

NAB MONTHLY BUSINESS SURVEY

July 2020

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By Group Economics

CONDITIONS CONTINUE TO RECOVER, BUT CONFIDENCE REMAINS FRAGILE

Key messages from the survey: This survey was conducted prior to the escalation to stage 4 restrictions in Victoria. Prior to that, the survey suggested that business conditions saw a further improvement in July – which was broad-based across states. Outcomes across industries were more mixed – with services continuing to improve, albeit from a low base, while transport & utilities and construction weakened. Confidence saw a significant deterioration across all industries and in each state, except SA and WA. The most significant deterioration in confidence occurred in NSW and Vic where concerns around the spread of the virus were escalating. While conditions have seen a notable improvement, it may reflect activity coming off a low base - forward orders saw only a marginal improvement and remain very weak. Capacity utilisation remains around 4ppt below levels seen in late 2019. In combination with fragile confidence, these factors suggest recent gains may be reversed – in addition to the fact that stage 4 lockdowns will further impact confidence and conditions in Victoria. Capex remains negative and suggests that firms will shelve expansion plans until there is a sustained recovery in capacity utilisation and confidence. The business sector has undergone a very large contraction and with uncertainty to remain elevated for some time it is likely that it will take an extended period to see a full recovery and that further government support will be needed to get there.

Business conditions rose 8pts in July to 0 index points, continuing the recovery since reaching a trough in April. The improvement was evident across each of the three sub-components, with trading and profitability now back in positive territory and the employment index continuing to improve. The improvement in conditions was broad-based across states but the monthly outcome was mixed across industries.

According to Alan Oster, NAB Group Chief Economist “business conditions have continued to recover almost as quickly as they deteriorated. Conditions have now recovered to be broadly around their pre-COVID level with improvements across the country. In the month, the outcomes across industries were a little more varied – possibly reflecting that there will be ongoing fallout for some sectors”.

Business confidence fell sharply in the month after rebounding strongly in recent months. Confidence declined across all industries, led by a decline in mining. In the non-mining sector, construction and retail saw relatively modest declines with the remaining industries declining by 17-19pts. Across all industries retail and construction have the weakest confidence despite the relatively small declines in the month.

“By industry, the decline in confidence was broad-based and it is again quite negative in each industry. Construction and retail are weakest, but only by a small margin. Despite being the most heavily impacted by virus containment measures so far, recreational & personal services is now the least pessimistic across industries.” said Mr Oster.

Forward orders saw a modest improvement as did capacity utilisation but both remain very weak compared with history. Thus, while conditions improved businesses continue to operate at a lower level than normal and with a smaller expected pipeline of work.

“While the improvement in conditions is very welcome, capacity utilisation and forward orders point to ongoing weakness overall. Therefore, with confidence still fragile there is some risk that conditions lose some of their recent gains in coming months” said Mr Oster.

The Survey was conducted prior to the escalation to stage 4 restrictions in Melbourne and stage 3 restrictions in the rest of Victoria. These measures will see likely see harder impacts on activity going forward, with mandated reductions in activity for a broader range of industries going forward.

“While the rebound in conditions is encouraging, the fall in confidence even prior to the announcement of stage 4 restrictions in Melbourne demonstrates that businesses will remain very cautious given the great uncertainty around the virus at the moment. It also highlights that the business sector will require ongoing support through the recovery phase until the economy can get back on its feet” Mr Oster said.

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

Group Economics

Alan Oster
Group Chief Economist
+(61 3) 8634 2927

Jacqui Brand
Executive Assistant
+(61 3) 8634 2181

Dean Pearson
Head of Behavioural &
Industry Economics
+(61 3) 8634 2331

John Sharma
Economist
+(61 3) 8634 4514

Australian Economics and Commodities

Gareth Spence
Senior Economist
+(61 0) 436 606 175

Phin Ziebell
Economist – Australia
+(61 0) 475 940 662

Behavioural & Industry Economics

Robert De Iure
Senior Economist –
Behavioural & Industry
Economics
+(61 3) 8634 4611

Brien McDonald
Senior Economist –
Behavioural & Industry
Economics
+(61 3) 8634 3837

Steven Wu
Economist – Behavioural &
Industry Economics
+(61 3) 9208 2929

International Economics

Tony Kelly
Senior Economist
+(61 0) 477 746 237

Gerard Burg
Senior Economist –
International
+(61 3) 8634 2788

Global Markets Research

Ivan Colhoun
Global Head of Research
+(61 2) 9293 7168

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