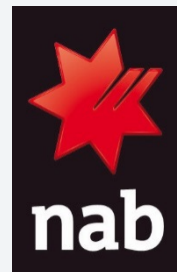


NAB MONTHLY BUSINESS SURVEY

August 2020

By Group Economics

Embargoed until:
11:30am Tuesday 8 September 2020



CONDITIONS SOFTEN, WHILE CONFIDENCE IS STILL WEAK

Key messages from the survey: Business conditions unwound most of the previous month's gains – mainly reflecting a weakening in the employment index, though trading and profitability were also weaker. This likely reflects that in a levels sense, activity remains weak, and that there is some way to go before a full recovery can occur. Though confidence rose in the month, it remains very weak and likely fragile. Uncertainty around the virus and the global economy remains high, as does the path to a reopening domestically. The impact of the Melbourne stage 4 restrictions on activity is evident in Victoria with a decline in conditions – though not as bad as feared. Encouragingly, confidence in Victoria improved in the month, likely reflecting an improvement in case numbers. That said, Victoria continues to show the weakest confidence and second worst conditions across the states. Of some concern however, is that the decline in conditions in the month was broad-based across states, with Qld, Tas and SA showing steeper declines than Victoria. Forward orders and capacity utilisation softened slightly but more importantly remain very weak in a levels sense. Capacity utilisation – a measure of the level of activity – remains around 5ppt below its long-run average, with all industries below average and only WA and Tas having rebounded to pre-COVID levels. This suggests that there is some way for the economy to see a full recovery. Only then can capex and employment intentions rise.

Business conditions fell 6pts in August to -6 index points – reversing most of last month's gains. The deterioration was driven by a decline in the employment index (-11pts), though the trading (-3pts) and profitability (-4pts) sub-indexes also fell.

According to Alan Oster, NAB Group Chief Economist “conditions went backwards in the month following the strong rebound in recent months. The weakness was primarily driven by a deterioration in the employment index – suggesting that while the economy has generally begun to open up, the labour market is still weakening”.

The decline in conditions was broad-based across states except for NSW. QLD, Tas and SA saw sharp declines, while Vic also softened. The decline in WA was more modest, while NSW edged higher. Overall, Conditions remain most favourable in Tas and WA, while the other states all show negative conditions readings. Conditions are now weakest in Qld and Vic.

“The deterioration in conditions was broad-based across the states, with sharp declines in Qld, Tas and SA. Vic also saw a moderate decline – which we had feared would be worse given Melbourne's stage four restrictions. The fact that the other states have seen a pull-back suggests that the virus continues to pose a risk everywhere, not just states with significant containment measures in place” said Mr Oster.

Business confidence improved 6pts to -8 index points after falling sharply last month. Confidence remains negative in all states except Qld and Tas and is weakest in Vic despite a notable pickup in the month.

“Confidence remains fragile – while it improved in the month it is still negative. Confidence will continue to be impacted by news around the virus – which has generally been more positive recently. In combination with weaker forward orders and a low level of capacity utilisation it suggests that conditions may also soften before they get better” said Mr Oster.

Capacity utilisation edged 0.8ppt lower in the month to 76.1%. While it has partially recovered from its low point in April, it remains around 5ppts below its average of 81.1%. Capacity utilisation remains below average in all industries – with recreational services and construction the weakest when compared to their long-run averages.

“Capacity utilisation edged lower in the month and while it has rebounded from the April low – it remains very weak. The recovery to date has been quite uneven across the states and industries. We will closely watch this measure to track the pace of recovery” said Mr Oster.

“Given the sheer magnitude of the fall in activity in Q2 and the subsequent lockdowns in Victoria, it's likely we will see a protracted recovery and a rise in the unemployment rate before it gets better. Policy makers have provided unprecedented support – but we think there will need to be more. This would help businesses and the economy recover more quickly and the focus can again return to growth” said Mr Oster.

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

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances.

NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.