

MEDIA RELEASE

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Skills shortage tops concerns as director sentiment dips

Australia's skills shortage has emerged as the number one concern affecting director confidence in the latest survey released by the Australian Institute of Company Directors (AICD).

Director sentiment has dropped to negative 8.5, its lowest point in two years, mainly driven by concerns about the global economy and softer business conditions domestically.

Sixty per cent of the directors surveyed for the second half 2022 Director Sentiment Index (DSI) said labour shortages were the major challenge facing Australian businesses, followed by inflation and rising interest rates.

A significant majority of directors saw insufficient skilled migration as a business risk, with 83 per cent agreeing that skilled migration levels were not keeping up with labour demand to the extent that it was likely to have a negative impact on future business growth.

The survey of nearly 1,500 directors was conducted by Roy Morgan from 15-27 September, after the National Jobs Summit and the level of skilled migration was lifted for this financial year from 160,000 to 195,000.

AICD Managing Director and CEO Mark Rigotti said the skills shortage now ranks as the priority issue that the Federal Government should address in the next three years according to directors, with climate change as the next most pressing short-term challenge.

"Increasing skilled migration and boosting education and training should be at the heart of our economic response post COVID. The skills crisis is both a pressing near-term problem for directors and will also be a key driver of productivity and therefore growth in the longer term. The lack of skilled labour impacts the ability of organisations to combat current challenges including cyber security, the transition to net zero and digital transformation."

Unsurprisingly, directors are very focused on inflation, interest rates and monetary policy, and the survey revealed director reaction to recent decisions by the Reserve Bank.

While directors largely agree that the Reserve Bank is increasing rates at the right pace, they do believe it will lead to a significant increase in business insolvencies and a housing debt crisis.

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

- 51% of directors believe the RBA is raising rates at the right pace to fight inflation.
- 62% of directors believe further increases to interest rates will cause a housing/mortgage crisis.
- 51% of directors believe monetary policies will cause a major uptick in business insolvency.
- Interestingly almost half (47%) of directors think the current review into the Reserve Bank should propose significant changes.

The AICD's Chief Economist Mark Thirlwell said the results reveal some good and bad news.

"The fall in our overall DSI score to its lowest level since 2020 is testament to the difficult economic circumstances facing the global and Australian economies. The international economic environment looks particularly challenging, and it is notable the directors rank current and expected future domestic economic conditions above those in the US, China, Europe and Asia ex China.

"It's also quite striking that despite the drop in expected future economic and business conditions for Australia, more respondents think those conditions will be strong than think that they will be weak – testament to the resilience of the Australian economy.

"To date a narrow majority of directors agree with the RBA's efforts to tame inflation. But there are concerns emerging around the risk of recession and especially the impact on the housing market."

Cyber security remains a pre-occupation for directors and the number one issue keeping them awake at night.

Other key findings from the Director Sentiment Index (Second Half 2022) include:

- 47% believe current Australian business conditions are strong compared with 21% who say they're weak.
- Climate change is nominated as the key long-term issue for the Federal Government to address.
- Trust in the Federal government has risen nine points since the last index to 38%.
- Two-thirds of directors (63%) believe advancing reconciliation with First Nations peoples is a national governance priority.
- 3 out of 5 directors believe domestic economic conditions are likely to be impacted by adverse developments between China and Taiwan.

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- Western Australian directors remain the most bullish about their state's business prospects, with 74 per cent confident conditions will remain strong in the next year.
- NSW had the biggest shift in sentiment, with confidence about business conditions over the next 12 months dropping 17 per cent this survey.
- The outlook for the economies of Asia, Europe and the US all saw drops in sentiment. China fared the worst, only 35% of surveyed directors are confident the Asian powerhouse's economy is currently strong compared to 63% last DSI survey.

Media Contact: Jane Braslin 0439 167 567

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