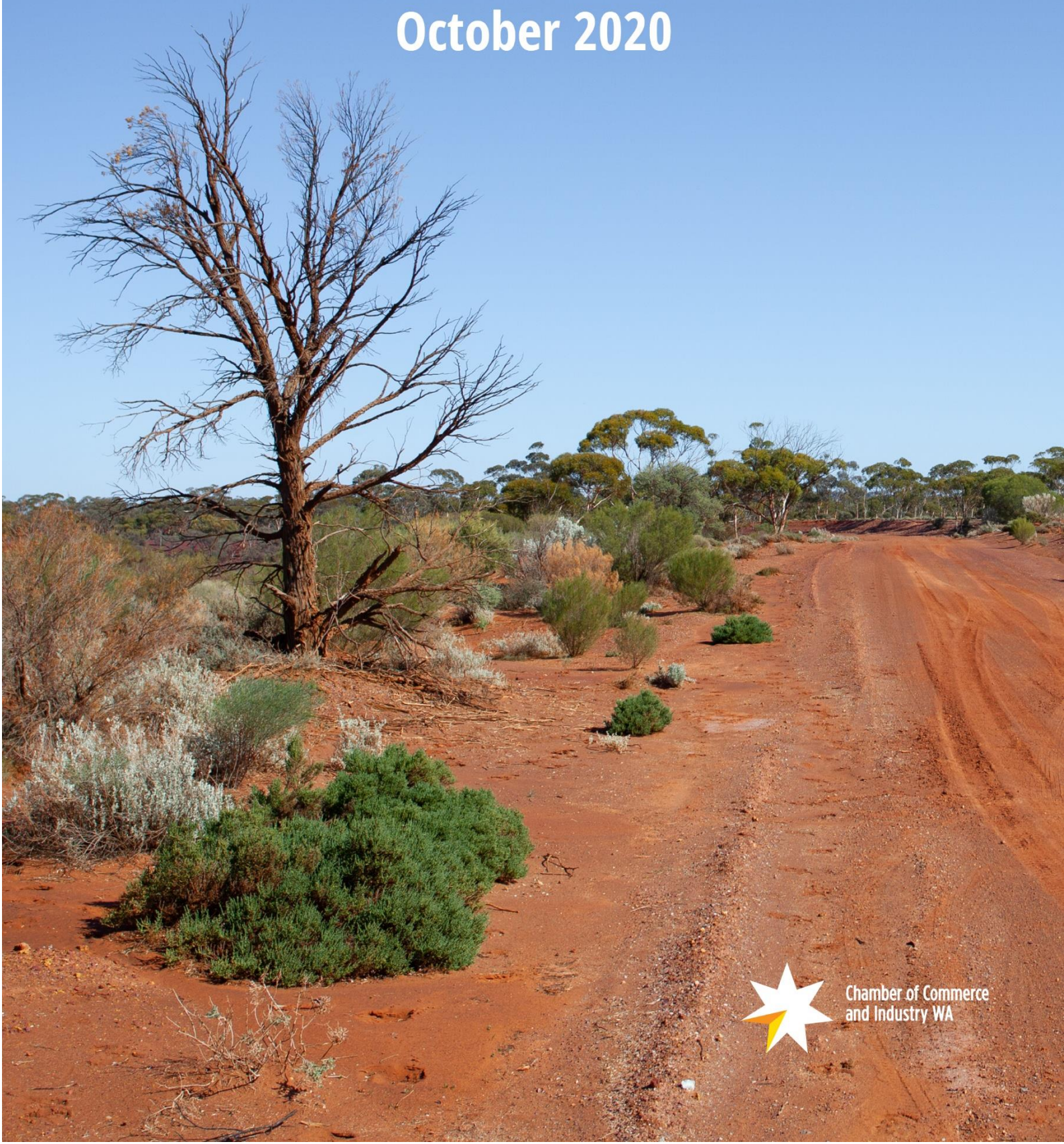


Regional Pulse

Chamber of Commerce and Industry WA
October 2020



Chamber of Commerce
and Industry WA

REGIONAL PULSE

OCTOBER 2020

Western Australia's regions are the engine room of the WA economy, supporting a range of key export industries, including resources, agriculture and tourism. In this report, we provide regional breakdowns of key results from the September 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 Conditions (3-Months)			Longer-Term Conditions (12-Months)		
	Stronger	Weaker	About the same	Stronger	Weaker	About the same
Perth and Peel	32%	30%	38%	37%	33%	30%
South West	41%	24%	35%	35%	53%	12%
Great Southern	30%	40%	30%	30%	40%	30%
Goldfields-Esperance	40%	10%	50%	33%	11%	56%
Wheatbelt & Mid-West	18%	36%	45%	18%	55%	27%
Pilbara & Gascoyne	52%	19%	29%	38%	29%	33%
Kimberley	14%	69%	17%	23%	60%	17%
Total	31%	34%	35%	33%	38%	28%

On average, businesses in regional WA are expecting tougher conditions over the next three months compared to those in the Perth metropolitan region. Almost two out of five (38%) businesses in regional WA expect conditions to worsen over the coming quarter compared to 32 per cent of those in Perth and Peel. Conditions are expected to remain subdued over the longer-term, with a higher proportion of businesses in regional WA expecting conditions to worsen (45%) than improve (30%) over the next twelve months.

Breaking it down:

- A higher proportion of businesses in the South West (41%) and Goldfields-Esperance (40%) are expecting stronger conditions over the next three months. This could respectively reflect an expected uptick in regional travel leading into the Christmas period, and strong conditions in the gold sector.
- Businesses in the Pilbara & Gascoyne are also relatively optimistic about the short-term, with more than half (52%) expecting conditions to improve. This could reflect ongoing strength in the mineral resources sector.
- In contrast, a higher proportion of businesses in the Great Southern (40%) and Wheatbelt & Mid-West (36%) expect weaker conditions over the coming quarter. Businesses in these regions have reported difficulty attracting both skilled and unskilled labour in recent months – particularly businesses in the agricultural sector.
- A significant majority of businesses in the Kimberley expect conditions to worsen over both the short (69%) and longer term (60%). As outlined in the *WA-Super CCIWA Business Confidence Survey*, this is overwhelmingly due to the closure of international and interstate borders to travellers and seasonal workers.

BARRIERS TO BUSINESS

What do you see as the <u>biggest</u> barrier to growing your business in the year ahead?	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
Perth and Peel	22%	29%	5%	10%	2%	6%	5%
South West	18%	24%	12%	18%	0%	6%	0%
Great Southern	10%	30%	10%	30%	0%	0%	10%
Goldfields-Esperance	40%	0%	20%	0%	0%	0%	20%
Wheatbelt & Mid-West	9%	27%	9%	18%	9%	9%	9%
Pilbara & Gascoyne	67%	19%	0%	0%	0%	0%	0%
Kimberley [^]	40%	27%	0%	20%	7%	0%	7%
Total	25%	26%	5%	12%	2%	4%	5%

* 'Other' responses have been omitted from the table. As such, row sums may not equal 100 per cent. [^]excluded 'other' responses.

More than one out of four (26%) 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 (25%) and rising operating costs (12%).

Looking to regional WA, weak demand was the largest barrier to growth amongst businesses located in the Great Southern (30%), Wheatbelt & Mid-West (27%), and South West (24%).

Skills shortages remain the largest barrier to growth for businesses in the Pilbara & Gascoyne (67%), Goldfields-Esperance (40%) and Kimberley (40%). As noted, businesses in these regions have faced difficulty attracting both seasonal and skilled workers in recent months – particularly those that rely on international/interstate migration.

One out of ten (9%) businesses in the Wheatbelt & Mid-West reported concerns around international trade tensions, while three out of ten (30%) in the Great Southern identified rising operating costs as the largest barrier to growth.

Skills Shortages the Kimberley

In answering this question, respondents were asked to select the **biggest** barrier to growing their business over the year ahead. The results, therefore, only show the number one barrier identified among businesses in regional WA.

As an example, 40 per cent of businesses in the Kimberley identified availability of skilled labour as the biggest barrier to growth, while another 27 per cent identified weak demand.

Given that a high proportion (71%) of Kimberley businesses are struggling to access customers due to interstate border closures, these results likely understate the incidence of skills shortages in the Kimberley.

LABOUR COSTS

Expectations by Region (WA)	Labour Costs
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	Current Quarter			Next Quarter		
	No			No		
	Decrease	Change	Increase	Decrease	Change	Increase
Perth and Peel	10%	73%	18%	3%	70%	26%
South West	6%	41%	53%	0%	53%	47%
Great Southern	0%	60%	40%	10%	60%	30%
Goldfields-Esperance	22%	67%	11%	0%	10%	90%
Wheatbelt & Mid-West	9%	55%	36%	9%	45%	45%
Pilbara & Gascoyne	0%	48%	52%	0%	33%	67%
Kimberley	3%	71%	26%	10%	65%	26%
Total	8%	69%	24%	4%	63%	33%

One out of three (33%) businesses expect labour costs to increase over the next three months, while the majority (63%) anticipate no change. Only 4 per cent expect wage pressures to ease over the coming quarter.

Businesses that expect labour costs to rise are more likely to operate in the Goldfields-Esperance (90%), Pilbara & Gascoyne (67%) and South West (47%).

Expectations of rising labour costs can indicate emerging skills shortages in regional areas, particularly those that rely on seasonal and low-skilled foreign workers. Indeed, almost half (47%) of businesses in regional WA expect wages pressures to build compared to only 26 per cent in Perth and Peel.

PRODUCTION

Expectations by Region (WA)	Production					
	Current Quarter			Next Quarter		
	No			No		
	Decrease	Change	Increase	Decrease	Change	Increase
Perth and Peel	33%	32%	35%	16%	40%	44%
South West	27%	27%	47%	27%	33%	40%
Great Southern	20%	30%	50%	30%	40%	30%
Goldfields-Esperance	40%	30%	30%	0%	20%	80%
Wheatbelt & Mid-West	36%	45%	18%	18%	45%	36%
Pilbara & Gascoyne	29%	29%	43%	14%	38%	48%
Kimberley	58%	26%	16%	65%	26%	10%
Total	34%	32%	34%	22%	37%	41%

Four out of ten (41%) WA businesses are planning to increase production over the next three months, including more than one out of three (35%) businesses in regional Western Australia.

Businesses most likely to increase production over the coming quarter operate in the Goldfields-Esperance (80%), Pilbara & Gascoyne (48%) and South West (40%). This likely reflects ongoing strength in the gold and iron ore sectors and an expected ramp up of intra-state tourism over the Christmas period.

Businesses in the Kimberley, however, are not as optimistic. Only 10 per cent plan to increase production over the next three months, while the majority expect production levels to fall (65%).

PROFIT MARGINS

Expectations by Region (WA)	Profit Margins
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	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	36%	46%	18%	25%	53%	22%
South West	41%	35%	24%	29%	53%	18%
Great Southern	20%	40%	40%	30%	50%	20%
Goldfields-Esperance	50%	30%	20%	20%	50%	30%
Wheatbelt & Mid-West	64%	18%	18%	45%	45%	9%
Pilbara & Gascoyne	35%	25%	40%	35%	35%	30%
Kimberley	58%	32%	10%	60%	37%	3%
Total	39%	41%	20%	30%	50%	20%

The COVID-19 pandemic has damaged business profits across the State. Despite record levels of government stimulus, four out of five (80%) WA businesses reported that their profit margins had either declined or held steady over the September quarter. Only 20 per cent indicated that their profit margins had increased. For many WA businesses, this reflects the impacts of ongoing border restrictions on their business.

Almost one out of two (46%) businesses in regional WA reported a decline in profitability over the September quarter, slightly more than the proportion in Perth and Peel (36%).

Looking ahead, profit margins are expected to remain tight. The majority of businesses in all regions expect their profit margins to either decline or remain the same over the next three months, which may reflect concerns around the expiry of fiscal support measures. Businesses operating in the Kimberley (60%), Wheatbelt & Mid-West (45%) and Pilbara & Gascoyne (35%) are more likely to anticipate falling profit levels.

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	19%	68%	13%	11%	71%	18%
South West	7%	67%	27%	7%	80%	13%
Great Southern	30%	50%	20%	20%	60%	20%
Goldfields-Esperance	10%	60%	30%	20%	70%	10%
Wheatbelt & Mid-West	0%	73%	27%	0%	45%	55%
Pilbara & Gascoyne	16%	63%	21%	11%	68%	21%
Kimberley	10%	58%	32%	6%	65%	29%
Total	16%	66%	17%	10%	70%	20%

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.

More than one out of four (27%) businesses in regional WA increased their debt or credit levels in the September quarter. This is expected to decrease slightly to 25 per cent over the next three months.

Businesses most likely to take on additional debt operate in the Wheatbelt & Mid-West (55%), while businesses in Perth and Peel appear less likely (18%). Fewer businesses in the South West, Goldfields-Esperance and Kimberley regions are expecting their debt levels to rise next quarter.

On the whole, most regional businesses (66%) are expecting their debt or credit levels to remain stable over the next three months.

CAPITAL EXPENDITURE

Expectations by Region (WA)	Capital Expenditure					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	12%	65%	23%	12%	59%	29%
South West	29%	47%	24%	29%	53%	18%
Great Southern	20%	30%	50%	30%	40%	30%
Goldfields-Esperance	10%	30%	60%	0%	22%	78%
Wheatbelt & Mid-West	18%	36%	45%	9%	36%	55%
Pilbara & Gascoyne	14%	43%	43%	5%	57%	38%
Kimberley	35%	42%	23%	16%	71%	13%
Total	17%	56%	27%	13%	58%	29%

Almost one out of three (31%) businesses in regional WA plan to increase capital expenditure over the next three months, slightly more than those in Perth and Peel (29%). Around four out of five (78%) businesses in Goldfields-Esperance expect to boost their capital expenditure next quarter, which may reflect increased optimism in the gold industry. 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	26%	46%	28%	15%	47%	38%
South West	24%	47%	29%	12%	47%	41%
Great Southern	40%	30%	30%	40%	40%	20%
Goldfields-Esperance	33%	44%	22%	0%	44%	56%
Wheatbelt & Mid-West	18%	36%	45%	27%	36%	36%
Pilbara & Gascoyne	24%	33%	43%	10%	38%	52%
Kimberley	58%	32%	10%	52%	39%	10%
Total	29%	44%	26%	19%	46%	35%

The progressive reopening of the domestic economy has seen an encouraging recovery in WA's labour market, with more than 70 per cent of the jobs lost due to COVID-19 now restored. That said, there are still 27,000 fewer people in work than before the pandemic. Almost all of these are full time positions.

More than one out of three (36%) regional businesses laid off staff over the past three months, while an equivalent proportion (36%) recorded no change to their workforce. Businesses in the Kimberley (58%) and Great Southern (40%) recorded the sharpest contraction in employment levels last quarter.

Looking ahead to the festive season, businesses are more slightly more optimistic about future employment opportunities. Across the South West, Goldfields-Esperance and Pilbara & Gascoyne, fewer businesses expect to lay off staff and a higher proportion plan to boost their workforce.

In contrast, hiring intentions in the Great Southern, Wheatbelt & Mid-West and Kimberley are expected to fall over the next three months.

Appendix

IMPACT OF BORDER RESTRICTIONS

Businesses impacted to a 'great' or 'moderate' extent	Interstate border restrictions	International border restrictions
Perth and Peel	28%	29%
South West	29%	35%
Great Southern	20%	20%
Goldfields-Esperance	70%	50%
Wheatbelt & Mid-West	18%	36%
Pilbara & Gascoyne	57%	24%
Kimberley	74%	39%
Total	36%	30%

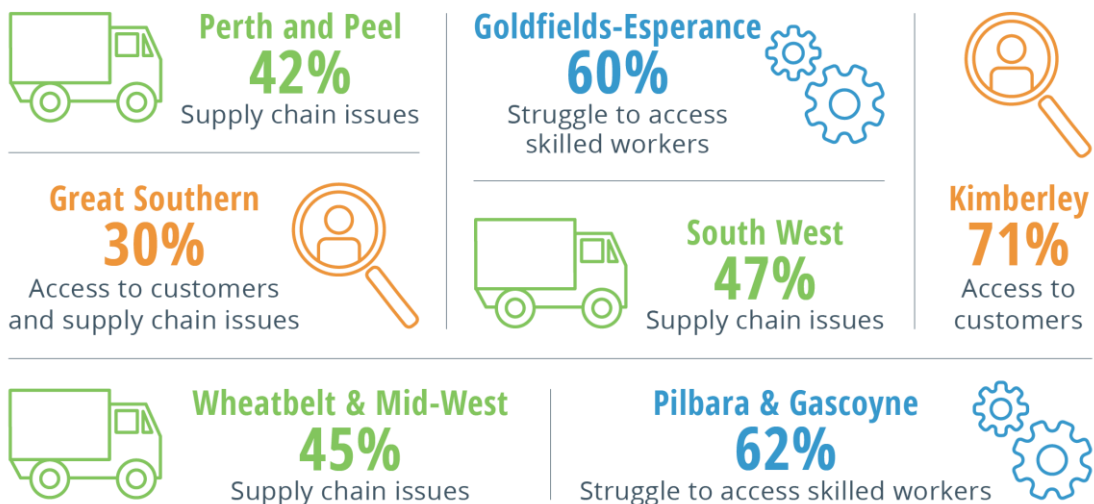
As WA moves through the recovery phase of the COVID-19 pandemic, we assessed the extent to which WA businesses are suffering from the closure of interstate and international borders.

In this survey, we posed the following question to respondents:

- To what extent does your business currently suffer from the following measures?

Respondents were asked to answer this question with respect to 1) inter-state and 2) international border closures. Businesses in the Kimberley (74%), Goldfields-Esperance (70%) and Pilbara & Gascoyne regions

Most significant impact of interstate border restrictions in each WA region



appear most affected by interstate border closures, while a higher proportion in the South West (35%) and Wheatbelt & Mid-West (36%) suffer from international border restrictions.

BUSINESSES INTENDING TO DIVERSIFY SUPPLY CHAINS

My business is intending to diversify our supply chains to manage risk*	Yes	No
Wheatbelt & Mid-West	80%	20%
Goldfields-Esperance	67%	33%
Pilbara & Gascoyne	59%	41%
Great Southern	50%	50%
South West	46%	54%
Kimberley	46%	54%
Perth and Peel	41%	59%

**excluding 'unsure' responses*

The COVID-19 pandemic has disrupted global value chains and international markets. We sought to identify the extent to which WA businesses are looking to diversify their supply chains to manage this risk. Across the regions, businesses in the Wheatbelt & Mid-West (80%), Goldfields-Esperance (67%) and Pilbara & Gascoyne (59%) are most likely to be looking to diversify. Businesses in these regions all rely, to some extent, on global supply chains and markets to import and/or export their products/services.

Businesses less likely to be looking to diversify their supply chains operate in Perth & Peel (41%), Kimberley (46%) and the South West (46%).