Director Sentiment Index Survey

2nd Half 2025

Insights report

ROY MORGAN

Australian Institute of Company Directors

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Executive Summary

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Executive Summary

Directors approach 2026 with caution

After showing tentative signs of recovery in the previous survey, director sentiment has fallen again in the second half of 2025, dropping 5.2 points to -29.1 and remains in negative territory for the seventh consecutive survey since the second half of 2022.

Despite recent interest rate cuts, confidence in current Australian economic and business conditions hasn't shifted compared to six months ago. However, a significant increase in company directors - four in ten - view conditions for the coming year as weak.

Opinion is divided regarding the RBA's actions. Two-thirds back the RBA's cautious stance, while a third believe the central bank has been too slow to respond with rate reductions. Most directors (78%) expect the Reserve Bank to cut rates again within six months - up sharply from 54% in the first half of 2025.

Monetary easing alone has yet to restore corporate confidence, with sentiment weighed down by a range of ongoing challenges.

Productivity, red tape and cyber risks dominate boardrooms

As inflation cools and cost pressures ease, directors are turning their focus from immediate economic conditions to the deeper structural challenges holding back growth.

Directors rank productivity growth, global economic uncertainty, and regulatory red tape as the top challenges facing Australian business. Concerns about both productivity and red tape have risen sharply this wave, with three-quarters of directors expecting compliance burdens to increase in their business in 2026.

Two-thirds of directors believe that regulatory and compliance requirements are actively constraining productivity and over half of directors say this is the main barrier to new investment. Compliance and regulation continues to dominate boardroom discussions, with more than half of directors identifying this as the most significant factor impacting their organisation's risk appetite.

Directors are increasingly preoccupied with the risks emerging inside their organisations. Cybercrime and data security has returned as the number one issue keeping directors awake at night, replacing domestic economic conditions, and highlighting the growing vulnerability and awareness of Australian businesses to digital threats. At the same time, anxiety over the impact of artificial intelligence has surged, reflecting both its rapidly expanding potential and the growing challenge of ensuring responsible governance.

This heightened sense of risk sits alongside the broader economic unease as directors balance immediate operational challenges with the longer-term need for productivity reform, regulatory simplification, and innovation-led growth.

Executive Summary

A call for reform, innovation and smarter regulation

Directors emphasise the need for a coordinated national response to cut complexity and lift productivity. Taxation reform has climbed to the third most important short-term priority for government to address, with directors nominating state-based taxes, personal income tax, and company tax as the top three areas needing reform to enhance Australia's productivity.

Nearly half of directors say their boards intend to lift their focus on innovation and R&D over the next year. Over 80% of businesses are also turning their attention to emerging digital and AI capabilities. A clear majority of directors (63%) agree that investment in innovation and research will boost productivity. Yet six in ten directors remain dissatisfied with the level of government support for innovation and R&D, underscoring a widening gap between business ambition and policy settings.

A record 82% of directors say a major deregulation push would strengthen productivity and growth, pointing to the cumulative burden of regulation and poor coordination between regulators and different levels of government as major barriers to an effective regulatory system.

Half of company directors believe planning regulations and industrial relations should be the key focus of any deregulation agenda designed to lift national productivity.

Directors push for a national productivity agenda

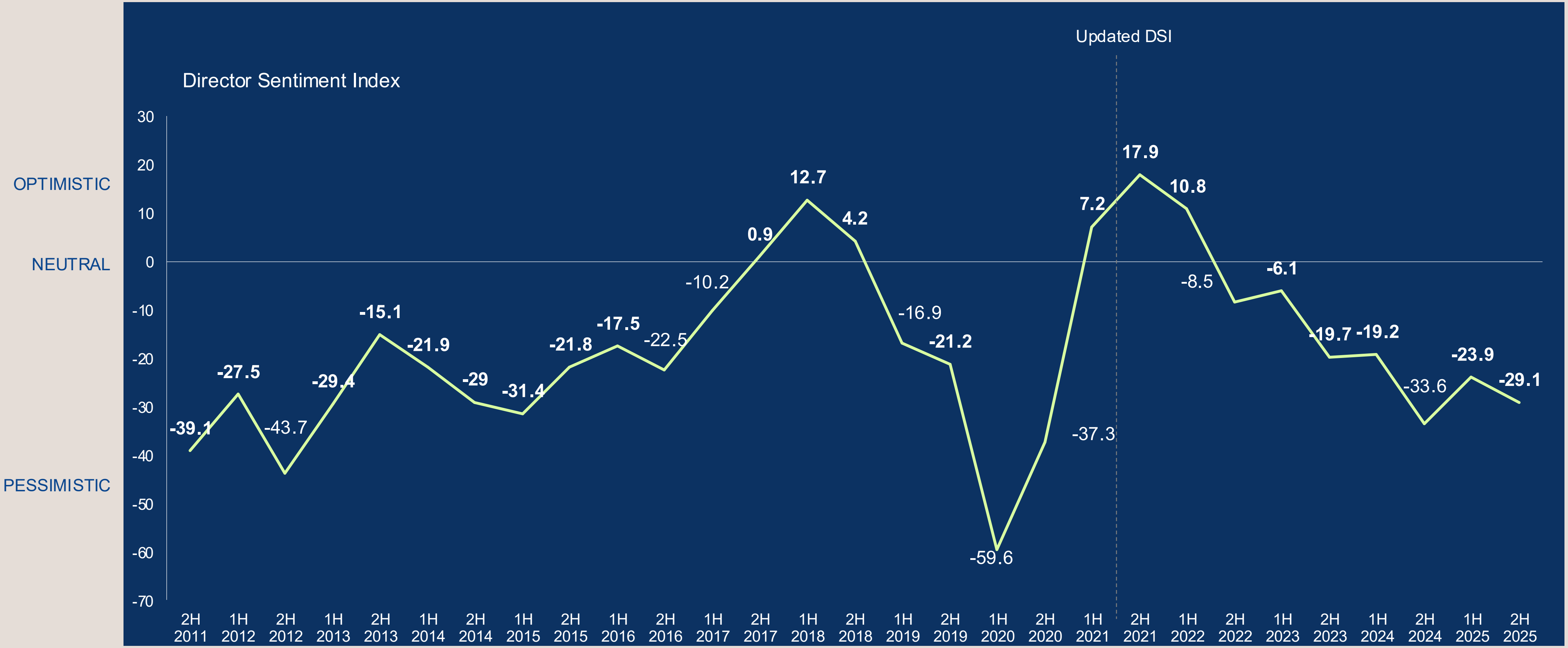
Productivity growth continues to be viewed as a critical issue for the Federal Government to address both in the short and long term. Three-quarters of directors believe low productivity poses a real threat to the nation's economic outlook, and most see leadership quality, workplace culture, and technology as key to reversing the trend. The role of technology in driving productivity has gained notable momentum, reflecting directors' growing focus on innovation, AI & digital transformation as key enablers of performance and efficiency.

Directors' message to government is clear: the next wave of prosperity won't come from rate cuts or rhetoric - it will come from cutting red tape, backing innovation, reforming taxation, and rebuilding Australia's productivity engine.

Director Sentiment Index

02

The Director Sentiment Index (DSI) has declined further into negative territory over the past six months, sitting just above the post-COVID 2H 2024 low



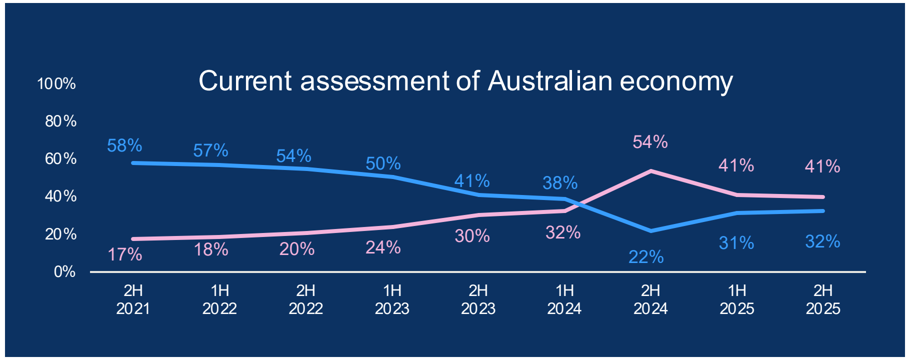
Source: Roy Morgan AICD Director Sentiment Index Survey 2nd Half 2025. Base: AICD Directors 18+, n= 1,072.
Note: Revised index from 2nd Half 2021 onwards is not directly comparable with previous index scores.

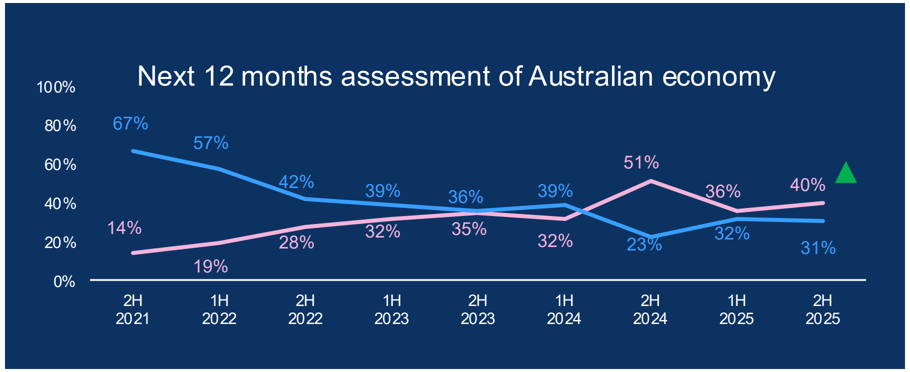
Economic and Business Outlook

03

Confidence in current economic and business conditions has held steady since 1H 2025 but a growing number of directors see a weakening outlook for the Australian economy and business conditions over the next 12 months

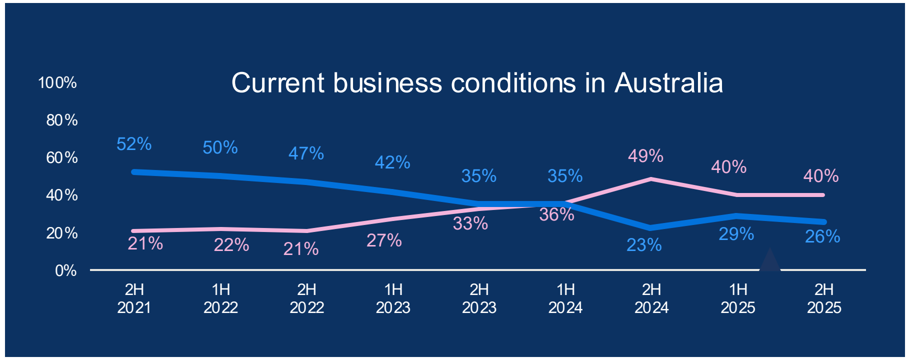
Assessment of Australian economy

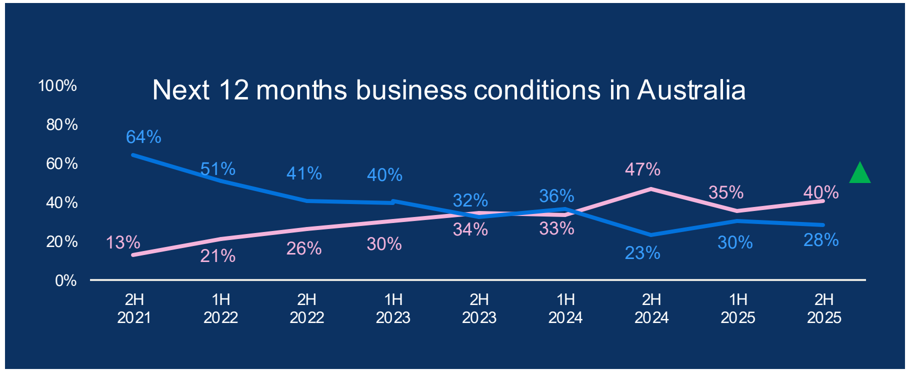




Total Weak (Very weak + Somewhat weak)
Total Strong (Very strong + Somewhat strong)

Assessment of business conditions





Arrows represent significant increase or decrease at 95% or 99% confidence level since 1st Half 2025 survey.

Note: Neutral (Neither strong nor weak, Neither Satisfied nor Dissatisfied, Neither Agree nor Disagree etc.) was a response option in the survey but it is not displayed in these charts, hence the Totals do not add to 100%.

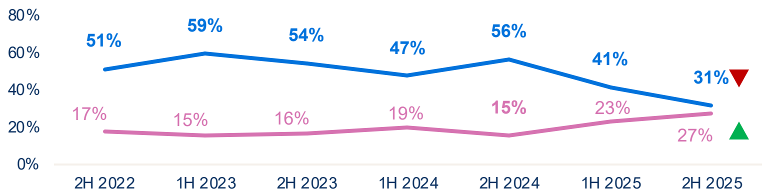
Source: Roy Morgan AICD Director Sentiment Index Survey 2nd Half 2025. Base: AICD Directors 18+, n= 1,072.
E8. What is your assessment of the current health of the following economies?
E9. Over the next 12 months, what would be your assessment of the health of the following economies?
B10.1 What is your assessment of business conditions in Australia?
B11.1 What is your assessment of business conditions over the next 12 months in Australia?
Displaying data since 2H 2021.

Nearly 80 percent (78% up from 54%) consider an additional RBA rate cut likely within the next six months

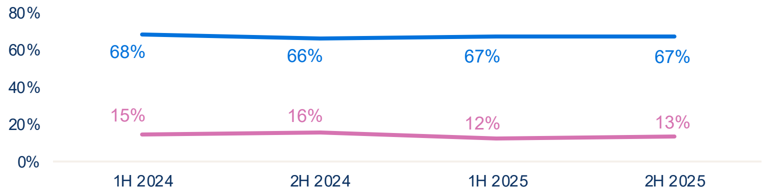
Concerns that current monetary policies will cause a major uptick in business insolvency have declined since 1H 2025. Nearly two-thirds of directors support the RBA's cautious approach to rate cuts, though one-third believe the RBA has been too slow to ease rates.

Thinking about Inflation, Interest Rates and the RBA, please indicate the extent to which you agree or disagree with the following statements:

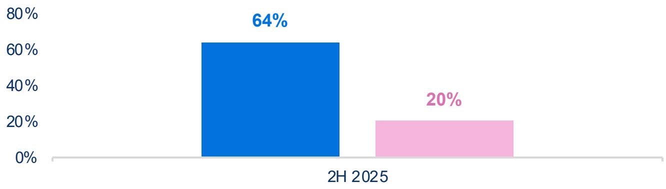
Current monetary policies will cause a major uptick in business insolvency



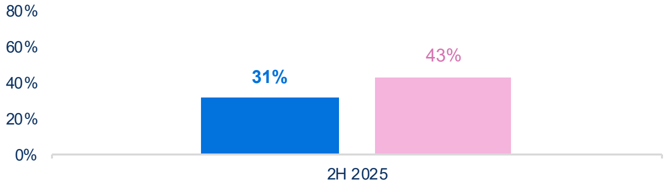
The RBA lowering interest rates will positively impact the economy



The RBA's cautious approach to lowering interest rates has been appropriate *

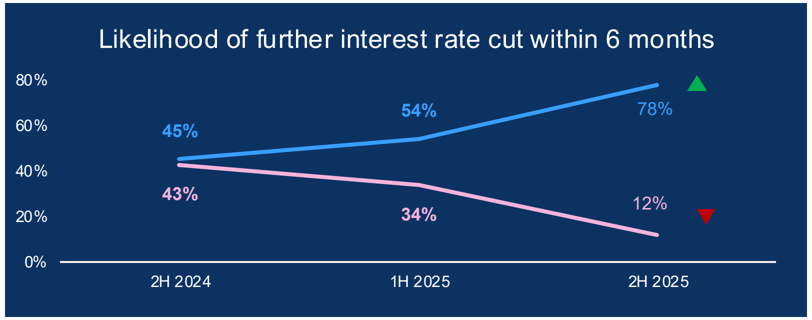


The RBA has been too slow lowering interest rates in 2025 *



Total Disagree (Strongly disagree + Somewhat disagree)
Total Agree (Strongly agree + Somewhat agree)

* New options for 2H 2025 (No historical data available)



Total Unlikely (Very unlikely + Somewhat unlikely)
Total Likely (Very likely + Somewhat likely)

Arrows represent significant increase or decrease at 95% or 99% confidence level since 1st Half 2025 survey.

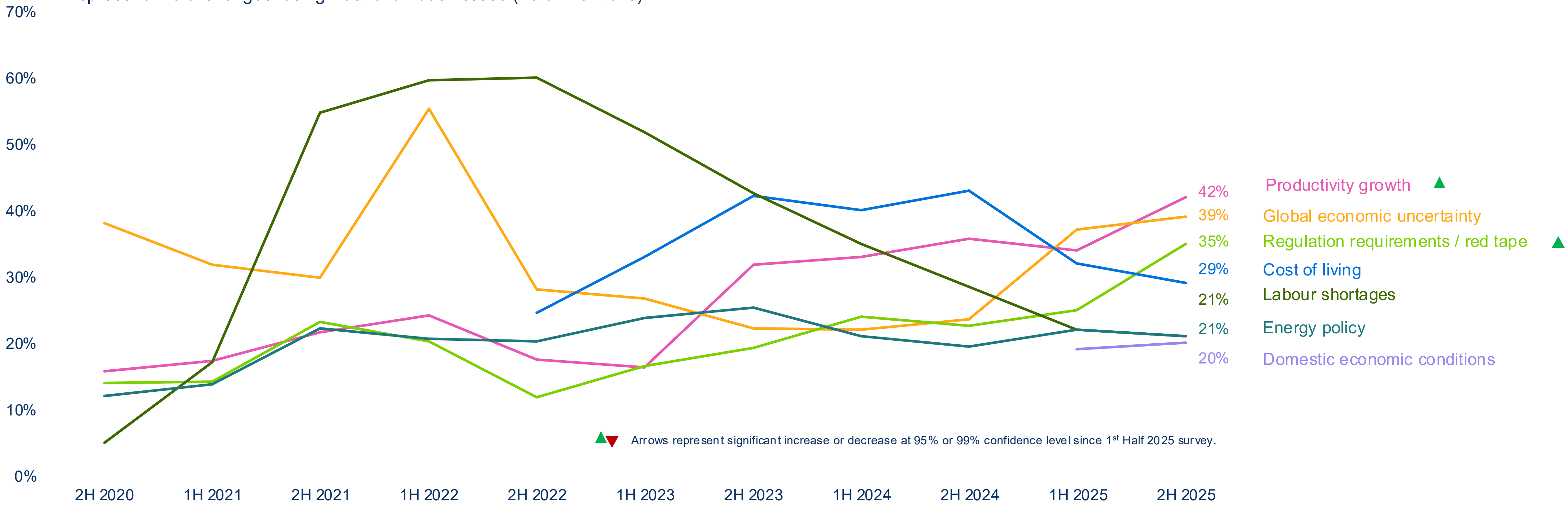
Note: Neutral (Neither strong nor weak, Neither Satisfied nor Dissatisfied, Neither Agree nor Disagree. Neither likely nor unlikely etc.) was a response option in the survey but it is not displayed in these charts, hence the Totals do not add to 100%.

Source: Roy Morgan AICD Director Sentiment Index Survey 2nd Half 2025. Base: AICD Directors 18+, n= 1,072.
RBA1. Thinking about inflation, interest rates and the RBA, please indicate the extent to which you agree or disagree with the following statements.
RBA2. What do you think is the likelihood of a further interest rate cut by the RBA in the next 6 months?

Productivity growth, global economic uncertainty and regulation requirements/ red tape are the top three economic challenges facing Australian businesses

Concerns over productivity growth and red tape have risen significantly since the previous wave, while the focus on cost-of-living concerns continues to ease in the second half of 2025.

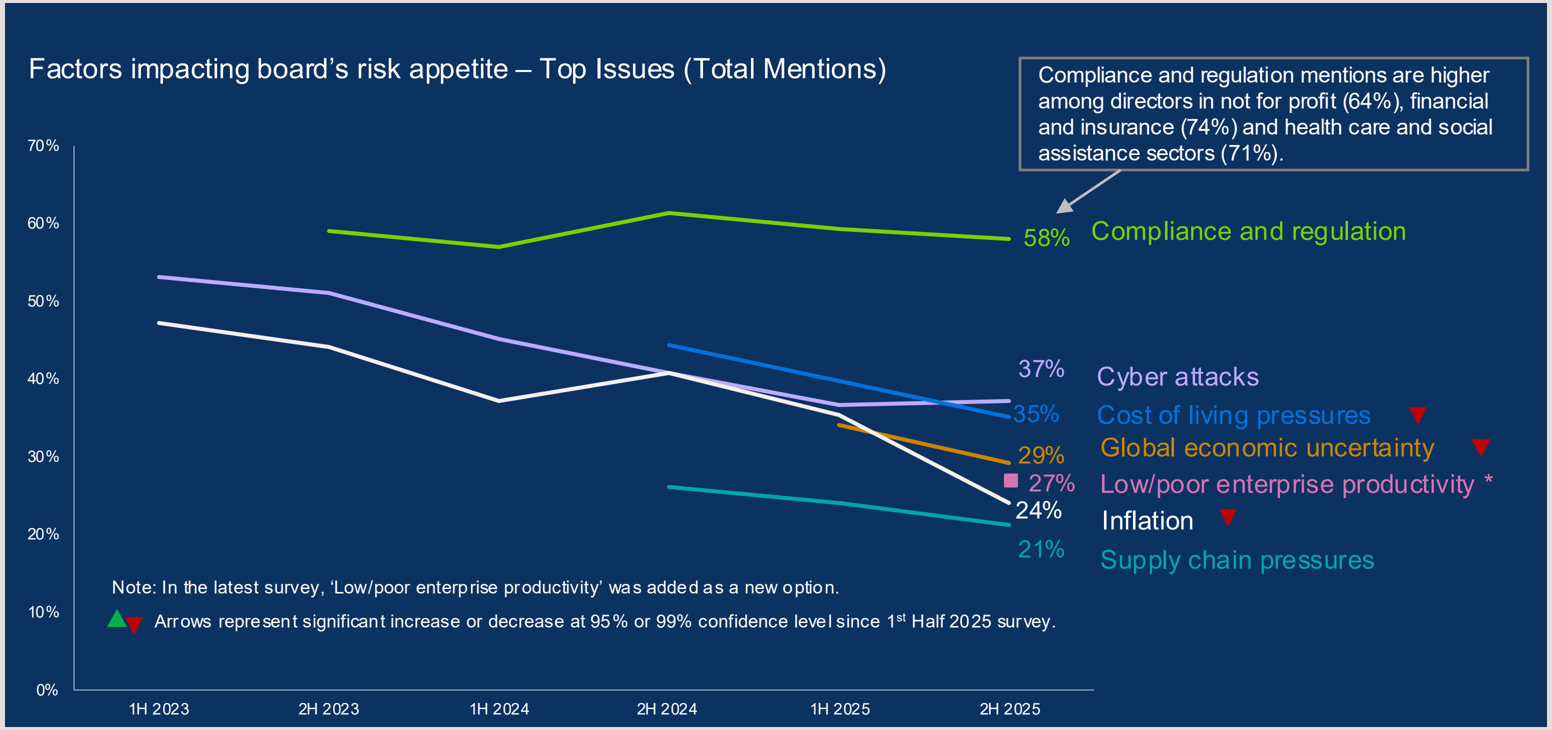
Top economic challenges facing Australian businesses (Total Mentions)

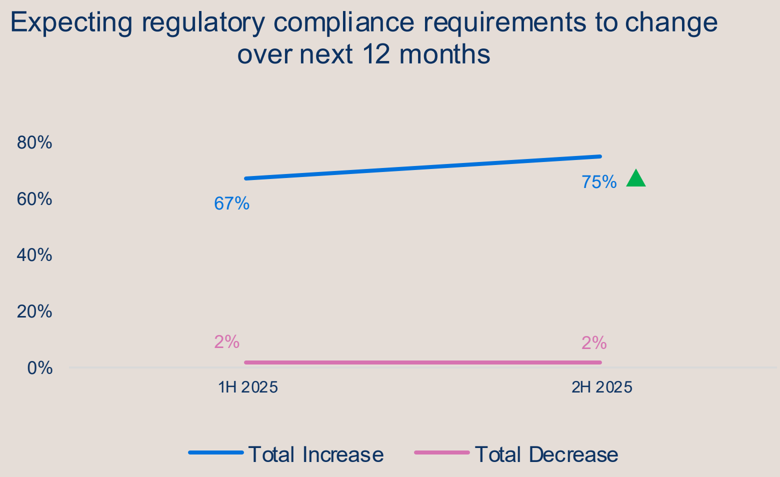


Source: Roy Morgan AICD Director Sentiment Index Survey 2nd Half 2025. Base: AICD Directors 18+, n= 1,072.
E6. What are the top 3 economic challenges currently facing Australian businesses? Percentage of respondents that nominated issue in the top three economic challenges.
Note: Only displaying prominent issues with mentions > 20% in 2H 2025. Amendments to the list may impact comparability with previous results.

Significantly more directors (75% up from 67%) expect regulatory compliance requirements to increase within their business over the next 12 months

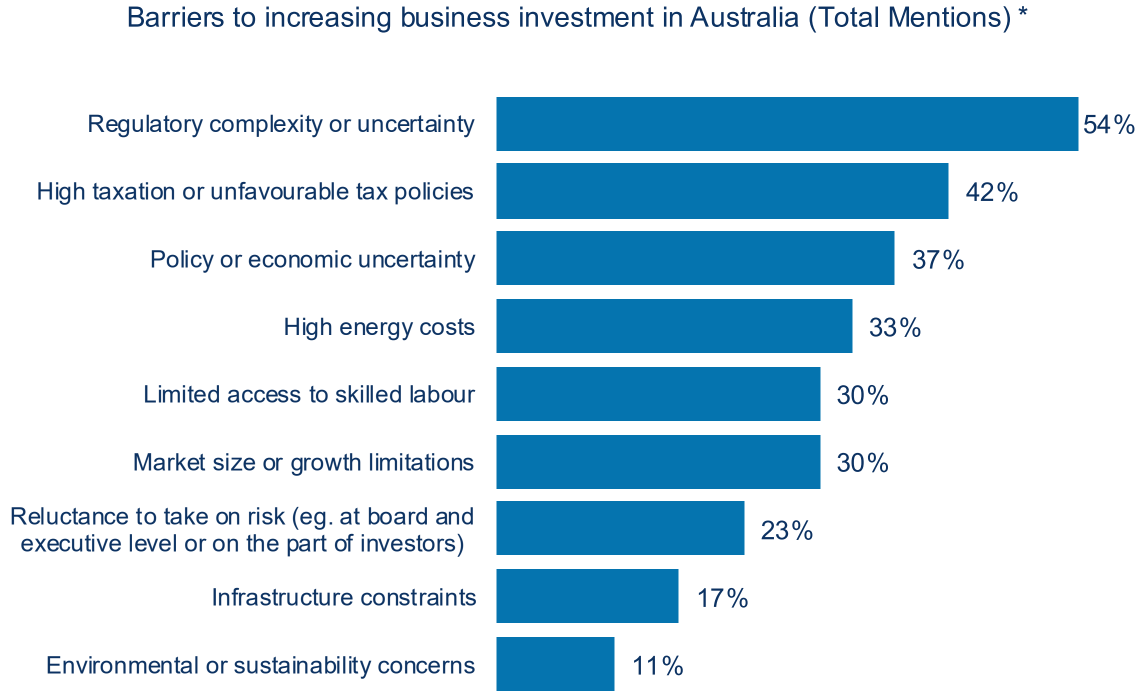
Compliance and regulation remains the leading factor impacting boards' risk appetite for nearly 60 percent of directors and is well ahead of other issues. Cost-of-living pressures and inflation continue to ease.

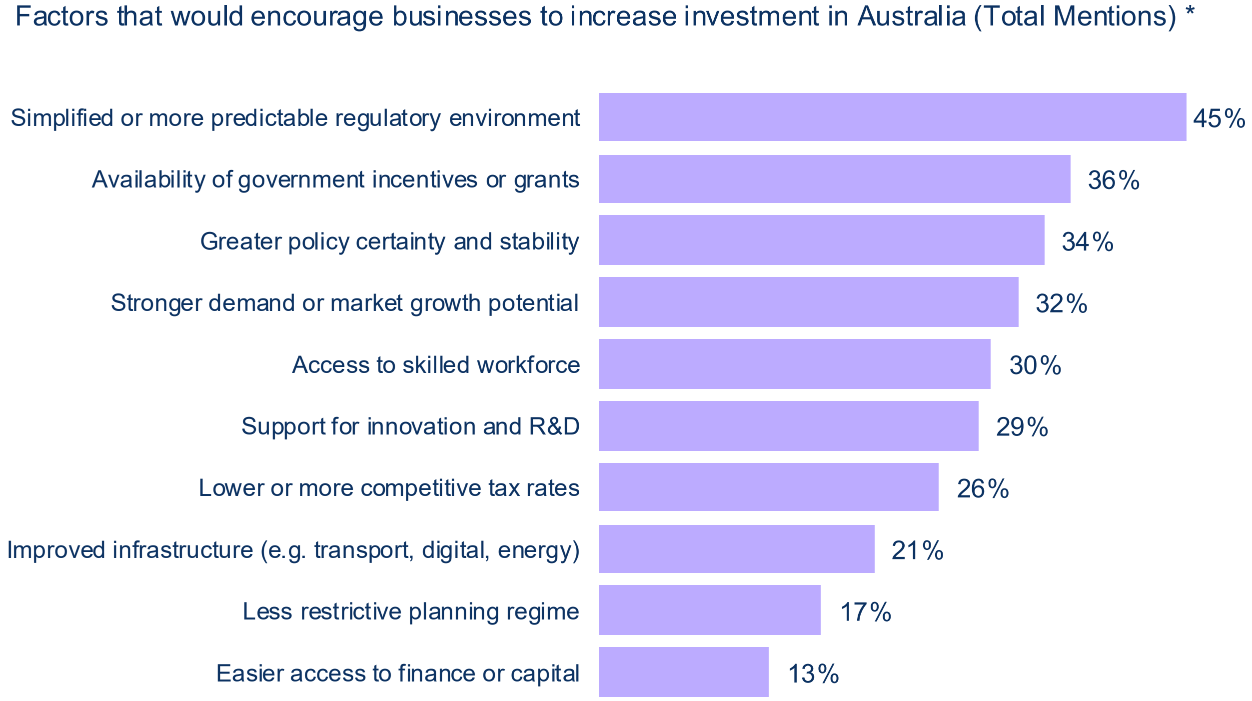




Source: Roy Morgan AICD Director Sentiment Index Survey 2nd Half 2025. Base: AICD Directors 18+, n= 1,072.
TQ3a1. Have any of the following impacted your board's risk appetite?
Note: Only displaying prominent issues with mentions >20% in 2H 2025. Amendments to the list may impact comparability with previous results.
B4. To what extent, if any, do you expect the following conditions to change over the next 12 months within your business?

Regulatory complexity or uncertainty is the biggest barrier to increasing business investment with a simplified or more predictable regulatory environment seen as the main factor in encouraging more investment





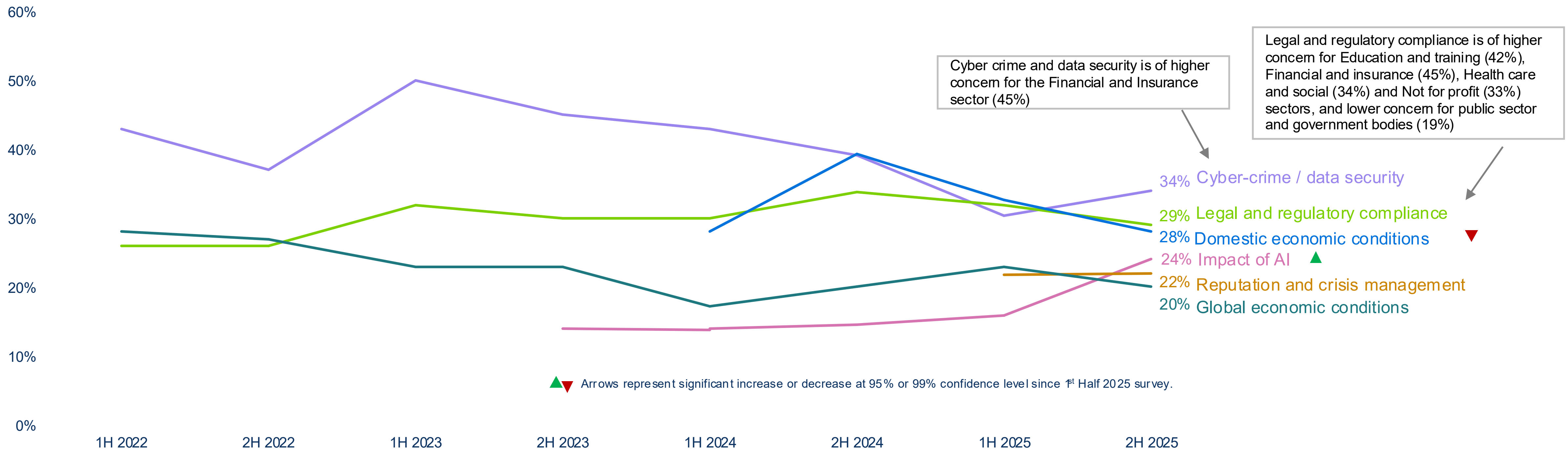
*New questions for 2H 2025 (No historical data available)

Source: Roy Morgan AICD Director Sentiment Index Survey 2nd Half 2025. Base: AICD Directors 18+, n= 1,072.
Bus_invest1. What do you see as the most significant barriers to increasing business investment in Australia?
Bus_invest2. Which of the following factors would most encourage your business to increase investment in Australia?
Please rank up to top 3 in order of importance, with 1 being the most important.

Cybercrime and data security concerns have again become the number one thing keeping directors awake at night

Legal and regulatory compliance and domestic economic conditions are ranked second and third respectively and concerns over the impact of AI have surged.

Top issues most likely to keep directors awake at night (Total Mentions)



Source: Roy Morgan AICD Director Sentiment Index Survey 2nd Half 2025. Base: AICD Directors 18+, n= 1,072.
TQ1. What are the top 3 issues most likely to "keep you awake at night" as a director on your board? The percentage refers to respondents who nominated this as a top 3 issue. Note: Amendments to list may impact comparability with previous results.
Note: Only displaying prominent issues with mentions > 20% in 2H 2025. Amendments to the list may impact comparability with previous results.

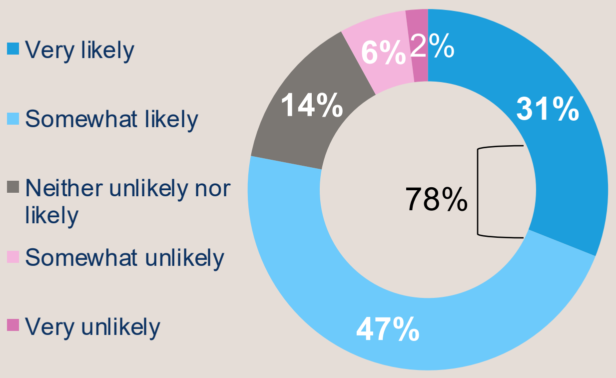
Focus on Productivity

04

More than three-quarters of directors (78%) believe poor productivity levels pose a risk to Australia's economic outlook over the next 12 months

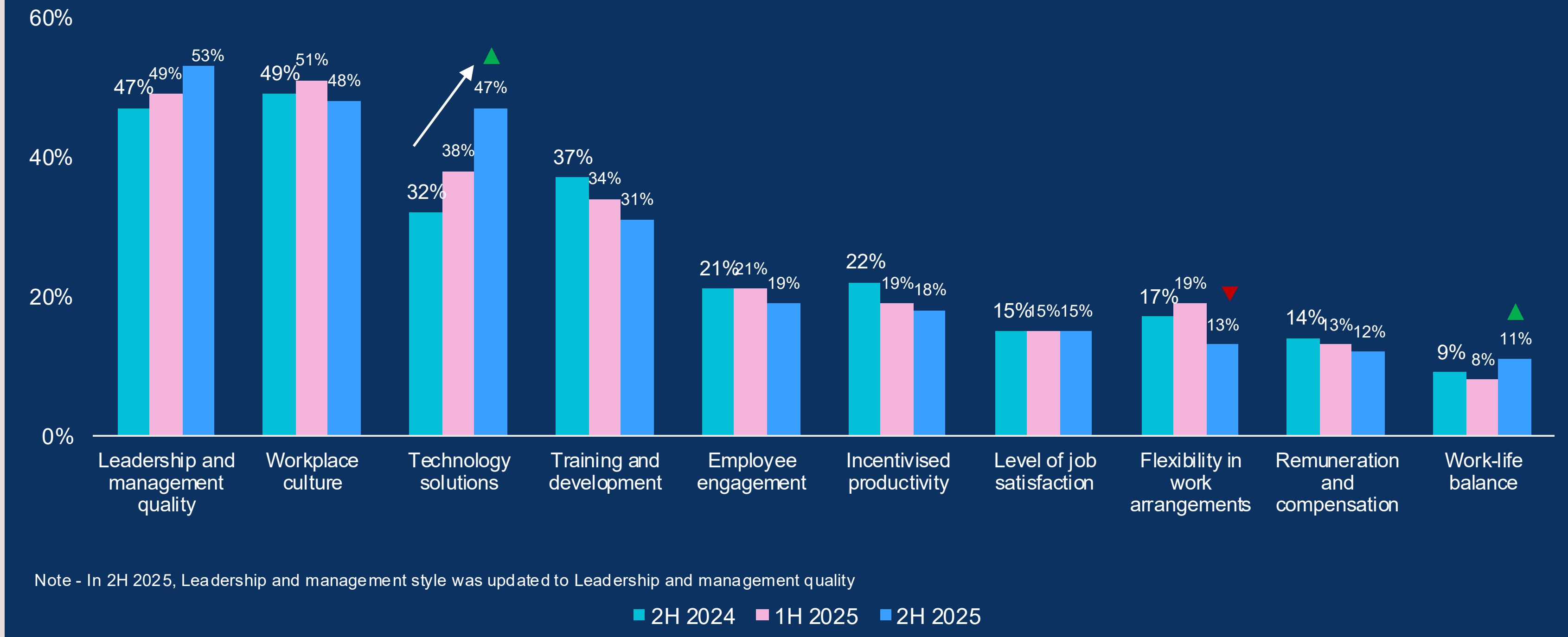
Directors believe the quality of leadership and management is key to boosting productivity, followed by workplace culture and technological solutions. The perception that technology drives productivity has been gaining momentum since the second half of 2024.

Likelihood of current productivity levels posing a risk to Australia's economic outlook in next 12M *



*New question for 2H 2025 (No historical data available)

Largest impact on boosting productivity in businesses



Note - In 2H 2025, Leadership and management style was updated to Leadership and management quality

▲▼ Arrows represent significant increase or decrease at 95% or 99% confidence level since 1st Half 2025 survey.

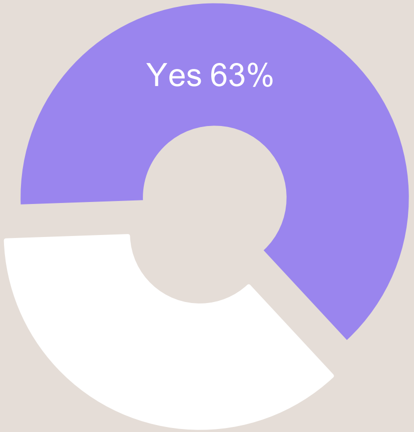
Source: Roy Morgan AICD Director Sentiment Index Survey 2nd Half 2025. Base: AICD Directors 18+, n= 1,072.
DD10a. How likely or unlikely do you think it is that current productivity levels will pose a risk to Australia's economic outlook over the next 12 months?
DD11. In your opinion, which of the following have the largest impact on boosting productivity in businesses? Only displaying mentions > 10% in 2H 2025.
Please rank the top 3 issues in order of importance, with 1 being the most important

Sixty-three percent think investment in innovation and R&D is key to boosting business productivity

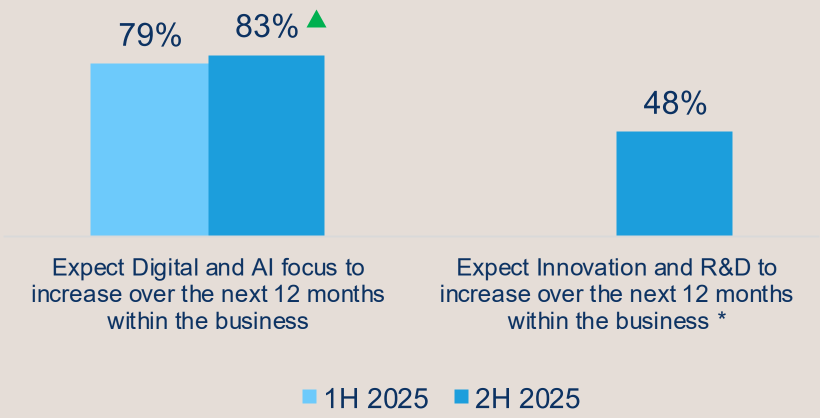
Nearly half of directors expect innovation and R&D activity to increase within their businesses over the next 12 months, and more than 8 in 10 anticipate a growing focus on digital and AI capabilities.

However, 60% of directors remain dissatisfied with the level of government support for innovation and R&D.

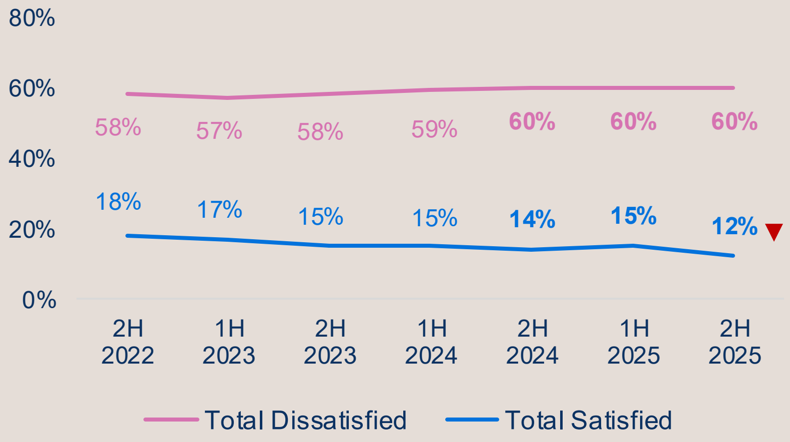
63% of directors agree that investment in innovation and R&D will boost business productivity in the coming year *



Do you expect the following conditions to change over the next 12 months within your business?



Government support for innovation and R&D



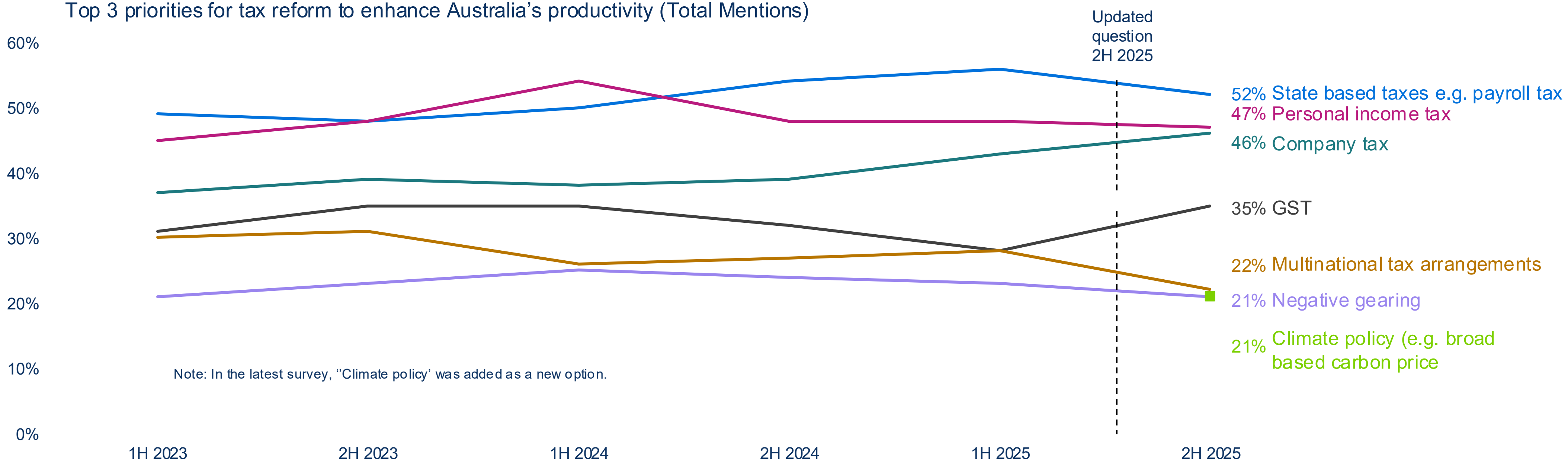
*New question/option for 2H 2025 (No historical data available)

Arrows represent significant increase or decrease at 95% or 99% confidence level since 1st Half 2025 survey.

Source: Roy Morgan AICD Director Sentiment Index Survey 2nd Half 2025. Base: AICD Directors 18+, n= 1,072.
G1. Based on your personal board experience, please indicate the extent to which you agree or disagree with the following statements:
B4. To what extent, if any, do you expect the following conditions to change over the next 12 months within your business?
T1. What is your level of satisfaction with the current state of the following Australian policy settings…?

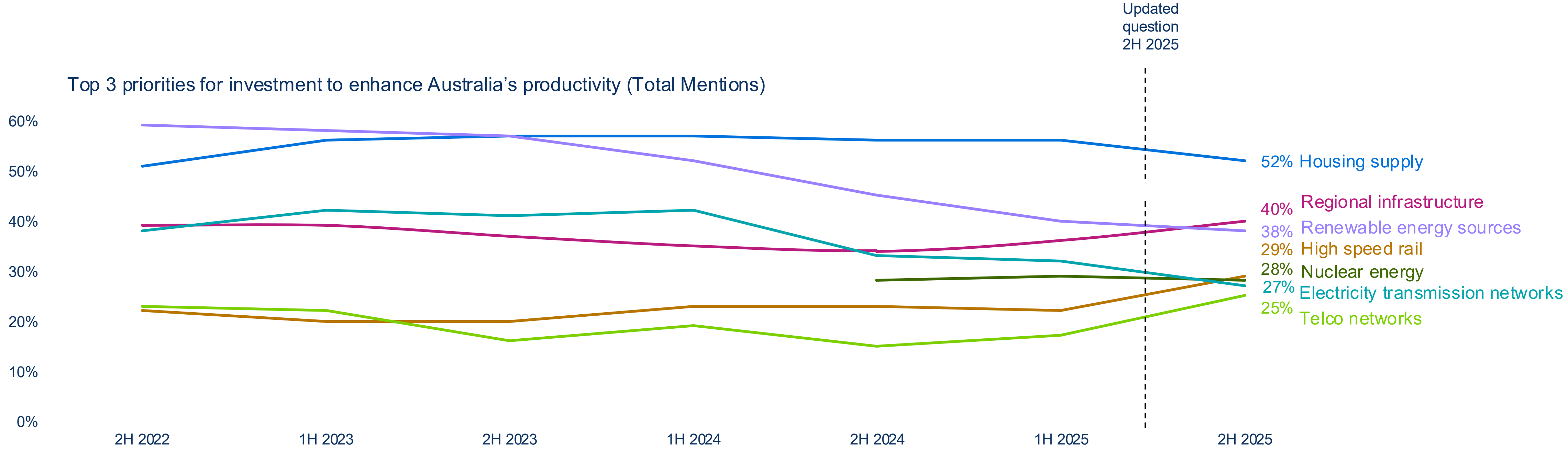
State-based taxes followed by personal income tax and company tax are the top three priorities for reforming the tax system to enhance national productivity

Top 3 priorities for tax reform to enhance Australia’s productivity (Total Mentions)



Source: Roy Morgan AICD Director Sentiment Index Survey 2nd Half 2025. Base: AICD Directors 18+, n= 1,072.
RE6da. Now thinking about a possible review of the current taxation system, please nominate your top 3 priorities for tax reform that would enhance Australia’s productivity.
Note: Question wording changed in 2H 2025, previously asked as “Now thinking about a possible review of the current taxation system, please nominate your top 3 priorities for tax reform”. Only displaying prominent issues with mentions > 20% in 2H 2025.

Housing supply is seen as the top investment option for boosting productivity, followed by regional infrastructure which has climbed as a priority, and renewable energy sources which has declined moderately.



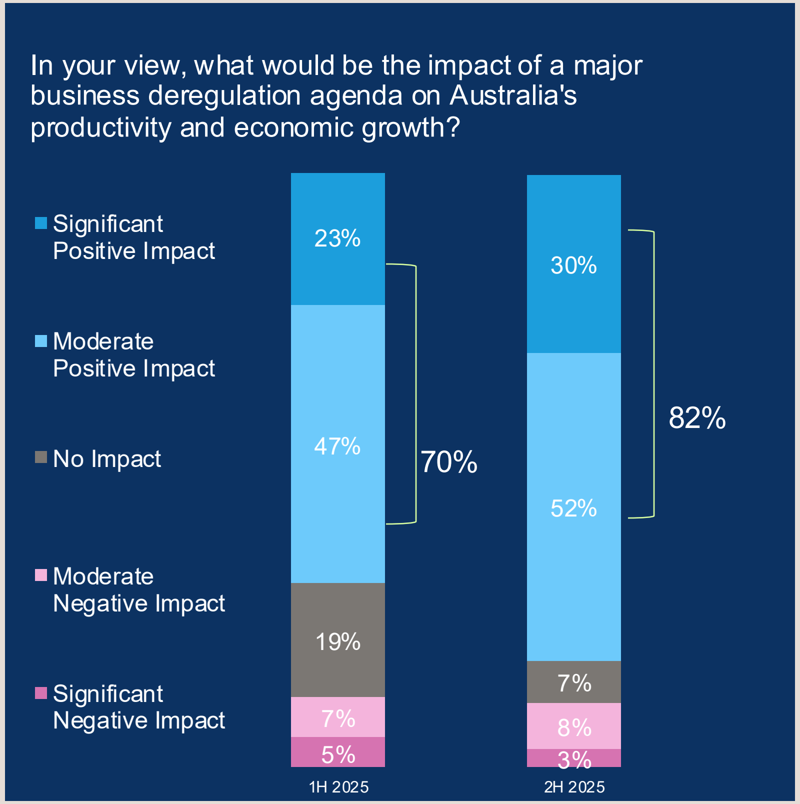
Source: Roy Morgan AICD Director Sentiment Index Survey 2nd Half 2025. Base: AICD Directors 18+, n= 1,072.
I2a. Now thinking about infrastructure, what are your top 3 priorities for investment that would enhance Australia's productivity.
Note: Question wording changed in 2H 2025, previously asked as "Now thinking about infrastructure, what are your top 3 priorities for investment". Only displaying prominent issues with mentions > 20% in 2H 2025.

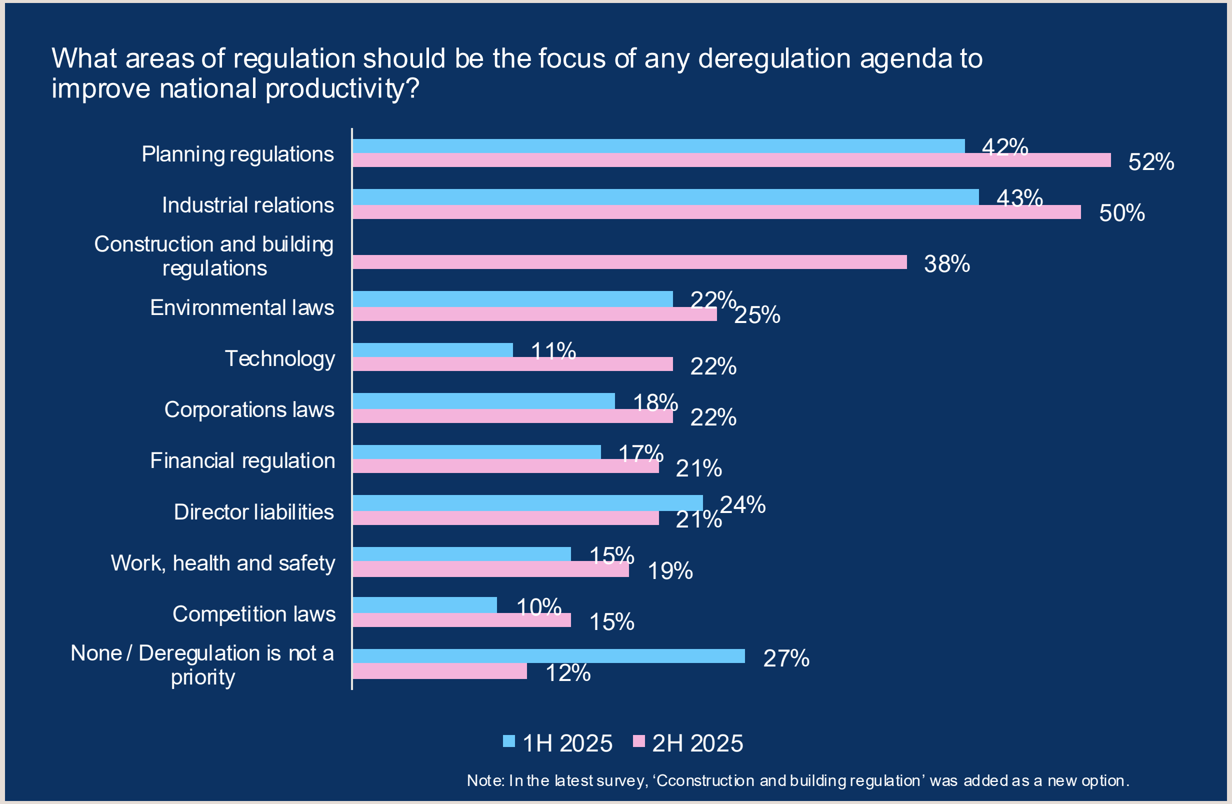
Better Regulation

05

Majority of directors (82% up from 70% last wave) believe a major business deregulation agenda will have a positive impact on Australia's productivity and economic growth

Planning regulations and industrial relations should be the main focus for deregulation agenda

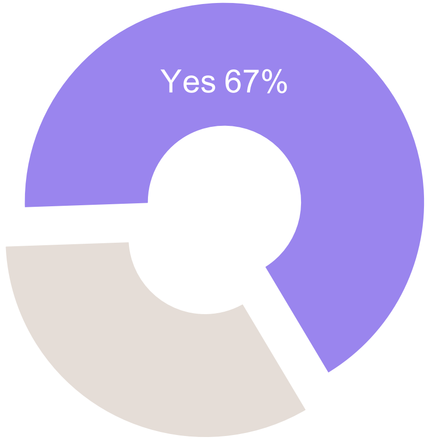




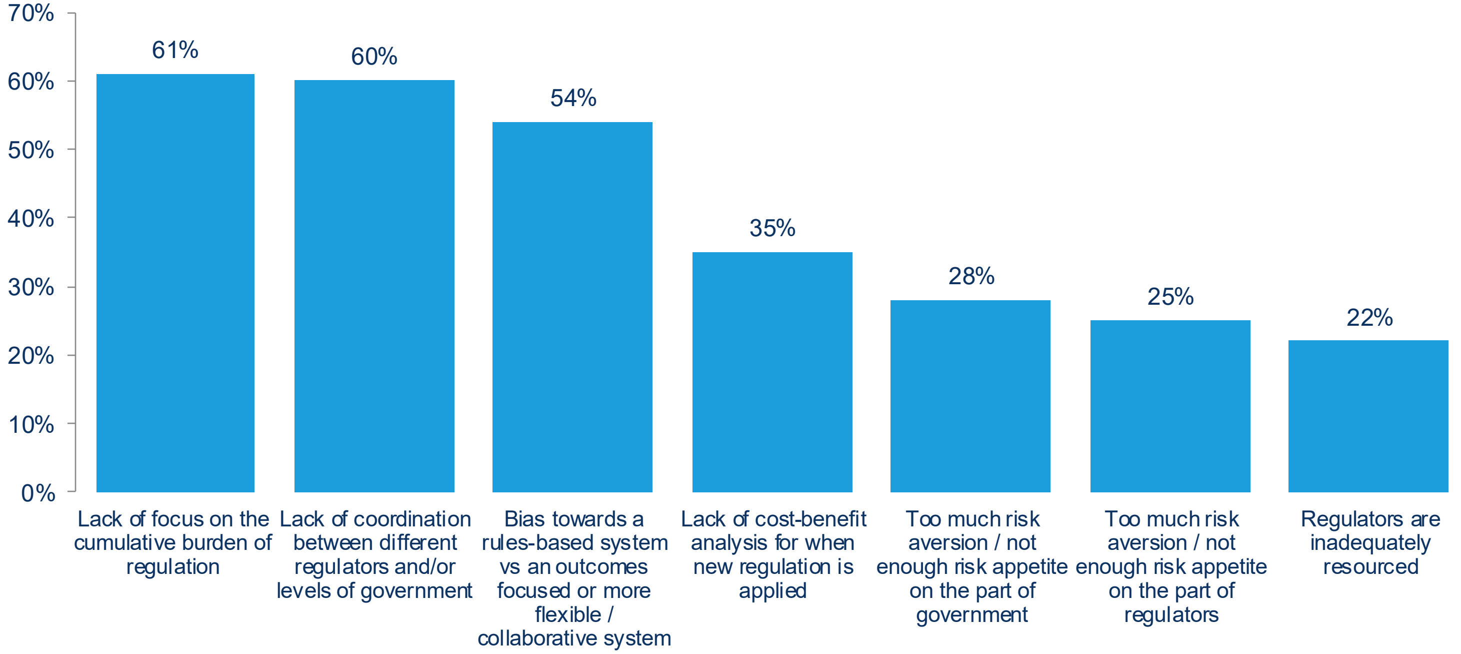
Source: Roy Morgan AICD Director Sentiment Index Survey 2nd Half 2025. Base: AICD Directors 18+, n= 1,072.
Regulation2a. In your view, what would be the impact of a major business deregulation agenda on Australia's productivity and economic growth? Select all that apply.
Regulation1a. What areas of regulation should be the focus of any deregulation agenda to improve national productivity?. Note: Question wording changed in 2H 2025, previously asked as "What areas of regulation should be the focus of any deregulation agenda".Only displaying mentions > 10% in 2H 2025.

More than two-thirds say regulatory and compliance burden is limiting productivity growth in their business. Cumulative burden of regulation and lack of coordination between regulators &/or different levels of government seen as the major barriers.

67% of directors state that regulatory and compliance requirements are limiting productivity growth in their business *



Barriers to an effective regulatory system supporting productivity (Total Mentions) *



*New question/option for 2H 2025 (No historical data available)

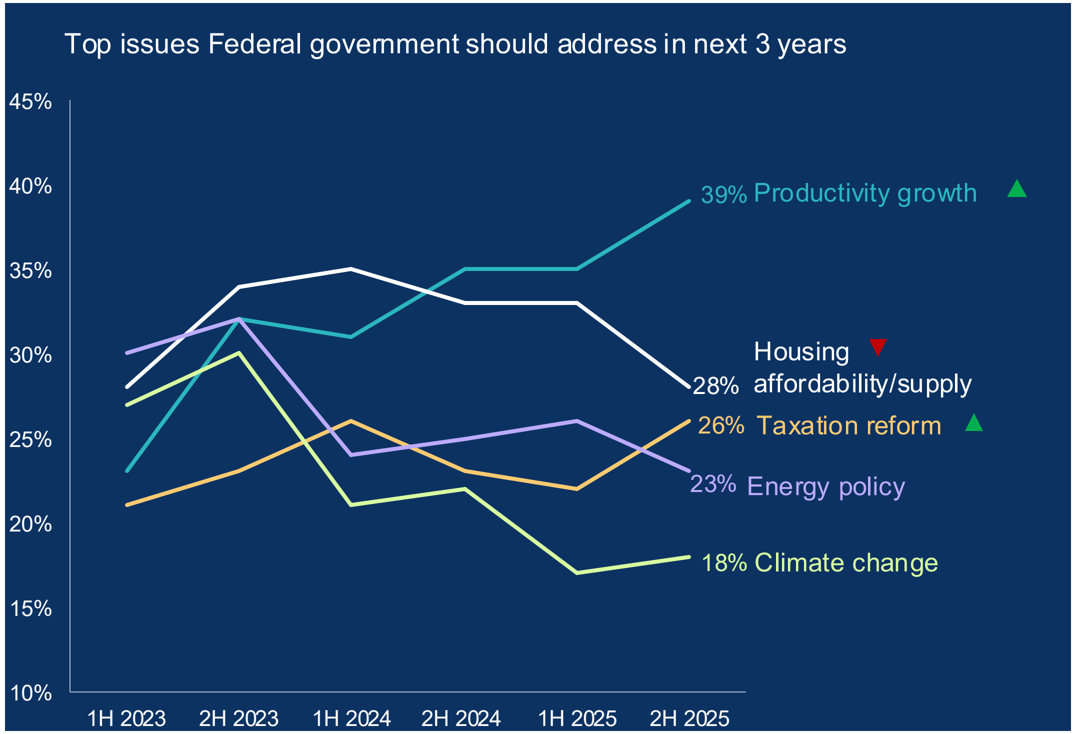
Source: Roy Morgan AICD Director Sentiment Index Survey 2nd Half 2025. Base: AICD Directors 18+, n= 1,072.
G1. Based on your personal board experience, please indicate the extent to which you agree or disagree with the following statements:
REGULATION3a. What do you think are the biggest barriers to an effective regulatory system in Australia, that supports greater productivity?
Please rank up to 3 in order of importance, with 1 being the most important.

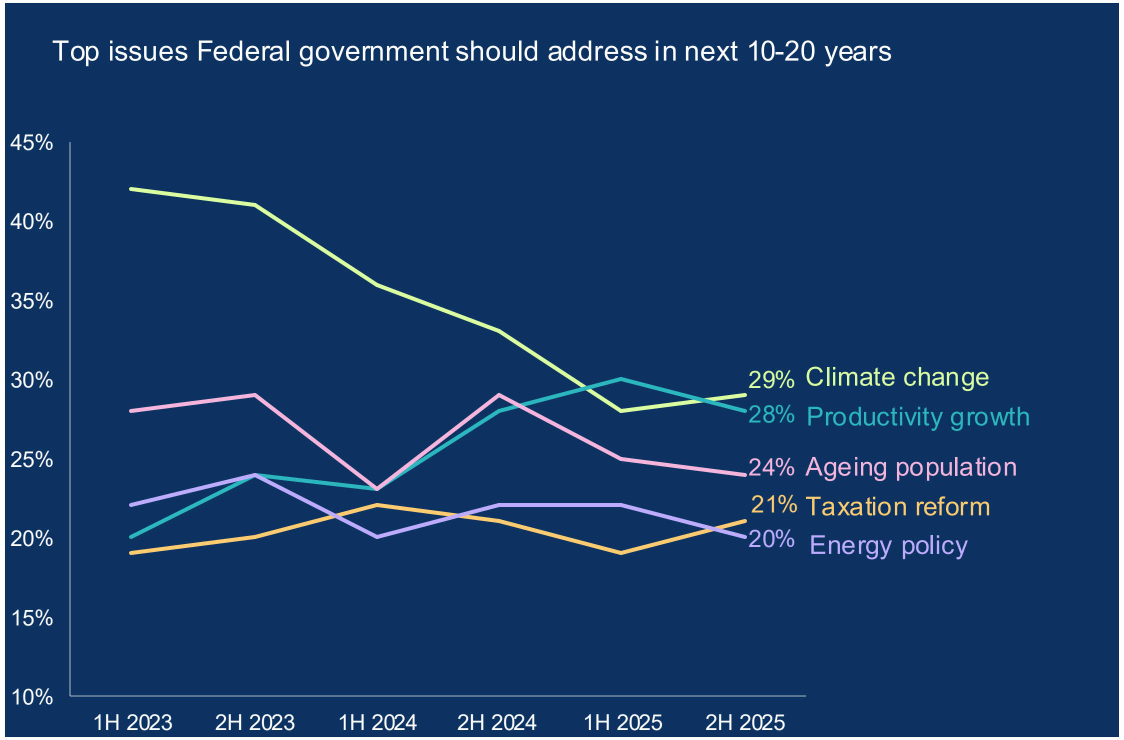
Priorities for Federal Government

06

Productivity growth again a top issue Federal government should address in both the short and long term

Taxation reform has climbed as a short-term priority and climate change is back in focus for the long-term





▲▼ Arrows represent significant increase or decrease at 95% or 99% confidence level since 1st Half 2025 survey.

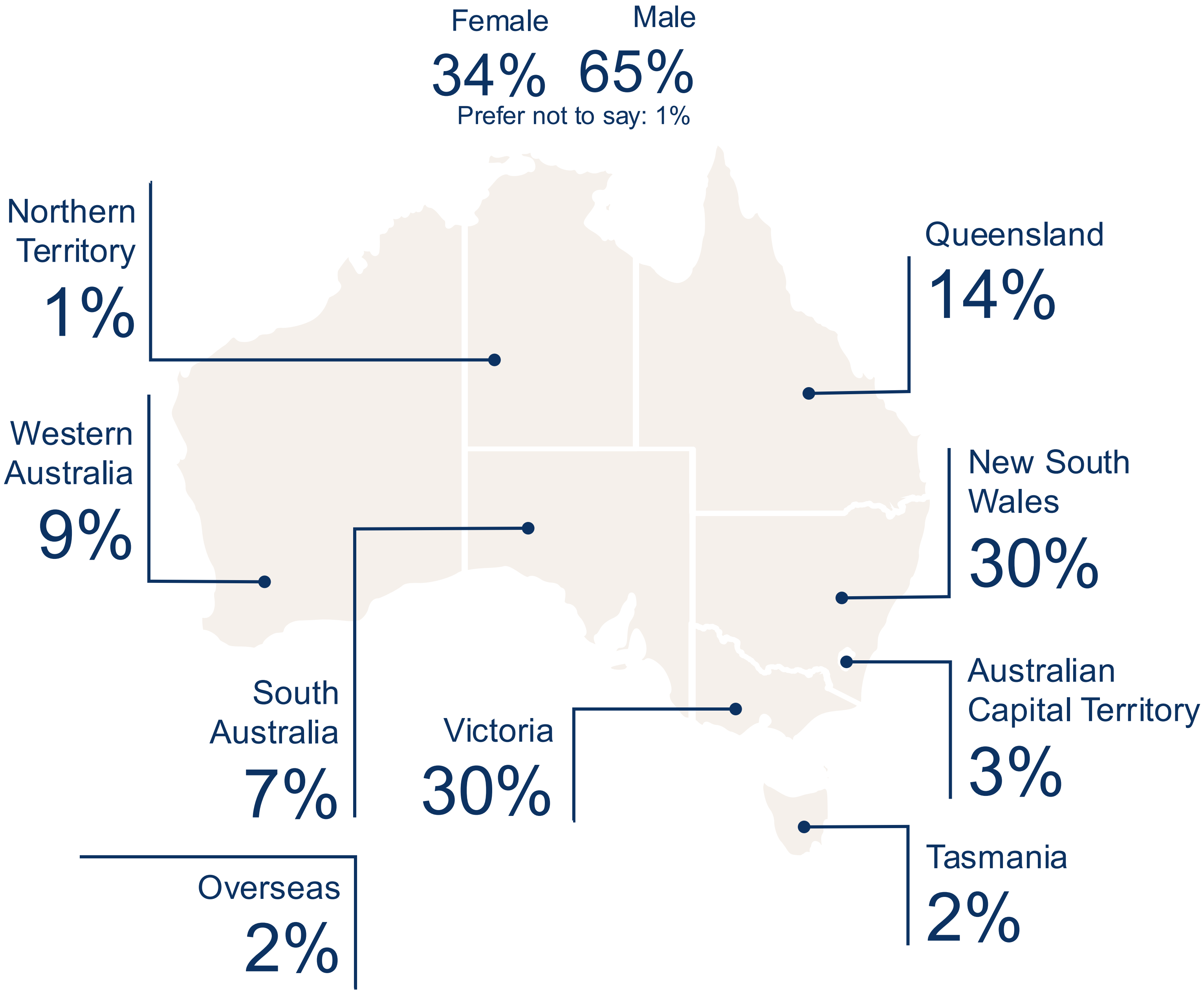
Source: Roy Morgan AICD Director Sentiment Index Survey 2nd Half 2025. Base: AICD Directors 18+, n=1,072.
RE4. In your opinion, what are the top 3 issues the federal government should address in the short term (next 3 years)?
RE4a. Now thinking about the longer term (next 10-20 years), what are the top 3 issues the federal government should address?
Note: Only displaying prominent issues in 2H 2025. Amendments to the list may impact comparability with previous results.

Appendix

07

Restricted

- The 2H 2025 DSI survey was conducted online with a sample of 1,072 directors across Australia between 15th and 29th September 2025.
- Respondents were AICD members with current directorships.
- Survey responses were weighted by gender to reflect the AICD member profile when analysing results.
- Detailed results comparing the current wave and previous waves are included in an accompanying report.



Strengthening society through world class governance

For more information on Director Sentiment Insights please contact:

David Laffin
Research Director
E: david.laffin@roymorgan.com

Erandee Robertson
Senior Project Manager
E: Erandee.Robertson@roymorgan.com

aicd.com.au