

14 February 2023

Australian business conditions & confidence, January. Conditions and confidence strengthen over summer. Business conditions: up 5pts to +18. Business confidence: up 6pts to +6.

Business conditions and confidence bounced in the second half of January as businesses benefited from robust spending over the first 'disruption-free' summer break since the onset of COVID-19.

This was the key finding of the latest NAB business survey.

The January survey was in the field from January 27 to February 2. Recall that the previous survey, while titled "December", was conducted from January 4 to 9 (delayed by Christmas holidays).

The business conditions index, having moved 11pts lower over the three months to December, bounced by 5pts in January, returning to an elevated level.

In terms of industry colour, the improvement in conditions was driven by a rebound in the mining, manufacturing and construction segments. These sectors reportedly suffered a sharp down-turn in December, but the January survey confirms this was a temporary dip associated with typical business operations being on hold during holidays.

Interestingly, the consumer segments (both retail and recreation & personal) have transitioned from consistent declines to a stalling. Indeed, broader consumer spending indicators suggest that, on balance, demand has remained relatively firm heading into the new year, despite some emerging weakness in the retail sector.

While is a welcome development for businesses, the broader context suggests a sustained up-trend is not likely in place. As the full impact of high inflation and rising interest rates crystallises, particularly in relation to the Australian consumer, economic activity will slow from robust expansion over 2022 to an anaemic pace of growth over 2023.

The business mood is also improving, the NAB survey reports. The confidence index lifted 6pts in December to be at +6, roughly on par with the historical average. The mini-rally in business confidence is against the backdrop of easing concerns on global inflation and resilient consumer spending in the first 'disruption-free' summer break since the onset of COVID-19.

However, as noted above, business confidence will remain at risk of weakness over the course of the year as the impact from the cumulative interest rate rises to date materialises and a slowdown in economic growth ensues.

Business conditions detail for January revealed that trading conditions are up 8pts to +28, profitability is up 4pts to +17 and employment conditions are up 1pt to +10. Forward orders also posted its first improvement since August 2022, up 3pts to +6.

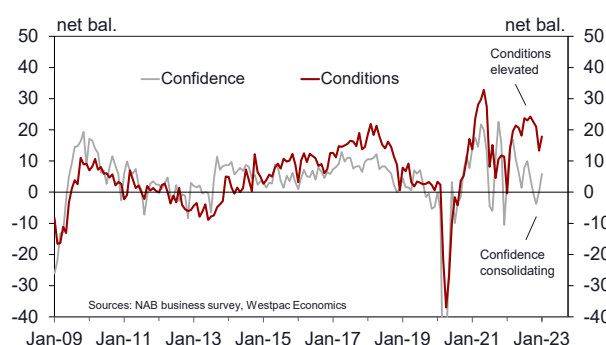
The evolution of labour costs and overall upstream price pressures also remains constructive to the outlook. Although purchase costs reportedly rose over the month, the current pace of 3.2% is less than the 3.4% quarterly pace evident in December. Given this is part of a broader downtrend, moderating from the average of 4.6% in June, it is unlikely that pressures will intensify greatly from here.

Similarly, labour costs were reported to have risen in the month, particularly across retail, recreation & personal, and the finance, business & property group. At 2.6%, it is also on par with the December quarter average and the broader downtrend since the 3.8% print in September. The continued moderation in labour costs will prove critical to the easing in broader inflation pressures through its larger role within services inflation.

Ryan Wells, Economist

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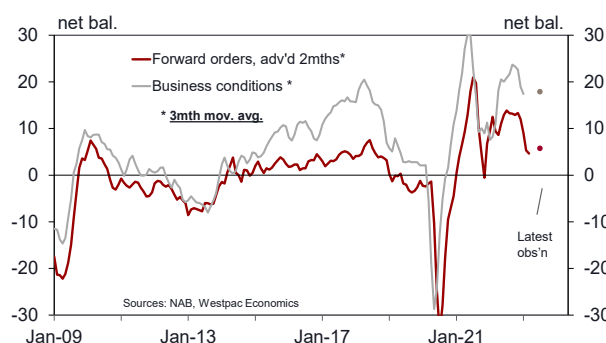
Business conditions and confidence



Business conditions: detail

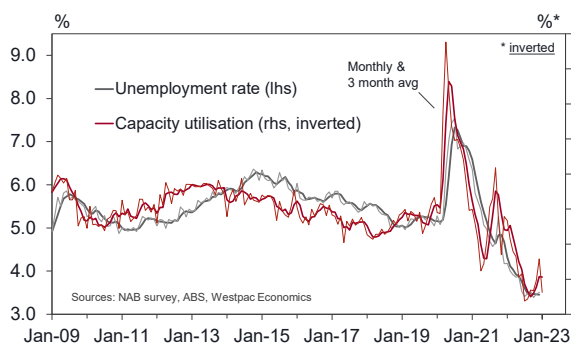


New orders: up 3pts to +6



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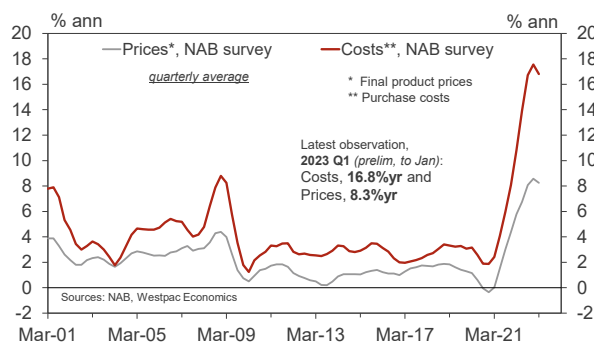
Economy operating at full capacity in 2022



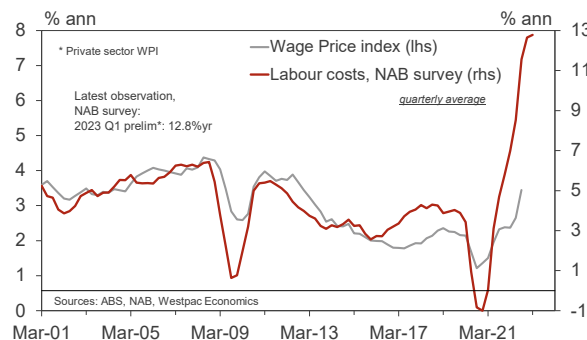
Business confidence and investment



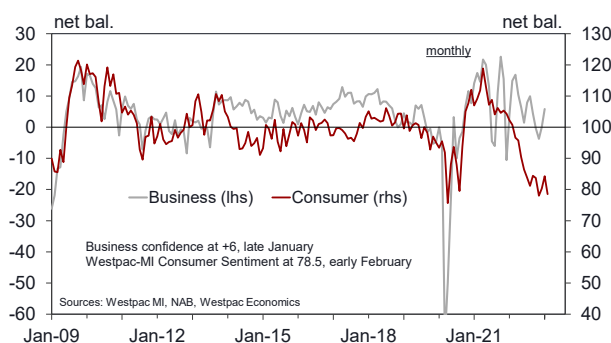
Cost and price pressures



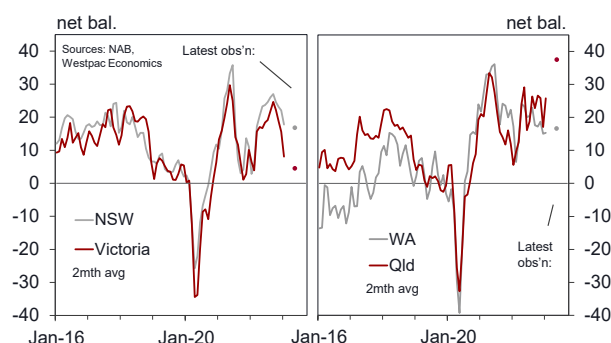
Labour costs: significant pressures



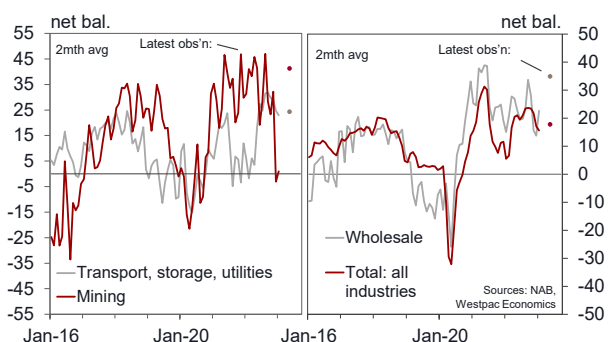
Confidence: consumers and businesses



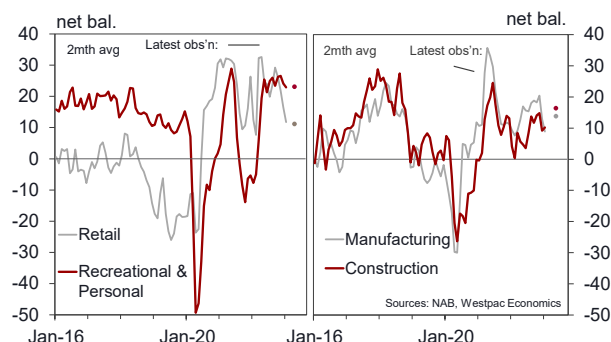
Business conditions: NSW & Vic continue easing



Business conditions, by industry



Business conditions, retail continue easing



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