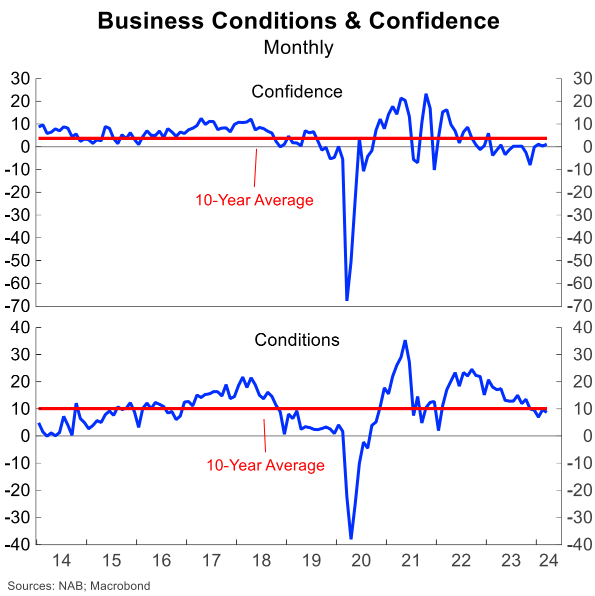
Data snapshot

Tuesday, 9 April 2024

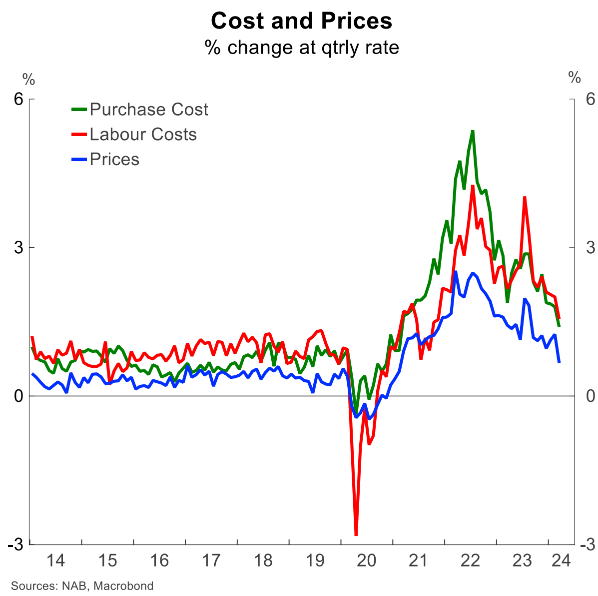
Business Confidence & Conditions

Treading Water With Positive Price Signals

- **Business confidence and conditions treaded water and moved generally sideways in March. Confidence rose 1 index point to +1 while conditions slipped 1 index point to +9. Confidence continues to hover around zero after bouncing around this level for 18 months. Businesses remain cautious regarding the outlook as higher interest rates from the Reserve Bank (RBA) are gradually slowing the economy and bringing supply and demand into better balance.**
- **Despite falling in the month, conditions remain above the series average and not far below their 10-year average. Conditions have held up through this cycle as the level of demand remained elevated and strong population growth added to aggregated growth. However, the general trend lower in conditions has been in place since they peaked in mid-2022.**
- **Profitability pulled back 4 index points, to more than unwind February's improvement. Profitability was at its lowest since January 2022 but remains slightly above average. Trading conditions, which typically move in the same direction as profitability, were up slightly in the month. The employment sub-index was also higher, as the labour market remains strong.**
- **Leading indicators improved at the margin but continue to point to a further slowdown ahead. Forward orders rose 3 index points but remained just in negative territory, at -1. This measure has been in contractionary territory for six consecutive months and for 10 of the past 12 months. Capacity utilisation slowed marginally to 83.2% but remained above average.**
- **In what will provide comfort for the RBA, cost pressures continued to ease and fell to their lowest levels since 2021. Labour cost growth eased to 1.6% in quarterly equivalent terms, the lowest since November 2021. Purchase costs and final prices were also lower, falling to 1.4% and 0.7%, respectively. These were the lowest reads for both measures since February 2021.**

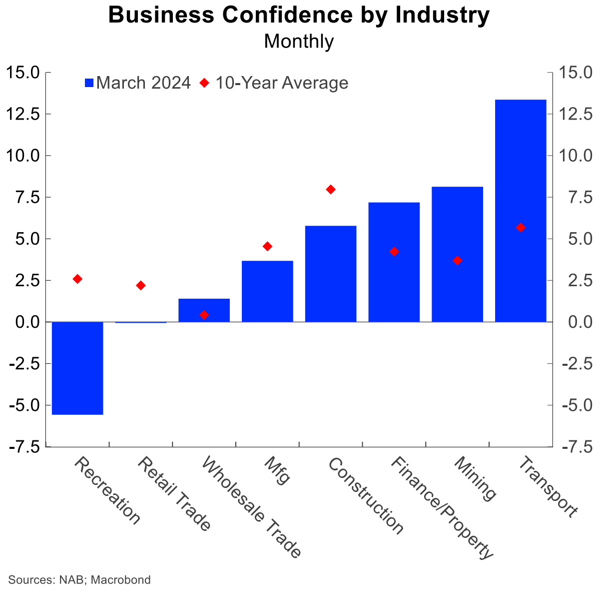


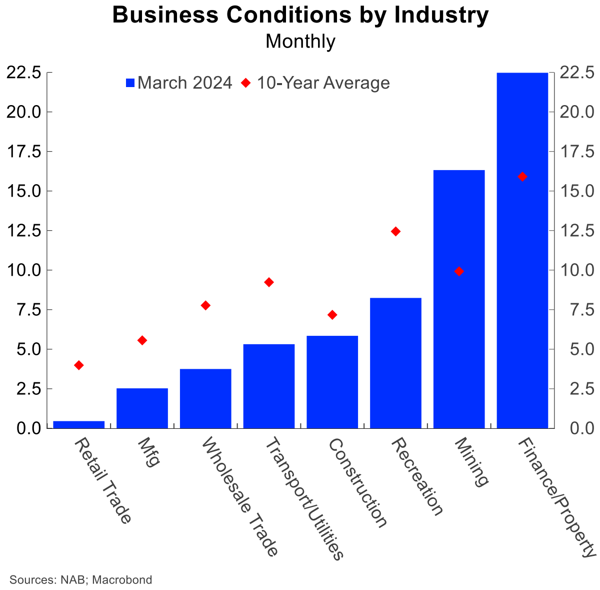
Sources: NAB; Macrobond



Sources: NAB, Macrobond

Today's outcome was in line with our view that 2024 will be a year of two halves. The year so far has largely reflected a continuation of the trends evident towards the end of 2023. Economic growth continues to slow and the consumer remains weak. These factors have been impacting businesses, particularly those most exposed to a weak consumer – such as retail and recreation. These industries have typically exhibited the lowest levels of confidence during this cycle and conditions are below average.





Labour market strength – a key standout through this cycle – has persisted as employment growth remains resilient and the unemployment rate fell back below 4% in February. In a positive for the RBA, leading indicators of price pressures – while sill elevated – continued to subside. This suggests that inflation is likely to continue trend back towards the RBA's target. This will be a slow process and upside risks cannot be ruled out, but progress has been positive so far.

For businesses, these factors are showing up in a slow grind lower in conditions and confidence bouncing around the neutral level. A material improvement in these measures is unlikely be forthcoming until the second half of 2024. By this point, inflation is likely to have continued to slow, support from fiscal policy will be flowing through the economy in the form of the revised stage 3 tax cuts, supporting household consumption and business confidence and conditions, and we expect the RBA to begin its rate cutting cycle.

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