

13 June 2023

Australian business conditions & confidence, May. Slowdown accelerates, confidence back in pessimistic territory. Business conditions: down 7pts to +8. Business confidence: down 4pts to -4.

Business conditions eased further, with an acceleration of the economic slowdown, while business confidence remains fragile and soft, sliding back into pessimistic territory.

These were the key finding of the latest NAB business survey. The survey was in the field from May 16 to 29, following the Federal Budget on 9 May and following the RBA's May rate hike but ahead of the RBA's additional rate hike in June.

The business conditions index in May declined by 7pts to +8. That is the largest monthly fall (outside of the volatile holiday months of December / January) since September 2021 - a sharp fall which was associated with the delta lockdowns.

This acceleration in the economic slowdown has the business conditions index well below the peak of the September quarter 2022, when it averaged +25.

The intense headwinds of high inflation and sharply higher interest rates are impacting - as also evident in the official data.

Business confidence is fragile and soft against this backdrop of slowing demand. The business confidence index fell by 4pts to be at -4, a mildly pessimistic reading. This is the third occasion confidence has slipped to around these levels - with a reading of -3 last November and -4 in February.

With the economic downturn to deepen, the likelihood is that business confidence will move further into pessimistic territory and that businesses will respond by paring back hiring plans and cut investment spending (particularly on equipment).

The business conditions index detail for May, included: trading conditions down by 8pts to +14; profitability down 5pts to +7; and employment conditions down 7pts to +4.

Forward orders turned negative in May, for the first time since September 2021. Orders declined by 6pts to -5. Recall that there was an extended period of strength in new orders from October 2021 to September 2022 (averaging +12.5) on the reopening from the delta lockdowns.

Capacity utilisation levels remain elevated, at 84.7, albeit down from the September quarter 2022 peak of 86.0 - evidence that the economy is still operating at a high level of capacity (mirroring the labour market - where unemployment remains near a 50 year low).

By industry, the weakening of business conditions in May was broadly based - albeit and surprisingly, retail reportedly eased by only 2pts to be at a still respectable +16.

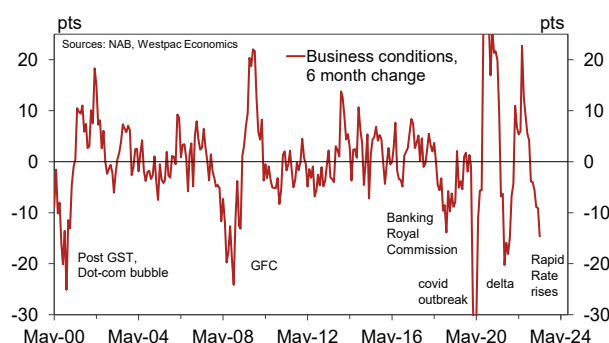
By state, the moderation of business conditions was broadly based, with readings for May across the mainland of: +7 Vic, +8 NSW, +9 SA and +11 Qld. The outlier is the mining state of WA, at +19.

As to purchase costs and final product prices, there was further confirmation that pressures have eased from their highs - but are still relatively high by historical standards (see chart over page).

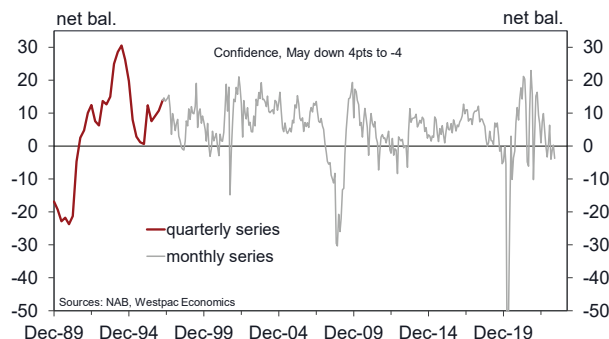
Labour cost grew at a reported 2.2% quarterly rate in May, which is well down from the highs of June and September quarters 2022. This is ahead of the Fair Work Commission decision on June 2 granting a 5.75% increase to minimum award wages.

Andrew Hanlan, Senior Economist

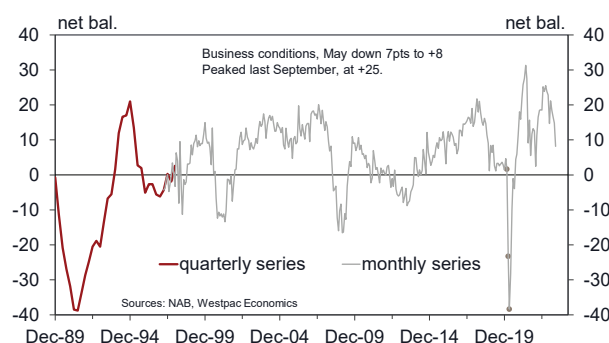
Business conditions cool as economy slows



Business mood fragile and soft



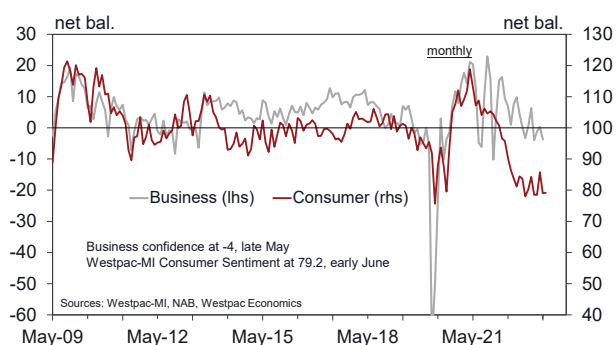
Business conditions: slowdown accelerates



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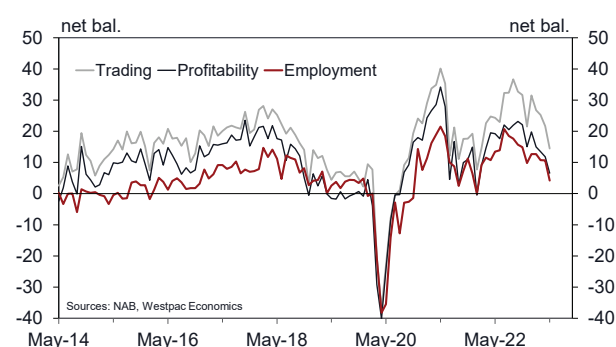
Confidence: consumers and businesses



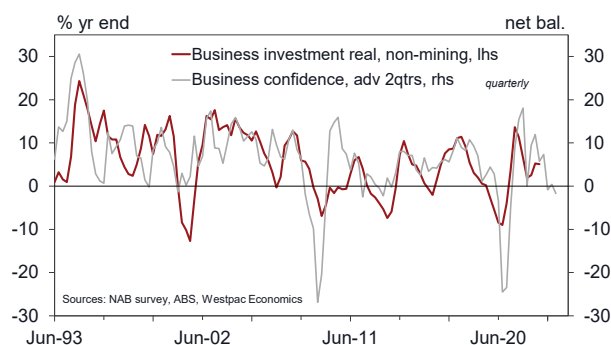
Forward orders weaken: down 6pts to -5



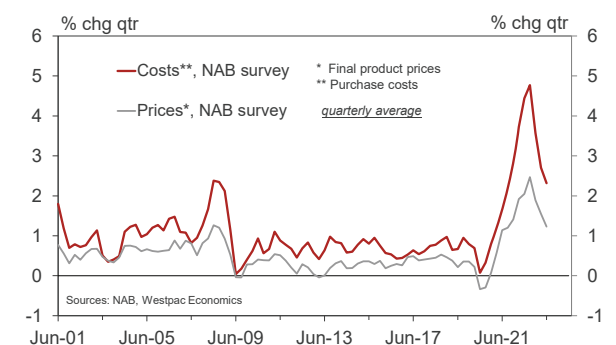
Business conditions: detail



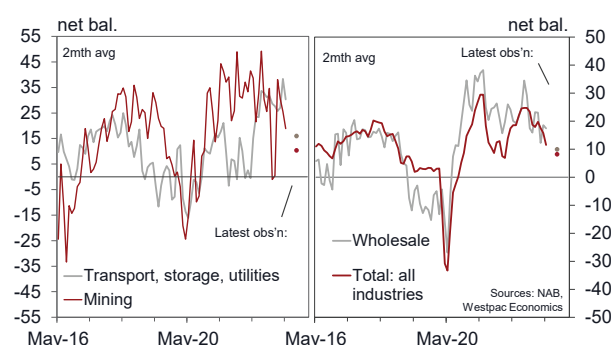
Business confidence and investment



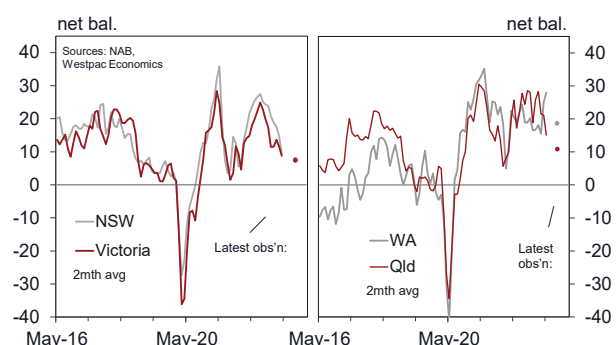
Cost and price pressures ease, but still elevated



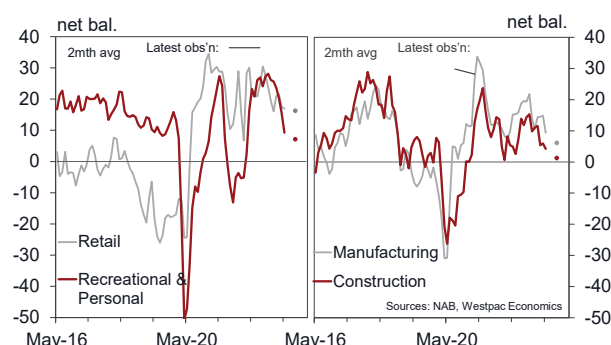
Business conditions, by industry



Business conditions, slowdown across states



Business conditions, broad based slowdown



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