



Australian Business Experiences and Plans, January to August 2021

September 2021

Ai Group Economics Research



KEY FINDING Conditions improved in Q1 and Q2 but deteriorated sharply in Q3, according to Ai Group analysis of over 1,500 detailed business reports in 2021

Ai Group has collected and analysed over 1,500 pieces of detailed feedback from surveys, emails, meetings and conversations during 2021. Businesses told us:

- **The first half of 2021 saw a solid period of recovery.** At the start of the year a majority of businesses (60%) reported positive conditions but over one third (37%) were still reporting negative conditions.
- **Conditions weaken from June,** following the fifth lockdown in Victoria. Activity paused from August.
- **By August,** almost two-thirds (64%) of businesses reported negative conditions and only one-third (31%) of businesses were still reporting positive conditions.
- **The manufacturing sector** reported an easing of conditions in August but remained positive. **Construction and the services sectors all** saw local conditions deteriorate rapidly as lockdowns extended.

The top five positive factors affecting business conditions from January to August 2021 were:

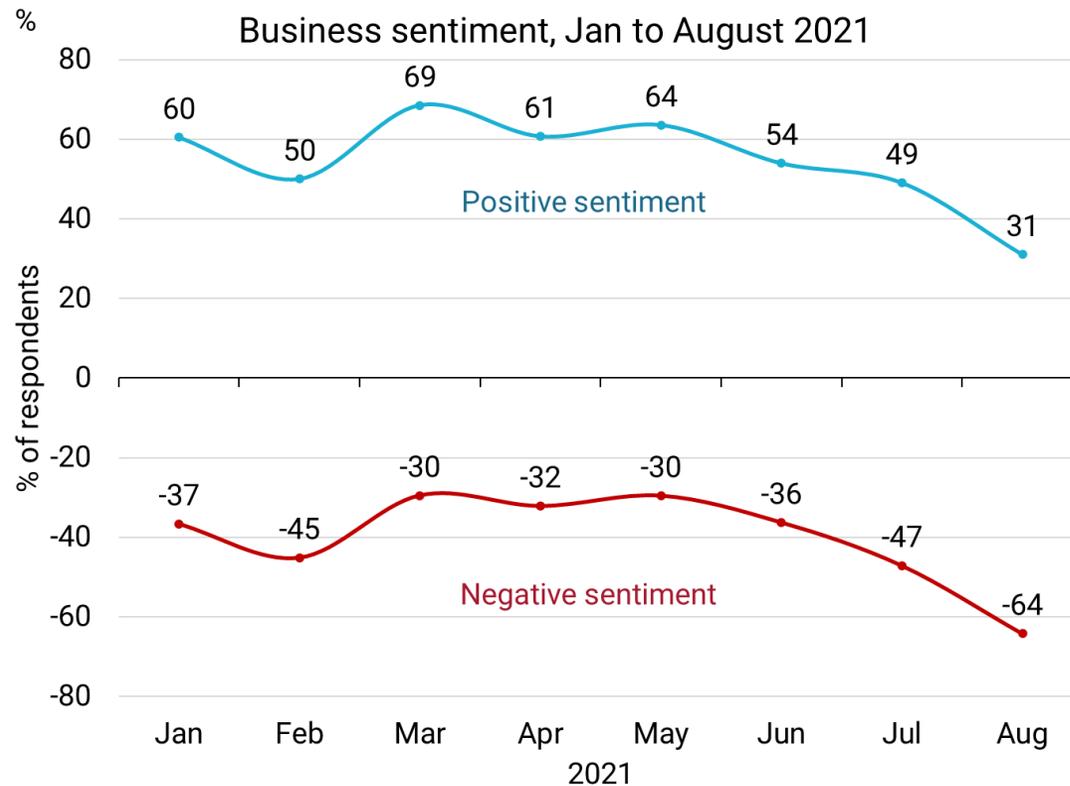
1. Increased customer demand
2. Government support measures
3. Increased certainty
4. Supply chain improvements
5. Easing restrictions

The top six negative factors affecting business conditions from January to August 2021 were:

1. Reduced customer demand
2. Supply disruption
3. Activity restrictions
4. Uncertainty
5. Increased input and production costs
6. Staff shortages

KEY FINDING By August 2021, 64% of businesses were reporting negative factors affecting their business and 31% were reporting positive factors

The majority of businesses reported positive factors affecting their business in the first half of 2021, but conditions deteriorated rapidly from June 2021



In August 2021:

64%

Of Australian businesses reported negative factors

31%

Reported positive factors

5%

Reported neutral impacts

Source: Ai Group

Ai Group Australian PMI®

Ai Group's monthly business activity survey for manufacturing indicated a pause in recovery in August

Manufacturing

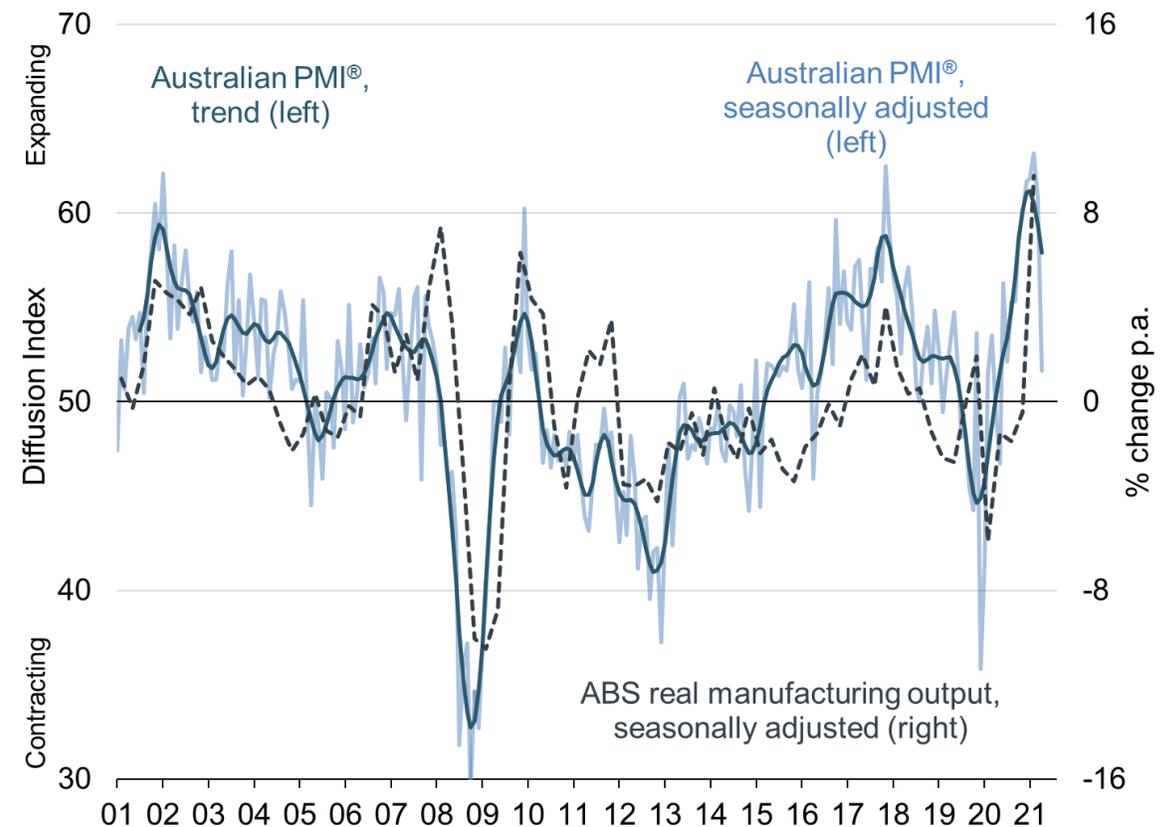
Solid period of recovery has paused in August. All activity indicators have eased, new orders and finished stocks were positive (above 50 points), supplier deliveries contracted.

Four of the six manufacturing sectors expanded. Food & beverages improved in August (trend).

Positive factors reported by respondents: strong demand from the construction, agricultural and transport industries; increased orders from customers sourcing local production to improve supplies.

Concerns reported by respondents: sales stalled in Vic and NSW due to lockdowns, increased input costs, elevated freight costs constraining exports and imports.

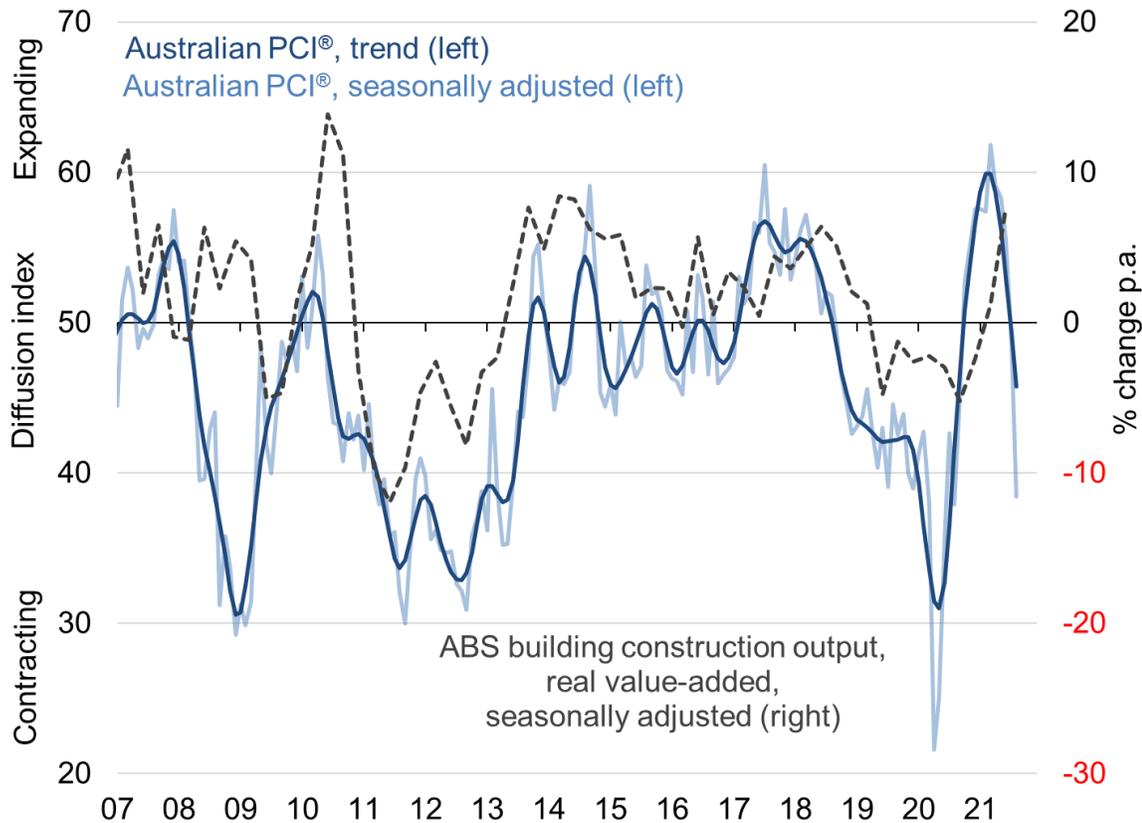
Ai Group Aust PMI and ABS manufacturing output



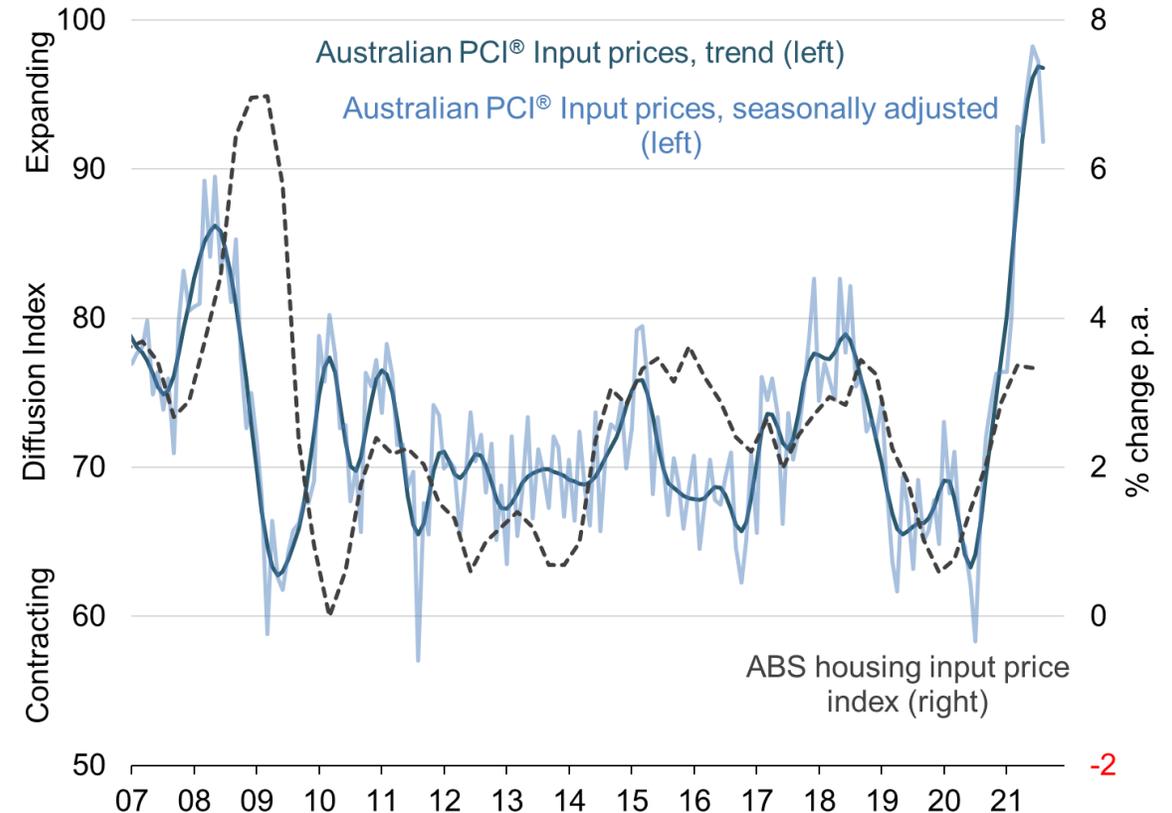
Source: Ai Group

Ai Group-HIA Australian PCI® Ai Group's monthly business activity survey for construction confirms a contraction due to tight restrictions. Input costs eased

Ai Group Aust PCI and ABS building activity



Ai Group Aust PCI Input Prices



Source: Ai Group-HIA

Ai Group Australian PSI®

Ai Group's monthly business activity survey for services sectors was positive in early 2021 but deteriorated rapidly in lockdowns

Lowest monthly result in the **Australian PSI®** in August 2021 since September 2020. Indicates a contraction following nine months of positive conditions - recent peak was May 2020.

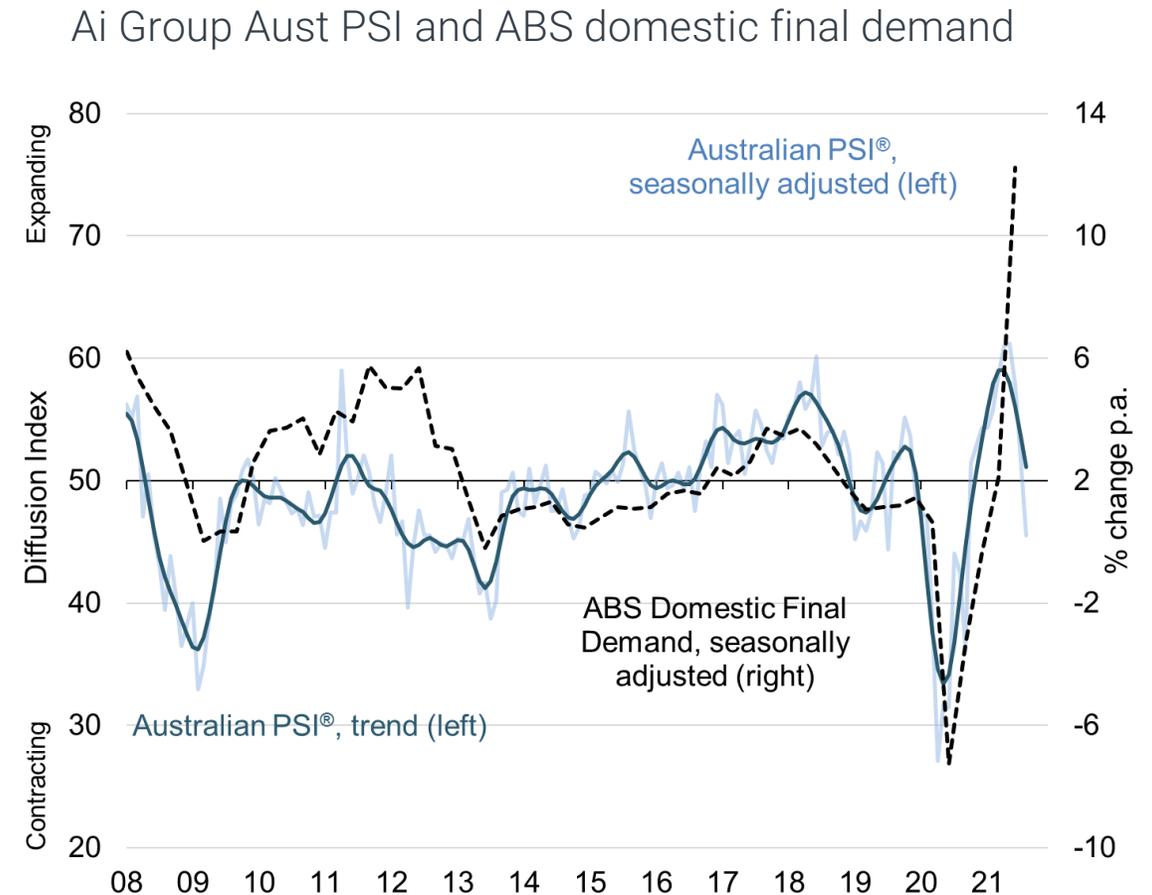
Four of the five activity indicators contracted in August. Employment was mildly positive.

None of the services sectors expanded. 'Personal, recreation & other services' was stable.

Positive factors for consumer-oriented businesses included: stable demand, redirected discretionary spending. Business-oriented sectors reported stable demand for professional services, good demand from the construction and mining sectors, low interest rates.

Concerns included: strict lockdowns in Victoria and NSW, interstate border restrictions, uncertainty, difficulty with planning, supply disruption and price increases.

Source: Ai Group

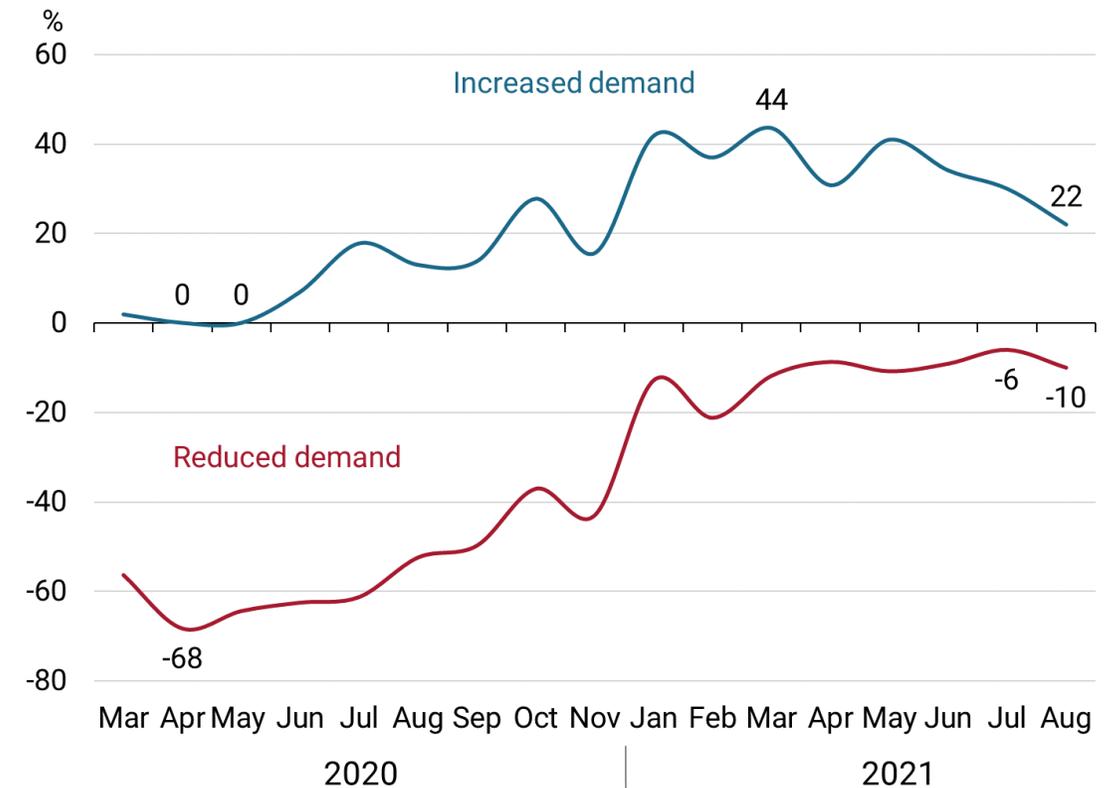


Throughout 2021, **customer demand** has been the single most important factor for recovery (and deterioration) in business activity for all industries

The improvements in customer demand seen earlier in 2021 weakened from June 2021.

- **Around 22% of businesses reported an improvement in customer demand** in August down from a high of 44% in May 2021, but above the lows seen in April and May 2020.
- **Around 10% of businesses reported weaker customer demand**, an increase from 6% in July, but well up from the low of 68% in April 2020.

Businesses emphasise the importance of customer demand in the recovery of their business activity, March 2020 to August 2021



Source: Ai Group

The recovery in business activity in early 2021 was due to 5 key factors.

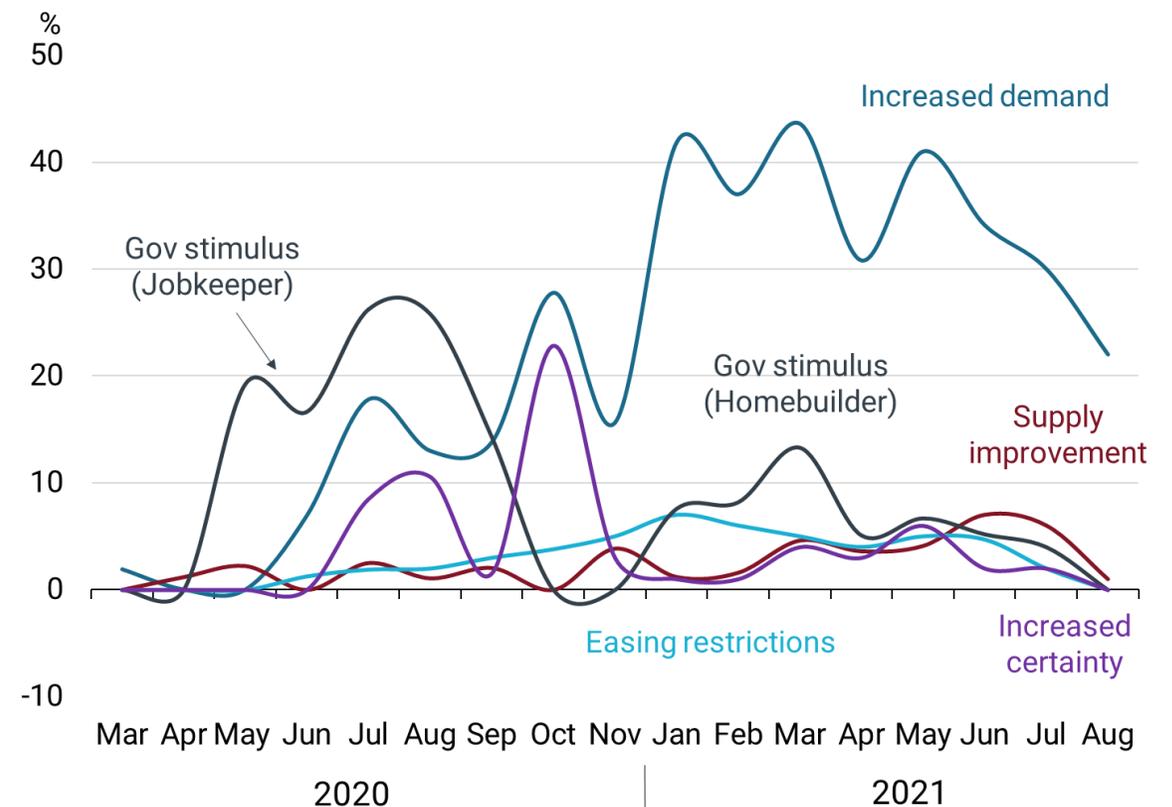
All of these positive factors deteriorated sharply in July and August 2021

For businesses reporting **positive conditions** in the first half of 2021, the **top 5 factors** impacting their business were:

1. better **customer demand** (reached a peak of 44% of all comments in March 2021 and fell to 22% in August)
2. **Government support measures** (e.g. JobKeeper, HomeBuilder, instant asset write-off tax deductions). Business reports about these measures peaked at 26% of all comments in July & August 2020 and fell to no businesses in August 2021.
3. better **certainty** in the outlook. This peaked at 23% of all comments in October 2020 and fell to no businesses in August 2021.
4. **Supply chain** improvements, mentioned in 7% of positive comments in June 2021 and 1% in August 2021.
5. Easing **activity restrictions** mentioned in 7% of positive comments in January 2021 and none in August 2021.

Source: Ai Group

Top five positive factors that affect business activity, March 2020 to August 2021

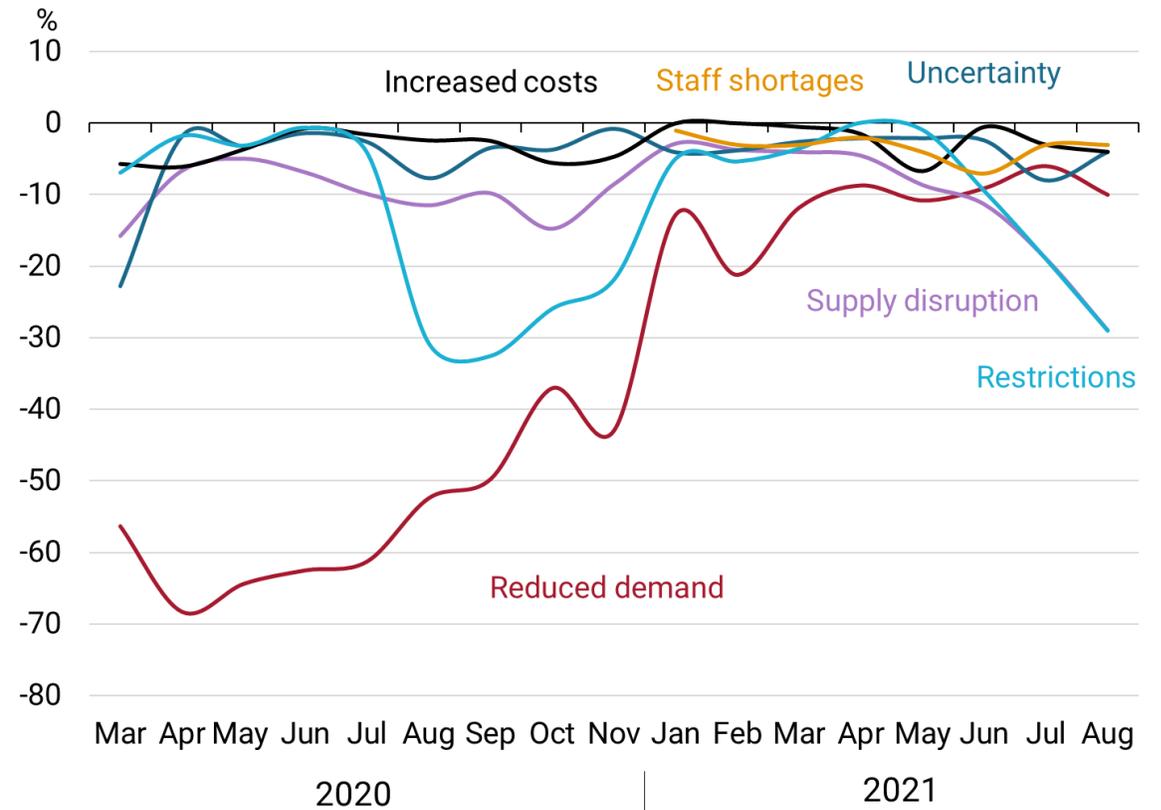


Weaker business activity in 2021 is due to 6 key factors: supply disruptions, activity restrictions, weaker demand, uncertainty, staff shortages, rising costs

For businesses reporting **negative conditions** in August 2021, the **top 6 factors** impacting business activity were:

1. Supply disruption fell to a new low of 29% of businesses in August 2021
2. Effects of activity restrictions were the most pressing factor at 33% of comments in September 2020, back to 29% in August 2021.
3. Reduced customer demand, reached a peak of 68% of all comments in April 2020 (10% in August 2021)
4. Uncertainty had the largest impact in March 2020 mentioned in 7% of all comments, 4% in August 2021
5. Increased costs was a persistent inhibitor on business activity mentioned in 7% of comments in May 2021 and 4% in August 2021
6. Staff shortages were apparent from January, peaked in June (7%) and reduced during the lockdowns in July and August.

Top five negative factors that affect business activity, March 2020 to August 2021



What are business people saying about **supply chains** in July and August 2021?

NEGATIVE comments about supply chains in July & August 2021

- *Reduced stock levels due to overseas factories closed - under stay-at-home orders in particular Malaysia, since June. Supply lead times blown out due to shipping delays - shortage of empty containers, difficulty obtaining vessel bookings & no certainty with direct shipping or transshipping - all contribute to delays in lead times.*
- *Substantially increased freight costs. Lack of key manufacturing inputs, e.g. electronic components and aluminium due to global shortages.*
- *Dramatic price increases in raw material and limited availability on certain stock materials is slowing things down a little.*
- *Main factors continue to be supplies of materials and finished products, particularly from overseas. Causing backlog in meeting orders which are up but slow supplying to the customer*
- *Time delays in deliveries of supplies both in and out of Australia – it used to take 10 days from China, now it is 5-6 weeks, same to Auckland*
- *Supply chain problems - we rely on transport from overseas and the transport time has increased for air freight from EU to AU from 1 week to 1 month.*
- *Builders can't get timber. This is slowing the building process and our therefore our products are not required.*
- *Steel pricing and availability*
- *We have a high demand for product, but there was a global renegotiation of our freight contract, new supplier had a cheaper price but containers not able to be supplied in Australia and NZ. Cannot go back to the previous freight company as contract was global. Stock that had been picked had to go back stock while we wait to be able to ship in the Asia Pacific region.*
- *Container shortage in EU and dramatic price increase for steel products like tanks.*
- *Availability of raw materials from overseas and availability of empty shipping containers*
- *Demand remains strong but constrained by electronic components supply chain shortages.*
- *Supply lead times blown out due to shipping delays - shortage of empty containers, difficulty obtaining vessel bookings & no certainty with direct shipping or transshipping - all contribute to delays in lead times.*

What are business people saying about **supply chains** in July and August 2021?

POSITIVE comments about supply chains July & August 2021

- *Sales have been trending up for some time as customers are looking for certainty in supply chain, less reliance on overseas suppliers.*
- *We picked up some business from customers that buy our competitors products because our competitors purchase from overseas and can't get stock, whether this will last remains to be seen. Large increase in orders from multiple market sectors*
- *Consumer drive to local manufacture; competitors are unable to source product; attempting to beat forecast price rises plus market demand*
- *Shortage of timber supply has caused some truss and frame plants to reduce production levels. This has created new business for us in new customers. Existing customers had unprecedented increases in housing sales - a 40% increase in sales and production demand.*
- *We provide maintenance for many essential services, at the height of lockdowns in 2020 customers who were delaying ordering while waiting for the impact. These maintenance requirements have become more urgent now and we are experiencing a great deal of catch-up.*
- *Increased orders and many customers trying to onshore their production to reduce shipping risk and China risk.*
- *Better site management and receiving trusses that had long lead times*
- *Sale volumes declined at EFY - which is normal - but starting to increase. Have noticed we are getting more work coming back from overseas and China costs are steadily increasing. In fact on some machined components, we are cheaper than China. Our wages cost is steadily increasing as we have to make sure our skilled people do not leave us.*
- *Current & new customers bringing work back from Taiwan and China plus an increase in local sales*
- *The lead time for products in general. Customers are realising if they want products they will need to order well in advance.*

What are business people saying about **restrictions** in July and August 2021?

NEGATIVE comments about restrictions in July & August 2021

- *VIC covid lockdown again disrupted business - have been able to visit client sites only for meetings, EBA discussions and OHS inspections. Not all work can be done remotely.*
- *Reduced access to client sites due to lock down restrictions.*
- *Customers affected by COVID-19 closures*
- *Retail closures in NSW, South Australia & Victoria due to lockdowns.*
- *Reduced sales reps face-to-face contact with retail clients due to travel restrictions relating to border closures and lockdowns*
- *Lockdowns obviously*
- *Rapidly rising building costs. Clients can't get finance. Lockdown of construction and closure of display homes*
- *Border restrictions, no international travel*
- *Lockdown due to COVID prevented on-site-contact with clients*
- *Confidence appears to have been affected by COVID outbreaks and lockdowns*
- *State and international border closures; Victoria's 6th lockdown.*
- *COVID Lockdowns in NSW, VIC and SA have hit us hard. Key customers have asked for shipments to be suspended till further notice. Half our production team are not able to attend work.*
- *Inability to conduct face to face discussions, consumer confidence, supply of materials and land availability*
- *Resurgence of COVID-19 and lockdowns means it is not possible to visit client sites or meet face-to-face with clients - this occurred just as slight improvement in business took place*
- *COVID-19 shutdown. People are not purchasing as they are scared to buy - they don't know what is going to happen*
- *Lockdowns preventing visitation; COVID-19 fatigue amongst customers.*
- *Not allowed to retail ; border closures; can't meet customers to sell to them*
- *Lockdowns, lockdowns, lockdowns*

AiGROUP

Australian
business plans
and responses,
January to August
2021

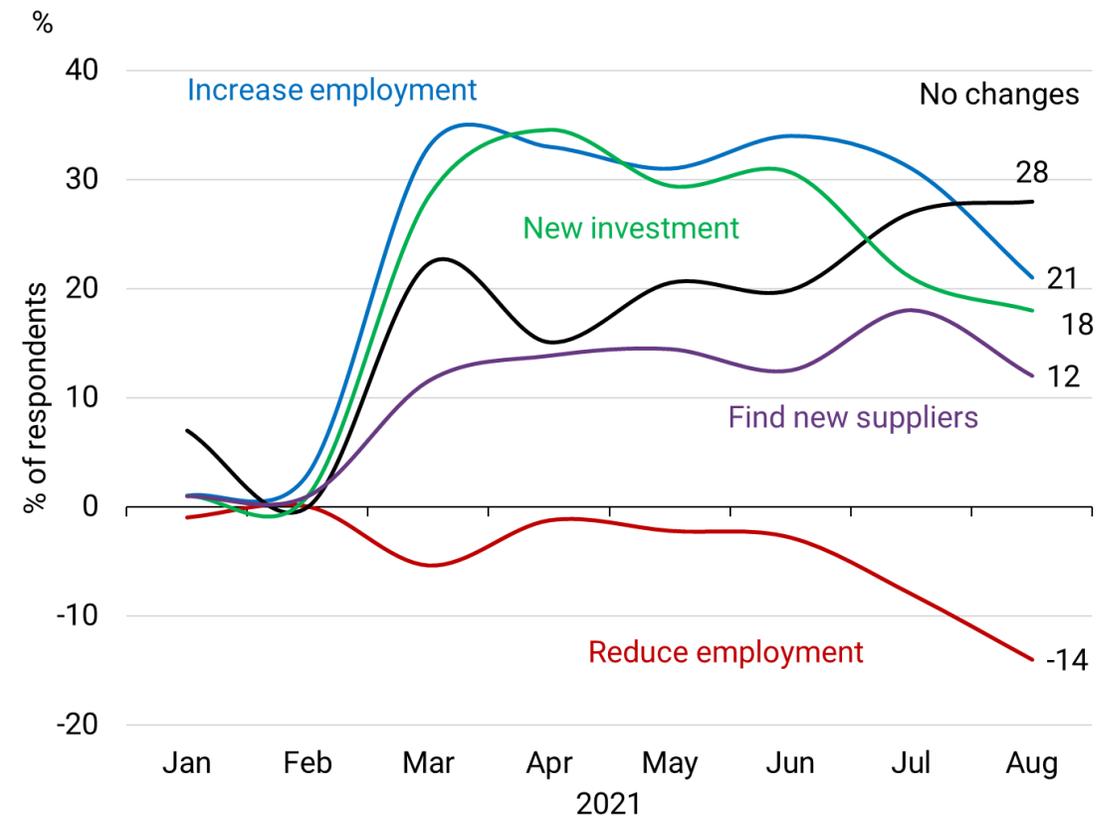


In 2021 business plans are focussed on employment, investment, suppliers. Lockdowns have resulted in many businesses pausing their investment plans.

Business planning priorities in 2021:

1. No changes to plans or 'wait and see' while decisions paused during lockdowns peaked at 28% of businesses in August 2021.
2. Increasing employment was priority for businesses with around a third of businesses planning to increase staff hours or numbers for the first half of the year, this fell to around one-fifth in August.
3. Investment intentions were strongest in April 2021 when 35% of businesses planned to increase their investment.
4. Finding new suppliers peaked in July 2021 with 18% of businesses looking to improve supply.
5. Very few businesses planned to reduce staff hours or numbers in the first half of the year, however this accelerated in June and July, and reached a peak of 14% in August.

Changes to business plans, January to August

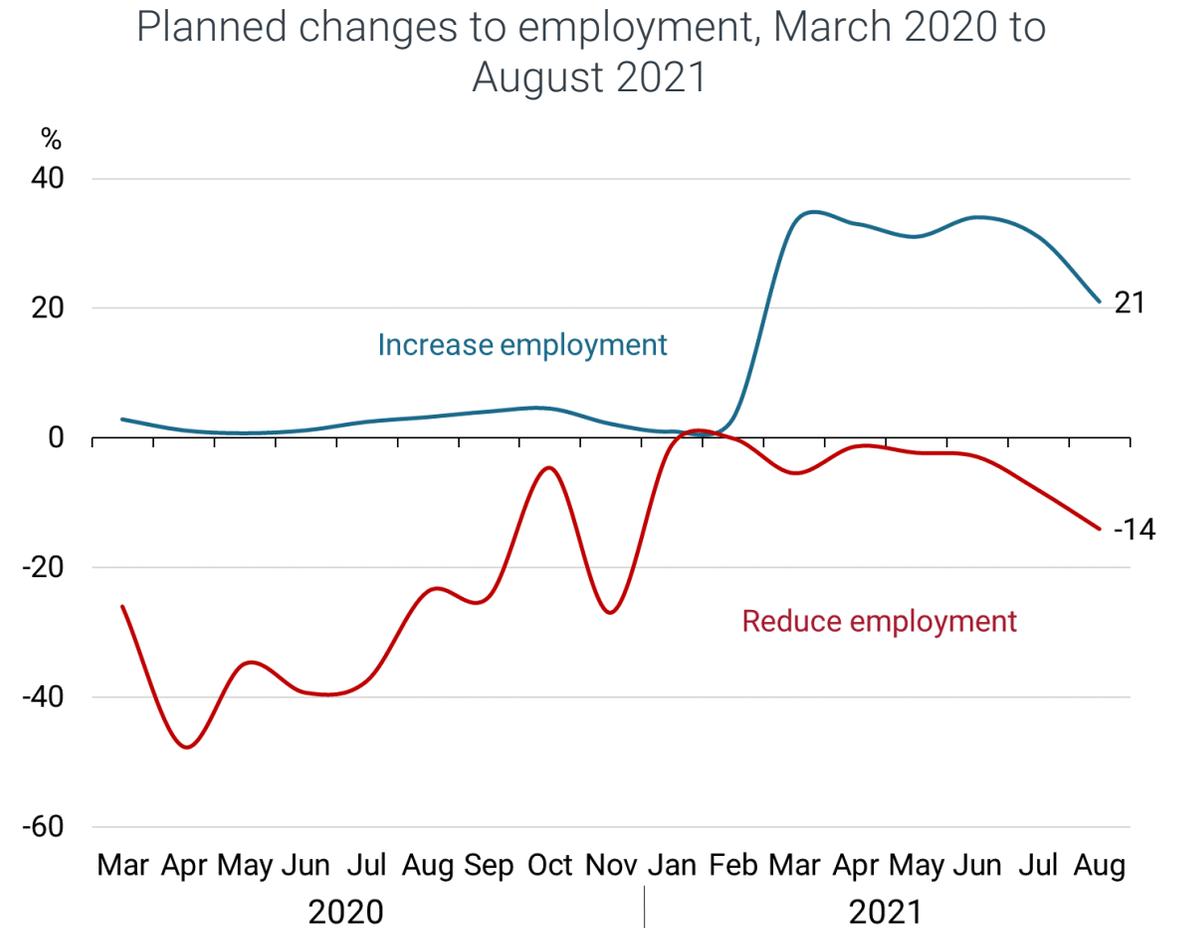


Source: Ai Group

In early 2021 business plans were focussed on restoring and growing employment. Lockdowns changed employment intentions in July and August

Employment planning priorities in 2021:

- In 2021, the proportion of businesses planning to increase employee work hours and/or numbers climbed through the first half of the year. In April, May and June around one-third of businesses wanted to increase their employment hours and/or numbers.
- By August 2021, this had fallen to 21% of businesses planning to increase employee hours and/or numbers.
- In January, no businesses told us they intended to decrease employment. By August, 14% of businesses said they plan to reduce staff hours or numbers.



Source: Ai Group

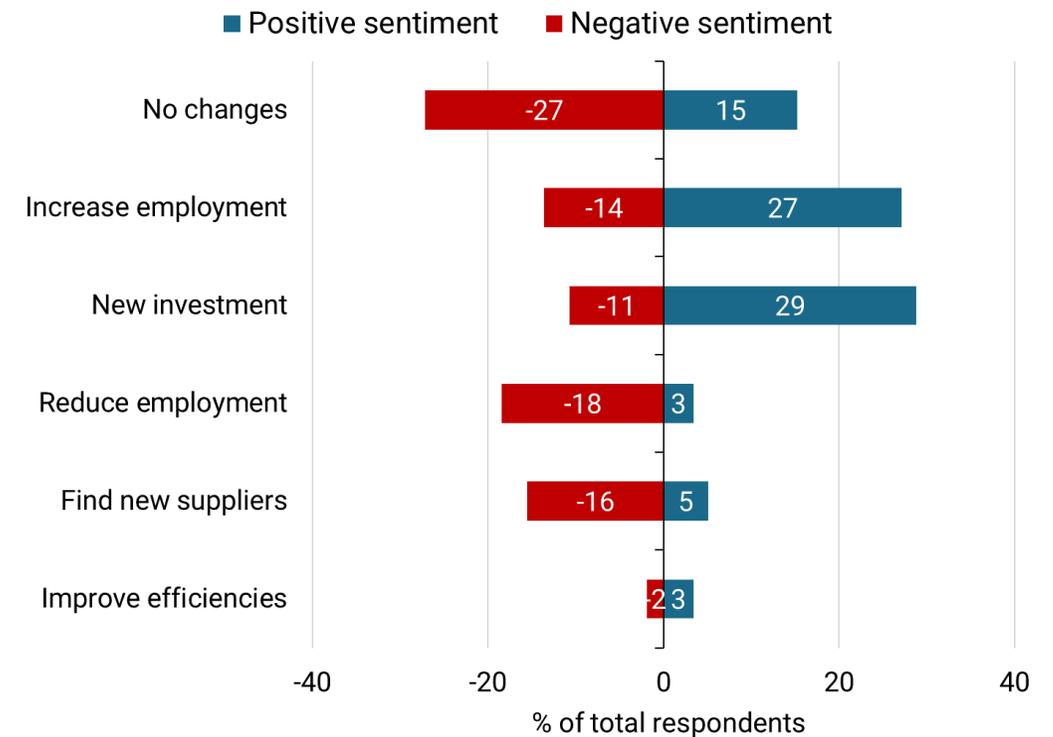
By August 2021, 27% of businesses experiencing negative conditions paused their plans. 27% experiencing positive conditions will increase investment and employment

Business planning priorities for the next 3 to 6 months, August 2021:

- Businesses experiencing positive conditions, plan to **increase investment (29%) increase employment (27%) and 'wait and see' (15%)**.
- Businesses experiencing negative conditions in August were more likely to **'wait and see' (27%), reduce employment (18%) and find new suppliers (16%)**.

Source: Ai Group

Business planning priorities for the next 3 to 6 months, August 2021



What do businesses say about their plans for the next 3 to 6 months?

Business comments about plans for the next 3 to 6 months, August 2021

- *Keep the ship steady to ensure we retain the team members we currently have.*
- *Reduced capacity and lockdowns have meant adjusting staff hours. The impact has only just been felt in August so adjusting staff hours is a short-term solution.*
- *Changing suppliers is not an option for us as 70% of our orders with overseas suppliers are in production with deposits paid.*
- *Getting ready for a significant downturn.*
- *Still planning on equipment upgrades to become more efficient . We have already cut back hours dramatically due to slow down, we've dropped all casuals off the list*
- *We will need to find new suppliers for the ones that have shut their doors, but they have quite often given us recommendations.*
- *Potential for new employees, pending lockdown economic fallout.*
- *Put staff off until things pick up*
- *Shift more work from one location in Asia to another where we can get production workers and staff more easily.*
- *Increase stock levels and plan longer ahead for everything. Employ more staff (if available) and spend more time and money for training. We are investing right now in a new facility which was planned before COVID.*
- *Increase our activity in northern QLD and WA - mining sector - as we can see an upswing in projects.*
- *Continue push to pass on labour and material cost increases with price increases*
- *Increased resources and better systems/procedures in preparation for increased/forecasted workload*
- *Depending on orders, run another shift*
- *No changes in the next few months, looking longer term*
- *We are trying to get back to 100% staff level but finding people suitable with mechanical aptitude as a minimum is as always concerning.*

Questions, more information or a quick update?

Latest insights for Ai Group members

Ai Group Economics Weekly

Australian business numbers, June 2021

Australian business spending on R&D, 2020-21

Enterprise Bargaining Agreement trends, Q2 2021

Australia's gender pay gap, 2021

Monthly reports on industry activity

- *Australian Performance of Manufacturing Index*
- *Australian Performance of Construction Index*
- *Australian Performance of Services Index*

Website: aigroup.com.au/resourcecentre/research-economics

E-mail: economics@aigroup.com.au

