

Drought impacts on small business in Wee Waa.

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SUMMARY

- Wee Waa based businesses are highly dependent (82%) on agriculture and irrigation water availability. Cotton accounts for over half of their business income (51%).
- Business turnover has increased significantly (77%) with increased irrigation water supplies during 2012, but employment levels in small business have not. One third of businesses in the main street have changed ownership since the worst of the drought in 2008.
- Staff recruitment, especially skilled labour, is one of the biggest challenges facing small businesses as employment levels slowly increase with better water availability.
- Drought caused significant social and community impacts due to the reduction in population
- There is a high degree of social and economic interdependence of Wee Waa businesses, surrounding farms and community services. They all depend on each other.
- There is a currently a changing socio demographic in Wee Waa due to rising housing costs in Narrabri associated with the expanding minerals industries. Housing is now in short supply in Wee Waa, which is the complete opposite situation being experienced during the drought.

INTRODUCTION

The 2002-03 and 2006-07 droughts are widely considered as one of the driest in Australian history, both in terms of severity and its extent.

It is no secret drought impacts rural communities. The direct impacts on farmers are well documented. However, the flow on impacts on small business in towns is less well understood.

The purpose of this project was to quantify the impact of the drought and irrigation water availability on small business using Wee Waa as a case study.

The studies were conducted in partnership with the Wee Waa Chamber of Commerce using a questionnaire to local business in 2004, 2007 and 2012.

Cotton is the main irrigated crop produced in the Namoi. There is a direct relationship between the amount of water used and number of cotton bales produced. Figure 1 shows how cotton production for the Namoi Valley varied between 2000 and 2012 reaching lows in 2004 and 2008. This has since recovered to record levels in 2012, which has a gross value of approximately \$380 million.

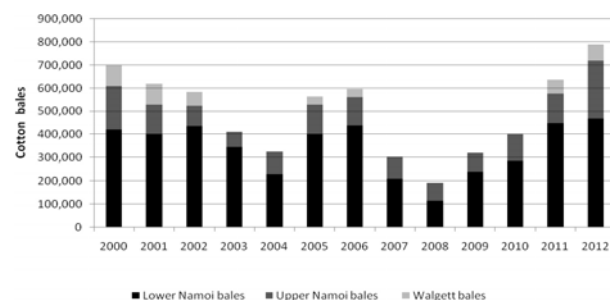


Figure 1: Cotton production in the Namoi Valley between 2000 and 2012.

The 2007 study on the drought impact on Wee Waa businesses by the Cotton Catchment Communities CRC found the continuing drought was significantly impacting local businesses, schools and health organisations. The 2007 study found for small businesses in Wee Waa: the gross turnover of 25 businesses fell by 52% from 2001 levels of \$116m to \$56m. Permanent staff numbers fell 60% between 2004 & 2007. Casual employment fell 40%. Of the terminated employees 2/3 had left the region.

Reduced access to surface and groundwater was the biggest factor as well as other general drought factors impacting on business. The study also found social impacts such as falling school numbers (21%), less business donations (time and money), and doubling in the number of people accessing health services.

The drought impacted the Wee Waa businesses in a number of ways including;

- Reducing cash flows and business employment
- Increasing business overhead costs and debt
- Lowered staff morale and business owner confidence
- Increased stress and medical depression of people in these businesses
- Employee departure often meant an entire family left the district
- Depleted quality of the labour pool (as well as the quantity)
- Any expansion plans or capital works were delayed.
- Reduced profitability due to less income but same overhead costs.
- In some cases, business closure.

The demographic of the businesses had changed significantly since previous surveys. Twenty eight percent of the businesses surveyed in 2007 no longer exist.

There has been a large change in ownership of main street businesses (one third changed hands since 2008). The majority of these businesses have not been agribusinesses, rather the retail service businesses

This highlights the close interdependence between small businesses, community and surrounding farms.

Wee Waa businesses reported a very high dependence on agriculture (82%). This consists of 51% cotton, 23% grain, and 8% cattle, while tourism was 3%, and coal seam gas and mining was 1%.

The survey found small businesses in Wee Waa experienced a 47% fall in business turnover between 2001-02 (pre drought) and 2008 (worst part of the drought), which has since increased significantly on average by 77%. There was a large range in the turnover increases with some businesses reporting triple digit percentage increases. These were the businesses that were more dependent on irrigated cotton.

However, despite this large increase in business turnover, businesses have not increased their levels of employment. Table 1 shows the employment levels between 2008 -2012. The small increase in employment in the "large" Wee Waa businesses was at the cotton gins.

During the drought these businesses experienced significant loss of both permanent and casual employees. Although, many of these business did retain skilled staff as they knew it would be difficult to recruit new staff when better times returned.

Table 1: Average number of employees per Business 2008-2012

	2008	2011	2012
Large business (> 10 employees per business)	34	37	38
Small business (<10 employees per business)	3	3	3

In the main street of Wee Waa, there has been no real change in employment levels in these small businesses. This is because these small businesses have experienced significant financial and social stress and have been operating at the bare bones during the drought. They are family businesses and they are still feeling pressures of the drought years.

While the drought study of Wee Waa over the past decade has shown that the Wee Waa community is highly dependent on water availability, there are a number of other factors, besides water availability, which are having very significant impacts on the viability of small businesses within Wee Waa as well as the structure of the Wee Waa community itself. These include technology advancements such as transgenic crops reducing cotton chipping and spraying needs as well as general economies of scale being achieved on farms with new machinery, less tillage, better watering systems etc.

The survey also found a changing social demographic within Wee Waa. While participants within the survey stated that emerging industries such as mining and coal seam gas were having little impact on the turnover of their business, it is having a significant impact on the social demographics of Wee Waa.

Mining has had a direct impact on the housing and rental market within Narrabri by increasing prices of houses and rent and decreasing availability of housing. This has seen a shift of population, particularly the lower social economic demographic, out of Narrabri and into surrounding towns such as Wee Waa. Unlike the surrounding farming area, the population in Wee Waa itself appears to be increasing.

This changing socio-economic demographic is evident in the local schools with the schools now eligible for additional funding due to the increasing percentage of indigenous and low socio-economic status of many of the students within the schools.

Staff recruitment, especially skilled labour, is one of the biggest challenges facing small businesses as employment levels slowly increase with better water availability. A number of factors were identified during the survey as driving the difficulty in recruiting skilled staff into Wee Waa businesses such as limited availability of suitable housing, declining essential services and lack of career opportunities for life partners (especially women).

A number of strategies have been put in place by local businesses to acquire this skilled labour such as participation in the schools trade traineeship program and sponsoring residency for staff (and their family) with skilled labour from overseas. While these strategies have helped alleviate for

some businesses their staff recruitment problems, issues such as declining essential services continue to be a major limiting factors to recruitment of skilled labour for many businesses.

Other findings of the survey were;

- Staff recruitment is a major challenge.
- Climate variability is a greater risk to their business than climate change.
- They were very concerned about the carbon tax.
- A viable cotton and grains industry is important to their business.
- Most permanent staff live in Wee Waa (82 per cent) with 16 per cent living in Narrabri.
- School student numbers have increased.

ACKNOWLEDGMENT

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The Final Report of this project can be found www.cottoncrc.org.au.