

NAB Monthly Business Survey July-23



Costs, prices spike in July as conditions stay resilient

NAB Group Economics

Summary

Business conditions stayed resilient in July and inflation-related measures rose, challenging expectations that the economy would continue to cool as 2023 wears on. Key measures of demand, profitability and employment all held steady at above-average levels and capacity utilisation also rebounded to be well above average at 84.5%. Confidence remained low, as did forward orders, but both measures have been weighed down by deeply negative readings in the retail sector. Notably, retail firms continued to report strong current conditions despite the weakness in leading indicators in recent months. Labour cost growth rose sharply, likely reflecting wage rises taking effect on July 1 including minimum and award wage changes. There was also a further rise in purchase cost growth in the month, possibly reflecting energy prices. In a sign that some of these pressures may have been immediately passed through, overall price growth also lifted, with retail price growth jumping to 2.6% in quarterly terms and recreation & personal services price growth up to 2.9%. Importantly however, underlying respondent-level data shows the relationship between cost increases and price rises is not simple, with many firms reporting large increases in labour costs but no change in prices. Nonetheless, the survey results highlight that upside pressures to inflation remain considerable, despite the improvement seen in the Q2 CPI release.

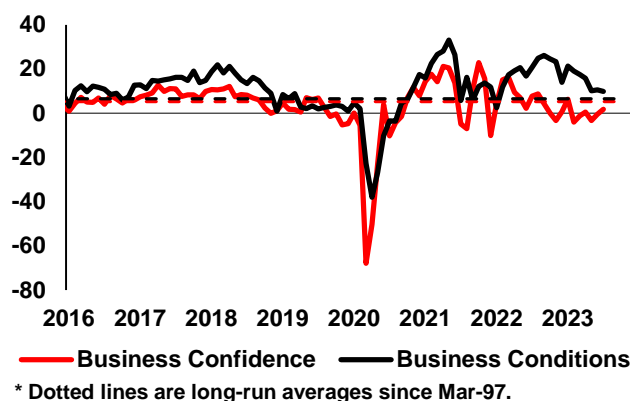
Survey Details

- **Business conditions** eased 1pt to +10 index points in July. Trading conditions (+16 index points), employment (+6 index points) and profitability (+10 index points) were all steady. In trend terms, conditions continued to ease since January but remain at above-average levels.
- **By industry** retail conditions strengthened (up 7pts), while construction fell (down 6pts). In trend terms, the level of conditions remained strong in most industries with manufacturing weakest (+4 index points) followed by construction (+7 index points) and recreation & personal services (+8 index points).
- **By state** conditions fell in Victoria (down 12pts) and WA (down 9pts) but rose significantly in SA (up 25pts) and Tas (up 16pts). In trend terms, conditions remained strong across most states, though SA remains soft at +4 index points.
- **Business confidence** rose 2pts to +2 index points. Wholesale led the improvement (up 10pts), followed by construction and recreation & personal services (both up 7pts). Conversely, transport & utilities saw a decline of 12pts. In trend terms, confidence remains at below-average levels, with retail the weakest at -12 index points.
- **Leading indicators** strengthened slightly, with forward orders up 1pt to -1 index points. Retail forward orders improved but remained deeply negative, weighing down the overall result. Capacity utilisation rose more strongly, up 0.9ppt to 84.5%, and remains well above average.
- **Price and cost growth** rose sharply in the month. Labour cost growth rose to 3.7% in quarterly equivalent terms (from 2.3% in June) and purchase cost growth rose to 2.6% (2.2% in June). Final price growth reached 2% (1% in June), with retail prices rising to 2.6% (1.4% in June) and recreation & personal services to 2.9% (1.2% in June).

Table 1: Key Monthly Business Survey Statistics

	May-23	Jun-23	Jul-23
	Net balance		
Business confidence	-3	-1	2
Business conditions	10	11	10
Trading	17	16	16
Profitability	8	10	10
Employment	5	6	6
Forward orders	-5	-2	-1
Stocks	2	2	7
Exports	0	-1	1
	% change at quarterly rate		
Labour costs	2.2	2.3	3.7
Purchase costs	2.3	2.2	2.6
Final products prices	12	10	2.0
Retail prices	14	14	2.6
	Per cent		
Capacity utilisation rate	84.6	83.6	84.5

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



All data seasonally adjusted and subject to revision. Survey conducted from 19 to 31 July 2023, covering around 400 firms across the non-farm business sector.

Next release date: 12 September 2023.

Monthly Focus: Seasonality and July Wage Rise Impacts

Labour cost growth in the NAB Business Survey rose sharply in July, from 2.3% in June to 3.7% (in quarterly equivalent terms). While labour cost growth captures employment growth as well as wage growth, the July result likely reflects wage rises taking effect in the month including the recent minimum and award wage increases.

Labour cost growth is ordinarily stronger in July as many wages, including those tied to awards, adjust with the turn of the financial year (Chart 2). In July this year, the rise was larger than the ordinary seasonal lift. Original monthly labour cost growth rose from 0.9% in June to 1.8%, which was moderated to 1.2% through the seasonal adjustment process. A similar effect was evident in July 2022.

The large minimum and award wage increases in July 2022 (4.6%) and July 2023 (5.75%) have likely contributed to these outsized rises in the underlying data. However, wages for many non-award workers are also reset with the new financial year, and with unemployment at historic lows, these wage increases are also likely to have been stronger than in the past. In addition, there is evidence that the share of wage adjustments made in July is also rising, contributing to a strengthening seasonal effect.

Across industries, the seasonally adjusted monthly growth rate was highest in recreation & personal services, transport & utilities, and retail (Chart 3). Most industries saw a large pickup in labour cost growth from June to July, though the rise was limited in retail and construction and labour cost growth fell in wholesale. All industries reported labour cost growth well above their respective long-run averages in July.

The rise in labour costs in July coincided with a pickup in the survey's price growth measures, suggesting some of the impact of wage adjustments in the new financial year might have been passed through to firms' prices immediately (Chart 5).

However, looking at the underlying response data paints a more mixed picture (Chart 6). Cost growth and price growth are clearly correlated, but many firms that reported significant labour cost growth reported no change in prices, while some that raised prices in the month experienced no labour cost growth.

This reflects that most firms only update their prices periodically, with labour costs one of many considerations affecting price decisions alongside other input costs, demand and market dynamics.

Going forward, the evolution of the labour market and the strength of demand in the economy will be important factors that will shape the strength of wage growth and the outlook for inflation.

Chart 2: Monthly Labour Cost Growth (%)

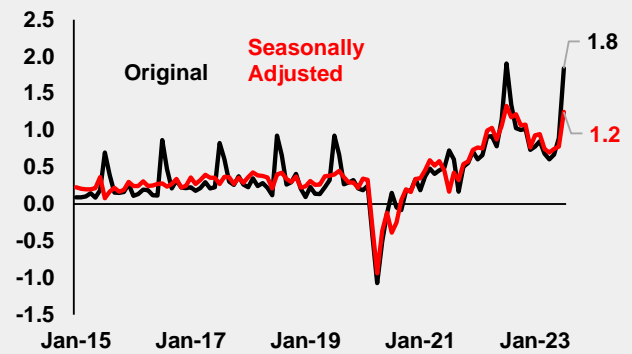


Chart 3: Monthly Labour Cost Growth, S.A. (%)

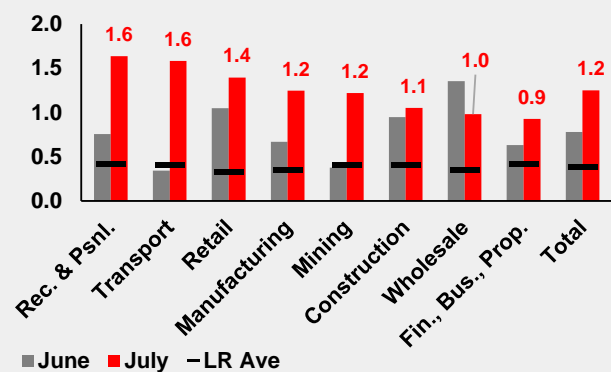


Chart 4: Monthly Labour Cost and Price Growth, S.A. (%)

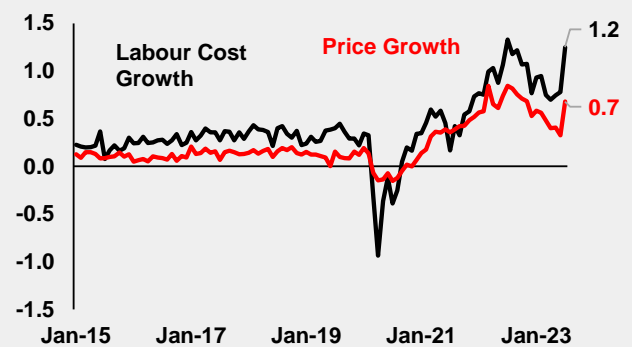


Chart 5: Firm-Level Survey Responses, July (%)



Note: Data in Chart 6 is original monthly growth in labour costs and prices for July 2023. Values have been randomised around response category values for visualisation purposes.

Business Conditions and Confidence

Chart 6: Business Confidence (Net Balance)

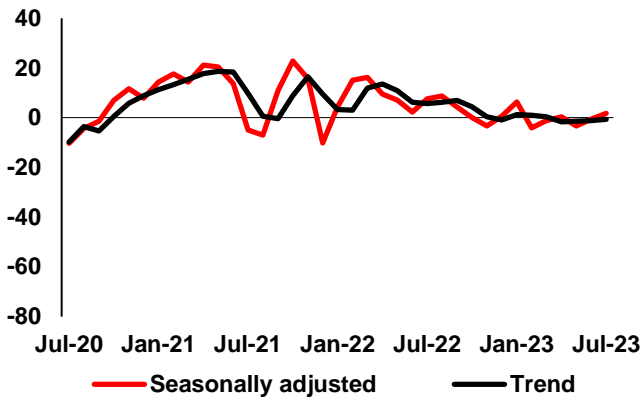


Chart 7: Business Conditions (Net Balance)

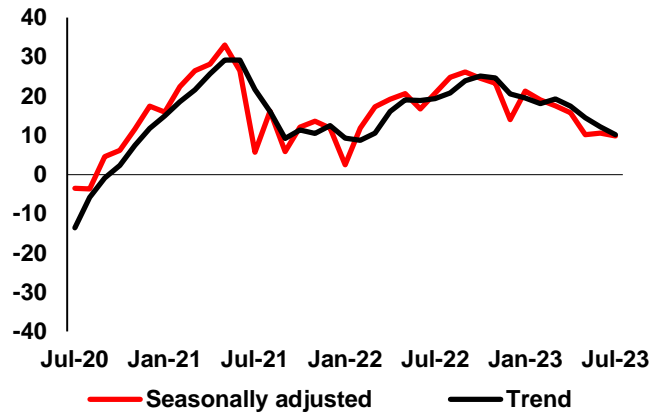


Chart 8: Components of Conditions (Net Balance, SA)

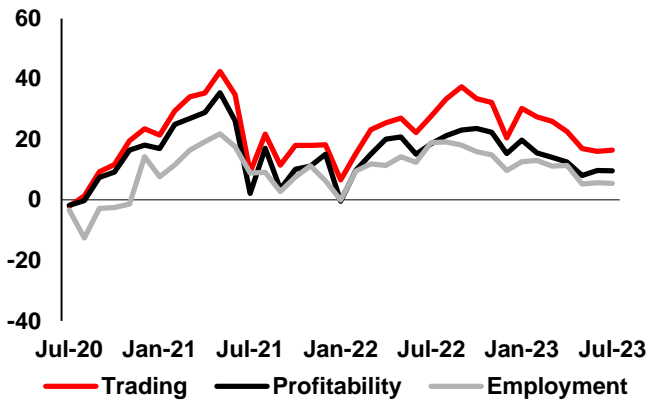


Chart 9: L-R Conditions & Confidence (Net Balance, SA)

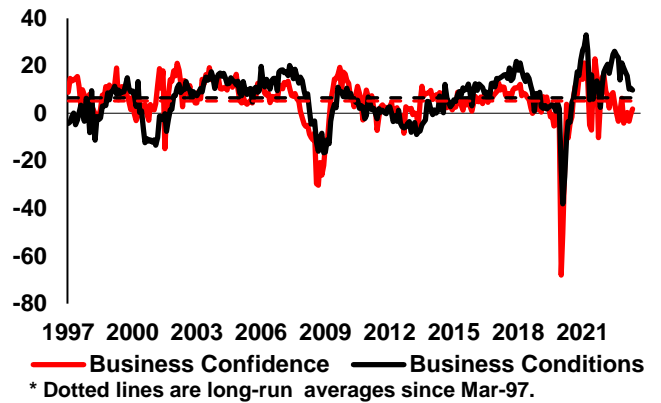


Chart 10: Conditions by Industry, Trend (Net Balance)

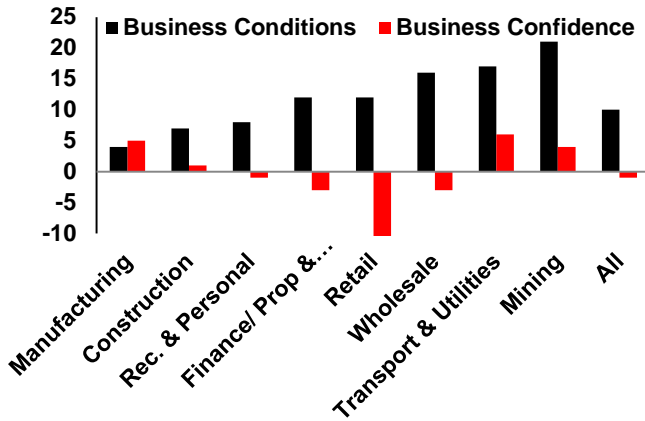
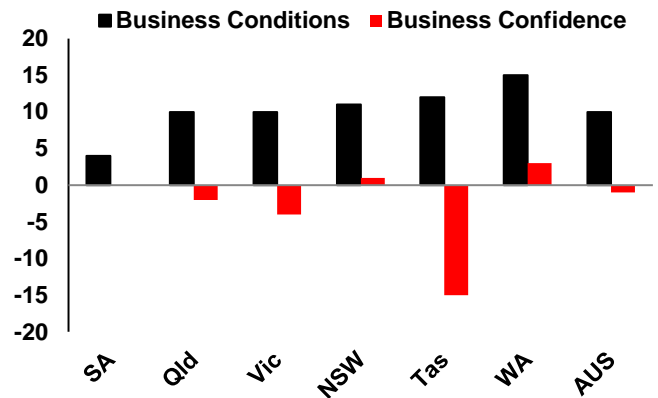


Chart 11: Conditions by State, Trend (Net Balance)



Leading Indicators and Other Key Measures

Chart 12: Forward Orders (Net Balance)

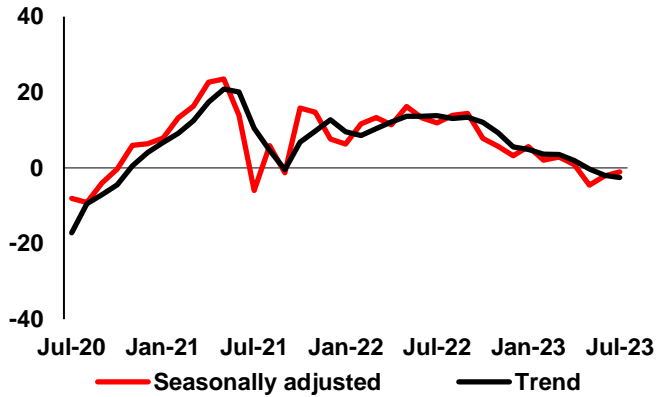


Chart 13: Capital Expenditure (Net Balance)

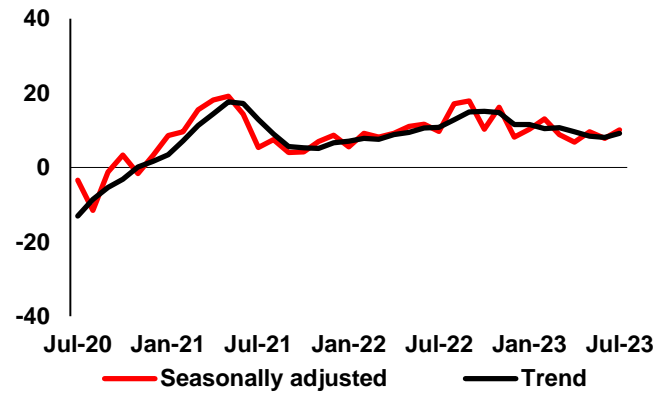


Chart 14: Capacity Util. & Unemployment (% SA)

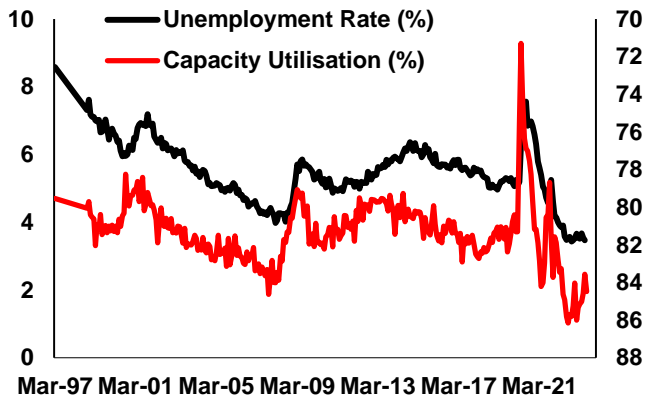


Chart 15: Capacity Util. by Industry (% 3mma)

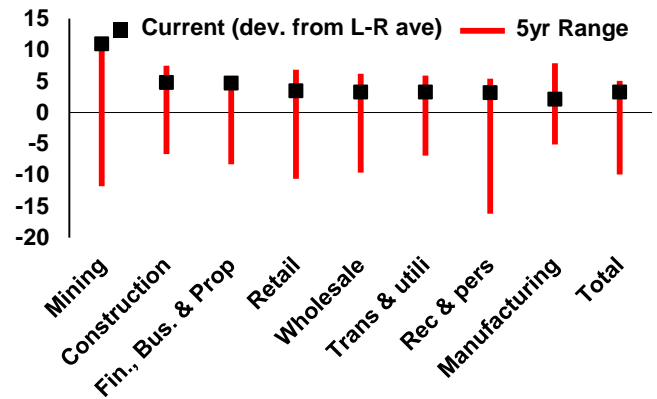


Chart 16: Stocks (Net Balance)

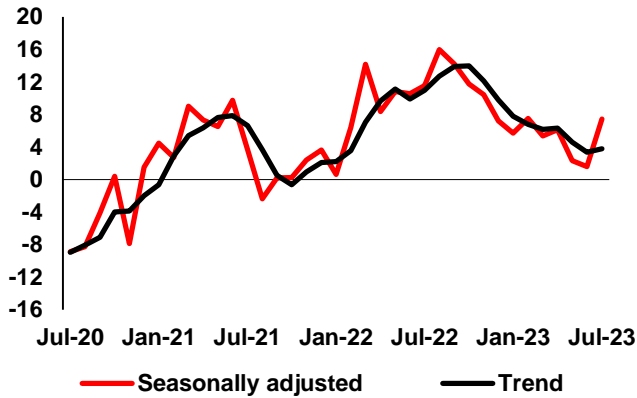


Chart 17: Cash Flow (Net Balance)

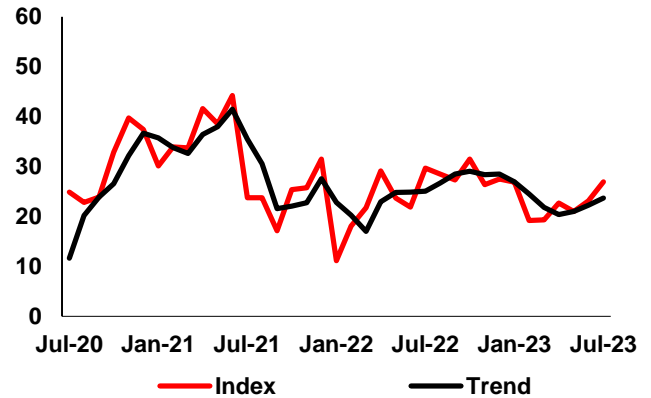


Chart 18: Exports (Net Balance)

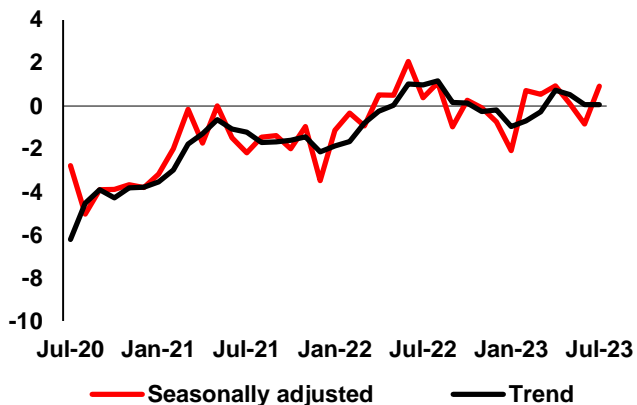
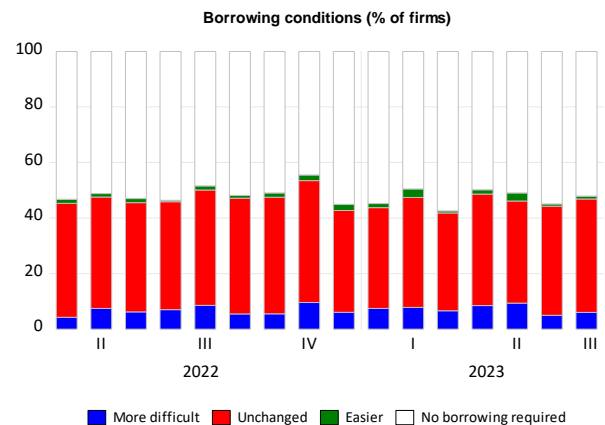


Chart 19: Borrowing Conditions (% of Firms)



Employment, Wages and Prices

Chart 20: Employment (Net Balance)

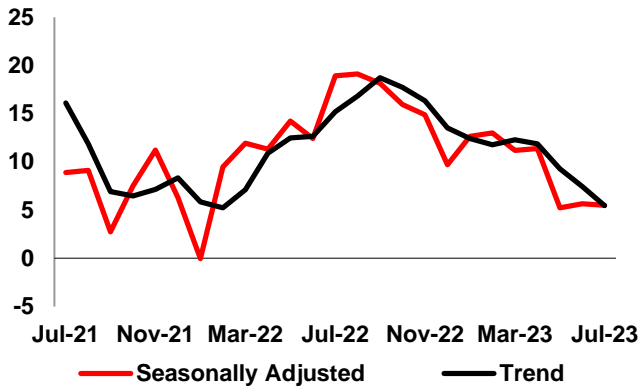


Chart 21: NAB vs ABS Employment (Net Balance, SA)

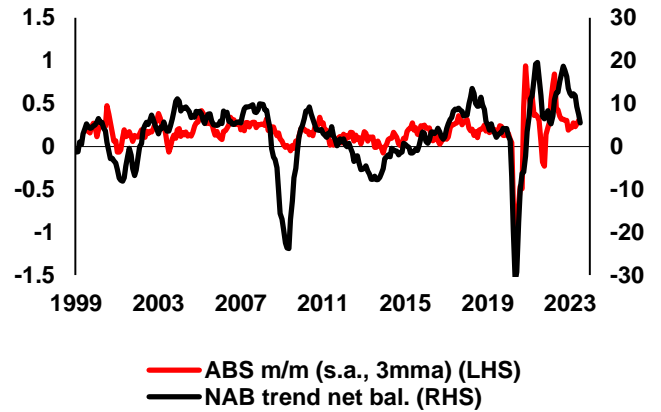


Chart 22: Employment by Industry (Net Balance, Trend)

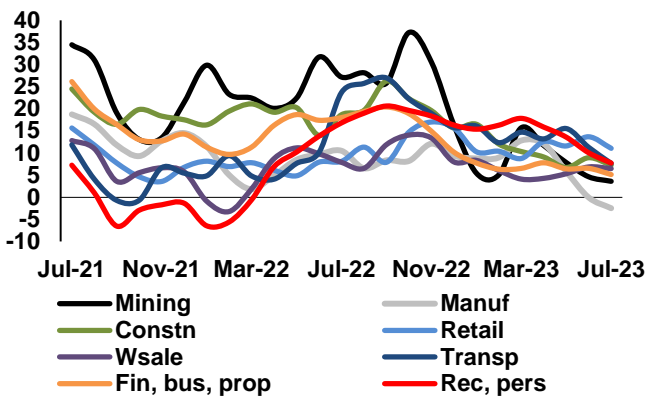


Chart 23: Labour Costs Growth, Qtly Eq. (% , SA)

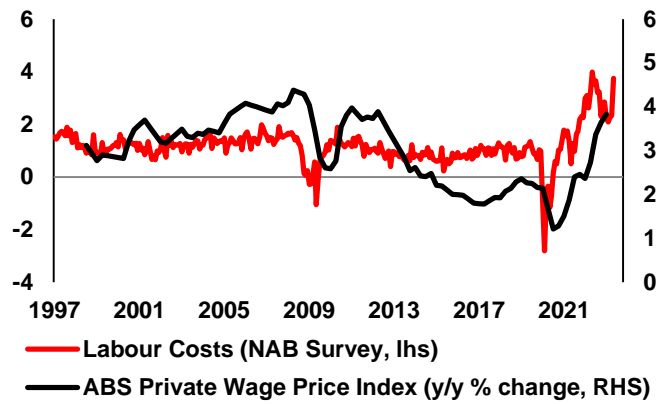


Chart 24: Costs & Price Growth, Qtly Eq. (% , SA)

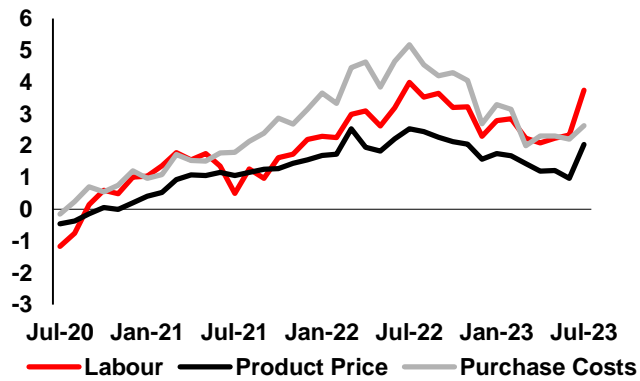
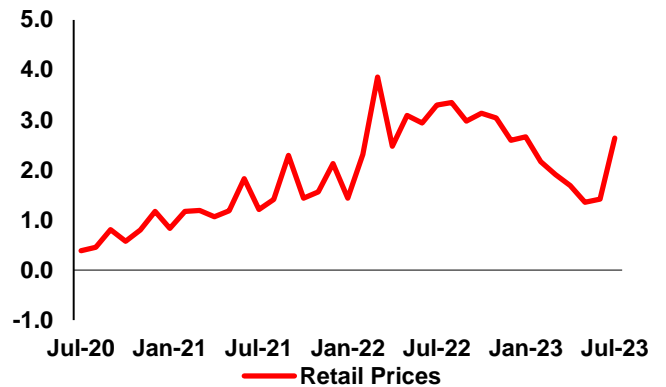


Chart 25: Retail Price Growth, Qtly Eq. (% , SA)



Conditions and Confidence by State and Industry

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

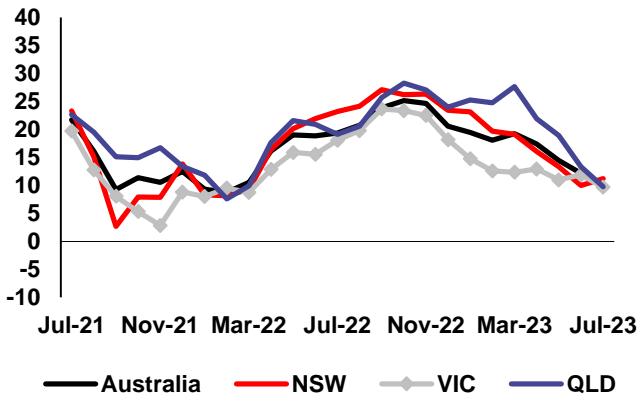


Chart 27: Conditions by State (Net Balance, Trend)

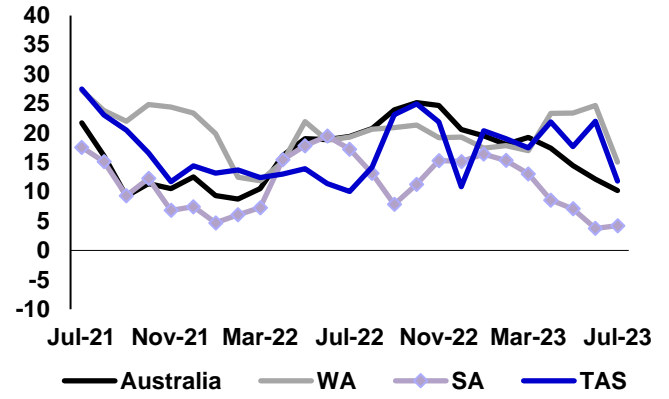


Chart 28: Confidence by State (Net Balance, Trend)

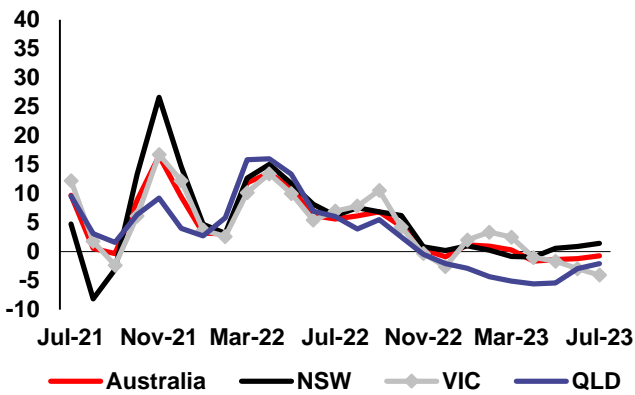


Chart 29: Confidence by State (Net Balance, Trend)

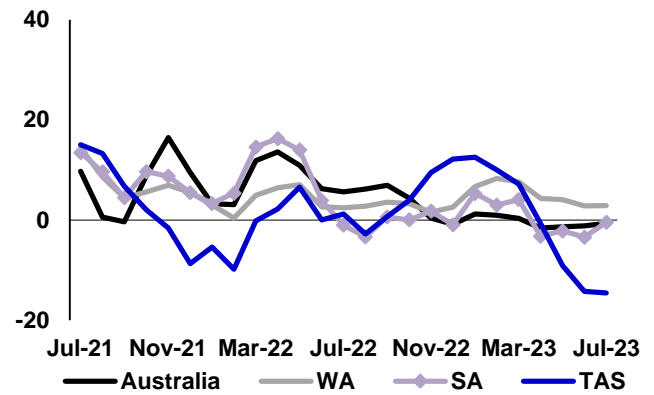


Chart 30: Conditions by Industry (Net Balance, Trend)

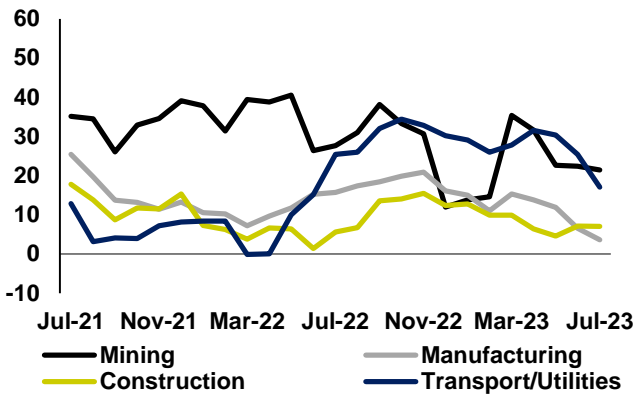


Chart 31: Conditions by Industry (Net Balance, Trend)

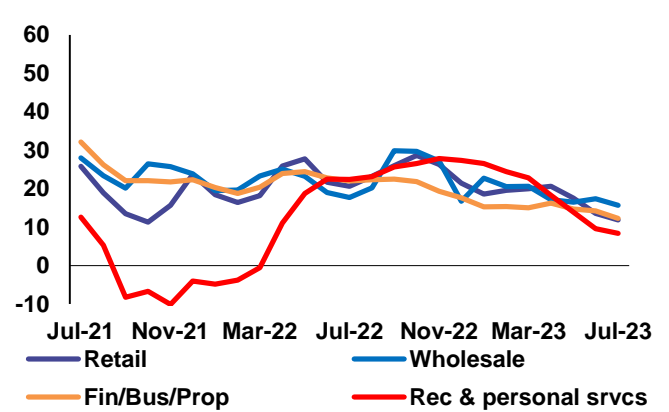


Chart 32: Confidence by Industry (Net Balance, Trend)

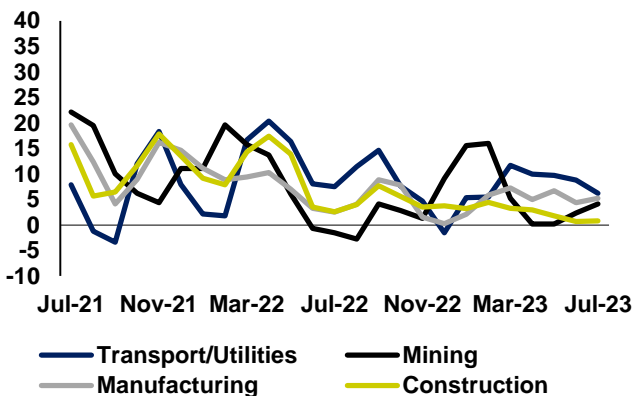
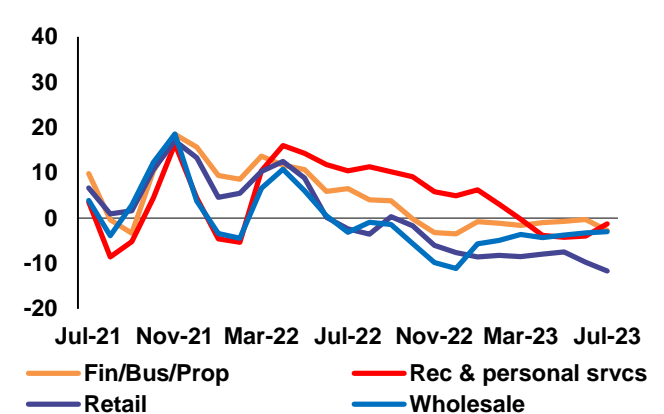


Chart 33: Confidence by Industry (Net Balance, Trend)



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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.