

MEDIA RELEASE

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Uncertainty weighing on Director Sentiment

The latest Director Sentiment Index (DSI) released by the Australian Institute of Company Directors (AICD) indicates a high level of uncertainty both on the economic front and on governance issues.

Despite a slight increase in the DSI, which is up 0.5 from -19.7 in the last survey to -19.2 in the first half of 2024, the index has remained in negative territory for the fourth consecutive survey.

The perception of business conditions nationally, and across all states and sectors has continued to decline, as has the level of optimism about the current state of the economy. But directors see the prospects for the coming twelve months as somewhat brighter and the perceived risk of Australia going into recession has eased.

The top four economic challenges facing Australian businesses have remained unchanged but cost of living (40%) has now surpassed labour shortages (35%) as the number one concern, followed by productivity growth (33%) and inflation and interest rates (28%).

Housing affordability and supply continues to be the most pressing issue for the Australian Government to address in the short term, followed by productivity growth and taxation reform. Climate change is again the top priority for the longer term.

Tight monetary policy is factoring strongly in director sentiment, 41 per cent saying the RBA's current interest rate settings are impacting negatively on their businesses. Seventy-eight per cent said any further interest rate rises would negatively impact the economy and 68 per cent thought a cut in interest rates would have a positive effect.

AICD Managing Director and CEO Mark Rigotti said the message coming from directors is that we're not out of the woods yet.

"It's been a difficult period to navigate and the way forward from here is not instantly clear. The RBA holding interest rates steady for the moment has not been enough to ease cost pressures and there's a level of uncertainty about which way things are headed.

"Directors are also feeling the weight of regulation and uncertainty around non-financial considerations such as cyber security, AI governance and the introduction of the government's mandatory climate reporting regime."

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 52,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

Cyber security is still the number one issue keeping directors awake at night, followed by legal and regulatory compliance, and domestic economic conditions.

- 57% say compliance & regulation is the main factor affecting their board's risk appetite
- 69% say their board has effective oversight of cyber security threats
- 43% say they're not confident their organisation has appropriate governance settings to manage AI opportunities and risks
- 31% say their main concern with mandatory climate disclosures is the complexity of reporting requirements
- 44% nominate increased affordable housing and investment in public and/or social housing as the main ways to address the housing crisis
- 58% say they want more spending on education and training

AICD Chief Economist Mark Thirlwell said economic conditions have softened but directors are cautiously optimistic about the outlook.

"Directors are saying while the current operating environment has become tough, the outlook is marginally brighter. They think the chances of Australia falling into recession over the next year have receded a little and, on balance, they're reporting that the pain from high interest rates has eased somewhat.

"In contrast to China and Europe, the expectation is that Australia's economic position will strengthen in the next twelve months, along with the US and the rest of Asia."

Other key findings from the Director Sentiment Index (First Half 2024) include:

- 85% agree there is a skills shortage in Australian workforce
- 71% believe levels of skilled migration are not keeping pace with demand
- 69% say their organisations have been affected by labour market issues
- Nearly half (49%) of directors would support an emissions trading scheme while a quarter (25%) are opposed
- Perceptions of Federal and State Governments remain largely negative
- 51% disagree that the level of diversity on Australian boards is satisfactory

The AICD survey of 1087 company directors was conducted by Roy Morgan between February 21 and March 11.

To access DSI Insights Report go to: [AICD Director Sentiment Index 1H 2024](#)

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