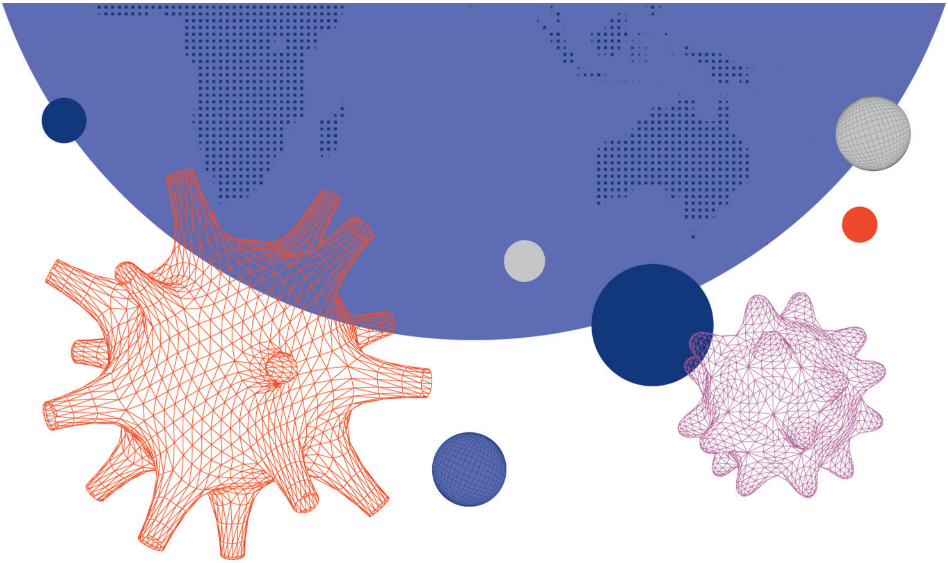


Business Now

THE BUSINESS SA SURVEY OF BUSINESS EXPECTATIONS

JUNE QUARTER 2020

COVID-19 SPECIAL EDITION

Business SA
Chamber of Commerce
and Industry South Australia

Powered by

William Buck

The Economy

BUSINESS CONFIDENCE

Confidence turns a corner

67.0

SA Confidence Index

Business confidence has clawed back some ground after plummeting to its lowest level on record in the March quarter. From a rock bottom 41, confidence climbed 26 points to 67.0 in the June quarter. With the majority of businesses still impacted by trading restrictions during the June quarter, the increase, the largest in 13 years, is significant and signals a hint of optimism in the air for South Australian businesses.

A full recovery from the catastrophic damage to the economy is still a long way off though, with confidence remaining down 17.4 points compared to this time last year.

26.0

points up from last quarter, March 2020

17.4

points down compared to June 2019

24.0

points down compared to June 2010

BUSINESS CONDITIONS

Business conditions stable as recovery begins

66.9

General Business Conditions Index

80.7

points expected for next quarter, September 2020

Business conditions performed better than expected in the June quarter, with the disastrous predictions of 47.3 fortunately not realised. Instead, business conditions stabilised up 0.1 points to 66.9, beating businesses' expectations for the quarter by 19.6 points.

While the full breadth of the deadly second wave in Victoria had not yet materialised at the time of this survey conducted from 6 July to 20 July, business owners were feeling more positive about the future in South Australia. Despite the uncertainty, business conditions are expected to jump for the September quarter to above 80 points.

0.1 ▲

points up from last quarter, March 2020

20.8 ▼

points down compared to June 2019

17.1 ▼

points down compared to June 2010

COVID-19 Impact

BUSINESS IMPACT

REVENUE

Revenue still hit hard

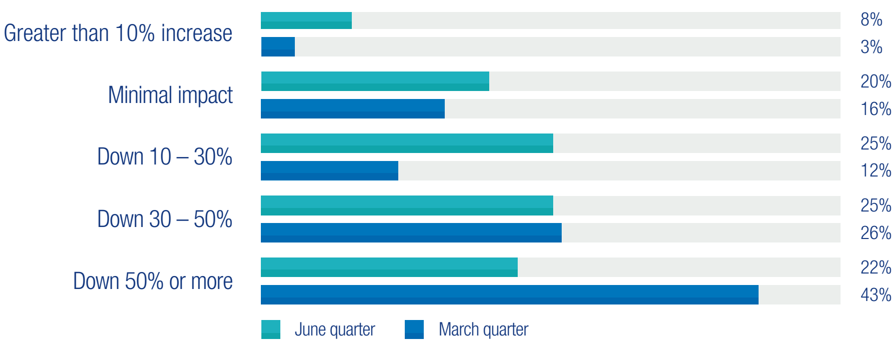
22.2%

of businesses recorded revenue drop greater than 50%

The impact to revenue from COVID-19 related restrictions has started to swing as South Australian restrictions were lifted in the June quarter. Impacted businesses with revenue down 50 per cent or more have decreased by nearly half indicating some recovery for the economy. However, there is still a way to go with 72 per cent of businesses' revenues still significantly impacted compared to the same time last year, with at least 47 per cent experiencing revenue impacts of 30 per cent or greater.

Accommodation and food retail, and tourism still represent the worst affected sectors, with 80 per cent and 94.5 per cent respectively reporting revenues down at least 30 per cent or more.

How much has your revenue been impacted since the introduction of COVID-19 related restrictions?



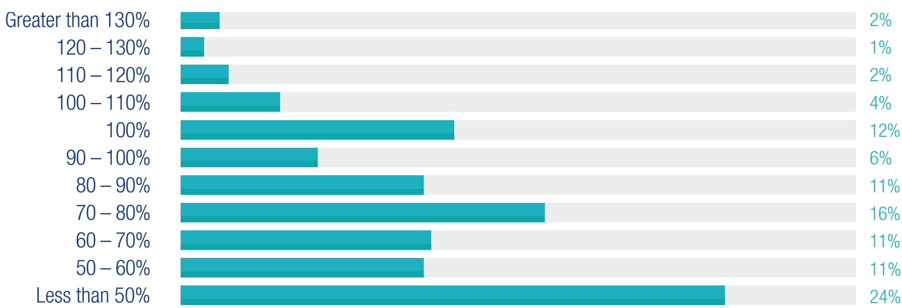
SALES OUTLOOK

Return to normal trade still a long way off

Asking businesses to forecast trade by the end of the September quarter, it appears the road to recovery will be long and slow, with only 21.1 per cent expecting trade to be 100 per cent or higher compared to pre COVID-19. While the effects of COVID-19 on the accommodation and food retail and tourism sectors are well known, it was concerning to see that only 26.4 per cent of manufacturers expected trade to return to normal levels by the end of the September quarter.

Tourism continues to be the hardest hit sector with no end in sight. In fact, 72.2 per cent of tourism businesses forecast trade to be 50 per cent or less by the end of September, compared to 40 per cent in the accommodation and food retail sector. While the survey highlights that many sectors are starting to return to near normal levels of trade, sectors including tourism and events still require a further easing of restrictions to get back on their feet.

With respect to your pre-COVID revenue, what percentage of trade do you forecast your business to be back up to by the end of September?



> "The events industry was closed overnight. Corporate clients, associations and other clients cancelled or postponed events until 2021, so we are likely to have no income or very little until March 2021, which could equate to 12 months – how are we expected to survive post Sept without further assistance."
>
> Professional, Scientific & Technical Services, 1–19 employees, $500k–$1m turnover

RESTRICTIONS

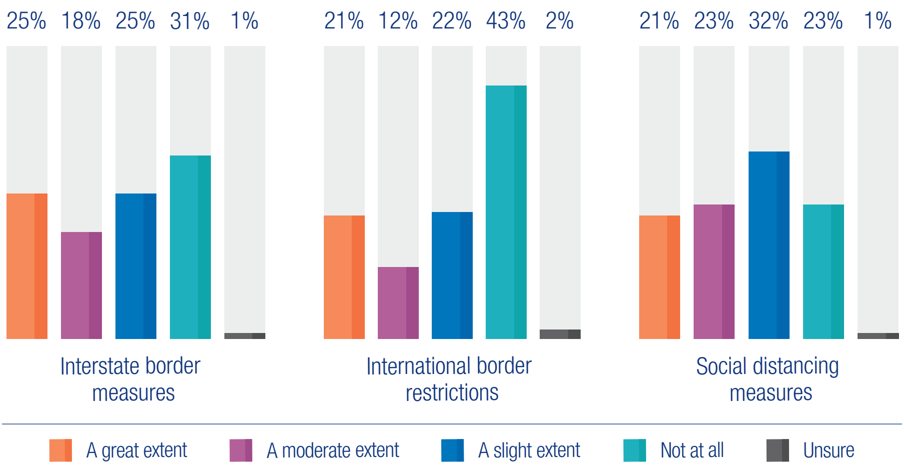
Restrictions cripple business capacity

21%

impacted to a great extent by social distancing measures

When analysing the reasons for a decline in revenue, an overwhelming number of businesses pointed to social distancing measures such as the one person per four square metre rule, which was only relaxed to one person per two square metres in late June. 44 per cent of businesses surveyed said the social distancing measures had a moderate to great impact on their business.

Restrictions impact



SECTOR IMPACT

Interstate border measures

Tourism

76.5%

of business suffering to a great extent

Accommodation and food retail

45.0%

suffering to a great extent

International border restrictions

Tourism

75.0%

of business suffering to a great extent

Wholesale trade

41.7%

suffering to a moderate extent

Social distancing measures

Accommodation and food retail

60.0%

suffering to a great extent

Cultural and recreational services

61.5%

suffering to a great extent

"The support from locals and the rest of SA has been great in our restaurant, but given that interstate visitors account for 40% of our accommodation and international up to 15%, the mid-term outlook and current situation for our accommodation is not great!"

Tourism operator, 20–40 employees, $5m–$10m turnover

STAFFING

46.6%

most staff working back in the office

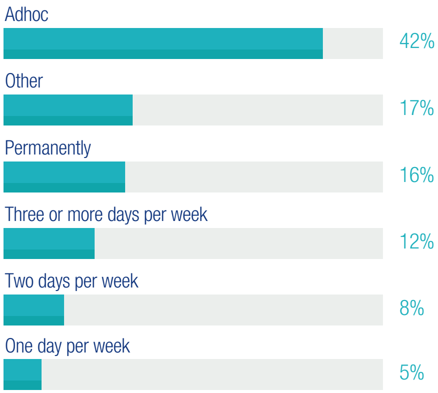
32.6%

reduced working hours

59.8%

will continue work from home arrangements

Working from home arrangements



With the easing of restrictions in June, most businesses brought their staff back into the workplace following a significant proportion of the workforce undertaking work from home arrangements at the peak of the pandemic. The 32.6 per cent still on reduced hours shows a large proportion of businesses are still a fair way back from normal trading and staffing levels.

For businesses that have already implemented working from home arrangements, there has been a wide scope of variations. Interestingly, 15.7 per cent of businesses indicated that these variations will be permanent while 41.7 per cent of businesses had adhoc arrangements, underscoring the need for adequate workplace flexibility.

The work from home revolution appears to be here to stay in some shape or form with 59.8 per cent of businesses indicating they will continue with alternative working arrangements.

“We have always offered flexible working arrangements, these will continue, however the number of days at home have become more regular with 2–3 days a week.”

Professional, Scientific & Technical Services, 1–19 employees, $500k–$1m turnover

CASE STUDY: FRANK SEELEY, FOUNDER SEELEY INTERNATIONAL, ADELAIDE

For family-owned cooling and heating manufacturers, Seeley International, a hint of optimism is in the air following a turbulent June quarter.

With around 500 staff around the country, including 300 in Adelaide, founder Frank Seeley said the company acted quickly to preserve jobs from the impact of COVID-19.

"I can count our job losses on two hands, if not one," said Mr Seeley.

With revenue down around 25 per cent, the 48 year old company fell short of being eligible for the Federal Government's JobKeeper scheme. Instead, all staff took a temporary pay cut.

"Things could have looked very different for us if not for the support of our staff," said Mr Seeley.

"From the very top down, everyone pulled together. We didn't want to lose any more jobs than we absolutely had to and left it up to the staff, which says a lot about the culture of the company."

Fortunately, things picked up towards the end of the June quarter.

"Because we have a factory in Albury and in-house manufacturing capabilities, it meant we didn't have to rely as heavily on supply chains as our competitors," said Mr Seeley.

"We've manufactured our own motors in the past and now with the crisis, we're looking at doing so again in the future, increasing manufacturing back home in Australia."

"I want to see that in my lifetime."

As well as enhancing their local manufacturing, the COVID-19 pandemic also prompted the business to produce a new 3–5 year strategic plan, which includes a stronger focus on "imagineering" and new projects to make heating and cooling healthier, cheaper to operate, and more effective.

"We think the future is very bright for us, because people are understanding as they never have before, the importance of breathing clean, fresh air for both heating and cooling, rather than re-breathing other people's air," Mr Seeley said.

"We want to work harder on solving this problem. If we can bring in outside air that is filtered and constantly changed, so it is always 100 per cent fresh air, then that will be a great breakthrough!"

"Other pandemics are likely to come, and each time they will be worse, so we want to be ready for it next time and make sure we are in a position to help the people of Australia to minimise the dreadful effects of things like COVID-19, in the future."

"After almost 50 years in manufacturing, Seeley International has confronted this head-on and we'll come out stronger for it."

SUPPORT MEASURES

JOBKEEPER

JobKeeper saves SA jobs

65.2%

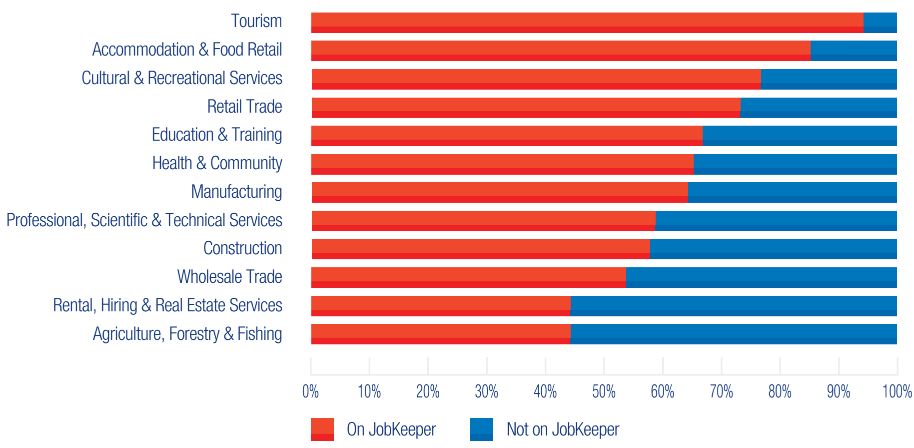
of respondents on JobKeeper

94%

of tourism businesses on JobKeeper

The introduction of JobKeeper in March was a saving grace for impacted businesses and employee retention. Of the businesses receiving JobKeeper, 5.4 per cent had increased staffing levels, 60.2 per cent said they had maintained staffing levels, and 34.5 per cent had decreased staffing levels based on pre-COVID-19 levels. However, the magnitude of staff reductions is still quite low with 56 per cent of all businesses that reduced staff only dropping by 10 to 20 per cent on pre-COVID levels.

Proportion of businesses on JobKeeper sector comparison

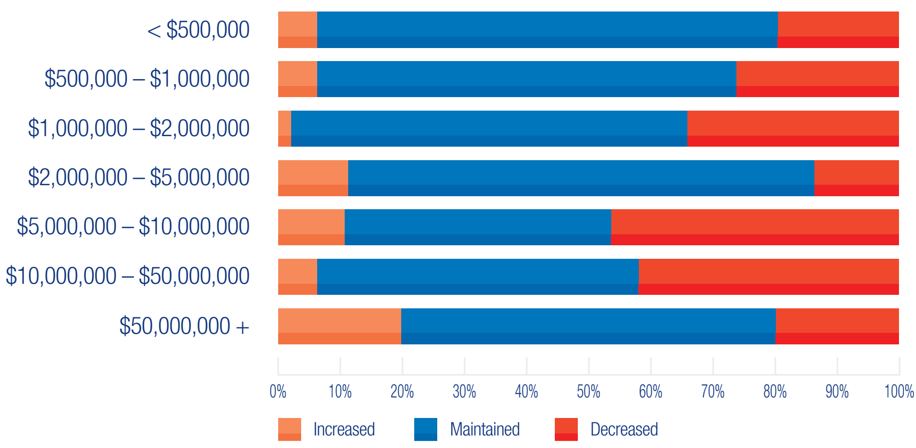


Interestingly, when we broke down the data by business turnover, businesses with turnover between $5m to $10m were found to be the most likely to have a reduction in employees with 46.4 per cent responding with some level of reduction. This is in stark contrast to businesses in the lower turnover brackets with only 13.6 per cent of businesses in the $2m to $5m bracket decreasing staff levels and 26.1 per cent in the $500k to $1m bracket.

"JobKeeper has been a life saver and for SMEs it has been a critical cog, however I think we should be clever in its ongoing use to target those most in need."

Personal & Other Services,
1–19 employees, < $500k turnover

Staff retention comparison by business turnover size



STIMULUS MEASURES

Business welcomes JobKeeper 2.0

We asked businesses to select four areas of focus that should be included in the State and Federal Government's recovery phase to stimulate economic recovery after COVID-19 restrictions are eased. The announcement of JobKeeper 2.0 was a welcome relief for many businesses with 64 per cent selecting the continuation of the JobKeeper wage subsidy as the key focus of Government support going forward.

Moreover, many businesses indicated that further support would be required to help our most affected sectors, such as tourism and events. Reforms were also seen as an important focus for Governments. Almost 80 per cent of businesses selected reform of one type or another with wholesale tax at the top of the reform agenda.

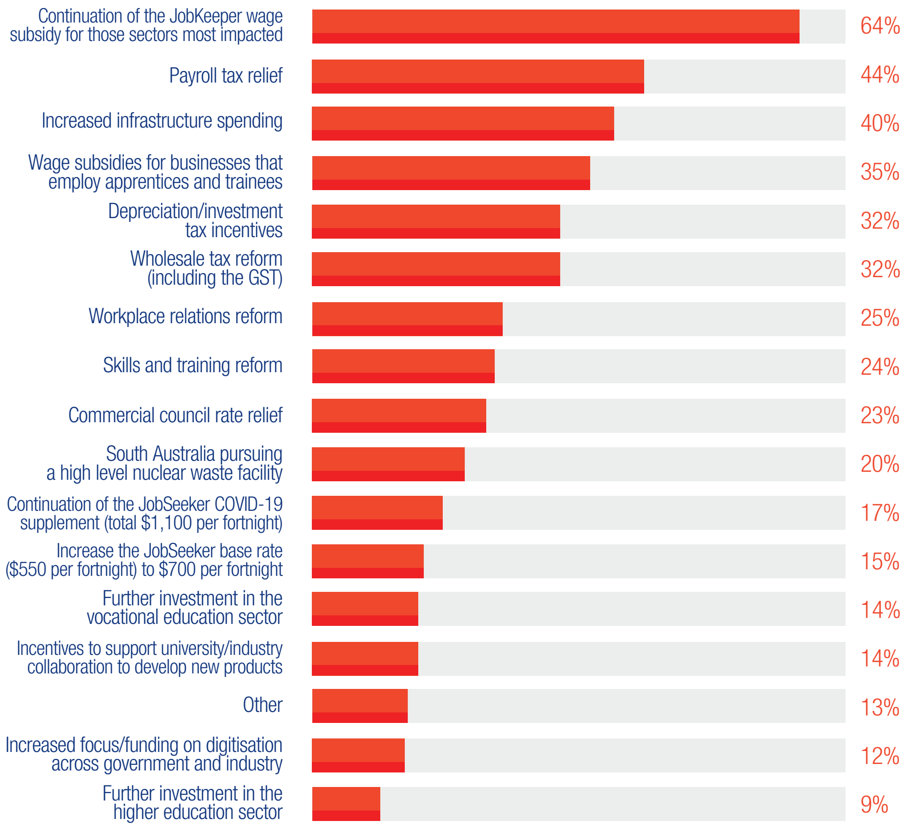
Top 5 Wish List

1. Continuation of the JobKeeper wage subsidy for those sectors most impacted
2. Payroll tax relief
3. Increased infrastructure spending
4. Wage subsidies for businesses that employ apprentices and trainees
5. Wholesale tax reform (including the GST)

"There needs to be a better link to regions to encourage people to live outside of capital cities. It's why Victoria has so many large cities outside of Melbourne. They are connected by rail and good highways. Invest in the Limestone Coast region. That said Adelaide is a smaller city that is very liveable, which must work to its advantage post COVID."

Manufacturing, 1–19 employees, $10m–$50m turnover

What should be the primary focus of the State or Federal Government in the recovery phase to stimulate the economy after restrictions are eased?



THE BANKS

Banking support a last resort

25.6%

of businesses renegotiated their banking facilities

> **"Our bank has allowed a separate 6 month JobKeeper overdraft for the payment of wages and receipt of JobKeeper."**

Transport, Postal & Warehousing,
1–19 employees, $1m–$2m turnover

> **"Bank loans still need to be paid and deferring them will not help in the long run."**

Rental, Hiring & Real Estate Services,
1–19 employees, $500k–$1m turnover

Credit and liquidity measures made available to banks by the Federal Government and RBA were a key pillar of the national survival plan for business during COVID-19. However, the uptake of banking support has decreased significantly with only 25.6 per cent of businesses renegotiating banking facilities in the June quarter, compared to 41.1 per cent in the March quarter. Notwithstanding, business experiences in working with the banks has in the most part been positive.

Still, accessing banking assistance seems to be the least preferred option of support for businesses with 64.9 per cent of respondents planning on not utilising additional banking support going forward.

“Landlord has not spoken to me personally since our initial contact in early April. I have written 3 letters asking them what to do or can we have a discussion, but I have heard nothing more.”

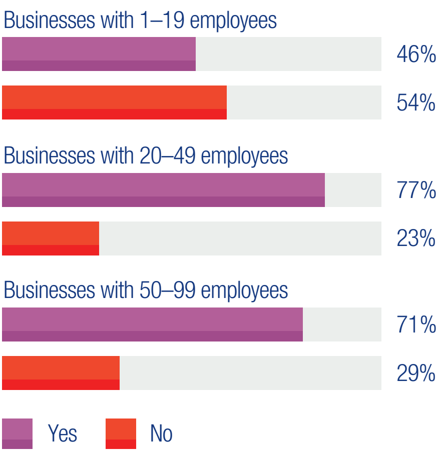
Administrative & Support Services,
1–19 employees, $2m–$5m turnover

RENT NEGOTIATIONS

52%

of business were successful in achieving satisfactory level of rent relief or deferral

With the introduction of the commercial tenancy code, has your business been able to achieve a satisfactory level of rent relief or deferral?



Rental obligations of commercial tenants were revealed to be a major pain point for businesses as revenues fell. With the implementation of the Commercial Tenancy Code in May to assist business in managing this ongoing obligation, it was important to measure how successful this measure has been.

Of the businesses surveyed, 35.2 per cent were commercial tenants with turnover impacted by at least 30 per cent or more. However, the success of the code has been mixed with only 52.4 per cent of businesses achieving a satisfactory level of rent relief or deferral.

When we broke down data by employee size, small businesses were found to be the least successful in negotiations, with 54.1 per cent of business in the 1–19 employee group unable to achieve a satisfactory level of rent relief or deferral.

When the National Cabinet agreed on the Mandatory Commercial Tenancy Code in April, the South Australian implementation lacked the mandatory element of the original code. Unfortunately, some businesses reported that landlords were not even coming to the table to begin negotiations.

BUSINESS PLANNING

Business confidence and conditions have bounced back in the June quarter and the depths of despair anticipated back in March, fortunately, have not materialised.

35%

of businesses have prepared a new 3–5 year business plan

18%

are comfortable with their current business plan

"While it is pleasing the majority of South Australian businesses fall into the minimal impact category, it is clear a group of businesses continue to suffer significantly from COVID-19, which is having a huge impact on their bottom line."

"But, without a playbook to refer to on how to deal with a pandemic, it appears South Australia has so far got the balancing act right between juggling the health response and economic recovery from this pandemic."

"This can be seen in the mass uncertainty at the time of the last survey in March that saw 36 per cent of businesses cast doubt on whether they could survive a further three months under COVID-19 restrictions. The June quarter is much more encouraging with 81 per cent of SMEs confident their business can now survive for six months or more under current restrictions."

"With 65 per cent of surveyed businesses on JobKeeper, you'd hate to imagine what the picture would be without the wage subsidy in place. The financial impact would be dire and the flow onto unemployment would be catastrophic."

“Thankfully, the Federal Government has since announced an extension to the scheme for those that need it most to until 28 March 2021, allaying fears and restoring confidence to businesses.”

“Again, we saw in the June quarter COVID-19 put business growth aspirations on the back burner with only 35 per cent feeling the need to revise or update their 3–5 year business strategies to cope with the crisis. In all, the June numbers are still grim but in the current climate, a glimmer of hope is better than nothing at all.”

Jamie McKeough
William Buck Managing Director

“Cannot plan 3–5 years at present with short and long term uncertainty with COVID-19 making interstate and international marketing sales actions basically nil and void.”

Agriculture, Forestry & Fishing,
1–19 employees, $10m–$50m turnover

“We have reduced our strategy focus to more short term with flexibility to adapt with change.”

Agriculture, Forestry & Fishing,
1–19 employees, $2m–$5m turnover

BUSINESS SURVIVAL

"Second shut down is the thing that is concerning to me. We spent 6 years building the business up to employ around 20 people and it was heartbreaking to terminate and stand down all of them in March. It has been great with the easing of restrictions to now only be a few people below our pre-COVID employment."

Manufacturing, 1–19 employees, $1m–$2m turnover

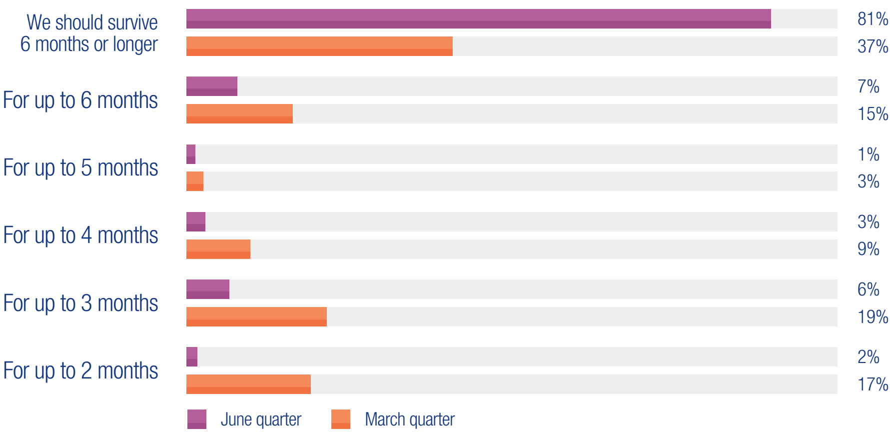
81%

think they will survive longer than 6 months if planned easing of restrictions continue

Last quarter, when Business SA asked how confident businesses were on seeing out restrictions, only 37 per cent said they would be able to see out 6 months or longer. For the June quarter, the uplift was dramatic, with 81 per cent of businesses confident of surviving 6 months or longer.

However, businesses made it clear that the threat of a second wave of infection in the State was very much a risk at the forefront of their minds.

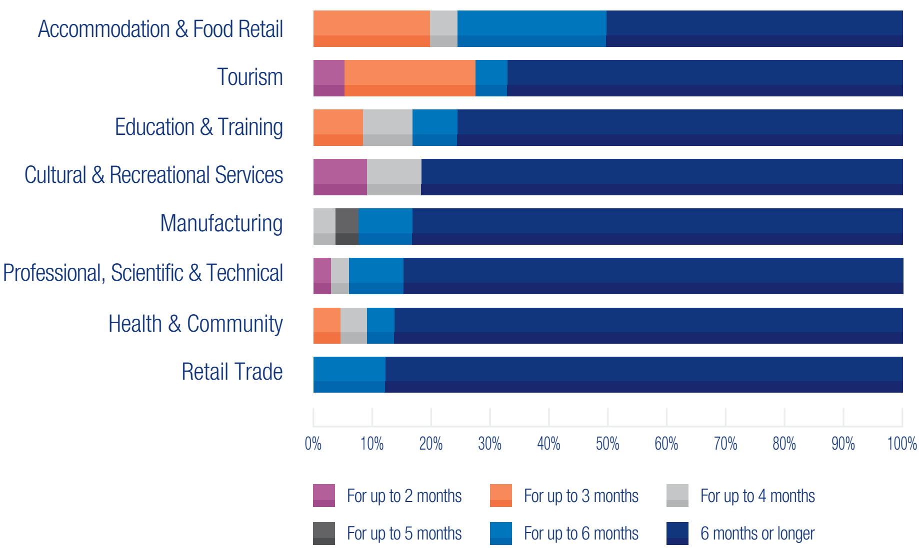
How confident are you of being able to see out ongoing COVID-19 restrictions?

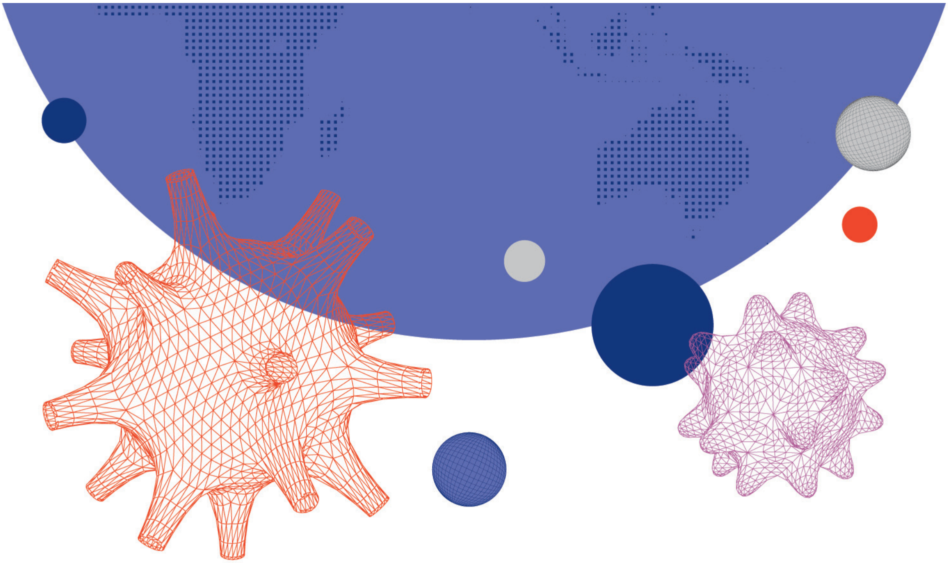


SECTOR SNAPSHOT

When we dissected the data by sector, it became apparent that sectors still most impacted by COVID-19 restrictions are the least confident of surviving into the future. With the reintroduction of some social distancing measures on our heavily affected sectors, we could see business survival predictions start to creep back to March quarter levels. Conversely, during the survey collection period, JobKeeper 2.0 had yet to be announced so many businesses surviving with JobKeeper were still facing some uncertainty in relation to future business planning.

How confident is your business of being able to survive under the current planned easing of COVID-19 restrictions?





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