

12 September 2023

Australian business conditions and confidence, August. Conditions consolidate in mid-2023, at lower levels. Business conditions: up 2pts to +13. Business confidence: up 1pt to +2.

The latest private business survey reports a consolidation of business conditions in mid-2023, at levels well down from the highs of 2022. Forward orders are weak. Confidence is soft and fragile.

These were the key finding of the latest NAB business survey, which was in the field from August 15 to 29.

The business conditions index rose in August, up by 2pts to +13. The index, having taken a sharp step lower in May, down 5pts, consolidated over the following 3 months. That still has the index well down from the highs of late 2022, when it averaged +25 through September to November.

Official data, including the recent June quarter National Accounts, describe a material slowing of the economy. Output growth has moderated from 2.7% for 2022 to a 1.5% annualised pace over the first half of 2023. From here, we anticipate a modest further deceleration, with output growth forecast to be around a 1% annualised pace for both the second half of 2023 and the first half of 2024.

The economic downturn is centred on consumer spending, which grew by only 0.8% annualised over the first half of this year. Real household disposable income is contracting, despite labour market resilience, squeezed by high inflation, higher interest rates and additional tax obligations.

The business conditions index detail for August, included: trading conditions up 1pt to +18; profitability up 2pts to +13; and employment conditions up 3pts to +9 (to still be below the +13 prevailing at the start of this year).

Business confidence is fragile and soft against this backdrop of more subdued conditions. The business confidence index edged higher in August, up 1pt to +2. The confidence index has averaged zero over the past 11 months, from last October - which is below the low run average of +5.

Forward orders were flat in August, after contracting for three consecutive months, May through to July. The survey states that weakness in retail orders is weighing down the overall result. Within retail, car retail is particularly negative, while personal & household is also negative. The survey suggests that car retail order weakness may be around the declining backlog of orders as supply improves.

While capacity utilisation is below the peak of 2022, it remains elevated - indicating that the economy is still operating at a high level of capacity (as is also true for the labour market).

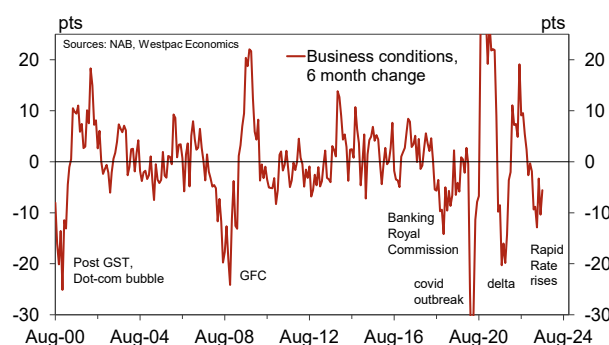
By industry, business conditions in the construction sector have improved of late, to average +11 over the 3 months to August, up from +5 from February to May. We note that this may reflect an easing of supply shortages, plus a sizeable work pipeline, as well as drier weather. Conditions in recreational & personal have reportedly broadly stabilised over the past three months.

By state, business conditions in NSW, having weakened through to May, stabilised over recent months. We note that this against a backdrop of some improvement in the housing market - with prices and new lending lifting from March.

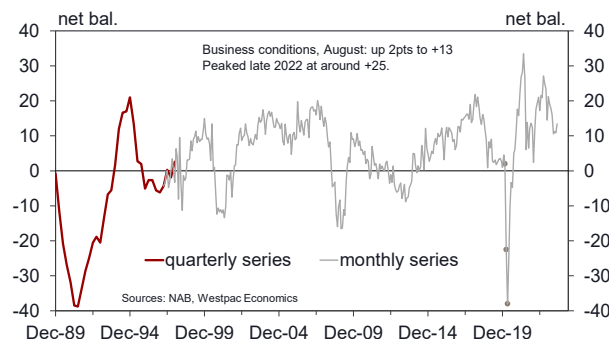
Labour and price measures are down from earlier peaks but remain elevated by historical standards, the survey reports (see chart overleaf).

Andrew Hanlan, Senior Economist

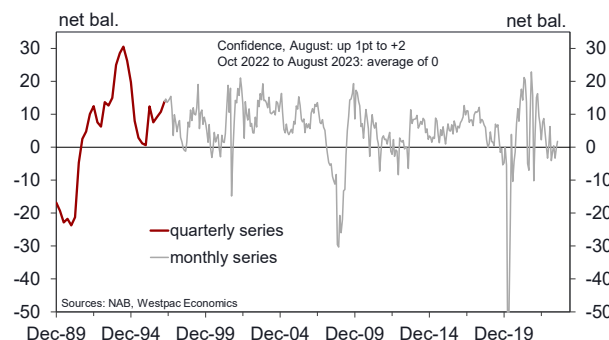
Business conditions down from 2022 highs



Business conditions: consolidate in mid-2023



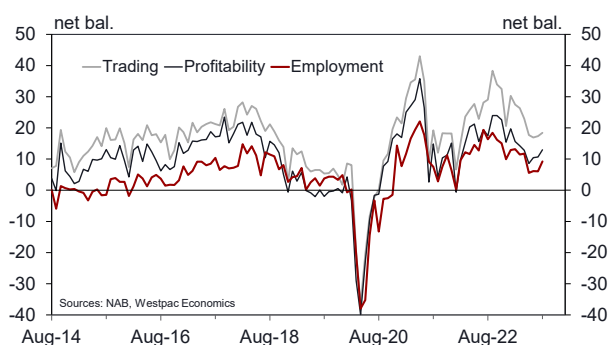
Business mood soft and fragile



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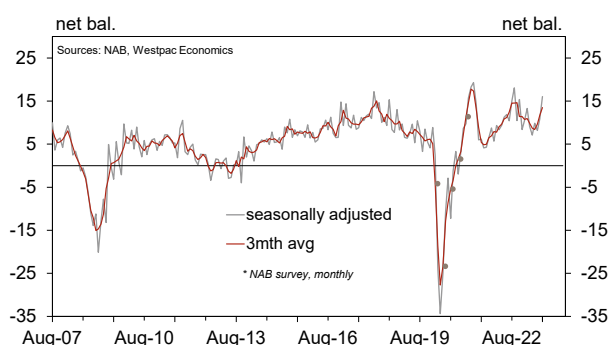
Business conditions: detail



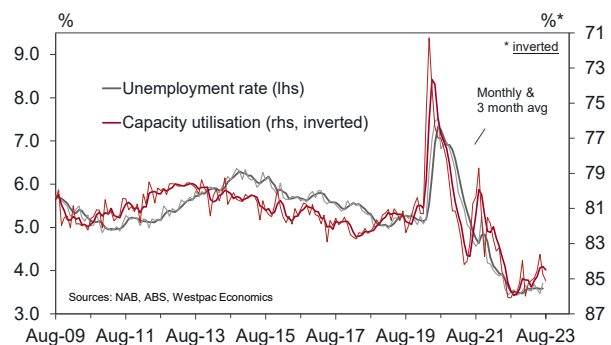
Forward orders: flat after 3 months of falls



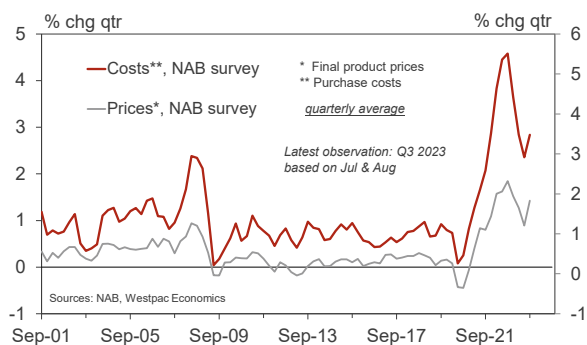
Capital expenditure index: resilience



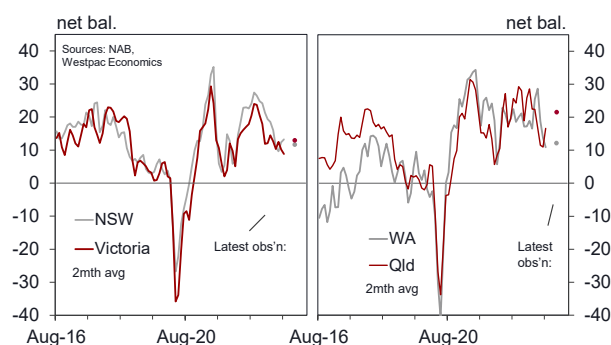
Economy still operating at high level of capacity



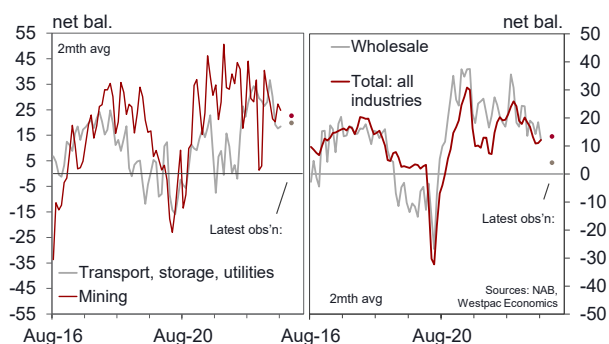
Cost and price pressures



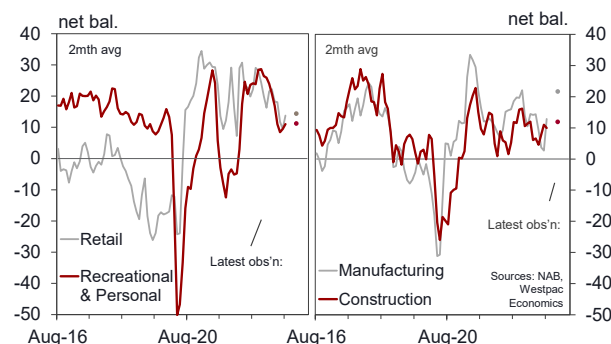
Business conditions: by state



Business conditions, by industry



Business conditions: by industry



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Disclaimer continued

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