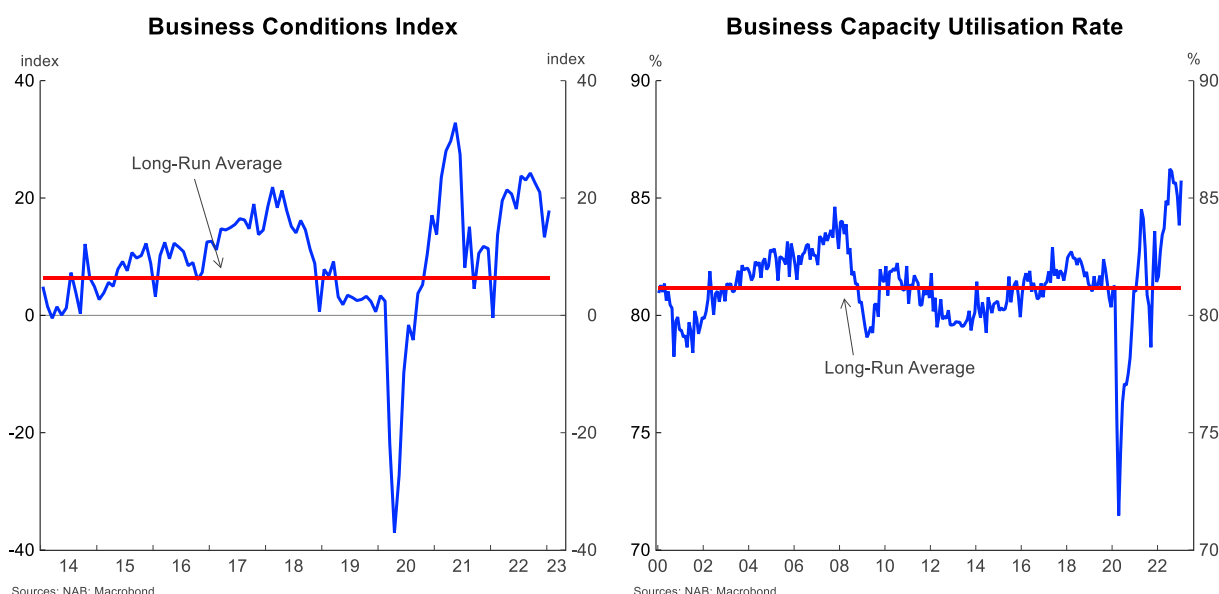


Tuesday, 14 February 2023

# Business Confidence & Conditions

## Businesses Enjoy a 'Happy New Year'

- Business confidence spiked 6 points to +6 in January, the first reading above zero since September. Confidence is now back around long-run average levels as the reopening of China and resilience in the US and Europe provided cause for optimism in January. Note the survey was conducted before the Reserve Bank's (RBA) meeting last week.
- Conditions rose 5 points to +18. Conditions have moderated from the peak of +24 recorded in September but remain elevated. Strong summer trading conditions underpinned the strength. The profitability and employment measures also improved and remain elevated.
- Demand appears buoyant despite retail data suggesting that conditions are starting to let up. Capacity utilisation, which measures the extent to which businesses are exhausting their resources, rose to a near-record high of 85.7%. Forward orders also picked up.
- Meanwhile, cost pressures reaccelerated after a marked slowdown over the second half of 2022. Purchase costs (3.2%), labour costs (2.7%) and final produce prices (1.7%) all rose in quarterly terms but remain below their peak from the middle of 2022.
- This suggests that supply remains the primary headwind for businesses. However, it is also an ominous sign for the inflation outlook and will reinforce the RBA's renewed resolve. These conditions increase the risk of inflation becoming entrenched.
- The strength in business conditions can only last as long as consumers can spend. And all indicators are pointing to a sharp decline in spending in 2023 as the delayed impact of rate rises and cost-of-living pressures mount. We expect business conditions will follow spending lower, albeit, with a lag.



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