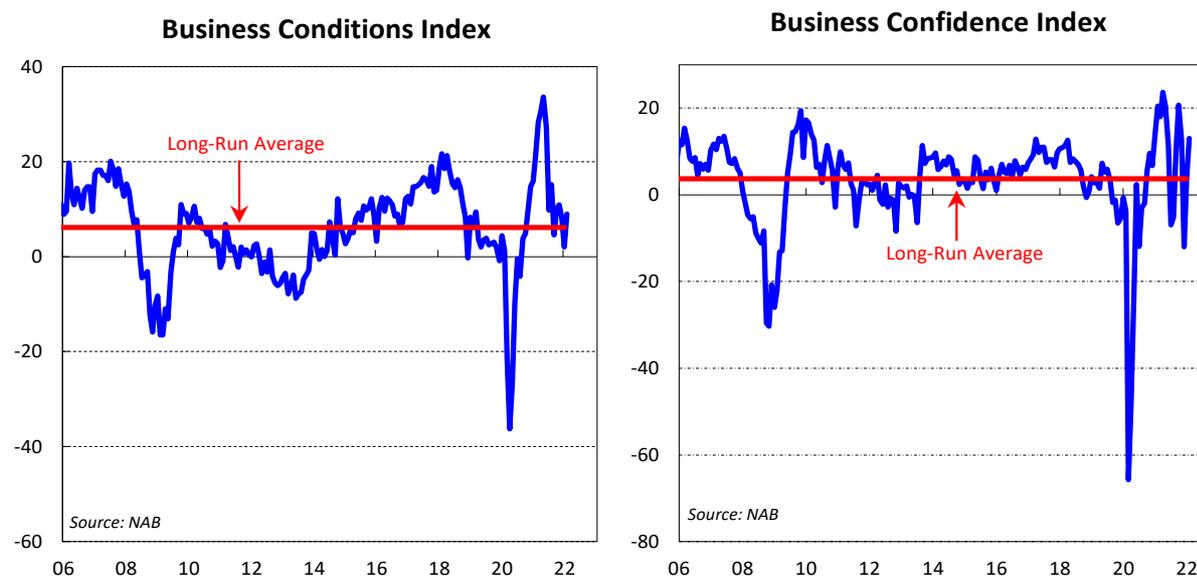


Tuesday, 8 March 2022

Business Confidence and Conditions

Employment Rebound Boosts Conditions

- Business confidence improved for a second consecutive month in February, jumping 9 index points to +13. Confidence has now rebounded since the 25 point plunge in December, when case numbers spiked as a result of the Omicron outbreak.
- As has been showcased throughout the pandemic, businesses continue to show exceptional resilience in the face of considerable uncertainty.
- Conditions also improved in February, partly unwinding falls in December and January. The conditions index picked up 7 points, moving to +9, comfortably above the 10-year average.
- All three of the sub-components improved in February. Employment led the rebound, jumping 9 points to +8, as absenteeism trended lower and labour demand was strong. The trading and profitability measures also increased from their January levels.
- Input and labour cost pressures are becoming an increasingly large concern for businesses. This is especially the case for input intensive industries such as wholesale and manufacturing, as well as construction, which is sensitive to both materials and labour inputs.
- War in Ukraine, severe flooding across parts of Queensland and NSW, growing price pressures, and the prospect of rising interest rates are headwinds to confidence. However, businesses have demonstrated an incredible ability to bounce back from temporary disruptions. We expect business conditions to continue to improve over 2022 as the economic recovery persists.



Business confidence improved for a second consecutive month in February, continuing to rebound from a sharp fall in December owing to the Omicron outbreak.

The survey was conducted from 21 February to 28 February, meaning that the impact of the war in Ukraine and flooding across large parts of Queensland and NSW will be limited. The effects of these developments will be more fully reflected in the March survey.

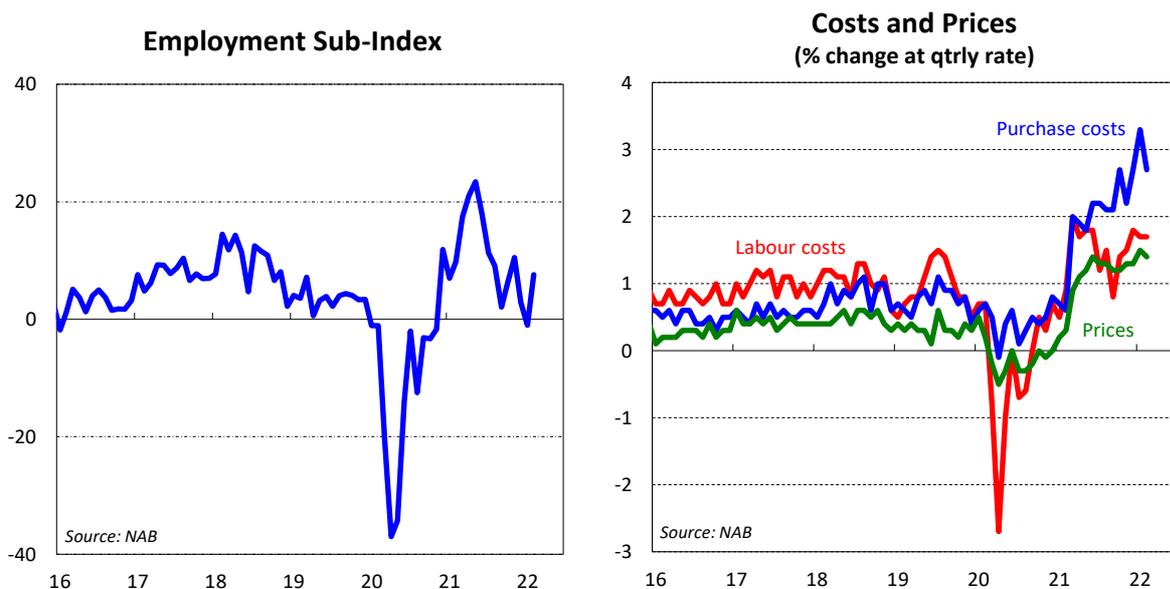
Business confidence jumped 9 index points to +13. Confidence has now rebounded since the 25 point plunge in December, when case numbers spiked as a result of the Omicron outbreak. February's impressive result also pushes confidence well above the 10-year average of +4.

This is an impressive rebound considering December's sharp decline in confidence was steeper than any monthly fall during the Delta lockdowns. As has been showcased throughout the pandemic, businesses continue to show exceptional resilience in the face of considerable uncertainty.

Conditions also improved in February, partly unwinding consecutive monthly falls in December and January. The conditions index picked up 7 points, moving to +9, just shy of the index reading of +11 in November. Encouragingly, business conditions are also above the 10-year average.

Many of the challenges facing businesses over December and January subsided in February, alongside falling COVID-19 infections. Staff shortages eased as employees returned from isolation in droves. Downstream, the return of workers alleviated some supply chain pressures as warehouses and distribution networks roared back to life and stock made its way back onto shelves. Falling case numbers also resulted in a rebound in foot traffic. This likely translated into strong demand for many businesses.

The sub-components of the conditions index reflected the recovery; each of the three sub-components improved in February. Employment led the rebound, jumping 9 points into positive territory, to +8, as absenteeism trended lower and labour demand was strong. The trading and profitability measures also picked up, rising to +10 and +5, respectively from +8 and +2 in January. All three sub-indices are currently above their respective 10-year averages, however, remain below levels preceding the Omicron outbreak.



Like previous outbreaks of the virus, confidence rebounded strongest in the states hardest hit. NSW, Victoria, and Queensland reported sharp rises in confidence, while confidence deteriorated in WA and Tasmania.

Similarly, business conditions improved in all states apart from WA and Tasmania. The improvement in conditions over February was led by Victoria, followed by NSW and SA. Conditions were broadly unchanged in Queensland. Despite monthly falls, conditions remain strongest in WA and Tasmania in trend terms, likely reflecting that these states have been relatively less affected to-date by high COVID-19 case numbers.

Improvements in confidence and conditions were broad-based across industries in February. Confidence rose in every industry, led by recreation & personal services, which was the hardest hit when confidence plummeted in December. Mining, transport & utilities, and retail also saw a marked increase in confidence over the month.

Conditions also rose across all industries, except mining. Conditions recovered strongly in the retail, and transport & utilities industries. In trend terms, conditions are strongest in the mining, wholesale, and finance, business & property sectors.

The survey reveals that input and labour cost pressures are becoming an increasingly large concern for businesses. In February, purchase costs increased by 2.7% in quarterly terms, while labour costs rose at a quarterly pace of 1.7%. Product prices also rose, but by a lower 1.4% on a quarterly basis, as businesses pass on some of their rising costs to maintain profitability.

Cost pressures are of particular concern for input intensive industries. This includes wholesale and manufacturing, as well as construction, which is sensitive to both materials and labour inputs. Customer liaison suggests that supply-chain disruptions continue to be a major issue for businesses and are contributing to growing cost pressures. Further, our customer liaison suggests that these pressures are likely to persist for another 12 months.

Forward looking indicators echo the rebound in confidence and conditions. Forward orders rose to +9. Capacity utilisation also edged higher, rising from 81.7% in January to 82.5% in February.

Outlook

War in Ukraine, severe flooding across large parts of Queensland and NSW, growing price pressures, and the prospect of rising interest rates are headwinds to confidence. However, businesses have demonstrated an incredible ability to bounce back from temporary disruptions.

We expect business conditions to continue to improve over 2022 as the economic recovery persists. Business investment will also continue to be supported by generous tax incentives, strong underlying demand, robust household and business balance sheets, and a continued recovery in the labour market.

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