

CCIWA Business Confidence Survey:
December Quarter 2020

WA Business Confidence rises to highest level since 2007

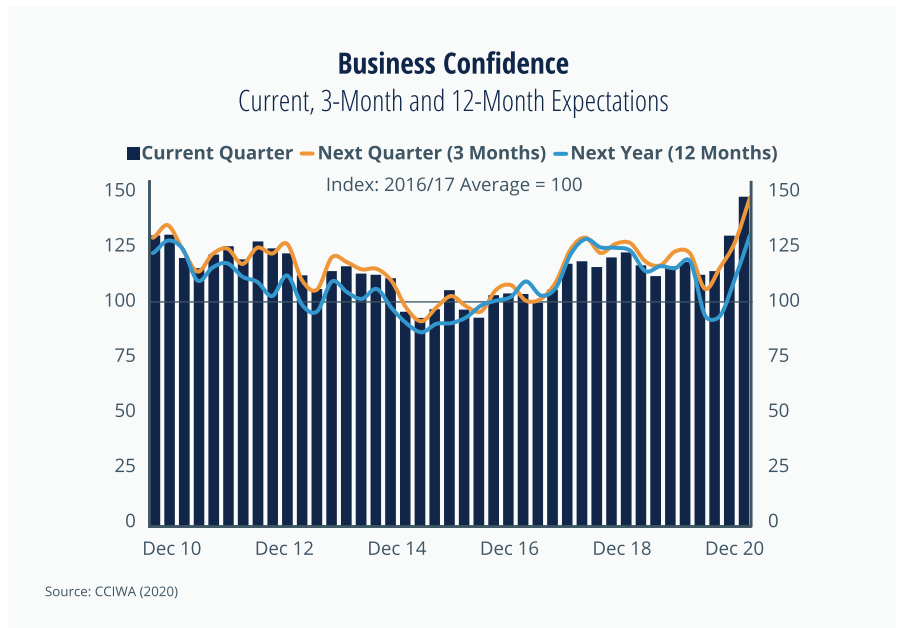


Western Australian business confidence has risen to its highest level in 13 years, according to the December edition of the CCIWA Business Confidence Survey. The sharp improvement in confidence across industries was primarily driven by strength in the mining sector. Other factors boosting confidence include the safe reopening of interstate borders with 'very low risk' States and news of global vaccine progress, as well as continued support from government stimulus measures and record low interest rates.

At the same time, businesses remain concerned about the availability of skilled labour, rising international trade tensions and the possibility that WA or other States could suffer a new outbreak of COVID-19, triggering the return of social distancing measures and 'hard' border restrictions.

Short-term outlook surges as interstate borders reopen

Confidence in the short-term (3 months) outlook is at its highest level since December 2007, driven by a significant rise in the proportion of WA businesses expecting stronger economic conditions.



Business Confidence - December 2020

Short-term confidence up to **highest level** since December 2007 

1 out of 3 (35%) businesses identified **skilled labour shortages** as the **largest barrier to growth** over the coming year. Including **52% businesses** in the **resource sector**

 **2 out of 3 (67%)** construction and retail businesses rely to a 'high' extent on the **success of WA's mining industry**

On average, **40%** of resources businesses' annual revenue is dependent on trade with China 

The resources sector is leading confidence in the economy, with four out of five (80%) businesses anticipating stronger economic conditions over the coming quarter

Three out of five (61%) WA businesses believe conditions will improve over the next three months, up 30 percentage points since last quarter. At the same time, one out of ten (13%) anticipate weaker conditions – down 21 percentage points. The remaining 26 per cent anticipate no change.

Short-Term Index up 21 Index Points over the quarter to 145.3

Longer-term outlook boosted by vaccine news and low interest rates

The longer-term (12 months) outlook has also improved, rising to its highest level on record.

Two out of three (66%) businesses expect the WA economy to improve over the year ahead, up 33 percentage points since last quarter. One out of five (20%) anticipate no change over the next twelve months, while 14 per cent believe conditions will deteriorate – down 7 percentage points since this time last year (December 2019).

Longer-Term Index up 20.6 Index Points over the quarter to 127.6

The industries driving short-term confidence

A higher proportion of businesses in every industry expect conditions to improve rather than worsen over the next three months.

The resources sector is leading confidence in the economy, with four out of five (80%) businesses anticipating stronger economic conditions over the coming quarter. This strength in confidence likely

reflects expectations that demand for Western Australian mineral commodities, like iron ore and gold, will remain strong leading into the New Year. Businesses in the LNG industry may also be more optimistic about the future, as global vaccine breakthroughs signal that an end to the lockdown era is in sight – lifting the demand profile for energy commodities.

Around two out of three businesses in the professional services (69%) and health care (65%) sectors are expecting stronger economic conditions over the next three months. Confidence in health care may reflect sustained evidence that WA has remained free of community based COVID-19 transmission and recent news of global vaccine breakthroughs. Heightened confidence in professional services may reflect the State Government's decision to transition to a controlled border, allowing businesses to travel interstate to meet with clients and pitch for work.





Other sectors with a relatively higher proportion of businesses expecting conditions to improve include real estate (67%) and manufacturing (61%). As outlined in the following

sections, the clear majority of businesses in these sectors are heavily reliant on the success of WA's mining industry. Additionally, real estate businesses are continuing to see strong demand for their services as construction stimulus payments flow through the housing sector and Western Australians return home from overseas, boosting demand for properties.

At the same time, confidence appears relatively lower in other sectors. Two out of three (67%) businesses in retail are expecting conditions to either weaken or remain unchanged over the next three months, while the remaining 33 per cent anticipate conditions to improve.

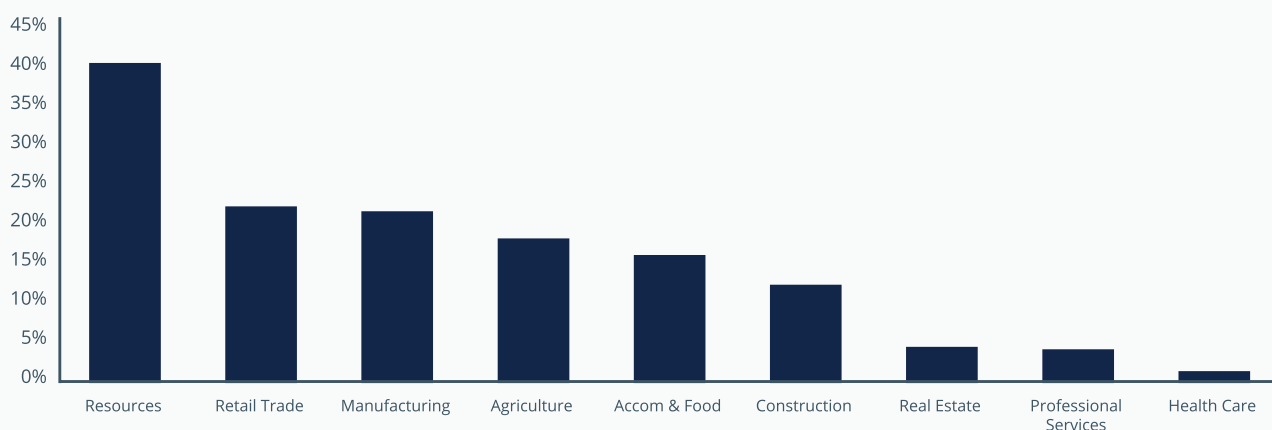
Barriers to business

One out of three (35%) businesses identified skilled labour shortages as the largest barrier to growing their business over the coming year, including one out of two (52%) businesses in resources – up 20 percentage points since last quarter. Other industries with a relatively higher proportion of businesses reporting concerns around the availability of skilled labour include health care (50%), professional

 Skill shortages	 Uncontrolled outbreak	 Weak demand	 International trade tensions
Identified by 35% as a barrier. Sectors most likely to report as a barrier: • Resources (52%), • Health Care (50%) • Construction (46%)	Identified by 21% as a barrier. Sectors most likely to report as a barrier: • Accom & food (50%) • Real Estate (43%) • Professional (31%)	Identified by 9% as a barrier. Sectors most likely to report as a barrier: • Retail trade (25%) • Agriculture (16%) • Manufacturing (12%)	Identified by 7% as a barrier. Sectors most likely to report as a barrier: • Resources (19%) • Retail trade (17%) • Agriculture (16%)

Proportion of Annual Revenue Dependent on China Trade

Average (%) across industries



services (46%) and construction (46%). Looking to the regions, skilled labour shortages affected almost three out of five (55%) businesses in the Mid-West & Gascoyne and one out of two (50%) in the Kimberley.

One out of five (21%) businesses reported an uncontrolled outbreak of COVID-19 in WA as the largest barrier to growing their business, including almost half (46%) per cent of those in the accommodation & food services industry.

The dependency of WA businesses on trade with China

In recent months, the Chinese Government has imposed import restrictions on a range of Australian agricultural goods, including barley, wine and lobsters. In this survey, we asked businesses to identify the proportion (%) of their annual revenue that is dependent on trade with China.

- Businesses in the resources sector are most dependent on trade with China, with 40 per cent of their annual revenue dependent on China trade on average.
- Retail and manufacturing businesses are relatively more dependent on our largest trading partner, with just over one-fifth of their annual revenues' dependent on China

trade. Businesses in the retail sector may rely on the revenue generated by Chinese tourists or students travelling to WA.

- Other sectors that are relatively more dependent on trade with China include agriculture, accommodation & food services and, to a lesser extent, construction. For businesses in agriculture and food services, China remains a significant market for key agricultural commodities and packaged foodstuffs. Businesses in the construction sector may depend on Chinese families, investors or businesses choosing to either invest in WA's property market or relocate here.

- On the other hand, health care and professional services businesses are relatively less dependent on China trade.

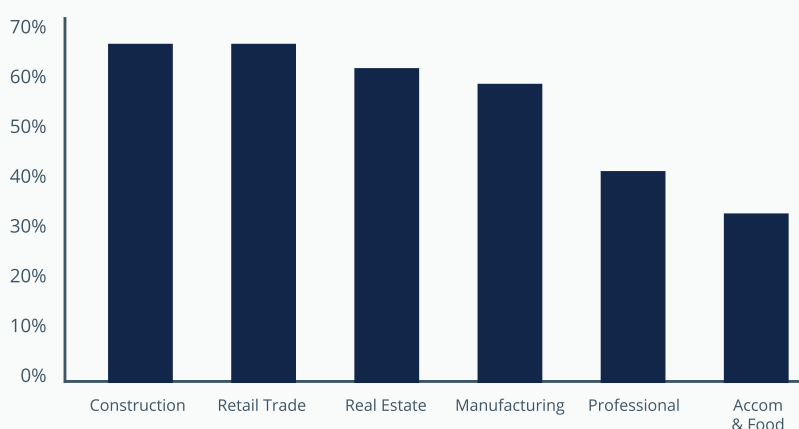
WA's Reliance on the Mining Sector

WA has never been more reliant on the success of a single industry. Last month, the ABS' annual State Accounts found that mining accounted for 43 per cent of WA's economy in 2019-20 – a record high. In this section, we identify the industries that are most reliant on the success of WA's mining industry.

- Two out of three (67%) businesses in the construction and retail industries reported

Industries most reliant on WA's mining industry*

Proportion reliant to a 'high' extent



*excluding resources

More than six out of ten (62%) businesses in the real estate industry identified they rely to a high extent on the success of WA's mining industry

they rely to a 'high' extent on the success of WA's mining industry. For businesses in the retail sector, strength in mining tends to drive interstate and overseas migration as people move to WA to fill newly created, higher paying roles. The upshot of more people and higher average wages is an increase in spending within the domestic economy, particularly in sectors like retail and hospitality.

- More than six out of ten (62%) businesses in the real estate industry identified they rely to a high extent on the success of WA's mining industry. This likely reflects

two trends: increased demand for commercial premises as mining-related businesses scale-up operations or relocate their HQ to Perth; and increased demand for residential properties, as families relocate to WA to take up new employment opportunities in the mining industry.

Border restrictions

On 14 November, the State Government transitioned to a controlled border and eased mandatory quarantine restrictions for 'very low risk' States (which have had no community based COVID-19 transmission for 28 days). While this

decision is a welcome step, there remains a risk that new outbreaks in other States could trigger a return to 'hard' border restrictions.

We asked WA businesses to identify the Australian jurisdictions that it is important to have relaxed border arrangements with in order to conduct business.

Looking to the results, WA businesses considered Victoria, New South Wales, Queensland, and South Australia as the most important States to have relaxed border arrangements with. A detailed breakdown of the results is illustrated in the infographic below.

States that businesses consider important to have relaxed border arrangements with to conduct business

Victoria	New South Wales	Queensland	South Australia	Tasmania
Identified by 45% as important	Identified by 44% as important	Identified by 37% as important	Identified by 31% as important	Identified by 11% as important
Sectors most likely to consider Victoria as important:	Sectors most likely to consider New South Wales as important:	Sectors most likely to consider Queensland as important:	Sectors most likely to consider South Australia as important:	Sectors most likely to consider Tasmania as important:
<ul style="list-style-type: none"> • Accom & Food (73%) • Retail Trade (62%) • Agriculture (62%) 	<ul style="list-style-type: none"> • Accom & Food (67%) • Construction (63%) • Real Estate (52%) 	<ul style="list-style-type: none"> • Construction (54%) • Resources (52%) • Manufacturing (47%) 	<ul style="list-style-type: none"> • Resources (48%) • Accom & Food (47%) • Construction (38%) 	<ul style="list-style-type: none"> • Accom & Food (27%) • Resources (19%) • Construction (17%)

Key results from the survey

Indicator (Index)	Actual			Expected	
	Jun 20	Sep 20	Dec 20	1 Quarter	1 Year
Economy					
WA Economic Conditions	111.3	127.3	144.8	145.3	127.6
Operating Conditions					
Employment	81.3	101.3	121.1	121.9	-
Labour Costs	96.2	108.4	122.4	123.6	-
Anticipated CAPEX	-	-	-	121.3	-
Profitability	76.6	95.4	103.2	108.1	-

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 December 2020 is 144.8, which suggests that the average score of survey respondents for economic conditions in December 2020 is 44.8 per cent higher than the average response in 2016/17.

Sample:

Industry	
Manufacturing	21%
Construction	10%
Resources	9%
Real Estate	9%
Health Care and Social Assistance	8%
Agriculture	5%
Professional Services	5%
Other	33%
Business Size	
Small (1-10)	25%
Medium (11-100)	56%
Large (100+)	19%