

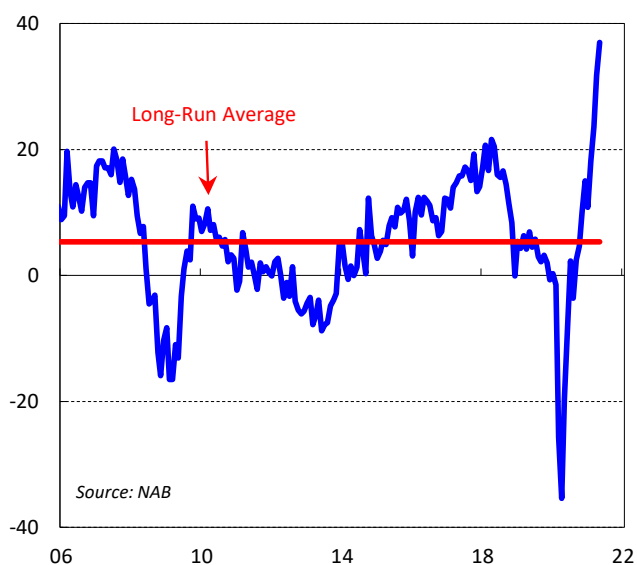
Tuesday, 8 June 2021

Business Confidence and Conditions

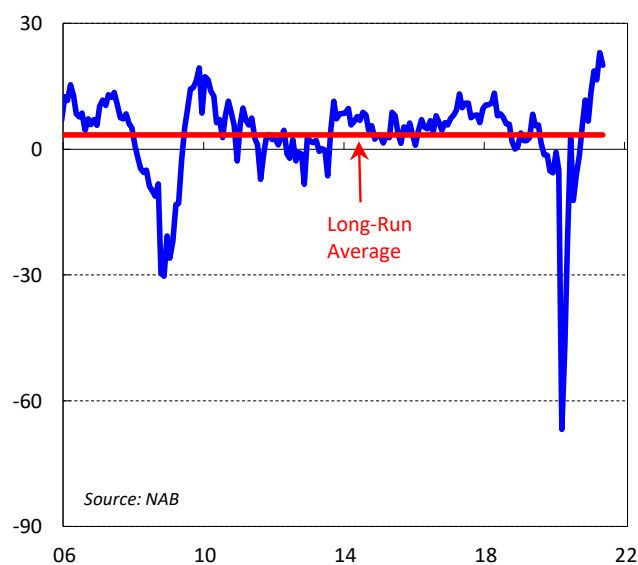
Conditions Hit New High, Again

- Business conditions climbed to a new high (again) in May, beating the peak set last month. The index increased to 37 from 32 in the previous month. Confidence edged 3 points lower to 20, although this is still the third strongest print on record.
- Conditions and confidence have been above average levels for longer than six months straight. Businesses are more likely to hire staff and increase investment when they see sustained improvements in operating conditions and the outlook.
- The evidence of improvement in activity is broad-based across industries and states. In trend terms, conditions are strongest in the finance, property & business sector and the wholesale industries. They are weakest in the transport & utilities and construction industries.
- Conditions improved in all states, except Queensland which came off a very high level. The gains in May were led by New South Wales and Victoria, even though Melbourne's lockdown began in the survey period.
- Low interest rates and generous tax incentives will continue to prop up conditions and confidence for businesses. The run of solid readings for business confidence and elevated capacity utilisation point to an ongoing recovery in business investment and further jobs growth.

Business Conditions Index



Business Confidence Index



Businesses have been very upbeat over recent months. And this didn't change in May.

Business conditions climbed to a new high (again), beating the peak set last month. The index increased to 37 from 32 in the previous month. Confidence edged lower to 20, from 23 in April, although this is still the third strongest print on record.

All three underlying components of the business conditions index – trading conditions, profitability and employment – rose to new highs.

The elevated readings for conditions and confidence point to further jobs growth and an ongoing recovery in business investment. What is particularly encouraging is the persistence and the breadth in the strength in these indicators.

Conditions and confidence have been above average levels for the past 7 and 8 months respectively. Businesses are more likely to hire staff and increase investment when they see sustained improvements in operating conditions and the outlook.

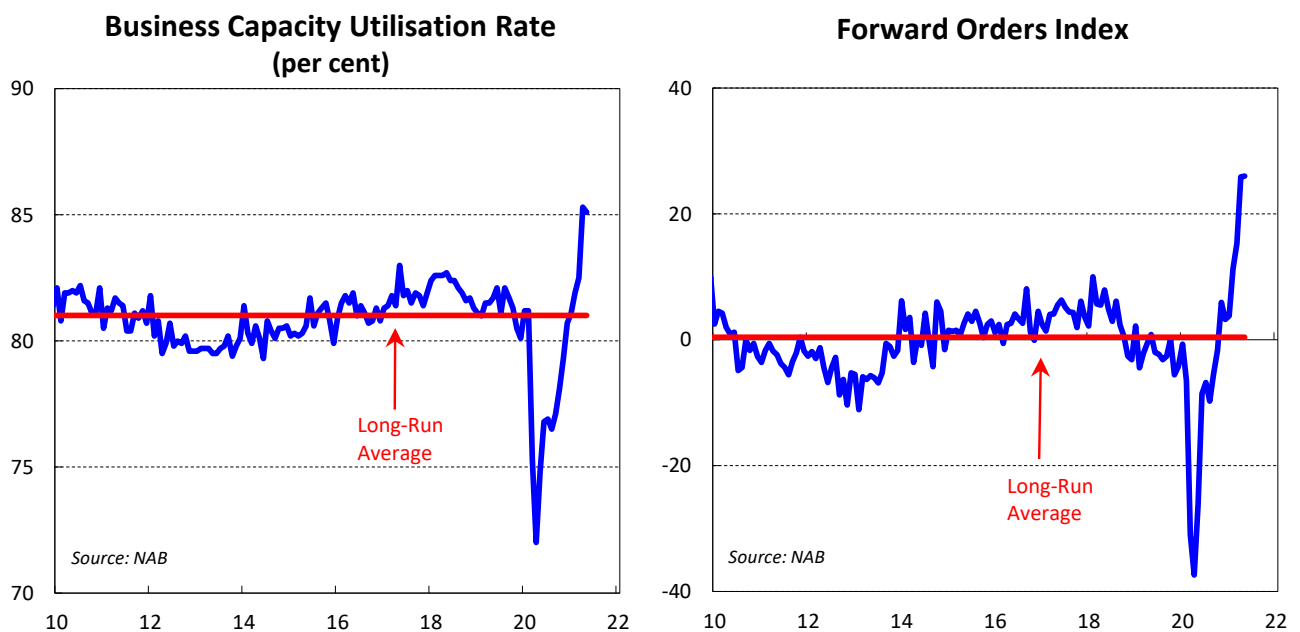
The evidence of improvement in activity is also broad-based across industries and states.

In trend terms, conditions are strongest in the finance, property & business sector and the wholesale industries. They are weakest in the transport & utilities and construction sectors. However, conditions are still elevated in all industries. Conditions in industries that lagged the recovery, notably recreation and personal services, are catching up as the economy reopens.

Conditions improved in all states, except Queensland which came off a very high level. Conditions remain solid in all states. The gains in May were led by New South Wales and Victoria, even though Melbourne's lockdown began in the survey period.

These numbers are also the first snapshot of business sentiment following the Federal Budget in May. Businesses were amongst the biggest winners in the Budget. Tax initiatives for businesses introduced to encourage spending and support cash flow were extended for another year to the end of 2022-23, namely the loss carry-back and full expensing measures.

Forward looking indicators continue to point to an ongoing lift in hiring and investment. Capacity utilisation edged lower to 85.1%, although is still well above the long-run average of 81.0%. Forward orders were unchanged at a record high.



Outlook

The survey continues to point to a solid outlook for businesses. Low interest rates and generous tax incentives will continue to provide support to the business sectors. Last week, data revealed that business investment surged 3.6% in the March quarter. The run of solid readings for business confidence and elevated capacity utilisation suggest the momentum will carry forward into further increases in investment and jobs growth.

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