

Business Now

The Business SA Survey
of Business Expectations

March
QTR 2021



Business SA
Chamber of Commerce
and Industry South Australia

Powered by

 **William Buck**

The Economy

BUSINESS CONFIDENCE

Confidence continues
upwards trend

114.0

SA Confidence Index

South Australian business confidence has rebounded substantially from the lowest point in the survey's 40-year history, 12 months ago. Rising 5.7 points from the December quarter 2020, and a staggering 73 points since the March quarter 2020, the South Australian Business Confidence Index now sits at 114.0 points, 23.3 points above its 10-year average.

Business confidence is also primed to increase further once existing restrictions are eased and the vaccine rollout picks up. While a return to normal for many businesses has already occurred, for others such as events and sectors exposed to international tourism and students, the return to normal remains over the horizon. Export oriented companies are also increasingly missing trade opportunities due to not being unable to land boots on the ground overseas.

5.7

points up from last
quarter, December 2020



73.0

points up from March
quarter 2020



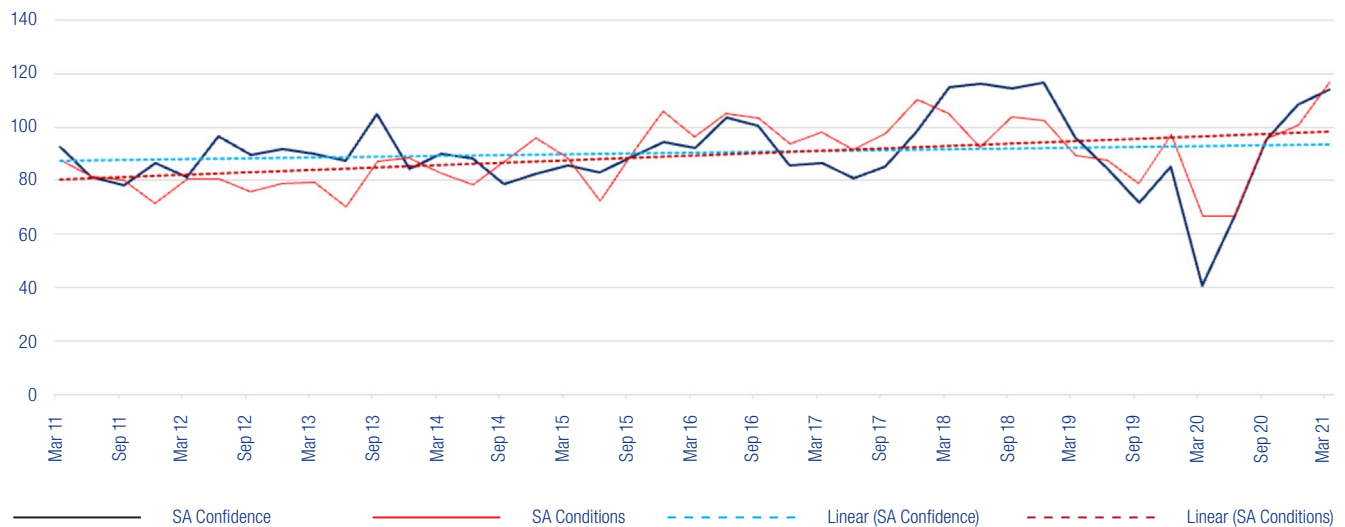
22.0

points compared to
March 2011



BUSINESS CONDITIONS

SA Business Environment



As restrictions ease,
conditions rise

116.8

General Business Conditions Index

109.2

points expected for next quarter,
June 2021

General Business Conditions experienced a significant 16.2 point rise from the December quarter to hit 116.8 points for the March quarter 2021, beating expectations by 5.7 points. The last time the index reached such a high was over 13 years ago in the December quarter 2007, at the back end of the pre-GFC boom. Hopefully this time we avoid the future crisis.

With many restrictions now eased but not gone, including the recently eased density rule to 3 people per 4 square metres, the fear of future lockdowns lays heavily on the mind of the business community with businesses' expectations of conditions for the next quarter forecast to be lower at 109.2 points. An element of easing in the COVID-induced retail boom has also tempered expectations, along with the tapering of JobKeeper and a move towards a more normalised rate of JobSeeker.

16.2

points up from last
quarter, December 2020



50.0

points up from
March 2020



28.8

points up compared
to March 2011



COVID-19

REVENUE

54.1%

of businesses said revenue was normal or above pre-COVID levels

16%

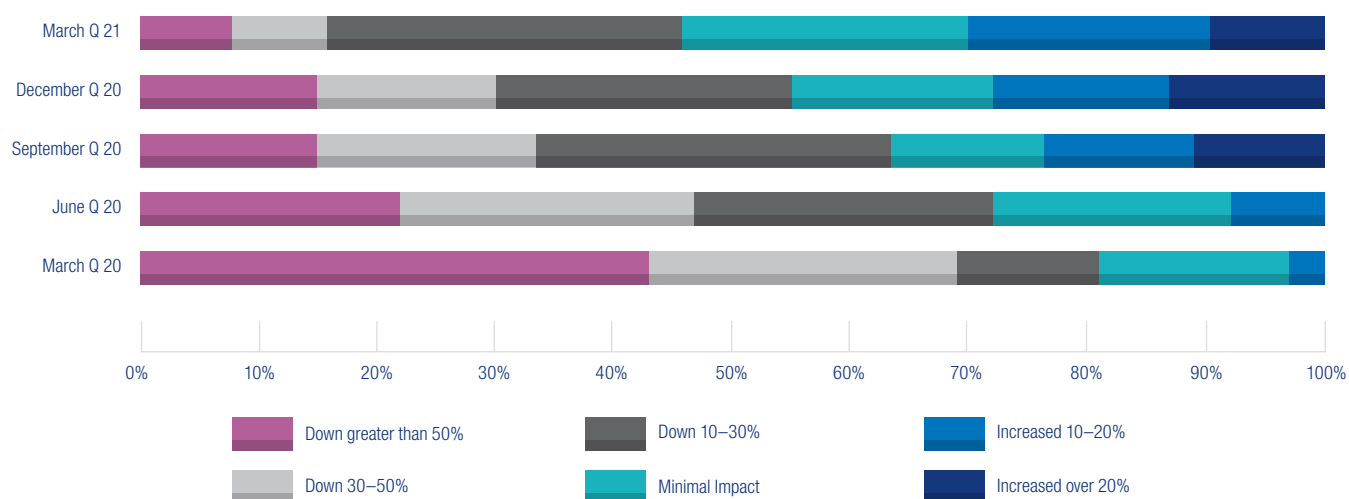
of businesses said revenues were down more than 30% compared to pre-COVID levels

The return to business as usual for many businesses is still far off with 46 per cent still experiencing significant revenue decline compared to their pre-COVID revenues. However, it was reassuring to see a reduced proportion of businesses with revenue down greater than 50 per cent compared to the previous quarters. Moreover, the number of businesses that experienced revenues return to normal or better increased from 45 per cent in the December quarter to 54 per cent in the March quarter.

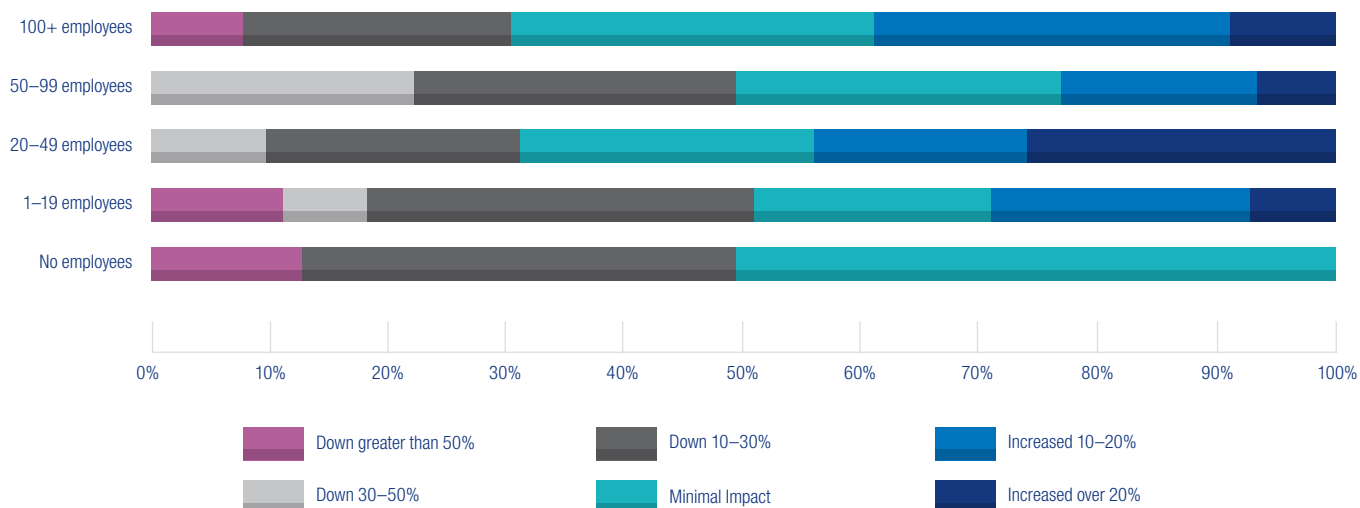
While some businesses were still significantly down compared to pre-COVID, 72.3 per cent of businesses did not report a decrease to their profitability for the March quarter. Furthermore, 71.5 per cent of businesses expected profitability to remain the same or increase for the June quarter.

When we segmented the results by business size, we found small businesses (1-19 employees) to be the least likely to be at normal or above levels of their pre-COVID revenue.

Impact of COVID-19 restrictions on revenue



Impact of COVID-19 restrictions on revenue by business size



Sales Outlook

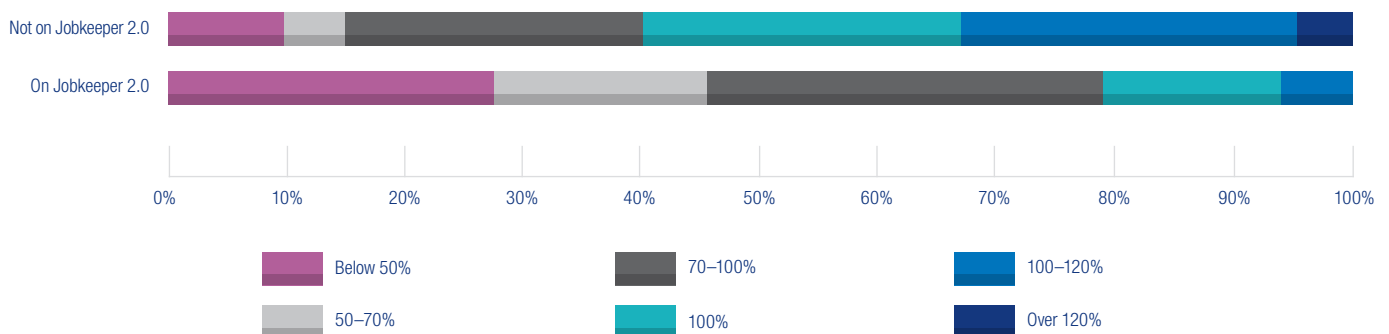
SALES OUTLOOK

90.2%

on average, businesses expect sales to be 90.2% of pre-COVID levels by the end of June, up from 86.3% last quarter.

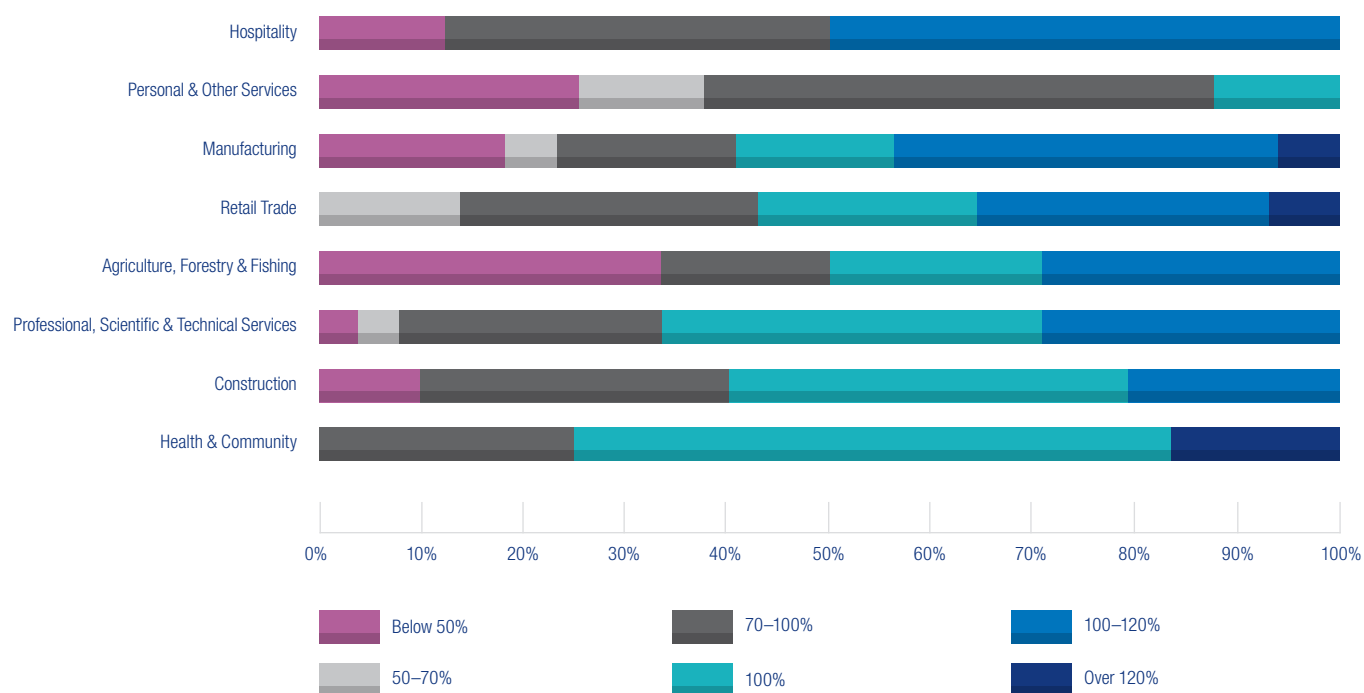
However, the Sales outlook for businesses still on JobKeeper by the end of the March quarter remains a long way from returning to normal. Of those on JobKeeper at the end of March, 78.7 per cent will not be back at the sales levels experienced pre-COVID by the end of June.

Comparison of Sales Outlook by businesses that were on JobKeeper and those that were not



When we broke the data down by industry sectors, a number of sectors had lower expectations than others with businesses in the personal services unable to see a return to normality by the end of the June quarter.

Sales Outlook for the June quarter by selected industry sector



End of JobKeeper

END OF JOBKEEPER

19.4%

of businesses ended up on the second tranche of JobKeeper 2.0

15.2%

of those businesses were forced to make redundancies

The number of businesses remaining on JobKeeper at the end of March fell short of the 30 per cent of businesses expected to do so from the December quarter 2020 edition of Business Now. This demonstrates the strong turnaround in the South Australian economy over the March quarter.

Of the businesses still on JobKeeper at the end of March, 15.2 per cent were forced to make redundancies following completion of the program. Of those businesses who made redundancies, on average one person was made redundant from each business, with an average proportion of the workforce made redundant from JobKeeper 2.0 businesses being 21.6 percent.

However, many businesses told us that while they had not made redundancies, they remained a possibility in the future. In particular, businesses still impacted by international border restrictions raised concerns that domestic markets were unable to replace lost international demand required to remain profitable.

“Expect economic recovery will be very slow as still no exports. Our business has immense pressure on survival as 90% of our income was derived from export. Local domestic market struggles to pick up volume of sales even at drastically reduced pricing. Ongoing financial assistance seems paramount to our and staff survival” – Aquaculture, 1-19 employees, \$5m - \$10m turnover.

William Buck



The bounce back continues one year on from the start of the COVID pandemic.

Despite the ongoing constraints caused by labour and material shortages, reports of above average top line sales and overall profitability for most businesses provides a tangible projection that this financial year will conclude as one of the best in years.

The Business SA - William Buck Survey of Business Expectations for the March Quarter shows business conditions at their highest level since the global financial crisis, with business confidence sitting at 114.0 points, 23.3 points above its 10-year average, creating a powerful combination for businesses.

This better-than-expected profitability scenario is also leading to increased business investment. Business owners are making hay while the sun shines by investing back into their business during a time of strength, resulting in further job creation and investment in technology, plant and premises further benefitting the local economy.

The recruitment of workers remains a significant challenge for most businesses, with a common belief it has been caused by both an unintended result of Federal Government stimulus reducing the will for some unskilled workers to participate in the workforce until the end of March, and the inability to source international workers, particularly in regional SA. The survey found availability of skilled workers was a problem for 56 per cent of businesses.

The end of JobKeeper and the JobSeeker supplement in March did not result in the dip many predicted, and

with the continued rollout of the COVID-19 vaccine across Australia, we remain hopeful that there will be less uncertainty around domestic border closures resulting in ongoing strong business confidence.

When it comes to the depleted local supply of materials, particularly for those in the construction industry, 37 per cent of businesses are reporting difficulty sourcing materials with 79.2 per cent of those reporting increased difficulty in importing from international suppliers.

Business owners have taken the pandemic as an opportunity to review their processes and lifecycle. This has led to an overall increase in businesses defining a succession plan, with 63.1 per cent of businesses having either already developed or in the process of developing one – up 10 per cent from 3 years ago. 10 per cent of businesses say COVID has brought forward their exit plans, and 22 per cent say it has delayed their succession.

Overall, the upward trajectory of confidence and conditions are resulting in 35 per cent of businesses having a more positive outlook on their organisation than pre-Covid, and 56 per cent of businesses expecting the state economy to perform even better in the next year.

Although remaining cautious due to the risk of outbreaks or snap lockdowns, businesses are encouraged to push through, despite shortages of supply and workers, to invest in their business during a time of strength and contribute to the ongoing growth of the South Australian economy.

Case Study

NEIL RETALLICK MANAGING DIRECTOR THE BAROSSA CO-OP

Remaining optimistic and working towards a strong future provided Australia's largest and longest standing retail co-operative, 'The Barossa Co-op', the confidence to continue expanding its operations.

"What's important for us is to maintain an optimistic outlook through the hardest of times. We are confident in the future and we will continue to look at more opportunities to expand The Barossa Co-op, better meeting the needs of the Barossa Valley community".

Neil Retallick, Managing Director, never expected in March last year, while police officers were monitoring the toilet paper aisle of his supermarket, that the next 12 months would see his business in a position to be able to spend over one million dollars in capital expenditure to further grow to meet demand.

The member-funded organisation boasts an enormous 21,000-person membership and has been an integral part of the local community since its inception in 1944.

The Barossa Co-op proudly employs 330 people from the local community, with that number expected to grow in the coming months. Spending 12 million dollars in wages last year through a global pandemic was a significant achievement for the organisation. They expect that 90 per cent of that money went back into the local economy.

"We never actually qualified for JobKeeper, which at the start of the scheme was a positive sign for

our organisation. Although certain areas of the business were not able to trade through lockdowns, we were able to restructure our teams to ensure no team members were left without work".

With further growth and additional recruitment of staff on the horizon, a shortage of skilled workers has not been a problem for the Barossa Co-op. Although many businesses are finding it hard to recruit skilled workers, or any workers at all, the Nuriootpa-based organisation puts it down to good fortune not having a problem recruiting over the last 12 months. They are proudly known as the biggest employer of under 25s in the region.

Mr Retallick's optimistic outlook is reflective of the results found in the March quarter of the Business SA – William Buck Survey of Expectations, with the majority of businesses surveyed experiencing a return to 100 per cent or higher of pre-COVID revenue by the end of the quarter.

While the sun is shining bright over the Barossa Co-op, they have not been without struggle. With the pandemic raging overseas, and closed international borders, like many businesses they have struggled to source a steady supply of imports, particularly with construction goods in high demand in their Home Division.

"There is a nation-wide shortage of timber, with demand for new home builds skyrocketing because of the Federal Government's HomeBuilder Scheme, and we have not been able to keep up with customer needs. Products out of China are also scarce

and affecting our sports retail outlet in particular. Supermarket wholesalers are still only delivering 80 per cent of required goods, with vendors unable to import usual levels from international suppliers.”

Following a nationwide retail lull in the month of February, the quarter for the Barossa Co-op wrapped up nicely with 3 high profit weeks

in March, projecting the financial year will conclude with the strongest results in 3 years.

“This year, we are actually more profitable than last year. COVID taught us some important lessons. We reviewed every process and procedure, and we improved our business exponentially. “



Business Succession

BUSINESS SUCCESSION

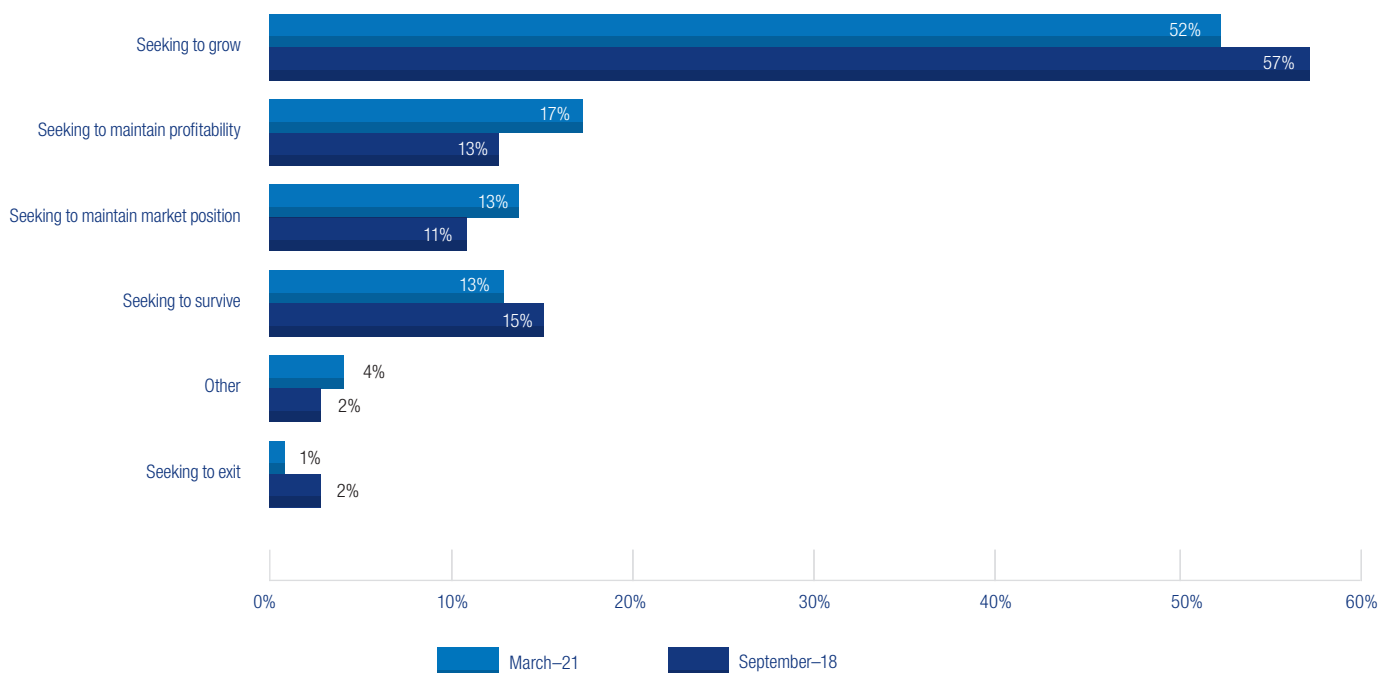
52.2%
of businesses seek to grow

69.4%
of businesses are optimistic or neutral
about the future of their business

The past 12 months have been difficult for many businesses rethinking their long-term viability. However, it was encouraging to see that 69.4 per cent of businesses had an optimistic or neutral long-term outlook for the future of their business.

The business status for many operators has not significantly changed since September 2018, with the proportion of businesses seeking to grow only falling 4.9 percentage points, and those seeking to survive also falling only 2.2 percentage points. This highlights the resilience and optimism in the business community, despite COVID-19.

Which of the following best describes your business status?



32%

of businesses have changed the timing of their succession plans due to COVID-19

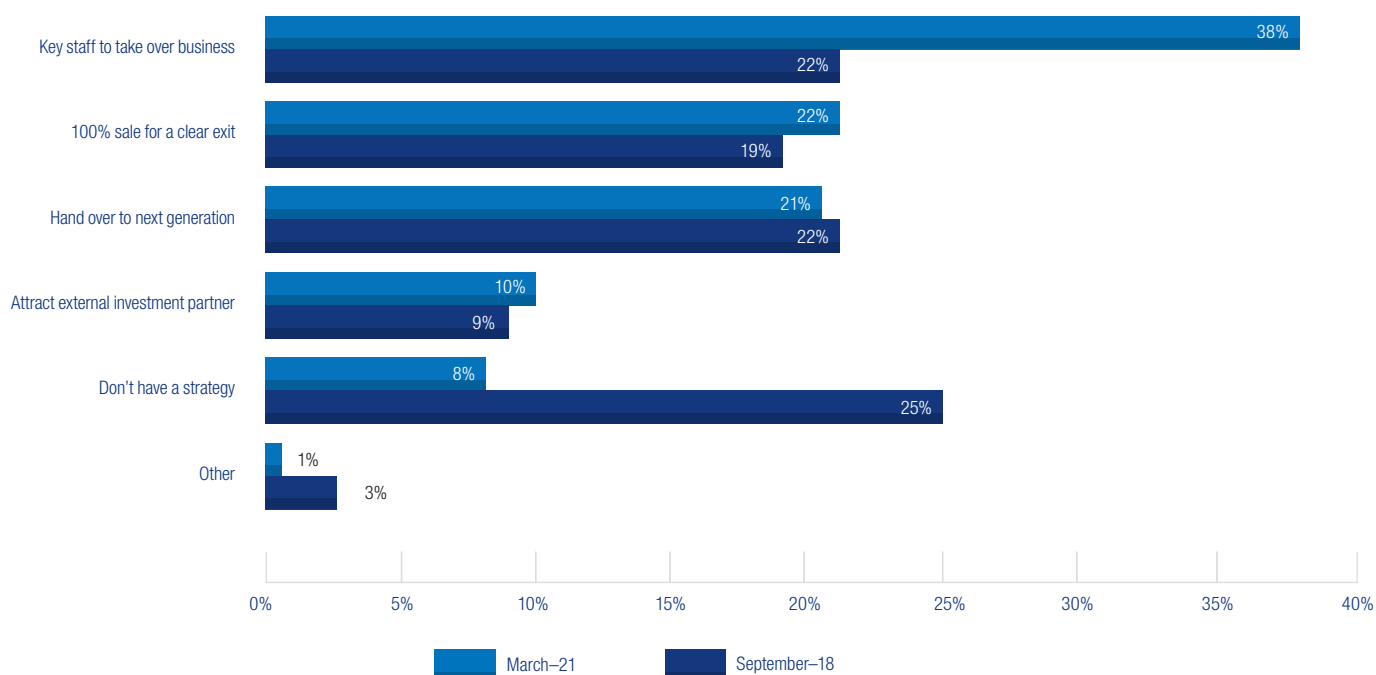
37.8%

of businesses plan to hand over the business to key staff

For many businesses, the need to have a strategy in place for succession is essential for continuity. For 63.1 per cent of businesses, their succession strategy is either in progress or well advanced, up from 53.7 per cent in September 2018.

The adoption of succession strategies has seen material movement from September 2018, with the proportion of businesses planning to have key staff take over the business increasing by 16.0 percentage points. Almost a third of business shifted the timing of their succession strategy due to COVID-19, with 10.1 per cent bringing forward the timing and 21.9 per cent delaying.

What is your succession strategy?



Staffing

STAFFING

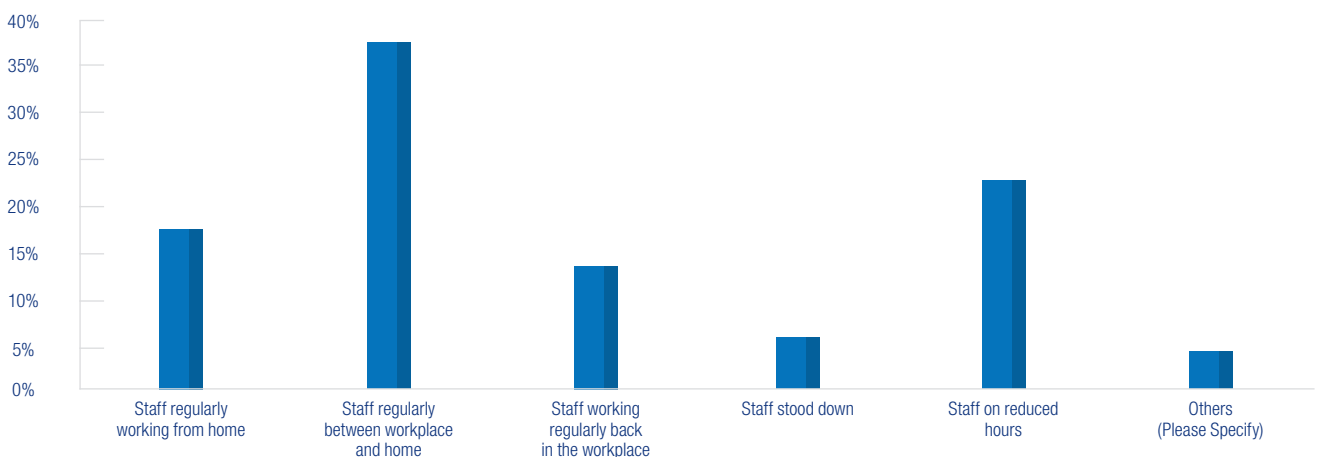
59.8%

of businesses introduced alternative working arrangements during 2020

The introduction of restrictions and social distancing during 2020 resulted in the upheaval of regular operations for many South Australian businesses. In the case of most businesses, this meant alternative working arrangements, with many sending staff home to work.

Following the easing of restrictions and the return to normal for many businesses, it would seem for some that alternative working arrangements are here to stay. Of those businesses still using alternative working arrangements, 54.8 per cent had staff working regularly from home or regularly between the workplace and home. However, it was disheartening to see 22.6 per cent of businesses still had some staff on reduced hours.

What best describes those staffing arrangements?



The survey showed a fairly equal split in the days staff spent working regularly between work and home. On average, businesses had staff working 2.7 days at the workplace and 2.2 days at their home. However, businesses have highlighted that these new arrangements come with some downside, with some businesses now moving staff back into the workplace.

“Only some staff are choosing more flexible options, however presently the differences are presenting challenges within the team that need to be addressed” - Rental, Hiring & Real Estate Services, 20-49 employees, \$2m - \$5m turnover.

Skills Shortages

SKILLS SHORTAGES

57.9%

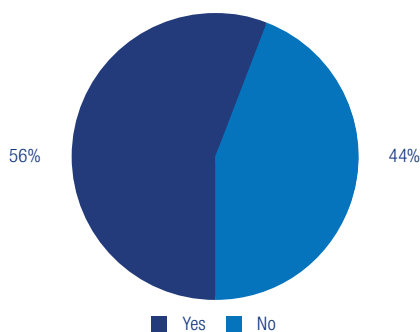
of businesses found it harder to source labour in the March quarter compared to the December quarter

56%

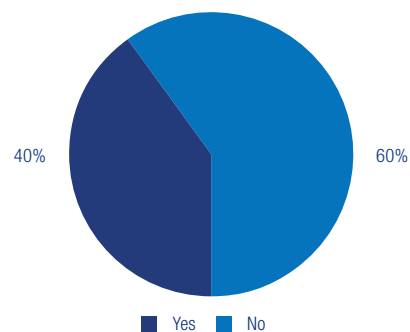
of businesses found it difficult to source skilled labour throughout 2020.

Over 2020, most South Australian businesses found it progressively harder to source labour as the economy slowly reopened post lockdown/s - the reasons for this have been varied. For the agriculture sector, the closure of international borders meant the normal supply of backpackers and foreign workers for fruit picking was lost. For manufacturers and professional services businesses, sourcing industry specialists, who in many cases can only be found overseas, has also been challenging.

Did your business find it difficult to source skilled labour in 2020?



Did your business find it difficult to source unskilled labour in 2020?



“We could not find a rental property for approx. 50kms from our main business site” – Car dealership, 20-49 employees, \$10m - \$50m turnover.

Government stimulus projects have also played a part in creating skills shortages, with demand being stoked in the construction sector in particular. Further, businesses report that the temporary increase of JobSeeker resulted in potential workers remaining outside the workforce. The introduction of JobKeeper, while very helpful to keep businesses afloat, also tied workers to business which reduced more typical employee movement between organisations.

Conversely, the challenges of training for many industries is now more apparent, albeit being partially offset by increased government incentives.

“Skilled trade labour for CNC machining is in an extreme shortage. The recent changes TAFE have made to their training curriculum will make addressing this skills

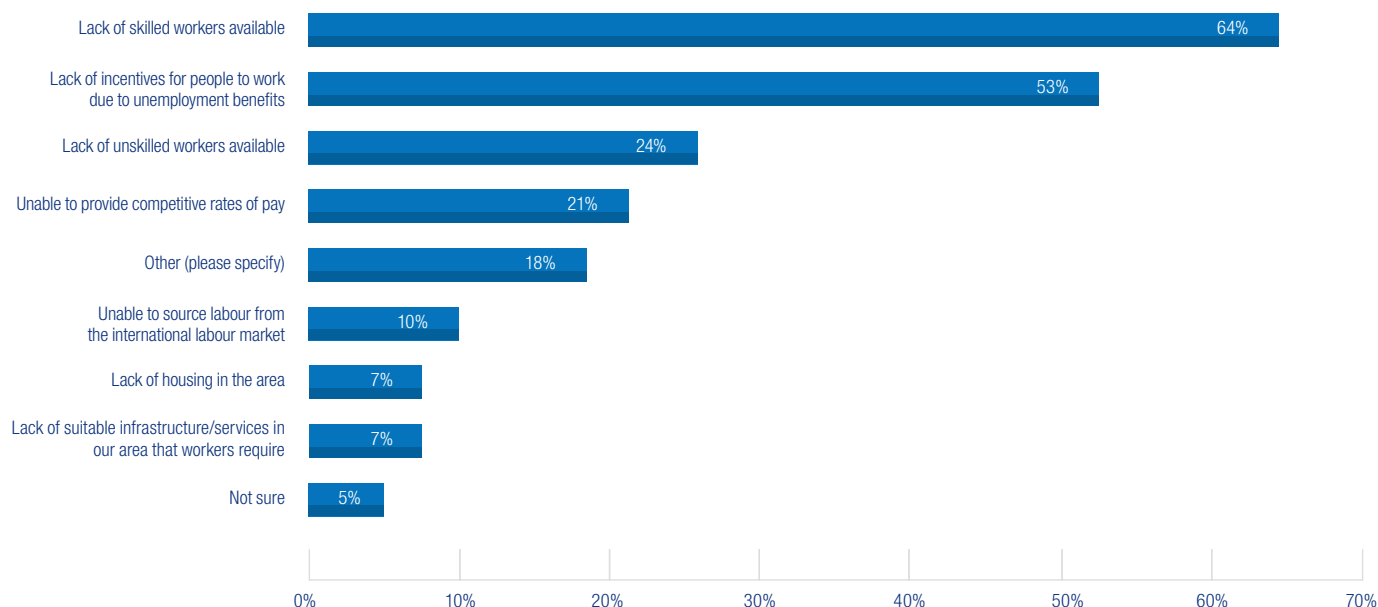
shortage even harder.” – Manufacturer, 50-99 employees, \$10m - \$50m turnover.

Businesses have also told us that the recruitment process has become quite strenuous.

“Been trying to employ staff since January but have had no luck finding anyone that wants work, applicants don’t return calls, don’t show up for interviews.” – Tourism operator, 1-19 employees, < \$500k turnover.

Lack of accommodation for potential workers who would otherwise move from metropolitan to regional areas was raised and has been particularly acute in areas including Naracoorte and Port Lincoln. Similarly, in our Regional Voice 2020 report, 16 per cent of businesses found a lack of community infrastructure to be their primary challenge in attracting skills.

In your opinion, why has it been harder for your business to source suitable labour during COVID?



Material Shortages

MATERIAL SHORTAGES

45%

**of businesses reliant on physical inputs
are finding them difficult to source**

73%

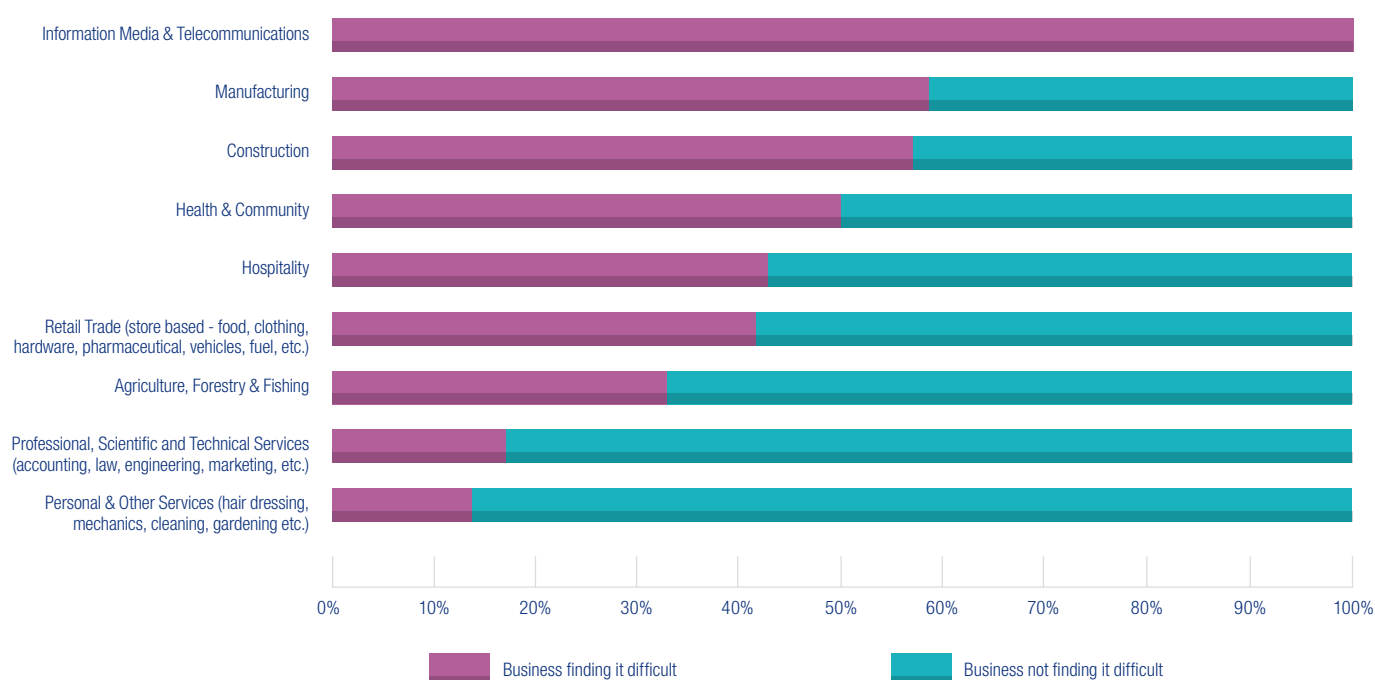
**of impacted businesses blame global
supply challenges**

During COVID-19, global supply chains have been heavily impacted by overseas manufacturer capacity constraints and shipping delays due to lockdowns. This has also resulted in significant increases to freight rates, and a lack of available shipping containers. The cancellation of many international passenger flights has also heavily impacted crucial air freight capacity. Local exporters have been fortunate to still receive support through the Federal Government's International Freight Assistance Mechanism.

For businesses that require physical inputs to operate, the survey showed 45 per cent found it difficult to source the inputs they need. While timber shortages for the construction sector have been highlighted by the media, many other industries are facing similar issues. In particular, businesses in the information media and telecommunications sector had difficulty obtaining materials normally sourced overseas, and 59.4 per cent of manufacturing businesses found it difficult to source special metals, rubber and resin.

"Everything! Raw material, steel, aluminium, cast iron, copper, brass, bronze. Processed materials, cylinder barrel and rod material. Completed components, valves, tube, hose, fittings etc." – Engineering, trade and technical services, 1-19 employees.

Businesses finding it difficult to source inputs by industry sector



Current global supply challenges are to blame for 72.9 per cent of business difficulty sourcing inputs. For many businesses the issues include overseas suppliers playing catchup following lockdowns, ever increasing demand, delays, and increased costs for both shipping and air freight.

“Increasing global demand combined with shipping constraints have slowed down supply.” - Wholesale Trader, 20-49 employees, \$10m - \$50m turnover.

“A variety of materials, equipment seem to be more difficult to obtain or lengthy delays where none previously existed.” – Government, 50-99 employees, \$10m - \$50m turnover.

“Not having a manufacturing base in Australia means we are at the mercy of international markets, and being such a small market, Australia is not on overseas suppliers priority list.” - Engineering, trade and technical services, 1-19 employees.



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