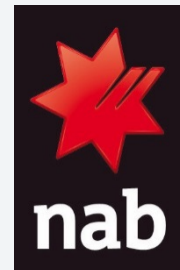


EMBARGOED UNTIL: 11:30AM AEDT, 29 OCTOBER 2020

# NAB QUARTERLY BUSINESS SURVEY 2020 Q3

## AN IMPROVEMENT ACROSS THE SURVEY - BUT SOME WAY TO GO



### NAB Australian Economics

The Q3 survey saw a significant turnaround across most variables following the large hit to activity and confidence in Q2 – though it is important to remember that while the share of respondents reporting a deterioration in conditions has eased, that on balance conditions are still negative and there is likely some way to go before the level of activity is fully recovered. Indeed, capacity utilisation rose 2.2 ppts to 77% in Q3 but remains below the long-run average. Confidence saw a more marginal improvement in the quarter and is still deeply negative (and all industries are still in negative territory). However, we know that late in the quarter, the monthly business survey showed a further improvement in confidence and conditions. Expected conditions improved for both the near- and medium-term, but remain notably below their long run averages. With regards to the labour market, the employment indexes at face value suggest that labour shedding has continued, and will continue in the near-term but that things would stabilise over the next twelve months – though these expectations also remain well below average. Unsurprisingly, businesses report the largest impacts on confidence at present revolve around government policy and regulations – likely related to both support during the pandemic, as well as government mandated containment measures. Demand ranks third and will likely be a key concern as the economy continues to recover.

## HIGHLIGHTS

- 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 conditions** (an average of trading conditions/sales, profitability and employment) rose 22pts to -4 index points. The improvement was driven by a strong rebound in most industries, led by retail and wholesale, though the services sector also saw increases of 20pts or above. By component, trading and profitability led the gains. The employment index saw around half the improvement of the other two components and remains deeply negative.
- **Business confidence** improved by 5pts to -10 index points. Confidence improved in all industries except retail and recreation & personal services. Nonetheless, confidence remains negative in all industries – and is weakest in rec & personal, manufacturing and finance, business & property services. Retail, wholesale and transport & utilities saw the best reads for confidence.
- **Leading indicators** saw a broad-based rebound following the sharp falls last quarter. Expected business conditions improved notably at the 3- and 12-month horizons though they remain weak. Forward orders saw a sharp improvement suggesting that the deterioration in the pipeline of work has slowed. Expected employment at the 3- and 12-month horizons saw an improvement but remain weak by historical standards. Capacity utilisation remains very soft and while expected capex saw a material improvement at the 12-month horizon, it is still below average.
- **Labour indicators** somewhat reflected the marginal recovery in the labour market to date. The expected and actual employment indicators saw improvements and at the 12-month horizon even turned positive, suggesting that businesses are optimistic of some turnaround in conditions. However, in the near term the employment index remains negative pointing to a risk of further job shedding.
- Survey measures of **inflation pressures remain very weak**. Final products prices continue to decline in aggregate, though at a slower rate, while purchase cost growth moderated (from a very low rate). Retail inflation rose but remains soft. Labour costs (a wage bill measure) continued to fall but at a moderate rate, likely reflecting the slowing in job shedding.
- All **construction industry sub-sectors** saw an improvement in conditions with the exception of construction services. Non-residential building is still weakest, but all sub-sectors remain in negative territory.

TABLE 1: KEY QUARTERLY BUSINESS STATISTICS

	2020q1	2020q2	2020q3		2020q1	2020q2	2020q3
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	-12	-15	<b>-10</b>	Trading	-1	-25	<b>2</b>
Business conditions				Profitability	-8	-25	<b>-1</b>
Current	-3	-26	<b>-4</b>	Employment	-1	-29	<b>-14</b>
Next 3 months	-5	-22	<b>-3</b>	Next 3 months	-1	-14	<b>-2</b>
Next 12 months	7	-18	<b>0</b>	Next 12 months	15	-12	<b>5</b>
Capex plans (next 12)	17	-8	<b>13</b>	Forward orders	-6	-28	<b>-8</b>
	<i>% change</i>			Stocks	-4	-11	<b>-6</b>
Labour costs	0.5	-0.6	<b>-0.4</b>	Exports	-3	-9	<b>-5</b>
Purchase costs	0.6	0.2	<b>0.1</b>	Retail prices (% change)	0.2	0.1	<b>0.3</b>
Final products prices	0.1	-0.2	<b>-0.1</b>				
				Capacity utilisation rate (%)	81.5	74.8	<b>77.0</b>

All data seasonally adjusted, except purchase costs and exports. This survey was conducted from 18 August to 11 September, covering over 900 firms across the non-farm business sector.

Next release: February 2021.

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

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# QUARTERLY FOCUS: A PARTIAL REBOUND IN KEY SURVEY EXPECTATIONS

## Expectations improve in Q3 but still well below average

- Though business confidence saw only a modest increase in Q3, the expectations variables across conditions, employment and capex saw notable rebounds in the quarter. However, despite the large rebounds, these variables generally remain well below their long-run average readings.
- Expected conditions improved by 19pts at the 3-month horizon and 17pts at the 12-month horizon. However, they remain negative in the near-term, with the 3-month expectation now at -3 index points, and weak in the medium term, with 12-month expectations at the threshold of improving vs deteriorating. This compares with long run average readings of 8 index points and 24 index points, respectively.
- The employment index saw a significant improvement at the 3- and 12-month horizons, with the 12-month expectation turning positive. However, both remain below their long-run averages of 3 and 8 index points, respectively.
- Expectations for capex spending also rebounded in the quarter, with both the near- and medium-term expectations turning positive. However, like expectations for business conditions they both remain well below average.
- Overall, there appears to have been a stabilisation or even a rebound across the survey. However, given the very large hit to activity in the Q2, the recovery in activity will likely take some time, and the labour market somewhere after that. The survey measure of capacity utilisation is consistent with this – having improved in Q3 as a number of states continued to open up but remaining below the long-run average.
- How fast the economy will recover will depend on a number of factors. Abstracting from any further virus impacts, both business and consumer confidence will be very important – with the key risk that either may hold back spending in the economy, thereby slowing down the recovery in the labour market. It is unlikely that confidence will fully recover – and indeed it may remain fragile – until capacity utilisation is back to normal and the restrictions on activity across the states are eased.
- To date, policy measures have been very supportive of both households and business. Going forward we think it's likely that the economy will require more fiscal support before confidence (and the private sector) will fully recover.

CHART 1: EXPECTED CONDITIONS (NET BAL.)

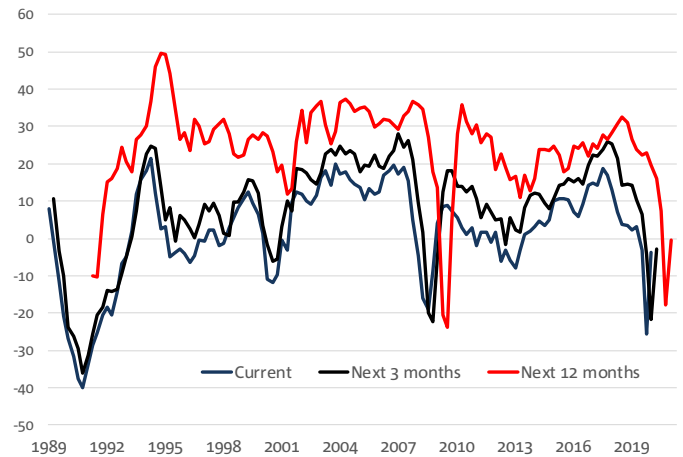


CHART 2: EXPECTED CAPEX (NET BAL.)

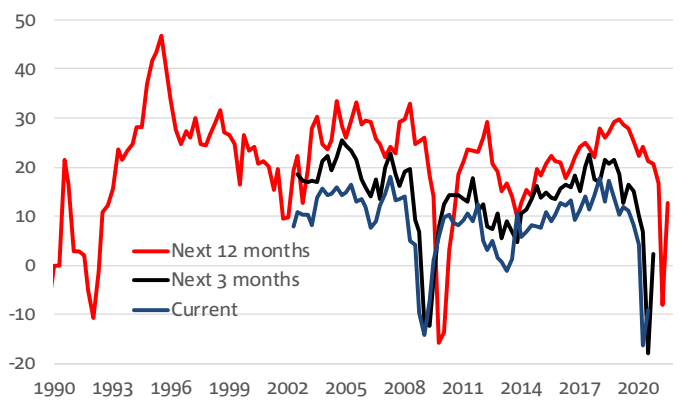
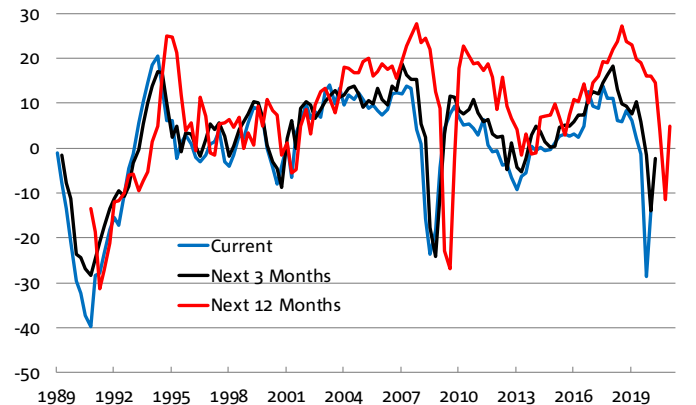


CHART 3: EXPECTED EMPLOYMENT (NET BAL.)



# NAB QUARTERLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 4: BUSINESS CONDITIONS & CONFIDENCE (NET BALANCE S.A.)

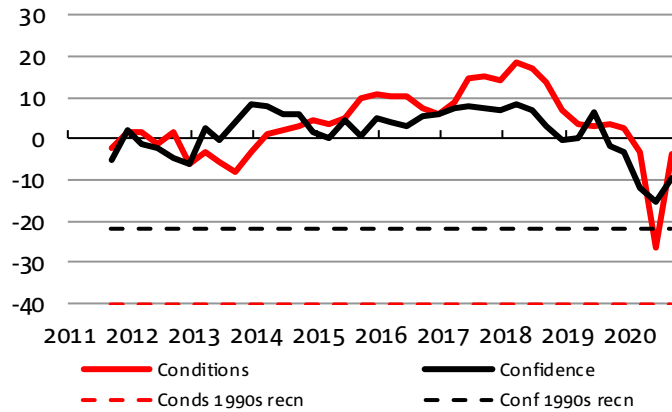
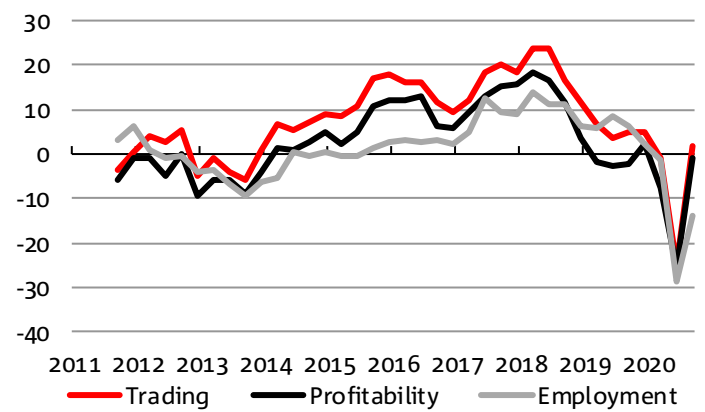


CHART 5: BUSINESS CONDITIONS COMPONENTS (NET BALANCE, S.A.)



## DRIVERS OF BUSINESS CONFIDENCE

CHART 6: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE

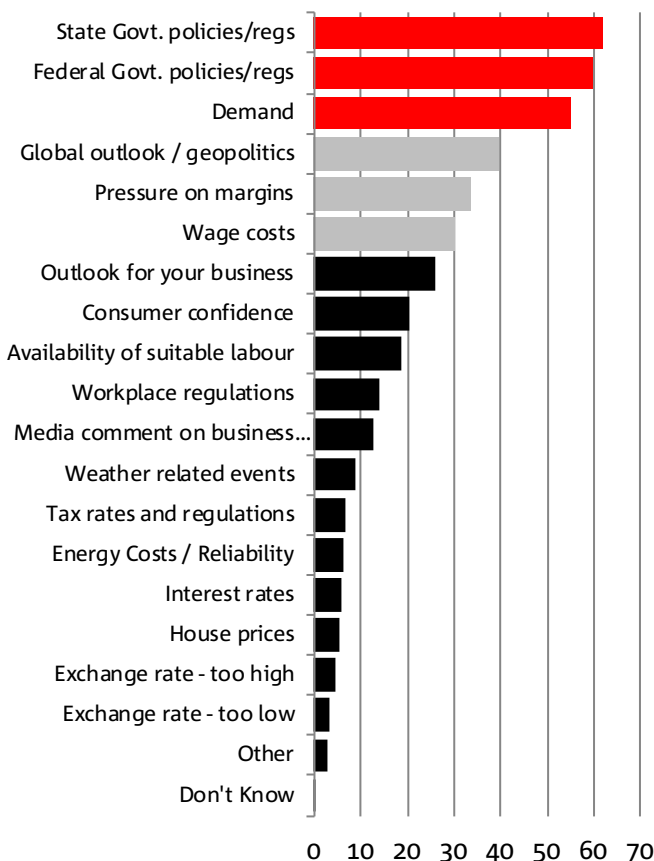


CHART 7: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – DETERIORATING CONDITIONS

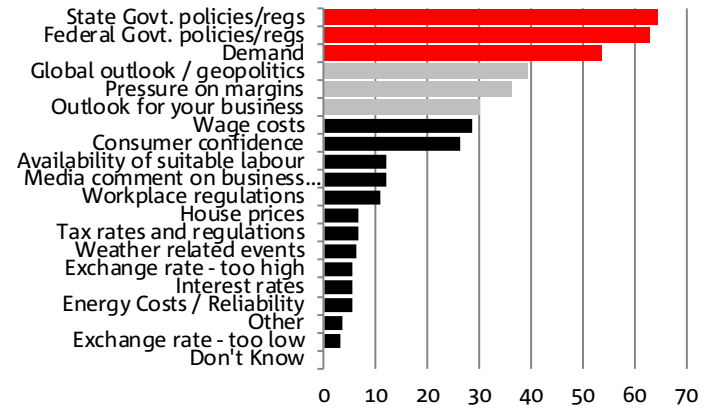
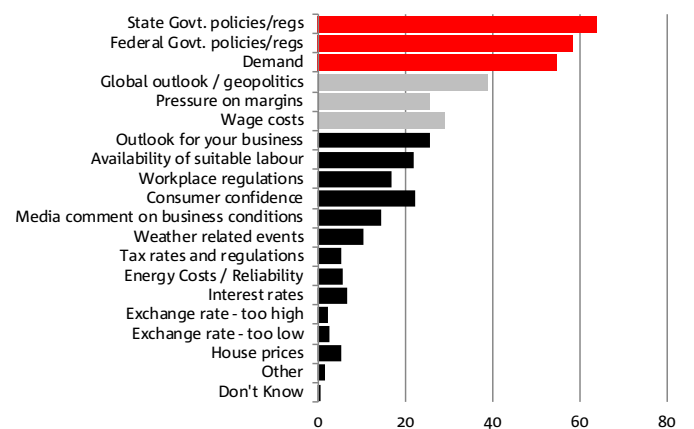
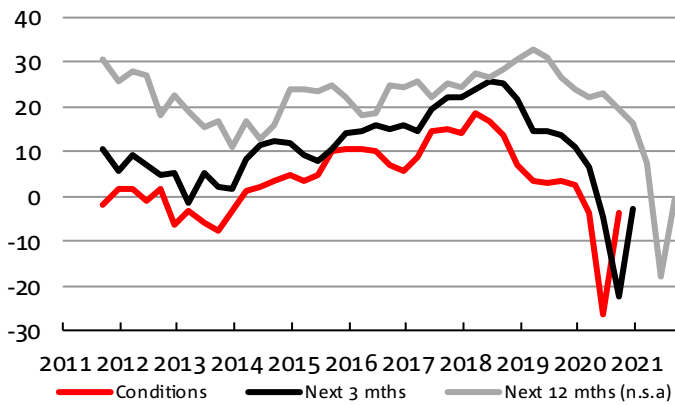


CHART 8: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – IMPROVING CONDITIONS

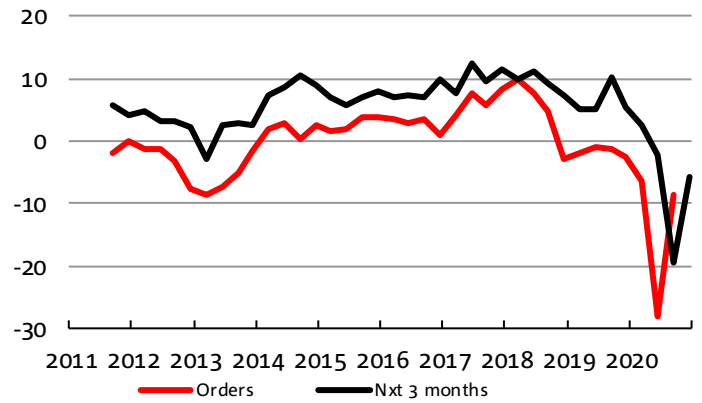


# NAB QUARTERLY BUSINESS SURVEY – LEADING INDICATORS & INVESTMENT

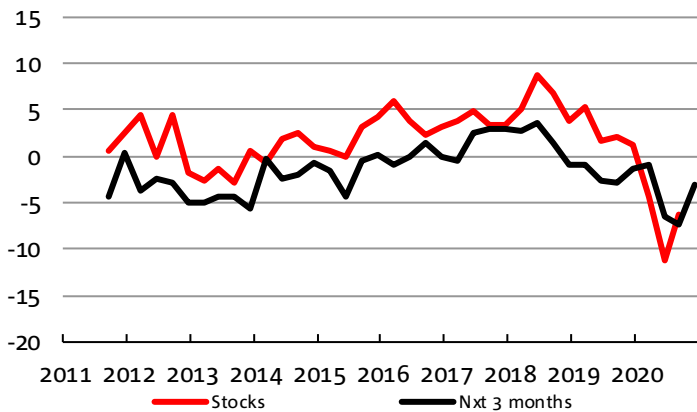
**CHART 9: BUSINESS CONDITIONS AND EXPECTATIONS (NET BALANCE)**



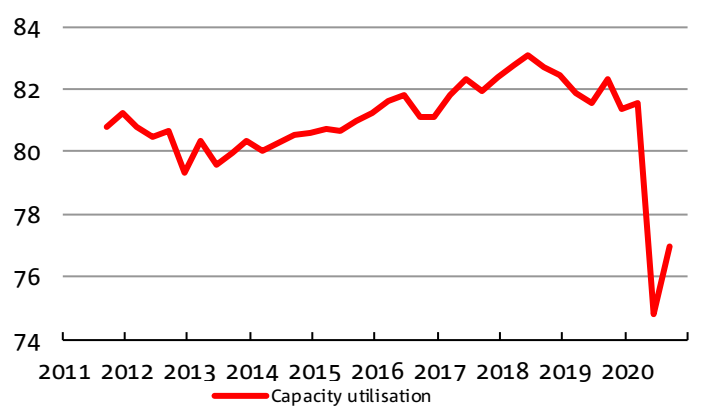
**CHART 10: FORWARD ORDERS & EXPECTATIONS (NET BALANCE S.A.)**



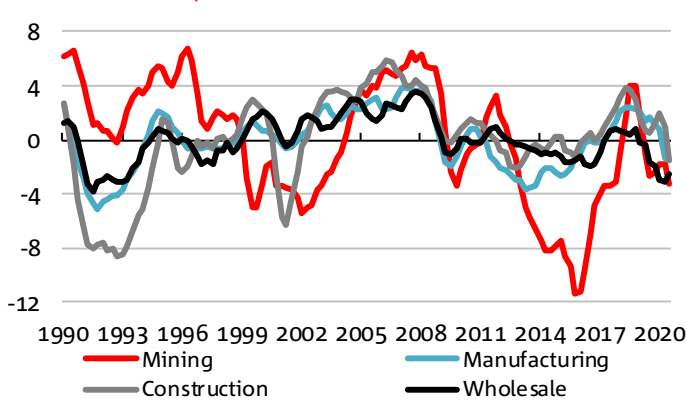
**CHART 11: STOCKS (NET BALANCE S.A.)**



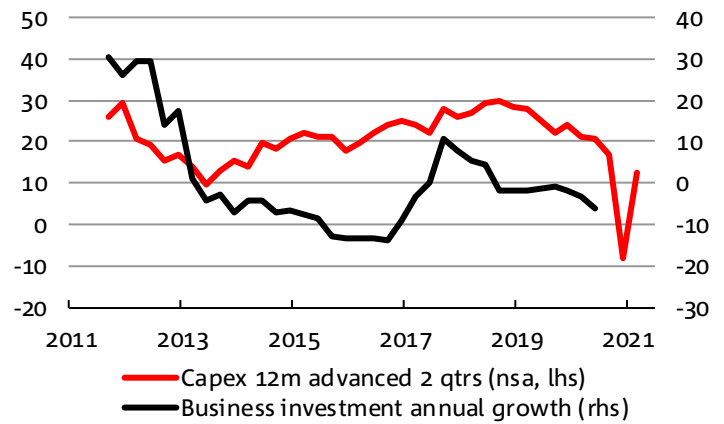
**CHART 12: CAPACITY UTILISATION (PER CENT, S.A.)**



**CHART 13: CAPACITY UTILISATION (PPT DEVIATION FROM LONG-RUN AVERAGE, 3 QTR MA)**

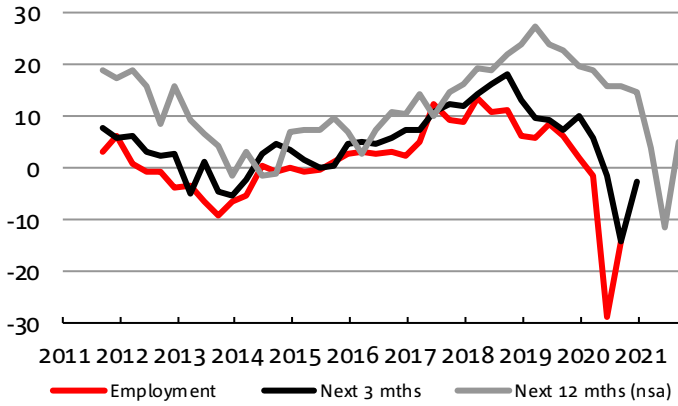


**CHART 14: BUSINESS INVESTMENT & CAPEX PLANS**

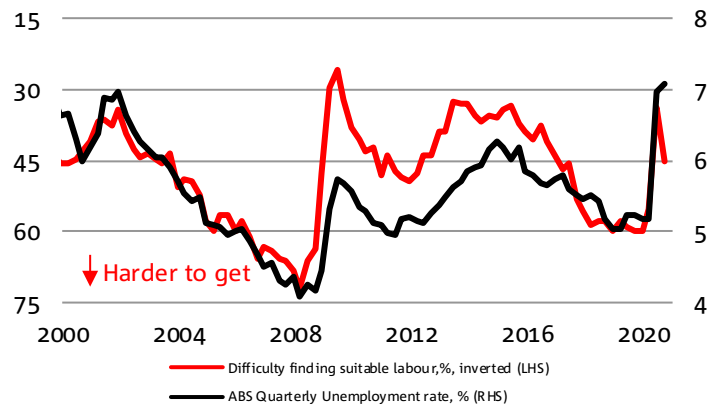


# NAB QUARTERLY BUSINESS SURVEY – LABOUR MARKET

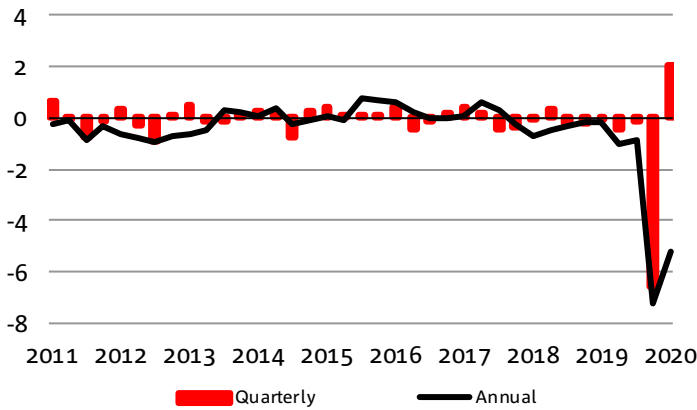
**CHART 15: EMPLOYMENT & EXPECTATIONS (NET BALANCE)**



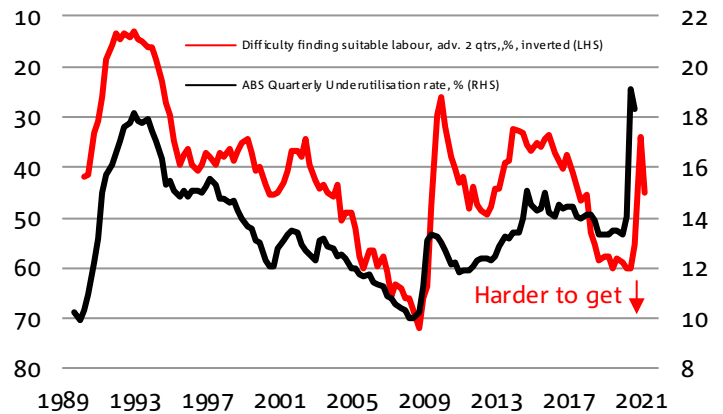
**CHART 16: UNEMPLOYMENT RATE & LABOUR CONSTRAINTS**



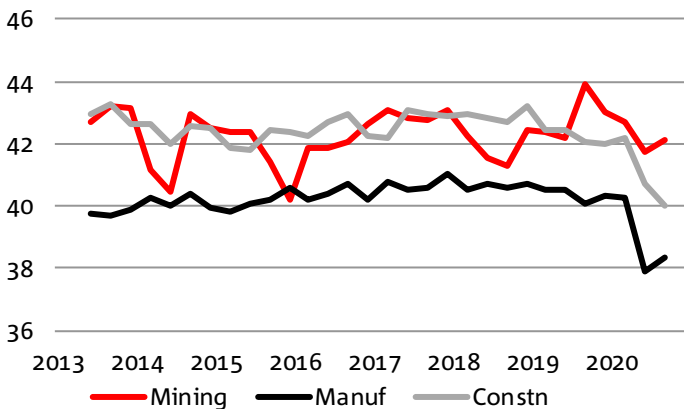
**CHART 17: CHANGE IN AVERAGE HOURS WORKED (NSA)**



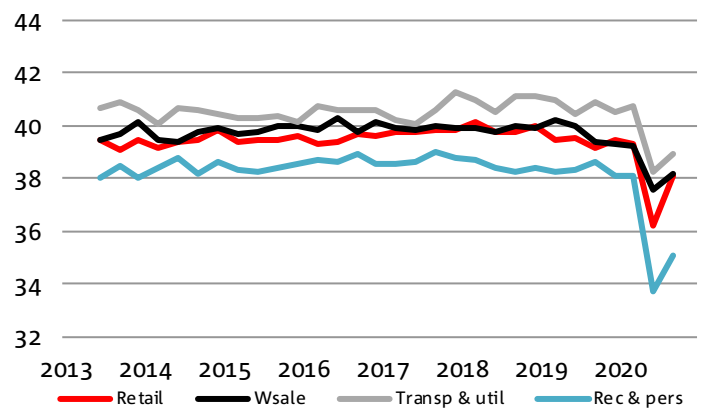
**CHART 18: UNDERUTILISATION RATE & LABOUR CONSTRAINTS**



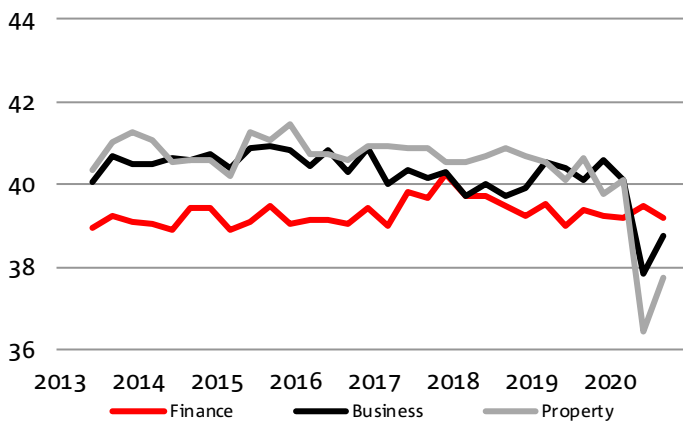
**CHART 19: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



**CHART 20: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



**CHART 21: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



# NAB QUARTERLY BUSINESS SURVEY - MAJOR CONSTRAINTS ON FIRM OUTPUT

CHART 22: MAIN CONSTRAINTS ON FIRM OUTPUT

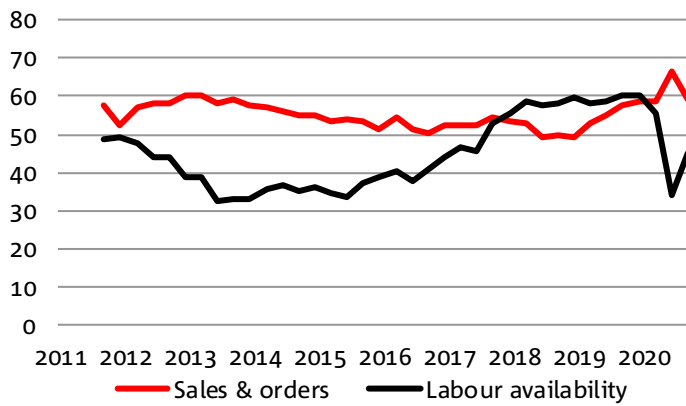
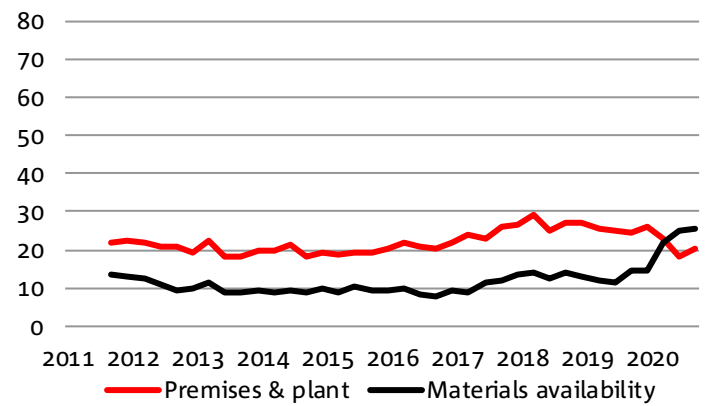


CHART 23: MAIN CONSTRAINTS ON FIRM OUTPUT



## INFLATION PRESSURES

CHART 24: PRICES (% ANN, SA)

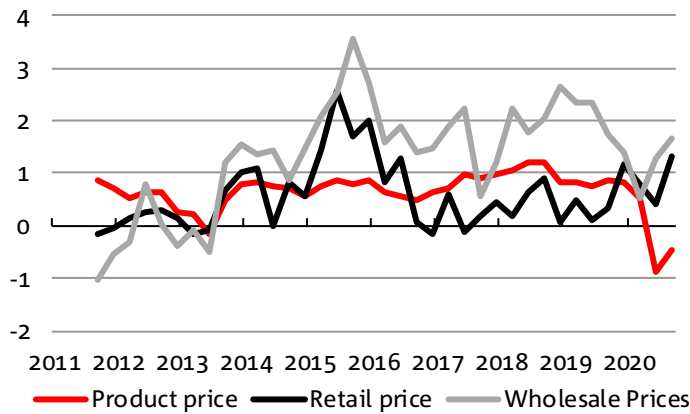
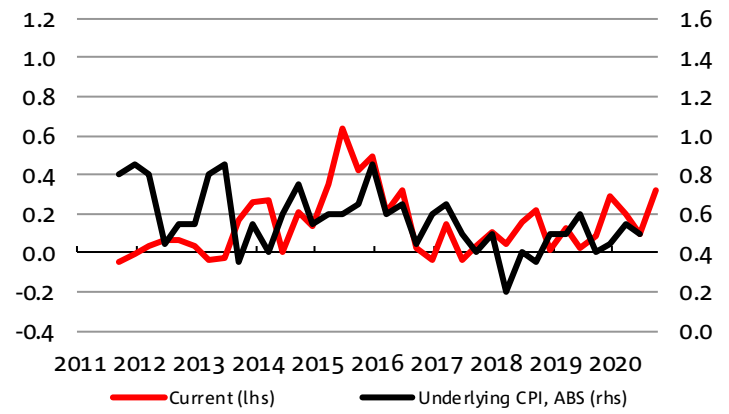


CHART 25: RETAIL PRICES (% P.Q.)



## LABOUR COSTS (DETAILS)

CHART 26: LABOUR COSTS & COMPENSATION OF EMPLOYEES

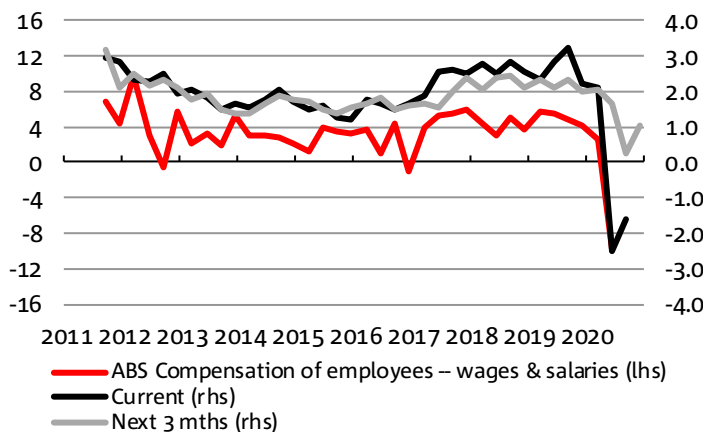
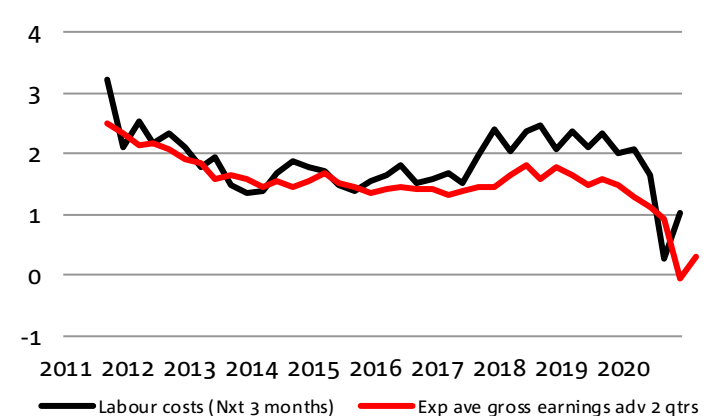


CHART 27: EXPECTED LABOUR COSTS (% ANN)



# NAB QUARTERLY BUSINESS SURVEY – CONSTRUCTION INDUSTRY DETAILS

CHART 28: BUSINESS CONDITIONS BY INDUSTRY

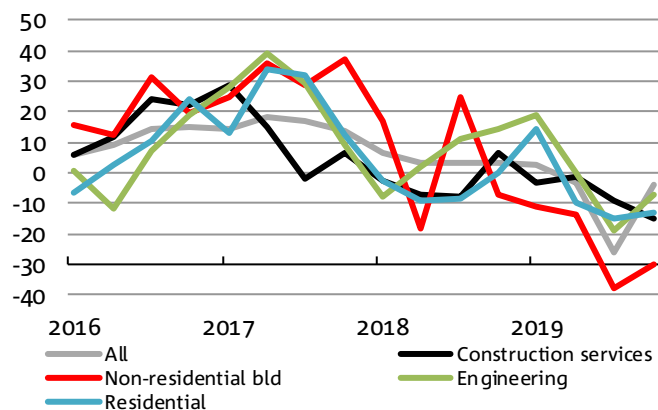


CHART 29: BUSINESS CONFIDENCE BY INDUSTRY

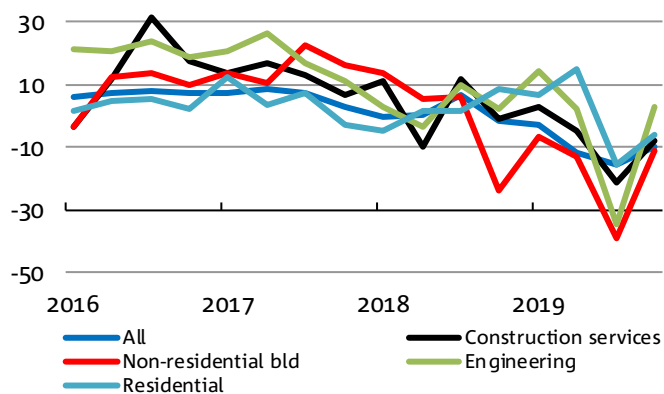


CHART 30: EMPLOYMENT CONDITIONS BY INDUSTRY

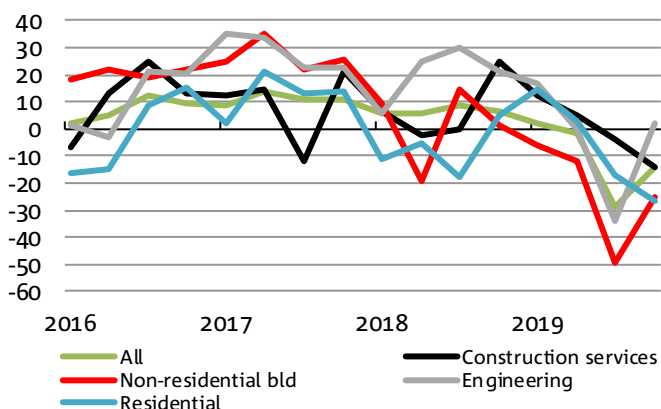
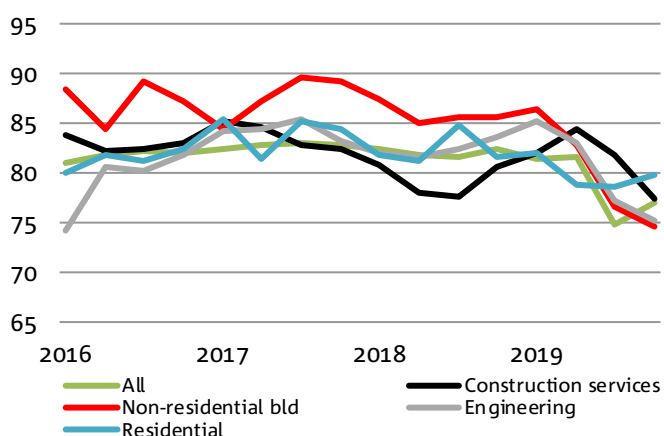


CHART 31: CAPACITY UTILISATION BY INDUSTRY

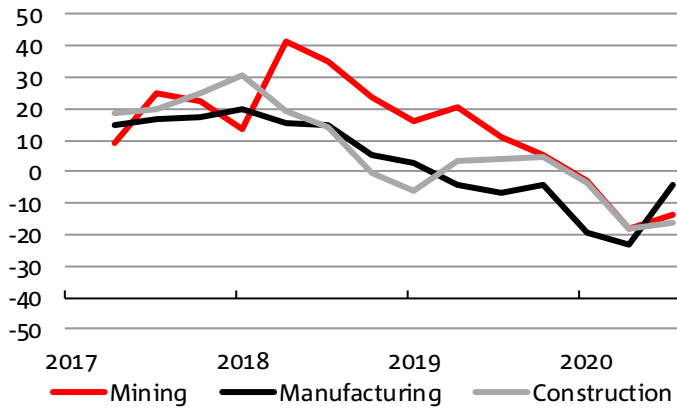


## FINANCIAL MARKET EXPECTATIONS

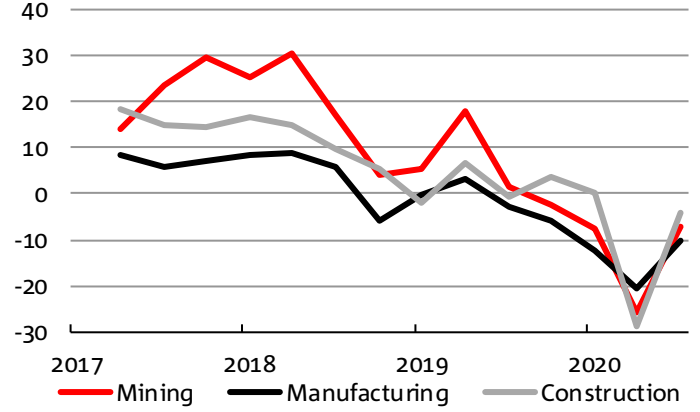
- With rates already very low following the cutting of the cash rate to 0.25% and the introduction of yield curve control (YCC) and the term funding facility in Q1, the bulk of survey respondents (77%) expect short term rates to remain unchanged. Around 10% of respondents expect rates to fall further while a very small proportion (3%) expect an increase over the next 6 months. The average expected decline in interest rates was 8 basis points. NAB Economics expects the RBA to lower the cash rate target by 15 basis points to 0.1% at the November meeting. While lowering the cash rate target will have minimal impact on where the cash rate has traded in recent months, we expect the cut to be accompanied by a cut to the 3-year yield target as well as the TFF – both to 0.1%. Alongside this we expect the RBA to undertake a more formal bond purchase program in the 5-10 year tenors. These actions will likely have a small impact on household and business rates but will serve to support the expectation of a lower for longer outlook for rates as well as support the flow credit. We (and the RBA) do not expect interest rates rise for at least the next 3 years.
- Exchange rate expectations in the Survey (6-months-ahead) were a little higher than the previous survey with respondents expecting the currency to track at just over US72 over the next 6 months. This is broadly consistent with the prevailing exchange rate at the time of the survey which has rebounded from the lows seen in mid-April. NAB Economics forecasts the currency to finish 2020 at US74c before rising to US78c by end-2021 and US80c by end-2022.

# NAB QUARTERLY BUSINESS SURVEY – MORE DETAILS ON INDUSTRY

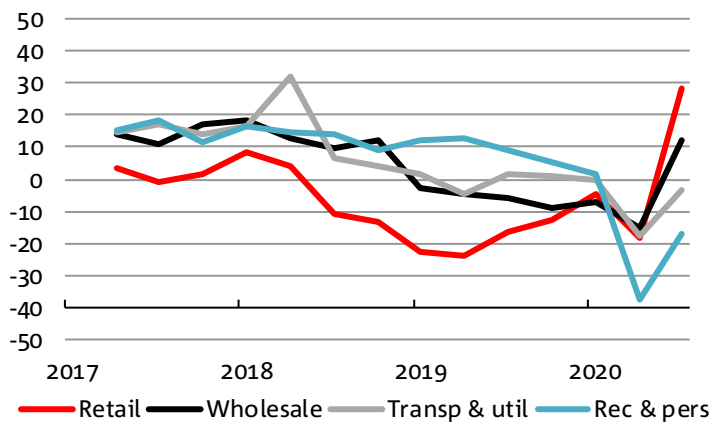
**CHART 32: BUSINESS CONDITIONS BY INDUSTRY**



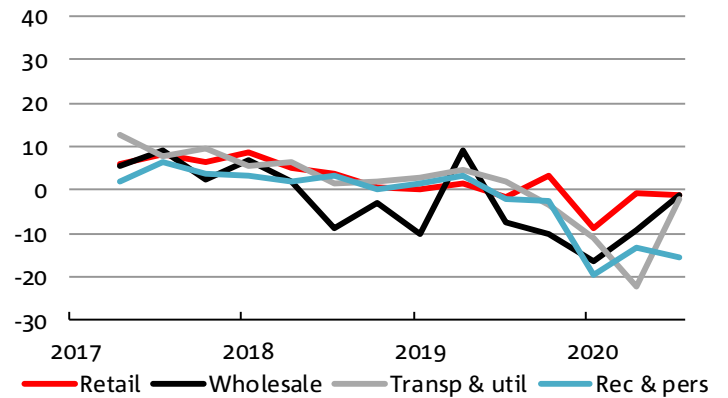
**CHART 35: BUSINESS CONFIDENCE BY INDUSTRY**



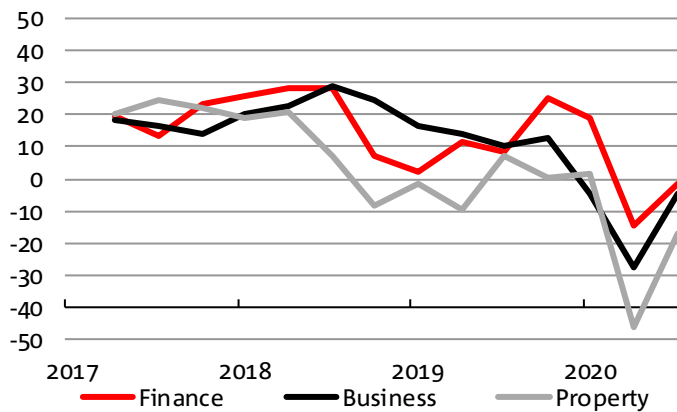
**CHART 33: BUSINESS CONDITIONS BY INDUSTRY**



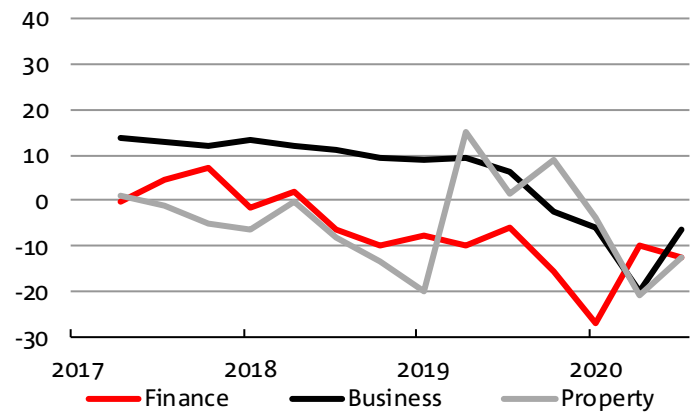
**CHART 36: BUSINESS CONFIDENCE BY INDUSTRY**



**CHART 34: BUSINESS CONDITIONS BY INDUSTRY**



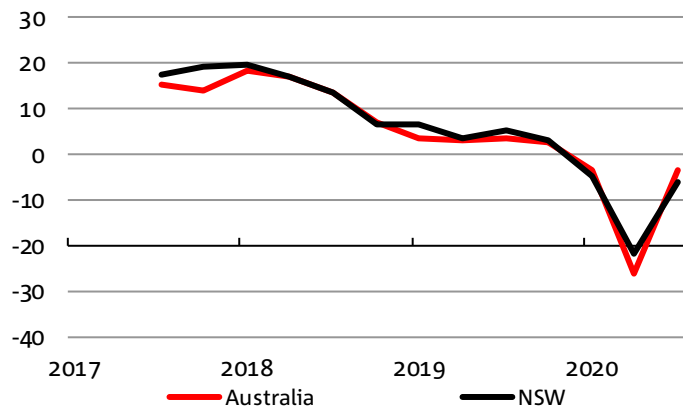
**CHART 37: BUSINESS CONFIDENCE BY INDUSTRY**



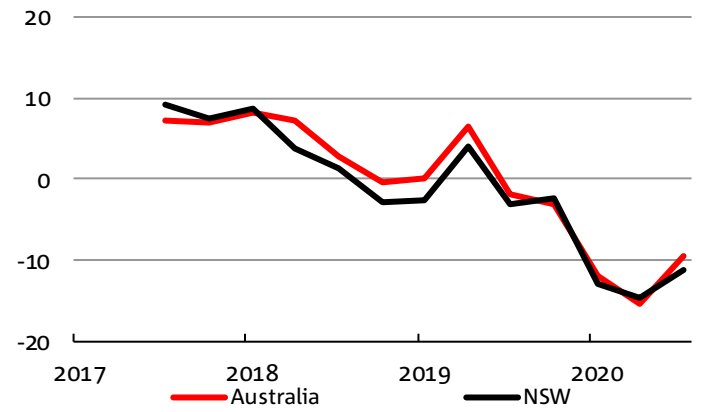


# NAB QUARTERLY BUSINESS SURVEY – FURTHER DETAILS BY STATE

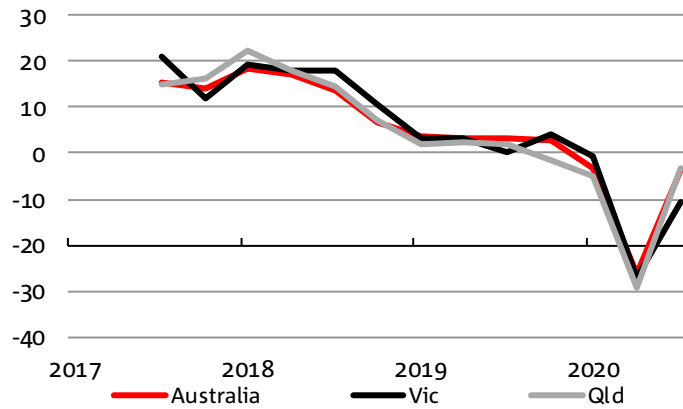
**CHART 38: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)**



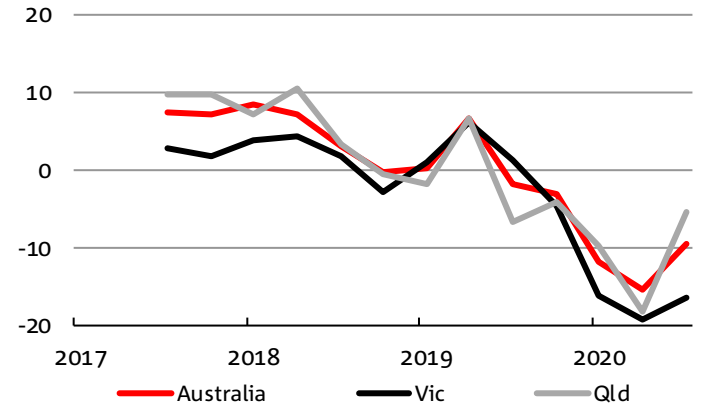
**CHART 41: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)**



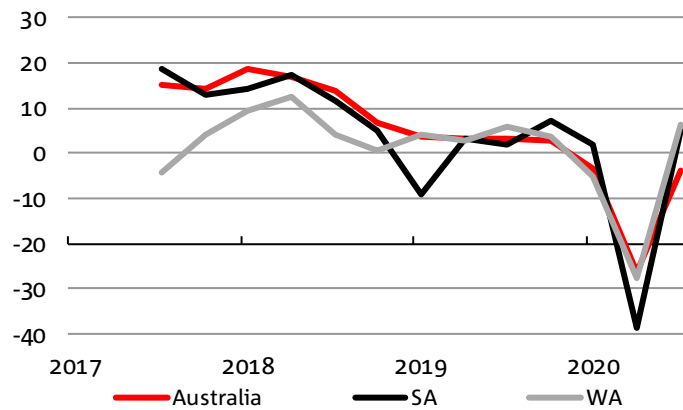
**CHART 39: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)**



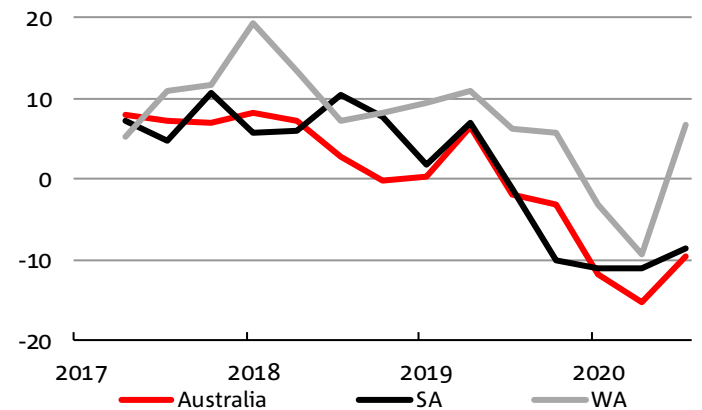
**CHART 42: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)**



**CHART 40: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)**



**CHART 43: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)**



# NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX

	Quarterly					Monthly				
	2019q3	2019q4	2020q1	2020q2	2020q3	2020m5	2020m6	2020m7	2020m8	2020m9
Confidence	-2	-3	-12	-15	<b>-10</b>	-21	1	<b>-14</b>	-8	-4
Conditions	3	3	-3	-26	<b>-4</b>	-24	-8	<b>0</b>	-6	0

	Quarterly					Monthly				
	2019q3	2019q4	2020q1	2020q2	2020q3	2020m5	2020m6	2020m7	2020m8	2020m9
Trading	5	5	-1	-25	<b>2</b>	-20	-7	<b>0</b>	-2	6
Profitability	-2	2	-8	-25	<b>-1</b>	-19	-8	<b>0</b>	-3	2
Employment	6	2	-1	-29	<b>-14</b>	-31	-11	<b>-3</b>	-14	-6

	Quarterly <sup>(a)</sup>					Monthly				
	2020q2	2020q3	2020q4	2021q2	2021q3	2020m5	2020m6	2020m7	2020m8	2020m9
Conditions	-26	<b>-4</b>	NA	NA	NA	-24	-8	<b>0</b>	-6	0
Conds. next 3m	-5	-22	<b>-3</b>	NA	NA					
Conds. nxt 12m	23	20	16	-18	<b>0</b>					
Orders	-28	<b>-8</b>	NA	NA	NA	-29	-9	<b>-7</b>	-11	-7
Orders next 3m	-2	-19	<b>-6</b>	NA	NA					

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

	Quarterly <sup>(a)</sup>					Monthly				
	2019q4	2020q1	2020q2	2020q3	2020q4	2020m5	2020m6	2020m7	2020m8	2020m9
Capacity utilis.	81.4	81.5	74.8	<b>77.0</b>	NA	74.6	76.7	<b>76.8</b>	76.4	76.9
Stocks current	1	-4	-11	<b>-6</b>	NA	-10	-7	<b>-9</b>	-8	-5
Stocks next 3m	-1	-1	-7	-7	<b>-3</b>					

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

	2019q3	2020q2	2020q3
Constraints on output (% of firms)*			
Sales & orders	57.5	66.6	<b>59.1</b>
Labour	60.0	34.0	<b>45.0</b>
Premises & plant	24.5	18.2	<b>20.1</b>
Materials	14.7	25.1	<b>25.6</b>

\* not s.a.

	Quarterly <sup>(a)</sup>					Monthly				
	2020q2	2020q3	2020q4	2021q2	2021q3	2020m5	2020m6	2020m7	2020m8	2020m9
Empl current	-29	<b>-14</b>	NA	NA	NA	-31	-11	<b>-3</b>	-14	-6
Empl next 3m	-1	-14	<b>-2</b>	NA	NA					
Empl nxt 12m	16	16	15	-12	<b>5</b>					

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

# NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX – STATE TABLES

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2019q3</u>	2019q4	2020q1	2020q2	<b>2020q3</b>	<u>2020m5</u>	2020m6	<b>2020m7</b>	2020m8	<b>2020m9</b>
Business conditions										
NSW	5	3	-5	-22	<b>-6</b>	-14	-7	-5	-4	-1
VIC	0	4	-1	-27	<b>-11</b>	-25	-11	-4	-11	-13
QLD	2	-2	-5	-29	<b>-3</b>	-30	-5	3	-10	8
SA	2	7	2	-39	<b>5</b>	-34	-18	8	-2	10
WA	6	4	-5	-28	<b>6</b>	-37	-1	4	2	25

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2019q3</u>	2019q4	2020q1	2020q2	<b>2020q3</b>	<u>2020m5</u>	2020m6	<b>2020m7</b>	2020m8	<b>2020m9</b>
Business confidence										
NSW	-3	-2	-13	-15	<b>-11</b>	-19	7	-20	-10	-1
VIC	1	-5	-16	-19	<b>-16</b>	-21	-7	-28	-18	-12
QLD	-7	-4	-10	-18	<b>-6</b>	-24	0	-6	3	-6
SA	-1	-10	-11	-11	<b>-9</b>	-24	-14	-9	-6	-3
WA	6	6	-3	-9	<b>7</b>	-17	6	8	-1	10

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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\*

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)