

Tuesday, 9 February 2021

Business Confidence and Conditions

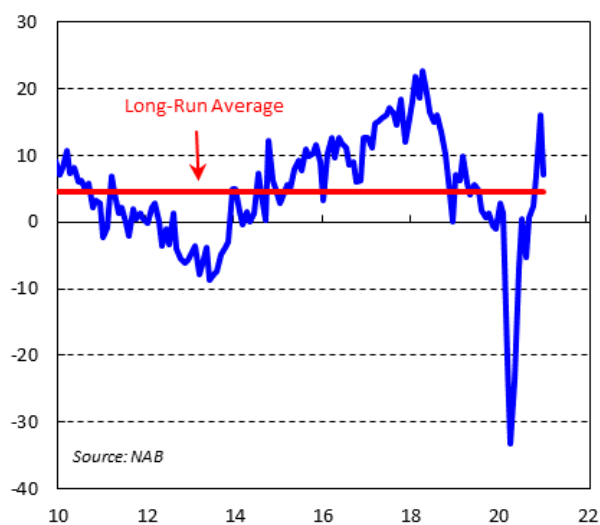
Businesses Point To Recovery

- Business conditions declined 9 points in January to 7 off the back of a strong print in December. Conditions are now around their long-run average level.
- All subcomponents of the business conditions index declined. This was led by an easing in trading conditions which fell by 11 points, reaching 11, after hitting multi-year highs in recent months. Profitability declined by 4 points to 9 but remained above its pre-pandemic level.
- The employment index eased 7 points in January to 3 but, importantly, remained in positive territory. This means more businesses are increasing hiring rather than reducing headcount.
- Business confidence rose 5 points in January to 10. This followed a dip in business confidence in December as COVID-19 concerns in NSW weighed on sentiment.
- Forward looking indicators suggest further improvement with capacity utilisation and forward orders both trending higher. Utilisation rose 0.2 percentage points to 81.0% and is now around its long-run average and pre-COVID level. The rebound in capacity utilisation will help drive businesses to increase hiring and subsequently support the recovery in the labour market.
- Both conditions and confidence are stronger than the period just before the pandemic and also above their long-run averages. Despite the downtick in business conditions in the month of January, we believe the broad recovery will continue in the months ahead.

Business Confidence Index



Business Conditions Index



The NAB survey of business indicators showed encouraging signs for business confidence in January, however, conditions eased back marginally.

Business conditions declined 9 points in January to 7 off the back of a strong print in December. Conditions are now around their long-run average level. The decline was broad-based across states although conditions remained weaker in NSW and Victoria, which have been hit hardest by restrictions. The divergence across industries continued. Conditions remained strongest in the retail and wholesale sectors while construction and recreation & personal services continued to lag.

All subcomponents of the business conditions index declined. This was led by an easing in trading conditions which fell by 11 points, reaching 11, after hitting multi-year highs in recent months. Profitability declined by 4 points to 9 but remained above its pre-pandemic level.

The employment index eased 7 points in January to 3 but, importantly, remained in positive territory. This means, overall, businesses have continued to expand their headcount. We are still a long way from offsetting the falls in employment last year, but the results over recent months are early positive signs.

Business confidence rose 5 points in January to 10. This followed a dip in business confidence in December as COVID-19 concerns weighed on sentiment. Driving the lift in confidence were gains in Queensland, NSW and Tasmania. These likely relate to the opening of interstate borders, and in NSW, the prospect of further easing of social distancing rules.

Western Australia and South Australia saw confidence decline in January but in trend terms, confidence remains positive and rising.

The level of business confidence in January sat above that seen throughout 2019 and most of 2020. Business confidence hit a 31-month high of 13 in December 2020 and now sits marginally below that level but well above the long run average of 3.

Leading indicators suggest further improvement with capacity utilisation and forward orders both trending higher. Utilisation rose 0.2 percentage points to 81.0% and is now around its long-run average and pre-COVID level. The rebound in capacity utilisation will help drive businesses to increase hiring and subsequently support the recovery in the labour market.

Outlook

The results for January suggest business sentiment and the operating conditions for businesses are around their pre-pandemic levels. Despite the downtick in business conditions in the month of January, we believe the broad recovery will continue in the months ahead.

The re-opening of interstate borders, sound management COVID-19 outbreaks and the rollout of vaccines should see both confidence and conditions improve. In addition, interest rates remain at historically low levels and will remain so until at least 2024. State and federal stimulus spending will also continue for several years, especially on infrastructure.

However, it is important to acknowledge the risks to the recovery path. JobKeeper ends in March, COVID-19 risks remain, our international border remains effectively closed to passenger traffic and some sectors are facing trade tensions with China.

Matthew Bunny, Economist & Hans Kunnen, Senior Economist
Ph: 02-8254-1316

Contact Listing

Chief Economist

Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Senior Economist

Hans Kunnen
hans.kunnen@banksa.com.au
(02) 8254 1316

Economist

Matthew Bunny
matthew.bunny@banksa.com.au

The information contained in this report (.the Information.) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
