Wollongong, NSW

BUSINESS NSW | 200 YEARS

NSW BUSINESS CONDITIONS

Businesses sound alarm on high costs

September 2026

BUSINESS NSW | 200 YEARS

STANDING WITH MEMBERS. DELIVERING FOR BUSINESS.

About us

Business NSW backs business. We stand with our members, speak up on the issues that matter, and provide the practical support businesses need to start, run, and grow in NSW. It's what we've done since 1826, and it's why businesses still turn to us today.

Our purpose is to create a better Australia by maximising the outcomes and potential of Australian businesses. We achieve this by working with almost 50,000 businesses across the state, 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. This is why when we speak, government listens.

Not a member? Add your voice to the conversation today:
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Croker Oars I Mid North Coast I Member since 1973

Ozganics Australia I Northern Rivers I Member since 2010

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Executive summary

Business confidence across New South Wales has improved modestly from the record lows reported last quarter but remains firmly negative as businesses continue to face weak operating conditions, rising costs and uncertainty about the economic outlook.

While both current and future confidence rebounded from their historic lows, sentiment remains subdued. Across NSW, firms describe having just enough business to survive the financial year ahead and employment intentions have improved but remain weak, with more businesses planning to reduce staff than increase headcount over the coming months.

Cost pressures continue to weigh heavily on business performance and many businesses report that sustained cost increases are continuing to erode profitability and threaten their viability.

Recent economic shocks have also highlighted ongoing concerns around business resilience. While some businesses report being better prepared for future disruptions, most remain as or more vulnerable with many reporting they would be unable to withstand another major economic shock due to the financial impacts of recent events. In response, businesses are focusing on strengthening resilience through cost reduction measures, workforce development, market diversification and rebuilding cash reserves.

Technology adoption continues to accelerate. Nearly half of businesses increased their use of Artificial Intelligence (AI) over the past three months, with most reporting that the technology delivered the benefits they expected. Businesses are increasingly turning to AI to reduce costs and improve efficiency as they navigate ongoing economic pressures.

Looking beyond immediate operating challenges, businesses remain concerned about the long-term environment for growth. Existing infrastructure is widely viewed as inadequate to meet the needs of the next decade, particularly in relation to transport and connectivity. At the same time, confidence in current government policy settings remains low. With the 2027 NSW State Election approaching, businesses are sending a clear message to policymakers. Their asks centre on reducing taxes and government charges, cutting red tape and making it easier for business to employ. Addressing these concerns will be critical to restoring confidence, supporting investment and ensuring New South Wales remains a competitive place to do business.

The Business Conditions Survey was conducted from 2–26 August, with 811 responses from businesses across NSW.

Formaggi Ocello | Sydney East | Member since 2021

Key findings

01 **The Business Confidence Index rose** from its historic low last quarter of -78.0 to a still subdued -65.0. Future confidence also rebounded but remained restricted at -47.3.

02 **NSW businesses on average have rated their prospects for this financial year as 'just enough business to survive',** however, 25% of businesses reported their prospects to be below this threshold.

03 **Businesses' hiring intentions have not yet recovered fully** with only 12% of businesses intending to hire over the next three months and 21% expecting to cut staff.

04 **Taxes, levies and other government charges remained the top cost concern** for businesses for a second consecutive quarter. Insurance costs remain a high concern for businesses and energy costs have rebounded in ranking as concerns relating to suppliers and transport costs ebb.

05 **Nearly half (46%) of all businesses increased their Artificial Intelligence (AI) usage in the last three months,** with 65% of those businesses saying they have experienced their desired benefit from increased use. A third of businesses maintained their existing AI usage and a slim minority decreased (1%). One in five businesses reported having not used AI in their business operations over the last quarter.

06 **9% of businesses say they are now more prepared for an economic shock** of a similar magnitude to the fuel shortage at the start of the year. 21% said they would be less prepared as they are recovering from the last shock and an additional 12% said they could not absorb another shock of that magnitude and would be forced to close.

07 **Businesses are working to improve resilience** in the wake of the recent economic shocks with 62% reducing non-essential expenditure in order to increase their resilience. Many businesses report investing in diversifying their customers and markets (28%), their workforce skills and training (26%) or increasing their cash reserves (17%).

08 **Businesses rate the existing infrastructure in their region to be mostly unfit for the next decade.** On a scale of 0-5, businesses rated their water infrastructure the highest at 2.7 and public transport infrastructure the least prepared for the future at 1.6.

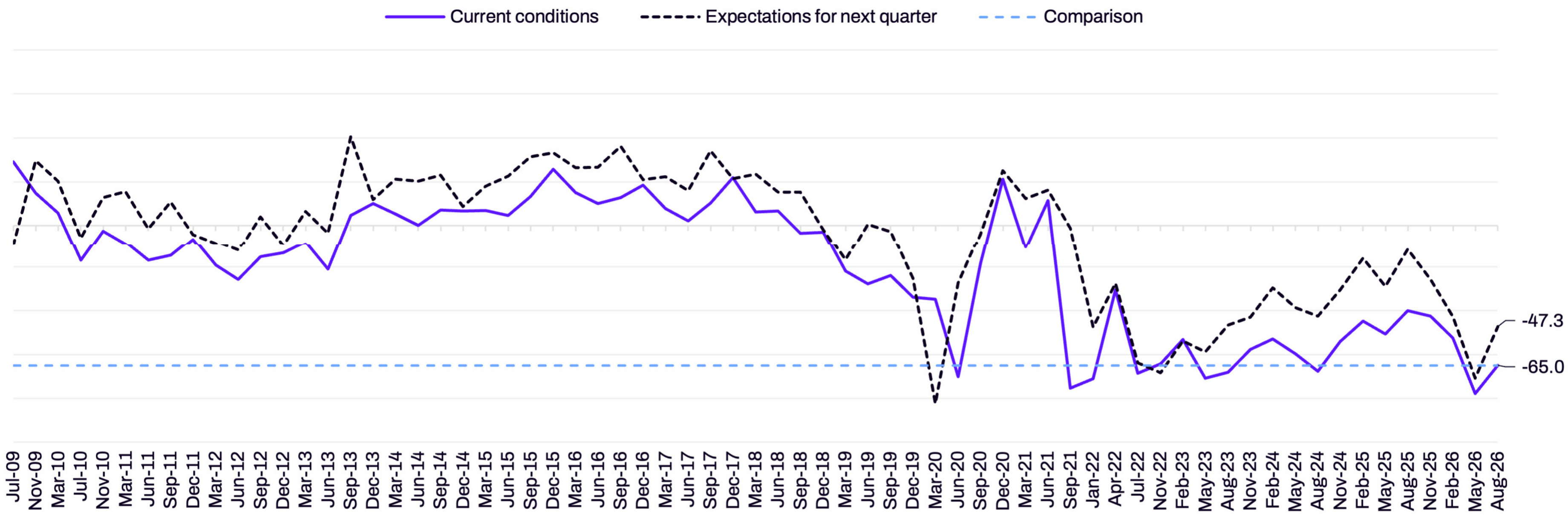
09 **Ahead of the election, businesses call for the next NSW Government to make doing business and employing easier.** Asked for a single area of policy change, 35% of businesses have asked the next NSW Government to reduce taxes and charges, and 13% called for reduced red tape.

1. Business confidence

The Business Confidence Index rebounded after its historic low of -78.0 in May, to -65.0 in the August quarter. Forward looking expectations also rose to -47.3, higher than May 2026 but still more negative than expectations from the start of the year. Both the current and expected conditions remain low by historical standards as tough economic conditions weigh on business confidence.

Whilst results vary by region and industry, the majority are less negative about the next quarter compared to the current one and more confident than the previous quarter, however, no regions or industries reported positive confidence overall.

Figure 1: Business confidence index

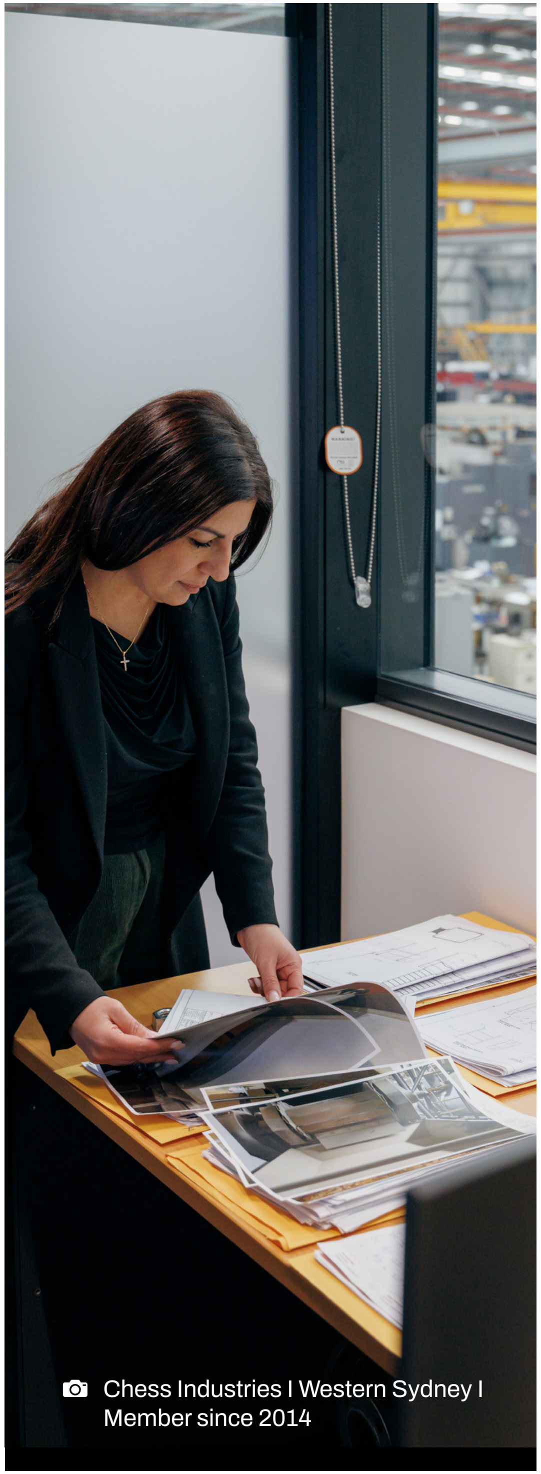


Tamworth City Dance Academy I New England North West I Member since 2014

"We have an opportunity to establish a new business in the region. It will significantly increase productivity and support local businesses in the town and region once established.

But cost of business and the current state of the economy are causing delay to establishment. Slow markets, unavailability of industrial land and skill shortages are some of the challenges our new business is facing right now."

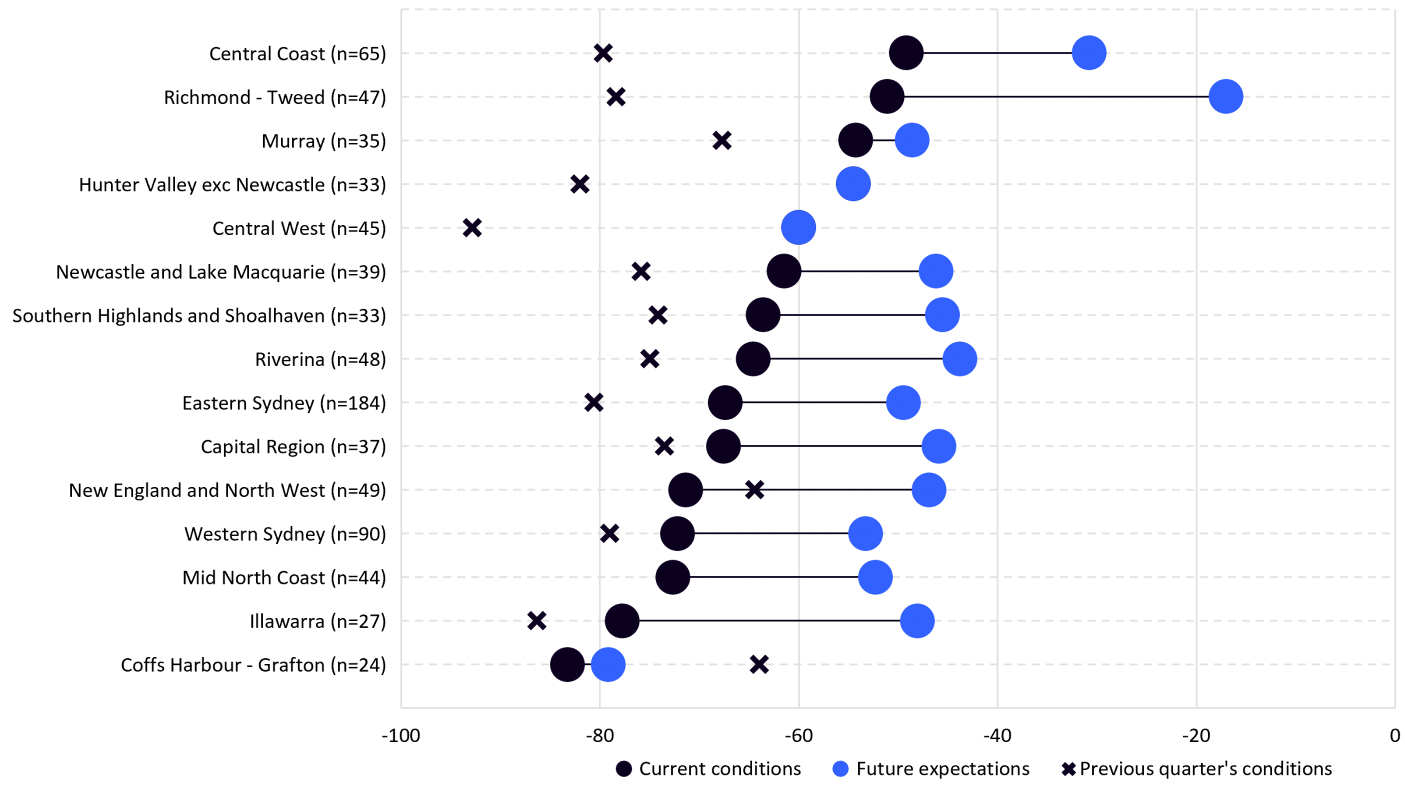
Manufacturing business – New England North West



Chess Industries I Western Sydney I Member since 2014

Regional snapshot

Figure 2: Business confidence by region



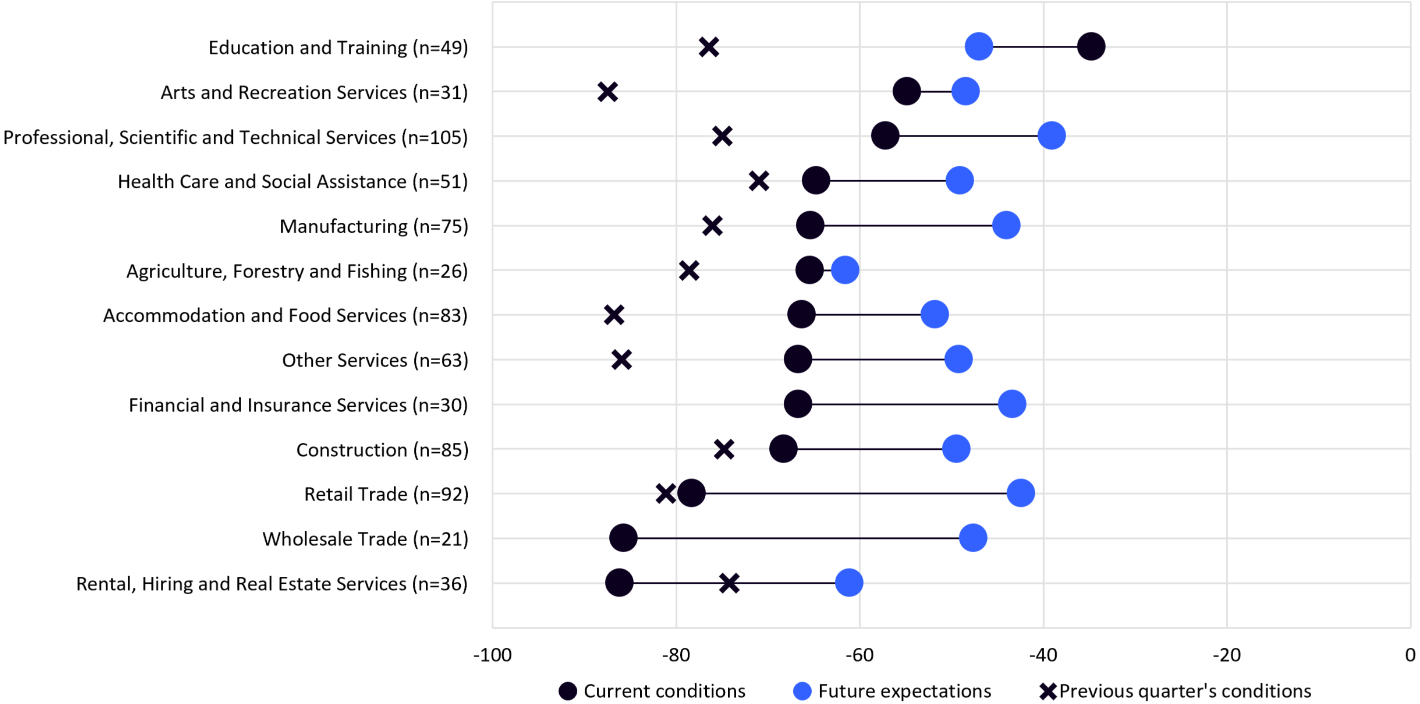
Note: Regions with less than 20 respondents have been excluded. Indicated sample sizes are for 'Current conditions' and 'Future expectations'.

"The key challenge for FY26–27 is developing the business from predominantly ad-hoc content creation into a more structured and sustainable sole-trader operation."

Professional, Scientific and Technical Services business – Central Coast

Industry snapshot

Figure 3: Business confidence by industry



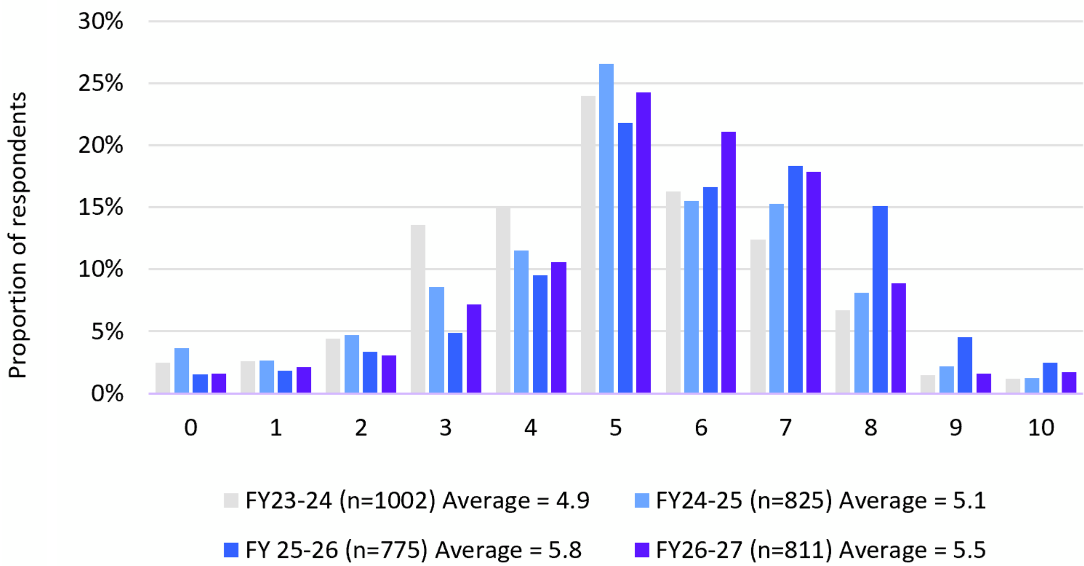
Note: Industries with less than 20 respondents have been excluded. Indicated sample sizes are for 'Current conditions' and 'Future expectations'.

"Demand for our services remains strong. The primary constraint on growth is not a lack of customers, but our capacity to service them. If we can attract, train and retain skilled staff while maintaining sustainable occupancy and wage costs, there is significant opportunity to increase turnover, customer capacity and employment within the business during FY26–27."

Other services business
– Western Sydney

At the start of each financial year Business NSW asks businesses how they rate their business prospects for the year ahead on a scale of 0-10. Businesses this year have rated their prospects as a 5.5, indicating slightly above `just enough business to survive`. This is below last financial year's score of 5.8 but above the two years prior. One quarter of businesses have rated their prospects as expecting below just enough business to survive.

Figure 4: Business prospects for the current financial year



Note: 0 = Shutdown highly likely, 5 = Just enough business to survive, 10 = Major success expected

> *"We have lots of opportunities to expand but the red tape in government regulations is stopping us from being able to commit and to invest."*
>
> Manufacturing business – Eastern Sydney

2. Hiring

NSW's unemployment rate rose from 4.0% to 4.2% in July 2026, although this remains in line with the 10-year average.[1]

Our survey indicates that business hiring continues to moderate, with businesses across sectors adopting a cautious and intentional hiring approach, while other businesses report reducing headcount. Nearly one in three businesses report they reduced staff over the past quarter, while only 12% hired additional staff.

[1]*ABS, Labour Force, Australia, July 2026, Catalogue No. 6202.0*

Figure 5: Change in staff headcount

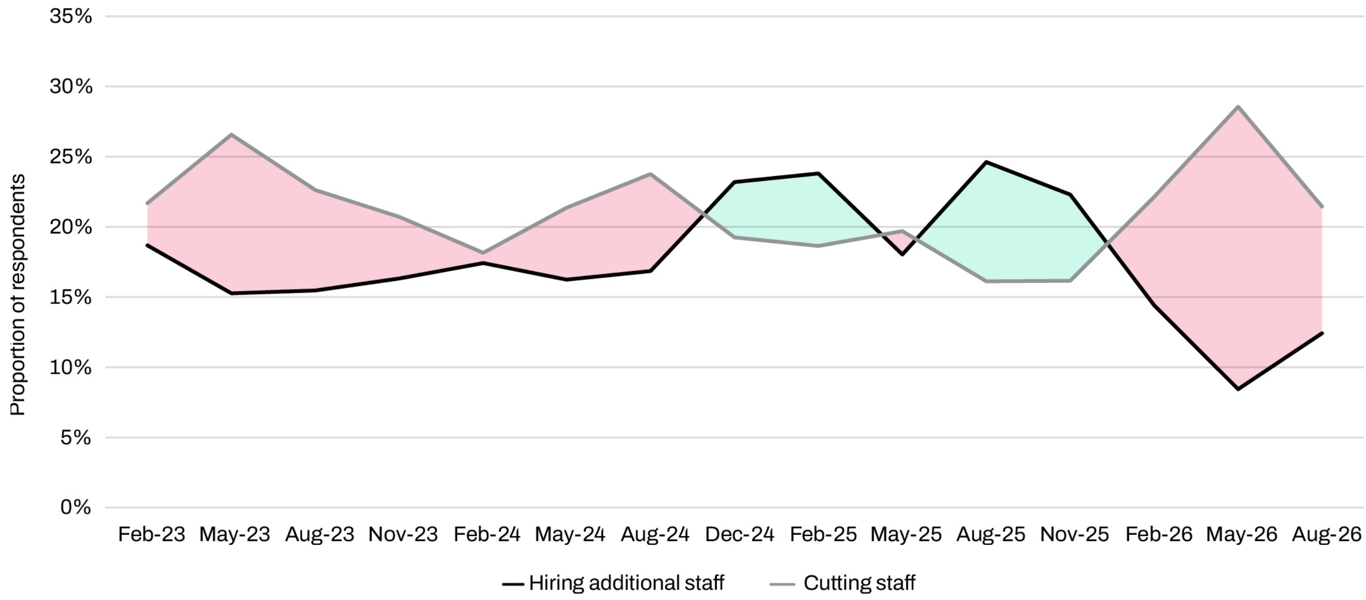
	Change of staff headcount in the past three months		Plans for staff headcount for the next three months
We have hired additional staff	12%	Hiring additional staff	12%
No change	58%	Maintaining the same headcount	66%
We have cut staff	30%	Cutting staff	21%

> *"We have halved our staff since the beginning of the year, we are looking at further downsizing as costs continue to rise and regulatory issues create headaches unnecessarily"*
>
> Wholesale Trade business – Newcastle and Lake Macquarie

Looking ahead, hiring intentions remain cautious. Just 12% of businesses intend to hire additional staff in the next three months, while 21% expect to be cutting.

From late 2024 to early 2026, more businesses were expecting to hire staff than reduce staff. Since early 2026 our surveys have recorded a change in overall hiring intentions, with more businesses planning to reduce staff than hire. The latest results show slightly improved hiring intentions compared to June 2026, but intentions remain relatively subdued.

Figure 6: Business hiring intentions for the next three months



> *"One of the greatest challenges facing our business is the ongoing shortage of skilled hairdressers. As a service-based business, our ability to generate revenue is directly linked to having skilled staff available to perform the work. At present, we are regularly required to turn customers away or delay bookings because we do not have sufficient skilled staff to meet demand. This represents a significant lost revenue and growth opportunity."*

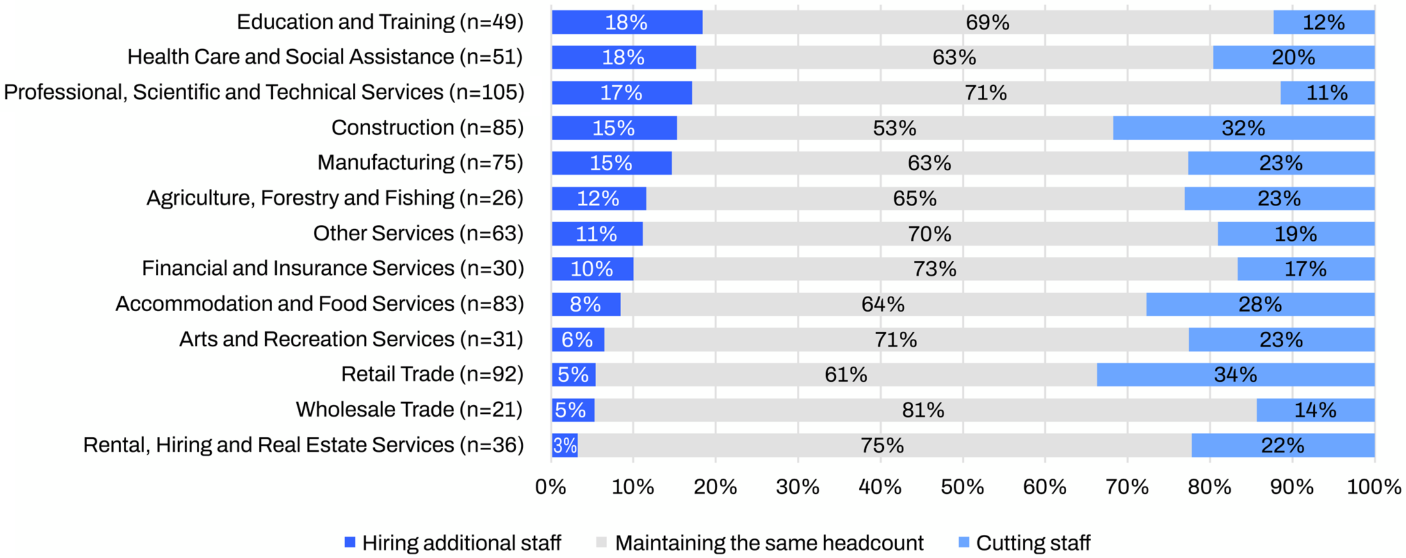
Other services business – Western Sydney

Hiring remains strongest in education and training, healthcare and social assistance and professional, scientific and technical services, industries that make up 33% of the total jobs in NSW.[2]

Businesses in hospitality and local services industries (such as accommodation and food services, retail, arts and recreation, rental, hiring and real estate services) are reporting particularly subdued hiring intentions for the next three months, a combination of both economic climate and seasonally induced reductions in customer spending with around a quarter to a third of businesses in these sectors planning to reduce headcount and very few planning to hire new staff.

[2]ABS, Labour Account modelled state and territory estimates by industry, 2026, August 2026

Figure 7: Plans for staff headcount for the next three months by industry



Note: Industries with less than 20 respondents have been excluded.

> *"We are struggling to find staff that are experienced in our field and incentives in our industry to keep them."*
>
> Retail trade business – Illawarra

Melissa Confectionary I Sydney West I Member since 2026

> *"Insurance, workers compensation and fuel costs are unaffordable. Superannuation has simply become an additional tax on small businesses, and it reduces our ability to employ staff."*
>
> Accommodation and Food Services business - Eastern Sydney

> *"Customer spending is decreasing, there is not much more we can do to reduce costs other than reduce staff or close the store"*
>
> Retail trade business – Murray

3. Business costs

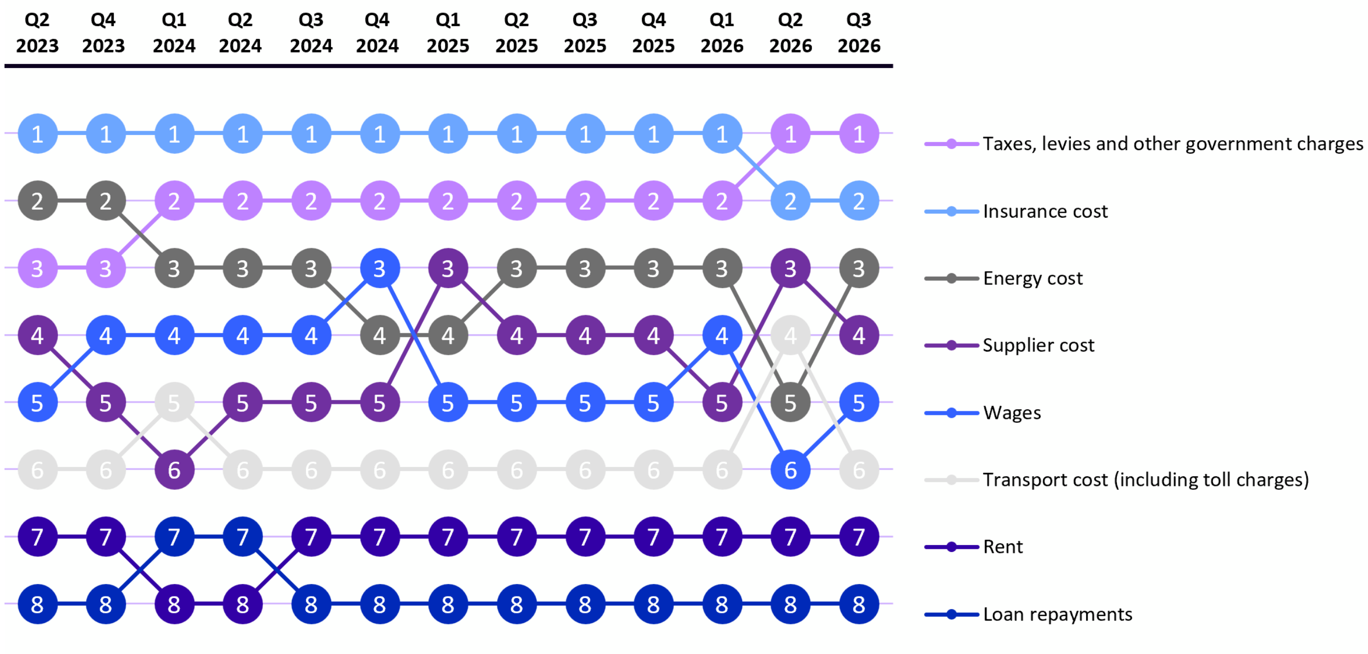
Business cost concerns

Inflation remains elevated at an annual rate of 3.5%. Whilst the headline figure is on a downwards trend from a spike in March, the trimmed mean remained unchanged from the month prior at 3.6%, above the Reserve Bank of Australia's target band of 2-3%.[3]

Taxes, levies and other government charges has remained as the highest ranked cost concern for the second consecutive quarter.

Supplier and transport costs have fallen in cost concern rankings as the immediate effects of the war in Iran and oil supply crisis ebbed, but concerns around supplier costs have remained elevated compared to the beginning of the year indicating lingering impacts persist. Energy and wage cost concerns have returned to their pre-war rankings, at third and fifth respectively.

Figure 8: Ranked concerns about business costs over time



Note: This question asks businesses to score their cost concerns out of 10.
A decline in the ranking for a cost does not mean an absolute decline in the cost pressures facing business.

[3] *ABS, Consumer Price Index, Australia, July 2026, Catalogue No. 6401.0*

"Hospitality is the most labour intensive industry. This puts me into payroll tax bracket even though my profits are low. It hasn't been indexed and it unfairly punished the largest employers with disregard to profitability."

Accommodation and food services business – Capital region

4. Future proofing

Artificial Intelligence

Nearly half of all businesses (46%) reported increasing their artificial intelligence (AI) usage in the last three months with two thirds (65%) experiencing the desired benefit from the increased usage. A third of businesses remain unsure or have not received their desired benefits. Nearly one in five businesses (19%) do not use AI in their business operations.

Figure 9: Artificial intelligence (AI) usage compared to 3 months prior

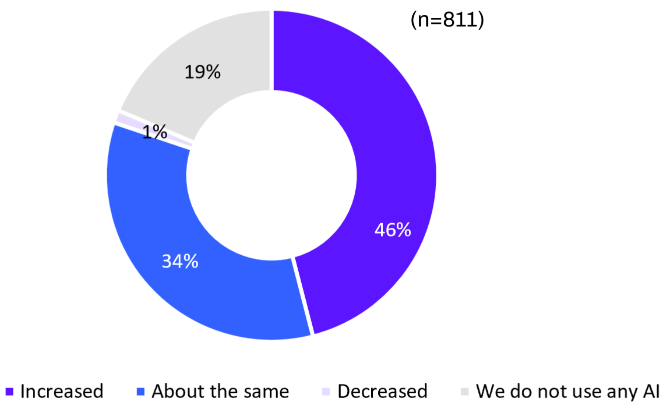
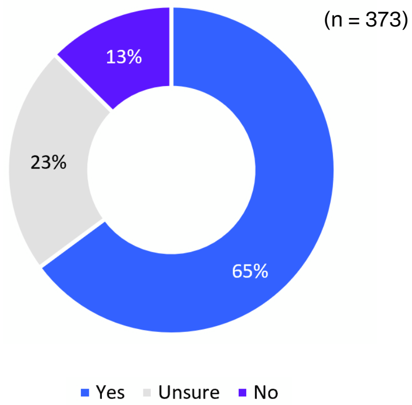


Figure 10: Have businesses experienced the expected benefits from increased AI usage?



Note: Only businesses who reported increased AI usage were asked this question. Results may not sum to 100% due to rounding.

> *"AI is already impacting our business, so we are needing to constantly pivot our offerings to stay ahead of the game."*

Professional, Scientific and Technical Services business – Eastern Sydney

> *"Our key opportunities in FY26–27 include growing demand for ICT, cyber security, AI, data, procurement and project delivery skills, together with increased government interest in SME and women-owned suppliers."*

Administrative and Support Services business – Eastern Sydney

ENV Solutions I Northern Rivers I Member since 2015

"We are in the IT industry which is always changing at pace. The pace of change of AI is consuming all levels of the community fuelled by both fear and opportunity. Finding the middle ground is the challenge. If we don't do anything then we will be left behind the rest of the world."

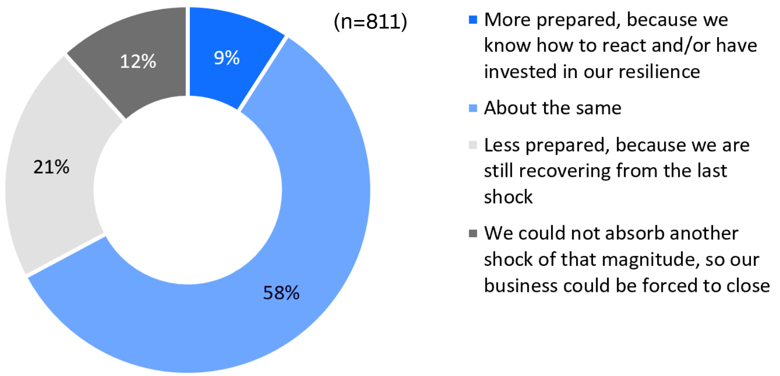
Information Media and
Telecommunications business
– Eastern Sydney

📷 Eastcoast Beverages I Central Coast I Member since 2014

Resilience and sustainability

9% of businesses reported being better positioned to respond to an economic shock within the next 12 months of similar magnitude to the fuel crisis at the start of 2026. Over half say they have a similar capacity to deal with it again and a third are less prepared or would be forced to close.

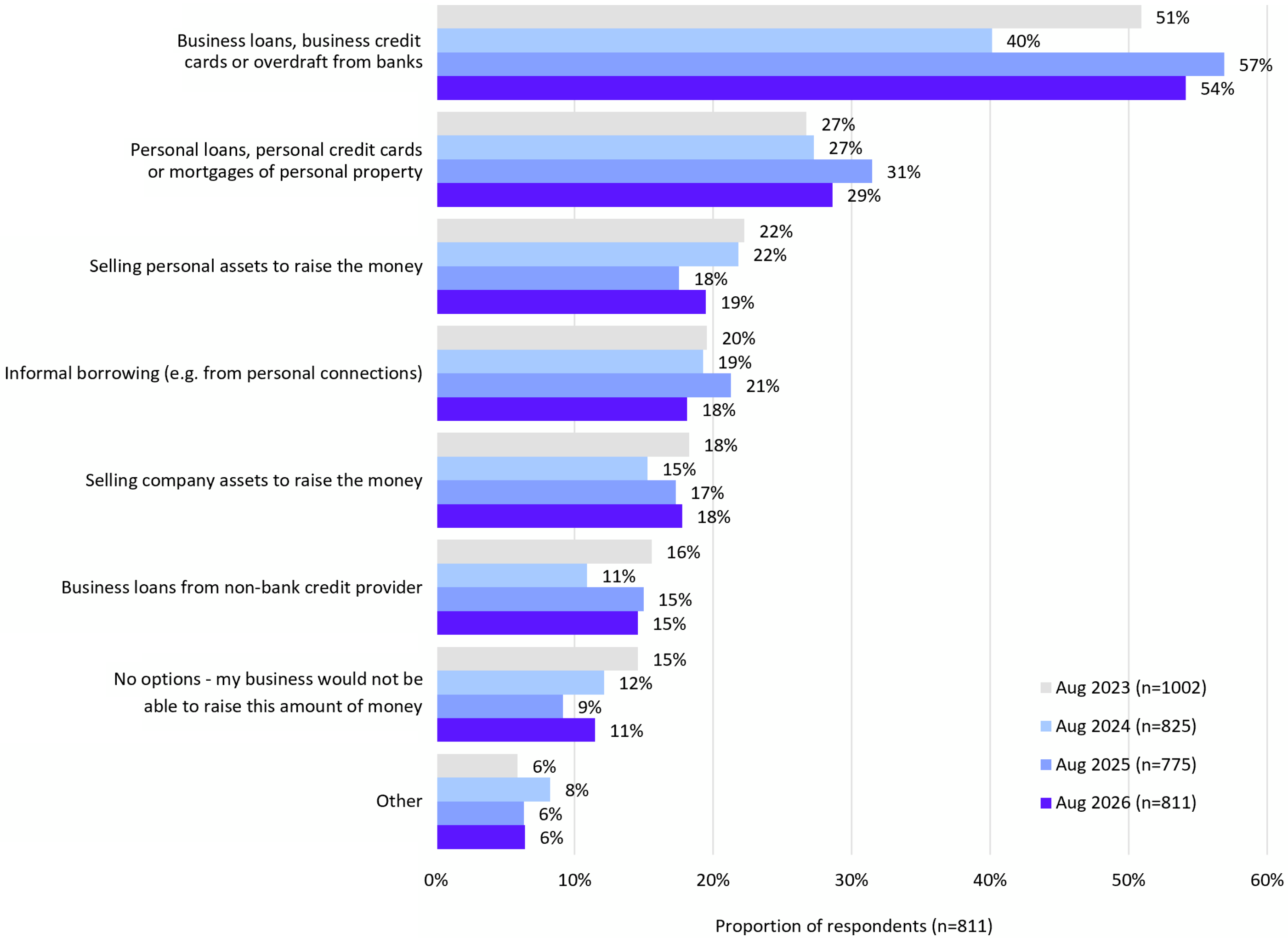
Figure 11: Business preparedness against future economic shocks



The sources of funding that businesses report using when they need to raise emergency finances have remained fairly stable over the past four years, with most businesses relying on traditional sources of credit through business loans and business credit cards. Rising interest rates may be coinciding with a shift away from taking on additional debt and an uptick in the possibility of selling personal or company assets to raise immediate funds. Despite this, business loans remain a key source of potential emergency finance for businesses. Just 11% of businesses report they would be unable to raise the necessary emergency finances by any means.

Figure 12: Funding sources available to access emergency finance equivalent to one month's operating expenses

Note: Results do not sum to 100% as respondents were able to select multiple responses

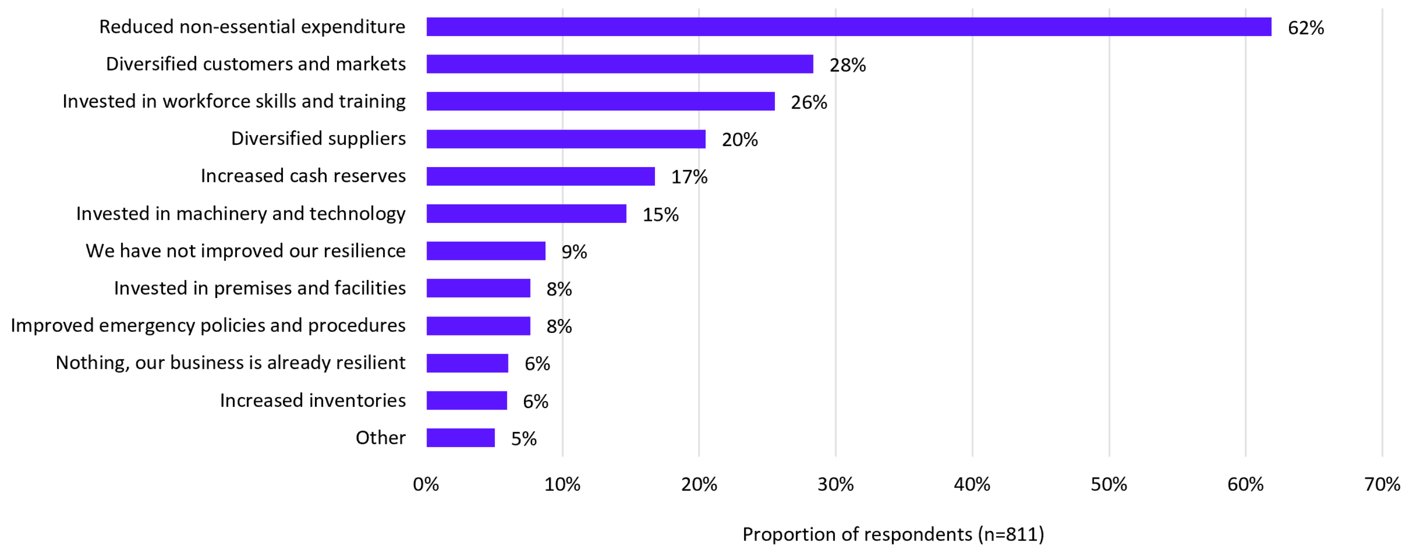


Harrison Manufacturing I Sydney East I Member since 1987

In the past six months most businesses (62%) report increasing their resilience to future shocks by reducing non-essential expenditure in advance. Many businesses providing non-essential goods or services have reported reduced sales due to other businesses reducing their non-essential spending.

Additionally, businesses have reported focusing on diversification of customers and markets (28%), suppliers (26%) or investing in workforce skills and training (26%) as methods to improve their resilience in the face of future economic shocks.

Figure 13: Approaches to increase business resilience



Note: Results do not sum to 100% as respondents were able to select multiple responses

"As costs of operating/living increase, my industry is one of the first impacted when businesses cut costs"

Professional, Scientific and Technical Services business – Hunter Valley exc Newcastle

73% of businesses reported taking actions to improve sustainability in their business operations. The most common approaches were reducing wastage (29%), updating product offerings (27%) and reducing travel expectations of staff (21%). Businesses report being most motivated by cost savings (54%), customer expectations (41%) and employee satisfaction (26%).

Three Threes Condiments | Western Sydney | Member since 1930

Figure 14: Approaches to increase business sustainability

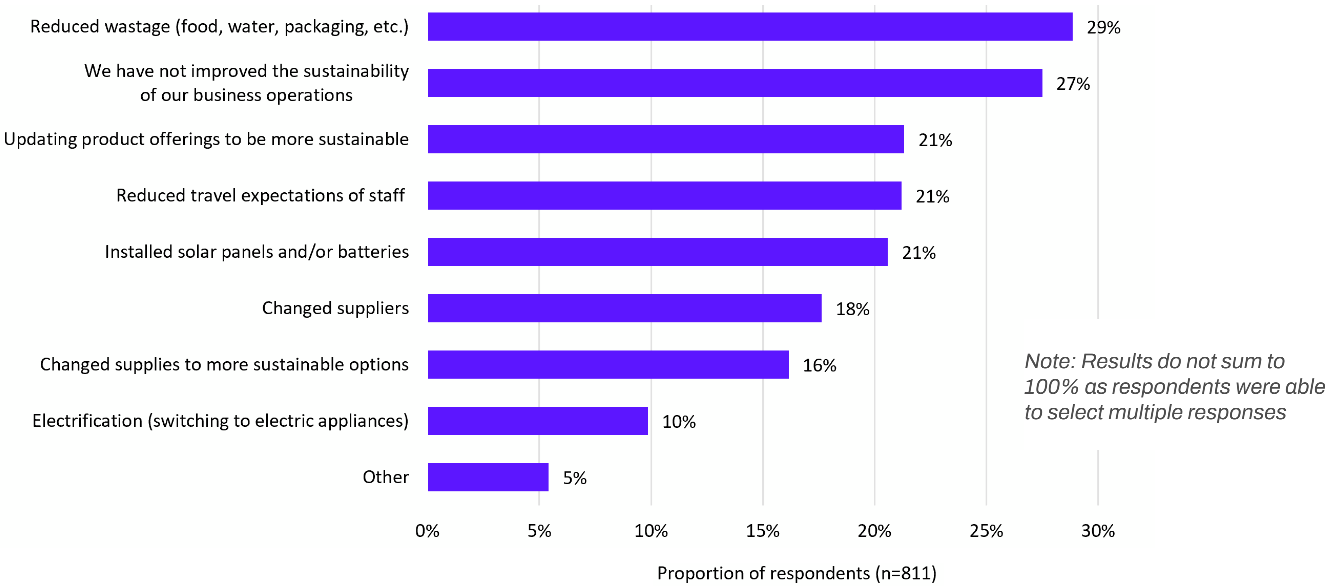
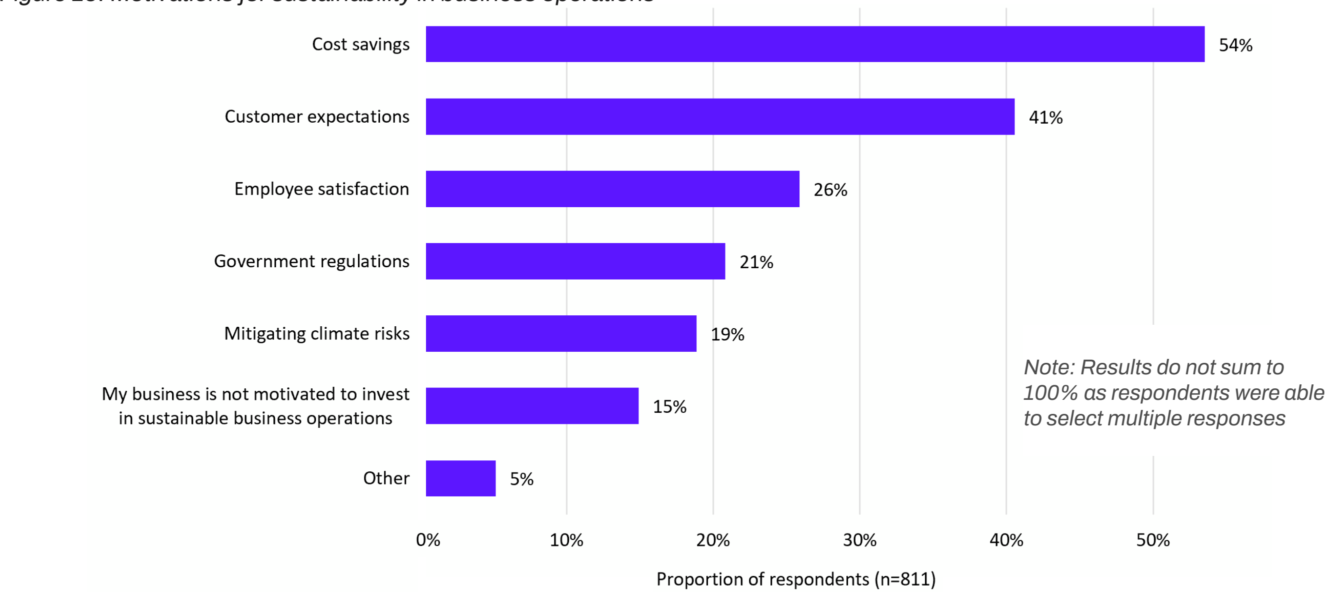


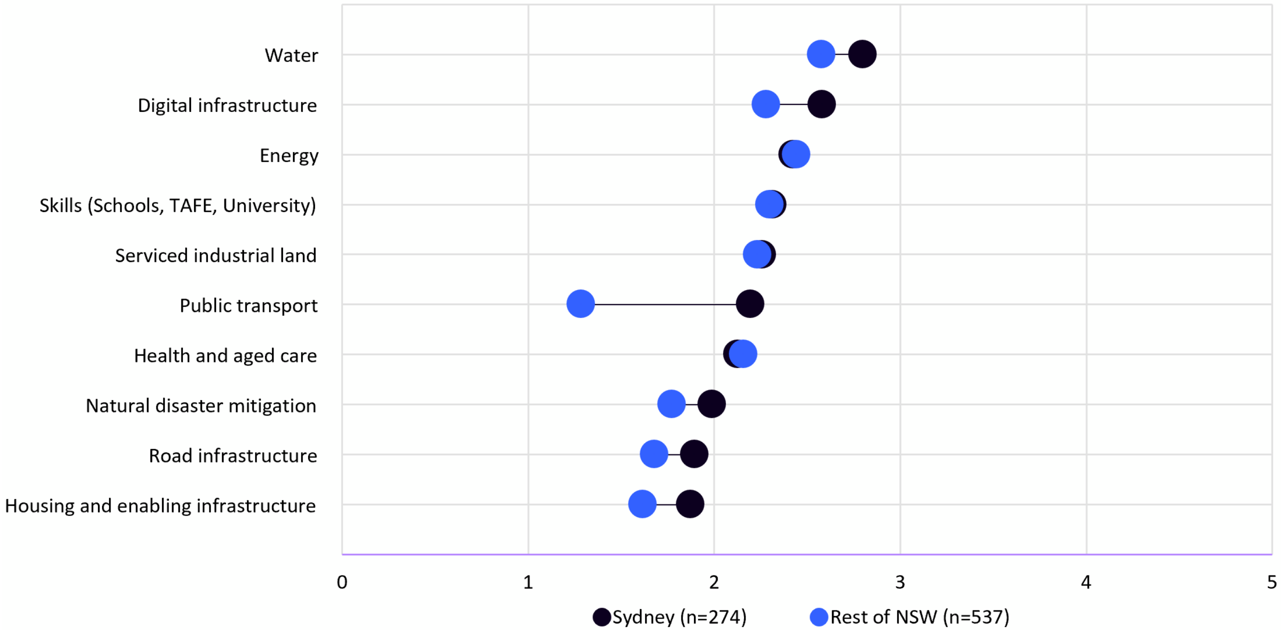
Figure 15: Motivations for sustainability in business operations



Businesses reported that they believed the existing infrastructure in their region to be poorly prepared for the next decade.

In particular, businesses are concerned about the infrastructure necessary to sustain growing populations and places – namely housing and enabling infrastructure, roads, and public transport. The highest rated infrastructure, water, received an average rating of 2.7 out of 5 from businesses across NSW. On average businesses based in Sydney rated most of their existing infrastructure as being slightly more prepared to meet future demand than their counterparts outside of Sydney, with the largest difference being in public transport.

Figure 16: Perceived preparedness of existing infrastructure for demand in 2035



Note: 0 = Not at all prepared, 5 = Well prepared. Sydney is considered Eastern and Western Sydney

> *"A challenge for us is road closures with Great Western Highway and responses to emergency impacts (floods, roads, bushfires) as our towns rely heavily on access to tourism."*
>
> Retail Trade business – Central West

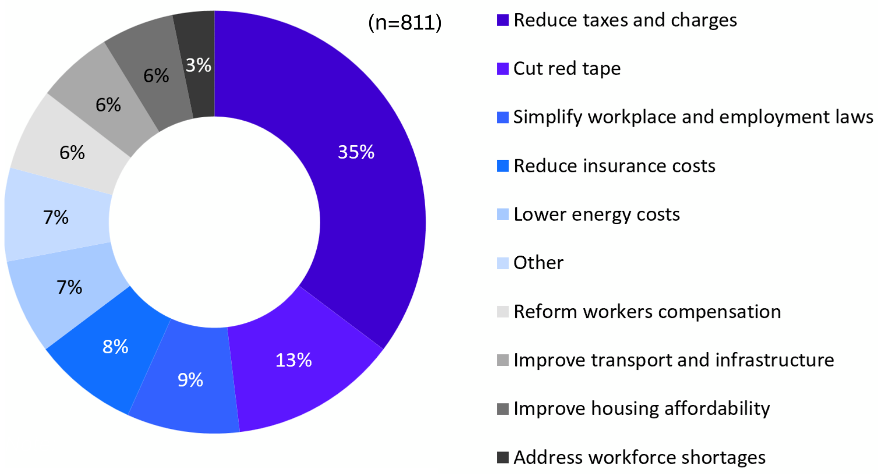
Kings of Neon | Central Coast | Member since 2025

5. Feedback to government

When asked for a single area of policy improvement, over a third of businesses asked for reduced taxes and charges and 13% for reduced red tape.

Nearly one in five (18%) of businesses called for making it easier to employ workers by either simplifying workplace and employment laws, reforming workers compensation or addressing workforce shortages.

Figure 17: Business priority ask of next NSW Government to improve business conditions



> *There has been a significant increase in cost of building due to Class 2 building codes and overall general increase in building materials. This is making a number of housing projects we have available to us unprofitable."*

Construction business – Mid North Coast

Canowindra I Central West I Member since 1979

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