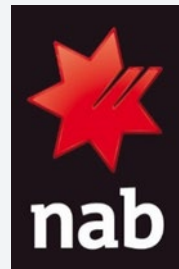


EMBARGOED UNTIL: 11:30AM AEST, 12 JULY 2022

NAB MONTHLY BUSINESS SURVEY JUNE 2022

BUSINESS CONFIDENCE FALLS FURTHER WHILE CONDITIONS HOLD UP

NAB Australian Economics



Key messages: Business confidence fell to a below-average +1 index point in June as global uncertainty, looming interest rate hikes and inflation continued to cloud the outlook. Fears over these impacts on household consumption were particularly evident with confidence in the retail sector taking a significant hit. Business conditions declined by a more modest 2pts to +13 index points but remained well above average. Conditions have remained strong across the states and across most industries – including retail. Soft conditions in construction remain an outlier as building costs continue to rise, squeezing profits despite a large ongoing pipeline of work in the sector. While confidence eased, forward orders remain elevated, as does capacity utilisation, suggesting that conditions will likely remain healthy in the near-term. The supply side remains a challenge, with survey measures of both input and labour costs growth reaching new records in June at 3.6% and 4.8% respectively in quarterly terms. Product (output) price growth also strengthened and retail price inflation remained elevated at 2.9%. Bringing together retail and services industry price data from the survey suggests a very high print for underlying inflation when the Q2 CPI is released later in July.

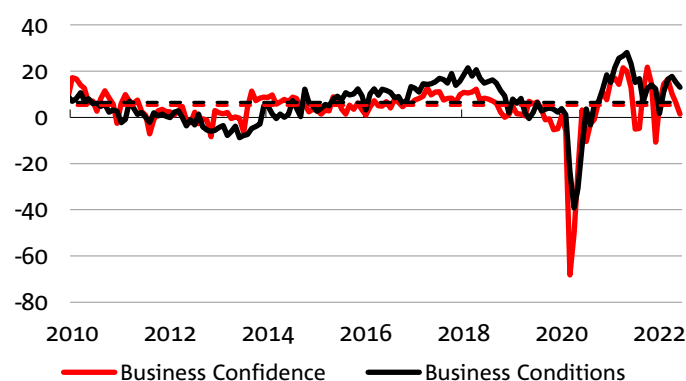
HIGHLIGHTS

- **How confident are businesses?** Business confidence fell 5pts to a below average +1 index point.
- **How did business conditions fare?** Conditions eased 2pts to +13 index points, remaining well above average.
- **What components contributed to the result?** All three components of conditions eased, with trading conditions down 3pts (now +18 index points), profitability down 4pts (now +12 index points) and employment down 2pts (now +10 index points).
- **Which industries are driving conditions?** Conditions softened across all industries other than *finance, business & property*, but largely remained strong across the board. *Mining* and *transport & utilities* saw large falls (though have been volatile) too. *Construction* remains the outlier with conditions now sitting at a very weak 0 index points in trend terms, and -3 index points for the month of June.
- **Which industries are most confident?** Confidence in retail fell by a sharp 21pts to be deep into negative territory, and there were also large falls in confidence across *mining, manufacturing, finance, business & property*. Confidence has held up in *recreation & personal services* with *transport & utilities* and *finance, business & property* also above average in trend terms.
- **Where are we seeing the best conditions by state?** Conditions remain fairly strong across the states. Conditions in Qld fell 12pts in June but still sat at +20 index points in trend terms, with conditions weakest in Tas (albeit still above average).
- **What is confidence like across the states?** The fall in confidence was felt across all states, with the sharpest impacts in SA, Tas and Qld. In trend terms, confidence remains in positive territory everywhere except Tas.
- **Are leading indicators suggesting improvement?** Capacity utilisation was broadly steady in June at an elevated 84.8% (down 0.1ppt). Forward orders eased but remain well above average.
- **What does the survey suggest about inflation?** Measures of cost growth reached new survey records in June. Labour costs rose 3.6% in quarterly terms, above the previous high of 2.8% in April, and purchase costs rose 4.8%, eclipsing April's read of 4.5%. Output prices also strengthened, and retail price growth remained elevated at 2.9%.

TABLE 1: KEY STATISTICS

	Apr-22	May-22	Jun-22
		Net balance	
Business confidence	10	6	1
Business conditions	18	15	13
Trading	25	21	18
Profitability	19	16	12
Employment	11	12	10
Forward orders	11	13	10
Stocks	8	9	7
Exports	1	1	2
		% change at quarterly rate	
Labour costs	2.8	2.4	3.6
Purchase costs	4.5	3.6	4.8
Final products prices	1.7	1.7	2.3
Retail prices	2.2	3.0	2.9
		Per cent	
Capacity utilisation rate	84.2	84.9	84.8

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 20 to 30 June 2022, covering over 400 firms across the non-farm business sector.

Next release date: 9 August 2022.

NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

GOODS AND SERVICES PRICES POINT TO RECORD Q2 CPI

- With headline inflation running at 5.1% y/y in Q1 and energy and food prices spiking, attention is squarely focused on the forthcoming Q2 CPI release as the RBA continues to normalise rates at a swift pace.
- The NAB survey asks firms each month about how much they are raising the prices for their products. While the resulting data doesn't exactly replicate the CPI, data on prices can be used to draw conclusions about CPI components and even model overall CPI for the quarter.
- For example, price changes reported by firms in the retail industry broadly track the path of goods inflation over time (Chart 2). Based on this month's survey, this suggests goods CPI could be around 2.7% in Q2, similar to the rate of goods inflation seen in Q1.
- Importantly, retail goods only make up part of the 'basket' of consumer goods and services measured in the CPI. Services inflation includes changes in prices for health, education, and utilities, as well as prices for eating out, travelling and going to the movies. Many of these activities fall within the "recreation & personal services" sector in the NAB survey and, as a result, surveyed price growth in this sector broadly follows measured services inflation (Chart 3).
- Services prices diverged during COVID, partly due to the introduction of subsidies for childcare, but are once again tracking closely to the survey measure. Based on this month's survey, this suggests services CPI could be around 1.2% in Q2, surpassing the 1.1% reading in Q1.
- New housing construction for owner occupiers is another important component of the CPI basket. However, the NAB Survey estimates of construction prices are not as good a fit for this series as they reflect the wider construction sector, including non-residential building (Chart 4). The new housing component of CPI has also been significantly impacted by the introduction and withdrawal of government subsidies over time.
- Other components of CPI, such as 'administered' prices for health, education and utilities, as well as rents and petrol prices, are not covered by the NAB Survey. Still, the retail and personal & recreation price series in our survey cover a broad cross section of the goods and services in the CPI.
- A simple mapping equation for the trimmed-mean CPI based on these series produces a closely-fitted estimate, shown in Chart 5. Based on the current reads in the NAB survey, this model suggests trimmed-mean CPI could be as high as 1.6% q/q in Q2, or 4.4% y/y.
- While this would represent the fastest rate of underlying price growth on record in Australia, it would continue to reflect global factors, including ongoing COVID-related supply chain disruptions and the impacts of the war in Ukraine on commodity and food prices, as well as domestic disruptions from Omicron and flooding. In the absence of further additional shocks, we continue to expect price growth to ease over the coming year.

CHART 2: NAB RETAIL PRICES VS ABS GOODS CPI (Q/Q)

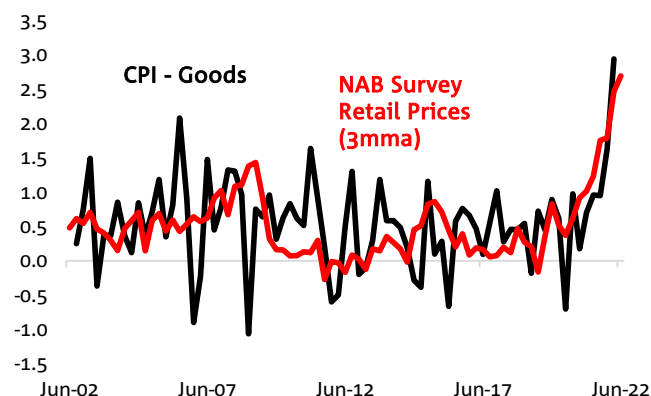


CHART 3: NAB SERVICES PRICES VS ABS SERVICES CPI (Q/Q)

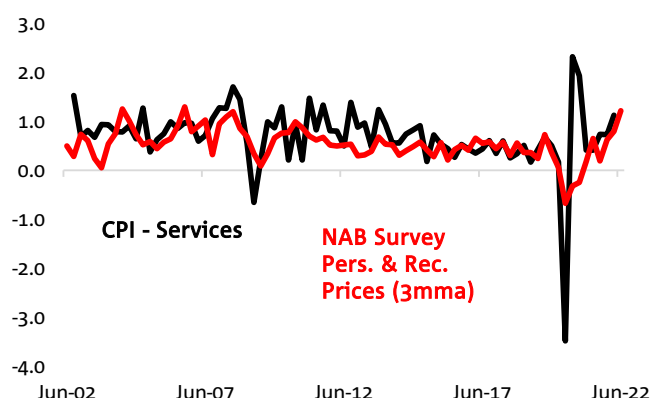


CHART 4: NAB CONSTRUCTION PRICES VS ABS HOUSING CPI (Q/Q)

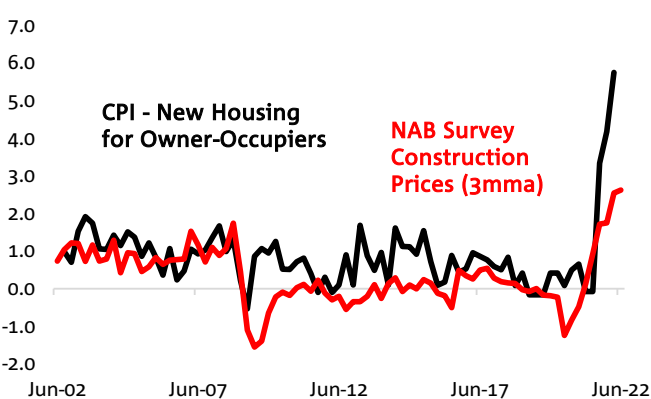
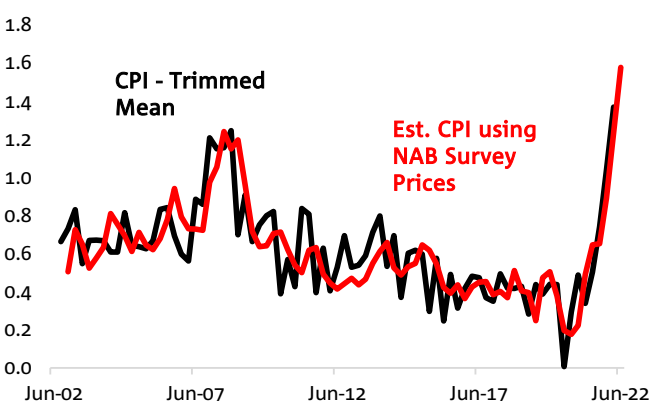


CHART 5: ESTIMATED TRIMMED-MEAN CPI (Q/Q)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 6: BUSINESS CONFIDENCE (NET BALANCE)

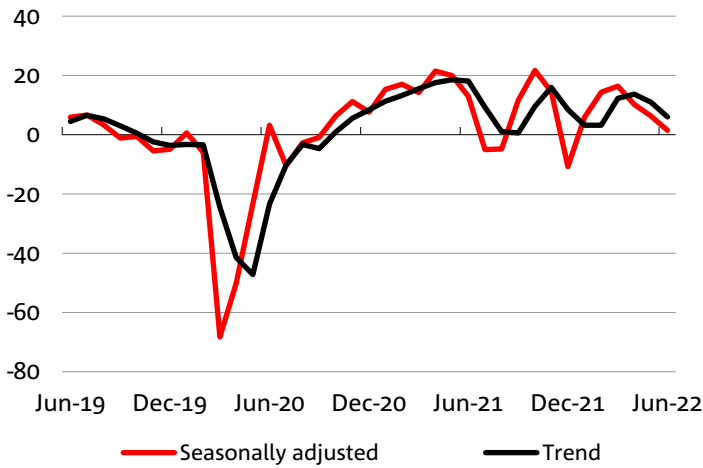


CHART 7: BUSINESS CONDITIONS (NET BALANCE)

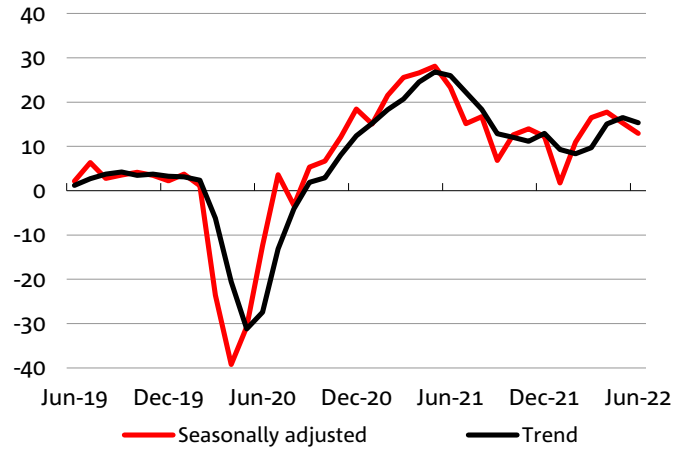


CHART 8: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

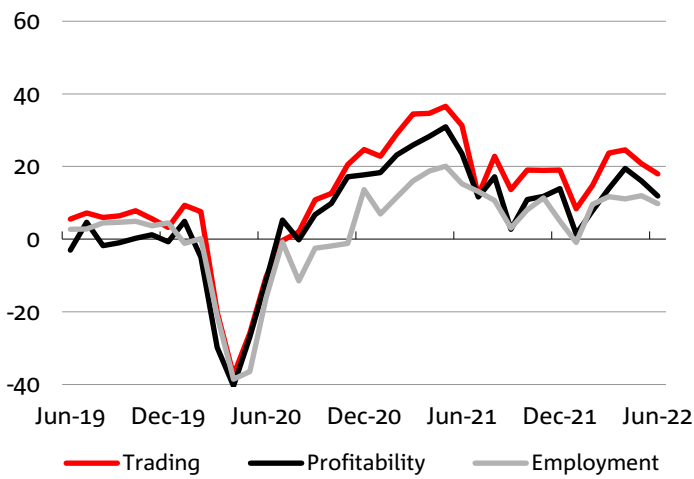


CHART 9: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

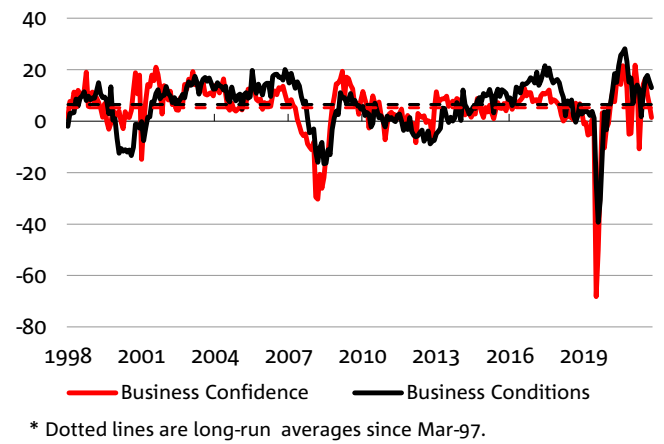


CHART 10: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

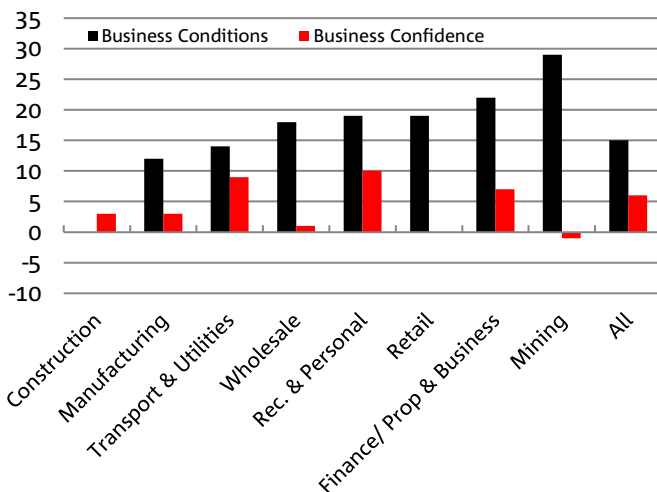
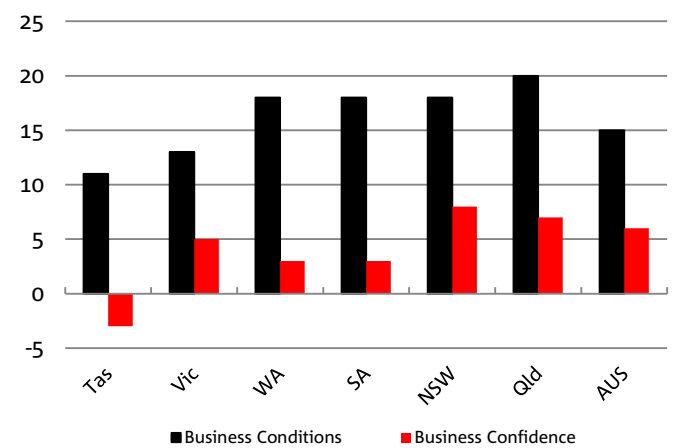


CHART 11: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 12: FORWARD ORDERS (NET BALANCE)

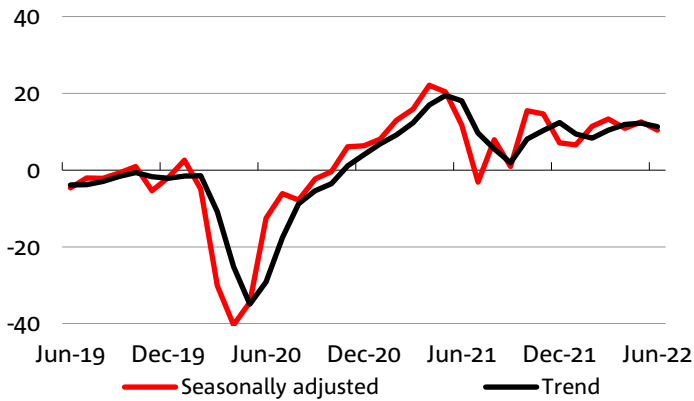


CHART 13: CAPITAL EXPENDITURE (NET BALANCE)

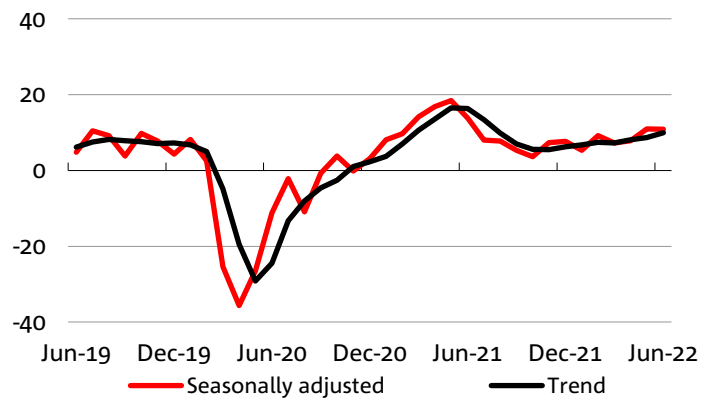


CHART 14: CAPACITY UTILISATION AND UNEMPLOYMENT

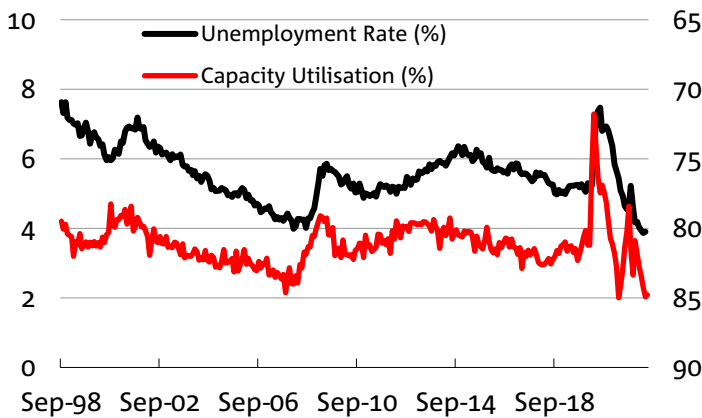


CHART 15: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

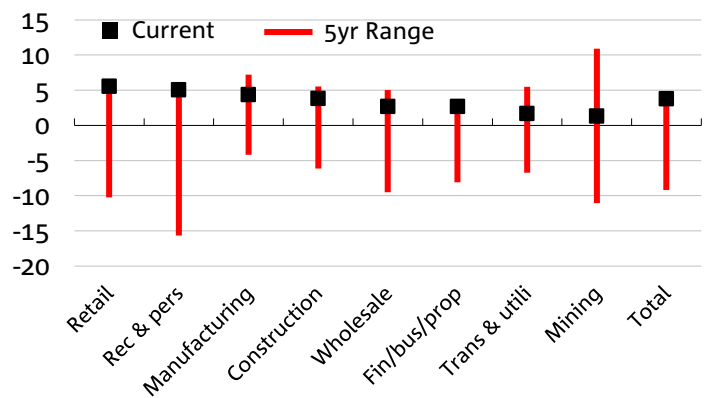


CHART 16: STOCKS (NET BALANCE)

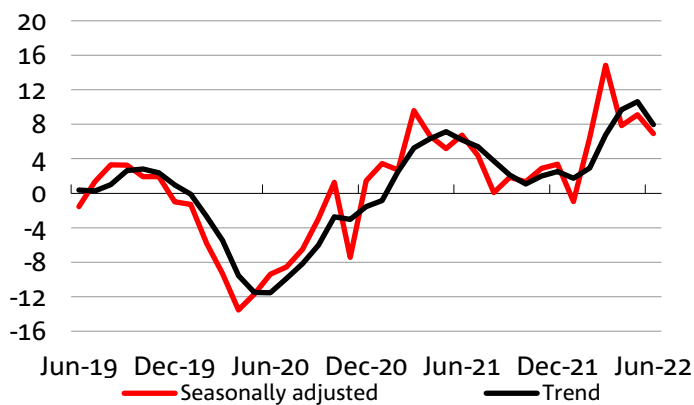


CHART 17: CASH FLOW (NET BALANCE)

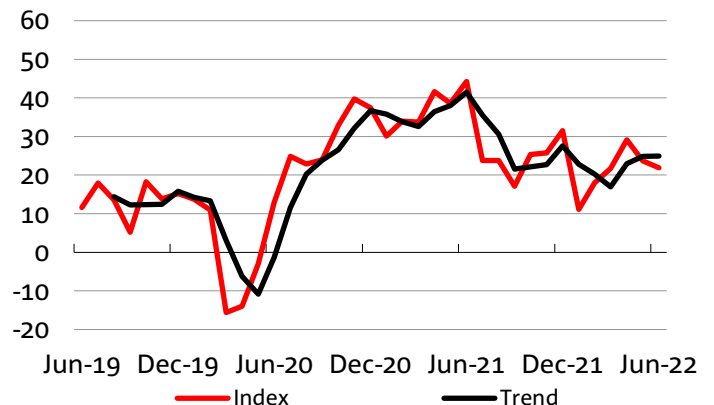


CHART 18: EXPORTS (NET BALANCE)

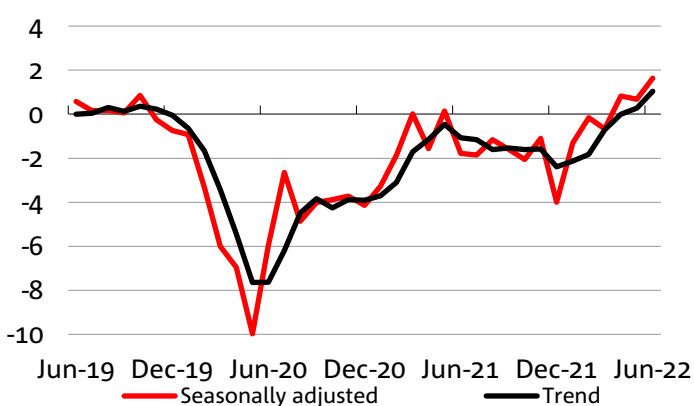
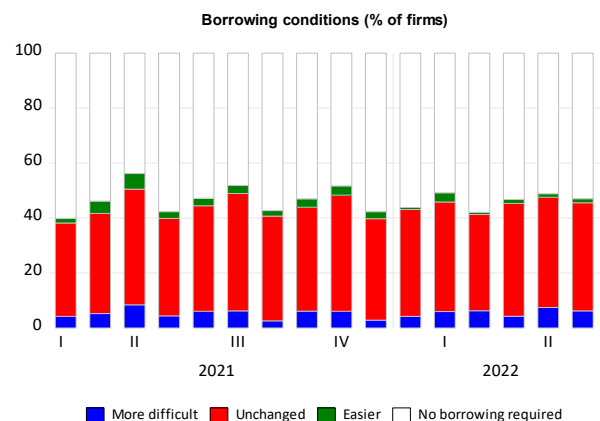


CHART 19: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

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

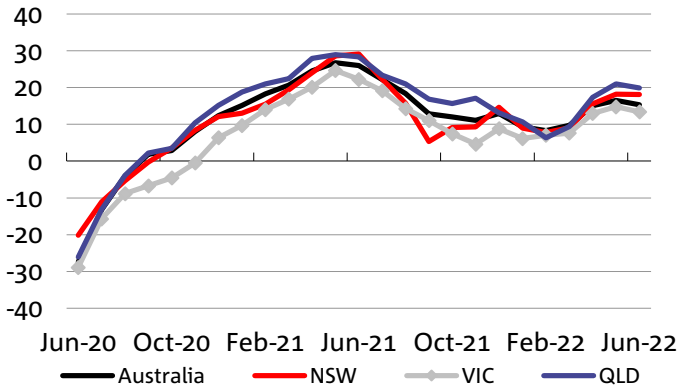


CHART 21: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

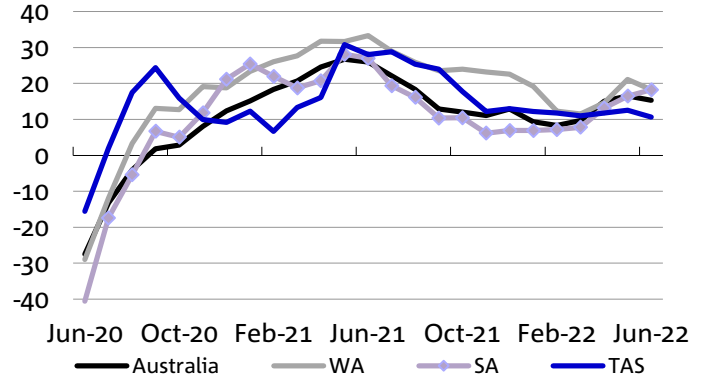


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

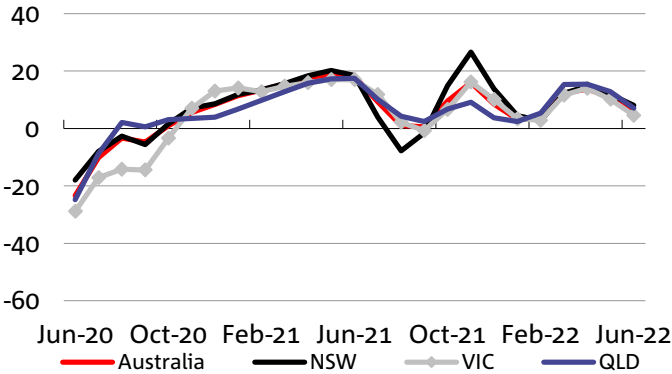


CHART 23: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

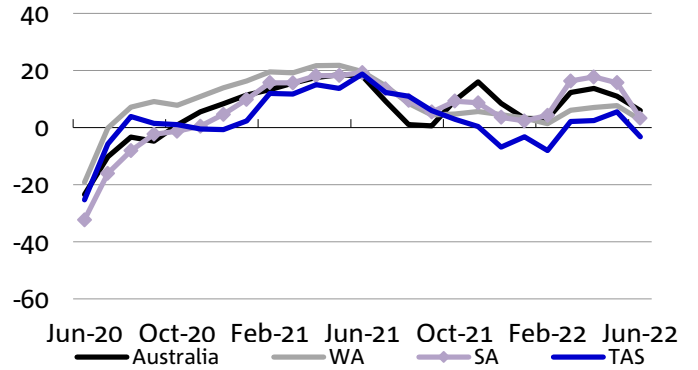


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

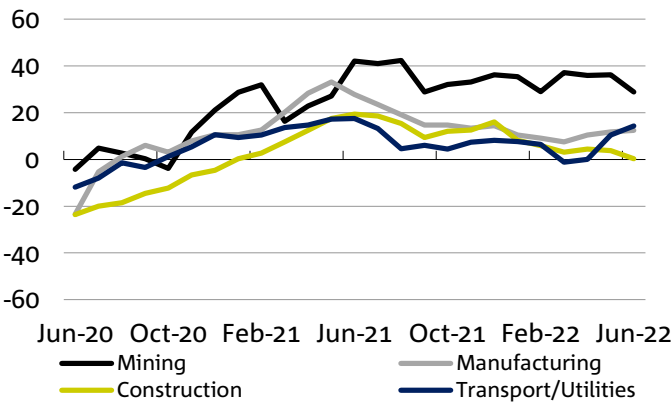


CHART 25: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

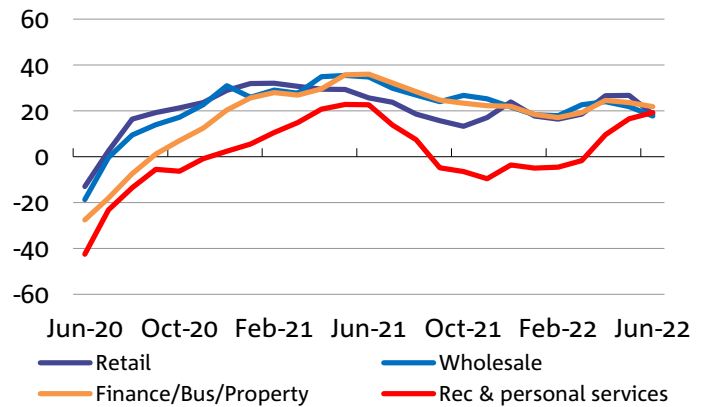


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

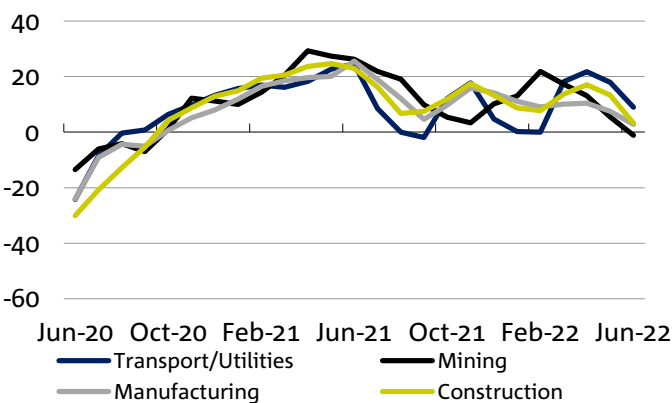
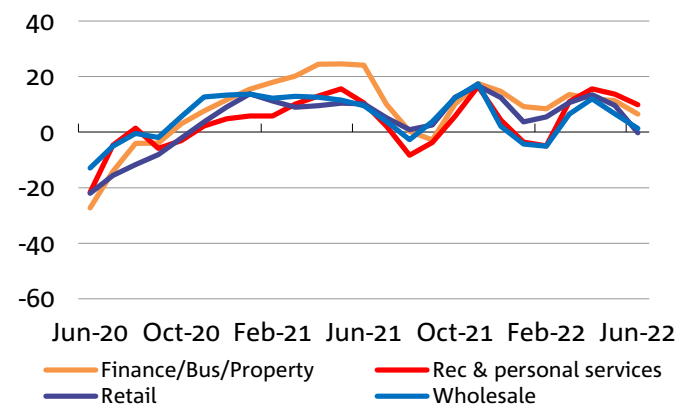


CHART 27: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 28: EMPLOYMENT

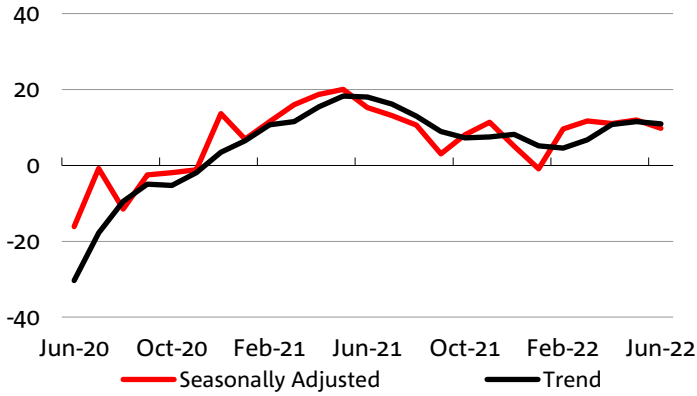


CHART 29: EMPLOYMENT (NAB VS ABS)

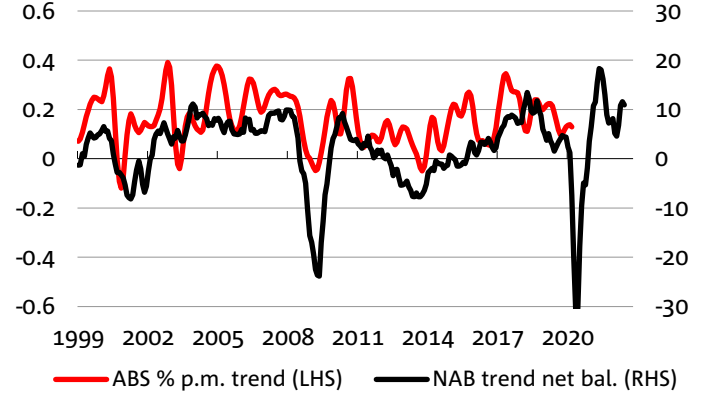


CHART 30: EMPLOYMENT BY INDUSTRY

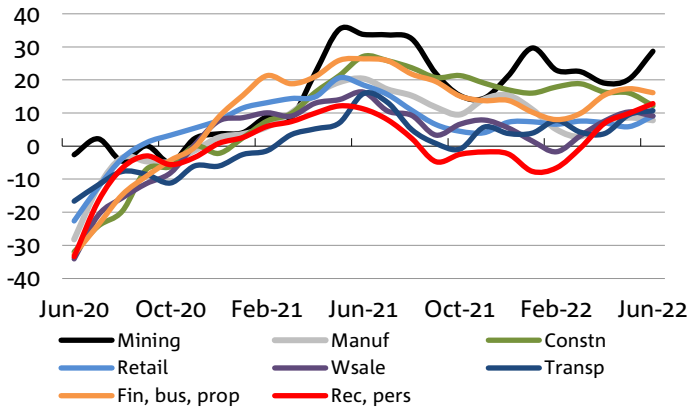


CHART 31: LABOUR COSTS GROWTH

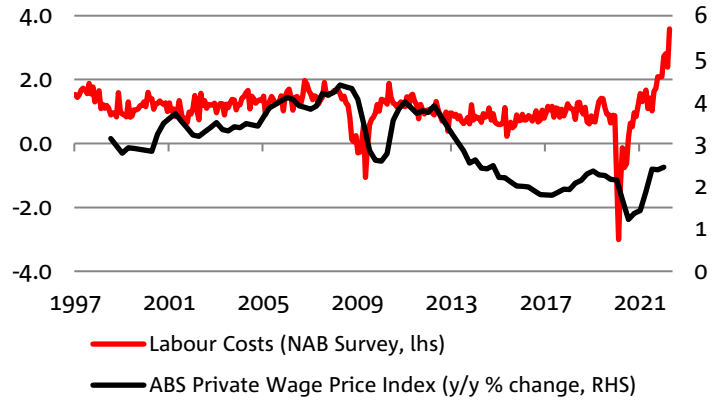


CHART 32: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

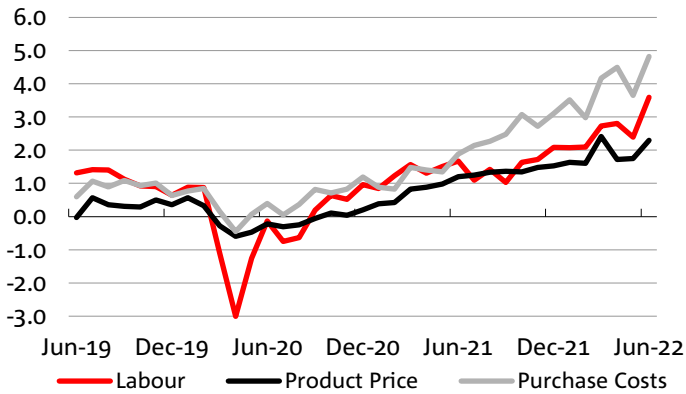
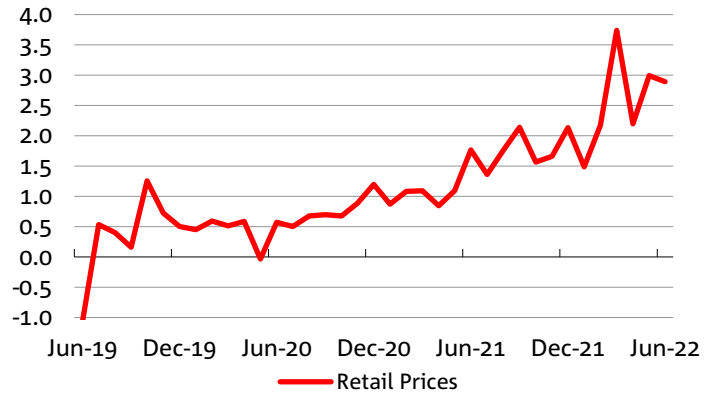


CHART 33: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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)