



NAB Monthly Business Survey Sep-22

Conditions roar as costs show signs of easing

NAB Group Economics

Summary

Business conditions strengthened further in September on the back of very high trading conditions and are now above their pre-COVID peak. Both the employment and profitability indexes also remain elevated. Conditions remain strong across industries and states - with wholesale and retail rising notably in the month. Capacity utilisation also remains high notwithstanding a small easing in the month. Confidence eased but remains around the long-run average. Labour and purchase costs growth continued to show the early signs of an easing from their recent peaks but remain elevated. Price growth also eased but still points to a very strong Q3 print for the underlying CPI. Overall, the survey indicates the economy has remained resilient through Q3, despite the challenges from higher inflation, rising interest rates and a gloomy global outlook. Encouragingly, the cost and price growth measures suggest the peak in inflation may be near.

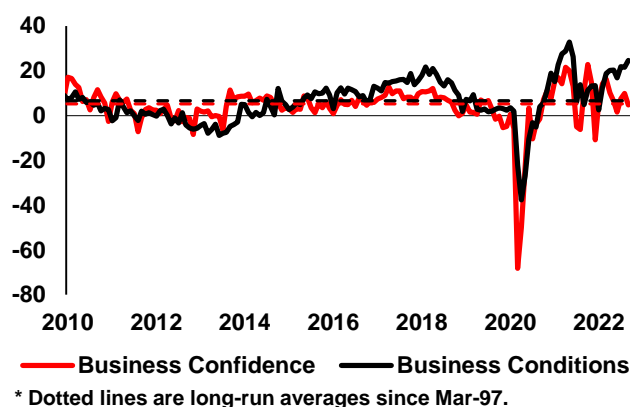
Survey Details

- **Business conditions** rose 3pts to +25 index points – higher than the pre-COVID peak and only exceeded only by the post-lockdown surge in early 2021. Trading conditions drove the increase, rising by 9pts to +38 index points. Profitability and employment were little changed at +19 index points and +16 index points respectively.
- **By industry** conditions were stronger in wholesale (up 19pts), retail (up 4pts) and recreation & personal services (up 2pts), while conditions were lower in transport & utilities (down 8pts) as well as finance, business & property (down 2pts), manufacturing (down 2pts) and mining (down 26pts). Conditions remain strong across all industries.
- **Across the states** conditions were stronger in Tas (up 14pts), Vic (up 8pts) and NSW (up 6 points) but fell in WA (down 11pts) and Qld (down 3pts). In trend terms, conditions are very strong across the states, except for SA which is lagging but still in positive territory).
- **Business confidence** eased 5pts to +5 index points, still around the long-run average. Confidence fell in a number of industries including retail, wholesale, transport & utilities, recreation & personal, and finance, business & property. Confidence was mixed across the states, with SA and Tas improving but NSW and Qld lower.
- **Leading indicators** remain robust with forward orders edging up 1pt to +15 index points. Capacity utilisation eased but remains historically strong at 85.8%, while capex also lifted 1pt to +17 index points.
- **Costs growth** eased in the month, with labour cost growth slowing to 3.1% in quarterly terms (from 3.4% in August) after peaking at a survey high in July - likely driven by the minimum wage decision. Purchase cost growth also eased to 3.8% (down from 4.4% in August). These are tentative signs that cost pressures have peaked.
- **Price measures** also eased in September although they still indicate a strong quarter for inflation. Overall product prices grew 2.1% and retail prices grew at 2.2% (down from 3.3% in July and August).

Table 1: Key Monthly Business Survey Statistics

	Jul-22	Aug-22	Sep-22
		Net balance	
Business confidence	8	10	5
Business conditions	22	22	25
Trading	28	29	38
Profitability	20	19	19
Employment	19	17	16
Forward orders	11	14	15
Stocks	11	18	15
Exports	1	1	-1
	% change at quarterly rate		
Labour costs	4.6	3.4	3.1
Purchase costs	5.3	4.4	3.8
Final products prices	2.6	2.5	2.1
Retail prices	3.3	3.3	2.2
	Per cent		
Capacity utilisation rate	86.2	86.2	85.8

Chart 1: Confidence & Conditions (Net Balance, SA)



All data seasonally adjusted and subject to revision. Survey conducted from 23 to 29 September 2022, covering over 400 firms across the non-farm business sector.

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

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Monthly Focus: Price Measures and Q3 Inflation

In the Monthly Business Survey for June 2022, we explored the correlation between industry-level measures of output price growth and official ABS CPI measures. Based on the three months to September, we have updated this analysis – which points to a very strong core CPI print for Q3.

Price measures in the survey have surged over the past year, in line with official measures of inflation. This has reflected significant purchase cost pressures, while labour costs growth has also risen (Chart 2).

The September survey showed some further easing in costs growth from the peaks seen in July (around the time oil prices peaked and the minimum wage increase took effect). Still, costs have been elevated across the quarter and firms have continued to pass these pressures onto their customers.

Final price growth in the retail industry has been particularly pronounced in the NAB survey over the past year, mirroring the escalation in goods prices measured in the CPI (Chart 3). Retail price growth averaged 3.0% in quarterly terms across the three months of Q3, slightly higher than the 2.7% average across Q2. This suggests goods inflation could edge higher in the quarter.

Price growth in the recreation & personal services industry has also accelerated sharply over recent months to reach 2.0% on average over Q3, up from 1.2% over Q2 (Chart 4). With more reliance on labour, services are likely to be more sensitive to recent labour cost pressures than goods industries and this could flow through to the services prices measured in the CPI.

Combining these two measures in a simple nowcasting model produces a close estimate of trimmed-mean CPI (Chart 5). Using this simple model, the most recent survey data suggest core CPI could be as high as 2.0% in Q3 when the official data is released later in October. That would see core CPI running at over 6% y/y for the quarter.

A CPI result of that magnitude would be a new record for both quarterly and annual trimmed-mean CPI and would indicate a considerable acceleration and broadening of inflation in Australia. Still, lower petrol prices and easing construction costs suggest headline inflation may ease in Q3, providing a contrasting signal.

How inflation evolves from here remains unclear, with the evolution of wages, global supply chains, commodity prices, and the resilience of consumer demand all key factors shaping the outlook. For now, we continue to expect inflation to peak in Q4 of 2022 – though inflation is likely to remain above the RBA’s target band of 2-3% throughout 2023 and into 2024.

Chart 2: Pandemic-era Cost Pressures (%)

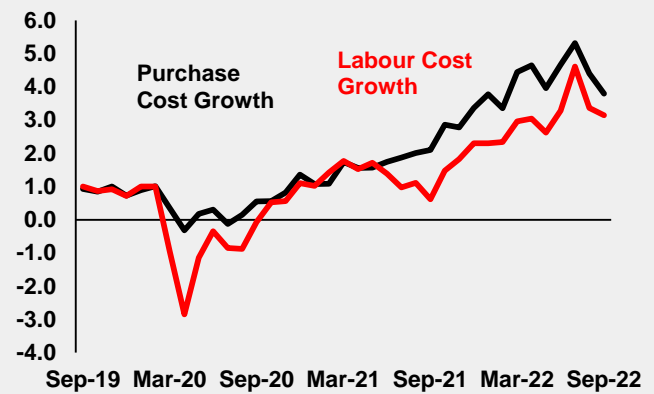


Chart 3: Retail Prices & Goods Inflation (%)

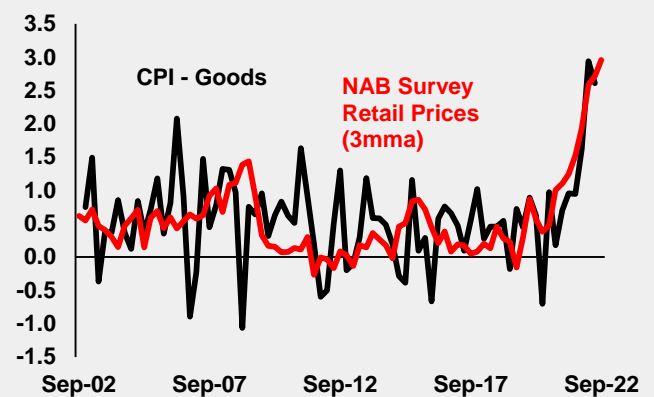


Chart 4: R&P Prices & Services Inflation (%)

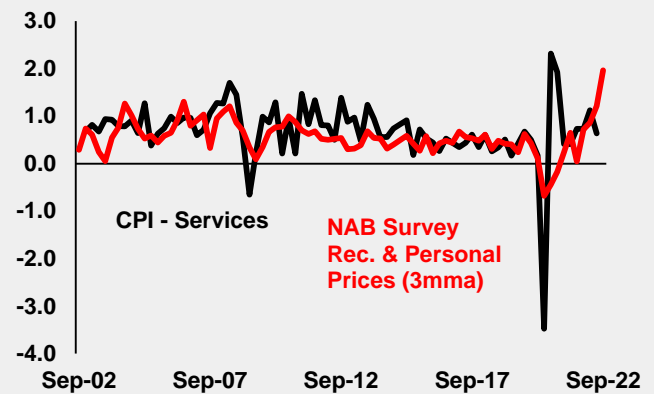
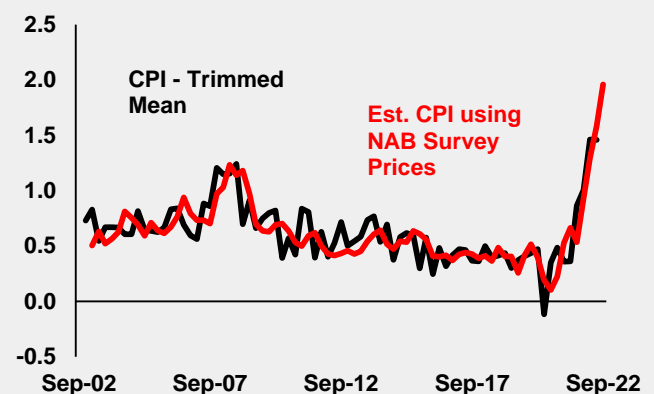


Chart 5: Modelled Estimate of Core CPI (%)



Business Conditions and Confidence

Chart 6: Business Confidence (Net Balance, SA)

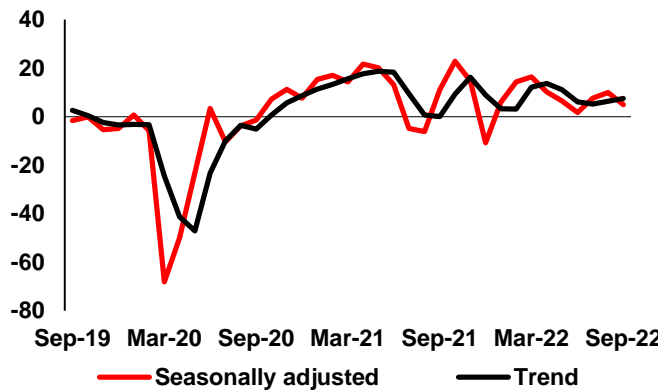


Chart 7: Business Conditions (Net Balance, SA)

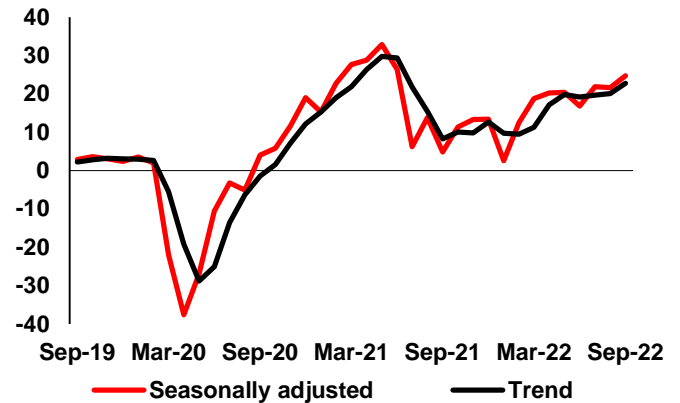


Chart 8: Components of Conditions (Net Balance, SA)

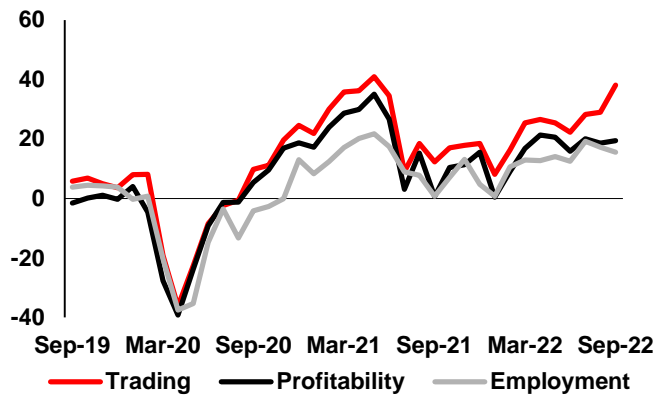


Chart 9: L-R Conditions & Confidence (Net Balance, SA)

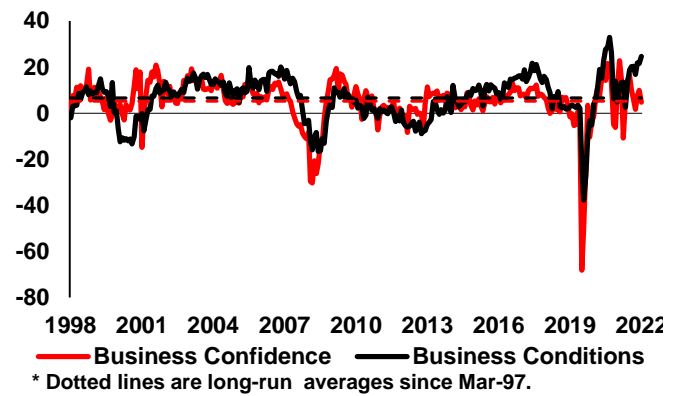


Chart 10: Conditions by Industry, Latest Month (Net Balance, SA)

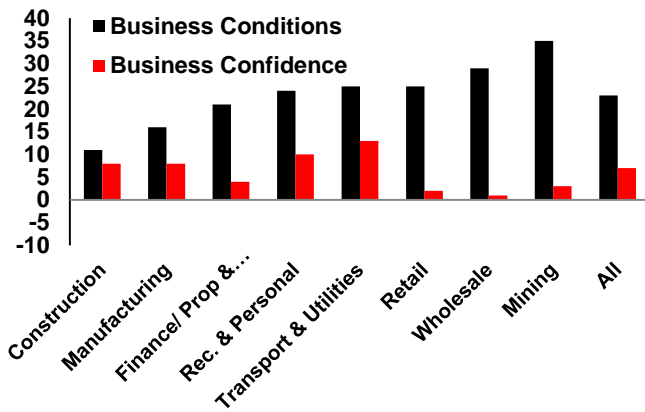
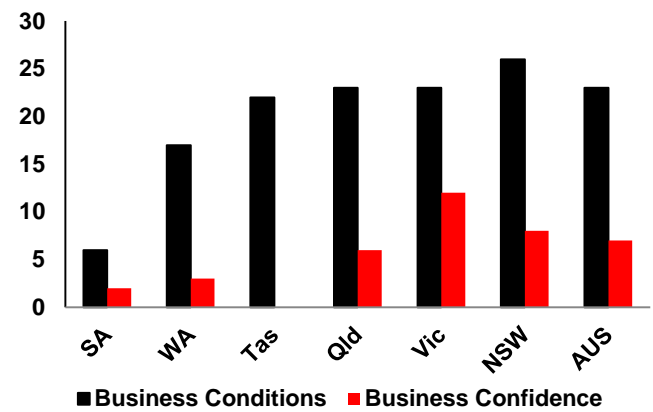


Chart 11: Conditions by State, Latest Month (Net Balance, SA)



Leading Indicators and Other Key Measures

Chart 12: Forward Orders (Net Balance, SA)

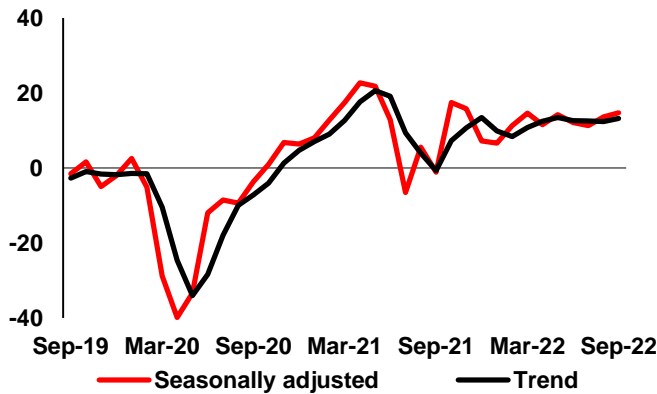


Chart 13: Capital Expenditure (Net Balance, SA)

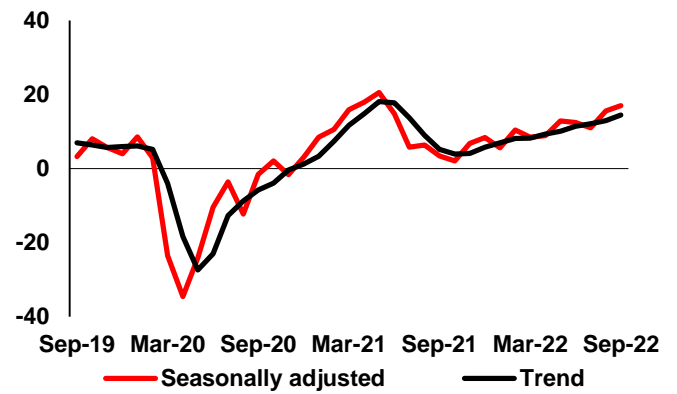


Chart 14: Capacity Util. & Unemployment (% SA)

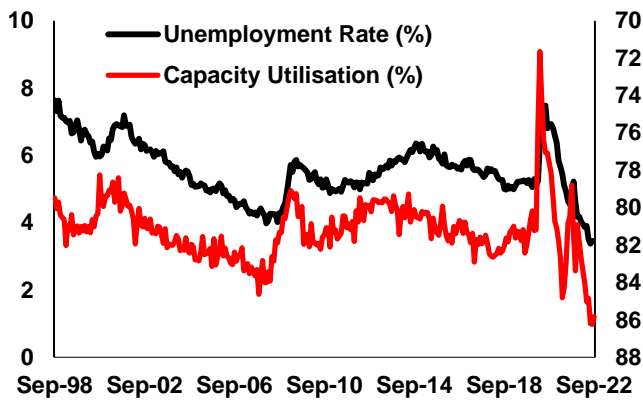


Chart 15: Capacity Util. by Industry (% 3mma)

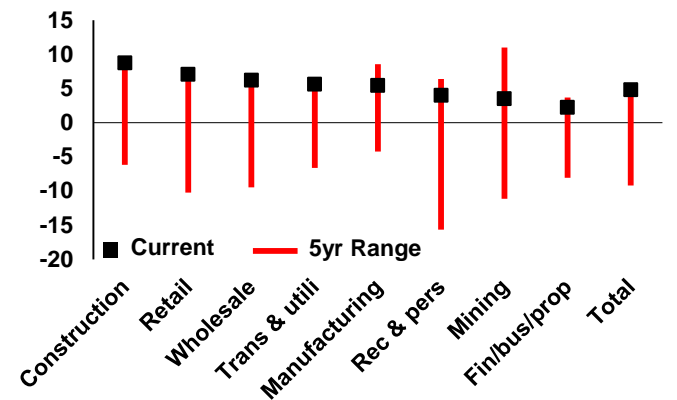


Chart 16: Stocks (Net Balance, SA)

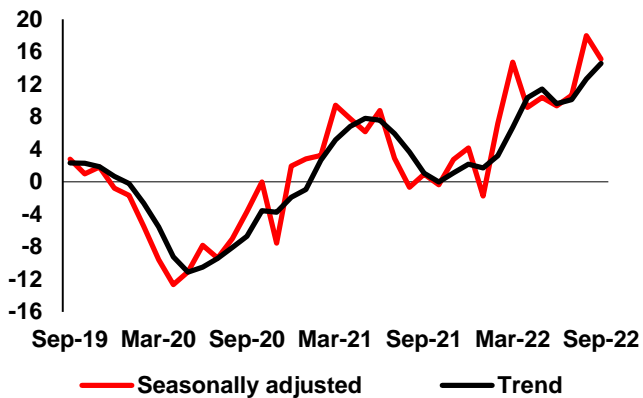


Chart 17: Cash Flow (Net Balance, SA)

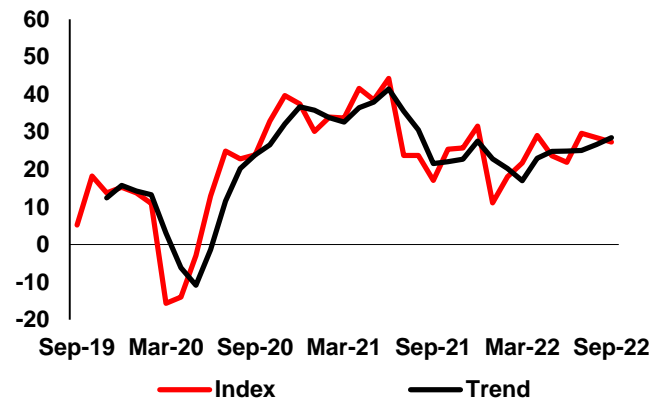


Chart 18: Exports (Net Balance, SA)

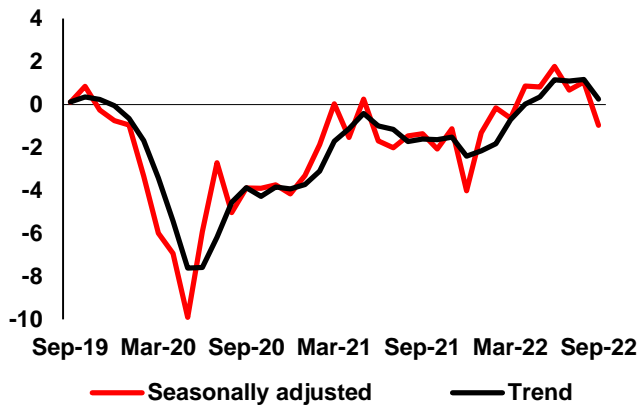
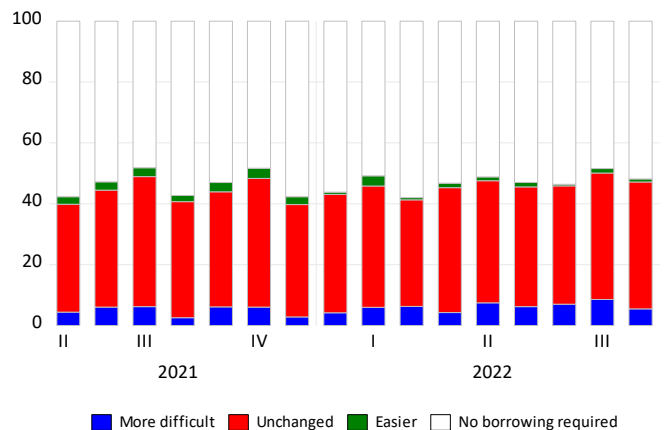


Chart 19: Borrowing Conditions (% of Firms)



Employment, Wages and Prices

Chart 20: Employment (Net Balance, SA)

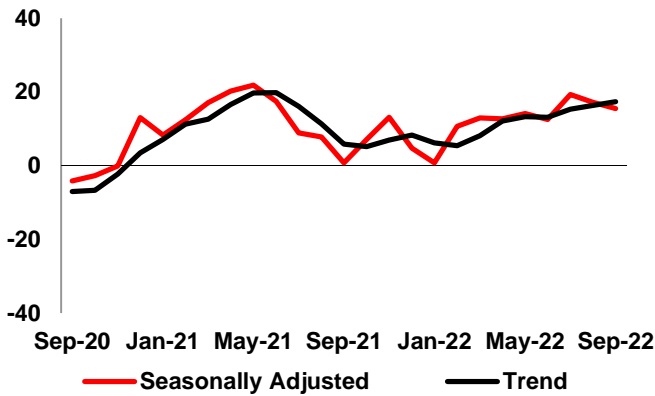


Chart 21: NAB vs ABS Employment (Net Balance, SA)

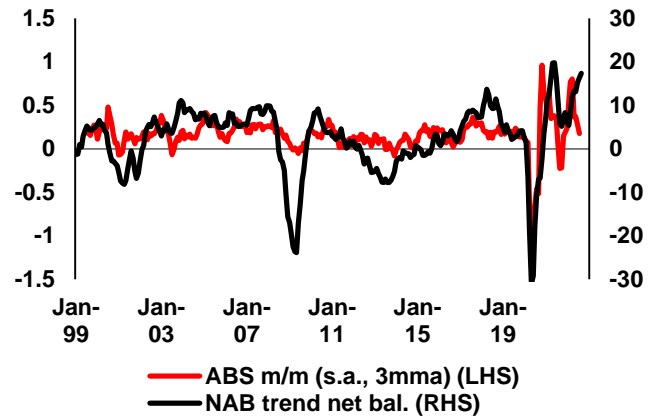


Chart 22: Employment by Industry (Net Balance, SA)

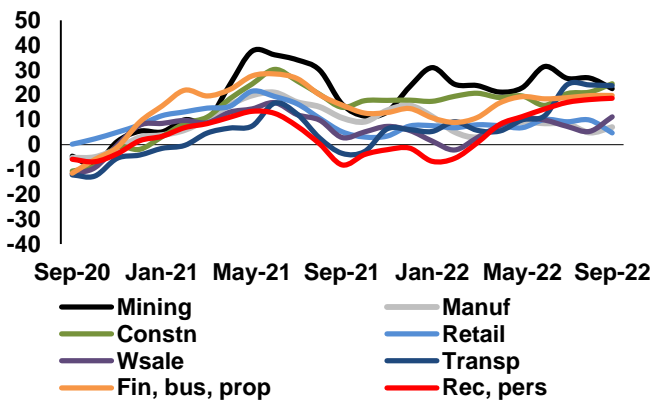


Chart 23: Labour Costs Growth, Qtly Eq. (%), SA)

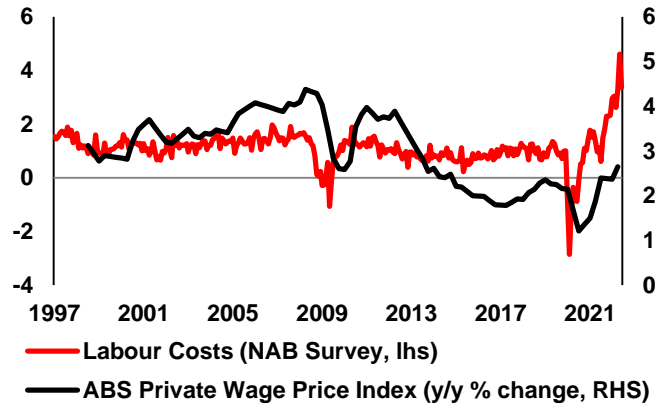


Chart 24: Costs & Price Growth, Qtly Eq. (%), SA)

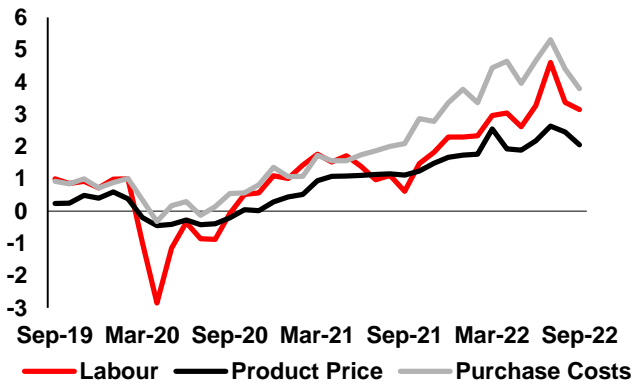


Chart 25: Retail Price Growth, Qtly Eq. (%), SA)



Conditions and Confidence by State and Industry

Chart 26: Conditions by State (Net Balance, SA)

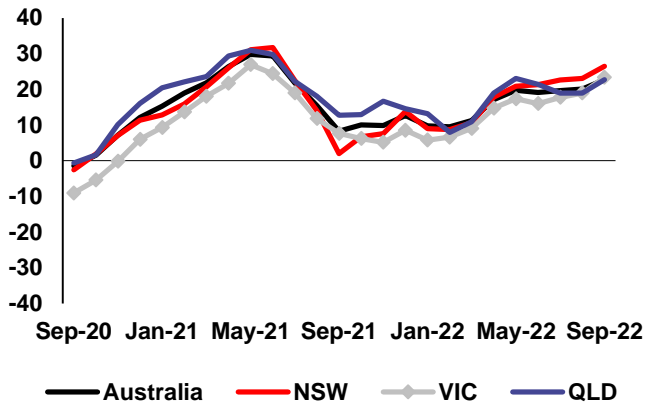


Chart 27: Conditions by State (Net Balance, SA)

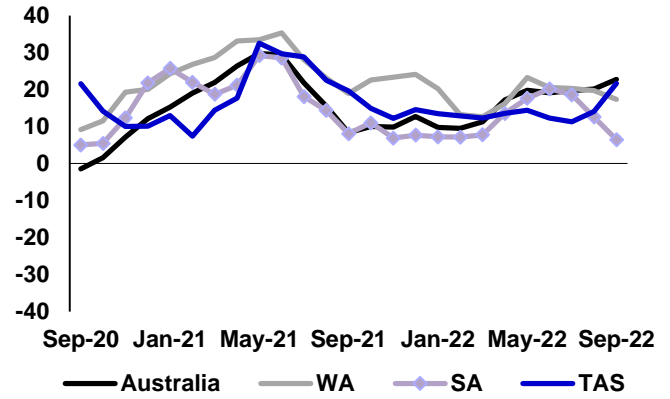


Chart 28: Confidence by State (Net Balance, SA)

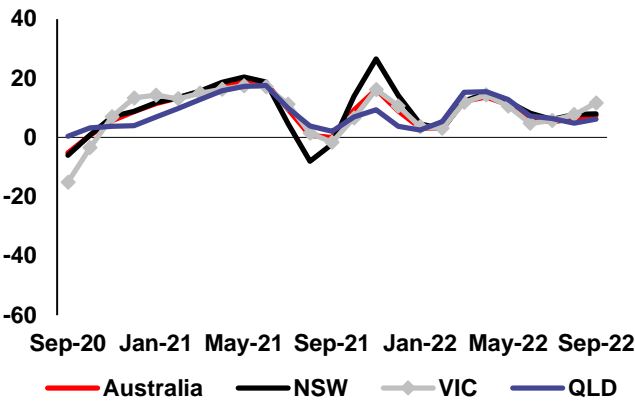


Chart 29: Confidence by State (Net Balance, SA)

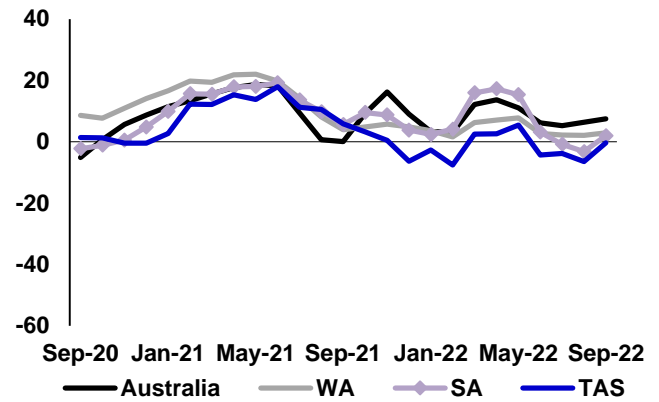


Chart 30: Conditions by Industry (Net Balance, SA)

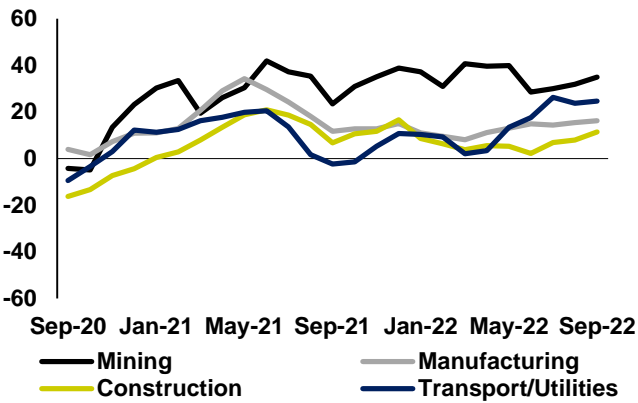


Chart 31: Conditions by Industry (Net Balance, SA)

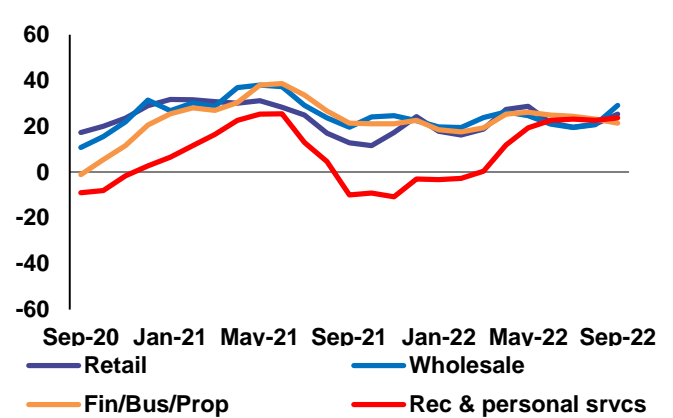


Chart 32: Confidence by Industry (Net Balance, SA)

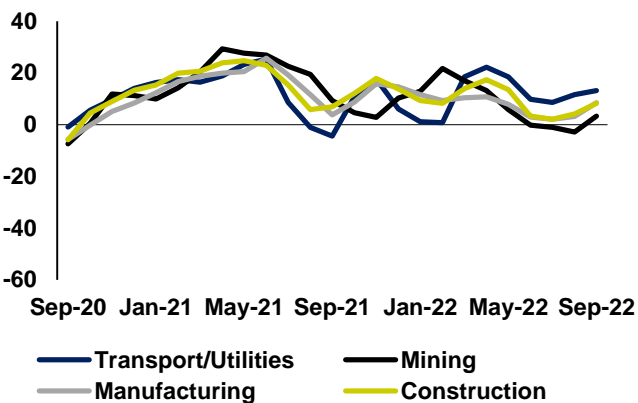
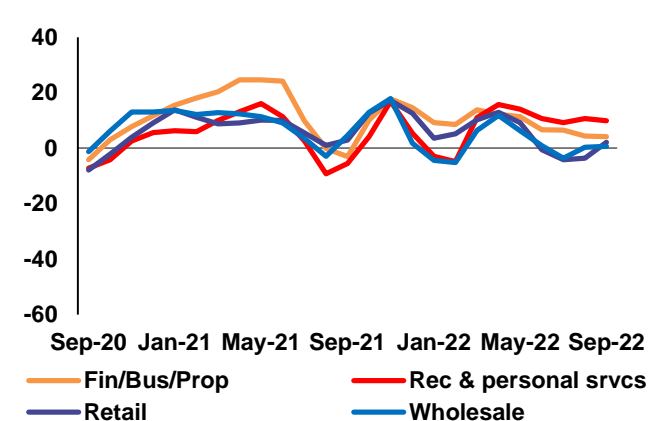


Chart 33: Confidence by Industry (Net Balance, SA)



Authors

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

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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*

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.