

NAB MONTHLY BUSINESS SURVEY JUNE 2020

THE RECOVERY CONTINUES – BUT STILL SOME WAY TO GO

NAB Australian Economics

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.

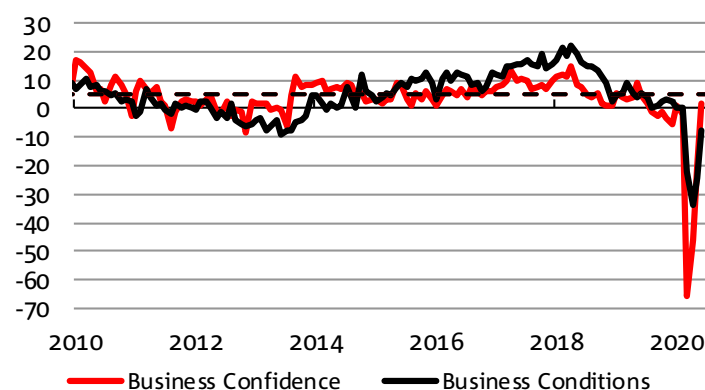
HIGHLIGHTS

- **How confident are businesses?** Confidence rose by 21pts to +1 index points in the month – a third consecutive large increase in confidence.
- **How did business conditions fare?** Conditions rose 17pts to -7 index points – but remain very weak.
- **What components contributed to the result?** All three subcomponents saw significant improvements – led by a 20pt increase in the employment index. Trading conditions and profitability rose 12 and 11pts respectively.
- **What is the survey signalling for jobs growth?** The employment index has improved substantially over the past two months but remains negative implying some ongoing job shedding but that this has likely slowed.
- **Which industries are driving conditions?** Conditions rose across all industries – with mining and retail seeing the biggest increases. Outside of mining, retail now sees the best conditions followed by transport & utilities. The remaining industries remain notably weaker, with the services sectors still weakest. Manufacturing and construction also remain negative, highlighting an ongoing risk in these sectors from secondary spill-overs from the slowdown in economic activity.
- **Which industries are most confident?** Confidence increased everywhere except retail and is now positive in all industries except retail and construction. Mining is now the most optimistic across industries, while construction is weakest.
- **Where are we seeing the best conditions by state?** Conditions improved in all states in the month, with WA seeing the largest improvement. It is now the only state to see positive conditions while SA and Tas are now the weakest. Vic remains the weakest of the east coast states – but Qld and NSW still see negative conditions.
- **What is confidence like across the states?** Confidence rose in all states with NSW, WA and QLD leading gains on the mainland. Confidence is now positive in NSW, Tas, and WA and negative in Vic and SA. QLD lies at 0 index points.
- **Are leading indicators suggesting further improvement?** Forward orders saw a large improvement in the month but remain significantly negative and well below average. Capacity utilisation continued to recover but remains very low. Overall, there has been a notable improvement in leading indicators in the past two months but they remain weak.
- **What does the survey suggest about inflation and wages?** Retail price inflation picked up in the month, while final products prices also rose, following weakness last month. The decline in labour costs (a wage bill measure) appears to have abated with costs edging higher in the month.

TABLE 1: KEY STATISTICS

	Apr-20	May-20	Jun-20
	Net balance		
Business confidence	-46	-20	1
Business conditions	-34	-24	-7
Trading	-32	-19	-7
Profitability	-35	-19	-8
Employment	-34	-31	-11
Forward orders	-36	-29	-9
Stocks	-12	-9	-6
Exports	-7	-9	-5
	% change at quarterly rate		
Labour costs	-2.7	-0.9	0.1
Purchase costs	-0.2	0.3	0.7
Final products prices	-0.5	-0.3	0.2
Retail prices	0.6	0.1	1.2
	Per cent		
Capacity utilisation rate	71.8	74.5	76.7

CHART 1: CONFIDENCE AND CONDITIONS RISE



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

All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 24th - 30th June, covering over 400 firms across the non-farm business sector.

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NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

THE REBOUND IN CONFIDENCE AND CONDITIONS

- The past few months have seen historically large moves across most survey variables. This is unsurprising given the nature of the measures undertaken by the government to contain the spread and health impacts of COVID-19 which effectively shut down large parts of the economy in early Q2. In addition to the direct impact of the shutdowns, elevated global and domestic uncertainty have also likely had an impact on businesses.
- With the initial easing of restrictions coming much sooner than expected – initially a 6-month shutdown was envisaged – there has been a rebound in a number of survey indicators.
- Business confidence has seen the most pronounced rebound across the survey variables. After initially falling to the lowest level on record at -65 index points in March it rebounded a very sharp 66 pts over the past three months. A rapid recovery when compared to past episodes.
- Business conditions appears to have also troughed at a very low level – just above the low point of the 1990s recession – following two large monthly falls. June saw a large rebound but overall, conditions remain very weak compared with history.
- Other indicators such as capacity utilisation, forward orders and capex have also rebounded but like conditions, remain low.
- A key question remains around how fast the economy will rebound from the current crisis. While the rebound in confidence is encouraging the survey suggests that activity has some way to go before the business sector makes a full recovery.
- How far the recovery has to go can be measured in terms of capacity utilisation which has also recovered somewhat over the past two months – but like conditions remains very weak.
- Capacity utilisation remains below average in all industries except retail. Unsurprisingly, recreation & personal services which are most impacted by current restrictions is both lowest across industries and most significantly below average.
- Retail is the standout, after having shown generalised weakness in the survey for some time, it now sees relatively high rates of capacity utilisation and the best conditions outside of the mining industry.
- Overall, it is encouraging that the business survey has shown a continued improvement in June, but while this rebound has been quite rapid it is important to note that overall, conditions remain very weak. It is likely that the business sector will require ongoing support via fiscal measures in addition to low interest rates if businesses are to see a turnaround in expansion plans and hiring going forward.

CHART 2: BUSINESS CONFIDENCE (NET BAL.)

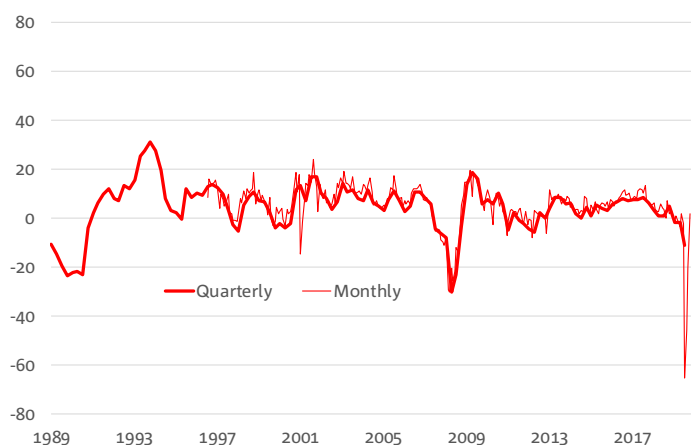


CHART 3: BUSINESS CONDITIONS (NET BAL.)

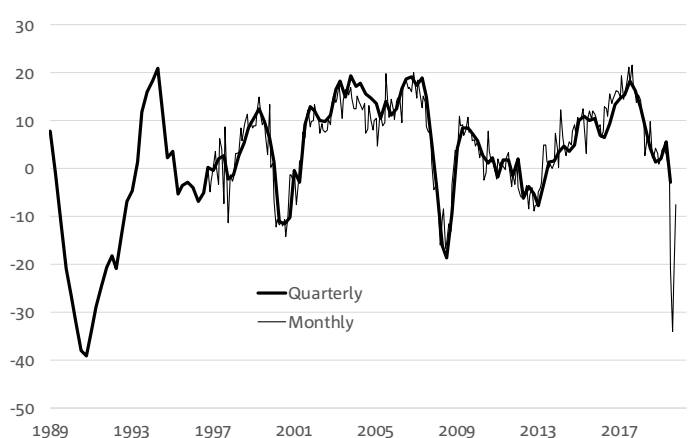
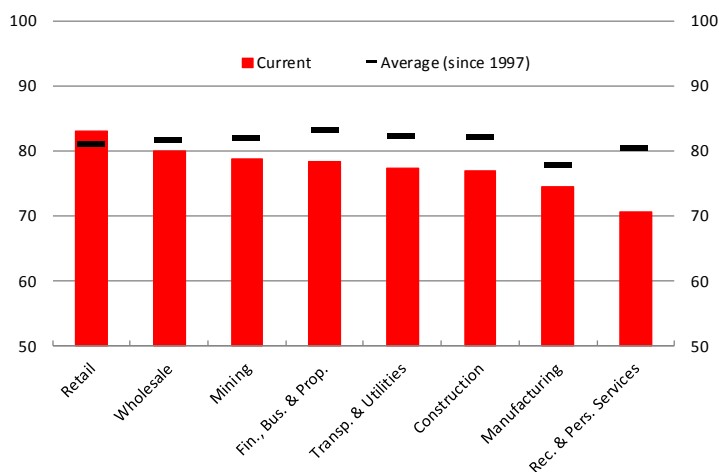


CHART 4: CAPACITY UTILISATION BY INDUSTRY (%)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

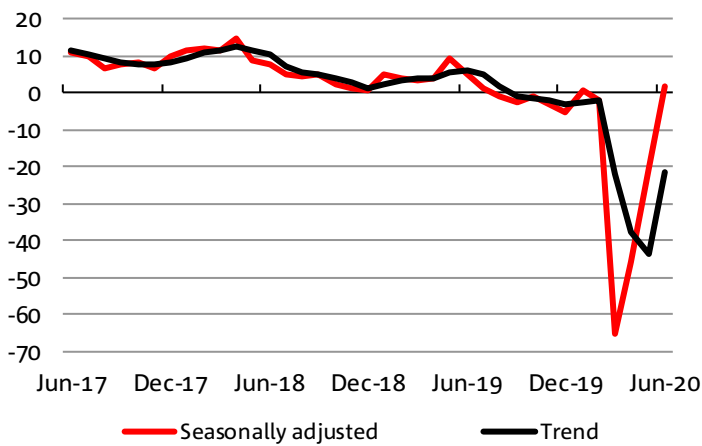


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

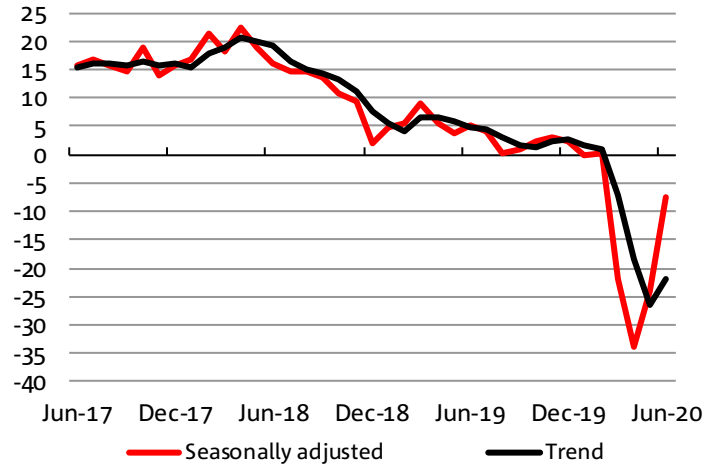


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

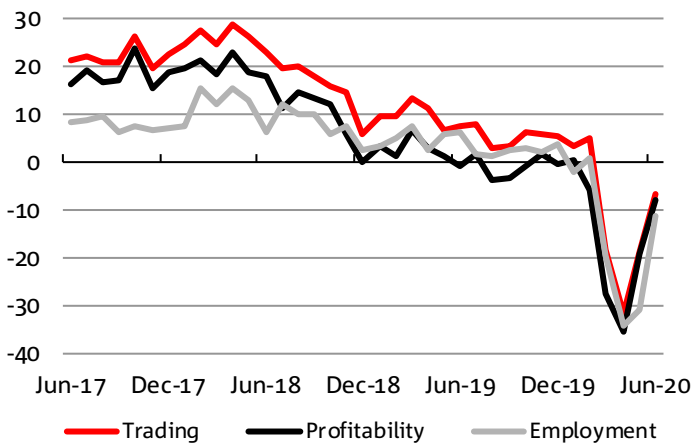


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

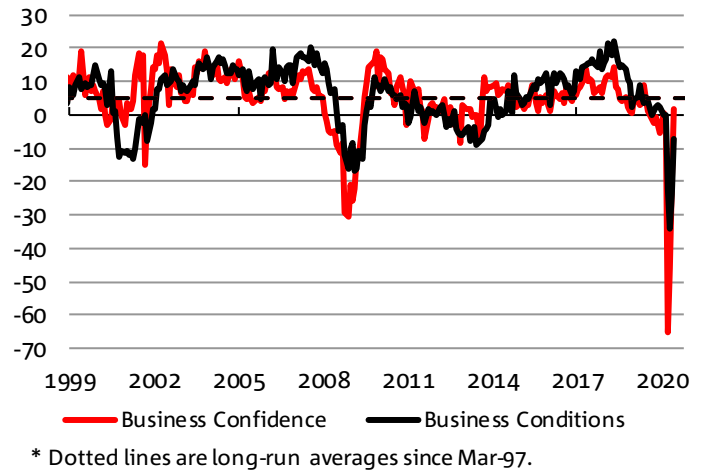


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

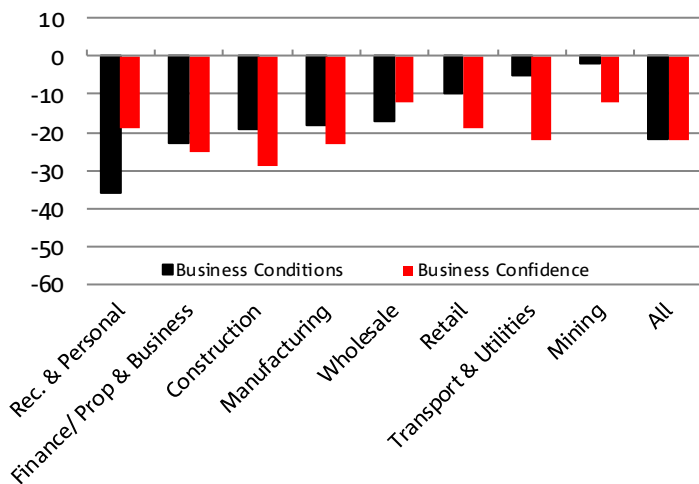
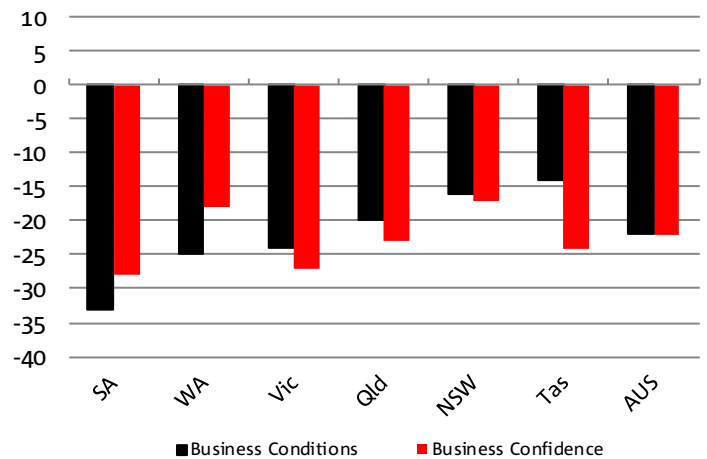


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

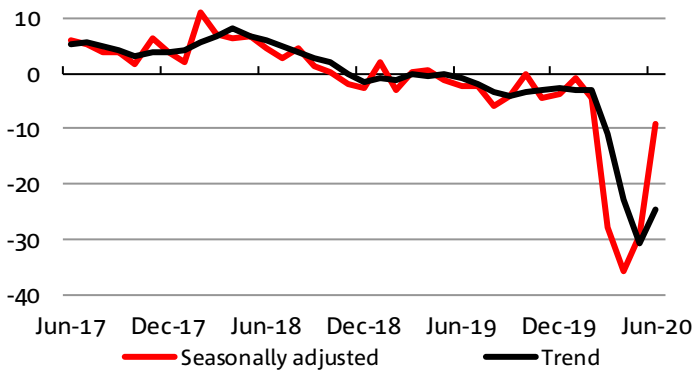


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

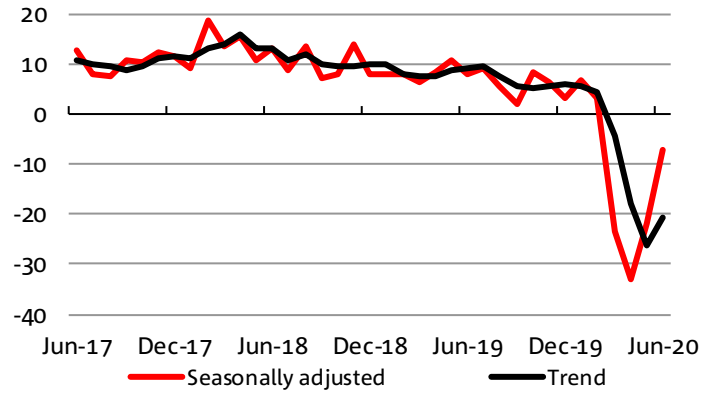


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

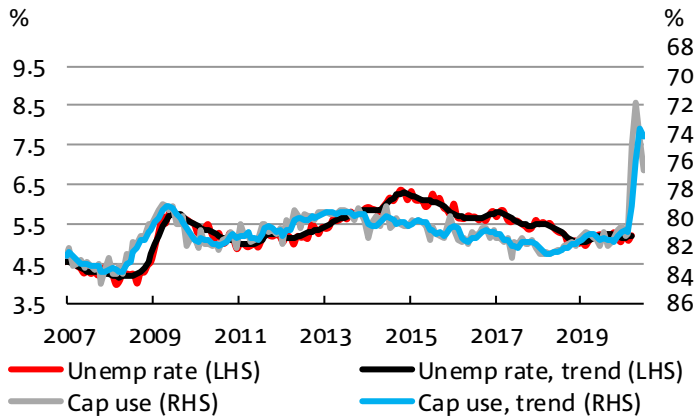


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

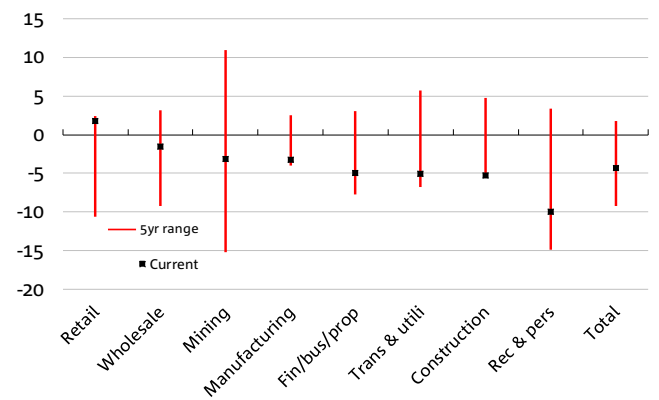


CHART 15: STOCKS (NET BALANCE)

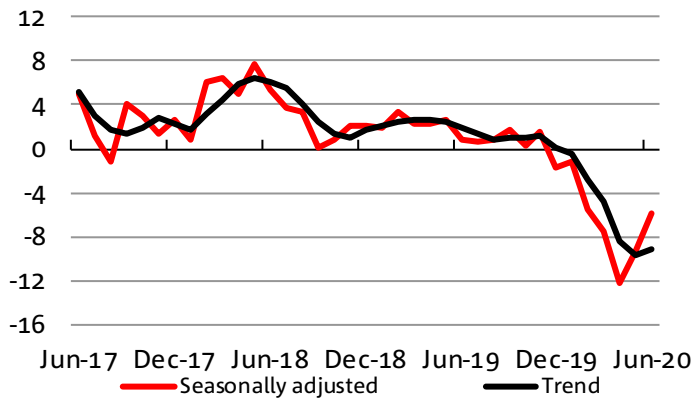


CHART 16: CASH FLOW (NET BALANCE)

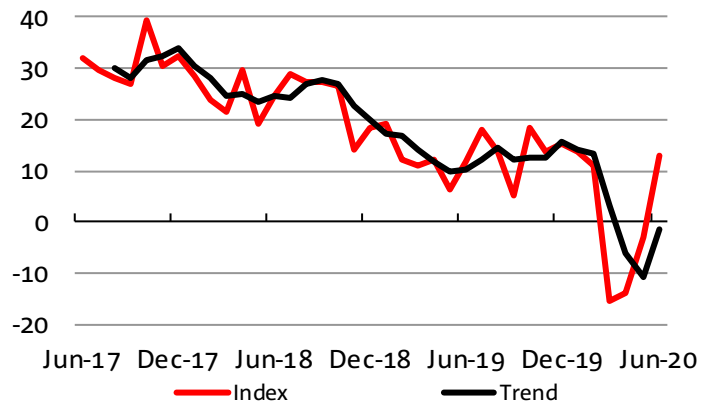


CHART 17: EXPORTS (NET BALANCE)

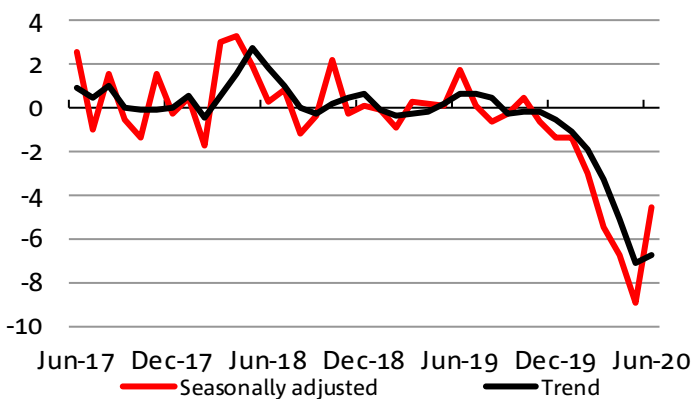
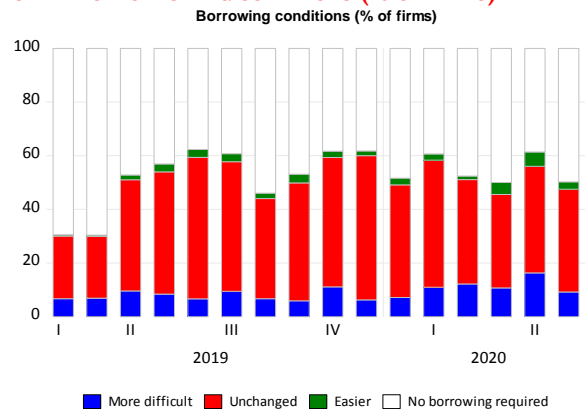


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

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

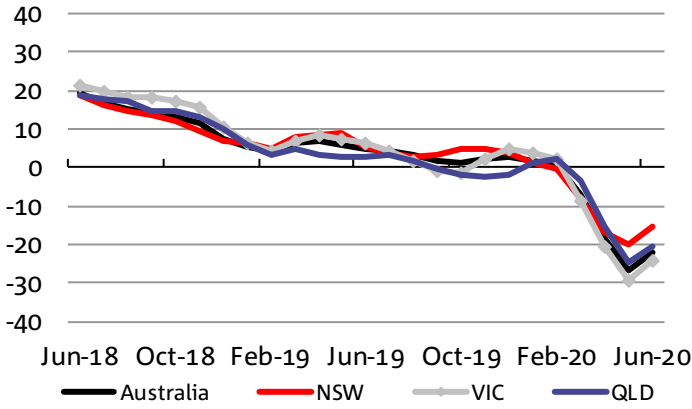


CHART 20: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

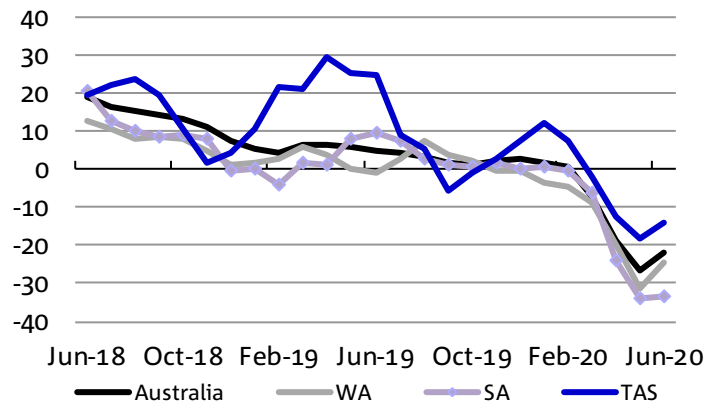


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

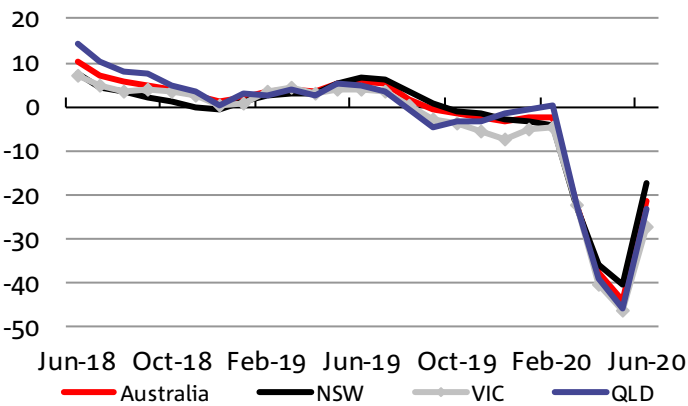


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

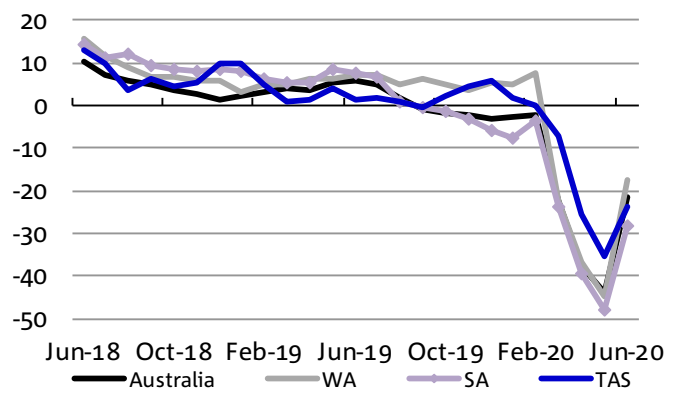


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

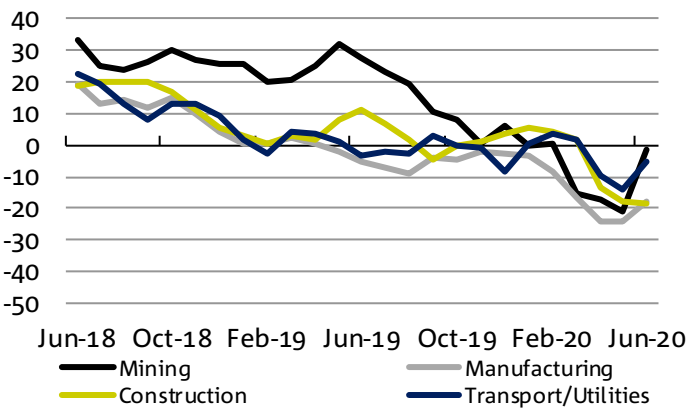


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

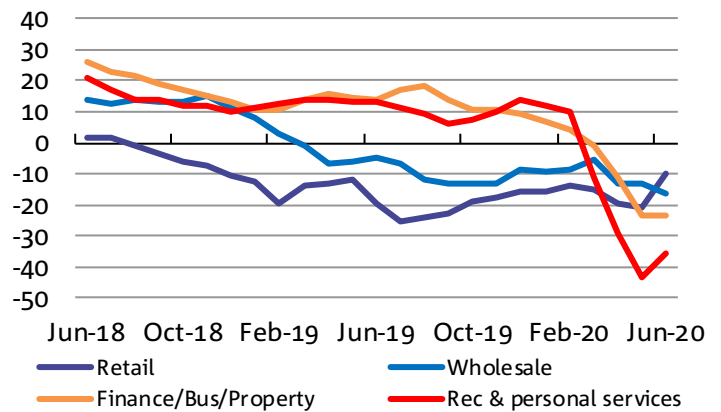


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

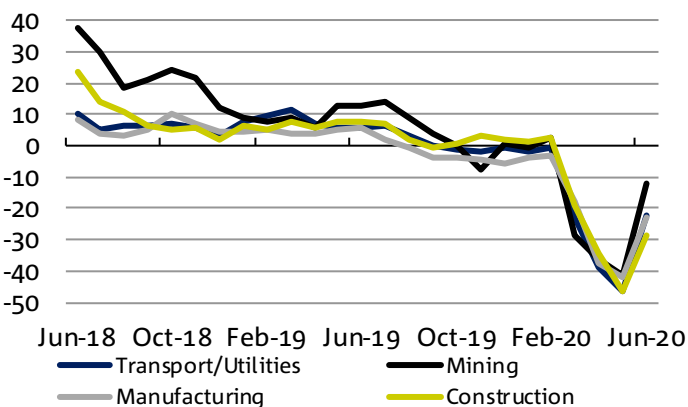
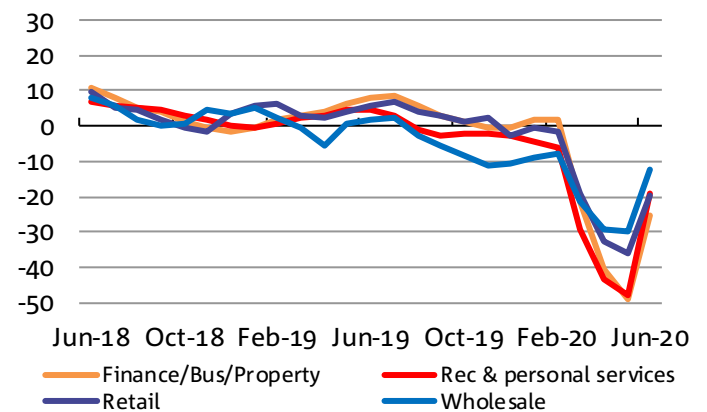


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

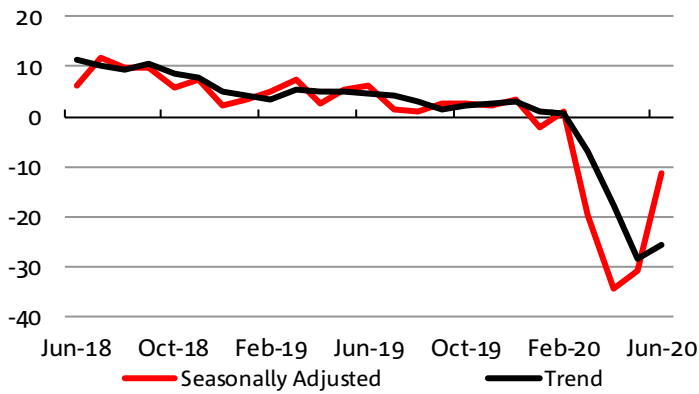


CHART 28: EMPLOYMENT (NAB VS ABS)

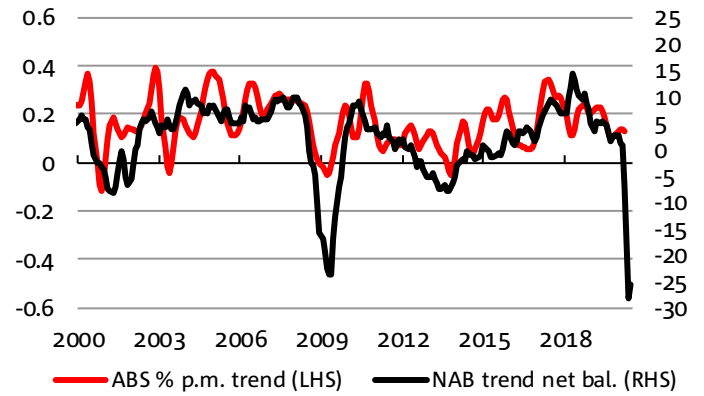


CHART 29: EMPLOYMENT BY INDUSTRY

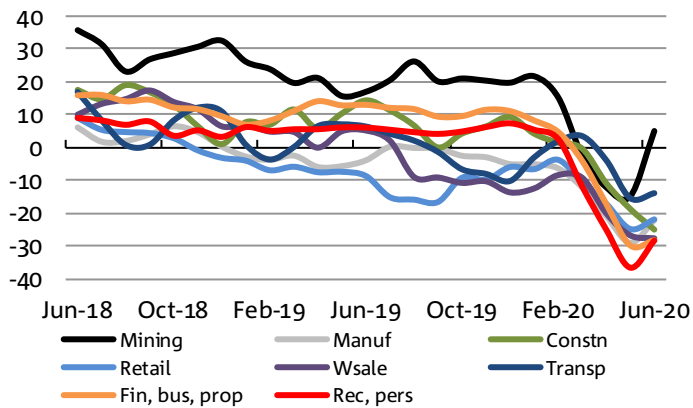


CHART 30: LABOUR COSTS GROWTH

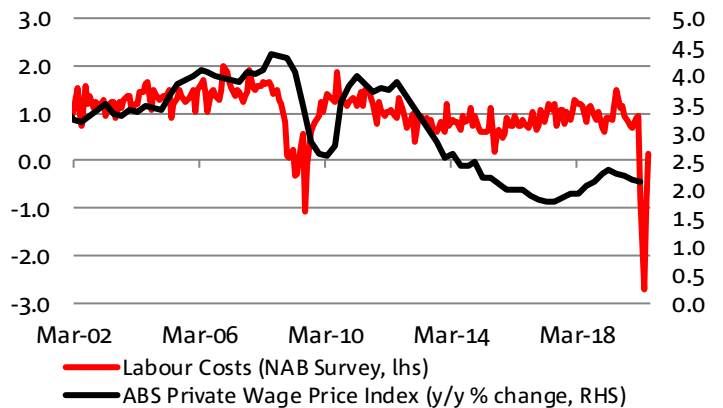


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

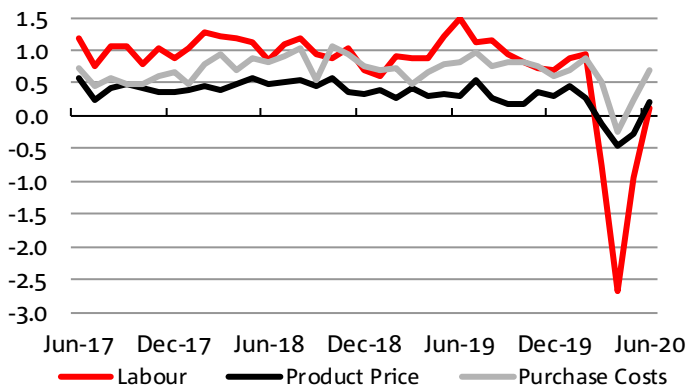
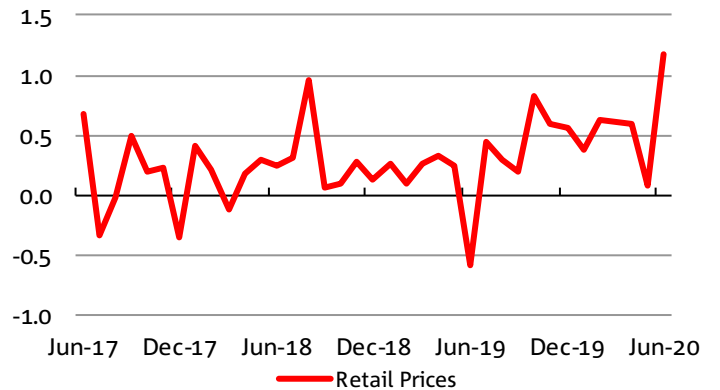


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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
Business Conditions (current, next 3 mth, next 12 mth)
Trading conditions (current, next 3 mth, next 12 mth)
Profitability (current, next 3 mth, next 12 mth)
Employment (current, next 3 mth, next 12 mth)
Forward orders (current, next 3 mth)
Stocks (current, next 3 mth)
Export orders (current, next 3 mth)
Capital expenditure (current, next 3 mth, next 12 mth, fiscal year)
Required rate of return on investment
Cash flow
Labour costs (current, next 3 mth)
Purchase costs (current, next 3 mth)
Final prices (current, next 3 mth)
Capacity Utilisation
Borrowing index (current, next 3 mth)

Borrowing demand (current, next 3 mth)

Constraints on output (demand, labour, materials, premises & plant, finance/working capital)

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)

All series available on an industry basis for:

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)

All series available on a state basis for:

New South Wales
Victoria
Queensland,
WA
SA/NT
Tasmania

*Data available in original, seasonally adjusted and trend terms.

Margins (current, next 3 mth)
Overheads (current, next 3 mth)
Productivity growth
Number of employees
Hours worked
Gross Sales
Output/sales growth (current fiscal year)
Average earnings (current fiscal year)

Short term interest rate
Exporters hedged FX exposure (%)
Importers hedged FX exposure (%)
Months hedged (exporters)
Months hedged (importers)
Favourable hedge position (% of exporters)
Favourable hedge position (% of importers)
Affected vs not affected by AUD
Response to AUD (downsized, reduced, overheads, hedging, import substitution, focus on domestic market, other, don't know)
Driver of trading conditions (demand, wages/jobs, house prices, rates, exchange rate, tax/govt policy, seasonal, finance/working capital, company specific, other)
What will improve confidence (lower rates, more suitable labour, easier funding, government policy, higher demand, higher AUD, lower AUD, easier compliance, other)