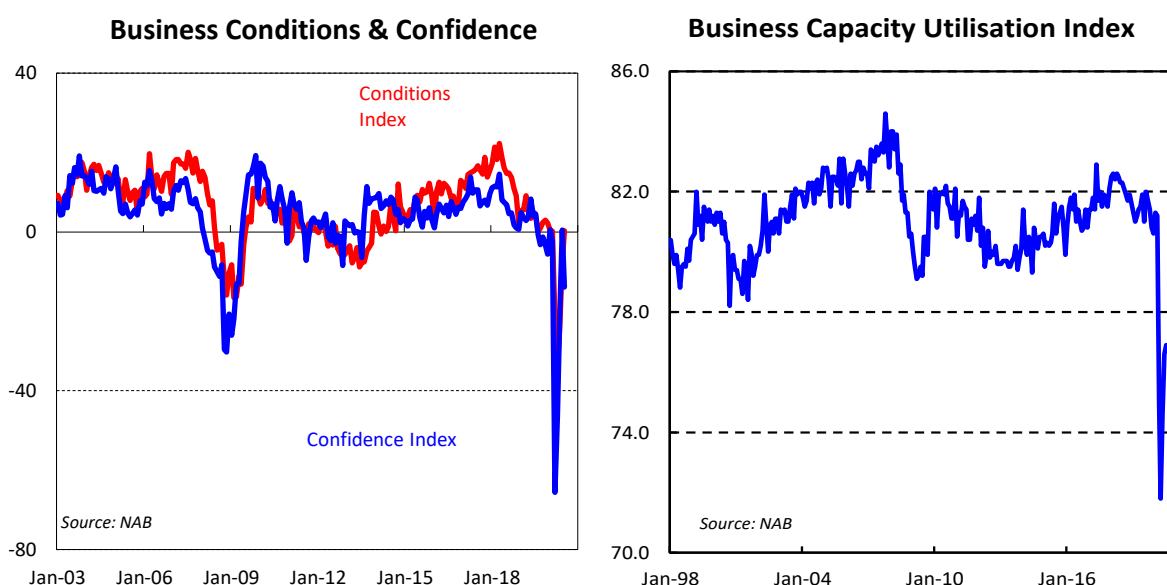


Tuesday, 11 August 2020

Business Confidence and Conditions

Businesses Hold Their Breath

- Business conditions improved while confidence fell in July as COVID-19 developments kept firms on edge.
- The business conditions index rose to 0 in July from -8 in June. The index is now at its pre-pandemic level, when the main concerns for businesses were the summer bushfire disaster and lacklustre consumer demand.
- Confidence partially reversed its June improvement, falling to -14 from 1 previously. The survey period preceded the stage 4 lockdown imposed in metropolitan Melbourne but captures the rapid increase in cases in Victoria and the earlier containment measures imposed in metropolitan Melbourne and the Mitchell Shire.
- Unsurprisingly, confidence was most affected in Victoria and NSW, where cases of COVID-19 have been more prevalent. There was a 22-point decline in confidence in Victoria to -29. All States recorded negative confidence in July except for WA and Tasmania.
- July's survey shows that operating conditions outside of Victoria appear to have improved. However, businesses around the country are keeping a close eye on developments, and the persistent trickle of cases in NSW is further negatively impacting confidence.



Business conditions improved in July, before the introduction of stage 4 restrictions in Victoria. However, the rapid increase in COVID-19 cases caused concern among businesses, leading to a sharp fall in confidence.

The business conditions index rose to 0 in July from -8 in June. The index is now at its pre-pandemic level when the main concerns for businesses were the summer bushfire disaster and lacklustre consumer demand. Conditions remain below the series average of 5.

Confidence partially reversed its June improvement, falling to -14 from 1 previously. The survey period preceded the stage 4 lockdown imposed in metropolitan Melbourne but captures the rapid increase in cases in Victoria and the earlier containment measures imposed in metropolitan Melbourne and the Mitchell Shire. The survey period for the month was conducted over 22-31 of July.

Unsurprisingly, confidence was most affected in Victoria and NSW, where cases of COVID-19 have been more prevalent. There was a 22-point decline in confidence in Victoria to -29 while confidence in NSW fell to -21. The confidence index improved slightly in South Australia to -10 and Queensland business confidence fell to -6. Businesses were more positive in Western Australia, where confidence rose to 12 while the index remained barely in positive territory in Tasmania, at 2.

All sub-components of the conditions index increased in July. Profitability turned positive for the first time since January at 2 while trading conditions rose to 1. Employment posted its best outturn since February, however it remains below zero at -2.2, indicating weak hiring conditions.

Forward looking components of the survey, including forward orders (-7.4) and capacity utilisation (76.9%) improved a little in July, but continue to suggest weakness in output ahead.

Conditions deteriorated significantly in the construction sector to -25 in July from -12 in June, the lowest since April. Other industries reported more favourable conditions, including manufacturing (10), mining (11), retail trade (12) and wholesale trade (12). Transport & utilities reported a decline in conditions to -5 while conditions improved but remained negative among financial, business & property services firms (-7). Recreation & personal services reported the biggest improvement in conditions, rising to 0 in July from -24 in June.

July's business sentiment survey is a testament to the economic paradigm that has emerged following the COVID-19 outbreak in Victoria. Operating conditions outside of Victoria appear to have improved as earlier restrictions have been relaxed. However, businesses around the country are keeping a close eye on developments, and the persistent trickle of cases in NSW is further negatively impacting confidence.

Confidence will continue to be primarily driven by the rate of infections, which will play a major role determining the outlook. Indeed, conditions are likely to deteriorate in the coming month as Stage 4 restrictions in Metropolitan Melbourne took effect and are expected to remain subdued while aggregate demand in the economy remains anaemic.

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