

*NAB Australian Economics*

**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.

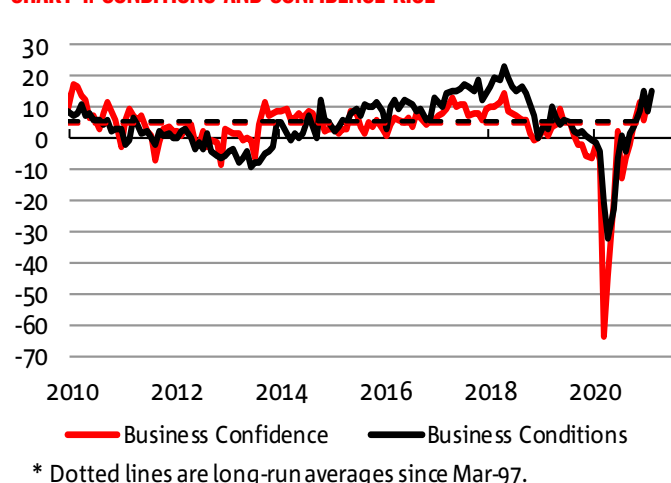
### HIGHLIGHTS

- **How confident are businesses?** Confidence rose 4pts to a well-above average +16 index points.
- **How did business conditions fare?** Conditions rebounded to +15 index points – matching its December reading, which was the highest level recorded since August 2018.
- **What components contributed to the result?** All three sub-components rose in the month, with trading conditions leading the rise (up 8pts) and smaller gains in the employment index (up 5pts) and profitability (up 4pts).
- **What is the survey signalling for jobs growth?** The employment index suggests continued above-average jobs growth, with more firms reporting higher employment over the month than firms reporting lower employment.
- **Which industries are driving conditions?** 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. Wholesale led the improvement in the month (up 29pts), but all industries reported conditions in positive territory. Overall, in trend terms conditions remain strongest in mining and retail, while weakest in construction.
- **Which industries are most confident?** Confidence rose across all industries except retail which fell 4pts. Mining led the gains in the month although rec & personal and manufacturing also recorded large increases. In trend terms, rec & personal and retail confidence lags the other industries, suggesting businesses in these areas are the least optimistic about further gains for their industry.
- **Where are we seeing the best conditions by state?** The improvement in conditions was led by large gains in NSW and WA, which offset falls in Tas and SA. In trend terms, WA is highest, while NSW, Vic and Tas are lagging, albeit recording similar above-average conditions at 9-11 index points.
- **What is confidence like across the states?** Confidence rose across states and all states are recording strong levels. In trend terms, confidence is highest in WA and lowest in Tasmania.
- **Are leading indicators suggesting further improvement?** Capacity utilisation edged up in the month and is now above its long-run average and its pre-COVID level. Forward orders also rose and are now well above average.
- **What does the survey suggest about inflation and wages?** Generally, price pressures remain soft with final product price growth remaining sluggish, although retail price inflation picked up. Labour costs growth also strengthened.

**TABLE 1: KEY STATISTICS**

	Dec-20	Jan-21	Feb-21
	Net balance		
Business confidence	6	12	<b>16</b>
Business conditions	15	9	<b>15</b>
Trading	23	13	<b>21</b>
Profitability	14	13	<b>17</b>
Employment	10	3	<b>8</b>
Forward orders	3	3	<b>8</b>
Stocks	0	2	<b>2</b>
Exports	-4	-4	<b>-2</b>
	% change at quarterly rate		
Labour costs	0.8	0.7	<b>1.0</b>
Purchase costs	1.0	0.7	<b>0.6</b>
Final products prices	0.1	0.2	<b>0.2</b>
Retail prices	1.1	0.7	<b>1.0</b>
	Per cent		
Capacity utilisation rate	80.8	81.1	<b>81.8</b>

**CHART 1: CONDITIONS AND CONFIDENCE RISE**



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

All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 18 February to 1 March 2021, covering over 530 firms across the non-farm business sector.

**Next release date: 13 April 2021.**

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# NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

## CAPACITY UTILISATION POINTS TO FURTHER INCREASES IN ACTIVITY

- Capacity utilisation increased further in February, rising to 81.8% – its highest level since mid-to-late 2019. Capacity utilisation has now risen by 9.7ppts since reaching a trough in activity in April 2020.
- By industry, the gains in capacity utilisation were led by an increase in transport & utilities and wholesale, but all industries saw an increase. Capacity utilisation continues to be highest in retail trade and wholesale but is now also above average in manufacturing as well. In contrast, utilisation remains below average in construction, mining and recreation & personal services (which continues to see ongoing restrictions). Finance business & property services and transport & utilities are broadly around average.
- The survey measure of capacity utilisation has tracked activity fairly well over the past year – capturing not just the timing of impacts from major lockdowns but also the impact of changing consumer spending patterns across industries. This is clearest in retail and wholesale, which has benefited from increased spending due to remote working, online shopping and substitution away from spending on services which were restricted.
- With capacity utilisation now above average, it suggests that the economy is likely to have recovered its pre-COVID level in Q1 2021, a little earlier than NAB forecasts. Beyond this, capacity utilisation will be an important indicator of inflationary pressure in the economy, although there is elevated uncertainty around the underlying pace of growth in the economy.
- Increased capacity utilisation will put upward pressure on employment and capital expenditure (capex) plans going forward. Notably, capex had lagged the recovery in the survey's activity variables through 2020, but has now turned positive and is at its highest level since mid-2019.
- By industry, capex is currently highest in retail and above average in all industries with the exception of mining and rec & personal services. Encouragingly, 12-month expectations from the Q4 NAB Quarterly Business survey are at a relatively high level in aggregate. Beyond this, the ABS capex survey points to a further substantial rise in 2021/22 – though the first estimates in this data only have a loose relationship with final outcomes.
- Business investment is likely to be a key swing variable over the next couple of years. As a share of GDP business investment had fallen to a relatively low level, with little evidence of a material pickup in the pipeline. The impact of interest rates on investment remains uncertain, with demand and cashflow alongside capacity utilisation likely the key determinants. For now, the rebound in business conditions and capacity utilisation is encouraging. However, uncertainty remains high and a likely impediment to investment so we will continue to closely watch business confidence.

CHART 2: CAPACITY UTILISATION (%)



CHART 3: CAPACITY UTILISATION BY INDUSTRY (%)

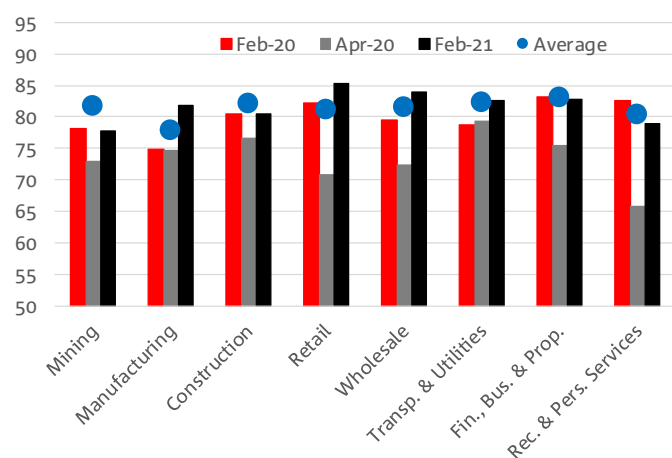
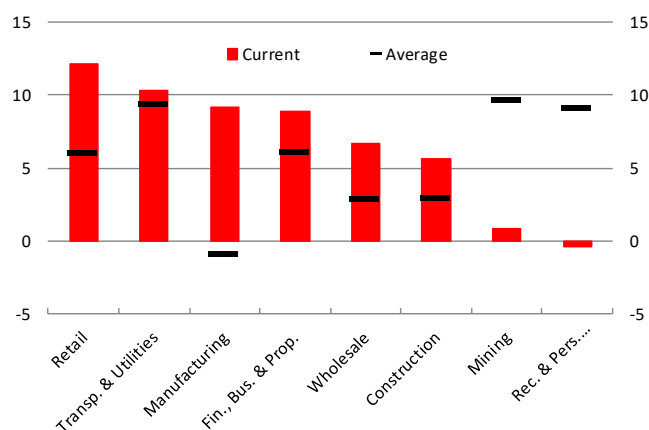
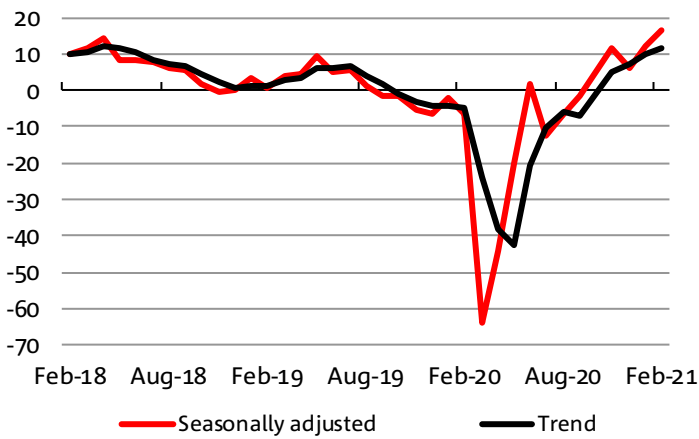


CHART 4: CAPEX BY INDUSTRY (%)

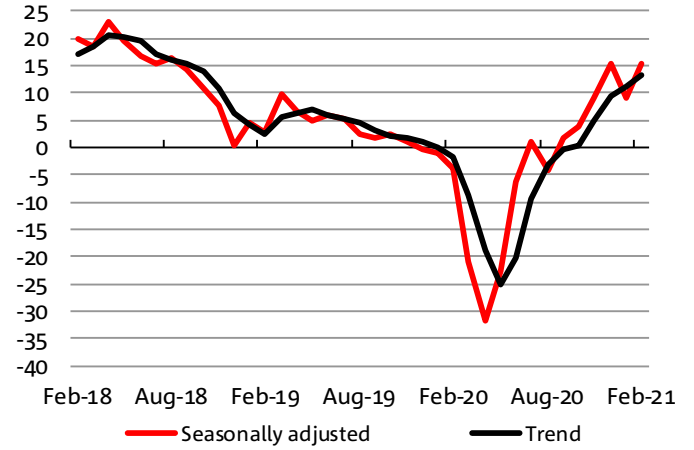


# NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

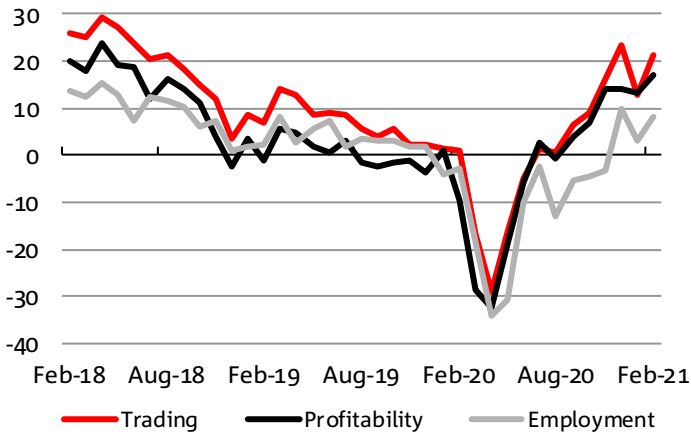
**CHART 5: BUSINESS CONFIDENCE (NET BALANCE)**



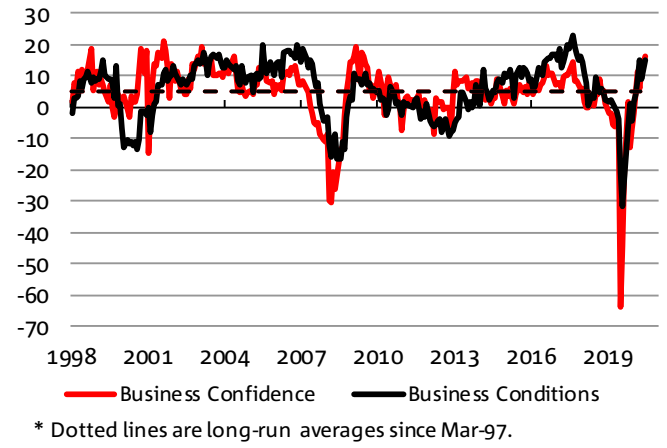
**CHART 6: BUSINESS CONDITIONS (NET BALANCE)**



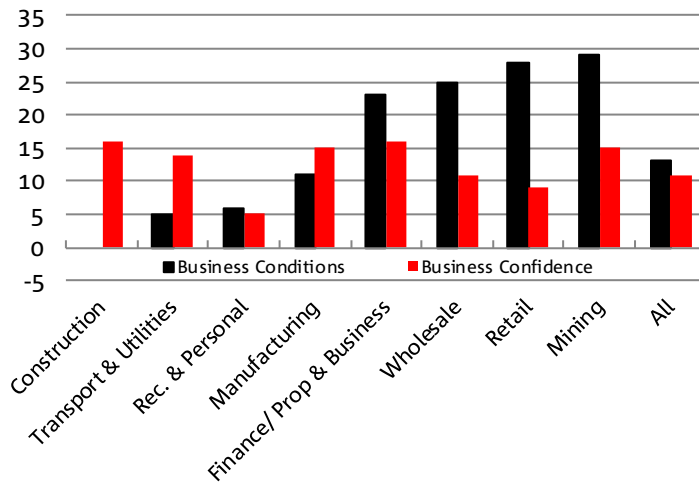
**CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.**



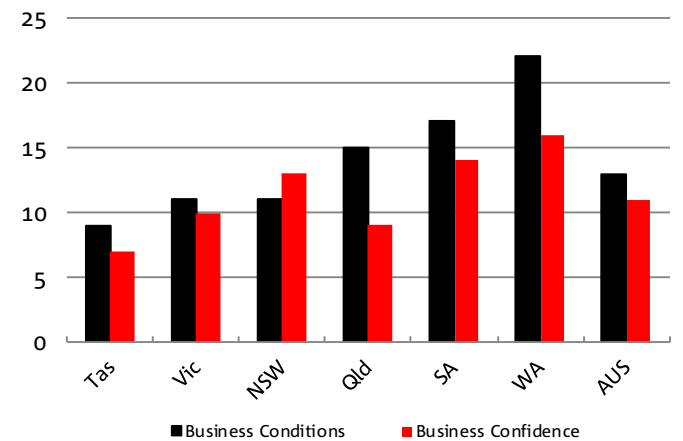
**CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE**



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

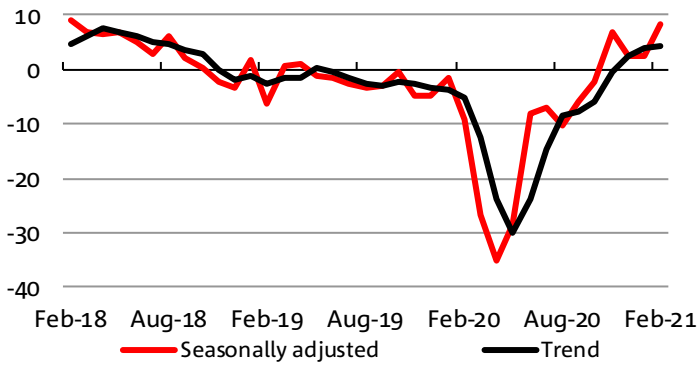


**CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)**

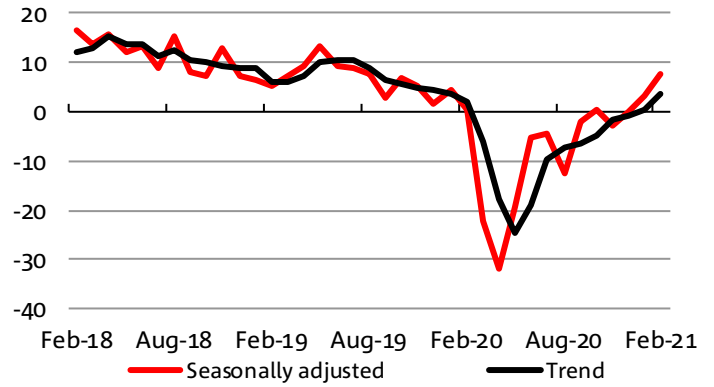


# NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

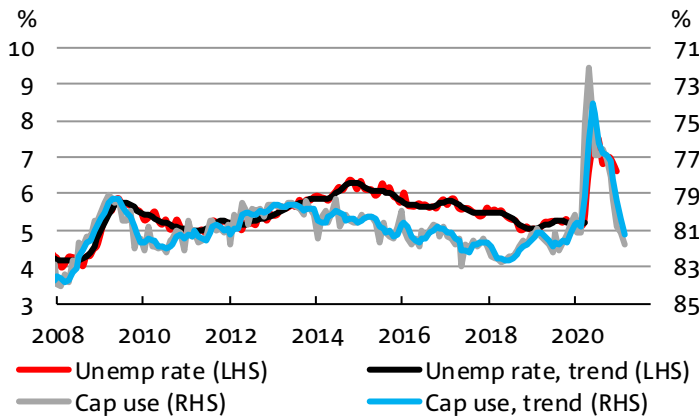
**CHART 11: FORWARD ORDERS (NET BALANCE)**



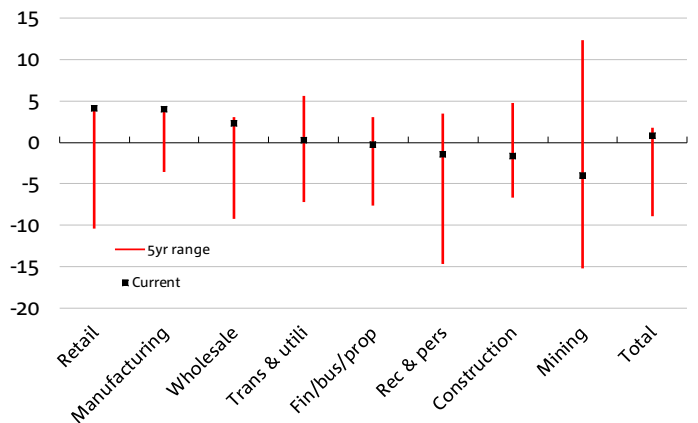
**CHART 12: CAPITAL EXPENDITURE (NET BALANCE)**



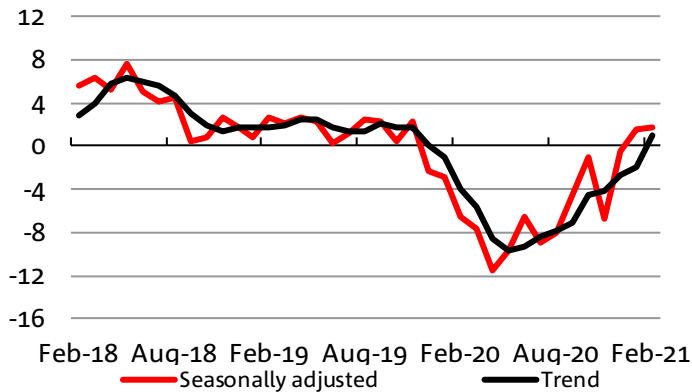
**CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT**



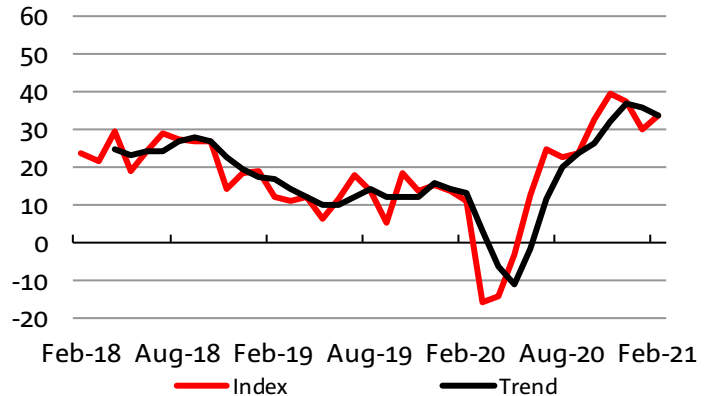
**CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)**



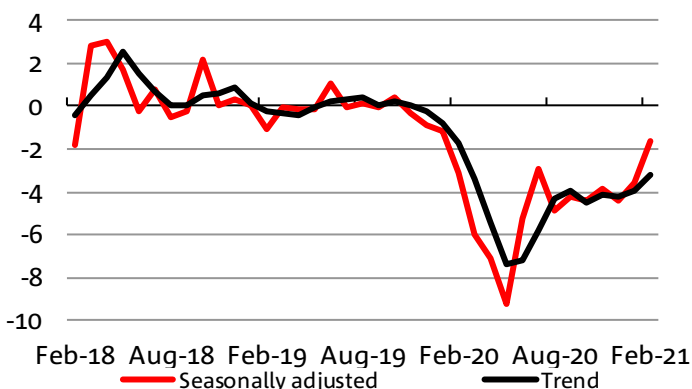
**CHART 15: STOCKS (NET BALANCE)**



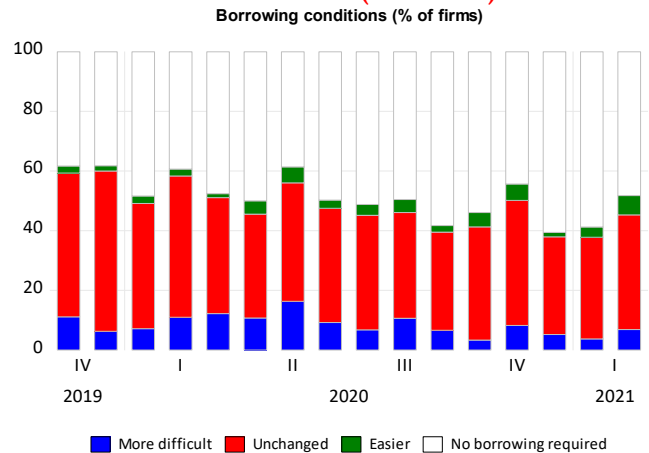
**CHART 16: CASH FLOW (NET BALANCE)**



**CHART 17: EXPORTS (NET BALANCE)**

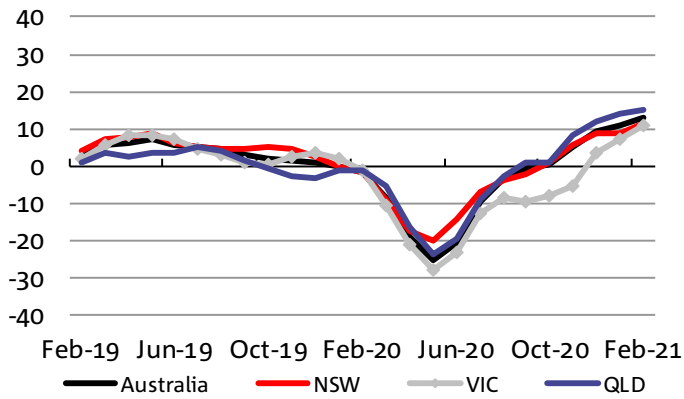


**CHART 18: BORROWING CONDITIONS (% OF FIRMS)**

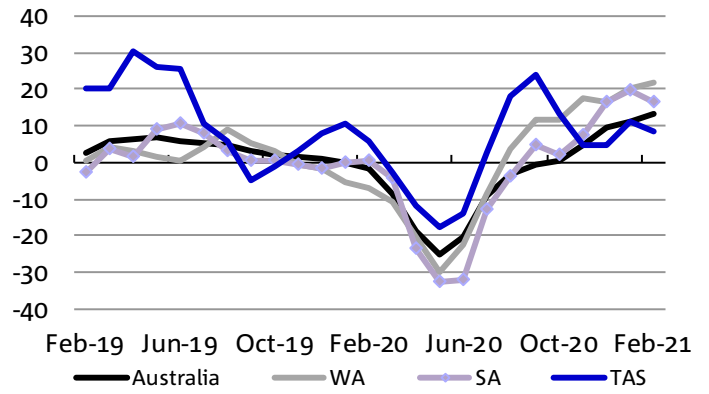


# NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

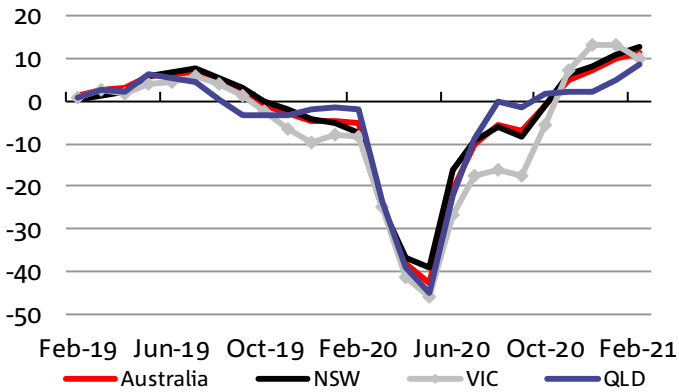
**CHART 19: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)**



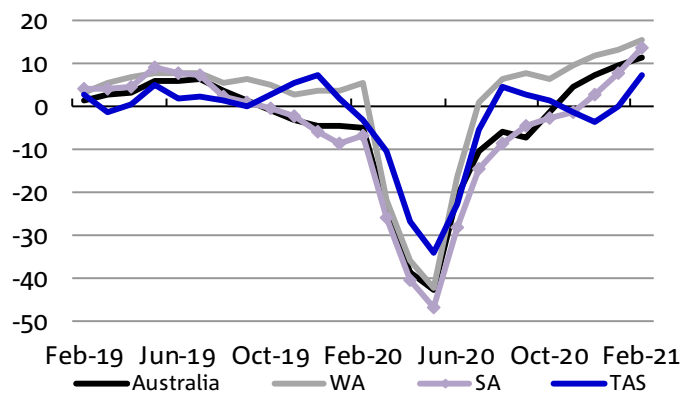
**CHART 20: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)**



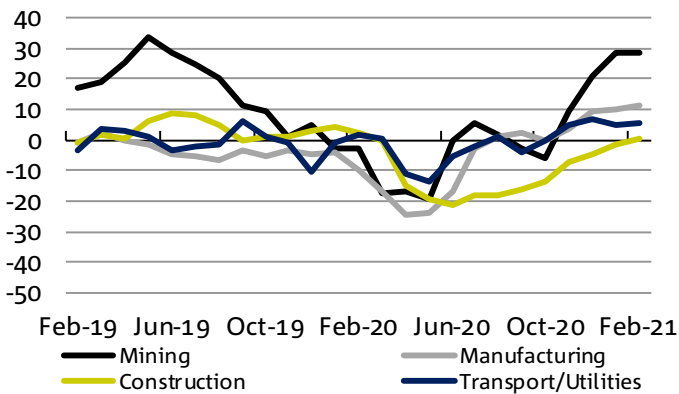
**CHART 21: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)**



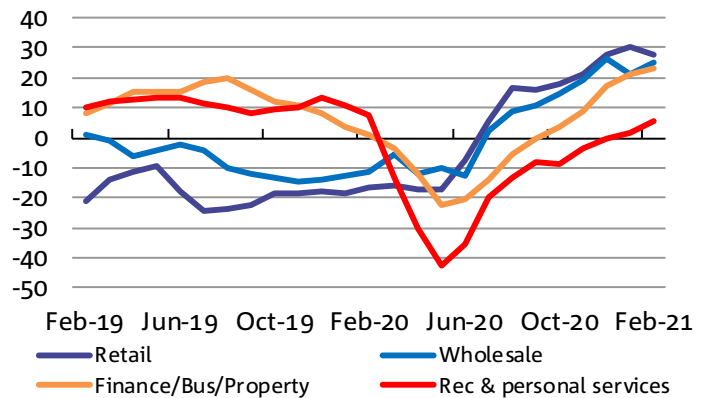
**CHART 22: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)**



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

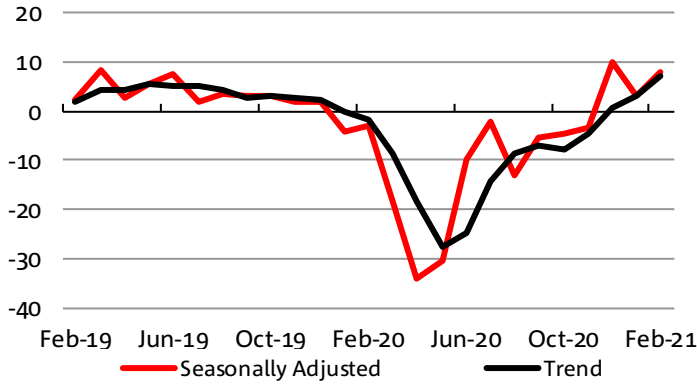


**CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)**

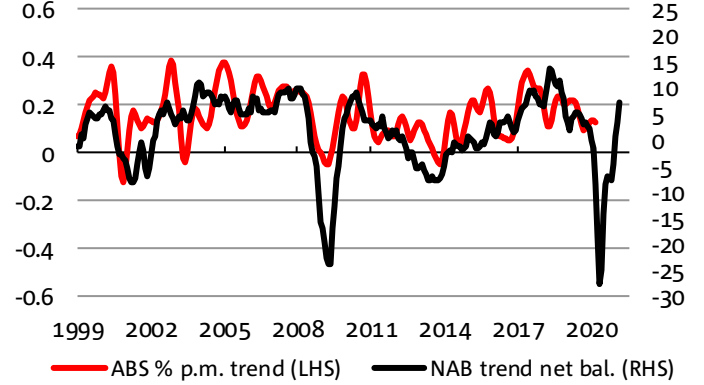


# NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

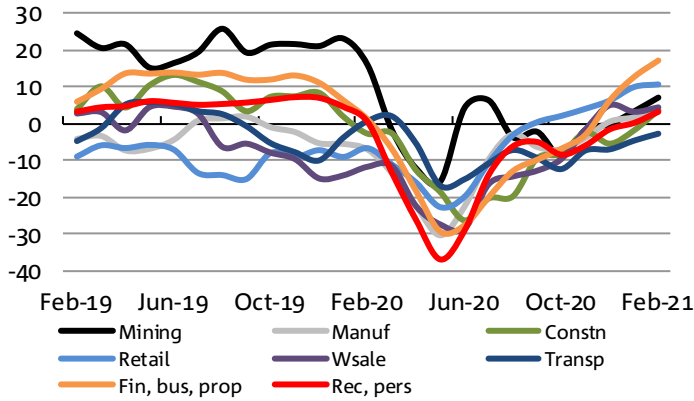
**CHART 25: EMPLOYMENT**



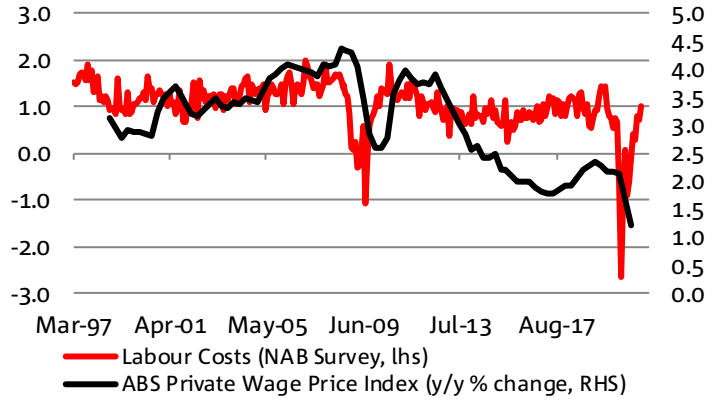
**CHART 26: EMPLOYMENT (NAB VS ABS)**



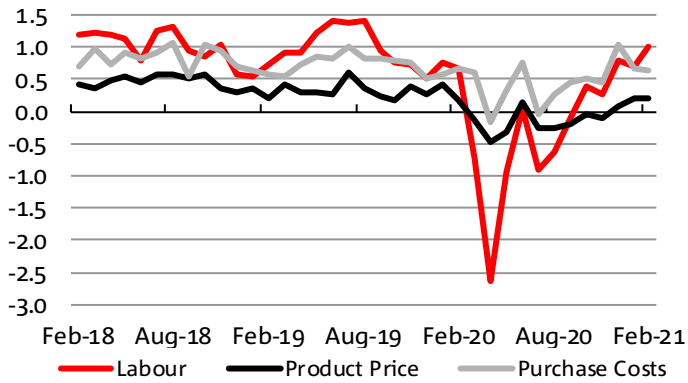
**CHART 27: EMPLOYMENT BY INDUSTRY**



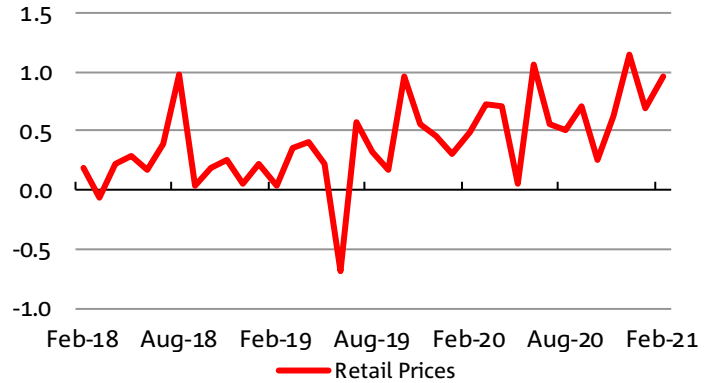
**CHART 28: LABOUR COSTS GROWTH**



**CHART 29: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)**



**CHART 30: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)**



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# APPENDIX: LIST OF SERIES AVAILABLE TO SUBSCRIBERS<sup>^</sup>

## 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.

<sup>^</sup>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)