



WA Super – CCIWA Business Confidence Survey: June Quarter 2020

Businesses need reform plan to shake longer term blues

While short-term business confidence in Western Australia has partly rebounded in the June quarter the longer term outlook remains gloomy, according to the latest *WA Super – CCIWA Business Confidence Survey*. The short-term improvement was driven primarily by an earlier than expected relaxation of social distancing restrictions and sustained evidence that Western Australia has remained free of community based COVID-19 transmission. After sinking in late March, Western Australian short-term business

confidence has now recovered around 60 per cent of the fall recorded during the peak of the pandemic.

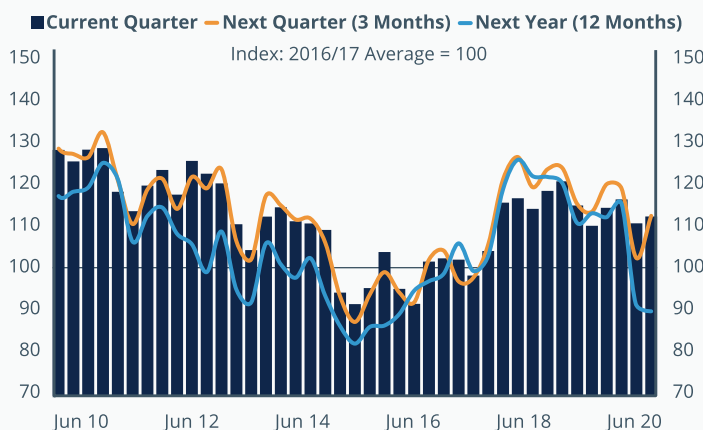
Despite these improvements, high levels of uncertainty continue to weigh the confidence of businesses to invest and grow over the longer term. This increases the imperative for State and Federal governments to commit to meaningful economic reform and supercharge WA's economic recovery by unlocking new business investment. Indeed, almost all businesses surveyed

(98%) indicate that a clear plan from governments to grow the economy would boost their confidence.

Easing of COVID-19 restrictions boost short-term outlook

Almost one out of two (48%) WA businesses expect economic conditions to improve or remain unchanged over the next 3 months, up 10 percentage points since last quarter. The other 52 per cent of businesses expect conditions to worsen.

Business Confidence
Current, 3-Month and 12-Month Expectations



Source: WA Super - CCIWA (2020)

Short-Term Index up
10.1 Index Points over the
quarter to 112.4

Looking to the year ahead, conditions are expected to remain weak

While short-term sentiment has improved, businesses are becoming increasingly pessimistic about the longer-term outlook. Two out of three (66%) businesses expect the WA economy to worsen over the year ahead, up

Businesses located in the Perth and Peel region appear more pessimistic about short-term conditions, with one out of two expecting the WA economy to worsen over the next three months

Confidence by Region (WA)	Short-Term (3-Months)			Longer-Term (12-Months)		
	Stronger	Weaker	About the same	Stronger	Weaker	About the same
Perth and Peel	20%	54%	26%	18%	67%	14%
South West & Great Southern	24%	48%	29%	17%	57%	26%
Goldfields & Wheatbelt	33%	44%	22%	5%	75%	20%
Mid West, Gascoyne & Pilbara	31%	47%	22%	13%	56%	31%
Kimberley	0%	83%	17%	0%	83%	17%

* Particular care should be exercised when using regional estimates, which are subject to smaller sample sizes.

5 percentage points since last quarter, while only 16 per cent expect conditions to improve. All up, businesses expect to face significant headwinds over the next 12 months, which will detract from their appetite to take on risk and invest.

Longer-Term Index down 0.1 Index Points over the quarter to 89.4

Confidence by Region





Restrictions implemented to contain the spread of COVID-19 have imposed considerable setbacks to the operating position of businesses across the economy. In this special edition of the *WA Super - CCIWA Business Confidence Survey*, we identify how COVID-19 restrictions are impacting business expectations in Western Australia's regions. Care should be exercised when using regional estimates, which are subject to smaller sample sizes.

A higher proportion of businesses in every region expect weaker conditions over the short-term compared to those expecting stronger conditions. The majority expect conditions to worsen over the next twelve months.

- Surveyed businesses located in the Perth and Peel region appear more pessimistic about short-term conditions, with one out of two (54%) expecting the WA economy to worsen over the next three months.
- Three out of four (75%) surveyed businesses in the Goldfields and Wheatbelt regions expect weaker conditions over the year ahead. This could reflect concerns about rising trade tensions and the vulnerability of global value chains as nations look to manage trade risk by consolidating domestic supply chains.
- A significant majority of survey respondents in the Kimberley (83%) expect weaker conditions over the short or longer term, which may reflect the closure of international and interstate borders to travelers and seasonal workers.

Barriers to growth

More than two out of five (42%) businesses identified weak demand as the largest barrier to growing their business over the coming year. This was followed by concerns around the availability of skilled labour (14%) and rising operating costs (9%).

Weak demand	Skill shortages	Increasing costs	Trade tensions
 <p>Identified by 42% as a barrier.</p> <p>Sectors most likely to report as a barrier:</p> <ul style="list-style-type: none"> • Wholesale (67%) • Manufacturing (59%) • Professional (56%) 	 <p>Identified by 14% as a barrier.</p> <p>Sectors most likely to report as a barrier:</p> <ul style="list-style-type: none"> • Education (33%) • Mining (23%) • Agriculture (22%) 	 <p>Identified by 9% as a barrier.</p> <p>Sectors most likely to report as a barrier:</p> <ul style="list-style-type: none"> • Health care (29%) • Agriculture (22%) • Wholesale (22%) 	 <p>Identified by 3% as a barrier.</p> <p>Sectors most likely to report as a barrier:</p> <ul style="list-style-type: none"> • Agriculture (11%) • Transport (9%) • Retail (8%)

Barriers to Growth by Region (WA)	Availability of skilled labour	Weak demand	Competitors (foreign and online)	Rising operating costs	Difficulty accessing new finance from banks	International trade tensions	No barriers	Other
Perth and Peel	10%	51%	4%	10%	5%	3%	3%	14%
South West & Great Southern	10%	34%	7%	5%	7%	0%	5%	32%
Goldfields & Wheatbelt	15%	30%	5%	20%	5%	5%	10%	10%
Mid West, Gascoyne & Pilbara	28%	22%	3%	3%	19%	0%	9%	16%
Kimberley	36%	27%	9%	9%	0%	0%	0%	18%

Looking to the regions, skill shortages remain the largest barrier to growth for surveyed businesses in the Mid-West, Gascoyne and Pilbara (28%) and Kimberley (36%). This could reflect the importance of seasonal and low-skilled workers to agriculture and mining businesses.

Almost one out of five surveyed businesses in the Mid-West, Gascoyne and Pilbara (19%) reported difficulty accessing finance from banks, while 20 per cent of businesses in the Goldfields and Wheatbelt identified rising operating costs as the largest barrier to growth.

Looking within industries, a higher proportion of businesses in Manufacturing (59%), Professional Services (56%) and Construction (54%) considered weak demand as the largest barrier to growth over the coming year, while skilled labour shortages affected almost one out of four (23%) Mining businesses. At the same time, rising operating costs remain an issue for three out of ten (29%) businesses in the Health Care and Social Assistance industry.

Impact of border restrictions

As WA enters the recovery phase of the COVID-19 pandemic, we assessed the extent to which WA businesses are suffering from the closure of interstate and international borders.

- Three out of five (60%) businesses are currently suffering from interstate border restrictions,

slightly more than the proportion being affected by international border closures (55%).

- Businesses in the Mid-West, Gascoyne and Pilbara appear heavily affected by interstate border closures (66%), while a higher proportion in the South West and Great Southern suffer from international border restrictions (57%). This could reflect the importance of international tourism in these regions.
- Services-based industries appear most affected by interstate border closures, including Accommodation and Food Services (95%), Wholesale Trade (89%) and Retail Trade (76%). One out of two (55%) Mining businesses and nearly three out of five (58%) Manufacturing businesses are currently suffering because of international border closures.

Border restrictions have helped limit the flow of new cases into Western Australia, but they have also had a material impact on many local businesses. While governments must continue to act on the best health advice in making decisions around remaining restrictions such as borders, it is nonetheless critical to understand how those restrictions are impacting different parts of the business community. Businesses want to know the preconditions for opening both State and international borders so that they can better plan how to rebuild.

Impact of JobKeeper Expiry

The Federal Government's historic JobKeeper subsidy is scheduled to expire in late September, marking the end of financial support for millions of Australian workers. We sought to identify to what extent WA businesses could continue operating without financial assistance from the JobKeeper subsidy.

- Almost one out of three (32%) businesses are not confident they could survive without JobKeeper, while more than three out of five (65%) remain confident they could continue operating.
- Capital-intensive industries appear better placed to survive without JobKeeper, with almost all Construction (94%) and Mining (91%) businesses confident that they can continue operating without financial assistance.
- Labour-intensive industries are less confident that they can survive, with 50 per cent of businesses in Retail and Accommodation and Food Services not at all confident that they could continue operating.
- Looking within regions, a higher proportion of businesses in Perth & Peel (68%) are confident that they could survive without JobKeeper, more than double the proportion that are not confident at all (29%). Businesses in other WA regions appear to

The most important measure that would boost business' confidence to invest and grow is a clear plan from governments to tackle economic reform and grow the economy

be facing tougher operating conditions, with two out of five (41%) businesses in the South West and Great Southern not at all confident they could survive without JobKeeper.

Recovery Phase: Key Drivers of Confidence

Reigniting the confidence of businesses to invest will be critical to WA's economic recovery. As WA enters the recovery phase, we asked businesses what would give them more confidence to invest and grow.

- By far and away, the most important measure that

would boost the confidence of businesses to invest and grow is a clear plan from governments to tackle economic reform and grow the economy (98%).

- This was followed closely by a commitment from the State Government to reduce the regulatory burden on WA businesses (95%), lower operating costs (93%) and access to skilled workers (79%).
- Three out of four (75%) businesses would feel more confident to invest and grow if international trade tensions were eased.

Ultimately, these results demonstrate the importance of creating an environment that supports business' confidence to invest and grow. As the health effects of the pandemic start to fade, the economic costs from measures implemented to contain the virus will remain. It is vital that governments tackle economic reform challenges in major fields such as taxation, industrial relations and skills. At the same time, governments should look to implement simple, short-term measures that would provide much needed support to WA's economic recovery, such as reforming WA's outdated retail trading hours.

Business Confidence, June 2020

 **Early relaxation** of COVID-19 restrictions **boosts short-term confidence**

Weak demand cited as **largest barrier** to business growth 


3 out of 5 (60%) businesses are currently suffering from **interstate border restrictions**

The **vast majority** of WA businesses **(96%)** believe the best way to  **repay government debt** is to **grow the economy**


2 out of 3 (66%) businesses expect the **WA economy to worsen** over the year ahead

Key results from the survey

Indicator (Index)	Actual			Expected	
	Dec 19	Mar 20	Jun 20	1 Quarter	1 Year
Economy					
WA Economic Conditions	115.4	109.7	111.3	112.4	89.4
Operating Conditions					
Employment	109.8	104.1	81.3	105.5	-
Labour Costs	123.2	121.5	96.2	109.7	-
Anticipated CAPEX	-	-	-	108.0	-
Profitability	86.1	83.1	76.6	93.2	-

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 2020 is 111.3, which suggests that the average score of survey respondents for economic conditions in June 2020 is 11.3 per cent higher than the average response in 2016/17.

Sample:

Industry	
Manufacturing	20%
Construction	9%
Retail Trade	8%
Mining	7%
Accommodation and Food Services	7%
Real Estate Services	6%
Health Care and Social Assistance	6%
Other	37%
Business Size	
Small (1-10)	34%
Medium (11-100)	55%
Large (100+)	10%