



NSW BUSINESS CONDITIONS

The Omicron Surge

JANUARY 2022

Dear members,

Thank you!

Just over a fortnight ago we asked you for your support, to complete our Omicron Business Conditions Survey. This was conducted to back our requests of government to extend commercial rent relief, a re-visit of JobSaver and subsidised RAT tests for small businesses.

And you responded in your thousands.

The information that you provided through the survey enabled us to quantify and clarify where and how Omicron was affecting our businesses, our communities and our confidence.

Your voice enabled the collective voice of NSW businesses to be heard quickly and clearly by government.

A short time ago, I joined the Premier and Treasurer at the announcement of a new support package that will help keep small businesses open.

From 1 February, businesses of turnover between \$75,000 and \$50 million are set to gain some relief, and this is in addition to the rent relief extension to mid-March already announced. The details of the package are outlined in the introduction of this report.

We know the dramatic impacts that Omicron has had on consumer confidence and your business viability, especially in what many of you had hoped would be your busiest time of the year.

What's crucial now is that customers regain the confidence to fully return to our CBDs, town centres and suburban high streets, and go about their normal activities in a safe manner.

Your voice has again helped us get through these difficult times – together.

Again thanks,

Dan Hunter

Chief Executive Officer, Business NSW

Note 1: the text above is from Dan Hunter's email to Business NSW members, 30 January 2022.

Note 2: the Business NSW Omicron Surge business conditions survey was completed by over 3,000 members between 12-26 January 2022. The survey is powered by Qualtrics.



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Introduction

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.

Since December 2021, our state has experienced a surge in COVID-19 cases, exacerbated by the emergence of the more contagious Omicron variant.

We acknowledge the health and economic policy achievements of the Australian and NSW governments supporting business owners, their employees and the local communities in which they operate.

As we enter the third year of the COVID-19 pandemic, the ability to deploy agile and tailored policy responses remain key. Blunt instruments such as state-wide lockdowns and national wage subsidies should be avoided at all costs. The state's experience thus far with the Omicron surge has made this abundantly clear.

Omicron has threatened the recovery plans of many businesses and has seen worried consumers cancel gatherings and enter self-imposed isolation irrespective of government intervention.

Rising business costs (in particular, insurance costs) and access to skills and workers across every sector remain significant challenges and supply chain issues continue to hamper access to goods.

Omicron has seen business confidence in NSW plummet. Concerningly, unlike previous surveys throughout 2021 where business owners felt the next quarter would see improvement, that optimism is missing this time, with low expectations around the performance of the economy.

There is a high degree of concern regarding the uncertainty of the impact of the surge in Omicron cases on business operations.

In contrast to the July–September 2021 lockdown in NSW, during which time businesses mainly worried about lower demand on goods and services due to movement restrictions, the Omicron variant has impacted employers in multiple ways, particularly on the key performance metrics of staffing and capital spending.

In fact, these latest results are the worst on record in the **Business NSW's** Business Conditions survey series. Further, consumer spending and therefore business revenue has taken a hit, and the prevailing bleak outlook made government support a must.

Throughout January, as this survey data was coming through, Business NSW was in constant contact with key decision makers in the NSW Government, raising in no uncertain terms the stories and concerns that we were hearing from our members, and emphasising the need for support.

On the last weekend of January, NSW's Premier and Treasurer announced a new support package that will keep small businesses open and operating.

Businesses of turnover between \$75,000 and \$50 million are set to gain some relief, and this is in addition to the rent relief extension to mid-March already announced.

The package, which commences from February 1 includes:

- A payment of up to \$5000 per week (20% of payroll) for businesses with turnover between \$75,000 and \$50 million who suffered a 40% downturn in January and project to do the same in February.
- The Small Business Fees and Charges rebate program extended to \$3000 and can include 50% of the costs incurred to acquire RATs for the workplace.
- The commercial landlord relief package has also been extended until 13 March.

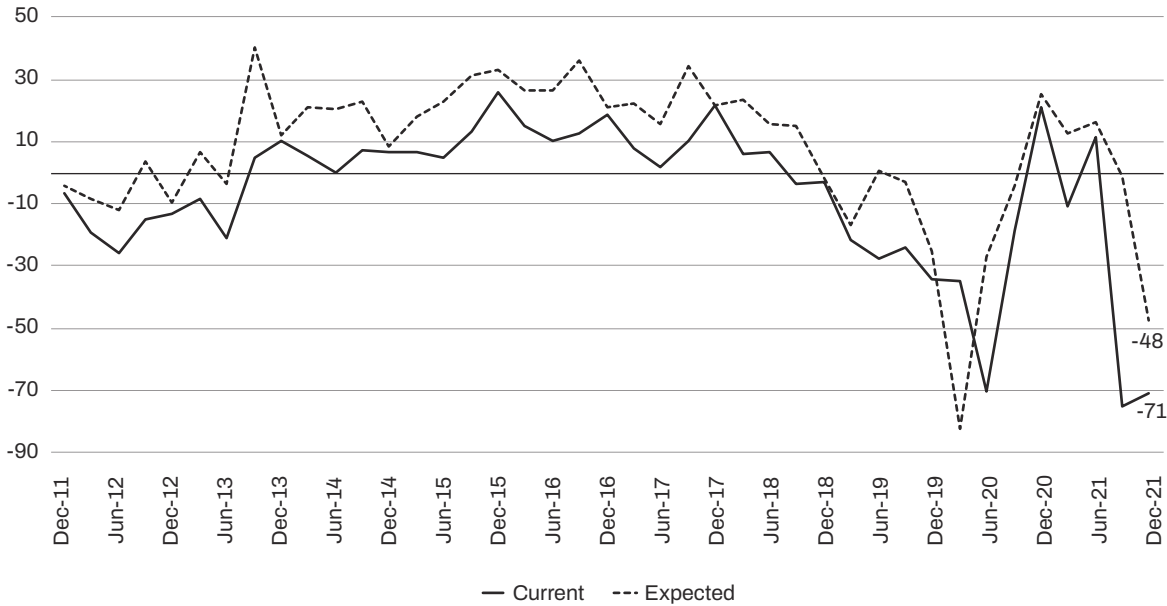
All of these measures will help businesses to keep going through what has evidently been a 'shadow lockdown'. The following report provides you with the full picture of the challenges our business community has faced over the Christmas and New Year period, that helped convince government to again offer support.

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Please make your way
to your seat

Business confidence and concerns

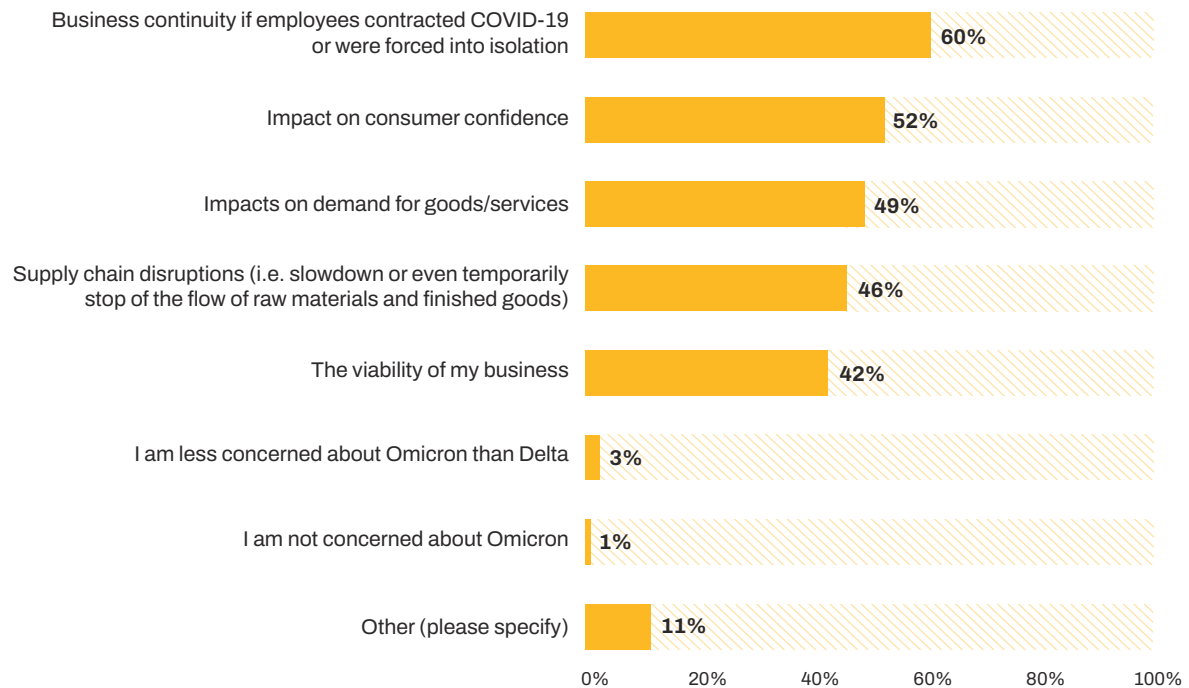
Figure 1: A sharp fall in Business Confidence due to the Omicron surge



The NSW Business Confidence Index fell significantly, somewhat equivalent to the level seen in July – September 2021 lockdown (Figure 1).

The Expected Business Confidence Index (dotted line) decreased sharply – much more markedly than in June or September 2021. Although it is not as bad as we had experienced in March – June 2020 lockdown, this decline of future confidence indicates a high degree of businesses concern regarding the uncertainty around the impacts of the surge in Omicron cases on business operations (Figure 2).

In contrast to July – September 2021 lockdown, which businesses mainly worried about lower demand on goods and services due to movement restrictions, this current rise in COVID cases impacts employers in multiple dimensions, despite the reopening of the economy late last year.

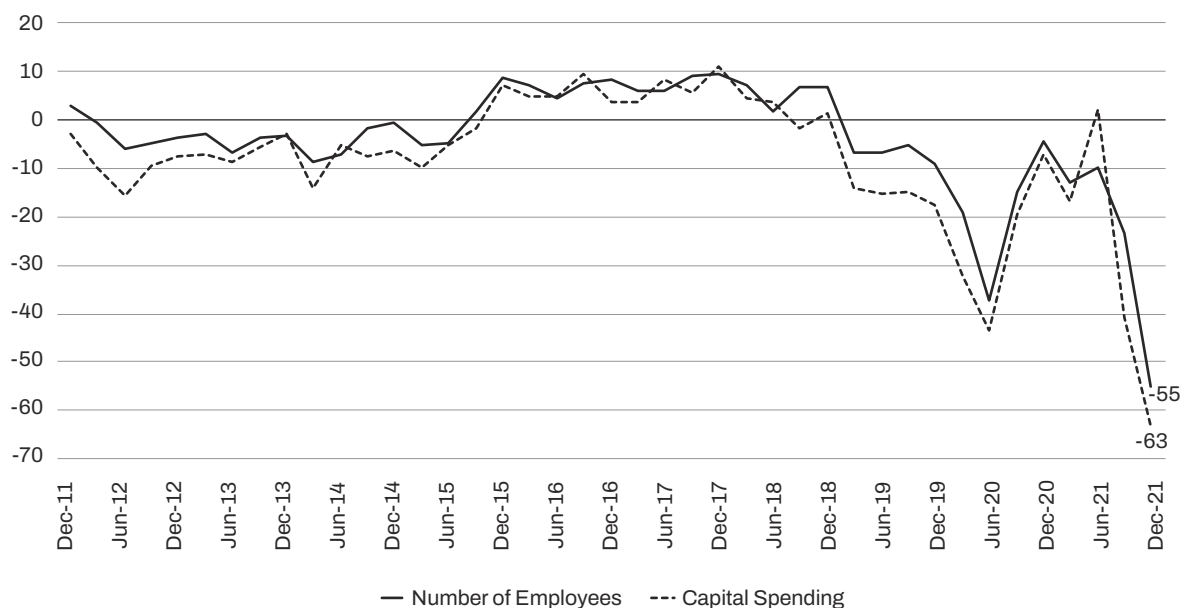
Figure 2: Biggest concerns about the impact of the Omicron surge on businesses

The surge in Omicron is causing businesses concern about weaker demand (49%) due to a temporary spending pullback by consumers to avoid contracting the virus. Nevertheless, business concerns extend well beyond consumer spending and for many go the core issue of business viability (42%).

Businesses are equally concerned about the supply-side disruptions. This could be seen from the fact that employers are worrying about supply chain disruption (46%) and lower consumer confidence (52%), with labour shortages resulting from employees contracted COVID or were force into isolation a number one concern (60%).

The Hardest Hit: staffing and capital spending

Figure 3: The worst performance of staffing and capital spending



The surge in Omicron cases is impacting businesses to a greater extent than the previous two major lockdowns, particularly on the key performance metrics of staffing and capital spending. In fact, they show the worst performance recorded by the BNSW BCS (Figure 3).

It is not only weaker consumer spending (like in the previous lockdowns) but also labour shortage due to COVID isolation that affects businesses' staffing decisions, leading to a substantial drop in this measure.

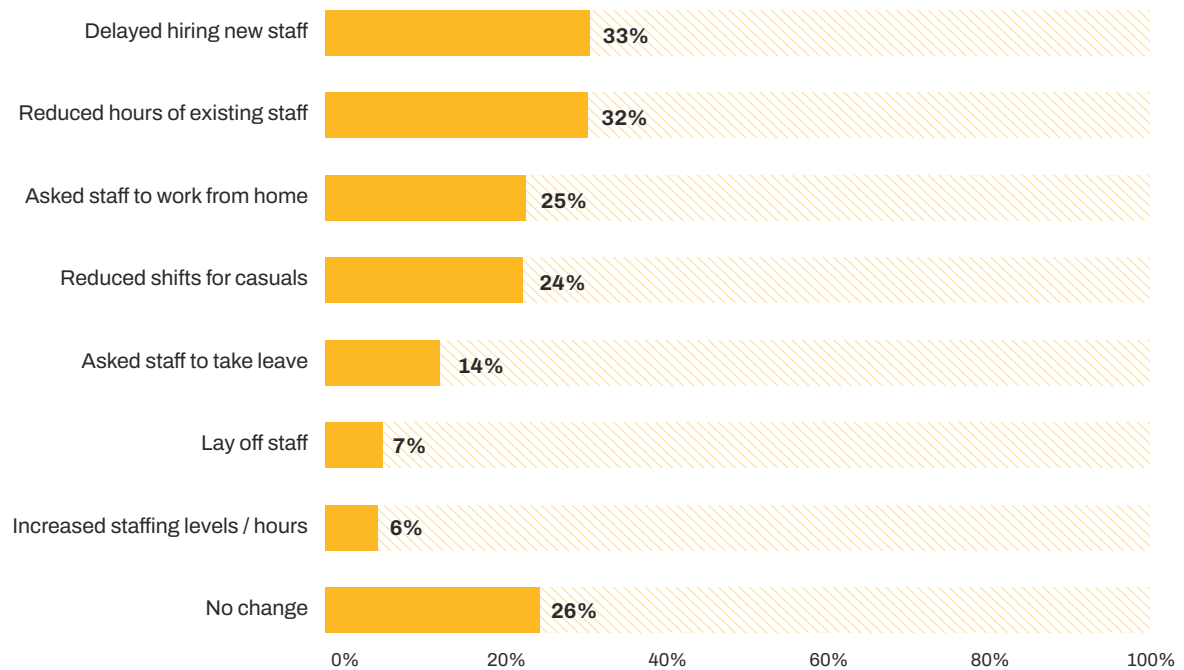
The highly uncertain economic outlook is also causing businesses to delay their investment decisions, severely affecting the capital spending metric.

However, despite a large scope of businesses reporting their staffing has been affected as shown in figure 3, only 7 per cent of businesses indicated laying off their workers at this stage (Figure 4).



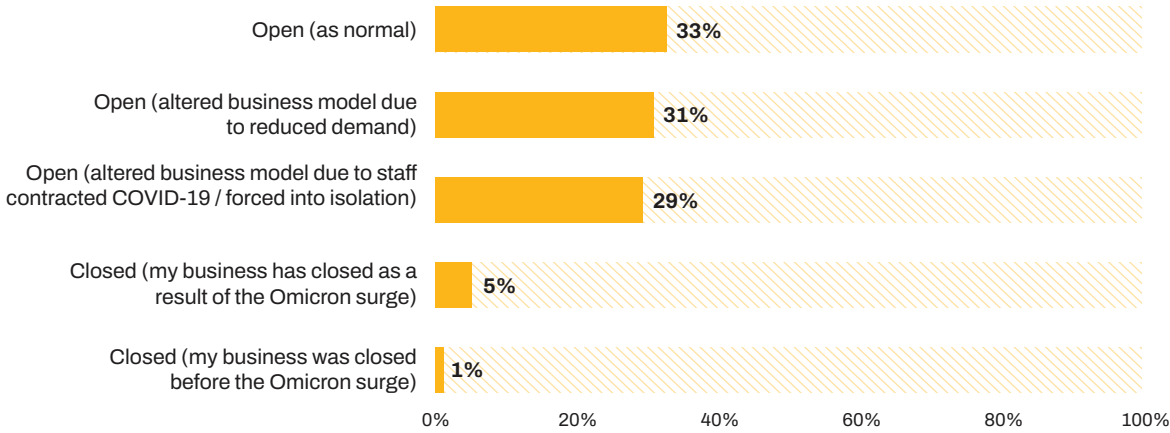
Most businesses are maintaining a close tie with their employees and instead report using other means to adjust their businesses to the highly uncertain business environment such as reducing hours of existing staff (32 per cent), delaying hiring new staff (33 per cent) and asking staff to work from home (25 per cent).

Figure 4: Business staffing responses to the surge in Omicron



Trading Status, Financial Performance and Cash Reserves

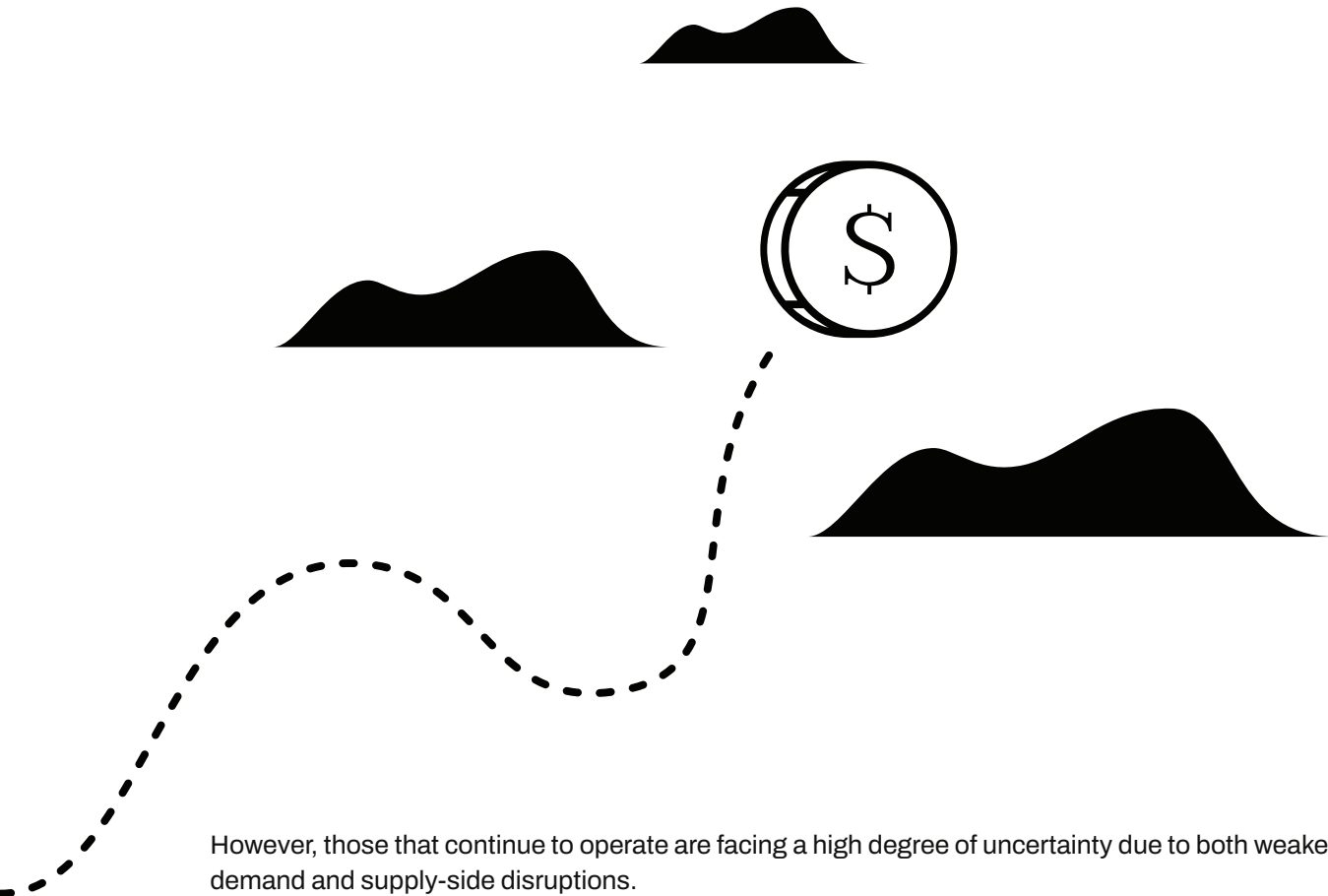
Figure 5: Current business operating status



Due to hampered consumer confidence, reduced demand and a large proportion of staff contracted COVID or force into isolation, around 62 per cent of businesses are opening with an altered business model.

Around 33 per cent reported they are able to operate as normal, while only 5 per cent said they have had to close their business as a result of the Omicron surge.

Compared to July – September 2021 lockdown (17 per cent) and in the absence of government mandated closures, there are relatively more businesses open.



However, those that continue to operate are facing a high degree of uncertainty due to both weaker demand and supply-side disruptions.

Figure 6: Average revenue impact

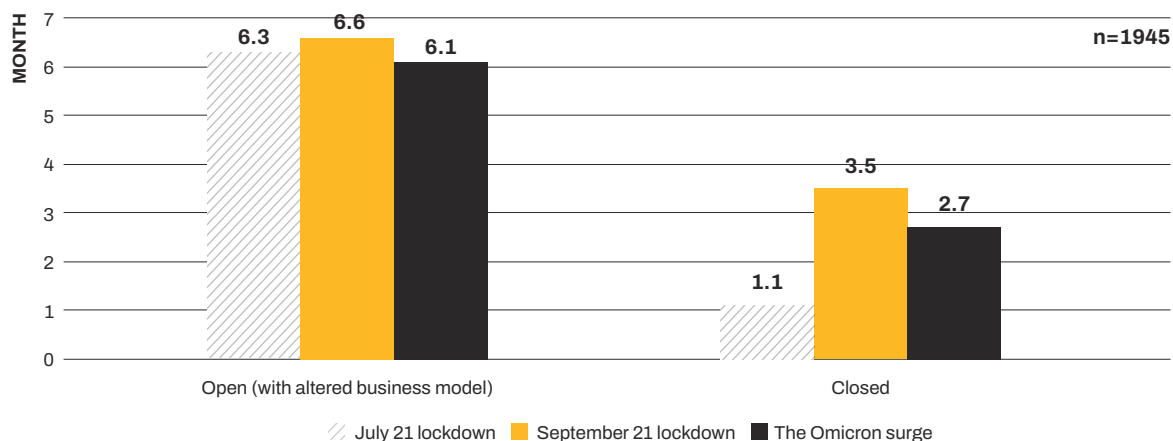
	Revenue impact (%)
2 weeks into March 2020 lockdown	-30%
2 months into March 2020 lockdown	-43%
2 weeks into July 2021 lockdown	-48%
2 weeks since the Omicron surge	-32%

Note: Revenue impact of lockdowns and Omicron surge are calculated as average weighted losses based on questions about current revenue compared to revenue during normal business operation before the lockdown and Omicron surge. Sample size number refers to the Omicron surge survey.

Around two weeks into the Omicron surge, businesses reported revenue to be 32 per cent lower than the previous 3 months (Figure 6). This is somewhat equivalent to 2 weeks into the first major lockdown in March 2020.

Given the highly uncertain business environment due to the Omicron surge, it is difficult to predict how these revenue impacts will evolve going forward.

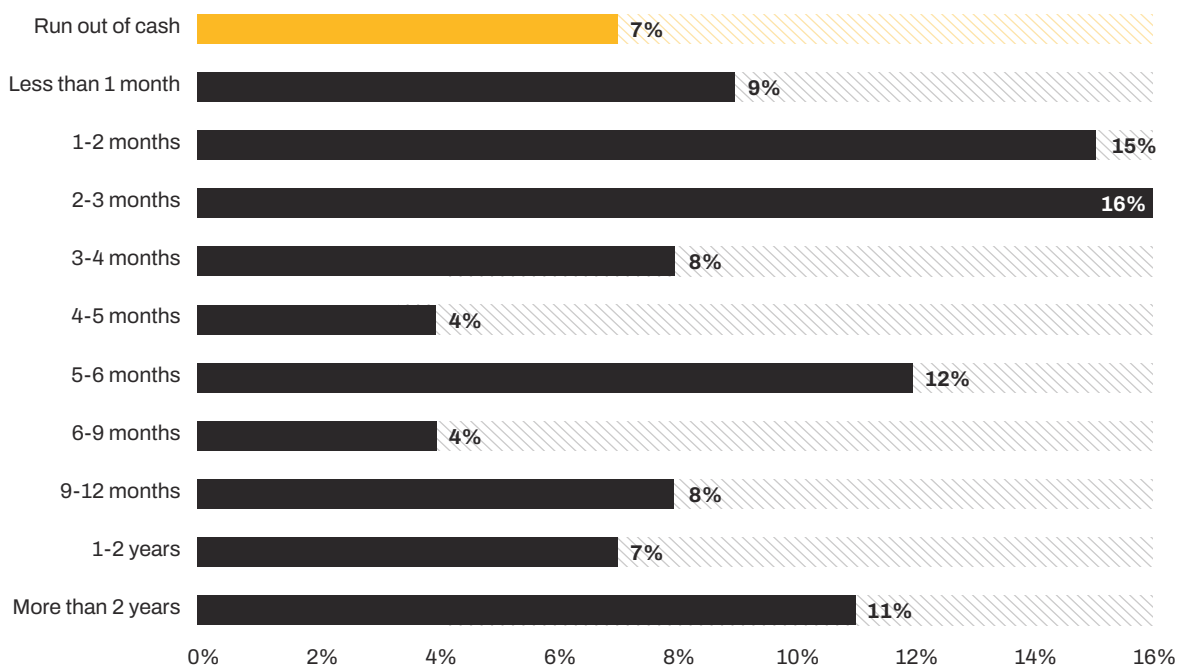
Figure 7: Cash reserves for businesses that are closed or remained open but altered their business model



Due to the impacts of Omicron surge on both the demand and supply side, businesses which have closed have enough cash reserves to last for 2.7 months, declining from 3.5 months in September during 2021 lockdown after the implementation of COVID-19 assistance programs.

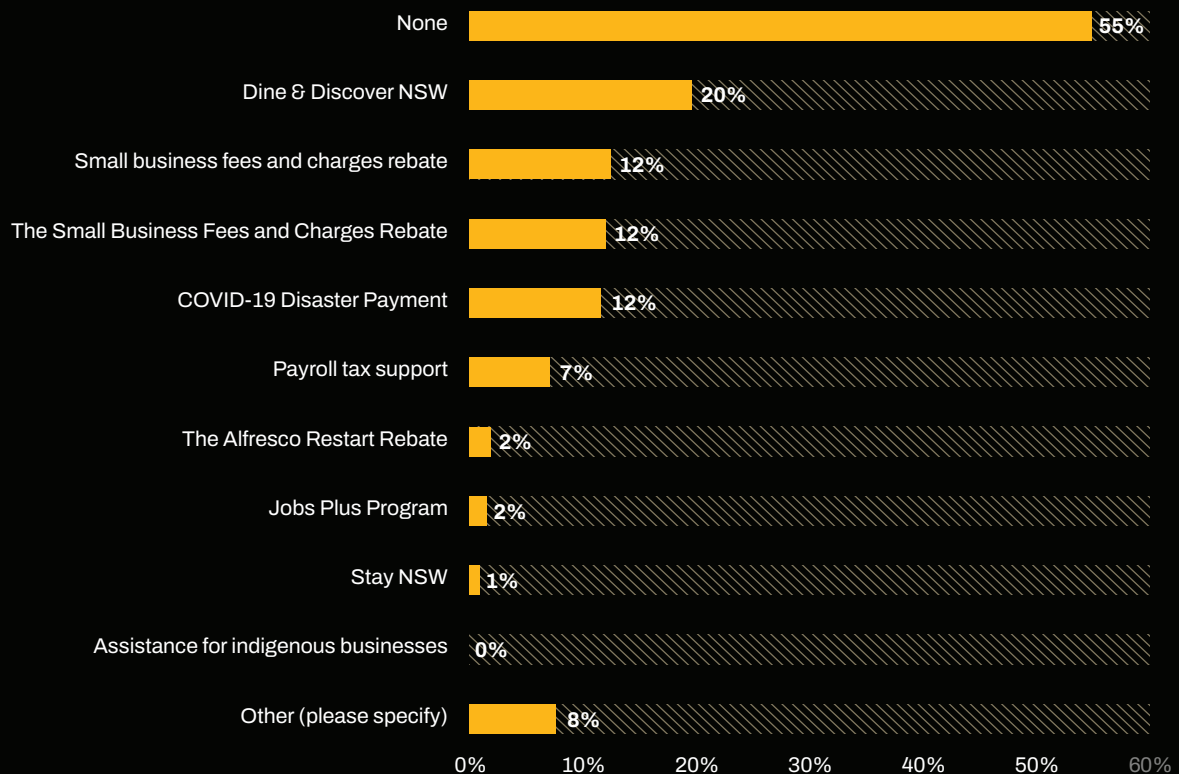
- Just below 40 per cent of businesses reported they have three months or less worth of cash in reserves, with 7 per cent of employers said they have already run out of cash.
- 9% said they had less than a month of reserves.
- 15% only 1-2 months. That means a quarter of businesses have less than two months of cash reserves.

Figure 8: How long can your business survive based on your existing cash reserves / liquidity?



Government support

Figure 9: Accessing government support



“We don’t seem to qualify as business is just keeping a float and I need an accountant but can’t afford one so going to be in trouble with taxation as well.”

“There is nothing available for business cashflow during Omricon isolation and staff waiting on results and having to pay them full sick leave whilst no income.”

“There is nothing except for the \$2000 rebate which I do not think I can use on anything. If business continues to decline I will lose my business as I have not taken a wage for myself in months.”

Figure 10: Additional government support in the next 3 months

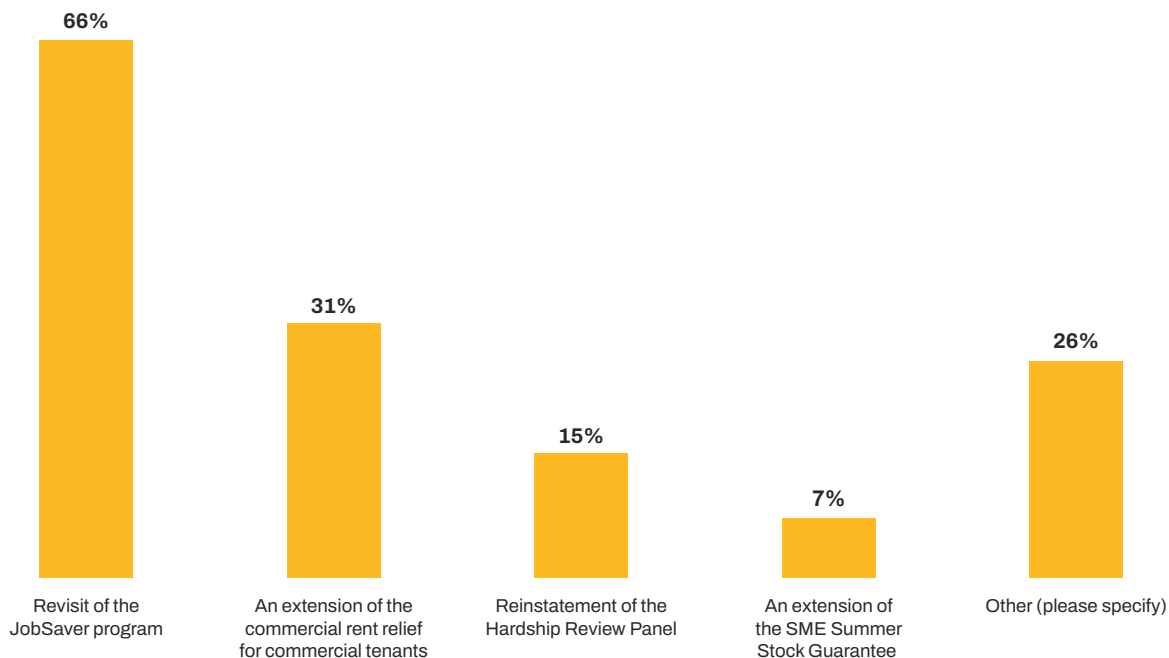
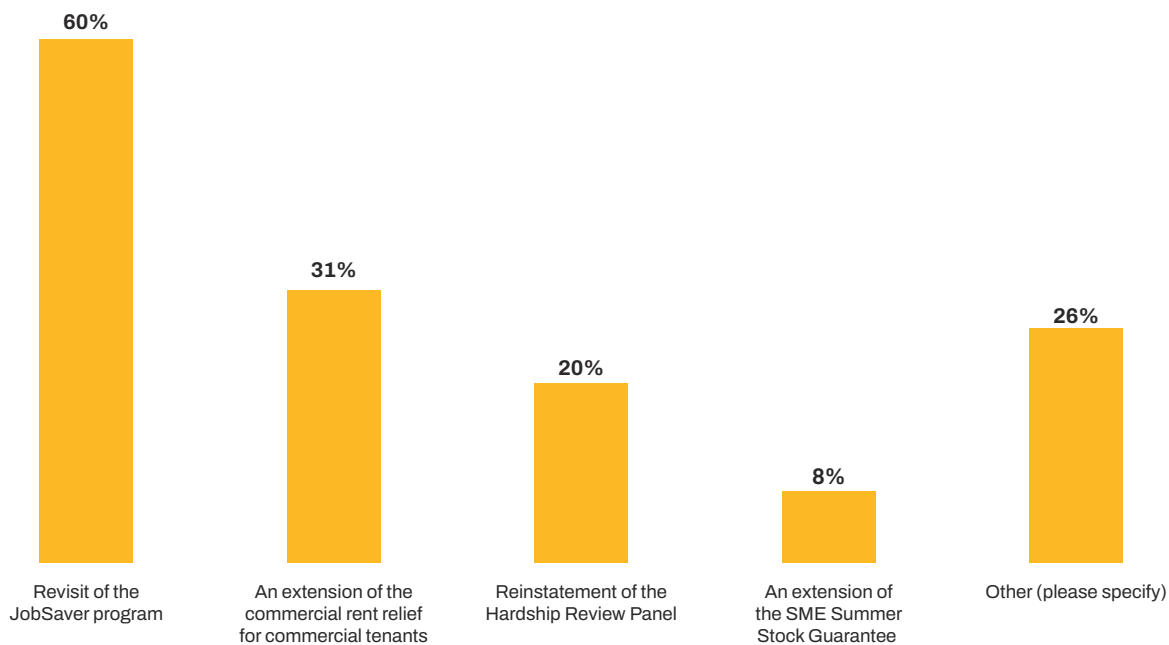


Figure 11: Additional government support beyond the next 3 months



Direct feedback from business owners

Summary and key points

The Omicron variant of COVID-19 has created a crisis in customer confidence as viewed by our business respondents. This is overwhelmingly reported to be the “leading issue”. Other issues are lesser, or following, issues.

Most businesses are finding ways around the challenges in supply chains, the shortage of available staff, the lack of RAT tests, however a sustained crisis in business appreciation/ observation of customer confidence is concerning.

There are some sectors such as construction, professional services that have longer term contracts that report managing challenges.

However, hospitality, tourism, retail, personal services, many smaller businesses with less than 10 staff and seasonal businesses that were relying on summer patronage; the next 3–6 months are far weaker, and more concerning.

Behind the crisis in confidence is a general, uniform, pervasive and deep sense of confusion, lack of clarity across numerous areas of Covid management, staff and consumer risk mitigation in this surge.

Individual, business management and consumer confidence will only start to recover if there is a consistent and clear narrative and absolute clarity on “living alongside” Covid practices and measures. How we live with Covid in the medium term will determine how many businesses can survive, adapt and thrive in the longer-term new Covid normal.

Currently confusion abounds in our membership who are exhausted from numerous changes in policy and approach, certainty is the key ingredient to rebuilding the economy. What seems to be emerging is a sense this time, that recovery may take much longer than anticipated and will need to address some fundamental restructure of parts of the economy.

Key themes from our members:

- crisis in customer confidence
- challenges in supply chains
- the shortage of available staff
- availability and costs of RAT tests
- absolute clarity of Government policy

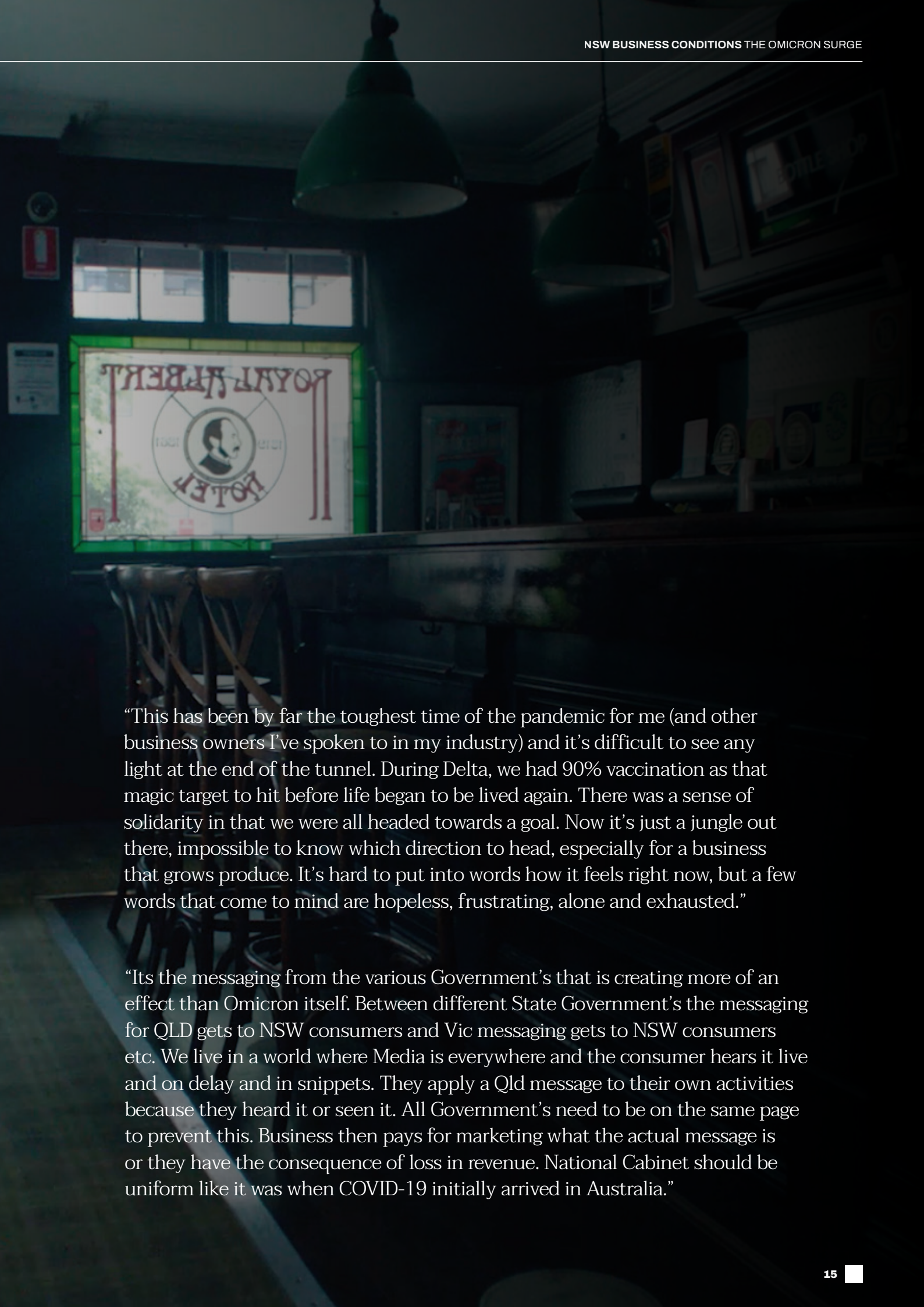
This feedback gives reasons being given are inter-related and multifaceted (unlike previous surveys which focused on fewer issues).

Supply issues:

- Lack of staff (due to having contracted COVID and/or being a closecontact).
- Supply chain issues
- Increased costs
- WHS measures (lack of RAT and PCR testing being a big one)
- Effect of government in/action

Demand issues:

- Consumer behaviour – being reticent to be in high-risk settings resulting in greatly reduced demand and cancellations.
- Nature of the industry (hospitality, beauticians etc.)
- What is interesting with this one is the overall effect these issues are having on the businesses and, more importantly, the impact on the individuals within the business.
- In addition to cashflow issues and whether the business can continue operating there is a strong theme of:
 - Uncertainty
 - Confusion
 - Mental health issues
- Unlike earlier surveys, blame for these outcomes is being placed at the feet of government & the media –the mixed-messaging and/or lack of coherent messaging.
- If this state continues, certain types of businesses may simply be unable to operate (due to lack of consumer demand linked to the business being a high-risk setting).



“This has been by far the toughest time of the pandemic for me (and other business owners I’ve spoken to in my industry) and it’s difficult to see any light at the end of the tunnel. During Delta, we had 90% vaccination as that magic target to hit before life began to be lived again. There was a sense of solidarity in that we were all headed towards a goal. Now it’s just a jungle out there, impossible to know which direction to head, especially for a business that grows produce. It’s hard to put into words how it feels right now, but a few words that come to mind are hopeless, frustrating, alone and exhausted.”

“Its the messaging from the various Government’s that is creating more of an effect than Omicron itself. Between different State Government’s the messaging for QLD gets to NSW consumers and Vic messaging gets to NSW consumers etc. We live in a world where Media is everywhere and the consumer hears it live and on delay and in snippets. They apply a Qld message to their own activities because they heard it or seen it. All Government’s need to be on the same page to prevent this. Business then pays for marketing what the actual message is or they have the consequence of loss in revenue. National Cabinet should be uniform like it was when COVID-19 initially arrived in Australia.”

Appendices

Regional breakdown - confidence

Figure 11: Business confidence index

	Business Confidence Index		
	Jan-22	Sep-21	Jun-20
NSW	-71	-76	-70
Central Coast (n=134)	-80	-71	-78
Capital Region (n=127)	-52	-81	-63
Central West (n=158)	-73	-72	-66
Coffs Harbour – Grafton (n=83)	-59	-80	-66
Far West and Orana (n=61)	-57	-61	-57
Hunter Valley (n=152)	-76	-83	-54
Illawarra (n=142)	-76	-77	-74
Mid North Coast (n=109)	-65	-82	-70
Murray (n=114)	-46	-54	-54
New England and North West (n=118)	-70	-75	-89
Newcastle and Lake Macquarie (n=148)	-77	-71	-69
Richmond – Tweed (n=169)	-68	-68	-65
Riverina (n=110)	-52	-69	-78
Southern Highlands and Shoalhaven (n=92)	-54	-70	-46
Sydney (n=1229)	-77	-81	-75
Eastern Sydney^ (n=873)	-79	-82	-74
Western Sydney^ (n=442)	-73	-80	-77

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

Confidence map

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

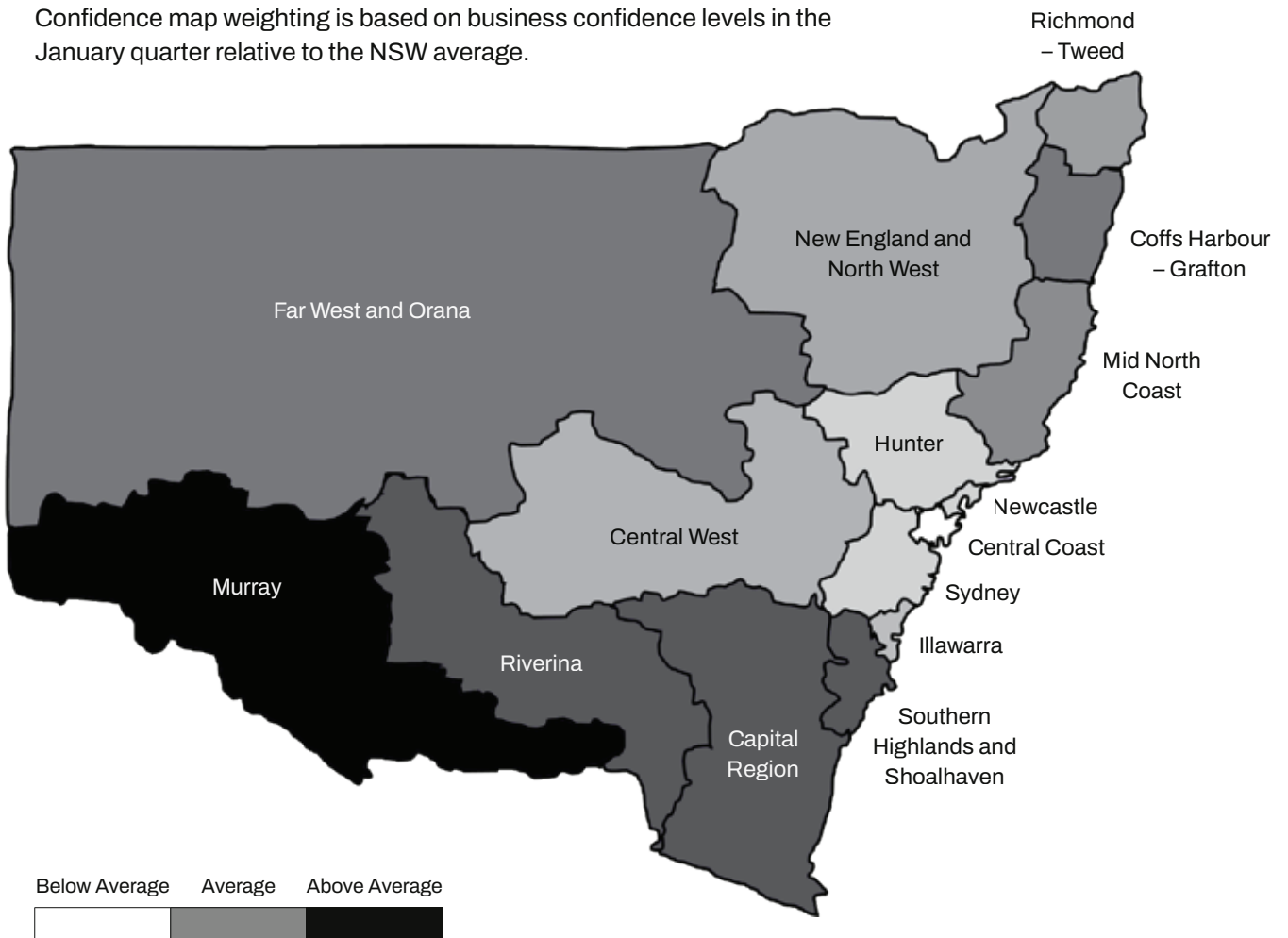


Figure 12: Expected business confidence index

	Expected Business Confidence Index		
	Jan-22	Sep-21	Jun-20
NSW	-48	-1	-27
Central Coast (n=134)	-48	21	-20
Capital Region (n=127)	-60	-9	-23
Central West (n=158)	-48	9	-5
Coffs Harbour – Grafton (n=83)	-50	-9	-17
Far West and Orana (n=61)	-53	-32	-52
Hunter Valley (n=152)	-46	10	-37
Illawarra (n=142)	-54	12	-42
Mid North Coast (n=109)	-48	19	-9
Murray (n=114)	-43	16	-41
New England and North West (n=118)	-51	-21	-23
Newcastle and Lake Macquarie (n=148)	-42	-26	-35
Richmond – Tweed (n=169)	-50	3	-13
Riverina (n=110)	-50	-8	-37
Southern Highlands and Shoalhaven (n=92)	-52	6	-12
Sydney (n=1229)	-45	-5	-30
Eastern Sydney^ (n=873)	-43	-1	-29
Western Sydney^ (n=442)	-48	-21	-32

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

Regional breakdown - conditions

Figure 13: Business conditions

	Business Conditions Index				
	Capital spending	Operating costs	Revenue	Profit	Staff
NSW	-63	14	-71	-78	-55
Central Coast (n=134)	-66	19	-79	-84	-53
Capital Region (n=127)	-59	3	-58	-65	-47
Central West (n=158)	-63	17	-68	-73	-49
Coffs Harbour – Grafton (n=83)	-63	2	-69	-78	-59
Far West and Orana (n=61)	-51	-3	-66	-82	-57
Hunter Valley (n=152)	-63	16	-72	-78	-55
Illawarra (n=142)	-66	6	-80	-84	-63
Mid North Coast (n=109)	-61	9	-65	-69	-47
Murray (n=114)	-54	-4	-51	-68	-54
New England and North West (n=118)	-64	9	-81	-87	-51
Newcastle and Lake Macquarie (n=148)	-57	11	-71	-75	-38
Richmond – Tweed (n=169)	-59	8	-68	-76	-62
Riverina (n=110)	-57	5	-46	-60	-48
Southern Highlands and Shoalhaven (n=92)	-57	17	-57	-64	-54
Sydney (n=1229)	-66	21	-76	-83	-58
Eastern Sydney^ (n=873)	-66	19	-79	-84	-57
Western Sydney^ (n=442)	-65	24	-70	-80	-60

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

Industry breakdown - confidence

Figure 14: Business confidence

	Business Confidence Index	Expected Business Confidence Index
NSW	-71	-48
Agriculture, Forestry and Fishing (n=64)	-52	-36
Mining (n=15)	-60	-40
Manufacturing (n=215)	-67	-43
Wholesale trade (n=110)	-66	-42
Retail trade (n=482)	-73	-57
Electricity, Gas, Water and Waste services (n=21)	-67	-38
Construction (n=181)	-63	-36
Transport, Postal and Warehousing (n=68)	-71	-60
Information Media and Telecommunications (n=77)	-81	-48
Public Administration and Safety (n=8)	-25	12
Education and Training (n=139)	-74	-47
Health Care and Social Assistance (n=214)	-74	-51
Accommodation and Food services (n=438)	-75	-50
Financial and Insurance services (n=81)	-62	-38
Rental, Hiring and Real Estate services (n=63)	-56	-41
Professional, Scientific and Technical services (n=336)	-74	-39
Administrative and Support services (n=36)	-61	-22
Arts and Recreation services (n=137)	-79	-53
Other services (n=236)	-71	-52

Industry breakdown - conditions

Figure 15: Business conditions

	Capital	Staff	Revenue	Profit	Operating costs
NSW	-63	-55	-71	-78	14
Agriculture, Forestry and Fishing (n=64)	-59	-45	-47	-59	-5
Mining (n=15)	-60	-53	-40	-53	27
Manufacturing (n=215)	-49	-50	-54	-71	13
Wholesale trade (n=110)	-64	-46	-70	-75	12
Retail trade (n=482)	-66	-54	-74	-80	5
Electricity, Gas, Water and Waste services (n=21)	-67	-62	-86	-76	19
Construction (n=181)	-56	-57	-62	-77	4
Transport, Postal and Warehousing (n=68)	-52	-62	-68	-75	12
Information Media and Telecommunications (n=77)	-65	-46	-70	-82	17
Public Administration and Safety (n=8)	-25	-38	-50	-50	13
Education and Training (n=139)	-63	-58	-82	-85	22
Health Care and Social Assistance (n=214)	-61	-60	-76	-81	11
Accommodation and Food services (n=438)	-70	-68	-77	-83	19
Financial and Insurance services (n=81)	-50	-46	-58	-69	10
Rental, Hiring and Real Estate services (n=63)	-54	-43	-54	-60	11
Professional, Scientific and Technical services (n=336)	-64	-46	-70	-76	19
Administrative and Support services (n=36)	-61	-61	-58	-72	22
Arts and Recreation services (n=206)	-67	-60	-79	-81	22
Other services (n=282)	-66	-57	-80	-85	21



Contact

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**TOGETHER
BUSINESS**