

NAB QUARTERLY BUSINESS SURVEY

2020 Q4

By Group Economics

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THE RECOVERY CONTINUES

The Q4 survey showed a continued recovery across the business sector, following the turnaround in Q3. Both conditions and confidence rose strongly – turning positive – and are now at relatively high levels. Confidence rose 22pts to +14 index points, led by gains in the services sectors as well as manufacturing and retail. Conditions rose to an above average +9 index points, with conditions now positive in all industries following a fairly rapid recovery following the low point in Q2.

According to Alan Oster, NAB Group Chief Economist “like many other indicators the survey shows that the economy continued to rebound strongly late in Q4. Optimism in the business sector continued to strengthen as the impacts of severe lockdowns faded”.

“What is even more encouraging is the fact that businesses have seen a strong rebound in actual conditions – particularly in trading conditions and profitability. This likely reflects the huge support provided to the economy by policy makers” said Mr Oster.

Alongside the recovery in conditions and confidence, capacity utilisation continued to recover. It rose 3ppts to 80.2% in the quarter, to be only just below its long run average. Capacity utilisation rose across all industries in late 2020.

“Capacity is our best measure of activity in a levels sense. Conditions and confidence suggest that there is a rapid rebound, but capacity utilisation tells us that we are almost back to the same level of output. At least in an aggregate sense. Further we know from the monthly survey that capacity utilisation continued to improve late in the quarter” said Mr Oster.

The expectations component of the survey also saw a significant improvement in the quarter. Expected business conditions at the 3- and 12-month horizons rose to relatively high levels, and suggest further gains in activity over the next year. Expectations for the employment component of each also rose sharply, and suggest that while actual employment has lagged the recovery in trading and profits, that business is again looking to increasing employment levels going forward. With the rise in capacity utilisation and improvement in employment expectation, expected capex has also risen to very high levels.

“In addition to the improvement in forward orders, the expectations component of most questions improved significantly in the quarter. This points to an ongoing recovery in the business sector – on top of the rapid rebound that has already unfolded. It appears policy has been an important support, particularly to business investment in the form of the accelerated depreciation allowance.” said Mr Oster.

“Our business surveys show that despite the unprecedented size and speed of the hit to activity in Q2 and some ongoing smaller shutdowns, that the economy is continuing to rebound strongly. Further, capacity utilisation suggests that the level of activity may be restored much faster than anyone would have expected around mid last year” said Mr Oster.

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

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