

# NAB QUARTERLY BUSINESS SURVEY

## 2020 Q1

By Group Economics

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

Both business conditions and confidence declined sharply in Q1. Around half of the survey responses were collected in late February and early March – well before significant lockdowns. These results were released as part of the Monthly Business Survey for February. The second half of the sample was collected through to mid-March, as more containment measures were announced and uncertainty rose. Business conditions are now -3 (down 9pts from Q4) and confidence declined to -11 index points (down 9pts).

According to Alan Oster, NAB Group Chief Economist “While the bulk of the survey was collected prior to the introduction of the more significant containment measures, the spread of the coronavirus and international developments has clearly impacted confidence. Business conditions were also weaker – and this was before activity saw a significant disruption”.

“The decline in confidence was broad-based across industries but we saw the largest hits occurring in personal and recreational services and retail. This is unsurprising given the labour-intensive nature of these industries” said Mr Oster.

“Conditions were also softer across industries, with the exception of retail and wholesale. It appears the impacts of hoarding and other pre-emptive purchases supported these sectors” said Mr Oster.

Leading indicators softened notably in the quarter. In addition to the decline in confidence, expected business conditions in the near- and medium-term were lower, as were expectations for capex and employment. Capacity utilisation was unchanged, but forward orders saw a sharp decline in the quarter.

“Unsurprisingly, the forward indicators point to ongoing weakness in the business sector. While there was clearly a large amount of uncertainty at the time of the survey, it was clear that looming lockdowns and an escalation in social distancing measures would materially impact economic activity” said Mr Oster.

Overall the survey points to ongoing weakness inflationary pressure with very weak growth in output prices and relatively low growth in input prices. With input price growth continuing to outpace growth in consumer prices, business margins continue to come under pressure.

“As has been the case for some time, the survey points to ongoing weakness in inflation. While policy makers are rightly focussing on more immediate activity impacts of the disruption, it could well be that margins are compressed further as supply side disruptions push input prices higher while demand remains soft. This will hurt cash flow further” said Mr Oster.

“We have seen a strong policy response from both the Government and the RBA. The measures we are seeing are unprecedented and rightly targeting support to business. The huge impact on cashflow has the potential to devastate the business sector, particularly smaller businesses. While the immediate impact of these measures is unclear given the restrictions on activity, they will certainly provide support in the recovery phase” said Mr Oster.

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

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