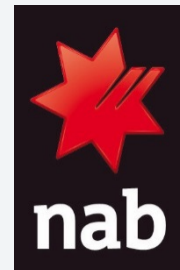


**EMBARGOED UNTIL: 11:30AM AEDT, 2 APRIL 2020**

# **NAB QUARTERLY BUSINESS SURVEY 2020 Q1**

## **CONFIDENCE DETERIORATES ON THE EARLY IMPACT OF COVID-19**



### *NAB Australian Economics*

With events rapidly unfolding we have released the Q1 business survey early. This survey is based on a sample of 950 firms between 18 February and 13 March. The February monthly survey was based on the first 450 firms in this sample. Between the initial and final samples, both confidence and conditions fell sharply. From Q4, confidence fell 9pts to -11 index points, falling across all industries, but led by declines in personal & recreational services and retail. Confidence is now negative in all industries except construction, which remains just positive. Business conditions saw a 9pt decline to -3 index points over the quarter. Activity appears to have been most significantly impacted in manufacturing and finance, business & property services with notable impacts also on mining, construction and recreational & personal services. The effect of hoarding appears to have provided a boost to retail and wholesale which may fade going forward. All sub-components contributed to the decline in conditions with profitability now at -7 index points and employment and trading conditions at 0 index points. In addition to confidence, forward looking indicators also deteriorated significantly. While the timing of this survey was before the significant ramp up in coronavirus containment measures there appears to have been an early impact on the business sector. With measures having escalated significantly since mid March, we expect the impact on the business sector to be significant. Future reads of both confidence and conditions will give an early indication as to the magnitude of the downturn ahead.

## **HIGHLIGHTS**

- The Quarterly NAB Business Survey provides a more in-depth probe into the conditions facing Australian business than the monthly survey, and also examines additional information about how firms perceive the outlook for their industries.
- **Business conditions** (an average of trading conditions/sales, profitability and employment) fell 9pts to -3 index points. Conditions were weaker across all industries with the exception of retail and wholesale. Finance, business & property and manufacturing saw the largest declines. Conditions were significantly lower across all states – with NSW, WA and Vic seeing the largest declines on the mainland.
- **Business confidence** was 9pts lower at -11 index points. Confidence was lower across all industries – though personal and recreation services and retail saw the most significant declines. Confidence is now weakest in recreational & personal services, followed by wholesale.
- **Leading indicators** were softer in the quarter. Expected business conditions were weaker alongside the decline in confidence. Capex plans and employment at both the 3- and 12-month horizons were also lower reflecting the high level of uncertainty at present. Capacity utilisation was stable in the quarter but forward orders saw a sharp decline.
- **Labour indicators** were weaker in the quarter. The employment index fell to 0 index points, while expected employment at 3- and 12-months was lower. Labour costs growth edged lower in the quarter and continues to track at a low rate. The difficulty finding suitable labour eased in the quarter, driven by a smaller share of firms reporting significant shortages.
- Survey measures of **inflation pressures are weak**. Final products price growth edged lower, and is only just positive. Labour costs growth also softened slightly, while purchase costs growth ticked up. Overall, margins continue to weaken with input costs growing faster than output prices.
- Surveyed conditions in **construction industry sub-sectors** saw a decline in residential and engineering. Construction services and non-residential construction were broadly flat.

**TABLE 1: KEY QUARTERLY BUSINESS STATISTICS**

	2019q3	2019q4	2020q1		2019q3	2019q4	2020q1
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	-2	-2	<b>-11</b>	Trading	4	7	<b>0</b>
Business conditions				Profitability	-3	4	<b>-7</b>
Current	2	6	<b>-3</b>	Employment	5	5	<b>0</b>
Next 3 months	10	8	<b>-4</b>	Forward orders	-2	0	<b>-6</b>
Next 12 months	20	16	<b>7</b>	Stocks	2	3	<b>-4</b>
Capex plans (next 12)	21	21	<b>17</b>	Exports	0	0	<b>-2</b>
	<i>% change</i>						
Labour costs	0.8	0.6	<b>0.5</b>	Retail prices (% change)	0.1	0.3	<b>0.2</b>
Purchase costs	0.5	0.4	<b>0.5</b>	Capacity utilisation rate (%)	82.5	81.5	<b>81.5</b>
Final products prices	0.2	0.2	<b>0.1</b>				

All data seasonally adjusted, except purchase costs and exports. This survey was conducted from 18 February to 13 March, covering over 900 firms across the non-farm business sector.

**Next release: 23 July 2020.**

Contacts: Alan Oster – Chief Economist, Gareth Spence – Senior Economist

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# QUARTERLY FOCUS: THE IMPACT OF COVID-19 ON BUSINESS

## The impact on activity and revenue in Q1

- This quarter we asked firms about the impact of coronavirus on their business. The preliminary results (based on the interim sample) were reported in the February monthly survey. The final set of results is summarised below. Overall, a higher proportion of businesses were impacted by coronavirus as March progressed, with almost 60% of respondents reporting an impact by mid-month.
- Overall, the bulk of respondents reported only a minor impact at the time of the survey. Almost 15% report a moderate impact, while just over 5% report a major impact. A very small proportion report a net benefit of the coronavirus – likely related to industries that have seen increases in demand due to hoarding or production of specialist equipment.
- In all industries around 50% or higher of respondents report an impact. It appears that in the early phase, wholesale, construction and mining were most impacted with around 2/3 of firms in these industries reporting an impact. Manufacturing and retail were least impacted in the initial stage. While it is unlikely that the unfolding crisis will provide a benefit for the bulk of firms, retail appears to have benefited initially, though overall only a very small proportion of firms report a net benefit.
- The impact on business revenue was modest (given containment measures were yet to ramp up). The average reported impact on revenue was around 3%. With the largest impacts apparent in transport & utilities and wholesale.
- While the results of this survey suggest that the impact of coronavirus was relatively modest between mid-February and mid-March, the decline in business confidence indicates that respondents anticipated at least some further impacts. Subsequent to the survey, containment measures have been tightened and large impacts across the business sector have become apparent. Anecdotally we know this impact has been large. A key positive has been the unprecedented support provided by the government to businesses and households which will at least provide significant stimulus as businesses enter the recovery phase after the crisis abates.

CHART 1: RESPONDENTS IMPACTED (SHARE OF RESPONDENTS, %)

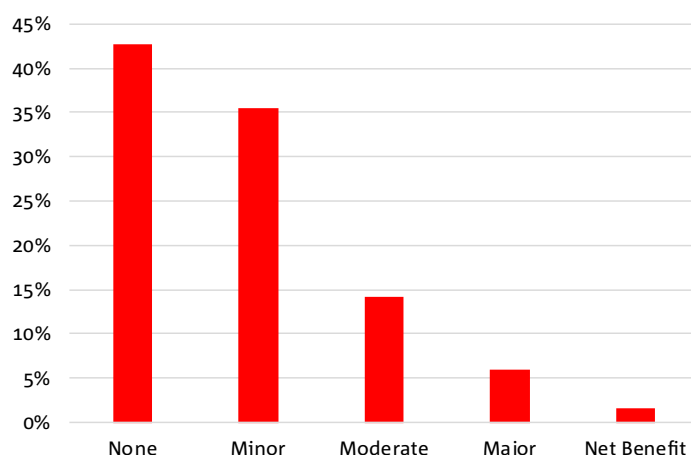


CHART 2: IMPACT BY INDUSTRY (SHARE OF RESPONDENTS, %)

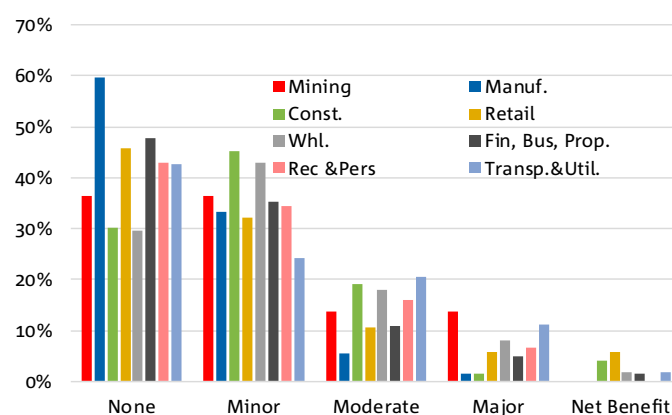
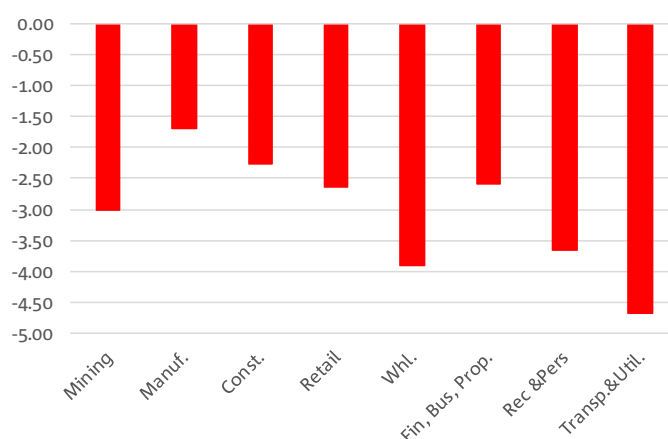


CHART 3: AVERAGE CHANGE IN REVENUE (%)



# NAB QUARTERLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 4: BUSINESS CONDITIONS & CONFIDENCE (NET BALANCE S.A.)

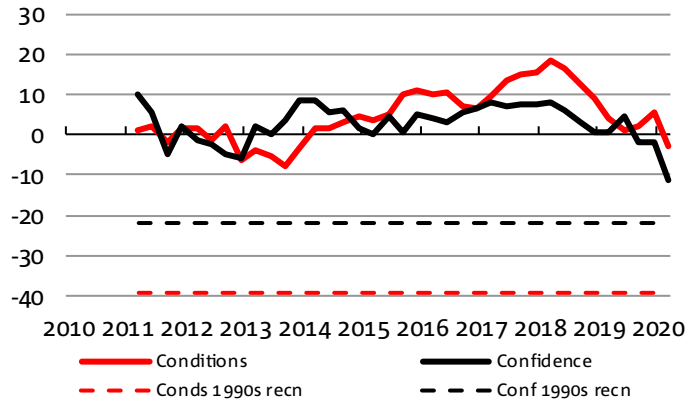
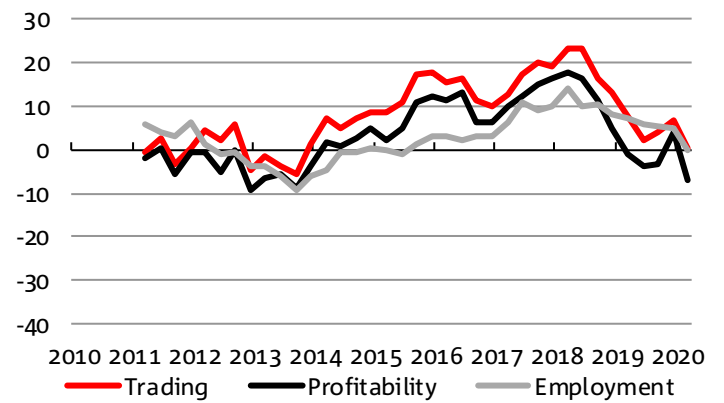


CHART 5: BUSINESS CONDITIONS COMPONENTS (NET BALANCE, S.A.)



## DRIVERS OF BUSINESS CONFIDENCE

CHART 6: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE

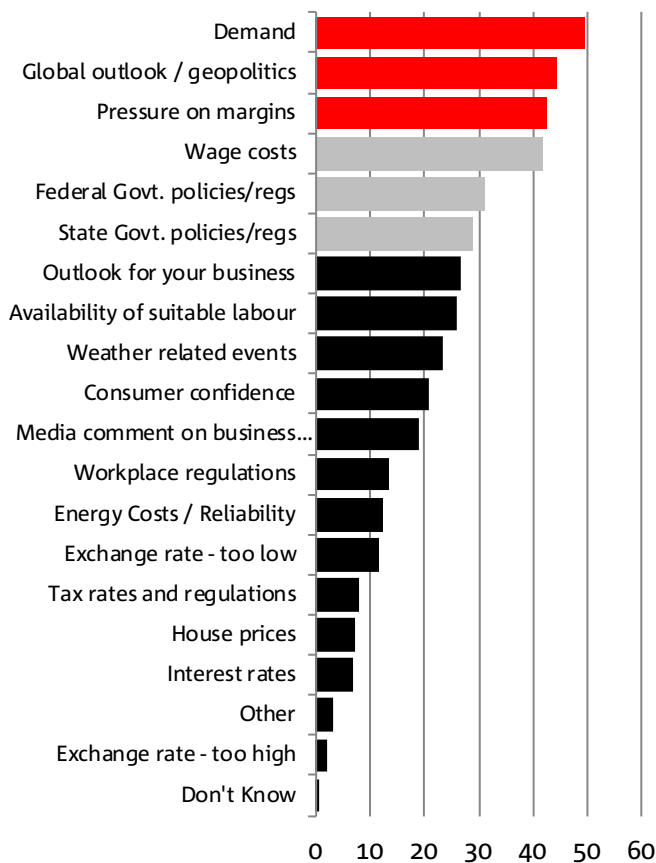


CHART 7: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – DETERIORATING CONDITIONS

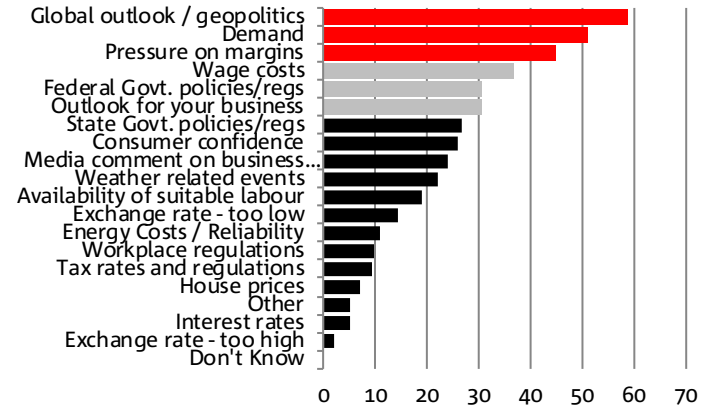
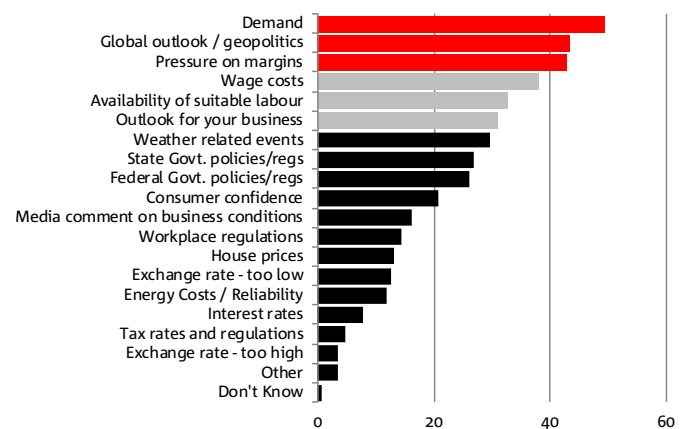
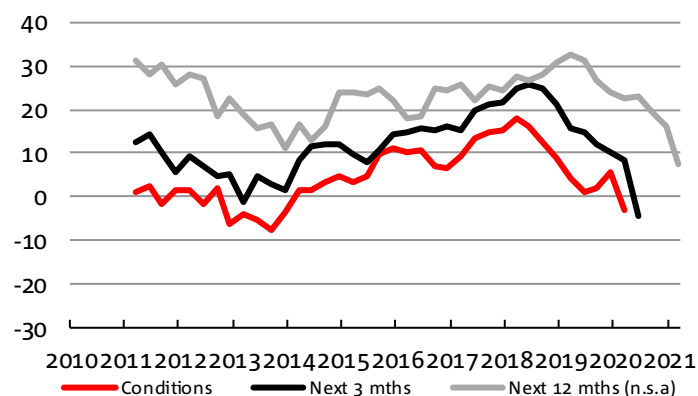


CHART 8: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – IMPROVING CONDITIONS

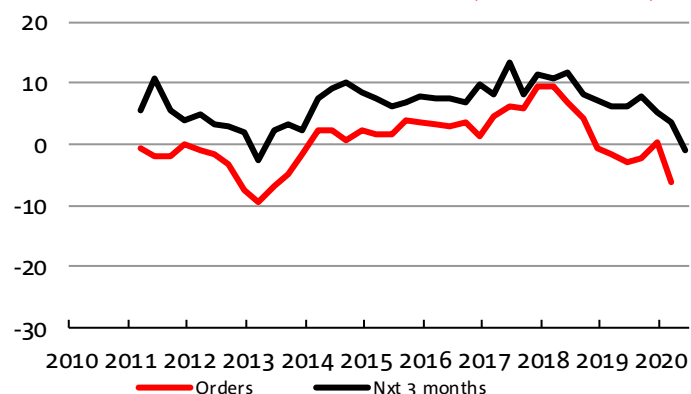


# NAB QUARTERLY BUSINESS SURVEY – LEADING INDICATORS & INVESTMENT

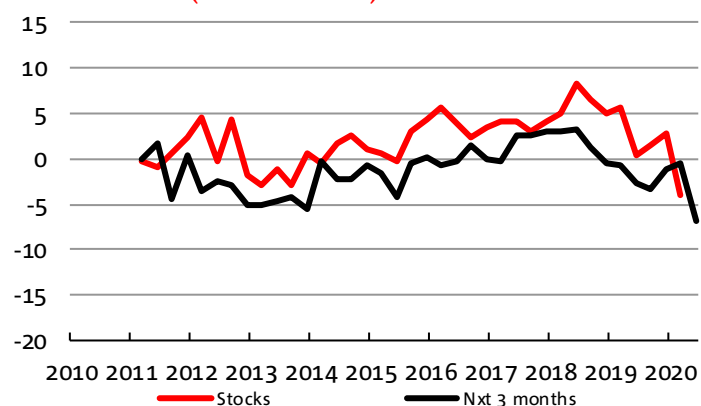
**CHART 9: BUSINESS CONDITIONS AND EXPECTATIONS (NET BALANCE)**



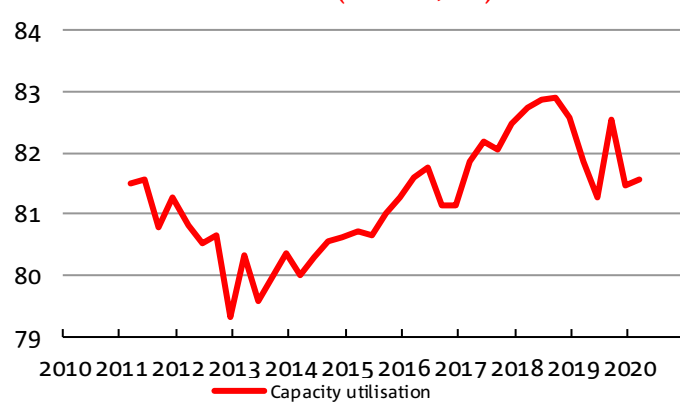
**CHART 10: FORWARD ORDERS & EXPECTATIONS (NET BALANCE S.A.)**



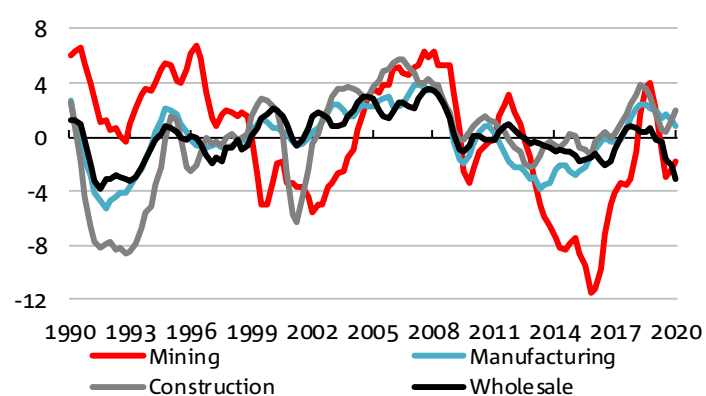
**CHART 11: STOCKS (NET BALANCE S.A.)**



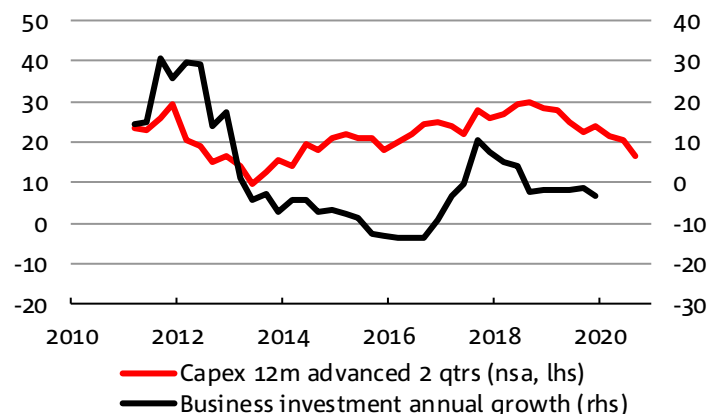
**CHART 12: CAPACITY UTILISATION (PER CENT, S.A.)**



**CHART 13: CAPACITY UTILISATION (PPT DEVIATION FROM LONG-RUN AVERAGE, 3 QTR MA)**

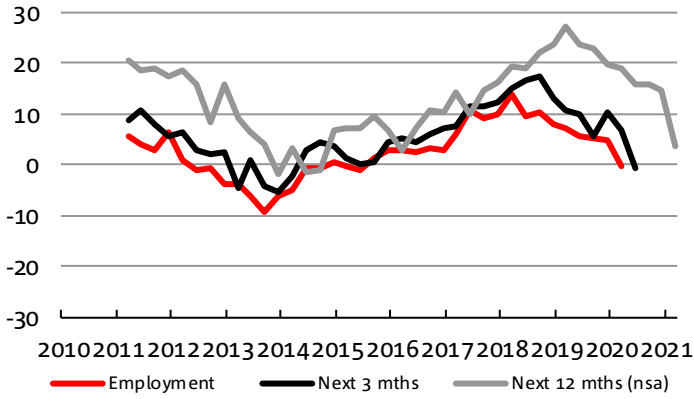


**CHART 14: BUSINESS INVESTMENT & CAPEX PLANS**

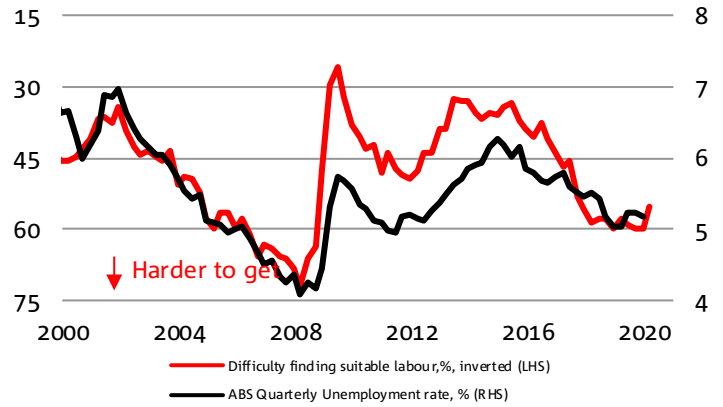


# NAB QUARTERLY BUSINESS SURVEY – LABOUR MARKET

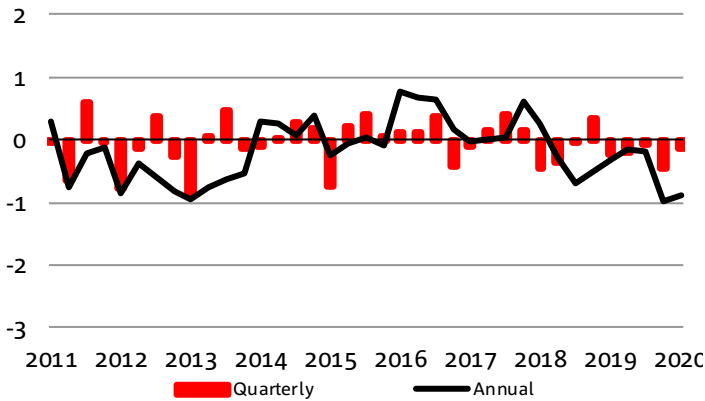
**CHART 15: EMPLOYMENT & EXPECTATIONS (NET BALANCE)**



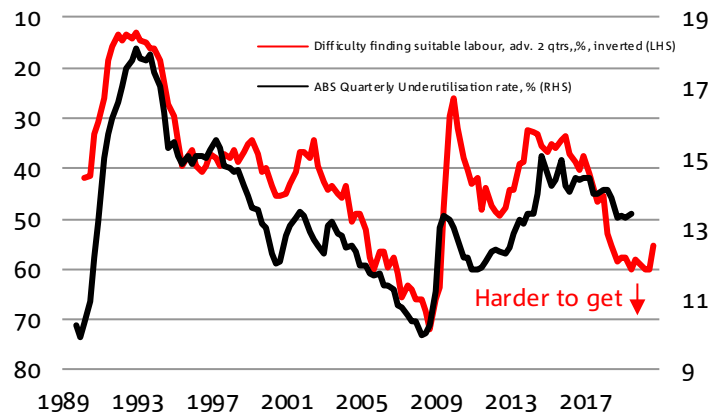
**CHART 16: UNEMPLOYMENT RATE & LABOUR CONSTRAINTS**



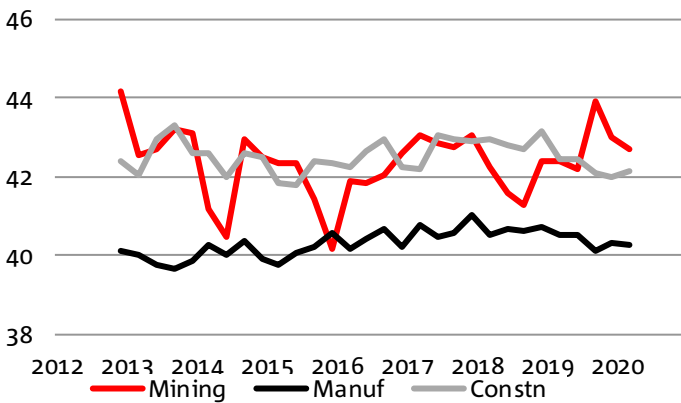
**CHART 17: CHANGE IN AVERAGE HOURS WORKED (NSA)**



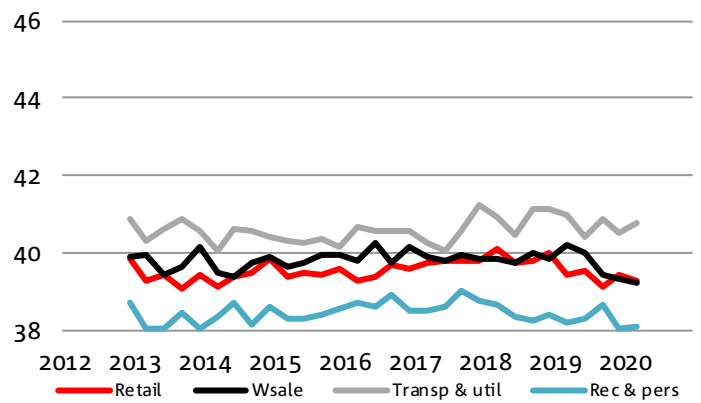
**CHART 18: UNDERUTILISATION RATE & LABOUR CONSTRAINTS**



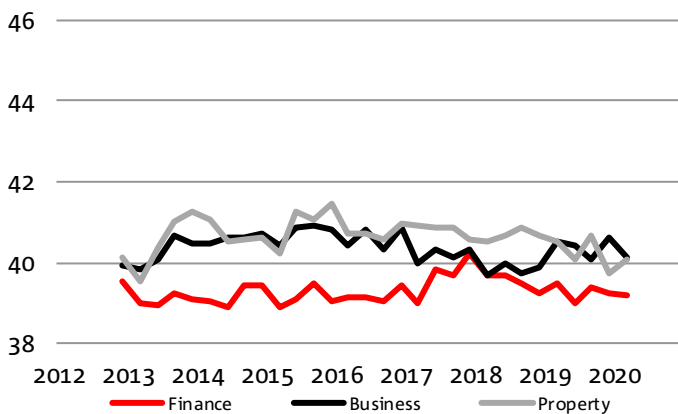
**CHART 19: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



**CHART 20: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



**CHART 21: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



# NAB QUARTERLY BUSINESS SURVEY - MAJOR CONSTRAINTS ON FIRM OUTPUT

CHART 22: MAIN CONSTRAINTS ON FIRM OUTPUT

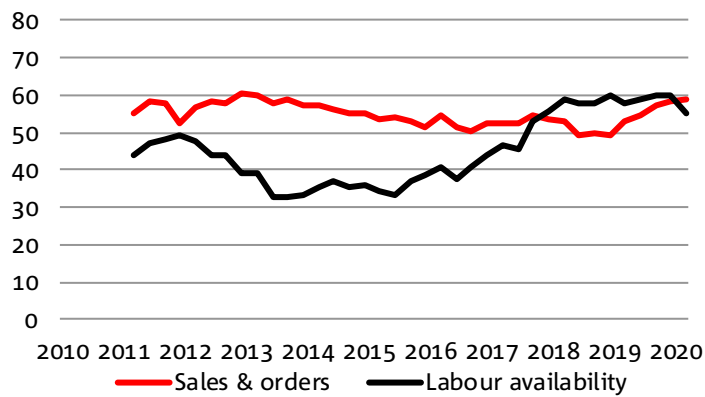
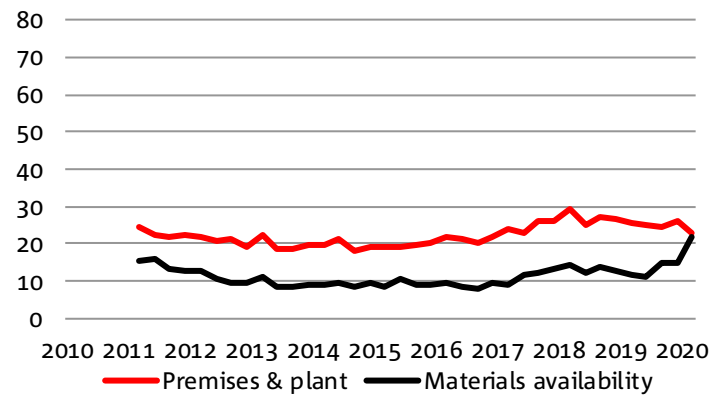


CHART 23: MAIN CONSTRAINTS ON FIRM OUTPUT



## INFLATION PRESSURES

CHART 24: PRICES (% ANN, SA)

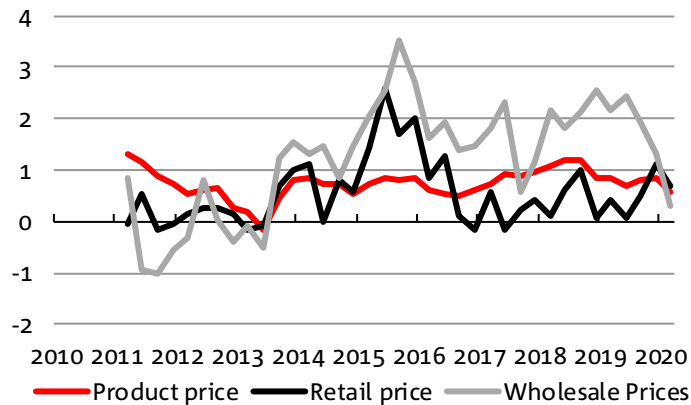
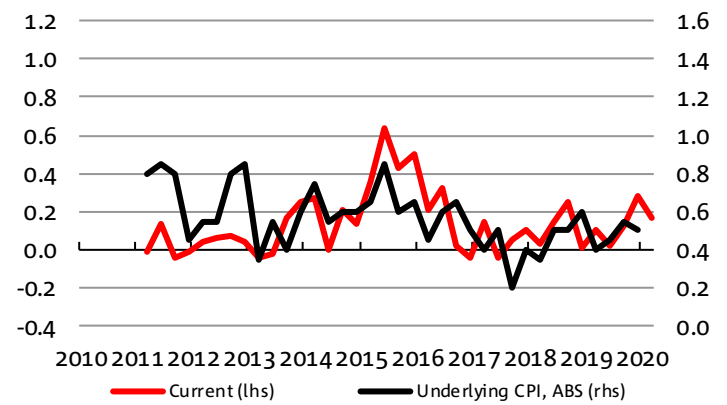


CHART 25: RETAIL PRICES (% P.Q.)



## LABOUR COSTS (DETAILS)

CHART 26: LABOUR COSTS & COMPENSATION OF EMPLOYEES

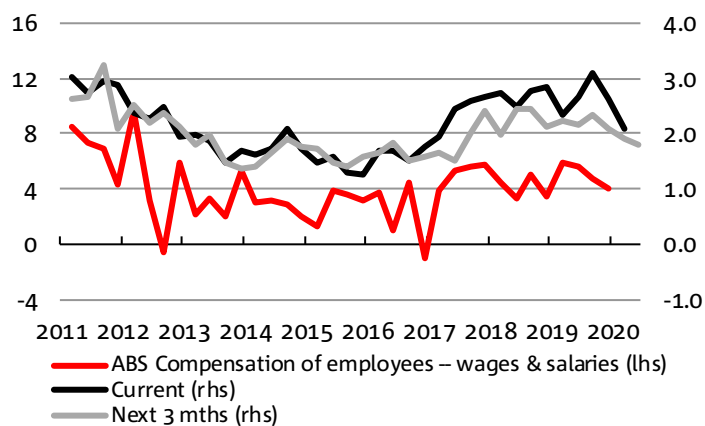
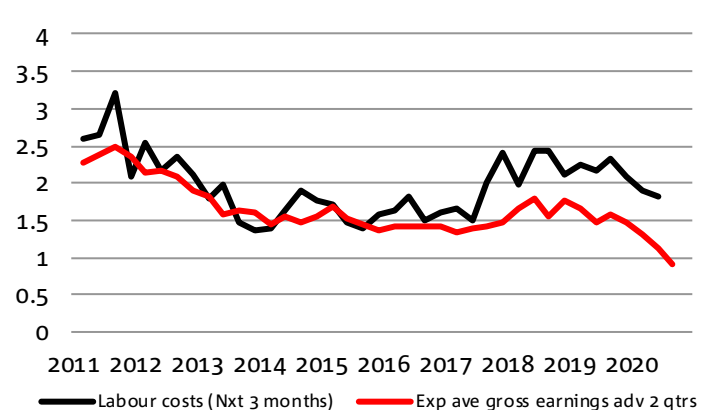
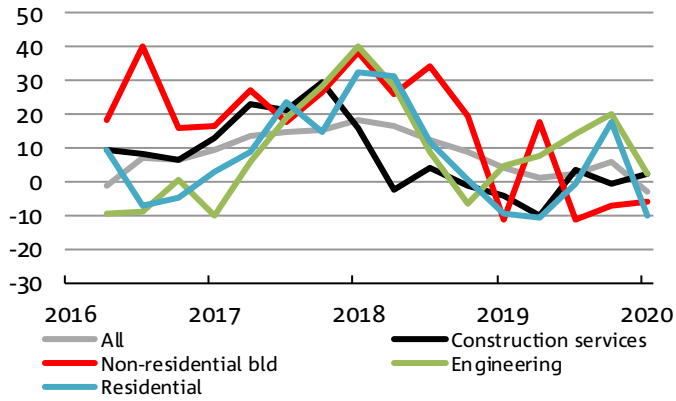


CHART 27: EXPECTED LABOUR COSTS (% ANN)

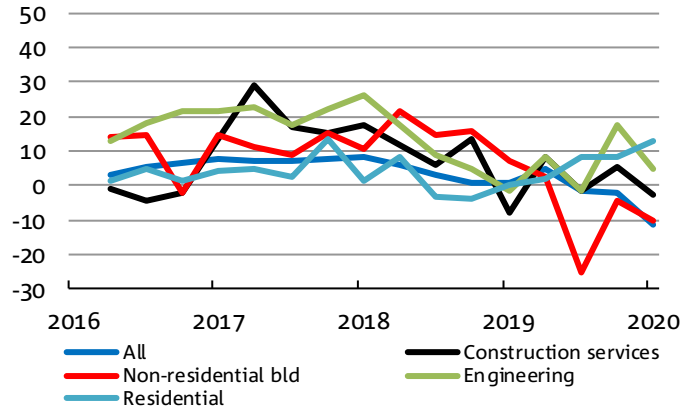


# NAB QUARTERLY BUSINESS SURVEY – CONSTRUCTION INDUSTRY DETAILS

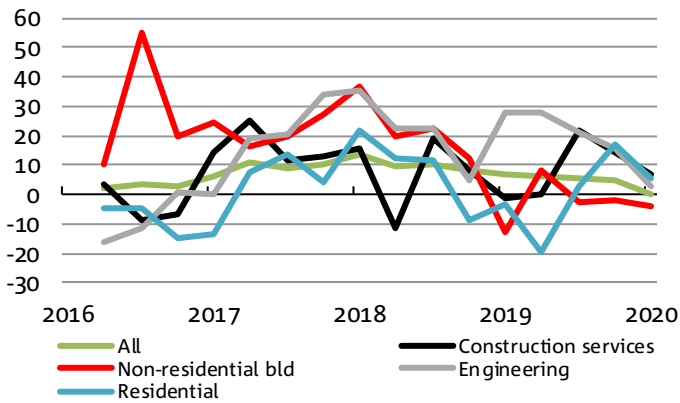
**CHART 28: BUSINESS CONDITIONS BY INDUSTRY**



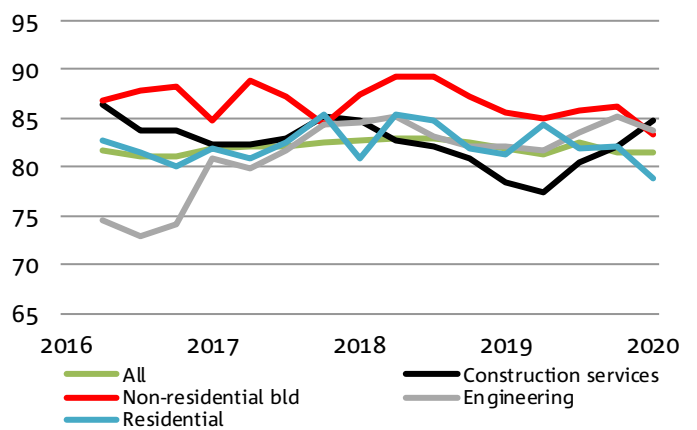
**CHART 29: BUSINESS CONFIDENCE BY INDUSTRY**



**CHART 30: EMPLOYMENT CONDITIONS BY INDUSTRY**



**CHART 31: CAPACITY UTILISATION BY INDUSTRY**

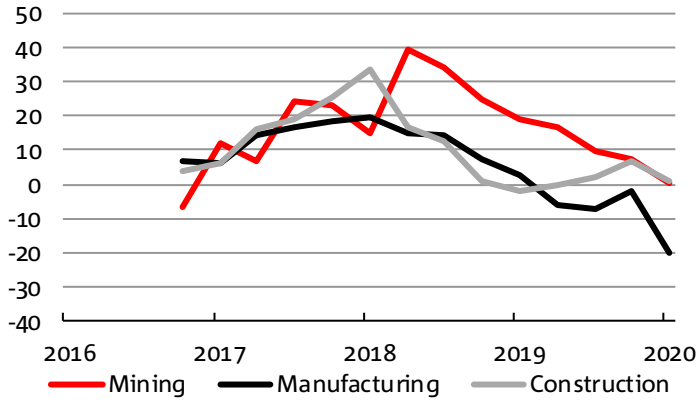


## FINANCIAL MARKET EXPECTATIONS

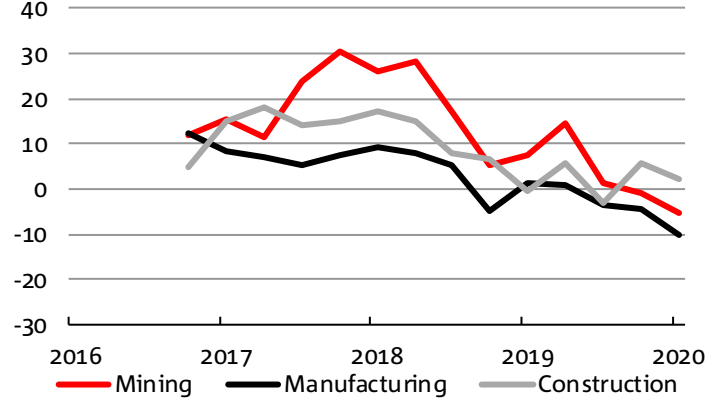
- The survey was conducted over the period where the RBA cut the cash rate by 25bps to 0.5% but prior to the emergency meeting held on the 18<sup>th</sup> of March, when the RBA cut the cash rate to a new low of 0.25% - the effective floor for Australia – alongside a move to quantitative easing. At the time, around 40% of businesses surveyed in the March quarter expected interest rates to decline further, while around 45% expected rates to remain unchanged. On average, businesses priced in a further 75% chance of a 25bp cut to short term rates over the next 12 months. Since the time of the survey, the RBA has committed to keeping interest rates at 0.25% for an extended period, while also stating a target yield of 0.25% for 3-year government bond yields of a similar level. The bank has also stated that it will not lift the cash rate before moving the target for the belly of the curve. Our view is that rates will stay on hold for at least the next two years, with a significant recession underway and a rapid return to growth, but slow recovery to the level of GDP and the unemployment rate.
- Exchange rate expectations in the Survey (6-months-ahead) were similar to the Q4 result at US67.80 cents. The exchange rate has been relatively volatile over the past few months but was broadly around this level at the time of the survey. Since then the exchange rate has depreciated notably with the Australian dollar currently trading at US58 cents.

# NAB QUARTERLY BUSINESS SURVEY – MORE DETAILS ON INDUSTRY

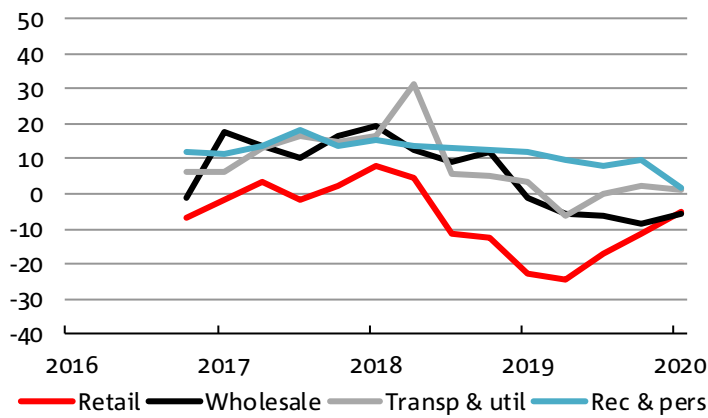
**CHART 32: BUSINESS CONDITIONS BY INDUSTRY**



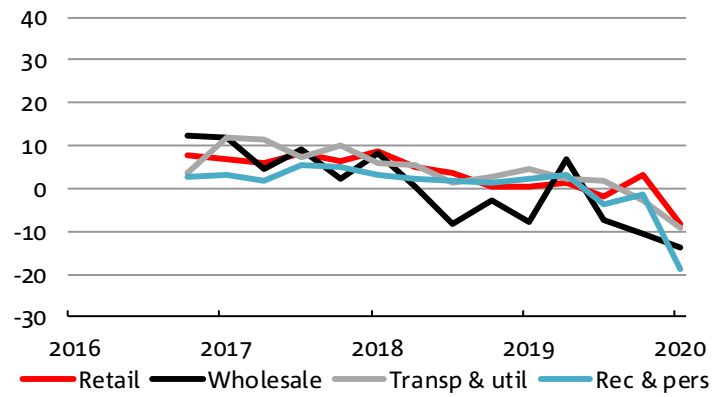
**CHART 35: BUSINESS CONFIDENCE BY INDUSTRY**



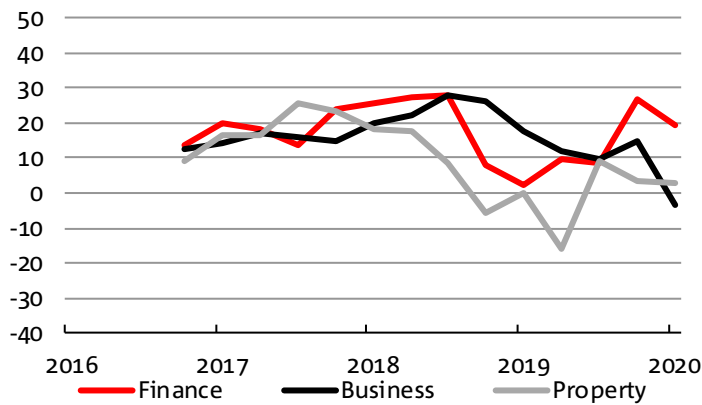
**CHART 33: BUSINESS CONDITIONS BY INDUSTRY**



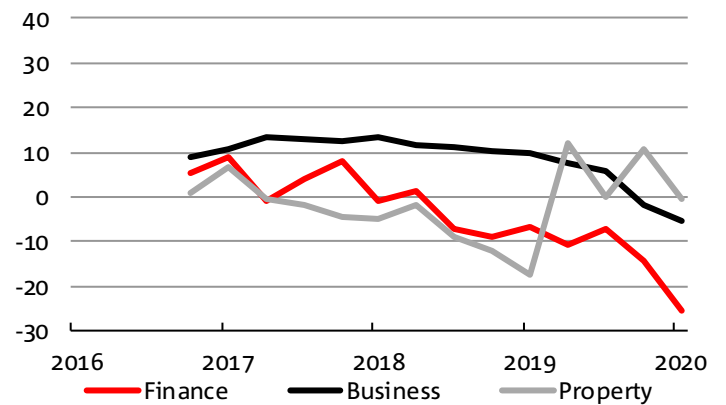
**CHART 36: BUSINESS CONFIDENCE BY INDUSTRY**



**CHART 34: BUSINESS CONDITIONS BY INDUSTRY**



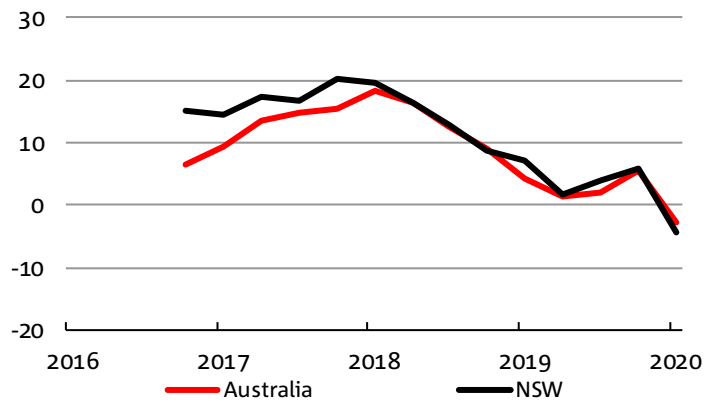
**CHART 37: BUSINESS CONFIDENCE BY INDUSTRY**



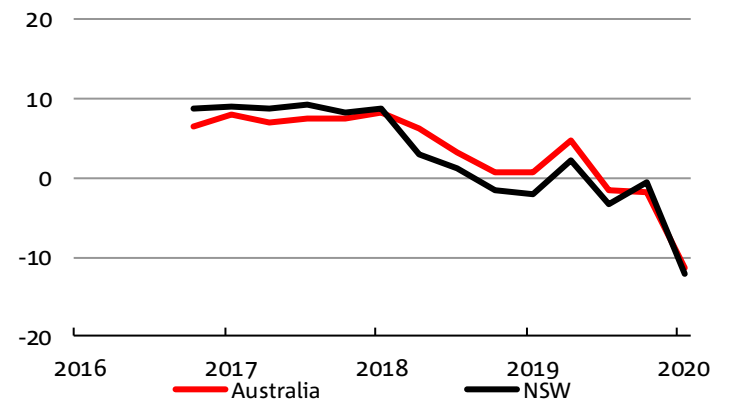


# NAB QUARTERLY BUSINESS SURVEY – FURTHER DETAILS BY STATE

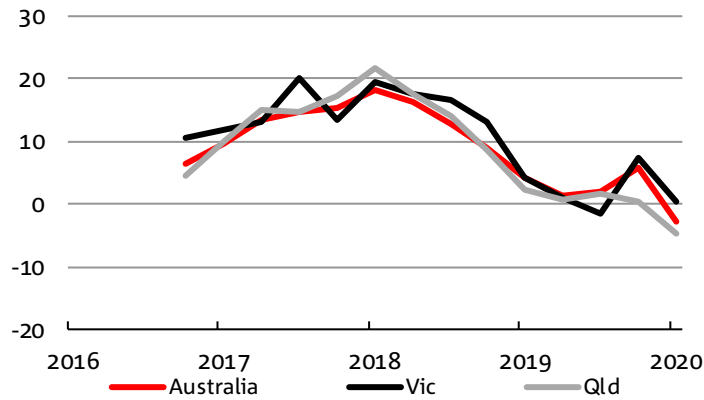
**CHART 38: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)**



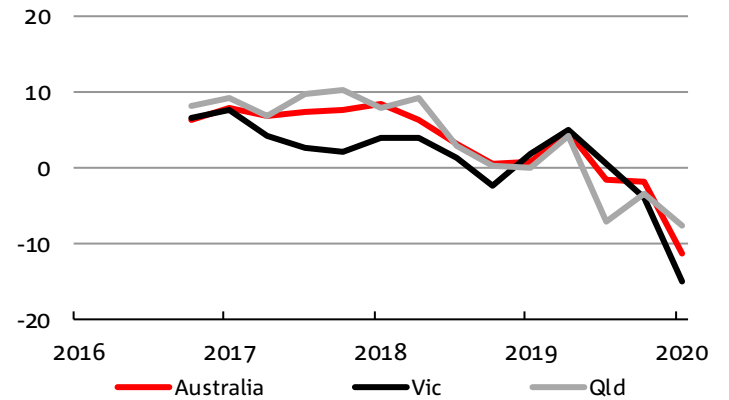
**CHART 41: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)**



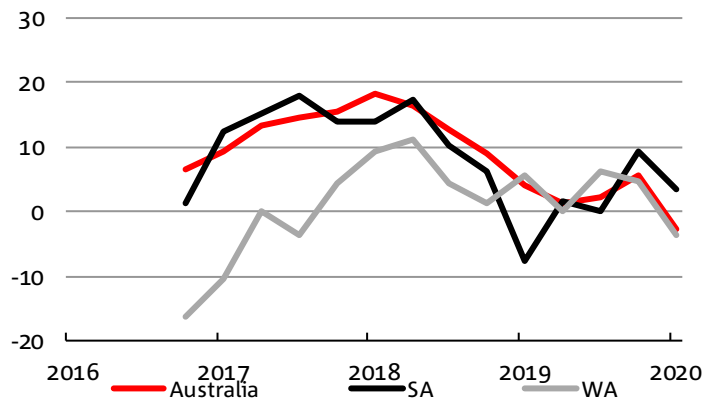
**CHART 39: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)**



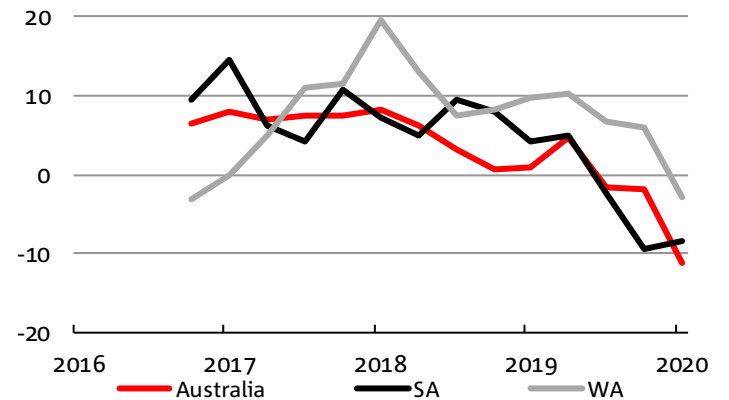
**CHART 42: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)**



**CHART 40: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)**



**CHART 43: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)**



# NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX

	Quarterly					Monthly				
	2019q1	2019q2	2019q3	2019q4	2020q1	2019m10	2019m11	2019m12	2020m1	2020m2
Confidence	1	5	-2	-2	-11	2	0	-2	-1	-4
Conditions	4	1	2	6	-3	4	4	3	2	0

	Quarterly					Monthly				
	2019q1	2019q2	2019q3	2019q4	2020q1	2019m10	2019m11	2019m12	2020m1	2020m2
Trading	8	2	4	7	0	8	7	6	5	4
Profitability	-1	-4	-3	4	-7	1	4	1	1	-5
Employment	7	6	5	5	0	5	4	4	1	2

	Quarterly <sup>(a)</sup>					Monthly				
	2019q4	2020q1	2020q2	2020q4	2021q1	2019m10	2019m11	2019m12	2020m1	2020m2
Conditions	6	-3	NA	NA	NA	4	4	3	2	0
Conds. next 3m	10	8	-4	NA	NA					
Conds. nxt 12m	24	22	23	16	7					
Orders	0	-6	NA	NA	NA	3	-2	-1	-1	-4
Orders next 3m	5	4	-1	NA	NA					

*(a) Quarter to which expectation applies. Business conditions next 12 months not seasonally adjusted.*

	Quarterly <sup>(a)</sup>					Monthly				
	2019q2	2019q3	2019q4	2020q1	2020q2	2019m10	2019m11	2019m12	2020m1	2020m2
Capacity utilis.	81.3	82.5	81.5	81.5	NA	81.6	81.1	80.9	81.3	81.1
Stocks current	0	2	3	-4	NA	1	2	-1	0	-6
Stocks next 3m	-3	-3	-1	-1	-7					

*(a) Quarter to which expectation applies. All data are seasonally adjusted.*

	2019q1	2019q4	2020q1
Constraints on output (% of firms)*			
Sales & orders	52.9	58.5	58.8
Labour	57.9	60.0	55.4
Premises & plant	25.7	26.1	23.0
Materials	11.9	14.8	22.1

*\* not s.a.*

	Quarterly <sup>(a)</sup>					Monthly				
	2019q4	2020q1	2020q2	2020q4	2021q1	2019m10	2019m11	2019m12	2020m1	2020m2
Empl current	5	0	NA	NA	NA	5	4	4	1	2
Empl next 3m	10	7	-1	NA	NA					
Empl nxt 12m	20	19	16	15	4					

*(a) Quarter to which expectation applies. Employment conditions next 12 months not seasonally adjusted.*

# NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX – STATE TABLES

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2019q1</u>	<u>2019q2</u>	<u>2019q3</u>	<u>2019q4</u>	<u>2020q1</u>	<u>2019m10</u>	<u>2019m11</u>	<u>2019m12</u>	<u>2020m1</u>	<u>2020m2</u>
Business conditions										
NSW	7	2	4	6	<b>-4</b>	7	4	4	1	-1
VIC	4	1	-1	7	<b>0</b>	2	11	7	1	2
QLD	2	1	2	0	<b>-5</b>	-2	0	2	6	1
SA	-8	2	0	9	<b>4</b>	6	2	0	6	1
WA	6	0	6	5	<b>-4</b>	5	3	-4	-5	0

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2019q1</u>	<u>2019q2</u>	<u>2019q3</u>	<u>2019q4</u>	<u>2020q1</u>	<u>2019m10</u>	<u>2019m11</u>	<u>2019m12</u>	<u>2020m1</u>	<u>2020m2</u>
Business confidence										
NSW	-2	2	-3	-1	<b>-12</b>	2	1	-3	-2	-6
VIC	2	5	1	-4	<b>-15</b>	-2	-2	-7	-1	-4
QLD	0	4	-7	-3	<b>-8</b>	1	-2	1	3	-2
SA	4	5	-2	-10	<b>-8</b>	4	-5	-7	-3	1
WA	10	10	7	6	<b>-3</b>	3	2	17	2	5

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# APPENDIX: LIST OF SERIES AVAILABLE TO SUBSCRIBERS<sup>^</sup>

## 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.

<sup>^</sup>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

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

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)