



31 July 2020

## **HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS**

### **REVIEW OF THE FOUR MAJOR BANKS**

#### **NAB Response to the Committee's Request on COVID-19**

##### **Question:**

The committee requests that you provide a written update (to be published on the committee's website) outlining the measures that NAB has taken in response to the COVID-19 pandemic. The first update is due by 30 April 2020 and ongoing updates should be provided at the end of every month thereafter until the next hearing.

##### **Answer:**

##### **31 July 2020**

NAB is continuing to support our customers as they deal with the ongoing impacts of COVID-19. This response provides NAB's update for July on actions in response to the COVID-19 pandemic.

Attached for the Committee's information are NAB's latest surveys and research including:

- NAB Quarterly Business Survey
- NAB Economics Data Insights (for the week ending 18 July)
- NAB Markets Weekly – which states are performing best? And why?

The last of these is a report issued on 27 July looking at the performance of the States and Territories. The message from the report's findings is that the States with the least spread can reopen quickest and have their economies least affected in the short term.

That report also suggests that the variation in the economic performance of each State or Territory reflects a combination of the impacts of:

- (i) spread/control of the virus;
- (ii) reductions in international mobility including the impacts of international border closures impacting on immigration, international tourism and international students. In this regard NSW and Victoria are relatively the most impacted, along with the ACT;
- (iii) reductions in domestic mobility/working from home – this impacts CBDs and businesses providing services to CBDs, though some offset is likely through activity picking up in suburban areas. The outperformance of WA and the Northern Territory may also reflect their relatively large exposure to mining and farming, two sectors that relatively have not been hit as hard.

On 16 July NAB also released a report on the Australian small business sector; explaining why it is so critical to our economy and setting out some practical steps that can be taken to help ensure a healthy recovery in the sector. This report – “Supporting Economic Recovery: What we can do for Small Business” is attached. It identifies eight potential areas for reform which are:

- Making it easier to hire new workers;
- Cutting regulation;
- Making sure small businesses get paid faster;
- Harnessing the power of digital tools;
- Opening procurement opportunities;
- Further access to capital;
- Lifting small business management capability; and
- Improving state business conditions.

NAB’s aim in publishing the report was to make a constructive contribution to public policy debate on areas for reform to support small business which is a critical part of Australia’s economy. A copy of the research is also available here (<https://nab.co/3jsc1fE>).

### **Customer support**

Following the ABA announcement on 8 July regarding the next phase of support from banks for customers currently on loan payment deferrals, NAB announced that it would provide the option to extend existing six-month loan deferrals for business and home loan customers affected by COVID-19, by up to four months ending no later than 31 March 2021 – on a case-by-case basis. The option to extend a deferral period for up to four months will be assessed on an individual customer basis.

We will work with customers to find the best options to restructure or vary their loans. These may include:

- Extending the length of the loan
- Converting to interest only payments for a period of time
- Consolidating debt
- A combination of these and other measures

NAB continues to check-in with customers on deferment, to better understand their individual circumstances and to determine the best arrangement for them.

While a number of businesses and homeowners have started their repayments again, there are clearly still many customers who may need support for longer. NAB made clear that bankers will speak with customers about their individual circumstances and the options appropriate for them which may include loan restructure, determining alternative fund sources, hardship assistance or further deferral for up to four months. At the same time, we continue to encourage customers who can begin repayments to do so as soon as they can, as it is in customers’ interest to repay debt sooner.

<i>NAB loan repayment deferrals as at 17 July</i>	<b>Number of accounts</b>	<b>Value of total loan balance which has been deferred</b>
<b>Total business loan deferrals<sup>[1]</sup></b>	39,332	\$20.67bn
<b>Total home loan deferrals<sup>[2]</sup></b>	97,344	\$38.98bn

<sup>[1]</sup> Includes NAB Business & Private Bank and NAB Corporate business accounts. Customers may have a number of accounts.

<sup>[2]</sup> Includes all NAB and Advantedge accounts.

We continue to support our customers by way of special packages of support information. Overall, the demand for COVID-19 support information has dropped significantly since the peak in late March/ early April, levelling out over the last 2 months. Traffic to the COVID-19 support pages is tracking at roughly 20,000 visits per week, having peaked at 200,000 per week in March.

Digital applications for financial support have also seen a significant drop since peaking in March/April with numbers similarly consistent for June and July.

### **First Home Loan Deposit Scheme (FHLDS)**

NAB has started accepting applications for the second round of the FHLDS, which offers an additional 10,000 places to first home buyers to help them get into their first home faster with a deposit as little as 5%. We are seeing significant early interest in the Scheme since the new round of places opened on 1 July and anticipate this strong demand to continue. NAB has introduced a customer waitlist to best manage this demand and encourage first home buyers to submit an application through their NAB banker or broker. To date, NAB has supported more than 1,500 Australians purchase their first home through the Scheme.

### **HomeBuilder**

NAB continues to work with customers on the Government's HomeBuilder package. Demand for the package also continues; in particular, some of our Corporate and Institutional customers have highlighted that demand is very strong.

### **New branch model**

NAB will adjust opening hours across 114 smaller regional branches, with bankers splitting their time between over the counter service and digital or phone banking support, as more customers move online. Branches will be open from 9.30am to 12.30pm for customers and outside of these hours the bankers will support customers by phone and online chat, as well as application processing. The expectation is that this approach will provide a more consistent banking experience for customers. The new model will also provide new skills and training opportunities for regional bankers, while adapting to changing customer behaviour to use more digital banking options.

### **Support for Business Customers**

We continue to work with the Government on support for Australian businesses. In partnership with the Government, through the Coronavirus SME Guarantee Scheme, we have continued to provide eligible businesses with unsecured loans of up to \$250,000 over three years at 4.5% p.a.

with no repayments required in the first six months. From its launch on 28 March to 17 July, NAB has approved 5,856 Business Support Loans under the Government's Scheme. NAB has approved around one-third of total loans under the scheme based on around 16,000 loans having been accepted by the industry.<sup>3</sup>

NAB welcomes the Government's expansion of the SME Guarantee Scheme. From 1 October until 30 June 2021 the scheme will be available for loans up to \$1 million per borrower with loan terms of up to five years and can be used for a wider range of purposes beyond the provision of working capital. The changes will make the Scheme available to more businesses for longer and will help these businesses to rebuild.

For April, May and June NAB supported over 101,000 customers with merchant fee waivers (not suspensions) and continued to waive these fees for the majority of these customers until 31 July across Australia. NAB is continuing support for our Victorian customers by way of terminal rental and minimum monthly fee waivers in place until 31 August.

### **JobKeeper Payment**

NAB also welcomes the Government's extension of the JobKeeper program which is playing a significant role in helping businesses survive and keeping people employed. NAB is supporting our customers by providing temporary access to funds ahead of government JobKeeper payments.

NAB continues to offer a dedicated overdraft facility to support JobKeeper, with the ability to receive a short-term temporary excess available to manage any timing difference between paying wages and receiving the JobKeeper payment from the ATO. Customers can draw upon the JobKeeper overdraft to make salary payments and then pay back the overdraft each month after they receive the JobKeeper payment from the Government.

NAB also has a dedicated hotline for customers to access NAB's support for the JobKeeper payment for business customers (1800 JOB KEEPER).

### **Support for MLC Wealth Customers**

The second phase of the Federal Government's early release of superannuation is underway and to ensure money is reaching those who need it quickly we are processing requests swiftly and have been completing more than 98 per cent of payments within five days. As at 19 July, NULIS, MLC's superannuation trustee, has received 138,885 requests for early release payments, amounting to \$1.093 billion.

Our focus continues to be on supporting advisers to assist their clients. Among other activities MLC Asset Management's investment leaders recently hosted a webinar providing clients, and their advisers, with an opportunity to engage in discussions and ask questions on what is happening in the market.

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<sup>3</sup> See Treasurer the Hon Josh Frydenberg MP, 'National Press Club Address', 24 July 2020





# NAB ECONOMICS DATA INSIGHTS

## IMPACTS OF CORONAVIRUS ON CONSUMPTION BASED SPENDING AND BUSINESS PAYMENT INFLOWS

July 2020

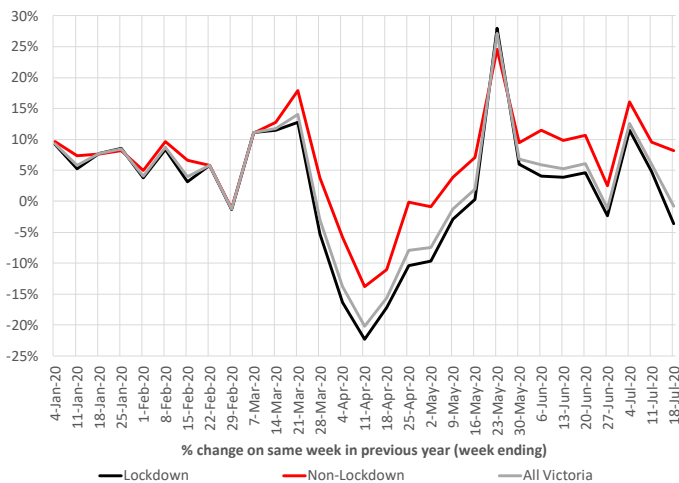
*NAB Group Economics*

*During these extraordinary times, we have taken the decision to publish aggregated customer data categorised by industry segment with the view to helping provide clarity around which segments of the economy have been most affected by the broader macroeconomic trends at play. NAB takes data privacy very seriously. All customer transaction data has been aggregated and no individual's data is specifically identified or analysed as part of this process. The data used in this report will not be sold or made publicly available, but insights from the data will be shared with the Australian people.*

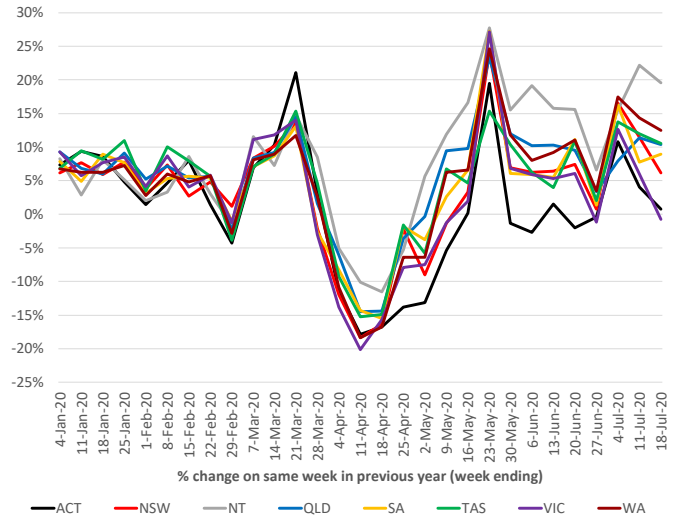
NAB's latest Data Insights highlight a slowdown in consumption spending in recent weeks, with overall growth easing to 5.8% y/y for the week ended July 18. Spending slowed in all states and territories (except SA/NT). It is now weakest in VIC (-0.7%) with this result heavily influenced by lockdown in metropolitan Melbourne. NSW is also weakening faster than most. Relative to last year, overall spending growth slowed (or fell further) in all industries, but overall growth continues to be supported mainly by spending on Construction and Retail Trade.

Payment inflows across all industries were flat (0.1%) in the 4-weeks to July 18 (4-week average terms). Inflows are still falling heaviest for corporates. By industry, they were down most in Mining, Transport and Hospitality, and were strongest in Agriculture, Manufacturing, Retail Trade and Professional, Scientific & Technical Services.

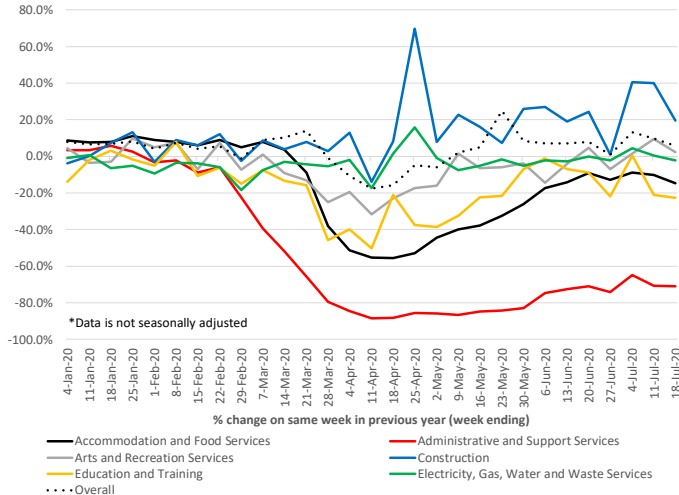
**CONSUMPTION SPENDING: WEEKLY CHANGE (Y/Y)  
VICTORIA - LOCKDOWN AREAS**



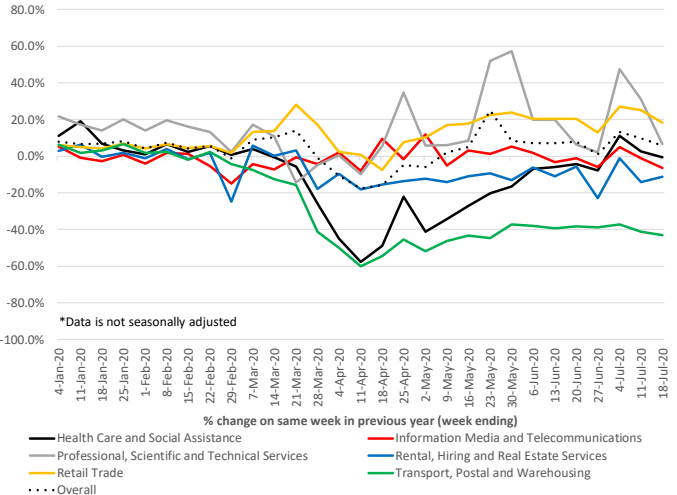
**CONSUMPTION SPENDING BY STATE**



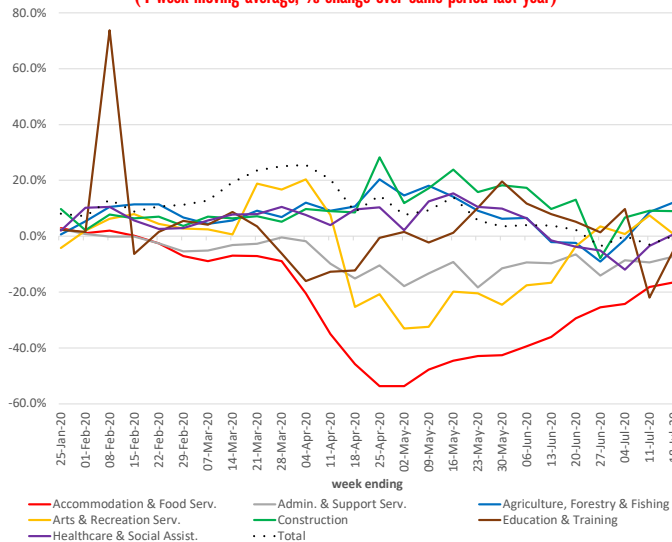
**CONSUMPTION SPENDING: BY INDUSTRY**



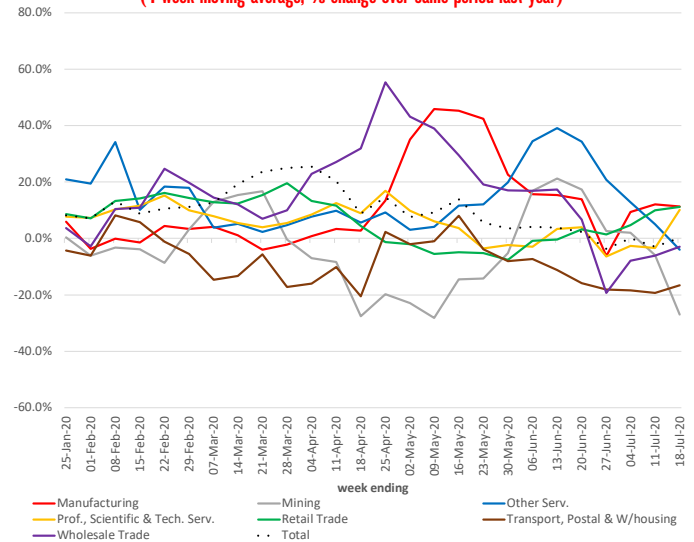
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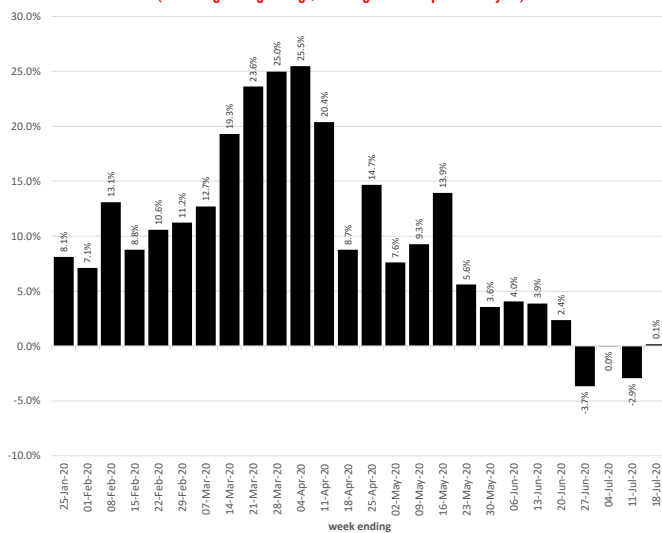
**PAYMENT INFLOWS INTO NAB MERCHANTS**  
(4-week moving average, % change over same period last year)



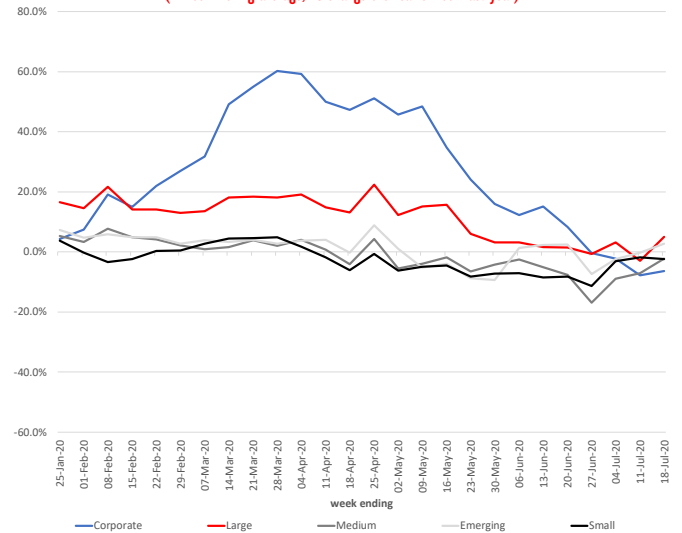
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**PAYMENT INFLOWS INTO NAB MERCHANTS**  
(4-week moving average, % change over same period last year)



**PAYMENT INFLOWS INTO NAB MERCHANTS - BY MERCHANT SIZE**  
(4-week moving average, % change over same week last year)



- NAB’s latest Data Insights point to a slowdown in consumption spending in recent weeks, with overall growth easing to 5.8% y/y in the week ending July 18 (9.8% in the previous week), but still roughly at levels seen in late-February.
- Consumption spending eased in all states except SA/NT (8.9%). It fell sharply in VIC, which is now the only state showing a negative result (-0.7%). This spending hit was driven by sharp falls in lockdown areas (-3.6%), with non-lockdown areas still growing by more than 8%. Spending growth halved in NSW (6.1%) compared to the previous week, and was strongest in the NT (19.6%) and WA (12.5%).
- Relative to last year, overall spending growth eased (or fell faster) in all industries. But overall growth continues to be underpinned mostly by spending on Construction (albeit slowing to 19.6% from 39.9% in the previous week) and Retail Trade (which also eased to 18.3% from 25.1% in the previous week). Spending on Hospitality (the biggest sector of the economy) fell 14.6% (down 10.1% last week). Spending on Administration & Support Services is still very weak (-70.9%), with sizeable falls also persisting in Transport, Postal & Warehousing (-43.0%) and Education & Training (-22.6%). **See Appendix 1 for more detailed industry data.**
- Payment inflows (in year-on-year 4-week moving average terms) were basically flat (0.1%) for the 4 weeks ending July 18 compared to the same time last year, but improved from the previous week (-2.9%). By business size, inflows grew in both large (5.0%) and emerging (2.7%) firms. Inflows into corporates however fell for the fourth straight week (-6.4%), with smaller falls of around 2½% in both medium and small firms.
- By industry, payment inflows into Accommodation continue falling steeply (-16.5%), although this was the slowest rate of decline seen since late-March. Inflows into Mining firms however turned down sharply (-26.9%), with inflows into Transport, Postal & Warehousing also still falling heavily (-16.6%). Inflows into Education fell 4.6% after falling 22.0% in the previous week. Payment inflows were strongest into Agriculture (12.2%), Manufacturing (11.4%), Retail Trade (11.2%) and Professional, Scientific & Technical Services (10.0%). **See Appendix 2 for more detailed Industry data.**

## NAB CONSUMPTION-BASED SPENDING BY INDUSTRY SECTOR & SELECTED SUB-INDUSTRIES (year-on-year change on same week in previous year - week ending 18 July 2020)

	% change on same week in previous year**
Accommodation & Food Services	-14.6%
Administrative & Support Services (incl. Travel Agents)	-70.9%
Arts & Recreation Services	2.3%
Construction	19.6%
Education & Training	-22.6%
Electricity, Gas & Water & Waste Services	-2.2%
Healthcare & Social Assistance	-0.7%
Information, Media & Telecommunications	-6.5%
Professional, Scientific & Technical Services	6.5%
Rental, Hiring & Real Estate Services	-11.2%
Retail Trade	18.3%
Transport, Postal & Warehousing	-43.0%
<b>TOTAL</b>	<b>5.8%</b>
<b>Best Performers (Sub-Division)</b>	
- Internet Publishing & Broadcasting	45.2%
- Publishing (except Internet & Music Publishing)	38.0%
- Gambling Activities	37.7%
- Motor Vehicle & Motor Vehicle Parts Retailing	27.1%
- Other Store-Based Retailing	26.1%
- Construction Services	22.8%
- Building Cleaning, Pest Control & Other Support Services	21.8%
<b>Worst Performers (Sub-Division)</b>	
- Water Transport	-92.7%
- Air & Space Transport	-89.4%
- Motion Picture & Sound Recording Activities	-85.8%
- Rail Transport	-82.7%
- Administrative Services	-73.7%
- Other Transport	-71.7%
- Creative & Performing Arts Activities	-60.7%
- Accommodation	-49.3%

\*This data excludes government services, taxes, direct to consumer manufacturers, mortgage and other credit facility repayments. Spending includes both online and offline transactions. Transaction data may include EFTPOS, Credit Card, BPAY, Bank Transfers, Direct Debits and PayPal services where available.

\*\*Data is not seasonally adjusted.

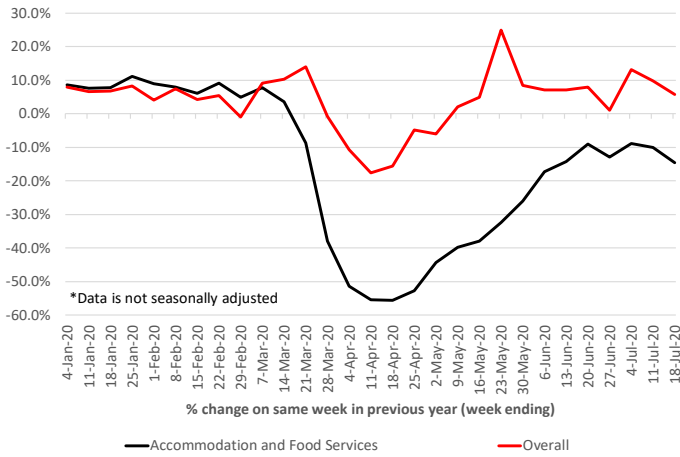
## PAYMENT INFLOWS INTO NAB MERCHANTS BY INDUSTRY SECTOR & SELECTED SUB INDUSTRIES (4-week moving avg, year-on-year change on same period in previous year, 4-weeks ending 18 July 2020)

	4-weeks ending 18 July 2020
Accommodation & Food Services	-16.5%
Administration & Support Services	-7.2%
Agriculture, Forestry & Fishing	12.2%
Arts & Recreation Services	0.6%
Construction	9.0%
Education & Training	-4.6%
Healthcare & Social Assistance	0.8%
Manufacturing	11.4%
Mining	-26.9%
Other Services	-4.0%
Professional, Scientific & Technical Services	10.0%
Retail Trade	11.2%
Transport, Postal & Warehousing	-16.6%
Wholesale Trade	-2.9%
<b>TOTAL</b>	<b>0.1%</b>
<b>Business Size</b>	
- Small	-2.4%
- Emerging	2.7%
- Medium	-2.3%
- Large	5.0%
- Corporate	-6.4%
<b>Best Performers (Sub-Division)</b>	
- Pulp, Paper & Converted Paper Product Manufacturing	96.7%
- Non-Metallic Mineral Product Manufacturing	58.3%
- Exploration & Other Mining Support Services	35.7%
- Building Cleaning, Pest Control & Other Support Services	28.9%
- Gambling Activities	27.0%
- Computer System Design & Related Services	25.6%
- Heavy & Civil Engineering Construction	21.1%
<b>Worst Performers (Sub-Division)</b>	
- Air & Space Transport	-64.0%
- Coal Mining	-46.6%
- Heritage Activities	-35.9%
- Metal Ore Mining	-34.7%
- Non-Metallic Mineral Mining & Quarrying	-34.0%
- Aquaculture	-31.3%
- Beverage & Tobacco Product Manufacturing	-31.0%

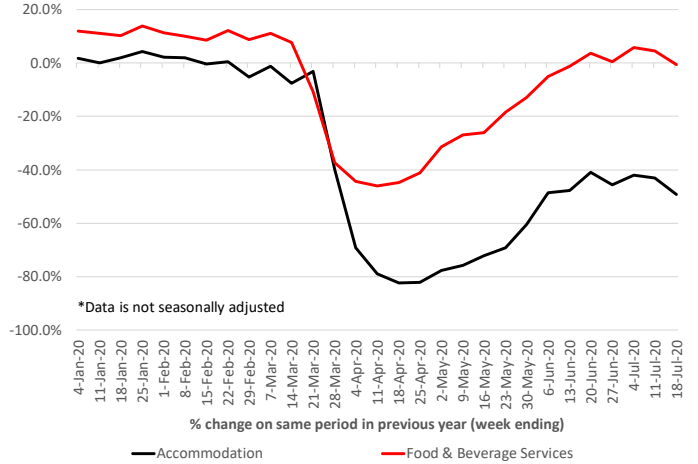
\* Payment Inflows are credits to a NAB merchant's account that is not a financing credit from NAB or a transfer from related accounts.

# APPENDIX 1: SPENDING CHANGES BY INDUSTRY & INDUSTRY SUB-DIVISION

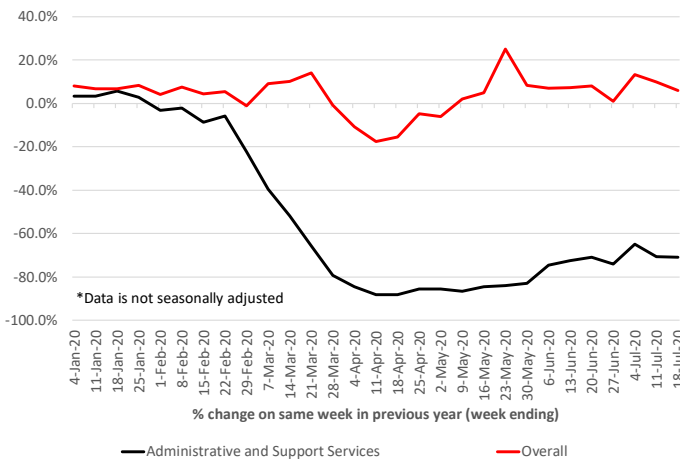
## ACCOMMODATION & FOOD SERVICES



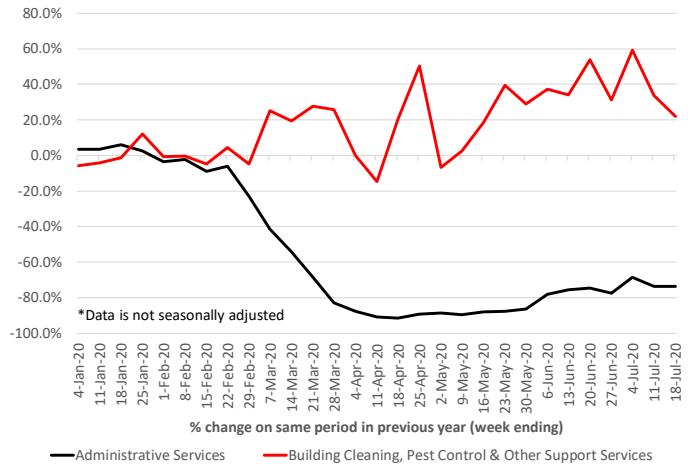
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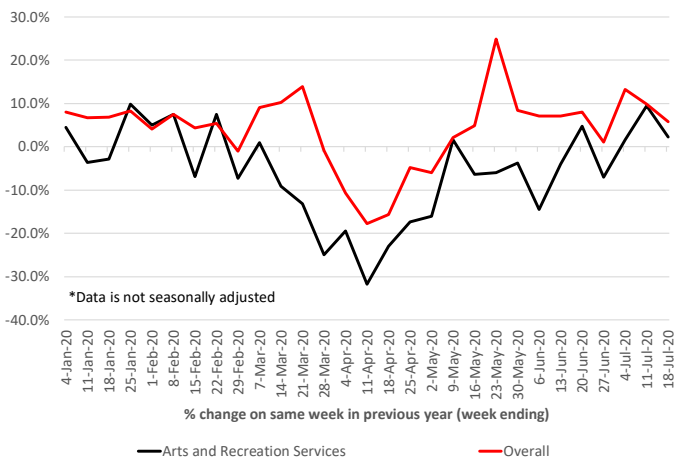
## ADMINISTRATIVE & SUPPORT SERVICES



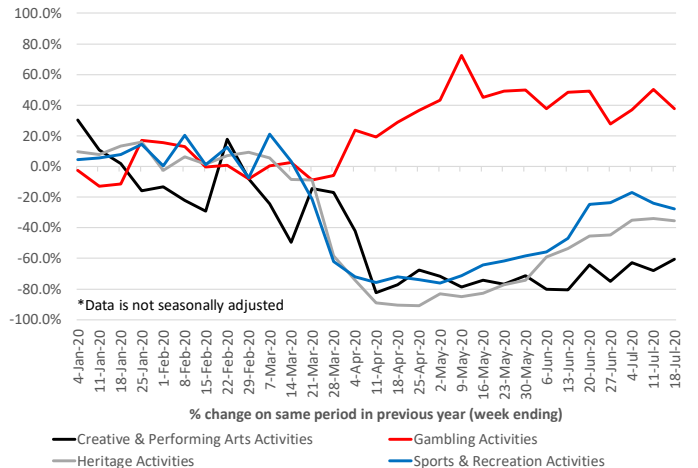
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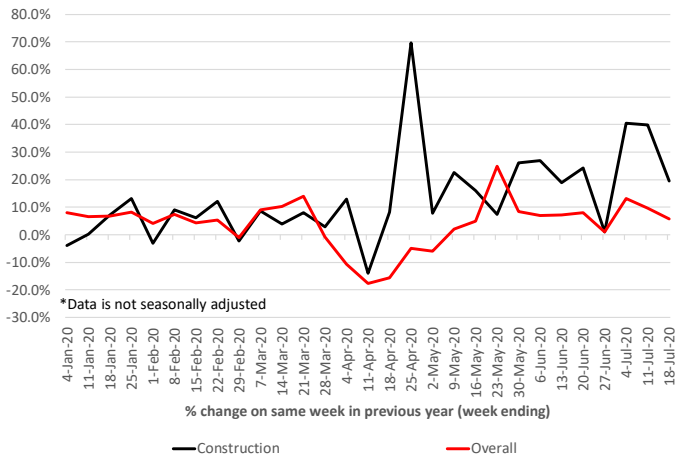
## ARTS & RECREATION SERVICES



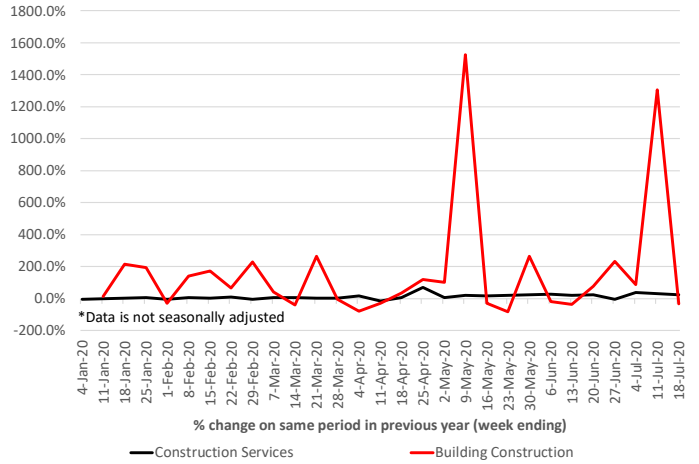
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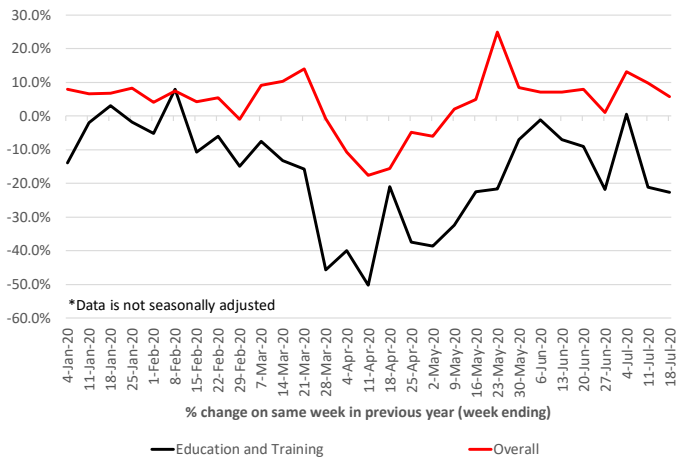
### CONSTRUCTION



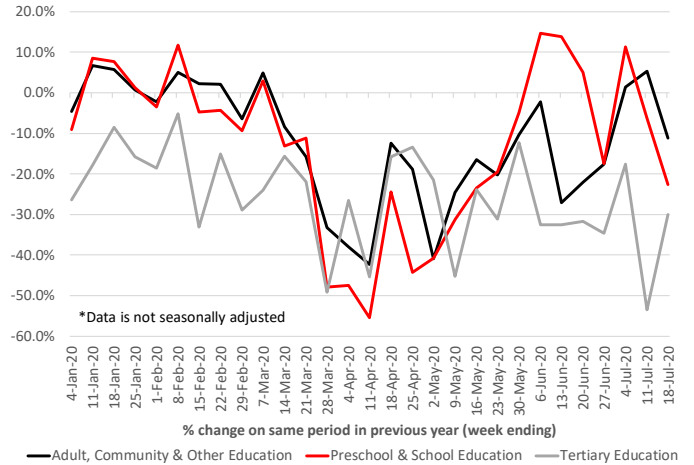
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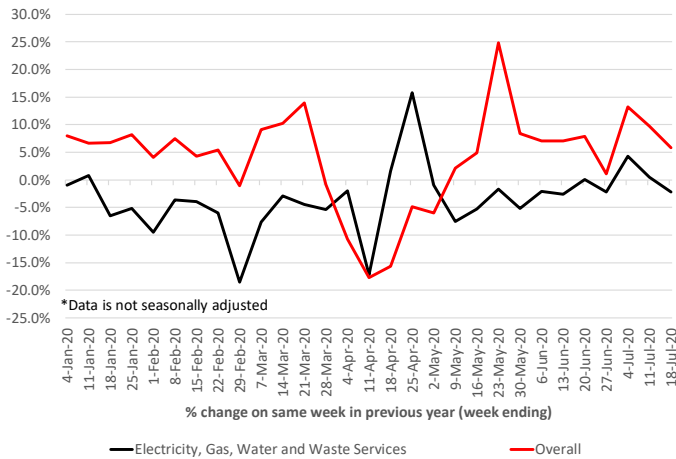
### EDUCATION & TRAINING



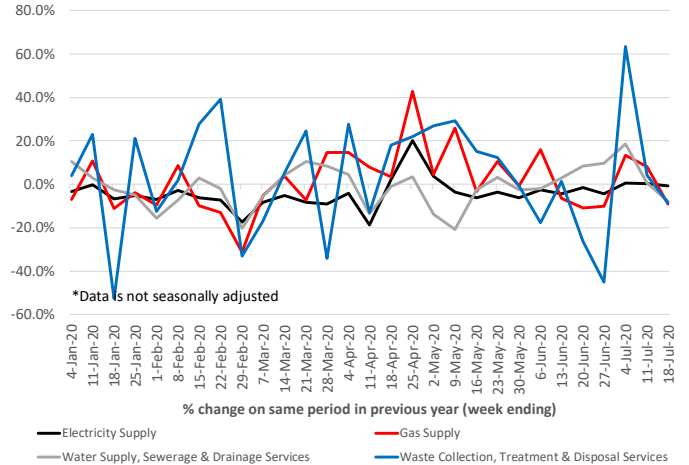
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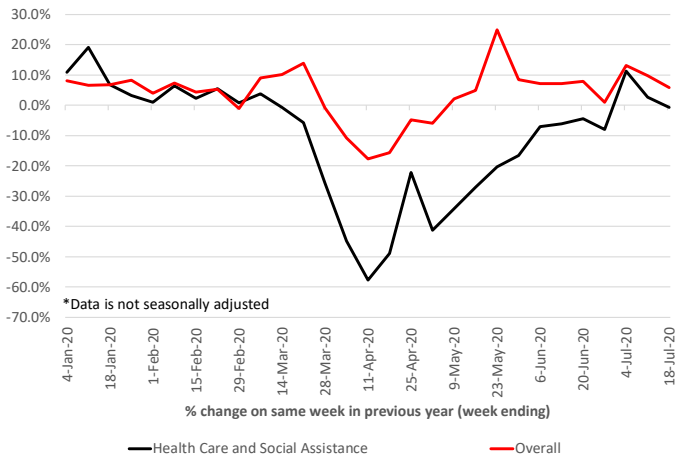
### ELECTRICITY, GAS, WATER & WASTE SERVICES



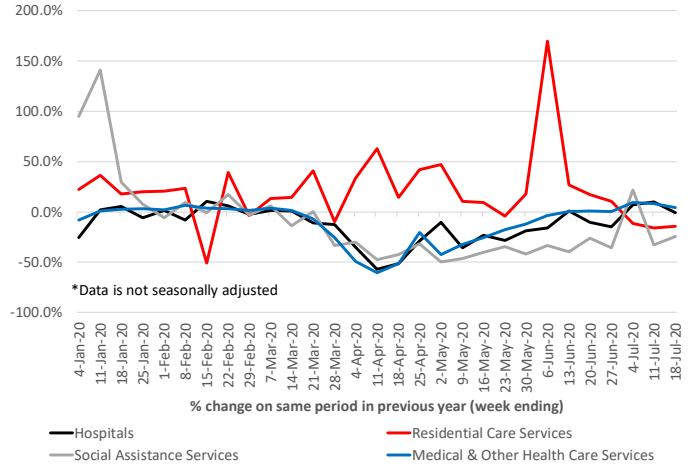
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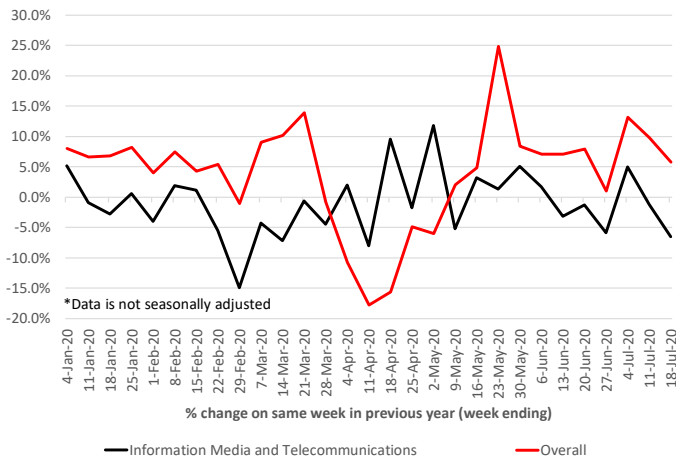
### HEALTH CARE & SOCIAL ASSISTANCE



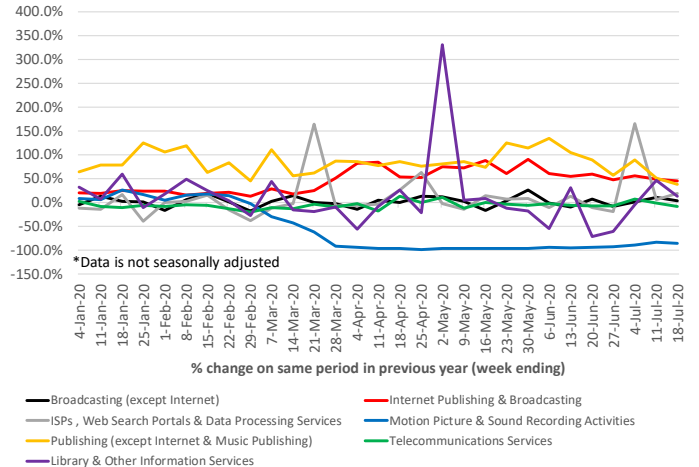
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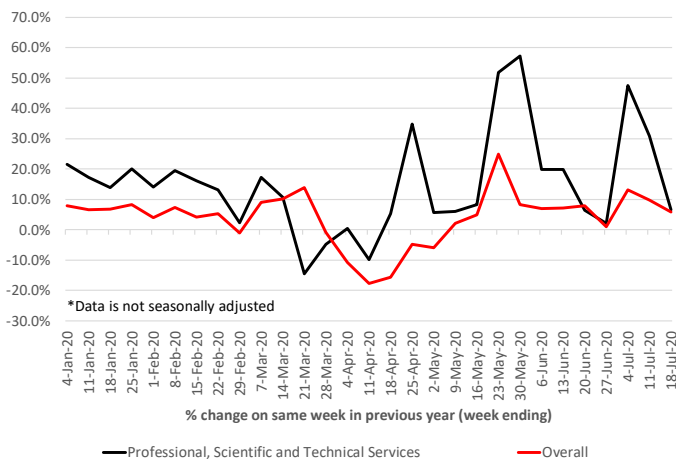
### INFORMATION MEDIA & TELECOMMUNICATIONS



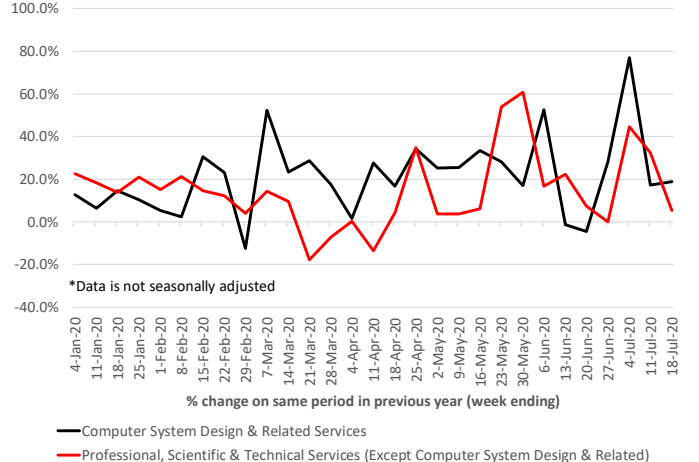
### INFORMATION MEDIA & TELECOMMUNICATIONS



### PROFESSIONAL, SCIENTIFIC & TECHNICAL SERVICES

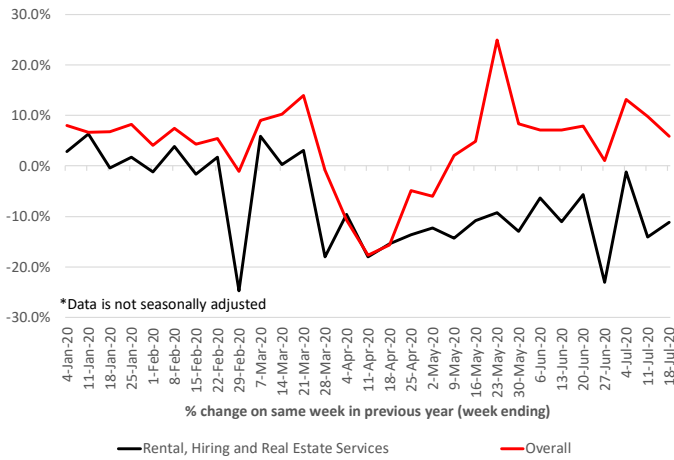


### PROFESSIONAL, SCIENTIFIC & TECHNICAL SERVICES

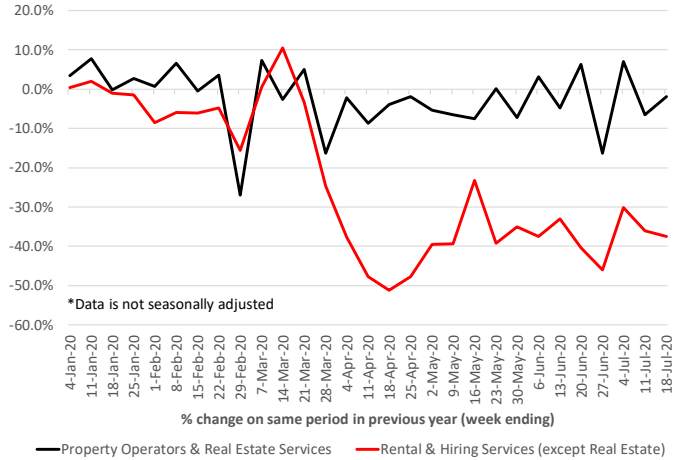




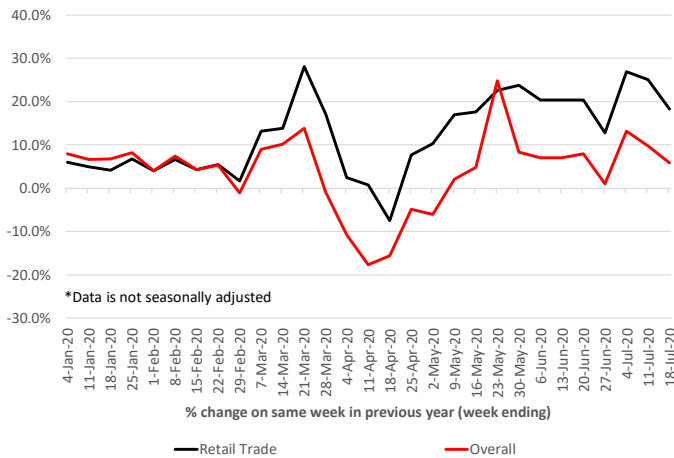
### RENTAL, HIRING & REAL ESTATE SERVICES



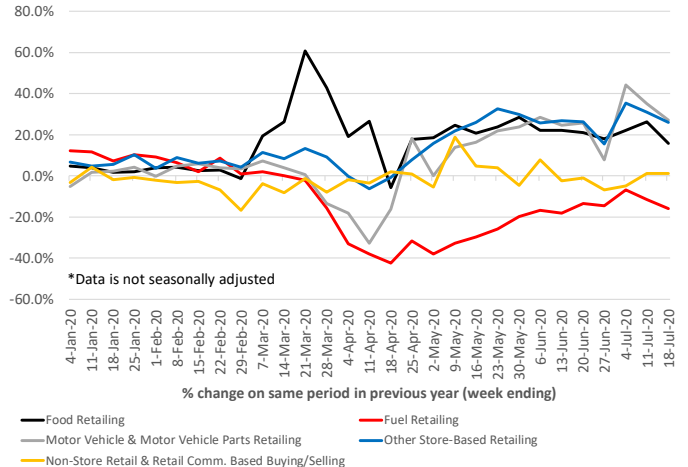
### RENTAL, HIRING & REAL ESTATE SERVICES



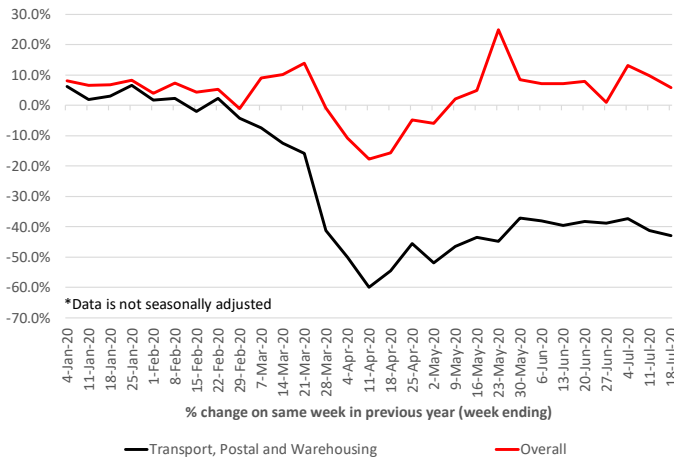
### RETAIL TRADE



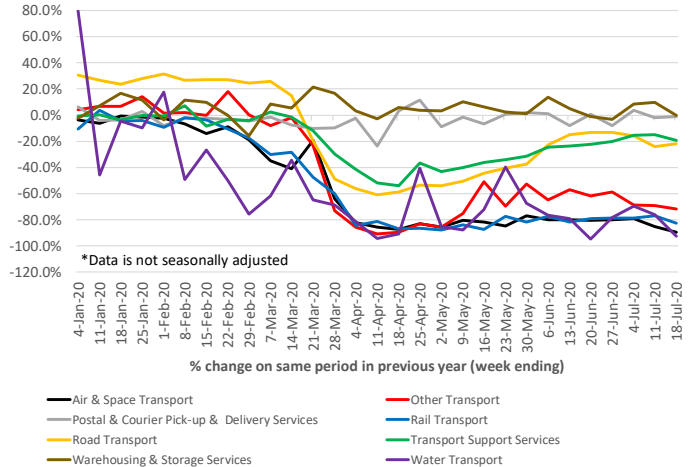
### RETAIL TRADE



### TRANSPORT, POSTAL & WAREHOUSING



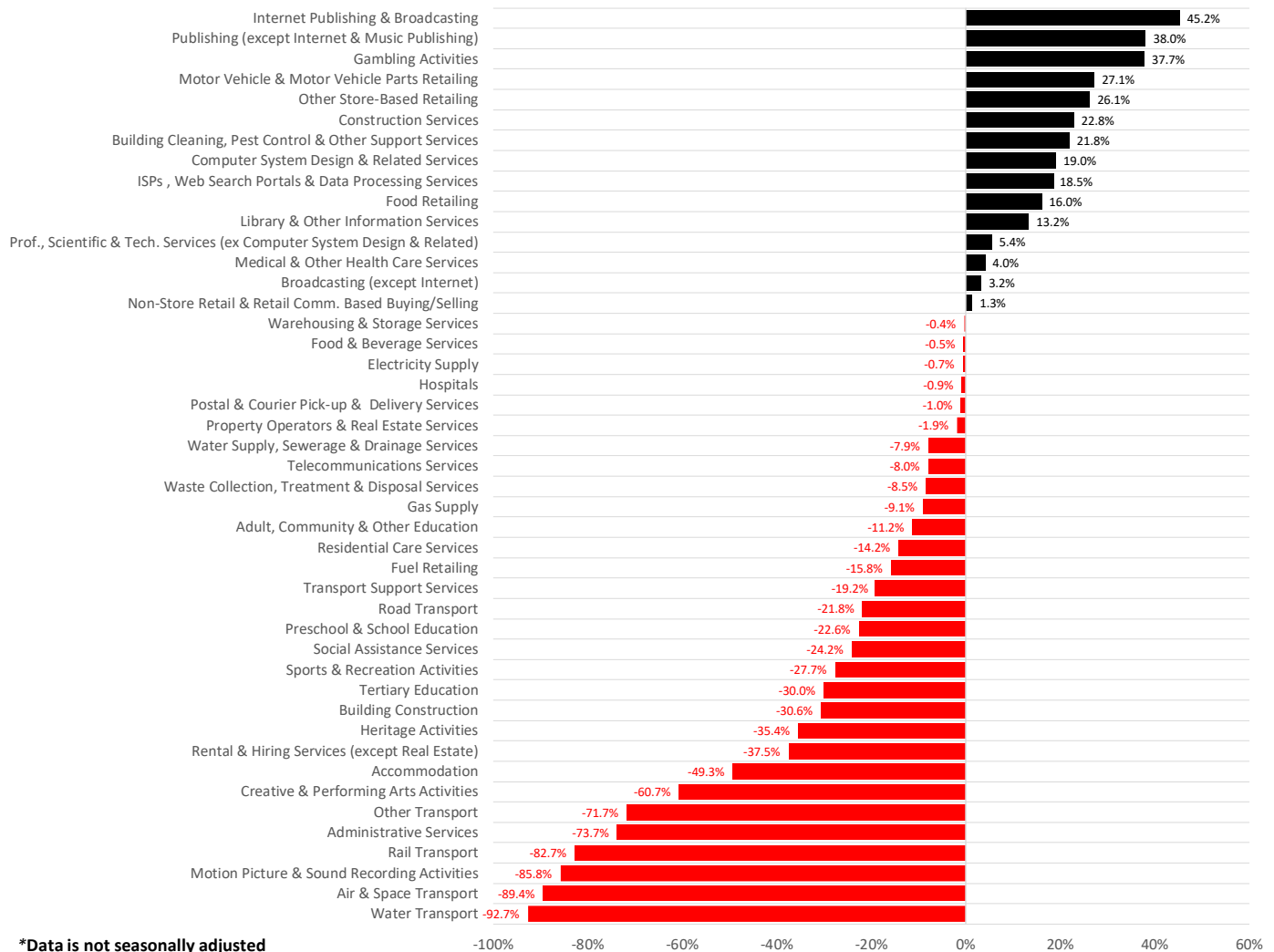
### TRANSPORT, POSTAL & WAREHOUSING





# CONSUMPTION SPENDING BY INDUSTRY SUB-DIVISION - RANKED

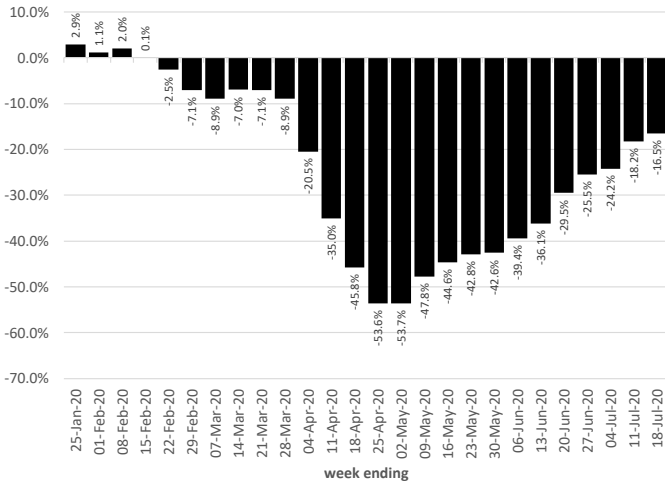
## CHANGE IN CONSUMPTION SPENDING ON THE SAME PERIOD IN THE PREVIOUS YEAR BY INDUSTRY SUB-DIVISION - WEEK ENDING 18 JULY 2020



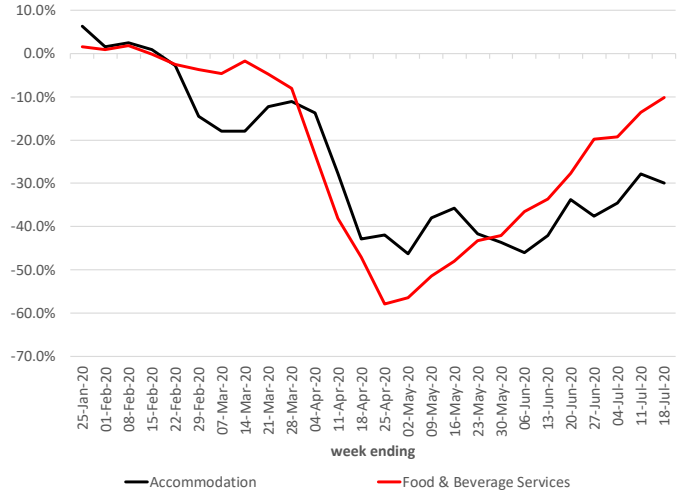
\*Data is not seasonally adjusted

# APPENDIX 2 - PAYMENT INFLOWS INTO NAB MERCHANTS BY INDUSTRY & INDUSTRY SUB-DIVISION

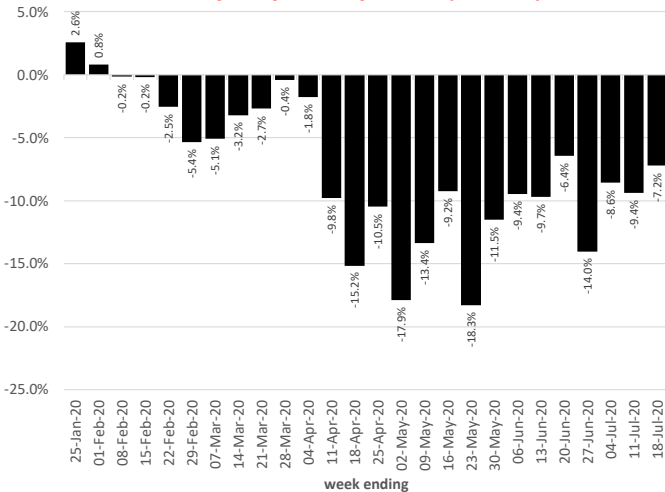
**ACCOMMODATION & FOOD SERVICES**  
(4-week moving average, % change on same period last year)



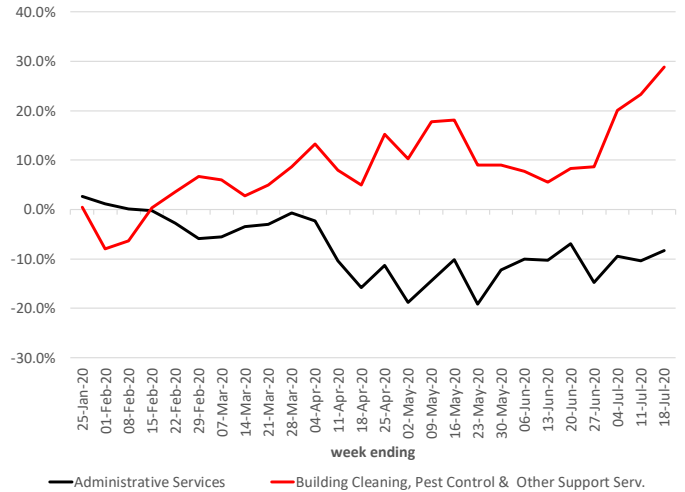
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(4-week moving average, % change on same period last year)



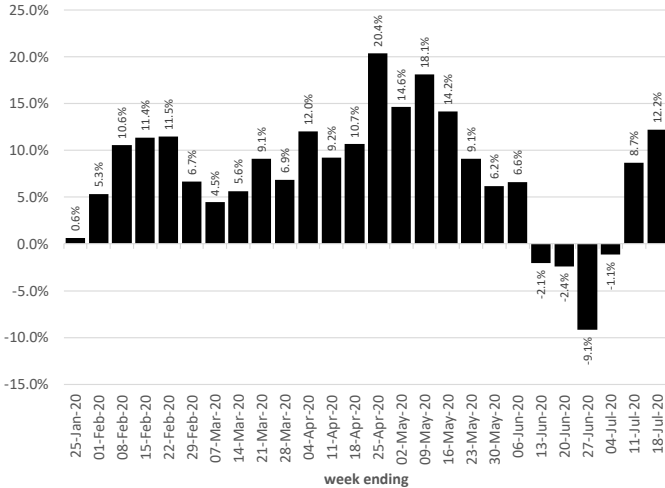
**ADMINISTRATIVE & SUPPORT SERVICES**  
(4-week moving average, % change on same period last year)



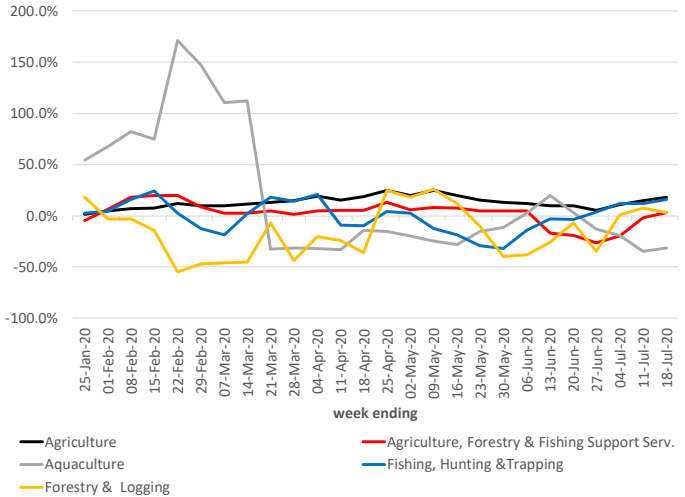
**ADMINISTRATIVE & SUPPORT SERVICES**  
(4-week moving average, % change on same period last year)



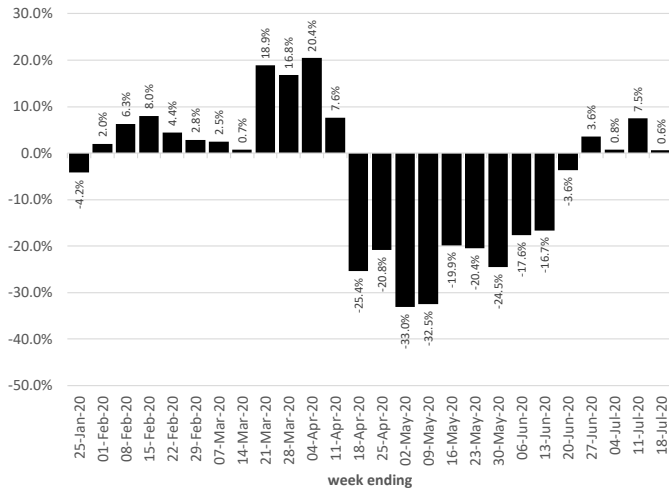
**AGRICULTURE, FORESTRY & FISHING**  
(4-week moving average, % change on same period last year)



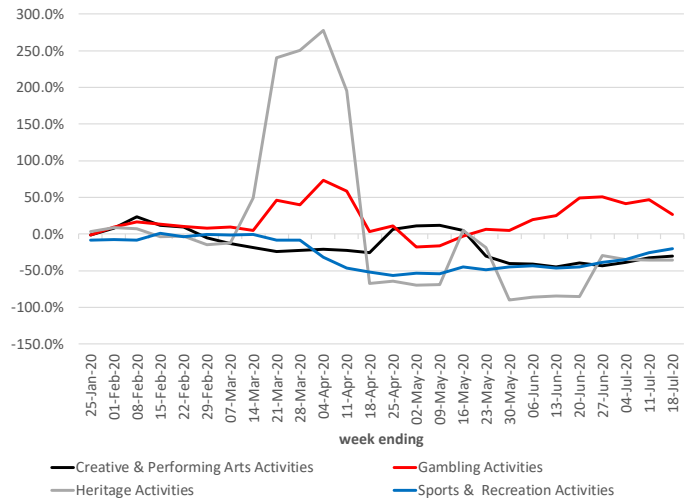
**AGRICULTURE, FORESTRY & FISHING**  
(4-week moving average, % change on same period last year)



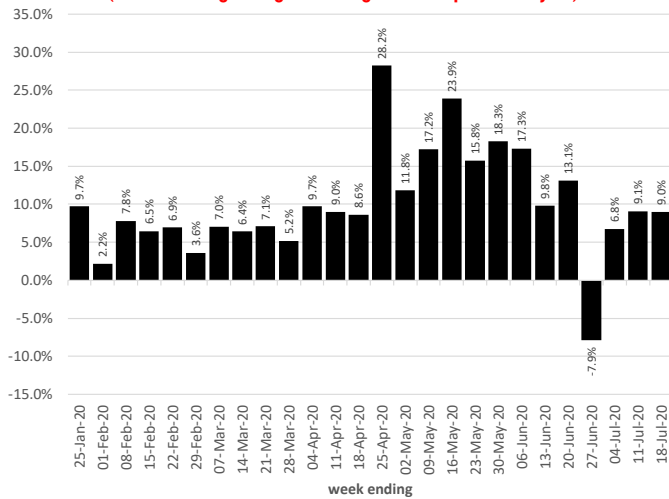
### ARTS & RECREATION SERVICES (4-week moving average, % change on same period last year)



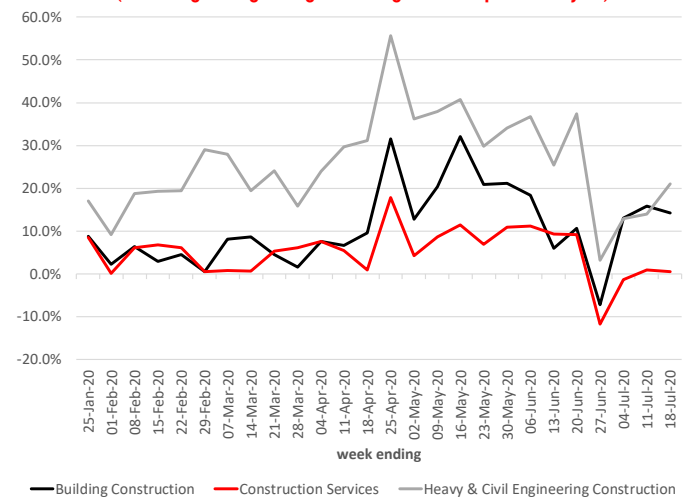
### ARTS & RECREATION SERVICES (4-week moving average, % change on same period last year)



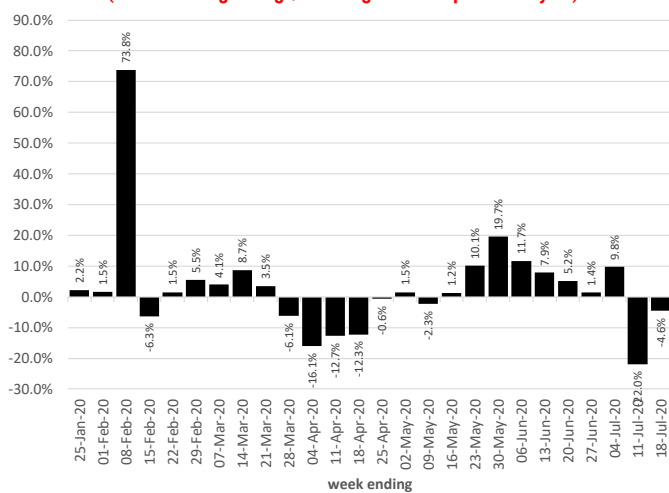
### CONSTRUCTION (4-week moving average, % change on same period last year)



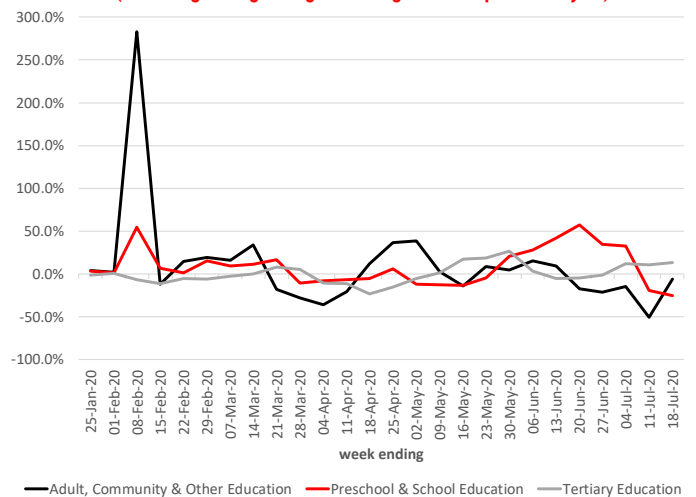
### CONSTRUCTION (4-week moving average, % change on same period last year)



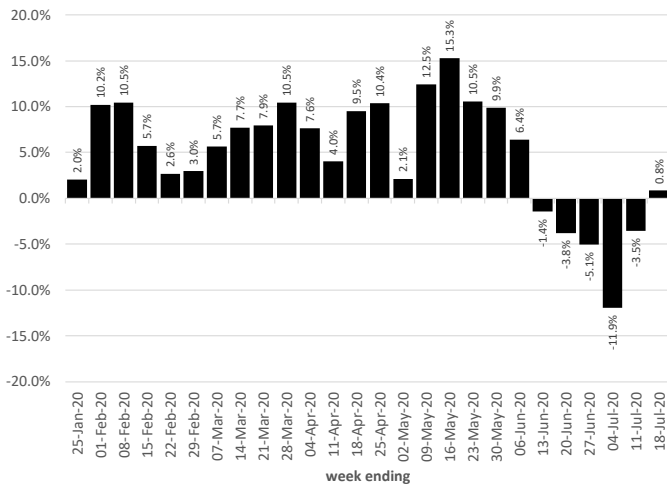
### EDUCATION & TRAINING (4-week moving average, % change on same period last year)



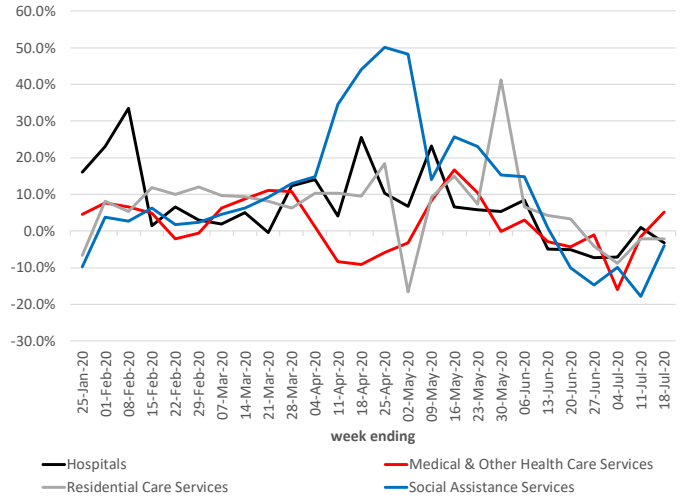
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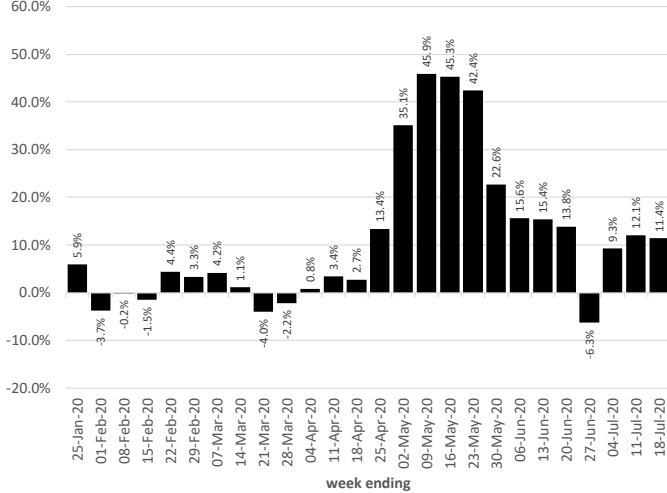
### HEALTH CARE & SOCIAL ASSISTANCE (4-week moving average, % change on same period last year)



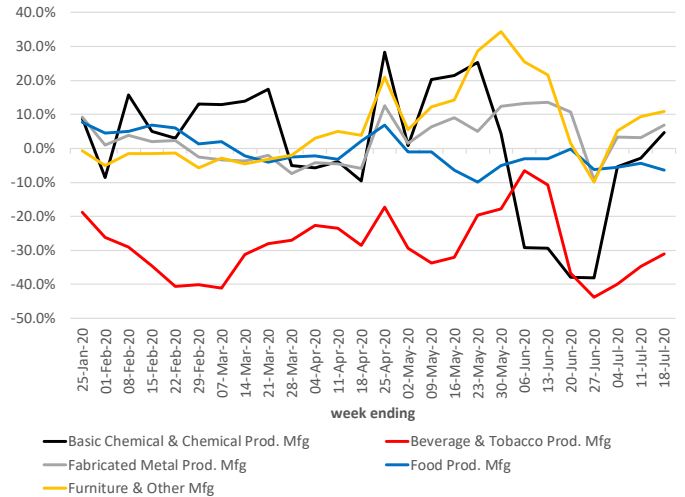
### HEALTH CARE & SOCIAL ASSISTANCE (4-week moving average, % change on same period last year)



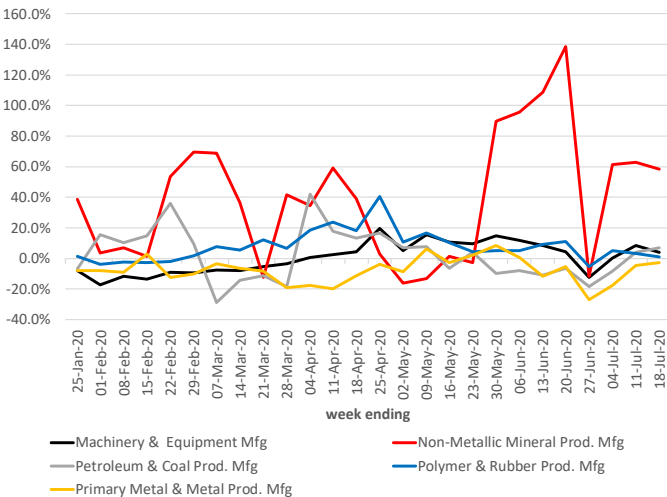
### MANUFACTURING (4-week moving average, % change on same period last year)



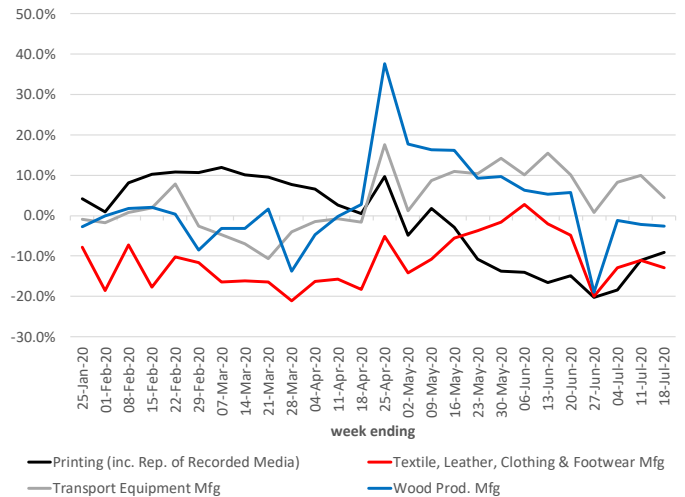
### MANUFACTURING (1) (4-week moving average, % change on same period last year)



### MANUFACTURING (2) (4-week moving average, % change on same period last year)

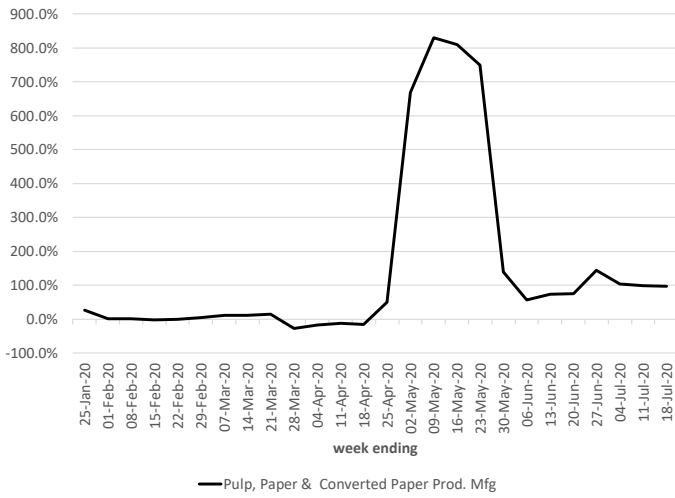


### MANUFACTURING (3) (4-week moving average, % change on same period last year)



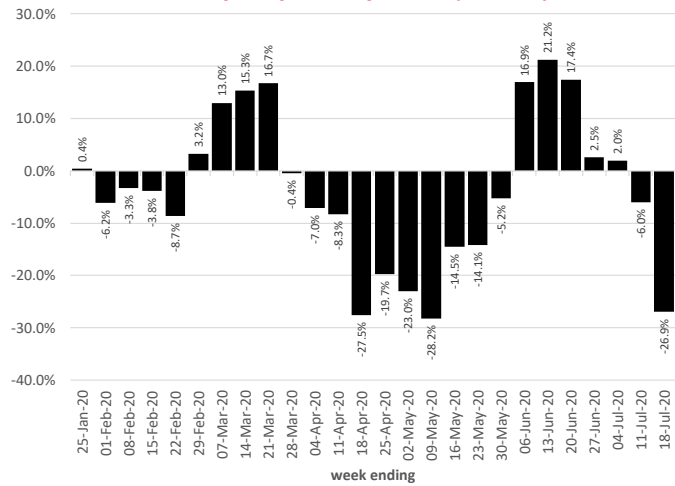
### MANUFACTURING (4)

(4-week moving average, % change on same period last year)



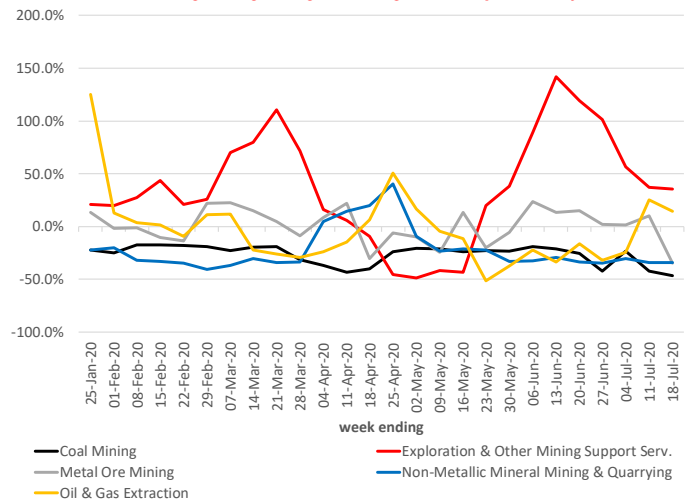
### MINING

(4-week moving average, % change on same period last year)



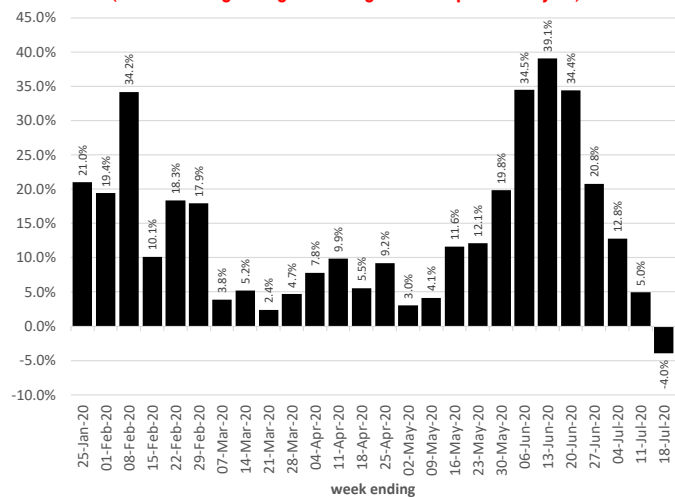
### MINING

(4-week moving average, % change on same period last year)



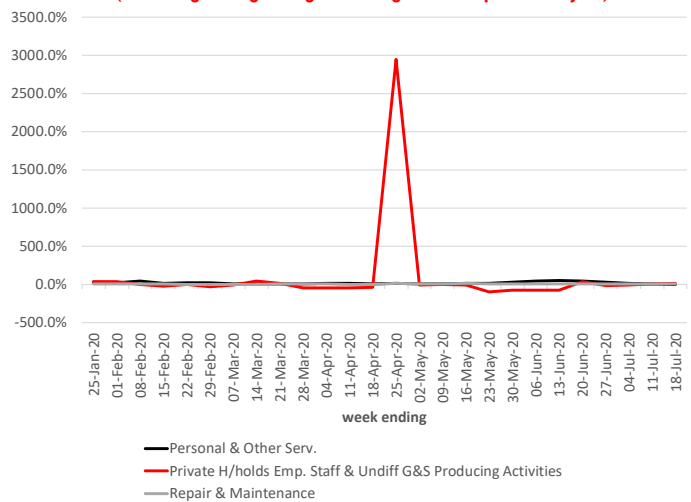
### OTHER SERVICES

(4-week moving average, % change on same period last year)

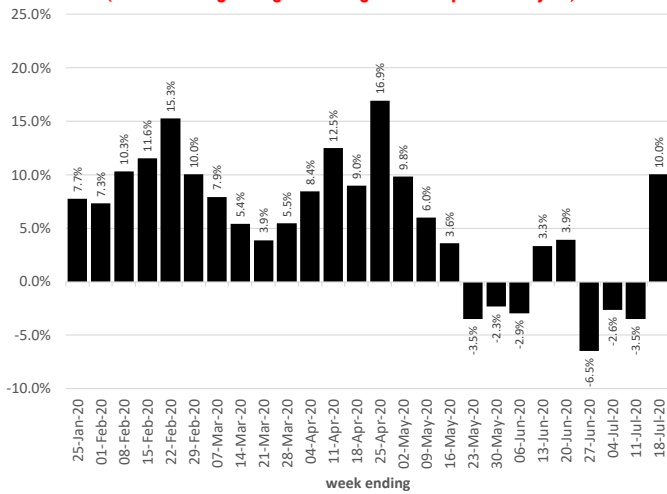


### OTHER SERVICES

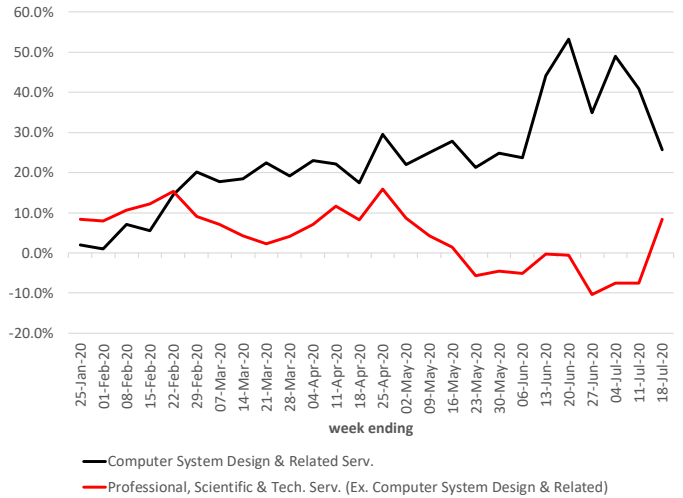
(4-week moving average, % change on same period last year)



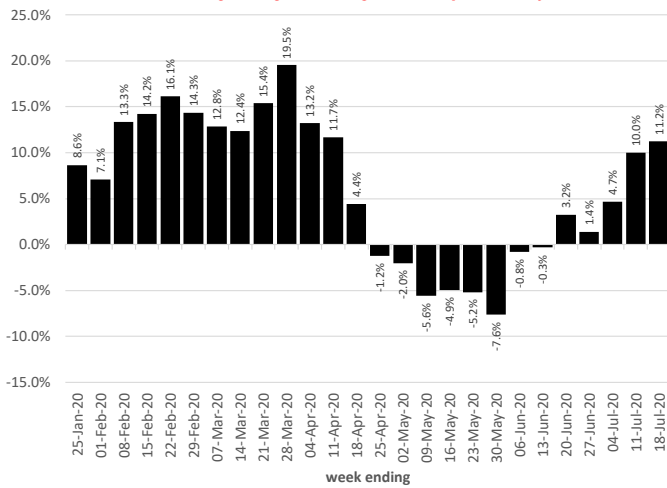
### PROFESSIONAL, SCIENTIFIC & TECH SERVICES (4-week moving average, % change on same period last year)



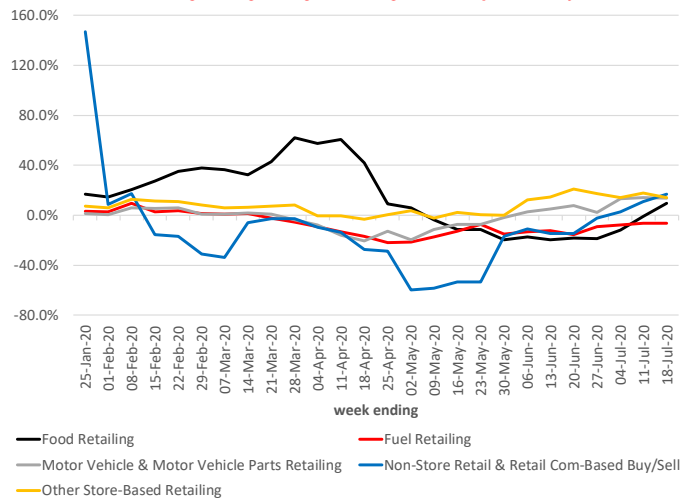
### PROFESSIONAL, SCIENTIFIC & TECH SERVICES (4-week moving average, % change on same period last year)



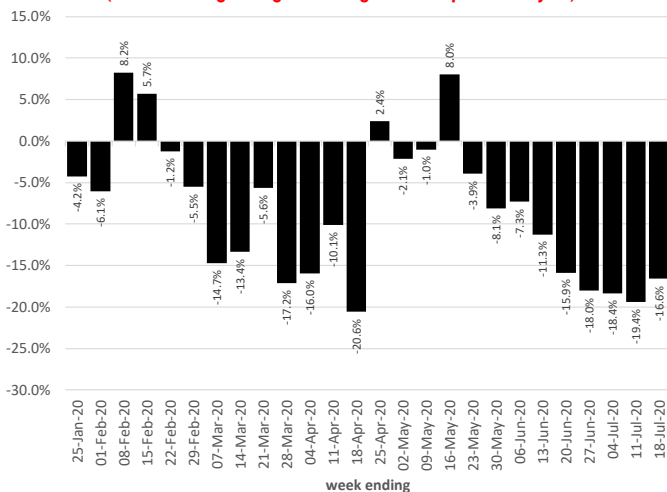
### RETAIL TRADE (4-week moving average, % change on same period last year)



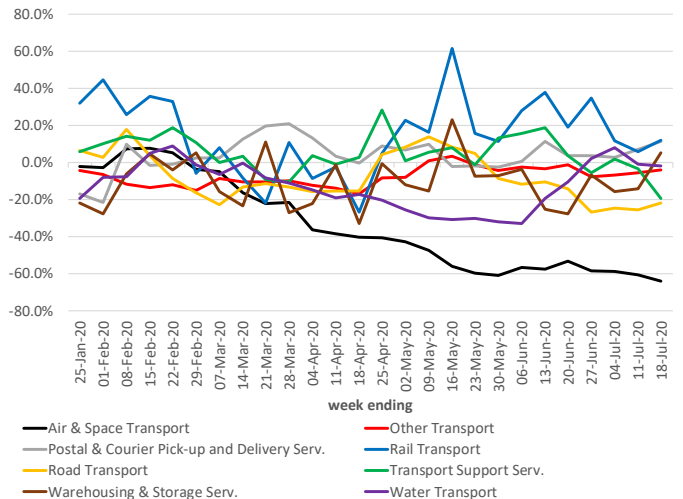
### RETAIL TRADE (4-week moving average, % change on same period last year)



### TRANSPORT, POSTAL & WAREHOUSING (4-week moving average, % change on same period last year)

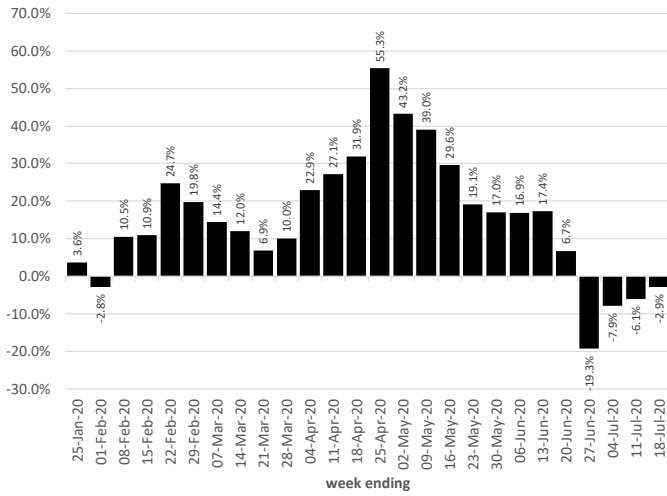


### TRANSPORT, POSTAL & WAREHOUSING (4-week moving average, % change on same period last year)



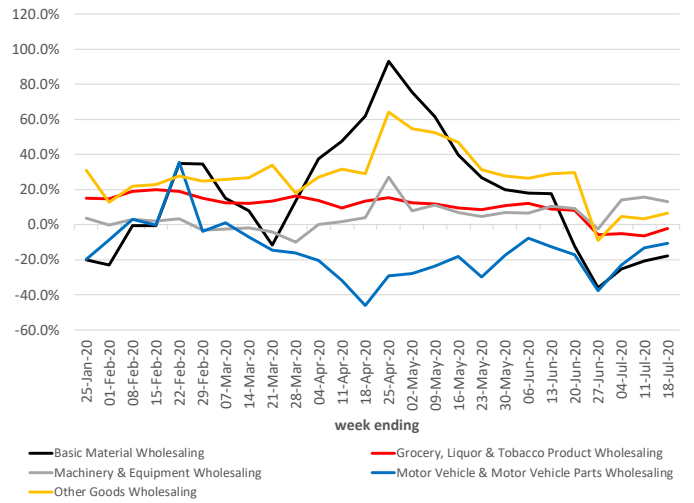
### WHOLESALE TRADE

(4-week moving average, % change on same period last year)



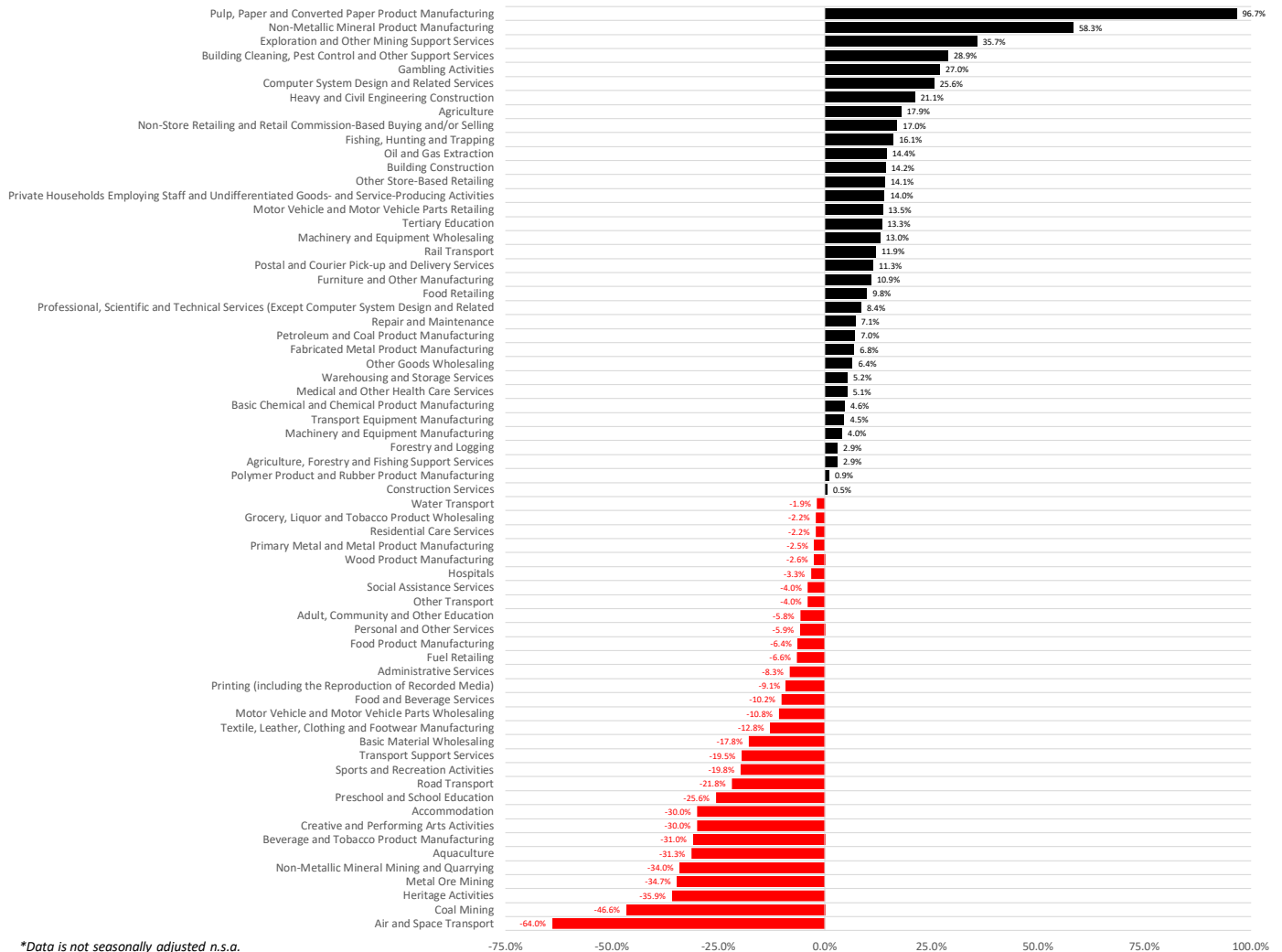
### WHOLESALE TRADE

(4-week moving average, % change on same period last year)



## PAYMENT INFLOWS BY INDUSTRY SUB-DIVISION - RANKED

CHANGE IN PAYMENT INFLOWS INTO NAB MERCHANTS OVER PREVIOUS YEAR  
BY INDUSTRY SUB-DIVISION - WEEK ENDING 18 JULY 2020 (4-WEEK MOVING AVG)\*



\*Data is not seasonally adjusted n.s.a.

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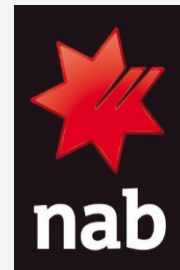
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**EMBARGOED UNTIL: 11:30AM AEST, 23 JULY 2020**

# **NAB QUARTERLY BUSINESS SURVEY 2020 Q2**

## **CONDITIONS DETERIORATE SHARPLY, CONFIDENCE AT LOW LEVELS**



### *NAB Australian Economics*

The Q2 survey – conducted after the April trough in activity – shows a significant deterioration in both current conditions as well as expected outcomes for activity, capex and employment going forward. Current conditions fell to -26 index points – the lowest read since the early 1990s. The weakening was driven by sharp declines across all three sub-indexes and was broad-based across industries. The decline in confidence was more muted, likely reflecting survey timing, with activity starting to recover with the removal of restrictions and easing in lockdowns. The impact of shutdowns is evident in the record decline in capacity utilisation which was also at its weakest level since the last recession. Unsurprisingly given the massive hit to conditions and capacity utilisation, expectations for capex and employment have declined very sharply at both the 3- and 12-month horizons. While we know that conditions and confidence saw a rebound late in the quarter, the level of activity remains weak and confidence may remain fragile. These factors pose a risk to a rebound in hiring and investment intentions going forward and warrant close watching. These risks also warrant ongoing government support for a period while the economy recovers from the largest shock since the 1930s.

## **HIGHLIGHTS**

- The Quarterly NAB Business Survey provides a more in-depth probe into the conditions facing Australian business than the monthly survey, and also examines additional information about how firms perceive the outlook for their industries.
- **Business conditions** (an average of trading conditions/sales, profitability and employment) fell 23pts to -26 index points. The services sectors – including finance, business and property and recreational & personal services – led the decline in business conditions and were the weakest across all industries. Transport & utilities, mining and construction also saw very large decreases. The decline in conditions was broad-based across the mainland, while Tasmania saw an improvement in the quarter.
- **Business confidence** was 3pts lower at -15 index points. The decline in confidence was led by large falls in construction and mining. Retail, wholesale and rec & personal saw reasonable increases in the quarter, while all other industries fell. Confidence is now weakest in construction and mining while retail and wholesale are least pessimistic.
- **Leading indicators** saw a broad and significant deterioration in the quarter. Expected business conditions were sharply lower at both the 3- and 12-month horizons. Forward orders fell sharply and were deeply negative. Unsurprisingly given the outlook for activity, employment and capex intentions also saw very sharp deteriorations in the quarter. With capacity utilisation also at a very low level, there will need to be a significant improvement in activity and the outlook before firms seek to expand both employment and capex.
- **Labour indicators** point to a large deterioration in the labour market. The employment index recorded its largest ever fall and was at a very low level. In addition, employment expectations at the 3 and 12-month horizons also deteriorated sharply and suggest an extended period of weakness. The increase in unemployment was reflected in a large decline in the share of firms reporting difficulty in finding suitable labour – driven by large declines in the shares reporting both minor and significant difficulties in finding suitable labour.
- Survey measures of **inflation pressures are weak**. Final product prices saw a deflation in the quarter while purchase cost growth also slowed. Labour costs saw a large decline in the quarter – likely reflecting the overall decline in employment. Overall, the survey continues to point to very soft inflation outcomes.
- All **construction industry sub-sectors** saw a further deterioration in conditions. Non-residential building was weakest, followed by engineering. However, residential and construction services were also in negative territory.

**TABLE 1: KEY QUARTERLY BUSINESS STATISTICS**

	2019q4	2020q1	2020q2		2019q4	2020q1	2020q2
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	-3	-12	<b>-15</b>	Trading	5	-1	<b>-24</b>
Business conditions				Profitability	2	-8	<b>-24</b>
Current	3	-3	<b>-26</b>	Employment	3	-1	<b>-28</b>
Next 3 months	6	-4	<b>-22</b>	Forward orders	-2	-7	<b>-27</b>
Next 12 months	16	7	<b>-18</b>	Stocks	1	-4	<b>-11</b>
Capex plans (next 12)	21	17	<b>-8</b>	Exports	0	-3	<b>-9</b>
	<i>% change</i>						
Labour costs	0.6	0.5	<b>-0.6</b>	Retail prices (% change)	0.3	0.2	<b>0.1</b>
Purchase costs	0.4	0.5	<b>0.2</b>				
Final products prices	0.2	0.1	<b>-0.2</b>	Capacity utilisation rate (%)	81.2	81.5	<b>74.8</b>

All data seasonally adjusted, except purchase costs and exports. This survey was conducted from 19 May to 12 June, covering over 900 firms across the non-farm business sector.

**Next release: 22 October 2020.**

**Contacts: Alan Oster – Chief Economist, Gareth Spence – Senior Economist**

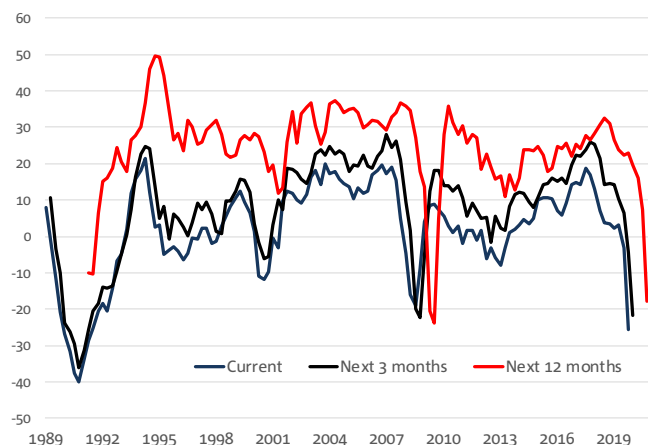
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# QUARTERLY FOCUS: COVID'S IMPACT ON KEY SURVEY EXPECTATIONS

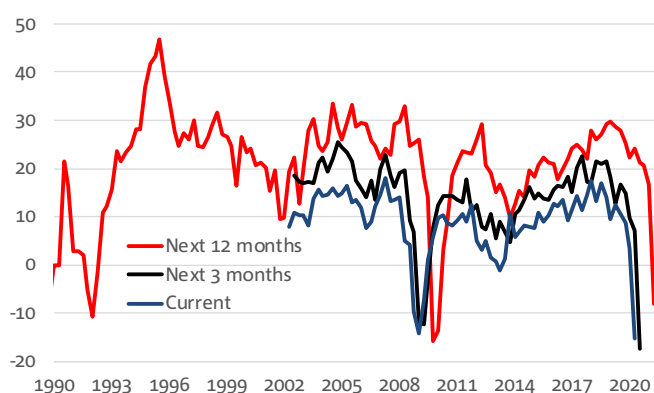
## Business expectations deteriorated significantly in Q2

- In addition to business confidence - the quarterly survey provides a read on businesses' expectations for employment, capex and conditions for both the near- and medium-term. These measures provide an important supplement to the confidence reading because while confidence refers to the industry outlook, these measures capture a firm's own plans for their business.
- Based on the monthly surveys, while confidence had already turned (and recovered relatively sharply) by the time the Q2 survey entered the field – expectations for business conditions deteriorated sharply with respect to both the next 3 months as well as over the next year. Both of these reads were last around these levels in the GFC and only previously surpassed in the 1990s recession where conditions had deteriorated over a much longer period of time.
- Capex expectations for the next 3 months are now slightly weaker than the GFC. Expectations over the next 12 months are now as weak as the 1990s recession but not as low as the level reached in the GFC.
- Expected employment has deteriorated sharply but remains above the level seen in the GFC and well above the levels seen in the 1990s recession. Nonetheless, it points to a sharp deterioration in labour market conditions.
- Other indicators including forward orders and their expectations and capacity utilisation remain at very low levels. This is in line with the weak outlook for activity and suggests there needs to be a large turnaround in economic conditions (and consumer demand) before capex and employment intentions will recover.
- The rise in confidence late in the quarter is a welcome development but it is likely that this will remain fragile. The June monthly survey was conducted prior to the second round of lockdowns in Victoria and with other expectations remaining very weak, there may be a pullback in confidence going forward.
- With the outlook for both capex and employment very weak, we think that the business sector will require ongoing government support. Policy makers will need to ensure that both households and businesses see the support they need to recover to full capacity as well as focus on longer term structural reforms to enable growth going forward.

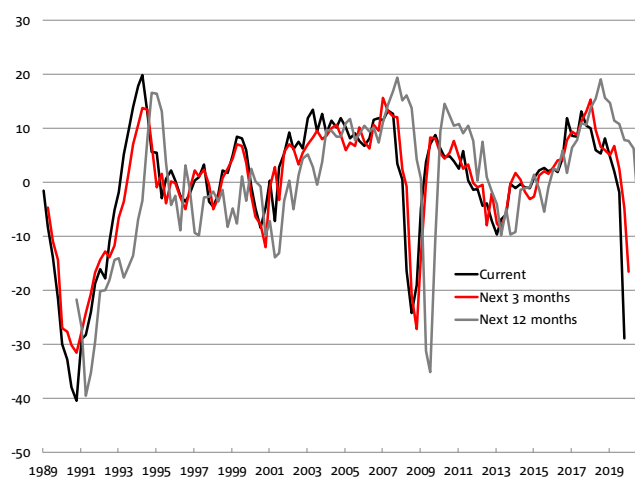
### CHART 1: EXPECTED CONDITIONS (NET BAL.)



### CHART 2: EXPECTED CAPEX (NET BAL.)



### CHART 3: EXPECTED EMPLOYMENT (NET BAL.)



# NAB QUARTERLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 4: BUSINESS CONDITIONS & CONFIDENCE (NET BALANCE S.A.)

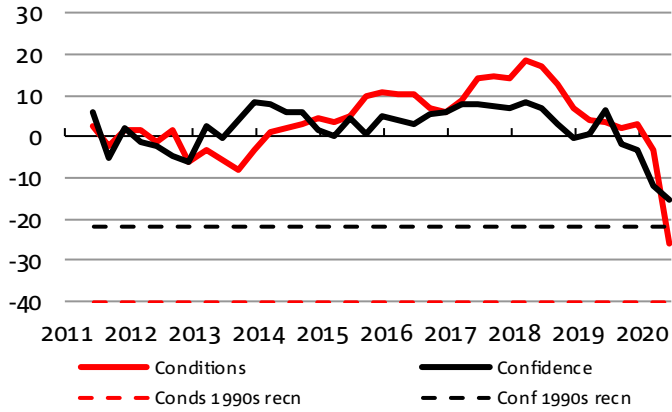
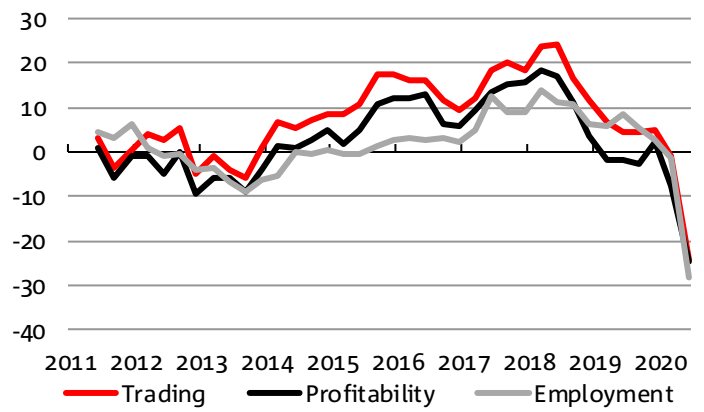


CHART 5: BUSINESS CONDITIONS COMPONENTS (NET BALANCE, S.A.)



## DRIVERS OF BUSINESS CONFIDENCE

CHART 6: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE

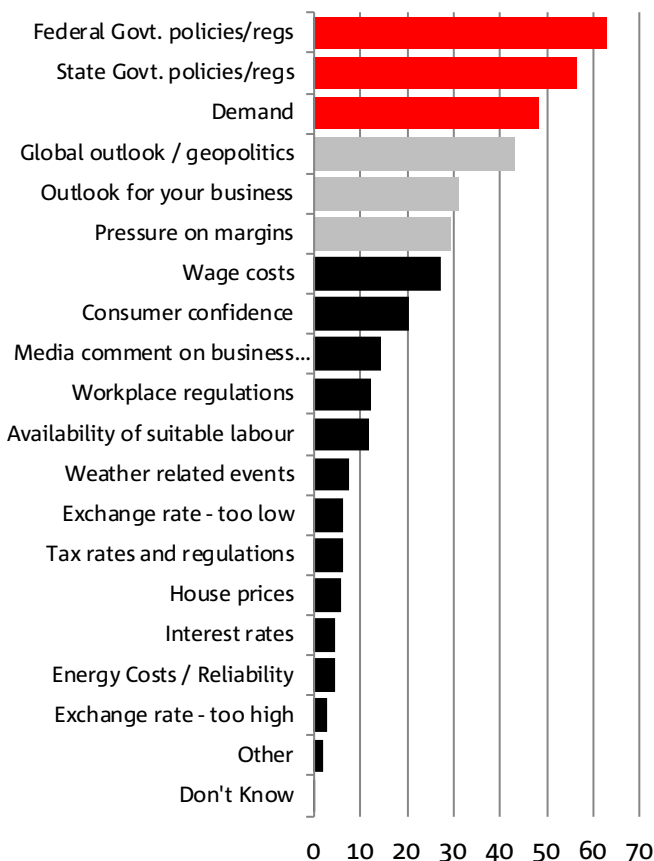


CHART 7: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – DETERIORATING CONDITIONS

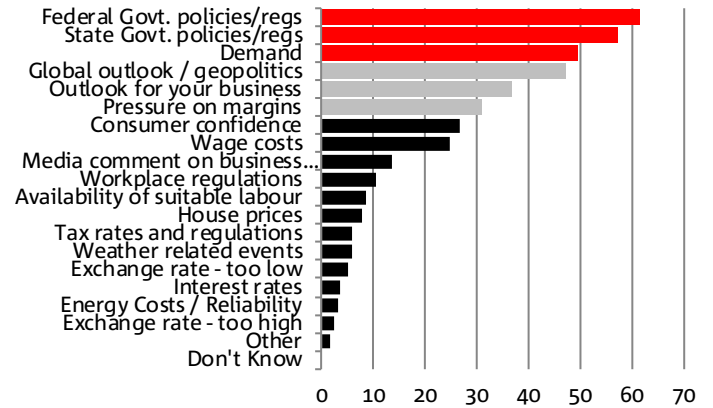
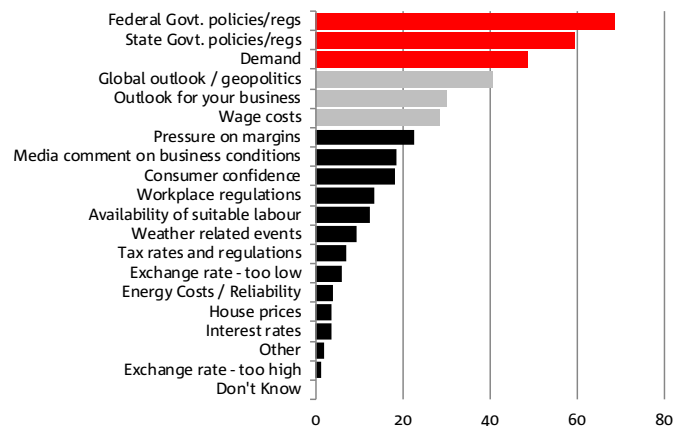
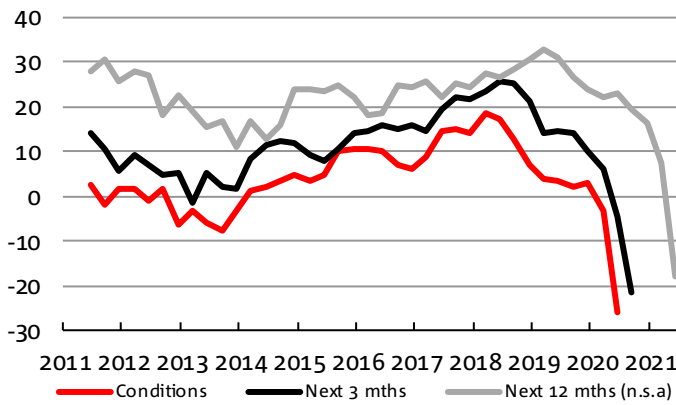


CHART 8: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – IMPROVING CONDITIONS

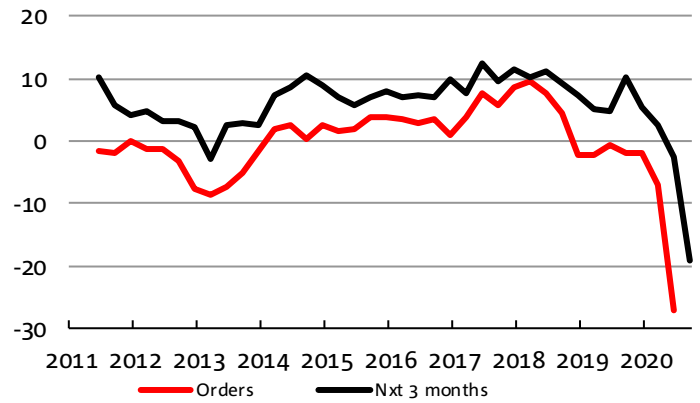


# NAB QUARTERLY BUSINESS SURVEY – LEADING INDICATORS & INVESTMENT

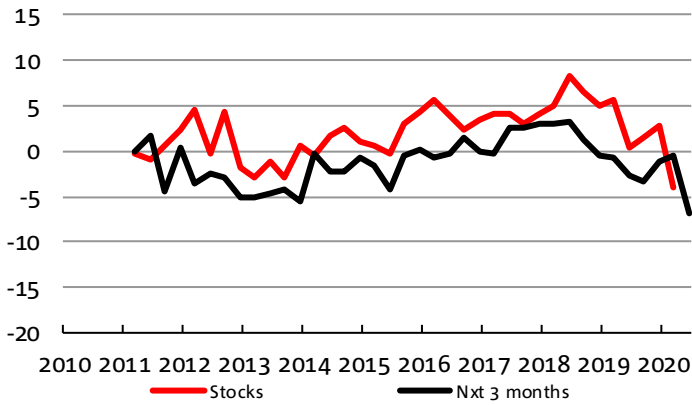
**CHART 9: BUSINESS CONDITIONS AND EXPECTATIONS (NET BALANCE)**



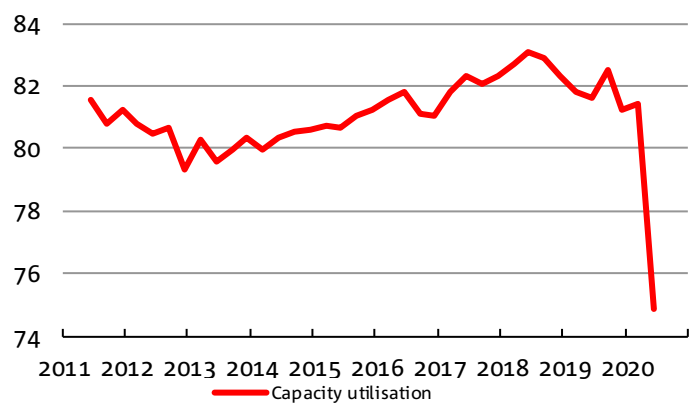
**CHART 10: FORWARD ORDERS & EXPECTATIONS (NET BALANCE S.A.)**



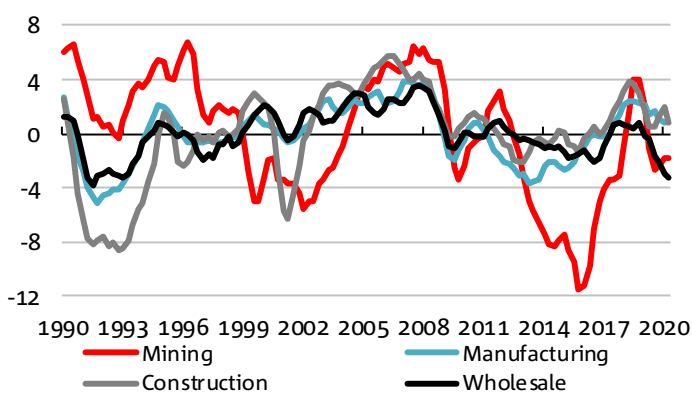
**CHART 11: STOCKS (NET BALANCE S.A.)**



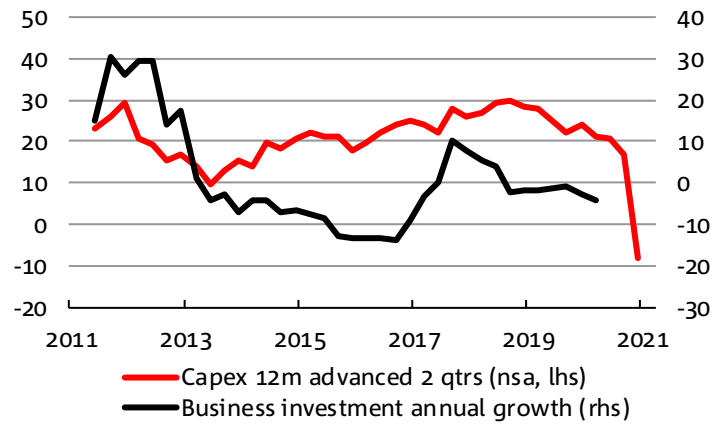
**CHART 12: CAPACITY UTILISATION (PER CENT, S.A.)**



**CHART 13: CAPACITY UTILISATION (PPT DEVIATION FROM LONG-RUN AVERAGE, 3 QTR MA)**

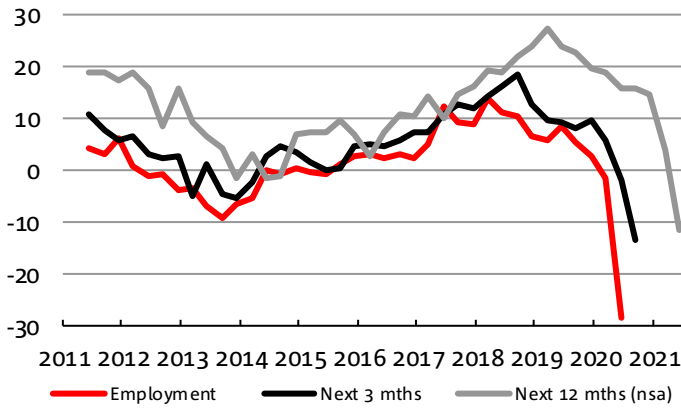


**CHART 14: BUSINESS INVESTMENT & CAPEX PLANS**

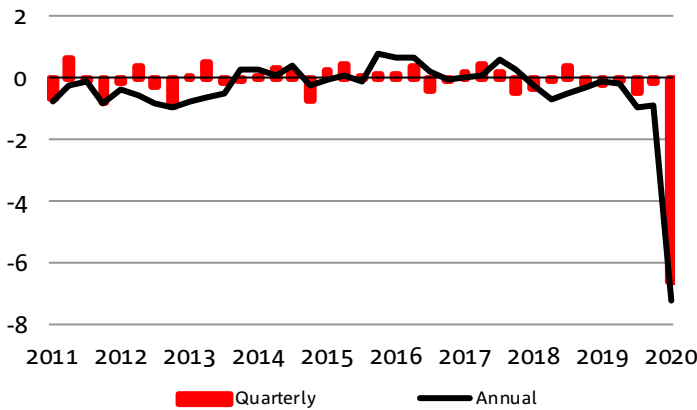


# NAB QUARTERLY BUSINESS SURVEY – LABOUR MARKET

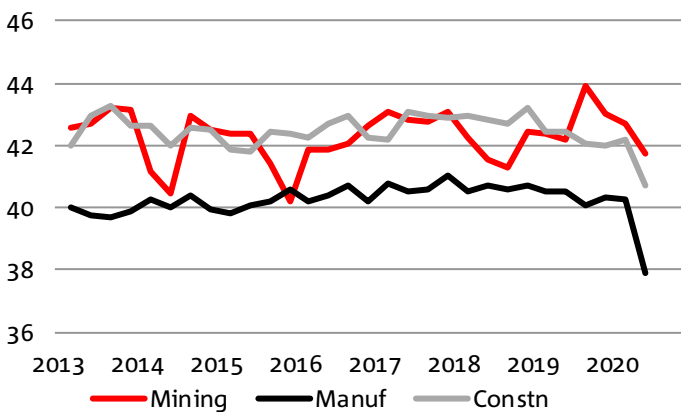
**CHART 15: EMPLOYMENT & EXPECTATIONS (NET BALANCE)**



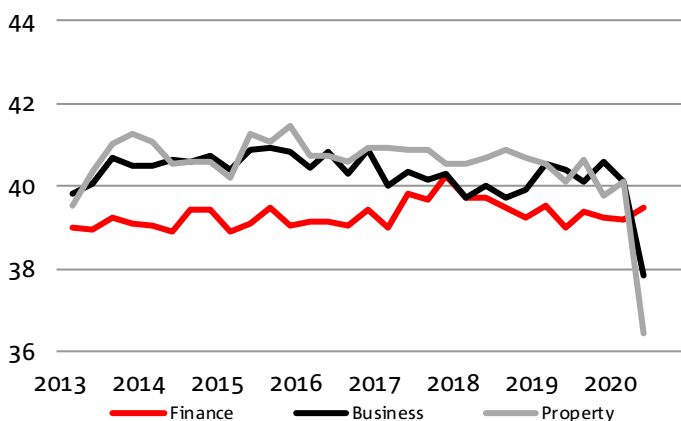
**CHART 17: CHANGE IN AVERAGE HOURS WORKED (NSA)**



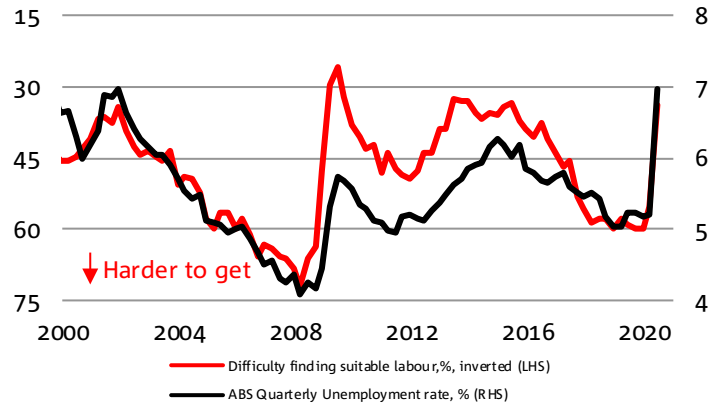
**CHART 19: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



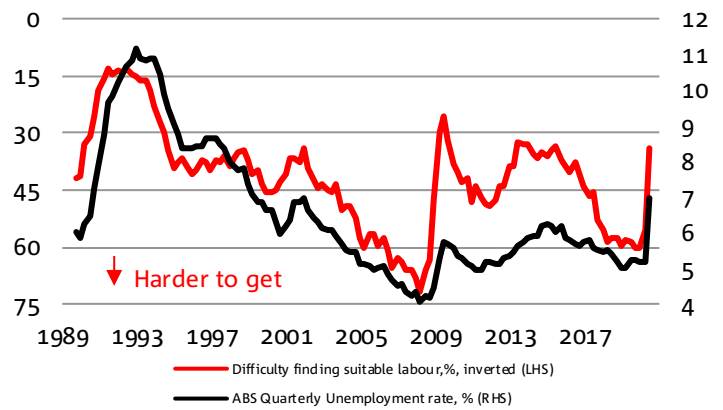
**CHART 21: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



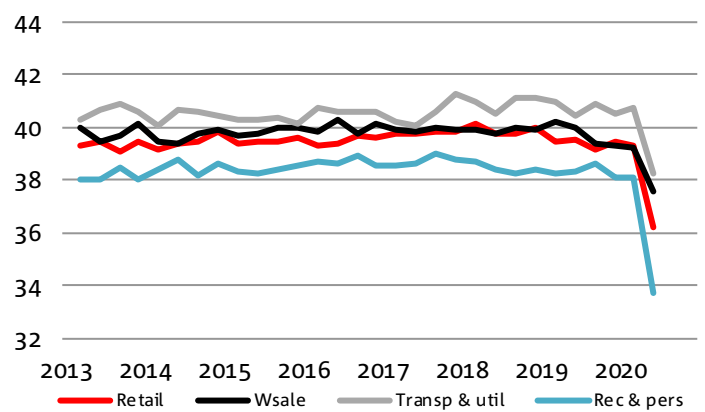
**CHART 16: UNEMPLOYMENT RATE & LABOUR CONSTRAINTS**



**CHART 18: UNDERUTILISATION RATE & LABOUR CONSTRAINTS**



**CHART 20: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



# NAB QUARTERLY BUSINESS SURVEY - MAJOR CONSTRAINTS ON FIRM OUTPUT

CHART 22: MAIN CONSTRAINTS ON FIRM OUTPUT

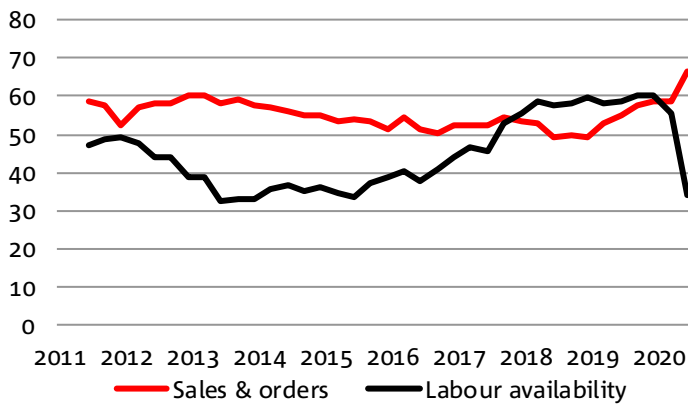
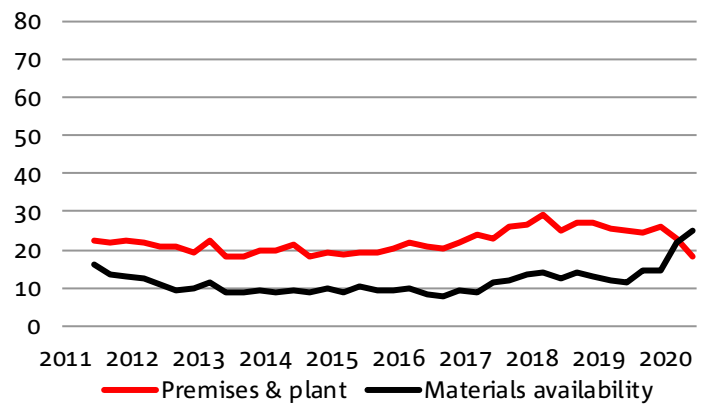


CHART 23: MAIN CONSTRAINTS ON FIRM OUTPUT



## INFLATION PRESSURES

CHART 24: PRICES (% ANN, SA)

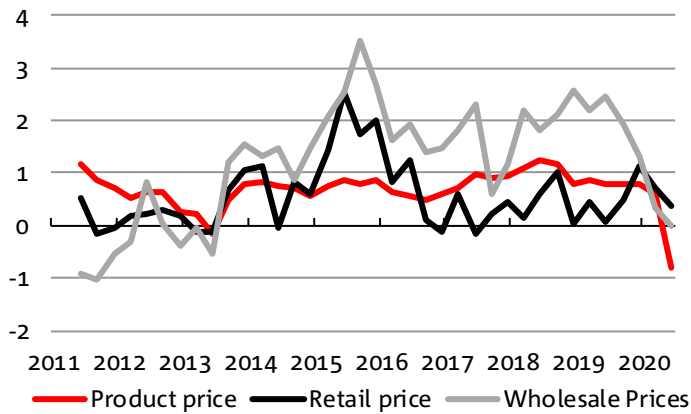
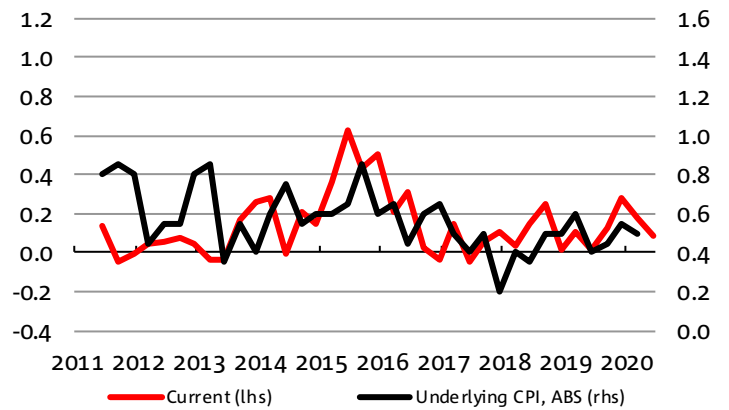


CHART 25: RETAIL PRICES (% P.Q.)



## LABOUR COSTS (DETAILS)

CHART 26: LABOUR COSTS & COMPENSATION OF EMPLOYEES

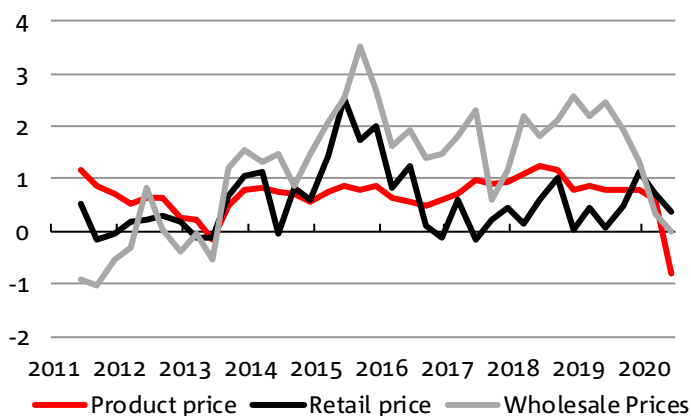
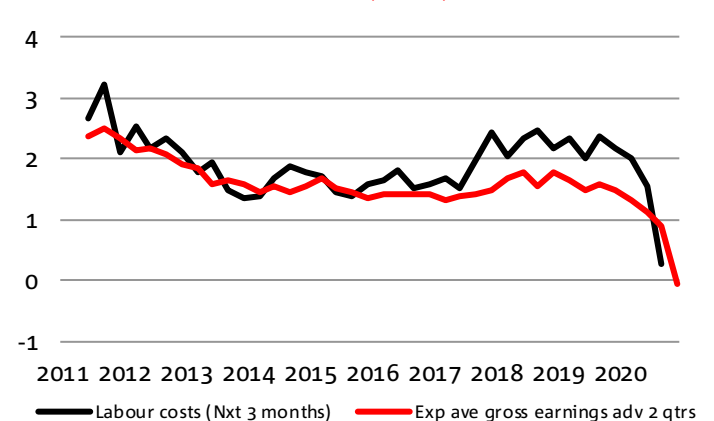


CHART 27: EXPECTED LABOUR COSTS (% ANN)



# NAB QUARTERLY BUSINESS SURVEY – CONSTRUCTION INDUSTRY DETAILS

CHART 28: BUSINESS CONDITIONS BY INDUSTRY

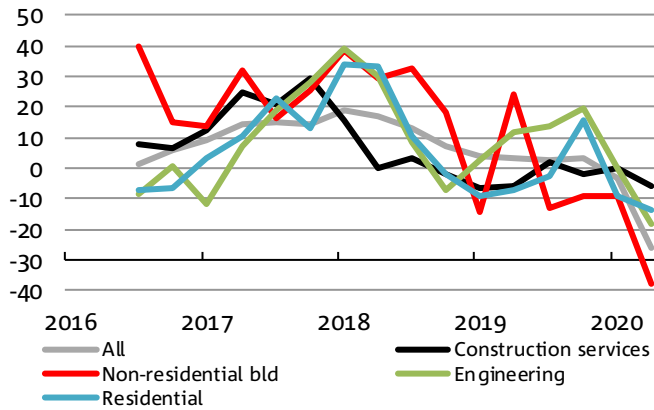


CHART 29: BUSINESS CONFIDENCE BY INDUSTRY

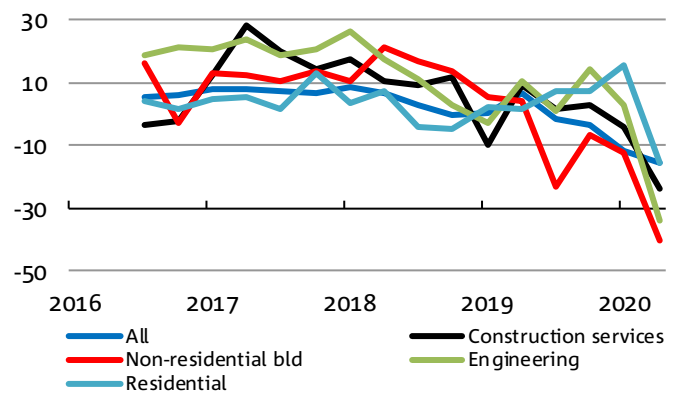


CHART 30: EMPLOYMENT CONDITIONS BY INDUSTRY

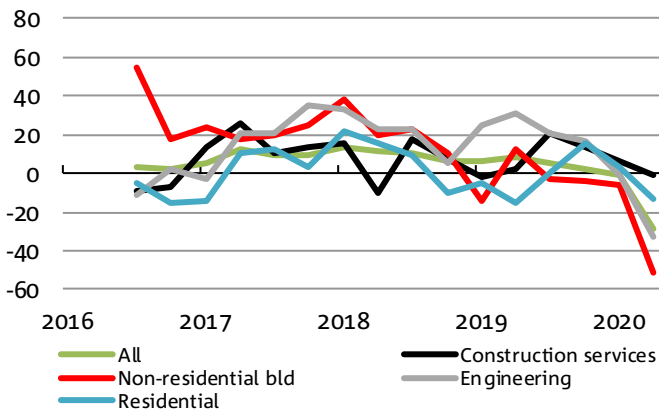
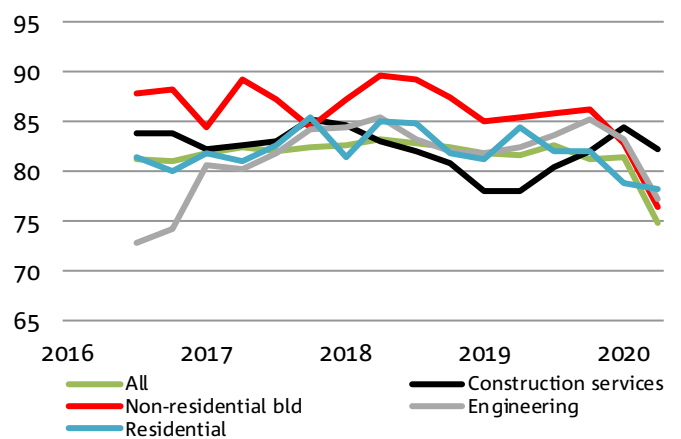


CHART 31: CAPACITY UTILISATION BY INDUSTRY

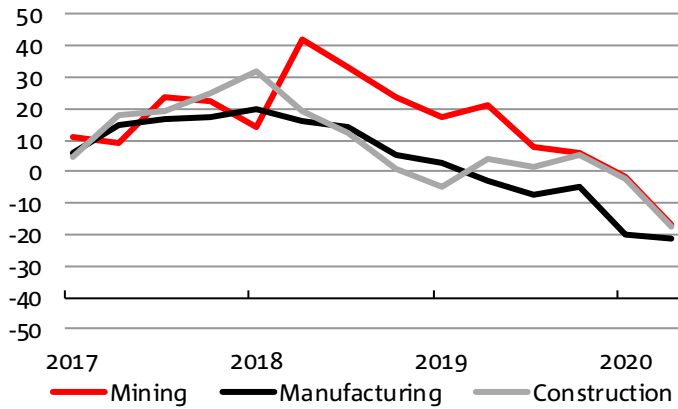


## FINANCIAL MARKET EXPECTATIONS

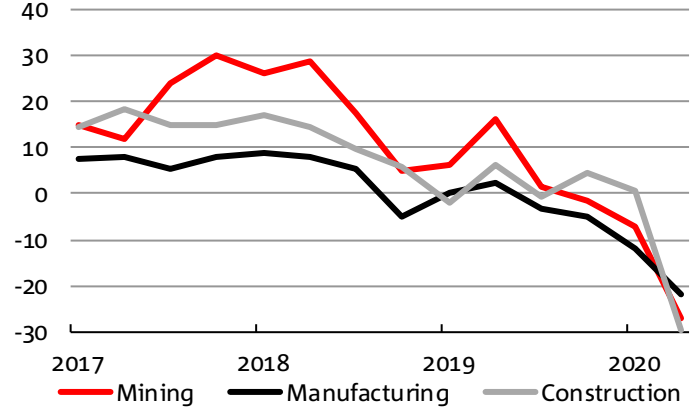
- The survey was conducted following the RBA cut in the cash rate to 0.25% and the introduction of the 3-year yield curve target. Since then the cash rate has traded below the 0.25% target while yields on 3-year government bonds have also traded around this level. Interest rates for both households and business are currently at very low levels. Around 70% of respondents expect short-term interest rates to remain unchanged from here. NAB economics expects the cash rate to remain unchanged for an extended period (in addition to the yield curve target). The RBA has suggested the yield curve target will be removed before the cash rate target is lifted – but that this will not occur until progress has been made on the RBA mandate of full-employment and inflation of 2-3% over the cycle. Our forecasts for the labour market, growth and inflation point to easy policy for an extended period, with the cash rate unchanged until at least the end of 2020.
- Exchange rate expectations in the Survey (6-months-ahead) were slightly softer than the previous survey with respondents expecting the currency to track at just over US67 over the next 6 months. This is broadly consistent with the prevailing exchange rate at the time of the survey which had picked up from the lows seen in mid-April. Since then the currency has appreciated somewhat and has tracked well above US70c in recent days. NAB Economics forecasts the currency to finish 2020 at US72c before rising to US75c by end-2021 and US78c by end-2022.

# NAB QUARTERLY BUSINESS SURVEY – MORE DETAILS ON INDUSTRY

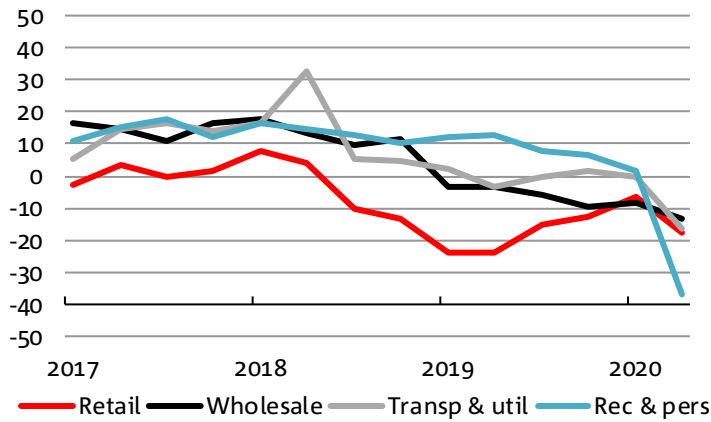
**CHART 32: BUSINESS CONDITIONS BY INDUSTRY**



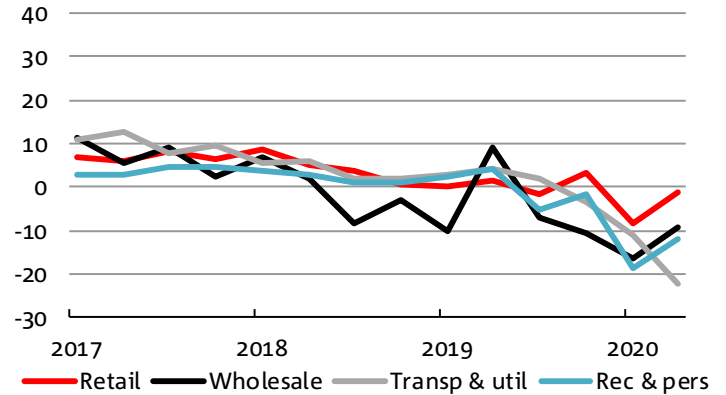
**CHART 35: BUSINESS CONFIDENCE BY INDUSTRY**



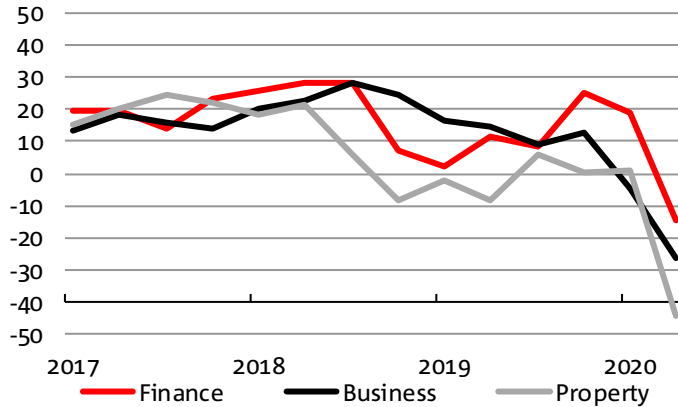
**CHART 33: BUSINESS CONDITIONS BY INDUSTRY**



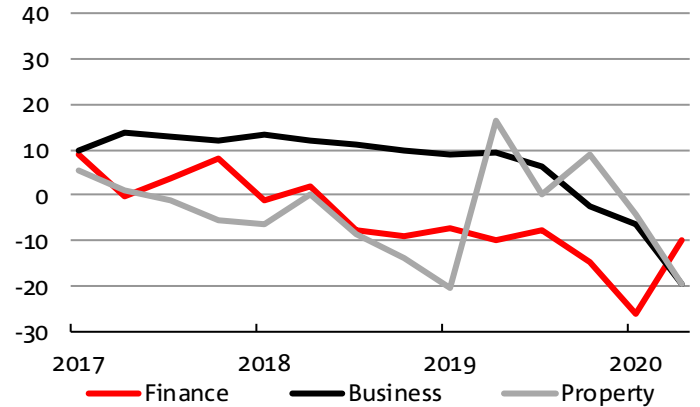
**CHART 36: BUSINESS CONFIDENCE BY INDUSTRY**



**CHART 34: BUSINESS CONDITIONS BY INDUSTRY**



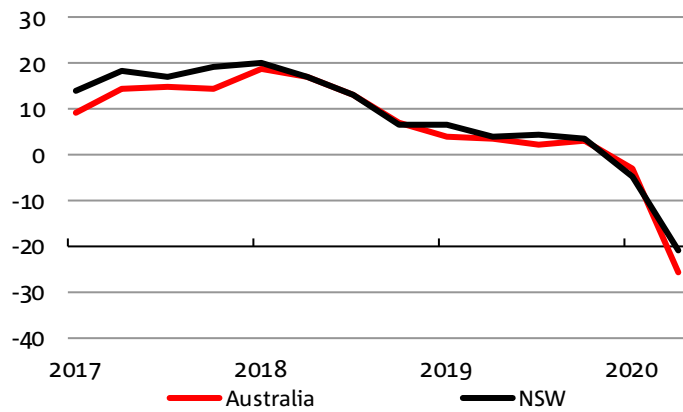
**CHART 37: BUSINESS CONFIDENCE BY INDUSTRY**



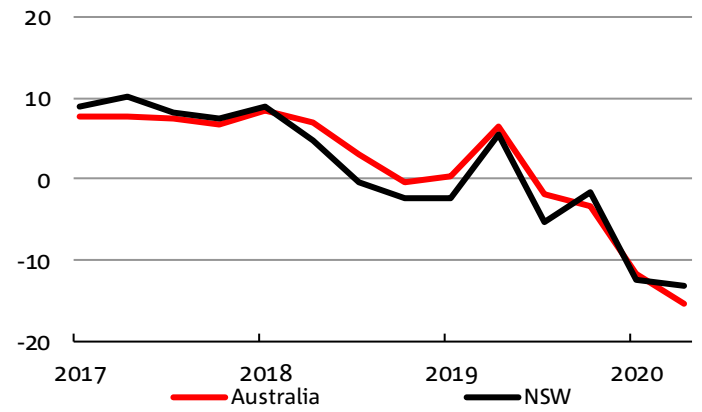


# NAB QUARTERLY BUSINESS SURVEY – FURTHER DETAILS BY STATE

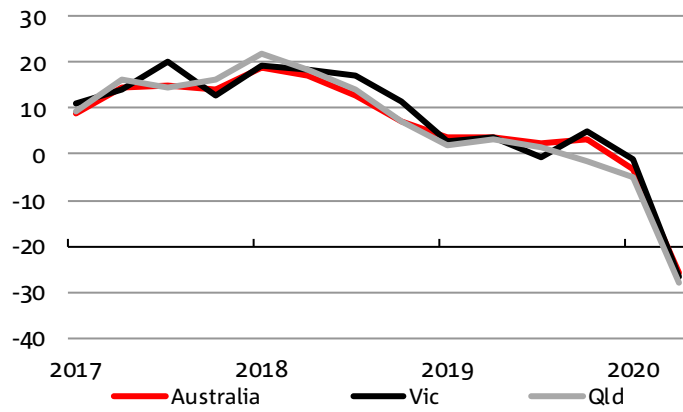
**CHART 38: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)**



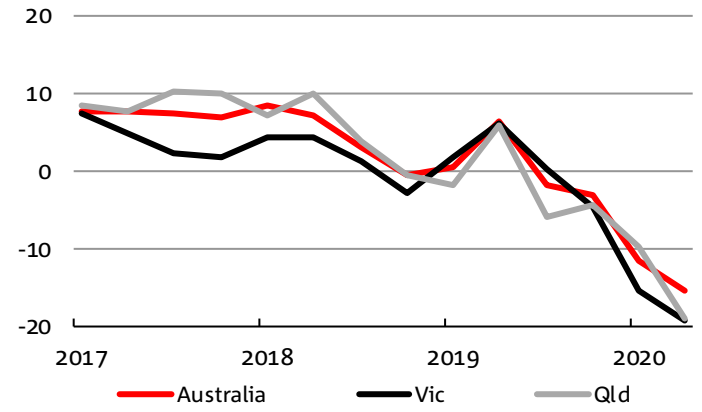
**CHART 41: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)**



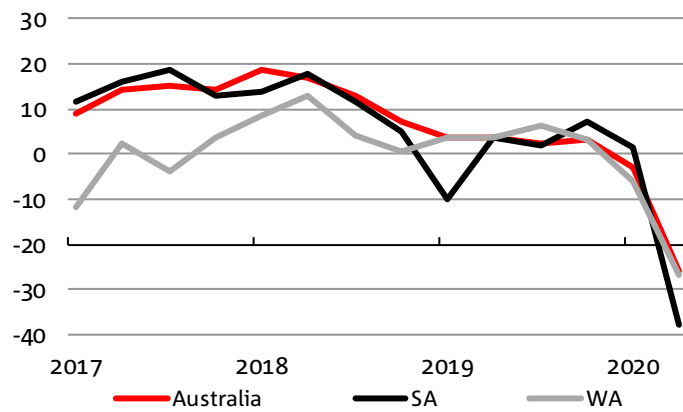
**CHART 39: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)**



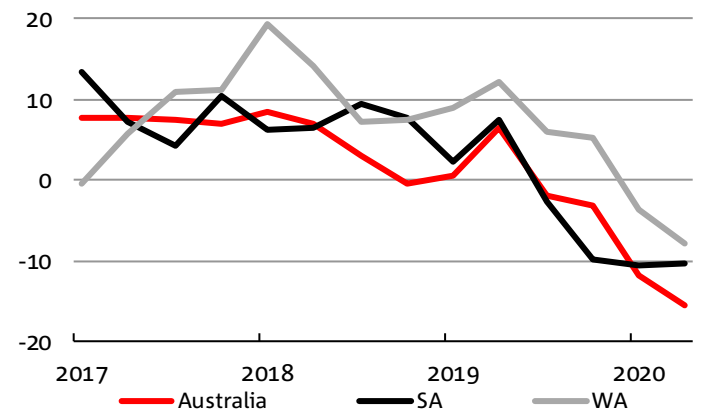
**CHART 42: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)**



**CHART 40: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)**



**CHART 43: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)**



# NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX

	Quarterly					Monthly				
	2019q2	2019q3	2019q4	2020q1	2020q2	2020m2	2020m3	2020m4	2020m5	2020m6
Confidence	6	-2	-3	-12	<b>-15</b>	-2	-65	<b>-46</b>	-20	1
Conditions	4	2	3	-3	<b>-26</b>	0	-22	<b>-34</b>	-24	-7

	Quarterly					Monthly				
	2019q2	2019q3	2019q4	2020q1	2020q2	2020m2	2020m3	2020m4	2020m5	2020m6
Trading	4	4	5	-1	<b>-24</b>	5	-18	<b>-32</b>	-19	-7
Profitability	-2	-3	2	-8	<b>-24</b>	-6	-28	<b>-35</b>	-19	-8
Employment	9	5	3	-1	<b>-28</b>	1	-20	<b>-34</b>	-31	-11

	Quarterly <sup>(a)</sup>					Monthly				
	2020q1	2020q2	2020q3	2021q1	2021q2	2020m2	2020m3	2020m4	2020m5	2020m6
Conditions	-3	<b>-26</b>	NA	NA	NA	0	-22	<b>-34</b>	-24	-7
Conds. next 3m	6	-4	<b>-22</b>	NA	NA					
Conds. nxt 12m	22	23	20	7	<b>-18</b>					
Orders	-7	<b>-27</b>	NA	NA	NA	-5	-28	<b>-36</b>	-29	-9
Orders next 3m	3	-2	<b>-19</b>	NA	NA					

(a) Quarter to which expectation applies. Business conditions next 12 months not seasonally adjusted.

	Quarterly <sup>(a)</sup>					Monthly				
	2019q3	2019q4	2020q1	2020q2	2020q3	2020m2	2020m3	2020m4	2020m5	2020m6
Capacity utilis.	82.5	81.2	81.5	<b>74.8</b>	NA	81.2	75.0	<b>71.8</b>	74.5	76.7
Stocks current	2	1	-4	<b>-11</b>	NA	-5	-8	<b>-12</b>	-9	-6
Stocks next 3m	-3	-1	-1	-7	<b>-7</b>					

(a) Quarter to which expectation applies. All data are seasonally adjusted.

	2019q2	2020q1	2020q2
Constraints on output (% of firms)*			
Sales & orders	54.7	58.8	<b>66.6</b>
Labour	58.9	55.4	<b>34.0</b>
Premises & plant	24.9	23.0	<b>18.2</b>
Materials	11.3	22.1	<b>25.1</b>

\* not s.a.

	Quarterly <sup>(a)</sup>					Monthly				
	2020q1	2020q2	2020q3	2021q1	2021q2	2020m2	2020m3	2020m4	2020m5	2020m6
Empl current	-1	<b>-28</b>	NA	NA	NA	1	-20	<b>-34</b>	-31	-11
Empl next 3m	6	-2	<b>-13</b>	NA	NA					
Empl nxt 12m	19	16	16	4	<b>-12</b>					

(a) Quarter to which expectation applies. Employment conditions next 12 months not seasonally adjusted.

# NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX – STATE TABLES

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2019q2</u>	2019q3	2019q4	2020q1	<b>2020q2</b>	<u>2020m2</u>	2020m3	<b>2020m4</b>	2020m5	<b>2020m6</b>
Business conditions										
NSW	4	4	3	-5	<b>-21</b>	-3	-20	-27	-13	-6
VIC	4	-1	5	-1	<b>-27</b>	2	-25	-38	-24	-10
QLD	3	1	-2	-5	<b>-28</b>	0	-18	-29	-28	-5
SA	4	2	7	1	<b>-38</b>	-3	-20	-50	-32	-18
WA	4	6	3	-6	<b>-27</b>	-1	-19	-40	-36	2

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2019q2</u>	2019q3	2019q4	2020q1	<b>2020q2</b>	<u>2020m2</u>	2020m3	<b>2020m4</b>	2020m5	<b>2020m6</b>
Business confidence										
NSW	5	-5	-2	-12	<b>-13</b>	-5	-62	-41	-18	8
VIC	6	0	-5	-15	<b>-19</b>	-3	-64	-53	-21	-7
QLD	6	-6	-4	-10	<b>-19</b>	-2	-68	-46	-23	0
SA	7	-3	-10	-11	<b>-10</b>	4	-72	-50	-23	-13
WA	12	6	5	-4	<b>-8</b>	7	-73	-44	-17	8

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## APPENDIX: LIST OF SERIES AVAILABLE TO SUBSCRIBERS<sup>^</sup>

### 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.

<sup>^</sup>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)

# AUSTRALIAN MARKETS WEEKLY

## Which states are performing best? And why?



### In this issue

The week ahead	1
Analysis	2
Conclusion	4
Calendar of economic releases	6
Forecasts	7

### Analysis: Which states are performing best? And why?

- The coronavirus has had very large and significantly varying impacts on different businesses and different sectors of the economy with most, but not all, businesses and sectors significantly negatively affected. We'll look at the sectoral impacts in more detail in coming weeks, but this week we thought we would look at how the various Australian states were performing as there are some relative winners and losers emerging, though of course overall there has been a significant net negative impact reflected in sharply higher unemployment across the nation.
- At this stage, it looks like Victoria and the ACT are underperforming, while at the other end of the scale, WA and the NT so far appear to be recovering best.
- Our analysis suggests the tiering of the states reflects a combination of the impacts of: (i) (most importantly) spread/control of the virus (Victoria the worst and the smaller states the best); (ii) reductions in international mobility/the impacts of international border closures (impacting on immigration, international tourism and international students) – NSW and Victoria are relatively the most impacted, along with Canberra/the ACT; (iii) reductions in domestic mobility/working from home – this impacts CBDs and businesses providing services to CBDs, though some offset is likely through activity picking up in suburban areas. The outperformance of WA and the Northern Territory may also reflect their relatively large exposure to mining and farming, two sectors that relatively have not been hit as hard.

### The week ahead

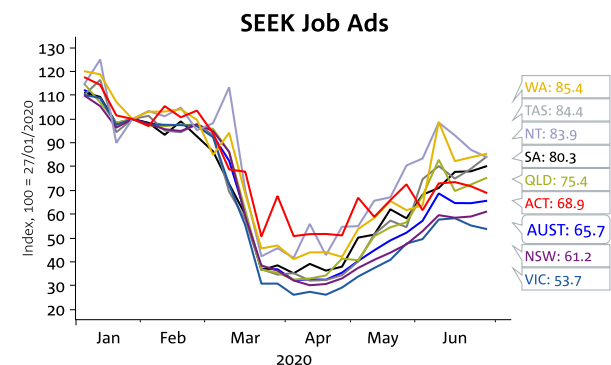
- Australia:** Q2 CPI is on Wednesday and NAB sees Headline CPI falling a sharp 2.0% q/q to -0.4% y/y, consensus also -2.0% q/q, with the fall due to pandemic-related government subsidies, rate/price freezes and a sharp fall in petrol prices. The RBA's preferred underlying Trimmed Mean measure will also be very soft at 0.0% q/q and 1.3% y/y (consensus a touch stronger at 0.1% q/q). Payrolls on Tuesday is likely to garner more focus than usual given today's COVID-19 Household Survey showed a sharp 1% decline in employment. There is also a plethora of other data including Consumer Confidence on Tuesday, Building Approvals on Thursday along with the COVID-19 Business Survey, and finally Credit on Friday.

### Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.7134	1.8	RBA cash	0.13	0
AUD/CNY	4.99	2.1	3y swap	0.22	1
AUD/JPY	75.3	0.2	ASX 200	6,034	0.6
AUD/EUR	0.609	-0.5	Iron ore	105	-1.3
AUD/NZD	1.069	0.2	Brent oil	43.4	0.2

Source: Bloomberg

### Chart of the week: Seek Job Ads by State



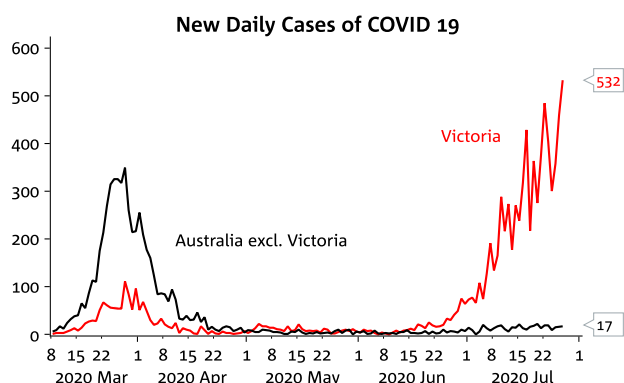
- International:** CH: Official PMIs are on Friday and will be closely watched for whether the tentative strength seen in the non-manufacturing PMI last month continues. US: All focus on a follow up fiscal package. Datawise it is a huge week with the FOMC on Wednesday, Q2 GDP on Thursday and key earnings reports (Facebook on Wednesday, Alphabet, Amazon and Apple all Thursday). Jobless claims will also be watched closely given last week’s worrying rise. EZ: German IFO later today and then Q2 GDP figures on Friday along with a flash Core CPI for July. UK: a quiet week data wise. For full details please see our What to Watch publication.

### Analysis

The root cause of the economic shock Australia (and the world) is facing is from the pandemic and associated consumer and business behaviour and government-mandated shutdowns. It’s not surprising then that the primary cause of the tiering of state economic performance is associated with the direct spread and control of the virus (lockdowns, border closures and other mobility restrictions) – and the associated flow-on impacts to various sectors of the economy.

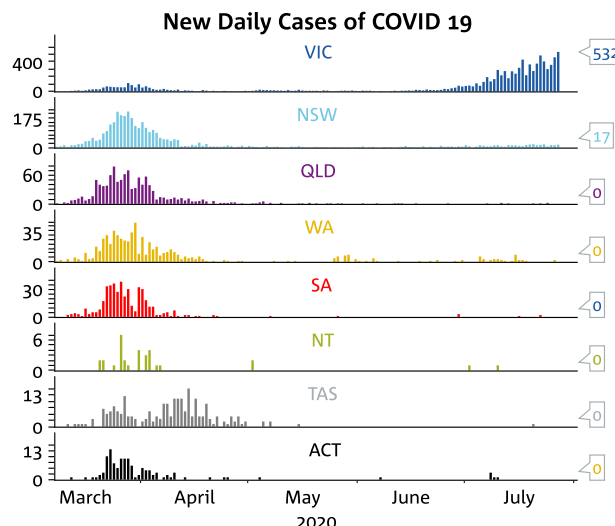
Charts 1 and 2 show that most states and territories were relatively similarly impacted by the first wave of virus spread (with the Northern Territory and the ACT seeing slightly lower relative impacts). The second phase of virus spread in Australia has very much been concentrated in Victoria, Australia’s second-largest state which accounts for around one quarter of national output. There are also a small number of new cases being recorded each day in NSW, but importantly, the NSW Government’s tracking and tracing system appears to be working well, with very few cases of unknown origin (community spread). A significant rise in numbers of unknown origin is understood to be the critical determinant as to whether NSW enters renewed lockdown. Encouragingly, the Victorian Chief Medical Officer noted that their modelling suggested that today was expected to be the peak in new cases in Victoria.

Chart 1: Recent spread in virus concentrated in Victoria



Source: National Australia Bank, government sources gathered by covid19data.com

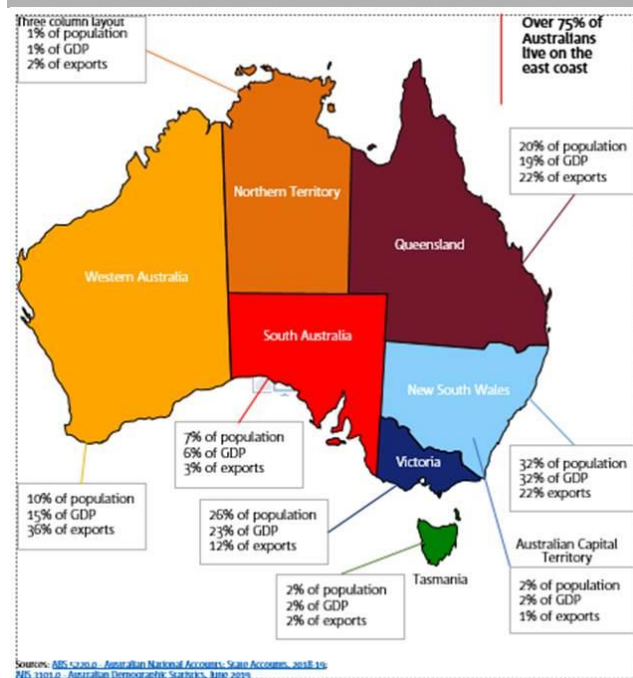
Chart 2: Most states excluding Victoria mostly virus free



Source: National Australia Bank, government sources gathered by covid19data.com

The very low rates of spread in states and territories outside of Victoria, have meant that while Melbourne and the Mitchell Shire have entered renewed lockdown for 6 weeks (impacting around 20% of Australia’s population), much of the rest of Australia has continued to reopen/relax restrictions, though there has been some delay to planned re-openings of borders with Victoria by many states, while NSW has now closed its border to Victoria.

Chart 3: Victoria 23% of GDP, 26% of population

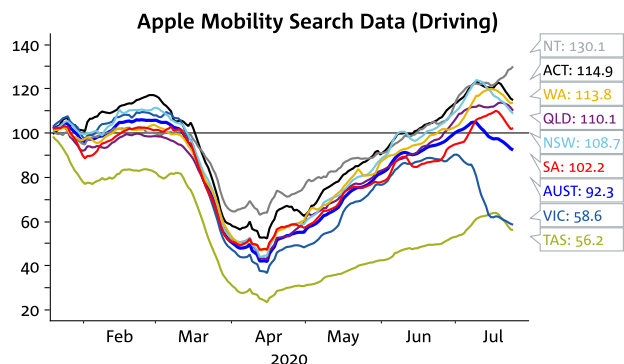


High-frequency data provide some guide to the net impact of the renewed Victorian lockdown, weighed against the continued reopening of other states.

Mobility data show that driving searches have fallen away sharply in Victoria (as is to be expected with renewed lockdown), with searches in NSW and many other states also easing.



Chart 4: Victoria down, but many other states also ease



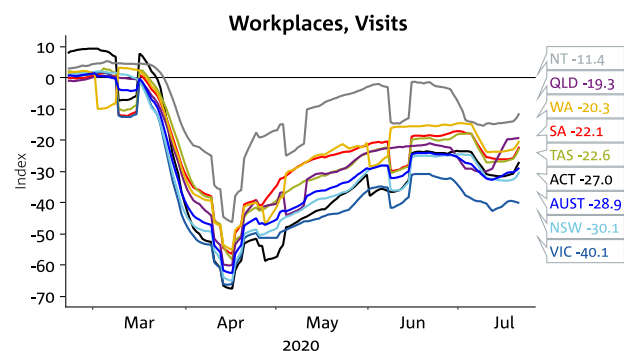
\*Smoothed using a weekly moving average  
Source: National Australia Bank, Apple

This may reflect spillover effects from Victoria (especially to NSW) but also likely reflects the end of school holidays in many states and some easing back in travel after an initial surge as states first came out of lockdowns. It's important to note that these data are not seasonally adjusted and so won't capture school holiday effects and other seasonal impacts such as the peak of winter in Australia.

The data however show that the drag from Victoria's renewed virus spread and associated lockdown has been big enough to drag somewhat on the national economy's recovery, given Victoria's large weight in the national aggregate. However, the improvements in other states provide an important counterbalance that was not present in the previous lockdown cycle.

Google tracking of the number of visits to work locations and retail and recreational establishments, presents a similar picture. Working from home is most prevalent in the large CBD cities of Sydney and Melbourne, though in smaller states with limited virus spread more people have returned to offices, though the levels still seem mostly around 20-25% below pre-virus levels. In the big cities it's more like -40-50%.

Chart 5: Victoria and NSW working from home most

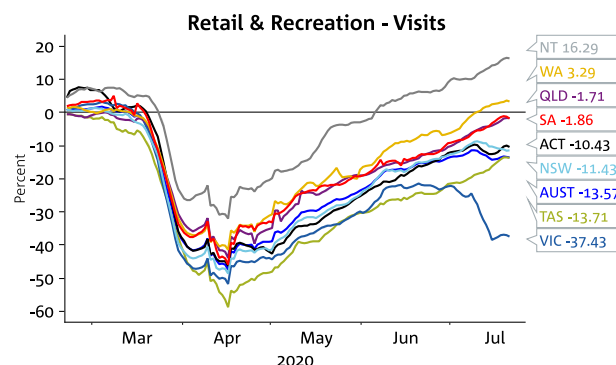


\* Location history is off by default, the user has to turn it on.  
10 points has been subtracted from the data, which is presented as 7 day moving average.  
Source: National Australia Bank, Google (via Macrobond)

On the retail and recreational visitation front, the renewed Victorian lockdown is again taking its toll on retail establishments and accounts for much of the national outcome, though NSW is also relatively subdued, probably reflecting reduced CBD occupancy. Smaller states with little spread of the virus have seen

good recoveries of retail visitation, with the NT and WA above pre-virus levels.

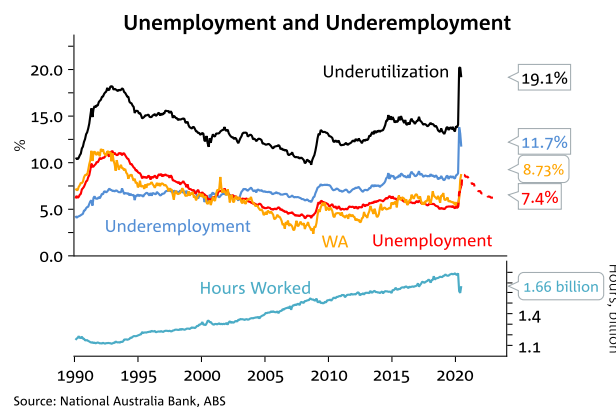
Chart 6: Victorian retail visitation again hard hit



\* Location history is off by default, the user has to turn it on. Data presented as 7 day moving average  
Source: National Australia Bank, Google (via Macrobond)

Labour market indicators have always been a personal favourite indicator of overall economic performance as they effectively aggregate all the competing forces/shocks impacting on the economy. While traditionally labour market indicators have lagged the economic cycle, this shock is more contemporaneous given the speed of the shock and government mandated restrictions. The official labour market data show the very significant impact on hours worked (-10% between March and May before a recovery of 4% in June) and the sharp rise in unemployment and underemployment (the unemployment rate supported at a lower level than otherwise would be the case by the government's JobKeeper scheme).

Chart 7: Labour indicators provide good guide to shock



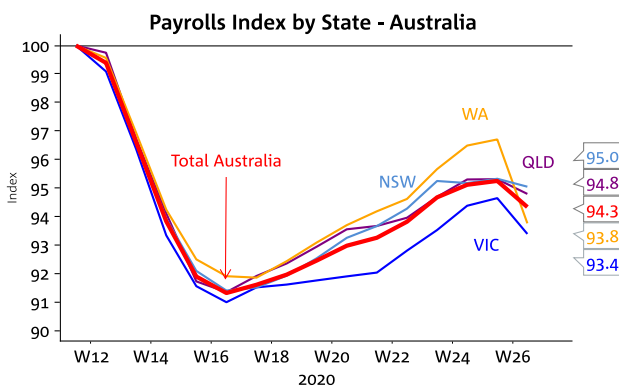
Source: National Australia Bank, ABS

Today's ABS household survey suggests employment may have declined in July, reversing some of the recovery that occurred in June. Several companies did announce employment losses despite the support provided by JobKeeper, though it's possible that some of this reading also reflected school holiday effects, given these high-frequency data are not seasonally adjusted.

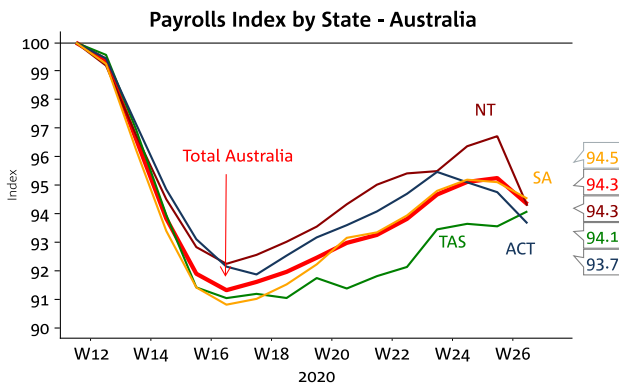
The ABS and SEEK have provided us with some higher-frequency data on the labour market to monitor the impact of the shock on the economy closer to real time. Looking at the charts below, we can see that the new ABS fortnightly payrolls data suggest:

- There wasn't much difference between the state economies in the first phase of virus spread and lockdowns (WA, the ACT and NT slightly outperformed);
- Before the latest fortnight's data, that WA and the NT were relatively clearly outperforming – the other data presented in this article suggest the latest payroll data print for these two areas may be somewhat rogue. We'll watch tomorrow's payrolls update with interest in this regard;
- Victoria and the ACT are underperforming – Victoria most clearly – and of course this data preceded the most recent lockdown – as largely will this week's update;
- NSW and QLD were doing a little better than the national average.

Chart 8: Victoria, ACT underperforming; WA, NT better?



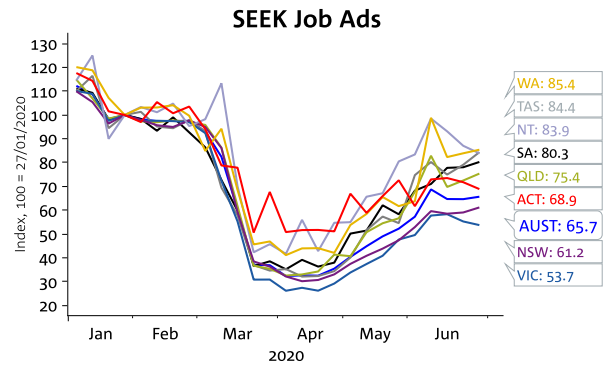
Source: National Australia Bank, ABS



Source: National Australia Bank, ABS

SEEK's fortnightly job ads data for the most part reinforce the messages of the above indicators, showing that labour demand is weakest in Victoria and the ACT, but also is subdued in NSW, which is a little different to the payrolls figures. The smaller states, particularly WA and the NT are outperforming and along with Tasmania, the level of job advertising is only around 15% below pre-covid levels, which is somewhat surprising. SA and QLD are reporting demand for labour 20 and 25% below pre-virus levels, though NSW and Victoria are still 40-45% below pre-virus levels and these data again are before the recent lockdown in Victoria.

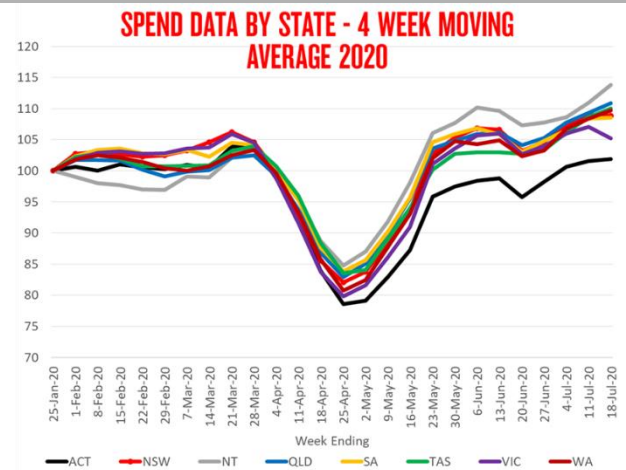
Chart 9: Big states, very weak; smaller not too bad?



Source: National Australia Bank, SEEK

NAB customers' credit and debit card spending data also support the above observations, showing Victoria and the ACT as the weakest performing regions of the country, with the Northern Territory outperforming and not much difference between the other states. It's worth pointing out that overall spending is above pre-covid levels likely reflecting a combination of a switch from using cash to cards; some pent-up demand after the April/early May lockdown; and the significant level of government support payments at the present time.

Chart 10: Vic and ACT weakest, NT outperforming



## Conclusion

A range of data suggest underperformance of Victoria and the ACT and outperformance by the NT and WA, with other smaller states where there is very little spread in the virus also showing better recoveries to date. The messages are somewhat obvious – the states with close to zero cases/least spread can reopen quickest and have their economies least affected by the pandemic in the short term. The renewed spread in Victoria and associated lockdown is producing a re-run of previous events, though not quite as large, given the whole state is not in stage III lockdown.

It will of course be interesting to see the level of activity that the state economies with little spread return to after most restrictions are lifted – this will be lower than previously given international borders remain closed,

limiting immigration, international tourism and international student flows, though hopefully there can be some progress in reopening some of these flows with appropriate quarantine either late this year or early next year.

Reflecting the complexity of this shock, a variety of domestic substitution spending is also occurring and needs to be considered – people that normally holiday overseas are holidaying within state or spending on renovations or other items. Data for NZ will be interesting to follow in this regard given this economy is effectively virus free and operating without any domestic

restrictions, with only international border and mobility restrictions remaining in place at the current time.

# CALENDAR OF ECONOMIC RELEASES

Country	Economic Confidence	Period	Forecast	Actual	Previous	GMT	AEST	Date
<b>Monday 27 July</b>								
GE	IFO Business Climate	Jul	89.2	--	86.2	7.00	18.00	07/27/2020
US	Durables Ex Transportation	Jun P	3.50%	--	3.70%	11.30	22.30	07/27/2020
US	Cap Goods Orders Nondef Ex Air	Jun P	2.30%	--	1.60%	11.30	22.30	07/27/2020
GE	Retail Sales MoM	Jun	-3.00%	--	13.90%	21.02	08.02	07/27/2020
US	Dallas Fed Manf. Activity	Jul	-4.8	--	-6.1	13.30	00.30	07/28/2020
<b>Tuesday 28 July</b>								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jul-26	--	--	90.7	22.30	09.30	07/28/2020
JN	PPI Services YoY	Jun	0.80%	--	0.80%	22.50	09.50	07/28/2020
AU	Weekly Payroll Jobs and Wages in Australia (for July 11)					0.30	11.30	07/28/2020
UK	CBI Retailing Reported Sales	Jul	-27	--	-37	9.00	20.00	07/28/2020
UK	Nationwide House PX MoM	Jul	--	--	-1.40%	21.04	08.04	07/28/2020
US	Conf. Board Consumer Confidence	Jul	94.8	--	98.1	13.00	00.00	07/29/2020
US	Richmond Fed Manufact. Index	Jul	--	--	0	13.00	00.00	07/29/2020
<b>Wednesday 29 July</b>								
AU	CPI QoQ	2Q	-1.80%	--	0.30%	0.30	11.30	07/29/2020
AU	CPI YoY	2Q	-0.40%	--	2.20%	0.30	11.30	07/29/2020
AU	CPI Trimmed Mean QoQ	2Q	0.20%	--	0.50%	0.30	11.30	07/29/2020
AU	CPI Trimmed Mean YoY	2Q	1.50%	--	1.80%	0.30	11.30	07/29/2020
UK	Mortgage Approvals	Jun	--	--	9.3k	7.30	18.30	07/29/2020
UK	Money Supply M4 MoM	Jun	--	--	2.00%	7.30	18.30	07/29/2020
US	MBA Mortgage Applications	Jul-24	--	--	4.10%	10.00	21.00	07/29/2020
US	Advance Goods Trade Balance	Jun	-\$74.2b	--	-\$74.3b	11.30	22.30	07/29/2020
US	Wholesale Inventories MoM	Jun P	--	--	-1.20%	11.30	22.30	07/29/2020
US	Retail Inventories MoM	Jun	--	--	-6.10%	11.30	22.30	07/29/2020
US	Pending Home Sales MoM	Jun	15.60%	--	44.30%	13.00	00.00	07/30/2020
US	FOMC Rate Decision (Upper Bound)	Jul-29	0.25%	--	0.25%	17.00	04.00	07/30/2020
US	Powell Holds Post-FOMC Meeting Press Conference					17.30	04.30	07/30/2020
<b>Thursday 30 July</b>								
NZ	Building Permits MoM	Jun	--	--	35.60%	21.45	08.45	07/30/2020
JN	Retail Sales MoM	Jun	8.00%	--	2.10%	22.50	09.50	07/30/2020
JN	Japan Buying Foreign Bonds	Jul-24	--	--	¥1065.7b	22.50	09.50	07/30/2020
NZ	ANZ Business Confidence	Jul F	--	--	-29.8	0.00	11.00	07/30/2020
NZ	ANZ Activity Outlook	Jul F	--	--	-6.8	0.00	11.00	07/30/2020
AU	Building Approvals MoM	Jun	-1.30%	--	-16.40%	0.30	11.30	07/30/2020
AU	Private Sector Houses MoM	Jun	--	--	-4.40%	0.30	11.30	07/30/2020
AU	Export Price Index QoQ	2Q	-2.00%	--	2.70%	0.30	11.30	07/30/2020
AU	Import Price Index QoQ	2Q	-3.00%	--	-1.00%	0.30	11.30	07/30/2020
GE	GDP SA QoQ	2Q P	-8.50%	--	-2.20%	5.00	16.00	07/30/2020
GE	Unemployment Change (000's)	Jul	60.0k	--	69.0k	6.55	17.55	07/30/2020
GE	Unemployment Claims Rate SA	Jul	6.50%	--	6.40%	6.55	17.55	07/30/2020
EC	ECB Publishes Economic Bulletin					7.00	18.00	07/30/2020
EC	Economic Confidence	Jul	82	--	75.7	8.00	19.00	07/30/2020
EC	Industrial Confidence	Jul	-18	--	-21.7	8.00	19.00	07/30/2020
EC	Services Confidence	Jul	--	--	-35.6	8.00	19.00	07/30/2020
EC	Consumer Confidence	Jul F	--	--	-15	8.00	19.00	07/30/2020
EC	Unemployment Rate	Jun	7.60%	--	7.40%	8.00	19.00	07/30/2020
GE	CPI EU Harmonized MoM	Jul P	0.00%	--	0.70%	11.00	22.00	07/30/2020
GE	CPI EU Harmonized YoY	Jul P	0.70%	--	0.80%	11.00	22.00	07/30/2020
US	GDP Annualized QoQ	2Q A	-34.00%	--	-5.00%	11.30	22.30	07/30/2020
US	Personal Consumption	2Q A	-37.00%	--	-6.80%	11.30	22.30	07/30/2020
US	Initial Jobless Claims	Jul-25	--	--	1416k	11.30	22.30	07/30/2020
US	Continuing Claims	Jul-18	--	--	16197k	11.30	22.30	07/30/2020
<b>Friday 31 July</b>								
NZ	ANZ Consumer Confidence MoM	Jul	--	--	7.40%	21.00	08.00	07/31/2020
NZ	ANZ Consumer Confidence Index	Jul	--	--	104.5	21.00	08.00	07/31/2020
UK	Gfk Consumer Confidence	Jul F	--	--	-27	22.01	09.01	07/31/2020
JN	Jobless Rate	Jun	3.00%	--	2.90%	22.30	09.30	07/31/2020
JN	Job-To-Applicant Ratio	Jun	1.15	--	1.2	22.30	09.30	07/31/2020
JN	Industrial Production MoM	Jun P	0.90%	--	-8.90%	22.50	09.50	07/31/2020
CH	Composite PMI	Jul	--	--	54.2	0.00	11.00	07/31/2020
CH	Manufacturing PMI	Jul	50.8	--	50.9	0.00	11.00	07/31/2020
CH	Non-manufacturing PMI	Jul	54.5	--	54.4	0.00	11.00	07/31/2020
AU	Private Sector Credit MoM	Jun	-0.10%	--	-0.10%	0.30	11.30	07/31/2020
AU	PPI QoQ	2Q	--	--	0.20%	0.30	11.30	07/31/2020
FR	GDP QoQ	2Q P	-15.60%	--	-5.30%	4.30	15.30	07/31/2020
FR	CPI EU Harmonized MoM	Jul P	-0.20%	--	0.10%	5.45	16.45	07/31/2020
EC	GDP SA QoQ	2Q A	-10.70%	--	-3.60%	8.00	19.00	07/31/2020
EC	CPI Core YoY	Jul P	0.70%	--	0.80%	8.00	19.00	07/31/2020
US	PCE Core Deflator MoM	Jun	0.20%	--	0.10%	11.30	22.30	07/31/2020
US	PCE Core Deflator YoY	Jun	1.00%	--	1.00%	11.30	22.30	07/31/2020
US	Employment Cost Index	2Q	0.60%	--	0.80%	11.30	22.30	07/31/2020
US	MNI Chicago PMI	Jul	43.9	--	36.6	12.45	23.45	07/31/2020
<b>Upcoming Central Bank Interest Rate Announcements</b>								
US, Federal Reserve		Jul 29	0/0.25	0/0.25		0/0.25		
Australia, RBA		Jul 29	0.00	0.00		0.00		
UK, BOE		Aug 4	0.25	0.25		0.25		
New Zealand, RBNZ		Aug 6	0.10	0.10		0.10		
Canada, BoC		Aug 12	0.25	0.25		0.25		
Europe, ECB		Sep 9	0.25	0.25		0.25		
Japan, BoJ		Sep 10	-0.50	-0.50		-0.50		
		Sep 17	-0.10	-0.10		-0.10		

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard Time

# FORECASTS

Economic Forecasts																				
	Annual % change				Quarterly % change															
					2019				2020				2021				2022			
	2019	2020	2021	2022	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Australia Forecasts</b>																				
Household Consumption	1.4	-3.5	3.1	3.0	0.4	0.3	0.1	0.5	-1.1	-6.5	3.7	1.0	0.7	0.9	1.2	0.7	0.6	0.7	0.7	0.8
Underlying Business Investment	-1.7	-20.2	-17.8	5.1	0.8	-0.2	-1.7	-1.5	-1.0	-16.0	-10.1	-7.6	-4.0	1.2	-0.4	1.3	1.7	1.5	1.6	1.6
Residential Construction	-6.9	-16.0	-6.9	17.2	-1.7	-3.5	-0.7	-4.1	-1.7	-10.5	-4.5	-3.8	-2.8	0.9	4.1	4.4	5.0	4.4	3.4	2.5
Underlying Public Spending	4.9	4.7	3.8	3.1	1.1	1.7	1.8	0.4	1.5	1.1	1.0	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Net Exports (a)	0.9	1.9	-0.8	-0.9	0.2	0.6	0.1	-0.1	0.5	2.4	-0.9	-0.2	0.0	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Inventories (a)	-0.2	-0.3	0.6	0.1	0.0	-0.4	0.1	0.2	-0.2	-1.4	1.8	-0.1	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Demand (q/q %)	--	--	--	--	0.3	0.4	0.4	0.2	-0.5	-5.6	1.2	0.1	0.3	0.9	1.1	0.9	0.9	1.0	0.9	0.9
Dom Demand (y/y %)	1.3	-3.6	0.9	3.9	1.2	1.3	1.2	1.3	0.5	-5.5	-4.7	-4.8	-4.1	2.5	2.4	3.2	3.9	3.9	3.8	3.8
Real GDP (q/q %)	--	--	--	--	0.5	0.6	0.6	0.5	-0.3	-4.9	2.7	0.2	0.3	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Real GDP (y/y %)	1.8	-1.8	1.6	2.8	1.7	1.6	1.8	2.2	1.4	-4.1	-2.1	-2.4	-1.9	4.0	2.0	2.5	2.9	2.8	2.8	2.8
CPI headline (q/q %)	--	--	--	--	0.0	0.6	0.5	0.7	0.3	-2.0	1.6	0.7	0.4	0.4	0.3	0.3	0.1	0.3	0.6	0.8
CPI headline (y/y %)	1.6	0.7	1.7	1.3	1.3	1.6	1.7	1.8	2.2	-0.4	0.6	0.5	0.6	3.0	1.7	1.5	1.2	1.0	1.3	1.8
CPI underlying (q/q %)	--	--	--	--	0.2	0.4	0.4	0.4	0.5	0.2	0.4	0.3	0.4	0.4	0.2	0.1	0.1	0.3	0.5	0.6
CPI underlying (y/y %)	1.4	1.5	1.3	0.9	1.4	1.4	1.5	1.4	1.7	1.5	1.5	1.4	1.3	1.5	1.4	1.1	0.8	0.6	0.9	1.5
Private wages (q/q %)	--	--	--	--	0.5	0.5	0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.5
Private wages (y/y %)	2.3	1.8	1.2	2.0	2.4	2.3	2.2	2.2	2.1	1.9	1.6	1.3	1.1	1.0	1.3	1.5	1.8	2.0	2.0	2.0
Unemployment Rate (%)	5.1	7.1	7.4	6.1	5.1	5.1	5.2	5.2	5.2	7.1	8.0	8.1	7.8	7.2	7.5	6.9	6.5	6.2	6.0	5.8
Terms of trade	5.1	-2.9	-1.0	0.9	3.3	1.4	0.2	-5.2	2.9	-2.9	0.3	-0.5	-1.3	0.6	1.3	0.6	-0.1	-0.1	-0.1	-0.1
Current Account (% GDP)	0.6	2.6	1.9	1.1	-0.6	1.0	1.4	0.3	1.7	3.7	2.7	2.4	2.1	2.0	1.9	1.7	1.5	1.2	1.0	0.7

Sources: NAB Group Economics; (a) Contributions to GDP growth

Exchange Rate Forecasts						
	27-Jul	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
<b>Majors</b>						
AUD/USD	0.713	0.70	0.72	0.74	0.74	0.75
NZD/USD	0.67	0.64	0.66	0.67	0.68	0.69
USD/JPY	105.6	109	109	109	109	108
EUR/USD	1.17	1.13	1.15	1.17	1.18	1.19
GBP/USD	1.28	1.27	1.30	1.32	1.33	1.35
USD/CNY	7.00	7.10	7.05	6.95	6.85	6.80
USD/CAD	1.34	1.41	1.39	1.37	1.35	1.30
USD/CHF	0.92	0.97	0.96	0.96	0.95	0.95

Australian Cross Rates						
	27-Jul	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
AUD/NZD	1.07	1.09	1.09	1.10	1.09	1.09
AUD/JPY	75.3	76	78	81	81	81
AUD/EUR	0.61	0.62	0.63	0.63	0.63	0.63
AUD/GBP	0.56	0.55	0.55	0.56	0.56	0.56
AUD/CNY	4.99	4.97	5.08	5.14	5.07	5.10
AUD/CAD	0.95	0.99	1.00	1.01	1.00	0.98
AUD/CHF	0.65	0.68	0.69	0.71	0.70	0.71

Interest Rate Forecasts						
	27-Jul	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
<b>Australian Rates</b>						
RBA cash rate	0.25	0.25	0.25	0.25	0.25	0.25
3 month bill rate	0.10	0.10	0.15	0.20	0.20	0.25
3 Year Swap Rate	0.22	0.15	0.15	0.20	0.20	0.25
10 Year Swap Rate	0.80	0.85	0.95	1.10	1.20	1.35
<b>Offshore Policy Rates</b>						
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25
ECB deposit rate	-0.50	-0.60	-0.60	-0.60	-0.60	-0.60
BoE repo rate	0.10	0.25	0.25	0.25	0.25	0.25
BoJ excess reserves rate	-0.10	-0.20	-0.20	-0.20	-0.20	-0.20
RBNZ OCR	0.25	0.25	0.25	0.25	0.25	0.25
<b>10-year Bond Yields</b>						
Australia	0.89	0.95	1.05	1.15	1.25	1.35
United States	0.59	0.70	0.80	0.90	1.00	1.10
New Zealand	0.83	0.88	1.03	1.28	1.38	1.63

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP			
	2019	2020	2021
Australia	1.8	-1.8	1.6
United States	2.3	-5.9	4.2
Eurozone	1.2	-7.4	5.7
United Kingdom	1.4	-8.2	6.5
Japan	0.7	-6.2	3.0
China	6.1	1.5	9.5
India	4.9	-1.5	8.0
New Zealand	2.3	-7.8	3.0
World	3.0	-3.5	6.0

Commodity prices (\$US)						
	27-Jul	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Brent oil	43.3	45	49	53	55	55
Gold	1933	1725	1725	1750	1775	1800
Iron ore	na	93	87	85	90	80
Hard coking coal*	112	115	120	125	140	135
Thermal coal	57	55	59	59	61	62
Copper	6430	5750	6000	6250	6500	6750
Aus LNG**	10	7	7	7	8	8

\* FOB quarterly contract prices (thermal coal is JFY contract)

\*\* Implied Australian LNG export prices

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# **SUPPORTING ECONOMIC RECOVERY** **WHAT WE CAN DO FOR SMALL BUSINESS**

July 2020

This report has been commissioned by National Australia Bank and prepared by AlphaBeta Australia (part of Accenture).

COVID-19 is having a significant impact on the Australian economy and small business in particular. NAB welcomes the significant and effective action that governments have taken to manage the unprecedented health and economic crisis caused by COVID-19. Measures such as the Federal Government's Coronavirus SME Guarantee Scheme and expansion of the instant asset write-off scheme have been critical to supporting small businesses. In addition to this short-term support for recovery, small businesses also need support to achieve long-term growth in order to kick start Australia's economy.

NAB, Australia's leading business bank, has commissioned this report to generate practical ideas and encourage action to support long-term growth for small business.

AlphaBeta Australia is a strategy and economics firm with offices in Sydney, Canberra and Melbourne. AlphaBeta Australia specialises in combining advanced analytical techniques and innovative data to generate new insights and fresh perspectives on the challenges facing business and government.

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# INTRODUCTION

The importance of small and medium enterprises (SMEs) to a healthy Australian economy cannot be overstated.

They make up 99% of the economy and employ two in every three Australian workers. As they grow, so too does the economy, employment and access to new and diverse marketplaces. Their survival, success and continued growth is critical to every one of us.

SMEs across Australia can be held back by unnecessary burdens that prevent them from spending time on things that can help grow their business. This research sets out, in very simple terms, some suggested solutions to these problems.

Easing the burden of regulation, ensuring big businesses pay their smaller suppliers promptly, and helping SMEs adopt more digital tools that can make them more efficient and competitive are just some of the ways we can boost SMEs in this country.

NAB believes large businesses and governments can lead the way in creating a more level playing field for Australian SMEs by taking urgent action in the areas that matter most. Through ongoing cooperation and coordination across all parts of the economy, Australian SMEs will make an even more meaningful contribution to our nation's future prosperity.



## Small businesses were already facing tough conditions before COVID-19.

The significant impact that COVID-19 has had on the Australian economy has made things even more challenging. Consumption spending has fallen rapidly, particularly in sectors most heavily affected by enforced shutdowns, such as accommodation and food services (down 56% since the start of 2020). This has seen payment inflows into NAB merchants also slow, again with accommodation and food service industries most affected.

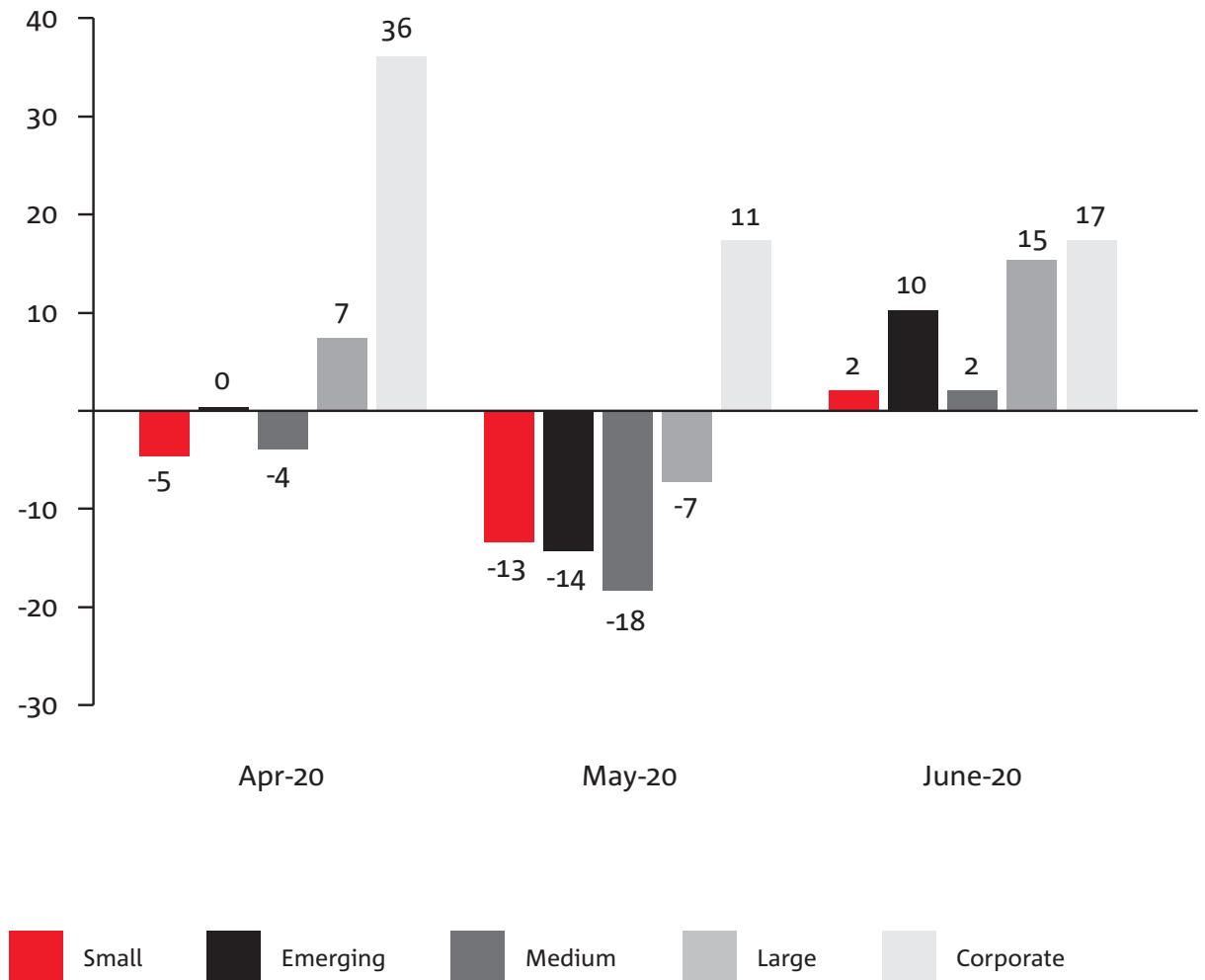
Emerging, small and medium businesses have been most impacted by this slowdown in payment inflows. Small and medium businesses suffered an early hit, dropping around 4% in April. By May, emerging, small and medium businesses had seen falls of between 16-26%, higher than large businesses (which fell by 15%) and corporates, which continued to see payment inflow growth.

After two years of weaker business conditions, and a significant deterioration as a result of COVID-19, small businesses are in urgent need of support to recover and grow into the future.

Given the importance of small businesses to the Australian economy, this support is essential to kick start the economy.

## COVID-19 HAS HAD A SIGNIFICANT IMPACT ON EMERGING, SMALL AND MEDIUM BUSINESSES, WITH LARGE FALLS IN PAYMENT INFLOWS OVER THE LAST THREE MONTHS (%)

Payment inflows into NAB merchants, by business size



# SMALL AND MEDIUM-SIZED BUSINESSES MAKE UP 99% OF ALL BUSINESSES, EMPLOY TWO-THIRDS OF ALL WORKERS AND PRODUCE HALF OF ALL OUTPUT



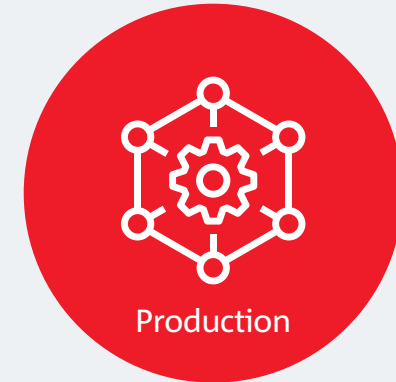
**99%**

of all Australian businesses  
(2.1<sup>1</sup> million) are SMEs



**2 IN 3**

of Australian jobs and 76% of  
all new jobs in 2018 in SMEs<sup>2</sup>



**56%**

of total production  
(\$2tn in income) from SMEs

**Definitions:** Small firms have fewer than 20 workers while medium-sized firms have between 20 and 200 workers. For simplicity, this report uses the terms “small business” and “small and medium enterprises” interchangeably unless specified.

The contribution of SMEs varies by sector. Over half of small businesses operate in construction, professional services, hospitality, retail trade or health. 8 in 10 workers in the first three of these sectors are employed by small business. Small business is even more dominant in agriculture and real estate, responsible for over 90% of all employment.

<sup>1</sup> Excluding self-managed superannuation funds.

<sup>2</sup> There were approximately 11 million jobs in the Australian economy in 2018, with approximately 330,000 new jobs created that year.

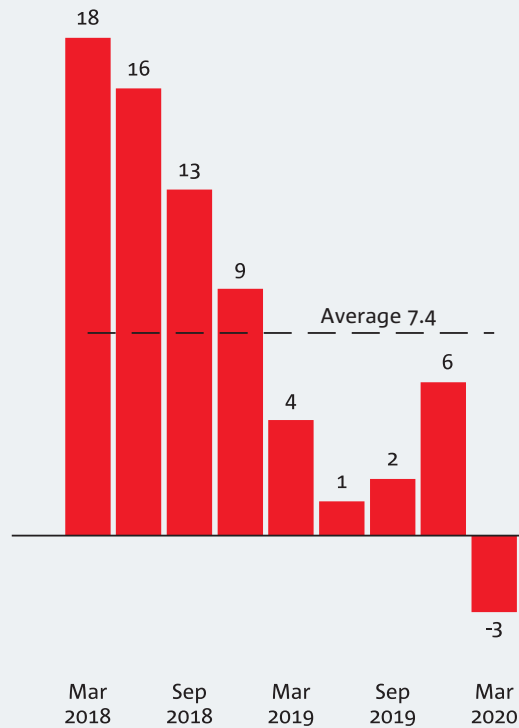
Source: ABS 8165, ABS 8155, ATO, AlphaBeta analysis

# SMALL AND MICRO BUSINESSES HAVE CONSISTENTLY FACED WEAKER BUSINESS CONDITIONS OVER THE LAST TWO YEARS

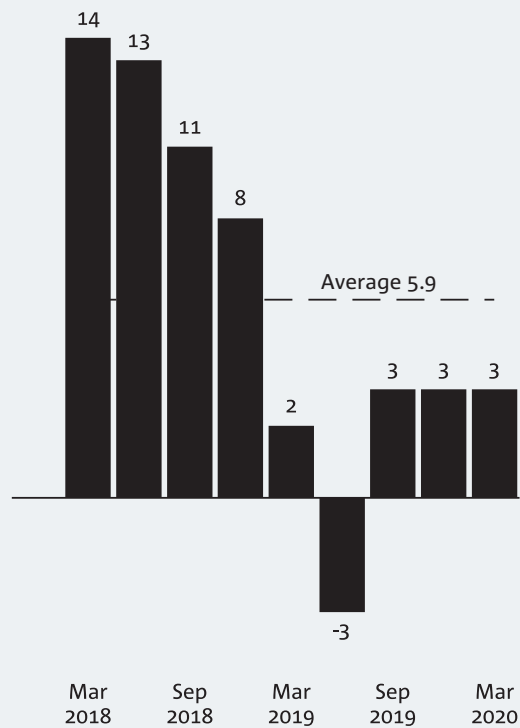
## Business conditions

NAB business conditions, 2018-2020

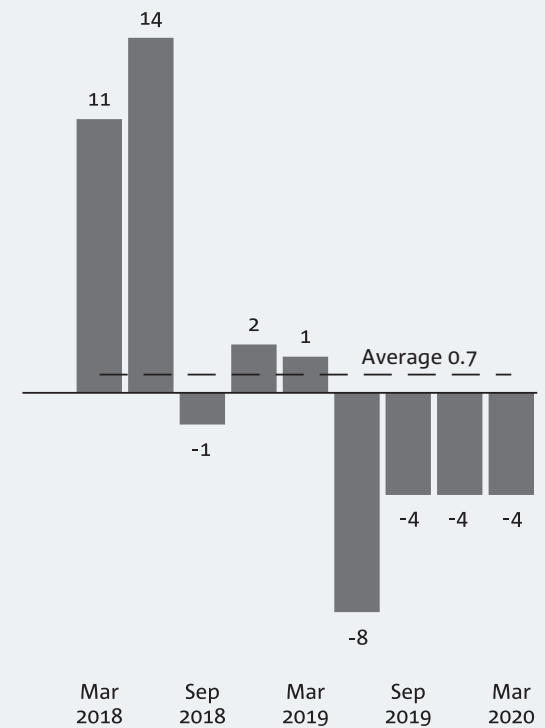
### ALL BUSINESSES



### SMALL BUSINESSES



### MICRO BUSINESSES



**Note:** "All businesses" reflects the NAB Business Conditions index. "Small business" reflects NAB SME business conditions where small businesses are less than \$10m revenue; "Micro businesses" are \$2-3m revenue. Averages are for quarters March 2018 to March 2020.

Source: NAB, AlphaBeta

# KEY FINDINGS

## GOVERNMENTS AND BIG BUSINESSES LIKE NAB CAN SUPPORT AUSTRALIAN SMALL BUSINESS RECOVERY AND GROWTH THROUGH **EIGHT KEY ACTIONS:**

- 1 Making it easier to hire new workers
- 2 Cutting regulation
- 3 Making sure small businesses get paid faster
- 4 Harnessing the power of digital tools
- 5 Opening procurement opportunities
- 6 Further access to capital
- 7 Lifting small business management capability
- 8 Improving state business conditions

## 1. Making it easier to hire new workers

### Regulation is making it harder for small business to hire workers

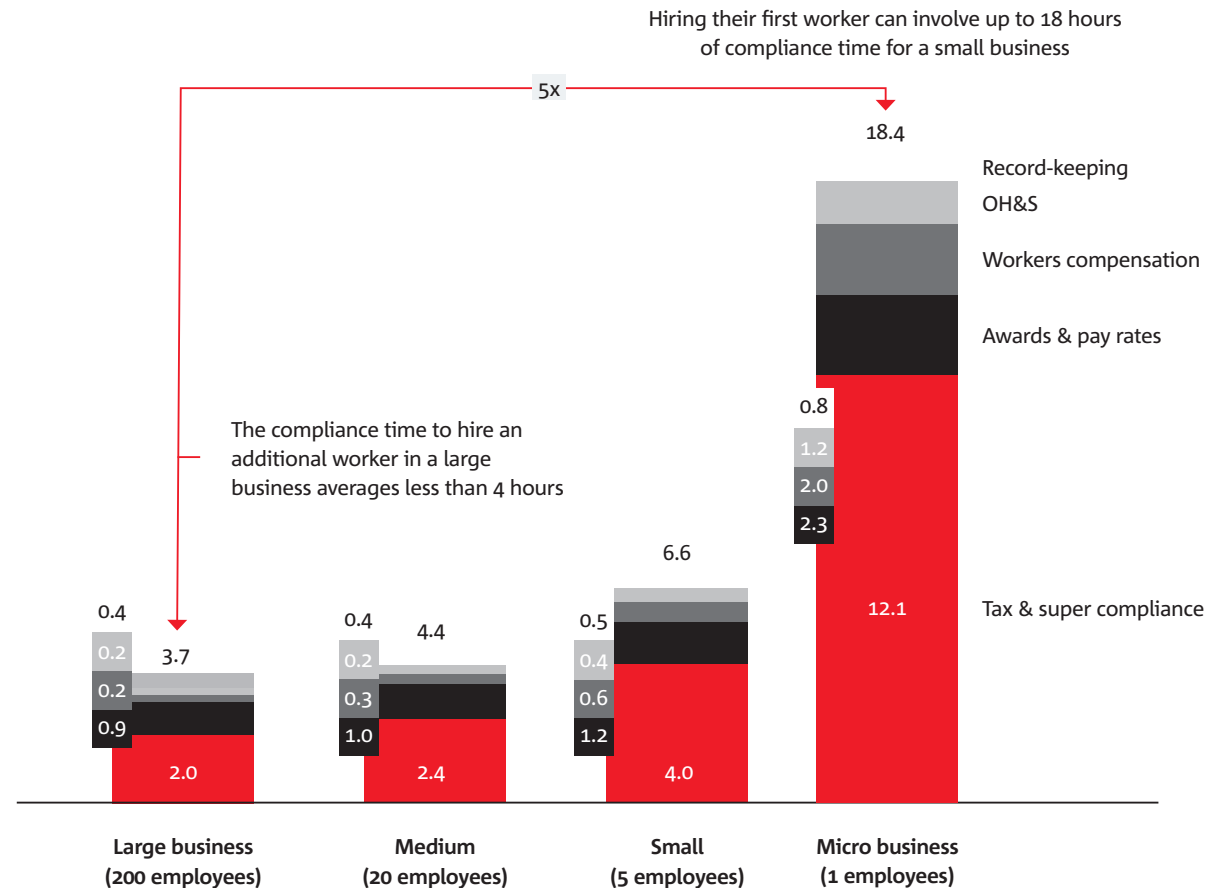
- Small businesses often don't have the systems and processes required to deal with the regulatory and compliance burden of employing workers.
- A small business hiring its first worker can spend up to 18 hours understanding awards and pay rates and complying with taxation, award, OH&S and record-keeping obligations.

### Cutting red tape and providing support could make it easier for small business to hire workers

- The Government's recently announced working group on award simplification should seek to identify areas where simplification would make it easier to hire workers and ensure they are paid accurately.
- The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) has recommended the government develop an algorithm to be integrated into accounting software to make it easier for small businesses to pay wages and entitlements correctly and on time.
- The government has committed to developing a prototype 'regtech' platform, creating an important one-stop portal for hiring workers. In the short term, Government could assist by providing guidance on existing reg-tech solutions to give small businesses confidence to use the right existing solutions.

## THE COST OF HIRING A WORKER IS 5 TIMES HIGHER FOR THE FIRST EMPLOYEE OF A SMALL BUSINESS THAN FOR A LARGE BUSINESS

Compliance time required to hire a worker  
Average number of hours required per worker



**Note:** Tax compliance includes establishing PAYG, establishing superannuation, confirmation of legal status and employment status. Pay and awards includes understanding relevant awards, determining employment status and pay, and completing tax file forms. Time estimated includes once-off establishment time as well as marginal time for each worker in each category.

**Source:** Fair Work Ombudsman, ATO, AlphaBeta.

## CASE STUDY

# COMPLEX PAY RATES, TRAINING REQUIREMENTS: SMALL GROCERS STRUGGLE WITH REGULATORY BURDEN

IGA Springfield Lakes employs 25 staff, including 20 student casuals. All are paid according to Fair Work Australia's General Retail Industry Award and trained to meet OH&S, tobacco retailing and responsible gambling laws – requirements that come at significant cost for proprietor Terry Slaughter.

"It's all for good reason, but ... retail is tough – it's not just displaying something, putting a price on it and selling it," Slaughter says.

**"Margins shrink, wages go up, sales shrink, and regulation has become a part of day-to-day life."**

The Fair Work Award applies to businesses without a tailored Enterprise Agreement. It sets out 14 rates of pay depending on each worker's age and responsibilities, and nine loading rates depending on employment status and time worked.<sup>1</sup> This means small grocers may be paying their staff a total of 126 different rates.

**At IGA Springfield Lakes, one school-aged worker was paid at five different rates throughout her 14-hour working week, creating an outsized administrative burden for the business.**

Slaughter relies on payroll and rostering software and a dedicated bookkeeper to ensure his business complies with Fair Work regulations. Before adopting the software in 2014, it took him two hours a week to manually check rostering spreadsheets against the Award's pay rates.

"We really need to make regulations a little simpler," he says. "Regulatory bodies are just putting these rates in without understanding how it looks from a business perspective. Now, I just trust the software, and if you ask any of my casuals, they don't understand their payslips either."



<sup>1</sup> Master Grocers Australia (2019), General Retail Industry Award 2010 –Casual Employees, 26 September 2019.



## 2. Cutting regulation

### Regulatory constraints create a burden for small business

- Small businesses often lack the scale and resources to stay on top of regulatory burdens. 7 out of 10 Australian small businesses report that dealing with government red tape is a burden which detracts from their business.<sup>1</sup>
- Excess red tape costs Australian small business \$9.3 billion every year.
- The cost of tax compliance for small firms (\$90 per \$1000 turnover) is 225 times higher than the cost for large firms (\$0.40). Compliance with employment regulations is also cumbersome.

### Australia needs a national plan to cut regulation

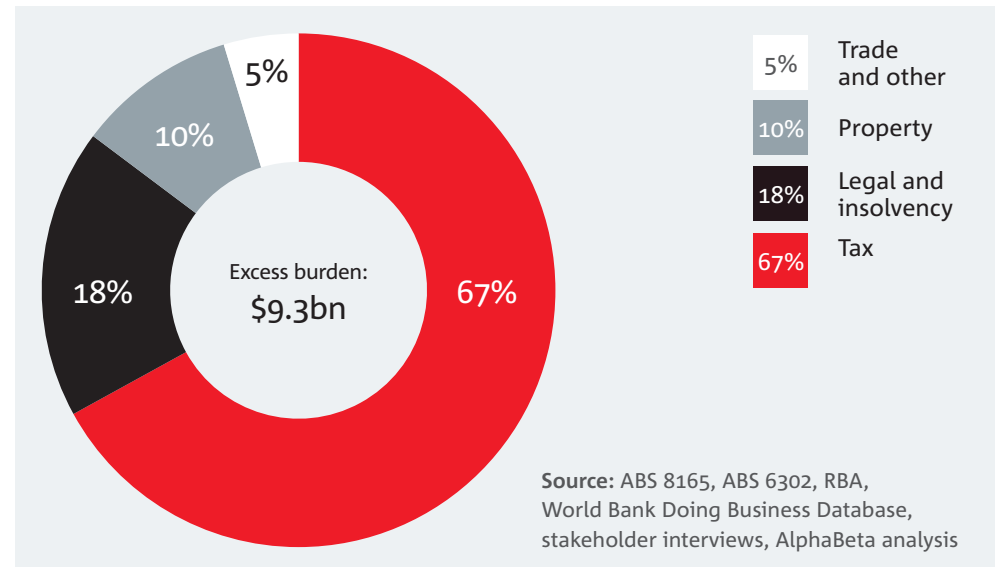
Governments around the country have made progress in addressing red tape for small business such as the Morrison government's establishment of the Australian Government Deregulation Taskforce. In addition to these reforms, small businesses would benefit from:

- Considering small business exemptions for some regulations and reporting, such as workplace health and safety for low-risk firms or providing special, simplified small business enterprise agreements.
- Consider abolishing Fringe Benefits Tax for small business and provide a permanent instant asset tax writeoff.<sup>2</sup>
- Reducing tax compliance, for example by linking government data to avoid small business providing the same data multiple times and increasing use of embedded APIs to allow small business to manage tax affairs from within banking and other platforms.
- Enhancing use of technology for government interactions, such as extending the use of Single Touch Payroll.
- There is an opportunity for Governments to pursue these reforms through the initial focus of the Council of Federal Financial Relations on deregulation opportunities.

1. NAB research. 2. ASBFEO

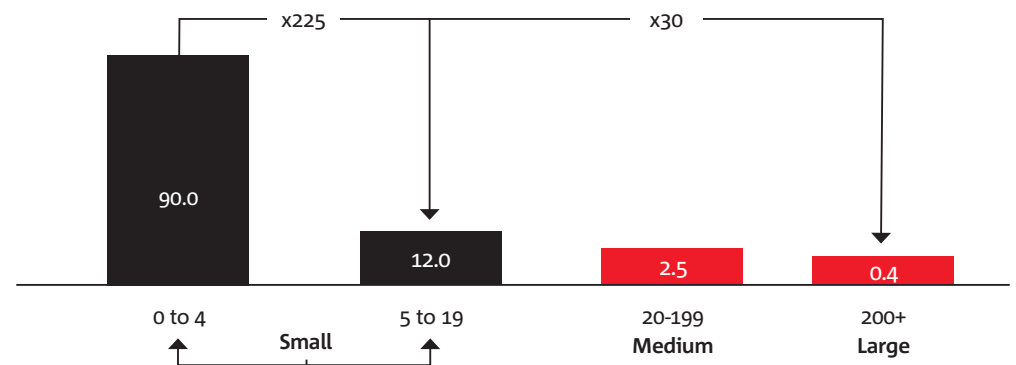
## EXCESS RED TAPE COSTS SMALL BUSINESS \$9.3B EVERY YEAR

Annual cost of time spent on major compliance activities by small business, \$ billion



## TAX COMPLIANCE COSTS MICRO FIRMS 225 TIMES MORE

Annual cost of time on compliance activities for small business, \$ per \$1000 of turnover by number of employees



Source: Lignier, Evans and Tran-Nam (2014), AlphaBeta analysis

## CASE STUDY

# SYDNEY'S THE BARBERHOOD CALLS TO SHAVE COSTS OF RED TAPE

Renee Baltov had already waited weeks for council approval of her second Sydney barbershop when she learned of a typographical error that cost \$300 and took another three weeks to address.

“On one part of the form, we wrote 5 Martin Place, and on another part, we said 5A,” she explained. “The cost isn’t just the money, but the time.”

Baltov started men’s grooming chain The Barberhood in 2015, after a 17-year career in marketing. Competition has intensified, with the Hairdressing and Beauty Industry Association reporting a tenfold increase in barbershops in the past 5 years.

The Barberhood now operates from two locations in Sydney CBD, with a third in the works. Red tape has been an ongoing challenge. Besides construction approvals, the business is subject to five different taxes, OH&S, media licensing laws, privacy laws, employment law, and complex visa processing requirements for its foreign workers.

“If you are a legitimate business and you’re doing the right thing, there are so many different taxes you have to pay,” Baltov said.

“There are so many different laws for so many different things, you’re constantly looking things up, and constantly afraid of missing something that will have financial or legal repercussions.”

Red tape costs The Barberhood an estimated \$30,000 a year in accounting, legal and music licensing fees. That’s in addition to the time Baltov spends researching various regulatory obligations, and application processing times that cost the business thousands of dollars in missed revenue each week.

Baltov called for more support to help businesses understand complex regulations, as well as shorter wait times for applications to be processed.





### 3. Making sure small businesses get paid faster

#### Small business cash flows are affected by late payments

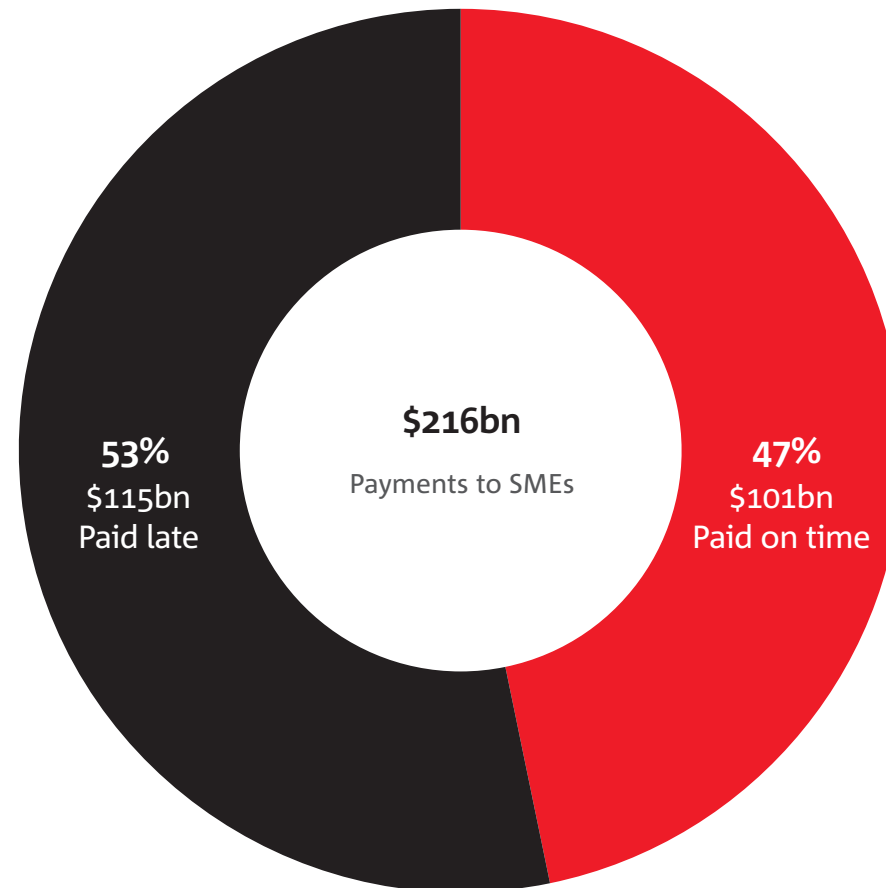
- More than half (53%) of small firms' trade credit is paid late by large firms, amounting to \$115 billion in late payments per year.<sup>1</sup>
- Each year, late payments from large businesses effectively deprive small businesses of \$7 billion in working capital.<sup>1</sup>

#### Speeding up cash flow to small business can support small business growth

- E-invoicing is crucial to support timely payment of invoices. Government should lead the way in embracing e-invoicing and encourage big business to do the same. Small businesses would benefit from support to understand how to enable e-invoicing.
- The Payment Times Reporting Bill 2020 will assist with faster payment times, requiring businesses with a total annual income of over \$100 million to report on how and when they pay their small business suppliers.
- The Business Council of Australia has introduced the Australian Supplier Payment Code and the Australian Government is moving towards 20 day payment times. NAB is a signatory to the Supplier Payment Code.
- Large firms should endorse the National Payment Reporting Framework, join the e-invoicing network and the Australian Supplier Payment Code and ensure systems are in place to measure payment times from correct invoice receipt.
- Governments should require their large business contractors to pay their SME suppliers on the same or better terms as they receive.

## MORE THAN HALF OF ALL INVOICES ISSUED BY SMALL BUSINESSES TO LARGE BUSINESSES ARE PAID LATE

Timeliness of trade credit payments from large to small business  
% of total payments from large to small businesses



Source: Based on analysis information on more than 10 million invoices issued by more than 150,000 SMEs. Xero and AlphaBeta (2019), AlphaBeta analysis

## CASE STUDY

# LATE PAYMENTS FROM LARGE CLIENTS LEAVE CREATIVE AGENCY VULNERABLE

Mitch Morgan Design has provided graphic design, branding, video production and printing services to clients in the public, private and education sectors for the past six years. One hundred percent of its client invoices have been paid late throughout that time.

“Cashflow is the number one problem in a small business,” says director Mitch Morgan, who employs a team of three in Sydney’s inner west. “You’ve got staff wages, rent, and other overheads that all go out while you’re waiting to get paid.

“Sometimes you’re paying tax on money you haven’t even got yet, which does leave you in a very vulnerable position.”

The agency’s projects range from less than \$100 in value to up to \$30,000. Morgan initially asked clients to pay their invoices within 21 days. Hoping to improve cashflow, he later changed that to 14 days, then to seven.

Those changes made no difference: clients take about 30 days to pay their invoices regardless of payment terms, with large organisations typically slowest to pay.

“Big businesses are used to dealing with other big businesses for whom cashflow isn’t as much of a problem,” Morgan explains. “You might be dealing with your contact, and they would have a superior who has to approve a purchase order or sign off on it.

“Unfortunately, the time that we have to spend chasing invoices is time that we take out of running the business.”



## 4. Harnessing the power of digital tools

### Smaller firms have traditionally fallen behind in digital capability

- Micro firms are up to 75% less likely to adopt digital technology to support business processes like strategic planning.
- Less than 40% of micro and small firms use digital tools to support planning, marketing or production processes.
- Almost half (43%) of all cybercrime is targeted at small business.<sup>1</sup>
- Only 54% of small firms use digital invoicing and accounting relative to 78% of large businesses.
- Meanwhile, around one in four small businesses experience cybercrime each year,<sup>2</sup> often costing \$1,000-5,000.<sup>3</sup>

### Small business should be supported to build on rapid adoption of digital tools during COVID-19 with incentives and support

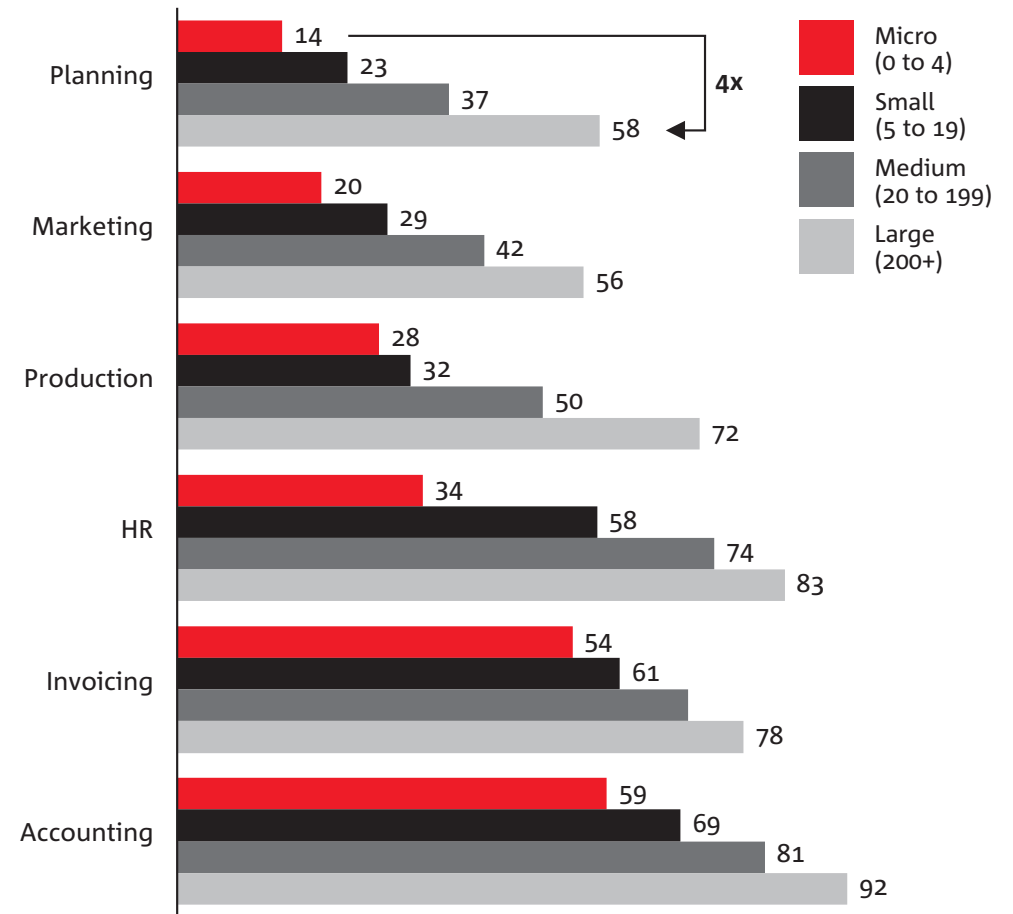
- Programs such as the Australian Digital Champions, introduced following the government's response to the report of the Small Business Digital Taskforce, provide important support.
- Australian governments should embrace e-invoicing and encourage large businesses to integrate e-invoicing into their ERP systems.
- Businesses should be supported to improve knowledge of cyber security, such as the work NAB is doing through workshops and online training modules to raise awareness and capability among small businesses.
- Encouraging industry associations, trusted advisors and supply chain partners to act as mentors who could help small businesses build confidence and identify opportunities to adopt digital tools.
- NAB is exploring ways to further enhance its digital offering to small business customers, building on the recently established Small Business Hub.

1. MYOB (2017). 2. ASBFEO. 3. NSW Small Business Commissioner.

## LARGE FIRMS ADOPT DIGITAL TECHNOLOGY FOR KEY BUSINESS PROCESSES AT UP TO 4 TIMES THE RATE OF SMALL BUSINESSES

### Firm uptake of digital technology

% of firms using a technology to a high extent by firm size



Source: ABS 8129, AlphaBeta analysis

Source: ABS 8129, AlphaBeta analysis

## CASE STUDY

# 'OUT OF SIGHT, OUT OF MIND': MELBOURNE GROCER REAPS BENEFITS OF DIGITAL OVERHAUL

Family-owned Second Ave Grocer was still paying suppliers by cheque before its newly appointed general manager, Anthony Krslovic, took the reins.

The Mediterranean delicatessen has been a local favourite since it opened in Melbourne's Altona North 30 years ago. But demographics have changed, with younger, higher earning families moving into the area over the past decade.

In mid-2019, the business embarked on an operational overhaul, refreshing its management structure, installing new retail and financial technology, and appointing a digital marketing firm to build up its social media presence.

"Being a family-run business, it's sort of 'out of sight, out of mind,'" said Krslovic, who was appointed general manager in the reshuffle. "The issue with a lot of businesses is that they don't change with the times.

**"Times are changing – a product that used to move 5 years ago is no longer moving now. And everyone is on their phones 24/7."**

With new point-of-sales, payroll, and accounting systems, Second Ave Grocer has avoided 30-40 hours a week of manual processes –time better spent managing and growing the business. Data from these systems has enabled better inventory management, reducing wastage and ensuring there is enough stock to meet demand.

Second Ave Grocer's new website, social media and email marketing platforms have also enabled new sales and marketing opportunities, including a Christmas campaign that saw it supply 50 grazing boxes for various events in the neighbourhood.





## 5. Opening procurement opportunities

### Small business is locked out of many government contracts

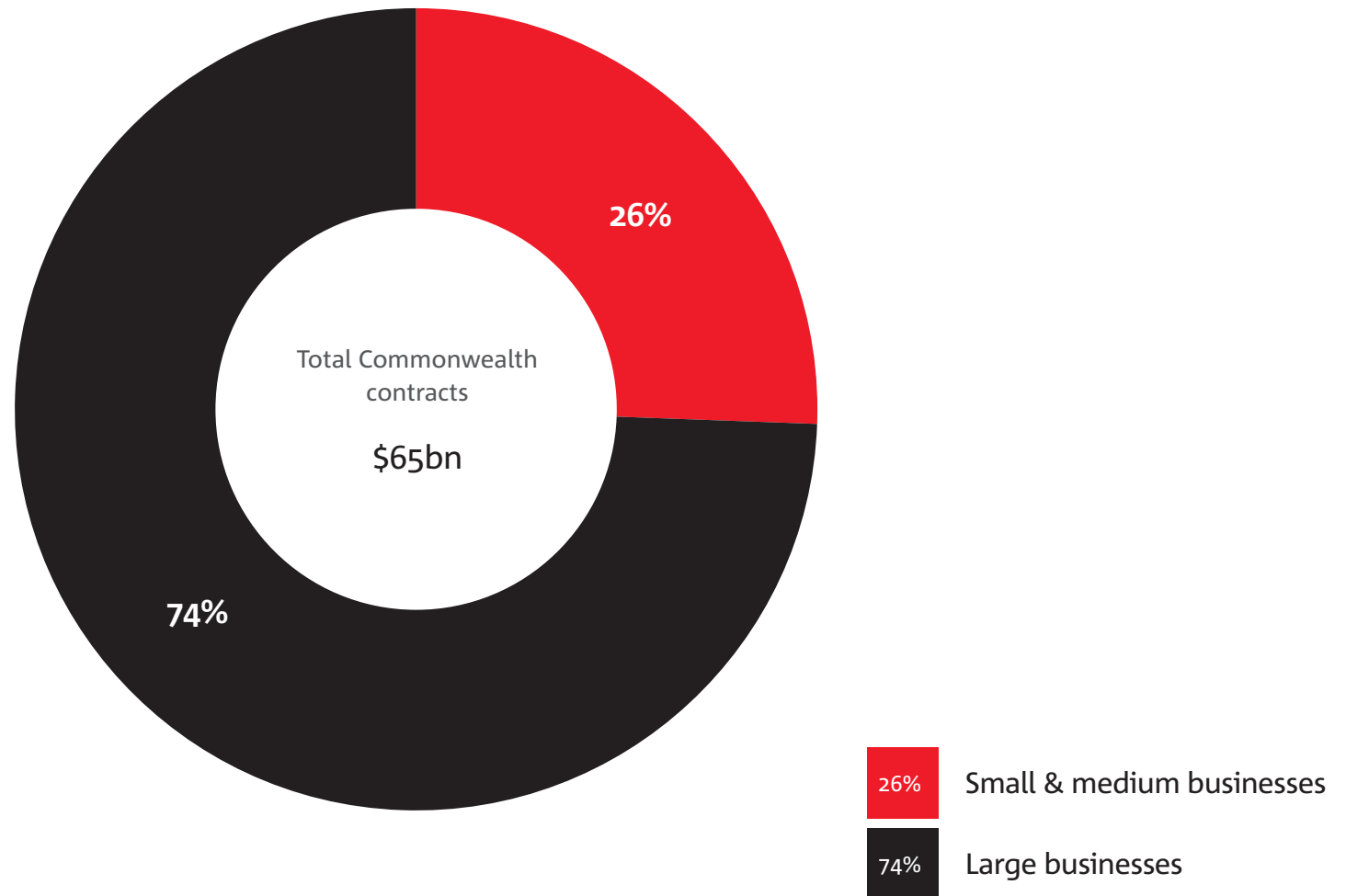
- Over half of small businesses (54%) report that it is very hard for them to gain a position on public and private sector supplier panels.<sup>1</sup>
- Small business is two-thirds of the economy by employment, but wins only a quarter of the value of federal government contracts.<sup>2</sup>

### Simple action could expand procurement opportunities for small businesses

- Continue to increase the amount of government contracts by value given to SMEs from its current 10% procurement target.
- Mainstream pilot programs that simplify tender processes, including making it easier for consortium bids.
- Ensure that large businesses improve their on-boarding process to register small suppliers more quickly and at lower cost.
- Consider creating a small business procurement panel for any Government contract under \$10m.<sup>3</sup>

## SMALL BUSINESS ONLY RECEIVES ONE QUARTER OF GOVERNMENT CONTRACTS DESPITE BEING MORE THAN HALF OF ALL PRODUCTION

Australian government procurement by firm size  
% of Australian Government contracts by firm size, 2019



Source: Department of Finance (2019), AlphaBeta analysis

1. NAB research. 2. Department of Finance. 3. Proposal is supported by ASBFEO.

## 6. Further access to capital

### Small businesses are suffering from slower approvals and higher costs of capital

Access to capital can be a problem for small businesses due to lacking financial history, collateral and confidence.

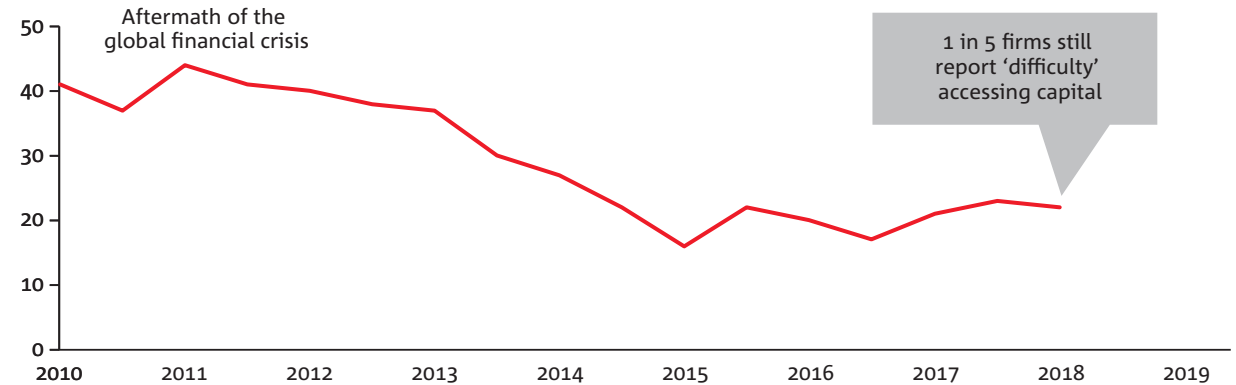
- 1 in 3 new businesses report funding as their top challenge.<sup>1</sup>
- 1 in 5 small businesses report difficulty in accessing finance.<sup>2</sup>
- Small business lending (6% pa) has grown at two-thirds the pace of large business lending (9% pa) since 2000.
- Australia invested only two-thirds the venture capital of OECD peers in GDP terms in 2018.

### Australian small businesses need greater access to a more diverse range of finance options

- NAB is proud to partner with the Federal Government and other major banks to establish the Business Growth Fund which will provide SMEs access to equity growth capital. Governments are also supporting small business finance through funds like the Australian Business Securitisation Fund.
- ASBFEO has recommended that the Australian Prudential Regulation Authority (APRA) moves from the one-size-fits all model and allow regulated institutions to apply risk weightings to specific risk factors to help improve small business access to capital.<sup>3</sup>
- Open Banking will allow small business customers to instruct their banking services provider to share their data with accredited third parties, opening up more competition in sources of finance.

## 1 IN 5 SMES REPORT 'DIFFICULTY' TO ACCESS CAPITAL

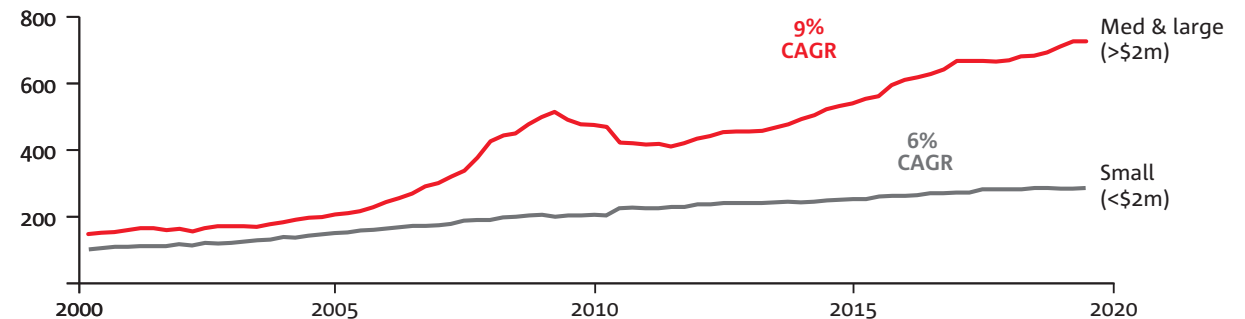
Per cent of respondents reporting 'relatively difficult' access to capital, %



Source: RBA Bulletin 2018

## SMALL BUSINESS LENDING IS GROWING AT 2/3 THE PACE OF LENDING TO LARGER FIRMS

Total credit outstanding by firm size, \$ billion



Source: ABS 8167, RBA, AlphaBeta analysis

1. NAB research. 2. ASBFEO. 3. ASBFEO.

## CASE STUDY

# BORROWING FEARS SLOW EXPANSION OF MELBOURNE FASHION CHAIN

When Lina Parisi launched Little Black Bag in 2014, she planned to open a new branch for the fashion accessories chain within 12 months, and a third branch a year later. But expansion took twice as long as she had hoped.

“We originally started with our own finances, and thought we’d be able to grow with cashflow,” Parisi says. “But of course, opening each new branch means you’re going to need three months’ rent upfront and more stock.

“I do think having limited capital has stopped our growth.”

While many small businesses owners fund their ventures with loans secured against the family home, Parisi was reluctant to go down that route.

She eventually funded Little Black Bag’s second branch in 2017, after learning of NAB’s QuickBiz Loans. QuickBiz is an automated, unsecured lending platform for small businesses that offers loans of up to \$100,000 by using machine learning to analyse the strength of the business.

Parisi was approved for a \$100,000 unsecured loan within 10 minutes, and will soon open a third store with a new \$50,000 loan.

“We’ve been a bit more conservative. I didn’t want to have that pressure of having the business secured against my house,” she explains.

“If I had known about unsecured QuickBiz loans sooner, I probably would have launched the stores sooner. The loans gave us that little bit of extra confidence in knowing that there is more money there if you need it.”



## 7. Lifting small business management capability

### Small business has much lower management capability than large firms

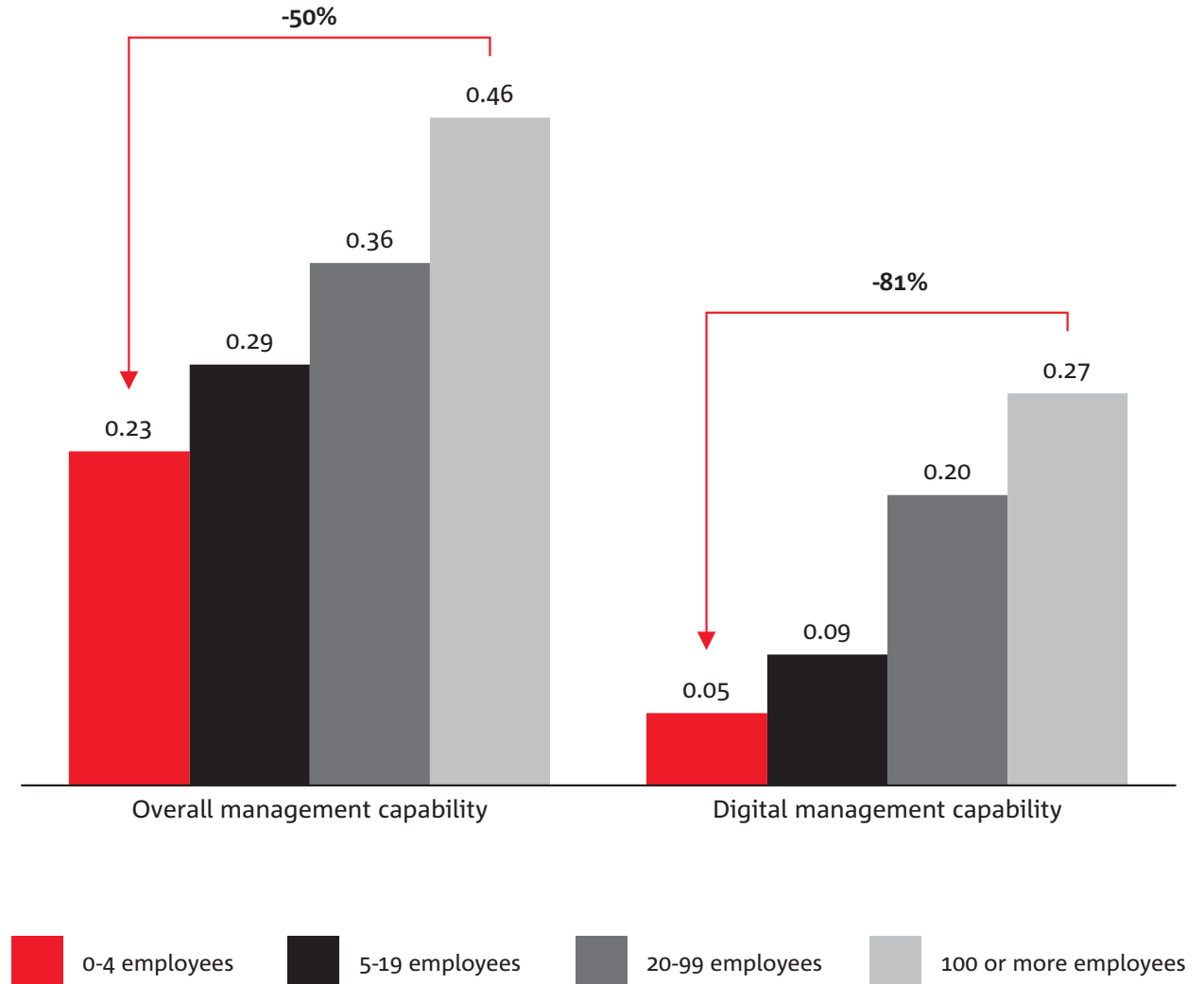
- Overall management capability is 50% lower in small firms than large firms.<sup>1</sup>
- Digital management capability –which involves the effective adoption of digital technologies such as mobile devices, social media, data analytics, cloud computing and Internet of Things –among small firms is 81% below large firms.

### Small business should be supported to improve their management skills

- NAB already supports business owners and managers with the critical skills to build their business with up to 300 partial scholarships for business customers for the Australian Owner-Manager Program.
- The Australian government should consider offering a Capability Development Voucher Scheme that pays for half of eligible firms' training costs<sup>2</sup> or a similar voucher to support more businesses to access the Australian Owner-Manager Program.
- Small businesses should be supported with digital training and capability development.
- Small businesses organisations should be given additional funding to support, networking and events for small business owners and managers.

## SMALL FIRMS HAVE MUCH LOWER MANAGEMENT CAPABILITY THAN LARGE FIRMS

Average management capability scores of Australian firms



Source: Department of Industry (2019), RESEARCH PAPER 10/2019 Development of Management Capability Scores Renu Agarwal, Chris Bajada, Paul Brown, Ian Moran and Antonio Balaguer, AlphaBeta analysis

1. Department of Industry (2019) 2. This scheme is modelled from a similar scheme operated by NZ New Zealand Trade and Enterprise (NZTE).



## CASE STUDY

# TRAINING VOUCHER PROGRAM IMPROVES MANAGEMENT SKILLS AMONG NEW ZEALAND SMES

New Zealand Trade and Enterprise (NZTE) encourages small business owners to improve their management skills by partially funding relevant workshops, courses and coaching. Through its Capability Development Voucher Scheme, the agency pays for half of eligible firms' training costs, to a maximum of \$5,000 a voucher. It currently issues more than 3,000 vouchers a year, at a total cost of \$5.9 million.

NZTE's Capability Development Voucher Scheme addresses its goal of growing better, globally competitive businesses. The scheme was introduced in 2010 following a Key Government review. It is part of a wider Regional Business Partners (RBP) Program, which is run in partnership with innovation agency Callaghan Innovation and also offers business mentoring and R&D grants to SMEs.

NZTE's Capability Development Vouchers are issued to businesses with up to 50 staff via registered private sector service providers. These include strategy consultants, business coaches, marketing experts and others that offer training in business planning, systems, capital raising, exporting, intellectual property, marketing, and other topics geared towards growth.

According to a 2015 review, the scheme has improved not only management capabilities among New Zealand SMEs, but also SMEs' attitudes towards training.

The review found that 60% of voucher recipients said the program had moderately or greatly improved their ability to manage their businesses.<sup>1</sup> SME business owners were also more than twice as likely to invest in additional training after having participated in the voucher scheme.



1. NZ Ministry of Business, Innovation & Employment (2015), Evaluation of the Regional Business Partners Programme.

## 8. Improving state business conditions

### Conditions for small businesses vary across the states

- Over the four quarters to March 2020, small business conditions in some states ranged from 7.8 in Victoria to -5.8 in Western Australia.

### State and territory governments can support small business growth through streamlining and improving policy settings

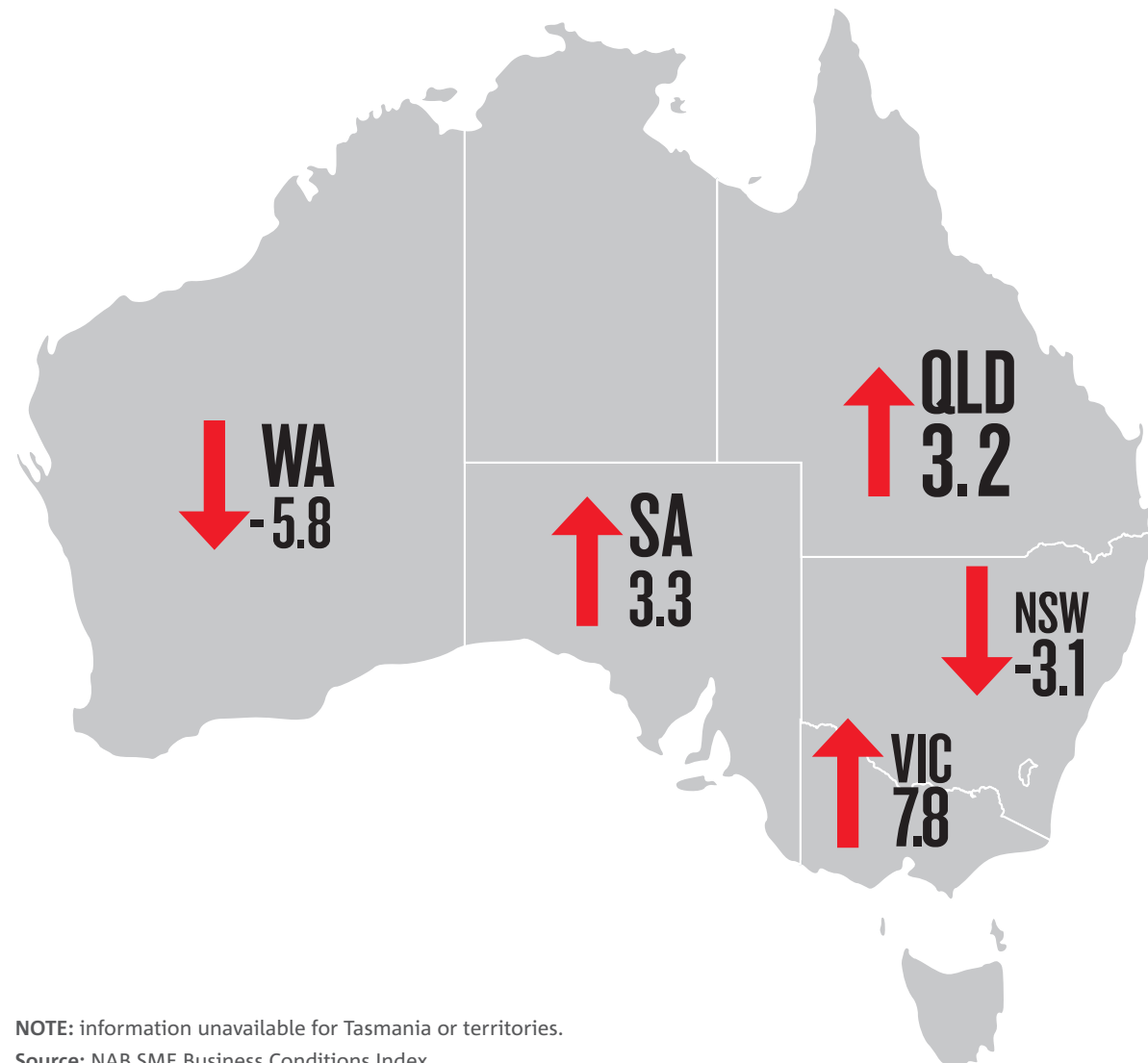
- State governments affect the ease of starting a business because they have responsibility for registrations, permits, funding and development approvals required for many small businesses.
- State governments also affect how easy it is to run a business. They have influence over many of the critical inputs for small businesses including infrastructure, skills and capital markets. State governments also levy payroll tax and influence a number of critical business costs.
- State governments also affect how easy it is to grow a business. They can influence the state's start-up ecosystem and affect the innovation environment.

There is an opportunity via National Cabinet to streamline differences across states that result in business red tape and costs e.g. different road transport requirements, OH&S rules and licensing.

## SMALL BUSINESS CONDITIONS VARY CONSIDERABLY ACROSS AUSTRALIA'S STATES

### NAB small business conditions index

Average of net balance over the four quarters to March 2020



# STATE SMALL BUSINESS POLICY SETTINGS THAT IMPACT STARTING, RUNNING AND GROWING A BUSINESS CAN BE MEASURED THROUGH A RANGE OF INDICATORS

Category	Indicator	Measure
Starting a business	Funding & support	<ul style="list-style-type: none"> <li>Public spending on programs and funding for new businesses</li> <li>Flow of startup funding</li> </ul>
	Business and property permits	<ul style="list-style-type: none"> <li>Time to register and seek necessary permits for key types of small business</li> <li>Time for development approvals</li> <li>Time for electricity connection</li> </ul>
Running a business	Management capability	<ul style="list-style-type: none"> <li>Owners with post-secondary qualifications</li> </ul>
	Skills & digital talent	<ul style="list-style-type: none"> <li>Ratio of job listings to employed workers (difficulty filling jobs)</li> <li>Digital skills ability index</li> </ul>
	Transport	<ul style="list-style-type: none"> <li>Vehicle registration costs</li> <li>Metro travel speeds</li> </ul>
	Tax	<ul style="list-style-type: none"> <li>Cost of payroll tax for 50 worker firm</li> </ul>
	Payments & costs	<ul style="list-style-type: none"> <li>Average days late for late payments from big business</li> <li>Average energy cost for key types of small business</li> </ul>
Growing a business	Ecosystem	<ul style="list-style-type: none"> <li>Ranking of startup system effectiveness between states</li> </ul>
	Innovation	<ul style="list-style-type: none"> <li>Patents filed per 1000 small businesses</li> </ul>
	New markets	<ul style="list-style-type: none"> <li>% of small business with advanced or high digital engagement</li> </ul>

# THE SMALL BUSINESS POLICY ENVIRONMENT IS STRONGEST IN NSW AND QLD

Category	Indicator	ACT	NSW	NT	QLD	SA	TAS	VIC	WA
Starting a business	Funding	6	1	7	3	4	8	2	5
	Business and property permits	6	1	4	5	3	7	8	2
	Starting a business overall	6	1	7	3	4	8	2	5
Running a business	Management capability	1	2	4	4	8	6	3	6
	Skills	5	8	1	7	4	5	2	3
	Transport	5	8	1	3	7	2	6	4
	Tax	8	5	7	2	1	4	3	6
	Big business	2	3	8	1	5	6	7	4
	Running a business overall	3	6	7	1	8	2	4	5
Growing a business	Accessing supports and funding	5	1	5	3	5	5	2	4
	Innovation	5	3	7	2	6	8	4	1
	New markets	6	2	6	3	6	1	5	4
	Growing a business overall:	6	1	8	4	7	5	2	3

← SMEs in NSW have the best access to start up funding and NSW provides public funding for start-ups through investments like the Sydney Startup Hub.

← QLD has some of the lowest rates of vehicle taxes (50% less than the most expensive state) and payroll tax and some of the fastest travel times in metro areas.

← WA small businesses lead the way in innovation with 1.8 patents granted per 1000 firms.

See appendix for calculations and metrics. 1 = most favourable settings, 8 = least favourable

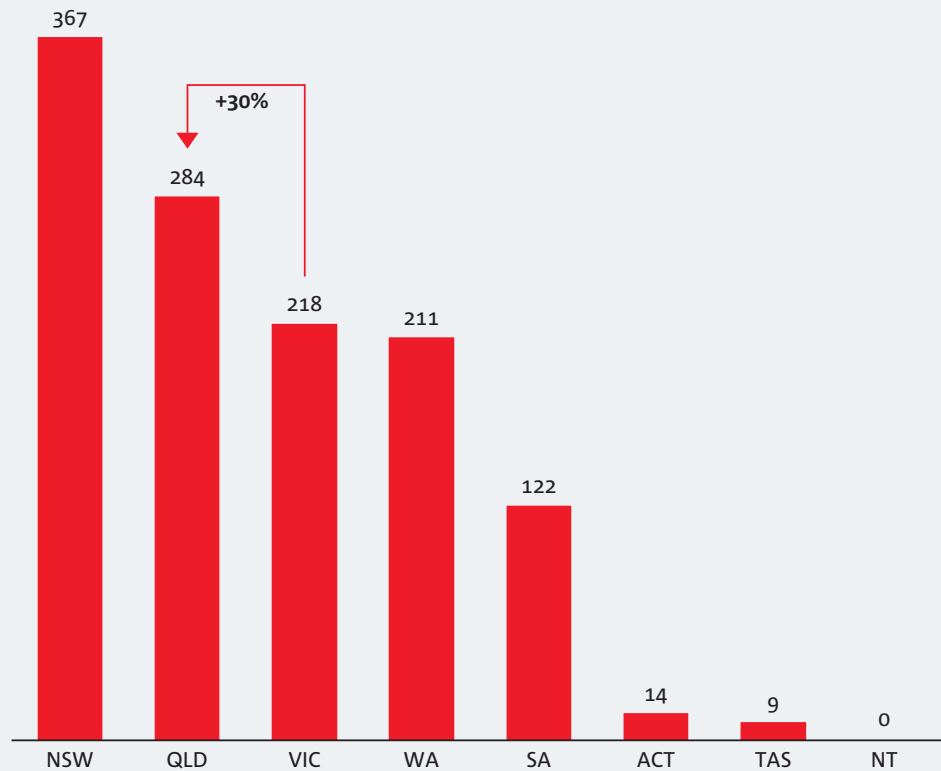
Source: AlphaBeta analysis

# APPENDIX

# NSW PROVIDES THE BEST ACCESS TO STARTUP FUNDING, BUT VIC HAS GREATER ACCESS TO PUBLIC PROGRAMS FOR STARTUPS WHEN WEIGHTED BY WORKFORCE

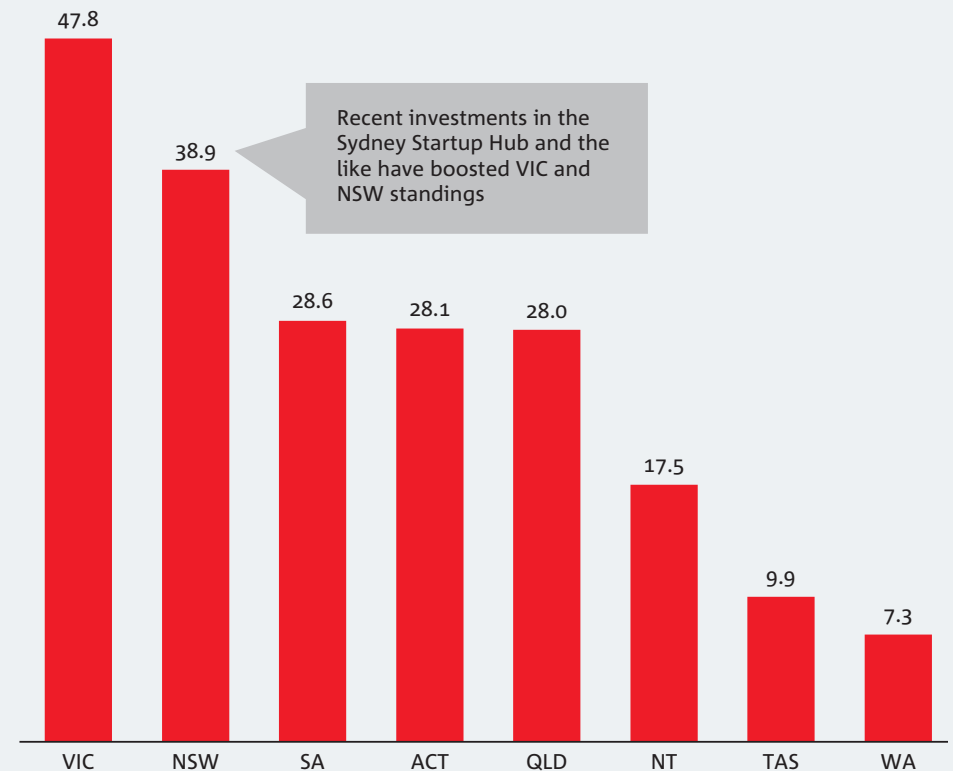
Startup funding is concentrated in NSW and QLD, where startups received  $\geq 30\%$  more than the next highest state

\$, flow of startup funding (i.e. new deals) per million workers, 2018<sup>1</sup>



State governments in VIC and NSW lead in public funding on programs for startups due to recent substantial investments

\$m for startup programs per million workers, 2016 to 2019 budgets<sup>2</sup>



1. Includes venture capital, angel investment, public funding, debt facilities, equity crowdfunding and initial coin offerings. Results are weighted to account for the size of workforce in each state which affects both public revenue and the likelihood of startups forming.

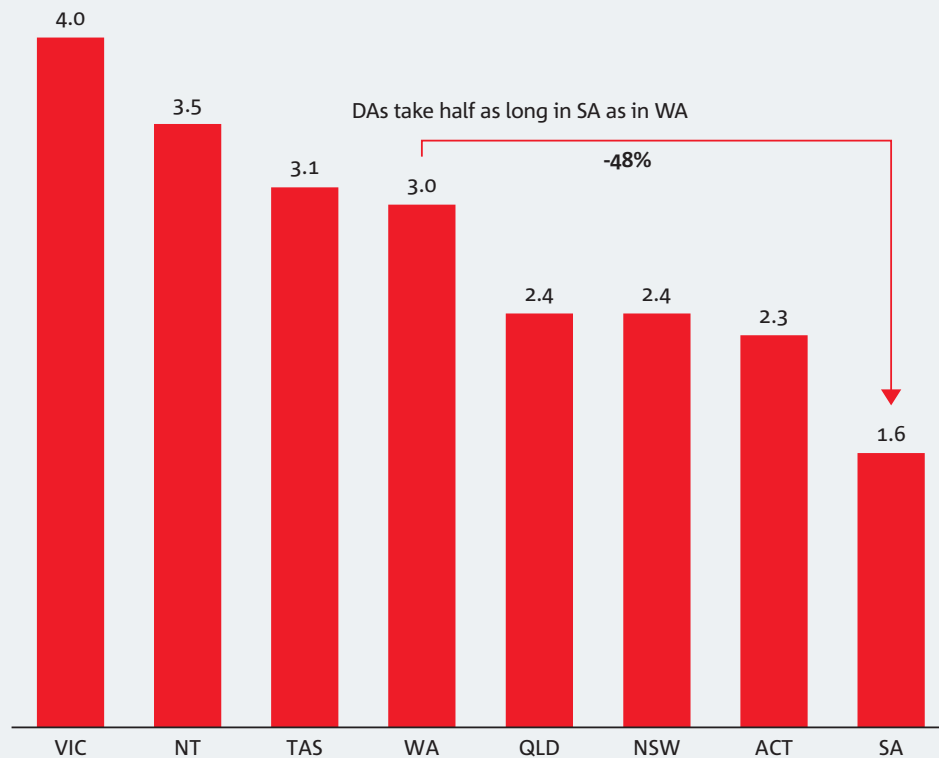
2. Startup funding captured through measures explicitly described in budget materials as supporting the establishment of new businesses.

Source: Techboard(2018), state government budget papers, AlphaBeta analysis

## TIME TO SET UP PROPERTY ALSO VARIES BY STATES, WITH VIC LAGGING ON DEVELOPMENT APPROVALS AND TASMANIA ON TIME TO CONNECT ELECTRICITY

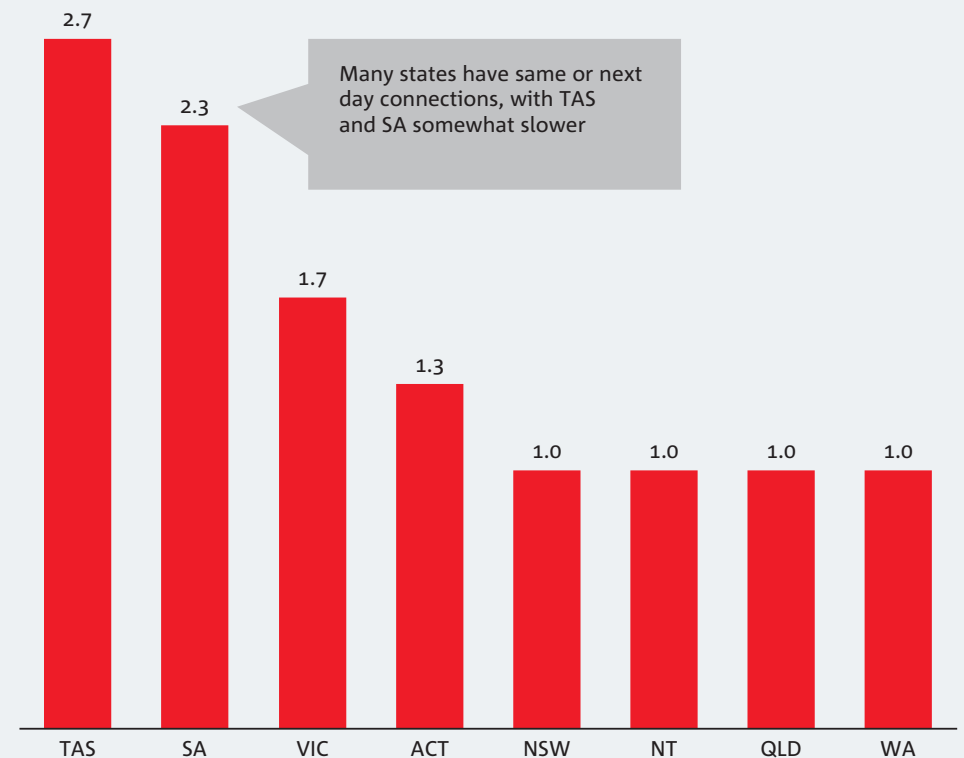
Development approvals take > 3 months in WA, TAS, NT and VIC, twice the shortest average waiting period in SA

Months, average waiting time for development approvals across all local councils per state, 2018<sup>1</sup>



New firms in many states face only around 1 day's wait for electricity, with the longest waits in TAS and SA

Business days, average waiting time for connection in metro areas by electricity retailers most used by small business in each state<sup>2</sup>



1. 2018 or most recent available data was used. Some states do not distinguish commercial from other development approvals in their reporting.

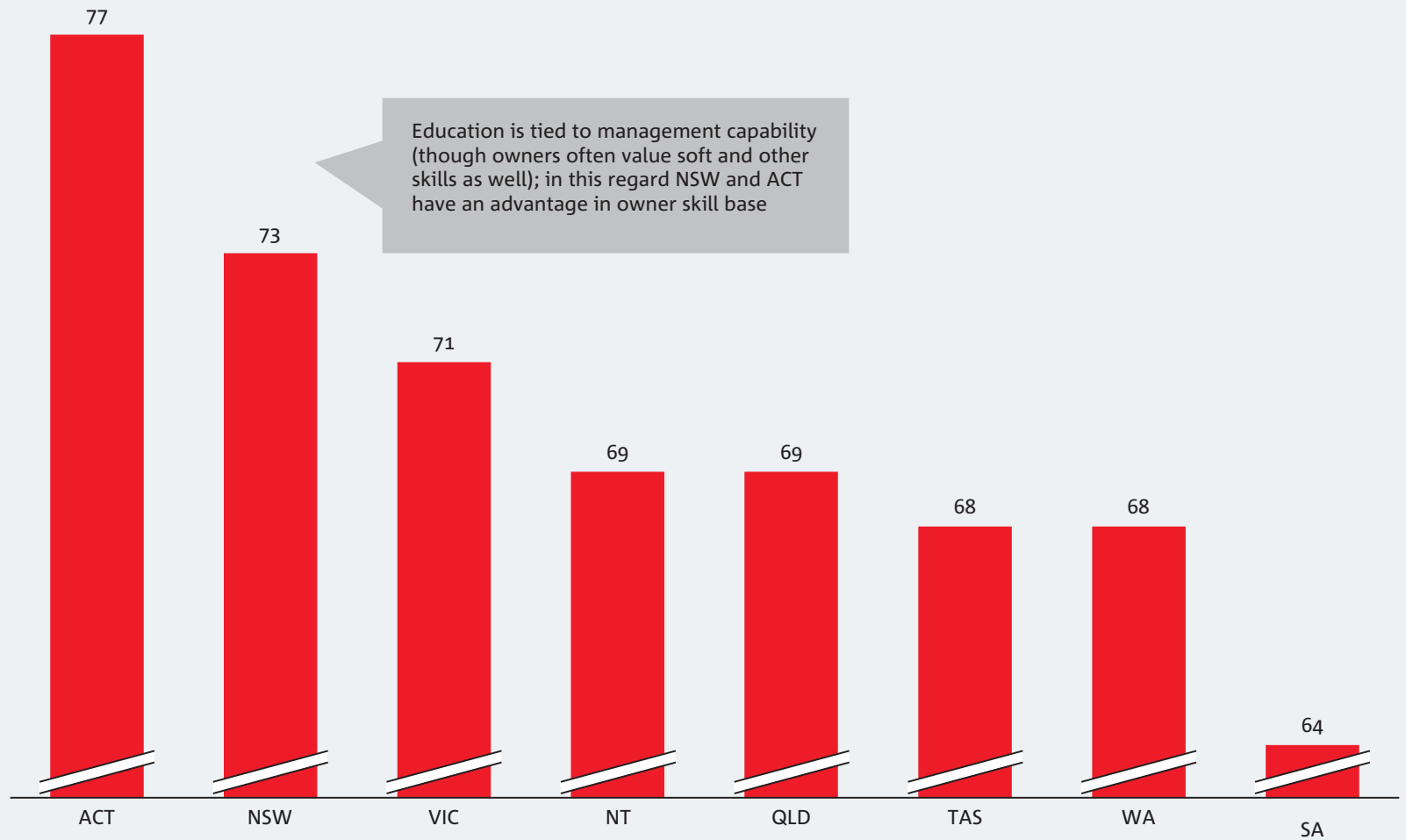
2. Assumes existing property with active electricity connection and meter on site.

Source: state government websites, guidelines and annual reports, interviews with stakeholders including electricity retailers, AlphaBeta analysis

## NSW & ACT LEAD IN MANAGEMENT CAPABILITY, AS PROXIED BY POST-SECONDARY QUALIFICATIONS; OWNERS OFTEN VALUE SOFT AND OTHER SKILLS JUST AS HIGHLY

Management capability is a critical driver of success; ACT and NSW may have a slight advantage due to higher proportions of owners with post-secondary qualifications –though many owners value soft and other skills above formal education

Skilled small business owners, % of small business owners with post-secondary qualifications, 2016



1. 2018 or most recent available data was used. Some states do not distinguish commercial from other development approvals in their reporting.

2. Assumes existing property with active electricity connection and meter on site.

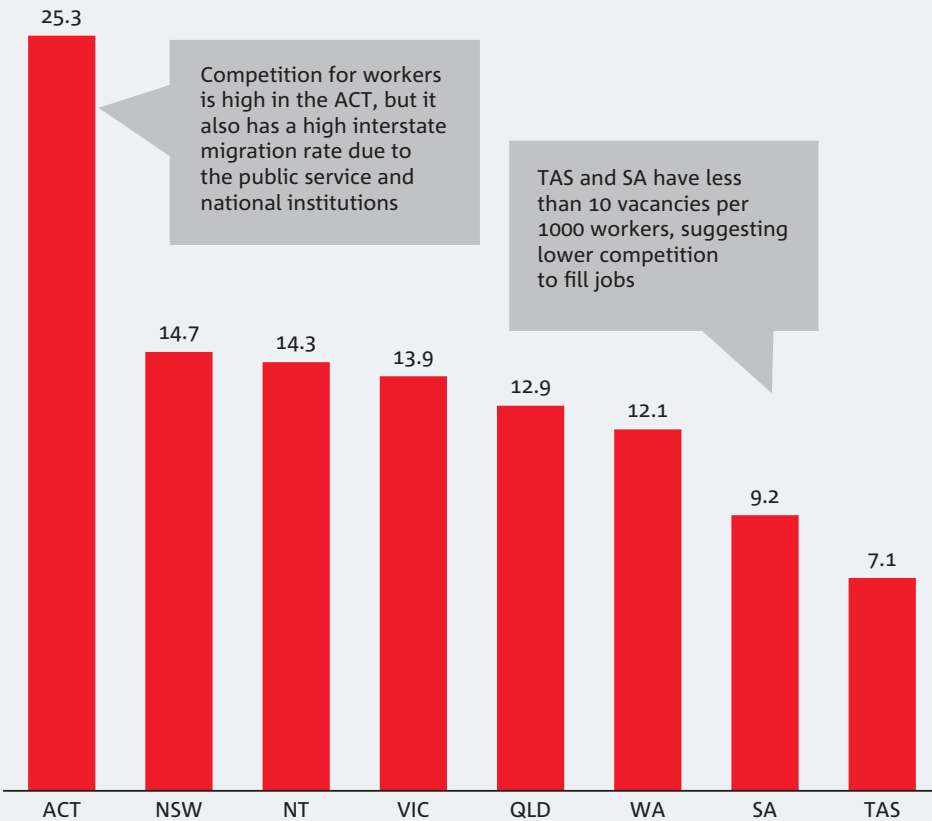
Source: state government websites, guidelines and annual reports, interviews with stakeholders including electricity retailers, AlphaBeta analysis



# TAS AND SA HAVE LESS COMPETITION FOR WORKERS, WHILE ALL STATES ARE MIDDLING IN WORKERS' LEVEL OF DIGITAL SKILLS

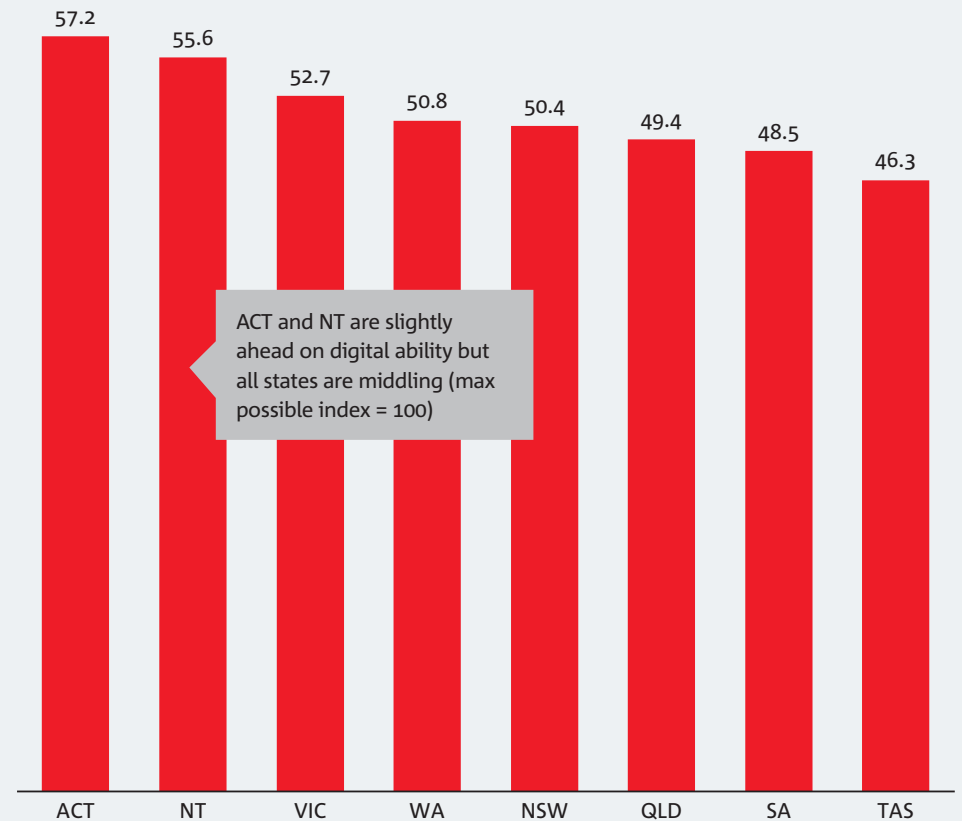
There are more job vacancies per 1000 workers in the ACT than other jurisdictions, pointing to high competition

Ratio of estimated job vacancies per 1000 workers, 2019



All jurisdictions are middling in the underlying digital ability of their population, with TAS and SA slight laggards

Digital ability index of attitudes, basic skills and activities, 2019<sup>1</sup>



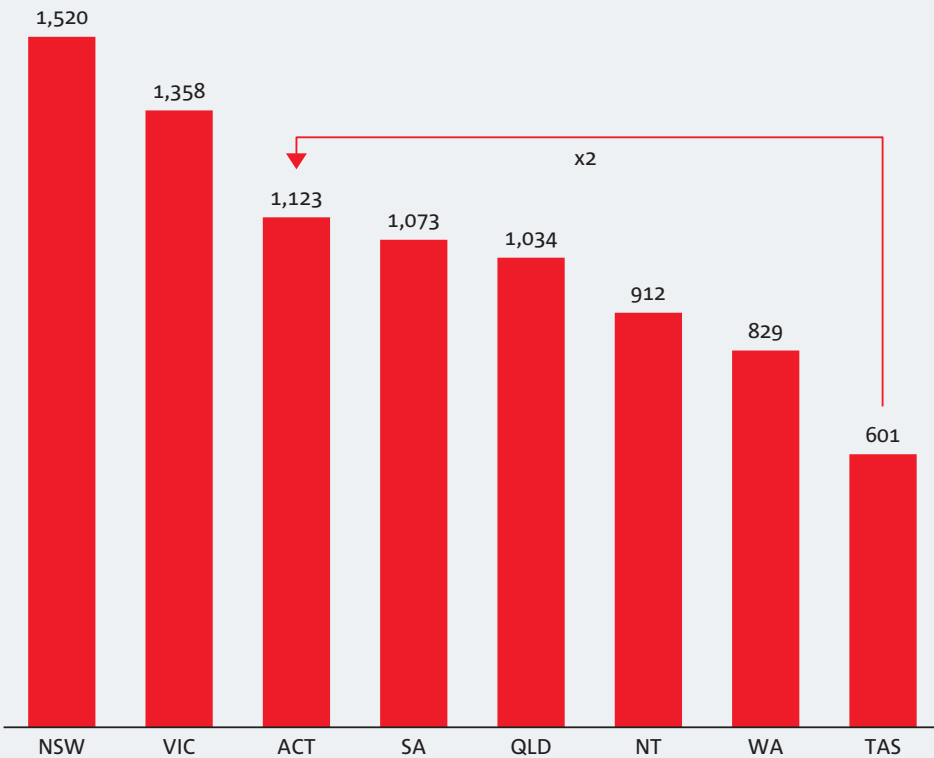
1. Index derived from survey on attitudes such as control, enthusiasm, learning and confidence; basic phone, banking, community and information skills; and frequency of accessing content, communication, transactions, commerce, media and information. The survey encompasses people of working age but also those 65+.

Source: ABS 2016 Census, ABS 6291, Australian Government Labour Market Information Portal, Telstra Australian Digital Inclusion Index (2019), AlphaBeta analysis

# VEHICLE REGISTRATION IN VIC, NSW AND ACT COSTS SMALL BUSINESSES TWICE THAT AS IN TAS, WHILE SA, NSW AND VIC FACE THE SLOWEST PEAK TRAVEL SPEEDS

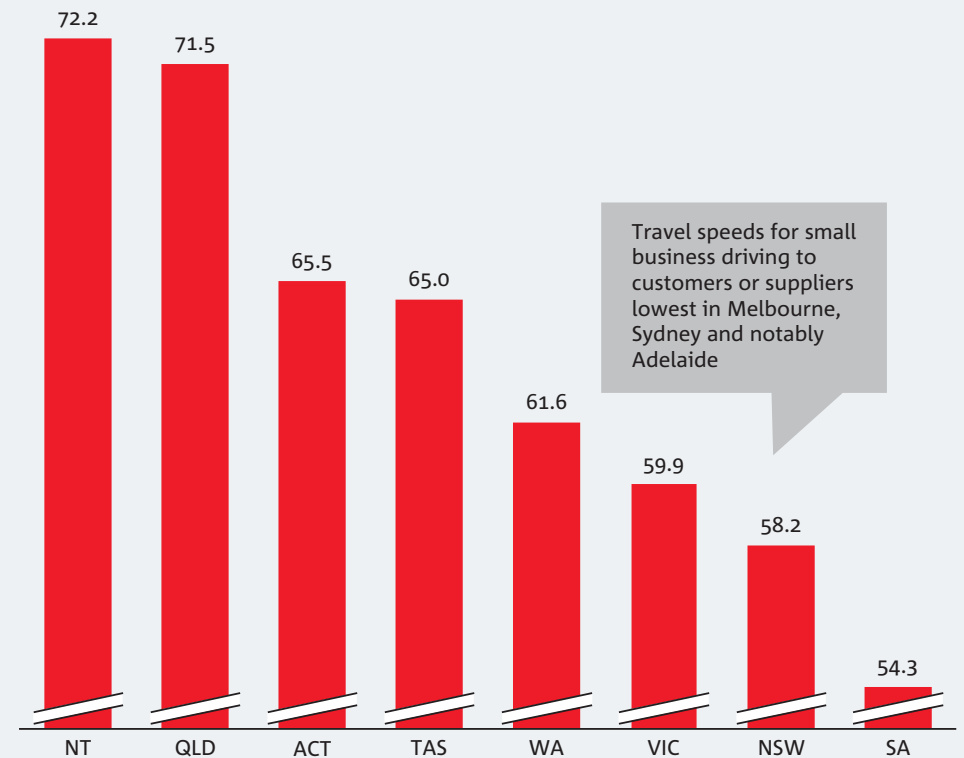
Small businesses pay over \$1100 for vehicle registration in VIC, NSW and the ACT –double that of TAS

\$, cost of registration and CTP insurance for 2016 1.6T Holden ute for business purposes, 2019<sup>1</sup>



Travel speeds are slowest in the more populous cities, with the exception of Adelaide with the slowest speed (54 km/h)

km/h, average metro travel speeds



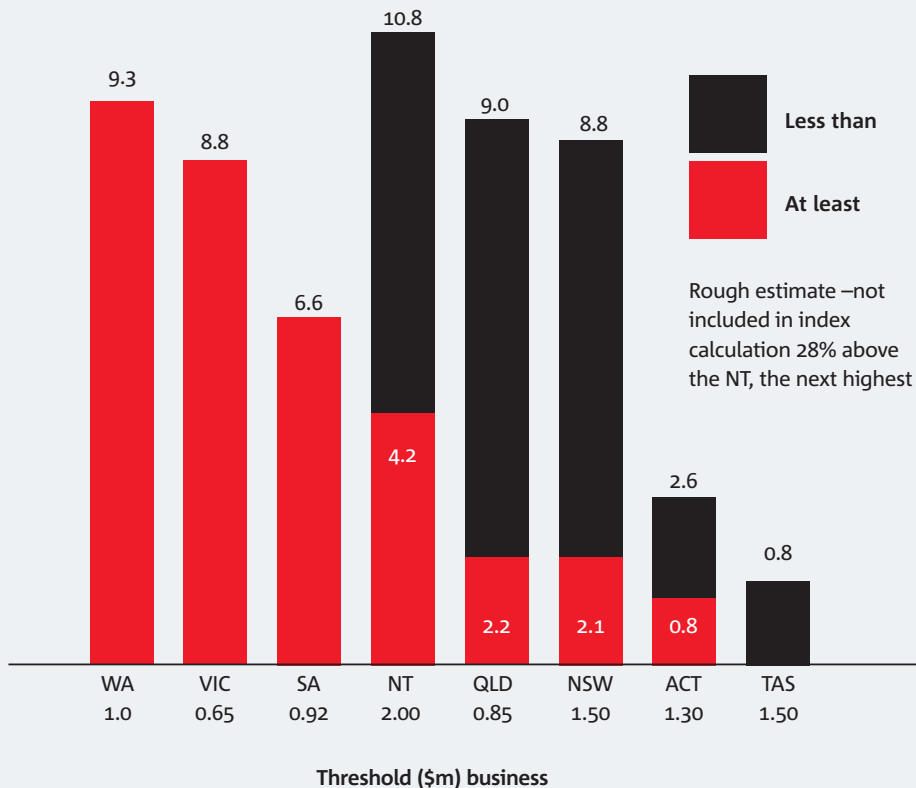
1. Vehicle selected as a common choice for small business, especially in construction and agriculture which are important small business sectors. Estimate based on renewing registration for a company vehicle with a 3.6L engine and \$30K valuation, cheapest CTP and 30yo main driver.

Source: state government websites, Australian Automobile Association (2018), AlphaBeta analysis

# MORE SMALL BUSINESSES ARE LIABLE FOR PAYROLL TAX IN WA, NSW AND VIC, BUT THE ACT HAS THE HIGHEST TAX RATE AND SO THE HIGHEST BURDEN FOR THOSE LIABLE

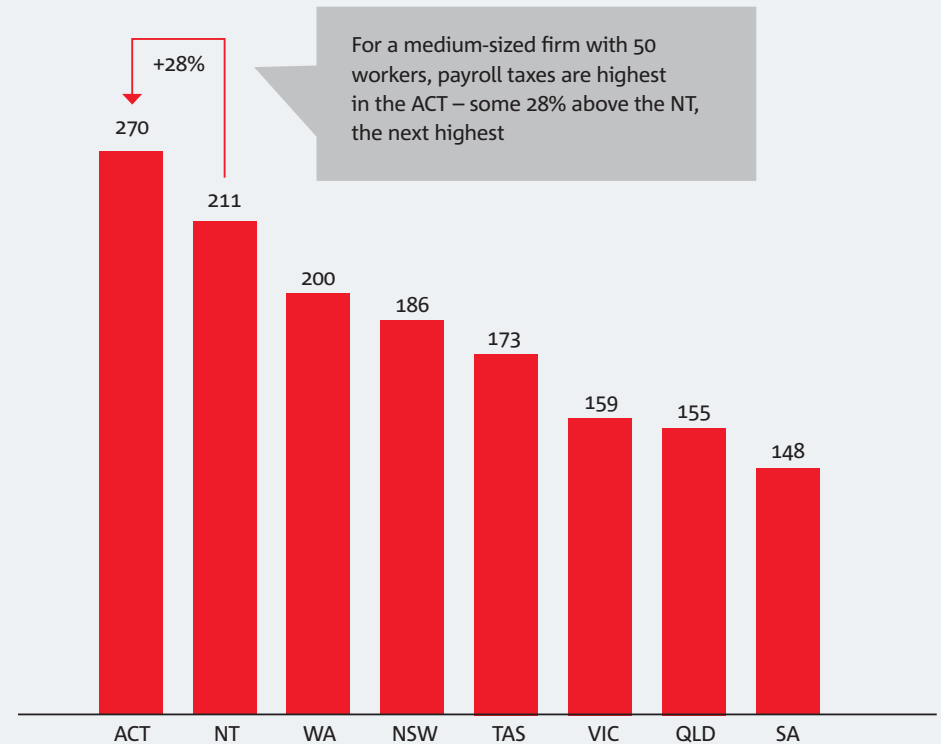
At least 6% of small business are liable for payroll tax in SA, VIC and WA, but most states are looking to raise thresholds

Estimated % of small business that may be liable for payroll tax, upper and lower bounds<sup>1</sup>



Payroll tax is highest for an ACT firm with 50 workers, but ACT also has the highest threshold (so least small businesses liable)

\$'000, 2018<sup>1</sup>



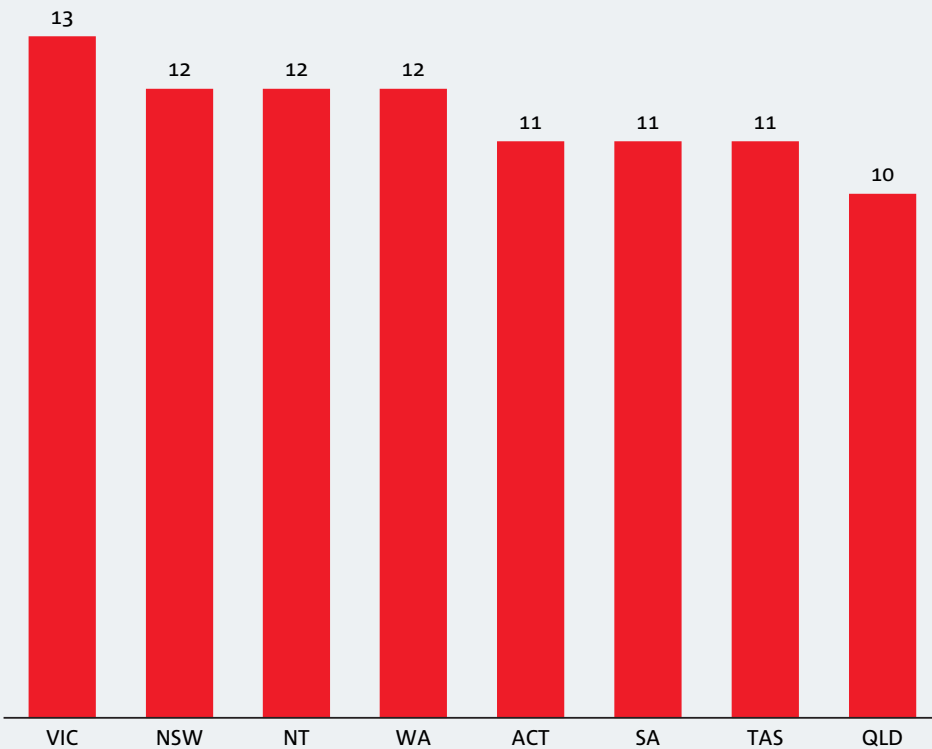
1. Liability for payroll tax derived from estimate of distribution of firms by employee number. Error bars for % of small business subject to tax is based on estimated payroll at the threshold of these firm size ranges (details in appendix). This process identified 50 employees as a useful benchmark for comparing payroll tax burdens between states, and a comparator for medium sized firm likely liable for payroll tax.

Source: ABS 6306, ABS 8165, Eurostat, state government websites, AlphaBeta analysis

# LATE PAYMENTS ARE A CHRONIC PROBLEM NATIONALLY, WITH VIC BIG BUSINESSES THE WORST, WHILE ENERGY COSTS FOR KEY SME TYPES ARE HIGHEST IN THE NT

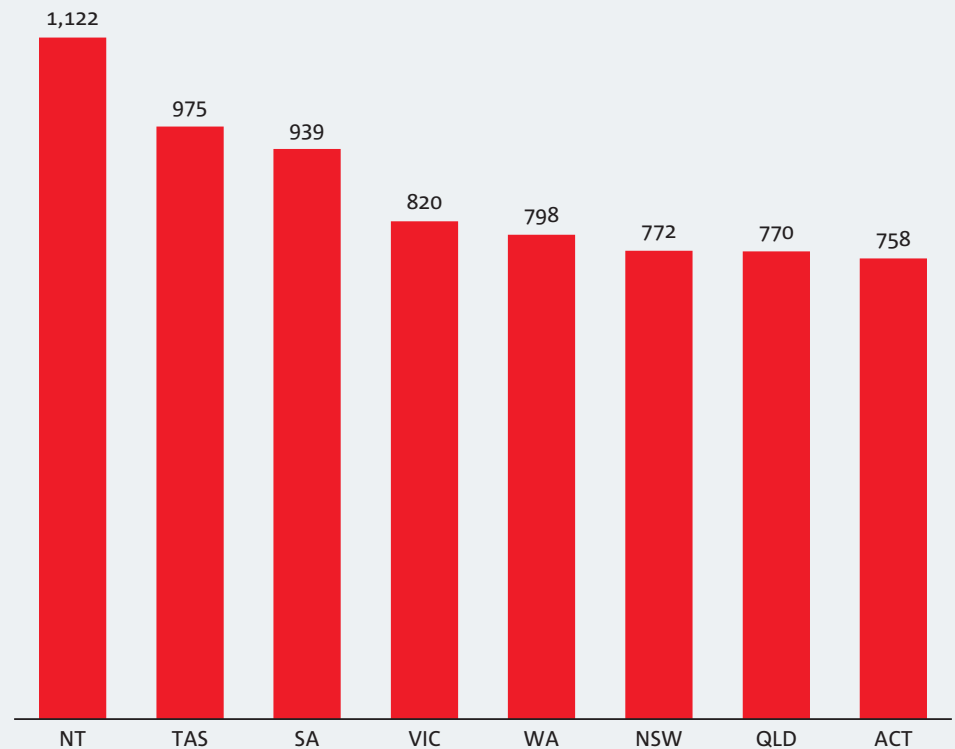
## Small businesses in Victoria wait the longest time for big business payments, but late payments are felt everywhere

Average number of days late for big business payments to small business<sup>1</sup>



## Key types of small business in metro or populous areas face the highest energy costs in the NT, TAS and SA

\$, average annual cost in metro areas for natural gas and electricity for key small business types<sup>2</sup>



1. Late payment days defined as the average receivables days for small businesses above the standard 14-day payment period.

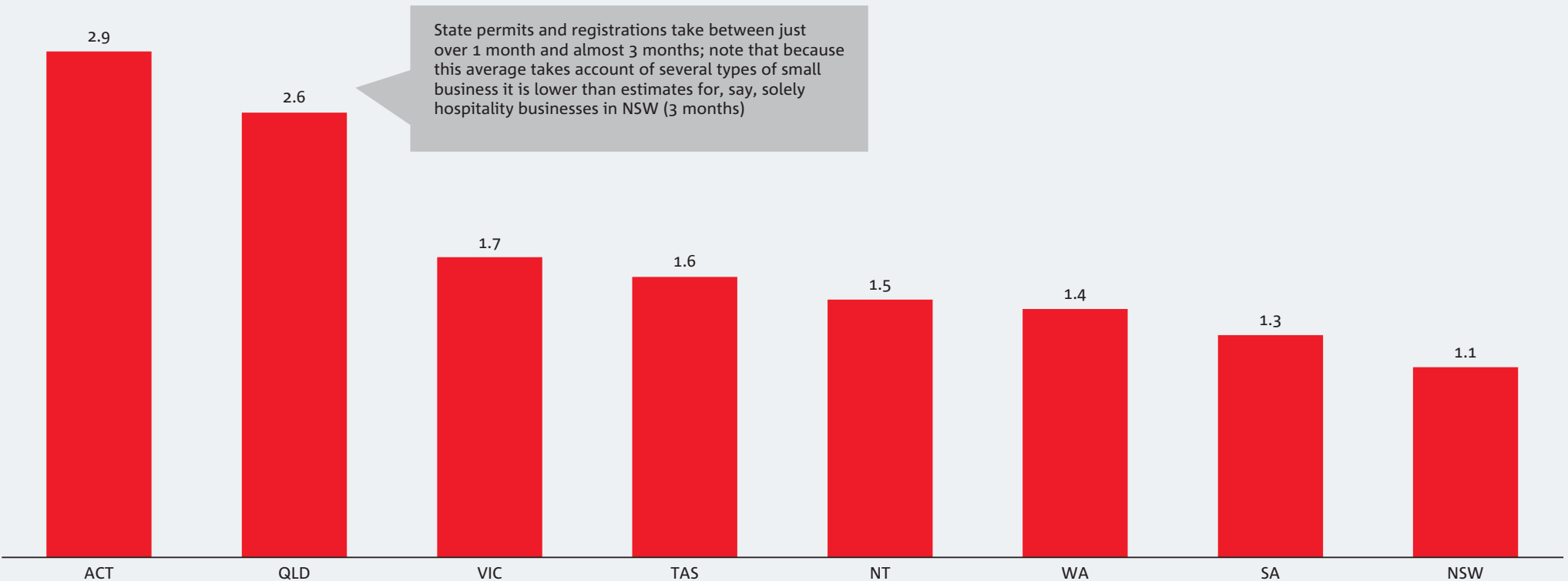
2. Method considered energy costs for the three most common small business subsectors by employment range: carpentry, management advice and consulting, and beef farming firms, all with fewer than five employees. Details in appendix.

Source: Paying the Price report (2019, AlphaBeta for Xero), Small Business Energy Check tool (2019, AlphaBeta for Xero and the Australian Government), AlphaBeta analysis

# TIME DEVOTED TO SEEKING PERMITS LIKE LIQUOR LICENSES AN AVERAGE OF 1 TO 3 MONTHS FOR COMMON SME TYPES, WITH QLD AND THE ACT TAKING THE LONGEST

Seeking permits and registrations for a new small business can take between 1 and 3 months depending on state

Estimated average months for non-property registrations and permits in metro areas for common small business types<sup>1</sup>



1. Method considered federal and state processes to register small businesses and obtain permits for three most common small business sectors: construction, professional services and hospitality, comprising >1/3 of all small businesses. Permits and registrations included registering special types of business (e.g. restaurants, liquor licenses), applying to use public land and infrastructure (e.g. to display goods or for trade waste), for safety (e.g. cooling towers), and for HR and other processes (e.g. workers' compensation). Time was estimated from public documents and interviews and a weighted average constructed from requirements of the common small business types.

Source: federal and state government websites, guidelines and annual reports, stakeholder interviews, AlphaBeta analysis

# SUPPORTS FOR GROWTH AS PROXIED BY THE STARTUP ECOSYSTEM ARE BEST IN SYDNEY AND MELBOURNE, WHILE TAS SMALL BUSINESS IS MOST DIGITALLY ENGAGED

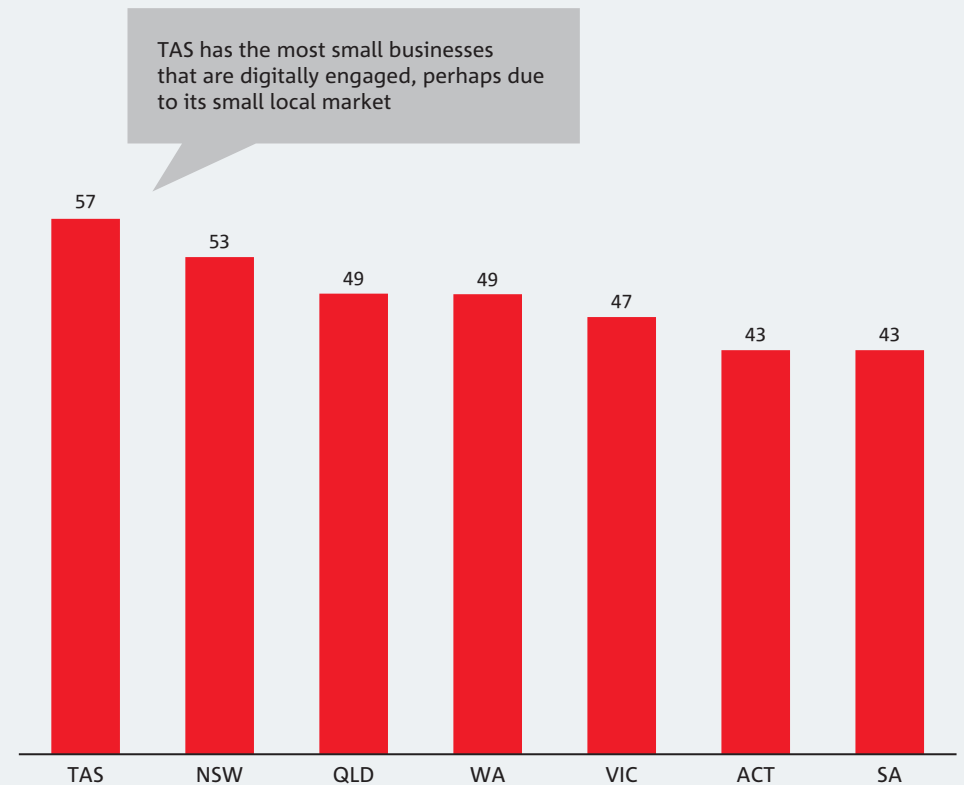
The quality of supports for growth varies by state, and supports are focussed on capital cities

StartupBlink Australian growth ecosystem ranks and scores, 2019<sup>1</sup>



Small businesses in TAS are most likely to seek growth in the digital economy, perhaps due to small local market

% of small businesses reporting advanced or high digital engagement, 2017<sup>2</sup>



1. Score is a measure of the quantity of startups and other supporting organisations (coworking spaces, accelerators, startup influencers and events); quality of supports based on utilisation, authority or level of influence, customer base, and factors like global brands; and business environment (tech infrastructure, bureaucracy, red tape and the like) and having a critical mass of startup activity.

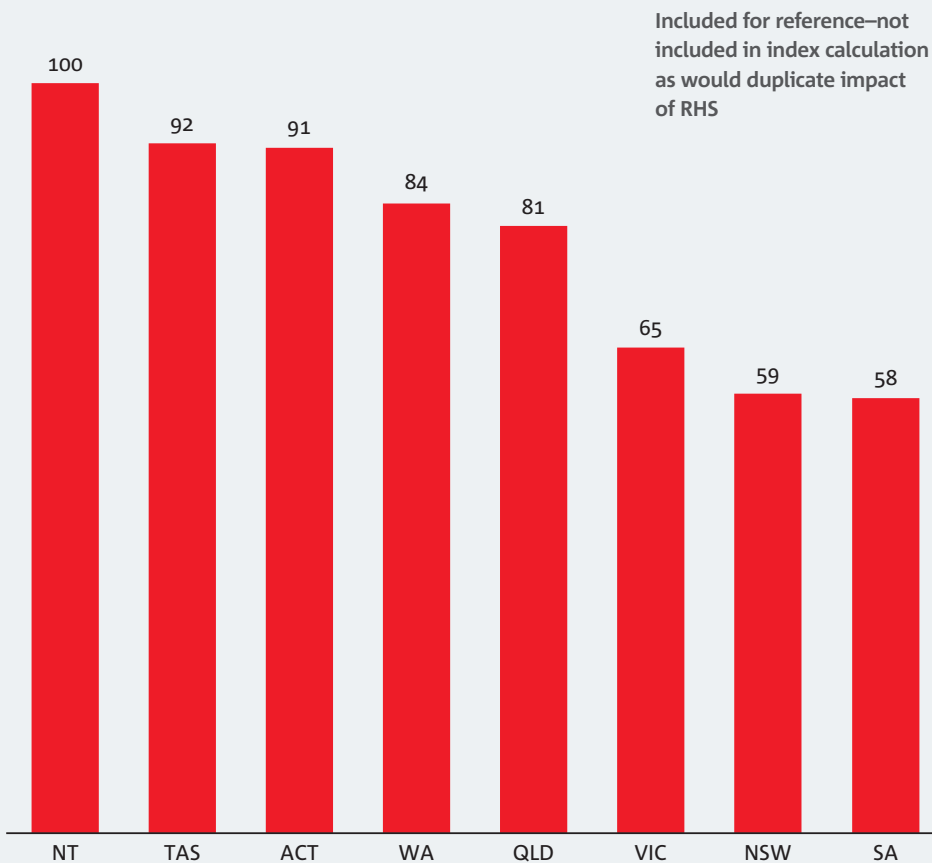
2. NT not included in source data. Advanced or high digital engagement means small businesses use data analytics to drive decisions, online marketing tools such as search engine marketing, mobile-responsive websites, social media and the like.

Source: StartupBlink(2019), Deloitte (2017), AlphaBeta analysis

# SMALL BUSINESS LEADS THE WAY WITH NEW IDEAS IN ALL STATES, BUT WA FIRMS ARE MOST INNOVATIVE WITH 140 PATENTS PER 1K SMALL BUSINESSES SINCE 2010

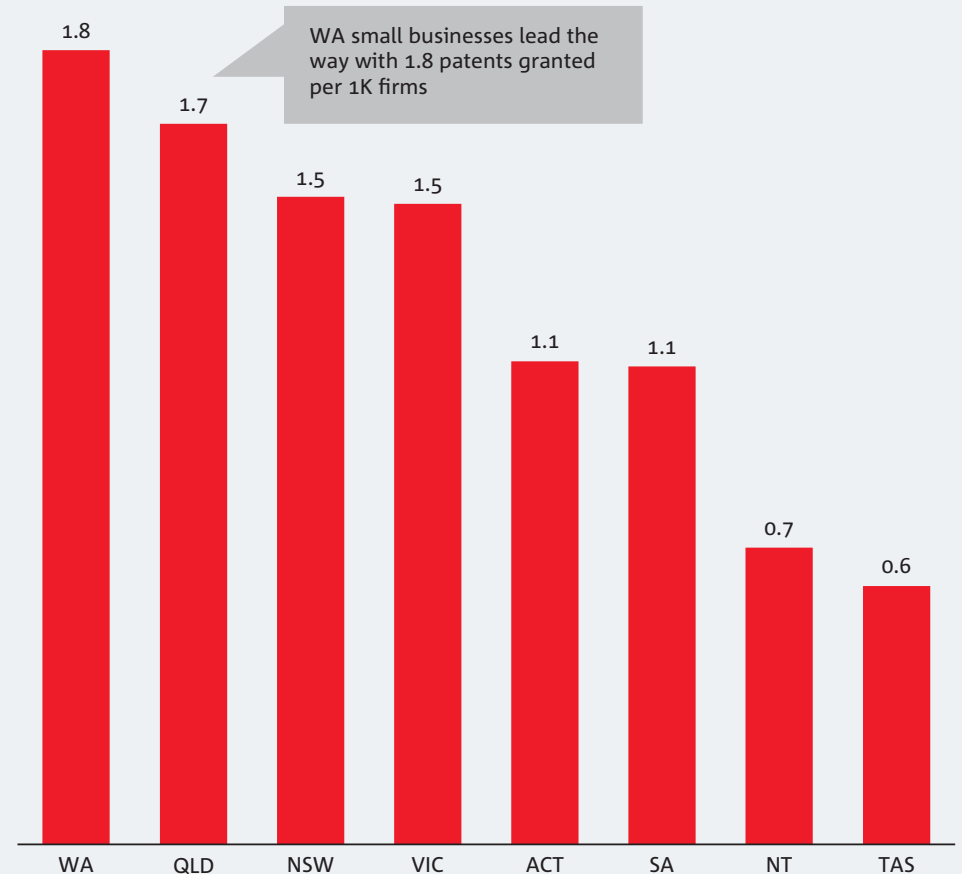
Small business receive over 80% of business patents in 5 states, whereas states like NSW see more big business patents

Proportion of all business patents filed by small business, %, 2010-2018



WA leads the way in small business innovation, with 1.8 patents granted per 1K small businesses since 2010

Number of applications filed by small businesses per 1000 small businesses, 2010-2018



# METHODOLOGY: RED TAPE ANALYSIS

## Overview

- This analysis measures the cost of time for small business to conduct key compliance in Australia relative to best practice. The cost of excess red tape is the difference between cost of time under these two conditions.
- Red tape and compliance effort varies by sector and by jurisdiction. For example, in countries like New Zealand with unitary government, there may be less duplication of administrative effort. The time spent on red tape is sourced from the World Bank Doing Business database which applies a standard set of assumptions across different countries to determine time to start a business, pay tax, seek construction and property permits, trade across borders, enforce contract disputes and resolve insolvency.

## Breakdown of approach

- For each component of red tape, Australia was compared to the worldwide leader with the shortest time to complete compliance. The time difference calculated is multiplied by the average daily earnings of a full time worker to find the cost of this lost time.
- **Starting a business:** New Zealand is the world leader. The time difference is multiplied by the number of new small businesses each year.
- **Paying taxes:** this category includes company, payroll and goods and services taxes, for which Estonia is the world leader. The time difference is multiplied across all small businesses. The analysis also considered time for GST refunds claimed against business expenses, for which Germany is the world leader. The time difference is multiplied across all GST-paying small businesses. The analysis also considered the opportunity cost of time for GST refunds, for which Estonia is again the world leader. It assumed that a shorter refund time means small businesses are able to use the refund to reduce net debt sooner. GST debt was calculated from goods and services expenses data and interest savings were found by multiplying the value of GST refunds secured by the average interest rate that small businesses pay to service debt obligations as reported by the RBA (8%).
- **Development permits:** South Korea is the world leader. The time difference is multiplied across all small businesses seeking development permits. While the World Bank database reports approvals times for warehouses, it has been assumed that most small businesses develop non-residential buildings and that the approvals process is broadly similar for these building types. The number of small businesses seeking development permits was estimated by finding the number of non-residential building development approvals for buildings under \$20 million.
- **Registering property:** Portugal is the world leader. The time difference is multiplied across all small businesses purchasing property. This number was estimated by assuming the number of non-residential property sales is equal to the value of all business investment in buildings divided by the mean residential dwelling price (commercial prices unavailable), then attributing sales to small business in proportion to their GVA contribution.
- **Trading across borders:** Japan is the world leader for exports, and New Zealand for imports. The time difference is multiplied across all small business exporters and importers. ABS provides the number of small business exporters and the number of small business importers was estimated using the ratio from the most recent ABS data comparing the two (2003, 1:2 importers to exporters).
- **Enforcing contracts:** Iceland is the world leader in the cost of enforcing contracts. This cost is derived from legal fees to conduct a standardised legal dispute and expressed relative to income per capita. The cost difference is multiplied across all small businesses engaged in contract disputes. This was estimated from the % of small business engaged in legal disputes 2013-2018 (9%, ASBFEO).
- **Resolving insolvency:** Norway is the world leader in the cost of resolving insolvency. This cost is derived from fees to resolve a standardised insolvency dispute and expressed relative to average insolvency assets value. The cost difference is multiplied across all small businesses entering into administration. This was derived from ASIC reporting.



# METHODOLOGY: CALCULATING STATE SUPPORTS INDEX

## Index Calculation

### Overview

- This report includes a comparison of the barriers and supports small business face in each state to start, run and grow a business.
- Within each category, a variety of indicators covering funding, time for approvals, skills, costs, and access to markets and services have been collected. They are then normalised and aggregated to indicate the top three states for supporting small business in each stage.

### Breakdown of approach

- Measures were selected based on key factors driving small business success (skills, cashflow), key types of supports from government (funding, infrastructure), and factors derived from the World Bank Doing Business Index and World Economic Forum Competitiveness Index. Data was gathered on these measures from state government website and budget papers, stakeholder interviews, Census and other ABS data, and third party reports.
- Each measure was normalised following the process adopted by the World Bank Doing Business Index:  
$$\text{Normalised value} = (\text{worst value} - \text{actual value}) / (\text{worst value} - \text{best value}).$$
- Measures are then aggregated into the start, run and grow categories.

## Selecting Exemplar Small Business Types for Some Measures

### Overview

- A few pieces of analysis in this report required input assumptions about small business industries and sizes. For example, the time to register and seek permits was influenced by sector because different business types need different permits.
- This methodology describes how industry and size cuts were chosen for this analysis, and how the outcomes for key small business types were aggregated.

### Breakdown of approach

- ABS data was used to determine the most common types of small business, split across sectors;
- **State registrations and permits.** Different registrations and permits are required depending on the type of business. Conditions for the top three sectors nationally (construction, professional services and hospitality) were considered. The sector types were held constant nationally to isolate the effect of process differences. Process time for these business types were calculated and then averaged.
- **Energy costs.** The energy benchmark tool used requires input on subsector, revenue and employee types. The three most common subsectors by employment range were found (carpentry, management advice and consulting, and beef farming firms, all with fewer than five employees). This data is only available at national level. To provide assumptions for the revenue component, the most common turnover range for the above subsectors were used. Costs for these business types were calculated and then averaged.

# METHODOLOGY: PAYROLL TAX LIABILITY

## Overview

- This analysis estimates the **proportion of small businesses liable for payroll tax**. Payroll tax threshold and rates vary significantly between states, and many have been moving to increase thresholds so fewer small businesses are liable. Payroll tax is chiefly an issue for medium, rather than small, firms.
- The analysis finds the proportion of small businesses above each state's payroll tax threshold by treating payroll as a **product of earnings and number of employees**, then estimating the distribution of firms by employee number to find how many firms have sufficient employees to go over the threshold.
- Because only bands firms distributed by employee numbers are known, as opposed to a continuous distribution, **upper and lower bounds** of the proportion of firms liable are estimated.

## Breakdown of approach

- The analysis seeks determine the proportion of small businesses liable for payroll tax under each state and territory's threshold. A firm will be liable if its payroll is above this threshold. The proportion is equal to the number of small businesses over the threshold in the state divided by all small businesses in the state.
- Payroll volume for a firm. Payroll volume is a product of employees and earnings. For this analysis, average weekly earnings for each state were used as an assumption for the latter to simplify variation in earnings by industry (and firm size) and make firm size the key driver.
- **Firm size distribution**. The challenge is to determine the firm size distribution for each state, or how many firms have a certain number of employees. This becomes the key driver of how many firms are over the threshold.
  - ABS data provides firm size distributions by state using the categories 0-4 employees, 5-19, 20-199 and 200+. Due to the relatively high threshold for payroll tax, firms need to have over 20 employees to be liable using average earnings. Meanwhile, all firms over 200 employees will be liable. As such, the number of firms liable is equal to the number of firms with fewer than 20 employees plus some portion of the firms in the 20-199 employee (medium) range.

- To estimate the distribution of firms along the wide band of employee numbers in the medium firm size category, international proxies are used. In particular, US and European breakdowns of employees in this range were considered. The European figures were selected because they were based on a closer distribution of small, medium and large firms to Australia. This proxy provides breakdowns of firm numbers in the 20-49 and 50-249 employee categories. Though this is not a perfect match with the ABS upper bound of 200 for medium sized firms, there are so few firms in the 200+ category in Australia that this adjustment has little impact. The proxy was used to derive a relative proportion of firms in the 20-49 and 50-199 bands.
- These proportions were then used to divide the medium sized (20-199 worker) firms in each state.
- **Upper and lower bounds**. Once the number of firms at the 20, 50 and 200 person bars are known, this allows a closer estimate of the proportion of firms in this range over the payroll tax threshold. Payroll tax for a firm at each bars was calculated and compared to the tax threshold. This was used to estimate the upper and lower bounds –for example, if a firm with 50 employees was not liable for payroll tax using the approximations above, there can be no more firms paying payroll tax than the number of firms with more than 50 employees.