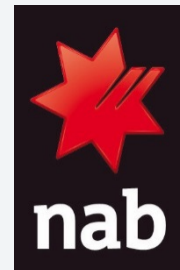


EMBARGOED UNTIL: 11:30AM AEDT, 4 FEBRUARY 2021

NAB QUARTERLY BUSINESS SURVEY 2020 Q4

THE RECOVERY CONTINUES



NAB Australian Economics

The Q4 business survey shows that the economy is rebounding strongly from the large pandemic-related hit to activity in early 2020. Both confidence and conditions rose strongly and, in addition to returning to positive territory, are above average. By component, trading and profitability have seen strong rebounds, while the employment index has lagged (notwithstanding the notable improvement in the quarter). That said, the monthly survey shows later in the quarter the employment index saw further gains – in line with strong official data on the labour market. Importantly, expected conditions have risen to high levels, while expected capex over the next year is also very high. This points to ongoing optimism in the business sector as the economy continues to recover – and the hope is that with forward orders and conditions sustained at these levels alongside an ongoing recovery in capacity utilisation, that businesses will begin to renew capex plans and hiring intentions.

HIGHLIGHTS

- **Business conditions** (an average of trading conditions/sales, profitability and employment) rose 14pts to +9 index points. The increase was driven by an improvement in all three sub-components, with trading conditions and profitability now well above average. The employment index remains negative despite also recording a solid gain. There were improvements across all states, with conditions now highest in WA, SA and Qld and positive everywhere except Vic. Similarly, there were gains across all industries except for retail – which continues to report the best conditions despite the dip.
- **Business confidence** improved by 22pts to +14 index points. The sharp increase in confidence was driven by a strong increase in rec & personal services, while business services, retail and manufacturing also saw large increases. Confidence is now positive in all industries and strongest in retail. Encouragingly, it is also very high in the services sectors following the declines earlier in the year.
- **Leading indicators** improved further in Q4. Expected business conditions at the 3- and 12-month horizons rose to high levels and suggest further gains in activity over the next year. Forward orders saw a 15pt turnaround alongside further recovery in capacity utilisation. Alongside the improvement in conditions and capacity utilisation, expected capex has risen sharply and is now at a high level. This points to optimism that recent gains are expected to be maintained.
- **Labour indicators** saw a notable improvement. While the employment index remains negative (notwithstanding a large improvement in the quarter), expected employment at the 3- and 12-month horizons rose sharply, with both series now at very high levels. It is likely that employment will lag the recovery in trading conditions and profitability, with firms unlikely to rehire or expand their workforce (or undertake new capex) until capacity utilisation has normalised. However, despite the rise in unemployment in 2020, the difficulty in finding suitable labour has returned to pre-COVID levels relatively quickly.
- Survey measures of **inflation pressures remain soft**. Input costs growth – both labour and purchase cost inflation – remain weak. In aggregate, final products prices were flat in the quarter, though retail inflation picked up. This likely reflects some of the strength in the retail sector, but still suggests a very soft overall pace of price rises.
- All **construction industry sub-sectors** saw an improvement in conditions with the exception of construction services. Both residential and non-residential construction are now back in positive territory, while construction services and engineering lagged slightly in the quarter.

TABLE 1: KEY QUARTERLY BUSINESS STATISTICS

	2020q2	2020q3	2020q4		2020q2	2020q3	2020q4
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	-15	-8	14	Trading	-23	1	16
Business conditions				Profitability	-23	-1	13
Current	-25	-5	9	Employment	-28	-14	-1
Next 3 months	-20	-3	19	Forward orders	-27	-9	6
Next 12 months	-18	0	24	Stocks	-11	-6	-2
Capex plans (next 12)	-8	13	31	Exports	-9	-5	-4
	<i>% change</i>						
Labour costs	-0.6	-0.3	0.2	Retail prices (% change)	0.1	0.3	0.4
Purchase costs	0.2	0.2	0.3				
Final products prices	-0.2	-0.1	0.0	Capacity utilisation rate (%)	75.0	77.2	80.2

All data seasonally adjusted, except purchase costs and exports. This survey was conducted from 17 November to 11 December, covering over 900 firms across the non-farm business sector.

Next release: 22 April 2021.

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

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QUARTERLY FOCUS: SURVEY EXPECTATIONS AS THE RECOVERY UNFOLDS

Expectations across the survey continued to improve in Q4

- Alongside the improvement in reported conditions and the rise in business confidence, survey expectations across most variables for both the next 3 months and over the next year improved notably in Q4. Most of the deterioration in expectations which occurred in Q2 has been reversed.
- Alongside the large improvement in confidence in the quarter, expected business conditions rose relatively sharply at both the 3- and 12-month horizons. At current levels, conditions over the next 3 months are well above the long-run average, while over the next 12 months, conditions are around their long-run average. This suggests that firms expect a strong bounce back in activity as the recovery unfolds in the near term before growth normalises over time.
- Encouragingly, expected employment is much stronger than current levels. Current employment conditions are around long-run average at -1 index points, but expected employment in both the near and medium term are at very high levels. This points to ongoing recovery in the labour market, notwithstanding the strength of the recovery to date.
- Expected capex also saw significant improvements in the quarter with the 3- and 12-month expectations rising 15 and 18pts, respectively. Therefore, while actual capex remains weak, firms expect above average capex in both the short and medium term. Indeed, the 12-month expectation is around a survey high. The government's investment allowance appears to be boosting the outlook for capex.
- The improvement in survey expectations is encouraging, and suggests that survey respondents expect that the recovery in economic activity will continue. To date the pace of recovery has been fairly rapid with Australia having fared relatively well in containing the health impacts of the pandemic, while an unprecedented amount of stimulus has supported the economy at the same time.
- With the economy undergoing some critical adjustments this year as policy stimulus is unwound or refocused, business expectations for employment and capex will be important in understanding how respondents see these transitions unfolding. For now, businesses are optimistic.

CHART 1: EXPECTED CONDITIONS (NET BAL.)

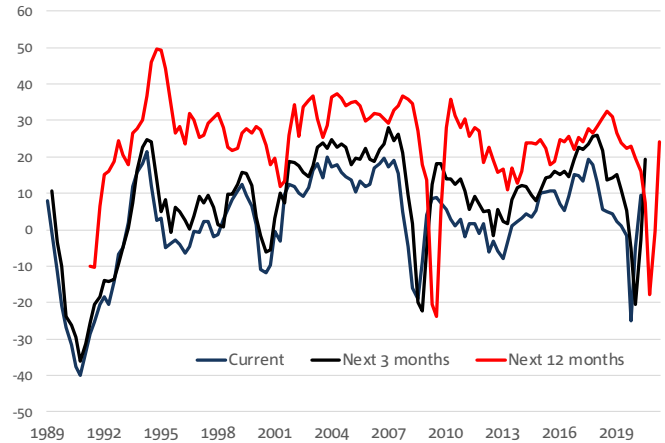


CHART 2: EXPECTED CAPEX (NET BAL.)

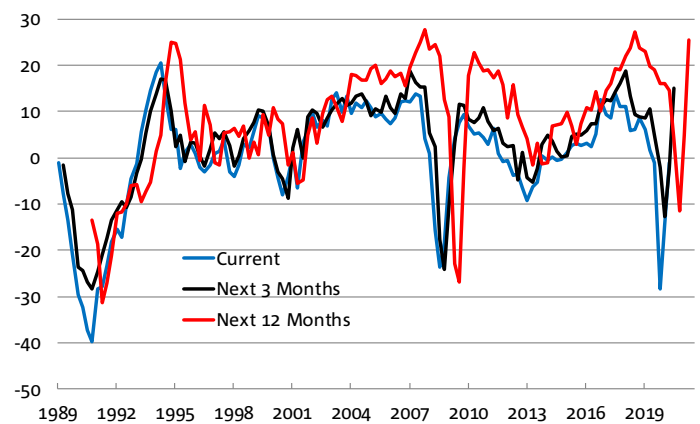
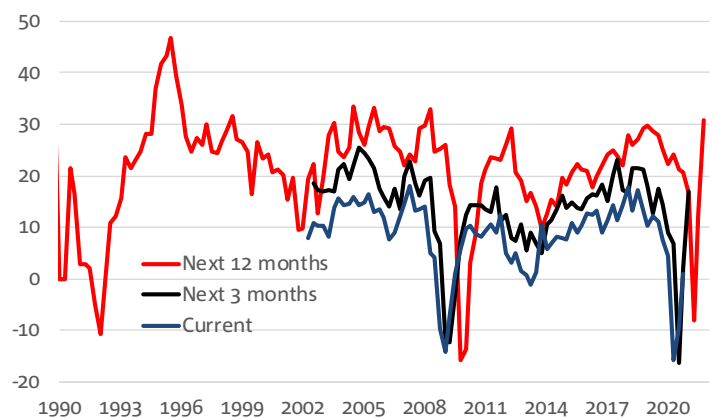


CHART 3: EXPECTED EMPLOYMENT (NET BAL.)



NAB QUARTERLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

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

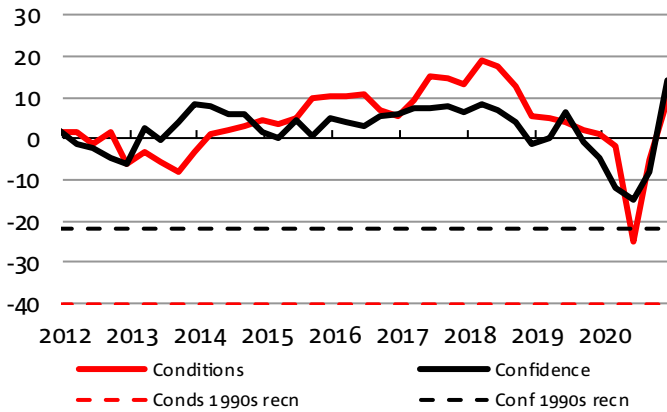
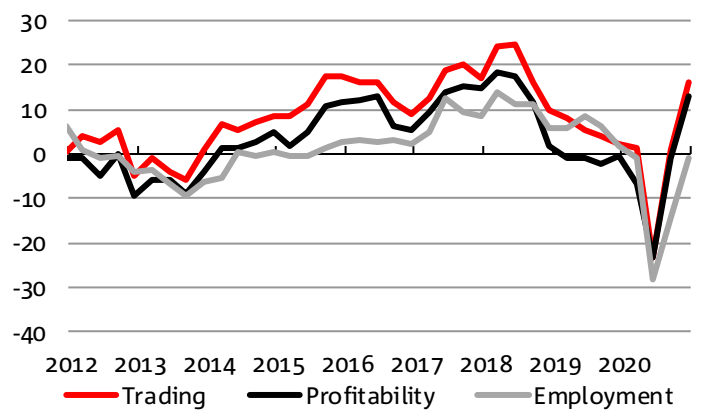


CHART 5: BUSINESS CONDITIONS COMPONENTS (NET BALANCE, S.A.)



DRIVERS OF BUSINESS CONFIDENCE

CHART 6: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE

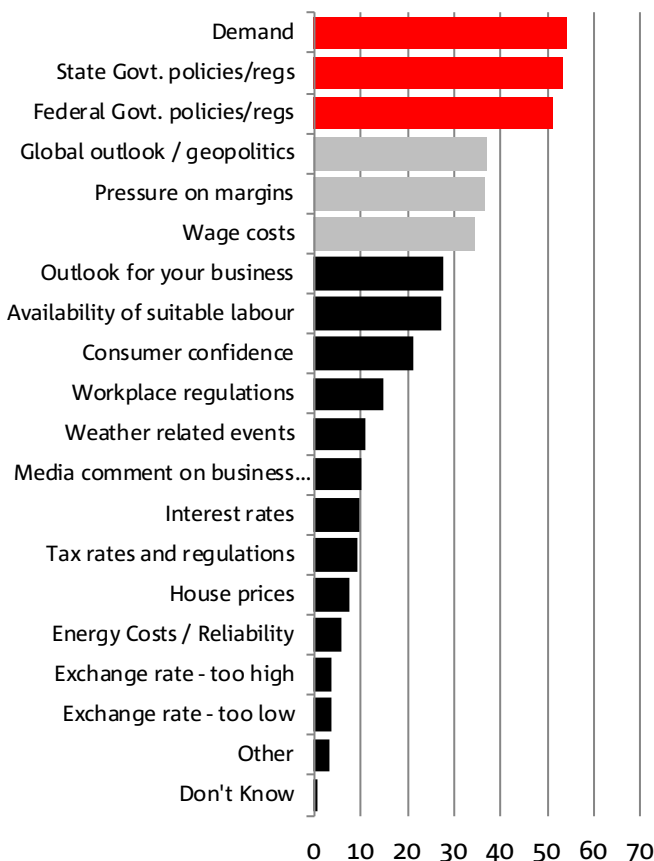


CHART 7: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – DETERIORATING CONDITIONS

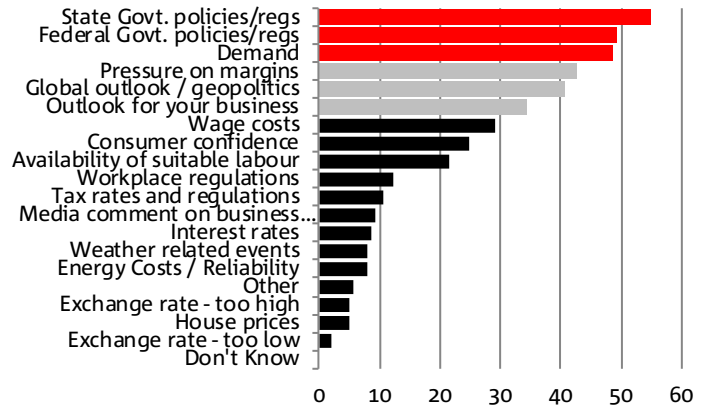
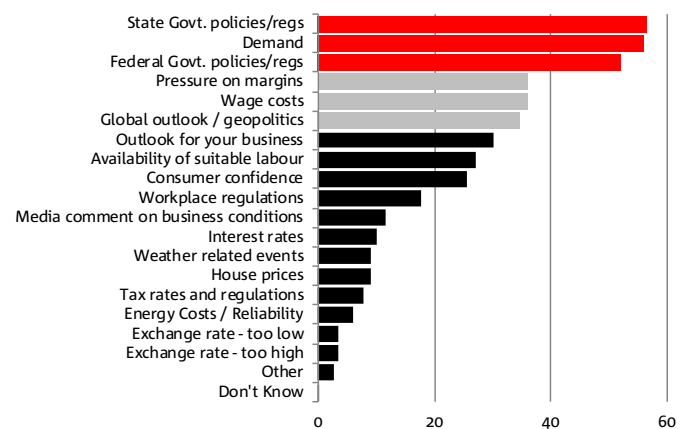


CHART 8: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – IMPROVING CONDITIONS



NAB QUARTERLY BUSINESS SURVEY – LEADING INDICATORS & INVESTMENT

CHART 9: BUSINESS CONDITIONS AND EXPECTATIONS (NET BALANCE)

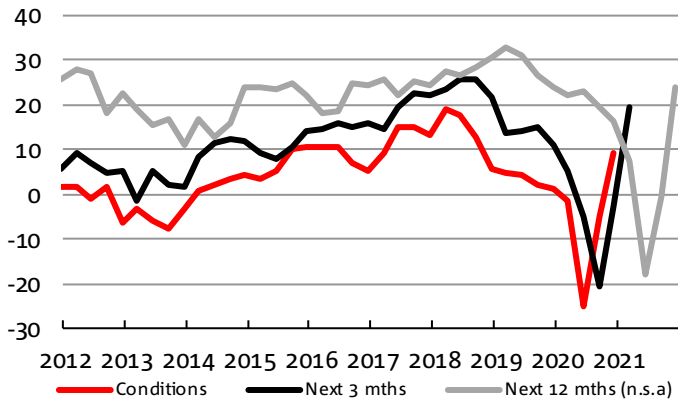


CHART 10: FORWARD ORDERS & EXPECTATIONS (NET BALANCE S.A.)

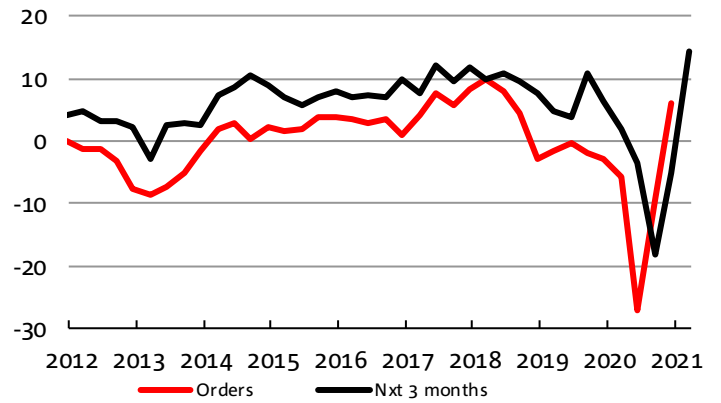


CHART 11: STOCKS (NET BALANCE S.A.)

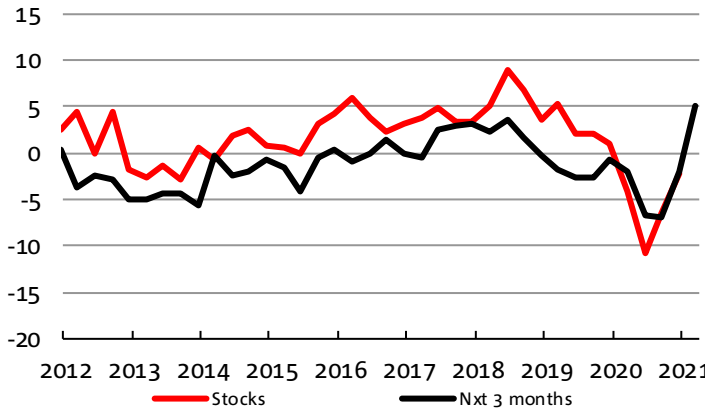


CHART 12: CAPACITY UTILISATION (PER CENT, S.A.)

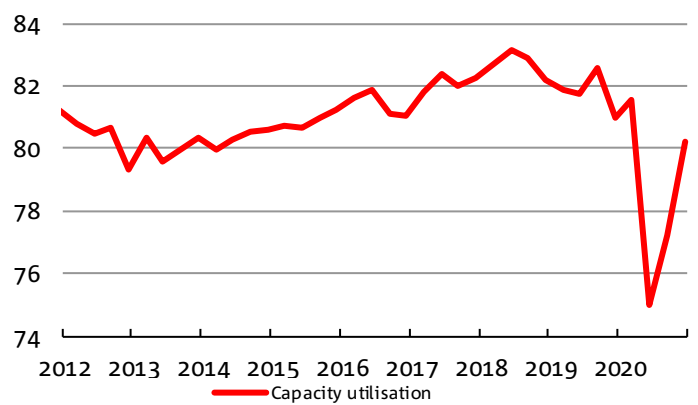


CHART 13: CAPACITY UTILISATION (PPT DEVIATION FROM LONG-RUN AVERAGE, 3 QTR MA)

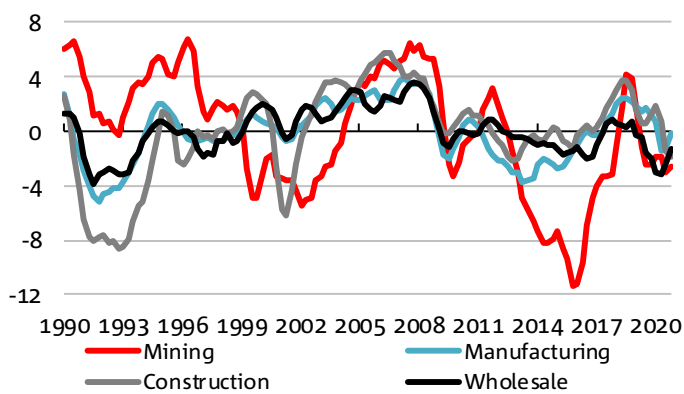
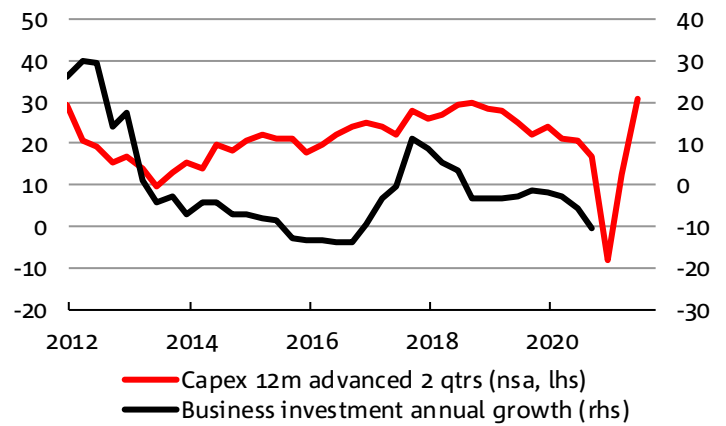


CHART 14: BUSINESS INVESTMENT & CAPEX PLANS



NAB QUARTERLY BUSINESS SURVEY – LABOUR MARKET

CHART 15: EMPLOYMENT & EXPECTATIONS (NET BALANCE)

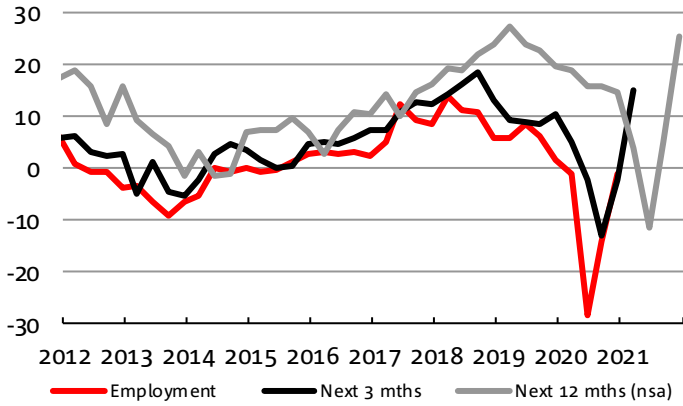


CHART 16: UNEMPLOYMENT RATE & LABOUR CONSTRAINTS

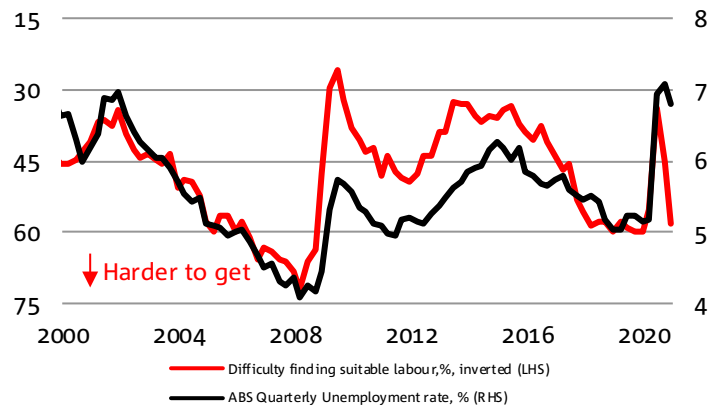


CHART 17: CHANGE IN AVERAGE HOURS WORKED (NSA)

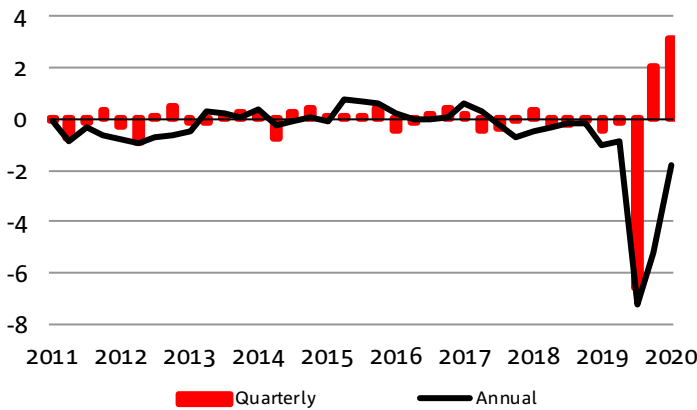


CHART 18: UNDERUTILISATION RATE & LABOUR CONSTRAINTS

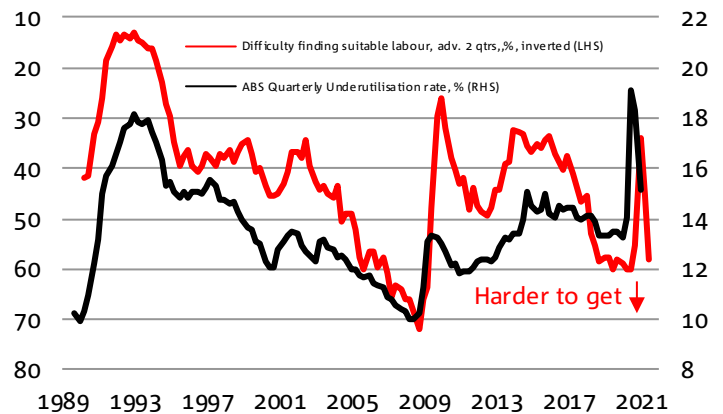


CHART 19: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)

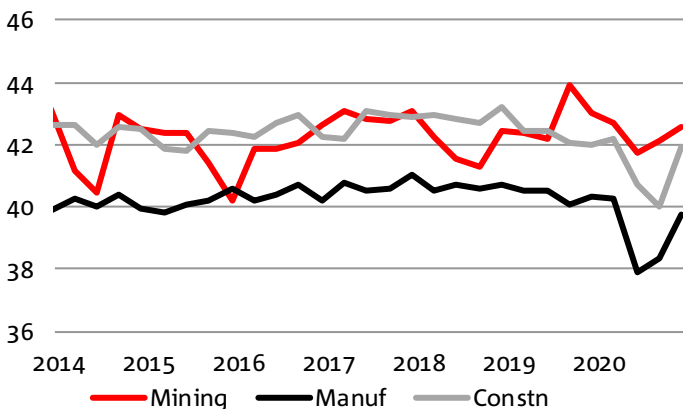


CHART 20: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)

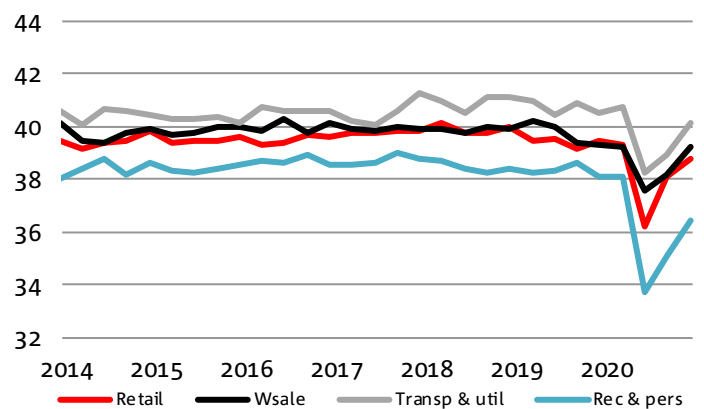
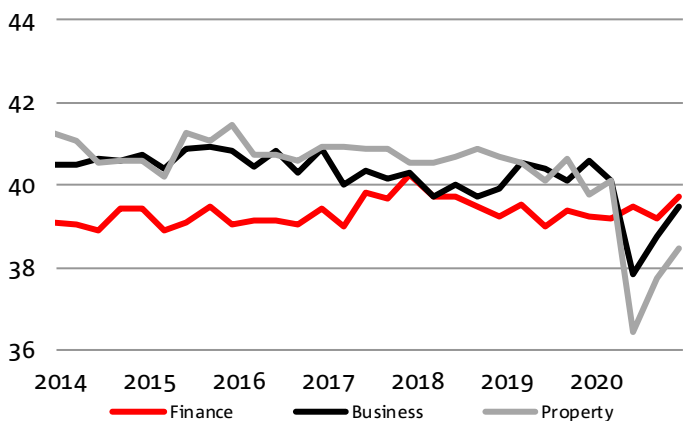


CHART 21: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)



NAB QUARTERLY BUSINESS SURVEY - MAJOR CONSTRAINTS ON FIRM OUTPUT

CHART 22: MAIN CONSTRAINTS ON FIRM OUTPUT

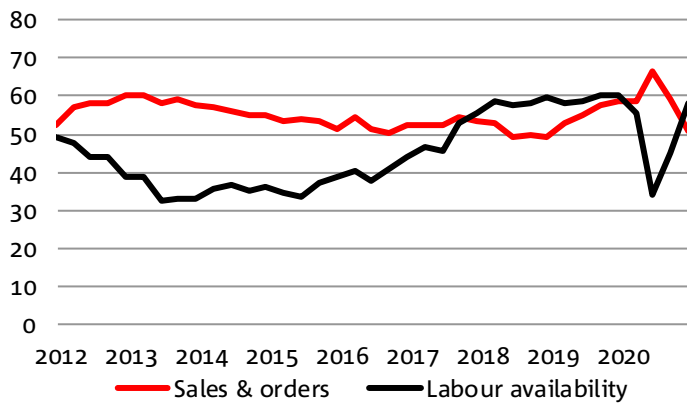
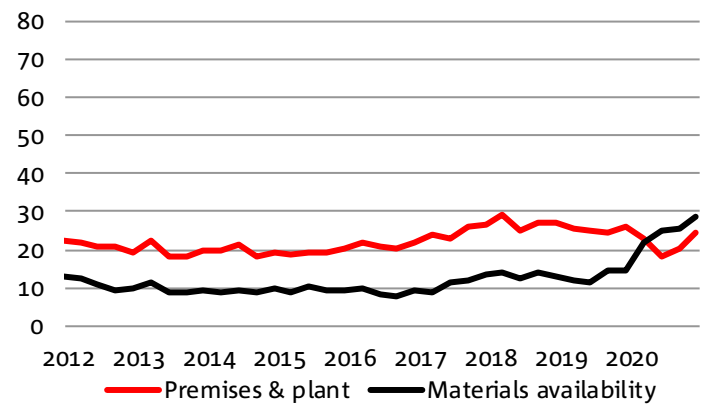


CHART 23: MAIN CONSTRAINTS ON FIRM OUTPUT



INFLATION PRESSURES

CHART 24: PRICES (% ANN, SA)

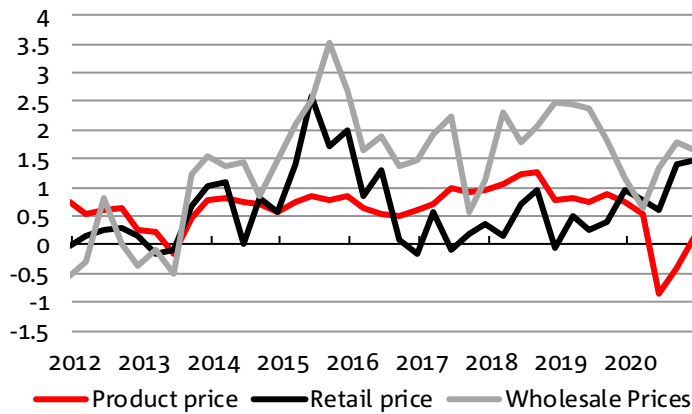
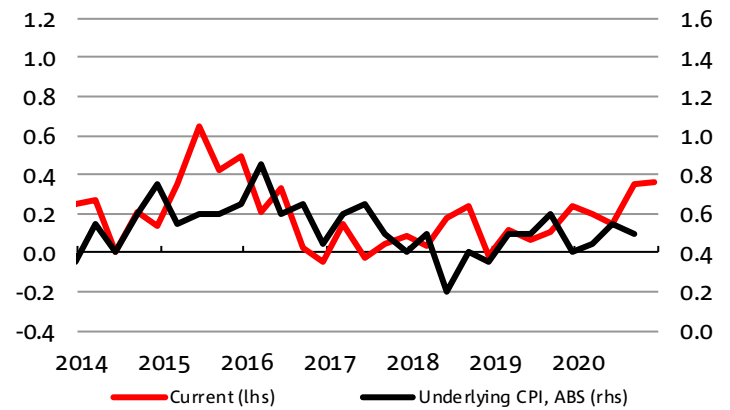


CHART 25: RETAIL PRICES (% P.Q.)



LABOUR COSTS (DETAILS)

CHART 26: LABOUR COSTS & COMPENSATION OF EMPLOYEES

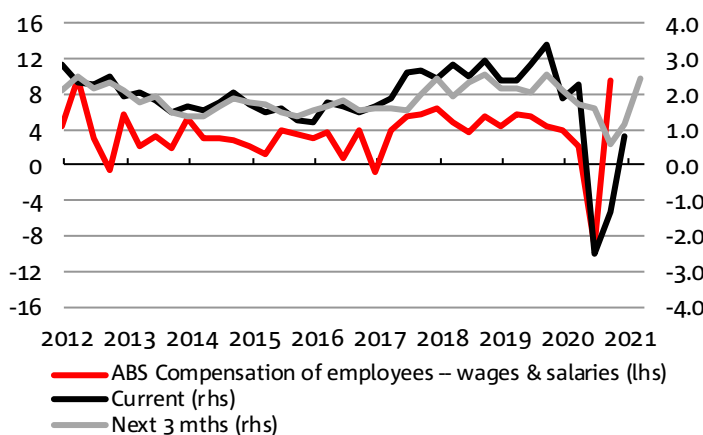
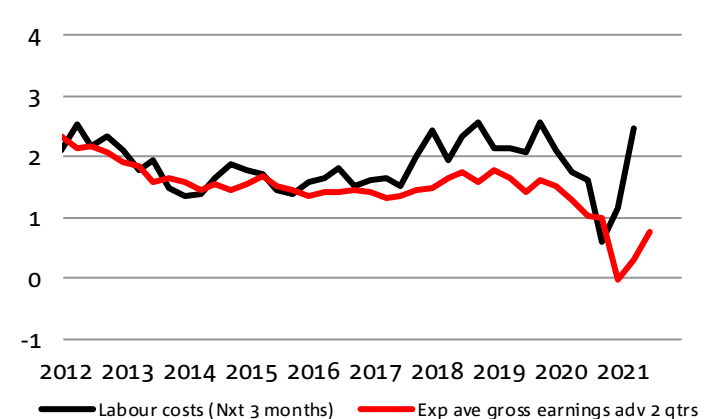


CHART 27: EXPECTED LABOUR COSTS (% ANN)



NAB QUARTERLY BUSINESS SURVEY – CONSTRUCTION INDUSTRY DETAILS

CHART 28: BUSINESS CONDITIONS BY INDUSTRY

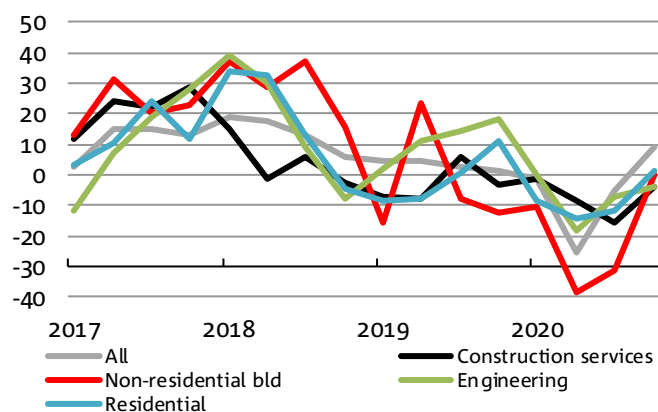


CHART 29: BUSINESS CONFIDENCE BY INDUSTRY

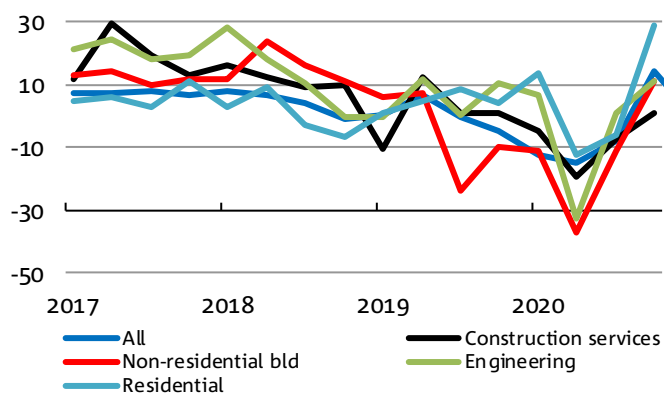


CHART 30: EMPLOYMENT CONDITIONS BY INDUSTRY

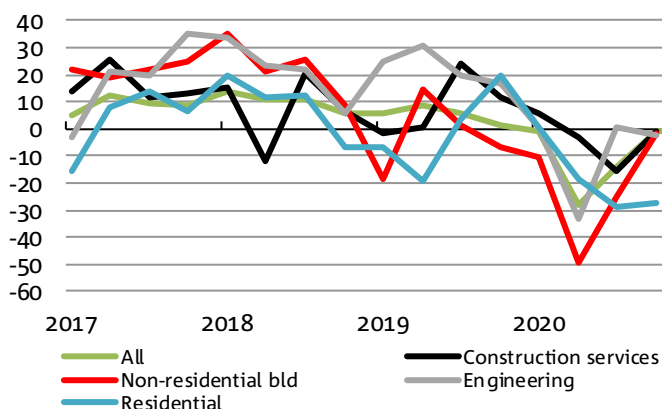
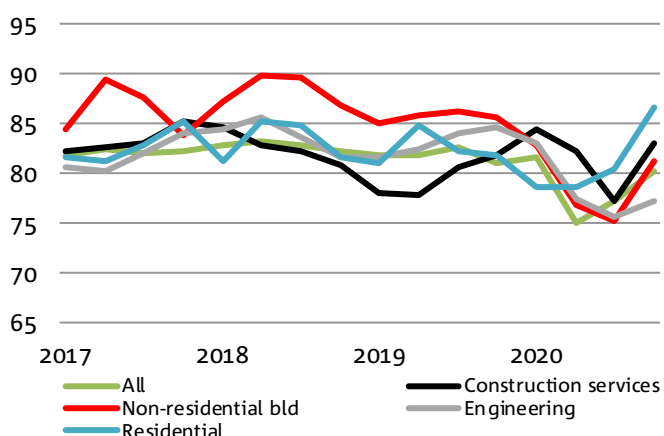


CHART 31: CAPACITY UTILISATION BY INDUSTRY



FINANCIAL MARKET EXPECTATIONS

- Overall, surveyed businesses expect very little change in short-term interest rates over the next 6 months. On average, business expects short term rates to increase by just 1bp in the near term. Further, 78% of respondents in this survey expect rates to remain unchanged, while 6% expect further declines. Around 5% expect rates to increase. This is somewhat unsurprising given both the very low level of interest rates across most forms of lending in the economy, as well as the extensive guidance provided by the RBA around the expected period of very low rates. These expectations are also broadly in line with financial market expectations. Indeed, NAB Economics sees the cash rate on hold at a record low of 0.1% until at least mid-2024 (in line with current RBA guidance) while the RBA has already announced a full continuation of its QE program for another 6 months since the survey was undertaken. However, with the recovery underway – and unfolding faster than expected – we think the RBA will need to outline an exit strategy from its YCC commitment to keep 3-year yields at 0.1% and hence abandon its commitment to a rolling 3-year period of unchanged rates. We think this will happen around mid-2021 which could see some upward pressure on yields but generally rates are expected to remain low with the cash rate to remain unchanged for an extended period.
- Exchange rate expectations in the Survey (6-months-ahead) were a little higher than the previous survey with respondents expecting the currency to track around US73.59 over the next 6 months. This is broadly consistent with the prevailing exchange rate at the time of the survey, however the exchange rate has appreciated by around 1.3% since mid-December and is now around 37% higher than the 17-year low reached in mid March 2020. NAB Economics expects the exchange rate to appreciate further from here ending 2021 at around US81c before drifting higher over 2022 where we expect it to end the year around US83c.

NAB QUARTERLY BUSINESS SURVEY – MORE DETAILS ON INDUSTRY

CHART 32: BUSINESS CONDITIONS BY INDUSTRY

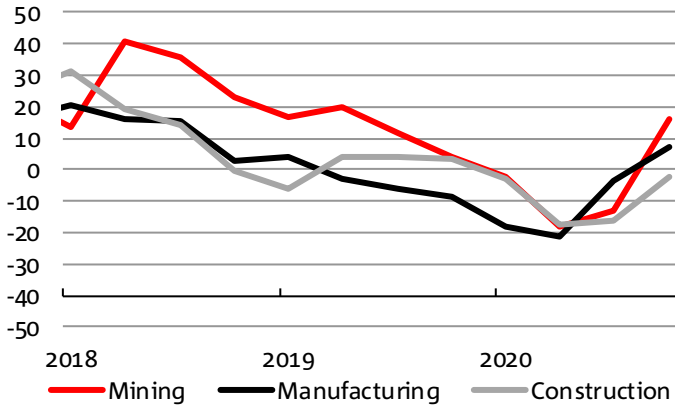


CHART 35: BUSINESS CONFIDENCE BY INDUSTRY

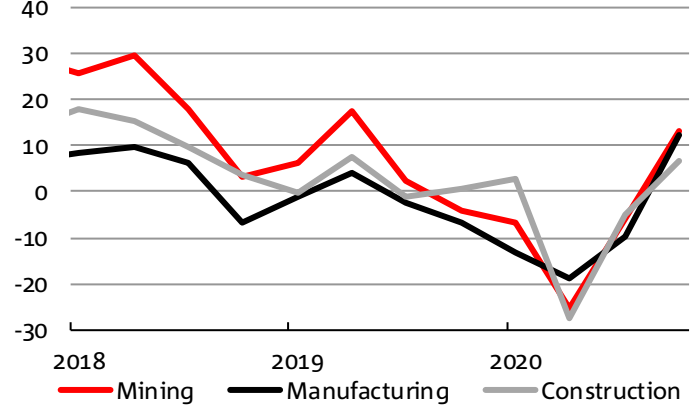


CHART 33: BUSINESS CONDITIONS BY INDUSTRY

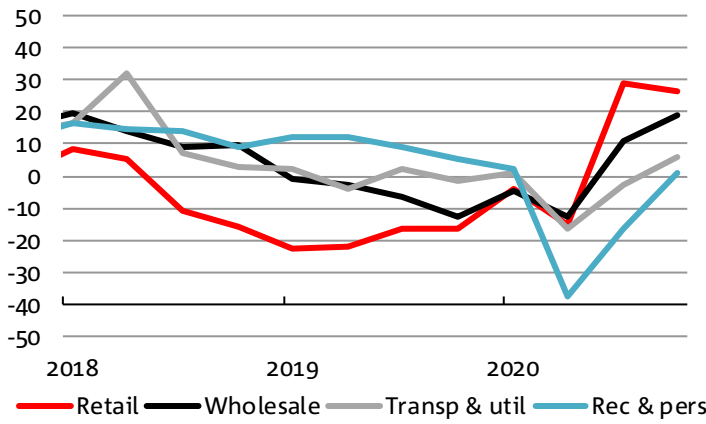


CHART 36: BUSINESS CONFIDENCE BY INDUSTRY

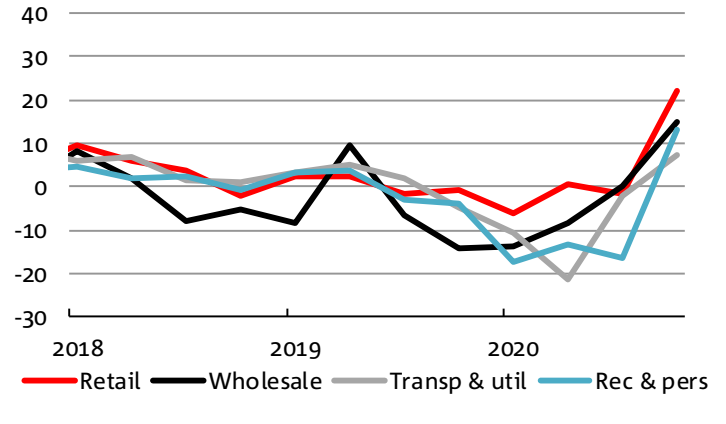


CHART 34: BUSINESS CONDITIONS BY INDUSTRY

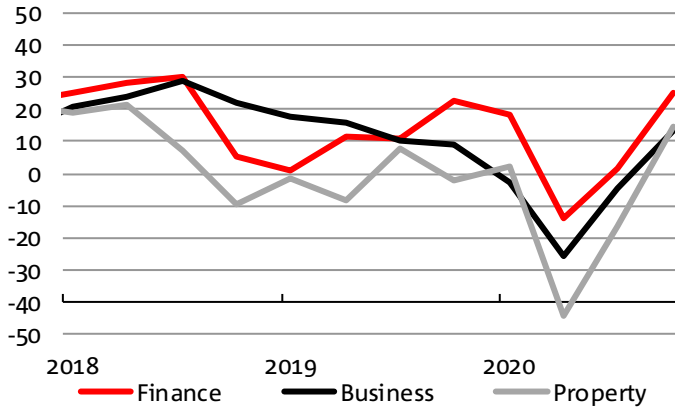
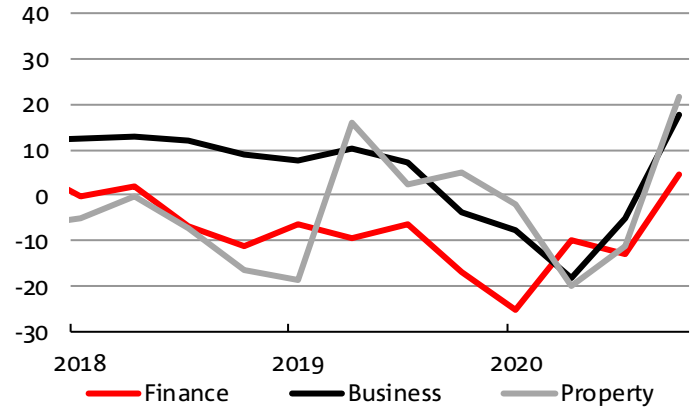


CHART 37: BUSINESS CONFIDENCE BY INDUSTRY



NAB QUARTERLY BUSINESS SURVEY – FURTHER DETAILS BY STATE

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

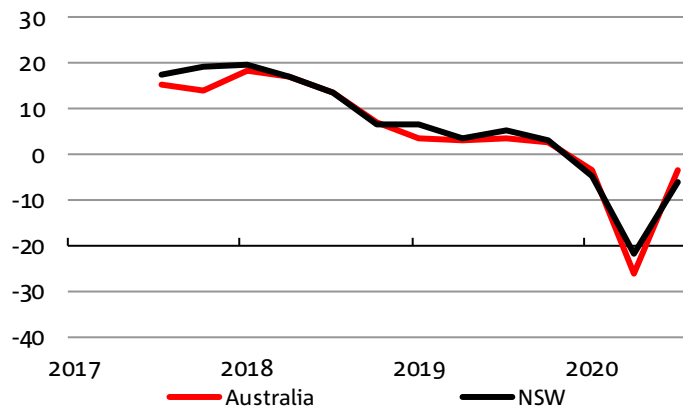


CHART 41: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)

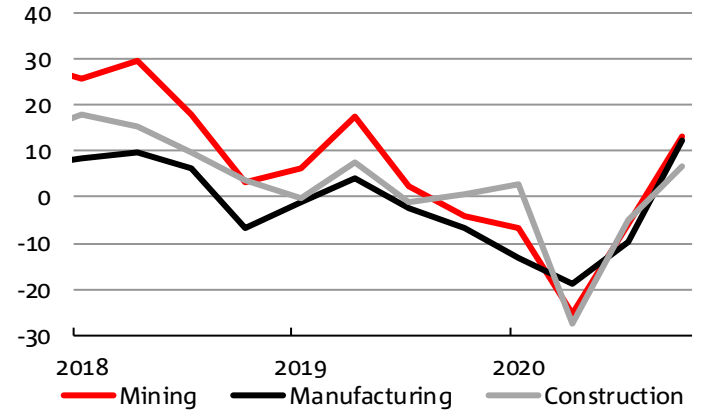


CHART 39: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

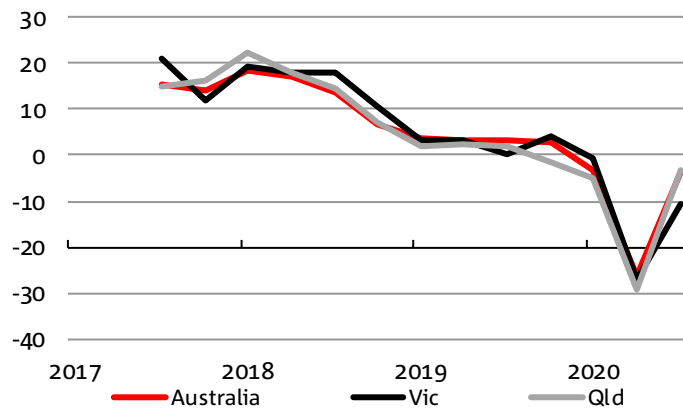


CHART 42: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)

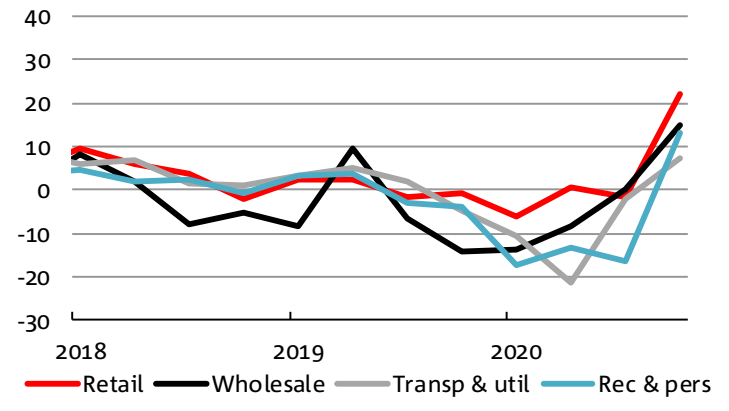


CHART 40: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)

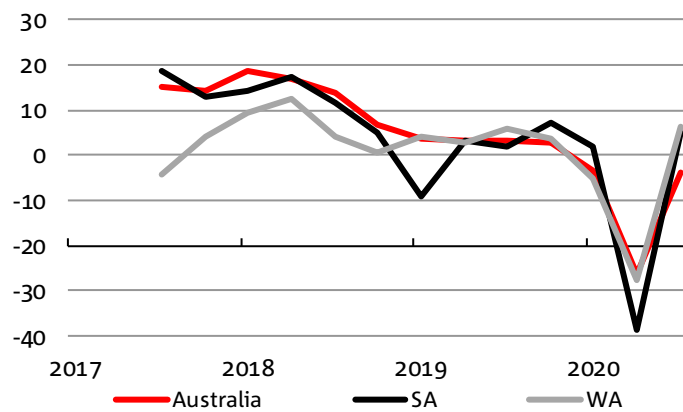
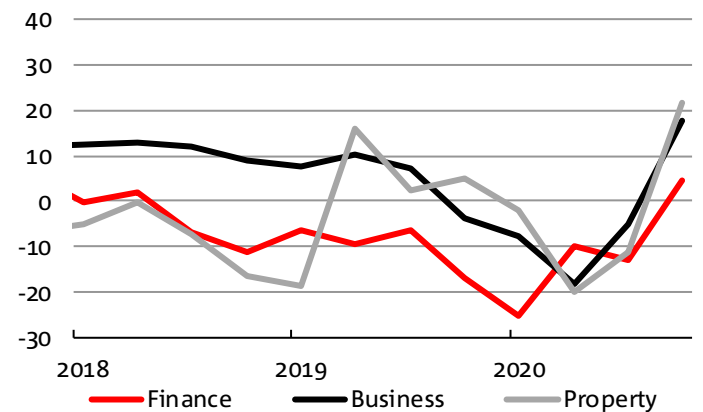


CHART 43: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)



NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX

	Quarterly					Monthly				
	2019q4	2020q1	2020q2	2020q3	2020q4	2020m8	2020m9	2020m10	2020m11	2020m12
Confidence	-5	-12	-15	-8	14	-7	-3	4	13	4
Conditions	1	-2	-25	-5	9	-5	1	2	7	14

	Quarterly					Monthly				
	2019q4	2020q1	2020q2	2020q3	2020q4	2020m8	2020m9	2020m10	2020m11	2020m12
Trading	2	1	-23	1	16	-1	5	7	15	20
Profitability	0	-7	-23	-1	13	-1	3	5	13	11
Employment	2	-1	-28	-14	-1	-13	-6	-5	-4	9

	Quarterly ^(a)					Monthly				
	2020q3	2020q4	2021q1	2021q3	2021q4	2020m8	2020m9	2020m10	2020m11	2020m12
Conditions	-5	9	NA	NA	NA	-5	1	2	7	14
Conds. next 3m	-20	-3	19	NA	NA					
Conds. nxt 12m	20	16	7	0	24					
Orders	-9	6	NA	NA	NA	-11	-6	-3	6	1
Orders next 3m	-18	-5	14	NA	NA					

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

	Quarterly ^(a)					Monthly				
	2020q1	2020q2	2020q3	2020q4	2021q1	2020m8	2020m9	2020m10	2020m11	2020m12
Capacity utilis.	81.5	75.0	77.2	80.2	NA	76.5	77.1	78.0	79.1	80.9
Stocks current	-4	-11	-6	-2	NA	-8	-5	-1	-7	-1
Stocks next 3m	-2	-7	-7	-2	5					

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

	2019q4	2020q3	2020q4
Constraints on output (% of firms)*			
Sales & orders	58.5	59.1	50.7
Labour	60.0	45.0	58.0
Premises & plant	26.1	20.1	24.6
Materials	14.8	25.6	28.6

* not s.a.

	Quarterly ^(a)					Monthly				
	2020q3	2020q4	2021q1	2021q3	2021q4	2020m8	2020m9	2020m10	2020m11	2020m12
Empl current	-14	-1	NA	NA	NA	-13	-6	-5	-4	9
Empl next 3m	-13	-2	15	NA	NA					
Empl nxt 12m	16	15	4	5	25					

(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>2019q4</u>	<u>2020q1</u>	<u>2020q2</u>	<u>2020q3</u>	<u>2020q4</u>	<u>2020m8</u>	<u>2020m9</u>	<u>2020m10</u>	<u>2020m11</u>	<u>2020m12</u>
Business conditions										
NSW	2	-5	-20	-7	9	-4	-1	5	11	7
VIC	2	0	-26	-11	-1	-10	-15	-1	-3	12
QLD	-3	-5	-28	-3	16	-10	6	3	10	17
SA	2	7	-36	3	15	-2	7	0	13	32
WA	1	-5	-25	6	18	3	25	5	21	19

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2019q4</u>	<u>2020q1</u>	<u>2020q2</u>	<u>2020q3</u>	<u>2020q4</u>	<u>2020m8</u>	<u>2020m9</u>	<u>2020m10</u>	<u>2020m11</u>	<u>2020m12</u>
Business confidence										
NSW	-4	-12	-14	-11	12	-9	-1	3	14	5
VIC	-6	-16	-18	-16	25	-17	-11	9	22	7
QLD	-7	-9	-17	-4	6	3	-5	4	5	-4
SA	-11	-10	-11	-9	4	-5	-2	-5	-2	14
WA	4	-3	-7	7	18	1	13	5	10	13

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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*

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 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.