

# NAB MONTHLY BUSINESS SURVEY

June 2020

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By Group Economics

## THE RECOVERY CONTINUES – BUT THERE IS SOME WAY TO GO

**Key messages from the survey:** Both business conditions and confidence continued to rebound in June – though it is important to note they are still weak in level terms. Business confidence turned positive after rebounding sharply from record lows over the past 3 months. Conditions again increased driven by significant improvements across the trading, profitability and employment sub-components and a broad-based improvement across industries. Nonetheless, while the rebound has been significant, conditions remain deeply negative and well below average – reflecting the fact that activity still has some way to go before a full recovery can be declared. Unsurprisingly the services sector continues to show the weakest outcomes, but of some concern are construction and manufacturing which also remain weak – pointing to second round impacts on industries that were not directly impacted by lockdowns. Notably, retail has risen to be close to the top of the pack in terms of conditions – a significant turnaround from persistently weak outcomes prior to the current pandemic. While there has been a very large and fast rebound in the business survey over the past two months, the survey points to ongoing weakness in the sector which will need to see ongoing support until activity levels and capacity utilisation return to normal. This will be a key precursor before businesses can again consider expansions in capex and employment.

Business conditions rose 17pts in June to -7 index points – continuing last month’s rebound after falling below GFC lows in April. The improvement was led by increases in mining and retail which now see the best conditions, but the improvement was broad-based across industries and states.

According to Alan Oster, NAB Group Chief Economist “the conditions index continued to rebound in June, recording another large rise. The increase was broad-based across industries but it is important to remember that given the prior large fall conditions still remain very weak overall”.

The improvement was driven by a lift in all three subcomponents. Trading rose 12pts to -7 index points, profitability rose 11pts to -8 index points and employment rose 20pts to -11 index points. Despite the large rise in the employment index, it remains slightly weaker than the other two components.

“Like last month, the improvement in trading conditions and profitability lines up with our internal NAB data which suggest significant improvement in activity. However, it is important to remember that survey indicators in level terms are still very weak and business is nowhere near back to normal. Likewise, the improvement in the employment index is very welcome but is at a very low level and suggests that the labour market has a long way to travel before we can claim a full recovery” said Mr Oster.

Elsewhere in the survey, there were improvements in forward orders, capacity utilisation and reported capex also saw an improvement but all remain at very low levels.

“Forward orders improved in the month but are still negative, suggesting that there is still some way go before activity is fully recovered. The increase in confidence is encouraging but forward orders will need to see further improvement if this is to be sustained. Capacity utilisation remains very low and will need to recover further before we see businesses again move to expansion mode” said Mr Oster.

“Overall, there has been a very large and fast rebound in the business survey over the past two months, but keeping perspective over just how large the hit to both activity and confidence is very important. While the turnaround has possibly occurred faster than expected, things have certainly not fully recovered. Conditions and capacity utilisation remain very weak and will take some time to recover” said Mr Oster.

“The survey was conducted just prior to the reintroduction of lockdowns in Victoria – so we will be closely watching next month’s survey to see how confidence and conditions are again impacted there and indeed more broadly, with developments in the state highlighting the risk to business Australia-wide” said Mr Oster.

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

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