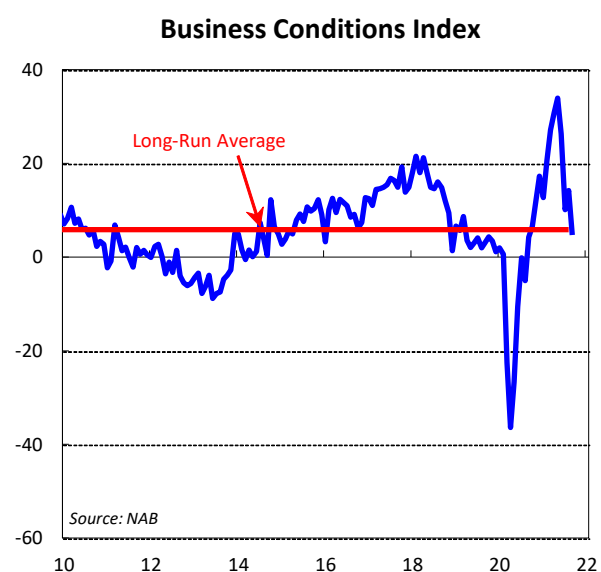
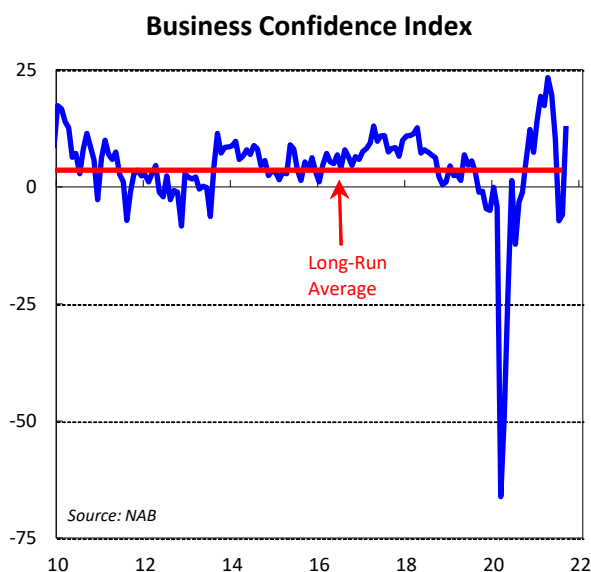


Tuesday, 12 October 2021

Business Confidence and Conditions

Confidence Posts Biggest Jump in 15 Months

- Business confidence leapt higher in September alongside progress in the vaccine rollout and the release of reopening roadmaps. The pandemic has thrown up a lot of challenges for businesses but there is a light at the end of the tunnel.
- Business confidence rose 19 points to a 4-month high of +13, putting it back in strongly positive territory and well-above the long-run average. It is the biggest monthly gain since mid-2020.
- But business conditions fell 10 points to +5 alongside ongoing lengthy lockdowns in NSW, Victoria and the ACT. The conditions index is now just below the long-run average.
- Confidence has been more resilient this year than earlier in the pandemic, likely reflecting the certainty provided by vaccines that there will be an end to lockdowns. Businesses have also learnt how to better adapt to lockdowns after their experiences earlier in the pandemic.
- By state, the rebound in confidence was driven largely by a sharp jump in NSW. Confidence also rose in Victoria. In trend terms, confidence remains strongest in the smaller states which have avoided lengthy lockdowns – Tasmania, WA and SA.
- By industry, the jump in confidence was led by recreation & personal services and wholesale trade.
- The confidence of businesses is an encouraging sign for the recovery as restrictions ease. More confident businesses will be more willing to hire and invest.



Business confidence leapt higher in September alongside progress in the vaccine rollout and the release of reopening roadmaps. The pandemic has thrown up a lot of challenges for businesses but there is a light at the end of the tunnel. And businesses are upbeat.

Business confidence rose 19 points to a 4-month high of +13, back in strongly positive territory and well-above the long-run average. It is the biggest monthly gain in 15 months. This follows a small increase in confidence in August.

Business conditions fell 10 points to +5. The conditions index is now just below the long-run average.

Confidence has been more resilient this year than earlier in the pandemic, likely reflecting the certainty provided by vaccines that there will be an end to lockdowns. Businesses have also learnt how to better adapt to lockdowns after their experiences earlier in the pandemic. The confidence of businesses is an encouraging sign for the recovery as restrictions ease. More confident businesses will be more willing to hire and invest.

Positive news on the vaccine front has likely supported confidence. Alongside solid vaccination rates, Australia also secured additional supply of Pfizer and Moderna in recent months. Plus, the release of reopening roadmaps in NSW and Victoria has helped to provide businesses with more certainty over what to expect over the coming months.

All three subcomponents of the conditions index – trading, profitability and employment – declined. The deterioration in conditions is unsurprising given NSW, Victoria and the ACT were all in the midst of lengthy lockdowns. In other words, while businesses were more optimistic, they were still facing the immediate challenges to their operations from the restrictions that were in place.

However, businesses are shifting their focus to the rebound in the period ahead. Just last week, the Reserve Bank noted its liaison program suggests that many firms are seeking to hire workers ahead of reopening through October and November. This sentiment is echoed in the rebound in confidence in September.

By state, the rebound in confidence was driven largely by a sharp jump in NSW. Confidence also rose in Victoria. In trend terms, confidence remains strongest in the smaller states which have avoided lengthy lockdowns – Tasmania, WA and SA.

The decline in conditions was broad-based across states but in trend terms remained in positive territory in all states.

By industry, the jump in confidence was led by recreation & personal services and wholesale trade. Confidence remains strongest in mining and construction while it is still low, or in negative territory across other industries.

Conditions were weaker across most industries, with particularly sharp falls in mining and recreation & personal services.

Forward looking indicators continued to deteriorate in September. The capacity utilisation rate fell 1.7 percentage points to 78.4%, and is sitting below the long-run average. Forward orders also slipped lower after rising in August.

Outlook

The leap higher in confidence in September is an encouraging signal that businesses are upbeat as restrictions begin to ease. Our liaison with customers suggests this improvement in confidence has been fostered in recent weeks. Similarly, consumer confidence has held up well.

There is still uncertainty over how exactly spending patterns will evolve over the coming months.

It is possible that some consumers will be more cautious about getting back out to shops and restaurants while there are still relatively high case numbers, unlike in the past when states were pursuing COVID-zero.

But now over 90% of the eligible population in NSW had has at least one job, Victoria isn't far behind and other states and territories are making steady progress.

Once we have moved through this period of uncertainty, the economy is in a good position to rebound strongly. Low interest rates, the recovering global economy, strong household and business balance sheets, and the housing boom will all help. Plus, generous government tax incentives are encouraging businesses to invest.

Things are looking up.

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