

NAB MONTHLY BUSINESS SURVEY AUGUST 2020

CONDITIONS SOFTEN, WHILE CONFIDENCE IS STILL WEAK

NAB Australian Economics

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.

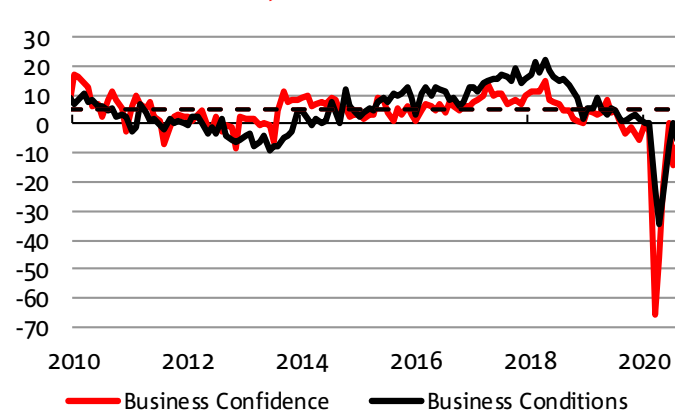
HIGHLIGHTS

- **How confident are businesses?** Confidence rose 6pts to -8 index points after declining sharply last month.
- **How did business conditions fare?** Conditions fell 6 pts to -6 index points.
- **What components contributed to the result?** The decline in conditions was driven by a sharp (-11pt) fall in the employment index, though trading (down 3pts) and profitability (down 4pts) also softened in the month.
- **What is the survey signalling for jobs growth?** The employment index lost a fair degree of the recovery seen in recent months and is again deeply negative. At face value this points to ongoing labour shedding by businesses.
- **Which industries are driving conditions?** Conditions fell sharply in mining, manufacturing and rec & personal services in the month, while wholesale saw a more modest decline. Construction, retail and finance, business & property services saw an improvement. Overall, conditions remain most favourable in retail, followed by wholesale. Conditions are negative in all other industries, with mining, construction and rec & personal services the weakest.
- **Which industries are most confident?** Confidence is negative in all industries despite improvements outside of mining and rec & personal in the month. Given the size of the current economic shock, confidence remains tightly bunched across industries outside of the mining sector. Confidence is weakest in mining and least worst in finance, business & property.
- **Where are we seeing the best conditions by state?** Conditions declined in all states except NSW which edged higher. Interestingly, weakness was evident not just in Vic, but also in QLD, Tas and SA, where conditions fell sharply. WA saw a more modest decline. Overall, conditions are weakest in Qld and Vic, while Tas and WA are the only two states in positive territory.
- **What is confidence like across the states?** Confidence rose in all states except WA. NSW and Vic saw the largest gains but remain the weakest across the states.
- **Are leading indicators suggesting further improvement?** Forward orders weakened and capacity utilisation edged lower (and remains very low) – and alongside the weak level of confidence, suggest that conditions may deteriorate further.
- **What does the survey suggest about inflation and wages?** Labour costs (a wage bill measure) growth remained negative while final products prices and input costs also suggest inflationary pressure remains weak.

TABLE 1: KEY STATISTICS

	Jun-20	Jul-20	Aug-20
	Net balance		
Business confidence	1	-14	-8
Business conditions	-7	0	-6
Trading	-7	1	-2
Profitability	-8	1	-3
Employment	-11	-2	-13
Forward orders	-9	-7	-10
Stocks	-6	-9	-7
Exports	-5	-3	-4
	% change at quarterly rate		
Labour costs	-0.1	-1.0	-0.8
Purchase costs	0.7	-0.1	0.1
Final products prices	0.1	-0.3	-0.2
Retail prices	1.1	0.4	0.4
	Per cent		
Capacity utilisation rate	76.7	76.9	76.1

CHART 1: CONDITIONS FALL, WHILE CONFIDENCE STILL WEAK



All data seasonally adjusted and subject to revision. Fieldwork for this survey was conducted from 18-31 August 2020, covering over 540 firms across the non-farm business sector.

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NAB MONTHLY BUSINESS SURVEY - THEME OF THE MONTH

CAPACITY UTILISATION

- The survey measure of capacity utilisation shows how significantly the COVID-19 virus has impacted the economy. Between February and April, capacity utilisation fell by over 9ppt – to a level well below the trough in the 1990s recession (71.8%). This decline also happened at an unprecedented speed.
- This was confirmed by the national accounts for Q2 which saw a massive 7% decline in output in the quarter. We know that activity has begun to recover – at least in some areas. The aggregate measure of capacity utilisation, suggests that there has been a notable rebound but that overall, the Australian economy has a long way to go to recover from the fall in Q2.
- By industry, the largest falls in capacity utilisation between February and March occurred in the services sector, as well as retail and wholesale and to a lesser extent construction.
- Since April then there has been a notable rebound in most industries though construction has weakened further. Overall, however, all industries remain below their long run averages.
- The different patterns in activity across the states is also evident. Each state reached a trough in capacity utilisation in April (the same as the national aggregate). However, since then, there has been a notable divergence in the recovery paths across the country.
- NSW, Qld and SA have rebounded but remain notably below February levels. Tas and WA have rebounded even more strongly and capacity utilisation in these states is now above February levels.
- The impact of the second round (and tighter lockdowns) in Victoria is also evident. While Victoria had seen the beginnings of a rebound in activity in May, the recent round of stage 4 lockdowns in Melbourne and stage 3 elsewhere in Victoria, has seen capacity utilisation return to near the lows seen in April.
- We will continue to watch the survey measure of capacity utilisation as part of our assessment of the pace and distribution of the recovery in the economy. For now, this measure suggests we are a long way off a full recovery with capacity utilisation remaining well below the average level seen in 2019.
- This is consistent with official data which suggest the unemployment rate remains high, and the number of jobs (as measured by payrolls) is still well below pre-COVID levels. Our view is that economy will need ongoing support to ensure that the recovery can happen as quickly as possible.

CHART 2: CAPACITY UTILISATION (%)

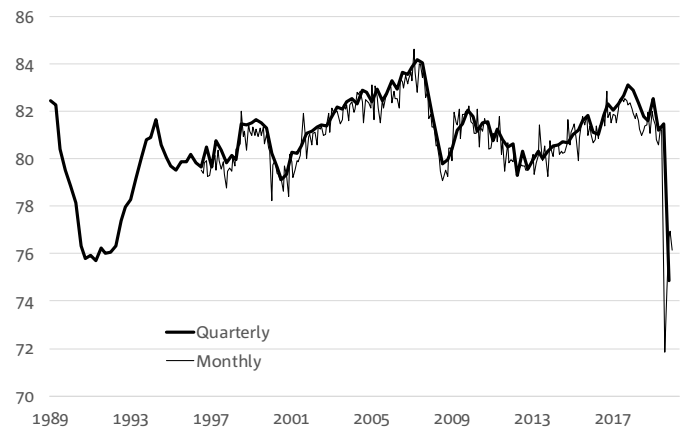


CHART 3: CAPACITY UTILISATION BY INDUSTRY (%)

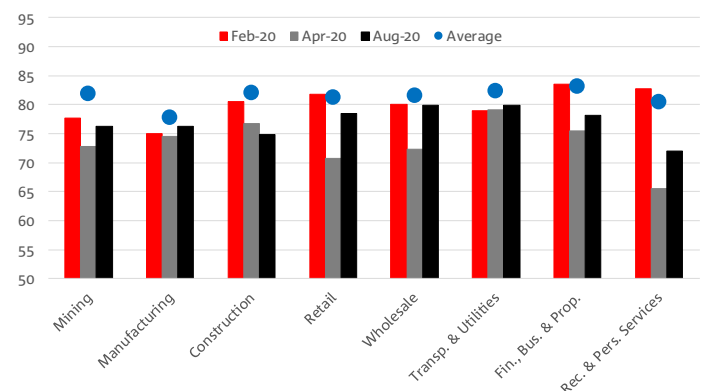
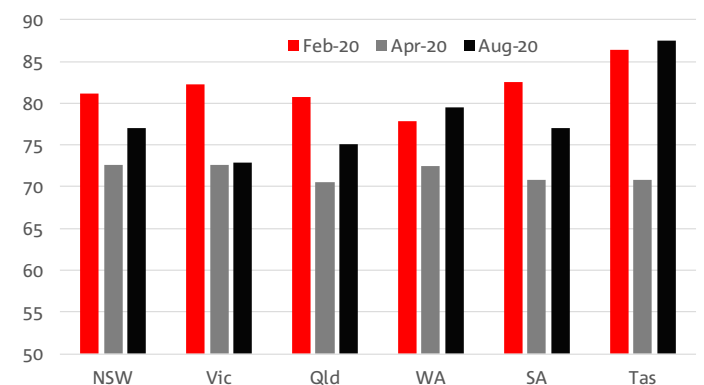


CHART 4: CAPACITY UTILISATION BY STATE (%)



NAB MONTHLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 5: BUSINESS CONFIDENCE (NET BALANCE)

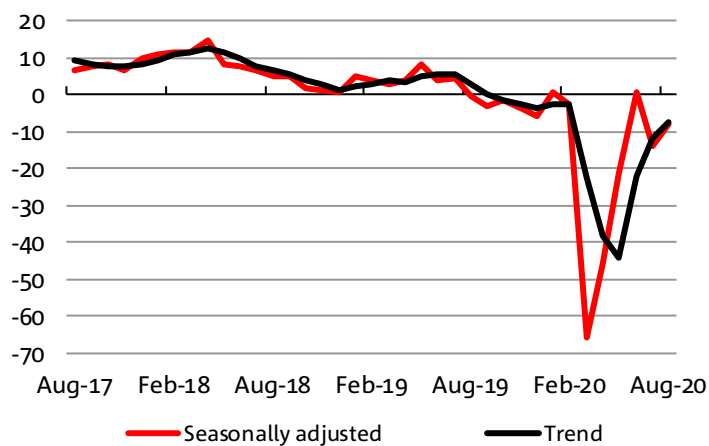


CHART 6: BUSINESS CONDITIONS (NET BALANCE)

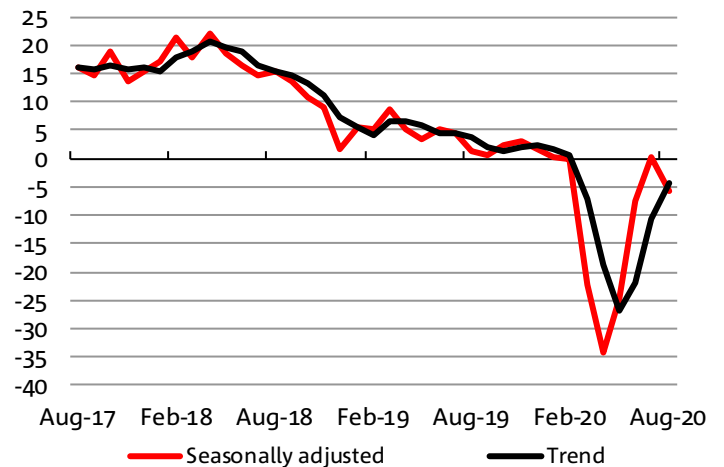


CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.

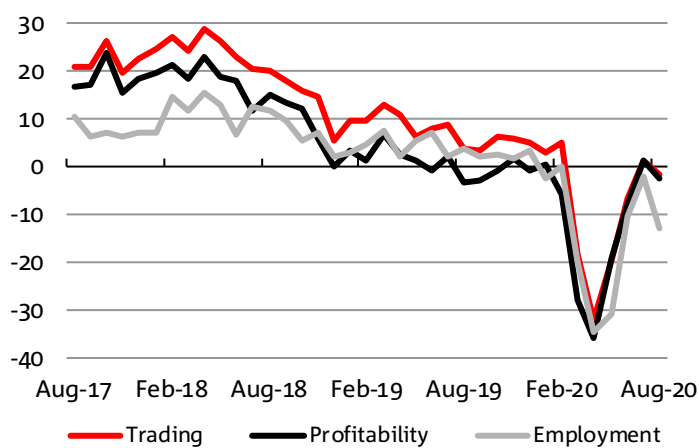


CHART 8: BUSINESS CONDITIONS AND BUSINESS CONFIDENCE

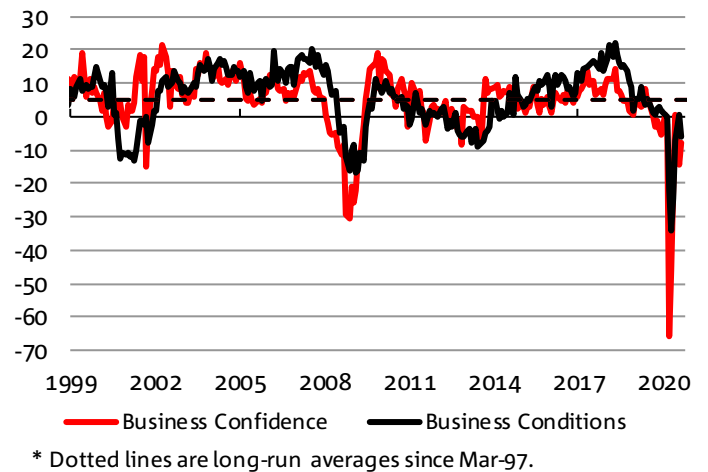


CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND)

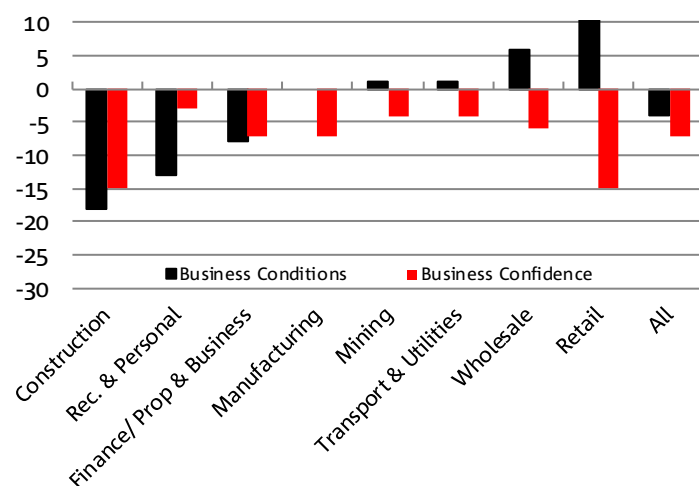
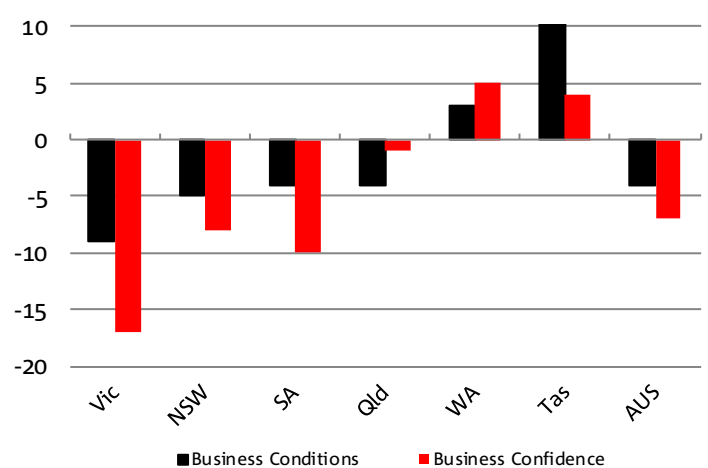


CHART 10: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



NAB MONTHLY BUSINESS SURVEY – FORWARD AND OTHER INDICATORS

CHART 11: FORWARD ORDERS (NET BALANCE)

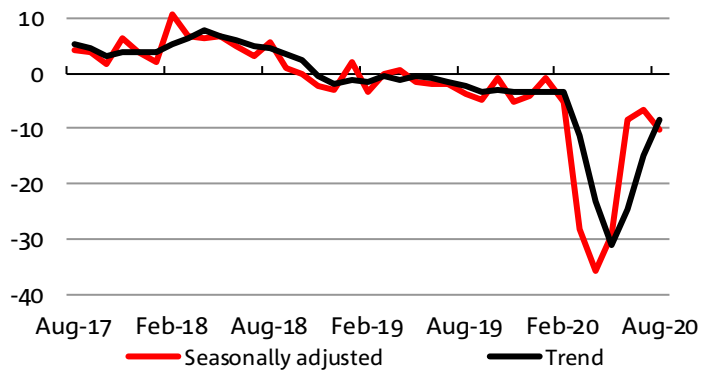


CHART 12: CAPITAL EXPENDITURE (NET BALANCE)

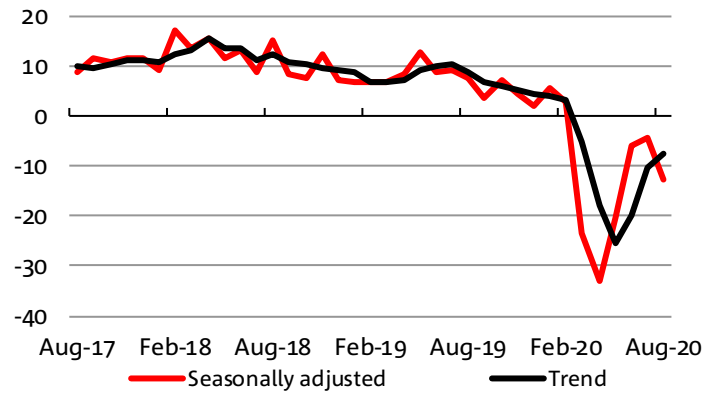


CHART 13: CAPACITY UTILISATION AND UNEMPLOYMENT

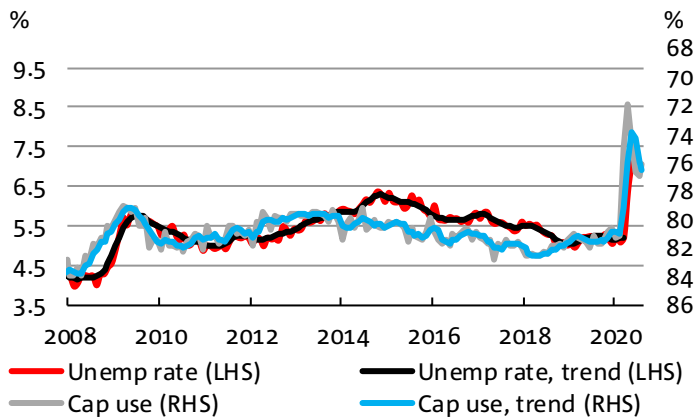


CHART 14: CAPACITY UTILISATION (PPT DEVIATION FROM LR AVE, TREND)

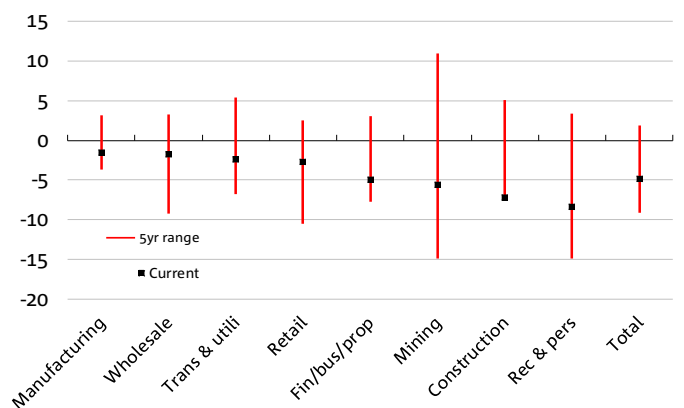


CHART 15: STOCKS (NET BALANCE)

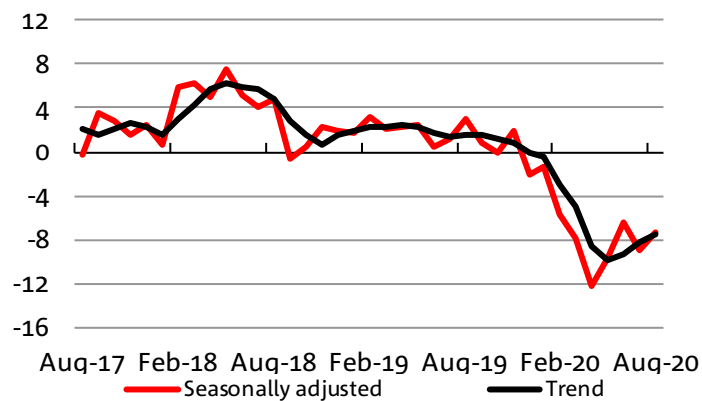


CHART 16: CASH FLOW (NET BALANCE)

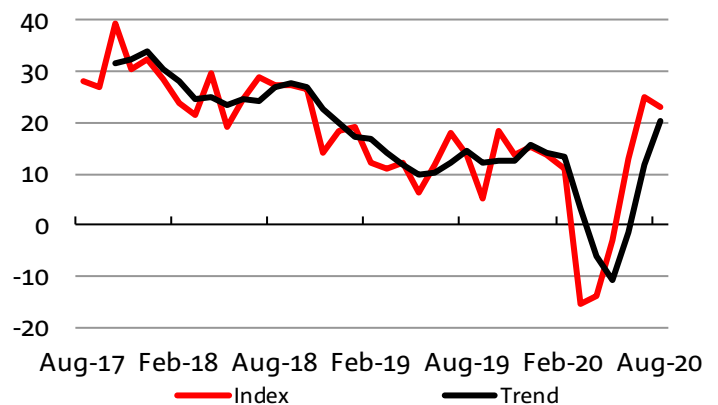


CHART 17: EXPORTS (NET BALANCE)

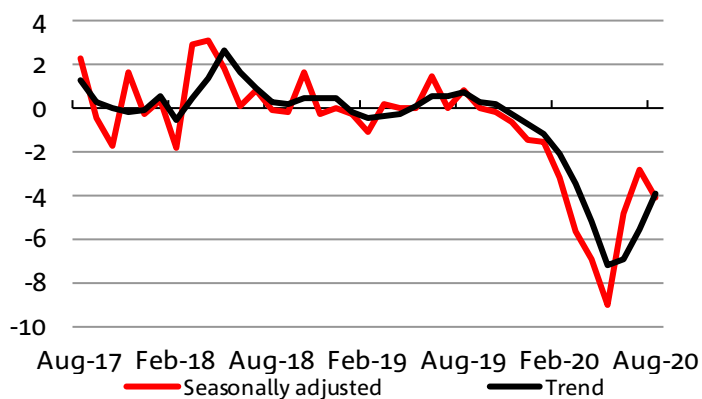
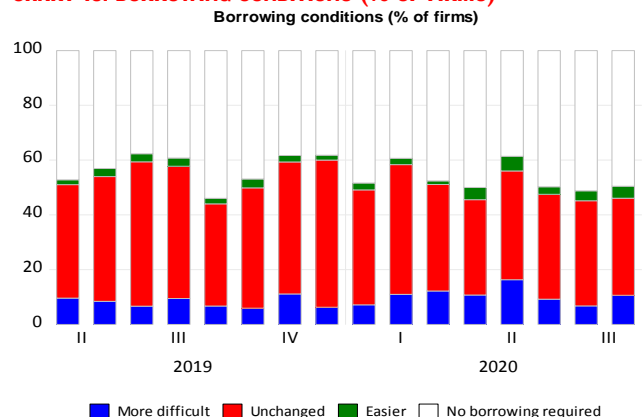


CHART 18: BORROWING CONDITIONS (% OF FIRMS)



NAB MONTHLY BUSINESS SURVEY - DETAIL BY STATE AND INDUSTRY

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

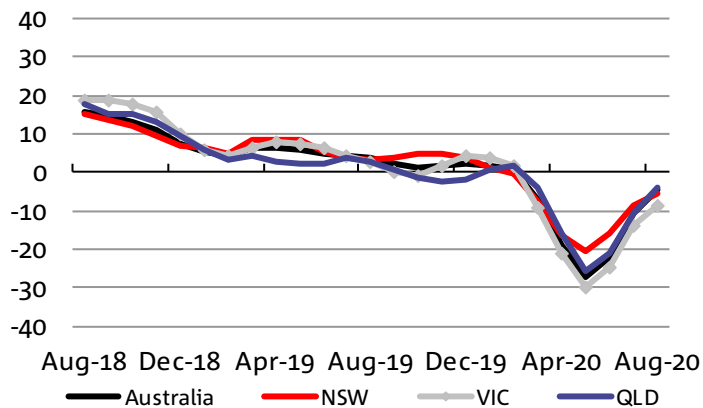


CHART 20: BUSINESS CONDITIONS BY STATE (NET BAL., TREND)

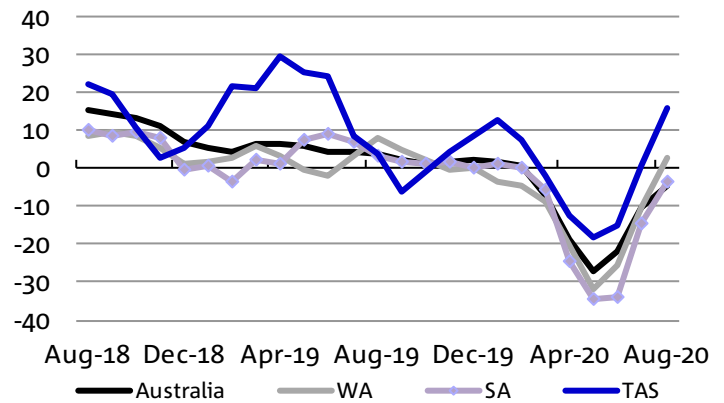


CHART 21: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

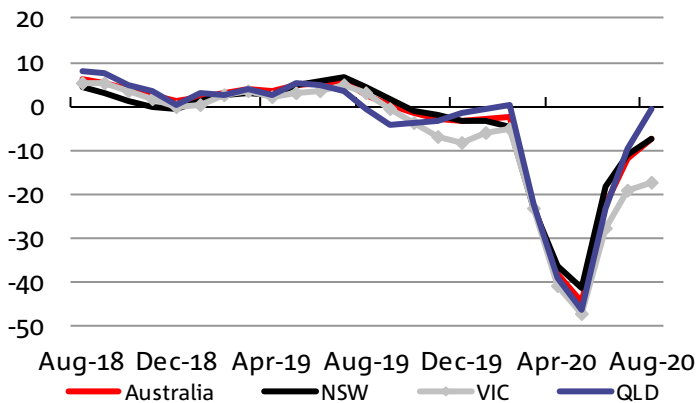


CHART 22: BUSINESS CONFIDENCE BY STATE (NET BAL., TREND)

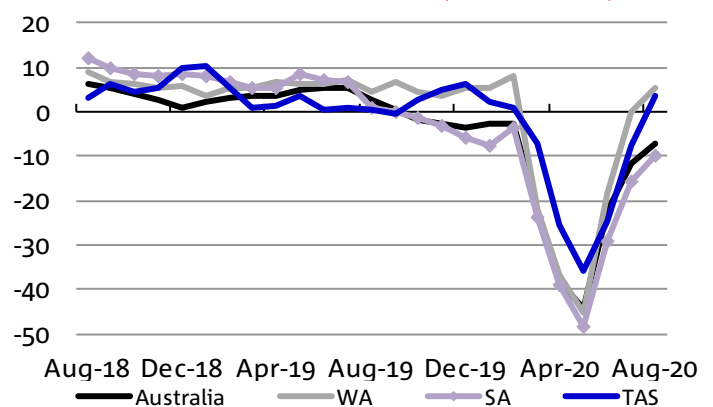


CHART 23: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

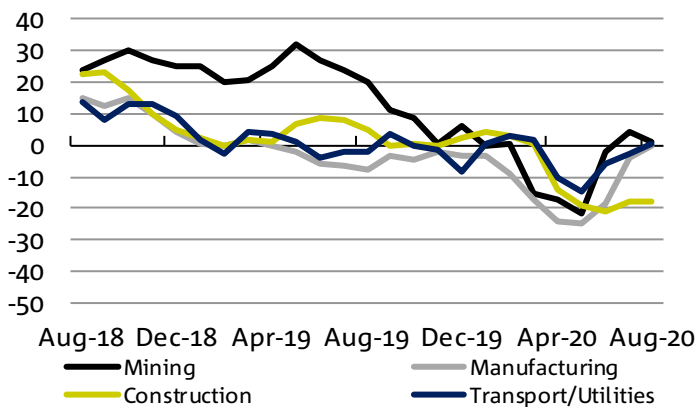


CHART 24: BUSINESS CONDITIONS BY INDUSTRY (NET BAL., TREND)

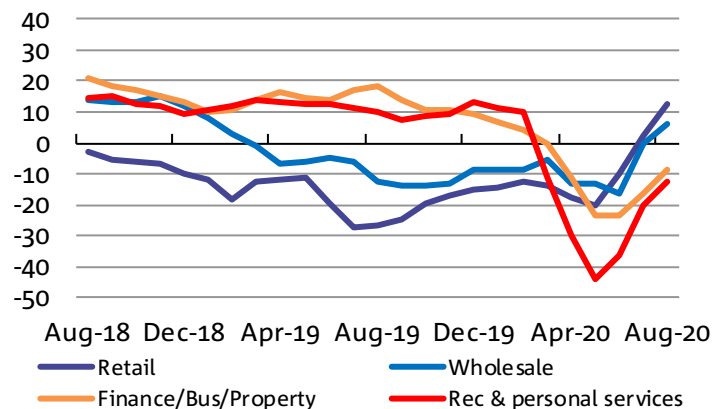


CHART 25: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)

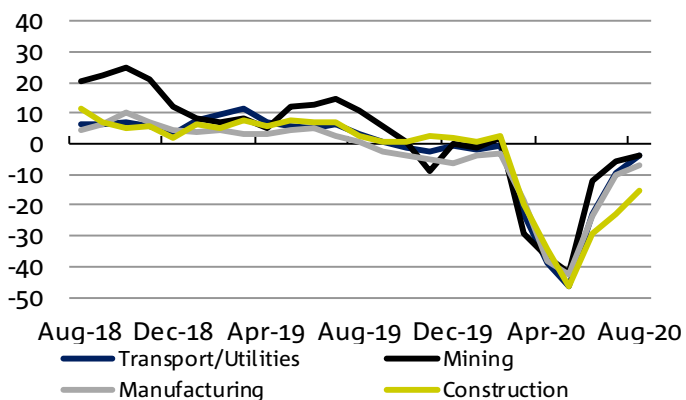
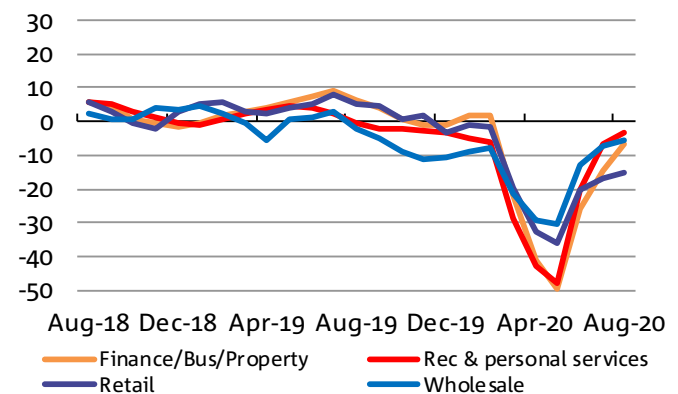


CHART 26: BUSINESS CONFIDENCE BY INDUSTRY (NET BAL., TREND)



NAB MONTHLY BUSINESS SURVEY - EMPLOYMENT, WAGES AND PRICES

CHART 27: EMPLOYMENT

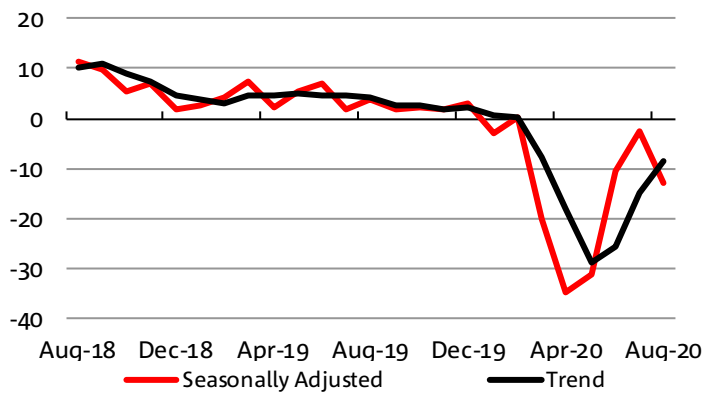


CHART 28: EMPLOYMENT (NAB VS ABS)

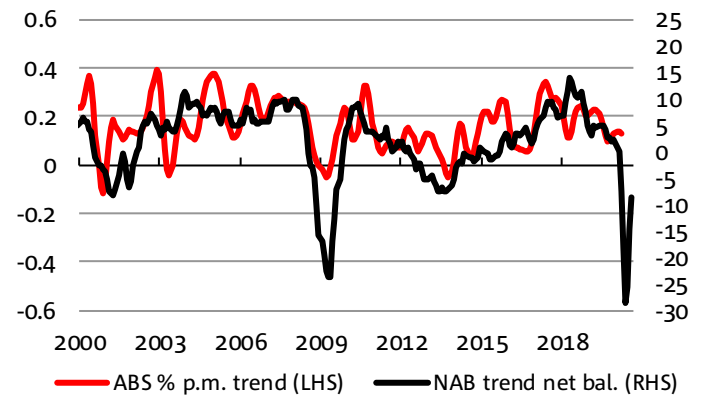


CHART 29: EMPLOYMENT BY INDUSTRY

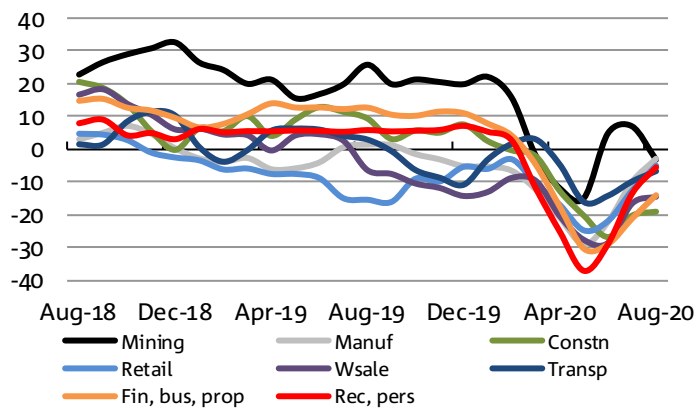


CHART 30: LABOUR COSTS GROWTH

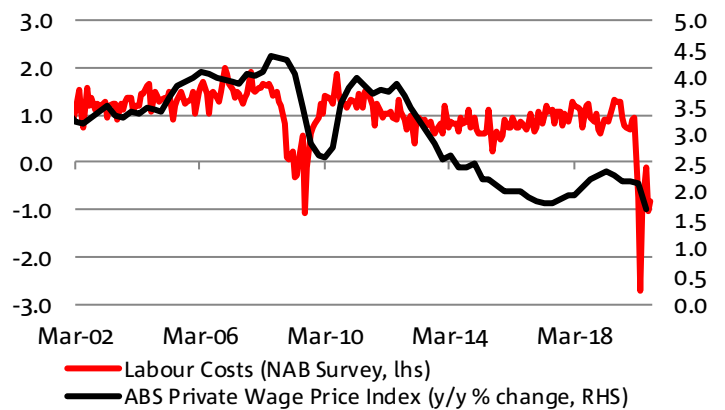


CHART 31: COSTS AND PRICES (% CHANGE AT A QUARTERLY RATE)

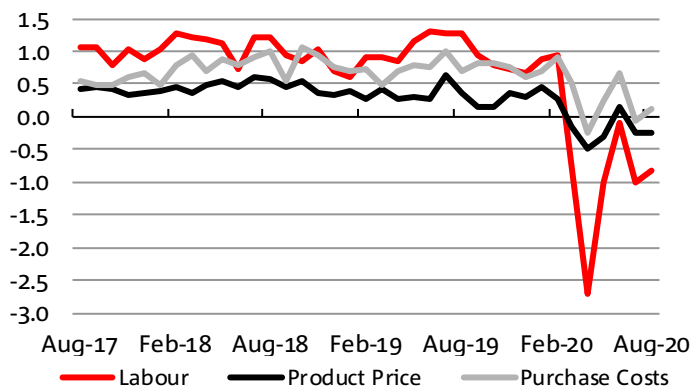
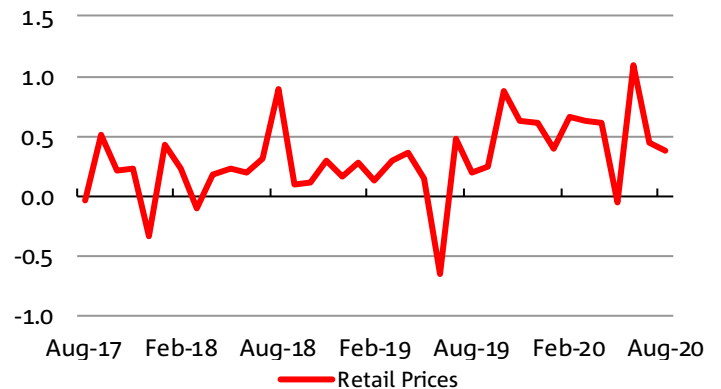


CHART 32: RETAIL PRICES (% CHANGE AT A QUARTERLY RATE)



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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)