

NAB MONTHLY BUSINESS SURVEY OCTOBER 2020

VICTORIA SEES A REBOUND

NAB Australian Economics

Key messages from the Survey: Business confidence rose to its highest level since mid-2019, led by a large gain in Victoria. This was likely driven by the fall in COVID-19 case numbers and looming end of lockdown in Melbourne. By industry, recreational & personal services and construction saw notable increases. However, while the improvement in confidence is encouraging, the results across other survey variables (and regions) were mixed. While Vic saw a significant improvement in conditions, there were notable declines in SA, Qld and WA. Trading conditions and profitability drove the marginal improvement in conditions, but the employment index remains weak at -5 index points, suggesting the labour market is lagging the recovery in activity. Forward orders and capacity utilisation improved in the month, but the former remains negative and the latter is still below pre-COVID levels. Nonetheless, the survey continues to show that the economy has rebounded from the sharp fall in activity in H1 2020 and will likely continue to recover as the economy reopens. However, it will likely take some time for activity to fully recover, with capacity utilisation restored and the pipeline line of work replenished. The improvement in confidence is encouraging but remains fragile, and it will likely remain that way until a vaccine is available. In the interim, confidence will be an important factor for how quickly businesses expand employment and capex as demand normalises.

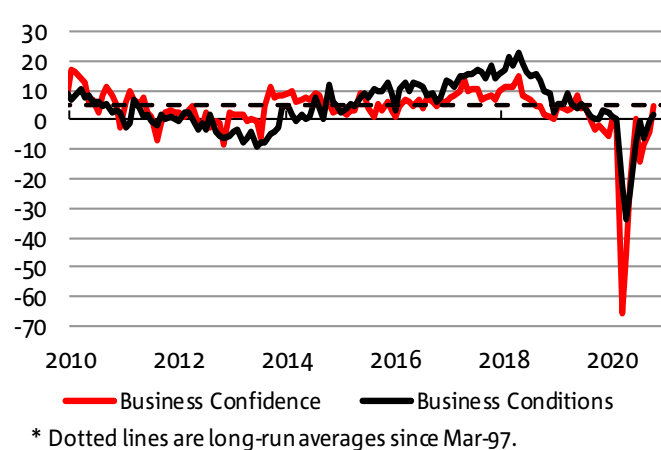
HIGHLIGHTS

- **How confident are businesses?** Confidence rose 9pts to +5 index points, the highest level since mid-2019.
- **How did business conditions fare?** Conditions edged 1pt higher in the month and are now in positive territory at +1 index points.
- **What components contributed to the result?** The gains in conditions were led by further improvements in the trading and profitability sub-components. The employment index rose slightly, but has lagged the improvement in the other activity indicators and is still negative at -5 index points.
- **What is the survey signalling for jobs growth?** At face value, the employment index continues to suggest job shedding, with more firms reporting lower employment relative to the previous month.
- **Which industries are driving conditions?** Conditions rose notably in *wholesale* and *transport & utilities*, while the services industries also saw gains. Elsewhere, conditions edged higher in *retail* but were slightly lower in *mining* and *manufacturing*, while *construction* saw a large fall (and is the weakest of all industries in both trend and S.A. terms).
- **Which industries are most confident?** Confidence – led by gains in *recreational & personal services* and *construction* – saw an improvement in most industries. *Mining* and *transport & utilities* were the exceptions, edging lower in the month.
- **Where are we seeing the best conditions by state?** Conditions rose sharply in *Vic* and we also saw improvements in *NSW* and *Tas*; *WA*, *SA* and *Qld* saw conditions soften in the month. Despite the large improvement in the month, *Vic* remains weakest of all states (in both trend and S.A. terms). Overall, in trend terms, conditions remain most favourable in *Tas* and *WA*.
- **What is confidence like across the states?** Confidence improved in the eastern states, led by gains in *Vic*, but declined across *WA*, *Tas* and *SA*. In trend terms, confidence remains most favourable in the west and weakest in *Vic*.
- **Are leading indicators suggesting further improvement?** Forward orders saw a small improvement in the month, but remains in negative territory. Encouragingly, capacity utilisation continued to recover but remains well below both its pre-COVID and long-run average levels.
- **What does the survey suggest about inflation and wages?** Final products prices continued to decline in the month, though at a slightly lower rate. Retail inflation softened, though labour costs and purchase costs growth picked up.

TABLE 1: KEY STATISTICS

	Aug-20	Sep-20	Oct-20
	Net balance		
Business confidence	-8	-4	5
Business conditions	-6	0	1
Trading	-2	4	8
Profitability	-3	1	4
Employment	-14	-6	-5
Forward orders	-11	-7	-4
Stocks	-8	-5	-1
Exports	-5	-4	-4
	% change at quarterly rate		
Labour costs	-0.8	-0.2	0.4
Purchase costs	0.2	0.3	0.4
Final products prices	-0.3	-0.2	-0.1
Retail prices	0.4	0.6	0.1
	Per cent		
Capacity utilisation rate	76.4	77.0	77.9

CHART 1: CONDITIONS AND CONFIDENCE IMPROVE



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 22-30 October 2020, covering over 400 firms across the non-farm business sector. Next release date: 8 December 2020.

NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

STATE AND INDUSTRY DEVELOPMENTS

- The recovery in business conditions has been uneven across states; the smaller states have generally seen a stronger recovery in conditions than Vic and NSW. However, October saw a small reversal in this trend, with Vic and NSW seeing significant gains, while the remaining states pulled back.
- Across states and industries, the recovery in conditions has been driven by the trading and profitability sub-indexes. The employment index has also rebounded, but has lagged the improvement in the other components, and remains in negative territory across all states except WA.
- Capacity utilisation continued to recover in aggregate, with all states and most industries now notably above their April levels. Nonetheless, it remains well below its long-run average of 81.0%.
- Vic saw an improvement in capacity utilisation in the month, after remaining weak in previous months, but it remains well below pre-COVID levels. Capacity utilisation has also improved in Qld and Tas but was softer in NSW, WA and SA.
- Forward orders saw an improvement across all states in October, but remains negative in all regions except for WA. Victoria led the gains in the month but remains weakest given the delayed recovery in the state.
- The pandemic had significant impacts on almost all parts of the economy. The impact of containment efforts, ranging from social distancing requirements to full lockdowns has seen large and significant disruptions to activity. This has been particularly evident in travel, hospitality and health services.
- While harder to identify, the impact of confidence and uncertainty will also impact spending by both households and businesses. For households these concerns likely relate to labour market developments as well as expectations for income growth. For businesses, investment and hiring intentions are likely to have been dampened by uncertainty over future disruptions to activity as well as consumer demand for their output.
- While the pandemic has no doubt been a very negative shock to the economy, there have also been some surprising outcomes. Consumer spending on goods has risen, which has seen the retail industry go from being the worst performer in the survey to the best. This is largely a reflection of massive government support to household incomes.
- NAB Economics' view is that the RBA will keep interest rates on hold at 0.1% for an extended period. While this will certainly support the recovery, fiscal policy will be much more important in stimulating demand and we think the government will do more, on top of the large amount it has already done.

CHART 2: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

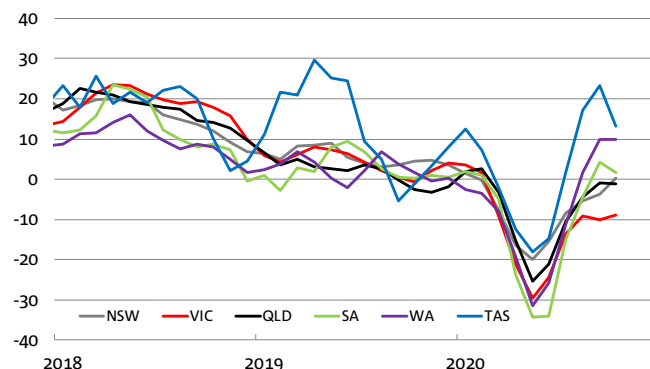


CHART 3: EMPLOYMENT INDEX (NET BAL.)



CHART 4: CAPACITY UTILISATION BY STATE (%)

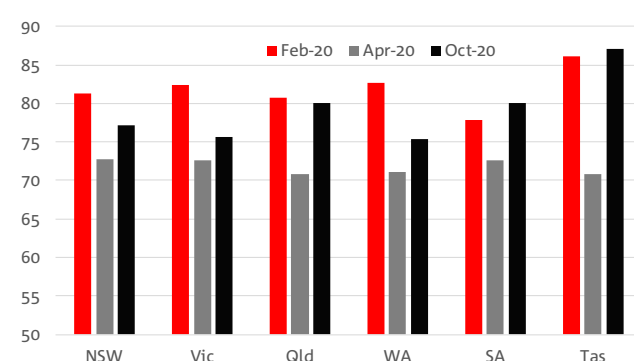
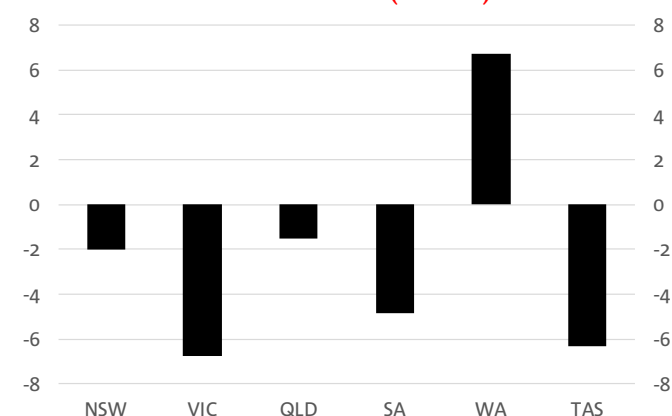


CHART 5: FORWARD ORDERS BY STATE (NET BAL.)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 6: BUSINESS CONFIDENCE (NET BALANCE)

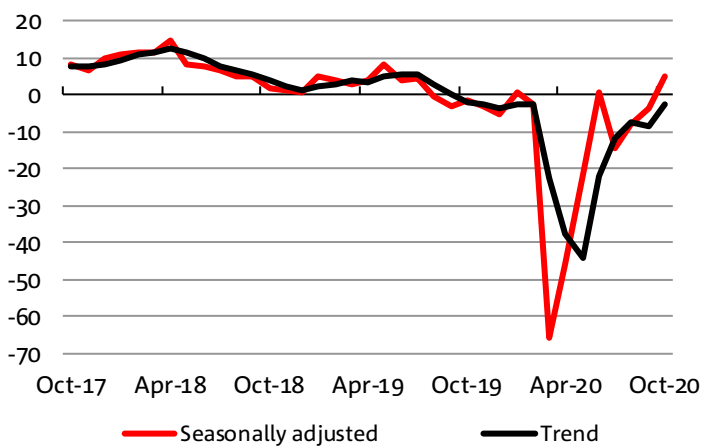


CHART 7: BUSINESS CONDITIONS (NET BALANCE)

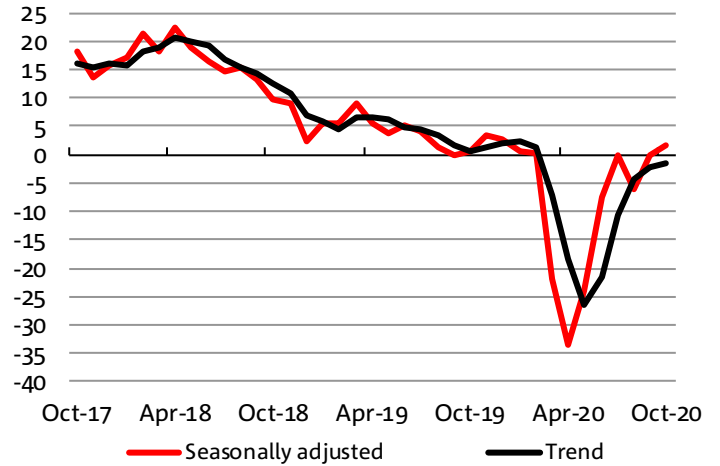


CHART 8: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

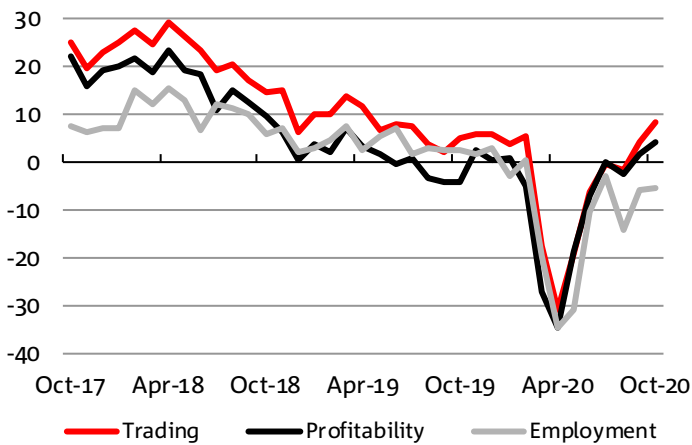


CHART 9: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

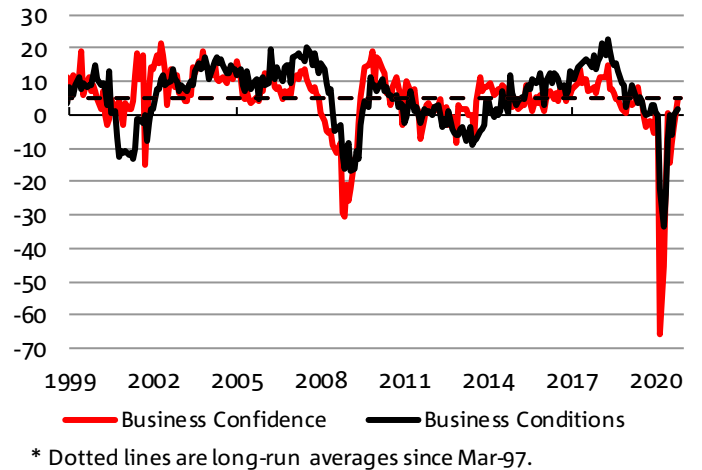


CHART 10: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

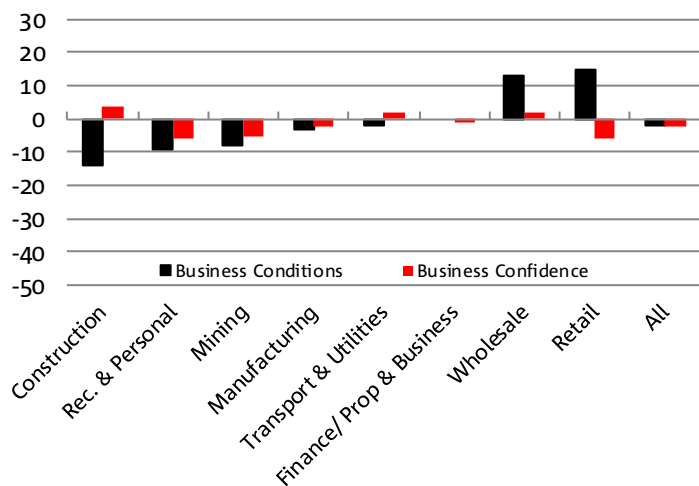
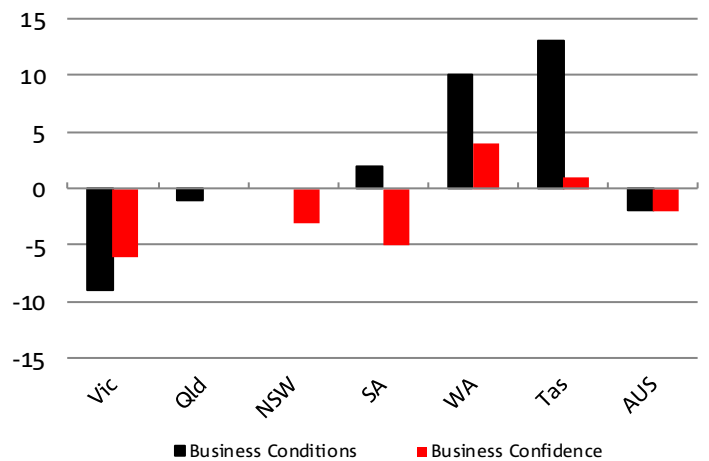


CHART 11: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 12: FORWARD ORDERS (NET BALANCE)

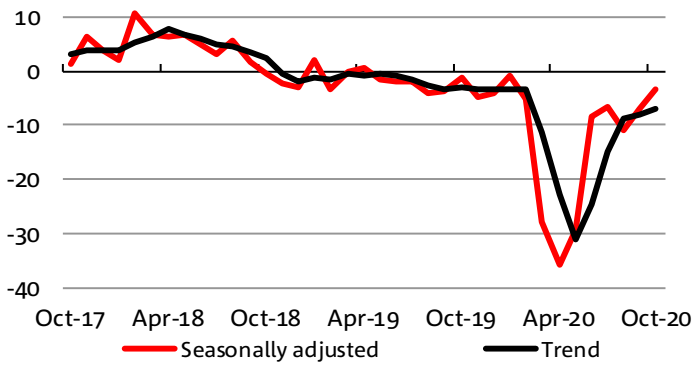


CHART 13: CAPITAL EXPENDITURE (NET BALANCE)

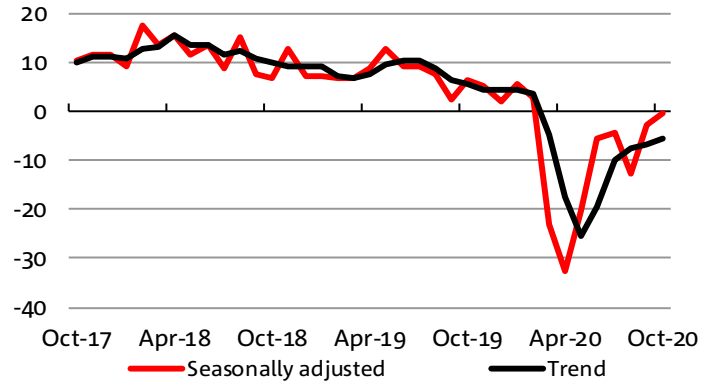


CHART 14: CAPACITY UTILISATION AND UNEMPLOYMENT

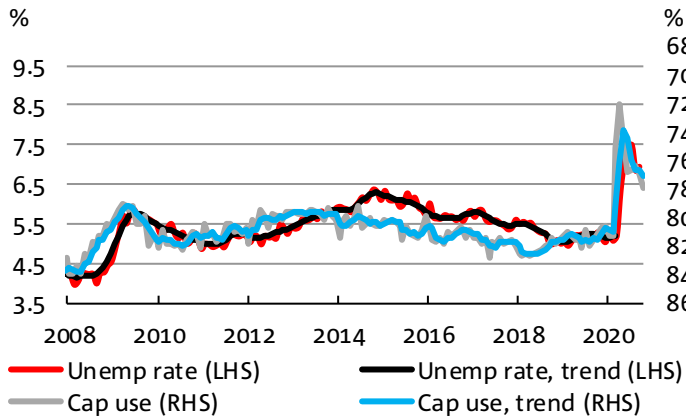


CHART 15: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

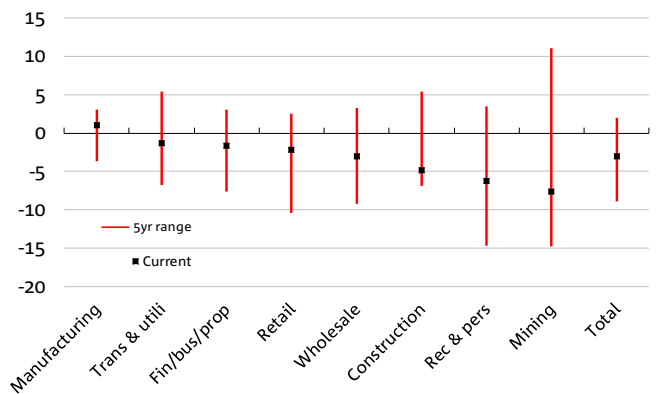


CHART 16: STOCKS (NET BALANCE)

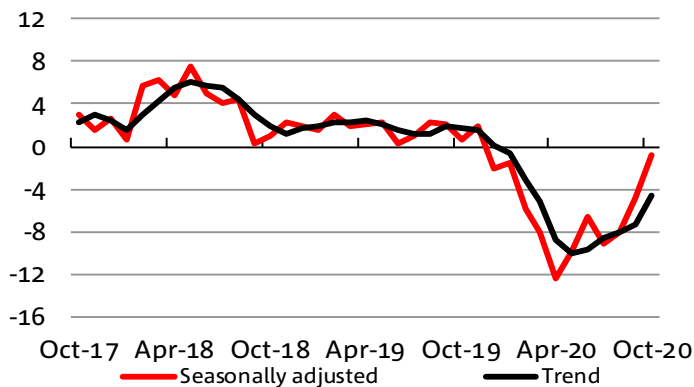


CHART 17: CASH FLOW (NET BALANCE)

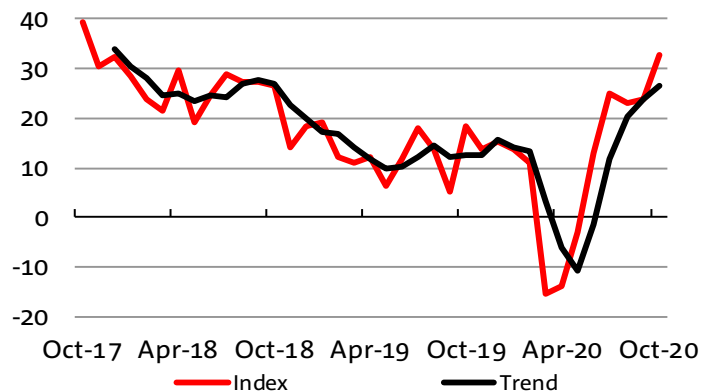


CHART 18: EXPORTS (NET BALANCE)

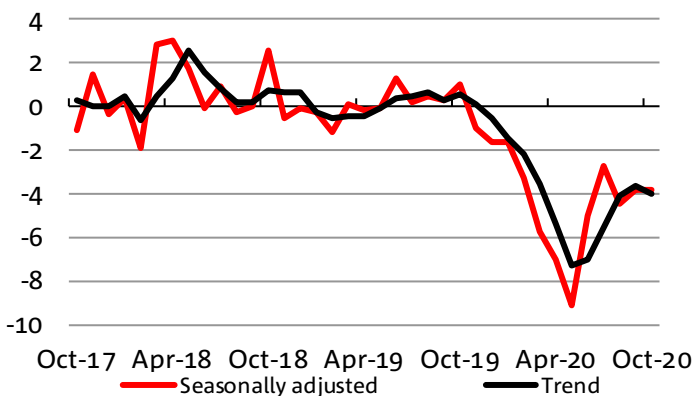
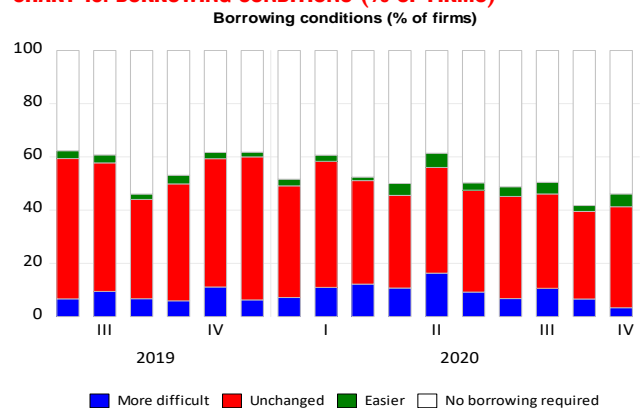


CHART 19: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

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

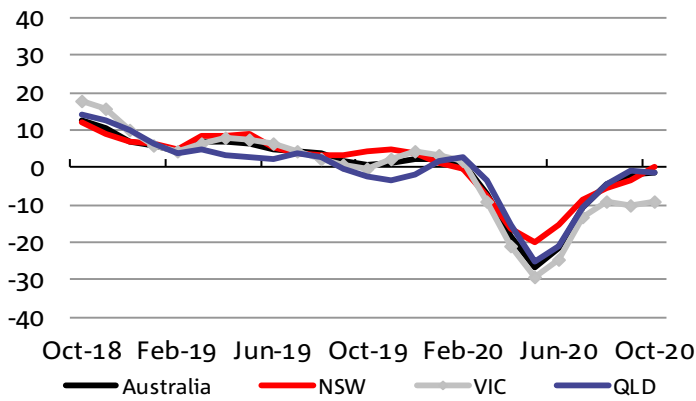


CHART 21: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

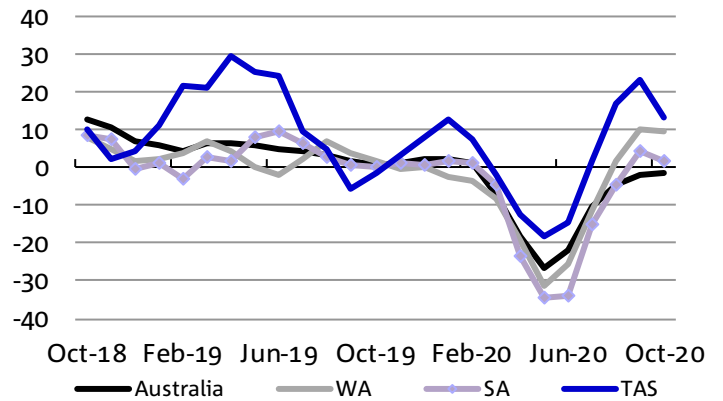


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

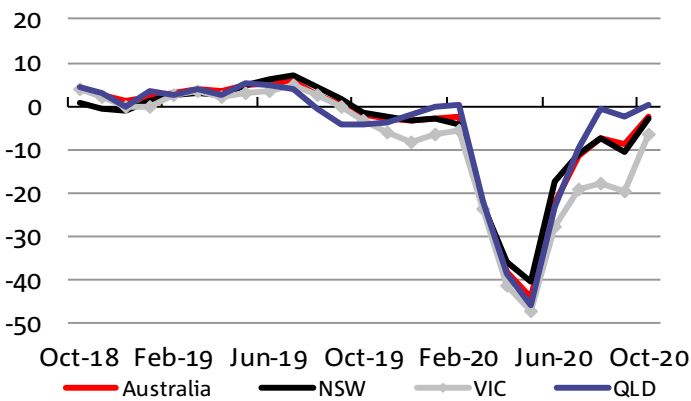


CHART 23: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

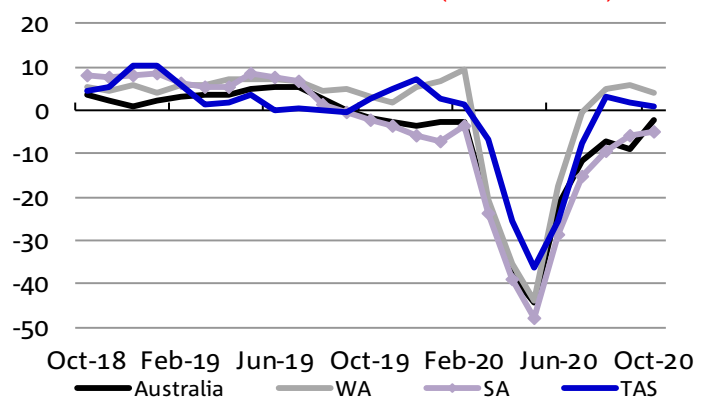


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

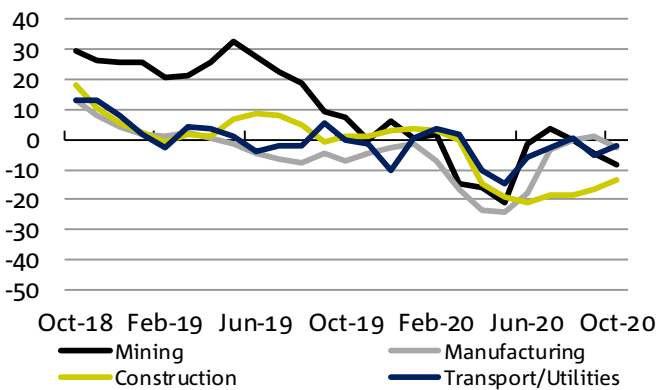


CHART 25: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

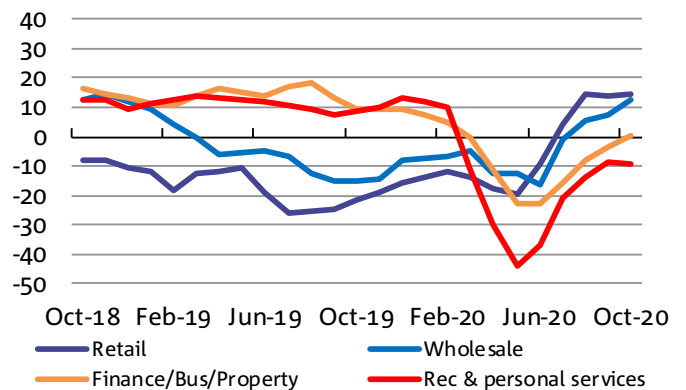


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

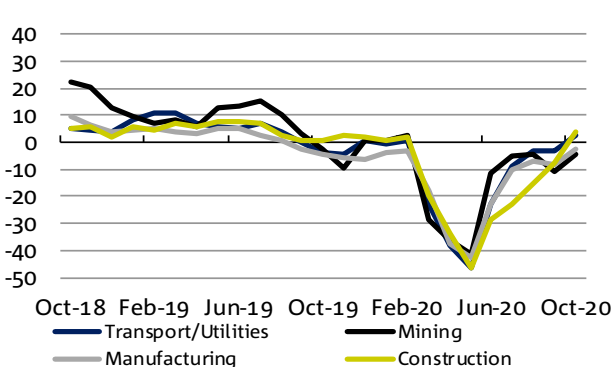
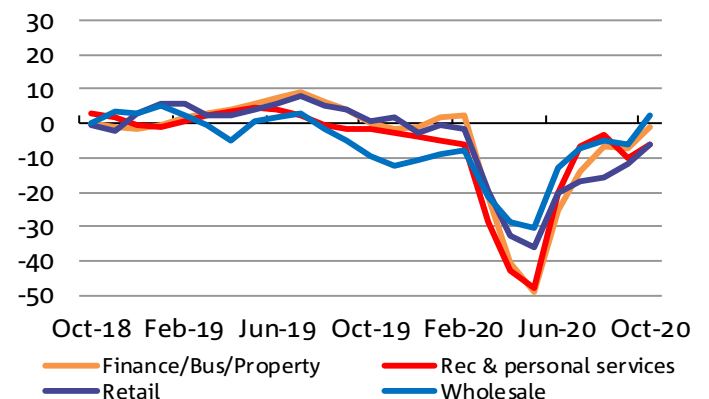


CHART 27: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 28: EMPLOYMENT

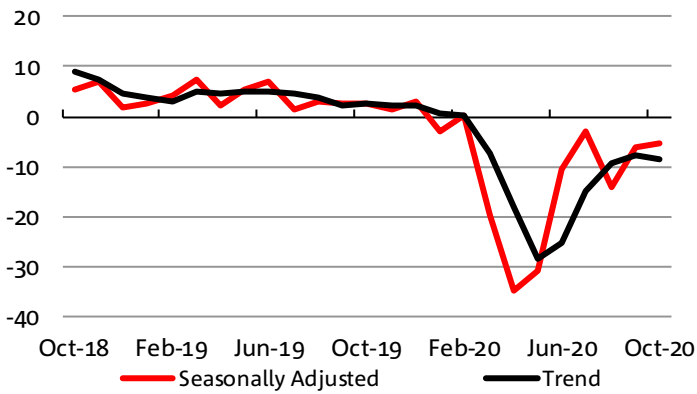


CHART 29: EMPLOYMENT (NAB VS ABS)

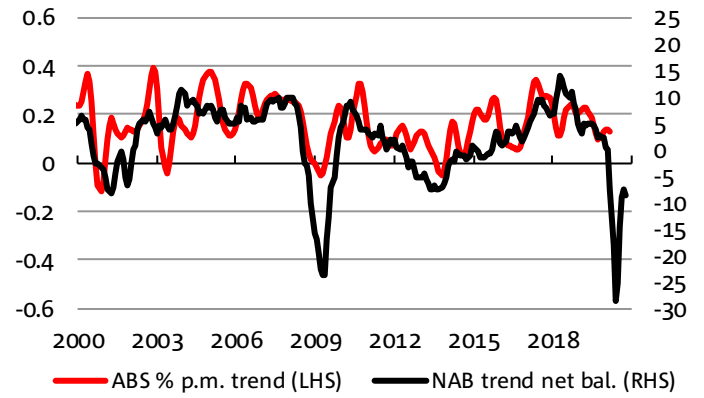


CHART 30: EMPLOYMENT BY INDUSTRY

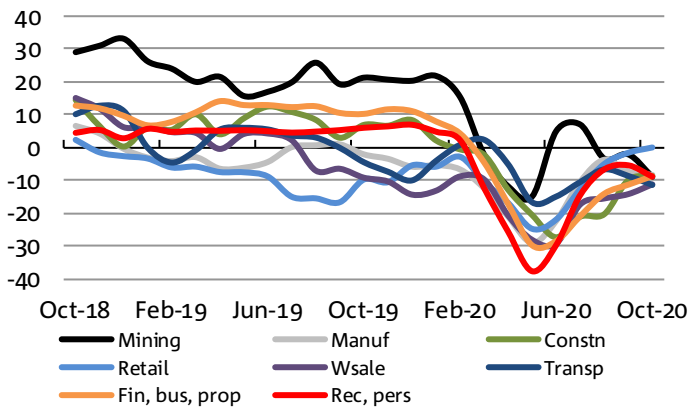


CHART 31: LABOUR COSTS GROWTH

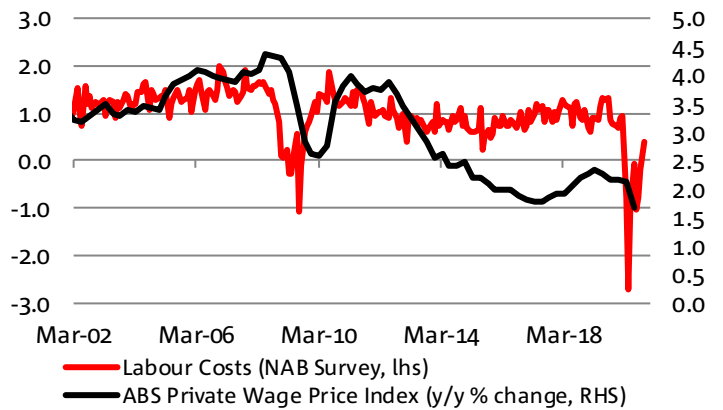


CHART 32: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

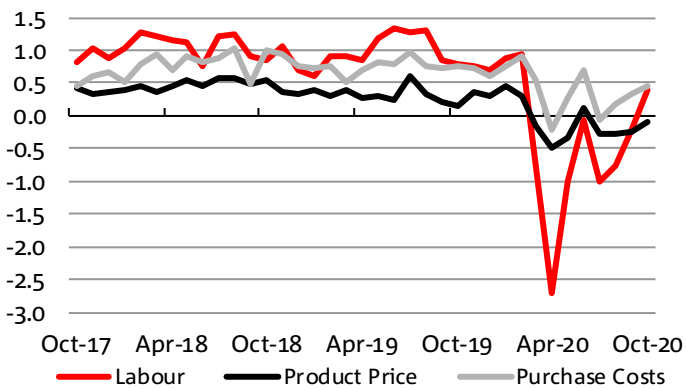
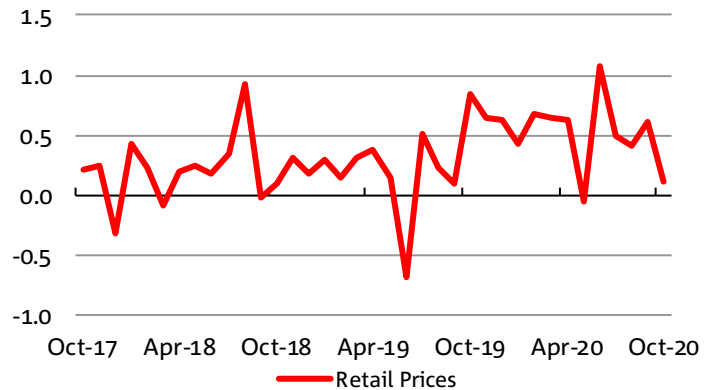


CHART 33: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



CONTACTS

Alan Oster, Group Chief Economist

Alan.Oster@nab.com.au

+61 0 414 444 652

Gareth Spence, Senior Economist

gareth.spence@nab.com.au

+61 0 436 606 175

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.

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)