

12 July 2022

## Australian business conditions & confidence. June: confidence evaporates, conditions elevated for now. Business conditions: down 2pts to +13. Business confidence: down 5pts to +1.

Business confidence has evaporated, while business conditions remain elevated - for now.

The economy is operating at full capacity, as new orders continue to expand at a robust pace.

Labour cost and prices pressures intensified further, hitting profits.

These were the key findings of the NAB business survey. The June survey was in the field from June 20 to 30. The previous survey was conducted from May 23 to 29 - immediately after the May 21 Federal election, which resulted in a change of government.

Business confidence weakened by 5pts to be at +1, a reading below the long-run average. Intense supply headwinds - labour and material shortages - are limiting firms' ability to lift production. Spiralling costs are squeezing business profit margins.

These pressures, as well as the implications of aggressive interest rate tightening by central banks, are eroding business confidence. Globally, there is speculation of a US recession, equity markets are in a meltdown, and domestically consumer sentiment is now at recession like levels - pointing to a sharp slowdown ahead.

Business conditions remain elevated - for now - down 2pts to +13. This provides further confirmation the economy had considerable momentum ahead of the impacts of the recent RBA rate hikes.

The reopening recovery from the delta lockdowns of 2021, as well as the boost from earlier substantial policy stimulus, is supporting activity. Consumers are spending freely at present, embracing fewer covid restrictions. Household balance sheets are in good shape and the household saving rate currently is elevated - the unwinding of which is funding additional spending.

Strength in new orders has been sustained over the 9 months, October 2021 to June 2022, to be at +10 in June. This points to momentum in business conditions extending into the September quarter. Beyond which, the impact of rate rises is likely to be felt.

Business conditions detail for June included: trading conditions down 3pts to +18; profitability down 4pts to +12; and employment conditions down 2pts to a still robust +10 - evidence that firms are continuing to seek additional labour.

The retail sector reports ongoing upbeat business conditions, at +16 in June (albeit down 4pts from May). However, confidence amongst retailers plunged, to -18, on concerns about the outlook. Recreational & personal also reported robust business conditions, at +15, while confidence there is elevated (for now) at +10, with the sector enjoying the benefit of fewer covid restrictions.

The economy is operating at full capacity, with the capacity utilisation rate at an historic high of 84.6 in the June quarter - mirroring the tightest labour market conditions in 50 years (see chart overleaf).

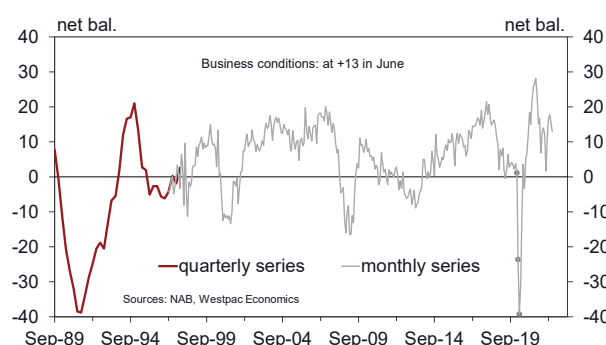
Labour costs increased at a 3.6% quarterly rate in the month of June and rose by 8.5% over the past year. Directionally, this points to wages growth lifting from current modest levels as firms compete for scarce labour - the scale of any increase is less clear.

Spiralling input costs are leading to sharply higher prices: purchase costs are up 13.8% for the year and final product prices 6.7% higher.

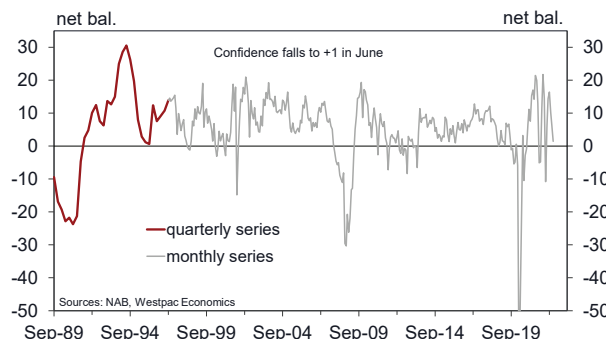
**Andrew Hanlan**, Senior Economist

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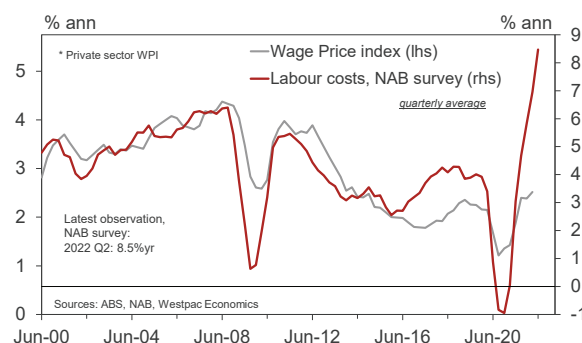
### Business conditions: rebound post delta / omicron



### Business confidence evaporates



### Labour costs: significant pressures

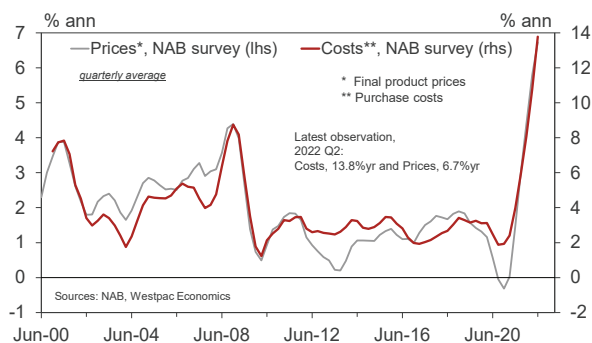


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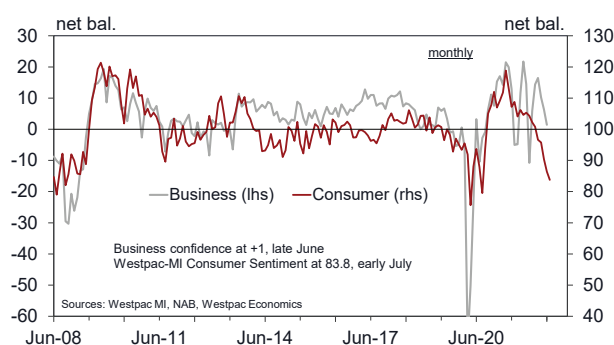
## New orders: strength sustained, June at +10



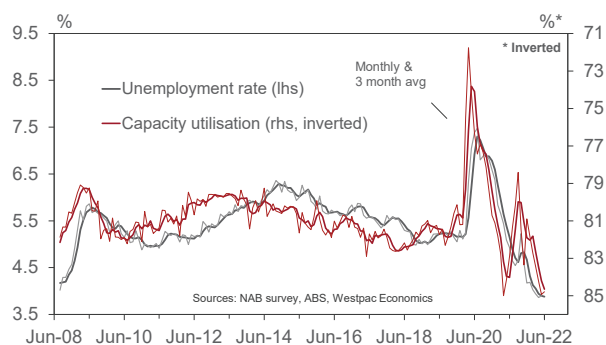
## Surging costs leading to price pressures



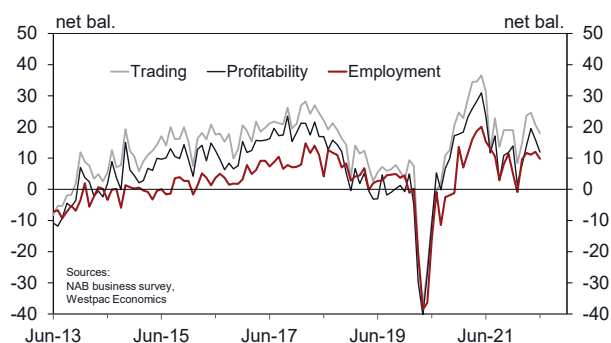
## Confidence: consumers and businesses



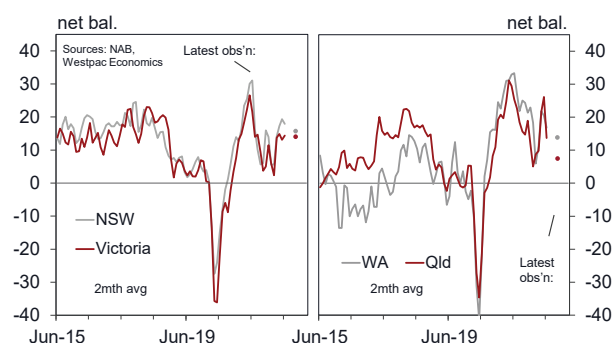
## Economy operating at full capacity in 2022



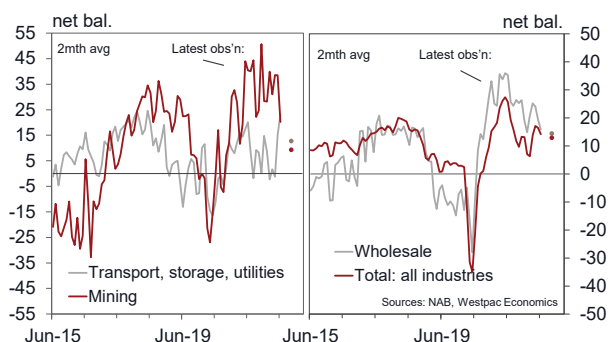
## Business conditions: detail



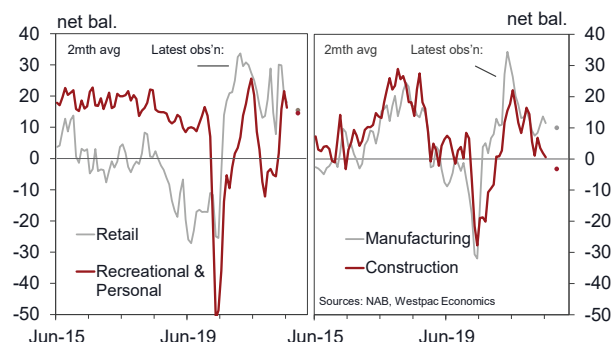
## Business conditions by state



## Business conditions, by industry



## Business conditions, by industry



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