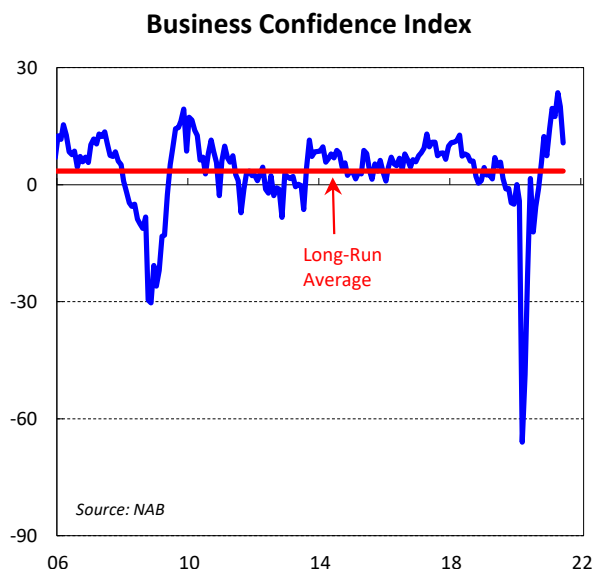
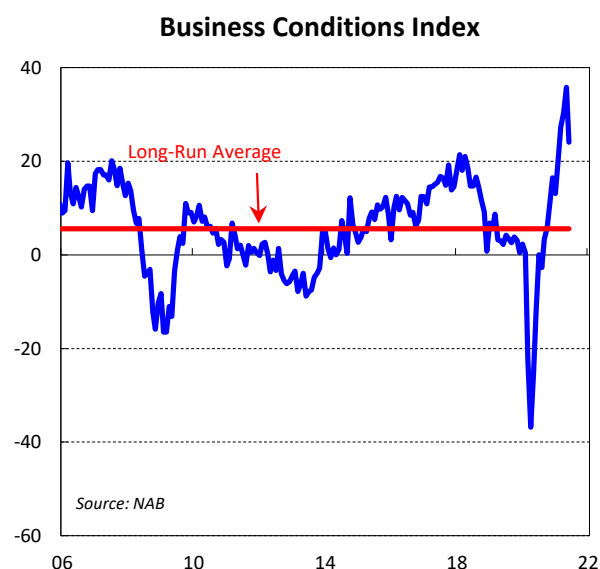


Tuesday, 13 July 2021

Business Confidence and Conditions

Lockdowns Shake Confidence

- Business confidence and conditions took a hit in June as NSW began its current lockdown and Queensland, WA and the NT also saw lockdowns of varying lengths.
- The conditions index fell to 24 in June, 12 points below the record high of 36 in May (revised from 37). The confidence index fell to 11, 9 points below the May level of 20. While both indices fell, they have been elevated for a number of months and remain well above long-run averages.
- All three underlying components of the conditions index – trading conditions, profitability and employment – contributed to the fall.
- Conditions deteriorated across all states, apart from WA. The decline was largest in Victoria following the lockdown in Melbourne in late-May and early-June.
- The hit to confidence was the largest for the recreation & personal services sector. These industries tend to be hit particularly hard by pandemic-related restrictions. All other sectors, except for mining and manufacturing, also saw declines in confidence. Confidence declined across all states and territories, with NSW and Queensland leading the falls.
- Capacity utilisation fell to 83.9% but remains well above the long-run average of 81.0%.
- Despite the hit from lockdowns across the country, the survey continues to signal that businesses remain upbeat about Australia's future economic prospects. In turn, this will support the ongoing recovery in business investment and further jobs growth. However, if the NSW lockdown is dragged out, there is a risk of a more significant hit to business confidence.



Business confidence and conditions took a hit in June as New South Wales began its current lockdown and Queensland, Western Australia and the Northern Territory also saw lockdowns of varying lengths.

The conditions index fell to 24 in June, 12 points below the record high of 36 in May (revised from 37). The confidence index fell to 11 in June, 9 points below the May level of 20.

While both indices fell, they have been elevated for a number of months and remain well above their long-run averages.

All three underlying components of the conditions index – trading conditions, profitability and employment – contributed to the fall, falling by between 8 and 14 points. However, all three components remain much higher than their long-run averages.

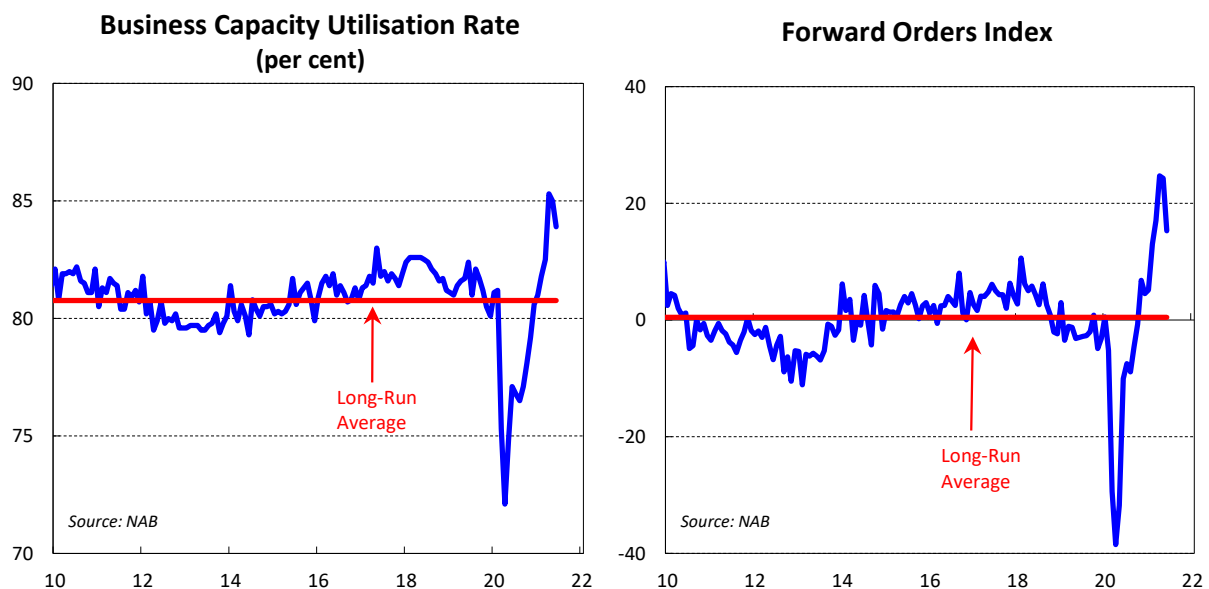
Conditions deteriorated across all states, apart from WA. The decline was the largest in Victoria, following the lockdown in Melbourne in late-May and early-June.

In trend terms, conditions remain the strongest in the finance, property & business sector and the mining sector. In trend terms, conditions are the weakest in construction and transport & utilities.

The hit to confidence was the largest for the recreation & personal services sector. These industries tend to be hit particularly hard by pandemic-related restrictions. Confidence for this sector is now back in negative territory. All other sectors, except for mining and manufacturing, also saw declines in confidence. Confidence declined across all states and territories, with NSW and Queensland leading the falls.

Forward looking indicators also fell in the month but remain above long-run averages. Capacity utilisation fell to 83.9%, but remains well above the long-run average of 81.0%. Forward orders fell to 15, 9 points below the May level of 24.

There was some evidence of increased cost pressures for businesses. The labour costs index grew at a quarterly growth rate of 1.9% in June and the purchase cost index grew by 2.1%. There was also evidence that some of these cost pressures are being passed onto consumers, with the final product prices index growing at 1.5%.



Outlook

Despite the falls in conditions and confidence, and lockdowns across various parts of the country, the survey continues to signal that businesses remain upbeat about Australia's future economic prospects.

In the short-term, we expect conditions and confidence to be impacted further by the current NSW lockdown. A key question is how long the lockdown will last. A longer lockdown will have a greater impact on businesses and households.

However, policy settings remain very accommodative, with low interest rates and generous tax incentives helping to support business conditions and investment. Recently announced federal and state government support packages for affected businesses and households will also help to cushion the negative impact of the current NSW lockdown.

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