

NAB Quarterly Business Survey Q3 2023



Labour costs rise as price inflation remains elevated

NAB Group Economics

Summary

Wage costs remain the top issue affecting business confidence, with labour cost growth rising to 1.8% q/q and labour availability still a significant constraint for around 40% of firms. However, fewer firms expect significant wage pressures in the next six months suggesting the peak in wage pressure may have occurred in Q3. Purchase cost growth was more contained and there was further gradual improvement in the share of firms reporting materials availability as a constraint. More broadly, business conditions remained robust and forward orders edged back into positive territory, similar to the trend seen in the NAB Monthly Business Survey. Inflation indicators in the survey also remained elevated, with final prices rising 0.9% (up from 0.7% in Q2) and retail prices growth broadly steady at 1.1%, supporting NAB's view for headline and trimmed mean CPI to print at 1.1% q/q for Q3. Still, our expectation remains for inflation to gradually ease as the economy slows and global pressures ease. Notably, pressure on margins is the second top issue affecting business confidence.

Survey Details

- **Business conditions** rose 2pts to +13 index points in Q3, after three quarters of softening conditions, and remain well above the long-run average. Trading conditions (+19 index points), profit (+11 index points) and employment (+10 index points) all strengthened.
- **By industry**, conditions declined in retail and wholesale but rose in most others, with wholesale weakest at +6 index points. Similarly, conditions remain elevated across most states with SA weakest (+7 index points).
- **Business confidence** rose 3pts but remained negative at -1 index point. Confidence improved in most industries and remained weakest in retail (-15 index points), despite picking up in the quarter. Similarly, confidence rose across most states except for WA.
- **Leading indicators** were broadly steady. Expected business conditions were little changed at +16 index points over both the 3- and 12-month horizons. Forward orders rose 2pts to +1 index point, while capacity utilisation remained steady but elevated at 84.7%. Twelve-month capex expectations continued to gradually ease, to +24 index points.
- **Labour indicators** were mixed in Q3 but remain strong. Expectations for employment in the next 3 and 6 months fell to +14 index points (down from +16) and +22 index points (down from +25), respectively. The proportion of firms that report availability of labour as a constraint on output was broadly unchanged, at 83.1%.
- **Cost growth measures** were mixed with labour cost growth up to 1.8% q/q (from 1.3% in Q2). Wage costs remain the top issue affecting business confidence, cited by 68% of firms (up from 50% in Q2) and expected wage growth per employee for the financial year rose to 2.3% (from 1.7%). Purchase costs growth was more contained at 1.4% q/q (from 1.3% in Q2) and the share reporting materials as a constraint declined to 32% (from 36% in Q2).
- **Price growth measures** remained elevated. Final product price growth was 0.9% q/q (up from 0.7% in Q2) while retail price growth was broadly steady at 1.1%. Still, pressure on margins was the second most significant issue affecting business confidence, affecting 49% of firms (up from 41% in Q2).

Table 1: Key Quarterly Business Survey Statistics

	2023q1	2023q2	2023q3		2023q1	2023q2	2023q3
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	-4	-4	-1	Trading	25	17	19
Business conditions				Profitability	14	7	11
Current	18	11	13	Employment	15	9	10
Next 3 months	22	17	16	Forward orders	4	-1	1
Next 12 months	20	16	16	Stocks	9	5	4
Capex plans (next 12)	27	26	24	Exports	0	1	1
Labour costs	1.6	1.3	1.8	Retail prices (% change)	1.1	1.1	1.1
Purchase costs	1.6	1.3	1.4	Capacity utilisation rate (%)	85.5	84.7	84.7
Final products prices	1.0	0.7	0.9				

All data seasonally adjusted, except purchase costs and exports. Survey conducted from 21 August to 7 September 2023, covering over 900 firms across the non-farm business sector. **Next release date: 1 February 2024 (to be confirmed).**

Quarterly Focus: Wage Pressures & Expectations

With services inflation a key focus for policy makers, the Q3 Quarterly Business Survey provides a timely update on a range of indicators of wage pressures and labour costs, covering both the present and expectations for the period ahead. Overall, these measures share a common pattern with a clear increase in Q3 – likely related to wages resetting in July including minimum and award wage increases – but a more moderate outlook for the future.

Q3 saw a clear increase in the share of firms reporting a moderate or substantial increase in wage pressures in the last 6 months, from 36% to 55% (Chart 1). Overall, almost 90% of firms reported an increase in wage pressures in the last 6 months, up from around 70% in Q2.

For the next 6 months, however, there was a clear step down in the share of firms expecting a moderate or substantial increase, from 44% to 23% (Chart 2). Overall, 60% of firms expected wage pressures to increase in the next 6 months, down from around 80% in Q2.

The survey measure of labour costs showed a similar pattern (Chart 3). Quarterly labour cost growth increased from 1.3% q/q to 1.8% in Q3, but expected labour cost growth in the next three months stepped down, from 1.4% to 0.9%. This was the slowest reading for expected labour cost growth since Q4 of 2021.

The effect of stronger-than-expected wage growth in Q3 was evident in firms’ expectations for wage growth per employee for the 2023-24 financial year as a whole (Chart 4). This measure, which has broadly tracked movements in the WPI over time, rose from 1.8% to 2.3% in Q3.

Importantly, the expectation for wage pressures to ease in the months ahead appears to be flowing through to firms’ expectations for price growth. While the measure of final price growth for the current quarter rose from 0.7% to 0.9% in Q3, expected price growth in the next three months declined, from 0.9% to 0.6%.

This is consistent with NAB’s expectation for price growth to remain elevated in Q3 before continuing to gradually improve over the period ahead.

Chart 1: Wage Pressures – Last 6 Months (% S.A.)

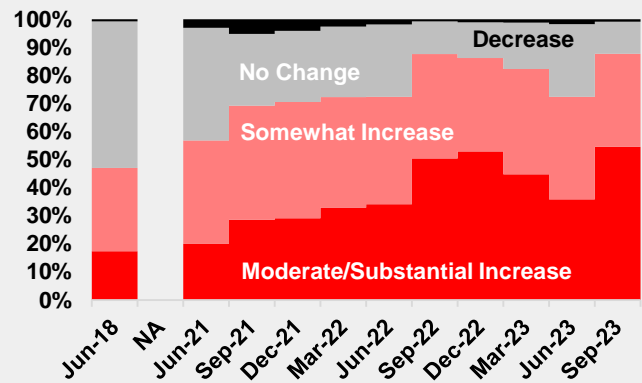


Chart 2: Wage Pressures – Next 6 Months (% S.A.)

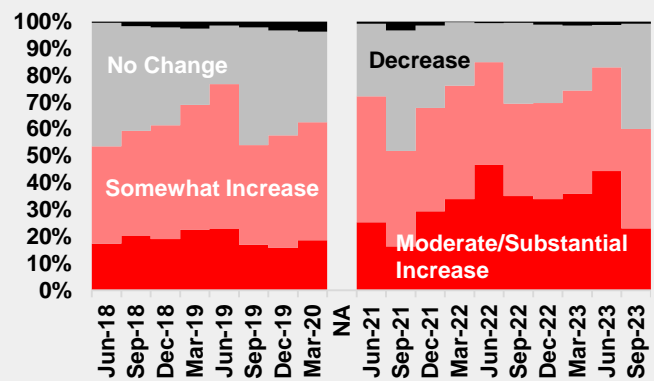


Chart 3: Labour Cost Growth & Expectations (% S.A.)

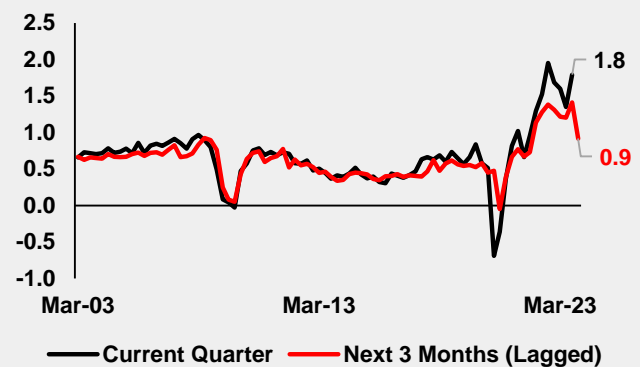


Chart 4: Expected Wage Growth Per Employee (% S.A.)

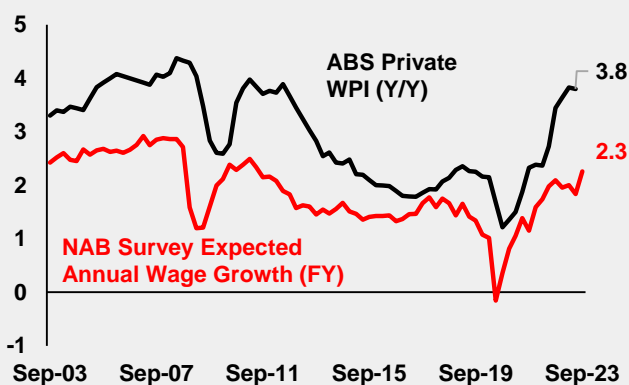
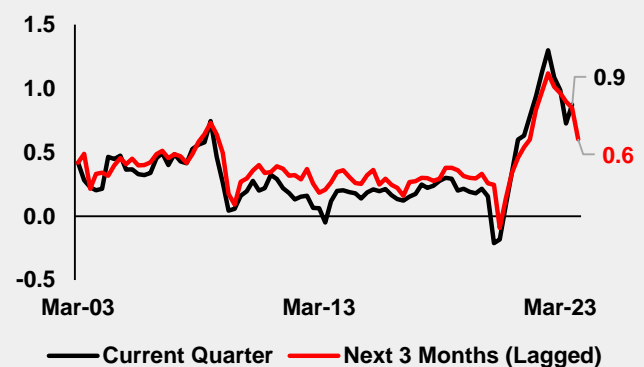


Chart 5: Qtly Final Price Growth & Expectations (% S.A.)



Business Conditions and Confidence

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

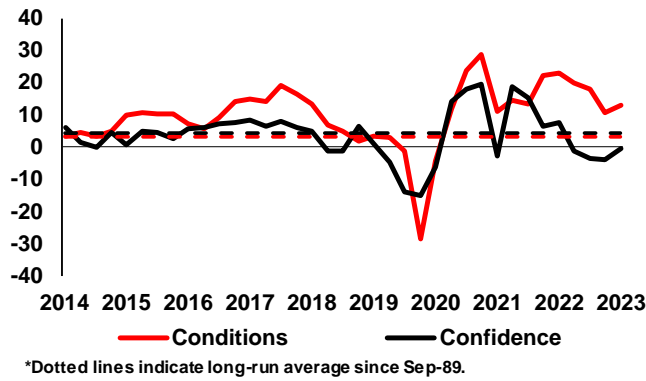
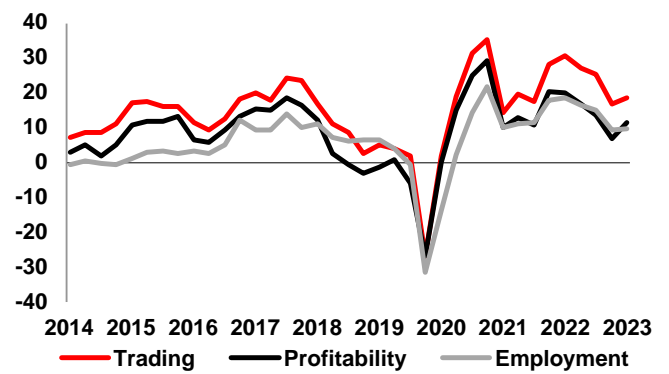


Chart 7: Conditions Components (Net Balance, SA)



Drivers of Business Confidence

Chart 8: Issues Affecting Confidence (Share of Firms)

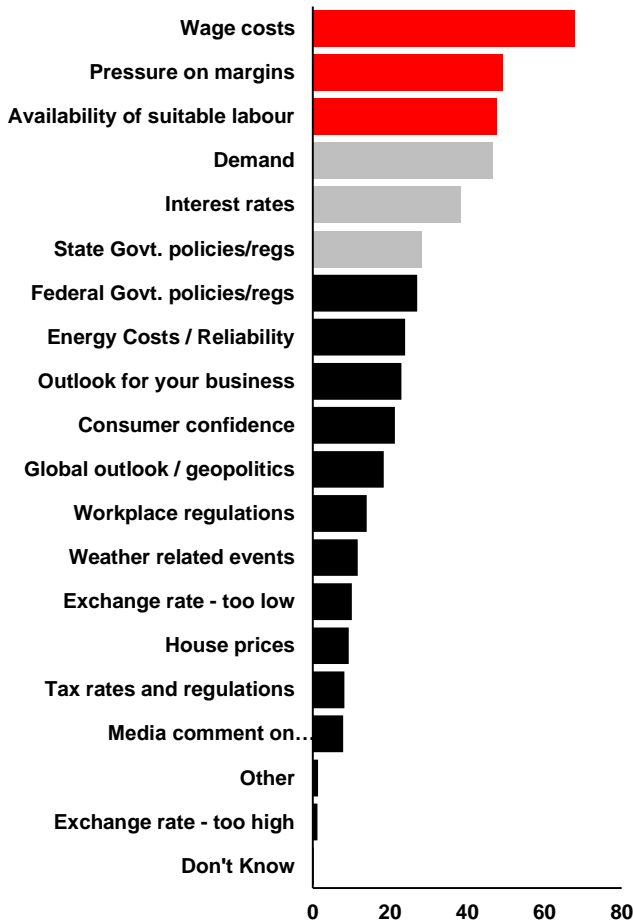


Chart 9: Issues Affecting Confidence (Share of Firms): Deteriorating Confidence

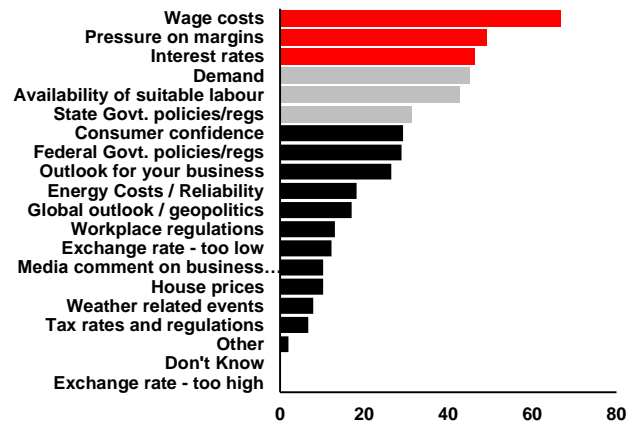
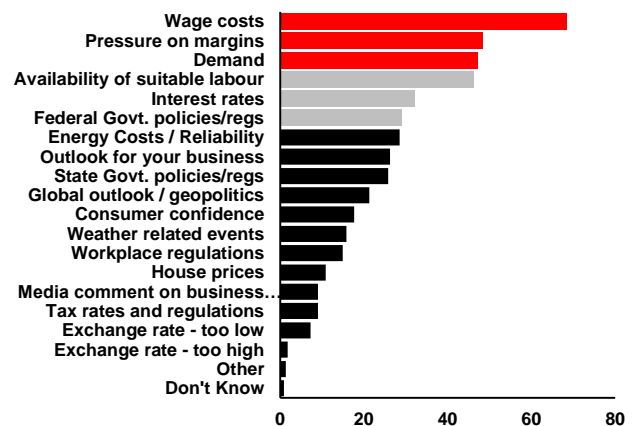


Chart 10: Issues Affecting Confidence (Share of Firms): Improving Confidence



Leading Indicators and Business Investment

Chart 11: Expected Conditions (Net Balance, SA)

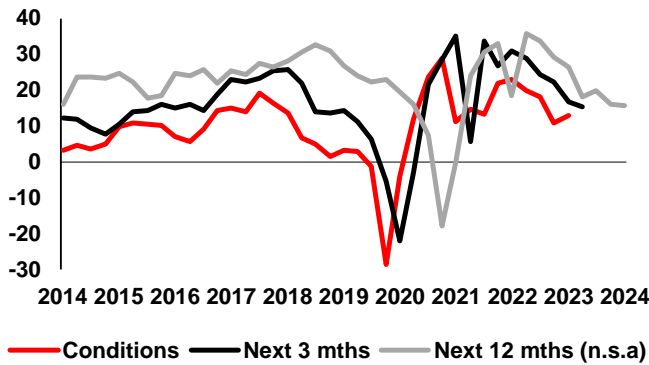


Chart 12: Expected Forward Orders (Net Balance, SA)

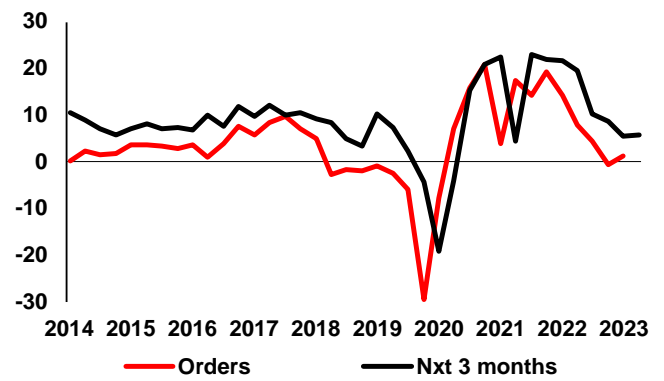


Chart 13: Capacity Utilisation (Percent, SA)

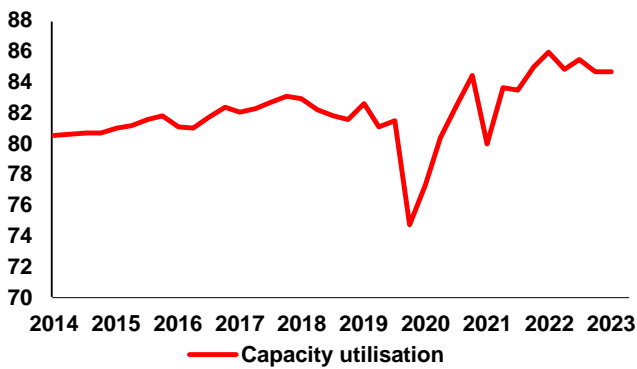


Chart 14: Capacity Utilisation (3Qtr Moving Average)

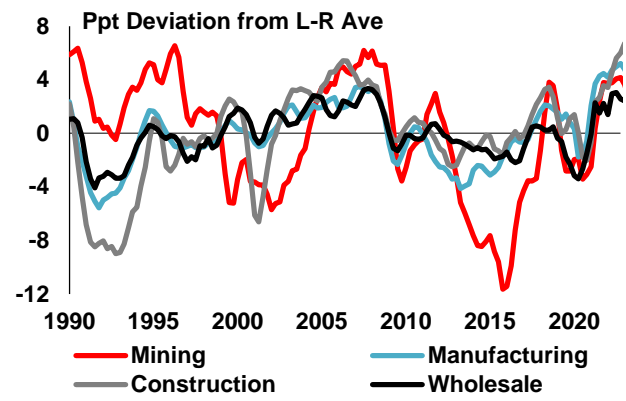


Chart 15: Stocks (Net Balance, SA)

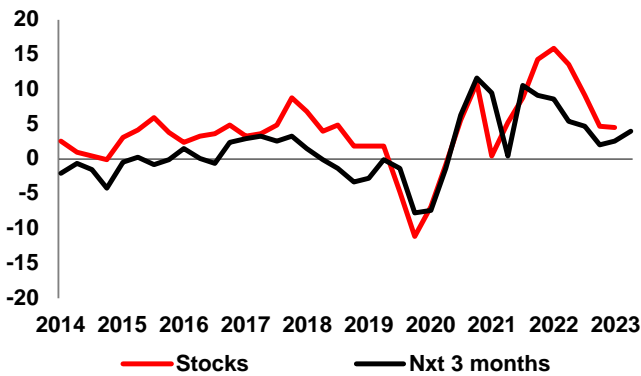
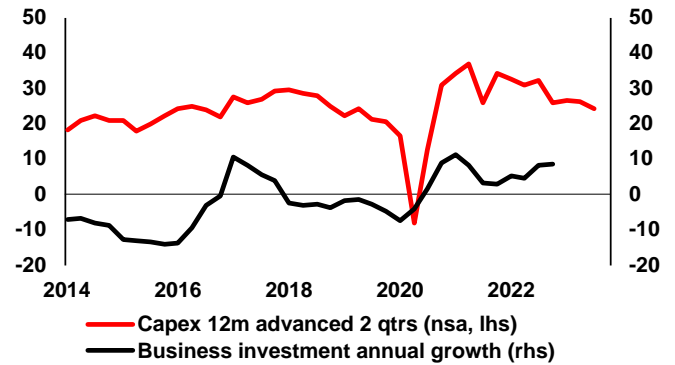


Chart 16: Expected Capex (Net Balance, SA)



Labour Market Indicators

Chart 17: Employment Expectations (Net Balance, SA)

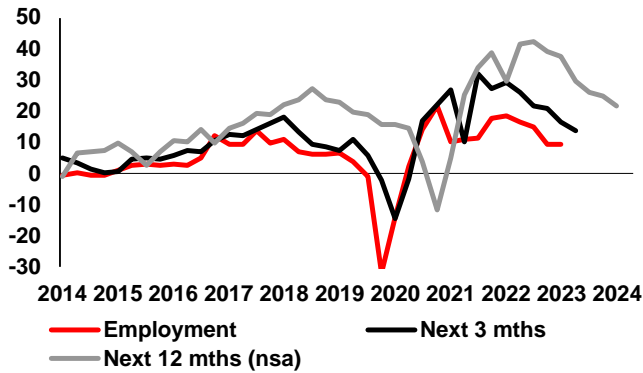


Chart 18: Labour Constraints & Unemployment Rate

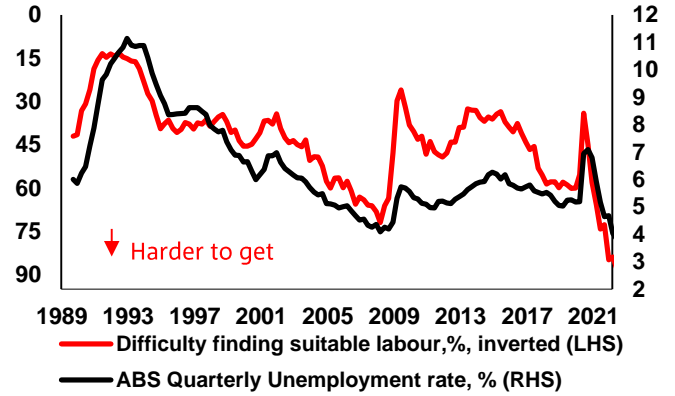


Chart 19: Change in Average Hours Worked (NSA)

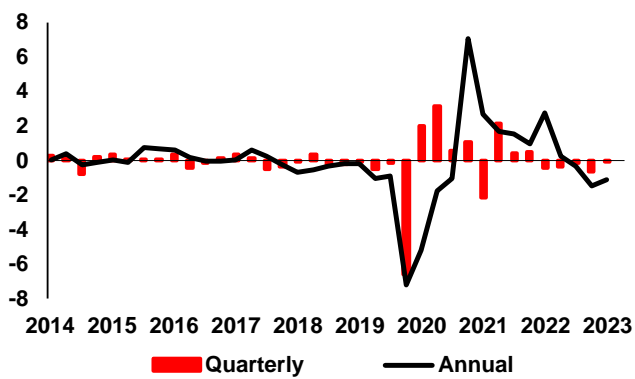


Chart 20: Labour Constraints & Underutilisation

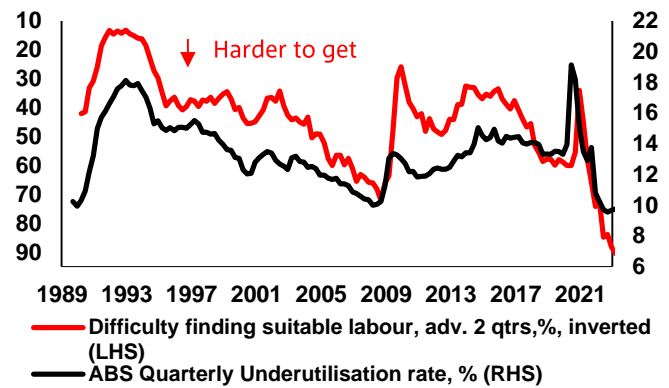


Chart 21: Average Hours Worked by Industry (NSA)

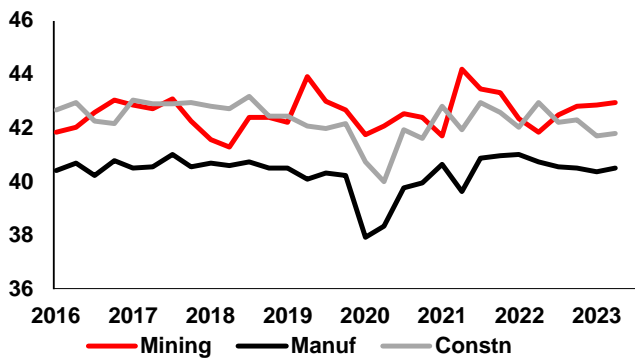


Chart 22: Average Hours Worked by Industry (NSA)

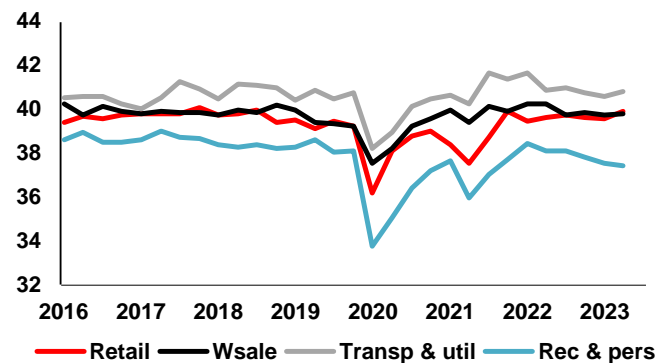
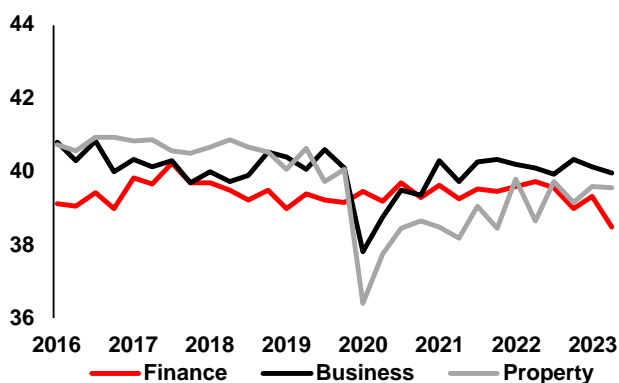


Chart 23: Average Hours Worked by Industry (NSA)



Major Constraints on Firm Output

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

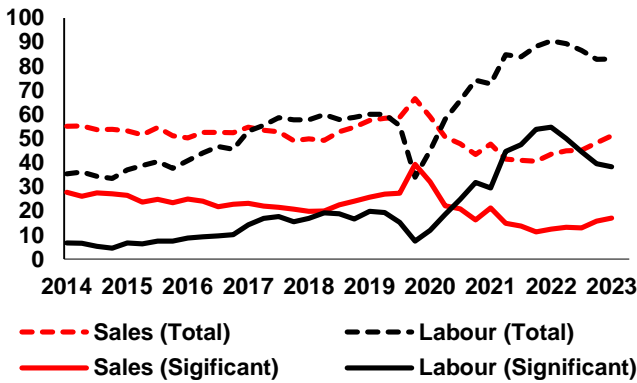
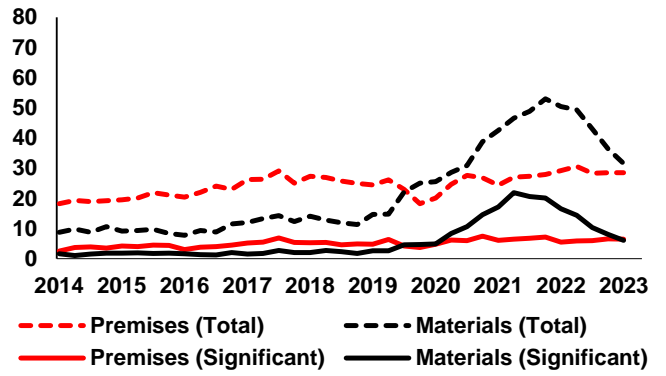


Chart 25: Main Constraints on Firm Output (% of Firms)



Inflation Pressures

Chart 26: Annualised Price Growth (Percent, SA)

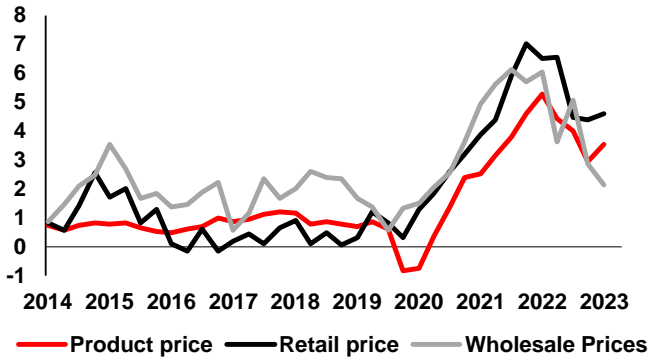
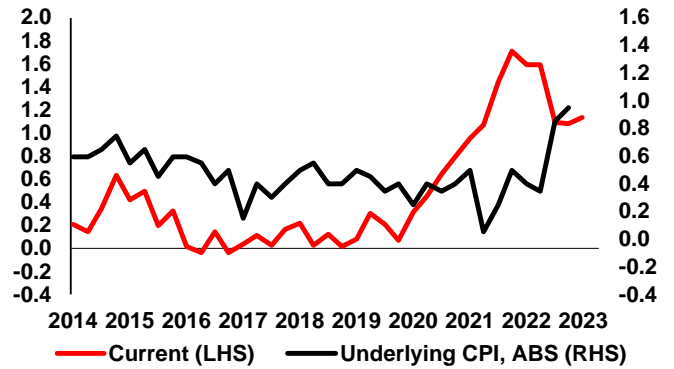


Chart 27: Retail Price Growth (Percent, SA)



Labour Costs

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

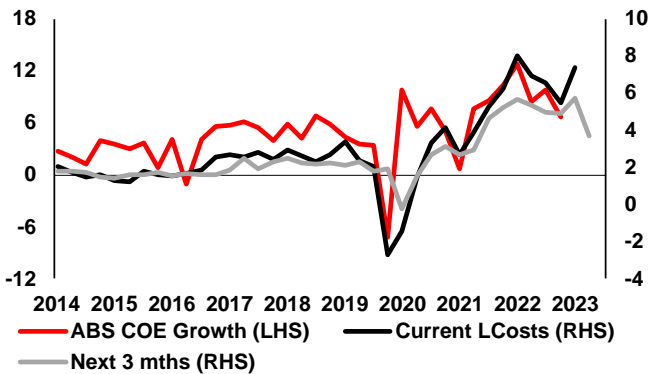
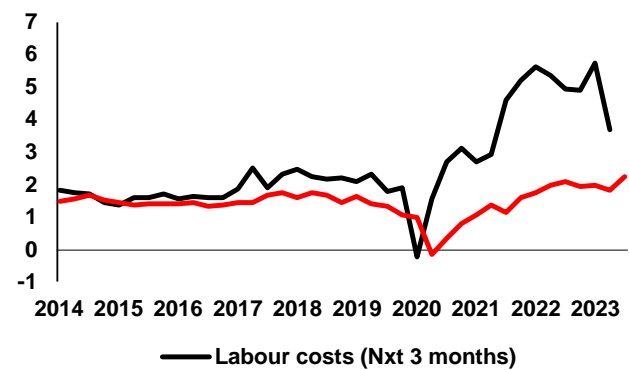


Chart 29: Expected Labour Costs & Average Earnings Growth (Percent, SA)



Details by Industry

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

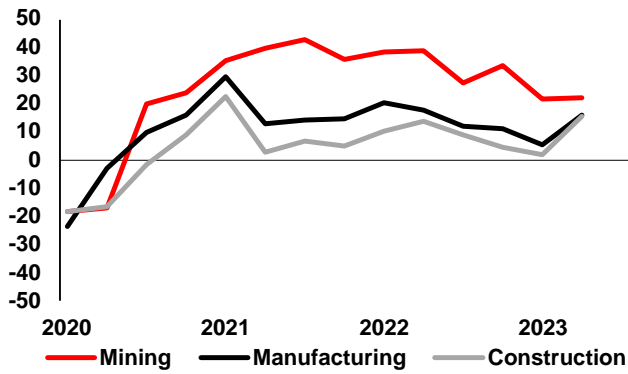


Chart 31: Confidence by Industry (Net Balance, SA)

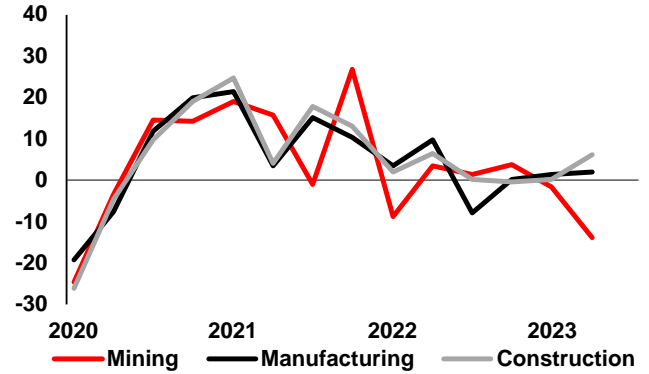


Chart 32: Conditions by Industry (Net Balance, SA)

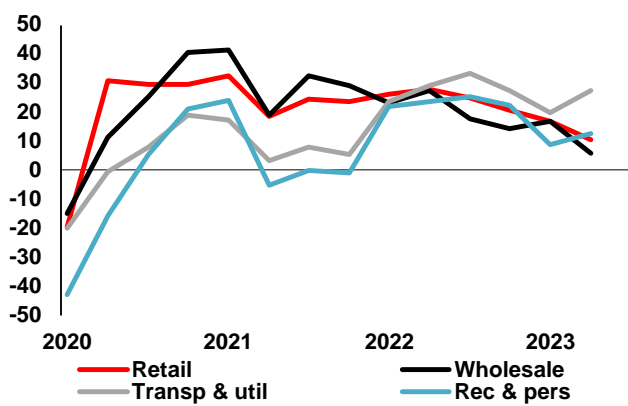


Chart 33: Confidence by Industry (Net Balance, SA)

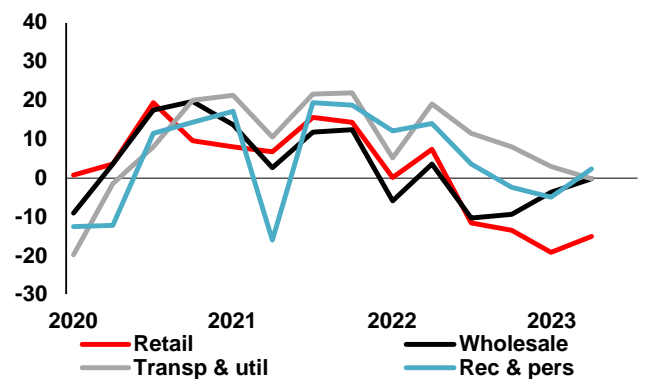


Chart 34: Conditions by Industry (Net Balance, SA)

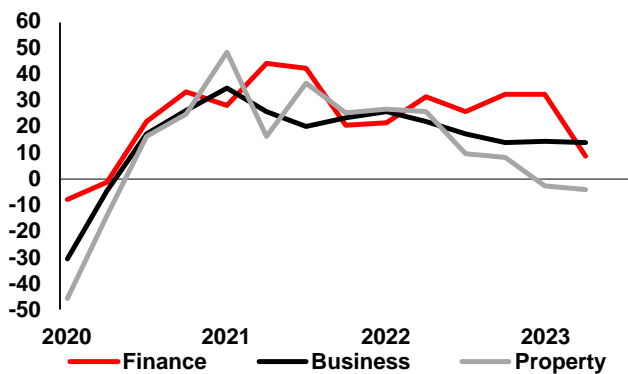
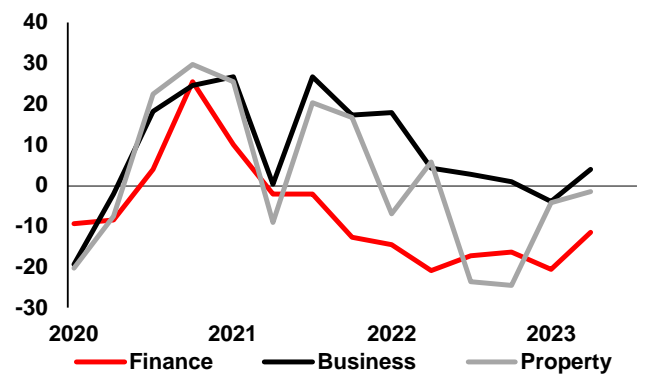


Chart 35: Confidence by Industry (Net Balance, SA)



Construction Sub-Industry Details

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

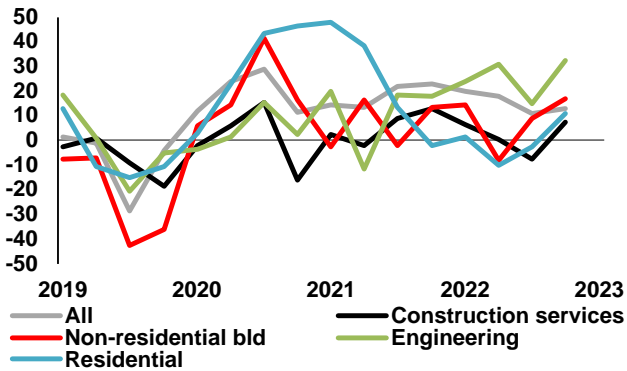


Chart 37: Confidence by Construction Sub-Industry (Net Balance, SA)

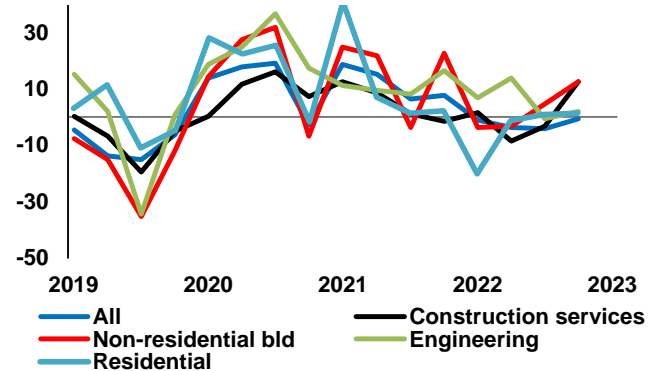


Chart 38: Employment by Construction Sub-Industry (Net Balance, SA)

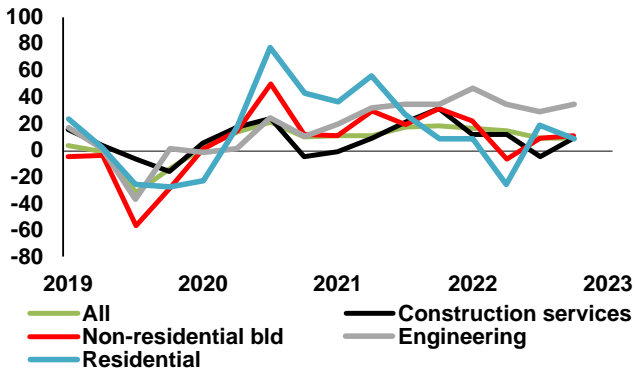
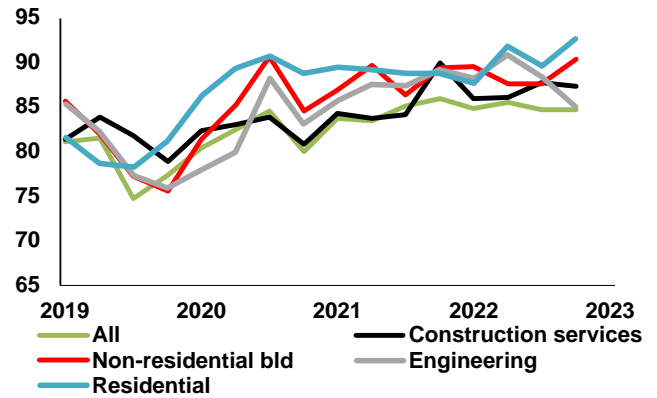


Chart 39: Capacity Utilisation by Construction Sub-Industry (Percent, SA)



Details by State

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

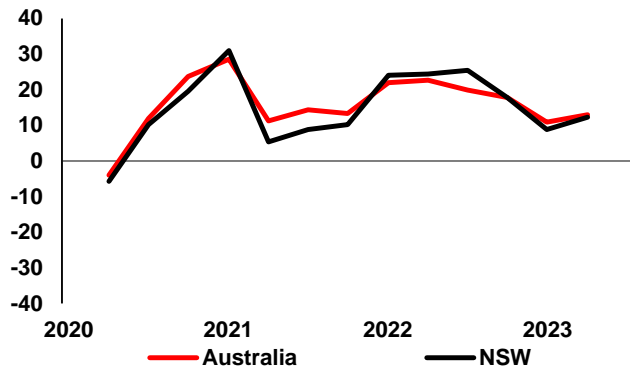


Chart 41: Confidence by State (Net Balance, SA)

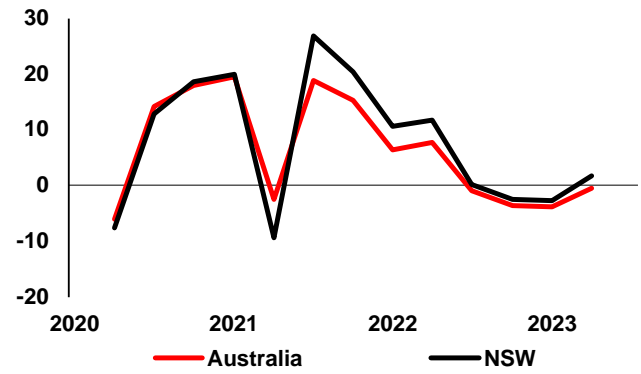


Chart 42: Conditions by State (Net Balance, SA)

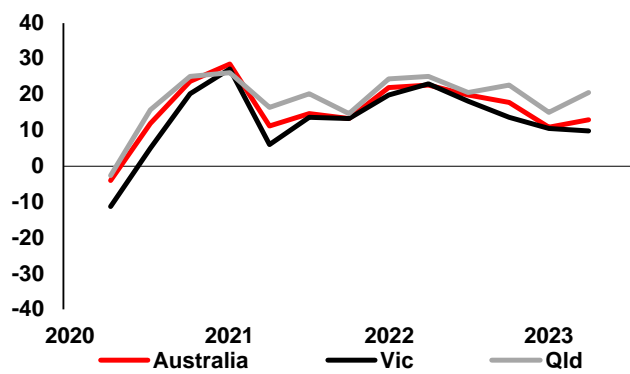


Chart 43: Confidence by State (Net Balance, SA)

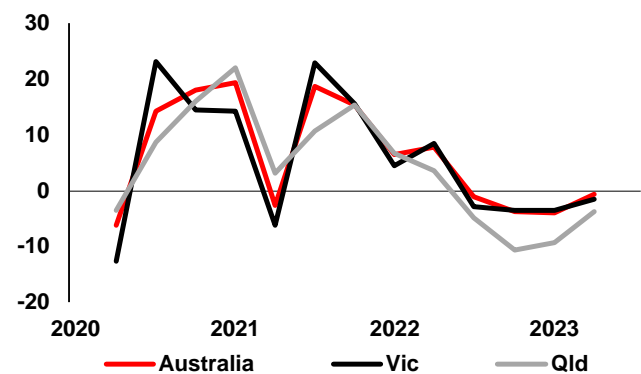


Chart 44: Conditions by State (Net Balance, SA)

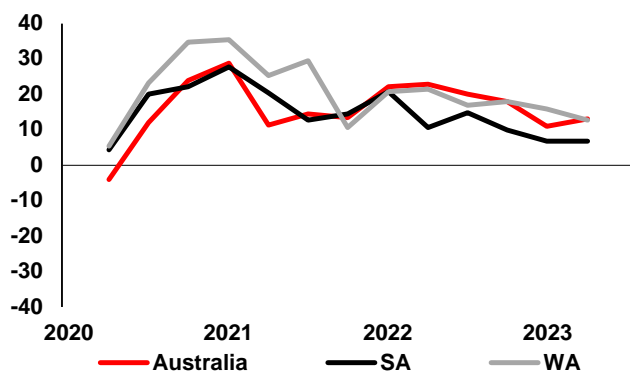
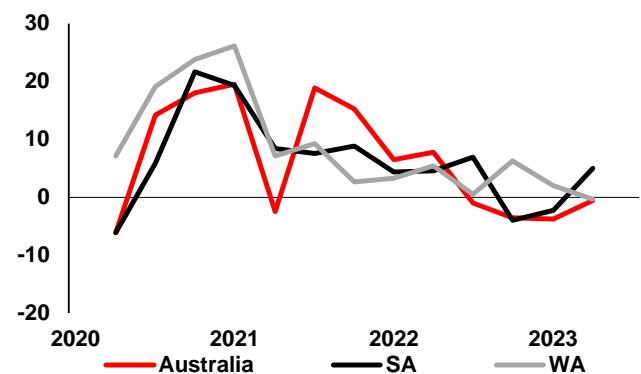


Chart 45: Confidence by State (Net Balance, SA)



Data Appendix

	2022q3	2022q4	Quarterly			2023q3	2023m5	2023m6	Monthly		
			2023q1	2023q2	2023q3				2023m7	2023m8	2023m9
Confidence	8	-1	-4	-4	-1	-3	-1	1	1	1	
Conditions	23	20	18	11	13	11	12	12	14	11	

	2022q3	2022q4	Quarterly			2023q3	2023m5	2023m6	Monthly		
			2023q1	2023q2	2023q3				2023m7	2023m8	2023m9
Trading	31	27	25	17	19	18	18	18	19	16	
Profitability	20	17	14	7	11	9	11	11	14	8	
Employment	18	16	15	9	10	6	6	6	10	8	

	2023q2	Quarterly ^(a)				2024q3	2023m5	2023m6	Monthly		
		2023q3	2023q4	2024q2	2024q3				2023m7	2023m8	2023m9
Conditions	11	13	NA	NA	NA	11	12	12	14	11	
Conds. next 3m	22	17	16	NA	NA						
Conds. nxt 12m	29	27	18	16	16						
Orders	-1	1	NA	NA	NA	-4	-2	-1	0	2	
Orders next 3m	9	5	6	NA	NA						

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

	2023q2	Quarterly ^(a)				2024q3	2023m5	2023m6	Monthly		
		2023q3	2023q4	2024q2	2024q3				2023m7	2023m8	2023m9
Empl current	9	10	NA	NA	NA	6	6	6	10	8	
Empl next 3m	21	16	14	NA	NA						
Empl nxt 12m	39	38	30	25	22						

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

	2022q3	2023q2	2023q3
Constraints on output (% of firms)*			
Sales & orders	43.6	48.2	51.2
Labour	90.5	82.8	83.1
Premises & plant	29.2	28.5	28.5
Materials	50.4	36.4	31.6

* not s.a.

Data Appendix - States

	<i>Quarterly</i>					<i>Monthly</i>				
	2022q3	2022q4	2023q1	2023q2	2023q3	2023m5	2023m6	2023m7	2023m8	2023m9
Business conditions										
NSW	24	26	18	9	12	10	11	15	12	11
VIC	23	18	14	11	10	10	16	5	13	13
QLD	25	21	23	15	20	13	11	12	22	6
SA	11	15	10	7	7	10	-12	15	11	8
WA	21	17	18	16	13	20	18	10	13	7
TAS	13	5	10	3	9	-1	11	27	11	13

	<i>Quarterly</i>					<i>Monthly</i>				
	2022q3	2022q4	2023q1	2023q2	2023q3	2023m5	2023m6	2023m7	2023m8	2023m9
Business confidence										
NSW	12	0	-2	-3	2	-1	0	4	1	1
VIC	9	-3	-4	-4	-2	-4	-4	-4	0	6
QLD	4	-5	-11	-9	-4	-7	2	-2	-3	2
SA	5	7	-4	-2	5	0	-5	4	1	1
WA	5	1	6	2	0	3	-1	6	0	-6
TAS	-8	2	-7	-9	-9	-24	-15	-8	-14	1

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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.