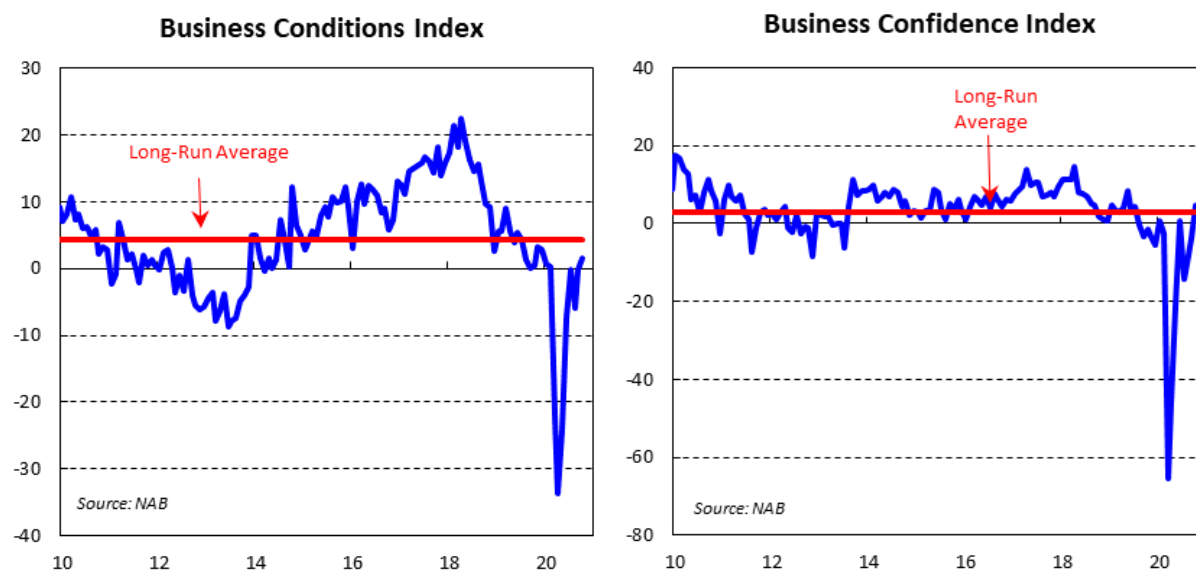


Tuesday, 10 November 2020

Business Confidence and Conditions

Businesses are More Confident

- The National Australia Bank (NAB) business conditions index increased to 1.5 in October, the first positive reading since February. It suggests businesses reacted positively to the 2020-21 Federal Budget measures delivered in October and to the success in controlling COVID-19 infections.
- Business conditions improved across all the main categories. Trading conditions increased by 4.1 points to 8.2, the highest reading since April 2019. Profitability conditions rose from 1.4 in September to 3.9 in October, the highest result since March 2019.
- A worrying sign for the labour market was that the employment index has continued to be in negative territory since March. Although marginally better in October, the employment index still indicates businesses were not willing to increase headcount. The index improved from negative 6.0 in September to negative 5.5 in October.
- Business confidence increased to its highest level since May 2019. The index rose 8.5 points in October to 4.7, which is above its long-term average.
- We are cautiously optimistic about the outlook for business confidence and conditions in November. On the upside, the recent stimulus from the RBA and the further easing of restrictions in Victoria should contribute to a stronger reading. On the downside, surging COVID-19 cases in Europe and the US and the ongoing international border closures may pose risks.



There were encouraging results from the NAB business confidence and conditions survey for October.

The NAB business conditions index increased to 1.5 in October, the first positive reading since February. It suggests businesses reacted positively to both the 2020-21 Federal Budget measures delivered in October and to the success in controlling COVID-19 infections.

Business conditions improved across all the main categories.

Trading conditions increased by 4.1 points to 8.2, the highest reading since April 2019. Profitability conditions rose from 1.4 in September to 3.9 in October, the strongest result since March 2019.

A worrying sign for the labour market was that the employment index has been negative since February. Although marginally better in October, the employment index still indicates businesses were not willing to increase headcount. The index rose from negative 6.0 in September to negative 5.5 in October.

Business confidence increased to its highest level since May 2019. The index rose 8.5 points in October to 4.7, which is above its long-term average.

Capacity utilisation lifted almost 1 percentage point to 77.9% but was still below the 81.0% series average. Capacity utilisation reached its highest rate since February.

We are cautiously optimistic about the outlook for business confidence and conditions for November.

The monetary stimulus package announced by the Reserve Bank of Australia (RBA) last Tuesday should help improve business conditions and lift confidence. The RBA hopes the stimulus will decrease credit costs, stimulate aggregate demand and contribute to a lower exchange rate than otherwise would be the case.

The lowering of restrictions in Victoria should also support business confidence and conditions going forward. Last Sunday (Nov 8), further restrictions were eased and according to the 'roadmap' for reopening Victoria, another round of easing is near. The third step in the 'roadmap', which would bring the State to similar restrictions as others, is close to being achieved. It requires 14 days of no locally transmitted infections. At the time of writing, it is the 10th day without a local transmission.

Additionally, some State Budgets will be released later this month. These are expected to add further stimulus via changes to State charges and increases in local infrastructure spending.

However, there are still headwinds for businesses. The further waves of infections in Europe and the US could hurt confidence. Moreover, international and state border closures - as well as social distancing measures - continue to restrict "normal" economic behaviour. These obstacles could constrain business activity and confidence.

Today's results were heavily influenced by events in Victoria. While it was pleasing to see a pick-up in business confidence and conditions, both remain fragile.

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