

**EMBARGOED UNTIL: 11:30AM AEST, 21 JULY 2022**

# **NAB QUARTERLY BUSINESS SURVEY 2022 Q2**

## **STRONG CONDITIONS AS INFLATIONARY PRESSURE BUILDS**

**NAB Australian Economics**



Conditions strengthened in Q2, while business confidence eased back to around long-run average levels. All three subcomponents - trading, profitability and employment - were higher after the Omicron outbreak weighed on Q1 results. There were significant gains in recreation & personal services, and in transport & utilities, with all sectors now in positive territory. While confidence softened expected conditions remained strong and forward orders rose. Capacity utilisation hit a new record high of 85.2% and capex expectations remain elevated. Pressure on margins is now one of the top three factors influencing confidence, reflecting increasing cost pressures. Purchase cost growth reached a new high with materials shortages and fuel costs likely contributing, while labour cost growth also increased as almost 90% of firms reported labour availability was constraining output. Output price growth edged higher, and in the retail sector, rose to a survey high 1.7% for the quarter – pointing to another very high inflation read when Q2 CPI is released next week. Expectations for future wage growth also ticked higher in the quarter, suggesting that firms will increasingly bid up wages in a tight labour market.

### **HIGHLIGHTS**

- **Business conditions** rose 9pts to +20 index points. The improvement came across all three subcomponents, with trading (up 11pts), profitability (up 10pts) and employment (up 5pts) all rising. Recreation & personal services and transport & utilities both saw significant gains, up 23pts and 19pts respectively. Conditions were softest in construction (+6 index points), with conditions in all other sectors at very strong levels. Conditions were also strong across the states.
- **Business confidence** fell 9pts to +5 index points, around the long-run average level. Confidence fell across all sectors and states except WA (which was flat). Mining (-7 index points) and wholesale (-5 index points) were both in negative territory, while construction and retail both sat at zero. Confidence in Tasmania was also deeply negative at -24 index points.
- **Leading indicators** remain elevated. Expected business conditions in 3 months held at +26 index points and longer-run expectations are even stronger, albeit they edged down in the quarter. Forward orders strengthened 4pts to +17 index points and capex plans are also still elevated.
- **Labour indicators** continue to point to ongoing strength in labour demand. Expected employment in 3 months held at +27 index points, while longer-run expectations are stronger still (though, like expectations for conditions, they eased marginally). Almost 90% of firms reported availability of labour as a constraint on output reflecting the tightening labour market.
- **Price measures** continue to point to very strong inflation outcomes. Purchase cost growth reached a new high of 2.0% with materials shortages and fuel costs likely contributing, while labour cost growth also increased to 1.5% as almost 90% of firms reported labour availability was constraining output. Final product price growth edged higher as a result, up to 1.1%, with retail price growth at a record 1.7% for the quarter.
- **Pressure on margins** is now one of the top three factors influencing confidence, reflecting increasing cost pressures. Still, profitability was higher in the month indicating that so far, firms are managing to offset higher costs by raising prices. There is clear concern about longer-term cost pressures however, with wage pressures the number one factor influencing confidence and expected annual wage growth per employee ticking higher, from 1.5% in Q1 to 2.0% in Q2.

**TABLE 1: KEY QUARTERLY BUSINESS STATISTICS**

	2021q4	2022q1	2022q2		2021q4	2022q1	2022q2
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	18	15	5	Trading	21	14	25
Business conditions				Profitability	14	8	19
Current	15	11	20	Employment	11	11	15
Next 3 months	33	26	26	Next 3 months	30	27	27
Next 12 months	36	34	29	Next 12 months	30	42	39
Capex plans (next 12)	34	33	31	Forward orders	18	13	17
	<i>% change</i>			Stocks	6	8	11
Labour costs	1.0	1.1	1.5	Exports	-1	-1	1
Purchase costs	1.5	1.6	2.0				
Final products prices	0.8	0.9	1.1	Retail prices (% change)	1.1	1.3	1.7
				Capacity utilisation rate (%)	83.4	83.6	85.2

All data seasonally adjusted, except purchase costs and exports. This survey was conducted from 23 May to 9 June 2022, covering over 900 firms across the non-farm business sector.

**Next release: 20 October 2022.**

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# QUARTERLY FOCUS: EXPECTED WAGE GROWTH INCHING HIGHER

- With the unemployment rate now at a 5-decade low of 3.5%, labour demand highly elevated and inflation also rising, attention is firmly fixed on measures of wage growth for signs that workers are securing faster income gains.
- One such indicator is the NAB survey's measure of labour cost growth, which has accelerated over the past year. Quarterly labour costs grew 1.5% in Q2 of 2022, a rate not seen in the survey since the 1990s.
- However, labour cost growth captures changes in a business's total wage bill, including changes in the number and composition of staff and their hours worked. In this sense, it is closer to the ABS's measure of Compensation of Employees (COE) in the National Accounts than measures of underlying wage growth. Indeed, in year ended-terms, labour cost growth has followed a similar path to COE through the pandemic as employment and hours worked have moved dramatically (Chart 1).
- Other questions in the survey can provide more insight into the outlook for underlying wage growth. Since 2018, firms have been asked how they expect wages to change in their business over the next 6 months. The share expecting a moderate or substantial increase in wages jumped to 46% in Q2, up from 34% in Q1 and well above the pre-COVID average of around 19% (Chart 2).
- A further question asks firms about their expectations for wage growth *per employee* for the financial year, responses to which have closely tracked the ABS's Wage Price Index (WPI) (Chart 3). In Q2 (when firms were asked about expectations for the financial year ahead), this measure ticked up to 2.0%, from 1.5% in Q1. This marks the highest reading for this question since 2011-12, when the WPI was growing more than 3.5% y/y.
- The distribution of responses to this question has shifted noticeably (Chart 4). The share of firms expecting zero wage growth per employee fell from 29% in Q1 to 19% in Q2, and the shares expecting smaller increases of less than 3% also fell. On the other hand, the share expecting wage growth per employee of 3-5% jumped from 18% to 32%, and the share expecting increases of 5% or more also rose.
- Notably, these survey responses were provided before the Fair Work Commission announced its Minimum Wage decision in June. While firms employing minimum wage and award workers may have incorporated the likelihood of a significant minimum wage increase into their expectations, other factors including the tightness of the labour market and expectations for bargaining outcomes likely also contributed to the higher results.
- Importantly, these expectations relate more to wage outcomes in the second half of the year, meaning they may not be reflected in official data until Q3 figures become available. In the meantime, a gradual pickup is likely when Q2 WPI is released in August, likely taking y/y wage growth to around 2.6-2.7%.

CHART 1: LABOUR COST GROWTH VS COMPENSATION OF EMPLOYEES (Y/Y)

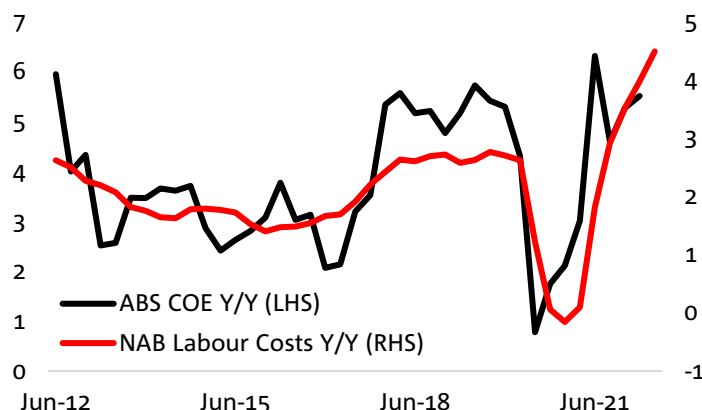


CHART 2: EXPECTED WAGE CHANGES IN NEXT 6 MONTHS (% OF FIRMS)

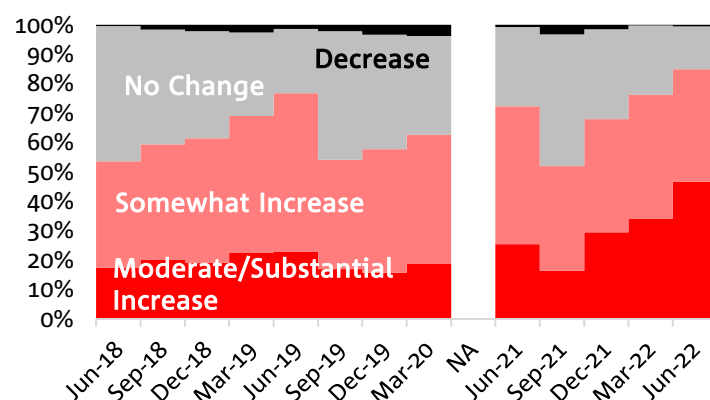


CHART 3: EXPECTED WAGE GROWTH PER EMPLOYEE VS WPI

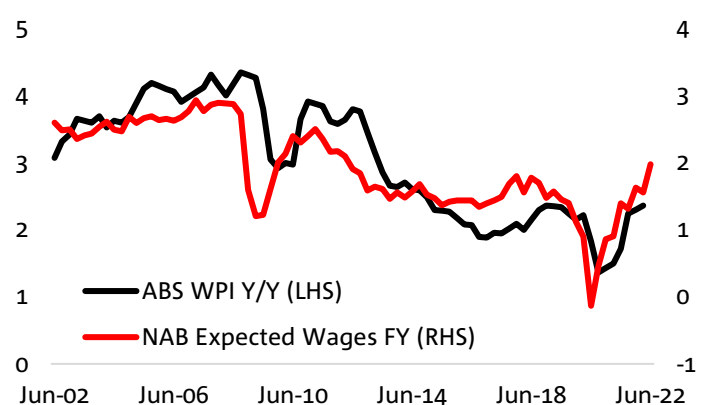
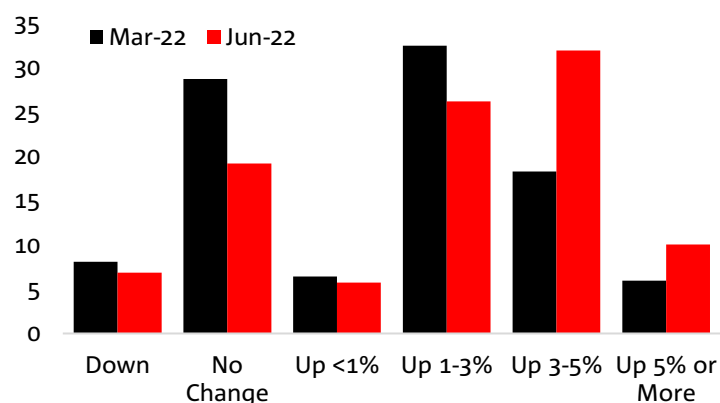


CHART 4: EXPECTED WAGE GROWTH PER EMPLOYEE (% OF FIRMS)



# NAB QUARTERLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONDITIONS & CONFIDENCE (NET BALANCE S.A.)

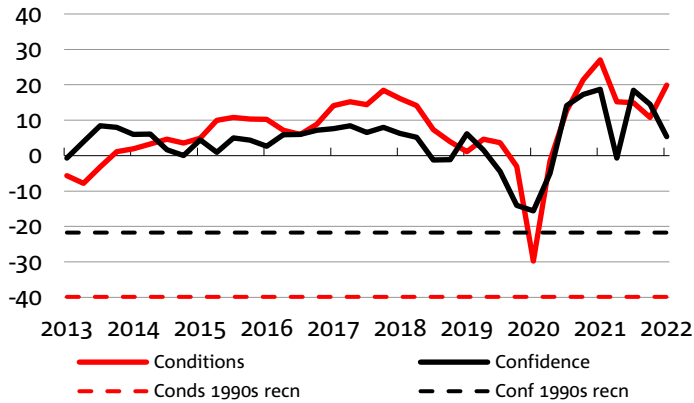
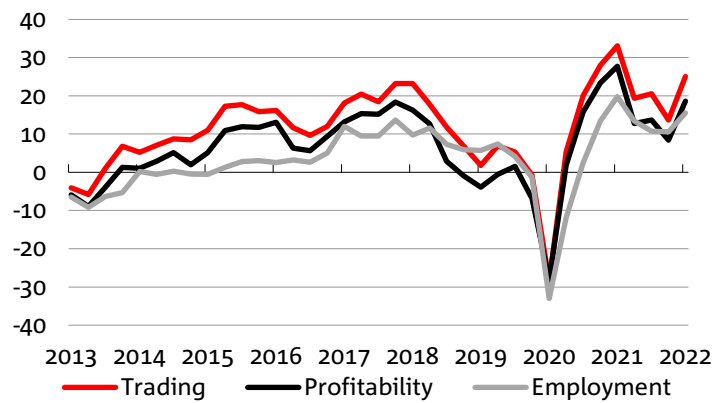


CHART 6: BUSINESS CONDITIONS COMPONENTS (NET BALANCE, S.A.)



## DRIVERS OF BUSINESS CONFIDENCE

CHART 7: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE

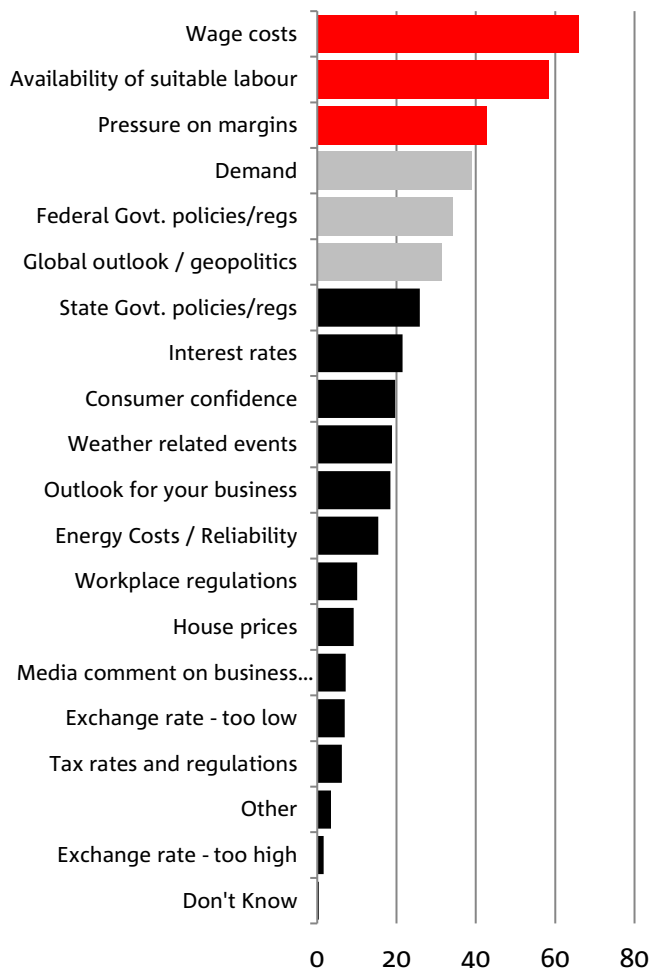


CHART 8: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – DETERIORATING CONFIDENCE

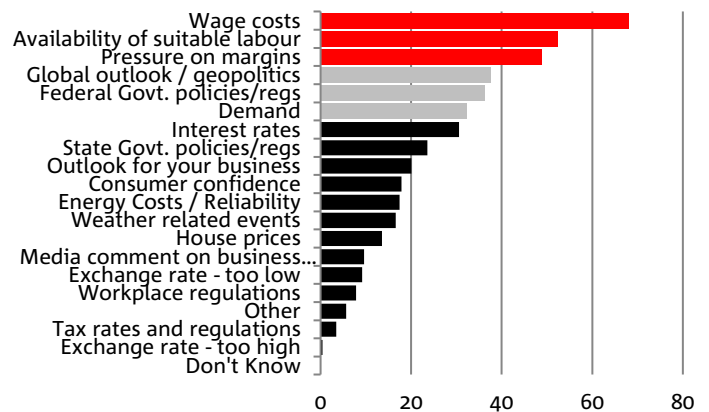
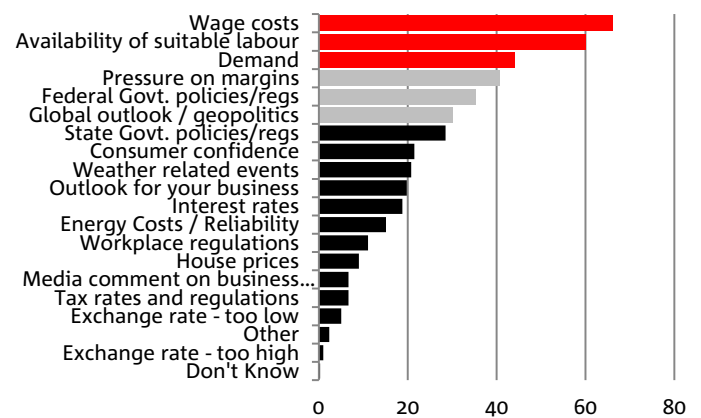
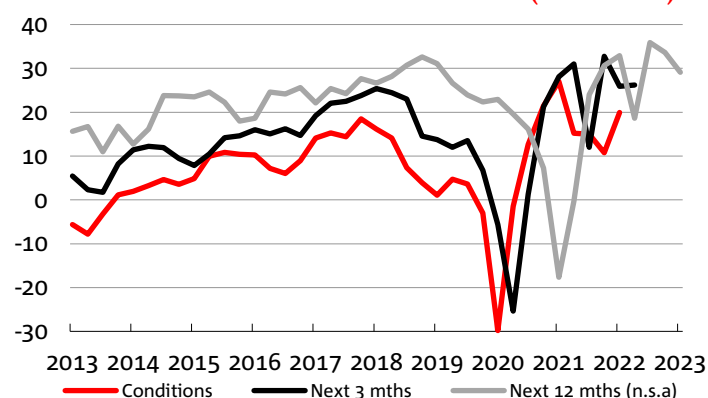


CHART 9: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – IMPROVING CONFIDENCE

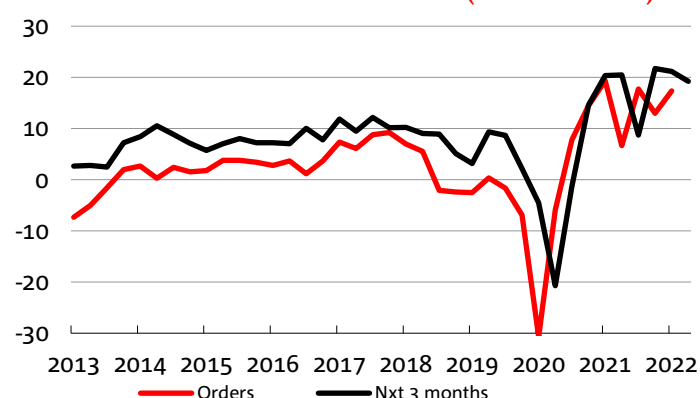


# NAB QUARTERLY BUSINESS SURVEY – LEADING INDICATORS & INVESTMENT

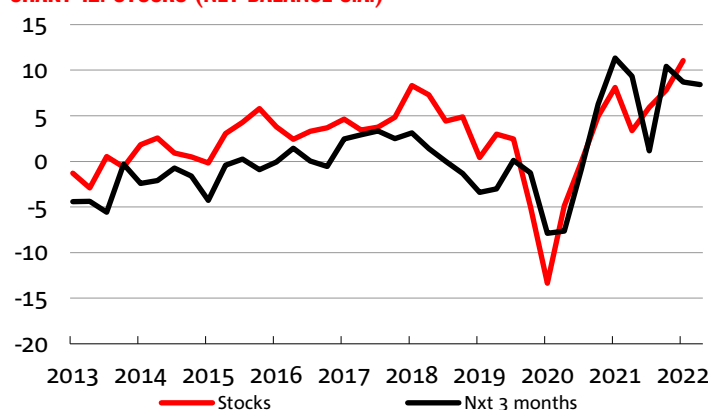
**CHART 10: BUSINESS CONDITIONS AND EXPECTATIONS (NET BALANCE)**



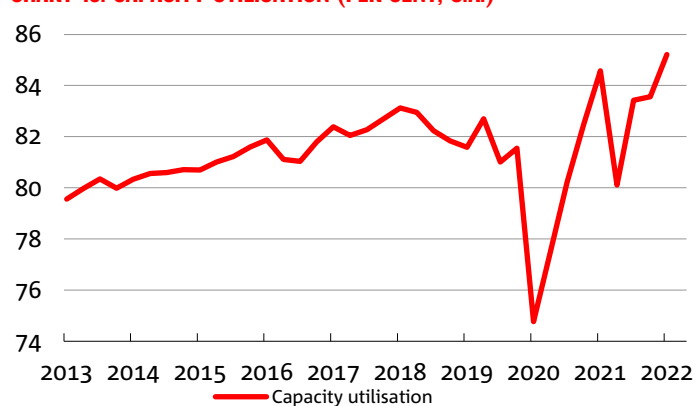
**CHART 11: FORWARD ORDERS & EXPECTATIONS (NET BALANCE S.A.)**



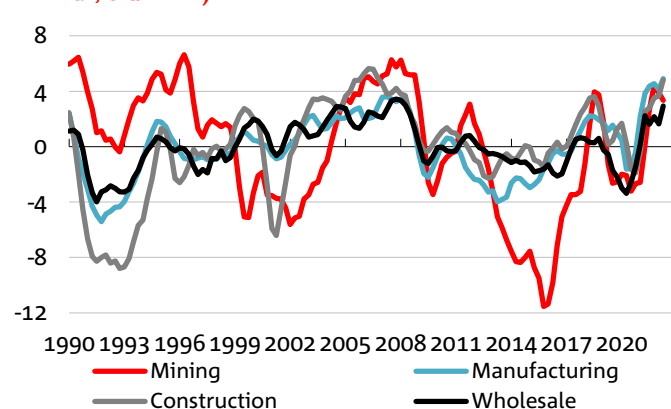
**CHART 12: STOCKS (NET BALANCE S.A.)**



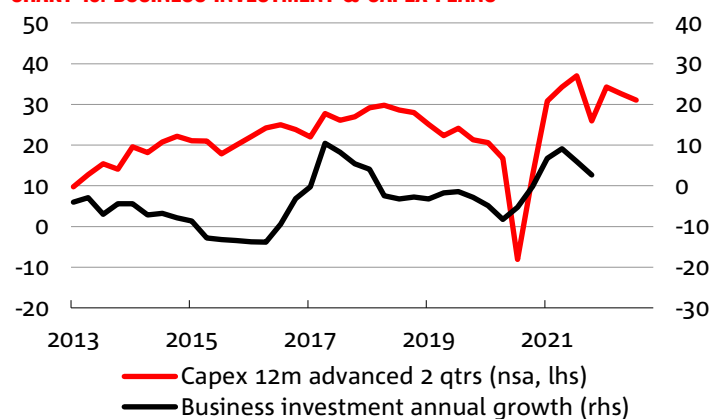
**CHART 13: CAPACITY UTILISATION (PER CENT, S.A.)**



**CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LONG-RUN AVERAGE, 3 QTR MA)**

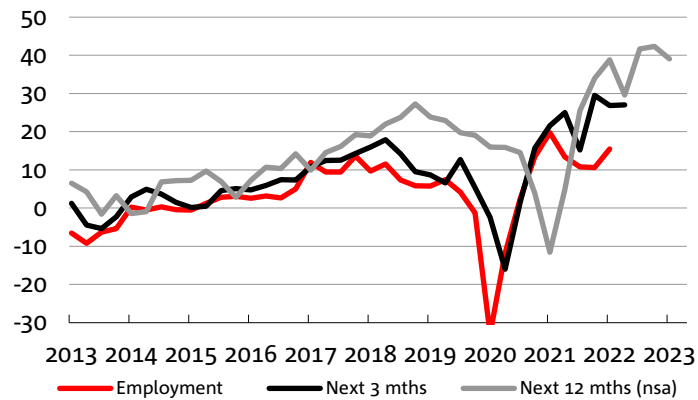


**CHART 15: BUSINESS INVESTMENT & CAPEX PLANS**

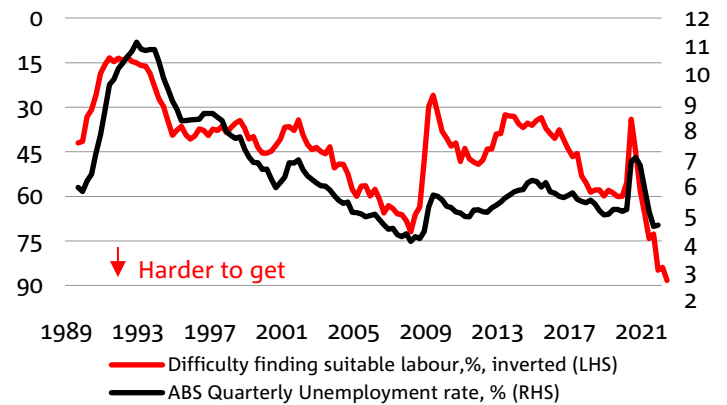


# NAB QUARTERLY BUSINESS SURVEY – LABOUR MARKET

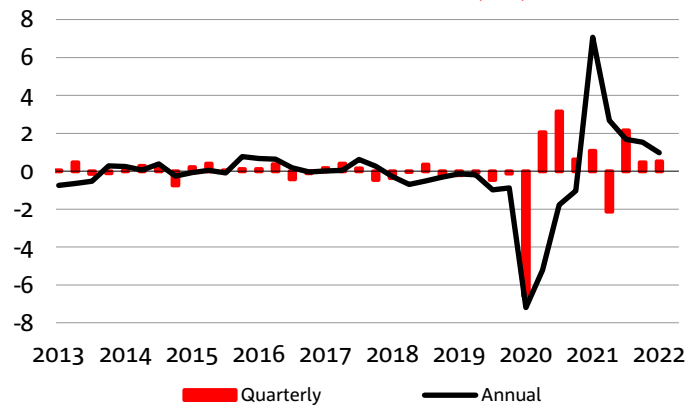
**CHART 16: EMPLOYMENT & EXPECTATIONS (NET BALANCE)**



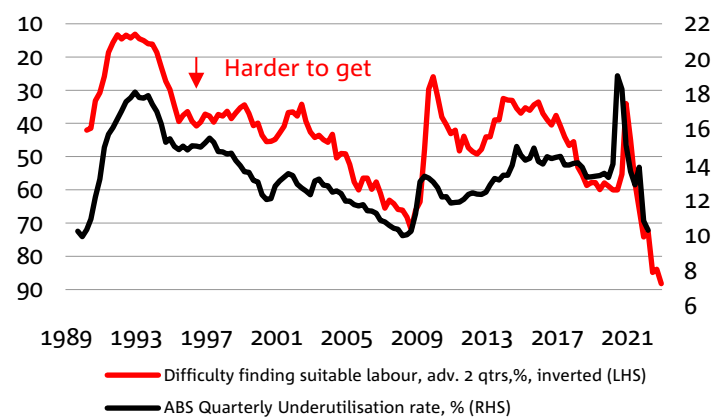
**CHART 17: UNEMPLOYMENT RATE & LABOUR CONSTRAINTS**



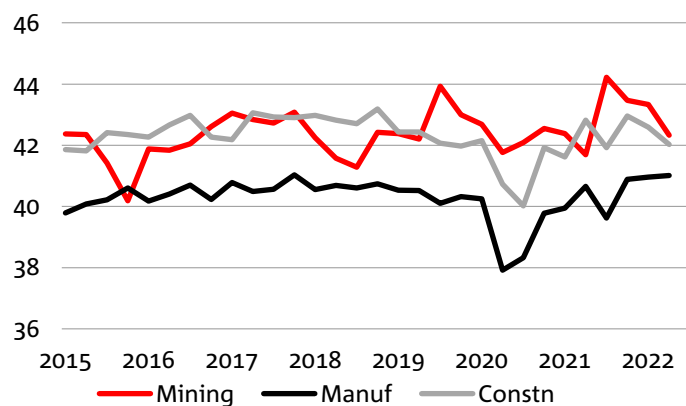
**CHART 18: CHANGE IN AVERAGE HOURS WORKED (NSA)**



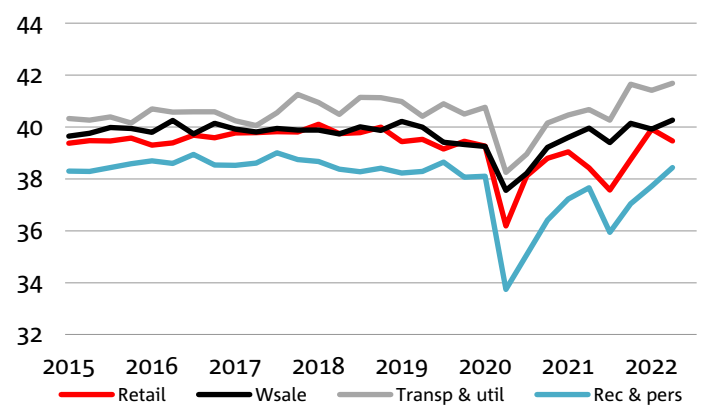
**CHART 19: UNDERUTILISATION RATE & LABOUR CONSTRAINTS**



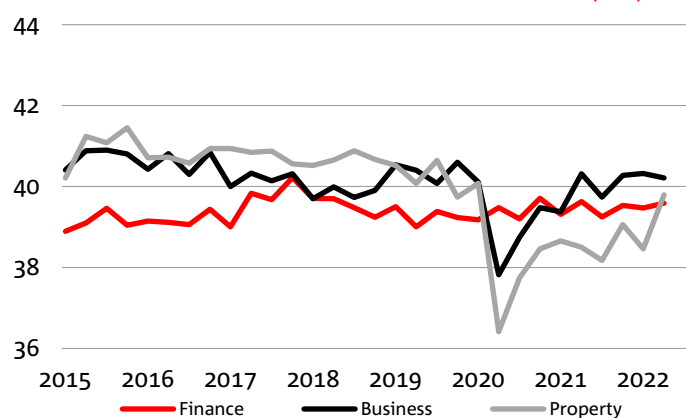
**CHART 20: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



**CHART 21: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



**CHART 22: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



# NAB QUARTERLY BUSINESS SURVEY - MAJOR CONSTRAINTS ON FIRM OUTPUT

CHART 23: MAIN CONSTRAINTS ON FIRM OUTPUT

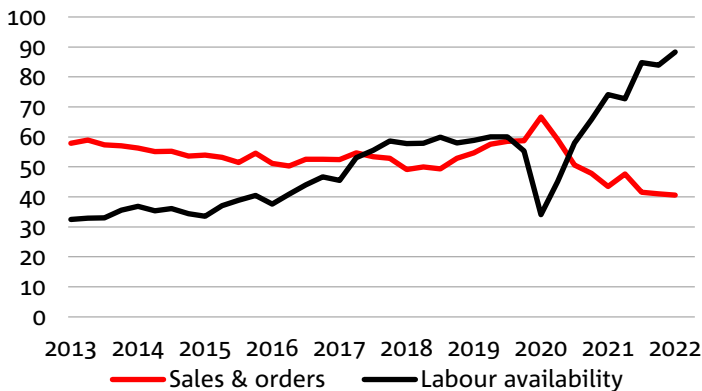
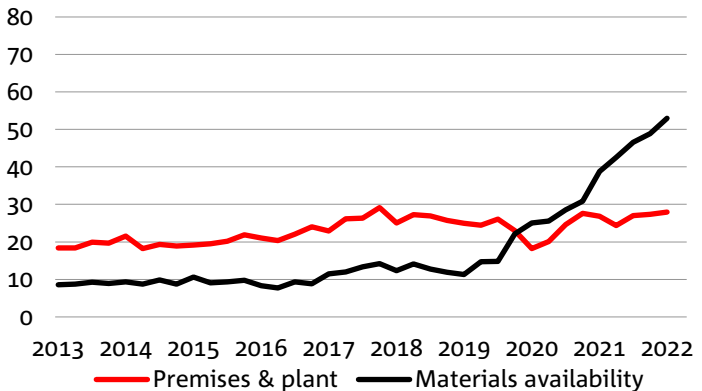


CHART 24: MAIN CONSTRAINTS ON FIRM OUTPUT



## INFLATION PRESSURES

CHART 25: PRICES (% ANN, SA)

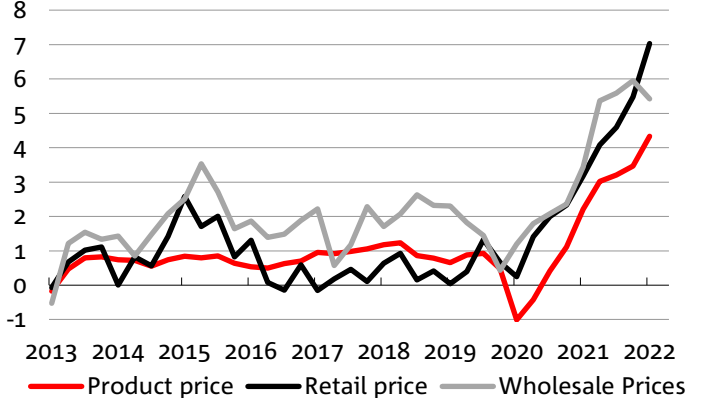
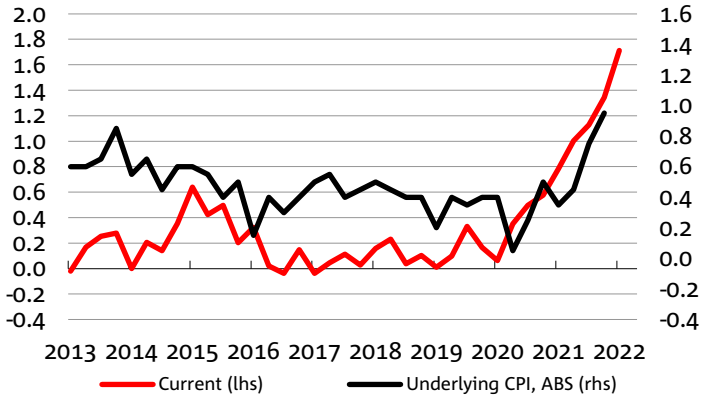


CHART 26: RETAIL PRICES (% P.Q.)



## LABOUR COSTS (DETAILS)

CHART 27: LABOUR COSTS & COMPENSATION OF EMPLOYEES

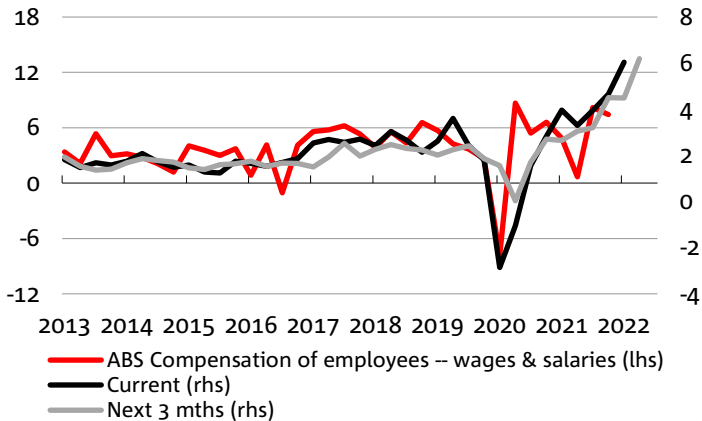
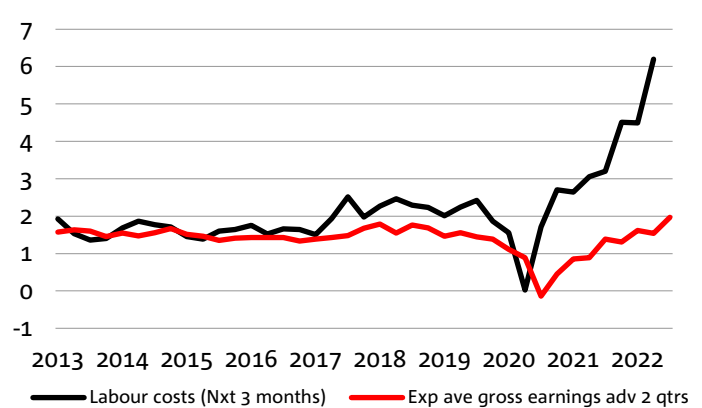


CHART 28: EXPECTED LABOUR COSTS (% ANN)



# NAB QUARTERLY BUSINESS SURVEY – CONSTRUCTION INDUSTRY DETAILS

CHART 29: BUSINESS CONDITIONS BY INDUSTRY

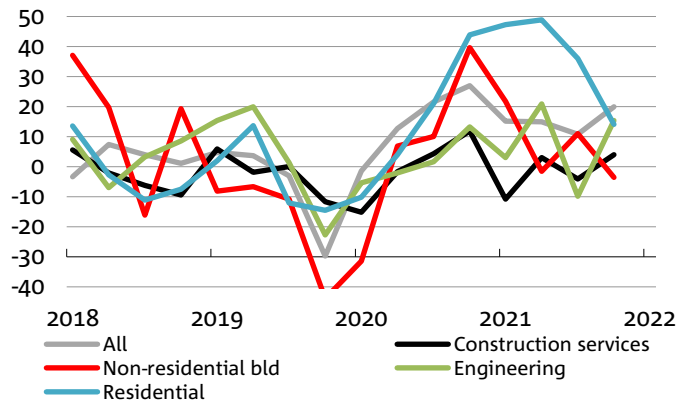


CHART 30: BUSINESS CONFIDENCE BY INDUSTRY

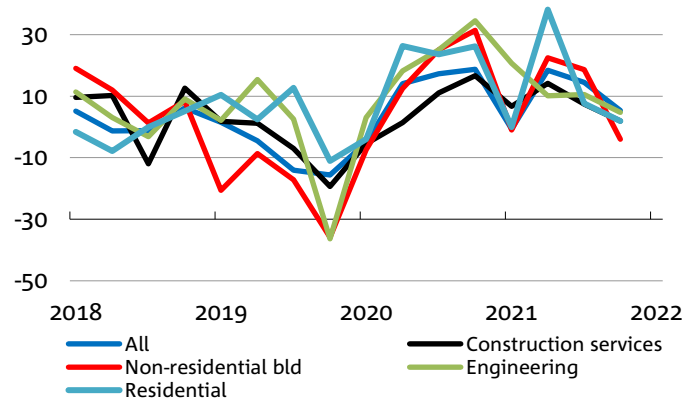


CHART 31: EMPLOYMENT CONDITIONS BY INDUSTRY

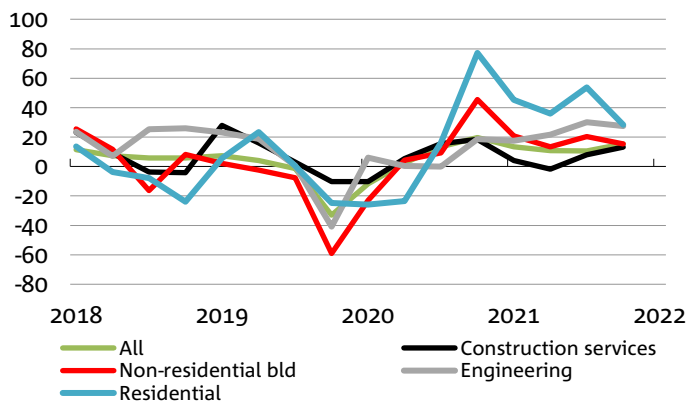
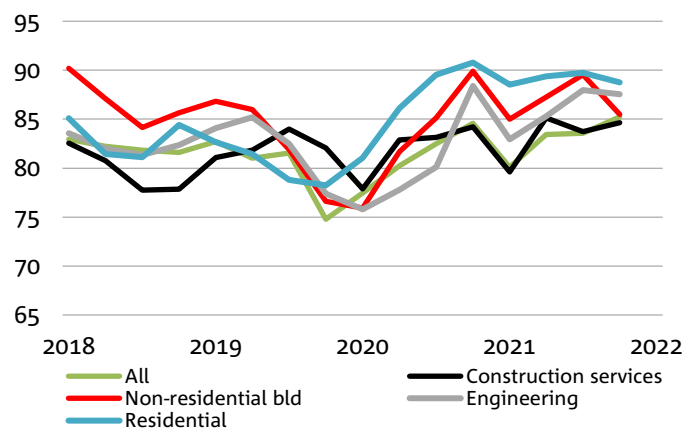
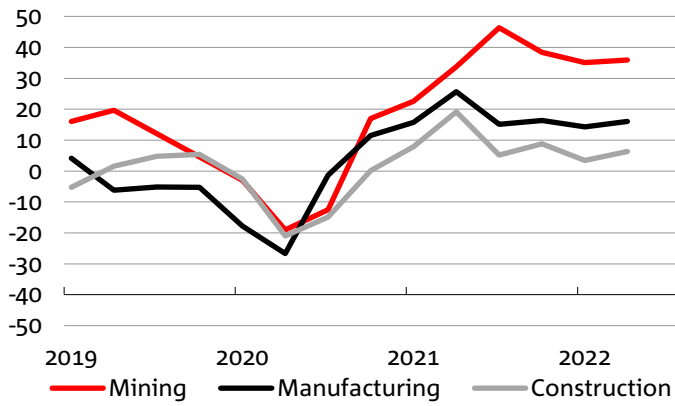


CHART 32: CAPACITY UTILISATION BY INDUSTRY

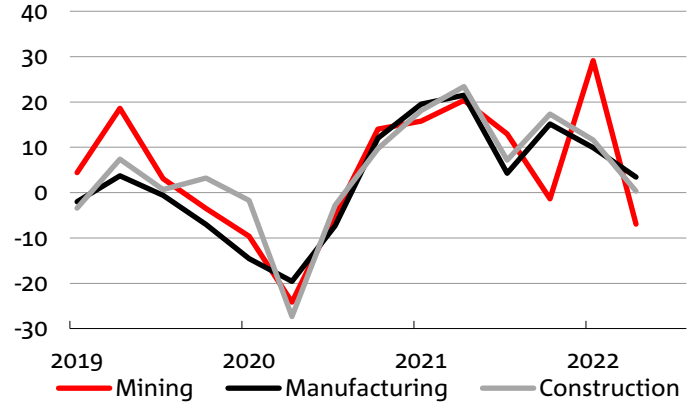


# NAB QUARTERLY BUSINESS SURVEY – MORE DETAILS ON INDUSTRY

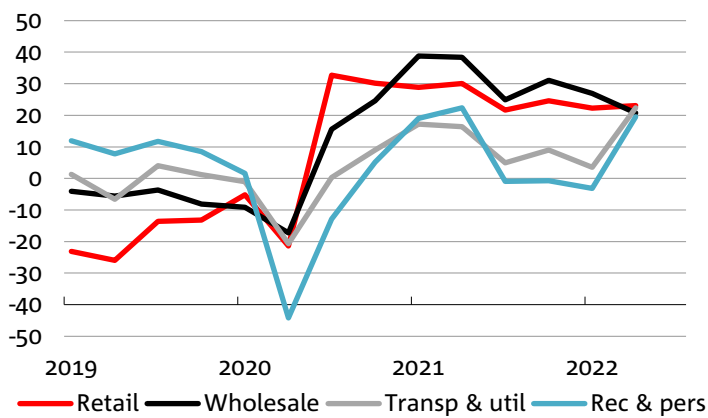
**CHART 33: BUSINESS CONDITIONS BY INDUSTRY**



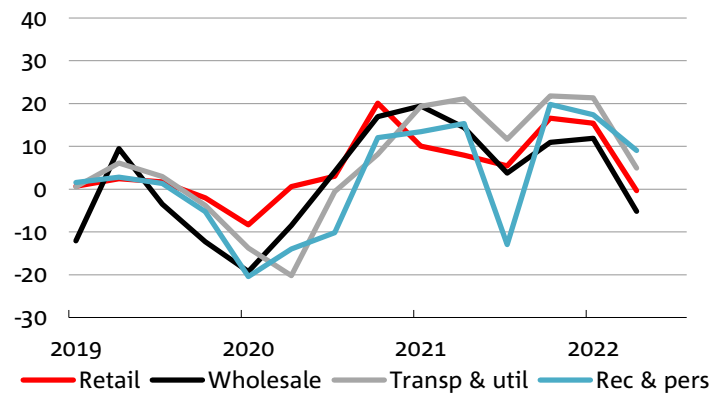
**CHART 34: BUSINESS CONFIDENCE BY INDUSTRY**



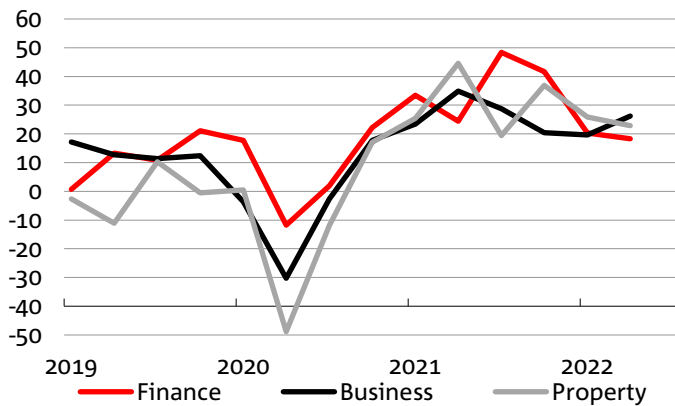
**CHART 35: BUSINESS CONDITIONS BY INDUSTRY**



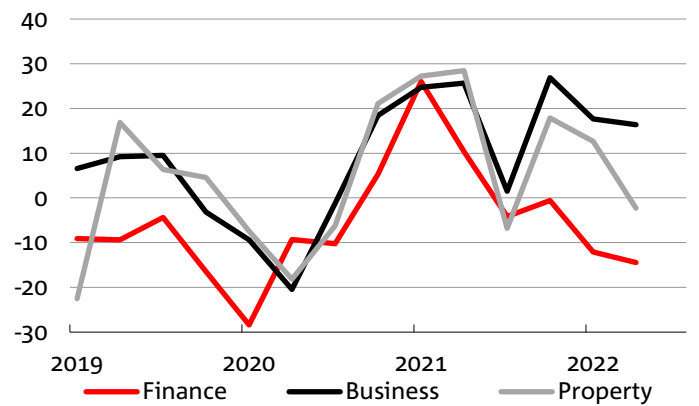
**CHART 36: BUSINESS CONFIDENCE BY INDUSTRY**



**CHART 37: BUSINESS CONDITIONS BY INDUSTRY**



**CHART 38: BUSINESS CONFIDENCE BY INDUSTRY**



# NAB QUARTERLY BUSINESS SURVEY – FURTHER DETAILS BY STATE

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

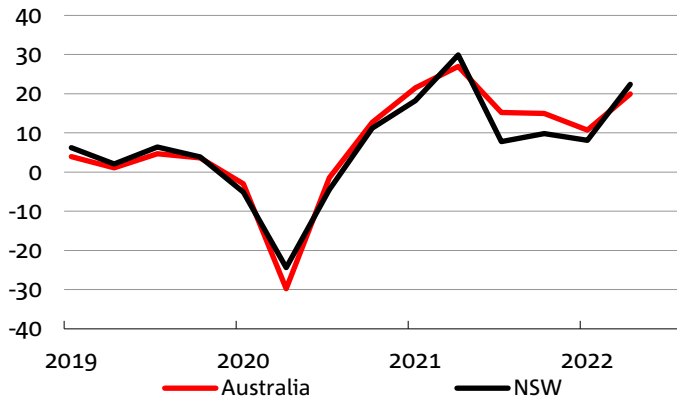


CHART 40: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)

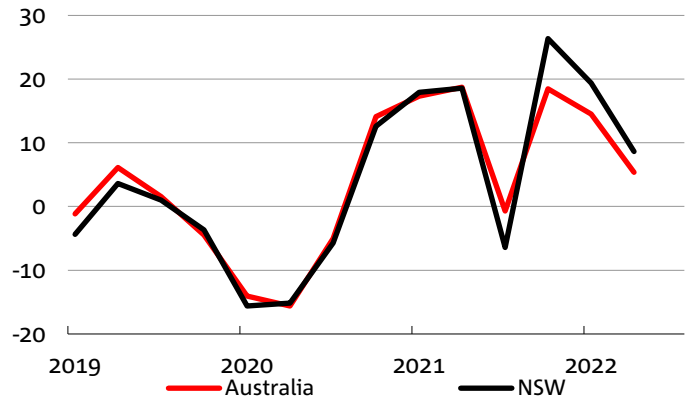


CHART 41: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)



CHART 42: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)

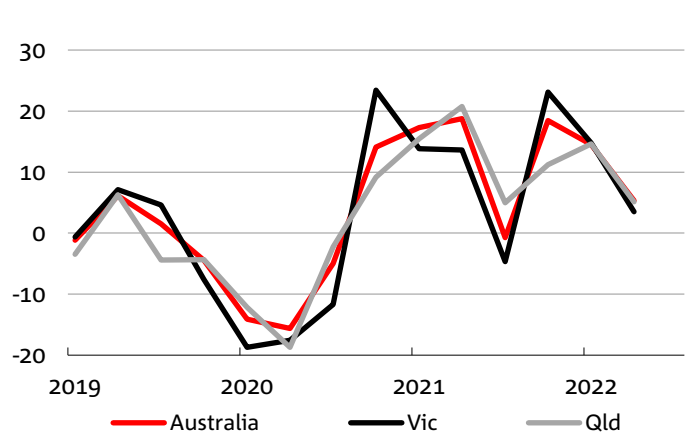


CHART 43: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

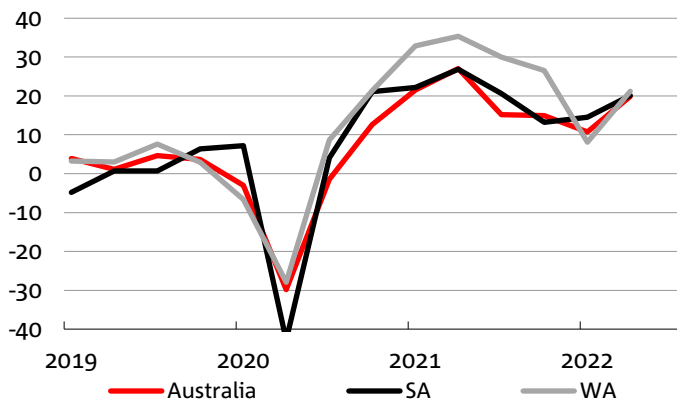
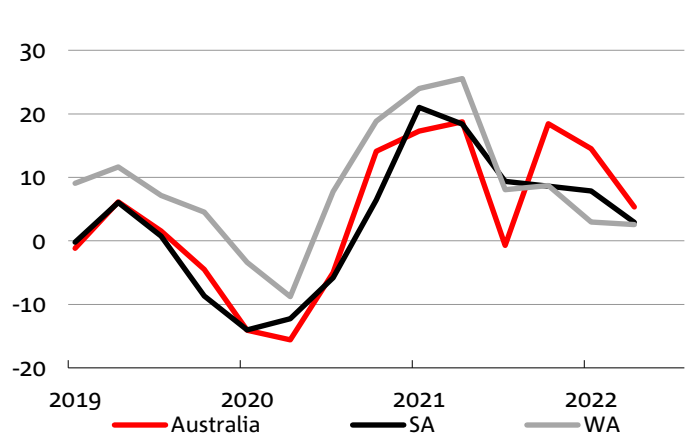


CHART 44: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)



# NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX

	Quarterly					Monthly				
	2021q2	2021q3	2021q4	2022q1	2022q2	2022m2	2022m3	2022m4	2022m5	2022m6
Confidence	19	-1	18	15	5	14	16	10	6	1
Conditions	27	15	15	11	20	11	17	18	15	13

	Quarterly					Monthly				
	2021q2	2021q3	2021q4	2022q1	2022q2	2022m2	2022m3	2022m4	2022m5	2022m6
Trading	33	19	21	14	25	15	24	25	21	18
Profitability	28	13	14	8	19	8	14	19	16	12
Employment	20	13	11	11	15	10	12	11	12	10

	Quarterly <sup>(a)</sup>					Monthly				
	2022q1	2022q2	2022q3	2023q1	2023q2	2022m2	2022m3	2022m4	2022m5	2022m6
Conditions	11	20	NA	NA	NA	11	17	18	15	13
Conds. next 3m	33	26	26	NA	NA					
Conds. nxt 12m	31	33	19	34	29					
Orders	13	17	NA	NA	NA	11	13	11	13	10
Orders next 3m	22	21	19	NA	NA					

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

	Quarterly <sup>(a)</sup>					Monthly				
	2021q3	2021q4	2022q1	2022q2	2022q3	2022m2	2022m3	2022m4	2022m5	2022m6
Capacity utilis.	80.1	83.4	83.6	85.2	NA	82.7	83.5	84.2	84.9	84.8
Stocks current	3	6	8	11	NA	6	15	8	9	7
Stocks next 3m	9	1	10	9	8					

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

	2021q2	2022q1	2022q2
Constraints on output (% of firms)*			
Sales & orders	43.5	41.0	40.6
Labour	74.2	83.9	88.3
Premises & plant	26.8	27.3	27.9
Materials	38.8	48.8	53.0

\* not s.a.

	Quarterly <sup>(a)</sup>					Monthly				
	2022q1	2022q2	2022q3	2023q1	2023q2	2022m2	2022m3	2022m4	2022m5	2022m6
Empl current	11	15	NA	NA	NA	10	12	11	12	10
Empl next 3m	30	27	27	NA	NA					
Empl nxt 12m	34	39	30	42	39					

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

# NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX – STATE TABLES

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2021q2</u>	<u>2021q3</u>	<u>2021q4</u>	<u>2022q1</u>	<u>2022q2</u>	<u>2022m2</u>	<u>2022m3</u>	<u>2022m4</u>	<u>2022m5</u>	<u>2022m6</u>
Business conditions										
NSW	30	8	10	8	<b>22</b>	12	16	19	20	16
VIC	25	12	13	11	<b>17</b>	9	18	12	15	14
QLD	26	19	20	12	<b>24</b>	9	11	32	20	8
SA	27	21	13	15	<b>20</b>	8	13	18	18	18
WA	35	30	27	8	<b>21</b>	0	23	21	20	14

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2021q2</u>	<u>2021q3</u>	<u>2021q4</u>	<u>2022q1</u>	<u>2022q2</u>	<u>2022m2</u>	<u>2022m3</u>	<u>2022m4</u>	<u>2022m5</u>	<u>2022m6</u>
Business confidence										
NSW	19	-6	26	19	<b>9</b>	16	18	10	8	6
VIC	14	-5	23	15	<b>4</b>	15	16	12	3	-1
QLD	21	5	11	15	<b>5</b>	19	17	11	11	-1
SA	18	9	9	8	<b>3</b>	12	26	15	6	-11
WA	26	8	9	3	<b>3</b>	1	14	7	3	-1

# CONTACTS

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## Important Notice

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## APPENDIX: LIST OF SERIES AVAILABLE TO SUBSCRIBERS<sup>^</sup>

### 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.

<sup>^</sup>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)

## ***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.