

CONDITIONS HIT A RECORD HIGH

NAB Australian Economics

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.

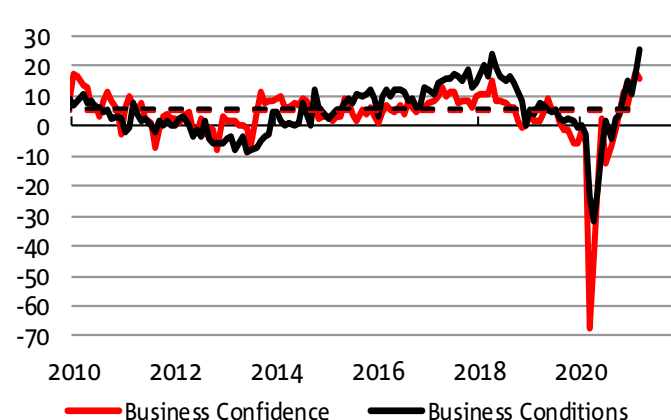
HIGHLIGHTS

- **How confident are businesses?** Confidence dipped 3pts to +15 index points but remains well above its long-run average.
- **How did business conditions fare?** Conditions rose 8pts to +25 index points, a new survey high.
- **What components contributed to the result?** All three sub-components saw large gains in the month led by a gain in trading conditions (up 12pts), though profitability (up 8pts) and employment (up 7pts) also saw notable increases.
- **What is the survey signalling for jobs growth?** The employment index points to ongoing strength in employment growth, with the index well above average – even as the labour market neared the end of JobKeeper.
- **Which industries are driving conditions?** Conditions rose in all industries except for mining, wholesale and transport & utilities. Manufacturing and construction saw the largest gains. Overall, in trend terms, conditions remain most favourable in retail, finance, business & property services and wholesale. Construction is weakest – but still positive.
- **Which industries are most confident?** Confidence was unchanged or weaker across most industries except for mining. In trend terms, confidence is highest in finance, business & property, mining and construction. The outlook is least optimistic (but still above average) in retail suggesting that there may be moderation in conditions as consumer spending patterns normalise.
- **Where are we seeing the best conditions by state?** Conditions improved in all states except for WA which edged lower. SA and Tas saw outsized gains in the month, while QLD, NSW and VIC all saw gains of 9-10pts. In trend terms, conditions remain most favourable in WA though all mainland states are now at or above +15 index points.
- **What is confidence like across the states?** Confidence was mixed across states with Vic and WA higher, and the rest lower. Across the mainland confidence, in trend terms, is fairly tightly grouped in the 14-18 index point range.
- **Are leading indicators suggesting further improvement?** Forward orders rose 7pts in the month to a record high +17 index points – pointing to ongoing strength in activity. Capacity utilisation saw another solid gain and is now well above average.
- **What does the survey suggest about inflation?** Generally, price pressures remain soft but have increased somewhat over recent months. Labour costs continue to increase as employment recovers, while input price growth has also risen. For now, these pressures do not appear to have been fully passed through to the consumer, with final products prices tracking at around half the pace. That said, retail price inflation has strengthened over the past two months.

TABLE 1: KEY STATISTICS

	Jan-21	Feb-21	Mar-21
	Net balance		
Business confidence	13	18	15
Business conditions	10	17	25
Trading	15	23	35
Profitability	13	18	26
Employment	4	9	16
Forward orders	3	10	17
Stocks	1	2	10
Exports	-4	-2	0
	% change at quarterly rate		
Labour costs	0.8	1.1	1.9
Purchase costs	0.7	0.7	1.8
Final products prices	0.2	0.3	0.9
Retail prices	0.7	1.0	1.0
	Per cent		
Capacity utilisation rate	81.1	81.8	82.3

CHART 1: CONDITIONS REACH A RECORD HIGH



* Dotted lines are long-run averages since Mar-97.

All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 19 to 31 March 2021, covering over 400 firms across the non-farm business sector.

Next release date: 10 May 2021.

NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

BUSINESS CONDITIONS REACH A RECORD HIGH WITH ALL INDUSTRIES IN POSITIVE TERRITORY

- Over the past year the business conditions index has undergone a sharp but short cycle. The significant decline in conditions was only surpassed by the 1990s recession – which was a more protracted event. In just three months, conditions declined by 32pts, reaching a trough at -32 index points in April. However, once initial national pandemic-related lockdowns were lifted, conditions recovered relatively quickly.
- While the decline in conditions was broad-based across industries, with activity significantly disrupted across all sectors of the economy, the services sectors were generally the worst affected. These sectors have also rebounded more slowly than the rest of the economy but are now beginning to strengthen – particularly finance, business & property. Notably, all industries have now returned to positive territory in trend terms, a result not seen since mid-2018.
- The construction industry also lagged the recovery but there are signs of a significant pickup with conditions rising sharply in March and forward orders in the sector increasing to high levels. This likely reflects the significant take-up of the government’s HomeBuilder program.
- Manufacturing has also strengthened to levels not seen since early 2018. This likely reflects spill-over demand from construction as well as elevated consumer demand given the shift in spending patterns which have boosted retail and other goods spending while borders remain closed.
- Alongside the improvement in conditions, capacity utilisation – which reflects the level of activity – has also recovered relatively strongly after near record declines in early 2020. In March capacity utilisation rose to 82.3% - and is now notably above its long run average of 81.0%.
- Like conditions, capacity utilisation was impacted across all industries in 2020. However, due to the strong pace of recovery, capacity utilisation is now around its pre-COVID levels or better in all industries except for rec & personal. It is also now at or above average in 6 out of 8 industry groupings.
- The strength of the survey this month is encouraging, given that businesses expect activity to continue strengthening – with confidence and forward orders also high. The high level of capacity utilisation also suggests that these gains are more than just a rebound from earlier disruptions, and that there is likely a solid underlying momentum in activity.
- Policy support has been instrumental in supporting the business sector over the past year but the results of the business survey over the past two months suggest that a relatively smooth handover of growth to the private sector is under way. This provides some optimism that while some sectors will no doubt undergo a difficult adjustment in coming months, the ending of JobKeeper will not see the economy go backwards in aggregate.

CHART 2: BUSINESS CONDITIONS (NET BAL.)



CHART 3: BUSINESS CONDITIONS (NET BAL. CONTRIBUTIONS)

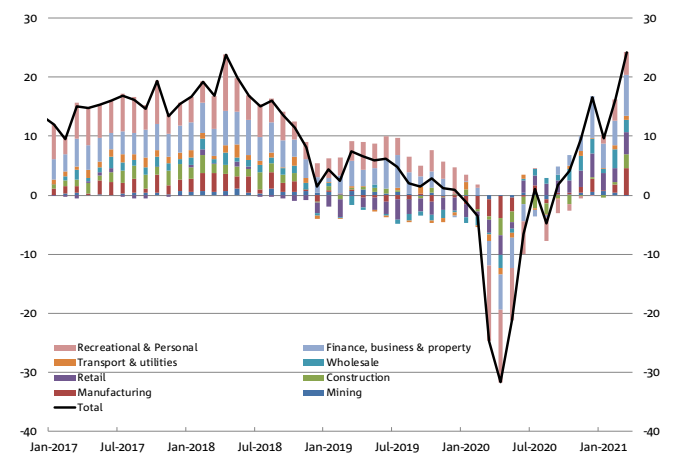
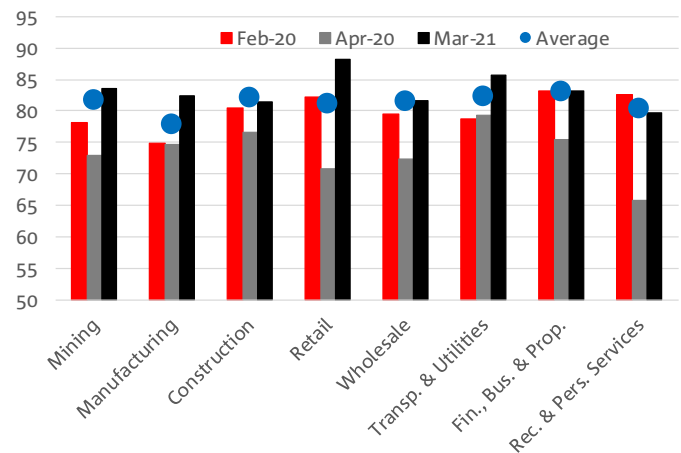


CHART 4: CAPACITY UTILISATION BY INDUSTRY (%)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

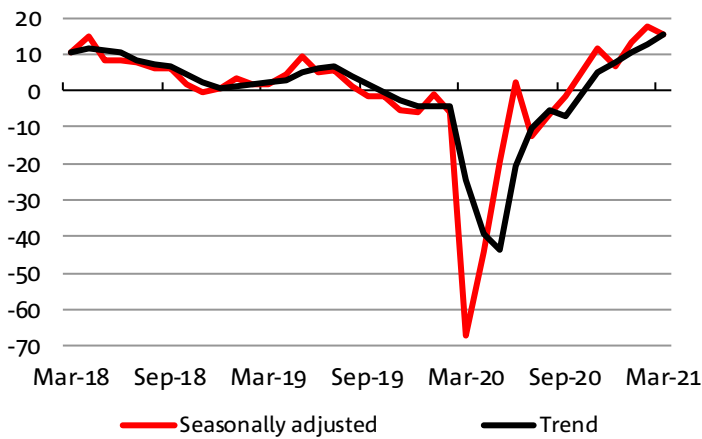


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

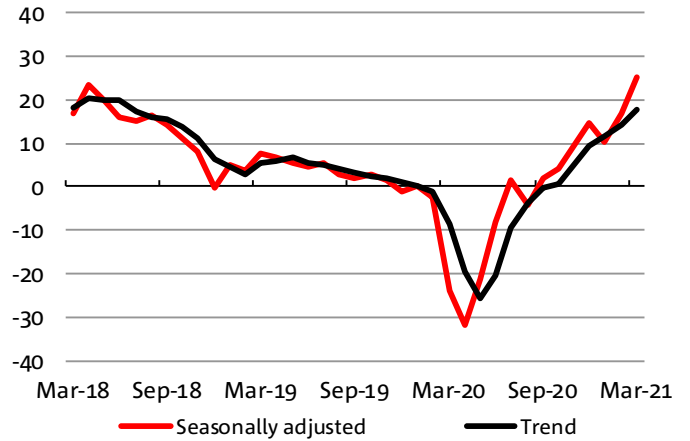


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

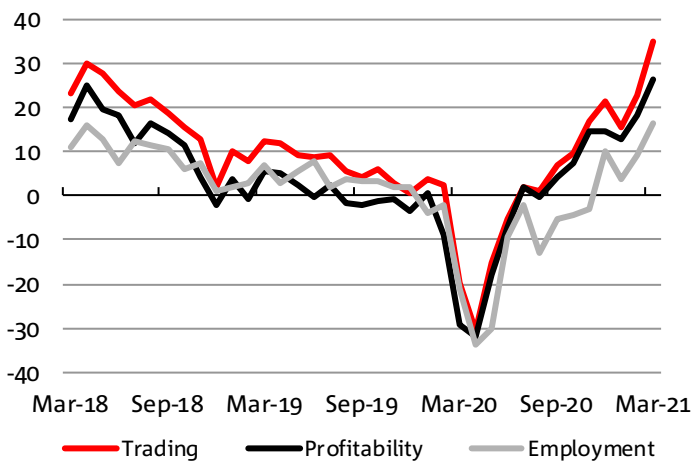


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

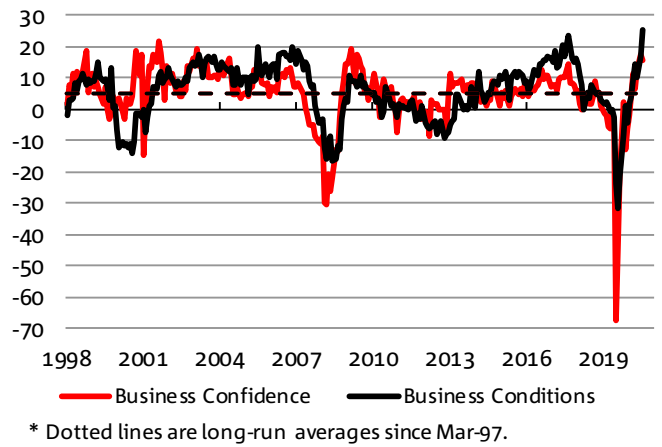


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

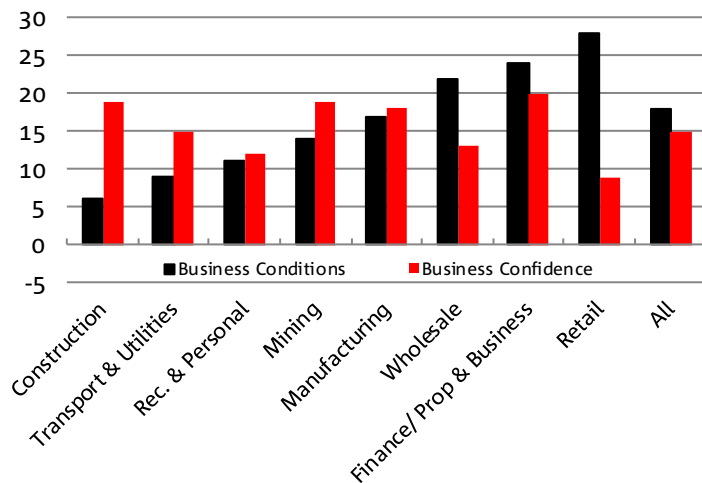
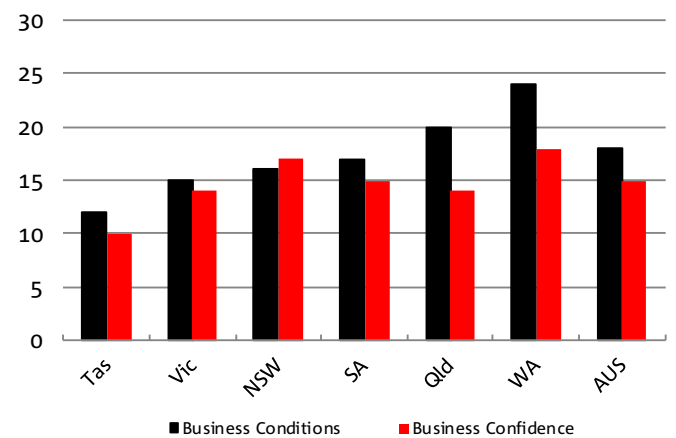


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

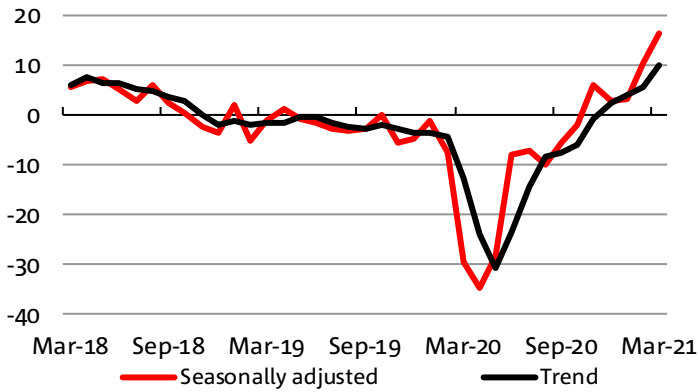


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

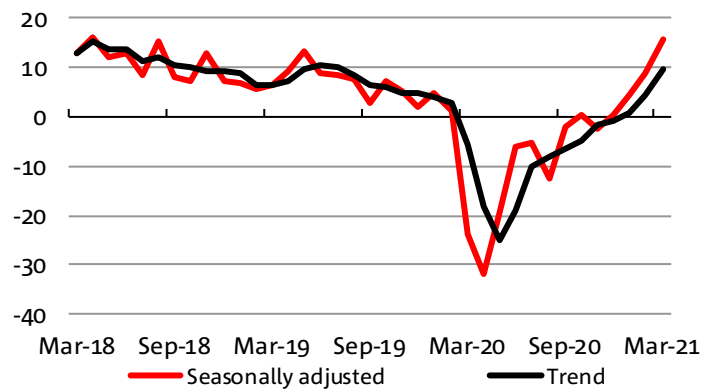


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

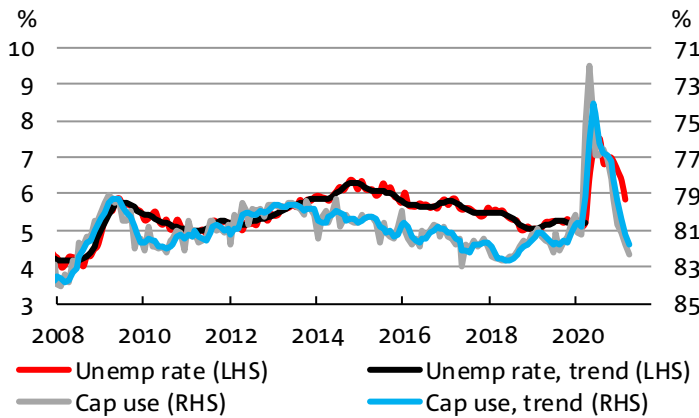


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

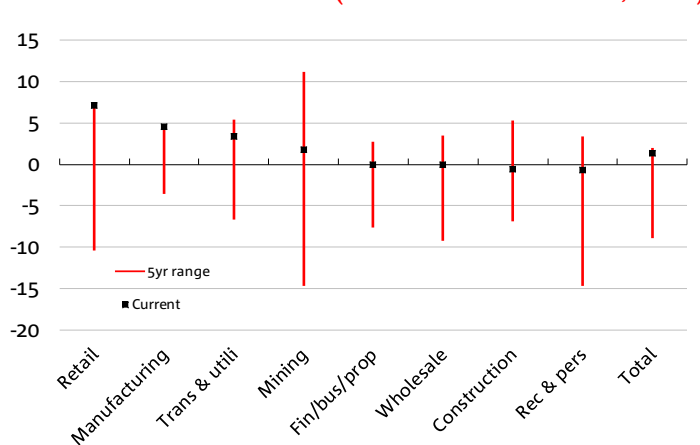


CHART 15: STOCKS (NET BALANCE)

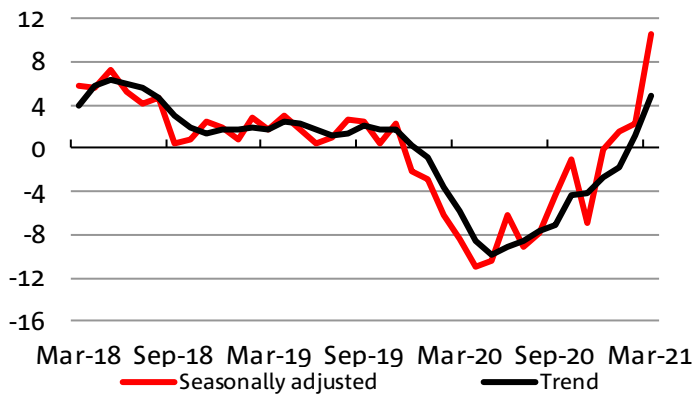


CHART 16: CASH FLOW (NET BALANCE)

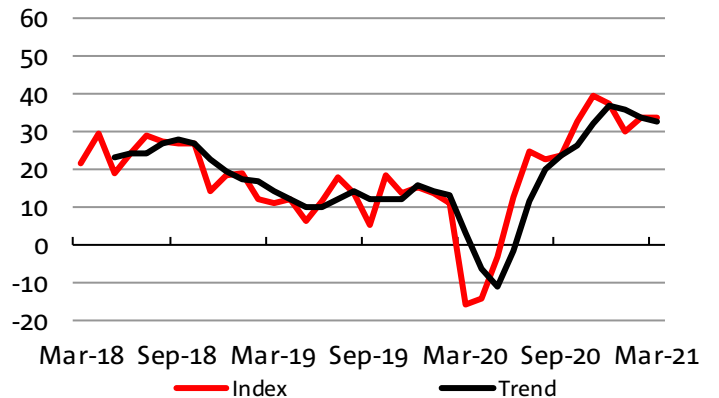


CHART 17: EXPORTS (NET BALANCE)

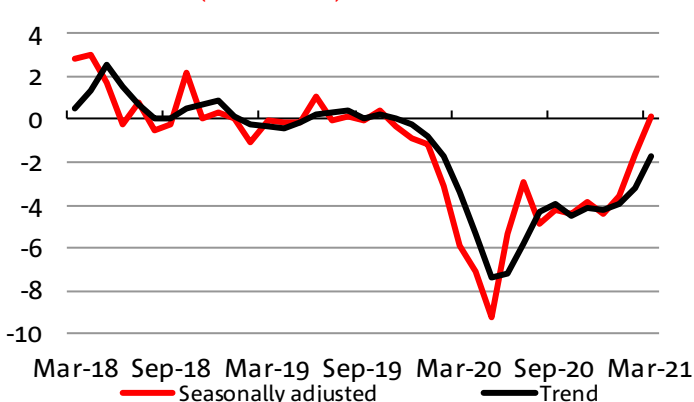
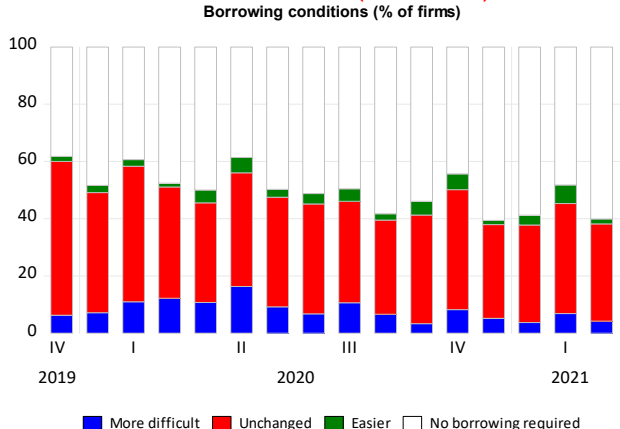


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 19: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

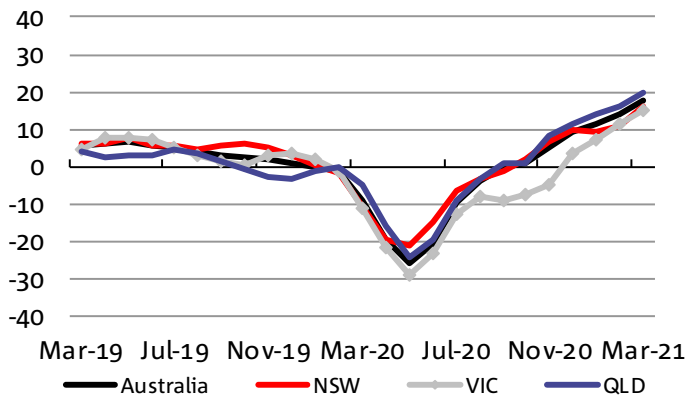


CHART 20: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

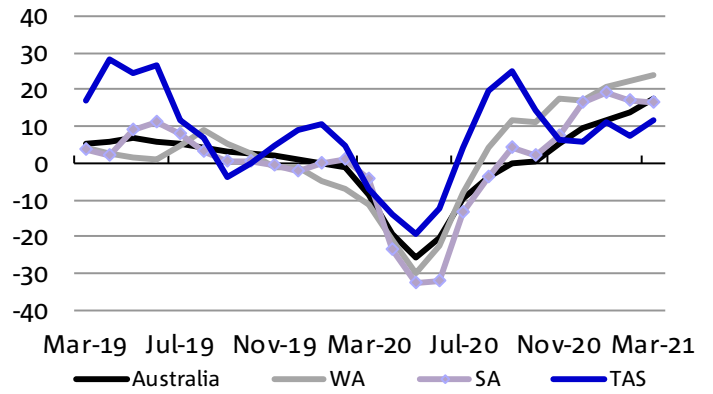


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

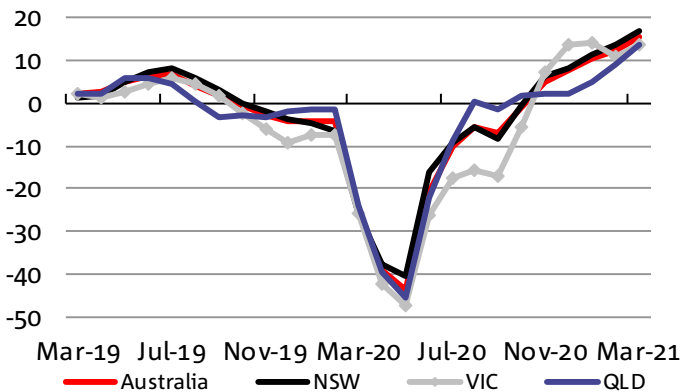


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

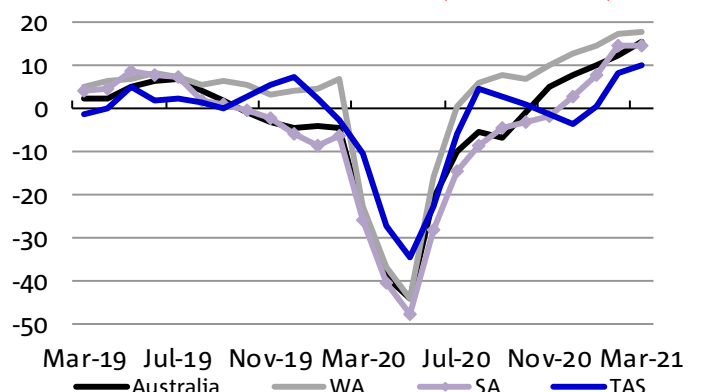


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

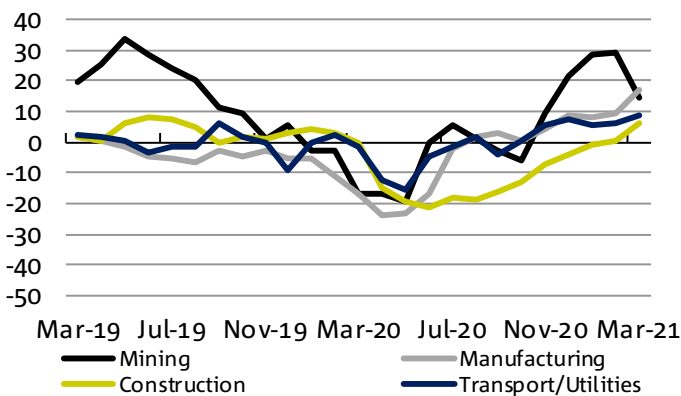


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

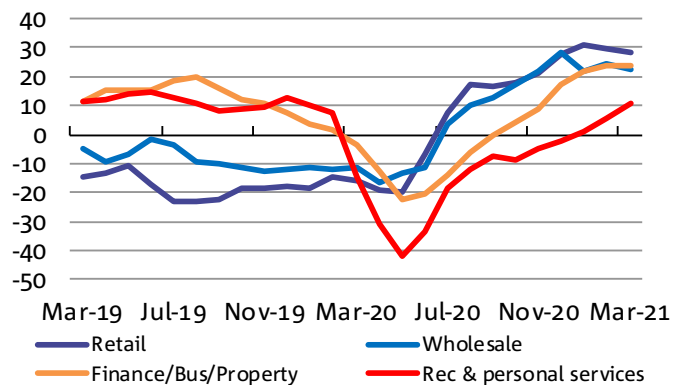


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

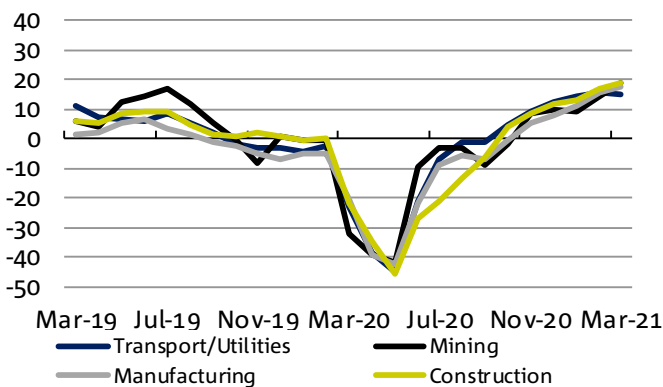
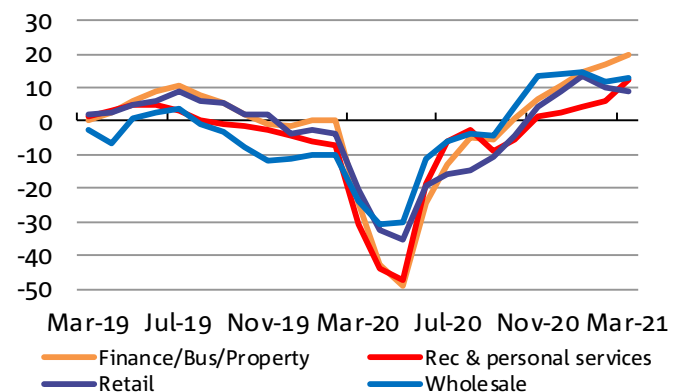


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

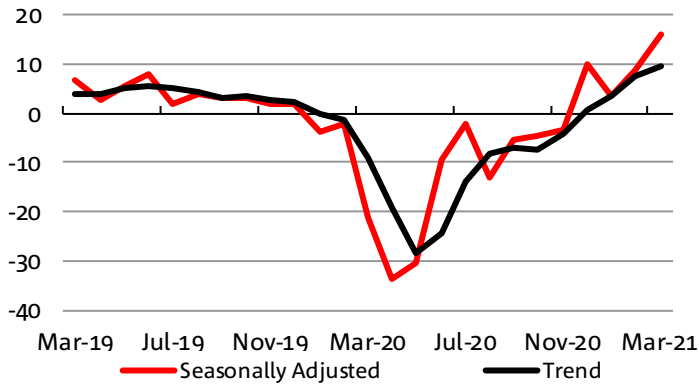


CHART 28: EMPLOYMENT (NAB VS ABS)

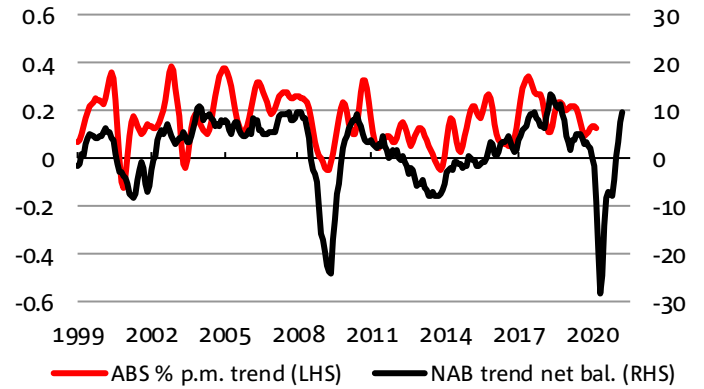


CHART 29: EMPLOYMENT BY INDUSTRY

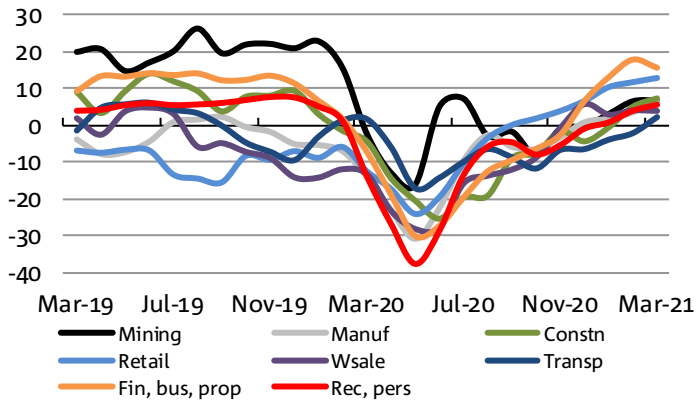


CHART 30: LABOUR COSTS GROWTH

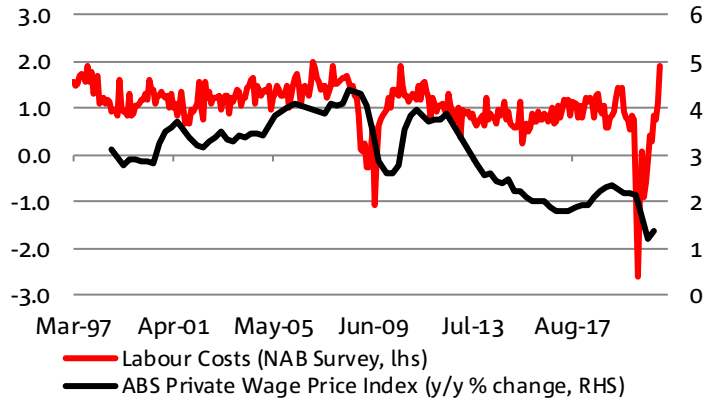


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

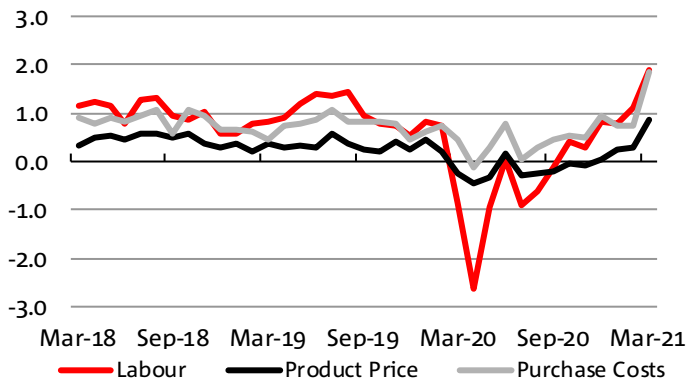
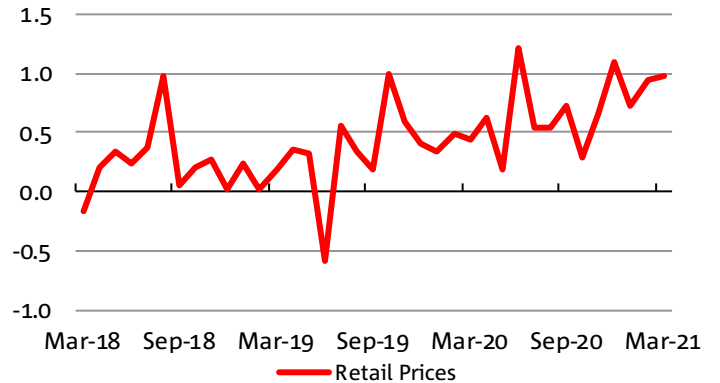


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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APPENDIX: LIST OF SERIES AVAILABLE TO SUBSCRIBERS[^]

MONTHLY BUSINESS SURVEY*

Business Confidence	Net balance
Business Conditions	Net balance
Trading Conditions	Net balance
Profitability	Net balance
Employment	Net balance
Forward Orders	Net balance
Stocks	Net balance
Exports	Net balance
Capital Expenditure (Capex)	Net balance
Cash Flow	Net balance
Labour Costs	% change at quarterly rate
Purchase Costs	% change at quarterly rate
Final Prices	% change at quarterly rate
Capacity Utilisation	Per cent
Borrowing Demand & Conditions	%; net balance

All series available on an industry basis for:

Mining
Manufacturing
Construction
Retail trade
Wholesale trade
Transport / Utilities
Finance / Property / Business Services
Recreation / Personal Services

All available on a state basis for:

New South Wales
Victoria
Queensland
WA
SA/NT
Tasmania

*All data available in original, seasonally adjusted and trend terms.

[^]Subscribers also receive a copy of the Subscriber details publication which contains a variety of extra charts and tables.

QUARTERLY BUSINESS SURVEY*

Business Confidence
Business Conditions (current, next 3 mth, next 12 mth)
Trading conditions (current, next 3 mth, next 12 mth)
Profitability (current, next 3 mth, next 12 mth)
Employment (current, next 3 mth, next 12 mth)
Forward orders (current, next 3 mth)
Stocks (current, next 3 mth)
Export orders (current, next 3 mth)
Capital expenditure (current, next 3 mth, next 12 mth, fiscal year)
Required rate of return on investment
Cash flow
Labour costs (current, next 3 mth)
Purchase costs (current, next 3 mth)
Final prices (current, next 3 mth)
Capacity Utilisation
Borrowing index (current, next 3 mth)

Borrowing demand (current, next 3 mth)

Constraints on output (demand, labour, materials, premises & plant, finance/working capital)

Constraints on profit (capital, demand, high AUD, low AUD, interest rates, labour, tax, wages, energy costs, other)
Constraint on employment (demand, confidence, cashflow, suitable labour, high wages, government policy, labour not at full capacity, other, don't know)

All series available on an industry basis for:

Mining (sub-groups: Mining Extraction, Mining Services)

Manufacturing (sub-groups: food beverage & tobacco, textile clothing footwear & leather, wood & paper product, printing publishing & recorded media, petroleum coal chemical & associated products, non-metallic mineral product, metal product, machinery & equipment, other)

Construction (sub-groups: Residential Building, Non-residential Building, Other Construction, Construction Services)

Retail trade (sub-groups: Food, Personal & Household Goods, Motor Vehicle Retailing & Services, Other Retail)

Wholesale trade

Transport / Utilities

Finance / Property / Business Services (sub-groups: Finance, Insurance, Services to Finance & Insurance, Property Services, Business Services)

Recreation / Personal Services (Sub-groups: Motion picture, Radio & Television Services, Libraries Museums & the Arts), Sports & Recreation, Personal Services, Accommodation Cafes & Restaurants, Health Services, Education, Other Services)

All series available on a state basis for:

New South Wales

Victoria

Queensland,

WA

SA/NT

Tasmania

Margins (current, next 3 mth)

Overheads (current, next 3 mth)

Productivity growth

Number of employees

Hours worked

Gross Sales

Output/sales growth (current fiscal year)

Average earnings (current fiscal year)

Short term interest rate

Exporters hedged FX exposure (%)

Importers hedged FX exposure (%)

Months hedged (exporters)

Months hedged (importers)

Favourable hedge position (% of exporters)

Favourable hedge position (% of importers)

Affected vs not affected by AUD

Response to AUD (downsized, reduced, overheads, hedging, import substitution, focus on domestic market, other, don't know)

Driver of trading conditions (demand, wages/jobs, house prices, rates, exchange rate, tax/govt policy, seasonal, finance/working capital, company specific, other)

What will improve confidence (lower rates, more suitable labour, easier funding, government policy, higher demand, higher AUD, lower AUD, easier compliance, other)

*Data available in original, seasonally adjusted and trend terms.