

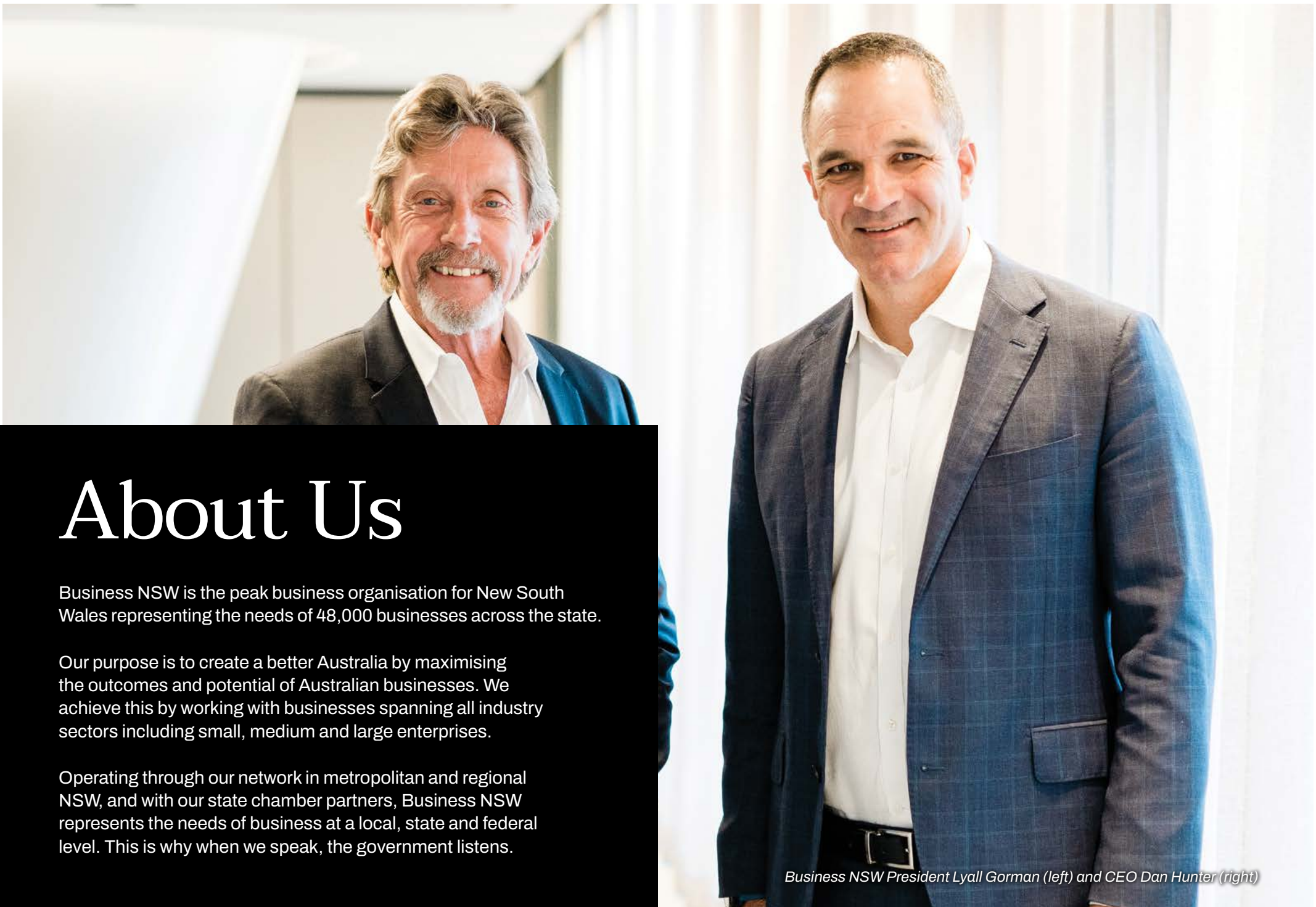
A vibrant, high-angle photograph of a busy city street, likely in Sydney, Australia. The street is lined with tall, leafy trees that create a canopy of green. Pedestrians are walking in both directions, some in motion, creating a sense of activity. On the left, there are historic-style buildings with ornate facades and arched windows. On the right, modern glass-fronted buildings are visible. A red and white sign for 'Tel' is partially visible on the right. The overall atmosphere is bright and lively.

**BUSINESS
NSW**

NSW BUSINESS CONDITIONS

Festive season challenges for business

December 2023



About Us

Business NSW is the peak business organisation for New South Wales representing the needs of 48,000 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. This is why when we speak, the government listens.

Business NSW President Lyall Gorman (left) and CEO Dan Hunter (right)

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Executive Summary

Businesses have been battling the same suite of economic challenges all year. Persistent business concerns include the rising cost of doing business, worker and skills shortages, the unfolding impact of higher interest rates and weakening customer demand. Although some macroeconomic indicators have pointed to resilience in some segments of the economy, business confidence in general has been subdued amid an uncertain economic outlook – which has been further clouded by the recent conflict in the Middle East. Official forecasts by the NSW Government and Reserve Bank of Australia (RBA) suggest sluggish economic activity will continue in 2024.

The latest quarterly Business Conditions Survey was conducted from 29 October to 13 November and received a total of 845 responses, covering all key industries and regions in NSW.

Note: The RBA announced a 25-basis point increase to the cash rate on 7 November, the 13th rate hike in the latest monetary tightening cycle. The key differences in survey findings before and after the rate hike are highlighted in the report.

Key findings

- 01 The headline Business Confidence Index has improved to -57.6 in the last quarter of 2023, the highest reading in three quarters. The cohort that completed the survey after the RBA rate hike had a confidence level of -66.2, notably lower than the confidence level of -52.1 for those who submitted their survey responses before the rate hike.
- 02 Christmas trading is expected to fall on average 11% this year compared to last year. Businesses in two regions (Hunter Valley and Far West and Orana) are anticipating a decline in excess of 20%.
- 03 Interest rate concerns have intensified, especially following the latest RBA rate hike. Businesses remain most concerned about customer demand.
- 04 Insurance and energy are again the top two business cost concerns, followed by taxes, levies and other government charges.
- 05 71% of businesses have sought information and advice on how to manage energy costs or energy use. Businesses are most interested in energy provider comparison services, deals and offers.
- 06 The cost of doing business is the largest barrier to achieving higher profit growth and business expansion.
- 07 For businesses that have invested in lifting productivity, the most common approach is staff training, followed by machinery and equipment and IT programs.
- 08 Across NSW, most businesses (63%) intend to maintain the same staff headcount for the next 3 months. However, there are regional variations. In the Far West & Orana, 43% plan to cut staff.



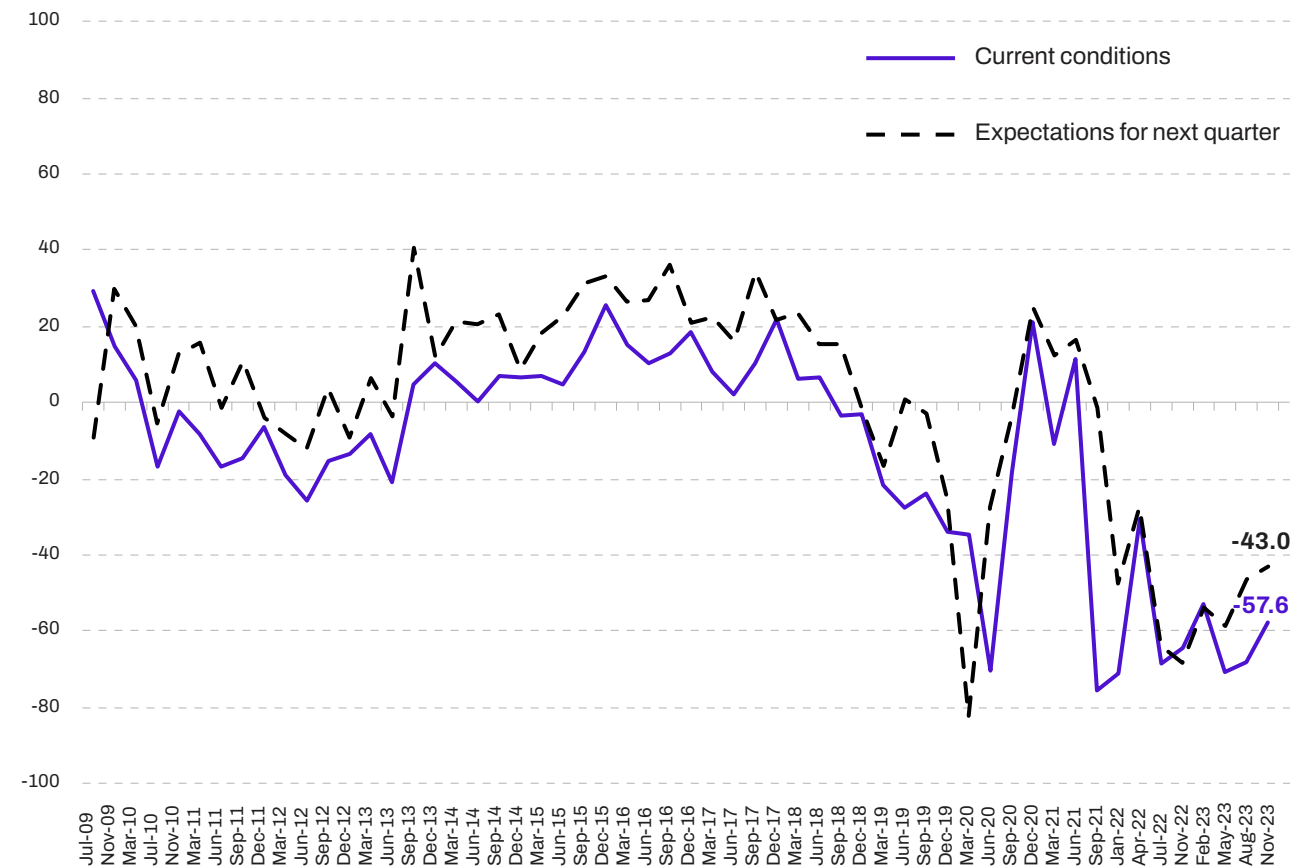
1. Business Confidence

The Business Confidence Index has risen for the second straight quarter, despite staying deep in negative territory with a reading of -57.6. The latest interest rate hike announced by the Reserve Bank of Australia on 7 November had an immediate hit on business confidence.

Detailed analysis shows the cohort that completed the survey after the RBA rate hike had a confidence level of -66.2, compared to -52.1 for those who submitted their survey responses before the rate hike.

Looking ahead to the opening quarter of 2024, the business confidence reading is at -43, the highest in six quarters.

Figure 1: Business Confidence Index



Regional Snapshot

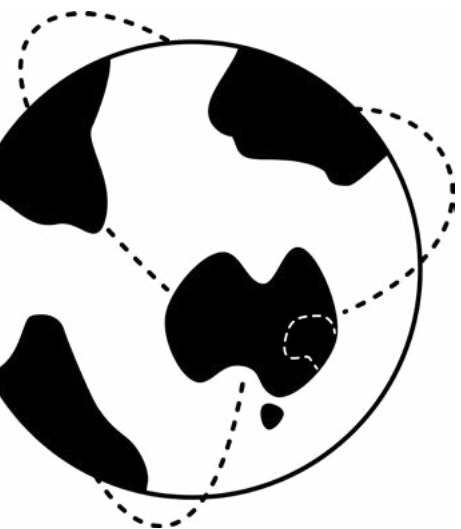


Figure 2: Business confidence by region

	Business Confidence Index		
	Last Quarter (2023 Q3)	Current Quarter (2023 Q4)	Next Quarter (2024 Q1)
NSW	-68.2 (n=1002)	-57.6 (n=845)	-43.0 (n=845)
Regions expecting economic trajectory to improve			
Capital Region	-76.4 (n=55)	-68.6 (n=35)	-40.0 (n=35)
Central Coast	-64.6 (n=48)	-66.0 (n=53)	-43.4 (n=53)
Central West	-75.9 (n=54)	-58.1 (n=43)	-55.8 (n=43)
Eastern Sydney	-63.9 (n=241)	-55.6 (n=248)	-35.9 (n=248)
Far West & Orana	-68.8 (n=16)	-71.4 (n=14)	-50.0 (n=14)
Hunter Valley	-71.4 (n=63)	-69.8 (n=43)	-46.5 (n=43)
Illawarra	-67.3 (n=49)	-50.0 (n=44)	-43.2 (n=44)
Mid North Coast	-73.9 (n=69)	-64.7 (n=34)	-50.0 (n=34)
Murray	-51.4 (n=35)	-57.1 (n=28)	-39.3 (n=28)
New England & North West	-82.0 (n=50)	-62.5 (n=40)	-57.5 (n=40)
Richmond - Tweed	-72.3 (n=65)	-52.0 (n=50)	-48.0 (n=50)
Riverina	-59.5 (n=37)	-61.3 (n=31)	-45.2 (n=31)
Southern Highlands & Shoalhaven	-82.4 (n=34)	-71.4 (n=28)	-50.0 (n=28)
Western Sydney	-62.9 (n=116)	-54.8 (n=93)	-36.6 (n=93)
Regions expecting a deterioration			
Coffs Harbour - Grafton	-66.7 (n=24)	-23.5 (n=17)	-52.9 (n=17)
Newcastle & Lake Macquarie	-65.2 (n=46)	-46.5 (n=43)	-48.8 (n=43)

Industry Snapshot

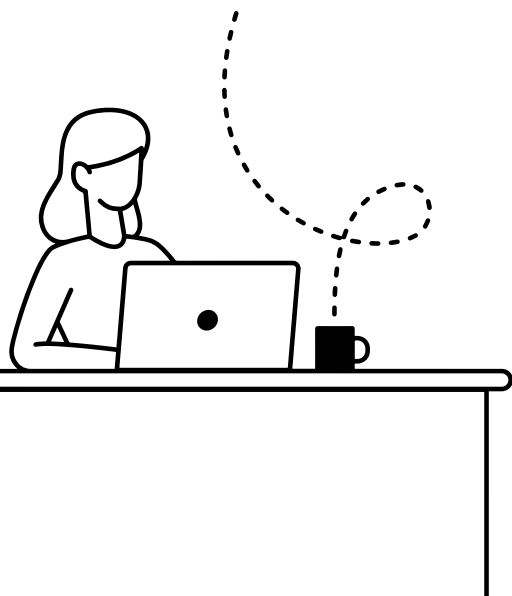


Figure 3: Business confidence by industry

	Business Confidence Index		
	Last Quarter (2023 Q3)	Current Quarter (2023 Q4)	Next Quarter (2024 Q1)
NSW	-68.2 (n=1002)	-57.6 (n=845)	-43.0 (n=845)
Industries expecting economic trajectory to improve			
Accommodation and Food Services	-80.1 (n=136)	-57.1 (n=98)	-44.9 (n=98)
Administrative and Support Services	-57.9 (n=19)	-73.3 (n=15)	-46.7 (n=15)
Agriculture, Forestry and Fishing	-62.8 (n=43)	-78.6 (n=28)	-42.9 (n=28)
Arts and Recreation Services	-77.5 (n=40)	-36.6 (n=41)	-31.7 (n=41)
Education and Training	-48.6 (n=37)	-43.8 (n=48)	-20.8 (n=48)
Electricity, Gas, Water and Waste Services	-27.3 (n=11)	-40.0 (n=10)	-10.0 (n=10)
Financial and Insurance Services	-57.1 (n=21)	-52.2 (n=23)	-39.1 (n=23)
Health Care and Social Assistance	-69.6 (n=56)	-42.6 (n=47)	-34.0 (n=47)
Information Media and Telecommunications	-70.8 (n=24)	-37.5 (n=24)	-12.5 (n=24)
Other Services	-80.5 (n=77)	-63.5 (n=52)	-32.7 (n=52)
Professional, Scientific and Technical Services	-62.4 (n=109)	-61.9 (n=97)	-47.4 (n=97)
Rental, Hiring and Real Estate Services	-79.3 (n=29)	-56.5 (n=23)	-52.2 (n=23)
Retail Trade	-73.6 (n=174)	-70.6 (n=136)	-48.5 (n=136)
Transport, Postal and Warehousing	-36.4 (n=11)	-88.9 (n=18)	-16.7 (n=18)
Wholesale Trade	-60.7 (n=28)	-69.2 (n=26)	-46.2 (n=26)
Industries expecting no change			
Public Administration and Safety	0.0 (n=1)	-66.7 (n=3)	-66.7 (n=3)
Industries expecting a deterioration			
Construction	-66.7 (n=99)	-53.9 (n=76)	-63.2 (n=76)
Manufacturing	-57.1 (n=84)	-48.7 (n=78)	-52.6 (n=78)
Mining	0.0 (n=3)	0.0 (n=2)	-50.0 (n=2)



Interest rates have had a major impact on discretionary spending. Our December and January bookings are at less than 20% of last year, worse even than through COVID."

Accommodation & Food Services, Far West & Orana



Customers are scared to buy due to high interest rates. We've been holding out reducing staff numbers for things to improve, but we're reaching a point that we're going to have to lay off staff."

Accommodation & Food Services,
Southern Highlands & Shoalhaven



The cost of everything is going up whilst consumer demand and their ability to pay for 'luxuries' such as dining out is diminishing. Patronage is increasingly quiet and that is the feedback we've received from other business owners as well."

Accommodation & Food Services, Central West



Being based in a tourist town, the cost of accommodation for tourists has risen sharply - resulting in less tourists coming to our area and less expendable funds that tourists have to spend when they do come."

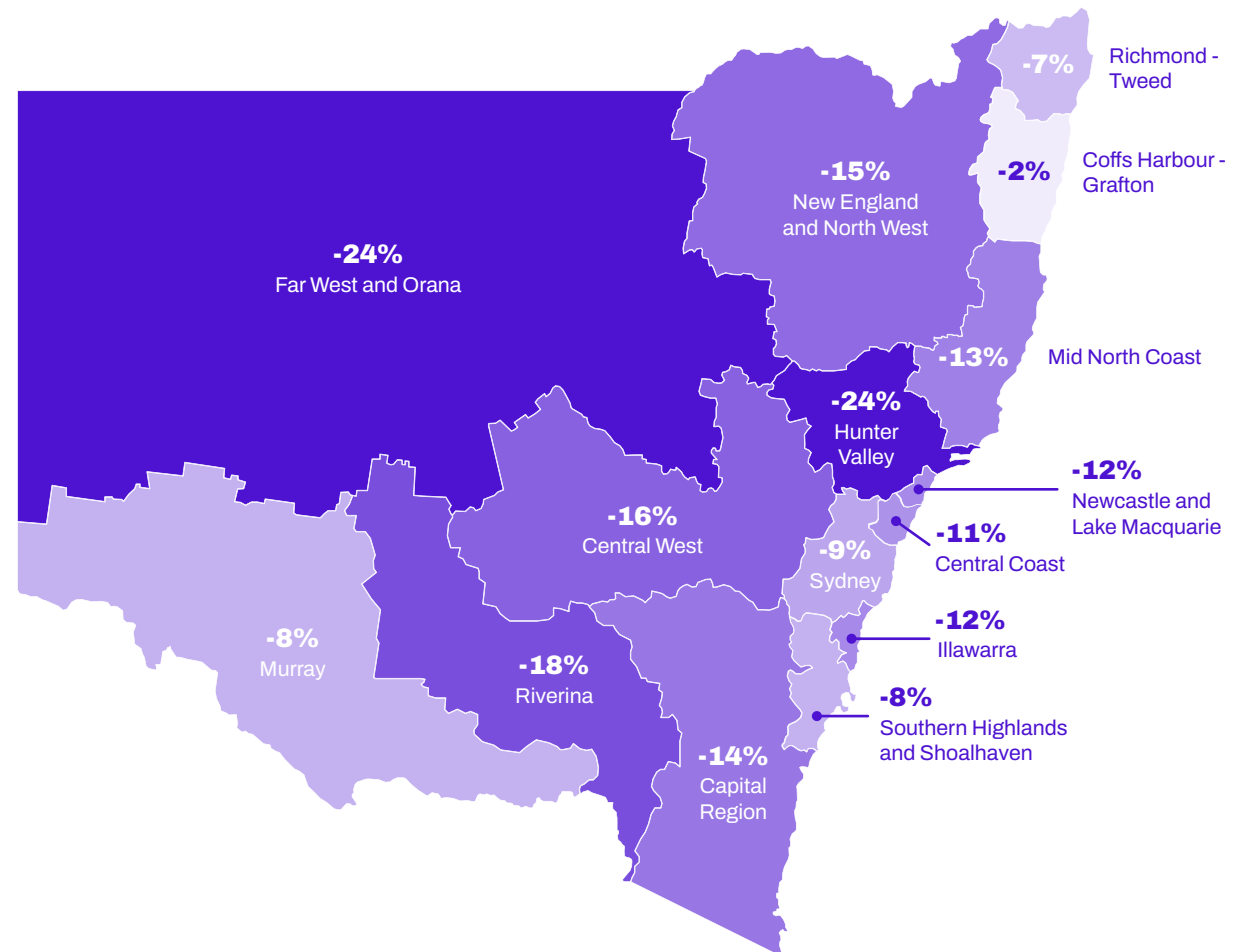
Retail Trade, Capital Region

2. Christmas Trading Expectations

On average, businesses across NSW expect Christmas trading to drop 11% from a year ago.

Expectations vary across regions, with Far West and Orana and Hunter Valley being the most pessimistic. While some businesses anticipate an increase in trade this year, no region on average is expecting an increase.

Figure 4: Expected change in Christmas trading by region

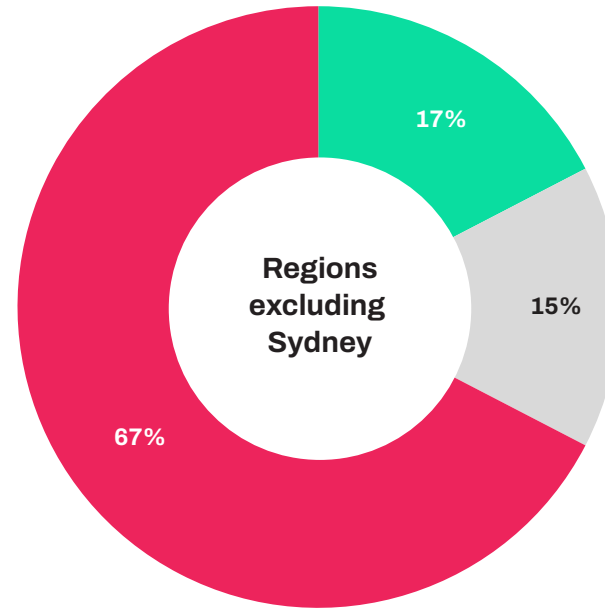


Three industries that count heavily on Christmas trade are:

- Accommodation & Food Services
- Retail Trade
- Arts and Recreation Services.

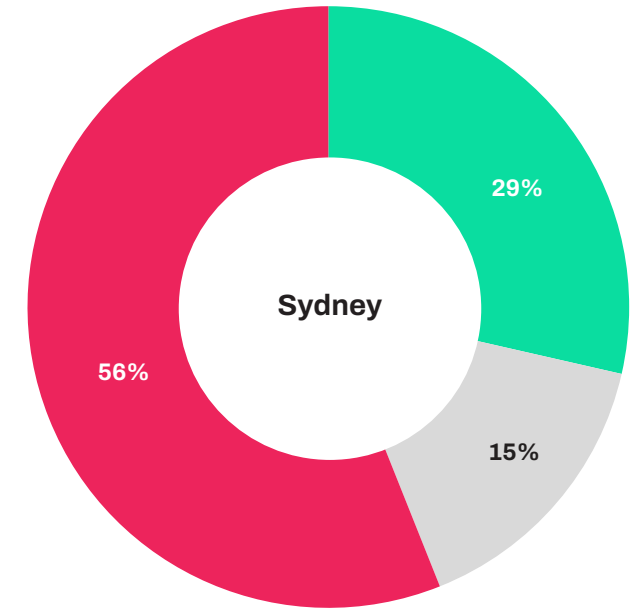
Within these three industries, businesses operating in Sydney on average are expecting a 4% downturn from a year ago while their regional counterparts are expecting a sharper decline of 13% on average.

Figure 5: Expected Christmas trading in the regions (Accommodation & Food Services, Retail Trade, and Arts and Recreation Services)



- Increase
- Same
- Decrease

Figure 6: Expected Christmas trading in Sydney (Accommodation & Food Services, Retail Trade, and Arts and Recreation Services)



- Increase
- Same
- Decrease

The total for the expected Christmas trading in regions does not add up to 100% due to rounding

3. Impact of Rising Interest Rates

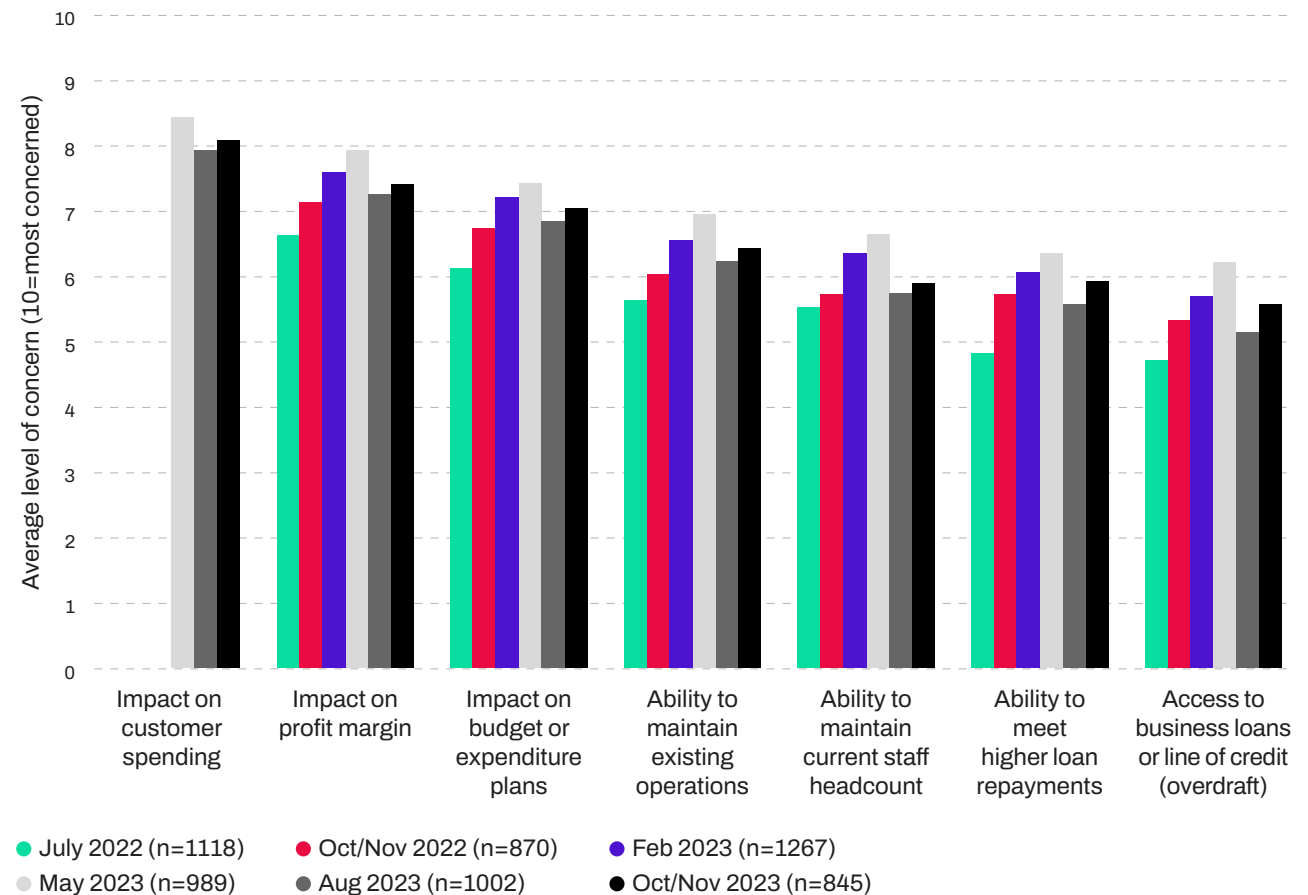
The Reserve Bank of Australia commenced its latest monetary tightening cycle in May 2022. Following the 13th rate hike in November 2023, the cash rate target is now 4.25 percentage points higher. Interest rate fears have returned. Businesses are most concerned about the impact on customer spending and profit margin.



The continued threat of interest rate hikes has scared off many other businesses from purchasing.. I worry about being able to make a profit at all in the future.”

Manufacturing, Western Sydney

Figure 5: Concerns about the impact of rising interest rates (July 2022 – August 2023)



“

Interest rates are crippling lower to medium income earners, and these are the people that primarily buy from small local business in rural towns. Small business owners usually have mortgages so are being squeezed at both ends.”

Retail Trade, Coffs Harbour – Grafton

















“

The interest rate rises have had a direct impact on our Business-to-Consumer revenue. The effect is instantaneous after an interest rate rise and has a negative impact on our revenue and cash flow. Further interest rate rises will most likely result in staff decreases and restructuring of the business.”

Construction, Eastern Sydney

4. Concerns About Business Cost

Figure 8: Business Cost Concerns Ranking

	Jan 2023	Oct/Nov 2023
1 st	 Energy costs	 Insurance costs ↑
2 nd	 Insurance costs	 Energy Costs ↓
3 rd	 Taxes, levies and other government charges	 Taxes, levies and other government charges
4 th	 Wages	 Wages
5 th	 Supplier cost	 Supplier cost
6 th	 Transport Cost (including toll charges)	 Transport Cost (including toll charges)
7 th	 Rent	 Rent
8 th	 Loan repayments	 Loan repayments



High rent is our problem. We were forced to move, and our new premises are smaller, but the rent is approximately 40% higher. Most of our raw materials are imported and have risen due to high transport costs and inflation.”

Manufacturing, Eastern Sydney



Wages, supplies, taxes, insurances all increase enormously but our clients have a limit to how much they are prepared to spend with us; so our income has a ceiling in place, but our outgoings are increasing skyward.”

Information Media and Telecommunications,
Eastern Sydney



The costs of insurance, energy and interest rates are out of control and have collectively eroded what would have been previously, healthy profit margins.”

Arts and Recreation Services, Illawarra



Petrol prices affect all rural residents where there is no useful form of public transport.”

Accommodation & Food Services, Mid North Coast



Every business is struggling, and this is a dire and urgent situation right now. Several in my network have closed and every other I know is struggling to keep their doors open. The cost of doing business has risen and if I put my prices up, I will sink so I have to wear it and it's not doable.”

Manufacturing, Central Coast



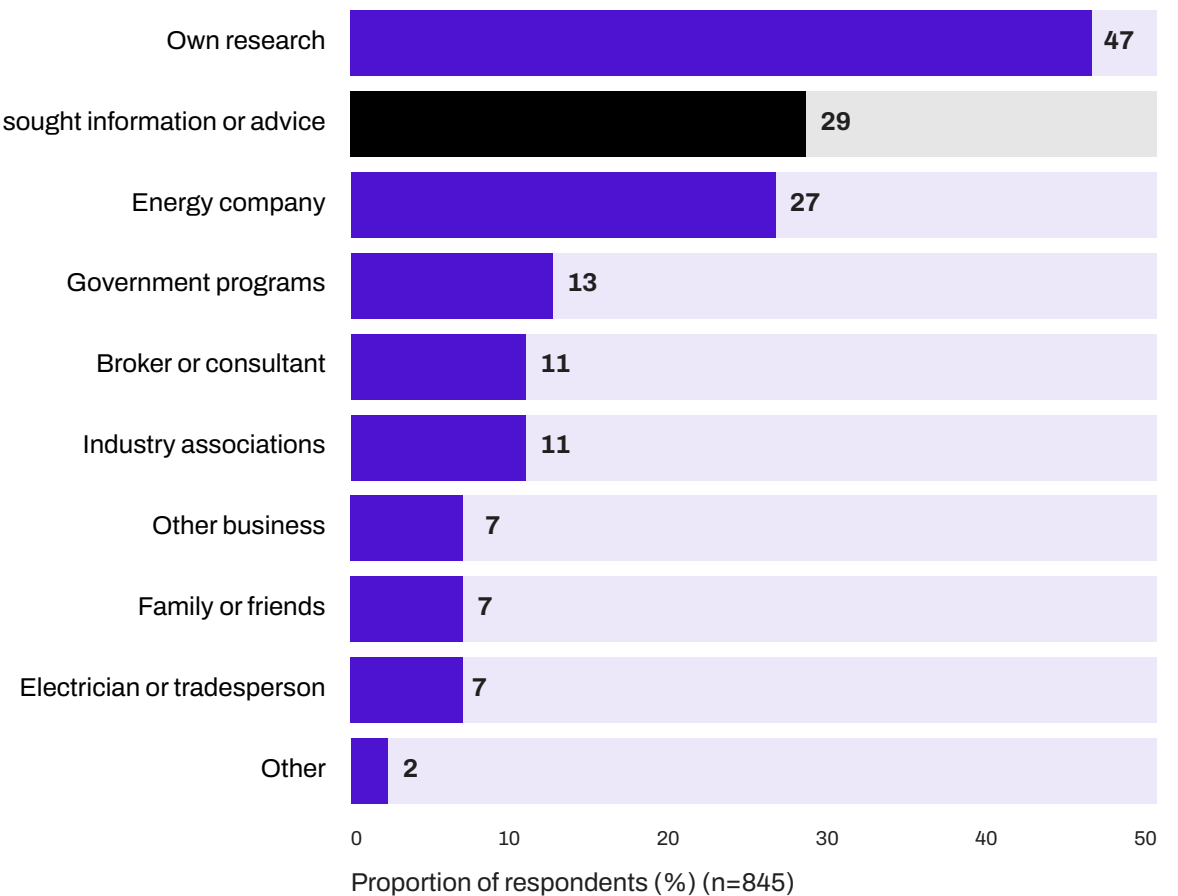
We simply won't exist in 3 months' time if the cost-of-living pressures, energy costs and interest rates keep causing as much damage as they are. So many of our friends have already lost their businesses. It's really sad.”

Accommodation & Food Services, Eastern Sydney

5. Managing Energy Costs

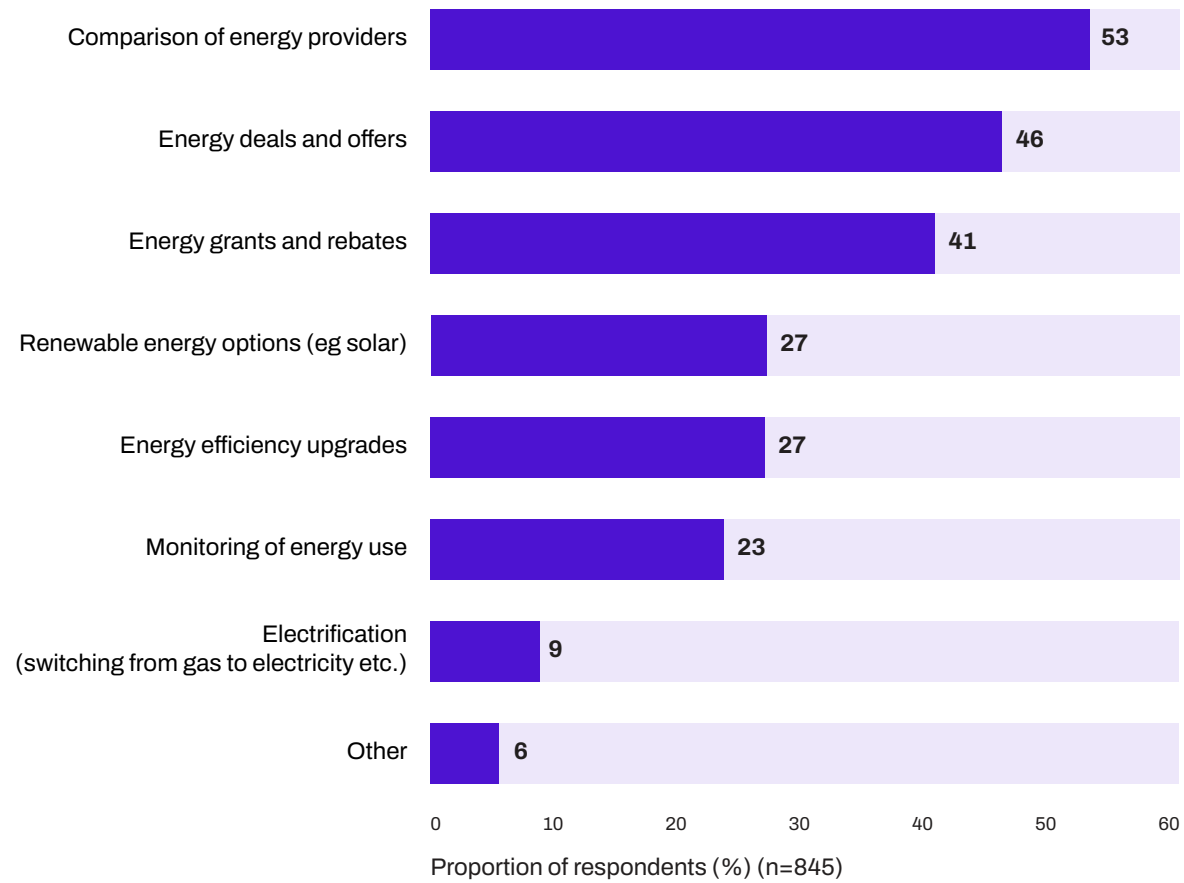
Electricity and gas prices have risen faster than general inflation in the past 12 months. Of the businesses surveyed, 71% have sought information or advice on how to manage their energy costs or energy use. Almost one in two conducted their own research and about one in four sought information or advice from energy companies. Over 50% of respondents were interested in comparing energy providers.

Figure 9: Source of information and advice



Results sum to more than 100% as participants were able to select multiple options.

Figure 10: Type of energy-related advice of interest

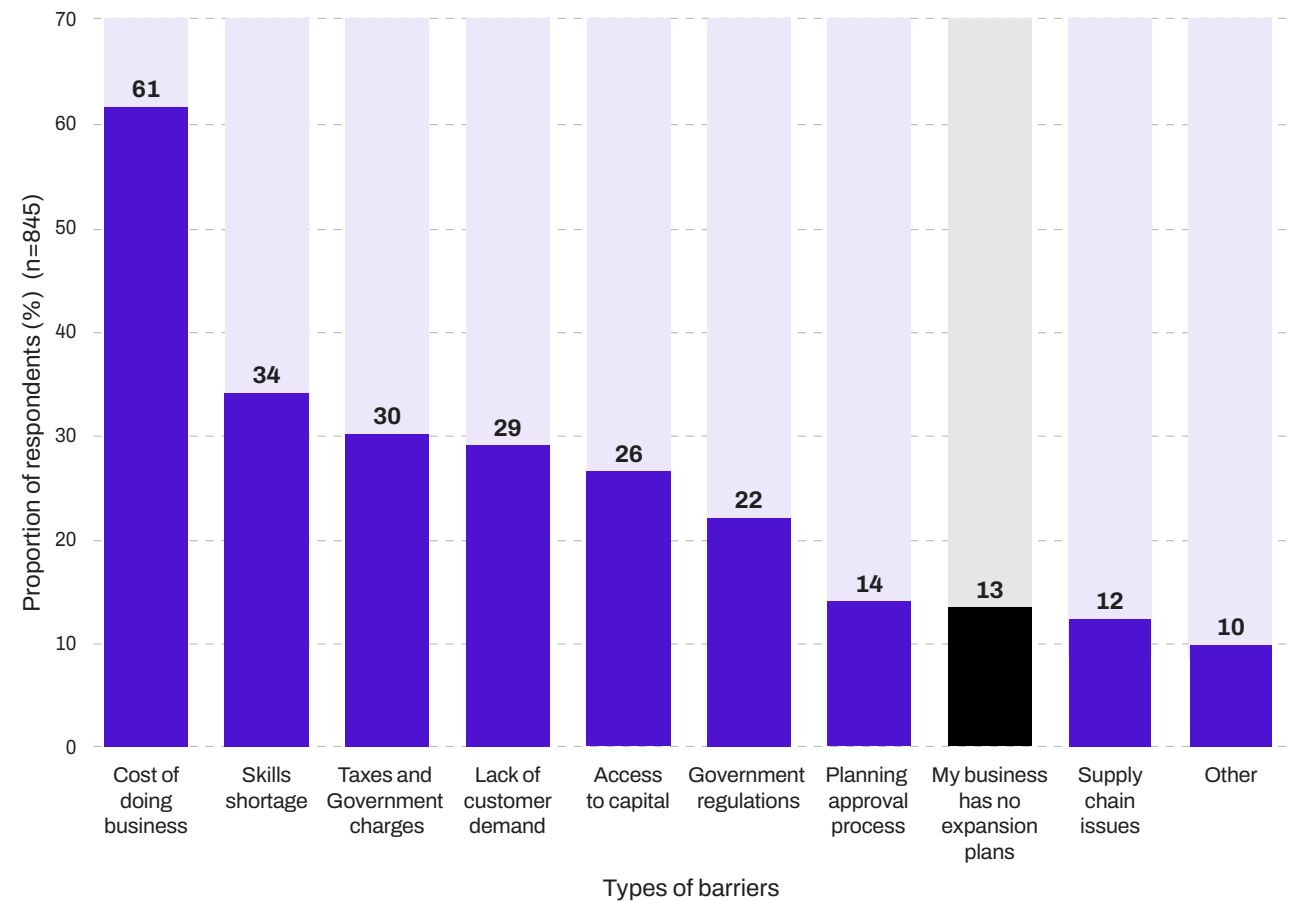


Results sum to more than 100% as participants were able to select multiple options.

6. Barriers to Doing Business

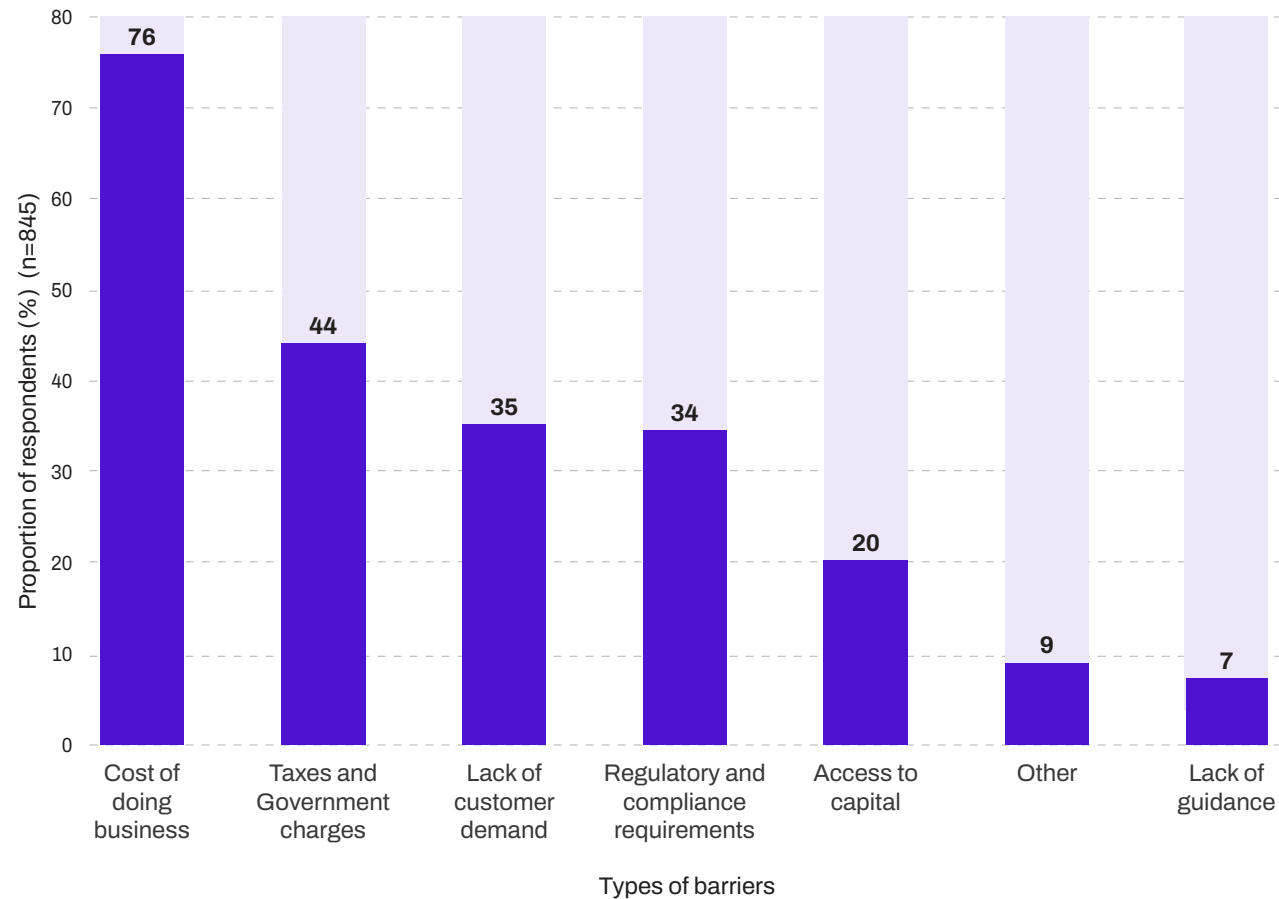
The largest barrier to doing business is the cost of doing business, not only restricting businesses from achieving higher profit growth but also hampering ambitions for expansion.

Figure 11: Barriers to expansion



Results sum to more than 100% as participants were able to select multiple options.

Figure 12: Barriers to achieving higher profit growth



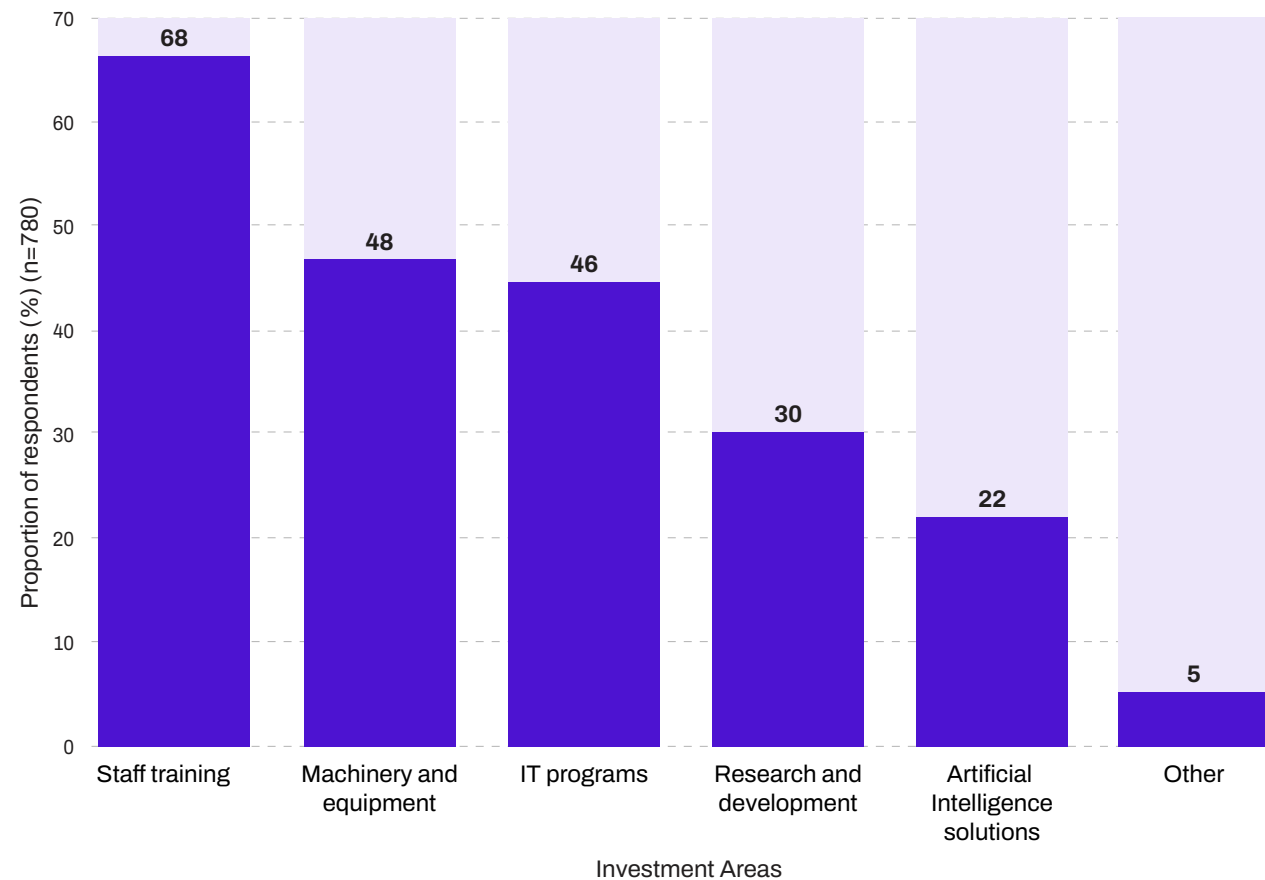
Results sum to more than 100% as participants were able to select multiple options.

“*Significant increase in cyber-attacks (multiple per day) has me very concerned.... Increasing complexity of digital and online business makes it difficult and expensive to keep up to date. Paying to learn how to use advancing technology is quite costly and time consuming.*”

Health Care and Social Assistance,
Eastern Sydney

7. Investment in Productivity

Figure 13: How businesses invested to boost productivity over the past 12 months



The vast majority of businesses invested in initiatives to improve productivity. Of those who did not, a reduction in profits was a common barrier.



Results sum to more than 100% as participants were able to select multiple options.

8. Hiring Intentions

Figure 14: Plans for staff headcount for the next 3 months (n=845)

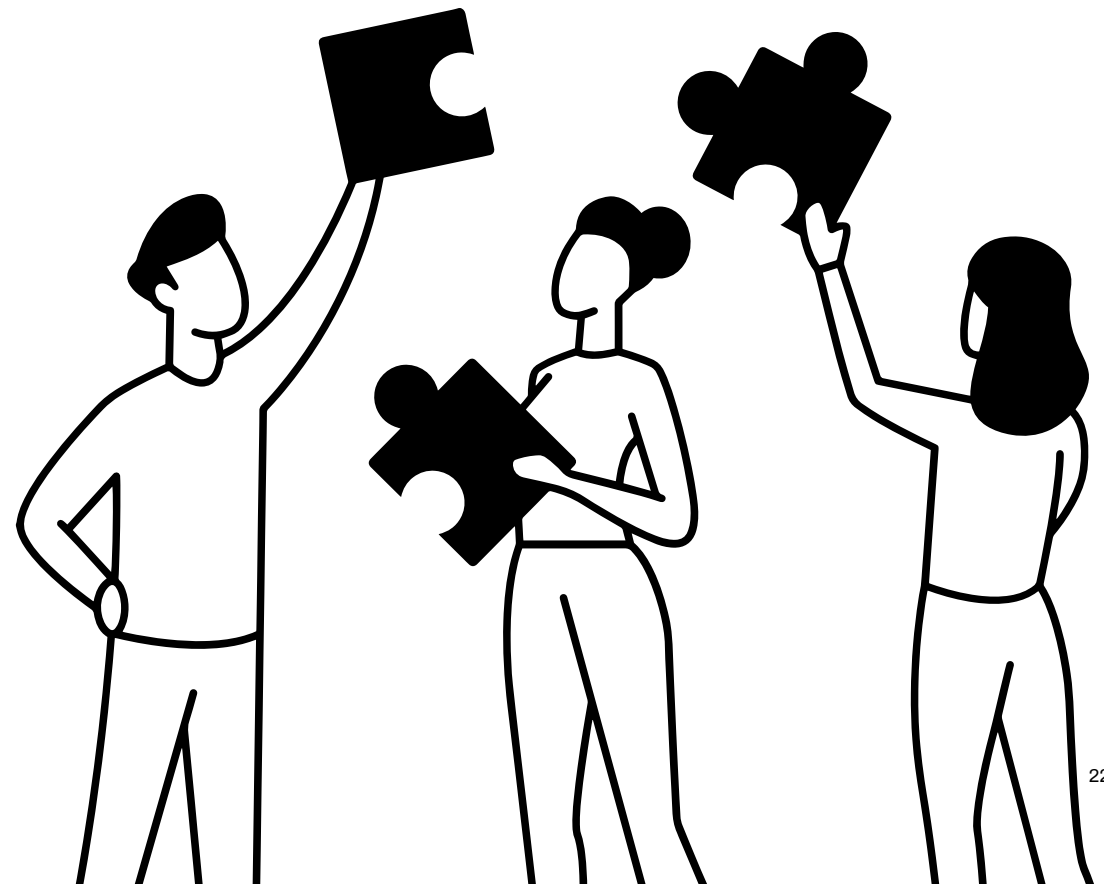
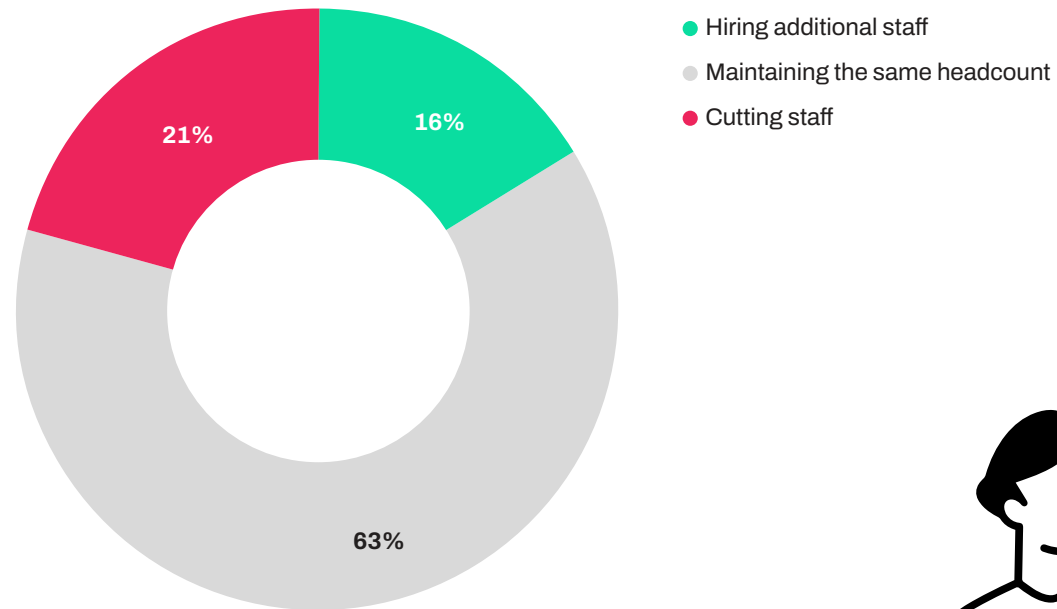
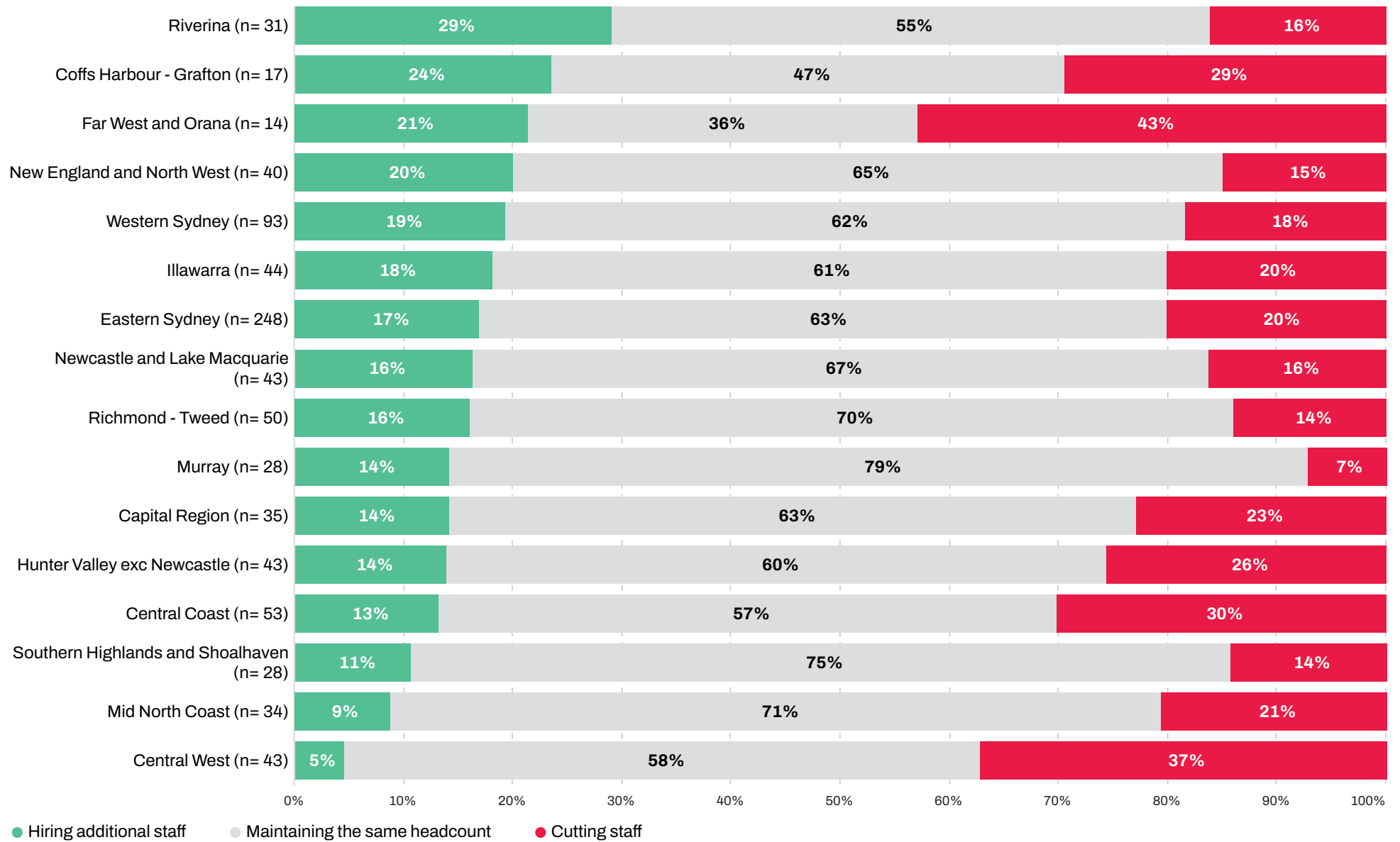


Figure 15: Three-month staff hiring intentions by region



The total for some regions may not add up to 100% due to rounding.



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