

# REGIONAL PULSE

JULY 2020

Western Australia's regions help drive the State's economic prosperity. While most of the population reside in Perth, the regions are the engine room of the Western Australian economy, supporting key export industries in resources, agriculture and tourism. In this special report, we provide regional breakdowns of key results from the June 2020 *WA Super – CCIWA Business Confidence Survey*.

*While every measure has been taken to ensure data reliability, particular care should be exercised when using regional estimates as they are subject to smaller sample sizes.*

## Pulse Check

### THE OUTLOOK

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%
<b>Total</b>	<b>22%</b>	<b>52%</b>	<b>26%</b>	<b>16%</b>	<b>66%</b>	<b>18%</b>

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 travellers and seasonal workers.

## BARRIERS TO BUSINESS

Confidence by Region (WA)	Barriers to Business							
	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 (please specify)
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%
<b>Total</b>	<b>14%</b>	<b>42%</b>	<b>5%</b>	<b>9%</b>	<b>7%</b>	<b>3%</b>	<b>5%</b>	<b>16%</b>

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%).

Skills 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.

## LABOUR COSTS

Expectations by Region (WA)	Labour Costs					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	20%	70%	10%	6%	72%	22%
South West & Great Southern	20%	71%	10%	5%	57%	38%
Goldfields & Wheatbelt	20%	55%	25%	11%	53%	37%
Mid West, Gascoyne & Pilbara	6%	81%	13%	0%	84%	16%
Kimberley	50%	33%	17%	17%	25%	58%
<b>Total</b>	<b>20%</b>	<b>69%</b>	<b>12%</b>	<b>6%</b>	<b>68%</b>	<b>26%</b>

One out of four (26%) businesses expect labour costs to increase over the next three months, including a high proportion of businesses in the Kimberley (58%), South West & Great Southern (38%) and Goldfields & Wheatbelt (37%).

Expectations of rising labour costs may indicate emerging skills shortages in regional areas, particularly those that rely on seasonal and low-skilled foreign workers. Indeed, more than one out of three (34%) businesses in regional Western Australia expect wage pressures to build next quarter compared to only 22 per cent in the Perth and Peel region.

## PRODUCTION

Expectations by Region (WA)	Production					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	61%	24%	15%	27%	37%	36%
South West & Great Southern	60%	23%	18%	25%	33%	43%
Goldfields & Wheatbelt	58%	21%	21%	26%	32%	42%
Mid West, Gascoyne & Pilbara	52%	19%	29%	16%	45%	39%
Kimberley	92%	8%	0%	36%	36%	27%
<b>Total</b>	<b>61%</b>	<b>22%</b>	<b>16%</b>	<b>26%</b>	<b>37%</b>	<b>37%</b>

Most businesses reduced production levels in the June quarter, including three out of five (61%) businesses in regional Western Australia. This likely reflects COVID-19 restrictions reducing consumer demand and the capability of businesses to stay open. Looking ahead, production is expected to improve, with more businesses in all regions except the Kimberley planning to ramp up production over the next three months.

## PROFIT MARGINS

Expectations by Region (WA)	Profit Margins					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	66%	25%	8%	41%	44%	15%
South West & Great Southern	54%	41%	5%	46%	34%	20%
Goldfields & Wheatbelt	60%	35%	5%	44%	28%	28%
Mid West, Gascoyne & Pilbara	53%	34%	13%	41%	47%	13%
Kimberley	92%	0%	8%	67%	25%	8%
<b>Total</b>	<b>64%</b>	<b>28%</b>	<b>8%</b>	<b>43%</b>	<b>41%</b>	<b>16%</b>

The COVID-19 lockdown has cut business profits across the State. No sector or region has been immune to the partial economic shutdown resulting from COVID-19 containment measures. Almost three out of five (59%) businesses in regional Western Australia reported a decline in profitability over the June quarter, slightly less than the proportion in Perth & Peel (66%).

Looking ahead, profit margins are expected to gradually improve. Businesses in the South West & Great Southern (20%) and Goldfields & Wheatbelt (28%) expect a stronger rebound in profits next quarter, while businesses in central and northern regions anticipate a slower recovery. Despite these slight improvements, the majority of businesses across all regions expect profit margins to either tighten or remain the same over the next three months (84%), suggesting that conditions will likely remain tough.

## LEVEL OF CREDIT AND DEBT

Expectations by Region (WA)	Level of Credit or Debt					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	10%	68%	23%	10%	74%	16%
South West & Great Southern	10%	74%	17%	12%	69%	19%
Goldfields & Wheatbelt	5%	42%	53%	0%	44%	56%
Mid West, Gascoyne & Pilbara	9%	59%	31%	0%	75%	25%
Kimberley	8%	33%	58%	0%	55%	45%
<b>Total</b>	<b>9%</b>	<b>65%</b>	<b>26%</b>	<b>8%</b>	<b>71%</b>	<b>21%</b>

While rising debt levels can be an indication of future expansion plans, it can also reflect increased financial stress as businesses look to maintain operations by taking on short-term debt. Indeed, around 70 per cent of businesses that increased debt levels during the COVID-19 pandemic did so to fund staff wages and overheads. Almost one out of three (32%) businesses in regional Western Australia increased their debt or credit levels this quarter, with this expected to drop to 30 per cent over the next three months.

Most businesses in the Goldfields & Wheatbelt (56%) expect to take on higher levels of debt over the next three months, compared to only one out of six (16%) in Perth & Peel. All told, most businesses (71%) are anticipating no change in their debt or credit levels over the coming quarter.

## CAPITAL EXPENDITURE

Expectations by Region (WA)	Capital Expenditure					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	26%	57%	17%	19%	61%	20%
South West & Great Southern	34%	51%	15%	17%	56%	27%
Goldfields & Wheatbelt	30%	55%	15%	16%	53%	32%
Mid West, Gascoyne & Pilbara	28%	56%	16%	16%	66%	19%
Kimberley	17%	67%	17%	8%	67%	25%
<b>Total</b>	<b>27%</b>	<b>56%</b>	<b>16%</b>	<b>18%</b>	<b>61%</b>	<b>22%</b>

One out of four (25%) businesses in regional Western Australia plan to increase capital expenditure over the next three months, slightly more than those in Perth & Peel (20%). Around one out of three (32%) businesses in the Goldfields & Wheatbelt expect to boost their capital expenditure next quarter, which may reflect increased optimism in the agricultural sector. Reigniting the confidence of businesses to invest and grow will be critical to Western Australia's economic recovery.

## EMPLOYMENT

Expectations by Region (WA)	Employment					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	53%	36%	11%	24%	30%	45%
South West & Great Southern	50%	40%	7%	21%	42%	38%
Goldfields & Wheatbelt	40%	55%	5%	25%	45%	30%
Mid West, Gascoyne & Pilbara	47%	34%	19%	16%	42%	42%
Kimberley	92%	8%	0%	23%	45%	32%
<b>Total</b>	<b>53%</b>	<b>37%</b>	<b>10%</b>	<b>23%</b>	<b>45%</b>	<b>32%</b>

The forced closure of businesses and restrictions on movement have thrown a hammer at Western Australia's labour market. More than 100,000 Western Australians have lost their jobs since the start of the pandemic, with many more underemployed and looking for additional hours of work.

One out of two (52%) regional businesses laid off staff over the past three months while 38 per cent recorded no changes to their workforce. Businesses in the Kimberley (92%) and South West & Great Southern (50%) recorded the sharpest contraction in employment levels.

Looking ahead, businesses are more optimistic about future employment opportunities as COVID-19 restrictions continue to ease. Across the regions, fewer businesses expect to lay off staff and a higher proportion plan to boost their workforce. While a positive swing, this likely reflects businesses returning to 'normal' levels of employment rather than signalling an intention to expand.

## Appendix

### IMPACT OF BORDER RESTRICTIONS

To what extent does your business currently suffer from the following measures?	Interstate border restrictions				International border restrictions			
	A great extent	A moderate extent	A slight extent	Not at all	A great extent	A moderate extent	A slight extent	Not at all
Perth and Peel	10%	23%	24%	43%	15%	18%	23%	44%
South West & Great Southern	7%	22%	32%	39%	10%	21%	26%	43%
Goldfields & Wheatbelt	15%	15%	25%	45%	15%	10%	20%	55%
Mid West, Gascoyne & Pilbara	13%	25%	28%	34%	13%	13%	25%	50%
Kimberley	75%	0%	17%	8%	33%	8%	33%	25%
<b>Total</b>	<b>13%</b>	<b>21%</b>	<b>25%</b>	<b>40%</b>	<b>15%</b>	<b>17%</b>	<b>24%</b>	<b>44%</b>

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.

Businesses in the Mid West, Gascoyne and Pilbara appear most 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.

## IMPACT OF JOBKEEPER EXPIRY

How confident are you that your business could continue to operate without the JobKeeper subsidy?	Extremely confident	Fairly confident	Somewhat confident	Not confident at all	Unsure
Perth and Peel	10%	18%	41%	29%	3%
South West and Great Southern	7%	26%	22%	41%	4%
Goldfields and Wheatbelt	0%	33%	33%	33%	0%
Mid West, Gascoyne and Pilbara	17%	17%	28%	33%	6%
Kimberley	0%	25%	25%	42%	8%
<b>Total</b>	<b>9%</b>	<b>20%</b>	<b>35%</b>	<b>32%</b>	<b>3%</b>

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.

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 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.