

MEDIA RELEASE

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Directors flag deteriorating business conditions

Inflation and rising interest rates are the top economic challenges facing Australian businesses, according to the latest survey by the Australian Institute of Company Directors (AICD).

Fifty-six per cent of the directors surveyed for the First Half 2023 Director Sentiment Index (DSI) said inflation and rising interest rates were their top concern, followed by skills shortages (52%) and the cost of living (33%).

The DSI points to mounting concerns over deteriorating business conditions with directors anticipating a further weakening in the economic outlook over the next year.

While overall director sentiment has picked up slightly on the previous survey, it remains in negative territory at -6.1 compared with -8.5 in the second half of last year.

The lift in director sentiment was largely due to a stronger assessment of the global economic outlook, particularly China.

The survey of more than 1,300 directors was conducted by Roy Morgan from 22 February-14 March 2023, prior to the release of the latest IMF global economic outlook which predicted the lowest medium term growth in three decades and downgraded Australia's growth forecast for this year from 1.9 to 1.6 per cent.

An overwhelming majority of directors (93%) agreed skills shortages remained a major issue for business and 34 per cent said it should be the top priority for the Federal Government in the short term.

Cyber-crime remains the standout issue keeping directors awake at night, jumping to 50 per cent, up from 37 in the last survey. The number two issue is legal and regulatory compliance at 32 per cent.

AICD Managing Director and CEO Mark Rigotti said it was clear that business is conscious of the challenging economic environment and is rightly looking to ways of dealing with a protracted period of volatility.

"The skills shortage has not disappeared and it's increasingly important that policies are not only focused on the immediate challenges but also on positioning Australia for the longer term, with directors looking for a boost to education, innovation and research and development.

The Australian Institute of Company Directors is committed to strengthening society through world-class governance. We aim to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. Our membership of 50,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

"The number of directors concerned about the impact of regulatory compliance has also increased significantly in the last six months. Heavy handed and complex regulations are impacting productivity and economic growth."

The effects of the COVID-19 pandemic are still being strongly felt with 45 per cent of directors saying it has impacted the risk appetite of their boards, listing it third behind cyber-attacks (53%) and inflation (47%).

More than half of directors believe the Reserve Bank's tight monetary policy is having a negative effect on their businesses, almost three times higher than a year ago.

- 52% believe RBA interest rate settings impacting businesses negatively
- 72% believe further interest rate rises will cause a mortgage crisis
- 38% satisfied with Australia's international trade levels
- 57% dissatisfied with innovation and R+D support
- 58% dissatisfied with spending on education

The AICD's Chief Economist Mark Thirlwell said the results show directors are increasingly mindful of the impact the RBA's tightening is having on the economy.

"More than half have told us that higher rates are now impacting their business. And while more approve the anti-inflationary measures than disapprove, they are also concerned about the recession risk, threats to the housing market and the rate of business insolvencies.

"It's also striking that labour shortages remain such a constraint on business with 83 per cent of directors saying skilled migration levels had failed to keep pace despite the significant increase in migration numbers in recent months."

Other key findings from the Director Sentiment Index (First Half 2023) include:

- 47% believe current Australian business conditions are strong compared with 27% who say they're weak.
- Trust in Federal and State Governments has declined in the last six months. Only the Tasmanian and South Australian Governments have net positive trust levels.
- Nearly two-thirds of directors (62%) believe advancing reconciliation with First Nations peoples remains a national governance priority.
- WA directors remain the most bullish about their state's business prospects with 69% expecting strong conditions over the coming year.
- The outlook for the economies of Asia, Europe and the US all saw lifts in sentiment.
- China fared best with a 43 point jump in sentiment on the strength of the Chinese economy from -11 in the last DSI survey to +32.

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