

10 October 2023

## Australian business conditions and confidence, September. Cost and price pressures ease as conditions moderate. Business conditions: down 3pts to +11. Business confidence: flat at +1.

Business conditions moderated in September and business confidence remains soft and fragile. These messages from the latest business survey come as no surprise.

The new information was a material easing of cost and price pressures in the month of September. If sustained, that would point to a further deceleration of inflation and likely keep the RBA on hold - consistent with our expectation that rates have peaked.

These were the key finding of the latest NAB business survey, which was in the field from September 18 to 28.

The business conditions index declined in September, down by 3pts to +11. That is well below the +25 high of late 2022, consistent with the loss of momentum in the Australian economy as reported in the National Accounts. Economic growth has slowed from 2.7% for 2022 to a 1.5% annualised pace over the first half of 2023.

At +11, the business conditions index has moved sideways since May. We anticipate that the economic slowdown, which has been centred on consumer spending and home renovations, will broaden. Negative feedback effects, and the already apparent hit to company profits, will in time see firms temper their spending decisions - both on equipment investment and hiring.

The business conditions index detail for September, included: trading conditions down by 3pts to +16; profitability down 6pts to +8; and employment conditions down 2pts to +8.

Business confidence is fragile and soft against this backdrop of more subdued conditions. The business confidence index was unchanged at +1. The confidence index has averaged -0.2 over the past 12 months - which is well below the low run average of +5.

Forward orders were up but still soft in September at +2. That follows declines for the three months to July and a flat August reading. It may be that businesses have brought forward their orders ahead of the Christmas / New Year holiday period - as we saw in 2022 - given some lingering concerns around supply.

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, a cooling of business conditions became more broadly based in September (except for manufacturing). By state, the trend moderation of business conditions is broadly based across the states.

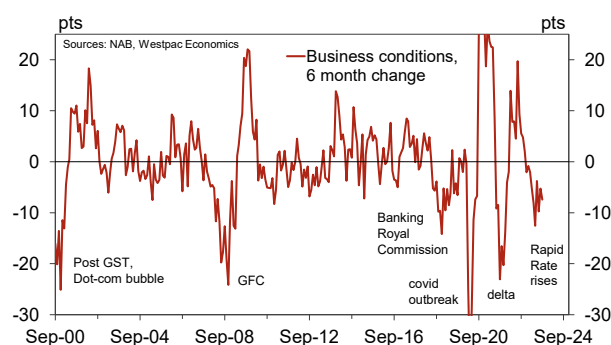
Cost and price pressures reportedly eased in the month of September - which, if sustained, would represent a significant further shift. This development echoes the positive results in the September quarter ACCI-Westpac business survey.

Purchase costs increased at a 1.8% quarterly pace in the September month, the NAB survey reports - that is the slowest pace since mid-2021. Final product prices rose at a 1.0% quarterly pace in the month (with an easing reportedly centred on recreational & personal services) - also the slowest pace since mid-2021.

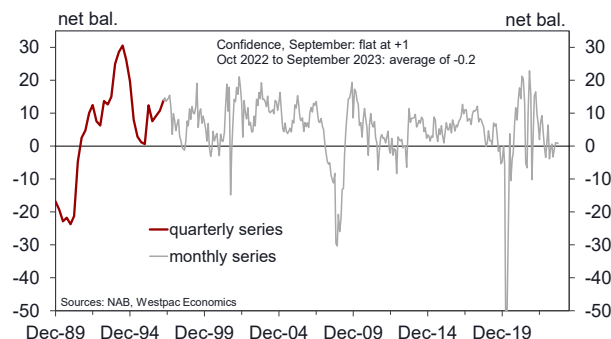
Labour costs, having lifted in July on the minimum wage decisions and higher award wages, cooled in the month of September. The 2.0% quarterly pace for the month was the softest reading since November 2021.

**Andrew Hanlan**, Senior Economist

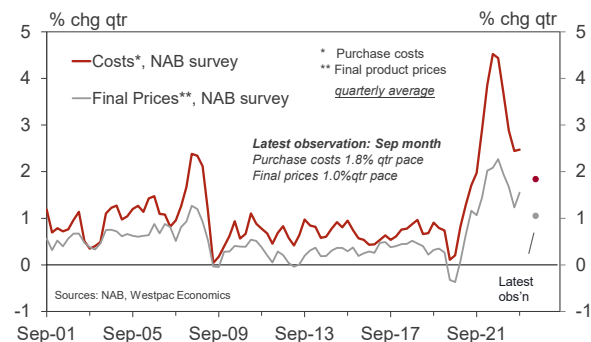
### Business conditions down from 2022 highs



### Business mood soft and fragile



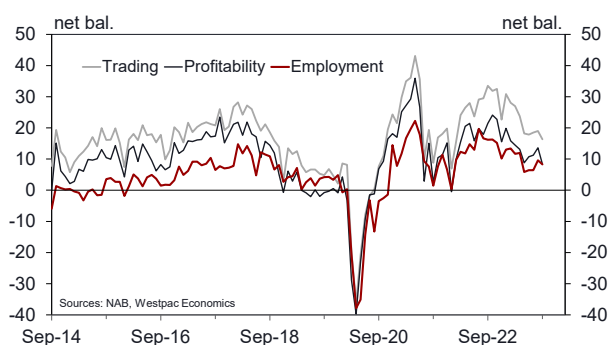
### Cost and price pressures: ease in September



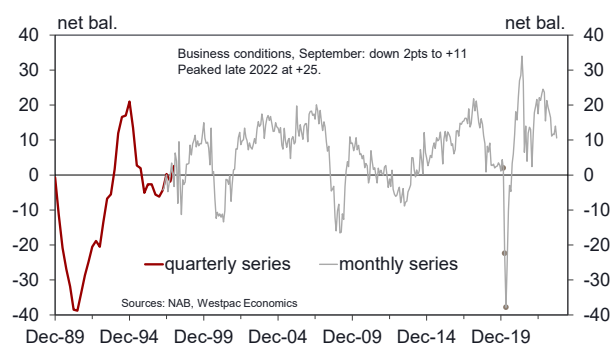
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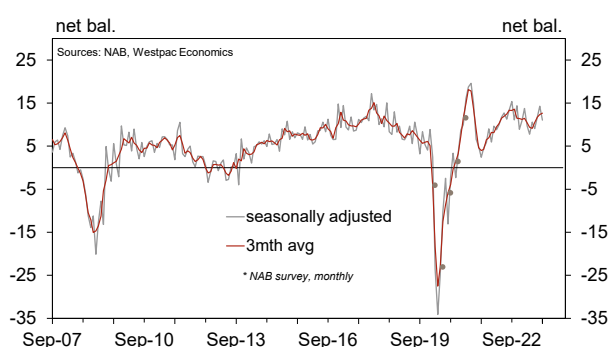
## Business conditions: detail



## Business conditions: moderate in 2023



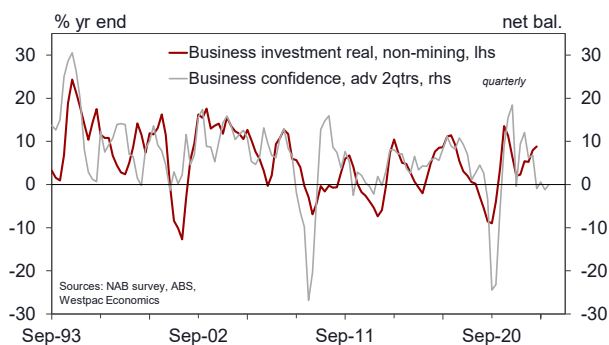
## Capital expenditure index: resilience



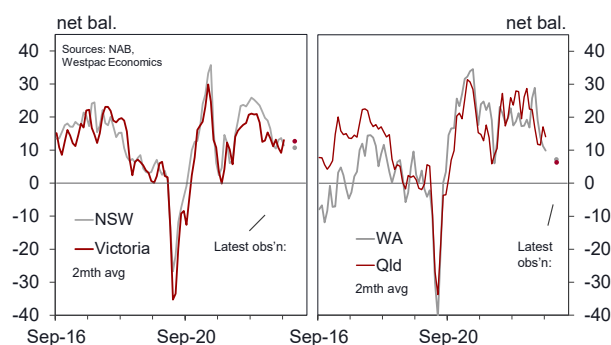
## Forward orders: soft but up in Sep, at +2



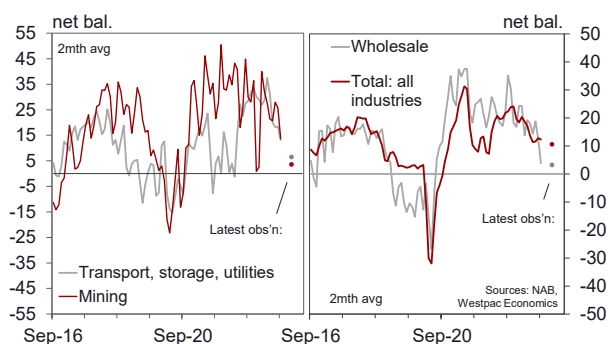
## Business confidence and investment



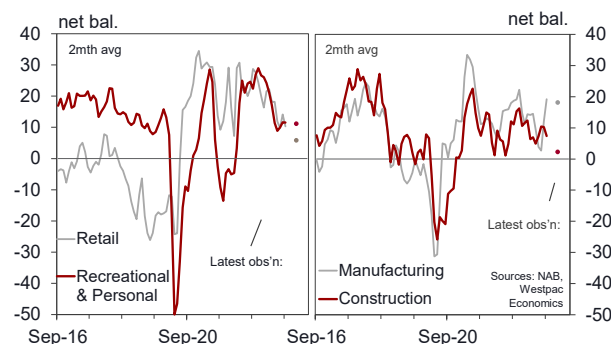
## Business conditions: by state



## Business conditions, by industry



## Business conditions: by industry



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