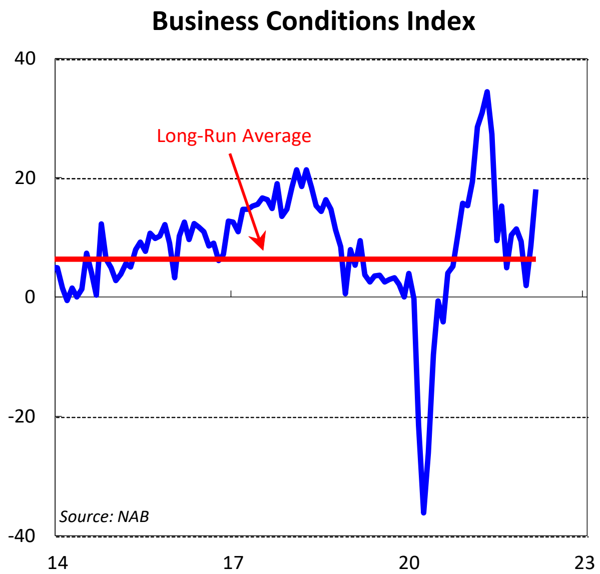
Data snapshot

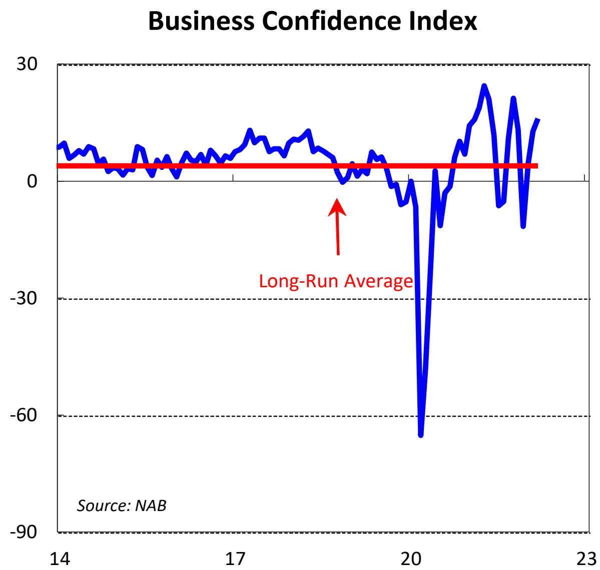
Tuesday, 12 April 2022

# Business Confidence and Conditions

## Upbeat Despite Record Price Pressures

- **Business conditions surged 9 points to +18 in March, the largest one-month jump since June 2020. Business confidence rose 3 index points to +16 in the month. Conditions and confidence are now both well above their respective long-run averages.**
- **At the same time, inflationary pressures are rapidly heating up. The cost and price measures in the business survey all reached record levels in March.**
- **This survey was conducted from 21 to 31 March, and so only partly captures the reaction of businesses to the Federal Budget handed down on 29 March. There were some new measures targeting small businesses, including incentives to go digital and upskill staff.**
- **Businesses are upbeat alongside the lift in activity as we adapt to living with Covid, despite staff shortages, supply disruptions and rising price pressures. This is consistent with a recent Westpac survey finding 72% of small business leaders expect their sales to grow in the next year.**
- **By industry, the improvement in conditions was driven by the retail sector. Conditions remain strongest in mining, boosted by elevated commodity prices. Conditions improved across all states, led by a surge in conditions in WA, where borders reopened in March.**
- **We expect business conditions to continue to improve over 2022 as the economy expands. Business investment will also continue to be supported by generous tax incentives which will remain in place until next year.**



Business conditions jumped sharply in March, largely reflecting an improvement in the retail sector. Business confidence rose for a third consecutive month and is now around the elevated levels preceding the Delta outbreak.

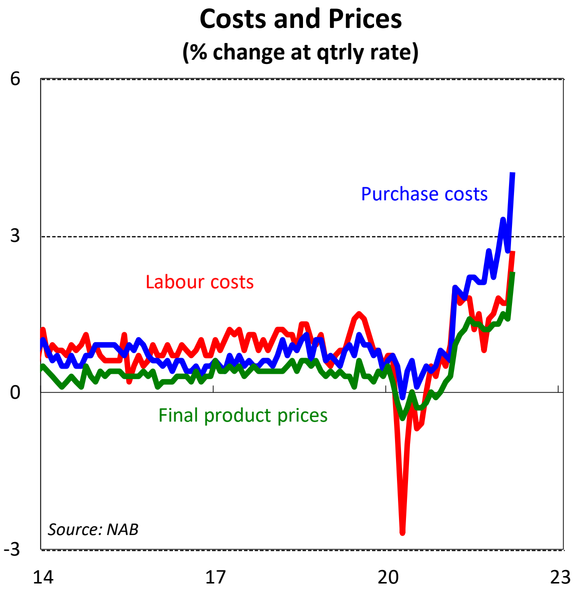
Business conditions surged 9 points to +18, the largest one-month jump since June 2020. Business confidence rose 3 index points to +16. Conditions and confidence are now both well above their respective long-run averages.

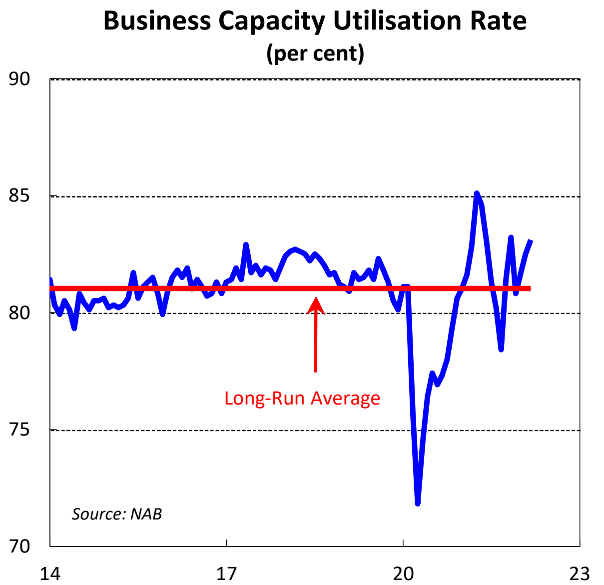
This survey was conducted from 21 to 31 March, and so only partly captures the reaction of businesses to the Federal Budget handed down on 29 March. There were some new measures targeting small businesses, including incentives to go digital and upskill staff. Notably, the key incentives to boost investment which are due to expire in 2023 – the temporary full expensing and loss-carry back provisions – were not extended.

Staff shortages, supply-chain disruptions and inflationary pressures have not been enough to dent the buoyant mood amongst businesses. Today's results are consistent with a recent Westpac survey that revealed 72% of small business leaders expect their business and sales to grow over the next 12 months.

At the same time, the survey suggests cost pressures are rapidly heating up. The cost and price measures all reached record levels in March, as inflationary pressures continue to mount. The survey indicates that quarterly labour cost growth hit 2.7% and purchase costs rose by 4.2% over the three months to March. While margins are still being squeezed, businesses have been able to pass on at least some of these higher costs; final product prices jumped 2.3% in the quarter. The result points to a solid reading on consumer price inflation for the March quarter, due later this month.

It is against this backdrop, alongside a tight labour market and rising wage pressures, that we expect the Reserve Bank to begin hiking the cash rate from June. We expect several more hikes over the following months to take the cash rate to 1.25% by the end of the year.




The war in Ukraine has added to inflationary pressures by driving up commodity prices. Notably, higher oil prices have flowed through to higher prices at the petrol pump. The national average unleaded petrol price peaked over 210 cents per litre (retail) in the week ending 20 March. More recently, the price has pulled back, falling to around 174 cents per litre in the week ending 10 April. The Government's temporary 50% cut to the fuel excise has contributed to cheaper prices at the bowser.

The improvement in conditions was led by the trading subcomponent of the index, indicating that demand remains strong. There were also sizeable increases in the profitability and employment subindices.

By industry, the improvement in conditions was driven by retail, as well as decent gains in finance, business & property and recreation & personal services. Elsewhere, conditions were largely unchanged. Conditions are strongest in mining, reflecting elevated commodity prices.

Business confidence is solid across all sectors as we adapt to living with the virus. The impact of COVID-19 has been uneven and some sectors, such as retail and recreation & personal services, have been much harder hit than others. However, these results suggest that even the sectors which have been harder hit are seeing green shoots emerge.

Conditions improved across all states, led by a surge in conditions in WA, where borders reopened in March. There were also sizeable improvements in Victoria, SA and Tasmania. Conditions remain strongest in the mining-state of WA, which continues to benefit from elevated commodity prices.

There was also a lift in the leading indicators of forward orders and capacity utilisation. Capacity utilisation edged up 0.6 percentages points to 83.1%, notably well above the long-run average of 81.0%. Higher capacity utilisation is associated with increases in capital expenditure and employment. An increase in capacity utilisation can also be a leading indicator of rising inflationary pressures.

**Outlook**

Businesses are upbeat alongside the lift in activity as we adapt to living with Covid. This is despite headwinds from staff shortages, supply disruptions, inflationary pressures and the prospect of rising interest rates. We expect business conditions to continue to improve over 2022 as the economy expands. Business investment will also continue to be supported by generous tax incentives, which will remain in place until next year.

**Matthew Bunny, Economist**
Ph: 0421 749 491

# Contact Listing

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

**Economist**
Matthew Bunny
matthew.bunny@bankofmelbourne.com.au
(02) 8254 1316

**Senior Economist**
Jarek Kowcza
jarek.kowcza@bankofmelbourne.com.au
0481 476 436

**Associate Economist**
Jameson Coombs
jameson.coombs@bankofmelbourne.com.au
0401 102 789