AiGROUP

Australian CEO survey 2022

Australian CEO Expectations for 2022

JANUARY 2022

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 *thriving industries 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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Foreword

AustralianSuper

AustralianSuper is very pleased to be associated with Ai Group's report *Australian CEO Expectations for 2022*.

Ai Group's annual look at business leaders' views about the next twelve months has a track record of providing important insights into the challenges and opportunities they face, their expectations about the commercial environment and the future plans they have for their businesses.

Even after two very challenging years during which COVID-19 has dominated so much of our lives, it is clear that the pandemic and our responses to it will remain front of mind in 2022.

As this year's report highlights, our business leaders are certainly focused on the evolving challenges it presents as they grapple with the real-life implications of living with COVID.

It is very encouraging that despite what they see as considerable headwinds, CEOs on balance are anticipating that their businesses can increase sales, employment and investment over the course of 2022.

Such an outcome would be good news for their businesses and their shareholders (including, members of superannuation funds) and also for their employees, their families and the communities in which they live.

As a leading investor in Australia's businesses, AustralianSuper has a strong interest in the success of the Australian business sector and in its continued contribution to employment, to wealth creation, and to the returns our investments generate for the members on whose behalf we invest.

We are very happy to support this report. We expect the insights it contains to be useful for policymakers, other businesses and the broader community as they also think about, and plan for, the year ahead.

Paul Schroder
Chief Executive, AustralianSuper

Preface

After two years of dealing with the unexpected and ever-changing challenges presented by the global pandemic, on balance Australia's business leaders are cautiously hopeful that 2022 will be a year of improved business conditions, moderate growth, and further employment creation.

There is, as always, a wide range of views among CEOs about how the year ahead might pan out and 2022 is certainly not looking any easier to predict than is usually the case.

It is clear from the responses we received to our CEO survey, that business leaders are expecting their businesses to face fresh disruptions from COVID-19 in 2022. Businesses are moving to a living with COVID footing after two years during which, as a nation, we bought time by insulating and then vaccinating ourselves.

Just as there was no playbook for the initial two years, we will again be learning on the run during this new phase.

Business leaders expect further disruption from COVID-19 and they expect to face additional supply chain interruptions and challenges as well as intensifying skill shortages across a wide range of occupations. In a federal election, year they will also be dealing with policy uncertainties.

CEOs are expecting a continuation this year of the input cost pressures they experienced in 2021. As we discuss in the report, these expectations and their expectations of being able to pass some of these higher costs on to customers, puts business leaders at odds with the relatively benign inflation outlook anticipated by the official economic agencies. The inflation outlook is clearly a key area to watch over coming months.

The cautious hopefulness of business leaders comes despite the seriousness of the disruptions they anticipate will characterise 2022 and is a vote of confidence in the strategies and investment priorities they anticipate deploying.

Our report identifies that CEOs are particularly focused on five interrelated areas:

- Addressing supply chain disruptions by changes in inventory practices and supply arrangements;
- Introducing new products and services;
- Ameliorating skill shortages by investing in staff training and development;
- Continuing to introduce new technologies – with a particular focus on information and communication technologies; and,
- Raising their investments in physical capital.

Business leaders are deploying these strategies to fortify their businesses in the face of current and anticipated near-term challenges but also with an eye to the importance of laying some of the foundations for more substantial gains in over the longer-term.

As we suggest in our report, these strategies and investment priorities are critical to our success as a country in transitioning to living with COVID and they are also positive directions for our nation's successes in the longer-term. However, in view of the magnitude of the longer-term challenges – in particular, the well-entrenched deficiencies in productivity growth and business investment, it is clear that much needs to be done. In a federal election year, it is timely to point to the importance that our political leaders give these underlying challenges the attention they deserve.

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Chief Executive, Australian Industry Group

Key findings

As they look forward to 2022, Australia's business leaders are bracing to deal with further COVID-related adjustments; continuing disruptions to supply chains; ongoing skill shortages; and still-higher input price pressures. Nevertheless, in a sign of resilience and confidence that they can play their role in the national shift to living with COVID, on balance business leaders are anticipating moderately better business conditions in 2022 than in 2021.

After two years dominated by COVID outbreaks, restrictions and disruptions, 79% of CEO respondents are anticipating further disruption in 2022 from the COVID-19 pandemic. Almost half of respondents rank COVID-19 as the leading inhibitor to growth in 2022. This is despite the strong national effort over the second half of 2021 in achieving world-leading rates of vaccination and reflects a recognition of the need for ongoing vigilance and adaption and, of course, the risks presented by new COVID variants.

CEOs are also expecting further disruptions to their supply chains in 2022 – with only 17% of respondents expecting improvements to supply chain impacts relative to 2021 and a further 31% anticipating no change from the turmoil of 2021.

Skills shortages ranked as the third most commonly nominated inhibitor of business growth in 2022 with almost three quarters (73%) of business leaders anticipating difficulties in finding and retaining skilled staff over the course of 2022.

After feeling pressures from higher input prices in 2021, CEOs are anticipating still further such pressures in 2022: 79% anticipate further cost pressures and only 1% of CEOs are expecting input prices to abate in 2022.

Despite the challenges they foresee coming their way in 2022, there is a sense of measured hopefulness about the year ahead:

- Compared with their experiences in 2021, distinctly more business leaders are expecting improved business conditions in the year ahead than are anticipating an erosion of business conditions.
- The proportion of CEOs expecting an increase in their turnover (57%) is almost three times higher than the proportion anticipating a drop in their turnover (20%) in the coming year.
- The proportion of business leaders expecting to increase their workforce is over two and a half times larger than the share their expectation of employee numbers to fall in the year ahead.

The expectations of business leaders, while cautiously positive on balance, appear to fall short of the more optimistic central scenarios projected by the Reserve Bank and the Australian Treasury. For instance, the most recent update (November 2021) from the Reserve Bank anticipated very healthy GDP growth of 5.5 per cent and strong employment growth of 2.25% over calendar 2022. Similar buoyancy is evident in the Government's Mid-Year Economic and Fiscal Outlook.

To be fair, both the RBA and Treasury emphasise the considerable uncertainties bearing on the outlook and the more modest outlook of business leaders presented in this report fit well within the range of outcomes entertained by central agencies.

There appears to be a much larger divergence between business leaders' inflation expectations and those of the official agencies. On the basis of their responses reported below, CEOs have firm expectations about further input price pressures and about their selling prices over the year ahead. In contrast, the RBA is expecting the Consumer Price Index (CPI) to moderate to an annual rate of 2.25% in 2022 from its expected rate of 3.25% in calendar 2021.

With inflation outcomes and inflationary expectations key factors in the ability of the authorities to maintain accommodative monetary policy settings, this is a critical point of difference and will be keenly watched over coming months.

In the face of the headwinds of COVID-related disruptions; supply chain instability; skill shortages; and cost pressures, business leaders identified several strategies and investment priorities they are planning to deploy in 2022:

- To address supply chain pressures, CEOs are planning to build up inventories: renegotiate existing supply contracts; find alternative external suppliers and, to a much lesser extent, bring supply in-house.

- CEOs nominated several strategies focusing on raising turnover with the leading strategies being introducing new products and services; and improving sales of existing goods and services, developing new domestic markets and intensifying marketing efforts – including by improving their online capabilities.

- Leading CEOs' investment priorities are staff development and training; investments in new technologies - particularly information and communication technologies; and making new capital investments.

These strategies and investment priorities are critical to getting the economy back on track and to ensuring a successful transition to a living with COVID approach for Australian business. However, while the direction is positive, on their own they do not appear likely to make serious inroads into the productivity growth and business capital investment deficits that have characterised much of the past decade. Addressing these deficits will be central to improved business competitiveness and to the long-awaited resumption of real incomes growth over coming years.

1. Business experiences in 2021

1.1 The COVID-19 backdrop

2021 was a year of contrasts marked most fundamentally by the volatile course of the COVID-19 pandemic and the associated responses.

Looking back from today's vantage point, in relative terms Australia enjoyed a COVID-free period from October 2020 until well into June 2021. There were several clusters particularly in the larger cities, but the suppression strategy was effective with national daily case numbers kept well below 50 over this period. The more contagious delta strain changed all that and by mid-July Australia was well into its third wave. This wave was largely contained to the south-east corner of the country and by mid-October looked to have peaked. Cases fell over the next six weeks but quickly turned up again in December with the easing of restrictions and arrival of the omicron variant.

As is well recorded, Australia got off to a slow start with vaccination against COVID-19 compared to other rich countries. By the end of June 2021, just as the third Australian wave was building, less than 6 per cent of the population was fully vaccinated. This understated progress with close to another 20 per cent of the population having received one dose as we began the new financial year. Still, even by the end of August, less than 30 per cent of the population was fully vaccinated. The acceleration continued in September and October and by the start of November, almost two thirds of the population were fully vaccinated, and with further progress over November and December, at year end Australia was towards the top of the global vaccination league table.

For most of 2021, the policy objective was described either as "suppression" or "zero community transmission" with responses associated with this strategy including barriers against the international and interstate movement of people; the use of stay-at-home orders or lockdowns; social distancing and mask-wearing requirements; and testing and tracing. For the first half of 2021, this strategy was certainly effective from a health point of view with per capita infections and COVID-related deaths both very low compared with those in other rich countries despite Australia's relatively slow vaccination rollout. The rapid increase in cases from late June saw a scale up of the suppression strategy and a much greater commitment to vaccination both by governments and the community.

These factors also changed the costs and benefits of the goal of zero community transmission. On the cost side, lockdowns and border closures needed to be more severe and of longer duration to suppress transmission of the delta strain. And, with high rates of vaccination reducing infections and severe health impacts, there were less additional health benefits offered by lockdowns and border closures. Towards the end of 2021, the commitment to zero community transmissions had given way to a much heavier reliance on vaccination with support from containment measures.

1.2 The Australian economy in 2021

With low COVID cases; relatively free of internal restrictions; and with ongoing monetary stimulus and ongoing direct financial support for businesses and households, the opening months of 2021 built on the very strong economic rebound experienced over the second half of 2020. The March quarter of 2021 saw a further 1.8 per cent added to GDP and continued jobs growth so that by the end of March, Australia had recovered pre-pandemic levels of output and employment.

In keeping with the recovery, the extent of direct support of businesses and households was wound back although the economy continued to benefit from a range of stimulus measures including income tax cuts and incentives for business investment. Over the closing months of the 2020-21 financial year, output continued to grow although at a slower pace than in the preceding quarters (GDP was up 0.7 per cent in the June quarter). Measured in hours worked, the labour market peaked in May at a national level and was dragged down in June by a pre-delta lockdown in Victoria. At the end of the June quarter of 2021, Australia's very strong health outcomes were complemented by relatively good economic outcomes with Australia in the top quartile of developed countries in comparisons of employment and output relative to December 2019 levels.

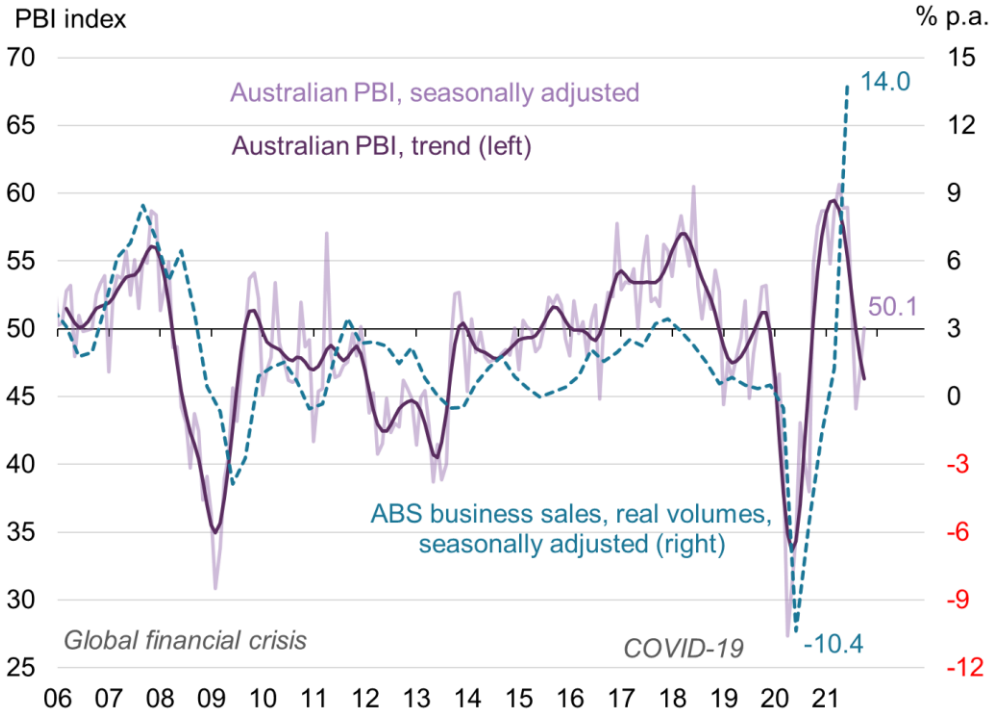
The September quarter of 2021 saw a sharp contraction in national economic activity as NSW, Victoria and the ACT put in place stringent lockdowns and the rest of the country put up the shutters to the internal movement of people. While business and individual support programs were again rolled out, national economic activity in the September quarter was 1.9 per cent lower than it had been in the previous three months. At a national level, hours worked fell by 5.7 per cent between May and the low point in August.

While the concentration of economic impact was in the south-east corner, Queensland was also negatively impacted – as measured in hours worked – both by its own activity restrictions and by the loss of activity associated with its restraints on domestic inbound travel. Other states continued to grow over the September quarter.

The recovery from the winter downturn was uneven. Hours worked continued to decline in Victoria into October. In contrast, in NSW hours worked began to pick up in September and accelerated in October and November as vaccination thresholds were crossed and activity restrictions were eased. The combination of the further lift in NSW and a rebound in Victoria (again in line with the easing of activity restrictions once vaccination thresholds were exceeded), saw a very sharp national recovery in monthly hours worked of 4.5 per cent in November. This was a more decisive recovery than had been expected and saw hours worked again exceed pre-pandemic levels and only fractionally below its highest-ever level (set in May 2021).

As shown in Chart 1.1 below, Ai Group's monthly business activity indices captured the rebound of the second half of 2020 and first half of 2021, the downturn in the following months and, with a reading of 50.1 in November, pointed to the beginnings of the recovery in the closing months of 2021.

Chart 1.1 Ai Group performance of business index* to Nov 2021 and ABS business sales, to Q3 2021**



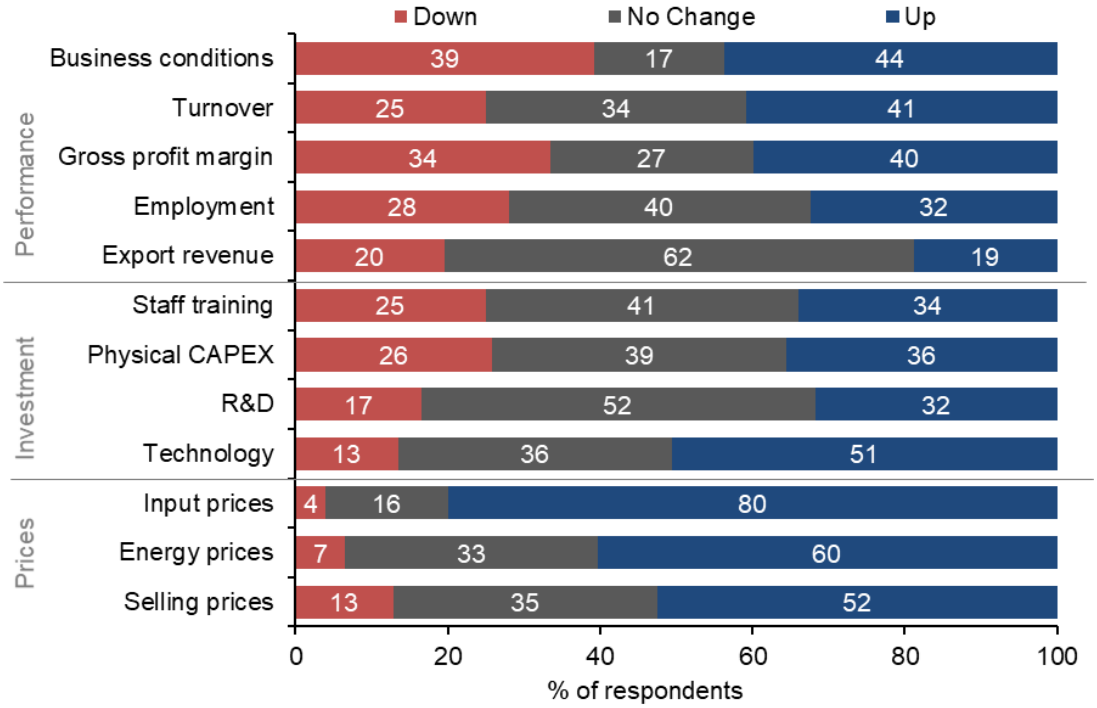
* Ai Group Performance of Business Index (PBI) is a weighted composite of Ai Group's Australian PMI, PSI and PCI surveys, which are conducted monthly. It includes businesses operating in all industries except agriculture, mining and public administration. **ABS real volume of business sales excluding mining, agriculture, health and education.
Sources: Ai Group and ABS, *Business Indicators*, Sep 2021.

1.3 Business conditions in 2021

Chart 1.2 summarises CEO responses by recording the proportions of respondents reporting increases, decreases and no change in the relevant indicator in 2021 relative to their experience in 2020.

The difference between the proportion reporting an increase and the proportion reporting a decrease (the 'net balance') indicates whether responses point overall to a higher or lower outcome for that indicator and to the extent of the change relative to 2020.

Chart 1.2 Business indicators in 2021, compared to 2020*: Performance, investment and prices



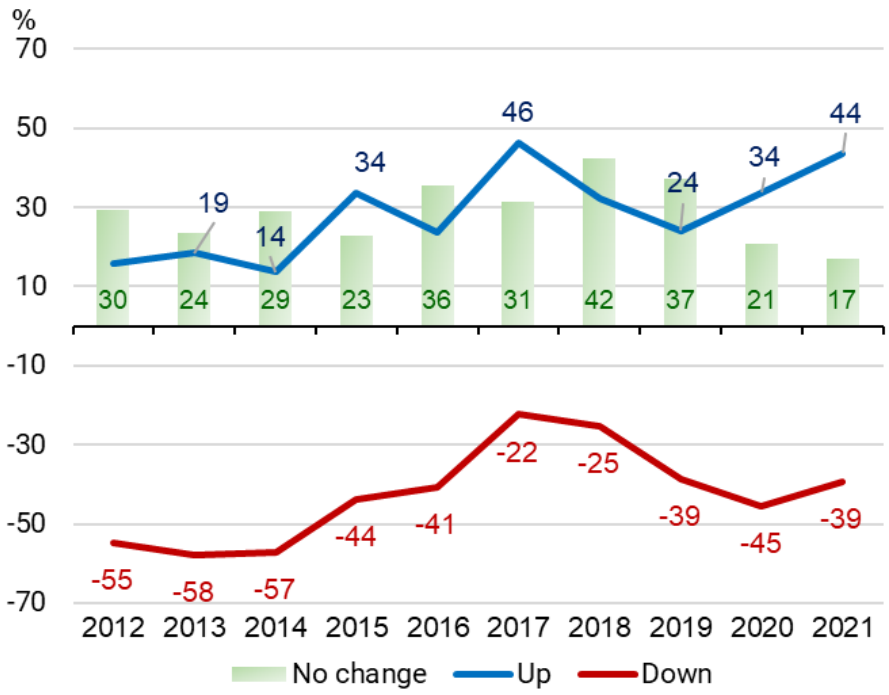
**Aggregate results for all surveyed industries, weighted by ABS estimates of output from each industry.*

1.4 Business performance indicators in 2021

This year's survey of Australian CEOs included five indicators of business performance in 2021.

General business conditions compared to 2020 improved for 44% of businesses, deteriorated for 39% and remained the same for 17% of businesses in 2021. As illustrated in Chart 1.3, the experience in 2021 was unusual compared with the experience in previous years with relatively high proportions of businesses reporting either improved or worsened conditions. This points to a polarity in experiences echoing the considerable geographical concentration of infections and COVID restrictions and the different impacts on different industrial sectors. With a higher proportion of businesses reporting improved conditions, the positive 'net balance' of 5 indicates that on balance business conditions in 2021 were assessed as an improvement on 2020 (during which the first Australian recession since the early 1990s was recorded).

Chart 1.3 General business conditions, 2012 to 2021



Business turnover (nominal sales revenue) improved for 41% of businesses, deteriorated for 25% and remained the same for 34% of businesses in 2021 compared to 2020 (see Chart 1.2) with a net balance of 16 indicating a modest improvement.

Gross profit margins improved for 40% of businesses, deteriorated for 34% with a net balance of 6 indicating overall improvement on 2020.

Employment increased in 32% of businesses, declined in 28% for a net balance of 4 in a year when labour market growth surged and then retreated sharply as the delta strain hit the populous south-east corner of the country.

Export revenue increased for 19% of businesses, declined for 20% with the net balance of –1 pointing to a mild decline in export revenue in 2021 relative to 2020.

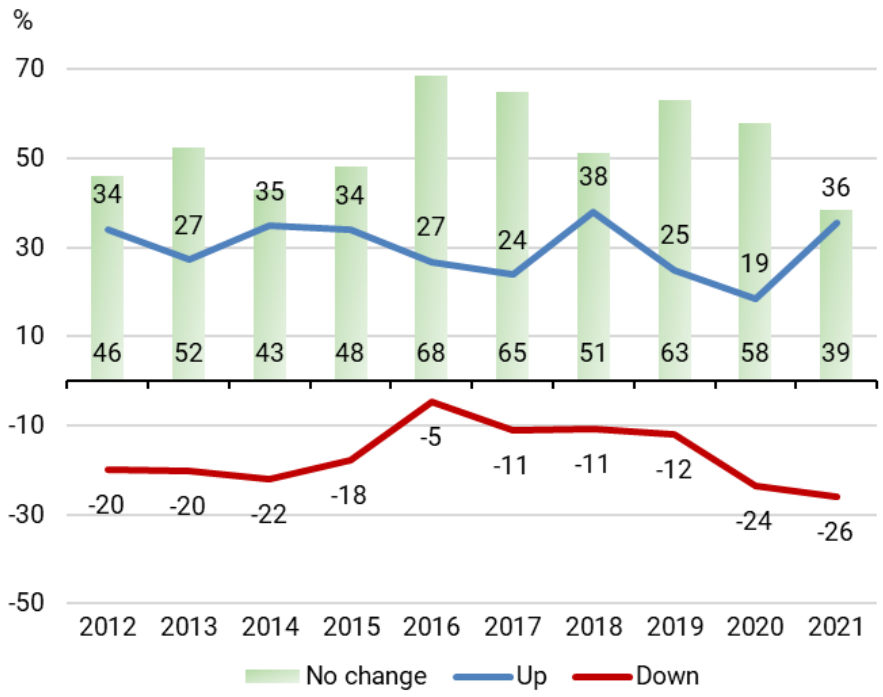
1.5 Business investment indicators in 2021

This year's survey of Australian CEOs included four indicators of business investment in 2021 as recorded in Chart 1.2 above.

Staff training expenditure increased in 34% of businesses, declined in 25% and remained the same for 41% of businesses in 2021 with a net balance of 9 pointing to a relatively modest overall increase in spending on staff training and development.

Physical capital expenditure (CAPEX) achieved a net balance of 10 with 36% of respondents reporting an increase and 26% a decrease on 2020 levels. As shown in Chart 1.4 which records responses to this question since 2012, the relatively modest net balance (compared with pre-pandemic years) in 2021 comes after 2020 which recorded the only negative net balance for CAPEX in the ten years since the start of this survey.

Chart 1.4 Capital expenditure, 2012 to 2021



Research and development (R&D) expenditure increased for 32% of businesses and declined for 17% with a net balance of 15.

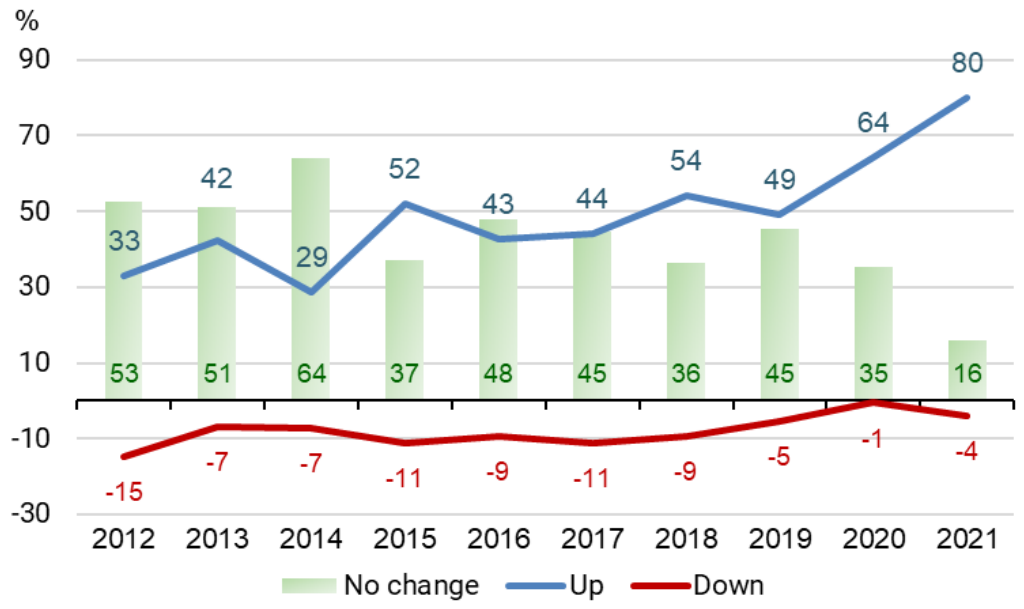
New technologies expenditure increased for 51% of businesses and declined for 13% giving a net balance of 38 for this indicator.

1.6 Business pricing indicators in 2021

This year's survey of Australian CEOs included three indicators of business pricing in 2021 as set out in Chart 1.2 above.

Input prices increased for 80% of businesses and declined for just 4% with a series high net balance of 76 (see Chart 1.5).

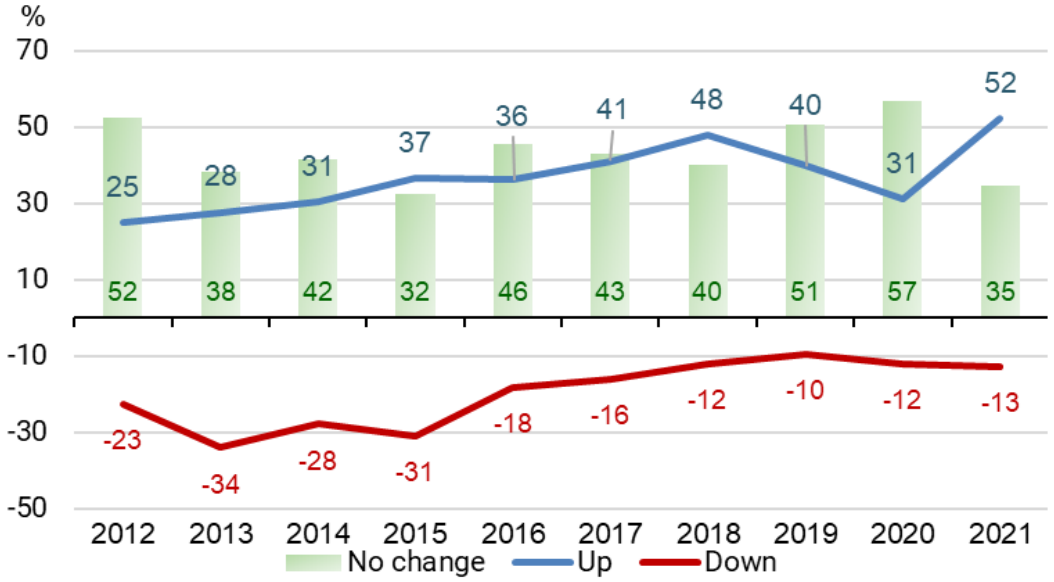
Chart 1.5 Input prices, 2012 to 2021



Energy prices increased for 60% of businesses and declined for 7% of businesses with the net balance coming in at 53.

Selling prices increased for 52% of businesses (the highest proportion in all years of the annual Ai Group CEO survey since 2012) and declined for 13% resulting in another series high net balance of 39 (see Chart 1.6). This suggests businesses had some success in recovering higher costs in the market.

Chart 1.6 Selling prices, 2012 to 2021



2. Business expectations for 2022

Ai Group's annual CEO survey reveals that while Australian CEOs are anticipating modestly improved conditions in 2022 relative to last year, their expectations remain somewhat shy of the optimism about the next couple of years as contained in the central forecasts of the Treasury and the Reserve Bank. More distinctly, there is a clear difference between the widespread expectations of cost pressures and price rises among business leaders in contrast to the more benign outlook on prices reflected in the central scenarios of the RBA and the Treasury.

The responses reveal that Australian CEOs are more hopeful about an improvement on the previous year's business prospects than they have been since 2018. This reflects the turbulent experiences of the past two years and hopes for the year ahead while still being cautious about the headwinds of COVID-related disruptions, supply chain interruptions and skills shortages.

2.1 Australia's economic outlook in 2022

After a near two-year rollercoaster ride marked by COVID outbreaks and associated restrictions; on-again and off-again emergency support; and rapid rebounds in activity, spending and employment, Australia's business leaders are more cautious than the central macroeconomic policy agencies about the outlook for the year ahead. The RBA expects Australia's real GDP growth to rebound strongly from the winter downturn and to continue at a healthy clip over 2022 before easing to a steadier pace in 2023. It anticipates a strong uptick in business investment, and household spending supported by continued investment in dwellings over calendar 2022. Only partially offsetting this is the reduced pace of growth in public sector spending. The Reserve Bank expects international trade volumes to pick up and the terms of trade to retreat over the year (see Table 2.1).

On the pricing side, the RBA's detailed forecasts suggest that headline inflation (CPI) is likely to end 2021 above the target band of 2 per cent to 3 per cent p.a. buoyed by temporary spikes while easing back towards the lower end of this range over the course of 2022. It also anticipates that wages will remain anchored at levels close to or only marginally above the pace of change in the CPI. The RBA expects employment growth to be sufficient to see the unemployment rate to continue to edge down towards 4.25 per cent over the course of 2022.

Table 2.1 RBA forecasts for the Australian economy, 2021 to 2023

% change over the year	Jun 2021 (actual)	Dec 2021 (f)	Jun 2022 (f)	Dec 2022 (f)	Jun 2023 (f)	Dec 2023 (f)
Gross domestic product (GDP)	**9.6**	**3.0**	**4.0**	**5.5**	**3.25**	**2.5**
Household consumption	15.4	2.25	4.75	6.5	3. 5	3.0
Dwelling investment	15.7	7.25	4.25	6.5	0	1.0
Business investment	6.1	6.5	6.25	10.75	7.0	5.25
Public sector expenditure	3.7	5.0	4.25	2.75	1.75	1.0
Gross national expenditure	13.9	4.0	4.25	6.25	3.0	2.5
Imports	16.8	8.5	12.0	12.75	6.5	4.5
Exports	-2.6	2.5	10.25	8.75	6.5	4.5
Real household disposable income	17.3	2.75	3.25	1.0	1.5	1.5
Terms of trade	24.0	6.25	-16.5	-12.5	-6.75	-4.25
Unemployment rate (average, %)	**5.1**	**4.75**	**4.5**	**4.25**	**4.0**	**4.0**
Employment growth	6.5	2.25	1.75	2.25	1.5	1.25
Wage price index (WPI)	**1.7**	**2.25**	**2.5**	**2.5**	**2.5**	**3.0**
Trimmed mean (core) inflation	**1.6**	**2.25**	**2.25**	**2.25**	**2.25**	**2.5**
Headline consumer price index (CPI)	3.8	3.25	2.75	2.25	2.25	2.5

(f) = RBA forecasts. Sources: ABS various data; RBA *Statement on Monetary Policy* (SoMP), Nov 2021.

Outside Australia, the OECD and the IMF confirm that global growth was healthy in 2021 and, while cautious about the degree of uncertainty over the outlook, anticipate further strong growth in 2022.

> *"The situation is extraordinary, yet our economic outlook is cautiously optimistic. It focuses on the policies needed to balance such uncertain circumstances with the unusual appearance of rising inflation pressures at an early stage of the recovery. Health, supply constraints, inflation and potential policy missteps are all key concerns.*
>
> *"Our central scenario is that the global recovery continues, with the world coping better with the pandemic and monetary and fiscal policies remaining generally supportive throughout 2022. After a rebound of 5.6% in 2021, global growth would move along at a brisk pace of 4.5% in 2022, moderating to 3.2% in 2023."*
>
> (OECD, *Economic Outlook*, Volume 2021, Issue 2, December 2021).

Inflation is a key risk to the global outlook as it could usher in a faster-than-anticipated correction to the accommodative monetary policy around the world and the withdrawal of the stimulus provided by low interest rates. Monetary authorities, while acutely conscious of the risks of too-rapidly tightening their policy settings, are watching price trends and market expectations about future price movements very closely. They do not want to frighten the horses with sudden movements but nor do they want markets to read complacency into their carefully-crafted statements. Another major risk to the cautious optimism of the OCED is the course of the pandemic. The omicron variant is a reminder - if one were needed – that living with COVID is going to be a lot different to living without it. Effective vaccination is critical, and its widespread global distribution is central to this. As the OECD put it:

> *"Our primary concern is the global polarity in caseloads, hospital capacity and vaccination rates around the world. The harshest scenario is that pockets of low vaccination end up as breeding grounds for deadlier strains of the virus, which go on to damage lives and livelihoods. Even in more benign scenarios, on-going coronavirus outbreaks may continue to restrict mobility in some regions*

and across borders, with potential long-lasting consequences for labour markets and production capacity, as well as prices."

(OECD, *Economic Outlook*, Volume 2021, Issue 2, December 2021).

It should be noted that the central scenarios put forward by both domestic authorities and international economic agencies are heavily qualified in view of the unusual sources and extent of uncertainty inherent in the current environment.

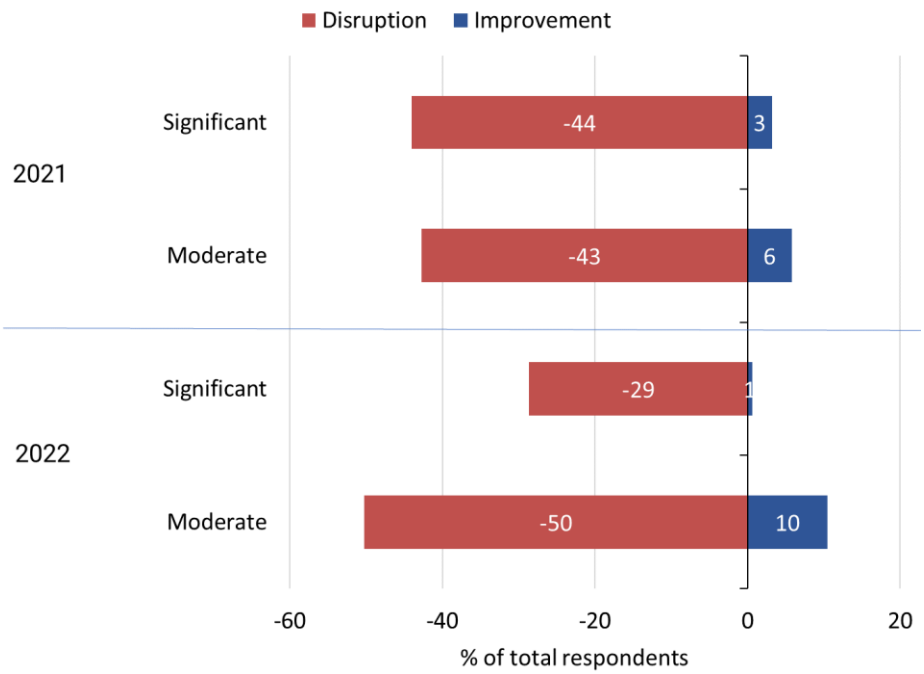
2.2 COVID-19 impact in 2021 and expected impact for 2022

Almost all Australian businesses were impacted by COVID-19 in 2021. 88% of Australian businesses faced some disruption from COVID-19 and related activity restrictions across the year - 45% reported significant disruption and 43% moderate disruption. 9% of Australian CEOs reported an improvement in the impact of COVID-19 on their business in 2021, 3% had a significant improvement and 6% a moderate improvement compared to the previous year. The balance (3%) reported no change to their business from COVID-19 in 2021(see chart 2.1).

Most Australian CEOs (79%) expect disruption from COVID-19 to continue in 2022. 29% of Australian CEOs expect significant disruption and half (50%) expect moderate disruption in the coming year. Only 11% of businesses expect an improvement from the impact of the pandemic (10% moderate improvement and 1% significant improvement). The balance of respondents (10%) expect no change in the impact of COVID-19 on their business.

While the severity of the impact of COVID-19 is expected to reduce in 2022, businesses are not overly optimistic about improvements, with only 2% more respondents expecting things to pick up in 2022 compared to 2021.

Chart 2.1 COVID-19 impact, 2021 and expected COVID-19 impact, 2022

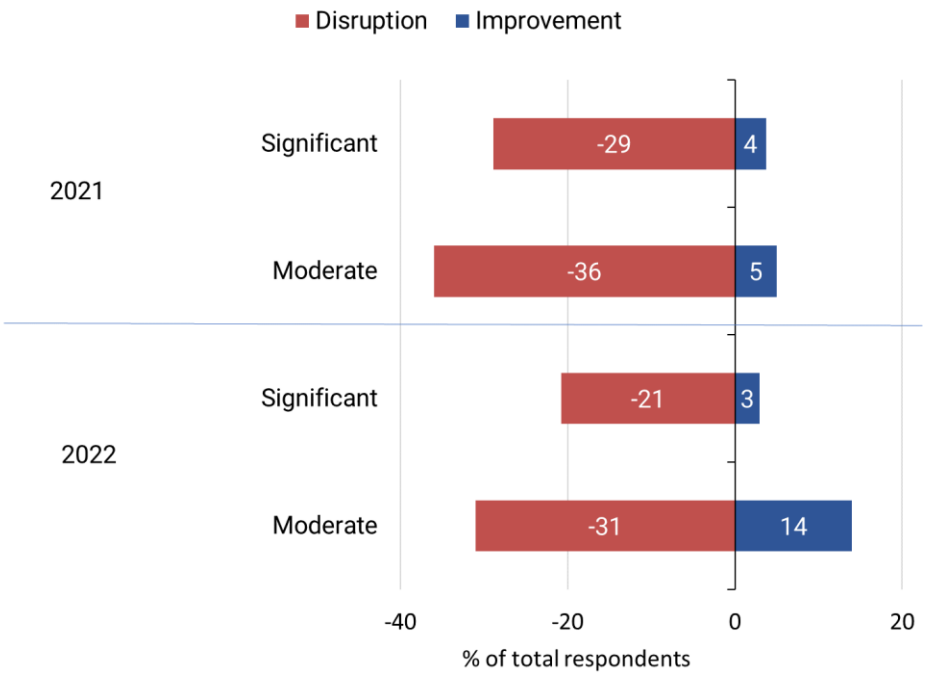


2.3 Supply chain impact in 2021 and 2022

Supply chain disruption was a major issue globally in 2021. In Australia, almost two thirds (65%) of businesses faced some disruption to their supply chain, 29% reported a significant disruption and 36% a moderate disruption (see chart 2.2).

Australian CEOs are circumspect about the supply chain situation for 2022. Just over half (52%) of businesses expect supplies to be disrupted in 2022, 21% to a significant extent and 31% to a moderate extent. 17% of businesses expect their ability to source inputs to improve, 3% significantly and 14% moderately. Just under a third (31%) of businesses expect no change to their ability to source inputs in 2022.

Chart 2.2 Supply chain impact, 2021 and expected supply chain impact, 2022



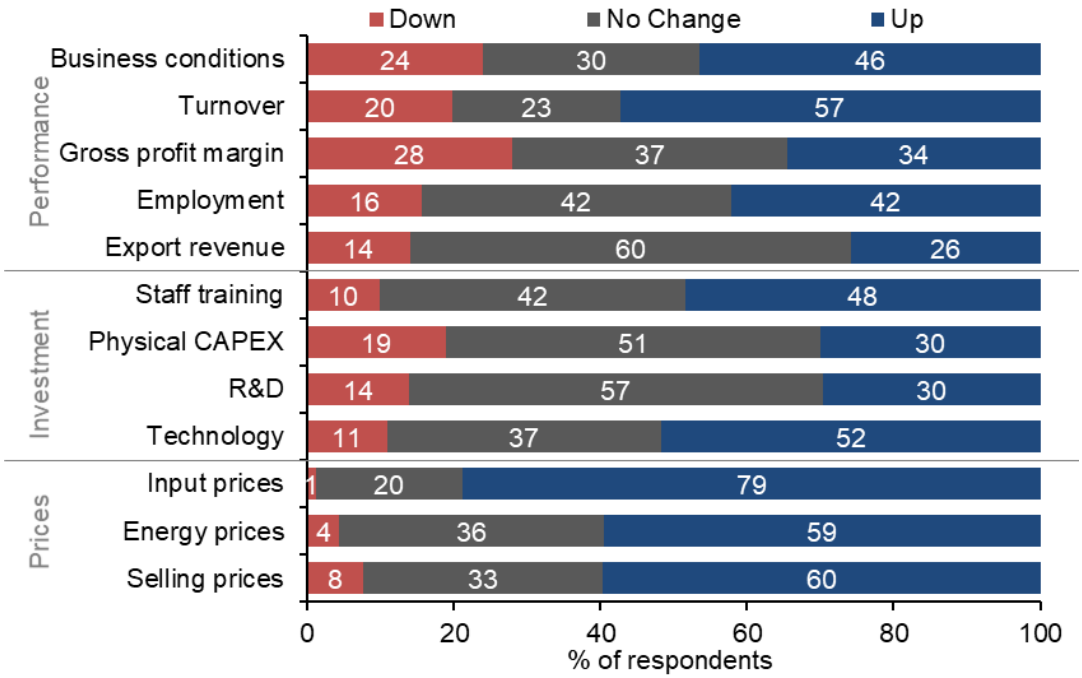
2.4 Expectations of conditions in 2022

Ai Group's latest survey of CEO's expectations for their own business prospects point to somewhat improved stronger conditions compared with the faltering and uneven experience of 2021.

Responses to questions about expected performance, investment plans and anticipations about costs and prices are summarised in Chart 2.3 which records the proportions reporting increases, decreases and no change in the relevant variable. A summary indicator – the 'net balance' reflects the difference between the proportion reporting an increase and the proportion reporting a decrease.

The Australian CEO survey series has been conducted by the Australian Industry Group since 2012. Due to the disruption from the COVID-19 global pandemic, the survey was not run in 2020, therefore we did not ask businesses about their expectations for 2021 and there are breaks in the time series that are presented for some of the indicators.

Chart 2.3 Business expectations for 2022*: performance, investment and prices



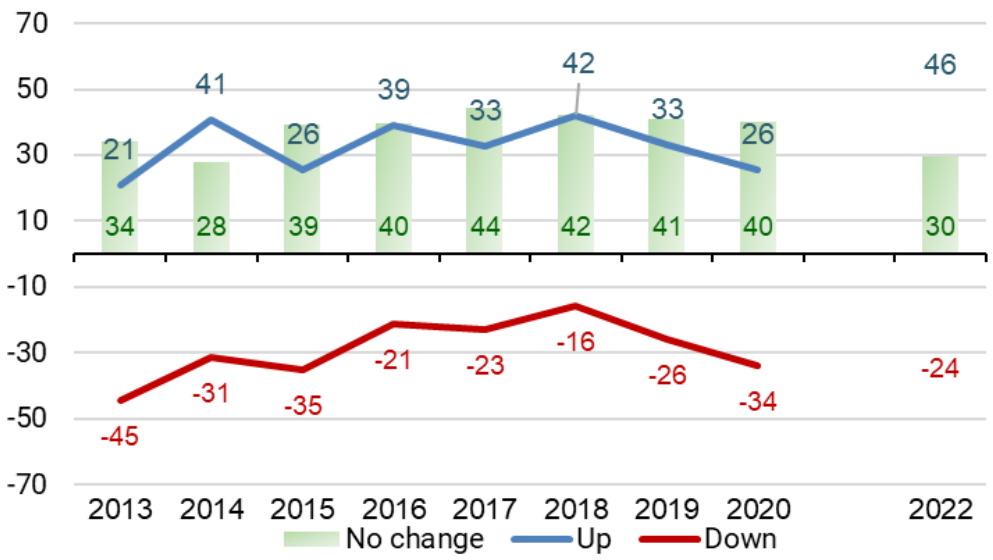
** Aggregate results for all surveyed industries, weighted by ABS estimates of output from each industry.*

2.5 Business performance expectations in 2022

This year's survey of Australian CEOs included five indicators of business performance expectations for 2022.

General business conditions are expected to improve for 46% of businesses and deteriorate for 24% of businesses. As shown in Chart 2.4, the net balance of 22 is the highest since CEOs reflected on their expectations for 2018 compared with 2017. Of course, the strength of the improvement in expected business conditions for 2022 needs to be interpreted with the turbulent and uneven nature of 2021 in mind.

Chart 2.4 Expected business conditions, 2013 – 2022



Business turnover (nominal sales revenue) is expected to improve for 57% of businesses and deteriorate for 20% giving a net balance of 37 and pointing to a general increase in nominal sales revenue in 2022.

Gross profit margins have a less positive outlook than nominal turnover - they are expected to improve for 34% of businesses and deteriorate for 28% with the net balance of 6 pointing to a very modest expectation of improved profitability in 2022.

Employment is expected to increase for 42% of businesses and decrease for 16% of businesses with the net balance of 26 suggesting a solid if unspectacular lift in employment by private sector businesses in the year ahead.

Export revenue is expected to increase for 26% of businesses and decrease for 14% with the net balance of 12 pointing to an expectation of a welcome lift in export sales.

2.6 Business investment expectations for 2022

This year's survey of Australian CEOS included four indicators of business investment expectations for 2022.

Staff training expenditure is expected to increase for 48% of businesses and decrease for 10%. The net balance of 38 is markedly higher than the net balance of 9 reported for actual spending on staff training and development in 2021 (see Chart 1.2). Changes to working arrangements, including through the use of new technologies; deferred training due to inability to deliver in 2020 and 2021; as well as upgrades of other technologies within businesses are key drivers of the expected pick-up in training expenditure for 2022.

Physical capital expenditure (CAPEX) on buildings, plant and equipment is expected to increase for 30% of businesses and decrease for 19% in 2022. As further explored in Chapter 4, this suggests a welcome, though modest, pick-up of business investment in 2022.

Research and development (R&D) expenditure is expected to increase for 30% of businesses and decrease for 14% of businesses: a net balance of 16.

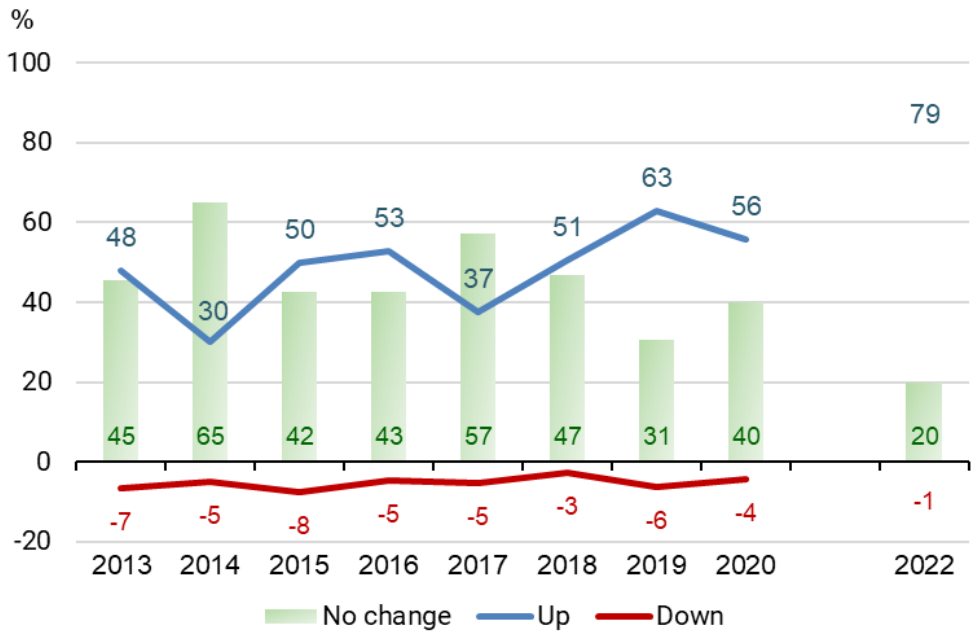
New technologies expenditure is expected to increase for 52% of businesses and decrease for 11% of businesses. This is explored further in Chapter 4 where spending on information and communication technologies is identified as a key component of this investment category.

2.7 Business pricing expectations for 2022

This year's survey of Australian CEOs included three indicators of business pricing expectations for 2022.

Input prices are expected to increase for 79% of businesses and decrease for 1% resulting in a net balance of 78. As indicated in Chart 2.5 below, expectations of input price rises in the year ahead are considerably more prevalent than they had been in any other year in this series. The net balance of 78 is 80% greater than the average net balance over the 2013-2020 period.

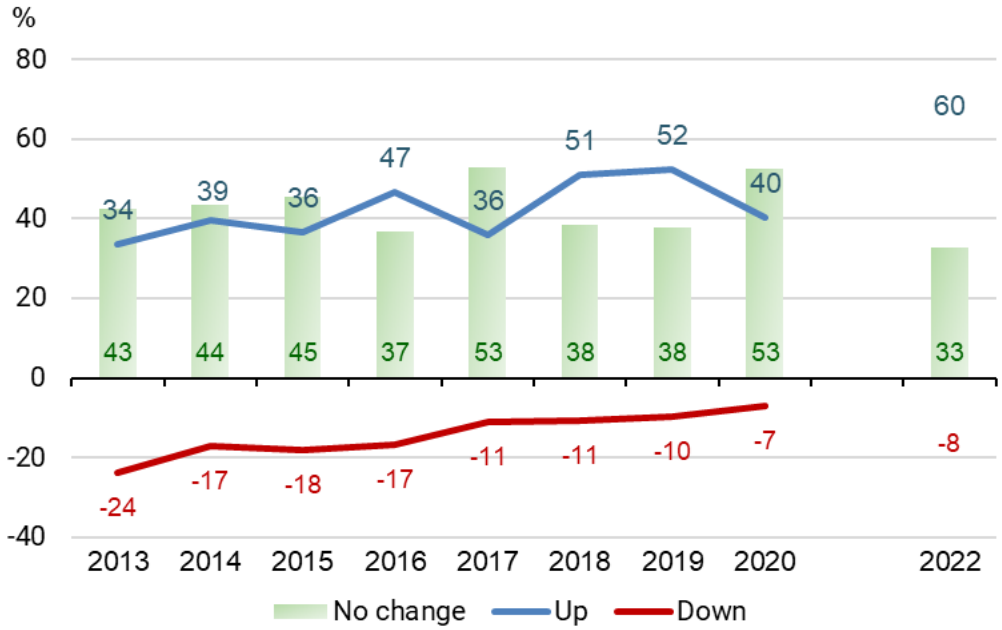
Chart 2.5 Expected input prices, 2013- 2022



Energy prices are expected to increase in 2022 for 59% of businesses and decrease for 4% with a net balance of 55.

Selling prices are expected to increase for 60% of businesses and decrease for 8% of businesses resulting in a net balance of 52. As shown in Chart 2.6 below, expectations of selling price rises, like those for input prices are considerably higher than they had been in any other year. The net balance of 52 is nearly 90% greater than the average net balance over the 2013-2020 period.

Chart 2.6 Expected selling prices, 2013- 2022



3. Business inhibitors and strategies in 2022

3.1 COVID-19 expected to inhibit business growth in 2022

This year's Australian CEO survey asked businesses what factors they most expect to inhibit business growth in 2022. The factors nominated for 2022 have changed since this survey was last conducted prior to the pandemic. Additional factors of COVID-19 and associated activity restrictions and supply chain disruptions were added to the questionnaire for 2022.

Respondents ranked COVID-19 the factor most likely to inhibit business growth in 2022 by a large margin. 49% of businesses ranked this first and 18% ranked it second – just over two-thirds (67%) expect it to impact their business to a large extent. Supply chain disruptions were ranked the first inhibitor by 16% of businesses and the second most important inhibitor by a quarter (25%) of businesses (see chart 3.1 below).

Labour market concerns continue to feature prominently for businesses in 2022. The third most pressing concern for CEOs in 2022 is skill shortages with 13% of businesses nominating this as their top concern. With the new factors associated with the pandemic so prominent, the ranking of this issue is lower than in the years leading into the pandemic.

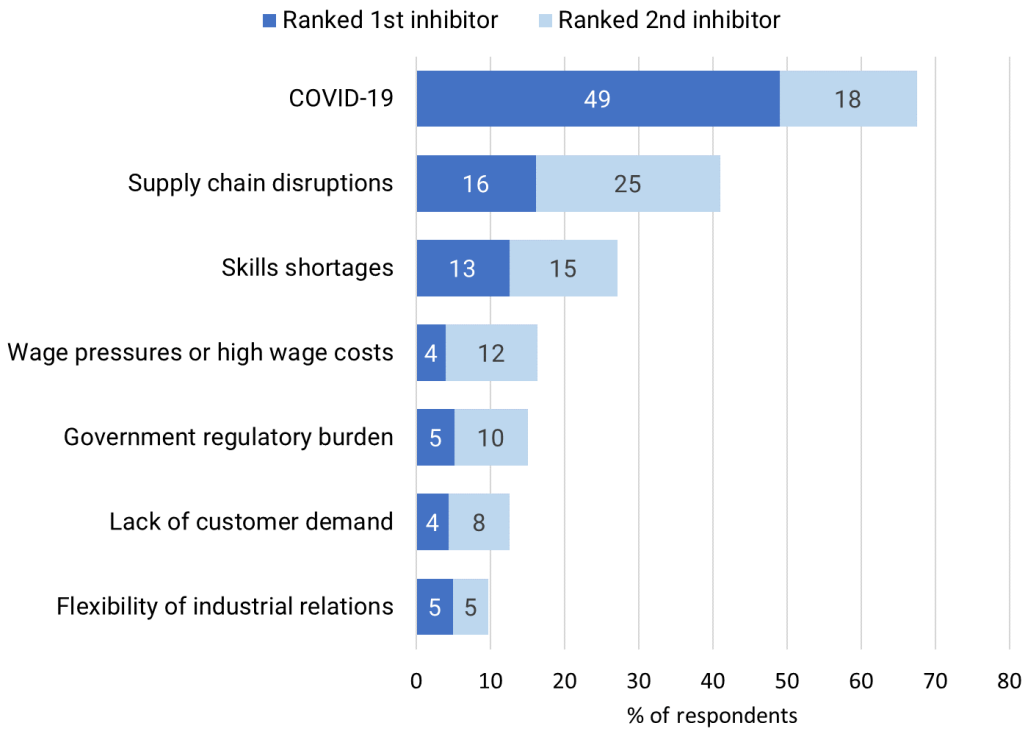
As noted above, 42% of businesses in this year's CEO survey plan to increase employment in their business in 2022 (see chapter 2), so concerns about skill shortages for specific occupations and locations are expected to continue during 2022. The lack of skilled migration along with low numbers of international students and international tourists since the international border closed in 2020 are major drivers of the existing skill shortages.

Wage pressures or high wage costs jumped was the primary inhibitor for 4% of respondents and the secondary inhibitor for 12% of respondents noting it as a primary inhibitor. Wages growth has been lacklustre for some time now and the RBA is forecasting nominal wages growth of 2.5% across 2022 before increasing to 3.0% by the end of 2023 (see Table 2.1).

Flexibility of industrial relations was a primary inhibitor for 5% of CEOs and a secondary inhibitor for 5% similar to levels expected for pre-pandemic 2020. Prior to the COVID-19 pandemic, Australian CEOs ranked a 'lack of customer demand' as their greatest constraint to growth in every year of the survey since 2012. Slow or low customer demand has been the single biggest inhibitor of business for the history of Ai Group's Australian CEO surveys. For 2022, lack of customer demand has fallen dramatically reflecting the changing business conditions with only 4% of respondents nominated it as their primary concern down from 41% in 2020.

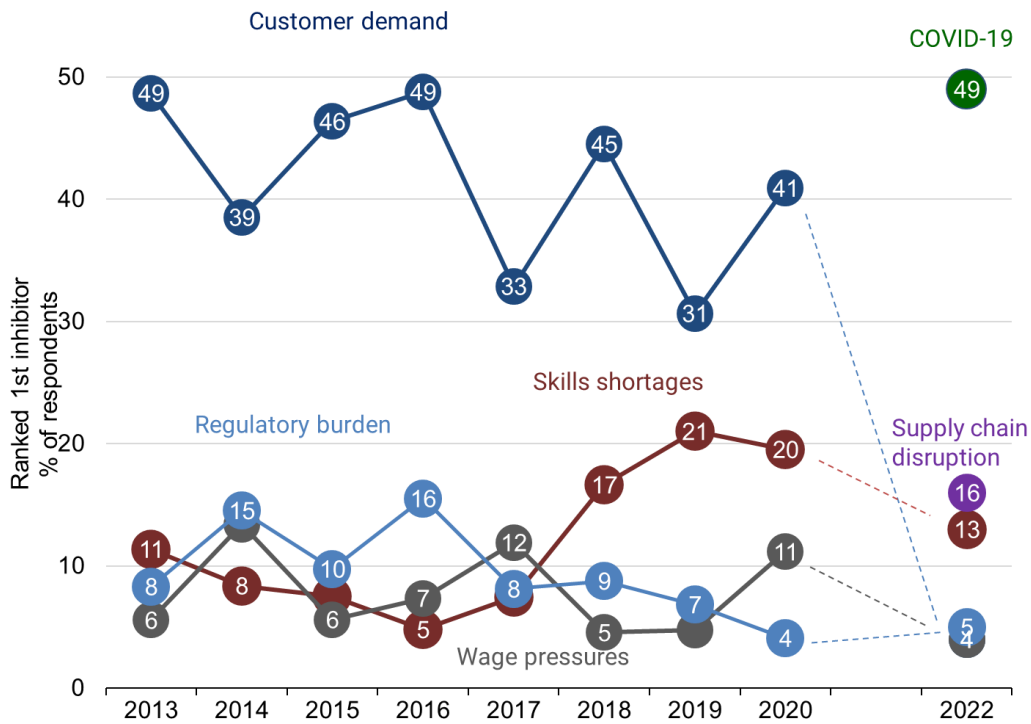
Other constraining factors for business in 2022 include: uncertainty regarding operating conditions, a high and/or variable exchange rate and competition from imports and internet sellers.

Chart 3.1 Expected inhibitors to business growth, 2022



*Percentage of respondents who ranked each factor first or second out of a list of possible inhibitors.

Chart 3.2 Expected inhibitors to business growth, selected factors 2013 - 2022



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

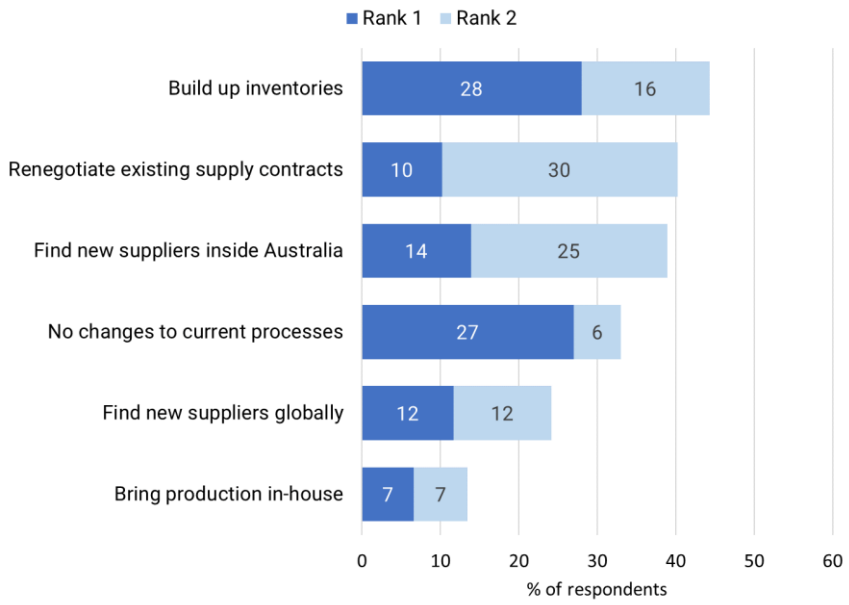
3.2 Businesses plan to build inventories, renegotiate contracts and find new Australian suppliers to strengthen supply chains

The disruption to supply chains, fluctuating conditions and increased global demand for some products has led to shortages of inputs for many Australian businesses. In 2021, 65% of Australian businesses faced supply chain disruption and 50% expect shortages of stocks to impact them in 2022.

To improve reliability of supply, 44% of businesses plan to build inventories as their first or second priority (28% ranked this option as their first priority and 16% as their second) (see chart 3.3). Renegotiating existing supply contracts is also a course of action businesses plan to take for 2022, 10% of businesses ranked this as their first preference and 30% as their second (40% of businesses rank this as their first or second option in total). Finding new Australian suppliers is the third most popular strategy, 14% of businesses ranked this first and a quarter (25%) ranked it second. Over a quarter (27%) plan to stick to current processes as their first option and 6% chose it as their second. Diversifying suppliers is not always an easy process and some businesses are unable to substitute items or suppliers easily or have longer term contracts covering the year ahead.

Finding new suppliers outside Australia was the first option and the second for 12% of respondents (24% in total). Bringing production in-house was the first option and the second option for 7% of respondents (14% in total).

Chart 3.3 Measures to improve the reliability and resilience of supply chains in 2022



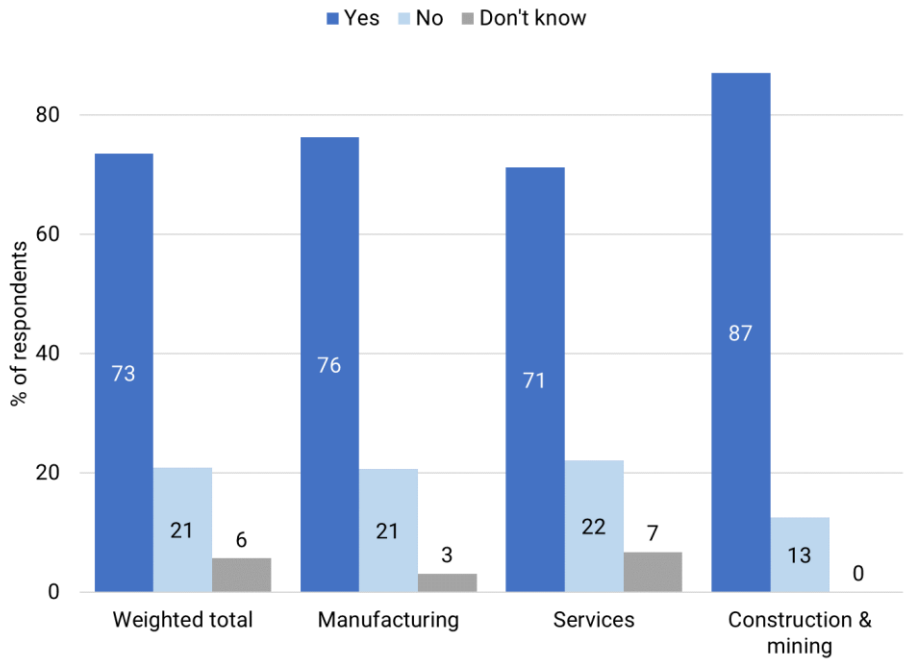
3.3 Australian businesses expect difficulties finding and retaining skilled labour in 2022

73% of Australian businesses expect to have difficulties finding and retaining skilled labour in 2022, 21% don't anticipate problems finding or retaining skilled labour and 6% of businesses are unsure for the year ahead (weighted total, see chart 3.4).

While skilled labour shortages are expected to be an issue across all industries, there is some variation across sectors. 76% of manufacturers expect some difficulties with skilled labour, 21% don't expect difficulties and 3% are unsure.

71% of CEOs running businesses in the services sector expect shortages of skilled labour in 2022, 22% don't expect shortages and 7% are unsure. This escalates considerably for construction and mining sector businesses where 87% are expecting skilled labour shortages in the coming year and 13% don't anticipate shortages.

Chart 3.4 Expected difficulties finding and retaining skilled labour in 2022



3.4 Australian businesses plan to focus on introducing new products and services

In 2022, Australian CEOs plan to concentrate on introducing new products and services to their customers. This strategy was the most popular priority for 2022 with 40% of CEOs ranking it their first choice and 13% their second (see chart 3.5). The proportion of respondents listing this as their primary strategy has risen from 2019 and 2020 back to the ranking and proportion it was in 2018 (see chart 3.6).

Improving sales of current products and services is a primary strategy for growth in 2022 for one fifth (20%) of businesses and secondary focus for 25% of Australian CEOs. It was the principal approach for around a third of respondents prior to the pandemic but has fallen in prevalence for the year ahead.

Developing new domestic markets is the main focus for 7% and secondary focus of 21% of responding businesses for 2022. Local customers remain a growth strategy for Australian businesses, while developing overseas markets fell to 3% of CEOs stating it was their primary growth strategy for 2022.

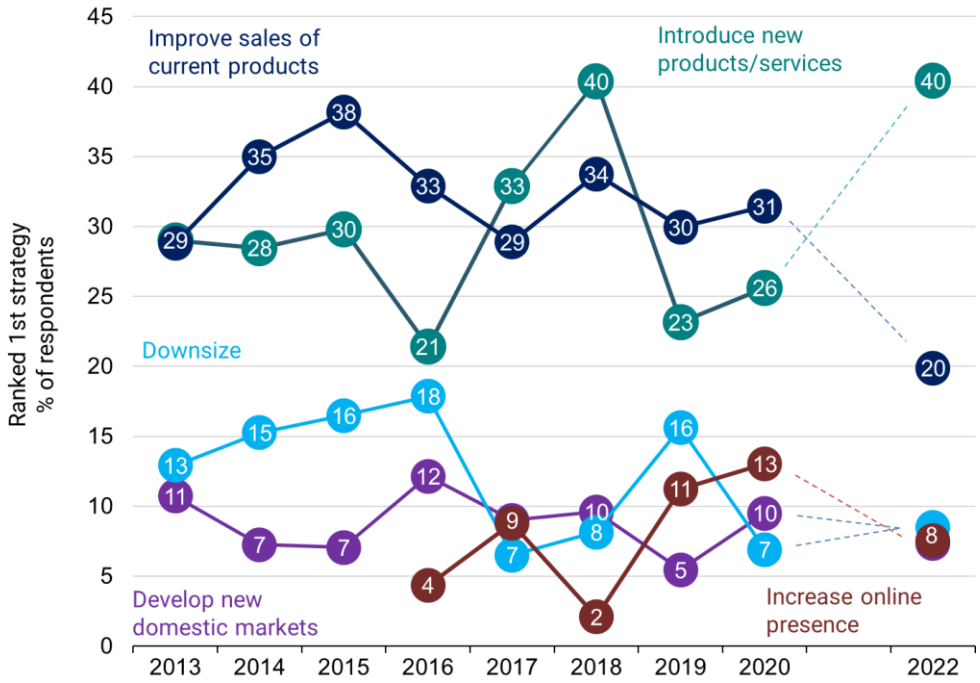
Increasing online presence or capability is the primary growth strategy for 8%, and secondary strategy for 11% of Australian businesses in 2022. Although there has been substantial growth in online presence, over the past few years there continues to be room for further growth particularly in small to medium enterprises, to increase their online capabilities and commerce platforms.

Downsizing or reducing operational costs has fallen as a priority for businesses in 2022 (8%) compared to the result in 2019 (16%). Few CEOs rank advertising and marketing (5%) or diversifying suppliers (2%) as their top strategies for business growth in 2022.

Chart 3.5 Business growth strategies, 2022

* Percentage of respondents who ranked each factor first or second out of a list of possible inhibitors.

Chart 3.6 Top business growth strategies, 2013 to 2022



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

4. Business investment priorities for 2022

Recovery from the COVID-related disruptions of the past two years and dealing with the further adaptations associated with the new realities of living with COVID are high among the priorities and preoccupations of business leaders looking into 2022. It is also clear that improvements in the ability to compete with imports; to make ground in diverse export markets; and to restore real income growth across the economy rest on a turnaround in the recent low levels of productivity growth across the economy.

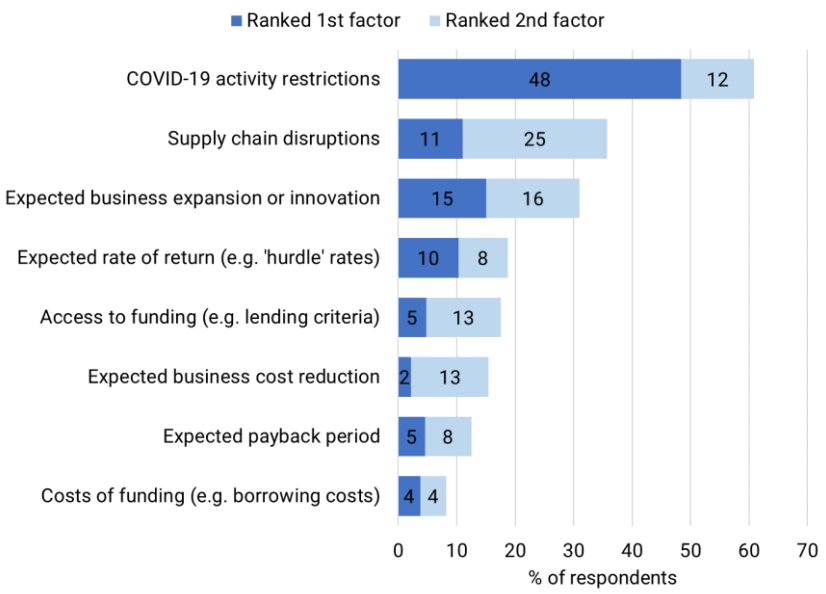
4.1 Factors influencing business investment spending in 2022

Both areas of consideration are evident in business leaders' responses to the question "What factors will influence your business investment spending decisions in 2022?" The responses to this question are summarised in Chart 4.1 below.

As a clear sign of the times, the highest ranked factor was COVID-19 activity restrictions which was nominated by 60% of CEOs as the most (48%) or second most (12%) important factor influencing their investment spending plans for 2022.

There was a significant margin between this factor and the next two most frequently nominated factors: supply chain disruptions (with 36% of CEOs nominating this as their most or second most influential factor); and expected business expansion or innovation which was nominated by 31% of CEOs as either the most or second most influential factor bearing on their investment spending outlook for the year ahead.

Chart 4.1 Factors influencing investment by business* in 2022



*Percentage of respondents who ranked each factor first or second, out of a list of possible type of factors.

The remaining factors nominated as influencing business investment spending in 2022 – expected rate of return, access to and costs of funding, payback period and expected cost reductions all of which are traditional considerations in shaping business investment decisions, were not absent from considerations heading into 2022 but were put forward by many fewer business leaders as the major factors influencing investment spending plans.

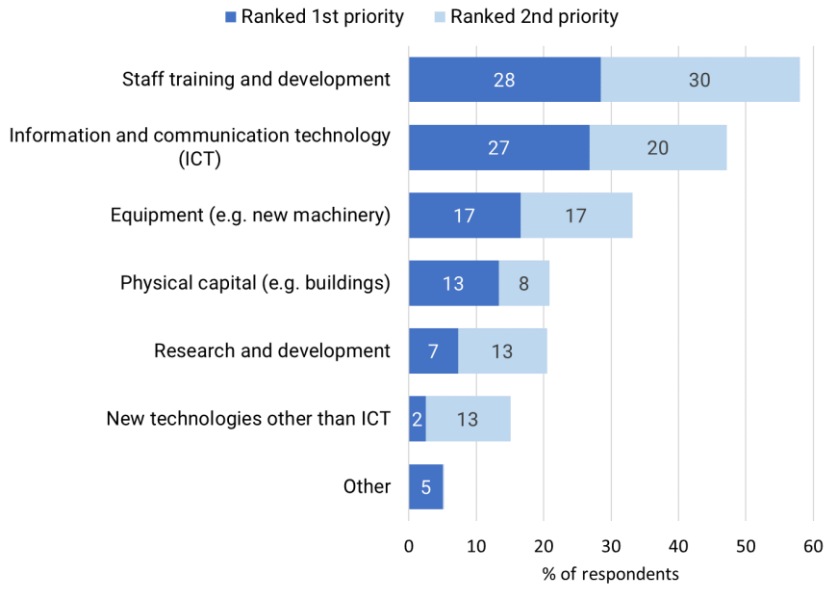
The positions of COVID-related constraints and supply chain disruptions among the leading factors shaping the investment outlook highlights the understandable near-term focus of business leaders grappling with the changing course of the pandemic and the uncertainties of what living with COVID means in practice.

At the same time, the fact that 31% of CEOs rank business expansion or innovation highly is a clear sign of a healthy focus on longer-term challenges and opportunities.

4.2 Business investment priorities for 2022

Our survey asked business leaders about their investment priorities for 2022 requesting them to rank their priorities for investment spending from a range of alternatives.

Chart 4.2 Investment priorities for business* in 2022



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

Attracting 55% of first priorities between them, the areas of staff training and development and spending on information and communication technology (ICT) topped the rankings by a comfortable margin. Staff training and development was ranked either first or second by 58 per cent of CEOs while spending on ICT was ranked first or second highest priority by 47 per cent of business leaders.

Staff training and development (first) and spending on ICT (second), were also nominated as the leading two priorities for business investment in 2021. Spending on ICT saw a marked increase in the proportion of first priority nominations for 2022 (27%) compared with 2021 (20%) while staff training and development saw a slight fall in the proportion of first priority nominations (30% in 2021 compared with 28 per cent in 2022).

The prevalence of staff training and development and spending on ICT technologies among the investment priorities of CEOs comes as businesses report skill shortages across a wide and growing range of occupations and as businesses have resorted to digital technologies in adapting to the challenges presented by the COVID crisis. Labour shortages have been exacerbated on the supply side by the absence of immigration over the best part of two years and on the demand side by the skills requirements of a greater use of ICT technologies and as businesses look to execute on their leading strategy for 2022 of introducing new goods and services.

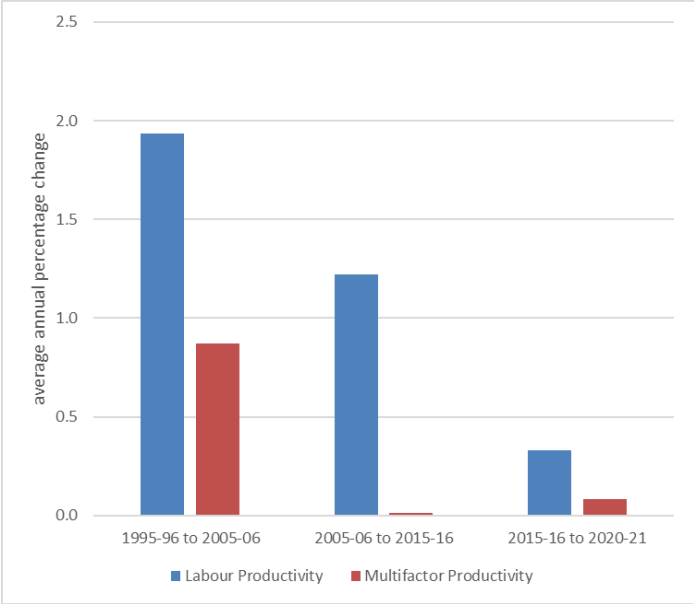
The capital investment categories of physical capital (e.g. buildings) and equipment (e.g. machinery) were nominated as the highest business investment priorities for 2022 by 30 per cent of businesses in total. This compares with the 25% of CEOs who nominated one of these two investment categories as their leading investment priority for 2021. This increase in the emphasis on these categories of investment is encouraging and in line with official projections of an improved near-term outlook for business capital investment. As discussed below however, the extent of improvement seems unlikely to be sufficient to turn around what has become a well-entrenched slump in business capital investment.

Research and development spending was nominated by 7% of CEOs as their leading investment priority for 2022 and as the second highest priority by an additional 13% of CEOs. Spending on new technologies other than ICT was nominated by 15% of business leaders as either their first or second highest priority for investment. A further 5% of CEOs nominated “other” areas of spending as their highest investment priorities for 2022.

4.3 Productivity and business capital investment

As indicated in Chart 4.3, average rates of productivity growth have been on the retreat in Australia for well over a decade. There can be little doubt that this much slower productivity growth has been a leading cause of the slowdown in real incomes growth that has been a feature of recent years.

Chart 4.3 Labour and multifactor productivity growth 1995-96 to 2020-21
Annual average change in market sector productivity (quality-adjusted hours worked basis)



Source: ABS, *Estimates of Industry Multifactor Productivity*, 13 December 2021.

A leading factor in this slowdown in productivity growth and of the pace of real incomes growth is the decline in business investment. As Reserve Bank Governor Philip Lowe observed a little less than a year ago, the weakness in business investment over an extended period "cumulates to slower growth in Australia's capital stock, with implications for our longer-term productive capacity".[1]

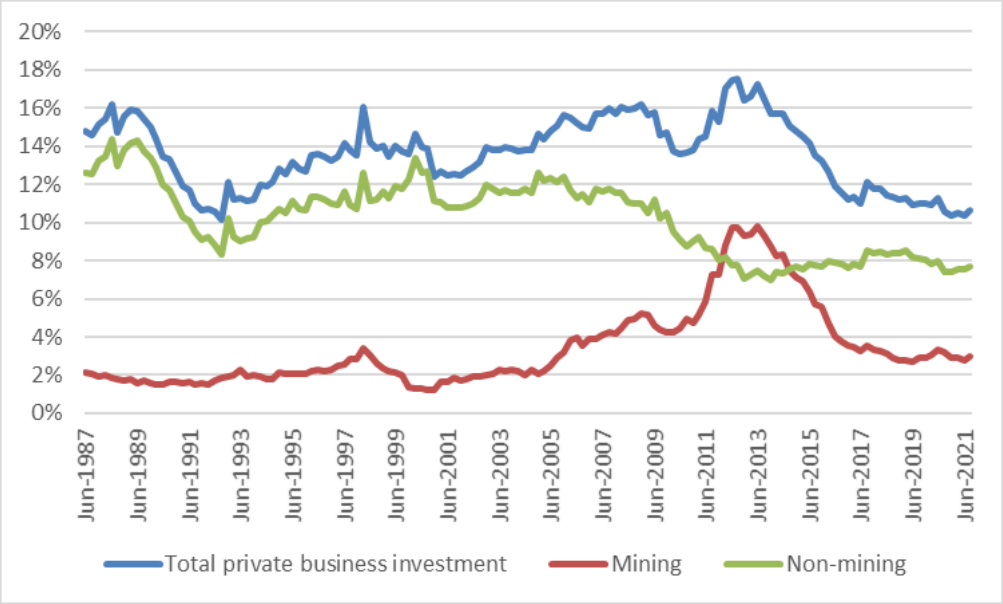
Chart 4.4 records private sector investment as a share of GDP over almost forty years. It shows that, while total business investment rose on the back of the mining boom, outside of the mining sector, business investment as a share of GDP has fallen unevenly over the course of this century. When the stratospheric levels of mining sector investment came to an end the best part of a decade ago and with non-mining investment failing to pick up, total private sector investment has languished.

Partly as a COVID stimulus measure, the federal government introduced provisions for the immediate write-off of a range of capital expenditure for small, medium and some larger businesses. By allowing earlier deductions for the cost of capital equipment against taxable income, the immediate write-off provisions give investing businesses immediate cash flow relief and lift the net present value of investments.

It is true that, for domestic owners of companies, the overall impacts of the bring forward of deductions are diluted by the workings of dividend imputation. Nevertheless, the earlier access to tax deductions provides eligible businesses with a tangible incentive to invest and has been associated with the noticeable tick-up in non-mining business investment over the past year.

[1] Philip Lowe, *The Recovery, Investment and Monetary Policy*, 10 March 2021.

Chart 4.4 Private business investment as a share (%) of GDP June 1987 – Sept 2021 (current prices)



Source: ABS, National Accounts, December 2021.

Both the Reserve Bank (see Table 2.1 above) and Treasury (in the Government's December 2021 Mid-Year Economic and Fiscal Outlook) anticipate a further lift in business investment in 2022. In both cases the pace of increase is anticipated to decline thereafter as businesses catch up on investment postponed earlier in the COVID crisis and as the favourable tax measure is withdrawn at the end of the 2021-22 income year.

It therefore appears unlikely on the basis of business expectations for 2022 that Australia is on track to turn around either the slowdown in capital investment or the low rates of productivity growth that are now well entrenched. Yet success in these areas is fundamental for a lift in competitiveness and for a sustainable increase in real incomes growth and Australian living standards.

Appendix: Australian CEO Expectations for 2022

Responses were received from the CEOs of 346 private-sector businesses across Australia in October 2021. Together, these businesses employed 119,827 people (378 people in each business on average) and had an aggregate annual turnover of around $74 billion in 2021.

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 (59%). Manufacturing's share of this sample is higher than its share of national production (5.7%). Victoria was somewhat over-represented in the sample, relative to other states.

The data presented in the report are weighted by industry (based on ABS estimates of their value-added contribution to GDP in 2020-21) in order to adjust for the characteristics of the sample.

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

Australian CEO Survey participants 2022	Manufacturing	Services	Construction & mining services	Total
Number of survey respondents	202	107	37	346
% of survey respondents	58.4	30.9	10.7	100
Value-added output, % of GDP, 2020-21 **	5.7	53.8	7.7	67.2
Industry weighting (%)	8.7	79.9	11.4	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.*

1. Record number: _____

2. Postcode: _____

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 2021? $ _____approx.

5. How many full time equivalent (FTE) people did you employ in 2021? _____ FTE people

6. How did each of the following factors change for your business in 2020 and 2021, compared to the previous year?
How do you expect each of the following factors to change in 2022, compared to 2021?

	2020			**2021**			**2022**		
Please complete one box only for each:	Up	No change	Down	Up	No change	Down	Up	No change	Down
General business conditions in your sector									
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)									

7. What impact did the COVID-19 pandemic and related activity restrictions have on your business operations in 2021?

Significant disruption	Moderate disruption	No impact	Moderate improvement	Significant improvement

8. What impact do you expect the COVID-19 pandemic and related activity restrictions to have on your business operations in 2022?

Significant disruption	Moderate disruption	No impact	Moderate improvement	Significant improvement

9. Did your ability to source all of the inputs that your business requires change in 2021, compared to 2020?

Significant disruption	Moderate disruption	No change	Moderate improvement	Significant improvement

10. Do you expect your ability to source all of the inputs that your business requires to change in 2022, compared to 2021?				
Significant disruption	Moderate disruption	No change	Moderate improvement	Significant improvement

11. If your business exported in 2021 or tried to export in 2021, what factors affected your ability to export?
_____

12. What factors do you expect will inhibit your business growth in 2022?
Please rank all factors that will inhibit your business, starting with 1 as your most important inhibiting factor

COVID-19 activity restrictions	_____	Supply chain disruptions	_____
Lack of customer demand	_____	Government regulatory burden	_____
High and/or variable exchange rate	_____	Competition from imports	_____
Flexibility of industrial relations	_____	Wage pressures or high wage costs	_____
Skills shortages	_____	Other (please specify): _____	

13. Does your business expect any difficulty in finding and/or retaining skilled labour in 2022?

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

13 (a) If yes, in which occupations do you expect difficulties in 2022? *Please list all occupations that apply*

_____

13 (b) If yes, what will you do in response to these difficulties in 2022? *Please list all responses that you plan to try*
_____

14. What key growth strategies do you plan to implement in your business during 2022?
Please rank all relevant strategies, starting with 1 as your most important strategy

Introduce new products/services	_____	Reduce operational costs	_____
Improve sales of current products/services	_____	Increase online presence / capability	_____
Develop new Australian markets	_____	Increase advertising / marketing	_____
Develop new international markets	_____	Increase employment	_____
Diversify or change suppliers	_____	Other (please specify): _____	

15. What measures will you take to improve the reliability and resilience of your supply chains in 2022?
Please rank all relevant measures, starting with 1 as your most important strategy

No changes to current processes	_____	Renegotiate existing supply contracts	_____
Build up inventories	_____	Find new suppliers inside Australia	_____
Bring production in-house	_____	Find new suppliers globally	_____

Other (please specify) _____

16. What are your highest priorities for your own business investment spending in 2022? *Please rank all types of investment that you are considering for 2022, 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)	_____	New technologies other than ICT	_____

Other (please specify) _____

17. What factors will influence your own business investment spending decisions in 2022?
Please rank all factors that influence your investment decisions, starting with 1 as your most important factor

COVID-19 activity restrictions	_____	Supply chain disruptions	_____
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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