EMBARGOED UNTIL: 11:30AM AEST, 9 AUGUST 2022

# NAB MONTHLY BUSINESS SURVEY JULY 2022

## CONFIDENCE & CONDITIONS RALLY AS ECONOMY STRAINS CAPACITY LIMITS

NAB Australian Economics

Key messages: **Business confidence rose back above average and conditions strengthened in July as businesses reported new record levels of capacity utilisation, cost growth and price rises. After a steady decline over recent months, confidence rose to +7 index points – a marked rally in the face of headwinds from inflation and rising interest rates, as well as a deteriorating global economic outlook. Business conditions remain well above average after rising 6pts in the month, with trading conditions, profitability and employment all higher. The strength in conditions remained broad-based across states and industries, with a notable pickup in the construction sector. Capacity utilisation rose to a record 86.7% - well above the long-run average of 81.1%, suggesting the economy could be running up against capacity constraints. Further evidence the economy is reaching its limits comes from cost indicators, which jumped higher again in July after hitting new records in June. In quarterly terms, purchase costs grew 5.4% (previously 4.8%), and labour costs grew 4.6% (previously 3.1%), with the latter likely reflecting a combination of new hiring, increased hours, bonus payments and underlying wage increases, including the minimum wage decision taking effect. Importantly, the strength in demand continues to allow firms to pass higher costs onto their customers, with overall product prices growing 2.7% and retail prices growing 3.3% - both at new highs. Overall, the survey suggests that despite global and domestic economic headwinds, demand has remained strong – and inflationary pressure continues to build suggesting that inflation is yet to peak.**

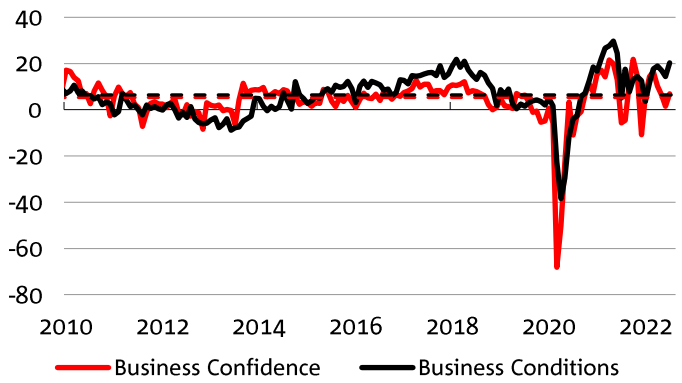
## HIGHLIGHTS

- **How confident are businesses?** Business confidence rose 5pts to +7 index points – to be just above its long-run average.
- **How did business conditions fare?** Conditions rose 6pts to a strong +20 index points.
- **What components contributed to the result?** All three components of conditions rose, with trading conditions up 7pts to +27 index points, profitability up 3pts to +17 index points and employment up 6pts to also reach +17 index points.
- **Which industries are driving conditions?** Conditions rose sharply in construction (up 18pts) and recreation & personal services (up 15pts) as well as mining, while other industries were largely steady. In trend terms, all industries were well into positive territory with construction back up to +6 index points.
- **Which industries are most confident?** Confidence rose significantly in construction (up 25pts) and retail (up 19pts) as well as wholesale, manufacturing, and mining. Other industries saw small gains while recreation & personal services saw confidence ease slightly. In trend terms, confidence is slightly negative in retail, wholesale and mining, but positive elsewhere.
- **Where are we seeing the best conditions by state?** Conditions rose 18pts in Qld and also strengthened in NSW and WA, while SA saw conditions ease. In trend terms conditions remain high across the states.
- **What is confidence like across the states?** Almost all states saw confidence rise, with large increases in Tas, Vic, and SA, with only NSW seeing confidence ease. In trend terms, confidence levels were positive everywhere except Tas.
- **Are leading indicators suggesting improvement?** Capacity utilisation rose to a new record level of 86.7%, up from 84.9% in June. Forward orders eased slightly (down 1pt) but remain above average at +10 index points.
- **What does the survey suggest about inflation?** Cost indicators surpassed the records set in June. In quarterly terms, purchase costs grew 5.4% in July (previously 4.8%), and labour costs grew 4.6% (previously 3.1). Product prices grew 2.7% and retail prices grew 3.3% - both also new records in the history of the survey.

### TABLE 1: KEY STATISTICS

| | May-22 | Jun-22 | Jul-22 |
|---|---|---|---|
| | Net balance | | |
| Business confidence | 6 | 2 | **7** |
| Business conditions | 17 | 14 | **20** |
| Trading | 24 | 19 | **27** |
| Profitability | 18 | 13 | **17** |
| Employment | 13 | 11 | **17** |
| Forward orders | 14 | 11 | **10** |
| Stocks | 9 | 7 | **11** |
| Exports | 1 | 2 | **1** |
| | % change at quarterly rate | | |
| Labour costs | 2.5 | 3.1 | **4.6** |
| Purchase costs | 3.9 | 4.8 | **5.4** |
| Final products prices | 1.8 | 2.2 | **2.7** |
| Retail prices | 2.9 | 2.7 | **3.3** |
| | Per cent | | |
| Capacity utilisation rate | 85.1 | 84.9 | **86.7** |

### 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 July 2022, covering over 400 firms across the non-farm business sector.

**Next release date: 13 September 2022.**

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

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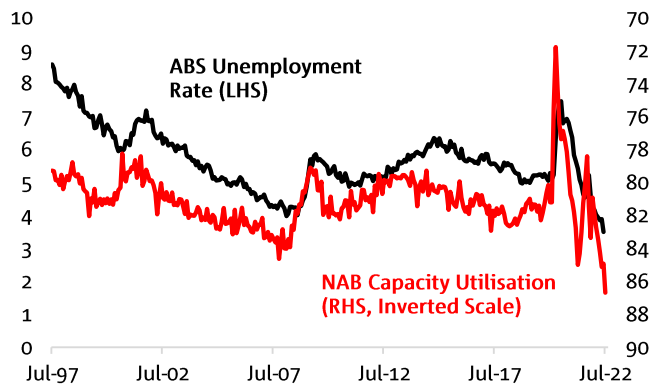
# NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

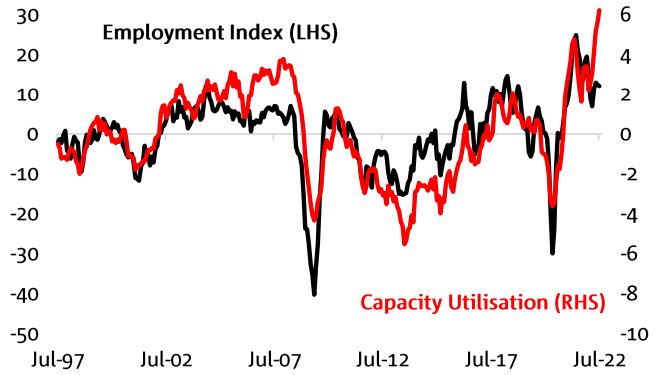
## RECORD CAPACITY UTILISATION AS UNEMPLOYMENT RATE PLUNGES

- The NAB Survey's capacity utilisation measure hit 86.7% in July, a new record in the history of the survey. The rise followed the ABS reporting a 50-year low of 3.5% in the unemployment rate for June. (Chart 2).
- The Survey's employment index also remains well into positive territory and strengthened to +17 index points in July, reflecting that labour demand remains elevated with record levels of job vacancies.
- The strong results for employment and capacity utilisation are particularly evident at the sector level. For example, in manufacturing the employment index was 12pts above its long-run average, and capacity utilisation was more than 6ppts above average, well above the levels seen prior to the pandemic (Chart 3).
- Employment was even stronger in transport & utilities (20pts above average, Chart 4) and construction (14pts above average, Chart 5). Capacity utilisation was up 4ppts in transport and 5ppts in construction.
- In retail, employment was up 6pts and capacity utilisation was up 5ppts (Chart 6). In recreation & personal services, employment has continued to strengthen over 2021 to be 13pts above average, while capacity utilisation was up 5ppts relative to the long run average (Chart 7).
- Given that these survey measures seem corelated with changes in the unemployment rate, the strong July survey, if maintained, could see unemployment fall further still over coming months.

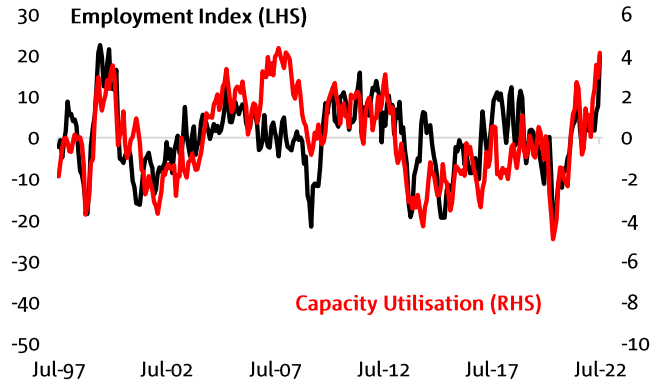
## CHART 2: CAPACITY UTILISATION AND UNEMPLOYMENT RATE



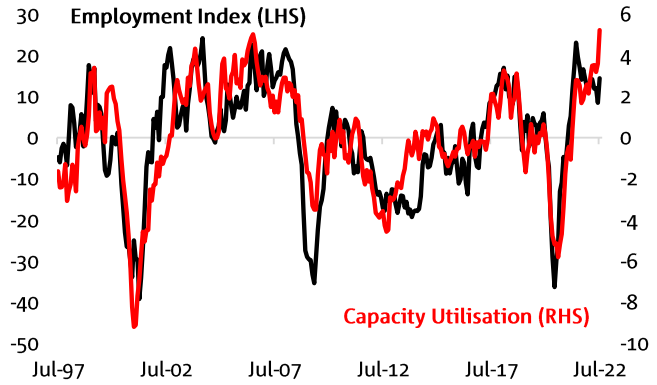

## CHART 3: MANUFACTURING (3MMA, DIFF FROM LR AVE)



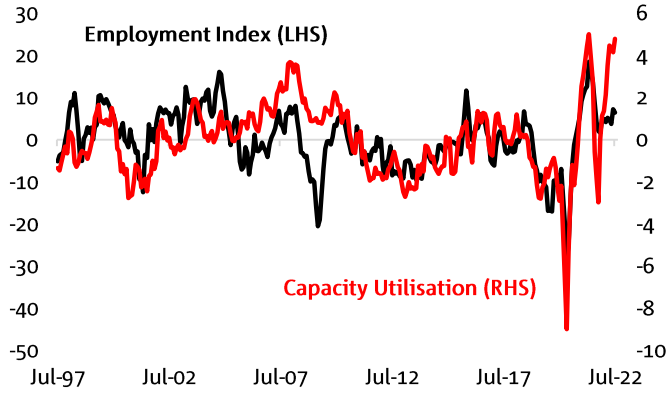

## CHART 4: TRANSPORT & UTILITIES (3MMA, DIFF FROM LR AVE)



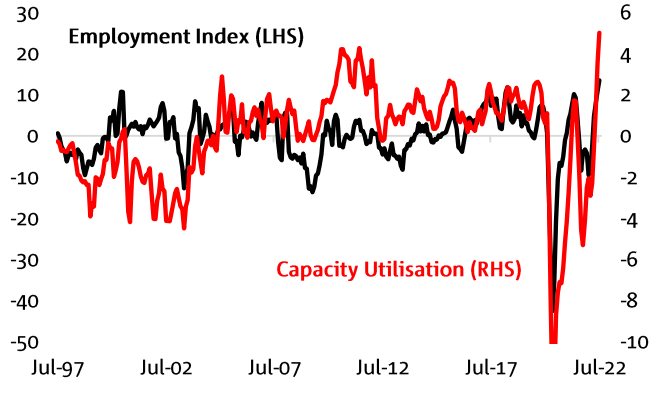

## CHART 5: CONSTRUCTION (3MMA, DIFF FROM LR AVE)




## CHART 6: RETAIL (3MMA, DIFF FROM LR AVE)

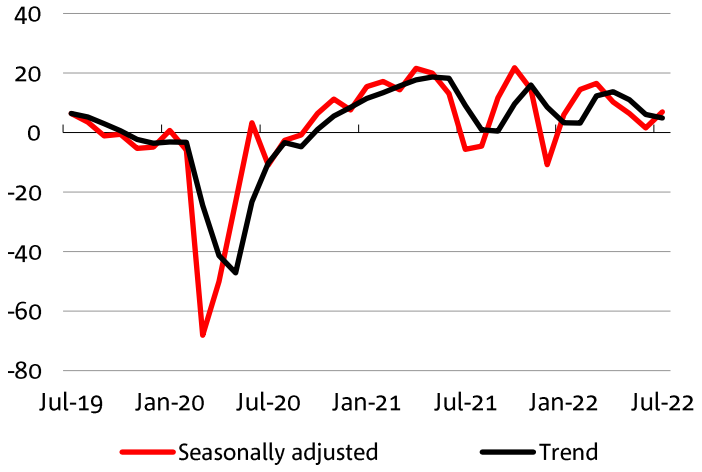



## CHART 7: REC. & PERSONAL SERVICES (3MMA, DIFF FROM LR AVE)

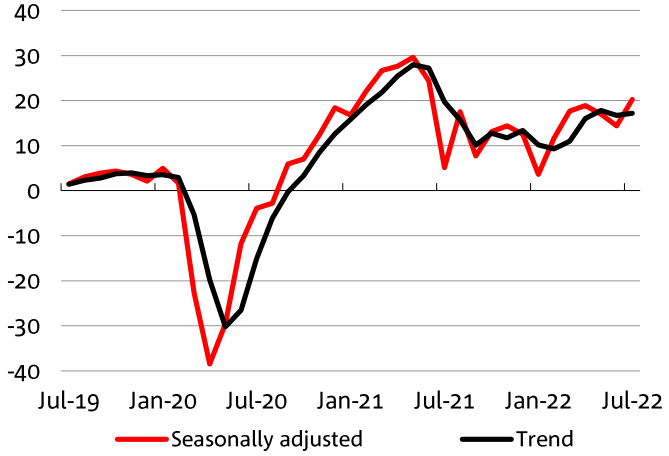


# NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

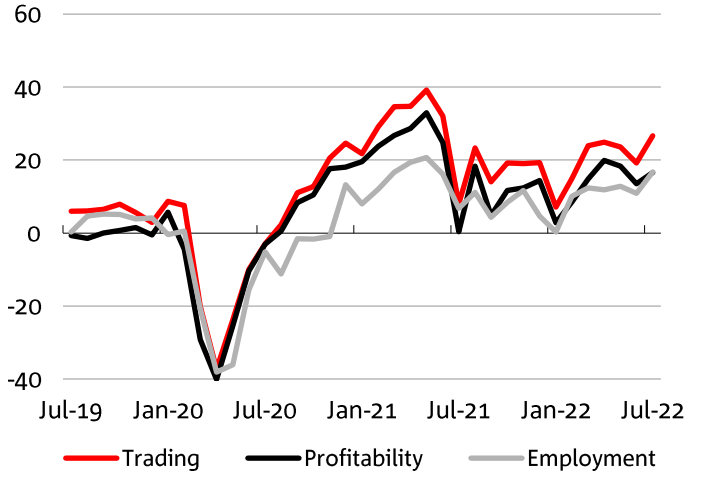
## CHART 8: BUSINESS CONFIDENCE (NET BALANCE)



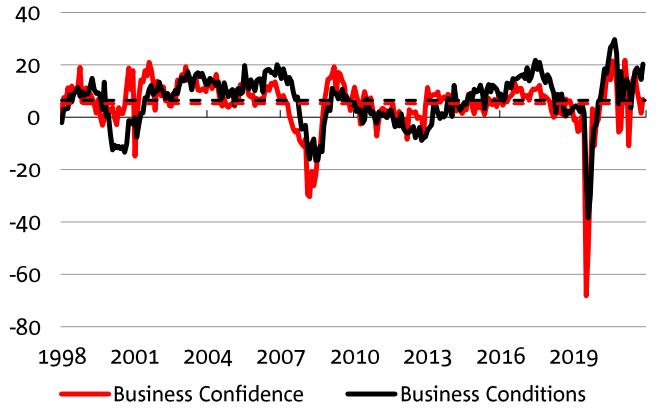

## CHART 9: BUSINESS CONDITIONS (NET BALANCE)




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

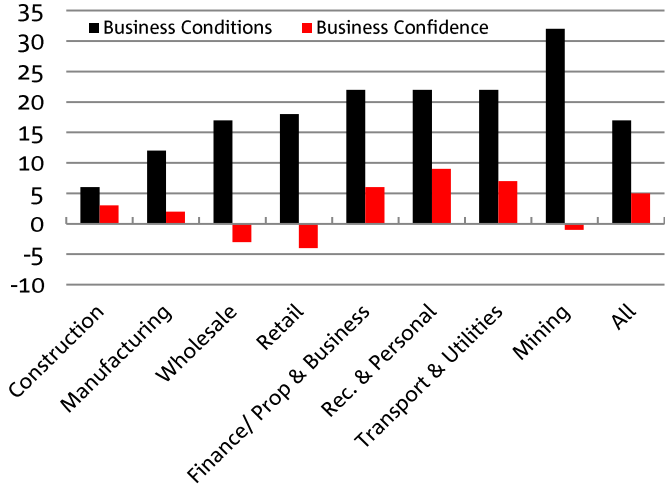



## CHART 11: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

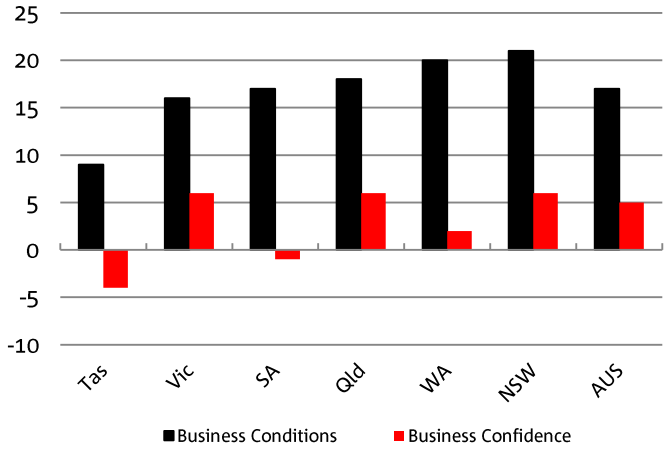



* Dotted lines are long-run averages since Mar-97.

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

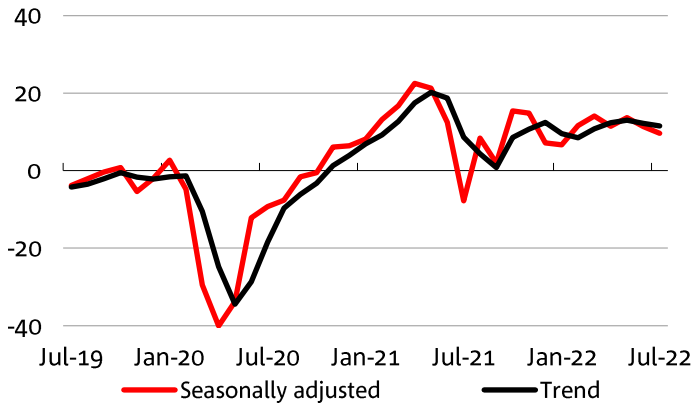



## CHART 13: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)

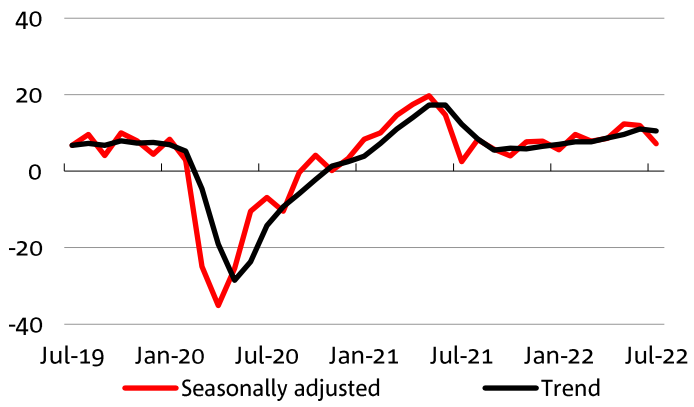


# NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

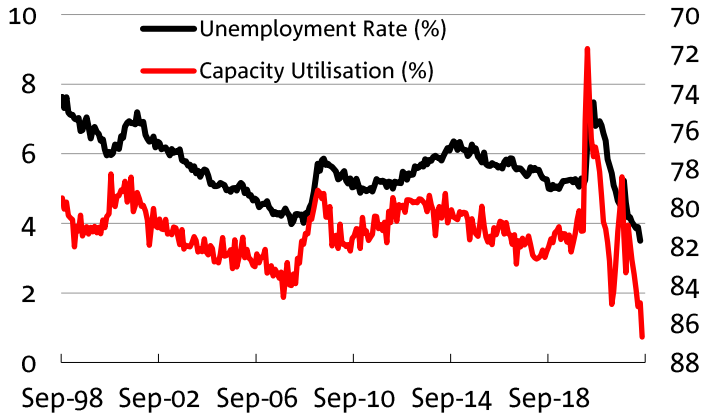
## CHART 14: FORWARD ORDERS (NET BALANCE)



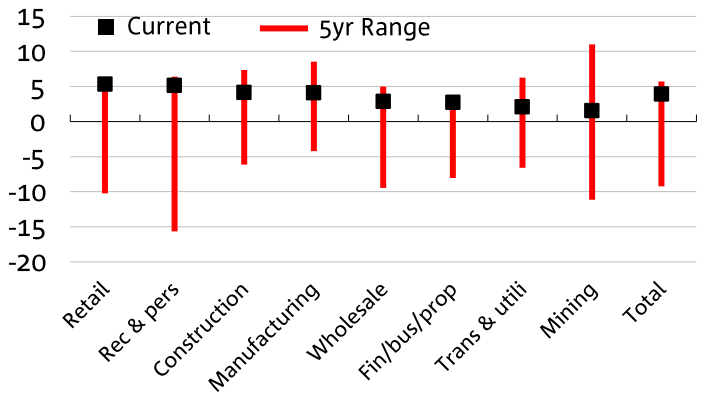

## CHART 15: CAPITAL EXPENDITURE (NET BALANCE)



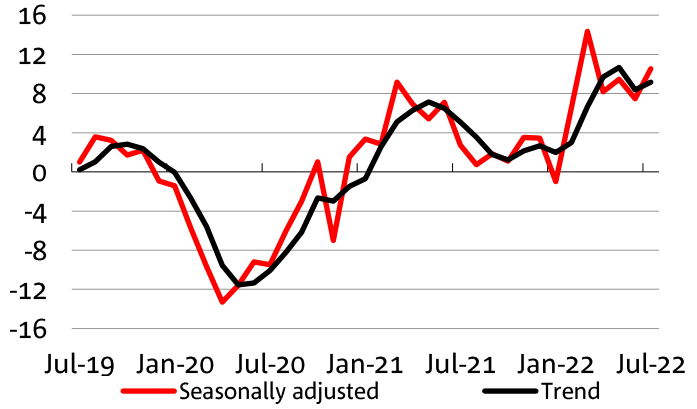

## CHART 16: CAPACITY UTILISATION AND UNEMPLOYMENT



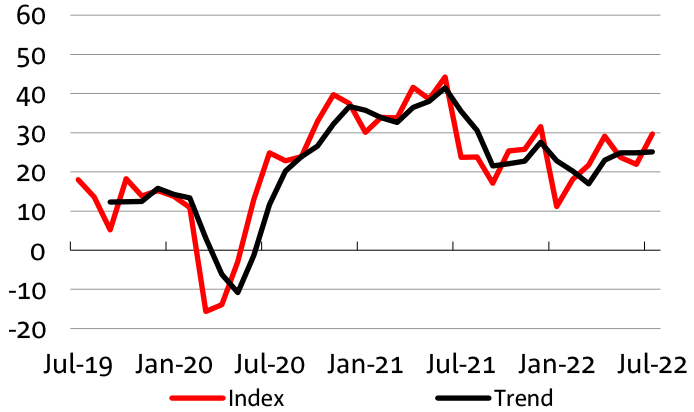

## CHART 17: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)



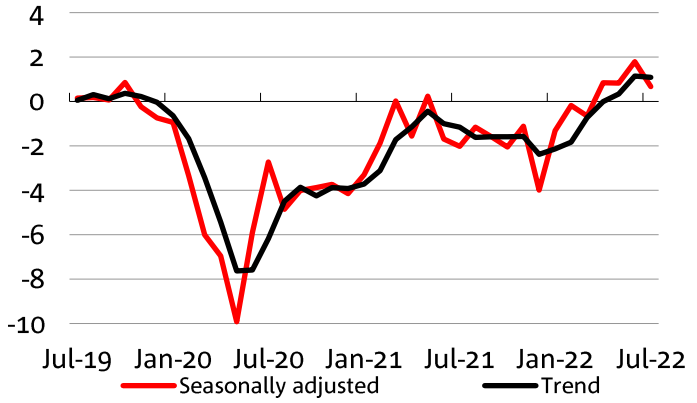

## CHART 18: STOCKS (NET BALANCE)



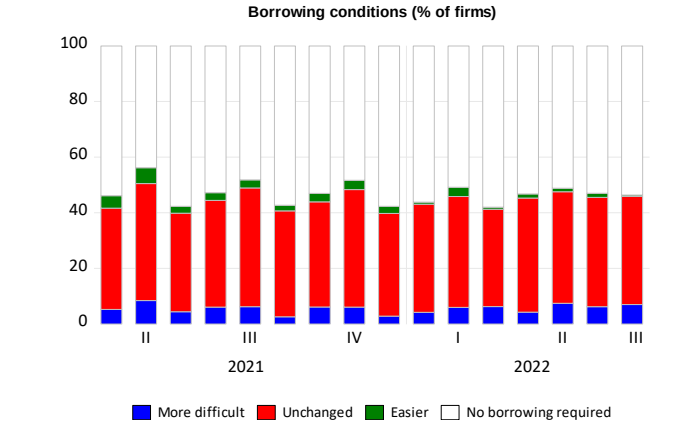

## CHART 19: CASH FLOW (NET BALANCE)




## CHART 20: EXPORTS (NET BALANCE)

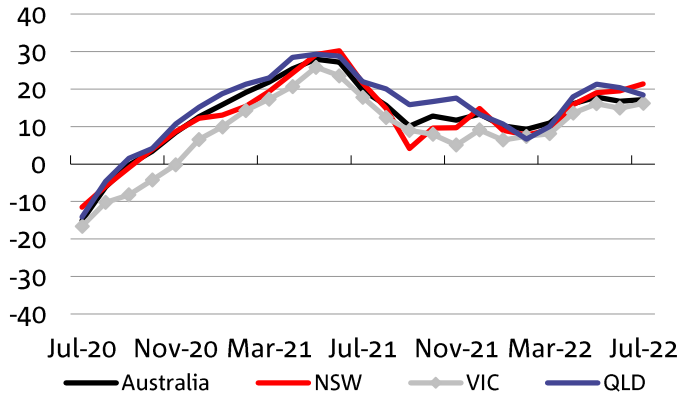



## CHART 21: BORROWING CONDITIONS (% OF FIRMS)

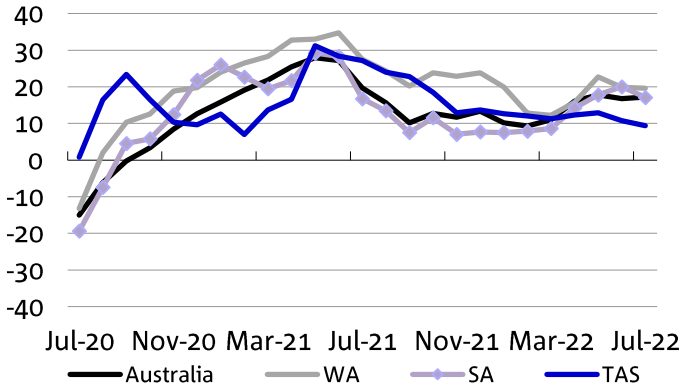


# NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

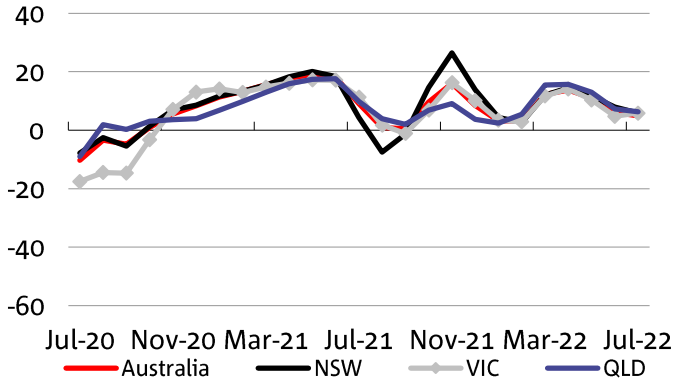
## CHART 22: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)



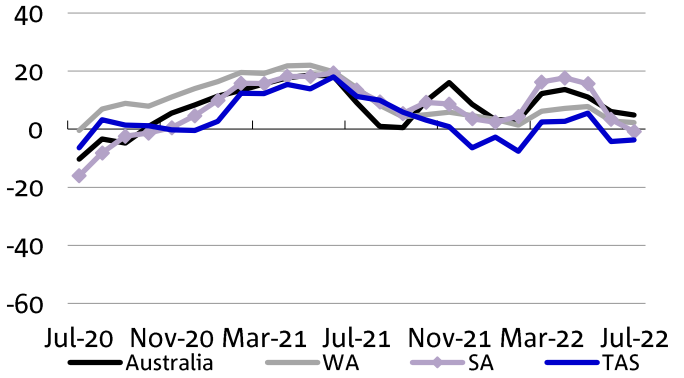

## CHART 23: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)



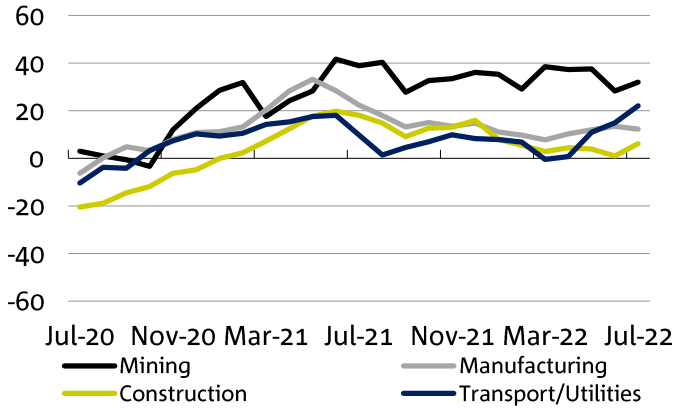

## CHART 24: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)



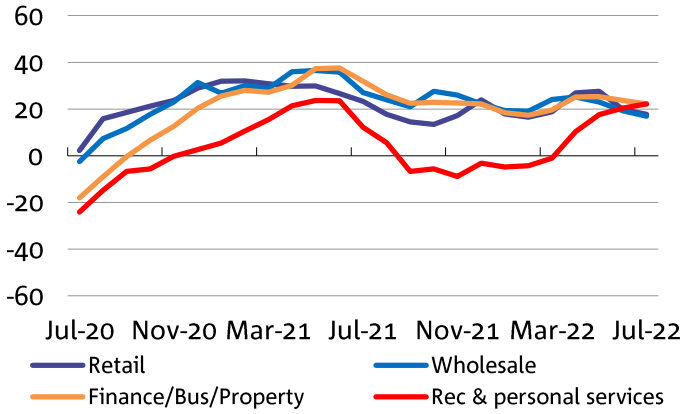

## CHART 25: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)



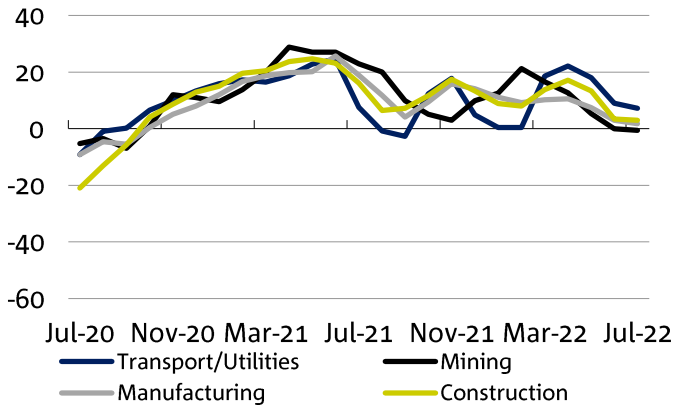

## CHART 26: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)



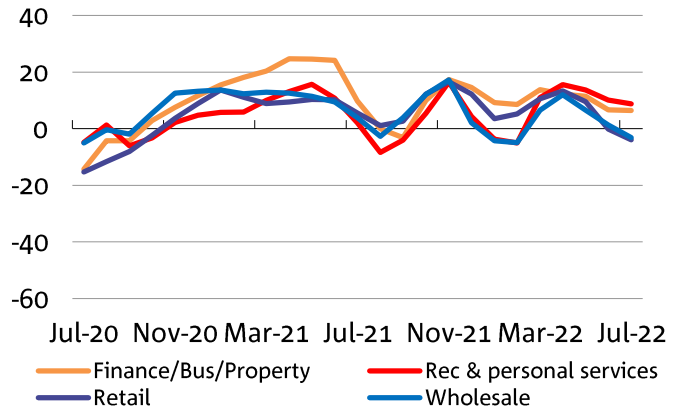

## CHART 27: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)




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

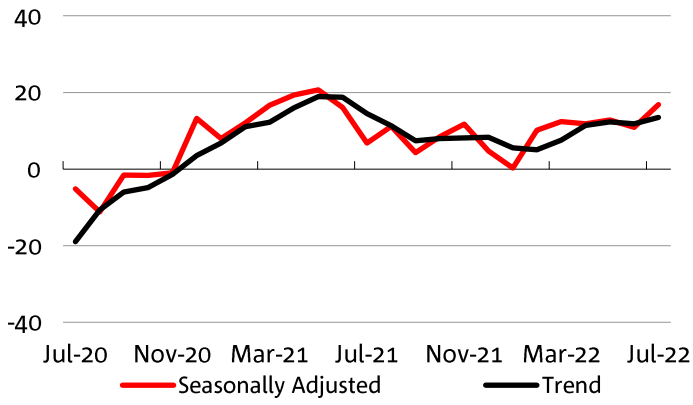



## CHART 29: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

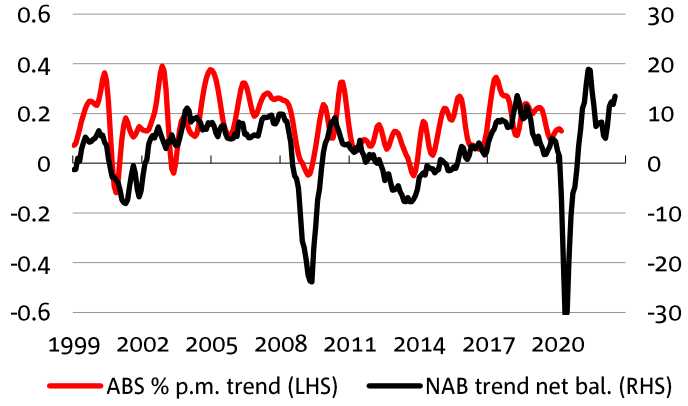


# NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

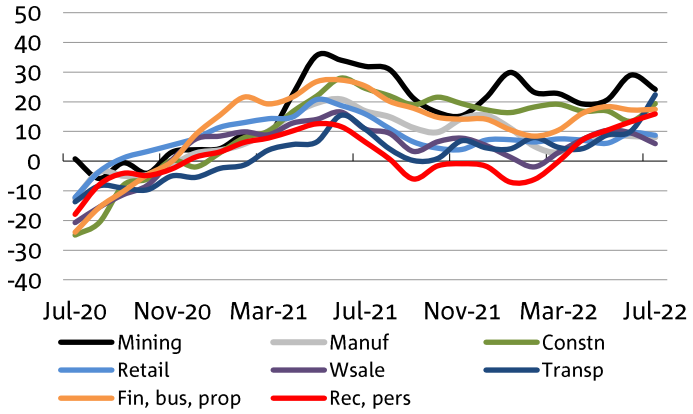
## CHART 30: EMPLOYMENT



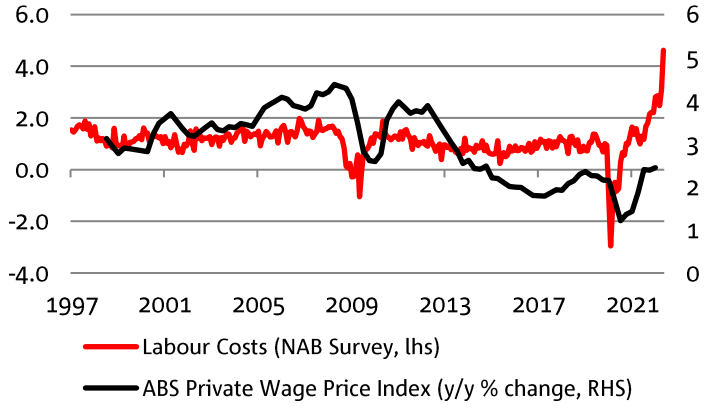

## CHART 31: EMPLOYMENT (NAB VS ABS)



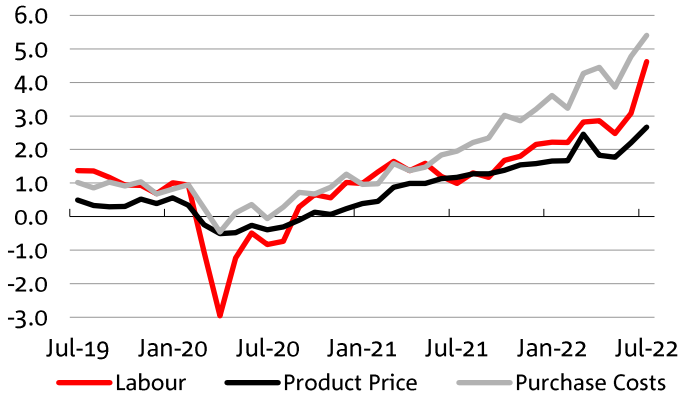

## CHART 32: EMPLOYMENT BY INDUSTRY



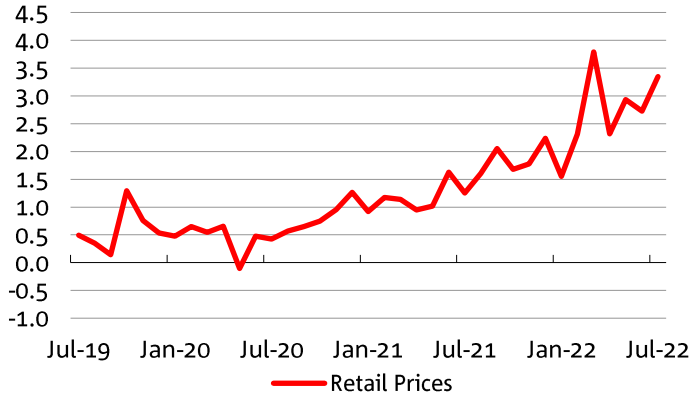

## CHART 33: LABOUR COSTS GROWTH




## 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)

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)

***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.