



**BUSINESS
NSW**

NSW Business Conditions

September 2020

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

The first signs of economic recovery became clear in the September quarter.

The economic impacts of COVID-19 were less severe in the September quarter coinciding with the easing of government restrictions. Despite a significant outbreak in Victoria, NSW businesses mostly avoided any further tightening of restrictions. However, border closures have impacted businesses along the southern border with the Murray region heavily impacted. Similar impacts were experienced following the Queensland Government's decision to close its border with NSW with New England and North West businesses exhibiting a less robust recovery.

Additional policy initiatives to support businesses were announced in the September quarter starting with the extension of JobKeeper. Governments and economic agencies signalled they would continue to support the economy beyond the end of 2020. These policy responses have contributed to improved business confidence as reflected in our September quarter Business Conditions Survey.

Each of the key measures assessed in our survey recorded strong gains. While these gains need to be seen in the context of a disastrous June quarter, there are now clear shifts in business sentiment. Building on last quarter's early positive signs relating to the business outlook, there was a robust recovery in business perceptions of the performance of the NSW economy. Responses also suggest businesses expect a further strong improvement in the December quarter.

Businesses transitioned out of hibernation mode with fewer looking to shed staff and reduce capital spending compared to the June quarter. While labour force data reveals a strong rebound in employment there remains a long way to recover. Similarly, fewer businesses indicated declining sales revenue and profitability even though challenges persist in the operating environment.

We examined some of the factors common to businesses most affected by COVID-19 in the September survey. While business services, hospitality and tourism businesses are heavily impacted overall, business performance within these industries can vary dramatically depending on location and type of customers serviced. Our survey identified that businesses located in a CBD (regional or metro) and reliant on foot traffic are among the most vulnerable, as were businesses reliant on international visitors.

While the September survey exhibited a strong recovery, it continues to be difficult to interpret survey data in these unprecedented times. The survey period preceded the recent Federal Budget which is expected to drive a further boost to business confidence. Economic recovery will continue to depend on the successful management of COVID-19 in the community.

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 7.2%

26,000 people re-joined the NSW labour force in September with 3,270 people newly employed



64% of NSW jobs lost* have been recovered

Compared to 51% for the whole of Australia

*based on employed persons in September



8.6% fall in NSW State Final Demand*

COVID-19 impacts were concentrated in the June quarter

*Q2 2020 compared to Q1 2020



Australian economy* to grow 4½ per cent in 2021

Compared to a 3¾ per cent contraction in 2020

*Commonwealth Treasury forecast



Spending recovery

Card spending has stabilised to around 10 per cent higher than the same time last year

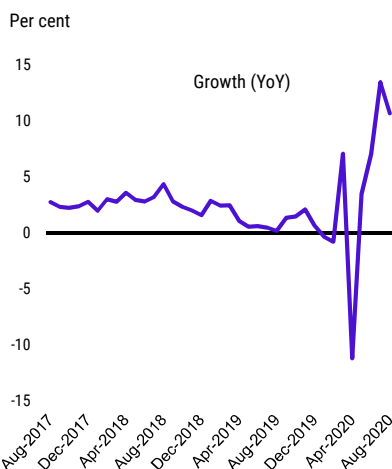
The bottom line

As the dust settles, a strong foundation for recovery is emerging. While many businesses are about to enter a difficult period as support measures are tapered back, NSW has done well in the circumstances.

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

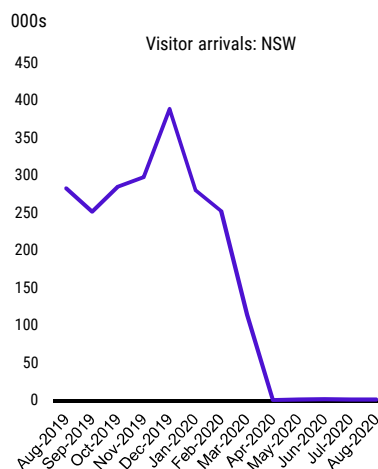
NSW industry indicators

NSW retail turnover



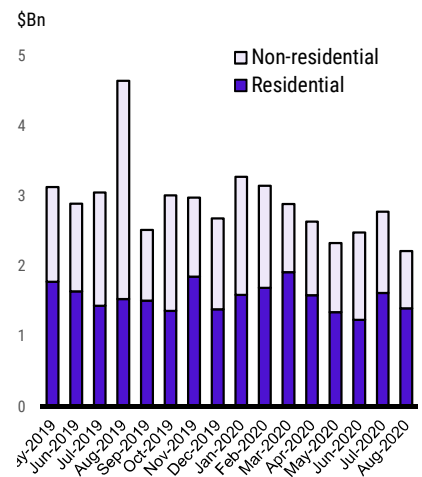
Note: Seasonally adjusted

NSW visitor arrivals



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

NSW building approvals



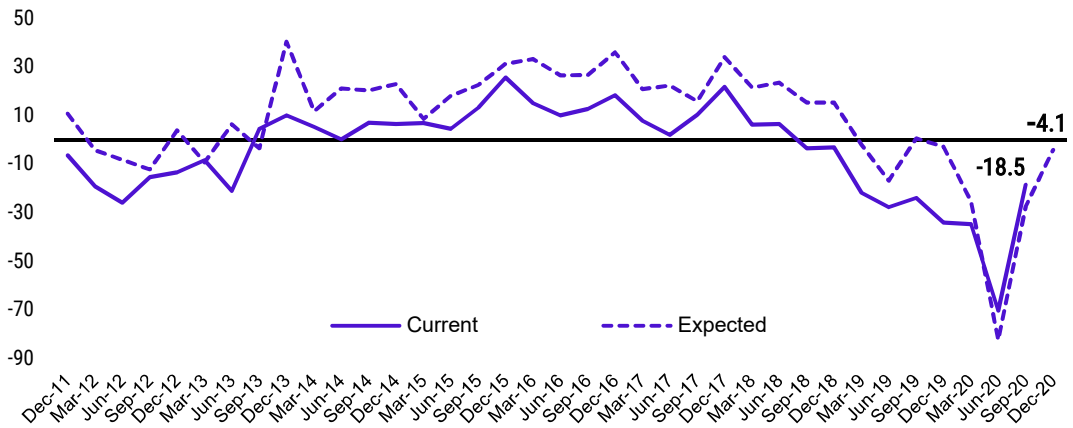
Note: By value, Seasonally Adjusted

Source: ABS

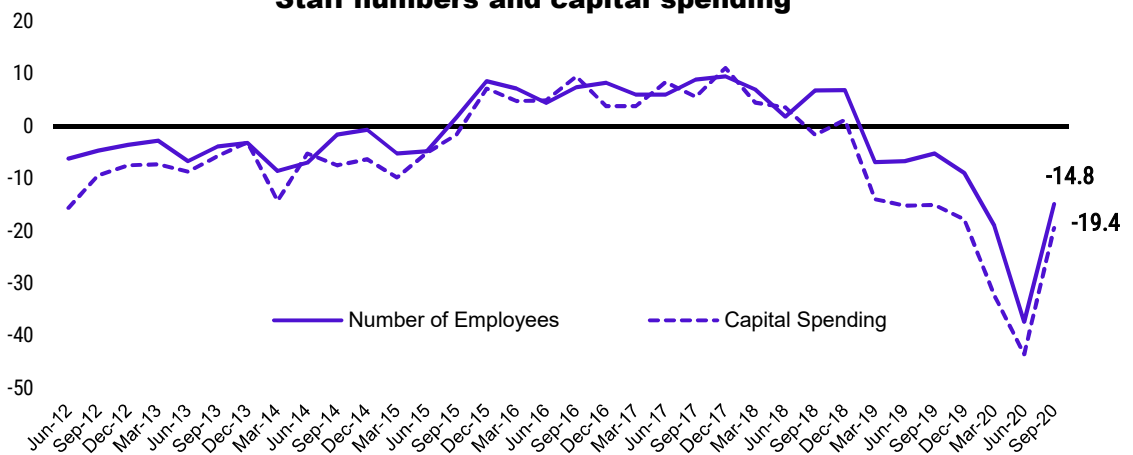
Survey results

The COVID-19 crisis: NSW rising from the ashes

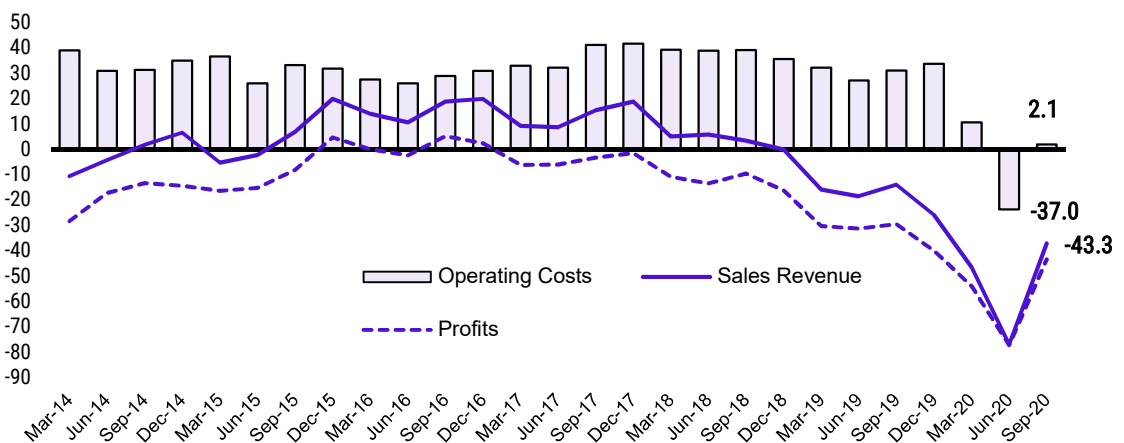
Performance of the NSW economy



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 684 respondents to the survey.

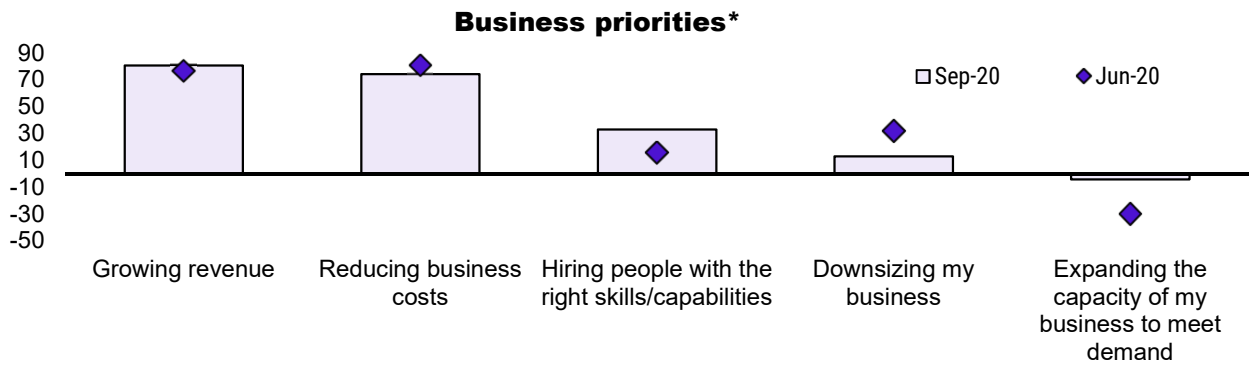
Overview

- **Performance of the economy:** Business perceptions about the performance of the NSW economy rebounded strongly from a record low. Businesses expect further improvement in the economy over the December quarter, consolidating earlier gains in the expected performance index.
- **Business expansion:** Businesses are far from an expansionary mode, but fewer are scaling back their capital spending and staffing levels. More than triple the number of respondents reported increased staffing levels compared to June, though there was only a modest increase in businesses reporting increased capital spending.
- **Business performance:** There were strong gains in the number of businesses reporting increased revenue and profit even. However, these businesses remain heavily outweighed by the majority which indicated revenue and profit were down. Operating costs increased again in the September quarter following the net decrease reported in June.
- **Business priorities and challenges:** Businesses continue to transition out of hibernation with an increasing number of businesses looking to hire people with the right skills. Fewer indicated they are looking to downsize their business. There are now around as many businesses prioritising expansion as those who are not – a significant improvement from June.
- **Business costs:** Key changes in business costs between June and September include increasing cost pressures for distribution and transport, as well as continued reductions in finance and telecommunications costs. Some key cost pressures alleviated due to policy interventions, such as rent, and government taxes and fees, appear to be normalising.

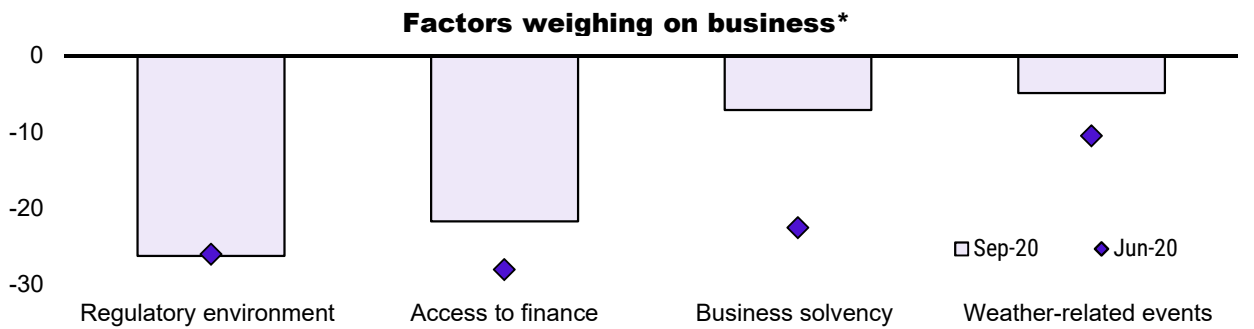
2020 has been a horrible year starting with the bushfires and then COVID-19. But NSW is getting back on track with Business NSW's Business Conditions Survey revealing the first bounce in business confidence in a year.

Business confidence rebounded strongly from the record low recorded in June. The outlook is improved too with businesses expect further improvement in the economy for the remainder of 2020. Businesses are far from an expansionary mode however fewer are scaling back their capital spending and staffing levels.

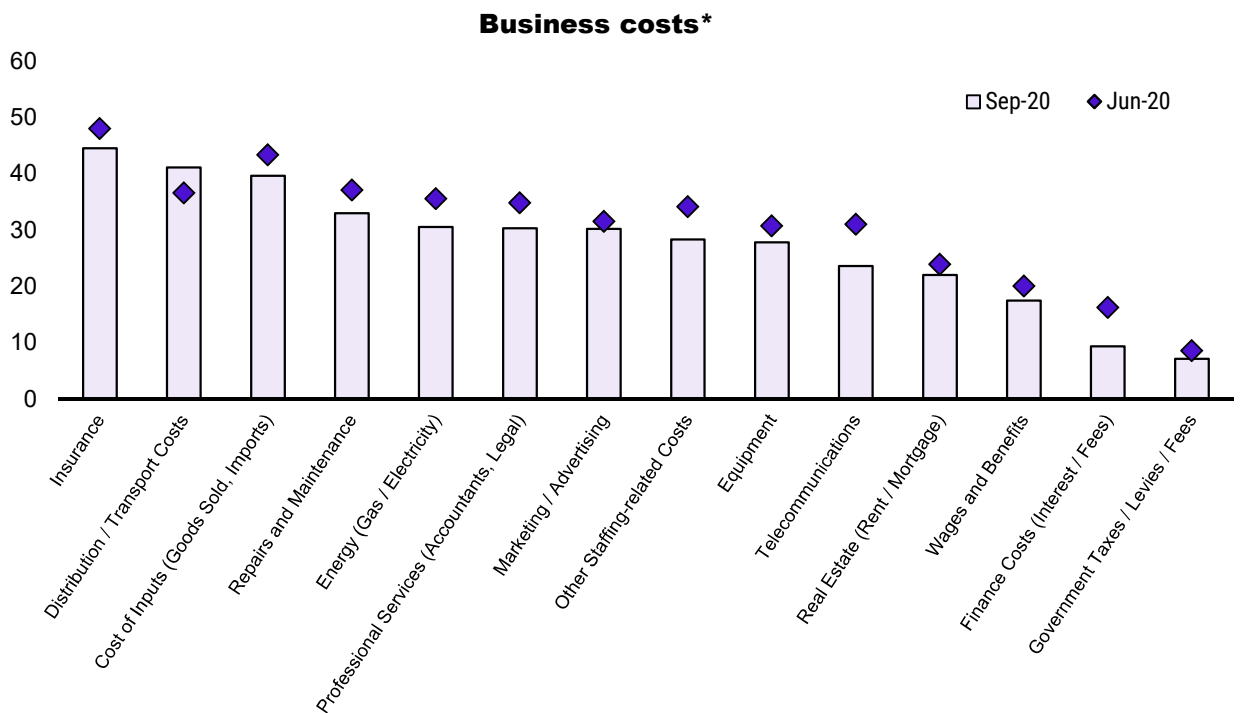
The strong bounce in business confidence revealed in our survey is a welcome boost and gives a big tick to government decisions that have backed a business-led recovery. This includes support to make it easier for employers to protect jobs and progressively easing restrictions on trade.



*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.



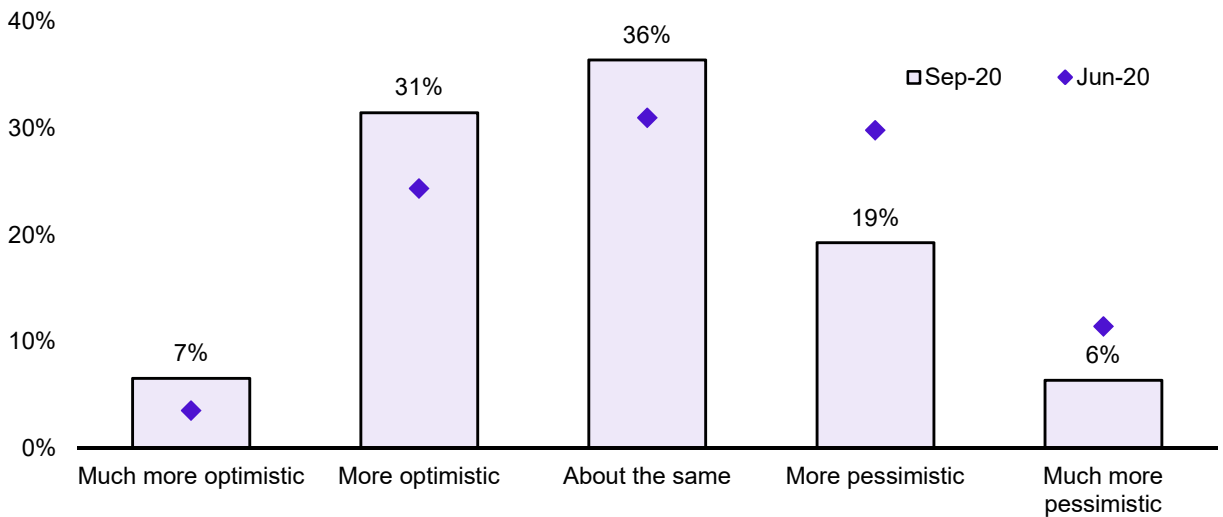
*Index scores calculated as the percentage of respondents indicating the factor was more favourable minus those indicating the factor was less favourable. A positive number implies an improvement whereas a negative number implies a deterioration.



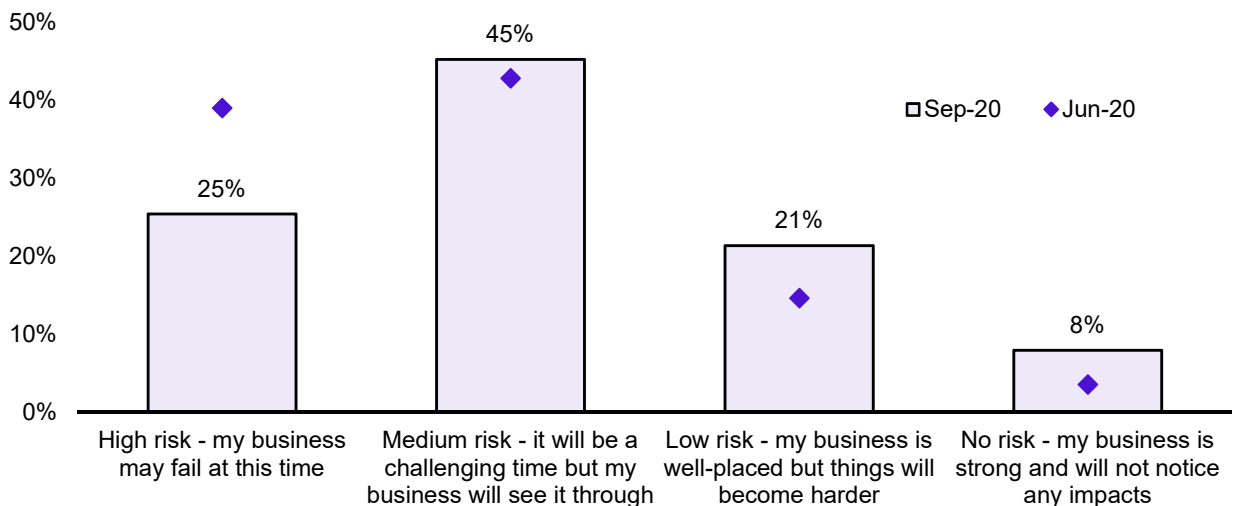
*Index scores calculated as the percentage of respondents indicating the cost was less affordable minus those indicating the cost was more affordable. A positive number implies increasing cost pressures whereas a negative number implies falling costs.

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

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



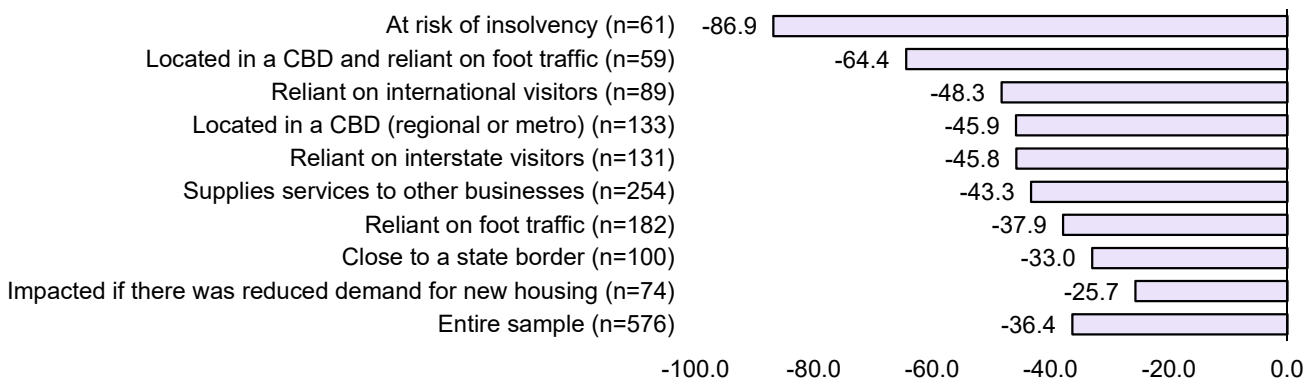
What is the risk your business will face serious challenges when support measures such as JobKeeper, tax relief, interest waivers and other measures end?



Performance by risk factor

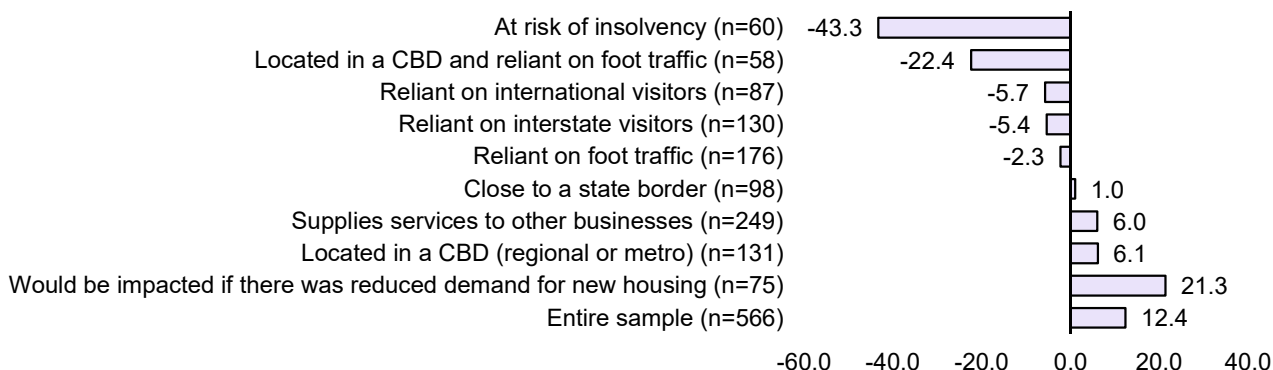
Business NSW asked respondents to indicate whether a selection of risk characteristics apply to their business. Respondents were asked to self-report whether the characteristic applies (multiple characteristics could be selected). The selected questions broken down by risk factors are presented below.

Revenue impact: Most affected businesses by reported characteristic



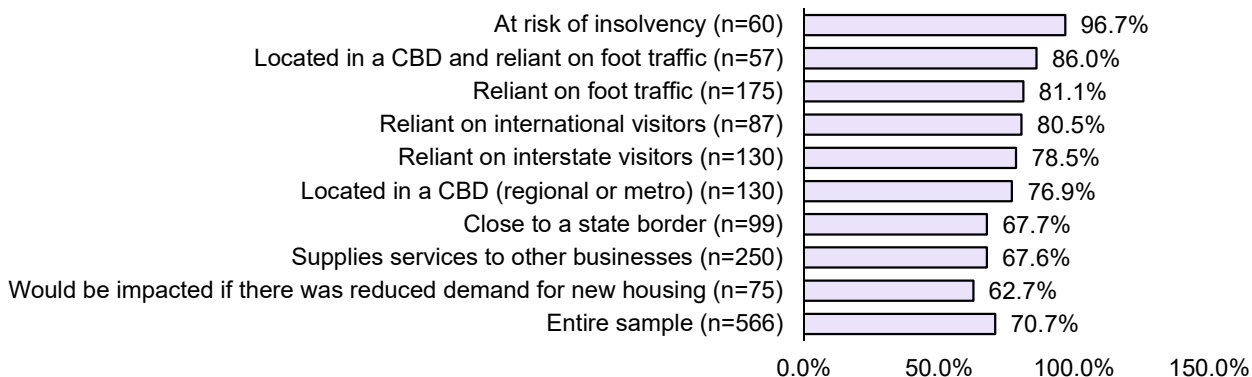
Q: Please indicate how you would rate the current performance of the following business factors: Sales revenue. Net scores calculated as the percentage reporting higher revenue minus the percentage reporting lower revenue.

Optimism about COVID-19: Least optimistic businesses by reported characteristic



Q: When thinking about your business, how optimistic are you about the impact of COVID-19 compared to three months ago? Note: Net scores calculated as the percentage reporting they were optimistic minus the percentage reporting they were pessimistic.

Businesses at medium-to-high risk: Risk of serious challenge by reported characteristic



Q: What is the risk your business will face serious challenges when support measures end? Note: Percentages are those indicating medium or high risk.

Regional performance

Region	Business Confidence [#]		Unemployment rate*	Youth Unemployment rate*
	September 2020 Quarter (Index)	Past Four Quarters (Index)		
NSW	-18.5 (n=637)	-41.6 (n=4030)	7.2%	13.5%
Central Coast	-13.0 (n=23)	-31.3 (n=150)	4.7%	8.2%
Capital Region	-29.0 (n=31)	-61.9 (n=223)	4.0%	7.3%
Central West	-8.7 (n=23)	-43.6 (n=181)	4.4%	10.4%
Coffs Harbour – Grafton	-11.8 (n=17)	-40.4 (n=146)	8.0%	14.8%
Far West and Orana	16.7 (n=12)	-36.4 (n=88)	1.7%	1.8%
Hunter Valley	13.6 (n=22)	-36.6 (n=194)	5.1%	12.2%
Illawarra	-25.0 (n=24)	-50.3 (n=199)	6.9%	16.9%
Mid North Coast	-24.0 (n=25)	-46.8 (n=203)	8.3%	17.1%
Murray	-48.6 (n=35)	-33.5 (n=200)	4.5%	6.7%
New England and North West	-40.6 (n=32)	-50.8 (n=197)	6.3%	13.3%
Newcastle and Lake Macquarie	-17.8 (n=45)	-29.1 (n=230)	7.0%	15.8%
Richmond – Tweed	7.5 (n=40)	-38.6 (n=246)	4.7%	9.5%
Riverina	-22.2 (n=18)	-37.9 (n=140)	5.5%	5.7%
Southern Highlands and Shoalhaven	0.0 (n=22)	-44.0 (n=116)	5.0%	9.3%
Sydney	-20.3 (n=261)	-41.1 (n=1451)	5.7%	12.5%
Eastern Sydney ^A	-26.9 (n=193)	-42.3 (n=1019)		
Western Sydney ^A	-1.5 (n=68)	-38.3 (n=431)		

*Data updated as of 22 October 2020, 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. ^AEastern 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 September quarter relative to the NSW average.

