

Business NOW



The Business SA Survey
of Business Expectations

September
QTR 2021



Business SA
Chamber of Commerce
and Industry South Australia

Powered by

 **William Buck**

The Economy

BUSINESS CONFIDENCE

Confidence remains steady after a dip in the June quarter

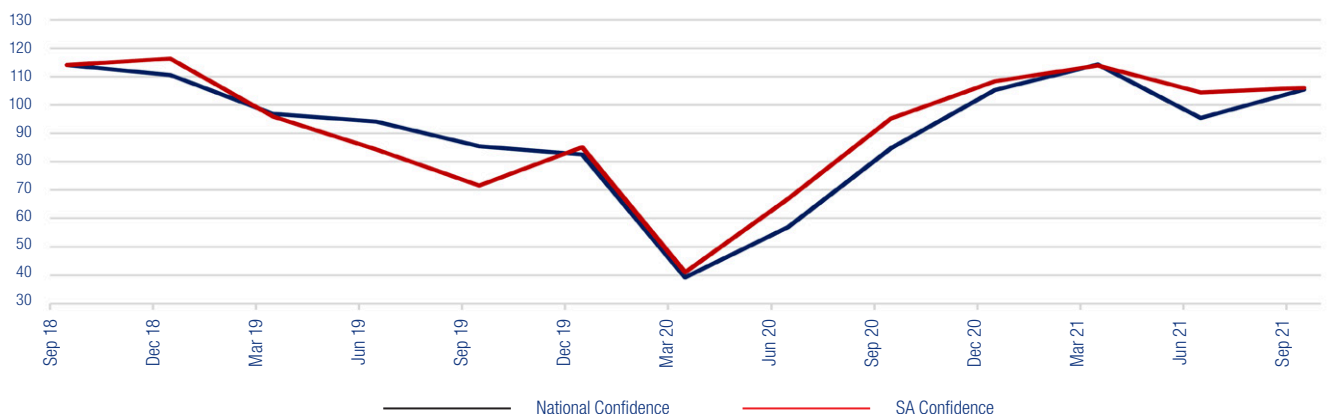
106.1

South Australian Confidence Index

The South Australian confidence index increased slightly in the September quarter, up 1.6 points, but otherwise remains relatively steady. Although the index is a measure of business confidence in the South Australian economy over the next 12 months, it is the next 3 that will determine how South Australia reopens. With South Australia's vaccine rollout behind the eastern states and (at the time of surveying) no plan to reopen, there was little for business to see to provide certainty and boost their confidence.

On the other hand, the National Confidence Index – we also ask businesses to tell us how confident they are about the national economy – experienced a significant rise of 10.1 points to reach 105.5 points, or parity with the South Australian Index. This comes as no surprise as we saw key NSW vaccine milestones being hit, resulting in the first step of a concrete plan to reopen their economy, including to the world.

South Australian and National Business Confidence Indexes



1.6

points up from last quarter, June 2021



10.8

points up from September 2020



27.9

points up compared to September 2011



BUSINESS CONDITIONS

Lockdowns, restrictions and continuing shortages in labour and material see conditions continue to decline

92.7

General Business Conditions Index

106.8

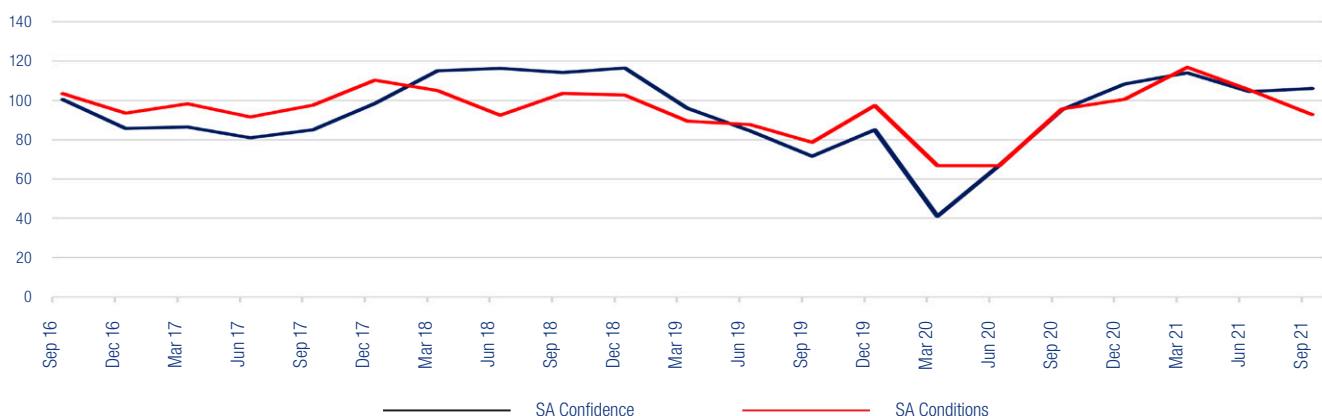
points expected for next quarter, December 2021

Following a decline of 11.5 points in the June quarter, deteriorating general business conditions again saw the index fall another 12.6 points to 92.7 points. While a decline of 4.3 points was expected for the September quarter it came as no surprise that we observed a greater decline in conditions, considering how we ended the June quarter and the slow rebound from the July lockdown.

Although post-lockdown restrictions were a factor in the fall of conditions for a second quarter, it was the longer-term issues plaguing businesses: border closures, supply chain disruptions, and skills shortages. Businesses have continually reported these issues over the last 18 months and for some it is becoming a genuine issue for their ongoing viability.

South Australian confidence and conditions throughout the pandemic have always shared a similar trend. The divergence of the index only highlights how tough it has been to conduct business over the last 6 months.

SA Business Environment



12.6

points down from last quarter, June 2021



2.9

points down from September 2020



12.7

points up compared to September 2011



GROWING COSTS AND LOWER PROFITABILITY

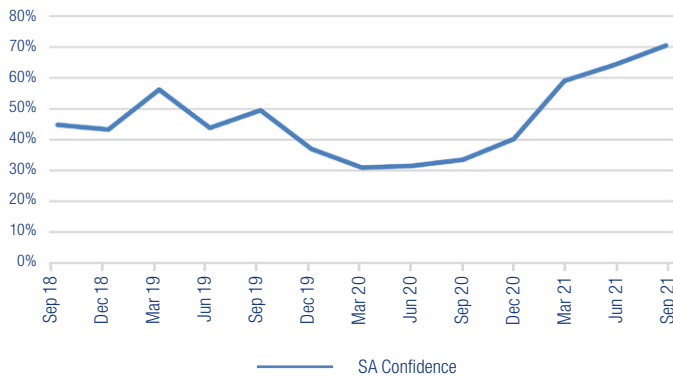
70.5%

of businesses found the cost of materials increase in the September quarter

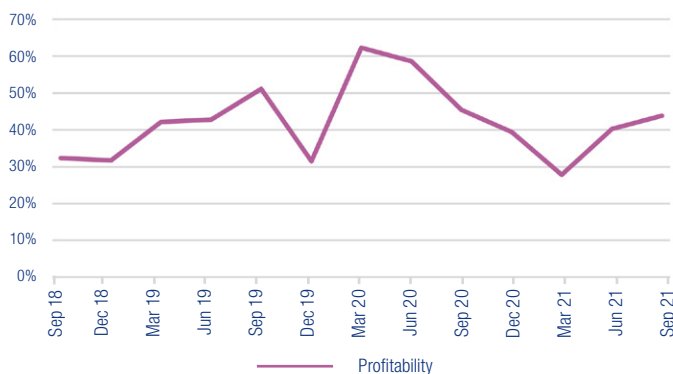
43.8%

of businesses found their profitability decrease in the September quarter

Percentage of businesses indicating increasing costs of materials



Percentage of businesses indicating decreasing profitability



Continuing challenges in global supply chains and increased demand domestically sees the number of businesses experiencing increased costs of materials climb to 70.5 per cent. Up 6.2 percentage points from the June quarter and up 37 percentage points from 12 months ago.

Businesses have highlighted the high costs of freight and the increasing delay in imports both internationally and domestically which are reflected in the cost of materials. At the same time businesses have told us that the continued boom in demand in the construction and retail sectors has caused shortages leading to price increases. Further exacerbating this shortage are businesses stockpiling on material to compensate for freight delays and shortages.

Unfortunately for business these increases to the cost of materials sees their profitability decrease, which is reflected in the survey results. While the number of businesses indicating decreasing profitability falls short of pre-COVID rates, it is a worrying trend considering the costs of doing business are unlikely to come down anytime soon.

LABOUR ISSUES

62.2%

of businesses found it harder to source labour in the September quarter than the June quarter

Labour continues to be the greatest challenge facing businesses, with 62.2 per cent of businesses indicating it was harder to source labour in the September quarter. This is up 3.2 percentage points from the June quarter and up 41.2 percentage points compared to the September quarter 2019. To give some historical context about how difficult it is to source labour, in the previous 4 years prior to COVID-19, the yearly average hovered between 14 and 19 per cent.

While South Australia recorded the highest unemployment in the country, 5.1 per cent in September, there is also a record number of people employed in South Australia. There continues to be a lack of skills required by business in the local market.

There are also several other challenges facing businesses that have exacerbated the issue. These include businesses being unable to access interstate and international labour markets confidently, and difficulty getting new employees into South Australia. Abnormally high demand in some sectors has stretched businesses to the brink, in particular the construction sector, where an infrastructure and housing boom has

70.6%

highlight a lack of suitably skilled workers available

increased demand significantly. Competition between larger and smaller employers is also an issue with many smaller employers priced out of the market.

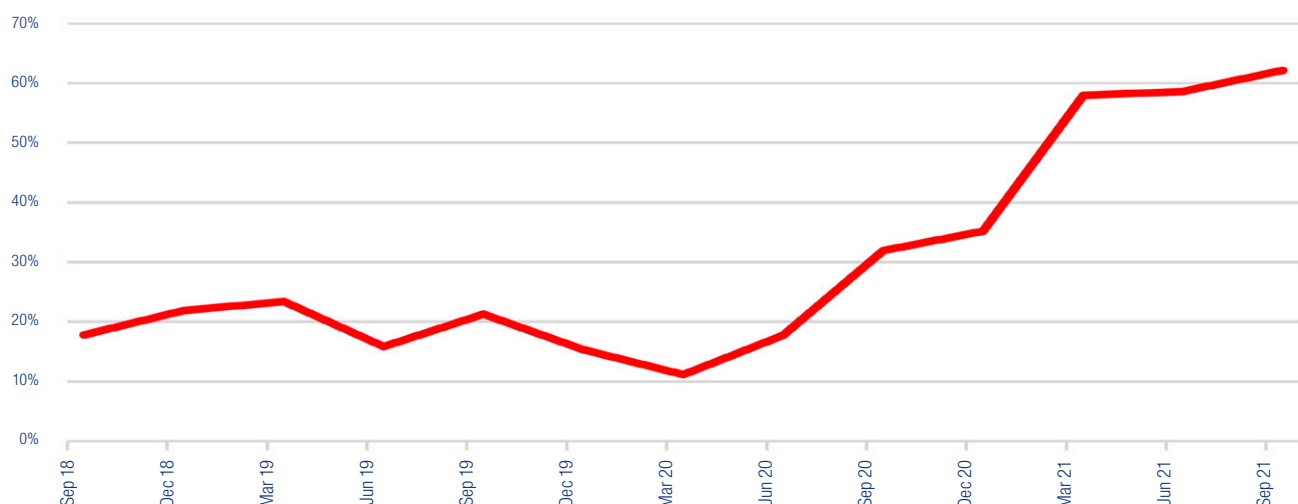
Businesses also continue to report a lack of labour mobility with job stickiness still being seen long after the end of JobKeeper in March.

"The SA construction sector is completely overloaded with work - poor planning and procurement strategy on the part of State and Local Gov. This is compounded by the risks of recruiting from interstate given the present COVID situations on the eastern seaboard" - **Construction, 20-49 employees, \$5m - \$10m turnover**

"People are hesitant to change jobs due to the unknown outcomes Covid may cause. If they are working for a stable business, it seems they want the security and are less likely to make a change to an unknown business." - **Electricity, Gas, Water & Waste provider, 50-99 employees, \$10m - \$50m turnover**

"Lack of mobility in the workforce, apathy towards working" - **Manufacturer, 50-99 employees, \$10m - \$50m**

Percentage of businesses finding it difficult to source labour over the last 3 years



Case Study

MICHAEL CLAYTON CHIEF EXECUTIVE OFFICER DERBY RUBBER

Best quarter ever for this rubber manufacturer

“Looking at the Survey of Business Expectation September Quarter results, as a manufacturer and a small business, we fall comfortably into these findings” said Michael Clayton, Chief Executive Officer of Derby Rubber, an Australian-owned company that design and manufacture innovative products for demanding applications and extreme condition environments.

“We’re actually in a stronger position than many of the respondents. It certainly hasn’t been easy, there’s been a number of challenges that we’ve had to navigate and we’ve come out in a good, if not better position.”

Despite general business conditions trending down from June 2020, Derby Rubber are seeing their pipeline for work increasing and lengthening out again which provides more certainty for material and labour forecasting.

“We export over a third of our product; and with our markets in the USA and Europe almost back to normal, and many delayed infrastructure projects scheduled again, this naturally flows to us and we’re seeing demand increase for our rail and traffic products.

“We’ve celebrated some real successes over the last 18-months, particularly through our recent ISO

14001 environmental certification. Sustainability is a real focus for our business, we look to increase the lifespan of our products – if they last longer and they’re not disposed of prematurely, we can decrease our energy and material consumption.

“To support this, we’re looking at ways to recover used products too. The whole circular economy and net zero is a real focus for the business, and it’s driving the sustainability of our operations and our products, even extending to our people; we’re focused on creating sustainable jobs.

Two years ago we relocated to South Australia and centralised the business. We were committed to recruiting people that had strong manufacturing backgrounds and the history of automotive in SA was a bonus, the talent we have now is exceptional.

“South Australia has been remarkable, and the move has paid off because we’ve been somewhat insulated from many of the broader challenges that our New South Wales and Victorian counterparts have had to navigate.

“We’ve had to work closely and negotiate with multiple local suppliers and with our overseas distributors, collaborating on ways to ensure that we meet market demands.

“Another challenge has been the disruption to Australian shipping lines, there are container

shortages, lack of accessibility due to congestion here and at other major ports and this has all impacted the business and delayed exporting our finished products.

“So we can meet the challenge of getting the raw materials, we have enough labour and can produce and meet tight deadlines, but then our products sit idle for weeks waiting for a container or a ship.

“So, it’s a complex challenge, and one we haven’t had to solve before. Unfortunately, I don’t think it will be resolved anytime soon. What we are doing to insure

against this is manufacturing and holding enough stock so we can account for delays and can meet demand.

“We’re excited about 2022, with international borders expected to open, we’ve committed to exhibit at major international trade shows in Europe and America. This is incredibly important for us, it’s a competitive world, we need to defend and grow our global footprint and these connections will be critical.”



Continuing impact of COVID-19

REVENUE

47.0%

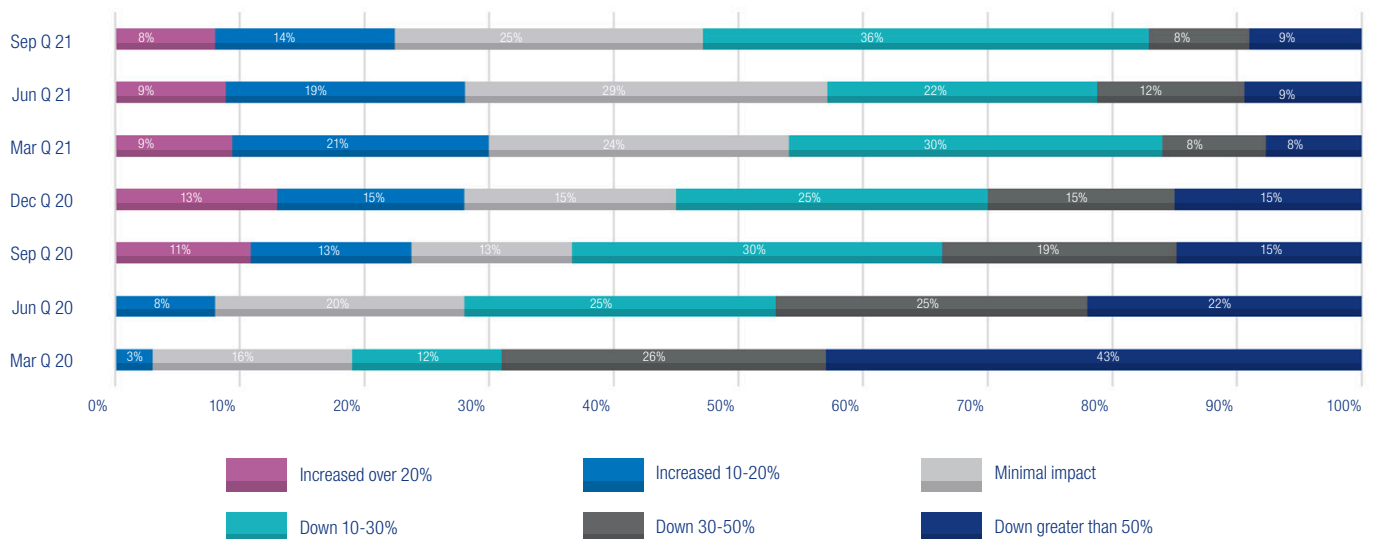
of businesses said revenue was normal or above pre-COVID levels

9.0%

of businesses down greater than 50% in the September quarter compared to the same time in 2019

The September quarter saw the number of businesses experiencing a negative impact on their revenue increase from the previous quarter, the first time in five quarters. While the lockdown and the following restrictions had an impact, the lockdowns that occurred in Victoria and NSW were also felt in South Australia, with the usual demand of goods and services declining significantly.

Impact of COVID-19 restrictions on revenue (compared to pre-COVID revenue)



SALES OUTLOOK

81.8%

of businesses in the Events and Cultural & Recreational sectors forecast trade to be below 70% by the end of the December quarter

Businesses in the hospitality, entertainment and tourism sectors continue to have a dismal sales outlook for the December quarter. With restrictions unlikely to be removed by the end of the December quarter, businesses operating in these sectors have dealt with restrictions on and off for almost 21 months.

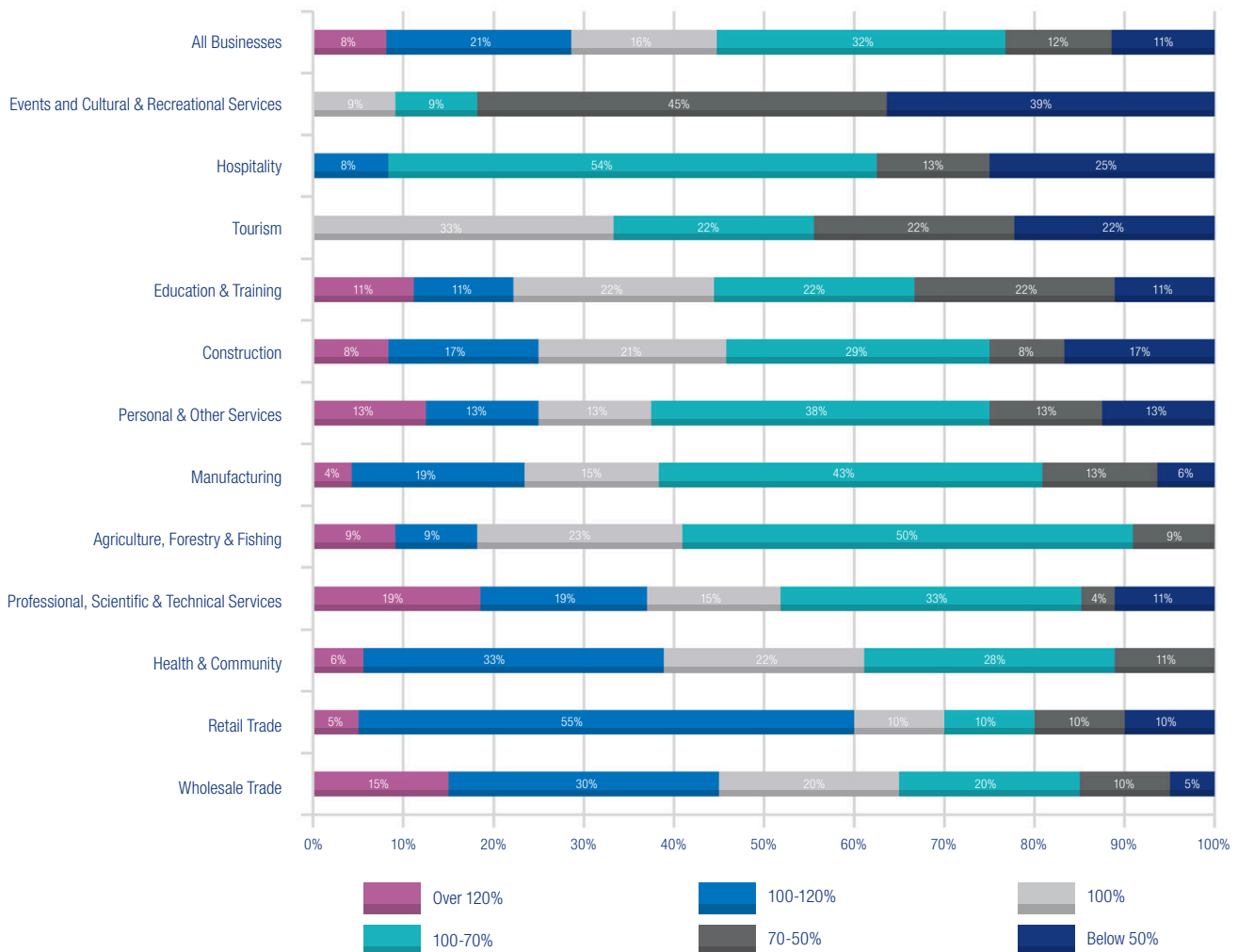
At the time of surveying, South Australia's roadmap to reopening had not been announced, so the sales outlook for these businesses was not influenced by that added certainty. However, for businesses that have experienced restrictions from the start, such as density limits, restrictions on dancing and stand up consumption of food and drink, we expect little change to their outlook;

especially as South Australia's plan indicates these restrictions are unlikely to be lifted until we reach a 90 per cent vaccination target.

"Regional events both private and commercial have been heavily impacted by Covid-19. We were a key contractor to Adelaide 500, Teakle Auto Sprint, Tunarama, Oysterfest - and are a key contractor to Birdsville Races. These have all been postponed in 2020 and 2021 (Adelaide 500 cancelled all together) current loss of revenue for events since March 2020 is sitting at \$525k" – Events, 1-19 employees, < \$500k turnover

"Lack of planning or clear information about relaxation of travel restrictions is terrible for business planning."- Information Media & Telecommunications, 1-19 employees, \$2m - \$5m turnover

With respect to your pre-COVID revenue, what percentage of trade do you forecast your business to be at by the end of the December Quarter 2021?



IMPACT OF BORDER CLOSURES

64.4%

of businesses are impacted by domestic border closures

Border closures and restrictions continue to have an impact on businesses of all sectors. These impacts range from a loss of revenue and business development to managing the day to day of business such as hiring and procurement. Border restrictions are industry agnostic and can have an impact on any facet of a business.

40.9%

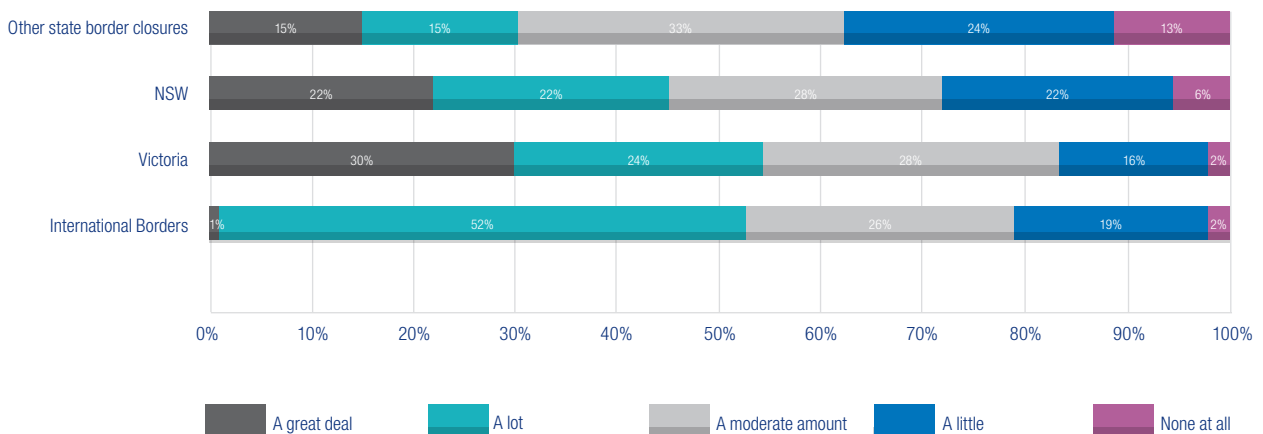
of businesses are impacted by international border closures

Not surprisingly, the Victorian border was found to have the biggest impact on business, with 54 per cent of businesses impacted finding it significantly challenging. For businesses operating in the highly integrated cross border economies, border closures can have a major impact on their operations.

"Border restrictions prevent us from providing contracted services reducing revenue, increasing expenses and taking a toll on the mental health of staff" – **Miner, 20-49 employees, \$5m-\$10m turnover**

"Covid restrictions are targeted at the events and live music industries. The SA Govt has done little or nothing to assist these industries specifically." – **Events sector, 1-19 employees, \$2m-\$5m turnover**

On a scale of 1 to 5, how much of an impact have border closures had on your business?



49.0%

of businesses are finding it difficult to obtain stock, materials and/or inputs to meet their business needs

Business SA has continuously monitored the state of supply chains throughout the pandemic. For most businesses, the impact of border closures on supply chains has been significant.

Other impacts include not getting to business events and the administrative burden of completing cross border requirements.

*“Managing and monitoring ongoing changes to restrictions eating up staff time and energy required for ongoing business tasks” – **Manufacturer, 1-19 employees, \$500k-\$1m turnover***

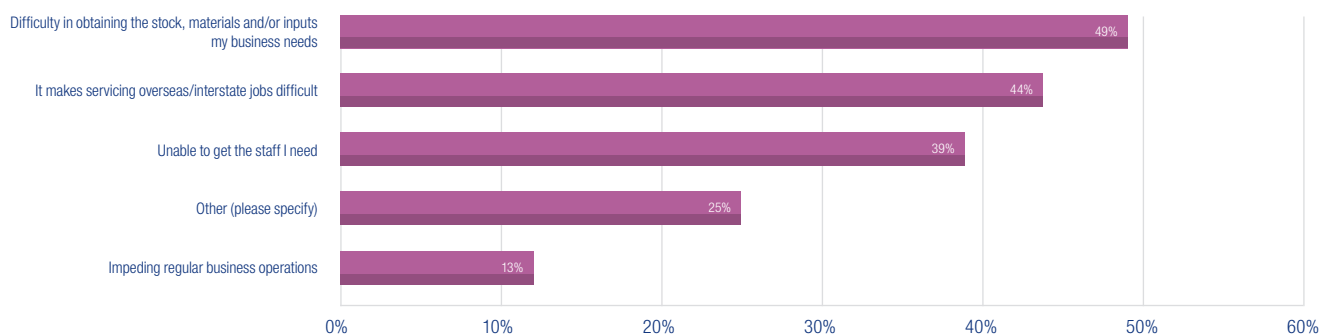
*“Logistics is a huge issue, getting imports and moving items nationally is greatly impacted” – **Manufacturer, 1-19 employees, \$2m-\$5m turnover***

*“The short supply of materials is impacting customer confidence and sales” - **Wholesale Trader, 1-19 employees, \$5m- \$10m turnover***

*“Impacting interstate travel to Victoria and NSW which is impacting my business development activities that require field visits” - **Education & Training provider, 1-19 employees, < \$500k turnover***

*“Inept handling of border communities and lack of understanding that many border businesses operate interstate by public servants and out of touch government” - **Agriculture, Forestry & Fishing producer, 1-19 employees, \$1m-\$2m turnover***

How have border closures impacted your business?



A Word from William Buck

JAMIE MCKEOUGH
MANAGING DIRECTOR,
CHAIR OF WILLIAM BUCK, AUS/NZ

Businesses are vocal but not necessarily in agreement

While reviewing the Business SA William Buck Survey of Expectations, Jamie McKeough reflects on the significant increase in commentary from the South Australian business community for the September quarter.

“We would usually see a far lower volume of comments. However, there were significantly more comments from across the range of questions, particularly around COVID-19. This increase tells me that business owners have a lot to say, and they’re not all in agreement either.

“When considering these comments against the changes announced in COVID-19 recovery roadmap that the State Government released last week, businesses want more certainty in the future.

“Whilst borders opening up on 23rd November will be welcomed by the 66% who said the border closure was impacting their business, there is still uncertainty for business. It doesn’t make sense to leave the decisions around staff and customer vaccinations to each business to navigate. 54% of businesses support mandatory vaccinations for their industry, while 33% do not. As for employers making vaccinations compulsory, there was a 4-way split between ‘yes’, ‘no’, ‘unsure’, and ‘waiting for the government to mandate’. Clarity, or at least guidelines from the government, would be beneficial.”

“These are emotive decisions which only cause more significant pressure on business owners.

“And in the September quarter, the mental health of their workforce was in the top few issues keeping business owners awake at night. We shouldn’t be making this worse by increasing the pressure on them.

“From the survey, we know that labour shortage is the top issue keeping business owners awake at night for the September quarter, followed by profitability, sales, and mental wellbeing in the workplace. When we ran this question a year ago, it was sales, labour shortages and competition.

“Now it is the cost of materials, the availability of materials and the cost of logistics that is adding to business costs. When I read the comments from the business community in the September survey, there was definitely a shift in concerns.

“It was great to see increasing business confidence in the September quarter. However, I balance this out with continued concerns about labour shortages and a continued slide of business conditions. These two elements are likely connected, though, and our clients here at William Buck have indeed confirmed that it remains challenging to get the right skilled workers.

“An emerging pressure that we can see coming through the SOBE across multiple quarters is this difficulty to get the right

people. As a result, if your existing labour force has to do more, business owners are only going to continue worrying about the mental health of their workplace.

“Whilst we haven’t had extended lockdowns like our eastern state colleagues, we have still felt the pressure of this prolonged period of uncertainty and increased work demands during covid. “We have many opportunities here in South Australia post-covid, including the immediate opportunity we have while NSW and Victoria are coming out of the extended lockdowns. It will take these states some time to gain momentum, giving nimble South Australian businesses a competitive advantage.

“We need to play to our strength of being a fantastic place to live and work. The lifestyle here in South Australia is a massive appeal to returning ex-pats, international students and migrants.

“Our local tourism sector should maintain the push for domestic tourism even once the borders open up as many South Australians are now discovering more gems around their own state.

“Despite the challenges, there have been agile businesses that have turned this global pandemic into business opportunity. It is these lessons that we need to share and turn into permanent improvements to our businesses”.



Living with COVID-19

REOPENING AT 80% VACCINATION

83.2%

of businesses want to see restrictions removed once we hit 80% double vaccination

76.6%

want to see vaccinated people able to travel internationally once we reach 80% double vaccination

85.9%

would like to see international students and workers return if they are double vaccinated

Prior to last week's release of the roadmap to reopening, Business SA asked the business community their views. These results were provided to the government before the release of the roadmap.

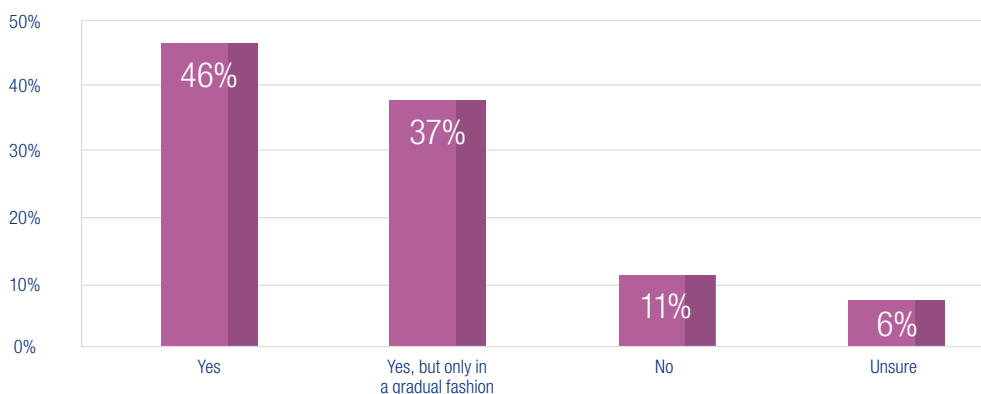
For the most part, businesses wanted to see the removal of restrictions when we hit 80 per cent vaccination and certainty about how the government will deal with transmission of COVID-19 in the community. There were also concern about whether the health system can handle a surge of COVID-19 cases.

"No one yet truly knows what having Covid circulating freely will look like, and the subsequent impacts on the health system and business productivity more generally"

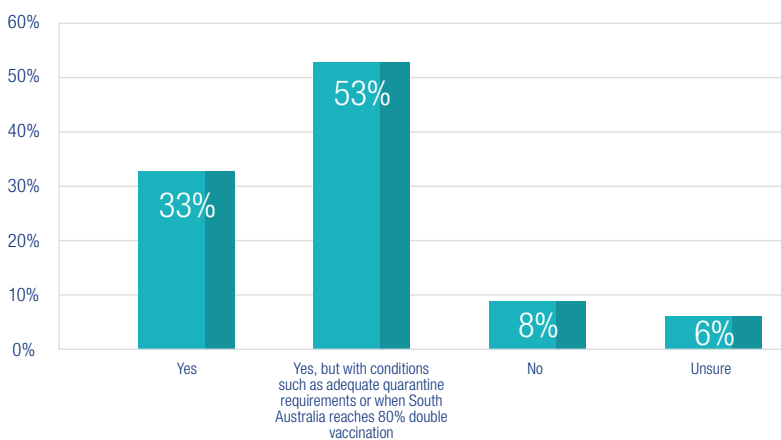
– **Construction, 20-49 employees, \$5m-\$10m**

"We need state and federal WHS plans that outlines the management of COVID in the workplace, we cannot shut down for 14 days every case." – **Manufacturer, 150-199 employees, \$10m- \$50m turnover**

Do you believe restrictions should be removed once an expert determined proportion of the adult population is vaccinated?



Do you believe international students and workers should now be allowed into Australia if they can prove that have been double vaccinated?



Again, businesses for the most part would like to see international borders open for workers and students. This comes as no surprise considering the impact of COVID-19 highlighted in this and previous reports.

The continuing closure of international borders has seen the higher education sector decimated. The impact of no international students arriving also has far reaching impacts on other parts of the economy. International students are an important part of the city economy as both consumers and meeting the labour needs of businesses.

“Students were great for part time employees” - Hospitality, 1-19 employees, 1m-2m turnover

“The University sector is bleeding and their support has been woefully inadequate. We need those students back, vaccinated, quarantined and then back into the community.” - Education, training & business consultancy, 1-19 employees, - <\$500k turnover

Businesses have repeatedly told us of the challenges in getting specialised high skilled workers into Australia, that our labour market just does not have. Indeed 21.6 per cent of the businesses that found it harder to source labour identified a lack of access to the international labour market as their main issue.

Additionally, businesses have also missed the backpacker labour which has seen considerable media attention already.

“Back packers are also a huge part of the workforce for the wine industry. Especially at harvest time for picking.” – Winery, 1-19 employees, \$500k-\$1m turnover

Once South Australia has reached the National Plan’s 80% vaccination rate for people 16+, do you believe vaccinated people should be able to travel in and out of the country with COVID testing but limited (possibly home based, or shortened) quarantine?

Yes	77%
No	9%
Unsure	15%

Do you agree that the State Government should remove the Declaration of a Major Emergency under the Emergency Management Act 2004, and abolish its emergency COVID-19 Transition Committee once South Australia reaches 80% double vaccination, which is expected in December 2021?

Yes	50%
No	30%
Unsure	20%

VACCINE MANDATES

54.0%

of businesses want to see a vaccine mandate in some form or another

Vaccine mandates saw more support as business grew in turnover

believe all staff in any industry that has clients, teams of people together etc MUST be vaccinated. Let's not fall for the 'religious' reasons it's a show." - **Agriculture, Forestry & Fishing producer, 1-19 employees**

Businesses were also particularly worried about the WHS implications if their employees were not vaccinated and if they caught COVID-19 at the workplace.

"My main concern is a staff member catching COVID at work and the workers compensation liability that might flow. We don't think we would be able to mandate vaccines for people in our industry, but the government could." – **Brewery, 20-49 employees, \$1m- \$2m turnover**

"My workers can spread covid and be impacted at the same rate that anyone else. I have a mandated responsibility to ensure a safe working environment - get this shit sorted and stop making business make the hard decisions for govt. if a covid infection hits my business the impacts are greater than a larger company who can afford to have everyone isolate for 14 days and pay for deep cleaning of premises." - **Information Media & Telecommunications provider, 1-19 employees, \$1m- \$2m turnover**

Businesses were also concerned about the restrictions if another lockdown occurred as well as the safety of the community at large.

"Unsure about the validity of mandating. And particularly for the Ag industry. That said, I would make it mandatory for my staff to be vaccinated if there was an element of risk to our being able to operate freely" - **Agriculture, Forestry & Fishing producer, 20-49 employees, \$2m- \$5m turnover**

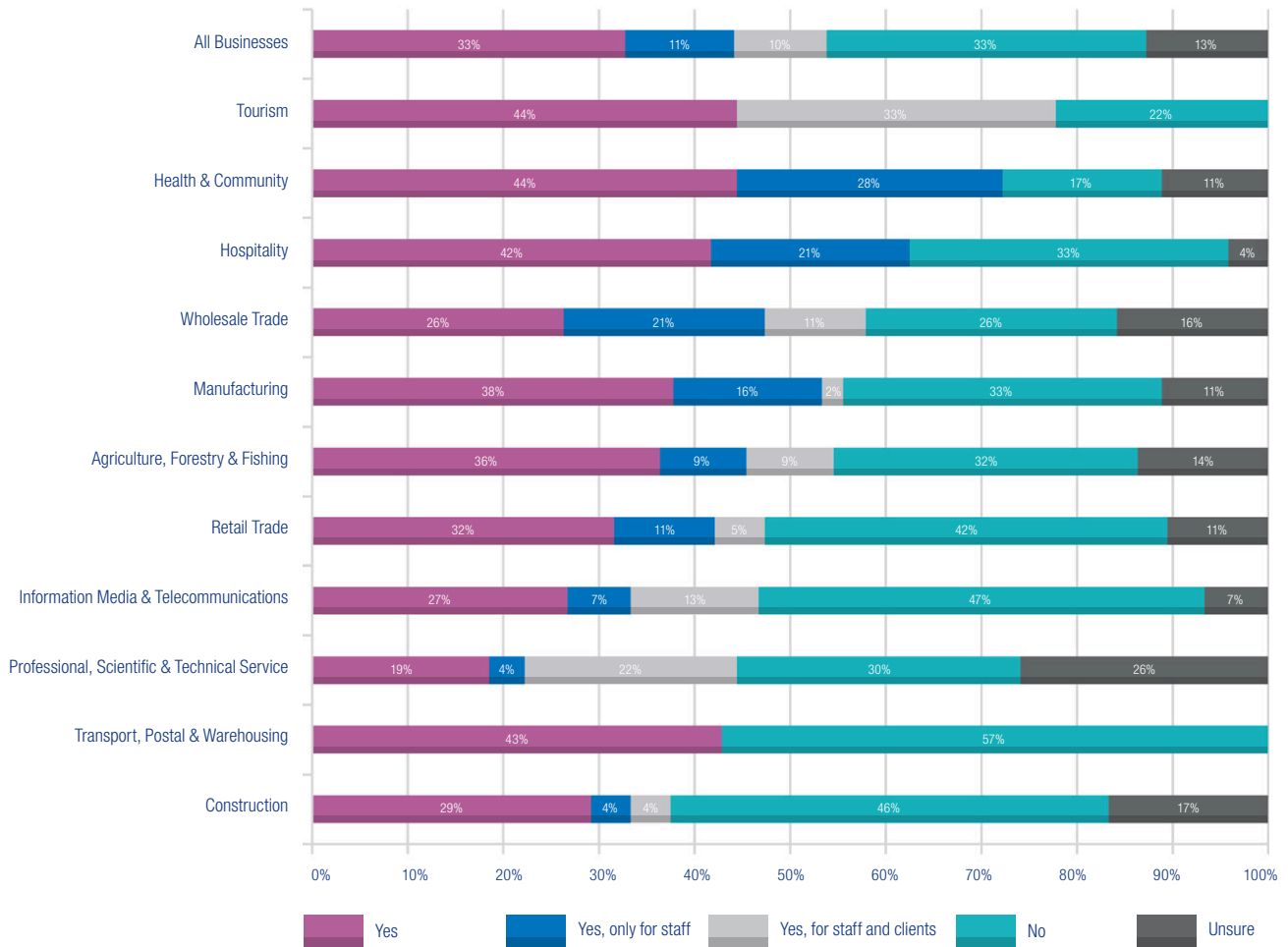
Businesses were also more likely to require vaccines for their staff rather than clients, with 29 per cent of businesses indicating they would require staff to be vaccinated compared to 11 per cent indicating they would require clients to be vaccinated to enter their business.

Unsurprisingly, businesses that were the most impacted by restrictions and had the most contact with the public had the highest rates of "Yes" to a vaccine mandate for their industry. Businesses that had little contact with the public, and were able to operate in a lockdown, were the least likely to support a vaccine mandate for their industry. Businesses that were not accessible to the public, but for the most part not able to work from home, were slightly above the average for vaccine mandates for their industry.

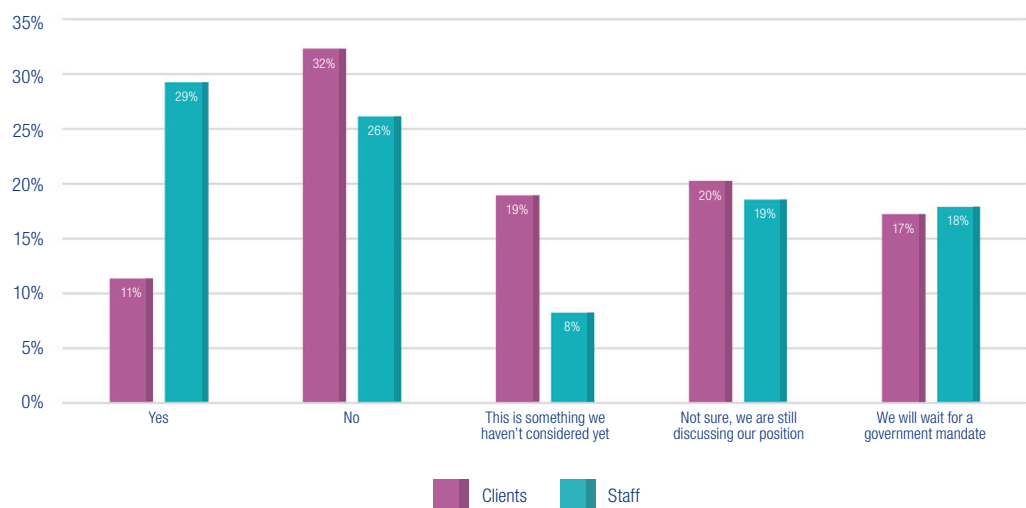
Vaccine mandates are difficult issue for businesses with questions around government leadership, legality and work, health and safety implications. A considerable number of businesses felt that the government was leaving the onus of mandated vaccinations on the employer, rather than taking the leadership.

"It's extremely stressful for business owners who are likely to be slapped with all kinds of legal implications should the government not be willing to mandate a forward direction relating to mandatory vaccinations. I

Should the government mandate vaccines in your industry? (by selected industry)



Will your business require clients/staff to be vaccinated, after a reasonable date, if they wish to enter your business?



VACCINE MANDATES

70.1%

of businesses that support vaccine mandates were motivated to limit the impact of COVID-19 on their workforce

65.0%

of businesses that support vaccine mandate were motivated to keep South Australia safe

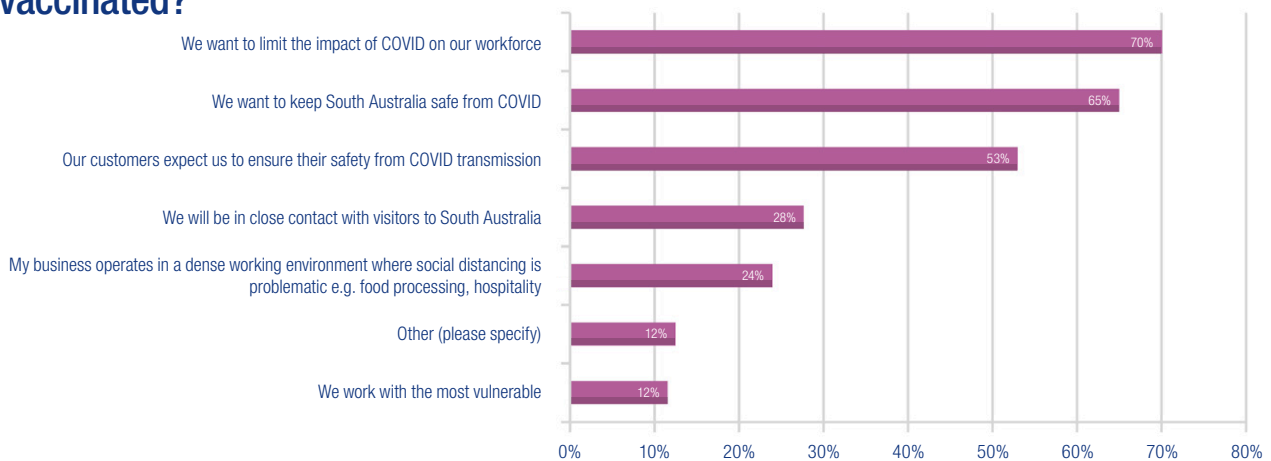
Businesses have varying reasons why they would consider vaccine mandates. For the most part keeping their staff and South Australia safe were their top priorities.

"No-one is safe until we're all safe - in our community, our country and across the globe. New and deadlier variants will arise in unvaccinated and poorer nations, which threaten us all. We have a moral obligation to ensure the safety of every human on the planet (yes, even the nasty ones!)." - **Agriculture, Forestry & Fishing producer, 1-19 employees, < \$500k turnover**

And to a lesser extent businesses wanted a return to normal and to keep the doors open.

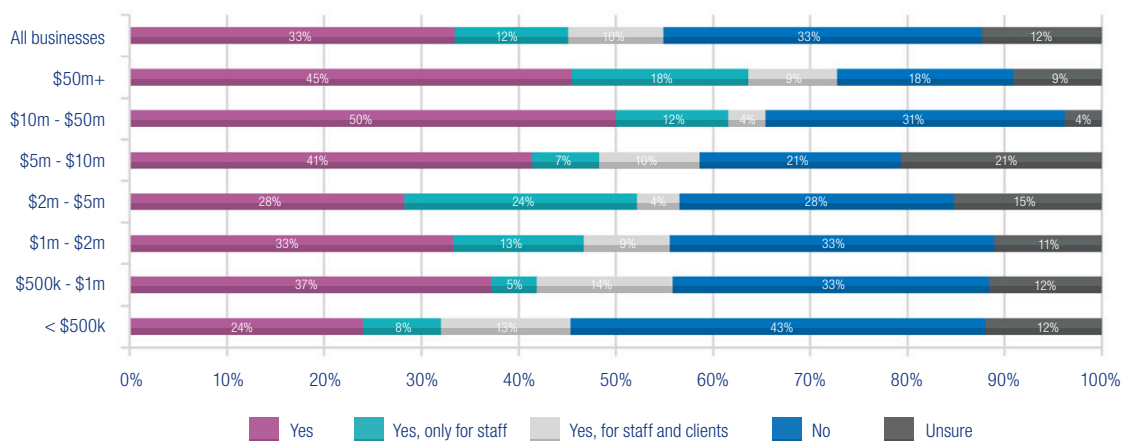
"Allow us to travel overseas to compete" - **Cultural & Recreational Services, 1-19 employees, \$500k - \$1m turnover**

Why will/would your business look to require clients and/or staff to be double vaccinated?



When we compared support for mandating vaccines by business size, support trended upwards as businesses grew. This comes as no surprise, as generally speaking larger business can turn their minds to industrial relations and WHS issues well ahead of time and can consider matters such as 'what happens if my employee dies from COVID' in their overarching policies.

Should the government mandate vaccines in your industry? (by turnover size)



VACCINE PASSPORTS

52.1%

of businesses supported a vaccine passport system to limit the interaction of those vaccinated and unvaccinated

Vaccine passports have broad support from businesses, with 52 per cent for and 27 per cent against. However, businesses with the highest rates in support were the least likely to have their business open to the public. In comparison businesses in the Hospitality and Events & Cultural & Recreational Services saw the lowest rates of support, 39 and 25 per cent respectively. Businesses expressed that will find it difficult to police vaccine passports.

“Will be very hard to police the process, especially in the medium term.” – Manufacturer, 1-19 employees, \$10m- \$50m turnover

“I cannot see it being managed. Too much effort needed to manage the non-vaccination antagonists” – Manufacturer, 1-19 employees, \$10m- \$50m turnover

Businesses told us they would support a vaccine passport for a variety of reasons such as making sure unvaccinated people do not catch the virus and become a burden for the health system. Others saw the vaccination passport as a motivation for unvaccinated people to get vaccinated. While some highlighted the past use of vaccine passports for travelling overseas.

“Unvaccinated people also include those who cannot be vaccinated, so this would be discriminatory, however the refusers are a different matter. I'm concerned that refusers will take up valuable health resources that vaccinated people may need for accidents, medical episodes, surgery and other health care. Maybe they should be bumped out of line when the pressure is on the system? But that raises other moral issues.” – Agriculture, Forestry & Fishing, 1-19 employees, <\$500k turnover

“We already have vaccinations in passports although they don't tend to be used.” - Information Media & Telecommunications provider, Sole Trader, < \$500k turnover

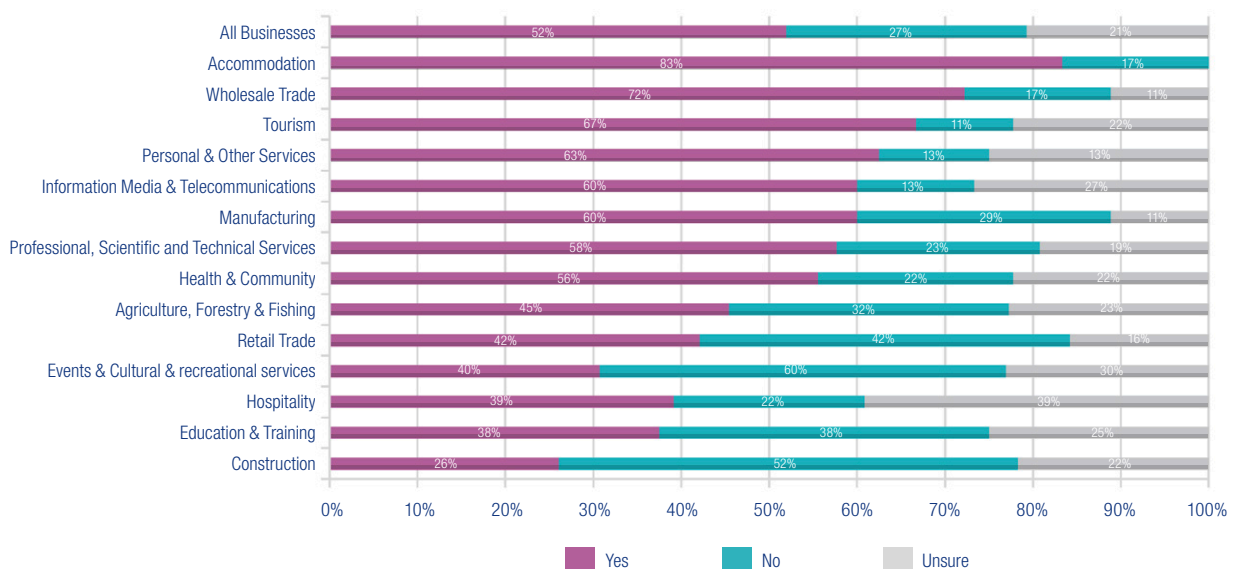
“Absolutely. This might spur some people to get the vaccination because they'll be missing out!” – Irrigation and turf management, 1-19 employees, \$2m- \$5m turnover

Some people did not support the use of vaccine passports as they don't stop the virus from spreading and violate freedoms.

“The virus can still be transmitted by vaccinated people and they show less signs of infection and are therefore more likely to go out and spread the virus thinking they are not infectious” – Fuel & Oil Distributor, 1-19 employees, \$2m-\$5m turnover

“Definitely not! This is discrimination!” – Manufacturer, 20-49 employees, \$2m- \$5m turnover

Do you think there should be a vaccine passport system to limit the interactions of vaccinated and non-vaccinated people?





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