



Business Now

THE BUSINESS SA SURVEY OF
BUSINESS EXPECTATIONS

SEPTEMBER QUARTER 2019



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BUSINESS CONFIDENCE

Confidence falls to levels not seen since 2006

71.6

SA Confidence Index

Business confidence in South Australia has fallen for the third consecutive quarter, dropping 12.8 points since June. Since the December quarter last year, confidence has fallen close to 45 points. Confidence now sits at 71.6 points, a level not seen since 2006.

Local confidence has trended significantly downward for four consecutive quarters, with more business people pessimistic about the state of the economy than optimistic.

12.8 ▼

points down from last quarter, June 2019

42.6 ▼

points down compared to September 2018

49.2 ▼

points down compared to September 2009



GENERAL BUSINESS CONDITIONS

Business conditions tough for September quarter

78.7

General Business Conditions Index

87.0

points expected for next quarter, December 2019

General business conditions fell by 9 points in the September quarter, with any previous positive signs no longer evident. General business conditions remain well into negative territory. Over the past year conditions have fallen by almost 25 points, and compared to September 2009, they're down 19.7 points.

Businesses had expected conditions to improve, anticipating 92.1 points for the quarter. However, they're still optimistic conditions will improve in December.

9.0



points down from last quarter, June 2019

24.9



points down compared to September 2018

19.7



points up compared to September 2009



TOTAL SALES AND REVENUE

Total sales and revenue are down, firmly in negative territory

83.2

Total Sales / Revenue Index

91.7

points expected for next quarter, December 2019

Total sales and revenue have fallen by 7.2 points, despite hopes in June that sales and revenue figures were steadying. Businesses are noticing at the tills that people are buying fewer goods and putting in less orders. This is demonstrated in part by a fall of just under 1 per cent in retail trade turnover for the September quarter, according to Australian Bureau of Statistics figures. Retail trade fell 1.1 per cent year-on-year for September. Quarterly growth hasn't been this low since the second half of 2012.

Businesses were expecting a great improvement which didn't eventuate but are still hoping for a December upturn.

7.2



points down from last quarter, June 2019

19.9



points down compared to September 2018

15.2



points down compared to September 2009



BUSINESS TRENDS

Over a range of indices, business trends fell across most categories in the September quarter, reflecting the fall in general business conditions. Export sales were up for few businesses and profitability was lower than anticipated. Capital expenditure on plant and equipment and buildings was also down. In a positive sign, spending on training was up.

How did your business trend regarding export sales?

7.2% ▲

Export sales: up compared to 5.5 per cent in June

How did your business trend regarding training expenses?

26.8% ▲

Training expenses: up compared to 22.9 per cent in June

How did your business trend regarding average wages?

32.5% ▲

Average wages: up compared to 33.3 per cent in June

79.4% =

Export sales: same compared to 81.1 per cent in June

61.3% =

Training expenses: same compared to 70.7 per cent in June

58.8% =

Average wages: same compared to 57.7 per cent in June

13.4% ▼

Export sales: down same as 13.4 per cent in June

11.9% ▼

Training expenses: down compared to 6.5 per cent in June

8.8% ▼

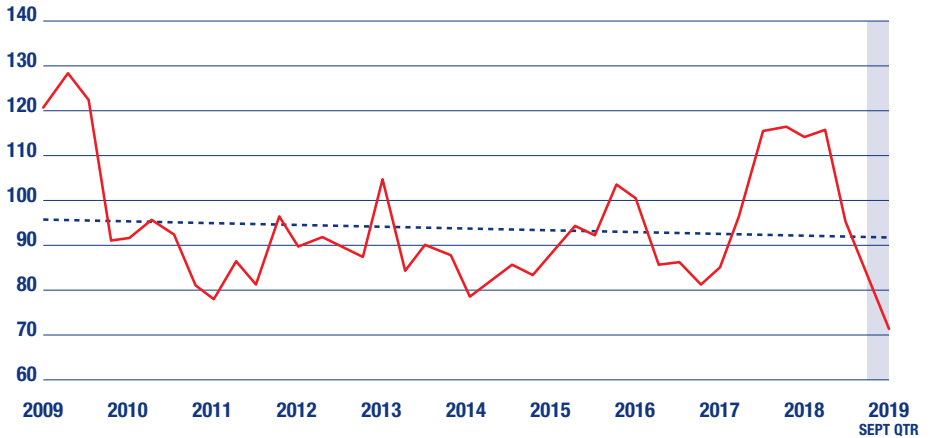
Average wages: down compared to 9.0 per cent in June



SEPTEMBER QUARTER BUSINESS CONFIDENCE AND CONDITIONS

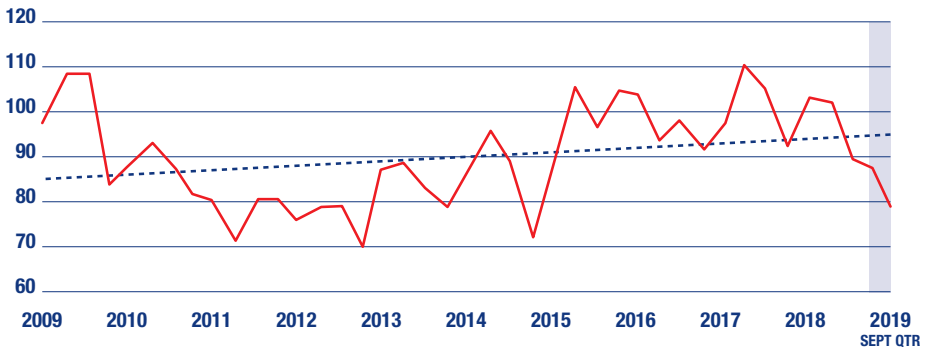
SA 10 YEAR BUSINESS CONFIDENCE

SEPT 2009 – SEPT 2019



SA 10 YEAR BUSINESS CONDITIONS

SEPT 2009 – SEPT 2019





CASE STUDY: TREVOR HAINES, SLATTERS MANUFACTURING

Slatters

Trevor Haines is celebrating his 40th anniversary of working for Slatters Manufacturing this year, having worked his way up from his early days as a warehouse trainee in 1979, to buying the family-owned business with his brother and another investor a decade ago, and now jointly running the shoe business show as its Financial Director.

Over Slatters Manufacturing's 145-year history there have been many changes, including removal of trade tariff protection, the rise of low-cost offshore manufacturing, downturns in retail and main street trade and the rise and fall of the Australian dollar.

"There has been enormous consolidation in the retail market, generally the big guys concentrate on their own and international brands and many of the mid-sized retailers have disappeared," Mr Haines said. "There's hardly a men's shoe store in the city and the main streets in country towns are doing it tough. The mum and dad shoe stores are going."

Business conditions are not helping the family business. Slatters has adapted its business model from manufacturing shoes to wholesaling and retailing, and diversified by buying Blue Sheep Ugg Boots. The reduction in distribution opportunities has led Slatters to expand its

retail activities which now include an outlet shop at Findon; Ricardo's in Aspley, Queensland; Wards on The Parade at Norwood and a new Slatters Outlet Store at the Churchill Centre, Kilburn.

Mr Haines said it had been a tough operating environment with the cost of rents, power and water constantly rising, council rates increasing and wages going up.

Since January there has been a glowing light on the horizon for Mr Haines and Slatters, and it has made a significant difference to Slatters' profitability. On January 1 the State Government lifted the payroll tax threshold, ensuring businesses with a payroll of under \$1.5 million would no longer have to pay that tax.

With a staff of 30 and a payroll just coming in under the \$1.5m threshold, Mr Haines said Slatters had benefited from the reduction in tax.

"We're not paying any payroll tax this year and when you're not doing well, it makes a hell of a difference," he said. "We're using the difference just to help keep things going, it's going to our bottom line. Because conditions continue to tighten, we're working a lot harder to keep going and this has helped."



ECONOMIC INDICATORS

We asked businesses if it was harder to source skilled labour between the June quarter and the September quarter, and found businesses were finding it much harder than in June but similar to March.

We asked businesses about profitability between the June quarter and September and found it was down for more than half, rising for 15 per cent, and lower than expected.

4.5% ▲

Sourcing labour: easier
compared to 6.7 per cent in June

15.0% ▲

Profitability: up
compared to 14.9 per cent in June

63.8% =

Sourcing labour: same
compared to 72.3 per cent in June

34.0% =

Profitability: same
compared to 42.3 per cent in June

31.7% ▼

Sourcing labour: harder
compared to 21.0 per cent in June

51.0% ▼

Profitability: down
compared to 42.8 per cent in June



LOOKING TOWARDS THE FUTURE

We asked businesses to consider how they thought their business would trend in relation to general business conditions over the next three months, and whether they would improve or worsen. More than a third of businesses thought conditions would worsen.

We also asked businesses how they thought they would trend regarding the cost of overheads. A significant proportion expected overheads to rise and very few expected them to fall.

15.7% ▲

Conditions: up

47.6% ▲

Overheads: up

49.2% =

Conditions: same

50.3% =

Overheads: same

35.1% ▼

Conditions: down

2.2% ▼

Overheads: down



RESEARCH AND DEVELOPMENT AND YOUR BUSINESS



Jamie McKeough
William Buck Managing Director

How do you view Research and Development in terms of your future business growth?

40.6%

Very important

38.3%

Important

12.8%

Not very important

8.3%

Irrelevant

“With confidence and conditions falling, it’s an opportune time to look at whether it’s internal or external factors affecting your business. Control what you can and try to get on with doing what you do best – ignore the external noise. That could also mean investing more in research and development (R&D) to find ways to improve your operations.

“It’s a positive sign to see that close to 80 per cent of SMEs are saying R&D is important to the future of their business, however 67 per cent are spending less than 5 per cent of their turnover on R&D. More than 72 per cent have never sought Government R&D funding or support because it was too hard, too time-consuming, too risky. If you need help, organisations such as ours can provide support and help you navigate the mire of red tape.”

What percentage of your business turnover would you allocate to R&D?

19.4%

Zero

47.8%

Less than 5 per cent

20.6%

5–10 per cent

9.4%

Greater than 10 per cent

2.8%

Other



Over the next five years, what are your R&D plans?

37.8%

Increase R&D investment

2.8%

Decrease R&D investment

55.6%

Stay the same

0%

Not accurate enough

0%

Unsure

7.0%

Other

In which areas of your business do you most invest in R&D?

34.3%

New products

32.0%

Improve existing products

34.3%

New services

42.9%

Improve existing services

56.0%

New technology or systems

11.4%

None

2.3%

Other

Have you ever sought Government funding or support in the form of grants or R&D tax incentives?

8.9%

Yes, R&D grant

12.8%

Yes, tax incentive

72.2%

No

3.9%

Unsure

2.2%

Other



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