



WA Super – CCI Survey of Business Confidence

June Quarter 2018
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BUSINESS CONFIDENCE WAVERS

Businesses are expecting 2019 to be a more active year for business growth as the WA economy continues to adjust to the end of the mining construction boom. More than half of businesses surveyed expect the economy to be stronger next year and just 14 per cent expect it to be weaker. However, the current and coming quarter are expected to still be difficult, with 45 per cent of businesses believing the

economy will weaken this quarter. Across the economy signs of green shoots continue to emerge. Over 17,000 jobs have been created in the last twelve months, youth unemployment has been declining and is now the lowest in 11 months; and the domestic economy grew for the first time in four years last quarter.

As the only WA-specific index in the country, the WA Super – Chamber of

Commerce and Industry WA (CCI) Business Confidence Index provides a snapshot of state-wide economic conditions and business expectations.

The June 2018 edition of the *Survey of Business Confidence* indicates that WA businesses remain confident about the economy's prospects, with short-term (3-month) and medium-term (12-month) confidence trending well above its ten-year average.

Short-term confidence has risen by over 21 index points since the June 2017 quarter to 119.2 this quarter, which represents a marked improvement but remains weak. More (40%) businesses expect the economy to be weaker next quarter than expect it to improve (29%).

Looking to the year ahead, WA businesses are expecting economic conditions to improve, with 56 per cent anticipating the WA economy to strengthen over the next 12 months. The Business Confidence Index for the medium-term jumped 22.8 index points from last June to 121.9 this June, a clear sign that confidence continues to

BUSINESS CONFIDENCE IN WA'S ECONOMY

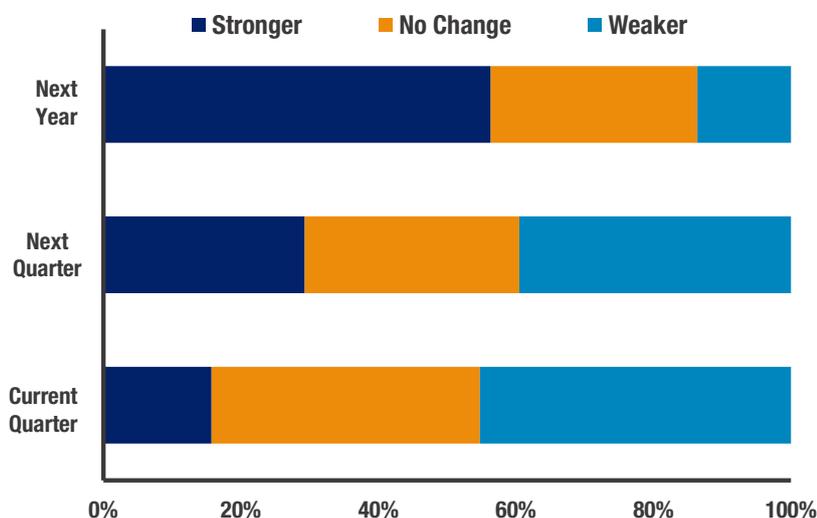
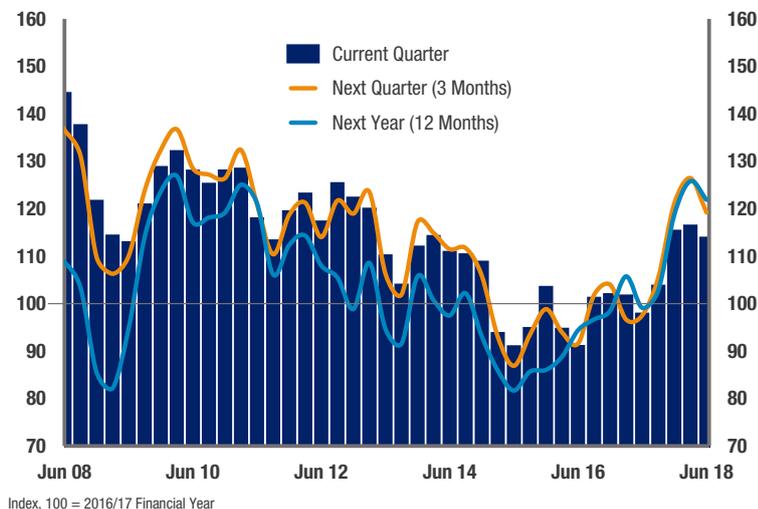


Figure 1

TWENTY-EIGHT (28) PER CENT OF BUSINESSES INCREASED THEIR EMPLOYMENT LEVELS THIS QUARTER WHILE ALMOST HALF (49%) KEPT EMPLOYMENT LEVELS STEADY

BUSINESS CONFIDENCE Current, 3 and 12 month experience



improve. This is a stark difference to nearly three years ago when the index value was bottoming out at 81.7 – around the same level as the low in confidence experienced during the GFC.

These confidence levels have declined since last quarter – Short-term Business Confidence Index by 7.2 points and the Medium-term Business Confidence Index by 3.9 points. An element of this decline can be attributed to the seasonality of end-of-financial-year (EOFY) business activity and uncertainty around major announcements ahead of the annual budget period in May. While the occurrence of a decline may ring alarm bells for businesses, it is important to note that these falls are coming off the seven-year high recorded last quarter and business confidence still remains significantly higher than 12 months ago.

The Medium-Term Business Confidence Index reached 121.9 this quarter, suggesting that the average rating of WA businesses for economic conditions in June 2018 is 21.9 per cent higher than the average rating in 2016-17.

Mining businesses continue to lead confidence in the economy, with all businesses surveyed in the mining sector

expecting stronger economic conditions for the year ahead. This strength in mining confidence and conditions is reflected in the increased demand for skilled workers, with job ads in WA's mining industry up 30 per cent over the year, the highest growth across the country [SEEK, 2018].

Businesses in manufacturing (69%) and professional services (64%) also remain confident about economic conditions for the year ahead.

In contrast, the retail trade industry continues to have weaker confidence in the economy with 21 per cent of

retailers anticipating economic conditions to worsen over the coming year. This continued weakness reflects the low growth in retail sales across WA and the challenges faced by the sector more broadly from online disruption.

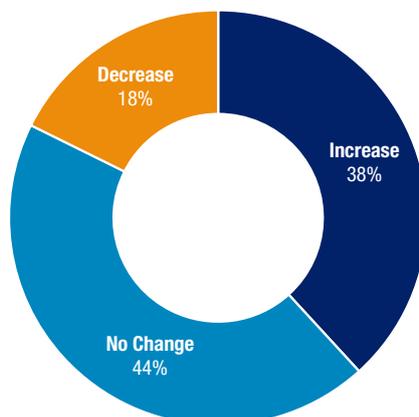
EMPLOYMENT

The job market in Western Australia also continued its recovery, recording 18.7 per cent growth in job advertisements compared to the same time a year ago [SEEK, 2018]. This will be welcome news to the 87,500 job-seekers in WA and the 134,100 West Australians who are employed but looking for more work [Australian Bureau of Statistics, 2018].

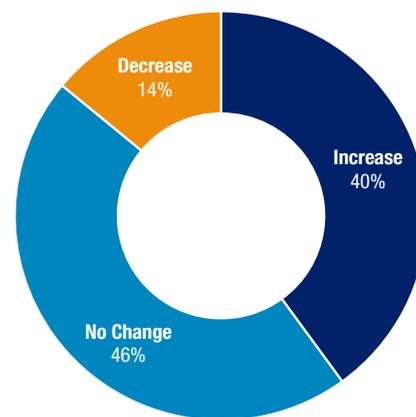
Twenty-eight (28) per cent of businesses increased their employment levels this quarter while almost half (49%) kept employment levels steady. The employment outlook for the September quarter is looking positive with four out of five businesses anticipating increases or no changes in the size of their payroll.

The Employment Index has improved significantly over the year, rising 11.5 index points since last June to 111.6 this quarter. These improvements in business sentiment regarding employment is pointing to strong jobs growth in the future which should put gradual upwards pressure on private sector wages.

EXPECTATIONS FOR EMPLOYMENT



EXPECTATIONS FOR PRODUCTION



ALMOST 35 PER CENT OF BUSINESSES IDENTIFIED HIGHER LABOUR COSTS THIS QUARTER AND THIS IS EXPECTED TO RISE TO 47 PER CENT NEXT QUARTER.

PRODUCTION

Increases in production can be a leading indicator of rising demand and future revenue.

Production levels for the June quarter are expected to largely remain steady from the last quarter, with four out of 10 businesses (40%) expecting to increase production and almost half (46%) looking to keep production stable.

While one in five businesses (20%) reduced production in the June quarter, just 14 per cent of businesses expect to follow in the coming quarter.

PROFITABILITY

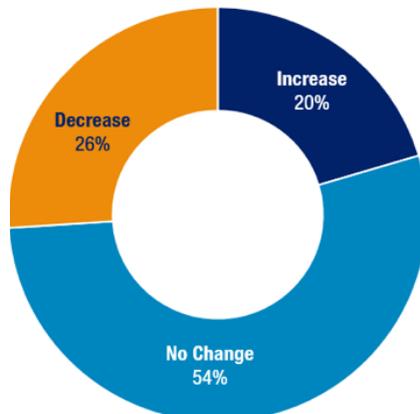
Prospects for investment growth remain promising as the Profitability Index continues to trend above its ten-year average.

The Profitability Index jumped 7 index points since last June to 104.2. One out of five businesses (20%) are anticipating profits to rise next quarter while over half (54%) are expecting profits to stay steady.

CAPITAL EXPENDITURE

Capital investment remains one of the key drivers for optimism this quarter.

EXPECTATIONS FOR PROFITABILITY

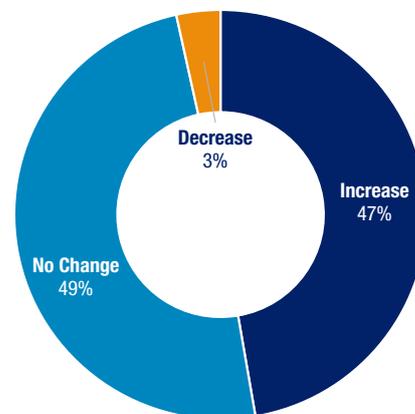


There are continued encouraging signs for business investment with 30 per cent of businesses increasing capital investment this quarter, and this trend is expected to continue in the next quarter (29%). The majority of businesses (62%) are anticipating stable investment levels over the September quarter, down 2 percentage points since last quarter.

The Capex Index, which measures expected capital expenditure for the next quarter, has reduced marginally from the 10-year high recorded last quarter, declining 0.9 index points to 116.0 this June.

Forty per cent (40%) of miners identified

EXPECTATIONS FOR LABOUR COSTS



that they expect to increase their capital expenditure over the September quarter, compared to 37 per cent of manufacturing firms and a third (33%) of businesses in healthcare and construction.

A continued increase in business investment through 2018 underpins our forecast for a return to positive economic growth in WA in 2017-18.

LABOUR COSTS

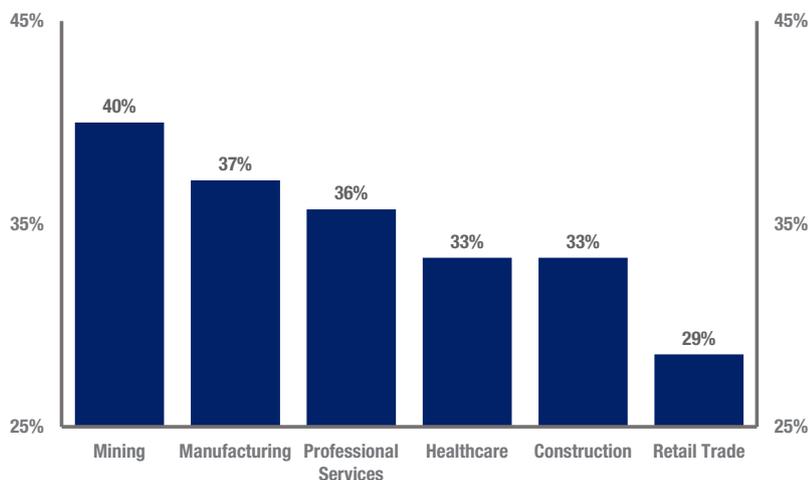
Labour costs, which include wages and salaries, employment taxes, superannuation costs and training, are an important indicator of economic activity as they can signal business capacity to expand employment.

The Labour Costs Index has risen 6.8 index points since last quarter to 120.9 – the highest in ten years.

Almost 35 per cent of businesses identified higher labour costs this quarter and this is expected to rise to 47 per cent next quarter. Half (49%) are anticipating stable labour costs over the September quarter. Only 3 per cent are expecting labour costs to decrease in the next three months.

Over half (56%) of mining businesses are expecting labour costs to rise over the September quarter, which may be indicative of skills shortages emerging as businesses offer top dollar to attract skilled labour. The

CAPITAL EXPENDITURE Proportion Expecting Increases Next Quarter



approval of BHP's \$4.7 billion South Flank mine and FMG's \$1.7 billion Eliwana mine is a likely influence on business sentiment of rising labour costs.

The expectations around increasing labour costs suggest that inflation pressures may be starting to build. If sustained, we would expect to see core inflation in Perth to move towards the Reserve Bank of Australia's national target band of 2-3 per cent.

LEVELS OF CREDIT AND DEBT

Monitoring credit and debt levels acts as a check-up on the general health of business. While rising debt levels can reflect an inability to repay borrowed money on time, it can also indicate increased financial confidence as

businesses look to expand capacity by taking on short-term debt.

Most businesses (68%) are anticipating no change in their debt or credit levels over the September quarter. While 27 per cent of businesses increased their debt or credit levels in June, this proportion is expected to decline slightly to 26 per cent over September.

BARRIERS TO BUSINESS

Weak demand has overtaken rising operating costs as the biggest barrier to businesses this quarter by the slimmest margin. Forty-four (44) per cent of respondents identified weak demand as the biggest barrier in growing their business over the coming year, followed

closely by rising operating costs (43%) and availability of skilled labour (33%).

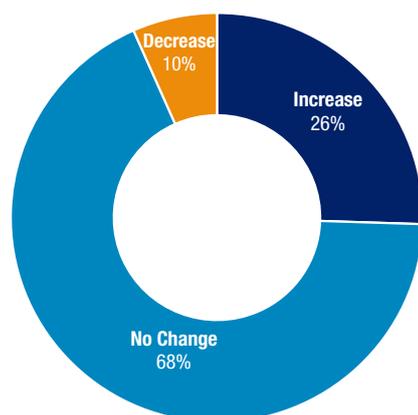
Only 3 per cent of businesses identified no barriers impeding their business growth, down 3 per cent since last quarter.

Skilled labour shortages affected 44 per cent of mining companies, which could signal growing wage pressure in the industry.

Weak demand was a hindrance across various industries with seven out of ten retailers (70%), half of professional services firms (50%) and 62 per cent of the construction sector considering it a major barrier to business development.

Over half of businesses from manufacturing (56%) considered rising operating costs as the biggest barrier to growth.

EXPECTATIONS FOR CREDIT AND DEBT LEVELS



BIGGEST BARRIERS TO GROWTH BY INDUSTRY, JUNE 2018



KEY RESULTS FROM THE SURVEY

Indicator (Index)	Actual			Expected	
	Dec 17	Mar 18	Jun 18	1 Quarter	1 Year
Economy					
WA Economic Conditions	114.6	115.7	113.2	119.2	121.9
Operating Conditions					
Employment	101.4	111.0	105.8	111.6	-
Labour Costs	116.4	113.7	117.0	120.9	-
Anticipated CAPEX	-	-	-	116.0	-
Profitability	93.6	97.5	92.8	104.2	-

SAMPLE:

Industry	
Manufacturing	21%
Retail Trade	9%
Professional Services	9%
Health Care	7%
Construction	7%
Agriculture	7%
Mining	6%
Other	34%
Business Size	
Small (1-10)	33%
Medium (11-100)	46%
Large (100+)	22%

Index figures may have changed from previous editions of Business Confidence due to changes in index calculation methodology. The index has been rebased to the average score of respondents over the 2016/17 financial year. The value of the index in any period can be interpreted as the percentage change in average business expectations in that period compared with average business expectations in 2016/17. For example, the index for current economic conditions in June 2018 is 113.2, which suggests that the average score of survey respondents for economic conditions in June 2018 is 13.2 per cent higher than the average response in 2016/17.