

Regional Pulse

Chamber of Commerce and Industry WA
October 2021



Chamber of Commerce
and Industry WA

Western Australia's regions are the engine room of the WA economy, supporting a range of key export industries, including resources, agriculture and tourism. In this report, we provide regional breakdowns of key results from the September 2021 CCIWA Business Confidence Survey. We also take a deeper dive into WA's skills challenge, providing unique insights into the far-reaching impacts of labour shortages on regional businesses.

While every measure has been taken to ensure data reliability, particular care should be exercised when using regional estimates as they are subject to smaller sample sizes. In this edition, some regions have been omitted from the report due to insufficient sample sizes.

Pulse Check

The Outlook

Confidence by Region (WA)	Short-Term Conditions (3-Months)			Longer-Term Conditions (12-Months)		
	Stronger	Weaker	About the same	Stronger	Weaker	About the same
South West	53%	13%	34%	21%	42%	37%
Great Southern/Wheatbelt	50%	10%	28%	35%	25%	40%
Mid-West/Gascoyne	64%	0%	36%	43%	7%	43%
Pilbara	82%	18%	0%	53%	18%	24%
WA Regions	62%	11%	27%	34%	28%	37%
Perth and Peel	57%	15%	28%	38%	22%	39%

On average, a higher proportion of businesses in most WA regions are expecting stronger conditions over both the short and longer-term compared to those expecting weaker conditions.

Looking to the next three months, six out of ten (62%) businesses in regional WA expect conditions to strengthen – more than five times the proportion expecting conditions to worsen (11%).

Regional businesses are less optimistic over the longer term, with just over one third (34%) anticipating conditions to improve. More than one out of four (28%) expect conditions to worsen, while the remainder (37%) anticipate no change.

Breaking down the short-term outlook:

- Businesses in the Pilbara (82%) and Mid-West/Gascoyne (64%) are most optimistic, with the majority anticipating conditions to improve over the next three months.
 - For businesses in the Pilbara, this reflects continued strength in the mineral resources sector. As outlined in the September 2021 edition of the *CCIWA Business Confidence Survey*, strength in the mining sector is the primary factor driving business confidence across the WA economy.
 - Harvest has now commenced in the Mid-West region with Agricultural businesses in the Mid-West breathing a sigh of relief that the dry spring has had a limited impact on yields, while tourism operators in the Gascoyne may be anticipating an uptick in regional holidays over the festive period.
 - Businesses in the Great Southern/Wheatbelt are relatively less optimistic about the next three months. Half (50%) of businesses in this region are expecting stronger conditions next quarter, while nearly three out of ten (28%) are expecting no change. The remaining 10 per cent anticipate conditions to worsen. Businesses in the northeast of the Wheatbelt have been severely impacted by frost in recent months, causing a large reduction in yield potential. For those in the Great Southern, concerns around skilled worker shortages and increased uncertainty around supply chain may have weighed on confidence.

Barriers to Business

What do you see as a barrier to growing your business in the year ahead?	Barriers to Business*							
	Availability of skilled labour	Weak demand	Competitors (foreign and online)	Rising operating costs	Difficulty accessing new finance from banks	International trade tensions	Uncontrolled outbreak of COVID-19	No barriers
South West	52%	15%	6%	45%	6%	12%	48%	6%
Great Southern/Wheatbelt	56%	13%	8%	49%	5%	15%	46%	5%
Mid-West/Gascoyne	79%	7%	21%	36%	0%	7%	64%	7%
Pilbara	88%	0%	6%	88%	0%	6%	35%	0%
WA Regions	70%	13%	7%	61%	5%	14%	49%	4%
Perth and Peel	72%	12%	13%	59%	6%	14%	54%	4%

* 'Other' responses have been omitted from the table. As such, row sums may not equal 100 per cent.

Seven out of ten (70%) regional businesses identified skills shortages as a barrier to growing their business over the coming year, in line with those in Perth and Peel (72%).

Concerns around skills shortages were most acute in the Pilbara (88%), Mid-West/Gascoyne (79%) and Great Southern/Wheatbelt (56%). Businesses in these regions continue to face difficulty attracting both seasonal and skilled workers – particularly those that rely on international and interstate migration.

Rising operating costs was identified as a barrier to growth by six out of ten (61%) regional businesses, including nearly nine out of ten (88%) in the Pilbara and nearly half (49%) in the Great Southern/Wheatbelt. Businesses in the food services, agriculture and manufacturing industries have reported rising material and equipment costs in recent months.

The possibility of an uncontrolled outbreak of COVID-19 in WA continues to weigh on the minds of regional businesses, with 49 per cent identifying this factor as a barrier to growing their business in 2021.

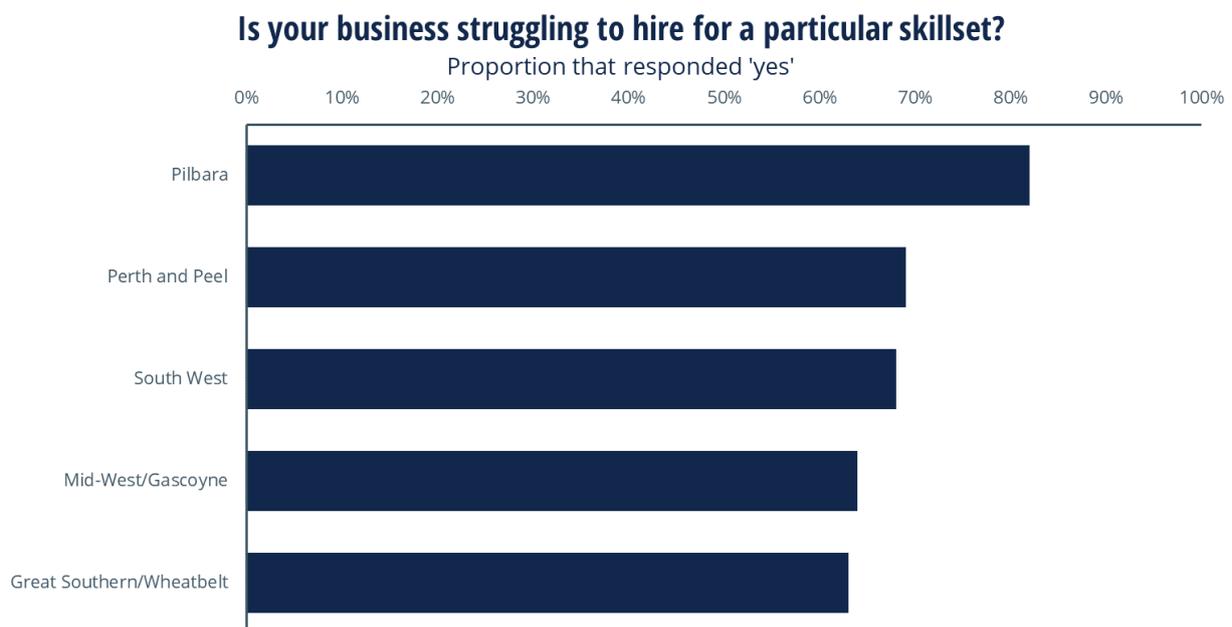
More than one out of ten (15%) businesses in the Great Southern/Wheatbelt identified international trade tensions as a barrier to growth over the coming year, which primarily reflects ongoing disputes with our largest trading partner.

Worker Shortages in Regional WA

In this edition of *Regional Pulse*, we take a deep dive into WA's skills crisis and its impacts on regional businesses.

All up, seven out of ten (70%) regional businesses identified they are struggling to fill a skilled occupation – down from 78 per cent in the previous quarter.

- Businesses in the Pilbara (82%), South West (68%) and Mid-West/Gascoyne (63%) regions were mostly likely to identify that they are struggling to fill a skillset.
- More than six out of ten (63%) businesses in the Great Southern/Wheatbelt are struggling to fill a skillset.

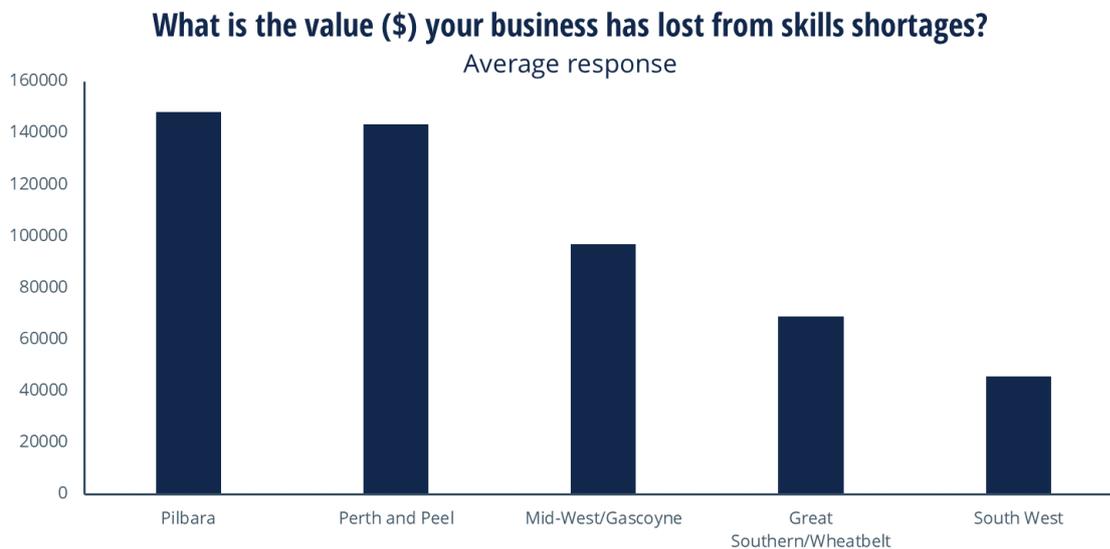


Top three occupations in demand by WA region	Perth & Peel	South West	Great Southern/Wheatbelt	Mid-West/Gascoyne	Pilbara
1	Fitters	Hospitality Workers	Fitters	Mechanics	Plant Operators
2	Boilermakers	Trades Workers	Truck Drivers	Hospitality Workers	Administrators
3	Engineers	Managers	Administrators	Riggers	Property Managers

Cost of skills shortages to Regional WA

In this edition of the *CCIWA Business Confidence Survey*, we asked businesses to estimate the value lost due to skills shortages.

Regional businesses indicated they are down \$101,000 on average from skills shortages. Those in the Pilbara have been most acutely affected with the average business expressing they have lost \$148,000.



On average, regional businesses are looking to fill 7 positions due to skills shortages, with businesses in the Pilbara looking to fill 10 positions on average.

Of the roles they are struggling to fill, regional businesses need to source one in five (20%) workers from overseas. The regions most reliant on overseas labour markets are the Mid-West/Gascoyne (30%) and Pilbara (23%).

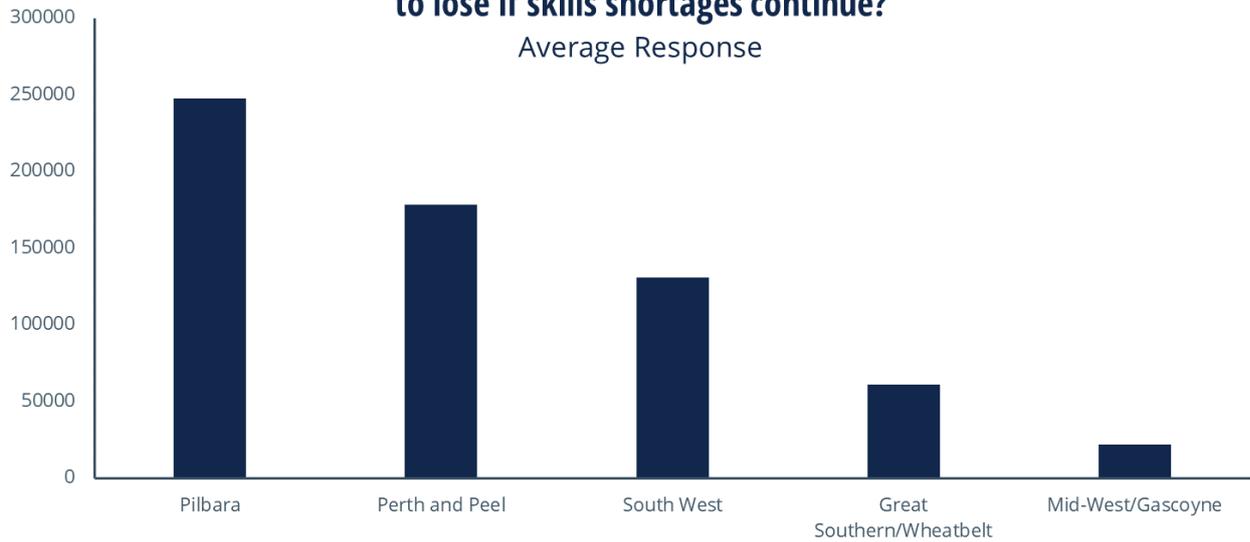
So, how are regional businesses responding?

- The most common response is to upskill existing employees (47%). Businesses in the Pilbara (65%), South West (47%) and Mid-West/Gascoyne (23%) are most likely to be ramping up their training efforts.
- Almost half (44%) are boosting their existing employees' wage, including three out of four (76%) in the Pilbara and four out of ten (45%) in the South West. At the same time, about 21 per cent of businesses are providing sign-on bonuses or other incentives to new employees.
- Four out of ten (43%) regional businesses are investing in training new employees, including taking on apprentices and trainees. Businesses in the Pilbara (71%) and South West (39%) are most likely to be training up new employees.
- About one out of four (24%) are turning down offers for new work (e.g. tenders), including four out of ten (41%) in the Pilbara and 26 per cent in the South West.

How much do regional businesses stand to lose if skills shortages continue over the next 12 months?

- On average, regional businesses identified that they stand to lose approximately \$120,000 over the next 12 months if skills shortages continue.
- Businesses in the Pilbara indicated they stand to lose \$247,500 on average, followed by those in the South West (-\$130,000) and the Great Southern/Wheatbelt (-\$61,000).

Looking to the next 12 months, how much (\$) does your business stand to lose if skills shortages continue?



Labour costs

Expectations by Region (WA)	Labour Costs					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	1%	23%	77%	1%	32%	67%
South West	0%	35%	65%	0%	39%	61%
Great Southern/Wheatbelt	3%	38%	59%	3%	44%	54%
Mid-West/Gascoyne	0%	62%	38%	0%	50%	50%
Pilbara	0%	12%	88%	0%	24%	76%
WA Regions	1%	35%	64%	1%	32%	64%
Total WA	1%	24%	75%	1%	32%	67%

More than two out of three (67%) WA businesses are anticipating labour costs to increase over the next three months – down 4 percentage points from last quarter - while one out of three (32%) expect no change. Only 1 per cent expect wage pressures to ease over the coming quarter.

Businesses that expect labour costs to rise are more likely to operate in the Pilbara (76%), South West (61%), and Mid-West/Gascoyne (50%) regions. As mentioned, businesses in these regions are most likely to be experiencing skilled labour shortages. They are also most likely to be boosting their employees' base wage in response.

Production

Expectations by Region (WA)	Production					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	20%	37%	42%	9%	41%	51%
South West	35%	38%	27%	11%	43%	46%
Great Southern/Wheatbelt	25%	48%	28%	8%	59%	33%
Mid-West/Gascoyne	21%	43%	36%	21%	36%	43%
Pilbara	18%	53%	29%	18%	53%	29%
WA Regions	25%	47%	28%	12%	49%	39%
Total WA	22%	41%	38%	10%	42%	48%

Nearly half (48%) of WA businesses are planning to ramp up production over the next three months, including 39 per cent of businesses in regional Western Australia.

Businesses most likely to increase production over the coming quarter operate in the South West (46%), Mid-West/Gascoyne (43%) and Great Southern/Wheatbelt (33%).

Profit margins

Expectations by Region (WA)	Profit Margins					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	44%	41%	15%	37%	44%	19%
South West	41%	42%	17%	46%	31%	23%
Great Southern/Wheatbelt	67%	33%	0%	26%	54%	21%
Mid-West/Gascoyne	43%	43%	14%	29%	36%	36%
Pilbara	35%	41%	24%	29%	47%	24%
WA Regions	41%	42%	17%	35%	42%	23%
Total WA	44%	42%	14%	34%	45%	21%

Two out of five (44%) WA businesses reported declining profit margins over the September quarter – a 4 percentage point increase from last quarter.

Across the regions, more than four out of five (41%) regional businesses reported a decline in profitability over the past three months, slightly less than those in the Perth and Peel region (44%).

Looking ahead, the profit outlook for WA's regions remains relatively subdued. A higher proportion of businesses in every region except the Mid-West/Gascoyne are expecting profit levels to fall over the next three months, compared to those anticipating profits to rise.

As mentioned, the majority of regional businesses have identified rising operating costs and skilled labour shortages as barriers to growing their business over the coming year, which may in turn be keeping a lid on profit expectations.

Level of credit and debt

Expectations by Region (WA)	Level of Credit or Debt					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	12%	66%	21%	4%	74%	23%
South West	4%	82%	14%	11%	65%	24%
Great Southern/Wheatbelt	0%	67%	33%	8%	74%	18%
Mid-West/Gascoyne	21%	57%	21%	14%	50%	36%
Pilbara	0%	82%	18%	0%	65%	35%
WA Regions	6%	78%	17%	9%	64%	27%
Total WA	10%	69%	21%	4%	73%	23%

While rising debt levels can be an indication of future expansion plans, it can also reflect increased financial stress as businesses look to maintain operations by taking on short-term debt.

Nearly one out of five (17%) businesses in regional WA increased their debt or credit levels in the September quarter. Looking ahead to the next three months, 27 per cent are anticipating their debt or credit levels to rise.

Businesses most likely to take on additional debt operate in the Mid-West/Gascoyne (36%), Pilbara (35%) and South West (24%). On the whole, most regional businesses (66%) are expecting their debt or credit levels to remain stable over the next three months.

Capital Expenditure

Expectations by Region (WA)	Capital Expenditure					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	7%	62%	32%	4%	59%	38%
South West	7%	50%	43%	11%	47%	42%
Great Southern/Wheatbelt	17%	67%	17%	8%	58%	35%
Mid-West/Gascoyne	7%	57%	36%	14%	50%	36%
Pilbara	0%	41%	59%	0%	41%	59%
WA Regions	7%	50%	43%	9%	50%	41%
Total WA	7%	59%	34%	4%	57%	39%

More than two out of five (41%) businesses in regional WA plan to increase capital expenditure over the next three months, a similar proportion as last quarter.

Businesses most likely to ramp up their capital expenditure operate in the Pilbara (59%), South West (42%), and Mid-West/Gascoyne (36%). Igniting the confidence of businesses to invest will be critical to Western Australia's sustained economic recovery.

Employment

Expectations by Region (WA)	Employment					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	14%	38%	48%	7%	44%	49%
South West	24%	49%	27%	13%	42%	45%
Great Southern/Wheatbelt	0%	33%	67%	13%	43%	45%
Mid-West/Gascoyne	29%	36%	36%	14%	29%	57%
Pilbara	12%	18%	71%	6%	31%	63%
WA Regions	24%	41%	35%	13%	38%	49%
Total WA	17%	38%	45%	10%	42%	48%

WA's jobs market continues to run piping hot. There are more Western Australians employed than before the pandemic and job ads for mining-related occupations have soared to levels not seen since the last mining boom. What sets 2021 apart from the previous boom, however, is that this time we are unable to satisfy rising skilled labour demand by tapping into overseas labour markets. The upshot of this, as outlined on Page 4, is that skills shortages have spread rapidly across WA's regional economy.

More than one third (35%) of regional businesses boosted their staff levels over the past three months, while around 41 per cent recorded no change to their workforce. Businesses in the Pilbara (71%) and Great Southern/Wheatbelt (67%) regions recorded the strongest rise in employment levels over the quarter.

Looking ahead to the next three months, hiring intentions remain solid – particularly among businesses located in the Pilbara and Mid-West/Gascoyne.