

Tuesday, 14 March 2023

Roy Morgan Business Confidence slumps 10.6 points to 95.8 in February after the RBA raises interest rates

In February 2023 Roy Morgan Business Confidence was 95.8 (down 10.6pts since January) after the RBA raised interest rates for a ninth consecutive meeting in early February, up +0.25% to 3.35%.

Since increasing interest rates in early February, the RBA has followed up with another increase in March of +0.25% to 3.6%. The RBA's decision to increase interest rates in February and March followed the highest Australian inflation figures for 32 years for the December quarter 2022 at an annual rate of 7.8%. Official interest rates are now at their highest for over a decade since early June 2012 (3.75%).

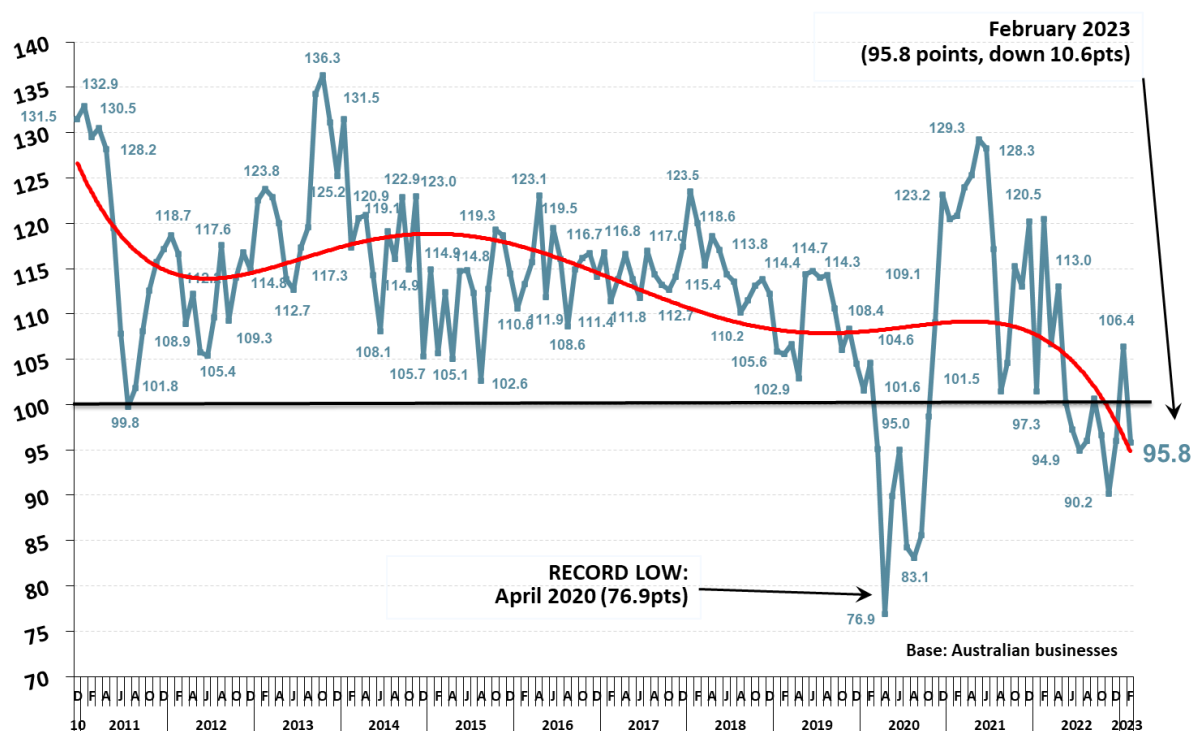
The fall in Business Confidence in February reversed the increase of 10.4pts in January and was driven by rising pessimism about prospects for the next 12 months both for the performance of the Australian economy and the personal prospects of the business.

Views on the performance of the Australian economy over the next year worsened with 59.3% (up 11.1ppts) of businesses expecting 'bad times', while only 39.1% (down 10.2ppts) expect 'good times'.

Although still broadly positive, businesses are now less confident about their own circumstances over the next 12 months with 41.2% (down 5.5ppts) expecting to be 'better off' financially this time next year compared to 28.1% (up 7.3ppts) expecting to be 'worse off'.

Business Confidence is now 16.8pts below the long-term average of 112.6 but still 15.9pts higher than the latest - [ANZ-Roy Morgan Consumer Confidence of 77.0 for March 6 – March 12, 2023](#).

Roy Morgan Monthly Business Confidence -- Australia



Source: Roy Morgan Business Single Source, Dec 2010-Feb 2023. Average monthly sample over the last 12 months = 1,431.

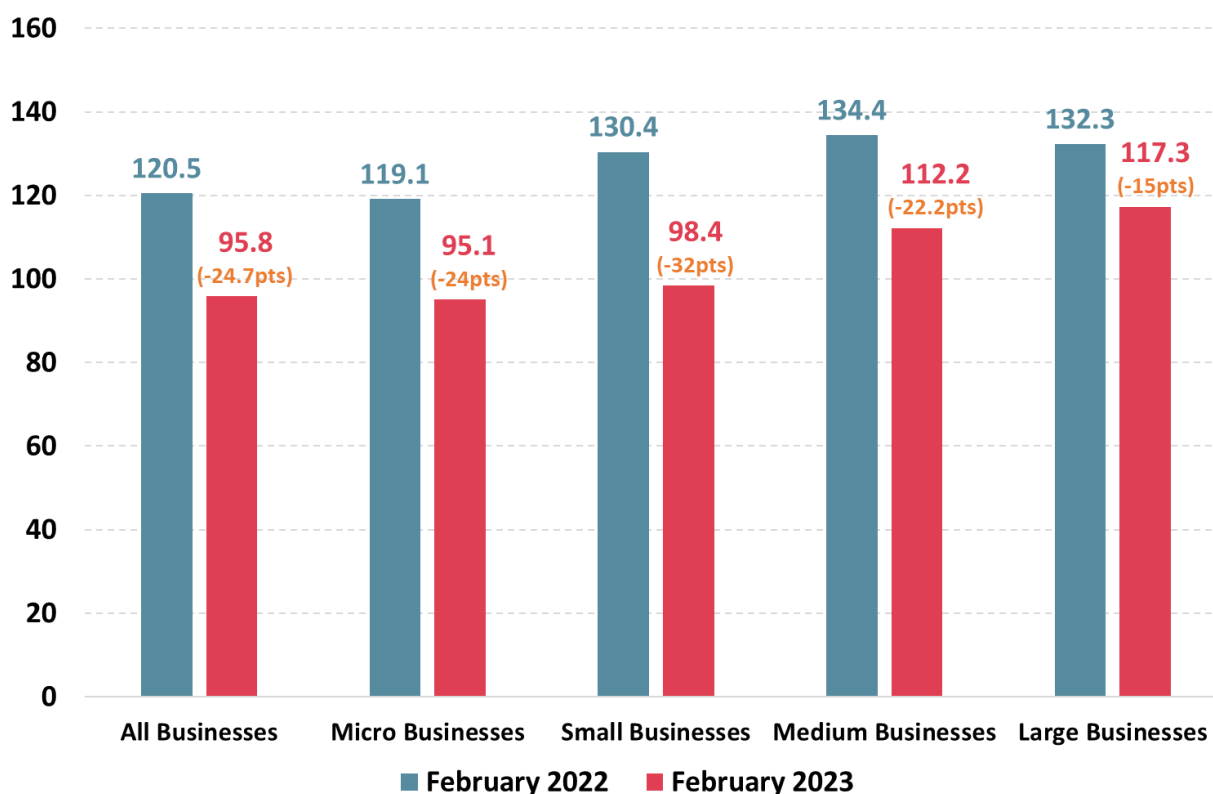
Business Confidence is well into positive territory for businesses with at least 20 employees

Business Confidence in February is down on a year ago for businesses of all sizes but the most pronounced decline is for Micro and Small businesses with under 20 employees. In contrast, Business Confidence remains well above the neutral level of 100 for both Medium and Large businesses.

Business Confidence in February is correlated to the size of the business – the larger the business the higher Business Confidence is. Large businesses now have Business Confidence of 117.3, down 15pts (-11.3%) from a year ago – the smallest decline of any size of business.

Medium businesses with between 20-199 employees have experienced a significant drop in confidence of 22.2pts (-16.5%) to 112.2 but are still well into positive territory above 100.

Business Confidence for Small businesses of 5-19 employees has experienced the largest drop from a year ago, down 32pts (-24.6%) to 98.4 while for Micro businesses of under 5 employees the index has dropped 24pts (-20.2%) to be at 95.1 – the lowest of all sizes of business.



Source: Roy Morgan Business Single Source, February 2022, n=1,313, February 2023, n=1,455. *Micro businesses are under 5 employees, Small businesses are 5-19 employees, Medium-sized businesses are 20-199 employees and Large businesses are 200 employees or more.

Education & Training, Public Administration & Defence, Accommodation & Food Services, Manufacturing and Recreation & Personal are the most confident industries early in 2023

Over the last two months only five industries, Education & Training, Public Administration & Defence, Accommodation & Food Services, Manufacturing and Recreation & personal had Business Confidence over 15% higher than the national average of 101.1.

The most confident industry was again Education & Training with Business Confidence of 122.1, a large increase of 20.9pts (+20.7%) on a year ago. This industry has been amongst the most confident throughout the last year as the relaxation of pandemic restrictions led to a re-opening of Australia's borders and the return of tens of thousands of international students to Australia.

In second place is Public Administration & Defence on 121.1, virtually unchanged on a year ago, just ahead of Accommodation & Food Services, an industry which significantly benefitted from the end of pandemic related travel restrictions on 119.0, up a large 24pts (+25.2%) from a year ago.

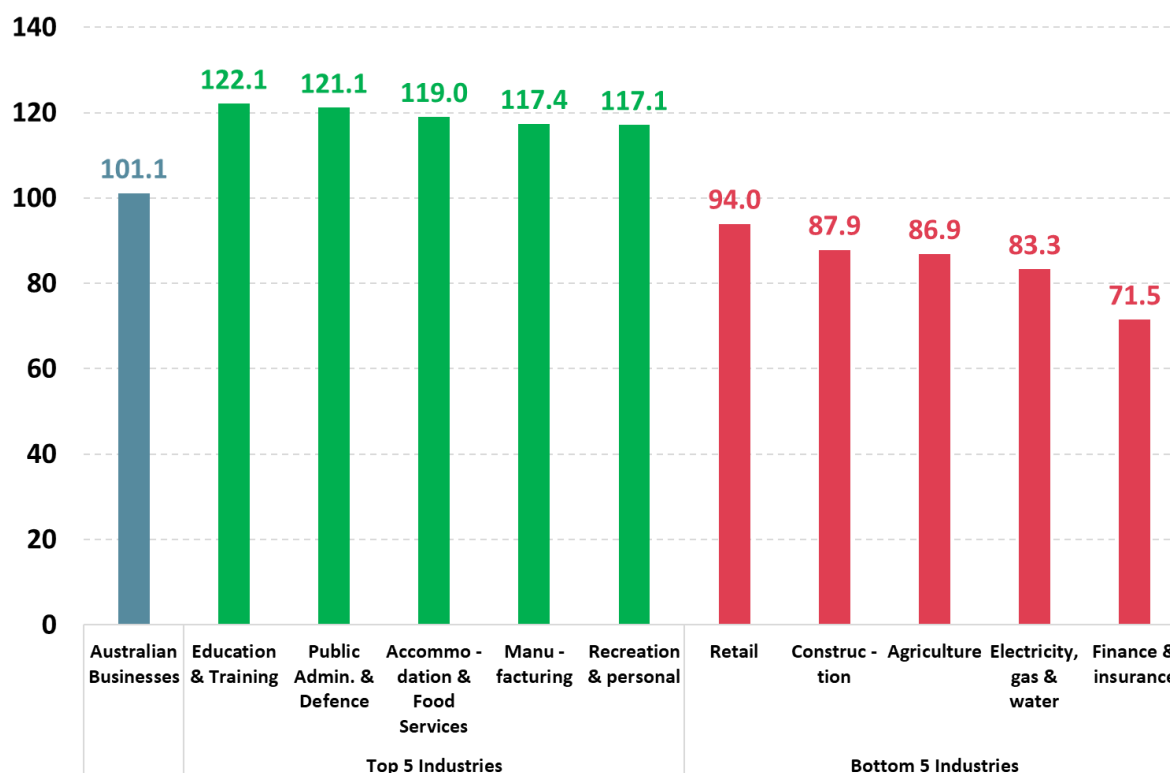
Two other industries with high, and rising, Business Confidence are Manufacturing on 117.4, following an increase of 8.5pts (+7.8%) on a year ago and Recreation & personal on 117.1, up by 41pts (+54%) on a year ago – the largest increase of any industry over the last year. Recreation & Personal has been among the industries to derive the largest benefit from the end of pandemic restrictions during the last year which had previously prevented many of the more personal services being conducted at all.

Other confident industries include Information Media & Telecommunications with Business Confidence of 112.7, down 2.1pts (-1.9%) on a year ago just ahead of Mining on 112.2, up 25.6pts (+29.6%) on a year ago and Community Services, down 6.9pts (-5.9%) on a year ago.

There's a familiar industry at the bottom with Business Confidence lowest of all for Finance & Insurance at only 71.5 in the first two months of 2023. This is over 25% below the national average of 101.1 and down a large 42.7pts (-37.4%) on a year ago – clearly the largest drop of any industry measured.

Electricity, gas & water, is another industry with low Business Confidence of only 83.3, virtually unchanged from a year ago. Other industries with low Business Confidence include Agriculture on 86.9, down a large 36.8pts (-29.8%) on a year ago and Construction on 87.9, down 2.9pts (-3.2%).

Business Confidence for Top 5 and Bottom 5 Industries in January – February 2023



Source: Roy Morgan Business Single Source, January – February 2023, n=2,909. **Base:** Australian businesses.

Note: In the chart above, green bars represent Business Confidence in positive territory above the national average and red bars represent Business Confidence well below the national average and below the neutral level of 100.

Businesses grew increasingly negative about the performance of the Australian economy and their personal prospects over the next 12 months:

- In February businesses were increasingly negative about **Australia's economic performance over the next year** with a majority of 59.3% (up 11.1ppts) expecting 'bad times' while only 39.1% (down 10.2ppts), expect 'good times' – a very similar result to December 2022, before last month's 'new year's boost';
- Although still broadly positive, businesses have lost confidence about their own prospects for the next year, with 41.2% (down 5.5ppts) expecting the **business will be 'better off' financially** this time next year (**the lowest figure for this indicator for three years since the early stages of the pandemic in March 2020**), while just over a quarter, 28.1% (up 7.3ppts), expect the business will be 'worse off' (**the highest figure for this indicator since the early stages of the pandemic in March 2020**);



- Just under two-fifths of businesses, 37.0% (down 3.2ppts), said their **business is 'better off' financially than this time a year ago** while slightly more, 37.8% (up 3.6ppts), said the business is now 'worse off';
- Following the RBA's tenth straight interest rate increase businesses are now less confident about investing in growing their business with 46.5% (down 1.8ppts) saying the next 12 months will be a '**good time to invest in growing the business**', while almost as many, 46.2% (up 2.5ppts) said it will be a 'bad time to invest' in growing the business;
- In February businesses have also grown more negative on **the longer-term outlook for the Australian economy** with a rising majority of 54.3% (up 3.7ppts) expecting 'bad times' for the Australian economy over the next five years while 41.1% (down 4.2ppts) expect 'good times' over the next five years.

Michele Levine, CEO of Roy Morgan, says Business Confidence dropped by 10.6pts in February, more than reversing the gain in January after the RBA increased interest rates for a record ninth consecutive month in early February:

"Roy Morgan Business Confidence dropped by 10.6pts (-10%) to 95.8 in February, more than reversing the increase of 10.4pts to start the year in January.

"The decline followed the RBA's decision to increase interest rates in early February and the bank has subsequently followed up with a record tenth consecutive increase in early March, up +0.25% to 3.6% - the highest official interest rates for more than a decade since June 2012.

"There was negative movement across the index but the largest contribution to the pessimistic result for February was a lack of confidence about the performance of the Australian economy. Now a clear majority of 59.3% (up 11.1% points) of businesses say there will be 'bad times' for the Australian economy over the next year and 54.3% (up 3.7% points) say there will be 'bad times' over the next five years.

"In contrast, businesses remain positive about their own prospects with pluralities of 41.2% saying they expect to be 'better off' financially this time next year, and 46.5% saying now is a 'good time to invest in growing the business' compared to 46.2% who say it is a 'bad time'.

"There is a clear correlation between Business Confidence and size with larger businesses far more confident than smaller businesses. Large businesses with 200 or more employees have Business Confidence of 117.3 in February while Medium-sized businesses with 20-199 employees have are at 112.2 – both well into positive territory despite being down on a year ago.

"There is an even larger drop-off for smaller business. Business Confidence for Small businesses with 5-19 employees was at only 98.4 in February, down by 32pts from a year ago – the largest drop for any size of business. However, Business Confidence for Micro businesses of under 5 employees was at just 95.1 in February.

"The vastly different levels of confidence for businesses of a variety of sizes shows that the current economic conditions, including high inflation and rapid interest rate increases, are having a considerably different impact on businesses depending on several factors – including size.

""On a State level Business Confidence is soaring in Western Australia at 134.2 and marginally in positive territory in Tasmania at 101.1 – but below the neutral level of 100 in all other States. Business Confidence is just below neutral at 98.1 in New South Wales and well below neutral in Queensland (92.0), South Australia (90.1) and lowest of all in Victoria (81.2).

"At an industry level there were five industries flying high in January-February 2023 with Business Confidence above 115. Leading the pack are Education & Training on 122.1, Public Administration & Defence on 121.1, Accommodation & Food Services on 119.0, Manufacturing on 117.4 and Recreation & Personal on 117.1.

"Other industries with high confidence include Information Media & Telecommunications on 112.7, Mining on 112.2, Community Services on 110.2, Professional, Scientific & Technical Services on 110.0, Administrative & Support Services on 107.9 and Property & Business Services on 105.2.

"In contrast there are two industries for which Business Confidence is again lagging more than 20% below the national average including Finance & Insurance, down 42.7pts (-37.4%) on a year ago to 71.5, and now lower than any other industry, and Electricity, gas & water on only 83.3."

The latest Roy Morgan Business Confidence results for February are based on 1,455 detailed interviews with a cross-section of Australian businesses from each State and Territory. Detailed findings are available to purchase on a monthly or annual subscription as part of the [Roy Morgan Business Confidence Report](#).

For comments or more information please contact:

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To learn more about Roy Morgan's [Business Confidence](#), [Consumer Confidence](#) and [Inflation Expectations](#) data call (+61) (3) 9224 5309 or email askroymorgan@roymorgan.com.

About Roy Morgan

Roy Morgan is Australia's largest independent Australian research company, with offices in each state, as well as in the U.S. and U.K. A full-service research organisation, Roy Morgan has over 80 years' experience collecting objective, independent information on consumers.

Margin of Error

The margin of error to be allowed for in any estimate depends mainly on the number of interviews on which it is based. Margin of error gives indications of the likely range within which estimates would be 95% likely to fall, expressed as the number of percentage points above or below the actual estimate. Allowance for design effects (such as stratification and weighting) should be made as appropriate.

Sample Size	Percentage Estimate			
	40%-60%	25% or 75%	10% or 90%	5% or 95%
1,000	±3.0	±2.7	±1.9	±1.3
5,000	±1.4	±1.2	±0.8	±0.6
50,000	±0.4	±0.4	±0.3	±0.2