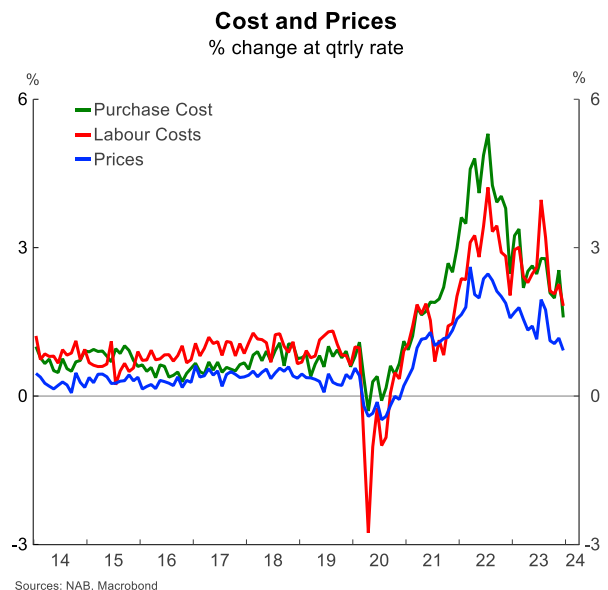
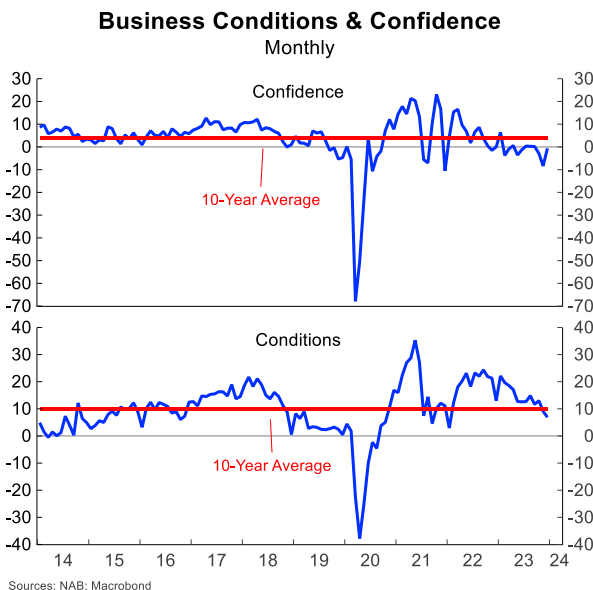




Tuesday, 23 January 2024

## Business Confidence & Conditions Slower Economy Providing Inflation Relief

- Business conditions slipped 2 points in December to +7, holding slightly below the 10-year average. Trading conditions continued to ease, while employment conditions also cooled. The survey measure of profitability was unchanged. Meanwhile, business confidence jumped 8 index points to end the year at -1, a solid jump likely driven by some end of year optimism.
- The monthly dynamic was a familiar one, a sustained but gradual slide in conditions as the economy softens, coupled with volatile, but on balance, marginally pessimistic confidence. Given the array of risks and uncertainties that lie ahead in 2024, this provides little surprise.
- The survey leading indicators point to a further slowdown ahead but suggest that this will remain gradual. Forward orders improved by 1 index point but remain weak at -3. Capacity utilisation, an important indicator of how businesses are keeping up with demand, eased for a fourth consecutive month in December, but remains historically elevated at 82.7.
- Survey measures of costs slowed across the board in December. Labour costs fell from a quarterly rate of 2.3% to 1.8% – the lowest since November 2021. Purchase costs slowed from 2.5% to 1.6% – the slowest since February 2021. The improvement in costs growth looks to have been largely passed on to customers, final product prices rose at 0.9% – the slowest quarterly pace since February 2021.
- The recent survey outcomes suggest that the more distinct slowing in the economy observed in the September quarter continued in the December quarter. Importantly, this also coincided with a sharper slowing in input costs – a sign that a slowing economy is helping to fight inflation. The RBA would take comfort in this given their focus on domestic inflation.



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