

24 January 2023

Australian business conditions & confidence, December*. Conditions continue to ease, confidence remains subdued. Business conditions: down 8pts to +12. Business confidence: up 3pts to -1.

Business conditions eased further into year-end and confidence, despite earning some reprieve from consistent declines, finished the year in slightly pessimistic territory.

These were the key findings of the latest NAB business survey.

The survey while titled “December” was conducted from January 4 to 9 (the typical survey timing over the second half of the calendar month is not feasible for December due to the Christmas holidays).

The business conditions index, having edged lower by 2pts in both October and November, fell by a further 8pts in December to still be at an above average level.

By industry, the continued easing in business conditions remained broadly-based across consumer segments (both retail and recreation & personal), wholesale and the finance, business & property group. While conditions in the mining, manufacturing and construction sectors took a sharp turn lower in December this likely reflects the timing of the survey – early January being when business operations in these sectors is typically paused.

Business conditions eased across all states in December, the down-trend being most evident in the eastern states: NSW down 7pts to +17; and Vic down 9pts to +10.

The context is that the Australian economy was in transition over the second half of 2022 – with growth slowing from the robust gains over the first half of the year, to what is expected to be an anaemic pace in 2023, as the full impact of high inflation and rising interest rates comes through.

In other signs that the economy is cooling, capacity utilisation moved lower after having peaked in August, and forward orders continued to edge lower, from +5 in November to +3 in December.

The business mood remains subdued the NAB survey reports. While the confidence index lifted 3pts to -1, this is still a below average reading that is reflective of the deteriorating global backdrop, as well as the emerging slowing in parts of the domestic economy. In the face of spiralling input costs and the RBA's rapid tightening cycle, businesses recognise that the outlook for 2023 will be challenging as these headwinds continue to impact and the economy continues to lose momentum.

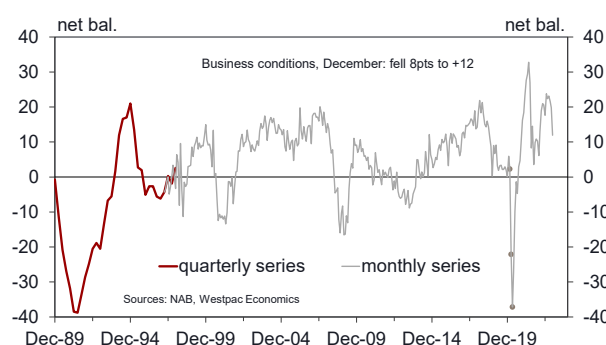
By industry, confidence is negative across retail, wholesale and transport & utilities. In contrast, the survey reports that confidence in the mining, manufacturing and construction sectors improved. It remains to be seen if this is the start of a trend, or noise. Confidence remains below average across the major states.

Business conditions detail for December also revealed trading conditions to be down by 9pts to +18, profitability down by 7pts to +12 and employment conditions down 5pts to +8.

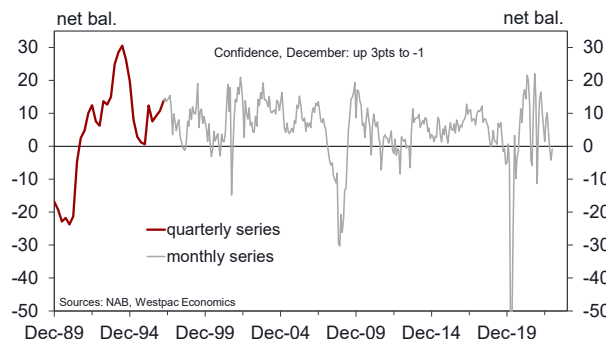
Labour costs and overall upstream price pressures continued to move lower in December, providing further evidence that they are off their highs earlier in 2022. Purchase costs grew at a 3.4% quarterly pace in the month of December, representing a moderation of cost pressures from an average of 4.6% over the June quarter. Labour cost pressures also continued to ease, to 2.5% in the December quarter, down from 3.8% for the September quarter (a result boosted by the lift in the minimum wage).

Ryan Wells, Economist

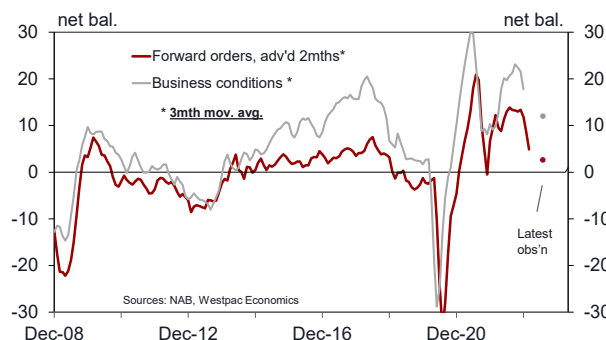
Business conditions: continued easing



Businesses, pessimistic mood



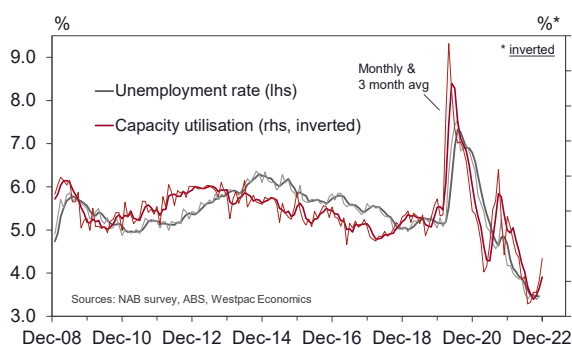
New orders: slowing



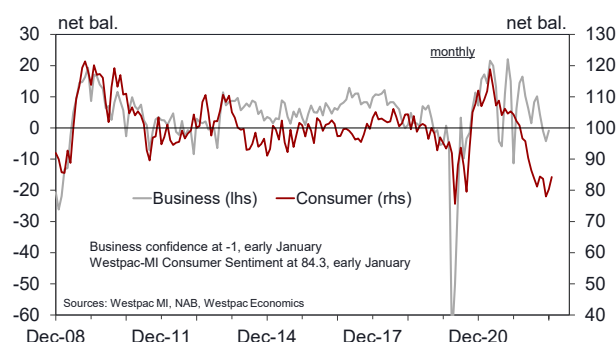
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Economy operating at full capacity in 2022



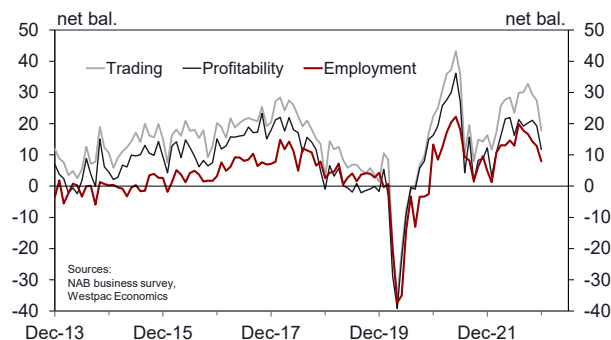
Confidence: consumers and businesses



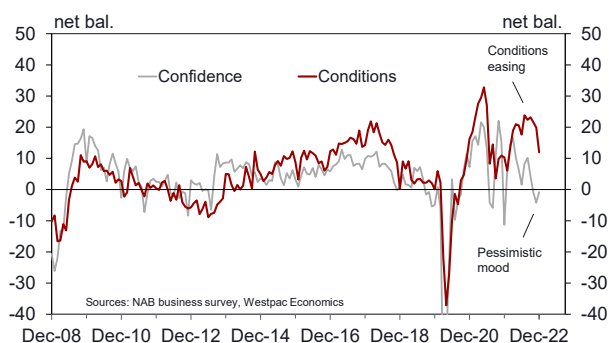
Business confidence and investment



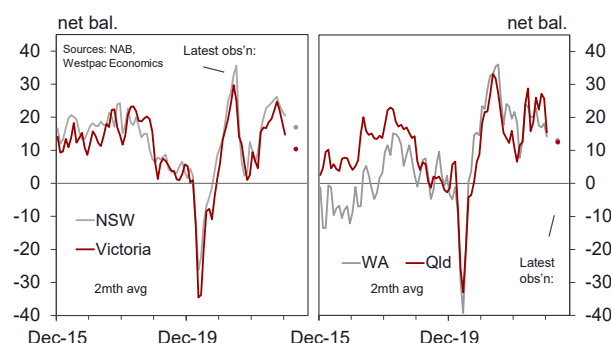
Business conditions: detail



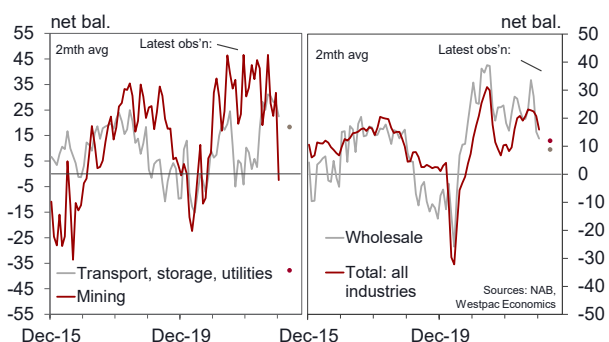
Business conditions and confidence



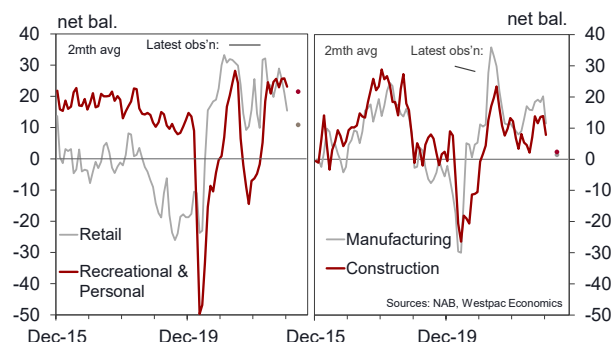
Business conditions: by state



Business conditions, by industry



Business conditions, by industry



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