

8 November 2022

Australian business conditions & confidence, October. Conditions cresting at a high level. Confidence evaporates. Business conditions: down 1pt to +22. Business confidence: down 5pts to 0.

Business conditions are cresting at a high level and business confidence has evaporated, while purchase cost pressures have eased somewhat from earlier highs.

These were the key findings of the NAB business survey - conducted from October 24 to 28.

The business conditions index edged lower in October, down by 1pt to +22, a still elevated level. This is in the context of a flattening trend for overall business conditions. Recall that as the economy reopened from the delta lockdowns, conditions lifted from a December quarter 2021 average of +11 to be at +20 in the June quarter 2022, then came in at +23 for the September quarter and now, tentatively, slipped back in the December quarter.

The context is that the Australian economy is in transition over the second half of 2022 - with growth to slow from the robust gains over the first half of the year, to an anaemic pace in 2023, as high inflation and rising interest rates impact.

What is currently unclear is the strength of output growth for the September quarter, and the momentum heading into the December quarter - which will be revealed in the Q3 National Accounts, on December 7. No doubt the high level of business conditions is consistent with and is occurring alongside high levels of capacity utilisation. It may be that the cresting of the conditions index over recent months suggests little growth off this already high base.

By state, business conditions in October weakened materially in NSW and Victoria, both down by 10pts to around +18. It remains to be seen if this is the start of a trend, or noise. Conditions in Qld spiked, +14pts to +34, boosted by school holiday travel - a factor which would tend to dampen NSW and Victoria (although unlikely by 10pts). By industry, conditions in October eased in retail, wholesale and in finance, property & business.

Business confidence has evaporated, the index down by 5pts to 0, a below average reading. This loss of business confidence is against the backdrop of a negative and deteriorating global outlook, as well as some signs of an emerging slowing in parts of the domestic economy, in the face of high inflation and higher interest rates.

The weakening of confidence was broadly based across states and industry. Across the mainland, confidence in October ranged between +2 for WA and -3 for Victoria, with NSW at +1. Confidence readings are negative across mining, retail, wholesale, transport & utilities, and finance, property & business - with soft readings of +2 for recreational & personal and for manufacturing, while construction was at +7.

Business conditions detail for October revealed trading conditions down by 6pts to +31, profitability up 1pt to +22, and employment conditions down 3pts to +14. Forward orders softened, after an extended strong run, down by 7pts to +7.

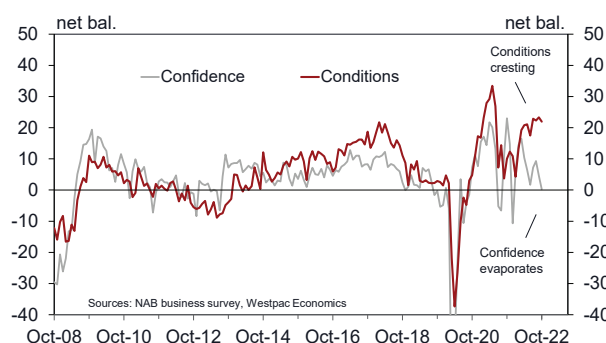
Purchase costs grew at a 3.7% quarterly pace in the month of September and then 4.1% for October - representing a moderation of cost pressures from a 4.7% average over March to July. Retail prices continued to increase at a strong pace, 3.0% in October.

Labour cost pressures have eased, to a 3.1% quarterly pace in the month of September and 2.7% for October - down from a 3.8% average for the 3 months to August (a result boosted by the lift in the minimum wage).

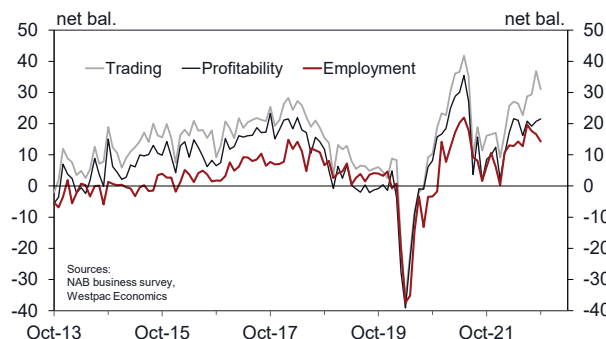
Andrew Hanlan, Senior Economist

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Business conditions and confidence



Business conditions: detail

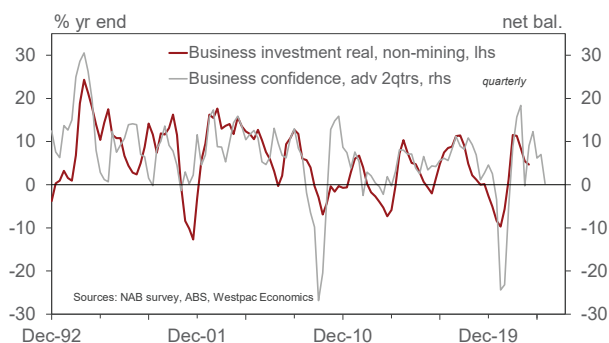


New orders: soften, down 7pts to +7, Oct

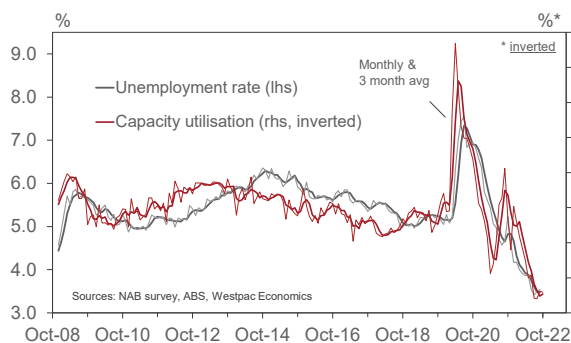


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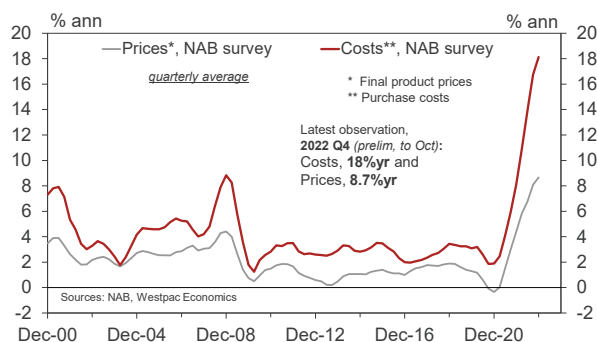
Business confidence and investment



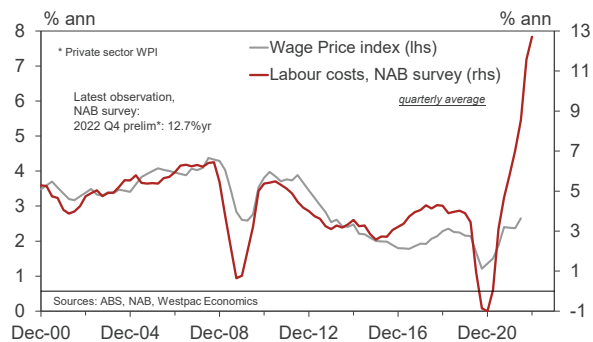
Economy operating at full capacity in 2022



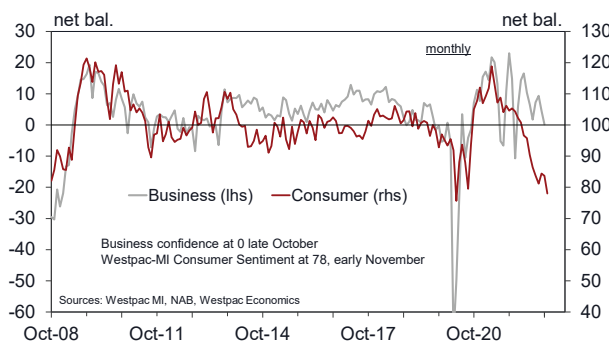
Cost and price pressures



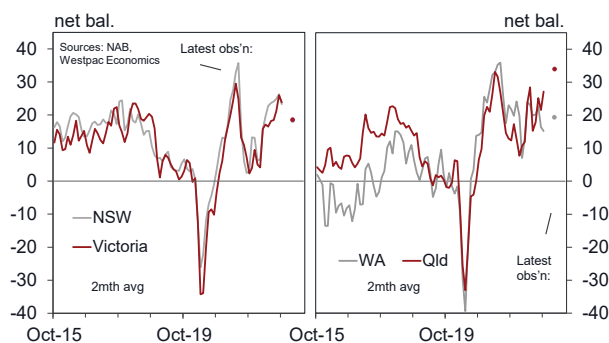
Labour costs: significant pressures



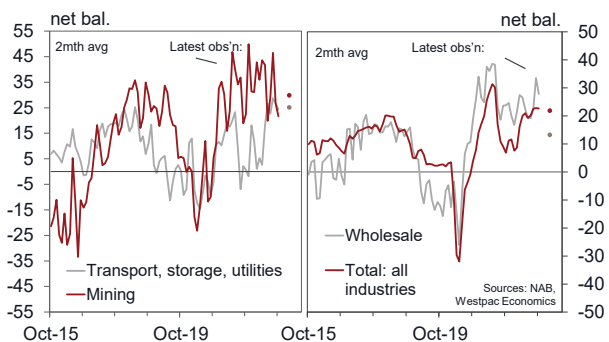
Confidence: consumers and businesses



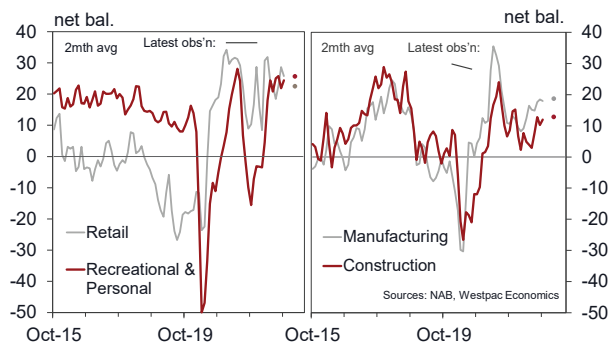
Business conditions: NSW & Vic off highs in Oct



Business conditions, by industry



Business conditions, retail off highs in Oct



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