



Chamber of Commerce
and Industry WA

WA Business Confidence Falls Further as Cost Pressures Increase

CCIWA Business Confidence Survey
June Quarter 2023

Western Australian business confidence has continued its downward march over the June quarter, with long-term confidence hovering just above pandemic lows. CCIWA's Labour Cost Index for the upcoming quarter increased to its highest ever, soaring up by 5.5 percentage points since last quarter.

The soaring cost of doing business dominates again as the main drag to business confidence, with four in five (79%) businesses indicating this as a barrier over the next 12 months - up 4 percentage points since last quarter. Skilled labour shortages also continue to dampen confidence, with 75 per cent of businesses indicating they are struggling to hire a worker.

To manage labour shortages, businesses continue to offer larger pay packages to attract and retain their workforce - with businesses increasing or planning to increase their base wages by an average of 11 per cent.

In addition to these factors, WA businesses are increasingly grappling

with weak consumer demand as a result of persistent cash rate hikes and inflationary pressures - with a further 9 per cent of WA businesses reporting this as a barrier to growth this quarter, up to a total of 26 per cent. This is the first sign of the coming slowdown in local retail and hospitality markets.

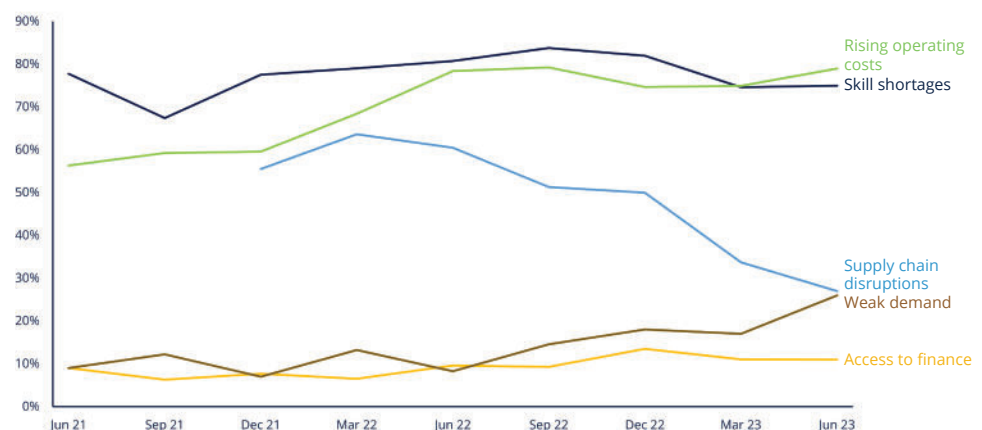
In the face of these barriers, almost three in five (57%) WA businesses have seen their profit margins decrease over the June quarter, meaning CCIWA's Profitability Index continues to hover near its record lows of the past year.

While WA business are facing intensified challenges, it is important to note that conditions in WA are stronger than in other parts of the nation and that current confidence levels remain elevated by historical standards. One of the best ways the State Government can help rein in the cost pressures is providing immediate payroll tax relief.

In this edition of the CCIWA Business Confidence Survey, we asked businesses how they are mitigating rising cost pressures and how they are managing skills shortages.

Barriers to Business Growth

Next 12 Months



Short- and longer-term outlooks fall to near pandemic lows

Confidence in both the short-term (3-month) and long-term (12-month) economic outlooks have softened over the June quarter. Short-term confidence is at its lowest since the initial stages of the pandemic, while longer-term confidence is also nearing pandemic lows.

Short-Term Index falls 4.1 Index Points over the quarter

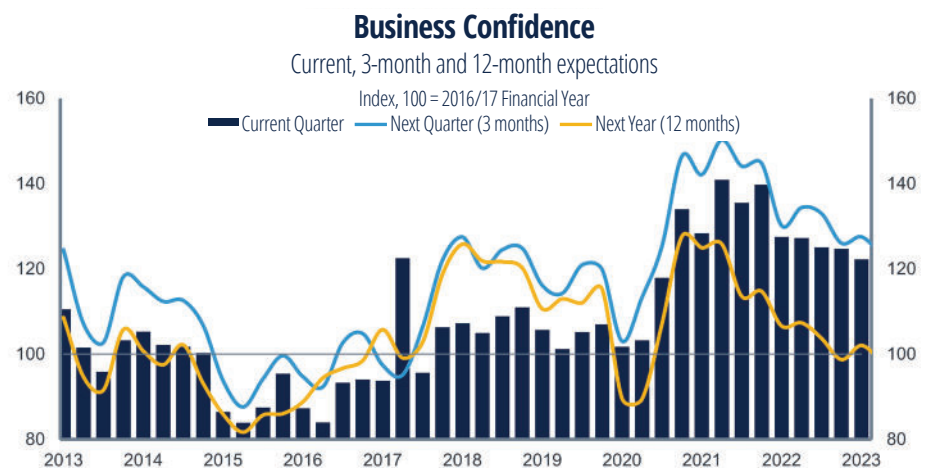
Three in 10 (30%) WA businesses believe conditions will improve over the next three months, down five percentage points since last quarter. One in three (34%) WA businesses anticipate no change, while a similar proportion (36%) expect conditions to soften, up four percentage points since last quarter.

Long-Term Index falls 3.7 Index Points over the quarter

One in six (16%) businesses expect the WA economy to improve over the upcoming 12 months - down seven percentage points since last quarter, while two in five (41%) anticipate no change. A similar proportion (43%) believe conditions will worsen - up one percentage point since last quarter. The long-term index remains near its lowest reading in just over six years, excluding the initial onset of the pandemic.

The industries driving short-term confidence

The **professional services** sector continues to lead WA business' short-term confidence this quarter, having also led the past three quarters. Over one third (35%) of businesses in this sector expect strong economic conditions over the next three months, down significantly by 45 percentage points since last quarter - however, much of this response is a shift towards expecting economic conditions to remain unchanged, as opposed to worsening.



A similar proportion (34%) of businesses in the **construction** industry indicate they expect improved conditions in the short term - down 10 percentage points since last quarter. The decline since last quarter could reflect high operating and borrowing costs.

Other industries closely following include **resources** (33%), **manufacturing** (33%), **retail trade** (32%), **accommodation and food services** (31%), and **health care and social assistance** (29%).

On the flip side, only one quarter (25%) of businesses in the **real estate sector** are anticipating stronger conditions - although comparatively lower than

other industries, the proportion of businesses expecting stronger conditions in this industry is up 10 percentage points since last quarter.

The **agriculture, forestry, and fishing** industry also has a relatively lower proportion of businesses expecting stronger conditions over the next quarter - with just over one in five (23%) businesses indicating they have a positive economic outlook.

Barriers to business

Rising operating costs has remained the dominant barrier to business growth in WA over the June quarter, closely followed by skilled shortages. Concerns around weak demand has also seen a

significant increase in prevalence this quarter.

Almost four in five (79%) businesses cited rising operating costs as a barrier to growing their business over the coming year - up 4 percentage points since last quarter – as rising interest rates, labour costs and other inflationary pressures continue to take hold.

These concerns were most prevalent in the **resources** sector, with all respondents citing this as a barrier. Additional sectors with a relatively high proportion of businesses identifying rising operating costs as a barrier include **real estate services** (92%) and **construction** (88%) and **manufacturing** (87%).

As such, the second most prevalent barrier remains the availability of skilled labour, identified by three in four (75%) WA businesses – remaining unchanged since last quarter. The **resources** (92%), **construction** (80%), **manufacturing** (80%), and **professional services** (80%) industries saw the largest proportion of businesses citing this as a barrier.

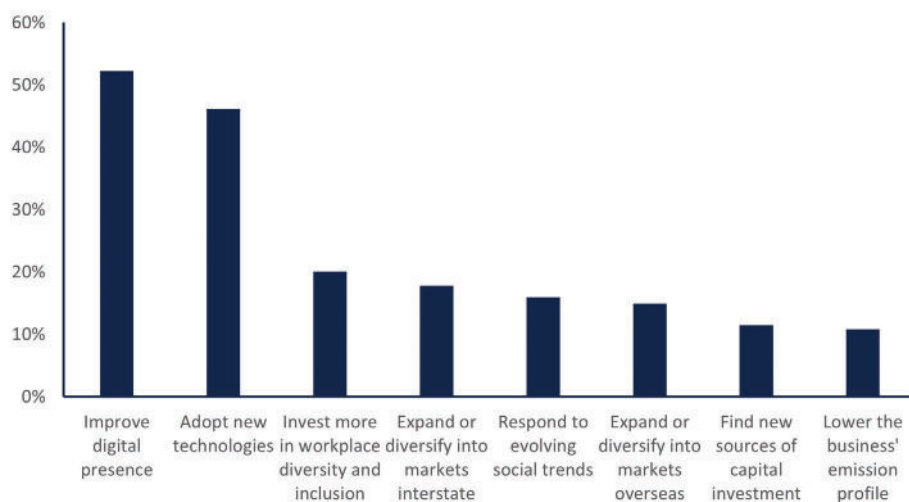
Of note, more businesses are now identifying weak demand as a barrier – up 9 percentage points this quarter. More than one quarter (26%) of WA businesses cited this as a concern for the upcoming year. This reflects the slowdown in consumer spending to start 2023 as households adjust to the higher cost of living, leaving businesses increasingly worried that this may lead to a reduction in turnover. This is particularly the case for businesses in the **retail trade** sector, with half (50%) of these businesses citing this as an issue as consumers cut back discretionary spending.

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.

More than half (52%) of respondents said they are looking to improve their digital presence – up 9 percentage

Business plans over the next 12 months



points since last quarter. Similar to last quarter, just under half (46%) indicated they will be adopting new technologies, while one in five (20%) said they are planning to invest more in workplace diversity and inclusion. Other business plans cited include:

- Expand or diversify into markets interstate (18%)
- Respond to evolving social trends (16%)
- Expand or diversify into markets overseas (15%)
- Find new sources of capital investment (11%)
- Lower the business' emission profile (11%)

Business' response to inflation and impacts of interest rate rises

The RBA has continued to surprise, with further interest rate hikes now taking the cash rate to 4.1 per cent. Combined with persistent inflationary pressures, this continues to erode profitability. In this edition of the CCIWA Business Confidence Survey, we asked businesses how they plan to mitigate inflationary pressures and whether higher interest rates have seen repayments exceed business turnover.

The most prevalent strategy to cope with rising interest rates is passing on cost rises to consumers, with almost three quarters (74%) of WA businesses indicating they have been forced to do so – up three percentage points since

last quarter but still down on the highs from December 2022. Just over one in three (34%) respondents said they needed to draw down on cash savings, up four percentage points. Meanwhile, almost three in 10 (28%) said they have started to build in contractual buffers - a similar proportion to last quarter. Other responses to inflation include:

- Delaying prospective projects (17%)
- Laying off staff (14%)
- Avoiding tendering for new work (14%)
- Delaying existing projects (10%).

We also asked businesses where the company's repayments sit relative to its turnover given the substantial rise in interest rates in such a short period. A great proportion of respondents indicated their turnover remains greater than their interest repayments, with over two in five (43%) indicating their turnover still comfortably covers their interest repayments – however this is down six percentage points since the March quarter. The same proportion (43%) indicated their turnover still covers their interest repayments, but it is getting tighter. Just under one in 10 (8%) said their turnover



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



RIISING OPERATING COSTS

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

Sectors most likely to report as a barrier:

- Resources (100%)
- Real estate services (92%)
- Construction (89%)



SKILL SHORTAGES

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

Sectors most likely to report as a barrier:

- Resources (92%)
- Construction (80%)
- Manufacturing (80%)



SUPPLY CHAIN DISRUPTIONS

Identified by **27%** of businesses as a barrier

Sectors most likely to report as a barrier:

- Retail trade (43%)
- Resources (42%)
- Accommodation (40%)



WEAK DEMAND

Identified by **26%** of businesses as a barrier

Sectors most likely to report as a barrier:

- Retail trade (50%)
- Agriculture (36%)
- Manufacturing (33%)

and interest repayments are now about equal. More alarmingly, around six per cent of respondents indicated their interest repayments now exceed their turnover – up two percentage points since last quarter.

Unpacking this further, businesses in the professional services (78%), real estate services (64%), and health care and social assistance (58%) sectors identified 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 administration and support services (25%), education and training (25%), and food services (22%) industries are feeling the squeeze the most, with the greatest proportion of respondents identifying their repayments are now equal to or greater than their turnover.

Skills shortages

Sourcing workers remains a persistent issue for WA businesses, as labour market conditions appear unchanged since the March quarter - with three in four (75%) businesses indicating they are struggling to hire for a particular skillset.

In this edition of CCIWA's Business Confidence Survey, we also asked WA businesses how many positions they are trying to fill. On average, WA businesses are looking to fill six positions – unchanged from six months ago. Breaking this down further, small businesses are trying to fill on average 2.6 positions, medium-sized businesses 5.2 positions, and larger businesses 19 positions. Compared with 6 months ago, medium and large-sized businesses are looking to fill fewer positions, while small businesses are still looking to fill the same number.

So, how are WA businesses responding to skills shortages?

- Three in five (60%) are **upskilling existing employees**. Businesses in the food and accommodation services (86%), resources (75%) and

agriculture (68%) industries are the most likely to be ramping up their training efforts.

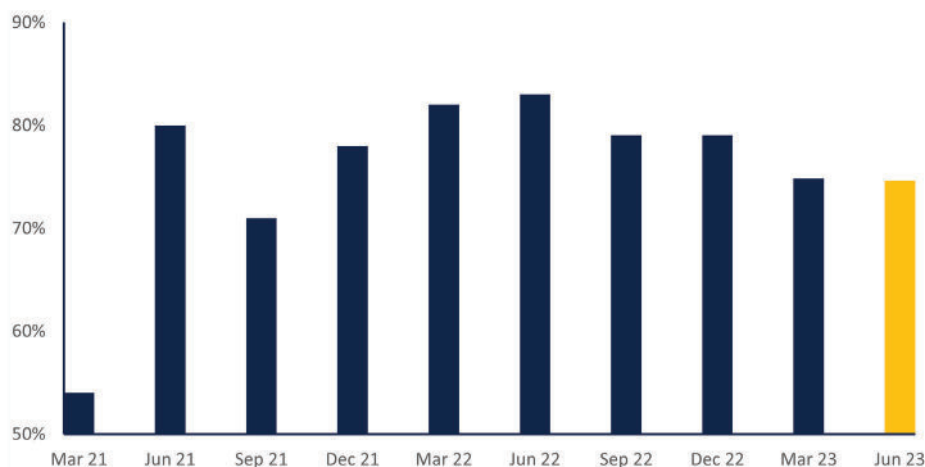
- 56 per cent of respondents are **boosting existing employees' base wages**. On average, WA businesses cited they recently increased base wages by 11 per cent. Simultaneously, one in five (20%) are providing **one-off financial rewards to existing employees**, such as retention bonuses.
- Almost half (48%) of WA businesses are **investing in training new employees** – for example, by taking on apprentices and trainees. Businesses in the food services

(78%), manufacturing (57%), and professional services (55%) sectors are the most likely to be training new employees.

- One in five (20%) are **declining offers for new work** (e.g., tenders). Businesses in the construction (41%), professional services (35%), and manufacturing (11%) industries are the most likely to be declining new work.
- Over one in 10 (15%) are looking to **attract and hire workers from other states**, including almost three in 10 (28%) in the manufacturing sector.



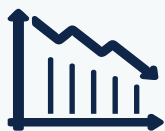
% respondents struggling to fill a position



TOP THREE OCCUPATIONS IN DEMAND BY INDUSTRY

| | 1 | 2 | 3 |
|---------------------------------|-------------------------|-------------------|------------------------------|
| Agriculture | Equipment operators | Managers | Salespeople |
| Resources | Mechanics | Electricians | Safety Officers |
| Manufacturing | Boilermakers/Welders | Machinists | Managers |
| Construction | Plant Operators | Technicians | Managers |
| Wholesale Trade | Warehouse Workers | Truck Drivers | Salespeople |
| Retail Trade | Retail Staff | Salespeople | Managers |
| Transport, Postal & Warehousing | Mechanics | Procurement Staff | Panel Beaters/Spray Painters |
| Real Estate Services | Property Managers | Salespeople | Administrative Staff |
| Professional Services | Engineers | Technicians | Draftspersons |
| Education and Training | Childcare Professionals | Trainers | Administrative Staff |
| Food Services | Managers | Chefs | Customer Service Staff |

Business Confidence, June 2023



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



Rising operating **costs** remains the **leading barrier** to growth, cited by almost four in five (79%) businesses.



75 per cent of **WA businesses** are still **struggling** to hire for a **particular skillset**



More than **two in five** (43%) businesses said their **turnover** still covers their **interest** repayments, but it's getting tighter - up 8 percentage points since **March**

KEY RESULTS FROM THE SURVEY

| INDICATOR (INDEX) | Actual | | | Expected | |
|-----------------------------|--------|--------|--------|-----------|--------|
| | Dec 22 | Mar 23 | Jun 23 | 1 Quarter | 1 Year |
| Economy | | | | | |
| WA Economic Conditions | 123.8 | 121.4 | 117.7 | 123.4 | 98.3 |
| Operating Conditions | | | | | |
| Employment | 109.6 | 112.0 | 110.4 | 113.9 | - |
| Labour Costs | 138.0 | 137.2 | 137.7 | 138.6 | - |
| Anticipated CAPEX | 114.9 | 114.3 | 114.5 | - | - |
| Profitability | 78.9 | 80.6 | 79.5 | 84.7 | - |

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 June 2023 is 117.7, which suggests that the average score of survey respondents for economic conditions in June 2023 is 17.7 per cent higher than the average response in 2016/17.

SAMPLE

| Industry | |
|---------------------------------|-----|
| Manufacturing | 18% |
| Construction | 14% |
| Retail Trade | 9% |
| Agriculture, Forestry & Fishing | 7% |
| Professional Services | 7% |
| Health Care & Social Assistance | 5% |
| Resources | 4% |
| Real Estate Services | 4% |
| Other | 32% |
| Business Size | |
| Small (1-10 employees) | 46% |
| Medium (11-100 employees) | 43% |
| Large (100+ employees) | 12% |

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