



**BUSINESS
NSW**

NSW BUSINESS CONDITIONS

Pre-Election Special Edition

FEBRUARY 2023





About Us

Business NSW is the peak business organisation for New South Wales with almost 50,000 member businesses across the state.

Our purpose is to create a better Australia by maximising the outcomes and potential of Australian businesses. 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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Executive summary

Business conditions are undeniably challenging at present, and the economic outlook remains uncertain. After nine successive rate hikes by the Reserve Bank of Australia, businesses – whether with loans or not – are feeling the impact. Business sentiment is soft across all industries. While many continue to raise genuine concerns about availability of workers and enduring skills shortages, some are starting to cut staff amid a slowdown in trade. In the lead-up to the NSW State Election on 25 March 2023, businesses are candidly sharing their experiences with Business NSW to enable us to continue advocating to the NSW Government and Opposition on their behalf.

This special edition of the NSW Business Conditions report presents findings from two surveys undertaken by Business NSW:

- The quarterly Business Conditions Survey conducted during 1-14 February 2023 (with 1267 responses); and
- The special NSW Pre-Election Survey conducted during 20-26 January 2023 (with 902 responses).

Key findings

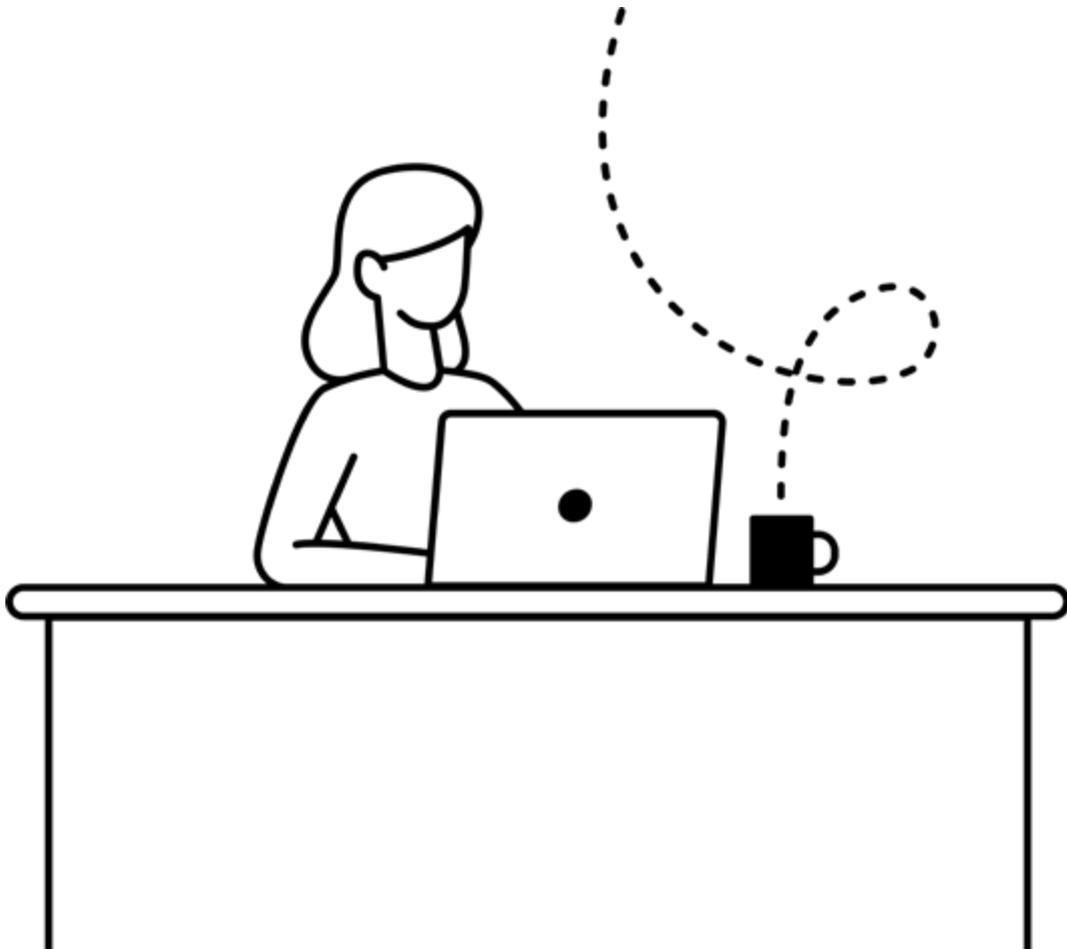
1. Business confidence remains weak throughout NSW and across all industries.
2. Close to 30% of businesses consider themselves to not have enough business activity to survive 2023. The rising cost of doing business is regarded as the biggest barrier to operating at full potential.
3. The employment outlook has changed, with 22% of businesses now expecting to cut staff in the next three months.
4. The intensifying impact of rising interest rates on business is evident, as businesses are expressing concerns across a range of indicators, from the narrowing profit margin to their ability to meet higher loan repayments.
5. In relation to rising costs, businesses on average are most concerned about energy costs and insurance costs.
6. Supply chain issues are still experienced by 87% of businesses, with the most common concerns being higher product prices and freight costs.

7. About two in three businesses that use imported materials do so due to a lack of local options.
8. The greatest barrier to accessing government contracts is the high cost or time involved in preparing applications.
9. If the next NSW Government does nothing to improve business conditions:
 - a. 39% of businesses will likely reduce staff
 - b. 37% of businesses will likely increase debt
 - c. 12% of businesses will likely relocate
 - d. 27% of businesses will likely shut down.

Businesses understand the need to tackle inflation and build a stronger economy. That's why it is so critical that the next NSW Government, working with the Australian Government, seeks to progress skills and tax reforms, support business through the energy transition and coordinate a state-federal productivity agenda. The blunt use of monetary policy is no substitute for boosting productivity through economic reforms.



PART 1: BUSINESS CONDITIONS SURVEY



1. Business confidence

Business sentiment remains fragile in NSW. Although the Business Confidence Index has risen for the second straight quarter, the reading of -53.1 is far from reassuring. This reflects the tough trading conditions currently experienced by many businesses. The associated index that captures business expectations for the following quarter registers a similar reading (-53.8), suggesting that pessimists clearly outnumber optimists regarding the NSW economic outlook. Business confidence is negative across every industry and every region in NSW.

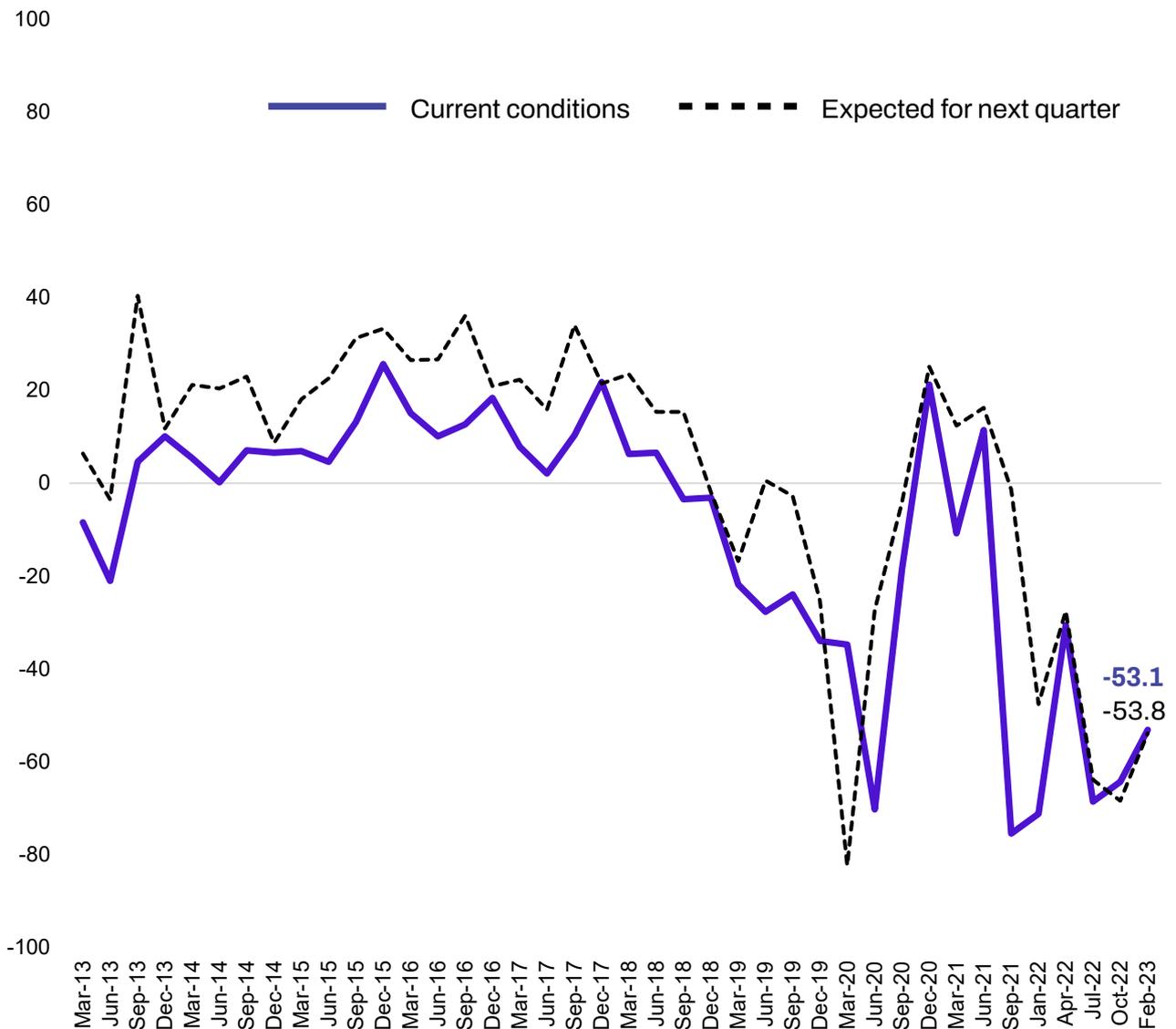


Figure 1: Business Confidence Index

“2023 trading has started way below previous years.”

~ Wholesale Trade

“Christmas sales were below average, Australia Day promotion was dismal... and Valentine’s Day starting out slowly. Our future is bleak.”

~ Retail Trade

“It has been very clear the cost of living for the people in the community has had a huge impact on our tourism business. People have less disposable income to spend on attractions like ours and in turn all aspects of our business have been affected. The increase in running costs is dragging this 43-year-old business to its knees this time. After multiple hits over the past three years we are not sure if we can bring our heads above the water if things do not improve quickly this time.”

~ Arts and Recreation Services

2. Regional snapshot

| | Business Confidence Index | | |
|--|---------------------------|--------------------------|--------------------------|
| | Last Quarter | Current Quarter | Next Quarter |
| NSW | | | |
| | -64.3 (n=870) | -53.1 (n=1267) | -53.8 (n=1267) |
| Regions expecting a rebound | | | |
| Central Coast | -62.9 (n=43) | -51.6 (n=64) | -48.4 (n=64) |
| Central West | -71.4 (n=49) | -66.2 (n=65) | -60.0 (n=65) |
| Eastern Sydney | -62.3 (n=220) | -47.3 (n=279) | -44.8 (n=279) |
| Far West and Orana | -52.9 (n=17) | -76.9 (n=26) | -46.2 (n=26) |
| Newcastle and Lake Macquarie | -62.5 (n=56) | -51.7 (n=89) | -50.6 (n=89) |
| Riverina | -67.7 (n=31) | -52.3 (n=44) | -43.2 (n=44) |
| Regions expecting no change | | | |
| Murray | -51.6 (n=31) | -57.4 (n=47) | -57.4 (n=47) |
| New England and North West | -75.8 (n=33) | -63.3 (n=60) | -63.3 (n=60) |
| Richmond – Tweed | -60.0 (n=45) | -60.3 (n=68) | -60.3 (n=68) |
| Regions expecting a deterioration | | | |
| Capital Region | -74.4 (n=43) | -35.0 (n=60) | -60.0 (n=60) |
| Coffs Harbour – Grafton | -61.9 (n=21) | -53.8 (n=39) | -56.4 (n=39) |
| Hunter Valley | -71.7 (n=46) | -51.4 (n=72) | -58.3 (n=72) |
| Illawarra | -54.8 (n=31) | -55.9 (n=68) | -58.8 (n=68) |
| Mid North Coast | -66.7 (n=45) | -55.4 (n=65) | -64.6 (n=65) |
| Southern Highlands and Shoalhaven | -60.0 (n=35) | -69.5 (n=59) | -71.2 (n=59) |
| Western Sydney | -65.3 (n=124) | -46.9 (n=162) | -50.0 (n=162) |
| Figure 2: Business confidence by region | | | |

3. Industry snapshot

| | Business Confidence Index | | |
|---|---------------------------|-----------------|----------------|
| | Last Quarter | Current Quarter | Next Quarter |
| All industries | -64.3 (n=870) | -53.1 (n=1267) | -53.8 (n=1267) |
| Industries expecting a rebound | | | |
| Agriculture, Forestry and Fishing | -69.2 (n=26) | -66.7 (n=45) | -57.8 (n=45) |
| Education and Training | -61.1 (n=36) | -29.8 (n=57) | -24.6 (n=57) |
| Electricity, Gas, Water and Waste Services | 0.0 (n=5) | -66.7 (n=9) | -55.6 (n=9) |
| Information, Media and Telecommunications | -50.0 (n=20) | -46.5 (n=43) | -37.2 (n=43) |
| Other Services | -65.9 (n=82) | -57.0 (n=107) | -47.7 (n=107) |
| Rental, Hiring and Real Estate Services | -70.4 (n=27) | -70.7 (n=41) | -41.5 (n=41) |
| Retail Trade | -80.0 (n=115) | -67.9 (n=218) | -65.6 (n=218) |
| Industries expecting a deterioration | | | |
| Accommodation and Food Services | -72.2 (n=97) | -55.3 (n=159) | -61.0 (n=159) |
| Administrative and Support Services | -50.0 (n=8) | -22.2 (n=18) | -44.4 (n=18) |
| Arts and Recreation Services | -71.2 (n=52) | -46.4 (n=56) | -48.2 (n=56) |
| Construction | -55.6 (n=54) | -54.7 (n=75) | -56.0 (n=75) |
| Financial and Insurance Services | -53.1 (n=32) | -52.0 (n=25) | -60.0 (n=25) |
| Health Care and Social Assistance | -66.7 (n=63) | -44.2 (n=86) | -47.7 (n=86) |
| Manufacturing | -55.9 (n=93) | -52.5 (n=118) | -59.3 (n=118) |
| Mining | -100.0 (n=3) | -20.0 (n=5) | -80.0 (n=5) |
| Professional, Scientific and Technical Services | -52.9 (n=104) | -41.1 (n=129) | -51.2 (n=129) |
| Public Administration and Safety | 0.0 (n=2) | -40.0 (n=5) | -60.0 (n=5) |
| Transport, Postal and Warehousing | -50.0 (n=20) | -61.9 (n=21) | -71.4 (n=21) |
| Wholesale Trade | -77.4 (n=31) | -42.0 (n=50) | -44.0 (n=50) |

Figure 3: Business confidence by industry

4. Business prospects

When asked to rate their business prospects in 2023 on a scale of 0 to 10, close to 30% of respondents nominate a score of 4 or below, noting that a score of 5 represents having just enough business activity to survive. A majority of respondents consider themselves to have just enough or a little more than enough business activity to survive 2023, rating their business prospects as 5, 6 or 7.

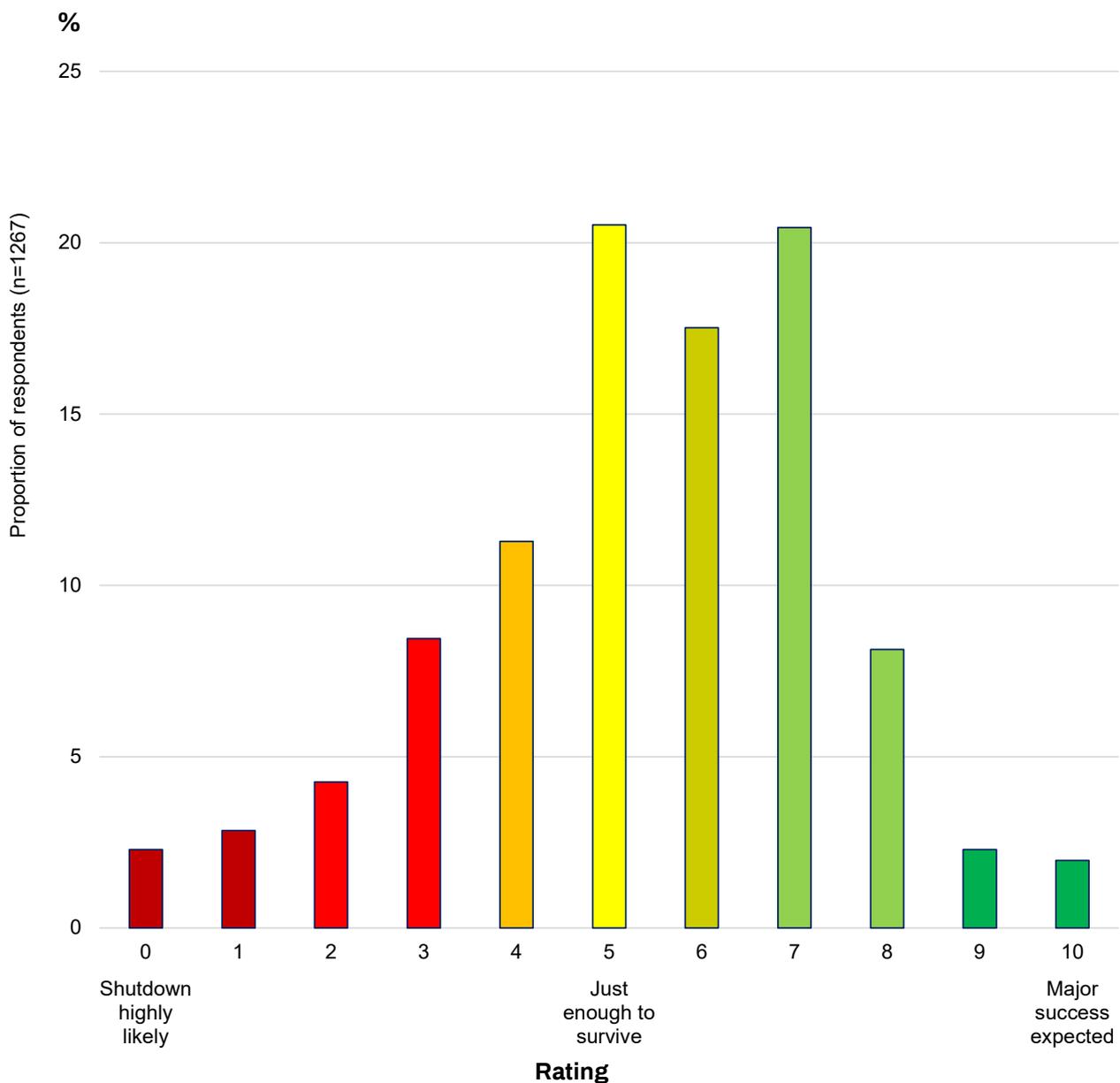


Figure 4: Self-rated business prospects in 2023

“Consumer confidence is very low and many people are experiencing financial hardship. This has forced our sales down and is making our operation lose its viability. We survived the first impact of Covid with the help of government support but we need support now and nothing is available.”

~ Retail Trade

“I have never heard so many small business owners struggling financially. Customers are paying bills 3-4 months behind which leads to business owners paying their contractors 3-4 months behind. Everyone is struggling so badly that I see at least 30-40% closing within the next 6 months. All savings are gone after two years of COVID. Expenses have been cut to the maximum, we are running out of options.”

~ Other Services (Personal Services / Repair Services)



“Customers are really careful with how much they will spend and the cost of supplies are rising...the selling price is very sensitive to increase.”

~ Accommodation and Food Services

“I am currently having to seek additional employment for myself while continuing to try and operate my business due to the rising costs of everything. My customers have also had to cut back on paid services with me for the same reasons. I expect my business will be on a slow simmer this year until people have money to spend.”

~ Health Care and Social Assistance

“Continued interest rate rises can't be absorbed by small business still recovering from the Covid pandemic... Small businesses will shut down if interest rates continue to rise.”

~ Construction

5. Hiring intentions

Demand for workers is likely to ease over the next three months, as about three in five businesses are likely to maintain the same headcount and one in five is even likely to cut staff. Only 19% of businesses expect to hire extra staff.

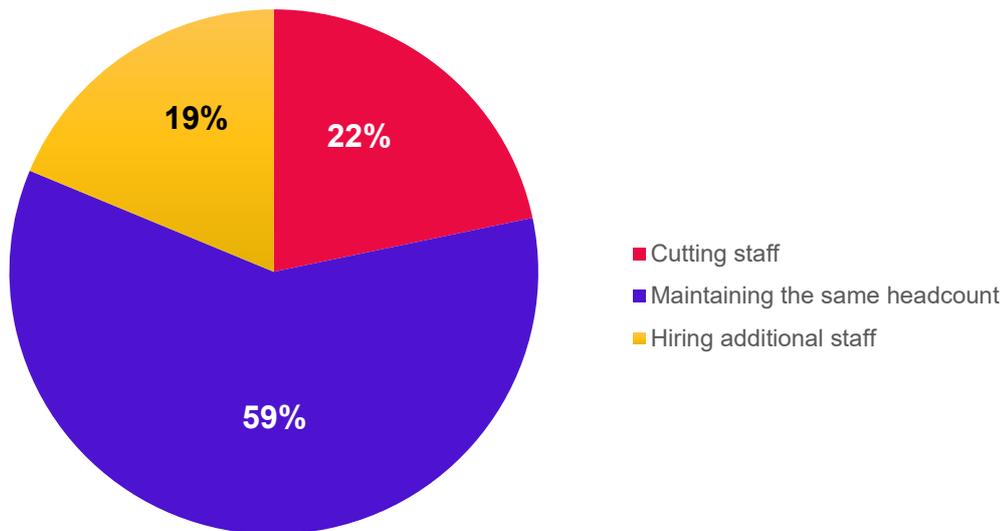


Figure 5: Plans for staff headcount for the next 3 months (n=1267)

“Increased costs means I will be unable to hire anyone this year.” ~Retail Trade

“We have let staff go around Xmas and it’s looking like more to come.” ~Electricity, Gas, Water and Waste Services

“Have cut staff hours, informed casual staff that they shall not be needed for a while. Had management meeting today and agreed that staff hours will need to be cut further.”

~Other Services (Personal Services / Repair Services)

6. Impact of rising interest rates

The Reserve Bank of Australia commenced its monetary tightening cycle in May 2022. The Business Conditions Survey has gauged the impact of rising interest rates on business over three quarters:

- July 2022 when the RBA cash rate target was at 1.35%
- November 2022 when the RBA cash rate target was at 2.85%
- February 2023 when the RBA cash rate target was at 3.35%.

The graph below shows the gradual increase in concerns across a range of indicators. While the impact on profit margin continues to be of highest concern, the largest increase in concern is seen in businesses' ability to meet higher loan repayments.

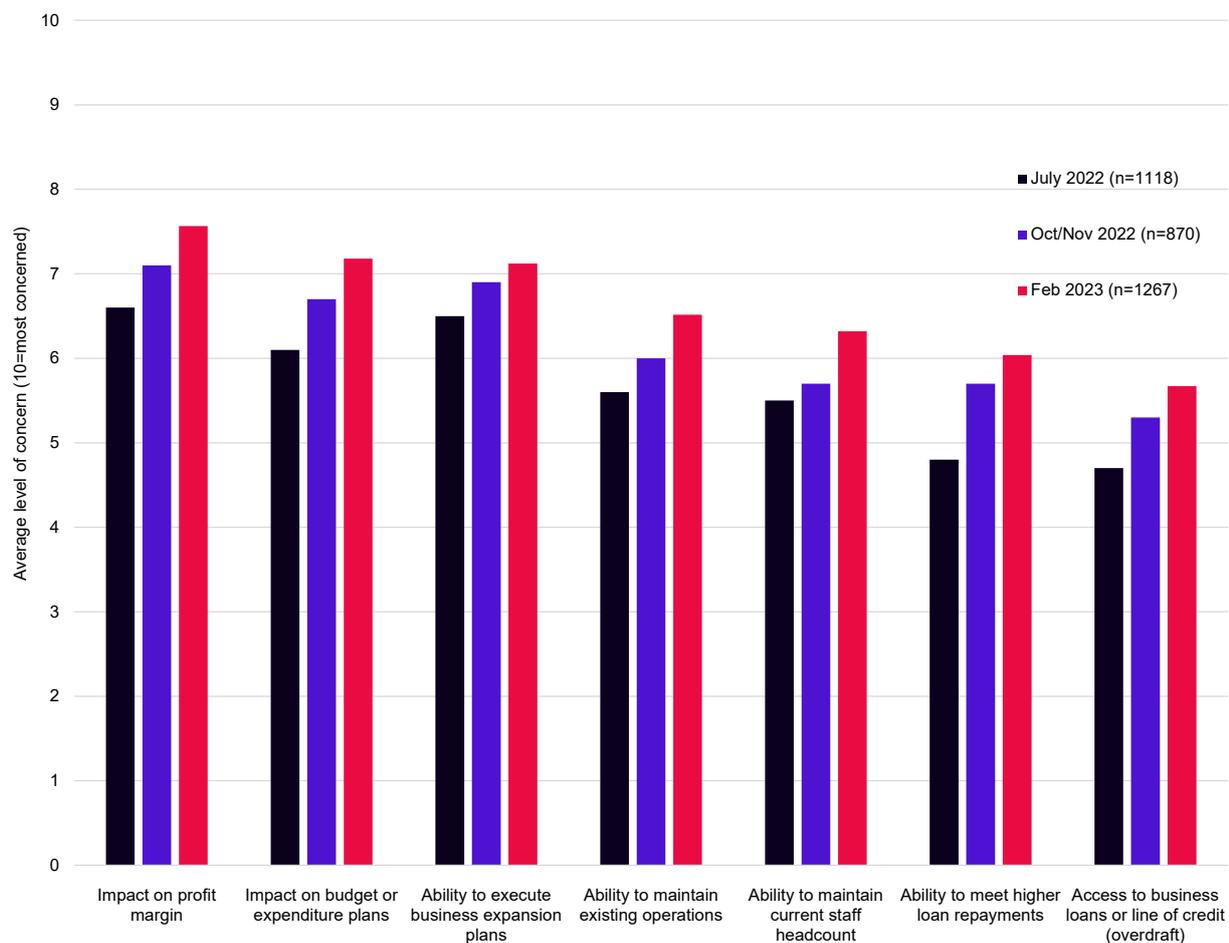


Figure 6: Concerns about the impact of rising interest rates (July 2022 - February 2023)

“Consistent interest rate rises are creating havoc... and NOT bringing calm to the economy.”

~ Construction

“At this time I have noticed a drop off on my clientele due to interest rate hikes. This is now affecting cash flow which is making it more difficult to cover the costs. Very nervous times.”

~ Retail Trade

“Whilst I do not have outstanding business loans, the increase in interest rates is affecting the speed with which clients pay me.”

~ Professional, Scientific and Technical Services

“The impact of high interest rates on the people who would normally spend more with us (is that) they are looking at cheaper or DIY options.”

~ Other Services (Personal Services / Repair Services)

“Inflation and higher interest rates are stopping people spending at my business.”

~ Arts and Recreation Services

“I need a kickstarter loan to grow this into a monster but there’s none.”

~ Accommodation and Food Services

7. Impact of rising energy costs

Concerns about the impact of rising energy costs on business have intensified across all indicators. The areas of highest concerns are profit margin, budget or expenditure plans, and the ability to execute business expansion plans.

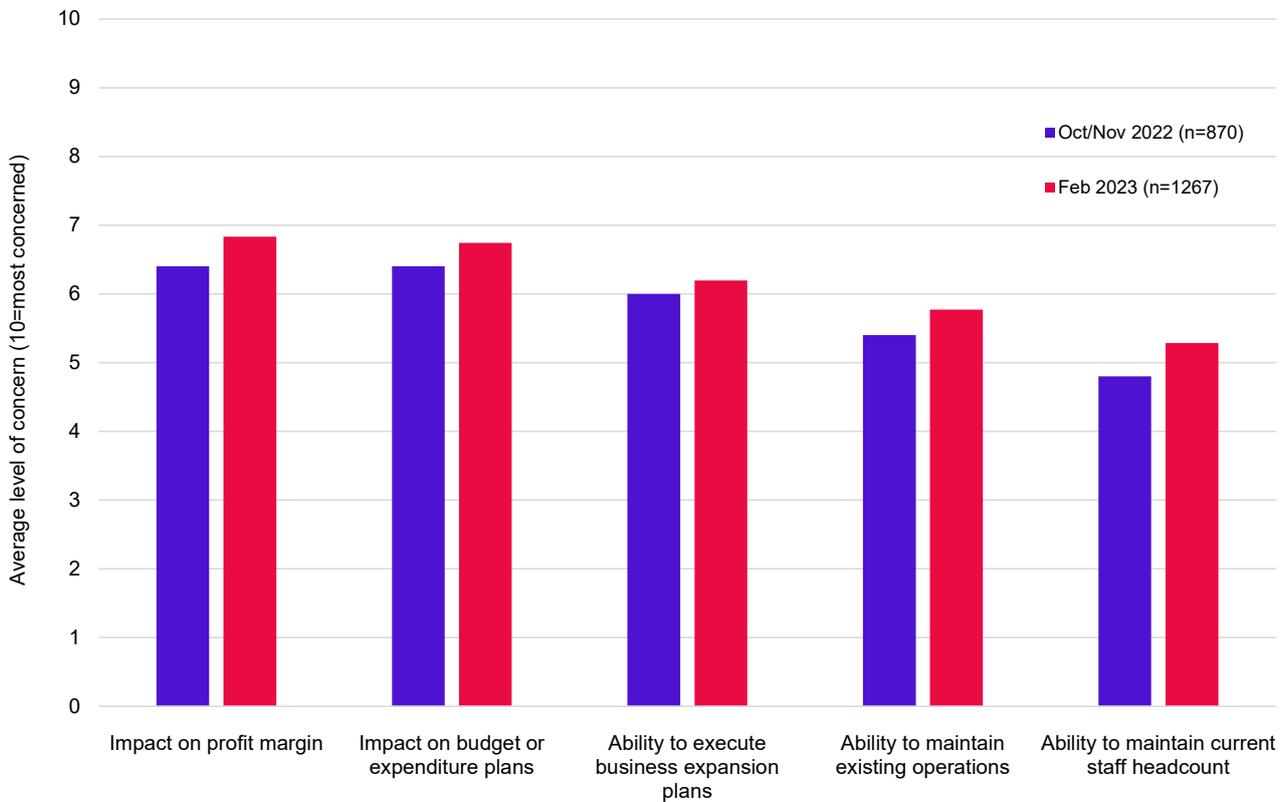


Figure 7: Concerns about rising energy costs

“It is very hard to run our business or operate with higher prices for energy and oil, and products not being available. Our operating costs have increased between 15-25%. This has an enormous impact on our profits.”

~ Accommodation and Food Services

8. Supply chain issues

Despite signs of easing global supply chain pressures, 87% of businesses in NSW continue to experience supply chain issues. Most notably:

- 72% of businesses are experiencing higher prices
- 58% of businesses are experiencing higher freight costs
- 50% of businesses are experiencing long delivery times.

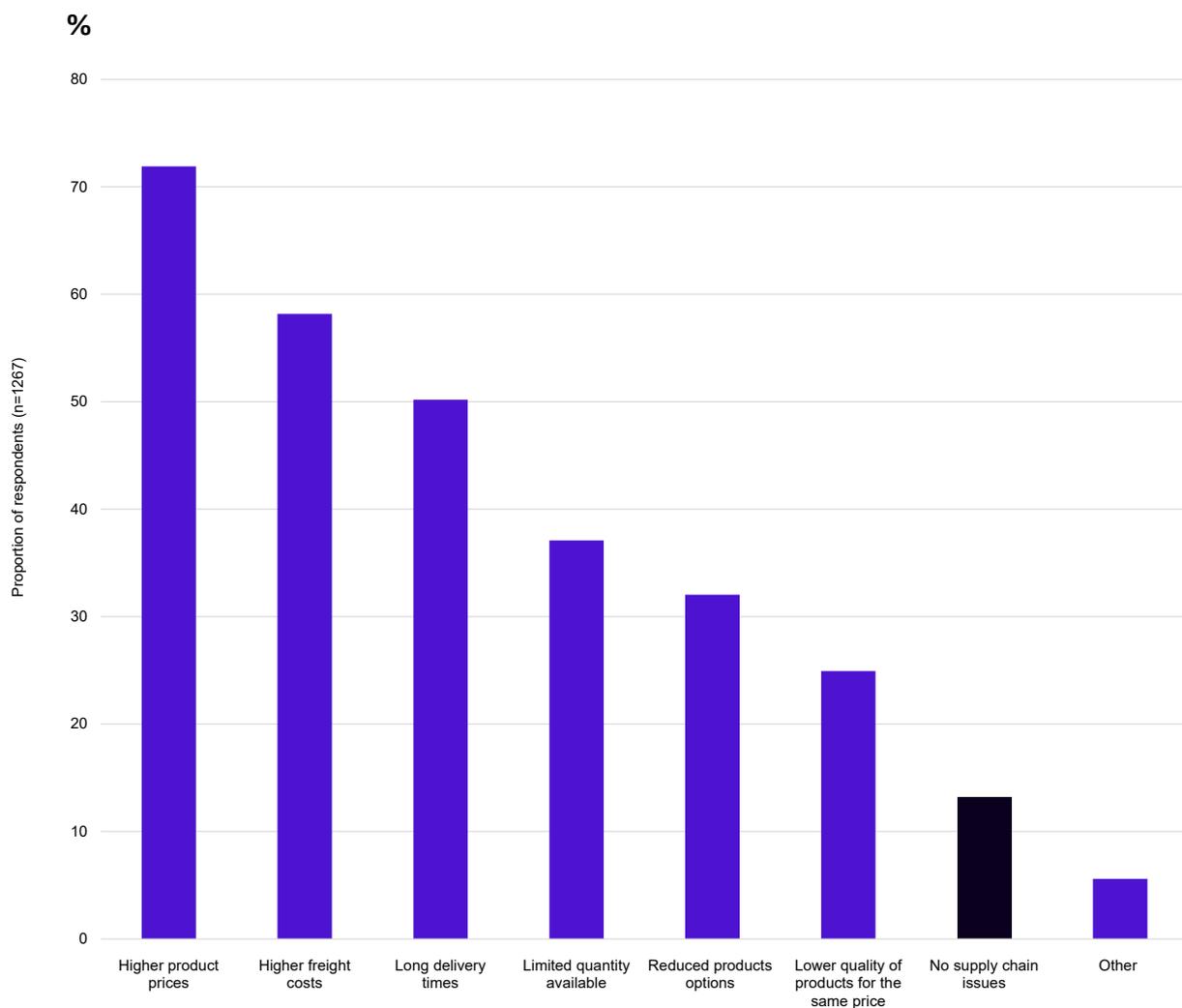


Figure 8: Supply chain issues

9. Barriers to buying local

Of the 793 respondents that use imported materials, 68% refer to a lack of local options and 31% do so as imports are cheaper. Only 18% consider imports as more suitable and 10% regard imports to be of higher quality.

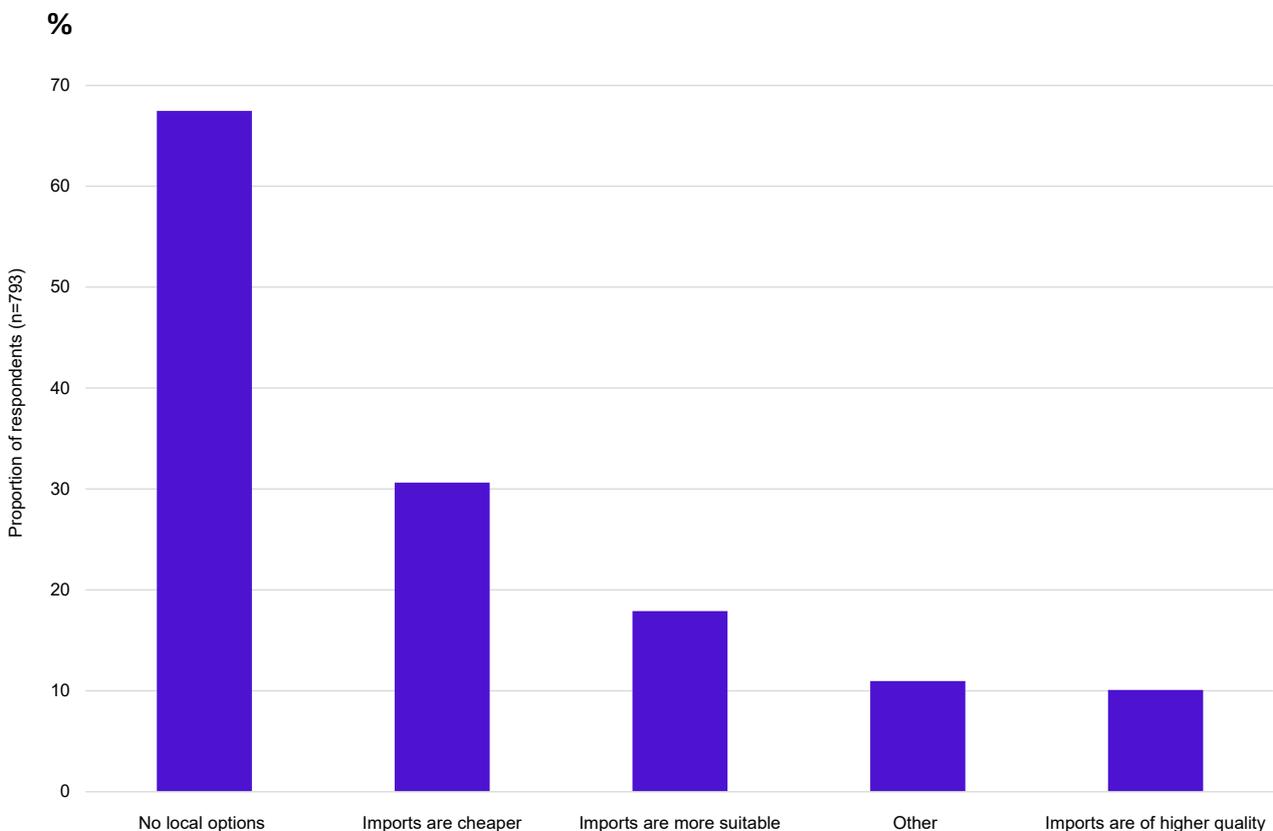


Figure 9: Barriers to buying local

“Household budgets are so tight that purchasing Australian made sustainable fashion is out of their reach. Also keeping our production here locally is becoming harder. It means our profit margin is much lower than it should be.”

~ Retail Trade

10. Barriers to winning government contracts

Of the 600 respondents that have experienced barriers to winning government contracts, the five most commonly cited barriers are:

- High cost or time involved in preparing applications (63%)
- Unlevel playing field (42%)
- Process too complicated to understand (40%)
- Difficult to compete with incumbents (34%)
- Difficult to understand selection criteria (33%).

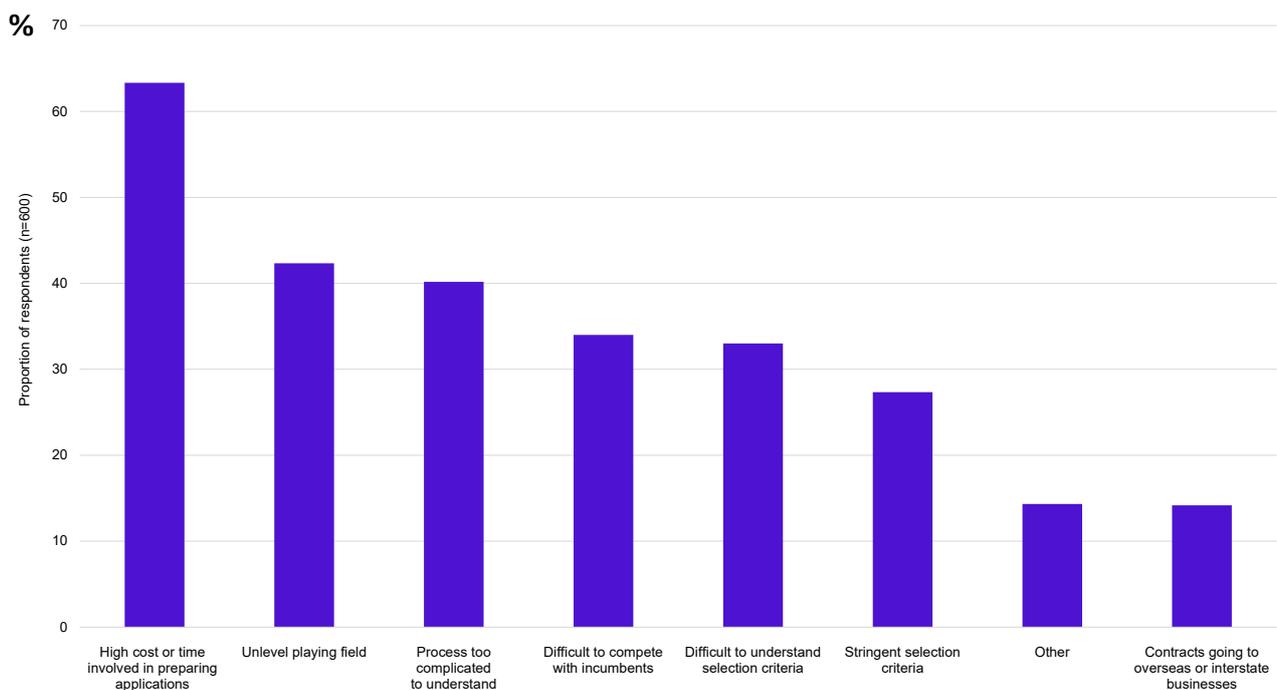
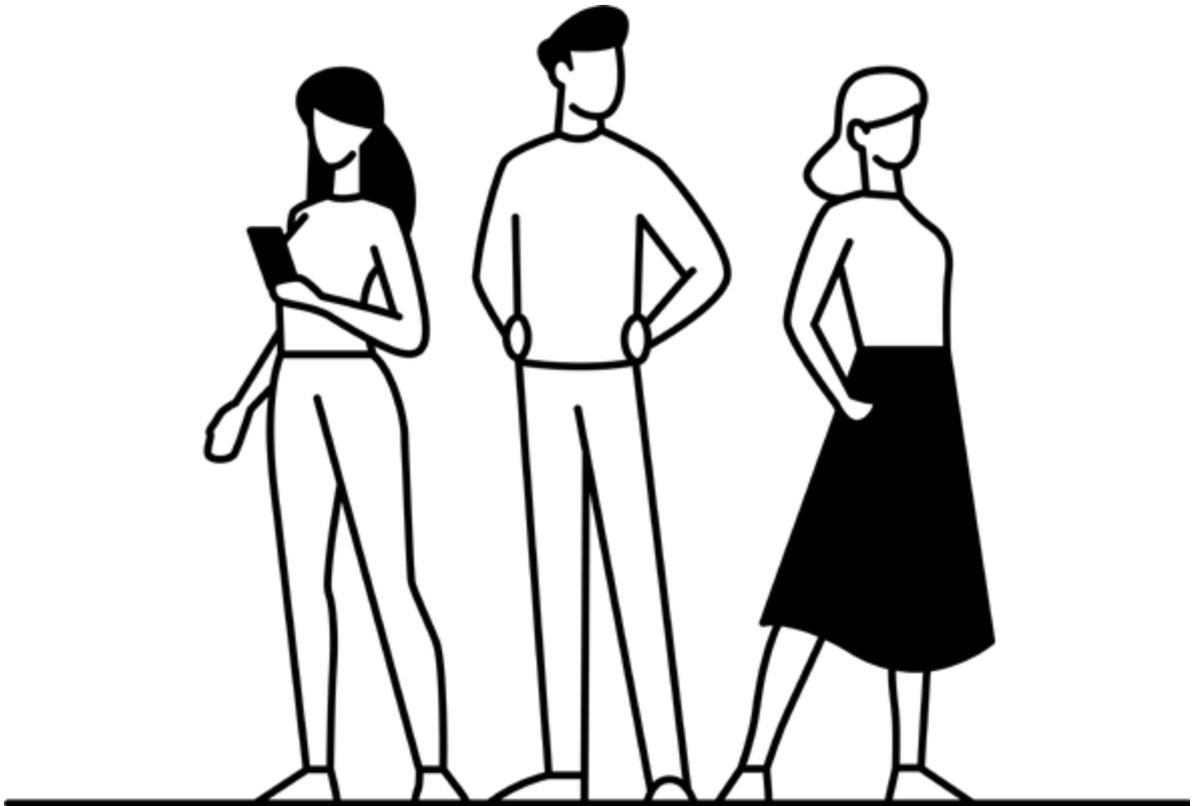


Figure 10: Barriers to winning government contracts

“Contracts going to non-local companies, and then in some instances these outside businesses are stuck and try to get us locals to assist them, at reduced rates.”

~ Construction

PART 2: NSW ELECTION SURVEY



Are politicians in NSW listening to the needs of business and taking steps to address those needs?

82%



of businesses believe politicians in NSW are not taking steps

49%



of businesses believe politicians in NSW are not listening

11. Barriers to operating at full potential

Amongst the most complained about barriers that prevent businesses from operating at their full potential, the rising cost of doing business is considered to have the greatest impact. This is followed by taxes, levies and other government charges. Non-financial issues such as workers/skills shortages and supply chain disruptions are also having a moderate level of impact on business.

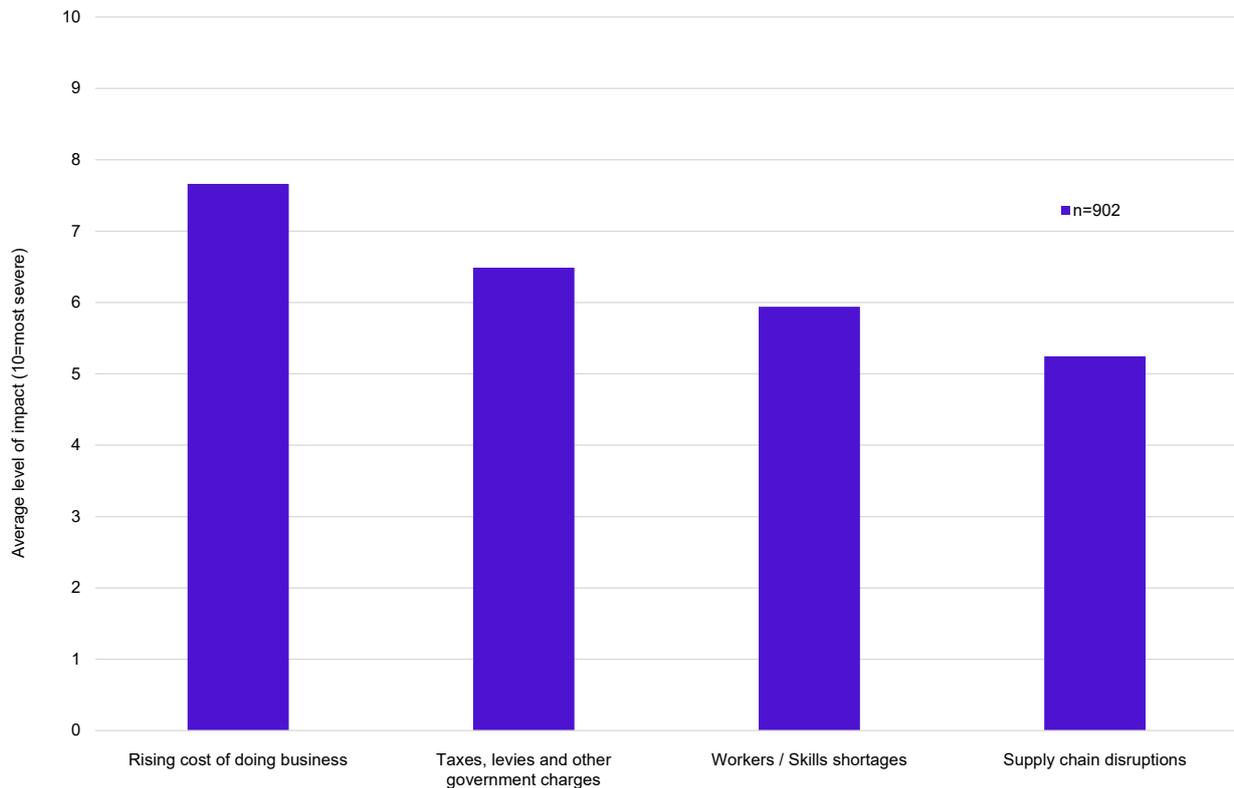


Figure 11: Barriers to operating at full potential

12. Barriers to accessing skilled workers

Many businesses continue to report workers and skills shortages. The greatest concern comes from the higher wages demanded by workers, affecting 59% of survey respondents. This is followed by housing issues, including affordability of housing in nearby areas (35%) and availability of housing in nearby areas (32%). There is also scope to improve tertiary training, as 29% of respondents consider existing training as not matching business needs.

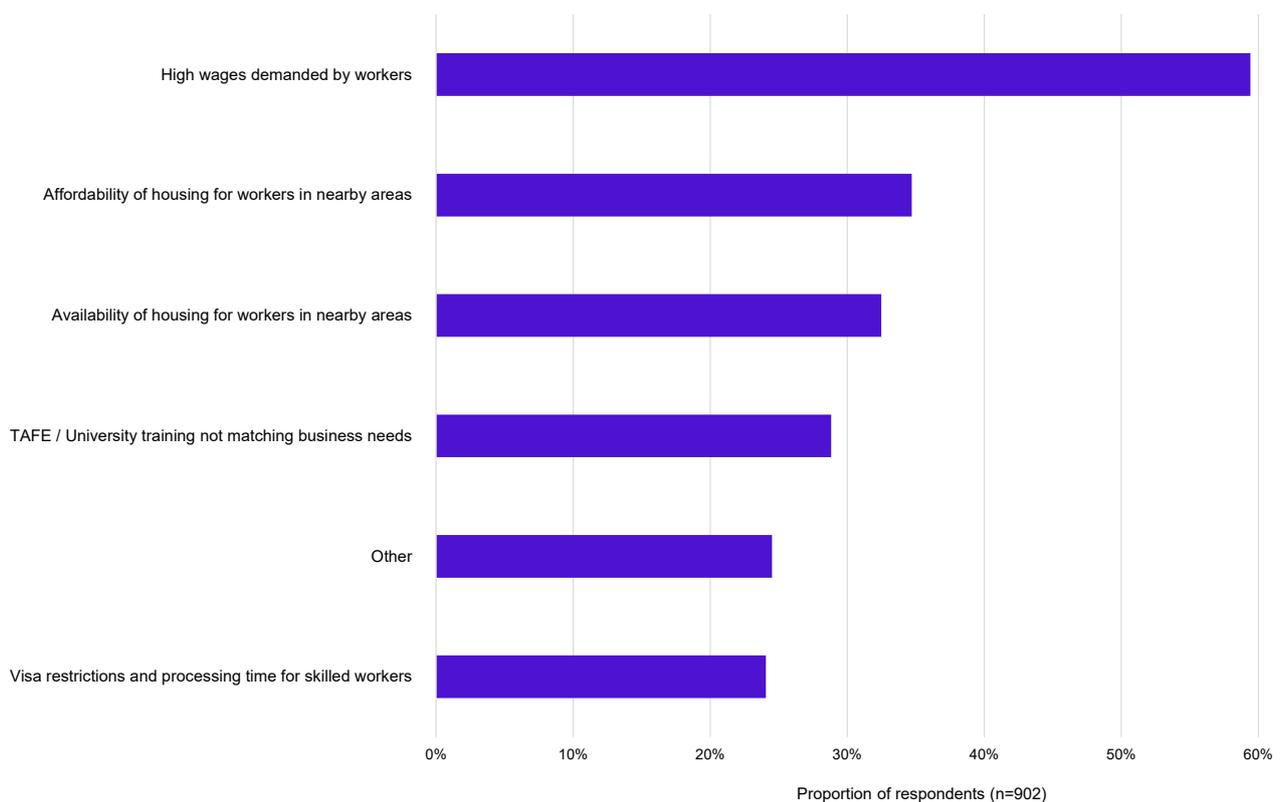


Figure 12: Barriers to accessing skilled workers

“Attracting skilled professionals to regional areas is an issue particularly when there are no accommodation rental options available within 50km of the business.”

~ Arts and Recreation Services

“The government needs to fix the housing crisis as it impacts on recruiting staff in terms of their travel time.”

~ Education and Training

“Finding the right staff is more challenging than it used to be.”

~ Health Care and Social Assistance

“Staff recruitment is extremely difficult, time-consuming and costly (not just recruitment cost, but also salary expectations of candidates are becoming unreasonable).”

~ Information, Media and Telecommunications

“Staffing issues - no onshore options. People simply aren't applying for the many jobs we have available... Bringing in offshore help sees a lot of hoops to jump through and the expense is severe. ”

~ Manufacturing

“Finding staff who are adequately trained and qualified is so difficult. Universities are failing to provide a genuine education to students.”

~ Manufacturing

13. Concerns about business costs

- #1** Energy costs
- #2** Insurance costs
- #3** Taxes, levies (& other government charges)
- #4** Wages
- #5** Supplier costs
- #6** Transport costs (including toll charges)
- #7** Rent
- #8** Loan repayments

14. Message to the next NSW Government

If the next NSW Government does nothing to improve business conditions in NSW:

- 39% of businesses will likely reduce staff
- 37% of businesses will likely increase debt
- 12% of businesses will likely move interstate or offshore
- 27% of businesses will likely close.

Only one in six respondents expects business-as-usual.

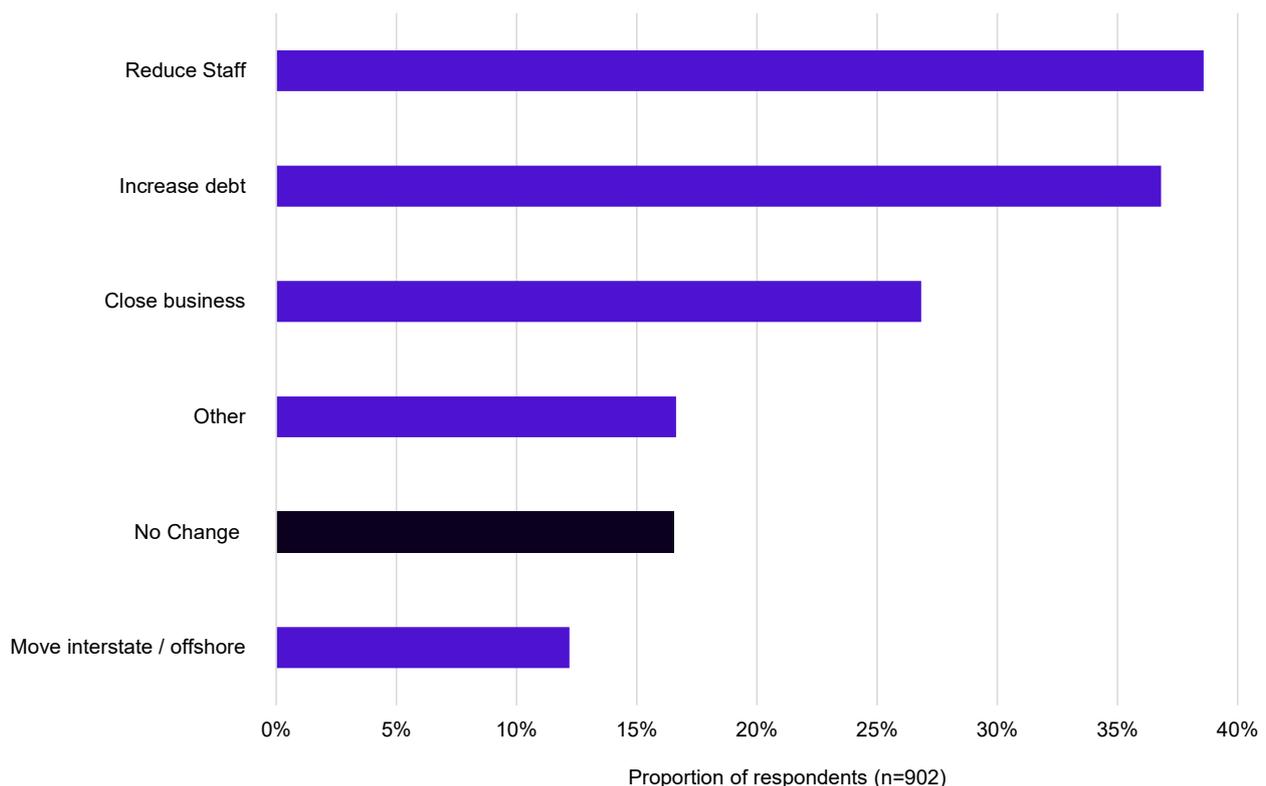


Figure 13: Likely outcomes for business if the next NSW Government does nothing





a. Businesses likely to reduce staff

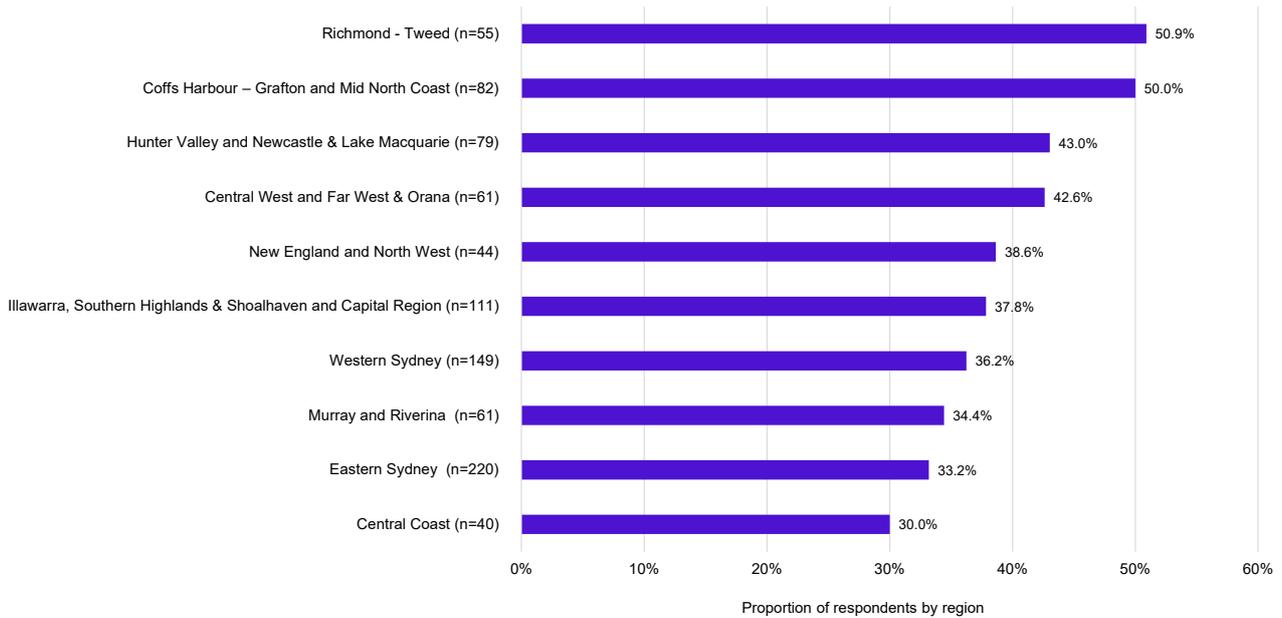


Figure 14: Businesses likely to reduce staff (by region)

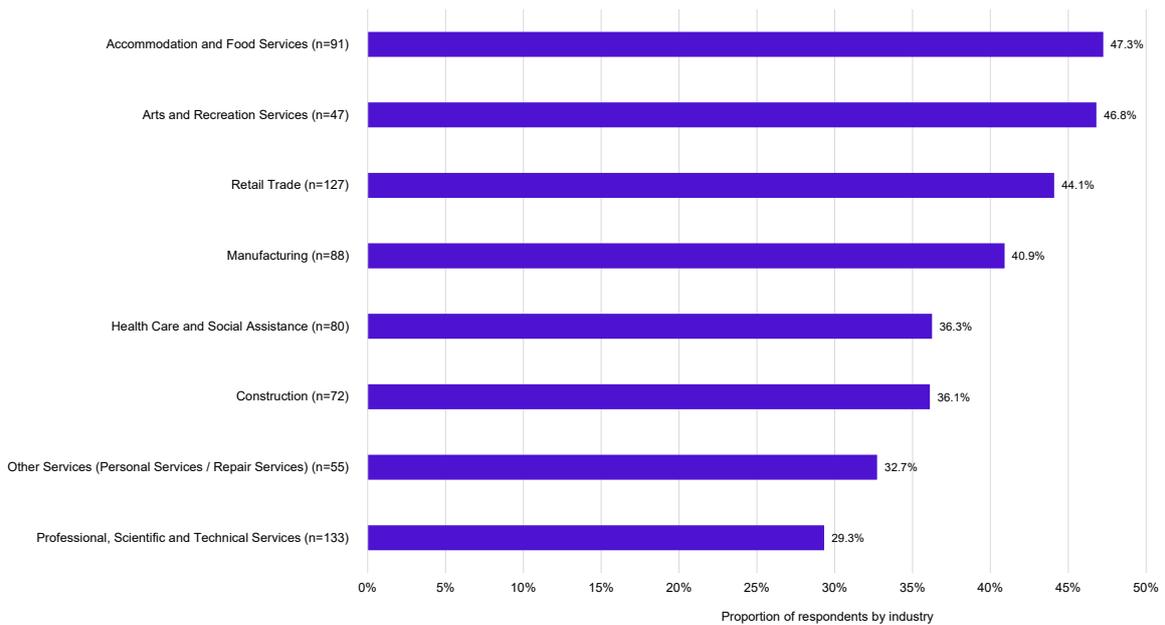


Figure 15: Businesses likely to reduce staff (by industry)

b. Businesses likely to increase debt

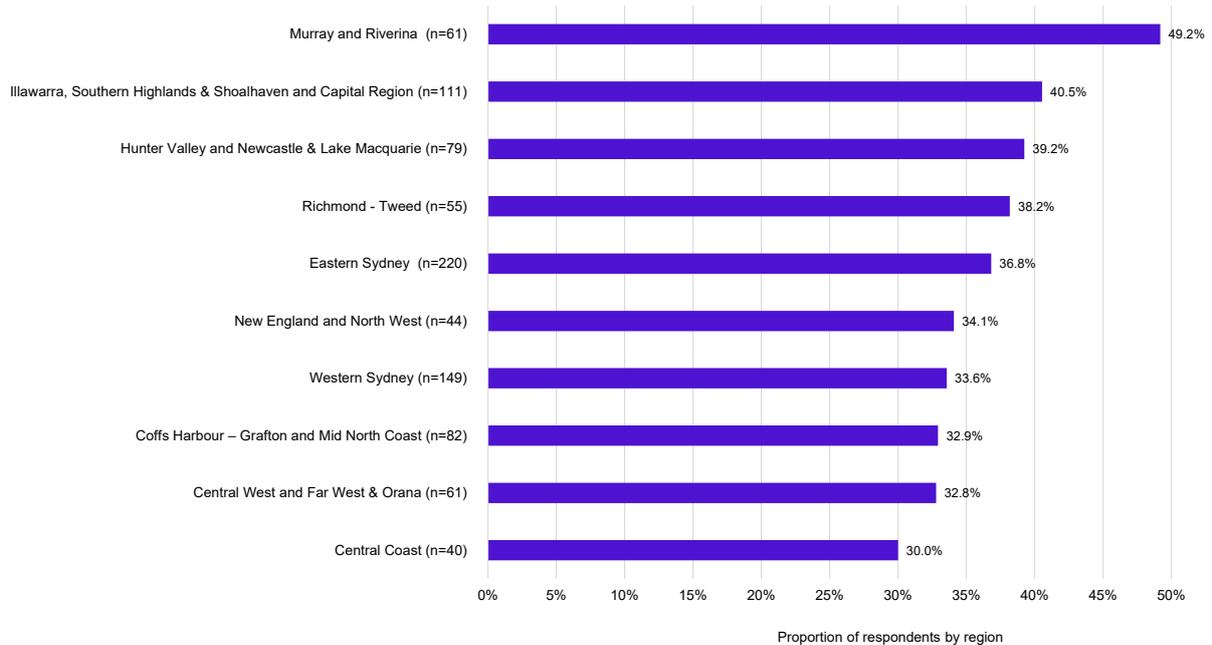


Figure 16: Businesses likely to increase debt (by region)

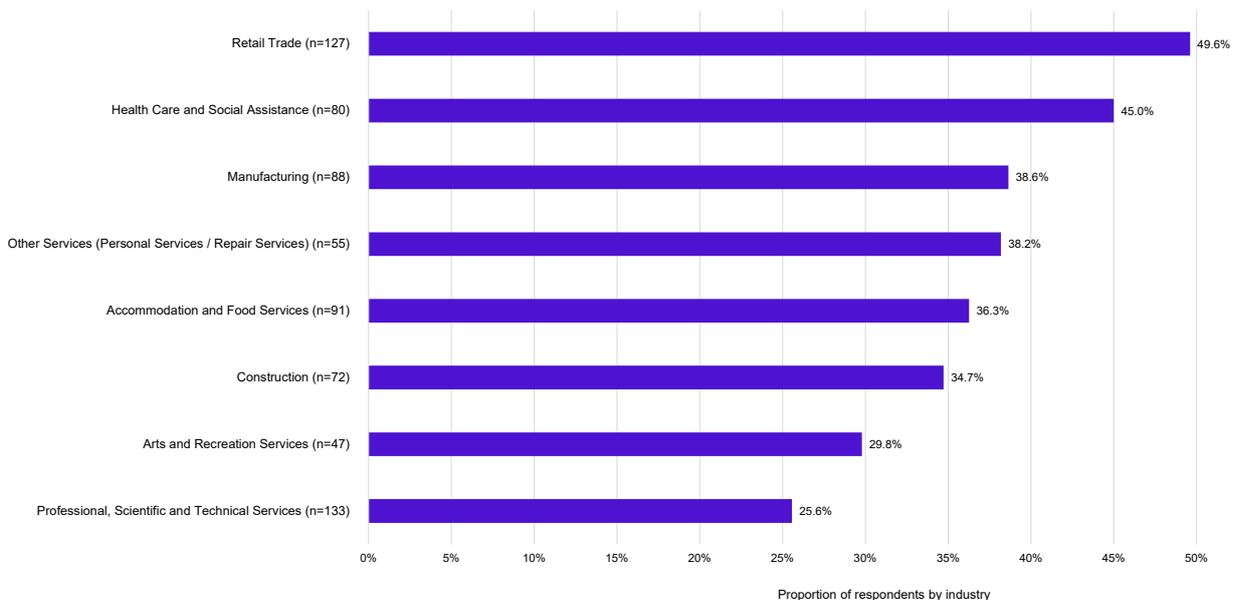


Figure 17: Businesses likely to increase debt (by industry)

c. Businesses likely to move interstate or offshore

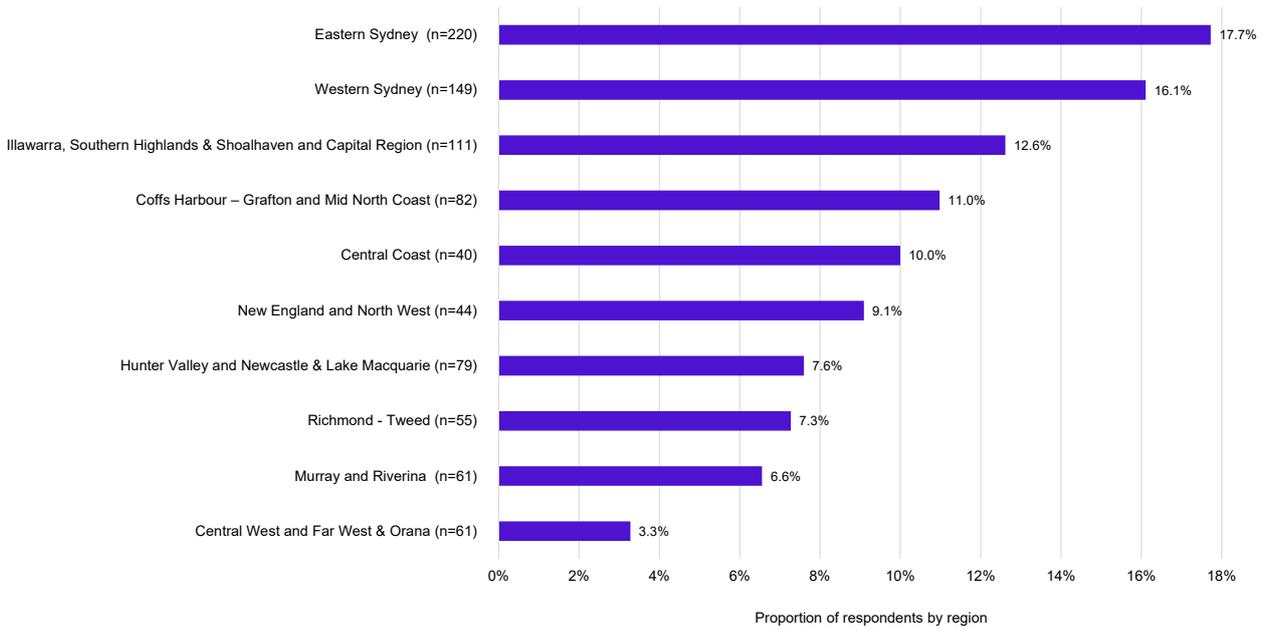


Figure 18: Businesses likely to relocate (by region)

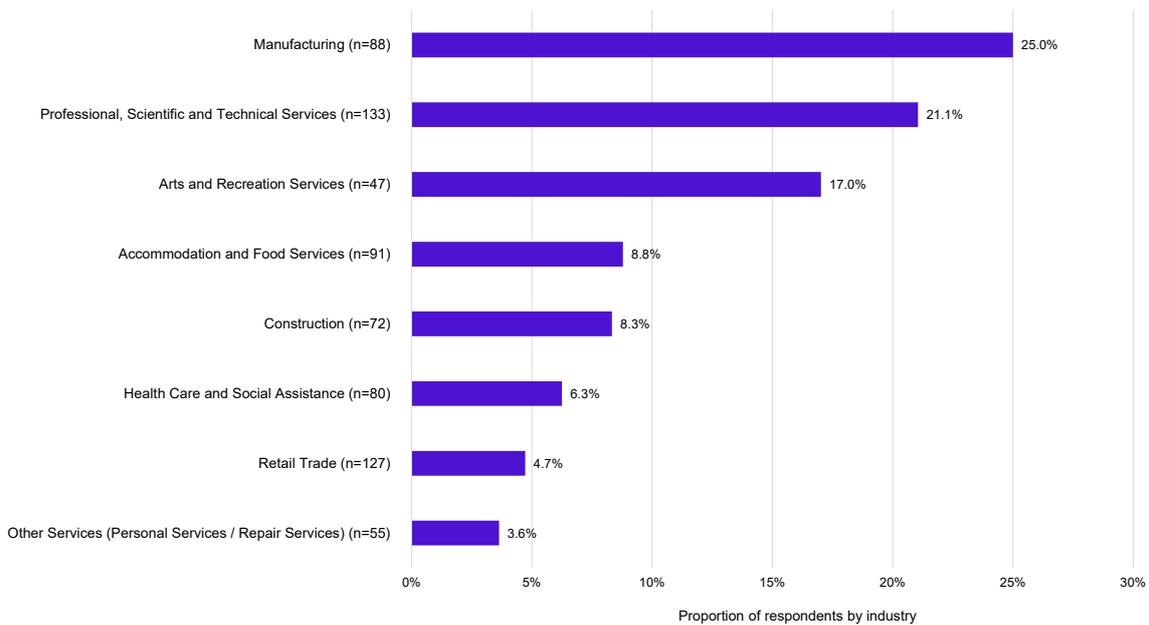


Figure 19: Businesses likely to relocate (by industry)

d. Businesses likely to close

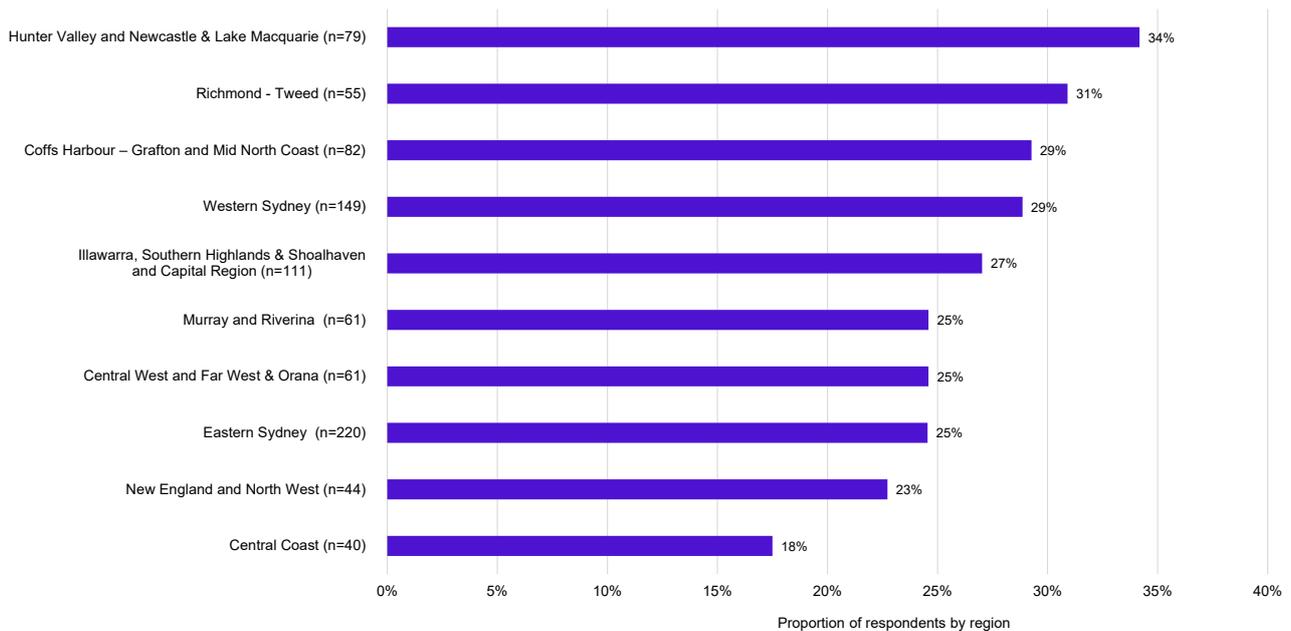


Figure 20: Businesses likely to close (by region)

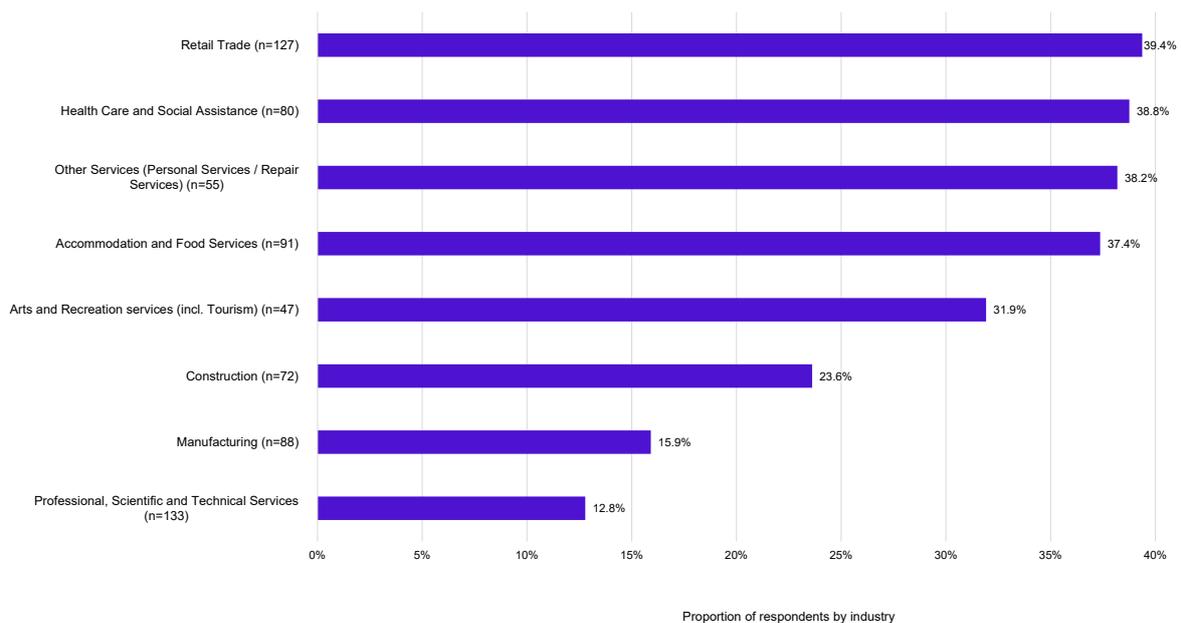
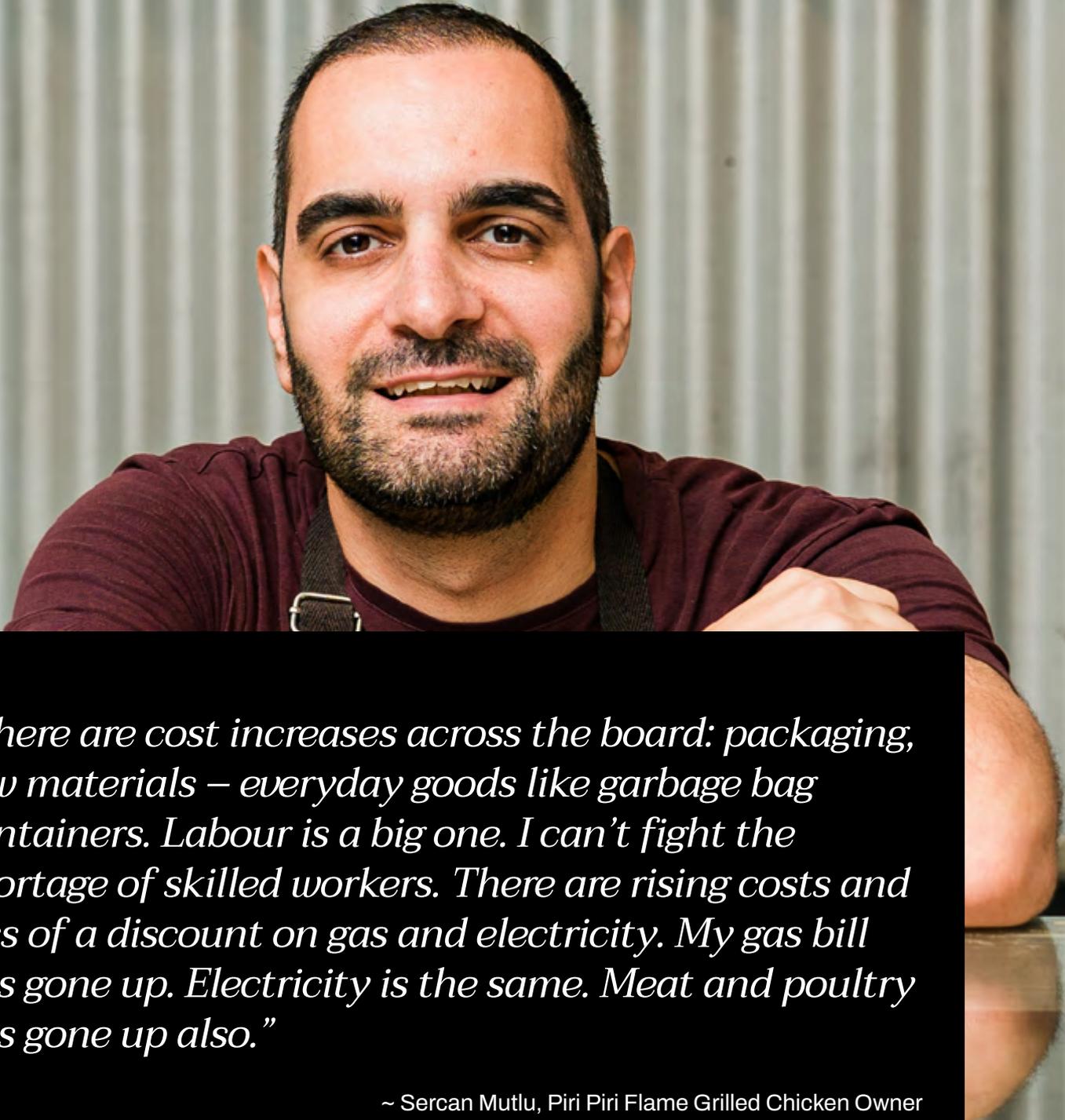


Figure 21: Businesses likely to close (by industry)



“There are cost increases across the board: packaging, raw materials – everyday goods like garbage bag containers. Labour is a big one. I can’t fight the shortage of skilled workers. There are rising costs and less of a discount on gas and electricity. My gas bill has gone up. Electricity is the same. Meat and poultry has gone up also.”

~ Sercan Mutlu, Piri Piri Flame Grilled Chicken Owner
Picture: Noel Bare



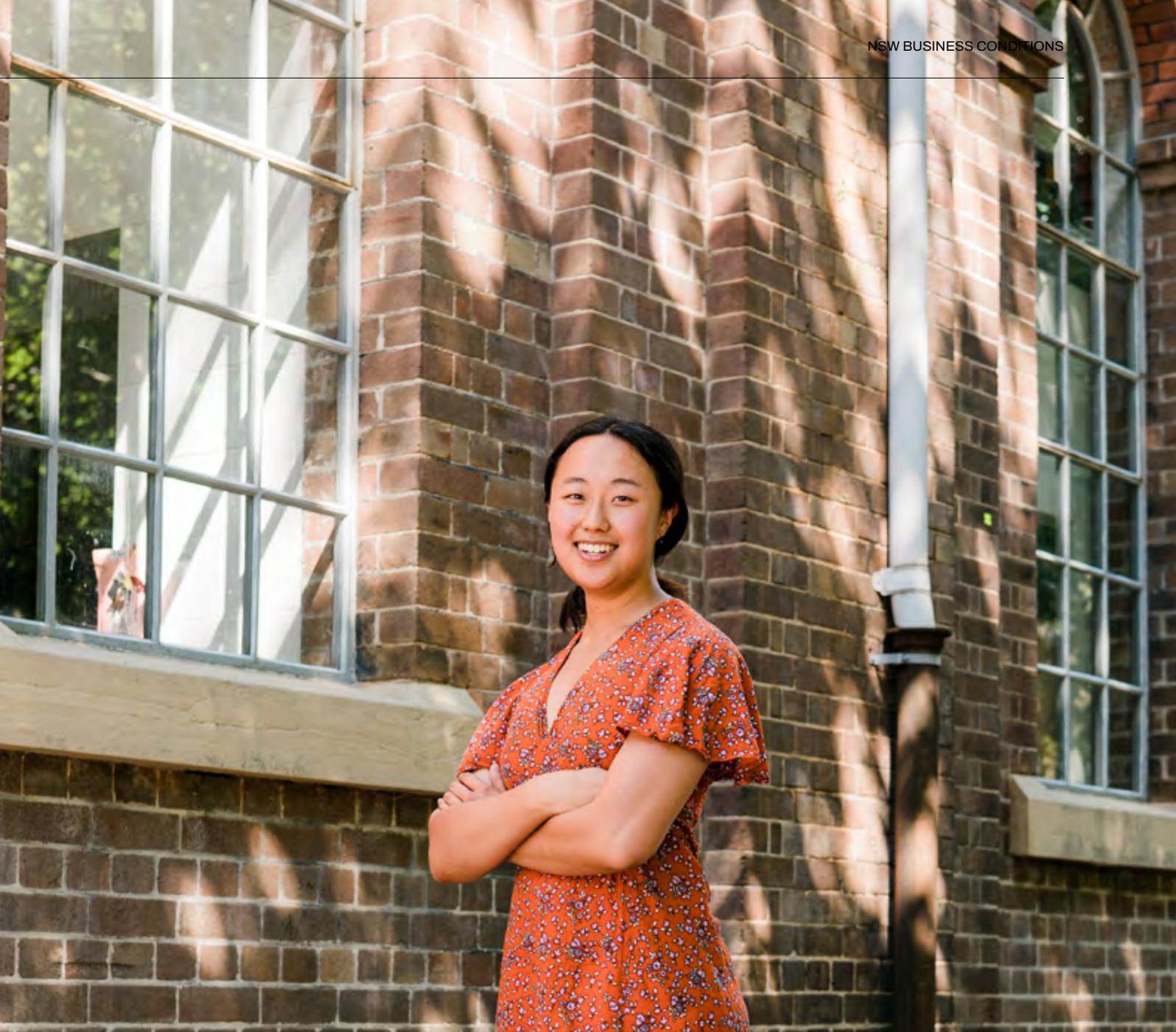
“Start-ups and scale-ups have a hard time tapping into capital because of the risk-averse culture that Australia has. Increasing the amount of funding, particularly at an early stage, will help start-ups to get off the ground that previously wouldn’t have seen the light of day. I would hope that that drive from a government and policy level would help to drive venture capitalists to actually start investing more, I guess, fruitfully in early-stage start-ups as opposed to trying to capture start-ups in their later stages.”

~ Lambros Photios, Adaca Founder
Picture: Noel Bare



“The one thing that really affected me is payroll tax. First of all, that’s one of my biggest expenses for my week in terms of doing events, because with the events we have, we need a lot of labour to make things happen. If I start employing more people, the more tax I’m paying on my employees. It is then much harder for me to meet my requirements for payroll tax.”

~ Russell Radcliffe, Braz Char Co Founder
Picture: Noel Bare



“Trying to find a fit-for-purpose manufacturing space for us, and more specifically, a food-approved manufacturing space would be helpful. Sydney, unfortunately, is very low in those types of facilities, which may result in having to move to even other states potentially.”

~ Sarah Qian, Compassion Creamery Founder
Picture: Noel Bare



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