

WA Super – CCI Business Confidence Survey: December Quarter 2019

Consumer strike continuing to hit business confidence

The slowdown in consumer spending is continuing to weigh on the confidence of Western Australian businesses, according to the latest *WA Super – CCI Business Confidence Survey*.

The Short-Term Business Confidence Index fell by 1.1 index points over the December quarter to 118.9, driven by an increase in the number of businesses who expect weaker economic conditions over the next three months.

This marks a drop in confidence from the September quarter, when businesses were more confident about the Western Australian economy in the lead up to Christmas.

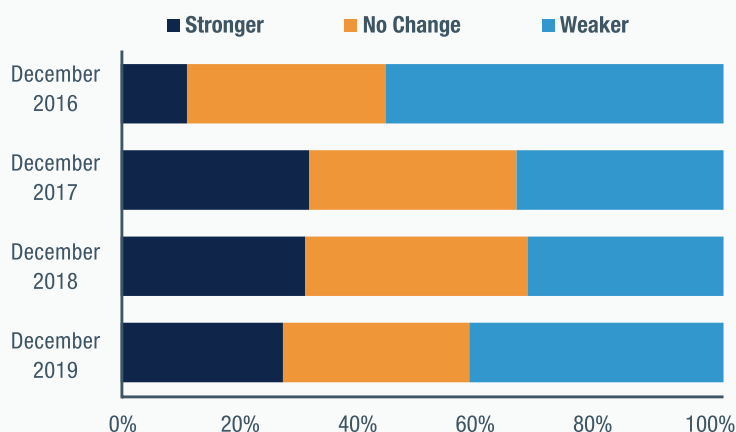
In a positive sign, expectations of a new round of mining related investment is helping to boost confidence over the next 12 months.

Beyond the mining and construction sectors however, there is a general lack of confidence in the medium-term outlook, especially in the retail and agriculture sectors.

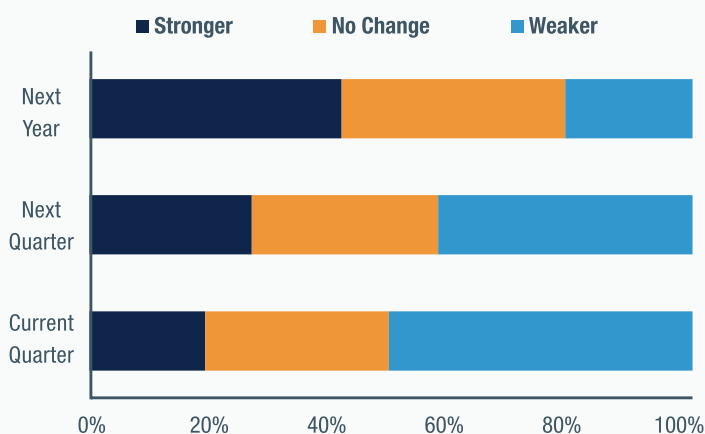
By Industry

The construction industry has led confidence in the economy this quarter, with two out of three (66%) construction businesses expecting stronger conditions over the next twelve months (compared with the previous twelve months). This may reflect an expected rebound of business

Short-term Business Confidence A Four-Year Comparison

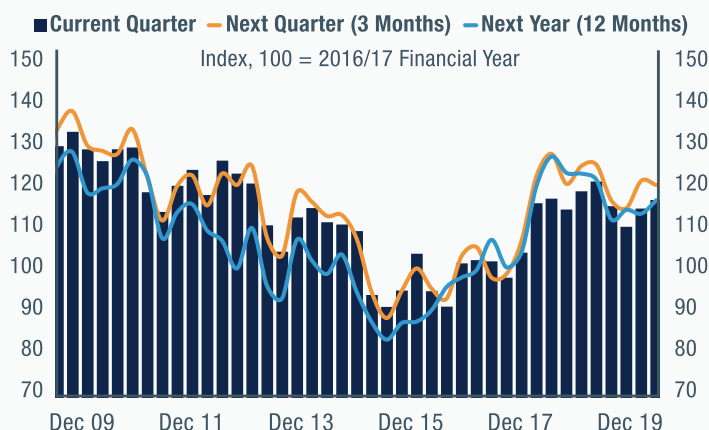


Business Confidence in the WA Economy December 2019



Almost four out of five small businesses expect their workforce to contract or remain unchanged over the next three months – up 4 percentage points since last quarter

Business Confidence Current, 3 Month and 12 Month Expectations



investment in the mining industry over the coming year, which will help support a recovery in construction activity.

Over half (57%) of mining businesses surveyed anticipate stronger economic conditions over the next twelve months – up 19 percentage points since last quarter.

In contrast, businesses in the retail industry remain pessimistic about the future of the WA economy, with almost four out of ten (39%) expecting weaker economic conditions over the next twelve months – up 9 percentage points since last quarter. This is higher than the proportion that expect stronger conditions (32%).

Employment

Business expectations for future employment opportunities have eased over the December quarter, with the Employment Index falling 0.9 points to 108.6.

More than one third (36%) of businesses increased employment over the December quarter (up 8 percentage points), while 23 per cent employed fewer staff.

Looking ahead, three out of ten (32%) businesses expect to increase their workforce over the next three months, down 2 percentage points, while around half anticipate no changes (51%).

Almost four out of five (79%) small businesses expect their workforce to contract or remain unchanged over the next three months – up 4 percentage points since last quarter.

Production

More than one out of four (28%) businesses reduced production during the December quarter – up 3 percentage points since last quarter. Almost half (41%) reported no change.

Looking ahead, businesses are expecting production levels to continue trending downwards. One out of five (22%) businesses expect to decrease production

next quarter, up 8 percentage points. Only 37 per cent anticipate production levels to improve over the next three months – down 6 percentage points since last quarter.

Profitability

The Profitability Index improved 1.5 index points to 101.0 over the quarter – the first time the index has risen above 100.0 in the 2019 calendar year. While it is encouraging to see profit expectations trend upwards, the Profitability Index is still down 1.9 index points compared to this time last year.

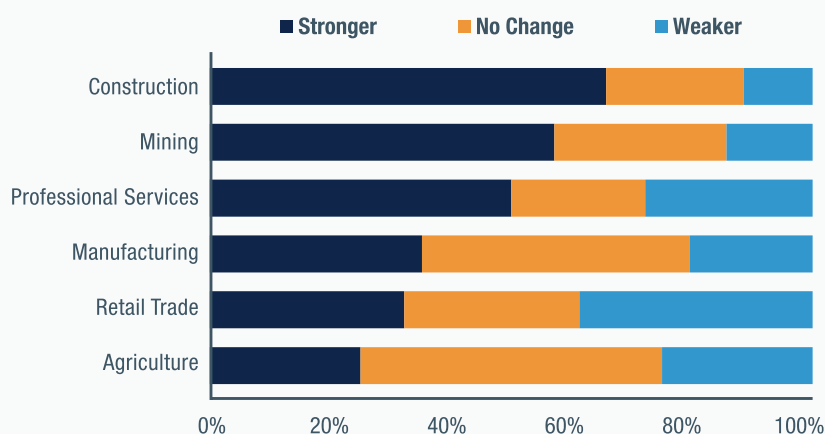
Over half of businesses (54%) reported a decline in profitability over the December quarter, while only 17 per cent stated that their profit margins improved. This indicates that WA businesses continue to face tough operating conditions.

Capital expenditure

The Capital Expenditure Index improved 2.8 index points to 113.3 over the quarter, driven by a 4 percentage point increase in those that plan to ramp up their levels of capital expenditure over the next three months.

The majority of businesses (61%) expect stable levels of capital expenditure over the next three months, while around one out of ten (12%) plan to reduce investment levels – down 2 percentage points since last quarter.

Industry expectations for WA's economy over the year





Encouragingly, almost half (48%) of businesses in the mining industry expect their levels of capital expenditure to increase over the next three months. Continued business investment is critical to grow jobs and the economy.

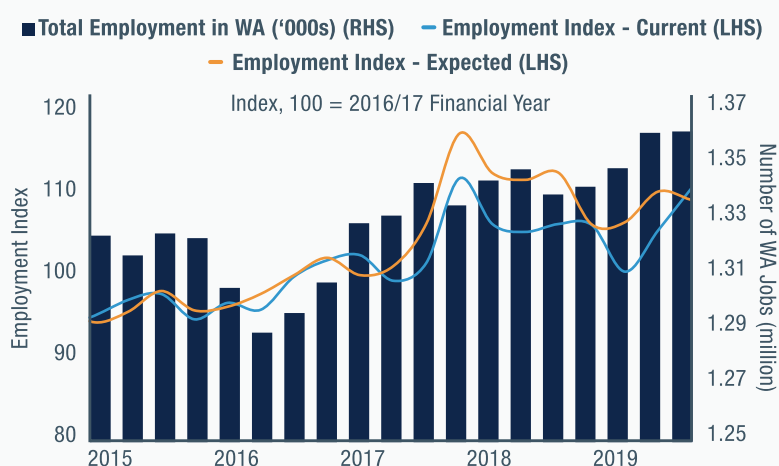
Labour costs

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 fell 1.1 index points over the December quarter to 119.6. Around two out of five (43%) businesses expect labour costs to increase over the next three months, down 2 percentage points since last quarter. The majority of businesses (56%) 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, while only 3 per cent expect labour costs to decrease.

Employment Actual and Expected Levels



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.

Three out of ten (29%) businesses expect to borrow more money over the next three months – up 8 percentage points since last quarter. This is consistent with increased resources investment and suggests that businesses are spending more on workers or machinery now in order to get work underway on construction contracts.

Despite improved expectations around profitability, capital expenditure and labour costs, WA businesses will end the decade with heightened concerns about the WA economy

Barriers to business

Almost two out of five (39%) businesses identified weak demand as the largest barrier to growing their business over the coming year. This was followed by rising operating costs (26%) and availability of skilled labour (20%).

Weak consumer spending is a key factor contributing to subdued demand, with the most recent *CCI Consumer Confidence Survey* (December 2019) reporting that almost two out of three (65%) WA consumers considered it unlikely that they would make any major household purchases (of more than \$2,000 in value) over the next three months.

Skilled labour shortages affected half (52%) of mining companies, up 8 percentage points since last quarter.

What does this mean for WA?

Despite improved expectations around profitability, capital expenditure and labour costs, WA businesses end the decade with heightened concerns about the WA economy. Tough operating conditions and subdued demand continue to weigh on the

minds of WA businesses, with a greater proportion expecting to hire fewer workers and reduce production levels over the next three months. Looking to the year ahead, WA businesses expect conditions to improve as the mining industry commences a new round of capital investment and the WA economy starts to grow.

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

| Industry | Barrier (CCIWA) | Indicative Unemployment Rate (ABS) | |
|-----------------------|--------------------------------|------------------------------------|------|
| Construction | Weak demand | 40% | 5.4% |
| Professional Services | Weak demand | 42% | 2.4% |
| Retail Trade | Weak demand | 39% | 2.9% |
| Manufacturing | Weak demand | 39% | 1.7% |
| Agriculture | Weak demand | 31% | 2.9% |
| Mining | Availability of skilled labour | 52% | 3.3% |

Business Confidence, December 2019

73%
expect economic conditions to **weaken** or **stay the same** over the next 3 months

1 out of 4 anticipate **increases in capital expenditure** next quarter

Rising operating costs cited as **largest supply-side barrier** to business growth

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

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

Key results from the survey

| Indicator (Index) | Actual | | | Expected | |
|-----------------------------|--------|--------|--------|-----------|--------|
| | Jun 19 | Sep 19 | Dec 19 | 1 Quarter | 1 Year |
| Economy | | | | | |
| WA Economic Conditions | 109.1 | 113.4 | 115.4 | 118.9 | 115.3 |
| Operating Conditions | | | | | |
| Employment | 100.4 | 105.1 | 109.8 | 108.6 | - |
| Labour Costs | 116.7 | 128.2 | 123.2 | 119.6 | - |
| Anticipated CAPEX | - | - | - | 113.3 | - |
| Profitability | 81.7 | 84.4 | 86.1 | 101.0 | - |

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 2 is 115.4, which suggests that the average score of survey respondents for economic conditions in December 2019 is 15.4 per cent higher than the average response in 2016/17.

Sample:

| Industry | |
|---|-----|
| Manufacturing | 21% |
| Construction | 14% |
| Retail Trade | 12% |
| Mining | 8% |
| Professional, Scientific & Technical Services | 7% |
| Agriculture, Forestry and Fishing | 6% |
| Health Care and Social Assistance | 4% |
| Other | 28% |
| Business Size | |
| Small (1-10) | 36% |
| Medium (11-100) | 49% |
| Large (100+) | 16% |