

NAB MONTHLY BUSINESS SURVEY

May 2020

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By Group Economics

CONDITIONS AND CONFIDENCE SEE AN IMPROVEMENT BUT REMAIN WEAK

Key messages from the survey: Business conditions saw a broad-based improvement in the month but remain deeply negative – at a level last seen coming out of the GFC. The services sectors remain weakest, but all sectors continue to see negative conditions. Business confidence increased further from its low point in March, but remains weak with a current reading last seen around the trough in the 1990s recession. The increase in confidence was also broad-based across the economy but all industries continue to expect a deterioration in conditions. Overall, this month’s results accord with what we have seen elsewhere, with restrictions having generally been eased – though to varying degrees across the states – there has seen some pickup in activity. However, uncertainty remains high both globally and domestically and businesses likely remain concerned about how quickly they will return to full capacity. Unsurprisingly the employment index - which appears to have stabilised - and capex remain very weak. Both indicators point to ongoing restraint in the business sector with respect to hiring and expansion plans. Indeed, while capacity utilisation saw some improvement, it remains historically low, and well below pre-COVID-19 levels. Forward orders, also near record lows, suggest activity will remain weak in the near term.

Business conditions rose 10pts in May to -24 index points after falling to GFC lows last month. The improvement in conditions was broad-based across industries, but conditions are notably weaker in the services industries. By state, NSW sees the best conditions (but still negative) with the rest of Australia weaker.

According to Alan Oster, NAB Group Chief Economist “conditions rose in the month, but they are still negative and this tells us activity was still extremely weak in May. While some coronavirus containment measures have eased, there are still restrictions in place and the services sectors which are most impacted by these measures continue to show the weakest conditions”.

The improvement in conditions was driven by an improvement in trading conditions and profitability, while the employment index saw a more modest improvement. Capacity utilisation rose somewhat, but remains very low compared to history after a sharp deterioration in April where containment measures took hold.

“The improvement in trading conditions and profitability is in line with what we are seeing in other data sources, as well as the moderation in job shedding. However, it is likely that it will take some time for the employment index to reach positive levels with capacity utilisation still low and activity yet to fully rebound” said Mr Oster.

Forward orders saw a modest improvement but remains below its previous low in the 1990s recession. Reported Capex improved in the month but is also very weak at -20 index points.

“Forward orders suggest that in the short-term activity is likely to remain weak in the business sector and combined with low capacity utilisation and still very weak confidence points to ongoing restraint in Capex spending” said Mr Oster.

When directly asked about the impact of coronavirus on their business, only around 5% of firm’s report being unaffected by the virus, with over one third reporting a major negative impact. On average the business sector reports an 11% decline in revenue because of the pandemic.

“The share of respondents reporting being impacted by COVID-19 has broadened significantly since the period between late February and early March. This reflects what we already know: that the impact on the economy has been very wide-spread” Mr Oster said.

“The business survey points to a very large fall in activity for Q2 following the fall recorded in the Q1 national accounts last week. Other indicators have already confirmed this, and the labour market impact has been large. We will continue to closely watch the recovery in confidence, as it will likely be a key factor in how businesses recover from the largest downturn in the economy since the 1930s” said Mr Oster.

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

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