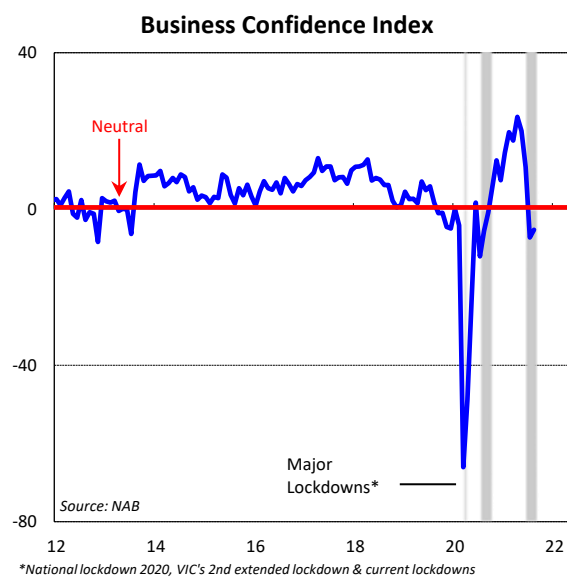
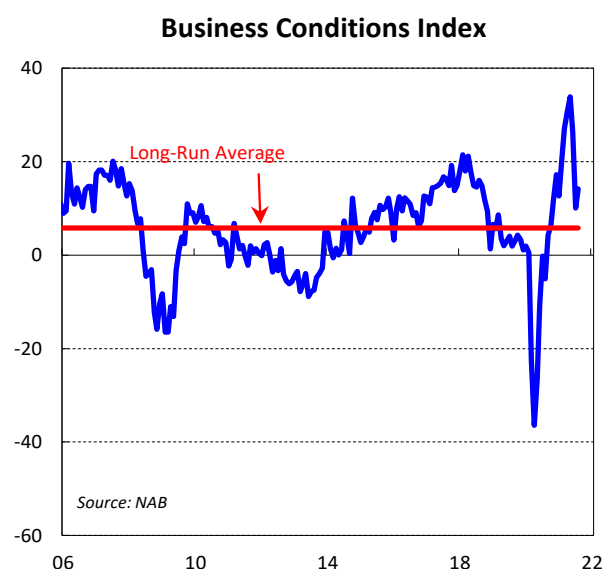


Tuesday, 14 September 2021

Business Confidence and Conditions

Confidence Edges Higher In the Face of Lockdowns

- Business confidence and conditions increased slightly in August, following large declines in July. The improvement was somewhat surprising given further lockdowns across the country.
- The confidence index edged up from -7 to -5 but remained negative and below its long-run average. The conditions index also edged higher from 10 to 14, above its long-run average.
- Business confidence and conditions have remained much more resilient this year than in the early stages of the pandemic. This likely reflects the strong momentum in the economy heading into the recent lockdowns and confidence that the vaccine rollout will see an end to lockdowns.
- The improvement occurred despite Victoria entering its sixth lockdown just prior to the survey period, in addition to Queensland and the ACT going into lockdowns.
- Conditions and confidence bounced back in NSW and SA. Victoria saw large falls in confidence as it entered its sixth lockdown. Confidence is positive across all states, except for NSW and Victoria. Conditions remain positive and above long-run averages across all states.
- By industry, conditions are strongest in the mining industry, followed by wholesale, and finance, business & property. Conditions are weakest in sectors that are heavily impacted by lockdowns, particularly transport & utilities, and recreational & personal services.
- Business confidence and conditions have remained resilient despite lockdowns. This will place the economy in a good position to recover once restrictions ease. However, case numbers are likely to remain high and consumers may be more cautious in returning to their usual activities.



Business confidence and conditions increased slightly in August, following large declines in July. The improvement was somewhat surprising given further lockdowns across the country over the survey period.

The confidence index edged up from -7 to -5 but remained in negative territory and well below its long-run average. While in negative territory, confidence has not fallen as far as it did during the peak of the pandemic in mid 2020 or during Victoria's extended lockdown in late 2020.

The conditions index also edged higher from 10 to 14 and remains above its long-run average.

Business confidence and conditions have remained much more resilient this year than in the early stages of the pandemic. This likely reflects the strong momentum in the economy heading into the recent lockdowns and confidence that the vaccine rollout will see an end to lockdowns.

The survey was undertaken between 17 and 30 August. Both indices increased despite Victoria entering its sixth lockdown just prior to the survey period, in addition to Queensland and the ACT going into lockdowns.

The outcome reflects mixed results across states. Conditions bounced back in NSW from large hits in July. Confidence in NSW was also up, however, it remains in negative territory. Victoria saw large falls in confidence as it entered its sixth lockdown. However, conditions in Victoria were little changed from the previous month.

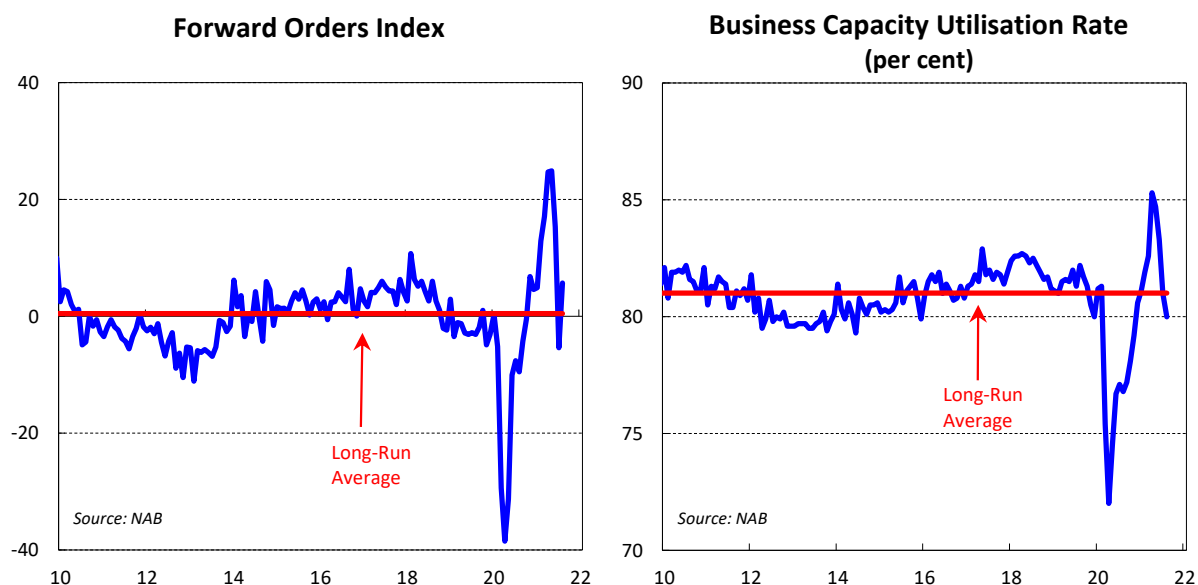
Outside of these states facing lengthy lockdowns, businesses confidence and conditions remain in positive territory, a testament to the momentum in the economy ahead of the Delta outbreak. SA also saw a rebound in conditions and confidence in the month as it came out of its 7-day lockdown in July.

Across the subcomponents of the conditions index – trading, profitability and employment – trading and profitability both increased, to be well above their long-run averages. This was partly offset by a fall in the employment component. However, while down, employment also remains above its long-run average.

Conditions are strongest in the mining industry, followed by wholesale and finance, business & property. Conditions are weakest in sectors that are heavily impacted by lockdowns, particularly transport & utilities, and recreational & personal services. Encouragingly, conditions are in positive territory for all industries, except transport & utilities.

On the other hand, confidence is negative or around neutral in all industries except for mining.

Forward looking indicators were somewhat mixed, with an improvement in the forward orders index but a reduction in capacity utilisation. Forward orders increased from -5 to +6, to be well above long-run averages. Capacity utilisation fell from around its long-run average of 81% to 80%.



Outlook

Business confidence and conditions have remained resilient despite renewed and extended lockdowns across much of the country. Meanwhile, consumer confidence has also held up relative to earlier lockdowns.

These are positive signs and partly reflect the strong economic momentum going into the latest round of lockdowns. Confidence is also likely to be buoyed by the rapid pace of the vaccination rollout and announcements from governments on a path out of lockdowns.

We expect the economy to contract by a significant 4.0% over the September quarter. As restrictions ease over the December quarter, we expected economic growth to recover, resulting in growth in the December quarter of 1.6%. The resilience displayed by businesses and consumers will place the economy in a good position to recover once restrictions ease. This will also be supported by low interest rates, fiscal policy, generous business investment tax incentives, and strong household and business balance sheets.

However, the recovery is likely to be somewhat more muted than past recoveries from lockdowns as case numbers are likely to remain high and consumers may be more cautious in returning to their previous behaviours as quickly as before. In addition, businesses are feeling the pinch from another round of lengthy lockdowns and government support is less generous this time around than last year.

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