

23 January 2024

Australian business conditions and confidence, December. Case for rate cuts in 2024 builds as economy weakens further. Business conditions: down 2pts to +7 Business confidence: rebounds 7pts to -1

Another month, another sobering update on the Australian economy.

The latest private business survey supports our long-held view that the RBA will pivot in 2024, delivering rate cuts as policy is moved to a less contractionary stance. We anticipate that the next move in rates will be a cut delivered in the September quarter.

Businesses remain pessimistic (notwithstanding a bounce in December) as business conditions moderated further. The substantial economic slowdown has translated into a material easing of inflation pressures into year end.

These were the key findings of the latest NAB business survey. While this is the "December" survey it was in the field from January 3 to 15 - with the usual delay due to the Christmas period.

With the survey conducted over the summer holiday there is the potential for additional noise in the data. On our reading of the key headline results, that does not appear to be the case. The update is consistent with underlying trends and official data.

The business mood remains pessimistic, notwithstanding the index rebounding from a deeply negative -8 in November (post the RBA rate hike) to -1. That is a well below average reading, by some 6pts.

This downbeat mood is alongside a material economic slowdown as high inflation and sharply higher interest rates lead to a flatlining of consumer spending. Households are under intense pressure from sharply lower real household disposable income.

The business conditions index fell 2pts to +7. This included a further and material weakening of trading conditions, down 3pts to +9. That has trading conditions at a below average level (+12 on the monthly series). It is not since September 2020 that trading conditions have been weaker (outside a one-off in January 2022).

Forward orders are in a period of extended decline, contracting in 7 of the past 8 months, with a -3 reading for December.

This weak demand backdrop will see businesses respond by cutting investment spending and reducing hours worked by their workforce - as we anticipate and as suggested by trends in the official data.

Notably, the December Labour Force survey reported that hours worked contracted in the December quarter, down -0.4%, following a September quarter fall, down -0.8%. Over the two quarters, hours worked fell by -1.3%, on a par with the contraction during the GFC, -1.4%.

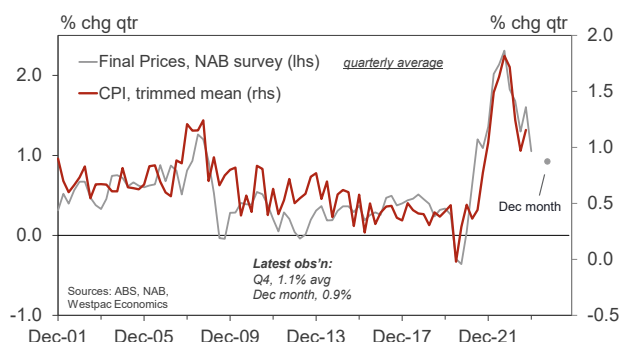
The NAB survey detail points to a cooling of business investment with the capital expenditure index moderating over the final months of 2023, to be at +5 in December, down from +13 for Q3.

Cost and price pressures have eased in the December quarter the survey reports, including notably softer readings for the December month - as to be expected as the economic downturn continues. Recall that cost and price pressures increased in the September quarter on the oversized rise in award wages.

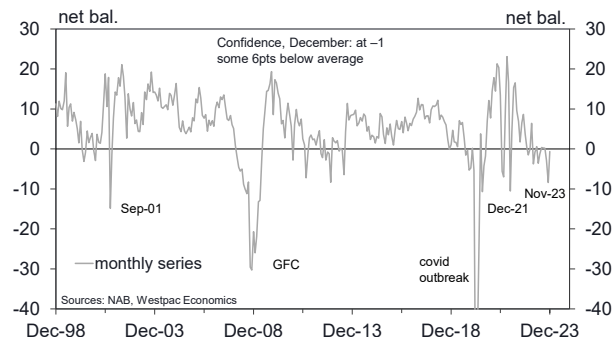
Final product prices eased to a 0.9% quarterly pace in the December month - the softest since February 2021, while for retail prices the figure was 0.6%, the softest since October 2020. A continuation of this trend would pave the way for RBA interest rate cuts in 2024, as we expect.

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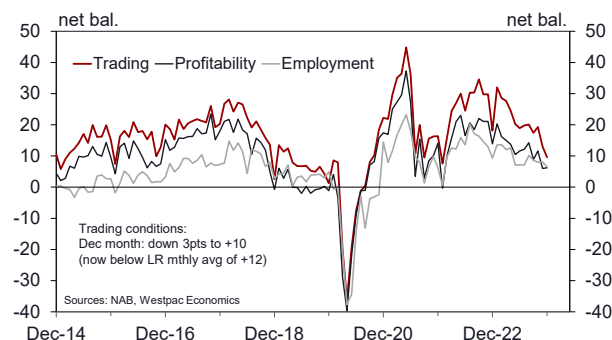
Cost and price pressures ease materially



Businesses remain pessimistic



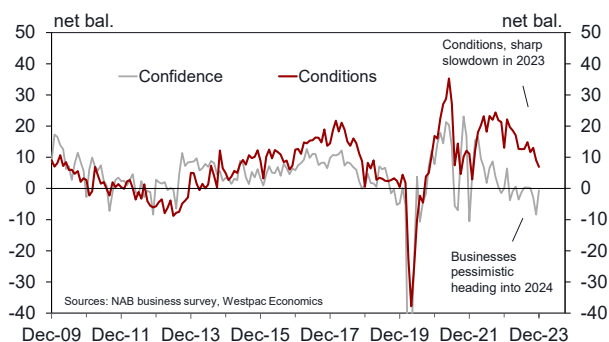
Trading conditions slide to below average levels



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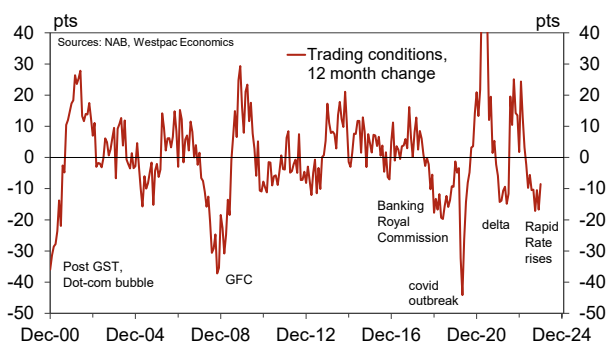
Business conditions and confidence



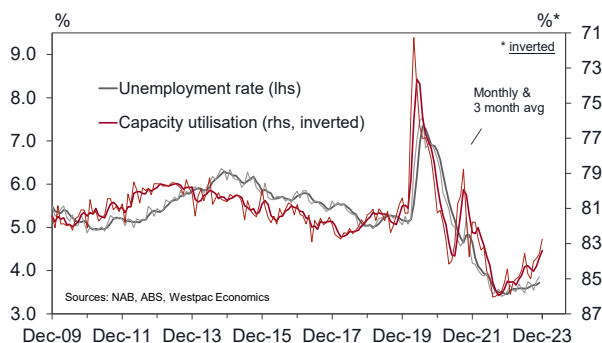
Forward orders: contract in 7 of past 8 months



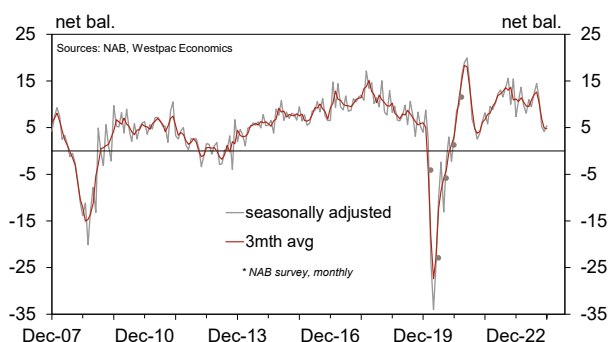
Trading conditions sharply lower in 2023



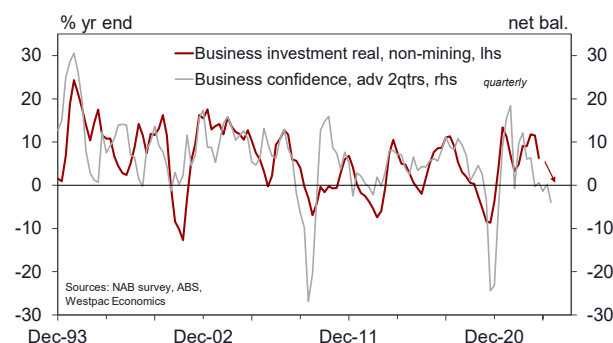
Capacity pressures easing



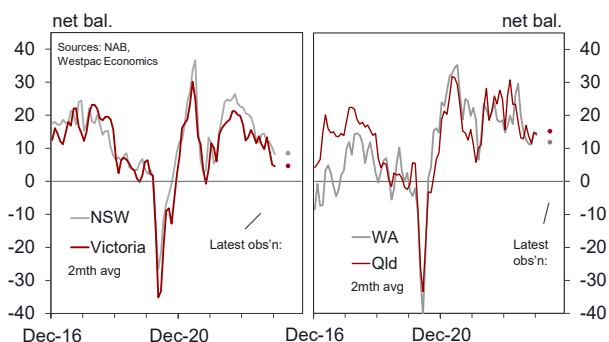
Capital expenditure index: weakens



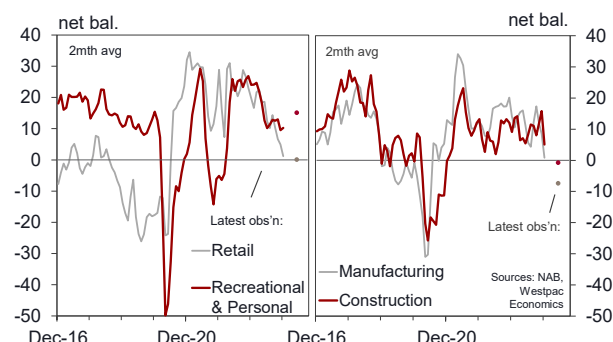
Business investment downturn ahead



Business conditions slowdown by state



Business conditions: by industry



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