



Regional Pulse

Chamber of Commerce and Industry WA

July 2023



Chamber of Commerce
and Industry WA

Western Australia's regions are the engine room of the WA economy, supporting a range of key export industries, including resources, agriculture and tourism. In this report, we provide regional breakdowns of key results from the June 2023 *CCIWA Business Confidence Survey*. We also take a deeper dive into WA's skills challenges, providing unique insights into the impacts of labour shortages on regional businesses.

While every measure has been taken to ensure data reliability, care should be exercised when using regional estimates as they are subject to smaller sample sizes than state-wide results.

Pulse Check

The Outlook

Confidence by Region (WA)	Short-Term Conditions (3-Months)			Longer-Term Conditions (12-Months)		
	Stronger	Weaker	About the same	Stronger	Weaker	About the same
South West	23%	57%	20%	13%	57%	30%
Great Southern	12%	48%	39%	6%	55%	39%
Wheatbelt	20%	47%	33%	13%	58%	28%
Goldfields-Esperance	44%	11%	44%	22%	11%	67%
Mid-West/Gascoyne	31%	23%	46%	15%	54%	31%
Pilbara	55%	18%	27%	64%	27%	9%
WA Regions	24%	43%	33%	16%	52%	32%
Perth and Peel	33%	32%	34%	14%	40%	46%

On average, regional businesses are less optimistic than metro businesses in the short term but have similar levels of optimism over the longer term.

Only one quarter (24%) of regional businesses expect stronger conditions over the next three months – nine percentage points less than metro businesses (33%).

Looking to the next twelve months, around one in six (16%) regional businesses expect stronger conditions, 2 percentage points higher than metro area (14%).

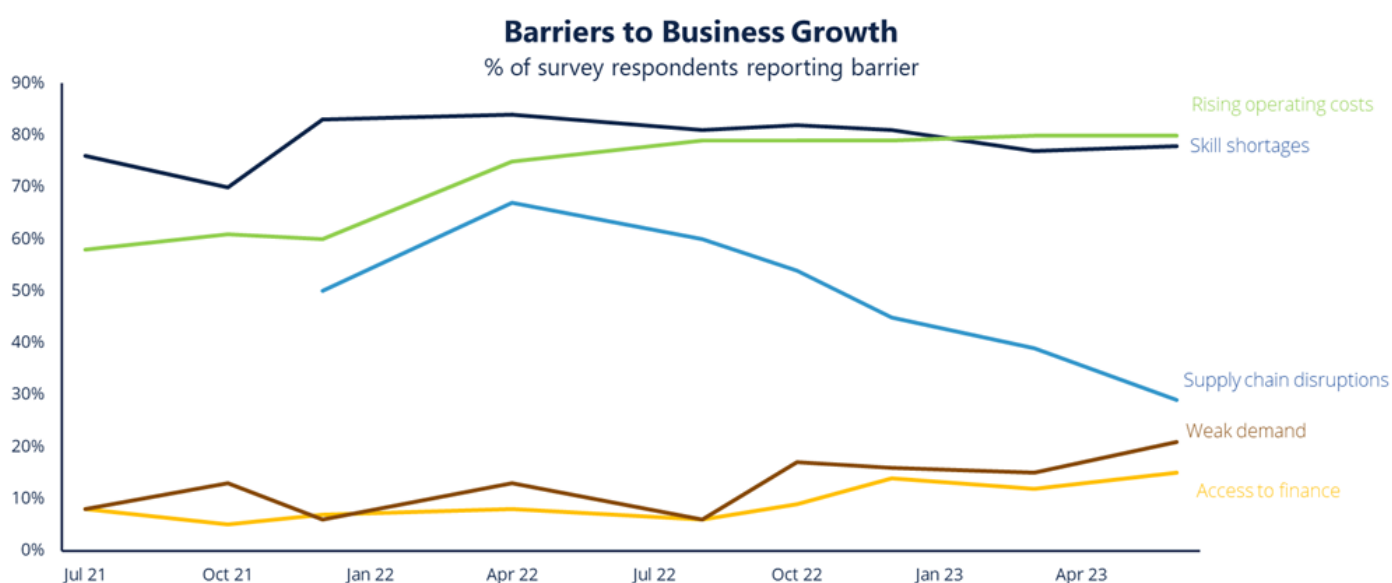
Breaking down the short-term outlook:

- Businesses in the Pilbara (55%), Goldfields-Esperance (44%), and Mid-West/Gascoyne (31%) regions are most optimistic over the next three months.
 - For businesses in the Pilbara and Goldfields-Esperance regions, elevated confidence levels may reflect continued strength in the resources sector. In particular, gold prices remained elevated over the quarter as interest rates rose further and investors' risk appetite continued to diminish. At the same time, Lithium and iron ore prices rebounded over the back end of the June quarter, which also may be contributing to the optimism in WA's major resource hubs.
 - For businesses in the Mid-West/Gascoyne, fewer are expecting stronger conditions in the next three months, down 16 percentage points from March. However, this is reflected in a greater proportion of businesses indicating they expect no change over the next quarter, as opposed to weaker conditions. This may reflect continued concerns around the high cost operating environment and skills shortages, as well as growing concerns around weak demand.
 - Businesses in the South West, Great Southern and Wheatbelt regions are comparatively less optimistic about the economic conditions over the next three months. Only one quarter (23%) of businesses in the South West, one in five (20%) businesses in the Wheatbelt and one in 10 (12%) businesses of in the Great Southern expect stronger economic conditions over the next three months. For the Wheatbelt, this may reflect drier weather in some areas impacting growing conditions, while for the South West and Great Southern this is likely underpinned by expectations of weaker tourism as spending slows, combined with the significant increase in operating costs and ongoing skilled labour shortages.

Barriers to Business

What do you see as a barrier to growing your business in the year ahead?	Barriers to Business					
	Rising operating costs	Availability of skilled labour	Supply chain disruptions	Weak demand	Difficulty accessing new finance from banks	International trade tensions
South West	77%	53%	17%	30%	17%	10%
Great Southern	79%	82%	21%	27%	21%	21%
Wheatbelt	82%	67%	37%	21%	15%	7%
Goldfields-Esperance	89%	78%	44%	11%	11%	0%
Mid-West/Gascoyne	77%	92%	31%	8%	8%	0%
Pilbara	82%	100%	27%	0%	9%	0%
WA regions	80%	72%	29%	21%	15%	9%
Perth and Peel	82%	78%	24%	32%	8%	11%

Rising operating costs dominates again as the main barrier to regional WA businesses over the next year. Four out of five (80%) regional businesses reported this as a barrier, unchanged since last quarter and only slightly below that of Perth and Peel (82%). Concerns around rising costs were most prevalent in the Goldfields-Esperance (89%), Wheatbelt (89%) and Pilbara (82%) regions.



Skills shortages also remains of significant concern with more than seven in 10 (72%) regional businesses identifying this as a barrier to growing their business over the coming year. This is slightly down on last quarter (down 5 percentage points) in contrast with that of Perth and Peel, which has risen three percentage points to 78 per cent. Regions most affected by skilled labour shortages are the Pilbara (100%), Mid-West/Gascoyne (92%) and Great Southern (82%).

Supply chain disruptions have eased further, with just under three in 10 (29%) regional businesses identifying it as a barrier to growth in the coming year, down 10 percentage points since last quarter. That includes over two in five (44%) businesses in the Goldfields-Esperance and just over one third (37%) in the Wheatbelt regions.

All regions (except the Pilbara) have seen a greater proportion of businesses indicate weak demand as a barrier to growth over the coming year – with weak demand increasing as a barrier by up to 10 percentage points per region. Concerns about weak demand were most acute in the South West (30%) and Great Southern (27%), both being regions that rely on tourism which may begin to fall as consumers tighten their belts in response to the impending slowdown in the WA economy.

Worker Shortages in Regional WA

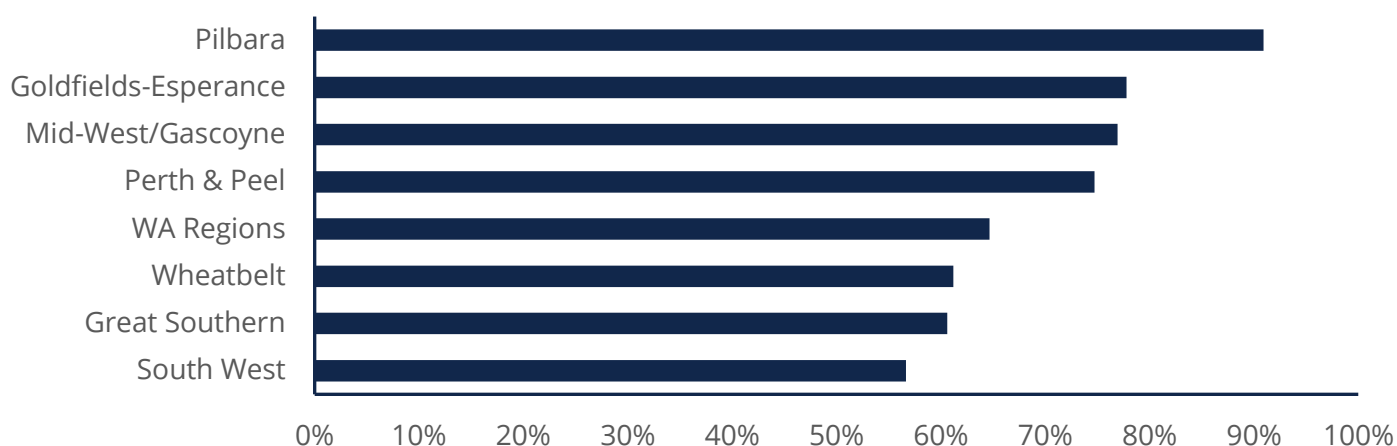
In this edition of *Regional Pulse*, we look at WA's skills shortage and its impacts on regional businesses.

All up, 64 per cent of regional businesses identified they have struggled to fill a skilled occupation – this is down 8 percentage points since the March quarter.

- Skill shortages are most acute in the Pilbara (91%), Goldfields-Esperance (78%) and Mid-West/Gascoyne (77%) regions.
- In all other regions (with the exception of the South West), at least six in 10 businesses identified they are struggling to hire skilled workers.

Is your business struggling to hire for a particular skillset?

Proportion that responded 'yes'



Top three occupations in demand by WA region	Perth & Peel	South West	Great Southern	Wheatbelt	Goldfields-Esperance	Mid-West/Gascoyne	Pilbara
1	Tradespeople	Tradespeople	Tradespeople	Professional Services	Tradespeople	Technicians	Mechanics
2	Professional Services	Sales Staff	Administration Staff	Agricultural Staff	Managers	Mechanics	Managers
3	Sales Staff	Mechanics	Sales Staff	Tradespeople	Administration Staff	Chefs	Engineers

So, how are regional businesses responding?

- The most common response is boosting existing employees' base wages (48%). Those who have increased or are planning to increase employees' base wages are doing so by an average of 10 per cent. At the same time, 17 per cent of businesses in the regions are providing one-off financial rewards, such as retention bonuses to existing employees.
- 45 per cent of regional businesses are investing in upskilling existing employees, with those in the Pilbara (82%) and the Goldfields-Esperance (67%) regions most likely to be ramping up their training efforts.
- Just over two in five (43%) regional businesses are investing in training new employees, with businesses in the Mid-West/Gascoyne (77%) and the Pilbara (64%) most likely to be investing in new starters. At the same time, 9 per cent of regional businesses are providing sign-on bonuses or other incentives to new employees.
- One in five (19%) identified that they are turning down offers for new work (e.g. tenders) — down 3 percentage points since last quarter. Those in the Mid-West/Gascoyne (46%) are most likely to be turning down new projects and work.

Labour costs

Expectations by Region (WA)	Labour Costs					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
South West	0%	21%	79%	0%	25%	75%
Great Southern	0%	27%	73%	0%	21%	79%
Wheatbelt	2%	35%	63%	1%	27%	72%
Goldfields-Esperance	11%	22%	67%	0%	11%	89%
Mid-West/Gascoyne	8%	15%	77%	0%	15%	85%
Pilbara	0%	9%	91%	0%	9%	91%
WA Regions	2%	27%	71%	1%	22%	77%
Total WA	1%	18%	81%	0%	19%	81%
Perth and Peel	2%	13%	85%	1%	19%	81%

Seven in 10 (71%) regional businesses saw labour costs rise over the quarter, a much lower proportion to metro businesses (85%). This is also down 12 percentage points from the March quarter. Looking to the next three months, more than three in four (77%) regional WA businesses are anticipating labour costs to rise over the next three months (up 9 percentage points from last quarter), while around one in five (22%) anticipate no change (down 9 percentage points). Only 1 per cent expect wage pressures to ease over the coming quarter.

Businesses that expect labour costs to rise are more likely to operate in the Pilbara (91%) and Goldfields-Esperance (89%) regions – the only regions with a greater proportion reporting higher labour costs than the Perth metro area (85%).

Production

Expectations by Region (WA)	Production					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
South West	63%	13%	23%	45%	24%	31%
Great Southern	34%	50%	16%	21%	64%	15%
Wheatbelt	30%	47%	23%	29%	48%	23%
Goldfields-Esperance	11%	56%	33%	11%	33%	56%
Mid-West/Gascoyne	23%	38%	38%	23%	38%	38%
Pilbara	18%	27%	55%	27%	36%	36%
WA Regions	35%	40%	25%	29%	44%	27%
Total WA	34%	33%	34%	26%	38%	35%
Perth and Peel	31%	32%	37%	21%	40%	39%

Only one quarter (27%) of regional businesses are planning to ramp up production over the next three months — down a huge 21 percentage points since last quarter and 31 percentage points since the start of the year. This is lower than the whole of WA, where 35 per cent are planning to increase production.

Businesses most likely to increase production over the coming quarter operate in the Goldfields-Esperance (56%) and Mid-West/Gascoyne (38%) regions.

Profit margins

Expectations by Region (WA)	Profit Margins					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
South West	70%	23%	7%	68%	18%	14%
Great Southern	52%	42%	6%	55%	39%	6%
Wheatbelt	50%	38%	12%	56%	36%	8%
Goldfields-Esperance	44%	22%	33%	25%	25%	50%
Mid-West/Gascoyne	38%	38%	23%	38%	23%	38%
Pilbara	55%	27%	18%	55%	36%	9%
WA Regions	53%	35%	12%	55%	32%	13%
Total WA	58%	31%	12%	51%	35%	14%
Perth and Peel	59%	31%	10%	50%	37%	13%

Almost three in five (58%) all WA businesses reported declining profit margins over the three months to June, up two percentage points since last quarter. A slightly smaller portion of regional businesses reported declining profits, with 53 per cent reporting a decline over the June quarter. Noticeably, a lower proportion of businesses in the Pilbara (-18 percentage points) and the Mid-West/Gascoyne (-15 percentage points) reported weaker profits compared to last quarter.

Looking ahead, the profit outlook for WA's regions remains relatively subdued, with a majority of regional businesses (55%) expecting profits to decline next quarter – up 8 percentage points since last quarter. As mentioned, a significant proportion of regional businesses have identified rising operating costs as a barrier to growing their business over the coming year, which continues to dampen profit expectations.

Despite this, the Goldfields-Esperance (+42 percentage points) and the Mid-West/Gascoyne (+18 percentage points) regions reported a significantly higher proportion of businesses expecting profits to increase over the next 3 months.

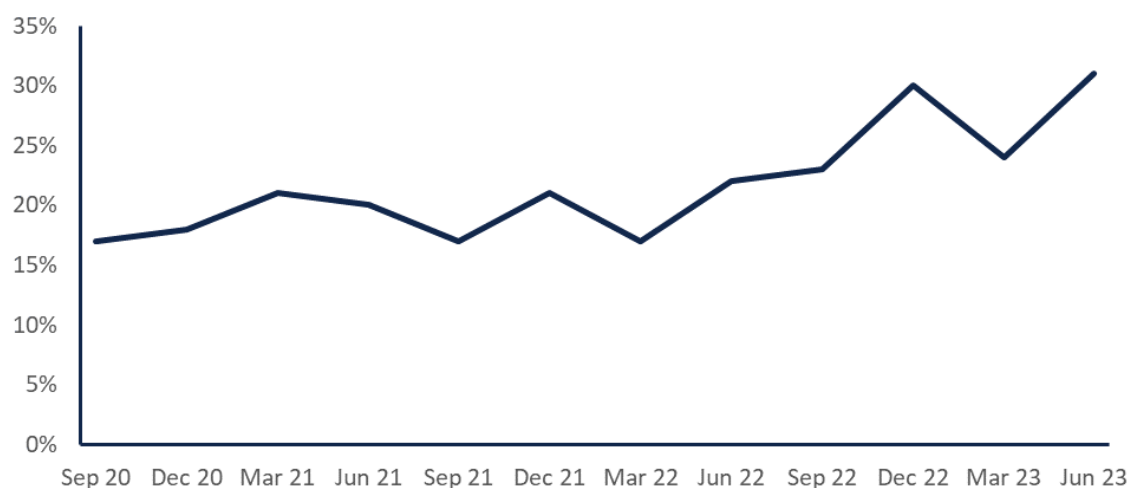
Level of credit or debt

Expectations by Region (WA)	Level of Credit or Debt					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
South West	7%	57%	37%	7%	53%	40%
Great Southern	0%	72%	28%	3%	70%	27%
Wheatbelt	9%	58%	32%	11%	64%	25%
Goldfields-Esperance	11%	56%	33%	11%	78%	11%
Mid-West/Gascoyne	15%	62%	23%	23%	69%	8%
Pilbara	9%	64%	27%	0%	73%	27%
WA Regions	8%	61%	31%	9%	65%	26%
Total WA	6%	63%	31%	7%	66%	28%
Perth and Peel	7%	63%	30%	7%	67%	26%

While rising debt levels can be an indication of future expansion plans, it can also reflect increased financial stress as businesses look to maintain operations by taking on short-term debt. This is particularly true as borrowing costs have skyrocketed due to the sharp lift in interest rates, with the cash rate rising four percentage points in little over a year.

Level of credit or debt increase

Proportion responding 'Increase', Current quarter



Three in 10 (31%) businesses in regional WA increased their debt or credit levels in the June quarter, up 7 percentage points from the March quarter. The current June quarter survey has seen a record high in proportion of businesses indicating they increased their level of credit or debt. Looking ahead to the next three months, one in four (26%) are anticipating their debt or credit levels to rise.

Businesses most likely to see an increase in debt levels over the next three months operate in the South West (40%), Great Southern (27%) and Pilbara (27%) regions. Overall, the majority of regional businesses (65%) are expecting their debt or credit levels to remain stable over the next three months, a similar proportion to those operating in the Perth metro area and the same proportion as last quarter.

Capital expenditure

Expectations by Region (WA)	Capital Expenditure					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
South West	7%	53%	40%	13%	57%	30%
Great Southern	6%	55%	39%	15%	55%	30%
Wheatbelt	11%	54%	35%	13%	54%	33%
Goldfields-Esperance	0%	67%	33%	11%	67%	22%
Mid-West/Gascoyne	15%	46%	38%	0%	77%	23%
Pilbara	0%	55%	45%	9%	27%	64%
WA Regions	8%	54%	38%	12%	55%	33%
Total WA	6%	56%	38%	10%	57%	33%
Perth and Peel	8%	53%	39%	11%	59%	30%

One in three (33%) businesses in regional WA plan to increase capital expenditure over the next three months – up 8 percentage points from last quarter. At the same time, just over one in 10 (12%) regional businesses plan to decrease their capital expenditure – the same proportion as the March quarter.

Businesses most likely to ramp up their capital expenditure operate in the Pilbara (64%) and Wheatbelt (33%) regions. Maintaining the confidence of businesses to invest will be critical to Western Australia's sustained economic strength.

Employment

Expectations by Region (WA)	Employment					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
South West	27%	47%	27%	23%	37%	40%
Great Southern	24%	52%	24%	18%	58%	24%
Wheatbelt	19%	46%	34%	14%	50%	36%
Goldfields-Esperance	33%	33%	33%	11%	78%	11%
Mid-West/Gascoyne	15%	23%	62%	15%	31%	54%
Pilbara	18%	18%	64%	0%	27%	73%
WA Regions	22%	43%	35%	15%	48%	37%
Total WA	22%	41%	37%	17%	45%	38%
Perth and Peel	21%	39%	40%	17%	46%	37%

WA's labour market continues to remain tight. Despite our unemployment rate increasing over the last three months to reach 3.7% in May, this is still near record low levels. And despite falling from the highs of early 2022, job vacancies continue to remain at high levels, showing demand for workers is still strong.

Just over one in three (35%) regional businesses increased their staff levels over the quarter – down 7 percentage points – while a further 43 per cent recorded no change to their workforce. Businesses in the Pilbara (64%) recorded the strongest rise in employment levels over the quarter, closely followed by businesses in the Mid-West/Gascoyne (62%).

Looking forward to the next three months, hiring intentions remain stable – particularly among businesses located in the Pilbara (73%), Mid-West/Gascoyne (54%) and South West (40%) regions.

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