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The Business SA  
Survey of Business  
Expectations

JUNE  
QTR 2022

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Business  
now



# The Economy

## ECONOMIC CONFIDENCE

Confidence takes a hit in the post-election bump.

In the June quarter the South Australian Business Confidence Index took a hit following the post-election bump of the previous quarter, falling from 98.8 to 74.9 points (-23.9 points). Cash rate rises and high inflation expectations have put businesses on edge, amidst volatility in the global economy.

**74.9 pts**

South Australian Confidence Index


**70.0 pts**

National Confidence Index

Globally, six months of Russia's war against Ukraine has increased uncertainty for businesses as they started returning to a pre-COVID normal. Most significant impacts include an energy crisis, escalating prices, increasing inflation and disrupted supply chains. With prices already high due to existing supply shocks and freight challenges, escalating costs of doing business and negative economic expectations put a significant dampener on business confidence.

South Australian and National Business Confidence Indexes



**23.9**   
points down from last  
quarter, March 2022

**29.6**   
points down compared  
to June quarter 2021

**27.8**   
points down compared  
to June quarter 2012

## ECONOMIC EXPECTATIONS

It is clear that the Reserve Bank of Australia (RBA) intends to continue raising interest rates from historical lows against the background of low unemployment and rising inflation. Businesses will have to navigate a complex economic environment affected by both global and domestic factors.

Business expectations of inflation have always been indicative of general inflation movements. For instance, businesses have been reporting increasing costs of materials and overheads since September 2020.

### Business expectation of key economic indicators for the September quarter 2022.

Economic Indicator	Decrease	Same	Increase
Interest rates	1%	3%	96%
Inflation rate (CPI)	1%	15%	85%
Unemployment rate	11%	56%	33%
Value of \$A (against \$US)	42%	46%	12%

Some businesses have done well as a result of exchange rates in the June quarter; yet there are indications of a global economic downturn.

*“As we work for some clients in the USA, the changes in exchange rate have been favourable to us in that the money they pay us is worth more now in AUD. This has helped but we are still experiencing decreased revenues overall despite this.”*

– Media and Communications, 1-19 employee(s)

*“Expecting higher interest rates and inflation to strangle disposable income which may affect discretionary restaurant spending.”*

– Hospitality, 50-99 employees

## ECONOMIC CONCERNS

Inflation and supply chain disruption top the list of macroeconomic concerns for businesses, with continuing global challenges further exacerbating the situation. Businesses relying on international supply chains continue to experience impacts initially caused by COVID-19. Disruptions have led to shortages of numerous products sourced overseas; with some businesses stockpiling to ensure adequate stock levels. A particular challenge is a lack of containers; a problem dating back to 2020.

*“Geopolitical issues re China have had a substantial impact on our business fuel and freight cost. Likewise, the current issues in Europe and their impact on energy costs have impacted us substantially.”*

– Manufacturer, 1-19 employee(s)

*“Supply chain issues are forcing us to carry more stock to try and eliminate ‘out of stock’ and this uses our working capital.”*

– Wholesale distributor, 1-19 employee(s)

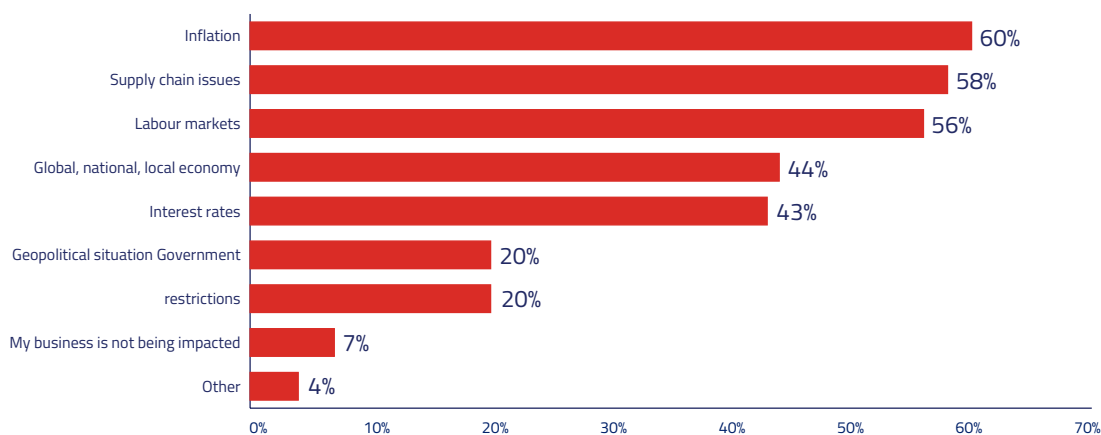
Businesses exporting to China continue to suffer from the trade dispute.

*“Geopolitical disruption from China tariff on wine industry has been the single biggest shock in the industry’s history.”*

– Wine industry, 50-99 employees

The third main concern was the current state of the labour market, characterised by a lack of skills and applicants. The current labour market is considerably tight, with little spare capacity, due to record high levels of employment and few migrants to fill vacancies.

### Which macroeconomic issues are affecting your business?



## INTEREST RATES

# 73%

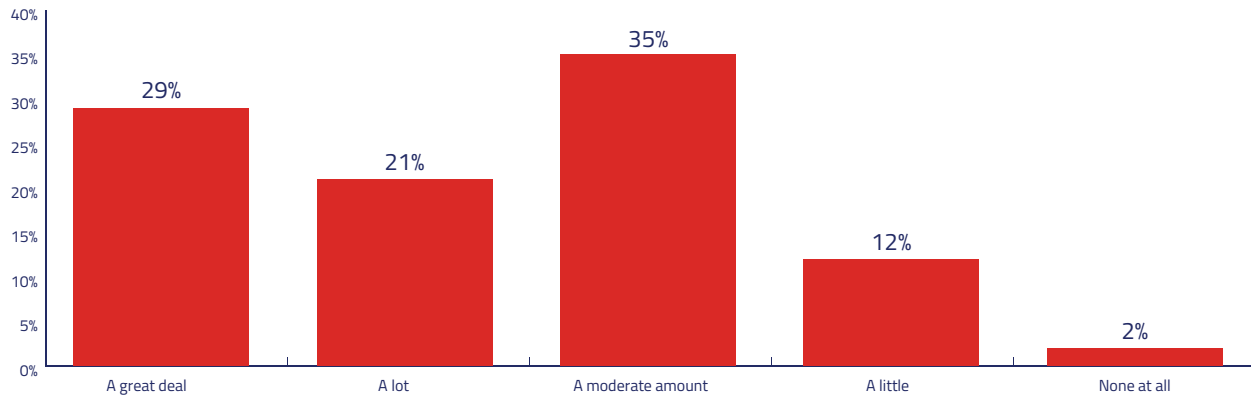
**of businesses said they would be impacted by interest rate increases.**



Following three consecutive RBA rate rises, businesses are becoming concerned of impacts on their operations. Of those businesses impacted, 50 per cent said they are concerned “A great deal” or “A lot”.

With the cash rate sitting at 1.35 per cent (at the time of writing) after three significant increases, the question on everyone’s mind is “When will we see the impact on demand?”. The RBA’s Governor Philip Lowe has previously said this would occur above 2.5 per cent, while others forecast this beginning between 1.5 to 2 per cent (Increasing the cash rate is the monetary policy lever employed by the RBA to reduce economic activity). However, in the coming months, the concern is likely to shift to how increased interest rates affect the demand-side.

### How concerned are you with increasing interest rates over the next 12 months?



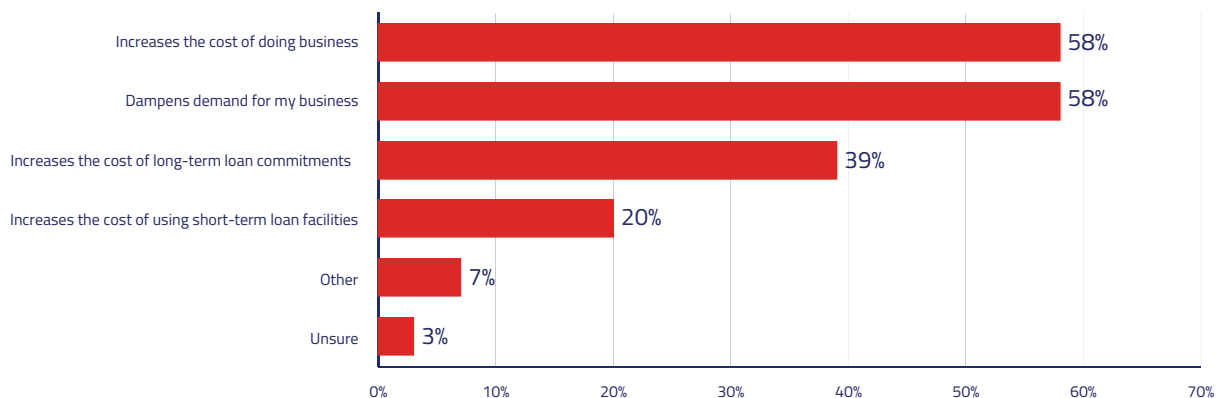
There is also a concern that the rate will move rapidly and over-correct, thus causing an unintended economic contraction.

***"Let's hope the RBA waits for increases to take effect, instead of over-reacting."***

– Healthcare provider, 20-49 employees

Dampening demand is a real concern, because businesses must balance dealing with cost increases while ensuring their products and services remain attractive. Rising rates will also contribute to escalating costs of doing business, due to increases from loan facilities.

### How do increasing interest rates impact your business?



***"Whilst we don't carry a mortgage, our clients do, and increasing interest rates impact on that."***

– Professional service provider, 1-19 employee(s)

***"It's more the pressure it puts on our staff. The media don't do much to help. I'm of the opinion that we've been lucky that rates have been so low for so long. But we have a generation of employees that don't know how to cope with this. Their only response is to increase wages, they haven't lived through an era of reviewing and reducing their discretionary spend. I think we need media & support services to target this."***

– Manufacturer, 50-99 employees

# Business Conditions

## CONDITIONS

The South Australian Business Conditions Index remains relatively steady, with businesses riding out higher cost pressures with strong demand, as seen with the Total Sales/Revenue Index up 4.4 points for the June quarter.

Business conditions for the September quarter are expected to decline 4.2 points while the Total Sales/Revenue Index is expected to remain steady. Expectations for the next quarter are being influenced by increasing costs, labour shortages and supply chain challenges.

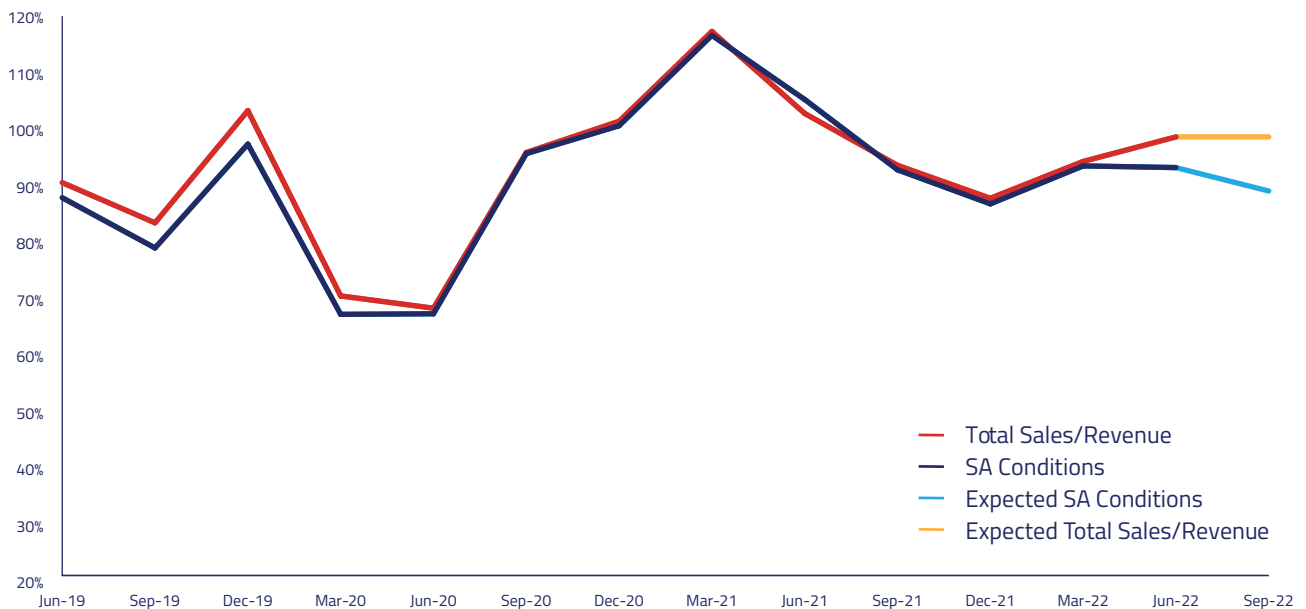
# 93.1 pts

South Australia Business Conditions Index

# 98.6 pts

Total Sales/Revenue Index

South Australian Business Conditions



## Business Conditions

# 0.3

points down from last quarter,  
March 2022

# 88.9

points expected for the September  
quarter

## TOP ISSUES KEEPING BUSINESS OPERATORS AWAKE AT NIGHT

- |   |   |   |    |                                  |   |
|---|---|---|----|----------------------------------|---|
| 1 | Cost increases                          |    | 6  | Worker absenteeism               |    |
| 2 | Labour availability/<br>staff shortages |    | 7  | Workforce fatigue                |    |
| 3 | Generating sales/<br>revenue            |  | 8  | Mental wellbeing<br>of workforce |  |
| 4 | Lack of profits                         |  | 9  | Productivity                     |  |
| 5 | Supply chain issues                     |  | 10 | Energy prices                    |  |

Total Sales/Revenue

4.4 

points up from last quarter,  
March 2022

98.6

points expected for the September  
quarter

## UNDERLYING FACTORS



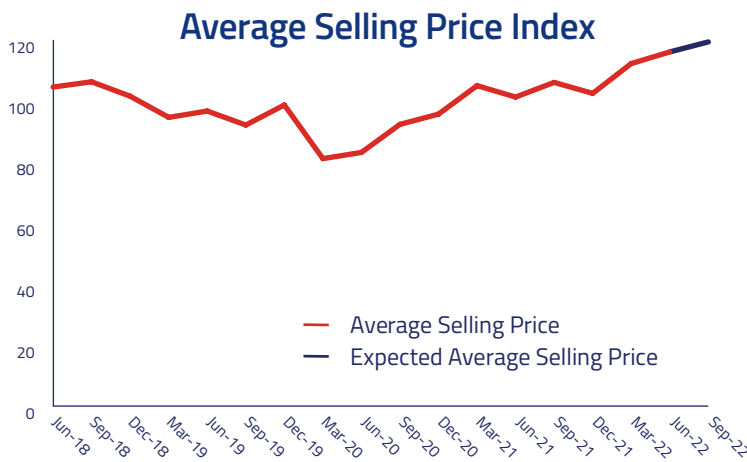
### Orders Received



**96.4 pts**  
on the Orders Received Index

**101.8 pts**  
expected for the September quarter

### Average Selling Price



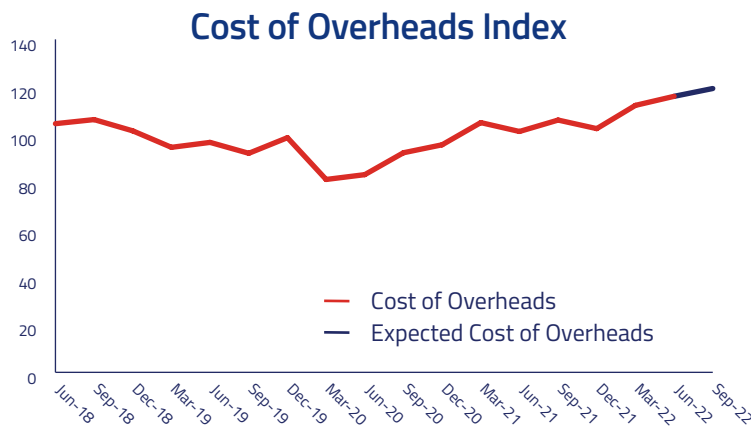
**116.1 pts**  
on the Average Selling Price Index

**119.3 pts**  
expected for the September quarter

Your success is our business.



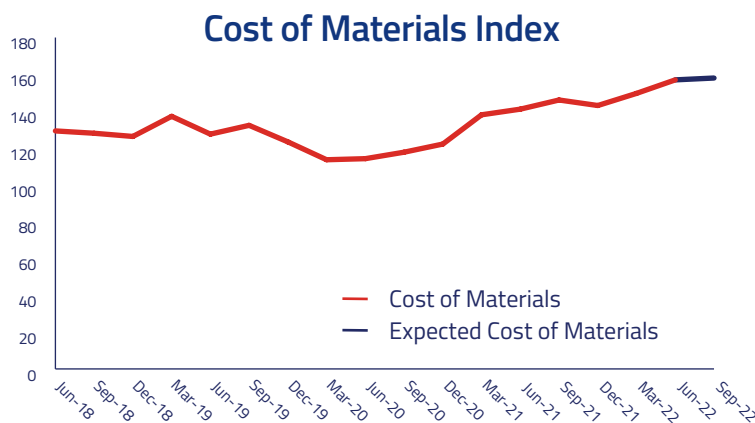
## Cost of Overheads



**157.8 pts**  
on the Cost of Overheads Index

**158.1 pts**  
expected for the September quarter

## Cost of Materials



**157.0 pts**  
on the Cost of Materials Index

**158.0 pts**  
expected for the September quarter

# COST PRESSURES

Cost increases is the number one issue keeping business operators awake at night.

## What did we see in the June quarter?

Businesses have again reported increases in the Cost of Materials and Cost of Overheads Indices. Looking at the raw numbers, 85.9 and 87.6 per cent said the cost of materials and overheads respectively increased.

Businesses reported increased energy bills as their main cost pressure, along with increases

to wages/contractors. This is not surprising, given the increases in electricity and gas prices, as well as a tight labour market. However, most concerning was the fact that only 3 per cent of businesses indicated cost increases were comparable to pre-COVID years.

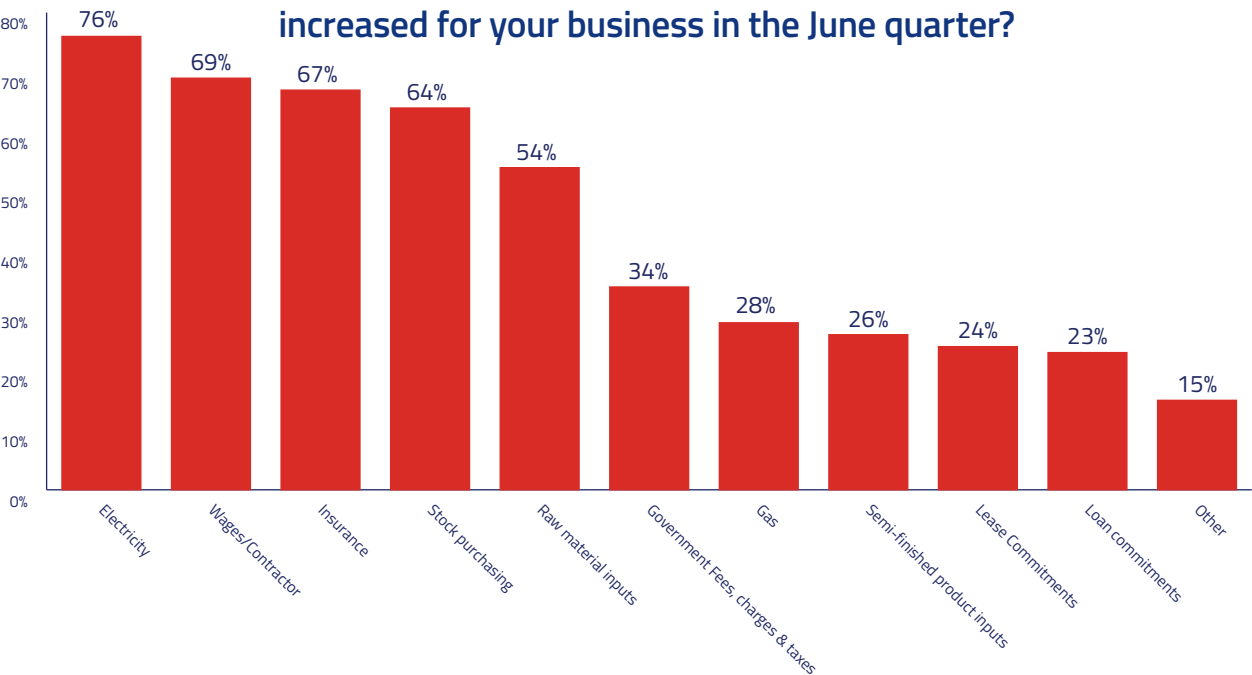
In your experience, how significant were these increases compared to pre-COVID years?	
Significantly above normal	72%
Slightly above normal	24%
Comparable to previous years	3%

Although the figure below does not provide a complete picture of costs to run a business, it does highlight the scale of cost increases.

Two-thirds of businesses saw their insurance costs increase, which Business SA has previously

found to be ongoing issue for our members. For instance, in the December quarter 2021 edition of Business Now, we saw 49.1 per cent of businesses experience a significant rise in insurance costs in the previous 12 months.

## What products, services and/or inputs costs have increased for your business in the June quarter?



*"Whilst there have been significant increases in many input costs, the current cost of gas and electricity is threatening the existence of large energy users in the absence of any relief."*

– Manufacturer, 100-149 employees

*"Freight is going up so much, it is hard to quote a job that requires freight interstate and be accurate."*

– Manufacturer, 1-19 employee(s)

## WHAT ARE BUSINESSES EXPECTING IN THE SEPTEMBER QUARTER?

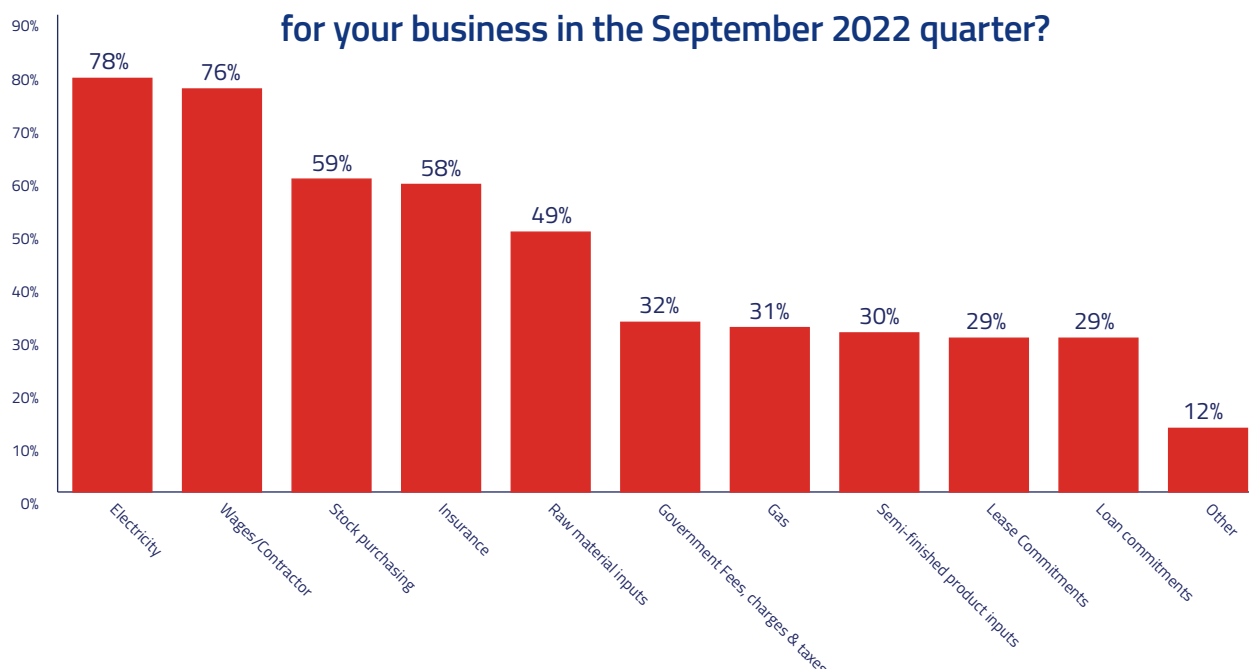
The number of businesses expecting a significant increase to their costs in the September quarter declined from the previous survey. It must again be emphasised, however, that only 3 per cent of businesses expect to see cost increases remain at pre-COVID levels.

### Do you expect to see cost increases remain at pre-COVID levels?

Yes, expecting a significant increase	63%
Yes, expecting a slightly above normal increase	34%
No, I am expecting normal increases	3%

Suppliers are also struggling to keep prices down, and continue to receive notifications of price increases and renegotiations. The construction sector is of particular concern because of fixed price contracts and higher than costed inputs, including timber, fittings, and steel.

### What products, services and/or inputs do you expect to increase for your business in the September 2022 quarter?



***“Suppliers seeking to adjust costs post earlier negotiations to meet inflationary pressures not predicted.”***  
– NGO, 150–199 employees

***“We set a new price once a year, our suppliers are putting up their prices 3 to 4 times a year.”***  
– Construction, 1–19 employee(s)

## PINCH POINTS FOR BUSINESS

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When asked to rank cost increases from the most concerning to the least concerning, wages/contractors came out as the number one concern for business in general.

### All Businesses

- |                        |   |
|------------------------|---|
| 1. Wages/Contractors   | 6. Semi-finished product inputs         |
| 2. Electricity         | 7. Lease commitments                    |
| 3. Stock purchasing    | 8. Loan commitments                     |
| 4. Insurance           | 9. Gas                                  |
| 5. Raw material inputs | 10. Government fees, charges, and taxes |

## TOP FIVE COST CONCERNS BY INDUSTRY SECTOR

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### Manufacturers

1. Raw material inputs
2. Wages/Contractors
3. Stock purchasing
4. Electricity
5. Semi-finished product inputs

### Construction

1. Wages/Contractors
2. Raw material inputs
3. Electricity
4. Stock purchasing
5. Insurance

### Retailers

1. Stock purchasing
2. Wages/Contractors
3. Electricity
4. Raw material inputs
5. Insurance

### Professional, Science and Technical Workers

1. Wages/Contractors
2. Electricity
3. Insurance
4. Stock purchasing
5. Other

### Hospitality

1. Wages/Contractors
2. Raw material inputs
3. Electricity
4. Stock purchasing
5. Gas

### Health and Community

1. Electricity
2. Wages/Contractors
3. Insurance
4. Lease commitments
5. Stock purchasing

## COST PASS THROUGH

Passing on costs to customers is proving to be difficult for many businesses, with 32 per cent indicating that they are unable to do so. Businesses that can adjust prices have to perform a careful balancing act, considering competitors, affordability, and the need to remain appealing in an uncertain environment.

Several sectors cannot pass on costs due to fixed priced contracts or government regulations, such as NDIS providers. Fixed price contracts have proven to be particularly difficult, as many businesses were not prepared for the unprecedented growth in inflation when setting prices at the onset. Contracts with customarily long lead times are also burdensome, as projected forecasts have fallen short of actual inflation figures.

Businesses providing discretionary goods and services are worried about increasing prices as customers become more conscious of their spending due to having less disposable income. Hospitality, arts, and recreation are especially vulnerable. Businesses, particularly in the services sector, are concerned that customers may turn to the informal economy due to increasing prices.

### Can you pass on cost increases to customers?

Yes	40%
No	32%
Unsure	28%

***"We do not have the price-elasticity to build in any more increases into our pricing for key business drivers (memberships)."***

– Recreation Centre, 200+ employees

***"Fixed rates in government contracts."***

– NFP, 200+ employees

***"Already at the higher end of the market, and may encourage customers to go elsewhere for a cheaper option."***

– Manufacturer, 20-49 employees

***"It's very difficult. Not only competitive, but when we tender, it usually takes months for the work to commence, they tell you it will start in January, but in fact the job starts in May or June."***

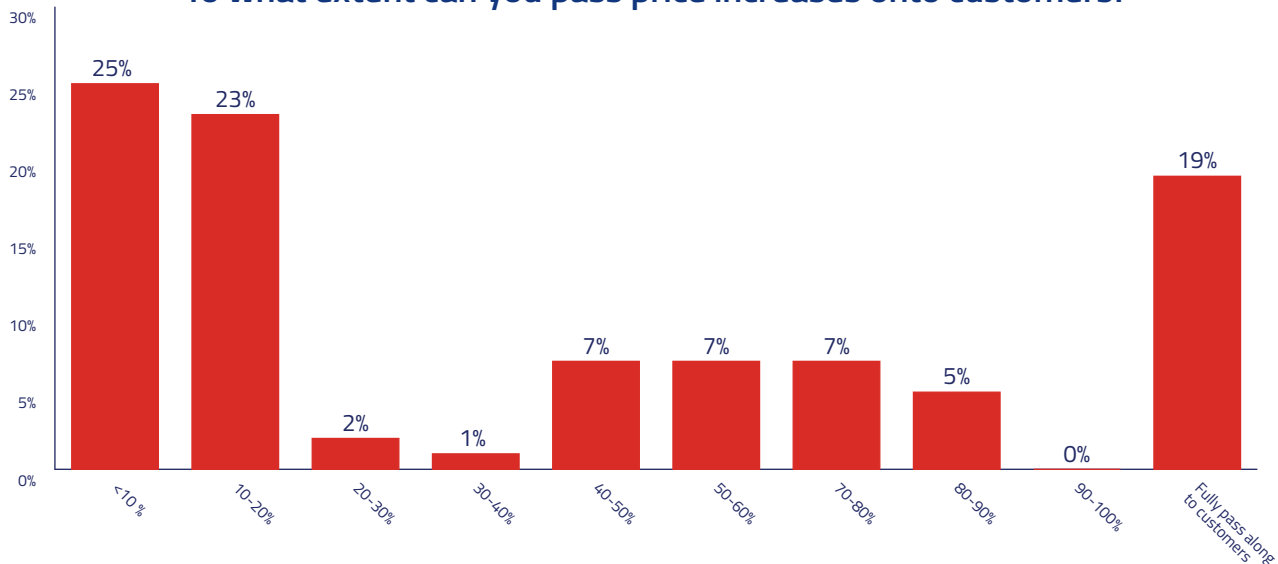
– Manufacturer, 20-49 employees

***"Some jobs have been booked 6 months in advance with no rise and fall clause."***

– Manufacturer, 1-19 employee(s)

Although some businesses can pass costs to the consumer, only 19 per cent of were able to do so fully. Over half (52 per cent) were unable to pass along more than 20 per cent of price increases. As a result, most businesses continue to absorb the cost.

### To what extent can you pass price increases onto customers?

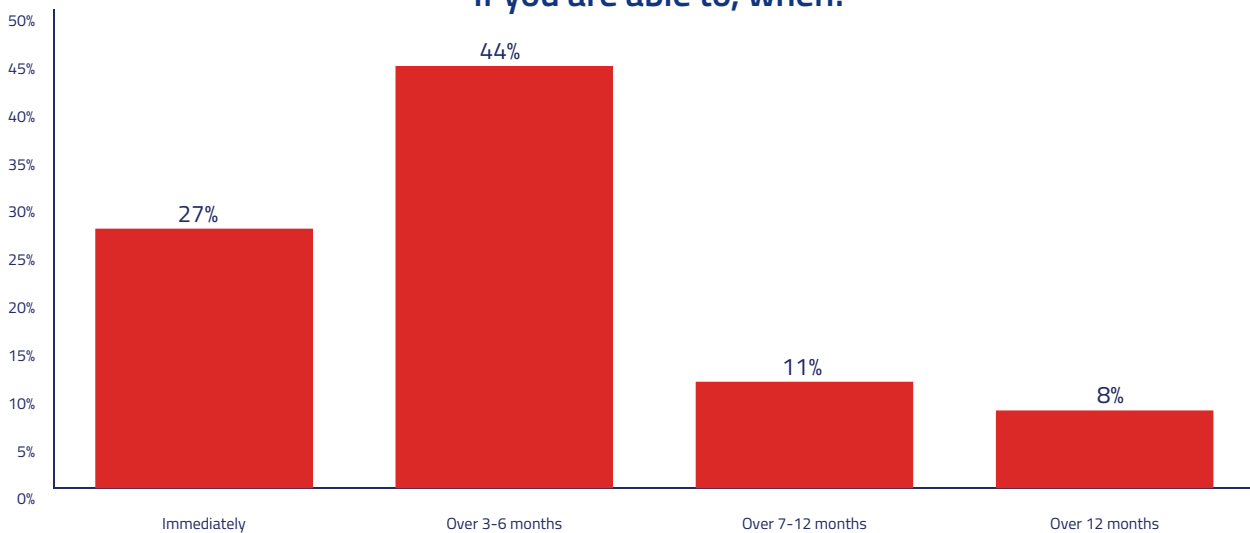


***“Market reaction will determine what customers will pay. We increased retail prices by as much as 10 per cent where we could.”***

– Retailer, 200+ employees

One in four businesses will increase costs immediately, while a majority will implement price rises over the next three to six months. When factoring price increases some businesses stick to traditional timelines, while others react to their competitors' actions in the market. Crucially, most are mindful that they need to manage customer expectations.

### If you are able to, when?



***“The issue is, with so many different aspects of a business, our business, it takes time to warn the clients then implement the price rise and by that time, it has already gone up again to us. Cannot keep up.”***

– Landscaper, 20-49 employees

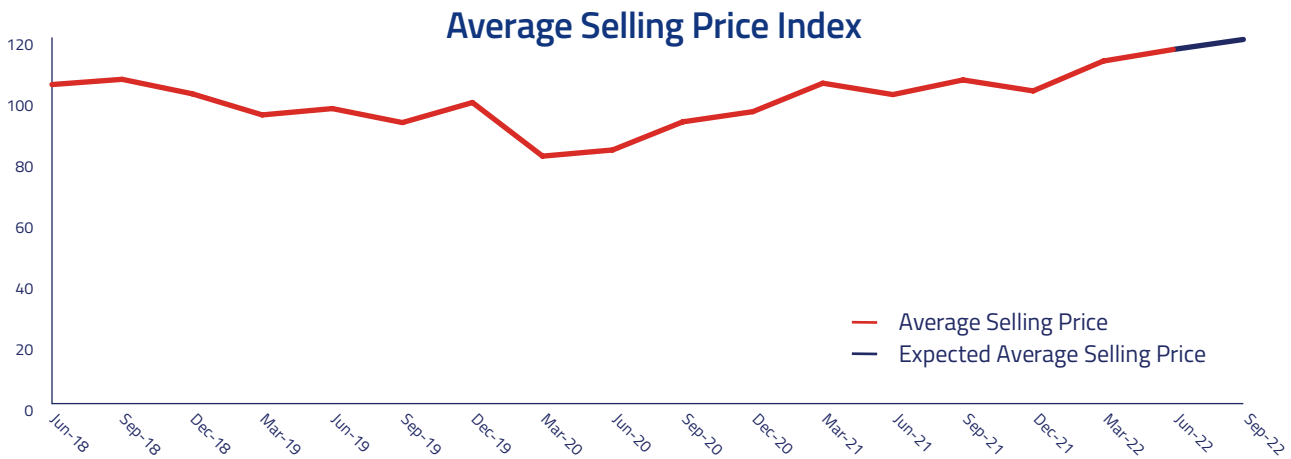
***“Depending to an extent upon how much and when our competition passes increases on.”***

– Retailer, 20-49 employees

***“We have one price review each year some 12-month extensions based upon volume.”***

– Construction, 1-19 employee(s)

The supplementary questions of this edition of Business Now have focused on costs rises in the June quarter 2022. The Average Selling Price Index shows that businesses have steadily increased prices to account for growing costs. The Index is expected to go from 116 points in the June quarter 2022 to 119.3 points in the September quarter 2022.



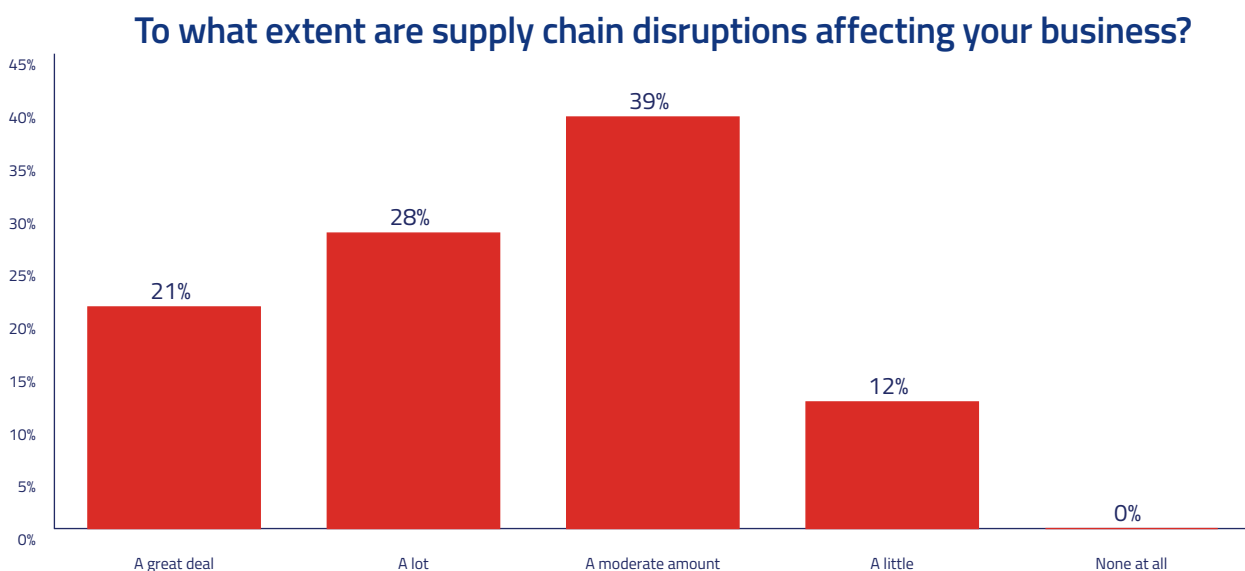
## SUPPLY CHAINS

Supply chain issues is the number five issue keeping business operators awake at night.

Supply chain issues continue to be a significant concern with disruptions ongoing since 2020. Businesses have continued to highlight a lack of containers and lack of ships docking at Port Adelaide. All businesses have been impacted by supply chain disruptions, as seen below. Businesses were also concerned about upward trending fuel costs and significant freight costs.

***“Lack of availability of Export Containers and Export ships at the Adelaide Port.”***

– Winery, 50-99 employees



## A WORD FROM WILLIAM BUCK

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Jamie McKeough

Managing Director, Chair of William Buck, AUS/NZ

### Have the confidence to increase your prices

Despite the near-catastrophic impact that the lockdowns had on our tourism, hospitality and events industries, the reality is that many businesses in other sectors did quite well over the COVID-19 period. This survival was due to record government stimulus, cost relief for some (like commercial rents), and strong demand.

The June quarter results for the Business SA William Buck Survey of Business Expectations show a reduced confidence level in the business community. However, this is not a surprise as the stimulus is gone, and any cost-relief has well and truly ended.

What concerns me about the results of this survey is a quarter of businesses say they won't even pass on 10 per cent of their increased costs. If they see increased costs themselves through materials and overheads, then they must have the confidence to raise their prices to keep their margins strong. Right now, it is challenging to simply 'do more work' to keep the profits up, with worker shortages and restricted material supply presenting such significant challenges.





Finding workers is a ubiquitous challenge globally. Keeping your existing staff engaged in your operations is far more cost and time effective. From the survey, more than 50 per cent of businesses said they were concerned about the impact of wage increases on the viability of their business. What is worrying about this is that now is precisely the time to consider a wage rise as an investment in your staff rather than a cost to your business. This may challenge smaller business operators who do not have access to the range of resources that larger businesses do. Perhaps they are technically savvy but need to truly invest in leadership training to value their staff.

In challenging times, businesses need to understand their business model, reflect on where they have been, and set realistic and stretch targets about where they want to go next. This forward thinking will make your business more appealing to potential new staff and an excellent way to keep your existing team engaged.



## LABOUR

Labour Availability is the number two issue keeping business operators awake at night.

Businesses are increasingly finding it harder to source workers, due to the continually tightening labour market. At the same time, COVID-19 is further exacerbating the situation, with worker absenteeism ranked the number six issue keeping business operators awake at night.

Smaller businesses are most significantly affected, as they compete with larger counterparts for workers.

# 70.0%

of business find it harder to source labour in the June quarter 2022

# 18.2%

of business did not need to source labour in the June quarter 2022

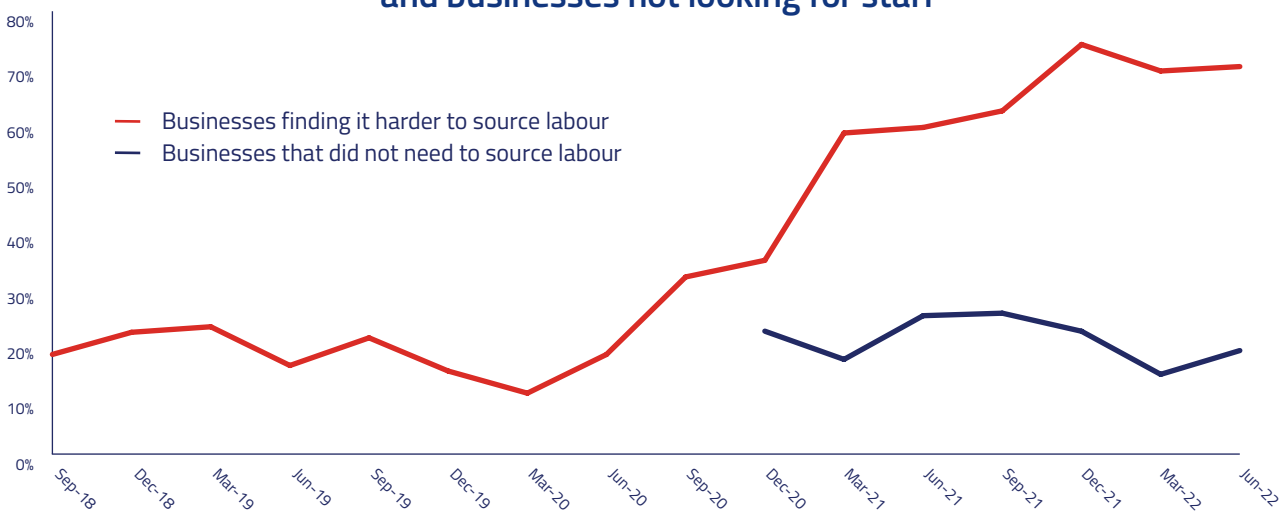
*“Unfortunately, larger companies are offering higher wages and incentives that smaller businesses cannot match. Employees can choose a job according to what they want to get paid, even for unskilled labour.”*

– Construction, 20-49 employees

*“We think we may be up against the mining industry. Let’s face it no-one can pay the kind of wages that FIFO workers are getting.”*

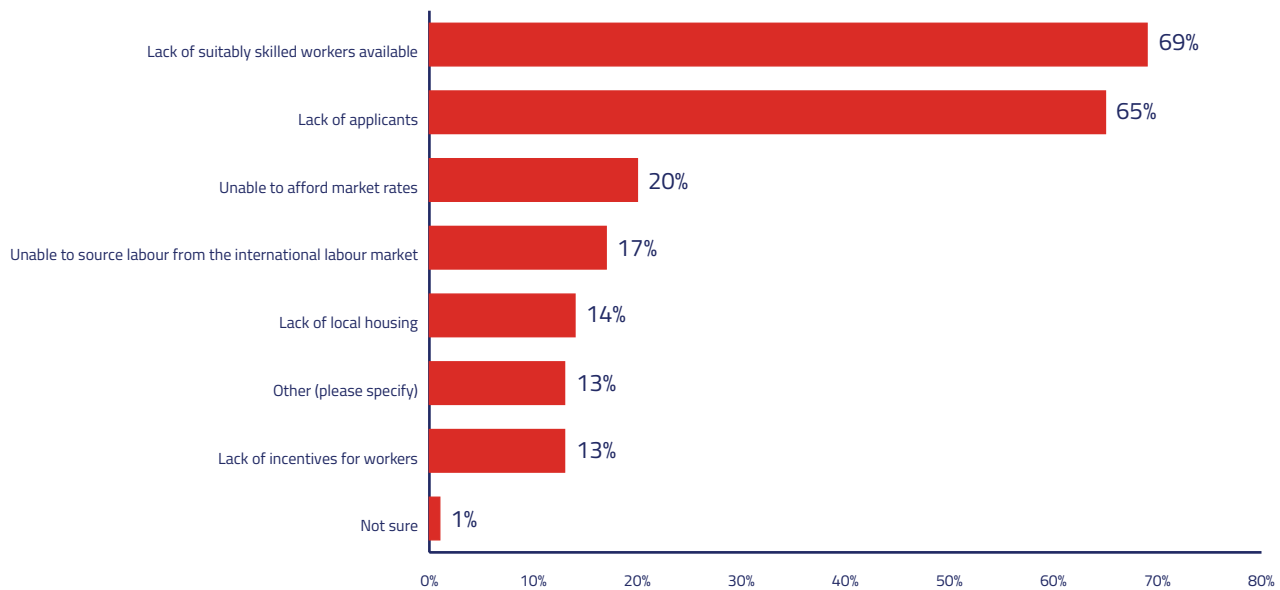
– Construction, 1-19 employee(s)

**Businesses finding it harder to source staff  
and businesses not looking for staff**



\* Please note: Business SA began recording businesses that did not need to source labour from December quarter 2021

## Why do you think it was harder for you to source labour over this period?



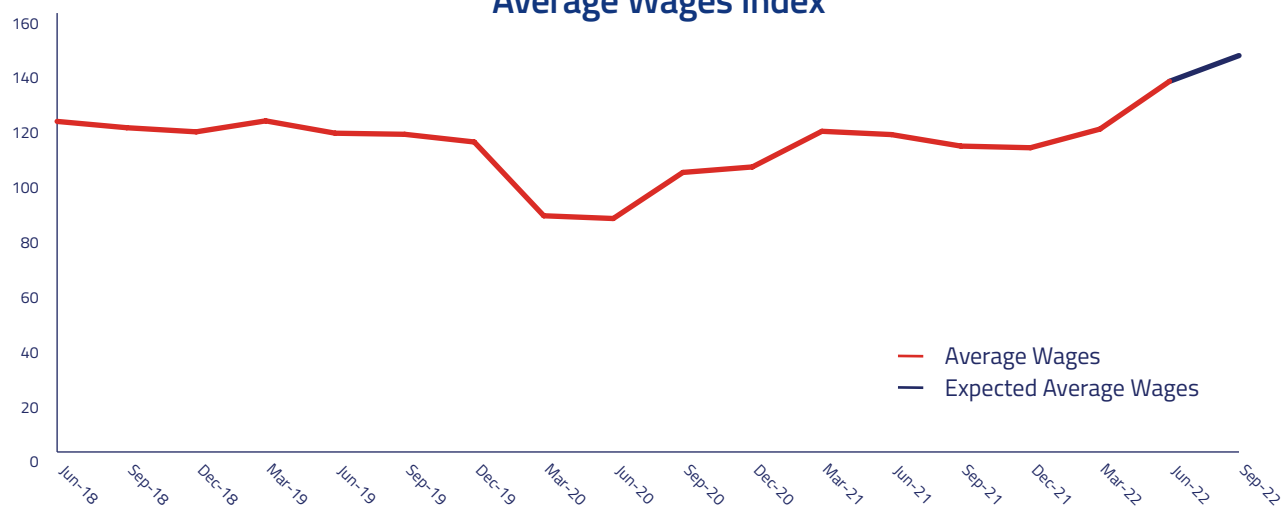
*"Qualified staff impossible to find...my staff have dropped from 11 to 7 as a result of COVID. We are all fatigued."*

– Telecommunications provider, 1-19 employee(s)

Workforce fatigue is the number seven issue keeping business operators awake at night.

The tight labour market is starting to have an impact on wages with businesses indicating increasing wage bills from the December quarter 2021.

## Average Wages Index



**Steve May,**  
**Managing Director, Puratap**

With a business strategy centred on the customer, Puratap's philosophy is to provide the best value and highest quality product to the most customers possible.

As a fully vertical business-to-consumer operation, Puratap knows what its customers want. Puratap starts with design and includes tooling, manufacturing, sales and marketing, installation and lifetime service.

investment decisions, it starts with knowing the latest coming out of research and development.

"We purchased new injection moulding equipment, and this machine is so much more efficient than even the equivalent on the market three years ago. It is so exciting that we can be less expensive and of higher quality.

"As the costs are forecast to continue increasing, we're looking at even more innovations to keep us providing the best value to our customers."

"I see from the results of the Business SA William Buck Survey of Business Expectations that many businesses have struggled with supply chain issues. We are fortunate to be fairly immune from that."





"The only materials we need are the raw ones. Thankfully, we've had great relationships with our suppliers, who continued to supply us as a preferred customer. Our relationships with our suppliers are essential to us. If there is going to be a delay with delivery, then we want to be able to work out a solution together. That means trust and communication are essential.

"It's been the impact of COVID-19 that we've only just squeaked through. And that is because we are blessed with fantastic staff here.

"Early in the pandemic, we could see what was coming in terms of challenging conditions. So we planned for it. We organised for our call centre staff to all work from home, and they are still doing this as it has given us some continuity.

"Given our service staff are out and about, they were the first to be hit hard with the isolation

rules. So we trained our back-of-house staff in servicing. This worked because these staff already know our products inside and out.

This approach was a success in Steve's mind. Some of the team enjoyed the opportunity to get out on the road. However, others were happy to return to the factory and on the tools. Steve reflects that this is part of building the right team who are positive and happy to do everything they can for the business.

"It is hard to get workers at the moment, and I know many businesses out there are doing it tough. For me, running a business comes down to attitude and making the best out of whatever the conditions are. Some are good, some are bad. But you have to be a bit of a dreamer and have a vision for where you want to be."



Your  
success  
is our  
business

# About Business SA

Business SA is SA's largest membership-based employer organisation, representing employers and business owners across 19 different industry sectors. Our purpose is to help you grow your enterprise and create a stronger South Australia.

Like you, we believe in the important roles that business and commerce play in creating a vibrant, dynamic and sustainable society.

We back the job makers and risk-takers.

We back the creators, the innovators and the entrepreneurs.

We back the people who chase their dreams, follow their passions and put it on the line.

We believe that businesses are the engine room of our economy. Businesses like yours generate new ideas, deliver new services and propel us forward. Businesses like yours create jobs, attract new investment

and pay taxes. Businesses like yours put food on tables and create wealth for many.

As the independent, representative voice for employers and business owners across South Australia, we want to create the best possible environment for you to succeed. We do this by providing you with knowledge, advice, connection and advocacy. We have been doing this for over 180 years, without fear or favour.

We're proud of our long history, and our sustainability is assured by our future-focus, our strong leadership and our intent to stay ahead of the pack. To serve you better, we constantly seek to answer that enduring question: 'what's next?'

If you are not already a member, please call or email our membership team on (08) 8300 0000 or email [customerservice@business-sa.com](mailto:customerservice@business-sa.com).



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