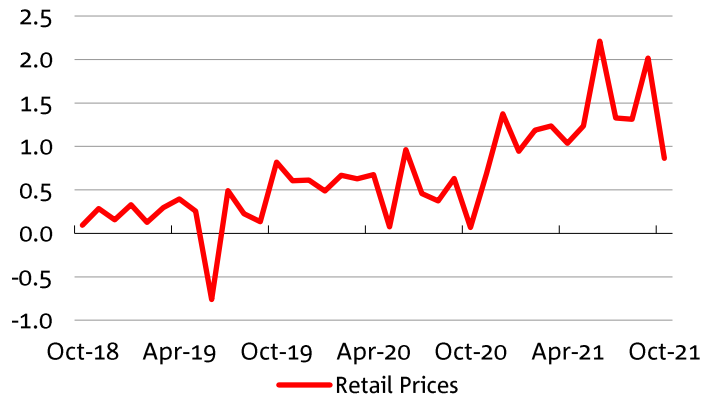


CHART 33: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



CONTACTS

Brody Viney, Senior Economist

brody.viney@nab.com.au

+61 0 452 673 400

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

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.

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

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)

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