

13 September 2022

## Australian business conditions & confidence. August: strength continues through Q3 Business conditions: up 1pt to +20. Business confidence: up 2pts to +10.

Business condition strength continues - with no signs of a slowdown - and firms are generally positive. The economy is operating at (or beyond) full capacity. Cost and price pressures eased a little but remain very elevated.

These were the key findings of the NAB business survey - conducted from August 22 to 30.

The business conditions index was little changed, up 1pt to +20, a well above average reading. Notably, strength in business conditions was broadly based in August - both by industry and by state - a further indicator that the RBA's rate hikes have yet to have much impact. As policy acts with a lag, this should not be that surprising. Business confidence rose 2pts to an above average +10.

These results are broadly consistent with our view that the economy will expand at a robust pace in 2022, with strength to be concentrated in Q2 and Q3. The burst of activity is driven by the reopening from delta and the boost from earlier policy easing.

The strength through Q2 and Q3 is bookended by a soft start to the year (disruptions from covid and inclement weather) and a likely subdued end to the year (impacted by rapid fire RBA rate hikes and high inflation).

During August, strength in business conditions was broadly based across the major states - benefiting from fewer disruptions associated with covid and wet weather. The business conditions index was a little in excess of 20 in each of the four major states (NSW, 24; Victoria, 22; Qld and WA, 21). SA had a soft reading of +2, which may be just noise, and Tasmania was at +18.

The near-term outlook for domestic demand is positive, with a consistent plentiful flow of new orders - a pattern evident over the past year. New orders rose by 2pts to +13.

Trading conditions rose 4pts to +30 in the month, while employment and profitability were robust, albeit both down by 2pts to +16.

By industry, business conditions were upbeat across each of the broad industries. The one exception, construction slipped back after a one-off lift to +17 in July, to be at +9. Supply headwinds and cost pressures are impacting activity and profitability in the construction sector. Retail conditions reportedly lifted by 12pts to be at an elevated +27, while recreational & personal eased back to a still robust +18, after jumping to +32 in July associated with a burst of holiday travel, as more folk took to the skies.

Capacity utilisation is still well above previous highs, albeit edging down from 86.7% to 86.3%. This mirrors labour market developments, with the unemployment rate at a 48 year low of 3.4%. The economy is operating at "full capacity".

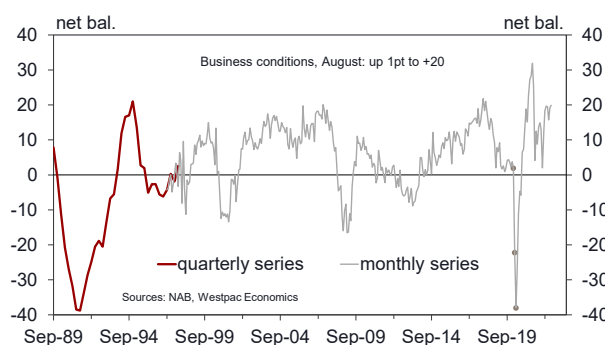
Cost pressures reportedly moderated somewhat in August - down from the record highs in July - to still be at very elevated levels. This easing was aided by a pull-back in global commodity prices (notably oil prices) and with the passing of the one-off effect of July's minimum wage increase.

Purchase costs grew at a 4.4% quarterly rate in August, down from 5.3% in July. For final product prices, it was 2.4% down from 2.6% - although retail prices held at a 3.3% pace. Labour costs eased from a 4.5% pace to 3.5%.

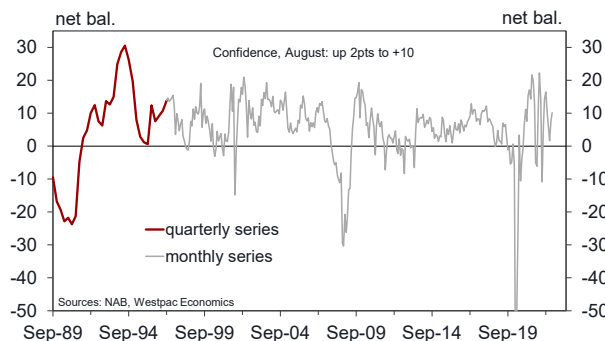
**Andrew Hanlan**, Senior Economist

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### Business conditions: strength continues in Aug



### Business confidence: resilience in July & August

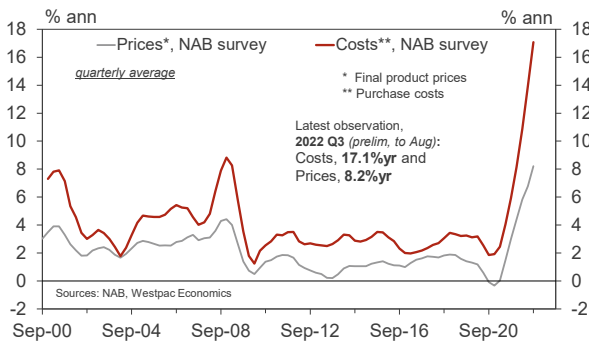


### New orders: ongoing strength, Aug at +13

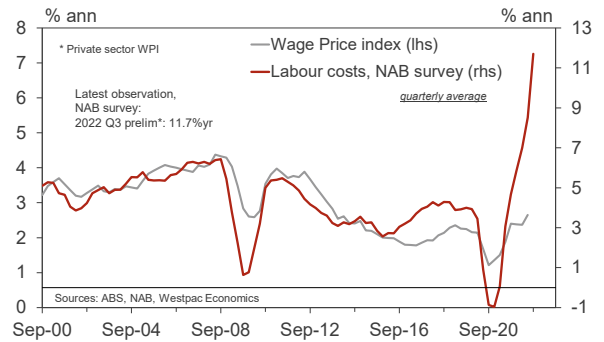


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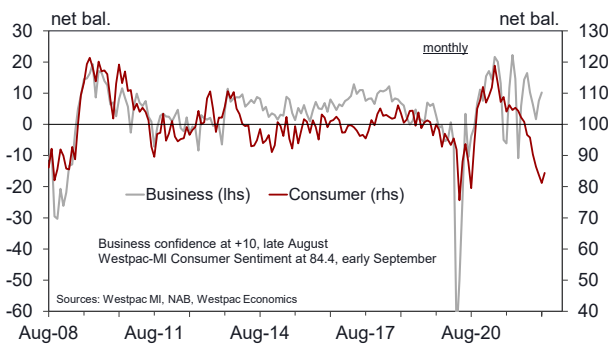
### Spiralling costs leading to price pressures



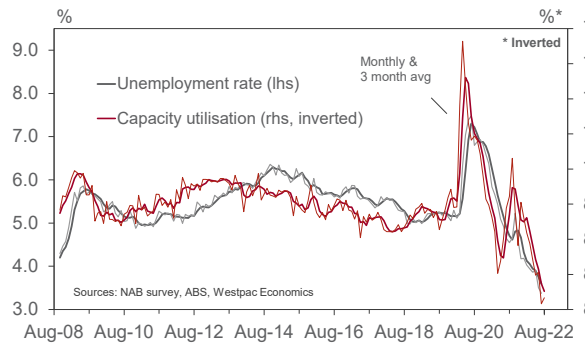
### Labour costs: significant pressures



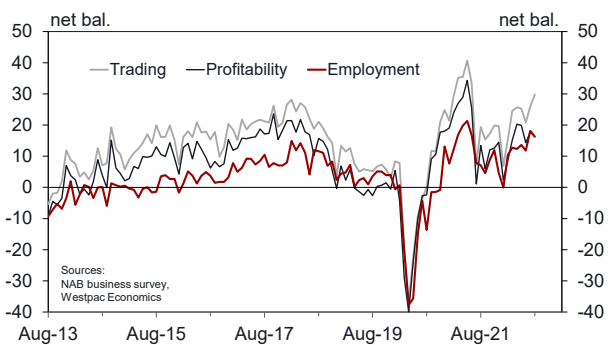
### Confidence: consumers and businesses



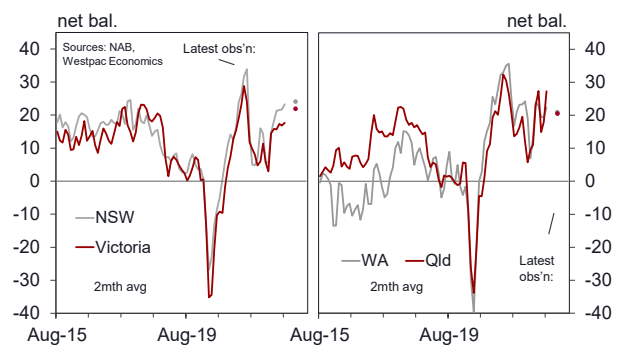
### Economy operating at full capacity in 2022



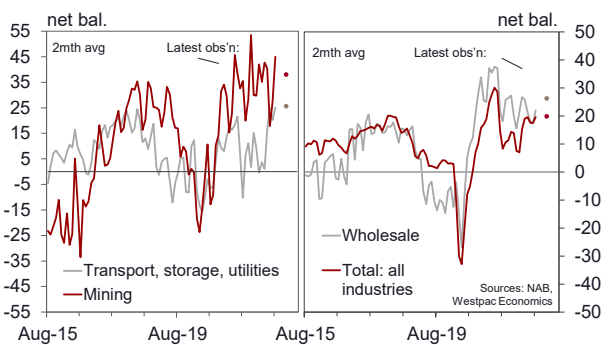
### Business conditions: detail



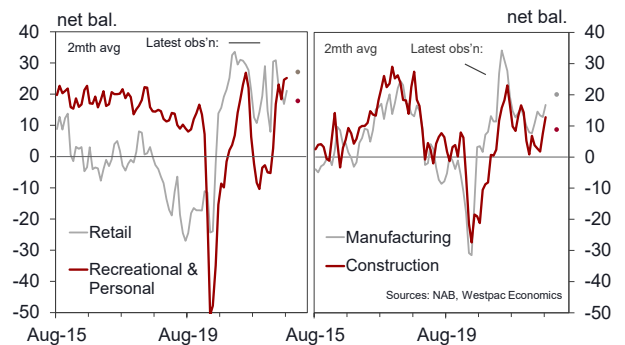
### Business conditions by state



### Business conditions, by industry



### Business conditions, retail strength



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