

**BUSINESS
NSW**

NSW BUSINESS CONDITIONS

Time to revive productivity

May 2024

Mudgee, Central NSW. Photo by Destination NSW



About Us

Business NSW is the peak business organisation for New South Wales representing the needs of 48,000 businesses across the state.

Our purpose is to create a better Australia by maximising the outcomes and potential of Australian businesses. We achieve this by working with businesses spanning all industry sectors including small, medium and large enterprises.

Operating through our network in metropolitan and regional NSW, and with our state chamber partners, Business NSW represents the needs of business at a local, state and federal level. This is why when we speak, the government listens.

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Executive Summary

The business community is currently facing a complex mix of economic challenges. Inflation is still keeping many business owners and executives up at night. While the rising cost-of-doing-business is having a direct impact on business operations, the high cost-of-living has also curbed consumer spending. The economy has slowed markedly, but inflation remains stubbornly above the Reserve Bank of Australia's target band. Interest rate expectations have shifted several times in the past quarter in response to economic data releases. The uncertainty about the RBA's next move has heavily weighed on business confidence.

Apart from the difficult economic environment, many businesses are still constrained by skills shortages and grappling with declining workers' productivity. Regional businesses experience an additional barrier to doing business due to sub-optimal access to telecommunication services.

The latest Business Conditions Survey was conducted from 29 April to 13 May, with a total of 879 responses covering all key industries and regions in NSW.*

The Federal Budget 2024-25 released on 14 May contains limited support measures to address the core issues raised by businesses, especially small and medium enterprises. It is vital that the NSW State Budget (to be handed down on 18 June) focuses on addressing the business concerns highlighted in this report in order to bolster business confidence.

**The survey included a set of questions on regulatory and compliance requirements, findings of which will be published in a separate report.*

Key findings

- 01 Following three consecutive quarters of increase, the Business Confidence Index has retreated to -59.7 for the June quarter (from a two-year high of -52.9 for the March quarter).
- 02 The three cost categories that businesses are most concerned about are insurance cost; taxes, levies and other government charges; and energy cost.
- 03 Interest rate concerns have returned despite no monetary policy changes since November 2023. Businesses are most worried about the impact of interest rates on customer spending and their profit margin.
- 04 The majority (62%) of businesses intend to maintain the same headcount in the next three months, while 21% plan to cut staff and 16% plan to hire additional staff.
- 05 46% of businesses have observed a decline in workers' productivity and the most common reason is changing workers' attitude. On the other hand, 10% of businesses have observed an increase in workers' productivity and most of these businesses have invested in staff training.
- 06 Compared to staff members, business owners or managers are more receptive to adopting AI in business operations. The key motivation of AI adoption is cost savings, while the biggest concerns are privacy and a lack of in-house expertise.
- 07 The self-rated availability and reliability of access to telecommunications is notably lower for businesses outside of Sydney. This includes access to mobile phone services, broadband internet services, higher bandwidth business-specific services and data security support services.
- 08 To businesses across NSW, future investment (public or private) should prioritise energy reliability and cost. This is followed by transport infrastructure (for Sydney-based businesses) and housing availability (for regional businesses).



1. Business Confidence

The recovery streak of the Business Confidence Index has ended in the June quarter on the back of challenging economic conditions and an unclear interest rate outlook.

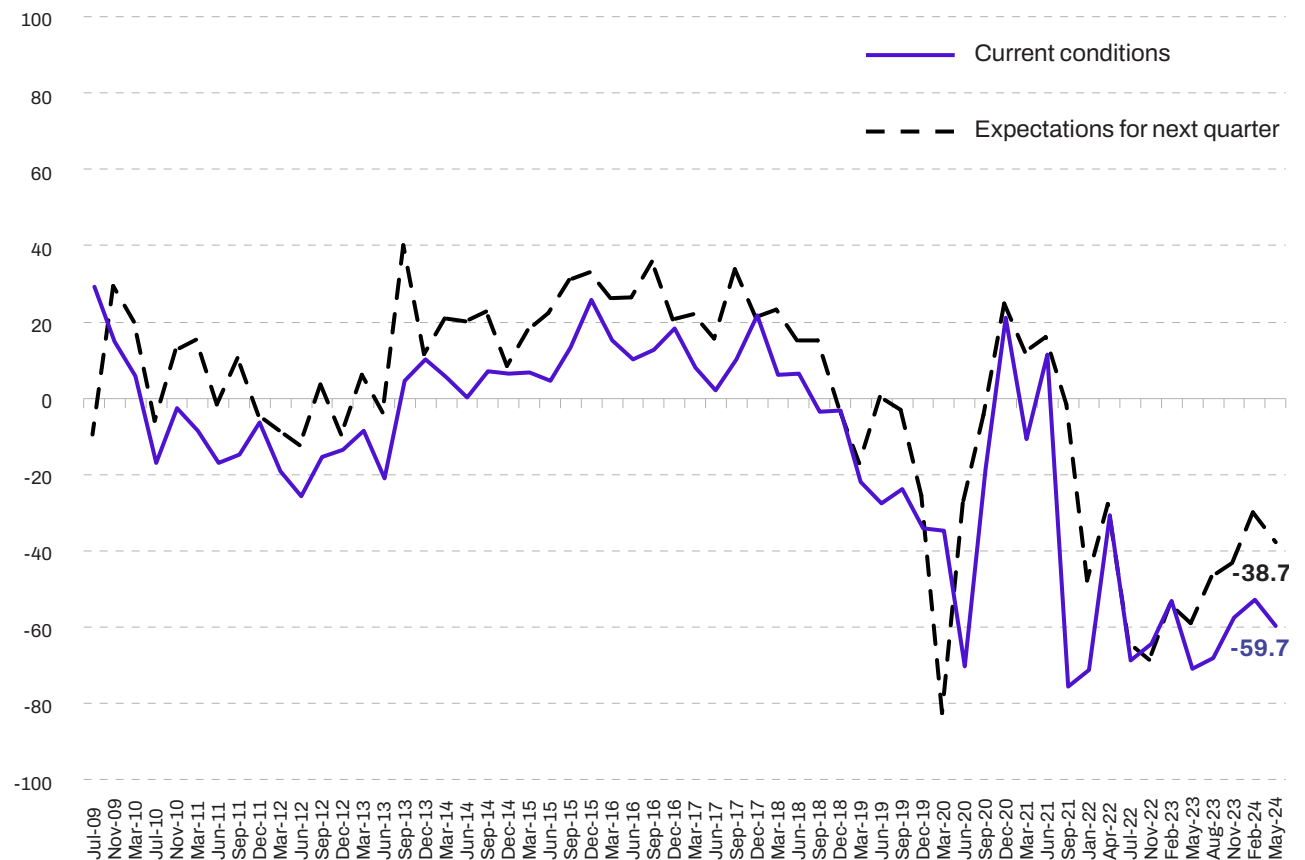
The headline reading has retreated from -52.9 to -59.7. The business confidence reading for the quarter ahead has also slipped from -29.7 to -38.7.



Our business is at the top of its game, we have never been more capable of achieving great things, but there is so much global uncertainty that we just can't find the work to support a regional SME business."

Arts and Recreation Services,
Richmond-Tweed

Figure 1: Business Confidence Index



Regional Snapshot

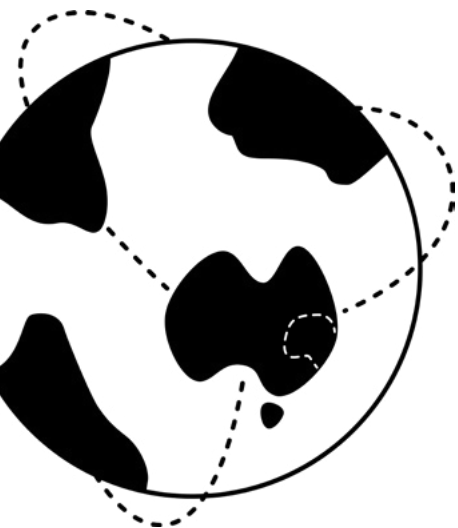


Figure 2: Business confidence by region

	Business Confidence Index		
	Last Quarter (2024 Q1)	Current Quarter (2024 Q2)	Next Quarter (2024 Q3)
NSW	-52.9 (n=1107)	-59.7 (n=879)	-38.7 (n=879)
Regions expecting economic trajectory to improve			
New England and North West	-43.8 (n=64)	-31.3 (n=48)	-25.0 (n=48)
Newcastle and Lake Macquarie	-32.8 (n=61)	-51.2 (n=41)	-29.3 (n=41)
Eastern Sydney	-53.6 (n=237)	-51.7 (n=201)	-31.8 (n=201)
Coffs Harbour - Grafton	-47.8 (n=23)	-57.1 (n=28)	-25.0 (n=28)
Riverina	-61.1 (n=36)	-58.6 (n=29)	-41.4 (n=29)
Hunter Valley exc Newcastle	-60.9 (n=46)	-58.8 (n=51)	-39.2 (n=51)
Mid North Coast	-59.5 (n=126)	-58.8 (n=34)	-50.0 (n=34)
Western Sydney	-55.8 (n=120)	-60.7 (n=89)	-27.0 (n=89)
Illawarra	-42.9 (n=49)	-64.0 (n=25)	-28.0 (n=25)
Central Coast	-70.6 (n=51)	-64.9 (n=94)	-48.9 (n=94)
Far West and Orana	-36.1 (n=36)	-65.0 (n=20)	-45.0 (n=20)
Richmond - Tweed	-55.3 (n=76)	-68.1 (n=47)	-44.7 (n=47)
Central West	-52.0 (n=75)	-68.8 (n=64)	-42.2 (n=64)
Murray	-47.4 (n=38)	-69.0 (n=29)	-65.5 (n=29)
Capital Region	-47.4 (n=38)	-70.2 (n=47)	-46.8 (n=47)
Southern Highlands and Shoalhaven	-67.7 (n=31)	-90.6 (n=32)	-65.6 (n=32)

Industry Snapshot



Figure 3: Business confidence by industry

	Business Confidence Index		
	Last Quarter (2024 Q1)	Current Quarter (2024 Q2)	Next Quarter (2024 Q3)
NSW	-52.9 (n=1107)	-59.7 (n=879)	-38.7 (n=879)
Industries expecting economic trajectory to improve			
Administrative and Support Services	-53.6 (n=28)	-25.0 (n=20)	-20.0 (n=20)
Education and Training	-34.9 (n=43)	-46.2 (n=39)	-33.3 (n=39)
Professional, Scientific and Technical Services	-36.4 (n=151)	-47.5 (n=122)	-35.2 (n=122)
Manufacturing	-52.0 (n=98)	-50.6 (n=81)	-40.7 (n=81)
Other Services	-75.4 (n=65)	-54.5 (n=55)	-27.3 (n=55)
Arts and Recreation Services	-33.9 (n=56)	-55.0 (n=40)	-52.5 (n=40)
Health Care and Social Assistance	-34.9 (n=63)	-57.1 (n=49)	-26.5 (n=49)
Rental, Hiring and Real Estate Services	-59.4 (n=32)	-60.7 (n=28)	-46.4 (n=28)
Construction	-54.1 (n=85)	-62.0 (n=71)	-23.9 (n=71)
Wholesale Trade	-60.6 (n=33)	-70.6 (n=34)	-29.4 (n=34)
Agriculture, Forestry and Fishing	-46.9 (n=32)	-71.4 (n=21)	-33.3 (n=21)
Accommodation and Food Services	-61.0 (n=136)	-73.0 (n=100)	-50.0 (n=100)
Electricity, Gas, Water and Waste Services	-10.0 (n=10)	-75.0 (n=8)	-62.5 (n=8)
Retail Trade	-71.5 (n=172)	-78.8 (n=132)	-47.7 (n=132)
Transport, Postal and Warehousing	-59.3 (n=27)	-87.5 (n=24)	-45.8 (n=24)
Industries expecting no change			
Public Administration and Safety	-28.6 (n=7)	-33.3 (n=3)	-33.3 (n=3)
Information Media and Telecommunications	-47.8 (n=23)	-42.1 (n=19)	-42.1 (n=19)
Industries expecting a deterioration			
Financial and Insurance Services	-53.7 (n=41)	-25.0 (n=28)	-32.1 (n=28)
Mining	-40.0 (n=5)	-60.0 (n=5)	-80.0 (n=5)

“

Everything is incredibly hard for small business right now. In hospitality we are struggling to keep up with rising costs whilst balancing that with consumers who are eating out less often and buying less due to their own cost of living pressures. Things are dire in our industry right now.”

Accommodation and Food Services,
Central West

















“

The cost of everything is going up and business can't keep absorbing the cost.”

Rental, Hiring and Real Estate Services,
Western Sydney

2. Concerns About Business Cost

Figure 4: Business cost concerns ranking

	2023 Q2 (n=989)	2024 Q2 (n=879)	
1 st	 Insurance costs	 Insurance costs	
2 nd	 Energy costs	 Taxes, levies, and other government charges	↑
3 rd	 Taxes, levies and other government charges	 Energy costs	↓
4 th	 Supplier cost	 Wages	↑
5 th	 Wages	 Supplier cost	↓
6 th	 Transport Cost (including toll charges)	 Transport Cost (including toll charges)	
7 th	 Rent	 Loan repayments	↑
8 th	 Loan repayments	 Rent	↓



Every time interest rates go up the phone stops ringing. While interest rates have been on hold at the current levels the phone has forgotten how to ring."

Construction,
Eastern Sydney



We are battling through - holding our breath and hoping we can hold on until the winds of interest rates change."

Accommodation and Food Services,
Coffs Harbour-Grafton



I can see skill shortages and management overload as two key issues impacting many businesses.”

Education and Training,
Riverina



We continue to struggle to attract skilled staff to work in our regional location.”

Accommodation and Food Services,
New England and North West

3. Concerns About Interest Rates

The RBA has left its cash rate target unchanged since the last hike in November 2023. However, conflicting market speculations of the RBA's next move have caused uncertainty, which has in turn revived concerns about the impact of interest rates on business.

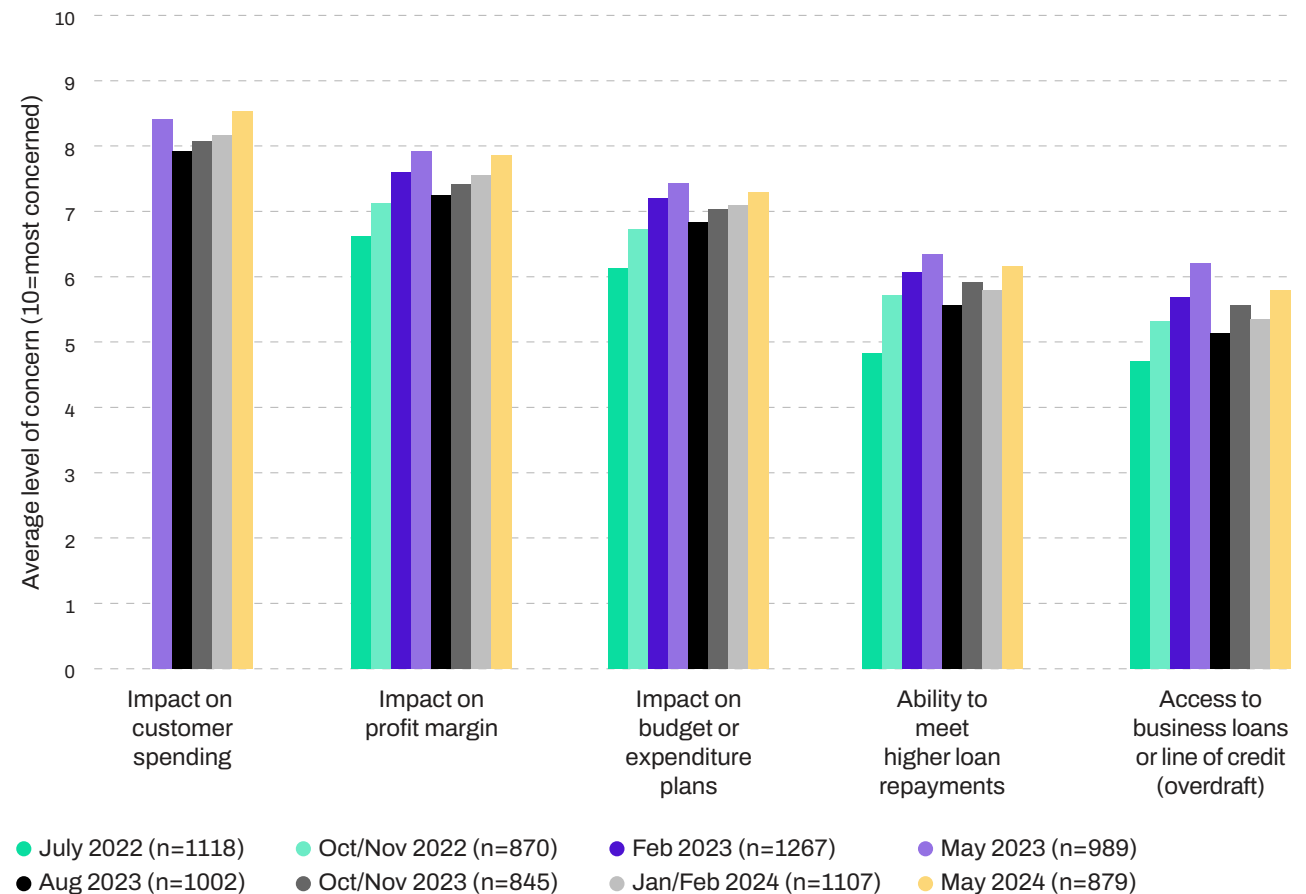
Businesses remain most concerned about the impact of the interest rate environment on customer spending. This is followed by concerns about their own profit margin.



Recruitment is exhausting and difficult.

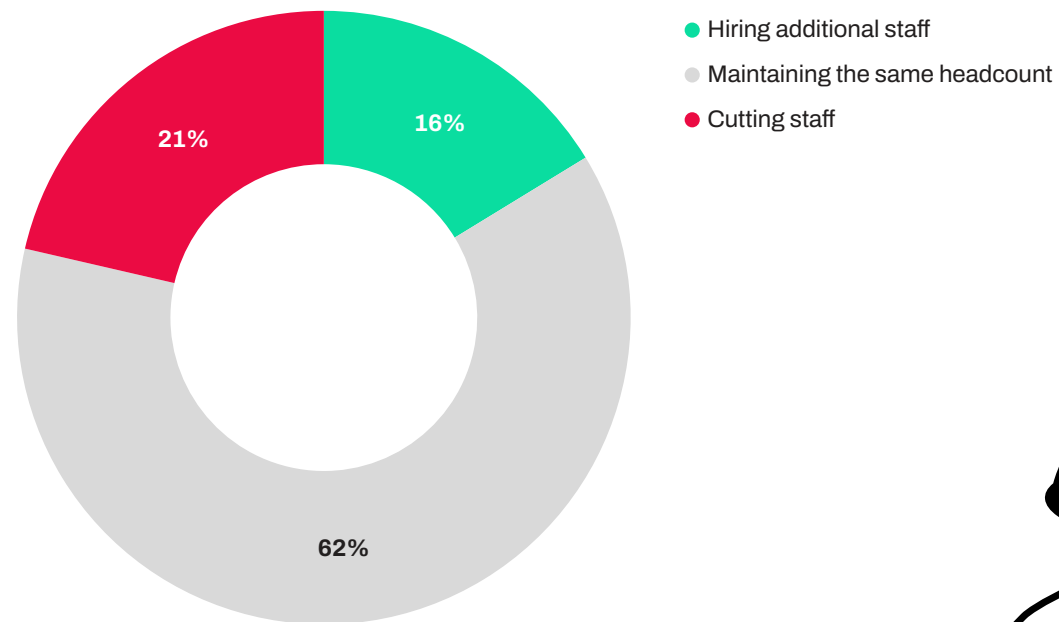
Health Care and Social Assistance,
Newcastle and Lake Macquarie

Figure 5: Concerns about interest rates (July 2022 – May 2024)



4. Hiring Intentions

Figure 6: Plans for staff headcount for the next 3 months



(n=879)

The numbers do not add up to 100% due to rounding.

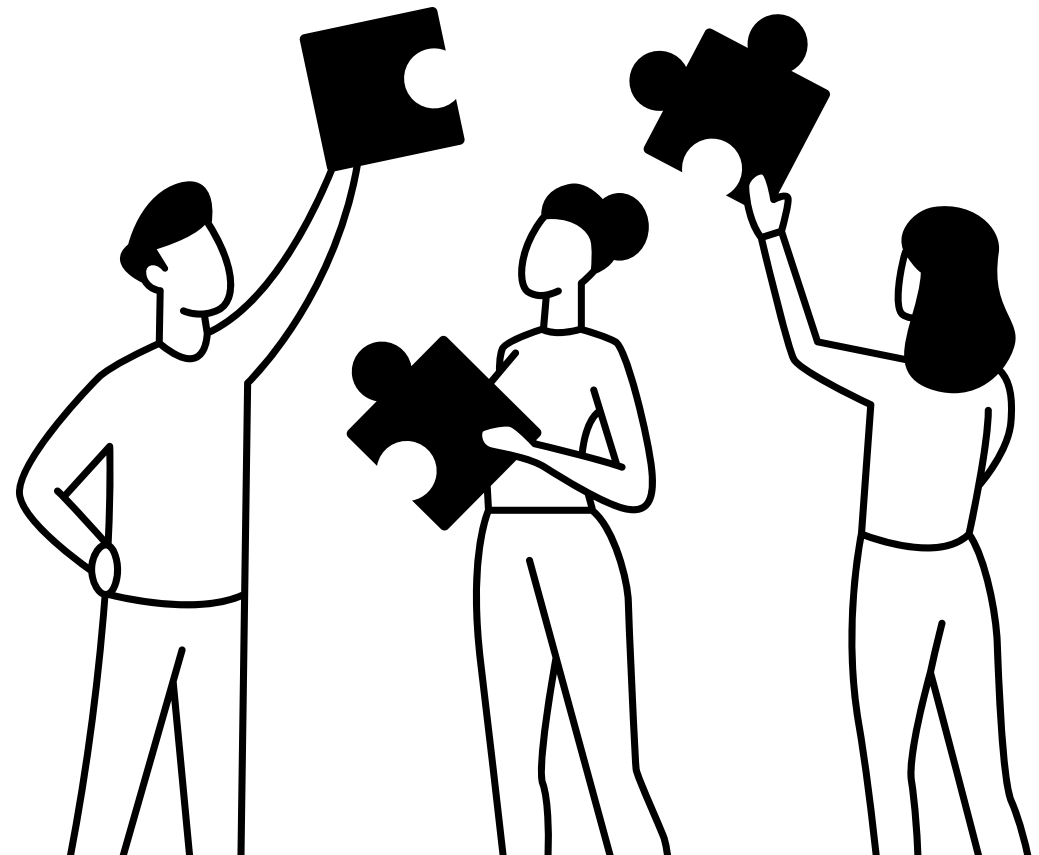
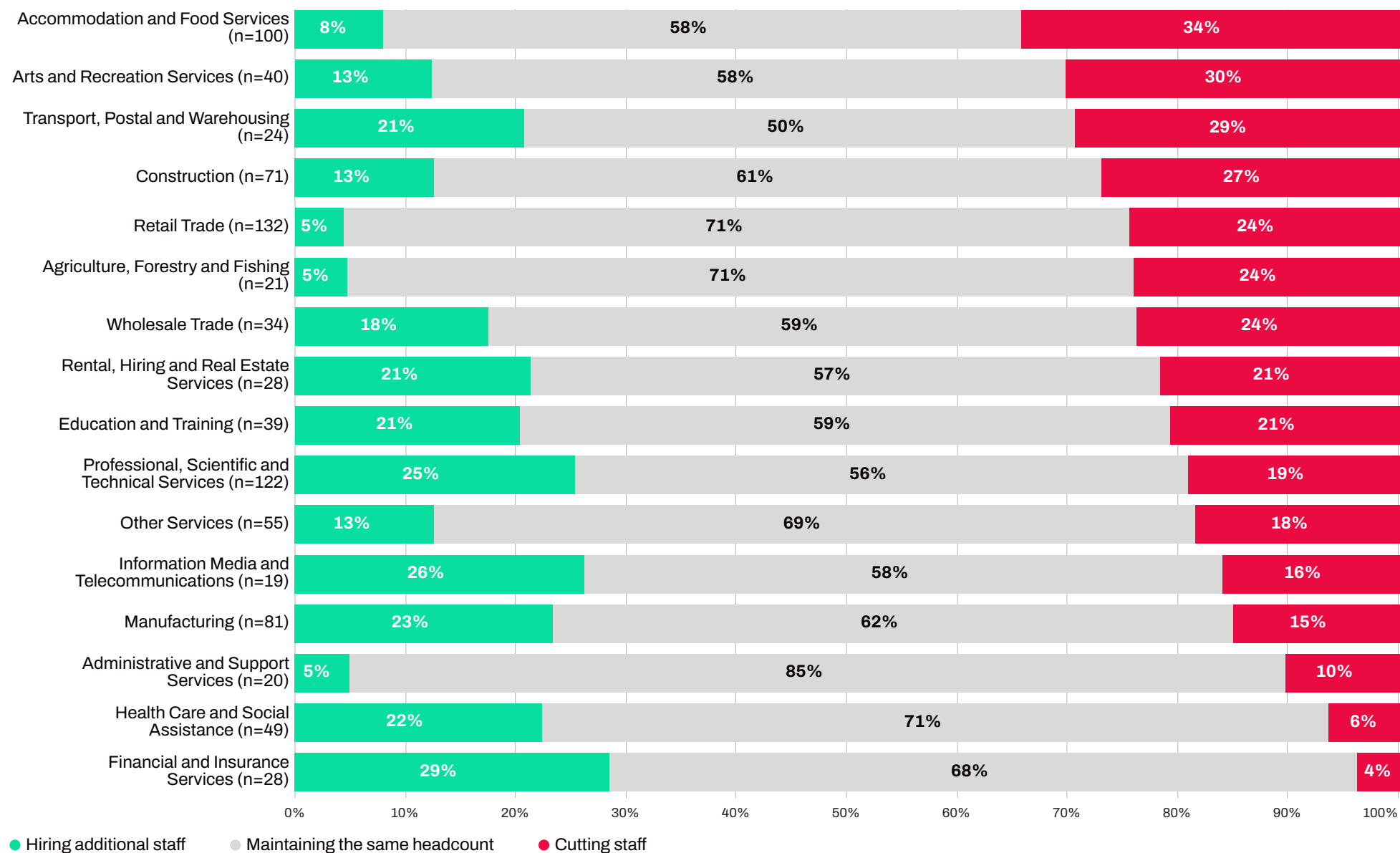


Figure 7: Plans for staff headcount for the next 3 months (by industry)



Industries with less than 10 respondents have been excluded.



“

This last 12 months has seen a dramatic downturn in average spend per customer as well as a massive downturn in the ratio of number of people versus purchase. We are exhausted from entertaining the visitors and not getting paid for it!

Retail Trade,
Mid North Coast

“

We have had many clients already buckle under the pressure and go into liquidation and if this continues we will follow suit.”

Financial and Insurance Services,
Eastern Sydney

5. Workers' Productivity

According to data from the Australian Bureau of Statistics, workers' productivity (defined as output per hour worked) peaked in the March quarter of 2022 and then embarked on a sharp downward trend. Despite a rebound in the second half of 2023, the productivity index remained at 2019 levels in the December quarter of 2023 (the latest data available at the time of this survey).

Firm-level experiences captured in this survey are consistent with the macro trend. Across NSW, 46% of businesses have experienced a decline in workers' productivity in the past two years and only 10% of businesses have observed an increase in workers' productivity.

Figure 8: Change in workers' productivity in the past two years

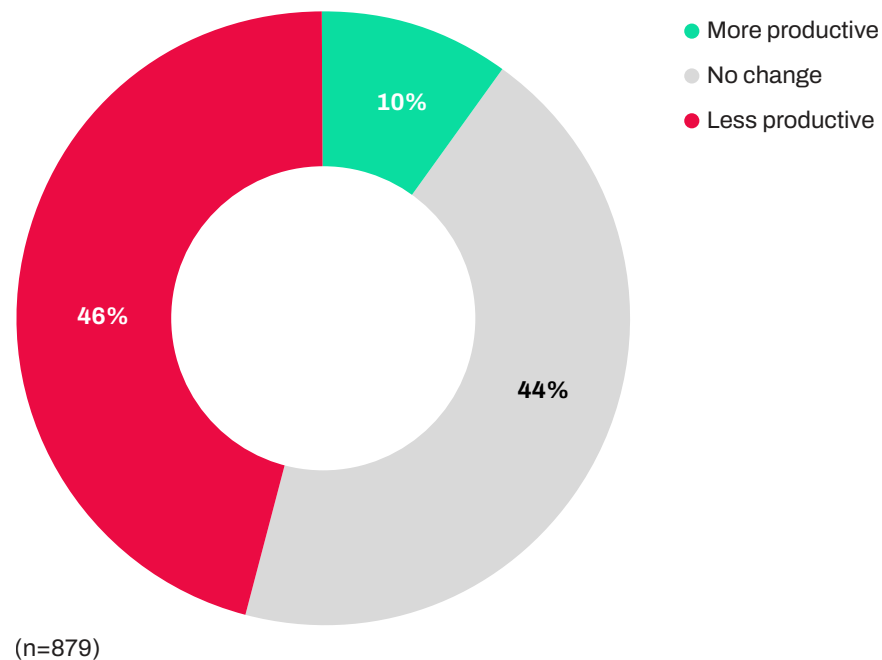
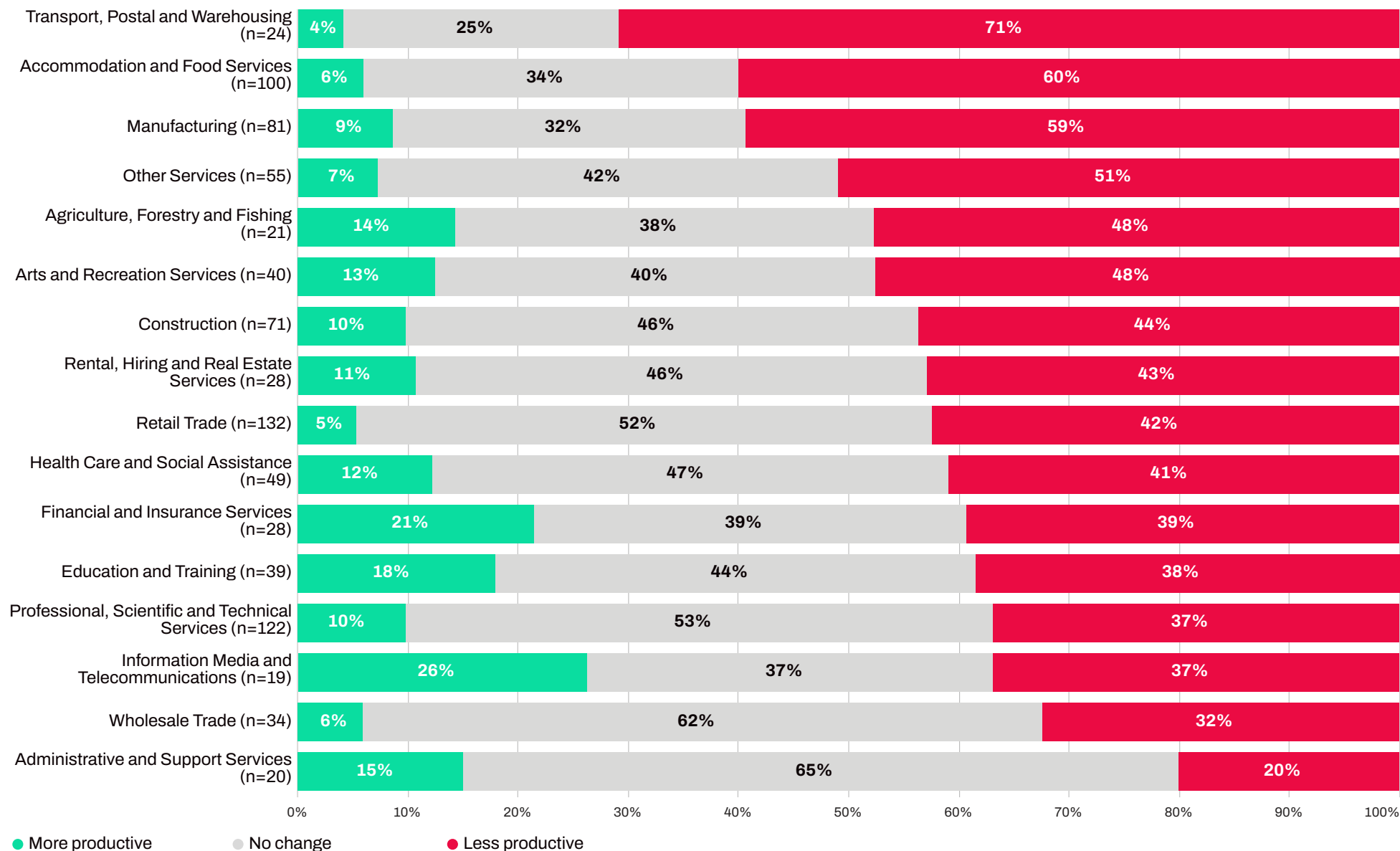


Figure 9: Change in workers' productivity in the past two years (by industry)



Industries with less than 10 respondents have been excluded.

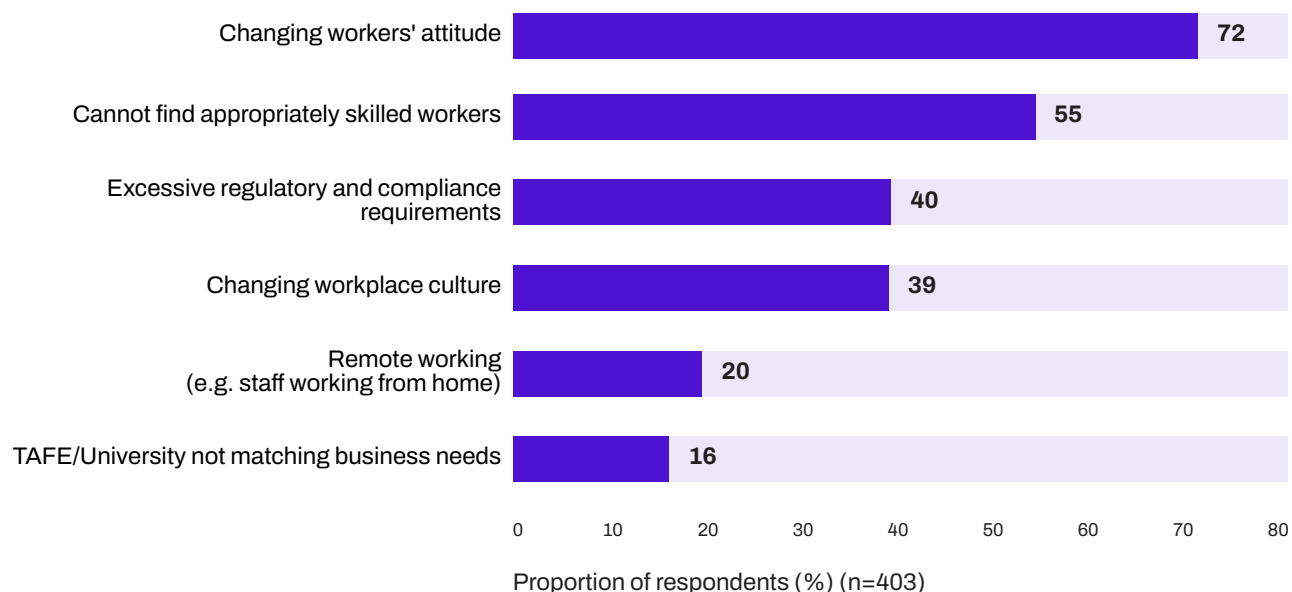
Among businesses that have experienced a decline in workers' productivity, the most commonly cited reasons are changing workers' attitude (72%) and difficulties finding appropriately skilled workers (55%).



My concerns with AI are the time taken to learn the new way of working. As a small business there is barely time to do the job, let alone learn a new technology."

Construction,
Illawarra

Figure 10: Reasons for a decline in workers' productivity*



Results sum to more than 100% as participants were able to select multiple options.

**Only businesses who said "Workers have become less productive" were surveyed.*



For the relatively small cohort of businesses that have experienced an increase in workers' productivity, most have invested in staff training (70%). Only 9% have achieved an increase in workers' productivity without taking any specific actions.



AI brings efficiencies, enabling redeployment of resource to more meaningful tasks”

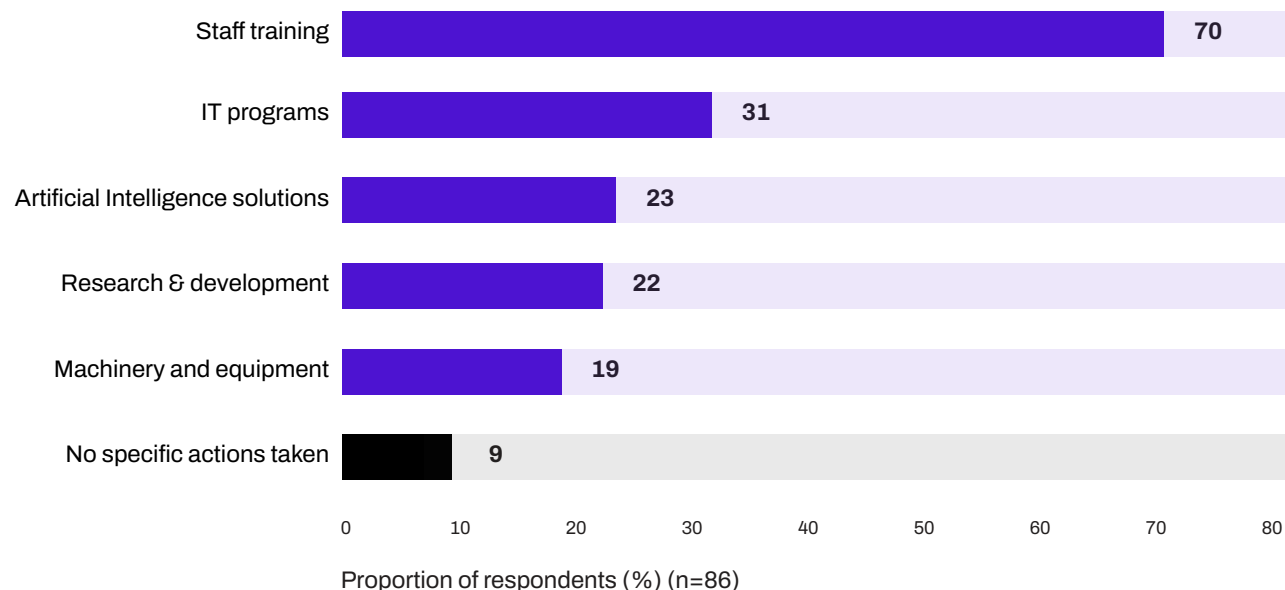
Construction,
Central Coast



Lower sales per hour worked equals higher labour costs and lower productivity.”

Accommodation and Food Services,
Central West

Figure 11: Actions leading to an increase in workers' productivity*



Results sum to more than 100% as participants were able to select multiple options.

*Only businesses who said “Workers have become more productive” were surveyed.



6. Adoption of Artificial Intelligence

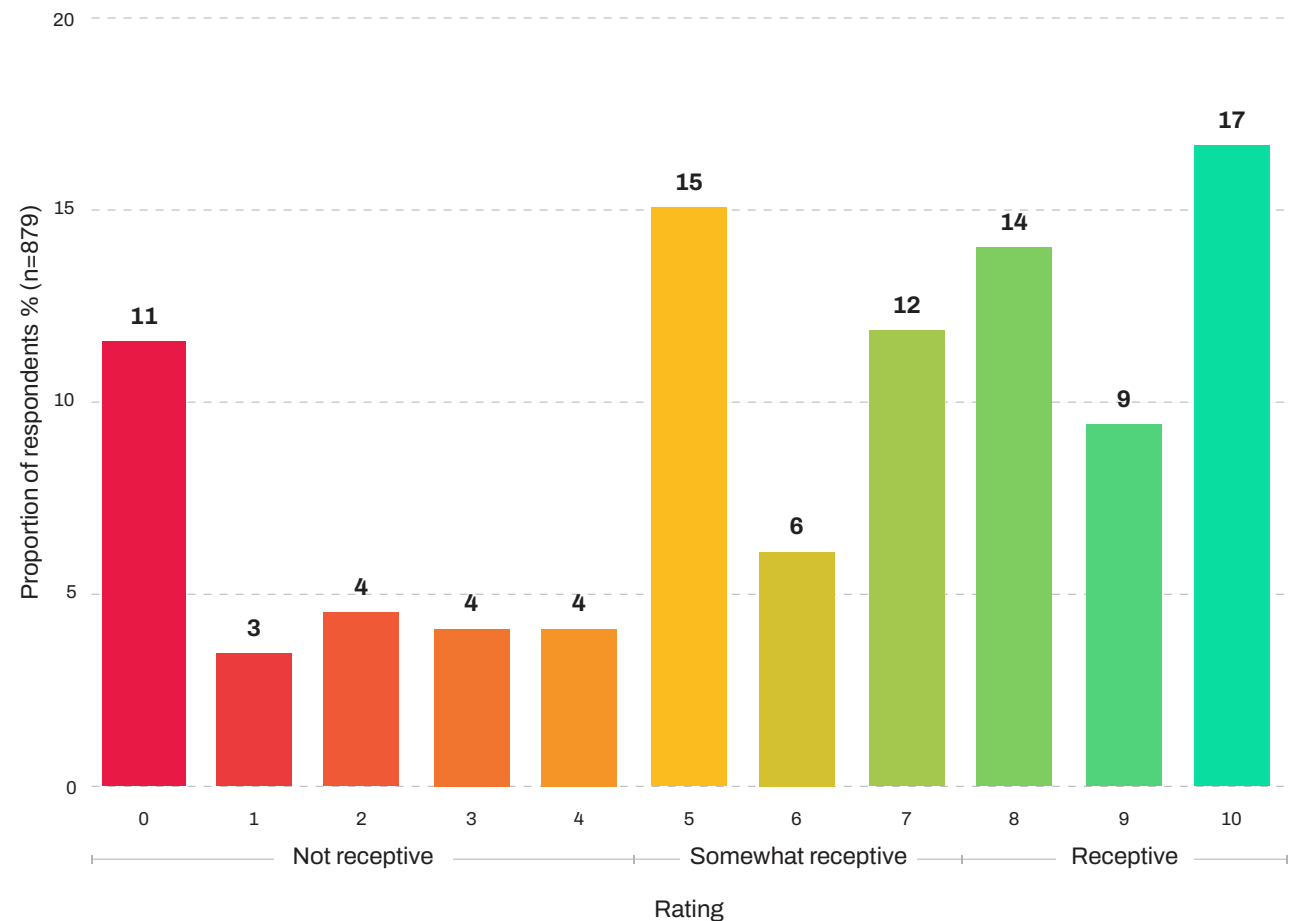
Business owners and managers are generally receptive to adopting AI in their business operations.

On a scale of 0 to 10, the median score is 7.

Only about one in four respondents comes into the “not receptive” range of 4 or below.

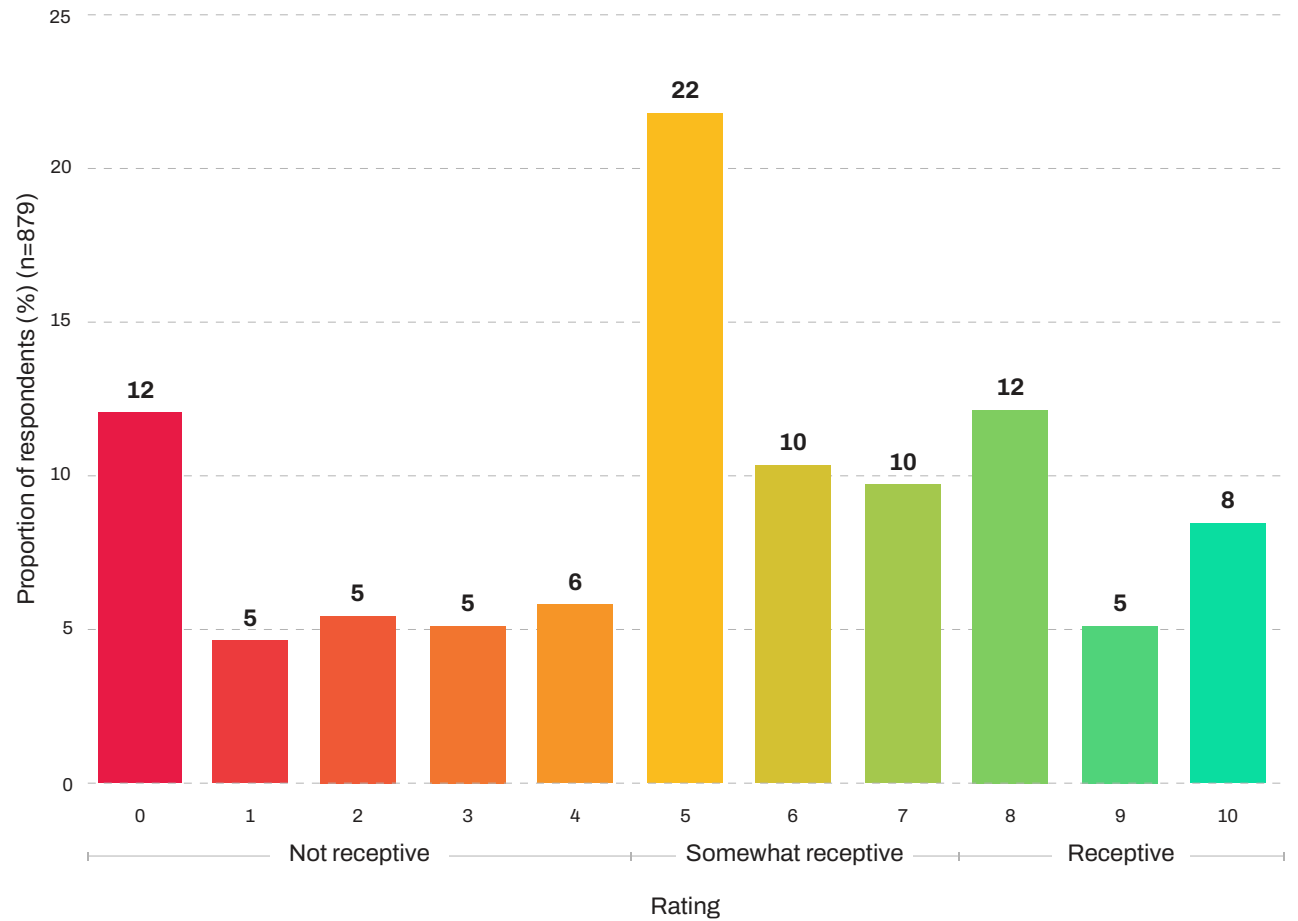
While 11% of respondents give a score of 0 (completely unreceptive), 17% of respondents give a score of 10 (fully receptive).

Figure 12: Attitude of business owners or managers to adopting AI in business operations



Staff members are noticeably less receptive to AI adoption compared to business owners or managers. The median score is 5 out of 10.

Figure 13: Attitude of staff to adopting AI in business operations



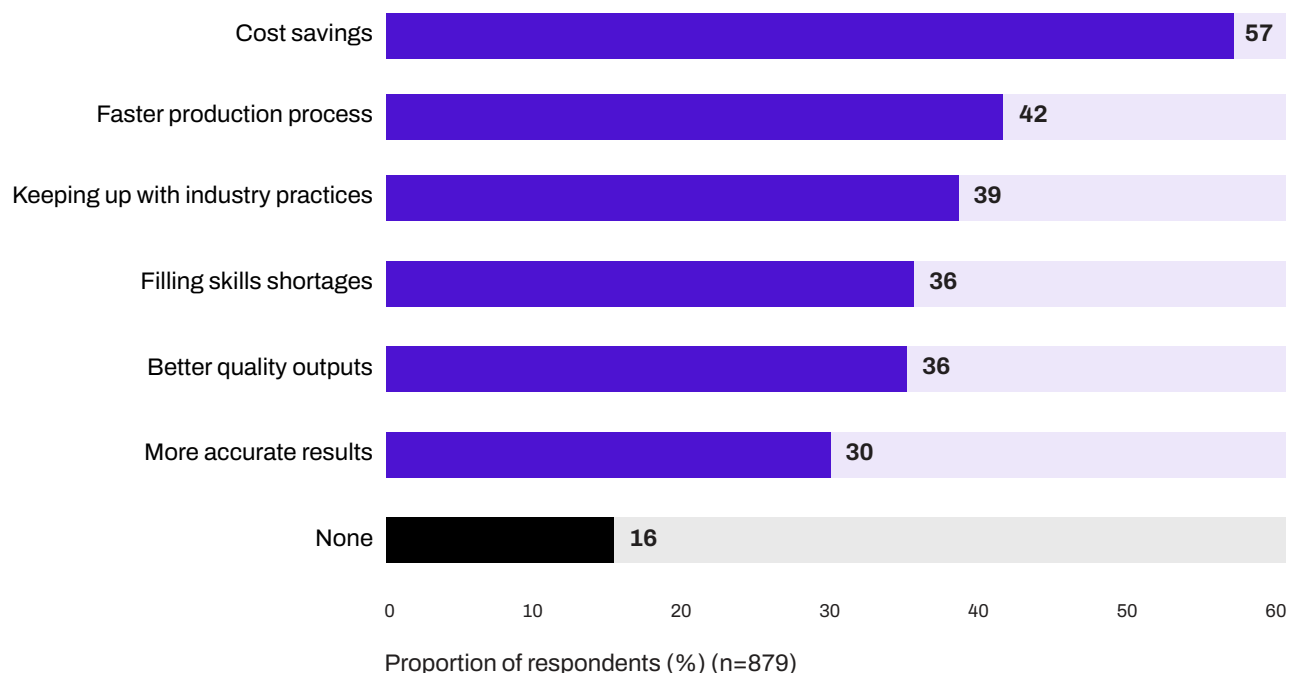
The greatest motivation for AI adoption is cost savings (57% of respondents). Businesses also see benefits in having a faster production process (42%), keeping up with industry practices (39%), filling skills shortages (36%), having better quality outputs (36%) or getting more accurate results (30%).



We have maintained our business and employees through the ups and downs of the past few years by pivoting and adapting technology.”

Education and Training,
Central Coast

Figure 14: Motivation for AI adoption



Results sum to more than 100% as participants were able to select multiple options.

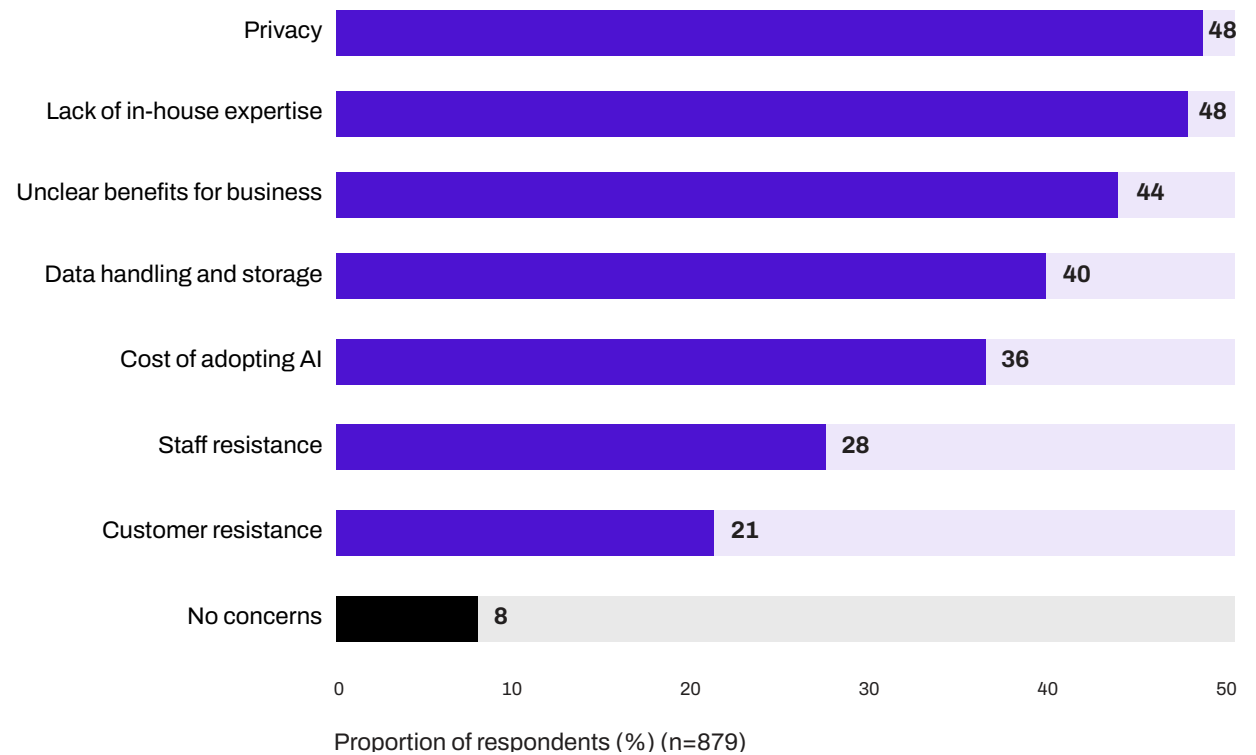
92% of businesses have concerns about adopting or further utilising AI. About one in two businesses regards privacy and a lack of in-house expertise as the biggest concerns, while 44% of respondents see a lack of clear benefits for their business.



Connectivity issues put regional businesses at a disadvantage to competing businesses in metropolitan areas.”

Retail Trade,
Central West

Figure 15: Concerns with adopting or further utilising AI



Results sum to more than 100% as participants were able to select multiple options.

7. Telecommunications Access

Reliable access to telecommunications is critical for business performance. However, there is a notable disparity in metropolitan and regional businesses' self-assessment of telecommunications access.

On a scale of 0 to 10, where 0 represents “non-existent” and 10 represents “no issues”, Sydney-based businesses have higher average scores for all four telecommunication services surveyed: mobile phone, broadband internet, higher bandwidth business-specific services and data security support services.

The largest gaps are in mobile phone services and higher bandwidth business-specific services.

For Sydney-based businesses, the most common score is 10 out of 10 across all four services surveyed. For regional businesses, 5 out of 10 is the most common score for two of the four services surveyed.

Figure 16: Availability and reliability of telecommunications access





	Sydney (n=290)	Rest of NSW (n=589)
 Mobile phone services	8.0	6.2
 Broadband internet services	7.8	6.3
 Higher bandwidth business-specific services	7.2	5.4
 Data security support services	6.8	5.6

Figure 17: Availability and reliability of access to mobile phone services

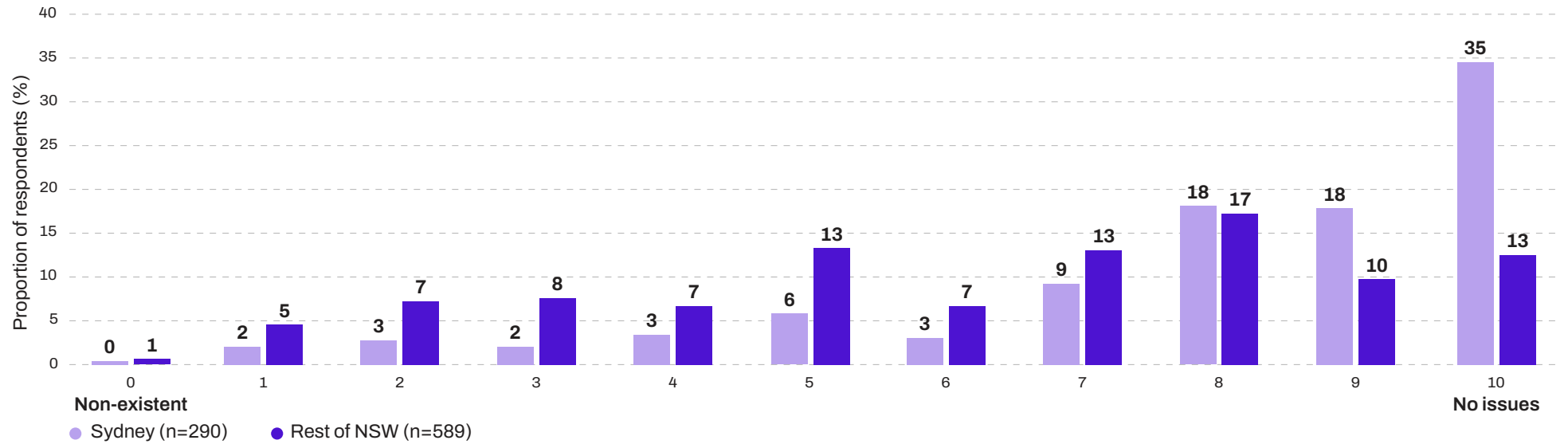


Figure 18: Availability and reliability of access to broadband internet services

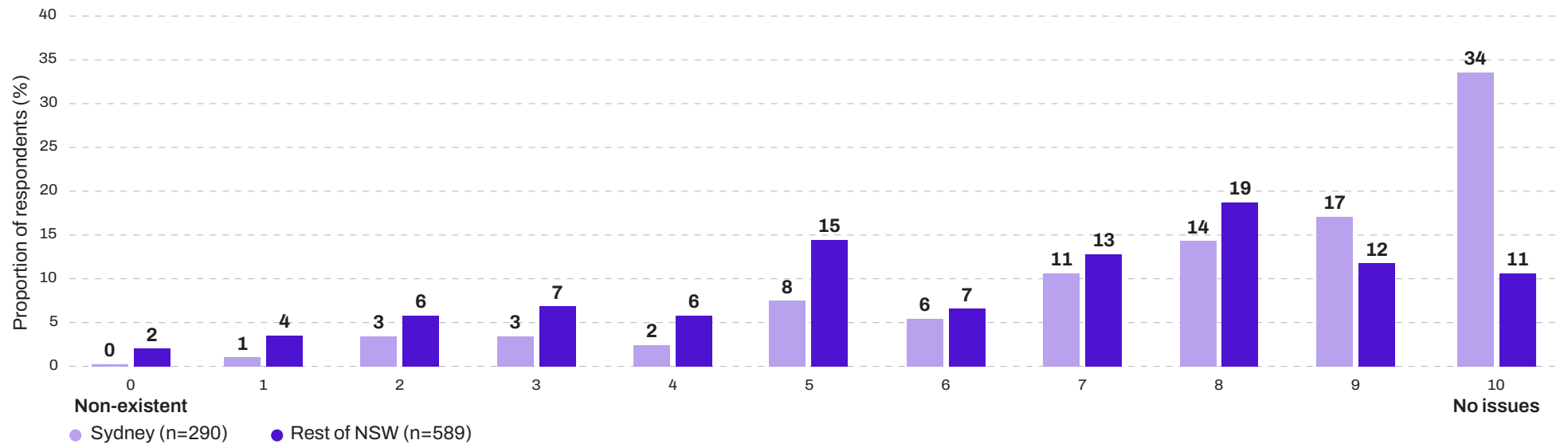


Figure 19: Availability and reliability of access to higher bandwidth business-specific services

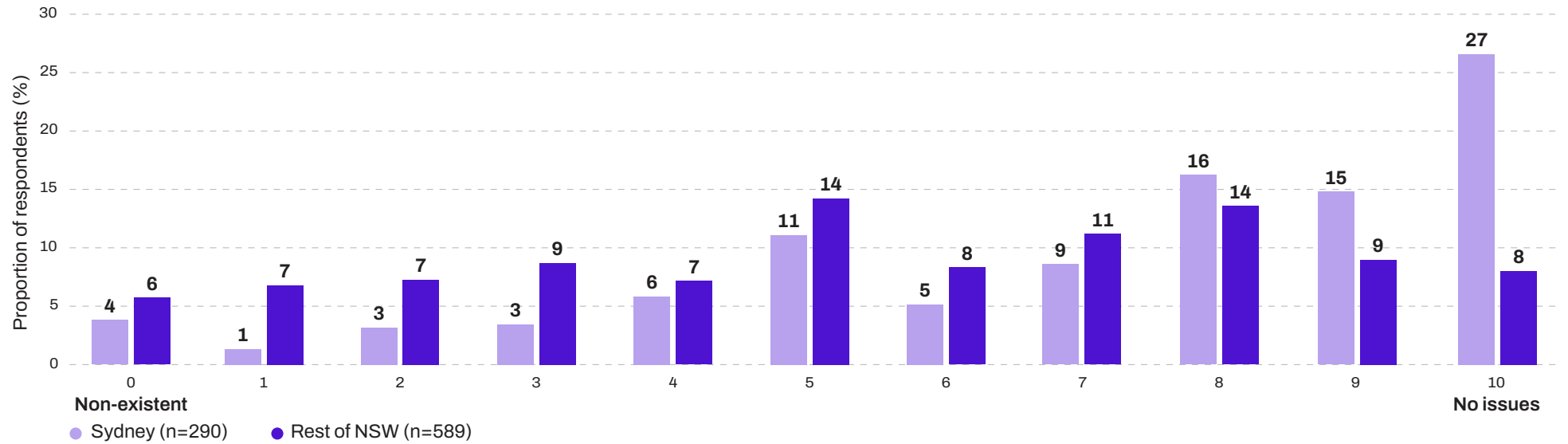
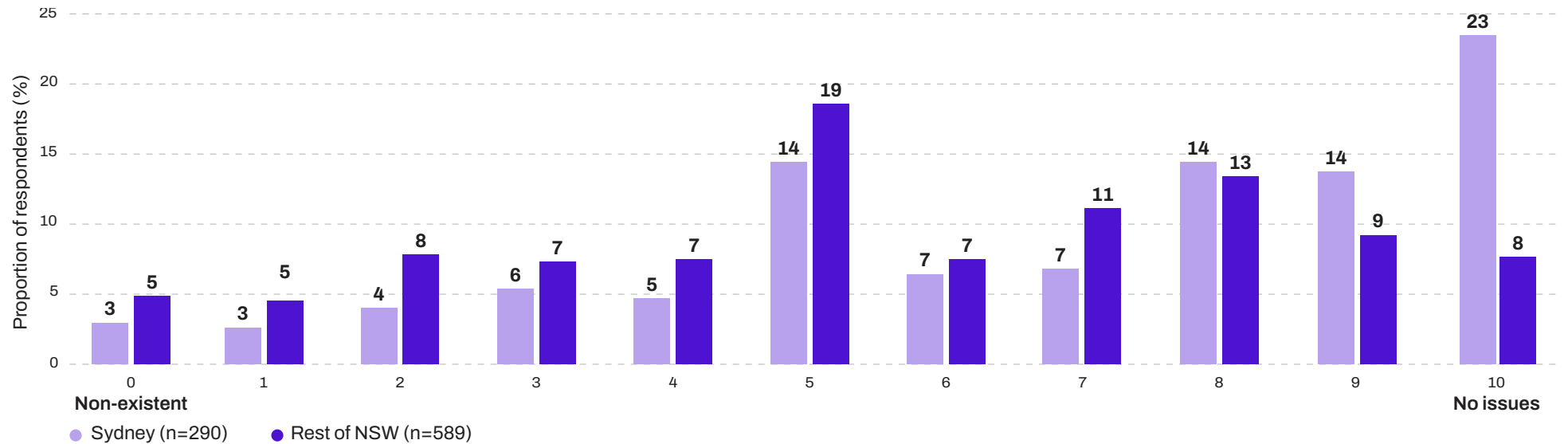
























Figure 20: Availability and reliability of access to data security support services





8. Business Views on Future Investment Priorities

Figure 21: How future investment should be prioritised

	Sydney (n=290)	Rest of NSW (n=589)
1 st	 Energy reliability and cost	 Energy reliability and cost
2 nd	 Transport infrastructure	 Housing availability
3 rd	 Education and skills	 Education and skills
4 th	 Housing availability	 Telecommunications and data connectivity
5 th	 Health and wellbeing services	 Transport infrastructure
6 th	 Telecommunications and data connectivity	 Health and wellbeing services
7 th	 Enabling access or re-entry to workforce (e.g. childcare and engagement of retirees)	 Local manufacturing suppliers
8 th	 Logistics infrastructure	 Logistics infrastructure
9 th	 Resilience against natural impacts	 Resilience against natural impacts
10 th	 Local manufacturing suppliers	 New industries
11 th	 New industries	 Enabling access or re-entry to workforce (e.g. childcare and engagement of retirees)



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