

WA Super – CCI Business Confidence Survey:
June Quarter 2019

Business confidence softens as profitability falls

Western Australian business confidence has fallen in the June 2019 quarter, 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 Index provides a snapshot of state-wide economic conditions and business expectations.

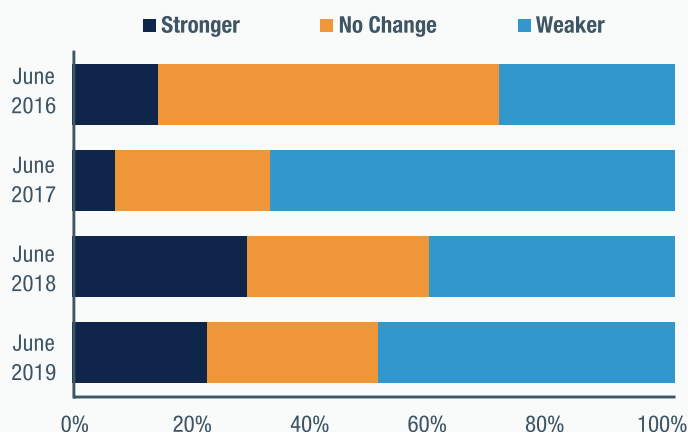
The June quarter's results indicate that WA businesses feel less confident about the WA economy over the short term (3-months) but expect the economy to begin improving over the medium term (12-months).

The divergence between short and medium-term confidence could reflect a variety of factors, including expectations of new mining and resources investment and additional cuts to the cash rate this year.

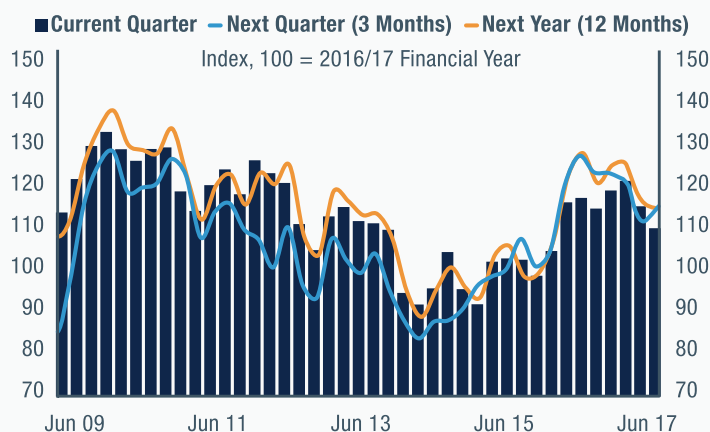
The short-term business confidence index fell 1.9 index points to 113.4 over the quarter, driven predominantly by a 4 per cent decrease in those who expect stronger economic conditions over the next three months. Businesses are more pessimistic than they were this time last year, with only 18 per cent expecting conditions to improve in the short term, down 11 per cent since June 2018.

Looking to the year ahead, businesses are expecting economic conditions to improve, with four out of ten (41%) anticipating

Short-term Business Confidence
A Four-Year Comparison

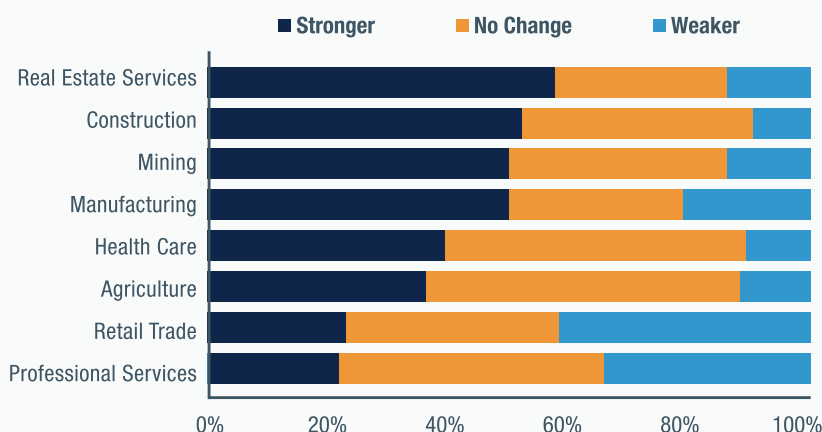


Business Confidence
Current, 3 Month and 12 Month Expectations



A greater proportion of businesses in mining, construction, manufacturing, healthcare and agriculture expect stronger economic conditions over the next 12 months

Industry expectations for WA's economy over the year



the WA economy to strengthen over the next twelve months, compared to 24 per cent who expect weaker conditions. The medium-term business confidence index improved 2.3 index points to 113.0 in June 2019, driven by a 5 per cent increase in those who expect stronger conditions.

By Industry

Despite a general decline in confidence over the June quarter, a greater proportion of businesses in mining (50%), construction (54%), manufacturing (50%), healthcare (42%) and agriculture (33%) expect 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.

The real estate industry has overtaken the mining industry as leading confidence in the economy this quarter, with almost three out of five (59%) real estate businesses expecting stronger conditions over the next 12 months compared to 12 per cent that expect weaker conditions. Certainty surrounding the future of negative gearing policy, expectations from the potential of interest rate cuts and a more stable credit supply following the tightening of lending conditions last year may have influenced this confidence.

However, businesses in retail trade continue to trail behind other industries in their confidence, with over two out of five (41%) retailers anticipating conditions to worsen, up 13 per cent since last quarter. More than one out of five (23%) retail businesses are expecting conditions to improve over the next 12 months.

Employment

Business expectations for future employment opportunities have remained steady, with the Employment Index improving 0.2 points to 106.0 this quarter.

One out of five (20%) businesses increased

employment over the June quarter, down 10 per cent since March, while 25 per cent employed fewer staff.

Looking ahead, 18 per cent of businesses expect to reduce their workforce over the next three months, down 2 per cent since last quarter. Almost three out of ten (30%) businesses plan to increase staff levels in the September quarter, with the majority expecting no changes (54%).

Four out of five (81%) small businesses (1-10 employees) expect their workforce to remain unchanged or contract over the next quarter.

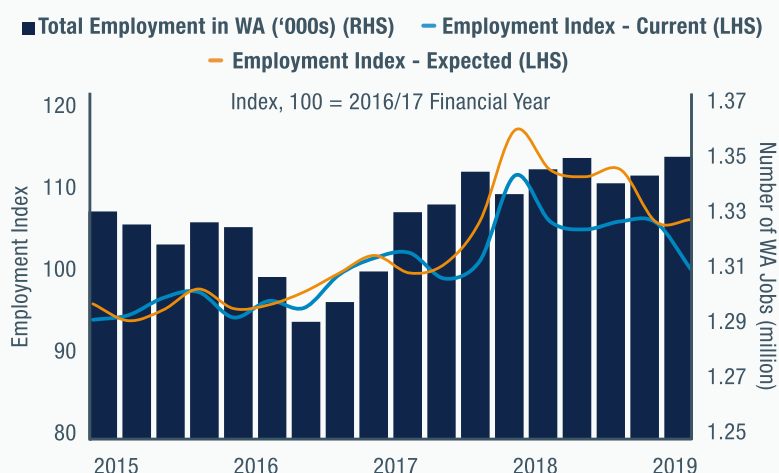
One out of three (33%) retailers are expecting to lay off staff over the next three months, compared to only 8 per cent who are expecting to hire more workers. This will not be welcome news to the almost 90,000 unemployed and 123,000 underemployed West Australians currently looking for additional hours of work (ABS, 2019).

Production

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

More than one out of three (36%) businesses reduced production during

Employment Actual and Expected Levels



the June quarter – up 1 per cent since last quarter and 16 per cent over the year.

Looking ahead, businesses are expecting production levels to begin improving. Thirty-five per cent (35%) of businesses expect to increase production next quarter, compared to 20 per cent who anticipate production levels to fall. Almost half (45%) anticipate no change.

Profitability

The Profitability Index fell 2.7 index points to 95.9 over the quarter – the lowest index value in three years.

Over half of businesses (56%) reported a decline in profitability over the June quarter, with only 10 per cent stating that their profit margins improved.

More than two out of five small businesses (43%) expect profit margins to tighten over the next three months, up 5 per cent since last quarter. Only 15 per cent of small businesses expect an increase in their profitability.

Capital expenditure

The Capital Expenditure Index improved 0.5 index points to 113.5 over the quarter, driven by a 3 per cent decrease in those that are expecting to reduce capital expenditure over the next three months.

One out of four businesses (25%) plan to increase capital expenditure next quarter, more than double the proportion that anticipate expenditure to decrease (10%).

Six out of ten (60%) healthcare firms are also anticipating their capital expenditure to rise, as well as 28 per cent of manufacturing firms and 33 per cent of businesses in the construction industry.

However, retail businesses continue to experience tough operating conditions, with only 5 per cent planning to increase their capital expenditure over the next three months – down 15 per cent since last quarter. This is associated with low retailer confidence and flat growth in discretionary retail spending.

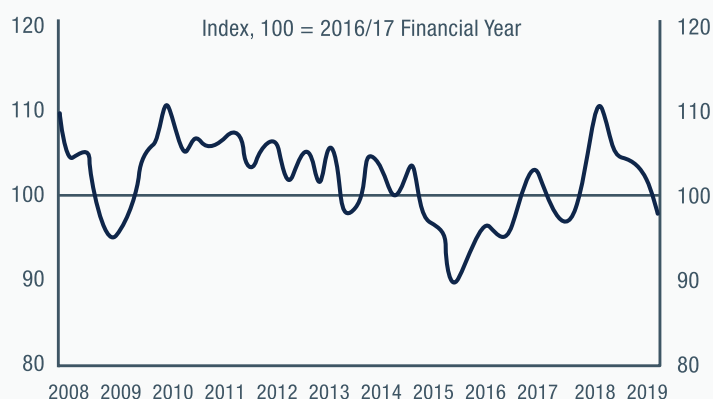
Labour costs

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



Almost all small businesses (97%) surveyed expect labour costs to either increase or remain the same over the next three months

Profitability Index
Expectations for Business Profits for Next Quarter



capacity to expand employment.

The Labour Costs Index increased 2.7 index points over the June quarter to 120.0. More than four out of ten businesses (44%) expect labour costs to increase next quarter, up 4 per cent since March 2019. Over half of businesses (54%) 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. 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 one out of four (23%) businesses increased their credit or debt levels this quarter, down 10 per cent since last quarter.

More than two out of three (69%) businesses are anticipating no change in their credit or debt levels over the coming quarter, with 8 per cent expecting levels to decrease – down 4 per cent since last quarter.

Barriers to business

More than two out of five (44%) businesses identified weak demand as the largest barrier to growing their business over the coming year, including one out of three (36%) manufacturing firms – up 12 per cent since the March 2019 quarter. This was followed closely by rising operating costs (23%) and availability of skilled labour (17%).

Weak consumer spending is a key factor that is contributing to subdued demand, with the most recent CCI Consumer Confidence Survey (June 2019) reporting that almost two out of three (65%) WA consumers considered it unlikely that they would make any major household purchases next quarter.

Skilled labour shortages affected 50 per cent of mining companies,

which could signal growing wage pressure in the industry.

One out of two (50%) health care businesses cited rising operating costs as the biggest barrier to growth.

What does this mean for WA?

Tougher than expected operating conditions and subdued demand have limited business' capacity to execute expansion

plans and sustain production growth this quarter. As a result, WA businesses reported tighter profit margins, subdued capital expenditure and difficulty growing their workforce. Nonetheless, WA businesses are expecting general economic conditions to improve in the medium-term (12 months) as the mining industry gears up for a new round of capital investment and the domestic economy begins to grow.

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

Industry	Barrier (CCIWA)		Indicative Unemployment Rate (ABS)
Retail Trade	Weak demand	44%	6.5%
Construction	Weak demand	41%	5.5%
Agriculture	Weak demand	42%	3.9%
Transport, Postal & Warehousing	Weak demand	43%	3.8%
Manufacturing	Weak demand	36%	2.2%
Wholesale Trade	Weak demand	57%	2.8%
Professional, Scientific and Technical Services	Weak demand	56%	2.6%
Accommodation and Food Services	Rising operating costs	70%	6.1%
Health Care	Rising operating costs	50%	2.1%
Mining	Availability of skilled labour	50%	2.4%

Business Confidence, June 2019

59%
expect economic conditions to **worsen** or **stay the same** over the next 12 months

Profitability index falls to **3-year low**



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

4 out of 5
Small Businesses
expect their workforce **will contract** or **remain unchanged** over the next three months

Mining and manufacturing businesses remain **confident** and **upbeat** about **economy**



Key results from the survey

Indicator (Index)	Actual			Expected	
	Dec 18	Mar 19	Jun 19	1 Quarter	1 Year
Economy					
WA Economic Conditions	119.8	114.0	109.1	113.4	113.0
Operating Conditions					
Employment	105.8	105.7	100.4	106.0	-
Labour Costs	123.4	122.1	116.7	120.0	-
Anticipated CAPEX	-	-	-	113.5	-
Profitability	87.8	81.6	81.7	95.9	-

Sample:

Industry	
Retail Trade	18%
Manufacturing	17%
Construction	13%
Real Estate Services	8%
Agriculture	6%
Health Care	6%
Accommodation and Food Services	5%
Other	27%
Business Size	
Small (1-10)	47%
Medium (11-100)	40%
Large (100+)	13%

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 2019 is 109.1, which suggests that the average score of survey respondents for economic conditions in June 2019 is 9.1 per cent higher than the average response in 2016/17.