

NAB MONTHLY BUSINESS SURVEY NOVEMBER 2020

FURTHER GAINS AS THE ECONOMY CONTINUES TO OPEN UP

NAB Australian Economics

Key messages: Business conditions and confidence rose in November, continuing to suggest a rapid rebound in the economy as restrictions are eased and state borders open up. While renewed optimism in Victoria drove the improvement in confidence, Victoria was one of only two states to report a deterioration in conditions, although we expect conditions to improve as the impact of its recent severe lockdown wears off. Overall both confidence and conditions are now above average, and stronger than the period right before the pandemic – albeit this partly reflects some “snapback” following the containment of the virus. Encouragingly, other lead indicators improved in the month: capacity utilisation saw a large gain and forward orders turned positive, the latter suggesting that the pipeline of work has begun to build. That said, there is some way to go before a full recovery is reached. Capacity utilisation remains around 1.4ppt below its long-run average, while the capex and employment indexes remain in negative territory. Even with the significant improvement in trading conditions and profitability, businesses will likely need to see a sustained improvement in forward orders and a complete recovery in capacity utilisation before renewed hiring and investment plans are put in place.

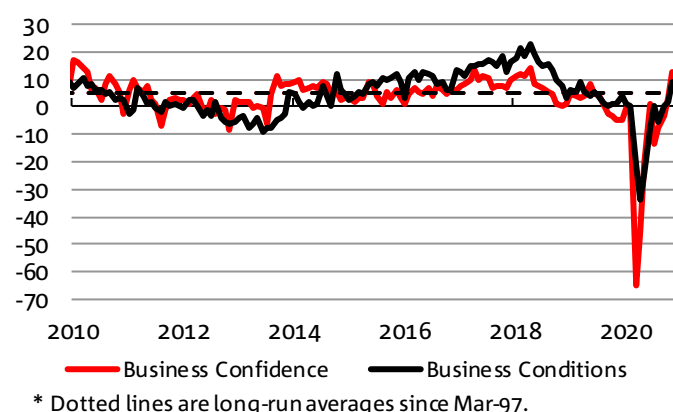
HIGHLIGHTS

- **How confident are businesses?** Confidence rose 9pts to +12 index points – its fourth consecutive monthly gain.
- **How did business conditions fare?** Conditions rose 7pts in the month, to an above-average 9 index points.
- **What components contributed to the result?** Trading and profitability (both up 10pts) saw further large gains in the month and both are now well above average. The employment index edged higher but remains negative.
- **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. Hiring will likely lag the improvement in the other components.
- **Which industries are driving conditions?** Conditions rose in all industries, except wholesale. Mining, construction and retail saw the largest gains in the month. Overall, all industries are now in positive territory, with the exception of construction and recreation & personal services, which saw a neutral index reading. Retail continues to be the standout with very strong conditions at +28 index points.
- **Which industries are most confident?** Confidence rose in all industries except construction and mining – with the largest gains concentrated in retail and wholesale. In seasonally adjusted terms, confidence is now well into positive territory across all industries, except for mining which is a little softer at +3 index points.
- **Where are we seeing the best conditions by state?** Conditions rose in all states except Vic (down 2pts) and Tas (down 8pts) in the month. Overall conditions are strongest in WA and positive in all states except Vic.
- **What is confidence like across the states?** Confidence improved across the mainland, led by large gains in Vic and NSW. Tas was weaker in the month. Confidence is now strongest in VIC and NSW but is positive everywhere except SA and Tas.
- **Are leading indicators suggesting further improvement?** Forward orders saw a 9pt improvement in the month and is now above average. Capacity utilisation also saw a further recovery in the month, rising a solid 1.4ppt and is now just 0.8ppt below its pre-COVID level despite the large hit to activity that occurred in Q2.
- **What does the survey suggest about inflation and wages?** Inflation pressure generally remains soft, and input price growth continues to outpace growth in final products prices. Retail inflation edged higher in the month but remains soft.

TABLE 1: KEY STATISTICS

	Sep-20	Oct-20	Nov-20
	Net balance		
Business confidence	-3	3	12
Business conditions	0	2	9
Trading	5	7	17
Profitability	2	5	15
Employment	-6	-5	-5
Forward orders	-7	-3	6
Stocks	-5	-1	-7
Exports	-4	-4	-4
	% change at quarterly rate		
Labour costs	-0.2	0.4	0.1
Purchase costs	0.4	0.4	0.4
Final products prices	-0.2	-0.1	-0.1
Retail prices	0.6	0.2	0.5
	Per cent		
Capacity utilisation rate	77.0	77.9	79.3

CHART 1: CONDITIONS AND CONFIDENCE IMPROVE



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 17-27 November 2020, covering over 550 firms across the non-farm business sector.

Next release date: 27 January 2020.

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NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

STATE AND INDUSTRY DEVELOPMENTS

- In trend terms, business conditions continued to improve in November, with most states above their pre-COVID readings. Victoria is a notable exception – this is unsurprising given the extended lockdowns – but has also begun to improve. The positive readings in most states suggest a solid expansion is underway, although we note the level of activity remains low, given all states saw large hits to activity earlier in the year.
- The recovery in business conditions continues to be driven by the trading and profitability components. In contrast, the employment index remains negative and below average, despite seeing some improvement.
- By state, employment conditions improved across the board, except in Victoria, where it turned down after a sharp improvement last month. Overall, the survey points to weaker labour market outcomes on the east coast, with the three largest states all reporting a negative employment index. In contrast, the other states all report positive (and above average) outcomes in employment.
- On the level of activity, capacity utilisation continued to recover in the month. In aggregate, it rose 1.4ppt to 79.3%. This is a substantial rebound from the 10ppt fall earlier in the year, but the measure remains below its long-run average of 81.0%, suggesting that there is further recovery to go.
- By state, capacity utilisation in Victoria saw a notable improvement in the month – as restrictions were eased, encouragingly NSW, WA and Tas also saw gains. Qld and SA saw flatter outcomes. Overall, the bulk of states remain below their pre-COVID levels of activity, with the exception of SA and Tas who are a little above.
- We will continue to watch how quickly capacity utilisation recovers across the states with complete containment of the virus and borders having opened internally. There will likely be ongoing impacts of international border closures for some time, and the impact across states is likely to be varied.
- The pandemic has had a significant impact across most industries and every state. That said, the survey suggest that the economy is continuing to bounce back – and this is quite encouraging following the significant rebound in activity reported in last week’s national accounts.
- We expect another solid reading for growth in Q4 but for economic activity to remain below pre-COVID levels for some time. Only by the end of 2021 will the economy have reached its pre-COVID level of GDP, and likely sometime after that, will the labour market have recovered.

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

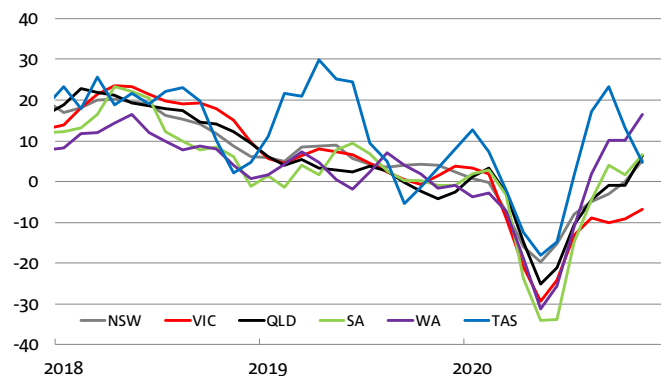


CHART 3: EMPLOYMENT INDEX (NET BAL.)

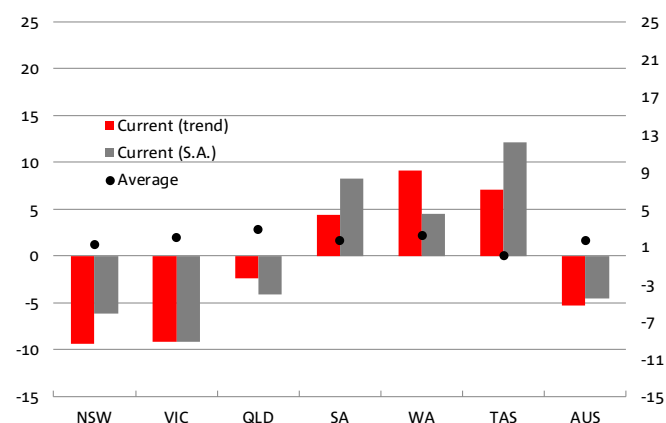
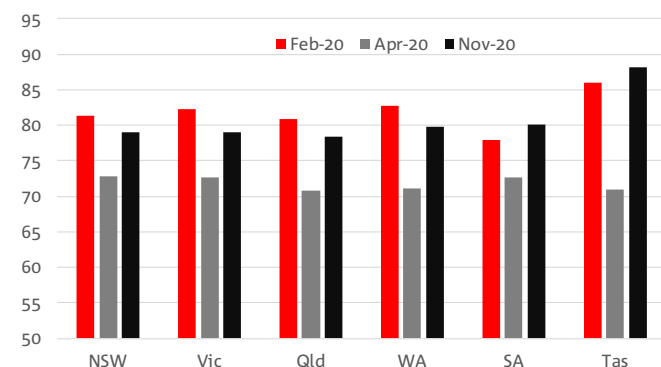


CHART 4: CAPACITY UTILISATION BY STATE (%)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

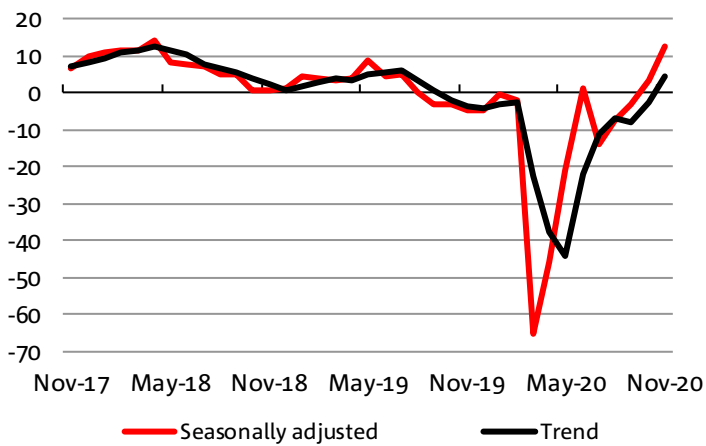


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

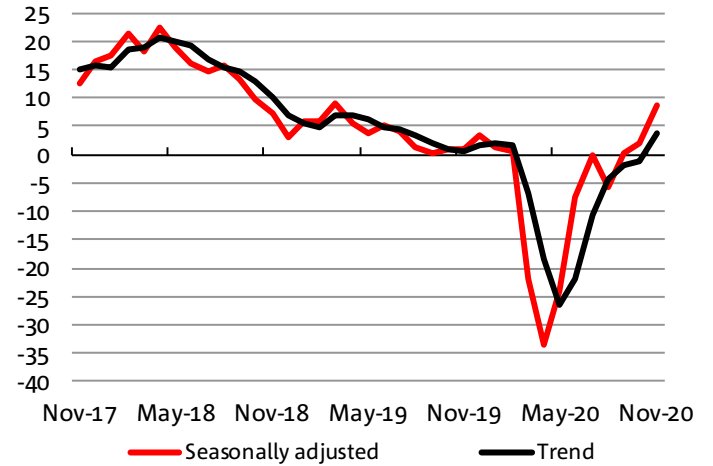


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

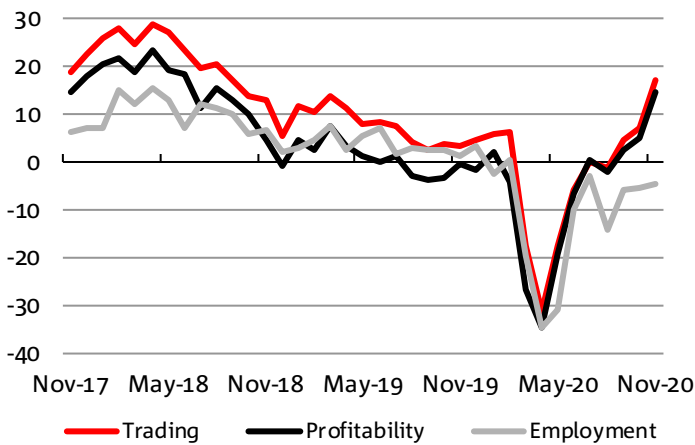


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

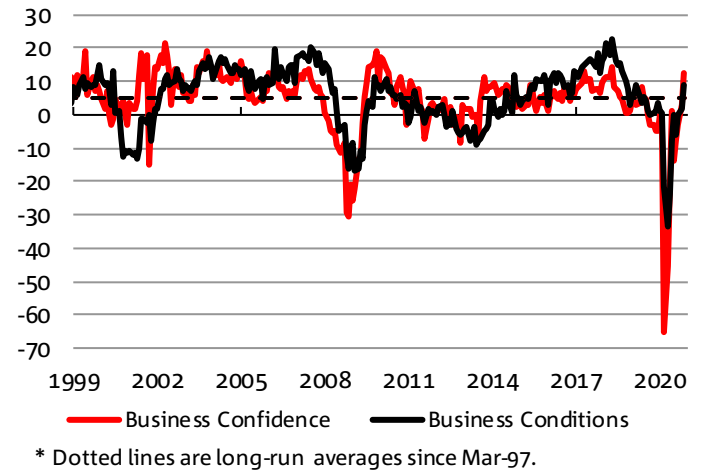


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

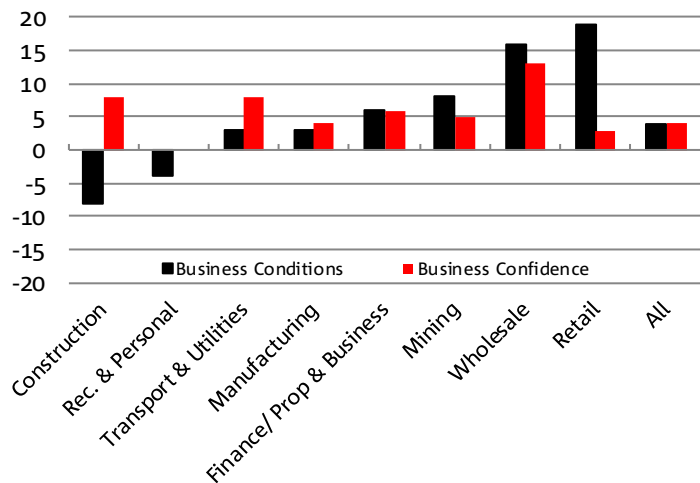
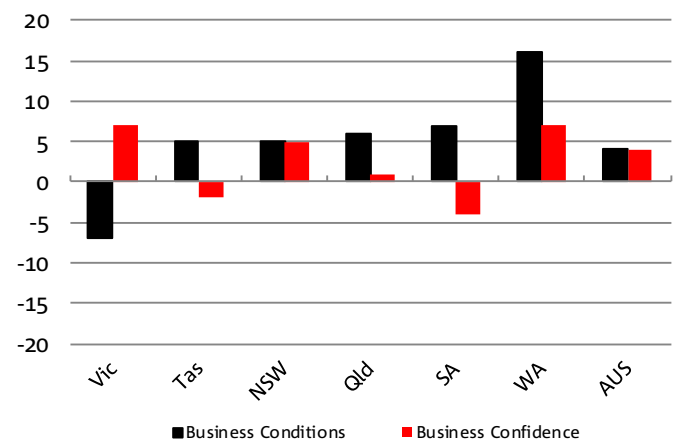


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

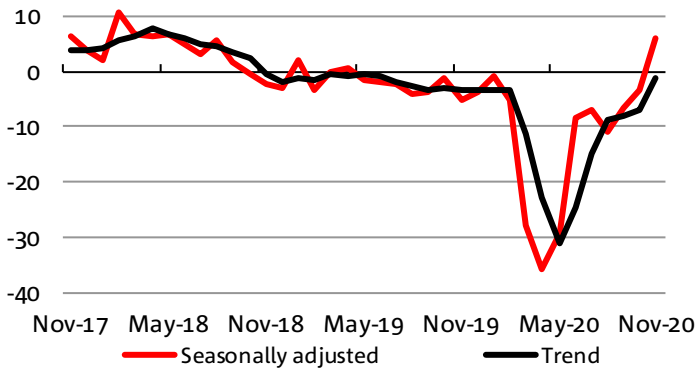


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

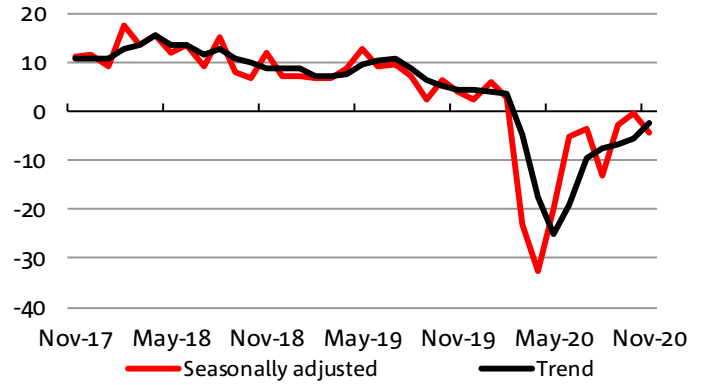


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

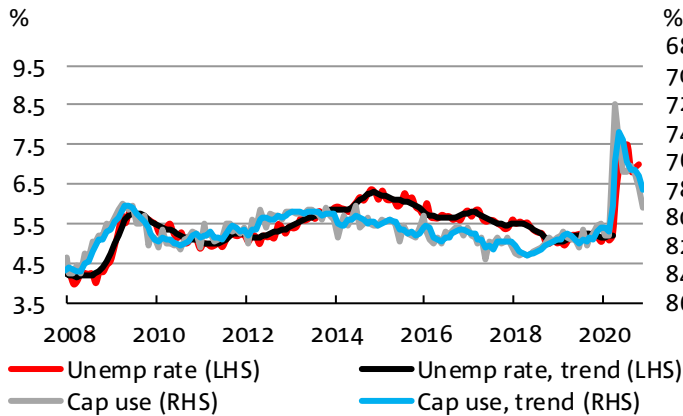


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

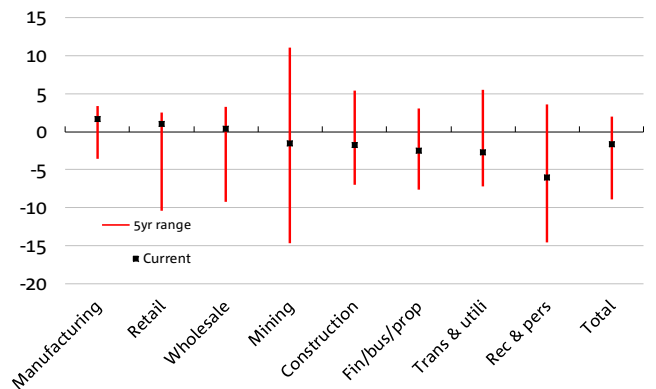


CHART 15: STOCKS (NET BALANCE)

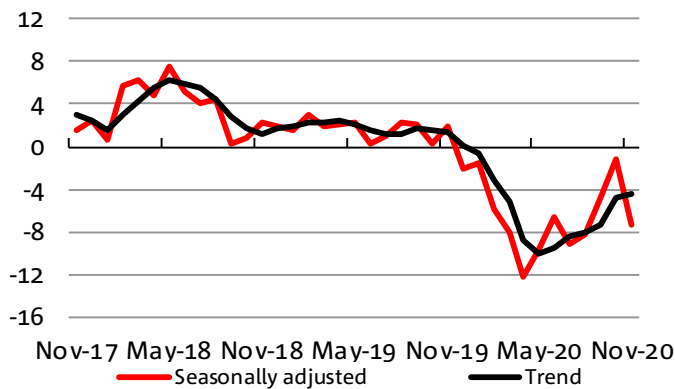


CHART 16: CASH FLOW (NET BALANCE)

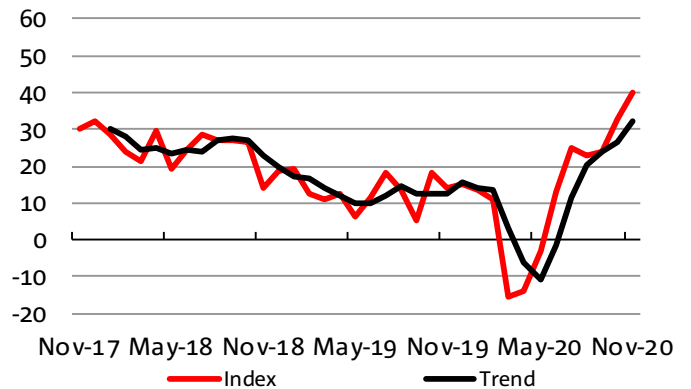


CHART 17: EXPORTS (NET BALANCE)

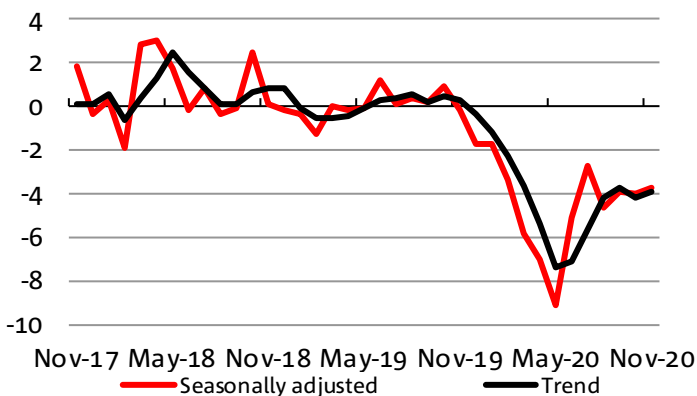
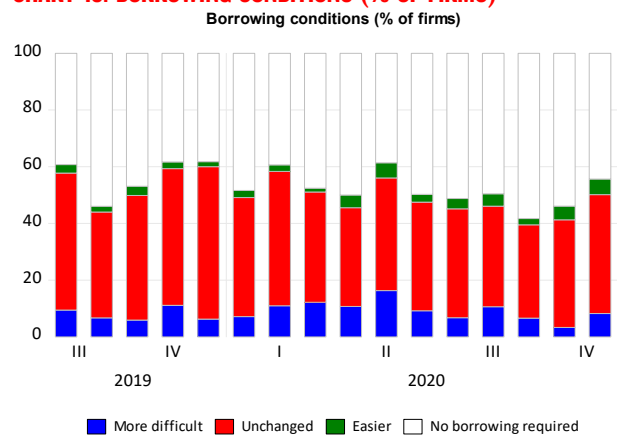


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

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

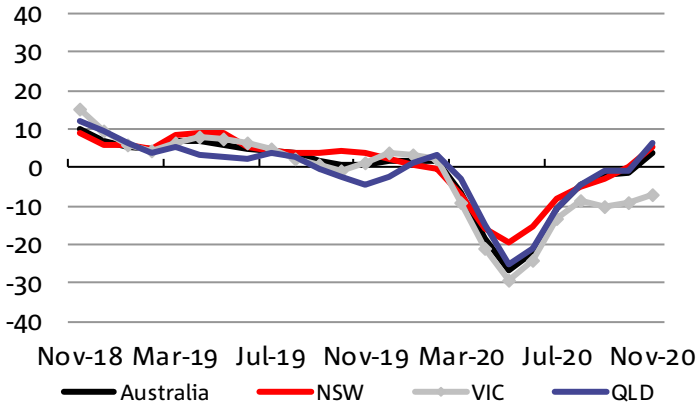


CHART 20: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

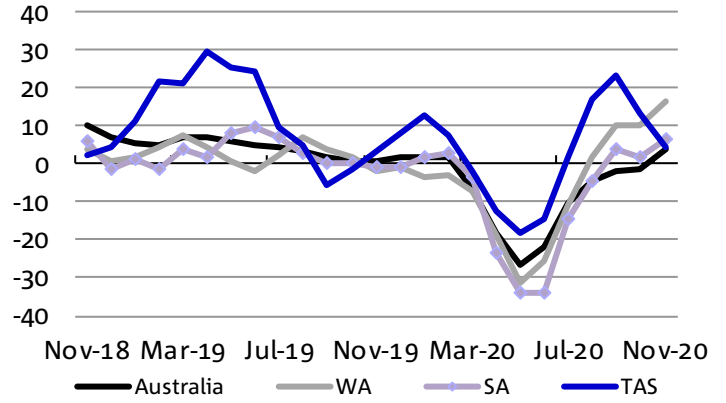


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

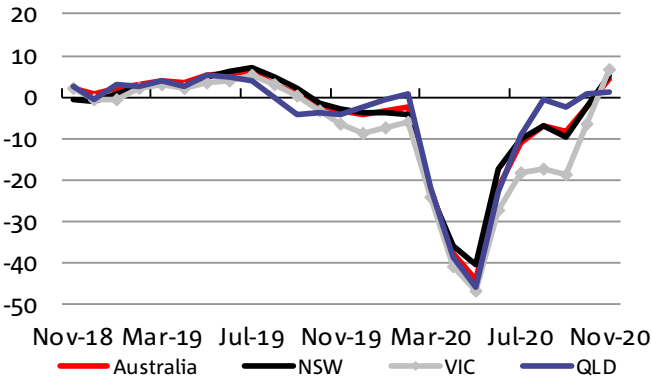


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

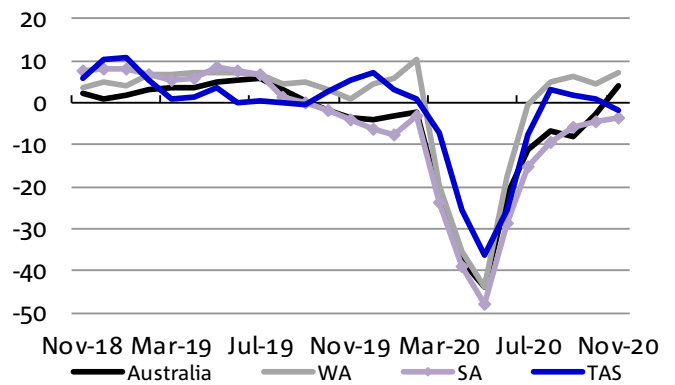


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

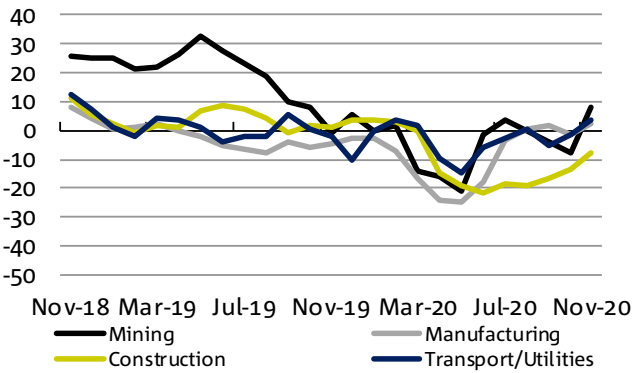


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

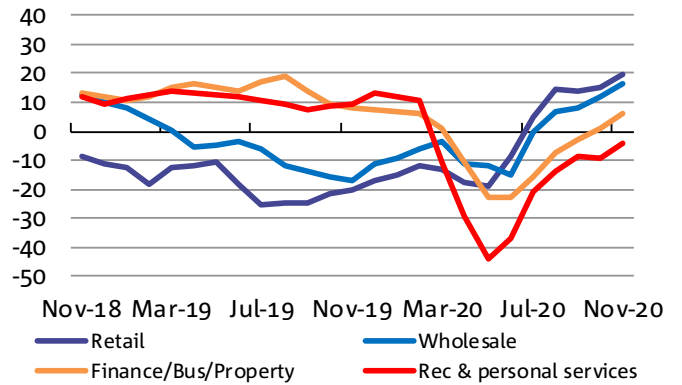


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

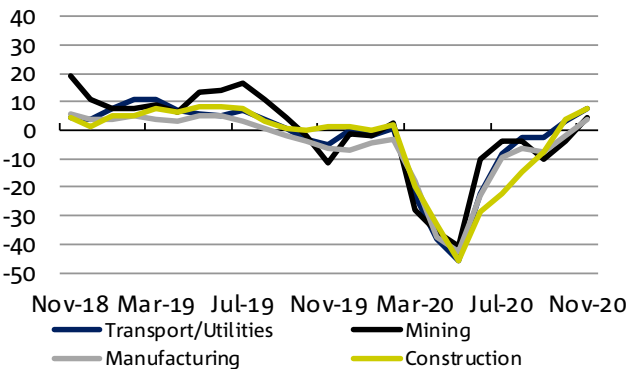
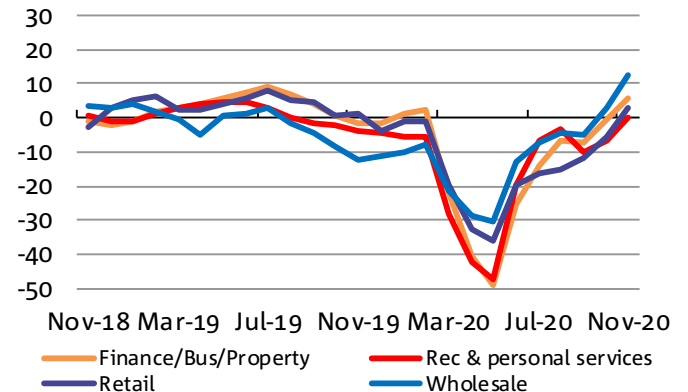


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

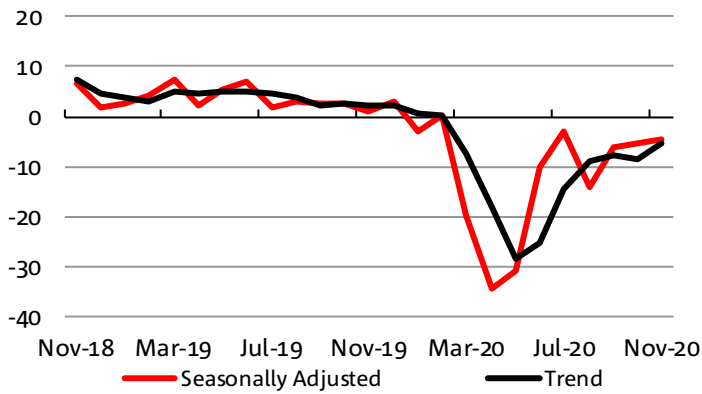


CHART 28: EMPLOYMENT (NAB VS ABS)

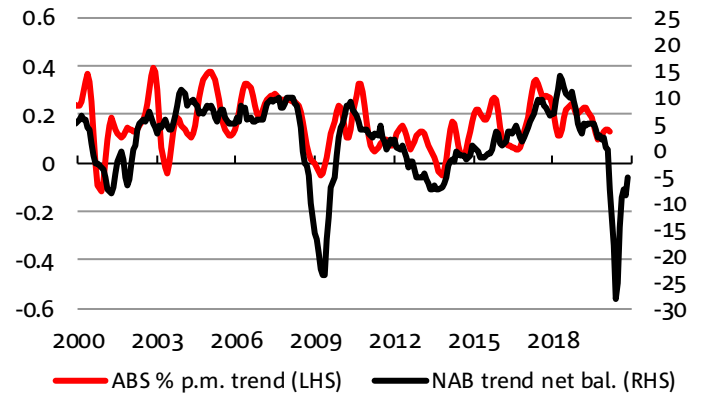


CHART 29: EMPLOYMENT BY INDUSTRY

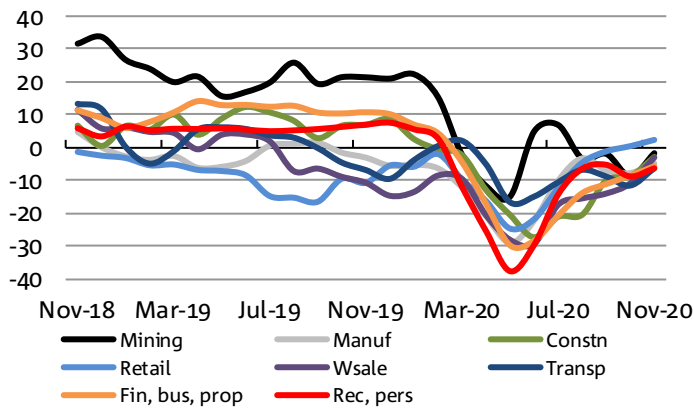


CHART 30: LABOUR COSTS GROWTH

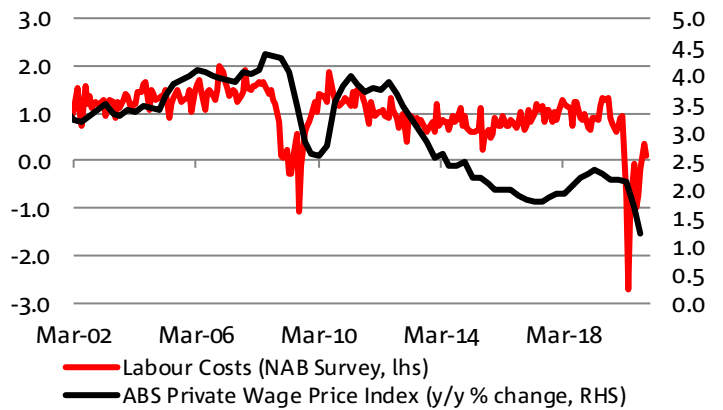


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

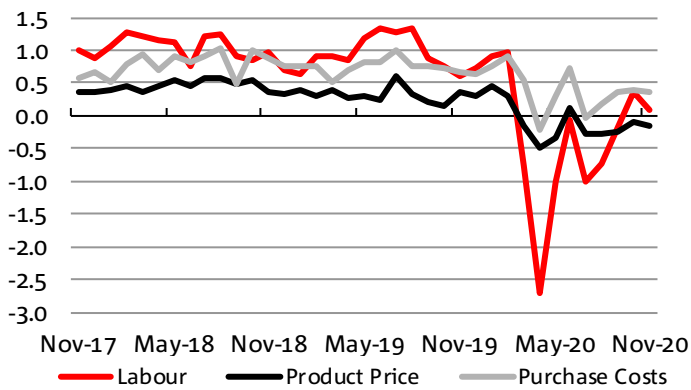
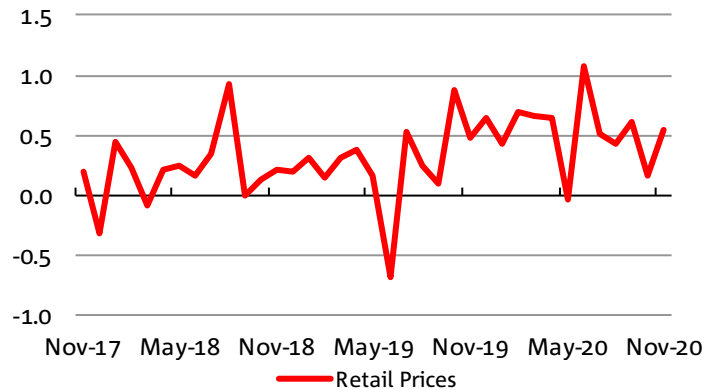


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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

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.