

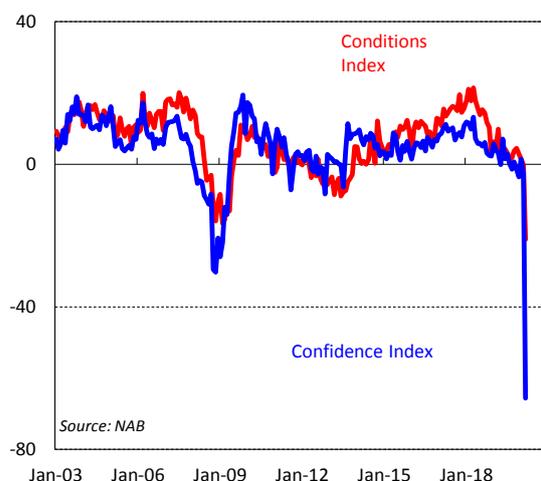
Tuesday, 14 April 2020

Business Confidence

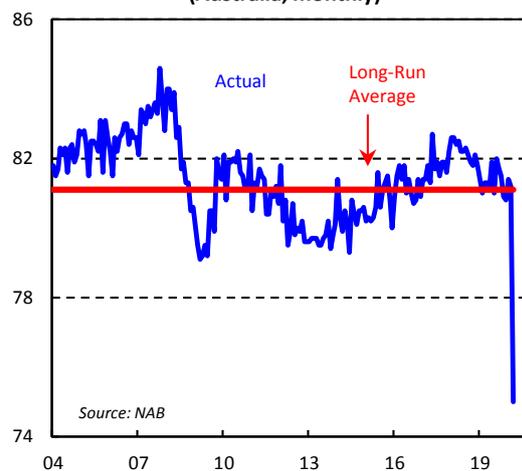
Sentiment Sinks to an All-Time Low

- The latest monthly business survey showed business confidence and business conditions fell to their lowest levels in the history of the survey (since 1997).
- Business confidence fell 64 points to -66 in March. Business confidence was already on a fragile footing before the pandemic due to weak consumer demand and the bushfires.
- The business conditions index dropped 21 points to -21, also the lowest monthly result on record.
- To put these falls in perspective, the series averages for business confidence and business conditions are 5 and 6, respectively. Today's results are also much worse than witnessed during the GFC when these indicators fell to lows of -17 and -30, respectively.
- Forward-looking measures within the index also plunged in March, signalling that businesses are not factoring in a recovery in demand in the near-term. Indeed, sub-components of the conditions index revealed acute weakness across the board.
- The collapse in business sentiment in March was not unexpected given the unprecedented measures taken to control the outbreak of the coronavirus over the month. The size of the collapse was still a surprise. The scale of the drop and the significant impact on the employment and forward-looking measures suggests that businesses are bracing for a deep downturn.

Business Conditions & Confidence



Business Capacity Utilisation Rate (Australia, monthly)



Business sentiment plunged to the lowest since the survey published began in March, as the unprecedented measures to contain the spread of the coronavirus hit activity. Both business confidence and conditions fell to the lowest since the monthly survey began in 1997.

Accompanying the fall in the headline measures, forward-looking measures also plunged, signalling that businesses are bracing for a deep downturn.

The business confidence index fell to -66 in March, from -2 in February. Business conditions fell to -21 from 0. Both indicators were below their series run averages of +5 and +6, respectively, before the outbreak of the coronavirus ramped up globally. Business sentiment was previously weighed down by soft demand and the bushfire crisis over the summer.

To put the extent of the falls in March in perspective, the business confidence index fell to -30 during the GFC while business conditions fell to -8.

The sub-components of the conditions index revealed acute weakness across the board. All sub-components were at their record lows in March. Trading conditions fell 23 points to -19 and profitability fell 22 points to -27. Employment plunged 21 points to -20. Forward orders point to a weak outlook, falling 25 points to -29 in March, the 15th negative outturn in 17 months.

Capacity utilisation fell to 75% in March from 81.2% in February. Even with the drastic reduction in staff hours, firms have either been unable to reduce capacity fast enough in response to the drop off in demand or have decided to operate at lower capacity through the social distancing protocols in place.

All States reported a stark drop in conditions; conditions across all States were in negative territory in March.

The worst affected industry was recreation & personal services, which have borne the brunt of the containment measures. All industries except for wholesale trade (which rose 17 points) reported a decline. The fall in construction was the mildest, with conditions down 3 points. Aside from recreation & personal services, mining, finance and business & property services were the next worst performing sectors. All sectors except for wholesale trade are now in negative territory.

Outlook

The collapse in business sentiment in March was not unexpected given the unprecedented measures taken to control the outbreak of the coronavirus during the month. The size of the collapse perhaps was. The scale of the drop and the significant impact on the employment and forward-looking measures suggests that businesses are bracing for a prolonged downturn. The substantial provision of stimulus measures and targeted business relief packages will provide some support, however, it is clear that the hit to economic activity will be large.

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