



TEC

CEO Confidence Index ^{Q4//2018}



Executive Summary

Part of our job as leaders is to consistently and strategically determine how external market influences and forces will impact business success. The ability to weigh and measure these forces with accurate caution underpins our decision-making capability.

To lay the foundations for business leaders across Australia and New Zealand, including our 1,200 plus members, as they ready themselves to embrace a new year of business complexity, *The Executive Connection* has evolved its quarterly SME Confidence Index into the *CEO Confidence Index*; a compelling economic indicator that truly reflects the business environment in which leaders are operating.

Former ANZ Chief Economist and Industry Professor at the UTS Business School, Warren Hogan, has joined The Executive Connection, to provide robust insights and strategic analysis of economic, business and financial market trends.

Mr Hogan's analysis investigates business conditions, confidence and the mindset of Australian business leaders.

There's no denying that businesses are operating in an unpredictable, volatile and complex time. International trade tensions, a looming federal election, financial market volatility and falling property prices are a challenging combination for business leaders at present.

What's clear is that there has been a reappraisal of economic conditions by Australian business leaders in the last six months, and for the first time in two years CEOs are, on balance, pessimistic about the economy's prospects over the next 12 months.

However, when it comes to their own business operations, there is a sense of positivity in the air as leaders prepare to address productivity, efficiency and talent challenges to ensure on-going growth and long-term success.

Warren Hogan, Chief Economic Advisor, The Executive Connection



Foreword, Warren Hogan

The Executive Connection's *CEO Confidence Index* provides insight into a significant portion of the Australian business community. This report plugs a much-needed gap on the analysis of mid-market businesses, which are excluded from many reports in the market that focus solely on understanding how businesses at the large, and small end of town, are faring.

Mid-market businesses play an integral role in the sustainability of the Australian economy. This report considers the internal issues impacting how CEOs are operating, what's happening in the economy, and more importantly, when those factors shift and impact their business.

Overlaying an economic perspective on business sentiment provides a holistic view of what frustrations Australian and New Zealand business leaders are experiencing.

About the *CEO Confidence Index*

The Executive Connection *CEO Confidence Index* is a quarterly survey measuring the economic outlook and sentiment of Australian business leaders of Mid-market organisations.

The Executive Connection's *Quarterly CEO Confidence Index* Quarter 4, 2018 was conducted in December 2018 and includes 112 responses from Chief Executives and business owners.

The survey measures the following indexes:

- Views about economic conditions compared to a year ago
- Expectations for economic conditions in the year ahead
- Business expectations for the next 12 months on:
 - Fixed capital expenditure
 - Sales revenues
 - Profitability
 - Prices for their products and services
 - Total headcount

The findings from the Q4 2018 *CEO Confidence Index* suggests optimism in the economy is waning as we begin 2019. Although optimism about the economy has retreated, confidence in the ability to successfully navigate these tricky economic times remain high.

Businesses are paying close attention to the business environment and are conscious that they can't escape some of the big market challenges coming their way, and the impact it will have.

As leaders look to grow in the year ahead, the findings of the report sheds light on how they plan to execute business growth successfully.

The survey also identifies the challenges and opportunities faced by leaders including business operations, leadership, talent and technology.

The Executive Connection's members are CEOs and business leaders of businesses with up to 200 employees and annual revenue of between \$2 million and \$100+ million per year.

The results provide insight into the challenges and opportunities faced by leaders and their confidence in the Australian business environment as well as insights into key issues such as political leadership, access to funding and market conditions.

CEOs concerned about the economy

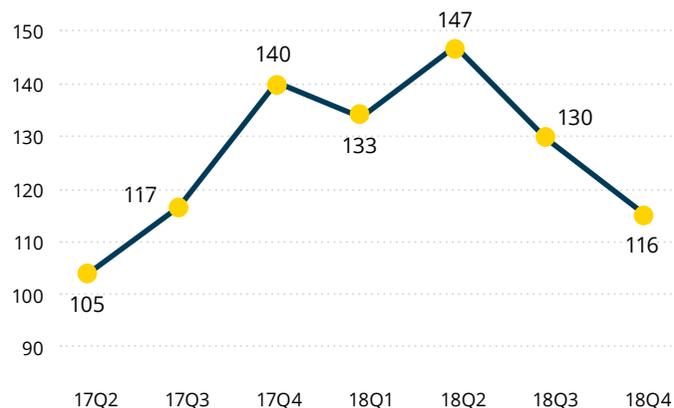
Sentiment towards economic conditions reveals a concerning perspective on how the Australian economy has performed. The results saw a decline of economic perceptions in Q4, with the index reaching its lowest level in late 2017.

The Index for economic conditions compared to a year ago, fell 14 points in the fourth quarter of 2018, and is down 24 points over the past 12 months.

It is clear from this quarter's supplementary questions that falling house prices, tighter bank credit conditions and increased political uncertainty are already impacting economic performance in Australia.

Views on economic conditions compared to a year ago:

Timing and Net balance

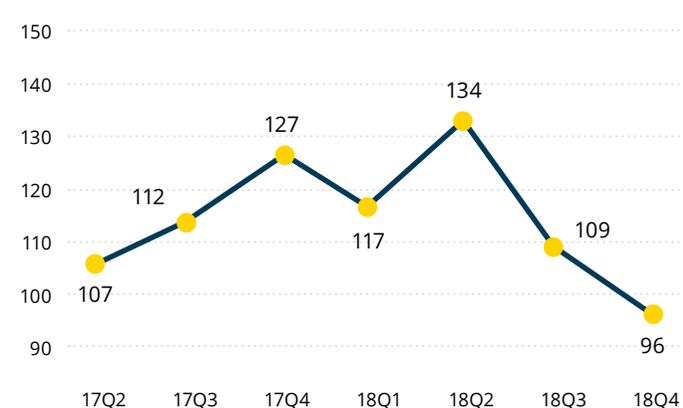


Business leaders' expectations for the economy in the next 12 months have dropped to their lowest in two years, falling into negative territory (a reading of below 100), having declined 13 points in the quarter and 15 points in the previous quarter.

Expectations for the economy's performance over the year ahead have collapsed over the second half of 2018 suggesting a high degree of concern about the economic outlook.

Expectations for economic conditions over the year ahead:

Timing and Net balance



The data reveals CEOs positive economic outlook peaked in early 2018; which is reflective of the good performance of the economy during that time.

The clear downward trend and lack of confidence in economic conditions in the latter half of 2018 is worrying and is likely to be a direct response to mounting local and global external challenges; including the Trump trade war, volatile global markets and the slowdown in economic indicators seen in recent months.

Business confidence stronger than economic confidence

CEOs and business owners have greater confidence in their businesses to perform well in the year ahead than they do in the broader economy.

All 'own business' indicators are in positive territory with strength evident in expected sales and hiring intentions. Only 5 per cent of businesses surveyed expect to shrink their workforce over the next year, while 55 per cent expect to increase staff levels.

Sixty-nine per cent of businesses surveyed expect their sales revenues to increase over the year ahead. These strong business results highlight both the potential for a continuation of strong economic growth in Australia but also the risk that if external factors continue to present challenges for business leaders, there is significant scope for a negative reassessment of their business operations.

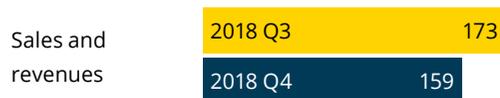
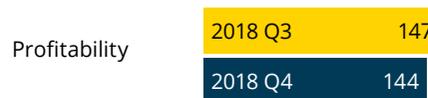
While the Q4 2018 results remain positive, all indicators except selling prices are on the decline over the second half of 2018.

Even though optimism about the economy is waning and there are growing concerns about Australia's political leadership, business have been hiring and intend to continue to do so.

A real vulnerability for the economy is these strong hiring intentions. If external conditions continue to deteriorate, then businesses may hold off on expanding their staff volume which in turn could hurt economic activity. This will be a key indicator to watch over the first half of 2019.

The findings suggest that overall, business leaders and CEOs believe there is opportunity for growth in the market. Despite external headwinds, leaders retain confidence in the strategies in place to ensure a positive operating environment for the year ahead.

Indicator



“As an organisation in the financial services sector, we’ve had no option but to remain resilient in tough times; of which there are more ahead of us.

Our priority has been, and will continue to be, to focus on the retention of our client base and improvement of our customer experience, with customer referrals as the end goal.

We work closely with financial service institutions to ensure our customers are on the best rates, and that we continue to deliver competitively on our products while also safeguarding the financial wellbeing of our customers. We’re willing to put in the hard yards up front to ensure total compliance and successful outcomes from the start.”

Jamie Christie
Owner Manager, Mortgage Choice





Change fatigue: prospect of new Federal Government concerning for business

A significant 59 per cent of CEOs believe a change in government, at a federal level, in the next three years will have a negative impact on business.

It's anticipated that a change in government would see changes to tax arrangements and could hit some industries and businesses hard; which could be an area of concern for survey respondents.

The data also reveals more than six in 10 (64 per cent) business leaders and CEOs believe there will be no positive change for business or the broader community if a change in government occurs.

The constant leadership spills and the uncertainty of changing policies and legislation appear to be taking their toll on Australian business leaders.

As the election campaign starts to warm up, there is the question mark over which government will offer the long-term gains needed to support economic and business goals.

Impact of falling property prices on business

CEOs across Australia believe residential property prices will continue to fall throughout 2019.

While the impact may not be immediate, if house prices continue to fall the knock-on effect could not only impact the construction industry, but employment and broader economic growth.

Furthermore, a direct link to the business community will be for the business owners who have funded their businesses through loans that use residential property as collateral. If the collateral value is worth less than the amount of funding on offer, value will drop.

Business leaders across Australia should continue a watching brief on residential house prices and consider the implications and prepare for impact on employment, business growth and personal and business wealth.

Leaders focus on innovation is shifting

Interestingly, innovation ranks last in the key areas of leadership that CEOs plan to address in the next 12 months.

The innovation agenda is changing and is increasingly focused around business processes and systems that drive productivity.

In a world of shorter sales cycles and where speed to market is key, businesses will be less likely to invest in product innovation with long lead times.

This sentiment is reflected in priority focus areas for business operations, in which productivity and execution is growing in importance (40 per cent of CEOs rank this in their top three issues).

As new, increasingly sophisticated, entrants continue to disrupt incumbents, the pressure is on leaders to find new ways to thrive in today's competitive market.



“In the last 18 months we have invested heavily on the adoption of new technologies and software to help us maximise efficiencies and process within the business.

Our focus for 2019 will be to learn to fully utilise what we already have in place, which we have yet to do. We are aiming to make full use of the technology that will complement our team productivity and allow us to reach new business goals in the year ahead.”

Minna Zhu
Director of Consolid8 Pty Ltd

Hiring remains a challenge

Hiring and recruitment remains one of the key challenges leaders plan to address in the year ahead.

The data reveals over half of CEOs and business owners (52 per cent) cite sourcing talent as their biggest talent management concern.

What's becoming increasingly clear, as the war for talent continues to rage on, is that organisations that have the capacity to train and upskill their staff have a competitive advantage. This applies to securing new talent in an increasingly tight labour market, as well as being able to re-direct existing staff to new tasks; utilising new skills in a world of new technology adoption.

“Hiring has been a challenge for us in the past, however we've got a model now that's working extremely well. Rather than focus our efforts on experienced hiring, we're investing in our junior staff and graduates who we can upskill throughout their time in the business.

We've also found that finding the right person who is a fit for us culturally, and can be trained, is more valuable than anything else. We believe the better our culture, the better our staff perform and the better impact we can have on business outcomes.”

Ross Sardi
Chief Executive Officer, First Focus



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