



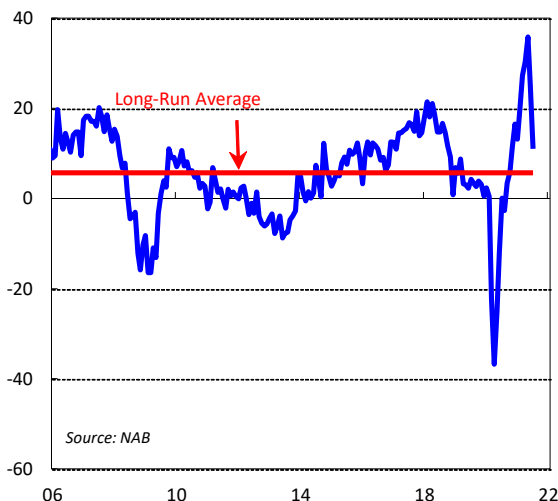
Tuesday, 10 August 2021



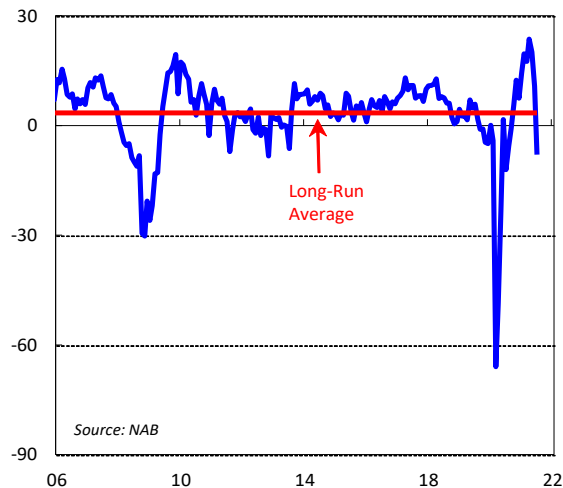
## Business Confidence and Conditions Confidence Turns Negative

- **Businesses conditions and confidence deteriorated sharply in July, reflecting widespread disruptions from lockdowns. Parts of NSW, Victoria and SA were all in lockdown for all or a portion of the survey period.**
- **The confidence index plummeted 19 points to -8, reaching the lowest level since August last year. The index has declined markedly since hitting an all-time high in April and is now well-below average. Government support measures have likely prevented a deeper decline.**
- **The conditions index dropped 14 points to +11 but remained slightly above the long run average of +6. The index is at its lowest level since late 2020, having fallen almost 70% from its record high in May of 36.**
- **Unsurprisingly, the result was led by NSW alongside the extended lockdown in the state. However, conditions and confidence declined across all states.**
- **The declines were also widespread across industries. The fall in conditions was largest for transport & utilities and recreation & personal services.**
- **Forward looking indicators also deteriorated, suggesting there won't be an improvement in conditions in the near-term.**
- **A contraction in GDP has effectively been sealed for the third quarter. The fall in activity will continue to weigh on business conditions over the coming period. The extent of the hit hinges on when restrictions are eased. And this depends critically on the evolution of the outbreaks and progress in the vaccine rollout.**

Business Conditions Index



Business Confidence Index



Businesses conditions and confidence deteriorated sharply in July, reflecting widespread disruptions from lockdowns.

The confidence index plummeted 19 points to -8, reaching the lowest level since July last year. The index has declined markedly since hitting an all-time high in April and is now well-below average. Government support measures have likely prevented a deeper decline.

The conditions index dropped 14 points to +11 but remained slightly above the long run average of +6. The index is at its lowest level since late 2020, having fallen almost 70% from its record high in May of 36.

The survey was conducted from 20–30 July. Parts of NSW, Victoria and SA were in lockdown for all or a portion of this period.

While strength in business conditions and confidence has faded since earlier in the year, so far they have not fallen to the lows seen in early 2020.

Unsurprisingly, the result was led by NSW alongside the extended lockdown in the state. However, conditions and confidence declined across all states.

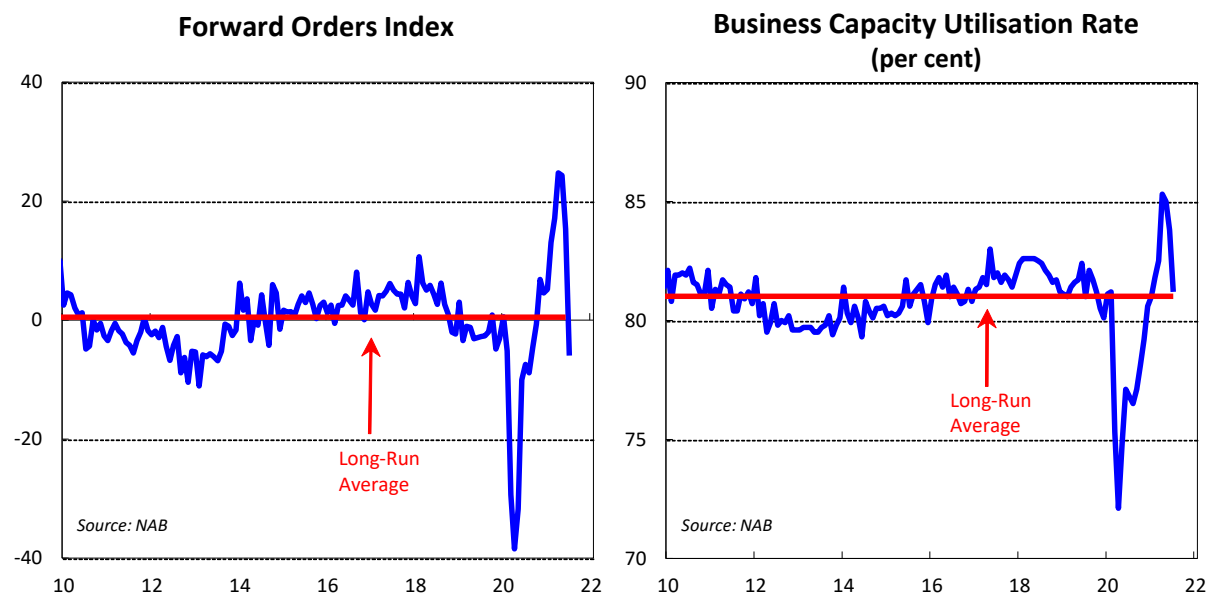
South Australia also saw a sizeable fall in conditions, even though it only underwent a relatively short 7-day lockdown in July. Conditions are now weakest in SA, followed by NSW and Victoria.

The confidence index is now negative in NSW and Queensland, while it is around zero in other states. WA is the notable exception, where confidence has held up well relative to the rest of the country.

All three subcomponents of the conditions index – trading, profitability and employment – declined considerably. However, each subcomponent remained slightly above its long-run average, reflecting the strong momentum in the economy heading into the recent outbreaks.

Conditions declined across all non-mining industries, led by transport & utilities and recreation & personal services. Outside of mining, conditions are strongest in finance, business & property. Similarly, there were widespread falls in confidence across industries.

Forward looking indicators also deteriorated, suggesting there won't be an improvement in conditions in the near-term. Forward orders fell sharply and are now sitting in negative territory. Capacity utilisation also declined to around its long-run average.



## **Outlook**

The economy is now widely expected to contract in the third quarter. We have forecast that GDP will fall 2.2% in the September quarter, assuming the NSW lockdown runs until the end of September and other states are not dragged into lengthy lockdowns. This will continue to weigh on business conditions over the coming period. In turn, some businesses, particularly those impacted by lockdowns, may put investment and hiring plans on hold as they wait for greater clarity over the near-term outlook.

However, experience has taught us that the economy rebounds quickly once restrictions ease. Plus, low interest rates and government support will help cushion the impact of the lockdowns. On this basis, we expect activity will rebound in the December quarter. We anticipate growth for 2021 in the low 3% range, down from our forecast of almost 5% before the outbreak began.

The ongoing rise in the case numbers in NSW and the reimposition of lockdowns in Victoria and Queensland point to downside risks to the forecast. The longer the lockdowns, the greater the likelihood of a deeper contraction in the September quarter, and a more muted recovery in the December quarter.

The near-term economic outlook hinges on when restrictions are eased. And this depends critically on the evolution of the outbreaks and progress in the vaccine rollout.

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