

NSW businesses remain optimistic, but less so

In March we asked whether the survey signalled a turning point for NSW or whether that quarter's result was isolated. The June results confirm a continued moderation from the particularly strong result recorded in December 2015 (post-election impacts are not reflected as the survey closed prior).

The index measuring respondents' perceptions of the performance of the NSW economy continued to fall, though it remains in positive territory. With the exception of capital spending (which edged up higher), all sub-indices declined from levels recorded in the March quarter. This includes a sustained moderation in the business revenue and profits indices.

Despite this, we interpret the June survey as a solid result and there are a number of reasons why.

First it is common for the survey to dip a bit in the June quarter before bouncing back in September. Accommodation and Food Services as well as Retail and Wholesale trade (typically seasonal industries) accounted for more than half of the decline which is not broad-based. If this 'bounce back' occurs again, then NSW is well placed to recover to levels consistent with those seen over the past six months (the June result more than doubles what was recorded in June 2015).

Second, respondents remain relatively optimistic about the NSW economy and business conditions over the next quarter (for example the index measuring the expected performance of the NSW economy actually increased in this survey). While expectations (for the next quarter) have moderated over recent surveys they remain significantly higher than the same time last year. And with all the key survey indices in positive territory (with the exception of profits), there are more respondents who rate the economy and conditions as stronger than as weaker.

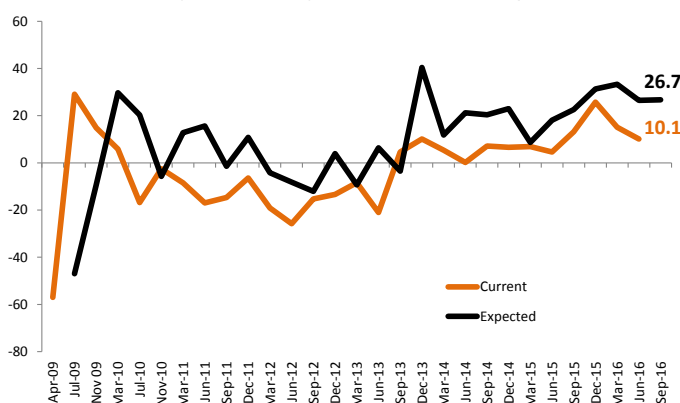
And third, within the historical context of the survey this result remains relatively strong. Notwithstanding that June is normally a relatively weak quarter, it is within the top 22 per cent of survey results since April 2009.

This is not to suggest that conditions will necessarily improve in September of that there isn't a degree of vulnerability in the results. But apart from seasonal variation and a correction from the highs seen over the past 6 months, the survey does not reveal any new trends that ought to cause any significant concern.

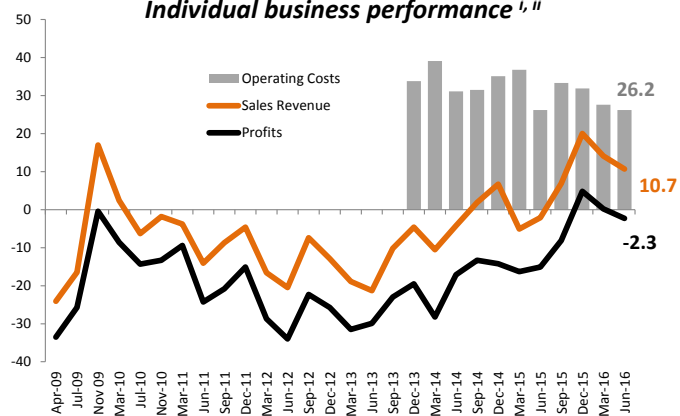
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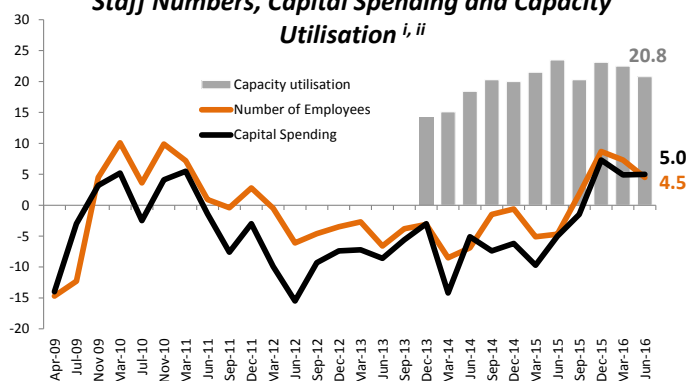
Performance of the NSW Economy ⁱ



Individual business performance ^{i, ii}

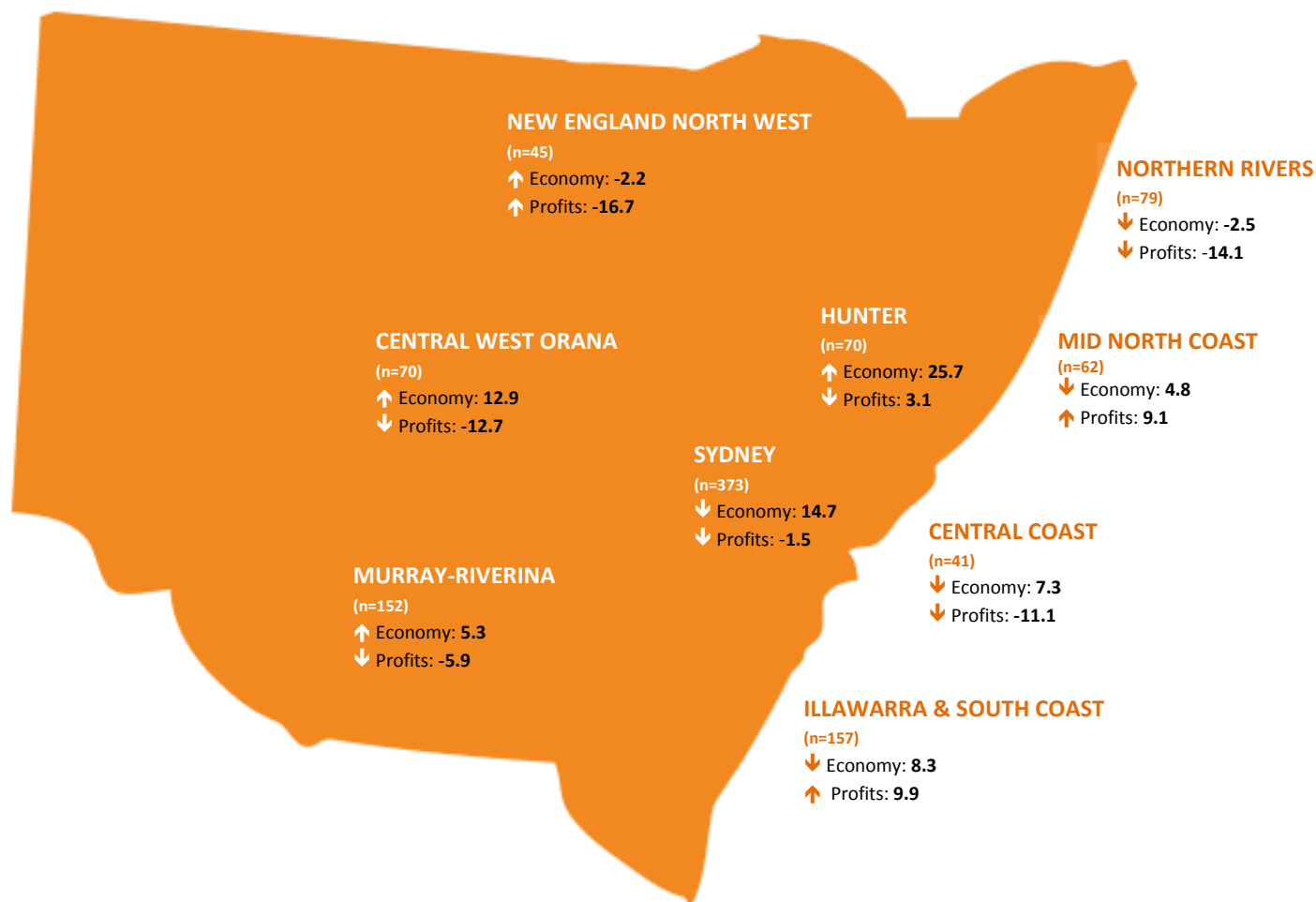


Staff Numbers, Capital Spending and Capacity Utilisation ^{i, ii}



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Regional performance ^{i, ii, iii, iv}



Industry performance ^{i, ii, iii}

Industry	Profit	Sales	Costs	Capital Spending	Total Staff Numbers	Capacity utilisation
Construction ⁽ⁿ⁼⁴⁷⁾	4.9 ↑	12.2 ↓	43.9 ↓	14.6 ↓	12.2 ↑	23.3 ↑
Retail and wholesale trade ⁽ⁿ⁼¹⁴⁷⁾	-24.3 ↓	-2.9 ↓	36.7 ↑	-7.4 ↓	-4.4 ↓	20.4 ↓
Finance and insurance ⁽ⁿ⁼⁷⁶⁾	16.4 ↓	32.8 ↑	23.9 ↑	15.4 ↑	0.0 ↓	17.9 ↓
Other business services ^{v (n=244)}	2.6 ↓	19.4 ↓	24.7 ↓	4.9 ↑	11.5 ↑	18.0 ↓
Manufacturing ⁽ⁿ⁼¹²⁷⁾	1.7 ↑	16.4 ↑	25.6 ↓	5.2 ↓	8.5 ↓	22.1 ↑
Accommodation and food services ⁽ⁿ⁼⁶⁰⁾	-21.1 ↓	-17.5 ↓	28.1 ↓	5.9 ↑	-19.6 ↓	23.8 ↓
Other ^{vi (n=354)}	-0.7 ↑	8.5 ↑	20.7 ↓	7.0 ↑	6.2 ↑	22.2 ↓
All industries ⁽ⁿ⁼¹⁰⁵⁵⁾	-2.3 ↓	10.7 ↓	26.2 ↓	5.0 ↑	4.5 ↓	20.8 ↓

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Business and Cost Priorities

The overwhelming majority of respondents (92 per cent, in line with the previous quarter's result) indicated that increasing sales through better marketing was a priority. This was reflected in respondents' indication of skills in demand, where marketing and social media skills rated highly.

On the other hand, fewer businesses overall reported increasing sales as a priority compared with the previous quarter. This was reflected in fewer businesses reporting increasing capacity (70 per cent compared with 73 per cent in March) and increasing sales through better products (79 per cent compared with 84 per cent in March) as priorities.

Respondents' cost priorities are in line with the previous quarter's results with 90 per cent indicating increasing efficiency and 21 per cent scaling down operations as a priority. Reducing errors/wastage, as well as inefficiency/unproductive work, remain the greatest cost reduction priorities. Freight and distribution as well as rent are emerging as cost reduction priorities (relative to the previous quarter).

Staff Movements and Capital ^{vii}

Forty nine per cent of businesses reported hiring staff in the last three months, up from 48 per cent in March. Thirty one per cent reported they replaced staff that left (up from 30 per cent in March), while 19 per cent hired staff to increase capacity & meet demand (down 1 per cent).

Forty six per cent of businesses reported staff departures over the last three months, up from 45 per cent in March. Thirty six per cent reported employee initiated departures (up from 35 per cent in March), while 12 per cent reported employer initiated departures due to employee performance issues (up from 9 per cent in March).

Forty four per cent of respondents had initiated some form of capital spending over the last three months, compared with 41 per cent in March. Twenty five per cent of respondents reported doing so to replace ageing assets (up from 22 per cent in March) while 13 per cent of businesses did so to increase capacity and meet increased demand (down from 14 per cent in March).

Demand for skills ^{iii, viii}

The proportion of respondents saying that they did not have access to suitably skilled staff remained in line with the previous quarter (22 per cent compared with 23 per cent in March).

Industry sectors reporting that they did not have access to suitably skilled staff included Accommodation and Food Services (32 per cent, down 1 per cent) and Manufacturing (25 per cent, down 1 per cent), while Financial and Insurance Services reported the least difficulty (15 per cent, down 3 per cent). Construction, Financial and Insurance Services, and Retail and Wholesale Trade each reported a significant improvement in their access to skills, while Business Services and Other Industries — which account for a larger share of the sample — recorded a modest deterioration.

Businesses in regional NSW continued to report greater difficulty in accessing skilled staff this quarter (25 per cent, down 1 per cent), than Sydney-based employers did (16 per cent, down 3 per cent). Regions reporting the highest level of skills shortages in June include the Mid North Coast with 38 per cent (up 4 per cent) and Central West Orana at 32 per cent (up 10 per cent). Respondents in the Illawarra / Capital Far South and Sydney regions reported the lowest difficulty in accessing skilled staff this quarter at 15 and 16 per cent respectively.

Sales, marketing and social media skills and professionals continue to be the most in-demand, followed by customer service and retail staff.

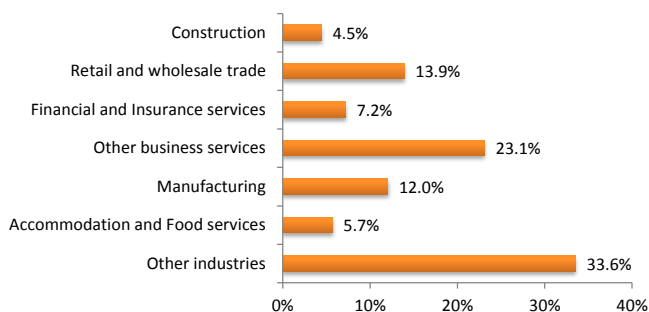
Employers continue to favour candidates with industry and product knowledge and a strong work ethic focusing on delivering quality and professional customer service. A capacity to work in teams and 'common sense' are also reported as desirable attributes. Experience and formal qualifications such as degrees and certificates continue to be highly desired.

Skills and professions in Demand (June 2016)^{viii}

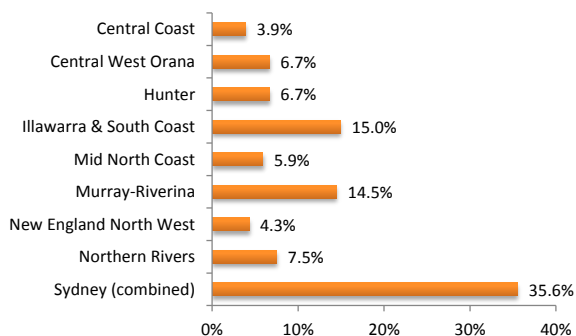
1	Sales, Marketing, Social media	16.0%
2	Customer service and Retail staff	6.2%
3	Technicians, mechanics and engineers	6.1%
4	Accounting, tax and book keeping	5.3%
5	General tradespersons	5.3%
6	Administrative workers, receptionists and secretaries	4.7%
7	Hospitality workers (Chefs, Baristas, Wait Staff)	4.7%
8	Community workers and health professionals	4.4%
9	Information technology	4.2%
10	Finance workers (Planners, bankers)	3.9%

Survey Details

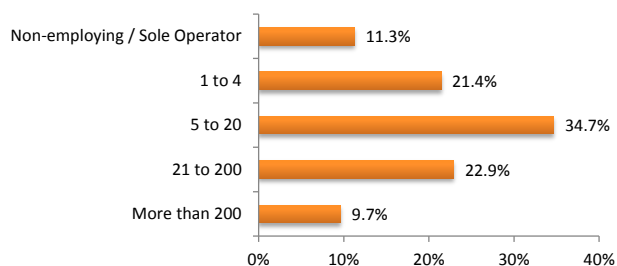
Respondents by Industry



Respondents by Region



Respondents by Employees



Survey Information

Sample size: 1055 respondents
Survey period: 20 June – 1 July 2016

Contact Information

Mark Frost
(02) 9458 7259 or mark.frost@nswbc.com.au

Notes

ⁱ Most index figures given in this report are a calculation of the percentage of respondents who answered higher or increased conditions, minus the percentage of respondents who answered lower or decreased conditions. Index scores are either positive or negative.

The exception is capacity utilisation. Capacity utilisation is calculated as the proportion of businesses that said sales would need to increase by less than 20 per cent before they would need to hire new staff and increase capital spending.

ⁱⁱ Questions were modified in December 2013 and this may affect index numbers. Please call the contact number for further details.

ⁱⁱⁱ Smaller sample sizes mean that results for individual industries, regions and other categories should be treated with caution.

^{iv} Regions are based on NSW Business Chamber membership regions.

^v Includes information media and telecommunications; rental hiring and real estate services; professional scientific and technical services; administrative and support services.

^{vi} Includes agriculture, forestry and fishing; arts and recreation services; education and training; electricity, gas, water and waste services; health care and social assistance; mining; other services; public administration and safety; and transport, postal and warehousing and unspecified industries.

^{vii} Respondents were able to select multiple options, so the figures presented may not align with the total percentage.

^{viii} Not comparable to previous surveys due to methodological changes.

Regional Summaries

Please visit [Business Conditions Survey - June 2016 Regional Results](#) to access a detailed breakdown of results from each region featured in the Business Conditions Survey.

Industry Summaries

Please visit [Business Conditions Survey - June 2016 Industry Results](#) to access a detailed breakdown of the results of each industry featured in the Business Conditions Survey.