



**BUSINESS  
NSW**

# **NSW BUSINESS CONDITIONS**

*A New Wave of Challenges*

**JUNE 2023**



Business NSW President Lyall Gorman (left) and CEO Daniel Hunter

# About Us

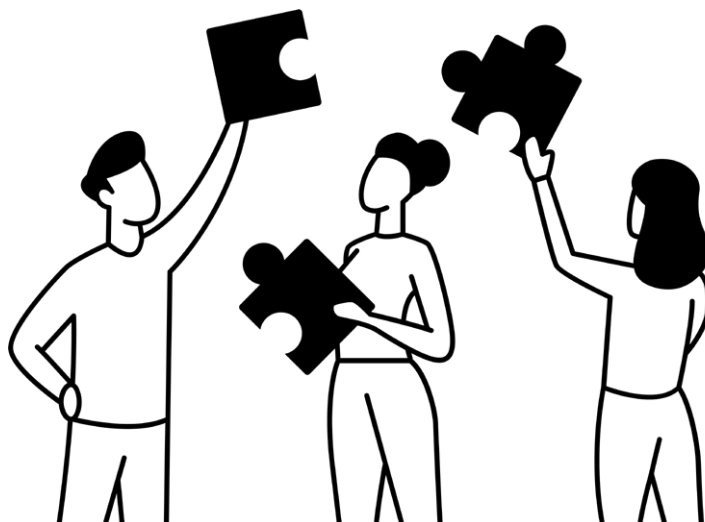
Business NSW is the peak business organisation for New South Wales with almost 50,000 member businesses across the state.

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.

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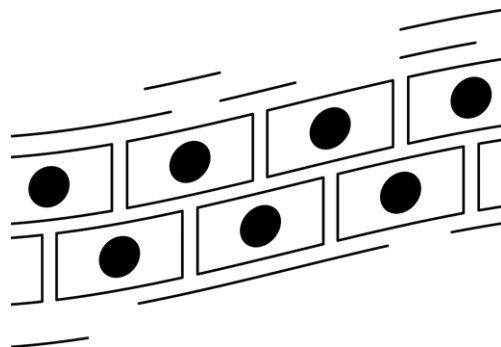
# Executive Summary

The global economy is slowing and Australia is not immune. Successive interest rate hikes have dampened consumer demand and businesses across many industries are feeling the impact. While some businesses are still struggling to fill existing vacancies for skilled workers, an increasing proportion of businesses is considering reducing headcounts as trading conditions are sub-optimal. The Federal Budget 2023-24 was closely watched by business – SMEs in particular – for support.

The latest quarterly Business Conditions Survey was conducted during 14-30 May and received a total of 989 responses, covering all key industries and regions in NSW.

## Key findings:

1. The Business Confidence Index has slipped to a level near its all-time low. Businesses are hampered by the high cost of doing business and waning customer demand. However, expectations for the next quarter are less pessimistic.
2. The impact of interest rate hikes on business continues to intensify. Businesses are most concerned about the impact on customer spending.
3. One in four businesses intends to reduce staff headcount in the next three months.
4. Of eight key business expense categories, insurance costs and energy costs are causing the most concerns.
5. In response to rising energy prices, one in two businesses has explored ways to reduce energy use or improve energy efficiency. However, none has switched energy providers.



6. About 15% of businesses have not taken any action to enhance cybersecurity management as they consider it irrelevant to their business. Close to 35% have not taken any action due to affordability reasons.
7. Almost one in five survey respondents is completely unreceptive to the use of Artificial Intelligence. However, businesses' attitude to adopting AI varies according to the industry they operate in and the size of their business.
8. Nearly half of all survey respondents see the cost-of-living relief measures in the latest Federal Budget as having no impact on their business. Businesses on average also have a neutral view on the benefits of the instant asset write-off and Small Business Energy Incentive.
9. If the government does not act to improve business conditions in NSW:
  - 43% of businesses will likely reduce staff
  - 35% of businesses will likely increase debt
  - 35% of businesses will likely close
  - 9% of businesses will likely move interstate or offshore.



# 1. Business Confidence

Business confidence has weakened in the second quarter of 2023. With a reading of -70.8, the headline Business Confidence Index (BCI) has slipped to a level near its all-time low. When BCI readings were at similar levels in recent years, business activity was constrained by COVID-related lockdowns. In the absence of any imposed restrictions at present, the low BCI is a reflection of the underlying weakness in trading conditions for business.

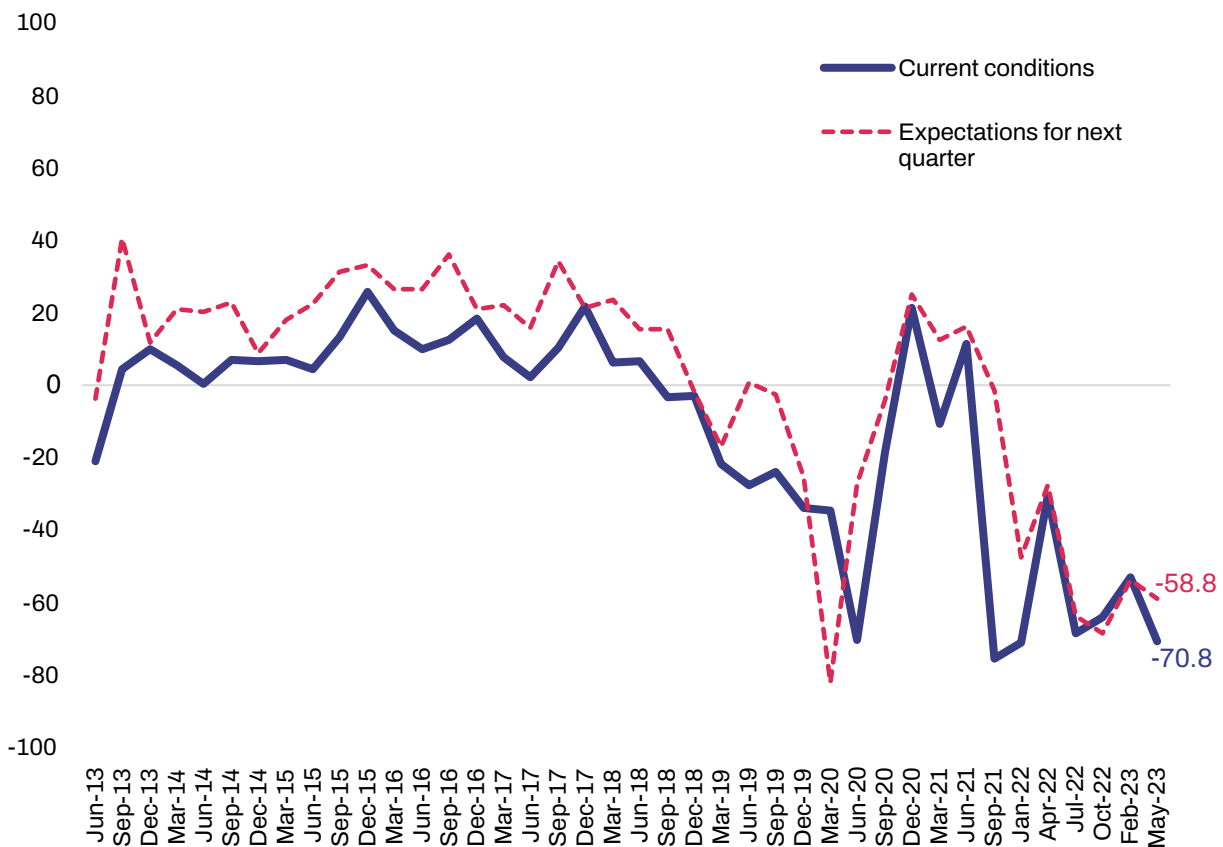


Figure 1: Business Confidence Index



Costs have risen considerably and the income coming in has stayed the same. It is a challenge every week you are in business.

- Transport, Postal and Warehousing  
(Capital Region)

Not much light at the end of the tunnel for small businesses, with costs for everything increasing without the true ability to pass these costs on.

- Wholesale Trade  
(Southern Highlands & Shoalhaven)

We have had to stop paying directors (owners) wages to keep the company afloat. Leads are down 50% the last 2 months. We have had the worst quarter in seven years.

- Construction  
(Sydney)

## Regional Snapshot

**Figure 2: Business confidence by region**

	Business Confidence Index		
	Last Quarter (Feb 2023)	Current Quarter (May 2023)	Next Quarter
<b>NSW</b>	-53.1 (n=1267)	-70.8 (n=989)	-58.8 (n=989)
<b>Regions expecting a rebound</b>			
Capital Region	-35.0 (n=60)	-81.6 (n=49)	-67.3 (n=49)
Central Coast	-51.6 (n=64)	-66.7 (n=45)	-57.8 (n=45)
Central West	-66.2 (n=65)	-73.9 (n=46)	-58.7 (n=46)
Coffs Harbour – Grafton	-53.8 (n=39)	-65.5 (n=29)	-58.6 (n=29)
Eastern Sydney	-47.3 (n=279)	-67.5 (n=243)	-51.4 (n=243)
Hunter Valley	-51.4 (n=72)	-61.0 (n=41)	-53.7 (n=41)
Illawarra	-55.9 (n=68)	-78.0 (n=59)	-59.3 (n=59)
Mid North Coast	-55.4 (n=65)	-77.0 (n=61)	-70.5 (n=61)
New England and North West	-63.3 (n=60)	-70.5 (n=44)	-65.9 (n=44)
Newcastle and Lake Macquarie	-51.7 (n=89)	-64.2 (n=53)	-60.4 (n=53)
Richmond – Tweed	-60.3 (n=68)	-71.7 (n=60)	-58.3 (n=60)
Southern Highlands and Shoalhaven	-69.5 (n=59)	-88.6 (n=44)	-79.5 (n=44)
Western Sydney	-46.9 (n=162)	-68.9 (n=122)	-44.3 (n=122)
<b>Region expecting no change</b>			
Far West and Orana	-76.9 (n=26)	-69.2 (n=13)	-69.2 (n=13)
<b>Regions expecting a deterioration</b>			
Murray	-57.4 (n=47)	-76.9 (n=39)	-79.5 (n=39)
Riverina	-52.3 (n=44)	-61.0 (n=41)	-70.7 (n=41)

## Industry Snapshot

**Figure 3: Business confidence by industry**

	Business Confidence Index		
	Last Quarter (Feb 2023)	Current Quarter (May 2023)	Next Quarter
<b>All industries</b>	-53.1 (n=1267)	-70.8 (n=989)	-58.8 (n=989)
<b>Industries expecting a rebound</b>			
Accommodation and Food Services	-55.3 (n=159)	-73.1 (n=119)	-63.0 (n=119)
Administrative and Support Services	-22.2 (n=18)	-71.4 (n=14)	-57.1 (n=14)
Arts and Recreation Services	-46.4 (n=56)	-74.4 (n=39)	-56.4 (n=39)
Construction	-54.7 (n=75)	-71.2 (n=73)	-61.6 (n=73)
Education and Training	-29.8 (n=57)	-42.3 (n=26)	-38.5 (n=26)
Health Care and Social Assistance	-44.2 (n=86)	-62.5 (n=48)	-56.3 (n=48)
Information Media and Telecommunications	-46.5 (n=43)	-88.9 (n=18)	-66.7 (n=18)
Manufacturing	-52.5 (n=118)	-76.5 (n=115)	-46.1 (n=115)
Mining	-20.0 (n=5)	-100.0 (n=3)	-66.7 (n=3)
Other Services	-57.0 (n=107)	-75.0 (n=72)	-69.4 (n=72)
Professional, Scientific and Technical Services	-41.1 (n=129)	-51.8 (n=110)	-50.0 (n=110)
Public Administration and Safety	-40.0 (n=5)	0.0 (n=3)	66.7 (n=3)
Rental, Hiring and Real Estate Services	-70.7 (n=41)	-84.8 (n=33)	-63.6 (n=33)
Retail Trade	-67.9 (n=218)	-82.2 (n=180)	-67.2 (n=180)
Transport, Postal and Warehousing	-61.9 (n=21)	-75.0 (n=28)	-53.6 (n=28)
Wholesale Trade	-42.0 (n=50)	-69.8 (n=43)	-62.8 (n=43)
<b>Industries expecting no change</b>			
Electricity, Gas, Water and Waste Services	-66.7 (n=9)	-50.0 (n=4)	-50.0 (n=4)
<b>Industries expecting a deterioration</b>			
Agriculture, Forestry and Fishing	-66.7 (n=45)	-55.9 (n=34)	-67.6 (n=34)
Financial and Insurance Services	-52.0 (n=25)	-55.6 (n=27)	-59.3 (n=27)

I have not had any sales for three months. Because of the interest rate increases, consumers have stopped spending. What I am experiencing is worse than the March 2020 COVID lockdowns.

- Education and Training (Sydney)



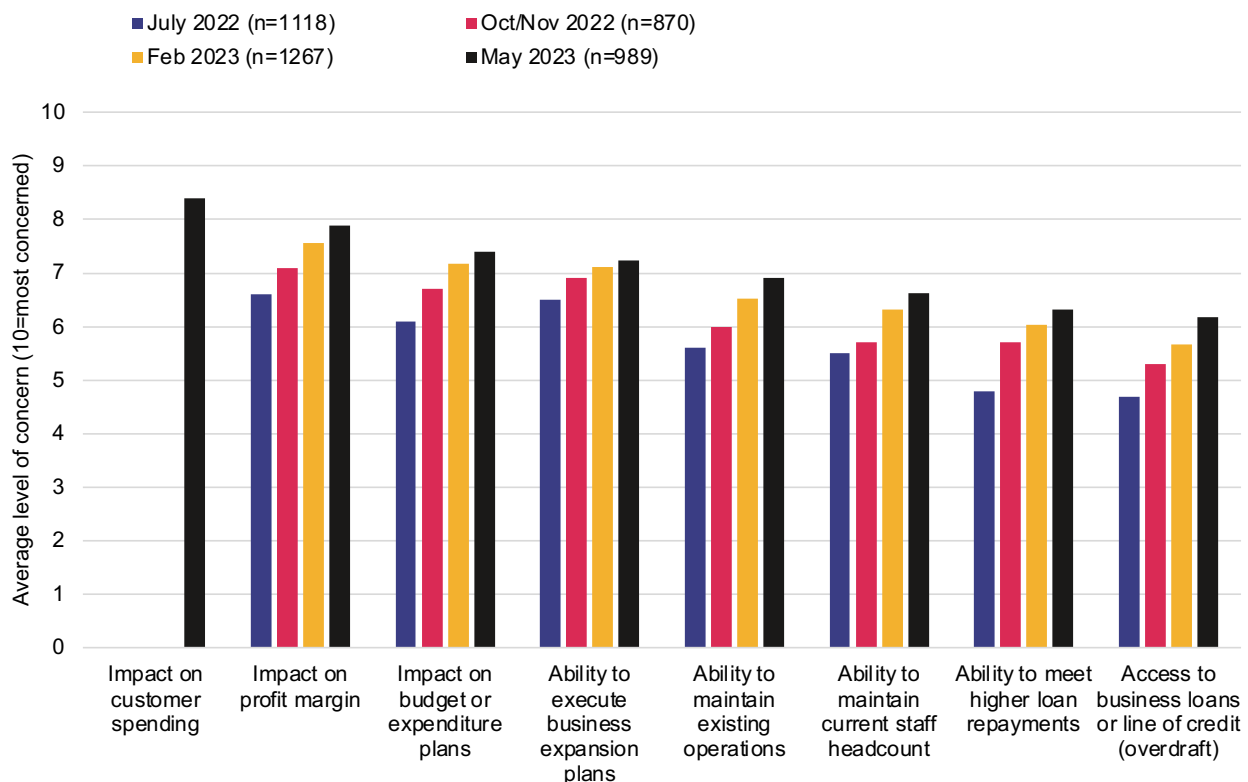
## 2. Impact of Rising Interest Rates

The Reserve Bank of Australia embarked on its monetary tightening cycle in May 2022. Business NSW began tracking business feedback at the start of this cycle. At the time of this latest survey, the RBA cash rate target had been raised 11 times.

The findings below were collected over four quarters with the cash rate target at various levels:

- July 2022 (1.35%)
- November 2022 (2.85%)
- February 2023 (3.35%)
- May 2023 (3.85%).

Concerns regarding the impact of interest rate hikes have evidently intensified. Across all indicators, businesses are most wary of how higher interest rates can weigh on customer spending (an indicator introduced in the latest survey).



**Figure 4: Concerns about the impact of rising interest rates (July 2022 – May 2023)**

# 3. Hiring Intentions

The majority of businesses are planning to maintain the same headcount for the next quarter, with many still attempting to fill existing vacancies. Only 15% of survey respondents intend to increase their staffing levels, while one in four survey respondents plan to cut staff.

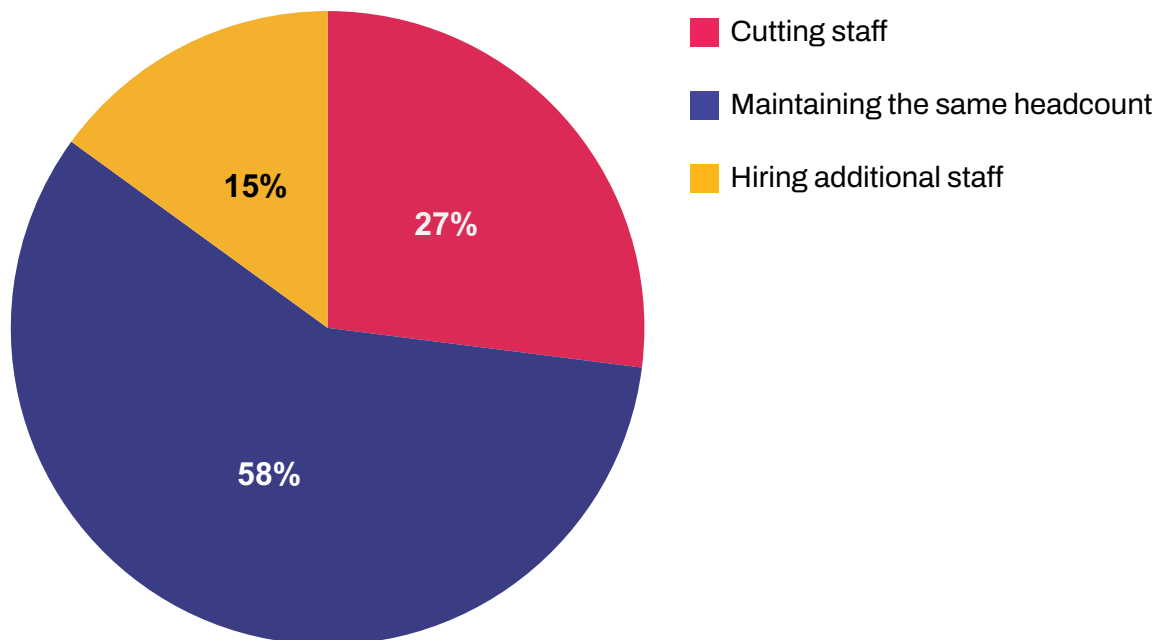


Figure 5: Plans for staff headcount for the next 3 months (n=989)

Now I'm having to cut staff. I'm working 11-hour days, seven days a week. It's wearing me down.

- Retail Trade (Newcastle & Lake Macquarie)

Lack of suitable staff in our area, increased red tape and overdone compliance requirements make businesses harder and harder to operate each year.

- Rental, Hiring and Real Estate Services (Riverina)

Payroll tax is still a major issue. We have closed down a trading location and will cut back staff to reduce the burden it currently has. Wages went up over 6% for us but the threshold didn't change. Wages will increase substantially again next financial year so we will need to cut back on labour again.

- Accommodation and Food Services (Coffs Harbour – Grafton)

# 4. Concerns About Business Costs

Jan 2023

May 2023

**1**

Energy costs

**1**

Insurance costs

**2**

Insurance costs

**2**

Energy costs

**3**

Taxes, levies & other government charges

**3**

Taxes, levies & other government charges

**4**

Wages

**4**

Supplier costs

**5**

Supplier costs

**5**

Wages

**6**

Transport costs (including toll charges)

**6**

Transport costs (including toll charges)

**7**

Rent

**7**

Rent

**8**

Loan repayments

**8**

Loan repayments

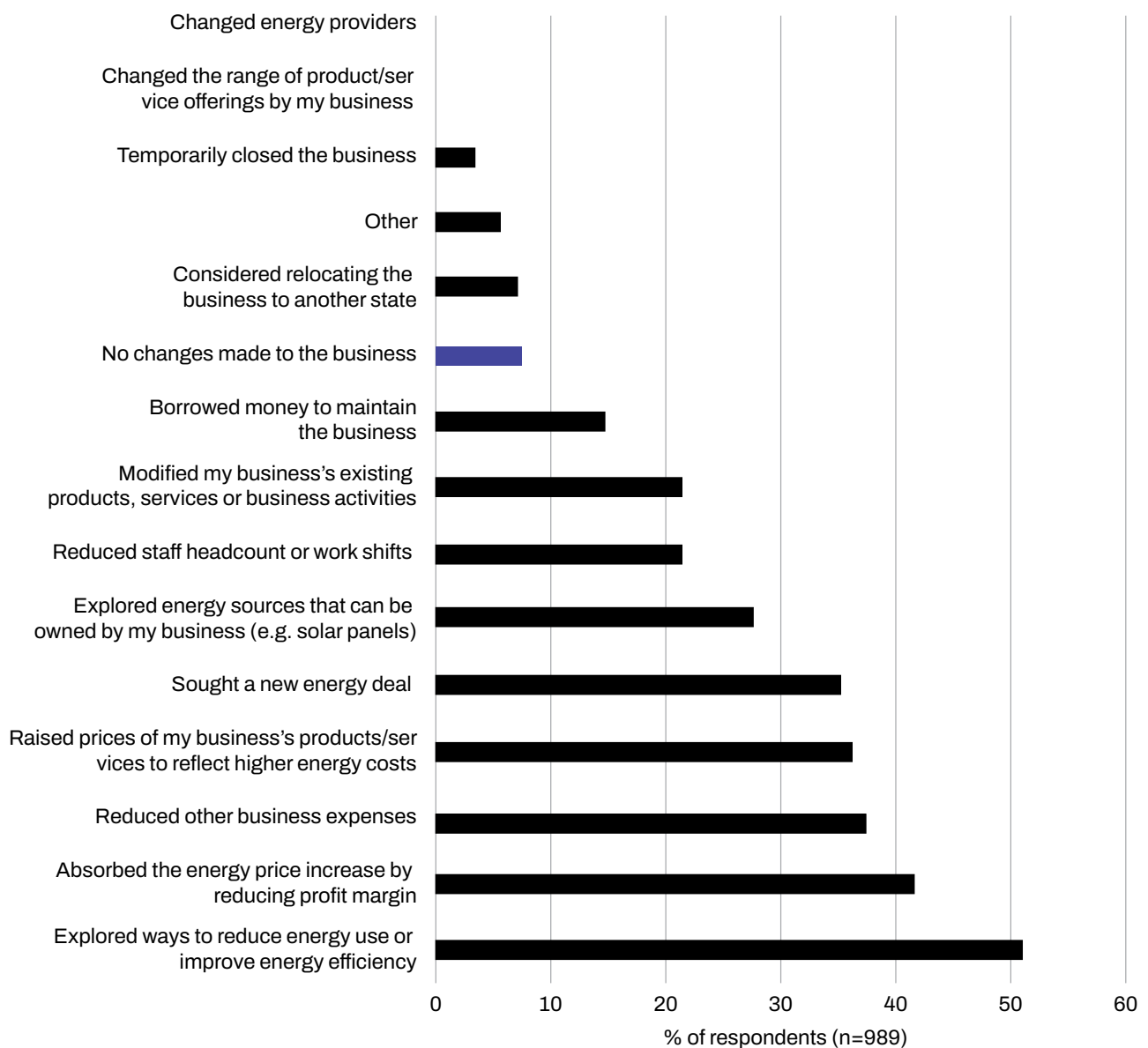






# 5. Management of Energy Use

To cope with rising energy prices, businesses have adopted a range of strategies. The most common response is to explore ways to reduce energy use or improve energy efficiency, with one in two survey respondents having done so. About one in three survey respondents has sought a new energy deal, but none changed energy providers.



**Figure 6: Strategy to cope with rising energy prices**

# 6. Cybersecurity Management

**Management of cyber risk is increasingly important in the digital age. However, about one in three survey respondents has not taken any action as they cannot afford it. About 15% have not taken any actions to enhance cybersecurity management as they do not see the relevance to their business.**

Of the businesses that have enhanced their cybersecurity, the most common step is to upgrade their systems (32%). This is followed by engaging expert consultants (15%), acquiring additional training (14%) and upgrading equipment (12%).



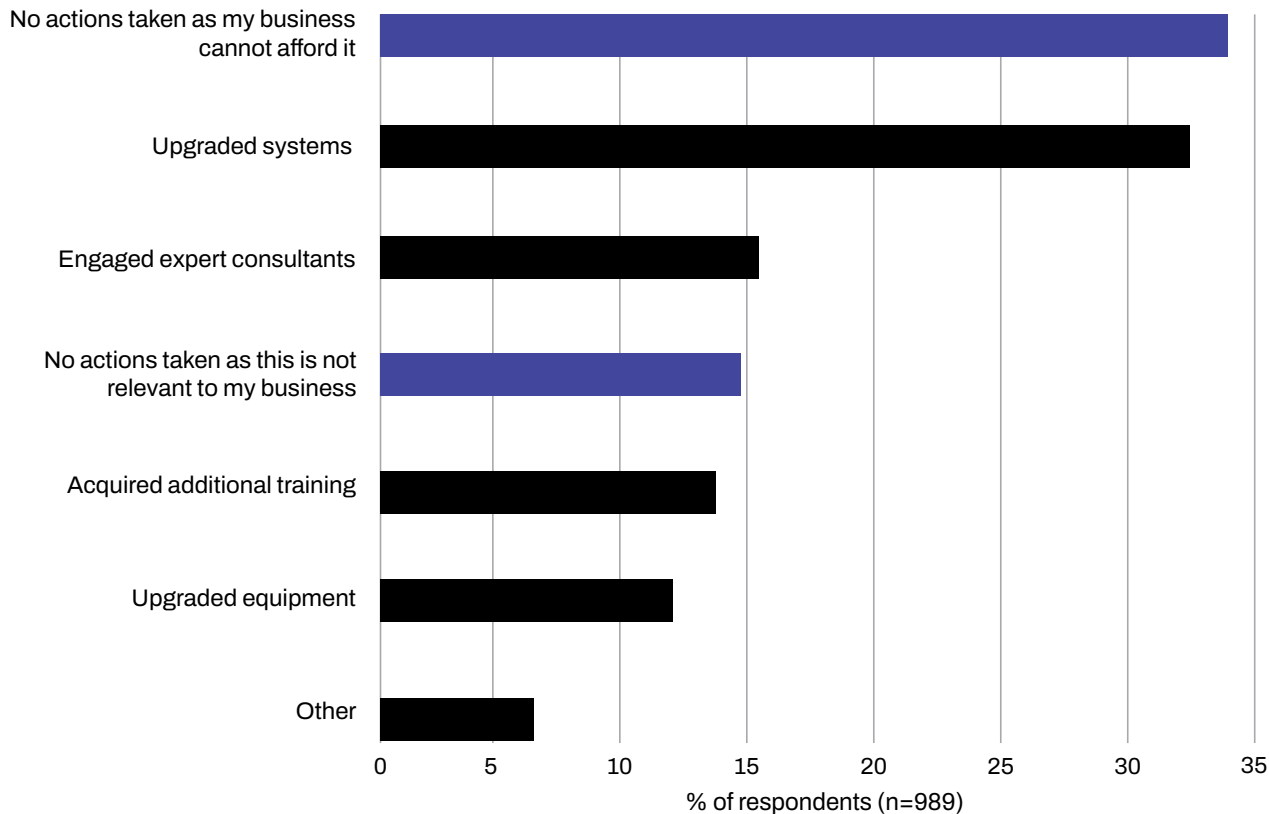
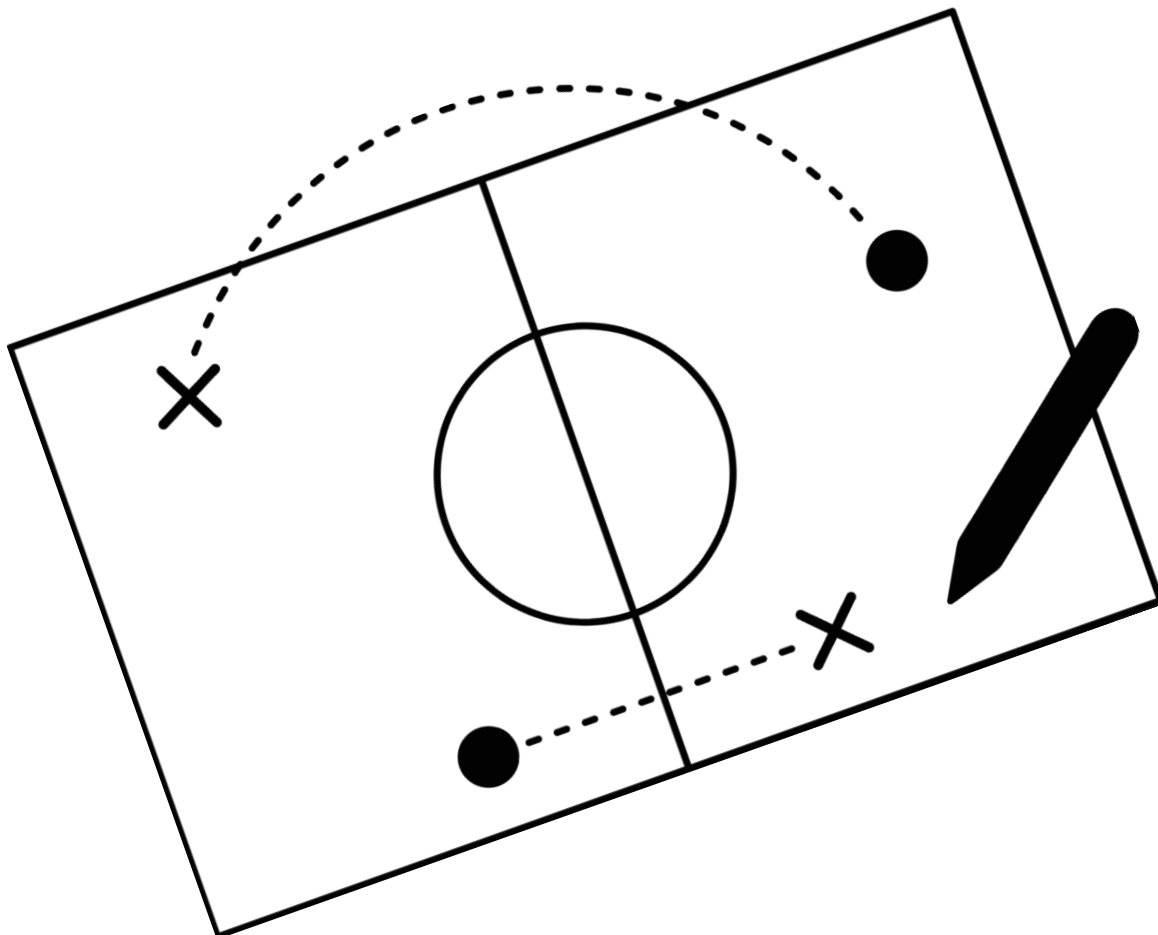


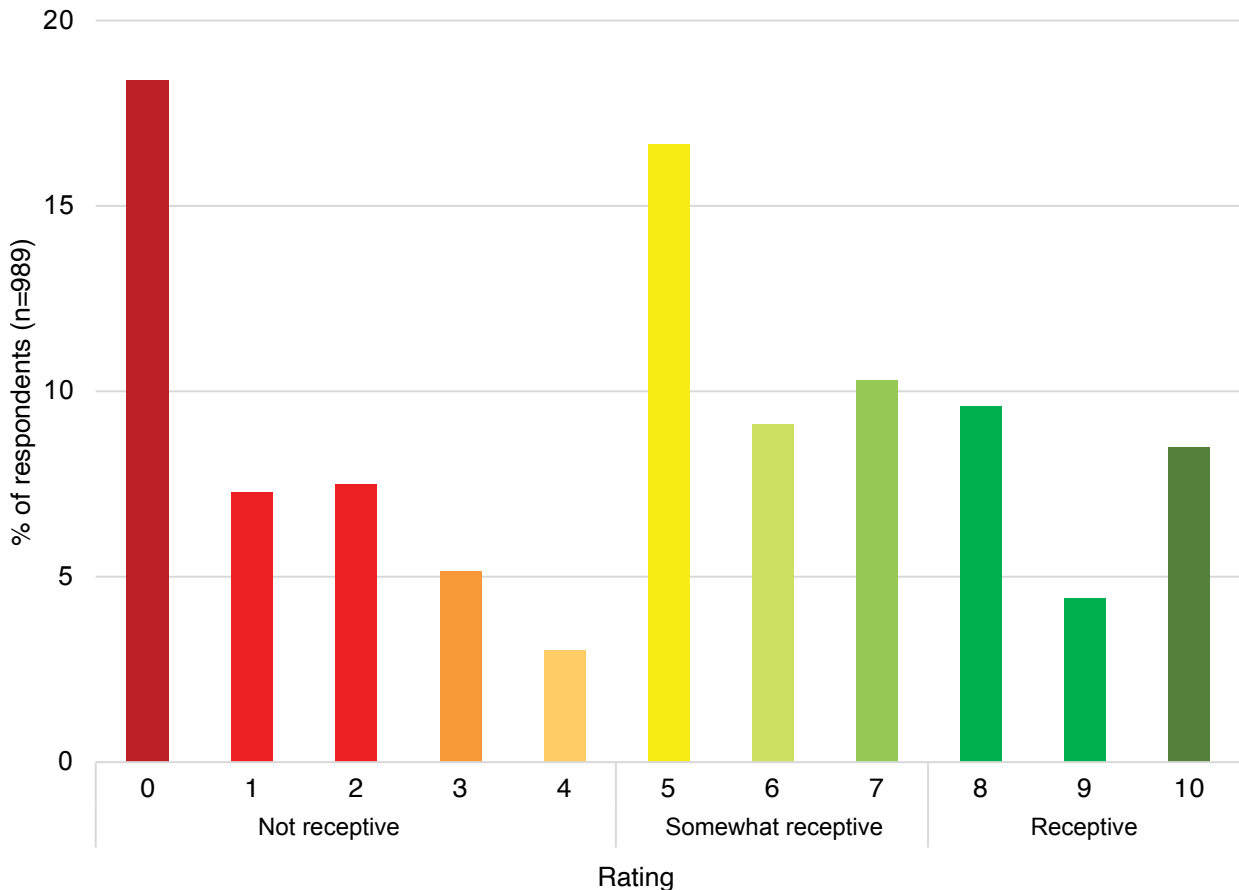
Figure 7: Steps taken to enhance cybersecurity management for business



# 7. Adoption of Artificial Intelligence

**Businesses’ attitude to adopting Artificial Intelligence (AI) varies according to the industry they operate in and the size of their business. On a scale of 0 to 10, the average level of willingness to adopt AI is 4.6.**

However, it is worth noting that almost one in five (18%) survey respondents is completely not receptive to the use AI. On the more receptive side, a total of 23% of survey respondents provided a score of 8, 9 or 10.



**Figure 8: Attitude to adopting Artificial Intelligence in business operations**

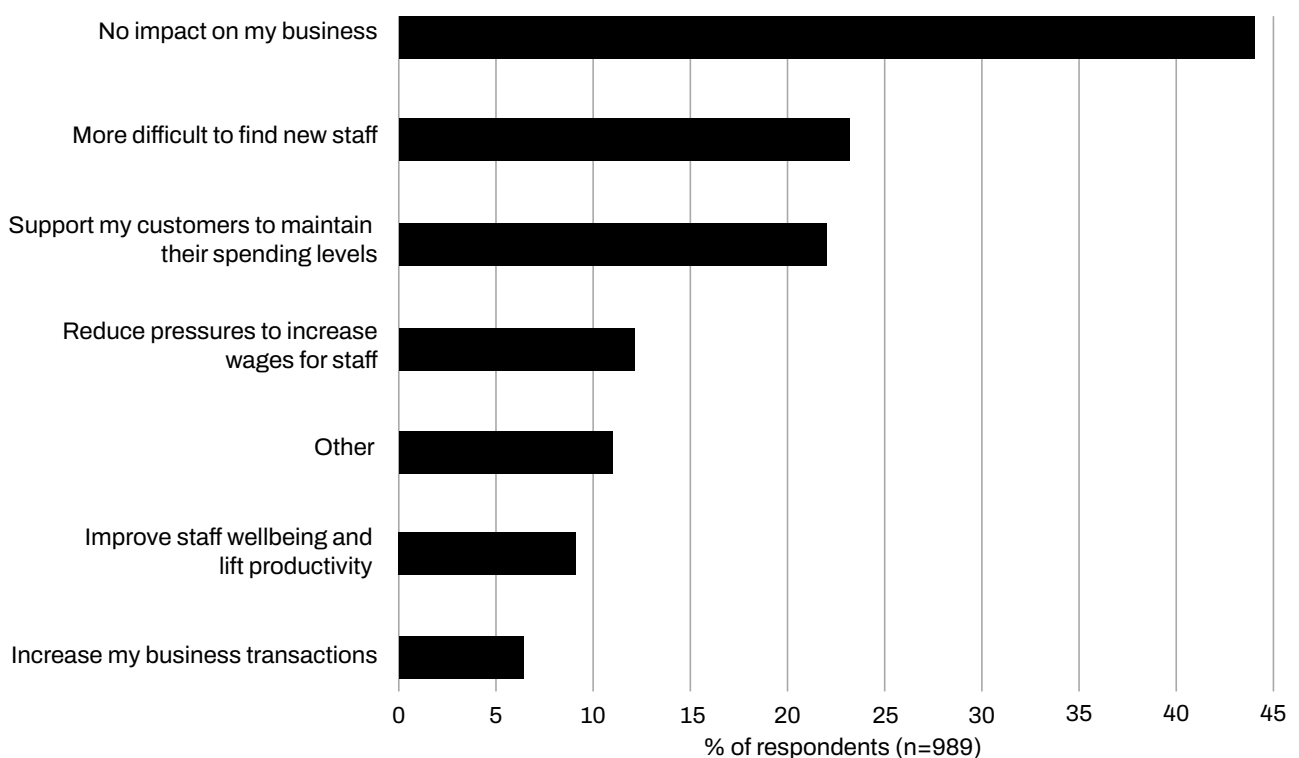
# 8. Feedback on Federal Budget

**The Federal Budget for 2023-24 was handed down on 9 May 2023. The cost-of-living relief package of \$14.6 billion was one of the highlights. However, with a focus on supporting individuals and families that are most in need, 44% of survey respondents consider such measures to have no benefits for their business and 23% believe the measures would make it more difficult for them to find new staff.**

Some businesses nevertheless see benefits from the cost-of-living relief measures:

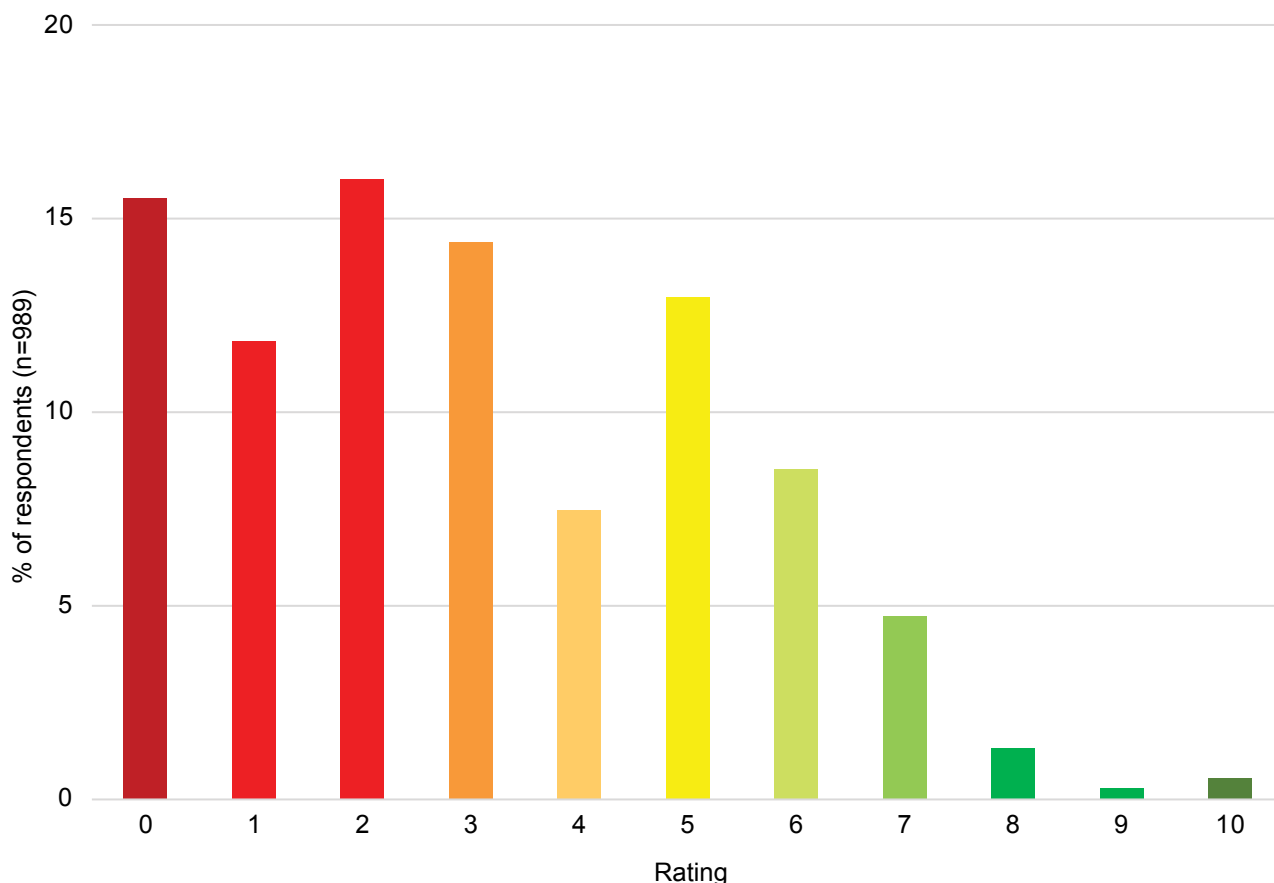
- 22% believe the measures will support their customers to maintain their spending levels
- 12% believe the measures will reduce pressures to increase wages for staff
- 10% believe the measures will improve staff wellbeing and productivity
- 7% believe the measures will increase their business transactions.

Businesses have had a neutral reaction to the instant asset write-off and Small Business Energy Incentive that are designed to support SMEs.



**Figure 9: Implications of cost-of-living relief measures for business**

Perceived Benefits of SME Incentives	Average Score
Instant asset write off (n=846)	5.2
Small Business Energy Incentive (n=837)	5.2



**Figure 10: Businesses' overall assessment of the Federal Budget**

Customers have less money to spend. It would be great to get Dine and Discover vouchers again – incentivise people to spend and go out.

- Accommodation and Food Services  
(Western Sydney)





We actually committed to retaining staff and facility in anticipation of there being something hopeful in the Budget for our business. We are not looking for a handout. While I appreciate that the Budget addresses the needs of those on welfare and pensions, I think they have forgotten that it is the middle class (small business employers) keeping the middle class (employees) employed!

- Professional, Scientific and Technical Services  
(Newcastle & Lake Macquarie)

# 9. Message to the Government

**If the government does not act to improve business conditions in NSW:**



35% of businesses will likely increase debt



35% of businesses will likely close



9% of businesses will likely move interstate or offshore



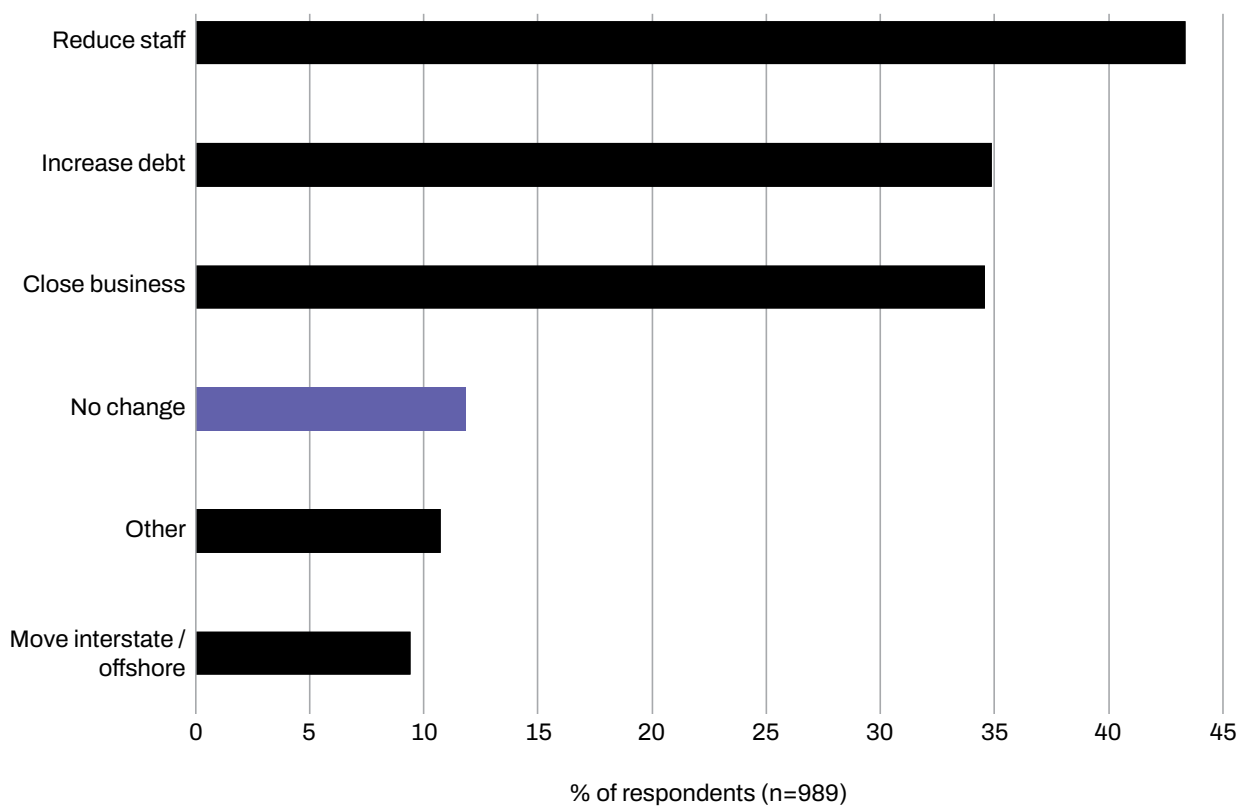
43% of businesses will likely reduce staff



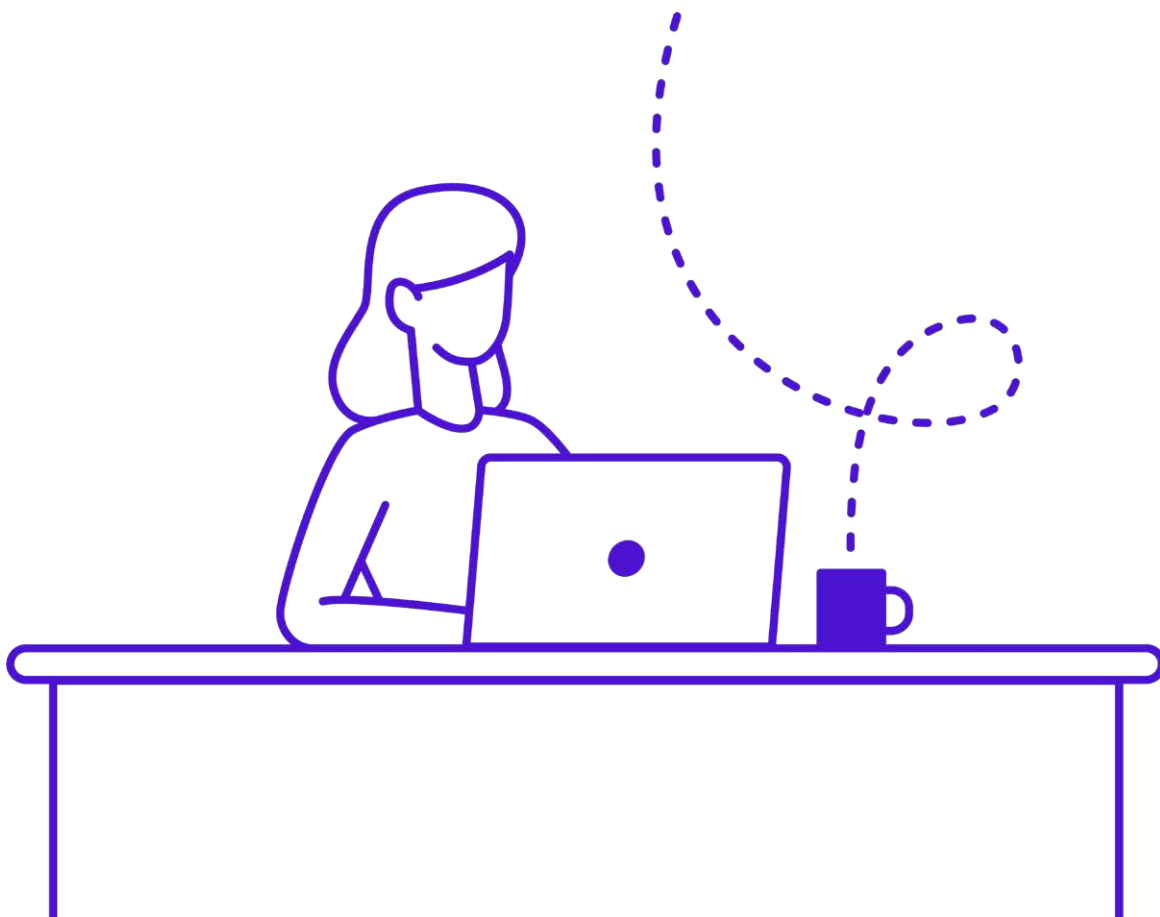
Only 12% of respondents expect business-as-usual

**It's a fine line between success and failure, and small business is vulnerable right now.**

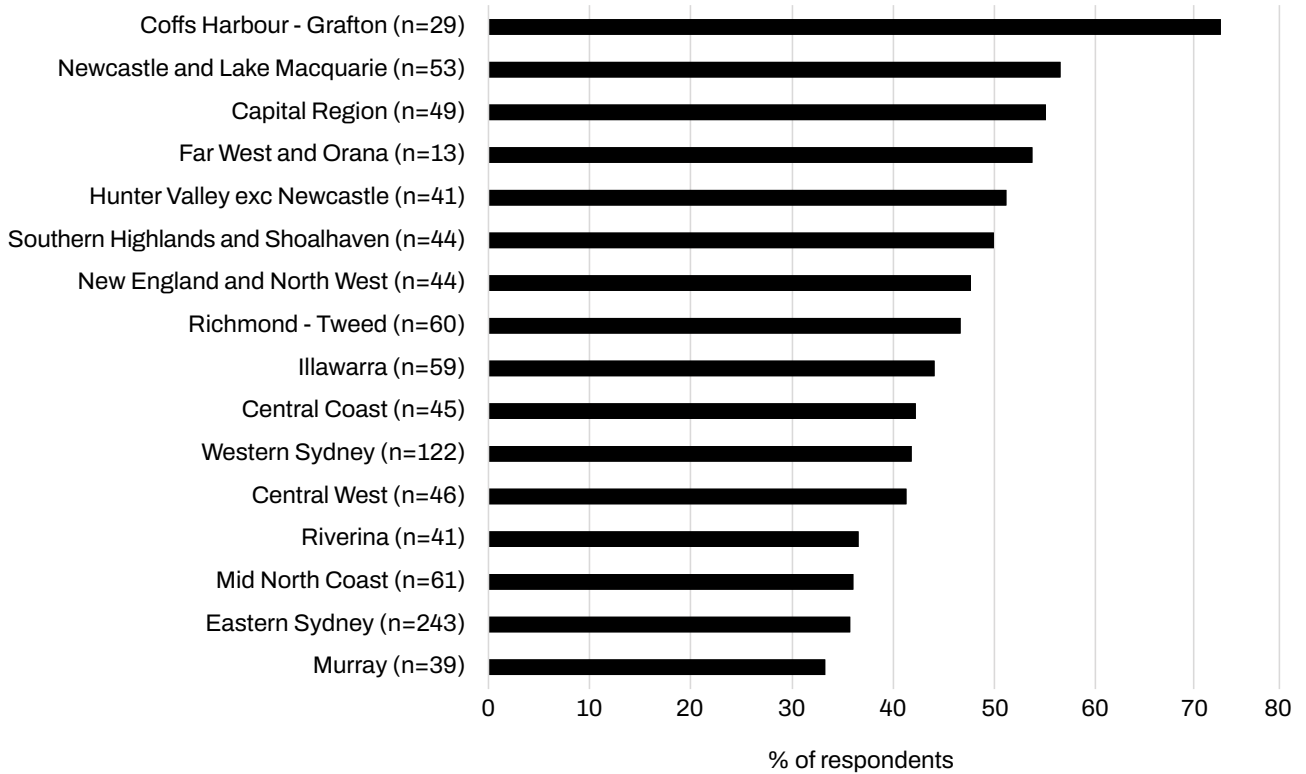
- Professional, Scientific and Technical Services (Sydney)



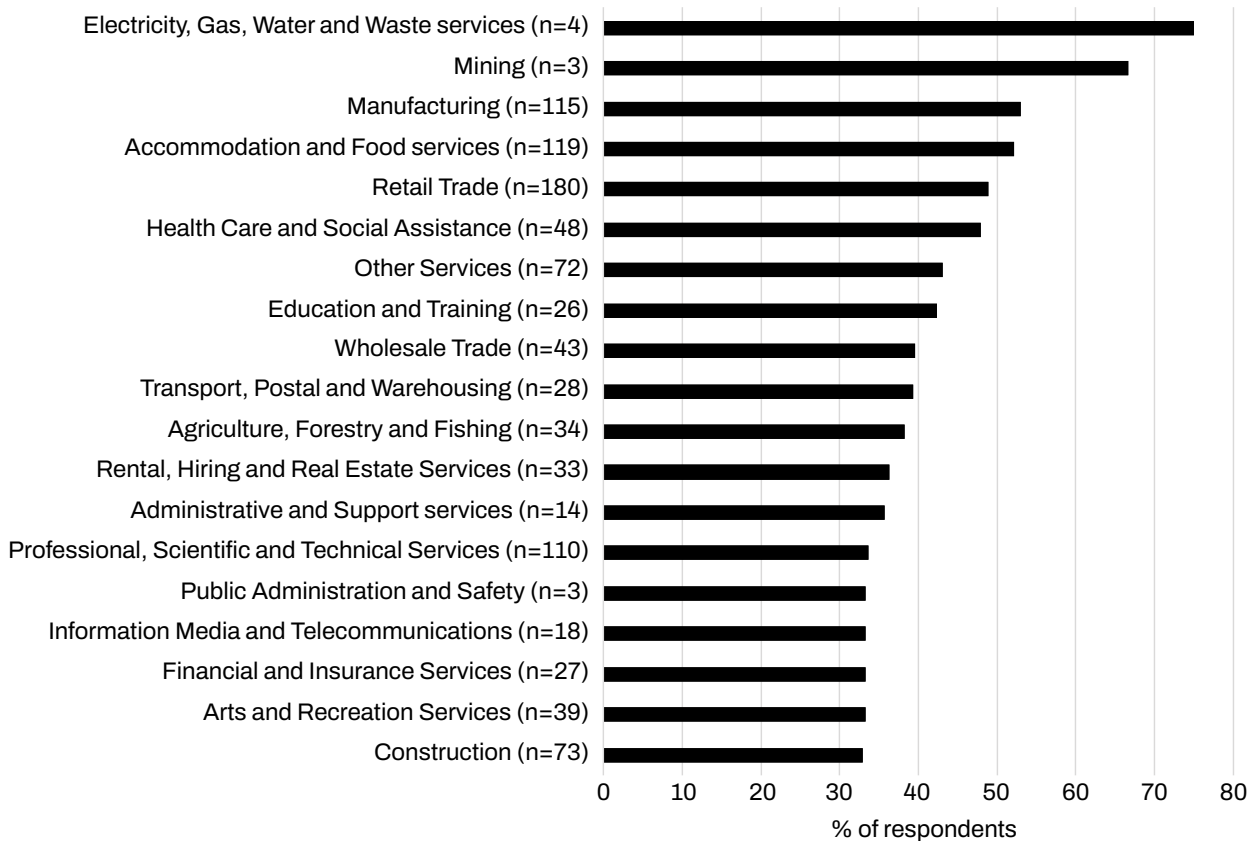
**Figure 11: Likely outcomes for business if the Government does not act to improve business conditions**



## Businesses Likely to Reduce Staff

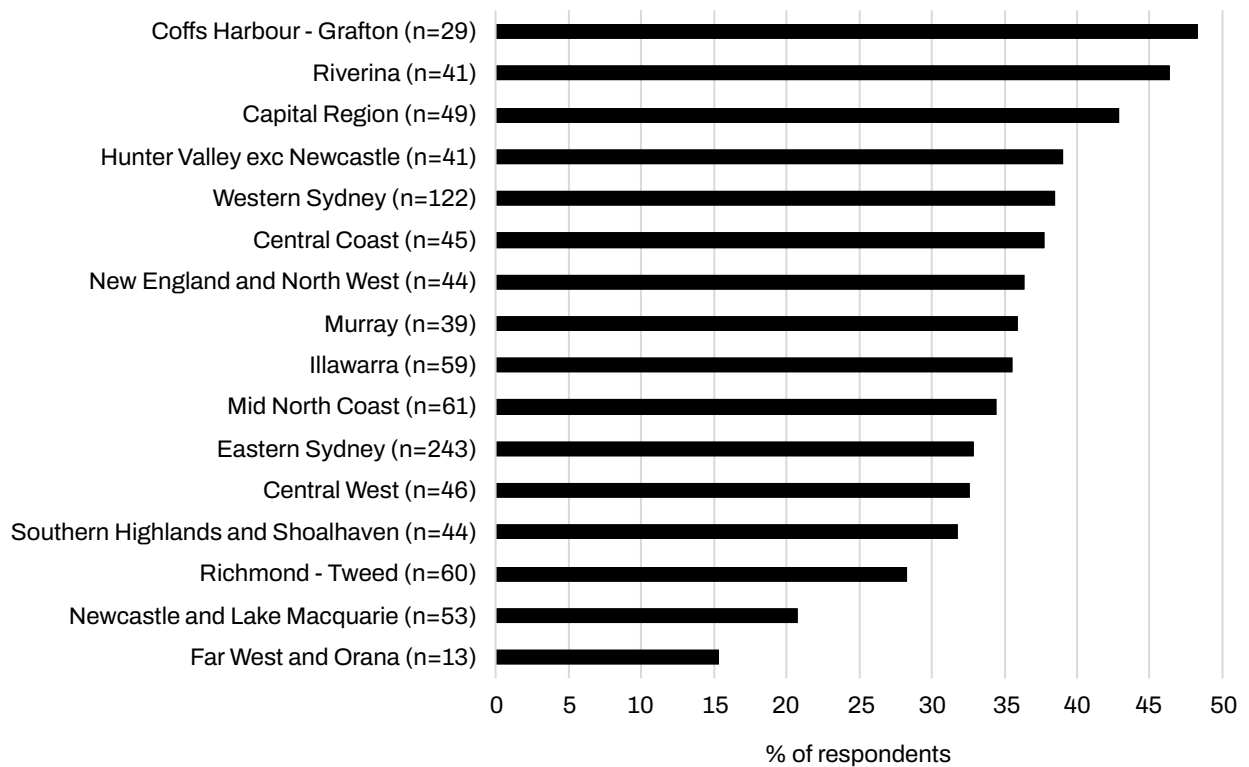


**Figure 12: Businesses likely to reduce staff (by region)**

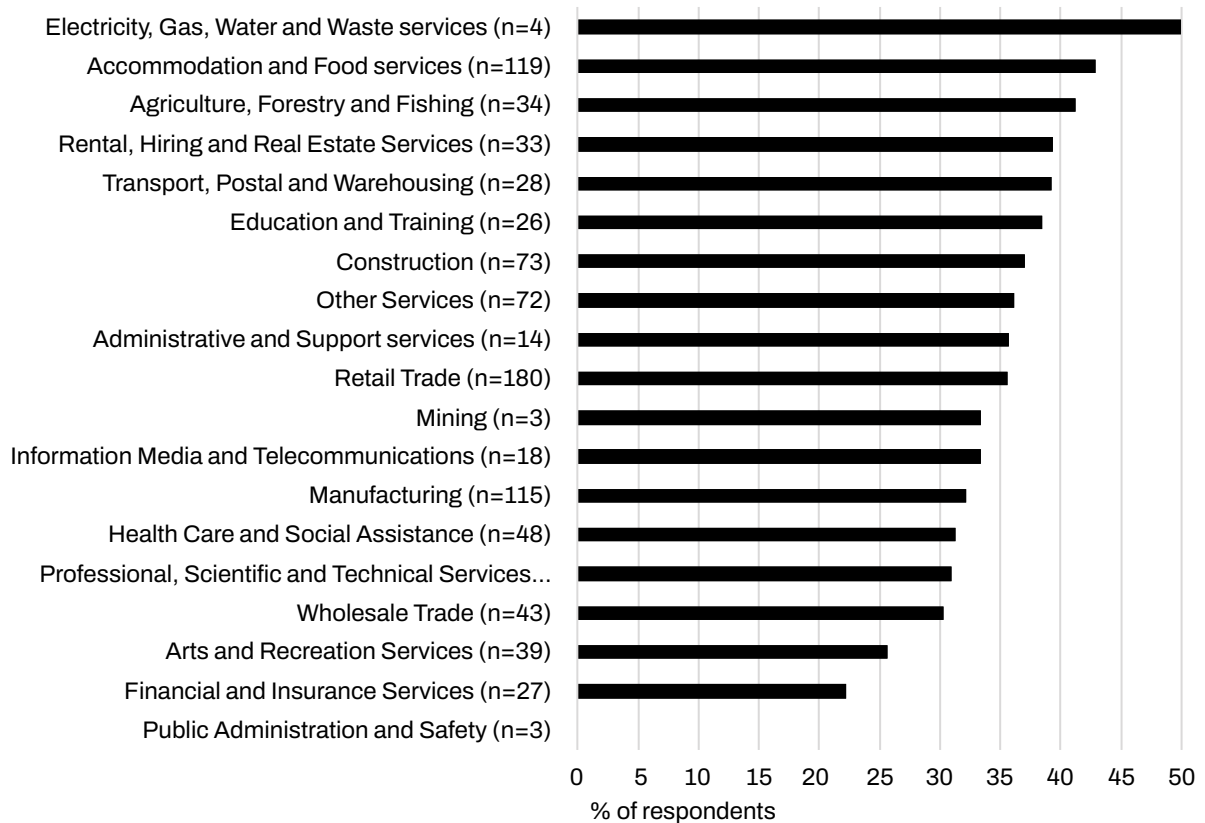


**Figure 13: Businesses likely to reduce staff (by industry)**

## Businesses Likely to Increase Debt

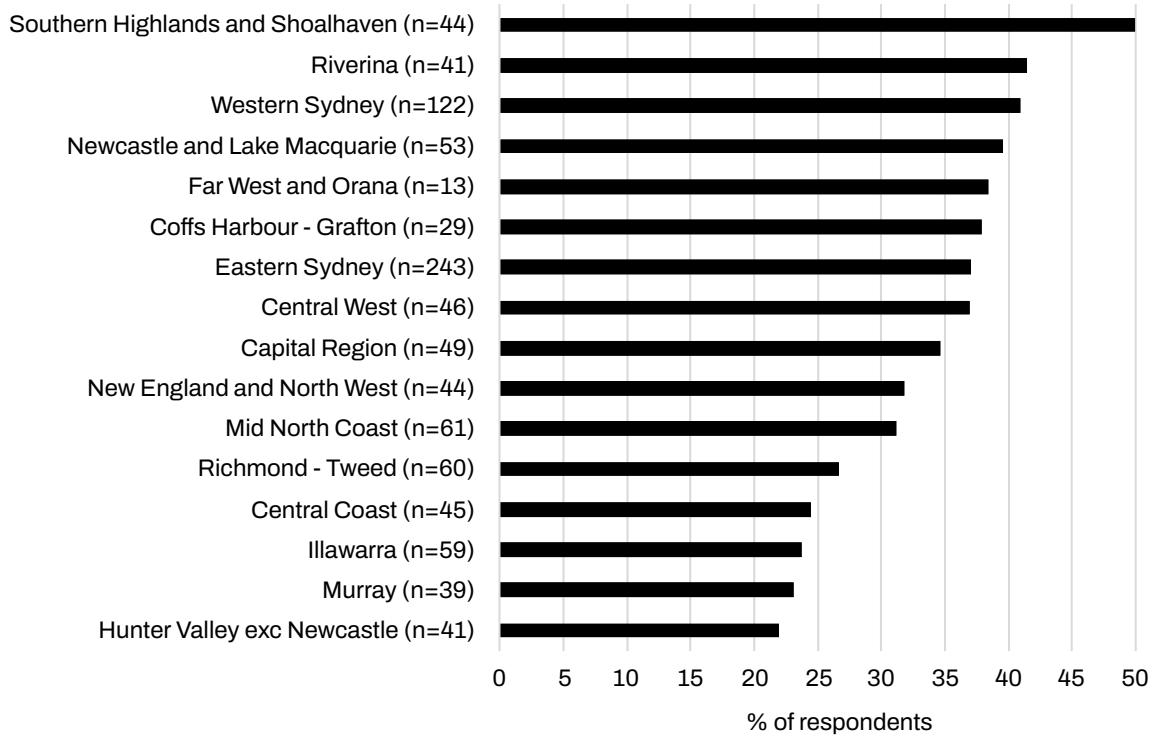


**Figure 14: Businesses likely to increase debt (by region)**

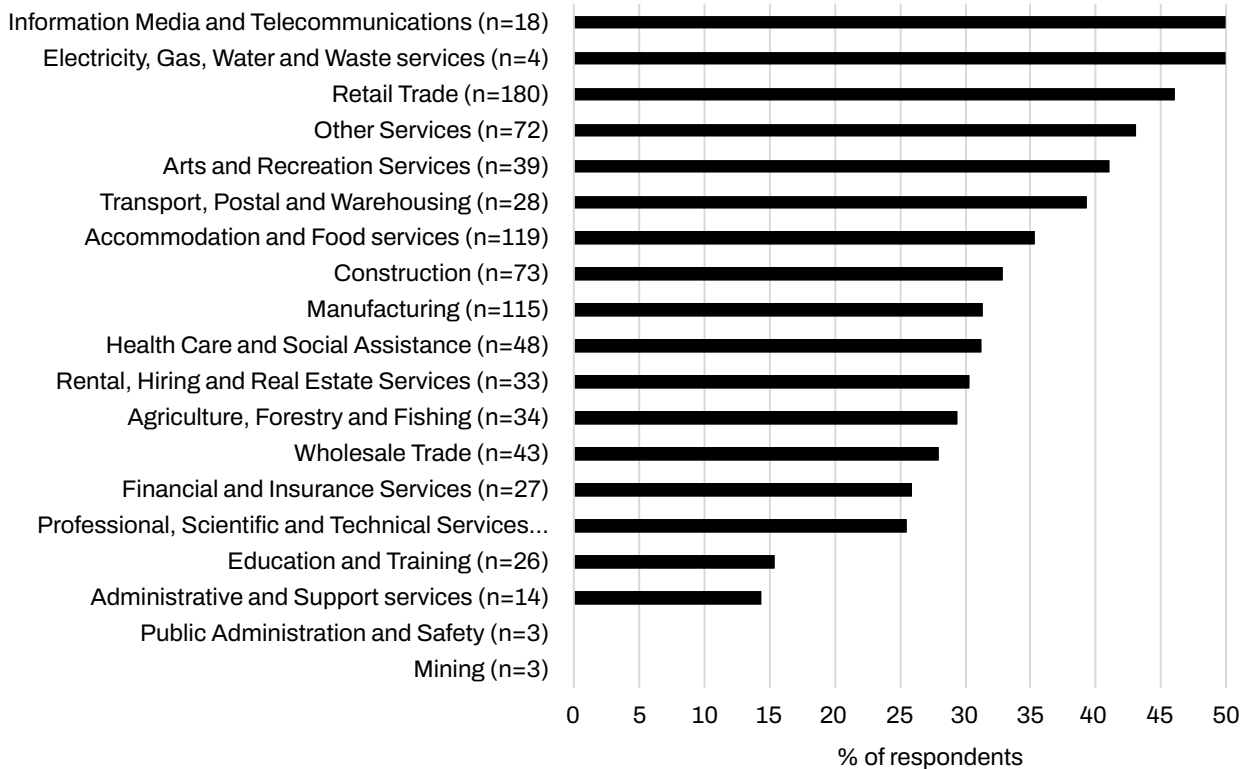


**Figure 15: Businesses likely to increase debt (by industry)**

## Businesses Likely to Close Business

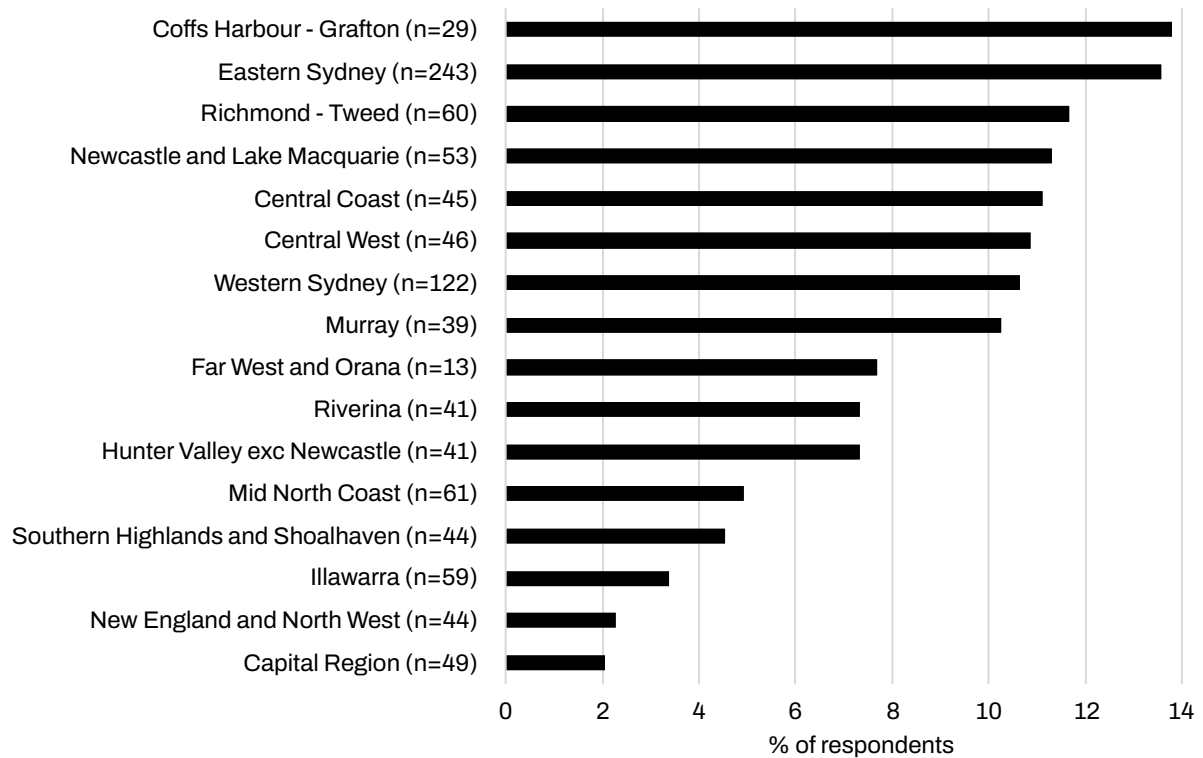


**Figure 16: Businesses likely to close (by region)**

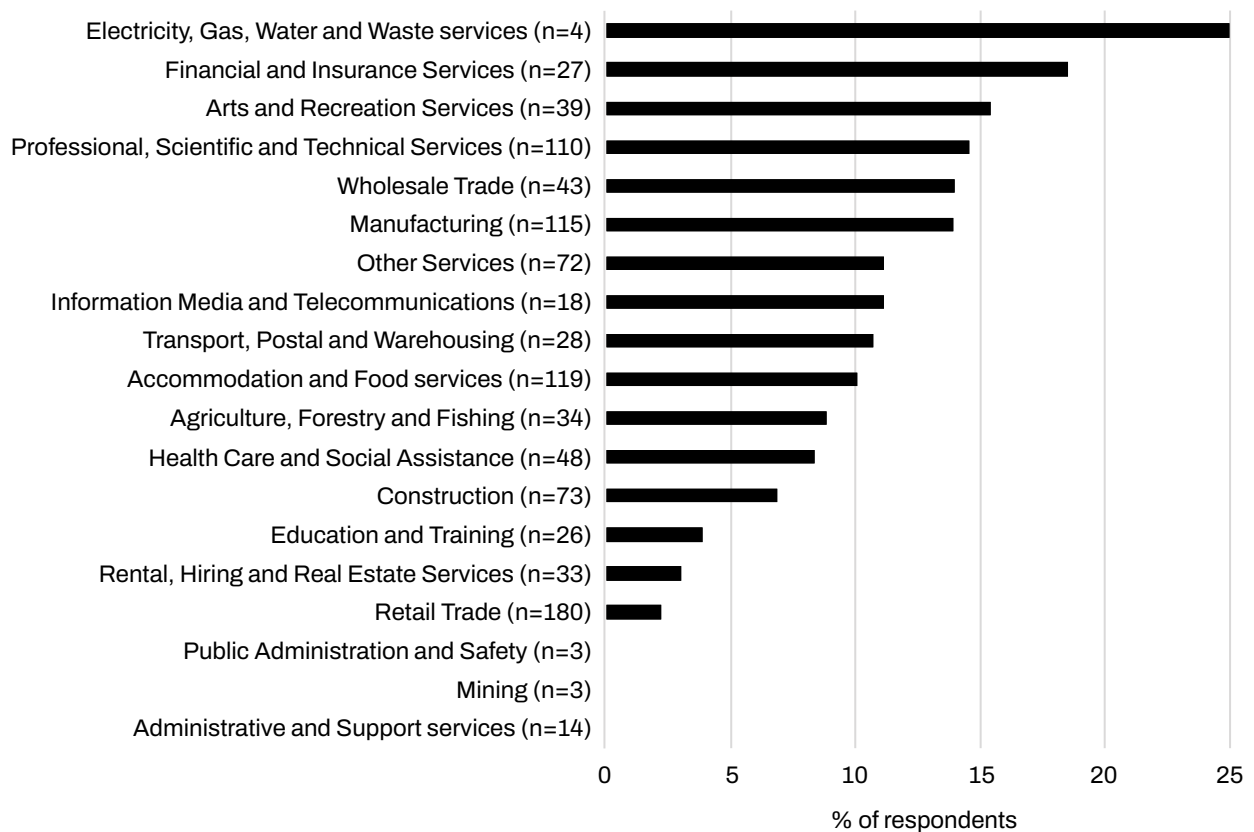


**Figure 17: Businesses likely to close (by industry)**

## Businesses Likely to Move Interstate or Offshore



**Figure 18: Businesses likely to move interstate or offshore (by region)**



**Figure 19: Businesses likely to move interstate or offshore (by industry)**



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