

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.

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The Detail

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