

Business experiences in 2020 and outlook for 2021

December 2020



About Australian Industry Group

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We are a truly national organisation which has been supporting businesses across Australia for more than 140 years.

Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Our vision is for a thriving industry and a prosperous community. We offer our membership strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders (domestic and international) we have the resources and the expertise to meet the changing needs of our membership. We provide the practical information, advice and assistance you need to run your business. Our deep experience of industrial relations and workplace law positions Ai Group as Australia's leading industrial advocate.

We listen and we support our members in facing their challenges by remaining at the cutting edge of policy debate and legislative change. We provide solution-driven advice to address business opportunities and risks.

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KEY FINDINGS

This report is the last in a series of monthly reports by Ai Group about Australia's business experiences during the COVID-19 pandemic and recession in 2020. Throughout 2020, Ai Group provided assistance, information and advice to thousands of businesses experiencing activity restrictions, adjustments to workplaces and work practices, reduced demand and reduced incomes due to COVID-19.

In the course of our work, we collected almost 1,900 detailed reports from Australian businesses about their experiences, through sources including emails, surveys, web queries, phone calls and (remote) meetings. This report summarises the impacts, responses and requirements of businesses due to the COVID-19 pandemic during 2020, and their plans for 2021.

2020

The majority of businesses reported negative impacts as a result of COVID-19 in every month from March to November. The total proportion of businesses reporting a negative impact peaked close to 90% in April, fell to around 78% in June but then rose to 87% in September due to the 'second wave' of infections and associated restrictions to activity and internal travel. In November, despite the beginnings of the recovery, 84% of businesses were still reporting negative impacts on their business as a result of COVID-19. The most frequently reported business impact in every month of 2020 was **reduced customer demand**.

A small proportion of businesses reported no impacts or a positive impact as a result of COVID-19 in each month of 2020. Businesses reporting low or no impact ranged from just 5% in March to a high of 22% in June as conditions improved, but then fell back to 16% in November. 11% of businesses reported a lift in demand for their products in March due to local stockpiling and/or supply disruptions for imported competing products, but this effect quickly waned as pent-up demand was met.

Business responses to these impacts in 2020 initially focussed on risk mitigation and workplace health and safety. Businesses moved staff to home-based work where possible and developed COVID-19 safety plans. As the crisis wore on, reduced demand and revenue forced more businesses to cut work hours and/or employment. A major task for many businesses in April was to assess eligibility for and, where applicable, to meet JobKeeper requirements. From May, businesses shifted towards adjusting work practices, worksites and product offerings to accommodate 'safe working' requirements.

The types of assistance sought by businesses changed over the course of 2020, with clear information and directions needed in the early stages, followed by financial

assistance as the pandemic worsened. Jobkeeper became an essential support for many businesses from May onwards proving decisive in stemming job losses and business closures. By September, businesses mainly wanted to see evidence of a safe path to easing out of local activity restrictions and border restrictions.

2021

In November, Ai Group asked businesses if they intended to retain into 2021 any of the changes that they had made in response to the COVID-19 pandemic. In total:

- **Around 20% of businesses said they do not yet know** (7%) or they do not plan to keep doing any of the changes they have made in response to COVID-19 in 2021 (14%). These businesses appear to be less affected by the remaining COVID-19 activity restrictions in late 2020 and/or they hope a vaccine will become widely available in Australia by mid-2021, allowing a return to more normal conditions.
- **Around 80% of businesses said they will keep at least some of the changes** they have introduced in 2020 in response to COVID-19, well into 2021. In line with the physical distancing and ‘demand shock’ nature of this pandemic, the measures that businesses plan to keep in 2021 are mainly aimed at maintaining or improving their communications with customers, staff and suppliers and/or COVID-19 safety and hygiene measures as part of their ‘COVID-safe’ business plans (Chart 1).

Chart 1: COVID-19 practices that businesses plan to keep in 2021



1. Ai Group assistance to Australian businesses

Ai Group has skilled advisers, business improvement resources and a network of experienced business consultants to assist your business, backed by our 140 years of experience in understanding what drives successful Australian businesses.

Ai Group has launched a dedicated [Coronavirus COVID-19 Advice and Resources](#) hub with resources to help you navigate the pandemic and stay up-to-date with the latest information and advice. This site is being updated daily as issues develop.

The Workplace Advice Line is available to Ai Group members every weekday to provide advice on a range of workplace issues. Phone 1300 55 66 77 (press option 1) 8.30am to 5.30pm (AEST) or email workplaceadvice@aigroup.com.au for a call back.

Supported by Ai Group Workplace Lawyers and our HR experts, the [HR Resource Centre](#) provides comprehensive and practical HR information, advice and resources. The HR Resource Centre is updated regularly and includes numerous resources to assist member businesses to deal with the HR implications of the COVID-19 crisis.

Developed by our WHS experts, the [Health and Safety Resource Centre](#) provides cutting edge tools, information, advice and resources on topics such as safety management, emergency management, risk management and mental health.

The Ai Group [Economics Resource Centre](#) features a range of regular reports, factsheets and research notes about economics trends and issues that affect Australian business and industry, including the highly regarded Economics Weekly, and the Performance of Manufacturing, Services, Construction and Business Indexes.

Ai Group's Business Improvement & Growth Hub ([BIG Hub](#)) has over 200 Fact sheets, self-assessments, checklists and company case studies to identify internal skill gaps, improve company operations and strategy. It also hosts a consultant referral service to help you find quality providers.

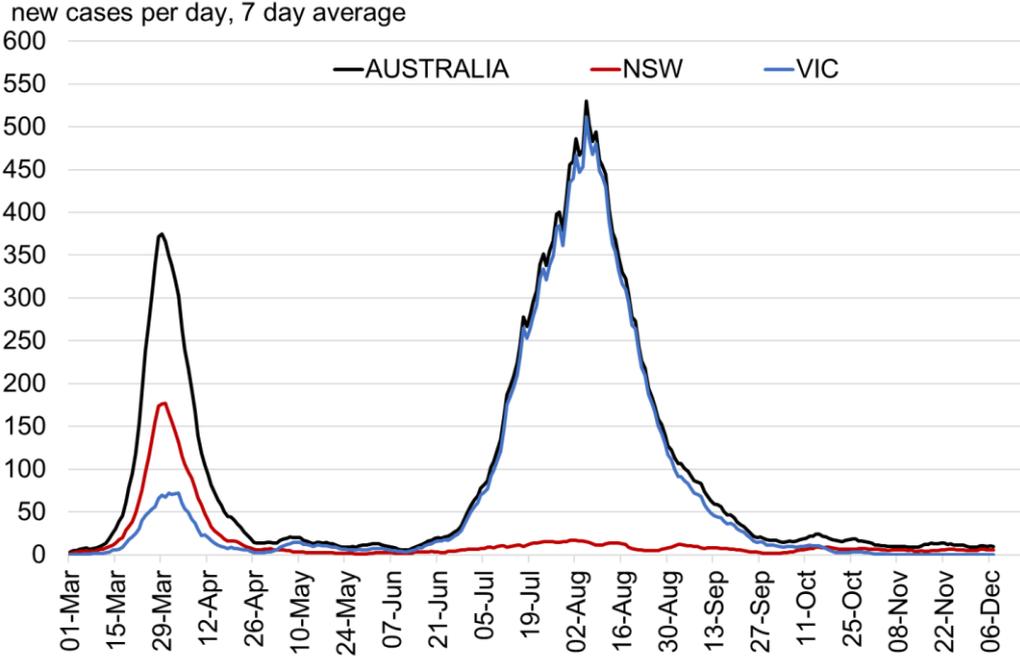
Additionally, Ai Group is a proud Delivery Partner of the Australian Government's Entrepreneurs' Programme in Tasmania, Victoria and Western Australia. Ai Group's Entrepreneurs' Programme Facilitators are working closely with businesses as they seek to pivot towards new markets, product offerings and ways of doing business. If you are ready to transform your business, the [Entrepreneurs' Programme and Ai Group](#) can help you take the next step. Contact [Ai Group](#) to be connected to an Ai Group Entrepreneurs' Programme Facilitator.

2. The impact of COVID-19 on Australian business

COVID-19 pandemic in Australia

The COVID-19 pandemic emerged in Wuhan, China, in December 2019 and began to spread to other countries from January 2020. Australia experienced two ‘waves’ of COVID-19 infections and control measures in 2020. The first wave (March to May) saw small numbers of infections and strict activity restrictions in all states. In the second wave (July to September), almost all COVID-19 infections were in Melbourne, Victoria (chart 2.1), but international and interstate border closures, travel restrictions and various other activity restrictions affected businesses and communities nationally.

Chart 2.1: New COVID-19 cases per day in Australia, NSW and Vic



Source: www.covid19data.com.au

The economic toll of COVID-19 has been heaviest and most visible in Australia’s labour market. At its peak, the ABS estimate that 2.3 million people – 20% of Australia’s workforce – were affected by job loss or reduced working hours and income between March and May of 2020 due to COVID-19. A recovery in activity and employment was evident from June but began later in Victoria due to the ‘second wave.’ As of mid-November, ABS data on payroll jobs and wages (for all employees paid through the ATO ‘single touch’ payroll system) confirm that employment is continuing to recover nationwide. Compared to the pre-COVID-19 levels recorded on 14 March, however, payroll jobs were still 2.9% lower (about 320,000 fewer jobs) and total wages paid were 3.9% lower. Job advertisements have also recovered, which augurs well for 2021.

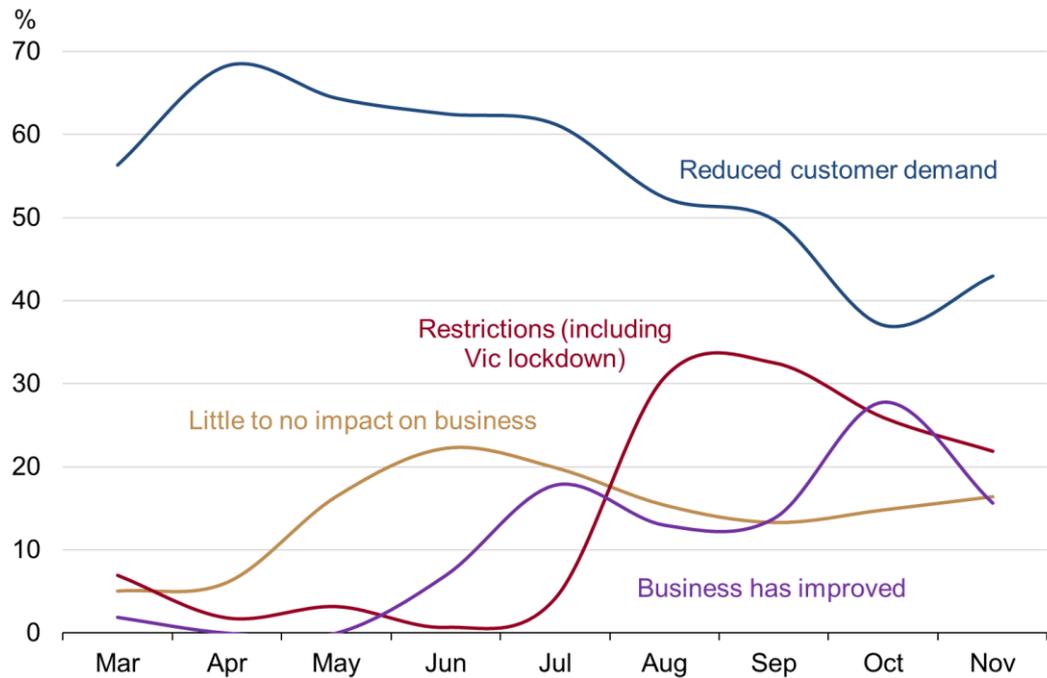
Impact of the COVID-19 pandemic on Australian business

Australian businesses reported a range of impacts upon their operations due to the COVID-19 pandemic and the associated activity restrictions between March and November 2020 (see Chart 2.2, Box 2.1 and Table 2.2).

The majority of businesses reported negative impacts as a result of COVID-19 in each month from March to November. The total proportion of businesses reporting a negative impact peaked close to 90% in April, fell to around 78% in June but then rose to 87% in September due to the ‘second wave’ of infections. In November, 84% of businesses were still reporting negative impacts on their business as a result of COVID-19. The most frequently reported business impact in every month of 2020 was **reduced customer demand**, highlighting the ‘demand shock’ nature of this recession.

Top five negative impacts on business from COVID-19 in November 2020	
1. Reduced customer demand	43% of businesses
2. Activity restrictions	22% of businesses
3. Disruption to supply	9% of businesses
4. Reduced productivity	7% of businesses
5. Increased costs	5% of businesses

Chart 2.2: Impacts of COVID-19 on Australian businesses in 2020, most frequent responses, March to November 2020



Source: Ai Group

The most frequently reported negative impacts over the course of 2020 were:

- **In March and April**, the most commonly reported impact on Australian businesses was overwhelmingly the sudden **reduction in customer demand** (56% and 68% of respondents in March and April, respectively). Sales and orders from local and overseas customers dropped as uncertainty about the pandemic and ongoing conditions took hold. Some respondents told us their sales increased due to consumer panic buying and business customers brought orders forward concerned about future supplies of stock. Respondents noted an **increase in costs** in March, which fell as a comment across June, July and August but picked up again in October and November.
- **Increased workloads** were a large factor in the early stages as 25% of respondents reported **increased cleaning and sanitising** in March (13% in April). For 22% of businesses in March, the **management workload grew** as businesses moved people to work from home, developed new policies and procedures and provided unprecedented levels of support to their staff. **Increased uncertainty** had a major impact on 23% of businesses in March, as did the high levels of anxiety within their workforce; the announcement of the JobKeeper wage subsidy in April went some way to relieving some of these pressures.
- **May and June** saw a reduction in adverse impacts for businesses, with an increasing number reported **little to no impact** over the middle of the year (16% May, 22% June, 20% July). For other respondents, reduced customer demand remained high (64% May, 63% June, 61% July). Restrictions started to ease in some locations resulting in an improvement in activity in June (7%) and July (18%).
- **In July**, disruption to supplies re-emerged as a major factor impacting businesses and this was sustained across August, September and October.
- **From August**, border restrictions, Victorian restrictions and Stage-4 lockdown in Melbourne resulted in a large constriction of trade, particularly across August, **September** and October. Restrictions on conditions, particularly regarding capacity restraints still inhibited businesses in November.
- In **October**, there was a noticeable improvement as conditions changed for manufacturers in Victoria. Locations other than Melbourne saw a return to more 'normal' conditions, although the stage-4 lockdown continued to be a drag on demand for businesses across the country.
- Reduced demand increased as an impact again in **November** even as activity restrictions reduced. The number of businesses saying there had been little to no impact in the month remained consistent, but those saying business had **recently improved** fell to 16% in November, down from 28% in October. This probably reflects the surge in pent-up demand that needed to be met in October as the second wave of restrictions ended, with this effect dissipating through November.

Box 2.1 How was 2020 for Australian business?

Businesses started telling us about the impact of COVID-19 on their trade in February 2020. From October there was a clear indication that things had recovered somewhat, although not to pre-February levels.

“Our customer base had reduced activity overseas due to COVID restrictions and downturns in their markets, some of our customers’ turnover declined 75%. Things seem to have picked up recently. For Q1 2020, revenue was down more than 50% compared to the same time last year.”

“Covid-19 saw a 20% reduction in operating hours both in production and office and sales. This has now almost reversed itself with 90% of employees back to full time work.”

“Major lock-down issues in our primary states of Victoria and NSW, not being able to access our client base and now the global vehicle manufacturers shutting down for the second time this year is creating delays in supplies and impacting our ability to generate all of our revenue streams.”

“The reduction of hours to 80% of our workforce has increased our lead times and we’re unable to deliver on time to customers’ expectations.”

“The inability to travel between Australian states increased costs and delayed projects. In some cases, we had to engage local contractors which are an additional cost, and in other cases had to defer project deadlines to work around border restrictions. In some instances, we needed video conferencing which required investment in IT hardware and subscription services. COVID driven demand for sea-freight has caused extensive delays for inbound deliveries, creating higher costs and lost revenue opportunities. We have had to absorb costs, reduce our profit expectations and have forgone sales revenue from missed opportunities.”

“Covid-19 has limited movement between operating sites and challenged us with the careful management of increased employee mental health issues, but beyond that it has had little effect on our business.”

“Border closures had significant mental health impact on team members, we paid for an additional office on the other side of the border, but this was unsustainable. Travel times were sometimes very excessive compared to usual arrangements. It was a different set of rules for staff on either side of border in their ability to engage within their communities.”

“There was a huge reduction in our bricks & mortar retail business and a big increase online.”

Table 2.1: Impacts of COVID-19 on businesses in 2020

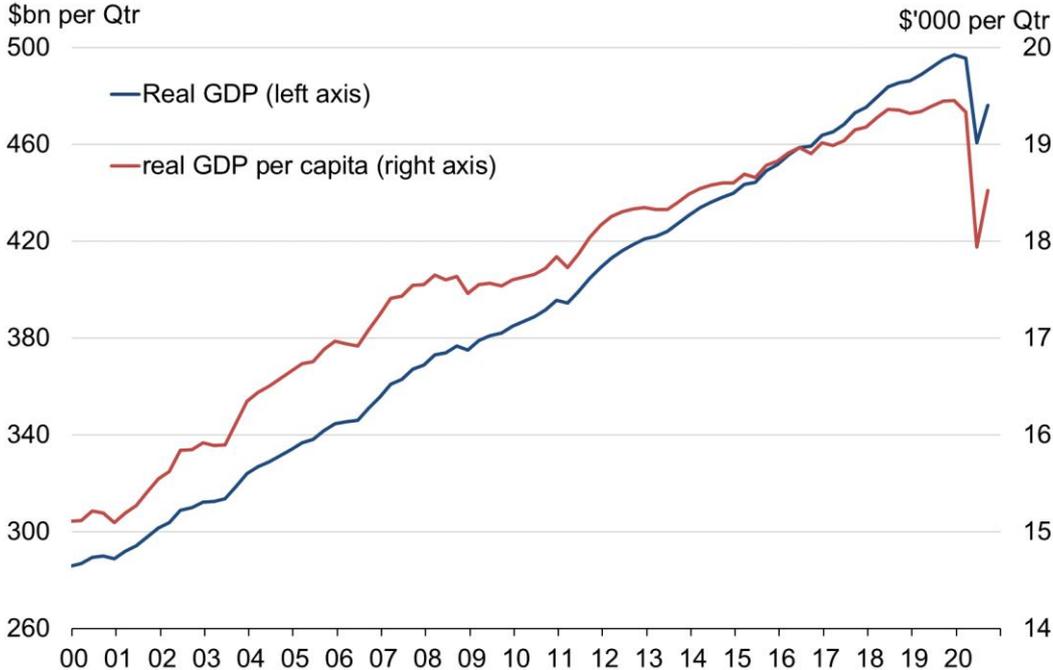
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
% of businesses that reported each impact in each month (multiple per business possible)	%	%	%	%	%	%	%	%	%
Negative impacts									
Reduced customer demand	56	68	64	63	61	52	50	37	43
Activity restrictions	7	2	3	1	4	31	33	26	22
Disruption to supply	16	7	5	7	10	12	10	15	9
Reduced productivity	4	7	9	1	3	4	3	10	7
Increased costs	6	6	4	1	2	2	2	6	5
Increased workload - management	22	4	3	0	5	6	8	2	2
Increased workload - cleaning	25	13	9	6	5	6	4	3	2
Increased uncertainty	23	2	3	1	3	8	3	4	1
Neutral or positive impacts									
Little to no impact on business	5	6	16	22	20	15	13	15	16
Increased customer demand	11	7	6	1	1	0	4	3	6
Business has recently improved	2	0	0	7	18	13	14	28	16

Impact of the COVID-19 pandemic on Australian industries

Australia’s COVID-19 recession in 2020 has been Australia’s first recession in almost 30 years. Compared to past Australian recessions, this one has been deep but also very rapid. Australian GDP dipped in Q1 due to bushfires, drought and the first impacts of COVID-19 globally, and then plunged by a record 7.0% q/q in Q2 as the COVID-19 pandemic arrived in Australia. By the end of Q3 however, Australian GDP had already recovered by 3.3% q/q, equal to about 40% of the GDP that was lost in the first half of 2020. Even after this rapid recovery, total GDP in Q3 was still 3.8% lower than one year earlier, with real GDP at the same level as it had been in March 2018. In per capita terms, GDP was about the same level as in June 2014 (chart 2.3).

As of December 2020, local COVID-19 activity and travel restrictions had eased considerably and Australia’s recovery was well underway, supported by a fast recovery in consumer spending and an understandable jump in government spending.

Chart 2.3: real GDP* and real GDP* per capita, 2000 to 2020



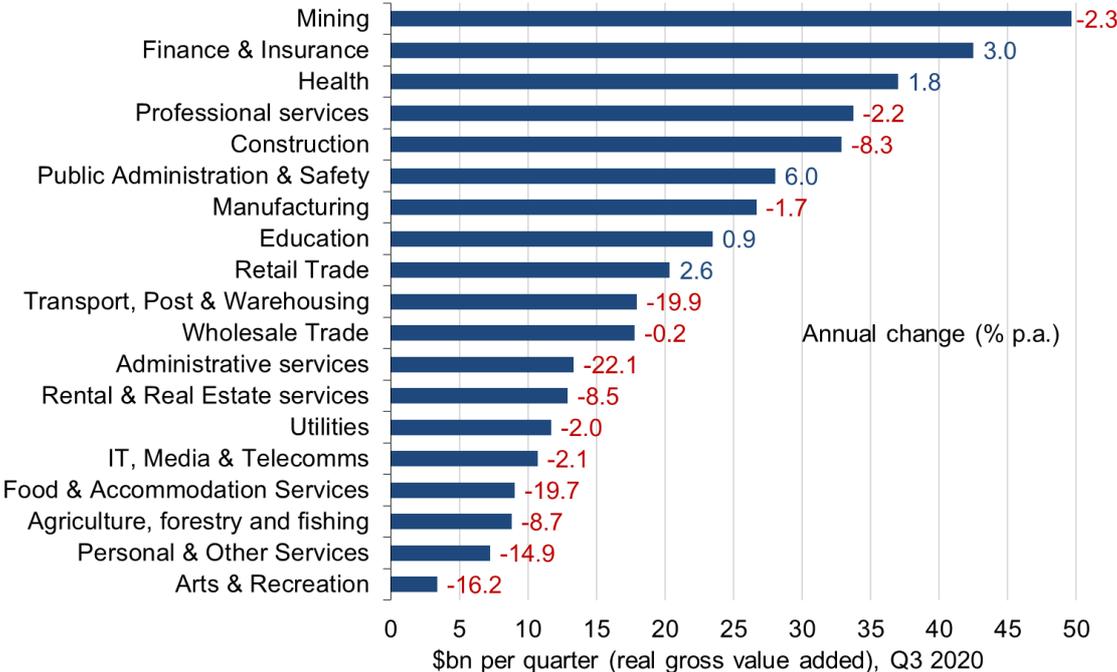
* seasonally adjusted and inflation adjusted. Source: ABS, National Accounts, Sep 2020.

Across industries, the *National Accounts* indicate that all major industries recovered some output in Q3 except for agriculture (-0.6% q/q) and mining (-1.7% q/q). However, 14 of the 19 major industry groups were still producing less in Q3 2020 than they did in Q3 of 2019 (chart 2.4). In Q3 the largest recoveries were in the services industries that suffered the largest losses in Q2. Hospitality (food & accommodation services) output was up by 41% q/q and arts and recreation services output was up by 14.7% q/q, although both industries remain down significantly from 2019.

Manufacturing suffered smaller falls in output and employment in Q2 than many other Australian industries. Total manufacturing output recovered by 4.0% q/q in Q3, with almost all the growth occurring in food and beverages production (+12.6% q/q and

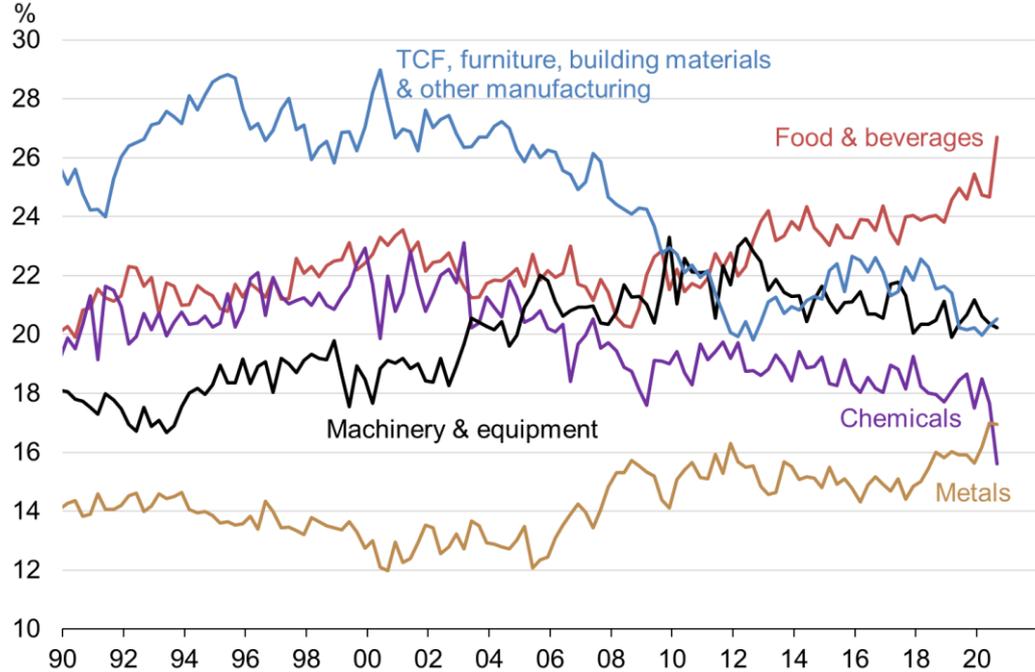
accounting for 26.7% of all manufacturing output) (chart 2.5). Metal products, machinery and equipment and 'other manufacturing' also recovered in Q3.

Chart 2.4: Industry output and growth, Q3 2020



Source: ABS, *National Accounts*, Sep 2020.

Chart 2.5: Manufacturing sectors, share of manufacturing output, 1990 to Q3 2020

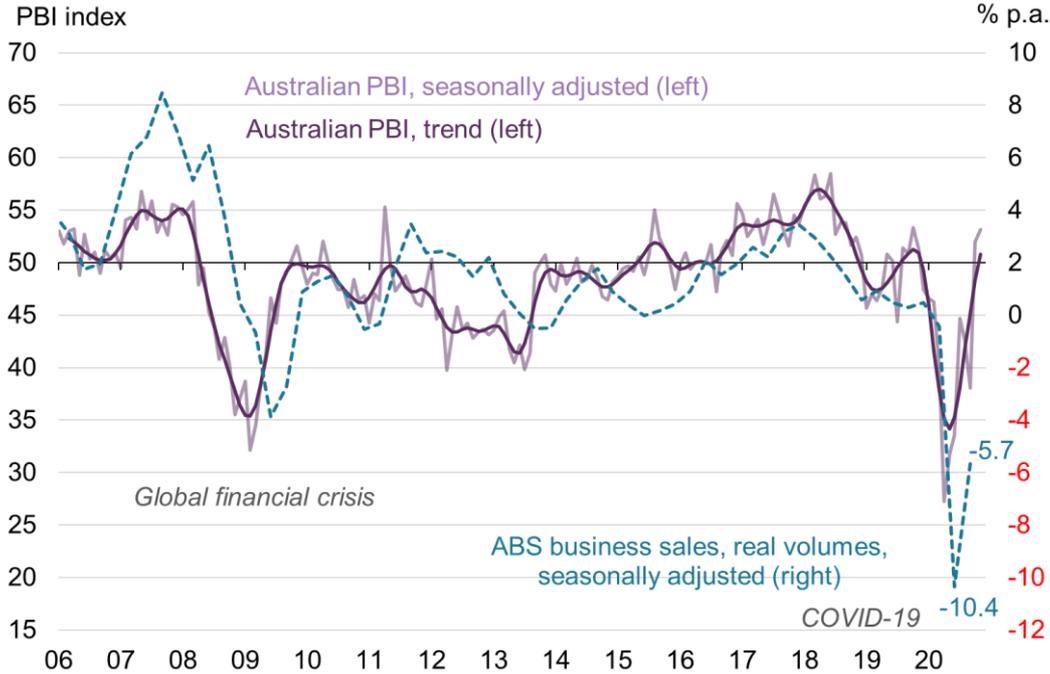


Source: ABS, *National Accounts*, Sep 2020.

Ai Group’s Australian Performance of Manufacturing Index (PMI®), Performance of Services Index (PSI®), and Performance of Construction Index (PCI®) collectively indicated an ongoing recovery in local business activity as of November 2020, across most but not all major industries (Chart 2.6 and Table 2.2).

The Ai Group Australian Performance of Business Index (PBI, a weighted composite of the PMI®, PSI® and PCI®) turned positive in October and November for the first time since November 2019. This indicated that in Q4, non-mining businesses were, on average, experiencing positive conditions again in Australia.

Chart 2.6: Ai Group Australian PBI* and ABS real business sales, 2006 to Nov 2020



* weighted composite of Ai Group Australian PMI, PSI and PCI. Source: Ai Group.

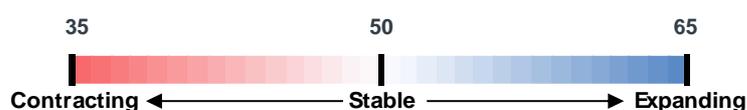
Across the industries covered by Ai Group’s monthly business surveys (Table 2.2):

- Manufacturing industries fared better than most industries during 2020. In March, there was a huge surge in demand for manufactured food, groceries and personal care items, as shoppers stock up on processed food, toilet paper, cleaning products and other household essentials. Bright spots persisted in food-related manufacturing, distribution and retailing.
- Construction was experiencing a cyclical downturn before the COVID-19 pandemic. This downturn was further exacerbated throughout the middle of 2020 by increased uncertainty and activity restrictions. As of November, housebuilders noted the success of government grants plus low interest rates in supporting demand for new houses and renovations. Builders in commercial and engineering construction said activity and forward orders are returning to a more ‘normal’ pace in Q4 2020. In contrast, new apartment building activity slowed further due to reduced demand from developers and investors.

This experience is very different to previous Australian recessions in the 1980s and 1990s, due to the unusual circumstances of the current COVID-19 recession. In previous Australian recessions, business conditions, activity and employment fell hardest in industrial sectors such as manufacturing and construction.

In contrast, the COVID-19 recession of 2020 has fallen hardest in customer-facing service industries such as travel, hospitality, retail and the arts (Table 2.2). These industries faced the earliest and strictest activity restrictions and enforced business closures. Customer density limits and international travel restrictions will continue well into 2021. Longer-term changes in consumer caution, sentiment and purchasing preferences are also likely, so weakness in these sectors could continue to play out.

Table 2.2: Australian industry conditions in 2020



Industry (trend)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Manufacturing (PMI, trend)	46.5	45.1	44.6	44.9	45.8	47.2	48.9	50.4	51.6	52.7	53.0
Manufacturing sectors											
Food & beverage products	57.6	55.8	54.9	54.9	55.7	57.0	58.0	58.0	57.2	55.9	53.5
Machinery & equipment	46.4	44.6	44.4	45.6	47.5	49.8	51.9	53.3	54.2	55.1	55.2
Metal products	38.5	36.1	35.3	36.3	38.6	41.4	44.0	46.2	48.1	49.8	51.3
Chemical & rubber products	48.3	48.6	49.0	48.6	47.6	46.5	46.2	47.5	50.0	52.8	55.6
Building materials, furniture, other	37.5	37.0	37.4	38.0	38.5	39.1	40.2	41.7	43.3	44.9	45.5
TCF, paper, printing products	37.5	34.3	32.7	33.3	35.9	40.3	45.5	50.4	54.1	57.6	59.9
Construction (PCI, trend)	39.4	36.6	33.4	30.8	29.8	31.0	34.6	39.3	43.7	47.9	51.0
Construction sectors											
Housing	50.3	45.5	39.5	34.0	31.4	33.1	38.8	46.5	53.5	60.0	64.6
Apartments	33.2	29.9	27.2	25.7	26.4	28.9	32.5	36.1	39.0	41.6	43.0
Commercial construction	36.8	32.0	27.4	24.6	24.2	26.8	31.6	37.0	41.7	45.7	48.5
Engineering construction	37.4	37.1	35.9	33.9	31.8	30.9	32.1	34.9	38.1	41.7	45.0
Service businesses (PSI, trend)	46.8	42.0	37.6	34.6	33.4	34.4	37.2	40.9	44.3	47.6	50.2
Business services sectors											
Business & property	44.6	41.9	39.0	36.3	34.6	34.3	35.8	38.6	41.7	44.7	47.5
Logistics	47.6	43.0	38.4	35.5	35.0	37.0	40.8	45.0	48.7	52.3	55.3
Finance & insurance	54.2	46.7	39.5	33.1	29.4	30.0	34.3	40.1	45.7	50.9	54.6
Consumer services sectors											
Retail trade & hospitality	42.6	36.8	33.5	33.3	35.5	38.3	40.5	42.1	42.8	43.4	42.9
Health, welfare & education	43.9	41.6	39.8	38.0	35.6	34.1	34.5	36.7	40.1	44.3	48.2
Recreation, personal & other	54.1	48.8	42.6	37.5	35.4	36.7	41.1	46.1	49.9	52.6	55.3
All Businesses (PBI, seas. adj.)	46.6	46.3	39.8	27.2	31.8	33.6	44.7	42.6	38.0	52.0	53.1
All Businesses (PBI, trend)	45.9	41.6	37.8	35.1	34.2	35.3	38.1	41.8	45.2	48.3	50.8

Source: Ai Group.

3. Business responses to COVID-19 and activity restrictions in 2020

Businesses have responded to the COVID-19 global pandemic with a range of strategies.

In **March**, working from home for some or all staff was implemented as an initial response by 55% of businesses reporting to Ai Group. This reflected the strong focus on health and safety in the first phase of the pandemic. This was accompanied by about a third of respondents saying they had made changes to accommodate social distancing, especially for staff that could not work from home.

By **April**, cash flow issues were emerging. The most common responses were to reduce employee costs by reducing work hours or reducing staff levels. Throughout this pandemic reducing employee hours has been preferred as a strategy over reducing employee numbers.

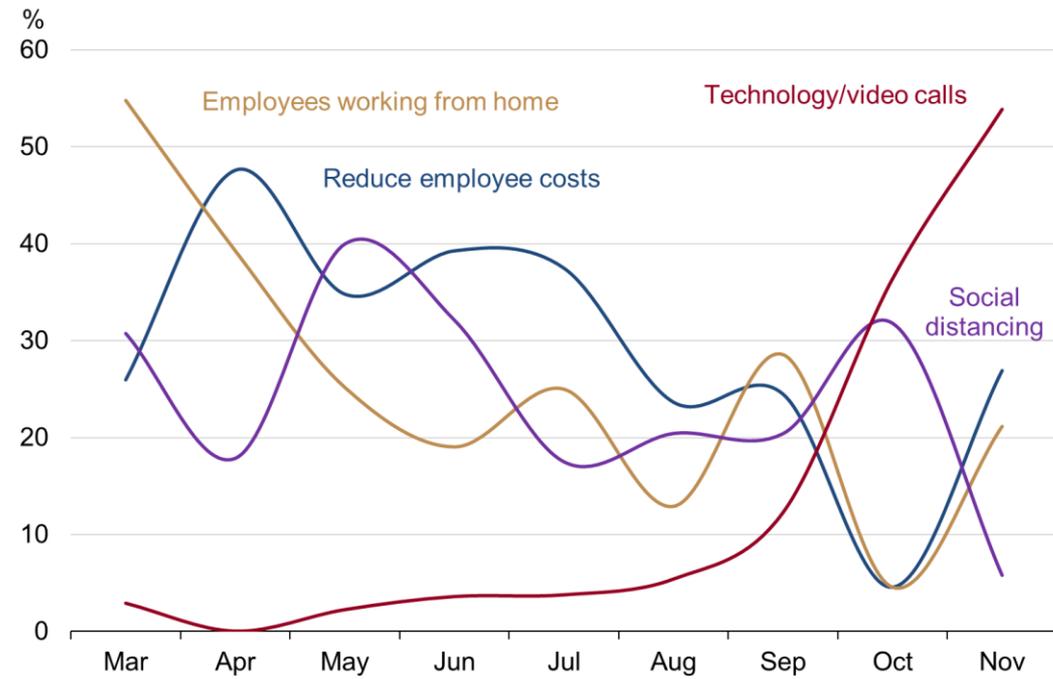
Throughout **May to July**, most states started easing activity restrictions. More businesses re-opened and made changes to accommodate social distancing. Businesses made changes to their processes and how their shifts were organised to abide by social distancing rules. During this period, businesses also highlighted the importance of JobKeeper in helping them keep their staff on the payroll.

Throughout **August and September**, staff working from home continued to be a priority for businesses, with the Victorian Government requiring all office staff to work from home. More businesses adopted video conferencing and increased their usage of technology. It appears many businesses will replace at least parts of their business travel for video conferencing after the pandemic.

Top five business responses to COVID-19 that were introduced in November 2020

1. Increase use of technology/video calls	54% of businesses
2. Reduce employee costs	27% of businesses
3. Staff work from home	21% of businesses
4. Change business strategy	8% of businesses
5. Change to accommodate social distancing	6% of businesses

Chart 3.1: Business responses to COVID-19, most frequent responses introduced in each month, March to November 2020



Source: Ai Group.

Box 3.1 Positive responses to COVID-19

“Our investments in remote working technology and ‘flexible first’ workplace culture allowed for a successful and seamless transition to a working from home model and one that we will continue to adopt on return. Our VIC offices will continue to work from home in line with Government advice. All international air travel and all domestic air travel has been suspended. We’re scheduling phone or video meetings wherever possible, the ‘new normal’ for Australian business.”

“We have increased the frequency and intensity of cleaning at our assets and are actively promoting social distancing and personal hygiene for our staff, customers and partners.”

“Most of us are working from home. It’s been great and not many want to go back into the workplace but are happy to stay working from home.”

“We moved the staff we could to WFH, we provided alternate services to customers and we’re slowly reopening services as restrictions ease.”

“We have operated under a COVID safe plan with increased hygiene, as well as office and plant restrictions for visitors. The cost of doing this has not been significant but it has impacted new business discussions that are now conducted on Zoom and other communication platforms.”

“Our entire team has worked remotely since March. Whilst this has presented challenges in client engagement, we have adapted very well to using video technology and we continue to move the business and the implementation of these solutions forward.”

Table 3.1: Business responses to COVID-19 and activity restrictions in 2020

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
% of businesses that reported introducing a response in each month (multiple answers possible for each business)	%	%	%	%	%	%	%	%	%
Reduce employee costs	26	48	35	39	38	24	24	5	27
Staff work at home	55	39	25	19	25	13	29	5	21
Increase use of technology/video calls	3	0	2	4	4	5	12	36	54
Change business strategy	10	10	8	6	8	10	8	14	8
Change to accommodate social distancing	31	18	40	32	18	20	20	32	6
Find new business/suppliers	0	1	2	0	3	1	2	0	4
Reduce costs other than wages	0	6	5	4	0	5	4	5	2
Increase work hours or recruit additional staff	3	1	1	1	3	3	4	5	0
Utilise JobKeeper	1	1	19	17	26	26	14	0	0
Increase business innovation/investment	4	1	1	1	0	1	0	0	0

Source: Ai Group.

4. Assistance to help businesses manage their response to COVID-19

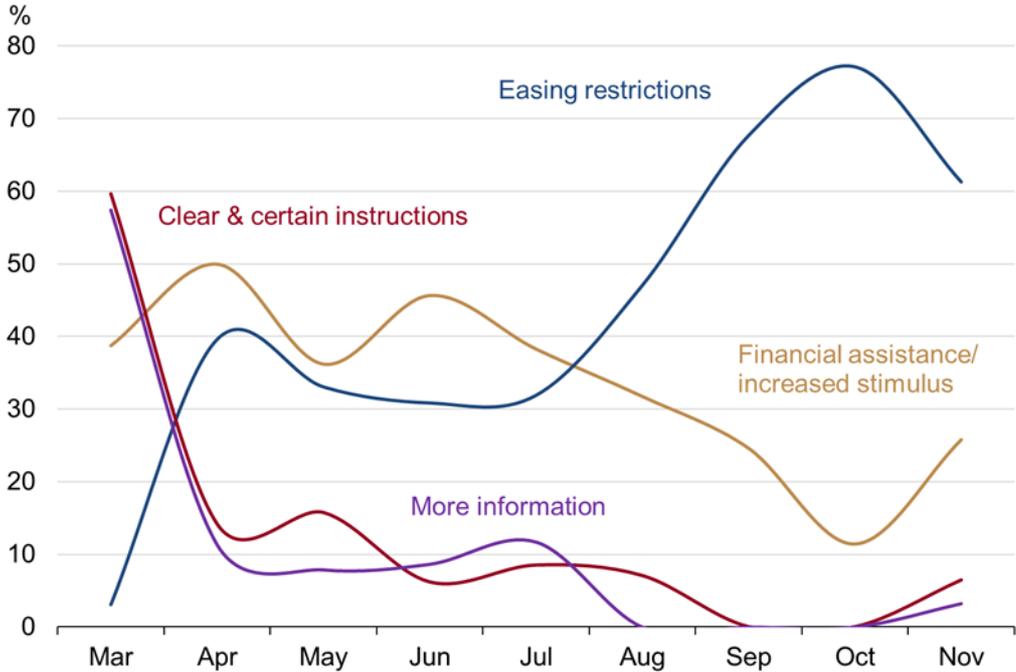
The assistance that businesses were seeking from Government and others as a result of the COVID-19 pandemic shifted considerably during 2020. Businesses often reported on their own plans for recovery in combination with requests for assistance from Government and others. These reports indicate three distinct stages during 2020:

1. March to April. Needing more information along with clear & certain instructions. At the start of the pandemic uncertainty was the greatest concern, with businesses wanting clear & certain instructions and more information about safety and activity.

2. April to June. Needing financial assistance to ease cash flow pressures. By April cash flow became a major business concern, with 50% of businesses responding to this question saying they needed financial assistance. The Government announced JobKeeper on 30 March. At its peak in Q3, JobKeeper was supporting an estimated 900,000 businesses and 3.5 million workers. RBA research suggests JobKeeper reduced total employment losses by at least 700,000 people between April and July.

3. August to November. Easing restrictions. As strict activity limits were reimposed in Victoria and interstate borders were closed, the most common priority stated by businesses was to (safely) ease activity and site restrictions and to re-open state borders.

Chart 4.1: Assistance to help businesses manage the response to COVID19, March to November 2020



Source: Ai Group.

Table 4.2: Assistance to help businesses manage the response to COVID-19

What would assist your business?	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
% of businesses asking for each form of assistance in each month (multiple answers possible for each business)	%	%	%	%	%	%	%	%	%
Easing restrictions	3	40	33	31	32	47	68	77	61
Financial assistance/increased stimulus	39	50	36	46	38	32	25	11	26
Clear certain instructions and rules	60	14	16	6	9	7	0	0	6
Infrastructure investment /local procurement	0	0	17	23	11	7	11	6	6
Increased demand for locally made products	0	0	0	0	4	8	6	0	6
More information	57	11	8	9	12	0	0	0	3
Increased certainty	0	0	0	0	9	11	2	23	0
Assistance with employee management	11	1	1	0	0	2	0	0	0
Improved access to PPE & hygiene products	9	1	2	0	0	1	0	0	0
Assistance with domestic and international freight	1	3	3	0	0	0	0	0	0

Source: Ai Group.

5. What will businesses do in 2021?

From an initial crisis response in March when the potential effects of COVID-19 on the workforce and the broader population were unknown, to the planning for 2021, Australian businesses responded in a fast, responsible and capable manner. During most months of 2020, some businesses told Ai Group that they would ‘wait and see’ what the outcomes after restrictions eased were, before adjusting their business plans.

In the early stages of the pandemic, businesses said they would continue to reduce employee accrued leave and run-down inventory; reduce employee hours and numbers as well as managing other costs. When business picked up after May, they intended to employ new staff, increase investment, increase focus on marketing, take advantage of the digital gains that have been made (e.g. online meetings instead of travel) and the increased comfort level their customers now have with online platforms.

In November, Ai Group asked businesses what changes made during the pandemic they will keep in 2021. In total:

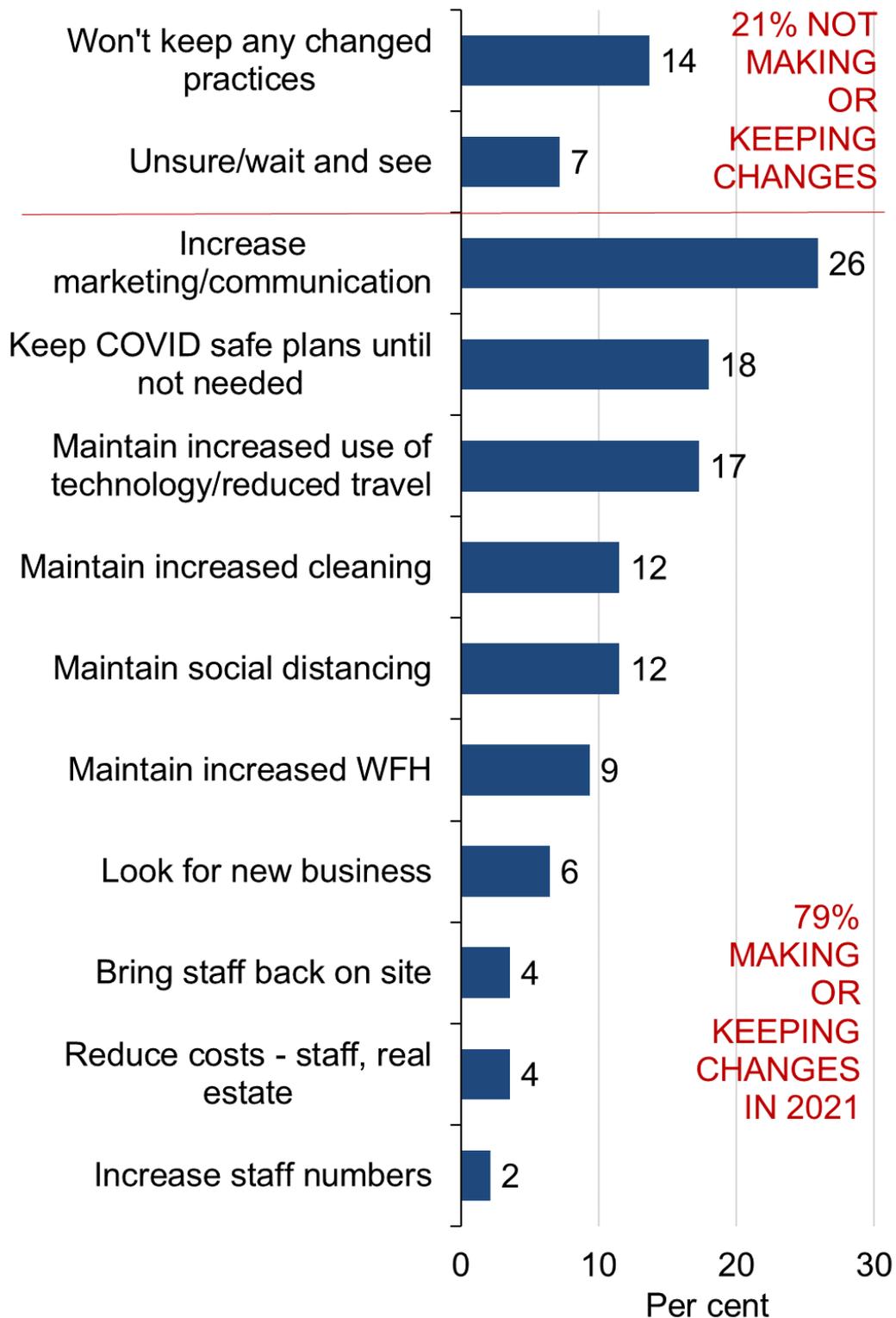
- **Around 20% of businesses said they do not yet know** (7%) or they do not plan to keep any of the changes they have made in response to COVID-19 in 2021 (14%). These businesses appear to be less affected by the COVID-19 activity restrictions and/or they expect a vaccine to become widely available by mid-2021.
- **Around 80% of businesses said they will keep at least some of the changes** they have introduced in 2020 in response to COVID-19, well into 2021.

The most common COVID-19 responses that businesses plan to keep in 2021 are:

1. Increasing marketing and communications to customers and suppliers.
2. Remaining COVID safe with a detailed plan for their worksites and workers.
3. Increasing their use of technology.
4. Maintain increased cleaning and social distancing in 2021. All respondents that reported that they will maintain increased cleaning or social distancing have COVID safe plans, but not all said they will keep their COVID-safe plans once no longer required.
5. Maintain their increases in employees working from home, where possible.

Top three COVID-19 measures that businesses plan to keep 2021	
1. Increase marketing and communication	26% of businesses
2. Keep additional cleaning (12%) and social distancing practices (12%), with COVID-safe plans	24% of businesses
3. Maintain increased use of digital technology and/or reduced travel	17% of businesses

Chart 5.1: What COVID-19 measures do businesses plan to keep or do in 2021? (as reported in November 2020)



Business investment intentions for 2020-21

Business investment is one of the key pathways to growth in productivity and incomes across the economy. For that reason, it is closely monitored and supported by fiscal and monetary policy.

Outside of the mining sector, business investment growth has been relatively weak in Australia over the past decade. COVID-19 has exacerbated this problem; business investment (as measured by the ABS in the *National Accounts*) fell by 3.0% q/q and 9.7% p.a. to Q3, including a drop of 3.2% q/q and 11.6% p.a. in spending on new machinery and equipment.

Within individual industries, the quarterly ABS capital expenditure survey (CAPEX) showed growth or at least some recovery in Q3 in a handful of industries including utilities (+4.6% q/q), wholesale trade (+10.6% q/q and +5.8% p.a.), retail trade (+4.6% q/q and +1.0% p.a.) and financial services (+3.7% q/q). It is not clear how much of these increases in CAPEX were due to PPE and other equipment purchases required by businesses in these consumer-oriented services industries, in order to respond to the COVID-19 pandemic.

The Federal Government introduced a range of measures targeted specifically at encouraging business investment over the course of 2020.

- In March, eligibility for instant asset write-off provisions for assets with a value of less than \$150,000 (previously \$30,000) purchased before June 2020 was extended to businesses with turnover of less than \$500 million (up from \$50 million) and a 50% deduction in the year of purchase was allowed for the capital value of all depreciable assets for similarly-sized businesses until 30 June 2022;
- In June, the instant asset write-off arrangements were extended to apply to assets put in place before 31 December 2020; and,
- In the October Budget, full expensing in the year of purchase of eligible depreciable assets put in place before the end of June 2022 was introduced for businesses in groups with aggregated turnover of less than \$5 billion. Eligibility for the immediate expensing measure was subsequently extended by allowing an alternative test that excluded from the \$5 billion threshold income earned outside Australia for some businesses.

All of these measures impact on the timing of deductions related to investment but not on the total amount deducted nor on the rate at which tax is levied. Nevertheless, by bringing forward deductions, the measures will increase the net present value of investments undertaken by eligible businesses.

Further, these changes were complemented by a range of other policy measures favourable to business investment including lower interest rates, greater credit availability and business cash flow measures.

Prior to the 2020-21 Budget (released in October 2020), business investment intentions for 2021 were still indicating that investment levels would improve from the depths of 2020 but were likely to remain problematic. The Treasury noted that:

...The protracted period of weakness in business investment due to the COVID-19 pandemic will lower growth in the capital stock and in turn labour productivity and future productive capacity until there is a recovery in business investment. This is partly offset by economic support measures that are expected to increase business investment and in turn lead to higher labour productivity growth than otherwise would have occurred.” (Federal Budget Papers, 2020-21)

Looking ahead, the latest quarterly ABS CAPEX survey (conducted over 8 weeks in October and November) included the fourth estimate of business CAPEX for the 2020-21 financial year. In nominal terms, businesses expected to spend a total of \$104.9bn in 2020-21. This is 6.3% higher than the previous estimate, but 10.1% lower than total business CAPEX in 2019-20. When adjusted with average realisation ratios over the past five years, this fourth estimate implies annual CAPEX of \$110.2bn in 2020-21. This would be 5.6% lower than actual total CAPEX in 2019-20.

Across the three major industry categories that are included in the ABS CAPEX survey:

- **Mining** expects to spend \$36bn in 2020-21, including \$25.9bn on buildings and \$10.1bn on equipment. This is 2.5% more than actual mining CAPEX in 2019-20 but is about the same after adjusting with a five-year average realisation ratio (-0.4% p.a.). The mining industry has lowered its CAPEX plans for 2020-21 in each of the four estimates reported this year (after adjusting for average realisation ratios for each estimate).
- **Manufacturing** expects to spend \$9.4bn in 2020-21, including \$2.69bn on buildings and \$6.7bn on equipment. This is 3.7% less than actual manufacturing CAPEX in 2019-20 but only 1.4% lower after adjusting with a five-year average realisation ratio. The manufacturing industry has lowered its 2020-21 CAPEX plans since April-May (after adjusting with average realisation ratios for each estimate). This cut to CAPEX in 2021 will end the modest recovery in manufacturing CAPEX over the past four years (1.5% growth or better in each year).
- **Other industries** that are included in the ABS CAPEX survey expect to spend \$59.5bn in 2020-21, including \$31.2bn on buildings and \$28.3bn on equipment. This is 7.5% less than actual CAPEX by these industries in 2019-20, after adjusting with a five-year average realisation ratio. These industries have, in aggregate, raised their CAPEX plans for 2020-21 since July-August (after adjusting with five-year average realisation ratios for each estimate). In raw terms, this fourth estimate of CAPEX for ‘other industries’ is 14.1% higher than estimate 3 for 2020-21, which is one of the largest quarterly upgrades ever recorded in this CAPEX survey. This suggests better business confidence since the beginning of the pandemic, but it is not yet buoyant enough to bring CAPEX back to pre-COVID-19 levels.

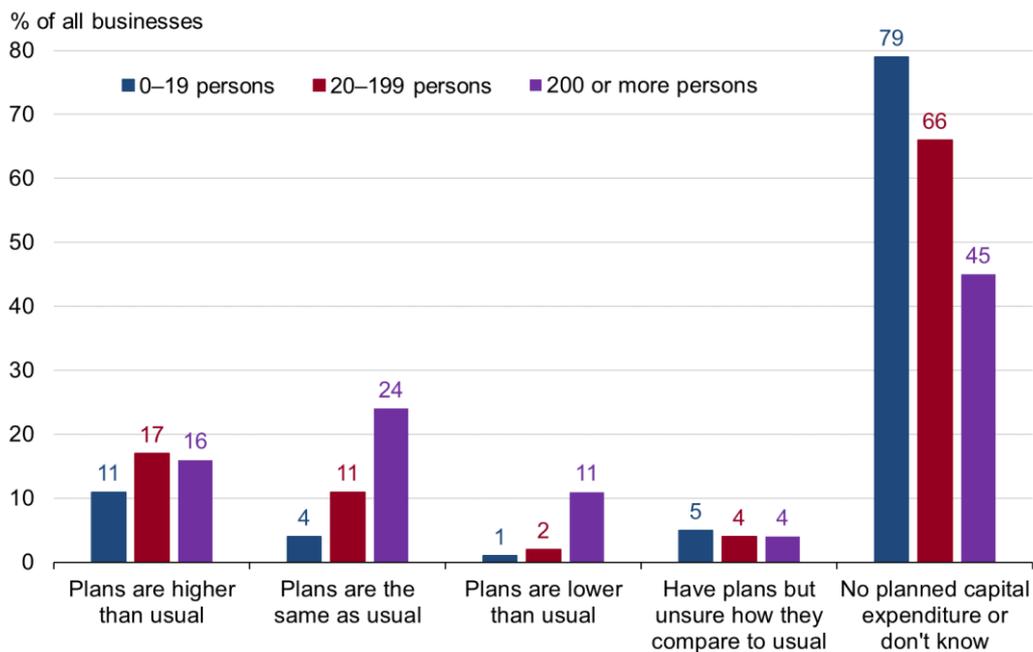
Chart 5.2: Nominal annual CAPEX estimates by industry, 2010 to 2021



Source: ABS, CAPEX, Sep 2020.

A separate ABS business survey (conducted by telephone from 4 to 11 November) indicate that CAPEX spending in 2021 is likely to be concentrated in a relatively small proportion of businesses. A large proportion (78%) of all businesses had no definite CAPEX plans for the three months from November 2020, including 66% of medium-sized businesses and 45% of large businesses. Just 11% of businesses planned to ‘spend more than usual’ on CAPEX in the three months from November (chart 5.3).

Chart 5.3: Plans for capital expenditure (CAPEX) by business over the three months from November 2020



Source: ABS, Business Indicators, Business Impacts of COVID-19, November 2020.

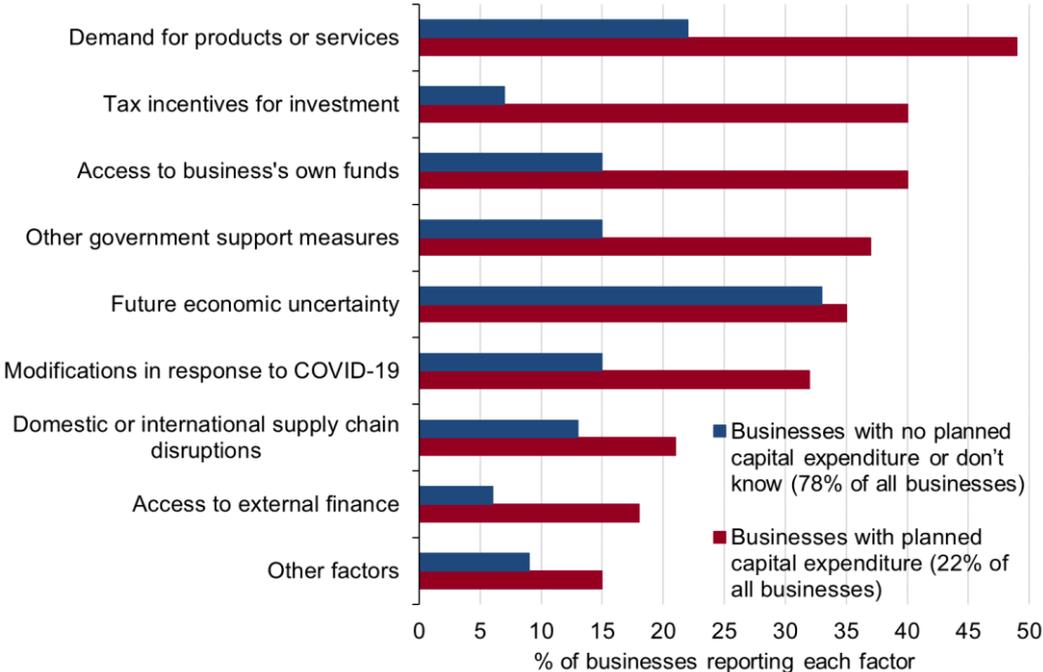
The factors influencing business decisions to invest at the end of 2020 closely mirror the impacts listed by businesses that reported their experiences to Ai Group (see Chapter 2). 78% of businesses said they had no CAPEX plans for the closing months of 2020 or that they did not know of their plans. For this group, ‘future economic uncertainty’ is the most significant reason for their investment decisions (33% of these businesses with no definite CAPEX plans).

Only 22% of businesses planned to invest during the three months from November of 2020. For this group, ‘demand for products or services’ from their own customers is a significant reason for investing (49% of this group), followed by tax incentives (40% of this group) and other government support measures (37% of this group). 32% of businesses with CAPEX plans said they are doing so because they need to make ‘modifications in response to COVID-19’ and 21% said they are investing in response to ‘domestic or international supply chain disruptions’ (Chart 5.4).

Among the 22% of businesses that planned to invest in the three months from November 2020 (chart 5.5):

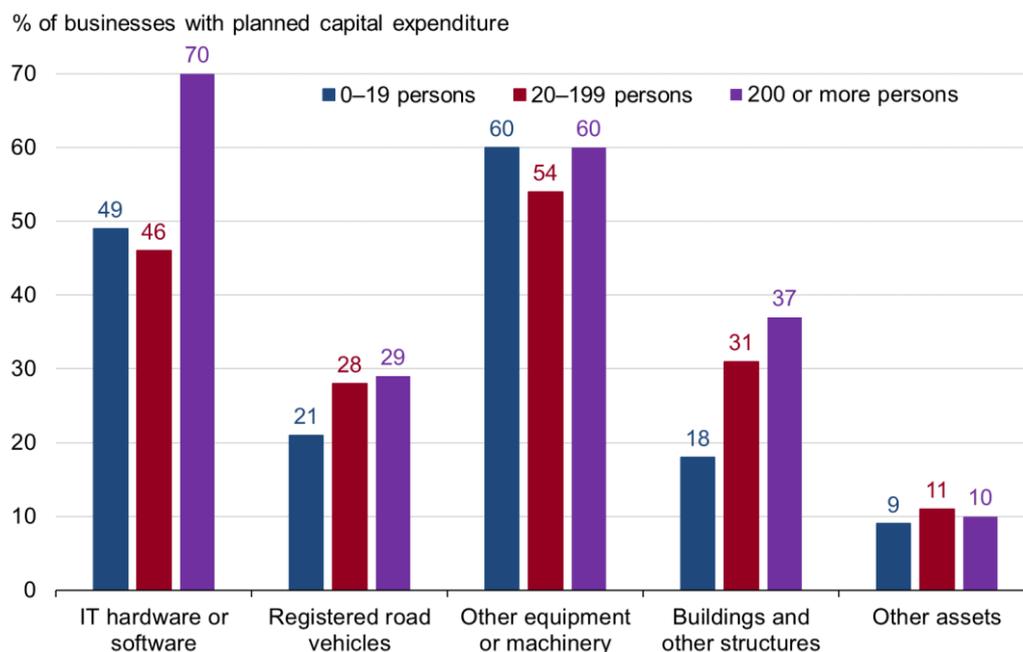
- 59% plan to invest in equipment and machinery other than IT equipment, including 60% of small businesses and 60% of large ones;
- 49% plan to invest in IT equipment, hardware or software, including 70% of large businesses;
- 22% plan to buy one or more road vehicle, including 29% of large businesses; and
- 19% plan to invest in new buildings or other built structures, including 37% of large businesses.

Chart 5.4: Factors that significantly influence business CAPEX plans for the three months from November 2020



Source: ABS, *Business Indicators, Business Impacts of COVID-19*, November 2020.

Chart 5.5: Assets that businesses plan to purchase over the three months to December 2020



Source: ABS, *Business Indicators, Business Impacts of COVID-19*, November 2020.

6. Outlook for 2021 and beyond

The economic outlook for Australian business activity and investment in 2021 improved considerably during Q3 and Q4 of 2020, as local outbreaks of COVID-19 subsided, and economic growth recovered. As conditions improved, the Australian Treasury, the RBA and the OECD revised up their recovery expectations for Australia in 2021.

In the all-important jobs market, Australia had already recovered the majority (but not all) of jobs lost during the first wave of COVID19 by the end of 2020. The RBA therefore expects Australia's unemployment rate to have peaked at around 8% during Q4 of 2020, with a long period of relatively elevated unemployment to come (Table 6.1).

However, the OECD expects the economic fallout for Australia to continue well into 2021 due to the ongoing effects of international trade and border disruptions. It expects Australia's unemployment rate to peak at around 8% during 2021, as more people re-enter the labour market from non-participation (that is, as discouraged jobseekers become active in seeking work again), as government support programs taper off and as some of the larger services industries continue to operate at reduced capacity and/or reduced demand (Table 6.2).

Table 6.1. Australian economy: latest growth rates and RBA forecasts

% change over the year	Mar 2020	Jun 2020	Dec 2020	Jun 2021	Dec 2021	Jun 2022	Dec 2022
Gross domestic product (GDP)	1.4	-6.3	-4	6	5	4	4
Household consumption	-0.2	-12.7	-5	13	6	4	4
Dwelling investment	-9.7	-11.2	-12	0	5	1	2
Business investment	-2.9	-5.5	-14	-9	4	9	9
Public demand	5.4	6.1	6	4	2	0	1
Gross national expenditure	0.2	-7.7	-3	8	4	4	3
Imports	-7.7	-19.1	-10	15	6	6	6
Exports	-2.0	-10.6	-12	3	6	5	7
Terms of trade	-0.9	-1.8	3	-5	-7	-4	-2
Real household disposable income	2.4	5.8	2	-6	0	4	3
Unemployment rate (quarter average, %)	5.2	7.0	8.0	7.5	6.5	6.5	6.0
Employment growth (quarter average, % p.a.)	1.8	-4.3	-3.0	3.0	2.0	2.0	2.0
Wage price index (WPI)	2.1	1.8	1.25	1.00	1.25	1.5	1.75
Trimmed mean inflation (core)	1.8	1.2	1.0	1.25	1.0	1.25	1.5
Consumer price index (CPI)	2.2	-0.3	0.5	2.25	1.0	1.25	1.5

■ = actual. □ = forecast. RBA forecasts include the following technical assumptions: The cash rate is assumed to remain at its current level (0.1%) and the 0.1% target for the 3-year government bond yield is assumed to remain consistent with current settings. Other technical assumptions include the TWI at 60, A\$ at US\$0.70 and Brent crude oil price at US\$42 per barrel.

Sources: ABS, various data; RBA 'baseline scenario' in *Statement on Monetary Policy*, 6 Nov 2020.

Table 6.2: Australian economy: OECD forecasts (Dec 2020)

% change over the year	2019a	2020f	2021f	2022f
Gross domestic product (real GDP)	1.8	-3.8	3.2	3.1
Household consumption	1.4	-7.5	4.7	4.2
Government consumption	5.4	7.8	4.7	0.9
Gross fixed capital formation (investment)	-2.0	-9.7	2.1	3.8
Exports	3.2	-9.3	1.0	3.8
Imports	-1.3	-12.7	6.6	5.7
Unemployment rate (% of labour force, year average)	5.2	6.8	7.9	7.4
Household savings ratio, net (% of disposable income)	3.7	14.4	11.7	8.9
Trimmed mean inflation (core)	1.6	1.1	1.3	1.6
Consumer price index (CPI)	1.6	0.7	1.6	1.6

a = actual. f = forecast. Source: [OECD Economic Outlook Australia, Dec 2020](#).

The outlook remains especially unclear however, with the recovery from COVID-19 expected to be gradual and uneven, locally and globally. The OECD has identified the following three immediate risks for the Australian economy in 2021:

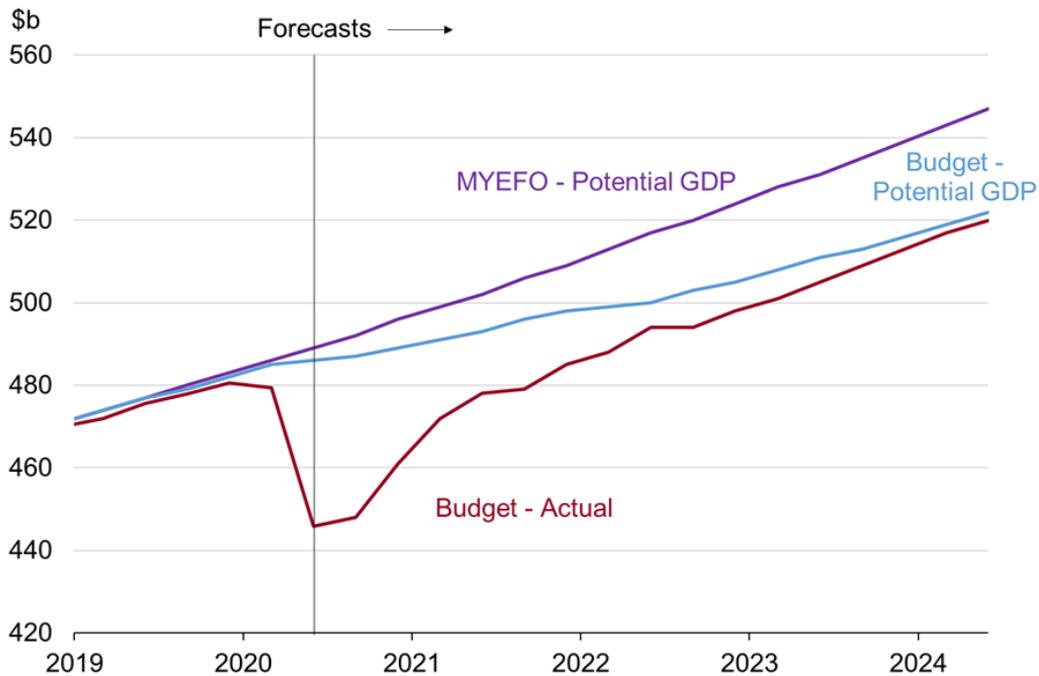
1. the impact of global border closures and traveller caution regarding long-distance travel on Australia's services exports (i.e. international student and tourist arrivals);
2. the impact of global geopolitical tensions with China on all Australian exports; and
3. the unintended consequences of Australian government support measures being reduced too early or too fast. *"A risk is that the recovery in business and consumer sentiment is hampered by a rise in business insolvencies and renewed labour market weakness as policy support is scaled back in 2021 ... Fiscal and monetary support should be maintained until the economic recovery is firmly entrenched"*.

In the longer-term, the COVID-19 pandemic will slow Australia's population growth rates for many years. Treasury estimates that border closures in 2020 have seen Australia's net overseas migration decline from around 154,000 persons in 2019-20 to an outright fall (net emigration) of around 2,000 persons by the end of 2020-21. This is the first time that Australia's net overseas migration has turned negative since 1946.

As a result, Australia's total population growth is expected to slow to just 0.2% in 2020-21 and 0.4% in 2021-22, which will be the weakest growth in over a century (since WW1). This will be due to an expected fall in the birth rate and an absolute decline in net migration in these years. While migration will eventually return to the levels that Australia is accustomed to, these 'lost years' of net migration – and the population growth that they would have brought - will not be replaced.

Population growth is a major contributor to Australian economic growth and so this will have a detrimental effect on Australia's long-run potential growth rate (that is, the maximum GDP growth that can be achieved with our resources). As a result, Treasury has downgraded its estimates of Australia's 'potential GDP growth rate' to less than 2% p.a. resulting from the pandemic (chart 6.1).

Chart 6.1: Treasury estimates of Australia's 'potential GDP' (MYEFO and 2020-21 Budget)



Sources: ABS *Australian National Accounts*, and Treasury, *Federal Budget 2020-21*.

This sudden deceleration in population growth and potential GDP growth means that any long-term recovery and improvement in economic activity and incomes will require:

- **stronger productivity growth**, supported by deeper business and community investment in technology, equipment, trade, energy, workplaces; skills and education; and
- **stronger workforce participation**, supported by industrial relations, education, and taxation systems that enable Australians of all ages, abilities, skill levels and backgrounds to participate more fully in education, work and business life.

Appendix: business responses by month, industry and state

Ai Group received 1,899 detailed reports from businesses about their experience of the COVID-19 pandemic from March to the end of November 2020. A small number of businesses offered feedback in each of these months. Most businesses reported their experiences in detail more than once across this period. Business responses were received from all industries and states (Table 6.1).

These business reports are not intended to provide a representative sample of all Australian businesses or all of the Australian economy. Instead, they illustrate the concerns, issues and factors that businesses reported to Ai Group about the effects of the COVID-19 pandemic on their business in each of these months.

The data for each month includes all reports received from the first day of the month until the last, including reports added retrospectively.

Table 6.1: Business responses to Ai Group about COVID-19

Industry	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Total
Business services	50	31	43	23	38	40	35	36	31	327
Consumer services	26	7	17	11	19	16	14	16	12	138
Manufacturing*	57	24	36	28	25	34	36	33	30	303
Manufacturing - machinery & equipment	24	29	40	30	37	37	39	27	32	295
Manufacturing - metal products	28	29	54	49	33	38	40	30	22	323
Construction & mining services	10	87	72	49	59	62	69	50	55	513
TOTAL	195	207	262	190	211	227	233	192	182	1899
NSW	63	57	92	58	67	71	72	61	62	603
VIC	78	67	83	57	75	83	89	65	63	660
QLD	37	37	36	34	28	31	34	20	23	280
Other states	17	46	51	41	41	42	38	46	34	356
TOTAL	195	207	262	190	211	227	233	192	182	1899



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