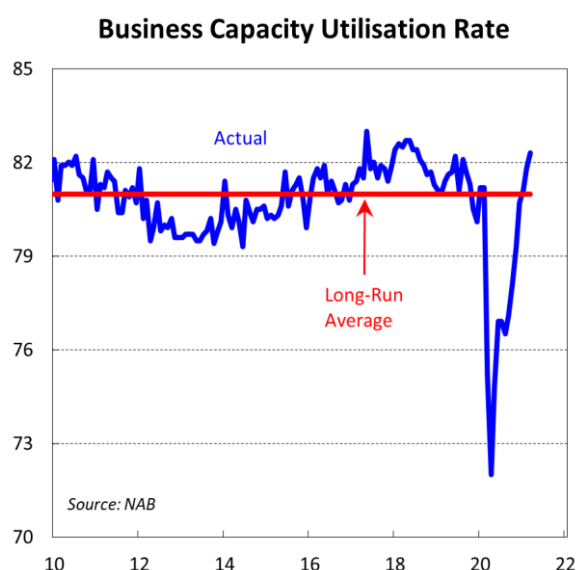
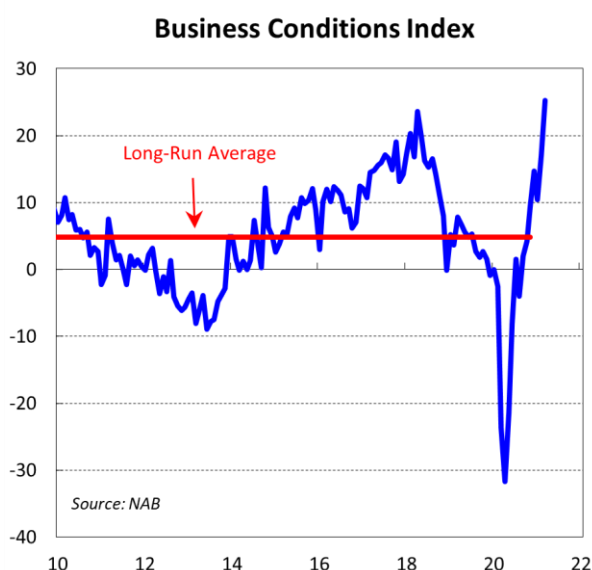


Tuesday, 13 April 2021

Business Confidence and Conditions

Conditions Hit Record High

- The strong data keep on coming. Business conditions hit a record high in March, increasing to 25 from 17 in February. The survey has been running since 1996. Confidence eased to 15, after hitting an 11-year high of 18 in previous month, although remains well above average.
- This is an encouraging print, particularly given businesses were looking to the conclusion of JobKeeper at the end of March. It suggests the momentum in the economic recovery is bolstering business conditions as the government winds back support.
- The improvement in the conditions index was driven by strong growth in all sub-components – trading, profitability and employment – which also all hit record highs.
- These data point to ongoing supportive business conditions. Confidence remains elevated, and there were further gains in the leading indicators of capacity utilisation and forward orders.
- Conditions in all industries have returned to positive territory in trends terms for the first time since mid-2018. Conditions improved in all states except for WA, which ticked down from a high level. In trend terms, conditions remain the strongest in WA, followed by Queensland.
- Today's numbers point to an ongoing recovery in business investment and jobs. Over the coming months we expect business conditions will continue to be supported by low interest rates, tax incentives and additional targeted support to be announced in May's Federal Budget. However, businesses still face headwinds. The disruption to Australia's vaccine rollout is a reminder that the pandemic isn't over yet and this may dampen next month's print.



The strong data keeps on coming. Business conditions hit a record high in March, increasing to 25 from 17 in February. The survey has been running since 1996. Confidence eased to 15, after hitting an 11-year high of 18 in previous month, although remains well above average.

This is an encouraging print, particularly given businesses were looking to the conclusion of JobKeeper at the end of March. It suggests the momentum in the economic recovery is bolstering businesses as the government starts to wind back support.

The vaccine rollout was also underway in March, which likely also supported sentiment. This survey was conducted before the recent setbacks to Australia's vaccination program.

These data are an encouraging sign for business investment. Investment picked up in the December quarter but remained subdued relative to pre-COVID levels. A further increase in business investment is necessary for a sustainable recovery in economic activity.

The improvement in conditions was driven by strong growth in all sub-components – trading, profitability and employment – which also hit record highs. Notably, the employment index points to ongoing strong jobs growth, even with the conclusion of JobKeeper at the end of March.

These data also point to ongoing supportive business conditions. Confidence remains elevated, and there were further gains in the leading indicators of capacity utilisation and forward orders. Capacity utilisation increased further to 82.3% and is now materially higher than its long run average of 81.0%. Higher capacity utilisation is associated with increases in capital expenditure and employment.

Conditions in all industries have returned to positive territory in trends terms (which indicates improving conditions) for the first time since mid-2018. Conditions are weaker in recreation and personal services where businesses continue to be hampered by social-distancing restrictions. Construction has also lagged the recovery, although conditions in this industry picked up sharply in March, likely reflecting the ongoing take-up of HomeBuilder.

Conditions improved in all states except for WA, which ticked down from a high level. In trend terms, conditions remain the strongest in WA, followed by Queensland. The west coast has faced less severe lockdowns than the larger capitals and has benefitted from lofty iron ore prices which have hovered over US\$160 per tonne in recent months. Conditions are weakest in Victoria and Tasmania, although even in these states conditions are still at or above pre-COVID levels.

Outlook

Today's numbers point to an improvement in the outlook for business investment and jobs. We are well on track to reach the pre-COVID level of economic activity by the middle of the year and have recovered almost all of the jobs lost between February and May last year. The recovery has played out much faster than economists and policymakers expected.

Over the coming months we expect business conditions will continue to be supported by low interest rates and tax incentives. Additional targeted support will also likely be announced for some industries in the May Federal Budget. The arts, recreation and tourism are probable candidates.

However, businesses still face headwinds. The disruption to Australia's vaccine rollout is a reminder that the pandemic isn't over yet. This may dampen next month's print. Snap lockdowns and state border closures remain a risk until a large enough share of the population is inoculated. And delays in the vaccine rollout inevitably will push out the return of international tourists and students.

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