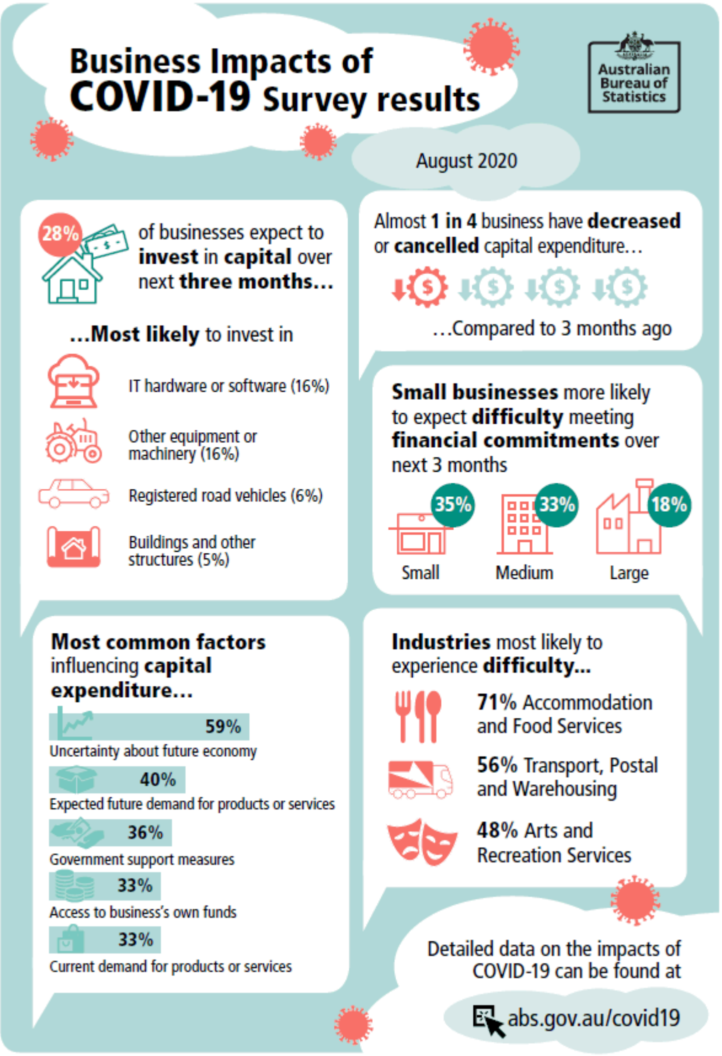
IMPACT OF COVID-19 ON BUSINESSES IN AUSTRALIA
Seventh Edition

BANK OF MELBOURNE ECONOMICS
27 August 2020

CONTENTS

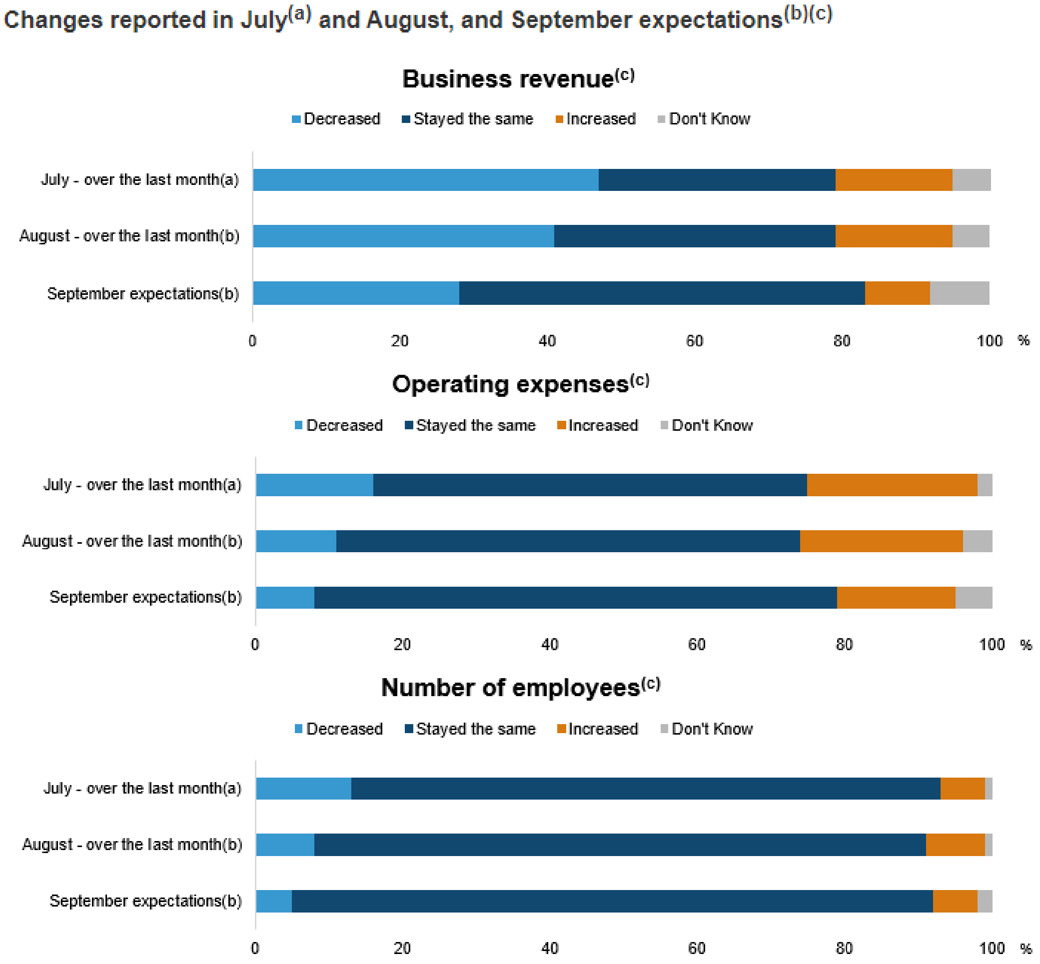
OVERVIEW

- The Australian Bureau of Statistics (ABS) released the seventh edition of its survey measuring the impact of COVID-19 on businesses. The survey was conducted between 12 and 19 August.
- Questions this month were focussed on the financial position of firms and their capital expenditure intentions.
- The survey highlighted that firms remain uncertain about the future. 35% of all businesses said they expect difficulty meeting financial commitments over the next three months.
- Small businesses continued to bear the brunt of the economic impact from COVID-19. 35% of small businesses said they expect it to be difficult or very difficult to meet obligations compared with 33% of medium sized businesses (20-199 employees) and 18% of large businesses (200+ employees).
- In August, the percentage of firms who reported a decrease in revenue over the month fell to 41% (compared with 47% in July). 16% of firms reported an increase in revenue.
- The proportion of firms reporting an increase in operating expenses remained high in August. 22% said that their expenses had increased.
- Labour market conditions were less dire in August, according to the survey. An equal proportion (8%) of firms said that they had increased their headcount compared with those who reported a decrease.
- 23% of firms reported that they had decreased or cancelled their actual or planned expenditure in August compared with 3 months ago



Bank of Melbourne

BUSINESS ACTIVITY – ACTUAL AND EXPECTED

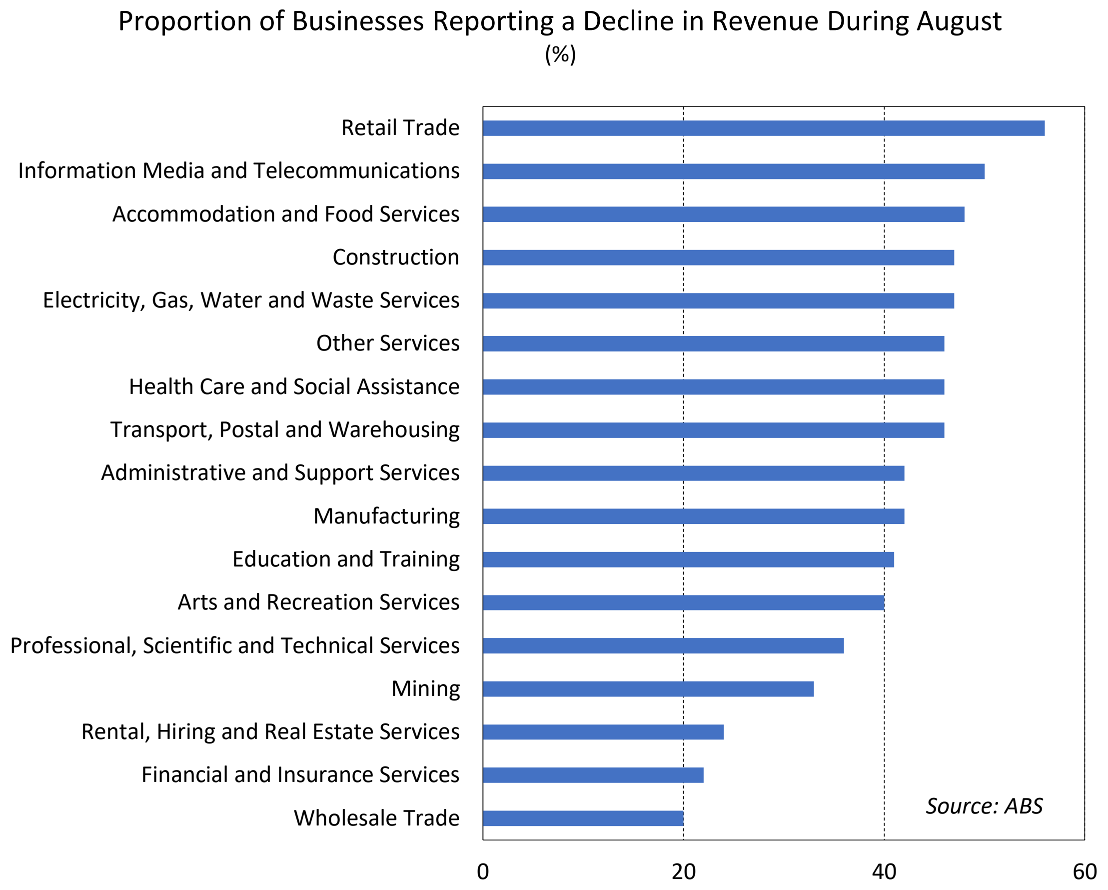


(a) As reported by businesses in July 2020 (Cat.No. 5676.0.55.003 - Business Indicators, Business Impacts of COVID-19, July 2020)
(b) As reported by businesses in August 2020
(c) Proportions are of all businesses

Source: ABS

- The proportion of businesses under distress reduced in August compared with July, but conditions remain difficult.
- Businesses were asked about monthly changes in revenue, operating expenses and employment in both the July and August iterations of the survey.
- In August, the percentage of firms who reported a decrease in revenue over the month fell to 41% (compared with 47% in July). 16% of firms reported an increase in revenue.
- Looking ahead, businesses remained pessimistic about revenues. 28% of firms expected revenue to decrease over September.
- The proportion of firms reporting an increase in operating expenses remained high in August. 22% said that their expenses had increased. 63% reported no change in expenses over the month while 11% said that their expenses declined.
- Labour market conditions were less dire in August, according to the survey. An equal proportion (8%) of firms said that they had increased their headcount compared with those who reported a decrease. A large majority (83%) reported no change in the total number of employees over the month.
- Prospects for employment also improved marginally. 6% of firms said they expected employment to increase in September while 5% said they expected employment to decline.

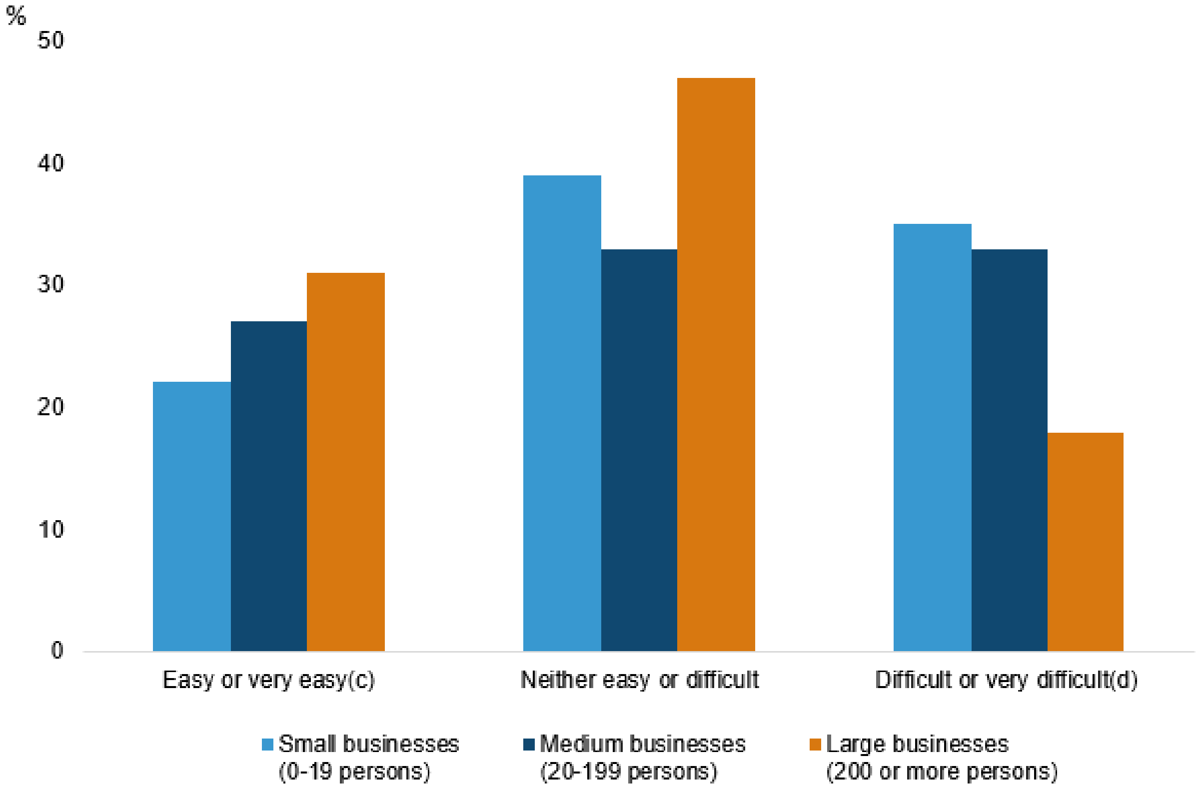
BUSINESS ACTIVITY BY INDUSTRY



- Business most affected by movement restrictions were more likely to report that their revenue had declined during August.
- 45% of businesses operating under modified conditions reported a decrease in revenue compared with 25% operating without restrictions.
- By industry, retail trade companies were the most likely to report a decrease, with 56% of firms in this sector reporting a decline in revenue. Information media & telecommunications (50%) and accommodation & food services (48%) also saw a large proportion of firms reporting a reduction.
- Firms in wholesale trade (20%) and financial & insurance services (22%) had the smallest percentage of firms reporting reduced revenue.
- Education & training firms had the highest percentage of firms reporting an increase in revenue over the month in August (30%). The survey does not indicate the magnitude of the increase in revenue or the level of revenue, so this increase may have been from a low base.
- Wholesale trade was the only industry where the number of firms reporting an increase in revenue (21%) outnumbered those reporting a decrease.

OUTLOOK FOR BUSINESS CONDITIONS

Business ability to meet financial commitments over the next three months, by employment size[a][b]



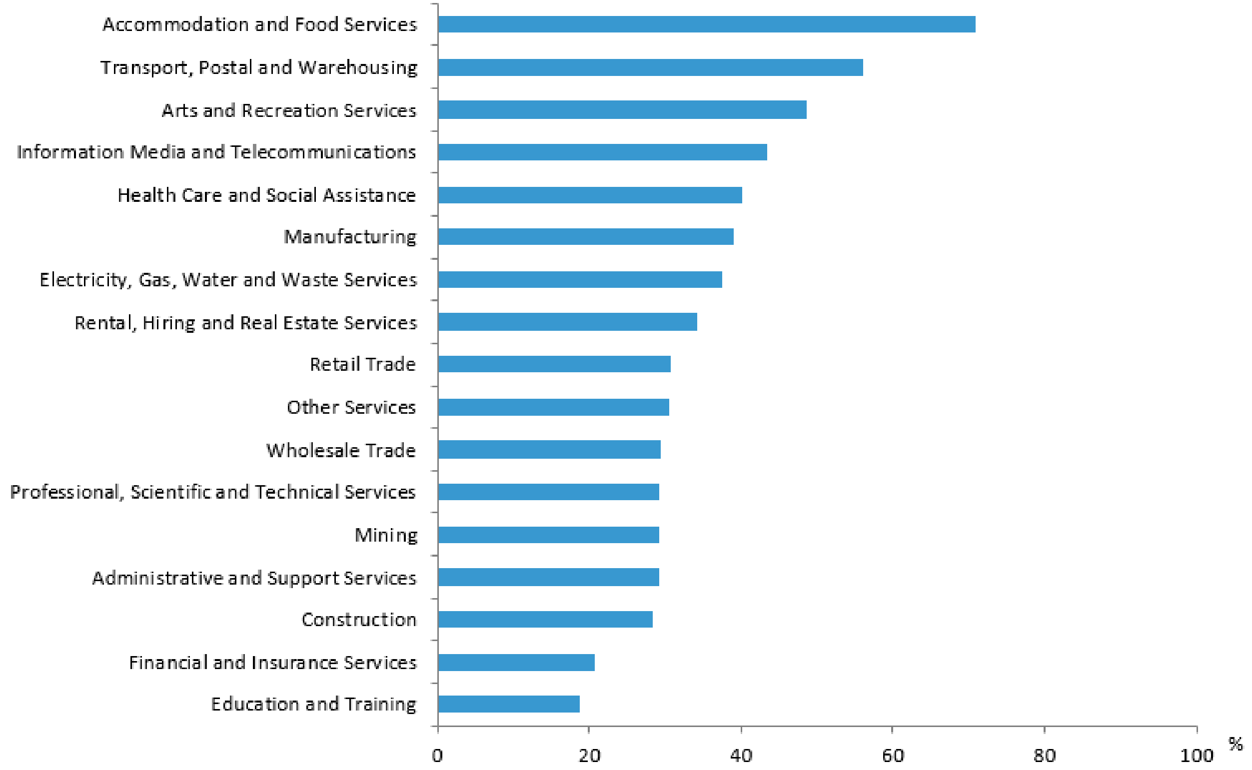
(a) Proportions are of all businesses
(b) The sum of the component items does not equal 100% because businesses could respond "Don't know" or "Not applicable"
(c) Proportions are the sum of responses of "Easy" and "Very easy"
(d) Proportions are the sum of responses of "Difficult" and "Very difficult"

Source: ABS

- Businesses remained sombre about the outlook in August.
- More than a third of businesses (35%) reported they expect it to be difficult or very difficult to meet financial commitments over the next three months.
- The large proportion of firms signalling strain on their finances has been a feature of the COVID-19 pandemic.
- Indeed, in the fifth edition of this survey taken in mid-June, just 36% of companies said their current cash on hand could sustain operations for more than 6 months.
- Small businesses continued to bear the brunt of the economic impact from COVID-19.
- 35% of small businesses said they expect it to be difficult or very difficult to meet obligations compared with 33% of medium sized businesses (20-199 employees) and 18% of large businesses (200+ employees).

OUTLOOK BY INDUSTRY

Businesses that expect difficulty[a] in meeting financial commitments over the next three months, by industry[b]

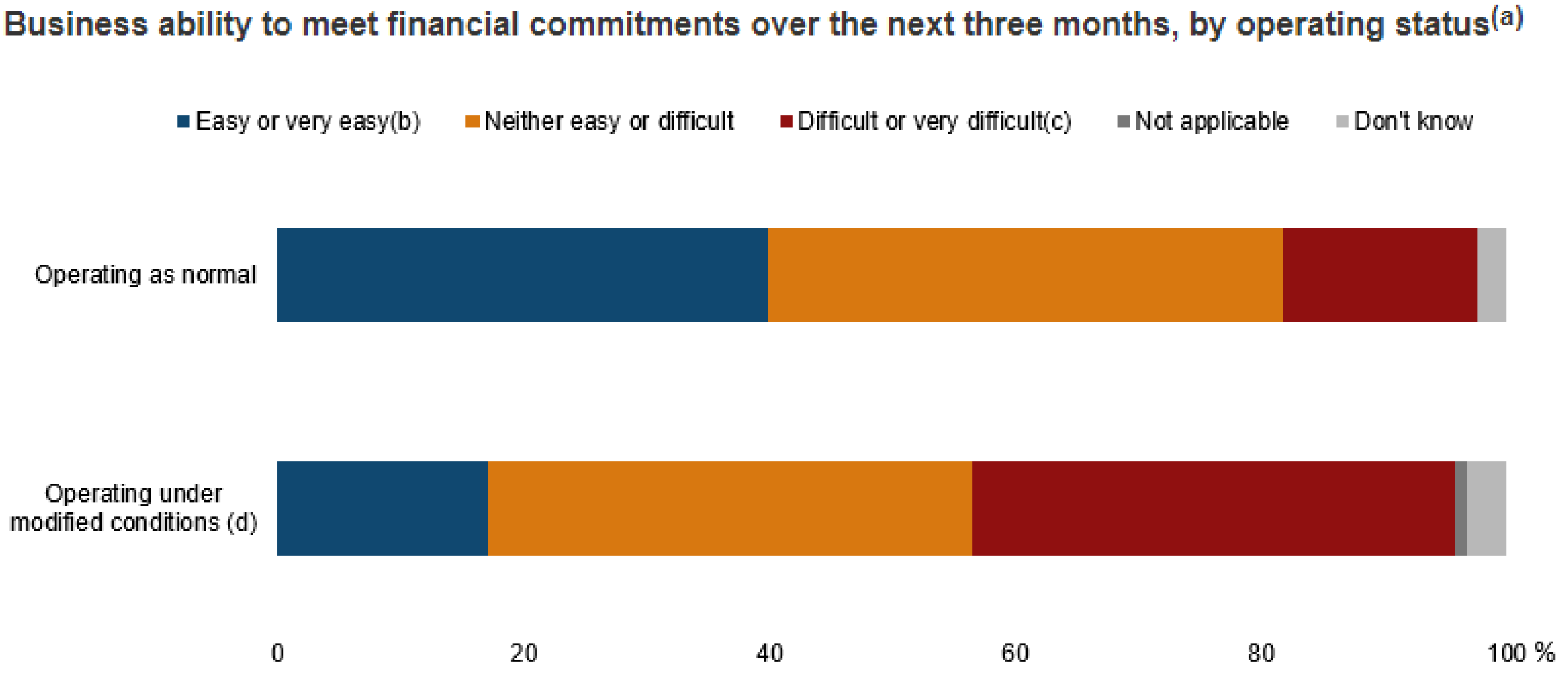


(a) Proportions are the sum of responses of "Difficult" and "Very difficult"
(b) Proportions are of all businesses

Source: ABS

- Balance sheet strength varies substantially by industry.
- Accommodation & food services industries were the most likely to report that they expected difficulty meeting financial obligations in the coming three months (71%). Firms in this sector were also likely to report acute difficulty, with 28% reporting that they were likely to find it *very difficult* to meet financial commitments.
- Arts & recreation services firms had the third highest prevalence of expectations of hardship, with 48% of businesses reporting some expectation of difficulty. However only 7% of firms said they expected it to be *very difficult* compared with 41% who said it would be *difficult.*
- The education & training sector had the lowest proportion of firms expecting financial stress in the coming three months (19%). 39% of firms in this sector said they expected it to be *easy* or *very easy* to meet upcoming financial obligations.

RESTRICTIONS ARE BAD FOR BUSINESS

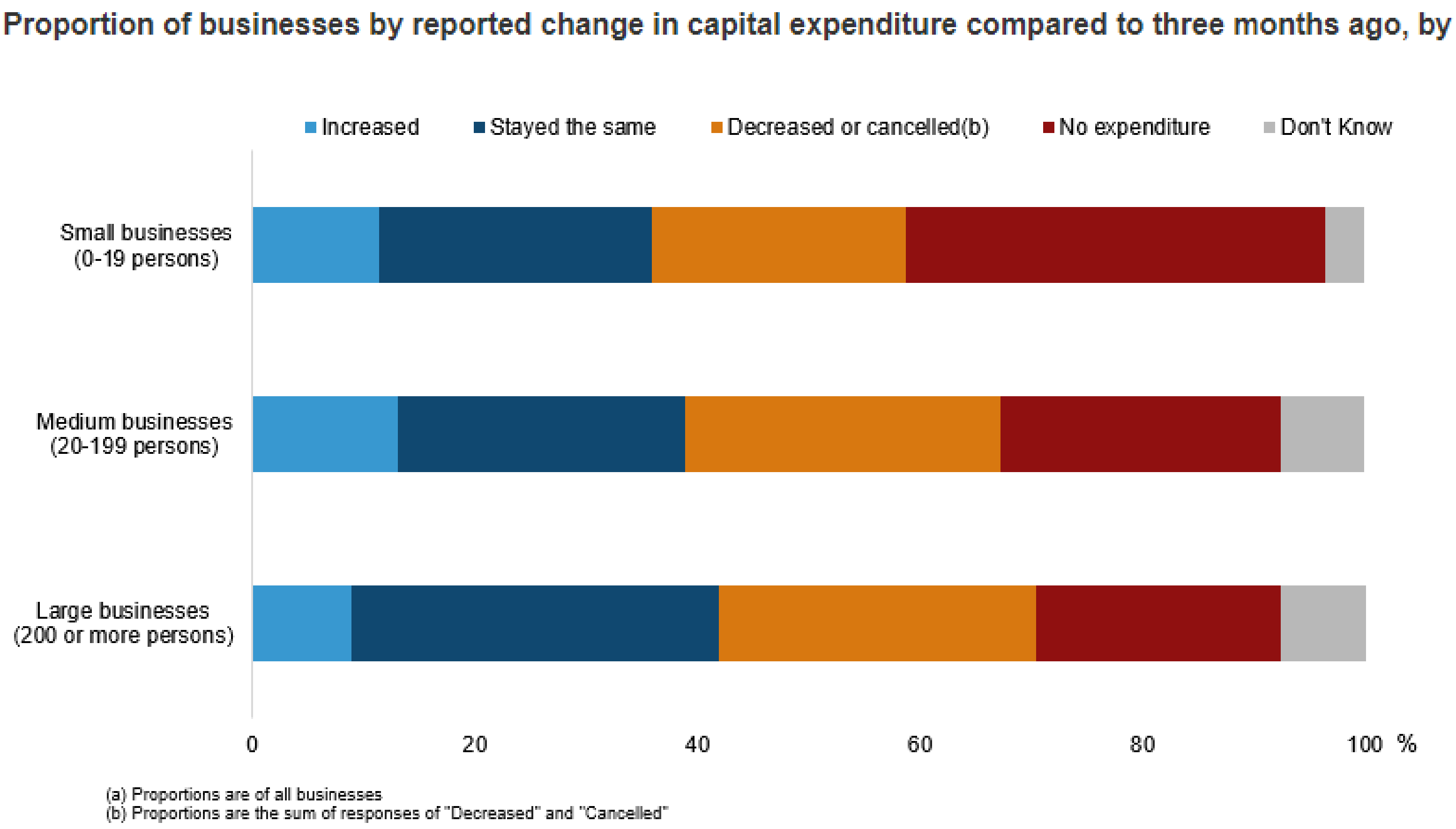


(a) Proportions are of all businesses
(b) Proportions are the sum of responses of "Easy" and "Very easy"
(c) Proportions are the sum of responses of "Difficult" and "Very difficult"
(d) Modified conditions could include, but are not limited to; changes to products and services and how they are provided to customers, workforce changes, new hygiene protocols, changes to suppliers and limiting occupancy

Source: ABS

- COVID-19 restrictions are recommended by medical experts and are saving lives, however, they come at an economic cost.
- Businesses operating under modified conditions were much more likely to expect difficulty meeting financial commitments in the next three months compared with those operating unencumbered (39% versus 16%).

CAPITAL EXPENDITURE

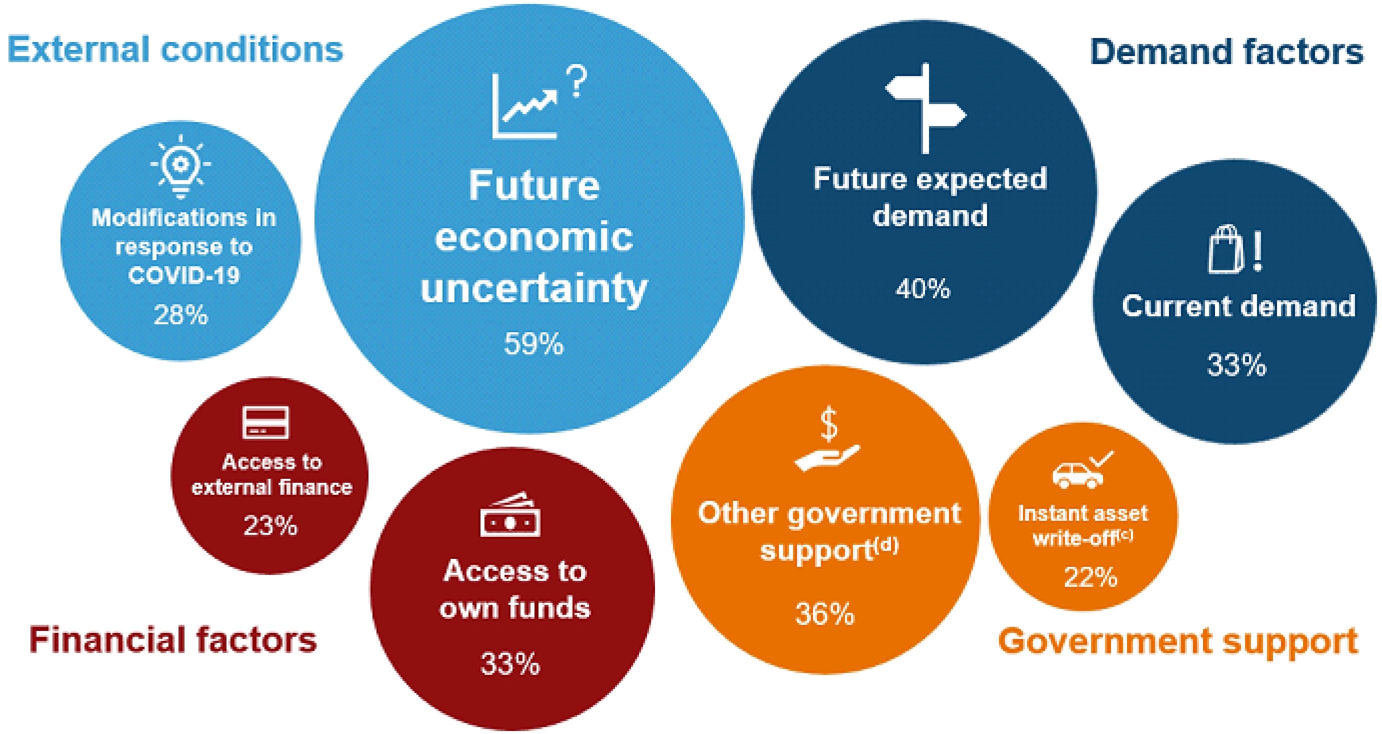


Source: ABS

- 23% of firms reported that they had decreased or cancelled their actual or planned expenditure in August compared with 3 months ago.
- Small businesses were less likely to decrease or cancel capital expenditure (23% compared with 28% of medium sized firms and 28% of large firms)

FACTORS AFFECTING CAPITAL EXPENDITURE

Significant factors influencing business expenditure on capital[a][b]



- Uncertainty is the single largest factor affecting investment decisions for firms.
- 59% of firms cited 'future economic uncertainty' as a significant factor affecting capital expenditure while 40% cited 'future expected demand'.
- COVID-19 restrictions were cited as a significant factor for 28% of firms, underscoring that economic conditions has become the dominant factor affecting investment decisions for businesses.
- Government support (such as the Boosting Cash Flow for Employers scheme) (36%) and the instant asset write off (22%) were also reported to have a had a significant impact on investment decisions.

Source: ABS

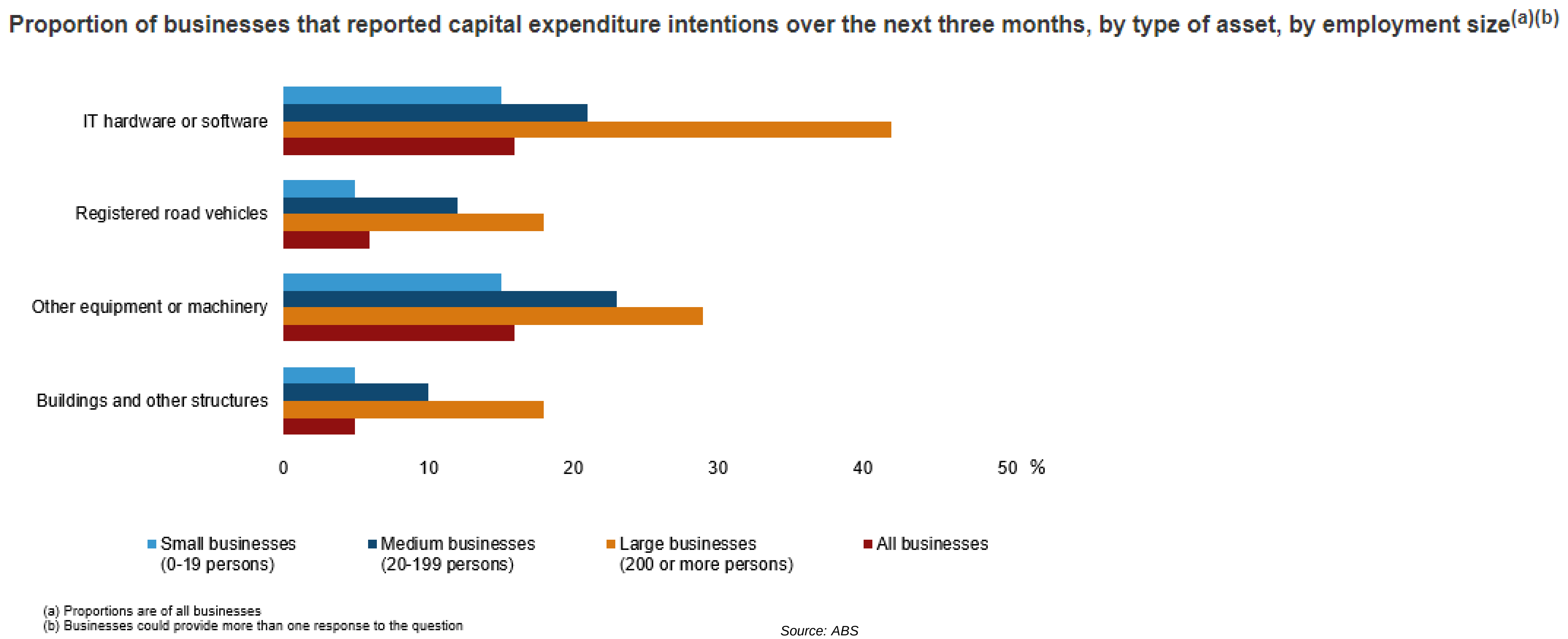
(a) Proportions are of all businesses

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

(c) From 12 March 2020 until 31 December 2020 the instant asset write-off scheme for businesses has been expanded from assets worth $30,000 to include assets worth up to $150,000. Business eligibility has also increased from an aggregated turnover of less than $50 million to less than $500 million

(d) For example, Boosting Cash Flow for Employers, Government backed-business loans, Backing business investment – accelerated depreciation

PLANNED CAPITAL EXPENDITURE



Source: ABS

- Across all asset types, large businesses were more likely to report some intention to spend.
- Small businesses were most likely to report spending intentions on IT assets (15%) and “other” equipment (15%).

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