



NAB Quarterly Business Survey Q2 2023

Supply issues easing but labour still hard to find

NAB Group Economics

Summary

Supply side issues continued to improve in Q2 but the labour market remains very tight, with labour still a constraint for most firms. The share of firms reporting materials availability as a constraint declined to 36%, down from over 50% in 2022, but the share reporting labour as a constraint fell only slightly, remaining over 80%. Signs of a slowing economy were prevalent across the survey, with business conditions falling from very elevated levels (albeit still above average) and forward orders turning negative, similar to the movements seen in the Monthly Business Survey. Measures of cost growth continued to gradually moderate and wage growth measures in the survey remained contained, with expected average wage growth over the next financial year running at 1.7%, down from 1.9% in Q1. Still, wage costs remain the biggest concern for firms alongside pressure on margins. Growth in overall product prices moderated, but retail price growth ticked up and at 1.1% in the quarter remains well above normal levels. Overall, these results suggest activity is beginning to soften after an extended period of rebound, but also highlight that progress on inflation is likely to only be gradual and occur with a lag.

Survey Details

- **Business conditions** fell 8pts to +9 index points, still above the long-run average of +3. Trading conditions, profitability and employment all declined. Conditions fell in most industries but generally remained elevated, except in manufacturing (+4) and construction (+2). Conditions were also still strong across the states except Tas (+1).
- **Business confidence** edged up 1pt but remained negative at -3 index points. Confidence remained weakest in retail (-15), while across the states only WA remained positive (+2) while Qld was weakest (-9).
- **Leading indicators** softened in the quarter. Expected business conditions fell to +14 index points at a 3-month horizon, down from over +20 index points in Q1, and forward orders turned negative at -1 index point. Capacity utilisation fell but remained elevated at 84.7%, while capex plans remained broadly steady.
- **Labour indicators** remained strong despite the fall in the employment index for Q2. Employment in the next 3 months was +14 index points (down from +20), while 12-month expectations were broadly unchanged at +25 index points. Some 83% of firms reported availability of labour as a constraint on output, down only slightly from 87% in Q1.
- **Price and cost growth measures** continued to moderate gradually. Purchase costs grew at 1.3% (down from 1.5% in Q1), and the share of firms reporting materials availability as a constraint declined to 36%. Labour cost growth was also 1.3% (from 1.5% in Q1). Final product price growth was 0.7%, while retail price growth was 1.1%.
- **Wage costs** remain the top issues affecting business confidence, with pressure on margins and availability of labour also key. Expected annual wage growth per employee edged down to 1.7%, from 1.9%, but the share of firms expecting wage pressures to increase over the next six months continued to rise, from 74% to 83%.

Table 1: Key Quarterly Business Survey Statistics

	2022q4	2023q1	2023q2		2022q4	2023q1	2023q2
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	-1	-4	-3	Trading	28	24	14
Business conditions				Profitability	18	13	5
Current	21	17	9	Employment	16	14	8
Next 3 months	23	21	14	Forward orders	8	4	-1
Next 12 months	18	20	16	Stocks	13	9	4
Capex plans (next 12)	26	27	26	Exports	0	0	1
	<i>% change</i>						
Labour costs	1.7	1.5	1.3	Retail prices (% change)	1.6	1.0	1.1
Purchase costs	1.9	1.5	1.3	Capacity utilisation rate (%)	84.9	85.5	84.7
Final products prices	1.1	0.9	0.7				

All data seasonally adjusted, except purchase costs and exports. Survey conducted from 22 May to 8 June 2023, covering over 900 firms across the non-farm business sector.
Next release date: 19 October 2023.

Quarterly Focus: Expectations for Costs and Prices

Inflation in Australia showed the first signs of moderating in Q1, but whether and how quickly this continues through the remainder of 2023 is a major focus. The Business Survey provides one source of insight into the path of inflation, including cost drivers and prices across industries.

Importantly, the NAB Quarterly Business Survey not only provides data on firms cost and price growth for Q2, but also firms expectations for cost and price growth in the next three months (in this case, Q3 of 2023). This can provide a further ‘early look’ at how costs and prices might evolve. Historically, this signal has provided a reasonable albeit imperfect guide.

In terms of purchase cost growth, the latest survey shows further improvement in Q2, declining from 1.5% to 1.3% (Chart 1). Importantly, firms’ expectations for the next three months point to further moderation, with this expectations measure declining from 1.2% to 1%.

The story on labour costs is a little different (Chart 2). While these costs moderated to 1.3% in Q2 (from 1.5%), the expectations measure showed a pickup is expected over the next three months, from 1.1% to 1.4%.

In terms of prices, overall price growth fell from 0.9% to 0.7% in Q2, while expected growth flatlined at 0.8% (Chart 3). At an industry level, however, there is divergence in the way price growth is expected to evolve.

In the retail sector, price growth picked up slightly in Q2 (to 1.1% from 1% in Q1) but firms expect continued improvement over the months ahead, down to 0.7% (from 1%) (Chart 4). This likely reflects the improvement in supply chains that is particularly important for goods prices in the retail sector.

In recreation & personal services, however, a downward trend is less obvious (Chart 5). Price growth edged down to 0.7% in Q2 (from 0.8%), but expected price growth rose, from 0.7% to 0.9%. This divergence aligns with broader evidence that services inflation is likely to be ‘sticky’ over the months ahead.

Chart 1: Purchase Cost Growth (% S.A.)

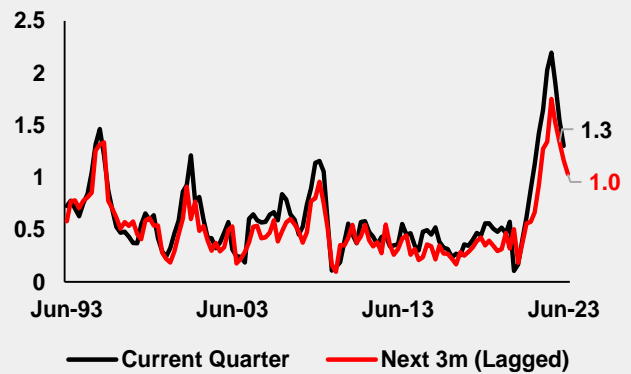


Chart 2: Labour Cost Growth (% S.A.)

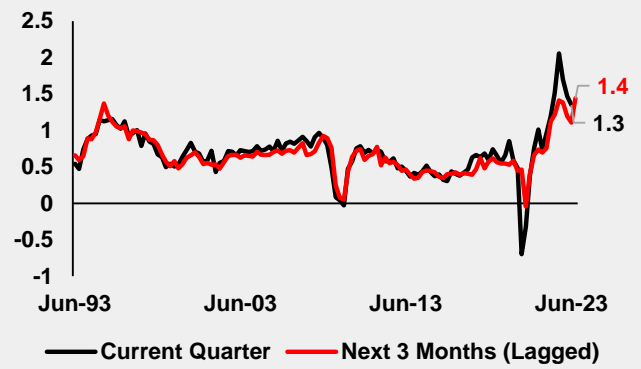


Chart 3: Final Price Growth, All Industries (% S.A.)

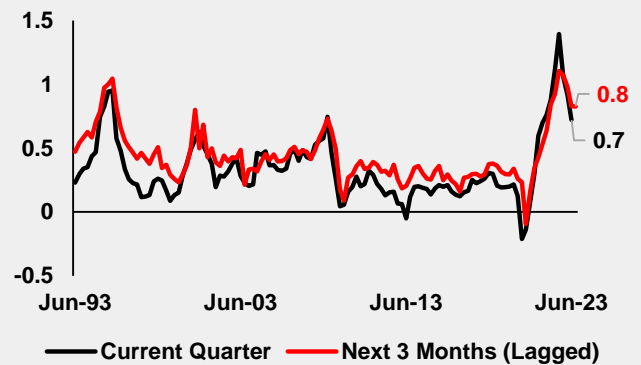


Chart 4: Retail Price Growth (% S.A.)

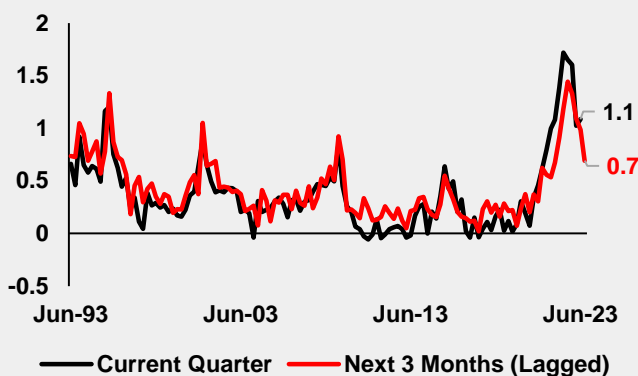
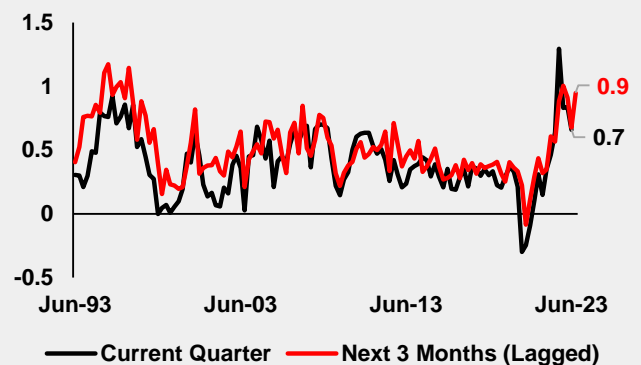


Chart 5: Rec. & Personal Services Price Growth (% S.A.)



Business Conditions and Confidence

Chart 6: Conditions & Confidence (Net Balance, SA)

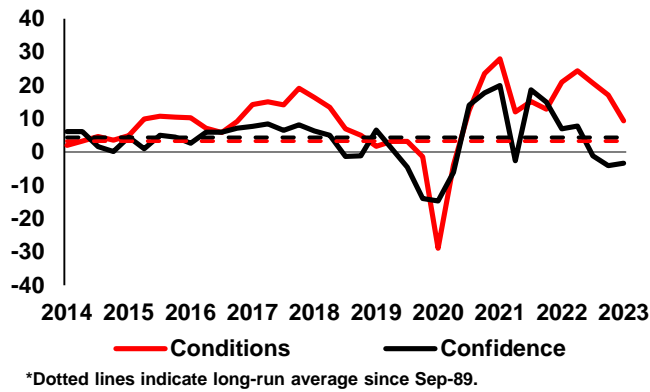
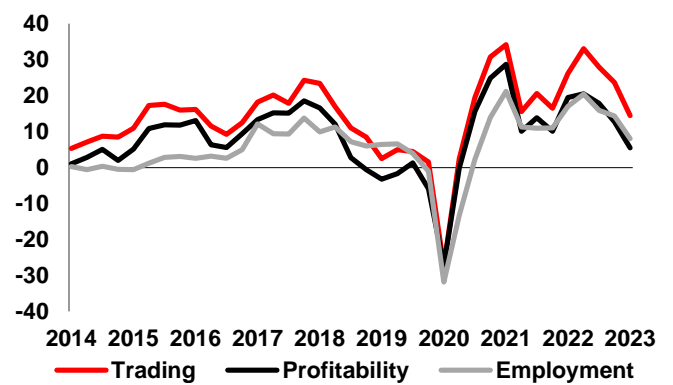


Chart 7: Conditions Components (Net Balance, SA)



Drivers of Business Confidence

Chart 8: Issues Affecting Confidence (Share of Firms)

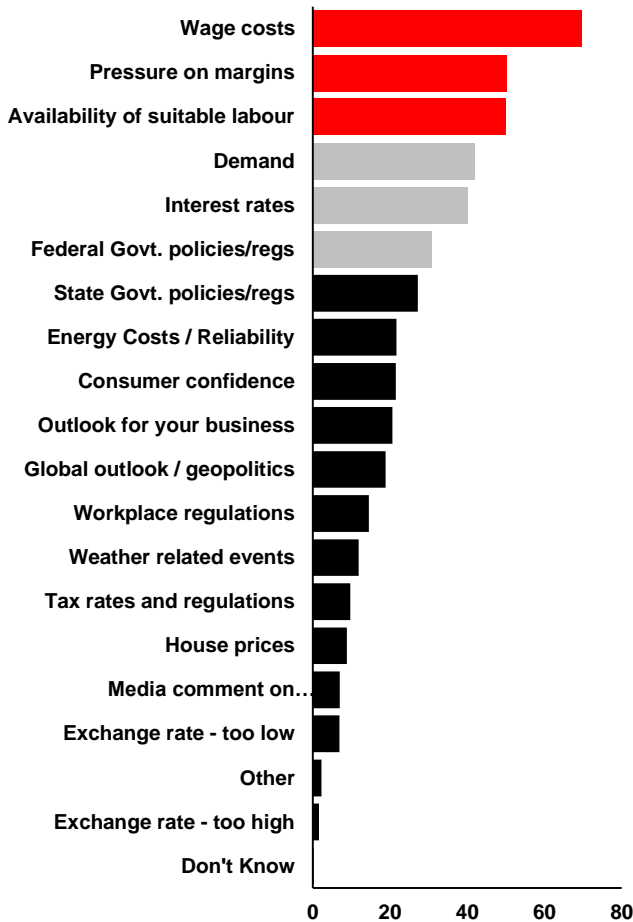


Chart 9: Issues Affecting Confidence (Share of Firms): Deteriorating Confidence

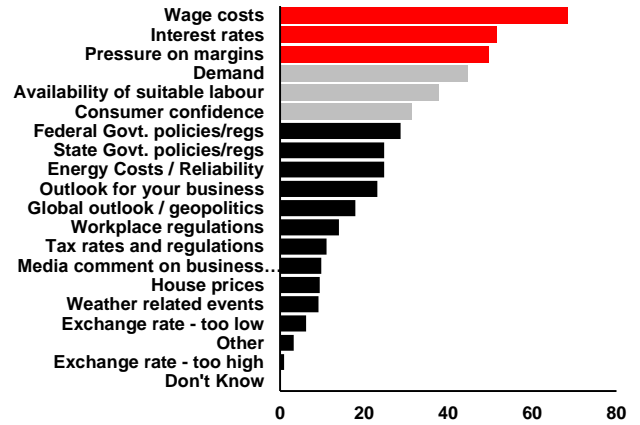
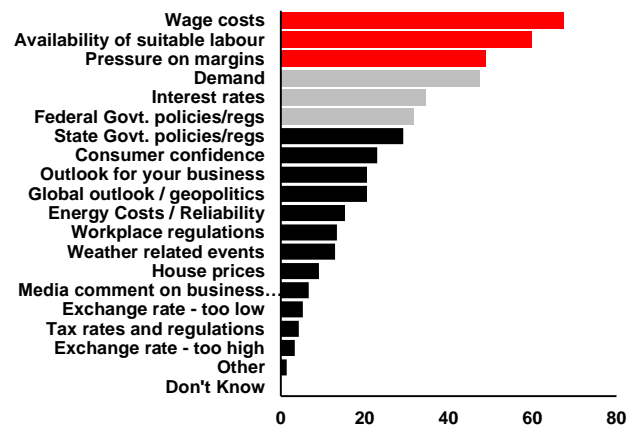


Chart 10: Issues Affecting Confidence (Share of Firms): Improving Confidence



Leading Indicators and Business Investment

Chart 11: Expected Conditions (Net Balance, SA)

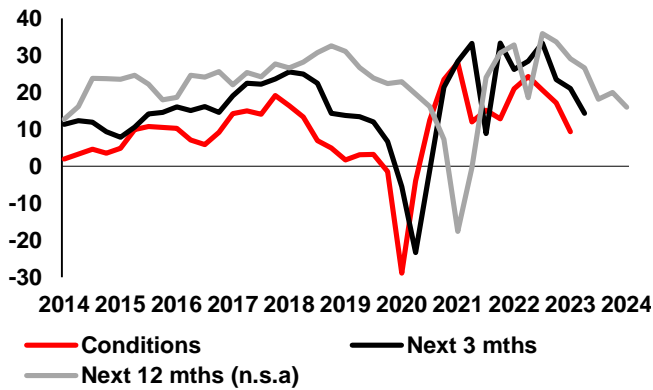


Chart 12: Expected Forward Orders (Net Balance, SA)

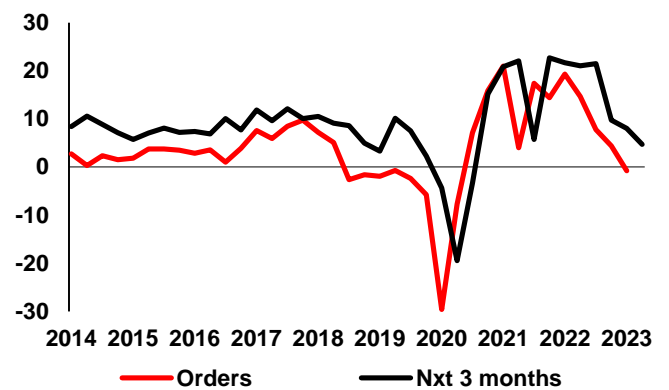


Chart 13: Capacity Utilisation (Percent, SA)

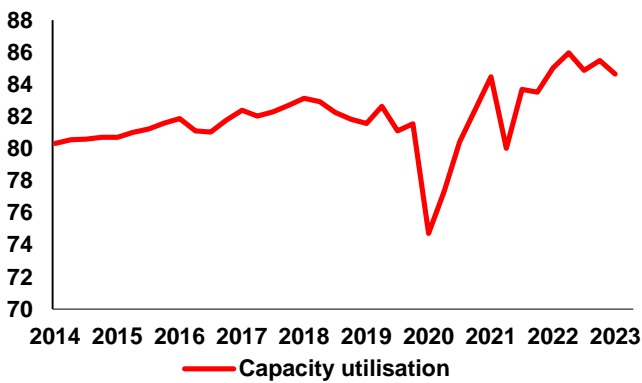


Chart 14: Capacity Utilisation (3Qtr Moving Average)

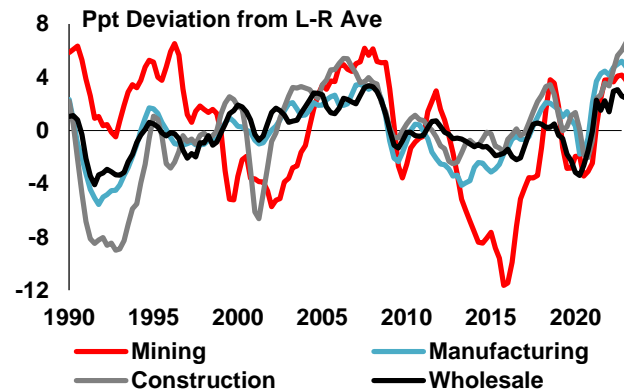


Chart 15: Stocks (Net Balance, SA)

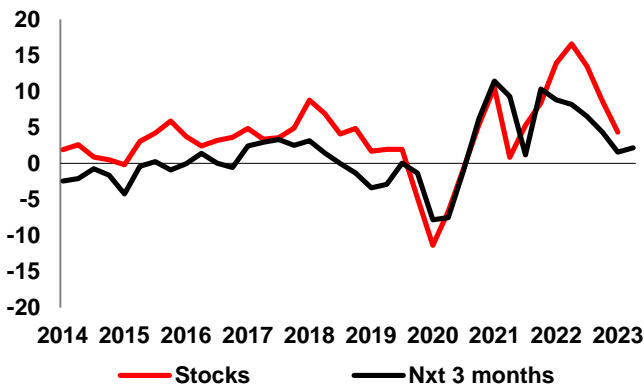
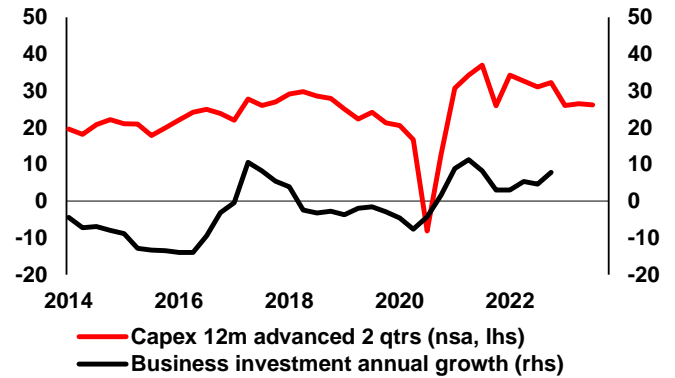


Chart 16: Expected Capex (Net Balance, SA)



Labour Market Indicators

Chart 17: Employment Expectations (Net Balance, SA)

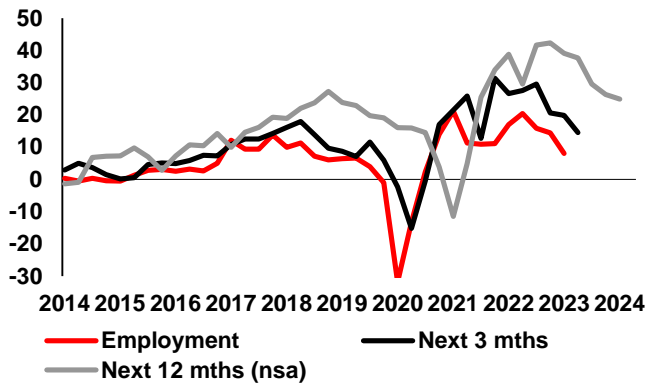


Chart 18: Labour Constraints & Unemployment Rate

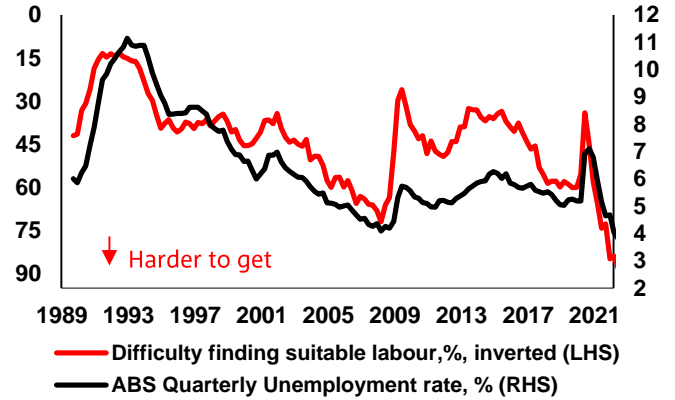


Chart 19: Change in Average Hours Worked (NSA)

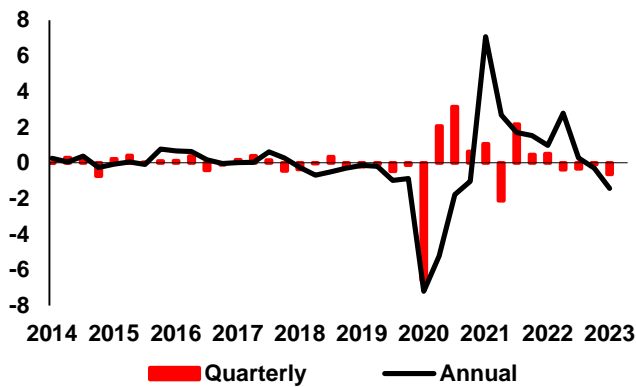


Chart 20: Labour Constraints & Underutilisation

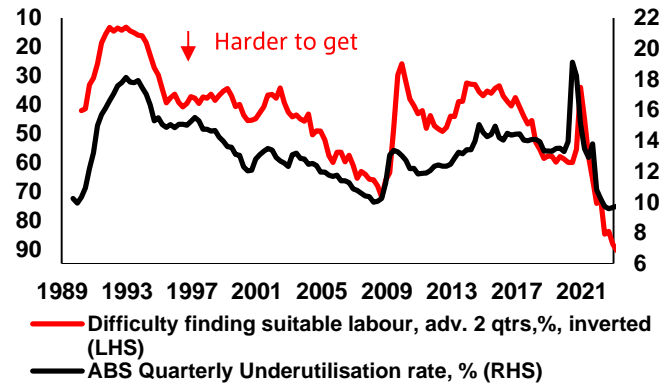


Chart 21: Average Hours Worked by Industry (NSA)

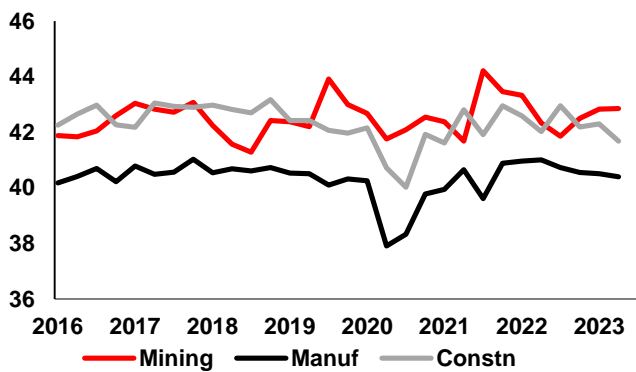


Chart 22: Average Hours Worked by Industry (NSA)

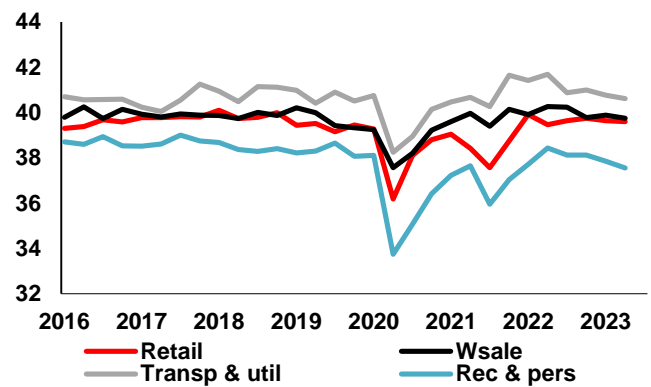
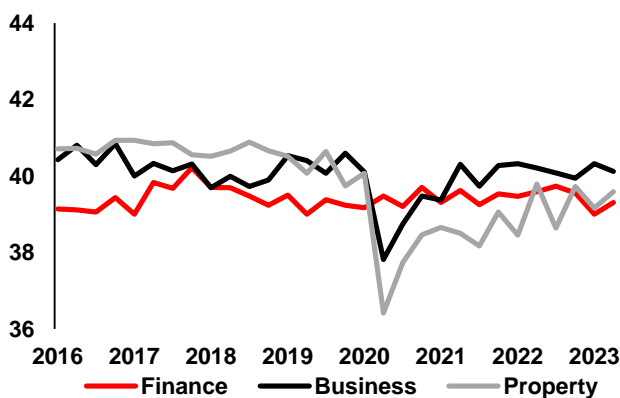


Chart 23: Average Hours Worked by Industry (NSA)



Major Constraints on Firm Output

Chart 24: Main Constraints on Firm Output (% of Firms)

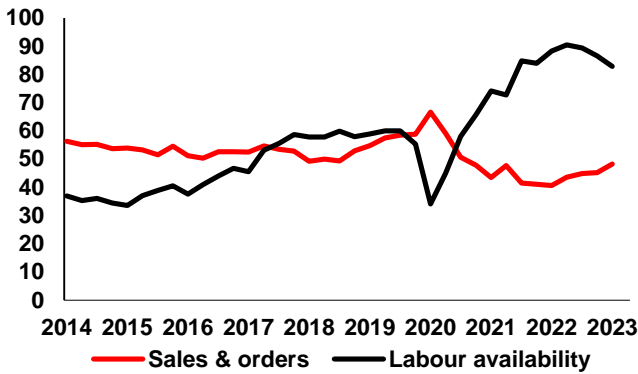
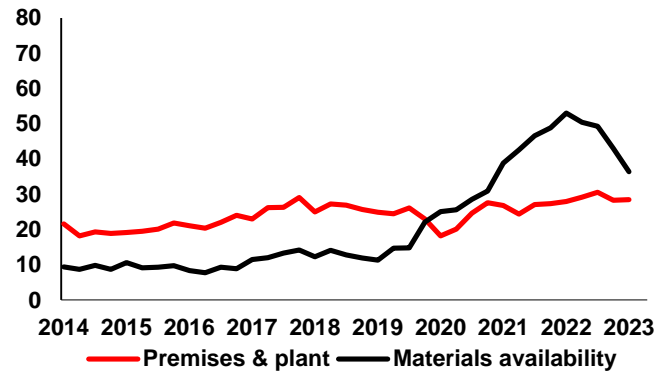


Chart 25: Main Constraints on Firm Output (% of Firms)



Inflation Pressures

Chart 26: Annualised Price Growth (Percent, SA)

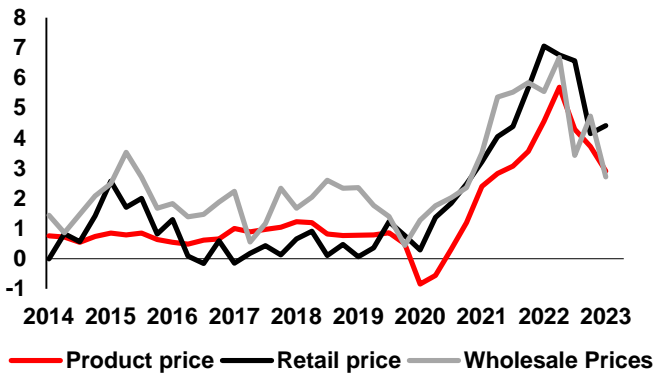
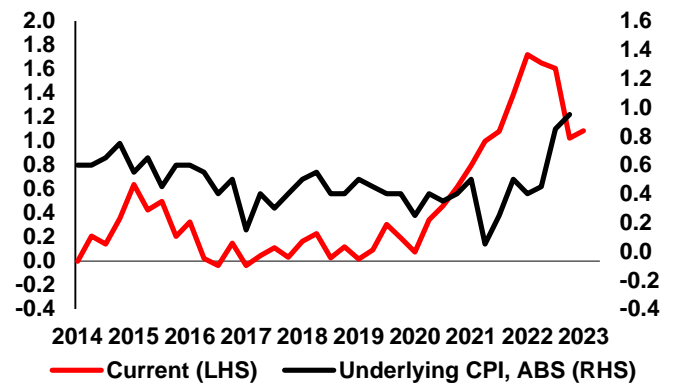


Chart 27: Retail Price Growth (Percent, SA)



Labour Costs

Chart 28: Labour Costs & Compensation of Employees Growth (Percent, SA)

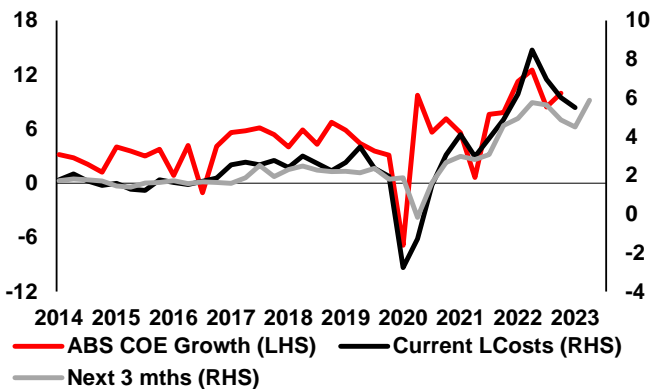
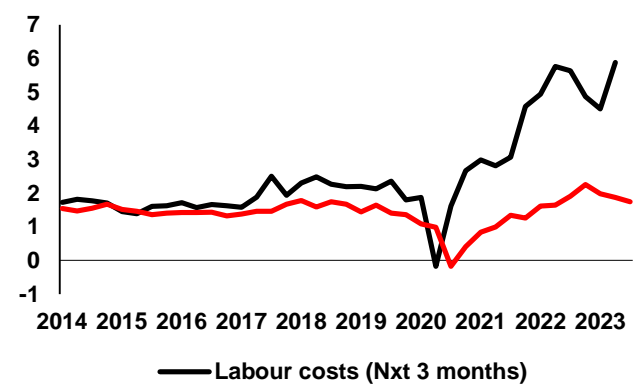


Chart 29: Expected Labour Costs & Average Earnings Growth (Percent, SA)



Details by Industry

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

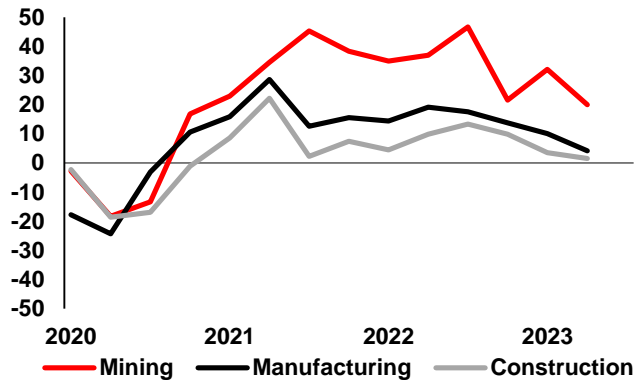


Chart 31: Confidence by Industry (Net Balance, SA)

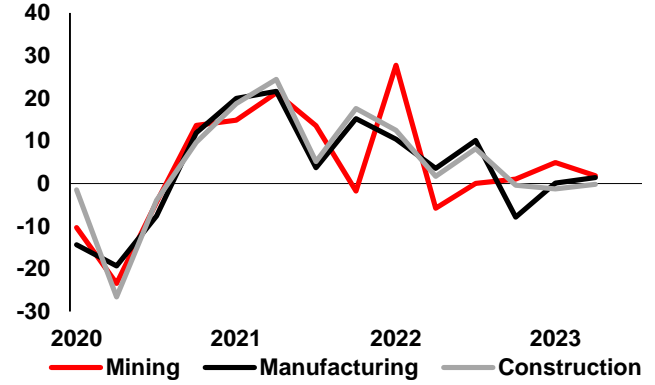


Chart 32: Conditions by Industry (Net Balance, SA)

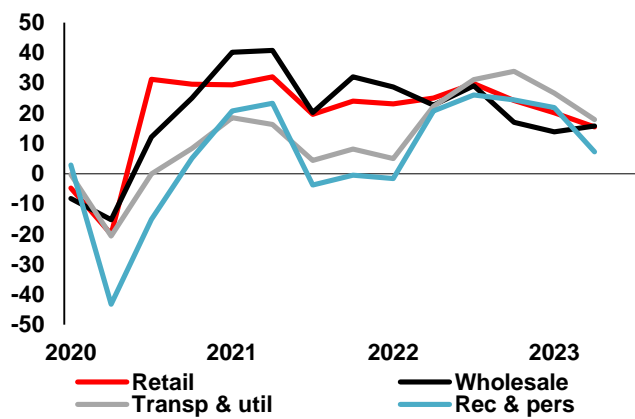


Chart 33: Confidence by Industry (Net Balance, SA)



Chart 34: Conditions by Industry (Net Balance, SA)

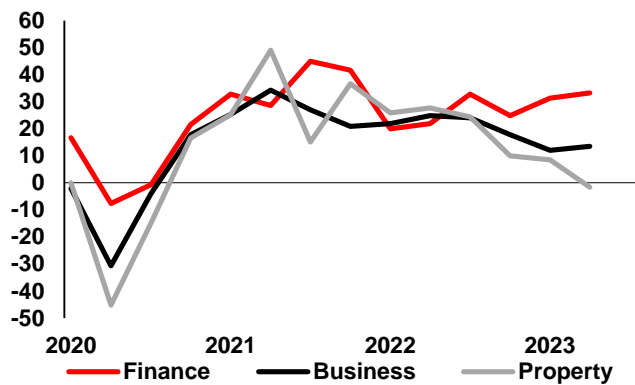
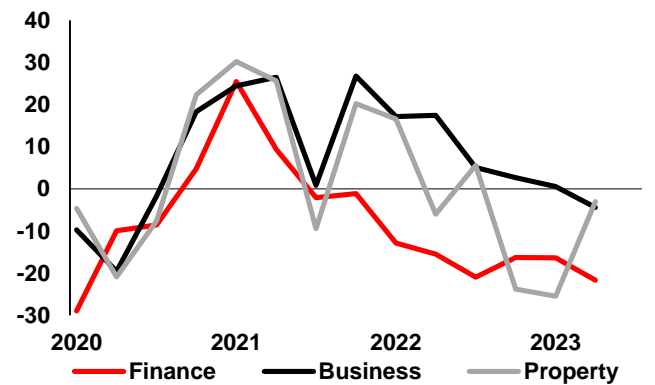


Chart 35: Confidence by Industry (Net Balance, SA)



Construction Sub-Industry Details

Chart 36: Conditions by Construction Sub-Industry (Net Balance, SA)

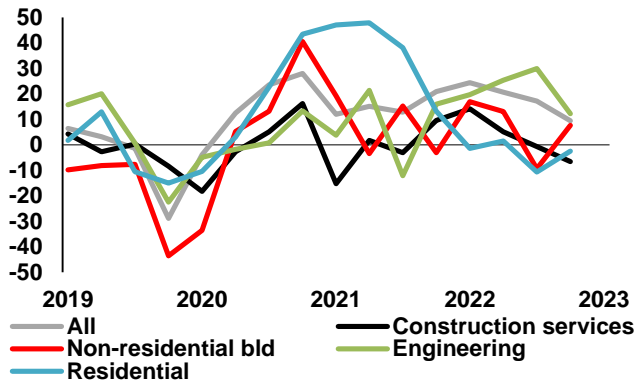


Chart 37: Confidence by Construction Sub-Industry (Net Balance, SA)

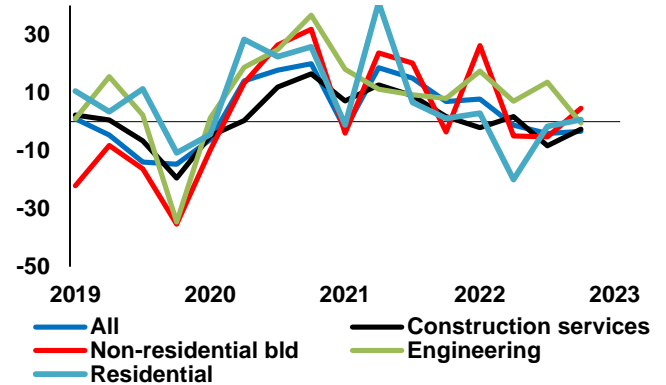


Chart 38: Employment by Construction Sub-Industry (Net Balance, SA)

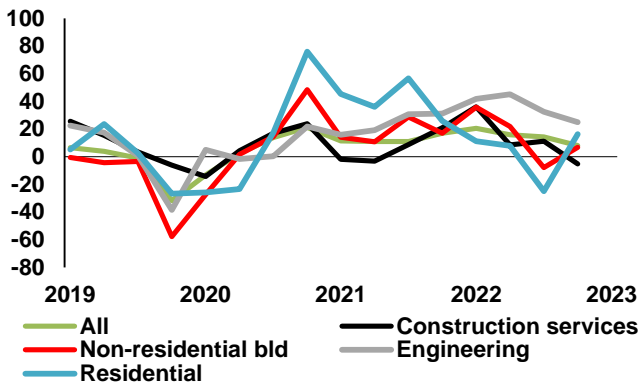
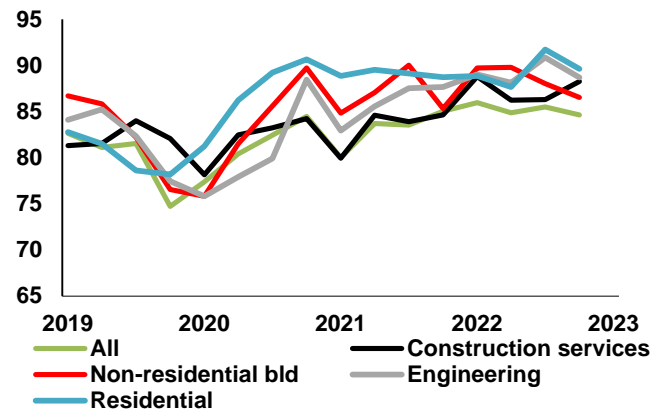


Chart 39: Capacity Utilisation by Construction Sub-Industry (Percent, SA)



Details by State

Chart 40: Conditions by State (Net Balance, SA)

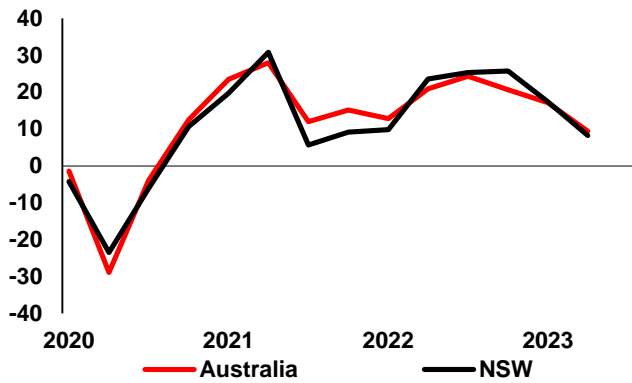


Chart 41: Confidence by State (Net Balance, SA)

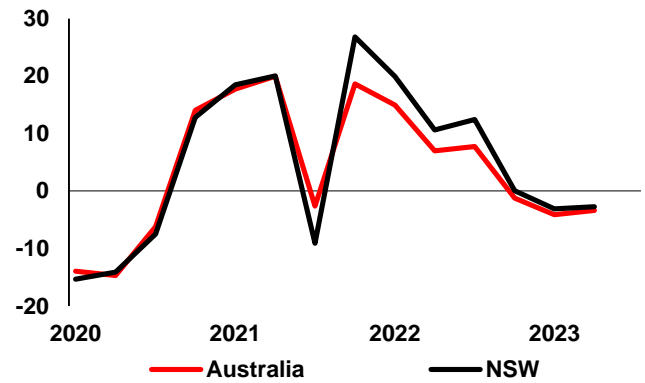


Chart 42: Conditions by State (Net Balance, SA)

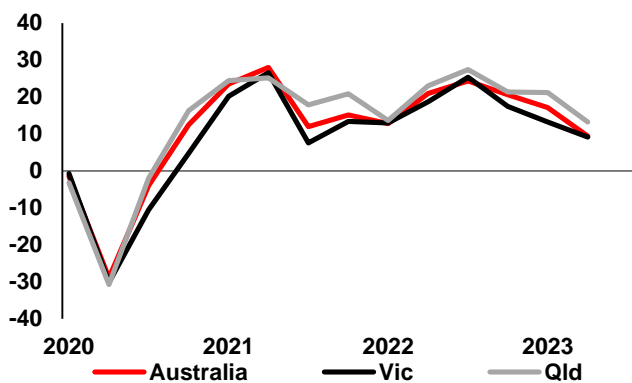


Chart 43: Confidence by State (Net Balance, SA)

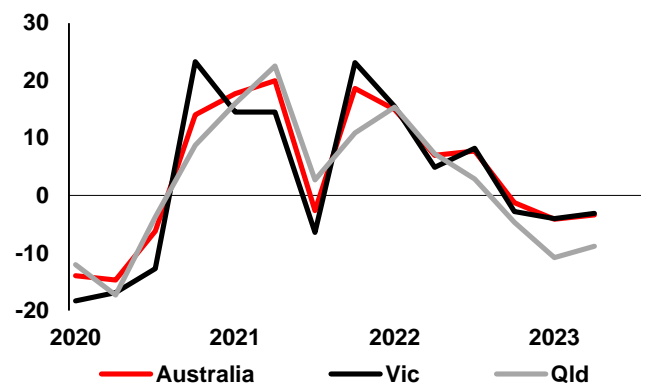


Chart 44: Conditions by State (Net Balance, SA)

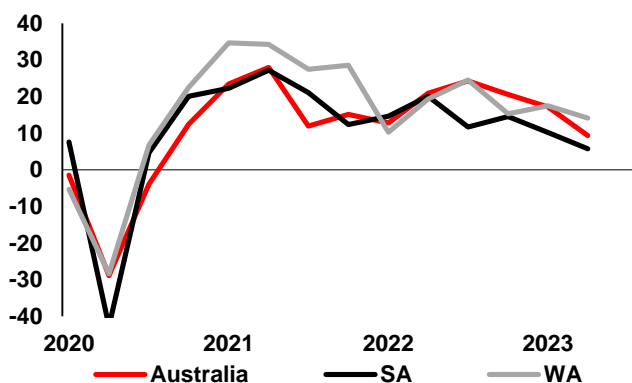
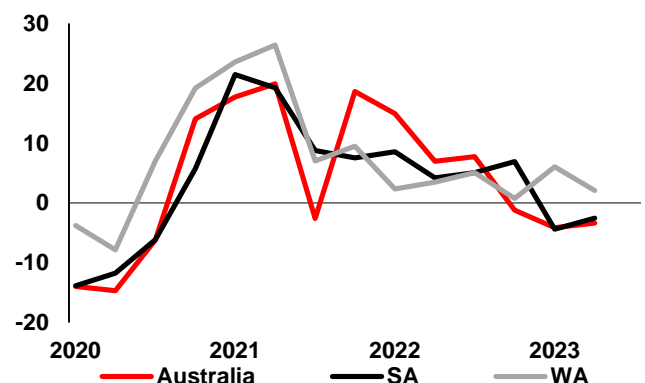


Chart 45: Confidence by State (Net Balance, SA)



Data Appendix

	Quarterly					Monthly				
	2022q2	2022q3	2022q4	2023q1	2023q2	2023m2	2023m3	2023m4	2023m5	2023m6
Confidence	7	8	-1	-4	-3	-4	-1	1	-3	0
Conditions	21	24	21	17	9	19	17	15	9	9

	Quarterly					Monthly				
	2022q2	2022q3	2022q4	2023q1	2023q2	2023m2	2023m3	2023m4	2023m5	2023m6
Trading	26	33	28	24	14	27	26	22	15	14
Profitability	20	21	18	13	5	15	14	12	7	9
Employment	17	20	16	14	8	13	11	11	5	5

	Quarterly ^(a)					Monthly				
	2023q1	2023q2	2023q3	2024q1	2024q2	2023m2	2023m3	2023m4	2023m5	2023m6
Conditions	17	9	NA	NA	NA	19	17	15	9	9
Conds. next 3m	23	21	14	NA	NA					
Conds. nxt 12m	34	29	27	20	16					
Orders	4	-1	NA	NA	NA	2	3	1	-5	-2
Orders next 3m	10	8	5	NA	NA					

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

	Quarterly ^(a)					Monthly				
	2022q3	2022q4	2023q1	2023q2	2023q3	2023m2	2023m3	2023m4	2023m5	2023m6
Capacity utilis.	86.0	84.9	85.5	84.7	NA	85.3	85.1	85.0	84.5	83.5
Stocks current	17	13	9	4	NA	8	5	6	2	1
Stocks next 3m	8	7	4	2	2					

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

	Quarterly ^(a)					Monthly				
	2023q1	2023q2	2023q3	2024q1	2024q2	2023m2	2023m3	2023m4	2023m5	2023m6
Empl current	14	8	NA	NA	NA	13	11	11	5	5
Empl next 3m	21	20	14	NA	NA					
Empl nxt 12m	42	39	38	26	25					

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

	2022q2	2023q1	2023q2
Constraints on output (% of firms)*			
Sales & orders	40.6	45.2	48.2
Labour	88.3	86.5	82.8
Premises & plant	27.9	28.3	28.5
Materials	53.0	43.1	36.4

* not s.a.

Data Appendix - States

	<i>Quarterly</i>					<i>Monthly</i>				
	2022q2	2022q3	2022q4	2023q1	2023q2	2023m2	2023m3	2023m4	2023m5	2023m6
Business conditions										
NSW	24	25	26	17	8	17	19	11	8	8
VIC	19	25	17	13	9	15	14	11	8	15
QLD	23	27	21	21	13	21	24	20	11	6
SA	20	12	15	10	6	14	-2	11	9	-10
WA	19	25	15	17	14	19	13	37	19	16
TAS	25	17	4	9	1	10	-2	57	-1	10

	<i>Quarterly</i>					<i>Monthly</i>				
	2022q2	2022q3	2022q4	2023q1	2023q2	2023m2	2023m3	2023m4	2023m5	2023m6
Business confidence										
NSW	11	12	0	-3	-3	-6	0	3	-1	1
VIC	5	8	-3	-4	-3	-3	0	0	-4	-4
QLD	7	3	-5	-11	-9	-7	-4	-5	-7	3
SA	4	5	7	-4	-3	-4	-1	-5	0	-5
WA	3	5	1	6	2	4	3	6	3	0
TAS	-20	-11	3	-8	-5	1	2	-5	-24	-13

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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.