

NAB MONTHLY BUSINESS SURVEY

January 2021

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By Group Economics

BUSINESS CONFIDENCE RISES, WHILE CONDITIONS PULL BACK

Key messages: Business confidence rose in January to be well above long-run average, while business conditions fell, after reaching multi-year highs in December. Driving the fall in conditions, businesses reported trading conditions had pulled back to around long-run average levels after a very strong November and December. Profitability and employment also pulled back, though both are above their historic averages. The divergence in conditions across industries continues to track as expected, with retail and wholesale still strong, but recreation and personal services continuing to lag. This is also consistent with confidence that is slightly higher in services pointing to expectations of further recovery there. Elsewhere, key indicators of the level of activity recovered – capacity utilisation and capex – made modest gains, where both are just a little below pre-virus levels. Capacity utilisation also generally reflects the outcomes observed in other economic data, where retail has been operating at a higher level than it has in recent years while some sectors of personal services continue to be impacted by restrictions. As such, given conditions remain above average, notwithstanding the fall this month, and lead indicators continue to trend higher, the survey continues to point to an ongoing recovery.

Business confidence rose 5 index points in January, to an above average 10 points. In contrast, business conditions pulled back to +7 index points from the very strong December, to remain just above average and back around November levels. The decline in conditions was driven by a decline in all three sub-components with trading conditions leading the fall (down 11pts) and the employment index also falling in the month. That said, all three sub-indexes remain in positive, expansionary territory.

According to Alan Oster, NAB Group Chief Economist “Business started the year on a more optimistic note, even as conditions eased from the strength we saw in December. Importantly, employment conditions remain in positive territory – so overall businesses are still expanding their workforce.”

“The decline in conditions was broad-based across industries, except for a small improvement in recreation & personal services, which continues to make small gains as restrictions ease.” said Mr Oster. “Overall, in trend terms conditions remain strongest in retail and weakest in construction followed by personal services.”

Capacity utilisation edged up in the month and is now at its long-run average as well as being around its pre-COVID level. Forward orders edged lower and are just below average.

“Pleasingly, capacity utilisation continues to recover with another month of improvement.” said Mr Oster. “We hope to see capacity utilisation rise further over coming months as demand picks up, which should, in turn, see businesses consider expanding capacity through hiring or investing.”

On investment, capex rose to be just in positive territory at 1 index point. Capex has been trending up for months, from its trough of -32 index points in April 2020, and this is its first month above zero since the pandemic began.

“This is a positive, tentative, sign that firms are willing to invest in capex again. We’ve been saying for some time we expect the turnaround in conditions last year to feed into better employment and capex activity. We’re starting to see early signs of this in the survey, but we’re still a while a way from very strong employment and capex activity needed to offset the contraction last year.” said Mr Oster.

For more information, please see the NAB Monthly Business Survey report.

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