

EMBARGOED UNTIL: 11:30AM AEST, 14 JUNE 2022

NAB MONTHLY BUSINESS SURVEY MAY 2022

CONFIDENCE EASES BUT CONDITIONS AND OUTLOOK REMAIN STRONG

NAB Australian Economics



Key messages: Business confidence and conditions both eased in May but conditions remain strong alongside forward orders. Conditions fell 2pts as profitability and trading conditions edged down from very high levels, the employment index picked up. Overall conditions remain well above average at +16 index points. The fall in confidence was more material but still leaves confidence just above its long-run average at +6 index points. Moreover, the outlook remains positive with capacity utilisation at 85% – almost equalling the record high seen pre-Delta – and forward orders also elevated. Conditions remain strong across industries and states, with soft conditions in construction the only standout as profitability in the sector comes under increasing pressure. Overall, the May survey saw a slight easing in input cost growth following the record highs reported in April, with labour cost growth of 2.5% (down from 3.0%) and purchase cost growth at 3.8% (down from 4.5%) in quarterly terms. Still, output price inflation remains elevated with final product prices tracking at 1.8% and retail price growth jumping back up to 3.1%, in quarterly terms. As such, another strong CPI read in Q2 remains likely. Overall, the survey indicates the economy has maintained its momentum into Q2 and most businesses are in a strong position despite the inflation headwinds, with the lift-off in official interest rates and global growth risks yet to significantly impact Australia's economic trajectory.

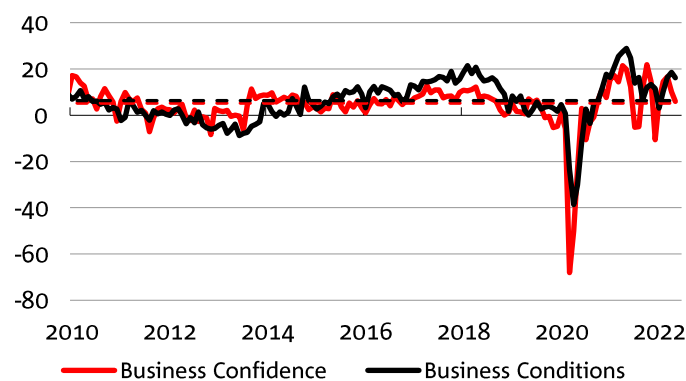
HIGHLIGHTS

- **How confident are businesses?** Business confidence fell 4pts to +6 index points, just above the long-term average.
- **How did business conditions fare?** Conditions eased 2pts (unrounded) to +16 index points, still well above average.
- **What components contributed to the result?** Trading conditions and profitability both came down but remained at very high levels at +24 index points and +17 index points respectively, while employment edged up 1pt to +12 index points.
- **Which industries are driving conditions?** Transport & utilities recorded a big uptick in conditions to be back into positive territory in trend terms at +11 index points. Conditions eased notably in mining, finance, business & property, and recreation & personal services, but all from high levels. Overall, conditions remain at strong positive levels across industries, with construction the softest at +5 index points in trend terms.
- **Which industries are most confident?** Wholesale and construction both saw big falls in confidence, though both remain in positive territory in trend terms. Confidence also fell noticeably in retail and transport & utilities, while finance, business & property saw confidence rise.
- **Where are we seeing the best conditions by state?** Conditions fell 10pts in Queensland, unwinding a very strong result in April, with Tasmania also seeing conditions ease. In trend terms, conditions remain strong across the states.
- **What is confidence like across the states?** Confidence eased everywhere except Queensland, with the biggest falls in Victoria and South Australia (both down 9pts). Still, confidence remains at reasonable levels across the states in trend terms.
- **Are leading indicators suggesting improvement?** Capacity utilisation rose to 85%, almost equalling the record high seen pre-Delta, and forward orders edged up 1pt to +12 index points.
- **What does the survey suggest about inflation?** Costs growth eased from record highs in April, with labour costs rising 2.5% (down from 3.0%) and purchase cost growth at 3.8% (down from 4.5%) in quarterly terms. Still, output price inflation remains elevated with final product prices rising 1.8% and retail price growth jumping back up to 3.1% in quarterly terms.

TABLE 1: KEY STATISTICS

	Mar-22	Apr-22	May-22
Net balance			
Business confidence	17	10	6
Business conditions	16	19	16
Trading	23	27	24
Profitability	14	21	17
Employment	11	11	12
Forward orders	13	10	12
Stocks	14	8	9
Exports	-1	1	1
% change at quarterly rate			
Labour costs	2.7	3.0	2.5
Purchase costs	4.2	4.5	3.8
Final products prices	2.4	1.7	1.8
Retail prices	3.7	2.1	3.1
Per cent			
Capacity utilisation rate	83.5	84.2	85.0

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 23 to 29 May 2022, covering over 550 firms across the non-farm business sector.

Next release date: 12 July 2022.

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NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

PROFITS UNDER PRESSURE IN CONSTRUCTION

- The May survey shows the construction sector experiencing the weakest conditions of any industry, with conditions running below their pre-COVID average. By contrast, conditions overall are 10pts ahead (Chart 2).
- The weakness in construction is the result of a significant pressure on profits, with the profitability index almost 10pts below its pre-COVID average (Chart 3). No other industry is experiencing such margin pressure, despite the broad-based cost pressures in the economy, with overall profits almost 12pts above average – a 21pt gap.
- Trading conditions are also soft in construction (Chart 4), but employment remains robust (Chart 5). The sector has been supported by the HomeBuilder policy and strong public infrastructure investment throughout the pandemic, with a large pipeline of work ahead.
- Rising costs are a key factor behind the profitability decline. Purchase cost growth in construction is running at 5% in quarterly terms, among the steepest cost pressures faced by any industry (Chart 6). Labour costs (including both wages and new hiring and hours) are growing at 2.6%, in line with the overall average.
- Businesses are raising prices in response, with construction prices up 2.4% in quarterly terms. These price increases have been reflected in elevated new dwelling costs in official inflation data. However, with prices for construction often fixed in contracts in advance, price growth is well below cost growth and profitability is under increasing pressure as a result.

CHART 2: BUS. CONDITIONS (DEV. FROM PRE-COVID AVE.)

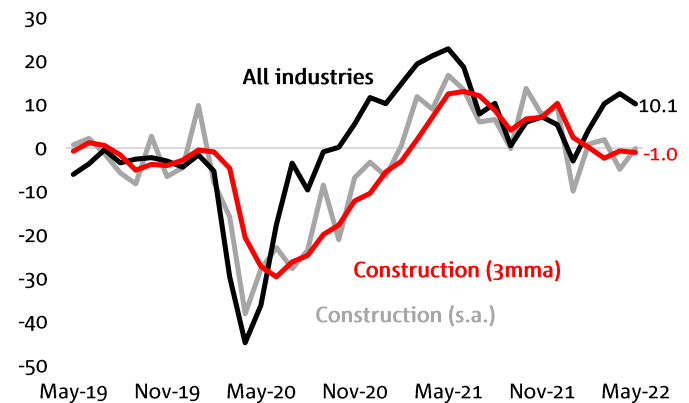


CHART 3: PROFITABILITY (DEV. FROM PRE-COVID AVE.)

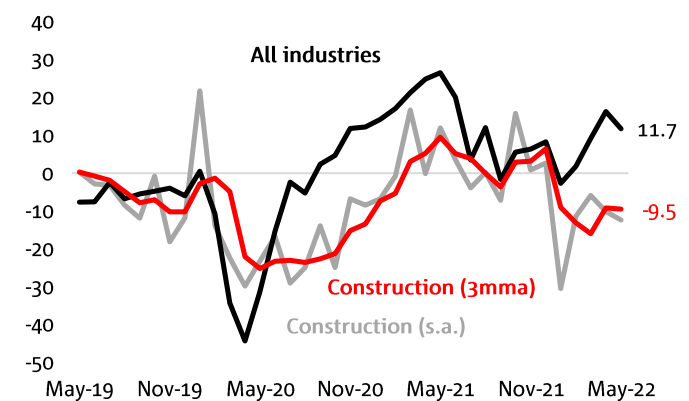


CHART 4: TRADING CONDITIONS (DEV. FROM PRE-COVID AVE.)

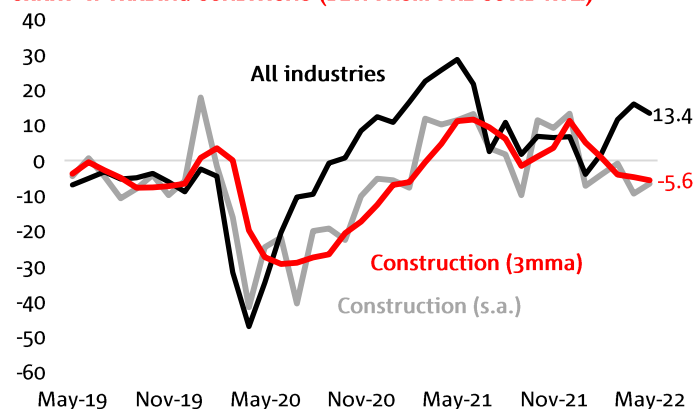


CHART 5: EMPLOYMENT (DEV. FROM PRE-COVID AVE.)

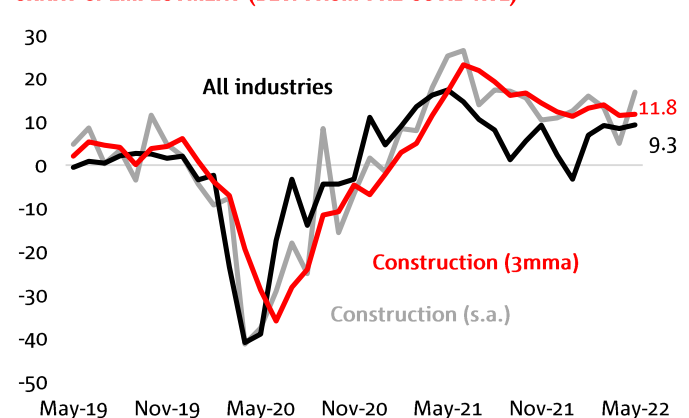


CHART 6: PURCHASE COST GROWTH (QUARTERLY EQUIVALENT)

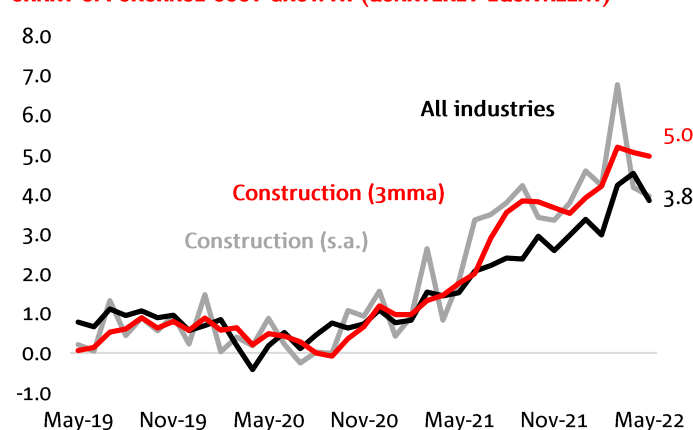
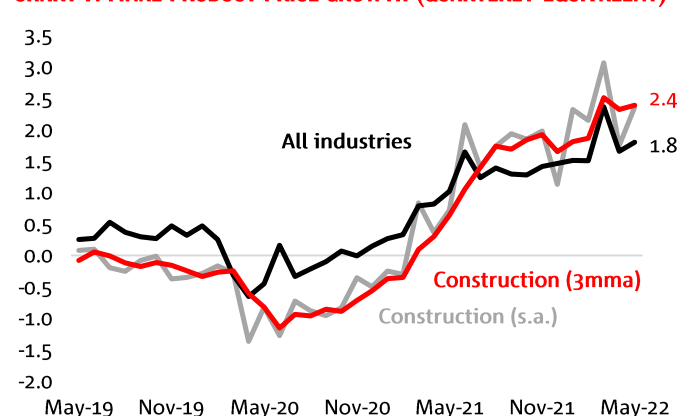


CHART 7: FINAL PRODUCT PRICE GROWTH (QUARTERLY EQUIVALENT)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 8: BUSINESS CONFIDENCE (NET BALANCE)

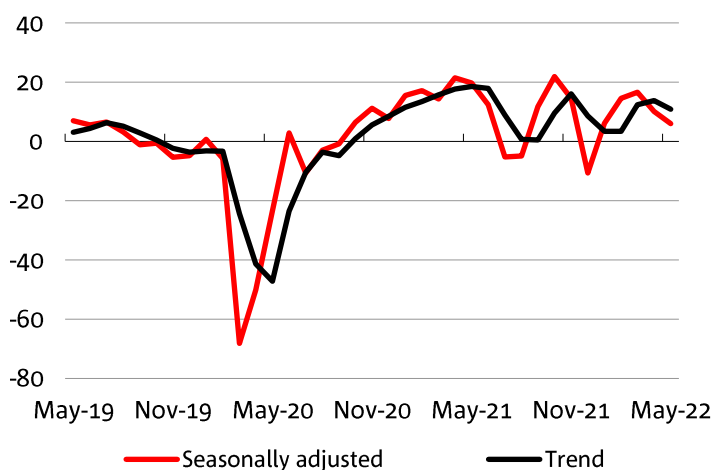


CHART 9: BUSINESS CONDITIONS (NET BALANCE)

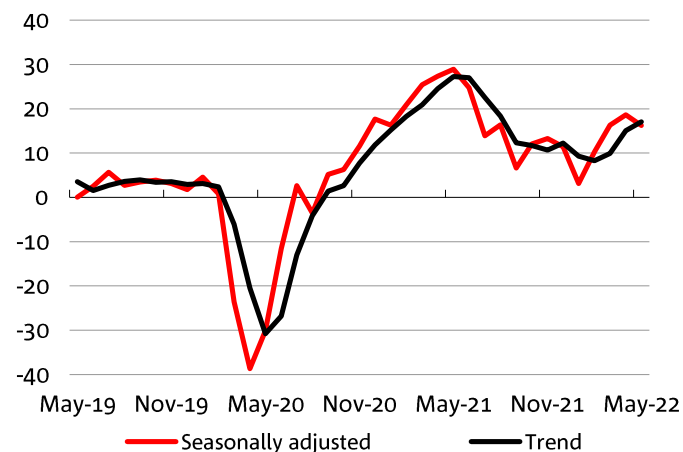


CHART 10: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

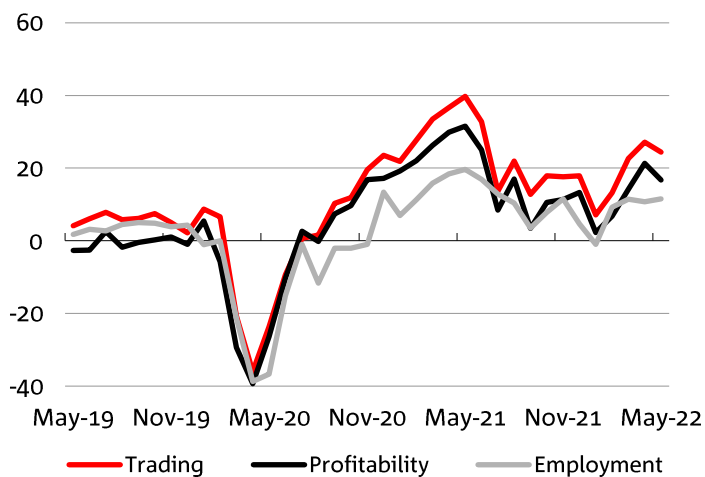


CHART 11: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

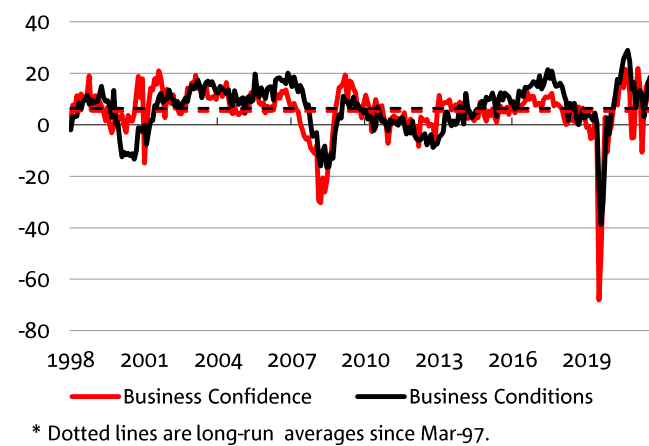


CHART 12: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

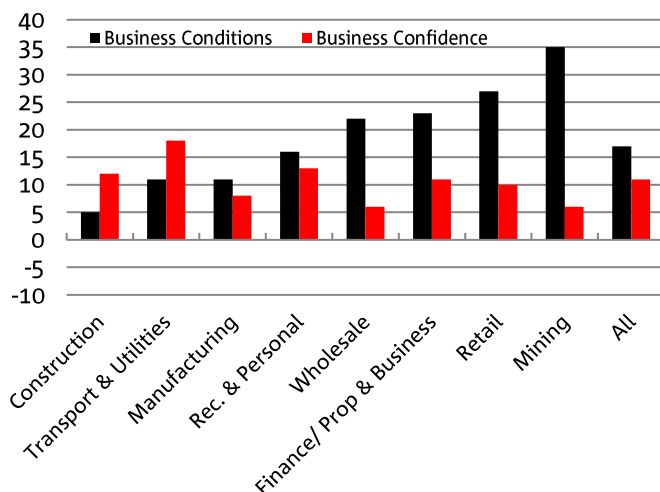
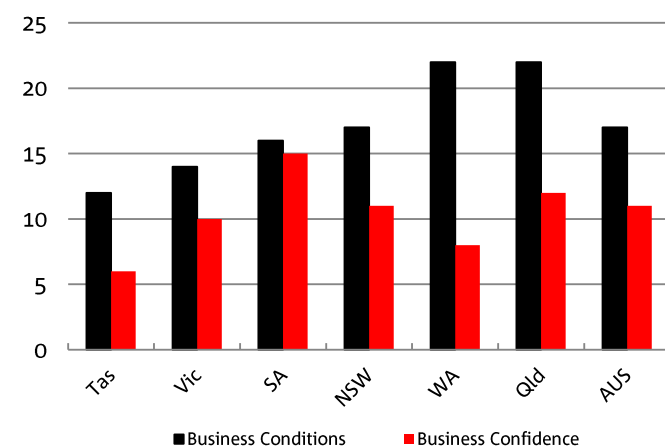


CHART 13: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 14: FORWARD ORDERS (NET BALANCE)

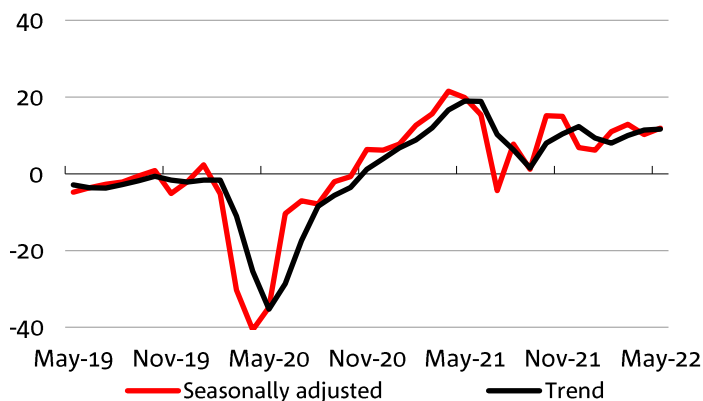


CHART 15: CAPITAL EXPENDITURE (NET BALANCE)

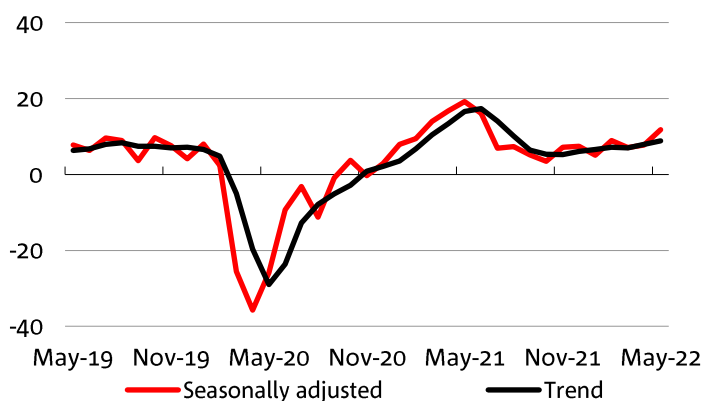


CHART 16: CAPACITY UTILISATION AND UNEMPLOYMENT

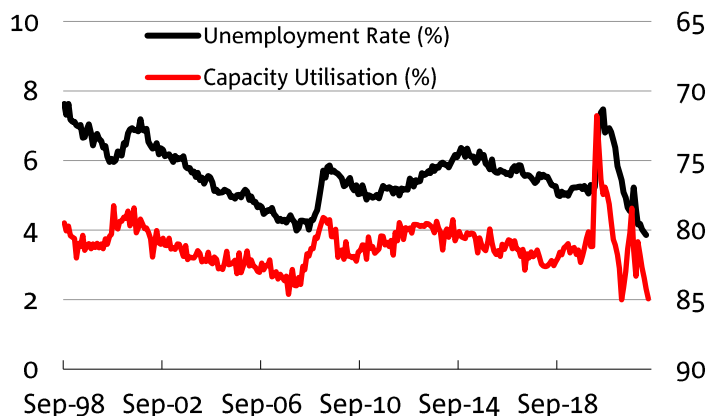


CHART 17: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

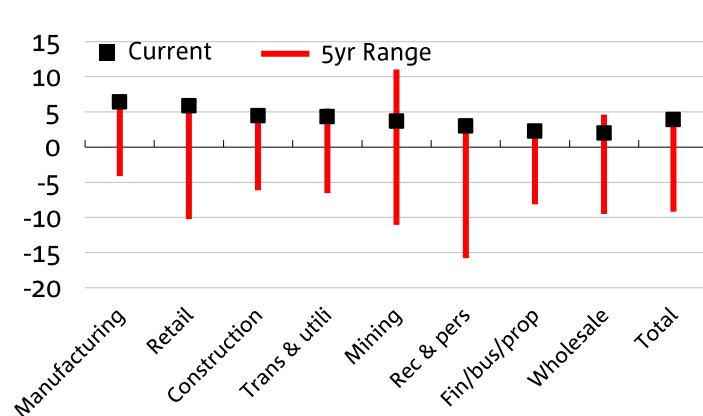


CHART 18: STOCKS (NET BALANCE)

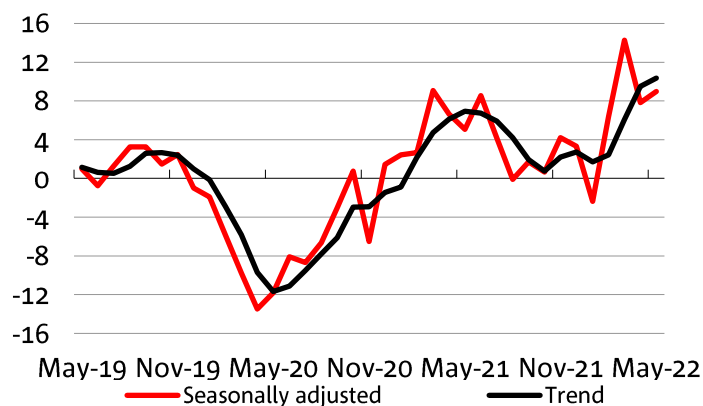


CHART 19: CASH FLOW (NET BALANCE)

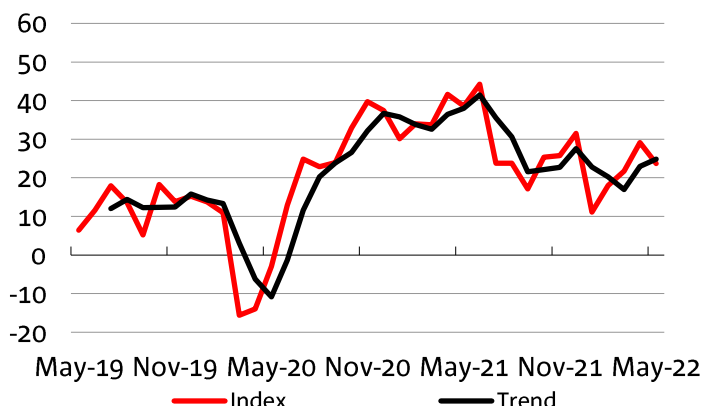


CHART 20: EXPORTS (NET BALANCE)

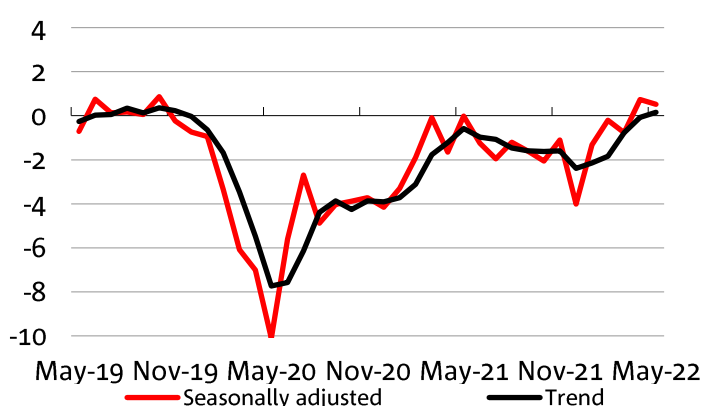
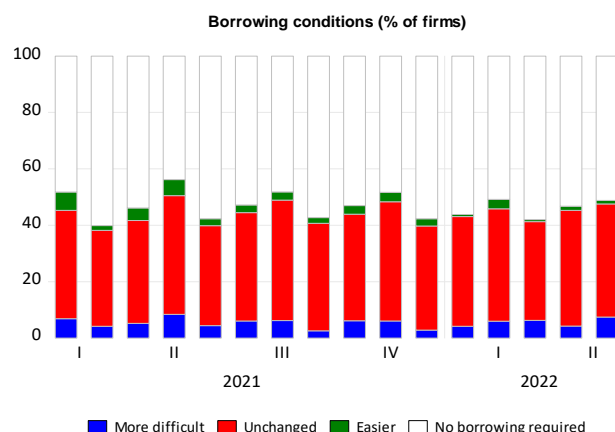


CHART 21: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

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

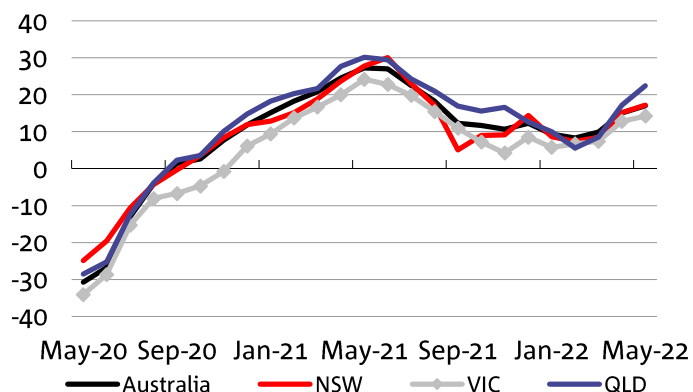


CHART 23: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

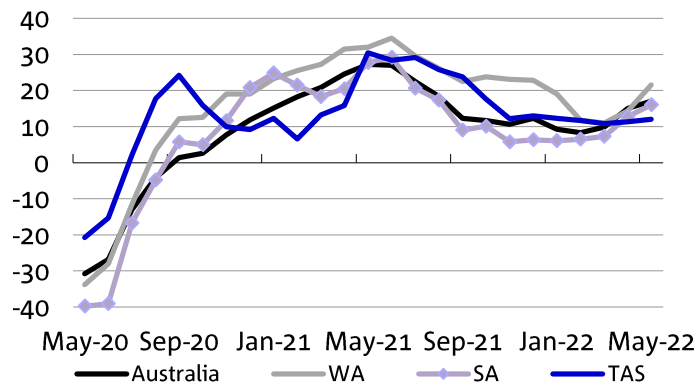


CHART 24: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

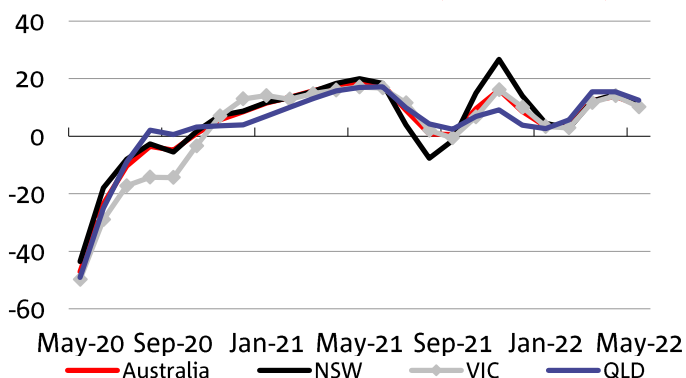


CHART 25: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

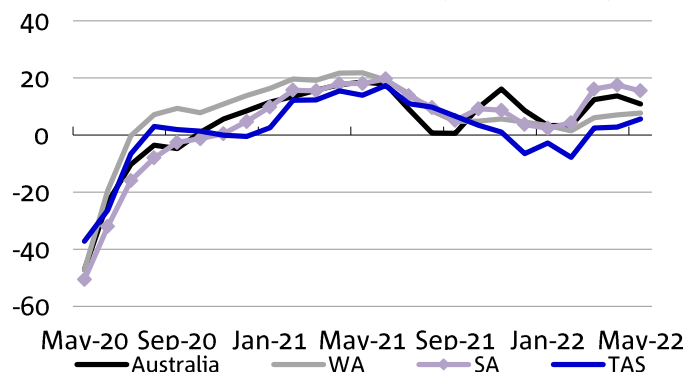


CHART 26: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

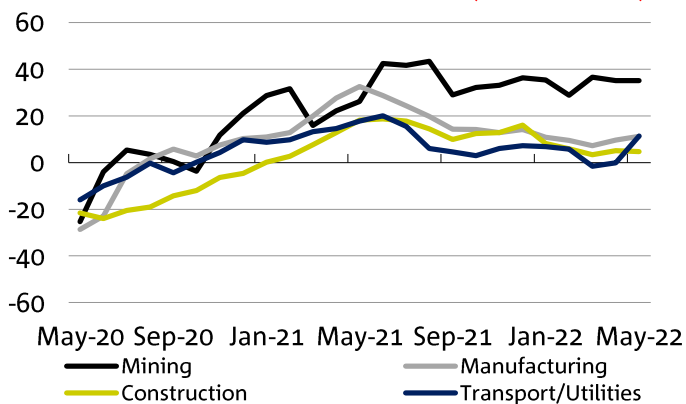


CHART 27: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

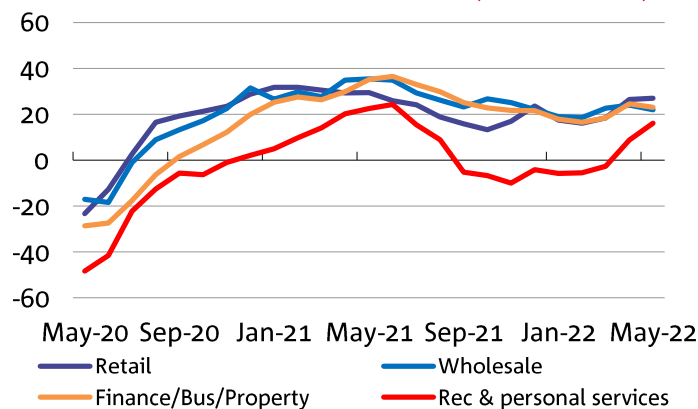


CHART 28: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

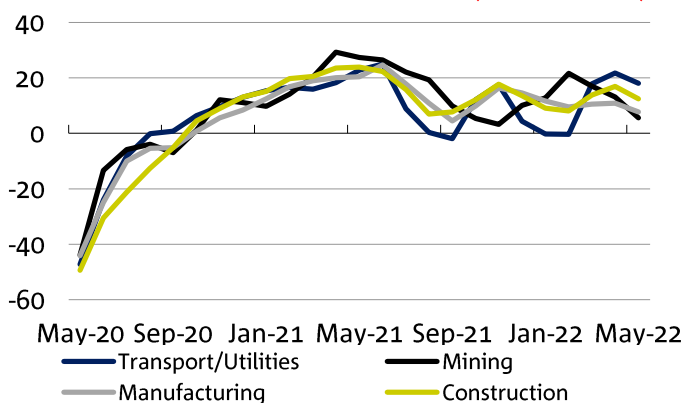
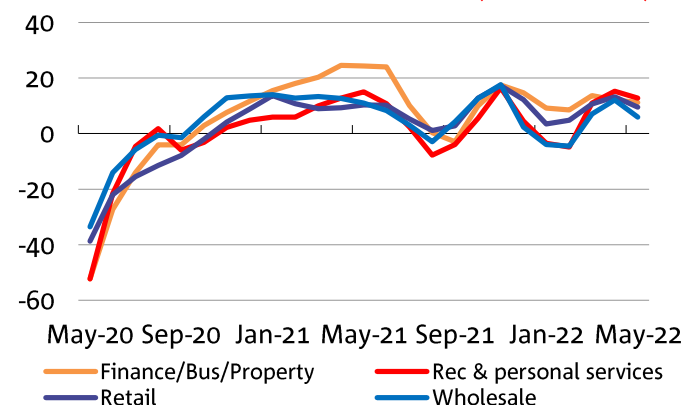


CHART 29: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 30: EMPLOYMENT

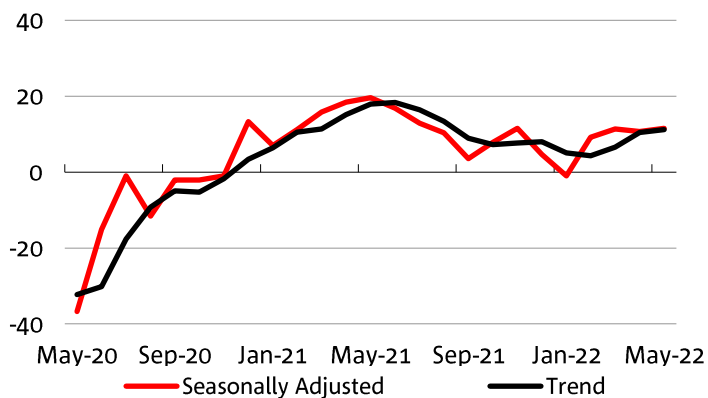


CHART 31: EMPLOYMENT (NAB VS ABS)

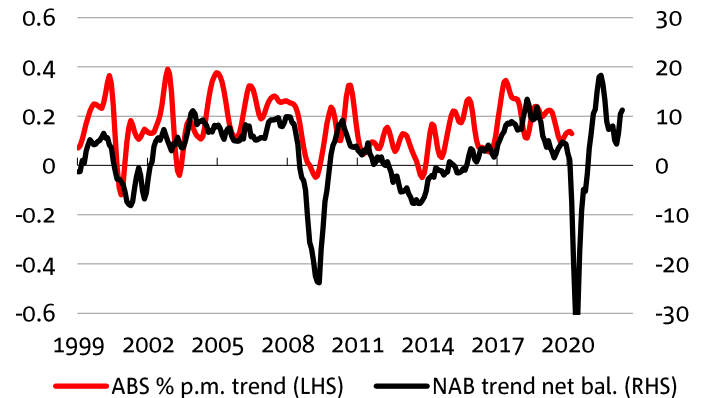


CHART 32: EMPLOYMENT BY INDUSTRY

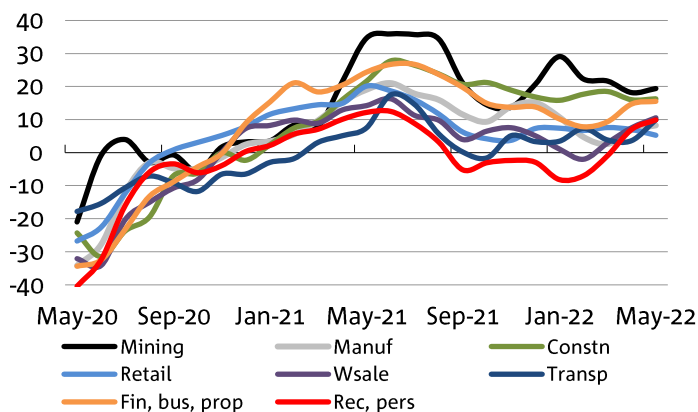


CHART 33: LABOUR COSTS GROWTH

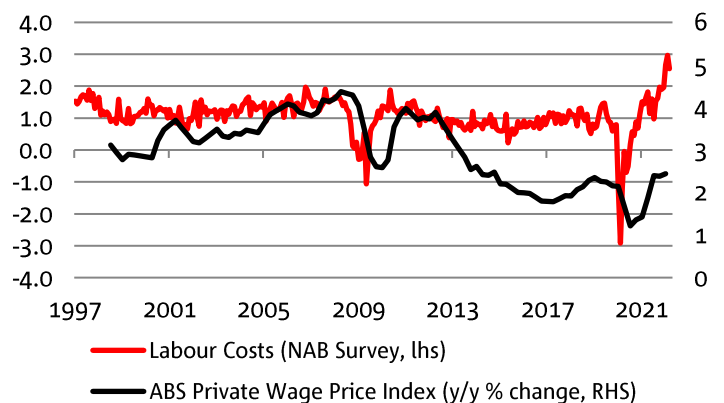


CHART 34: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

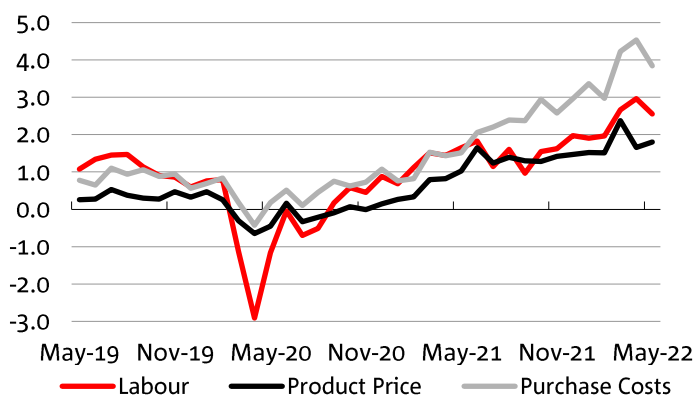
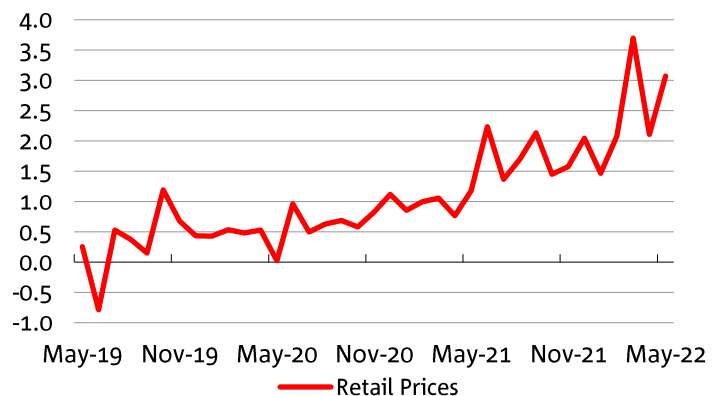


CHART 35: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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)