

8 May 2023

Australian business conditions & confidence, April. Conditions continue to cool, confidence fragile and soft. Business conditions: down 2pts to +14. Business confidence: up 1pt to 0.

The cooling of business conditions has extended into the June quarter and the business mood remains fragile and soft as the flow of new orders dries up.

These were the key findings of the NAB business survey for April, which was conducted from 21 to 28 April, ahead of the RBA's decision to raise rates at the May Board meeting and ahead of the Federal Budget.

The business conditions index declined by a further 2pts to be at +14 in April. That has the index well down from the highs of around +24 during Q2 and Q3 last year.

The downward trend in conditions reflects the slowing of activity across the Australian economy as the intense headwinds of high inflation and sharply higher interest rates impact.

The level of the index is still relatively elevated by historical experience, with the economy operating at a high level of capacity - as evident from the unemployment rate which is at 3.5% currently, the lowest level in almost 50 years.

The business conditions index detail for April, included: trading conditions declining 4pts to +20 (down from +33 in Q3 2022); profitability falling 2pts to +11; and employment conditions moderating by 1pt to +11.

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

Of note, conditions have cooled across the consumer sectors of recreation & personal and retail. The changing fortunes of the recreation & personal sector is most striking - in 2022, it benefited from the reopening of the economy and the rolling back of restrictions, whereas in 2023 consumer spending is slowing, with households paring back expenditures on more discretionary items. Household incomes are under intense pressure from high inflation, higher debt servicing costs and higher taxation payments - as evident in the national accounts.

By state, the slowing of conditions between 2022 and 2023 is most apparent in NSW and Victoria. These states outperformed in 2022, enjoying a catch-up period on the reopening from the delta lockdowns. In 2023, the headwinds of inflation and interest rates have been felt across the nation.

Business confidence is fragile and soft, as has been evident from late 2022. The confidence index went negative in November and then again in February, slipping to -4 on both occasions. In April, the index edged up 1pt to 0, which is below the long-run average for this series (dating back to the late 1980s).

This fragility and softness in the business mood is evident across the states, as is to be expected in the current environment.

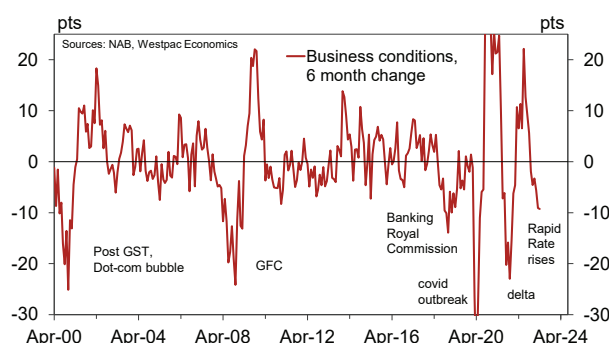
The business mood is pessimistic in the consumer sectors, both retail and recreation & personal - consistent with softer consumer spending.

The flow of forward orders has dried up as the economy slows and lacks momentum - that is in stark contrast to the sustained strength in new orders through October 2021 to October 2022 during the reopening phase. In April, forward orders weakened from +3 to +1, the softest reading since September 2021 (during the delta lockdowns).

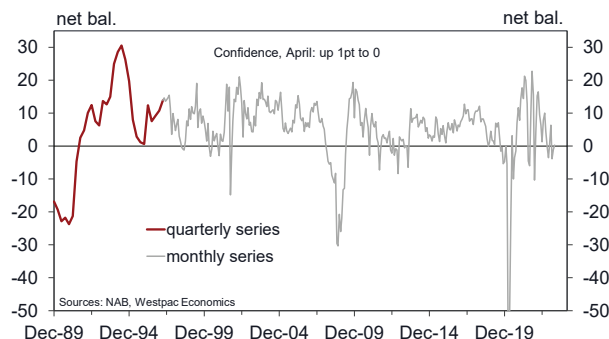
Andrew Hanlan, Senior Economist

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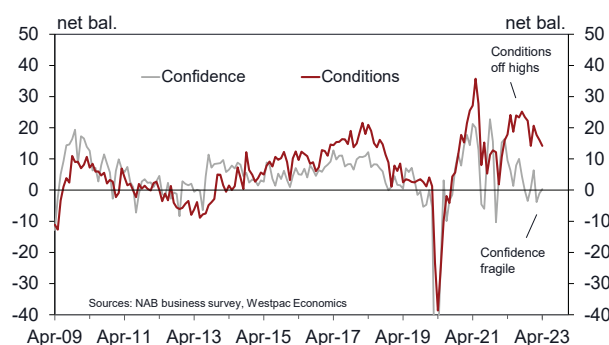
Business conditions cool as economy slows



Business mood fragile and soft



Business conditions and confidence



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