



NAB MONTHLY BUSINESS SURVEY MARCH 2020

A HUGE HIT TO THE BUSINESS SECTOR FROM CORONAVIRUS

NAB Australian Economics

Key messages from the Survey: The impact on the business sector of Coronavirus containment measures has been immediately obvious. Business confidence saw its largest decline on record and is now at its weakest level in the history of the NAB business survey (including the quarterly). This is somewhat unsurprising given the recent escalation of widespread containment measures, which are unlikely to be lifted in the near-term and the risk of further escalation. Business conditions also declined sharply in aggregate and across the bulk of industries. Recreation & personal services saw the largest hit, unsurprising given the effective shut down of these sectors. Forward orders collapsed to their lowest level on record, while capacity utilisation also saw a sharp decline. Overall, the decline in forward orders and business conditions imply a large fall in GDP in the next 6 months. While it is unlikely that the unprecedented policy support targeted at the business sector will be unable to offset the near-term pain, it will be very important in supporting activity in the recovery phase. The timing of a recovery is extremely uncertain at this point, but supporting business sector cashflow and the ability to hold onto employees will need to remain a focus. There is significant risk that a blow to confidence of this magnitude for an extended period could lead to ongoing fallout in terms of employment growth and capital expenditure by business. This has been reflected in the response of policy makers to date.

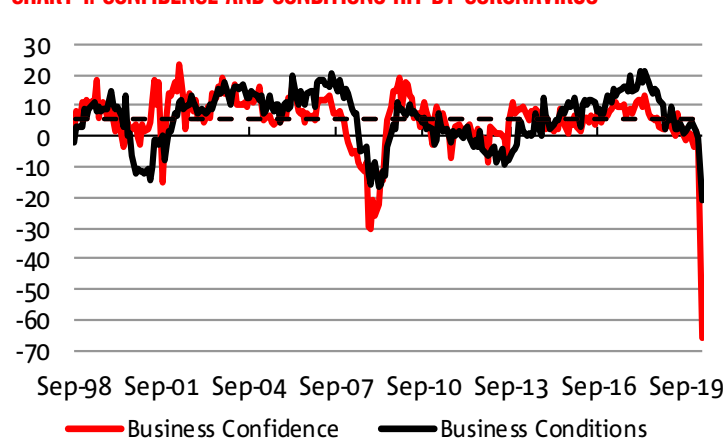
HIGHLIGHTS

- **How confident are businesses?** Confidence fell 64pts to -66 index points, the weakest level on record (including quarterly).
- **How did business conditions fare?** Conditions fell 21pts to -21 index points. The largest decline on record.
- **What components contributed to the result?** Profitability, trading conditions and employment all saw large declines in the month with profitability the weakest of all three components.
- **What is the survey signalling for jobs growth?** The survey saw a sharp deterioration in the employment index this month, which is consistent with a notable tick up in unemployment.
- **Which industries are driving conditions?** All industries saw a sharp decline in conditions in the month with the exception of wholesale (up 17pts) and construction (which declined by a modest 3pts). Rec & personal saw the largest decline followed by mining and finance, business and property services. With the exception of wholesale, all industries report negative conditions.
- **Which industries are most confident?** Confidence decline sharply across all industries in the month. Construction declined by almost 80pts with the bulk of the other industries falling by 60-70pts in the month. In trend terms, all industries are now in deep negative territory.
- **Where are we seeing the best conditions by state?** Conditions fell between 18 – 25pts across the states. All states now lie in negative territory.
- **What is confidence like across the states?** Each state saw a sharp fall in confidence, with the declines led by WA and SA. Tas saw the smallest (but still large) decline across the states.
- **Are leading indicators suggesting further improvement?** In addition to the stark decline in confidence, forward orders fell 25pts to -29 index points and capacity utilisation fell to an exceptionally low level at 75%.
- **What does the survey suggest about inflation and wages?** Final products prices were softer in the month, though retail inflation was unchanged. Labour costs declined in the month, while other input price inflation eased.

TABLE 1: KEY STATISTICS

	Jan-20	Feb-20	Mar-20
	Net balance		
Business confidence	1	-2	-66
Business conditions	2	0	-21
Trading	5	4	-19
Profitability	0	-5	-27
Employment	0	1	-20
Forward orders	-1	-4	-29
Stocks	0	-5	-8
Exports	-1	-2	-6
	% change at quarterly rate		
Labour costs	0.9	0.8	-0.9
Purchase costs	0.7	0.9	0.5
Final products prices	0.5	0.3	-0.2
Retail prices	0.3	0.6	0.6
	Per cent		
Capacity utilisation rate	81.4	81.2	75.0

CHART 1: CONFIDENCE AND CONDITIONS HIT BY CORONAVIRUS



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

All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 25 March – 1 April 2020, covering almost 500 firms across the non-farm business sector.

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NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

LONG-RUN COMPARISONS

- The impact of the spread of the coronavirus and resulting government containment measures have had a large impact on households and businesses. While industries like recreational and personal services will be most significantly impacted, it is likely that every corner of the economy will feel an impact.
- Indeed, our special question in the Q1 business survey suggested that around 60% of businesses had been impacted by the coronavirus – with the survey having been conducted prior to the more significant and widespread containment measures. Unsurprisingly, business confidence fell significantly this month with conditions likely to get worse before they improve. Business conditions also fell sharply but were only surveyed as the significant containment measures started to come into force.
- Business confidence fell to its lowest level since the survey began, recording a reading worse than the GFC or 1990s recession. The GFC saw a trough in confidence of -30 index points while the early 1990s recession saw confidence fall to around -20 index points.
- The decline in business conditions was also a sharp fall but to a level seen in the GFC and not quite as bad as the 1990s recession. However, as time passes and containment measures are kept in place it is likely that conditions will fall further as more businesses are impacted.
- Forward orders and capacity utilisation also recorded their largest monthly declines in history and are also at exceptionally low levels. It is possible that we will see capacity utilisation fall further, given business had only just entered the shutdown phase at the time of the survey.
- Using a simple mapping equation from forward orders to private sector demand (as measured by the national accounts) suggests that the decline in forward orders is consistent with around a 10% fall in 6-month annualised terms (results shown in Chart 4). For now, we have pencilled in a sharper decline in our forecasts, with private demand falling by closer to 15% in annualised terms over H1 2020. That would be sharpest and fastest down turn in activity in the post WW2 era.
- It is important to note while the impact on the business sector has been dramatic, the policy response has been unprecedented in terms of speed and size. This will serve to support the recovery in the economy as the impact of containment measures fades. Our view is that these measures are unlikely to fully offset the impact of the containment measures in the near term, but will provide a very important offset to the economic fallout in the recovery phase, preventing mass business closures and even higher unemployment.

CHART 2: BUSINESS CONFIDENCE (NET BAL.)

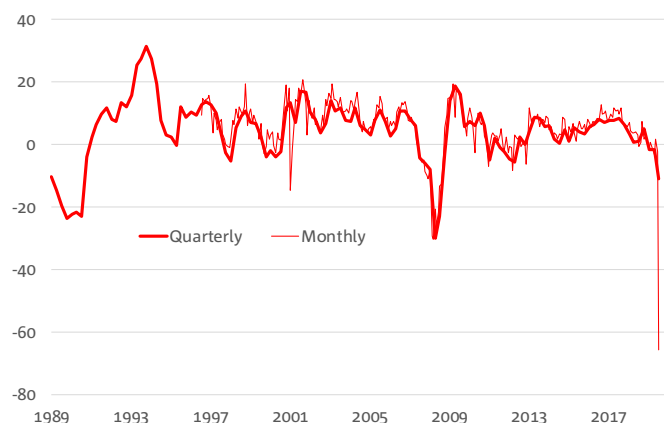


CHART 3: BUSINESS CONDITIONS (NET BAL.)

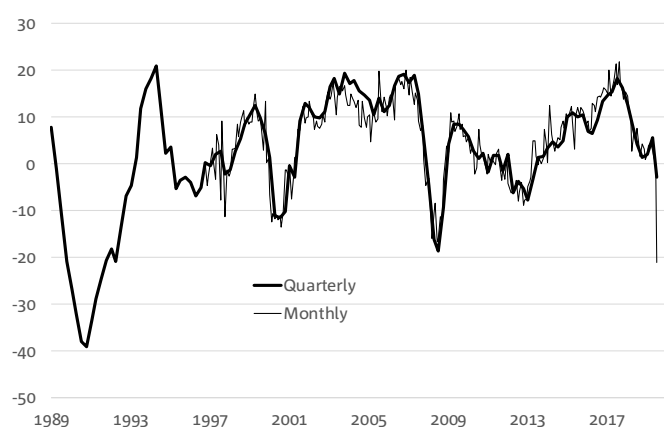
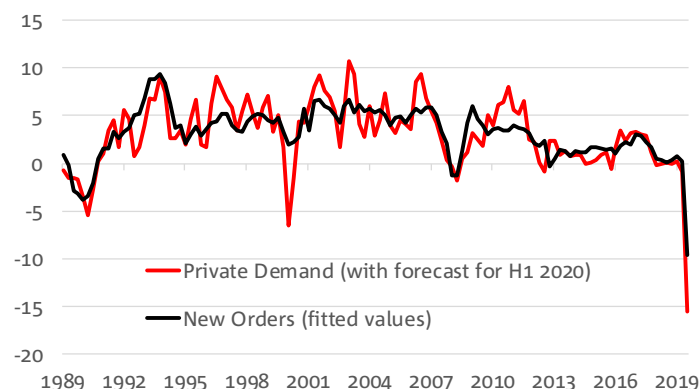


CHART 4: FORWARD ORDERS AND ACTIVITY (6-MONTH ANNUALISED % CHANGE)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

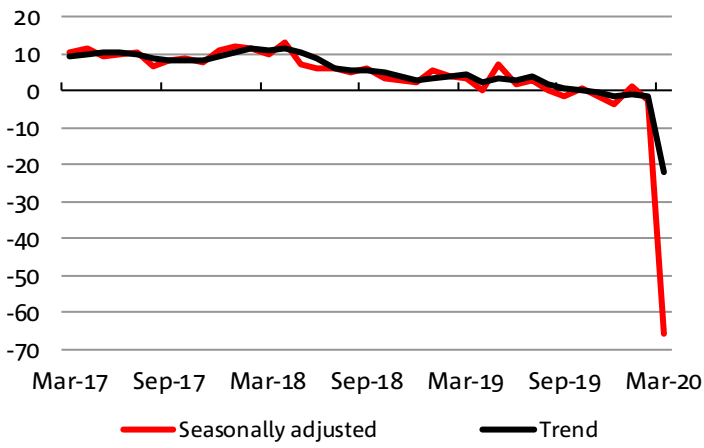


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

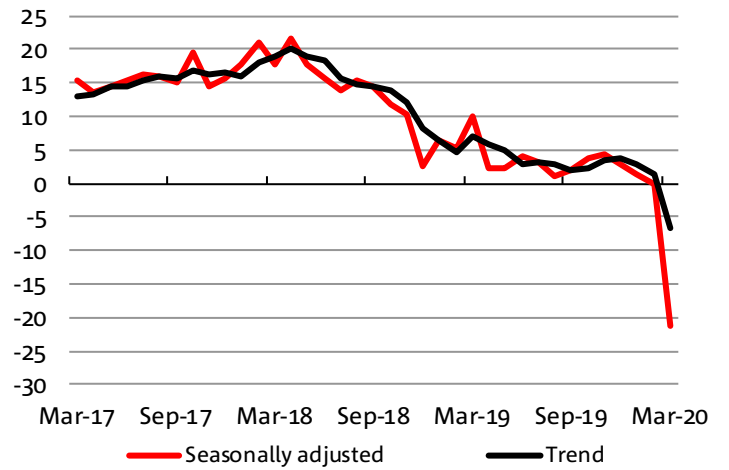


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

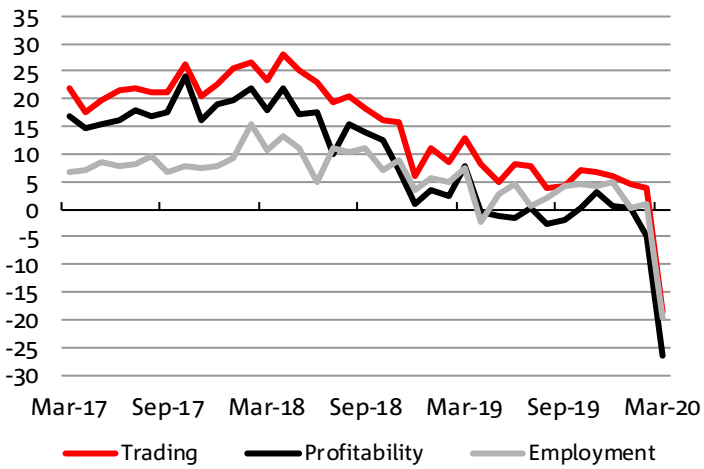


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

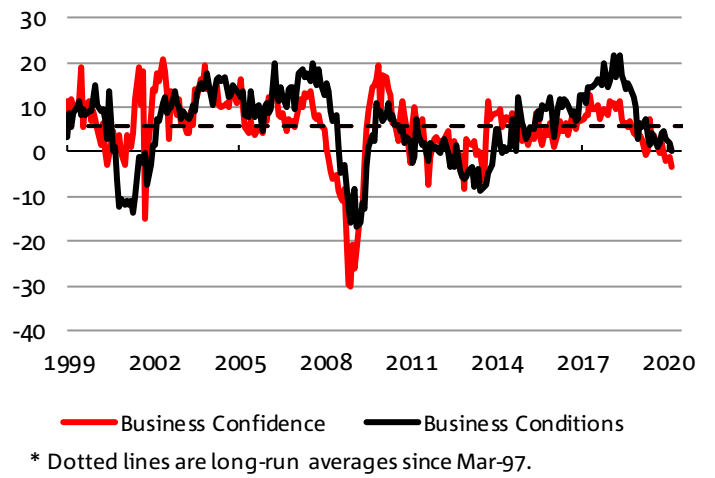


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

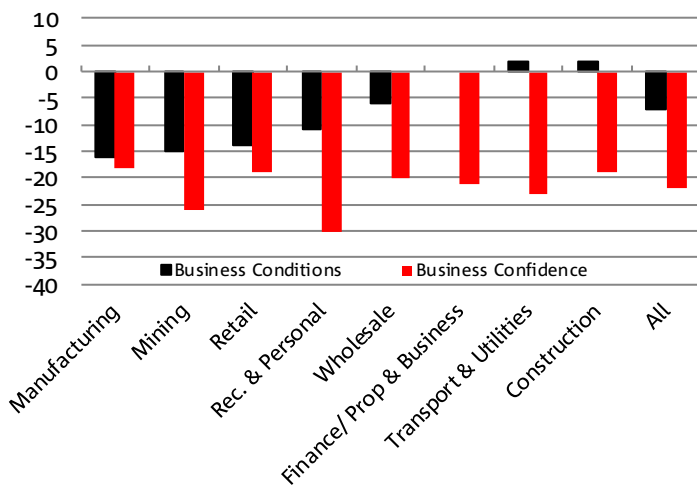
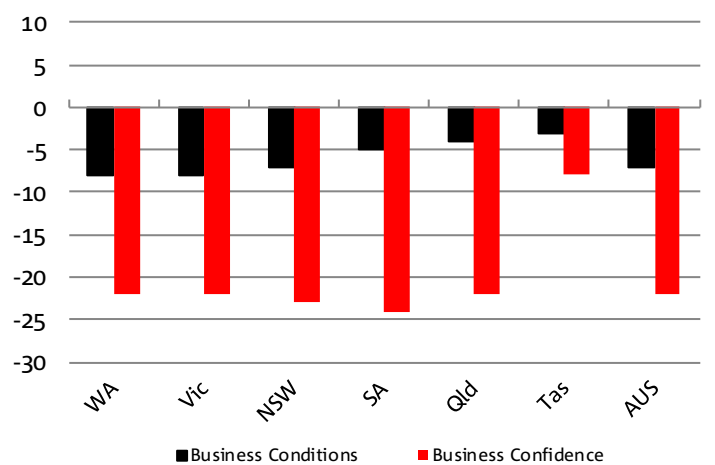


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

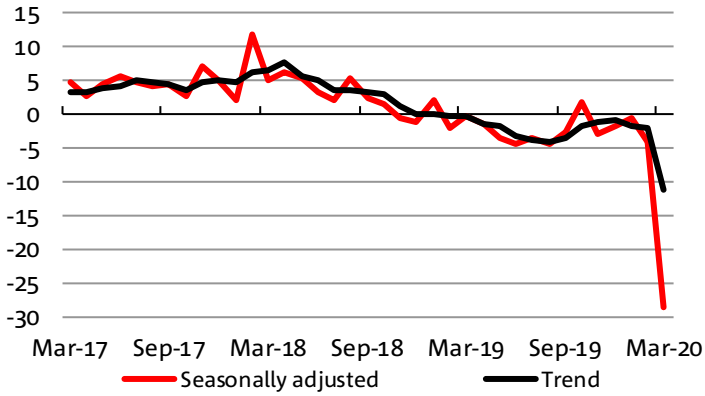


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

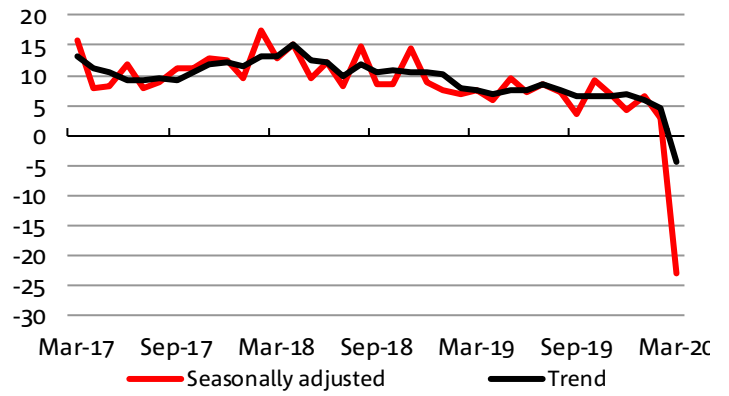


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

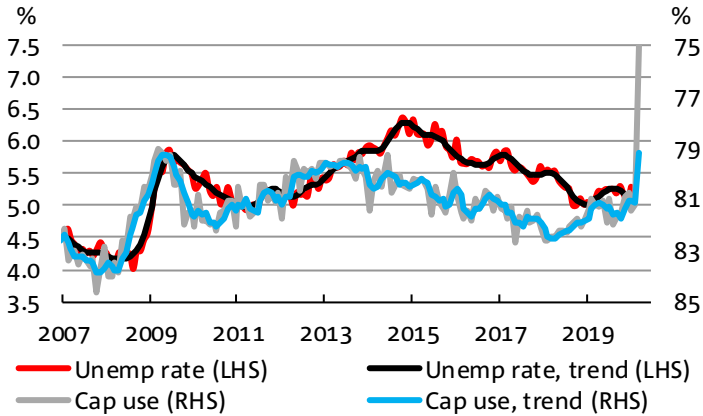


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

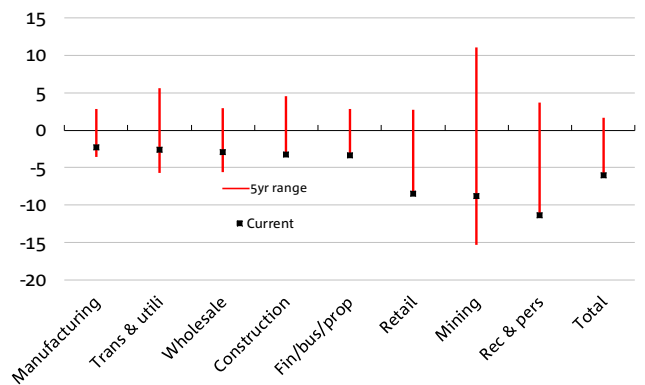


CHART 15: STOCKS (NET BALANCE)

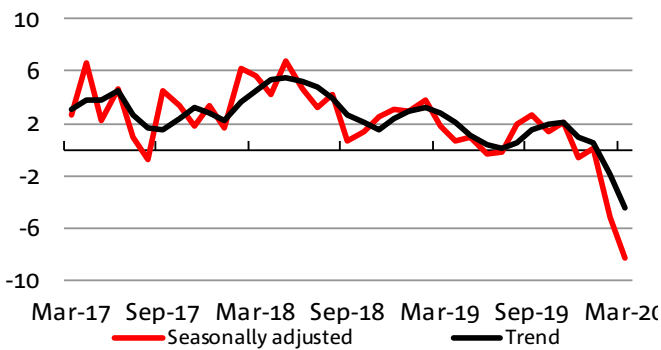


CHART 16: CASH FLOW (NET BALANCE)

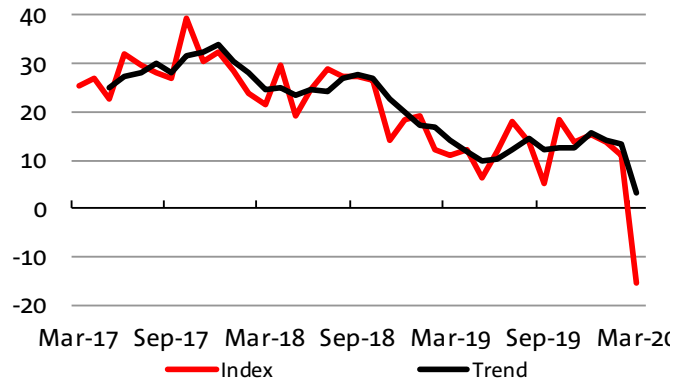


CHART 17: EXPORTS (NET BALANCE)

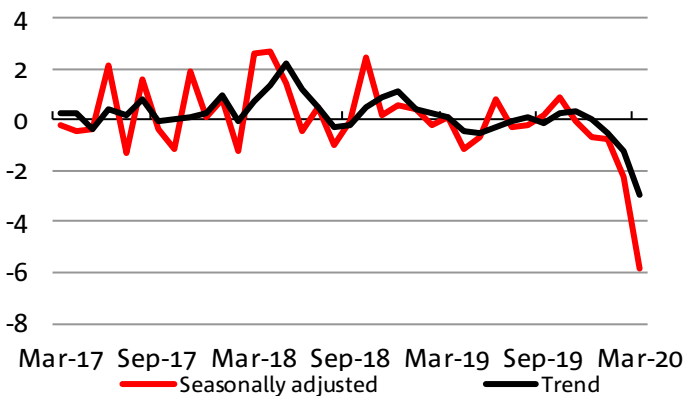
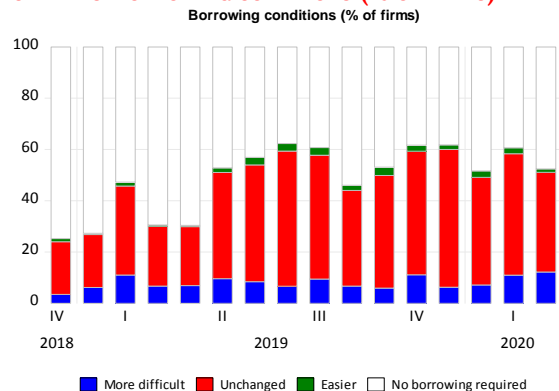


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

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

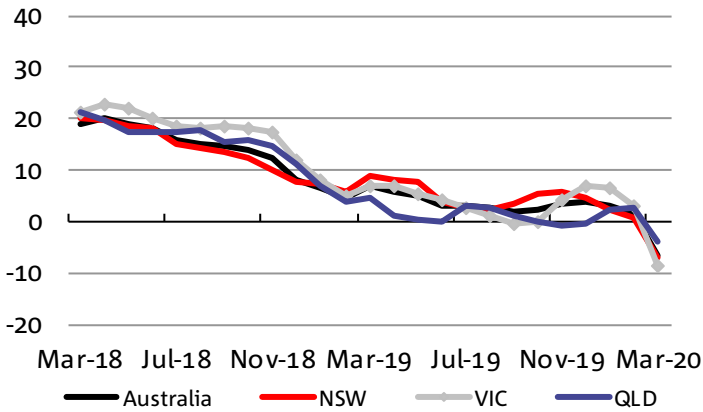


CHART 20: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

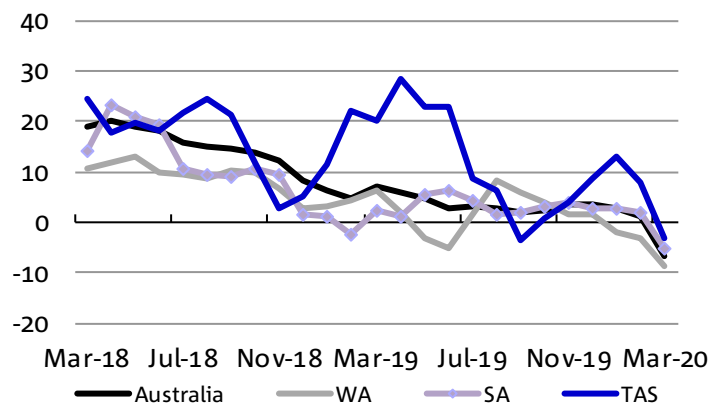


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

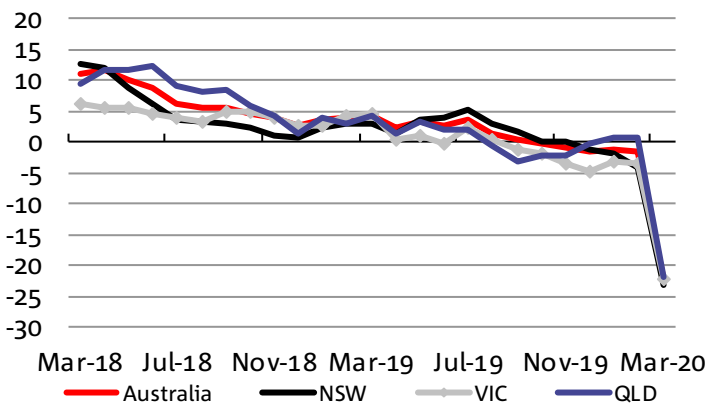


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

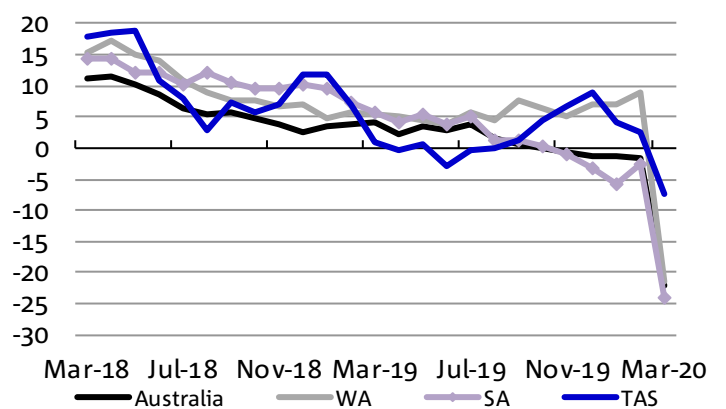


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

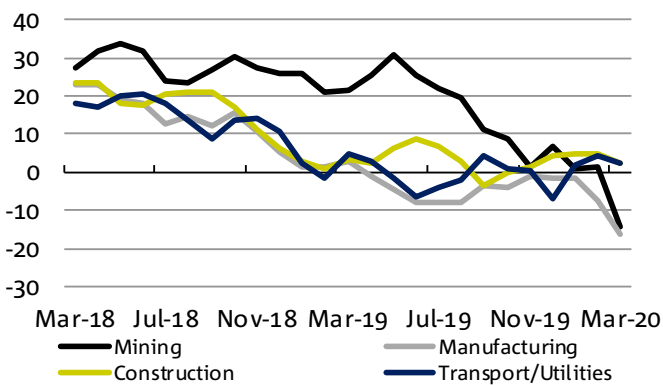


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

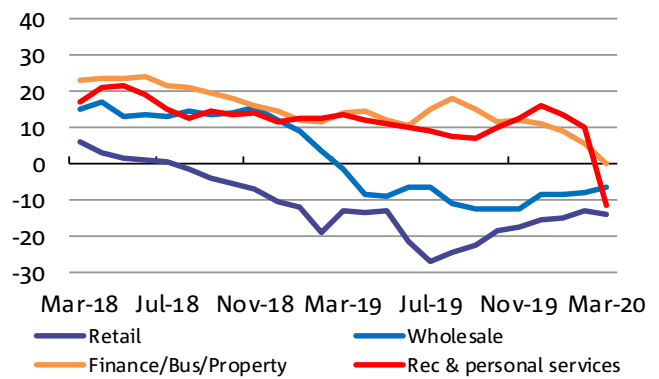


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

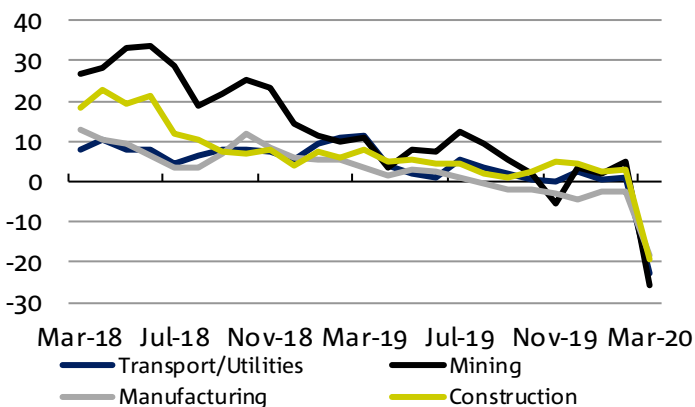
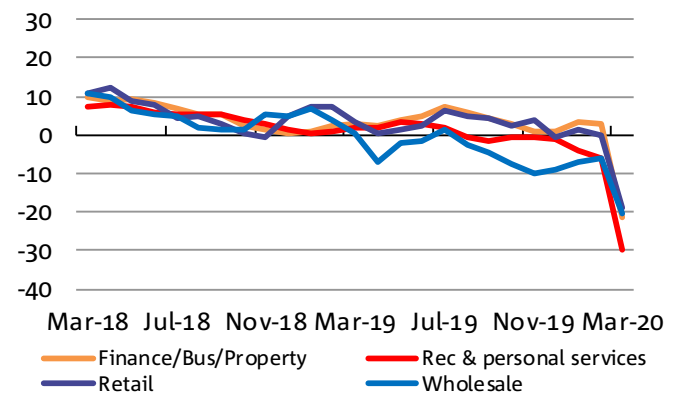


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

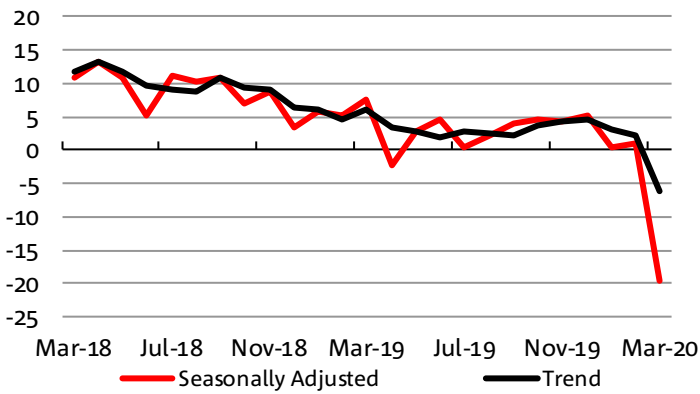


CHART 28: EMPLOYMENT (NAB VS ABS)

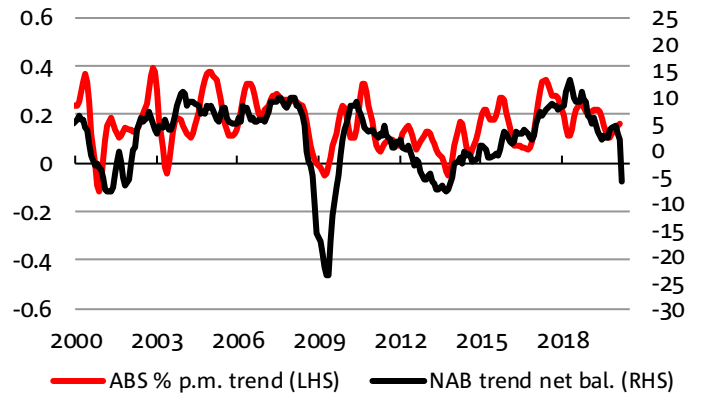


CHART 29: EMPLOYMENT BY INDUSTRY

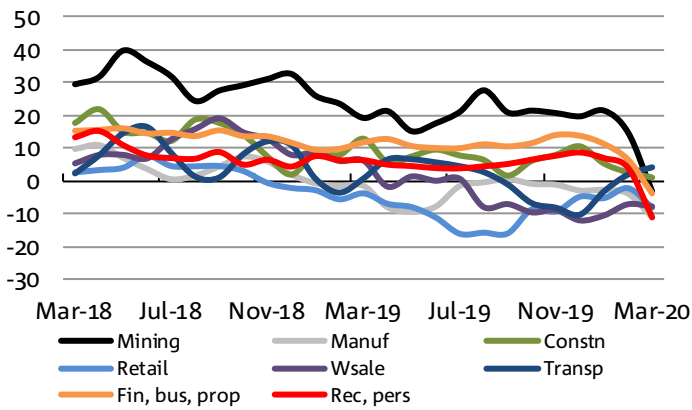


CHART 30: LABOUR COSTS GROWTH

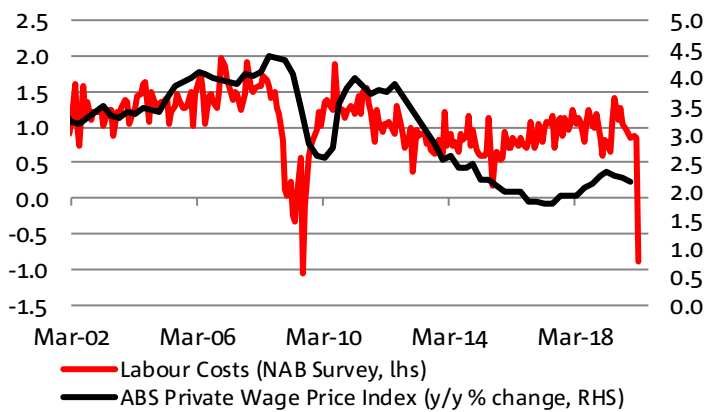


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

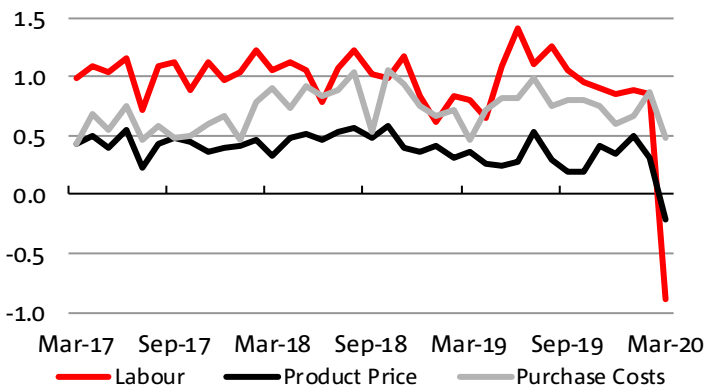
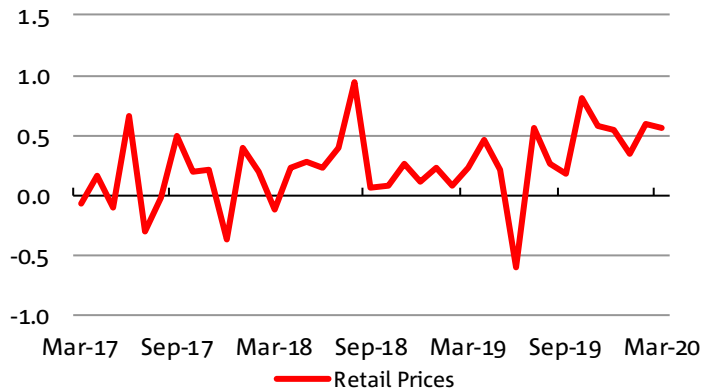


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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	Margins (current, next 3 mth)
Business Conditions (current, next 3 mth, next 12 mth)	Overheads (current, next 3 mth)
Trading conditions (current, next 3 mth, next 12 mth)	Productivity growth
Profitability (current, next 3 mth, next 12 mth)	Number of employees
Employment (current, next 3 mth, next 12 mth)	Hours worked
Forward orders (current, next 3 mth)	Gross Sales
Stocks (current, next 3 mth)	Output/sales growth (current fiscal year)
Export orders (current, next 3 mth)	Average earnings (current fiscal year)
Capital expenditure (current, next 3 mth, next 12 mth, fiscal year)	Short term interest rate
Required rate of return on investment	Exporters hedged FX exposure (%)
Cash flow	Importers hedged FX exposure (%)
Labour costs (current, next 3 mth)	Months hedged (exporters)
Purchase costs (current, next 3 mth)	Months hedged (importers)
Final prices (current, next 3 mth)	Favourable hedge position (% of exporters)
Capacity Utilisation	Favourable hedge position (% of importers)
Borrowing index (current, next 3 mth)	Affected vs not affected by AUD
	Response to AUD (downsized, reduced, overheads, hedging, import substitution, focus on domestic market, other, don't know)
Borrowing demand (current, next 3 mth)	Driver of trading conditions (demand, wages/jobs, house prices, rates, exchange rate, tax/govt policy, seasonal, finance/working capital, company specific, other)
Constraints on output (demand, labour, materials, premises & plant, finance/working capital)	What will improve confidence (lower rates, more suitable labour, easier funding, government policy, higher demand, higher AUD, lower AUD, easier compliance, other)
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)	
<i>All series available on an industry basis for:</i>	
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)	
<i>All series available on a state basis for:</i>	
New South Wales	
Victoria	
Queensland,	
WA	
SA/NT	
Tasmania	

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