NSW Business Conditions

COVID-19 Special Edition - March 2020

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

BUSINESS NSW

NSW This Quarter

The NSW economy is facing multiple economic shocks which have severely impacted business confidence and the economic outlook in the first quarter of 2020. Business confidence is the weakest since 2009 extending what has already been a weak period for the NSW economy.

The Business Conditions Survey reflects the early impacts of COVID-19 capturing supply chain interruptions and reduced overseas visitor arrivals. The economic impacts have subsequently broadened along with ongoing business shutdowns and social distancing measures. Businesses have had to enter hibernation with significant adjustments to staffing levels and capital spending.

In this special edition of the Business Conditions Survey, we asked additional questions to understand the relative impact of COVID-19, bushfires, drought and other weather events that have impacted NSW in the first quarter of this year. This survey provides unique insight into how business attitudes changed during the critical transition period between the first wave of shutdown measures which commenced from 16 March through to the implementation of more aggressive measures from the week beginning 23 March. The results of these questions are included as a special supplement.

Business conditions are deteriorating rapidly. There was a doubling of COVID-19-related revenue losses reported by respondents between weeks one and two of the survey period. The impact of COVID-19 on confidence is most apparent when examining business expectations for the next quarter where confidence has fallen at an unprecedented rate. While it is clear that COVID-19 represents the most significant threat to the economy, some regions and industries have also been acutely impacted by other factors such as bushfires and drought which have had a concentrated impact in some parts of NSW.

Businesses experiencing the cumulative impact of two or more adverse events have been the hardest hit. On an industry basis, tourism businesses were the most severely impacted with *Arts and Recreation services* and *Accommodation and Food services* impacted by the combined effect of COVID-19 and the 2020 bushfires. Similarly, businesses in the *Capital Far South* and *New England North West* have been affected by the 2020 bushfires and drought. The business impacts of COVID-19 are so far more severe in metro areas.

The staffing and capital spending indices have fallen sharply suggesting businesses are no longer investing and are in the process of reducing staffing costs. Business revenue has also fallen sharply. These trends are consistent with what has been observed through Business NSW's engagement with businesses over the past several weeks.

Full survey results including detailed regional and industry-level data can be found at:
https://www.businessnsw.com/advocacy/surveys/business-surveys

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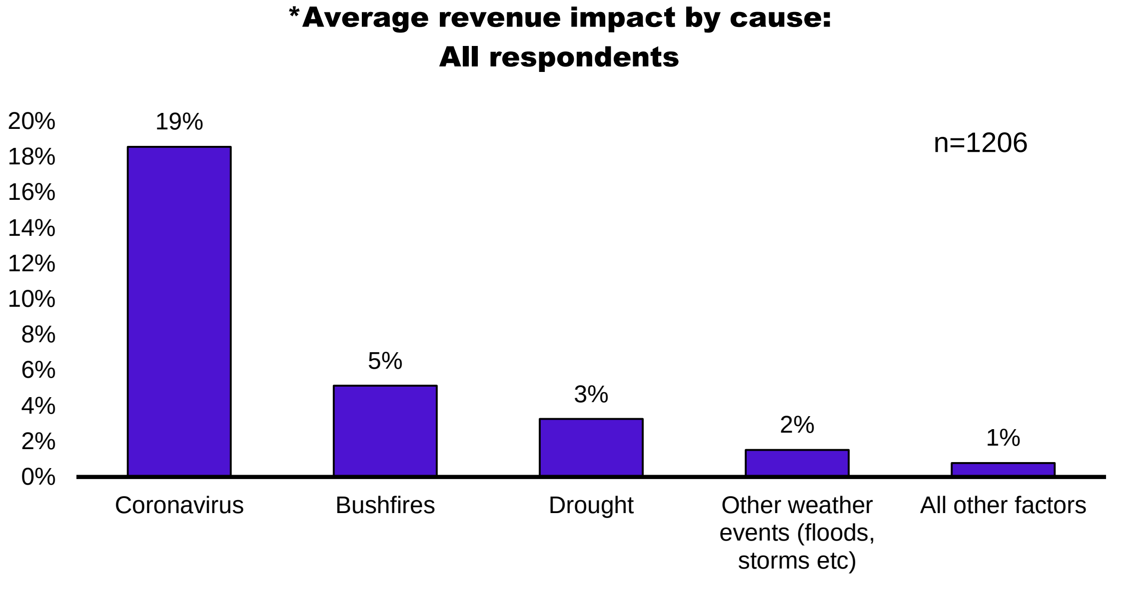
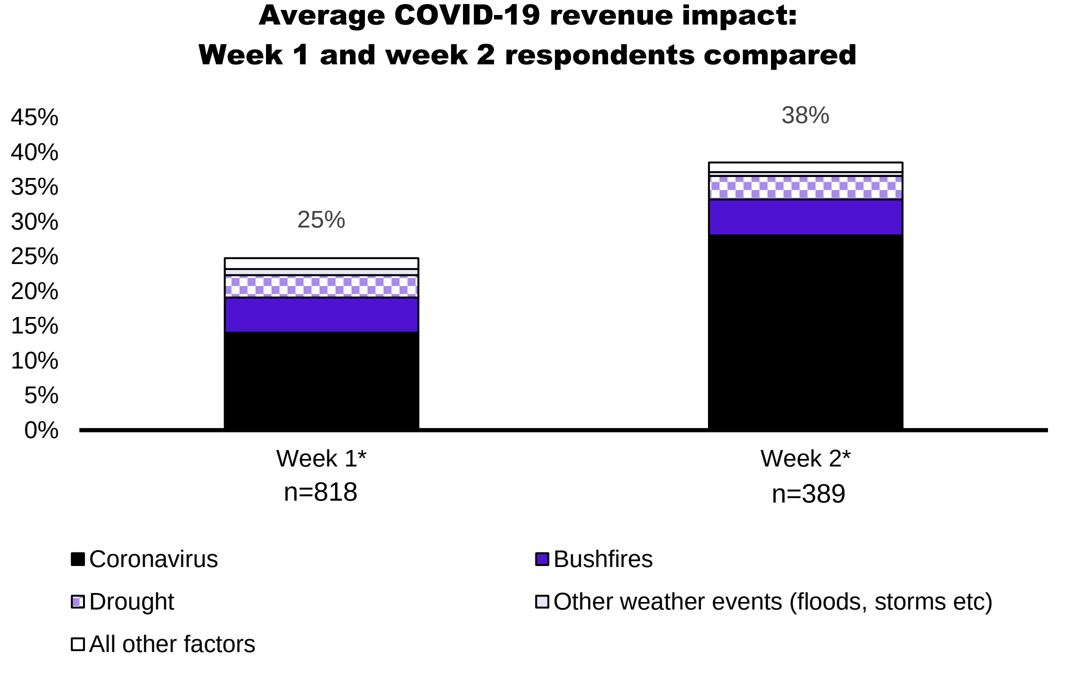
Business NSW

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, industry groups, as well as business and community leaders to provide a voice for our members. Operating throughout a network in metropolitan and regional NSW, Business NSW represents the needs of business at a local, state and federal level.

Revenue Impacts



*Calculated as a weighted average using responses to the following questions:
-To what extent is current revenue below what you expected it to be?
-Out of 100, what share of your business's lower revenue do you attribute to each of the following factors?



*Week 1 refers to the period from 16-22 March 2020 and week 2 refers to responses 23-27 March inclusive.

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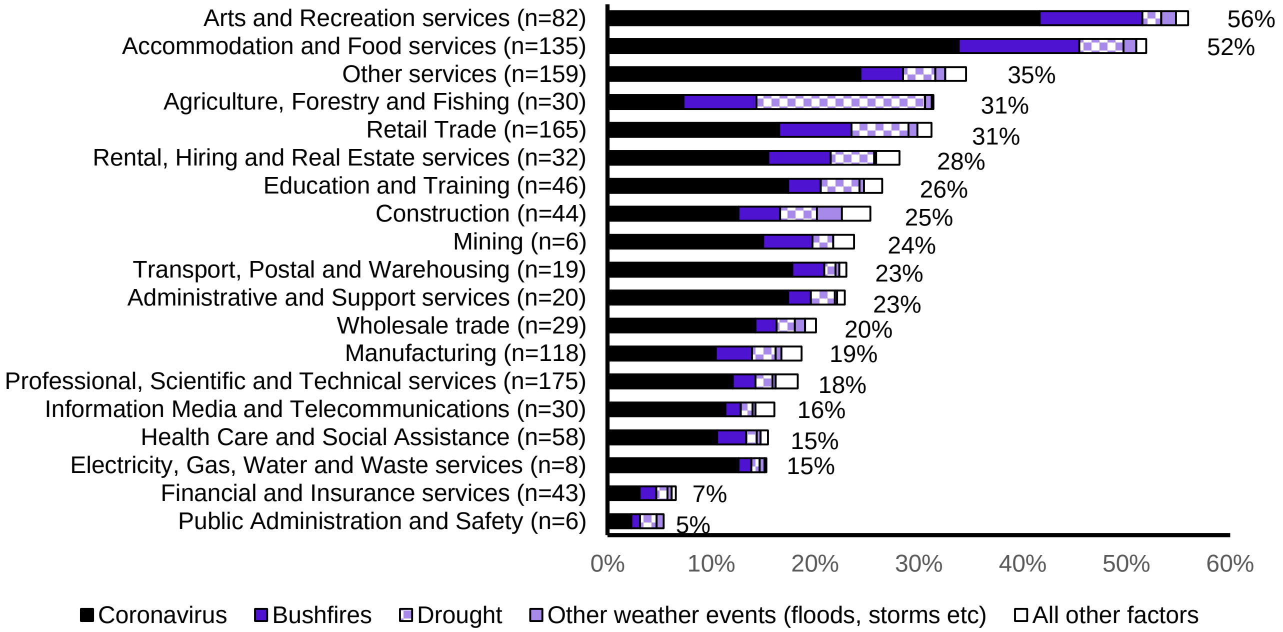
Revenue Impacts

*Cumulative revenue impacts by industry and cause



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-To what extent is current revenue below what you expected it to be?
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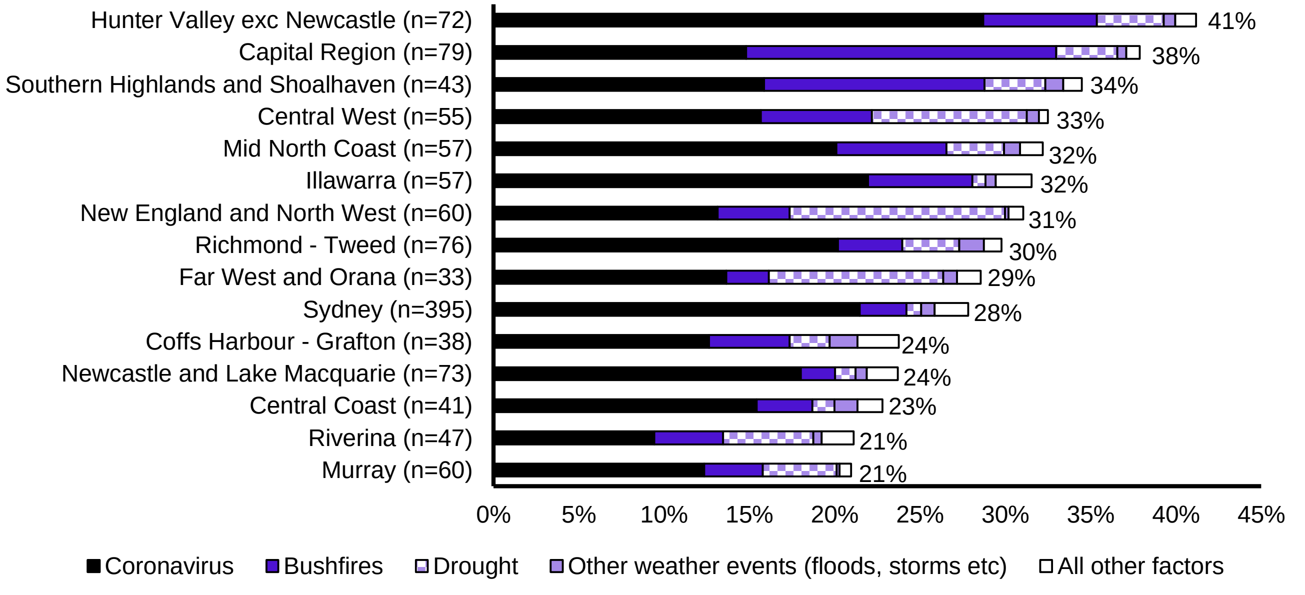
*Cumulative revenue impacts by region and cause



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-To what extent is current revenue below what you expected it to be?
-Out of 100, what share of your business's lower revenue do you attribute to each of the following factors?

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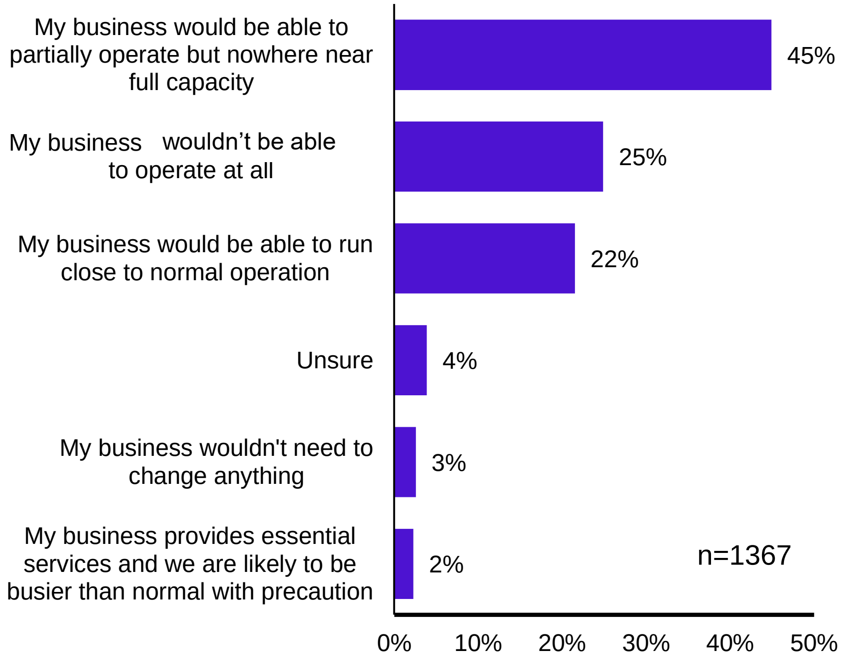
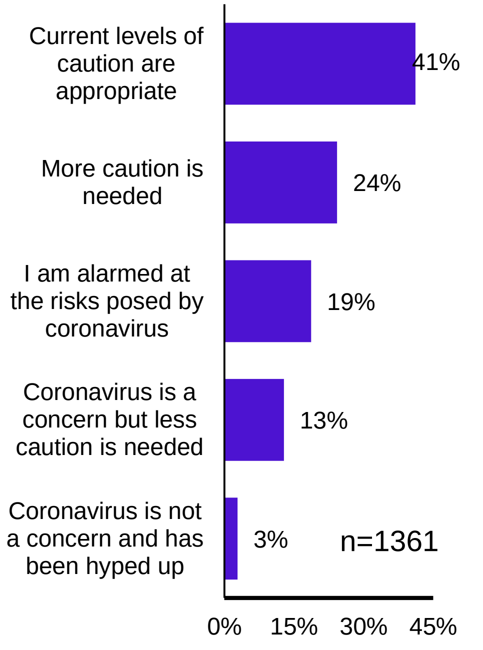
Business Attitudes

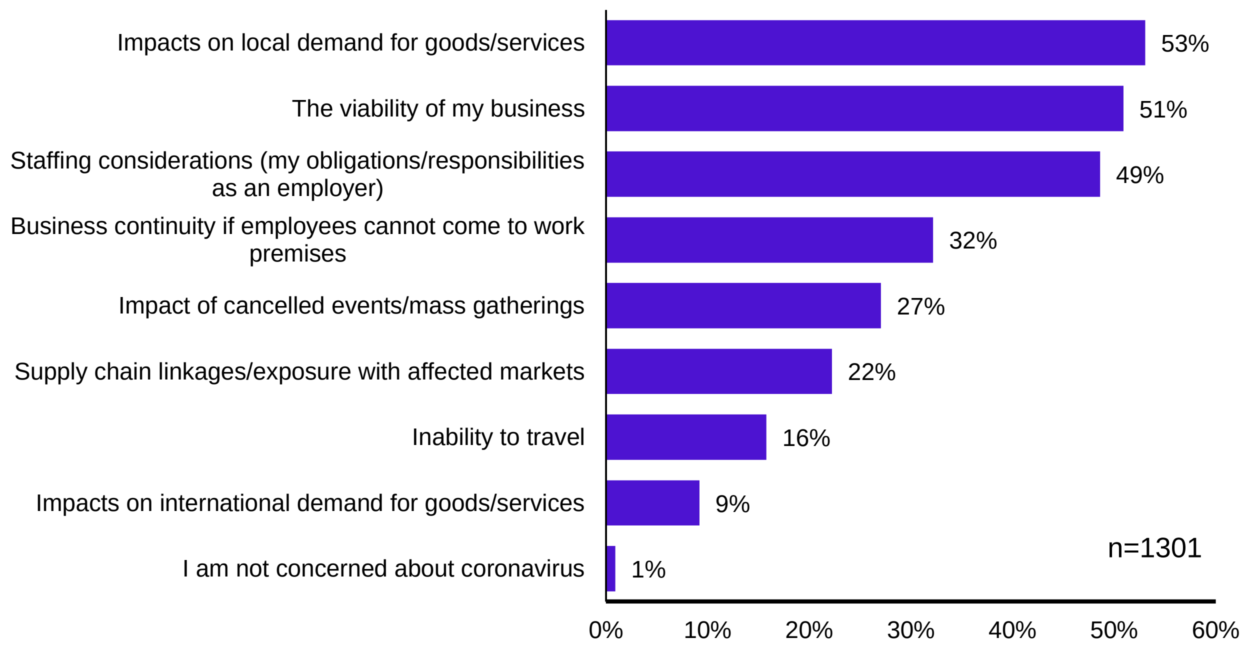
How prepared is your business to remain operational in the event of significant lock-down measures or social distancing?



What is your attitude about current levels of caution exercised to address coronavirus?



***What are your biggest concerns about the impact of coronavirus on your business?**



*Respondents were asked to nominate up to three of their top concerns.
Percentages refer to the number of respondents nominating each factor as a top concern.

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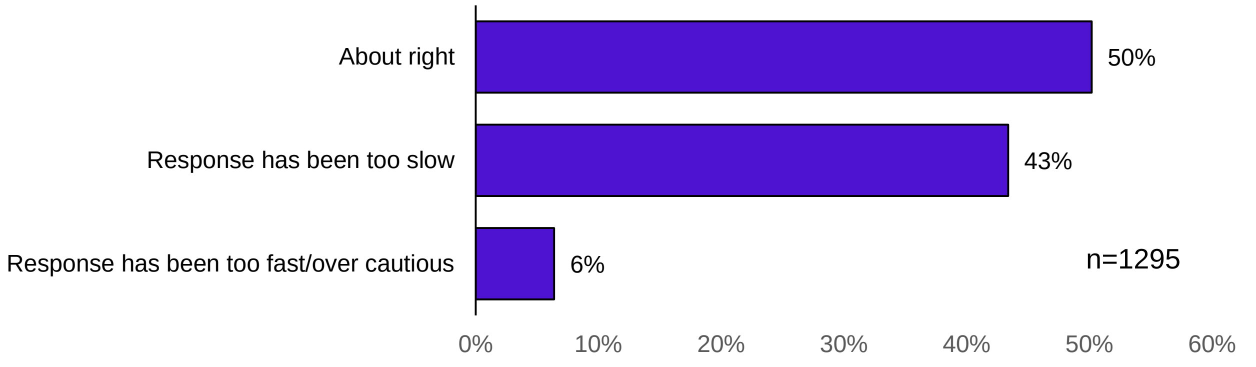
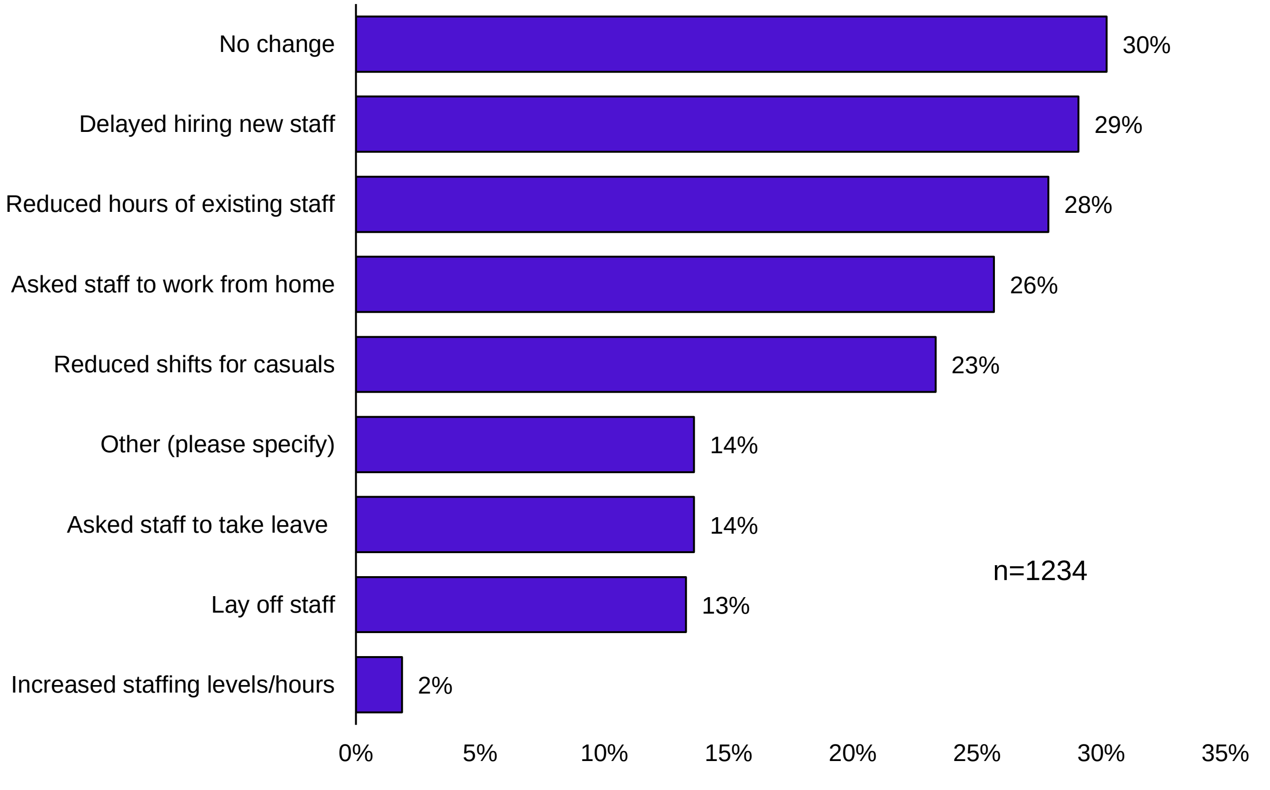
Business Attitudes

What are your views regarding the speed of response from the authorities?



If you are an employer, has your business taken any of the below responses (select any/all that apply)?



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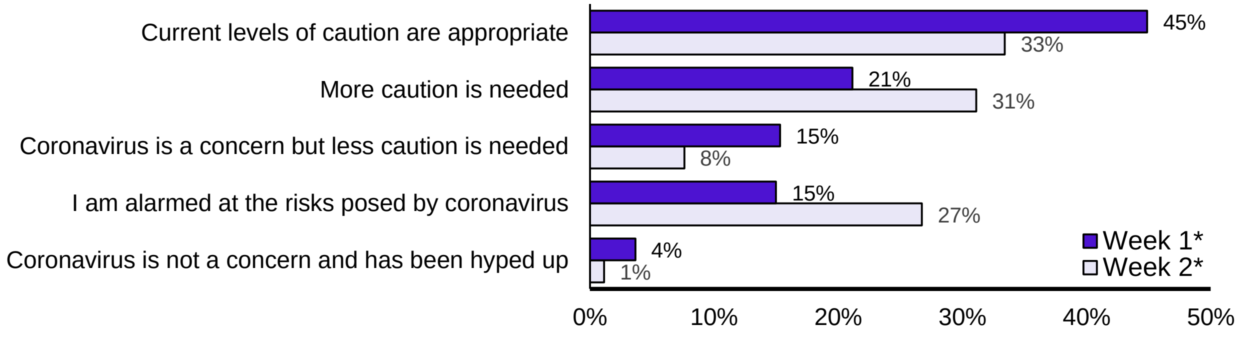
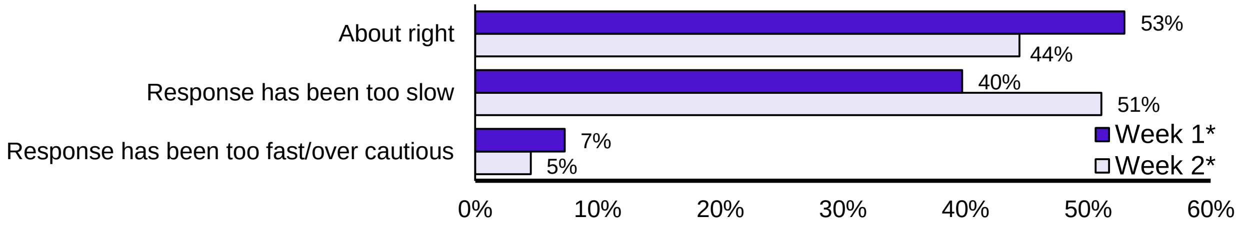
Attitude changes over the survey period

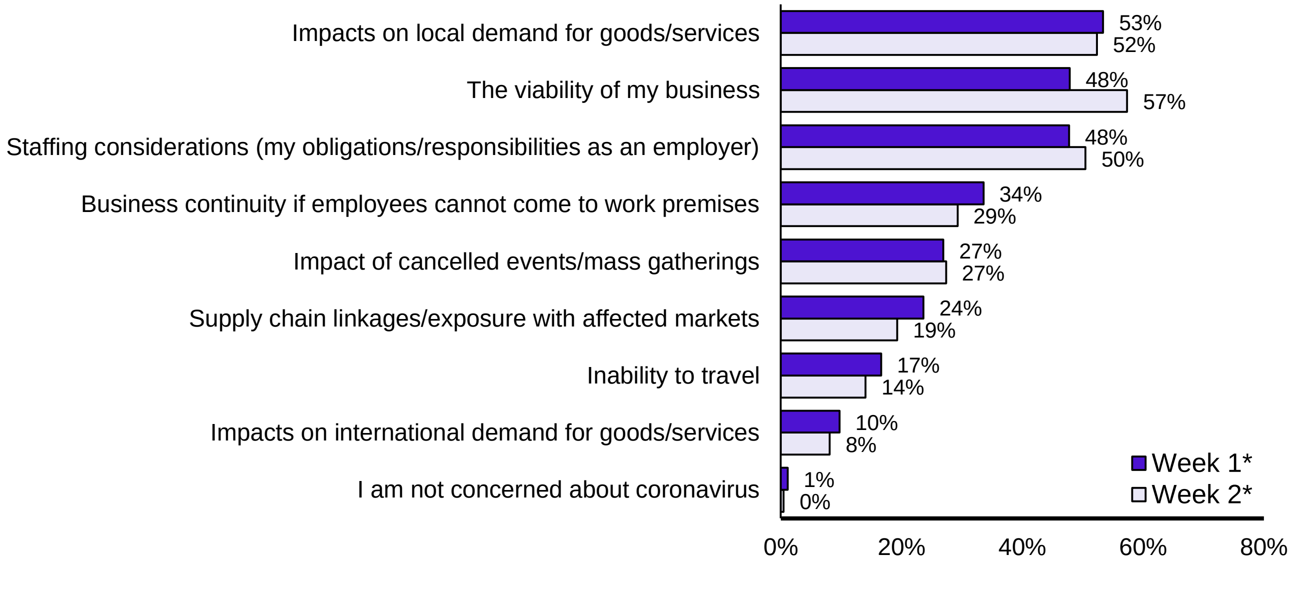
What is your attitude about current levels of caution exercised to address coronavirus? n=927(w1); n=434(w2)



What are your views regarding the speed of response from the authorities? n=876(w1); n=419(w2)



What are your biggest concerns about the impact of coronavirus on your business? n=884(w1); n=420(w2)



*Week 1 refers to the period from 16-22 March 2020 and week 2 refers to 23-29 March 2020.

BUSINESS NSW

Our Starting Point: NSW Before COVID-19*

Unemployment rate 4.6%

Well below trend and the second lowest in the country (among states).

45,464 new jobs over the past year

Employment growth below trend, and the third slowest in the country.

1.6% growth in State Final Demand

Well below trend and fourth fastest in the country (among states and territories).

Growth forecasts to be revised

Gross State Product was forecast to grow by 2.5% (yet to be revised).

$33.8 bn in private capital expenditure

Over the past year, 1.8% higher than the same time last year.

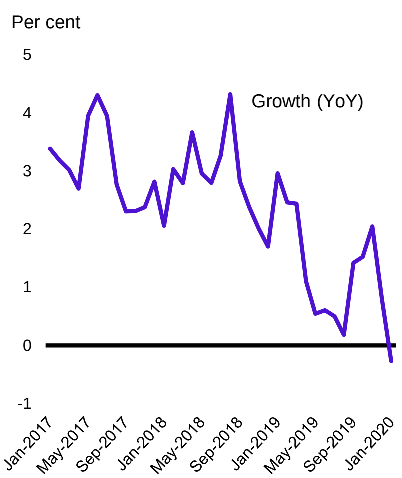
The bottom line

The NSW economy is facing extreme challenges. Timely and well-targeted support is needed to shore up businesses and maintain employment.

Source: ABS, NSW Government, Business NSW.
*Latest data corresponds with the period before COVID-19.

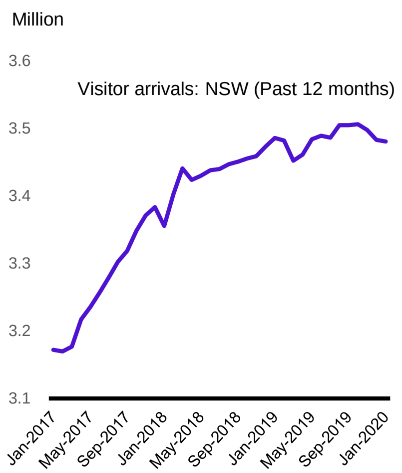
NSW Industry Indicators

NSW Retail Turnover



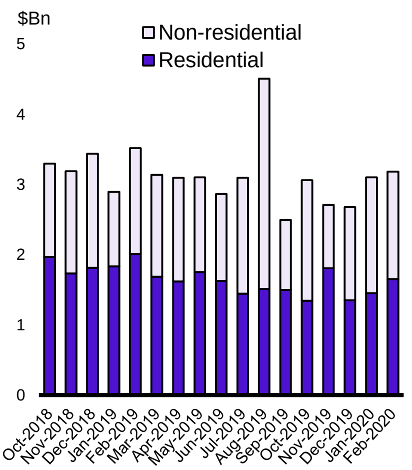
Note: Seasonally Adjusted

NSW Visitor Arrivals



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

NSW Building Approvals

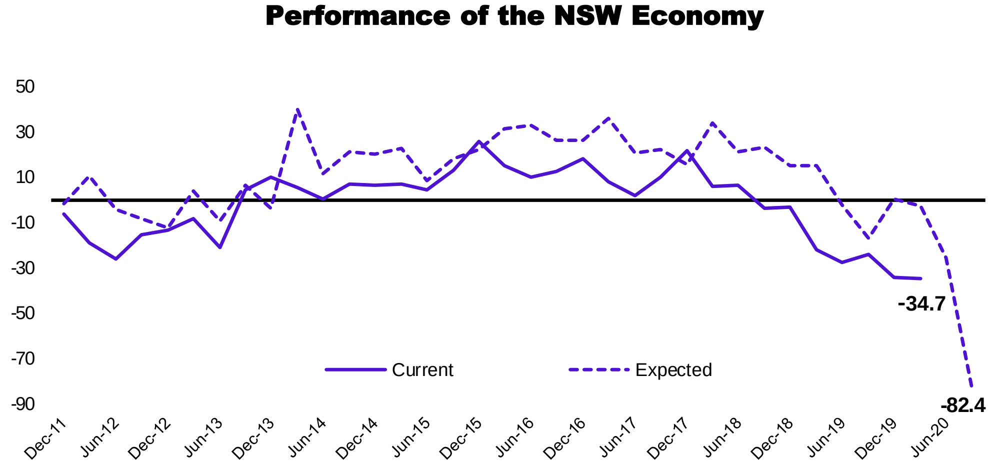


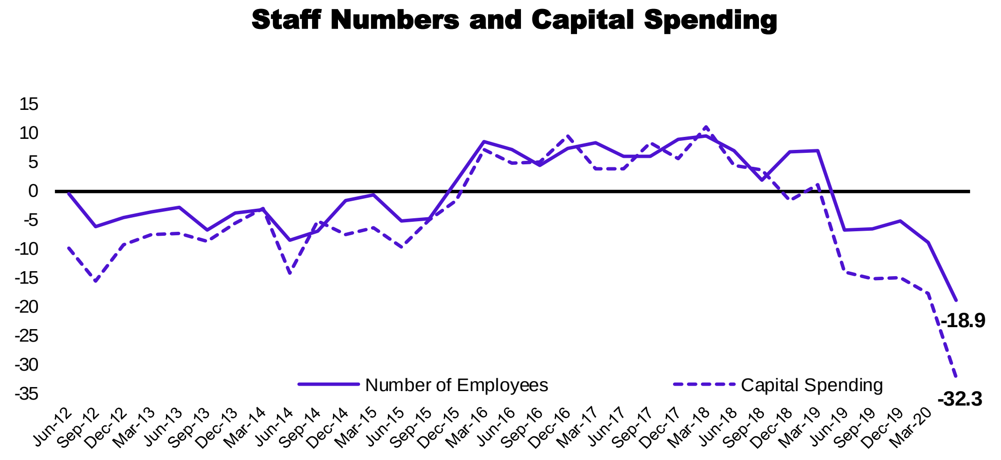
Note: By value, Seasonally Adjusted

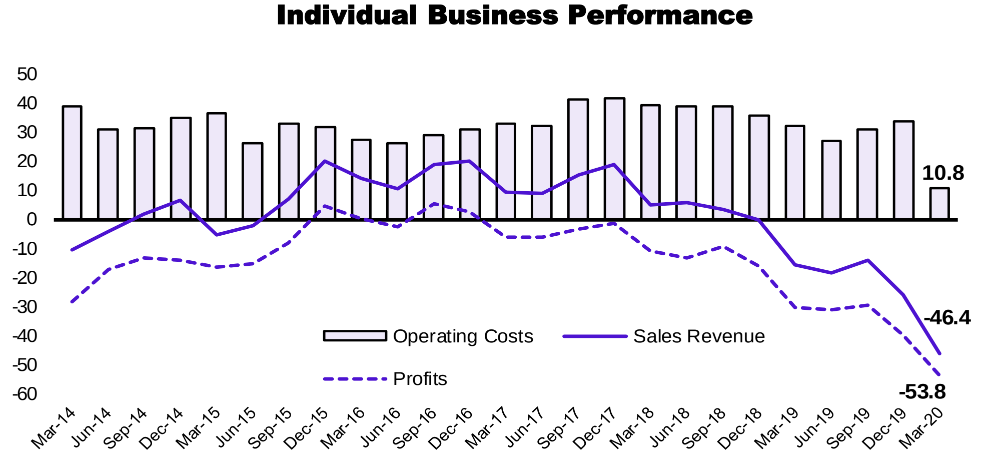
Source: ABS

Survey Results

Significant impacts from COVID-19, bushfires and other weather-related events







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 increasing cost pressures) whereas a negative number implies weaker conditions. There were 1,646 respondents to the Business Conditions component of the survey.

Overview

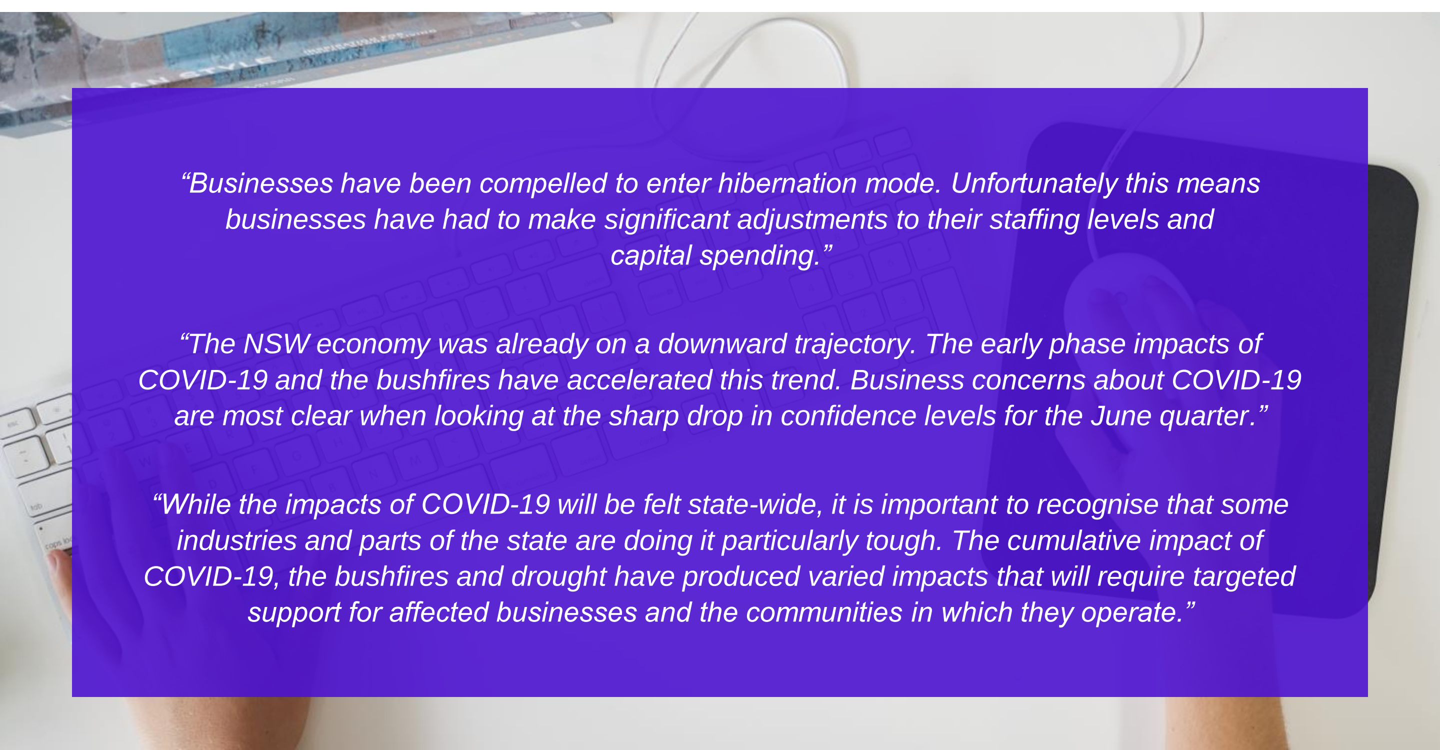
- **Performance of the economy:** Business perceptions about the performance NSW economy has been in decline over the past several years to reach GFC lows. More than half of respondents rated the March quarter as weaker than the previous. The impact of COVID-19 is most clear in the 87 per cent of respondents expecting a weaker June quarter.

- **Business expansion:** Reflecting weaker confidence levels, businesses have dramatically scaled back their capital spending and staffing levels. Around 27 per cent of respondents indicated their staffing levels were lower compared to the previous quarter while 47 per cent indicated capital spending was also down.

- **Business performance:** Revenue and profits fell sharply continuing a trend evident since the end of 2017. Weak private demand has been weighing on business performance for some time however the early phase impacts of COVID-19 (such as reduced overseas visitors), as well as the bushfires, has further weakened demand in the March quarter.

- **Business priorities and challenges:** Businesses are preparing to weather the impacts of COVID-19. In doing so, there has been a rapid shift in business priorities away from growth objectives such as expanding capacity and growing revenue. Instead, businesses have become more concerned about business solvency and downsizing their business.

- **Business costs:** Respondents report a sharp fall in operating costs. It is unclear the extent to which this relates to businesses exercising spending restraint or whether it is due to a reduction in the cost of inputs. There is some evidence of cost relief in areas such as *distribution and transport*, and *energy*. Respondents reported higher telecommunications costs.

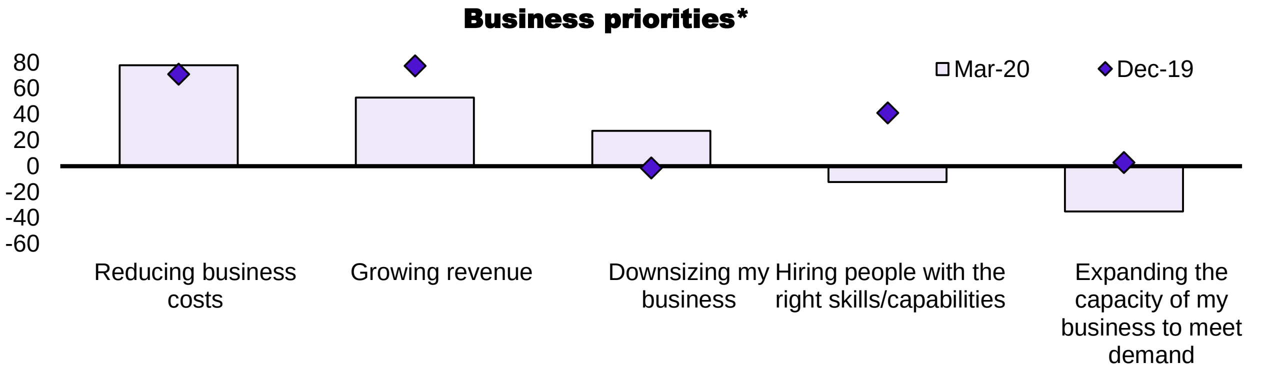


“Businesses have been compelled to enter hibernation mode. Unfortunately this means businesses have had to make significant adjustments to their staffing levels and capital spending.”

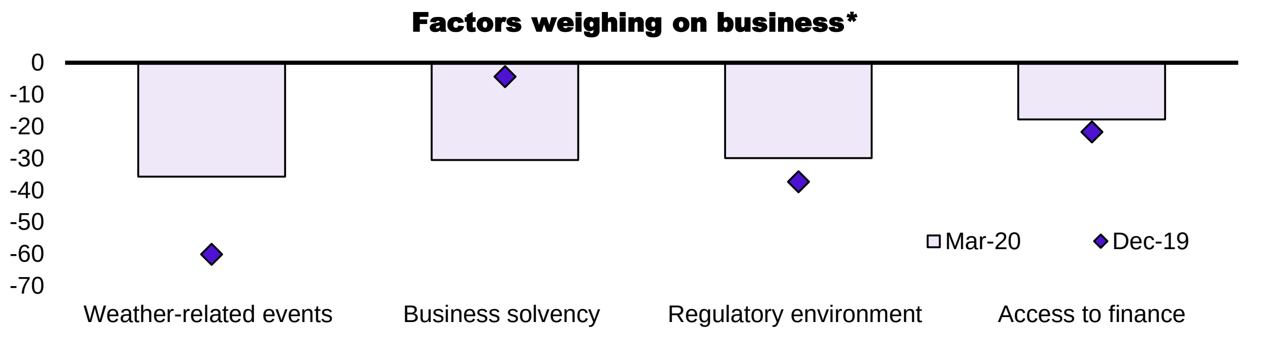
“The NSW economy was already on a downward trajectory. The early phase impacts of COVID-19 and the bushfires have accelerated this trend. Business concerns about COVID-19 are most clear when looking at the sharp drop in confidence levels for the June quarter.”

“While the impacts of COVID-19 will be felt state-wide, it is important to recognise that some industries and parts of the state are doing it particularly tough. The cumulative impact of COVID-19, the bushfires and drought have produced varied impacts that will require targeted support for affected businesses and the communities in which they operate.”

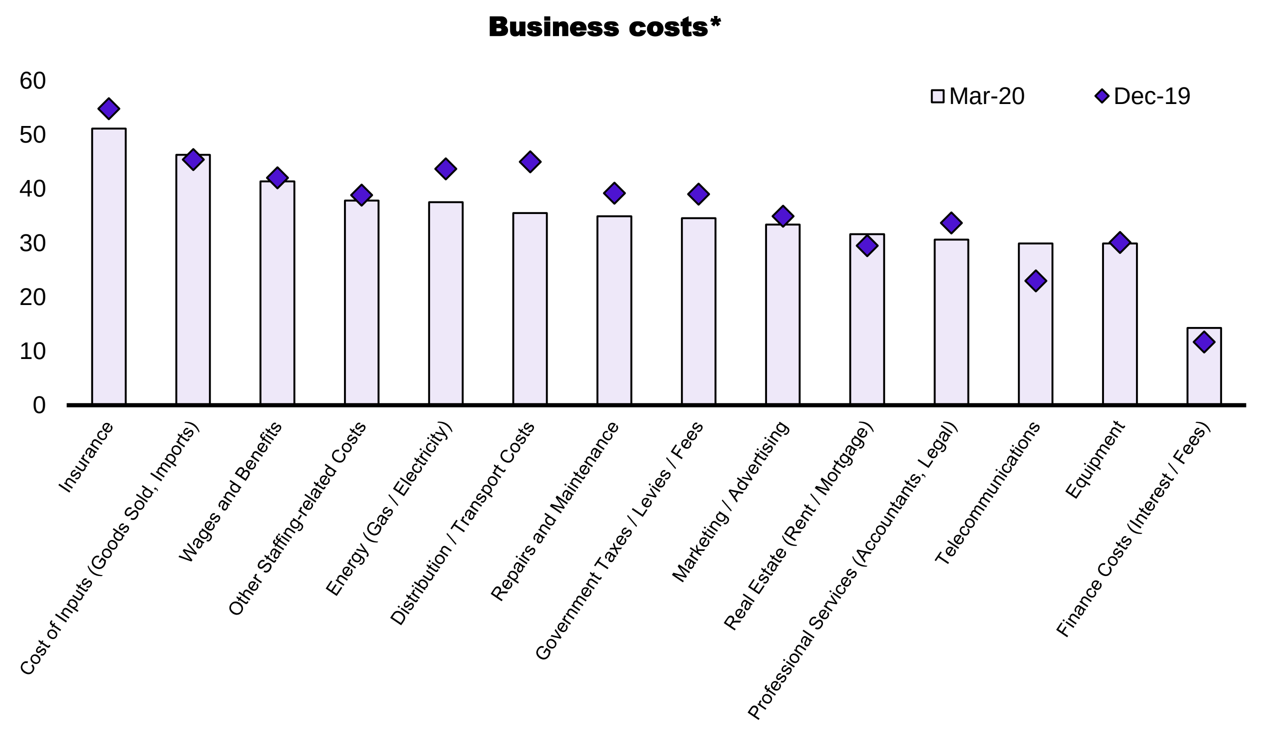
The Business Environment



*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.



*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.



*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.

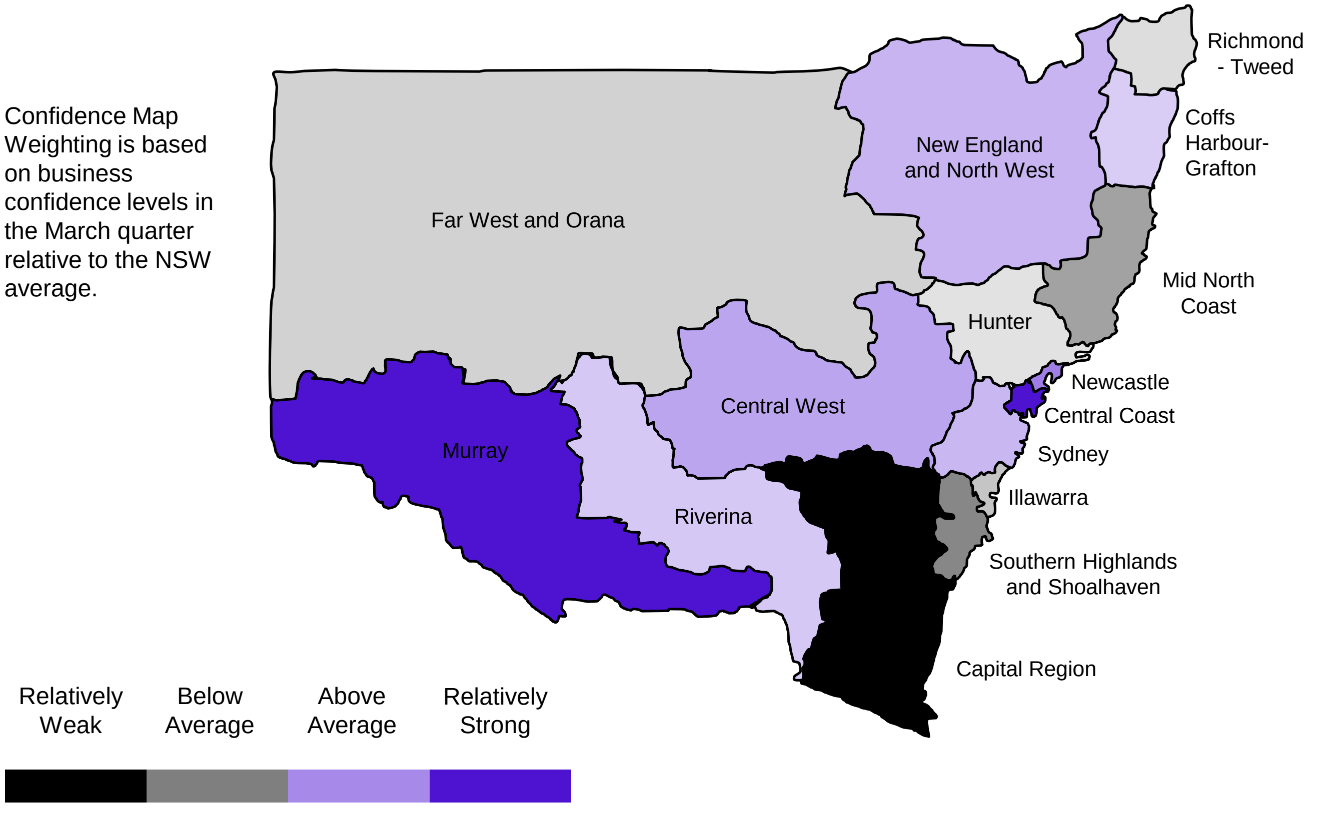
Regional Performance

Region	Business Confidence#		Unemployment rate*	Youth Unemployment rate*
	March 2020 Quarter (Index)	Past Four Quarters (Index)		
NSW	-34.0 (n=1646)	-30.9 (n=3916)	4.6%	11.6%
Sydney	-28.0 (n=579)	-25.5 (n=1179)	4.4%	9.9%
Central Coast	-14.5 (n=55)	-17.4 (n=172)	5.0%	9.3%
Capital Region	-74.1 (n=108)	-63.0 (n=192)	3.7%	12.1%
Central West	-26.5 (n=80)	-36.6 (n=194)	3.3%	9.3%
Coffs Harbour - Grafton	-29.8 (n=57)	-26.2 (n=149)	5.5%	12.9%
Far West and Orana	-41.0 (n=39)	-39.6 (n=106)	2.7%	6.2%
Hunter Valley	-38.5 (n=96)	-27.8 (n=187)	4.5%	9.6%
Illawarra	-43.0 (n=79)	-37.9 (n=211)	6.0%	14.7%
Mid North Coast	-48.6 (n=74)	-30.0 (n=217)	6.6%	15.4%
Murray	-14.5 (n=83)	-22.5 (n=231)	4.5%	7.6%
New England and North West	-27.8 (n=79)	-41.4 (n=232)	4.7%	8.0%
Newcastle and Lake Macquarie	-23.4 (n=94)	-19.6 (n=235)	4.5%	11.2%
Richmond - Tweed	-39.2 (n=102)	-33.8 (n=263)	4.2%	10.0%
Riverina	-29.4 (n=68)	-24.9 (n=169)	4.7%	7.4%
Southern Highlands and Shoalhaven	-52.8 (n=53)	-55.5 (n=119)	8.0%	22.1%

*Data updated as of 1 April 2020, annual averages used for regional unemployment rates (excluding NSW). #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. 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 March quarter relative to the NSW average.



Source: ABS, Business NSW Business Conditions Survey

Cover photo by Kate Trifo on Unsplash