

Business Now

THE BUSINESS SA SURVEY OF
BUSINESS EXPECTATIONS

DECEMBER QUARTER 2020

COVID-19 SPECIAL EDITION



Business SA
Chamber of Commerce
and Industry South Australia

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The Economy



BUSINESS CONFIDENCE

**Confidence continues
upwards trend**

108.3

SA Confidence Index

South Australian business confidence has continued to rally in the December quarter, rising 13 points from the September quarter to 108.3 on the confidence index, a feat not seen since the December quarter of 2018.

The continuation of an upward trend in business confidence highlights the resilience of the State's business community following the November Parafield Gardens COVID-19 outbreak, and resultant Circuit Breaker lockdown. However, the high level of general confidence does mask the challenges faced by specific sectors and regions, particularly those most exposed to ongoing social distancing restrictions and border closures.

13.0



points up from last
quarter, September 2020

23.2



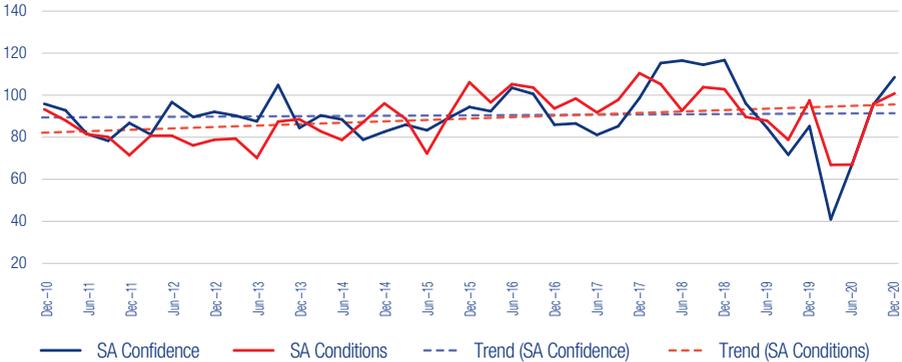
points up compared
to December 2019

10.8



points up compared
to December 2010

SA Business Environment



BUSINESS CONDITIONS

Business conditions strong and expected to get even better

100.6

General Business Conditions Index

111.1

points expected for next quarter, March 2021

The December quarter saw the rise in general business conditions continue, even amidst the impact of the November Circuit Breaker. The Parafield Gardens restrictions only eased back to pre-Circuit Breaker levels in mid-December, and while several sectors and regions were more acutely impacted, broader business conditions still increased by 5 points to 100.6, again a level unseen since late 2018. This exceeded expectations from the September quarter when businesses expected the conditions index to rise to only 99.5 points. Following the easing of restrictions in December, businesses expect conditions to rise even higher to 111.1 points in the March quarter, 2021.

5.0



points up from last quarter, September 2020

3.3



points up compared to December 2019

7.6



points up compared to December 2010

COVID-19 Impact

**HARDEST HIT
STILL
SUFFERING**



REVENUE

**Revenue returns to normal
for most**

45.7%

**of businesses said revenue was
normal or higher than last year**

15.1%

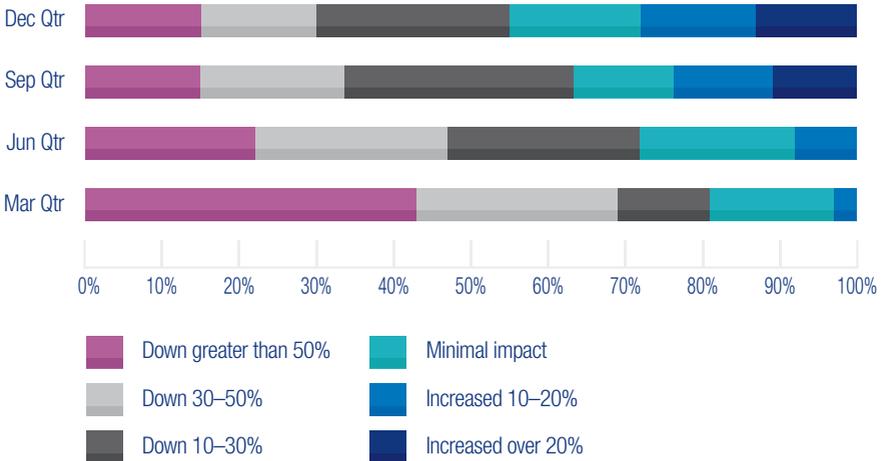
**of businesses said revenue was
down more than 50% compared
to pre-COVID**

As restrictions progressively eased over 2020, business recovery has steadily improved. The number of businesses with revenue down more than 50 per cent for the quarter decreased sharply from 43 per cent in the March quarter of last year to 15 per cent in the December quarter. However, with snap border closures and gathering restrictions still in play, alongside limitations on dancing and drinking, many businesses continue to suffer.

When considering the industry sector breakdown, almost two out of three Tourism and Accommodation & Food Service businesses are still experiencing revenue declines of 50 per cent or more, signalling the end of the road to recovery is still some way off.



Impact of COVID-19 restrictions on revenue over the last four quarters





SALES OUTLOOK

Sales back to normal but still a concern

44.0%

of businesses expect to be at or above pre-COVID levels of trade by the end of March

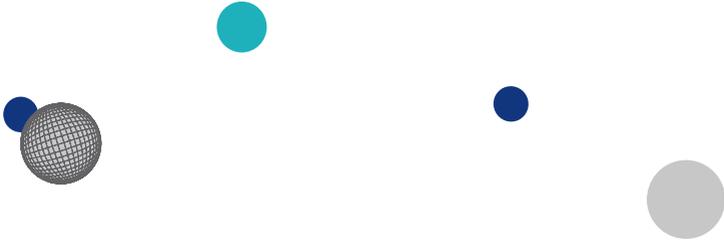
52.2%

of respondents kept awake at night by sales expectations

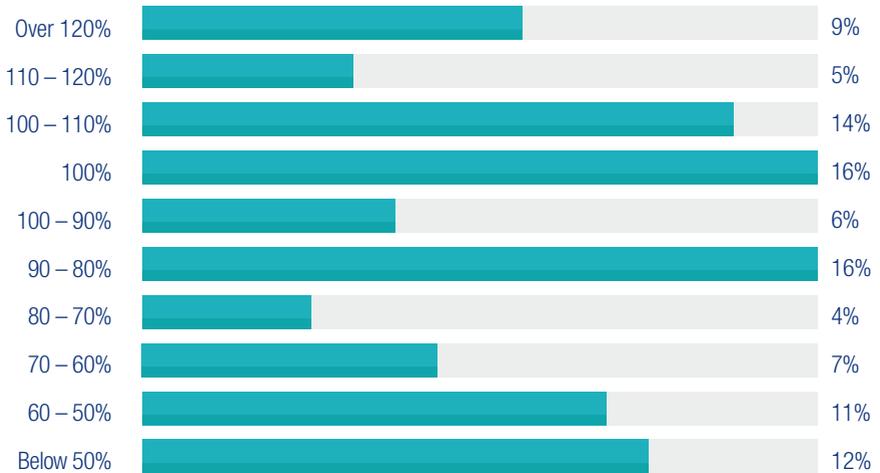
The emerging trend in the December quarter shows COVID-19 is holding back some industries while others continue to thrive. When we asked what kept business operators up at night, 52 per cent said sales was the biggest issue.

When we segmented the results by industry sector, once again Tourism businesses were at the top of the list, still expecting sales to be down significantly in the March quarter. Interestingly, it was positive to see the Accommodation & Food Services sector trade expectations rise with only 6 per cent of businesses expecting trade be to below 50 per cent compared to the same period last year. This compared to 35 per cent of businesses in the September quarter.

However, there is still a long way to go for the Accommodation & Food Services sector with 50 per cent of businesses having sales expectations for the March quarter of 50–70 per cent compared to the same period last 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 March?





SUPPORT MEASURES

GOVERNMENT SUPPORT

Less businesses on JobKeeper

30.0%

of businesses on JobKeeper 2.0 (Jan–March 2021)

68.3%

of businesses think JobKeeper should continue for industry sectors most impacted

“March 28 is not the end of challenges and restrictions. Until there is an effective and widespread rollout of vaccine, support will be required.”

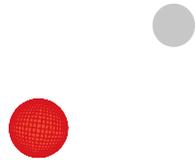
Personal & Other Services,
1–19 employees, \$2m–\$5m turnover

The number of SA businesses on JobKeeper has almost halved over the last 12 months with only 30 per cent of businesses on, or expecting to be on, the second tranche of JobKeeper 2.0. While revenues have clearly returned to normal levels for the majority, there is still a long way to go for those businesses that will still likely be impacted by restrictions beyond the March quarter.

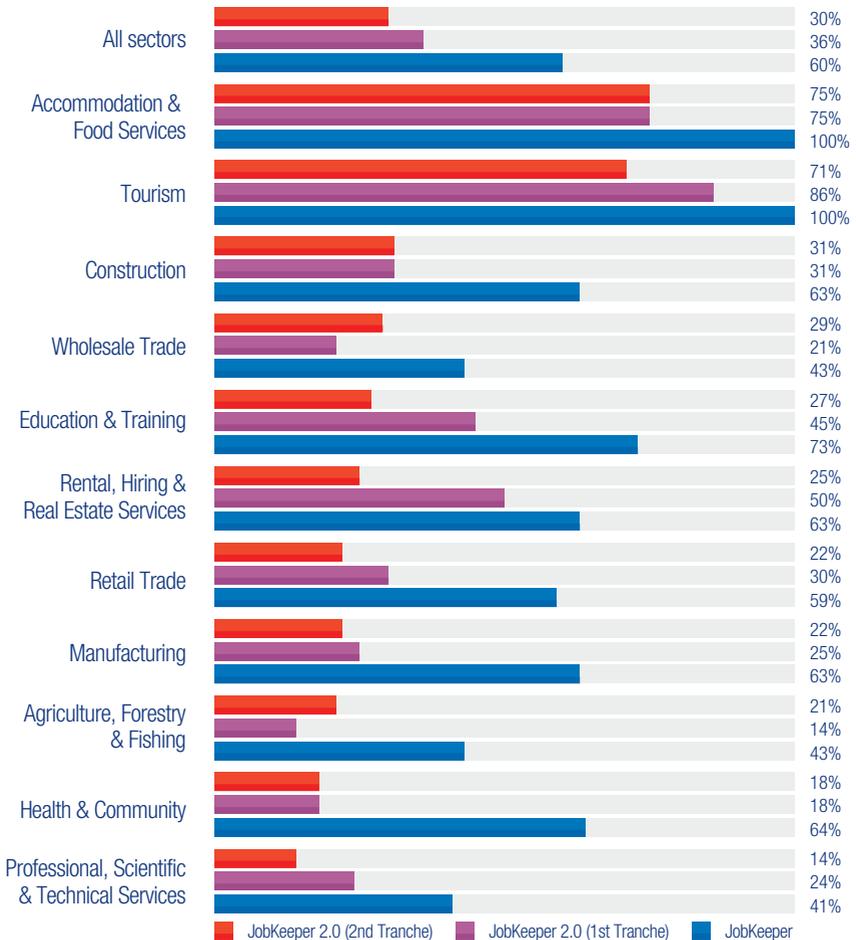
Respondents were also asked whether JobKeeper should continue beyond the 28 March deadline. An overwhelming 68.3 per cent of all businesses supported an extension for those industry sectors that continue to be materially impacted by ongoing COVID-19 restrictions. With uncertainty around the possibility of further clusters and snap lockdowns still looming, businesses told us there still needs to be a safety net to help those most sensitive to lock down restrictions. While the whole State needs to remain safe, the business community cannot continue to wear the lion's share of the financial burden.

“Tourism has been greatly affected and will be ongoing for some time. We are finding it’s not just international travel that is an issue, it’s a general lack of confidence to travel outside your state in fear of being trapped.”

Accommodation & Food Services,
1–19 employees



Rate of JobKeeper uptake – sector breakdown





THE CIRCUIT BREAKER

While South Australia didn't complete the full six-day Circuit Breaker that was proposed last November, the damage to businesses was still significant. Business SA was there when businesses were left to scramble, following the announcement in an attempt to navigate restrictions, which evolved daily.

Many respondents were thankful for the quick action of the State Government, but numerous businesses said they were left to count heavy costs including loss of stock, cancelled bookings and loss of trade. Post Circuit Breaker, businesses in the Tourism sector reported even lower consumer confidence. This just highlights that while some businesses can easily adapt to a lockdown and keep working, many customer facing businesses cannot, which has a greater impact on them than any other.

“The uncertainty of the time frame given when it was stated 6 days BUT could be an extra 8 days... this just shut us down overnight and bookings cancelled for a month in advance.”

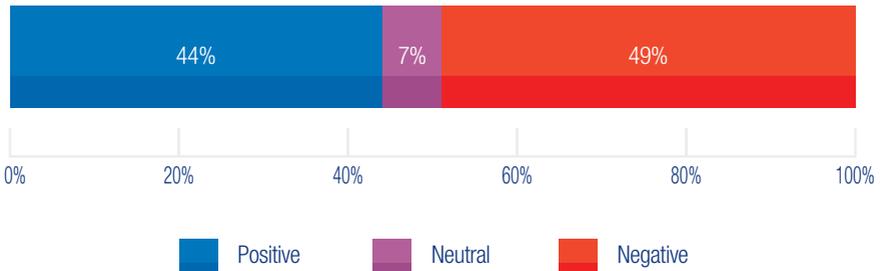
Accommodation & Food Services,
1–19 employees

“Impressive response from Government. Closure = no sales but caught up afterwards quickly.”

Retail Trade, 20–49 employees,
\$10m–\$50m turnover



Business sentiment on the November Circuit Breaker



“After the shut down, we saw a huge drop in visitation to the area and it remained that way for a few weeks. We felt it and I believe we should have been compensated as it was completely unnecessary.”

Agriculture, Forestry & Fishing,
1–19 employees, \$2m–\$5m turnover

“We are located in the CBD and people were just starting to come back to work and we were seeing an increase in sales, albeit still 30% down on last year. After the ‘Circuit Breaker’, sales dropped again to 40% down on last year.”

Accommodation & Food Services,
1–19 employees, < \$500k turnover



A GREAT START TO 2021 BUT MORE CERTAINTY NEEDED

The confidence wave continues to build in South Australia as business owners look to kick off a brighter year ahead.

The overall outlook for our economy is rosier than the past quarter, up 13 points, as South Australia's response to the COVID-19 pandemic fuels optimism across sectors.

Labour force availability, however, is emerging as a key concern among business owners.

Almost 12 months on from the pandemic, and South Australia has well and truly put the worst behind it, with business confidence and conditions above the 10-year average and substantially higher than the depths of last March.

The Government's handling of the pandemic from both a health and economic stimulus perspective is no doubt a key reason for the healthy amount of optimism.

However, this confidence may be eroded in the future if the erratic and non-uniform approach to snap lockdowns and border closures is not addressed.

This is clear from the overwhelming and indeed polarising response from business owners to South Australia's Parafield Gardens Circuit Breaker lockdown in November last year.

The divergence of views from business owners should sound a warning bell for decision makers that more practical solutions to outbreaks should be considered to help maintain business and consumer confidence.

The workforce availability issue should also be a cause for concern.

The survey found 35 per cent of business owners found it harder to attract labour in the December quarter with 58 per cent blaming a lack of incentive due to increased JobSeeker payments for finding workers.



William Buck

When it comes to JobKeeper, it appears South Australia should avoid the feared “cliff” scenario with just 30 per cent of SA businesses qualifying for JobKeeper for the March quarter (down from 60 per cent for JobKeeper 1.0).

In saying that, 68 per cent of SA businesses agreed the wage subsidy scheme should continue past its 28 March cut-off date for those industries most impacted by ongoing COVID-19 restrictions such as those around international tourists, events and hospitality.

While some businesses continue to be materially impacted by COVID-19, with 15 per cent reporting their turnover remains down by more than 50 per cent. On the flip side a third of businesses reported that 2020 was their best ever financial performance, or the best in five years.

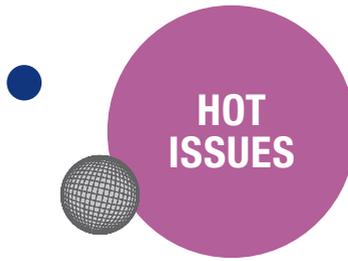
Further, around 34 per cent believe their business is operating better since the onset of the pandemic due to improved systems, greater efficiency, and elimination of waste.

The opportunity to grow is ripe with the survey finding 50 per cent of businesses are either currently considering a merger or acquisition or will possibly do so in the next five years. The majority plan to be the seller in this scenario.

All in all, South Australia is tracking well but our current business confidence is underlined with caution with debt repayments and continuing COVID-19 uncertainty not going anywhere in the medium term.



Jamie McKeough
William Buck Managing Director



STAFFING

Staff slowly returning to work

84.4%

of staff were on average, physically back in the workplace

25.0%

of businesses said staff were working between the office/site and home

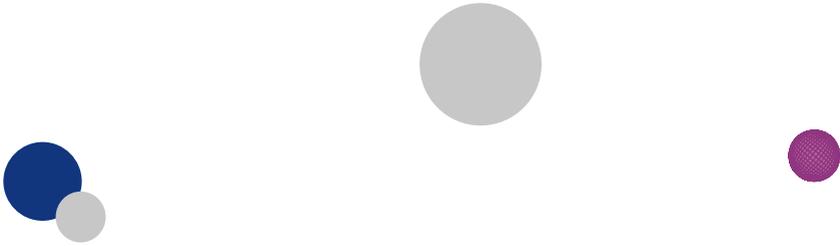
The number of businesses with employees still working from home dropped from a high of 60 per cent in the June quarter to 36 per cent in the December quarter.

The appetite for alternative working arrangements seems to be waning with the number of businesses saying they will continue with the new arrangements, dropping from 60 per cent in the June quarter to 43 per cent in the December quarter.

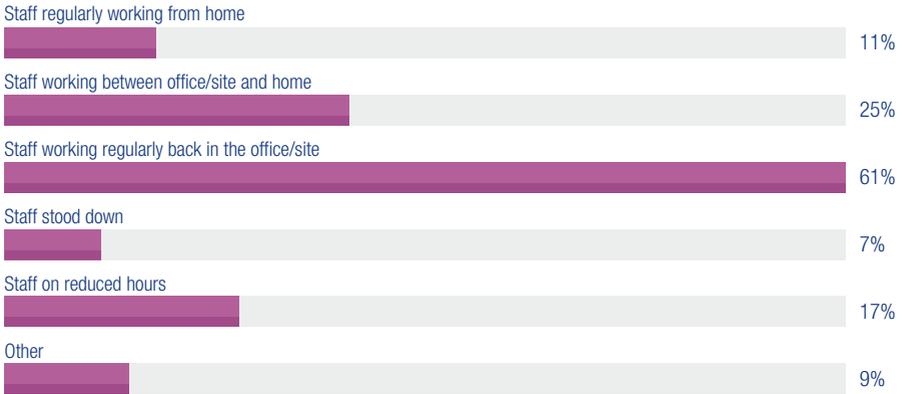
Interestingly, business willingness to continue alternative working arrangements increases with the number of employees, with only 39 per cent of businesses in the 1–19 employee range willing to continue alternative working arrangements compared to 52 per cent in the 50–99 employee range.

“Through the use of online meeting platforms, we are all able to work just as efficiently from home or anywhere as we are in the office.”

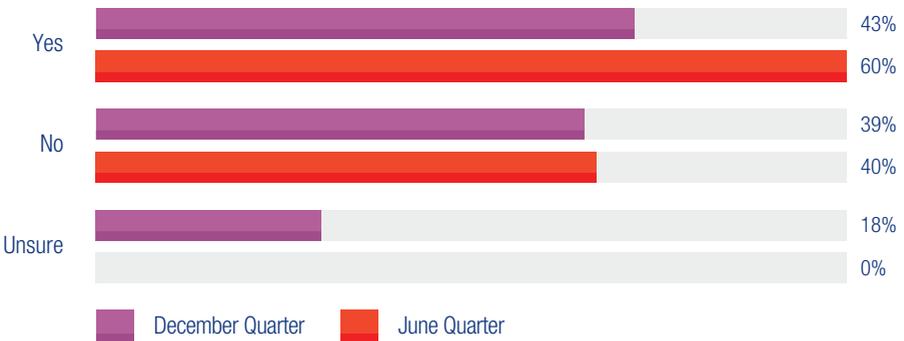
Construction, 1–19 employees,
\$2m–\$5m turnover



What best describes your staffing arrangements?



Will your business continue with alternative working arrangements?





MERGER & ACQUISITION

50.4%

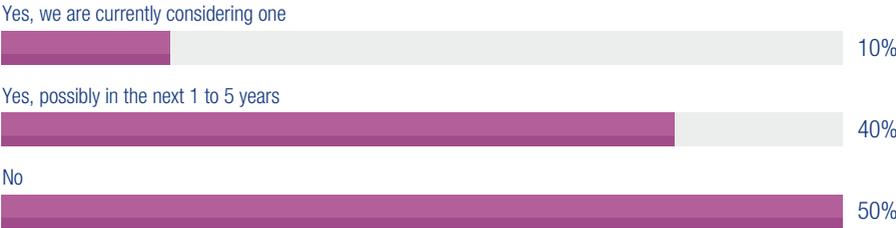
of businesses considering a merger or acquisition

40.4%

of businesses considering in the next 5 years

It appears a period of consolidation across the SME sector is on the horizon with 50 per cent of business owners reporting they are either currently considering a merger or acquisition or will possibly do so in the next five years. Of those considering merger or acquisition, 60 per cent are sellers. Businesses in the 20–49 employee range were the most likely to sell compared to any other.

Would you consider a merger or acquisition as part of your future business strategy?



IMPROVING BUSINESS SYSTEMS

Businesses have shown how adaptable they can be, with more than one in three businesses improving their operations since the onset of COVID-19. In particular, businesses operating in the Manufacturing and Information, Media & Telecommunications industry sectors were the most agile, with 44 and 50 per cent respectively, improving their operations.

Moreover, businesses in the 20–49 employee size range were the most likely to have improved their business operations over any other. Unfortunately, Sole Traders were the least likely to see their business operations improve with 28 per cent advising of no improvement.

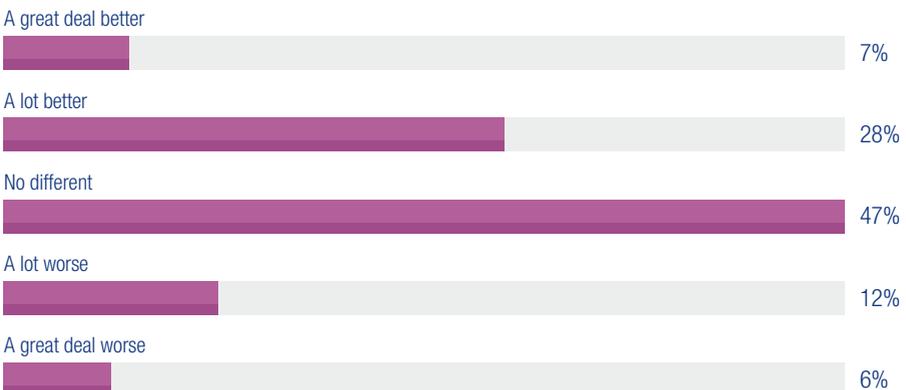
“COVID made us review our business practices and streamline aspects that weren’t profitable.”

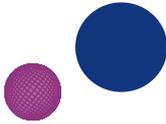
Manufacturing, 1–19 employees,
\$2m–\$5m turnover

“Albeit some healthy rationalisation and cost cutting, we have had too much dependence on a) export and b) China. Diversity the absolute focus at present.”

Wholesale Trade, 1–19 employees,
\$500k–\$1m turnover

How is your business operating since the onset of COVID-19 (e.g. improved systems, elimination of waste etc.)?





CASE STUDY: DAVID STEPHEN, MANAGING DIRECTOR, CALEDONIA GROUP

Pent up demand fuels Caledonia's confident outlook.

Strong demand across defence, mining and infrastructure sectors has South Australian-based company Caledonia Group confident of scaling new heights.

"We're confident, energised and right in the thick of some exciting projects across the country and overseas," Caledonia's Managing Director David Stephen said.

"Importantly the pipeline of work for the next 12–18 months is also very encouraging across both the access and insulation and cladding divisions of the business. This pipeline of opportunity extends across multiple industry sectors, enabling both diversity and flexibility in servicing potentially volatile markets.

"As a group we came through 2020 in reasonable shape despite all the challenges of COVID-19. Our staff have adapted to the new working environment well."

"We're on track for a strong second half of the financial year with some projects that had been postponed during 2020 now coming in thick and fast."

Mr Stephen's optimism reflects that of other business leaders across the State as evident in the latest Business SA William Buck Survey of Business Expectations.

Since it was established in 1999 as Caledonia Scaffolding Services, the business identified the need to diversify in order to provide a suite of services with both innovation and collaboration at the forefront of its overall strategic growth plan. Today, Caledonia Group has grown to become one of the largest privately-owned Industrial Services companies in Australia and New Zealand. They specialise in total access solutions, insulation and cladding, and are supported by an in-house design and engineering team; delivering 3D and VR design capability to clients, both domestically and on an international stage.



Mr Stephen attributes Caledonia's growth trajectory in part to its strategic expansion interstate and into New Zealand as well as the introduction of new specialist services to its market offering.

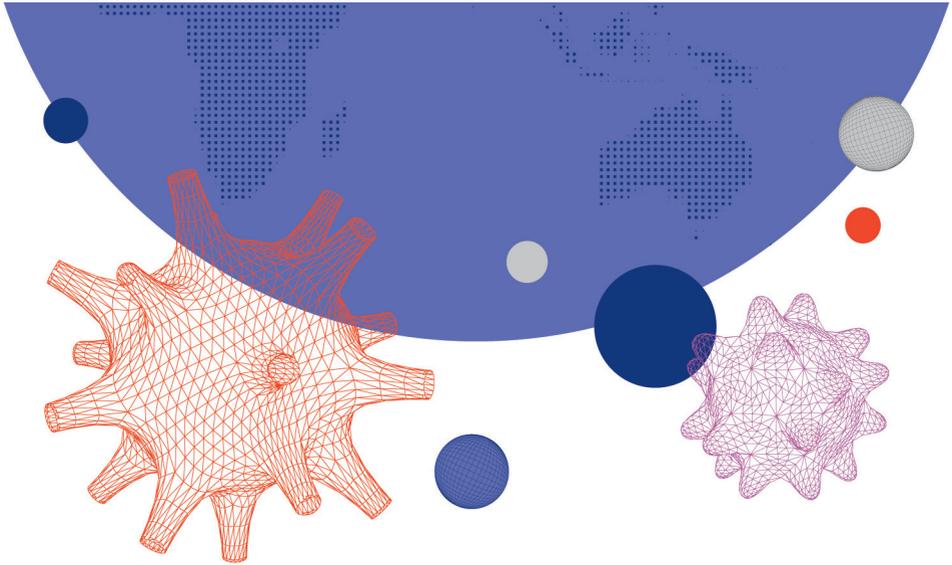
"We established our Auckland operations four years ago and more recently we've expanded into New South Wales and started our insulation and cladding business division, which is head quartered at its state of the art fabrication facility in the heart of Henderson's industrial quarter" he said. In addition, the implementation of innovative, mobile fabrication workshops has allowed for the expansion of the insulation business across the country; particularly here in South Australia, at Nyrstar's Port Pirie lead smelter, as well as the Adelaide Brighton Cement facility in Angaston.

"This has enabled us to build a greater market footprint and leverage our existing strengths in South Australia, Western Australia, ACT and the Northern Territory."

"There is definitely a groundswell of confidence right across the industries we service and that's very positive, not just for companies like us but for local job creation."

Two years ago Caledonia's workforce was sitting around 200 people. It now employs around 400 staff and the company is looking to increase its workforce further.

"We're currently recruiting for numerous positions across the group including traineeships. We operate across a range of dynamic industries which provides our staff the opportunity to work with companies on some of the countries most exciting major projects," he said.



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