

NAB MONTHLY BUSINESS SURVEY APRIL 2020

CONDITIONS DETERIORATE FURTHER

NAB Australian Economics

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, 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 ahead.

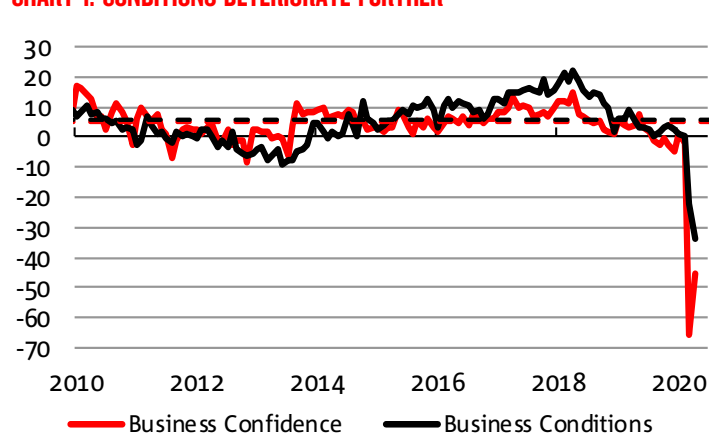
HIGHLIGHTS

- **How confident are businesses?** Confidence rose 19pts to -46 index points – but remains very weak.
- **How did business conditions fare?** Conditions fell 12pts to -34 index points and are now below the levels seen in the GFC.
- **What components contributed to the result?** Profitability (down 7pts), trading conditions (down 14pts) and employment (down 15pts) all saw further declines in the month.
- **What is the survey signalling for jobs growth?** The employment index is now near its lowest level on record. At -35 index points it indicates a sharp decline in employment.
- **Which industries are driving conditions?** All industries weakened further in the month, except for mining which saw a large increase and transport & utilities which was flat. Wholesale saw the largest decline in the month, after holding up last month – which now sees negative conditions across all industries. Conditions are weakest in recreation & personal services.
- **Which industries are most confident?** The increase in confidence was broad-based across industries (with the exception of manufacturing which was flat), led by improvements in construction, retail and mining. The service industries, manufacturing and transport & utilities now have the weakest outlook across the business sector.
- **Where are we seeing the best conditions by state?** Conditions weakened across all states except Tas in the month. The remaining states see conditions between -27 to -49 index points – with SA the weakest.
- **What is confidence like across the states?** Confidence rose in all states except Tas but remains very weak with NSW seeing the best reading at -41 index points. Vic, Tas and SA are the weakest across the states.
- **Are leading indicators suggesting further improvement?** Though confidence improved slightly, forward orders weakened, pointing to a further decline in activity going forward. Capacity utilisation declined further and its now at its lowest level on record, suggesting that a significant turnaround in conditions is required before the sector considers expanding.
- **What does the survey suggest about inflation and wages?** Retail prices growth was unchanged in the month, but overall deflation in final products prices strengthened. Purchase costs were also softer. Labour costs declined relatively sharply but this wage bill measure will likely be significantly impacted by the decline in employment in the month.

TABLE 1: KEY STATISTICS

	Feb-20	Mar-20	Apr-20
	Net balance		
Business confidence	-2	-65	-46
Business conditions	1	-22	-34
Trading	5	-19	-33
Profitability	-6	-28	-35
Employment	1	-20	-35
Forward orders	-5	-28	-36
Stocks	-5	-8	-13
Exports	-2	-6	-7
	% change at quarterly rate		
Labour costs	1.0	-0.8	-2.7
Purchase costs	0.9	0.5	-0.2
Final products prices	0.3	-0.2	-0.5
Retail prices	0.6	0.6	0.6
	Per cent		
Capacity utilisation rate	81.2	75.1	72.0

CHART 1: CONDITIONS DETERIORATE FURTHER



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

All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 23 – 30 April, covering over 400 firms across the non-farm business sector.

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NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

THE DECLINE IN CAPACITY UTILISATION

- Alongside the sharp decline in business confidence and conditions over the past two months the business sector has seen a sharp decline in capacity utilisation. While monthly seasonally adjusted data can be volatile the decline over the past two months has been exceptional, and sees capacity utilisation now well below its lowest level on record – even when compared to the depths of the 1990s recession (based on the quarterly survey).
- Broadly, capacity utilisation had been tracking around its average level (based on the monthly survey since 1997) before the ramp up of coronavirus containment measures in the second half of March. Over the past two months capacity utilisation has fallen by around 10 percentage points to 72%.
- Capacity utilisation has decreased across all industries. The declines have been largest in the recreation & personal services (down 17.0 ppts), retail (down 10.9 ppts) and finance, business & property services (down 8.0 ppts). Manufacturing (down 0.6ppt) and transport & utilities (up 0.1ppt) have been least affected but remain below average.
- Consequently, all industries are now well below their long-run averages but unsurprisingly recreation & personal services is operating at the lowest capacity across industries when compared with its usual level of capacity utilisation.
- The pattern of lower activity is also broadly reflected across all states with notable falls having occurred in each state since February. Tas has seen the largest decline but it can be volatile on a month to month basis. Of the mainland states, WA has seen the smallest decline (5 ppt) while the other states have declined between 8-11 ppt).
- Overall, the decline in capacity utilisation while stark, is unsurprising given the necessary restrictive nature of containment measures. The sharp declines in confidence and conditions suggest that the decline in capacity utilisation is being felt throughout the business sector and that a significant improvement in trading conditions and a large turn around in confidence will be needed before firms consider any expansion plans.
- As restrictions are eased and businesses re-open capacity utilisation will normalise. However, with a gradual easing in restrictions expected – with differences across states and industries – this is likely to be a protracted process. This accords with our overall economic forecast for a v-shape recovery in growth but delayed recovery in the level of activity – with the level of GDP not reaching pre-COVID levels until early 2022 and unemployment remaining above 7% by end 2021. This suggests more action from policy makers will be required – particularly on the Fiscal front to assist business with a return to normal.

CHART 2: CAPACITY UTILISATION (%)

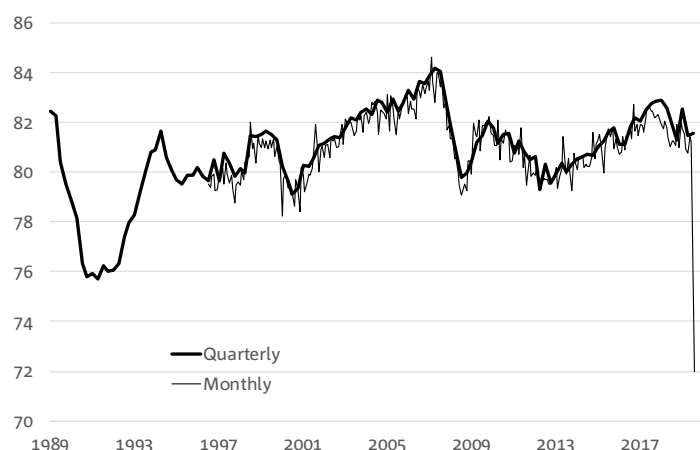
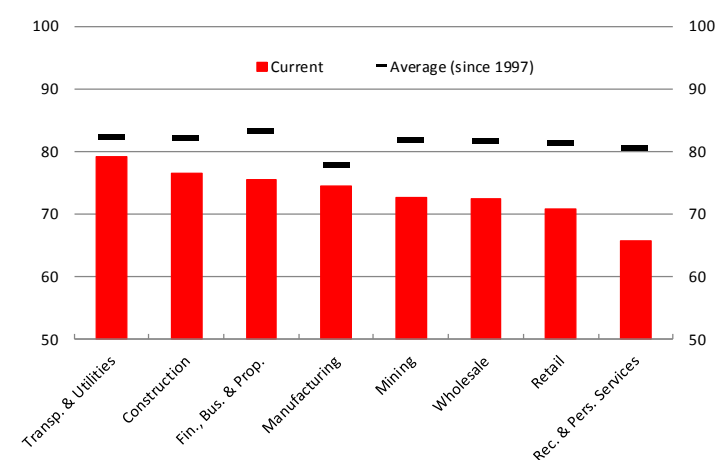


CHART 3: CAPACITY UTILISATION BY INDUSTRY (%)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 4: BUSINESS CONFIDENCE (NET BALANCE)

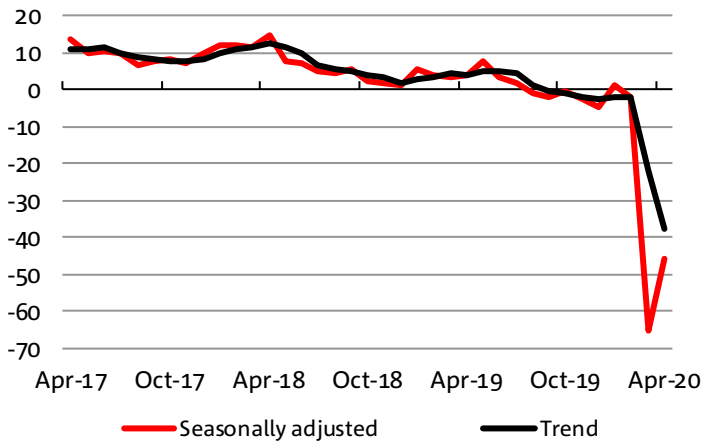


CHART 5: BUSINESS CONDITIONS (NET BALANCE)

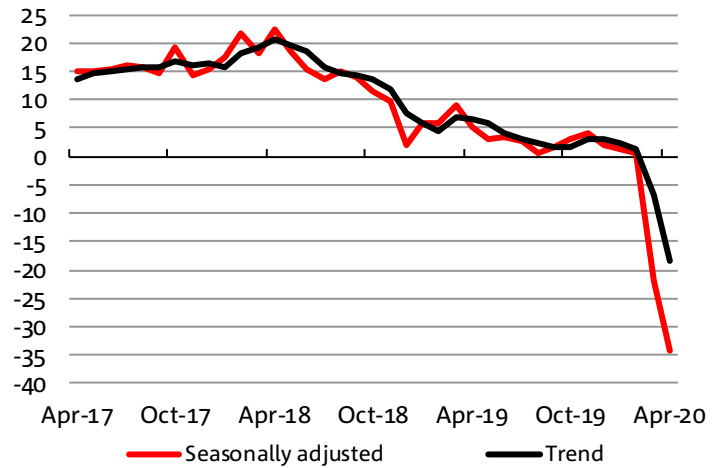


CHART 6: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

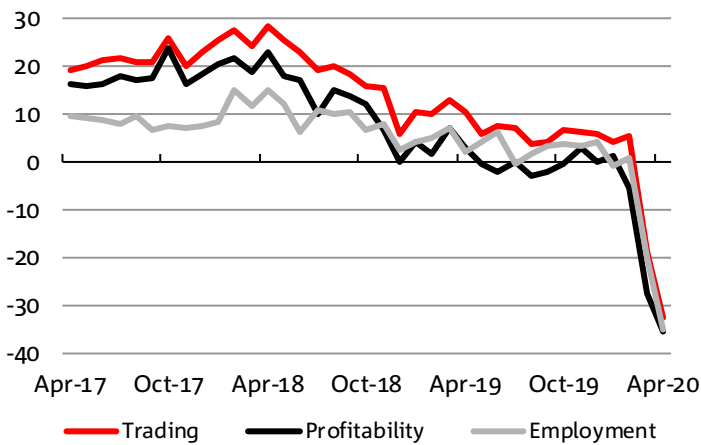


CHART 7: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

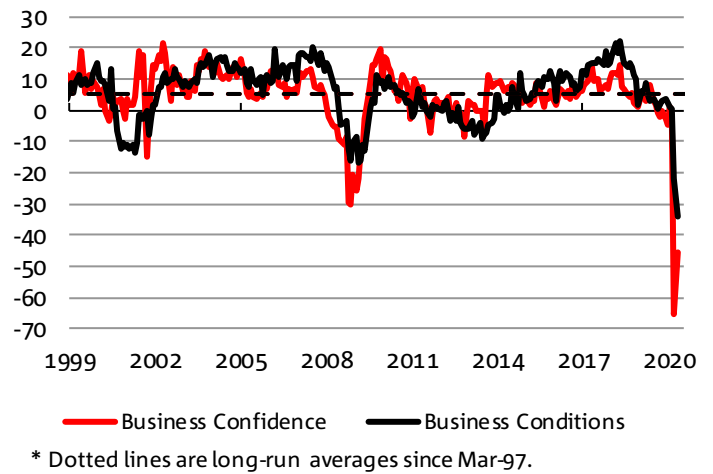


CHART 8: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

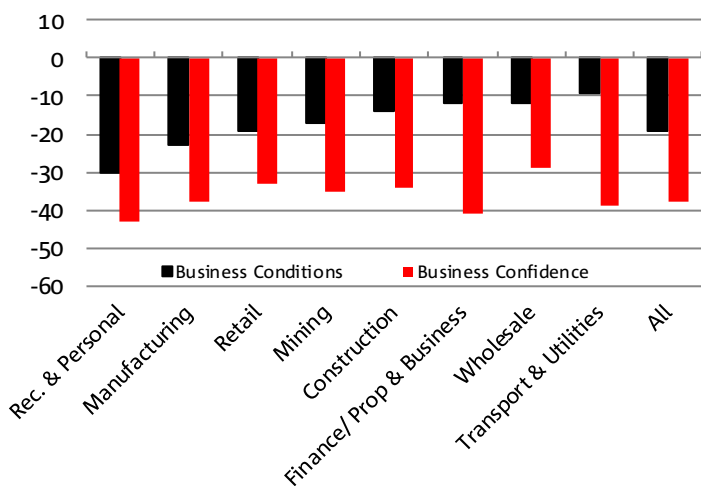
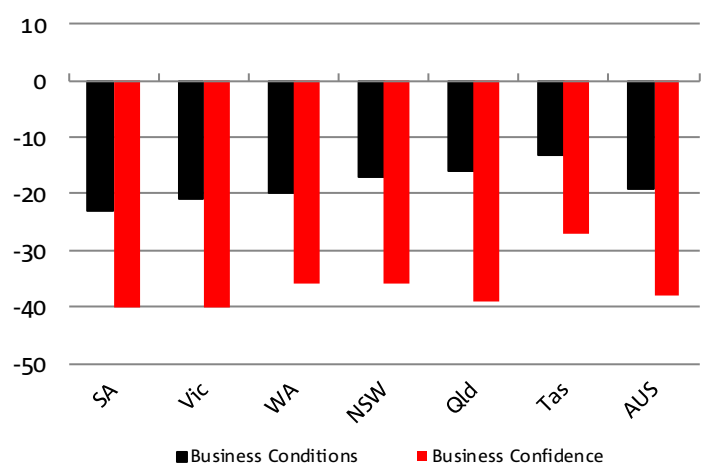


CHART 9: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 10: FORWARD ORDERS (NET BALANCE)

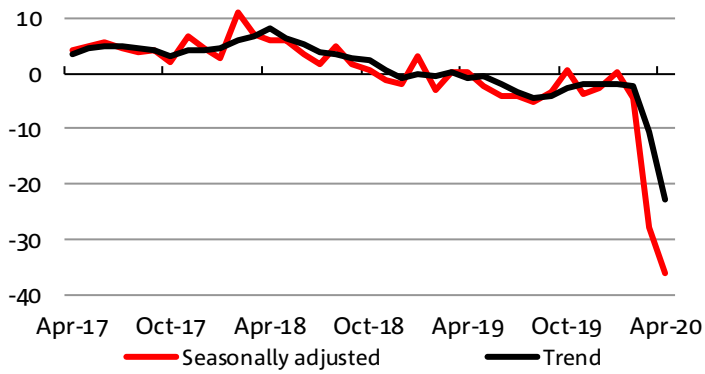


CHART 11: CAPITAL EXPENDITURE (NET BALANCE)

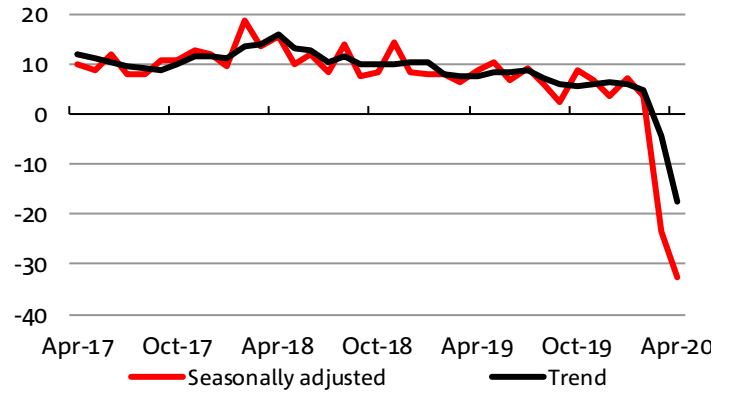


CHART 12: CAPACITY UTILISATION AND UNEMPLOYMENT

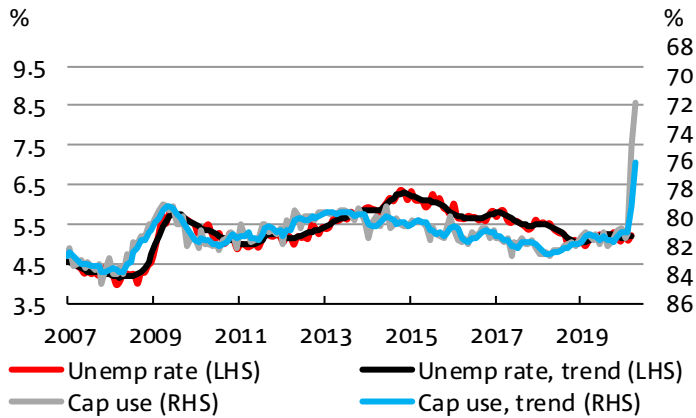


CHART 13: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

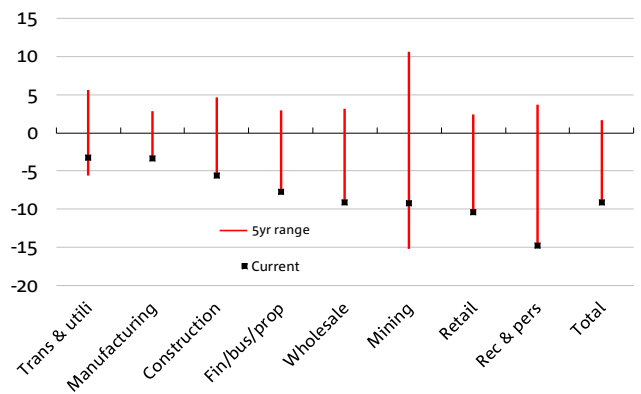


CHART 14: STOCKS (NET BALANCE)

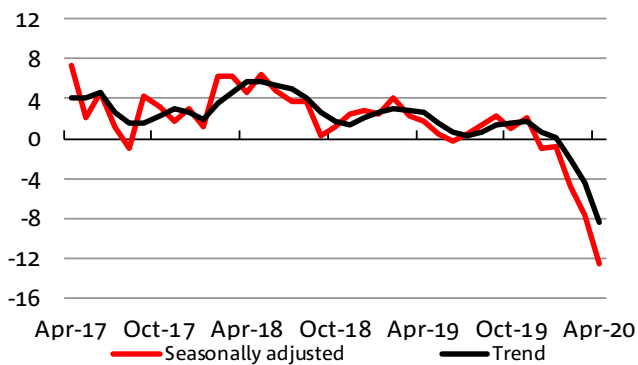


CHART 15: CASH FLOW (NET BALANCE)

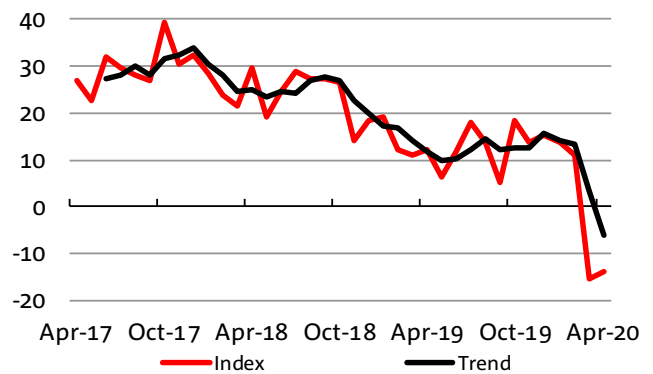


CHART 16: EXPORTS (NET BALANCE)

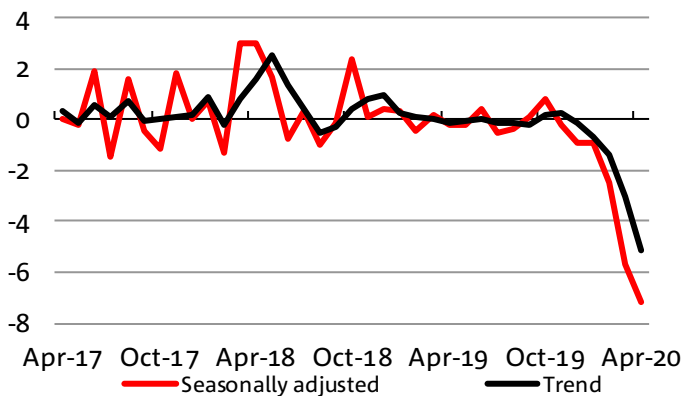
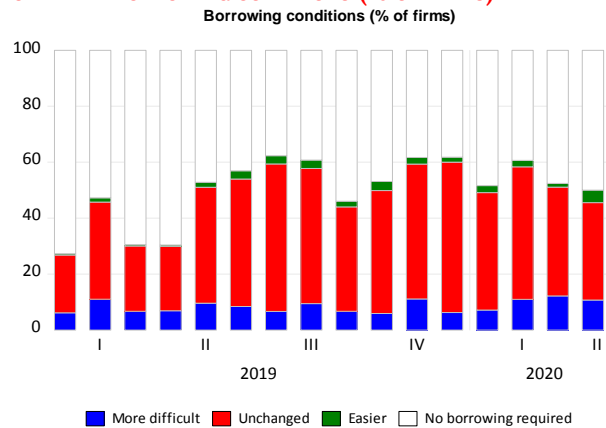


CHART 17: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

CHART 18: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

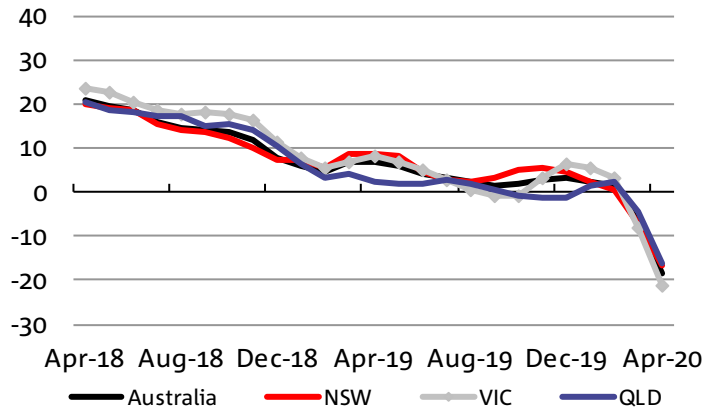


CHART 19: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

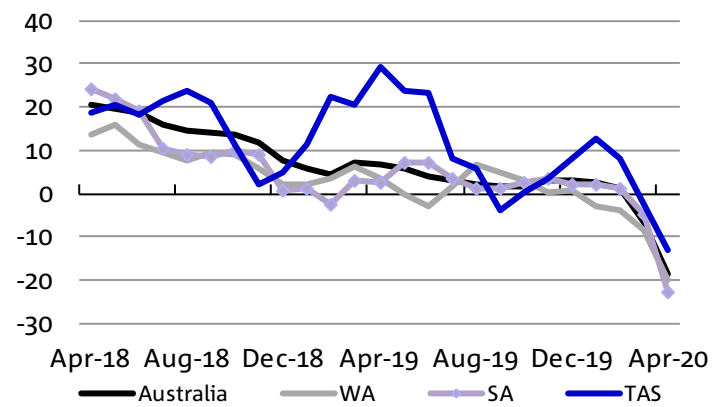


CHART 20: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

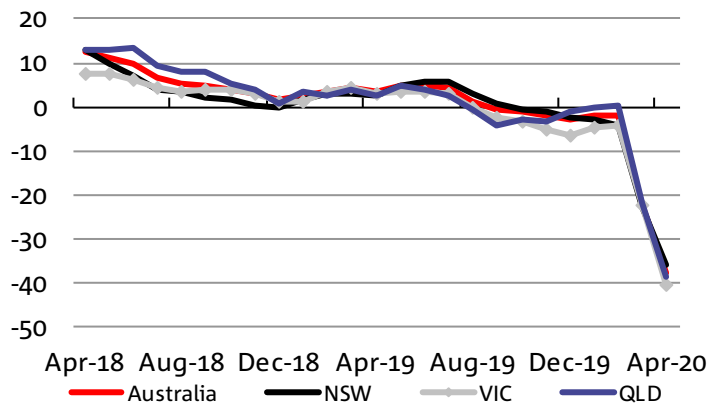


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

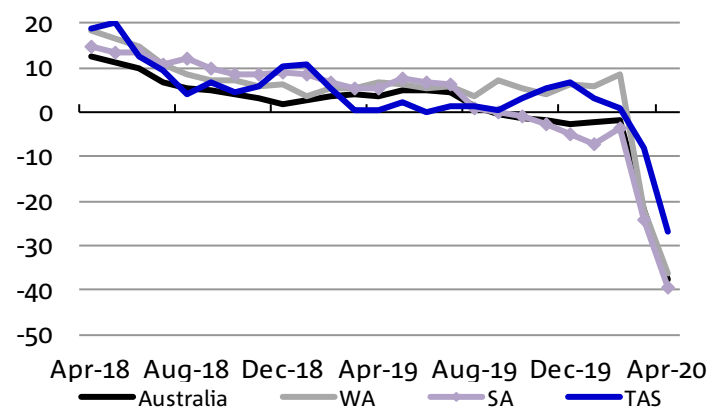


CHART 22: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

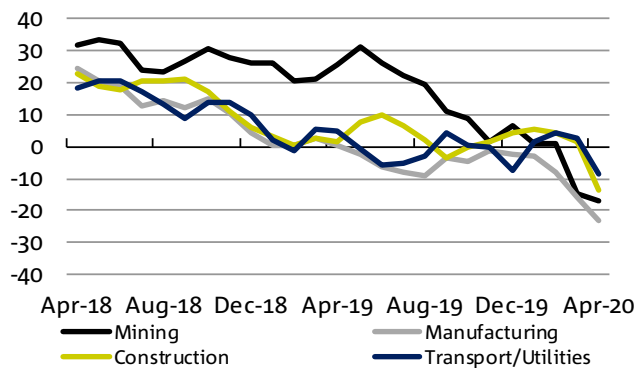


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

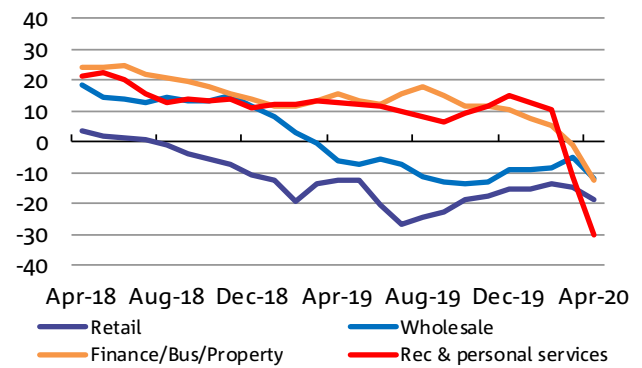


CHART 24: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

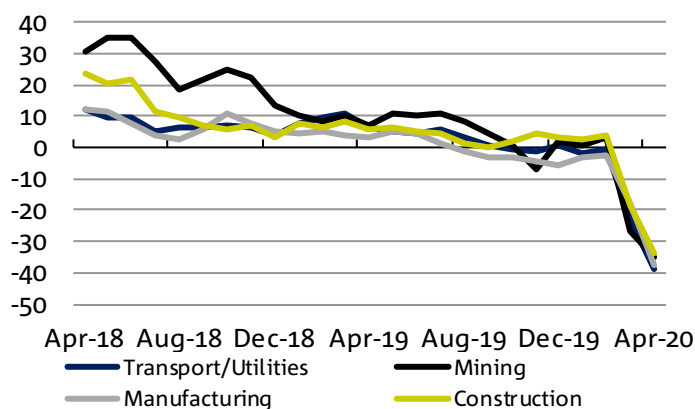
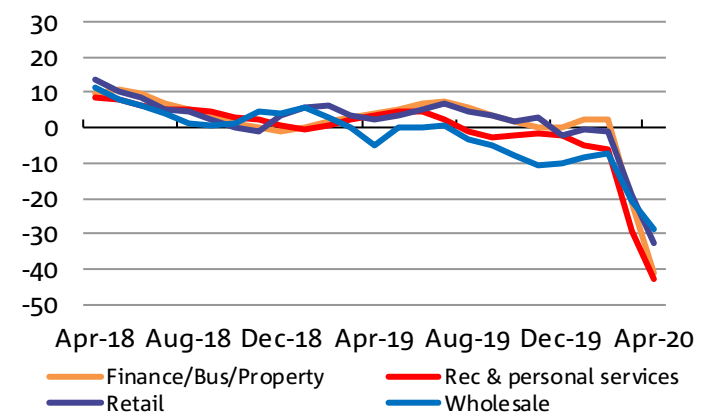


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 26: EMPLOYMENT

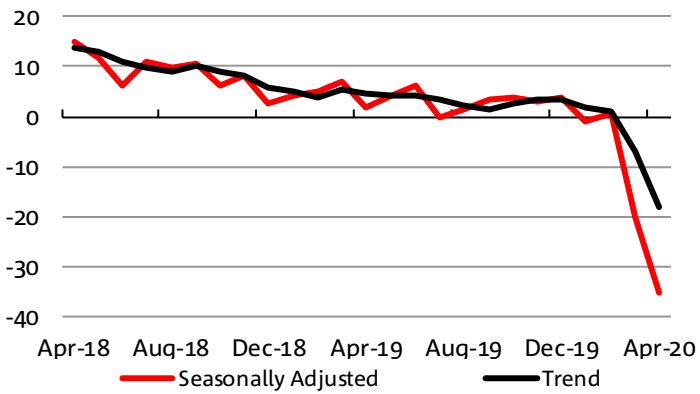


CHART 27: EMPLOYMENT (NAB VS ABS)

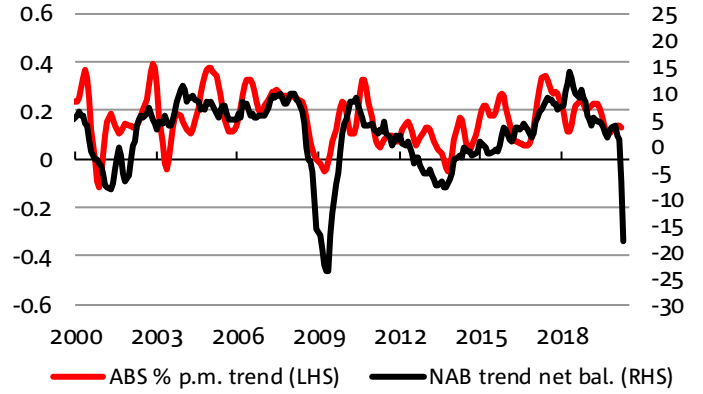


CHART 28: EMPLOYMENT BY INDUSTRY

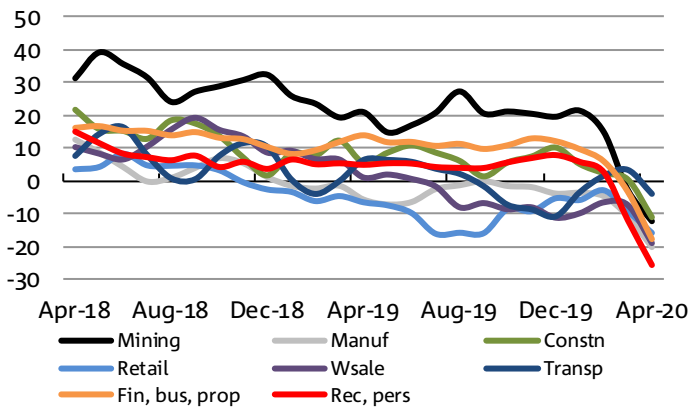


CHART 29: LABOUR COSTS GROWTH

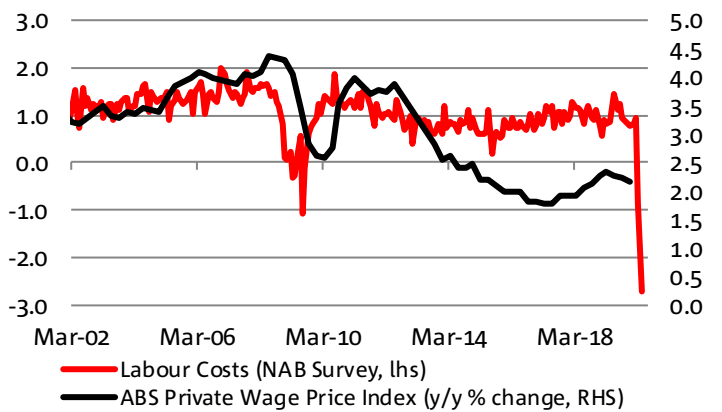


CHART 30: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

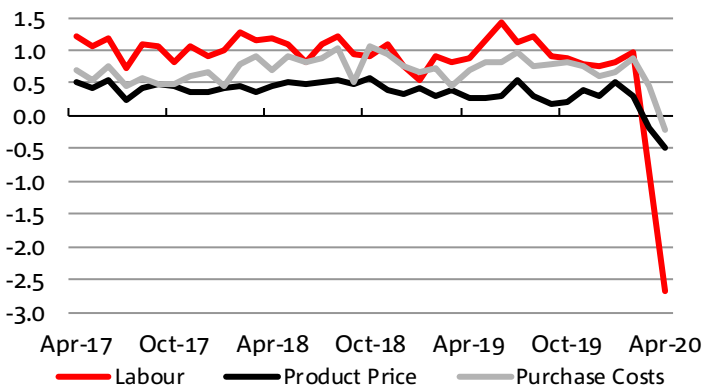
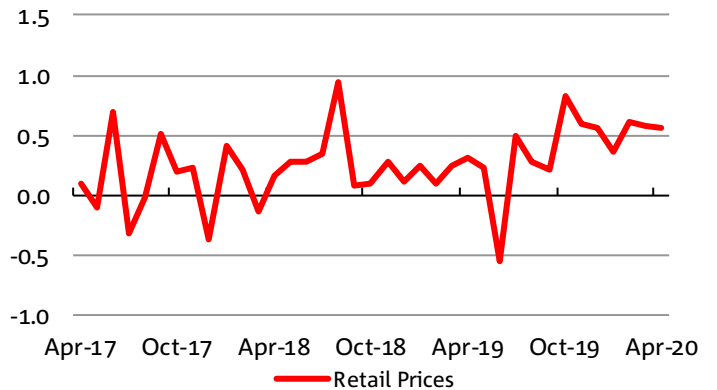


CHART 31: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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.