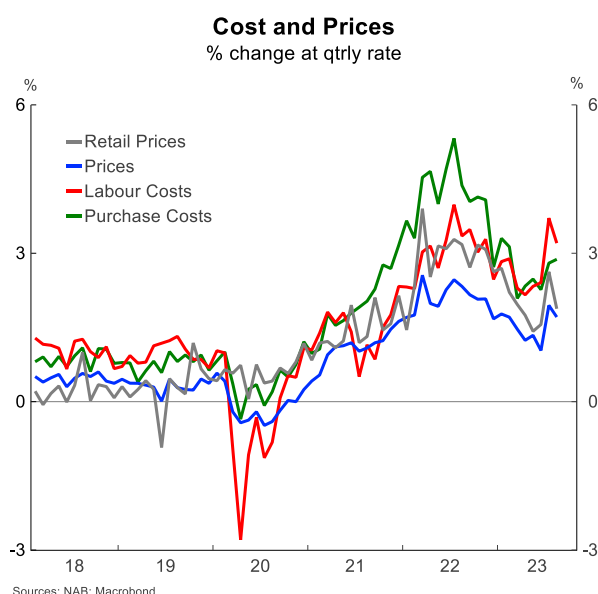
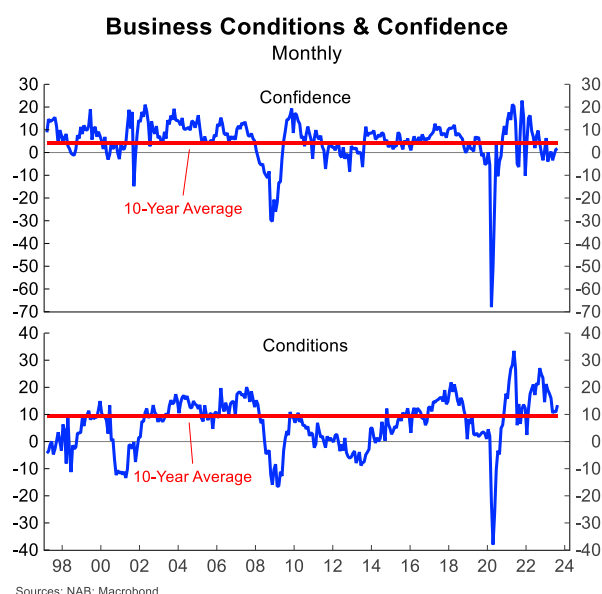


Tuesday, 12 September 2023

Business Confidence & Conditions

Resilience Indicates Soft Landing is Intact

- Business conditions rose 3 index points to +13 in August, the strongest reading in four months. Resilient conditions have been a feature of this cycle despite consumer confidence having been deeply pessimistic for over 12-months.
- The bounce in conditions in August was underpinned by an improvement in all three sub-indices – trading (+18), profitability (+13) and employment (+9).
- Resilient conditions saw a marginal improvement in business confidence in August. The confidence index rose 1 index point to +2. The mood among businesses has now improved for three consecutive months but remains weak by historical standards.
- After a concerning spike in July, cost pressures moderated in August. Growth in input costs ticked up, while labour cost growth slowed, confirming that the pass through of the minimum wage increase drove the jump in July. Despite higher costs, growth in sale prices eased, with retail prices pulling back by almost 1 percentage point – the sharpest fall since April 2022. On face value, it seems firms are having more difficulty passing on higher costs to consumers.
- A step up in capacity utilisation to its highest level since March (85.1%), points to ongoing constraints on production, notwithstanding a recent moderation in demand. This is likely to continue to support business investment and credit growth, but also adds to inflation risks.
- Looking ahead, a stabilisation in forward orders over recent months suggests that while growth is slowing, the softening in demand is likely to remain orderly. The resilience in conditions is reflective of this and suggests that the RBA's goal of achieving a soft economic landing remains intact.



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