



Chamber of Commerce
and Industry WA



wa super
Trust the locals

WA Super – CCI Survey of Business Confidence

March Quarter 2019
1300 4 CCIWA
economics@cciwa.com

JOBS AT RISK AS BUSINESS CONFIDENCE FALTERS

Hiring intentions have fallen and Western Australian businesses have entered 2019 with diminished confidence, according to the latest WA Super – Chamber of Commerce and Industry WA (CCI) Business Confidence Survey.

As the only WA-specific index in the country, the *WA Super – CCI Business Confidence Index* provides a snapshot of state-wide economic

conditions and business expectations.

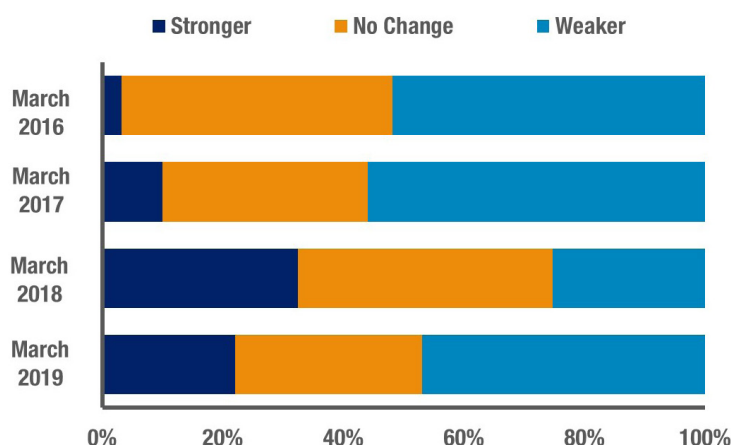
The March quarter's results indicate that business' confidence in the WA economy over the short-term (3-month) and medium-term (12-month) has fallen, signalling that businesses anticipate tougher conditions in the coming year.

The short-term business confidence index fell 8.6 index points to 115.2 over

the quarter, driven predominantly by a 15 per cent increase in those who expect weaker economic conditions over the next three months. Businesses are more pessimistic than they were this time last year, with only 22 per cent expecting conditions to improve, down 10 per cent since March 2018.

The medium-term business confidence index fell 9.6 index points to 110.6 over the quarter. Although more businesses are expecting the economy to strengthen (36%) rather than worsen (25%) over the year, the proportion that are expecting weaker conditions increased 9 percentage points since last quarter.

SHORT-TERM BUSINESS CONFIDENCE
A Four-Year Comparison



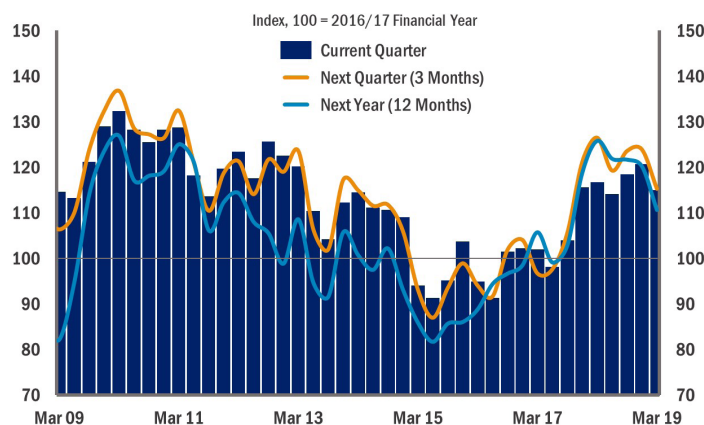
BY INDUSTRY

Despite a general decline in confidence over the March quarter, a greater proportion of businesses in professional services (56%), construction (35%), manufacturing (33%) and real estate (33%) are expecting stronger economic conditions over the next 12 months compared to those expecting weaker conditions.

ALMOST ONE OUT OF THREE (32%) RETAILERS ARE EXPECTING TO LAY OFF STAFF IN THE NEXT THREE MONTHS, COMPARED TO ONLY 9 PER CENT WHO ARE EXPECTING TO HIRE MORE WORKERS

BUSINESS CONFIDENCE

Current, 3-Month and 12-Month Expectations



While there are no businesses within the agricultural sector that are expecting stronger economic conditions over the next year, 75 per cent anticipate conditions to stay the same. This is likely due to the high benchmark set during last year's harvest, where grain producers recorded the largest crop on record by value and second largest by volume.

The mining industry continues to lead WA's confidence in the economy, with over half (58%) of businesses surveyed expecting stronger economic conditions for the year ahead.

The strength in mining confidence could be attributed to surging iron ore prices following a significant reduction in global supply (~50 million tonnes per year) after the collapse of a Brazilian tailings dam in January 2019 and subsequent decommissioning of a further ten dams in the region.

EMPLOYMENT

Business expectations for future employment opportunities have declined. The Employment Index fell 5.8 index points to 105.8 in March 2019 – the lowest level since September 2017.

Three out of ten businesses (30%) increased their employment levels over the March quarter, while almost one out of four

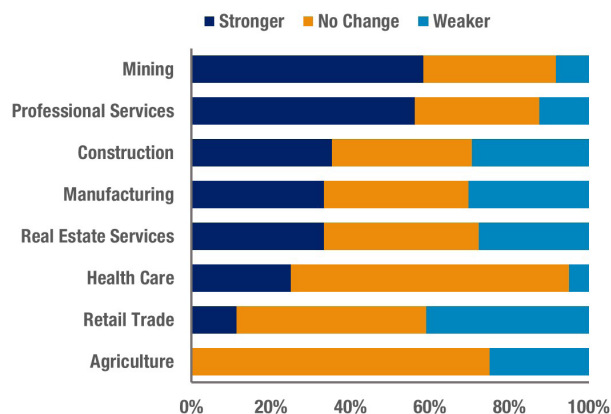
businesses (24%) employed fewer staff.

Looking ahead, one out of five businesses (20%) expect to reduce their workforce in the June quarter, up 5 per cent since December 2018. Fewer businesses are expecting to increase staff levels over the next three months (29%), with the majority expecting no changes (52%).

Three out of four (78%) small businesses (1-10 employees) expect their workforce to contract or remain unchanged over the next quarter.

Almost one out of three (32%) retailers are expecting to lay off staff in the next three

INDUSTRY EXPECTATIONS FOR WA'S ECONOMY OVER THE YEAR



months, compared to only 9 per cent who are expecting to hire more workers. This will not be welcome news to the 87,400 unemployed and 126,500 underemployed West Australians currently looking for work or additional hours (ABS, 2019).

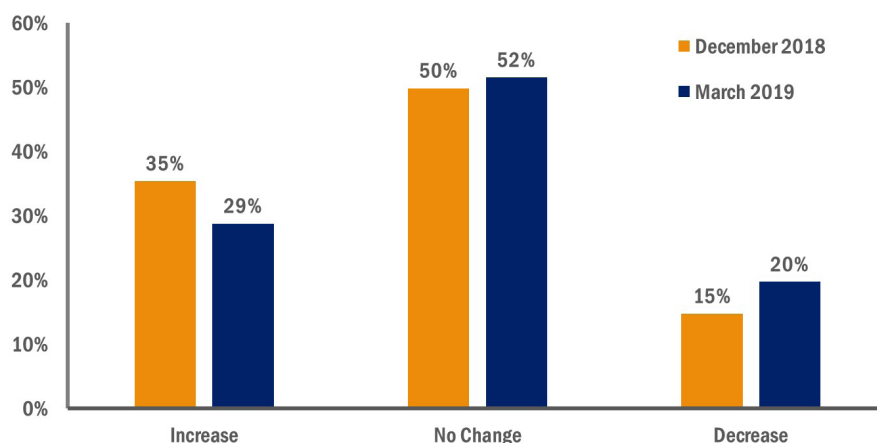
PRODUCTION

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

One out of three (35%) businesses reduced production during the March quarter – up 8 per cent since December 2018 and 15 per over the year.

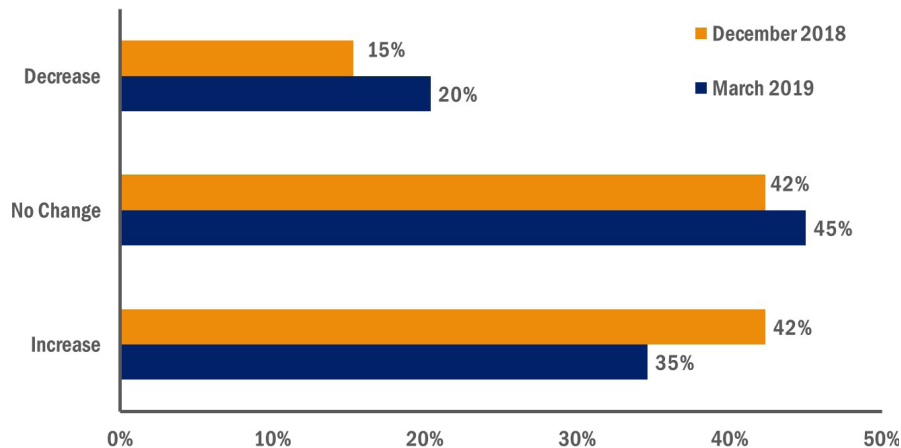
EXPECTATIONS FOR EMPLOYMENT

3-Month Outlook



ALMOST TWO OUT OF FIVE SMALL BUSINESSES (38%) EXPECT PROFIT MARGINS TO TIGHTEN OVER THE NEXT THREE MONTHS – DOUBLE THE PROPORTION THAT EXPECT PROFITABILITY TO INCREASE (19%)

EXPECTATIONS FOR PRODUCTION 3-Month Outlook



Looking ahead, businesses expect production levels to continue trending downwards. One out of five businesses (20%) expect to decrease production in the next three months, up 5 per cent since last quarter, and almost half (45%) anticipate no change.

PROFITABILITY

The Profitability Index fell 4.3 index points to 98.6 over the quarter, driven by a 9 per cent rise in those expecting profit levels to fall instead of remaining unchanged. This is the first time the index has sunk below 100.0 since September 2017.

One out of two businesses (55%) reported a decline in profitability over the March quarter, with only 10 per cent stating that their profit margins improved.

Almost two out of five small businesses (38%) expect profit margins to tighten over the next three months – double the proportion that expect profitability to increase (19%).

CAPITAL EXPENDITURE

One-quarter of businesses (26%) plan to increase capital expenditure this quarter and next quarter, however this is down 4 per cent since December.

Encouragingly, the majority of businesses (50%) in the mining industry plan to increase their capital expenditure over the next three months, as well as 35 per cent of healthcare firms and 29 per cent of businesses in the manufacturing sector. Continued business investment is critical to grow employment and the economy.

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 remained relatively steady over the three months to March 2019, falling 1.2 index points to 117.3. Over the next quarter, four out of ten businesses (40%) expect labour costs to increase, down 3 per cent since December 2018. Over half of businesses (56%) expect labour costs to hold steady.

LEVELS OF CREDIT AND DEBT

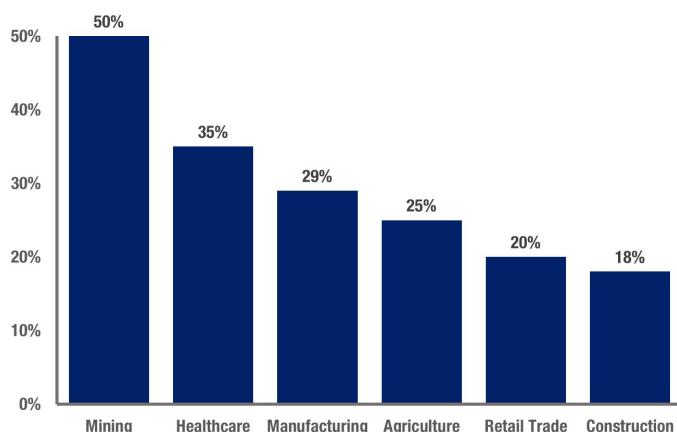
Monitoring credit and debt levels acts as a check-up on the general health of business. While rising debt levels can reflect an inability to repay borrowed money on time, it can also indicate increased financial confidence as businesses look to expand capacity by taking on manageable short-term debt.

Thirty-three per cent (33%) of businesses increased their credit or debt levels this quarter, but this is expected to drop by 8 percentage points to 25 per cent over the next three months. Three out of five (63%) businesses anticipate no change in their debt or credit levels next quarter.

BARRIERS TO BUSINESS

Thirty-eight per cent (38%) of respondents identified weak demand as the largest barrier to growing their business over the coming year, including six out of ten

CAPITAL EXPENDITURE Proportion Expecting Increases Next Quarter



(59%) construction firms – up 28 per cent since December 2018. This was followed closely by rising operating costs (29%) and availability of skilled labour (18%).

Weak consumer spending may have contributed to subdued demand levels, with the most recent CCI Consumer Confidence Survey (March 2019) reporting that two out of three (68%) WA consumers considered it unlikely that they would make any major household purchases next quarter.

Skills shortages may be starting to rise within pockets of the economy, with industries such as mining (44%) and health care (40%) considering availability of skilled labour as the biggest barrier to growing their business.

WHAT DOES THIS MEAN FOR WA?

WA businesses have brought in the new year with fresh concerns about the State's economic outlook. Weak

demand and growing uncertainty ahead of the upcoming Federal Election are weighing on the minds of WA businesses, with a greater proportion expecting to hire fewer workers and reduce production levels over the next three months.

Businesses indicate that narrower than expected profit margins and increased competition will put future expansion plans at risk, with small businesses and retailers particularly exposed to tougher business conditions.

BARRIERS FACING BUSINESS (CCIWA) AND UNEMPLOYMENT RATE (ABS)

Industry	Barrier (CCIWA)		Unemployment Rate (ABS)
Construction	Weak demand	59%	6%
Manufacturing	Weak demand	24%	5.5%
Financial and Insurance Services	Weak demand	43%	4.4%
Professional, Scientific & Technical Services	Weak demand	31%	4.3%
Retail trade	Weak demand	43%	4.3%
Wholesale Trade	Weak demand	43%	2.4%
Mining	Availability of skilled labour	42%	4%
Health Care	Availability of skilled labour	50%	2.5%
Transport & Postal Warehousing	Rising operating costs	50%	3.8%
Agriculture, Forestry and Fishing	Rising operating costs	38%	2.1%

BUSINESS CONFIDENCE, MARCH 2019



KEY RESULTS FROM THE SURVEY

Indicator (Index)	Actual			Expected	
	Sep 18	Dec 18	Mar 19	1 Quarter	1 Year
Economy					
WA Economic Conditions	117.5	119.8	114.0	115.2	110.6
Operating Conditions					
Employment	104.9	105.8	105.7	105.8	-
Labour Costs	125.0	123.4	122.1	117.3	-
Anticipated CAPEX	-	-	-	113.0	-
Profitability	86.9	87.8	81.6	98.6	-

SAMPLE:

Industry	
Retail Trade	18%
Manufacturing	14%
Mining	10%
Health Care and Social Assistance	8%
Real Estate Services	7%
Construction	7%
Professional, Scientific & Technical Services	4%
Other	32%
Business Size	
Small (1-10)	47%
Medium (11-100)	41%
Large (100+)	12%

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 March 2019 is 114.0, which suggests that the average score of survey respondents for economic conditions in March 2019 is 14.0 per cent higher than the average response in 2016/17.