

# NAB MONTHLY BUSINESS SURVEY

March 2020

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By Group Economics

## A HUGE HIT TO THE BUSINESS SECTOR FROM CORONAVIRUS

**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.

Both business confidence and conditions recorded their largest monthly falls on record in March. Business confidence fell to -66 index points – its lowest level on record. Business conditions fell to -21 index points, slightly weaker than the GFC but well above the trough seen in the 1990s recession. The decline in conditions was driven by a fall in all three components, with profitability weakest at -27 index points.

According to Alan Oster, NAB Group Chief Economist “Worryingly but not surprisingly, business’s outlook is the weakest ever. Business confidence has fallen to its lowest ever level – and in a single month. Business has essentially told us that trading conditions, profitability and employment all went backwards in a big way in the month”.

“The decline in confidence was wide-spread across industries with most industries recording falls larger than 60 points. The decline in conditions was also sharp, and there may be more to come” said Mr Oster.

“Forward orders and capacity utilisation also declined sharply. The decline in forward orders suggests that activity will weaken further in coming months. Capacity utilisation is at its lowest level ever, but could also decline further as containment measures remain in place” said Mr Oster.

Business cashflow also deteriorated in the month reflecting the issue faced by the business sector of slowing sales or forced closures while fixed costs continue.

“While almost everyone expects a fairly rapid bound back in activity once the spread of the coronavirus is contained and social distancing rules are relaxed, the immediate worry for the business sector is the impact on cashflows. Without cashflow support, it is likely many businesses will be severely impacted and unable to return to operations once the economy begins to recover. This has been an important focus of policy makers.” Mr Oster said.

“We expect a recession of unprecedented speed and magnitude for the Australian economy over the next three quarters. This will see a sharp increase in unemployment. Policy makers have made a huge response that we think will be unable to offset the negative prints we will see in economic data in the near term but we are optimistic these actions will support a solid recovery once the virus is contained” said Mr Oster.

“For now more businesses expect it to get worse before it gets better. It could well be that conditions fall to the lowest level since the 1990s recession in coming months – but we will be closely watching the survey for a turn in business confidence which may take some time to recover following an economic shock of this magnitude” said Mr Oster.

For more information, please see the NAB Monthly Business Survey report.

## Group Economics

Alan Oster  
Group Chief Economist  
+(61 3) 8634 2927

Jacqui Brand  
Executive Assistant  
+(61 3) 8634 2181

Dean Pearson  
Head of Behavioural &  
Industry Economics  
+(61 3) 8634 2331

John Sharma  
Economist  
+(61 3) 8634 4514

### Australian Economics and Commodities

Gareth Spence  
Senior Economist  
+(61 0) 436 606 175

Phin Ziebell  
Economist – Australia  
+(61 0) 475 940 662

### Behavioural & Industry Economics

Robert De Iure  
Senior Economist –  
Behavioural & Industry  
Economics  
+(61 3) 8634 4611

Brien McDonald  
Senior Economist –  
Behavioural & Industry  
Economics  
+(61 3) 8634 3837

Steven Wu  
Economist – Behavioural &  
Industry Economics  
+(61 3) 9208 2929

### International Economics

Tony Kelly  
Senior Economist  
+(61 3) 9208 5049

Gerard Burg  
Senior Economist –  
International  
+(61 3) 8634 2788

## Global Markets Research

Ivan Colhoun  
Global Head of Research  
+(61 2) 9237 1836

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