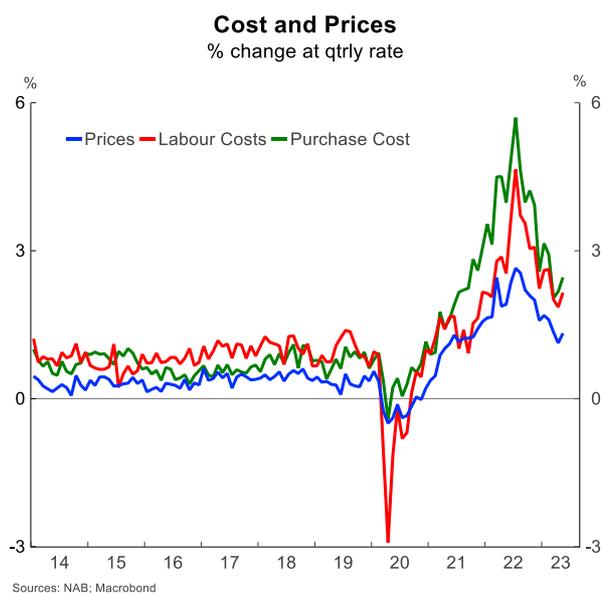
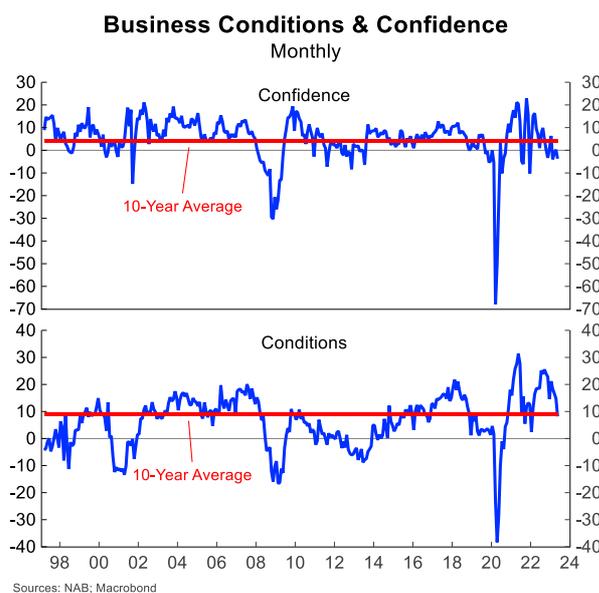




Tuesday, 13 June 2023

## Business Confidence & Conditions Inflation Pressures Won't Budge

- Business conditions fell for a fourth consecutive month in May, declining 7 points to a slightly below-average reading of +8. This was the softest reading since January 2022 and suggests that strong conditions enjoyed through much of 2022 and into 2023 are coming to an end.
- All three sub-indices - trading, profitability and employment - pulled back in the month to also hit their lowest levels since January last year. A sharp fall in forward orders to -5 was particularly concerning for the outlook. This was the lowest level in 10 years (outside COVID).
- Business confidence slipped 4 points to -4 but have oscillated between -5 and +10 over the past 12-months, highlighting the elevated uncertainty facing many businesses. The weight of evidence is beginning to suggest a weaker outlook, and this is showing up in confidence.
- Despite a weakening in conditions, capacity utilisation remains elevated (84.7%) and well above average levels. This suggests businesses are still struggling to meet the needs of consumers notwithstanding an emerging pull-back in demand.
- A similar message can be gleaned from the survey's cost measures which show a reacceleration in inflationary pressures across both input (labour and purchase costs) and output (final product prices and retail prices) costs in May.
- The persistence of inflationary pressures in the face of weakening demand will alarm the Reserve Bank (RBA), who have recently re-ignited their inflation fight to tame growing risks of a slower return to target inflation and a possible de-anchoring of inflation expectations.



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