

11 July 2023

## Australian business conditions & confidence, June. Trend slowdown confirmed. Forward orders, back-to-back falls. Business conditions: unchanged at +9. Business confidence: up 3pts to 0.

The sharp weakening of business conditions evident in May was confirmed in June, as forward orders record back-to-back declines, while business confidence remains soft and fragile.

These were the key finding of the latest NAB business survey. The survey was in the field from June 20 to 30.

The business conditions index held unchanged at +9 in June, locking in the sizeable 6pts decline reported in May.

That confirms a material slowing of economic activity in 2023, with the business conditions index well below the peak of the September quarter 2022, when it averaged +25.

It is clear that sharply higher interest rates, in response to high inflation, are impacting to slow activity. Official data also indicates a sharp slowing of the economy, with output growth stepping down to a weak 0.2% in the March quarter, from quarterly outcomes of around 0.6% each quarter throughout 2022.

Business confidence is fragile and soft against this backdrop of slowing demand - as it has been over the past nine months. The business confidence index remains at below average levels, notwithstanding a 3pts bounce in June, to be at 0, largely reversing a 4pts drop in May.

Leading indicators weakened over May and June, pointing to the prospect of a further slowing of the economy over the second half of 2023. Forward orders recorded back-to-back declines for the first time since late 2020, with readings of -5 and -2, for May and June respectively.

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 June, included: trading conditions down by 1pt to +14; profitability up 2pts to +9; and employment conditions unchanged at +5 - well down from the September quarter 2022 average of +19.

Capacity utilisation levels softened in June, down 1.2pts in the month, extending the trend moderation evident over the past nine months - in contrast to little change in the unemployment rate. That said, the economy is still operating at a relatively high level of capacity.

By industry, over the past three months, business conditions have weakened materially in the consumer sectors of retail and recreational & personal (with flow-on effects to manufacturing) - with consumers leading the downturn.

By state, in trend terms, the moderation in business conditions is broadly based - albeit with the extent of the slowdown more pronounced in NSW and Qld of late.

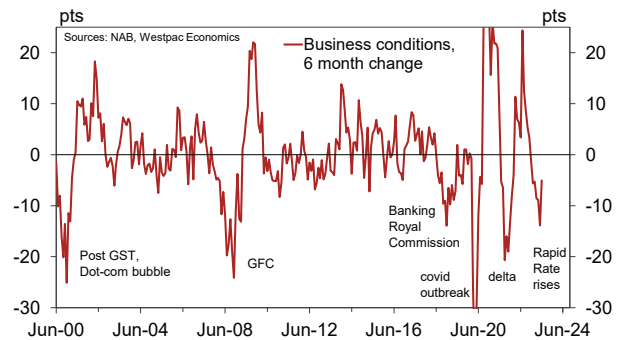
As to purchase costs and final product prices, pressures have eased from their peaks - but are still relatively elevated by historical standards (see chart over page).

Labour cost grew at a reported 2.6% quarterly rate in June, well down from the highs of June and September quarters 2022. This is ahead of any impact from the Fair Work Commission decision on June 2 granting a 5.75% increase to minimum award wages.

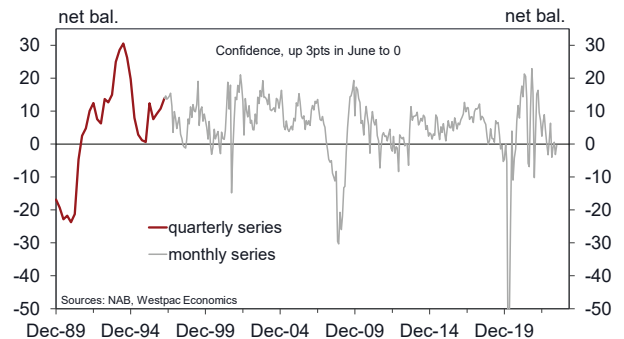
**Andrew Hanlan**, Senior Economist

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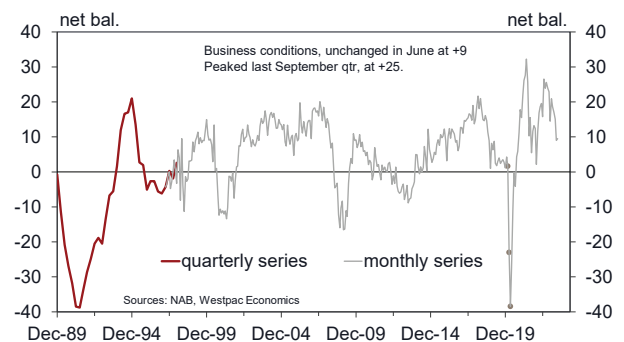
### Business conditions cool as economy slows



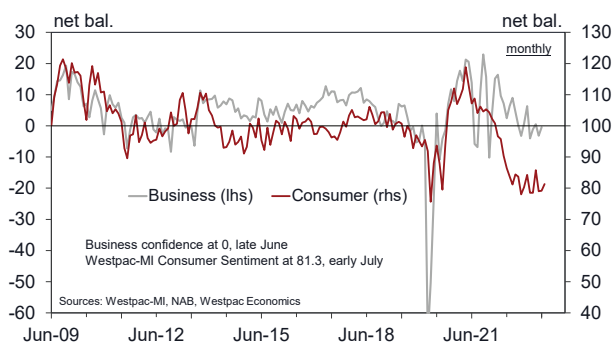
### Business mood fragile and soft



### Business conditions: trend downturn



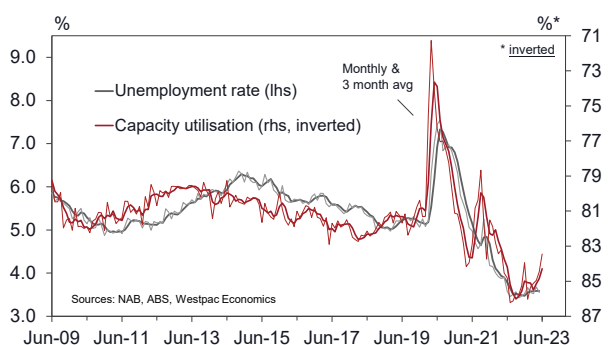
### Confidence: consumers and businesses



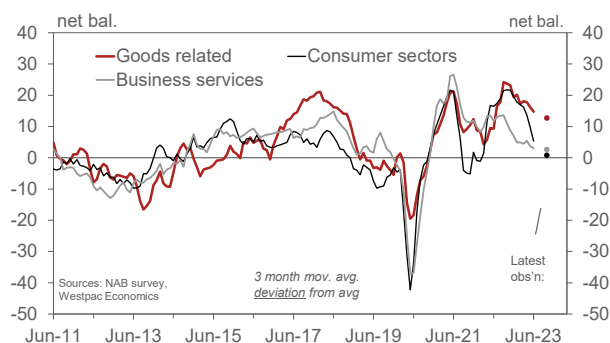
### Forward orders: back-to-back declines



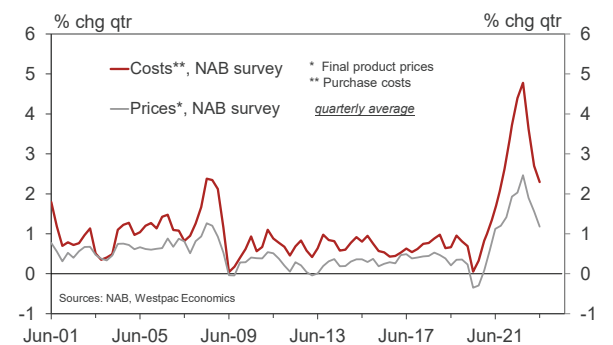
### Capacity utilisation off highs, still elevated



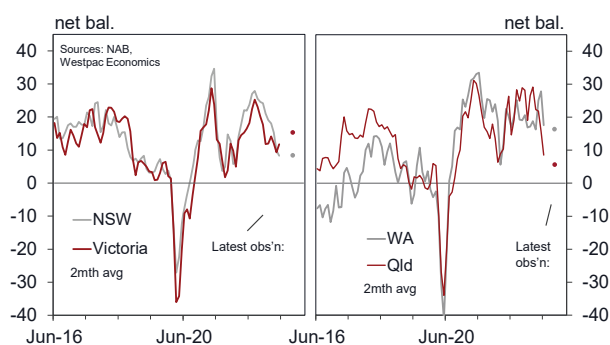
### Business conditions: by broad sectors



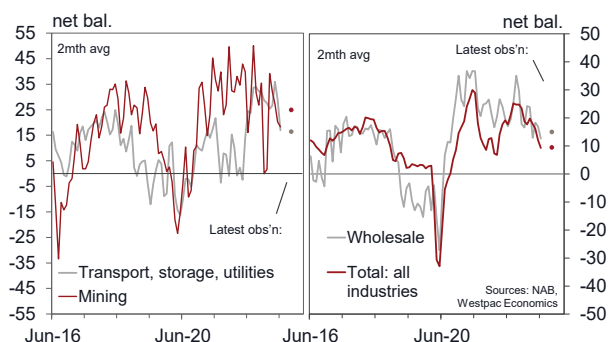
### Cost and price pressures ease, but still elevated



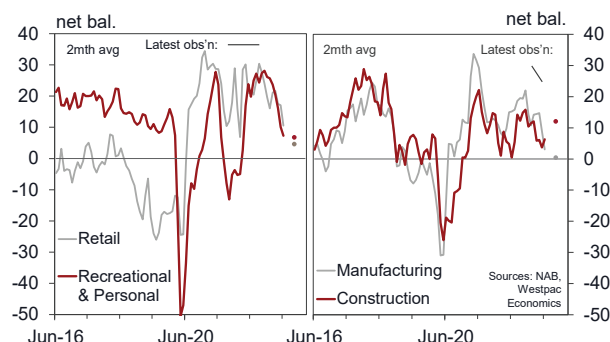
### Business conditions, slowdown across states



### Business conditions, by industry



### Business conditions, broad based slowdown



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