

NAB MONTHLY BUSINESS SURVEY

March 2021

By Group Economics

Embargoed until:
11:30am Tuesday 13 April 2021



BUSINESS CONDITIONS REACH A RECORD HIGH

Key messages: Business conditions rose to a record high in March, driven by strong increases in all sub-components - which are all now also all at record highs. The strength in conditions is evident across all states and industries. Forward orders – which also rose to record levels – points to ongoing strength in activity with the pipeline of work rising further. While business confidence edged lower in the month, it remains at a high level, suggesting that firms themselves are optimistic that the strength in activity will continue. Alongside the strength in activity, capacity utilisation rose further in the month and is now well above average. Encouragingly, capacity utilisation is at or above pre-COVID levels in all industries except for rec & personal services – which unsurprisingly is still impacted by pandemic related restrictions. Taken together, the strength in conditions alongside high levels of capacity utilisation, point to an economy that is continuing to grow at a relatively healthy rate as we transition through the wind-up of the JobKeeper program and beyond.

Business conditions rose 8pts to a record high 25 index points in March. The increase was broad-based across states and industries. All states and industries are now well into positive territory (in trend terms) – and show a very rapid rebound in activity over the past year following the near-record decline in conditions in early 2020.

“This is a very solid survey result. Businesses are telling us activity continues to increase at a very healthy rate as we have move past the rebound phase in activity with the earlier removal of pandemic-related restrictions. Overall, the recovery over the last year has been much more rapid than anyone could have forecast.”

Business confidence fell 3 index points in March, to +15 index points, but remains well above average. Confidence was generally weaker across all industries, led by a pull-back in wholesale and manufacturing. It remains highest in mining, finance, business & property and construction. It is weakest – though still healthy – in retail and wholesale.

“Despite the dip in confidence in the month, it remains well above its long-run average. This in combination with a very strong read for forward orders points to ongoing strength in activity – which hopefully sees conditions remain elevated, even as we pass through the end of the JobKeeper program.” said Mr Oster.

Capacity utilisation rose further in the month, and at 82.3% is now well above average. All industries except for rec & personal are now around or have exceeded pre-COVID levels. Moreover, with the exception of rec & personal and construction, all industries are at or above their long-run average.

“Adding strength to the result for business conditions is the high level of capacity utilisation. Conditions tell us activity is lifting strongly, capacity utilisation tells us we are already a high level. This is particularly encouraging as we move through the tapering in fiscal support and out of the rebound phase of the recovery. It suggests that there may be a lift in business investment and hiring as the underlying pace of growth appears relatively healthy.”

“Indeed, reported capex has now also recovered and provides some optimism that investment will continue to increase given a building pipeline of work – strong forward orders - and high rates of utilisation.”

“Price pressures have lifted in recent months, largely on the input side with a lift in employment and some evidence of higher input costs. Final products price inflation has also risen but are tracking at a slower rate suggesting that not all of the cost increases have been passed onto the consumer. With all eyes on inflation and the next rate move, we continue to monitor this dynamic through the survey.

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

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