

# ANNUAL WAGE REVIEW 2021-22

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## THIRD SUBMISSION OF AUSTRALIAN BUSINESS INDUSTRIAL AND BUSINESS NSW (NSW BUSINESS CHAMBER LTD)

3 June 2022

## About ABI and Business NSW (NSW Business Chamber Ltd)

Australian Business Industrial (ABI) is registered under the *Fair Work (Registered Organisations) Act 2009* and has some 4,200 members. NSW Business Chamber Ltd (trading as Business NSW) is registered under the (NSW) *Industrial Relations Act 1996* and is a State registered association recognised pursuant to Schedule 2 of the *Fair Work (Registered Organisations) Act 2009*. As NSW's peak business organisation, Business NSW has more than 40,000 member businesses across NSW.

ABI is comprised of Business NSW members who specifically seek membership of a federally registered organisation.

This submission has been approved by the Council of ABI on behalf of its members and endorsed by the workplace policy committee of Business NSW.

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# Executive Summary

**Recommendation 1:**

- That the Expert Panel determine between a 2.5 and 3 per cent increase in the 2021-22 Annual Wage Review, in addition to the Superannuation Guarantee increase.

**Recommendation 2:**

- That the Expert Panel continue with staggered dates for Award increases in line with last year's approach, while industries that have been significantly impacted by the pandemic continue to recover.

This submission is our third submission for the 2021-22 Annual Wage Review and is made in response to recently released data. Of note, our recommendations remain the same as those contained in our initial submission.

GDP data for the March quarter shows that the Australian economy grew 0.8 per cent quarter on quarter, or 3.3 per cent in year-on-year terms. Although the overall economy performed better than expected, this is a significant slowdown on the December quarter.

Given the volatility in the economy during the pandemic and how differently it has reacted compared to previous economic downturns, it is difficult to forecast GDP growth with any accuracy. Accordingly, the economic outlook remains highly uncertain and unpredictable. Although public health restrictions have been lifted in most states and territories, fragile consumer and business confidence may linger for some time as the community adjusts to living with COVID safely, delaying the full recovery of the economy.

Rising interest rates and inflation also mean that businesses face rising costs for raw materials, rent, utilities and insurance. Our data indicates that operating cost pressures are the biggest issue for NSW businesses at this time.

Our April 2022 Business Conditions Survey found that, although businesses are no longer operating in a crisis environment as compared to the Omicron surge in January, rising costs are the key challenge for businesses to survive and thrive.

An overwhelming 97 per cent of respondents to the survey have had to make operational changes to deal with rising business costs. Only around one fifth of respondents (18 per cent) were able to fully pass on rising business costs to consumers. A larger proportion of businesses have had to either share rising business costs with consumers (40 per cent) or fully bear the increasing costs (29 per cent).

Anecdotal evidence received by Business NSW indicates that the long-term closure of international borders continues to severely hamper recovery of the *Accommodation and food services* industry in particular and we anticipate that it will be some time before this industry has fully recovered from the impact of the pandemic.

This anecdotal evidence is strongly supported by ABS data. In April 2022, there were 575,000 recorded Overseas Arrivals and Departures. While this is a significant increase in numbers during the pandemic (amid international border closures), it is a significant reduction from the 2.26 million arrivals in January 2020<sup>1</sup>.

Given this data and the uneven performance across industry sectors, it is our ongoing view that the Commission should take a balanced approach to this year's Annual Wage Review.

**Accordingly, it is our continuing recommendation that a 2.5 - 3 per cent increase would be appropriate in the current economic environment, in addition to the 0.5 per cent Superannuation Guarantee increase due on 1 July 2022.**

**Further, given the uneven performance across the economy, it is our continued recommendation that the staggered dates for Award increases in line with last year's approach continue this year, while industries that have been significantly impacted by the pandemic continue to recover.**

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<sup>1</sup> <https://www.abs.gov.au/statistics/industry/tourism-and-transport/overseas-arrivals-and-departures-australia/mar-2022>



## Note on terminology

This submission refers to a change to the 'minimum wage', 'minimum wages' or the NMW in the context of what the Panel might consider with respect to both the NMW and modern award minimum wages. That is, any reference should be viewed as referring to the totality of implications associated with changes to modern award minimum wages and other wages impacted by the AWR decision.

# Part I — Economic and labour market considerations

## The macroeconomic environment

GDP data for the March quarter shows that the Australian economy grew 0.8 per cent quarter on quarter (Table 1). In year-on-year terms, GDP was up 3.3 per cent from a year ago (Table 1). GDP growth was restricted by the Omicron outbreak in January and the Queensland and NSW floods in February and March.

The latest numbers indicate a slowdown compared to December 2021 when GDP increased by 3.6 per cent quarter on quarter largely due to post-lockdown 'catch-up' economic activity.

Consumption has been the biggest driver of economic growth, as business investment has been subdued.

**Table 1: Key macroeconomic indicators**

Indicator	December 2021	March 2022
<b>GDP growth (% change, quarterly)</b>	3.6	0.8
<b>GDP growth (% change, through the year)</b>	4.4	3.3

Notes: Data are seasonally adjusted.

Source: ABS, *Australian National Accounts: National Income, Expenditure and Product, March 2022*, Catalogue No. 5206.0 Table 2.

While the RBA's central case scenario for past forecasts<sup>2</sup> predicted a gradual return of GDP to its long-term trend, actual outcomes have not met those predictions.

Given the volatility in the economy during the pandemic and how differently it has reacted compared to previous economic downturns, it is difficult to forecast GDP growth with any accuracy. Accordingly, the economic outlook remains highly uncertain and unpredictable. Although public health restrictions have been lifted in most states and territories, fragile consumer and business confidence may linger for some time as the community adjusts to living with COVID safely, delaying the full recovery of the economy.

The key downside risk is the possibility of a new COVID variant causing another surge in cases and an associated collapse in confidence and economic activities.

Whatever occurs, there is likely to be a continuing pattern of volatility in GDP growth and contraction for the remainder of the pandemic.

<sup>2</sup> RBA (2021), *Statement on Monetary Policy*.

## Business outcomes

Income from sales of goods and services (current prices measure) have improved during the last quarter but have been outpaced by increasing labour costs.

Despite the impact of the Omicron variant at the start of the year, there has been a 5.5 per cent growth in income from sales of good and services. However, this rebound has been outpaced by the increase of total labour costs during the same quarter (9.6 per cent) (Table 2).

**Table 2: Per cent change in income from sales of goods and services and total labour costs of employees, March 2020 to March 2022 quarter**

	March to June 2021	June to September 2021	September to December 2021	December 2021 to March 2022	March 2020 to March 2022
<b>Income from sales of goods and services</b>	4.1	-1.0	5.5	5.5	17.6
<b>Total labour costs of employees</b>	4.2	-0.1	3.3	9.6	-

Note: Data are seasonally adjusted.

Source: ABS, *Business Indicators, March 2022*, Catalogue No. 5676 Table 6; ABS, *Labour Accounts Australia, December 2021*, Catalogue No. 6150.0.55.003 Table 1.

Company profits<sup>3</sup> in many industry sectors have risen in line with growing income from sales of goods and services. However, improved profitability has not been evenly distributed across industry sectors (Table 3). *Accommodation and food services* in particular continues to lag in its recovery compared to other industries.

**Table 3: Per cent change in company gross operating profits, by industry, March 2020 to March 2022 quarter**

	March 2018 to March 2020	December 2021 to March 2022	March 2020 to March 2022
<b>Lagging recovery (Upper cluster)</b>			
<i>Transport, postal and warehousing</i>	-1.3	3.6	7.2
<b>Almost recovered (central cluster)</b>			
<i>Accommodation and food services</i>	14.2	-43.7	-60.3
<i>Wholesale trade</i>	8.3	13.6	39.5
<b>Fully recovered (Lower cluster)</b>			

<sup>3</sup> ABS, *Business Indicators, Australia*, September 2021.

<i>Arts and recreation services</i>	-8.3	-6.8	-10.1
<i>Electricity, gas, water and waste</i>	10.9	6.2	-11.9
<i>Finance and insurance</i>	-41.4	-26.4	52.1
<i>Other services</i>	10.6	17.7	123.4
<i>Administrative and support services</i>	0.5	-19.7	-9.8
<i>Professional, scientific &amp; technical services</i>	30.4	-34.9	-4.3
<i>Rental, hiring and real estate</i>	-17.0	-3.2	28.6
<i>Retail trade</i>	9.5	25.3	24.3
<i>Mining</i>	35.3	25.3	69.6
<i>Information, media and telecommunications</i>	-1.4	4.6	4.7
<i>Manufacturing</i>	0.5	-6.4	37.8
<i>Construction</i>	13.2	5.7	42.0
<b>Total industry</b>	14.3	10.2	40.3

Source: ABS, *Company Gross Operating Profits, Current Prices, March 2022*, Catalogue No. 5676.0 Table 11.

Retail trade has rebounded strongly in April 2022 (Table 4) across all areas of the industry, except food retailing.

**Table 4: Per cent change in monthly retail turnover, by industry group, March 2020 to April 2022**

	<b>March to April 2022</b>	<b>April 2021 to April 2022</b>	<b>March 2020 to April 2022</b>
<i>Food retailing</i>	1.9	6.5	-8.1
<i>Household goods retailing</i>	-2.7	7.4	19.9
<i>Clothing, footwear and personal accessory retailing</i>	3.1	14.7	81.8
<i>Department stores</i>	-2.5	5.4	23.4
<i>Other retailing</i>	0.5	14.4	15.5
<i>Cafes, restaurants and takeaway food services</i>	3.3	14.7	55.9
<b>Total industry</b>	0.9	9.6	13.0

Source: ABS, *Retail Turnover, By Industry Group, April 2022*, Catalogue No. 8501.0 Table 1.

## Business conditions

ABI notes that business surveys can be a useful indicator of current economic conditions (noting time lags in official data) and a leading indicator for future economic trends.

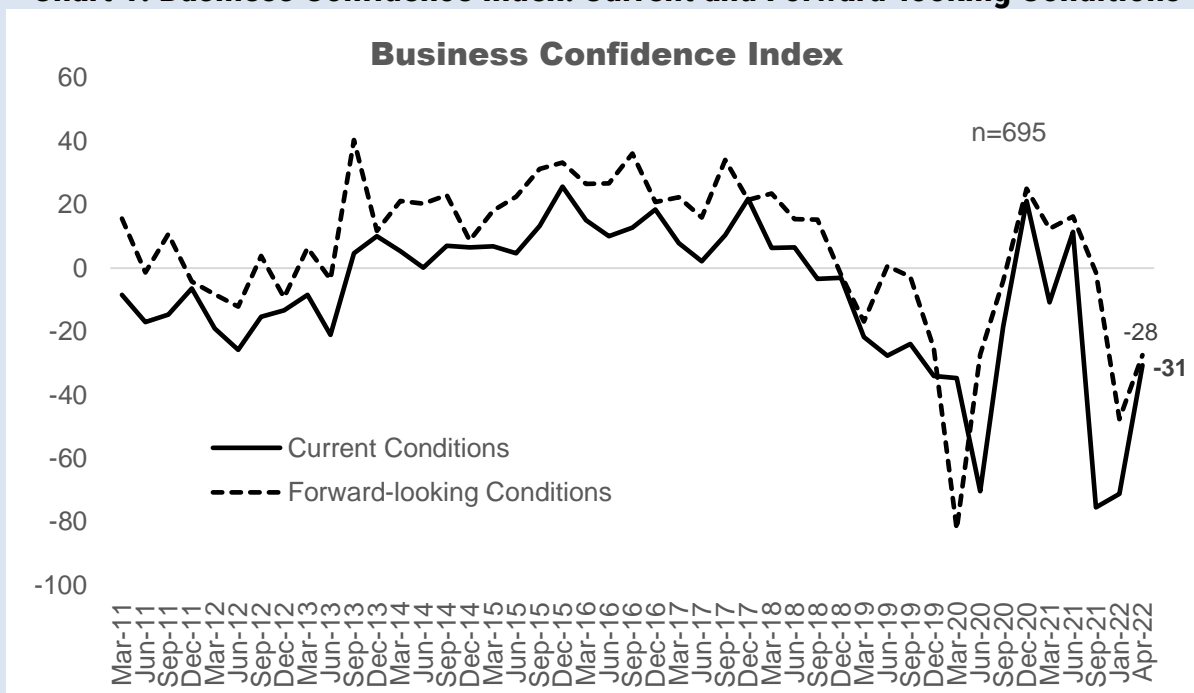
The *Business NSW* Business Conditions Survey (the survey) measures business perceptions of the New South Wales economy, and business performance across metrics such as profits, revenue, staffing and capital expenditure. The survey has accurately indicated broader economic trends in New South Wales and the most recent survey in April 2022 was completed by almost 700 businesses. While the survey does not report on business conditions across the rest of Australia, it provides useful insights into business conditions in New South Wales, a state that accounts for around a third of the national economy.

### Box 2 – NSW Business Conditions Survey

Although businesses are no longer operating in a crisis environment as compared to the Omicron surge in January, rising costs emerge as one of the key challenges for businesses to survive and thrive.

The NSW Business Confidence Index rebounded from the previous quarter but remained in negative territory (Chart 1). While overall business confidence remained weak in April, there were fewer pessimists than in the previous quarter.

**Chart 1: Business Confidence Index: Current and Forward-looking Conditions**



Source: Business NSW.<sup>4</sup>

<sup>4</sup> For full results see <https://www.businessnsw.com/advocacy/surveys/business-surveys>.



Businesses were generally expecting lower profits this quarter compared to the last and remained cautious about their profit outlook next quarter. Consistently, they were downbeat about sales and cost pressures. Such sentiments are also reflected in their capital spending and hiring intentions (Table 5).

**Table 5: Individual Business Conditions Index**

<b>N=695</b>	<b>Current</b>	<b>Forward-looking</b>
Profit	-53.5	-46.5
Sale revenue	-34.7	-26.9
Capital spending	-38.3	-34.7
Staff numbers	-22.9	-18.7
Operating cost pressures	42.0	40.1

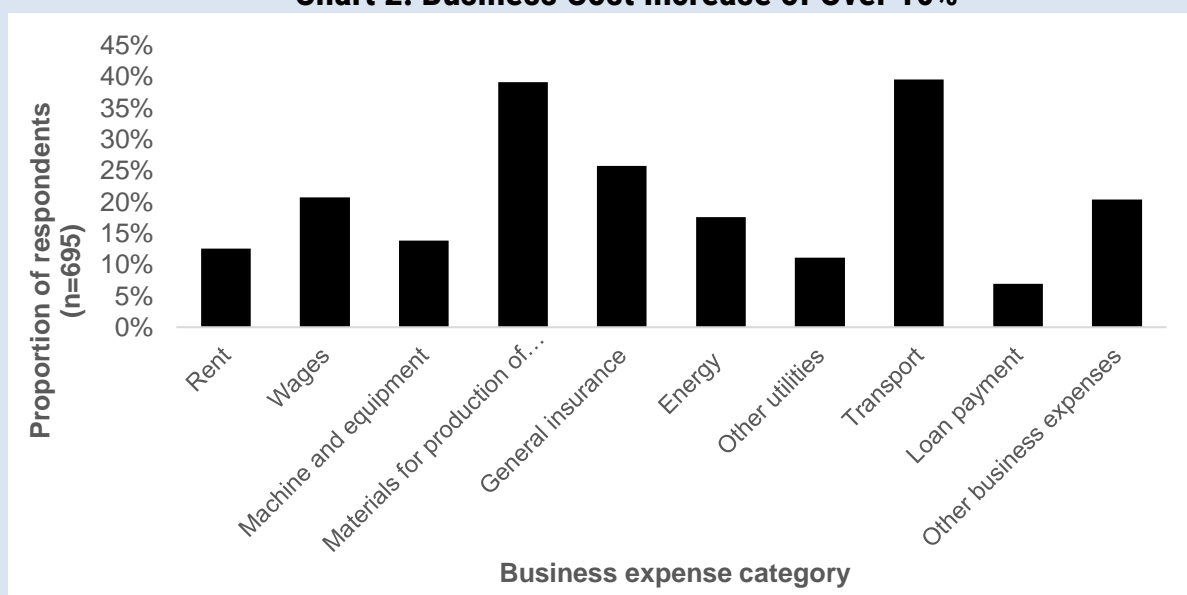
Source: Business NSW.

Inflation has intensified across the board. Reflecting the recent surge in fuel and commodity prices, about 40 percent of respondents reported price increases of above 10 per cent over the past 12 months for transportation and materials for production of goods (Chart 2).

The survey was conducted before the RBA rate hike in May was passed on to borrowers by lenders. Hence, a majority of respondents reported that loan repayments were about the same as a year ago. As the economy is entering the rising interest rate cycle, businesses will be facing higher cost pressure in this expense category going forward.

Wage growth pressures have also been strong due to historically low unemployment, ongoing skills shortages and the rising cost of living. Around 20 per cent of respondents experienced annual wage growth of over 10 per cent (Chart 2), with around half of businesses cited wages as their top expense category.

**Chart 2: Business Cost Increase of Over 10%**



Source: Business NSW.

An overwhelming 97 per cent of respondents have had to make operational changes to deal with rising business costs. Most respondents have implemented multiple changes. Reducing profit margin was the most common strategy, followed by raising prices (Chart 3).

**Chart 3: Coping Strategy for Rising Costs**



Source: Business NSW.

Under currently business conditions, only around one fifth of respondents (18 per cent) were able to fully pass on rising business costs to consumer. A larger proportion of businesses have had to either share rising business costs with consumers (40 per cent) or fully bear the increasing costs (29 per cent) (Table 6).

**Table 6: Who is Paying for Higher Input Costs?**

Cost-sharing options	Proportion of respondents (n=695)
Fully passed on to consumers (i.e. raising prices without reducing profit margin)	18
Shared by business and consumers (i.e. raising prices and reducing profit margin)	40
Fully borne by business (i.e. reducing profit margin without raising prices)	29

Source: Business NSW.

As a majority of respondents have had to at least partially absorb the higher input costs, they are likely to have to scale back investment.

For businesses that have experienced substantial cost increases in various categories, capital spending intentions for the next quarter were universally weaker than average (Table 7). This may be attributed to practical constraints (having less available funds) and/or subdued confidence.

**Table 7: Impact of Inflation on Business Decisions**

<b>Businesses that experienced higher costs</b>	<b>Capital spending: individual business conditions index – forward-looking</b>
<b>All respondents (n=695)</b>	-34.7
Respondents that experienced:	
wage increase of over 10%	-38.2
price increase of over 10% for materials for production	-45.6
price increase of over 10% for transport	-45.1
price increase of over 10% for general insurance	-47.5
price increase of over 10% for energy	-56.6

Source: Business NSW.

A copy of the Business Conditions Survey report is attached to this submission.



## Part II – Modern Awards Groupings

### Recommendation 2:

- Maintain the operative dates from 2021 in 2022 (i.e. General Retail Trade on 1 September 2022, Transport, Accommodation and Arts awards on 1 November 2022, all others on 1 July 2022), before moving to realign all awards on 1 July 2023 when it is anticipated that economic performance will be more evenly distributed across industries.

The Fair Work Commission’s *Information note – Industry analysis*, dated 26 May 2022<sup>5</sup> shifted a number of industries into different clusters based on updated labour market and business performance indicators:

- Manufacturing – shifted from *almost recovered* to *fully recovered*
- Construction – shifted from *Almost recovered* to *fully recovered*
- Accommodation and Food Services – shifted from *lagging recovery* to *almost recovered cluster*
- Information media and telecommunications – shifted from *lagging recovery* to *fully recovered cluster*
- Rental, hiring and real estate – shifted from *almost recovered* to *fully recovered cluster*
- Education and training – shifted from *almost recovered* to *fully recovered cluster*
- Arts and recreation – shifted from *almost recovered* to *fully recovered*

All other industry sectors remained in the same clusters.

Of note, the Gross Value Added (GVA) data in the *Information note* is that used in our original submission dated 1 April 2022<sup>6</sup>.

### *Industry labour markets*

Although employment has recovered strongly since the start of the pandemic, employment during the pandemic (March 2020 to April 2022) only grew by 1.6 per cent compared to 3.7 per cent over the two-year period prior to COVID (February 2018 to 2020) (Table 8). This implies that employment growth is not genuinely back to its pre-pandemic pace.

The labour market has also been severely constrained by the slow return to Australia of skilled migrants and other visa holders with work rights such as working holiday makers and international students.

<sup>5</sup> <https://www.fwc.gov.au/documents/wage-reviews/2021-22/infonote-cluster.pdf>

<sup>6</sup> <https://www.fwc.gov.au/documents/wage-reviews/2021-22/submissions/abi-sub-awr2122.pdf>


**Table 8: Per cent change in labour force, persons, Australia**

	February 2018 to 2020	January to April 2022	March 2020 to April 2022
<b>Total labour force</b>	3.7	0.6	1.6

Note: Data are seasonally adjusted.

Source: ABS, *Labour Force, Australia, April 2022*, Catalogue No. 6202.0 Table 1.

Disparity in the labour market is reflected across industry sectors. The industries in the 'fully recovered' lower cluster are the key sectors of job creation (Table 9).

Employment in many industries continues to be well below pre-pandemic levels, including *Accommodation and food services*, *Wholesale trade* and *Arts and recreation services* (Table 9).

This implies that employment in a number of industries, particularly award-reliant industries<sup>7</sup>, exhibit volatile patterns of employment and have not yet fully recovered from the adverse impacts of the pandemic.

**Table 9: Per cent change in employment, persons, by industry, February 2020 to February 2022**

	February 2020 to May 2021	May 2021 to February 2022	February 2020 to February 2022
<b>Lagging recovery (Upper cluster)</b>			
<i>Transport, postal and warehousing</i>	-1.1	3.8	2.8
<b>Almost recovered (central cluster)</b>			
<i>Accommodation and food services</i>	-5.3	1.6	-3.8
<i>Wholesale trade</i>	-5.9	-11.3	-16.6
<b>Fully recovered (Lower cluster)</b>			
<i>Arts and recreation services</i>	3.5	-11.1	-8.1
<i>Electricity, gas, water and waste</i>	10.6	14.1	26.2
<i>Finance and insurance</i>	3.7	14.3	18.6
<i>Public administration and safety</i>	5.5	2.1	7.7
<i>Health care and social assistance</i>	2.4	9.4	12.1
<i>Other services</i>	8.5	-3.5	4.7
<i>Administrative and support services</i>	-5.0	-1.8	-6.7
<i>Professional, scientific &amp; technical services</i>	7.7	1.3	9.0
<i>Rental, hiring and real estate</i>	-3.7	14.0	9.8

<sup>7</sup> Award-reliant industries are industries with at least 20 per cent of employees paid exactly at the award rate in 2018, which the figures are taken from table 7.1 in statistical report – Annual Wage Review 2019-20. These include manufacturing; retail trade; accommodation and food services; rental, hiring and real estate services; administrative and support services; health care and social assistance; arts and recreation services; and other services.

<i>Retail trade</i>	4.7	-2.0	2.5
<i>Mining</i>	16.3	-0.4	15.8
<i>Information, media and telecommunications</i>	-16.2	16.9	-2.0
<i>Manufacturing</i>	-0.9	-6.1	-6.9
<i>Construction</i>	-2.1	0.1	-2.0
<i>Agriculture, forestry and fishing</i>	-7.3	-3.8	-10.8
<i>Education and training</i>	1.1	0.4	1.5

Source: ABS, *Labour Force, Australia, February 2022*, Catalogue No. 6291.0.55.001 Table 4.

Recent data and the data contained in the *Information note – industry analysis* continues to support a staggering of operative dates.

There continues to be significant variation in the performance of industries. Of note, *Accommodation and food services* continues to lag in terms of Gross Value Added (GVA) (Table 10) and, particularly, Gross operating profits (Table 12).

**Table 10: Per cent change in GVA, By industry, March 2020 to March 2022 quarter**

	<b>December 2021 to March 2022</b>	<b>March 2020 to March 2022</b>
<b>Lagging recovery (Upper cluster)</b>		
<i>Transport, postal and warehousing</i>	4.3	-0.8
<b>Almost recovered (central cluster)</b>		
<i>Accommodation and food services</i>	3.7	-1.1
<i>Wholesale trade</i>	3.2	9.1
<b>Fully recovered (Lower cluster)</b>		
<i>Arts and recreation services</i>	4.4	5.4
<i>Electricity, gas, water and waste</i>	0.9	0.9
<i>Finance and insurance</i>	0.7	5.1
<i>Public administration and safety</i>	0.2	5.3
<i>Health care and social assistance</i>	-0.9	9.6
<i>Other services</i>	-0.2	4.7
<i>Administrative and support services</i>	0.5	-0.3
<i>Professional, scientific &amp; technical services</i>	3.1	10.4
<i>Rental, hiring and real estate</i>	-1.8	3.3
<i>Retail trade</i>	0.8	8.8
<i>Mining</i>	-1.5	-3.6
<i>Information, media and telecommunications</i>	1.2	11.8
<i>Manufacturing</i>	1.1	2.6
<i>Construction</i>	0.2	3.3
<i>Agriculture, forestry and fishing</i>	-5.8	48.5
<i>Education and training</i>	0.4	2.6

Source: ABS, *Australian National Accounts: National Income, Expenditure and Product, March 2022*, Catalogue No. 5206.0 Table 6.

**Table 11: Per cent change in income from sales of goods and services, By industry, March 2020 to March 2022 quarter**

	March to June 2021	June to September 2021	September to December 2021	December 2021 to March 2022	March 2020 to March 2022
<b>Lagging recovery (Upper cluster)</b>					
<i>Transport, postal and warehousing</i>	2.0	-5.8	7.5	7.1	8.5
<b>Almost recovered (central cluster)</b>					
<i>Accommodation and food services</i>	2.0	-24.4	28.1	5.8	7.3
<i>Wholesale trade</i>	2.6	-1.0	9.3	7.6	25.7
<b>Fully recovered (Lower cluster)</b>					
<i>Arts and recreation services</i>	1.3	-10.6	16.9	8.9	12.8
<i>Electricity, gas, water and waste</i>	13.7	1.0	-2.6	0.3	0.6
<i>Finance and insurance</i>	-0.8	6.4	9.2	-7.1	16.0
<i>Other services</i>	2.3	-11.7	16.6	1.4	11.3
<i>Administrative and support services</i>	6.9	0.1	6.1	0.5	3.7
<i>Professional, scientific &amp; technical services</i>	0.8	2.0	4.8	3.9	14.8
<i>Rental, hiring and real estate</i>	2.4	1.0	3.3	0.4	11.1
<i>Retail trade</i>	1.5	-4.5	7.8	3.1	16.3
<i>Mining</i>	13.4	4.0	-3.5	18.2	48.3
<i>Information, media and telecommunications</i>	-0.3	0.8	3.4	2.5	4.6
<i>Manufacturing</i>	2.8	2.6	4.8	2.4	12.5
<i>Construction</i>	5.6	0.6	2.4	3.0	7.0

Source: ABS, *Business Indicators, March 2022*, Catalogue No. 5676 Table 6.

**Table 12: Per cent change in company gross operating profits, by industry, March 2020 to March 2022 quarter**

	March 2018 to March 2020	December 2021 to March 2022	March 2020 to March 2022
<b>Lagging recovery (Upper cluster)</b>			
<i>Transport, postal and warehousing</i>	-1.3	3.6	7.2
<b>Almost recovered (central cluster)</b>			
<i>Accommodation and food services</i>	14.2	-43.7	-60.3
<i>Wholesale trade</i>	8.3	13.6	39.5

<b>Fully recovered (Lower cluster)</b>			
<i>Arts and recreation services</i>	-8.3	-6.8	-10.1
<i>Electricity, gas, water and waste</i>	10.9	6.2	-11.9
<i>Finance and insurance</i>	-41.4	-26.4	52.1
<i>Other services</i>	10.6	17.7	123.4
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<i>Professional, scientific &amp; technical services</i>	30.4	-34.9	-4.3
<i>Rental, hiring and real estate</i>	-17.0	-3.2	28.6
<i>Retail trade</i>	9.5	25.3	24.3
<i>Mining</i>	35.3	25.3	69.6
<i>Information, media and telecommunications</i>	-1.4	4.6	4.7
<i>Manufacturing</i>	0.5	-6.4	37.8
<i>Construction</i>	13.2	5.7	42.0
<b>Total industry</b>	<b>14.3</b>	<b>10.2</b>	<b>40.3</b>

Source: ABS, *Company Gross Operating Profits, Current Prices, March 2022*, Catalogue No. 5676.0 Table 11.

Anecdotal evidence from our members indicates that the long-term closure of international borders continues to severely hamper recovery of the *Accommodation and food services* industry sector and that it will be some time before this industry sector has fully recovered from the impact of the pandemic.

This anecdotal evidence is strongly supported by ABS data on Overseas Arrivals and Departures of 575,000 total overseas arrivals in April 2022. While this is a significant increase in numbers during the pandemic (and international border closures), it is a significant reduction from the 2.26 million arrivals in January 2020<sup>8</sup>.

Irrespective of the changes to the clusters, it is our view that the above data continues to support the recommendation in our initial submission:

- that the increases occur on the same dates as in 2021, i.e.:
  - General Retail Trade on 1 September 2022,
  - Transport postal and warehousing, Accommodation and food services, and Arts and recreation awards on 1 November 2022,
  - All others on 1 July 2022
- that future increases are realigned on 1 July 2023 when we anticipate economic performance will be more evenly distributed across industries.

<sup>8</sup> <https://www.abs.gov.au/statistics/industry/tourism-and-transport/overseas-arrivals-and-departures-australia/mar-2022>

# APPENDIX



# **NSW BUSINESS CONDITIONS**

Rising Business Costs

**APRIL 2022**







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A photograph of two men in high-visibility safety vests and hard hats walking towards the camera on a dirt path. They are surrounded by tall, green grass. The background shows a clear blue sky and a distant horizon with some structures.

## About Us

**Business NSW is the peak business organisation for New South Wales with more than 40,000 member businesses across the state.**

**Our purpose is to create a better Australia by maximising the outcomes and potential of Australian business. We achieve this by working with businesses spanning all industry sectors including small, medium and large enterprises.**

**Operating through our network in metropolitan and regional NSW, and with our state chamber partners, Business NSW represents the needs of business at a local, state and federal level.**



# 1. Introduction

Business conditions have been challenging since the start of the pandemic in early 2020. The various lockdowns have caused major disruptions to economic activity. While NSW businesses are no longer operating in COVID crisis mode, trading conditions have been volatile and there are signs of a multi-speed economy as different sectors and businesses are recovering at a different pace. Some have seen their operations back on track, while many others are still struggling.

After a tough start to 2022 due to the Omicron wave of COVID – necessitating a NSW Government \$1 billion business support package – and flooding, businesses are now faced with further uncertainties both global and domestic. The war in Ukraine has impacted global commodity markets, leading to further concerns about supply chain disruptions and commodity prices. Throughout the history of the Business NSW Business Conditions Survey, confidence has often been subdued during Federal Election periods. With the Federal Election taking place in May, businesses have likely switched to cautious mode, adopting a wait-and-see approach as in the case of previous elections.

Our members consistently tell us the greatest challenge currently facing the business community is rising costs. Inflationary pressures have intensified since 2021 due to both supply-side constraints and improved demand on the back of the economic recovery. In recent quarters, all key inflation indicators have entered territory that calls for a strong policy response.

The special focus of this survey was on rising costs. An overwhelming 97% of respondents have had to make operational changes to deal with rising business costs. The detailed findings of the survey provide important insights into how businesses are grappling with rapidly increasing business expenses.

Overall, business confidence remains weak, but there are signs of improvement. Despite the negative reading, the latest Business Confidence Index for current conditions rebounded from the previous quarter. Engagement with the survey was also solid (n=695) compared to other normalised periods. Normalised participation is a welcome sign that businesses are no longer operating in COVID crisis conditions. There is genuine cause for optimism.



# 2. Business Conditions and Confidence

The NSW Business Confidence Index rebounded from the previous quarter but remained in negative territory. While overall business confidence remained weak in April, there were fewer pessimists than in the previous quarter.

For the quarter ahead, the overall sentiment remained downbeat as businesses maintained a cautious view on sales, operating cost pressures and profits. Two-thirds of respondents were anticipating weaker profits for their business in the current quarter compared to the last quarter, with 62% of respondents anticipating further weakness in profits for their business in the next quarter.

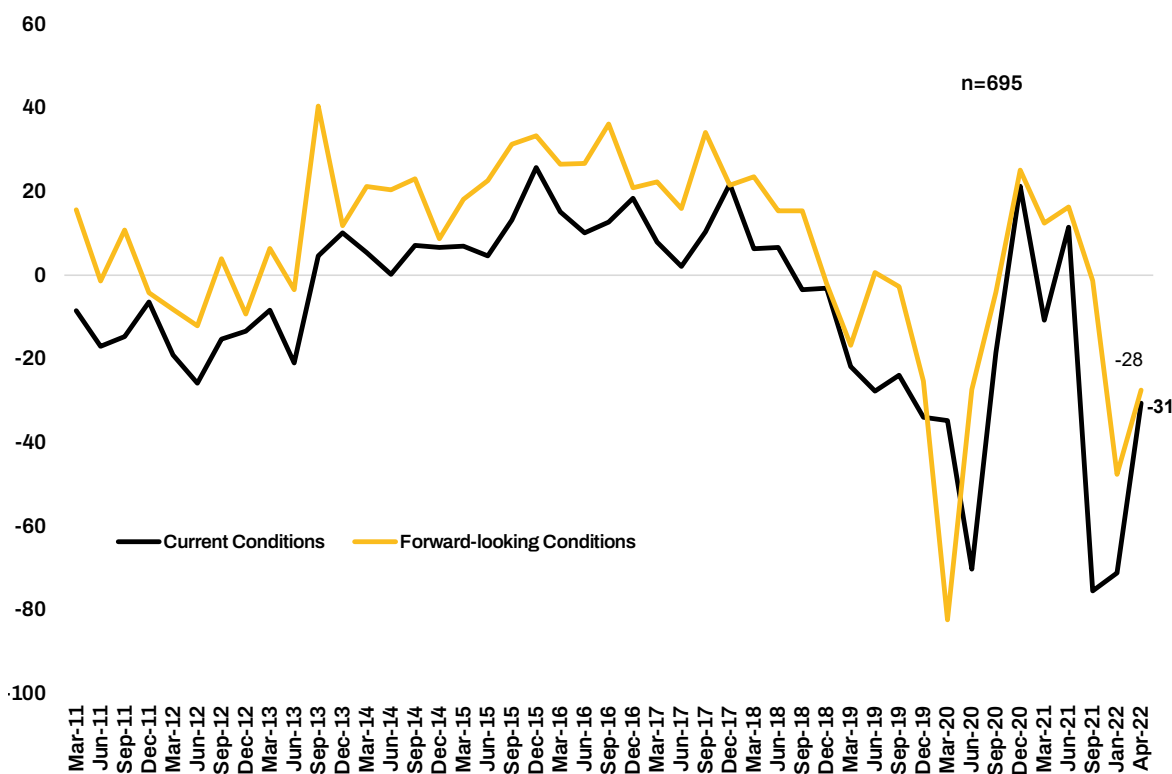


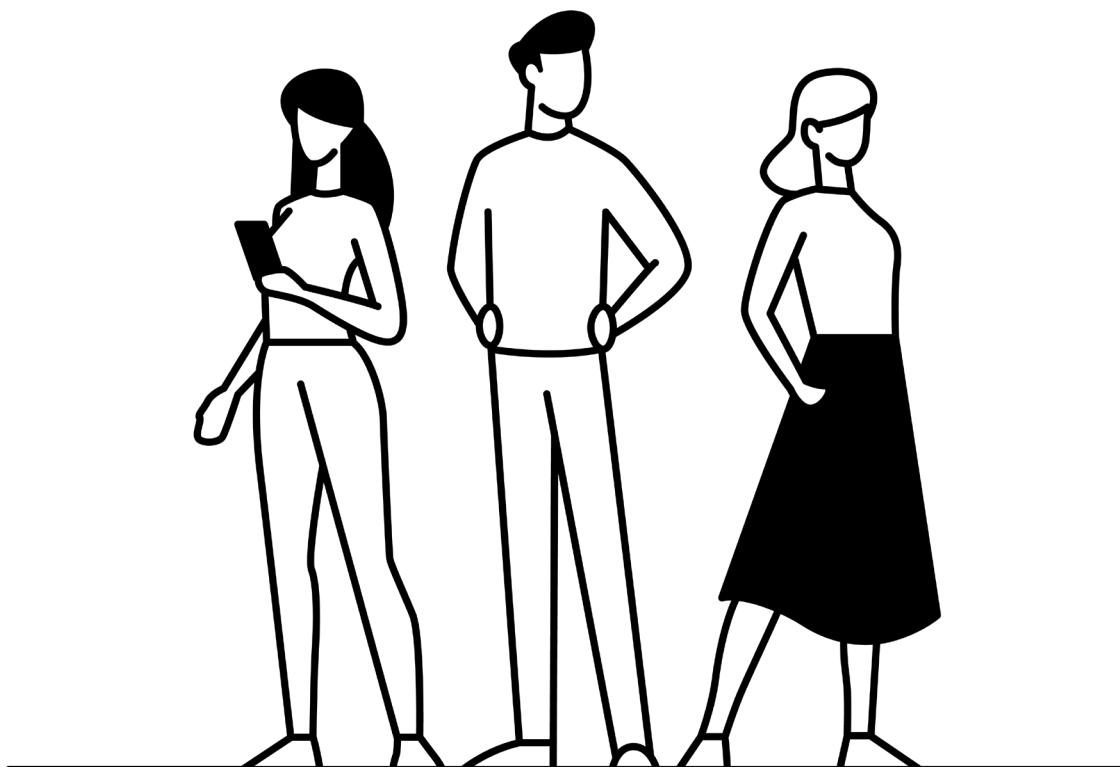
Figure 1: Business Confidence Index – current and forward-looking conditions

After gauging businesses' assessment of the NSW business sector as a whole, the survey asked for their self-assessment. Overall, businesses expected their own performance to mimic the broader environment.

Businesses were generally expecting lower profits this quarter compared to the last, and remained cautious about their profit outlook next quarter. Consistently, they were downbeat about sales and cost pressures. Such sentiments are also reflected in their capital spending and hiring intentions.

	<b>Current</b>	<b>Forward-looking</b>
<b>n=695</b>		
Profit	-53.5	-46.5
Sales revenue	-34.7	-26.9
Capital spending	-38.3	-34.7
Staff numbers	-22.9	-18.7
Operating cost pressures	42.0	40.1

**Figure 2:** Individual business conditions index

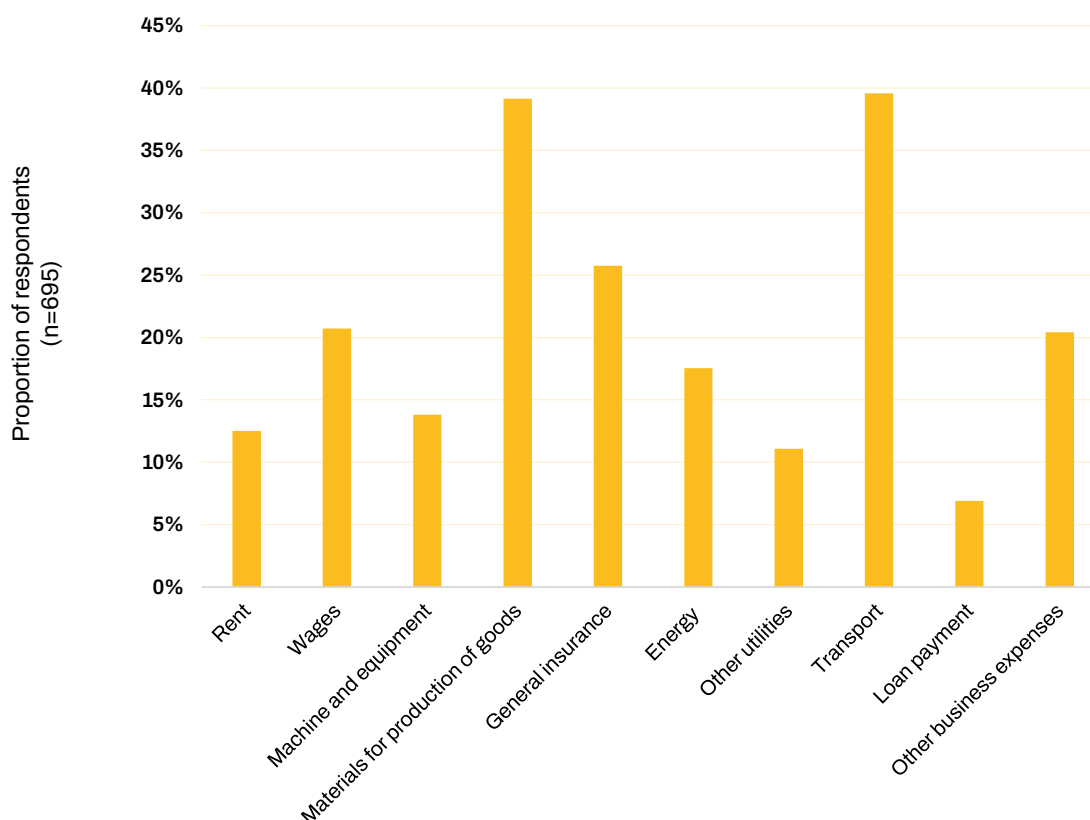


# 3. Rising Business Costs

Official inflation data shows prices have increased across the board.<sup>1</sup> This survey explored how business expenses have changed over the past 12 months from the perspective of businesses.

Reflecting the recent surge in fuel and commodity prices, transport and materials for production were the two categories with the highest proportion of respondents reporting price increases of over 10%.

The survey was conducted before the RBA rate hike in May was passed on to borrowers by lenders. Hence, a majority of respondents reported that loan repayments were about the same as a year ago.



**Figure 3:** Business cost increase of over 10%

<sup>1</sup> Australian Bureau of Statistics (2022) 'Consumer Price Index, Australia, March 2022' and 'Producer Price Indexes, Australia, March 2022'.

Wage growth pressures have been strong due to historically low unemployment, ongoing skills shortages and rising cost of living. Wages have risen more in some industries than others in the past year.

**51%** of respondents cited wages as their top expense category.

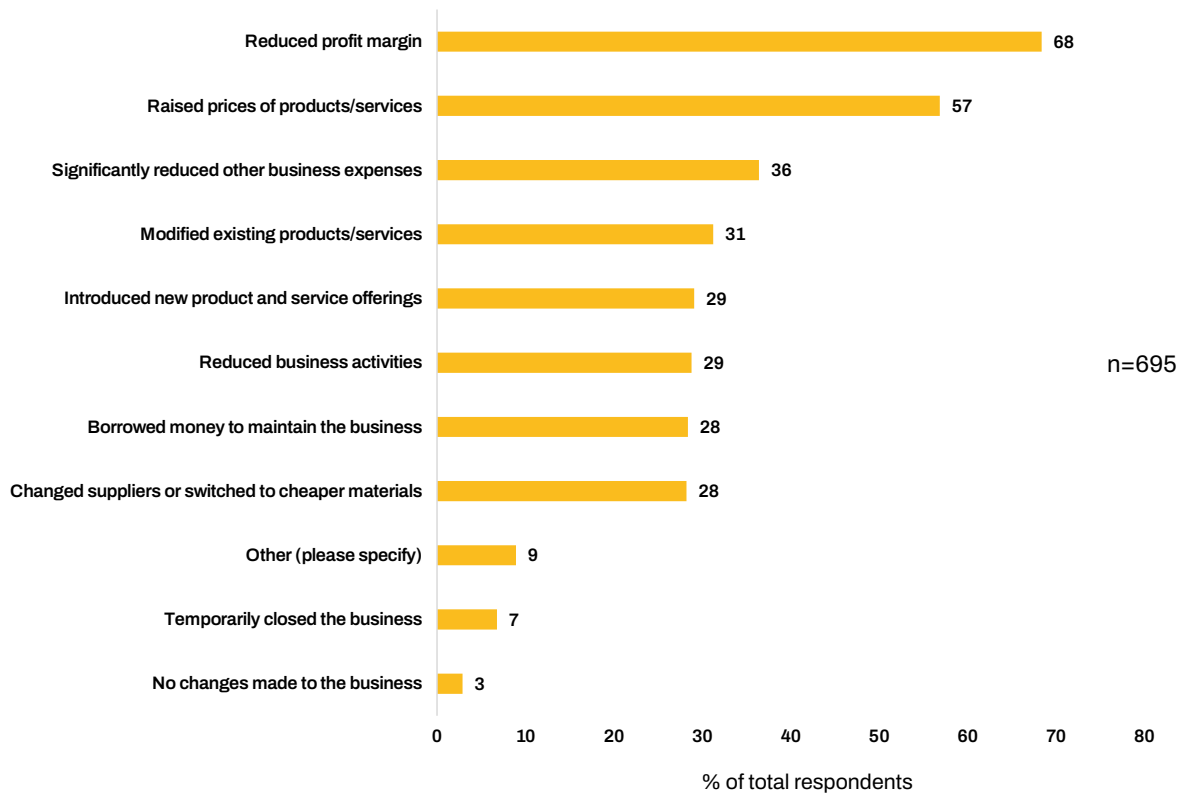
<b>Region</b>	<b>Proportion of businesses that experienced wage growth of over 10%</b>
<b>All industries (n=695)</b>	<b>21%</b>
Agriculture, Forestry and Fishing (n=21)	33%
Mining (n=3)	33%
Public Administration and Safety (n=3)	33%
Accommodation and Food services (n=80)	33%
Administrative and Support services (n=10)	30%
Education and Training (n=26)	27%
Professional, Scientific and Technical services (n=78)	26%
Construction (n=59)	25%
Electricity, Gas, Water and Waste services (n=8)	25%
Information Media and Telecommunications (n=24)	21%
Arts and Recreation services (n=30)	20%
Health Care and Social Assistance (n=31)	19%
Wholesale trade (n=32)	19%
Transport, Postal and Warehousing (n=16)	19%
Financial and Insurance services (n=17)	18%
Manufacturing (n=75)	16%
Other services (n=54)	15%
Rental, Hiring and Real Estate services (n=19)	11%
Retail Trade (n=109)	10%

**Figure 4:** Wage growth pressures by industry

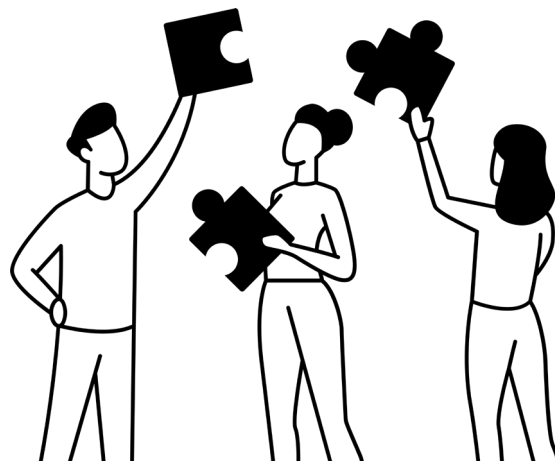
An overwhelming 97% of respondents have had to make operational changes to deal with rising business costs. Most respondents have implemented multiple changes.

Reducing profit margin was the most common strategy, followed by raising prices.

One of the more extreme measures – having to temporarily close their business – was reported by a small but non-trivial proportion of respondents.



**Figure 5:** Coping strategy for rising costs





Amid rising production costs, the important question is...

## Who ultimately pays?

Key factors that influence the balance of cost-sharing include:

- Nature of the goods or services (e.g. whether they are necessities for consumers)
- The availability of alternatives (e.g. whether consumers can readily switch to alternative arrangements)
- Price levels of the goods or services (e.g. whether they constitute a large proportion of income)

<b>Cost-sharing options</b>	<b>Proportion of respondents (n=695)</b>
Fully passed on to consumers (i.e. raising prices without reducing profit margin)	18%
Shared by business and consumers (i.e. raising prices and reducing profit margin)	40%
Fully borne by business (i.e. reducing profit margin without raising prices)	29%

**Figure 6:** Who is paying for higher input costs?

Industry	Proportion of businesses that have fully passed on higher business costs to consumers
<b>All industries (n=695)</b>	<b>18%</b>
Public Administration and Safety (n=3)	33%
Administrative and Support services (n=10)	30%
Manufacturing (n=75)	29%
Construction (n=59)	25%
Transport, Postal and Warehousing (n=16)	25%
Financial and Insurance services (n=17)	24%
Other services (n=54)	22%
Agriculture, Forestry and Fishing (n=21)	19%
Professional, Scientific and Technical services (n=78)	18%
Retail Trade (n=109)	17%
Health Care and Social Assistance (n=31)	16%
Wholesale trade (n=32)	16%
Accommodation and Food services (n=80)	13%
Education and Training (n=26)	8%
Arts and Recreation services (n=30)	7%
Information Media and Telecommunications (n=24)	4%

**Figure 7:** Ability to fully pass on higher business costs to consumers



<b>Industry</b>	<b>Proportion of businesses that have fully absorbed higher business costs</b>
<b>All industries (n=695)</b>	<b>29%</b>
Electricity, Gas, Water and Waste services (n=8)	63%
Health Care and Social Assistance (n=31)	58%
Rental, Hiring and Real Estate services (n=19)	47%
Education and Training (n=26)	38%
Agriculture, Forestry and Fishing (n=21)	38%
Arts and Recreation services (n=30)	33%
Mining (n=3)	33%
Other services (n=54)	33%
Transport, Postal and Warehousing (n=16)	31%
Accommodation and Food services (n=80)	29%
Retail Trade (n=109)	27%
Professional, Scientific and Technical services (n=78)	26%
Construction (n=59)	25%
Information Media and Telecommunications (n=24)	25%
Financial and Insurance services (n=17)	24%
Wholesale trade (n=32)	22%
Administrative and Support services (n=10)	20%
Manufacturing (n=75)	16%

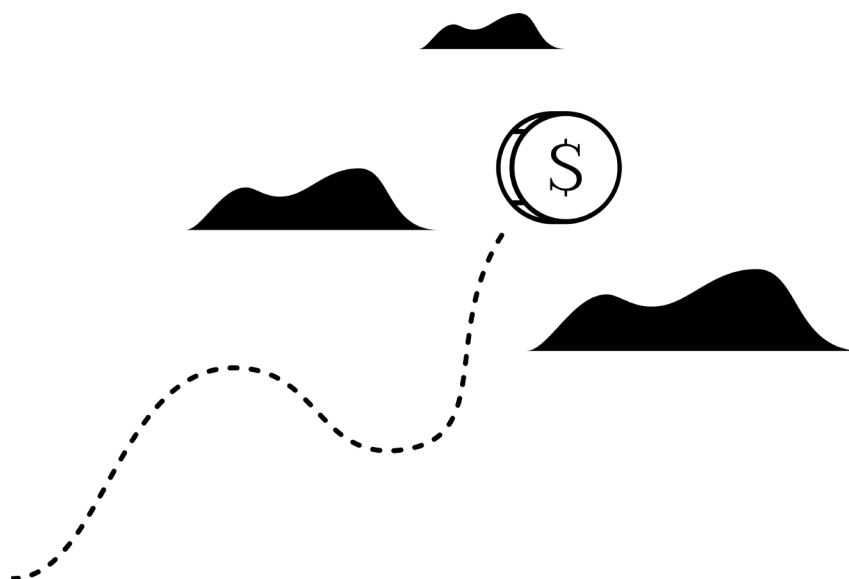
**Figure 8:** Having to fully absorb higher business costs

As a majority of respondents have had to at least partially absorb the higher input costs, they are likely to have to scale back investment.

For businesses that have experienced substantial cost increases in various categories, capital spending intentions for the next quarter were universally weaker than average. This may be attributed to practical constraints (having less available funds) and/or subdued confidence.

<b>Businesses that experienced higher costs</b>	<b>Capital spending: individual business conditions index – forward-looking</b>
<b>All respondents (n=695)</b>	<b>-34.7</b>
Respondents that experienced:	
wage increase of over 10%	-38.2
price increase of over 10% for materials for production	-45.6
price increase of over 10% for transport	-45.1
price increase of over 10% for general insurance	-47.5
price increase of over 10% for energy	-56.6

**Figure 9:** Impact of inflation on business decisions



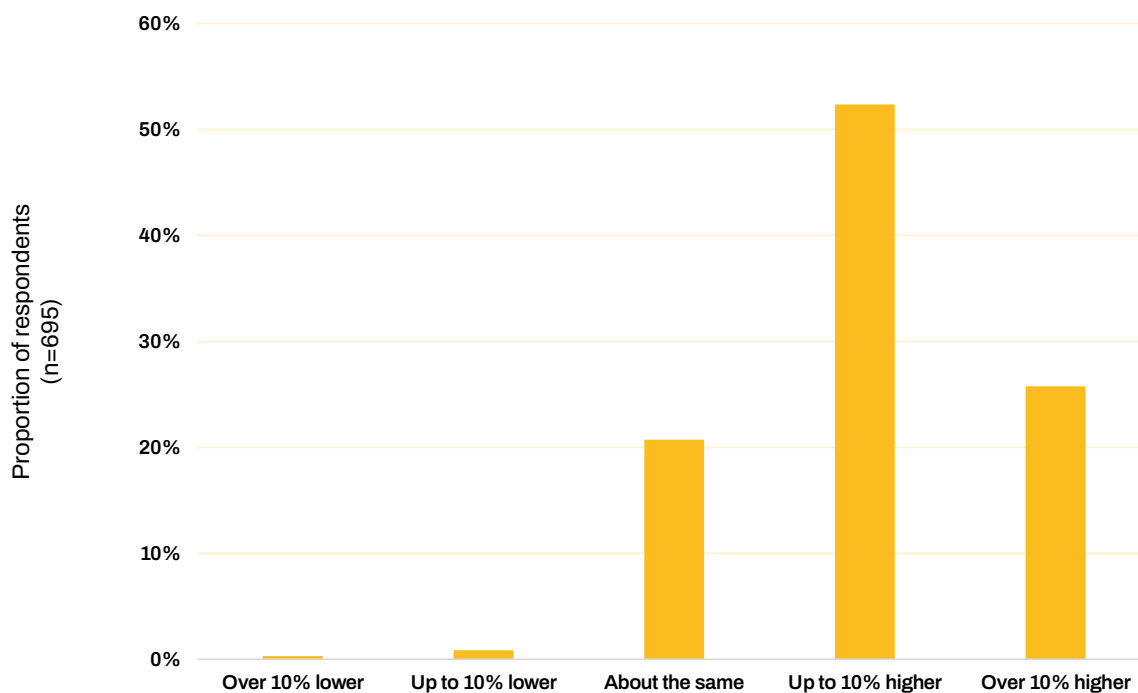


# 4. Access to General Insurance & Insurance Costs

General insurance includes property and contents, public liability, professional indemnity, equipment and business continuity.

Having adequate access to general insurance is important to businesses. It protects businesses financially against unforeseen adverse events such as property damages or theft. In some industries, being insured is also a regulatory requirement.

The cost of insurance remains a key concern. Almost 8 in 10 survey respondents reported an increase in insurance costs over the past 12 months. Overall, a quarter of respondents experienced an annual price increase in excess of 10%.



**Figure 10a:** Increase in general insurance costs





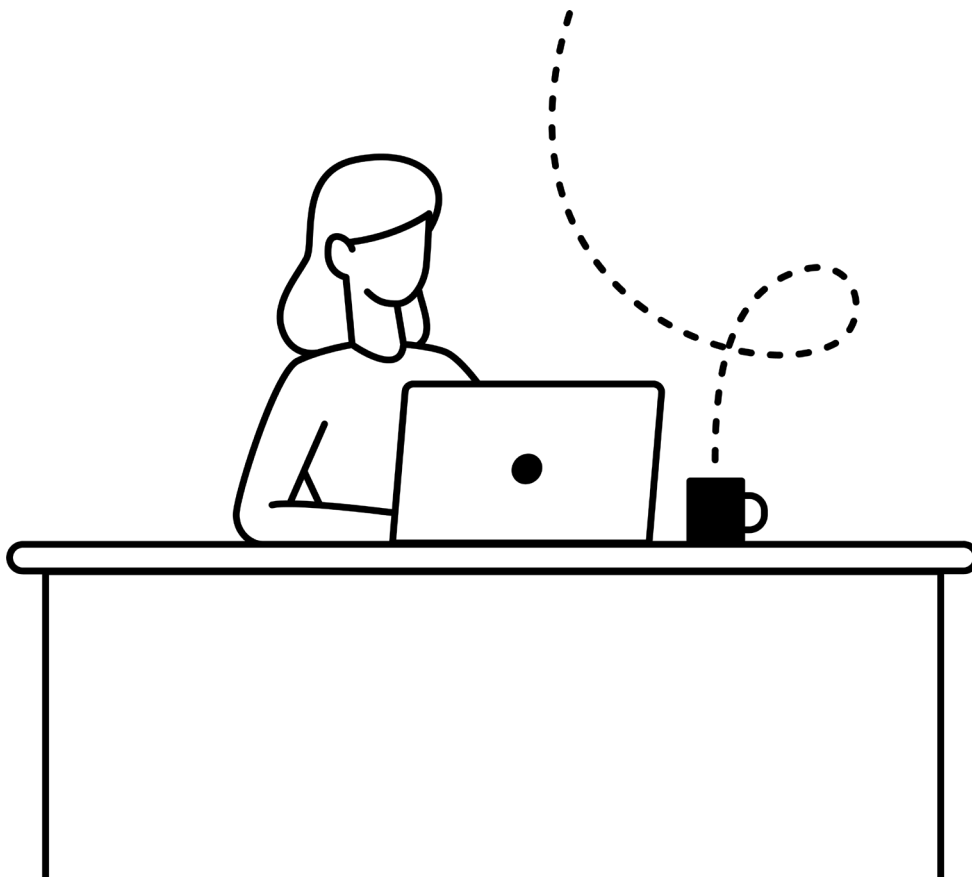


The pricing of premiums had a majority of respondents feeling dissatisfied. Qualitative comments from respondents suggest that price increases have been steep, with some businesses describing their insurance premiums as unaffordable.

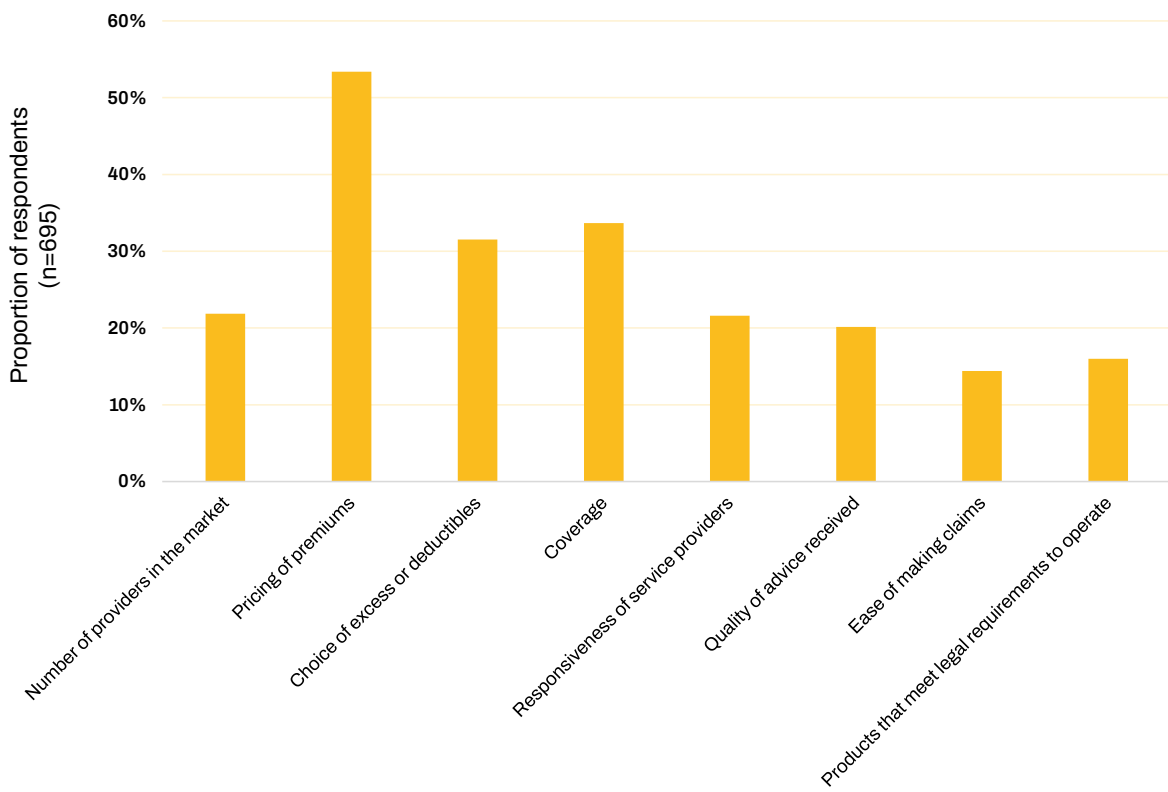
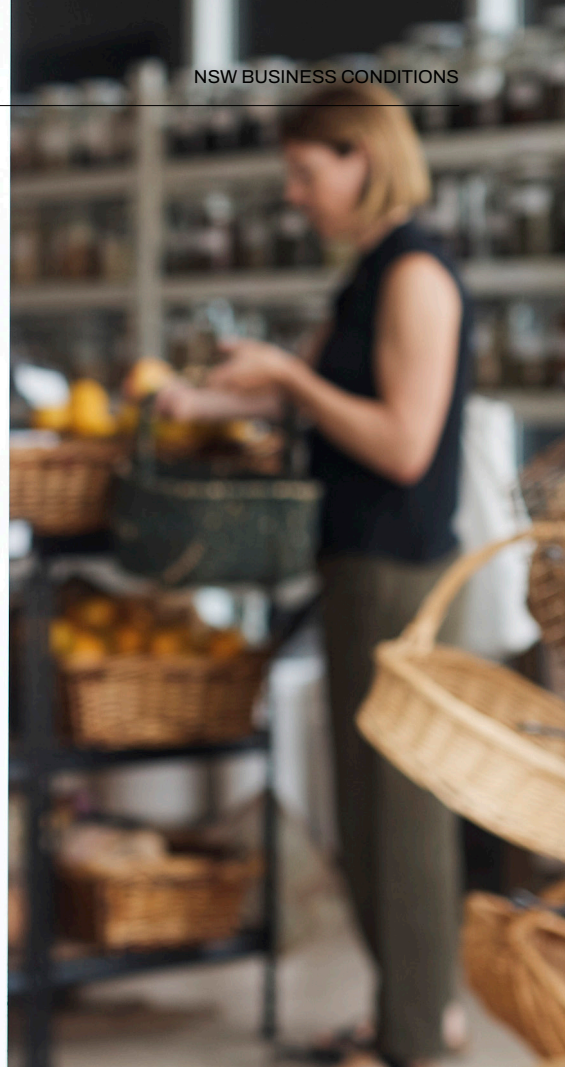
On non-price measures, the majority of respondents were either neutral or satisfied with their general insurance products in relation to:

- Number of providers in the market
- Choice of excess or deductibles
- Coverage (e.g. exclusions, terms and conditions)
- Responsiveness of service providers
- Quality of advice received
- Ease of making claims
- Meeting legal requirements to operate.

Maintaining affordability and availability of insurance in the face of inflationary pressures and cost concerns for business and continued major weather events remains a priority for particular sectors and geographic areas.







**Figure 10b:** Dissatisfaction with general insurance

# 5. Appendices





Region	Business Confidence Index - Current Conditions	
	APR-22	JAN-22
<b>NSW</b>	<b>-30.6 (n=695)</b>	<b>-70.9 (n=3036)</b>
Central Coast	-50 (n=32)	-79.9 (n=134)
Capital Region	-32.6 (n=43)	-52 (n=127)
Central West	-50 (n=26)	-73.4 (n=158)
Coffs Harbour – Grafton	-40.7 (n=27)	-59 (n=83)
Far West and Orana	-44.4 (n=9)	-57.4 (n=61)
Hunter Valley	-31 (n=42)	-77 (n=152)
Illawarra	-44.4 (n=27)	-76.1 (n=142)
Mid North Coast	-33.3 (n=36)	-65.1 (n=109)
Murray	2.9 (n=35)	-45.6 (n=114)
New England and North West	-23.5 (n=34)	-70.3 (n=118)
Newcastle and Lake Macquarie	-10.3 (n=39)	-77 (n=148)
Richmond – Tweed	-53.3 (n=45)	-67.5 (n=169)
Riverina	-8.7 (n=23)	-52.3 (n=110)
Southern Highlands and Shoalhaven	-40 (n=20)	-54.3 (n=92)
Sydney	-28.4 (n=257)	-77 (n=1315)
Eastern Sydney	-21.9 (n=169)	-78.8 (n=873)
Western Sydney	-40.9 (n=88)	-73.3 (n=442)

Note: 'Eastern Sydney' includes Eastern City, North and South districts; 'Western Sydney' refers to Western and Central cities as designated by the Greater Sydney Commission.

**Figure 11:** Regional breakdown – confidence (current conditions)





# Confidence map

Weighting is based on business confidence levels in the April quarter relative to the NSW average.

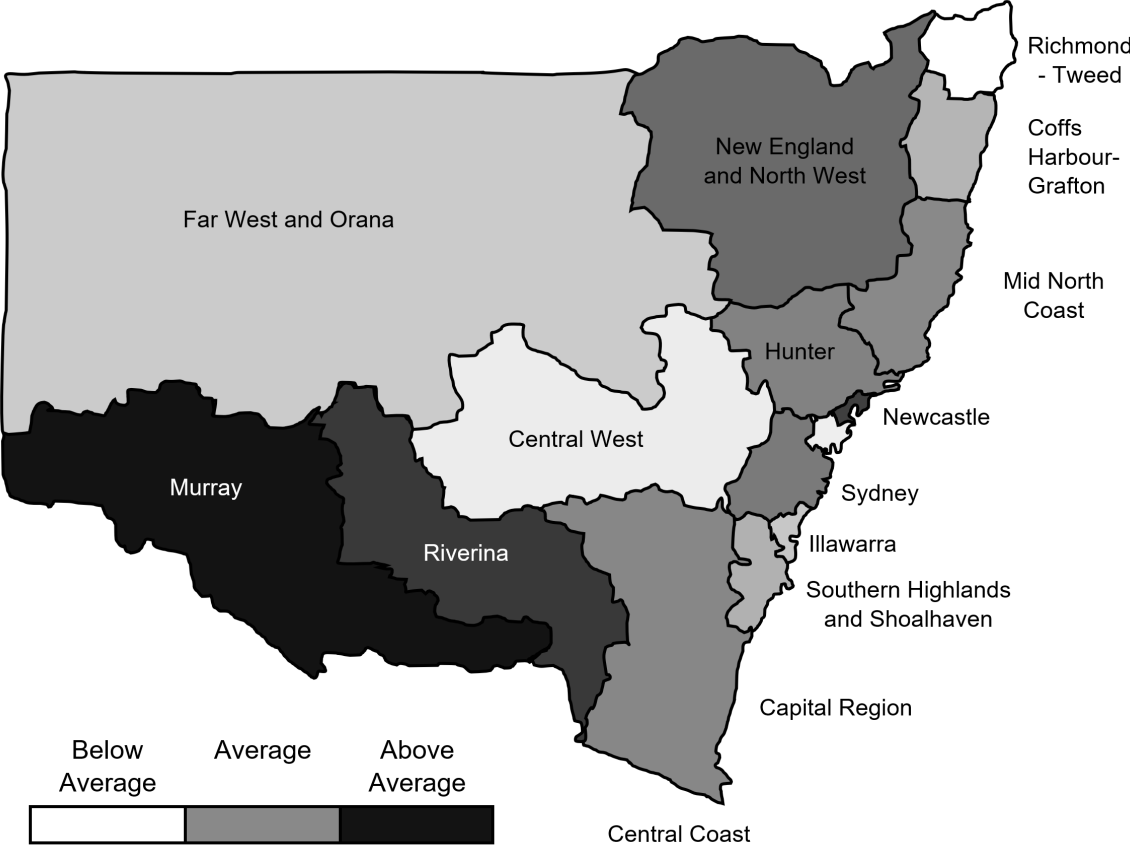


Figure 12: Confidence map

Region	Business Confidence Index - Forwarding looking Conditions	
	APR-22	JAN-22
<b>NSW</b>	<b>-27.5 (n=695)</b>	<b>-47.3 (n=3036)</b>
Central Coast	-40.6 (n=32)	-47.8 (n=134)
Capital Region	-25.6 (n=43)	-59.8 (n=127)
Central West	-38.5 (n=26)	-48.1 (n=158)
Coffs Harbour – Grafton	-29.6 (n=27)	-50.6 (n=83)
Far West & Orana	0 (n=9)	-52.5 (n=61)
Hunter Valley	-35.7 (n=42)	-48 (n=152)
Illawarra	-29.6 (n=27)	-53.5 (n=142)
Mid North Coast	-47.2 (n=36)	-47.7 (n=109)
Murray	-11.4 (n=35)	-43 (n=114)
New England & North West	-44.1 (n=34)	-50.8 (n=118)
Newcastle & Lake Macquarie	-17.9 (n=39)	-41.9 (n=148)
Richmond – Tweed	-33.3 (n=45)	-50.3 (n=169)
Riverina	0 (n=23)	-49.5 (n=110)
Southern Highlands & Shoalhaven	-35 (n=20)	-52.2 (n=92)
Sydney	-23.7 (n=257)	-44.4 (n=1315)
Eastern Sydney	-19.5 (n=169)	-42.7 (n=873)
Western Sydney	-31.8 (n=88)	-47.7 (n=442)

Note: 'Eastern Sydney' includes Eastern City, North and South districts; 'Western Sydney' refers to Western and Central cities as designated by the Greater Sydney Commission.

**Figure 13:** Regional breakdown – confidence (forward-looking conditions)

Region	Current Business Conditions Index				
	Capital spending	Staff numbers	Sales revenue	Profit	Operating cost pressure
<b>NSW (n=695)</b>	<b>-38</b>	<b>-23</b>	<b>-33</b>	<b>-58</b>	<b>50</b>
Central Coast (n=32)	-38	-13	-41	-59	50
Capital Region (n=43)	-54	-21	-35	-70	70
Central West (n=26)	-46	-19	-23	-62	42
Coffs Harbour – Grafton (n=27)	-59	-30	-41	-67	44
Far West & Orana (n=9)	-67	-44	-56	-67	56
Hunter Valley (n=42)	-45	-33	-48	-62	52
Illawarra (n=27)	-48	-11	-33	-56	48
Mid North Coast (n=36)	-39	-31	-56	-78	31
Murray (n=35)	-23	-14	-14	-51	66
New England & North West (n=34)	-35	-24	-38	-56	62
Newcastle & Lake Macquarie (n=39)	-21	-10	-10	-41	46
Richmond – Tweed (n=45)	-36	-33	-53	-64	38
Riverina (n=23)	-44	-22	-13	-61	39
Southern Highlands & Shoalhaven (n=20)	-30	-10	-40	-65	70
Sydney (n=257)	-36	-24	-29	-54	49
Easter Sydney (n=169)	-31	-16	-25	-54	53
Western Sydney (n=88)	-44	-40	-36	-55	42

**Figure 14:** Regional breakdown – current business conditions

Industry	Business Confidence Index - Current Conditions	
	APR-22	JAN-22
<b>All industries</b>	<b>-30.6 (n=695)</b>	<b>-70.9 (n=3036)</b>
Retail Trade	-41.3 (n=109)	-72.6 (n=482)
Accommodation & Food services	-31.3 (n=80)	-74.7 (n=438)
Professional, Scientific & Technical services	-11.5 (n=78)	-73.8 (n=336)
Manufacturing	-25.3 (n=75)	-66.5 (n=215)
Construction	-27.1 (n=59)	-63 (n=181)
Other services	-22.2 (n=54)	-71.3 (n=236)
Wholesale trade	-46.9 (n=32)	-65.5 (n=110)
Health Care & Social Assistance	-58.1 (n=31)	-74.3 (n=214)
Arts and Recreation services	-43.3 (n=30)	-78.6 (n=137)
Education & Training	-46.2 (n=26)	-74.1 (n=139)
Information Media & Telecommunications	-37.5 (n=24)	-80.5 (n=77)
Agriculture, Forestry & Fishing	-23.8 (n=21)	-51.6 (n=64)
Rental, Hiring & Real Estate services	-10.5 (n=19)	-55.6 (n=63)
Financial & Insurance services	-52.9 (n=17)	-61.7 (n=81)
Transport, Postal & Warehousing	-6.3 (n=16)	-70.6 (n=68)
Administrative & Support services	-10 (n=10)	-61.1 (n=36)
Electricity, Gas, Water & Waste services	-37.5 (n=8)	-66.7 (n=21)
Mining	0 (n=3)	-60 (n=15)
Public Administration & Safety	33.3 (n=3)	-25 (n=8)

**Figure 15:** Industry breakdown – confidence (current conditions)



Industry	Current Business Conditions Index				
	Capital spending	Staff numbers	Revenue	Profit	Operating cost pressure
<b>All industries (n=695)</b>	<b>-38</b>	<b>-23</b>	<b>-33</b>	<b>-58</b>	<b>50</b>
Retail Trade (n=109)	-58	-36	-48	-68	44
Accommodation & Food services (n=80)	-41	-36	-43	-56	65
Professional, Scientific & Technical services (n=78)	-19	0	-15	-40	55
Manufacturing (n=75)	-45	-21	-40	-72	56
Construction (n=59)	-34	-25	-29	-54	36
Other services (n=54)	-35	-2	-20	-52	57
Wholesale trade (n=32)	-31	-9	-22	-59	78
Health Care & Social Assistance (n=31)	-55	-55	-58	-77	45
Arts and Recreation services (n=30)	-37	-30	-23	-50	50
Education & Training (n=26)	-35	-46	-50	-85	42
Information Media & Telecommunications (n=24)	-42	-29	-46	-63	46
Agriculture, Forestry & Fishing (n=21)	-33	-14	-38	-62	43
Rental, Hiring & Real Estate services (n=19)	-21	-16	-16	-37	21
Financial & Insurance services (n=17)§	-24	-6	-35	-53	35
Transport, Postal & Warehousing (n=16)	-44	-19	0	-44	56
Administrative & Support services (n=10)	-30	0	0	-30	20
Electricity, Gas, Water & Waste services (n=8)	-50	-50	-50	-88	0
Mining (n=3)	67	67	67	33	100
Public Administration & Safety (n=3)	33	33	33	-67	67

**Figure 16:** Industry breakdown – current business conditions



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