

Productivity key as uncertainty dominates CEO outlook

By Innes Willox, Chief Executive of the national employer association Ai Group, as published in *The Australian Financial Review*, Monday 22 January 2024

Australian chief executives are looking to the year ahead more anxious and uncertain about the national economy than they have felt for more than a decade.

Despite the concern, businesses overall feel optimistic about their own ability to navigate the challenges ahead but are clear on what must be done to assist them.

If the mood could be summed up in one sentence it is this: Improving productivity is the key for industry success in an uncertain, supplyconstrained and slowing economy.

The survey of 320 Ai Group members from across the economy, employers large and small, shows they believe we are entering an economic period similar to the stagflation of the 1970s with persistent inflation, rising unemployment and weak consumer demand.

Industry expects to, at best, work through mediocre business conditions this year. The economic momentum driven by government support and pent-up consumer demand that lifted us out of the COVID period is clearly over. The clouds of economic slowdown and conditions akin to a recession linger for some key sectors of the economy.

Forty per cent of industry leaders expect conditions to worsen this year, while 27 per cent hope for better times the biggest differential in the annual survey since the mining boom.

The key worries from industry leaders for 2024 are heightened uncertainty driven by our geopolitical environment; ongoing supply side constraints, especially inflation and labour shortages; and weak demand, driven largely by households tightening their belts as their disposable income shrinks.

Locally, there is a big increase in industry ranking among their top issues of concern the federal government's current industrial relations measures and further proposals. The fear of increased workplace rigidity at a time our economy needs more dynamism is real.

The business response to all of this is to pivot from growth objectives to strategies focusing on improving productivity, with investments and workforce plans being refocused on doing more with less in an increasingly tough climate.

The investment response will be to focus on business improvements and staff training. This will be coupled with an effort to reduce costs as much as possible by cutting out inefficiencies.

This focus on productivityenhancing measures ranks far ahead of expected funding of capital expenditure and research and development.

One key take out is that, given labour and skills shortages, businesses expect to significantly

increase their investments in technology to drive productivity improvements.

This will affect employment and skills needs in the years ahead.

A big reason for the technology pivot is that 87 per cent of employers expect to face staff shortages this year. We simply don't have enough people with the skills we need. To counteract that, the response will be the investment in technology to reduce the need for labour while investing more in staff training and rewarding staff who produce more.

The productivity focus is both necessary and welcome given Australia's anaemic productivity performance over the past decade or more.

Overlaying our domestic situation are the growing global uncertainties that are again threatening the resilience of global supply chains.

Ninety per cent of businesses see this uncertainty as negatively impacting their business prospects.

Conflicts and blockages of key supply routes to Australia, combined with our own difficulties facing our ports, are rekindling concerns that supply-chain pressures will keep inflation higher for longer this year and next.

Seventy-eight per cent believe this uncertainty will drive up their input prices this year. However, only 57 per cent expect to increase their sales prices in response as they work to contain costs to offset the impact. This is telling us that industry will make every effort to contain the impacts on their customers and will drive efficiency and direct investment at containing costs.

So, what can be done to help mitigate this uncertain environment?

Governments create the circumstances for business to thrive or not. They can help by focusing on delivering productivity-enhancing support around skills and training, reducing costs in areas such as payroll tax and WorkCover premiums, supporting technology investments through incentives and write-offs, putting real downward pressure on energy costs, lightening the regulatory burden, reducing barriers to employment and paying their bills on time.

The reality is that when you are in choppy waters, you batten down the hatches to ride it out. That's what a lot of Australian businesses will be doing this year, hoping to prepare for brighter and different times ahead.

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