

Regional Pulse

Chamber of Commerce and Industry WA
December 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 December 2021 *CCI/WA 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	67%	19%	15%	39%	46%	14%
Great Southern	50%	38%	13%	38%	25%	38%
Wheatbelt	91%	0%	9%	55%	9%	36%
Mid-West/Gascoyne	64%	9%	27%	30%	30%	40%
Pilbara	73%	13%	13%	53%	27%	20%
Kimberley	38%	13%	50%	29%	43%	29%
WA Regions	69%	14%	17%	43%	31%	26%
Perth and Peel	59%	9%	31%	39%	16%	45%

A higher proportion of businesses in most WA regions expect stronger conditions over both the short and longer-term compared to those expecting weaker conditions.

Looking to the next three months, nearly seven out of ten (69%) businesses in regional WA expect conditions to strengthen – about five times the proportion expecting conditions to worsen (14%).

Regional businesses are less optimistic over the longer term, with one third (31%) expecting conditions to worsen. About two out of five (43%) anticipate that conditions will improve while the remainder (26%) anticipate no change.

Breaking down the short-term outlook:

- Businesses in the Wheatbelt (91%), Pilbara (73%) and South West (67%) are most optimistic, with the majority anticipating conditions to improve over the next three months.
 - Coming out of a wet winter, agricultural businesses in the Wheatbelt are reaping the fruits of a delayed harvest. The WA grain production industry is expected to harvest a record 21 million tonnes of wheat, canola and other cereals this month according to the ABC. Their fortunes are set to be bolstered by favourable prices with the total yield valued at \$8 billion and canola soaring to \$1000/tonne — nearly double the prices offered at this time last year.
 - For businesses in the Pilbara, confidence levels reflect persistent strength in the resources sector. Mineral exploration activity bumped up in the September quarter, rising 4.5 per cent nationally in seasonally-adjusted terms. LNG prices have also soared in recent months, with the JKM spot price remaining well above \$30/MMBtu. As outlined in the December 2021 edition of the *CCIWA Business Confidence Survey*, robustness in the mining sector continues to be the primary factor driving business confidence across the WA economy.
 - Businesses in the Kimberley and the Great Southern are relatively less optimistic about the next three months. Only two out of five (38%) businesses in the Kimberley and half (50%) in the Great Southern are expecting stronger conditions next quarter, while half (50%) and one out of ten (13%) respectively are expecting no change. The remaining 13% and 38% respectively anticipate conditions to worsen. Labour shortages — exacerbated by the lack of backpackers — and lower levels of tourism going into the wet season may be dampening confidence in the region. Meanwhile, high levels of rainfall in southern parts of the State – including the Great Southern - have trimmed crop yields.

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	Supply chain disruptions	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	75%	57%	4%	14%	57%	4%	11%	57%	7%
Great Southern	88%	38%	0%	13%	75%	13%	25%	63%	0%
Wheatbelt	91%	91%	9%	18%	73%	0%	18%	27%	0%
Mid-West/Gascoyne	73%	18%	0%	9%	55%	36%	0%	45%	0%
Pilbara	100%	47%	7%	13%	60%	0%	27%	40%	0%
Kimberley	75%	25%	25%	25%	63%	0%	0%	88%	0%
WA Regions	83%	50%	6%	14%	60%	7%	13%	50%	2%
Perth and Peel	75%	58%	6%	6%	57%	8%	13%	44%	3%

Four out of five (83%) regional businesses identified skills shortages as a barrier to growing their business over the coming year — up 13% since last quarter and a higher proportion than those in Perth and Peel (75%).

Concerns around skills shortages were most acute in the Pilbara (100%), Wheatbelt (91%) and Great Southern (88%). Businesses in these regions continue to face difficulty attracting both seasonal and skilled workers — particularly those that rely on international and interstate migration.

Six out of ten (60%) regional businesses identified rising operating costs as a barrier to growth, including three quarters (75%) in the Great Southern and a similar proportion (73%) in the 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 50% identifying this factor as a barrier to growing their business in the year ahead — almost unchanged since last quarter (49%).

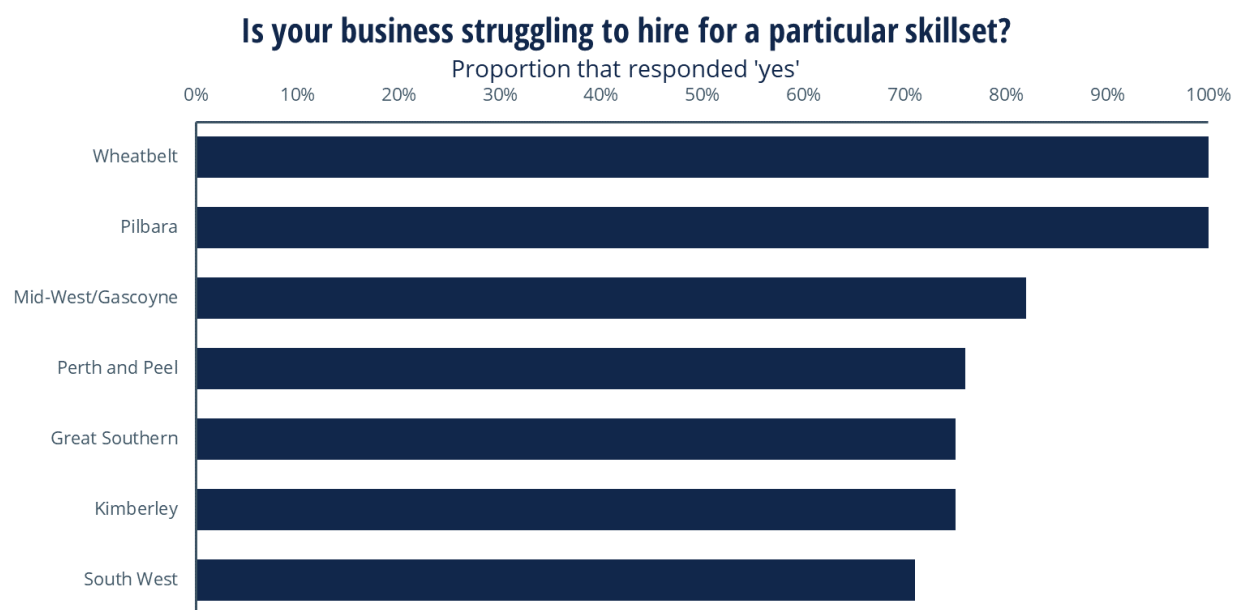
One quarter (27%) of businesses in the Pilbara and a similar proportion (25%) in the Great Southern identified international trade tensions as a barrier to growth over the coming year, reflecting increased pessimism over ongoing disputes with our largest trading partner.

Worker Shortages in Regional WA

In this edition of *Regional Pulse*, we look at WA's skills crisis and its impacts on regional businesses.

All up, four out of five (84%) regional businesses identified they are struggling to fill a skilled occupation – up from 70% in the previous quarter.

- All (100%) surveyed businesses in the Wheatbelt and Pilbara indicated they were struggling to fill a skilled position.
- Other regions with a relatively higher proportion of businesses facing skills pressures include the Mid-West/Gascoyne (82%) and Great Southern (75%).



Top three occupations in demand by WA region	Perth & Peel	Wheatbelt	Mid-West/Gascoyne	Pilbara
1	Sales Workers	Technicians	Property Managers	Engineers
2	Welders	Sales Representatives	Administrative Workers	Fitters
3	Boilermakers	Agricultural Workers	Hair/Beauty Workers	Riggers

So, how are regional businesses responding?

- The most common response identified is to invest in training new employees (61%), including taking on apprentices and trainees. Businesses in the South West (75%), Pilbara (67%) and Mid-West/Gascoyne (67%) are most likely to be training

up new employees. At the same time, 16% of businesses are providing sign-on bonuses or other incentives to new employees.

- Nearly three out of five (57%) are boosting their existing employees' wage, including four out of five (82%) in the Wheatbelt and two thirds (67%) in the Pilbara. Nearly one third (32%) of businesses in the regions are providing one-off financial rewards such as retention bonuses to existing employees.
- Half (49%) of regional businesses are upskilling existing employees, with those in the Wheatbelt (73%) most likely to be ramping up their training efforts.
- Two out of five (42%) are turning down offers for new work (e.g. tenders) — up 18% since last quarter. Those in the Great Southern (67%) and Pilbara (60%) are most likely to be turning down new projects and work.

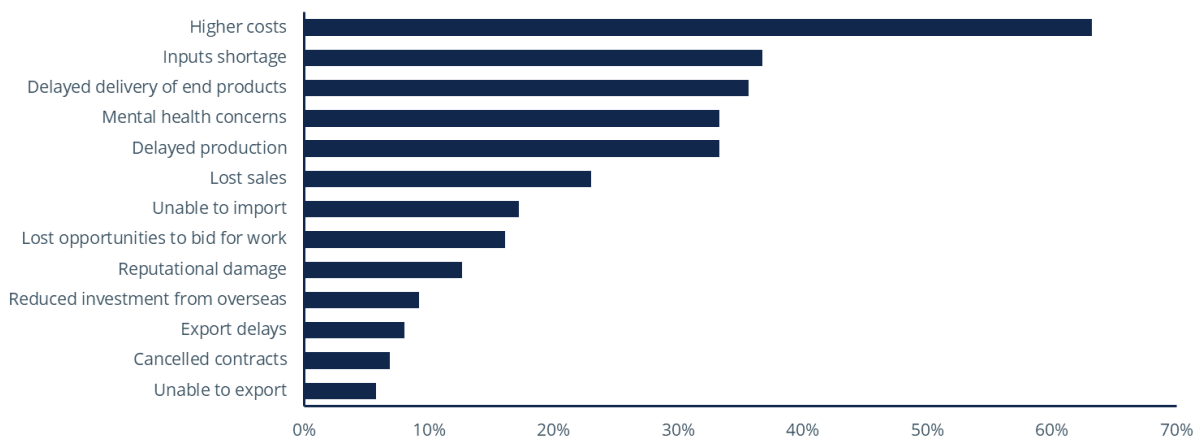
Impact of supply chain disruptions in Regional WA

In this edition of the *CCIWA Business Confidence Survey*, we asked businesses how supply chain disruptions are impacting their operations.

Regional businesses were most likely to report that they are facing higher costs (63%), including all (100%) of those surveyed in Wheatbelt.

Which of the following is your business experiencing as a result of supply chain disruptions?

Proportion of regional businesses that responded 'yes'



Businesses also indicated that they are experiencing:

- Shortages in input materials (37%), including more than half (55%) in the Wheatbelt.
- Delayed delivery of end products (36%), with those in Wheatbelt (64%) and Kimberley (50%) most acutely impacted.
- Mental health concerns for their employees (33%), with the highest proportion in the Pilbara (50%) and Great Southern (38%).
- Delayed production (33%) which is most prevalent in the Wheatbelt (64%), Kimberley (50%) and Great Southern (50%).
- Lost sales (23%) which was most commonly reported in the Great Southern (38%) and Wheatbelt (36%).

Labour costs

	Labour Costs
--	--------------

Expectations by Region (WA)	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	1%	25%	75%	2%	31%	66%
South West	0%	36%	64%	0%	13%	88%
Great Southern	0%	25%	75%	0%	13%	88%
Wheatbelt	0%	0%	100%	0%	17%	83%
Mid-West/Gascoyne	0%	18%	82%	0%	45%	55%
Pilbara	0%	13%	87%	7%	13%	80%
Kimberley	0%	38%	63%	0%	57%	43%
WA Regions	0%	24%	76%	2%	29%	69%
Total WA	0%	24%	75%	3%	30%	67%

Seven out of ten (69%) of WA businesses are anticipating labour costs to increase over the next three months – up 2 percentage points from last quarter – while three out of ten (29%) expect no change. Only 2% expect wage pressures to ease over the coming quarter.

Businesses that expect labour costs to rise are more likely to operate in the South West (88%), Great Southern (88%) and Wheatbelt (83%) regions. With the exception of the South West, 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

Production

Expectations by Region (WA)	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	12%	35%	53%	9%	47%	44%
South West	11%	41%	48%	22%	37%	41%
Great Southern	25%	50%	25%	13%	25%	63%
Wheatbelt	18%	27%	55%	0%	27%	73%
Mid-West/Gascoyne	9%	45%	45%	45%	18%	36%
Pilbara	27%	33%	40%	20%	40%	40%
Kimberley	13%	38%	50%	63%	25%	13%
WA Regions	15%	39%	46%	23%	33%	44%
Total WA	13%	36%	50%	14%	41%	43%

Two out of five (43%) of WA businesses are planning to ramp up production over the next three months, including 44% of businesses in regional Western Australia.

Businesses most likely to increase production over the coming quarter operate in the Wheatbelt (73%) and Great Southern (63%).

Profit margins

Expectations by Region (WA)	Profit Margins					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	43%	40%	17%	39%	45%	16%
South West	44%	36%	19%	32%	46%	21%
Great Southern	63%	25%	13%	57%	43%	0%
Wheatbelt	45%	36%	18%	9%	64%	27%
Mid-West/Gascoyne	45%	18%	36%	55%	45%	0%
Pilbara	80%	20%	0%	57%	36%	7%
Kimberley	43%	29%	29%	88%	13%	0%
WA Regions	47%	31%	22%	43%	43%	14%
Total WA	45%	37%	18%	40%	44%	15%

Nearly half (45%) of WA businesses reported declining profit margins over the September quarter. Across the regions, a similar proportion (47%) reported a decline in profitability over the past three months.

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

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

Level of credit or 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	9%	74%	17%	5%	76%	19%
South West	14%	61%	25%	14%	71%	14%
Great Southern	13%	63%	25%	0%	63%	38%
Wheatbelt	18%	36%	45%	20%	50%	30%
Mid-West/Gascoyne	45%	36%	18%	18%	55%	27%
Pilbara	0%	93%	7%	7%	87%	7%
Kimberley	14%	71%	14%	13%	63%	25%
WA Regions	15%	64%	21%	13%	69%	19%
Total WA	11%	71%	18%	8%	73%	19%

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.

One out of five (21%) businesses in regional WA increased their debt or credit levels in the September quarter. Looking ahead to the next three months, 19% are anticipating their debt or credit levels to rise.

Businesses most likely to take on additional debt operate in the Great Southern (38%), the Wheatbelt (30%) and Mid-West/Gascoyne (27%). On the whole, most regional businesses (69%) 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	4%	67%	29%	6%	66%	28%
South West	3%	53%	44%	7%	75%	18%
Great Southern	13%	50%	38%	13%	63%	25%
Wheatbelt	0%	36%	64%	0%	55%	45%
Mid-West/Gascoyne	0%	36%	64%	0%	64%	36%
Pilbara	0%	53%	47%	0%	60%	40%
Kimberley	0%	75%	25%	13%	75%	13%
WA Regions	2%	51%	47%	5%	68%	28%
Total WA	3%	61%	35%	6%	67%	28%

Nearly three out of ten (28%) of businesses in regional WA plan to increase capital expenditure over the next three months – down 13 percentage points from last quarter.

Businesses most likely to ramp up their capital expenditure operate in the Wheatbelt (45%), Pilbara (40%) and Mid-West/Gascoyne (36%). Bolstering 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	15%	40%	45%	10%	42%	48%
South West	7%	36%	57%	13%	42%	45%
Great Southern	0%	50%	50%	15%	44%	41%
Wheatbelt	0%	80%	20%	0%	33%	67%
Mid-West/Gascoyne	20%	27%	53%	14%	29%	57%
Pilbara	50%	38%	13%	6%	31%	63%
Kimberley	13%	41%	46%	29%	43%	29%
WA Regions	19%	38%	43%	13%	38%	49%
Total WA	13%	41%	46%	9%	42%	49%

While the State's internet jobs vacancies ticked down slightly in October, the figure has soared 63.8 per cent since before the pandemic. Job ads for mining-related occupations have stayed at levels that match those of the last mining boom. However, unlike last time, our inability to access the overseas labour market has made it difficult to meet rising skilled labour demand. The upshot of this, as outlined on Page 4, is that skills shortages continue to pervade WA's regional economy. Despite monthly fluctuations, WA's jobs market is launching.

More than two out of five (43%) regional businesses boosted their staff levels over the past three months, while around 38 per cent recorded no change to their workforce. Businesses in the South West (57%) 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 Wheatbelt (67%), Goldfields-Esperance (67%) and Pilbara (63%).