

Tuesday, 14 July 2020

Business Confidence and Conditions Optimism Short-lived?

- **Business confidence and conditions improved further in June, as the nation emerged from COVID-19 restrictions earlier in the year. The survey was conducted over June 24-30.**
- **This improvement is likely to face a setback in this month as cases of COVID-19 have escalated in Victoria and now some parts of Sydney. The lockdown measures in Metropolitan Melbourne and Mitchell Shire, the closure of various State borders and the risk of tighter restrictions in Sydney are likely to result in a renewed deterioration in confidence and conditions.**
- **Confidence lifted for the third consecutive month to +1.5 in June, the first positive reading since January. Conditions improved for the second straight month to -7.5, the best result since February.**
- **Despite the improvements, both confidence and conditions remain below their long run averages (+5 for both indices), suggesting some caution was persisting among businesses and activity remained below par in June.**
- **Confidence and conditions improved in all States in June. Conditions were strongest in Western Australia, followed by Queensland, NSW, Victoria, Tasmania then South Australia.**

Business confidence and conditions improved further in June, as the nation emerged from COVID-19 restrictions earlier in the year. The survey was conducted over June 24-30. This improvement is likely to face a setback in this month as cases of COVID-19 have escalated in Melbourne and now some parts of Sydney. The lockdown measures in Metropolitan Melbourne and Mitchell Shire, the closure of various state borders and the risk of tighter restrictions in Sydney are likely to result in a renewed deterioration in confidence and conditions.

Confidence lifted for the third consecutive month to 1.5 in June after -20.3 in May. June's reading was the first positive reading since January. Confidence improved for the second straight month to -7.5, the best result since February and followed -24.1 in May.

Despite improving, both confidence and conditions remain below their long run averages (5 for both indices) suggesting some caution was persisting among businesses and activity remained below par in June.

All major sub-indices lifted in June, including trading, profitability and employment, although they all remained in negative territory, at -7, -8 and -11, respectively.

Capacity utilisation also lifted to 76.7%, the highest since February but still below the long-run average of 81.0%.

Across States, confidence turned positive in NSW (+8), Western Australia (+8) and Tasmania (+12).

In Queensland, there was a zero reading, while businesses in Victoria (-7) and South Australia (-13) were the most pessimistic. However, all States saw confidence improve in the month.

Conditions also improved across all States. Western Australia reported the highest conditions at +2. Relatively high confidence and conditions in Western Australia likely reflects the successful containment of the virus and that its mining sector has been relatively less affected by COVID-19 than other sectors. Conditions in NSW and Queensland lifted to -6 and -5 from double-digit negative readings in May. Conditions were weakest in Victoria (-10), Tasmania (-13) and South Australia (-18), highlighting the negative impact from reduced tourism and other movement restrictions.

By industry, the mining sector had the highest readings on confidence and conditions, at +23 and +16, respectively. Confidence in the mining industry was the highest since December last year. There was evidence of stronger activity among industries heavily hit by earlier COVID-19 restrictions. These include retail, transport & utilities and recreational & personal services, which posted a large improvement in conditions. There were also better conditions reported in manufacturing, construction, wholesale, and finance, property & business services. Confidence also improved across all industries except for retail, suggesting retailers are wary of how unemployment and weaker incomes will affect sales.

The survey in June takes on less relevance since it precedes the announced lockdown measures in parts of Victoria last week, the closure of various state borders and the rising number of infections in Sydney. However, it suggests that businesses continued to be wary, despite some improvement in activity before cases of COVID-19 escalated over the past few weeks. The renewed restrictions and the risk of more to come would likely result in confidence and conditions retreating in July.

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