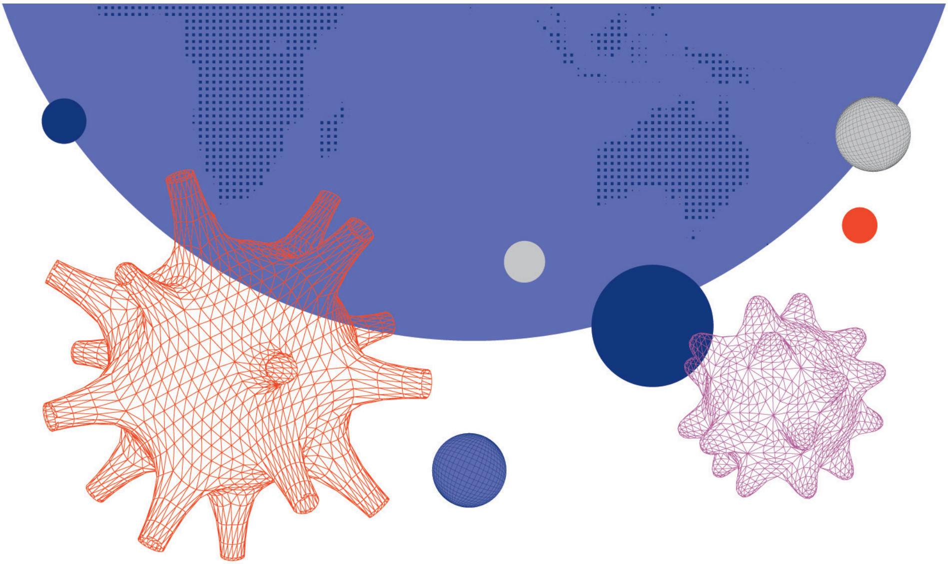


Business Now

THE BUSINESS SA SURVEY OF BUSINESS EXPECTATIONS

SEPTEMBER QUARTER 2020

COVID-19 SPECIAL EDITION

Business SA
Chamber of Commerce and Industry South Australia

Powered by

William Buck

The Economy

BUSINESS CONFIDENCE

Confidence soars sky high

95.3

SA Confidence Index

South Australian business confidence has performed a substantial turnaround in the September quarter. After falling to its lowest level on record in the March quarter, 41 points, the business confidence index has jumped by 28.3 points on the June quarter, despite ongoing uncertainty from COVID-19.

The September surge is the largest increase in over 20 years of the survey and shows encouraging signs an economic recovery is underway in South Australia.

28.3

points up from last quarter, June 2020

23.7

points up compared to September 2019

3.3

points up compared to September 2010

BUSINESS CONDITIONS

Business conditions strong and expected to get even better

95.6

General Business Conditions Index

100.3

points expected for next quarter, December 2020

The September quarter saw significant easing of COVID-19 restrictions on businesses, which led to better than expected operating conditions. The increase of 28.7 points to 95.6 surpassed businesses' predictions for the September quarter by a material 14.9 points. Significant changes to capacity restrictions including changing the one person per four square metre rule to one person per two square metres and the gradual re-opening of interstate borders from late June have helped to create a better environment for doing business. Business SA was a strong advocate for both these changes, and we are pleased to see the immediate positive impact on trading conditions.

In further encouraging signs, businesses expect conditions to improve more with expectations they will rise above the 100 mark in the December quarter.

28.7

points up from last quarter, June 2020

16.9

points up compared to September 2019

7.6

points up compared to September 2010

COVID-19 Impact

TWO-SPEED ECONOMY

REVENUE

Revenue returns to normal for most

24.3%

of businesses said revenue was higher than this time last year

14.8%

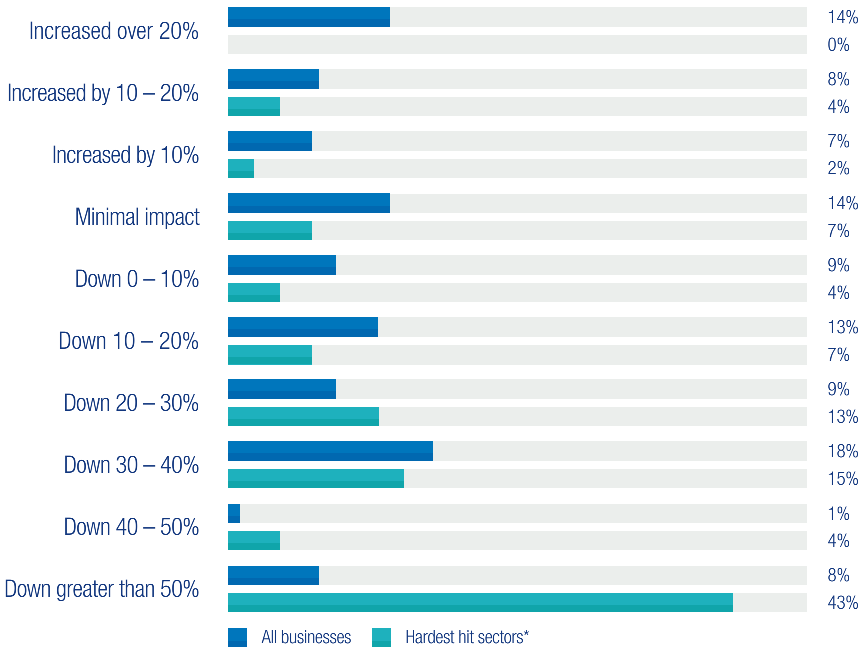
of businesses said revenue was still down greater than 50%

When considering revenue, it is clear a two-speed economy has emerged: those businesses still heavily impacted by ongoing Government restrictions and the rest which are returning to normal or experiencing significantly elevated demand in certain sectors, particularly construction. For many businesses in the latter category, revenue has returned to normal, if not higher levels, than pre-COVID.

While 22 per cent of businesses had reported revenue down more than 50 per cent in the June quarter, September saw only 14.8 per cent of businesses suffer declines of greater than 50 per cent.

However, it is a different story for those businesses in the hardest hit sectors, particularly hotels, nightclubs and bars, tourism, live performance venues and events. With 43 per cent suffering revenue declines of greater than 50 per cent in the September quarter.

How much has your revenue been impacted when compared to the same time last year (pre-COVID-19)?



*Cafes & restaurants, hotels, nightclubs & bars, tourism, live performance venues and events

SALES OUTLOOK

Strong set to get stronger and weak weaker

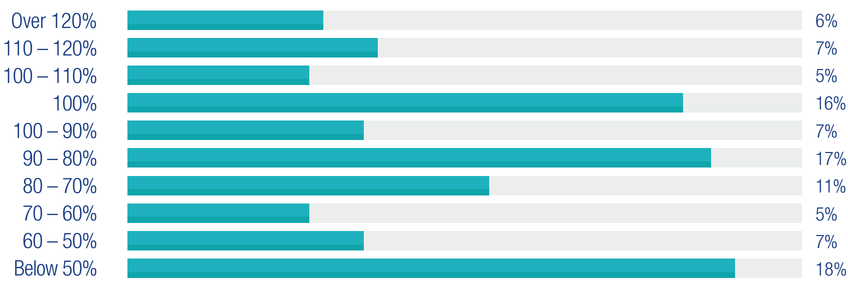
35.1%

of businesses expect to be at or above normal trade levels by the end of December

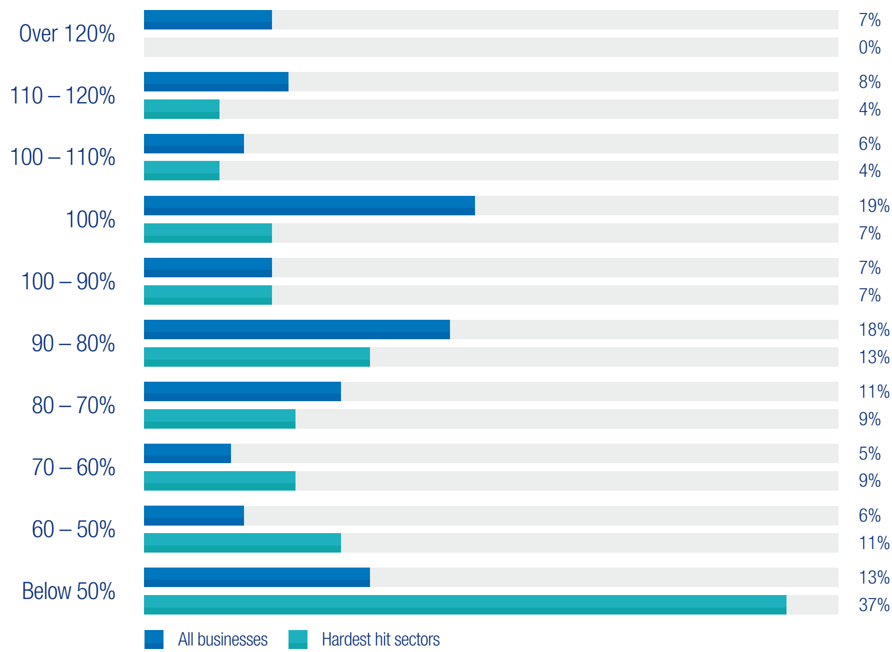
The trend of a two-speed economy looks set to continue in the December quarter, unless additional financial support measures are provided to those businesses in the hardest hit sectors. Again, when splitting the results into hardest hit sectors and all other businesses, the next three months remains a stark contrast.

Most businesses are forecasting trade levels to be back to 100 per cent on pre-COVID levels or higher by the end of the year. However, the hardest hit sectors expect their pain to continue with 37 per cent expecting revenue to remain below 50 per cent on pre-COVID levels by 31 December, while only 15 per cent expect trade to return to normal levels by the end of the year.

With respect to pre-COVID revenue, what percentage of trade do you forecast your business to be back up to by the end of December?



With respect to pre-COVID revenue, what percentage of trade do you forecast your business to be back up to by the end of December?



A CLOSER LOOK AT THE HARDEST HIT

The hardest hit businesses by ongoing Government restrictions include those that rely on interstate and overseas tourists, run hospitality venues geared around being able to stand and drink, and almost all businesses in the events supply chain.

"As an event decor business, more larger events would be welcome which allow dancing/dining as in award nights and end of year functions."

Personal & Other Services, Sole Trader, < $500k turnover

Restrictions impact

To better understand how ongoing restrictions were impacting these businesses, Business SA asked only those businesses in the hardest hit categories to rank the level of impact of the current restrictions on their recovery.

Interstate travel bans was ranked as the number one issue affecting the hardest hit businesses.

"Half of our revenue comes from us attending interstate shows. They were all cancelled for 2020. Not sure about 2021 yet."

Retail Trader, 1–19 employees, < $500k turnover

Restrictions ranked #1

46.7%
Interstate travel

31.1%
No standing and drinking

15.6%
1 person per 2 square metres

6.7%
International travel

"If not JobKeeper, there needs to be some sort of industry specific support for Tourism to ensure that skills are maintained in the sector."

Tourism, 50–99 employees, $10m–$50m turnover

FURTHER SUPPORT NEEDED

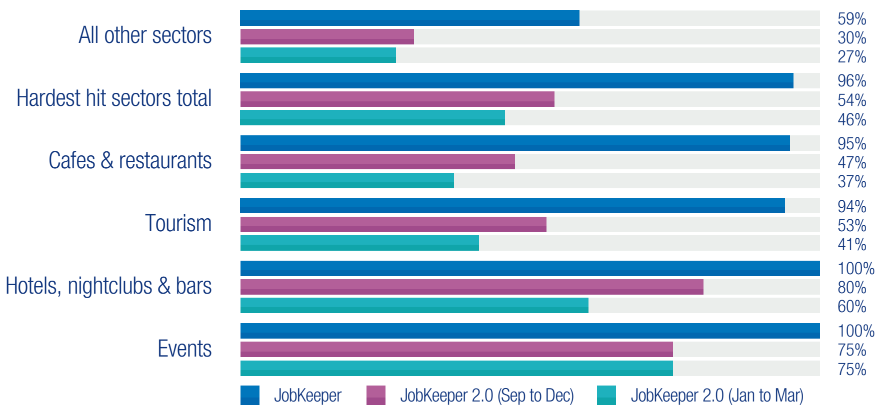
65.8%

of businesses said hardest hit sectors should receive additional support

With ongoing uncertainty around current restrictions and their likelihood to continue against the backdrop of challenges related to development of a vaccine, Business SA has been a strong supporter for additional financial support to help heavily impacted businesses.

Almost two thirds of businesses agree, believing that businesses operating in the hardest hit sectors should continue to get JobKeeper beyond March 2021.

JobKeeper rates for hardest hit sectors vs all other sectors



SUPPORT MEASURES

JOBKEEPER

JobKeeper extension key to confidence

65.8%

of respondents on JobKeeper 1.0

34.6%

said they would be eligible for JobKeeper 2.0 (Oct-Dec)

30.4%

expected to be eligible for JobKeeper 2.0 (Jan-Mar 2021)

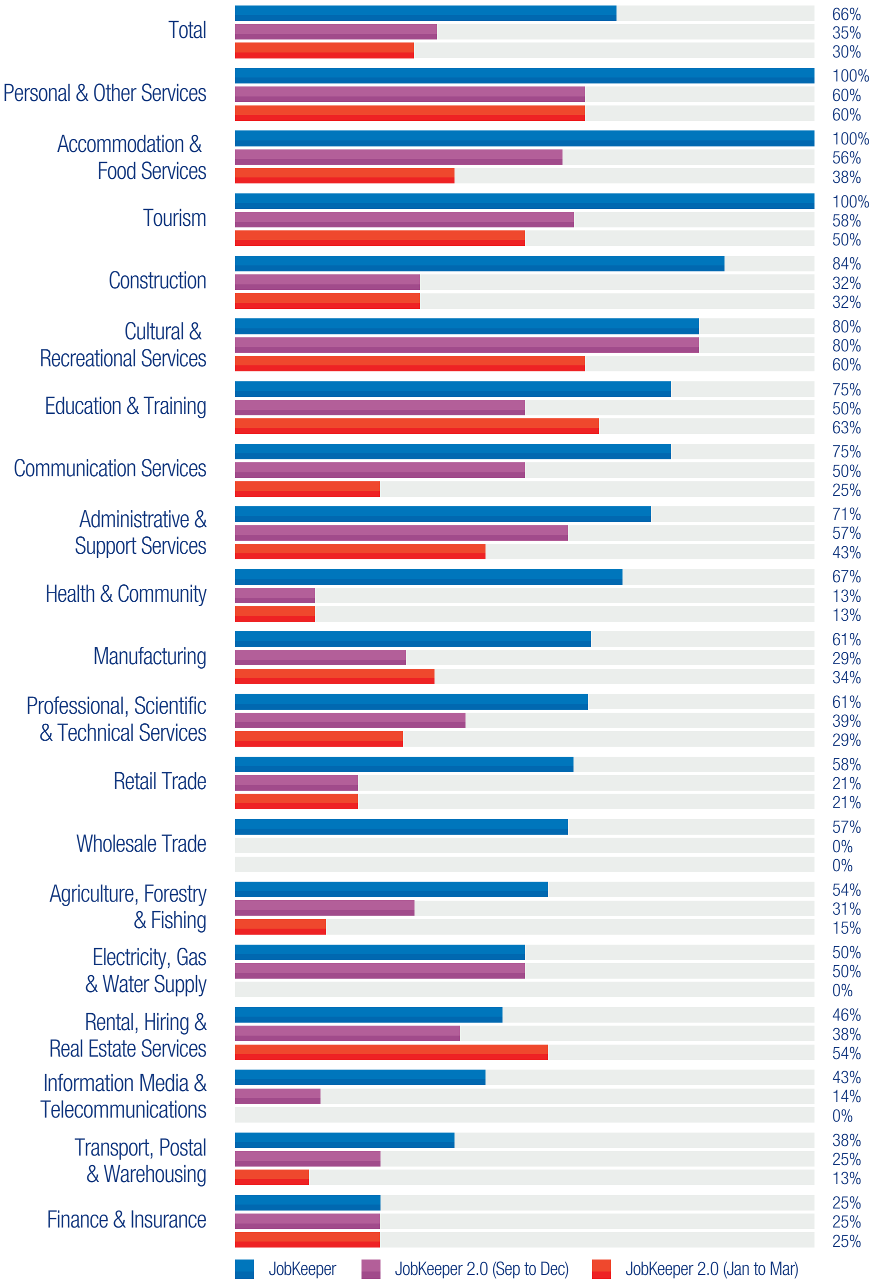
The Federal Government's announcement that the JobKeeper wage subsidy scheme would continue past 28 September, gave businesses clarity on the road ahead. With the dreaded JobKeeper cliff avoided, the extension of the scheme has clearly helped business confidence.

The number of respondents on JobKeeper is expected to halve, decreasing to 34.6 per cent of businesses on the first tranche of JobKeeper 2.0. While the number of businesses expecting to be eligible for the second tranche of JobKeeper 2.0 is expected to decrease again but only slightly to 30.4 per cent.

"Currently on JobKeeper it would be handy to extend that for a security blanket."

Personal & Other Services, 1–19 employees, < $500k turnover

Businesses on JobKeeper – Sector Breakdown



RESILIENCE AND JOBKEEPER AID REMARKABLE RECOVERY

South Australian businesses have reported a huge spike in confidence and conditions in the September quarter that has far exceeded expectations, showing the resilience and focus of SA Businesses in this COVID crisis.

The confidence index of 95.3 is a significant result that is higher than the survey's 10-year average.

Sales and revenue have also jumped, up 27.9 points on the June quarter and remarkably 12.6 points higher than the same time last year when Land Tax amendments were draining business confidence.

The expectation is the trend will continue over the months ahead with 36 per cent of SMEs expecting sales and revenue to rise in the next quarter while 28 per cent expect profits to rise too.

While higher revenue is no doubt good news for our recovery, it is somewhat surprising given the ongoing uncertainty in our local, domestic, and international economy

It is clear the JobKeeper extension is a key reason behind the confidence.

In the survey, 66 per cent of respondents said they received JobKeeper 1.0, while 35 per cent said they qualified to receive the JobKeeper 2.0 payment from October to December and 30 per cent were expecting to receive the wage subsidy from January to March 2021.

The cliff has been averted and businesses have time up their sleeves to adapt and plan for the future.

The Federal Budget, which continued the Government's historic and unprecedented spending on not only job subsidies but also tax cuts, business investment incentives through depreciation and new infrastructure projects, is also helping.

Interestingly, a third of businesses said it was harder to attract labour this quarter compared to June while 45 per cent expected to make changes to their supply chain in the future whether that be to increase the number of suppliers, source supplies domestically or support those suppliers who have supported them during COVID-19.

Other encouraging signs included 65 per cent of respondents who said that export sales had stayed the same despite global trade tensions and 83 per cent of businesses who said they did not require further banking support through the December quarter and beyond.

While these figures are much higher than anticipated, a theme that has continued throughout this quarter is the situation of a divided economy.

Once again there are those businesses that remain heavily impacted by Government restrictions such as tourism, hospitality events and then the rest.

In further signs the strong may get stronger and the weak may get weaker, 61 per cent of respondents expect to see a level of rationalisation in their industry because of COVID-19.

So, while this remarkable rebound in confidence is worth celebrating, for some the pain continues.

And how long that continues is in the Government's hands.

Let's hope the year ends on a high for all.

Jamie McKeough
William Buck Managing Director

RENT NEGOTIATIONS

Commercial leasing support declines

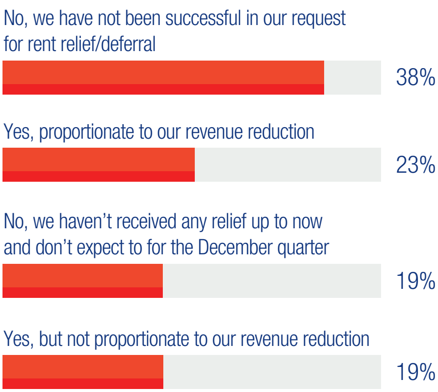
11.9%

of respondents said they need further rental support

With the State Government extending the Commercial Leasing Code to the end of the year, Business SA continues to monitor the success of commercial tenancy negotiations. It was positive to see the number of businesses requiring further commercial leasing support drop from 35.2 per cent in the June quarter, to 11.9 per cent in the September quarter.

Meanwhile, the rate of success for business tenants declined with only 42 per cent of businesses that approached their landlord achieving some form of rent relief. This compares to the June quarter where businesses had a 52 per cent success rate.

Have you been able to negotiate rent relief/deferral for the December quarter?



"We are currently in arbitration with our landlord."

Cultural & Recreational Services, 1–19 employees, $2m–$5m turnover

"We haven't applied for relief as we don't want to receive a big bill later on."

Tourism, 1–19 employees, < $500k turnover

> **"We borrowed for a showroom upgrade on the business premises."**
>
> Agriculture, Forestry & Fishing,
> 20–49 employees, $10m–$50m turnover

BANKING SUPPORT

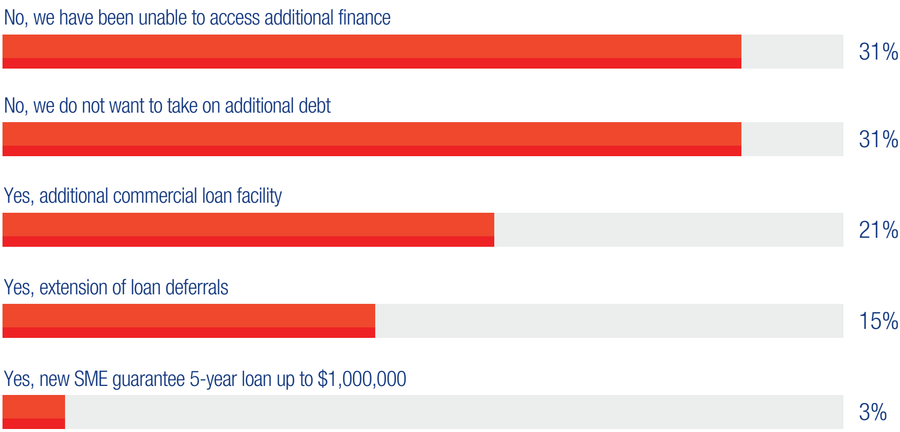
Reluctant to rely on the banks

11.9%

of respondents accessed additional banking support

Similar to the commercial leasing results, there was also a reduction in businesses accessing further banking support in the September quarter. Only 11.9 per cent of businesses looked to access credit and liquidity measures compared to 25.6 per cent in the June quarter and 41.1 per cent in the March quarter.

Has your business accessed additional banking support for the December quarter and beyond?



HOT ISSUES

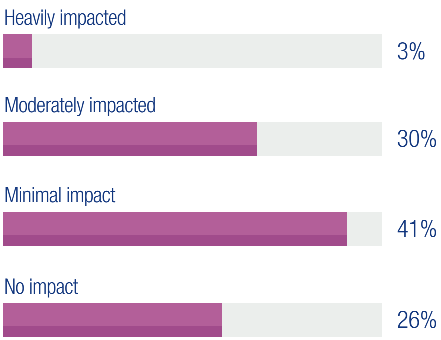
> **"Due to the radical changes imposed on business this created significant uncertainty and some anxiety in the workplace."**
>
> Agriculture, Forestry & Fishing, 1–19 employees, < $500k turnover

MENTAL HEALTH A MAJOR ISSUE

33%

of respondents either moderately or heavily impacted by mental health issues

Has your business been impacted by mental health issues?



According to SA Health, one in four South Australians report at least one health concern. With much of the spotlight on business owners in 2020 to ensure they create positive and mentally healthy workplaces, Business SA sought to better understand the impact of mental health issues upon businesses.

According to the survey, 33 per cent of respondents reported being either moderately or heavily impacted by mental health issues during the September quarter. The top triggers listed for causing the mental health concerns included changes to working hours for employees, increased workload, pressure of newly imposed legislated responsibilities, financial uncertainty, changes to JobKeeper and outside of work pressures.

Feedback provided from businesses said that it was difficult to identify the signs of mental health distress. Business also said they wanted to be better equipped with mental health resources, skills and supports to help maximise business productivity and minimise mental health issues.

RATIONALISATION IS REALITY

67%

of businesses expect to see more rationalisation

53.1%

of businesses see an opportunity to gain a greater market share over the next few months

In another indicator of the two-speed economy, most businesses expect to see a level of rationalisation occur over their industry over the next five years.

The biggest expected movers are businesses in the $500k–$1m turnover range, with 79.4 per cent of businesses expecting to see rationalisation occur.

"Operators who provide value and good customer service will reap the benefit of their past work while the poorer operators, those who have pushed profit over people will fare worse."

Tourism, 1–19 employees,
$500k–$1m turnover

SUPPLY CHAINS

While supply chain issues were prevalent at the beginning of the pandemic, we have seen many of these issues resolved. However, these issues have highlighted to business the need to secure more of their supply chains onshore. Consequently, 65.8 per cent of businesses reviewed their supply chains, while 35.4 per cent of those businesses decided to make changes to their supply chains following a review.

Interestingly, 72.7 per cent of businesses in the 50–99 employee range made changes to their supply chain, more than any other business size range.

"Some products are hard to get but there are always substitutes – except for PPE when we couldn't get any."

Professional, Scientific & Technical Services, 1–19 employees, $1m–$2m turnover

"No importing, now sourcing from within Australia."

Manufacturer, 1–19 employees, $500k–$1m turnover

Have you reviewed and made changes to your supply chain in the past three months?

CASE STUDY: CHRISTIAN REYNOLDS GROUP MANAGING DIRECTOR PRECISION BUSES

With strong forecasted volume into 2021, South Australian owned bus manufacturer, Precision Buses, is on schedule to continue its growth curve over the next 12 months.

Fortunately, a strong local supply chain with 95 per cent of its materials sourced from within Australia put Precision Buses in a good position to weather the COVID-19 storm.

Currently producing 300 vehicles a year, 100 of which are made in their Edinburgh Park facility, the group now has plans to accelerate production to 500 buses a year as well as expand into NSW and Victoria according to Group Managing Director, Christian Reynolds.

"For Precision Buses what is giving us the confidence to continue on a growth trajectory is a renewed national focus on local manufacturing and clean energy," said Mr Reynolds.

"We're optimistic about the future with new Federal Government grant programs and policies born out of the COVID-19 crisis that has made advanced manufacturing a priority.

"The Federal and State Governments have recognised the importance of sovereign capability and the importance of local supply chain resilience, which in some areas has been impacted by the COVID-19 pandemic."

The company will deliver its first hydrogen-powered bus in 2021 with partner Hydrogenics and a suite of electric buses in partnership with Proterra with the order book transitioning from diesel buses to zero emission buses.

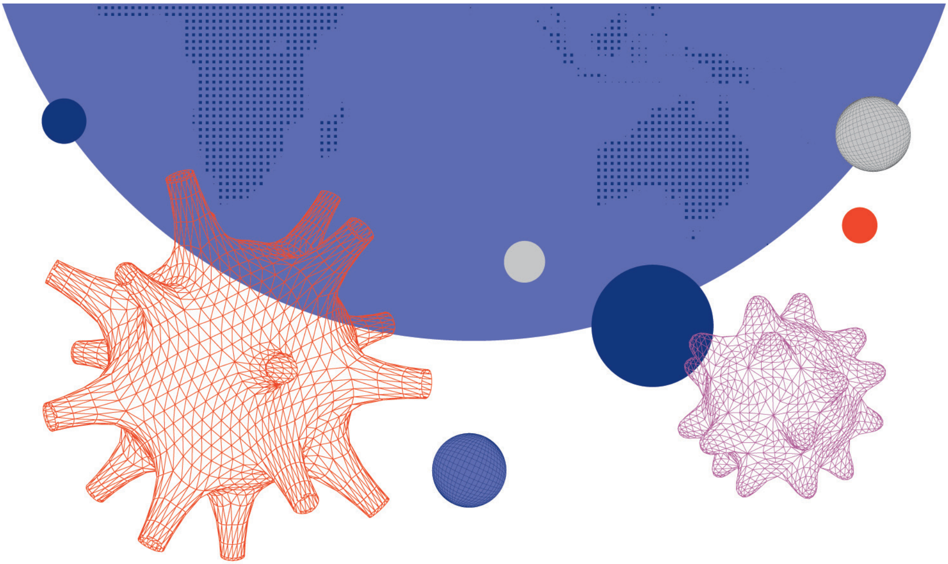
"Federal and state policy on renewables and hydrogen production is also giving us confidence in our zero-emission vehicle target and expansion plans," said Mr Reynolds.

"There is a mood for change and a move away from diesel vehicles to electric or hydrogen vehicles as cities look to integrate multi modal transport solutions into smart city infrastructure."

While Precision Buses employs 120 people in South Australia and 150 in Queensland, the company was among the 60 per cent of businesses in the September quarter that reported difficulty in filling job vacancies due to the Government's JobSeeker payment, which was reduced from $1,100 a fortnight down to a $815 a fortnight on 28 September.

"We support the Governments moving towards a model of investing in new technology and infrastructure and to more support product development and R&D expenditure, which will in turn encourage private sector investment in local supply chains and more local jobs," said Mr Reynolds.

"We are confident we have the people with the requisite skills and vision right here in South Australia to create the buses of the future."



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