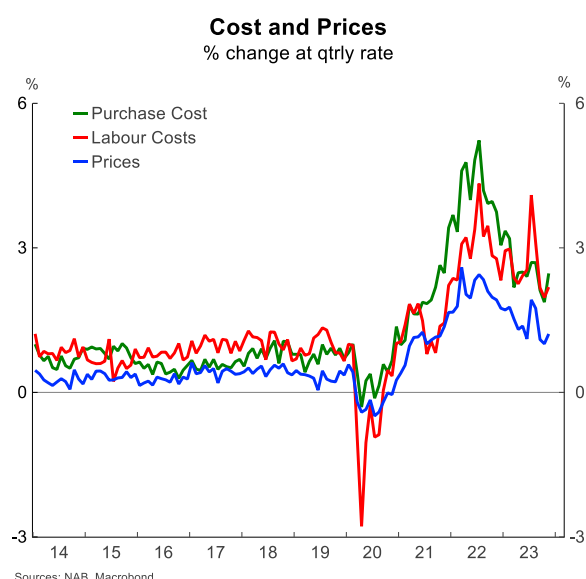
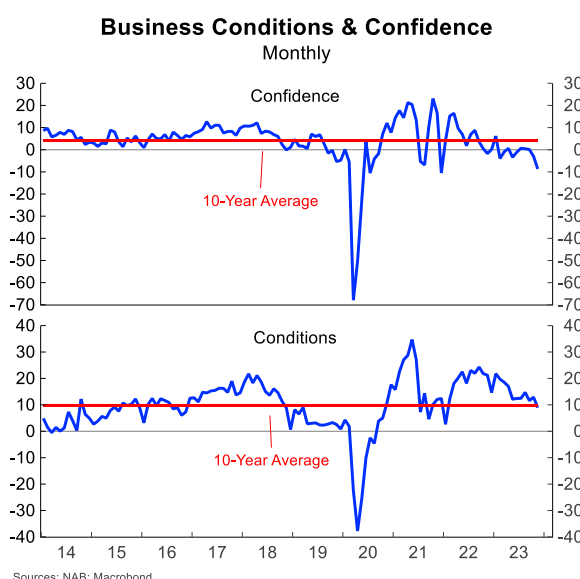


Business Confidence & Conditions Conditions Fall, Cost Pressures Sticky

- Business conditions fell 4 points to +9 index points in November, to be below its ten-year average for the first time on over two years. Business confidence fell 6 points to -9 index points, with large falls recorded in consumer facing industries like retail.
- The trading (down 6 points to +13) and profitability (down 5 points to +6) measures softened further and are now below their 10-year averages. The employment sub index was unchanged at +8.
- While conditions softened, growth in costs and prices accelerated. Labour costs grew by 2.2% over the three months to November, up from 2.0% last month. Input costs also picked up to 2.5% in quarterly terms, up from 1.9% a month ago. Higher costs flowed into higher prices, with output prices up 1.2% over the quarter, up from 1.0% last month.
- Last week's National Accounts showed that demand is slowing quickly, and forward indicators released today suggest this will continue - forwards orders declined 3 points to -4 index points, while capacity utilisation also edged lower.
- Despite the tick up in cost and price pressures, inflationary pressures are clearly trending down. The question for the Reserve Bank (RBA) is whether this is happening quickly enough. The longer inflation remains elevated, the greater the risk expectations become unanchored.
- Demand is slowing while the supply side of the economy is normalising. The National Accounts showed that productivity growth is stabilising as the capital stock begins to catch up to the growth in labour – this will help reduce costs. While the RBA should be alert, at this point it should not be alarmed, underlying forces are weighing on demand while boosting supply, which will help ensure inflationary pressures continue to ease.



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