

# NAB QUARTERLY BUSINESS SURVEY

## 2021 Q1

By Group Economics

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### MOMENTUM BUILDS

The Q1 Business Survey reported further notable business sector improvement. Business conditions and confidence strengthened in the quarter, with both now at +17 index points, well above their long-run averages. All the sub-indices of business conditions improved substantially – profitability, trading and employment are now all well into expansionary territory.

According to Alan Oster, NAB Group Chief Economist “The survey suggests that the economic recovery built further momentum in Q1.”

“What is particularly welcome is that the improvement is broad-based with conditions and confidence improving in most industries and are at an above-average level in all. Moreover, the lift in trading conditions and profitability over the last two quarters is now being translated into the Survey’s employment indicator” said Mr Oster.

Capacity utilisation also continued to rise. It increased by almost 2ppts to 82.3% in Q1 and is now above both its historical average and its pre-COVID level. Again, the improvement was broad based with only mining not seeing a gain in the quarter.

“It is worth remembering that conditions provide a guide as to how fast activity is growing, but capacity utilisation provides an indication of the level of activity. In this quarter we hit an important milestone; not only does it appear that activity continues to grow at a good pace, but the capacity utilisation index now suggests that the level of activity is back around its pre-COVID level. This is consistent with our forecast that GDP will have fully recovered in Q1.” said Mr Oster.

“However, it is worth noting that there are still differences across industries - capacity utilisation in retail, which in aggregate has been boosted by the change in spending patterns - is well above its pre-COVID level while some service industries, as well as mining, remain below.”

Leading indicators again improved and are at high levels. Forward orders and expected forward orders in 3 months recorded another strong increase. Similarly, expectations for business conditions, employment and capital expenditures at the 3- and 12-month horizons rose again to relatively high levels. This suggests further gains in activity and employment over the next three to twelve months.

“While a return to a pre-COVID level of activity would be an important milestone, it would not be a case of “mission accomplished” as we would normally expect the economy to grow over time. That is why a very welcome aspect of the survey is the strength across all the leading indicators, which suggests that the recovery should continue at a relatively strong pace.” said Mr Oster.

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

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