



**BUSINESS  
NSW**

# **NSW Business Conditions**

**March 2021**

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

**Overview:** After bouncing back in the last two quarters of 2020, the NSW Business Confidence Index fell in the first quarter of 2021 (to end March). Despite the cumulative reduction in business restrictions over the quarter, business confidence was reduced following the short-term tightening of restrictions across NSW and other states in late-December 2020 after COVID outbreaks in Sydney (p. 4). The index is still higher than it was in March 2020.

Businesses face rising costs across all measures. Operating costs such as *wages and benefits, other staff-related costs, cost of inputs, and marketing and advertising* indexes and other costs such as *government taxes, levies and fees, and finance costs* indexes are increasingly more rapidly, compared to the previous quarter (p.6).

Business performance, including revenue, profits, staff hiring and capital investment, declined in tandem with weaker business confidence, with revenue and profits reduced close to the March 2020 level (p. 4). The economy remains vulnerable to further shocks. Even brief and temporary restrictions on business activities have negative impacts on business performance.

**State and industry development:** The population serving industries (including *Arts and Recreation Services, and Accommodation and Food Services*) exhibited the largest decline in confidence and business performance. This caused connected industrial sectors (including *Wholesale Trade, Manufacturing, and Transport, Postal and Warehousing*) to also reduce business activity, though to a lesser extent.

Confidence in primary, knowledge intensive, and health and education industries remain positive, with improvement in staff hiring and capital investment in knowledge intensive and health and education sectors. This disparity of performance reflects an uneven effect of restrictions and rising costs, resulting in a divergence in the pace of recovery across industries.

All regions in NSW, except the Capital Region, demonstrated a slowdown in confidence and business activities compared to the previous quarter, with *Central Coast and Far West and Orana* the hardest-hit.

**Potential impact of the end of JobKeeper:** A considerable proportion of businesses which were receiving JobKeeper expected reduced profits, headcount, staff hours and investment with the withdrawal of JobKeeper at the end of March 2021 (p. 8). Of the businesses still receiving JobKeeper, 33 per cent indicated they may have to close their business either permanently or temporarily. These potential adverse impacts were reported by all recipients of JobKeeper, irrespective of industry.

It remains highly uncertain whether future initiatives will be sufficient to offset potential detrimental effects of JobKeeper ending and prevent a further slowdown in business confidence and conditions.

**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

As NSW's peak business organization, Business NSW has more than 30,000 member businesses across NSW. We work with businesses spanning all industry sectors including small, medium and large enterprises. Operating throughout a network in metropolitan and regional NSW, Business NSW represents the needs of business at a local, state and federal level.



# THE NSW ECONOMY



## NSW unemployment rate 5.6%

42,001 people re-joined the NSW labour force in February while participation continued to strengthen.



## 95% of NSW jobs lost\* have been recovered

while employment returns to pre-COVID level nationwide.

*\*based on employed persons in February*



## 2.9% increase in NSW State Final Demand\*

The fourth strongest rebound in Australia in the December quarter.

*\*Q4 2020 compared to Q3 2020*



## Gross State Product\* to fall ½ per cent in 2020-21

before rebound to 2 ¾ per cent in 2021-22.

*\*NSW Treasury forecast*



## Card Spending\* grew 19%

with NSW spending growth broadly tracking sideways.

*\*The period covers the week ending 19 March 2021 with growth compared with the same time in 2019.*

## The bottom line

Business confidence fell again in March prior to the end of JobKeeper. Uncertainty remains how these policy changes will affect confidence and conditions over the course of the year.

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

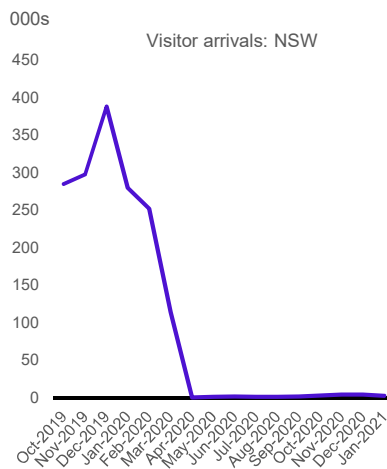
# NSW INDUSTRY INDICATORS

## NSW retail turnover



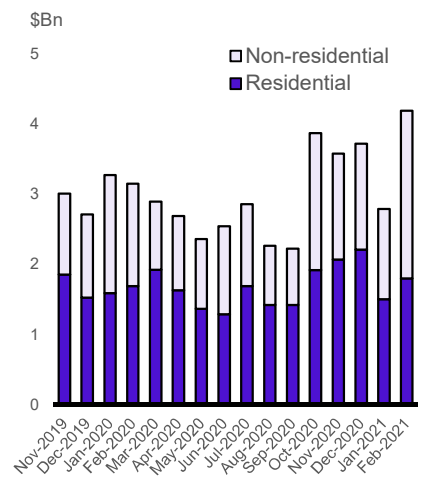
Note: Seasonally adjusted

## NSW visitor arrivals



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

## NSW building approvals



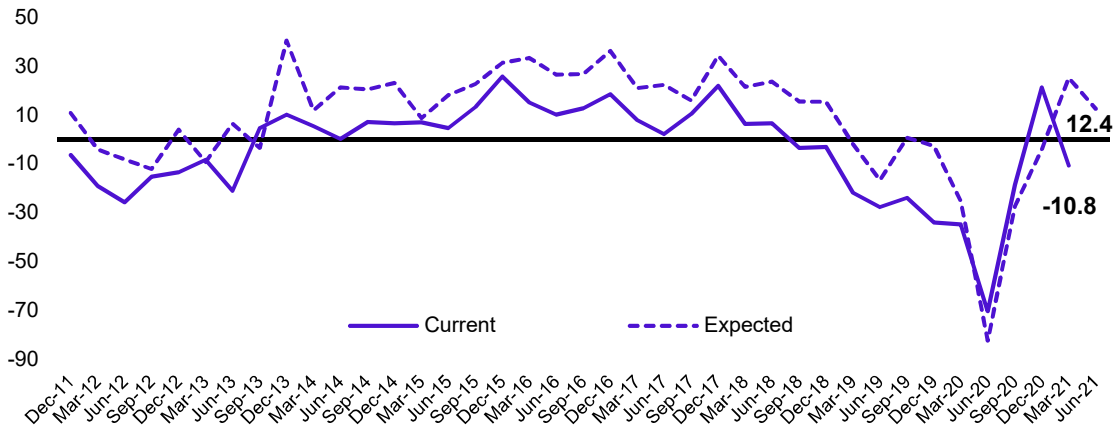
Note: By value, seasonally adjusted

Source: ABS

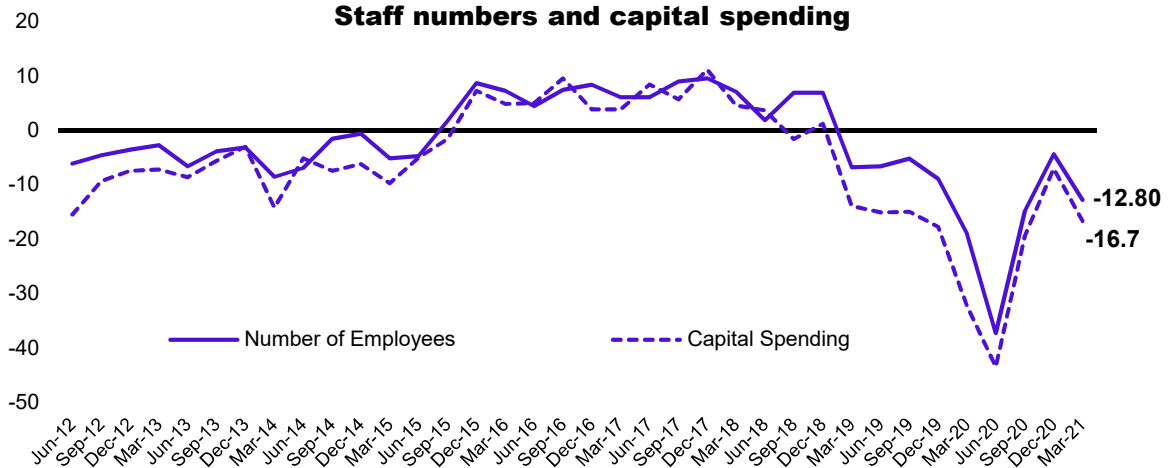
# SURVEY RESULTS

Conditions were declining ahead of the end of JobKeeper in March.

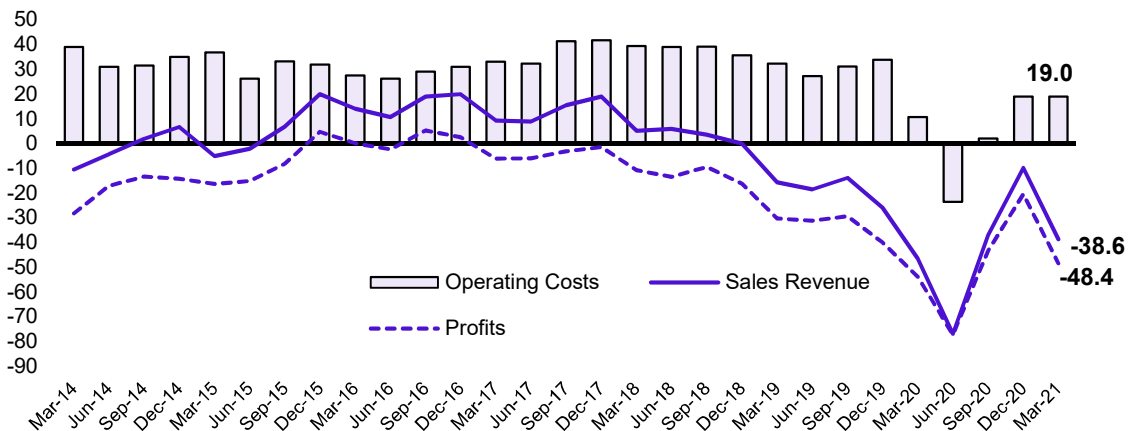
**Performance of the NSW economy**



**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 851 respondents to the survey.

## KEY FINDINGS

- **Performance of the economy**

The NSW business confidence index fell in the March quarter 2021, with more businesses viewing the economy as getting weaker (39 per cent) than viewed it as getting stronger (29 per cent) (p.4). Performance is worse than in the December quarter 2020 when more businesses considered the economy to be getting stronger (47 per cent) than regarded it as getting weaker (26 per cent).

- **Business costs**

Many key cost indexes increased from the previous quarter as support programs continued to unwind (p. 6). *Wages and benefits, and other staffing-related costs* index continued to rise, with almost half (50 and 47 per cent respectively) of respondents reporting that these costs were becoming less affordable compared to around 37 per cent in the December 2020 quarter.

- **Businesses at risk**

Given a decline in conditions, an increasing number of businesses are looking to downsize capacity, with 40 per cent of businesses prioritising downsizing in the March 2021 quarter compared to 30 per cent in the previous quarter (p. 6). Tighter restrictions and higher costs make it more difficult to stay afloat, with 32 per cent of businesses showing solvency became less manageable compared to 22 per cent in the last quarter of 2020 (p. 6).

Sixty-six per cent of respondents currently receiving JobKeeper expected reduced profits with the withdrawal of JobKeeper at the end of March (p. 8). While this decline in profits may not translate to a slowdown in all businesses, around half of respondents reported that this policy change will lead to reductions in headcount, staff hours and investment. Around 33 per cent of businesses reported they may have to close their business either permanently or temporarily.

- **Business performance**

After a strong rebound over the second half of 2020, the proportion of businesses reporting higher revenue and profit over the three-month period fell this quarter as a result of less favourable operating environment (p. 4). Only 17 per cent of businesses indicated revenue was higher in January-March than the previous quarter, and 14 per cent indicated profit had increased. These proportions are close to the March 2020 level.

- **Hiring challenges**

Hiring and investment remained relatively stable this quarter compared to other key measures. Twelve per cent of respondents reported increased staffing levels this quarter, compared to 17 per cent in the previous quarter. Twenty-five per cent of businesses reported increased capital spending this quarter, compared to 29 per cent in December (p. 4).

## COMMENTS FROM BUSINESSES

**“Business has improved but so have costs. Uncertain in April whether with no Jobkeeper or rent relief we will be able to continue.”**

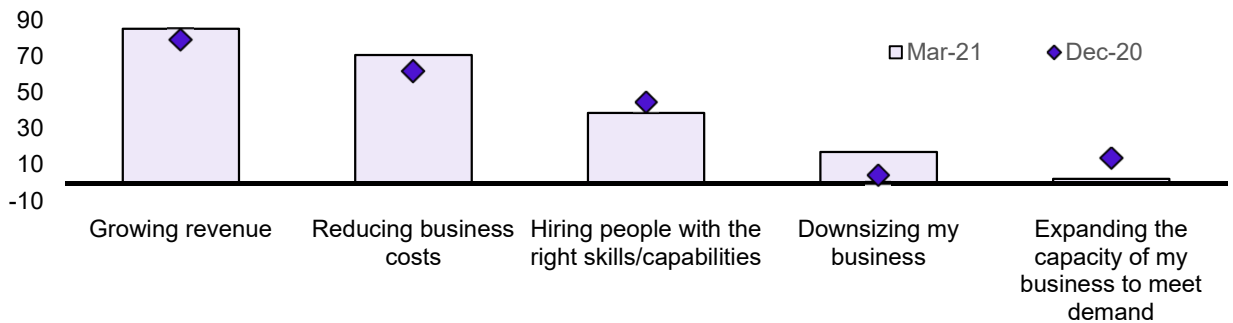
*Accommodation and Food Services, Greater Sydney*

**“The future continues to be uncertain as whilst COVID has lead to growth in some areas and sectors there is also doubt and uncertainty in others. Overall there continues to be a concerning degree of volatility and risk for small business and sole traders.”**

*Healthcare and Social Assistance, Greater Sydney*

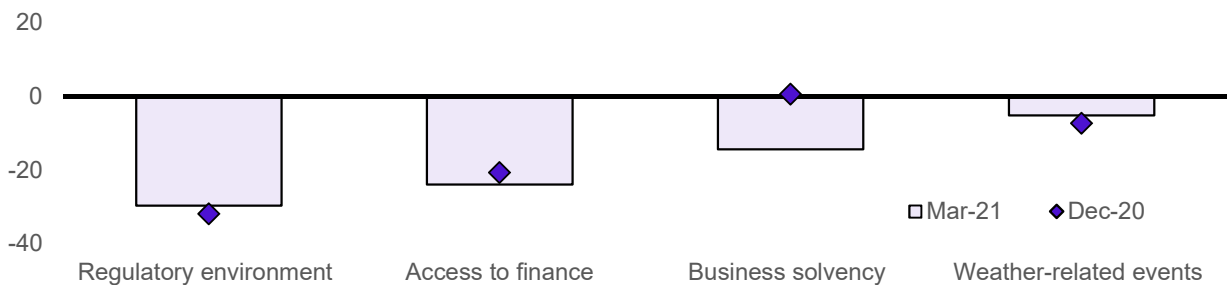
# THE BUSINESS ENVIRONMENT

## Business priorities\*



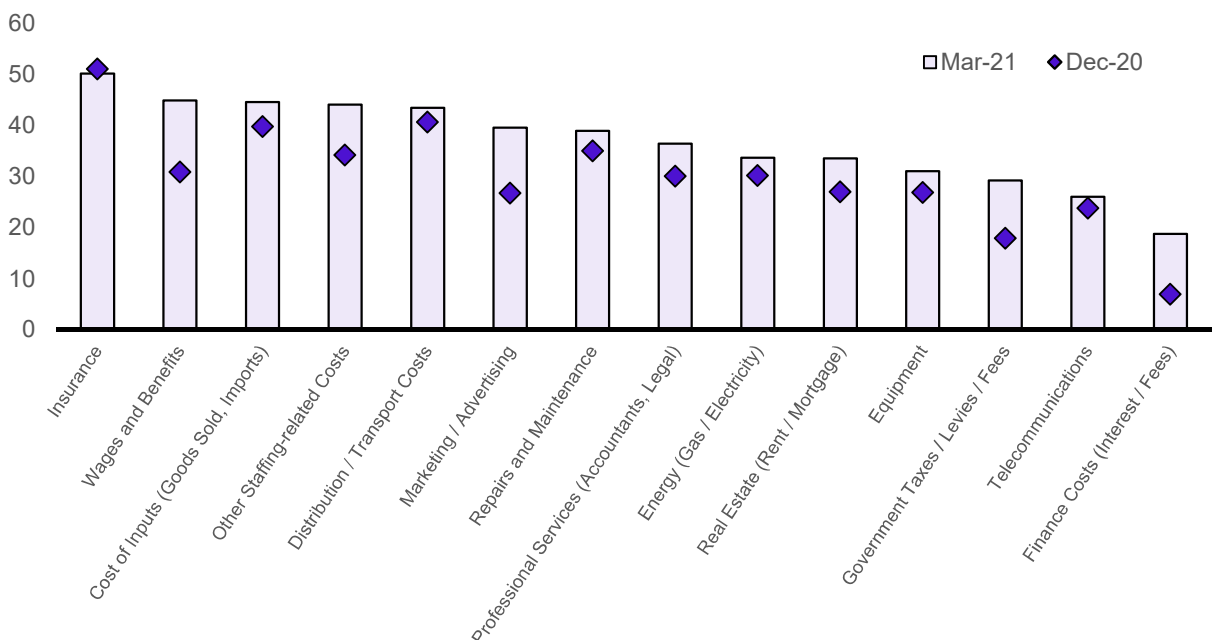
\*Index scores calculated as the percentage of respondents indicating the priority was more important minus those indicating the priority was less important. A positive number implies a priority is becoming more important whereas a negative number implies a priority is becoming less important.

## 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.

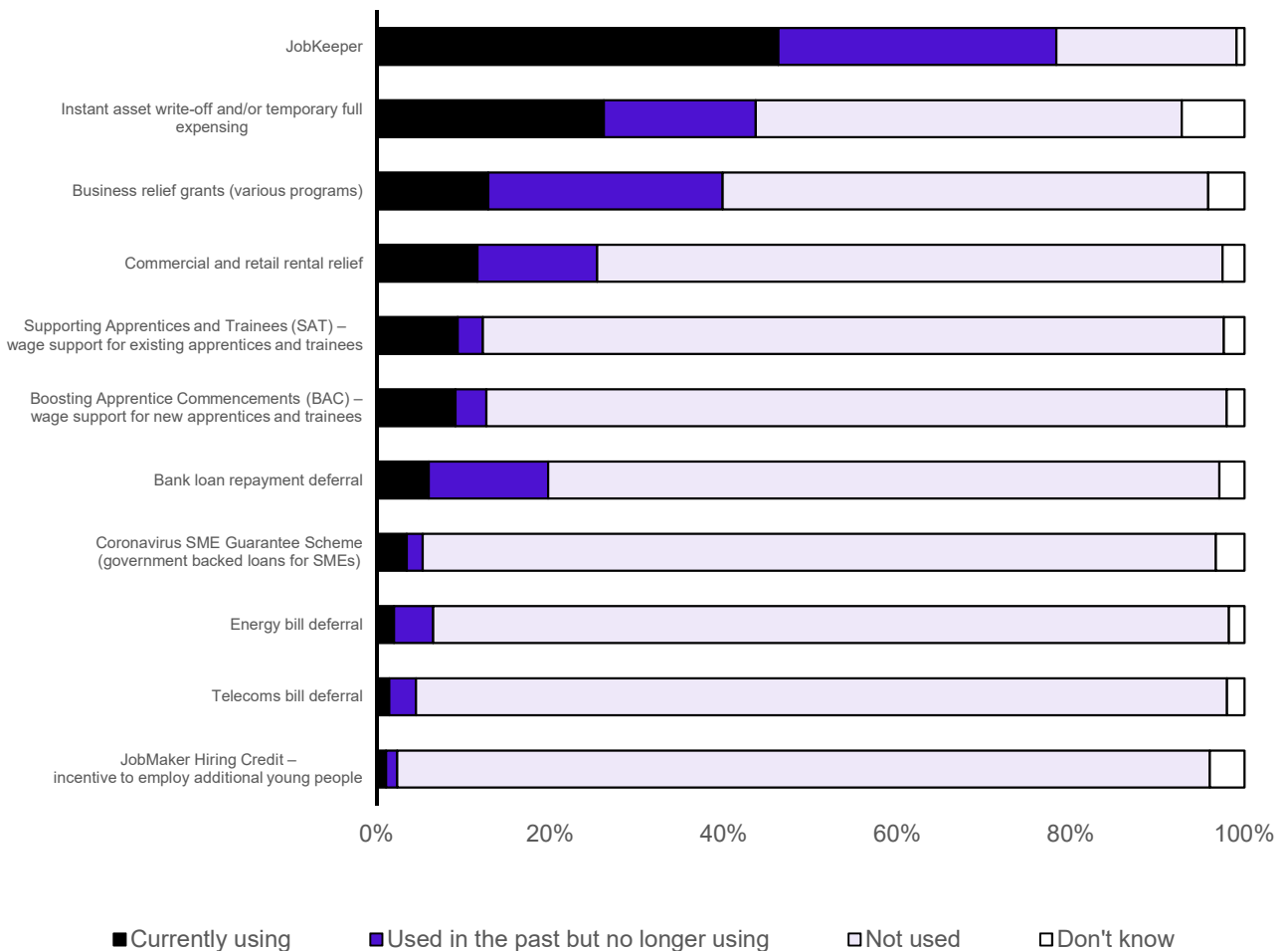
# SUPPORT PROGRAMS DURING THE PANDEMIC

By far the most widely utilised of the policy support measures introduced in response to COVID-19 has been JobKeeper, with nearly 80 per cent of respondents indicating they had used it at some stage, and just under half of respondents still using it at the time of the survey.

The Commonwealth tax incentives (instant asset write-off and temporary full expensing) were the next most widely used, with around 40 per cent of respondents using them.

At the other end of the spectrum, the difficulties with the JobMaker Hiring Credit are clear, with just 1.1 per cent of respondents indicating they were making use of it. Take-up of programs by energy and telecoms utilities to provide bill relief was also low, with only around 5 per cent of businesses making use of them. More successful examples of government working with the private sector to help businesses were bank loan deferral and rental relief programs, with one in five businesses using those schemes.

## A number of support programs have been introduced to help businesses during the pandemic. Which of the following has your business used?



# COVID-19 – END OF JOBKEEPER

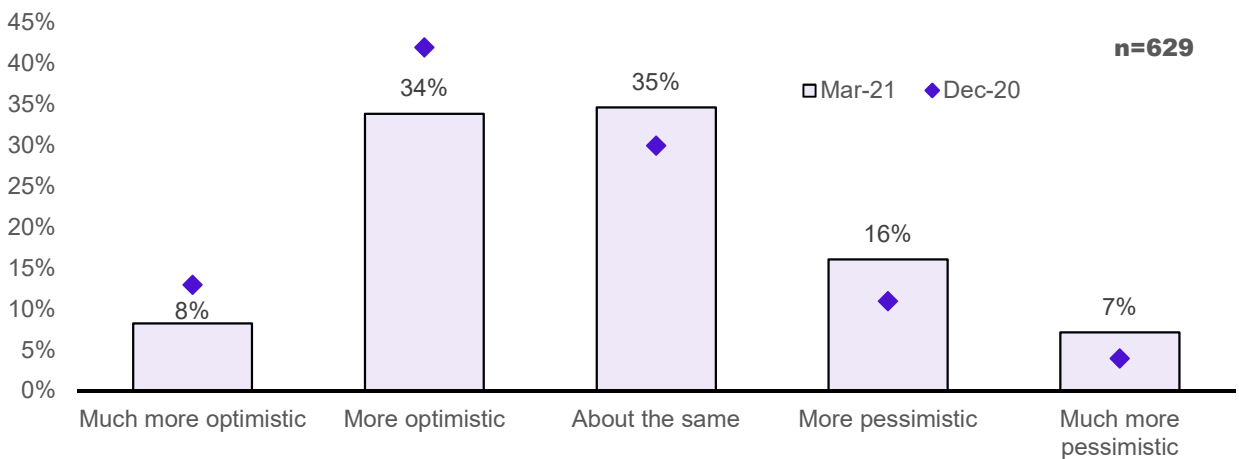
Business NSW asks a series of COVID-related questions to track business attitudes over the recovery period. The observations for March are presented below.

JobKeeper ended on 26 March, bringing a close to the most utilised relief measure available to businesses during the COVID-19 pandemic. While business optimism about the pandemic has improved compared to the previous quarter, there is considerable anxiety about how the end of JobKeeper will affect businesses.

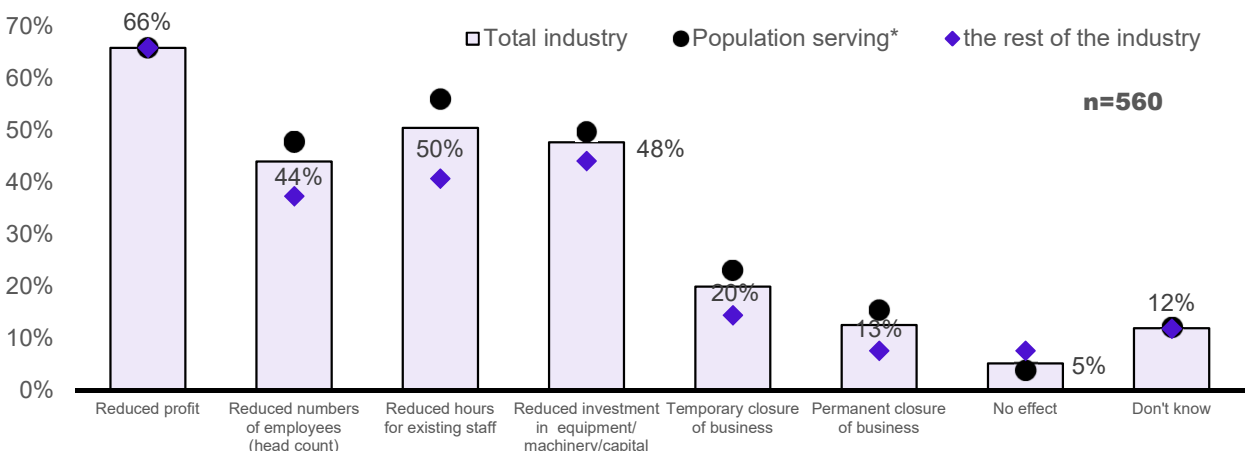
Of those businesses still receiving JobKeeper in March 2021, 44 per cent expected to have to reduce their workforce, and 50 per cent expected to have to reduce working hours for staff. Forty-eight per cent expected to have to cut back capital investment. Twenty per cent anticipated having to close their business for a period of time, with 13 per cent envisaging they will have to close permanently (respondents could choose more than one answer). Only 5 per cent of JobKeeper recipients expected no effect from its cessation.

JobKeeper has been a valuable lifeline for businesses through the pandemic. While JobKeeper (as well as other support measures) have been withdrawn, conditions have not returned to normal. States continue to impose lockdowns (as seen in Brisbane in March) and reserve the right to close state borders. Apart from designated travels 'bubbles', full international border re-opening remains a distant prospect. Australia remains a long way from having a level of vaccination that will allow these constraints to be removed for good. Even though COVID-19 case numbers have been low in recent months, the combination of reduced supports and continued restrictions on travel may make the next few months some of the most challenging for business.

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



## If you are currently receiving the JobKeeper wage subsidy, how will the ending of JobKeeper on March 28 affect your business?



\*Population serving includes retail trade; accommodation and food services; arts and recreation services; construction; and other services industries.

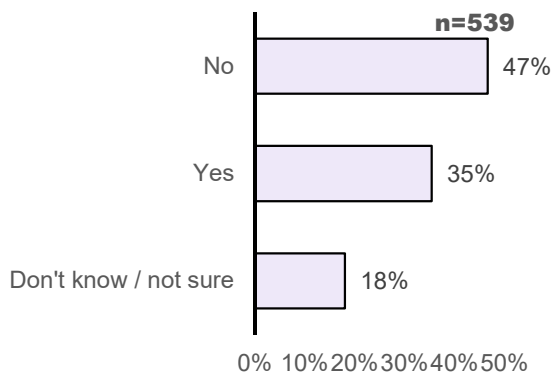


# ANNUAL WAGE REVIEW DECISION 2020/21

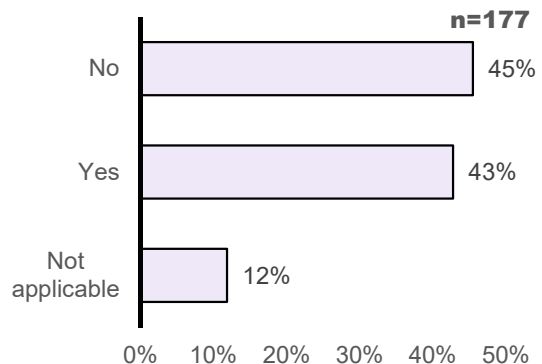
Business NSW surveyed members about the potential impacts on their business of the 2020-21 Annual Wage Review.

About a third of respondents' businesses have employees whose wages are set through the Wage Review process. Of those businesses, 77 per cent view a second wage rise within 12 months as likely to reduce profits, but more seriously 40 per cent expect it would lead to reducing head count, with 46 per cent saying they would have to reduce hours for existing staff.

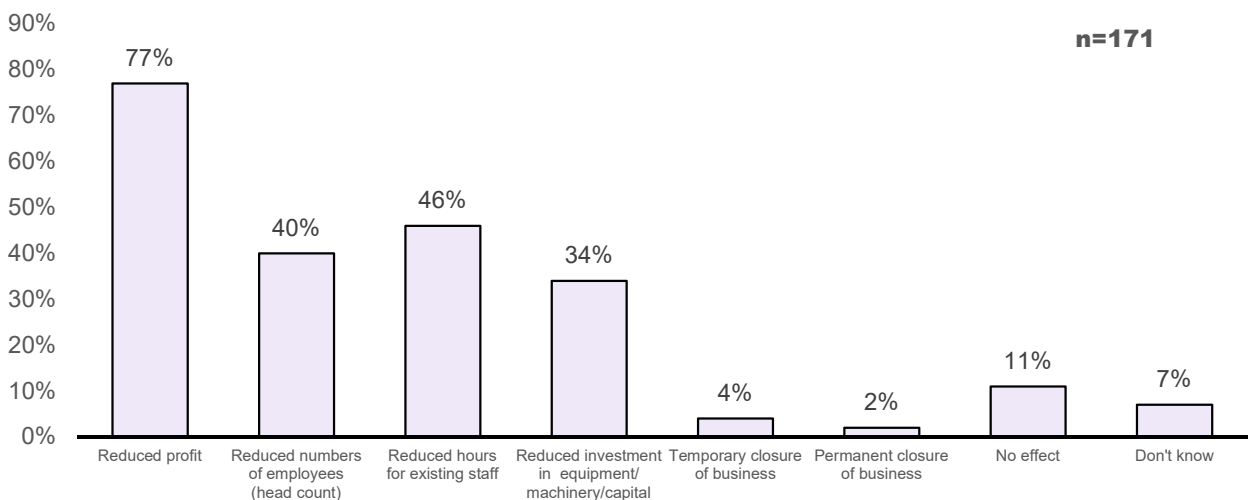
**Do you have employees whose wages are impacted by the Annual Wage Review Decision on the National Minimum Wage and modern awards minimum wage?**



**In 2020/21 – Modern Awards were grouped into three clusters with different operative dates for national minimum wage and award wage increases. Have these different dates affected your business?**



**If your employees received a wage increase on either 1 November 2020 or 1 February 2021, and another increase was scheduled for 1 July 2021, how would this affect your business ?**



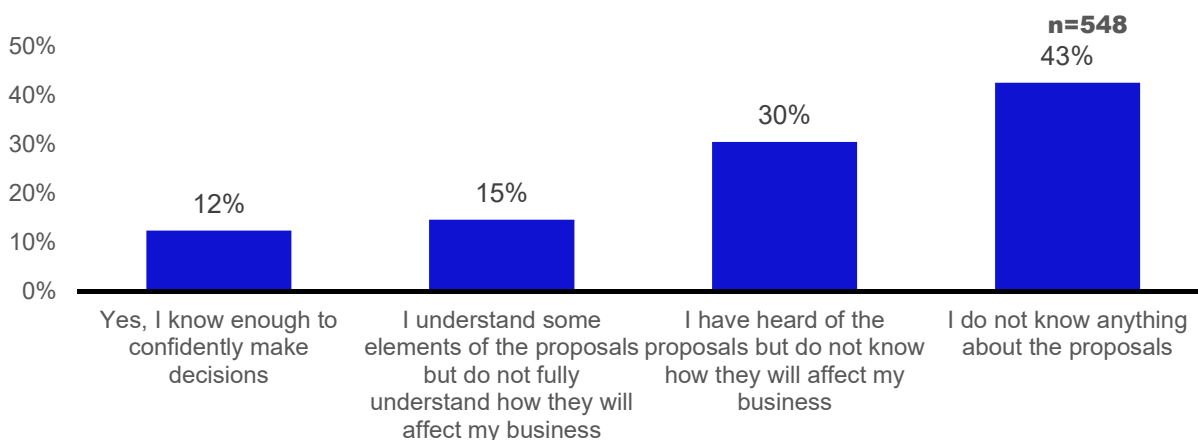
# Stamp duty reform

The New South Wales government is proposing a major reform to the way it taxes property, giving property buyers the right to pay an annual property tax rather than a lump sum stamp duty payment at time of sale. *Business NSW* asked businesses about their understanding of the proposal and whether they agreed with the proposed reforms.

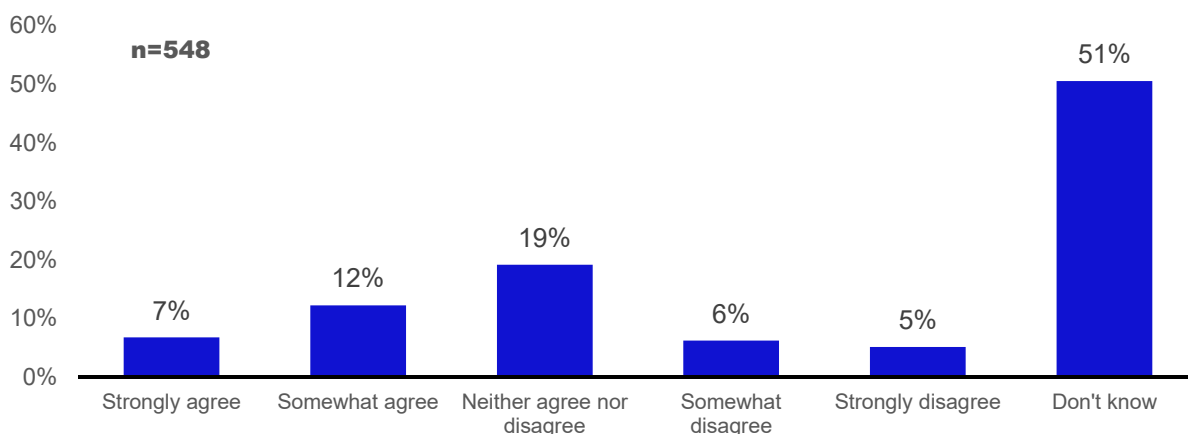
Awareness about the proposal in the business community is low, with only 43 per cent of respondents saying they knew nothing about the proposal, and a further 45 per cent saying they did not understand how their business would be affected. This translates into businesses not having a position on whether to support or oppose the proposals. Fifty-one per cent say they don't know, and a further 19 per cent neither agree nor disagree with the proposal.

To date, the NSW Government's messaging and policy development has focussed on the impacts of property tax reform in the residential sector. However, changes will also affect the business community, and so far government has failed to fully explain and explore what the changes will mean for different businesses with different property characteristics. *Business NSW* would expect to see the NSW Government improve its outreach with business on this proposal as it moves closer to being implemented.

## **The NSW government is proposing to reform stamp duty by giving property buyers the choice to pay either stamp duty and land tax (where applicable) or a new smaller annual property tax. Do you feel you know enough about how the proposed stamp duty changes will affect your business?**



## **Do you agree with the proposed reforms?**



# REGIONAL PERFORMANCE

Region	Business Confidence <sup>#</sup>		Unemployment rate*	Youth Unemployment rate*
	March 2021 Quarter (Index)	Past Four Quarters (Index)		
NSW	-10.8 (n=851)	-28.3 (n=3023)	5.6%	13.0%
Central Coast	-36.4 (n=24)	-37.5 (n=104)	5.9%	11.0%
Capital Region	16.7 (n=41)	-22.9 (n=153)	4.6%	7.6%
Central West	-16.7 (n=32)	-24.6 (n=122)	3.9%	7.2%
Coffs Harbour – Grafton	-26.1 (n=28)	-31.3 (n=96)	7.4%	9.5%
Far West and Orana	-35.7 (n=14)	-25.9 (n=58)	4.2%	11.6%
Hunter Valley	-5.7 (n=35)	-18.8 (n=128)	6.0%	14.6%
Illawarra	-7.1 (n=30)	-39.9 (n=138)	6.3%	12.6%
Mid North Coast	-12.9 (n=34)	-29.9 (n=127)	8.0%	14.2%
Murray	9.1 (n=47)	-19.5 (n=133)	5.9%	10.4%
New England and North West	11.4 (n=39)	-27.3 (n=150)	5.8%	9.1%
Newcastle and Lake Macquarie	-10.0 (n=32)	-28.4 (n=148)	8.0%	19.5%
Richmond – Tweed	-7.1 (n=46)	-14.2 (n=183)	5.3%	9.7%
Riverina	-14.3 (n=14)	-32.9 (n=73)	4.3%	6.3%
Southern Highlands and Shoalhaven	-27.3 (n=22)	-9.8 (n=92)	5.2%	8.7%
Sydney	-11.1 (n=339)	-33.8 (n=1176)	6.5%	14.1%
Eastern Sydney <sup>^</sup>	-13.0 (n=275)	-34.1 (n=883)		
Western Sydney <sup>^</sup>	-3.3 (n=64)	-32.8 (n=293)		

\*Data updated as of 1 April 2021, annual averages used for regional unemployment rates (excluding NSW). This averaging method obscures the full impact of COVID-19 on regional labour markets. <sup>#</sup>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. <sup>^</sup>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 March quarter relative to the NSW average.

