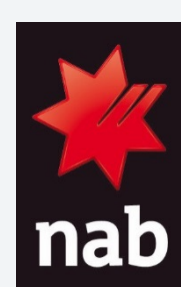


EMBARGOED UNTIL: 11:30AM AEST, 8 JUNE 2021

NAB MONTHLY BUSINESS SURVEY MAY 2021

BUSINESS CONDITIONS CONTINUE TO BOOM

NAB Australian Economics



Key messages: The survey continues to point to strong outcomes in the business sector, with business conditions resetting their record high for the second month in a row and forward orders also holding at a record level. The employment, profitability and trading sub-components all also reset last month's highs – with trading conditions now at exceptional levels. By state and industry, the strength in activity is evident everywhere. While business confidence edged lower, it too remains elevated after reaching a record high last month. The survey measure of reported capex rose further suggesting that the strong rise over 2021 is more than just a rebound from disruptions to activity and uncertainty during 2020 and that high rates of capacity utilisation, alongside healthy cashflow and a strong outlook, is flowing through to investment decisions. Indeed, capacity utilisation stayed near its record high set last month. Taken together the survey results over the past two months point to further growth in the economy in Q2, following last week's national accounts which showed GDP has now risen above its pre-COVID level. The breadth of the strength in the survey is encouraging, as it points to ongoing recovery in the sectors that continue to lag in the national accounts, as well as further growth in those areas that have already recovered.

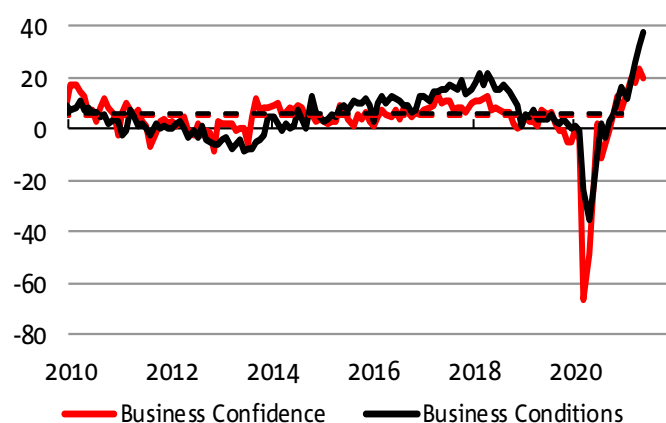
HIGHLIGHTS

- **How confident are businesses?** Confidence fell 3pts to +20 index points – but remains very high.
- **How did business conditions fare?** Conditions rose 5pts to +37 index points – a new high.
- **What components contributed to the result?** The rise in conditions was driven by further improvements in each sub-component. Trading conditions rose 6pts to +47 index points, profitability was up 6pts to +40 index points, and employment rose 5pts to +25 index points – all resetting last month's record highs.
- **What is the survey signalling for jobs growth?** With the employment index at record highs, the survey continues to point to healthy labour demand – which should see employment continuing to lift over coming months.
- **Which industries are driving conditions?** Gains were broad-based with all industries recording an increase, except for mining and rec & personal. The gain was greatest in transport & utilities, though construction and wholesale also saw large rises. Overall, in trend terms conditions are highest in finance, business & property – but are elevated in all industries.
- **Which industries are most confident?** The decline in confidence was led by falls in mining and finance, business & property though construction, retail and rec & personal were also lower. In trend terms, mining, construction and finance, business & property remain most optimistic.
- **Where are we seeing the best conditions by state?** Conditions improved in all states, except for Qld which was highest last month. The gains in the month were led by NSW and Vic, even though the current lockdown commenced during the survey period. Qld and WA are highest in trend terms, though all states are tightly grouped between 28-34 index points.
- **What is confidence like across the states?** Confidence declined in all states but remains elevated everywhere in trend terms, with WA the highest. The other mainland states are clustered between 18-21 index points, while Tas is trailing slightly.
- **Are leading indicators suggesting further improvement?** Forward orders were unchanged at record highs, and while capacity utilisation edged lower – it also remains elevated. Both point to ongoing strength in conditions and hiring, as well as the need to lift investment
- **What does the survey suggest about inflation?** Inflation indicators were mixed. Input cost growth slowed marginally in the month, but inflation in final products prices (including retail prices) edged higher and labour cost growth picked up (but this could reflect more employees rather than wage increases).

TABLE 1: KEY STATISTICS

	Mar-21	Apr-21	May-21
	Net balance		
Business confidence	17	23	20
Business conditions	25	32	37
Trading	35	41	47
Profitability	26	34	40
Employment	17	20	25
Forward orders	17	26	26
Stocks	10	7	7
Exports	0	-1	1
	% change at quarterly rate		
Labour costs	1.8	1.5	1.8
Purchase costs	1.8	1.6	1.5
Final products prices	0.8	0.9	1.0
Retail prices	1.1	0.8	0.9
	Per cent		
Capacity utilisation rate	82.6	85.3	85.1

CHART 1: CONDITIONS LIFT FURTHER, WHILE CONFIDENCE EASES



* Dotted lines are long-run averages since Mar-97.

All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 18 to 28 May 2021, covering over 500 firms across the non-farm business sector.

Next release date: 13 July 2021.

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

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NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

THE OUTLOOK FOR CAPEX

- The business survey measure of reported capex rose to a new record high in the month reaching +24 index points. This comes after a year after the measure hit a record low of -35 index points in April 2020, as uncertainty peaked and widespread shutdowns occurred.
- The pickup in reported capex is encouraging as it suggests that businesses are working to expand investment alongside the lift in employment demand as the economy recovers. Increased investment has important flow on effects to both productivity and downstream demand for goods and services.
- The lift in reported capex follows two successive quarters of very large increases in spending by business on machinery & equipment which has likely been supported by federal budget support measures for business investment. The survey points to an ongoing increase in business investment in Q2.
- This pickup in investment comes after a prolonged period of weakness in business investment, with the non-mining sector seeing very little growth, and mining investment having normalised as the LNG and iron-ore investment booms came to an end. Indeed, business investment has fallen to a relatively low share of GDP in recent years – and has contributed little to overall GDP growth.
- Encouragingly, the monthly business survey shows reported capex has more than recovered in all industries following the significant disruption to the economy in 2020. All industries in the non-mining sector are now well above average and the mining sector which is back to around average.
- Capex is strongest in construction – which has likely seen increased demand from the pickup in housing construction. Finance, business & property services and retail are not far behind – with reads also above 25 index points. Recreation & personal and manufacturing also show reads above 20 index points.
- By state, reported capex is also strong everywhere but strongest in SA, by some margin. QLD and WA are the next strongest with reads above 20 index points while Vic, NSW and Tas are slightly softer at 18-20 index points.
- Both the ABS Capex Survey and Capex expectations in the NAB Quarterly Business Survey (updated for Q2 next month) point to solid growth in investment over the next year. Ongoing high rates of capacity utilisation and the strength in forward indicators of activity suggest that these expectations may well be realised.
- As the economy enters a phase of elevated growth (supported by both fiscal and monetary policy) following the better than expected rebound, business investment will be an important driver of growth in both activity and productivity. It is promising that we have seen a material lift in reported capex that has now been sustained over the last few months but we will continue to watch the survey closely for any signs of the impact of government support waning.

CHART 2: CAPEX (NET BAL.)

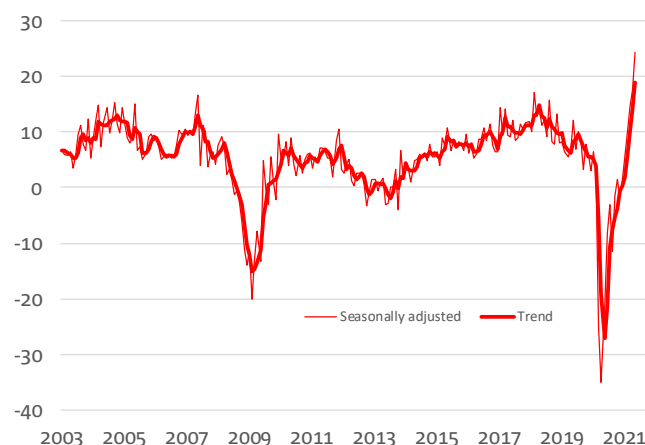


CHART 3: CAPEX BY INDUSTRY (NET BAL.)

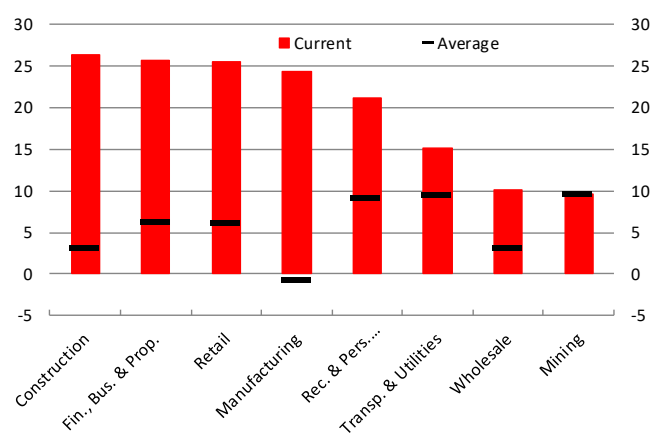
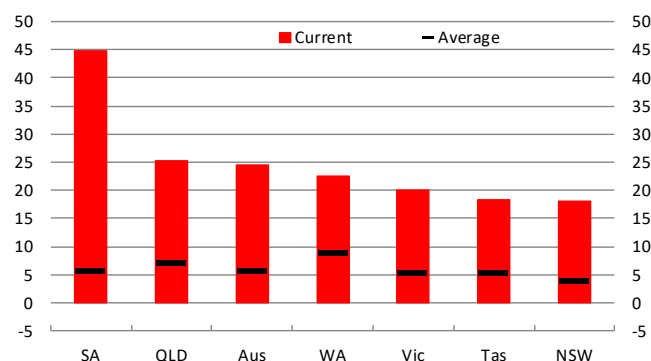


CHART 4: CAPEX BY STATE (NET BAL.)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

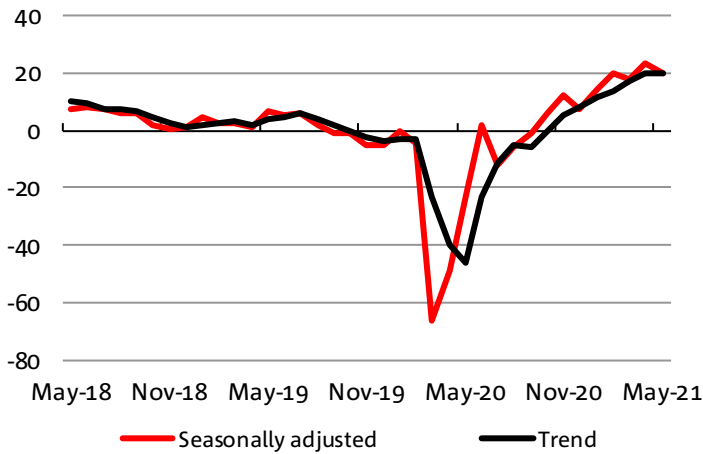


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

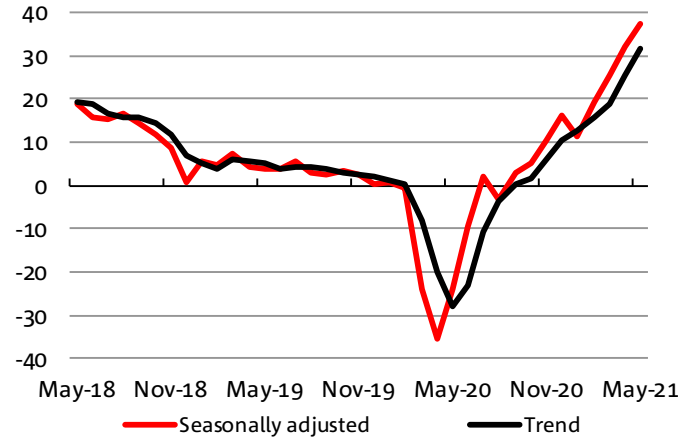


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

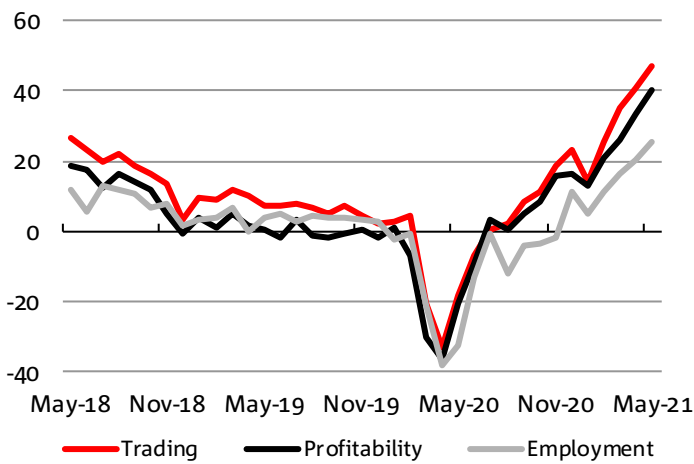


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

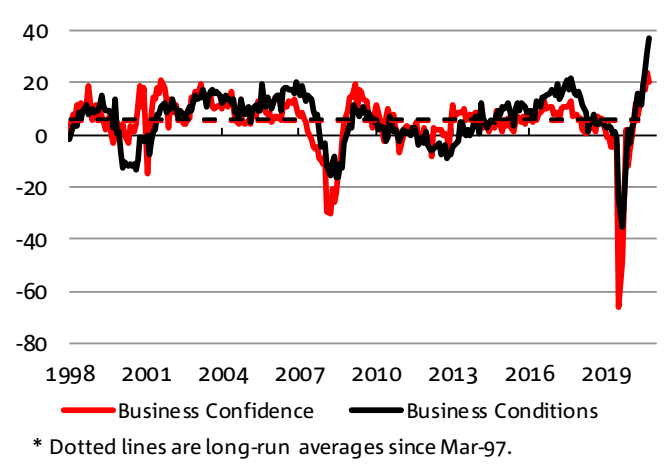


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

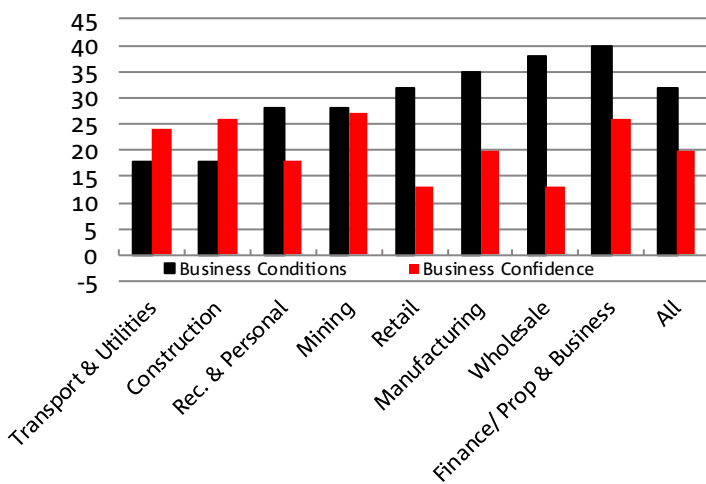
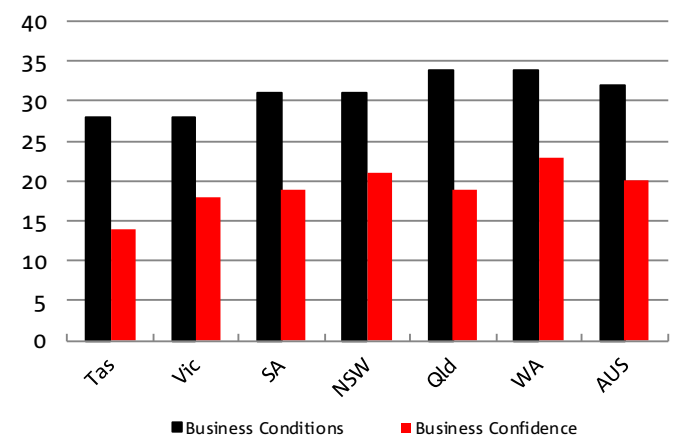


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

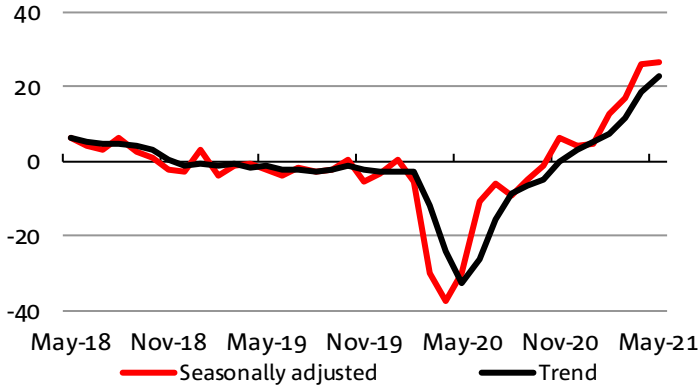


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

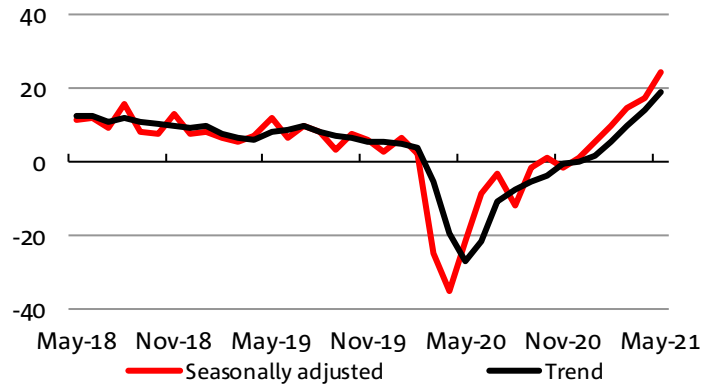


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

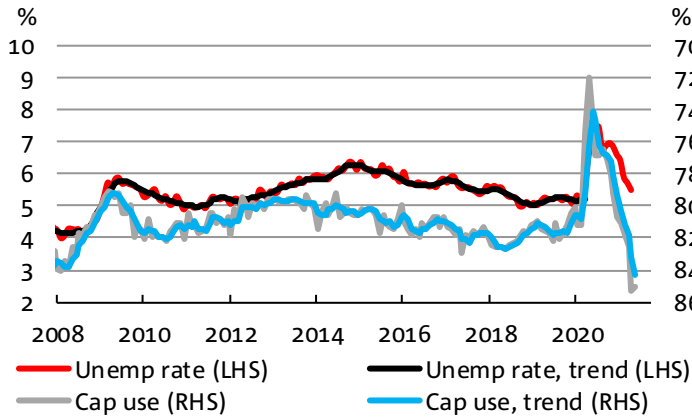


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

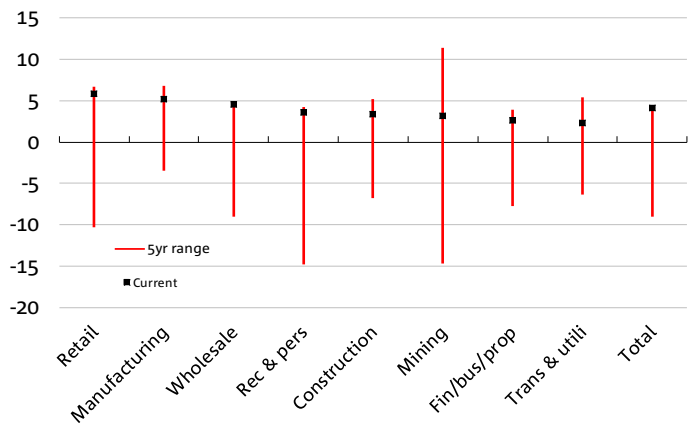


CHART 15: STOCKS (NET BALANCE)

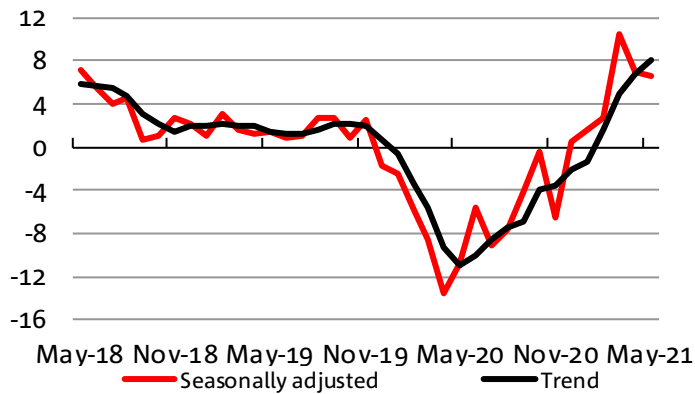


CHART 16: CASH FLOW (NET BALANCE)

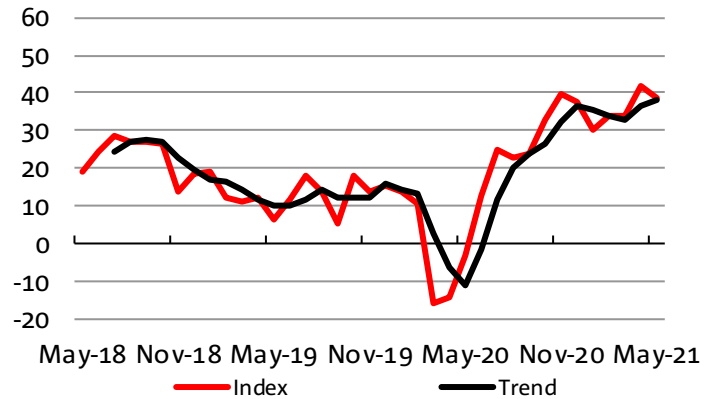


CHART 17: EXPORTS (NET BALANCE)

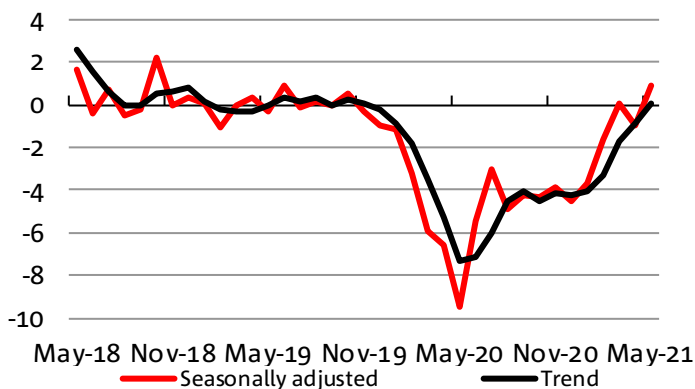
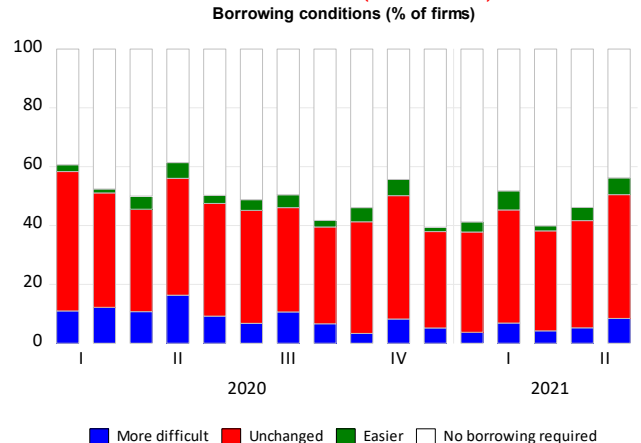


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 19: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

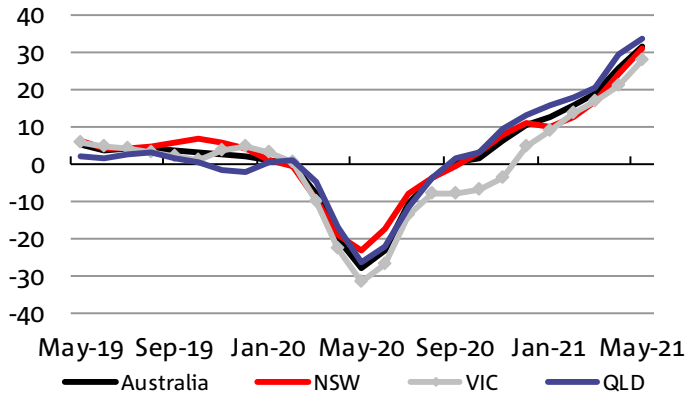


CHART 20: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

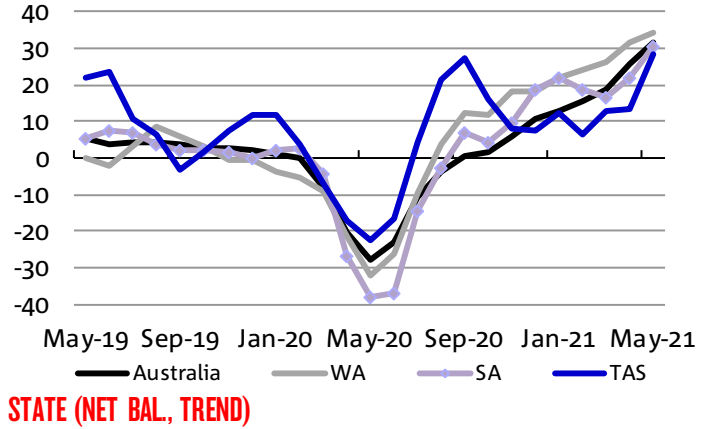


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

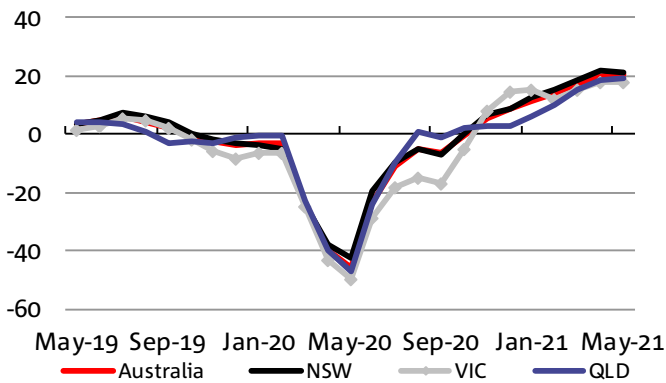


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

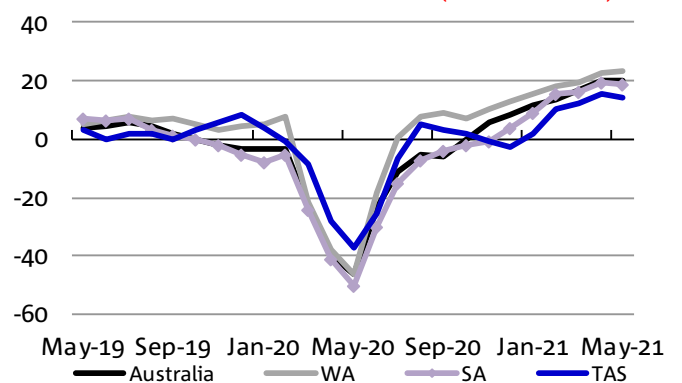


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

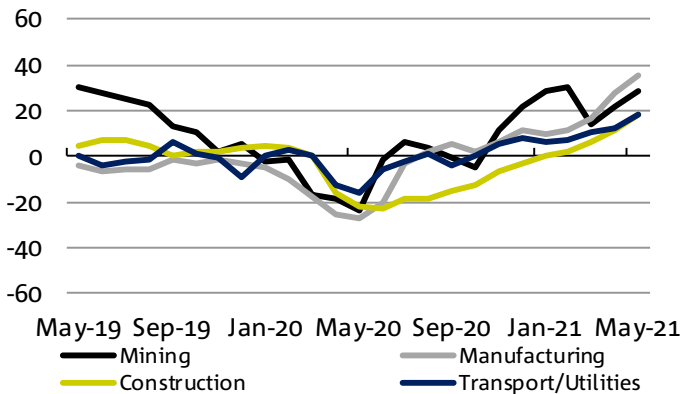


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

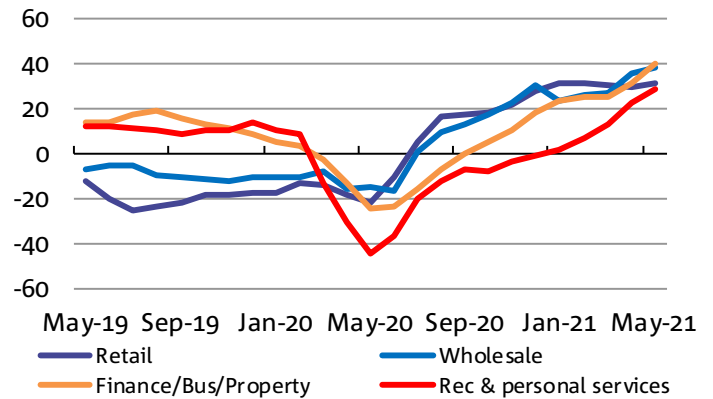


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

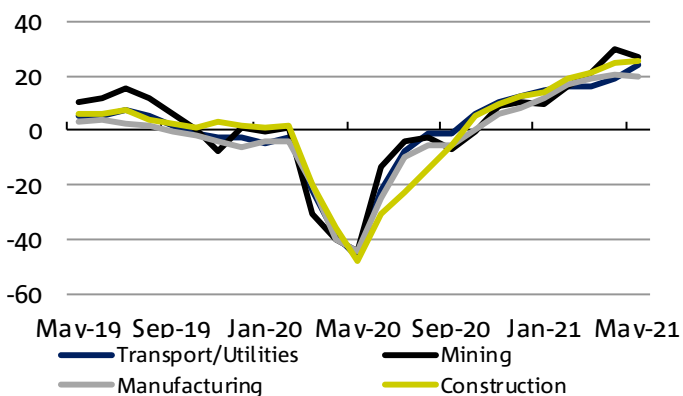
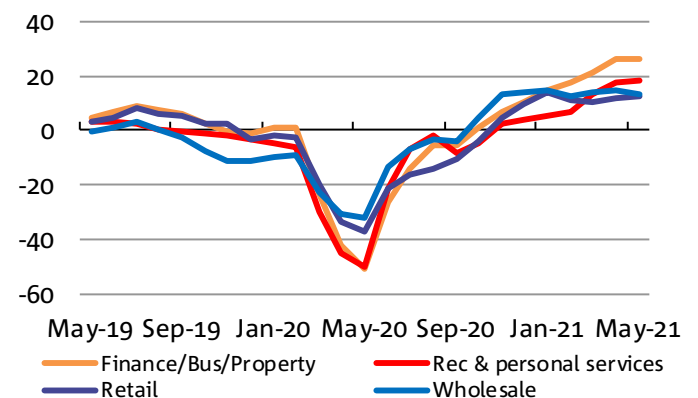


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

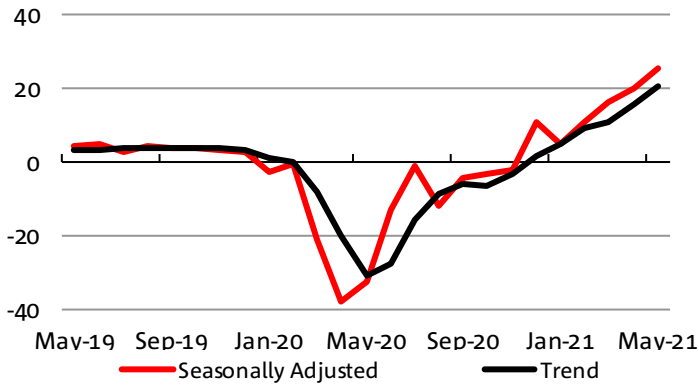


CHART 28: EMPLOYMENT (NAB VS ABS)

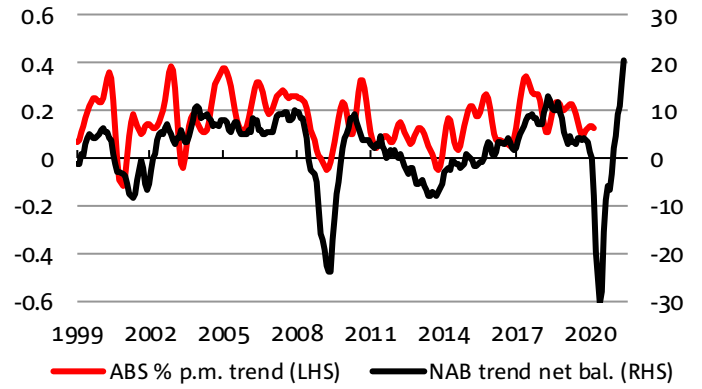


CHART 29: EMPLOYMENT BY INDUSTRY

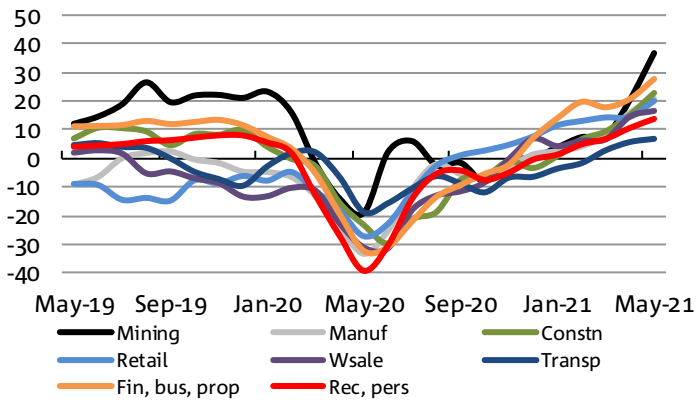


CHART 30: LABOUR COSTS GROWTH

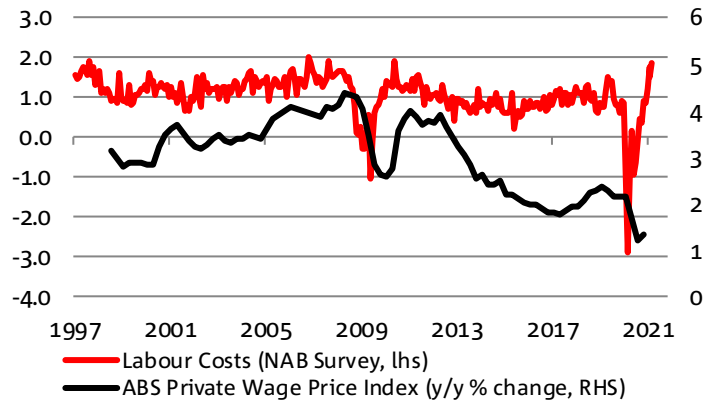


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

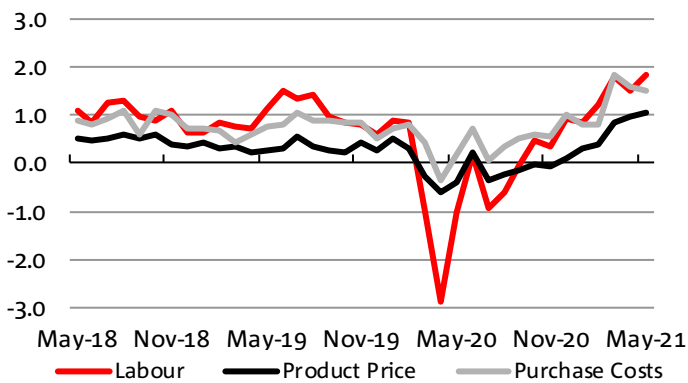
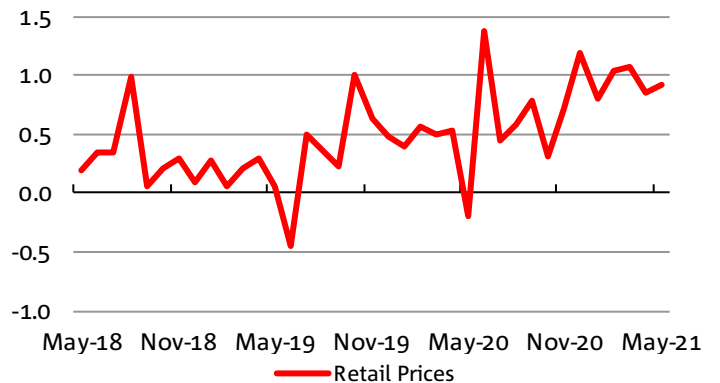


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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*

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

*Data available in original, seasonally adjusted and trend terms.

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)