

14 November 2023

Australian business conditions and confidence, October.

Confidence soft as price and cost pressures ease at slower pace.

Business conditions: up 1pt to +13.
Business confidence: down 2pts to -2.

The material easing of cost and price pressures that was evident in September persisted through to October, albeit at a slower pace, as business confidence remains soft and fragile.

These were the key findings of the latest NAB business survey, which was in the field from October 25 to 31.

The business conditions index consolidated in October, rising 1pt to +13. That is still well below the peak of +25 back in late 2022 and is consistent with official evidence that the Australian economy is in the midst of a gradual slowdown.

We continue to anticipate that this slowdown will broaden as the full impact of high inflation and the RBA's rapid tightening cycle continues to materialise. Output growth has already slowed from 2.7% in 2022 to a 1.5% annualised pace over the first half of 2023, and we expect a further slowing to around a 1.0% annualised pace for both the second half of 2023 and the first half of 2024.

The business conditions index detail for October included: trading conditions up 2pts to +20; profitability up 3pts to +12; and employment conditions down 1pt to +8.

Business confidence remains soft and fragile against this backdrop of subdued conditions. The business confidence index moderated 2pts to -2 and has averaged -0.3 since last October, well below the long-run average, at +5.

Forward orders retraced its mild gains in October, falling from +2 back to a flat level, as seen in August. These results are in the context of earlier weakness, having followed three consecutive months of declines between May and July.

While capacity utilisation is below the peak seen last year, it remains elevated versus history – indicating that the economy is still operating at a high level of capacity. That signal is also confirmed by the fact that the unemployment rate has remained little-changed at a near fifty-year low, although tentative signs of softness are beginning to emerge.

By industry, October's consolidation in conditions was a result of a bounce-back across mining, construction and transport, partly offset by weakness in manufacturing, and to a lesser extent wholesale trade.

By state, the trend slowdown in conditions remains broadly-based, while confidence continues to soften across the board.

Purchase costs increased at a 1.8%qtr pace in the October month, down slightly from the 2.0%qtr pace reported in September and well below the 2.8%qtr pace from August.

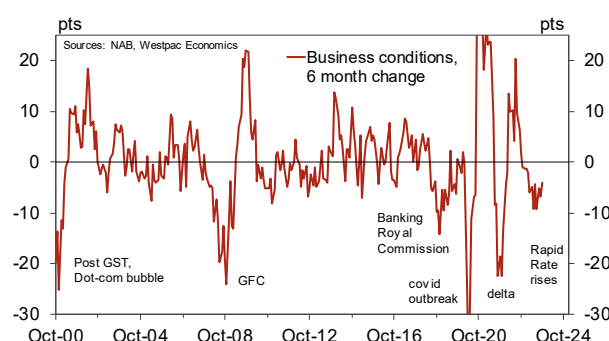
Meanwhile, final product prices rose at a 1.0%qtr pace, a touch below September's 1.1%qtr pace and again, well below August's 1.8%qtr print.

Labour costs, having lifted materially in July upon the increase in the minimum wage and awards, continued to cool in October but at a slower pace, down from 2.1%qtr to 1.8%qtr.

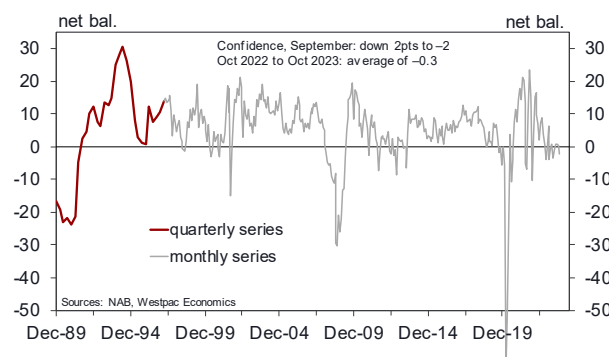
Taken together, all three of these indicators are currently tracking their softest pace since mid-late 2021; if sustained, it would continue to point to a deceleration in inflation pressures.

Ryan Wells, Economist

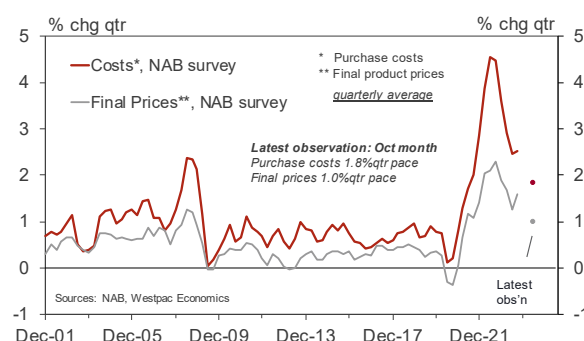
Business conditions down from 2022 highs



Business mood soft and fragile



Cost and price pressures: ease in October



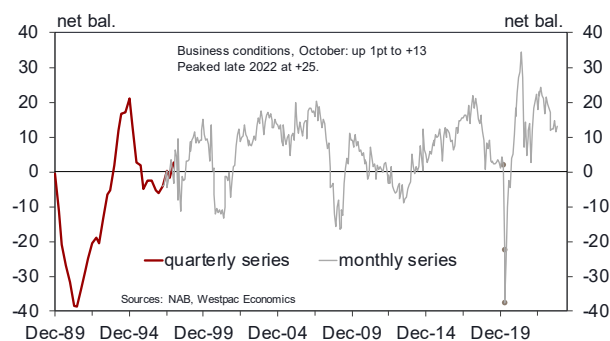
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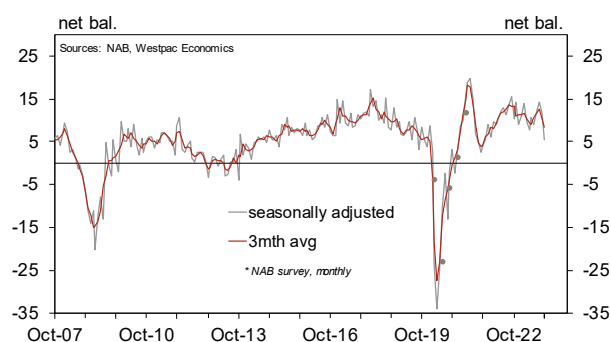
Business conditions: detail



Business conditions: moderate in 2023



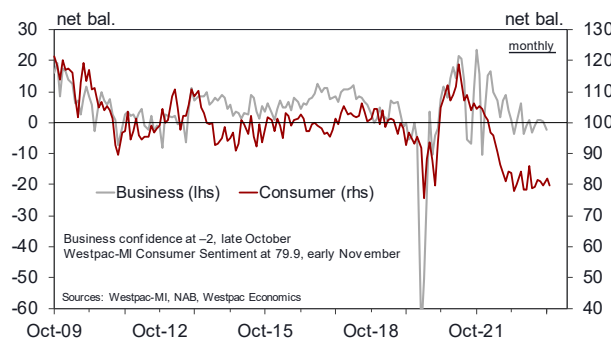
Capital expenditure index: resilience



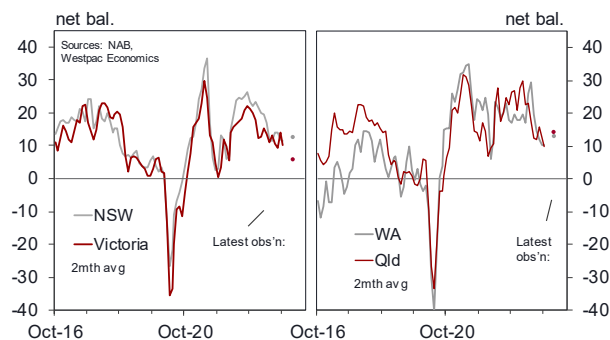
Forward orders: soft in Oct, back to flat



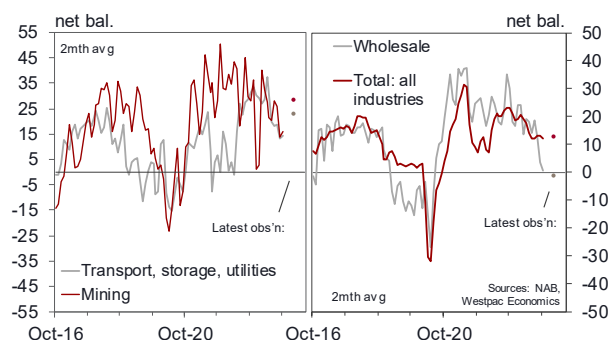
Confidence: consumers and businesses



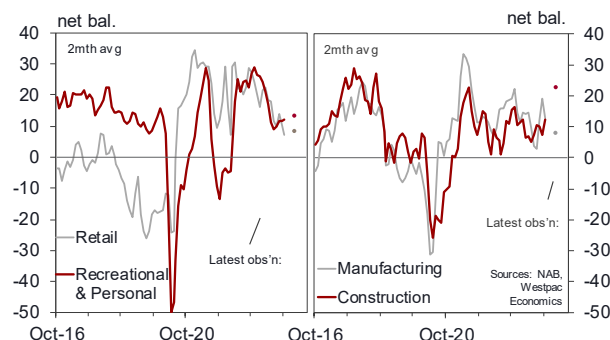
Business conditions: by state



Business conditions, by industry



Business conditions: by industry



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Disclaimer continued

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