BULLETIN

13 May 2024

Australian business conditions and confidence, April. Employment conditions lowest in over 2 years.
Business conditions: down 2pts to +7
Business confidence: unchanged at +1

Business confidence and conditions were little changed in April. Conditions slipped 2 points to +7 index points. This is below the 10-year average but around the long-term average of the monthly series. Confidence was unchanged in the month, remaining just in positive territory, at +1 index points. Confidence among businesses has fluctuated around neutral levels for a little over 18 months, with occasional bumps higher or lower in certain months.

From a big picture perspective, little has changed in April. Conditions continue to gradually trend lower but remain around long-run average levels, while businesses are still cautious about the future. 2024 is expected to be a year of two halves. While conditions remain challenging in the first half of the year, a gradual recovery is expected to take place from the second half of 2024, before picking up more pace into 2025. This narrative broadly aligns with what we are seeing from this survey data.

Of note, the employment sub-component fell 5 points to +2 index points. This is the lowest level of employment conditions in more than 2 years and the first time this measure has fallen below the 10-year average since January 2022. Employment conditions have been trending lower since hitting a recent peak of just over 20 index points in mid-2022.

The labour market has been a key strength of the economy through this cycle. While a modest slowing has been in place since peak tightness levels around the end of 2022, this has occurred more slowly than expected. For example, the unemployment rate in March was 3.8% - not far above the low point of 3.5% in this cycle. This remains an area to watch for further evidence of a slowing in the labour market.

Across the other sub-components, trading conditions fell slightly in the month but remained around the series average. Elsewhere, profitability recovered slightly to +6 index points after falling to the lowest level in over 2 years in March.

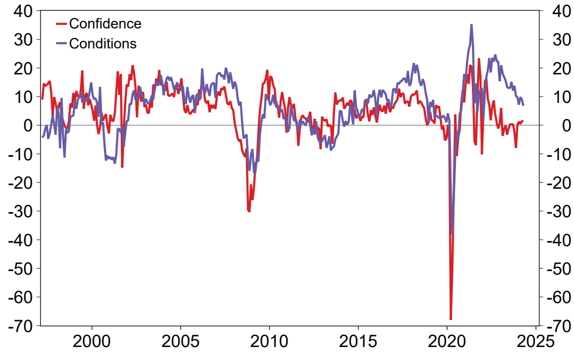
Leading indicators soured in April. Forward orders fell 6 points to -7 index points - the weakest since August 2020, when the economy was reeling from early impacts of COVID. This extends the consecutive run of negative prints to seven months and suggests that conditions are likely to continue to slide in months ahead. Separately, capacity utilisation was unchanged at 83.2%.

Measures of costs remain key areas to watch from this survey. The RBA and economists will place any price-related data under the microscope to confirm whether inflationary pressures are subsiding quickly enough for the RBA's liking. Here, we received some mixed but generally positive news that price pressures slowed marginally in April. Quarterly measures of labour and purchase cost growth - key inputs for businesses - were both weaker in the month, at 1.5% and 1.2%, respectively. Price pressures were slightly higher, at 0.9% on a quarterly equivalent basis, from 0.7% in March. However, encouragingly, retail price growth slowed to the second slowest pace since January 2021, at 0.9% on a quarterly equivalent basis.

Today's update does not impact the overall narrative and most measures continued to trend in an expected direction. Measures of cost pressures continue to ease, which is a positive sign for the RBA. The key question remains around the pace of disinflation but more data will be needed to ascertain whether we remain on track.

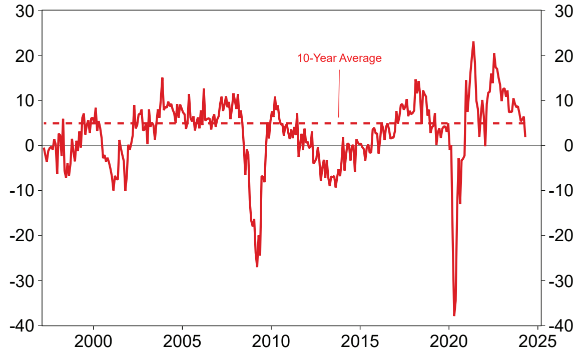
Jarek Kowcza, Senior Economist

Business Conditions & Confidence
Monthly, Index Points



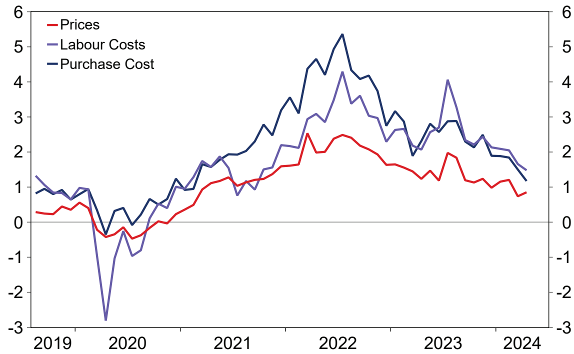
Source: NAB, Macrobond, Westpac Economics

Business Conditions
Employment Sub-Index, Index Points



Source: NAB, Macrobond, Westpac Economics

Cost and Prices
% change at qtrly rate



Source: NAB, Macrobond, Westpac Economics

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