

NSW BUSINESS CONDITIONS

Rising Business Costs

APRIL 2022



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A photograph of two men in high-visibility safety vests and hard hats walking towards the camera on a dirt path. They are surrounded by tall, green grass. The background shows a clear blue sky and a dirt mound.

About Us

Business NSW is the peak business organisation for New South Wales with more than 40,000 member businesses across the state.

Our purpose is to create a better Australia by maximising the outcomes and potential of Australian business. 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.

1. Introduction

Business conditions have been challenging since the start of the pandemic in early 2020. The various lockdowns have caused major disruptions to economic activity. While NSW businesses are no longer operating in COVID crisis mode, trading conditions have been volatile and there are signs of a multi-speed economy as different sectors and businesses are recovering at a different pace. Some have seen their operations back on track, while many others are still struggling.

After a tough start to 2022 due to the Omicron wave of COVID – necessitating a NSW Government \$1 billion business support package – and flooding, businesses are now faced with further uncertainties both global and domestic. The war in Ukraine has impacted global commodity markets, leading to further concerns about supply chain disruptions and commodity prices. Throughout the history of the Business NSW Business Conditions Survey, confidence has often been subdued during Federal Election periods. With the Federal Election taking place in May, businesses have likely switched to cautious mode, adopting a wait-and-see approach as in the case of previous elections.

Our members consistently tell us the greatest challenge currently facing the business community is rising costs. Inflationary pressures have intensified since 2021 due to both supply-side constraints and improved demand on the back of the economic recovery. In recent quarters, all key inflation indicators have entered territory that calls for a strong policy response.

The special focus of this survey was on rising costs. An overwhelming 97% of respondents have had to make operational changes to deal with rising business costs. The detailed findings of the survey provide important insights into how businesses are grappling with rapidly increasing business expenses.

Overall, business confidence remains weak, but there are signs of improvement. Despite the negative reading, the latest Business Confidence Index for current conditions rebounded from the previous quarter. Engagement with the survey was also solid (n=695) compared to other normalised periods. Normalised participation is a welcome sign that businesses are no longer operating in COVID crisis conditions. There is genuine cause for optimism.



2. Business Conditions and Confidence

The NSW Business Confidence Index rebounded from the previous quarter but remained in negative territory. While overall business confidence remained weak in April, there were fewer pessimists than in the previous quarter.

For the quarter ahead, the overall sentiment remained downbeat as businesses maintained a cautious view on sales, operating cost pressures and profits. Two-thirds of respondents were anticipating weaker profits for their business in the current quarter compared to the last quarter, with 62% of respondents anticipating further weakness in profits for their business in the next quarter.

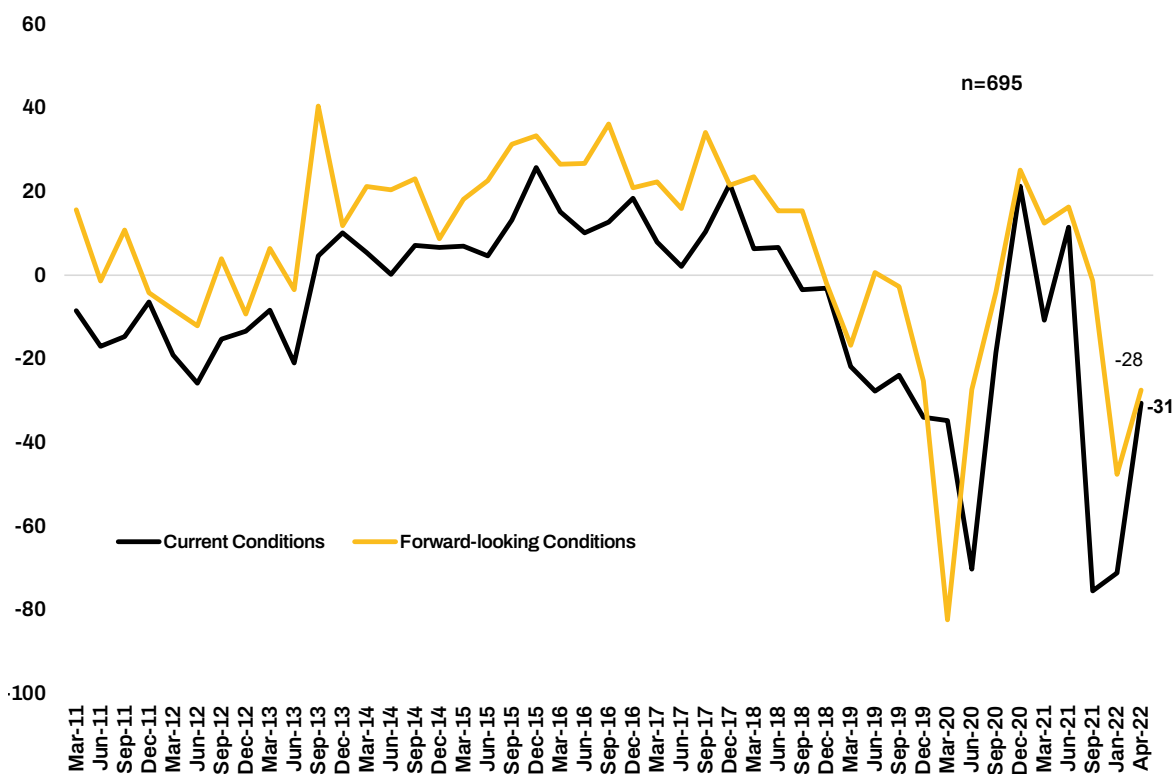


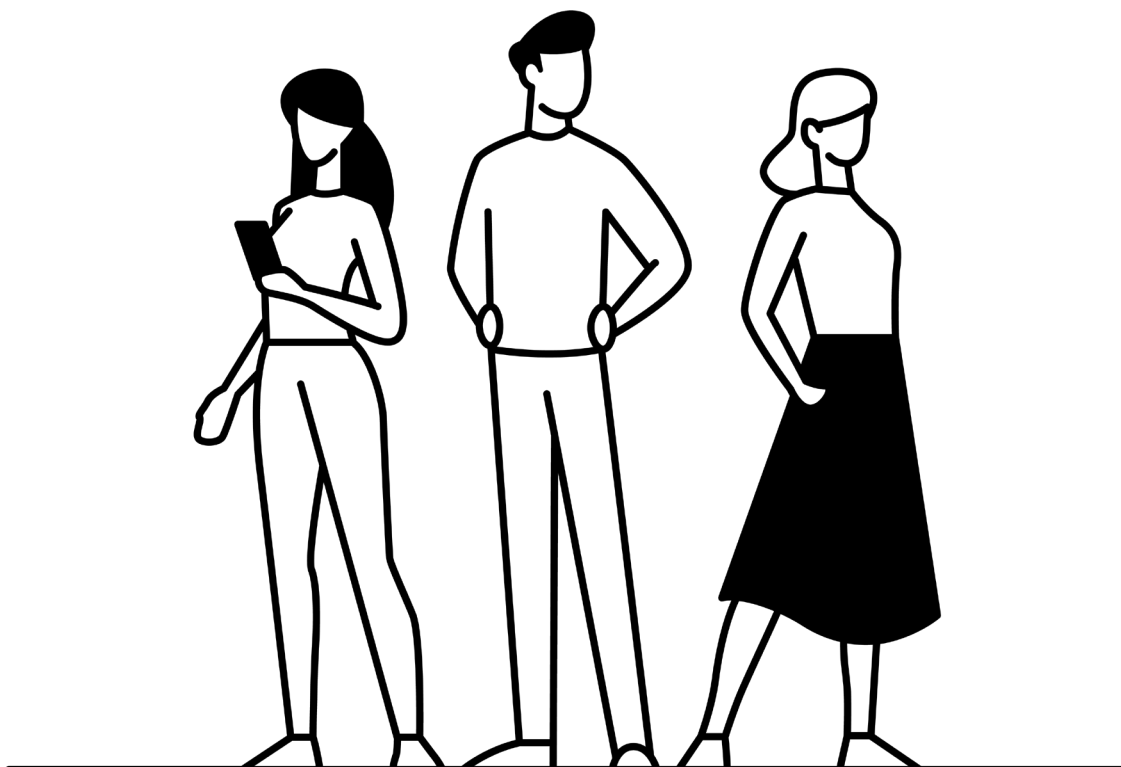
Figure 1: Business Confidence Index – current and forward-looking conditions

After gauging businesses' assessment of the NSW business sector as a whole, the survey asked for their self-assessment. Overall, businesses expected their own performance to mimic the broader environment.

Businesses were generally expecting lower profits this quarter compared to the last, and remained cautious about their profit outlook next quarter. Consistently, they were downbeat about sales and cost pressures. Such sentiments are also reflected in their capital spending and hiring intentions.

	Current	Forward-looking
n=695		
Profit	-53.5	-46.5
Sales revenue	-34.7	-26.9
Capital spending	-38.3	-34.7
Staff numbers	-22.9	-18.7
Operating cost pressures	42.0	40.1

Figure 2: Individual business conditions index



3. Rising Business Costs

Official inflation data shows prices have increased across the board.¹ This survey explored how business expenses have changed over the past 12 months from the perspective of businesses.

Reflecting the recent surge in fuel and commodity prices, transport and materials for production were the two categories with the highest proportion of respondents reporting price increases of over 10%.

The survey was conducted before the RBA rate hike in May was passed on to borrowers by lenders. Hence, a majority of respondents reported that loan repayments were about the same as a year ago.

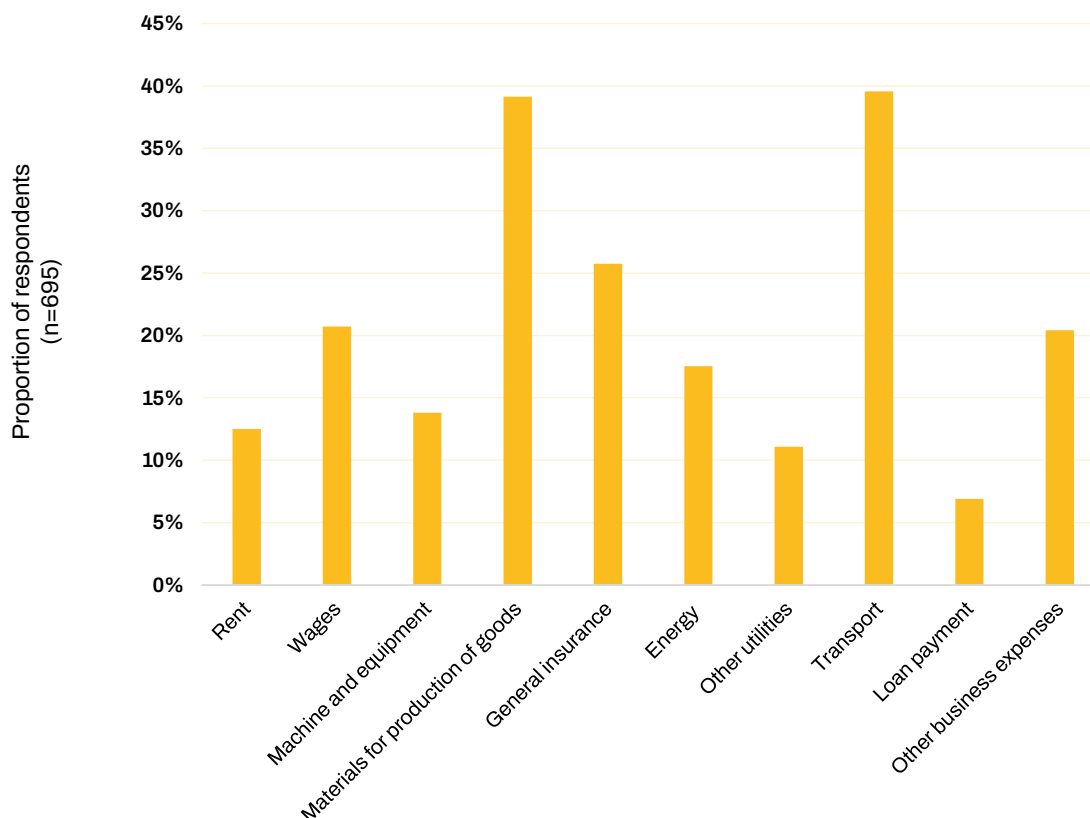


Figure 3: Business cost increase of over 10%

¹ Australian Bureau of Statistics (2022) 'Consumer Price Index, Australia, March 2022' and 'Producer Price Indexes, Australia, March 2022'.

Wage growth pressures have been strong due to historically low unemployment, ongoing skills shortages and rising cost of living. Wages have risen more in some industries than others in the past year.

51% of respondents cited wages as their top expense category.

Region	Proportion of businesses that experienced wage growth of over 10%
All industries (n=695)	21%
Agriculture, Forestry and Fishing (n=21)	33%
Mining (n=3)	33%
Public Administration and Safety (n=3)	33%
Accommodation and Food services (n=80)	33%
Administrative and Support services (n=10)	30%
Education and Training (n=26)	27%
Professional, Scientific and Technical services (n=78)	26%
Construction (n=59)	25%
Electricity, Gas, Water and Waste services (n=8)	25%
Information Media and Telecommunications (n=24)	21%
Arts and Recreation services (n=30)	20%
Health Care and Social Assistance (n=31)	19%
Wholesale trade (n=32)	19%
Transport, Postal and Warehousing (n=16)	19%
Financial and Insurance services (n=17)	18%
Manufacturing (n=75)	16%
Other services (n=54)	15%
Rental, Hiring and Real Estate services (n=19)	11%
Retail Trade (n=109)	10%

Figure 4: Wage growth pressures by industry

An overwhelming 97% of respondents have had to make operational changes to deal with rising business costs. Most respondents have implemented multiple changes.

Reducing profit margin was the most common strategy, followed by raising prices.

One of the more extreme measures – having to temporarily close their business – was reported by a small but non-trivial proportion of respondents.

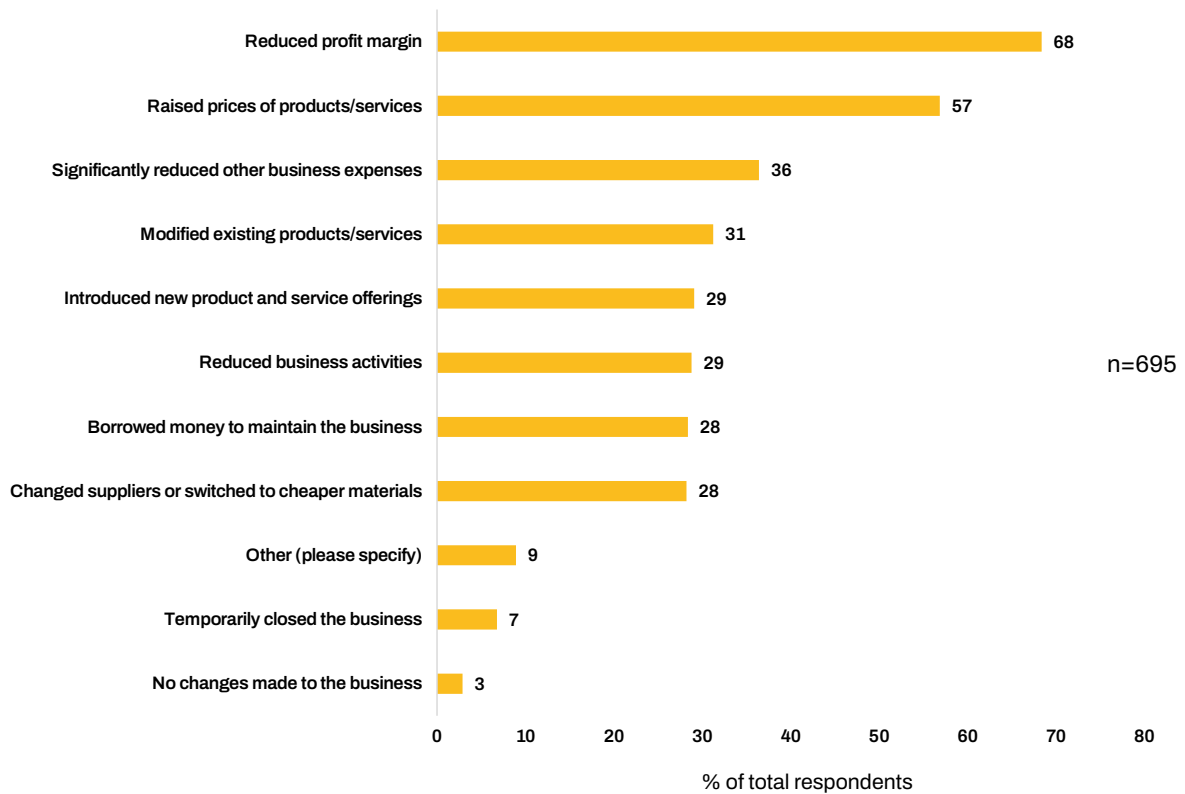
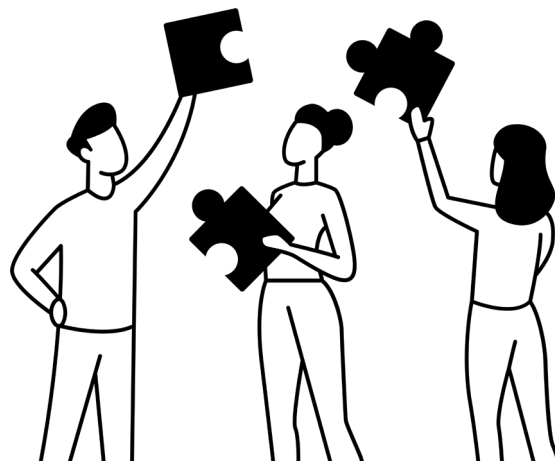


Figure 5: Coping strategy for rising costs



Amid rising production costs, the important question is...

Who ultimately pays?

Key factors that influence the balance of cost-sharing include:

- Nature of the goods or services (e.g. whether they are necessities for consumers)
- The availability of alternatives (e.g. whether consumers can readily switch to alternative arrangements)
- Price levels of the goods or services (e.g. whether they constitute a large proportion of income)

Cost-sharing options	Proportion of respondents (n=695)
Fully passed on to consumers (i.e. raising prices without reducing profit margin)	18%
Shared by business and consumers (i.e. raising prices and reducing profit margin)	40%
Fully borne by business (i.e. reducing profit margin without raising prices)	29%

Figure 6: Who is paying for higher input costs?

Industry	Proportion of businesses that have fully passed on higher business costs to consumers
All industries (n=695)	18%
Public Administration and Safety (n=3)	33%
Administrative and Support services (n=10)	30%
Manufacturing (n=75)	29%
Construction (n=59)	25%
Transport, Postal and Warehousing (n=16)	25%
Financial and Insurance services (n=17)	24%
Other services (n=54)	22%
Agriculture, Forestry and Fishing (n=21)	19%
Professional, Scientific and Technical services (n=78)	18%
Retail Trade (n=109)	17%
Health Care and Social Assistance (n=31)	16%
Wholesale trade (n=32)	16%
Accommodation and Food services (n=80)	13%
Education and Training (n=26)	8%
Arts and Recreation services (n=30)	7%
Information Media and Telecommunications (n=24)	4%

Figure 7: Ability to fully pass on higher business costs to consumers



Industry	Proportion of businesses that have fully absorbed higher business costs
All industries (n=695)	29%
Electricity, Gas, Water and Waste services (n=8)	63%
Health Care and Social Assistance (n=31)	58%
Rental, Hiring and Real Estate services (n=19)	47%
Education and Training (n=26)	38%
Agriculture, Forestry and Fishing (n=21)	38%
Arts and Recreation services (n=30)	33%
Mining (n=3)	33%
Other services (n=54)	33%
Transport, Postal and Warehousing (n=16)	31%
Accommodation and Food services (n=80)	29%
Retail Trade (n=109)	27%
Professional, Scientific and Technical services (n=78)	26%
Construction (n=59)	25%
Information Media and Telecommunications (n=24)	25%
Financial and Insurance services (n=17)	24%
Wholesale trade (n=32)	22%
Administrative and Support services (n=10)	20%
Manufacturing (n=75)	16%

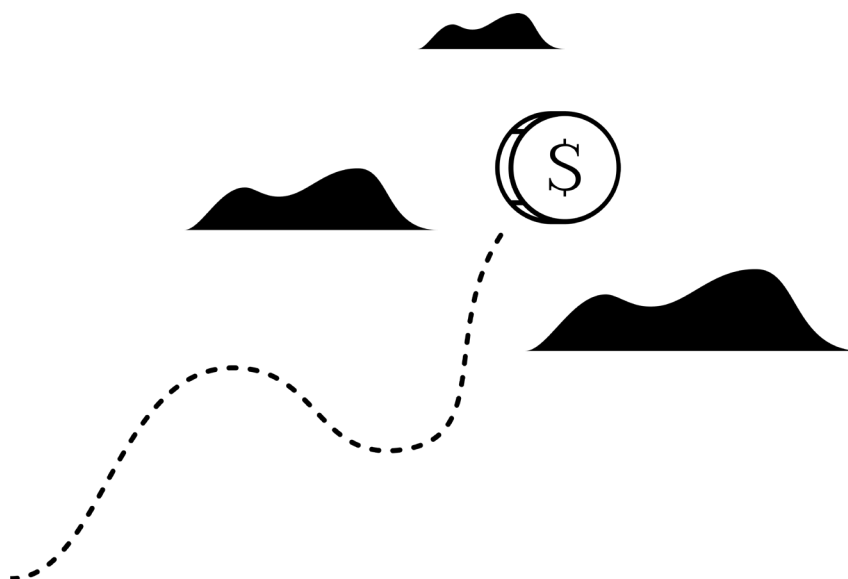
Figure 8: Having to fully absorb higher business costs

As a majority of respondents have had to at least partially absorb the higher input costs, they are likely to have to scale back investment.

For businesses that have experienced substantial cost increases in various categories, capital spending intentions for the next quarter were universally weaker than average. This may be attributed to practical constraints (having less available funds) and/or subdued confidence.

Businesses that experienced higher costs	Capital spending: individual business conditions index – forward-looking
All respondents (n=695)	-34.7
Respondents that experienced:	
wage increase of over 10%	-38.2
price increase of over 10% for materials for production	-45.6
price increase of over 10% for transport	-45.1
price increase of over 10% for general insurance	-47.5
price increase of over 10% for energy	-56.6

Figure 9: Impact of inflation on business decisions



4. Access to General Insurance & Insurance Costs

General insurance includes property and contents, public liability, professional indemnity, equipment and business continuity.

Having adequate access to general insurance is important to businesses. It protects businesses financially against unforeseen adverse events such as property damages or theft. In some industries, being insured is also a regulatory requirement.

The cost of insurance remains a key concern. Almost 8 in 10 survey respondents reported an increase in insurance costs over the past 12 months. Overall, a quarter of respondents experienced an annual price increase in excess of 10%.

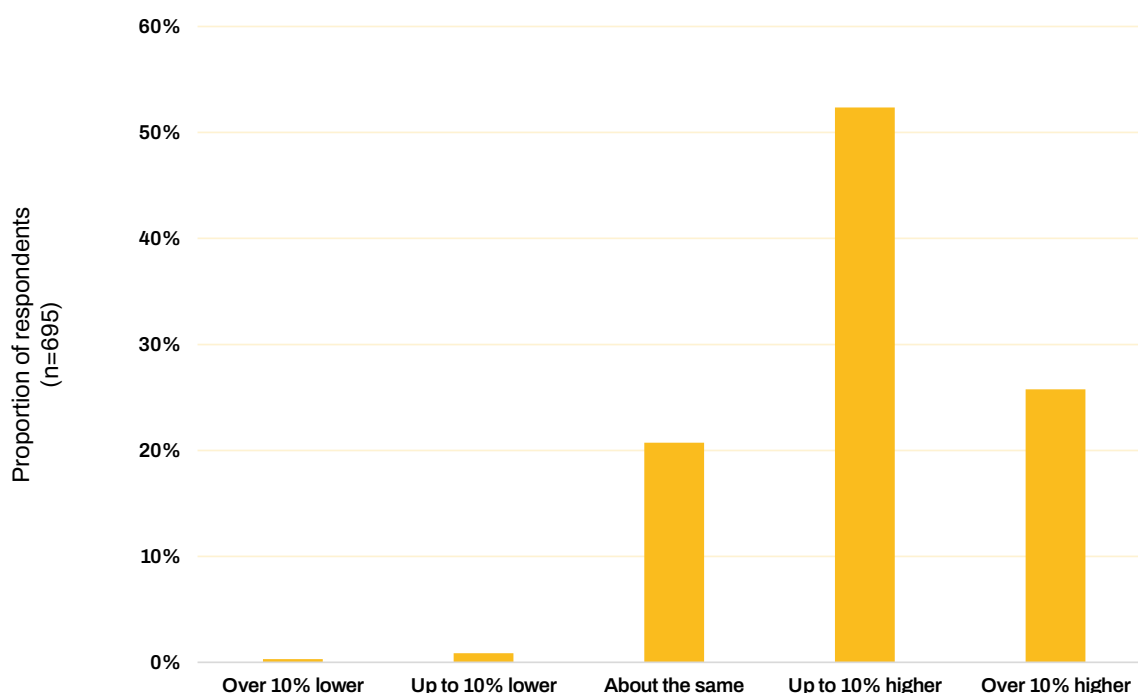


Figure 10a: Increase in general insurance costs

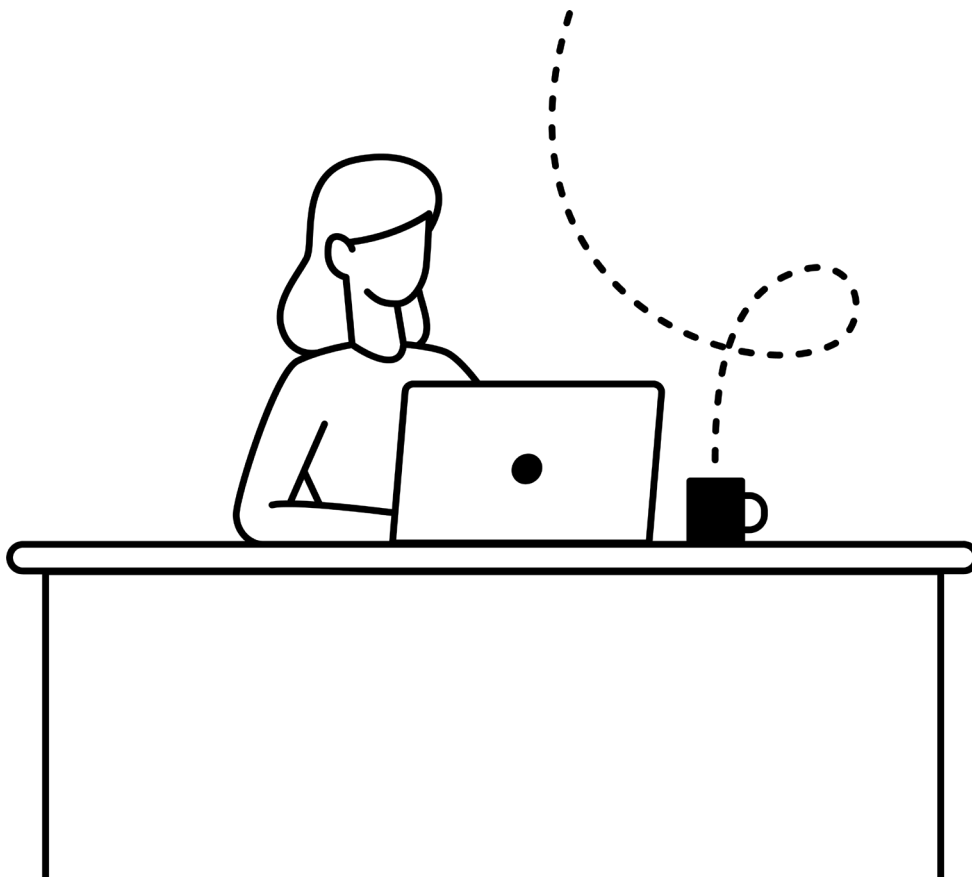


The pricing of premiums had a majority of respondents feeling dissatisfied. Qualitative comments from respondents suggest that price increases have been steep, with some businesses describing their insurance premiums as unaffordable.

On non-price measures, the majority of respondents were either neutral or satisfied with their general insurance products in relation to:

- Number of providers in the market
- Choice of excess or deductibles
- Coverage (e.g. exclusions, terms and conditions)
- Responsiveness of service providers
- Quality of advice received
- Ease of making claims
- Meeting legal requirements to operate.

Maintaining affordability and availability of insurance in the face of inflationary pressures and cost concerns for business and continued major weather events remains a priority for particular sectors and geographic areas.



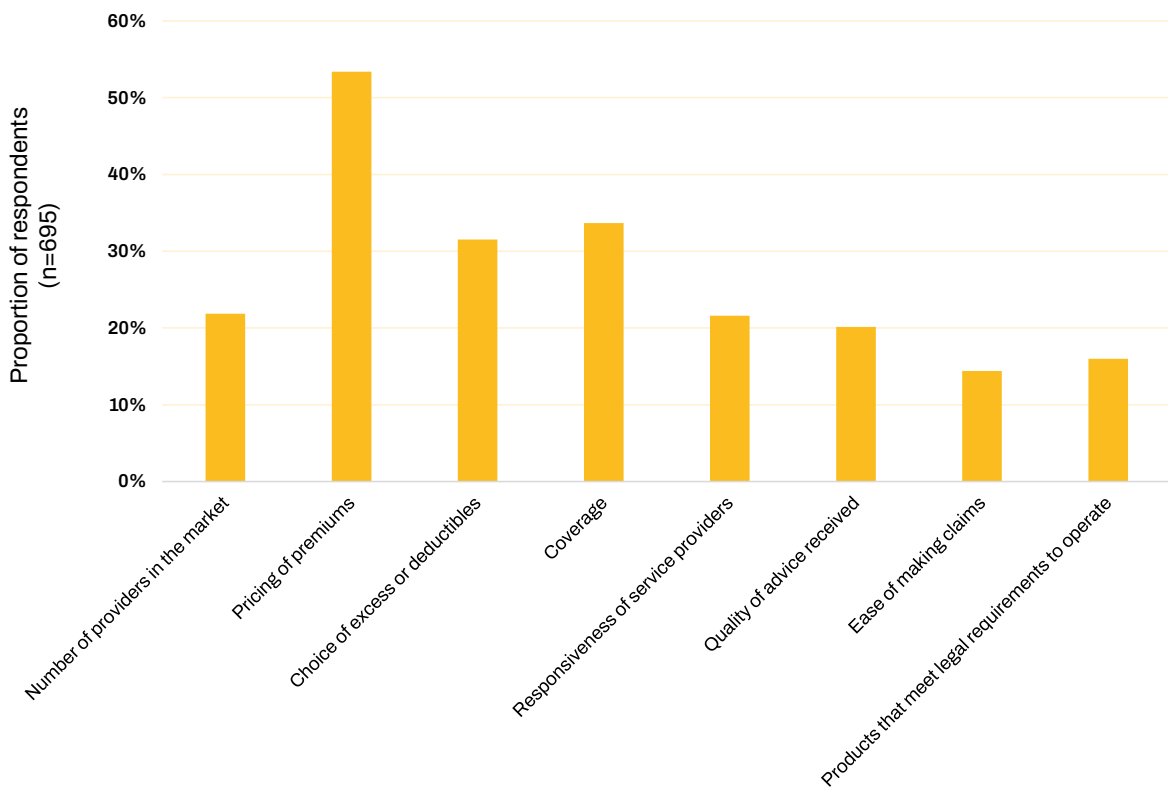
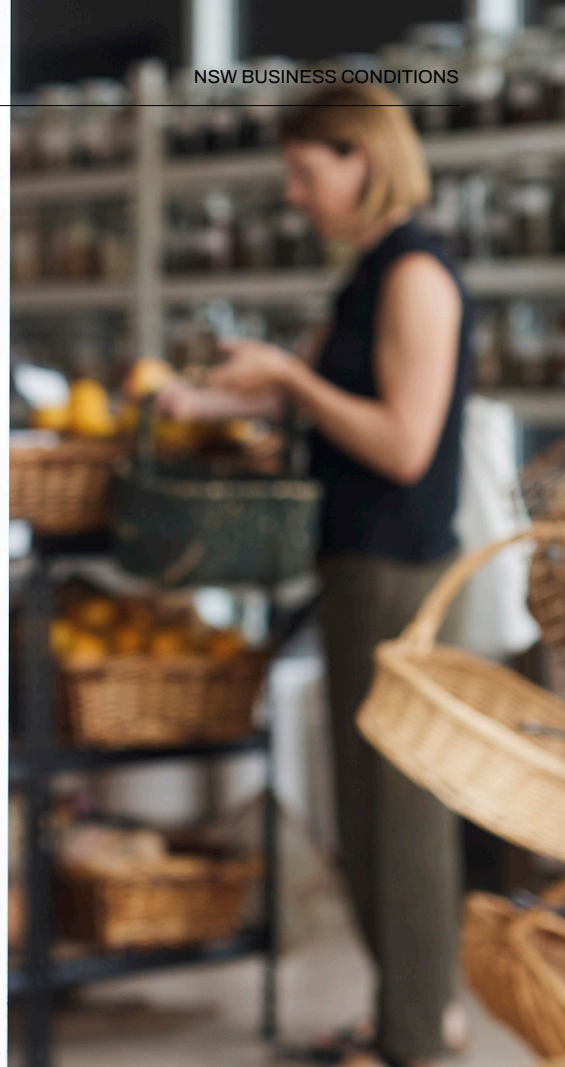


Figure 10b: Dissatisfaction with general insurance

5. Appendices



Region	Business Confidence Index - Current Conditions	
	APR-22	JAN-22
NSW	-30.6 (n=695)	-70.9 (n=3036)
Central Coast	-50 (n=32)	-79.9 (n=134)
Capital Region	-32.6 (n=43)	-52 (n=127)
Central West	-50 (n=26)	-73.4 (n=158)
Coffs Harbour – Grafton	-40.7 (n=27)	-59 (n=83)
Far West and Orana	-44.4 (n=9)	-57.4 (n=61)
Hunter Valley	-31 (n=42)	-77 (n=152)
Illawarra	-44.4 (n=27)	-76.1 (n=142)
Mid North Coast	-33.3 (n=36)	-65.1 (n=109)
Murray	2.9 (n=35)	-45.6 (n=114)
New England and North West	-23.5 (n=34)	-70.3 (n=118)
Newcastle and Lake Macquarie	-10.3 (n=39)	-77 (n=148)
Richmond – Tweed	-53.3 (n=45)	-67.5 (n=169)
Riverina	-8.7 (n=23)	-52.3 (n=110)
Southern Highlands and Shoalhaven	-40 (n=20)	-54.3 (n=92)
Sydney	-28.4 (n=257)	-77 (n=1315)
Eastern Sydney	-21.9 (n=169)	-78.8 (n=873)
Western Sydney	-40.9 (n=88)	-73.3 (n=442)

Note: 'Eastern Sydney' includes Eastern City, North and South districts; 'Western Sydney' refers to Western and Central cities as designated by the Greater Sydney Commission.

Figure 11: Regional breakdown – confidence (current conditions)



Confidence map

Weighting is based on business confidence levels in the April quarter relative to the NSW average.

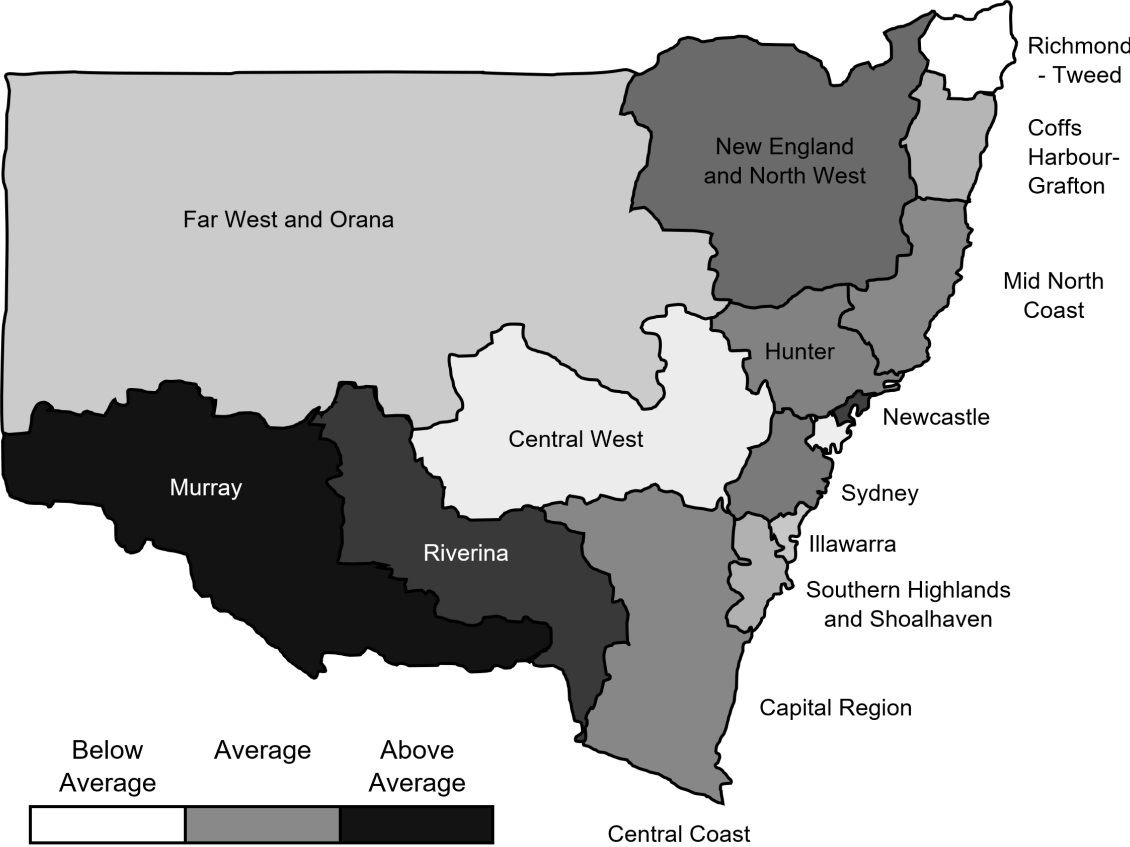


Figure 12: Confidence map

Region	Business Confidence Index - Forwarding looking Conditions	
	APR-22	JAN-22
NSW	-27.5 (n=695)	-47.3 (n=3036)
Central Coast	-40.6 (n=32)	-47.8 (n=134)
Capital Region	-25.6 (n=43)	-59.8 (n=127)
Central West	-38.5 (n=26)	-48.1 (n=158)
Coffs Harbour – Grafton	-29.6 (n=27)	-50.6 (n=83)
Far West & Orana	0 (n=9)	-52.5 (n=61)
Hunter Valley	-35.7 (n=42)	-48 (n=152)
Illawarra	-29.6 (n=27)	-53.5 (n=142)
Mid North Coast	-47.2 (n=36)	-47.7 (n=109)
Murray	-11.4 (n=35)	-43 (n=114)
New England & North West	-44.1 (n=34)	-50.8 (n=118)
Newcastle & Lake Macquarie	-17.9 (n=39)	-41.9 (n=148)
Richmond – Tweed	-33.3 (n=45)	-50.3 (n=169)
Riverina	0 (n=23)	-49.5 (n=110)
Southern Highlands & Shoalhaven	-35 (n=20)	-52.2 (n=92)
Sydney	-23.7 (n=257)	-44.4 (n=1315)
Eastern Sydney	-19.5 (n=169)	-42.7 (n=873)
Western Sydney	-31.8 (n=88)	-47.7 (n=442)

Note: 'Eastern Sydney' includes Eastern City, North and South districts; 'Western Sydney' refers to Western and Central cities as designated by the Greater Sydney Commission.

Figure 13: Regional breakdown – confidence (forward-looking conditions)

Region	Current Business Conditions Index				
	Capital spending	Staff numbers	Sales revenue	Profit	Operating cost pressure
NSW (n=695)	-38	-23	-33	-58	50
Central Coast (n=32)	-38	-13	-41	-59	50
Capital Region (n=43)	-54	-21	-35	-70	70
Central West (n=26)	-46	-19	-23	-62	42
Coffs Harbour – Grafton (n=27)	-59	-30	-41	-67	44
Far West & Orana (n=9)	-67	-44	-56	-67	56
Hunter Valley (n=42)	-45	-33	-48	-62	52
Illawarra (n=27)	-48	-11	-33	-56	48
Mid North Coast (n=36)	-39	-31	-56	-78	31
Murray (n=35)	-23	-14	-14	-51	66
New England & North West (n=34)	-35	-24	-38	-56	62
Newcastle & Lake Macquarie (n=39)	-21	-10	-10	-41	46
Richmond – Tweed (n=45)	-36	-33	-53	-64	38
Riverina (n=23)	-44	-22	-13	-61	39
Southern Highlands & Shoalhaven (n=20)	-30	-10	-40	-65	70
Sydney (n=257)	-36	-24	-29	-54	49
Easter Sydney (n=169)	-31	-16	-25	-54	53
Western Sydney (n=88)	-44	-40	-36	-55	42

Figure 14: Regional breakdown – current business conditions

Industry	Business Confidence Index - Current Conditions	
	APR-22	JAN-22
All industries	-30.6 (n=695)	-70.9 (n=3036)
Retail Trade	-41.3 (n=109)	-72.6 (n=482)
Accommodation & Food services	-31.3 (n=80)	-74.7 (n=438)
Professional, Scientific & Technical services	-11.5 (n=78)	-73.8 (n=336)
Manufacturing	-25.3 (n=75)	-66.5 (n=215)
Construction	-27.1 (n=59)	-63 (n=181)
Other services	-22.2 (n=54)	-71.3 (n=236)
Wholesale trade	-46.9 (n=32)	-65.5 (n=110)
Health Care & Social Assistance	-58.1 (n=31)	-74.3 (n=214)
Arts and Recreation services	-43.3 (n=30)	-78.6 (n=137)
Education & Training	-46.2 (n=26)	-74.1 (n=139)
Information Media & Telecommunications	-37.5 (n=24)	-80.5 (n=77)
Agriculture, Forestry & Fishing	-23.8 (n=21)	-51.6 (n=64)
Rental, Hiring & Real Estate services	-10.5 (n=19)	-55.6 (n=63)
Financial & Insurance services	-52.9 (n=17)	-61.7 (n=81)
Transport, Postal & Warehousing	-6.3 (n=16)	-70.6 (n=68)
Administrative & Support services	-10 (n=10)	-61.1 (n=36)
Electricity, Gas, Water & Waste services	-37.5 (n=8)	-66.7 (n=21)
Mining	0 (n=3)	-60 (n=15)
Public Administration & Safety	33.3 (n=3)	-25 (n=8)

Figure 15: Industry breakdown – confidence (current conditions)

Industry	Current Business Conditions Index				
	Capital spending	Staff numbers	Revenue	Profit	Operating cost pressure
All industries (n=695)	-38	-23	-33	-58	50
Retail Trade (n=109)	-58	-36	-48	-68	44
Accommodation & Food services (n=80)	-41	-36	-43	-56	65
Professional, Scientific & Technical services (n=78)	-19	0	-15	-40	55
Manufacturing (n=75)	-45	-21	-40	-72	56
Construction (n=59)	-34	-25	-29	-54	36
Other services (n=54)	-35	-2	-20	-52	57
Wholesale trade (n=32)	-31	-9	-22	-59	78
Health Care & Social Assistance (n=31)	-55	-55	-58	-77	45
Arts and Recreation services (n=30)	-37	-30	-23	-50	50
Education & Training (n=26)	-35	-46	-50	-85	42
Information Media & Telecommunications (n=24)	-42	-29	-46	-63	46
Agriculture, Forestry & Fishing (n=21)	-33	-14	-38	-62	43
Rental, Hiring & Real Estate services (n=19)	-21	-16	-16	-37	21
Financial & Insurance services (n=17)§	-24	-6	-35	-53	35
Transport, Postal & Warehousing (n=16)	-44	-19	0	-44	56
Administrative & Support services (n=10)	-30	0	0	-30	20
Electricity, Gas, Water & Waste services (n=8)	-50	-50	-50	-88	0
Mining (n=3)	67	67	67	33	100
Public Administration & Safety (n=3)	33	33	33	-67	67

Figure 16: Industry breakdown – current business conditions



CONTACT

Sam Moreton
General Manager, Policy and Analysis
Sam.Moreton@businessnsw.com

Dr Sherman Chan
Chief Economist
Sherman.Chan@businessnsw.com

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