

WA Super – CCIWA Business Confidence Survey: September Quarter 2020

Short-term outlook recovers, but longer- term uncertainty remains amidst border impacts

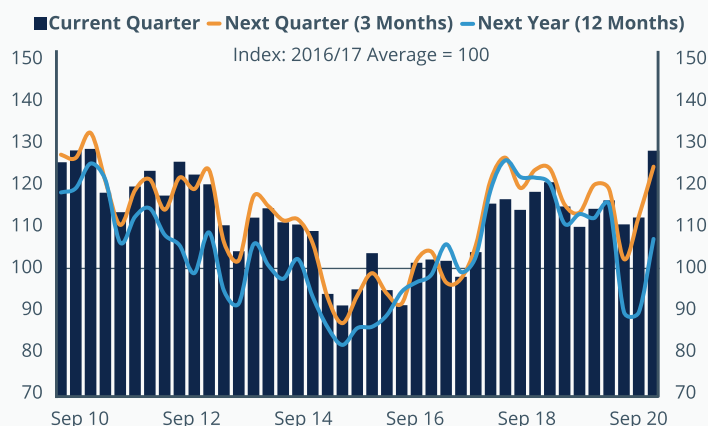
Western Australian short-term business confidence has recovered, according to the latest *WA Super – CCIWA Business Confidence Survey*. The short-term improvement was driven by record fiscal support, ongoing success at controlling the virus, and the reopening of the domestic economy.

At the same time, WA businesses remain uncertain about the 12-month outlook, with longer-term business confidence still well down on pre-pandemic levels. For many businesses, these concerns reflect uncertainty about the duration of border closures and the impacts on their business. In this special edition of the *WA Super – CCIWA Business Confidence Survey*, we take a deep dive into the impacts of border closures on the WA business community, including unique case studies from the experiences of individual businesses.

The WA Super – CCIWA Business Confidence Survey uses online responses from businesses in both metropolitan Perth and regional WA. In the September edition, 345 WA businesses were surveyed between 31 August and 18 September. All index values are based to the 2016-17 financial year.

Business Confidence

Current, 3-Month and 12-Month Expectations



Source: WA Super - CCIWA (2020)

Business Confidence - September 2020



More than **1 out of 3 (36%)** businesses are impacted to a 'great' or 'moderate' extent by **interstate border closures**

Short-term confidence up to **highest level** since March 2018



Longer-term outlook remains **uncertain**



1 out of 4 (25%) cite **availability of skilled labour** as the **largest barrier** facing their business in the year ahead



Short-term outlook up as economy reopens

Confidence in the short-term (3 months) outlook is at its highest level since March 2018, driven by a significant fall in the proportion of WA businesses expecting weaker economic conditions.

One out of three (34%) WA businesses believe conditions will worsen over the next three months, down 18 percentage points since last quarter. At the same time, three out of ten (31%) anticipate stronger conditions – up 9 percentage points. The remaining 35 per cent anticipate no change.

**Short-Term Index up
12.0 Index Points over the
quarter to 124.3**

The longer-term outlook has improved, but uncertainties remain

While the longer-term (12 months) outlook has partly recovered since falling to record lows in the June quarter, it remains well below the level it was in December 2019.

One out of three (33%) businesses expect the WA economy to

improve over the year ahead, up 17 percentage points since last quarter.

At the same time, nearly two out of five (38%) believe conditions will deteriorate over the next twelve months. In December 2019, only 21 per cent of businesses expected the WA economy to worsen over the longer-term.

**Longer-Term Index
up 17.6 Index Points over the
quarter to 107.0**

The industries driving short-term confidence

A higher proportion of businesses in the manufacturing sector (47%) expect stronger economic conditions over the next three months. This is likely due to recent announcements from the Commonwealth Government to shore up local production and strengthen domestic supply chains in the wake of COVID-19.

Other sectors with a higher proportion of businesses expecting conditions to improve rather than weaken include education & training (38%) and health care (33%). Confidence in education likely reflects increased demand by local workers to re-train amidst disruptions to their employment.

Healthcare businesses are continuing to experience pandemic-driven demand for their services.

At the same time, confidence appears low in other sectors. A relatively high proportion of businesses in the professional services (45%) real estate (39%) and retail trade (38%) sectors are expecting weaker economic conditions over the next three months.

Barriers to business

One out of four (26%) businesses identified weak demand as the largest barrier to growing their business over the coming year, including two out of five (42%) businesses in retail – up 18 percentage points since last quarter.

At the same time, the availability of skilled labour has surged as a concern, increasing from 14 per cent in the June survey to 25 per cent. Concerns around labour shortages are most prominent in construction (44%), health care (39%) and resources (32%). Looking to the regions, skilled labour shortages affected four out of ten (40%) businesses in the Goldfields and two out of five (19%) in the Kimberley.

As outlined in the following sections, this is overwhelmingly due to ongoing border restrictions.

The impact of border restrictions

The Federal Government is assuming a vaccine for COVID-19 is more than 12 months away, and even if one does arrive it may not be the panacea we all hope for. As such the threat of COVID-19 may be with our economy for a long time yet. In this context, it is vitally important that decision makers fully understand the impacts of border restrictions on all businesses. In this survey, we posed the following question to respondents:

- To what extent does your business currently suffer from the following measures?

Respondents were asked to answer this question with respect to 1) inter-state and 2) international border closures.

One out of three businesses (33%) are currently unaffected by interstate border closures. This is, however, down from 39 per cent in the June quarter survey. Another 30 per cent are only impacted to a 'slight' extent. Businesses most likely to be currently unaffected by interstate border closures operate in the education, health care and wholesale trade sectors. That is, mostly the public sector. A number of other businesses would currently be benefiting

to a significant extent from government support measures.

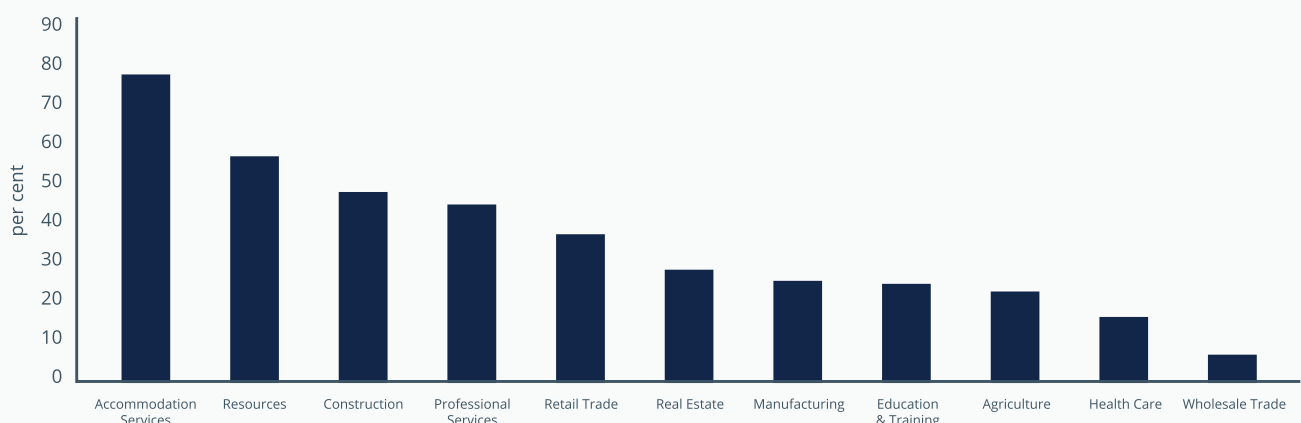
While many businesses remain unaffected, more than one out of three (36%) indicated they are impacted to a 'great' or 'moderate' extent from interstate border closures. This is in line with the result in the June quarter survey. The proportion of WA businesses indicating they are impacted to a great extent has increased from 13 per cent to 15 per cent since June. Businesses in the resources (57%), construction (48%), professional services (45%) and retail (38%)

sectors were most likely to indicate they are impacted to a great or moderate extent.

Looking to regional WA, businesses in regions north and east of Perth appear most heavily impacted by interstate border closures. Most businesses operating in the Kimberley (74%), Goldfields (70%) and Pilbara (60%) indicated that they are impacted to a great or moderate extent. Those operating in regions south of Perth appear less affected, including businesses in the South West (29%) and Great Southern (20%).



Businesses impacted to a 'great' or 'moderate' extent by interstate border closures
By Industry





How interstate border restrictions are impacting businesses

The impacts of border restrictions go well beyond tourism. In this special edition of the *WA Super – CCIWA Business Confidence Survey*, we identified how businesses across the economy are being impacted by the closure of interstate borders. In separate feature boxes, we bring to light the real stories of how current border arrangements are hurting WA businesses.

Supply chain issues

Around four out of ten (44%) businesses indicated they are experiencing issues with their supply chain, such as transport delays and difficulty sourcing products.

Businesses in the manufacturing (62%) and retail trade (58%) sectors are most likely to experience supply chain disruptions. These sectors all rely, to some extent, on air freight as a component of their supply chain, which brings small and either high value or perishable products. As a unique example, WA based florists have indicated that they struggling to access stock.

Business Focus: Ranger Exploration Drilling

Ranger Exploration Drilling is a WA-based drilling exploration company. They have reported delays

in accessing drilling-related machinery from other states and rely heavily on air freight for the delivery of truck and mechanical parts. Given the buoyancy of WA's mining and exploration industry, these delays are limiting Ranger's ability to capitalise on growth opportunities and maintain business continuity.

Business Focus - Kimberley Fine Diamonds

Kimberley Fine Diamonds relies on air freight from the eastern states. With the reduced number of flights from the east, they are waiting three times longer which is impairing their business.

Access to skilled workers

Interstate border restrictions have created significant challenges for businesses that rely on accessing skilled and specialist workers from other states. As a result, skills shortages have started to emerge in pockets of the economy.

Around one out of five (21%) businesses reported they are struggling to access skilled workers from other states. Businesses most likely to report skilled labour shortages operate in the resources (43%), construction (37%) and health care (33%) sectors.

These results are consistent with the latest internet job advertisement data, which showed job ads for construction and mining labourers increased 90 per cent in August (compared to the same time last year). At the same time, job listings for construction trades workers increased 53 per cent.

There have also been anecdotal reports of mid-sized mining services companies unable to access skilled workers.

Business Focus: Hughes Engineering

Hughes Engineering is a Kalgoorlie based steel fabrication, construction and maintenance services business. Tied closely to the gold industry, they are expecting business activity to increase substantially over the next quarter. It has become increasingly more difficult sourcing both skilled and unskilled workers. The loss of temporary visitors, including backpackers, has reduced the pool of unskilled labour, and strong construction activity in Perth and the Pilbara has tightened the market for essential tradespeople. They currently have enough work to hire at least five additional fabricators. Whilst they understand the need for hard border closures that

One out of five businesses indicated interstate border restrictions have made it harder to access customers, including nearly three out of ten in the real estate sector.

Government have imposed, they are looking to Government to assist Regional WA to be a lucrative and viable option for potential candidates. Consideration of financial incentive to encourage permanent relocation to regional centres such as Kalgoorlie – Boulder, to live where you work, drive local economic growth via the notion of substantial Regional Tax Zoning Offsets.

Business Focus: DDH1 Drilling

DDH1 Drilling provides drilling services that are critical for project assessments for both top tier miners and small explorers. Their operations extend across Australia. The operation is very mobile, so crossing state borders is integral to their business model. With many drillers living on the Sunshine Coast, they are now unable to access enough workers in Western Australia and those they do impose an extra cost of down-time and hotel expense.

Business Focus: BVA Metal Fabrications

BVA Metal Fabrications is a Bunbury based metal fabrication and manufacturing business. BVA are trying to hire boiler makers and sheet metal fabricators. They are getting very few applicants — indeed for some job postings on SEEK they have received zero. These sorts of skills are often filled by people living interstate, and as such the interstate border restrictions are currently hampering their ability to fill their workforce needs.

Access to customers

One out of five (21%) businesses indicated interstate border restrictions have made it harder to access customers, including nearly three out of ten (29%) in the real estate sector.

Business Focus: InStyle Adventures Broome

InStyle Adventures Broome is a specialist 4WD tour company offering private guided tours of the Kimberley. While they have a full season pre-booked for the 2021 touring period, almost all of their reservations have been made by customers in other states. If borders do not open by March next year, they are likely to lose over 80% of their business income and not be able to employ any staff.

Business Focus: Perth Convention and Exhibition Centre

A significant portion of PCEC's clientele is from the eastern states. As it becomes increasingly likely that Western Australia will lag the rest of the country in reopening its borders, more and more customers are increasingly postponing or cancelling future events in Perth. Some events are being cancelled as far out as late next year, resulting in a delayed industry recovery until 2022/23.

Business Focus: Lake Argyle Resort

Lake Argyle Resort, just 40km from the NT border, has worked hard for over 15 years to develop and maintain a year-round business, with most of its clientele coming from the NT and Queensland in the off season. While the State Government's efforts to increase flights have helped, the vast majority of the accommodation traditional visitor market comes from people on interstate road trips. These interstate road trippers spend vastly more on activities and tours than others. The biggest concern now with the ongoing stance on borders is that tour groups that delayed deferred 2020 tours into next year are now starting to cancel 2021 bookings and take groups to other parts of Australia that are more likely to be open. People working in the tourism & hospitality industry are also increasingly turning away, unable to accept the ongoing uncertainty over their future work and the restrictions on traveling interstate to visit family and friends over the Christmas period.





Over the past 3 weeks, Lake Argyle Resort has received 6 resignations of long term key employees (on JobKeeper) as media reports of the borders remaining closed until April or June 2021 continue.

Business Focus: Kimberley Croc Motel

The Kimberley Croc Motel, located in Kununurra, derives around half of its clientele from other states. While the government's work to create cheap flights helped, they are now in a 'financial nightmare', and are desperately hoping for a decision on borders to be made in the next couple of months.

Business Focus: Leedal

Leedal is an Indigenous-owned organisation that includes among its businesses caravan parks and motels in the Fitzroy Crossing area. They are currently down around 80% in their caravan parks due to insufficient tourists in the area, and are expecting to struggle to attract workers in the coming months.

Cannot travel to other States

Almost one out of five (19%) businesses indicated they cannot travel to other states to deliver their services, including half of businesses in the professional services (50%) sector.

These businesses need to travel interstate to pitch their services and meet with current or prospective clients. As other states reopen to one another, Western Australian service providers are increasingly at a competitive disadvantage.

Business Focus: QED Environmental Services

QED Environmental Services are highly specialised inspectors and performance-assessors of commercial and industrial properties. Exports of their services to other states support jobs in WA whilst ensuring top specialists are domiciled locally for the benefit of WA. Their services cannot be delivered remotely as technicians are required to be physically on-site during sampling.

Business Focus: Australian Venture Consultants

Australian Venture Consultants is a policy and strategy consulting and advisory firm, based in Perth servicing clients across the Nation. The continued uncertainty over WA's border restrictions is starting to undermine their competitiveness in the Eastern States markets. Analysing and providing advice to clients on complex strategic and policy issues requires deep interaction with the client and a diverse range of stakeholders – something that is not achievable through online meeting platforms. As other interstate border reopen, Australian Venture Consultants is increasingly at a competitive disadvantage.

Business Focus: Industrial Steps & Ladders

Industrial Steps & Ladders produce plastic modular ladders and plastic encapsulated step irons for access entryways and commercial applications. Their sales on the east coast are currently suffering due to being unable to travel and meet with distributors.

Business Focus: **Chemo At Home**

Chemo At Home provide chemotherapy treatments to patients in the comfort of their own homes. They provide these services in other states and are trying to expand. To do so they need to train people in those states. They are at a competitive disadvantage due to the costs they would have to bear from quarantining when returning to WA.

Business Focus: **Echo Marine Group**

Echo Marine Group provides design, project management, shipbuilding and repair services. Echo recently secured work to install a flooring system on a defence project in Sydney. They need to train someone in NSW to install the product which is restricting their ability to provide the service.

Business Focus: **Kununurra Rural Traders**

Kununurra Rural Traders operate Pest Management and Fire Safety businesses, with many clients in the Northern Territory. The business has been built over 20 years, and now faces ruin as it cannot bear the cost of return quarantining.

Business Focus: **Airscope**

Airscope is a Belmont based SME that builds high resolution, 3D digital representations of 'as built' large scale commercial infrastructure. Its main customers are Oil and gas producers. Airscope recently pitched for work in South Australia with an existing customer however the cost of return quarantine for its team members put it at a competitive disadvantage against competitors and ultimately they lost the work.

Require businesses to travel to WA to deliver services

Around one out of ten (11%) respondents indicated they require businesses to travel from other states to deliver services, including almost one out of four (23%) agricultural businesses. These businesses are more likely to operate in physical environments that require hands-on services, particularly in seasonal harvesting periods.

Employees are suffering personal or family issues

Almost one out of four (23%)

businesses indicated their employees are currently suffering personal or family issues because of interstate border restrictions. These concerns are most prominent within the healthcare (44%) and resources (43%) sectors.

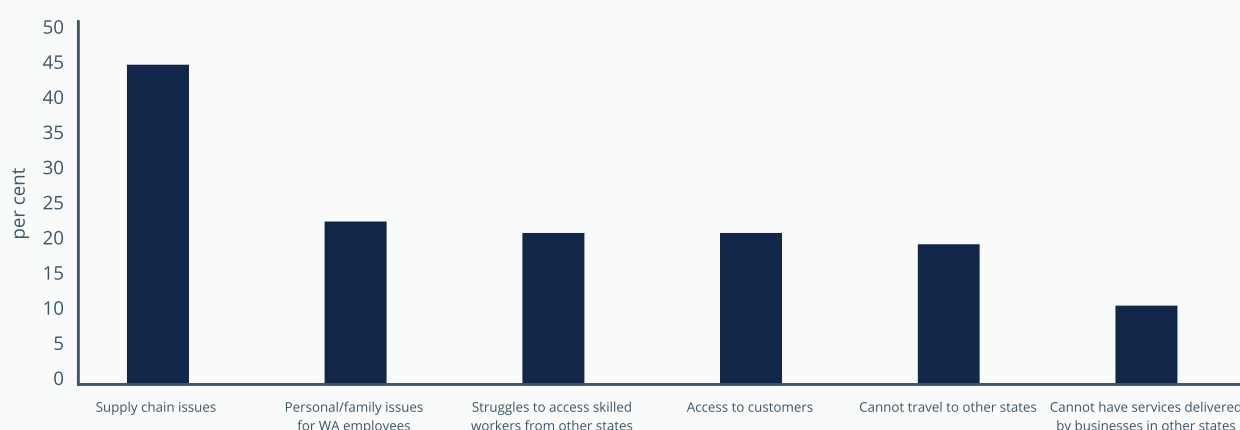
For businesses with agile workforces, such as those with a higher proportion of FIFO roles, interstate border restrictions have meant some employees based outside of WA have been unable to return home.

Business Focus: **Ranger Exploration Drilling**

As noted above, Ranger Exploration Drilling is a WA based mining exploration company. A portion of their workforce are employed under FIFO contracts and are based in other states. Since WA's border restrictions were introduced, employees stuck in their home state have been unable to fly to Western Australia for work and have suffered financial setbacks as a result. At the same time, those stuck within WA have been unable to fly back to their home state. These impacts are having a negative effect on their employees' wellbeing.

Almost one out of four businesses indicated their employees are currently suffering personal or family issues because of interstate border restrictions

How is your business currently being impacted by interstate border closures?



The impact of JobKeeper Expiry

The eligibility requirements for JobKeeper were tightened on September 27, marking the end of financial support for many Australian workers. We surveyed WA businesses before these changes were applied to assess the extent to which businesses could continue operating without financial assistance.

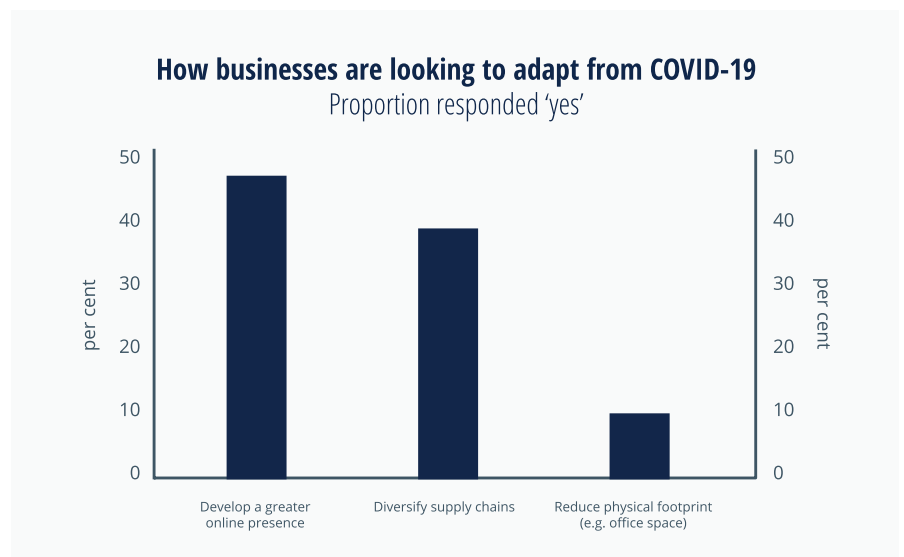
Around half (49%) of businesses indicated they were receiving JobKeeper before changes to the eligibility criteria. Of these businesses, 33 per cent expected to continue receiving support after the changes were applied, while almost half (49%) did not expect to remain eligible.

Concerningly, one out of four (24%) businesses reported they are not confident they can survive without JobKeeper. Another 4 per cent are unsure.

How businesses are looking to adapt in the face of the crisis

This quarter, we sought to identify how businesses are planning to evolve in the wake of COVID-19. In particular, we explored the extent to which businesses are looking to diversify their supply chains, develop a greater online presence and reduce their physical footprint.

Almost half (46%) of businesses are



developing or intend to develop a greater online presence, while around two out of five (38%) intend to diversify their supply chains. One out of ten (10%) are looking to reduce their physical footprint, such as their office space.

Looking across industries:

- Businesses most likely to diversify their supply chains operate in the agriculture (46%), manufacturing (45%) and resources (43%) sectors.
- Businesses most likely to develop their online presence operate in the wholesale trade (64%), retail trade (54%) and real estate (54%) sectors.
- Businesses most likely to be looking to reduce their physical footprint operate in the real estate (36%), construction

(19%) and professional services (15%) sectors.

While only 10 per cent of businesses are looking to reduce their physical footprint, this figure rises to 34 per cent for businesses located in the Perth CBD. Businesses in the Perth CBD are looking to cut down on space for the following reasons (which are not mutually exclusive):

- 90 per cent indicated that more of their staff are working from home.
- 60 per cent indicated that they are planning to cut down on staff numbers.
- 40 per cent indicated that they have already reduced staff numbers.
- 20 per cent reported that they can no longer afford their current space.

Key results from the survey

Indicator (Index)	Actual			Expected	
	Mar 20	Jun 20	Sep 20	1 Quarter	1 Year
Economy					
WA Economic Conditions	109.7	111.3	127.3	124.3	107.0
Operating Conditions					
Employment	104.1	81.3	101.3	106.9	-
Labour Costs	121.5	96.2	106.4	113.8	-
Anticipated CAPEX	-	-	-	113.9	-
Profitability	83.1	76.6	95.4	101.5	-

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 2020 is 127.3, which suggests that the average score of survey respondents for economic conditions in September 2020 is 27.3 per cent higher than the average response in 2016/17.

Sample:

Industry	
Manufacturing	21%
Resources	9%
Real Estate Services	9%
Construction	9%
Retail Trade	8%
Professional Services	6%
Health Care and Social Assistance	6%
Other	32%
Business Size	
Small (1-10)	32%
Medium (11-100)	48%
Large (100+)	20%