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The Business SA  
Survey of Business  
Expectations

DECEMBER  
QTR 2022

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**WilliamBuck**  
ACCOUNTANTS & ADVISORS

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# The Economy

## BUSINESS CONFIDENCE

Business confidence is cautiously optimistic, but remains in negative territory.

**91.2 pts**

South Australian Confidence Index

**84.8 pts**

National Business Confidence Index

Business SA's Business Confidence Index measures how South Australian businesses expect the state and national economies to perform over the next 12 months. In our Index 100 is a neutral score, 33 is the lowest score and 166 is the highest. The Index is based on a quarterly questionnaire distributed to businesses across South Australia. Now in its 42nd year, this survey is the longest-running in the state.

The December 2022 quarter saw the South Australian Business Confidence Index increase by 4.5 points, following a rise of 11.8 points in the September quarter. While this gives reason for cautious optimism, at 91.2 points business confidence in South Australia remains in the negative territory. The National Economic Confidence Index is slightly lower at 84.8 points, but it also follows a positive trend with an increase of 2.1 points over the previous quarter.

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Mandatory isolation periods in South Australia ended on 13 October 2022 providing more certainty for businesses and increasing confidence as they returned to 'normal'. November also saw strong Black Friday sales, and although retail sales fell by 3.9% in December, this was the first decline after 11 straight months of growth and eight straight months of record spending. Supply chain disruptions continue to ease and freight costs are slowly returning to pre-COVID-19 levels.

The cautiously optimistic survey results are interesting considering the negative economic headlines in the December quarter, including three consecutive interest rate increases, 0.25 basis points each time; the 22 October Federal Budget forecasting 56% increases in energy prices over the next two years; and inflation between the September and December quarters increasing by 1.9%, reaching 7.8% over 12 months – the highest since 1990.

**South  
Australian  
Confidence  
Index**

**4.5**



points up from September  
quarter 2022

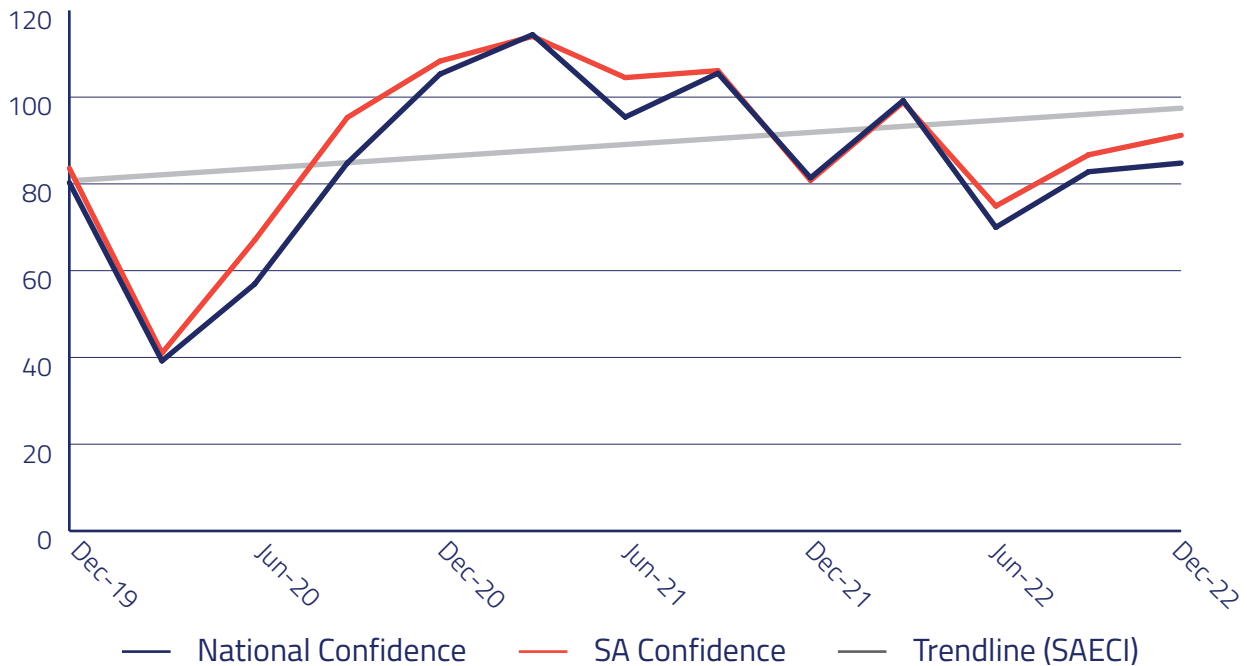
**10.4**



points down compared  
to December quarter 2022

Chart 1

### South Australian and National Business Confidence Indices



## ECONOMIC EXPECTATIONS

Most businesses surveyed (68.6%), expect inflation to continue rising. The RBA's target for inflation is 2% to 3% and the bank does not expect a return to this range until early 2025.

There is even less confidence of interest rate hikes slowing. After the ninth consecutive increase in February, Australia's cash rate sits at 3.35%. Economists are expecting another quarter-percentage point in March, and many do not foresee a decrease at all in 2023. According to the survey, the business community has a similar view, with 88.1% expecting further increases after the December quarter.

South Australia's unemployment rate in December was 4.1%, falling slightly from 4.3% in September. It remains the highest across the country, with the national unemployment rate at 3.5%. Most businesses surveyed (68.1%) expect unemployment figures to remain the same until the March quarter ends.

Over the December quarter the Australian dollar was overall steady against its US counterpart, with a low of 59.6 cents and a high of 62.7 cents. It ended the quarter at 61.4 cents. Currency fluctuations are always a mixed bag, benefiting exporters by making their products more competitive, while disadvantaging importers by increasing their costs. A majority of businesses surveyed (55.2%) expect the value of the Australian dollar to remain the same, while almost a third (30.5%) expect a decrease.

	Decrease (%)	Same (%)	Increase (%)
Interest rates	2.9	9.1	88.1
Inflation rate (CPI)	5.2	26.2	68.6
Unemployment rate	9.1	68.1	22.9
Value of \$A (against \$US)	30.5	55.2	14.3

# Business Conditions

## CONDITIONS INDEX

Business Conditions remain marginally positive despite slight decrease.

Despite a slight drop of 1.7 points, the General Business Conditions Index remained in the positive territory, above 100 points, albeit marginally so at 100.9 points.

**100.9** pts  
General Business Conditions Index

**105.2** pts  
Total Sales/Revenue Index

Demand continued to rise with the Total Sales/Revenue Index rising steadily over the past 12 months. Businesses are aware that demand could drop off as interest rates continue to increase and inflation remains high. The first fall in retail sales in December, after 11 consecutive months of growth, could be a sign of things to come and indicative of falling consumer confidence in the current economic conditions.

The Average Selling Price Index increased from 115.0 to 121.2 points, and the Cost of Materials and Cost of Overheads Indices also rose from 146.4 to 149.6 points and 147.4 to 151.4 points, respectively. As costs increase, businesses have few other options but to pass these increases on to the consumer. Unfortunately, businesses surveyed also reported a decline in Export Sales, from 103.7 to 97.9 points. It is also concerning that after an increase in the Profitability Index in the previous quarter, it fell from 96.9 points to 92.7 points in the December quarter.

Rising costs, declining profitability and diminishing exports indicate that operating conditions for South Australian businesses are challenging. Despite this, the business community remains cautiously optimistic ahead of the March quarter.

General business conditions

**1.7**   
points down from  
last quarter,  
September 2022

**101.9**  
points expected for  
the March quarter  
2023

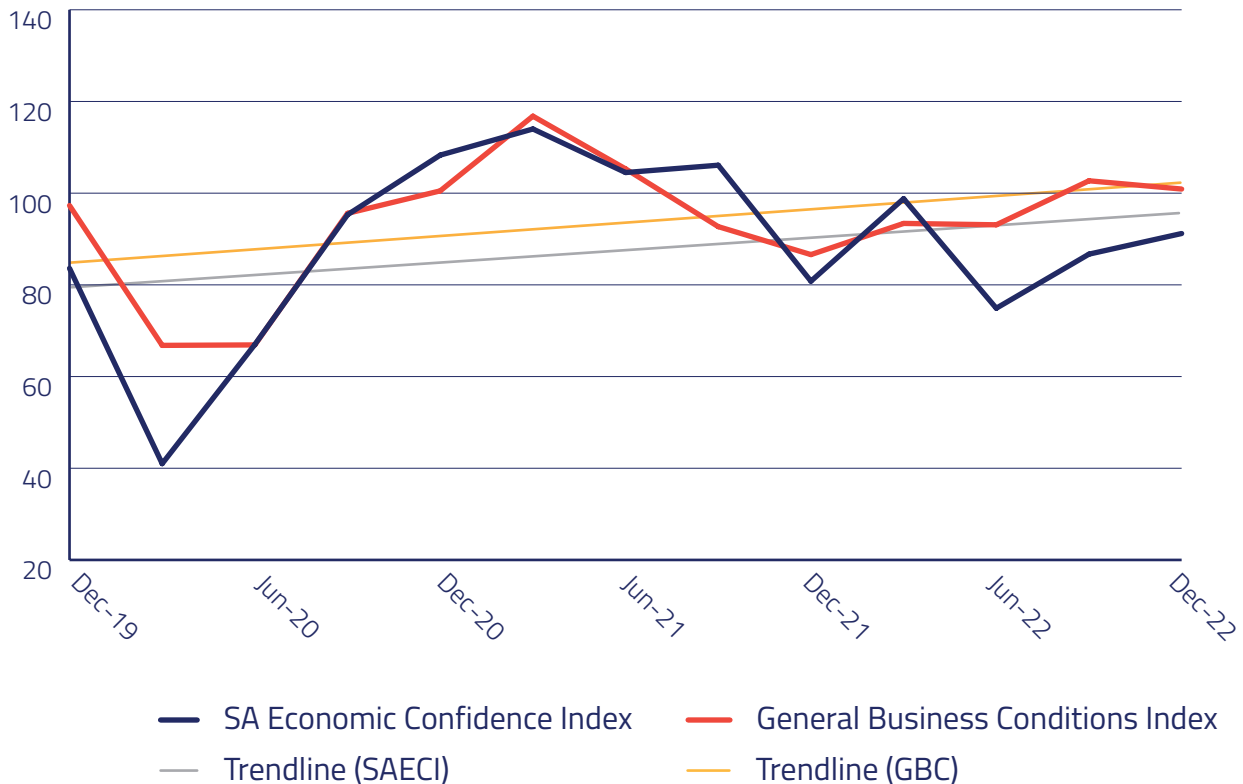
Total Sales/Revenue

**1.8**   
points up from  
last quarter,  
September 2022

**111.9**  
points expected for  
the March quarter  
2023

Chart 2

### South Australian Business Conditions



## UNDERLYING BUSINESS PERFORMANCE INDICATORS

Chart 3

### Profitability



# 92.7 pts

Profitability Index for the  
December quarter 2022

# 100.3 pts

expected for the March  
quarter 2023

## CASE STUDY



# Steady Seas for MacTaggart Scott Australia

The outlook is steady for MacTaggart Scott Australia (MTSA) according to its Adelaide Director Peter Richings, noting some resilience to many of the issues currently affecting businesses such as rising interest rates and energy prices.

"Our main concern is finding skilled workers".

MTSA operates a 25-employee, 3000-square-meter purpose-built facility in Woodville. A subsidiary of its global entity based in Scotland supporting the manufacture of key systems in the naval defence industry, employing 350 people across three countries with a turnover of around A\$69.6m.

"We have a small workforce here at our Woodville operation, but many of them are specialist engineers and are not easy to come by," said Mr Richings.

The organisation requires highly skilled workers and is also limited by a level of Australian Government defence clearance that makes international headhunting tricky, but not impossible.

"We've hired out of the UK recently, but ran into troubles relating to working visas, acquiring permanent residency and, of course, when people come here they need somewhere to live. None of that is easy".

MTSA is not alone in facing worker shortages, Business SA and William Buck's Survey of Business Expectations detailed 58.3% of respondents experienced labour shortages in the December quarter, with frequent commentary surrounding the lack of suitably skilled workers. Further, the

survey revealed 'access to labour' was by far the main constraint identified by businesses hindering potential growth.

The South Australian branch of MacTaggart Scott, which opened in 2011, was established to work with its main customer ASC, Australia's sovereign submarine builder, responsible for the fleet of Collins Class Submarines.

"Our primary focus is to support the Collins class vessels while expanding and diversifying our capability, but recent times have left us in rough water".

MTSA originally expected to see the fleet of Collins vessels start to retire this decade and was working with Naval Group to be involved in the French-designed and Australian-made Attack-class submarine project, which was abandoned by (then) Prime Minister Scott Morrison in September 2021.

"The cancellation of the Attack-class submarine, which we expected to be involved with, resulted in four years of planning and hundreds of thousands of research dollars down the drain".

Mr Richings noted the high level of investment, time and precision by engineers involved, along with the red tape associated with doing business with the defence industry, has been a disincentive for many SMEs, who understand they simply may not get the work, or their contracts could be pulled at any time.



Although experiencing waves, MTSA remains optimistic about the future, as many SMEs have expressed in recent months.

With engineers already working on plans to support the development of sovereign maintenance capability of systems used in the future nuclear-fuelled submarines, as part of the AUKUS agreement, there's plenty for the company to work on.

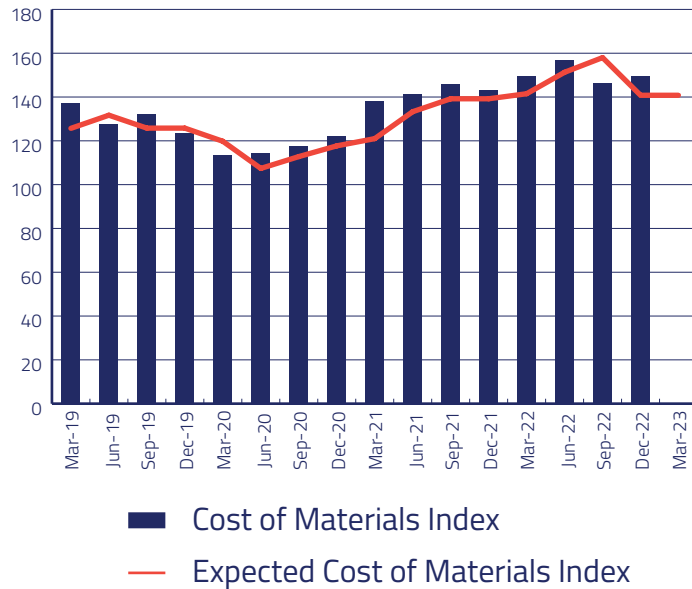
"We are optimistic about the future, we now have the Collins submarines to look after following their lifetime extension, and we are continually expanding our capability through the development of an Australian supply chain and participation in local research and development projects".





Chart 4

### Cost of Materials



# 149.6 pts

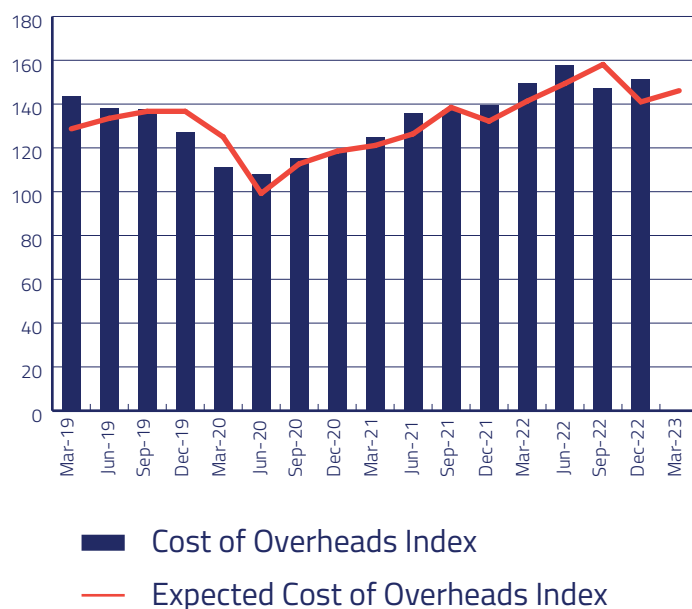
Cost of Materials Index for the  
December quarter 2022

# 140.7 pts

expected for the March quarter 2023

Chart 5

### Cost of Overheads



# 151.4 pts

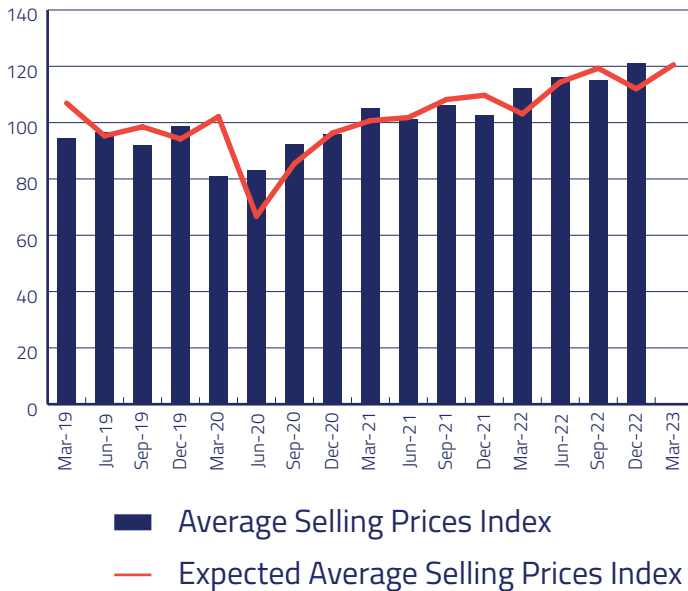
Cost of Overheads Index for  
the December quarter 2022

# 146.3 pts

expected for the March quarter 2023

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Chart 6

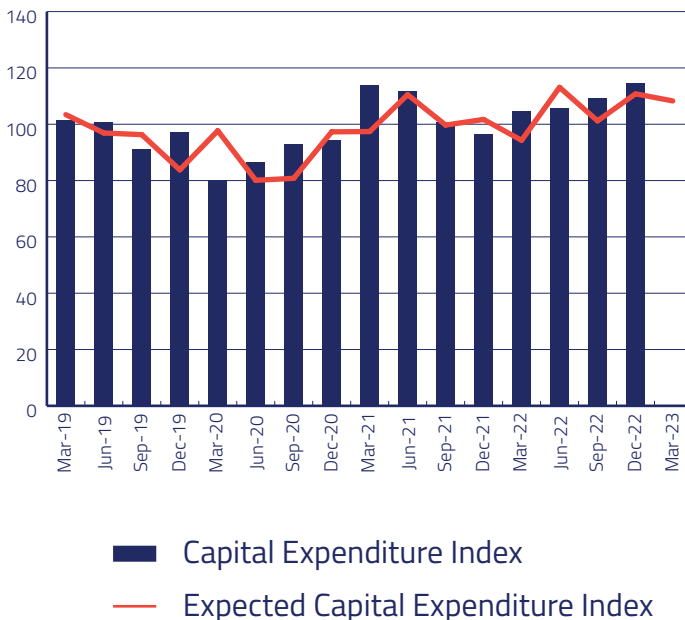
**Average Selling Price****121.2 pts**

Average Selling Price Index for the December quarter 2022

**120.8 pts**

expected for the March quarter 2023

Chart 7

**Capital Expenditure****114.5 pts**

Capital Expenditure Index for the December quarter 2022

**108.6 pts**

expected for the March quarter 2023

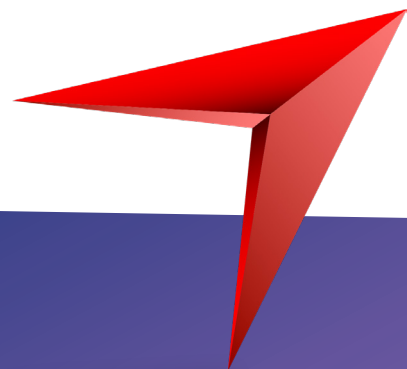
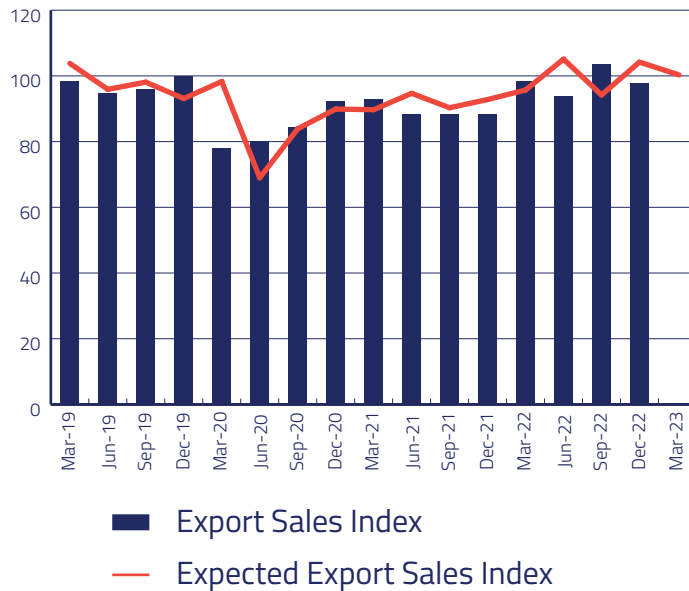




Chart 8

### Export Sales



# 97.9 pts

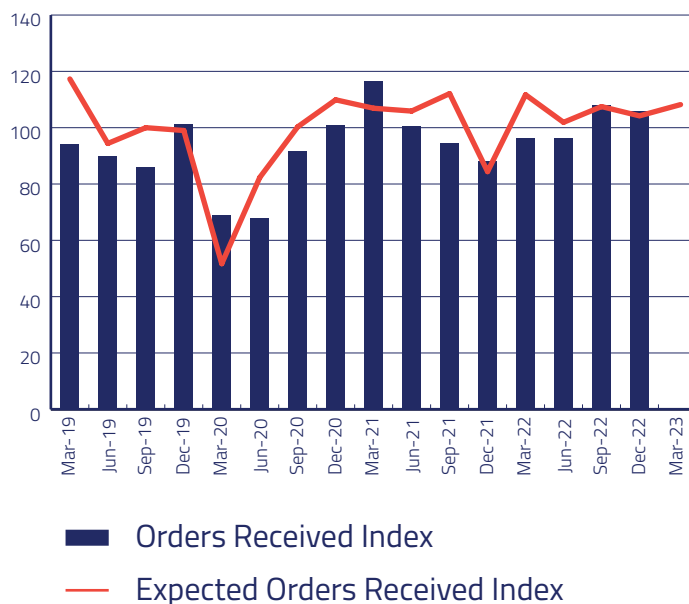
Export Sales Index for the  
December quarter 2022

# 100.5 pts

expected for the March quarter 2023

Chart 9

### Orders Received



# 105.7 pts

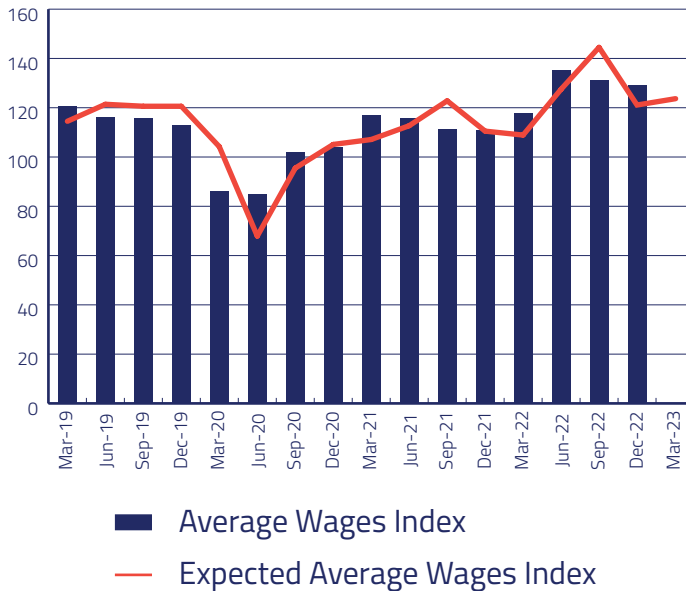
Orders Received Index for  
the December quarter 2022

# 109.3 pts

expected for the March quarter 2023

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Chart 10  
**Average Wages**



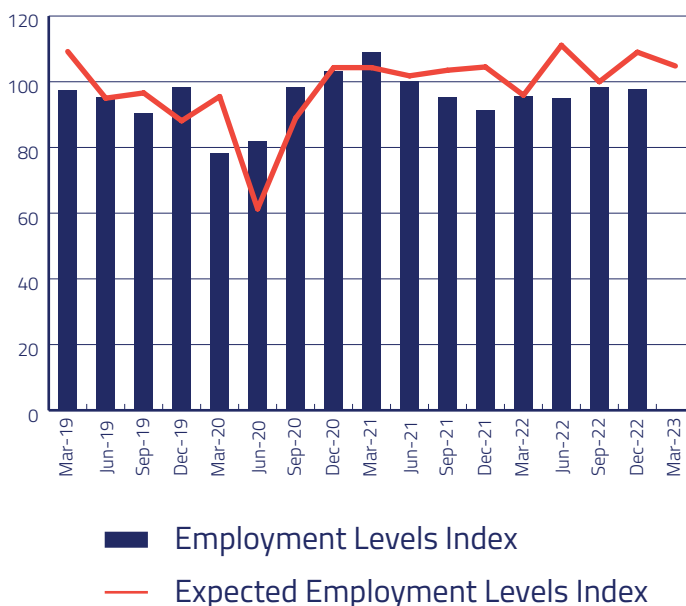
**129.0 pts**

Average Wages Index for the  
December quarter 2022

**123.8 pts**

expected for the  
March quarter 2023

Chart 11  
**Employment Levels**



**97.7 pts**

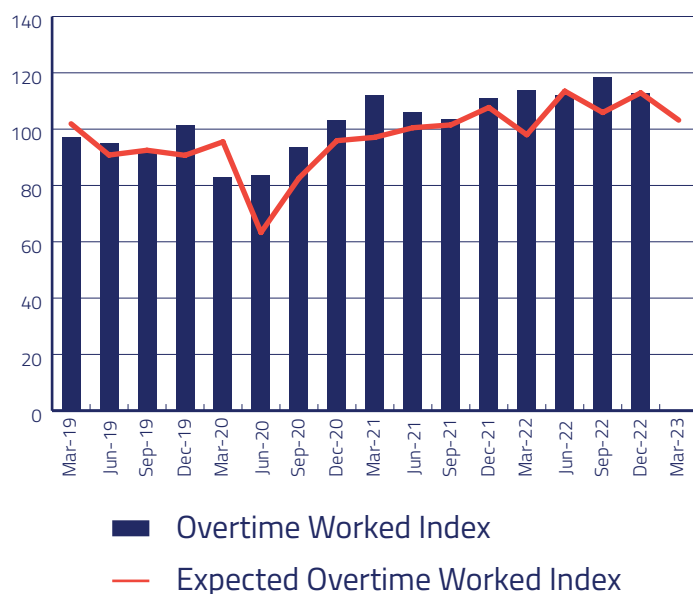
Employment Levels Index for  
the December quarter 2022

**104.8 pts**

expected for the  
March quarter 2023



Chart 12

**Overtime Worked**

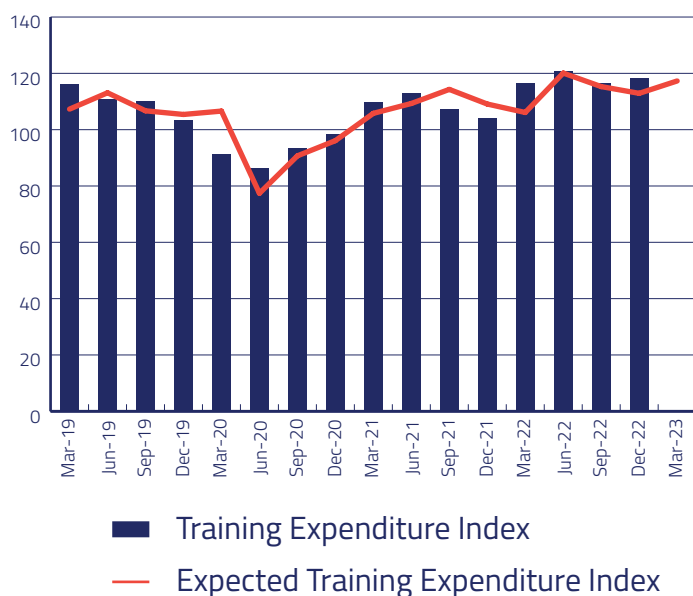
# 112.7 pts

Overtime Worked Index for the December quarter 2022

# 103.2 pts

expected for the March quarter 2023

Chart 13

**Training Expenditure**

# 118.1 pts

Training Expenditure Index for the December quarter 2022

# 117.3 pts

expected for the March quarter 2023



# Labour, Skills and Migration

## LABOUR SHORTAGES

The number of businesses 'experiencing labour shortages' and those 'finding it harder to source labour' had both reduced since the September quarter, at 11.3% and 24.7% respectively. However, this does not indicate that it was easy for businesses to find staff, given the increase (31.3% to 44.2%) of businesses reporting that it was 'not harder or easier' compared to the previous quarter. 15.5% of survey respondents also did not need to hire anyone in the December quarter. This figure increased from 12.5% in the September quarter. With the unemployment rate at 4.1% in South Australia, labour shortages will remain a key challenge going forward, but fewer businesses finding it harder to source labour and more businesses not looking for labour, suggests that operators are finding other ways to deal with the situation.

# 58.3%

of business experienced labour shortages in the December quarter.

# 34.5%

of businesses looking for workers found it harder to source labour in the December quarter compared to the September quarter.

Chart 14

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

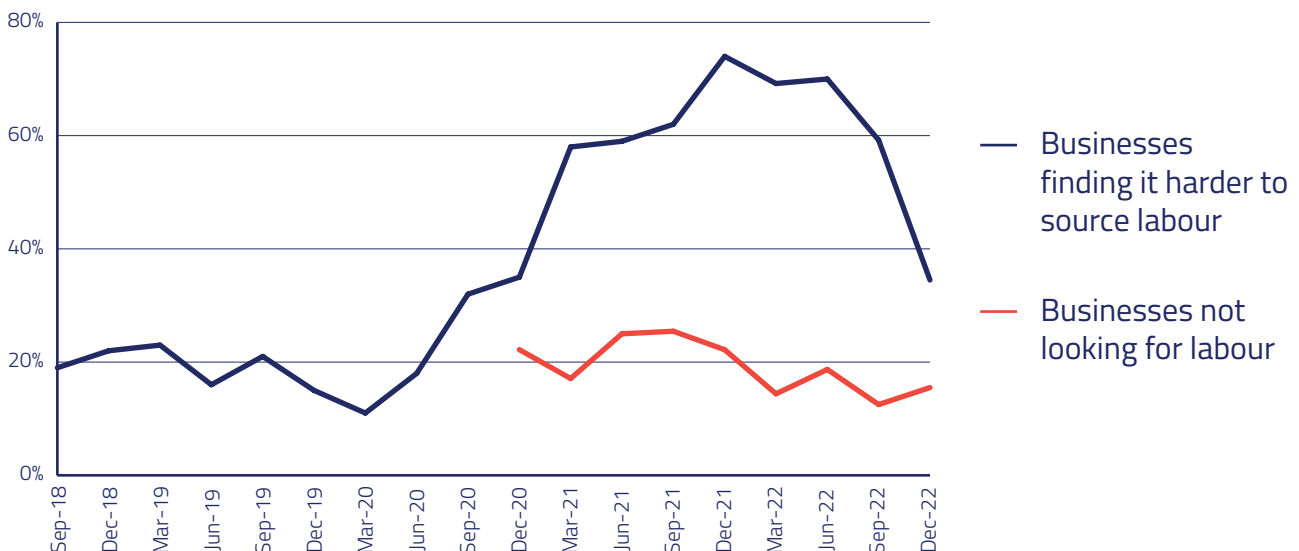
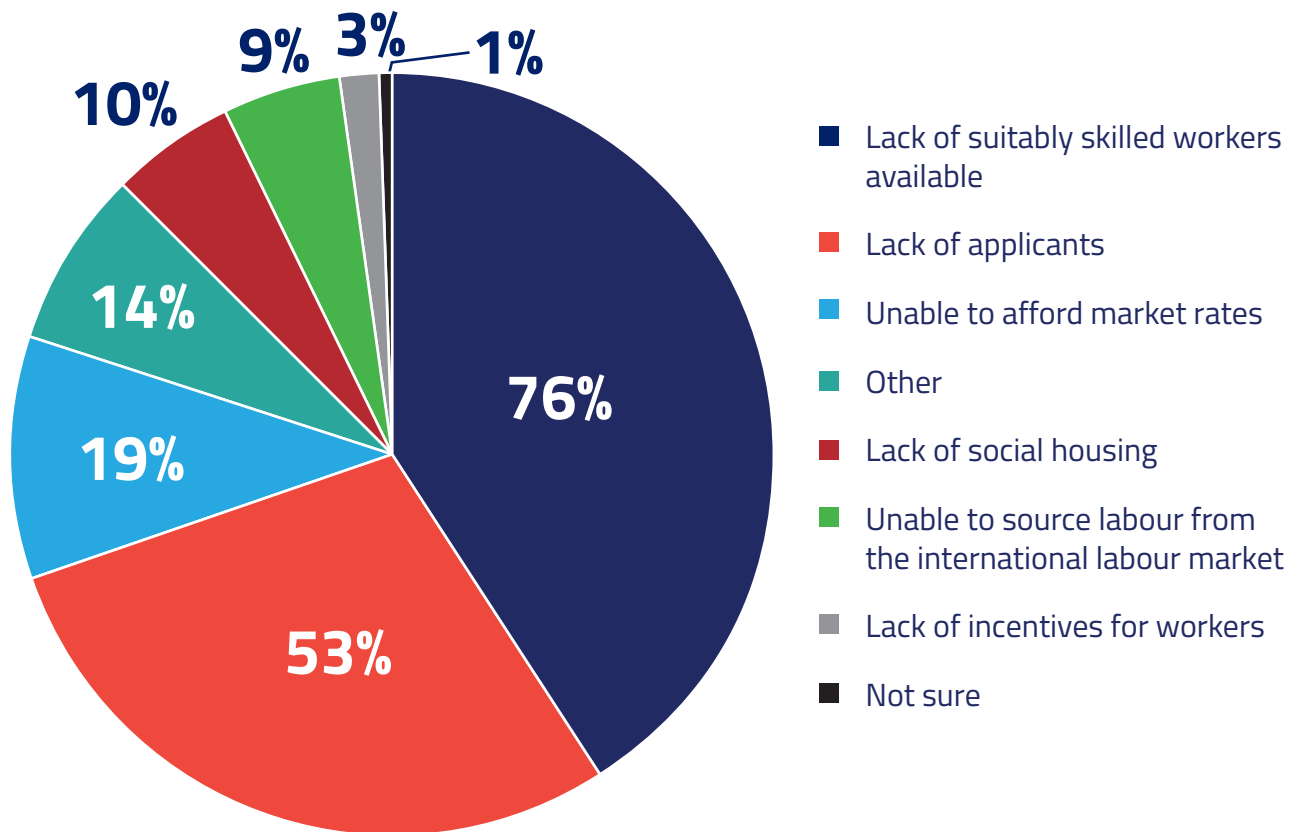


Chart 15

### Why was it harder to source labour?



Interestingly, despite these figures, as discussed further on chart 19 on page 19 below, respondents found that 'access to labour' was the biggest issue hindering business growth.

Previous editions of Business Now showed a trend of 'lack of applicants' being the primary reason for unfulfilled vacancies. While still the second-most prominent reason, the most frequent response given in the December quarter was 'lack of suitably skilled workers available'. With the Federal Migration Review currently underway, we hope that some of the labour and skill challenges will be addressed in the near- to medium-term future. Business SA made a submission to the Review with recommendations, based on feedback from South Australian businesses in the September 2022 quarter survey.

#### ***Change of attitude to working since COVID and Jobkeeper***

Training and Community Events Services, 1 – 19 employees

#### ***Too difficult to bring staff from overseas***

Health Care and Social Assistance, 50 – 99 employees

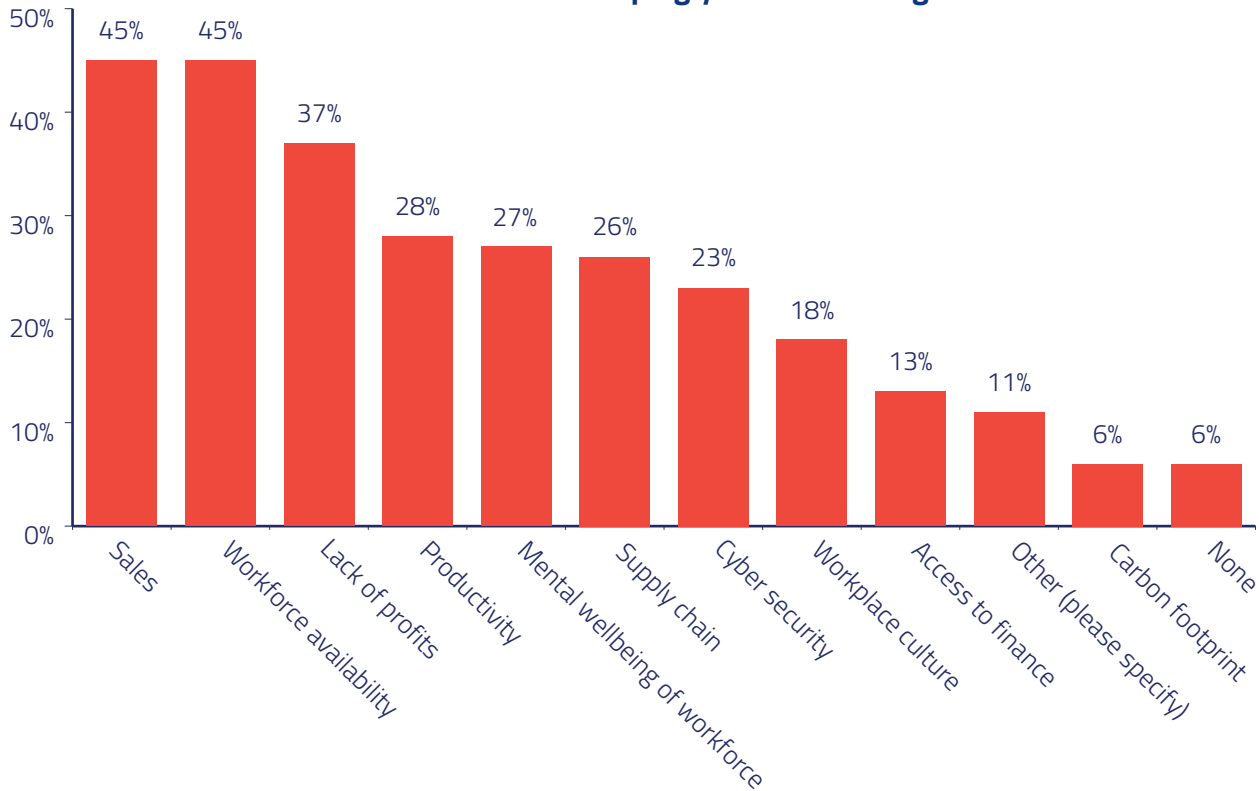
#### ***People applying - many of whom do not have any of the mandatory requirements***

Construction, 1 – 19 employees

## TOP ISSUES FOR BUSINESS OPERATORS

Chart 16

### What issues are keeping you awake at night?



Despite Business SA's 'Total Sales/Revenue Index' showing steady growth over the past 12 months, 'Sales' was the main issue keeping operators awake at night. 'Workforce availability' remained the second top issue, compared to a similar poll<sup>1</sup> in the June 2022 quarter. 'Lack of profits' was also a major concern and can be attributed to rising costs, declining profitability, and diminishing exports indicators discussed earlier. With the World Economic Forum identifying it as one of the main risks for businesses this year, and in the wake of the Optus and Medibank data breaches, cyber security is increasingly a worry for businesses – and although not making the top 10 last June, it is now the seventh most concerning issue for businesses. Concern for staff is also evident, with 'Mental wellbeing of workforce' and 'Workplace culture' featuring. These could perhaps be linked to the increased need for businesses to reduce staff turnover.

<sup>1</sup> Previous survey options were COVID related

## BUSINESS GROWTH AND DEVELOPMENT

Chart 17

**By how much do you want to grow your business in the next year?**

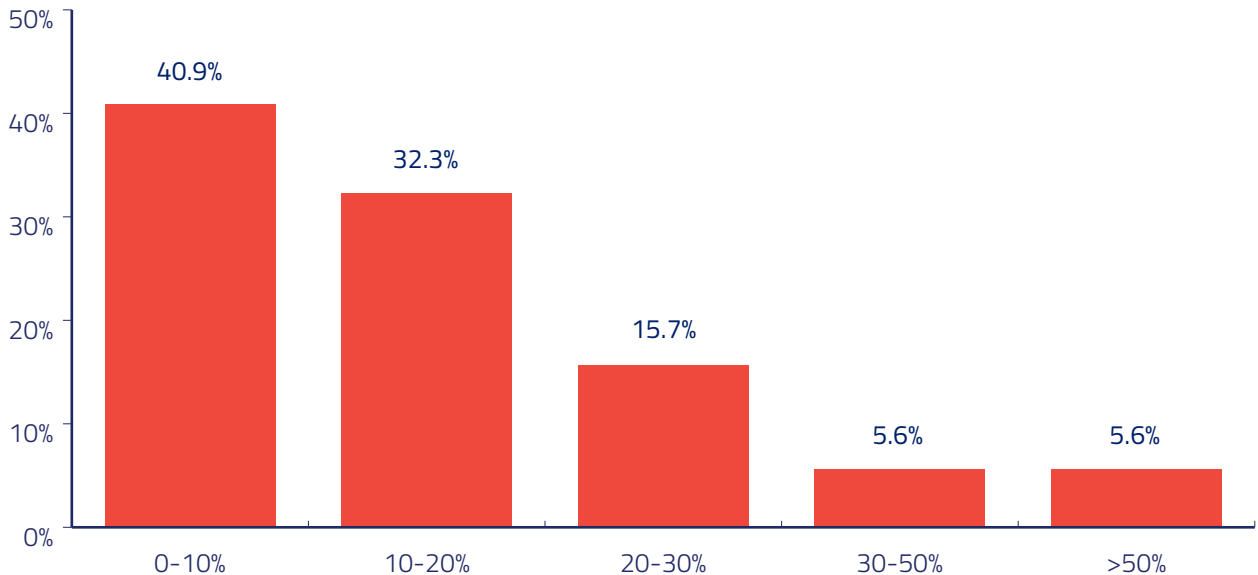
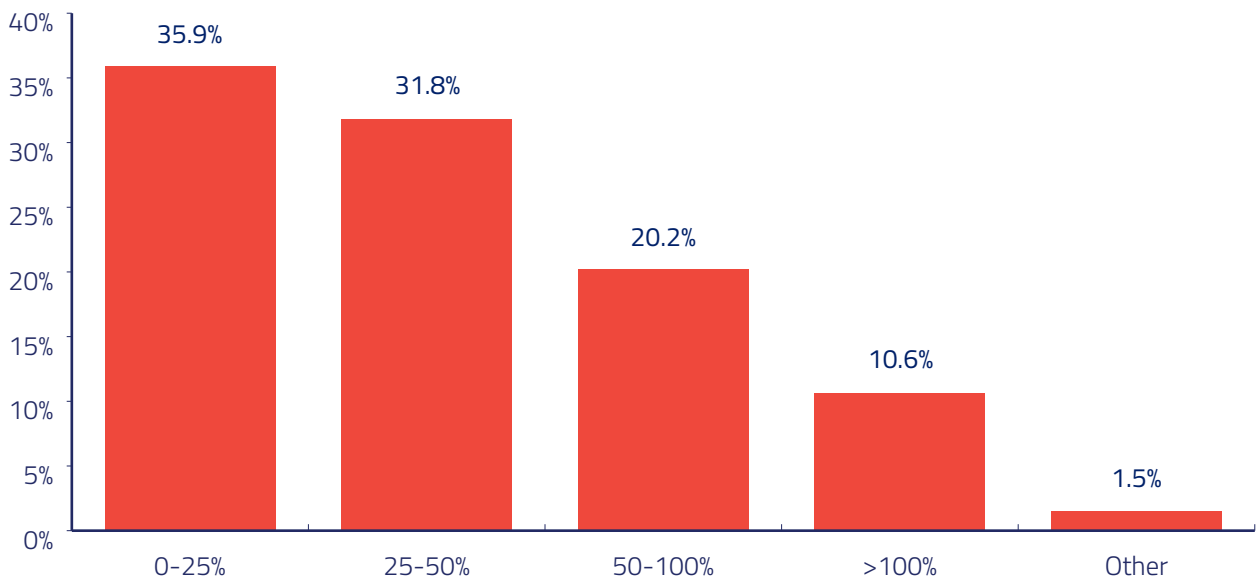


Chart 18

**By how much do you want to grow your business in the next five years?**



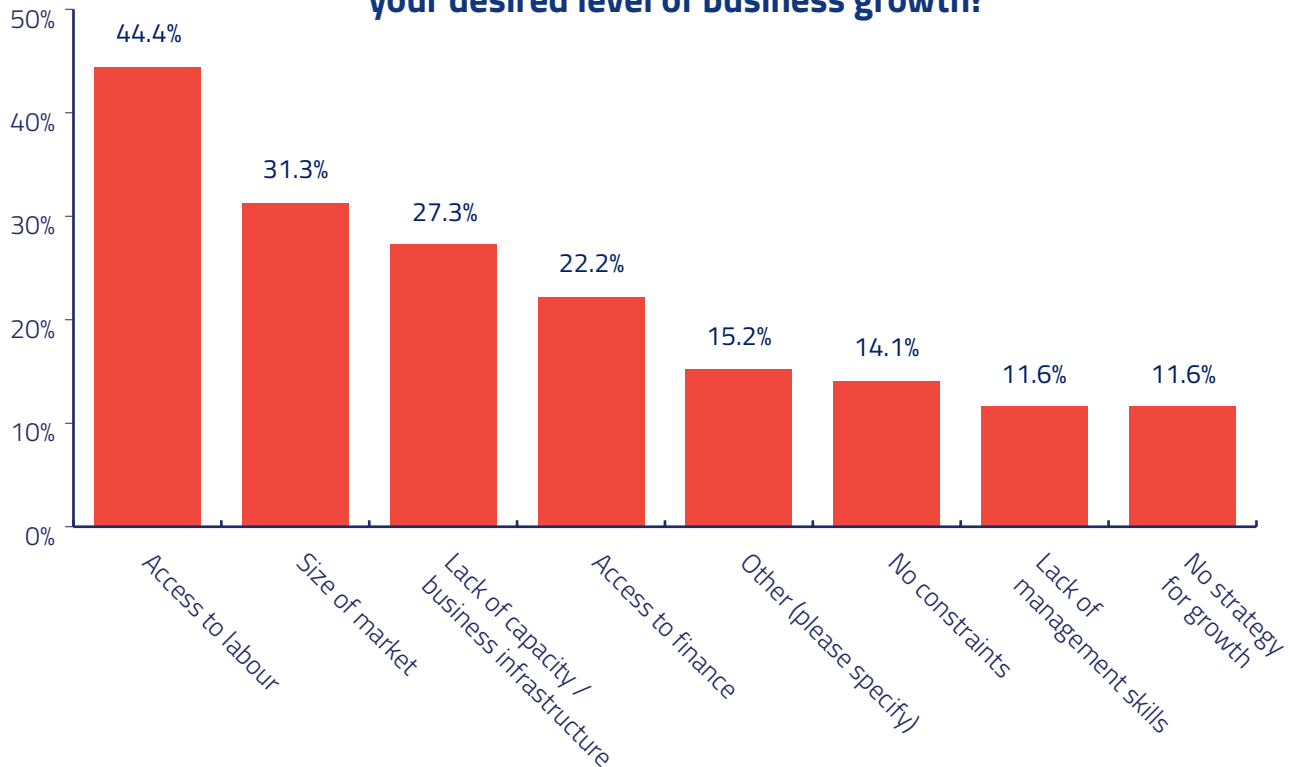
Over the course of one year, the majority (40.9%) of operators would like to grow their business by up to 10%, with around one-third (32.3%) looking to grow between 10 - 20%. Only 5.6% of respondents are aiming for growth above 50%.

Over the next five years the picture is similar, with 35.9% looking to grow up to 25%; and 40% aspiring to grow by over 50% (some over 100%) between December 2022 and December 2027.



Chart 19

### What are the constraints to achieving your desired level of business growth?



'Access to labour' was the primary constraint to growth, with almost half the respondents (44.4%) selecting this answer. This result aligns with anecdotal evidence from conversations with our members. 'Size of market', was the second most-selected constraint at 31.3%, closely followed by 'lack of capacity and/or business infrastructure' at 27.3%. 14.1% of business operators see no constraints to growth, whereas 11.6% were conscious of internal limiting factors, such as 'lack of management skills'.

***Our business goal is for continued optimum quality and consistent profit rather than growth.***

Agricultural, Forestry and Fishing, 1-19 employees

***Our growth at present has taken a flogging with the unexpected issues with the river flooding. This has impacted not only directly on our operation with infrastructure compromised by the waters but the indirect impact of massive increases to freight costs with the closure of ferries and roads around the region. This has also dramatically increased freight and time travelled for all of our activities and affected the ability to access parts and equipment as the freight routes have been altered for both incoming and outgoing items and products.***

Construction, 20-49 employees

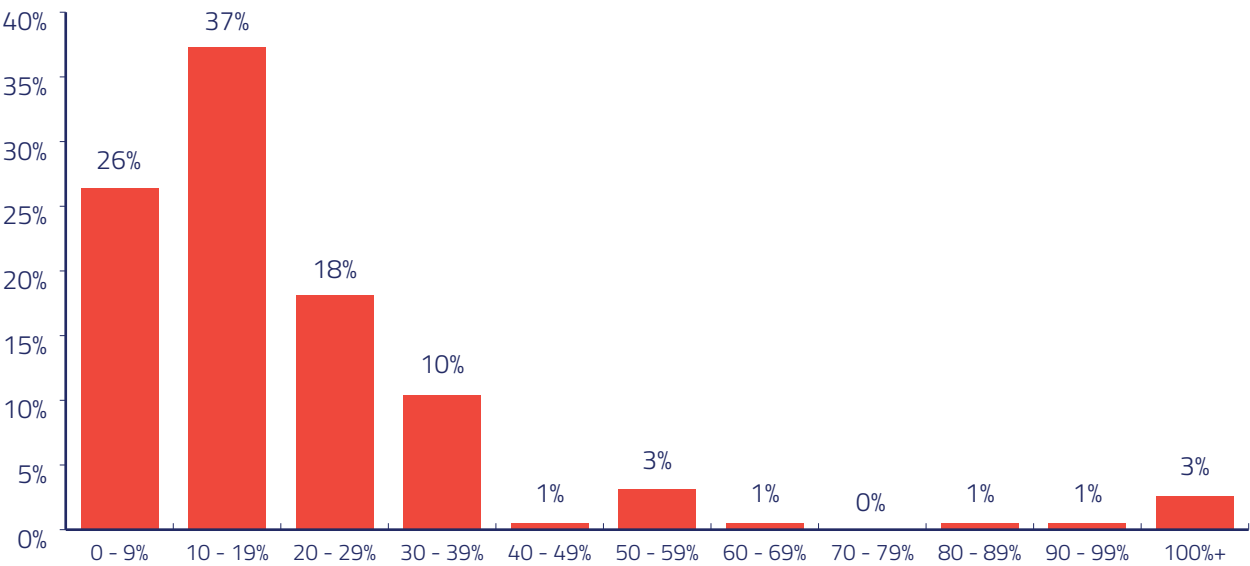
***Growth constraints due to fear in the marketplace because of inflation and high interest rates.***

Professional, Scientific and Technical Services, 1-19 employees

# ENERGY MARKET

Chart 20

How much have your business electricity bills increased by in the last 12 months compared to the previous 12 months?

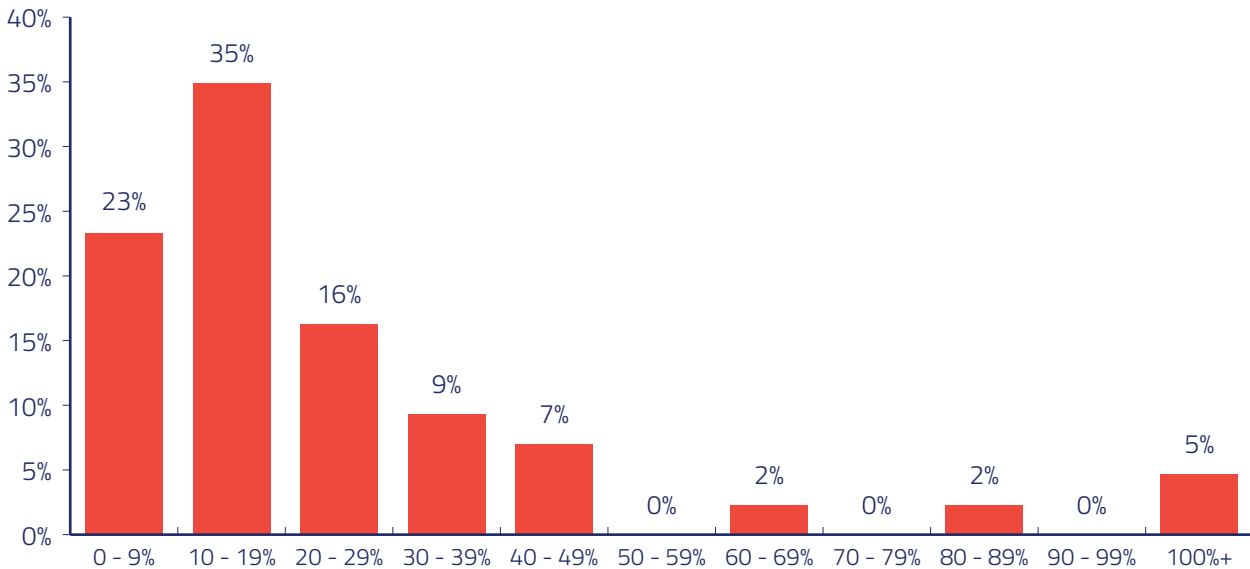


## Does your business use gas in its operations?

Yes	22.9%
No	77.1%

Chart 21

How much have your business gas bills increased by in the last 12 months compared to the previous 12 months?



Australia's energy crisis started in April 2022 and to date has led to the Federal Government's interventions in the National Electricity Market in June 2022 and the gas market in December 2022. Affordable electricity is essential for all businesses, and although gas is not used by all businesses, it remains an important input for many large-scale manufacturers in South Australia with almost a quarter (22.9%) of survey respondents using it in their operations. Electricity prices have been front of mind for business operators for some time. Respondents to our June 2022 survey indicated that electricity prices were the second top issue keeping them awake at night. South Australian businesses remain heavily impacted, reporting considerable electricity and gas cost increases over the last 12 months.

According to survey findings, over 81% of businesses have experienced electricity cost increases of up to 29%. The story is the almost the same for gas, with over 74% experiencing increases up to 29%. With the October 2022 Federal Budget forecast of increases of 56% in electricity prices over the next two years, these price rises show no sign of abating. Understanding how crucial affordable energy is for business, in January this year Business SA made a submission to the Essential Services Commission of South Australia's Inquiry into Retail Energy Prices, and also met with the Minister for Energy and Mining, Tom Koutsantonis, to discuss escalating energy costs for businesses.

#### **Has your business ever conducted an energy audit?**

<b>Yes</b>	27.2%
<b>No</b>	60.5%
<b>Unsure</b>	12.3%

#### **Does your business have assets installed to produce or store energy?**

<b>Yes</b>	42.6%
<b>No</b>	55.9%
<b>Unsure</b>	1.5%

#### **Has your business ever sought to improve energy efficiency through an external consultant?**

<b>Yes, we sought the services of an energy consultant</b>	16.5%
<b>No, we did our own research to improve energy efficiency</b>	42.8%
<b>No, we have never attempted to improve energy efficiency</b>	31.4%
<b>Unsure</b>	9.3%

### What assets does your business have?

Solar panels	40.7%
Wind	0.0%
Diesel generators	2.7%
Batteries	2.1%
I don't have any assets to produce or store energy	52.9%
Other	1.6%

### Irrespective of your opinion of the *need* for an energy transition from traditional power sources to renewables, do you believe the State Government has adequately planned for the energy transition?

Yes	13.1%
No	67.0%
I'm unaware of the energy transition	7.9%
Unsure	12.0%

### Irrespective of your opinion on the *need* for an energy transition from traditional power sources to renewables, do you believe the Federal Government has adequately planned for the energy transition?

Yes	4.7%
No	78.5%
I'm unaware of the energy transition	5.8%
Unsure	11.0%

Your success is our business.

In this edition of our Survey we asked South Australian businesses about the ongoing energy transition. In order to mitigate the effects of climate change, the Australian Government has committed to reducing its greenhouse gas emissions 43% below 2005 levels by 2030, and achieving net zero by 2050. The energy transition will assist in achieving these goals, through the shift from using fossil fuels such as coal and gas to renewable energy sources, including wind and solar power. The energy transition is also linked to the Environmental, Social, and Governance (ESG) framework, a set of standards which companies can use to assess opportunities and risks in terms of sustainability. Businesses are increasingly using renewable energy to achieve ESG outcomes to reduce greenhouse emissions, improve energy security and create jobs in green industries.

When asked about their views on the State and Federal Governments' planning around the energy transition, the business community is concerned.

In June 2022 a cold snap across south-eastern Australia contributed to less renewable energy – wind and solar – being generated than expected. Further, outages of coal-powered generators and wet coal, plus increased demand from gas generators, meant the Australian Energy Market Operator could not ensure a reliable electricity supply. For a few days there was a risk of load-shedding, or rolling blackouts, being required across South Australia. This situation tested the system and likely resulted in a loss of confidence in government's ability to manage the energy transition, both at state and federal levels. When asked, only 13.1% of businesses were confident that the State Government had adequately planned for the shift to renewables, and even less (4.7%) convinced of the Federal Government's preparation in this area. While electricity and gas prices keep rising, it is important to remember that South Australia is a global leader in renewable energy. In 2022, 70.7% of our state's electricity was generated from renewables, the highest worldwide (above Denmark at 68.9%).

In the December quarter survey, we asked businesses about their own readiness for the energy transition, with just over a quarter (27.2%) responding that they had conducted an energy audit. In asking how they have looked to improve energy efficiency in their business, 16.5% advised they had used the services of a consultant and 42.8% had done their own research. 42.6% of businesses reported having their own assets to produce or store energy, with 40.7% of businesses having solar panels, and 2.1% having batteries.







## A WORD FROM WILLIAM BUCK

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**Jamie McKeough**

**Chair Aust/NZ and Managing Director – William Buck**

### Mid-market resilience, a good sign

Steady as she goes. Those are my initial thoughts after reading the results of the December 2022 quarter Business SA, William Buck Survey of Business Expectations.

What we are seeing is a theme of resilience in the mid-market. Business confidence increased slightly by 4.5 points from the September quarter, with a minor decline of 1.7 points in business conditions.

It seems many who survived the extreme turbulence of COVID have learned even with the current economic challenges, pushing through is the way to go.

For many businesses, however, the concept of pushing through is proving challenging. Unsurprisingly, labour shortages remain one of the biggest issues for businesses in the December quarter according to 58.3% of respondents, however this is a positive reduction from 70% last quarter.

# WilliamBuck

ACCOUNTANTS & ADVISORS

Although reporting strong trade, results note sales as the biggest issue keeping business owners awake at night, a clear shift from supply issues last year, demonstrating concern that continual interest rate hikes may start to bite.

Further, businesses also reported higher expenditure than forecast in wages, materials, and overheads with over 50% of surveyed businesses experiencing cost increases, but only one-third inflated their prices to manage the additional expense.

There is optimism in the air. It's clear reading today's results we are seeing an appetite for innovation and growth.

Business owners seem ready to push through economic headwinds and expand with around 60% of businesses hoping to achieve at least double-digit growth in the year ahead and about a third hoping to grow by more than 50% in the next five years.

Hopefully over the next 12 months we will see access to skilled labour become easier for businesses. Right now, the biggest constraint to achieving any sort of meaningful short or long term growth is the unavailability of workers.

With many businesses ready to grow, I encourage them to not let their energy prices grow at the same time. According to the December quarter survey results, 31% of businesses admit they have never attempted to improve their energy efficiency.

With 81% of businesses reporting price hikes in their energy bills of up to 29%, businesses should act now to find savings, install energy-saving infrastructure, or invest in solar and battery technology to help ensure growth is not counteracted by increased energy bills.

Cost is not the only energy concern for businesses, with a clear lack of faith in the government's energy transition. 78.5% of business operators reported they don't believe the Federal Government has adequately planned for Australia's transition to renewable energy, with lack of confidence in the State Government's approach sitting at 67%.

I do believe the outlook is improving. The overall confidence displayed in this quarter's results despite rising inflation, energy price increases and lack of labour, demonstrates the resilience of mid-market business irrespective of the broader economic conditions.



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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