

13 February 2024

Australian business conditions and confidence, January.

Economic slowdown rolls on, conditions at below average levels.

Business conditions: down 2pts to +6
Business confidence: up 1pt to +1

Business conditions reportedly softened further moving into 2024 and business confidence remains at low levels. The capex index declined further, while final product prices lifted somewhat from the lows of last month.

These were some of the main findings from the latest NAB business survey, conducted from January 24 to 31.

The key message from the survey is that the economic slowdown rolls on, with conditions - notably trading conditions - now at below average. The softening trend is consistent with official data - which indicate that growth slowed to crawl in the second half of 2023.

A word of caution, the December and January business surveys are conducted over summer holidays. We await the February update for a clearer guide to how conditions are beginning the 2024 year.

It is possible that readings taken over the holidays may exaggerate the extent of the slowdown - it is notable from the industry data that both manufacturing and construction industries stepped lower (see chart overleaf), sectors which are susceptible to a holiday lull, particularly in an economy lacking momentum.

The business conditions index declined by 2pts to +6, well down from +13 six months earlier and from +20 a year ago. Trading conditions, a guide to sales, exhibit a sharper slowdown. They fell a further 3pts to +8, a reading 4pts below their long-run average.

Forward orders, which printed -1 for January, continue to decline, month in month out, contracting in 8 of the past 9 months. This speaks to sustained soft domestic demand.

Across states, business conditions softness is broadly based. Of note, conditions reportedly cooled in January in the mining states of WA and Qld - the WA result representing a downside surprise given the resilience evident in the West through 2023.

The business confidence index rose 1pt to a still soft +1. This reading is some 4pts below the long run average.

Businesses will respond to this weak demand backdrop by becoming more cautious, trimming their investment spending and reducing hours worked by their workforce. The business survey and official data bear this out, meeting our broad expectation.

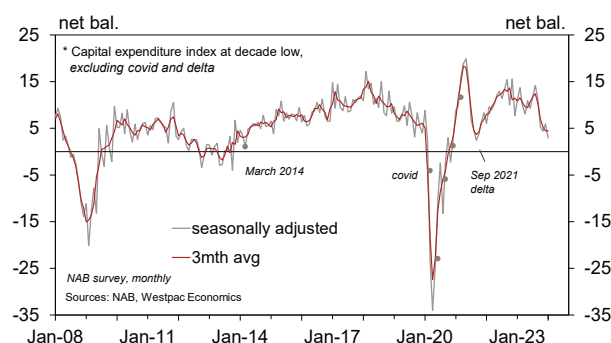
The NAB capital expenditure index is now at its lowest level in 10 years, since March 2014 (excluding the covid outbreak period and delta). The capital expenditure index moderated further in January, down 3pts to +3, extending the softer trend which emerged during the December quarter.

The Labour Force survey reports 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%.

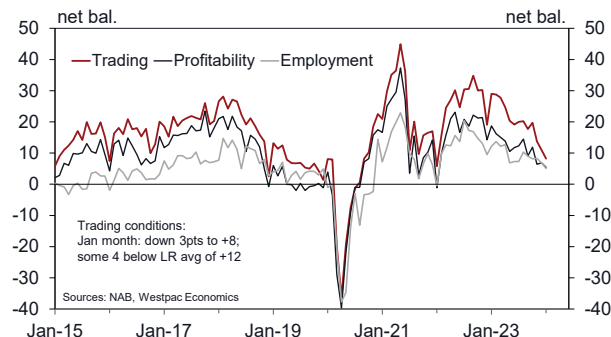
Cost and price pressures ticked higher in the month of January, but the trend remains one of moderation. Final product prices, having dipped to a 0.9% reading in December, rebounded fully to 1.2%, matching the November result.

Labour costs by contrast moved sideways, holding at a 2.0% rate. That is broadly in line with readings back at the start of 2022 and well down from the September quarter spike associated with the minimum wage decision (to 4.0% and 3.2% for July and August).

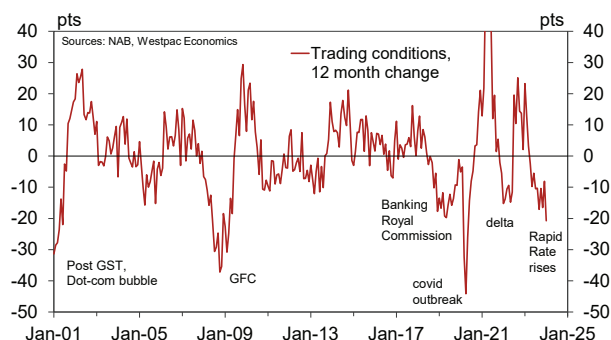
Capital expenditure index falls to 10 year low*



Trading conditions slide further below average



Trading conditions move sharply lower

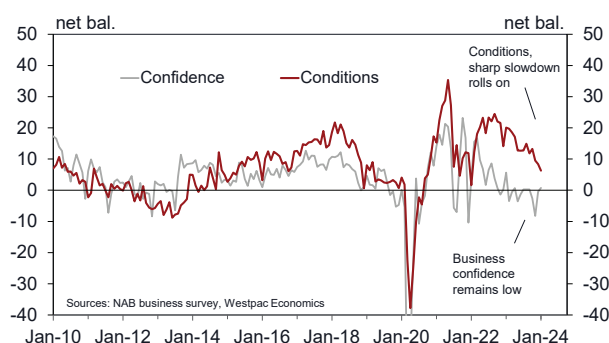


Andrew Hanlan, Senior Economist

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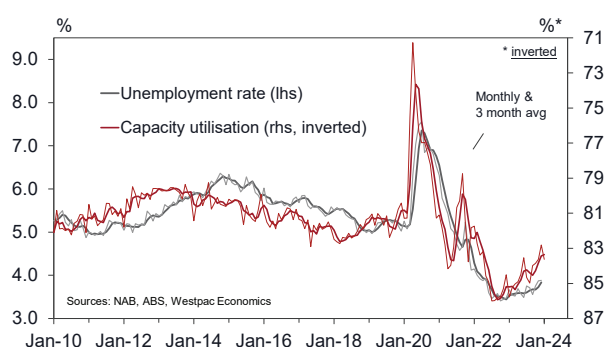
Business conditions and confidence



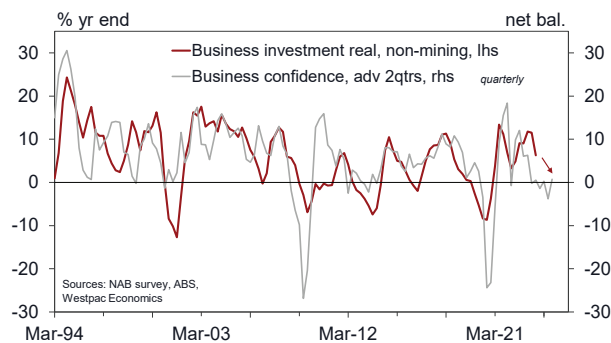
Forward orders: contract in 8 of past 9 months



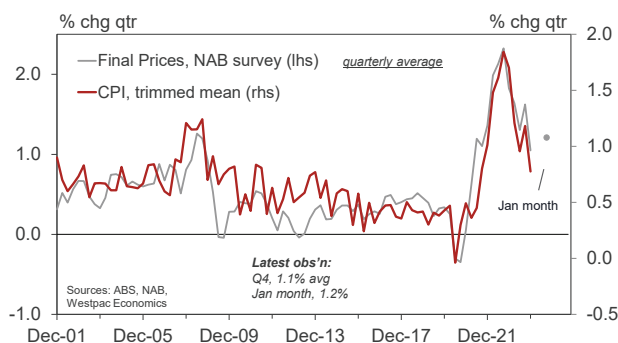
Capacity pressures, trend easing



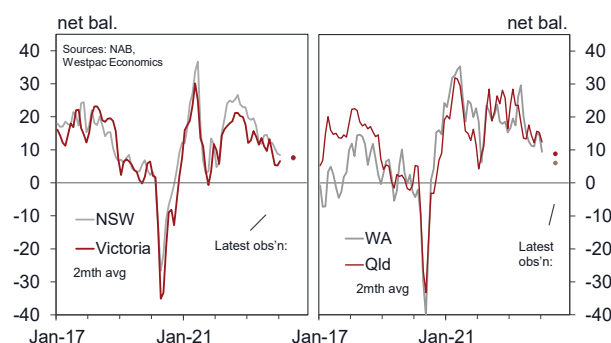
Business investment, unfolding slowdown



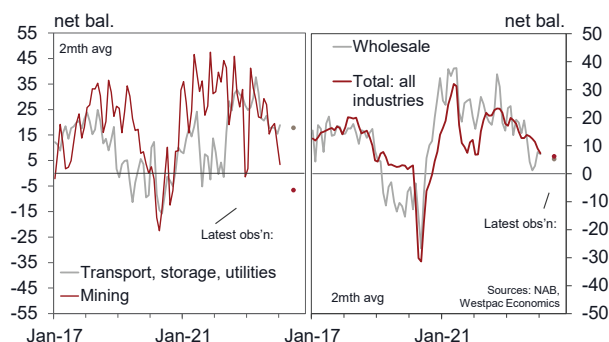
Cost and price pressures eased through 2023



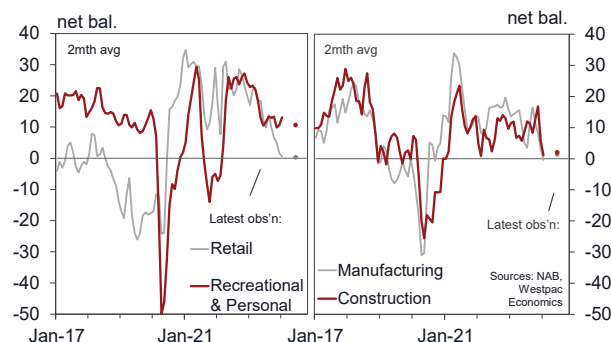
Business conditions slowdown by state



Business conditions, by industry



Business conditions: by industry



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