



Chamber of Commerce
and Industry WA

WA businesses maintain their confidence in the face of soaring costs

CCIWA Business Confidence Survey
March Quarter 2023

The soaring cost of doing business is now the number one barrier to growth in WA. Despite these rising pressures, business confidence has held firm, amid signs that labour shortages have reached their peak.

Western Australian business confidence increased marginally over the first three months of 2023 amid intense cost pressures and persistent labour shortages. The story is similar for longer term confidence, with confidence levels for the next 12 months edging higher.

Rising cost pressures continue to weigh on business confidence, as three quarters (75%) of businesses indicated this as a barrier to growth over the next year. At the same time, skilled labour shortages have persisted over the three months to March, with three in four (75%) businesses indicating they struggled to fill a position this quarter — whilst still high, this is the lowest reading since September 2021 suggesting that skill shortages has peaked. In response, almost three in five (56%) businesses indicated they

are boosting the base wage of existing employees, doing so by an average of 11 per cent.

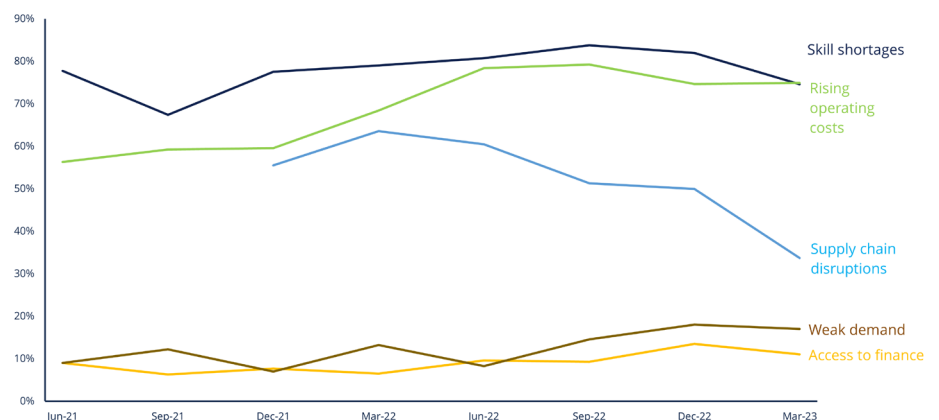
Combined, these factors continue to erode the bottom lines of business across the State. Four out of five (81%) WA businesses reported higher labour costs over the quarter, while just under three in five (56%) reported a fall in their profit margins. As a result, we continue to see low levels of business profitability, with CCIWA's profitability index hovering near record low levels, as it has for the last 12 months.

In this edition of the CCIWA *Business Confidence Survey*, we asked businesses how they are mitigating rising cost pressures, how they are dealing with skills shortages and whether they plan to use ChatGPT for their business.

Short- and longer-term outlooks edge up

Confidence in both the short-term (3 month) and long-term (12 month) outlooks have ticked up slightly over the March quarter.

Barriers to Business Growth
Next 12 Months



Short-Term Index rises 1.5 Index Points over the quarter to 127.5

Just over one third (35%) of WA businesses believe conditions will improve over the next three months, up two percentage points since last quarter. Three in 10 (32%) anticipate weaker conditions, down a percentage point, while the remaining 33 per cent anticipate no change.

Longer-Term Index up 3.3 Index Points over the quarter to 102.0

Around one quarter (23%) of businesses expect the WA economy to improve over the year ahead – up eight percentage points since last quarter. Just over one third (35%) anticipate no change over the next twelve months, while 42 per cent believe conditions will deteriorate – down two percentage points. Excluding the initial onset of the pandemic, the long-term index remains near its lowest reading in almost six years.

The industries driving short-term confidence

As identified in the previous two editions of the CCIWA *Business Confidence Survey*, the **professional services** sector continues to lead WA business confidence, with 80 per cent of businesses expecting stronger conditions over the next three months. This could reflect continuing investment in both the public and mining sectors, driving work for consultants.

One half (50%) of **agriculture** businesses expect stronger conditions over the next three months, up six percentage points since last quarter. Despite labour shortages continuing to remain a key issue in the sector, strong commodity prices and bumper harvests have supported confidence. Solid growing conditions have led to projections of another strong crop yield, further aiding confidence.

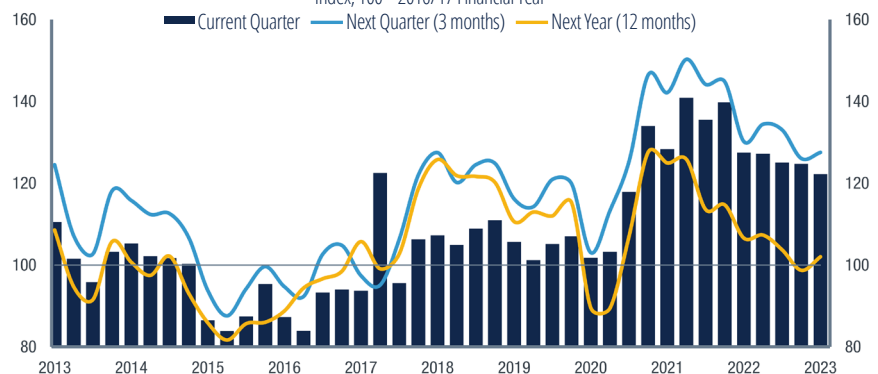
Other industries with a comparatively higher proportion of businesses expecting conditions to improve include **transport** (45%), **construction** (44%), and **education & training** (42%).



Business Confidence

Current, 3-month and 12-month expectations

Index, 100 = 2016/17 Financial Year



On the flipside, just one in seven (15%) **real estate services** businesses are anticipating stronger conditions over the next three months — down 12 percentage points since last quarter. However, this reflects a high proportion of business in this sector predicting conditions to remain about the same, rather than becoming worse – more than three in five (62%) believe conditions will remain as they are over the coming quarter.

Additional sectors with a comparatively lower proportion of businesses expecting stronger conditions include **wholesale trade** (18%), **retail trade** (20%) and **food services** (30%).

Barriers to business

In a change to previous editions of the *Business Confidence Survey*, **rising operating costs** has emerged as the most prevalent barrier facing the WA business community. This is followed closely by **availability of skilled labour**.

Three quarters (75%) of businesses cited rising operating costs as a barrier to growing their business over the coming year – up one percentage point from last quarter – as rising interest rates and inflationary pressures continue to bite. These concerns were most acute among businesses in the **food services sector**, with all respondents indicating this as a barrier.

Other industries with a relatively high proportion of businesses identifying rising operating costs as a barrier include **professional services** (92%), **wholesale trade** (91%) and **retail trade** (88%).

The second largest barrier is the **availability of skilled labour**, identified by three in four (75%) WA businesses — down six percentage points since last quarter. While still high, this reflects the slight easing in labour market conditions following record low unemployment rates in the first half of 2022. The **education & training** (93%), **resources** (87%) and **manufacturing** (87%) industries saw the largest proportion of businesses indicating this as a barrier.

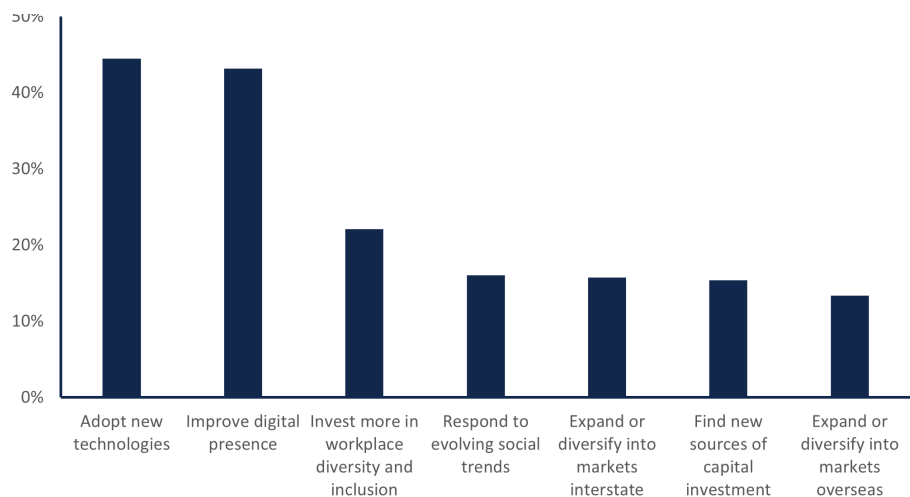
One third (34%) of businesses indicated that **supply chain disruptions** are a barrier to growth, down 16 percentage points from last quarter in a sign that supply chain issues have eased further and businesses have adapted their supply chains. Meanwhile, almost one in five (17%) businesses identified **weak demand** as a barrier. As higher interest rates start to force households to reduce their spending, businesses are becoming increasingly worried that this may lead to reduced turnover.

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 two in five (45%) respondents said they are looking to adopt new technologies, while a similar proportion (43%) indicated they are looking to improve their digital presence over the next year. One in five (22%) are planning to improve their workplace diversity and inclusion – a similar proportion to last quarter – whilst one in six (16%) are looking to respond to evolving social trends, such as a greater consumer focus on ethical products. There's also been a pickup in the number of businesses looking for new forms of capital investment – 15% of businesses said they were

Business plans over the next 12 months



doing so, compared with only 10% six months ago, which is likely a result of higher borrowing costs stemming from interest rate rises.

Business' response to inflation and impacts of rising interest rates

Inflationary pressures in Australia have continued over the quarter while the RBA has continued to hike interest rates, placing further 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 cost pressures and whether higher interest rates has seen repayments exceed business turnover.

The most common response to mitigate inflationary pressures is passing through cost rises to consumers, with seven in 10 (71%) businesses indicating they had been forced to do so – down eight percentage points since last quarter. Three in 10 (30%) businesses indicated they have needed to draw down on the business' cash savings, while more than one quarter (27%) have started to build in contractual buffers. Other responses to inflation include:

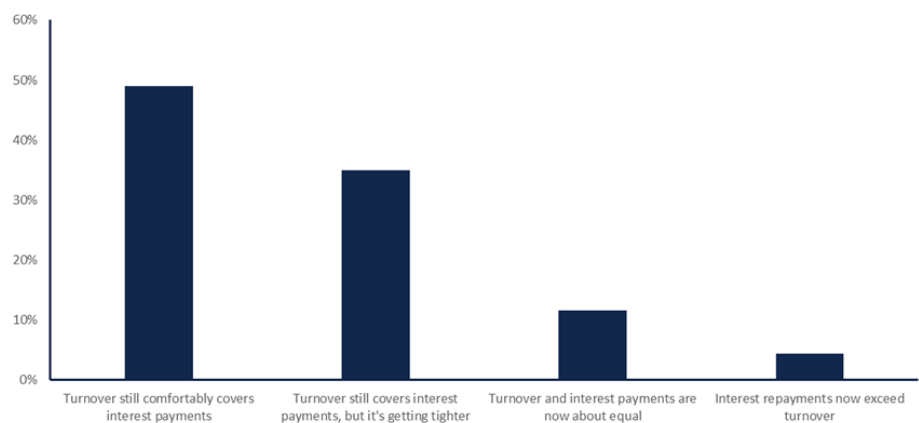
- Delaying prospective projects (14%)
- Laying off staff (12%)
- Avoid tendering for new work (11%)
- Delaying existing projects (9%)

We then asked businesses where the company's repayments sit relative to its turnover due to the sharp rise in interest rates. About one half (49%) indicated that their turnover still comfortably covers their interest repayments, while a further one third (35%) said their turnover still covers repayments although it has gotten tighter. Just over one in 10 (11%) businesses said that their repayments are now equal to their turnover, while 4% indicated their repayments have now exceeded their turnover. This means that one in six businesses are on the verge of needing additional sources of funding to continue to make repayments.

Breaking this down further, businesses in the professional services (73%), agriculture (70%) and transport (64%) industries indicated they are the most comfortable with where their level of repayments sit, with greater proportions reporting their turnover still comfortably covers their repayments. On the flipside, businesses in the health care & social assistance (38%), food services (22%) and retail trade (22%) sectors are feeling the pinch the most, with the largest proportion of respondents indicating their repayments are now equal to or greater than their turnover.



Where does your company's repayment sit relative to its turnover?



**RISE
OPERATING COSTS**

Identified by **75%** of businesses as a barrier

Sectors most likely to report as a barrier:

- Food Services (100%)
- Professional Services (92%)
- Wholesale Trade (91%)



**SKILL
SHORTAGES**

Identified by **75%** of businesses as a barrier

Sectors most likely to report as a barrier:

- Education & Training (90%)
- Resources (87%)
- Manufacturing (87%)



**SUPPLY CHAIN
DISRUPTIONS**

Identified by **34%** of businesses as a barrier

Sectors most likely to report as a barrier:

- Retail Trade (46%)
- Construction (43%)
- Agriculture (42%)



**WEAK
DEMAND**

Identified by **17%** of businesses as a barrier

Sectors most likely to report as a barrier:

- Wholesale Trade (55%)
- Transport (36%)
- Retail Trade (27%)

Skills shortages continue to persist

Finding workers remains one of the most significant issues for businesses, with three in four (75%) indicating they are struggling to hire for a particular skillset – down four per centage points since last quarter. Whilst still high, this is the lowest reading since September 2021.

So, how are WA businesses responding to skills shortages?

- Three in five (59%) indicated they were **upskilling existing** employees. Businesses in the transport (91%), education & training (79%) and professional services (75%) sectors are most likely to be ramping up their training efforts.
- 56 per cent of respondents are **investing in training new employees**, which includes taking on more apprentices and trainees. Those in the professional services (83%), manufacturing (65%) and construction (64%) sectors are the most likely to be doing so.
- The same proportion (56%) are **boosting existing employees' base wages**. On average, WA businesses indicated they have recently increased base wages by around 11 per cent as part of an annual wage setting process – the same as last quarter but significantly higher than Western Australia's latest annual Wage Price Index of 3.6 per cent. At the same time, one in five (22%) are providing **one-off financial rewards to existing employees** – a similar proportion to last quarter.
- Just under one in five (17%) are looking to attract and hire workers from interstate, whilst 11 per cent are providing sign on bonuses or other incentives to new employees.
- One in five (20%) are **turning down offers for new work** (e.g., tenders), including around two in five in professional services (42%) and food services (40%), and one quarter (27%) in the agricultural sector.

Businesses turning to Artificial Intelligence

In November last year, a new artificial intelligence chatbot, ChatGPT, was released and has taken the world by storm. ChatGPT is an advanced online chatbot which is able to quickly give detailed responses across a range of topics, and its release has begun a race between technology companies to see who can create their own version to rival it first. We asked WA businesses whether they plan on using ChatGPT, and if so, what they intend on using it for.

Already, more than one in 10 (11%) businesses indicated they are using this technology, while another 10 per cent suggested they plan on using it in the future. One quarter (26%) said they were still unsure as to whether they would use it.

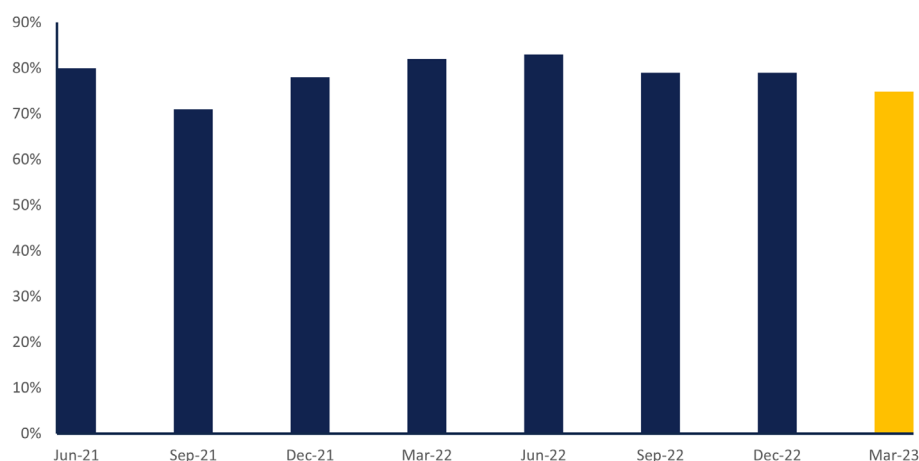
Breaking this down further, Medium sized businesses are most likely to be using or planning to use this technology, with one quarter (26%) indicating they

would do so. This is compared with one in five (22%) large businesses and 19 per cent of small businesses.

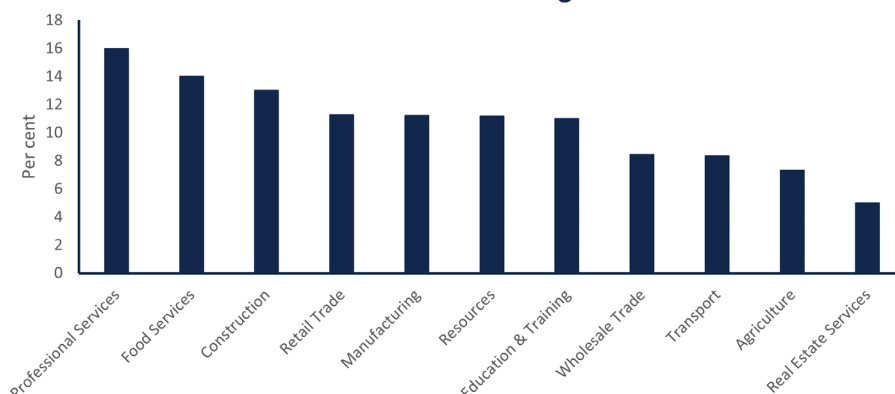
Businesses in the transport, food services and professional services industries are most likely to be using ChatGPT already. More than one third (36%) of transport businesses, three in 10 (30%) food services businesses and one quarter (25%) of professional services businesses said they were currently using the technology. Businesses in the real estate service (23%) and resources (19%) sectors were most likely to be thinking about adopting the technology in the future.

For those using ChatGPT, we then asked what they planned on using it for. Some of the more popular uses include drafting letters and communications, as well as assistance with marketing and social media posts. We anticipate that adoption of the technology will become significantly more sophisticated over time.

% respondents struggling to fill a position



Increase to base wages



TOP THREE OCCUPATIONS IN DEMAND BY INDUSTRY

	1	2	3
Agriculture	Managers	Salespeople	Equipment operators
Resources	Mechanics	Technicians	Engineers
Manufacturing	Boilermakers/Welders	Machinists	Salespeople
Construction	Plumbers	Electricians	Carpenters
Wholesale Trade	Warehouse managers	Truck drivers	Salespeople
Retail Trade	Retail Staff	Salespeople	Technicians
Transport	Mechanics	Truck drivers	Administrative staff
Real Estate Services	Property managers	Salespeople	Administrative staff
Professional Services	Technicians	Engineers	Administrative staff
Education and Training	Childcare Professionals	Trainers	Administrative staff
Food Services	Supervisors/Managers	Chefs	General hospitality staff (waitstaff/baristas etc)

Business Confidence, March 2023



Both the **short-** and **longer-term outlook** have **edged up** slightly over the quarter.



Rising operating **costs** has become the **leading barrier** to growth, cited by three quarters (75%) of businesses.



16 per cent of business indicated **soaring** interest **rates** has seen their **repayments rise** to be equal to or greater than their turnover.



Almost **three in five** (56%) businesses continue to **lift** their employees' **base wages**, doing so by an average of 11 per cent.

KEY RESULTS FROM THE SURVEY

INDICATOR (INDEX)	Actual			Expected	
	Sep 22	Dec 22	Mar 23	1 Quarter	1 Year
Economy					
WA Economic Conditions	124.2	123.8	121.4	127.5	102.0
Operating Conditions					
Employment	108.1	109.6	112.0	115.5	-
Labour Costs	140.9	138.0	137.2	131.4	-
Anticipated CAPEX	116.0	114.9	114.3	-	.
Profitability	75.7	78.9	80.6	87.1	.

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 March 2023 is 121.4, which suggests that the average score of survey respondents for economic conditions in March 2023 is 21.4 per cent higher than the average response in 2016/17.

SAMPLE

Industry	
Manufacturing	16%
Construction	15%
Retail Trade	9%
Resources	5%
Real Estate Services	5%
Education & Training	5%
Professional Services	4%
Other	41%
Business Size	
Small (1-10 employees)	44%
Medium (11-100 employees)	42%
Large (100+ employees)	14%

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