

Business Now

THE BUSINESS SA SURVEY OF
BUSINESS EXPECTATIONS

DECEMBER QUARTER 2019



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BUSINESS CONFIDENCE

Confidence on the rise again

85.1

SA Confidence Index

Business confidence has recovered slightly and returned to levels higher than last June, rising 13.5 points since September. While still down significantly compared to this time last year and a decade ago, confidence is back up to 85.1 points.

After four consecutive downward quarters, this is the first to record an increase. However, the index remains well below positive territory.

13.5 ▲

points up from last quarter, September 2019

31.3 ▼

points down compared to December 2018

43.1 ▼

points down compared to December 2009



GENERAL BUSINESS CONDITIONS

Business conditions markedly improved during the December quarter

97.3

General Business Conditions Index

General business conditions improved by 18.6 points in the December quarter, returning the index to 97.3 points. Conditions are now hovering just below positive territory, after four quarters of negative slides, and are marginally lower than a year ago.

Businesses had expected conditions to improve by less than 10 points – to reach 87 – which means operating environments have been more favourable than anticipated.

92.0

points expected for next quarter, March 2020

18.6 ▲

points up from last quarter, September 2019

5.3 ▼

points down compared to December 2018

10.8 ▼

points down compared to December 2009



TOTAL SALES AND REVENUE

Total sales and revenue are up and back into positive territory

103.3

Total Sales / Revenue Index

96.5

points expected for next quarter, March 2020

Total sales and revenue has risen by 20.1 points, much higher than expected, reflecting an improvement in operating conditions across many sectors. Shoppers shifted preferences to November sales, with business conditions improving, export sales picking up, profitability again on the rise, employment levels heading north and more being spent on capital works.

Despite the considerable increase, total sales and revenue is still down compared to December 2018, and down compared to a decade ago. The positive quarterly figure can also be attributed to cuts being made to average wages, labour and training.

20.1 ▲

points up from last quarter, September 2019

6.3 ▼

points down compared to December 2018

4.8 ▼

points down compared to December 2009



BUSINESS TRENDS

Business trends rose over a range of indices across most categories in the December quarter, reflecting improved business conditions and confidence. Profitability was up for 7 per cent more businesses and down for fewer, employment levels were up and more orders were received.

Capital expenditure on plant and equipment and buildings was also down and businesses recorded lower costs of overheads, with power prices softening. More businesses expected interest rates to remain on hold, with 40 per cent fewer expecting them to decrease in the March quarter.

How did your business trend regarding profitability?

22.0% ▲

Profitability: up
compared to 15.0 per cent in Sept

How did your business trend regarding cost of overheads?

44.0% ▲

Overheads: up
compared to 59.8 per cent in Sept

How did your business trend regarding employment levels?

17.5% ▲

Employment levels: up
compared to 13.4 per cent in Sept

46.5% =

Profitability: same
compared to 34.0 per cent in Sept

53.0% =

Overheads: same
compared to 36.6 per cent in Sept

62.5% =

Employment levels: same
compared to 58.8 per cent in Sept

31.5% ▼

Profitability: down
compared to 51.0 per cent in Sept

3.0% ▼

Overheads: down
compared to 3.6 per cent in Sept

20.0% ▼

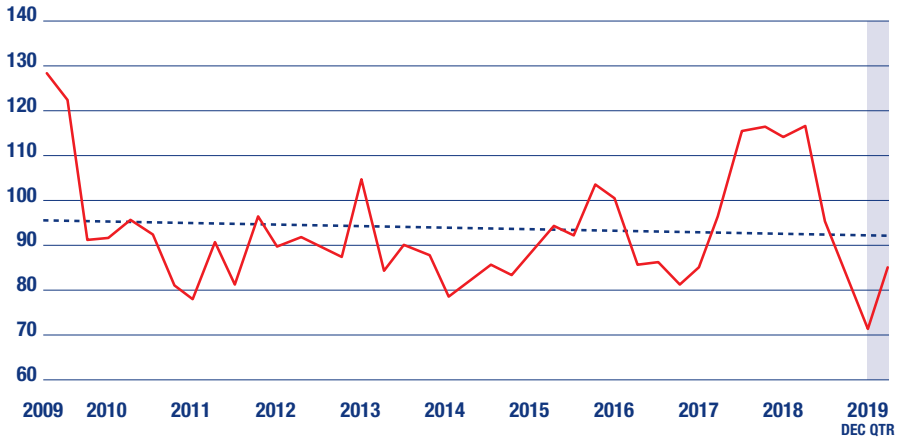
Employment levels: down
compared to 27.8 per cent in Sept



DECEMBER QUARTER BUSINESS CONFIDENCE AND CONDITIONS

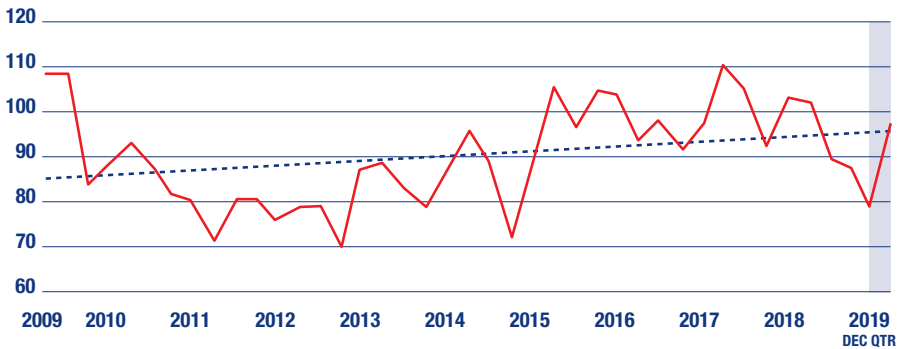
SA 10 YEAR BUSINESS CONFIDENCE

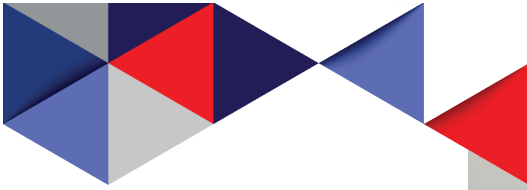
DEC 2009 – DEC 2019



SA 10 YEAR BUSINESS CONDITIONS

DEC 2009 – DEC 2019





CASE STUDY: PIPPA SHANKS, ADD VALUE PROMOTIONS

Pippa Shanks and her parents took over Add Value Promotions as a family business venture in 2012 and they have enjoyed a solid seven years of serving South Australian and interstate organisations by filling their branded merchandise needs. With her parents recently-retired, Ms Shanks has since taken the helm.

In the December quarter, Ms Shanks' operating conditions improved and her confidence in the state's economy grew.

Add Value Promotions relies on a strong economy – when businesses aren't doing well they delay spending on marketing and rushing orders through, holding off until they need something. When business improves, operators have larger marketing budgets to spend, longer lead times, and plan for future months' worth of activities. As the quarter improved, Ms Shanks is again starting to see businesses forward plan.

"Our profit margins have been going up which means our costs are staying steady," Ms Shanks said. "We've had a couple of years where our costs were going up, and the Aussie dollar was making it tricky for us. While our power costs are minimal, for the

industrial people we're working with who make our products, lower prices are also making it easier for them."

Despite the positive end to the year, Ms Shanks is concerned the state's economy could still be on a knife's edge.

"Confidence is still going up but it has a tendency to slip at any time," she said.

Ms Shanks is concerned the coronavirus could also have an impact on Add Value Promotions' operations this year. The business works closely with several universities, and with an expected fall in Chinese and other international student numbers, she's concerned it could impact on their revenue and marketing budgets.

She thinks the coronavirus will also slow tourism and depress South Australia's visitor economy, which is also important for her business.

"The universities are big clients of ours and their numbers will be down, and tourism is also important to our business. We're waiting for people to come from China for the Chinese New Year. We have so many people from Asia who live and come here, it could have an impact on our economy."



ECONOMIC INDICATORS

We asked businesses if it was harder to source skilled labour between the September quarter and the December quarter, and found businesses were finding it easier than at any time in the past four quarters.

5.5% ▲

Sourcing skilled labour: easier
compared to 4.5 per cent in Sept

72.6% =

Sourcing skilled labour: same
compared to 63.8 per cent in Sept

21.9% ▼

Sourcing skilled labour: harder
compared to 31.7 per cent in Sept

We asked businesses about average wages between the September quarter and December and found they were up for fewer businesses than they have been since December 2018, they were the same for more, and down for fewer than expected.

26.5% ▲

Average wages: up
compared to 32.5 per cent in Sept

66.5% =

Average wages: same
compared to 58.5 per cent in Sept

7.0% ▼

Average wages: down
compared to 8.8 per cent in Sept



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. While the figures improved, only a shade under 20 per cent expected an improvement.

19.8% ▲

Conditions: up

48.4% =

Conditions: same

31.8% ▼

Conditions: down

We also asked businesses how they thought they would trend regarding the cost of labour (other than wages). A clear majority expected them to stay the same, but fewer expected them to rise and more expected them to fall.

19.8% ▲

Cost of labour: up

72.4% =

Cost of labour: same

7.8% ▼

Cost of labour: down



WEALTH TRANSFER AND YOUR BUSINESS

As a business owner or operator you've dedicated much of your life to building a successful enterprise. Wealth inter-generational transfer can be a key concern for business owners and operators, along with non-business wealth management.

"As we start a new decade, confidence and conditions are improving and therefore it's time to think of your business future. However, only 14 per cent of businesses are considering selling to the next generation. That might be a shock if you're the diligent child waiting in the wings, but it could also mean some owners don't yet have children, they could be young entrepreneurs, or their children could be stepping out on their own.

"Conversations about wealth transfer should be taking place, otherwise family business relationships could end in disaster. Our next generation needs to learn about finance because we all know money can be divisive. This can all be avoided with good planning and advice, because you can't put a price on keeping a family together."



Jamie McKeough
William Buck Managing Director

When do you plan to retire?

19.8%

Next five years

27.3%

5–10 years

29.4%

10–20 years

23.5%

Beyond 20 years



Do you intend to sell or transfer your business to your children?

14.6%

Yes – transfer to children

24.3%

Yes – sell to children

61.1%

Not applicable

Do you currently manage your non-business wealth in the same structured and organised manner that you manage your business?

65.4%

Yes

34.6%

No

Have you discussed your future wealth transfer with your children?

12.4%

Yes, it is well understood

14.1%

Yes, but not in detail

27.0%

Not yet

7.6%

I don't intend to

38.9%

Not applicable

Do you anticipate potential for family-member disputes around your future wealth distribution?

1.3%

Yes, definitely

32.1%

Unlikely

13.8%

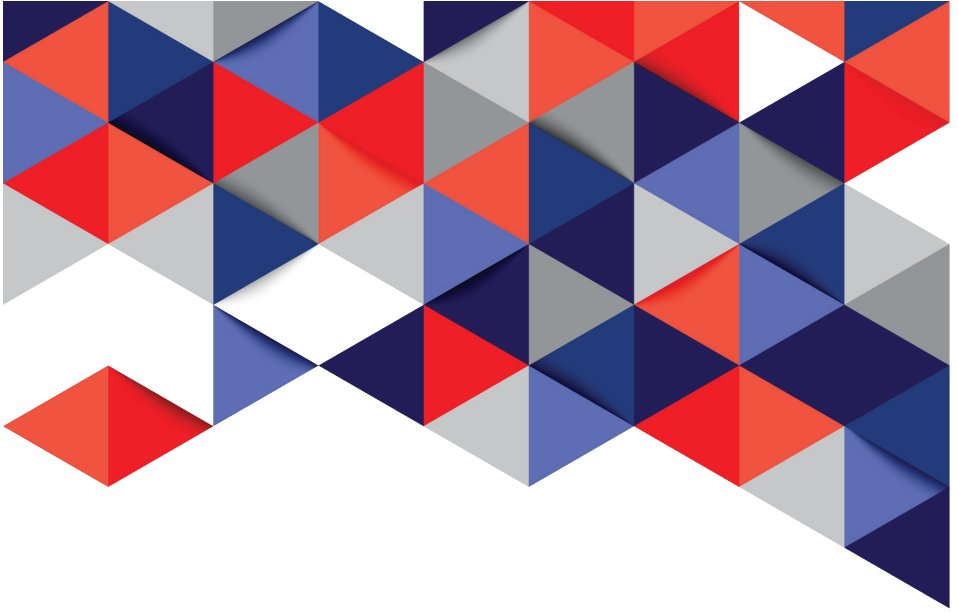
Yes, there is a potential

26.4%

Not at all

27.0%

Not applicable



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