

**CCIWA Business Confidence Survey:
 June Quarter 2022**

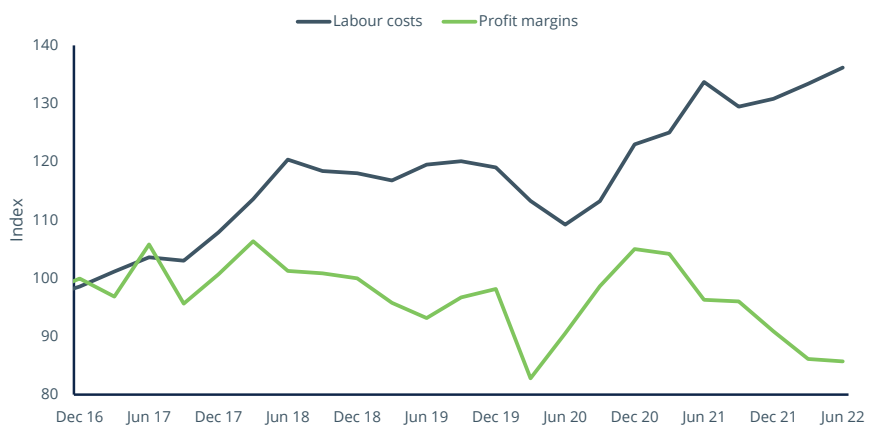
WA business confidence edges up on relaxed restrictions despite rising costs and worsening labour shortages

WA business confidence has edged up over the June quarter, underpinned primarily by the removal of WA's COVID-19 restrictions and hard border controls. While confidence has improved, it remains well below survey highs recorded across 2021, as businesses continue to grapple with skills shortages, rising cost pressures, and ongoing supply chain disruptions.

Skilled labour shortages have remained elevated over the three months to June at survey-high levels. More than four out of five (83%) businesses indicated they are struggling to fill a position this quarter — up a percentage point from last quarter. In response, two thirds (67%) of businesses indicated they are boosting existing employees' base wages — up eight percentage points since last quarter.

Supply chain disruptions and inflationary pressures are continuing to feed into higher operating costs, with three quarters (76%) of businesses experiencing higher material costs over the quarter, and 73 per cent facing higher labour costs. In turn, we are seeing a marked deterioration in business profitability, with CCIWA's

Higher labour costs eviscerating profits



Businesses' expectations for the next three months

profitability index at its lowest level since the beginning of the pandemic (see chart).

With most COVID-19 restrictions now easing – including WA's hard border controls - Omicron is now a much weaker drag on sentiment. Nearly three in ten businesses (29%) are concerned about an uncontrolled COVID-19 outbreak in WA, down 25 percentage points from last quarter.

In this edition of the CCIWA Business Confidence Survey, we asked businesses the extent to which interest rate increases would impact their business, how they have been affected by supply chain disruptions

and whether they are revisiting their business strategy in light of international trade tensions and disruptions.

Short and longer term outlooks

After a sharp fall in the March 2022 quarter, confidence in both the short-term (3 month) and long-term (12 month) outlooks has edged up slightly.

Short-Term Index up 4.2 Index Points over the quarter to 134.4

Just under half (45%) of WA

businesses believe conditions will improve over the next three months, up 8 percentage points since last quarter. About one quarter (24%) anticipate weaker conditions. The remaining 31 per cent anticipate no change – down 5 percentage points.

Longer-Term Index up 0.8 Index Points over the quarter to 107.3

The 12-month outlook has increased marginally after suffering a large fall in the March quarter. Three out of ten (29%) businesses expect the WA economy to improve over the year ahead - the same as last quarter. Around two out of five (38%) anticipate no change over the next twelve months, while 33 per cent believe conditions will deteriorate – down two percentage points.

The industries driving short-term confidence

In a change from previous editions of the *CCIWA Business Confidence Survey*, the **transport, postal & warehousing** sector now leads WA business confidence, with 89 per cent of businesses expecting stronger conditions over the next three months. This is likely driven

by expectations that some of the supply chain issues that have been experienced may begin to gradually unwind, along with ongoing growth in ecommerce and the easing of some restrictions in China recently following a period of lockdown.

Three in five (63%) **resources** businesses expect stronger conditions over the next three months, up a whopping 17 percentage points since the March quarter. This is likely underpinned by a recovery in export volumes following seasonal disruptions in the March quarter, along with sustained confidence in commodity demand and higher prices following geopolitical disruptions.

Other sectors with a comparatively higher proportion of businesses expecting conditions to improve include **agriculture, forestry & fishing** (54%), **professional services** (50%) and **manufacturing** (45%).

At the same time, just two out of five (39%) **construction** businesses are anticipating stronger conditions over the next three months — down 16 percentage points since last quarter and 32 percentage points from 6 months ago. Many construction businesses continue to face

significant project delays and cost blow outs, primarily underpinned by ongoing supply chain disruptions and rising inflationary pressures.

Additional sectors with a comparatively lower proportion of businesses expecting stronger conditions include **food services** (22%), **health care & social assistance** (25%) and **retail trade** (26%).

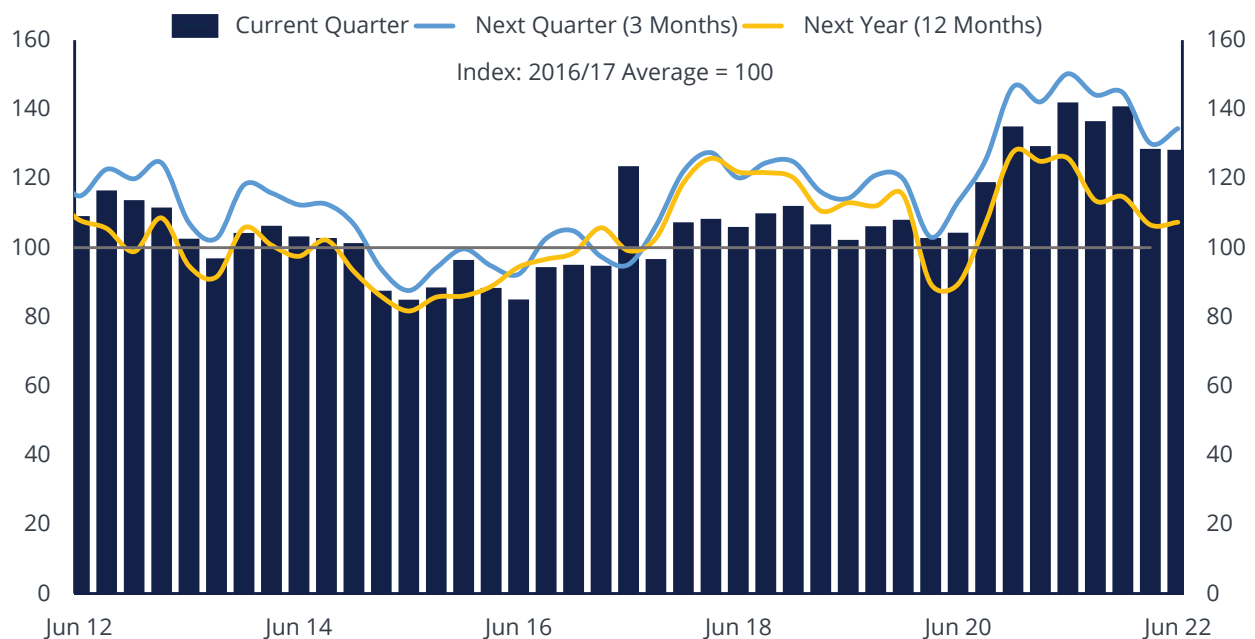
Barriers to business





The **availability of skilled labour** continues to be the most prevalent barrier facing the WA business community, followed closely by **rising operating costs** and **supply chain disruptions**. Indeed, higher costs associated with global supply chain disruptions, inflationary pressures and rising interest rates are becoming a significant concern for many local businesses.

Four out of five (81%) businesses cited skilled labour shortages as a barrier to growing their business over the coming year, a similar proportion as last quarter. These concerns were most acute amongst businesses in the **education & training** and **health care & social assistance** sectors - with

Business Confidence

Current, 3-Month and 12-Month Expectations



 <p>Skill shortages</p>	 <p>Rising operating costs</p>	 <p>Supply chain disruptions</p>	 <p>An uncontrolled outbreak of COVID-19</p>
<p>Identified by 81% as a barrier</p> <p>Sectors most likely to report as a barrier:</p> <p>Education & Training (100%), Health Care & Social Assistance (100%), Food Services (90%).</p>	<p>Identified by 78% as a barrier</p> <p>Sectors most likely to report as a barrier:</p> <p>Health Care & Social Assistance (100%), Food Services (90%), Manufacturing (88%).</p>	<p>Identified by 60% as a barrier.</p> <p>Sectors most likely to report as a barrier:</p> <p>Manufacturing (86%), Food Services (80%), Construction (63%).</p>	<p>Identified by 29% as a barrier.</p> <p>Sectors most likely to report as a barrier:</p> <p>Food Services (50%), Agriculture, Forestry & Fishing (46%), Retail Trade (39%).</p>

all respondents in these sectors identifying skills shortages as a barrier.

Other industries with a relatively higher proportion of businesses identifying skilled labour shortages as a barrier include **food services** (90%), **transport, postal & warehousing** (89%) and **resources** (88%).

The second largest barrier is **rising operating costs**, identified by nearly four out of five (78%) WA businesses — up 9 percentage points since the March quarter.

Three in five businesses (60%) indicated that **supply chain disruptions** are a barrier to growth, down 6 percentage points since last quarter.

Concerns around an **uncontrolled outbreak of COVID-19 in WA** were identified by three in ten (29%) WA businesses — down 24 percentage

points since last quarter, as the State moves past the peak of the recent Omicron wave.

Concerns surrounding **international trade tensions** were cited by 15 per cent. The **agriculture** sector (31%) in particular has identified this as a barrier to business, given the ongoing trade tariffs with China and the Russo-Ukraine conflict creating uncertainty around global supply in this sector.

Unpacking the key economic headwinds

Supply chain disruptions

Supply chain disruptions have continued to persist, and we asked businesses to identify how they have been affected.

Three quarters (76%) are suffering higher material costs — up 8 percentage points from last

quarter — and two thirds (66%) are experiencing delayed delivery of input materials, up 11 percentage points since last quarter.

More than half (55%) are experiencing delayed delivery of end products to customers and a similar proportion (54%) are facing shortages of input materials.

One out of five (18%) are missing opportunities to bid for new work, with the same proportion unable to meet contracts.

Rising costs of business

WA businesses are weathering a gale of operating headwinds, with rising interest rates, supply chain disruptions and inflationary pressures underscoring a marked rise in the cost of doing business. 76 per cent of businesses are experiencing rising input costs – of these, nine out of ten (89%) are passing at least some of these costs through to consumers.

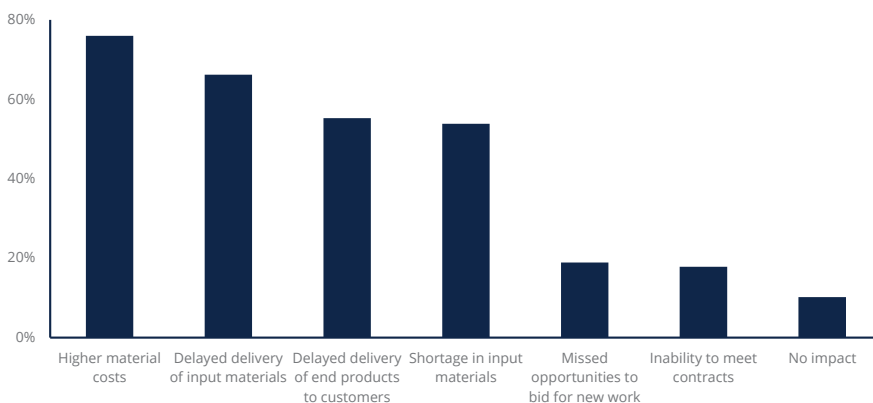
How much are they passing through?

On average, WA businesses indicated they are passing through 48 per cent of rising costs through to customers. Businesses in the **transport, postal & warehousing** (61%), **professional services** (56%) and **resources** (54%) sectors are most likely to pass on a larger share of increased costs. Large businesses (59%) are passing on a greater proportion of these increased costs than small businesses (41%).

Impact of interest rate rises

With the RBA increasing the cash rate to 0.85 per cent in June and indicating more rate hikes are on the way, the prospect of higher interest rates is weighing on business confidence. In this edition of the *CCIWA Business Confidence Survey*, we asked WA businesses how high the cash rate would have to rise before they begin to experience certain operational drawbacks, such as cutting back on capital expenditure or hiring new staff.

How has your business been impacted by supply chain issues?



Looking to the results, if the cash rate were to rise to 3 per cent, then half of businesses would cut back spending on capital expenditure, render proposed projects infeasible or cut back on hiring new staff to help reduce costs. If the cash rate were to rise to 5 per cent, then half would also begin to scale back their business operations due to higher repayments.

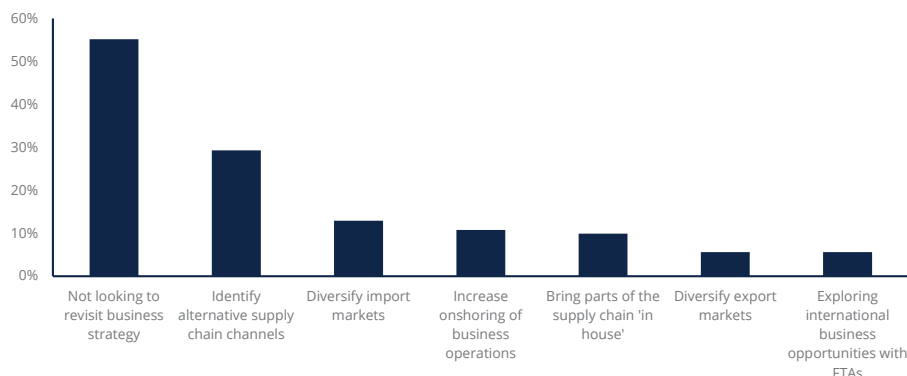
International business strategy

We asked businesses whether they are looking to revisit their international business strategy due to supply chain issues and geo-political tensions. Notably, nearly three out of ten (29%) businesses are looking to identify alternative supply chain channels, including 55 per cent in the manufacturing sector and 43 per cent in the resources sector.

In addition, around one out of ten (13%) are looking to diversify their import markets – more than double those looking to diversify their export markets (6%). Businesses most likely to be diversifying their import markets operate in the agriculture (36%), manufacturing (17%) and construction (17%) sectors.

Other areas being revisited include increasing the onshoring of business operations (11%) and bringing parts of the supply chain 'in house' (10%). This is largely driven by the manufacturing sector, with one in five (20%) businesses in this sector looking to increase onshoring of business operations and one quarter

How are you looking to revisit your international business strategy?



(24%) looking to bring parts of the supply chain 'in house'.

Skills shortages

A persistent issue for businesses is sourcing workers, with more than four out of five (83%) businesses indicating they are struggling to hire for a particular skillset. This is up one percentage point from last quarter and the highest since this measure was first recorded in March 2021.

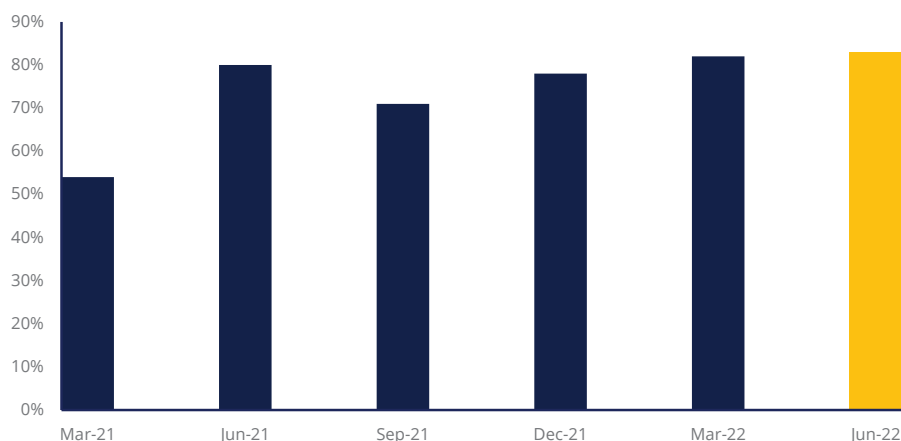
So, how are WA businesses responding?

- Just under two thirds (65%) are **investing in training new employees**, which includes taking on more apprentices and trainees. Those in the resources (86%), retail trade (84%) and construction (75%) sectors are the most likely to be doing so.
- A similar proportion (66%) are **upskilling existing employees**,

with businesses in the food services (89%), resources (79%) and professional, scientific & technical services (79%) sectors most likely to be ramping up their training efforts.

- Two thirds (67%) are **boosting existing employees' base wages** – up 8 percentage points from last quarter. These increases are most prevalent in the resources (79%), manufacturing (75%) and construction (75%) sectors. At the same time, almost a quarter (24%) are providing **one-off financial rewards to existing employees** – the same as last quarter.
- One quarter (25%) are looking to attract and hire workers from other States, whilst 16 per cent are providing sign on bonuses or other incentives to new employees.
- Three in ten (29%) are **turning down offers for new work** (e.g., tenders), including nearly three in five (57%) in the construction sector, four out of ten (43%) in resources and a similar proportion (43%) in professional, scientific & technical services.

% of respondents struggling to fill a position



Top 3 occupations in demand by industry

	1	2	3
Agriculture	Equipment operators	Managers	Salespeople
Resources	Mechanics	Drillers	Fitters
Manufacturing	Boilermakers/Welders	Fitters	Machinists
Construction	Carpenters	Construction workers	Plumbers
Retail Trade	Technicians	Mechanics	Customer service
Transport	Truck drivers	Mechanics	Administrative staff
Real Estate	Property Managers	Administrative staff	Salespeople
Professional Services	Truck drivers	Mechanics	Administrative staff
Education & Training	Childcare Professionals	Trainers	Administrative staff
Healthcare	Social support workers	Allied health professionals	Administrative staff
Food Services	General hospitality staff (waitstaff/baristas etc)	Chefs	Kitchen hands

Business Confidence - June 2022

Both the **short and longer term** outlook have edged up after a sharp drop last quarter



More than **4 out of 5 (83%)** businesses are **struggling** to fill a **skilled position**



Around **two thirds** of businesses are boosting employees' **base wages (67%)** or **upskilling existing employees (66%)**

Three quarters (76%) of businesses are experiencing higher **material costs** and are passing an average of **48 per cent through to consumers**



Key results from the survey

Indicator (Index)	Actual			Expected	
	Dec 21	Mar 22	Jun 22	1 Quarter	1 Year
Economy					
WA Economic Conditions	138.9	126.6	126.3	134.4	107.3
Operating Conditions					
Employment	114.0	109.5	112.1	119.6	-
Labour Costs	134.3	135.3	133.0	136.2	-
Anticipated CAPEX	-	-	-	118.9	-
Profitability	89.4	79.0	77.1	85.7	-

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 2022 is 126.3, which suggests that the average score of survey respondents for economic conditions in June 2022 is 26.3 per cent higher than the average response in 2016/17.

Sample:

Industry	
Manufacturing	22%
Construction	15%
Resources	6%
Agriculture	5%
Retail Trade	9%
Professional	6%
Real Estate	3%
Other	12%
Business Size	
Small (1-10)	38%
Medium (11-100)	51%
Large (100+)	12%

Whilst every effort has been made to ensure that the information contained in this Report is free from error and/or omissions, no responsibility can be accepted by CCIWA, its employees or any other person involved in the preparation of this information for any claim (including without limitation, any liability arising from fault, negligence or negligent misstatement) for any direct or indirect loss or damage arising from any use or reliance on this information, or otherwise in connection with it.