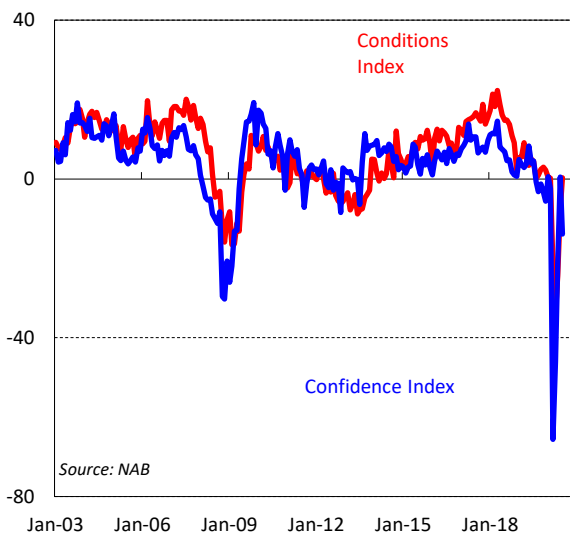


Tuesday, 11 August 2020

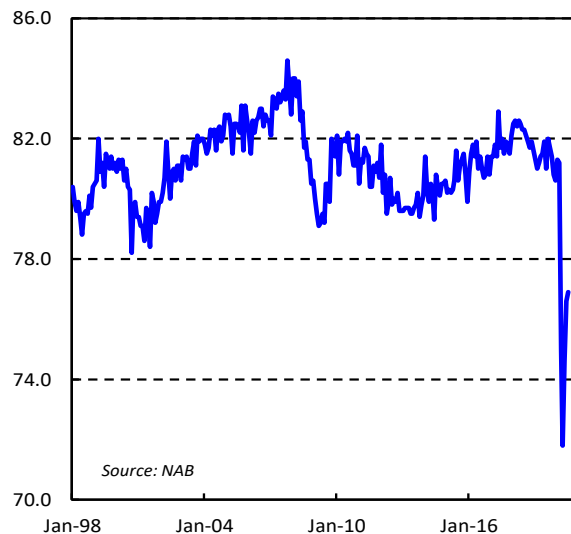
## Business Confidence and Conditions Businesses Hold Their Breath

- Business conditions improved while confidence fell in July as COVID-19 developments kept firms on edge.
- The business conditions index rose to 0 in July from -8 in June. The index is now at its pre-pandemic level, when the main concerns for businesses were the summer bushfire disaster and lacklustre consumer demand.
- Confidence partially reversed its June improvement, falling to -14 from 1 previously. The survey period preceded the stage 4 lockdown imposed in metropolitan Melbourne but captures the rapid increase in cases in Victoria and the earlier containment measures imposed in metropolitan Melbourne and the Mitchell Shire.
- Unsurprisingly, confidence was most affected in Victoria and NSW, where cases of COVID-19 have been more prevalent. There was a 22-point decline in confidence in Victoria to -29. All States recorded negative confidence in July except for WA and Tasmania.
- July's survey shows that operating conditions outside of Victoria appear to have improved. However, businesses around the country are keeping a close eye on developments, and the persistent trickle of cases in NSW is further negatively impacting confidence.

Business Conditions & Confidence



Business Capacity Utilisation Index



Business conditions improved in July, before the introduction of stage 4 restrictions in Victoria. However, the rapid increase in COVID-19 cases caused concern among businesses, leading to a sharp fall in confidence.

The business conditions index rose to 0 in July from -8 in June. The index is now at its pre-pandemic level when the main concerns for businesses were the summer bushfire disaster and lacklustre consumer demand. Conditions remain below the series average of 5.

Confidence partially reversed its June improvement, falling to -14 from 1 previously. The survey period preceded the stage 4 lockdown imposed in metropolitan Melbourne but captures the rapid increase in cases in Victoria and the earlier containment measures imposed in metropolitan Melbourne and the Mitchell Shire. The survey period for the month was conducted over 22-31 of July.

Unsurprisingly, confidence was most affected in Victoria and NSW, where cases of COVID-19 have been more prevalent. There was a 22-point decline in confidence in Victoria to -29 while confidence in NSW fell to -21. The confidence index improved slightly in South Australia to -10 and Queensland business confidence fell to -6. Businesses were more positive in Western Australia, where confidence rose to 12 while the index remained barely in positive territory in Tasmania, at 2.

All sub-components of the conditions index increased in July. Profitability turned positive for the first time since January at 2 while trading conditions rose to 1. Employment posted its best outturn since February, however it remains below zero at -2.2, indicating weak hiring conditions.

Forward looking components of the survey, including forward orders (-7.4) and capacity utilisation (76.9%) improved a little in July, but continue to suggest weakness in output ahead.

Conditions deteriorated significantly in the construction sector to -25 in July from -12 in June, the lowest since April. Other industries reported more favourable conditions, including manufacturing (10), mining (11), retail trade (12) and wholesale trade (12). Transport & utilities reported a decline in conditions to -5 while conditions improved but remained negative among financial, business & property services firms (-7). Recreation & personal services reported the biggest improvement in conditions, rising to 0 in July from -24 in June.

July's business sentiment survey is a testament to the economic paradigm that has emerged following the COVID-19 outbreak in Victoria. Operating conditions outside of Victoria appear to have improved as earlier restrictions have been relaxed. However, businesses around the country are keeping a close eye on developments, and the persistent trickle of cases in NSW is further negatively impacting confidence.

Confidence will continue to be primarily driven by the rate of infections, which will play a major role determining the outlook. Indeed, conditions are likely to deteriorate in the coming month as Stage 4 restrictions in Metropolitan Melbourne took effect and are expected to remain subdued while aggregate demand in the economy remains anaemic.

**Nelson Aston, Economist**  
Ph: 02-8254-1316

## Contact Listing

### Chief Economist

Besa Deda  
dedab@bankofmelbourne.com.au  
(02) 8254 3251

### Senior Economist

Janu Chan  
chanj@bankofmelbourne.com.au  
(02) 8253 0898

### Economist

Nelson Aston  
nelson.aston@bankofmelbourne.com.au  
(02) 8254 1316

### The Detail

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne’s agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

---

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.

---