NATIONAL CEO SURVEY
BUSINESS PROPECTS IN 2020

Manufacturing in 2020

March 2020

About Australian Industry Group

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We are a truly national organisation which has been supporting businesses across Australia for more than 140 years.

Ai Group is genuinely representative of Australian industry. Together with partner organisations we represent the interests of more than 60,000 businesses employing more than 1 million staff. Our members are small and large businesses in sectors including manufacturing, construction, engineering, transport & logistics, labour hire, mining services, the defence industry, civil airlines and ICT.

Our vision is for a thriving industry and a prosperous community. We offer our membership strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

With more than 250 staff and networks of relationships that extend beyond borders (domestic and international) we have the resources and the expertise to meet the changing needs of our membership. We provide the practical information, advice and assistance you need to run your business. Our deep experience of industrial relations and workplace law positions Ai Group as Australia's leading industrial advocate.

We listen and we support our members in facing their challenges by remaining at the cutting edge of policy debate and legislative change. We provide solution-driven advice to address business opportunities and risks.

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KEY FINDINGS

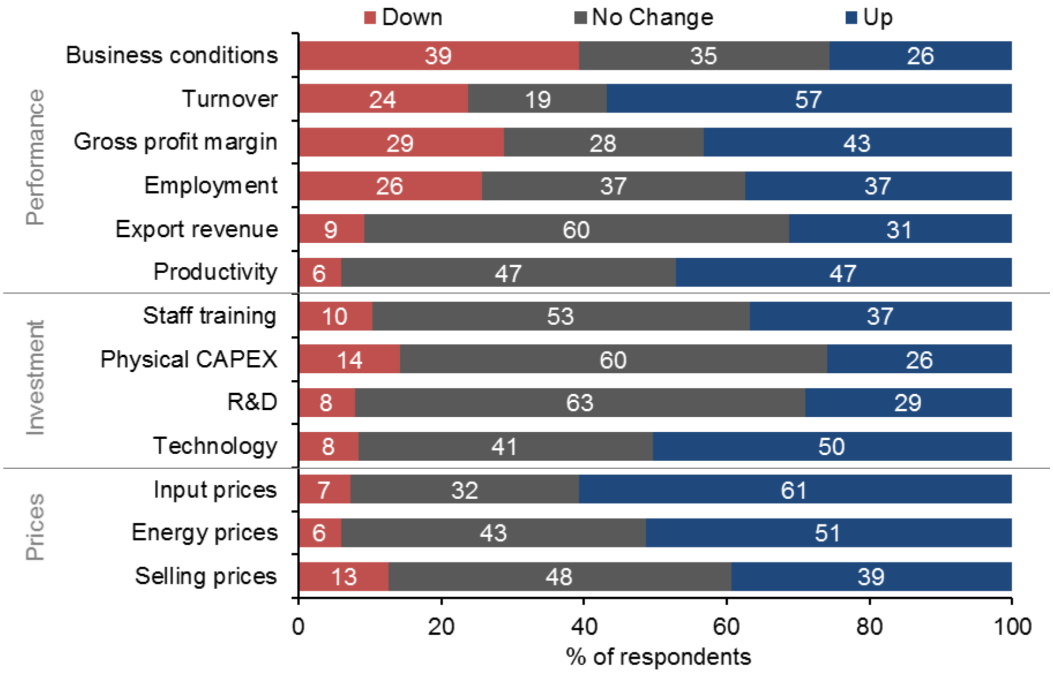
In 2020, the global and Australian economies are currently shutting down to deal with the COVID-19 pandemic. In Australia, the COVID-19 crisis is additional to the damage and disruption of summer's bushfire crisis and extended, severe drought.

The impacts of the COVID-19 pandemic on Australian manufacturing will be mixed. Some manufacturing businesses are experiencing a boost in production for household and medical necessities (such as soap, hand sanitisers, masks, ventilators, food & beverages, groceries, toiletries etc.) and even some re-shoring of manufacturing activities, but many are struggling with government shutdowns and supply chain difficulties. This is before monetising the health impacts on staff and the wider community, which represents a less visible and more personal cost.

This report provides a snapshot of the state of Australian manufacturing, on the eve of the COVID-19 pandemic and summer's bushfire crisis. The 2019 survey was conducted in October and November of 2019, prior to these events. Even back then, Australia's manufacturing CEOs were more pessimistic about business conditions than they had been in many years, as we began the new decade:

- more manufacturers were anticipating a deterioration than an improvement in trading conditions in 2020 relative to 2019;
- fewer CEOs were expecting an improvement in their own profit margins on record (since 2016); and
- as we entered 2020, a smaller proportion of businesses planned to increase their spending on capital investment and research & development. However, over half of manufacturers planned to increase their spending on technology.

Chart 1 Summary of business expectations for 2020*: performance, investment and prices



** Aggregate results for all surveyed industries, weighted by ABS estimates of output from each industry.*

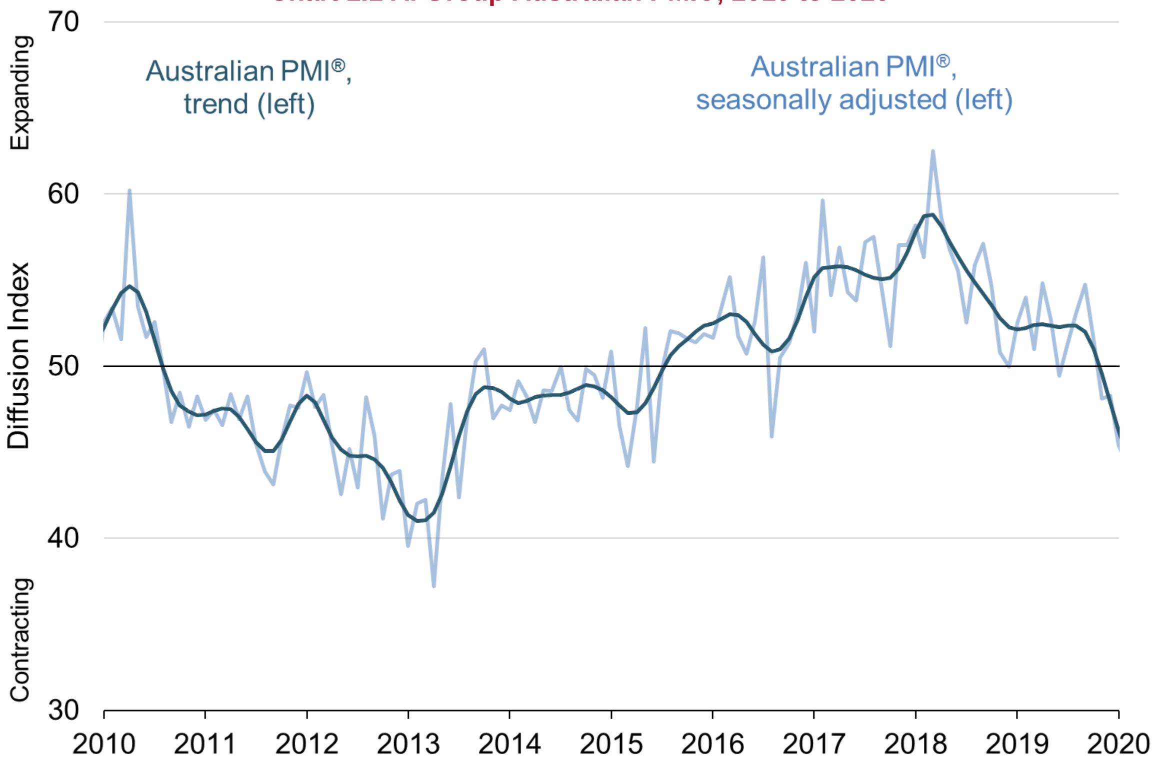
1. MANUFACTURING IN 2019

Over the past decade and more, manufacturing has experienced some important rebalancing in terms of its sectors, products, technologies and supply chains in response to long-term local and global structural shifts.

The recovery in Australian manufacturing over the second half of the decade was led by food and beverage manufacturers who have benefitted from a lower Australian dollar and steady growth in regional (mainly Asian) demand for Australian food & beverages. Demand for building related products has been strong over the past five years with elevated levels of construction activity. However, this demand appears to have eased in 2019. Another growth area over the past decade has been 'basic chemical manufacturing'. This small but extremely diverse sector includes pharmaceuticals, toiletries and health supplements, which has benefitted from demand for high quality medicinal and healthcare products both domestically and abroad.

The large metals and machinery & equipment sectors have also reported pockets of growth, with those businesses servicing mining and defence projects reporting solid market conditions. Despite the end of the local automotive assembly operations in 2017, Australia continues to make a wide range of transport equipment components and complete vehicles such as boats, trams, trains, trucks and mining transport equipment.

Chart 1.1 Ai Group Australian PMI®, 2010 to 2020



Sources: Ai Group and ABS, *National Accounts.*

Table 1.1 Key manufacturing statistics

Total Manufacturing	2019	5-year change (from Q4 2014)	10-year change (from Q4 2009)
GDP	$104.5bn (5.5% of total)	-$3.8bn (-4.1%)	-$5.7bn (-6.4%)
Filled jobs	921,200 (6.3% of total)	46,800 (+5.4%)	-60,600 (-6.2%)
Number of employing businesses	48,002 (5.4% of total)	-163 (-0.3%)	N/A
Export earnings	$127.3bn (25.8% of total)	+$34.1bn (36.6%)	+$46.0bn (56.7%)
Manufacturing profits	$31.0bn (8.1% of total*)	+$4.2bn (+15.5%)	+$3.6bn (+12.9%)
Manufacturing revenue	$355.8bn (12.0% of total*)	-$10.0bn (-2.7%)	-$16.8bn (-4.5%)
Manufacturing wages bill	$54.7bn (13.1% of total*)	+$0.6bn (+1.0%)	+$2.9bn (+5.6%)
Manufacturing investment	$9.3bn (7.0% of total)	-$0.1bn (-0.7%)	-$3.4bn (-26.8%)
BERD (2017-18)	$4.6bn (26.4% of total)	N/A	N/A

* % of total in Business Indicators. Note: GDP, profits, revenue, wages bill and investment are annual through the year to December 2019. Filled jobs is seasonally adjusted from December 2019. Annual export earnings are unadjusted data through the year to December 2019. Number of employing businesses is at June 30 2019. Sources: ABS, *National Accounts,* Dec 2019; ABS, *Labour force Australia, detailed quarterly*, Nov 2019; ABS, *Business Counts,* 2018-19; ABS, *International Trade in Goods and Services, Feb 20*20; ABS, *Business Indicators*, Dec 2019; ABS, *Private New Capital Expenditure and Expected Expenditure*, Dec 2019. ABS, *Research and Experimental Development, Businesses*, 2017-18

Australia had 84,415 active manufacturing businesses as of 30 June 2019. Of these, 48,002 manufacturing businesses had at least 1 employee. Of the 84,630 manufacturing businesses operating in June 2015, 56,853 were still operating in June 2019. The five-year survival rate for manufacturing (67.2%) is higher than the rate for all businesses (64.9%) over this period. In the five years to June 2019, the number of non-employing manufacturing businesses increased by 2,504, while the number of small manufacturing business fell by 914. The number of medium businesses increased by 697 and there are an additional 54 large manufacturers.

The manufacturing industries with the largest numbers of employing businesses in June 2019 were fabricated metals (8,598), food products (7,441) and machinery & equipment other than transport equipment (6,351). These three sectors together accounted for 47% of all employing manufacturing businesses. Over the five years to June 2019, the manufacturing sectors with the largest growth rates (per cent increase in the number of businesses) included prefabricated metal building manufacturing, beer and spirit manufacturing, cosmetic & toiletry preparation, automotive electrical component manufacturing and veterinary pharmaceutical & medicinal products. The largest declines were in alumina production, knitted products, paper stationery, clay brick manufacturing, and motor vehicle manufacturing.

Table 1.2 Manufacturing businesses with employees in Australia, June 2019

Industry Size State	Employing Businesses	Share of all employing businesses	5-yr change in the number of employing business	Real output (GVA) 2018-19	Filled jobs* 2019
	Number	% of all	Number	$bn p.a.	'000
Food & beverages	**8900**	**18.5**	**374**	**25.8**	**266**
Food products	7441	15.5	60	-	231
Beverages	1459	3.0	314	-	35
Machinery & equipment	**9652**	**20.1**	**-20**	**20.3**	**174**
Machinery & equipment	6351	13.2	37	-	95
Transport equipment	3301	6.9	-57	-	80
Metal Products	**9808**	**20.4**	**-42**	**18.0**	**149**
Primary metal products	1210	2.5	-183	-	40
Fabricated metal products	8598	17.9	141	-	109
Chemical product manufacturing	**3476**	**7.2**	**53**	**20.3**	**93**
Petroleum & coal products	148	0.3	-6	-	6
Chemical products	1427	3.0	181	-	49
Polymer & rubber products	1901	4.0	-122	-	37
Other Manufacturing	**16166**	**33.7**	**-528**	**20.9**	**205**
Building materials, wood, furniture & other	**9690**	**20.2**	**545**	**-**	**125**
Non-metallic minerals	2065	4.3	95	-	46
Wood products	3558	7.4	232	-	39
Furniture & other	4067	8.5	218	-	39
TCF, paper & printing	**6476**	**13.5**	**-1073**	**-**	**81**
TCF manufacturing	2971	6.2	-435	-	34
Pulp & paper products	364	0.8	-78	-	15
Printing & recorded media	3141	6.5	-560	-	32
Small (1-19 employees)	41005	85.4	-914	-	-
Medium (20-199 employees)	6517	13.6	697	-	-
Large (200+ employees)	480	1.0	54	-	-
NSW	15682	32.7	244	31.1	261
VIC	13813	28.8	50	30.6	279
QLD	8864	18.5	-202	21.0	163
SA	3254	6.8	-186	6.5	70
WA	4825	10.1	-208	12.9	86
TAS	930	1.9	78	1.9	18
ACT	298	0.6	45	0.9	4
NT	318	0.7	-2	0.4	4
Australia	**48002**	**100**	**-163**	**105.3**	**887**

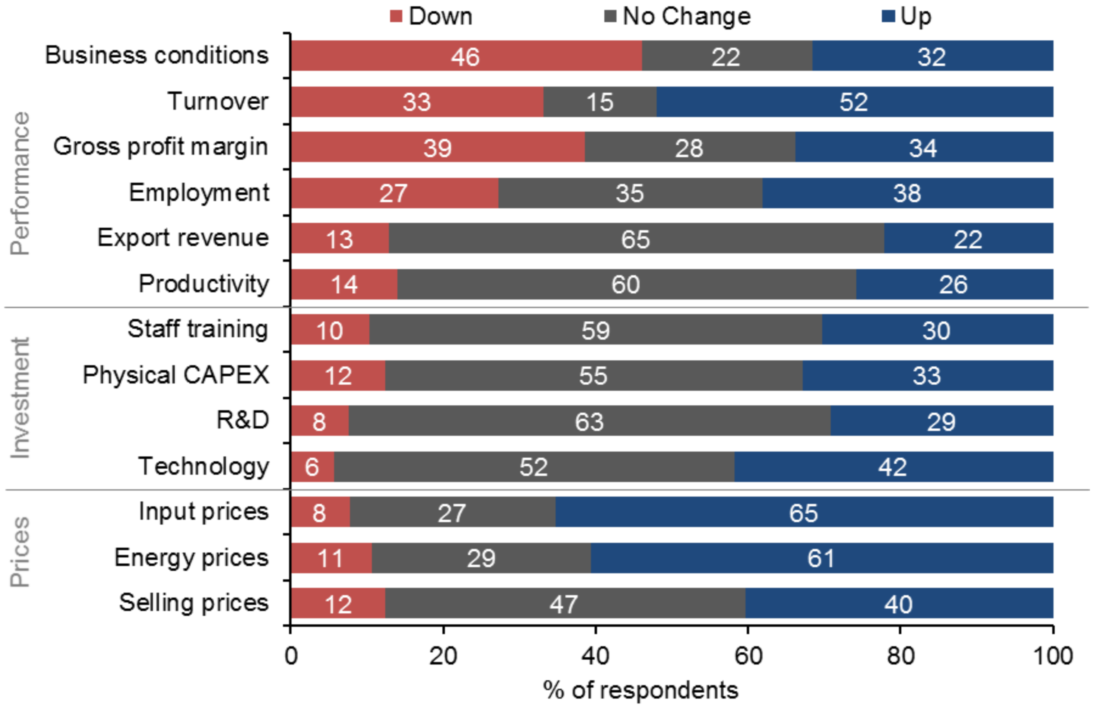
* filled jobs for manufacturing sectors is from the ABS *Labour Account*. Filled jobs by state & territory are four-quarter averages of employment from ABS *Detailed Labour Force*, November 2019.
Data Sources: ABS, Counts of Australian Businesses, Labour Force Detailed, Labour Account, National Accounts.

1.1 Manufacturing performance indicators in 2019

In line with general economic conditions in 2019, Australian manufacturing CEOs participating in the annual Ai Group business prospects survey reported a broadly disappointing year, when compared with conditions in the previous two years and compared with their own (earlier) expectations for 2019.

Except for the food & beverages sector, the end of 2019 proved challenging for Australian manufacturing. Drought and adverse weather conditions continue to detract from demand for manufacturing businesses in rural areas, particularly those selling metal products or machinery & equipment to the agricultural sector. Those selling products to the construction sector are also reporting reduced demand; a result of the downturn in residential construction activity and weather-related disruption.

Chart 1.2 Business indicators in 2019*: Performance, Investment and prices



**Aggregate results for all surveyed industries, weighted by ABS estimates of output from each industry.*

This year's CEO survey of business prospects included six indicators of business performance in 2019:

1. **General business conditions** improved for 32% of businesses, deteriorated for 46% and remained the same for 22% of businesses in 2019, giving a 'net balance' of -14% (that is, the proportion of businesses reporting an improvement less those reporting a deterioration). This represented the weakest net result in conditions since 2014.

2. **Business turnover** (nominal sales revenue) improved for 52% of businesses, deteriorated for 33% and remained the same for 15% of businesses in 2019, giving a 'net balance' of +19%. This was the lowest 'net balance' since 2016. For those experiencing an improvement in turnover, the average size of the increase was 14% in 2019. For those experiencing a deterioration in turnover, the average size of the decrease was 12% (unweighted) in 2019.

3. **Gross profit margins** improved for 34% of businesses, deteriorated for 39% and remained the same for 28% of businesses in 2019, giving a 'net balance' of -5%. This was the lowest 'net balance' since this indicator series began in 2015. For those experiencing an improvement in profit margins, the average size of the increase was 27% in 2019. For those experiencing a deterioration in profit

margins, the average size of the decrease was 18% in 2019. This net deterioration appears to have been driven by declines in turnover combined with steep rises in input prices, including energy input prices.

4. **Employment** increased in 38% of businesses, declined in 27% and remained the same for 35% of businesses in 2019, giving a 'net balance' of +1%. This indicates that more businesses increased employee numbers than cut them in 2019, but it resulted in the lowest 'net balance' since 2016.

5. **Export revenue** increased in 22% of businesses, declined in 13% and remained the same for 65% of businesses in 2019, giving a 'net balance' of +9% (chart 1.9). This includes large proportions of businesses that do not export anything and recorded their experience as 'no change'. For those experiencing an improvement in export revenue, the average size of the increase was 20% in 2019. For those experiencing a deterioration in export revenue, the average size of the decrease was 41% in 2019.

6. **Productivity** increased in 26% of businesses, declined in 14% and remained the same for 60% of businesses in 2019, giving a 'net balance' of +12%. The majority of businesses have reported no change in productivity in most years of the annual Ai Group CEO survey since 2012.

Chart 1.3 Business performance indicators, 2012-2019

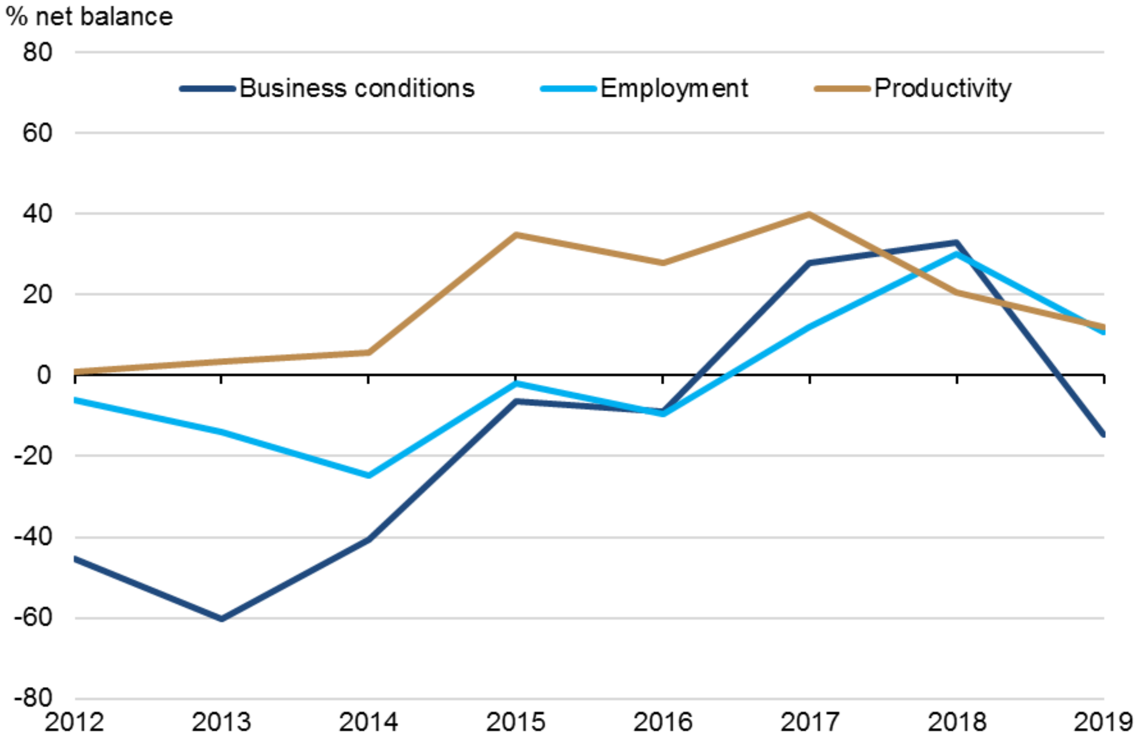
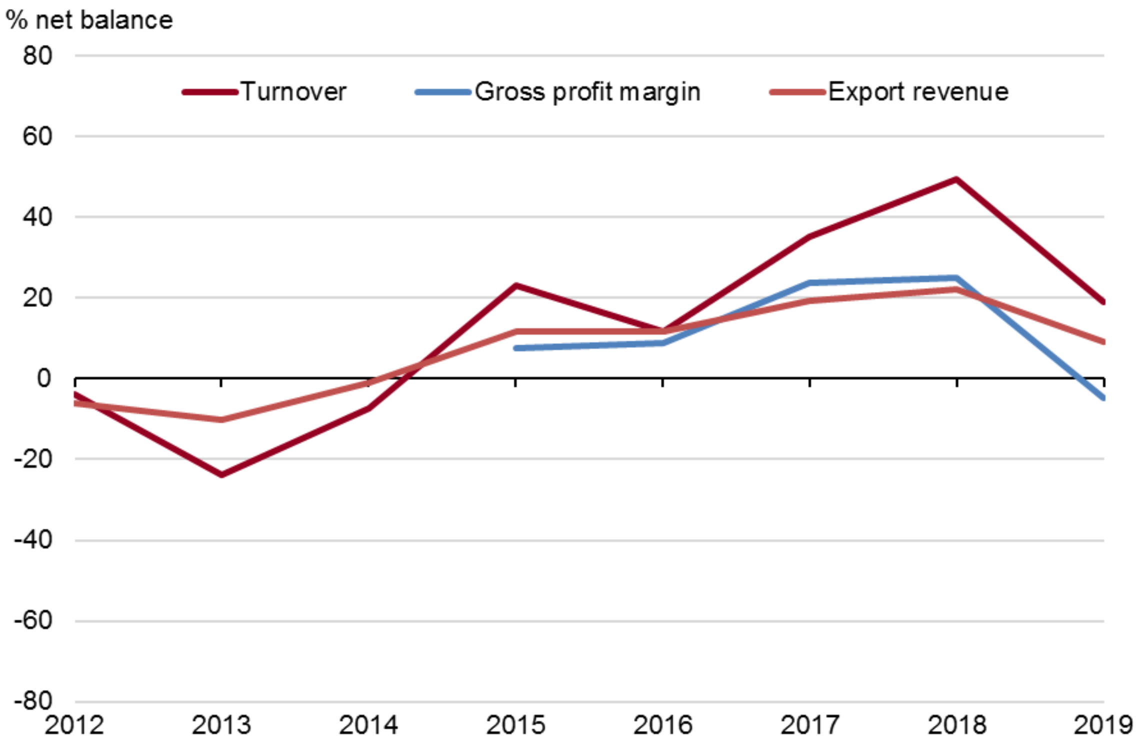


Chart 1.4 Business performance indicators, 2012-2019



'Net balance' is the proportion of all survey respondents that reported an improvement minus the proportion that reported a deterioration in each indicator. Aggregate results include respondents from all surveyed industries and are weighted by ABS estimates of output from each industry.

1.2 Business Investment Indicators in 2019

This year's CEO survey of business prospects included four indicators of business investment in 2019:

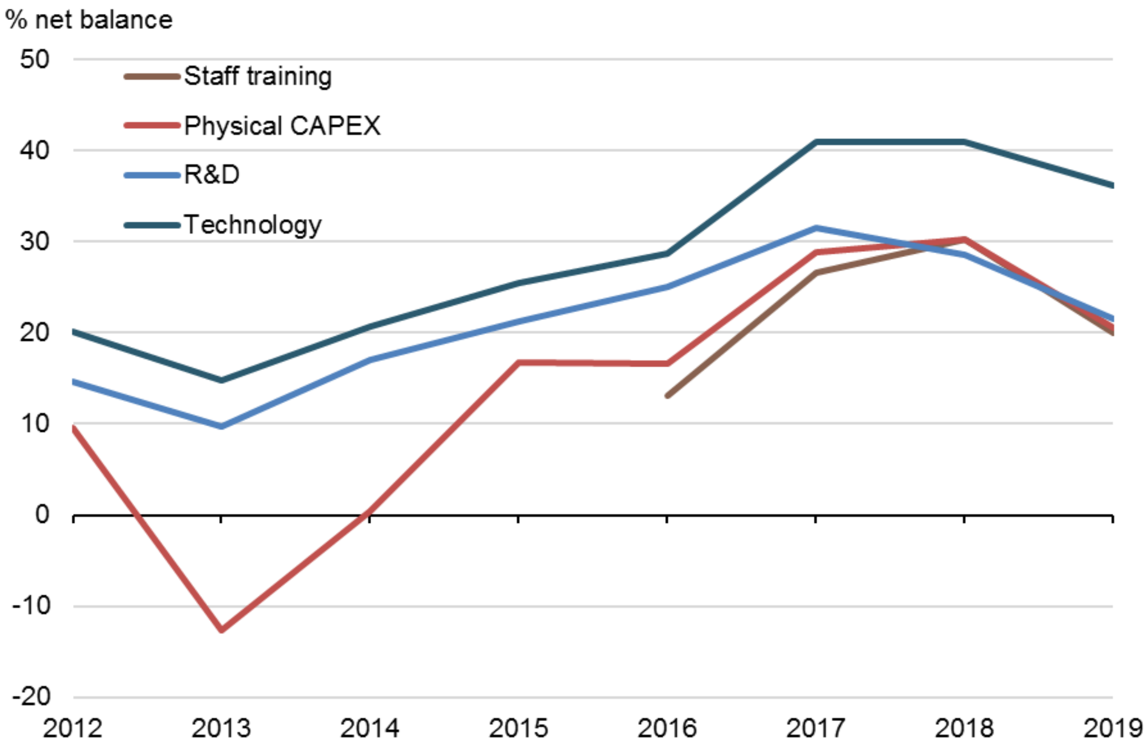
1. **Staff training expenditure** increased in 30% of businesses, declined in 10% and remained the same for 59% of businesses in 2019, giving a 'net balance' of +20%. For those who increased their spending on staff training, the average size of the increase was 63% in 2019. For those cutting their spending on staff training, the average size of the decrease was 36% in 2019.

2. **Physical capital expenditure (CAPEX)** on buildings, plant and equipment increased in 33% of businesses, declined in 12% and remained the same for 55% of businesses in 2019, giving a 'net balance' of +21%. For those who increased their spending on CAPEX, the average size of the increase was 31% in 2019. For those cutting their spending on CAPEX, the average size of the decrease was 34% in 2019.

3. **Research and development (R&D) expenditure** increased in 29% of businesses, declined in 8% and remained the same for 63% of businesses in 2019, giving a 'net balance' of +22%. For those who increased their spending on R&D, the average size of the increase was 33% in 2019. For those cutting their spending on R&D, the average size of the decrease was 28% in 2019.

4. **New technologies expenditure** increased in 42% of businesses, declined in 6% and remained the same for 52% of businesses in 2019, giving a 'net balance' of +36%. For those who increased their spending on new technologies, the average size of the increase was 42% in 2019. For those cutting their spending on new technologies, the average size of the decrease was 32% in 2019.

Chart 1.5 Business investment indicators, 2012-2019



1.3 Business Pricing Indicators in 2019

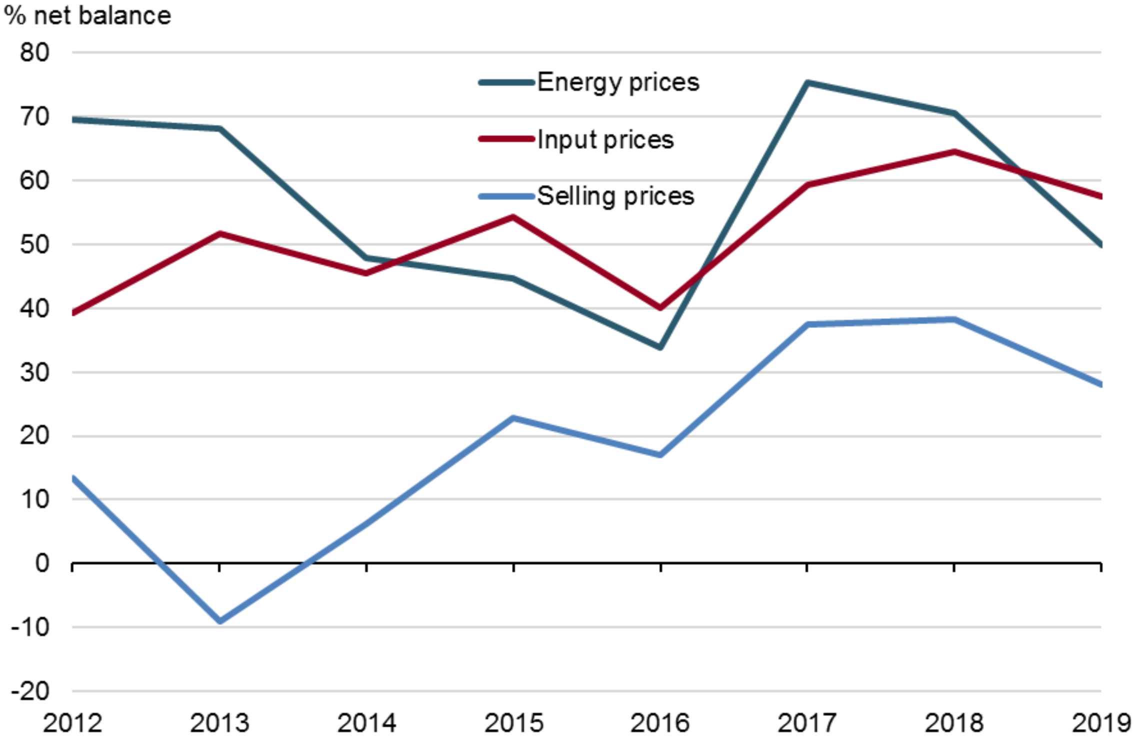
This year's CEO survey of business prospects included three indicators of business pricing in 2019:

1. **Input prices** increased in 65% of businesses, declined in 8% and remained the same for 27% of businesses in 2019, giving a 'net balance' of +57%. For those who reported that their input prices increased, the average size of the increase was 7% in 2019. For those with a decrease in input prices, the average size of the decrease was 8% in 2019.

2. **Energy prices** increased in 61% of businesses, declined in 11% and remained the same for 29% of businesses in 2019, giving a 'net balance' of +50%. For those who reported that their energy input prices increased, the average size of the increase was 15% in 2019. For those with a decrease in input prices, the average size of the decrease was 12% in 2019.

3. **Selling prices** increased in 40% of businesses, declined in 12% and remained the same for 47% of businesses in 2019, giving a 'net balance' of +28%. For those who increased their selling prices, the average size of the increase was 5% in 2019. For those with a decrease in selling prices, the average size of the decrease was 4% in 2019.

Chart 1.6 Business pricing indicators, 2012-2019



'Net balance' is the proportion of all survey respondents that reported an improvement minus the proportion that reported a deterioration in each indicator. Aggregate results include respondents from all surveyed industries and are weighted by ABS estimates of output from each industry.

2. MANUFACTURING AND THE AUSTRALIAN DOLLAR

As at mid-March 2020, the Australian dollar (AUD) had fallen to 17-year lows. Currently, it is trading in the US 0.55-0.60 cents range as investors flock to the safety of United States Treasury bonds – pulling the United States dollar higher.

Prior to the mining boom, the Australian dollar was largely driven by interest rate differentials between Australia and the United States; that is, the difference between United States interest rates and Australian interest rates (it still is to some degree). Since 2008 however, the Australian dollar has increasingly been moving in tandem with commodity prices, as the Australian mining sector entered the production and export phase of the mining boom. Since the start of 2018 there has been separation between the Australian dollar and commodity prices. This was because the Australian cash rate set by the Reserve Bank was much lower than the US Federal Reserve rate. The result was that the Australian dollar was being pulled up by higher commodity prices (see Chart 2.1) and pushed lower by low interest rates in Australia relative to the United States (see Chart 2.2).

Export earnings for Australian manufactured goods were worth $127.3bn in the year to December 2019 (26% of total annual export earnings), according to ABS data. The trade weighted index (TWI) – the Australian dollar weighted against trading partner currencies – has fallen since 2017. A lower TWI tends to support manufacturing exports. Since 2018 however, the Australian PMI® exports index has fallen despite a lower TWI, indicating that other factors are probably influencing manufacturers' export growth (see Chart 2.3). In February 2020, respondents said freight and travel restrictions due to COVID-19 were disrupting their exports of manufactured goods into China, particularly for consumables.

Chart 2.1 AUD and the RBA/Fed cash rate differential

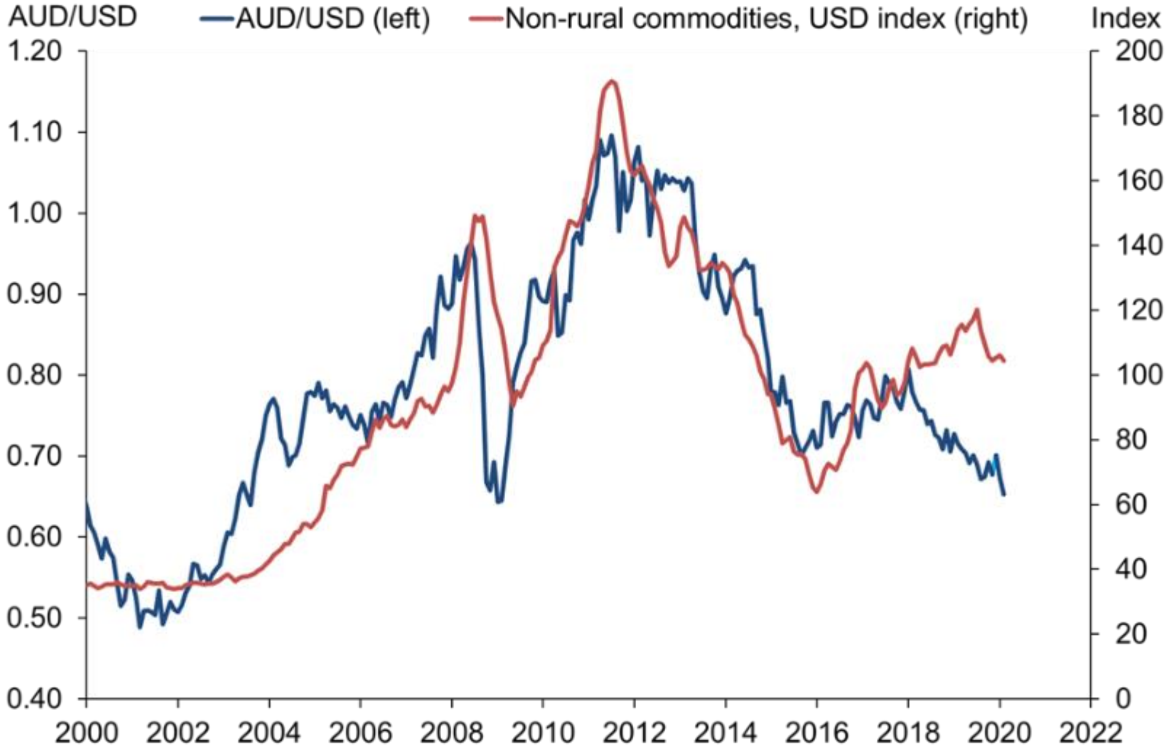
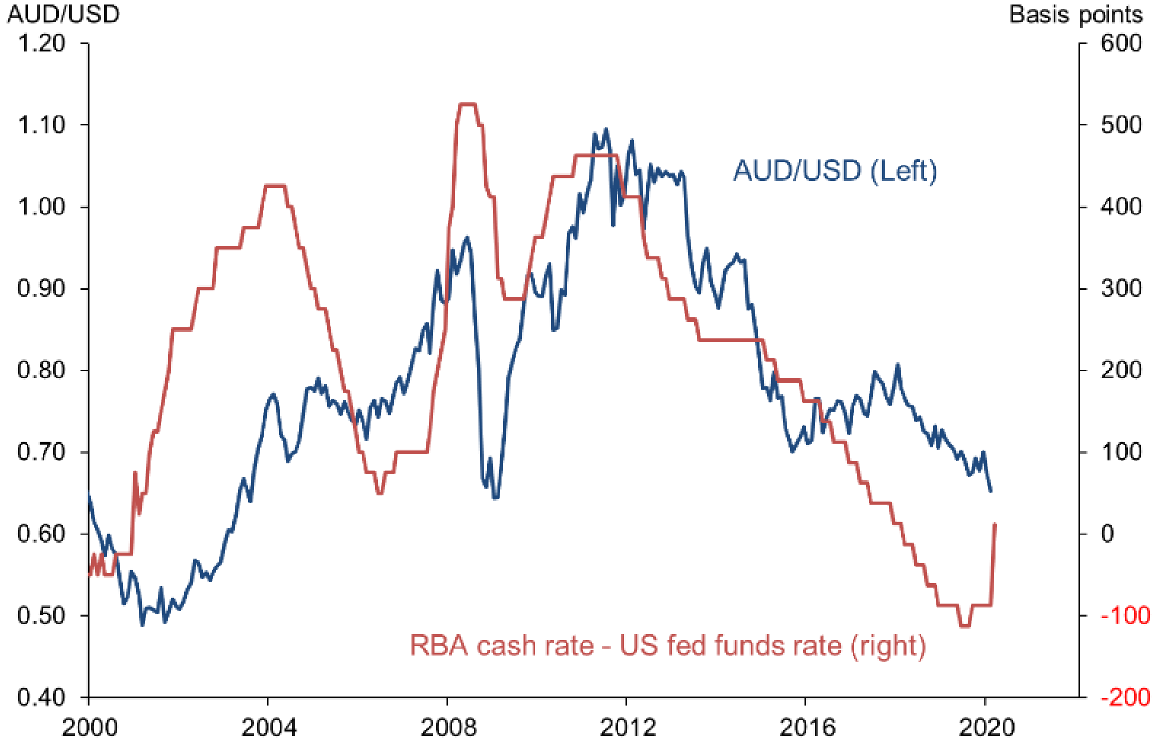
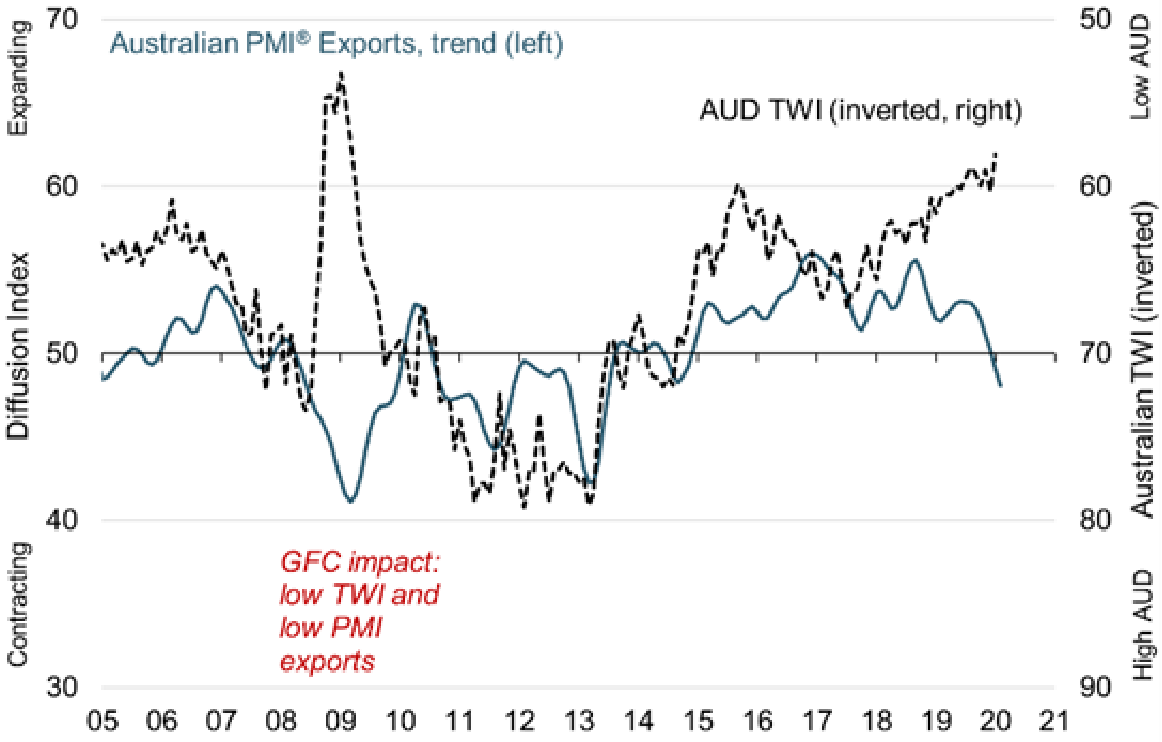


Chart 2.2: AUD and non-rural commodity price index



Sources: RBA

Chart 2.3 Ai Group Australian PMI® export index and AUD TWI



Sources: Ai Group and RBA

While there is no 'ideal' exchange rate that will benefit all Australian manufacturers, Ai Group survey data suggests that manufacturers selling their products into overseas markets (exports) generally prefer a lower exchange rate, with 75% of manufacturers reporting that they are competitive in global export markets up to US 80 cents, as of 2020 (see Table 2.1). In most cases, manufacturing exporters are also importing, and so the dollar is genuinely a double-edged sword. Regarding their ability to compete against imported manufacturing goods in the Australian market, around 60% of manufacturers said they would be competitive up to USD/AUD trading range of 0.71-80 cents.

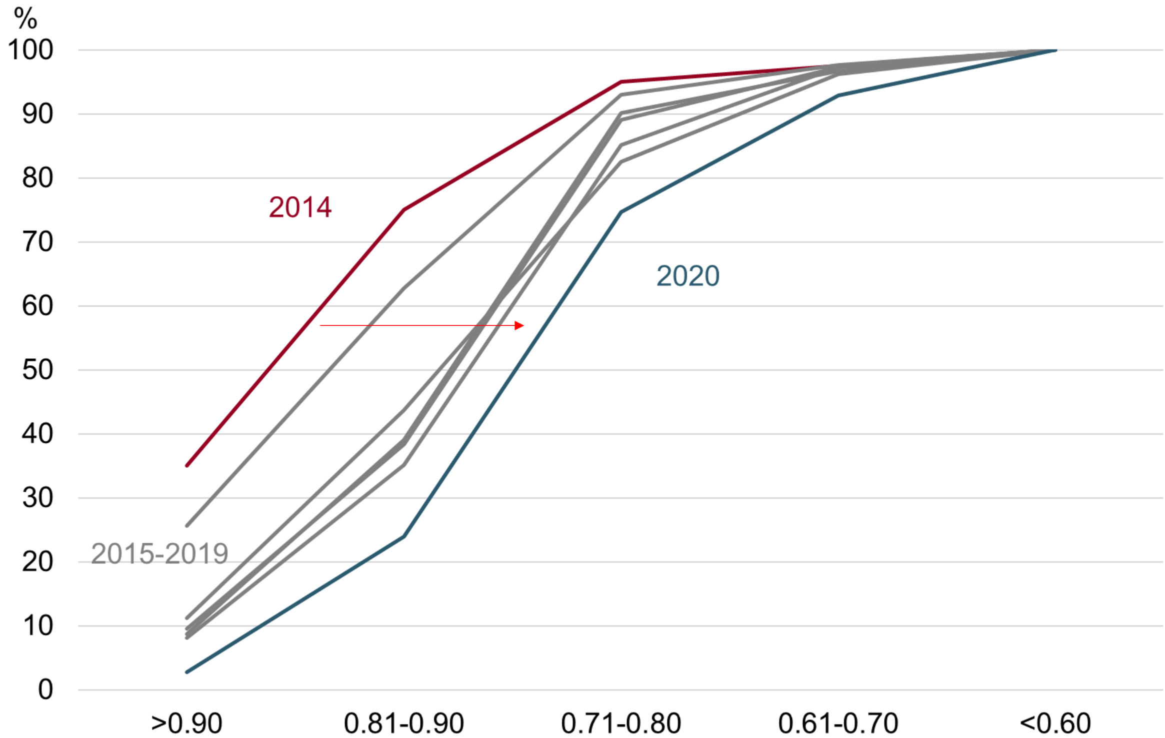
Table 2.1 Manufacturing competitive exchange rates in 2020

Level AUD/USD	Competitive in export markets	Competitive with imports in Australia
<0.60	100.0	100.0
0.61-0.70	93.0	89.7
0.71-0.80	74.6	60.3
0.81-0.90	23.9	12.8
0.91+	2.8	1.3

Note: Cumulative per cent of respondents. E.g. 100% of respondents were competitive with an exchange rate under US 60 cents and 23.9% of respondents were competitive with an exchange rate down to US 81 cents. Source: Ai Group

The exchange rates at which manufacturers report themselves to be competitive appears to have lowered in the past five years (see Chart 2.4). In 2014, three quarters of manufacturers felt competitive in export markets in the trading range of US 0.81-0.90 cents, compared to less than a quarter in this range in 2020.

Chart 2.4 AUD/USD range where exports are competitive, cumulative per cent, 2014 to 2020



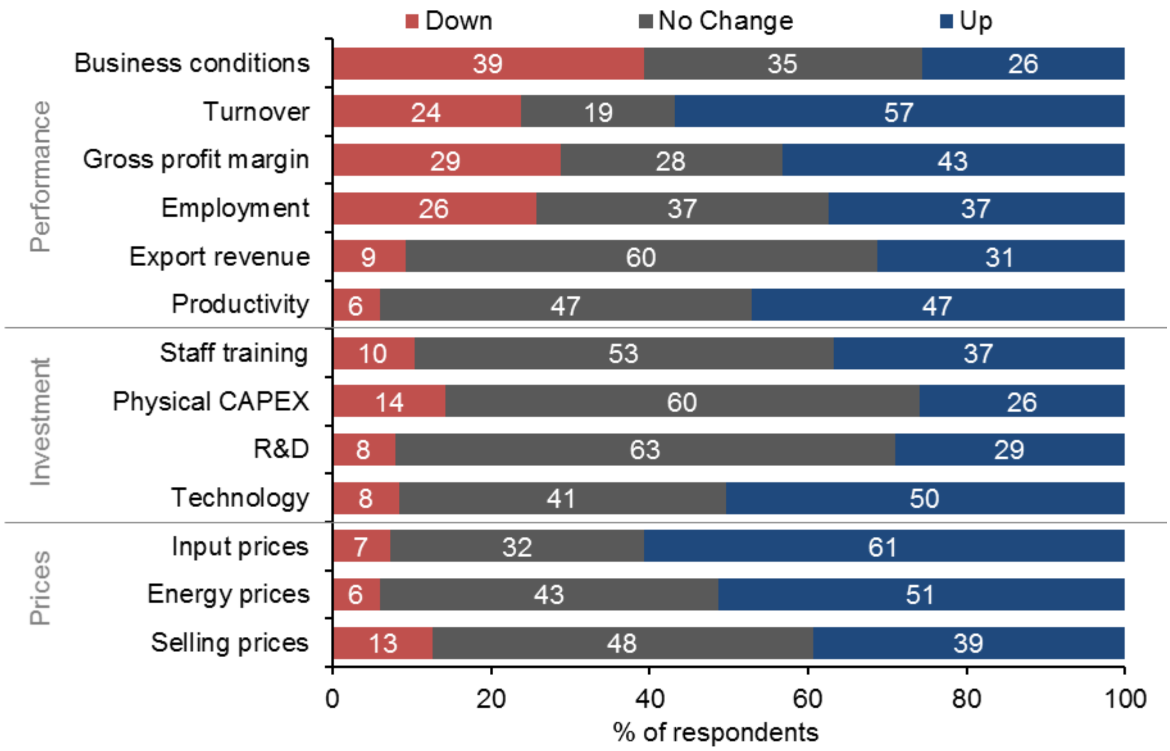
Note: Cumulative per cent of respondents. E.g. 100% of respondents were competitive with an exchange rate under US 60 cents and 23.9% of respondents were competitive with an exchange rate down to US 81 cents. Source: Ai Group

3. EXPECTATIONS IN 2020

Ai Group's annual Business Prospects survey indicates that even before the COVID-19 pandemic, Australian manufacturing CEOs were less optimistic heading into 2020 than for any year since 2015. This abrupt shift in mood echoes a disappointing end to 2019 for many businesses, with the Ai Group Australian PMI® ending the decade with two consecutive months of contraction (in November and December 2020), for the first time since mid-2015.

In short, Australian manufacturers were expecting a weak start to the new decade. 35% of manufacturers expected no material change in their business conditions in 2020 and 39% expected a deterioration. Only 26% of manufacturers expected conditions to improve through 2020. This was the highest proportion of manufacturers giving a negative assessment since 2015. Despite the difficult trading conditions that were expected, the majority (57%) expected their turnover to increase and a significant portion (43%) expected an improvement in their profit margins. Most manufacturers were also expecting that they would either keep the employment levels the same or increase them in 2020.

Chart 3.1 Business expectations for 2020*: performance, investment and prices



** Aggregate results for all surveyed industries, weighted by ABS estimates of output from each industry.*

3.1 Business performance expectations in 2020

This year's CEO survey of business prospects included six indicators of business performance expectations for 2020:

1. **General business conditions** are expected to improve for 26% of businesses, deteriorate for 39% and remain the same for 35% of businesses in 2020, giving a 'net balance' of -14% (that is, the proportion of businesses expecting an improvement less those expecting a deterioration). This is the lowest 'net balance' for this indicator since 2015.

2. **Business turnover** (nominal sales revenue) is expected to improve for 57% of businesses, deteriorate for 24% and remain the same for 19% of businesses in 2020, giving a 'net balance' of +33%. This is the lowest 'net balance' for this indicator since 2016.

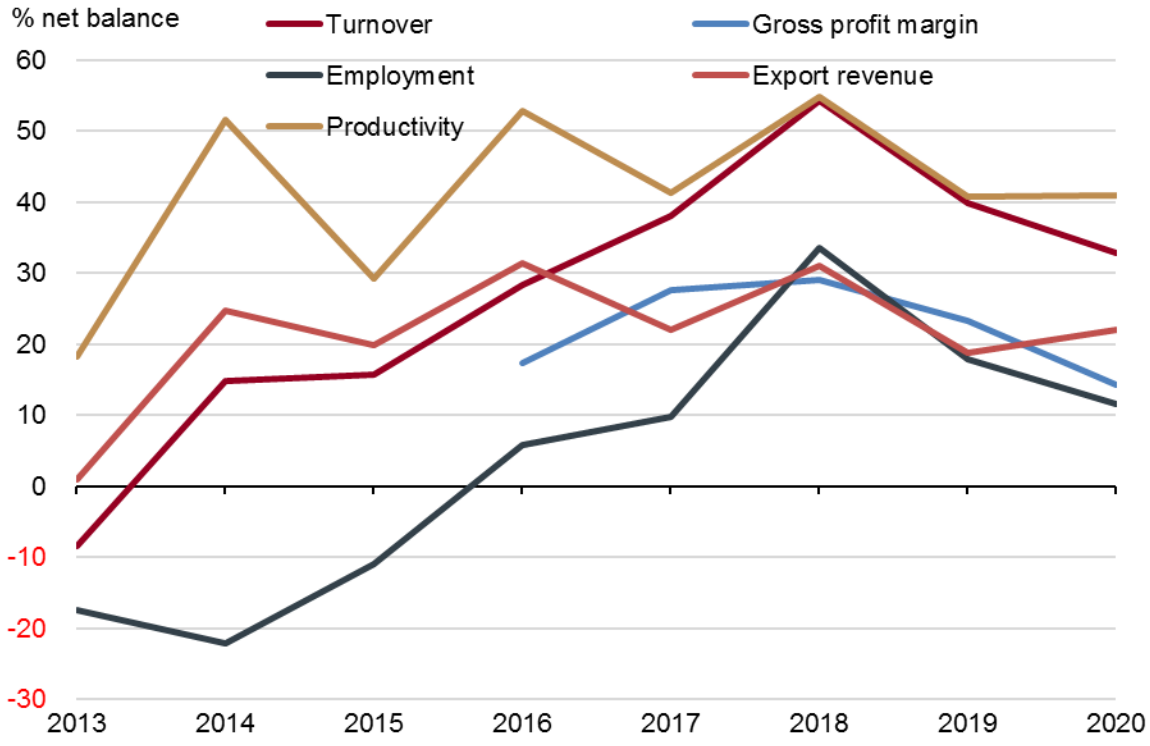
3. **Gross profit margins** have a less positive outlook than nominal turnover - they are expected to improve for 43% of businesses, deteriorate for 29% and remain the same for 28% of businesses in 2020, giving a 'net balance' of +14%. This is the lowest 'net balance' for this indicator since at least 2016, when this data series commenced.

4. **Employment** is expected to increase in 46% of businesses, decrease in 17% and remain the same for 38% of businesses in 2020, giving a 'net balance' of +12%. This 'net balance' score is down on employment expectations in 2018 and 2019 but is higher than any year from 2013 to 2018. Despite the number of filled jobs falling in the first half of the decade, the number of filled jobs has recovered since hitting a low of 850,300 in March 2017 to 921,200 at the end of 2019.

5. **Export revenue** is expected to increase in 31% of businesses, decrease in 9% and remain the same for 60% of businesses in 2020 (but including many industries that do not export directly), giving a 'net balance' of 22%.

6. **Productivity** is expected to improve for 47% of businesses, deteriorate for 6% and remain the same for 47% of businesses in 2020, giving a 'net balance' of +41%.

Chart 3.2 Indicators of expected business performance*, 2013-2020



** 'Net balance' is the proportion of all survey respondents that improved minus the proportion that deteriorated. Aggregate results include respondents from all surveyed industries and are weighted by ABS estimates of output from each industry.*

3.2 Business investment expectations in 2020

This year's CEO survey of business prospects included four indicators of business investment expectations for 2020:

1. **Staff training expenditure** is expected to increase in 37% of businesses, decrease in 10% and

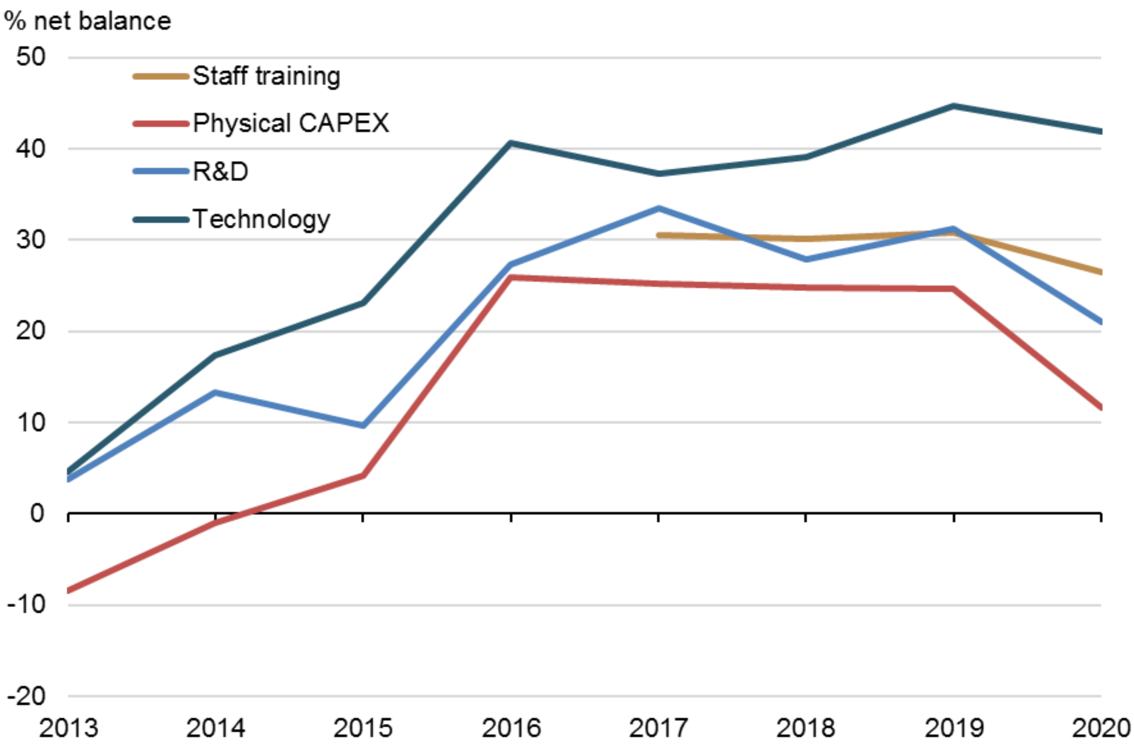
remain the same in 53% of businesses in 2020, giving a ‘net balance’ of +26%. This is the lowest ‘net balance’ for this indicator since this data series commenced in 2017.

2. **Physical capital expenditure (CAPEX)** on buildings, plant and equipment is expected to increase in 26% of businesses, decrease in 14% and remain the same in 60% of businesses in 2020, giving a ‘net balance’ of +12%. This is the lowest ‘net balance’ for this indicator since 2015.

3. **Research and development (R&D) expenditure** is expected to increase in 29% of businesses, decrease in 8% and remain the same in 63% of businesses in 2020 (including businesses that do not currently undertake any R&D), giving a ‘net balance’ of +21%. This is the lowest ‘net balance’ for this indicator since 2015.

4. **New technologies expenditure** is expected to increase in 50% of businesses, decrease in 8% and remain the same in 41% of businesses in 2020, giving a ‘net balance’ of +42%. The net balance is slightly lower than in 2019 but remains at higher levels than other forms of investment.

Chart 3.3 Indicators of expected business investment*, 2013-2020



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3.3 Business pricing expectations in 2020

This year’s CEO survey of business prospects included three indicators of business pricing expectations for 2020:

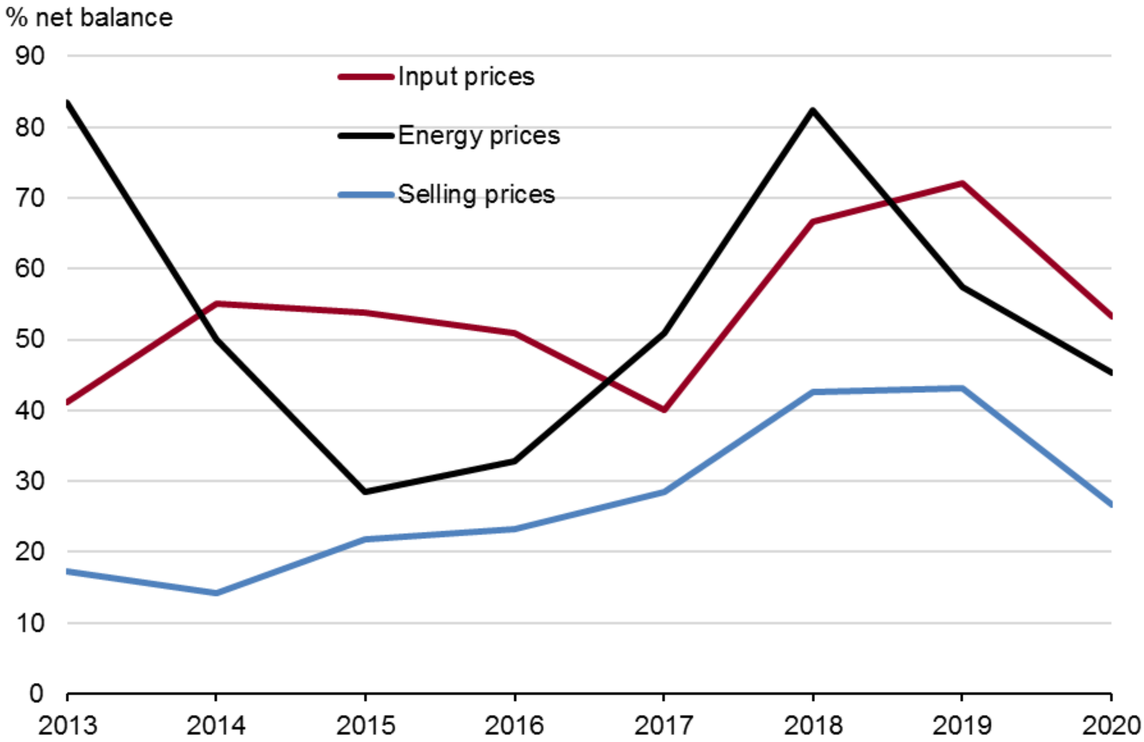
1. **Input prices** are expected to increase for 61% of businesses, decrease for 7% and remain the same in 32% of businesses in 2020, giving a ‘net balance’ of +53%. This is the lowest ‘net balance’ score since 2017. This relative easing of input price rises is welcome, given that manufacturing profit margins have been squeezed over many years by high input costs, especially energy costs.

2. **Energy prices** are expected to increase further in 2020 for 51% of businesses, decrease for 6% and remain the same in 43% of businesses in 2020, giving a ‘net balance’ of +45%. This is the

lowest 'net balance' score since 2016 when wholesale gas and electricity prices began to spike. However, the majority of businesses are still expecting further price increases for their inputs in 2020.

3. **Selling prices** are expected to be raised by 39% of businesses, decrease for 13% and remain the same in 48% of businesses in 2020, giving a 'net balance' of +27%. This is the lowest 'net balance' score since 2016.

Chart 3.4 Indicators of expected business pricing*, 2013-2020



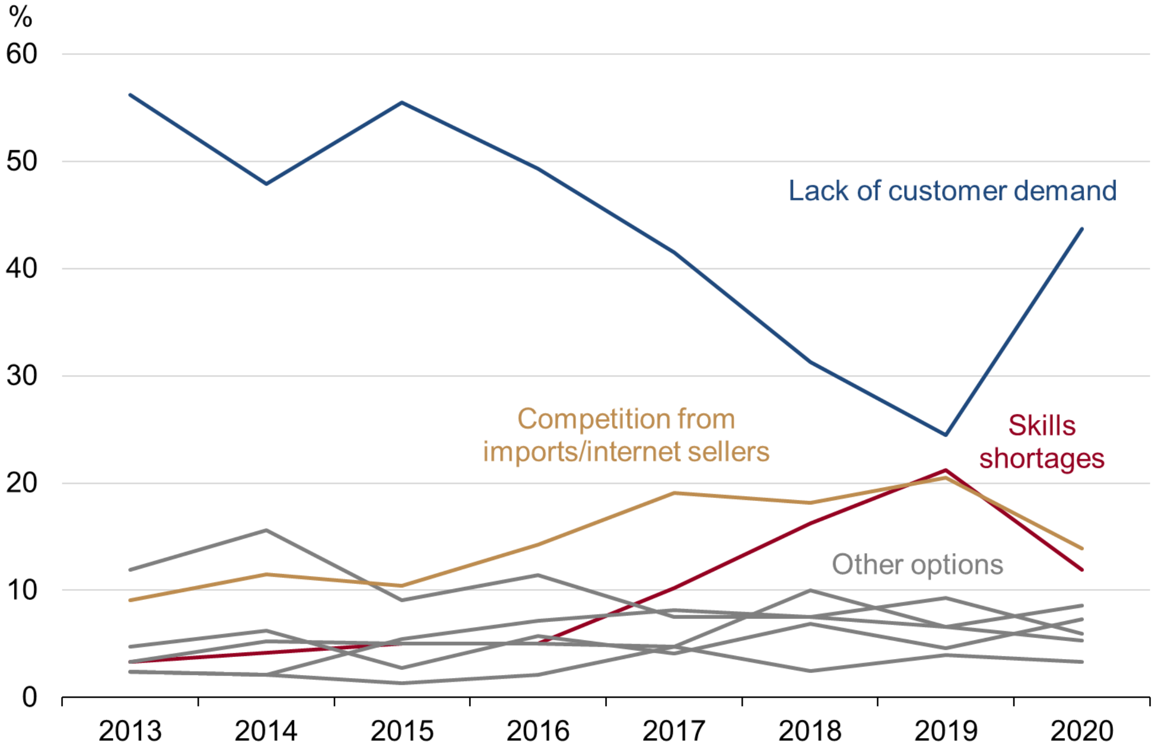
** 'Net balance' is the proportion of all survey respondents that improved minus the proportion that deteriorated. Aggregate results include respondents from all surveyed industries and are weighted by ABS estimates of output from each industry.*

4. BUSINESS INHIBITORS, PLANS AND STRATEGIES IN 2020

4.1 Expected inhibitors to manufacturing growth

Respondents ranked a 'lack of customer demand' as their greatest constraint to growth, with 44% of manufacturing CEOs identifying it as their most significant factor. Respondents ranking a 'lack of customer demand' as their number one inhibitor has fallen from 2015 to 2019 but rebounded in 2020. The next greatest inhibitor to growth was 'competition from imports/internet sellers' with 14% of manufacturing CEOs ranking it as their highest expected inhibitor in 2020. Skill shortages increased as a top inhibitor from 2016 to 2019 but eased back in 2020 with 12% of manufacturing CEOs ranking it as their top expected inhibitor.

Chart 4.1 Expected inhibitors to manufacturing growth*, ranked 1st inhibitor, 2013-2020

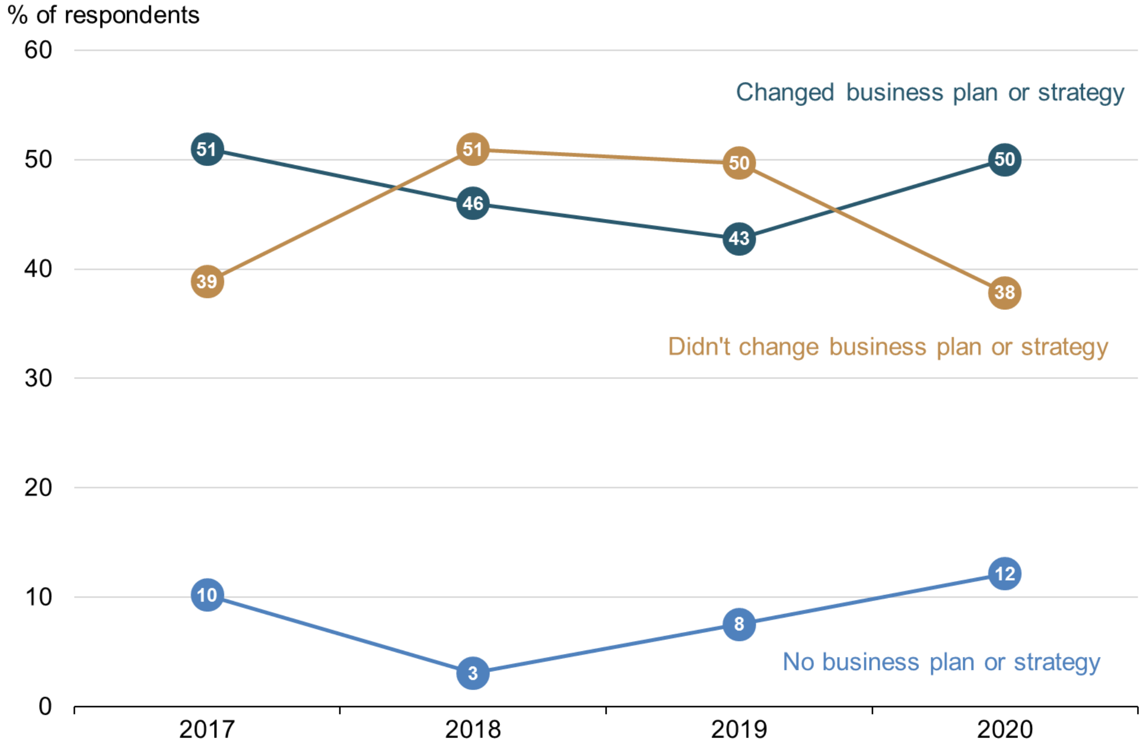


* Percentage of respondents who ranked each factor first in each year, out of a list of possible inhibitors.

4.2 Manufacturing business plans

Business plans and strategies often need adjustment in response to changing business conditions. A majority (50%) of CEOs said they had revised their 'business model, plan or strategy' at some point during the year in response to variations in the business environment (up from 43% in 2019 and 46% in 2018). 12% of CEOs said they did not have a plan or strategy in 2020, up from 8% in 2019 and up from 3% in 2018. 38% did not change their business model, plan or strategies in response to business conditions in 2019; the lowest proportion since this question has been asked in our annual survey.

Chart 4.2 Changed business plans or strategies due to changed conditions



4.3 Australian businesses plan to focus on improving sales of current products and services

This strategy was the most popular priority for 2020 with 31% of CEOs ranking it their first choice. The proportion of respondents listing this as their primary strategy has hovered around similar levels for the past five years, from 29% in 2017 to 34% in 2018 and 30% in 2019 (see chart 3.3).

In 2020, introducing new products to the market is a primary strategy for growth for 32% of manufacturers. It was the principal approach for a similar number of respondents for 2019 (30%) when it overtook 'improve sales of current products' as the top strategy for business growth. In 2020, 28% of manufacturing CEOs plan to concentrate on improving sales of current products and services to their customers. This was up from 23% in 2019 but down from 35% in 2018 when it was the top strategy. Downsizing or reducing operational costs was the top priority for 12% of manufacturers in 2020. This number has hovered around 10% since 2014. Developing new domestic markets was the next highest priority with 9%, followed by development of new overseas markets (8%) and increasing advertising/marketing (5%).

Table 4.1 Top strategies for manufacturing business growth, 2013 to 2020

Proportion of respondents (%)	2016	2017	2018	2019	2020
Introduce new products/services	39	25	32	30	32
Improve sales of current products	34	42	35	23	28
Downsize/reduce operational costs	10	9	8	12	12
Develop new domestic markets	6	10	10	7	9
Develop new overseas markets	6	7	8	11	8
Increase advertising/marketing	1	3	1	9	5
Increase online presence/capability	1	2	4	5	5
Other	1	3	3	2	2

* Percentage of respondents who ranked each factor first in each year, out of a list of possible strategies.

5. INVESTMENT & INFRASTRUCTURE FOR BUSINESS IN 2020

In this year's Ai Group CEO survey of business prospects, we asked three additional questions about business investment and infrastructure:

1. What factors will influence your business investment spending decisions in 2020?

Table 5.1 Factors that will influence business investment decisions in 2020, by industry

Proportion of respondents (%)	Manufacturing	Services	Construction & mining services	Weighted Total
Costs of funding (e.g. borrowing costs)	11	4	13	5
Expected business expansion or innovation	**31**	**35**	**28**	**34**
Expected rate of return (e.g. 'hurdle' rates)	16	18	18	18
Expected business cost reduction	11	13	15	13
Expected payback period	17	18	13	17
Access to funding (e.g. lending criteria)	11	9	10	9
Other	3	4	3	3
Total	100	100	100	100

*Percentage of respondents who ranked each factor first, out of a list of possible factors that influence business investment.

2. What are your highest priorities for your business investment spending in 2020?

Table 5.2 Investment priorities for business in 2020, by industry

Proportion of respondents (%)	Manufacturing	Services	Construction & mining services	Weighted Total
Staff training and development	20	37	24	**34**
Equipment (e.g. new machinery)	**41**	11	**27**	15
Physical capital (e.g. buildings)	10	4	16	6
Information & communication technologies	7	**39**	22	**34**
Research and development	15	6	11	7
New technologies other than ICT	4	2	0	2
Other	3	2	0	2
Total	100	100	100	100

*Percentage of respondents who ranked each category first, out of a list of possible type of business investment.

3. What type of infrastructure provision would improve your business efficiency in 2020?

Table 5.3 Infrastructure that would improve business efficiency in 2020, by industry

Proportion of respondents (%)	Manufacturing	Services	Construction & mining services	Weighted Total
Freight transport (roads, rail ports, airports)	**33**	20	**51**	24
Electricity networks or supplies	24	16	9	16
Broadband and telecoms	10	**39**	11	**34**
Employee transport (roads, public transport)	13	18	14	17
Gas networks or supplies	7	4	3	4
Waste and recycling services	3	2	6	3
Water networks or supplies	5	2	3	2
Other	3	0	3	1
Total	100	100	100	100

*Percentage of respondents who ranked each category first, out of a list of possible type of infrastructure provisions.

APPENDIX: NATIONAL CEO SURVEY BUSINESS PROSPECTS IN 2020

Responses were received from the CEOs of 252 private-sector businesses across Australia in October and November 2019. Together, these businesses employed 109,000 people (436 people in each business on average) and had an aggregate annual turnover of around $83 billion in 2019.

All Australian states and all major non-farm private-sector industries are represented in this year's CEO survey. The manufacturing sector contributed the highest proportion of respondents (62%). Manufacturing's share of this sample is higher than its share of national production (5.6%). Victoria was somewhat over-represented in the sample, relative to other states.

The data presented in the summary section of this report were weighted by industry (based on ABS estimates of their value-added contribution to GDP in 2018-19) in order to adjust for these characteristics of the sample.

The services sectors represented in this year's sample include: IT, communications and media services; transport, post and storage services; wholesale trade; retail trade; finance and insurance; real estate and property services; professional services; administrative services; health and welfare services; education; hospitality (food and accommodation services); arts and recreation services; and personal services.

CEO Survey participants: Business Prospects 2020	Manufacturing	Services	Construction & mining services	Total
Number of survey respondents	155	57	40	252
% of survey respondents	61.5	22.6	15.9	100
Value-added output, % of GDP, 2018-19 **	5.6	53.8	7.7	67.1
Industry weighting (%)	8.3	80.2	11.5	100.0

*** Industries do not sum to 100% of GDP due to the exclusion of utilities (2.5% of GDP), public administration and safety services (5.2%), agriculture (2.2%), mining other than mining services (8.1% of GDP), ownership of dwellings (8.3% of GDP, taxes less subsidies on products (6.6% of GDP) and other additional statistical items that are included in GDP.*

3. In which industry does your business mainly operate? *Please tick one box only, for your main activity*			
☐ Mining and/or mining services (e.g. exploration, mining engineering or mining processing)			
☐ Manufacturing (e.g. making food, beverages, chemicals, equipment, building materials, metals, textiles, furniture)			
☐ Construction (e.g. engineering, infrastructure, commercial, residential construction or contracting)			
☐ Services (e.g. retail, wholesale, transport, professions, real estate, IT, media, health, education, cafes, hotels)			
☐ Other industry (please specify): ____________________			
4. What was your approximate annual turnover in 2019? $ ____________			
5. How many fulltime equivalent (FTE) people did you employ in 2019? ________ FTE people			
6. By what percentage did the following factors change in your business in 2019, compared to 2018?			
Please complete one box only for each of:	Down *(write in %)*	No change *(tick if applicable)*	Up *(write in %)*
Annual turnover	______ %	☐	______ %
Gross profit margin	______ %	☐	______ %
Number of employees	______ %	☐	______ %
Spending on staff training & development	______ %	☐	______ %
Spending on physical capital (e.g. buildings)	______ %	☐	______ %
Spending on research & development	______ %	☐	______ %
Spending on new technology	______ %	☐	______ %
Export income	______ %	☐	______ %
Input prices	______ %	☐	______ %
Energy prices (inputs)	______ %	☐	______ %
Selling prices	______ %	☐	______ %
Labour productivity (output per hour worked)	______ %	☐	______ %
General business conditions in your sector	☐ Worse	☐ No change	☐ Better

7. Did you change any parts of your business model, plan or strategies in 2019 due to business conditions?

☐ Yes ☐ No ☐ we don't have a formal business model, plan or strategy

If yes, what did you change in 2019? ____________________

8. If exporting, what was the total value of exports for your business in 2019? $ ____________

9. Approximately what percentage of all your inputs (by value) were imported in 2019? ______%

10. If your business was EXPORTING in 2019 or planning to export in 2020, at what AUD/USD exchange rate do your exports become uncompetitive with products from other countries? ________US cents

11. If your business was competing with IMPORTS in the Australian market in 2019 or expecting to compete against imports in 2020, at what AUD/USD exchange rate do your products become uncompetitive with imported products from other countries? ________US cents

12. Does your business expect any difficulty in finding and/or retaining skilled labour in 2020?

☐ Yes ☐ No ☐ Don't know / Not applicable to my business

If yes, in which occupations do you expect difficulties in 2020? *Please list all occupations that apply*

____

13. Do you expect the following factors to change in your business in 2020, compared to 2019?			
Please tick one box only for each of:	Down	No change	Up
Annual turnover	☐	☐	☐
Gross profit margin	☐	☐	☐
Number of employees	☐	☐	☐
Spending on staff training & development	☐	☐	☐
Spending on physical capital (e.g. buildings)	☐	☐	☐
Spending on research & development	☐	☐	☐
Spending on new technology	☐	☐	☐
Export income	☐	☐	☐
Input prices	☐	☐	☐
Energy prices (inputs)	☐	☐	☐
Selling prices	☐	☐	☐
Labour productivity (output per hour worked)	☐	☐	☐
General business conditions in your sector	☐	☐	☐

14. What factors do you expect will inhibit your business growth in 2020?
Please rank all factors that will inhibit your business, starting with 1 as your most important inhibiting factor

Lack of customer demand _______	Government regulatory burden _______
High and/or variable exchange rate _______	Competition from imports / internet sellers _______
Flexibility of industrial relations _______	Wage pressures or high wage costs _______
Skills shortages _______	Other (please specify): ____________________________

15. What type of infrastructure provision would improve your business efficiency in 2020?
Please rank all types of infrastructure that would improve your business, starting with 1 as your most important

Freight transport (roads, rail, ports, airports) _______	Electricity networks or supplies _______
Employee transport (roads, public transport) _______	Gas networks or supplies _______
Broadband and telecoms _______	Waste and recycling services _______
Water networks and supplies	Other (please specify): ________________ _______

16. What key growth strategies do you plan to implement in your business during 2020?
Please rank all relevant strategies, starting with 1 as your most important strategy

Introduce new products/services _______	Downsize / reduce operational costs _______
Improve sales of current products/services _______	Increase online presence / capability _______
Develop new domestic markets _______	Increase advertising / marketing _______
Develop new overseas markets	Other (please specify):___________________ _______

17. What are your highest priorities for your business investment spending in 2020? *Please rank all types of investment that you are considering for 2020, starting with 1 as your most important area of investment*

Staff training and development __________	Research and development ____________
Physical capital (e.g. buildings) __________	Information and communication technologies (ICT) __________
Equipment (e.g. new machinery) __________	Other (please specify): ____________

18. What factors will influence your business investment spending decisions in 2020?
Please rank all factors that influence your investment decisions, starting with 1 as your most important factor

Cost of funding (e.g. borrowing costs) _______	Expected payback period _______
Access to funding (e.g. lending criteria)	Expected business expansion or innovation _______
Expected rate of return (e.g. 'hurdle' rates) _______	Expected business cost reduction _______

Other (please specify): ____ _______

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