The NSW Business Chamber’s September Business Conditions Survey (the Survey) saw all key measures improve from the June quarter (though they remain down over the year). Offsetting these gains are increasing cost pressures. The operating costs index recorded the biggest increase in the history of the survey to reach a record high.

The index measuring respondents’ perception of the economy’s current performance rose to 10.3 points, up from 2.1 points in the previous quarter but down from 12.7 points the same time last year.

The large gap between perceptions of current and expected performance continued, with the index measuring expected performance rising sharply from 15.9 points last quarter to 34.1 points (only down 2.0 points from the same time last year).

In terms of business performance, the operating cost index rose to a record high of 41.4 points (up 9.1 points from the previous quarter and up 12.3 points from the same time last year). Respondents from the Finance and Insurance, Retail and Wholesale Trade and Manufacturing sectors and those from the Northern Rivers, Murray Riverina and Illawarra/South Coast regions recorded the highest operating costs. Higher operating costs have partly been driven by higher energy prices, with 67% of businesses reporting energy costs are affecting their business decisions (up from 45% in the March quarter).

Both the sales revenue and profit indices recorded increases, with the sales revenue index rising to 15.5 points (up 6.6 points from the previous quarter) and the profit index improving to -3.1 points (up 2.8 points from the previous quarter). Although, when compared to the same time last year both indices were down, from 19.0 points and 5.3 points (a record result) respectively.

Continued business confidence is demonstrated by a strong result in the capital spending and staffing indices.

The capital spending index remains strong but moderated to 5.7 points (down from 8.5 in June). The staffing index remained positive and above trend, increasing to 9.0 points (up from 6.1 in June), the third highest result recorded in the history of the survey. All sectors apart from the Finance and Insurance and Other Business Services sectors recorded increased staffing levels. With official labour market statistics showing a return to above trend employment growth in NSW (following a weak start to the year) and volume measures of underutilisation in decline, wage pressures may start to re-emerge.

While overall conditions remain strong, increasing cost pressures will represent a significant challenge for some businesses. Any relief from these pressures, including by reducing the burden of business taxes, would help mitigate this challenge.
### Regional Performance

**NEW ENGLAND NORTH WEST**
- Economy: 18.2
- Profits: 12.1

**WESTERN NSW**
- Economy: 3.9
- Profits: -2.2

**MURRAY-RIVERINA**
- Economy: 3.4
- Profits: -11.8

**HUNTER**
- Economy: 25.0
- Profits: 0.0

**NORTHERN RIVERS**
- Economy: 13.4
- Profits: -5.5

**CENTRAL COAST**
- Economy: 15.4
- Profits: 4.0

**ILLAWARRA & SOUTH COAST**
- Economy: 9.4
- Profits: -3.4

### Industry Performance (current)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Profit</th>
<th>Sales</th>
<th>Costs</th>
<th>Capital Spending</th>
<th>Total Staff Numbers</th>
<th>Capacity Utilisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction (n=31)</td>
<td>11.1↑</td>
<td>18.5↑</td>
<td>25.9↓</td>
<td>0.0↑</td>
<td>17.9↑</td>
<td>26.9↓</td>
</tr>
<tr>
<td>Retail and wholesale trade (n=98)</td>
<td>-11.4↓</td>
<td>6.8↑</td>
<td>47.2↑</td>
<td>-2.3↑</td>
<td>2.2↑</td>
<td>26.5↑</td>
</tr>
<tr>
<td>Finance and insurance (n=49)</td>
<td>7.5↓</td>
<td>35.0↑</td>
<td>48.7↑</td>
<td>18.4↑</td>
<td>5.0↓</td>
<td>30.8↑</td>
</tr>
<tr>
<td>Other business services (n=157)</td>
<td>2.8↓</td>
<td>18.3↑</td>
<td>38.7↑</td>
<td>7.1↓</td>
<td>7.9↓</td>
<td>18.9↑</td>
</tr>
<tr>
<td>Manufacturing (n=65)</td>
<td>-15.3↓</td>
<td>25.4↑</td>
<td>45.0↑</td>
<td>10.7↑</td>
<td>13.1↑</td>
<td>23.5↓</td>
</tr>
<tr>
<td>Accommodation and food services (n=51)</td>
<td>-10.6↑</td>
<td>10.4↑</td>
<td>41.7↑</td>
<td>6.4↑</td>
<td>4.2↑</td>
<td>33.3↑</td>
</tr>
<tr>
<td>Other (n=229)</td>
<td>-2.2↑</td>
<td>11.0↑</td>
<td>40.0↑</td>
<td>4.9↓</td>
<td>12.6↑</td>
<td>23.5↓</td>
</tr>
<tr>
<td>All industries (n=680)</td>
<td>-3.1↑</td>
<td>15.5↑</td>
<td>41.4↑</td>
<td>5.7↓</td>
<td>9.0↑</td>
<td>24.3↑</td>
</tr>
</tbody>
</table>
Business Priorities
Over just one quarter, the cost control priority ‘electricity/energy’ moved up another 2 ranks to 2nd and is up 3 ranks from the beginning of the year. This result is consistent with the increase in electricity prices from July and with no immediate relief in sight it will be telling to see if ‘energy/electricity’ becomes the top cost control priority for respondents. The top five areas where respondents were focused on controlling and reducing costs were ‘inefficiency/unproductive work’, ‘electricity/energy’, ‘errors/wastage’, ‘operating costs’ and ‘overheads’.

The majority of respondents continued to report lowering costs by increasing efficiency as a priority for their business and the number doing so increased to 89.5%, up 2.1 percentage points from the previous June quarter. A small number of respondents prioritising lower costs by scaling down operations (19.1%, down 2.2 percentage points).

Respondents continued to report increasing sales as a priority and this increased moderately across the board from the previous quarter. This included 90.8% (up 0.3 percentage points) which indicated they prioritised sales through better marketing, 82.6% (up 4.8 percentage points) through better products and 72.7% (up 2.8 percentage points) through increased capacity.

The overall percentage of respondents indicating they did not have access to suitably skilled staff decreased from the previous survey (26.2% compared with 29.8% in June).

The Retail and Wholesale Trade (23.1%, down 7.6 percentage points), Other Industries (23.4%, down 6.0 percentage points) and Other Business Services (23.7%, up 0.7 percentage points) sectors reported the least difficulty accessing staff. While respondents from the Construction (37.0%, down 3.0 percentage points), Accommodation and Food Services (36.6%, up 2.2 percentage points) and the Manufacturing (33.3%, down 4.6 percentage points) sectors reported the most difficulty accessing skilled staff.

Although respondents in regional NSW continue to report greater difficulty in accessing skilled staff when compared with their Sydney counterparts (26.4%, down 5.6 percentage points versus 25.7%) the gap has almost closed completely (0.7% versus 5.4% in June and 12.5% in March). This decline can be accounted for by a return to trend levels among regional respondents, following two abnormally challenging quarters, coinciding with an increase in Sydney-based businesses reporting difficulties accessing skilled staff.

Respondents from the Central Coast and Hunter1 regions reported the least difficulty in accessing skilled staff with 17.6% and 18.2% (down 10.9 and 10.5 percentage points) reporting difficulties. Other regions reporting less difficulty accessing skilled staff include Western NSW (22.0%, down 16.4 percentage points), New England North West (23.5%, down 7.2 percentage points) and Illawarra/South Coast (24.7%, down 0.1 percentage points). Respondents from the Murray Riverina (36.8%, up 2.8 percentage points), Mid North Coast (25.6%, down 15.2 percentage points) and Northern Rivers (25.0%, down 2.9 percentage points) regions reported the greatest difficulty accessing skilled staff.

Respondents continued to favour candidates with industry knowledge and experience as well as candidates with marketing, sales and media skills. Communication, teamwork and problem solving were the top 3 capabilities in demand.

Staff Movements and Capital
When respondents were asked if they hired any new staff, just over half (50.5%) reported doing so, up from 46.3% in June. This outcome was driven by an increase in the number of respondents who reported hiring to replace staff that left (up 6.3 percentage points to 33.3%).

Corresponding with this, the number of respondents reporting staff departures over the last quarter increased to 46.2% (up from 42.4% in June). The number of employee initiated departures increased (up by 4.7 percentage points to 39.0%) while the number of employer initiated departures due to performance issues and to reduce costs also increased by 0.2 and 1.7 percentage points to 10.6% and 5.5% respectively.

When respondents were asked if they had initiated some form of major capital spending 43.1% reported doing so (up 1.9 percentage points). Just over a quarter (25.6%) reported doing so to replace ageing assets (up 2.6 percentage points) while 11.0% did so to improve product range or quality (down 2.5 percentage points) and 16.4% to increase capacity or meet increased demand (up 3.9 percentage points).

Demand for Skills
Regions reporting less difficulty accessing skilled staff include Western NSW (22.0%, down 16.4 percentage points), New England North West (23.5%, down 7.2 percentage points) and Illawarra/South Coast (24.7%, down 0.1 percentage points). Respondents from the Murray Riverina (36.8%, up 2.8 percentage points), Mid North Coast (25.6%, down 15.2 percentage points) and Northern Rivers (25.0%, down 2.9 percentage points) regions reported the greatest difficulty accessing skilled staff.

Respondents continued to favour candidates with industry knowledge and experience as well as candidates with marketing, sales and media skills. Communication, teamwork and problem solving were the top 3 capabilities in demand.

<table>
<thead>
<tr>
<th>Top 5 capabilities in demand (September 2017)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Communication</td>
<td>40.0%</td>
</tr>
<tr>
<td>2 Team Work</td>
<td>38.4%</td>
</tr>
<tr>
<td>3 Problem Solving</td>
<td>32.0%</td>
</tr>
<tr>
<td>4 Planning and Organising</td>
<td>30.7%</td>
</tr>
<tr>
<td>5 Self-management</td>
<td>29.1%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Top 5 technical/professional skills in demand (September 2017)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Industry Knowledge/Relevant Experience</td>
<td>67.5%</td>
</tr>
<tr>
<td>2 Marketing/Sales/Media</td>
<td>31.4%</td>
</tr>
<tr>
<td>3 Information Technology/Computer Proficiency</td>
<td>29.8%</td>
</tr>
<tr>
<td>4 Trade/Vocational Skills</td>
<td>27.1%</td>
</tr>
<tr>
<td>5 Tertiary Education</td>
<td>21.4%</td>
</tr>
</tbody>
</table>

1 Particularly low response rate this quarter, treat results with added caution.
Survey Details

Survey Information
Sample size: 680 respondents
Survey period: 5 September 2017 – 19 September 2017

Contact Information
Laurence Redaelli
(02) 9458 7913 or Laurence.Redaelli@nswbc.com.au

Notes
* 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.

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

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

* Regions are based on NSW Business Chamber membership regions.

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

* 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.

* Respondents were able to select multiple options, so the figures presented may not align with the total percentage.

* Not comparable to previous surveys due to methodological changes.

* Previously referred as Central West Orana.

Regional Summaries
Please visit Business Conditions Survey – September 2017 Regional Result to access a detailed breakdown of results from each region featured in the Business Conditions Survey.

Industry Summaries
Please visit Business Conditions Survey - September 2017 Industry Result to access a detailed breakdown of the results of each industry featured in the Business Conditions Survey.