



Chamber of Commerce
and Industry WA

WA business confidence slumps as skills shortages and cost pressures persist

CCIWA Business Confidence Survey
December Quarter 2022



Western Australian business confidence has continued its decline over the December quarter, as skilled labour shortages and cost pressures continue to bite. Confidence levels for the next 12 months are now at their lowest since the beginning of the pandemic.

Skilled labour shortages have remained elevated over the three months to December, with four out of five (79%) businesses indicating they struggled to fill a position this quarter — the same proportion as last quarter. In response, three in five (59%) businesses indicated they are boosting existing employees' base wage, doing so by an average of 11 per cent.

These increased wage pressures - stemming from WA's tight jobs market - and combined with broader inflationary pressures are damaging business' bottom lines. Four out of five (81%) WA businesses reported higher labour costs over the quarter, while three in five (59%) reported declining profit margins. As a result, we

continue to see low levels of business profitability, with CCIWA's profitability index remaining near record low levels (see chart).

In this edition of the *CCIWA Business Confidence Survey*, we asked businesses how they are mitigating current inflationary pressures and how they are dealing with skills shortages.

Short- and longer-term outlooks fall

Confidence in both the short-term

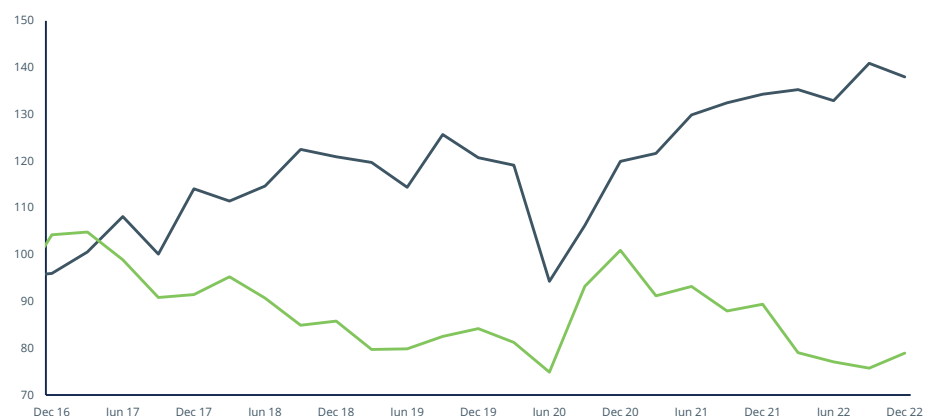
(3 month) and long-term (12 month) outlooks have continued to fall over the December quarter.

Short-Term Index drops 7.0 Index Points over the quarter to 126.0

One third (33%) of WA businesses believe conditions will improve over the next three months, down 8 percentage points since last quarter. The same proportion (33%) anticipate weaker conditions, up 10 percentage points. The remaining 34 per cent anticipate no change.

Higher costs continue to weigh on profits

— Labour costs — Profit margins



Longer-Term Index down 5.0 Index Points over the quarter to 98.7

Only one in seven (15%) businesses expect the WA economy to improve over the year ahead – down 8 percentage points since last quarter. Two out of five (41%) anticipate no change over the next twelve months, while 44 per cent believe conditions will deteriorate – up 4 percentage points. The difference between the long- and short-term index remains significant, reflecting business' uncertainty surrounding macroeconomic conditions over the next year.

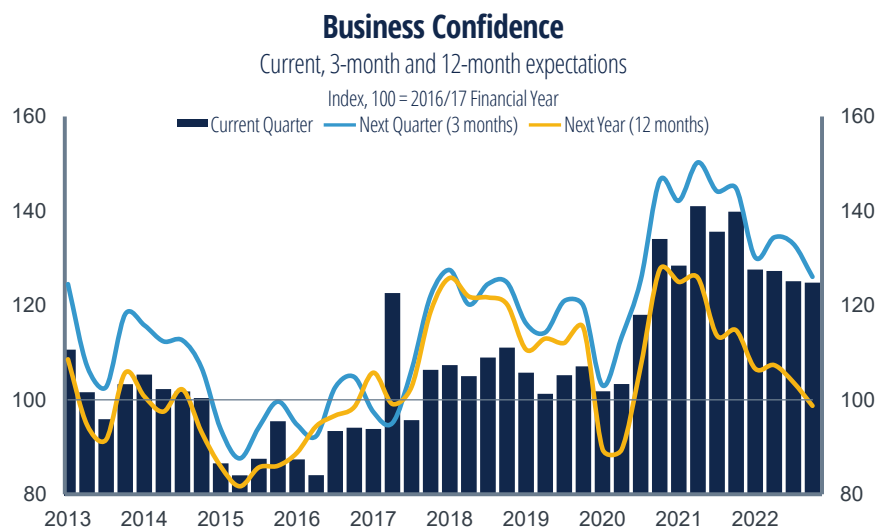
The industries driving short-term confidence

As identified in the September edition of the *CCIWA Business Confidence Survey*, the **professional services** sector continues to lead WA business confidence, with 67 per cent of businesses expecting stronger conditions over the next three months – the same proportion as last quarter. This could reflect continuing investment in the public and mining sectors, driving work for consultants.

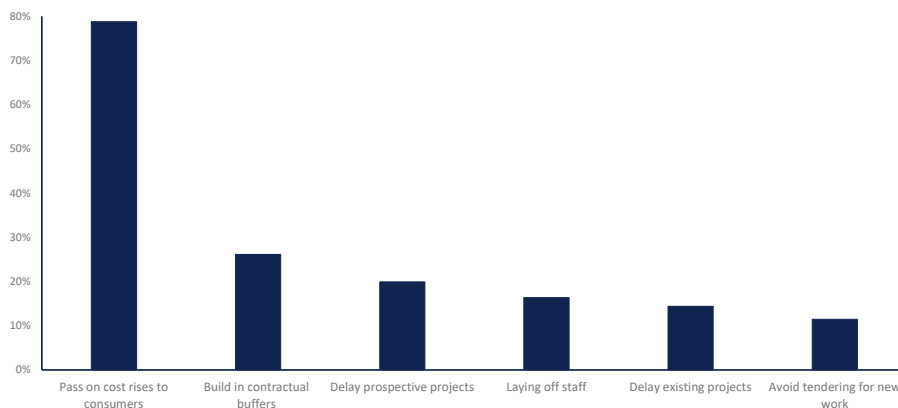
One half (50%) of **construction** businesses expect stronger conditions over the next three months, down 7 percentage points since the September quarter. While cost pressures are persisting, supply chain issues are quickly easing – particularly as many businesses proactively adjust to disruptions in their supply chains. The pipeline of brownfield residential construction work also remains strong and may be an additional factor contributing to the relatively higher level of confidence in this sector.

Other industries with a comparatively higher proportion of businesses expecting conditions to improve include **agriculture** (44%), **resources** (39%), and **education & training** (38%).

On the flipside, just one in seven (15%) **health care & social assistance** businesses are anticipating stronger conditions over the next three months – down 7 percentage points since last



What is your business doing to mitigate inflation?



quarter. Acute labour shortages in the sector, combined with skyrocketing operating costs and an increase in the caseload of COVID-19 in the community may underpin lower levels of optimism.

Additional sectors with a comparatively lower proportion of businesses expecting stronger conditions include **retail trade** (17%), **food services** (22%) and **real estate services** (27%).

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**.

Four out of five (81%) businesses cited skilled labour shortages as a barrier to

growing their business over the coming year, down a slight 2 percentage points since last quarter but still close to record highs. These concerns were most acute amongst businesses in the **transport** and **food services** sectors, with all respondents indicating this as a barrier.

Other industries with a relatively higher proportion of businesses identifying skilled labour shortages as a barrier include **professional services** (92%), **resources** (89%) and **retail trade** (89%).

The second largest barrier remains **rising operating costs**, identified by three in four (74%) WA businesses – down 5 percentage points since last quarter.

One half (50%) of businesses indicated that **supply chain disruptions** are a barrier to growth, down a percentage point from last quarter and 14 percentage points from the start of the year. While this likely reflects the easing of global supply chain pressures over this time, it may also indicate that businesses have adapted to some of these issues and have adjusted their supply chains.

Concerns surrounding **international trade tensions** were cited by 13 per cent, slightly down on last quarter's result by 3 percentage points. The **transport** (25%) and **manufacturing**

(24%) sectors in particular have identified this as a barrier to business, given the uncertainty in these sectors as a result of ongoing geopolitical tensions as well as the Russo-Ukraine conflict affecting energy prices and trade routes.

Business plans

In this edition of the *CCIWA Business Confidence Survey*, we asked businesses what activities they plan to undertake in the next 12 months.

Around one half (49%) of respondents said they were looking to improve

their digital presence over the next year, while a similar proportion (48%) indicated they were looking to adopt new technologies. Almost a quarter (23%) are planning to improve their workplace diversity and inclusion – down 7 percentage points over the quarter – whilst one in six (17%) are looking to respond to evolving social trends, such as a greater consumer focus on ethical products.

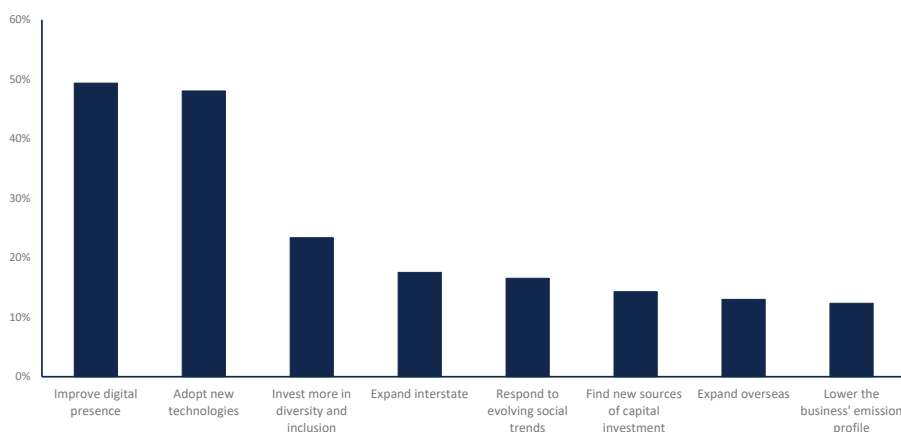
Unpacking the key economic headwinds

Business response to inflation

Inflationary conditions in Australia have continued to rise and are predicted to peak towards the end of the year, placing considerable pressure on the cost of doing business. In this edition of the *CCIWA Business Confidence Survey*, we asked businesses about strategies they are implementing to cope with inflation.

The most common response to mitigate inflationary pressures is passing through cost rises to consumers, with nearly four in five (79%) businesses indicating they had been forced to do so – a similar

Business plans over the next 12 months



SKILL SHORTAGES

Identified by **81%** of businesses as a barrier

Sectors most likely to report as a barrier:

- Transport (100%)
- Food Services (100%)
- Professional Services (92%)



RISING OPERATING COSTS

Identified by **74%** of businesses as a barrier

Sectors most likely to report as a barrier:

- Food Services (100%)
- Real Estate Services (91%)
- Transport (88%)



SUPPLY CHAIN DISRUPTIONS

Identified by **50%** of businesses as a barrier

Sectors most likely to report as a barrier:

- Food Services (78%)
- Resources (74%)
- Agriculture (68%)



INTERNATIONAL TRADE TENSIONS

Identified by **13%** of businesses as a barrier

Sectors most likely to report as a barrier:

- Transport (25%)
- Manufacturing (24%)
- Food Services (22%)

proportion to last quarter. One quarter (26%) said they had begun to build in contractual buffers, such as higher risk margins and cost escalation clauses, while one in five (20%) indicated they had delayed prospective projects – an increase of 4 percentage points. Businesses in the education & training (35%) agriculture (32%), and food services (28%) sectors are most likely to delay prospective projects. Other responses to inflation include: laying off staff (16%); delaying existing projects (14%); and avoiding tendering for new work (11%)

Skills shortages

With the labour market in Western Australia remaining extremely tight, in this edition of CCIWA's *Business Confidence Survey* we asked WA businesses whether they are struggling to fill a position, how many positions they are trying to fill and where they are looking to hire prospective workers.

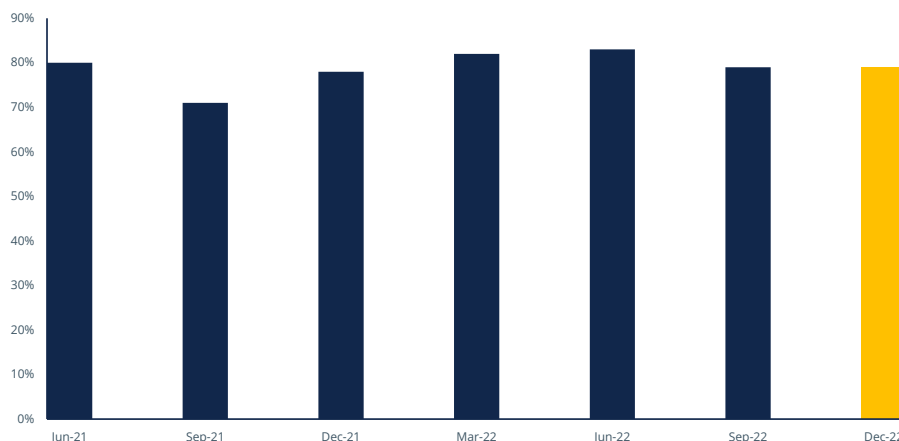
Finding workers remains the most significant issue for businesses, with four out of five (79%) indicating they are struggling to hire for a particular skillset – the same reading as last quarter.

When asked how many positions they are unable to fill, on average businesses indicated they are trying to fill approximately 6 vacancies. Breaking this down by business size, small businesses are looking to hire on average 2.6 workers, medium businesses 5.8 workers and large businesses 21.2 workers.

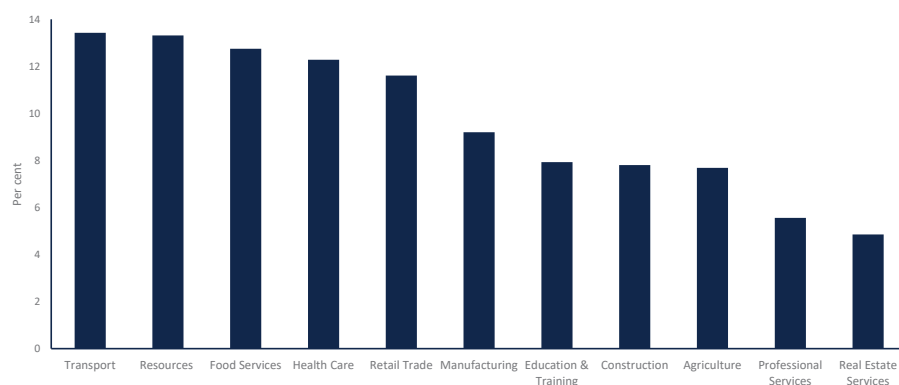
Around 3 in 10 (31%) businesses indicated they are looking to fill all of their vacancies with local workers, meaning the majority of businesses are looking outside WA to help alleviate skills shortages. For businesses unable to fill their positions with local workers, 2 in 5 (39%) are looking interstate while almost 3 in 5 (58%) indicated their best option is to look overseas.

Additionally, one third (33%) of businesses indicated they were actively looking to recruit from overseas either now or in the near future. Asia

% respondents struggling to fill a position



Increase to base wages



excluding China (63%), the UK (38%) and Europe (30%) were reported as the most attractive overseas markets WA businesses are looking to hire from.

So, how else are WA businesses responding to skills shortages?

- Almost three in five (59%) are investing in **training new employees**, which includes taking on more apprentices and trainees. Those in the retail trade (89%), food services (83%) and transport (75%) sectors are the most likely to be doing so.
- Just under three in five (59%) are **boosting existing employees' base wages**. On average, WA businesses indicated they have recently increased base wages by just under 11 per cent as part of an annual wage setting process – up 4 percentage points from last quarter and significantly higher than Western Australia's latest annual

Wage Price Index of 3.3 per cent. At the same time, one in five (19%) are providing **one-off financial rewards to existing employees** – a similar proportion to last quarter.

- 61 per cent indicated they were **upskilling existing employees** – up 2 percentage points since last quarter. Businesses in the construction (76%), transport (75%) and agriculture (74%) sectors are most likely to be ramping up their training efforts.
- Just under one in five (17%) are looking to attract and hire workers from interstate, whilst 10 per cent are providing sign on bonuses or other incentives to new employees.
- One quarter (26%) are **turning down offers for new work** (e.g., tenders), including around two in five in agriculture (42%) and construction (40%), and one third (33%) in the professional services sector.

TOP THREE OCCUPATIONS IN DEMAND BY INDUSTRY

	1	2	3
Agriculture	Equipment operators	Managers	General labourers
Resources	Mechanics	Fitters	Engineers
Manufacturing	Boilermakers/Welders	Machinists	Sales Staff
Construction	Carpenters	Electricians	Plumbers
Retail Trade	Sales Staff	Technicians	Retail staff
Transport	Truck drivers	Mechanics	Administrative staff
Real Estate	Property Managers	Administrative staff	Salespeople
Professional Services	Accountants	Engineers	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

Business Confidence, December 2022



Both the **short** and **longer term outlook** have **dropped** over the quarter.



Nearly 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 **11 per cent**.



One third **(33%)** of WA **businesses** are looking to **recruit** workers from **overseas** now or in the near future.

KEY RESULTS FROM THE SURVEY

INDICATOR (INDEX)	Actual			Expected	
	Jun 22	Sep 22	Dec 22	1 Quarter	1 Year
Economy					
WA Economic Conditions	126.3	124.2	123.8	126.0	98.7
Operating Conditions					
Employment	112.1	108.1	109.6	112.8	-
Labour Costs	133.0	140.9	138.0	131.6	-
Anticipated CAPEX	118.9	116.0		114.9	.
Profitability	77.1	75.7	78.9	88.7	.

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 December 2022 is 123.8, which suggests that the average score of survey respondents for economic conditions in December 2022 is 23.8 per cent higher than the average response in 2016/17.

SAMPLE

Industry	
Manufacturing	19%
Construction	14%
Resources	6%
Agriculture	6%
Retail Trade	6%
Education & Training	6%
Health Care & Social Assistance	5%
Other	38%
Business Size	
Small (1-10 employees)	45%
Medium (11-100 employees)	45%
Large (100+ employees)	10%

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