

11 April 2023

Australian business conditions & confidence, March. Conditions easing gradually, business mood remains subdued. Business conditions: down 1pt to +16. Business confidence: up 3pts to -1.

Business conditions continued to ease gradually while business confidence posted only a partial rebound, remaining in subdued territory.

This was the key finding of the latest NAB business survey. Note this survey was in the field from March 21 to 31, prior to the RBA's decision to leave the cash rate unchanged on April 4.

The business conditions index slipped further in March, down by another 1pt to +16. The index remains at a relatively high level compared to the historical average of +5, suggesting that the economy is still operating at a high level of capacity.

However, since peaking at an average of +24 in the September quarter 2022, the index has continued to track a moderating trend over the past half-year.

This recent down-trend in conditions is arguably reflective of the loss of momentum within the Australian economy, a consequence of the accumulating impact of high inflation and the RBA's rapid tightening cycle.

Official data revealed that domestic demand stalled in the Q4 2022. Westpac Economics anticipates that annual output growth will slow to 1% in 2023, a well below trend result.

After a sharp decline of 10pts in February, the business confidence index posted only a partial rebound, up 3pts to -1, remaining in subdued territory. Recall that business confidence turned pessimistic last October and then fell to -4 in November, before lifting to +6 in January as Australia enjoyed the first 'disruption-free' summer since the onset of COVID-19.

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

As noted above, this survey was conducted before the RBA's decision to pause in rate hikes in April. While this may provide a temporary reprieve to business confidence, we expect the underlying weakness in the economy will emerge as the dominant factor weighing on confidence this year.

The business conditions index detail for March, included: trading conditions up 1pt to +26 (down from 32.6 in Q3 2022); profitability fell 1pt to +13; and employment conditions down 2pts to +10.

By industry, the moderating trend in business conditions since Q3 2022 is broadly based.

Of note, conditions continued to ease across mining, construction and wholesale sectors in March. Meanwhile, the February spike in retail business conditions was fully reversed while conditions in the recreational & personal sector also slipped further, indicative of the emerging weakness in consumers' discretionary spending capacity.

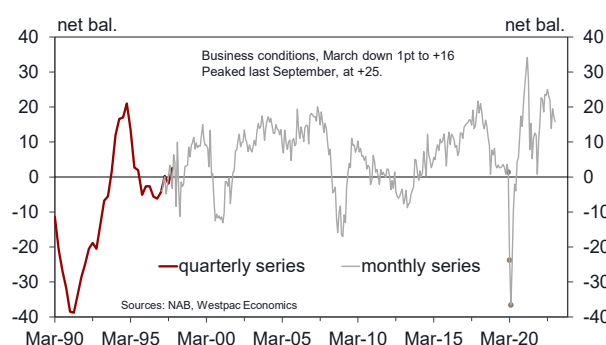
The evolution of labour costs and overall upstream price pressures remain constructive to the outlook.

Growth in purchase costs (i.e. non-labour inputs) is running at a quarterly pace of 2.6% as of March, tracking a consistent down-trend since peaking last year at 4.7% in June. Labour costs have also moderated albeit at a more mild pace, down from a peak of 3.9% in September – a result that was boosted by the lift in the minimum wage – to 2.3% in March.

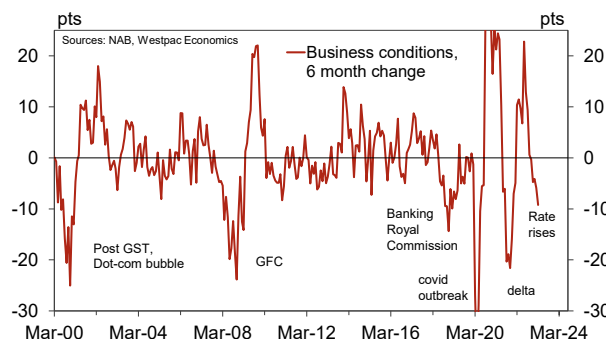
Ryan Wells, Economist

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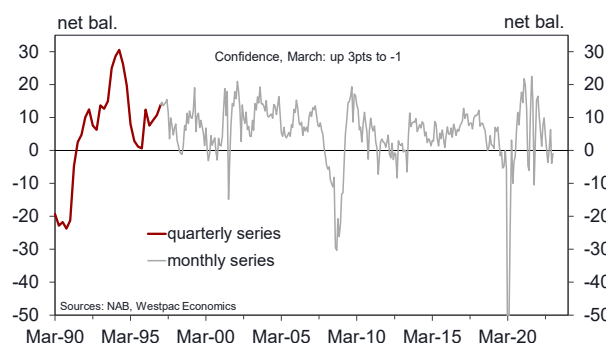
Business conditions: easing from highs



Business conditions moderate as economy slows

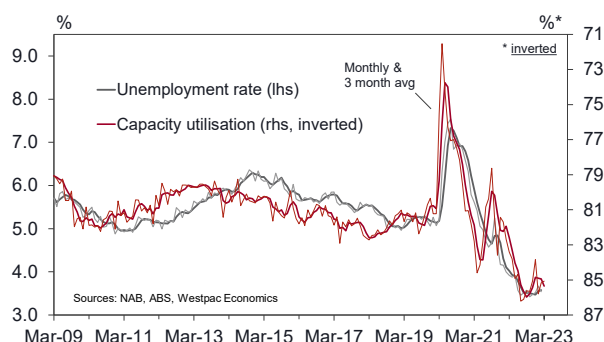


Businesses, pessimistic mood



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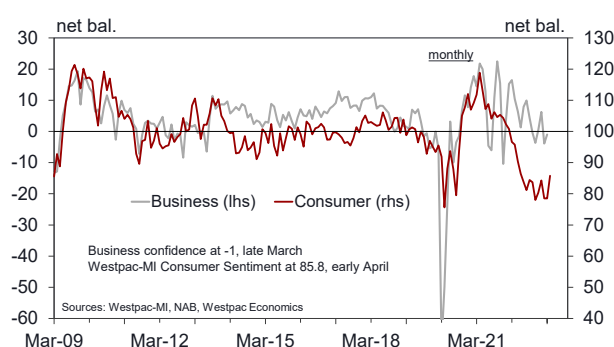
Economy operating close to full capacity



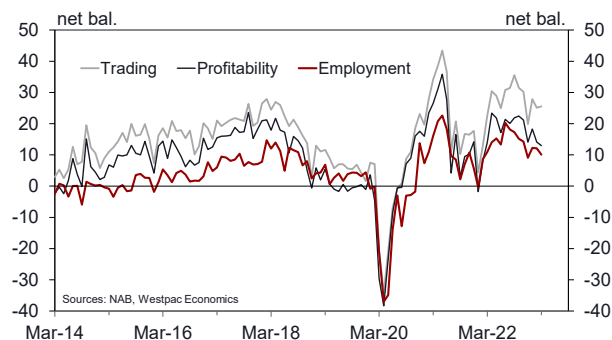
Forward orders: up 1pt to +4



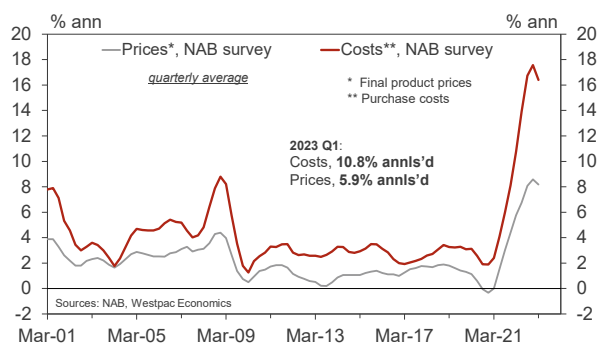
Confidence: consumers and businesses



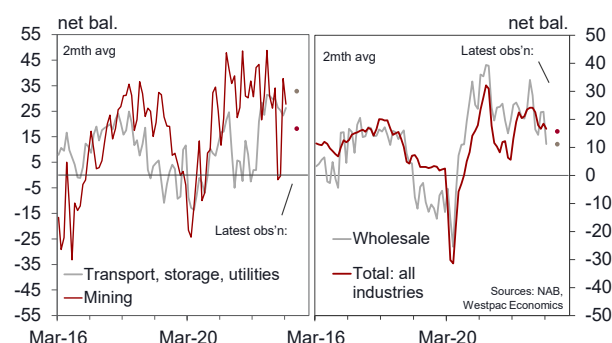
Business conditions: detail



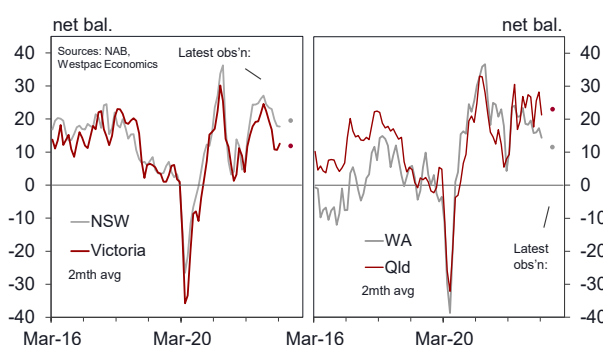
Cost and price pressures ease, but still too high



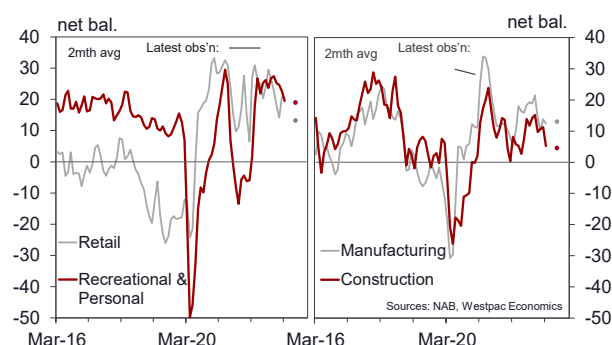
Business conditions, by industry



Business conditions, slowdown across states



Business conditions, broad based slowdown



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