

14 March 2023

Australian business conditions & confidence, February. Fragile confidence crumbles. Conditions slip further. Business conditions: down 1pt to +17. Business confidence: down 10pts to -4.

Already fragile business confidence crumbled, as business conditions slipped further to be a clear notch down from the highs of 2022. Forward orders posted only a small rise - the period of sustained strength during the reopening period has passed.

These were the key finding of the latest NAB business survey. The February survey was in the field from February 20 to 28.

The business conditions index slipped by 1pt, easing to +17. This continues a moderating trend evident over the past half year.

The business conditions index peaked in the September quarter 2022, at an average of +24. Conditions have eased back by 7pts since then.

The still relatively high level of the business conditions index suggests the economy is operating at high levels of capacity. While the downward trend in conditions is arguably evidence that the economy is cooling - as the intensifying headwinds of high inflation and rapid fire RBA interest rate rises impact.

Official data revealed that domestic demand stalled in the December quarter 2022. Westpac Economics anticipates that annual output growth will slow to a well below trend 1% for 2023.

Against this backdrop of monetary policy tightening, a gloomy domestic economic outlook and a challenging and volatile global environment, business confidence has been increasingly fragile.

In February, business confidence crumbled, with the index slumping 10pts to be in the pessimistic zone at -4. Recall that business confidence turned pessimistic last October and fell to -4 in November. The partial rebound in confidence to +6 in January, as Australia enjoyed the first summer largely "covid free" since 2019, has proven to be fleeting.

The business conditions index detail for February, included: trading conditions flat at +27 (down 32.5 for Q3 2022); profitability fell 4pts to +14; and employment conditions up 1pt to +12.

Forward orders have cooled, evidence that the economy is losing momentum. The persistent strength in forward orders, on the reopening, from February 2021 to September 2022 (punctuated in Q3 2021 by the delta lockdown), has passed. During the reopen period, forward orders averaged +14. By contrast, February 2023 posted a tepid result, of +3, down from +6.

By industry and by state, the moderating trend in business conditions since the September quarter 2022 is broadly based.

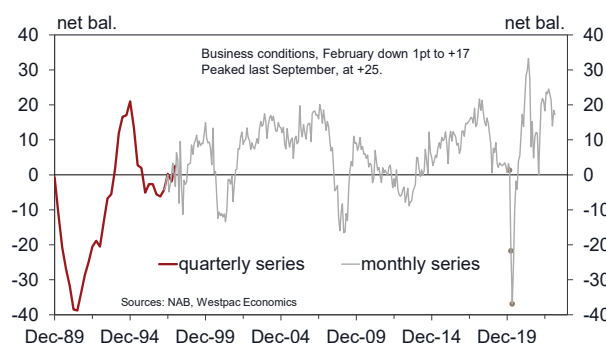
Consumers will lead the slowdown as their spending power is squeezed by high inflation and rising interest repayments. Confidence by industry is consistent with this outlook. Retail confidence is deeply negative at -10, while that in the recreational & personal sector turned negative in February, down 14pts to -5.

The recreational & personal sector benefiting from the relaxation of covid restrictions - experiencing a period of strength through the June and September quarters of 2022. Moving into 2023, while hospitality and travel have continued to perform well over the holiday period, other segments of recreational & personal have been impacted by consumers cutting back on some discretionary spending. The survey reports that conditions in the sector moderated in February. Retail business conditions reportedly spiked in February - but the risk is this is short lived.

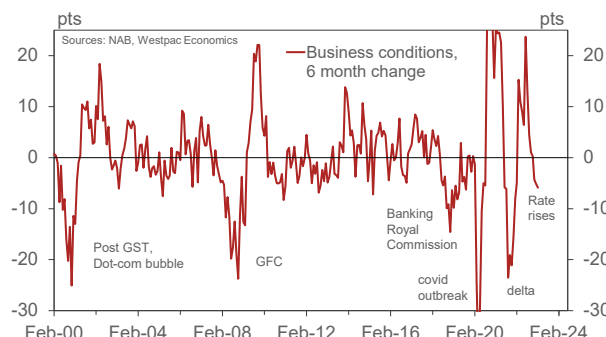
Andrew Hanlan, Senior Economist

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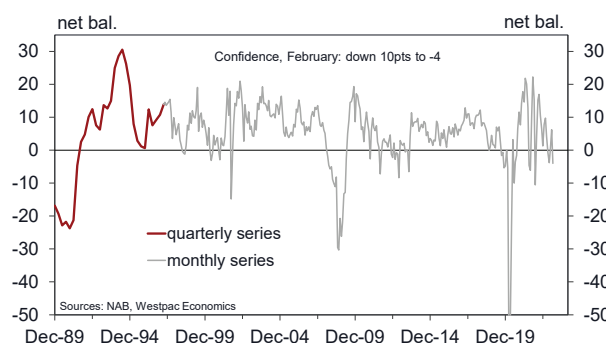
Business conditions: slide continues



Business conditions slow as rate rises impact

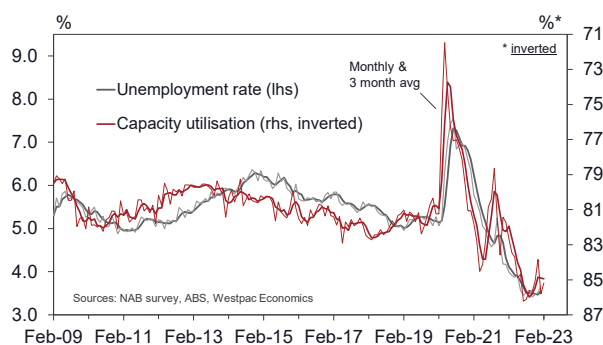


Businesses, pessimistic mood returns



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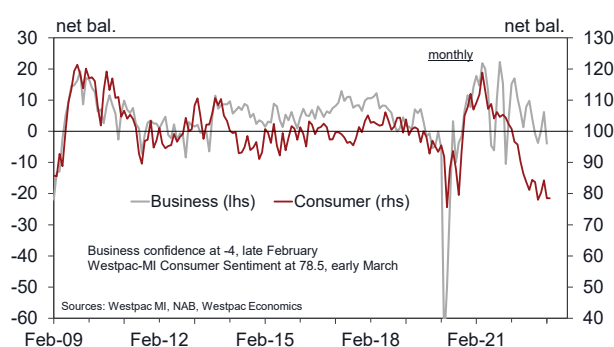
Economy operating close to full capacity



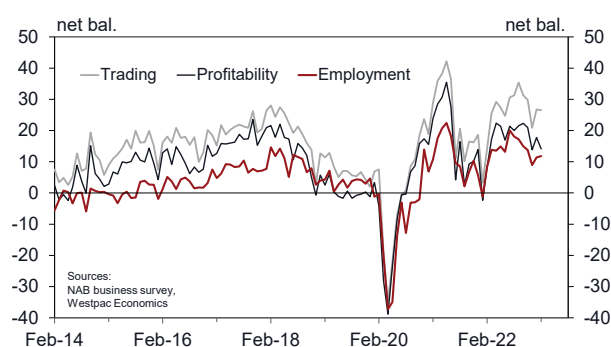
Forward orders cool: down 3pts to +3



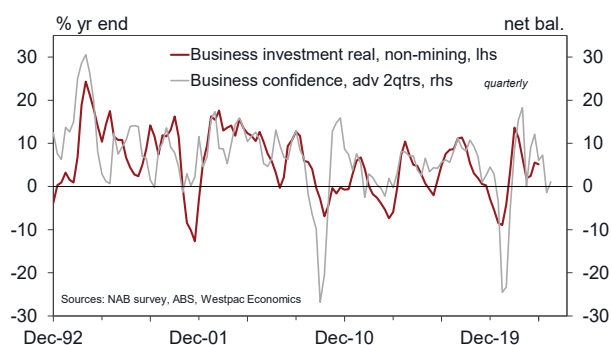
Confidence: consumers and businesses



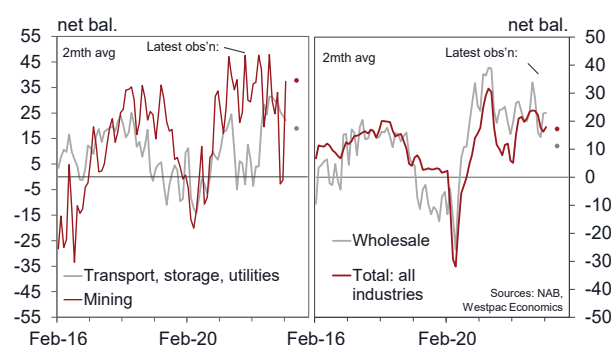
Business conditions: detail



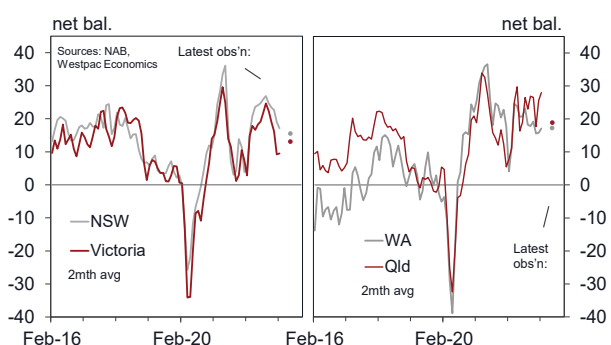
Business confidence and investment



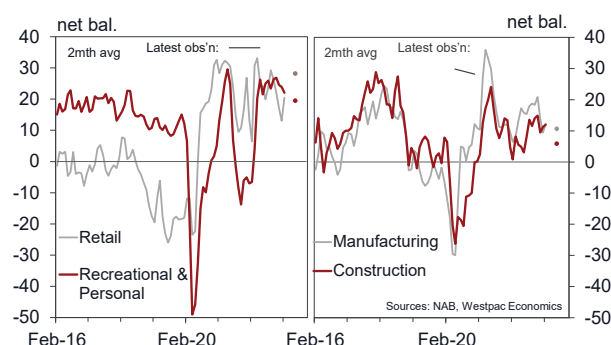
Business conditions, by industry



Business conditions, slowdown across states



Business conditions, broad based slowdown



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