

Regional Pulse

March 2023

Chamber of Commerce and Industry WA



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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 March 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, particular care should be exercised when using regional estimates as they are subject to smaller sample sizes than state-wide results. In this edition, some regions have been omitted from the report due to insufficient sample sizes.

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	30%	48%	22%	17%	57%	26%
Great Southern	28%	22%	50%	22%	67%	11%
Goldfields-Esperance	45%	9%	45%	23%	54%	23%
Mid-West/Gascoyne	47%	20%	33%	20%	40%	40%
Pilbara	45%	36%	18%	55%	18%	27%
Kimberley	40%	20%	40%	30%	40%	30%
WA Regions	38%	27%	35%	25%	47%	27%
Perth and Peel	39%	29%	32%	23%	41%	36%

On average, regional businesses are slightly more optimistic than metro businesses in the short term but less so over the longer term.

Just over one third (35%) of regional businesses expect stronger conditions over the next three months – three percentage points higher than for metro businesses (32%).

Looking to the next twelve months, around one quarter (27%) regional businesses expect stronger conditions, nine percentage points less than metro businesses (36%).

Breaking down the short-term outlook:

- Businesses in the Mid-West/Gascoyne (47%), Pilbara (45%) and Goldfields-Esperance (45%) 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, iron ore prices have held steady over the three months to March following a rise at the end of 2022, while iron ore majors announced strong results for the December 2022 quarter. The reopening of China has also seen expectations for resources demand rise, which may also be supporting confidence.
 - For businesses in the Mid-West/Gascoyne, a slight improvement in being able to attract skilled labour and a reduction in the number of businesses reporting supply chain disruptions may reflect improved confidence. 80 per cent of businesses in the region reported struggling to hire for a skilled occupation, down from 94 per cent in the December 2022 quarter. Similarly, one third (33%) reported supply chain disruptions as a barrier to doing business, down 17 percentage points since last quarter.
 - Businesses in the South West and Great Southern regions are comparatively less optimistic about the next three months. Just over one quarter (28%) of businesses in the Great Southern and three in 10 (30%) businesses in the South West expect stronger economic conditions over the next three months. This is likely underpinned by the significant increase in operating costs being experienced in these regions, as well as skilled labour shortages in the Great Southern and weakening demand in the South West.

Barriers to Business

What do you see as a barrier to growing your business in the year ahead?	Barriers to Business					
	Availability of skilled labour	Supply chain disruption	Weak demand	Rising operating costs	Difficulty accessing new finance from banks	International trade tensions
South West	46%	25%	29%	79%	13%	13%
Great Southern	94%	50%	17%	89%	22%	11%
Goldfields-Esperance	77%	46%	8%	77%	0%	8%
Mid-West/Gascoyne	87%	33%	0%	80%	7%	7%
Pilbara	92%	50%	0%	83%	17%	0%
Kimberley	83%	42%	25%	59%	17%	8%
WA regions	77%	39%	15%	80%	12%	8%
Perth and Peel	75%	34%	18%	75%	10%	15%

Rising operating costs has risen to become the greatest barrier to regional WA businesses over the next year. Four out of five (80%) regional businesses reported this as a barrier, slightly higher than for metro businesses (75%). Concerns around rising costs were most prevalent in the Great Southern (89%), Pilbara (83%) and Mid-West/Gascoyne (80%) regions.

Skills shortages still remains of significant concern with more than three quarters (77%) of regional businesses identified this as a barrier to growing their business over the coming year. This is slightly down on last quarter (down four percentage points) in line with that of Perth and Peel (75%). The Great Southern (94%), Pilbara (92%) and Mid-West/Gascoyne (87%) regions remain the most affected by shortages of skilled labour.

Supply chain disruptions have eased further, with just under two in five (39%) regional businesses identifying it as a barrier to growth in the coming year, down six percentage points since last quarter. This includes half (50%) of businesses in the Great Southern and Pilbara regions. Weaker demand continues to remain a concern for some regional businesses, with just under one in six (15%) identifying this factor as a barrier to growing their business in the year ahead — a similar proportion to last quarter. Much of this is driven by the South West (29%) and Kimberley (25%) regions, both being areas that rely on tourism which may fall as the economy slows over the next year.

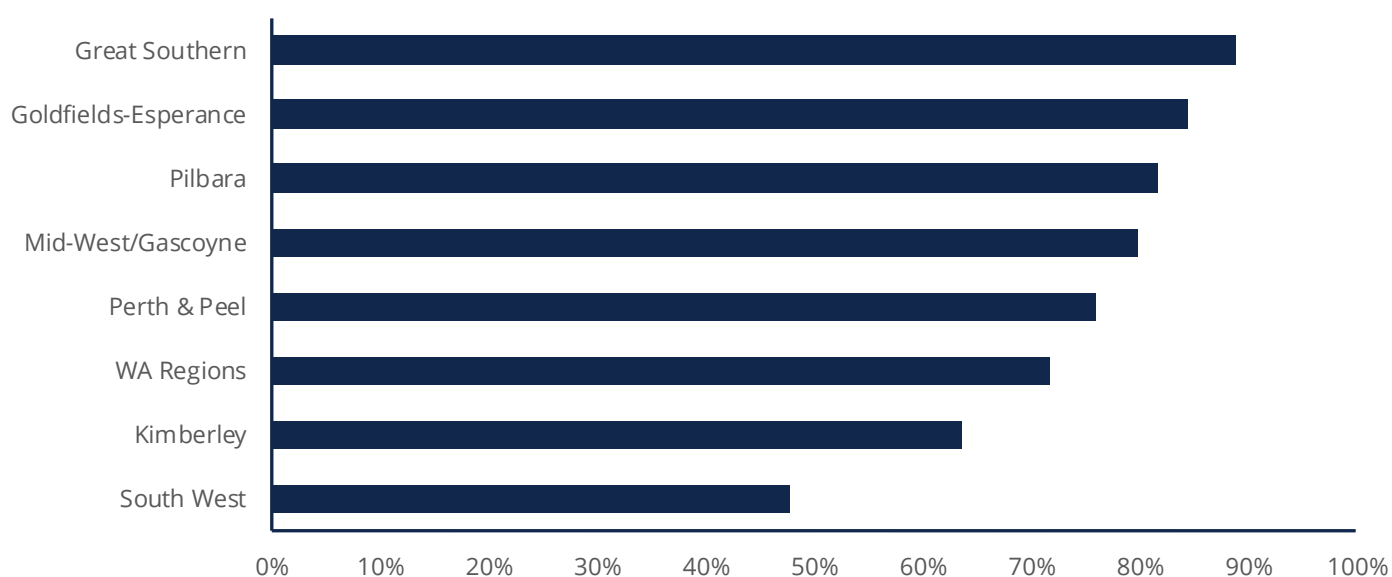
Worker Shortages in Regional WA

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

All up, 72% of regional businesses identified they have struggled to fill a skilled occupation. The Great Southern (89%) and Goldfields-Esperance (85%) regions reported the greatest proportion of businesses struggling to hire 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	Goldfields-Esperance	Mid-West/Gascoyne	Pilbara	Kimberley
1	General Tradespeople	General Tradespeople	General Tradespeople	Tradespeople	Technicians	General Tradespeople	Mechanics
2	Technicians	Admin Staff	Hospitality Workers	Mechanics	General Tradespeople	Technicians	General Tradespeople
3	Sales Staff	Hospitality Workers	Sales Staff	Truck Drivers	Admin Staff	Admin Staff	Hospitality Workers

So, how are regional businesses responding?

- The most common response is investing in training new employees (65%), with businesses in the Mid-West/Gascoyne (87%) and the Goldfields-Esperance (77%) most likely to be investing in new starters. At the same time, 9 per cent of businesses are providing sign-on bonuses or other incentives to new employees.
- 63 per cent of regional businesses are investing in upskilling existing employees, with those in the Pilbara (92%) and Mid-West/Gascoyne (87%) most likely to be ramping up their training efforts.
- Around three out of five regional businesses (61%) are boosting their existing employees' base wage, including 92% in the Pilbara. One fifth (19%) of businesses in the regions are providing one-off financial rewards such as retention bonuses to existing employees.
- Two in five (22%) identified that they are turning down offers for new work (e.g. tenders) — down 9 percentage points since last quarter. Those in the Pilbara (42%) 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
Perth and Peel	1%	16%	83%	2%	29%	69%
South West	4%	13%	83%	4%	26%	70%
Great Southern	0%	0%	100%	0%	33%	67%
Goldfields-Esperance	0%	23%	77%	0%	46%	54%
Mid-West/Gascoyne	0%	7%	93%	0%	20%	80%
Pilbara	0%	18%	82%	0%	18%	82%
Kimberley	0%	36%	64%	0%	45%	55%
WA Regions	1%	16%	83%	1%	31%	68%
Total WA	2%	17%	81%	2%	31%	68%

More than four in five (83%) regional businesses saw labour costs over the quarter, a similar proportion to metro businesses. Looking to the next three months, two thirds (68%) of regional WA businesses are anticipating labour costs to increase over the next three months, while around three in ten (31%) expect no change – both unchanged from last quarter. Only 1% expect wage pressures to ease over the coming quarter.

Businesses that expect labour costs to rise are more likely to operate in the Pilbara (82%) and Mid-West/Gascoyne (80%) regions – much higher than those in the Perth metro area (68%).

Production

Expectations by Region (WA)	Production					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	31%	37%	32%	22%	35%	43%
South West	39%	39%	22%	27%	32%	41%
Great Southern	18%	41%	41%	24%	18%	59%
Goldfields-Esperance	15%	38%	46%	36%	36%	27%
Mid-West/Gascoyne	0%	67%	33%	7%	50%	43%
Pilbara	27%	45%	27%	9%	27%	64%
Kimberley	45%	18%	36%	10%	20%	70%
WA Regions	23%	44%	33%	19%	33%	48%
Total WA	29%	38%	33%	21%	35%	44%

Almost one half (48%) of regional businesses are planning to ramp up production over the next three months — up 10 percentage points since last quarter. This is slightly higher than the whole of WA, where 44 per cent are planning to increase production.

Businesses most likely to increase production over the coming quarter operate in the Kimberley (70%) and Pilbara (64%) regions.

Profit margins

Expectations by Region (WA)	Profit Margins					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	60%	28%	13%	45%	42%	12%
South West	65%	30%	4%	55%	32%	14%
Great Southern	61%	33%	6%	50%	33%	17%
Goldfields-Esperance	38%	46%	15%	42%	50%	8%
Mid-West/Gascoyne	53%	40%	7%	47%	33%	20%
Pilbara	73%	9%	18%	55%	36%	9%
Kimberley	27%	73%	0%	18%	64%	18%
WA Regions	54%	38%	8%	47%	39%	14%
Total WA	56%	32%	12%	46%	42%	13%

Just more than half (56%) of all WA businesses reported declining profit margins over the three months to March, down three percentage points since last quarter. A slightly smaller portion of regional businesses reported declining profits, with 54 per cent reporting a decline over the March quarter.

Looking ahead, the profit outlook for WA's regions remains relatively subdued, with two in five regional businesses (46%) expecting profits to decline next quarter – the same proportion as last quarter. A higher proportion of businesses in every region, except for the Kimberley region, are expecting profit levels to fall over the next three months, compared to those anticipating profits to rise.

As outlined previously, 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 temper profit expectations.

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
Perth and Peel	7%	67%	26%	6%	69%	26%
South West	5%	67%	29%	10%	62%	29%
Great Southern	6%	78%	17%	0%	65%	35%
Goldfields-Esperance	8%	69%	23%	0%	75%	25%
Mid-West/Gascoyne	7%	73%	20%	13%	60%	27%
Pilbara	0%	64%	36%	9%	45%	45%
Kimberley	0%	82%	18%	0%	82%	18%
WA Regions	5%	71%	24%	7%	65%	29%
Total WA	7%	70%	24%	6%	67%	27%

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 over the past 12 months.

Around one quarter (24%) of businesses in regional WA increased their debt or credit levels in the December quarter, down six percentage points since December. Looking ahead to the next three months, three in 10 (29%) are anticipating their debt or credit levels to rise.

Businesses most likely to have increased debt operate in the Pilbara (45%) and Great Southern (35%) 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.

Capital expenditure

Expectations by Region (WA)	Capital Expenditure					
	Current Quarter			Next Quarter		
	Decrease	No Change	Increase	Decrease	No Change	Increase
Perth and Peel	9%	60%	31%	9%	54%	37%
South West	17%	52%	30%	14%	68%	18%
Great Southern	12%	53%	35%	6%	76%	18%
Goldfields-Esperance	15%	54%	31%	17%	50%	33%
Mid-West/Gascoyne	7%	53%	40%	7%	67%	27%
Pilbara	18%	36%	45%	18%	45%	36%
Kimberley	0%	64%	36%	9%	55%	36%
WA Regions	13%	53%	34%	12%	63%	25%
Total WA	11%	57%	32%	11%	57%	33%

One quarter (25%) of businesses in regional WA plan to increase capital expenditure over the next three months – down three percentage points from last quarter. This partly reflects rising interest rates increasing the cost of capital for businesses, forcing some to put off or delay investment projects as a result.

Businesses most likely to ramp up their capital expenditure operate in the Pilbara (36%) and Kimberley (36%) 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
Perth and Peel	25%	37%	38%	14%	49%	37%
South West	26%	48%	26%	14%	64%	23%
Great Southern	22%	22%	56%	12%	29%	59%
Goldfields-Esperance	8%	46%	46%	8%	75%	17%
Mid-West/Gascoyne	13%	53%	33%	7%	53%	40%
Pilbara	18%	18%	64%	9%	45%	45%
Kimberley	0%	55%	45%	0%	36%	64%
WA Regions	19%	40%	42%	10%	50%	40%
Total WA	22%	38%	40%	14%	48%	38%

WA's labour market continues to remain tight. Despite our unemployment rate increasing to 3.9% in February, this is still near record low levels and job vacancies continues to outnumber unemployed persons.

Two in five (42%) regional businesses increased their staff levels over the quarter – up 13 per centage points – while a further 40 per cent recorded no change to their workforce. Businesses in the Pilbara (64%) recorded the strongest rise in employment levels over the quarter.

Looking forward to the next three months, hiring intentions remain stable – particularly among businesses located in the Kimberley (64%), Great Southern (59%) and Pilbara (45%) regions.

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