



WA Super – CCI Survey of Business Confidence

December Quarter 2018
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NEW YEAR CHEER FOR 2019

Business growth is on the agenda and Western Australian businesses remain optimistic as they enter 2019.

As the only WA-specific index in the country, the WA Super – Chamber of Commerce and Industry’s (CCI) Business Confidence Index provides a snapshot of state-wide economic conditions and business expectations.

The December quarter’s results indicate

that business confidence in the WA economy’s short-term (3-month) and medium-term outlook (12-month) remains well above its ten-year average.

The short-term business confidence index increased by 2.8 index points over the year to 123.8 in December 2018. The margin between those that expect the economy to worsen (32%) and improve (31%) is narrowing – compared to a significant

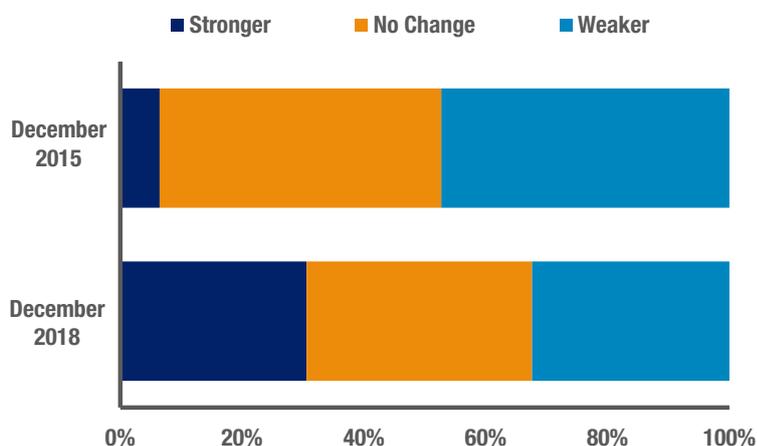
divide three years ago – signalling that businesses believe economic recovery is well underway.

Looking to the year ahead, businesses are expecting economic conditions to continue improving, with over half (52%) of respondents anticipating the WA economy to strengthen over the next twelve months. The Business Confidence Index for the medium-term increased by 1.5 index points to 120.2 in December 2018. This is a stark difference to just three years ago when the index value reached a ten-year low of 81.7 in June 2015.

The mining sector continues to lead WA’s confidence in the economy, with four out five businesses (78%) surveyed expecting stronger economic conditions for the year ahead.

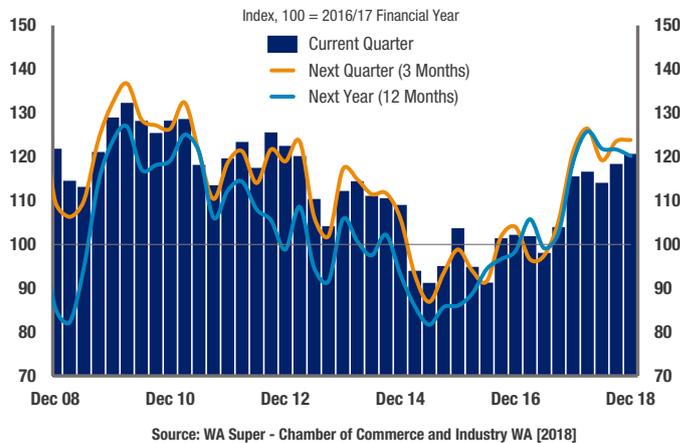
This strength in mining confidence is reflected in increased demand for skilled workers, with job ads in the mining, resources, and energy industry increasing by 23 per cent in the year to October 2018 – the highest growth in any industry across the country [SEEK Insights & Resources, 2018].

SHORT-TERM BUSINESS CONFIDENCE A Three-Year Comparison



35 PER CENT OF BUSINESSES EXPECTING TO INCREASE THEIR WORKFORCE IN THE NEXT THREE MONTHS, BUT THE MAJORITY (50%) ARE ANTICIPATING NO CHANGES

BUSINESS CONFIDENCE Current, 3-Month and 12-Month Expectations



Businesses in construction (58%), manufacturing (55%), and professional services (50%) also remain confident, expecting better economic conditions for the next 12 months.

However, businesses in retail trade continue to trail behind other industries in their confidence, with almost half (46%) anticipating conditions to worsen, compared to 34 per cent last quarter. Only a quarter of businesses (24%) are expecting conditions to improve in 2019.

EMPLOYMENT

Businesses expectations for employment opportunities are growing. The Employment

Index increased to 111.6 in December 2018, a significant improvement from its all-time low of 94.7 in June 2015.

Three out of ten businesses (31%) increased their employment levels over the December quarter, while a quarter of businesses (25%) employed fewer staff.

These conditions are expected to continue trending upwards over the next quarter, with 35 per cent of businesses expecting to increase their workforce in the next three months, but the majority (50%) are anticipating no changes.

There has also been a 5 per cent rise in job advertisements in WA over the

year to November 2018, with over 15,800 vacancies advertised [Department of Jobs and Small Business, 2018].

An increase in the number of advertisements and improvement in the Employment Index signals WA businesses' intention to expand. This will be welcome news to the 93,700 unemployed and 132,700 underemployed West Australians looking for work [Australian Bureau of Statistics, 2018].

These improvements in business sentiment regarding employment points to steady jobs growth in the future which should put gradual upwards pressure on wages growth in WA.

PRODUCTION

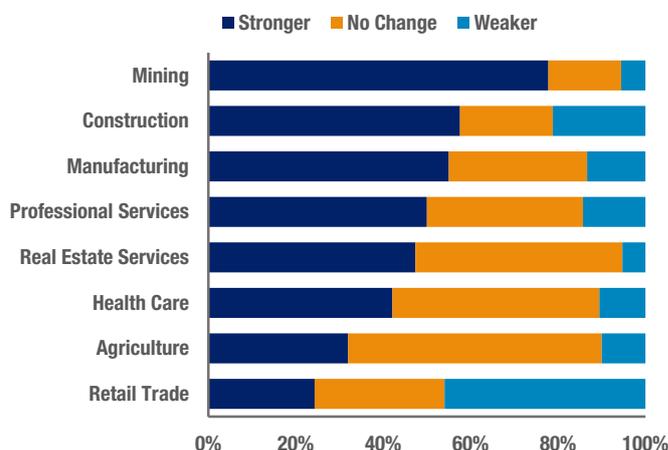
Increases in actual production can be a leading indicator of rising demand and future revenue.

Around 27 per cent of businesses reduced production during the December quarter. However, production levels over the next three months are looking positive, with 85 per cent of businesses expecting to improve or stabilise their output levels, down two percentage points since last quarter.

PROFIT MARGINS

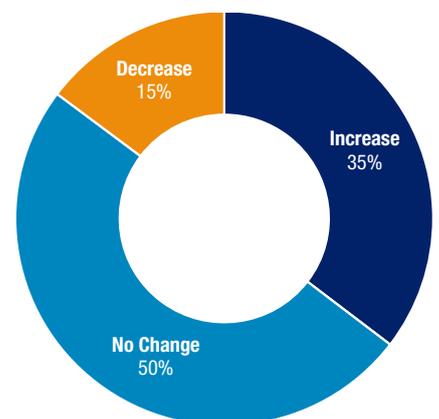
Profitability is expected to decline over the next year, indicating more difficult

INDUSTRY EXPECTATIONS FOR WA'S ECONOMY OVER THE YEAR



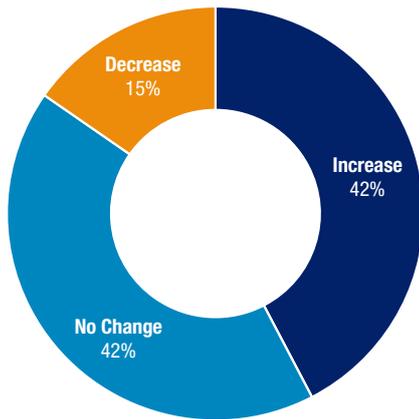
EXPECTATIONS FOR EMPLOYMENT

3-Month Outlook



EXPECTATIONS FOR PRODUCTION

3-Month Outlook



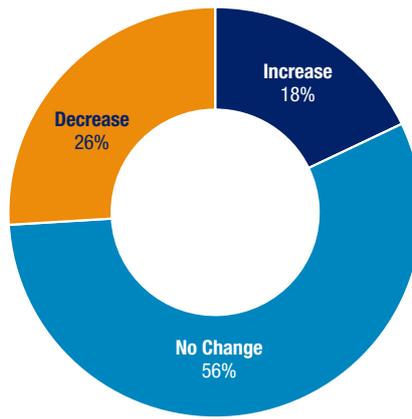
conditions ahead for business. Just eighteen per cent of businesses are banking on increased profitability next quarter. The Profitability Index has remained relatively stable over the past year, declining 0.7 points to 102.9 in December. Almost half (47%) of businesses reported a decline in profitability this quarter, although this proportion is expected to halve to 26 per cent over the next three months.

CAPITAL EXPENDITURE

While expectations regarding employment and production are emerging as key drivers for development next quarter, capital investment planning is also showing signs of growth. Around 30 per cent of businesses plan to increase capital expenditure this quarter and next quarter, up five percentage points since last quarter. Continued business investment is crucial to grow employment and the economy.

EXPECTATIONS FOR PROFITABILITY

3-Month Outlook



A third of businesses in the mining industry (33%) expect their capital expenditure to rise in the next quarter, as well as 34 per cent of manufacturing firms and almost half (47%) of businesses in the agriculture, forestry, and fishing industry.

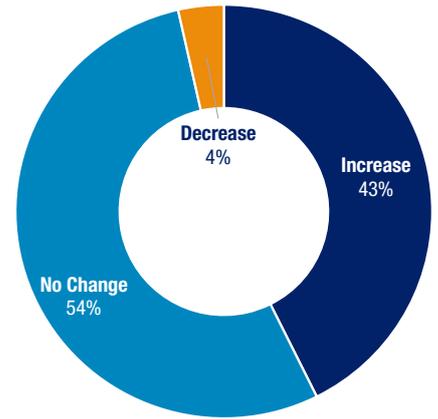
This represents a significant improvement in capital expenditure plans for WA farmers, forestry companies and fishers. One likely factor for this improved sentiment is that WA farmers expect to get better prices for agricultural commodities and are reinvesting the larger returns from a more successful year. The Australian Bureau of Agricultural and Resource Economics and Sciences forecasts that wheat and oilseed prices will increase by 5 per cent and 8 per cent respectively [ABARES, 2018].

LABOUR COSTS

Labour costs, which include wages and salaries, employment taxes, superannuation

EXPECTATIONS FOR LABOUR COSTS

3-Month Outlook



costs and training, are an important indicator of economic activity as they can signal business capacity to expand employment.

The Labour Costs Index increased by 10.2 index points over the year to 118.6 in December. Over half of businesses (54%) are expecting labour costs to remain stable and 43 per cent are bracing for higher costs.

Business sentiment around rising labour costs can be attributed to negotiations for the renewal of wage price setting contracts and employee performance reviews that usually occur during the December quarter.

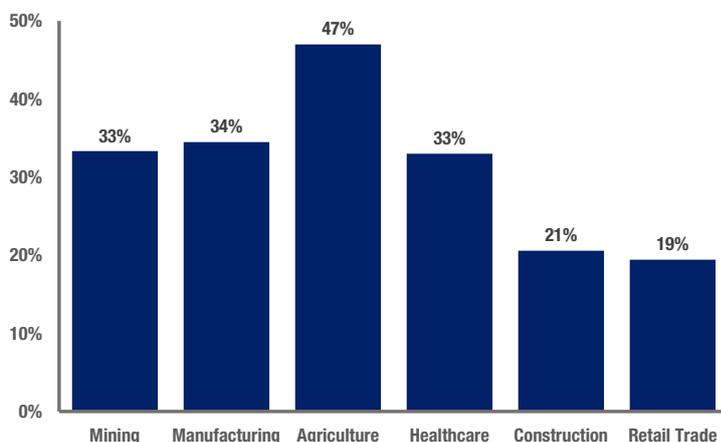
Expectations of increasing labour costs may also suggest that inflation pressures are starting to build. If sustained, we would expect to see core inflation in Perth move toward the Reserve Bank of Australia's national target band of 2-3 per cent.

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 manageable short-term debt.

Two out of three businesses (67%) are anticipating no change in their debt or credit levels over the coming quarter. Thirty-one per cent of businesses increased their debt or credit levels this quarter, but this is expected to drop by 6 percentage points over the next three months to 25 per cent.

CAPITAL EXPENDITURE
Proportion Expecting Increases Next Quarter



BARRIERS TO BUSINESS

One in three (33%) respondents identified weak demand as the largest barrier in growing their business over the coming year. This is followed closely by rising operating costs (27%) and availability of skilled labour (22%).

Weak demand may be attributed to dampened consumer spending, with the CCI Consumer Confidence Survey (December 2018) reporting that three out of five WA consumers (60%) considered it unlikely that they would make any major household purchases next quarter. Consumers are concerned about their financial position, which may somewhat explain why consumer spending is subdued.

Skills shortages may be starting to rise within pockets of the economy with the biggest proportion of manufacturers considering availability of skilled labour as the biggest barrier to growing their

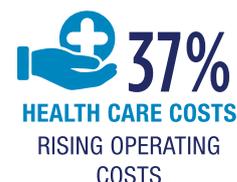
business. This may also be a signal of growing wage pressures within these industries. Meanwhile, industries such as retail trade (27%), real estate services (42%) and construction (31%) are being negatively affected by weak demand.

WHAT DOES THIS MEAN FOR WA?

Despite rising wage pressures and growing labour costs, WA's business sector remains

positive. Businesses are looking to hire more employees and expansion plans are back on the agenda. The mining, manufacturing, and agriculture sectors appear to be in particularly good spirits, signaling the growing underlying strength of the economy, with signs of recovery in operating conditions apparent in businesses across various industries.

LARGEST BARRIER TO GROWTH BY INDUSTRY, DECEMBER 2018



BUSINESS CONFIDENCE, DECEMBER 2018



KEY RESULTS FROM THE SURVEY

Indicator (Index)	Actual			Expected	
	Jun 18	Sep 18	Dec 18	1 Quarter	1 Year
Economy					
WA Economic Conditions	113.2	117.5	119.8	123.8	120.2
Operating Conditions					
Employment	105.8	104.9	105.8	111.6	-
Labour Costs	117.0	125.0	123.4	118.6	-
Anticipated CAPEX	-	-	-	116.2	-
Profitability	92.8	86.9	87.8	102.9	-

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 December 2018 is 119.8, which suggests that the average score of survey respondents for economic conditions in December 2018 is 19.8 per cent higher than the average response in 2016/17.

SAMPLE:

Industry	
Manufacturing	19%
Retail Trade	12%
Construction	11%
Agriculture, Forestry & Fishing	6%
Health Care and Social Assistance	6%
Mining	6%
Accommodation & Food Services	4%
Other	36%
Business Size	
Small (1-10)	47%
Medium (11-100)	41%
Large (100+)	12%