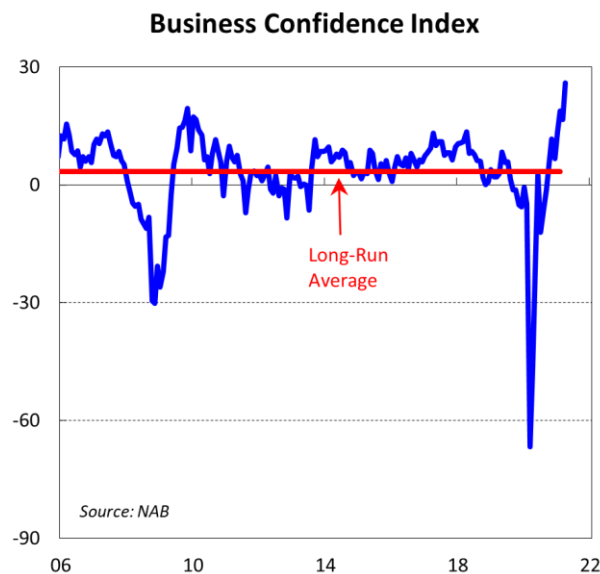
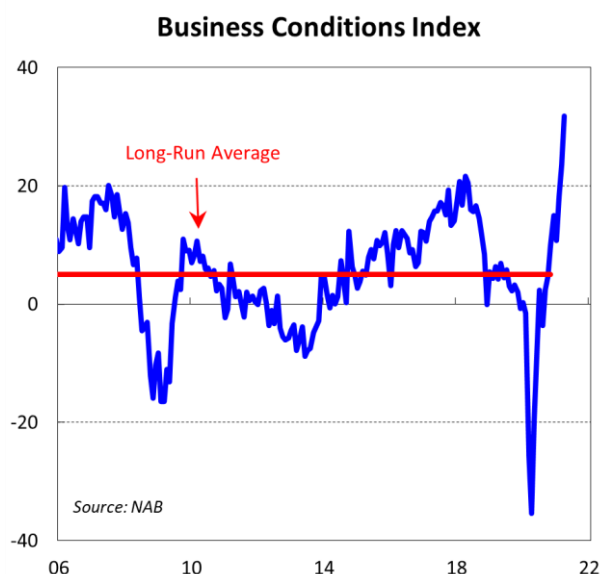


Monday, 10 May 2021

Business Confidence and Conditions

New Records Smashed

- Business conditions and confidence both hit fresh highs in April, pointing to ongoing jobs growth and a continued recovery in business investment. And this comes off the back of the expiry of JobKeeper at the end of March. The survey has been running since 1996.
- Conditions increased to 32, from 24 in March. Each of the three underlying components – trading conditions, profitability and employment – rose to new record highs. Conditions also improved in all states, except South Australia which was flat.
- The strength in conditions has broadened out across industries, after services lagged other sectors alongside pandemic-related restrictions.
- Confidence rose to 26 in April, up from 17 in the previous month. This implies conditions will remain strong in the near term.
- Capacity utilisation also hit a new high in April, increasing to 85.3% from 82.5%. Higher capacity utilisation is associated with increases in business investment, jobs and inflationary pressures. Forward orders also climbed to a new high in April, pointing to a solid pipeline of work.
- Over the coming months we expect business conditions will continue to be supported by low interest rates and tax incentives. Its likely additional support measures for businesses will be announced in tomorrow's Federal Budget, which will also provide a boost to conditions.



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The words ‘fresh high’ have applied to so many data releases over recent months. I can’t help but feel like a bit of a broken record. But make no mistake, these are an incredibly strong set of numbers.

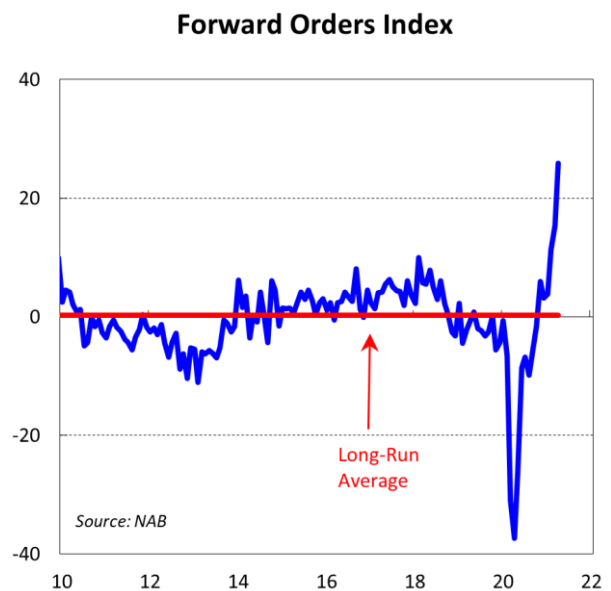
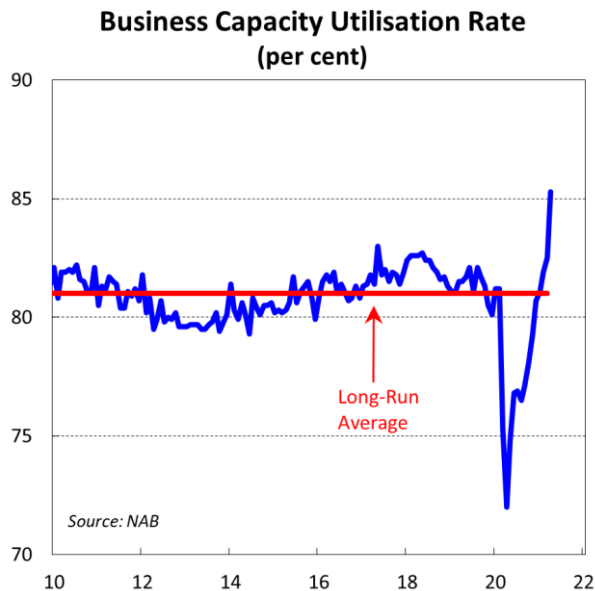
Conditions increased to 32, from 24 in March. Each of the three underlying components – trading conditions, profitability and employment – rose to new records.

The strength in conditions has broadened out across industries. Service sectors lagged in the initial phase of the recovery alongside ongoing pandemic-related restrictions and a related rotation in consumer spending towards goods and away from services. But now finance, business and property have the strongest conditions amongst non-mining industries. Conditions in the recreation and personal services sector have also improved markedly. Conditions are weakest for construction and transport & utilities – but still well into positive territory.

Conditions improved in all states, except South Australia which was flat. Conditions are strongest in the mining states of WA and Queensland and weakest in Tasmania, although still in positive territory.

Confidence rose to 26 in April, up from 17 in the previous month. This implies conditions could remain strong in the near term. The survey was conducted shortly after setbacks in Australia’s vaccine rollout when AstraZeneca advised against vaccinating those aged under 50 due to rare but serious side-effects. But these developments clearly did not dent confidence.

Capacity utilisation also hit a new high in April, increasing to 85.3% from 82.5%. This is well above the long-run average of 81.0%. Higher capacity utilisation is associated with increases in capital expenditure and employment.



An increase in capacity utilisation can also be an indicator of a rise in inflationary pressure. This indicator will be useful to watch in the coming months as the focus on inflation intensifies. We expect a temporary pick up in inflation, although policymakers will look through this transitory effect. Reserve Bank Deputy Governor Debelle reaffirmed this in a speech last week when he

repeated they expected there to be no change to their key rate until 2024 at the earliest. Forward orders also climbed to a new high in April, pointing to a solid pipeline of work.

Outlook

Today's numbers are good news for near term growth and employment. It is also an encouraging sign for business investment, which picked up in the December quarter but was still subdued relative to pre-COVID levels. We get the next read on business investment later this month with the release of private capital expenditure data for the March quarter. It remains to be seen how much of the surge in business conditions and confidence will translate into actual investment.

Over the coming months we expect business conditions will continue to be supported by low interest rates and tax incentives. We expect tomorrow's Federal Budget will include policies which will provide additional support to businesses, particularly those in industries impacted by border closures like tourism and education.

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