

WA Super – CCI Business Confidence Survey:
September Quarter 2019

End of year trading expectations boost business confidence

Western Australian businesses are more confident about end-of-year trading conditions but less confident about the next 12 months, according to the latest *WA Super – CCI Business Confidence Survey*.

As the only WA-specific index in the country, the *WA Super – CCI Business Confidence Survey* provides a snapshot of state-wide economic conditions and business expectations.

The September quarter's results indicate that WA businesses expect the WA economy to improve over the short-term (3-months) but feel less confident about the economy over the medium-term (12-months).

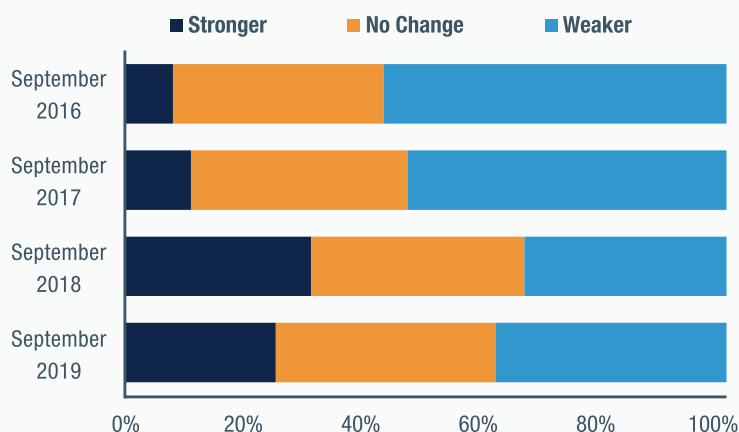
The Short-Term Business Confidence Index improved 6.6 index points to 120.0 over the quarter, driven by an increase (7%) in those who expect stronger economic conditions over the next three months.

However, businesses are more pessimistic than they were about end-of-year trading conditions compared to this time last year.

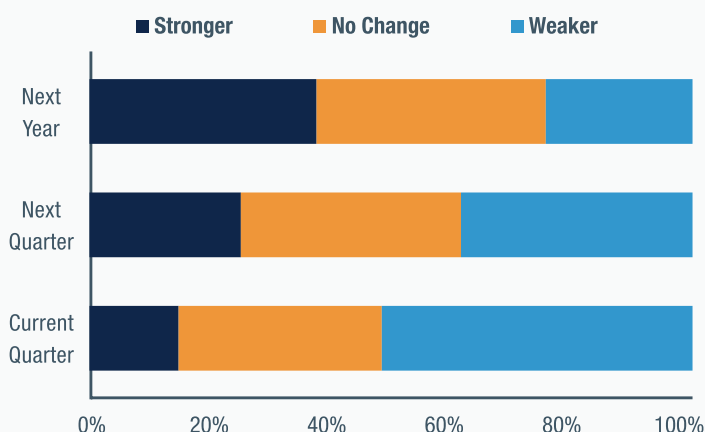
Looking to the year ahead, the Medium-Term Business Confidence Index declined slightly by 0.9 index points to 112.0 over the September quarter, driven by a 3 percentage point fall in those that expect stronger conditions.

Global headwinds may have contributed to the fall in medium-term expectations, driven by a slowing world economy, escalating

Short-term Business Confidence
A Four-Year Comparison

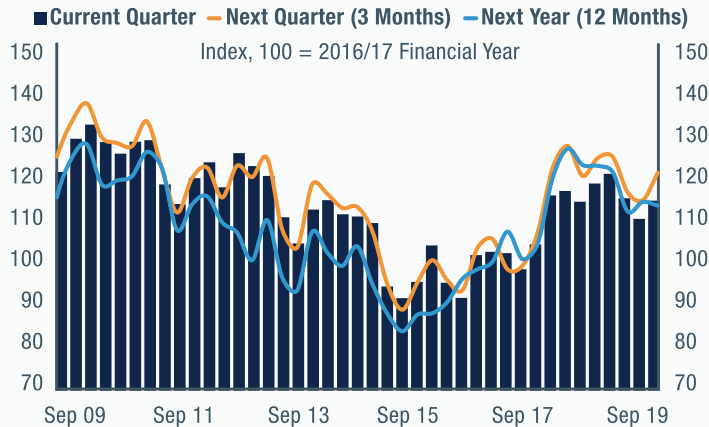


Business Confidence in the WA Economy
September 2019



The health care industry has led confidence in the economy this quarter, with almost two out of three (64%) health care businesses expecting stronger conditions

Business Confidence
Current, 3 Month and 12 Month Expectations



trade tensions between the United States and China and mounting uncertainty in the United Kingdom and Eurozone.

However, businesses are still relatively more optimistic about the WA economy over the medium-term, compared with current conditions.

By Industry

The health care industry has led confidence in the economy this quarter, with almost two out of three (64%) health care businesses expecting stronger conditions over the next 12 months compared to 7 per cent that expect weaker conditions. This may reflect increased demand for health-related services as Australia's population continues to age.

A greater proportion of businesses in mining (38%), construction (38%) and manufacturing (37%) also remain confident, with more expecting stronger economic conditions over the next 12 months compared to those expecting weaker conditions. One possible driver of this confidence is an expected rebound of business investment as the mining and resources industry gears up for a new round of capital investment.

Businesses in the agricultural sector are less confident about the future of the WA economy, with only 23 per cent anticipating

stronger conditions over the next 12 months, down 10 percentage points since last quarter. Wide-spread severe frost events in the Central, Southern and Eastern grain growing regions, combined with unseasonably warm conditions in the North, have led to a 10.4 per cent downgrade in 2019-20 harvest forecasts, which may have driven subdued sentiment this quarter. [GIWA 2019]

Employment

Business expectations for future employment opportunities have improved over the September quarter, with the Employment Index improving 3.5 points to 109.5.

Almost three out of ten (29%) businesses increased employment over the September quarter, up 9 percentage points since June, while 24 per cent employed fewer staff.

Looking ahead, one out of three (34%) businesses expect to increase their workforce over the next three months, up 6 percentage points, while almost half anticipate no changes (49%).

Three out of four (75%) small businesses expect their workforce to contract or remain unchanged and one out of three (33%) retail businesses plan to lay off staff over the next three months – the same as last quarter.

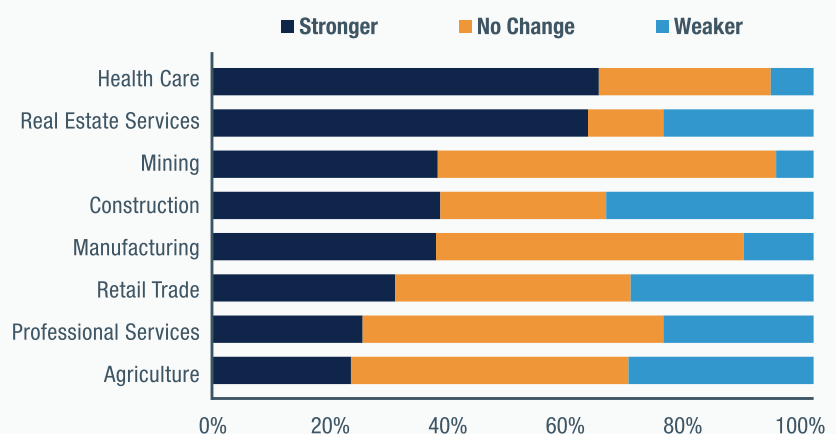
Production

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

One out of three (33%) businesses increased production during the September quarter – up 9 percentage points since last quarter. Almost half (43%) reported no change.

Looking ahead, businesses are expecting production levels to improve. More than two out of five (43%) businesses expect to increase production next quarter, up 8 percentage points and three times the proportion that anticipate production levels to fall (14%).

Industry expectations for WA's economy over the year



Profitability

The Profitability Index improved 3.6 index points to 99.5 over the quarter, however this is down 4.3 index points since this time last year. Last quarter, the Profitability Index fell to its lowest level in three years (95.9 index points).

Over half of businesses (52%) reported a decline in profitability over the September quarter, with only 12 per cent stating that their profit margins improved. This indicates that WA businesses continue to face tough operating conditions.

Capital expenditure

The Capital Expenditure Index fell 3.0 index points to 110.5 over the quarter, driven by a 4 percentage point increase in those that expect to reduce capital expenditure over the next three months.

The majority of businesses (63%) are anticipating stable levels of capital expenditure over the next three months, with about one out of five (23%) planning to increase investment levels – down 2 percentage points since last quarter.

Retail businesses continue to experience tough operating conditions, with only 13 per cent planning to increase their capital expenditure over the next three months.

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 increased 0.6 index points over the September quarter to 120.6. Almost one out of two (45%) businesses expect labour costs to increase next quarter, up 1 percentage point since last quarter. The majority of businesses (53%) expect labour costs to hold steady.

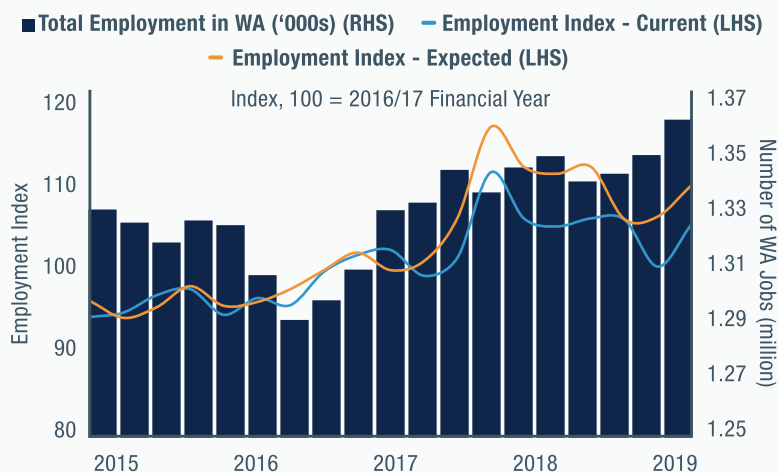
Almost all small businesses (97%) surveyed expect labour costs to either increase or remain the same over the next three months, with only 3 per cent expecting labour costs to decrease.

Levels of credit and debt

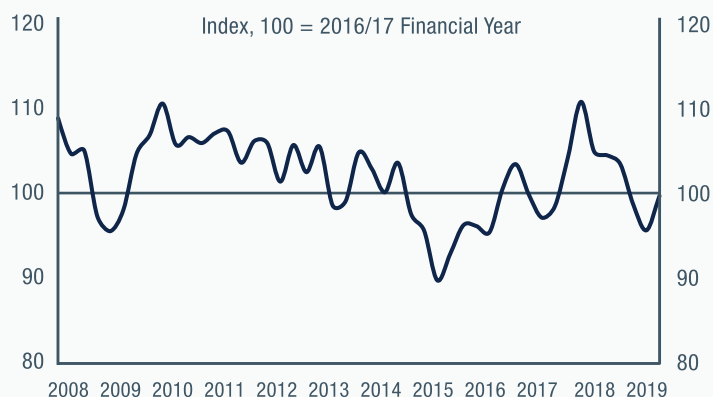
Monitoring credit and debt levels acts as a check-up on the general health of business.



Employment Actual and Expected Levels



Profitability Index Expectations for Business Profits for Next Quarter



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.

Almost three out of ten (29%) businesses increased their credit or debt levels this quarter, up 7 percentage points since last quarter, while only 5 per cent reported that their credit or debt levels had decreased, down 17 percentage points.

The majority of businesses (72%) are anticipating no change in their credit or debt levels over the next three months, with 6 per cent expecting levels to decrease – down 2 percentage points since last quarter.

Barriers to business

Two out of five (40%) businesses identified weak demand as the largest barrier to growing their business over the coming year, including 54 per cent of retail businesses and 42 per cent of manufacturing firms. This was followed by rising operating costs (24%) and

availability of skilled labour (24%).

Weak consumer spending is a key factor that is contributing to subdued demand, with the most recent *CCI Consumer Confidence Survey* (September 2019) reporting that almost two out of three (63%) WA consumers considered it unlikely that they would make any major household purchases next quarter.

Skilled labour shortages affected 44 per cent of mining companies and 57 per cent of health care businesses, which could signal growing wage pressure in these industries.

What does this mean for WA?

While WA businesses are more optimistic about general economic conditions over the next three months, tough operating conditions and subdued demand continue to strain profitability and limit business' expansion plans, particularly for those in the retail industry. Looking to the year ahead, WA businesses feel less confident about the future of the economy than they did last quarter, likely due to rising uncertainty associated with escalating global headwinds, including the US-China trade war and a slowing world economy.

Barriers facing business (CCIWA) and indicative unemployment rate (ABS)

Industry	Barrier (CCIWA)	Indicative Unemployment Rate (ABS)	
Wholesale Trade	Weak demand	64%	4.9%
Retail Trade	Weak demand	54%	2.9%
Manufacturing	Weak demand	42%	1.7%
Construction	Weak demand	35%	5.4%
Health Care	Availability of skilled labour	57%	1.8%
Mining	Availability of skilled labour	44%	3.3%
Agriculture	Availability of skilled labour	39%	1.8%

Business Confidence, September 2019

62%
expect economic conditions to
improve or stay the same
over the next 3 months

2 out of 5
anticipate **increases in production** next quarter

Weak demand
cited as **largest barrier** to business growth

4 out of 5
expect profit levels to **fall or remain stable** over the next three months

Mining and health care
remain **confident** and **upbeat** about economy

Key results from the survey

Indicator (Index)	Actual			Expected	
	Mar 19	Jun 19	Sep 19	1 Quarter	1 Year
Economy					
WA Economic Conditions	114.0	109.1	113.4	120.0	112.0
Operating Conditions					
Employment	105.7	100.4	105.1	109.5	-
Labour Costs	122.1	116.7	128.2	120.6	-
Anticipated CAPEX	-	-	-	110.5	-
Profitability	81.6	81.7	84.4	99.5	-

Sample:

Industry	
Manufacturing	19%
Construction	13%
Retail Trade	11%
Mining	7%
Health Care and Social Assistance	6%
Agriculture, Forestry and Fishing	6%
Wholesale Trade	5%
Other	33%
Business Size	
Small (1-10)	30%
Medium (11-100)	49%
Large (100+)	21%

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 September 2019 is 113.4, which suggests that the average score of survey respondents for economic conditions in September 2019 is 13.4 per cent higher than the average response in 2016/17.