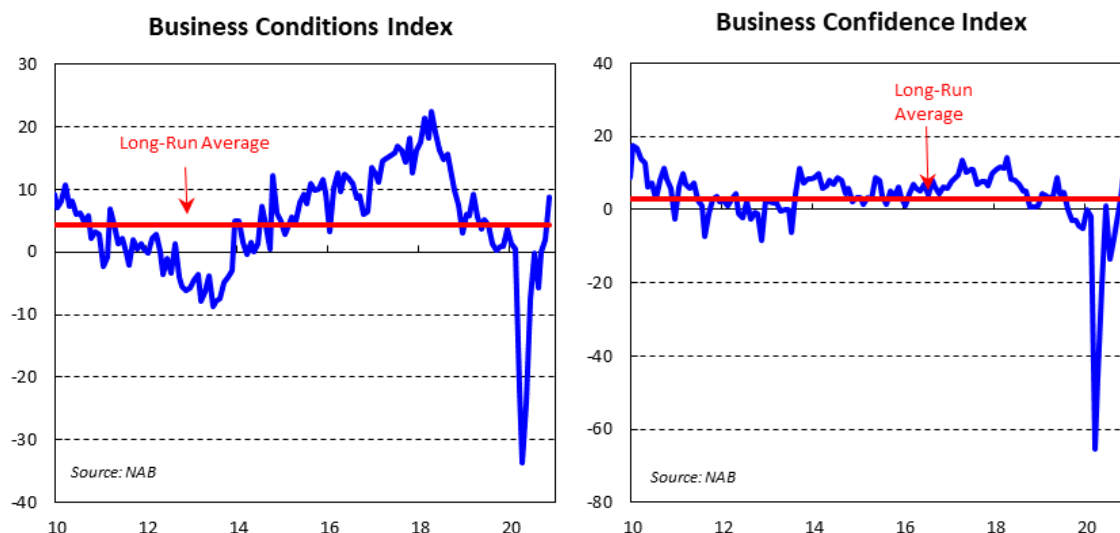


Tuesday, 8 December 2020

Business Confidence and Conditions

Strong Month for Business Conditions

- Business conditions rose 6.8 points in November, reaching 8.8 points, the highest level since March 2019. The improvement was driven by a rebound in Victoria, as restrictions receded. It also likely reflects the monetary stimulus measures deployed by the Reserve Bank, the further easing of restrictions across the rest of the country and the positive news surrounding a vaccine.
- All categories of business conditions showed an improvement in November. Trading conditions rose a sharp 10 points to reach 16.9. Profitability conditions were also very encouraging, with the index rising from 4.8 in October to 14.5 in November.
- In November, the employment index remained negative, despite signs of improvement. Businesses may be holding off on new hiring until better conditions materialise.
- The index for forward orders has turned positive, at 6.0, for the first time in 18 months, suggesting a pipeline of work ahead and further improvements to business conditions in the months ahead.
- Business confidence rose a solid 9.2 points in November to 12.4 points, the highest level since April 2018. The results were mainly driven by higher confidence in the retail and wholesale industries, as well as a stronger reading in Victoria.
- Both conditions and confidence are stronger than the period just before the pandemic and also above their long-run averages. The results for November suggest business sentiment and operating conditions for businesses are continuing to recover, which could lead to a lift in business spending over coming months.



The National Australia Bank (NAB) survey of business indicators showed encouraging signs for business confidence and conditions in November.

The business conditions index rose 6.8 points in November, reaching 8.8 points, the highest level since March 2019. The improvement was driven by a rebound in Victoria, reflecting the easing of lockdown restrictions. It also likely reflects the monetary stimulus measures adopted by the Reserve Bank, the easing of restrictions across the rest of the country and the positive news surrounding a coronavirus vaccine. Further stimulus measures announced in the 2020-21 State Budgets could also have contributed to higher business conditions and confidence in November.

All categories of business conditions showed an improvement in November. Trading conditions rose a sharp 10 points to reach 16.9. Profitability conditions were also very encouraging, with the index rising from 4.8 in October to 14.5 in November. Trading and profitability conditions have not been this high in over two years, suggesting a strong recovery in the business environment.

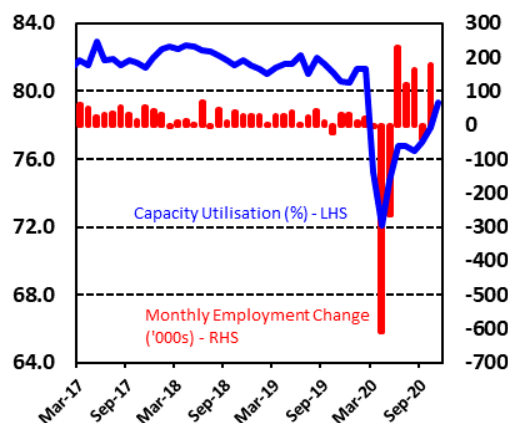
The index for forward orders turned positive, at 6.0, for the first time in 18 months, suggesting a pipeline of work ahead and further possible improvements to business conditions in the months ahead.

Last month, we indicated that the negative index for employment was concerning, despite the improvements recorded in September and October. A negative index indicates more businesses reported lowering headcount than increasing hiring, suggesting a deterioration in labour market conditions. In November, it was a similar story, with the index rising from negative 5.4 to negative 4.6. It is possible that businesses are holding off on new hiring until better conditions materialise. Conditions have only improved for two consecutive months and the recovery path remains unstable.

Business confidence rose a solid 9.2 points in November to 12.4 points, the highest level since April 2018. The results were mainly driven by an improvement in Victoria and higher confidence in the retail and wholesale industries. High levels of business and consumer confidence are fundamental for monetary and fiscal stimulus measures to be more effective, which helps in producing a faster economic recovery.

The NAB survey also provided information on capacity utilisation. In November, utilisation rose 1.4 percentage points to 79.3%, indicating businesses were faced with higher demand for their goods and services. However, the index remained below its long-term average of 81.0% and the pre-pandemic (February) level of 81.3%. It is unlikely that businesses will increase headcount substantially if utilisation remains subdued in future months.

Capacity Utilisation and Job Creation



Outlook

The results for November suggest business sentiment and the operating conditions for businesses are continuing to recover. We believe this recovery will continue in the months ahead. However, it is important to acknowledge the fragility of the recovery path.

On top of the stimulatory fiscal and monetary measures already in place, business will likely remain optimistic because of the encouraging signs of a stronger economic recovery. The Australian economy grew 3.3% in the September quarter, a stronger-than-expected rebound from the 7.0% plunge in the June quarter. Positive vaccine news and the further easing of restrictions should also help promote confidence and firmer conditions.

But there are headwinds that threaten the stability of the recovery path. The high number of infections worldwide, trade tensions between Australia and China and the elevated uncertainty about the economic outlook could continue to weigh on business confidence and conditions.

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