

# NSW BUSINESS CONDITIONS

Navigating Multiple Challenges

**JULY 2022**



# About Us

Business NSW is the peak business organisation for New South Wales with more than 40,000 member businesses across the state.

Our purpose is to create a better Australia by maximising the outcomes and potential of Australian business. We achieve this by working with businesses spanning all industry sectors including small, medium and large enterprises.

Operating through our network in metropolitan and regional NSW, and with our state chamber partners, Business NSW represents the needs of business at a local, state and federal level.

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# Overview

*“It’s very hard to run a business in a pandemic. The constant phone calls of staff calling in sick and the general depression and apathy post bushfires, virus, and flood is hard to manage. We’ve had a team of people for over 25 years and I’ve observed more emotional stress in our team than ever before.”*

~Accommodation and food services

Business NSW conducts the Business Conditions Survey on a quarterly basis to track business confidence in NSW and identify issues that are important to business success. The survey results are a key part of the evidence base we draw upon when advocating to Government on behalf of the business community. We appreciate the continued active participation of our members in the survey—over 1,100 this survey—which enables us to accurately understand business needs and contribute to public policy developments with Government at all levels.

Despite unemployment being at a 48-year low and the economy continuing to grow, businesses are struggling with an increase of staff being absent from work due to COVID or the flu and are concerned about business conditions in the near term. Whether it’s higher wages, licence fees, energy prices on the up or simply staff not available to work, business owners are unsure of what is around the corner.

In the latest survey, conducted during 11 July to 27 July, we set out to examine how businesses have been coping with staff shortages, in addition to rising energy prices and interest rates. We also gauged the views of businesses on a topical matter – the proposed stamp duty reform announced in the NSW Budget 2022-23 – and asked businesses to tell us what measures they would appreciate from the NSW Government to improve the ease of doing business.

What is clear is that the business community needs action and certainty on key issues like expediting material supply options, reducing the cost of energy, expediting the migration of skilled workers, and reducing taxes and charges like payroll tax. While Business NSW strongly and consistently supports improving training and skills for Australians, our members are clearly telling us the Australian Government needs to take immediate action on acute short-term skilled migration gaps.

This report presents the experiences of 1,118 businesses, from sole traders and SMEs to large corporates. It shows significantly weakened business confidence across all industries and all regions this quarter, and mixed expectations regarding the next quarter. Business conditions are reportedly tough, with heightened operating cost pressures and reduced sales revenue, both of which adversely impact on profits.

Amid the difficult business environment, capital spending and hiring are both expected to slow in the coming months. Nevertheless, **the survey results show that businesses only have ‘moderate’ concerns about rising energy prices and interest rates at this stage.** There remains a degree of optimism among businesses, especially in light of solid consumer spending supported by low unemployment, but further support and action is needed. There is no quick fix, but the message from business to governments at all levels is a simple one: it’s time to chart a course for the economy through the headwinds and embrace supply and productivity reform policies so that NSW can come out stronger than ever.

*“I think the last two years have been particularly hard for small business and whilst the support offered at the time by the government was great, it all stopped quite abruptly. Since then, it’s been pretty hard trying to absorb all the increasing costs...”*

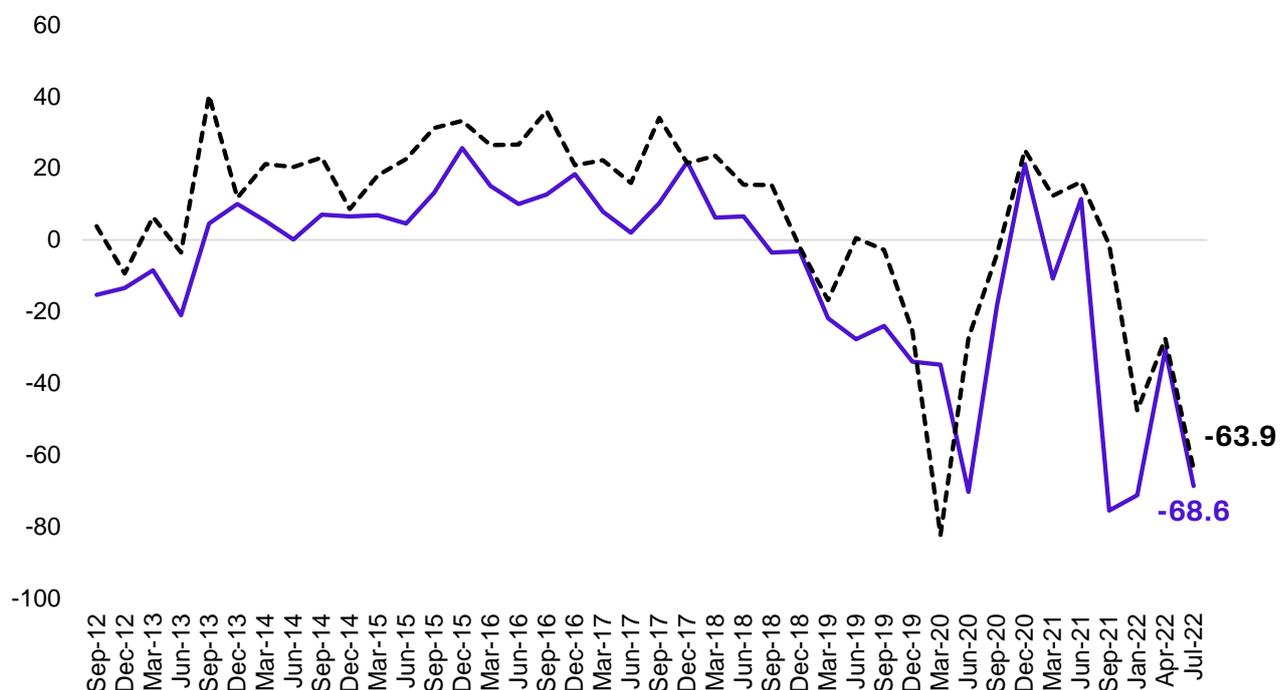
~Accommodation and food services



# 1. Business Confidence

Business confidence in NSW has weakened significantly this quarter. The headline Business Confidence Index remained in negative territory and fell to -68.6 (from -30.6 last quarter). This reading is on par with levels recorded during previous COVID outbreaks or lockdowns.

At the previous lows of the headline Business Confidence Index, the associated reading that captures expectations for the following quarter was always less downbeat. However, in the most recent period, both readings have come in at similar levels, suggesting businesses remain cautious about the near-term economic outlook.



**Figure 1: Business Confidence Index**

# 2. Business Conditions

Consistent with the decline of the Business Confidence Index, the suite of business conditions measures paint an equally challenging picture of the current environment and outlook for the next quarter.

In essence, businesses are expecting to struggle to cope with operating cost pressures and experience a fall in sales revenue, both of which would weigh on their profits. The dim outlook is also reflected in businesses' assessment that capital spending and hiring intentions will be further scaled back across the economy in the next quarter.

	Last Qtr (n=695)	Current Qtr (n=1118)	Next Qtr Expectations (n=1118)
Ability to cope with operating cost pressures	-50.1	-68.6	-66.5
Sales revenue	-33.1	-55.8	-52.0
Profit	-58.4	-68.3	-61.5
Capital spending	-38.4	-51.0	-55.6
Number of jobs	-22.9	-27.7	-35.5

**Figure 2: Business Conditions Measures**

# 3. Industry Snapshot

Business confidence has weakened across all industries in the current quarter.

Although the Business Confidence Index is likely to remain negative in the next quarter, **most industries expect a rebound.**

The few industries that expect another sharp decline next quarter are:

- Agriculture, Forestry and Fishing
- Electricity, Gas, Water and Waste Services\*
- Mining\*

*\*Note the small sample size.*



	Business Confidence Index		
	Last Qtr (April)	Current Qtr (July)	Next Qtr
<b>All industries</b>	-30.6 (n=695)	-68.6 (n=1118)	-63.9 (n=1118)
<b>Industries expecting a rebound</b>			
Retail Trade	-41.3 (n=109)	-79.9 (n=164)	-69.5 (n=164)
Accommodation & Food Services	-31.3 (n=80)	-72.4 (n=163)	-65.6 (n=163)
Manufacturing	-25.3 (n=75)	-61.9 (n=97)	-60.8 (n=97)
Other Services	-22.2 (n=54)	-67.9 (n=78)	-61.5 (n=78)
Wholesale Trade	-46.9 (n=32)	-66.7 (n=36)	-52.8 (n=36)
Health Care & Social Assistance	-58.1 (n=31)	-74.3 (n=101)	-68.3 (n=101)
Arts and Recreation Services	-43.3 (n=30)	-67.9 (n=56)	-64.3 (n=56)
Education & Training	-46.2 (n=26)	-72.5 (n=40)	-67.5 (n=40)
Rental, Hiring & Real Estate Services	-10.5 (n=19)	-63.3 (n=30)	-56.7 (n=30)
Financial & Insurance Services	-52.9 (n=17)	-56.5 (n=23)	-21.7 (n=23)
Transport, Postal & Warehousing	-6.3 (n=16)	-84.0 (n=25)	-68.0 (n=25)
Administrative & Support Services	-10.0 (n=10)	-66.7 (n=18)	-61.1 (n=18)
<b>Industries expecting no change</b>			
Construction	-27.1 (n=59)	-56.5 (n=85)	-56.5 (n=85)
Public Administration & Safety	33.3 (n=3)	-33.3 (n=3)	-33.3 (n=3)
<b>Industries expecting a deterioration</b>			
Professional, Scientific & Technical Services	-11.5 (n=78)	-61.9 (n=126)	-64.3 (n=126)
Information Media & Telecommunications	-37.5 (n=24)	-71.4 (n=28)	-75.0 (n=28)
Agriculture, Forestry & Fishing	-23.8 (n=21)	-57.7 (n=26)	-76.9 (n=26)
Electricity, Gas, Water & Waste Services	-37.5 (n=8)	-63.6 (n=11)	-72.7 (n=11)
Mining	0.0 (n=3)	-62.5 (n=8)	-75.0 (n=8)

**Figure 3: Business Confidence by Industry**

## Business Conditions Measures - Current Quarter (July)

	Ability to cope with operating cost pressures	Sales revenue	Profit	Capital spending	Number of jobs
<b>All Industries (n=1118)</b>	<b>-68.6</b>	<b>-55.8</b>	<b>-68.3</b>	<b>-51.0</b>	<b>-27.7</b>
Retail Trade (n=164)	-80.5	-72.0	-80.5	-59.8	-43.3
Accommodation & Food Services (n=163)	-70.6	-53.4	-69.9	-58.9	-31.3
Professional, Scientific & Technical Services (n=126)	-60.3	-38.9	-61.9	-57.1	-18.3
Health Care & Social Assistance (n=101)	-70.3	-67.3	-77.2	-48.5	-13.9
Manufacturing (n=97)	-68.0	-51.5	-63.9	-48.5	-24.7
Construction (n=85)	-65.9	-49.4	-64.7	-48.2	-32.9
Other Services (n=78)	-74.4	-60.3	-66.7	-42.3	-30.8
Arts & Recreation Services (n=56)	-80.4	-76.8	-78.6	-55.4	-37.5
Education & Training (n=40)	-52.5	-55.0	-65.0	-35.0	-20.0
Wholesale Trade (n=36)	-66.7	-41.7	-63.9	-38.9	-11.1
Rental, Hiring & Real Estate Services (n=30)	-53.3	-50.0	-60.0	-33.3	-20.0
Information Media & Telecommunications (n=28)	-57.1	-60.7	-64.3	-46.4	-42.9
Agriculture, Forestry & Fishing (n=26)	-65.4	-42.3	-57.7	-34.6	-3.8
Transport, Postal & Warehousing (n=25)	-76.0	-56.0	-68.0	-44.0	-44.0
Financial & Insurance Services (n=23)	-43.5	-39.1	-43.5	-39.1	-26.1
Administrative & Support Services (n=18)	-72.2	-55.6	-55.6	-66.7	-11.1
Electricity, Gas, Water & Waste Services (n=11)	-63.6	-45.5	-54.5	-63.6	-36.4
Mining (n=8)	-50.0	-12.5	-37.5	-37.5	12.5
Public Administration & Safety (n=3)	-33.3	-33.3	-100.0	-33.3	-33.3

Figure 4: Business Conditions by Industry

# 4. Regional Snapshot

Business confidence has deteriorated across all regions in the current quarter. In particular, the Business Confidence Index for Murray has slipped, after being the only region to have recorded a positive reading in the previous quarter.

**Most regions expect a modest rebound in the next quarter.** However, five regions expect the index to drop further.

*Note: 'Eastern Sydney' includes Eastern City, North and South districts; 'Western Sydney' refers to Western and Central cities as designated by the Greater Sydney Commission.*



	Business Confidence Index		
	Last Qtr (April)	Current Qtr (July)	Next Qtr
<b>NSW</b>	<b>-30.6 (n=695)</b>	<b>-68.6 (n=1118)</b>	<b>-63.9 (n=1118)</b>
<b>Regions expecting a rebound</b>			
Central Coast	-50.0 (n=32)	-57.4 (n=47)	-55.3 (n=47)
Central West	-50.0 (n=26)	-67.4 (n=46)	-60.9 (n=46)
Coffs Harbour – Grafton	-40.7 (n=27)	-62.2 (n=37)	-59.5 (n=37)
Far West and Orana	-44.4 (n=9)	-73.7 (n=19)	-52.6 (n=19)
Illawarra	-44.4 (n=27)	-83.7 (n=49)	-77.6 (n=49)
Mid North Coast	-33.3 (n=36)	-71.1 (n=45)	-68.9 (n=45)
Murray	2.9 (n=35)	-72.9 (n=48)	-47.9 (n=48)
Richmond – Tweed	-53.3 (n=45)	-63.3 (n=60)	-46.7 (n=60)
Southern Highlands and Shoalhaven	-40.0 (n=20)	-70.7 (n=41)	-68.3 (n=41)
Eastern Sydney	-21.9 (n=169)	-68.1 (n=304)	-61.5 (n=304)
Western Sydney	-40.9 (n=88)	-75.5 (n=155)	-63.9 (n=155)
<b>Regions expecting a deterioration</b>			
Capital Region	-32.6 (n=43)	-68.7 (n=67)	-73.1 (n=67)
Hunter Valley	-31.0 (n=42)	-69.8 (n=53)	-77.4 (n=53)
New England and North West	-23.5 (n=34)	-64.1 (n=39)	-71.8 (n=39)
Newcastle and Lake Macquarie	-10.3 (n=39)	-61.8 (n=68)	-72.1 (n=68)
Riverina	-8.7 (n=23)	-57.5 (n=40)	-67.5 (n=40)

**Figure 5: Business Confidence by Region**

## Business Conditions Measures - Current Quarter (July)

	Ability to cope with operating cost pressures	Sales revenue	Profit	Capital spending	Number of jobs
<b>NSW (n=1118)</b>	<b>-68.6</b>	<b>-55.8</b>	<b>-68.3</b>	<b>-51.0</b>	<b>-27.7</b>
Capital Region (n=67)	-73.1	-53.7	-73.1	-50.7	-17.9
Central Coast (n=47)	-68.1	-51.1	-72.3	-46.8	-42.6
Central West (n=46)	-73.9	-41.3	-63.0	-60.9	-26.1
Coffs Harbour - Grafton (n=37)	-64.9	-37.8	-56.8	-73.0	-40.5
Far West & Orana (n=19)	-84.2	-57.9	-73.7	-63.2	-36.8
Hunter Valley (n=53)	-71.7	-58.5	-73.6	-52.8	-28.3
Illawarra (n=49)	-65.3	-69.4	-81.6	-55.1	-30.6
Mid North Coast (n=45)	-68.9	-71.1	-73.3	-53.3	-17.8
Murray (n=48)	-60.4	-56.3	-66.7	-45.8	-12.5
New England & North West (n=39)	-82.1	-53.8	-74.4	-53.8	-28.2
Newcastle & Lake Macquarie (n=68)	-60.3	-42.6	-61.8	-47.1	-25.0
Richmond - Tweed (n=60)	-70.0	-58.3	-71.7	-40.0	-11.7
Riverina (n=40)	-60.0	-45.0	-50.0	-50.0	-15.0
Southern Highlands & Shoalhaven (n=41)	-87.8	-73.2	-80.5	-58.5	-41.5
Sydney (n=459)	-66.9	-57.3	-66.7	-49.0	-30.9
Eastern Sydney (n=304)	-67.4	-59.2	-65.1	-48.4	-30.6
Western Sydney (n=155)	-65.8	-53.5	-69.7	-50.3	-31.6

Figure 6: Business Conditions by Region

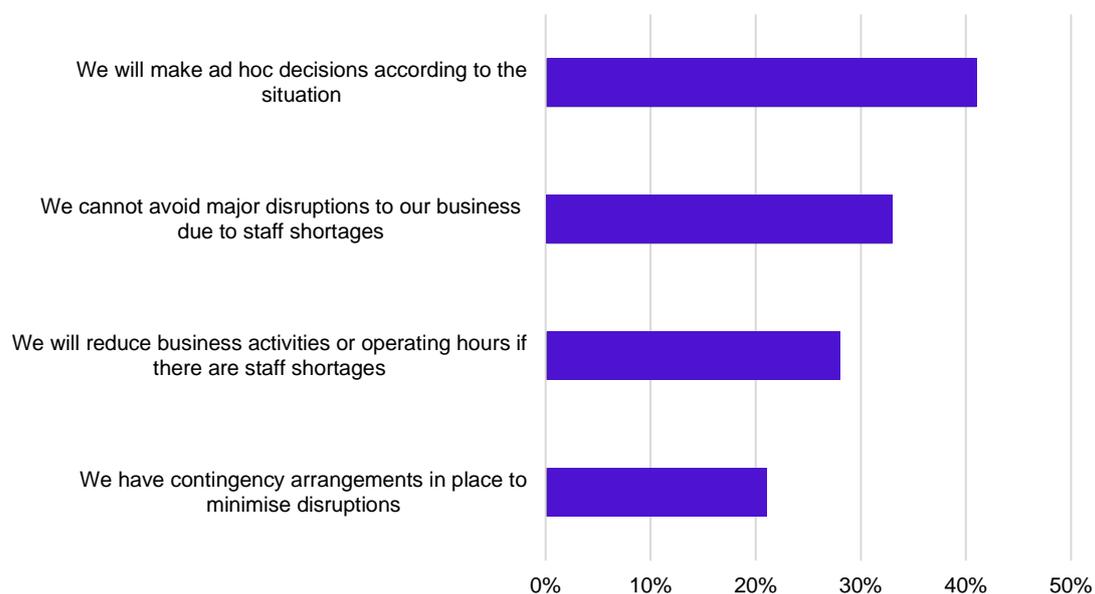
## Note:

- Readings that are lower than the State average are coded red, and those above average are coded green.
- 'Eastern Sydney' includes Eastern City, North and South districts; 'Western Sydney' refers to Western and Central cities as designated by the Greater Sydney Commission.

# 5. Topical Matters

## Dealing with Staff Absence

During this winter, there has been a reported increase of staff being absent from work due to COVID or the flu. This coupled with the ongoing worker and skills shortages will continue to strain business operations. So, what plans have businesses got in place to deal with this major risk?



n=1118

**Figure 7: Dealing with potential increase of staff being absent due to COVID or the flu**

**About one in five businesses have contingency arrangements in place to minimise disruptions due to staff absence.**

It is worth noting that under the current uncertain business environment, having a contingency plan may not be sufficient to shield businesses from operational disruptions. Of the respondents with contingency arrangements in place (n=233):

- 28% still expect to have to make ad hoc decisions according to the situation.
- 17% still expect to have to reduce business activities or operating hours.
- 14% still believe they cannot avoid major disruptions to their business.

On a more positive note, **only one in three businesses believe they cannot avoid major disruptions to their business due to staff shortages.**

*“As an employer, I would like to see far more government emphasis on training young Australians, than importing skills from countries who need those skills more than we do.”*

~Professional, Scientific, and Technical services

*“Finding staff is a major problem... I want to expand my business, but there is [a] total shortage of staff. Where my shop is located, [every day] the shop owners are asking each other if they know someone looking for more hours.”*

~Retail Trade

*“The lockdowns failed business as the impact has still been felt into 2022 with COVID fully shutting down our business for a week as the whole workforce contracted COVID.”*

~Manufacturing

## Skills Expected of Recent School Leavers

The strong labour market has seen the unemployment rate fall to multi-decade lows. Youth unemployment has also improved in recent times. The survey asked businesses about the minimum skillset they would expect recent school leavers to have.

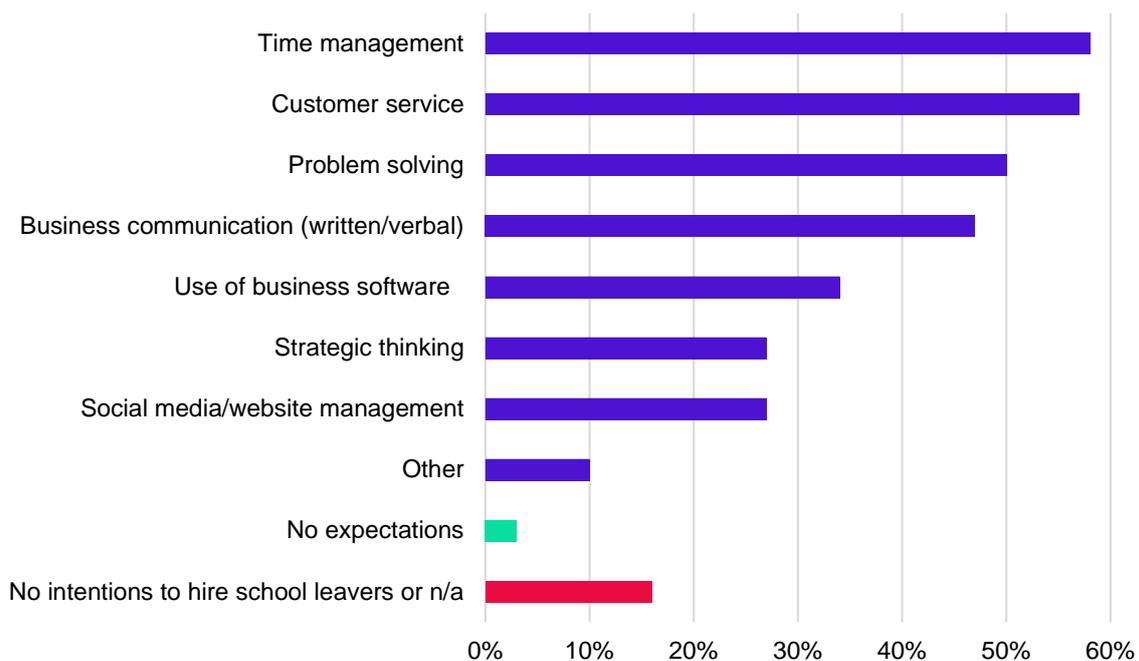
More than half of all respondents consider 'soft skills' such as time management and customer service as essential. This is followed by problem solving and more practical skills such as business communication and use of business software.

'Other skills' expected of recent school leavers include:

- Positive attitude
- Desire to learn
- Work ethics
- Reliability
- Resilience
- Commitment to the job
- Literacy and numeracy.

The survey results have also indirectly highlighted the importance of skills and experience in the eyes of employers:

- 16% of survey respondents have no intentions to hire recent school leavers, and this group includes companies with over 100 staff.
- Only 3% of survey respondents have no expectations of recent school leavers' skillsets.



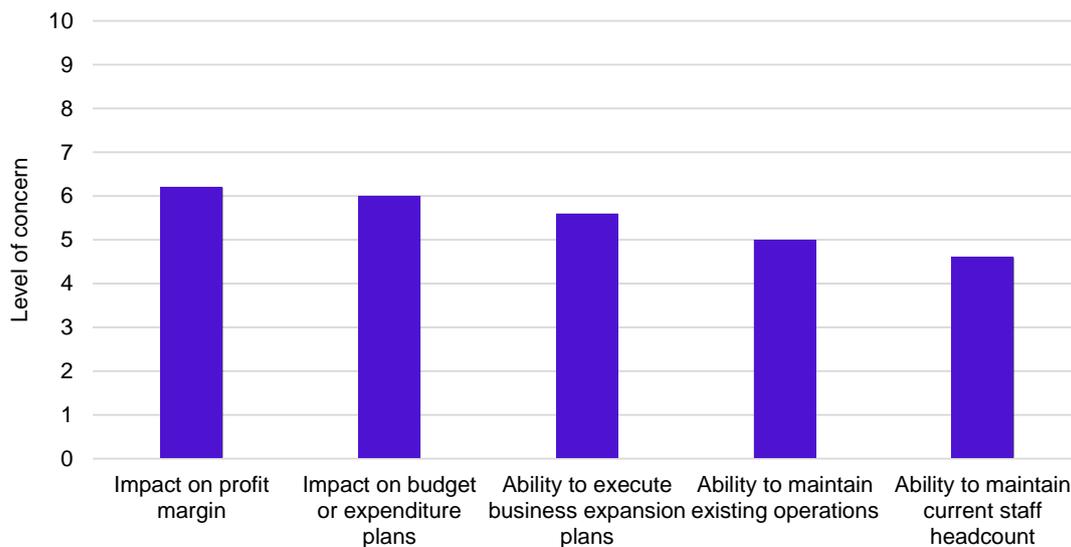
n=1118

**Figure 8: Skills expected of recent school leavers**

## Energy Price Concerns

Prices of energy (i.e. electricity and gas) have been rising. Some businesses have already received their 'bill shock', while others may experience this in the coming months. The survey gauged the impact of a hypothetical energy bill increase of 20% from a year ago.

**The level of concern among businesses appears 'moderate' at this stage.** On a scale of 0 to 10 (with 0 being not concerned at all and 10 being extremely concerned), the average scores range from 4.6 (ability to maintain current staff headcount) to 6.2 (impact on profit margin).



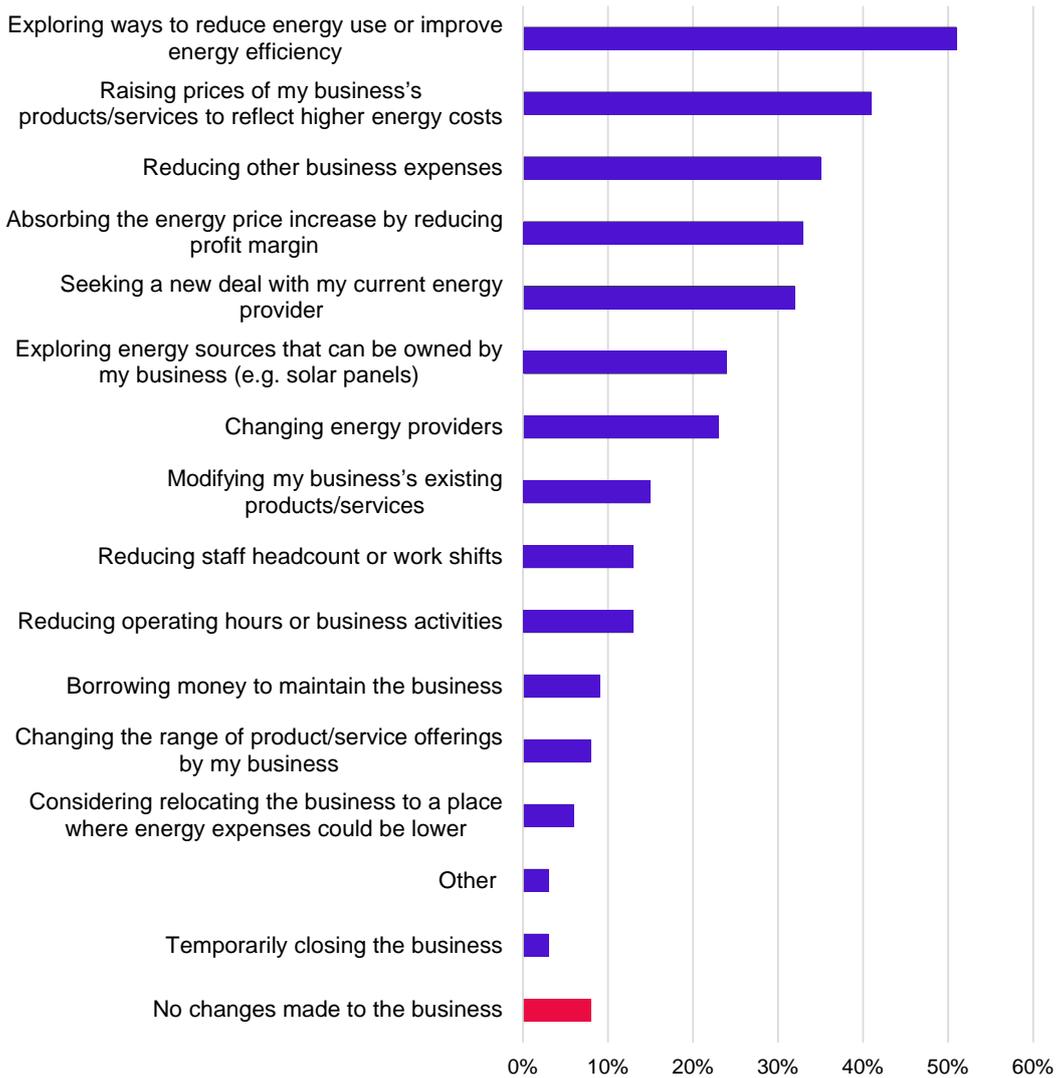
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**Figure 9: Impact on business if the energy bill increases by 20%**

In light of the ongoing challenges in the energy sector, there is merit for businesses to have a coping strategy in place, especially one with a longer-term horizon.

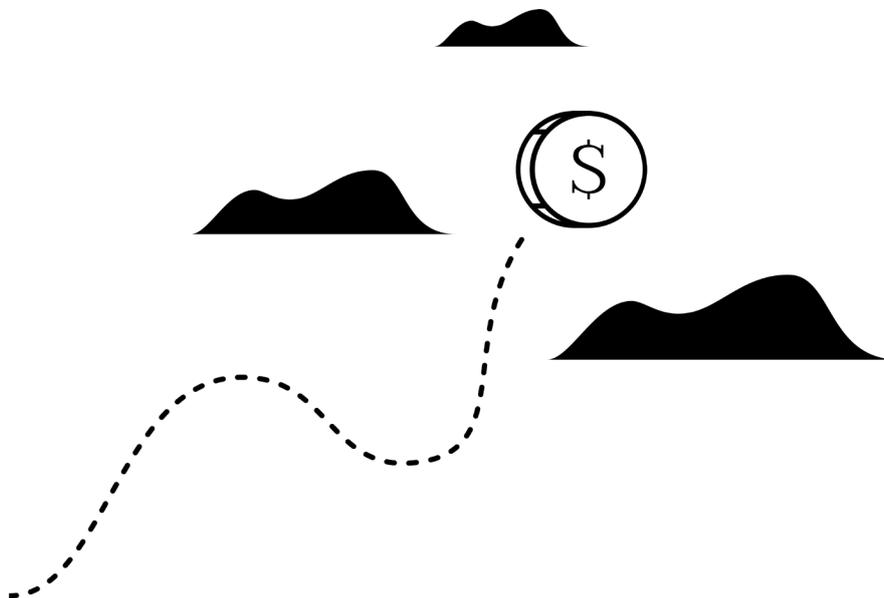
However, apart from one in two survey respondents stating that they are exploring ways to reduce energy use or improve energy efficiency, the other common coping approaches are passive in nature. This includes raising prices of products or services to reflect the higher energy costs, reducing other business expenses and absorbing the energy price increase by reducing profit margin.

**Only one in four survey respondents are exploring energy sources such as solar panels that can be owned by their business.**



n=1118

**Figure 10: Ways to cope with rising energy prices**



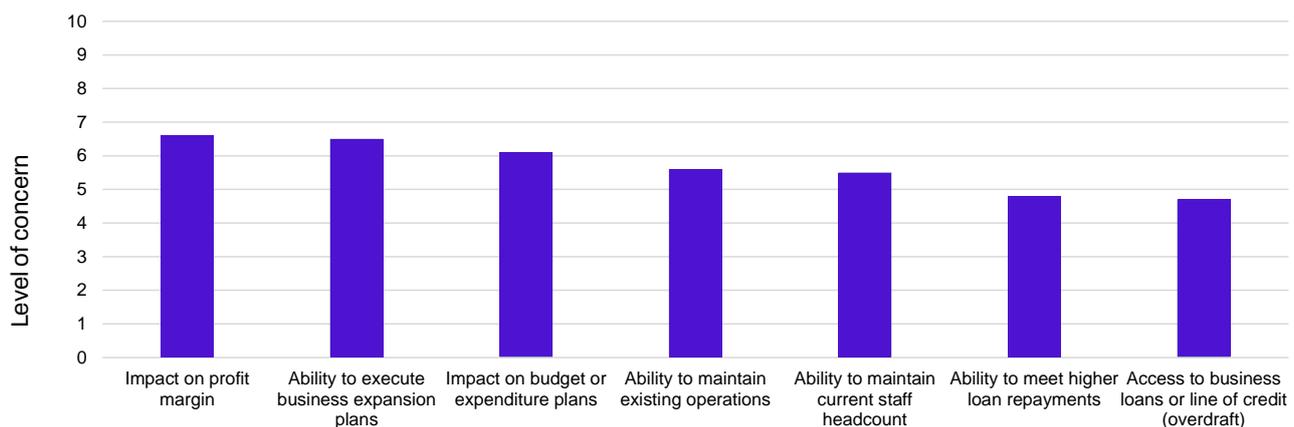
## Interest Rate Concerns

The Reserve Bank of Australia commenced its monetary tightening regime in May 2022, after keeping its cash rate target at the almost non-existent level of 0.1% for 1.5 years. This survey was conducted following three successive interest rate hikes, with the cash rate target at 1.35%.

As interest rates have implications for access to borrowing, which in turn impacts on business operations and expansion, the survey gauged the level of concern among businesses across a range of business considerations.

**The level of concern regarding rising interest rates is ‘moderate’.** On a scale of 0 to 10 (with 0 being not concerned at all and 10 being extremely concerned), the average scores range from 4.7 (access to business loans and line of credit) to 6.6 (impact on profit margin). **Businesses also do not appear overly concerned about their ability to meet higher loan repayments**, with the average score being 4.8, the second lowest across all business considerations.

Nevertheless, the RBA still has some way to go in bringing the cash rate target back to a more appropriate level. The level of concern reported by businesses may change significantly in a matter of months, especially if further interest rate hikes are handed down within a short period.



n=1118

**Figure 11: Concerns about the impact of rising interest rates**

*“Access to credit is nearly impossible. SMEs (and privately, the owners) really struggle to get any form of lending service, with conditions tightening that will become even more difficult.”*

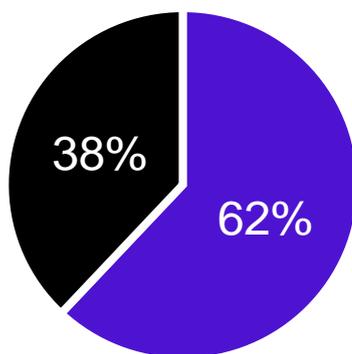
~Information Media and Telecommunications

## Views on Stamp Duty Reform

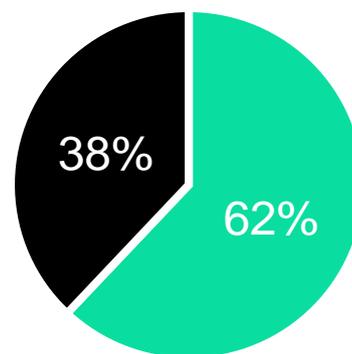
In the NSW Budget 2022-23, the Government proposed to provide first-home buyers with a choice of paying an annual property tax or upfront stamp duty on property purchases up to \$1.5 million. This initiative intends to lower the upfront cost of first-home purchases.

The survey gauged businesses' views on the proposed initiative and found that:

- 62% of respondents support the initiative for first-home buyers (Figure 12a)
- 62% of respondents support extending the initiative to all home buyers (Figure 12b).



■ Yes ■ No



■ Yes ■ No

**Figure 12a: Support for the initiative targeting first-home buyers**

**Figure 12b: Support for extending the initiative to all home buyers**

Although both ideas have the same level of support, the two groups of supporters are not identical (Figure 12c). The detailed breakdown reveals that:

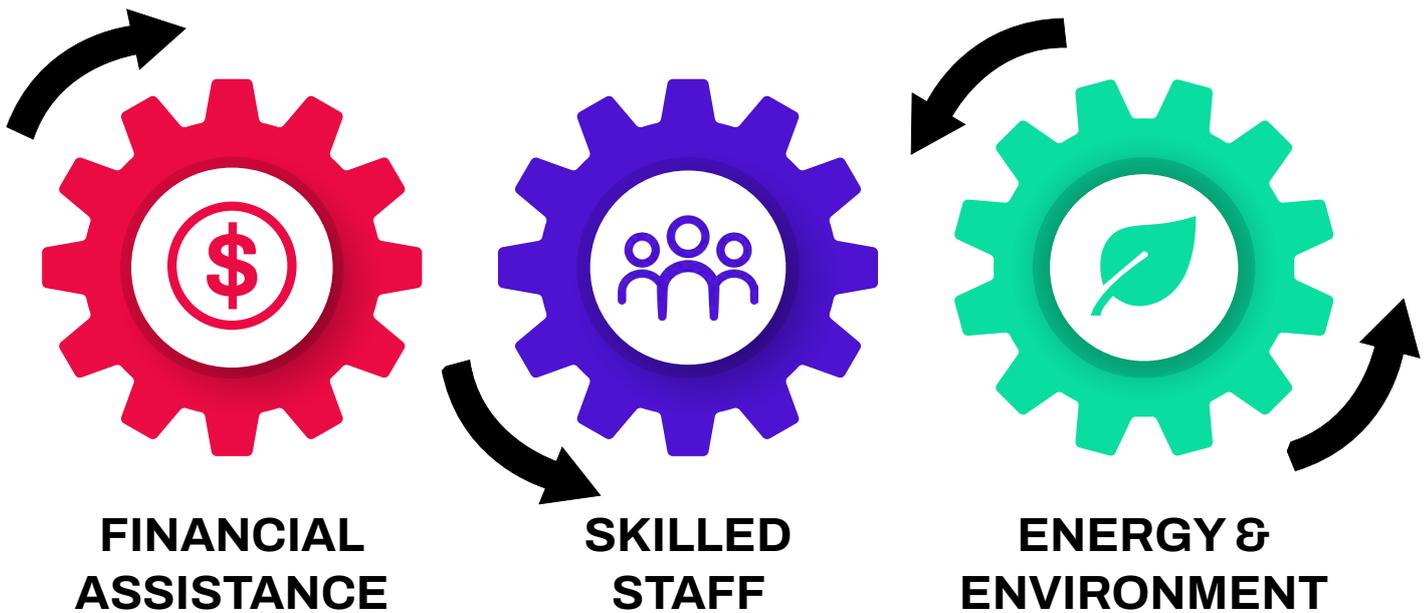
- 54% support the initiative for first-home buyers and the extension of it to all home buyers
- 8% support the initiative for first-home buyers only
- 8% support the initiative for all home buyers but would not support the initiative if it is for first-home buyers only
- 30% oppose the initiative in both forms.

		All home buyers	
		Yes	No
		n=1118	
First-home buyers	Yes	54%	8%
	No	8%	30%

**Figure 12c: Views on stamp duty reform**

# 6. Business Wishlist

If there is one thing that the NSW Government could do to improve the ease of doing business, what would that be?



## FINANCIAL ASSISTANCE

- Abolish/reduce payroll tax
- Reduce tolls
- Affordable access to credit for small business
- Business grants (rebuilding communities; small business)
- Reduce the cost of licences
- Compensation for COVID-related temporary closure.

## SKILLED STAFF

- Facilitate skilled migration
- Expedite visa processing time
- Free training course for staff.

## ENERGY & ENVIRONMENT

- Energy rebate
- Solar initiatives
- Incentives for renewable energy for transport
- Control energy prices.





## CONTACT

**Sam Moreton**  
General Manager, Policy and Analysis  
[Sam.Moreton@businessnsw.com](mailto:Sam.Moreton@businessnsw.com)

**Dr Sherman Chan**  
Chief Economist  
[Sherman.Chan@businessnsw.com](mailto:Sherman.Chan@businessnsw.com)

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