

# NSW BUSINESS CONDITIONS

March 2019

Quarterly snapshot of NSW economy informed by the businesses of NSW





## NSW THIS QUARTER

NSW is facing headwinds with recent data confirming business conditions have become more challenging. This has led to a fall in business confidence, while a weaker property market and drought conditions continue to weigh on growth.

The NSW Business Conditions Survey points to a sharp fall in business perceptions around the performance of the NSW economy. With the survey period occurring ahead of the NSW and Federal elections, businesses are acting cautiously. Other factors also appear to be weighing heavily on business confidence (outlined in 'Business needs in focus').

Despite the sharp falls in confidence revealed in the March quarter survey, other factors paint a less pessimistic picture. The NSW labour market remains the best in the country with the lowest unemployment rate among the states and NSW generating 129,000 jobs over the past year (accounting for just under half of total job gains nationally).

While there is significant uncertainty in the economic outlook for NSW, we expect business conditions to improve as uncertainty generated by factors such as elections begin to dissipate.

**Full survey results including detailed regional and industry-level data can be found at the NSW Business Chamber website located at:**

<https://www.nswbusinesschamber.com.au/Issues/Business-Surveys/Business-Conditions>

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## NSW BUSINESS CHAMBER

The NSW Business Chamber is one of Australia's largest business support groups, with a direct membership of 20,000 businesses and providing services to over 30,000 businesses each year. The Chamber works with businesses spanning all industry sectors including small, medium and large enterprises.

# NSW ECONOMIC SNAPSHOT



## Unemployment rate 4.3%

Near full employment and the lowest in the country (among states).



## 2½ per cent growth

In Gross State Product forecast for 2018-19 and 2019-20.



## 129,000 new jobs over the past year

Employment growth above trend and second fastest in the country.



## \$1.3bn in private capital expenditure

Over the past year, 17% higher than the same time last year.



## 2.6 per cent growth in State Final Demand

Below trend and only fourth fastest in the country (among states and territories).



## The bottom line

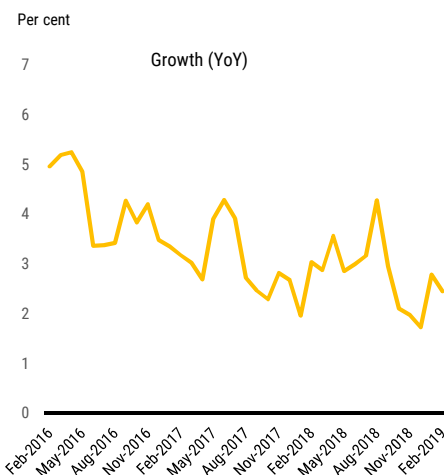
The NSW labour market is a stand out, but other parts of the economy are weaker. This is reflected in the March Business Conditions Survey showing a sharp fall in business confidence.

Source: ABS, NSW Government, NSW Business Chamber

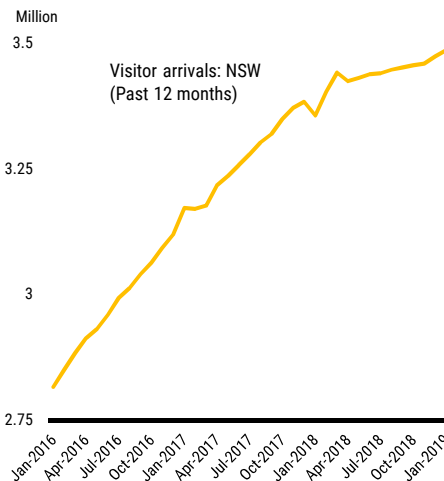


# INDUSTRY INDICATORS

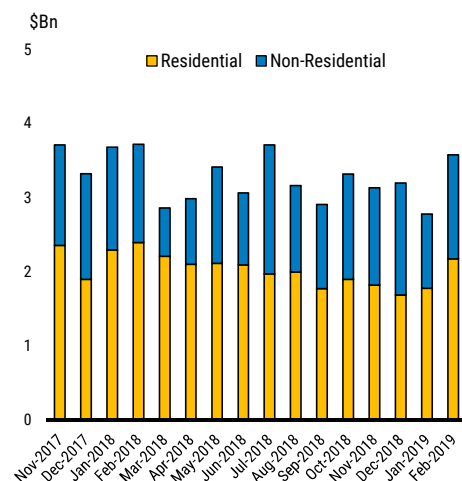
## NSW Retail Turnover



## NSW Visitor Arrivals



## NSW Building Approvals

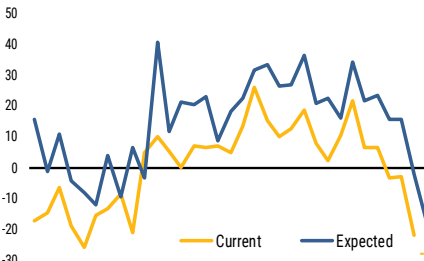




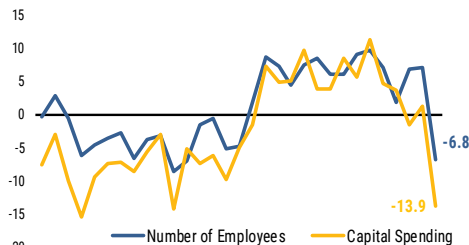
# SURVEY RESULTS

Conditions fall sharply as uncertainty looms in 2019

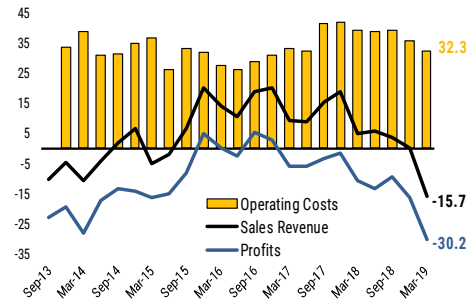
## Performance of the NSW Economy



## 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 795 respondents to the survey.

## OVERVIEW

- Business conditions have fallen sharply as the NSW economy continues to slow down with the largest drop in business confidence since July 2010 and the fastest turnaround in sales, staffing levels and capital spending on record. Most concerning are the sharp falls in the staffing and capital spending indices (now well into negative territory) suggesting that perception may become a reality as businesses curtail spending.
- Around half of respondents (53.1%) indicated their perception of a weakening economy was due to their own experiences in their business or local economy (as opposed to other factors such as the views of media commentators). More than half (64.9%) indicated their negative perception of the economy would affect decisions made in their business such as those relating to staffing levels and investment.
- A confluence of factors appear to be influencing business sentiment with businesses adopting a holding pattern mentality (see 'Business needs in focus' for further discussion).
- The survey period occurred in the lead up to both the NSW State and Federal elections which many respondents cited as something they were concerned about. Others cited the impact of the Banking Royal Commission as affecting access to finance or creating uncertainty around business models.
- Household demand is much weaker than first thought and respondent feedback suggests customers are not spending as much as they were before. A large number of regional respondents gave feedback that the drought was continuing to have a severe impact on their business.
- The drop in confidence occurred state-wide. Only the Capital Region reported an increase from the previous quarter.

## QUOTES

- "Business confidence dropped sharply in the March quarter with a confluence of factors including drought, elections, the Banking Royal Commission and weak demand all reported as weighing on business."
- "Businesses appear to be in a holding pattern. While business sentiment may rebound as things return to normal, it is concerning that businesses have put the brakes on business expansion."
- "The survey points to record falls in staffing and capital spending levels which will have a flow on effect."
- "A surprising number of businesses are worried about the upcoming Federal election. With the very real prospect of a change in Government, businesses appear uncertain about what it will mean for them."



# BUSINESS NEEDS IN FOCUS

Respondents indicated a sharp drop in confidence this quarter. This section discusses some of the underlying factors that may be behind changes in business sentiment. While this is necessarily a speculative exercise, it is informed by supplementary questions to better understand business responses and qualitative feedback provided by respondents.



## Impact of elections

The survey was held before the NSW election and the Federal election.



## Housing market volatility

A number of respondents were directly affected due to the nature of their business (e.g. real estate businesses), though most of the impact of falling housing prices appears related to wealth effects (affecting household demand), access to credit, and flow on effects associated with a bleaker outlook in construction.



## Impact of drought

Drought continues to weigh heavily throughout NSW. Our drought survey found that 84 per cent of regional businesses were impacted by the drought. With three quarters of respondents outside of Sydney, the Business Conditions Survey is more sensitive to factors affecting regional areas.



## Survey factors

The sharp drop this quarter compared to the last can in part be attributed to seasonal impacts. The survey is not seasonally adjusted and the December quarter is typically stronger than other quarters.



## Royal Commission and access to finance

A large number of respondents raised concerns relating to their access to finance. Respondents noted their perception that the Banking Royal Commission had a chilling effect on their access to finance. Half of respondents that sought finance indicated they had difficulties due to increased caution from the banks.



## Consumer confidence

Interacting with other factors outlined above, consumers are spending less and this appears to be having a flow-on effect with respondents reporting a tougher trading environment. The ABS recently revised consumption data which is now weaker than first thought. Official forecasts have been revised down.



## Feedback loops and the media

It is common for business surveys to be influenced, at least to some extent, by contemporary news and reporting on economic developments. The survey period was after the RBA announced downward revisions to the outlook while GDP figures (which were much weaker than expected) were released a day after the survey opened. A quarter of respondents indicating the economy was weaker reported their response was informed by other people or the media.



# REGIONAL PERFORMANCE



Region	Business Confidence <sup>#</sup>		Unemployment rate <sup>*</sup>	Youth Unemployment <sup>*</sup>
	March Quarter (Index)	Past Four Quarters (Index)		
NSW	-21.8 (n=715)	-4.7 (n=3074)	4.3%	10.2%
Sydney	-22.3 (n=175)	0.0 (n=802)	4.1%	9.2%
Central Coast	0.0 (n=39)	7.9 (n=178)	5.4%	12.7%
Capital Region	0.0 (n=34)	-1.9 (n=154)	5.2%	12.6%
Central West	-21.3 (n=47)	-1.1 (n=190)	5.5%	8.5%
Coffs Harbour - Grafton	-27.8 (n=36)	-10.1 (n=149)	8.6%	22.2%
Far West and Orana	-38.1 (n=21)	-9.3 (n=108)	2.8%	4.3%
Hunter Valley	-33.3 (n=24)	-2.3 (n=43)	5.6%	12.8%
Illawarra	-13.8 (n=29)	-2.0 (n=148)	4.8%	12.8%
Mid North Coast	-11.5 (n=52)	-6.9 (n=188)	4.9%	10.1%
Murray	-45.7 (n=35)	-9.0 (n=199)	6.6%	7.3%
New England and North West	-47.3 (n=55)	-29.3 (n=232)	6.6%	11.7%
Newcastle and Lake Macquarie	-9.5 (n=42)	7.8 (n=129)	5.2%	11.1%
Richmond - Tweed	-18.2 (n=66)	-10.3 (n=253)	4.2%	9.2%
Riverina	-9.7 (n=31)	4.8 (n=187)	4.3%	11.9%
Southern Highlands and Shoalhaven	-27.8 (n=18)	-19.4 (n=72)	5.2%	9.0%

\*February 2019, annual averages used for regional unemployment rates (excluding NSW).

<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.

Full regional results available at: <https://www.nswbusinesschamber.com.au/Issues/Business-Surveys/Business-Conditions>

## CONFIDENCE MAP<sup>^</sup>

