

# NAB QUARTERLY BUSINESS SURVEY

## 2020 Q2

By Group Economics

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### THE IMPACT OF COVID-19 SEES A LARGE DETERIORATION IN CONDITIONS

Business conditions declined sharply in Q2, falling to -26 index points. The services sectors now see the weakest conditions after leading the decline, but Transport & utilities, mining and construction also saw very large decreases. The decline in conditions was broad-based across the mainland, while Tasmania saw an improvement in the quarter. Confidence fell 3pts to -15 index points with construction and mining weakening. Retail, wholesale and rec and personal confidence increased in the quarter – a reflection that confidence had already troughed and begun to recover by the time of the survey.

According to Alan Oster, NAB Group Chief Economist “The Q2 survey was conducted after the likely trough in activity in April. Reflecting the fluidity of the outlook and uncertainty at present we know that confidence had already turned quite sharply. That said the Q2 survey shows a very large deterioration in business conditions – with a particularly large impact on services sectors”.

“Confidence was only slightly weaker reflecting the fact the outlook for a number of industries such as retail and wholesale were already improving by the time of the survey” said Mr Oster.

“It is very important to remember that regardless of intra-survey moves, that the business sector has taken a very large hit and this is reflected in very weak conditions and confidence. There will need to be a substantial recovery in activity economy wide before we see a full recovery in conditions and confidence” said Mr Oster.

Leading indicators saw a sharp deterioration in the quarter. Expected conditions, employment and capex all declined sharply at both the 3- and 12-month horizons. This suggests that despite some positive signs, confidence may remain fragile as the fallout from the large economic shock unfolds.

“While confidence had already started to recover – as evident in the monthly business survey – the forward looking economic indicators points to very weak outcomes going forward” said Mr Oster.

Reflecting the downturn in activity economy-wide capacity utilisation has fallen to a very low level. The services industries have led this weakening. With forward orders also very weak, it will likely take some time for capacity utilisation to normalise.

“With conditions, confidence and other forward looking indicators very weak, it is likely we will continue to see a pull-back in investment. While there may be some rebound in employment as the economy opens up, it is likely that business will remain very cautious in expanding staffing levels” said Mr Oster.

“Given the sheer hit to the economy and the business sector in Q2 it will likely take some time for activity to recover. While confidence turned later in the quarter, this will remain fragile as uncertainty remains elevated. We see significant risk around capex and employment for an extended period and that the economy will require ongoing policy support. In this sense, the announcements this week of extended JobKeeper and JobSeeker payments are very welcome” said Mr Oster.

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

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