

# **IMPACT OF COVID-19 ON BUSINESSES IN AUSTRALIA**

## **9th Edition**

**BANKSA ECONOMICS**

**22 October, 2020**

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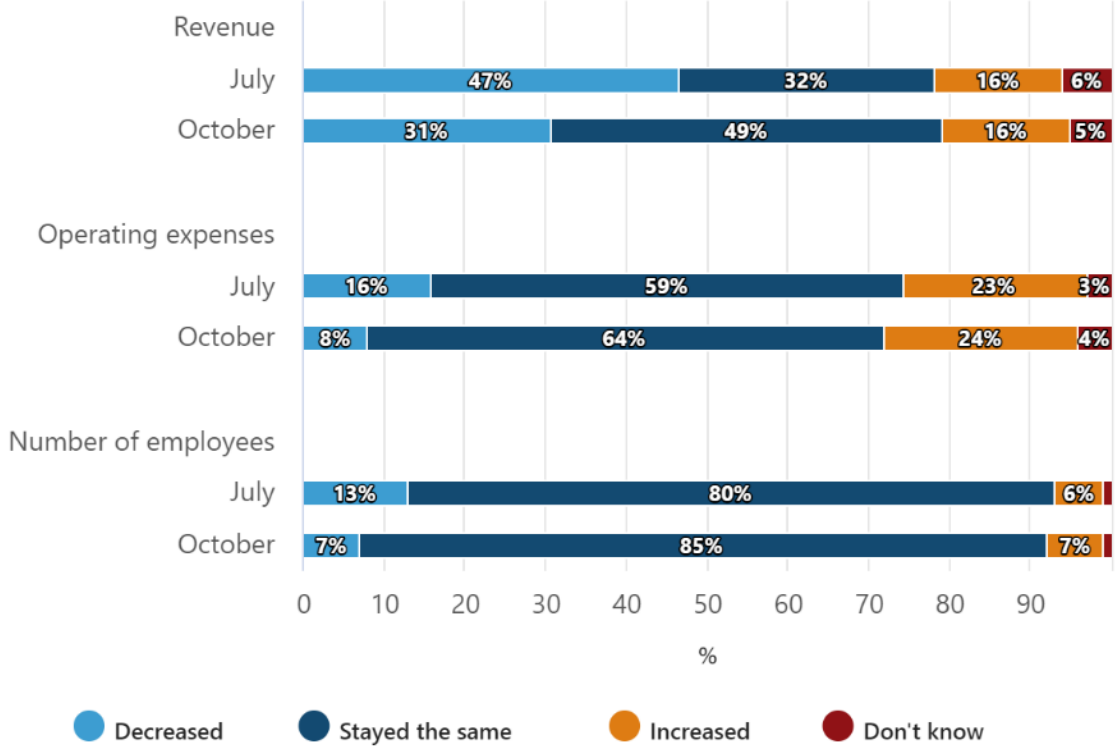
# OVERVIEW

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- The Australian Bureau of Statistics (ABS) released the ninth edition of its survey measuring the impact of COVID-19 on businesses. This survey was conducted over October 9-15.
- Questions this month focussed on the financial position of businesses and funding.
- The survey highlighted that businesses remained cautious in October, although they were marginally more optimistic than July. The trends in revenue and operating expenses were arguably better than in the July report.
- Small businesses continued to bear the brunt of the economic impact from COVID-19. They reported larger expected falls in revenue, as well as larger expected increases in operating costs (than larger sized businesses).
- About 20% of large and medium-sized businesses reported increases in headcount, although most firms – including small ones – indicated no changes to employment.
- Nearly one-third of businesses (29%) can only sustain operations through cash on hand for less than 3 months and 42% of businesses would not be able to survive for longer than 6 months with only their cash reserves, but 41% could.
- A fifth (21%) of all businesses sought funds in the last 6 months, led by businesses in Accommodation & Food Services (35%).
- The two most cited reasons to seek additional credit were to finance Operating Expenses (60% for large businesses and 73% for small businesses) and Capital Expenditures (48% for medium-sized businesses).
- Most of the 73% of surveyed businesses who did not to seek further funds reported they had sufficient funds to continue operating. Other important reasons for seeking funds included an unwillingness to increase debt and no capital expenditure requirements.
- Only 11% of businesses indicated not being able to meet repayment costs and 13% expected to have their credit requests declined.

# BUSINESS ACTIVITY – REVENUE, EXPENSES AND EMPLOYMENT

Changes in revenue, operating expenses and employment, July and October (a)

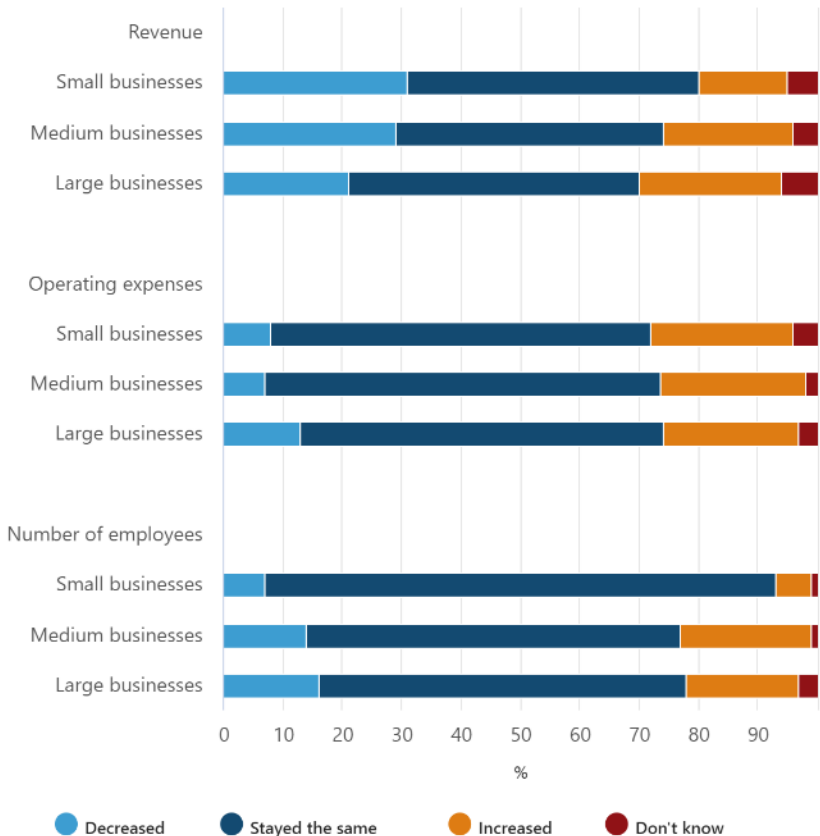


(a) Proportions are of all businesses  
Source: Australian Bureau of Statistics, undefined October 2020

- Businesses were asked about monthly changes in revenue, operating expenses and employment in both the July and October iterations of the survey.
- Business revenues showed an improvement, although conditions for revenues remained challenging. In October, the share of businesses who reported a fall in revenue over the month fell to 31% (compared with 47% in July). Almost half of all businesses surveyed reported no changes to their revenues and only 16% experienced a rise.
- The share of businesses reporting an increase in operating expenses remained high in October: 24% indicated that their expenses had risen. 64% reported no change in expenses over the month while 8% said that their expenses declined.
- Labour market conditions were less dire in October. As in previous months, the large majority (85%) reported no change in the total number of employees over the month and a small portion of them (7%) decreased their number of employees.
- Prospects for employment also improved marginally. 6% of businesses said they expected employment to increase in September while 5% said they expected employment to decline.

# BUSINESS ACTIVITY BY EMPLOYMENT SIZE

Changes in revenue, operating expenses and employment in October, by employment size (a)

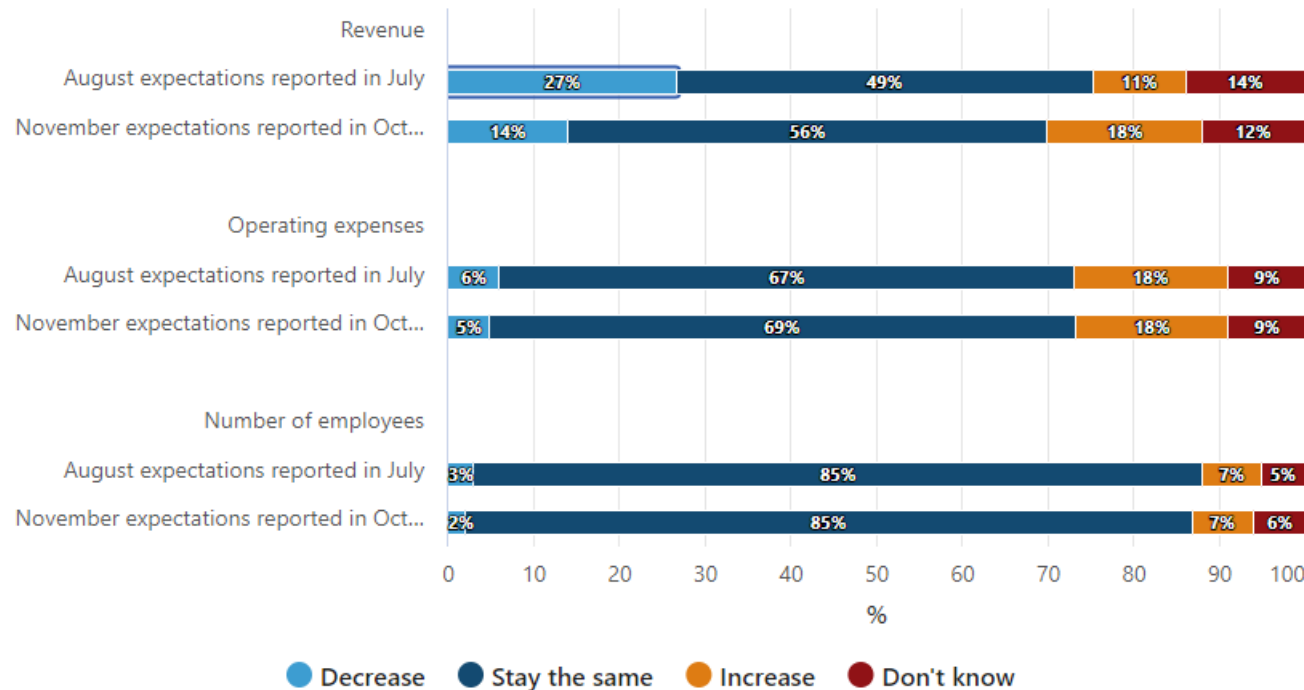


- Business conditions were better for large businesses than for medium and small companies.
- Large businesses (200+ employees) reported lower falls in revenues: about 1 in 5 large corporations indicated a fall in revenue, whereas this number was closer to 1 in 3 for small and medium-sized businesses.
- Although most businesses reported no change in revenues, 24% of large corporations announced increases in revenue while only 15% of small companies (up to 19 employees) did so.
- Around 13% of large businesses reported falls in operating expenses but only 7% of smaller firms disclosed a fall.
- Most firms collectively reported no changes in operating expenses and only about a fifth of them reported increases.
- 86% of small businesses reported no changes in the number of their workers and only 7% laid off staff.
- Headcount numbers for larger and medium (20-199 persons employed) companies remained largely unchanged (over 60% of firms) and around 20% of them decided to increase headcount.

(a) Proportions are of all businesses  
Source: Australian Bureau of Statistics, undefined October 2020

# EXPECTATIONS

Expectations for August and November, changes in revenue, operating expenses and employment (a)

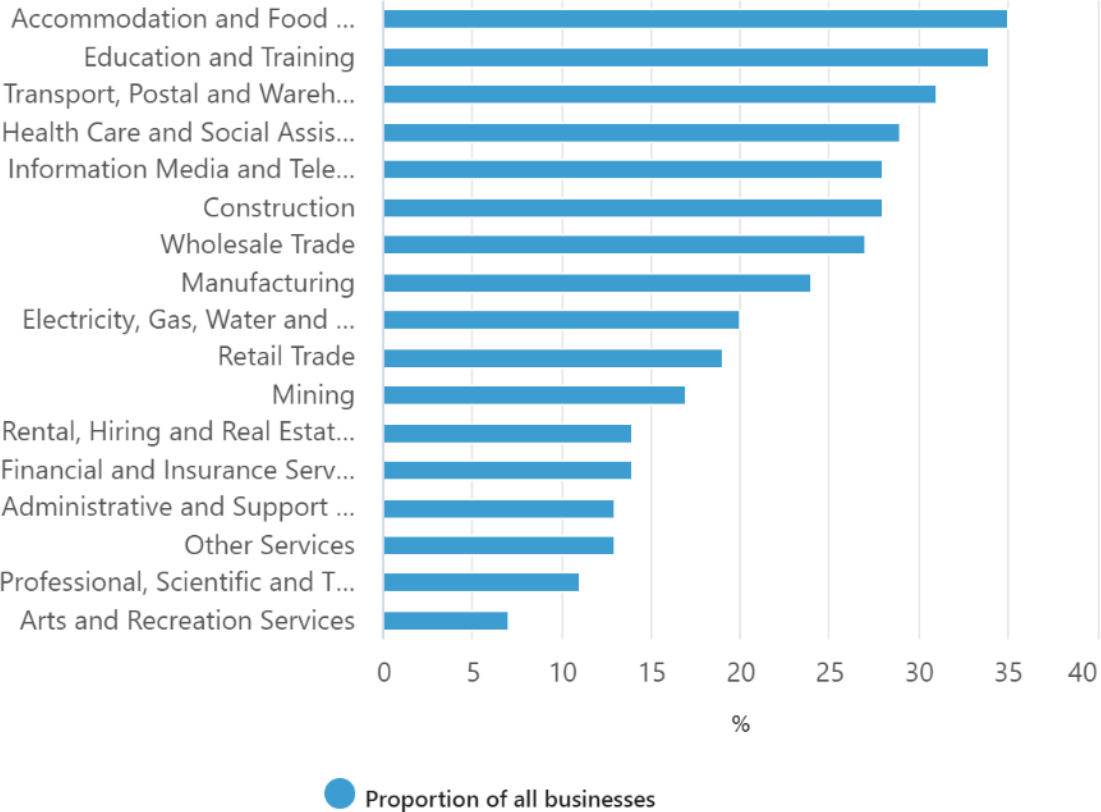


(a) Proportions are of all businesses

- Business seem a little more optimistic going forward in relation to July, particularly with regards to their expected revenue.
- Although most companies believe no changes to their revenue will occur in November, a larger portion of them hoped for a higher figure (18% of them) than in the July report (11%).
- Expected operating expenses are largely unchanged relative to July. Over 2 in 3 businesses expect expenses to remain unchanged, whilst a small proportion expect a fall. Meanwhile, 18% anticipate an increase in expenses.
- Similar to operating expenses, no major changes were observed in expectations for headcount. 85% of companies do not expect to hire or lay off staff, but 2% of them intend to decrease the number of workers. 7% of businesses are hoping to hire more workers in the next month.

# FUNDS SOUGHT BY BUSINESSES

Businesses that sought additional funds, by industry

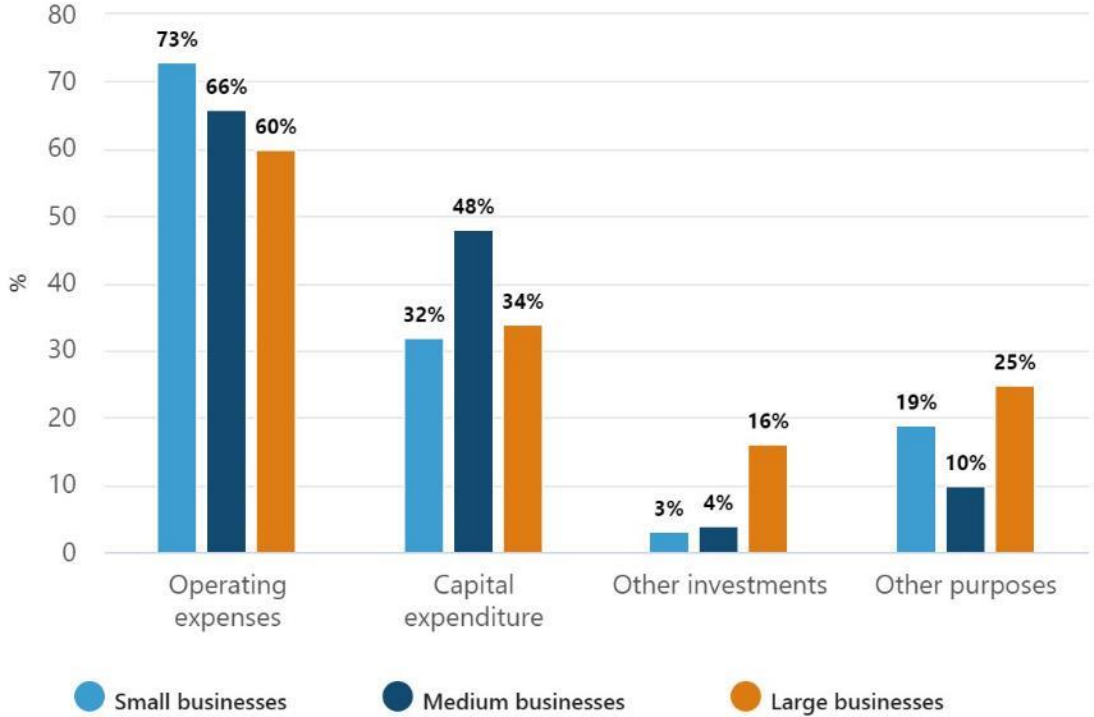


- Businesses were asked to estimate the length of time that operations could be sustained by available cash on hand.
- Nearly one-third of businesses (29%) can only sustain operations through cash on hand for less than 3 months, highlighting the challenging conditions many businesses still face.
- Nearly 40% of businesses reported to be able to withstand 6 months or more with their cash reserves, whereas about 42% would not be able to survive 6 months (21% of all businesses would not endure even 3 months). These results are slightly better than the outcomes observed in June.
- One in five (21%) businesses sought funds in the past six months. By employment size, roughly the same proportion of small, medium and large companies sought financing.
- Over a third of all companies surveyed in Accommodation & Food Services, Education & Training, and Transport, Postal & Warehousing sought financing in the last six months.
- One in three (28%) construction firms acquired financial support, whereas only 14% of Financial & Insurance Services sought support. The industry least likely to seek financial help was Arts & Recreation Services.

Source: Australian Bureau of Statistics, undefined October 2020

# FUNDS SOUGHT BY BUSINESSES

Purpose of additional funds sought, by employment size  
(a)(b)

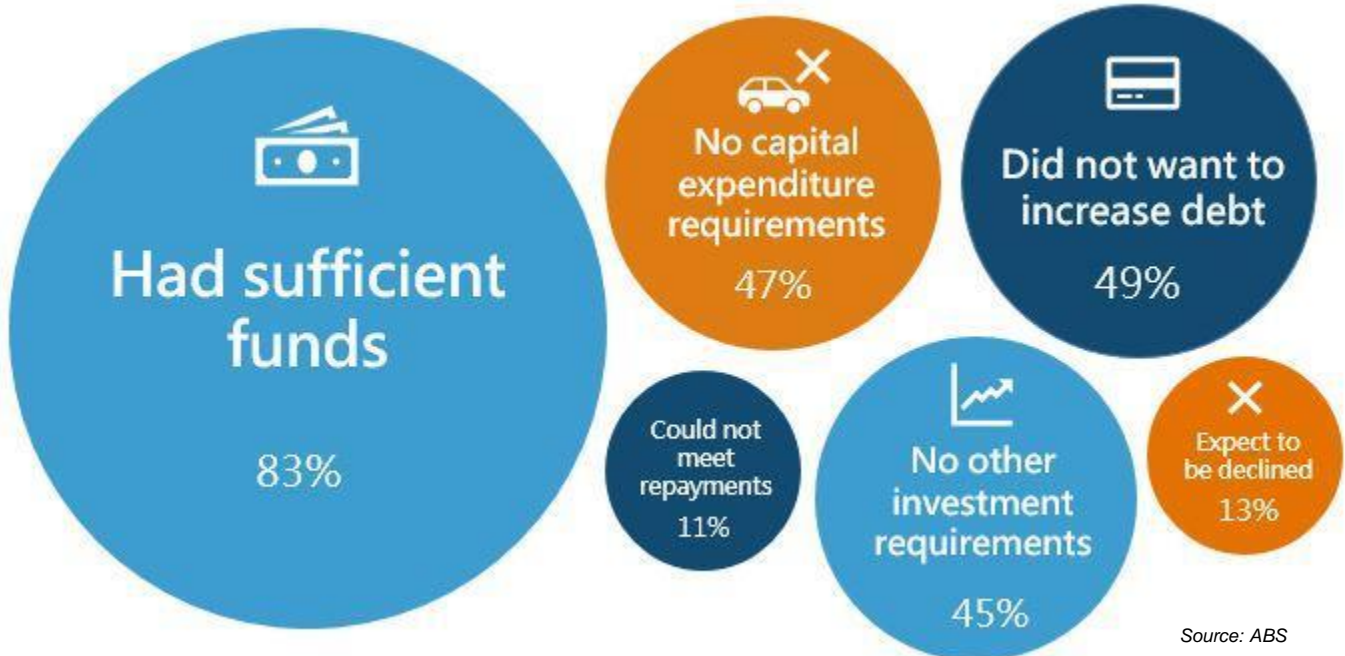


- 72% of businesses who resorted to funding used the money for operating expenses purposes.
- Nearly 75% of all small businesses sought additional funds for operating expenses, whereas less than 66% of large firms did the same.
- The second most popular reason for additional funding was capital expenditure: 48% of medium-sized companies sought financing for this purpose. In contrast, only around a third of small and large companies.
- Large companies also sought funding for other investments (16%).

(a) Proportions are of businesses that sought additional funds  
(b) Businesses could provide more than one response  
Source: Australian Bureau of Statistics, undefined October 2020



# REASONS FOR NOT SEEKING ADDITIONAL FUNDS



Source: ABS

- Businesses were given the option to provide more than one reason as to why they did not seek additional funds.
- Most companies (83%) reported to have sufficient funding in place.
- Half (49%) reported not to be willing to increase their debt levels and 47% of respondents indicated no capital expenditure requirements as the reason.
- 11% of the businesses did not seek higher levels of credit as they believed they would be unable to honour repayments.
- 13% of businesses expected to have their credit applications declined.

# REASONS FOR LOAN REPAYMENT DEFERRALS

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Source: ABS

- In October, 7% of businesses reported they were deferring loan repayments. This compares with 16% of businesses in May.
- Medium-sized businesses were almost twice as likely as small and larger sized businesses to report they were deferring loan repayments (13% compared with 7% and 7%, respectively).
- Most of the reasons behind loan repayment deferrals were related to falls in cashflows, but uncertainty and payment of other bills also played a role.

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