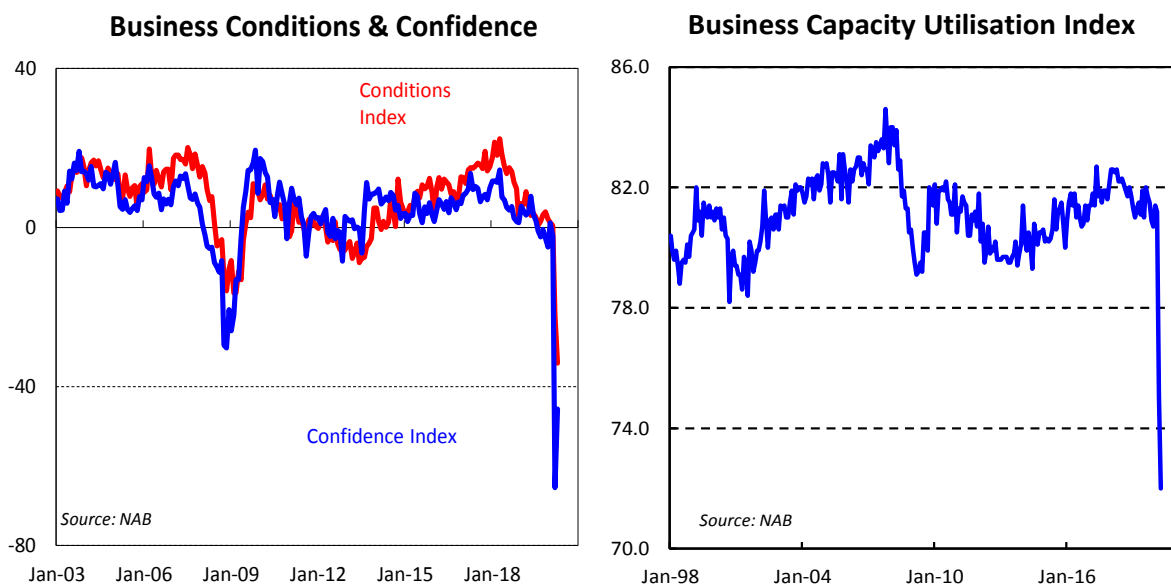


Tuesday, 12 May 2020

Business Confidence and Conditions Still at Recessionary Levels

- Business confidence improved from a record low in March, lifting from -66 to -46 in April. However, April's reading was the second lowest on record, indicating deep pessimism among businesses.
- The survey suggested actual activity weakened in the month, reflecting the full impact of social distancing restrictions. The conditions index deteriorated from -22 in March to -34 in April, a new series low with the monthly survey beginning in 1997.
- Unsurprisingly, conditions were weakest in recreational & personal services, which have been directly impacted by the restrictions. However, there were also very weak conditions for wholesale, manufacturing and construction.
- Both confidence and conditions are at levels indicating a very deep contraction in economic activity. A plan to gradually lift restrictions suggests that the worst may be over, but we are a long way from restoring levels of activity to where they were before the crisis.



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Despite the improvement in sentiment, the survey suggested that actual activity weakened in the month, reflecting the full impact of social distancing restrictions. The conditions index deteriorated

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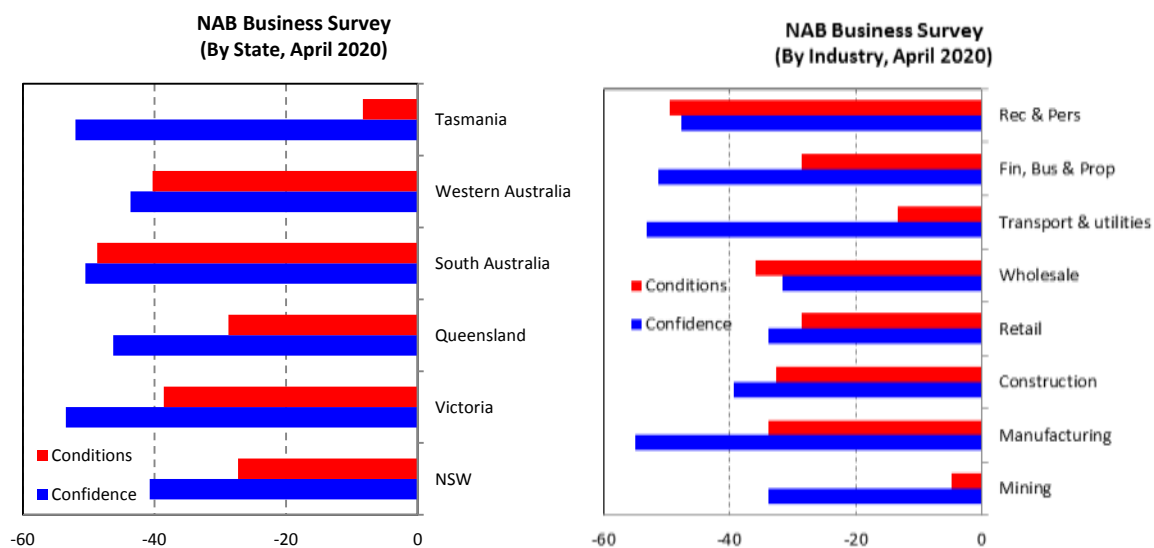
All sub-indices weakened in the month, including trading, profitability, employment and forward orders.

Capacity utilisation fell further from 75.1% to 72.0% – a new record low, reflecting the full impact of restrictions on business operations in April.

The improvement in confidence was across all industry sectors, except for manufacturing. The mining sector saw the biggest improvement in confidence. Sectors with the lowest confidence included manufacturing and transport & utilities.

Unsurprisingly, conditions were weakest in recreational & personal services, which have been directly impacted by the restrictions. However, there were also very weak conditions for wholesale, manufacturing and construction.

With the exception of Tasmania, the improvement in confidence was across all States, but the deterioration in conditions was also across the board.



Outlook

The improvement in confidence can be linked to the very low new cases of COVID-19 in Australia and the plans to re-open the economy. However, confidence remains woefully low and conditions have deteriorated further. Both are at levels indicating a very deep contraction in economic activity. A plan to gradually lift restrictions suggests that the worst may be over, but we are a long way from restoring levels of activity to where they were before the crisis.

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