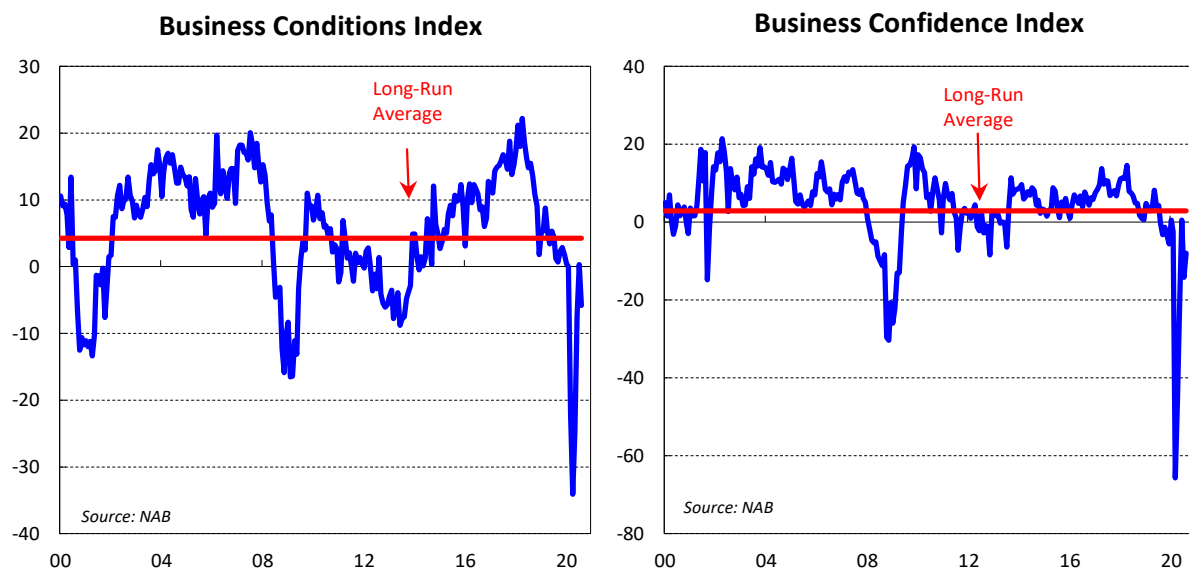


Tuesday, 8 September 2020

Business Confidence and Conditions COVID-19 and Lockdown Angst

- After three consecutive months of improvement, business conditions deteriorated in August, to -6. The resurgence in cases in Victoria and the lockdown measures from early August have unsurprisingly had a detrimental impact on businesses. However, containment in new COVID-19 cases and a recovery in economic activity in other States has likely prevented a bigger fall.
- A worrying sign for the labour market was that the deterioration in conditions was driven by the employment index. The employment index fell from -2 in July to -13 in August, reflecting the lost work due to Victoria's Stage 4 restrictions.
- There was some encouraging news in that confidence improved from -14 in July to -8 in August, although confidence remains well below its long-run average, and suggests businesses remain cautious about the outlook.
- The State breakdown further suggests that the lockdown measures may not have impacted Victoria as much as feared. Business conditions deteriorated in Victoria, from -5 in July to -10 in August, but conditions are still well above the lows of -38 in April, despite the stricter lockdowns being imposed in Melbourne.



There was a mixed result from the latest monthly NAB Business survey in August.

After three consecutive months of improvement, business conditions deteriorated in August, to -6. The resurgence in cases in Victoria and the lockdown measures from early August have

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A worrying sign for the labour market was that the deterioration in conditions was driven by the employment index. The employment index fell from -2 in July to -13 in August, reflecting the lost work due to Victoria's Stage four restrictions.

Other components of the index also fell, including forward orders (from -7 in July to -10 in August), indicating weaker demand ahead. Trading and profitability sub-indices also fell to -2 to -3 in August, respectively.

However, there was some encouraging news in that confidence improved from -14 in July to -8 in August. The improvement suggests that a recovery in States other than Victoria may have offset concerns about the stricter lockdown measures in Victoria.

The State breakdown further suggests that the lockdown measures may not have impacted Victoria as much as feared. Business conditions deteriorated in Victoria, from -5 in July to -10 in August, but conditions are still well above the lows of -38 in April, despite their stricter lockdowns.

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However, there has likely been some spillover effects to other States, such as Queensland, where conditions weakened to -11, even below the conditions index for Victoria. The border restrictions with NSW and Victoria likely severely dented prospects for domestic tourism in Queensland. Other States also witnessed a deterioration in business conditions including South Australia (from 9 to -1), Western Australia (from 6 to 2), and Tasmania (from 38 to 24).

Interestingly, most States witnessed an improvement in business confidence, including Victoria. However, with confidence at a reading of -17, Victoria was still the weakest of all States. The only State where confidence declined was in Western Australia (from 11 to -1).

The weaker conditions and confidence in Western Australia likely reflect a deterioration in the mining sector. Mining had the weakest conditions and confidence in August – a somewhat surprising outcome given that the mining sector has been one of the more resilient sectors in this pandemic. It might reflect difficulties in obtaining labour with State border restrictions which have impacted fly-in fly-out (FIFO) workers. The industry breakdown can also be quite volatile month-to-month.

Other industries where conditions weakened include recreational & personal services (from 0 to -13), manufacturing (from 10 to -7). There was an improvement in conditions in retail (from 9 to 14) and also had the strongest conditions of all industries. Although foot traffic would have been deeply impacted in Victoria and to a lesser extent in NSW due to COVID-19, some retailers are benefiting from spending which would otherwise be spent on overseas travel or other services.

A deterioration in conditions was not surprising given the elevated number of COVID-19 cases and the imposition of Stage 4 restrictions in Melbourne. However, conditions have not deteriorated to the lows witnessed in April, suggesting that a recovery is continuing in other parts of the country. That being said, conditions and confidence remain at low levels. Although confidence did rebound, it remains well below its long-run average of 3, and suggests businesses remain cautious about the outlook.

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