

8 August 2023

## Australian business conditions & confidence, July. Confirmation of economic slowdown, fragile confidence. Business conditions: down 1pt to +10. Business confidence: up 3pts to +2.

The latest private business survey provided further confirmation of a trend cooling of business conditions, that business confidence is soft and fragile, and that forward orders are contracting. On the price front, July readings lifted across labour costs, purchase costs and prices, both final product and retail.

These were the key finding of the latest NAB business survey. The survey was in the field from July 19 to 31.

The business conditions index declined by 1pt to be at +10, in July. That extends the material slowing of economic activity over the past year, with the business conditions index well below the peak of the September quarter 2022, when it averaged around +25. In terms of monthly movements, business conditions took a sizeable step lower in May, down 6pts to +10, with readings broadly stable over June and July.

Notably, the intense headwinds of high inflation and sharply higher interest rates are adversely impacting the domestic economy.

Official data also indicate 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 during 2022.

The business conditions index detail for July, included: trading conditions unchanged at +16; profitability unchanged at +10; and employment conditions unchanged at +6.

Business confidence is fragile and soft against this backdrop of slowing demand. The business confidence index rose 3pts to +2 in July. The index, which fell to zero in October 2022, averaged zero over the past 10 months.

Forward orders declined for a third consecutive month, for the first time since 2019 (outside of the 2020 pandemic recession period) - pointing to the prospect of a further slowing of the economy over the second half of 2023. Forward orders printed -5 for May, -2 for June and -1 for July. The survey reports that retail forward orders are deeply negative, weighing down the overall result.

Capacity utilisation rose in the month, reversing the June dip, to be down on levels in Q3 2022 - but still well above average.

By industry, the trend weakening of business conditions since the September quarter 2022 is broadly based. Since the start of 2023, the trend slowdown is most apparent in: recreational & personal (likely reflecting households trimming discretionary spending); manufacturing; and transport & utilities.

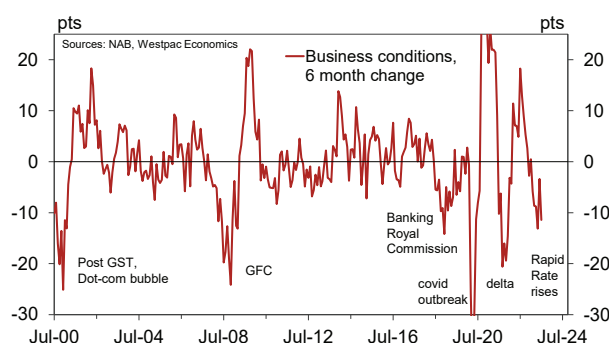
By state, the trend moderation in conditions over the past year is broadly based, while during 2023, conditions have cooled most notably in Qld, bringing them more into line with NSW and Victoria.

Labour costs lifted in July, the survey reported, reflecting wage rises taking effect on July 1, including minimum and award wage changes.

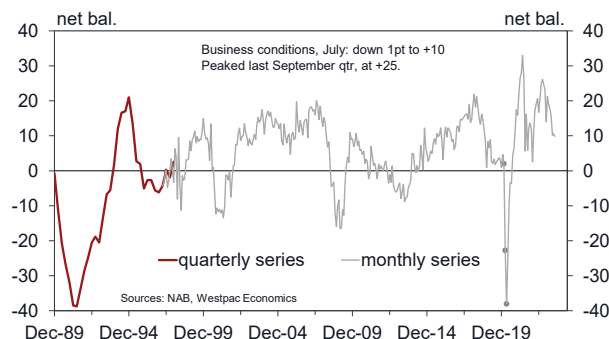
Prices lifted in July, but remain well below their peaks, the survey reports. Purchase costs lifted from a 2.2% quarterly rate in June to 2.6% in July, with energy costs a factor. Final product prices lifted from 1.0% in June to 2.0% in July, while retail prices lifted from 1.4% to 2.6%. With this July uptick in prices at odds with the trend moderation evident of late developments over coming months will be watched closely.

**Andrew Hanlan**, Senior Economist

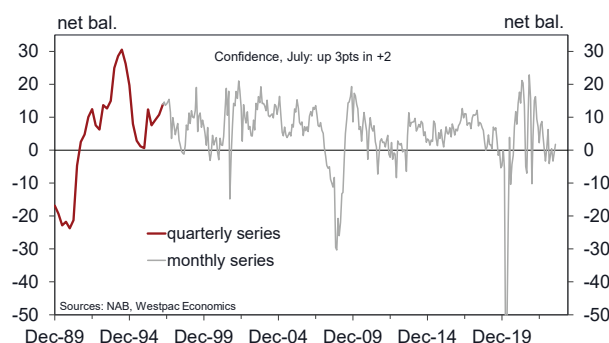
### Business conditions cool as economy slows



### Business conditions: trend downturn



### Business mood fragile and soft



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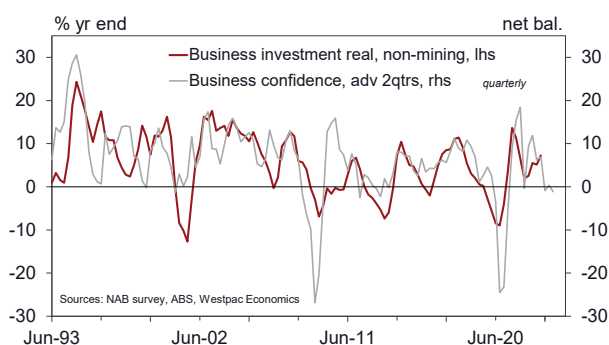
## Business conditions: detail



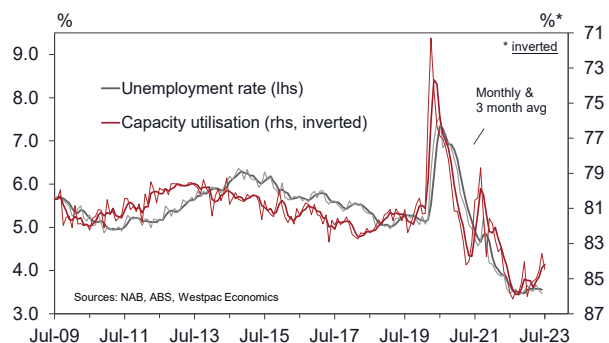
## Forward orders: contract for a 3<sup>rd</sup> month



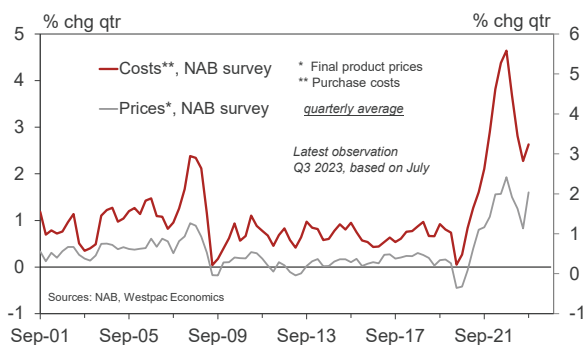
## Business confidence and investment



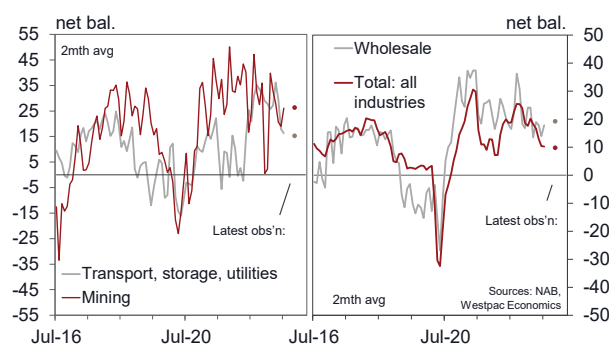
## Capacity utilisation off highs, still elevated



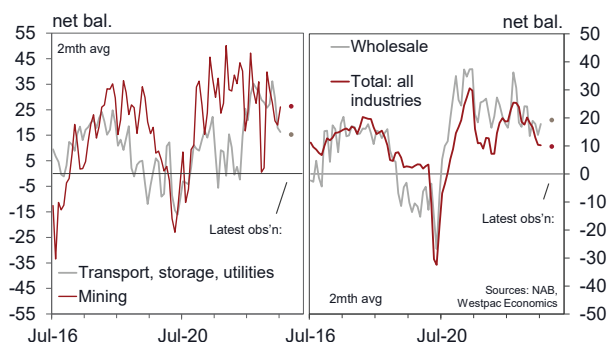
## Cost and price pressures: lift in July



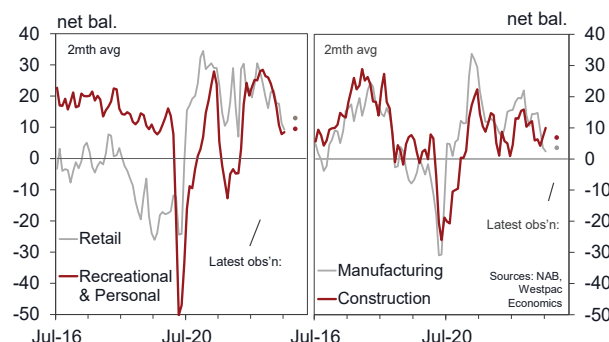
## Business conditions, by industry



## Business conditions, by industry



## Business conditions, broad based slowdown



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