

# NAB MONTHLY BUSINESS SURVEY

April 2020

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By Group Economics

## CONDITIONS DETERIORATE FURTHER

**Key messages from the survey:** Business conditions weakened further in April and are now well below the levels seen in the GFC. Conditions fell across almost all non-mining industries, including a sharp fall in wholesale which saw a surprise increase last month. Overall conditions are now deeply negative in all industries outside of mining. Business confidence bounced in the month, but remains well below the trough of the 1990s recession after the large fall last month (indeed it's now two times below the 1990s recession trough, rather than three times). The improvement in confidence was broad-based but, like conditions, it remains deeply negative across all industries and states. Forward orders fell again in the month suggesting that activity is likely to weaken further in the near term – in line with still weak confidence. Unsurprisingly, capacity utilisation fell further with the sheer magnitude of the decline over the past two months reflecting a very sharp downturn in activity for a significant portion of the economy. Interestingly, both the proportion of respondents needing to borrow and the relative difficulty in borrowing has remained relatively unchanged. That said, capex has also fallen sharply – and is at a very low level - suggesting that firms are pulling back on outlays where possible. Cashflow ticked up in the month but only marginally and continues to suggest a significant deterioration. The decline in employment and fall in capacity utilisation could well see further restraint on business investment going forward.

Business confidence remains very weak despite a rebound in the month. Confidence rose 19pts to -46 index points in the month – and is twice as weak as the trough in the 1990s recession. Business conditions fell further in the month after the record fall last month – down 12pts to -34 index points.

According to Alan Oster, NAB Group Chief Economist “confidence saw a rebound in the month after the sharp fall last month, but this provides little comfort given it remains around twice as weak as the 1990s recession. Business conditions declined further in the month, with a broad-based deterioration across industries”.

The fall in conditions was driven by all three components of the index. Trading conditions declined 14pts to -33 index points, while profitability declined 7 pts to -35 index points. The employment index fell 15pts to -35 index points in the month, consistent with a sharp fall in the level of employment.

“The decline in the employment index is consistent with a significant shedding of employees by respondents. This is consistent with other measures we have seen, such as the ABS payrolls data. Overall the survey suggests that the unemployment rate will rise substantially in April” said Mr Oster.

Both capacity utilisation (down 3 percentage points) and forward orders (down 8pts) declined further after sharp falls last month. Capacity utilisation is now well below the levels seen at the worst of the 1990s recession.

“With coronavirus containment measures in place for all of April, we saw capacity utilisation fall to a very low level. It is now around 10 percentage points lower than two months ago – and very low in recreation & personal services but the effect of lower demand as a result of coronavirus containment measures is evident across all industries” said Mr Oster.

“The further decline in forward orders points to the risk that capacity utilisation and business conditions deteriorate further in the near-term” said Mr Oster.

“While it is now likely that coronavirus containment measures could well ease earlier than expected, we expect this to be a gradual process. We also worry the hit to confidence will have some ongoing impacts to hiring and capex which could see a drag on growth for some time” Mr Oster said.

“We see a recovery in growth late this year, but even though it could be a solid bounce the level of output is not expected to be recovered to pre-COVID levels until early 2022. We expect unemployment to match this pattern, falling in 2021 but remaining above 7%. This all points to required ongoing policy support for some time” said Mr Oster.

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

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