



# NAB Monthly Business Survey May-23

## Worrying signs of a slowing in activity

### NAB Group Economics

#### Summary

Business conditions continued to ease in May with notable declines across the trading, profitability, and employment sub-components. The fall in conditions now appears to be accelerating, and while they remain a touch above their long-run average they are well below the levels we saw in early 2023. Confidence fell to -4 index points in the month and has tracked at or below 0 since February – with most industries now in negative territory. Forward orders fell sharply and if sustained will likely see a further sharp slowing in demand. This is particularly evident in the consumer sector, where forward orders in both retail and wholesale fell very sharply and are now the weakest of all industries. That said, while activity is now clearly slowing, capacity utilisation remains well above pre-pandemic levels and has shown little signs of a pullback to date. This has been reflected on the cost side where both input and output price growth continue to track at a high rate.

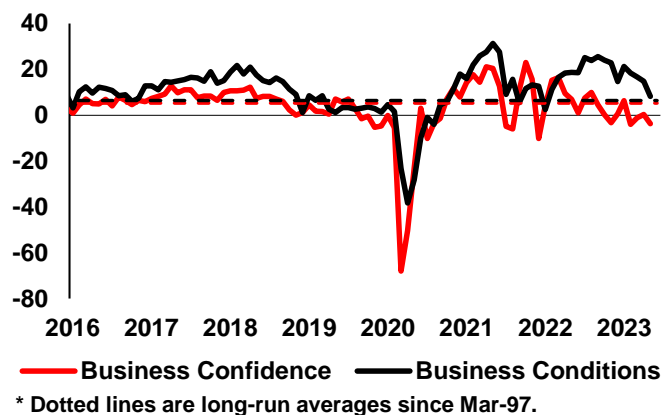
#### Survey Details

- **Business conditions** fell 7pts to +8 index points in May, driven by declines across all three sub-components. Trading fell 8pts to +14 index points, employment declined 7pts to +4 index points and profitability fell 5pts to +7 index points. Conditions have eased notably since January but remain just above their long run average.
- **By industry** transport & utilities, wholesale and mining - which were all at very high levels - saw the largest pull-back, though conditions declined across all industries. Of note was only a small decline in retail conditions which remain solid. In trend terms, outside of mining, transport & utilities and retail were strongest though all industries remain well into positive territory with the exception of the construction industry at just +4 index points.
- **By state**, there was a broad-based easing in conditions – led by WA and Tas which have been volatile in recent months. In trend terms, conditions remain strongest in WA, Qld and Tas, though are still positive and at or above average across NSW, Vic, and SA.
- **Business confidence** declined 4pts to -4 index points. The decline was broad-based across industries, with the exception of mining, manufacturing and transport & utilities which saw modest improvements. In trend terms, confidence was weakest in rec & personal and retail and also negative in finance, business & property and wholesale.
- **Leading indicators** weakened, with forward orders down 6pts to -5 index points suggesting that conditions will ease further in coming months and capacity utilisation remaining high but edging lower.
- **Price and cost growth** edged up in the month. On the inputs side, labour cost growth rose to 2.2% in quarterly equivalent terms and purchase cost growth rose to 2.5%. Final products prices growth accelerated to 1.3%, though the retail component continued to ease, slowing to 1.3% in quarterly equivalent terms.

Table 1: Key Monthly Business Survey Statistics

	Mar-23	Apr-23	May-23
	Net balance		
Business confidence	-1	0	-4
Business conditions	17	15	8
Trading	25	22	14
Profitability	13	12	7
Employment	11	11	4
Forward orders	3	1	-5
Stocks	5	6	2
Exports	1	1	0
	% change at quarterly rate		
Labour costs	2.0	1.9	2.2
Purchase costs	2.0	2.2	2.5
Final products prices	1.4	1.1	1.3
Retail prices	1.8	1.5	1.3
	Per cent		
Capacity utilisation rate	85.1	85.0	84.7

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



All data seasonally adjusted and subject to revision. Survey conducted from 16 to 29 May 2023, covering around 500 firms across the non-farm business sector.

Next release date: 11 July 2023.

## Monthly Focus: Forward Orders

Each month the NAB business survey includes a question on the ‘performance of forward orders by customers’ for each survey respondent. We consider this a forward-looking measure of business conditions (and therefore economic activity). Therefore, looking at the expansion or contraction of the pipeline of work can provide an early signal around turning points in economic activity – which is increasingly important at present as we assess the lagged impact of previous rate increases and for the RBA, how much tighter policy is slowing aggregate demand.

Based on the NAB Quarterly survey measure of forward orders (which begins in Q3 1989 and allows us to capture the 1990s recession) the relationship between orders and conditions is mixed during the key cycles – with orders troughing and peaking first in the 1990s and 2001 but moving more contemporaneously in the GFC and the pandemic where the economic shocks unfolded rapidly. However, using a simple econometric model of orders and conditions shows that on average orders have lead conditions by around 1 – 2 quarters since 1989.

With forward orders easing by 6pts to -5 index points in the May, there is a risk that conditions continue to fall in coming months – and with an accelerating trend. Further, orders are now below the long-run average of +1 index points and at their weakest level in ten years (outside of the Covid period).

The decline was driven by falls in mining (down 31pts in seasonally adjusted terms), wholesale (down 28pts) and retail (down 19pts) and they are now deeply into negative territory. More broadly, forward orders also declined in construction, rec & personal and finance, business & property services in the month. Manufacturing and transport & utilities bucked the trend but have also softened over recent months.

The broad-based weakness suggests that the weakening in orders is not idiosyncratic and there is a material risk that business conditions weaken further (and fall below average) in coming months. Historically there have been very few periods of negative orders outside of downturns in the economy

This is consistent with our long-held view that GDP will weaken in mid-2023 as the full impact of interest rates flows through to the economy. Indeed, the consumer exposed sectors appear to have pulled-back most and the impact on the typically very interest rate sensitive housing market is flowing through to construction.

How activity moderates will be important for both the labour market and capacity pressures more broadly in the economy. For now, capacity utilisation in the business survey has held up

Chart 2: Business Conditions and Forward Orders

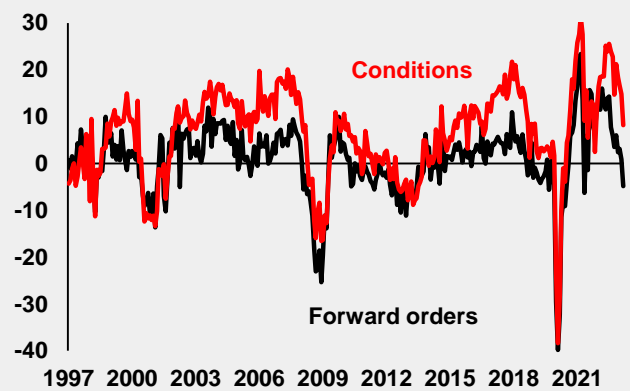
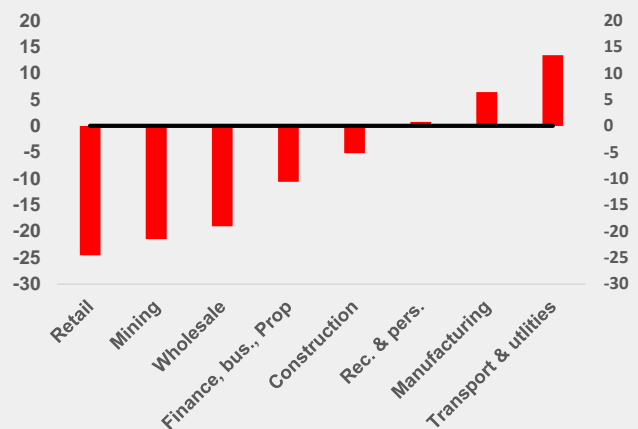


Chart 3: Forward orders by industry



## Business Conditions and Confidence

Chart 4: Business Confidence (Net Balance)

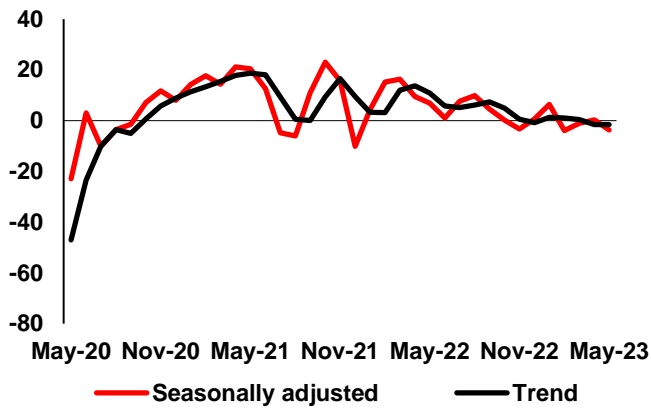


Chart 5: Business Conditions (Net Balance)

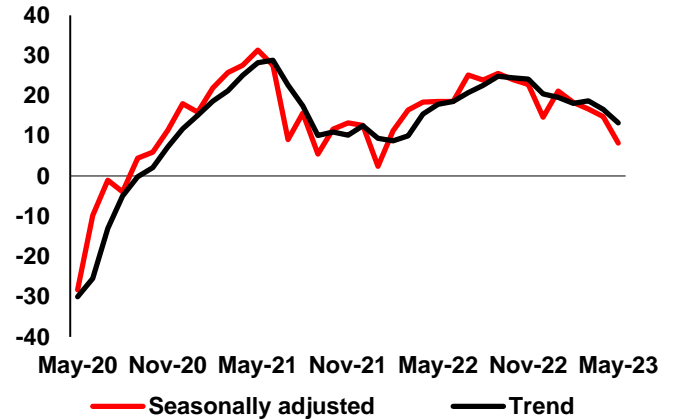


Chart 6: Components of Conditions (Net Balance, SA)

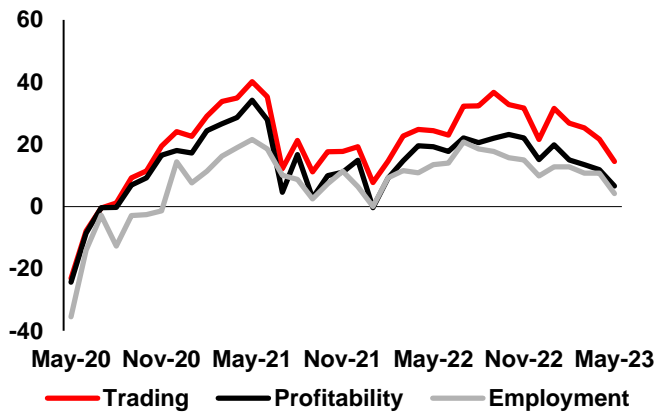


Chart 7: L-R Conditions & Confidence (Net Balance, SA)

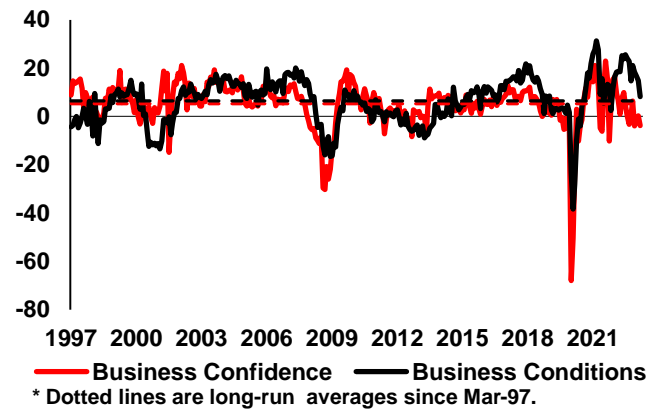


Chart 8: Conditions by Industry, Trend (Net Balance)

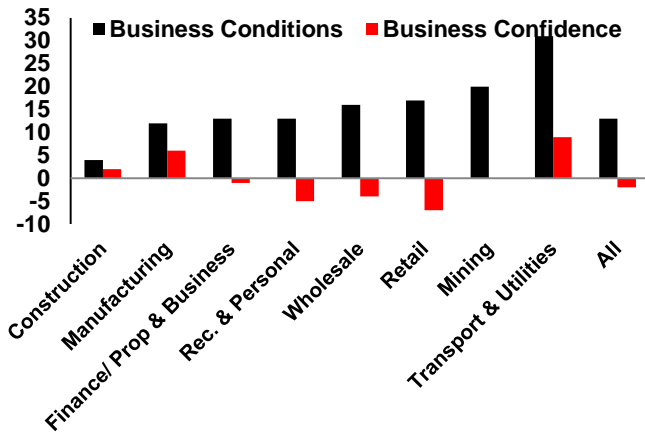
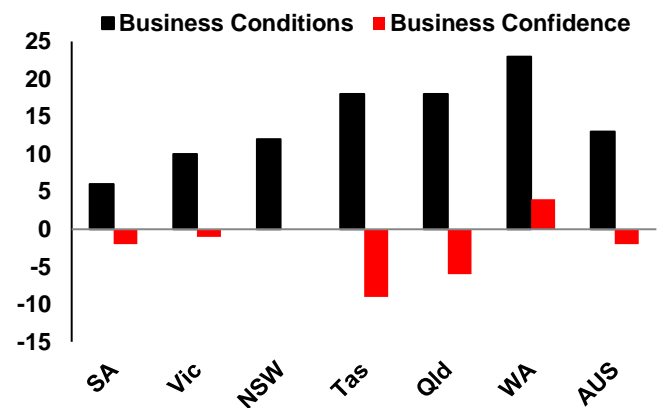


Chart 9: Conditions by State, Trend (Net Balance)



## Leading Indicators and Other Key Measures

Chart 10: Forward Orders (Net Balance)

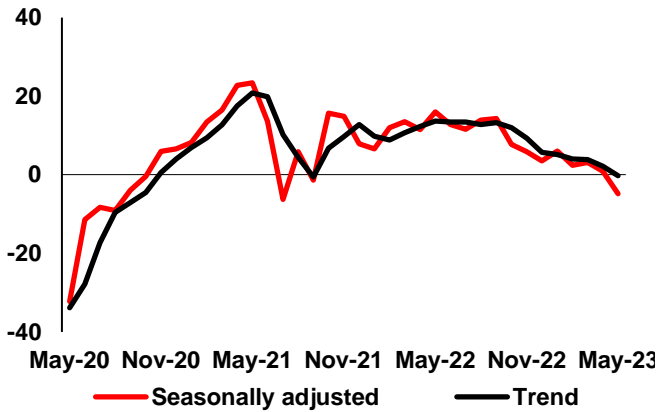


Chart 11: Capital Expenditure (Net Balance)

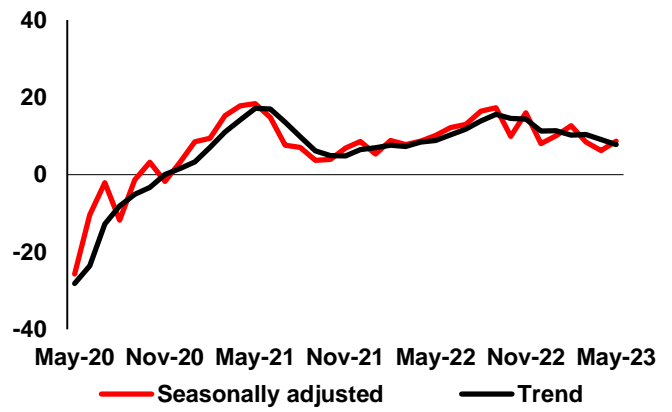


Chart 12: Capacity Util. & Unemployment (% SA)

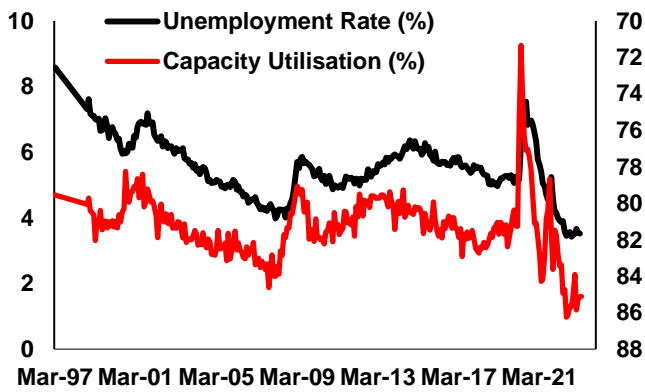


Chart 13: Capacity Util. by Industry (% 3mma)

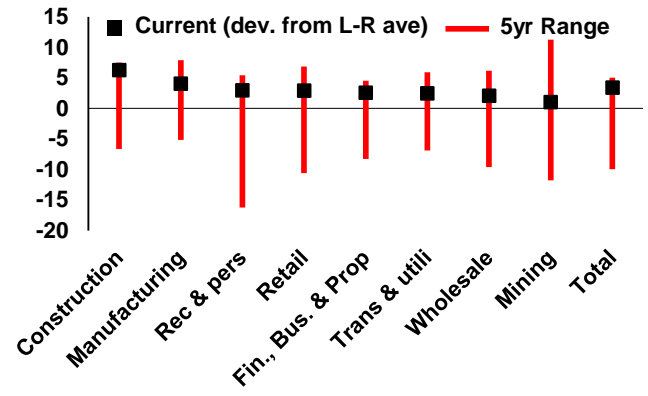


Chart 14: Stocks (Net Balance)

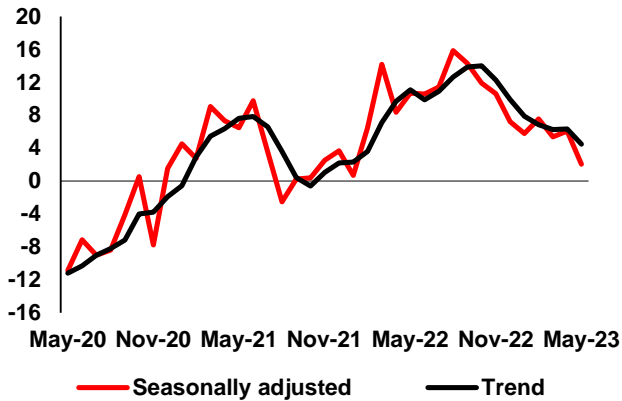


Chart 15: Cash Flow (Net Balance)

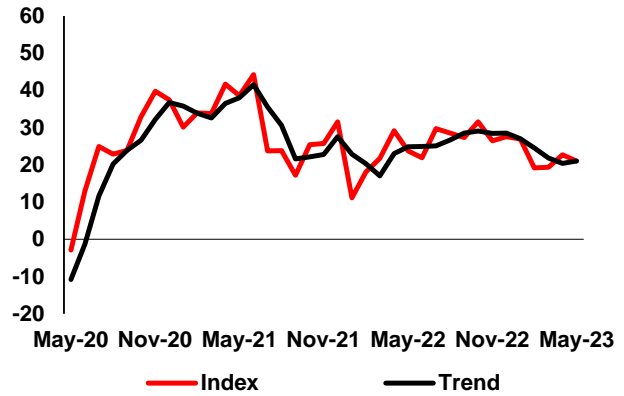


Chart 16: Exports (Net Balance)

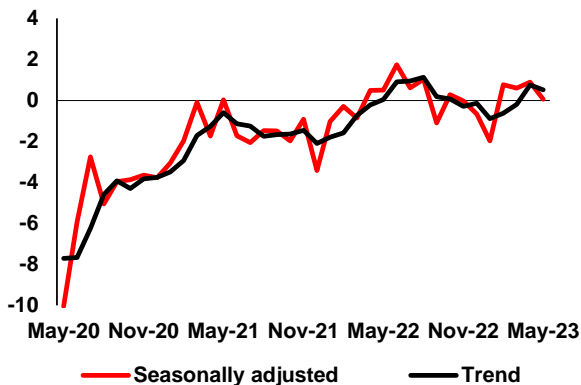
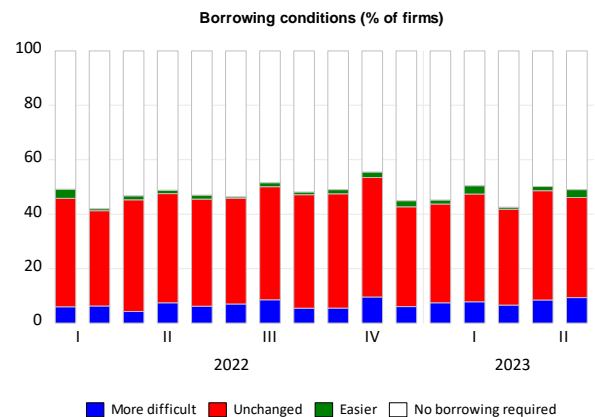


Chart 17: Borrowing Conditions (% of Firms)



## Employment, Wages and Prices

Chart 18: Employment (Net Balance)

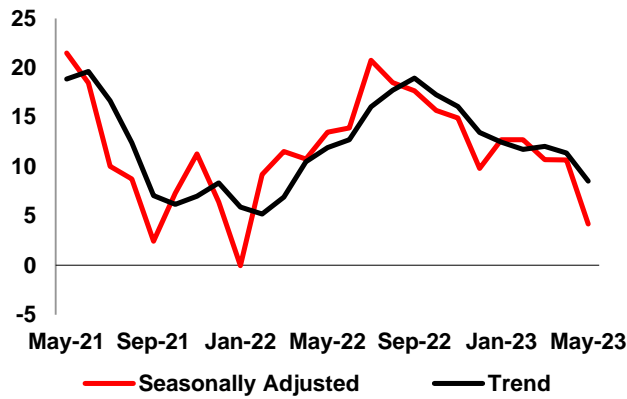


Chart 19: NAB vs ABS Employment (Net Balance, SA)

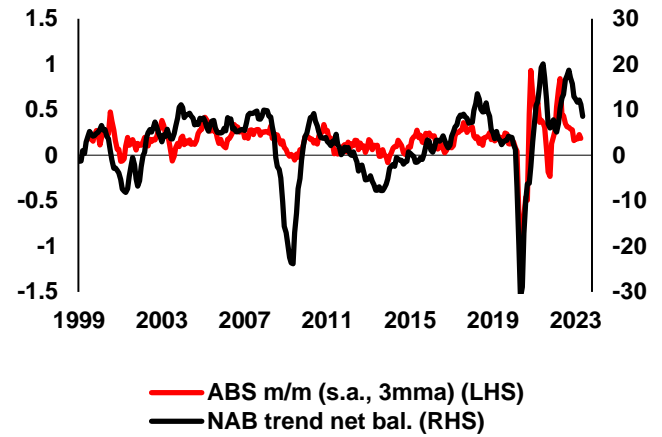


Chart 20: Employment by Industry (Net Balance, Trend)

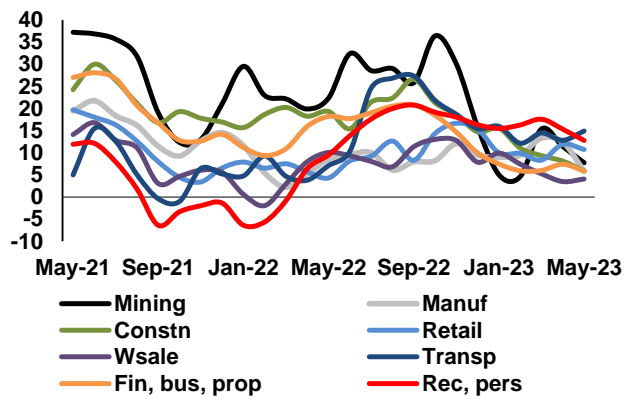


Chart 21: Labour Costs Growth, Qtly Eq. (% , SA)

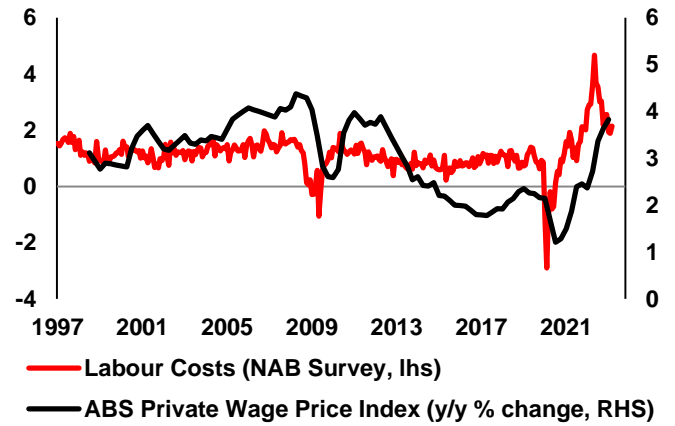


Chart 22: Costs & Price Growth, Qtly Eq. (% , SA)

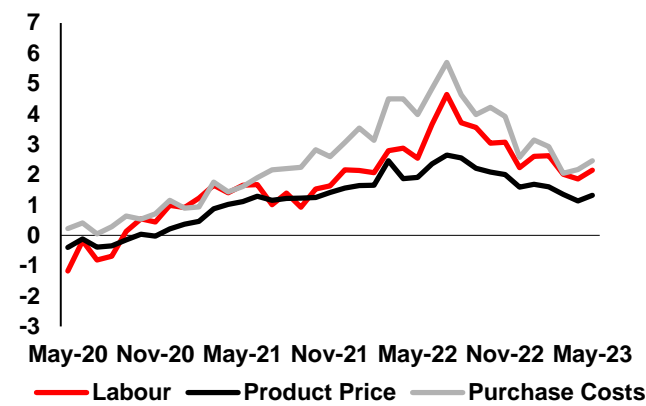


Chart 23: Retail Price Growth, Qtly Eq. (% , SA)



## Conditions and Confidence by State and Industry

Chart 24: Conditions by State (Net Balance, Trend)

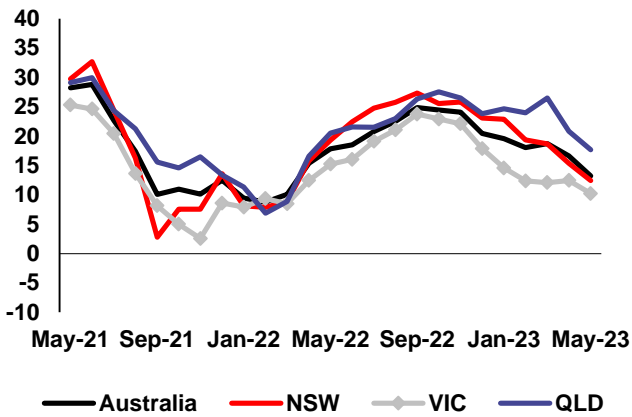


Chart 25: Conditions by State (Net Balance, Trend)

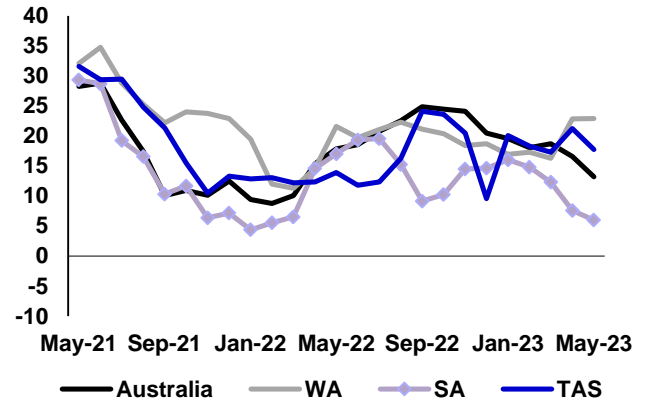


Chart 26: Confidence by State (Net Balance, Trend)

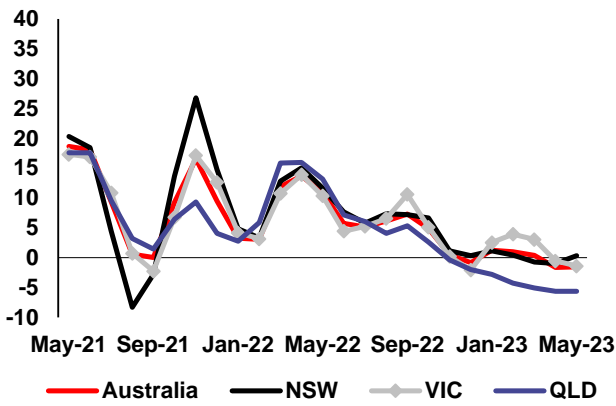


Chart 27: Confidence by State (Net Balance, Trend)

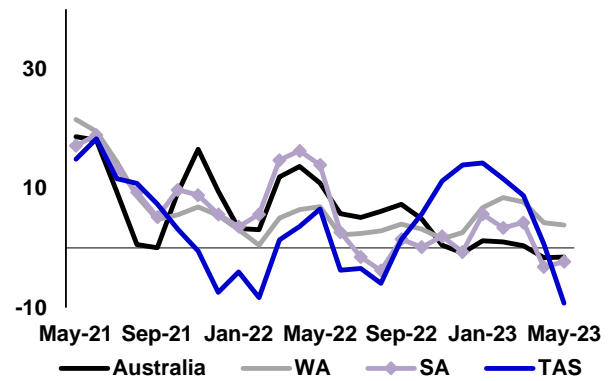


Chart 28: Conditions by Industry (Net Balance, Trend)

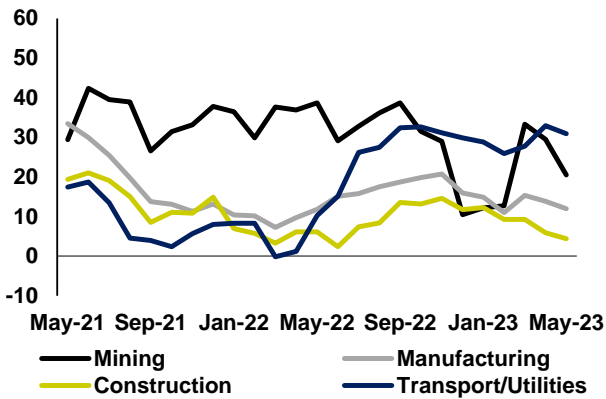


Chart 29: Conditions by Industry (Net Balance, Trend)

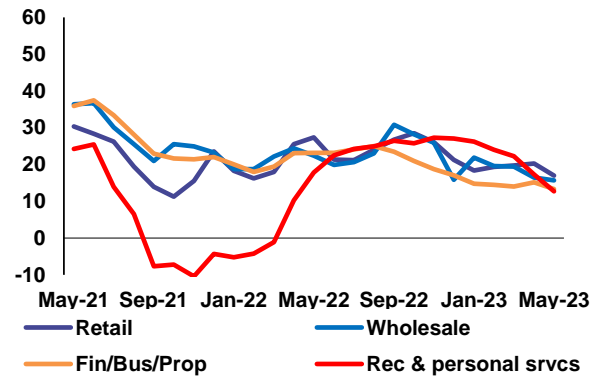


Chart 30: Confidence by Industry (Net Balance, Trend)

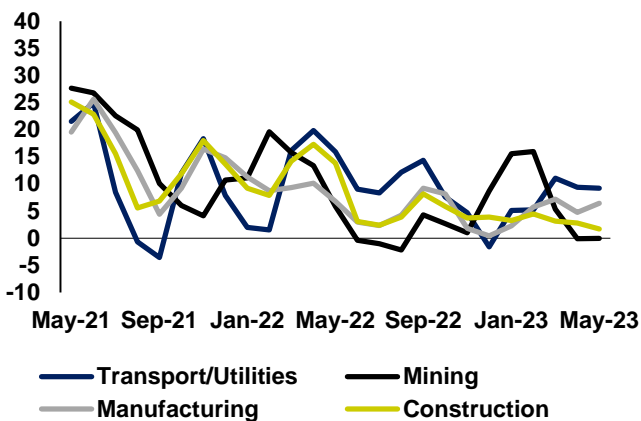
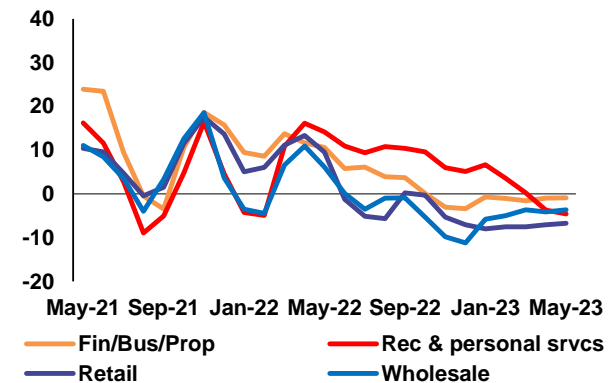


Chart 31: Confidence by Industry (Net Balance, Trend)



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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.