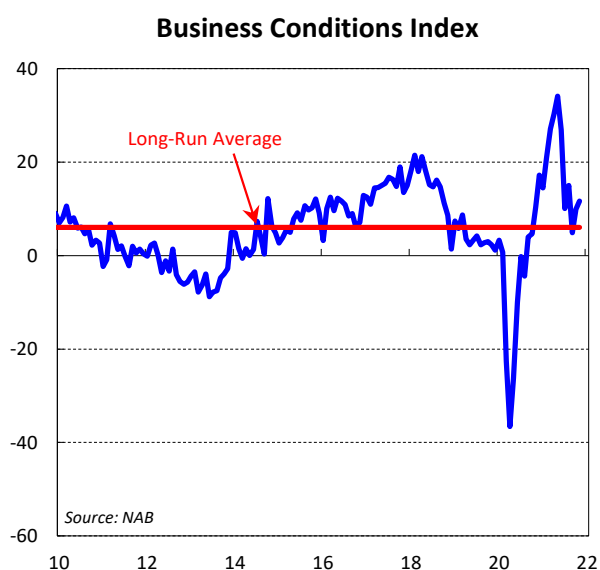
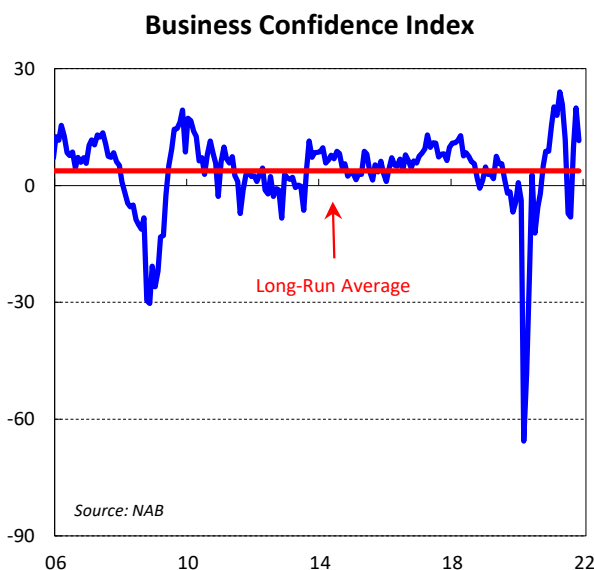


Tuesday, 14 December 2021



## Business Confidence and Conditions Conditions Lift on Employment Gains

- Business confidence pulled back in November, following a large surge over the previous two months alongside the end of lockdowns in NSW and Victoria. Confidence fell by 8 points to +12. Despite the pullback, confidence remains well above the long-run average.
- Business conditions rose 2 points over the month to +12, the highest level since August. Conditions are also above the long-run average.
- The increase was driven by Queensland and SA. Conditions across Victoria rose slightly and were broadly unchanged in NSW in November, despite both states coming out of lockdown recently. Trailing restrictions may have impacted the rebound in conditions in these states.
- Of the three sub-components of the conditions index – trading, profitability, and employment – employment drove the gains. The employment index rose 5 points to +11, its highest level since July and more than double its long-run average. The rebound suggests businesses increased hiring in November after lockdowns lifted and as economic activity improved.
- By industry, conditions improved the most in retail trade, which was heavily affected by lockdowns. However, in trend terms, conditions remain in negative territory in recreation & personal services, which was also severely impacted by lockdowns and trailing restrictions.
- Many businesses put a pause on spending during the Delta lockdowns. However, investment is expected to pick up as activity bounces back and revenues increase. Above-average levels of confidence, robust capacity utilisation, increased consumer spending, and a recovering labour market will support the rebound in investment.



Business confidence pulled back in November, following a large surge over the previous two months alongside the end of lockdowns in NSW and Victoria. Confidence fell by 8 points to +12. Despite the pullback, confidence remains well above the long-run average. Confidence remains almost 20 points above the lows seen during the Delta lockdowns.

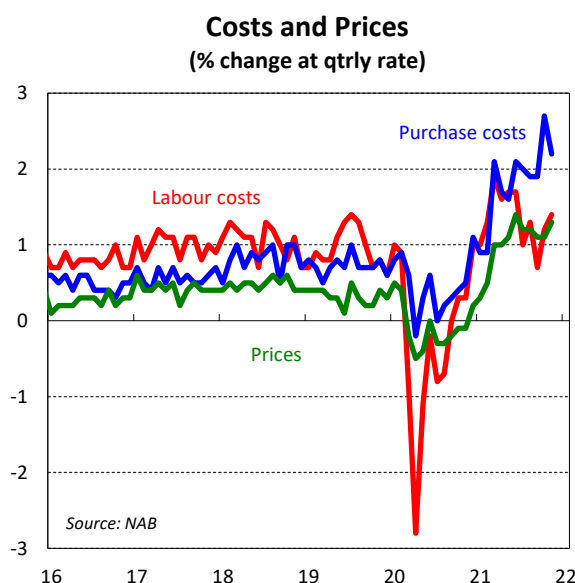
Despite the fall in November, in trend terms, confidence is highest in NSW and Victoria, indicating that businesses continue to be upbeat about future economic prospects as activity returns to normal in these states.

The survey was undertaken from 19 to 29 November. News of the Omicron strain reverberated around the globe on 24 November. This may have negatively impacted the confidence reading.

Business conditions rose 2 points over the month to +12, the highest level since August. Conditions are also above the long-run average and have increased by 7 points since the Delta lockdowns. Across the states, the increase in conditions was driven by Queensland and SA. Conditions across Victoria rose slightly and conditions in NSW were broadly unchanged in November, despite both states coming out of lockdown recently. Trailing restrictions may have impacted the rebound in conditions in these states. A continued improvement in conditions is likely, as people return to their normal activities and economic activity recovers.

Of the three sub-components of the conditions index – trading, profitability, and employment – employment drove the gains in November. The employment index rose 5 points to +11, its highest level since July and more than double its long-run average. The rebound in the employment index suggests that businesses increased hiring in November after lockdowns lifted and as economic activity improved. This is a positive sign for the recovery in the labour market. Of the other sub-components, trading conditions rose by 1 point and profitability was unchanged.

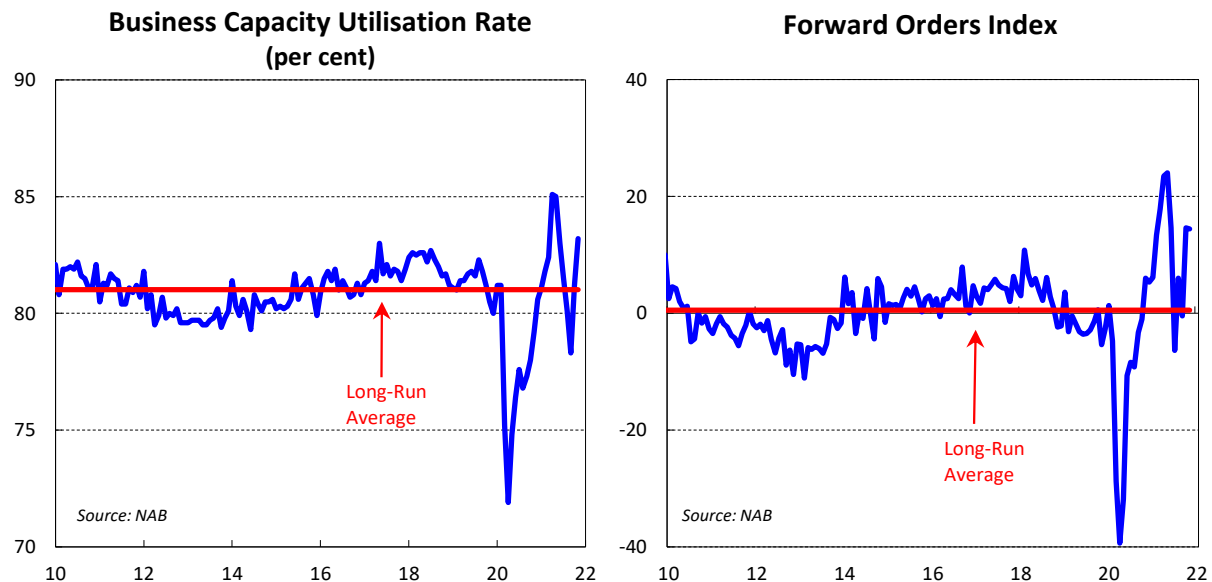
By industry, conditions increased the most in retail trade, which was heavily affected by lockdown restrictions. Conditions also improved across transport & utilities, and finance, property & business services. In trend terms, conditions are strongest mining, wholesale, and finance, property & business services. However, conditions remain in negative territory in recreation & personal services, which was severely impacted by lockdowns and continued to be hampered by various trailing restrictions.



Price pressures remain, despite the measure for input costs pulling back from a decade high in the previous month. Labour costs increased, in line with an improvement in employment. Prices also rose, suggesting that some price pressures are flowing through to consumer prices. However, final

prices have increased by less than input or labour costs.

Forward-looking indicators suggest the economy is well placed to recover strongly. Capacity utilisation increased to 83.2%, from 81.2% in October. This remains above the long-run average and is the highest level since May. Higher capacity utilisation is associated with increases in capital expenditure and employment. In line with this increase in capacity utilisation, business capital expenditure increased by 5 points. Forward orders remained elevated and well above the long-run average, despite pulling back by 1 point.



## Outlook

The future looks brighter as the economy is recovering from the impact of the Delta lockdowns. The economy has proven to be incredibly resilient, and activity contracted by less than expected over the September quarter.

The emergence of the Omicron strain adds another degree of uncertainty to the outlook. It is early days, and official sources are yet to confirm the transmissibility or severity of the variant. We will learn more over coming weeks. Encouragingly, the news surrounding the strain and the effectiveness of vaccines has been relatively positive so far. Some caution is likely to remain as further details emerge.

The recovery in businesses investment was put on pause during the Delta outbreak. Looking forward, investment is expected to pick up as economic activity bounces back and business revenues increase. In addition, customer liaison suggests that businesses are feeling more optimistic, including about their expansion plans.

Above-average levels of confidence and conditions, robust capacity utilisation, a recovery in business lending, and increased consumer spending support this expectation. Additionally, business investment continues to be incentivised by generous government tax incentives and low interest rates. A rebounding labour market is a key ingredient to the strong economic outlook. Importantly, today's data suggests that the labour market bounce back is well underway.

**Jarek Kowcza, Senior Economist**  
Ph: 0481 476 436

## 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

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