



NAB MONTHLY BUSINESS SURVEY MAY 2020

CONDITIONS AND CONFIDENCE IMPROVE BUT REMAIN WEAK

NAB Australian Economics

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.

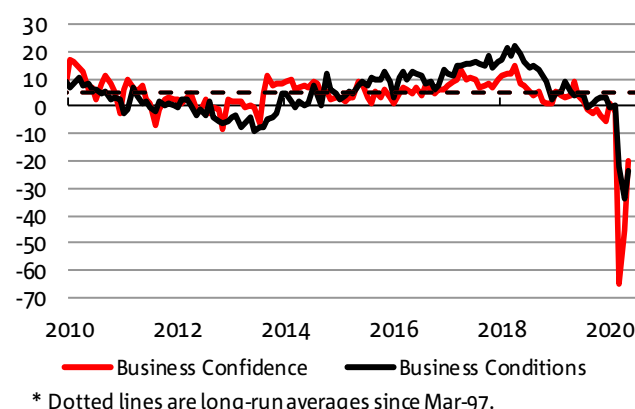
HIGHLIGHTS

- **How confident are businesses?** Confidence rebounded for a second consecutive month, rising 25pts to -20 index points. However, it remains at a level last seen in the 1990s recession after the massive decline in March.
- **How did business conditions fare?** Conditions rose 10pts to -24 index points – a similar level to the March read.
- **What components contributed to the result?** Trading conditions (up 13pts) and Profitability (up 16pts) drove the improvement in conditions while employment saw a more marginal increase. Nonetheless, each component remains very weak and in deeply negative territory.
- **What is the survey signalling for jobs growth?** The employment index is showed tentative signs of a stabilisation – but is still very negative and implies ongoing shedding of jobs.
- **Which industries are driving conditions?** There was a broad-based improvement in the non-mining sector in the month, with the improvement in conditions led by an increase in wholesale. Manufacturing, construction, retail and rec & personal saw increases between 11-16pts, while finance, business & property services and transport & utilities saw marginal increases. The services sectors remain notably weaker than the other industries.
- **Which industries are most confident?** Confidence increased in all industries, led by manufacturing and transport & utilities. Retail and wholesale are now the least pessimistic. Construction and finance, business & property are the weakest.
- **Where are we seeing the best conditions by state?** Conditions increased in most states although only marginally in Queensland. Tasmania was the exception, as conditions declined 12pts. Conditions are weakest in WA and SA with Vic and Qld slightly better. NSW still sees negative conditions but currently sees the best outcomes on activity across the country.
- **What is confidence like across the states?** Confidence rose in all states, led by gains in Vic and SA but remains negative ranging between -17 to -23 pts on the mainland. Confidence is weakest in Tas.
- **Are leading indicators suggesting further improvement?** Forward orders saw a modest improvement but remain below the levels seen in the 1990s recession. Capacity utilisation saw a notable rebound in May after the record decline in April but remains historically weak. Combined with the weak level of confidence these indicators do not suggest business conditions will return to positive territory in the near-term.
- **What does the survey suggest about inflation and wages?** Retail prices were flat in the month, while overall final products prices declined by 0.3% in quarterly terms. Purchase costs increased slightly after falling last month, suggesting some pressure on margins, while labour costs declined at a slower rate.

TABLE 1: KEY STATISTICS

	Mar-20	Apr-20	May-20
	Net balance		
Business confidence	-65	-45	-20
Business conditions	-22	-34	-24
Trading	-18	-31	-18
Profitability	-27	-35	-19
Employment	-19	-34	-31
Forward orders	-28	-35	-29
Stocks	-7	-12	-10
Exports	-5	-7	-9
	% change at quarterly rate		
Labour costs	-0.8	-2.7	-0.9
Purchase costs	0.5	-0.2	0.3
Final products prices	-0.1	-0.5	-0.3
Retail prices	0.6	0.6	0.0
	Per cent		
Capacity utilisation rate	75.0	71.9	74.5

CHART 1: CONDITIONS RISE BUT REMAIN WEAK



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 19 May – 1 June, covering over 540 firms across the non-farm business sector.

Next release date: 14 July 2020.

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

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NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

BUSINESS' FEEDBACK ON COVID-19 IMPACTS

- This month's survey includes the interim results of the NAB Quarterly Survey special questions for Q2 based on around 540 firms. We again asked firms about the impact of COVID-19 on their firms.
- Since the first round of results which were surveyed around mid-to-late February - before the major escalation in containment measures – the impact of coronavirus has spread across the business sector. While around 50% has had reported an impact at that stage, around 95% of respondents now report having been impacted.
- The impact has also been more significant with around 60% of firms reporting a moderate or major impact, compared with around 20% a quarter ago.
- Interestingly, around 7% of businesses reported a positive impact, up from around 1% previously.
- By industry, the largest impact has been on the recreational & personal services industry where almost 60% of respondents have seen a major negative impact. Around a third of respondents in construction, retail, finance, business & property and transport & utilities have also seen a major impact. Overall, around 75% of firms in the two services sectors have seen a moderate or major impact.
- The industries which have seen significant positive impacts include retail, transport & utilities and to a lesser extent wholesale. This is likely related to the effect of hoarding, setting up home offices, as well as the shift to online retailing and home delivery of purchases.
- The average decline in revenue across respondents was around 11% compared with a 2% fall in the Q1 survey. Recreation & personal services reports the largest decline in revenue across industries, though finance, business & property and wholesale are not far behind. Transport & utilities have seen a decline in revenue around half of that of the national average.
- The impact of COVID-19 on the business sector has been severe and broadly spread throughout the economy. The impact of containment measures, while necessary, have been immediately obvious. In a similar sense, the easing in restrictions is likely to be evident in the business survey going forward. It is clear that policy support from both the RBA and the Government is a necessity and will likely remain in place for some time. As Australia passes through the biggest economic downturn since the 1930's.
- This quarter we also asked a series of additional questions about the impact of supply chains and the impact of COVID-19 responses on innovation. These results will be released as part of a separate report in due course.

CHART 2: REPORTED IMPACT OF COVID-19 (% OF RESPONDENTS)

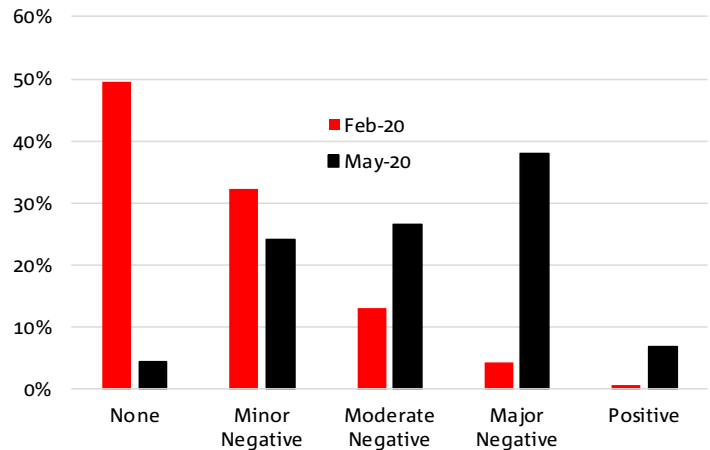


CHART 3: IMPACT BY INDUSTRY (% OF RESPONDENTS)

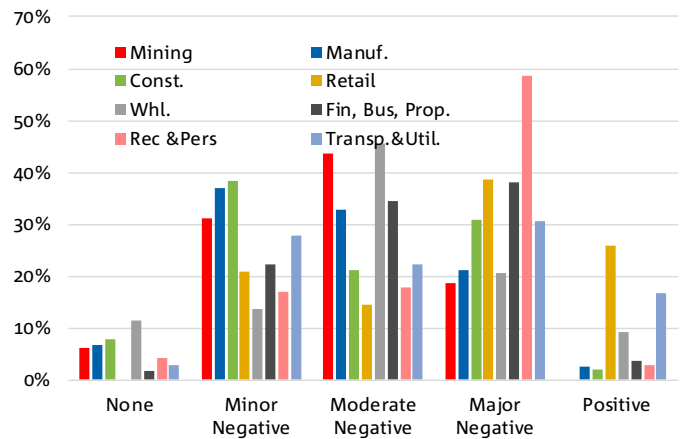
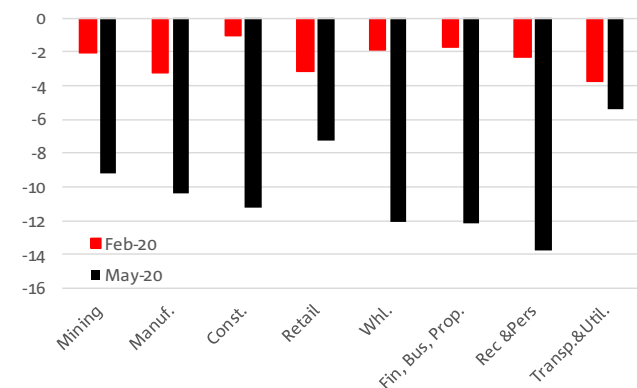


CHART 4: REVENUE IMPACTS (%)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

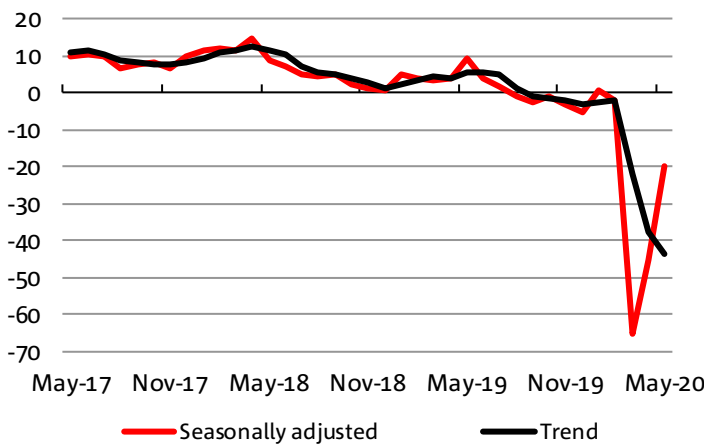


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

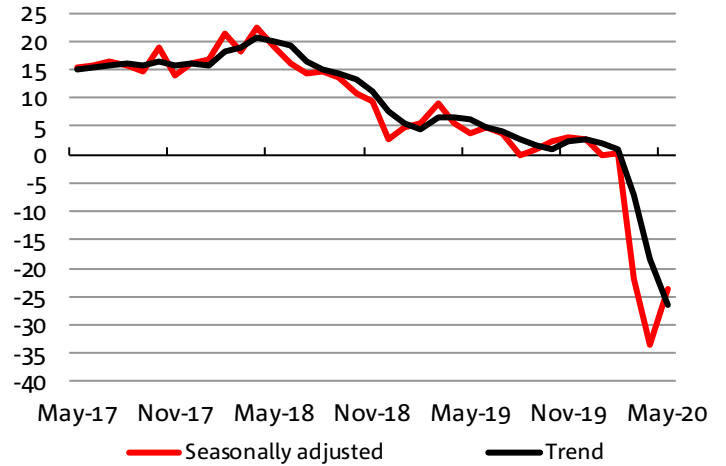


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

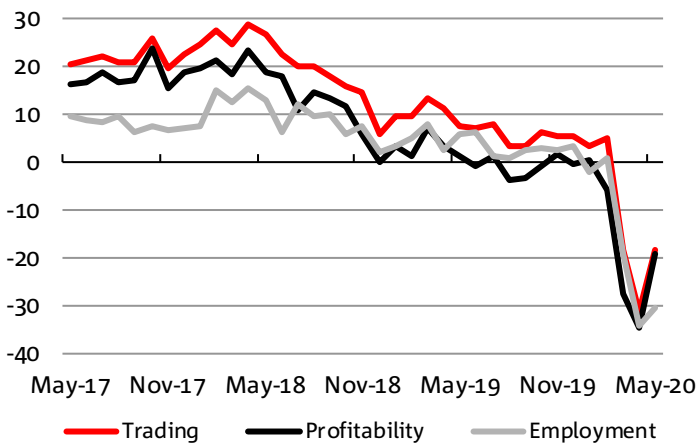


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

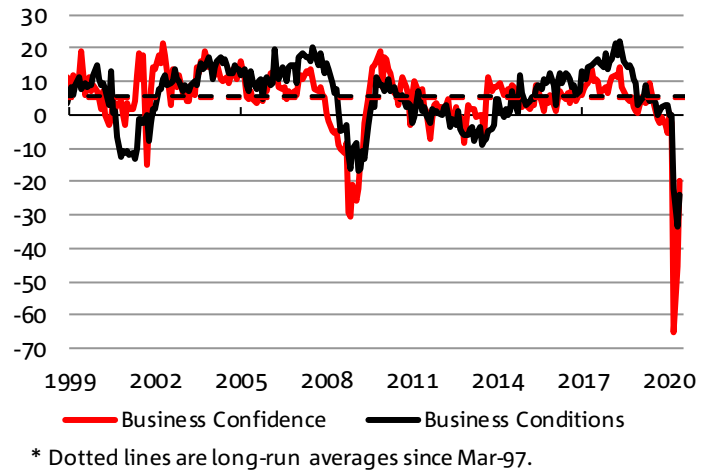


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

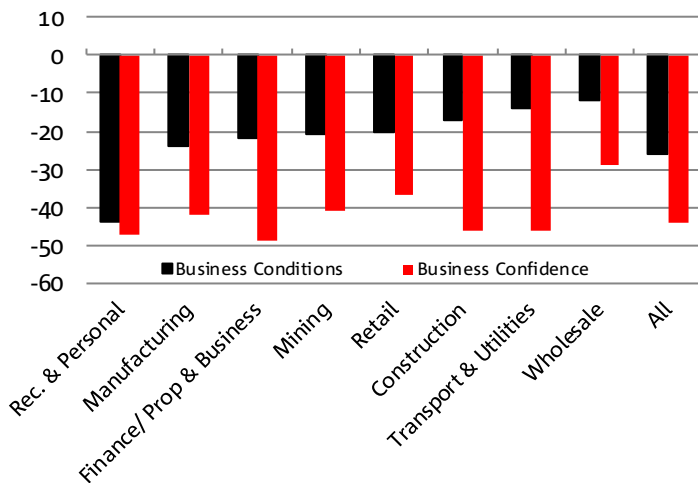
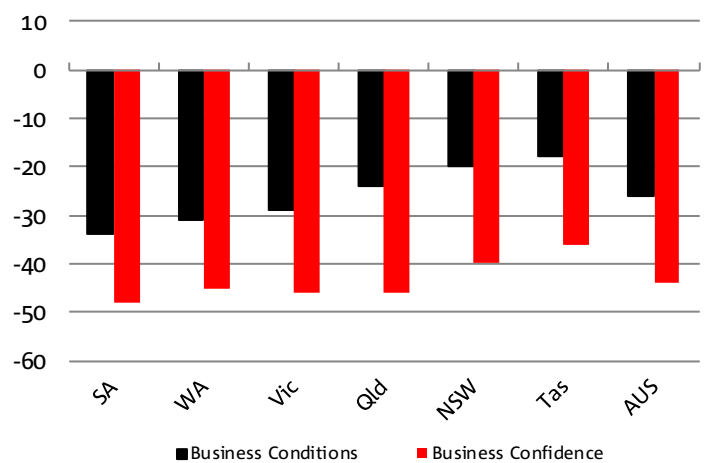


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

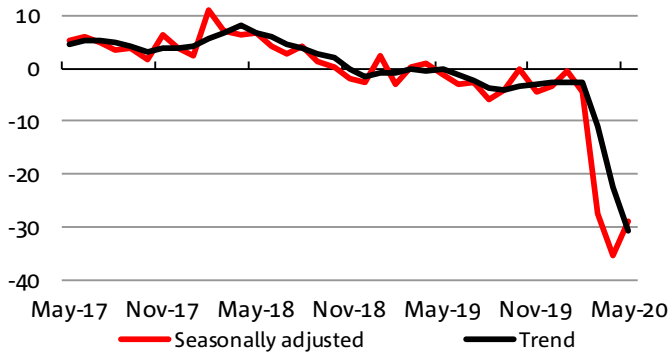


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

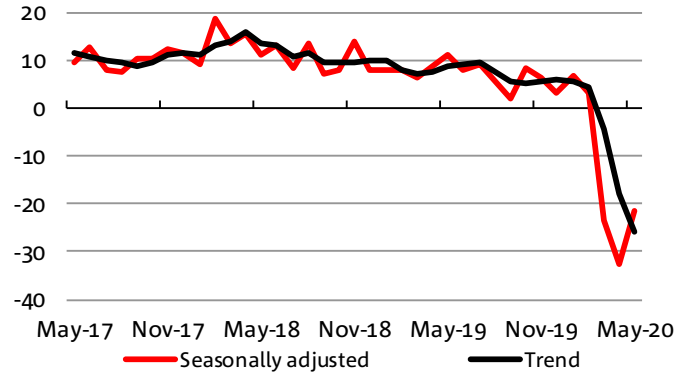


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

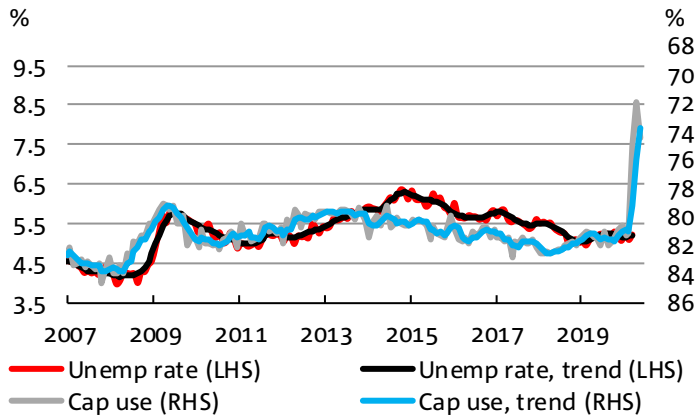


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

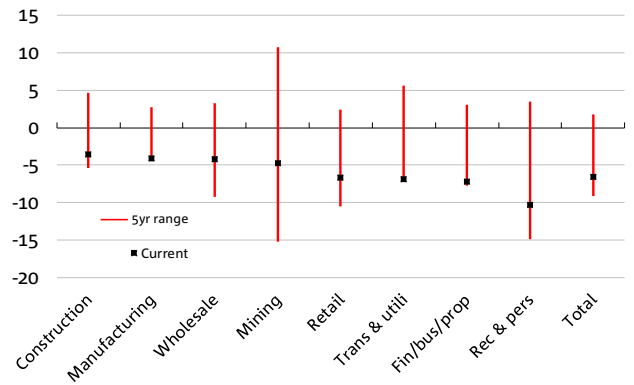


CHART 15: STOCKS (NET BALANCE)

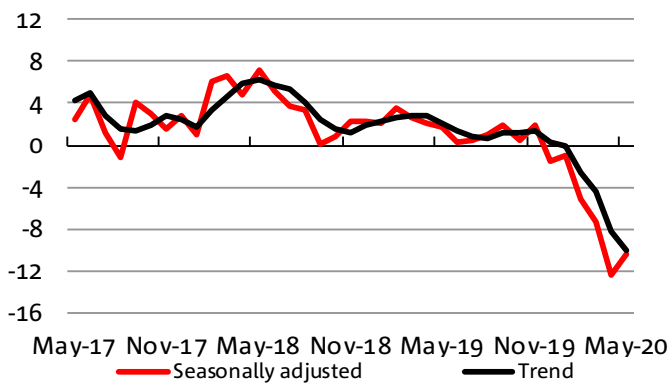


CHART 16: CASH FLOW (NET BALANCE)

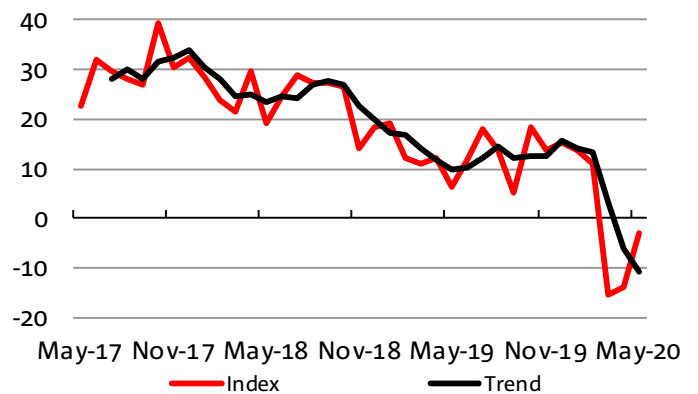


CHART 17: EXPORTS (NET BALANCE)

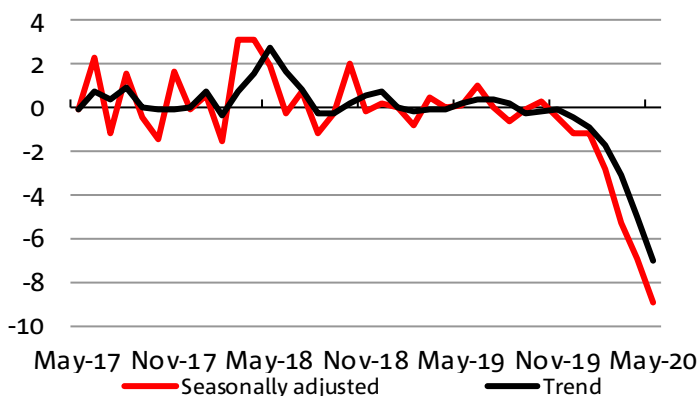
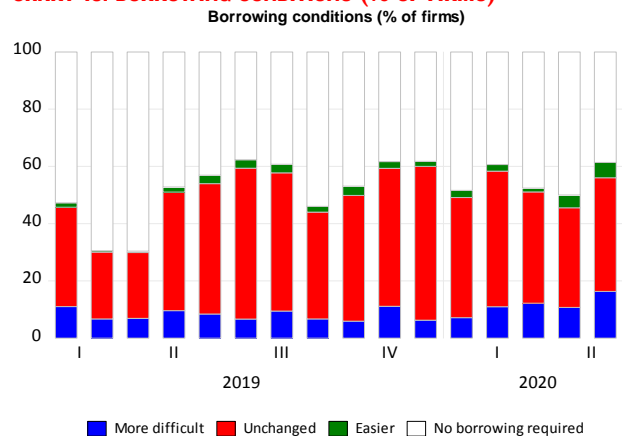


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

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

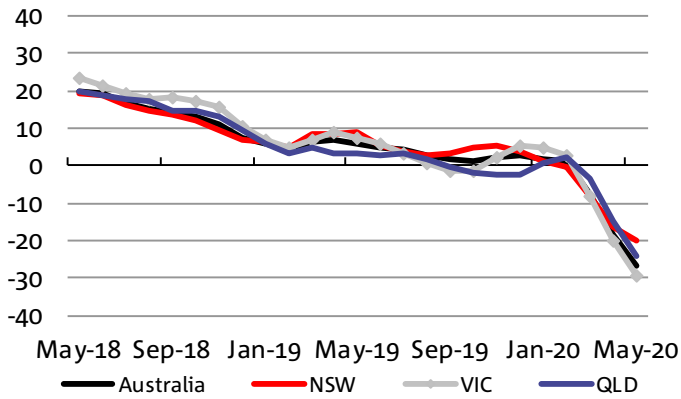


CHART 20: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

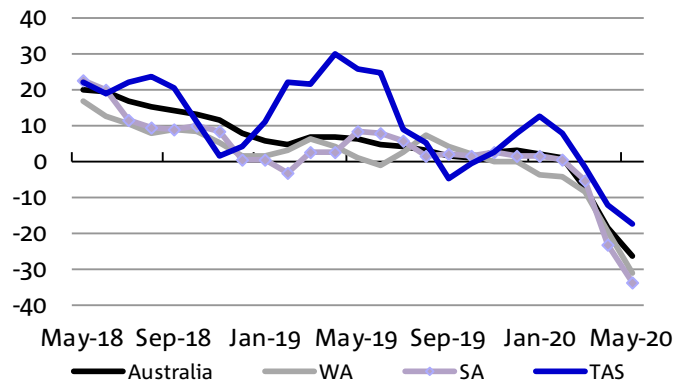


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

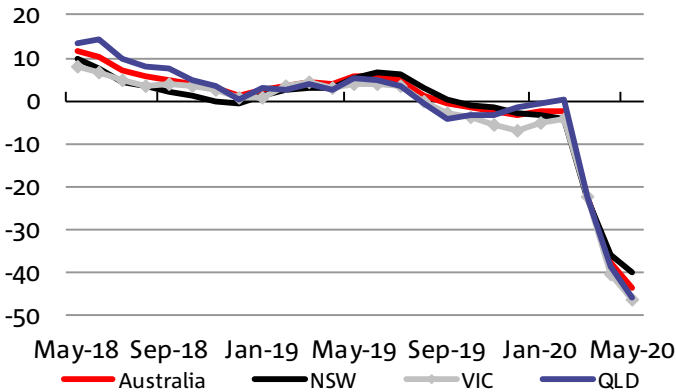


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

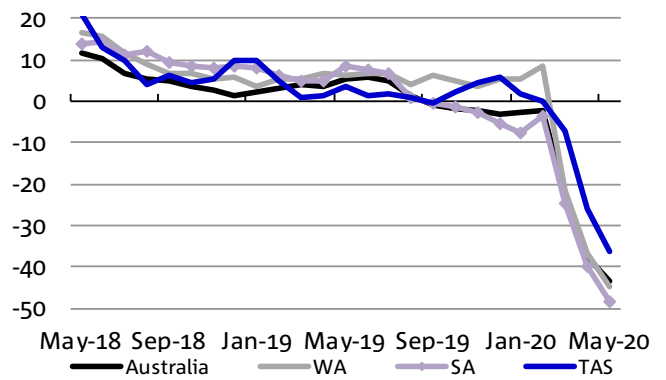


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

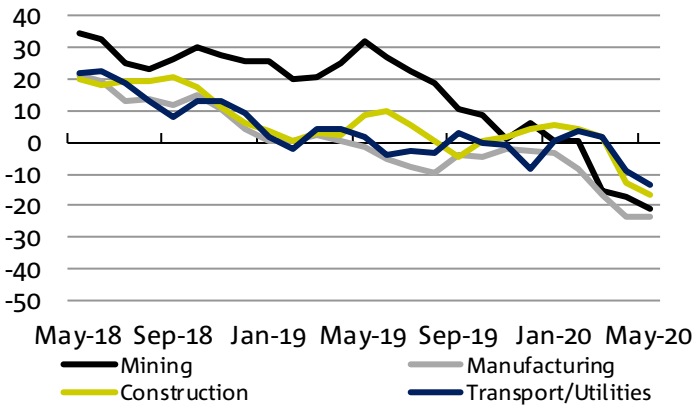


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

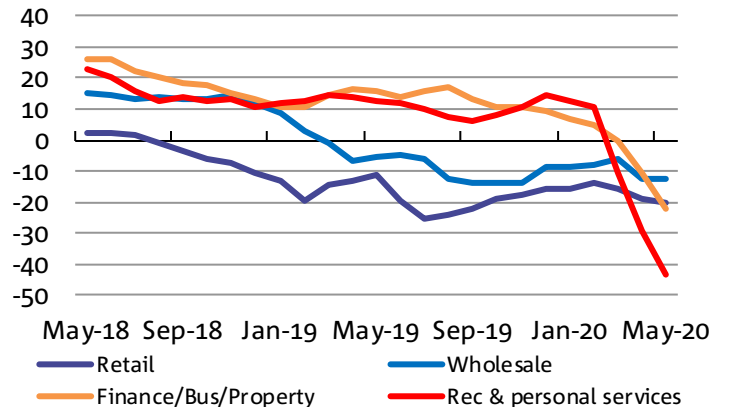


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

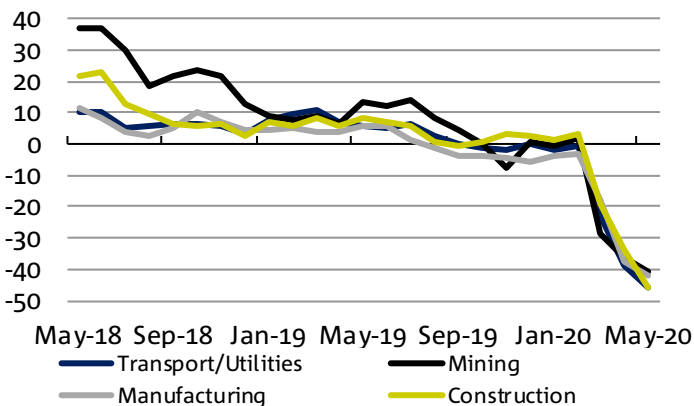
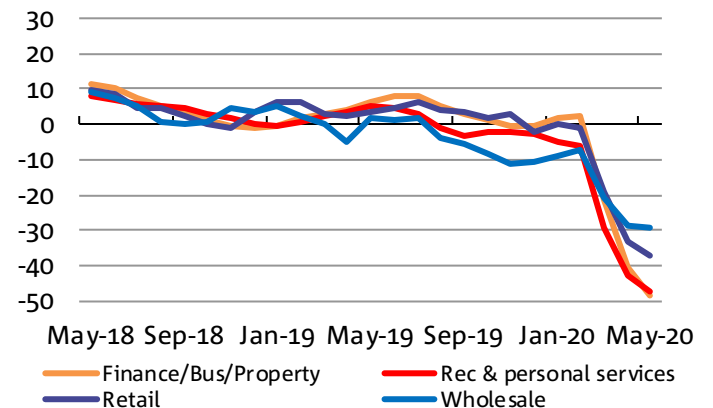


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

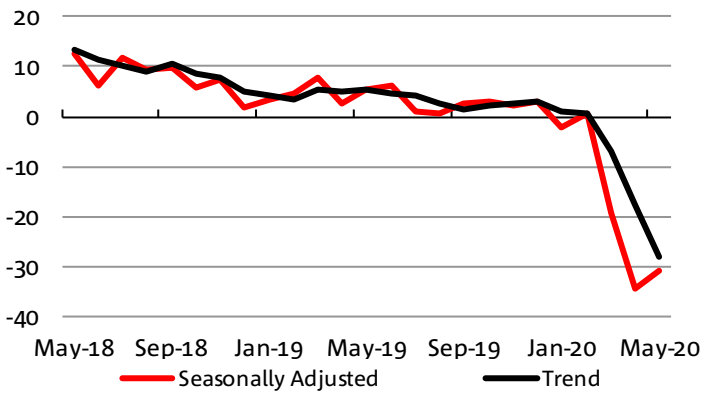


CHART 28: EMPLOYMENT (NAB VS ABS)

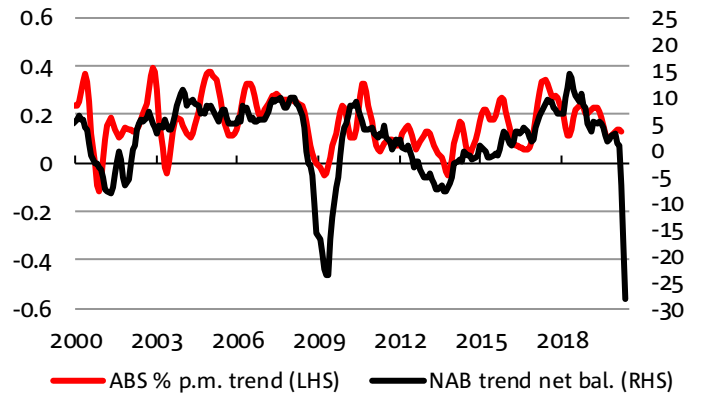


CHART 29: EMPLOYMENT BY INDUSTRY

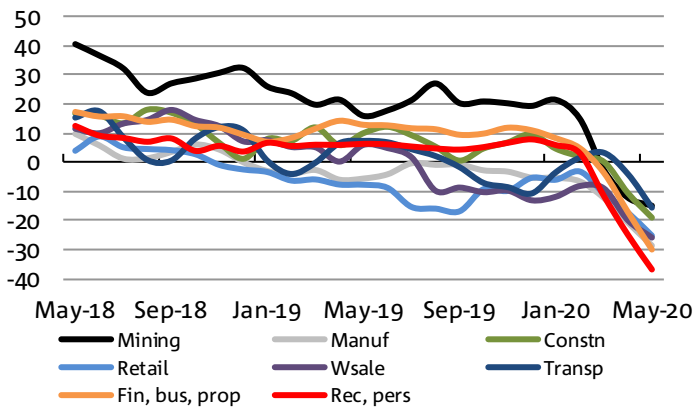


CHART 30: LABOUR COSTS GROWTH

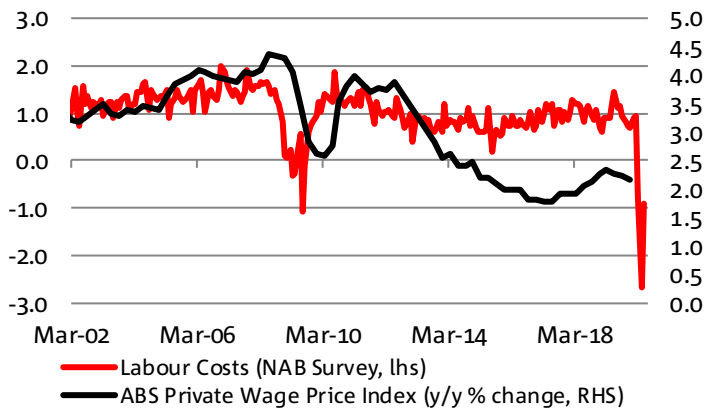


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

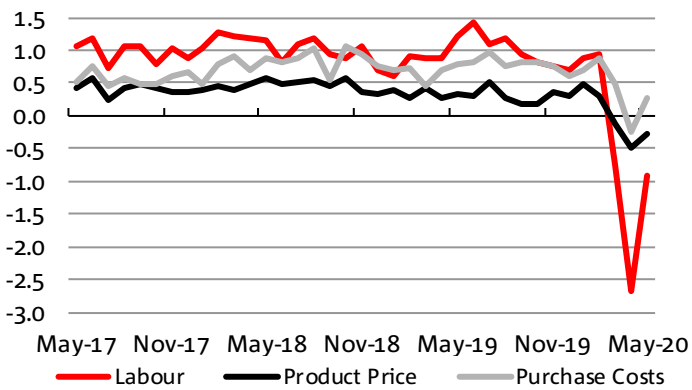
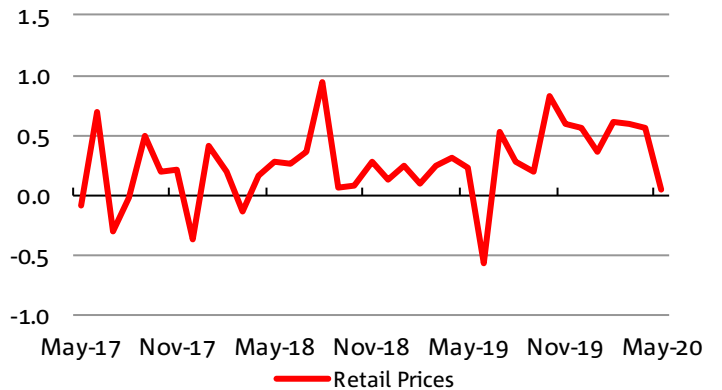


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



CONTACTS

Alan Oster, Group Chief Economist

Alan.Oster@nab.com.au

+61 0 414 444 652

Gareth Spence, Senior Economist

gareth.spence@nab.com.au

+61 0 436 606 175

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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.