Australian Institute of Company Directors

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Directors more pessimistic in second half

Confidence in business conditions and the state of the economy has declined significantly in the second half of 2023, with the latest Australian Institute of Company Directors (AICD) Director Sentiment Index (DSI) falling further into negative territory.

It's the third consecutive negative result for the DSI which has dropped dramatically since the first half and is down 13.6 points to -19.7, the softest result since the second half of 2020.

Labour shortages and the cost of living are seen as the major economic challenges facing Australian businesses, followed by inflation and rising interest rates. And concerns about productivity have risen rapidly, with productivity growth now in the top four economic challenges identified by directors, doubling from 16 per cent in the first half to 32 per cent in the current survey.

All five categories that make up the overall DSI are down including business conditions, macro and micro policy settings and economic outlook, which has continued to trend lower since peaking at +38 in late 2021, to -6 in this survey.

And while more pessimistic about the current state of the domestic economy, with a drop of 22 points, sentiment remains in positive territory at +14, along with Asia (excluding China) at +39 and the US at +4.

China has suffered the most significant shift in perception of current economic conditions, plunging 59 points from +21 in the first half of 2023 down to -38. And although still negative (-37), the European economy has recorded the biggest increase in economic health perception, up 21 points.

Housing policy and affordability is seen as the top short-term issue for the Australian Government to address, followed closely by energy policy and productivity growth. And climate change remains the priority for the longer term.

Cyber-crime continues to be the number one issue keeping directors awake at night.

AICD Managing Director and CEO Mark Rigotti said the wariness directors were feeling at the beginning of the year has taken hold in the second half and it will require a concerted effort by government, business and industry to turn these difficult conditions around.

"Unsurprisingly directors are feeling more pessimistic, as they're acutely aware of the challenges people are facing in the current environment.

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"And they're worried about the impact that higher interest rates, rising living costs and the housing crisis are all having on their customers and staff."

The AICD survey of more than 1350 company directors was conducted by Roy Morgan between September 18 and October 2.

Despite coming before the Reserve Bank's latest interest rate rise, the survey shows a high level of concern already among directors about the impact of the RBA's tight monetary policy settings.

- 69% believe further interest rate rises would cause a mortgage crisis
- 44% believe interest rate settings are negatively impacting their business
- 40% believe current rate of the AUD is negatively affecting their business
- 59% believe compliance & regulation is affecting board risk appetite
- 88% agree there is a skills shortage in Australian workforce
- 33% agree AI/automation could resolve current skills shortages

The AICD's Chief Economist Mark Thirlwell said despite more negative indices this half, directors are divided over the likelihood of Australia entering a recession.

"Forty-two per cent of directors believe it's likely the economy will be in recession within the next twelve months against 40 per cent who don't.

"A majority of directors have told us that the RBA and monetary policy are a key driver of recession risk and that further interest rate hikes could be what forces the economy into recession. They are also concerned that current monetary policy settings will lead to a major uptick in business insolvencies."

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

- 69% say their organisations have been affected by labour market issues
- 71% think skilled migration levels are not keeping pace with demand
- Flexible work arrangements are seen by over 60% as a positive for attracting & retaining staff but a negative for cyber security (51%)
- Increasing numbers say flexible work is also impacting negatively on productivity, innovation, business costs and organisational culture
- Trust in Federal and State Governments has continued to decline with the exception of Western Australia
- 58% believe advancing reconciliation with First Nations peoples remains a national governance priority

To access DSI Insights Report go to: AICD Director Sentiment Index H2 2023

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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 more than 50,000 includes directors and senior leaders from business, government and the not-for-profit sectors.