

**BUSINESS
NSW**



NSW Business Conditions

December 2020

Quarterly snapshot of the NSW economy informed by
the businesses of NSW

Overview: The NSW Business Confidence Index reached positive territory in December 2020 for the first time since the June quarter in 2018 (p. 4). This strong performance came before new COVID-19 restrictions were introduced over the Christmas-New Year period. The restrictions are expected to reduce confidence and business conditions, particularly for affected regions and industries.

The improvement in business confidence in December 2020 reflected growing optimism about the economic situation as major restrictions from earlier in 2020 were lifted. Business communities responded positively to the reopening of both the NSW-Victoria and NSW-Queensland borders, with the heavily impacted Murray and New England and North West regions showing the strongest rebound compared to September.

Each of the key measures assessed in our survey showed improvement. With government restrictions easing, consumer spending continued to recover, helping more businesses to increase sales revenue and profitability. This better operating environment helped more businesses to hire staff and increase capital spending, compared to the September quarter.

However, full recovery remains a long way off. Businesses continue to struggle financially, with more reporting decreases in staff and reduced capital spending than reported increases. It will require further strengthening in consumer spending for these businesses to operate at a capacity level where they begin to rehire and reinvest. One quarter of respondents reported a high risk of business failure when support measures such as JobKeeper end.

State and industry development: Despite overall improvement, regions directly impacted by the recent southern and northern border closures tracked behind the rest of the state. Regions that are most reliant on interstate and international visitors, including Illawarra, Newcastle, and Eastern Sydney (including the CBD and Northern Beaches), reported relatively lower activity than other parts of the state. This suggests that businesses in these regions have less capacity to absorb a further hit from a reimposition of stricter restrictions should the December-January 2021 COVID-19 outbreak worsen.

Accommodation, food services and retail continued to bounce back after being hardest hit in the June quarter. Arts and recreation services are falling behind relative to the rest of the economy, as restrictions still in place severely affect their operations.

While the December survey showed signs of recovery, the survey period preceded the implementation of tighter restrictions within NSW and in the other states in late-December. These restrictions are expected to slow business activity, with the regions and industries already most severely impacted at greatest risk of further deterioration.

Detailed survey results, including regional and industry-level data, can be found at <https://www.businessnsw.com/advocacy/surveys/business-surveys>.

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BUSINESS NSW

Formerly the NSW Business Chamber, *Business NSW* is the peak policy and advocacy body which has been representing businesses in NSW since 1826. *Business NSW* is one of Australia's largest business support groups with a direct membership of 20,000 businesses. *Business NSW* works with government and industry groups, as well as business and community leaders, to provide a voice for our members. Operating across a metropolitan and regional network, *Business NSW* represents the needs of business at a local, state and federal level.



THE NSW ECONOMY



NSW unemployment rate 6.5%

23,853 people re-joined the NSW labour force in November while participation continued to strengthen



87% of NSW jobs lost* have been recovered

Compared to 83% for the whole of Australia

**based on employed persons in November*



6.8% increase in NSW State Final Demand*

The second strongest rebound in Australia in the September quarter

**Q3 2020 compared to Q2 2020*



Gross State Product* to fall ¾ per cent in 2020-21

Before rebound to 2 ½ per cent in 2021-22

**NSW Treasury forecast*



Card Spending* grew 13%

Despite continued solid goods spending, services spending has been negatively impacted from the new restrictions.

**The period covers the 4 weeks to 8 January 2021 with growth compared with the same time last year*

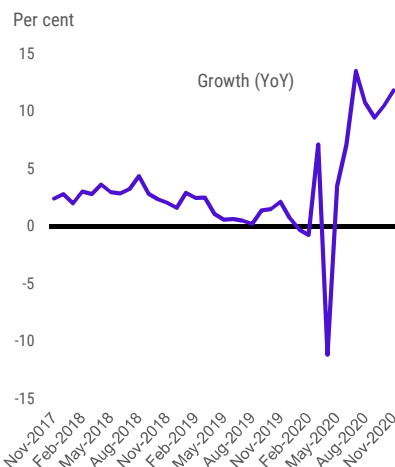
The bottom line

Business confidence was increasing in December, but new restrictions on people's movements and cross-border travel may jeopardise the anticipated recovery.

Source: ABS, NSW Treasury, Business NSW, Commonwealth Bank.

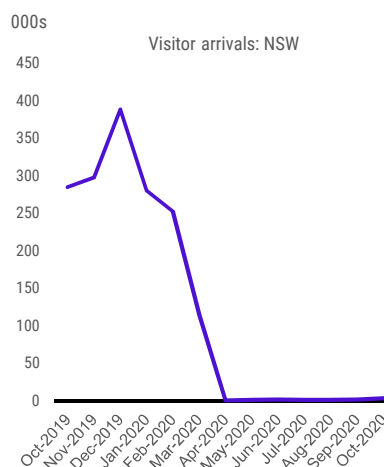
NSW INDUSTRY INDICATORS

NSW retail turnover



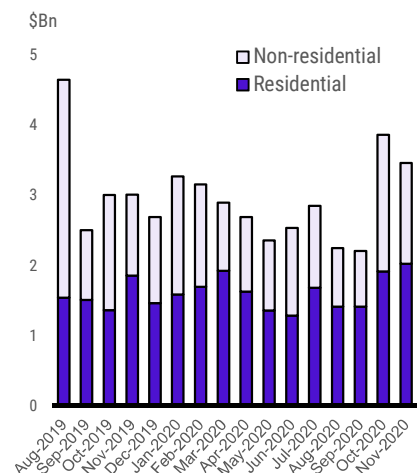
Note: Seasonally adjusted

NSW visitor arrivals



Note: Arrivals by state of main stay, unadjusted for seasonal variation

NSW building approvals

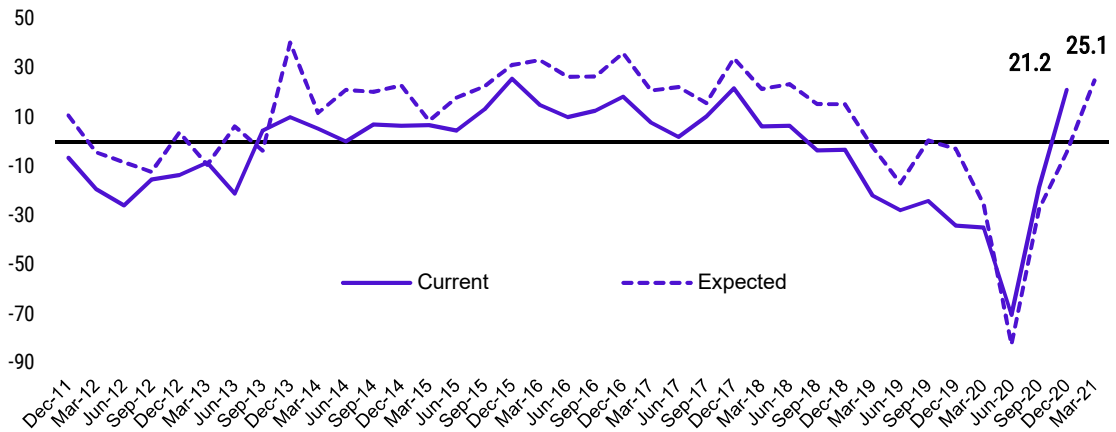


Note: By value, Seasonally Adjusted

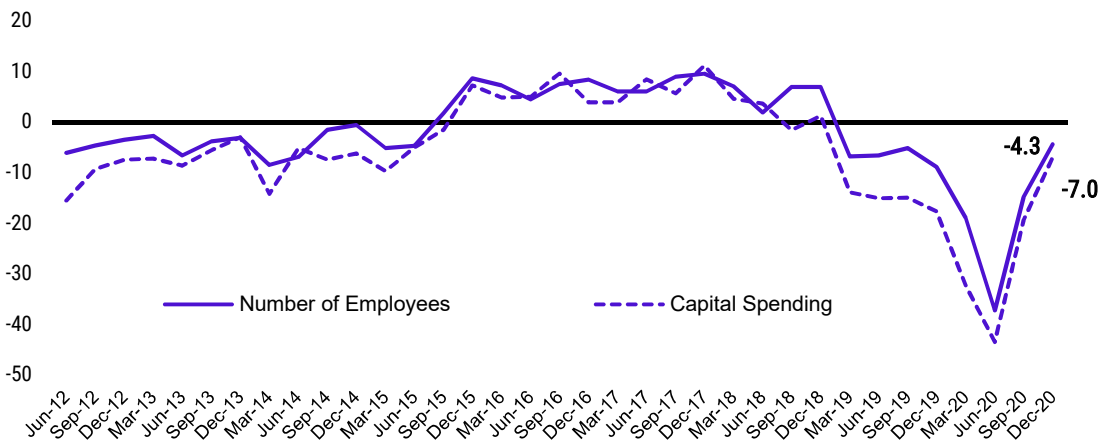
SURVEY RESULTS

Conditions were improving ahead of new restrictions over Christmas and New Year

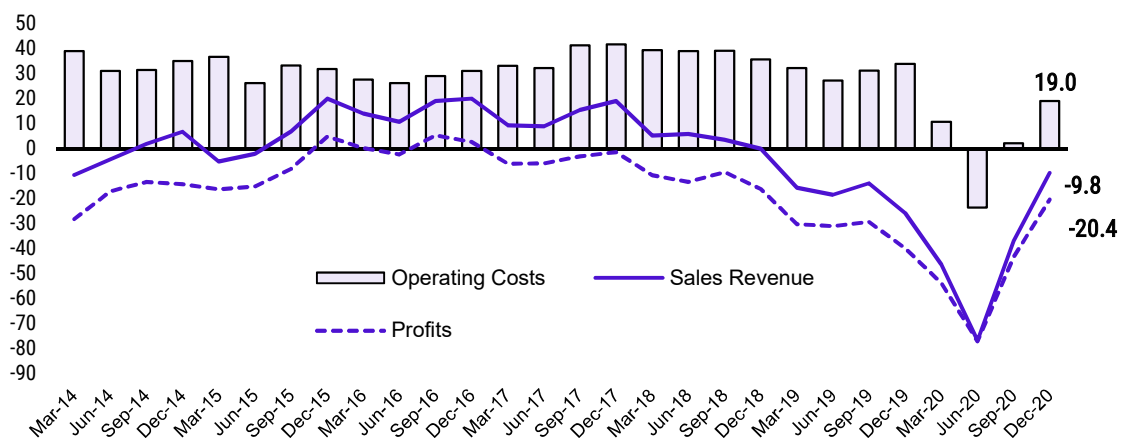
Performance of the NSW economy



Staff numbers and capital spending



Individual business performance



Note: Index scores are calculated as the percentage of respondents reporting an increase minus the percentage reporting a decrease. A positive number implies improving business conditions (except for operating costs for which it implies cost pressures) whereas a negative number implies weaker conditions. There were 546 respondents to the survey.

KEY FINDINGS

- **Performance of the economy**

The NSW business confidence index turned positive for the first time since the quarter of June 2018, with more businesses viewing the economy as getting stronger (46.7 per cent) than viewed it as getting weaker (25.5 per cent) (p.4). However, this robust recovery came before the reimposition of restrictions due to the new Greater Sydney COVID-19 clusters, which could potentially deteriorate confidence and conditions.

- **Businesses at risk**

Despite overall increases in confidence, 23 per cent of businesses state that they are at a high risk of failure when supports such as JobKeeper, tax relief, interest waivers and other measures end (p. 7). This vulnerability will hang over the small business sector for much of the year and will need to be factored into decisions around when and how support measures are withdrawn.

- **Business expansion**

An increasing number of businesses are looking to expand their capacity to meet demand, with more businesses prioritising expansion (38.4 per cent) than those who are prioritising downsizing their business (29.9 per cent) for the first time since the December quarter of 2019 (p. 6).

- **Business performance**

The proportion of businesses reporting higher revenue and profit over the three-month period continued to grow from the September quarter (p. 4) . However, these businesses remain a minority. Compared to the July-September period, 41.6 per cent of businesses indicated revenue was lower in October-December, and 48.1 per cent indicated profit was down over the same period. More businesses reported rising operating costs (37.4 per cent) than reported a fall (18.3 per cent).

- **Hiring challenges**

Hiring still lags improvements in other key measures (p. 4). Only 16.7 per cent of respondents reported increased staffing levels over the December quarter, though this represents an improvement over the September quarter (11.4 per cent). There has been a modest increase in businesses reporting increased capital spending over the previous quarter (28.8 per cent in December compared to 23.6 per cent in September).

COMMENTS FROM BUSINESSES

“Our business is starting to recover with borders now open and restrictions easing. This was only possible due to the huge support from government with financial assistance with JobKeeper.”

Transport, Postal and Warehousing business, New England and North West

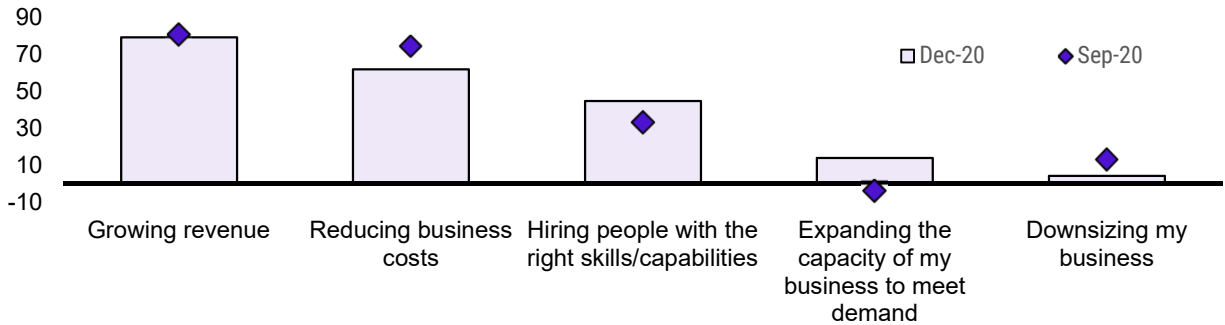
“We are now in a position where we are growing our business. We would not be able to consider doing so without the financial supports we received. We have been focused on growing our business next year.”

Education and Training business, Greater Sydney

“My business relies on tourism. Although there has been an increase in regional tourism I am still struggling to get customers at the rate I need them.”

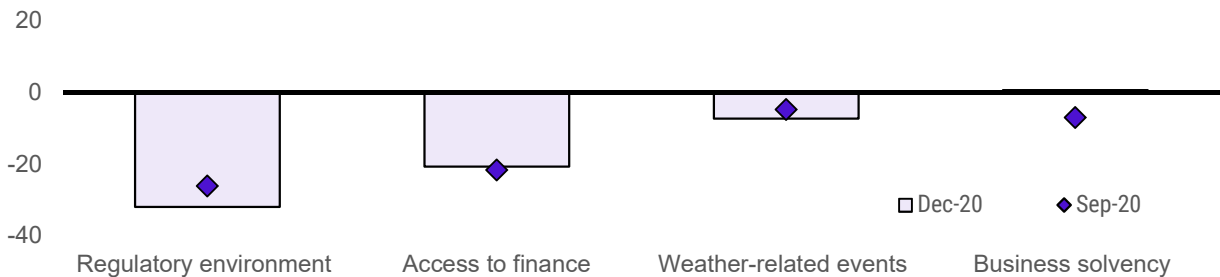
Arts and Recreation Services business, Central West

Business priorities*



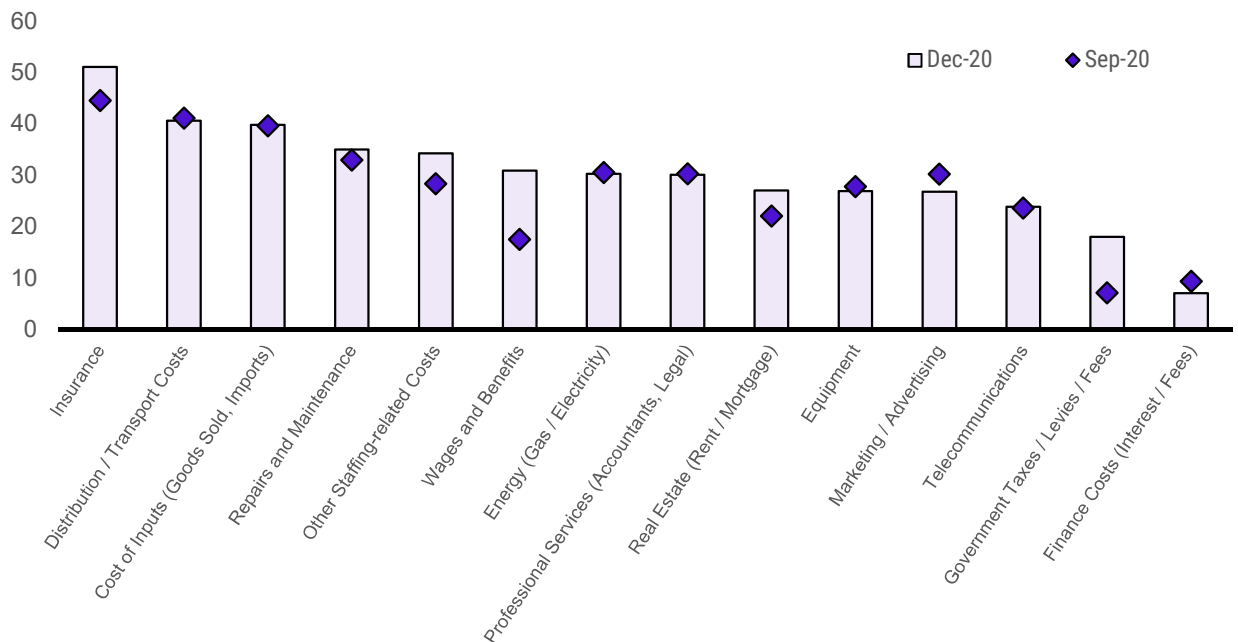
*Index scores calculated as the percentage of respondents indicating the priority was more important minus those indicating the priority was less important. A positive number implies a priority is becoming more important whereas a negative number implies a priority is becoming less important.

Factors weighing on business*



*Index scores calculated as the percentage of respondents indicating the factor was more favourable minus those indicating the factor was less favourable. A positive number implies an improvement whereas a negative number implies a deterioration.

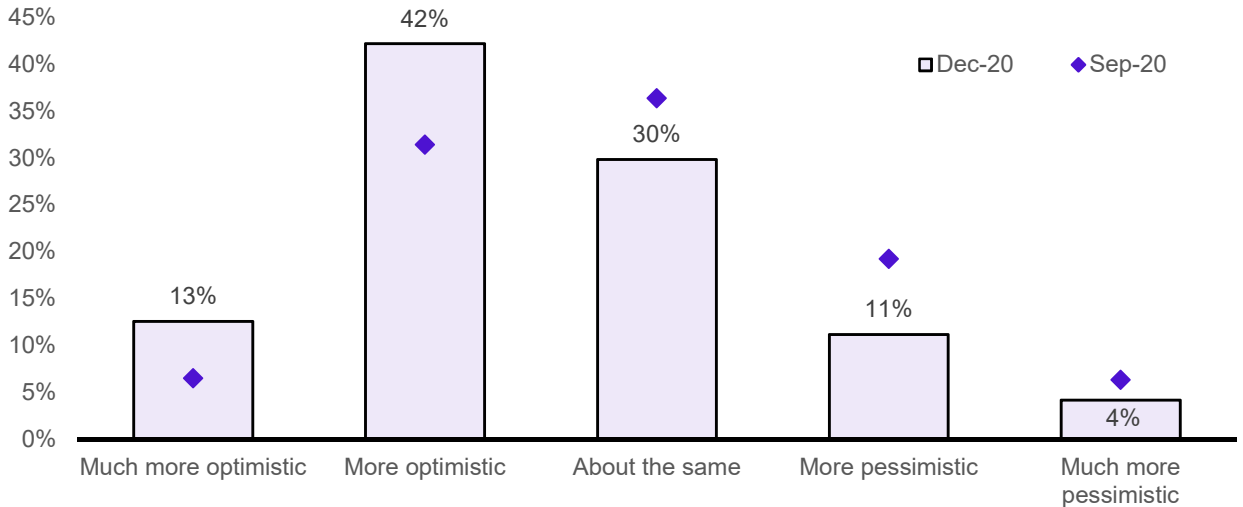
Business costs*



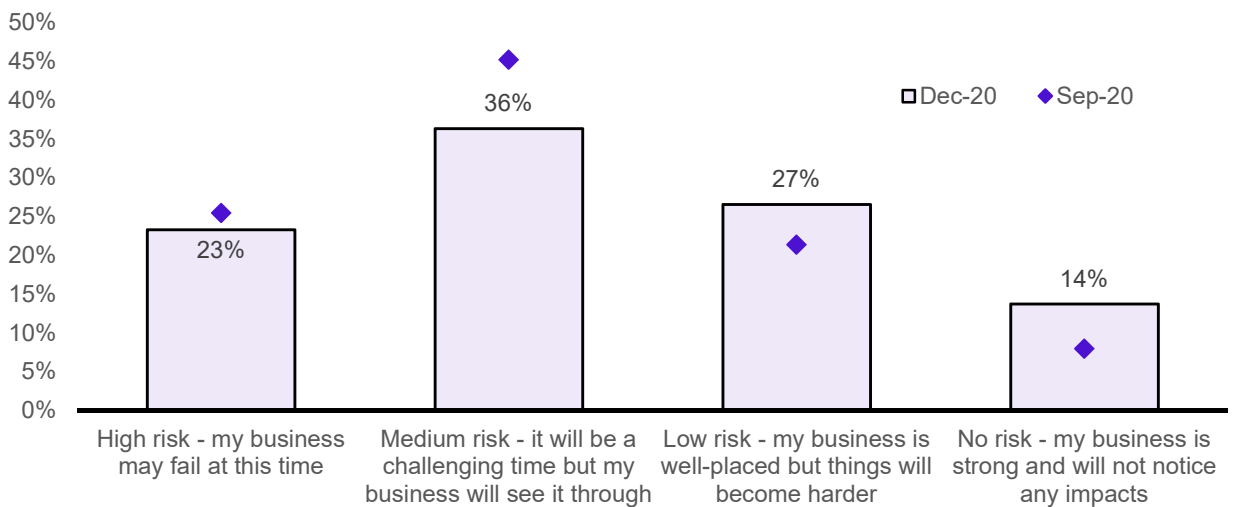
*Index scores calculated as the percentage of respondents indicating the cost was less affordable minus those indicating the cost was more affordable. A positive number implies increasing cost pressures whereas a negative number implies falling costs.

Business NSW is asking a series of COVID-related questions to track business attitudes over the recovery period. The observations for December are presented below.

When thinking about your business, how optimistic are you about the impact of COVID-19 compared to three months ago?



What is the risk your business will face serious challenges when support measures such as JobKeeper, tax relief, interest waivers and other measures end?



REGIONAL PERFORMANCE

Region	Business Confidence [#]		Unemployment rate [*]	Youth Unemployment rate [*]
	December 2020 Quarter (Index)	Past Four Quarters (Index)		
NSW	21.2 (n=546)	-34.5 (n=3924)	6.5%	13.2%
Central Coast	22.2 (n=19)	-28.5 (n=137)	5.3%	9.9%
Capital Region	13.8 (n=33)	-54.0 (n=226)	4.3%	7.1%
Central West	24.0 (n=26)	-37.2 (n=172)	4.2%	8.9%
Coffs Harbour – Grafton	33.3 (n=16)	-31.5 (n=130)	8.3%	13.7%
Far West and Orana	11.1 (n=10)	-29.8 (n=84)	1.8%	3.9%
Hunter Valley	15.8 (n=22)	-30.5 (n=190)	5.7%	14.6%
Illawarra	4.8 (n=24)	-46.0 (n=189)	7.0%	16.1%
Mid North Coast	58.8 (n=19)	-41.2 (n=170)	7.9%	16.1%
Murray	41.2 (n=18)	-24.4 (n=172)	4.6%	7.0%
New England and North West	17.9 (n=40)	-34.5 (n=194)	6.4%	13.4%
Newcastle and Lake Macquarie	31.6 (n=19)	-28.8 (n=212)	7.6%	17.5%
Richmond – Tweed	31.7 (n=43)	-25.9 (n=243)	5.0%	9.5%
Riverina	21.4 (n=15)	-33.1 (n=127)	5.4%	6.3%
Southern Highlands and Shoalhaven	40.9 (n=23)	-25.2 (n=123)	4.7%	8.4%
Sydney	14.1 (n=125)	-36.3 (n=1449)	6.0%	12.9%
Eastern Sydney [^]	12.5 (n=89)	-37.0 (n=1045)		
Western Sydney [^]	20.0 (n=36)	-34.2 (n=403)		

^{*}Data updated as of 12 January 2021, annual averages used for regional unemployment rates (excluding NSW). This averaging method obscures the full impact of COVID-19 on regional labour markets. [#]Index is calculated as the percentage of respondents reporting a stronger economy minus the percentage reporting a weaker economy. A positive number implies improving conditions while a negative number implies conditions are weaker. [^]Eastern Sydney includes Eastern City, North and South districts; Western Sydney refers to Western and Central cities as designated by the Greater Sydney Commission. Full regional results available at: <https://www.businessnsw.com/advocacy/surveys/business-surveys>.

CONFIDENCE MAP

Confidence map weighting is based on business confidence levels in the December quarter relative to the NSW average.

