

NAB MONTHLY BUSINESS SURVEY

February 2021

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By Group Economics

BUSINESS CONDITIONS BOUNCE, CONFIDENCE RISES FURTHER

Key messages: The survey results were strong in February. Business confidence rose further in February to reach 16 index points, its highest level since early 2010, with all states and industries reporting gains, except for retail. Business conditions bounced to return to around multi-year highs at 15 index points, after slipping in the month prior, with trading, profitability and employment conditions all marking solid improvements. Conditions remain very strong in retail, wholesale, mining and professional services, while construction, personal services and transport conditions continue to lag. Elsewhere, capacity utilisation and capex continue to rise and have now exceeded pre-virus levels and their long-run averages – an encouraging sign that the turnaround in business conditions and steady improvement in confidence is translating to higher capacity utilisation and increased investment. The survey continues to point to a robust recovery in the business sector, despite some tapering of government support beginning in late 2020. This is a positive sign for the economy, where ongoing strength in the business and household sector is needed to sustain the recovery.

“This is a very positive survey result. Business conditions and confidence are both at multi-year highs and, importantly, we’re starting to see an uptrend in business hiring and investment activity.” said Alan Oster, NAB Group Chief Economist. “Firms are reporting running above average capacity levels and this tells us the economy is likely to have already recovered pre-virus GDP levels in Q1 2021.”

Business confidence rose 4 index points in February, to +16 index points, its highest level since early 2010. The gain in the month was broadly based, with all states and industries recording an increase – except retail.

“Businesses are the most optimistic they’ve been since 2010. This says the economy recovery has very strong momentum and even though government support is tapering, businesses are increasingly confident the economy will continue to improve.” said Mr Oster.

Business conditions bounced to return to around multi-year highs at 15 index points, after slipping in the month prior, with trading, profitability and employment conditions all marking solid improvements. The rise in conditions was broad-based across industries with the exception of retail, rec & personal and mining, although all three remain at strong levels in the range of 18 to 22 index points.

“Business conditions have rebounded to the very strong levels we saw in December and, importantly, employment conditions remain strong. Businesses are again expanding their workforce, which is key for supporting the labour market recovery.” said Mr Oster. “Victoria has caught up to the bottom of the pack, with broadly similar conditions to NSW and Tasmania. WA is still the clear outperformer, with the strongest conditions and confidence of any state.”

Capacity utilisation edged up in the month and is now above its long-run average and its pre-COVID level. Forward orders rose too and are clearly above average.

“Encouragingly, capacity utilisation is back at its highest level since mid-to-late 2019 at 81.8%.” said Mr Oster. “If capacity utilisation remains elevated, we should hope to see further rises in the survey’s investment and employment indicators over the coming months.”

On investment, capex jumped to +8 index points, its highest level since August 2019.

“Capex strengthened further in the month, after turning positive in January. This is a remarkable turnaround from its trough of -32 index points in April 2020. Incredibly, most industries are reporting above-average capex, led by retail.” said Mr Oster.

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

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