

IMPACT OF COVID-19 ON BUSINESSES IN AUSTRALIA

Tenth edition

BANK OF MELBOURNE ECONOMICS
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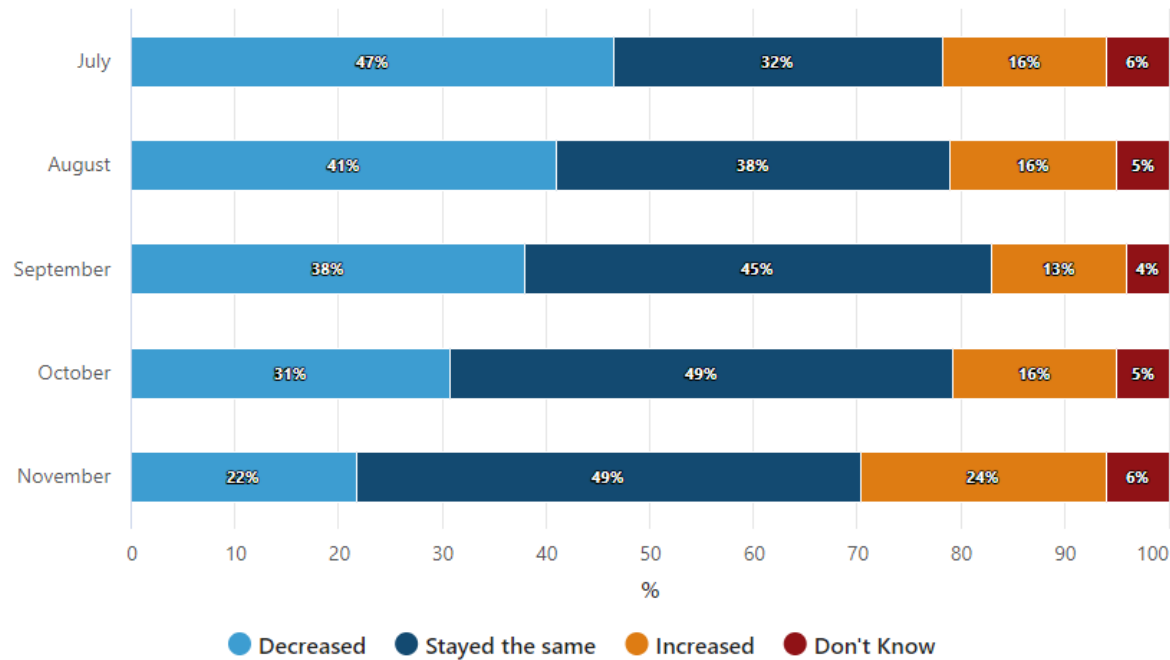
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OVERVIEW

- The Australian Bureau of Statistics (ABS) released the tenth edition of its survey measuring the impact of COVID-19 on businesses. This survey was conducted over November 4-11.
- Questions this month focussed on businesses capital expenditure plans for the next three months.
- The survey highlighted that businesses were more optimistic in November when compared to any of the previous months the survey was conducted (since July). The trends in revenue and operating expenses were more favourable than in the October report.
- In November, more businesses indicated increases to headcount than in October while a smaller proportion indicated they laid off staff. The vast majority (84%) continued to indicate no intentions to change their current headcount.
- Most businesses (79%) reported they usually do not purchase capital at this time of the year, while only 11% said they did.
- Two thirds of all businesses reported having no plans to purchase capital goods in the next three months. Most large companies (55%) have plans, but only 21% of small businesses have such plans.
- Out of those businesses planning on purchasing capital in the next three months, 52% of them reported they would spend more than usual for this time of the year. Only 6% intend to invest less than usual.
- Nearly 40% of large businesses intend to purchase IT hardware or software, while 20% intend to purchase buildings and other structures. Over a quarter of retail trade and professional, scientific and technical services businesses intend to acquire new IT hardware or software.
- Although still important, economic uncertainty seemed to affect businesses decisions on investment a lot less in November than in October. For 40% of smaller firms and 37% of medium-sized companies, tax incentives are an important factor for investment.

BUSINESS ACTIVITY – REVENUE AND REVENUE EXPECTATIONS

Changes in revenue, July to November (a)

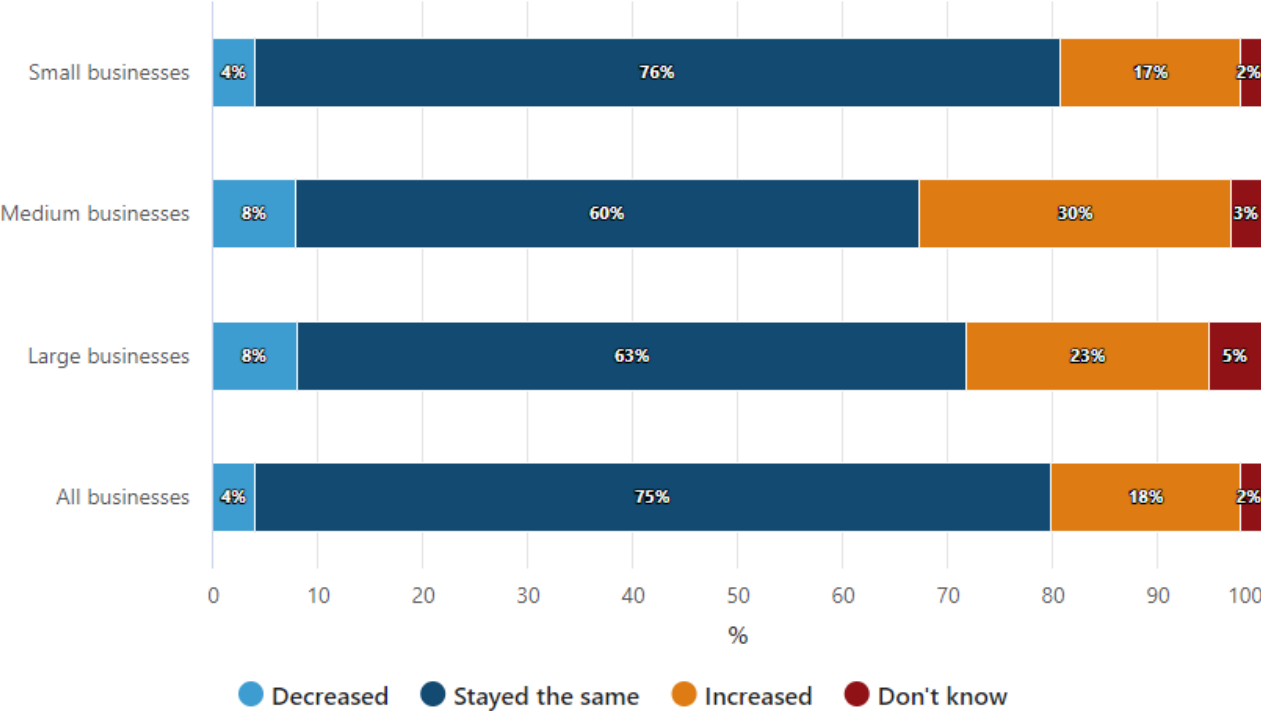


(a) Proportions are of all businesses

- Businesses were asked about monthly changes in revenue, operating expenses and employment in all surveys since July.
- Business revenues showed steady monthly improvements. In July, almost half of all companies recorded reductions in revenue, suggesting a large number of businesses faced hardship selling their products. As the Australian economy gained momentum, this rate started falling and in November only 1 in 5 businesses recorded reductions in revenue.
- The share of businesses reporting an increase in revenue rose from 16% in October to 24% in November.
- As about half of businesses continued to report no changes to revenue in November, the overall picture for revenue improved considerably.
- A quarter of all businesses expect higher revenues in December. In October, only 18% of businesses expected to see improvements for November. Most businesses (56%), however, expect no changes in revenues while only 10% anticipate a decline. Overall, these figures suggest businesses are becoming more optimistic about future revenue.

BUSINESS ACTIVITY – EXPENSES

Changes in operating expenses for November, by employment size (a)

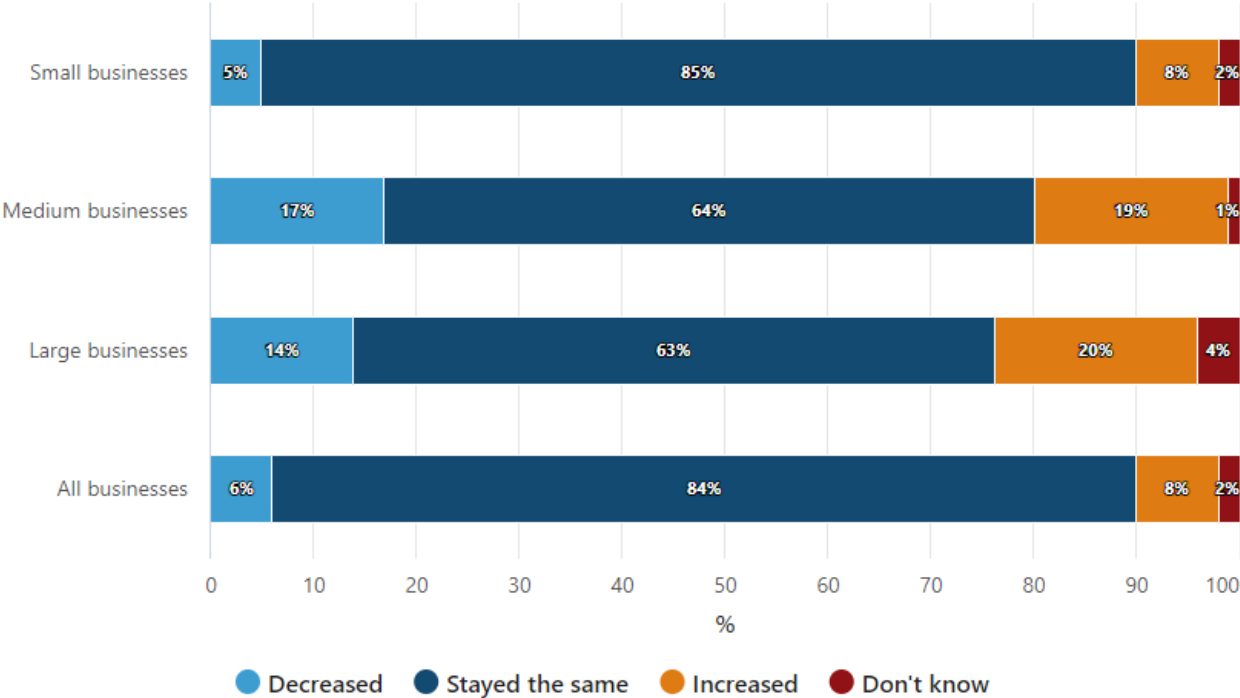


(a) Proportions are of all businesses

- The share of businesses reporting increased operating expenses in November fell to 18%, from 24% in October and September. A much larger proportion saw no changes in expenses in November (75%), relative to October (64%) and September (63%).
- Small businesses, the type of company suffering the most in the pandemic, have seen a fall in the proportion of firms reporting increases in expenses. The rate fell from nearly a quarter in October to 17% in November.
- In October, 24% of medium-sized businesses recorded higher expenses compared to 30% in November. For large businesses, this rate remained unchanged at 23%.

BUSINESS ACTIVITY – EMPLOYMENT

Changes in number of employees for November, by employment size (a)

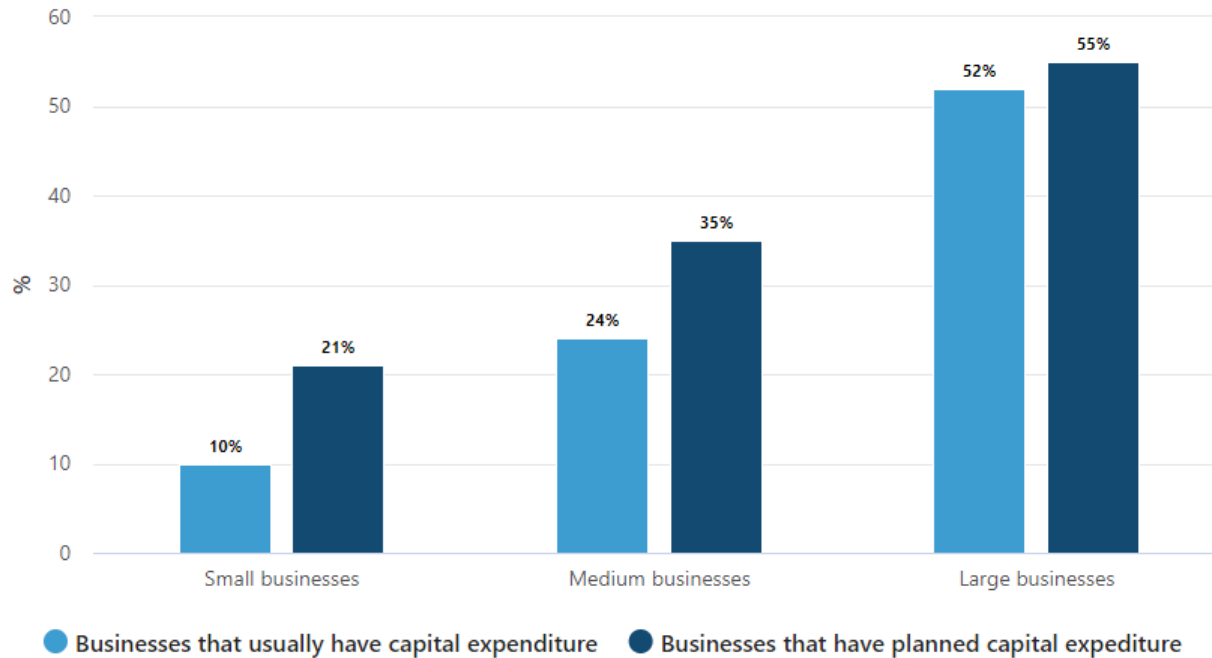


(a) Proportions are of all businesses

- In October, 7% of businesses recorded an increase in headcount. The same proportion of businesses indicated a decrease while the vast majority (85%) did not hire or lay off any workers. These figures are largely in line with those observed in November.
- A marginal increase in the proportion of large firms willing to hire more workers was recorded in November. 20% of them increased headcount compared to 19% in October. Similar movements were observed for small (8% in November against 6% in October) and medium businesses (19% vs 22%).
- Fewer businesses laid off workers. Only 6% decreased headcount in November, down from 7% in October and 13% in July. By employment size, 17% of medium-sized and 5% of small companies laid off staff.
- The latest labour market figures indicated that nearly 180,000 jobs were created in October. Today's results provide some hope job creation in November will be just as strong.

PLANNED AND USUAL CAPITAL EXPENDITURE

Proportion of businesses with planned capital expenditure and usual capital expenditure, by employment size (a)(b)



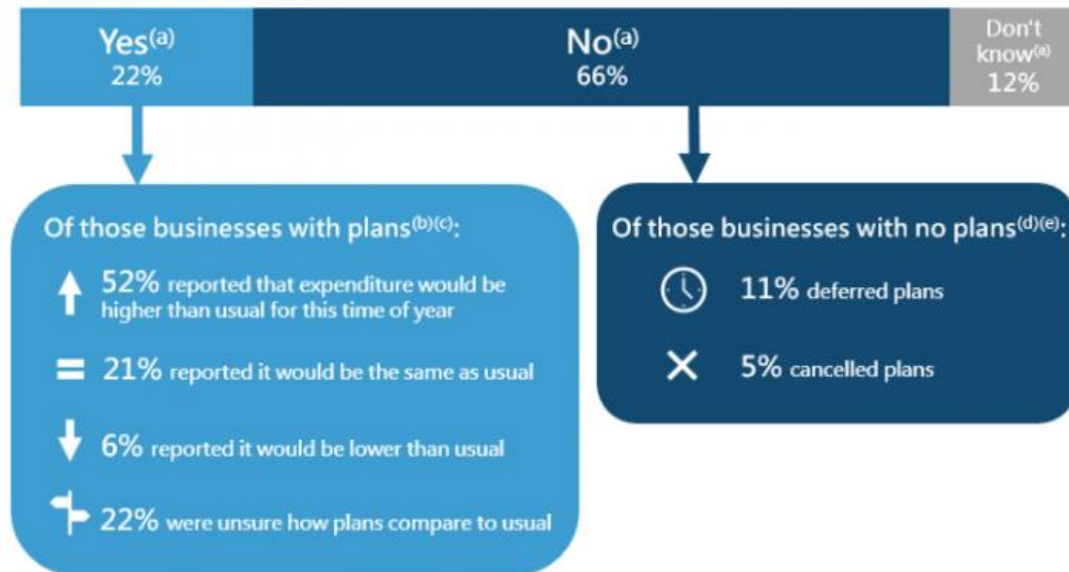
(a) Proportions are of all businesses

(b) Capital expenditure plans include those over the next three months

- Businesses were asked whether they would usually purchase capital at this time of the year and their plans for capital expenditure over the next three months.
- Most businesses (79%) reported they do not usually purchase capital at this time of the year. Roughly 1 in 10 indicated they do and 10% were uncertain. Around half of all large businesses reported usually spending on capital at this time of the year. This rate was far lower for medium-sized companies (24%) and small businesses (10%).
- Two in three businesses do not intend to purchase capital in the next three months, while 22% said they do. 55% of large businesses indicated they have planned capital expenditure, followed by 35% of medium and 21% of small companies.
- Over 4 in 10 businesses in retail trade intend to purchase capital in the quarter, followed by 35% in arts and recreational services and 34% in information and media telecommunications.

PLANNED CAPITAL EXPENDITURE

Businesses with any capital expenditure plans over the next three months



(a) Proportions are of all businesses

(b) Proportions are of businesses with capital expenditure plans over the next three months

(c) The sum of the component items do not equal 100% due to rounding

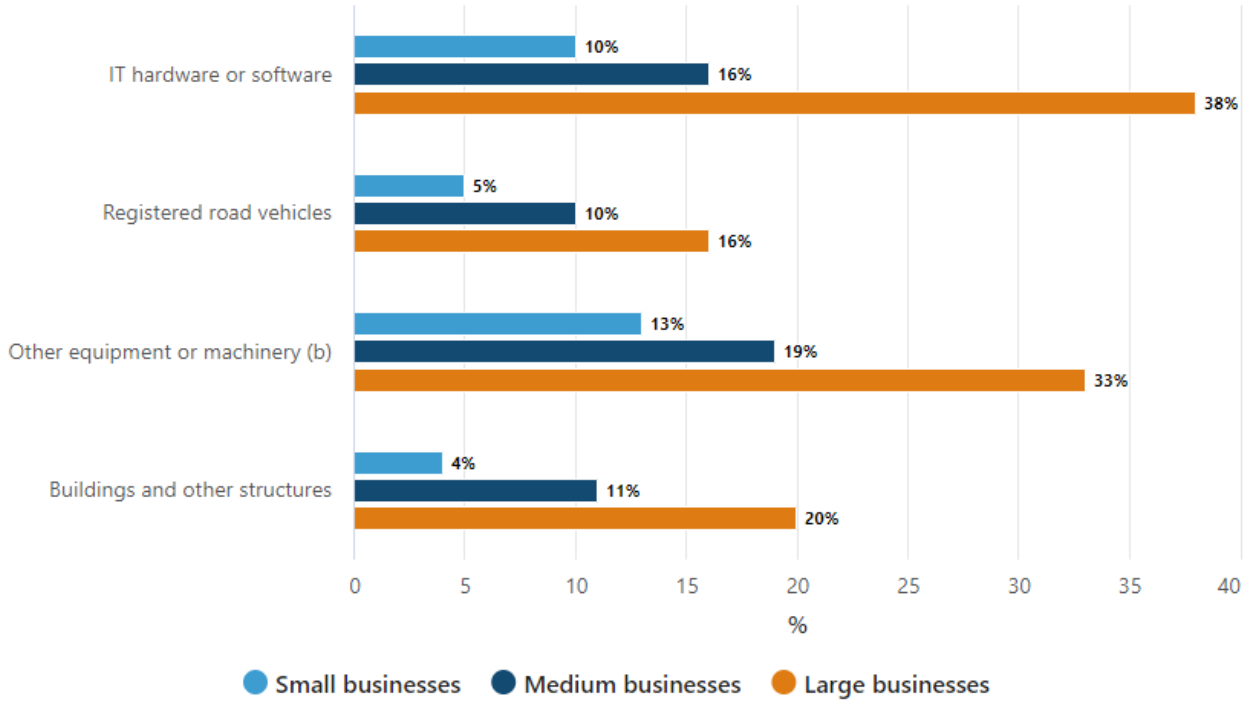
(d) Proportions are of businesses with no capital expenditure plans over the next three months

(e) Businesses could select more than one response option

- The survey asked further questions on capital expenditure.
- Out of those businesses planning on purchasing capital in the next three months, 52% of them reported they would spend more than usual for this time of the year. 1 in 5 reported spending would be the same, while only 6% reported it would be lower than usual.
- By company size, most small businesses that usually invest at this time of the year (53%) expect higher than usual capital expenditure, while 19% expect the same amount. For large businesses, 29% expect to spend more on capital than usual and 44% expect the same. Almost half of medium-sized companies anticipate higher expenditure on capital while only 6% expect a reduction.
- For the nearly 2 in 3 businesses without any plans on capital expenditure for the next quarter, 11% of them cited deferred plans as the reason not to invest while 5% of them indicated cancellation of plans.

PLANNED CAPITAL EXPENDITURE – TYPES OF ASSETS

Types of assets businesses plan to purchase, by employment size (a)



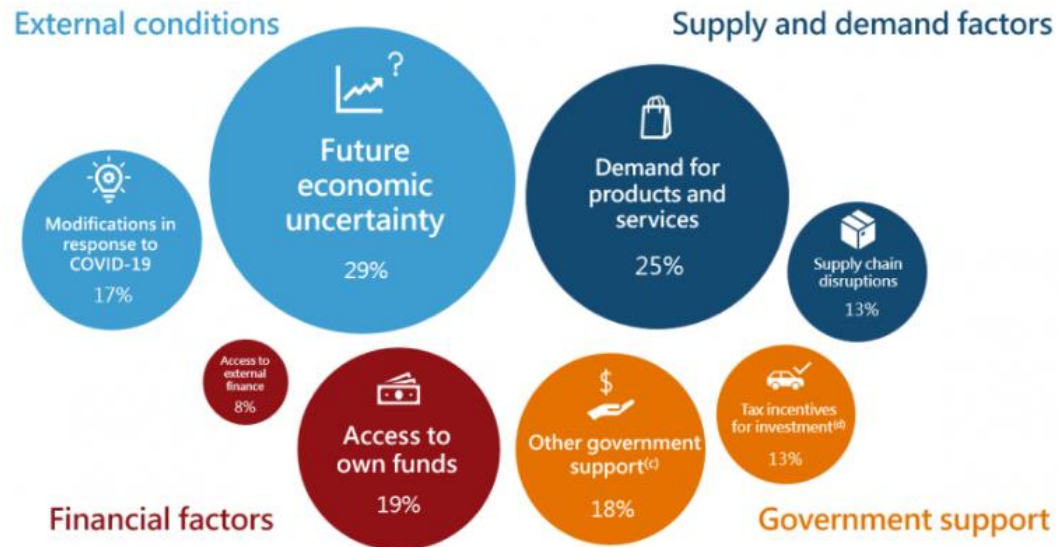
(a) Proportions are of all businesses

(b) For example, office equipment, furniture, hand and power tools, forklifts or pumps

- Businesses intending to purchase capital in the next three months were asked what type of assets they would invest in. Businesses were given the choice to select as many options as they saw fit so percentages may not sum to 100%.
- Nearly 40% of large businesses intend to purchase IT hardware or software. 20% will invest in buildings and other structures, while 16% will purchase registered road vehicles.
- Almost 20% of medium-sized companies will buy other equipment or machinery whereas 16% intend to spend on IT hardware or software. Small firms have similar intentions, with 13% purchasing other equipment or machinery and 10% IT hardware or software.
- Over a quarter of retail trade and professional, scientific and technical services businesses intend to acquire new IT hardware or software. 15% of retail trade and education and training businesses intend to acquire new buildings and other structures.

PLANNED CAPITAL EXPENDITURE – DETERMINANTS

Factors influencing capital expenditure plans (a)(b)



(a) Proportions are of all businesses
 (b) Businesses could provide more than one response to the question
 (c) For example, Boosting Cash Flow for Employers, Government backed-business loans, Backing business investment – accelerated depreciation, Loss carry back
 (d) For example, Instant Asset Write-Off, temporary full expensing

- Businesses were asked which factors had significantly influenced their plans to purchase capital in the next three months. They were given the chance to provide more than one option.
- 29% of all businesses reported that future economic uncertainty was an important factor influencing their plans for capital expenditure. In November, fewer firms mentioned uncertainty as an impediment for investment. In August, nearly 60% of firms reported future economic uncertainty as an important factor.
- Almost a half of all small businesses cited lack of demand for their products or services to be an important factor for capital expenditure. This proportion was 47% for medium-sized companies and 43% for large businesses.
- 40% of small businesses indicated tax incentives for investment were important. A similar proportion of medium businesses (37%) cited this reason while only 17% of large firms mentioned tax incentives as a factor.
- In November, only 17% of businesses (from 28% in August) reported modifications in response to COVID-19 as a determinant.

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