

IMPACT OF COVID-19 ON BUSINESSES IN AUSTRALIA

Sixth edition

BANK OF MELBOURNE ECONOMICS

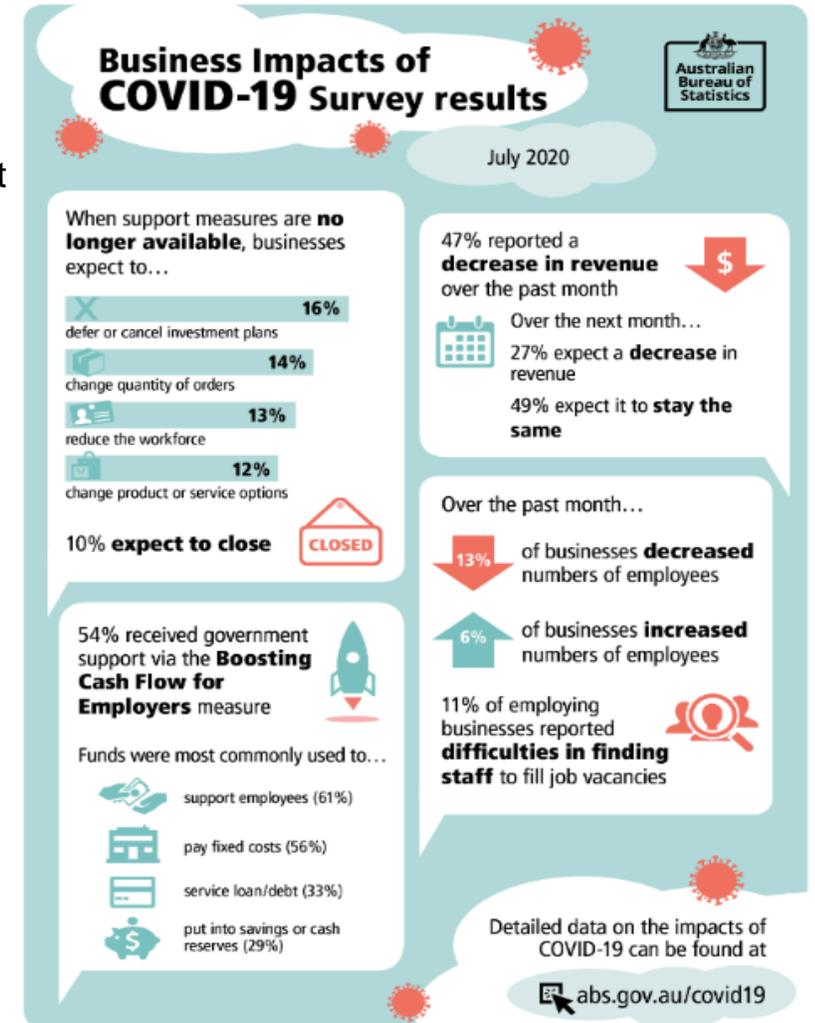
30 July 2020

CONTENTS

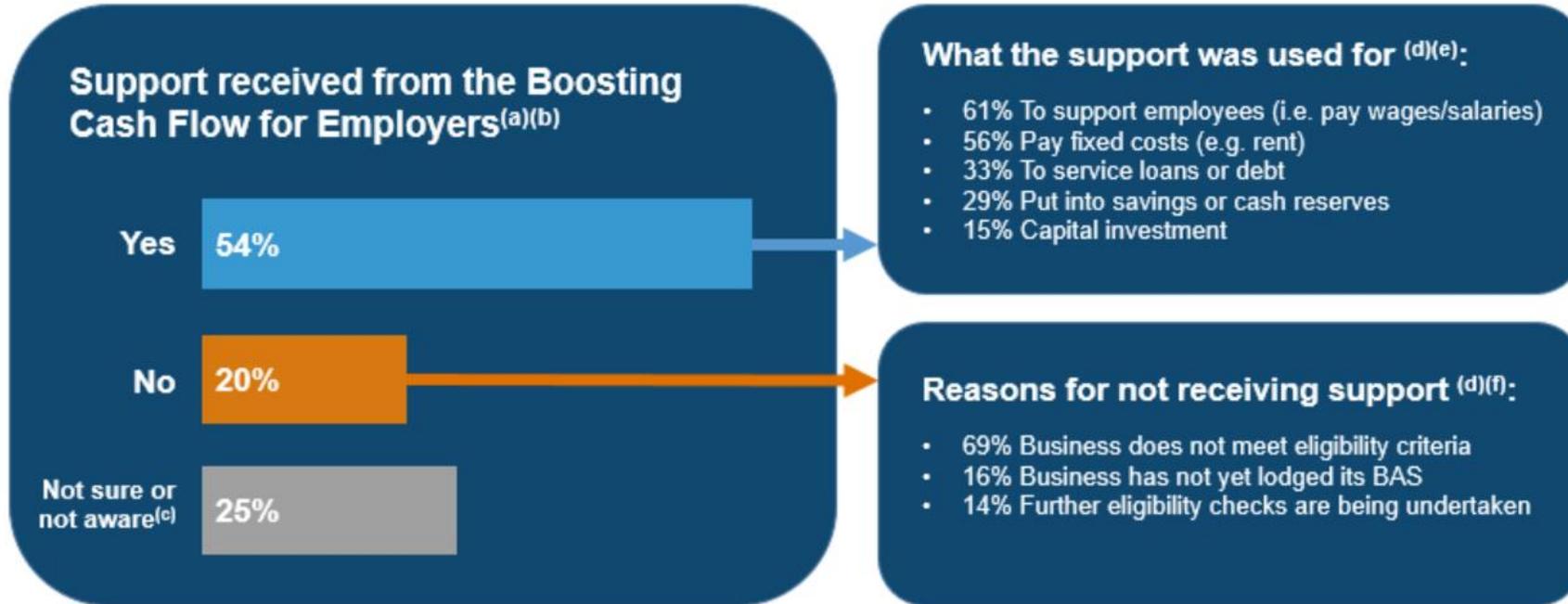
	Pages
• Overview	3
• The Boosting Cash Flow For Employers Measure	4-5
• Beyond the Support Cliff by Employment Size	6
• Beyond the Support Cliff by Industry	7
• Business Activity – Actual and Expected	8
• Outlook for Business Revenues	9
• Contacts page	10
• Disclaimer	11

OVERVIEW

- The Australian Bureau of Statistics (ABS) released the sixth edition of its survey measuring the impact of COVID-19 on businesses. The survey was conducted between 15 and 23 July.
- This iteration of the survey focused on the business support measures provided by the government, how they are being used and how businesses would respond once these support measures finish. Two in five (42%) of businesses are currently accessing support measures, such as wage subsidies or loan repayment deferrals.
- There is a particular focus on the 'boosting cash flow for employers' measure, which 54% of businesses are receiving. This is a measure that is still due to end in September. There is a concern beyond this date, especially as SME businesses remain focussed on preserving cashflow and building cashflow buffers against this fragile economic backdrop.
- The extension of JobKeeper on 21 July for a further six months was a positive development last week, but the lack of extension on the cash flow boost measure is a key concern.
- The ABS survey highlights a major uncertainty for businesses is the ending of government-support measures. Of note, 10% of businesses expect that they would need to close if government support measures finished. Employment is also likely to take a hit, as 13% of businesses said they would reduce staff without these measures.
- The survey also include responses on revenue, expenses and employment over the past month and expectations over the next month.
- Businesses are continuing to face difficult conditions. Almost half (47%) reported a decline in revenue over the past month (July), and expectations of future revenue point to businesses remaining pessimistic about the outlook. There were also signs of weaker hiring activity, although there were better signs for future hiring conditions.



THE BOOSTING CASH FLOW MEASURE



(a) Proportions are of all businesses; including businesses that may not be eligible for support
(b) The sum of the component items do not equal 100% due to rounding
(c) Survey respondents indicated they were not aware of the Boosting Cash Flow for Employers measure or were not sure if the businesses had received it
(d) Survey respondents could provide more than one response to the question
(e) Proportions are of businesses that received support from the Boosting Cash Flow for Employers measure
(f) Proportions are of businesses that did not receive support from the Boosting Cash Flow for Employers measure

Source: ABS

- From April 28, the Government has provided tax-free cash flow boosts to eligible businesses (mostly SMEs) worth \$20,000 to \$100,000.
- The cash flow boosts are being provided until September. There has been little hint that this support measure will be extended.
- More than half of all businesses (54%) were receiving support from the cash flow boost measure. The highest share of businesses by employment size receiving this measure were medium-sized business (63%), followed by small businesses (54%) and large businesses (21%).

WHAT IS THE CASH FLOW BOOST USED FOR?

Cash flow boost use	Top reporting industries
 To support employees^(c)	85% Mining 85% Electricity, gas, water and waste services 78% Manufacturing
 Pay fixed costs	81% Other services 79% Accommodation and food services 74% Administrative and support services
 To service loans or debt	52% Accommodation and food services 47% Retail trade 45% Transport, postal and warehousing
 Capital investment	42% Mining 31% Financial and insurance services 27% Professional, scientific and technical services
 Put into savings or cash reserves	45% Rental, hiring and real estate services 41% Retail trade 38% Information, media and telecommunications

(a) Proportions are of businesses that received support from the Boosting Cash Flow for Employers measure

(b) Businesses could provide more than one response to the question

(c) For example, paying wages or salaries

Source: ABS

- Businesses have mostly used the cash flow boost to support employees, i.e. pay wages or salaries (61%)
- Businesses also commonly used the support measure to pay fixed costs (56%).
- A high share of businesses (52%) used the cash flow boost to service loans or debts.
- However, responses varied among industries.
- Services, including accommodation & food services and other services, were more likely to use the cash flow support to pay fixed costs or service loans or debt.
- These sectors are also most likely to have had major falls in revenue and have been required to stand down employees and therefore used the cashflow boost to pay ongoing costs.
- A large proportion of the mining sector (42%) has reported they were using the support for investment. Mining is an industry that has faced fewer negative consequences from the impact of COVID-19.

BEYOND THE SUPPORT CLIFF BY EMPLOYMENT SIZE

Expected business actions when support measures are no longer available, by employment size^{(a)(b)}

	Small (0-19 persons)	Medium (20-199 persons)	Large (200 or more persons)	All businesses
	%	%	%	%
Reduce the workforce	13	18	11	13
Change product or service options	12	9	7	12
Change quantity of orders of inputs (e.g. stock, raw materials)	14	16	10	14
Change payment terms with customers or suppliers	10	13	8	10
Increase prices	7	10	3	8
Defer or cancel investment plans	16	20	11	16
Seek additional funds	10	17	10	11
Close the business	10	6	2	10

(a) Proportions are of all businesses including those not currently accessing support measures

(b) Businesses could provide more than one response to the question

Source: ABS

- A rising concern for the economic outlook and for businesses is what will happen once major support measures expire.
- The survey period covered 15-23 July and on 20-21 July the Federal Treasurer announced the SME loan guarantee scheme and JobKeeper would be extended, which is towards the end of the survey period. The former would be enhanced while the latter would be refined to be less generous. The coronavirus supplement provided to those on social-welfare programs was also extended. The boosting cash flow for employers measure is still due to end in September.
- Of the businesses surveyed, the largest response was that businesses would defer or cancel investment plans (16%), followed by changing the quantity of orders of inputs (14%), followed by employment cuts (13%).
- 10% of businesses reported that they expected to close shop if support measures were no longer available.

BEYOND THE SUPPORT CLIFF BY INDUSTRY

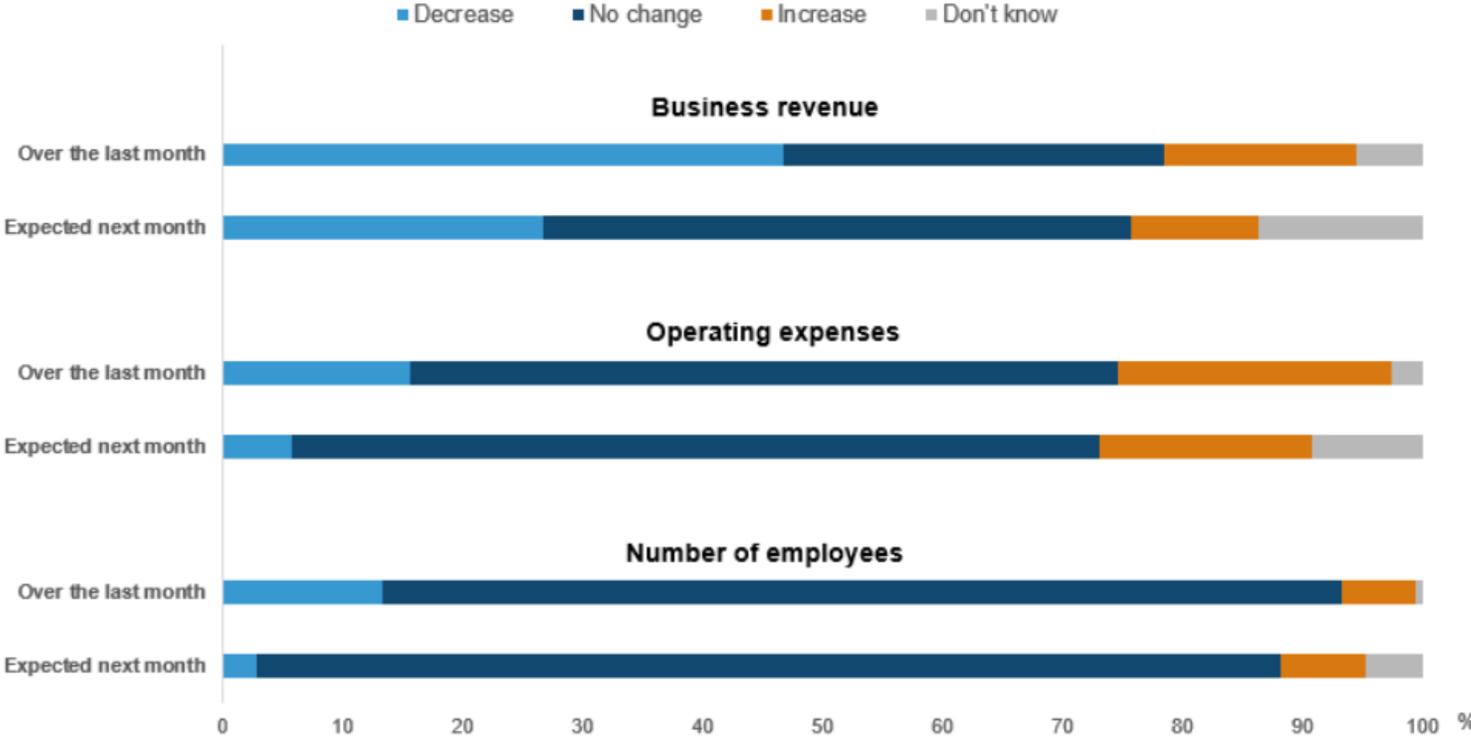
Expected action when support measures are no longer available	Top reporting industries
 Reduce the workforce	28% Accommodation and food services 21% Arts and recreation services
 Change product or service options	32% Information, media and telecommunications 22% Education and training services
 Change quantity of orders of inputs ^(d)	22% Information, media and telecommunications 21% Accommodation and food services
 Change payment terms with customers or suppliers	22% Information, media and telecommunications 20% Electricity, gas, water and waste services
 Increase prices	18% Arts and recreation services 16% Education and training services
 Defer or cancel investment plans	33% Accommodation and food services 33% Information, media and telecommunications
 Seek additional funds	26% Wholesale trade 23% Manufacturing
 Close the business	23% Accommodation and food services 18% Transport, postal and warehousing

Source: ABS

- One of the hardest hit industries from COVID-19 and one that is still facing challenging conditions is the accommodation & food services industry.
- The vulnerability of this industry is highlighted by businesses in this industry most likely responding to the expiry of support measures by closing their business (23% compared to 10% for all businesses).
- Transport, postal & warehousing also appeared vulnerable with 18% of businesses in this sector reporting they would close.
- Businesses in accommodation & food services was also the most likely to cut employment (28%) and defer or cancel investment plans (33%).

BUSINESS ACTIVITY – ACTUAL AND EXPECTED

Business revenue, operating expenses and employment, last month and next month, July 2020^(a)



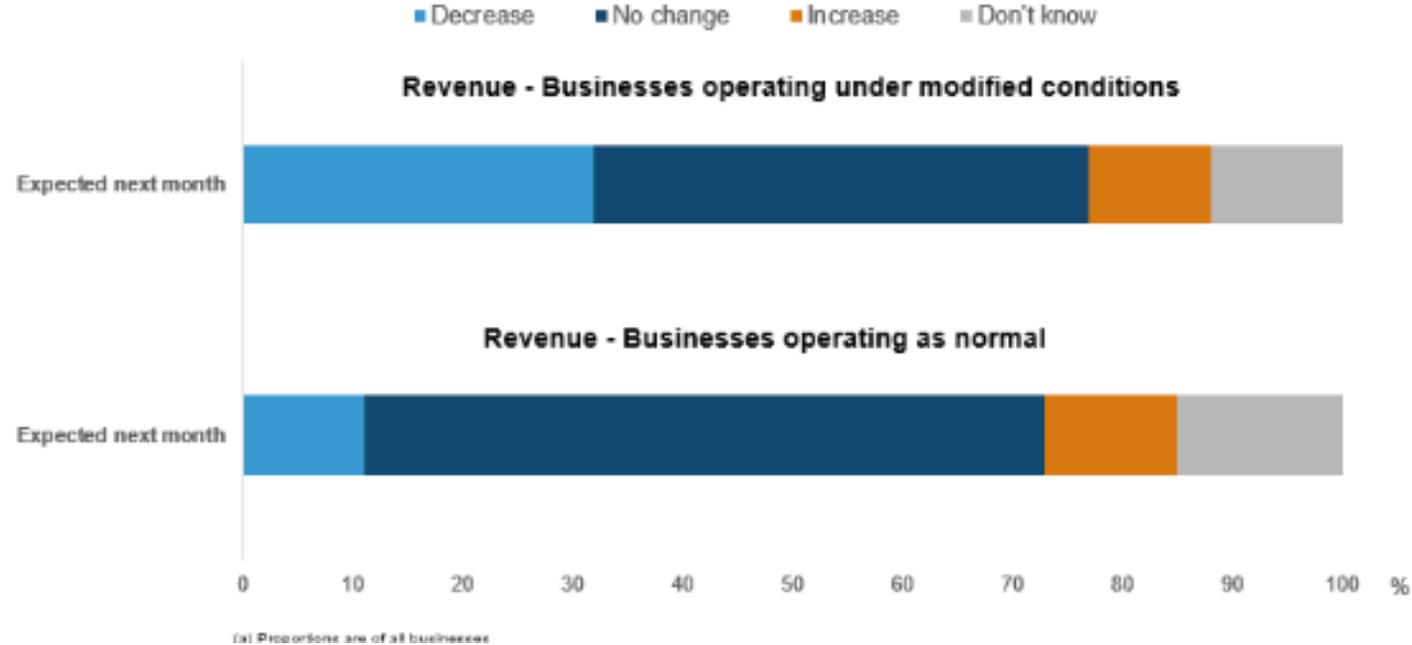
(a) Proportions are of all businesses

Source: ABS

- Businesses are continuing to face difficult conditions.
- Almost half (47%) reported a decline in revenue over the past month (July).
- Expectations of future revenue point to businesses remaining pessimistic about the outlook. Over the next month, 27% of businesses expect revenue to decline compared with 11% expecting an increase.
- There were also signs of weaker hiring activity. A total 13% of businesses said that they had decreased the number of employees over the past month compared with 6% reporting an increase.
- However, there were better signs for the labour market outlook. Only 3% of businesses expected a further decline in employees over the next month compared with 7% expected an increase.

OUTLOOK FOR BUSINESS REVENUES

Expected change in business revenue next month, by operating status, July 2020^(a)



- The previous slide highlighted that over the next month, 27% of businesses expect revenue to decline compared with 11% expecting an increase.
- Businesses operating under modified conditions were almost three times as likely to expect a decrease in revenue next month compared to businesses operating as normal (32% compared to 11%).

Source: ABS

CONTACTS

Chief Economist

Besa Deda

dedab@bankofmelbourne.com.au

(02) 8254 3251

Senior Economist

Janu Chan

chanj@bankofmelbourne.com.au

(02) 8253 0898

Economist

Nelson Aston

nelson.aston@bankofmelbourne.com.au

(02) 8254 1316

DISCLAIMER

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne’s agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.