

9 August 2022

Australian business conditions & confidence. July: strong start to Q3, led by recreation and construction. Business conditions: up 6pts to +20. Business confidence: rebounds 5pts to +7.

Business conditions rose in July, to well above average levels. Business confidence was resilient, rebounding in the month. The economy is operating at “full capacity” - with capacity utilisation hitting fresh highs. In that environment, labour and cost pressures escalated further.

These were the key findings of the NAB business survey - which was in the field from July 19 to 29. The previous update was conducted from June 20 to 30.

The business conditions index rose by 6pts to an elevated +20 in July. That is the highest reading since last June, ahead of the delta outbreak. Recall that the conditions index averaged +27 during the four months to June 2021.

This result is consistent with our reading of the economy - with strength likely to be concentrated in Q2 and Q3 this year. The burst of activity is driven by the reopening from delta and the substantial boost from early policy easing.

This follows a mixed start to the year - disrupted by the omicron wave and flooding in NSW and Qld. The end to 2022 is likely to reveal some loss of momentum, in our view, as high inflation and sharply higher interest rates begin to bite.

Business confidence, which had been trending lower and evaporated in June, found some resilience in July, up 5pts to +7. That reading is a touch above the long-run average, but is still down on levels evident for much of the 20 months to May.

Businesses have been encouraged by the ongoing strength of domestic spending. However, we suspect that there is an underlying fragility to business confidence - which will be tested in coming months as the RBA hikes rates further and with the global backdrop remaining volatile.

By industry, there was further evidence that the recreation & personal sector is benefiting from fewer covid related restrictions - with conditions up 15pts to +31 - to be around historic highs. Construction, which has endured a challenging half year - on covid and weather disruptions - reportedly performed well in July. Conditions in construction rebounded by 18pts to +16 - the best result since June 2021, benefiting from a sizeable pipeline of work.

A strong flow of new orders, which printed at +10 in July, has been evident for an extended period - the 10 months since October 21.

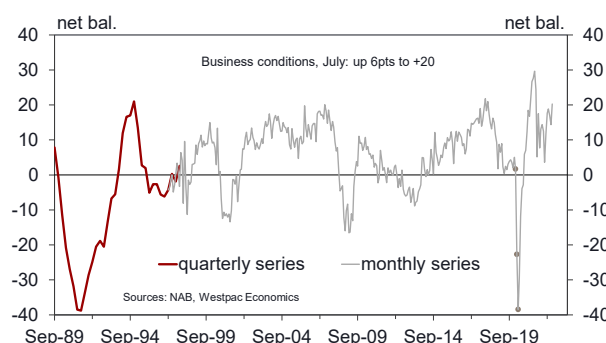
Capacity utilisation rose to a new record level of 86.7%. This mirrors labour market developments, with the unemployment rate down to only 3.5%, the lowest in almost 50 years. The economy is operating at “full capacity” and is bumping up against capacity constraints.

Cost pressures intensified further at the beginning of the September quarter - the survey reports. Labour costs grew at a 4.6% quarterly rate - which the survey describes as “reflecting a combination of new hiring, increased hours, bonus payments and underlying wage increases, including the minimum wage decision taking effect”.

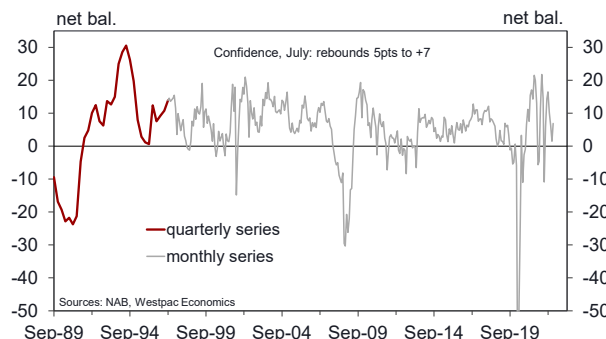
Input costs reportedly escalated at a 5.4% quarterly rate in July, while final product prices rose at a 2.7% pace - further evidence of margin compression. These cost / price pressures suggests that there is no relief yet from the sharp increases in consumer prices.

Andrew Hanlan, Senior Economist

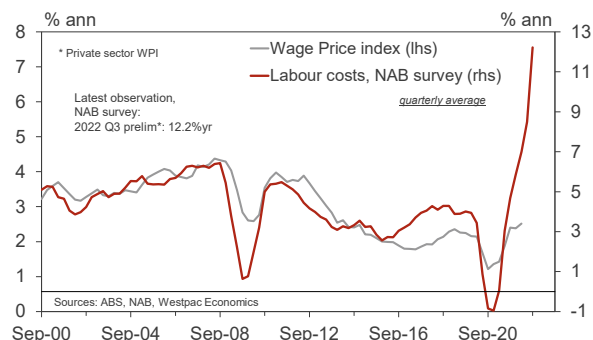
Business conditions: strong start to Q3 2022



Business confidence: resilience in July



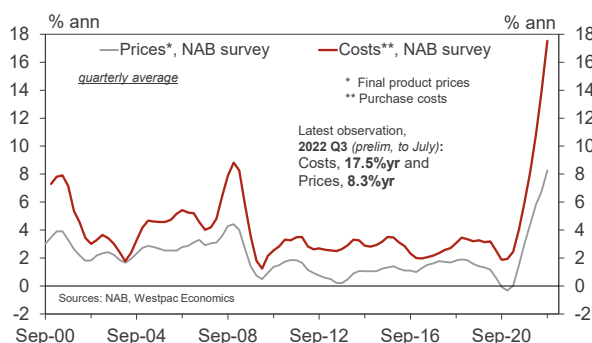
Labour costs: significant pressures



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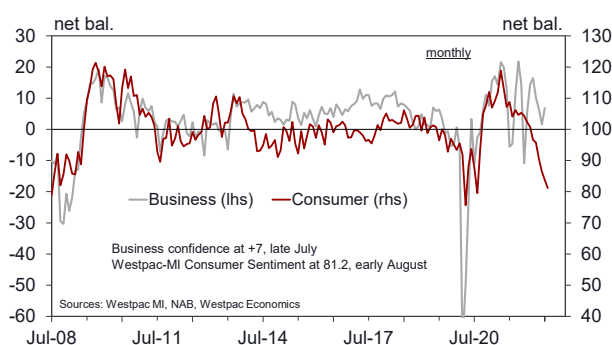
Surging costs leading to price pressures



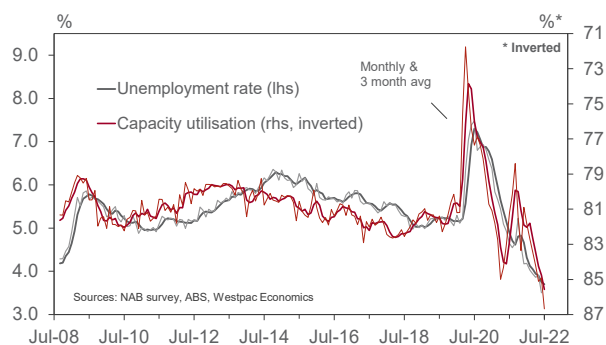
New orders: ongoing strength, July at +10



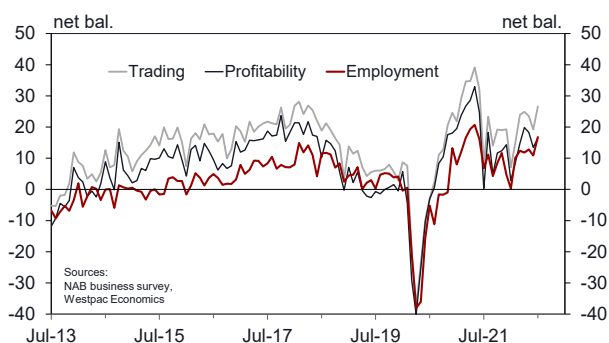
Confidence: consumers and businesses



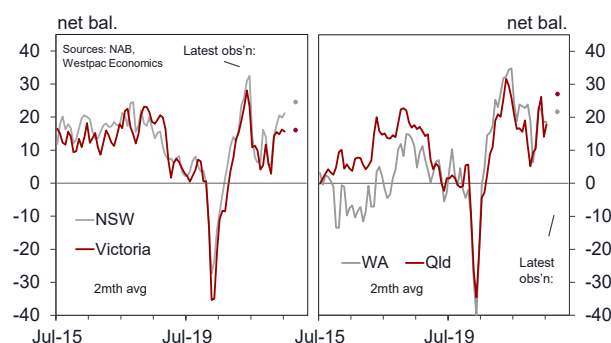
Economy operating at full capacity in 2022



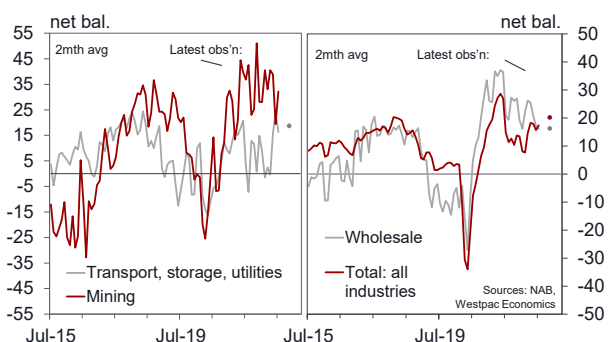
Business conditions: detail



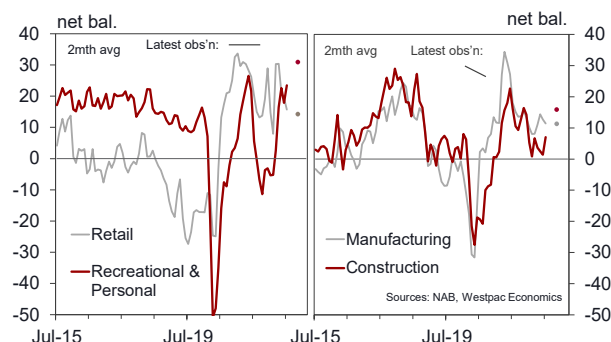
Business conditions by state



Business conditions, by industry



Business conditions, recreation rebounds



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