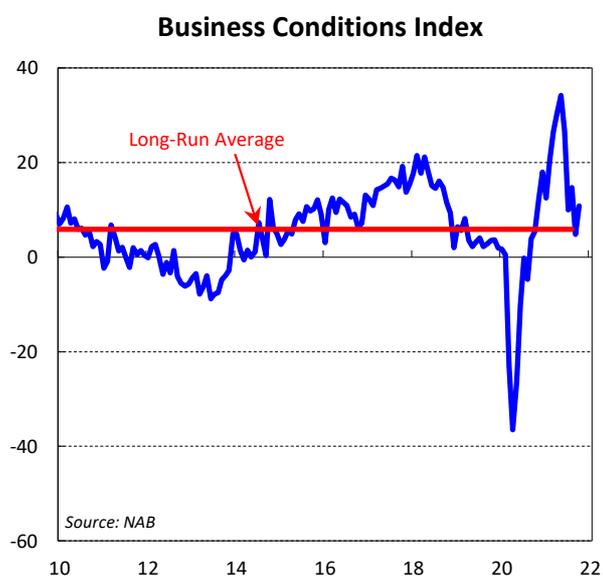
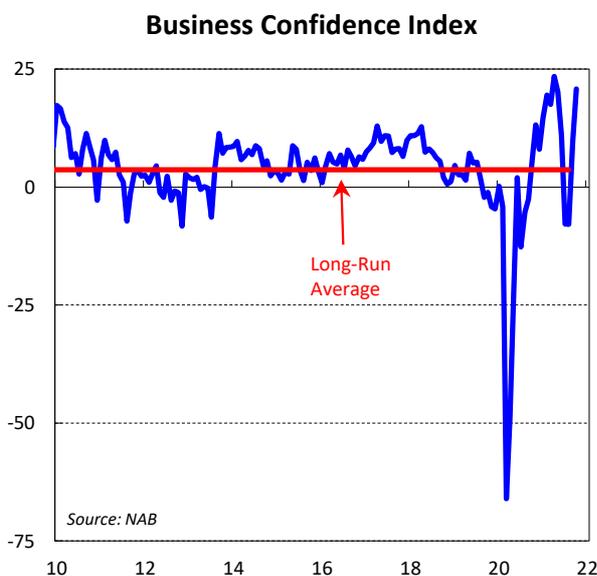


Tuesday, 9 November 2021



Business Confidence and Conditions Confidence Surges as Lockdowns Lift

- Business confidence leapt higher in October as lockdowns ended in NSW and Victoria. Confidence jumped 11 points to +21, not far from the record high of +24 in April this year. Conditions rose 6 points to +11.
- Lockdowns were lifted on 11 October in Sydney and 22 October in Melbourne. Queensland also released its reopening roadmap in October, with signs the state is on track to lift its border closure by Christmas.
- In trend terms, confidence is highest in NSW, followed by SA and Queensland. Conditions are strongest in WA, Tasmania and Queensland, likely reflecting that these states have been relatively less impacted by restrictions.
- The survey continues to point to rising price pressures, with the measure for input costs reaching its highest level in a decade. This reflects a sharp increase in goods demand which has been exacerbated by ongoing supply chain disruptions and border restrictions.
- By industry, confidence is highest in trend terms in transport & utilities, construction, and retail – all sectors which have benefitted from the relaxation in restrictions. Conditions are strongest in the mining and wholesale sectors.
- The surge in confidence is another signal the economy is rebounding from the Delta setback. The buoyant mood amongst businesses points to a resumption in the uplift in business investment, which was underway ahead of the Delta outbreak, and to stronger hiring plans.



Business confidence surged in October as lockdowns ended in NSW and Victoria.

Confidence leapt 11 points to +21, not far from the record high of 24 in April this year. This follows a strong bounce in September. Confidence has now jumped from -8 to +21 over the past two months. This is a very strong result, which suggests businesses are optimistic about the recovery. It is good news for the outlook for business investment and jobs.

The improvement in conditions was more measured, rising 6 points to +11. The rebound in conditions was led by a strong recovery in NSW (up 21 points), as the state came out of lockdown early in the month. However, conditions in Victoria were still weak as lockdowns were lifted towards the end of October. Trailing restrictions also likely continued to weigh on business conditions. Regardless, this result is above the long-run average.

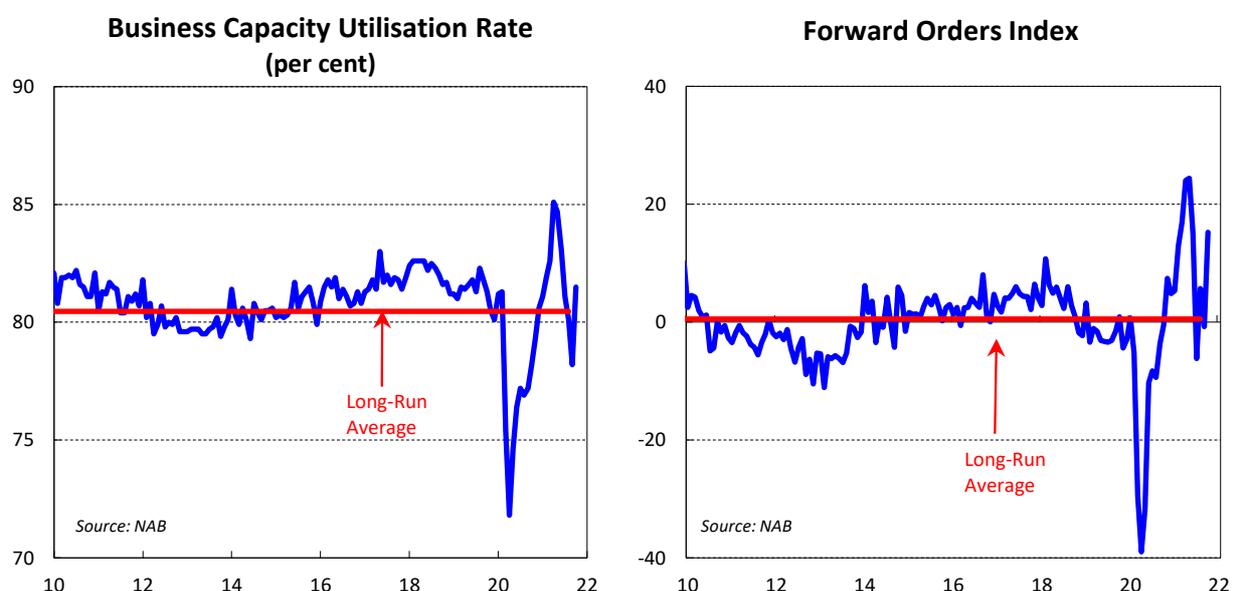
Lockdowns were lifted on 11 October in Sydney and 22 October in Melbourne. Queensland also released its reopening roadmap in October, with signs the state is on track to lift its interstate border closure by Christmas.

The rebound in confidence was led by Victoria, as businesses anticipated the end of lockdowns. The actual easing of restrictions in Victoria was only partly captured this month because of the timing of the survey. In trend terms, confidence is highest in NSW, followed by SA and Queensland, and is positive across all states.

All three sub-components of the conditions index rose – trading, profitability and employment. In trend terms, conditions are strongest in WA, Tasmania and Queensland, likely reflecting that these states have been relatively less impacted by restrictions.

The survey continues to point to rising price pressures, with the measure for input costs reaching its highest level in a decade. Price pressures have been underpinned by a sharp increase in goods demand during the pandemic and exacerbated by ongoing supply chain disruptions and border restrictions. Supply bottlenecks are likely to persist for some time yet, although the rebalancing in consumption away from goods and back towards services as pandemic restrictions ease across the globe may help to alleviate some of the pressure.

By industry, confidence is highest in trend terms in transport & utilities, construction, and retail – all sectors which have benefitted from the relaxation in restrictions. Conditions are strongest in mining, wholesale, and finance, property & business. Conditions were weakest and negative in recreation & personal services as lingering restrictions continued to hamper the sector.



Forward looking indicators also improved markedly in October. Capacity utilisation jumped from 78.2% to 81.5%, taking it back above the long-run average. Higher capacity utilisation is associated with increases in capital expenditure and employment. It can also be an indicator of a rise in inflationary pressure. Forward orders also increased sharply, pointing to a solid pipeline of work.

Outlook

The surge in confidence in October is yet another signal that the economy is rebounding from the Delta setback. Similarly, consumer confidence is elevated and partial indicators of consumer spending point to a sharp recovery in spending as pent-up demand is unleashed.

The buoyant mood amongst businesses points to a resumption in the uplift in business investment which was underway ahead of the Delta outbreak. Generous government tax incentives to encourage investment will remain in place until mid-2023 and are providing further support.

It is also a positive sign for the jobs market, where vacancies remain very high. The Reserve Bank has noted businesses were hiring in anticipation of lockdowns ending. And today's data are another sign employment looks set to bounce back.

Matthew Bunny, Economist

Ph: (02) 8254 0023

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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