



Chamber of Commerce
and Industry WA

WA business confidence edges down on the back of rising labour costs and falling profits

CCIWA Business Confidence Survey
September Quarter 2022

Western Australian business confidence has edged down over the September quarter, as skilled labour shortages and rising cost pressures continue to bite. Indeed, confidence levels for the next 12 months are approaching lows not seen since the beginning of the pandemic.

Skilled labour shortages have remained elevated over the three months to September, although may be beginning to ease slightly. Four out of five (79%) businesses indicated they are struggling to fill a position this quarter — down 4 percentage points from last quarter. In response, three in five (61%) businesses indicated they are boosting existing employees' base wage.

The tight labour market, combined with sustained inflationary pressures, is continuing to feed into higher operating costs. A staggering nine out of ten (87%) WA businesses reported higher labour costs over the quarter, with businesses increasing base wages on average by 7 per cent. As a result, we continue to see a decline in business profitability, with

CCIWA's profitability index falling to its lowest level since the beginning of the pandemic (see chart).

In this edition of the CCIWA Business Confidence Survey, we asked businesses whether they had adopted any new technologies, how they are mitigating current inflationary pressures and whether rising interest rates have started to dampen business activities.

Short and longer term outlooks edge downwards

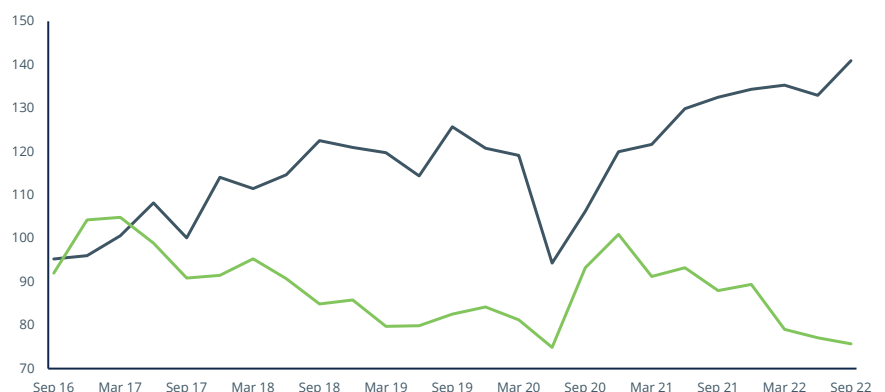
After rising in the June quarter, confidence in both the short-term (3 month) and long-term (12 month) outlooks has edged down.

Short-Term Index down 1.4 Index Points over the quarter to 133.0

Two in five (41%) WA businesses believe conditions will improve over the next

Higher costs eviscerating profits

— Labour costs — Profit margins



three months, down 4 percentage points since last quarter. Just under one quarter (23%) anticipate weaker conditions. The remaining 36 per cent anticipate no change – up 5 percentage points.

Longer-Term Index down 3.6 Index Points over the quarter to 103.7

The 12-month outlook has fallen after rising marginally in the June quarter. Around one quarter (23%) of businesses expect the WA economy to improve over the year ahead – a fall of 6 percentage points. Nearly two out of five (38%) anticipate no change over the next twelve months, while 40 per cent believe conditions will deteriorate – up 7 percentage points. The difference between the long and short term index is now the largest recorded, reflecting the uncertainty surrounding macroeconomic conditions over the next year.

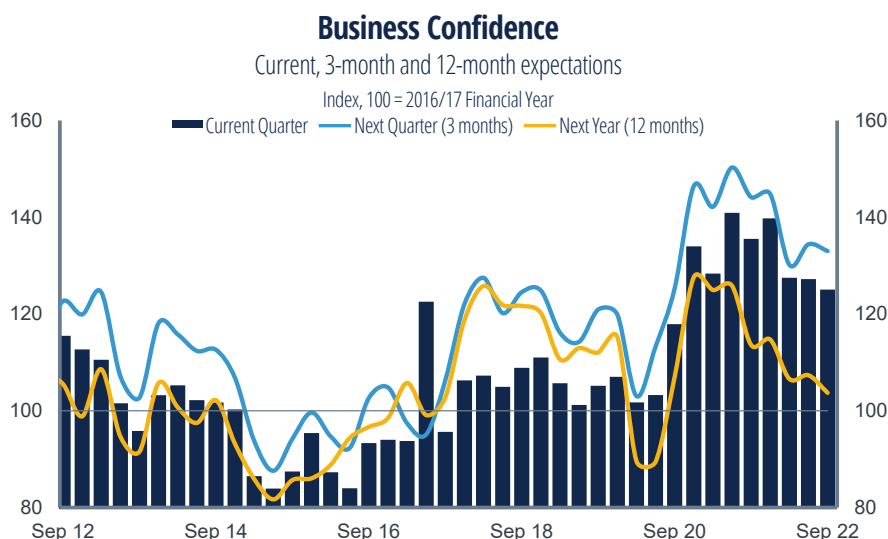
The industries driving short-term confidence

In contrast from previous editions of the CCIWA Business Confidence Survey, the **professional services** sector now leads WA business confidence, with 67 per cent of businesses expecting stronger conditions over the next three months – up 17 percentage points since last quarter. This is likely underpinned by a decrease in the proportion of businesses in the sector struggling to hire workers – only 60 per cent of businesses in the sector reported struggling to hire workers, 19 percentage points below average.

Just under three in five (57%) **construction** businesses expect stronger conditions over the next three months, up 18 percentage points since the June quarter following a significant decline throughout the year. Despite cost pressures persisting, supply chain issues appear to be easing with businesses also having had time to adjust to changes in their supply chains. The pipeline of construction work also remains strong and may be an additional factor contributing to the pick-up in confidence in this sector.



“The professional services sector now leads WA business confidence, with 67 per cent of businesses expecting stronger conditions over the next three months.”



Other industries with a comparatively higher proportion of businesses expecting conditions to improve include **resources** (57%), **manufacturing** (52%), and **education & training** (50%).

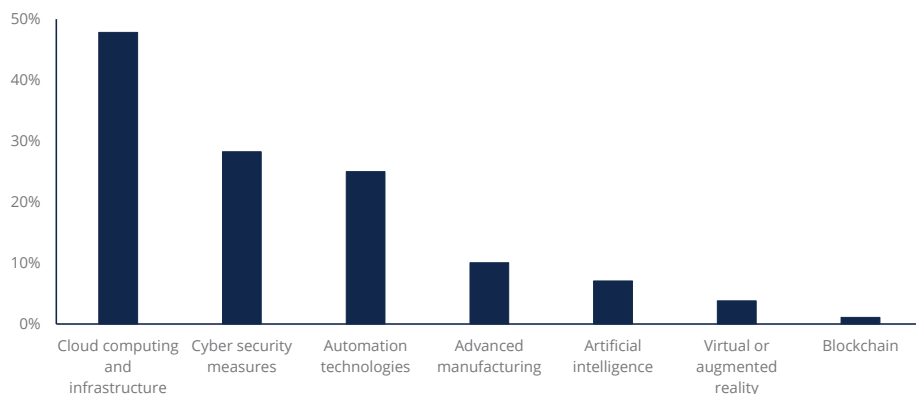
On the flipside, just one in five (22%) **health care & social assistance** businesses are anticipating stronger conditions over the next three months – down 3 percentage points since last

quarter. Acute labour shortages in the sector, combined with the additional workload caused by the pandemic and skyrocketing operating costs, may be reasons for the low levels of optimism.

Additional sectors with a comparatively lower proportion of businesses expecting stronger conditions include **agriculture** (30%), **retail trade** (31%) and **food services** (32%).

Has your business adopted, or is looking to adopt, any new technologies?

Proportion that responded 'yes'



“The availability of skilled labour continues to prevail as the dominant barrier facing the WA business community, closely followed by rising operating costs.”



Barriers to business

The **availability of skilled labour** continues to prevail as the dominant barrier facing the WA business community, closely followed by **rising operating costs**.

More than four out of five (83%) businesses cited skilled labour shortages as a barrier to growing their business over the coming year, up a slight 2 percentage points since last quarter. These concerns were most acute amongst businesses in the **transport** (93%), **agriculture** (92%) and **resources** (92%) sectors.

Other industries with a relatively higher proportion of businesses identifying skilled labour shortages as a barrier include **manufacturing** (90%), **education & training** (90%) and **food services** (86%).

The second largest barrier remains **rising operating costs**, identified by four out of five (79%) WA businesses – a similar proportion to the June quarter.

One half (51%) of businesses indicated that **supply chain disruptions** are a barrier to growth, down 9 percentage points since last quarter. While this likely reflects an easing of supply chain pressures globally, it may also indicate that businesses have adapted to these



SKILL SHORTAGES

Identified by **83%** of businesses as a barrier

Sectors most likely to report as a barrier:

- Transport (93%)
- Agriculture (92%)
- Resources (92%)



RISING OPERATING COSTS

Identified by **79%** of businesses as a barrier

Sectors most likely to report as a barrier:

- Food Services (91%)
- Construction (87%)
- Transport (86%)



SUPPLY CHAIN DISRUPTIONS

Identified by **51%** of businesses as a barrier

Sectors most likely to report as a barrier:

- Transport (79%)
- Agriculture (74%)
- Food Services (64%)



INTERNATIONAL TRADE TENSIONS

Identified by **16%** of businesses as a barrier

Sectors most likely to report as a barrier:

- Transport (36%)
- Agriculture (25%)
- Food Services (23%)

issues and adjusted their supply chains, further easing disruptions.

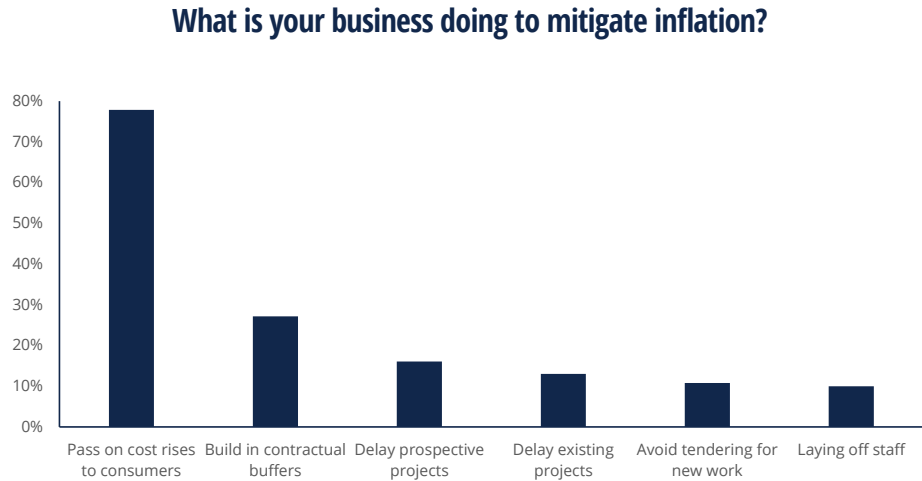
Concerns surrounding **international trade tensions** were cited by 16 per cent, a similar proportion to last quarter. The **transport** (36%) and **agriculture** (25%) sectors in particular have identified this as a barrier to business, given the uncertainty in these sectors as a result of ongoing tensions with China as well as the Russo-Ukraine conflict.

Business plans and technology take-up

In this edition of the *CCIWA Business Confidence Survey*, we asked businesses what activities they plan to undertake in the next 12 months, as well as whether they had recently adopted any new technologies.

Just under half (47%) of respondents said they were looking to improve their digital presence over the next year, while a similar proportion (47%) indicated they were looking to adopt new technologies. Three in ten (30%) are planning to improve their workplace diversity and inclusion, whilst just under a quarter (23%) are looking to respond to evolving social trends, such as a greater consumer focus on ethical products.

When asked what technologies businesses had recently or were looking to adopt, almost half (48%) said they had implemented cloud computing and infrastructure. Further, nearly



three in ten (28%) signalled they had adopted cyber security measures, with one quarter (25%) indicating they had introduced automation technologies. Other forms of technology being adopted included:

- Advanced manufacturing (10%)
- Artificial intelligence (7%)
- Virtual or augmented reality (4%)
- Blockchain (1%)

Unpacking the key economic headwinds

Inflation expectations and business response

Inflationary conditions in Australia have continued to rise and are predicted to peak by the end of the year, placing considerable pressures on the cost of doing business. In this edition of the *CCIWA Business Confidence Survey*, we asked businesses for their view on when inflationary conditions will begin

to ease, as well as strategies they are implementing to cope with inflation.

Only one in five (21%) businesses believe overall consumer prices will stop increasing at their current rate within the next 12 months – the period in which most economic forecasters believe prices will begin to stabilise. A further two in five (37%) respondents believe inflation will begin to ease in the next 1-2 years, with one in five (21%) believing prices will continue to rise for another 2-3 years. An additional one in eight (8%) believe conditions won't ease for at least 3 years.

This suggests that a significant proportion of WA businesses believe inflationary pressures will persist for longer than the consensus view.

How are businesses responding?

By far and away, the most common response to mitigate inflationary

TOP THREE OCCUPATIONS IN DEMAND BY INDUSTRY			
	1	2	3
Agriculture	Equipment operators	Managers	General labourers
Resources	Mechanics	Engineers	Fitters
Manufacturing	Boilermakers/Welders	Fitters	Machinists
Construction	Carpenters	Construction workers	Plumbers
Retail Trade	Technicians	Mechanics	Retail staff
Transport	Truck drivers	Mechanics	Administrative staff
Real Estate	Property Managers	Administrative staff	Salespeople
Professional Services	Engineers	Consultants	Technicians
Education and Training	Childcare Professionals	Trainers	Administrative staff
Healthcare	Social support workers	Allied health professionals	Administrative staff
Food Services	General hospitality staff (waitstaff/baristas etc)	Chefs	Supervisors/Managers

pressures is passing through cost rises to consumers, with nearly four in five (78%) businesses indicating they had been forced to do so. More than a quarter (27%) said they had begun to build in contractual buffers, such as higher risk margins and cost escalation clauses, while around one in seven (16%) indicated they had delayed prospective projects. Businesses in the agriculture (46%), education & training (40%) and professional services (23%) sectors are most likely to delay prospective projects. Other responses to inflation include:

- Delaying existing projects (13%)
- Avoid tendering for new work (11%)
- Laying off staff (10%)

Impact of interest rate rises

The RBA has continued to hike the cash rate, with the latest increase in October taking it to 2.6 per cent. For businesses with debt-side obligations, the prospect of further rate increases lifts the risk of further cash flow pressure and weighs on their appetite and ability to invest and grow. In this edition of the *CCIWA Business Confidence Survey*, we asked WA businesses whether they had begun to experience certain operational adjustments, such as cutting back on capital expenditure or hiring new staff, as a result of higher interest rates.

Looking to the results, almost one quarter (23%) of respondents indicated they have reduced new capital investment due to higher interest rates, while around one in eight (13%) say they have cut back on hiring new staff. Further, one in ten (10%) respondents have scaled back their business due to higher repayments, with businesses in the real estate services (44%), retail trade (35%) and resources (31%) industries being most likely to do so. An additional 8 per cent of businesses have rendered projects infeasible due to the cost of debt.

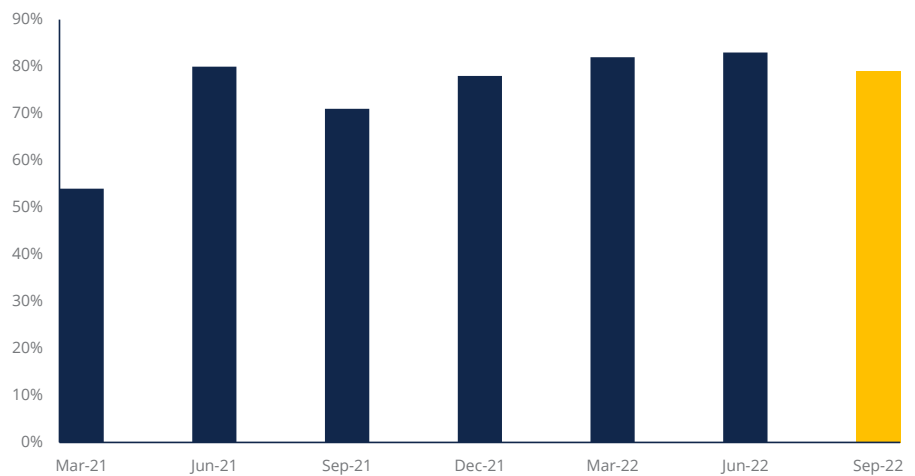
Skills shortages

Finding workers remains one of the most significant issues for businesses, with four out of five (79%) indicating

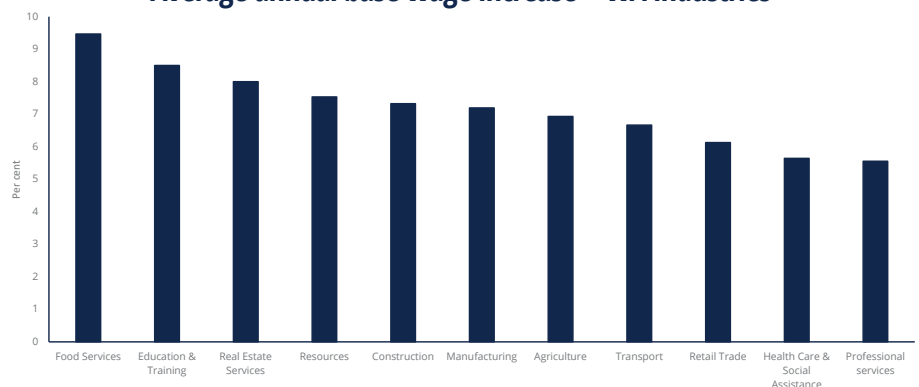


“For businesses with debt-side obligations, the prospect of further cash flow pressure and weighs on their appetite and ability to invest and grow.”

% respondents struggling to fill a position



Average annual base wage increase – WA industries



they are struggling to hire for a particular skillset. However, this is down 4 percentage points from the highs of last quarter and is the lowest reading since December last year.

So, how are WA businesses responding?

- More than three in five (63%) are **investing in training new employees**, which includes taking on more apprentices and trainees. Those in the food services (78%), professional services (78%) and construction (74%) sectors are the most likely to be doing so.
- Three in five (60%) are **boosting**

existing employees' base wages – down 7 percentage points from last quarter. On average, WA businesses indicated they have recently increased base wages by 7 per cent as part of an annual wage setting process – significantly higher than Western Australia's latest annual Wage Price Index of 2.7 per cent. At the same time, one in five (19%) are providing **one-off financial rewards to existing employees** – down 5 percentage points since last quarter.

- 57 per cent indicated they were **upskilling existing employees** – down 9 percentage points since last quarter. Businesses in the food

services (83%), resources (80%) and agriculture (74%) sectors are most likely to be ramping up their training efforts.

- One quarter (25%) are looking to attract and hire workers from interstate, whilst 14 per cent are providing sign on bonuses or other incentives to new employees.
- One in five (21%) are **turning down offers for new work** (e.g., tenders), including more than two in five (44%) in professional services, one third (33%) in health care & social assistance and three out of ten (30%) in the resources sector.

Business Confidence, September 2022



Both the **short** and **longer term outlook** have **edged down** following a rise last quarter.



Around four out of five **(79%) businesses** are **struggling to fill** a skilled **position**.



On average, **businesses** that have **increased base wages** have done so by **7 per cent**.



Nearly four out of five **(78%) businesses** are **passing on rising costs** to help mitigate inflationary pressures.

KEY RESULTS FROM THE SURVEY

INDICATOR (INDEX)	Actual			Expected	
	Mar 22	Jun 22	Sep 22	1 Quarter	1 Year
Economy					
WA Economic Conditions	126.6	126.3	124.2	133.0	103.7
Operating Conditions					
Employment	109.5	112.1	108.1	121.7	-
Labour Costs	135.3	133.0	140.9	134.8	-
Anticipated CAPEX	112.9	118.9		116.0	.
Profitability	79.0	77.1	15.7	90.6	.

Note: 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 2022 is 124.2, which suggests that the average score of survey respondents for economic conditions in September 2022 is 24.2 per cent higher than the average response in 2016/17.

SAMPLE

Industry	
Manufacturing	17%
Construction	16%
Resources	6%
Agriculture	7%
Retail Trade	10%
Professional	4%
Real Estate	4%
Other	9%
Business Size	
Small (1-10 employees)	45%
Medium (11-100 employees)	44%
Large (100+ employees)	12%

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