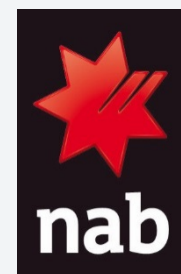


NAB MONTHLY BUSINESS SURVEY DECEMBER 2020

BUSINESS CONDITIONS IMPROVE TO MULTI-YEAR HIGHS

NAB Australian Economics



Key messages: Business conditions rose further in December to its highest level since late 2018 at 14pts. This marks a fourth consecutive month of improvement and, encouragingly, employment conditions are back in positive territory for the first time since the start of the pandemic. Business conditions are now well above average, suggesting there is strong momentum in Australia’s economic recovery. In contrast, business confidence fell back to 4pts, as confidence pulled back in NSW, Victoria and Queensland. In part, this likely reflects the impact of the Sydney COVID-19 outbreak through December. Elsewhere, capacity utilisation saw further gains and is now around its long-run average (and pre-virus levels), while forward orders pulled back but remain in positive territory. These leading indicators suggest the pipeline of work continues to build - pointing to an ongoing recovery in the months ahead. Most indicators within the survey are now broadly at or above pre-virus levels, with the exceptions being export conditions – no surprise given the pandemic continues to disrupt global trade – and capital expenditure. That said, capex has been recovering since reaching a trough in mid 2020 and, should conditions remain elevated, will likely turn positive again as businesses renew investment plans, especially given government tax incentives in place.

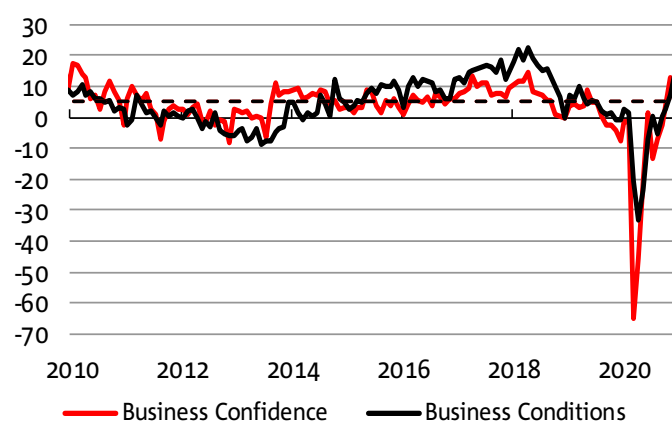
HIGHLIGHTS

- **How confident are businesses?** Confidence fell 9pts to 4 index points.
- **How did business conditions fare?** Conditions rose 7pts to 14 index points, a level last seen in September 2018.
- **What components contributed to the result?** The employment index saw a sharp increase, rising 13pts to 9 index points. Trading (up 5pts) also saw a solid gain in the month, while profitability edged lower (down 2pts). All three sub-indices are above average, for the first time since early 2019.
- **What is the survey signalling for jobs growth?** The employment index suggests jobs growth, with more firms reporting higher employment over the month than firms reporting lower employment.
- **Which industries are driving conditions?** By industry, the biggest gains in the month were in mining, finance, property & business services, retail and wholesale, where these industries are also reporting very strong conditions of 28 index points or higher. In contrast, transport and utilities fell, while recreation & personal services edged lower. Overall, all industries are now in positive territory, with the exception of recreation & personal services (in seasonally adjusted terms).
- **Which industries are most confident?** Confidence pulled back in all industries in December, except mining, construction and transport & utilities. The biggest falls were in wholesale, recreation & personal services and retail, although all industries are well into positive territory except for recreation & personal services – which remains negative.
- **Where are we seeing the best conditions by state?** In the month, gains were driven by SA (up 19pts), Vic (up 15 pts) and Qld (up 7pts), while conditions fell in NSW (down 4pts) and WA (down 2pts). Overall, conditions are strongest in SA, WA and Qld, with all three states recording conditions of 17pts or higher (seasonally adjusted).
- **What is confidence like across the states?** Confidence fell, led by Vic (down 15pts), NSW (down 10pts) and Qld (down 10pts), unwinding the sharp rise in November which was on the back of the end of Melbourne’s lockdown.
- **Are leading indicators suggesting further improvement?** Capacity utilisation recovered further in the month, rising to 80.9% - and is back to around its pre-virus level. Forward orders pulled back to a reading of 1 index point.
- **What does the survey suggest about inflation and wages?** Prices pressures picked up in the December survey, with both labour and input costs rising at a solid pace. In contrast final prices were flat, although retail prices rose strongly.

TABLE 1: KEY STATISTICS

	Oct-20	Nov-20	Dec-20
	Net balance		
Business confidence	4	13	4
Business conditions	2	7	14
Trading	7	15	20
Profitability	5	13	11
Employment	-5	-4	9
Forward orders	-3	6	1
Stocks	-1	-7	-1
Exports	-4	-4	-5
	% change at quarterly rate		
Labour costs	0.3	0.2	0.8
Purchase costs	0.5	0.4	1.1
Final products prices	-0.1	-0.1	0.0
Retail prices	0.2	0.6	1.2
	Per cent		
Capacity utilisation rate	78.0	79.1	80.9

CHART 1: CONDITIONS IMPROVE FURTHER



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

All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 5-15 January 2021, covering over 400 firms across the non-farm business sector.

Next release date: 9 February 2021.

Contacts: Alan Oster – Chief Economist, Kaixin Owyong – Senior Economist

© National Australia Bank Limited ABN 12 004 044 937 AFSL and Australian Credit Licence 230686

NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

EMPLOYMENT INDEX RETURNS TO POSITIVE TERRITORY

- The strong rise in business conditions in December was driven by a sharp rise in employment and a solid increase in trading conditions. These factors were more than enough to offset the decline in profitability in the month.
- Businesses reported strong employment conditions in December, with an employment index reading of 9 index points. This is the first positive print since the beginning of the pandemic and employment is now well-above average.
- By state, WA and SA are outperformers, with employment conditions positive for the past four months. Elsewhere, NSW, Victoria and Queensland continue to trend higher and are reporting similar employment conditions at, or just below, zero – a good sign for Victoria, which has lagged the other states following its extended lockdown. Tasmania’s initial improvement has faded, although its data is volatile.
- By industry, employment conditions improved across the board, with the biggest gains in mining and finance, business & property services. Other industries reported gains of 6 to 7pts, except wholesale and transport & utilities, which rose 4 and 2pts, respectively.
- Overall, the survey points to a solid recovery in the labour market, where to-date employment has already recovered around 90% of the jobs lost at the peak of the pandemic. Alongside the positive signs of recovery across the rest of the survey, including elevated conditions, positive business confidence and around-average capacity utilisation, the employment index provides a positive sign that firms are re-commencing hiring activity following a strong start to the economic recovery.
- This will be particularly helpful for ensuring sustained reductions in unemployment, where high unemployment remains a headwind to the recovery in household activity. This headwind is likely to be in play for some time, such that even with the strong rebound in activity to date, we expect unemployment will take at least three years to return to pre-virus levels.
- As such, the outlook continues to warrant significant stimulus, from both fiscal and monetary policy. Our view is that next week the RBA will give similar guidance – that despite a better-than-expected start to the recovery, extraordinarily easy monetary policy is still necessary for the recovery. In our view, the RBA will announce, likely in March, that it will extend its QE program by another \$50bn for six months. While this is a smaller amount than its first QE phase, this will allow the RBA to continue providing easy borrowing conditions and support the recovery – where the outlook (particularly globally) remains uncertain.

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

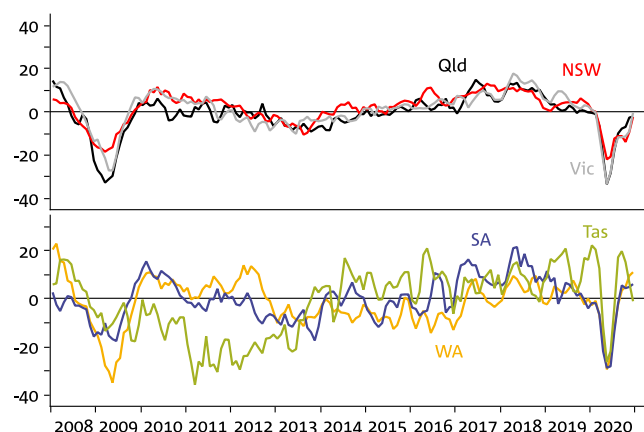
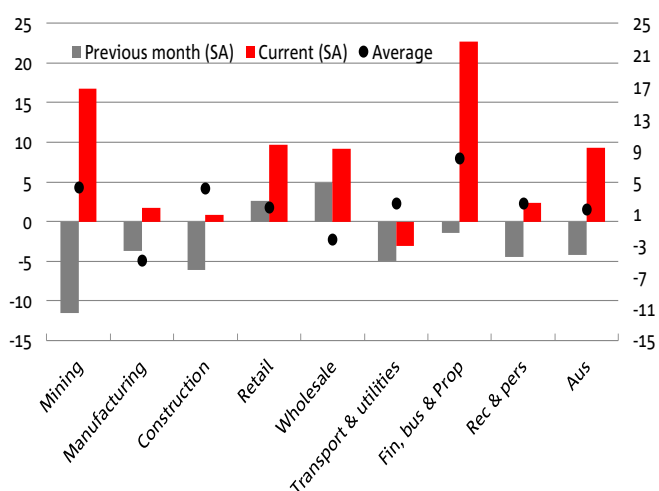


CHART 3: EMPLOYMENT INDEX (NET BAL.)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 4: BUSINESS CONFIDENCE (NET BALANCE)

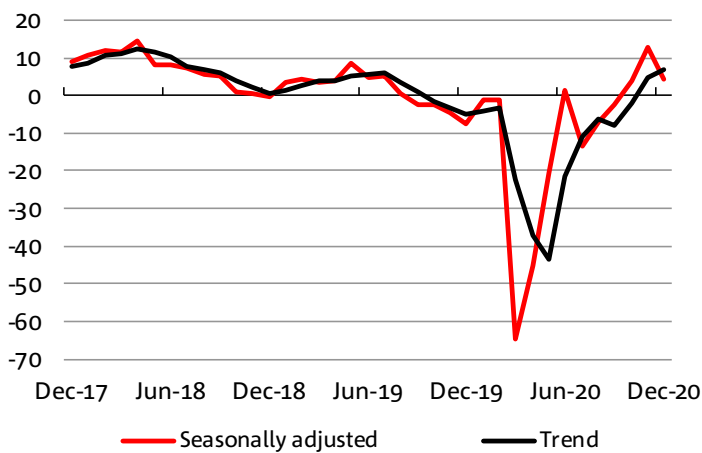


CHART 5: BUSINESS CONDITIONS (NET BALANCE)

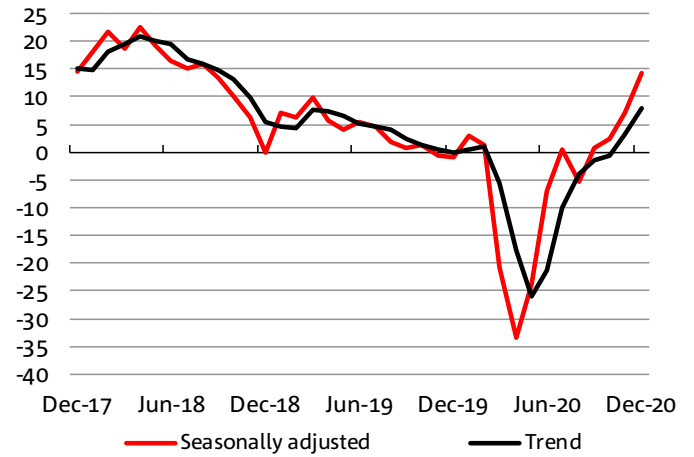


CHART 6: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

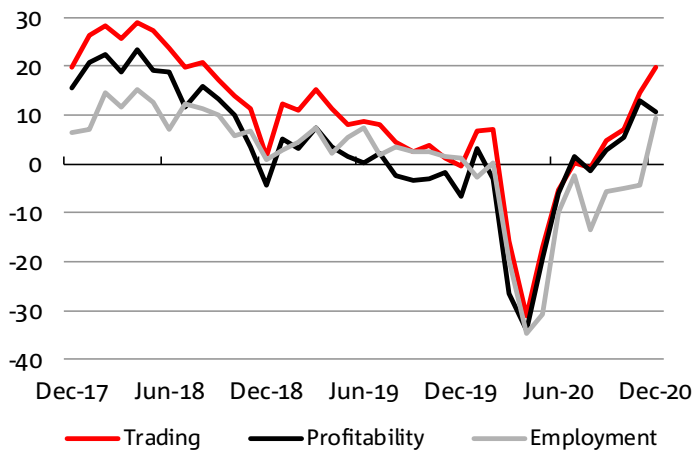


CHART 7: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

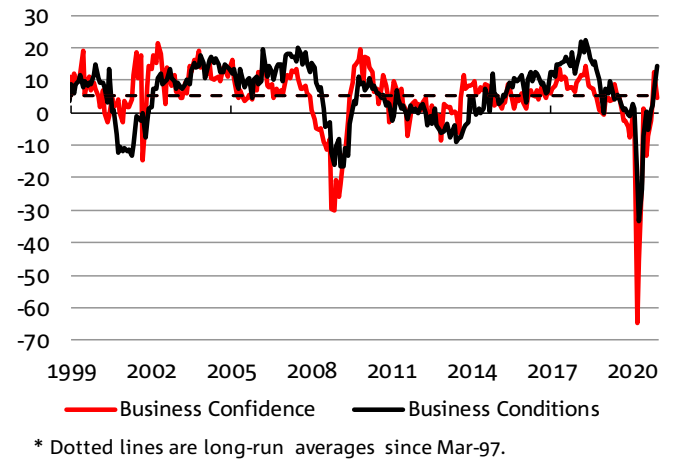


CHART 8: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

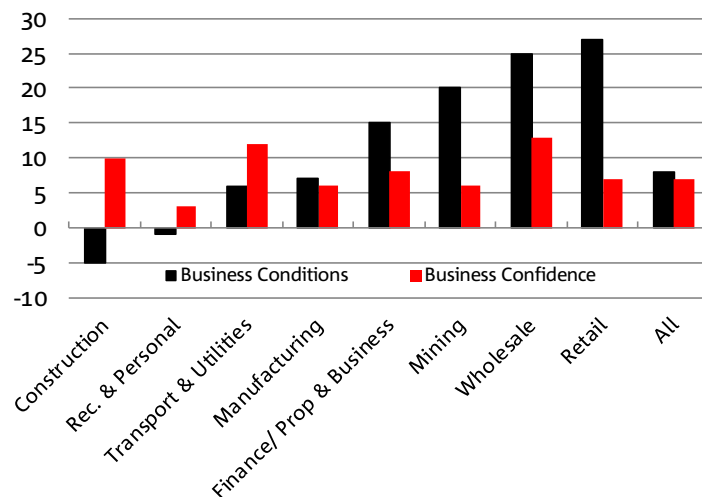
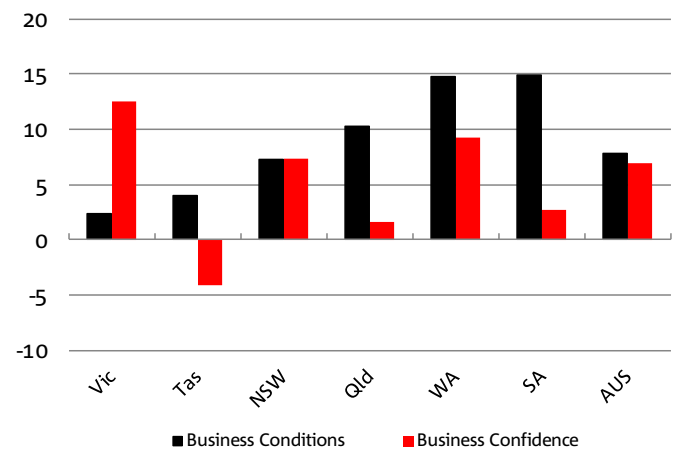


CHART 9: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 10: FORWARD ORDERS (NET BALANCE)

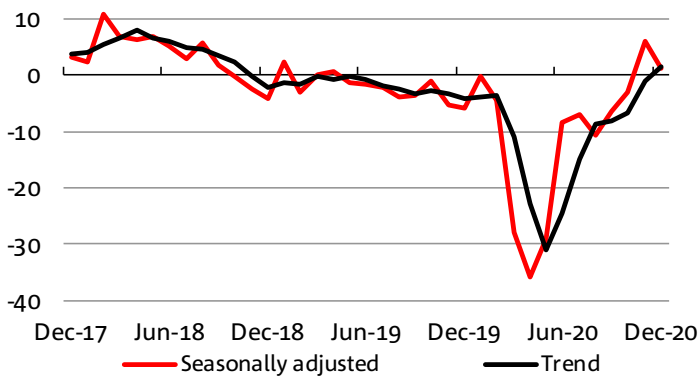


CHART 11: CAPITAL EXPENDITURE (NET BALANCE)

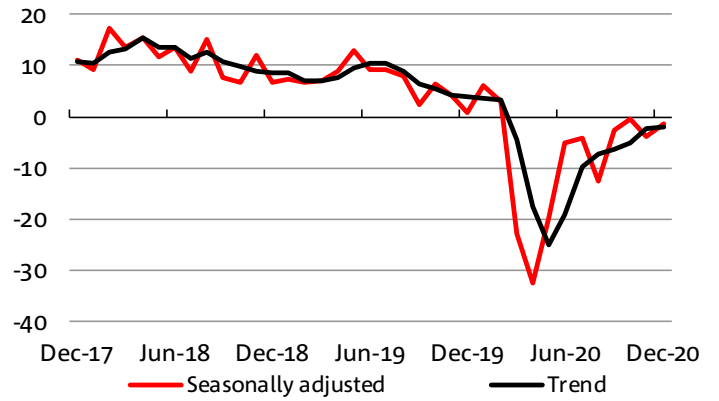


CHART 12: CAPACITY UTILISATION AND UNEMPLOYMENT

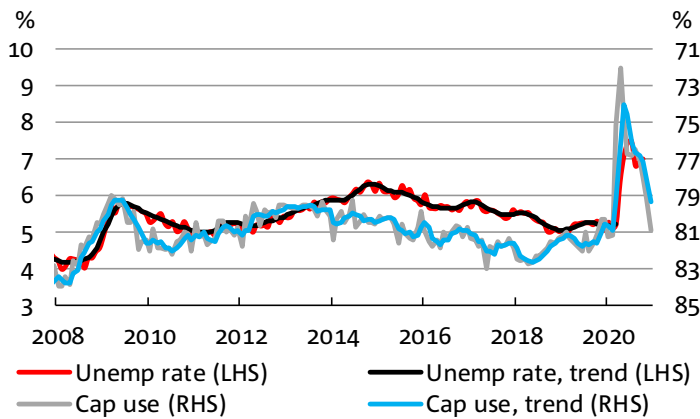


CHART 13: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

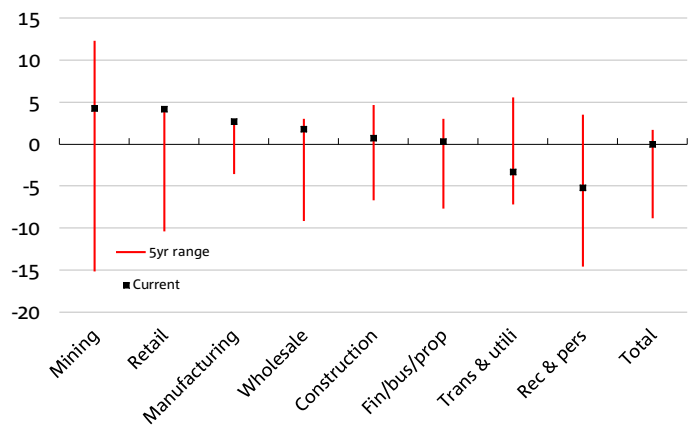


CHART 14: STOCKS (NET BALANCE)

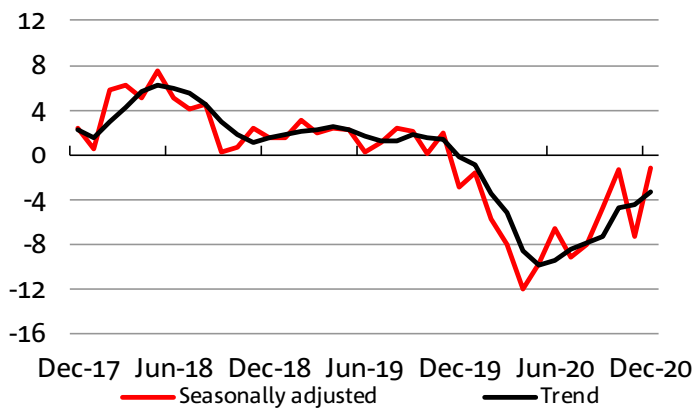


CHART 15: CASH FLOW (NET BALANCE)

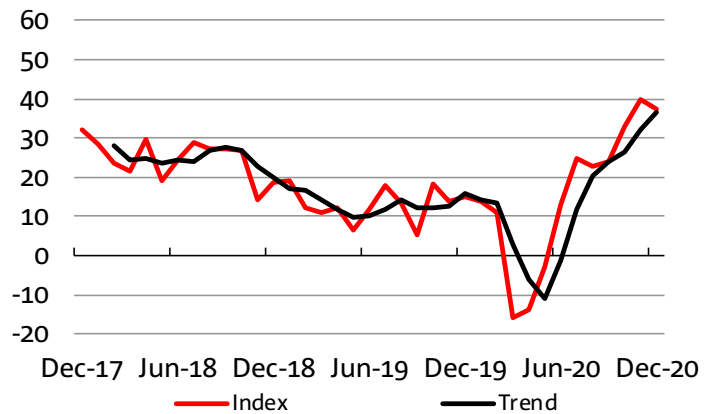


CHART 16: EXPORTS (NET BALANCE)

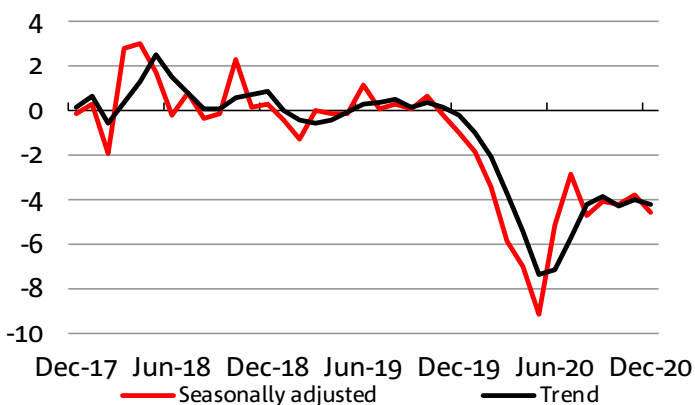
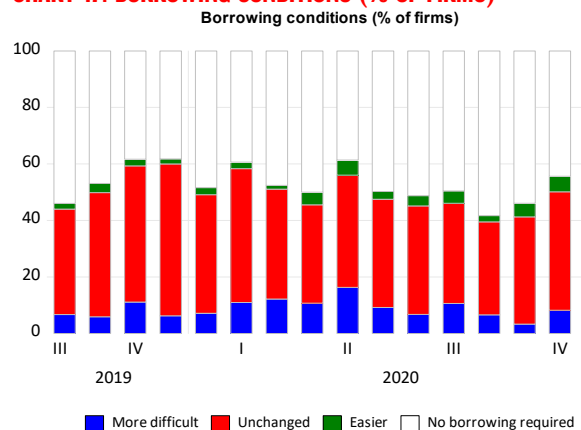


CHART 17: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 18: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

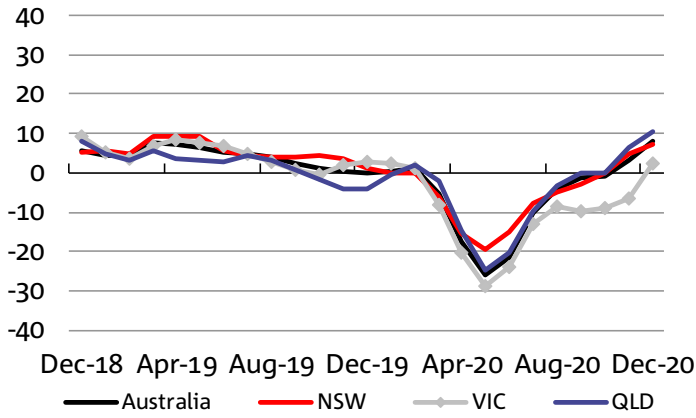


CHART 19: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

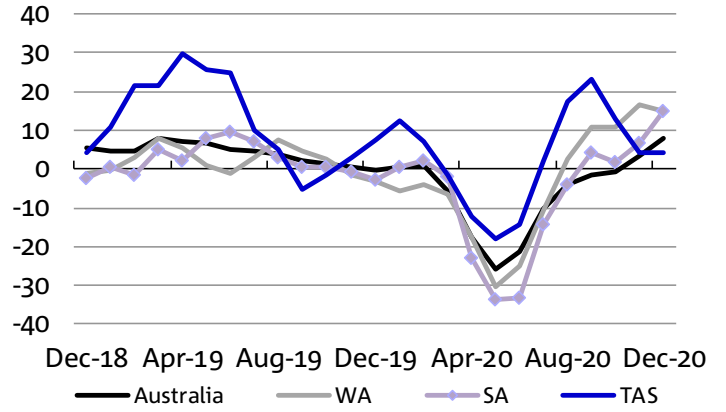


CHART 20: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

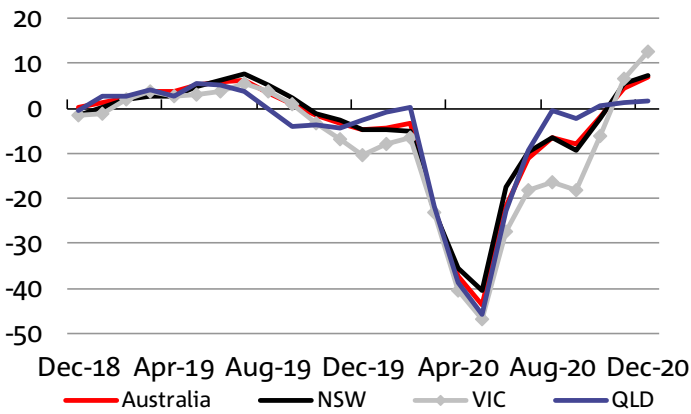


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

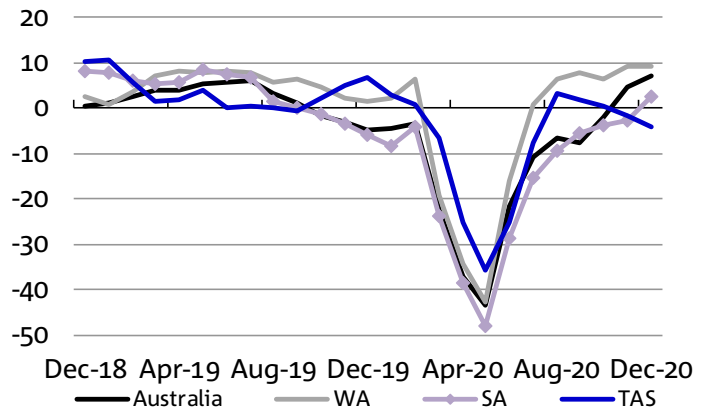


CHART 22: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

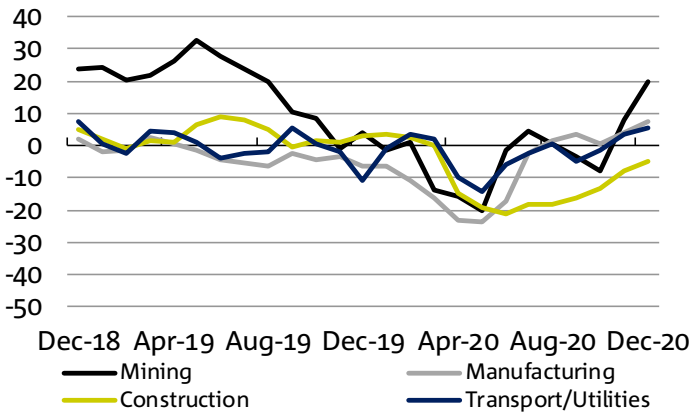
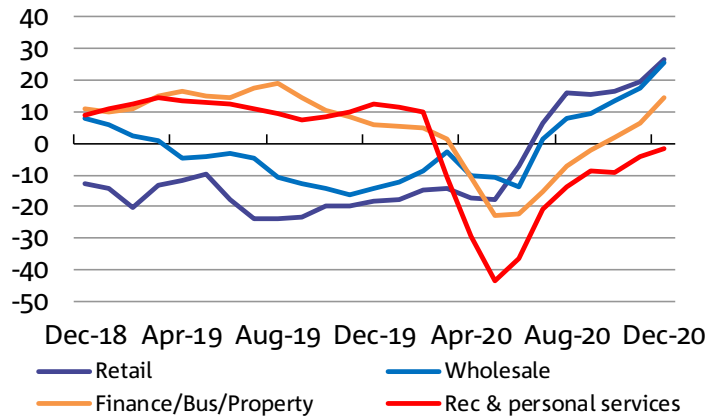


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 24: EMPLOYMENT

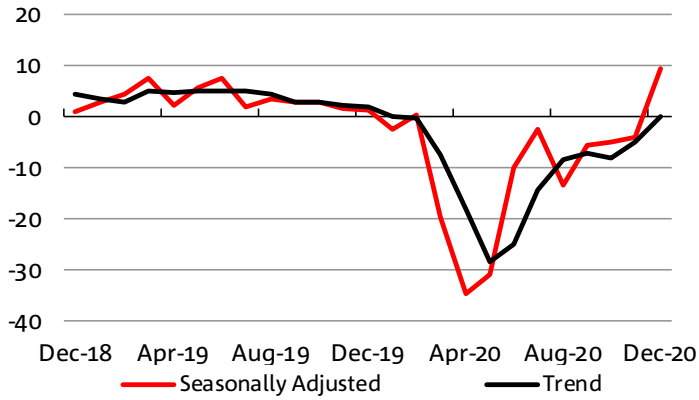


CHART 25: EMPLOYMENT (NAB VS ABS)

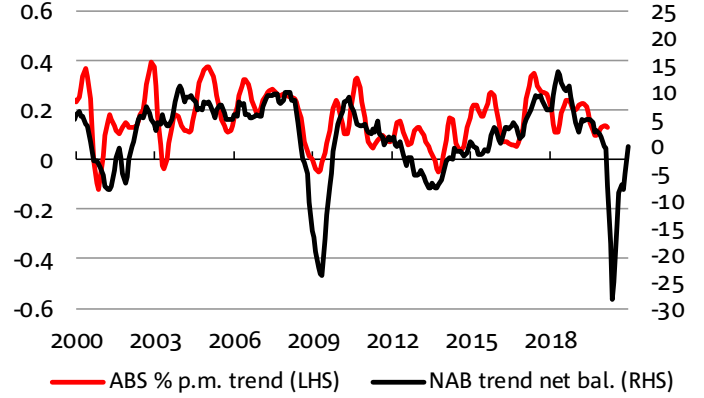


CHART 26: EMPLOYMENT BY INDUSTRY

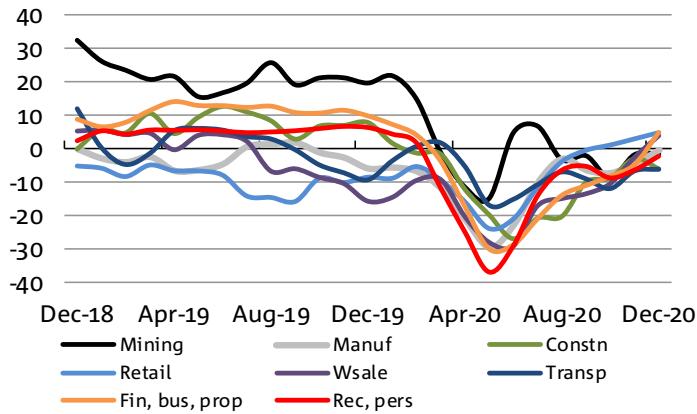


CHART 27: LABOUR COSTS GROWTH

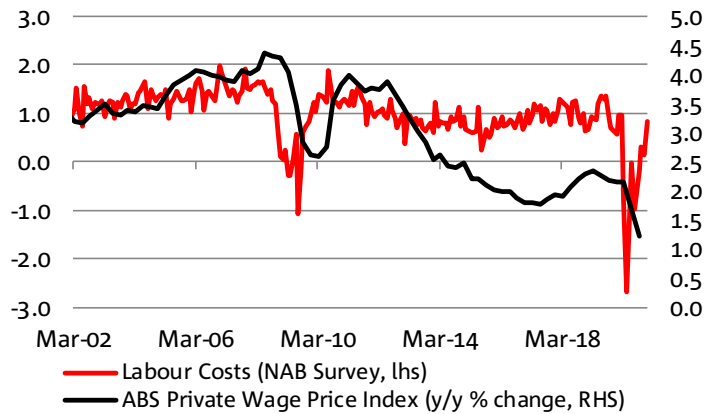


CHART 28: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

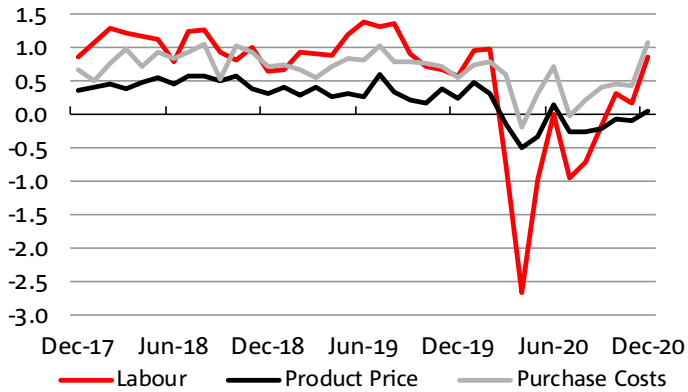
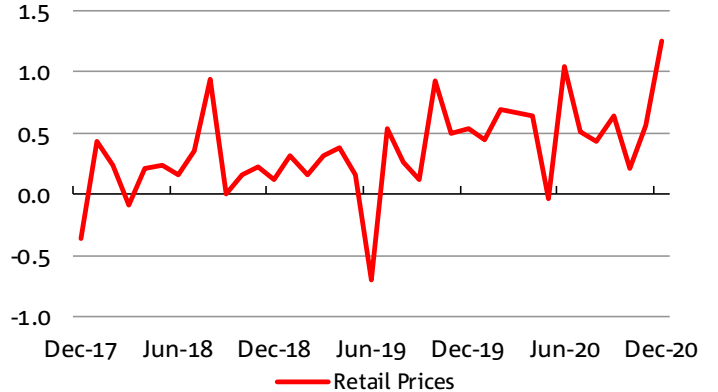


CHART 29: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



CONTACTS

Alan Oster, Group Chief Economist

Alan.Oster@nab.com.au

+61 0 414 444 652

Kaixin Owyong, Senior Economist

Kaixin.Owyong@nab.com.au

+61 0 436 679 908

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)