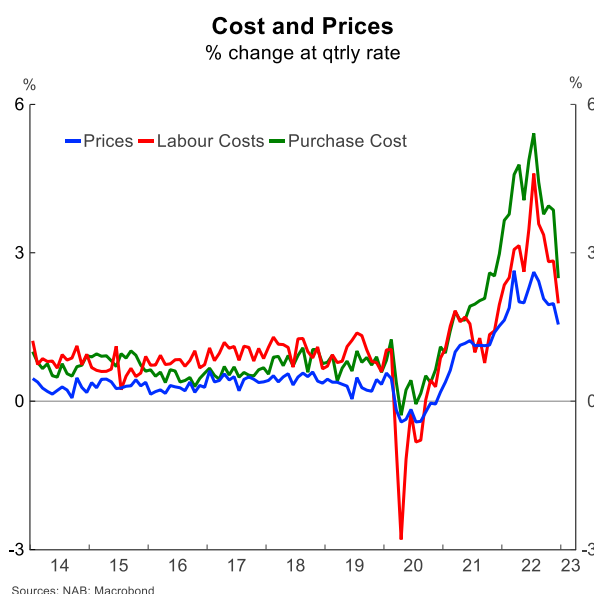
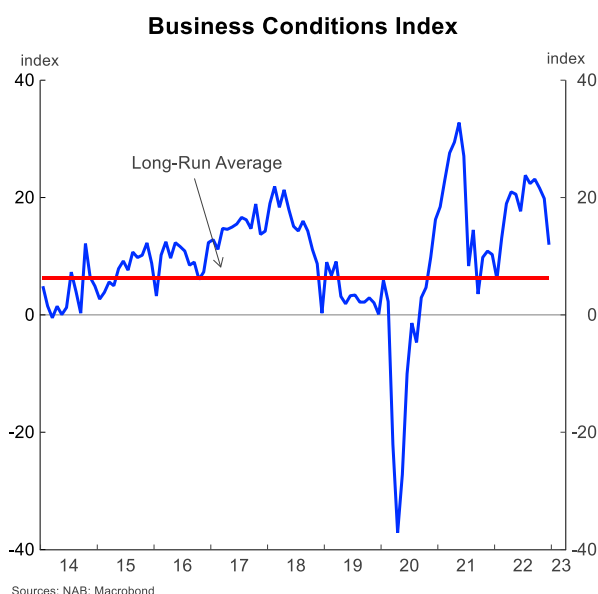


Tuesday, 24 January 2023

Business Confidence

Conditions Slide As Hikes Begin To Bite

- Business conditions declined for the third consecutive month in December, falling by 8 index points, to +12. This was the largest monthly decline in 15 months.
- Over the December quarter, conditions almost halved, declining by more than 11 index points. But encouragingly, conditions remain above average.
- Declining conditions reflect a slowdown in growth momentum as rapid interest-rate hikes and elevated inflationary pressures impact households and flow through to businesses. However, this has come through with a lag, as spending has been supported by a tight labour market, elevated household savings and pent-up demand.
- The trading, profitability, and employment sub-indices pulled back. Leading indicators also declined in the month. Forward orders, capacity utilisation and capital expenditure intentions were down. However, all measures remained above average and in positive territory.
- On the other hand, business confidence rose. Confidence increased from -4 index points in November, to -1 index points in December. Despite the slight uptick, confidence remains in pessimistic territory and is likely to remain under pressure as the economy slows in 2023.
- In a positive sign for inflation, cost pressures continue to ease from their 2022 peaks. Growth in final prices and inputs, such as labour and purchase costs, were weaker in the month.
- This data provides an early indication that business conditions pulled back significantly in late 2022. Business conditions are likely to continue to slide as economic activity slows, in line with our expectation of well below trend growth of around 1% in 2023.



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