



NATIONAL CEO SURVEY
Business prospects in 2018

Can 2018 be a stellar year?

JANUARY 2018

The Australian Industry Group

Ai
GROUP

ABOUT AiGROUP

The Australian Industry Group (Ai Group) is a peak employer association which together with partner organisations represents the interest of 60,000 businesses employing more than 1 million Australians. Ai Group members are from a broad range of industry sectors including manufacturing; engineering; construction; food and beverage processing; transport and logistics; information and technology; telecommunication; labour hire; and defence. Ai Group is a leading advocate for good government policy that is in the best interest of business and the community.

www.aigroup.com.au

With more than 250 staff in offices across NSW, QLD, SA, VIC and WA, we have the resources and the expertise to meet the changing need of our members.

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The Australian Industry Group, 2018

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CAN 2018 BE A STELLAR YEAR?



The 2018 Business Prospects report reveals that Australian CEOs are optimistic about the year ahead and keen to build on the stronger conditions experienced in 2017. Investment plans and expectations of employment growth are higher than at any time since 2012. If these plans and expectations are realised, 2018 would prove to be a decisive year for the Australian economy.

For Australian CEOs, 2017 turned out to be stronger than anticipated. General business conditions, turnover, gross margins and employment were all higher in 2017 than they were in the previous year and they all turned out to be considerably better than was expected this time last year.

Looking to the year ahead, CEO's renewed optimism has them anticipating a year of further advance on 2017. Expectations of general business conditions, turnover, employment growth and gross margins are all higher than at any time in the preceding five years.

If these positive expectations can be turned into real outcomes, 2018 would turn out to be a defining year for the Australian economy. We would see strong business investment and spending on training, R&D and technologies reach post-GFC highs. And most importantly, we would see a year in which employment growth equalled or even exceeded the record jobs growth experienced in 2017. Given the strength of CEO expectations on employment, Australia could add more than 400,000 new jobs in 2018. An achievement of this magnitude would make critical inroads into both the rate of unemployment and the naggingly high rate of underemployment.

While none of this is guaranteed, key steps can be taken to lift the chances of success:

- > Policy measures to stem and reverse the rise in energy prices need to be effective. Expectations of high energy price rises are a clear negative for Australian CEOs.
- > Moderate wages growth will need to continue: the record jobs growth of 2017 and the ability to meet expectations of still higher jobs growth are closely associated with the moderate wages outcomes of recent years and the continuation of this pattern into 2018.
- > Enacting the proposal to make Australia's business tax system more competitive by lowering the company tax rate to 25 per cent would significantly strengthen the incentives to invest and reinvest in the domestic economy.

We are on the cusp of a year in which businesses are looking to invest heavily in capital equipment, in technology, in R&D and in staff training. And we are on the cusp of a second consecutive year of record employment growth. If wage outcomes continue to be moderate; if progress can be made on reducing energy costs; and if the proposal to improve the competitiveness of our business tax system are enacted, 2018 could, indeed, be a stellar year.

Innes Willox

A handwritten signature in black ink that reads "Innes Willox". The signature is written in a cursive style and is positioned above a thin horizontal line.

Chief Executive, Australian Industry Group

KEY FINDINGS

Ai Group's annual Business Prospects survey reveals that Australian CEOs are more optimistic heading into 2018 than they have been for any year since 2012. This has built on an actual performance in 2017 that exceeded CEO expectations of a year ago.

This shift in CEO outlook echoes the displacement over the course of 2017 of the 'slower for longer' view of broader economic performance with more positive forecasts for Australian and global GDP growth by the RBA, the OECD, the IMF and others. In the latest Business Prospects survey:

- General business conditions are expected to pick up in 2018 for more businesses than in any of the previous five years. Across all businesses, 42.3% of CEOs expect an improvement, 15.7% expect deteriorating conditions (+26.7% net balance) and 42.0% expect no change in conditions.
- Sales are expected to increase for 67.3% of businesses in 2018, with 19.8% expecting no change from 2017 levels and 13.0% expecting a decline in sales in 2018. This reflects clearly better sales growth than was expected in 2017. When asked one year earlier (in Ai Group's CEO survey conducted in November 2016), 51.0% of CEOs had expected higher sales revenue in 2017.
- Employment is expected to increase in the majority (57.6%) of businesses in 2018. This is the first time in at least five years that a majority of businesses has planned to employ more people. With 12.6% of businesses planning to shed staff in 2018, a 'net balance' of 45.0% of CEOs plan to increase employment this year. This is around double the next best net balance for expected employment growth from the previous five years.
- This expectation of strong employment growth appears to be closely associated with an expectation of a continuation of the moderate wage rises experienced over the past couple of years. Wages pressure is identified by only 4.6% of respondents as their leading concern heading into 2018. This is sharply lower than in 2017 and below the levels reported in the previous four surveys.
- Although the majority (67.3%) of CEOs expect their total turnover to grow in 2018, gross profit margins are expected to grow in only 41.0% of businesses in 2018. 13.0% of CEOs are expecting deteriorating margins and 46.1% expect no change (giving a net balance of 27.9%). The low expectations of margin growth relative to expectations of sales growth is related to expectations of rising input prices and especially rising energy prices for the majority of businesses.
- This year's survey indicates that the large majority of CEOs plan to maintain or increase their spending on various types of business investment including staff training (with 50.1% of businesses planning to increase this in 2018); spending on new technologies (with 48.3% of businesses planning to increase their spending); R&D expenditure (26.0% of businesses plan to expand R&D spending); and physical investment (with 36.5% planning to lift physical capital expenditure in 2018).

1. OUTLOOK AND EXPECTATIONS IN 2018

Ai Group's annual survey of Australian CEOs' experiences and expectations indicates that 2017 was a better year for most but not all businesses and that, overall, CEOs expect further improvements 2018. There are lower expectations of better margins or incomes due to input cost pressures and stiff local and global competition.

The Australian economy strengthened over the first half of 2017-18, with improvements across almost every major indicator including real and nominal GDP; housing; government and business investment; the terms of trade; export volumes; population growth; employment growth; unemployment and wages. Most pleasingly, the benefits of growth have spread more evenly with improvements across a wider range of industries and regions than in previous years.

Some inter-related points of local weakness and vulnerability remain, including household debt and consumption levels; the residential construction cycle; the persistence of relatively high rates of underemployment; and business input cost pressures (especially energy costs) that are detracting from margins and competitiveness. As always, a wide range of business risks, challenges and opportunities are present in the global economy.

1.1 ECONOMIC OUTLOOK IN 2018

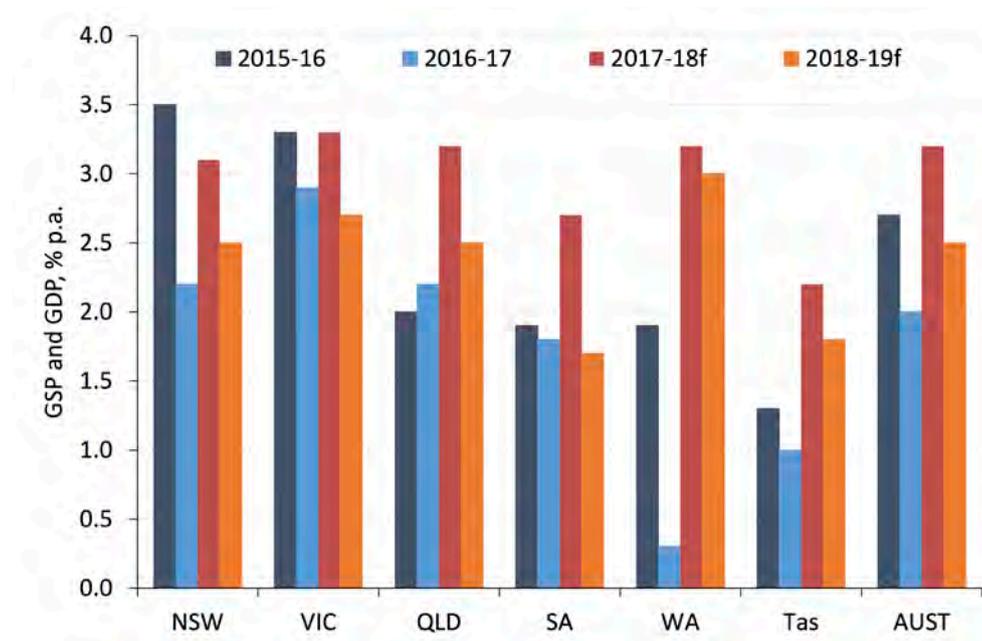
The Australian economy appeared to turn a corner during 2017, setting down a solid base for further growth and improvement in 2018. By Q3 of 2017:

- Real GDP growth picked up to 2.8% p.a. (after tracking below 2.0% in Q1 and Q2), with export volumes, house building, business investment and government investment all contributing to the acceleration;
- Nominal GDP growth accelerated to 5.9% p.a., supported by a recovery in the terms of trade and contributing to better incomes growth for both employees (wages) and businesses (profits); and
- Total employment growth accelerated to 3.3% p.a. in December 2017 and the national unemployment rate fell to 5.4% (trend). However, underemployment remains elevated at 8.4% of the labour force. In response, nominal wages growth (as measured by the ABS Wages Price Index) lifted only marginally to 2.0% p.a. in Q3 (1.9% in the private sector and 2.4% in the public sector) from a low of 1.9% p.a. in Q1 and Q2.

The distribution of economic growth has also improved, with a greater range of industries and regions indicating expansion. Across industries, output and employment growth is strongest in residential construction and more recently in engineering and commercial construction. The big services sectors such as health, education and professional services are benefiting from strong population growth, while education is benefiting from the relatively competitive range of the Aussie dollar and is enjoying record numbers of international students. Recoveries were also evident in parts of manufacturing in 2017 despite the final exit of automotive assembly, with output, business income (profits) and exports recovering across several key manufacturing segments (see Chapter 2). Wholesale trade and transport expanded due to rising demand to distribute agricultural products, building materials and online purchases of consumer goods. There remain distinct weak pockets among more traditional retail segments.

Across the states, NSW and Victoria had the strongest growth in population, jobs and investment during 2016 and 2017, but other states also expanded. The mining-dominated economy of Western Australia is lifting out of its post-boom slump, with state final demand (all consumption and investment, excluding net exports) growing in Q3 2017 for the first time since the pre-2012 boom years. 2017-18 is already a better year for all states than was 2016-17. NAB and other Australian forecasters expect 2018-19 to slow down again however, mainly because construction activity is likely to start slowing from current peaks (see Chart 1).

CHART 1 LOCAL ECONOMIC GROWTH AND FORECASTS: GSP AND GDP*

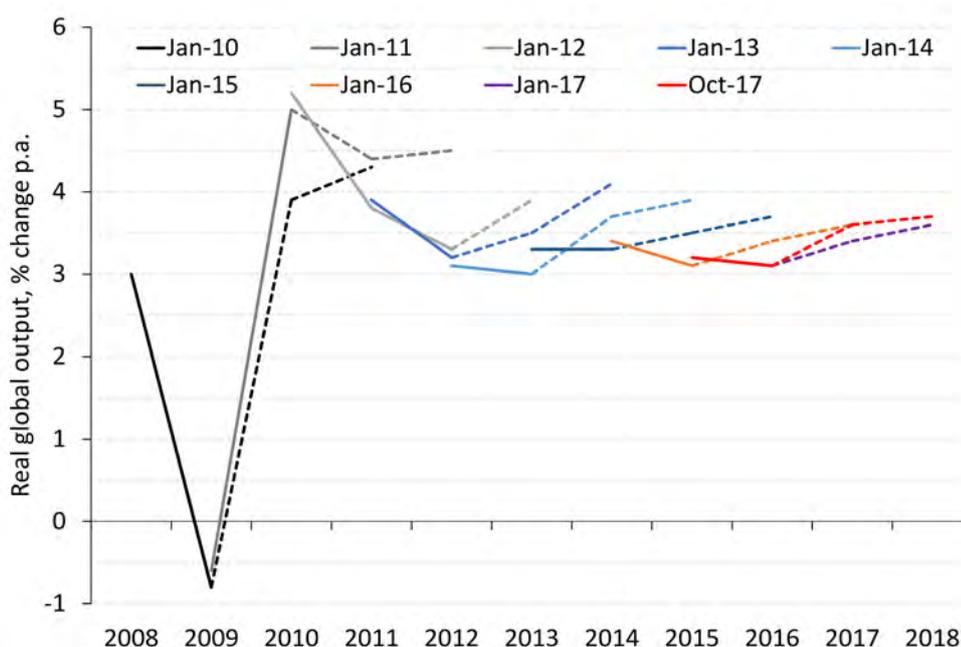


* Gross State Product and Gross Domestic Product. Sources: ABS State Accounts, Nov 2017, NAB States Overview, Oct 2017.

1.1 ECONOMIC OUTLOOK IN 2018

Externally, the global economy is providing better support for Australian business, with small but welcome accelerations in global GDP, trade and investment. By the end of 2017, the IMF (October) and the OECD (November) both lifted their forecasts for global GDP growth to 3.7% in 2018, due to improvements in Asia (mainly China and Japan), the Eurozone and Russia, which are helping to offset weaker trends elsewhere (e.g. the UK, India and the Middle East). The IMF notes this cyclical recovery comes after a decade of disappointment and remains fragile (see Chart 2). Global investment and trade are especially vulnerable to disruption. Growth therefore needs to be supported by “structural reforms and growth-friendly fiscal policy measures [to] boost productivity and labour supply” including in Australia.

CHART 2 GLOBAL ECONOMIC GROWTH AND FORECASTS*, 2008 TO 2018



* Solid lines denote IMF estimates of real global GDP growth. Dotted lines denote IMF forecasts for real global GDP growth. Source: IMF, World Economic Outlook, various editions from January 2010 to October 2017.

For Australia, both the RBA (November) and Treasury (December) expect real GDP growth to accelerate towards 3.0% in 2018. The RBA expects growth to strengthen to 3.5% in 2018-19, before moderating to 3.25% towards the end of 2019. The Treasury is more cautiously expecting growth to accelerate to 3.0% in 2018-19 and to remain there until 2020-21 (see Table 1). The OECD is more cautious, with a forecast of 2.8% p.a. for Australian GDP in 2018 and 2.7% p.a. in 2019, due to anticipated slower growth in China.

Importantly, the drivers of Australia’s growth are now shifting further away from mining investment and exports, in favour of public-sector demand (government spending and investment, led by large-scale transport and telecommunications projects), housing and non-mining business investment. The latest private sector capital expenditure data (CAPEX) indicate total CAPEX rose by 2.3% p.a. in Q3 2017, with CAPEX by non-mining industries up by 8.7% p.a. Revised expectations for CAPEX in 2017-18 suggest annual spending could rise by a further 8.8% among non-mining businesses. If it eventuates, this will be a significant step up from just 1.8% p.a. growth in non-mining CAPEX in 2016-17 and a small fall in 2015-16. And after a lull in mid-2017, residential housing finance and building approvals both surged higher again in late 2017. This suggests residential construction activity will continue to contribute to growth in 2018 (in contrast to Treasury’s anticipated fall), as will improving commercial and industrial building activity.

1.1 ECONOMIC OUTLOOK IN 2018

For households, recently stronger employment growth is already supporting a gradual acceleration in wages growth. The national unemployment rate (5.4% in December 2017) is already better than RBA and Treasury expectations for 2018 (5.5%), so unemployment might fall below 5.25% sooner than anticipated. While underemployment remains high (around 8.4% of the labour force), other signals point to a tighter labour market in 2018 and upward pressure on wages is likely to intensify. Indeed, concerns about future skill shortages and wages are already spreading among Australia's CEOs, with pockets of shortage already apparent in construction and a handful of other sectors (see Section 1.4 and Chapter 4 below). Household consumption is likely to rise in line with stronger nominal incomes.

TABLE 1 AUSTRALIAN ECONOMIC GROWTH AND FORECASTS

RBA SoMP (Nov 2017)	2015-16	2015-16	Jun '18 f	Jun '18 f	Dec '19 p	
GDP, % change p.a., year end	3.1	1.8	2.75	3.5	3.25	
Unemployment rate, %, year end	5.8	5.6	5.5	5.5	5.25	
Inflation (CPI), % change p.a., year end	1.0	1.9	2.0	2.25	2.25	
Treasury MYEFO (Dec 2017)	2015-16	2015-16	2017-18 f	2017-18 f	2019-20	2020-21
GDP, % change p.a., year average	2.6	2.0	2.5	3.0	3.0	3.0
Household consumption, % p.a., year average	2.9	2.4	2.25	2.75		
Dwelling investment, % p.a., year average	10.6	2.6	-1.5	-1.5		
Business investment, % p.a., year average	-10.3	-4.0	2.0	3.0		
Employment growth, % p.a., year end	1.9	1.9	1.75	1.5	1.25	1.25
Unemployment rate, %, year end	5.8	5.6	5.5	5.25	5.25	5.25
Terms of trade, % change p.a., year end	-10.2	14.5	-2.0	-5.0		
Inflation (CPI), % change p.a., year end	1.0	1.9	2.0	2.25	2.5	2.5
Wages (WPI), % change p.a., year end	2.1	1.9	2.25	2.75	3.25	3.5

f = forecast. p = projection. Sources: ABS various data; RBA SoMP, Nov 2017; Australian Treasury, MYEFO 2017-18, Dec 2017.

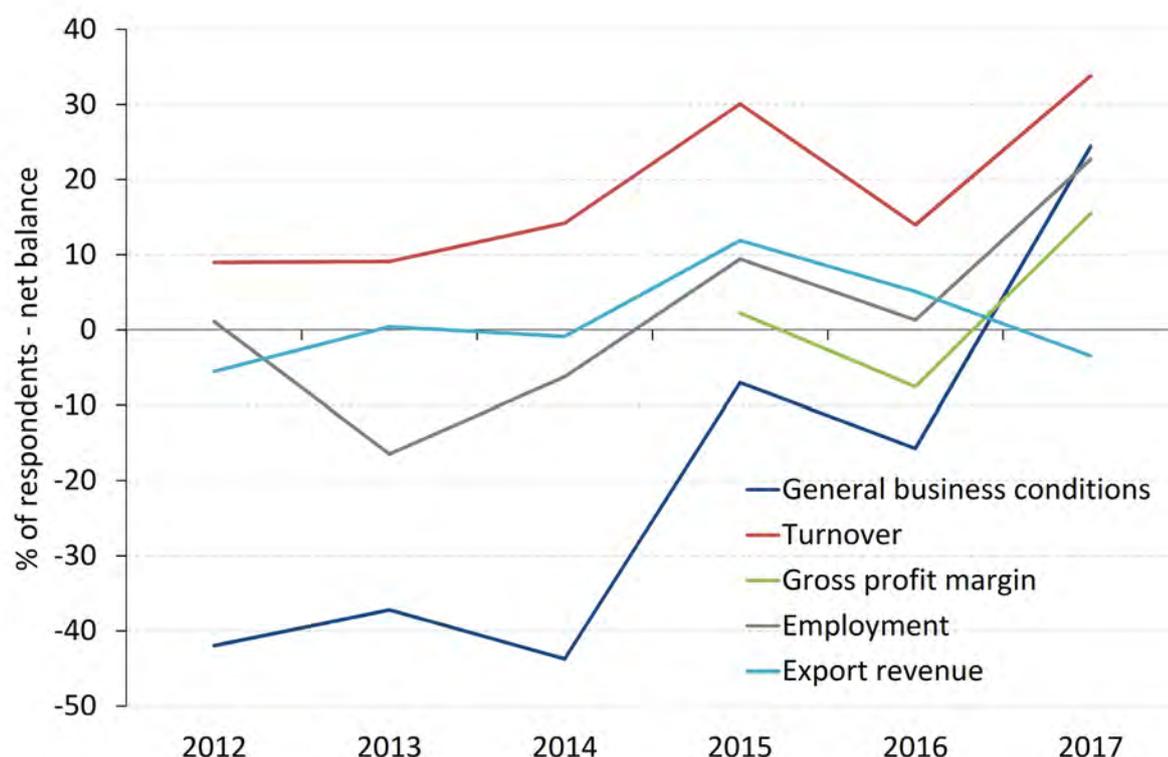
1.2 BUSINESS CONDITIONS IN 2017

Ai Group conducted its annual survey of Australian CEOs in October and November 2017, asking about business experiences in 2017 and expectations for 2018. Responses were received from the CEOs of 269 businesses from across all Australian states and all non-farm private-sector industries. In aggregate, these businesses employed around 43,000 people and had an aggregate annual turnover of around \$20 billion in 2017. Further details of respondents and the questionnaire are set out in the Appendix. Headline results of this year’s survey are summarised in this section. Detail on each of the three major industry groups of manufacturing, services and construction is presented in chapters 2 to 4 below.

Business expectations are generally shaped by recent experience. In line with improving local economic conditions through 2017 (see Section 1.1 above), Australian CEOs participating in this year’s survey reported a better year in 2017 than in the previous five years across a range of indicators of business performance and investment (see Chart 3 and 4). General business conditions improved for 47% of survey respondents in 2017, remained the same for 31% and deteriorated for 22%, giving a ‘net balance’ of 25%.

This indicated a significant¹ improvement in general business conditions in 2017 compared to each of the previous five years. It also indicated that 2017 turned out better than expected for a significant proportion of CEOs; one year ago, one third of CEOs had expected their business conditions to improve in 2017 (versus 47% who reported an actual improvement in 2017) and 23% had expected a deterioration in 2017 (versus 22% who reported an actual deterioration in 2017).

CHART 3 AUSTRALIAN CEOS’ REPORTED BUSINESS CONDITIONS, 2012-2017

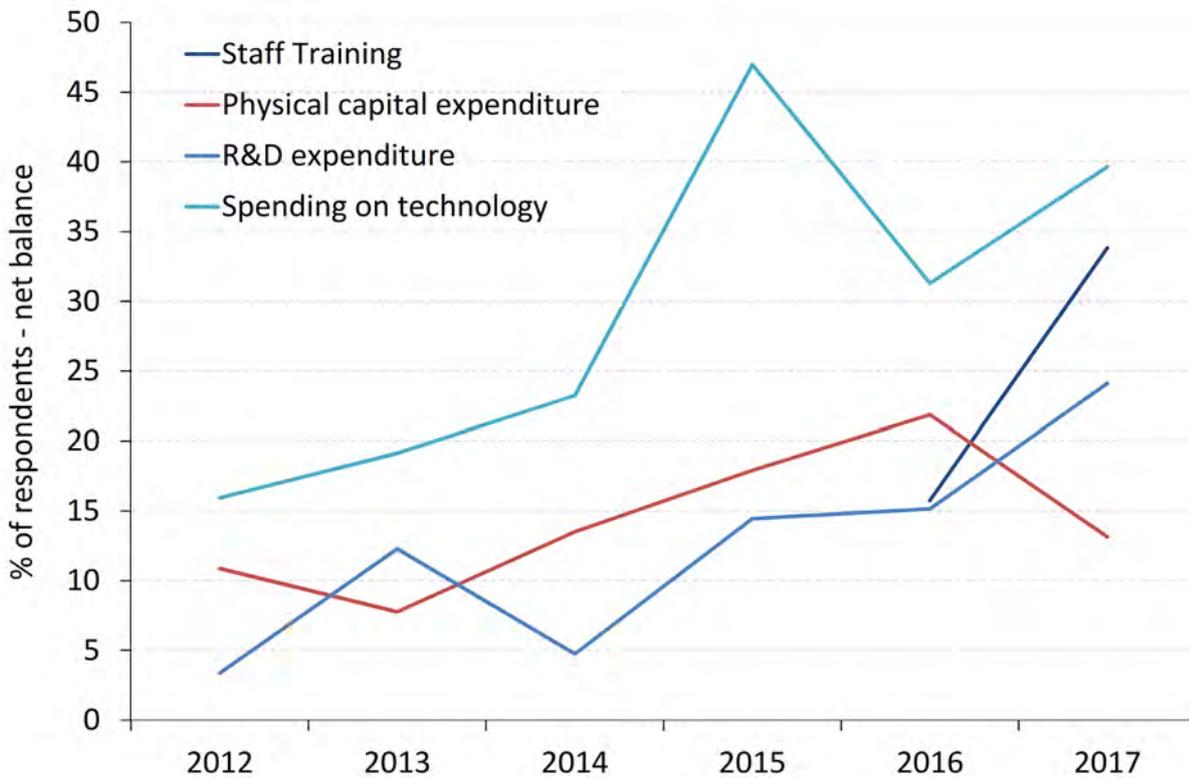


1. ‘Net balance’ is the proportion of all survey respondents that improved minus the proportion that deteriorated. Aggregate results include respondents from all surveyed industries and are weighted by ABS estimates of output from each industry.

The more detailed business performance indicators show that a higher proportion of businesses experienced improved turnover and profit margins in 2017 than in 2016 and in earlier years (see Chart 3). Survey respondents also reported stronger increases in employment in 2017 compared to earlier years. This is in line with ABS data indicating accelerating employment growth through 2017 (see Section 1.1).

Capital expenditure on physical investments remained positive on a ‘net balance’ basis (although it decelerated in 2017). Spending on staff training, R&D and new technologies seem to have risen instead with higher proportions of businesses reporting increases in these categories of investment in 2017 than in previous years (see Chart 4). This suggests a change in focus for Australian business investment in 2017, with a stronger emphasis on intangible investments (R&D, training and technologies) than on physical assets such as buildings and equipment.

CHART 4 AUSTRALIAN CEOS’ REPORTED BUSINESS INVESTMENTS, 2012-2017

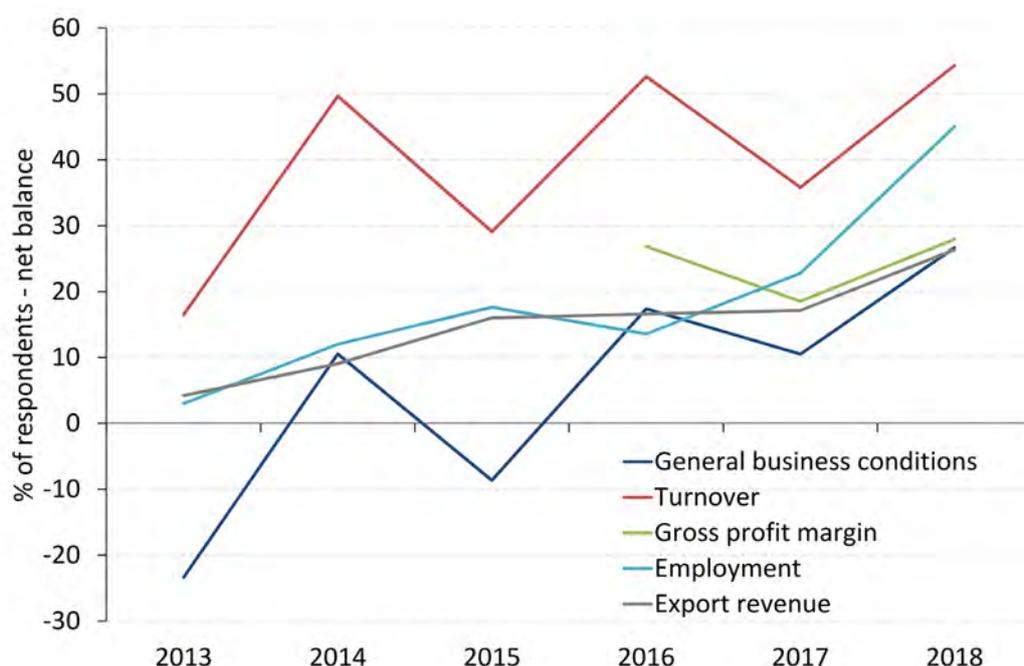


1.3 BUSINESS EXPECTATIONS FOR 2018

These improvements in business conditions in 2017 are reflected in a more optimistic outlook for 2018, compared to the previous five years, across most (but not all) of the key indicators (see Chart 5). In 'net balance' terms, businesses are now more optimistic about their own conditions, turnover and profits.

The single biggest caveat on this outlook is a strong expectation of rising input costs and especially energy costs in 2018, which is denting an otherwise positive outlook for sales and margins. Nevertheless, more CEOs are planning to grow employment and investment in 2018 than has been the case in previous years of this survey.

CHART 5 AUSTRALIAN CEOS' EXPECTED BUSINESS CONDITIONS, 2013-2018



Expectations for 2018: business performance indicators

General business conditions are expected to pick up in 2018 for more businesses than in any of the previous five years. Across all businesses, 42% of CEOs expect an improvement, 16% expect deteriorating conditions (+27% net balance) and 42% expect no change in conditions. This is the most optimistic set of expectations reported in this annual survey since at least 2012. As noted above, this improved outlook reflects the material improvements in conditions experienced by Australian business in 2017.

Business turnover (sales) is expected to increase for 67% of businesses in 2018, with 20% expecting no change from 2017 levels and 13% expecting a decline in sales in 2018. This reflects clearly better sales growth than was expected in 2017. When asked one year earlier (in Ai Group's CEO survey conducted in November 2016), 51% of CEOs had expected higher sales revenue in 2017. One year on, 54% reported actually achieving higher sales revenue in 2017. This seems to have buoyed hopes for further sales growth in 2018 among a greater number and range of businesses.

Although the majority of CEOs expect their total turnover to grow in 2018, most expect no growth in their own export revenue. This suggests that much of the turnover growth will be sought within Australian domestic markets rather than offshore in 2018. Of the businesses that indicated their expectations for export revenue in 2018 (around 85% of the total sample of respondents), 27% of CEOs expect an increase in export revenue in 2018 (a higher proportion than in any of the previous five years), 1% expect a decrease and the majority (73% of CEOs) expect no change.

Although the majority (67%) of CEOs expect their total turnover to grow in 2018, **gross profit margins** are expected to grow in only 41% of businesses in 2018. 13% of CEOs are expecting deteriorating margins and 46% expect no change (giving a net balance of 28% compared with the turnover net balance of 54%). This lower expectation of margin growth, despite higher turnover, appears to be related to rising input prices and especially rising energy prices for the majority of businesses in 2017, with further price rises expected in 2018 (see below).

Employment (headcount) is expected to increase in the majority (58%) of businesses in 2018. This is the first time in at least five years that a majority of businesses have planned to employ more people. It is a significant step up from employment expectations over the past five years, in which between 34% and 37% of businesses planned to hire more people in each year. It is also a step up from actual headcount changes reported from 2013 to 2017; between 21% and 38% of businesses reported an increase in employment in each of these years. On the negative side, 13% of businesses plan to shed staff in 2018, while 30% do not plan to change their employment numbers in 2018 (giving a 'net balance' of 45% of CEOs planning to increase employment).

Expectations for 2018: business investment indicators

This year's survey indicates that the large majority of CEOs plan to maintain or increase their spending on various types of business investment.

Staff training will be the most popular area of increase, with 50% of businesses planning to increase training expenditure in 2018 closely followed by spending on new technologies, with 48% of businesses planning to increase their spending.

R&D expenditure is less popular as an area of growth, with 26% of businesses planning to expand their R&D spending and 70% planning to maintain their R&D spending at the same level as in 2017.

Just 7% of businesses plan to cut their spending on **physical capital** in 2018 (buildings, plant and equipment), 3% plan to cut their R&D spending, 6% plan to cut their spending on new technologies and 5% plan to cut their spending on staff training. The proportions of businesses planning to cut back on all of these types of investment are significantly lower than in any of the previous five years.

Expectations for 2018: business pricing indicators

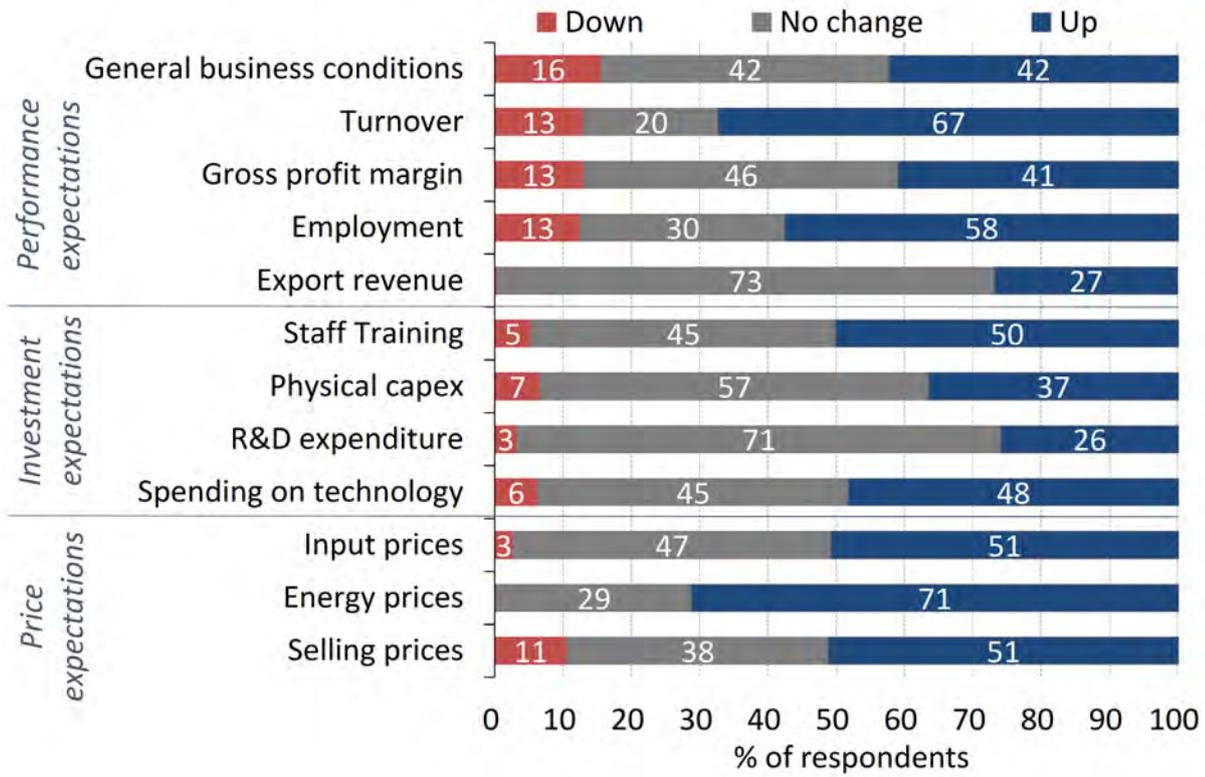
On the pricing side, the majority of CEOs are expecting prices to rise for their **inputs** (51% of CEOs) and their outputs (51% of CEOs) in 2018. This is a higher proportion of businesses planning to implement price rises for their own goods and services in 2018 than in any of the preceding five years.

In contrast, 11% of businesses plan to cut their **selling prices** in 2018. This is the same proportion who had planned to cut their prices in 2017 and lower than the proportions who had anticipated price cuts in each of 2014, 2015 and 2016 (around 16% in each year).

Almost three quarters of CEOs (71%) expect **energy input costs** for their business to rise further in 2018. This comes on top of reported energy price increases for 65% of businesses in 2017.

These significant input cost increases help to account for the more subdued expectations for profit margins than for turnover in 2018, with 67% of CEOs expecting their turnover to improve in 2018 but only 41% expecting their profit margins to improve.

CHART 6 EXPECTATIONS FOR PERFORMANCE, INVESTMENT AND PRICING, 2018



1.4 EXPECTED INDUSTRY CONDITIONS IN 2018 IN MANUFACTURING, SERVICES AND CONSTRUCTION

This year's Ai Group CEO Survey of Business Prospects included responses from all major non-farm private sector industries. Headline results for the three major industry groups of manufacturing, services and construction are below. Further detail is presented in chapters 2 to 4.

Manufacturers are optimistic about 2018, with 67% of CEOs expecting an increase in turnover compared to 13% of CEOs expecting a decrease (+54% net balance). 51% expect their gross profit margins to increase and 22% expect their gross profit margins to decrease (+29 net balance). The low expectations of margin growth relative to expectations of sales growth are related to expectations of rising input prices and especially rising energy prices, with 85% of manufacturers anticipating their energy costs to increase in 2018.

Australian manufacturing CEOs reported a better year in 2017 than in the previous five years. Australian manufacturing experienced a strong year in 2017 despite facing major headwinds such as the closure of passenger car assembly, high energy prices and growing skills shortages. For the first time in the survey's history more manufacturing CEOs in 2017 reported that business conditions improved instead of deteriorated (52% reported improving conditions while 24% reported deteriorating conditions). Manufacturing accounted for 5.9% of GDP (value added output) and 7% of employment in 2017.

Services businesses are also more optimistic about 2018, expecting a continuation of the improved business conditions experienced in 2017. 40% of CEOs expect general business conditions to improve, while 17% expect a deterioration (+23% net balance). Energy prices remain a concern across the services industry with 68% of CEOs expecting their energy prices to increase.

Services businesses reported improved conditions in 2017 compared to 2016: 43% of CEOs reported an improvement in business conditions compared to 25% that reported a decline in business conditions.

The services industries included in this report are finance; healthcare; professional services; education; transport; retail trade; wholesale trade; IT and telecommunications; real estate services; administrative services; hospitality; personal services; and arts and recreation. Together these industries accounted for around 54.8% of GDP (value added output) and 72% of employment in 2017.²

As is the case for manufacturers and service providers, **construction businesses** are optimistic about 2018 although rising energy prices and input costs remain a concern. An encouraging 84% of construction CEOs expect their sales turnover to increase in 2018 and 55% expect an improvement in business conditions. Energy prices are expected to continue to rise in 2018, with 80% of construction CEOs expecting energy prices to rise and 20% expecting no change.

² Public administration (government services) is another large services industry but it is excluded from the scope of this report. Public administration accounted for around 5.5% of GDP and 6.0% of employment in 2017.

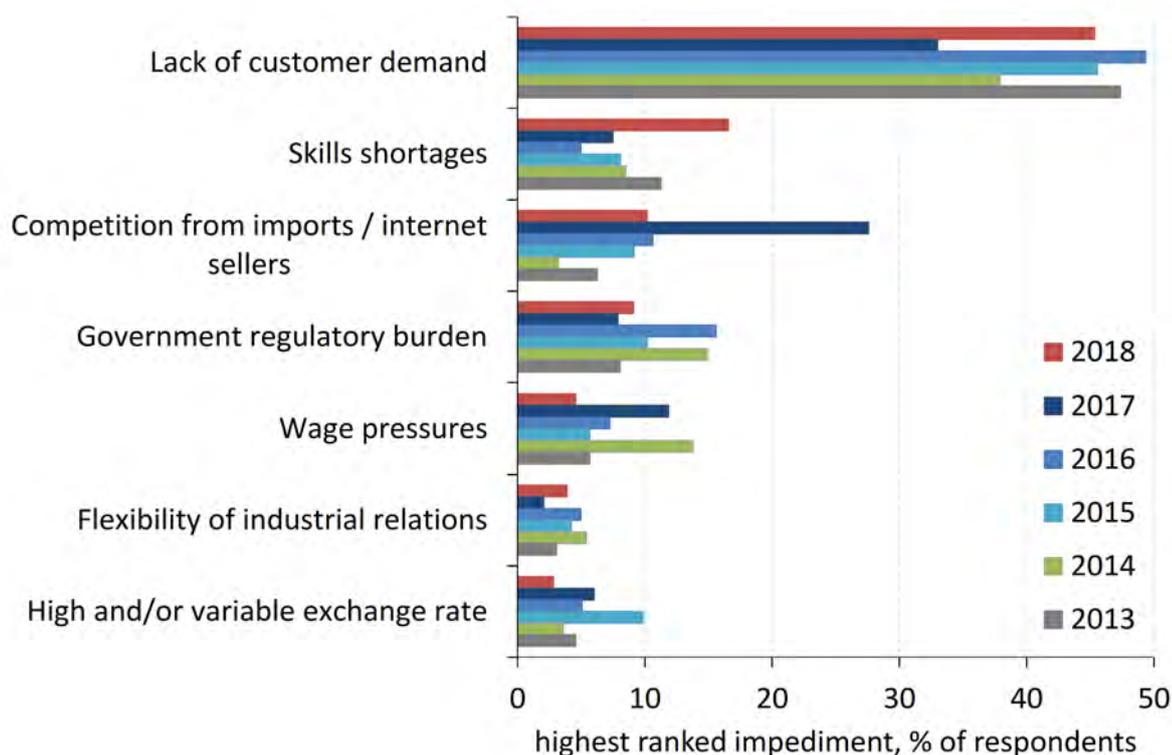
1.5 CHALLENGES FOR BUSINESS IN 2018

When asked about the factors expected to inhibit growth prospects in 2018, 44% of CEOs identified ‘lack of customer demand’ as their most significant constraint. This was up from 33% of CEOs in 2017, but lower than the proportion nominating customer demand as their top concern in 2016 and 2015.

Labour market concerns feature prominently for CEOs in 2018. The second most pressing concern for CEOs in 2018 is skill shortages, with 17% of CEOs nominating this as their top concern. This is more than double the proportion identifying skill shortages as an impediment in 2017 (8%) and triple the proportion in 2016 (5%). A further 4% of CEOs said the flexibility of industrial relations is their top concern in 2018, up from 2% in 2017. These concerns reflect rising demand for labour in 2017 and 2018, as indicated across a range of data sources including the monthly ABS labour force surveys and Ai Group’s **Australian PMI®**, **PSI®** and **PCI®**. As noted above, over half of businesses (58%) in this year’s CEO survey plan to increase employment in their business in 2018, so rising concerns about skill shortages are not out of place. Wage pressures were not an immediate concern for many businesses in 2018, with only 5% of CEOs ranking wage pressures as their highest concern in 2018, down from 12% of CEOs in 2017.

Reflecting the lower trading range for the dollar in 2017, concerns about high and/or variable exchange rates, competition from imports and competition from internet sales all abated in 2018, compared to previous years. Concerns about imports and online competition dropped to 11% of CEOs in 2018, compared to 28% in 2017. Concerns about the exchange rate dropped to 3% of CEOs in 2018.

CHART 7 EXPECTED IMPEDIMENTS TO BUSINESS GROWTH*, 2013 TO 2018



* Highest ranked answer in response to “What factors do you expect will inhibit your business growth in 2018?”

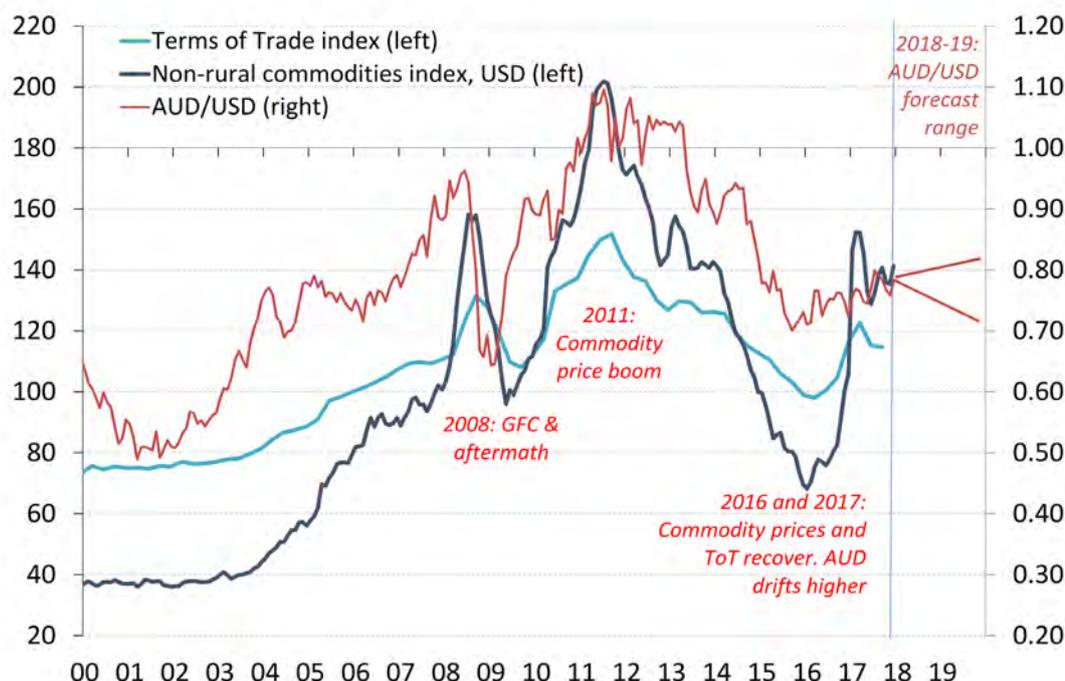
1.6 GLOBAL COMPETITIVENESS OF AUSTRALIA'S BUSINESS ENVIRONMENT IN 2018

The global competitiveness of Australian business was assisted by a lower trading range for the Australian dollar (AUD) through 2016 and 2017, at around its long-term average of 75 US cents (Chart 8). The high dollar was a key difficulty for Australia's manufacturing sector from 2010 to 2015 (the domestic dollar traded at well over 90 US cents for most of this extended period) and its return to a more 'normal' trading range has been instrumental to the recovery of some manufacturing sectors during 2016 and 2017, allowing them to build up their exports and to replace imports in the domestic market (see Chapter 2).

Australia is a major resources exporter (iron ore, coal, LNG), so the AUD is heavily influenced by these global commodity prices (which also affect Australia's terms of trade). Commodity prices fell to a recent low in early 2016 but have since made a partial recovery. This saw the AUD and Australia's terms of trade drift higher again through 2017, but it has generally stayed below 80 US cents.

Further rises in global commodity prices or a more bullish outlook for domestic interest rates could see the dollar hold above 80 US cents, which would erode the cost competitiveness of Australia's exports and of import-competing items. Forecasts for the Australia dollar always vary widely, but as of December 2017, the Commonwealth Bank (CBA), UBS, HSBC and the ANZ Banking Group were tipping the AUD to rise to 81 or 82 US cents by mid-2018. CBA, UBS and HSBC all forecast the AUD to remain above 80 US cents to the end of 2018, while ANZ Banking Group sees it settling back to 74 US cents by year end. Other AUD forecasters including Westpac, NAB, JP Morgan and Macquarie are less upbeat however (mainly due to a weaker outlook for global commodities) and expect the AUD to stay around 74 to 77 cents through 2018.

CHART 8 AUSTRALIAN DOLLAR, COMMODITY PRICES AND TERMS OF TRADE

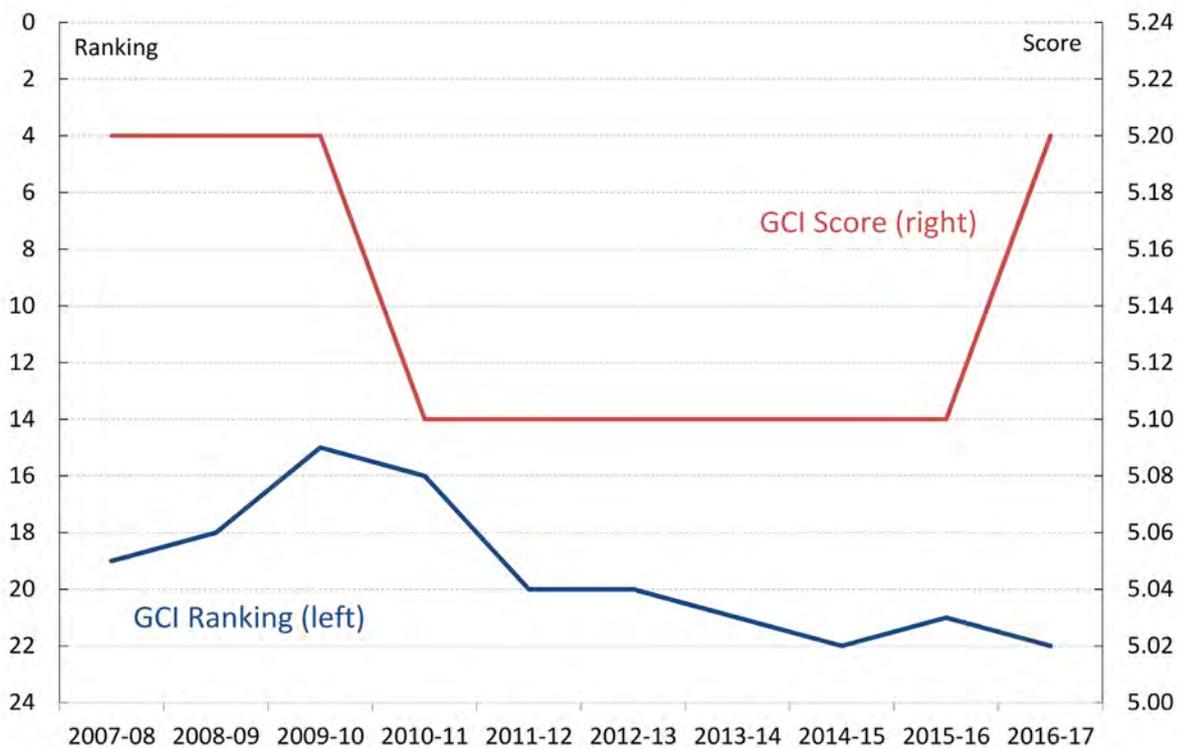


Sources: ABS National Accounts, Sep 2017; RBA commodities index to Dec 2017; RBA exchange rates, to Dec 2017.

Relative costs and the exchange rate are not the only factors influencing the global competitiveness of Australian businesses and the Australian business environment. The World Economic Forum's (WEF) annual Global Competitiveness Report examines hundreds of indicators of competitiveness³ and then compares and ranks them across 144 countries. In 2016-17 (the latest year available), Australia dropped one place to rank as the 22nd most competitive economy globally, indicating a slight deterioration in national business competitiveness compared to one year earlier (Chart 9). This equals Australia worst ranking which was previously recorded in 2014-15.

This year's slide in Australia's ranking occurred despite Australia's Global Competitiveness Index (CGI) score edging up by 0.1 points to 5.2 out of a possible 7 points in 2016-17. This was the first change in Australia's score since 2010-11 (see Chart 9). This combination of a better score but a worsening ranking indicates that although Australia's competitiveness score improved slightly, other countries improved by a greater extent, thus pushing Australia down one place in the rankings.

CHART 9 AUSTRALIA'S GLOBAL COMPETITIVENESS INDEX SCORE AND RANK



Source: WEF Global Competitiveness Report and database, Sep 2017.

3. WEF global competitiveness indicators are derived from IMF, OECD, World Bank and other global databases, supplemented with an annual executive opinion survey that is conducted globally. The Ai Group conducts the annual executive opinion survey in Australia on behalf of the WEF. These indicators are then arranged into twelve themes or 'pillars' including: institutions; infrastructure; education; health; efficiency; labour markets; technology; business sophistication and innovation.

The more detailed indicators and 'pillars' indicate that Australia's competitive strengths in 2016-17 were:

- > 'financial market development' (6th);
- > 'higher education and training' (9th); and
- > 'health and primary education' (10th).

Australia's weaknesses (with some unwelcome deteriorations) include rankings for:

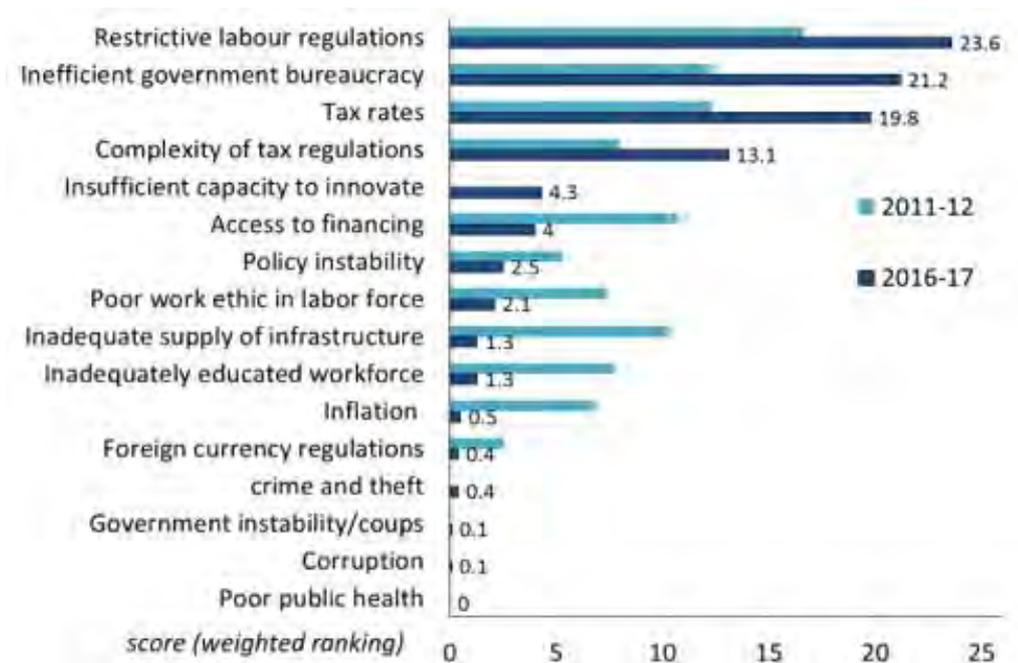
- > 'goods market efficiency' (27th), reflecting our relatively high company tax burden (for which we rank 100th) and weaker tax incentives for business investment;
- > 'technological readiness' (24th);
- > 'business sophistication' (28th); and
- > 'innovation' (26th).

Australia continues to rank relatively poorly on 'labour market efficiency', but 2016-17 saw some improvement in this indicator, up 8 places to 28th place. This is a big improvement from 56th place for 'labour market efficiency' for Australia in 2014-15.

The WEF Report also identifies the five 'most problematic factors for doing business in Australia' in 2016-17, as identified by CEOs participating in the WEF's Global Executive Opinion Survey (see Chart 10). These are:

- > Restrictive labour regulations (reflecting labour and skill inflexibilities rather than high labour costs), which have been identified as the most problematic factor for Australian business since 2011-12.
- > Inefficient government bureaucracy;
- > High tax rates;
- > Complexity of tax regulations; and
- > Insufficient capacity to innovate, which is becoming a more prominent issue for Australian business.

CHART 10 AUSTRALIA'S 'MOST PROBLEMATIC FACTORS FOR DOING BUSINESS' IN 2016-17 AND 2011-12*



* From this list of factors, respondents were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5 (least problematic). The score corresponds to the responses weighted according to their rankings. Source: WEF Global Competitiveness Report and database, Sep 2017.

Australia's ranking of 22nd most competitive economy in 2016-17 lags behind most of our peers including Canada (15th), New Zealand (13th), Japan (8th), the UK (7th), the US (3rd) and Singapore (2nd). Australia's largest trade partner, China, was ranked the 28th most competitive economy, the same as in 2015-16. The top three competitive economies in 2016-17 are Switzerland (1st), Singapore (2nd) and the US (3rd), unchanged from 2015-16.

A similar global ranking is produced regularly by the World Bank, comparing a smaller number of competitiveness indicators across 190 countries globally. In 2017, the World Bank ranked Australia the 15th best economy for 'doing business', down from 13th best economy in 2016. In the World Bank's list, Australia ranked behind New Zealand (1st), Hong Kong (4th), the UK (7th) and the US (8th) but ahead of Canada (22nd) and Japan (34th) in 2017. The more detailed findings indicate that Australia's business environment ranked well for starting a business, obtaining construction permits and obtaining credit, but ranked poorly for cross-border trade, insolvency procedures, taxation procedures, property transfer procedures and investor protections (see Chart 11). The World Bank ranking does not include indicators of labour market performance, skills and education, business sophistication or business innovation.

CHART 11 AUSTRALIA'S GLOBAL RANKINGS FOR 'DOING BUSINESS', 2017



Source: World Bank, *Doing Business 2017. Economy profile: Australia, May 2017.*

1.7 STRATEGIES FOR BUSINESS IN 2018

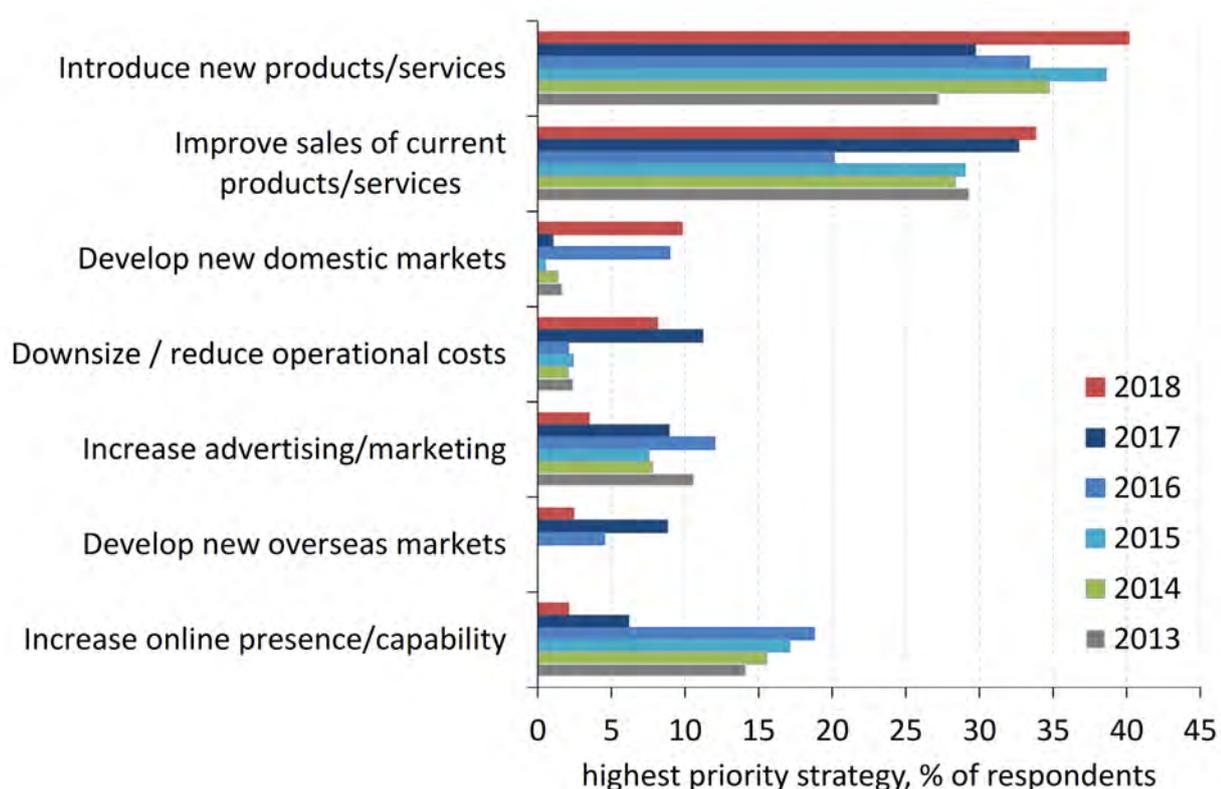
Business planning and strategy are important tools in responding to the business environment. In 2017, 56% of CEOs said they changed their business model, plan or strategy during the year in response to changing conditions (up from 47% in 2016). Just 6% of CEOs said they didn't have a plan or strategy in 2017 (down from 15% in 2016, 10% in 2015 and 12% in 2014). This suggests a clear improvement in the rate of businesses using formal plans and strategies to assist their business growth.

Among survey respondents, 40% of CEOs plan to concentrate on introducing new products or services to their customers in 2018. 34% plan to focus instead on improving sales of their current offering of goods and services. More plan to develop new markets within Australia (10% of CEOs) than plan to work on developing new export markets (2% of CEOs).

Downsizing and/or reducing operational costs is the top priority for 8% of CEOs in 2018, down from 11% in 2017 but still higher than in earlier previous years. Many other CEOs listed cost reductions as one of many strategies they will utilize each year, but not their single highest priority. This heightened focus on internal cost reductions in 2017 and 2018 appears to be in response to rising energy input costs.

Fewer CEOs rank advertising/marketing and increasing online capabilities as their top business strategy in 2018 than in previous years, choosing to focus on their products and services instead.

CHART 12 TOP PRIORITIES FOR BUSINESS STRATEGY*, 2013-2018



* Highest ranked answer in response to "What is the most important growth strategy that you plan to implement in your business in the year ahead?"

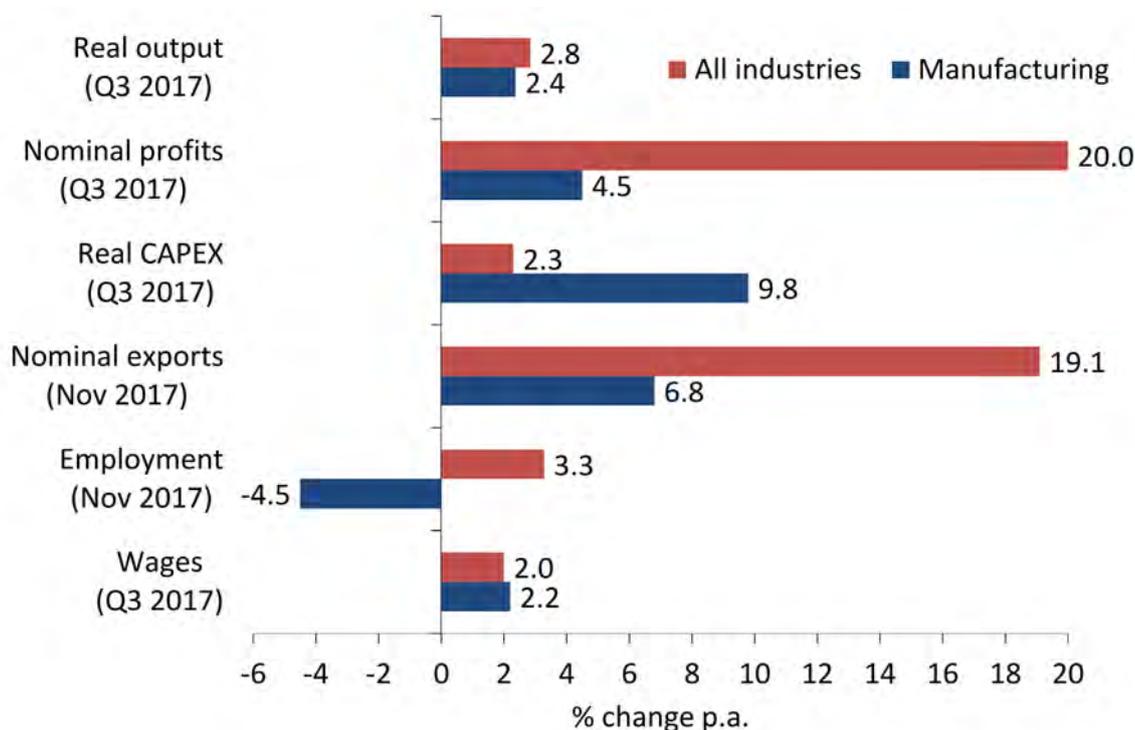
2. MANUFACTURING PROSPECTS IN 2018

Australian manufacturing businesses produce a very wide range of goods and services including food, beverages, transport and other equipment, machinery, metal products, petroleum-based products, rubbers, chemicals, pharmaceuticals, non-metallic mineral products (mainly building materials), wood and paper products, textiles, clothing, furniture, household goods, printed materials and recorded media.

2.1 MANUFACTURING CONDITIONS IN 2017

Australian manufacturing experienced a strong year in 2017 despite facing major headwinds such as the closure of passenger car assembly, high energy prices and growing skills shortages. After experiencing a sustained period of shrinkage since Australia's most recent peaks in 2008, manufacturing output and employment appear to have stabilised. The most recent data suggests that manufacturing output continued to grow in 2017 with manufacturing investment relatively strong. However, employment in the sector lost some of the gains made in 2016. Manufacturing value-added (the ABS' preferred measure of real output volumes) improved by 2.4% p.a. in the September quarter (Q3) of 2017. Total employment peaked at 927,100 in November 2016 before sliding to 885,500 in November 2017, just above the trough of early 2016 of 878,100 (trend). Wages in the manufacturing sector were above the average across the economy, growing by 2.2% p.a. compared to 2.0% p.a. for all industries in Q3 2017 (see Chart 13).

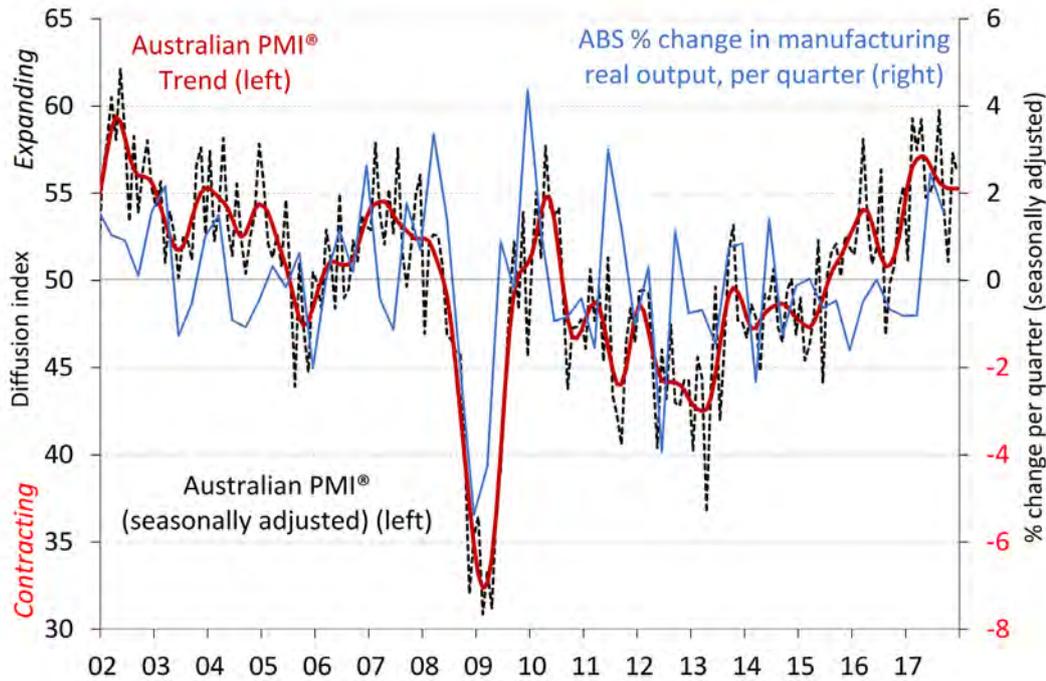
CHART 13 MANUFACTURING KEY INDICATOR GROWTH, 2017



Notes: Output, CAPEX and profits are seasonally adjusted, exports are non-adjusted 12-month rolling sum of the FOB value, employment is trend and wages are the non-adjusted wage price index.
Source: ABS

Ai Group's **Australian PMI**[®] indicated stable or expanding activity in every month of 2017 and has now been growing or stable for fifteen consecutive months, the longest run since 2005 (see Chart 14). Although manufacturers reported an increase in activity throughout 2017, this did not translate into higher profits, with margins being squeezed by higher input prices largely relating to energy costs. The input prices sub-index drifted upwards in 2017 to a six-year high in November, while the selling price index expanded moderately for most of 2017, signalling that only some manufacturers were able to pass on cost increases to their customers.

CHART 14 MANUFACTURING KEY INDICATOR GROWTH, 2017



Source: Ai Group, ABS

The large food, beverages and tobacco sub-sector continued to expand in 2017 benefiting from growing demand from Asia (partly facilitated by Free Trade Agreements). Sub-sectors exposed to residential construction appear to be decelerating, although large infrastructure projects are filling some of the gaps. The large metal products sub-sector experienced a strong recovery early in 2017, benefiting from construction and engineering activity, before cooling towards the end of year.

The machinery and equipment sub-sector indicated a healthy rate of recovery throughout 2017 although the pace of growth eased towards the end of the year. This sector previously included passenger car assembly which invested heavily in local facilities and capabilities but has now exited Australia. Non-automotive respondents from this sub-sector in the **Australian PMI**[®] noted increased demand for specialist equipment from food processing, agriculture, mining, transport utilities and construction customers in 2017.

TABLE 2 MANUFACTURING INDUSTRIES: OUTPUT AND EMPLOYMENT, 2017

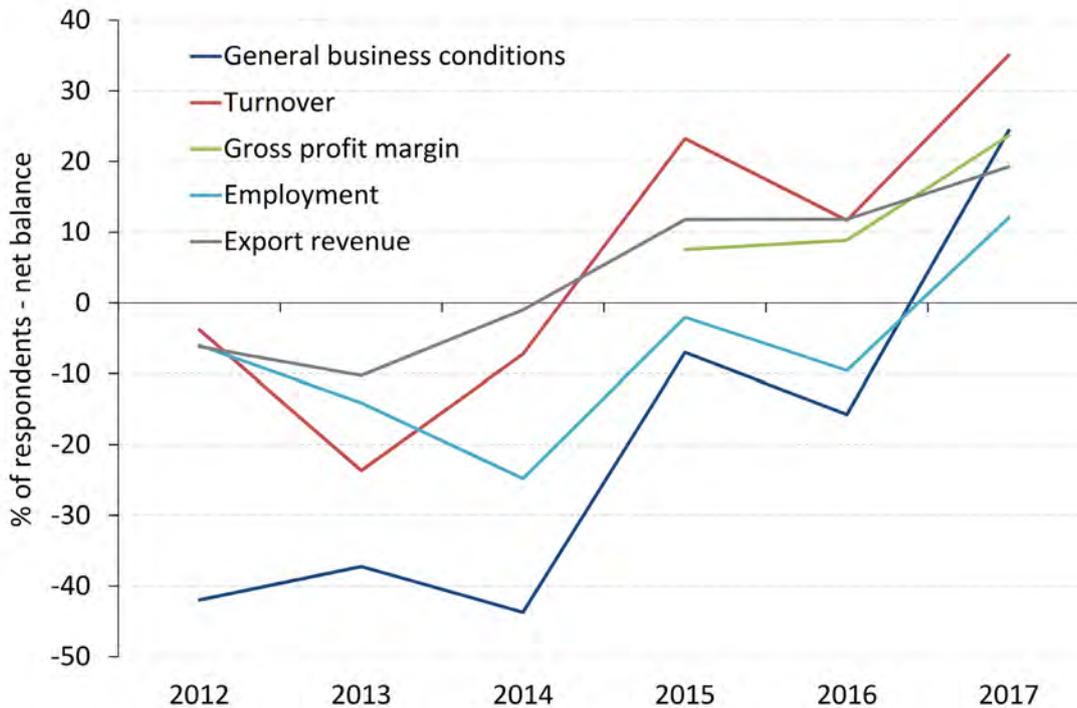
Industry (ANZSIC codes)	\$mn Sep qtr	Value added output, Sep 2017 (seasonally adjusted data)		Employment, Nov 2017 (original, unadjusted data)		
		% share of manufac.	year on year change, %	'000 people	% share of manufac.	Annual % change
Food, beverage and tobacco	7,026	27.6	7.9	228.0	26.0	-6.1
Petroleum & Chemicals	4,706	18.5	1.3	79.9	9.1	-28.2
Metal products	3,778	14.9	-3.5	135.8	15.5	6.7
Machinery and equipment	4,571	18.0	0.7	176.1	20.1	-12.9
Other manufacturing	5,356	21.1	2.2	256.3	29.3	-13.7
Manufacturing	25,437	5.9% of GDP	2.4	876.0	7.0% of all employed	-9.7
Australian Economy (GDP)	430,724		2.8	12,445.7		3.2

Note: The ABS has consolidated four manufacturing sub-sectors: non-metallic mineral products; wood and paper products; textile clothing and other manufacturing; and printing and recorded media - into the 'other manufacturing' sub-sector in the National Accounts.

Sources: ABS Australian National Accounts Sep 2017; ABS Labour Force Australia, Detailed Quarterly, Nov 2016.

Australian manufacturing CEOs participating in this year's survey reported a better year in 2017 than in the previous five years (see Chart 15). For the first time in the survey's history more manufacturing CEOs reported that business conditions improved instead of deteriorated. In 2017, a net balance of 28% of manufacturing CEOs stated business conditions were better in 2017 (52% reported improving conditions while 24% reported deteriorating conditions), compared to a net balance of 9% reporting worse conditions in 2016 (34% reported improving conditions, 43% reported worse conditions).

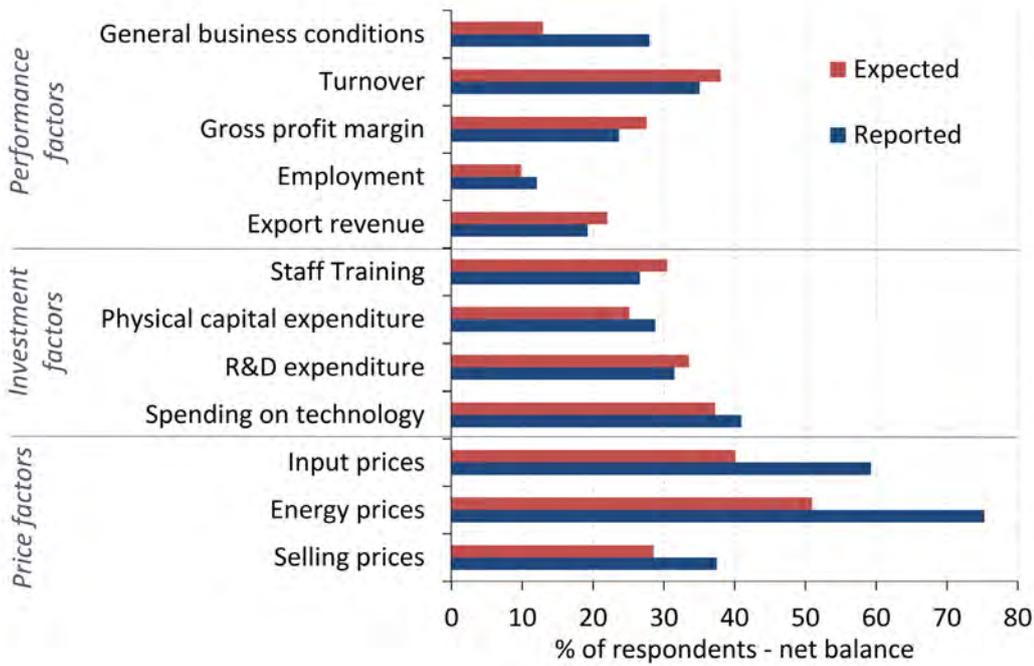
CHART 15 NET BALANCE OF REPORTED MANUFACTURING CONDITIONS



Manufacturing CEOs reported improving performance measures compared to 2016. In particular, 60% of manufacturing CEOs said their turnover increased in 2017 while 25% reporting decreased turnover (+35% net balance). There was a moderate improvement in gross profits margins in 2017, with 49% CEOs reporting improving gross profit margins in 2017 with an average increase of 16% and 25% reporting a decline, with an average decrease of 21%.

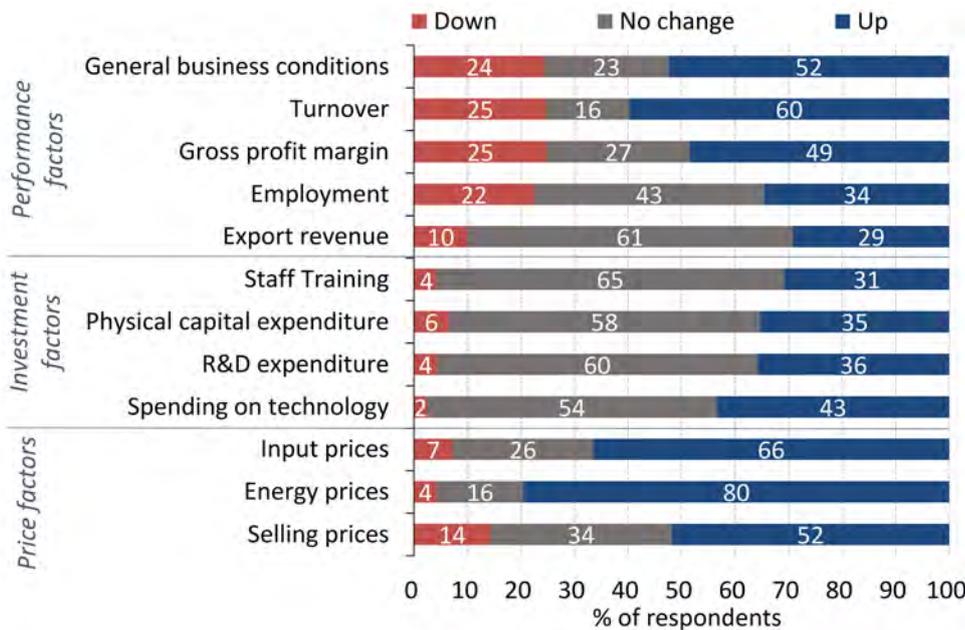
Business conditions in 2017 exceeded expectations (see Chart 16). A net balance of 13% of manufacturers had expected better conditions in 2017, whereas a net balance of 28% reported better conditions in 2017. Manufacturing CEOs reported input, energy and selling prices were higher than expectations in 2017 with these cost rises exceeding expectations more so than for selling prices. For 2017, 80% of manufacturers reported increasing energy costs with an average increase in their energy costs of 31%, 67% reported increasing input prices with an average increase of 7% and 52% reported increases in their selling prices with an average increase of 4%. This highlights that margin pressures are an ongoing issue for manufacturers. This could also explain why business conditions exceeded expectations in 2017 while performance measures such as turnover, gross profit margin and export revenue fell short of expectations.

CHART 16 MANUFACTURING EXPECTED VS REPORTED CONDITIONS, 2017



On the investment side, the number of CEOs that reported an increase in investment outnumbered those that reported a decrease across the four investment questions (see Chart 17). Investment on capital expenditure and technology exceeded expectations in 2017, with 35% and 43% of respondents reporting an increase in investment with an average increase of 111% and 43%, respectively. Spending on R&D and staff training also increased from 2016 but failed to meet expectations from the start of the year. Of those that reported an increase in R&D expenditure (36%), the average increase was 18%. Of those that reported a decrease in R&D expenditure (4%), the average decrease was 32%. The average decrease in staff training expenditure was higher than the average increase in expenditure on staff training, with 29% of respondents reporting an average increase of 23% expenditure on staff training and 4% of respondents reporting an average decrease of 43% of expenditure on staff training.

CHART 17 CHANGE IN REPORTED MANUFACTURING CONDITIONS, 2017

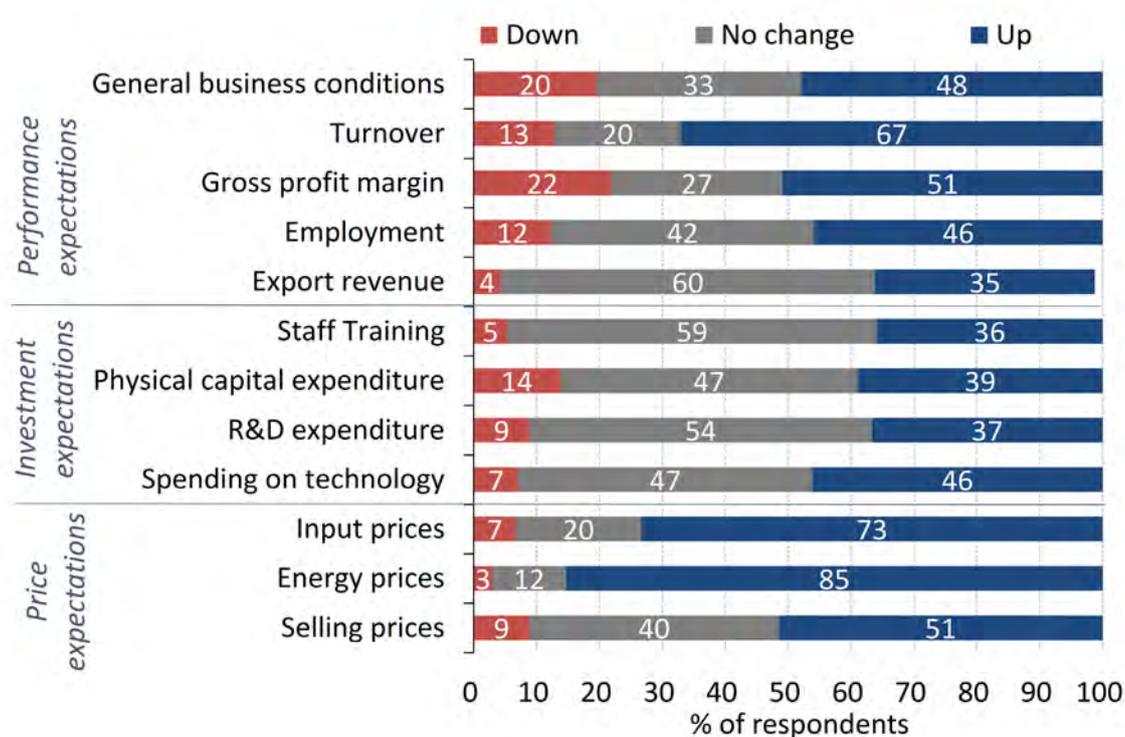


2.2 MANUFACTURERS' EXPECTATIONS FOR 2018

Manufacturing CEOs are optimistic about business conditions for 2018, expecting a continuation of the favourable business conditions experienced in 2017 (see Chart 18). For this year, 48% expect business conditions to improve, while 20% expect a deterioration (+28% net balance). Regarding their own specific conditions, manufacturing CEOs expect broad-based improvement in 2018. In particular, 67% of CEOs expect an increase in their own sales turnover and 51% expect an improvement in their gross profit margins in 2018, while 13% expect a decline in sales (+54% net balance) and 22% expect a decline in profitability (+29% net balance).

CEOs expectations for turnover are significantly higher than they were for 2017 but profitability expectations are similar. Manufacturers expect input price pressures to continue in 2018, with a tellingly high 85% expecting a further increase in energy prices and only 3% expecting a decline (+82% net balance). Energy intensive manufacturers are among the businesses hardest hit by rising energy prices and some are highly trade exposed with little ability to pass through cost increases to customers. Input prices are expected to continue increasing with 73% of CEOs expecting an increase in 2018 compared to 51% expecting an increase in selling prices.

CHART 18 EXPECTED CHANGE IN MANUFACTURING CONDITIONS, 2018

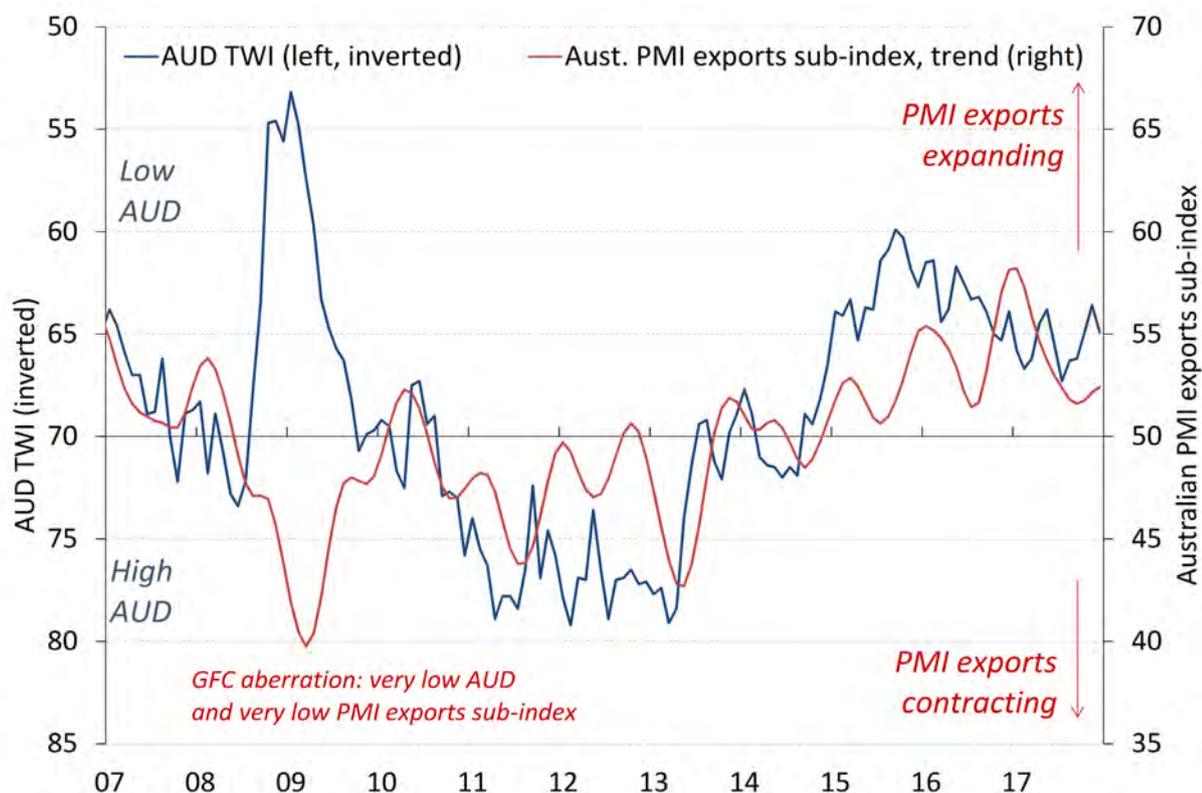


2.3 PROSPECTS FOR MANUFACTURING EXPORTS

Australia’s manufacturing sector is diverse and comprised of multiple sub-sectors that are continuing to adapt to changes in their operating environments. The partial recovery in 2017 was despite Australia bidding farewell to the passenger car assembly sector, which contributed so prominently to Australia’s advanced manufacturing activities for at least 70 years. Intense pressure from global competition, a high AUD during the mining investment boom, high labour costs and disruptive technological change have meant manufacturing firms have had to innovate and invest, with many looking to sell on the global stage.

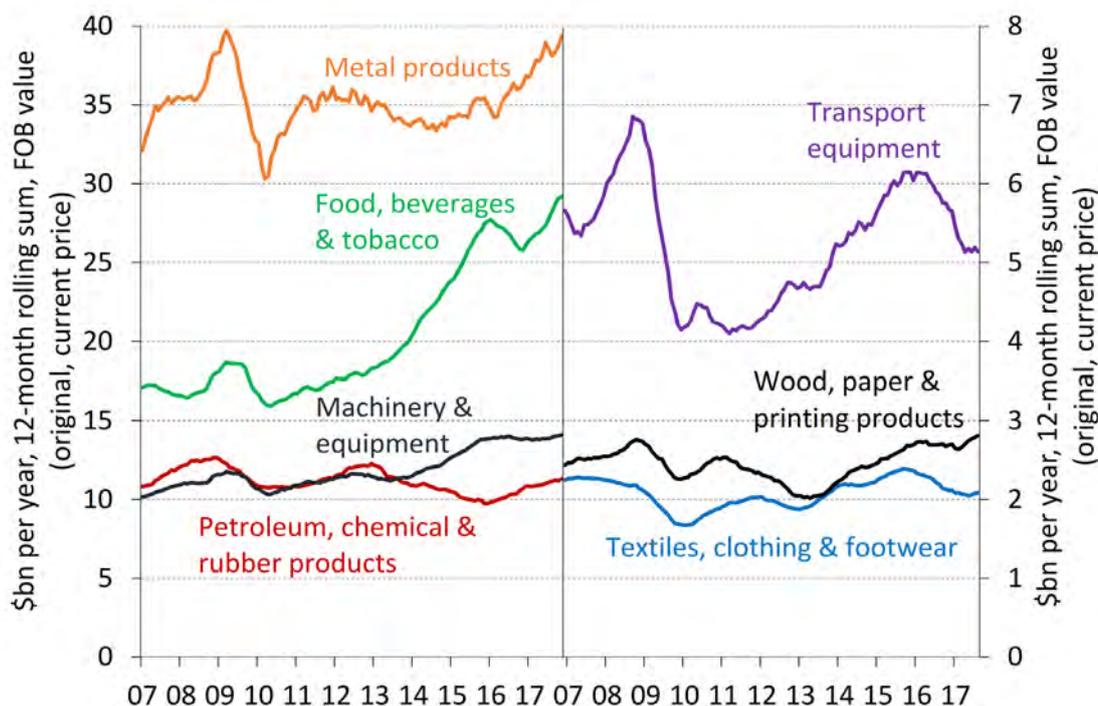
Reflecting the strong performance of the **Australian PMI®** exports sub-index, manufacturing exports increased 6.6% through the year to November 2017, to a record \$103.8bn⁴ (see Chart 19 and Chart 20). The increase in exports was largely driven by the most export oriented sub-sectors: food and beverages (up 13.2% p.a. to \$29.2bn p.a.) and metal products (up 8.3% to \$39.4bn p.a.). All sub-sectors experienced increases in exports except for transport equipment (-14.9% p.a.) and textiles and clothing (-0.3% p.a.). Interestingly, the two sub-sectors with a relatively high share of imported intermediate products - the machinery and equipment (up 2.0% p.a. to \$14.1bn) and the petroleum, coal & chemicals (up 5.9% to \$11.3bn) sub-sectors - also experienced increases in exports.

CHART 19 AUSTRALIAN PMI® EXPORT SUB-INDEX VS RBA AUD TRADE WEIGHTED INDEX (AUD TWI), 2007-2017



4. All exports are FOB value.

CHART 20 MANUFACTURING EXPORTS, TO NOVEMBER 2017



Source: ABS, *International Trade in Goods and Services*, November 2017

The increase in manufacturing exports was also reflected in this year's survey, with 29% of manufacturing CEOs reporting an increase in export revenue in 2017 (+19 net balance). For those manufacturers that increased their export revenue during the year, the average increase was a significant 36%, suggesting that the manufacturers exploring export opportunities are unlocking significant new sales opportunities.

Export revenue should continue to play a key role in manufacturers' growth. An encouraging 35% of CEOs expect an increase in export revenue in 2018, while only 4% expect a decrease (+31% net balance). Key to this ongoing export growth for a large chunk of manufacturing will be the future trajectory of the dollar. In many cases, exporters are also importers, and so the dollar is genuinely a double-edged sword.

For export markets, nearly all manufacturers expect to be competitive below US 70 cents and 90% expect to be competitive at or below US 80 cents (see Table 3). However, above this point, most manufacturers expect to be uncompetitive in export revenue, with only 39% expecting to be competitive in the US 81-90 cent range and only 9% in the over US 91 cent range. Manufacturers competing with imports generally require a lower exchange rate, with the majority of these manufacturers competitive up to US 80 cents (76%), but significantly less remain competitive past this point. Perhaps reflecting the greater intensity of global competition, the proportion of manufacturers competitive past this point has fallen significantly in recent years.

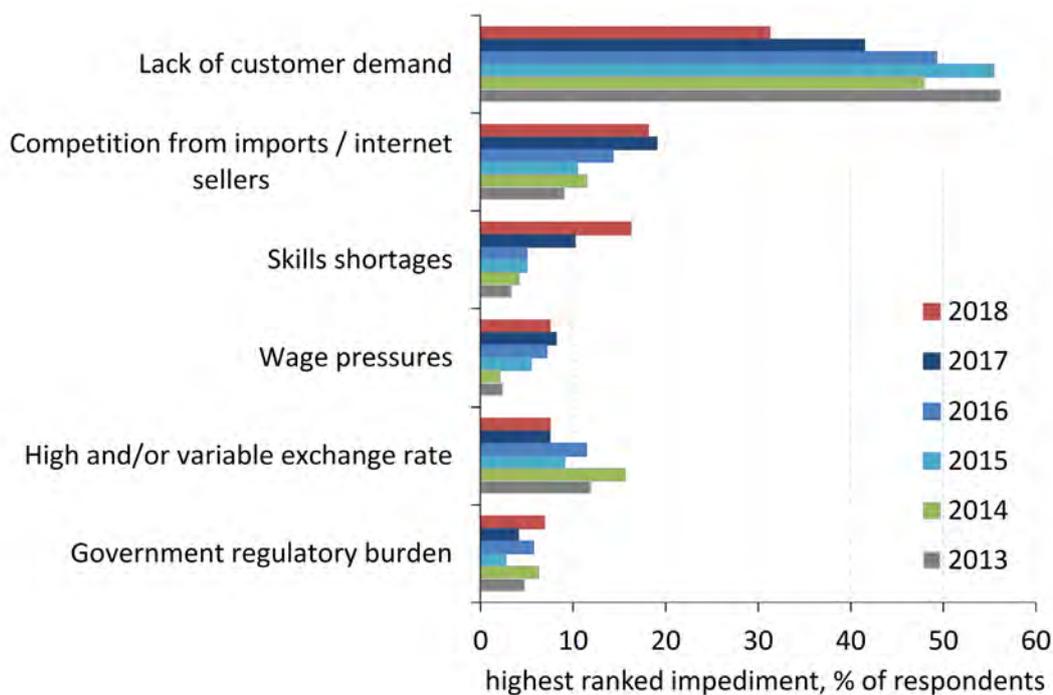
TABLE 3 MANUFACTURERS COMPETITIVE EXCHANGE RATES, 2014-2018

Level AUD/USD	Competitive in export markets									
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
0.50 - 0.60	100	100	100	100	100	100	100	100	100	100
0.61 - 0.70	97	98	96	97	97	94	98	91	97	96
0.71 - 0.80	95	94	83	89	90	93	94	76	70	76
0.81 - 0.90	76	63	44	38	39	76	66	35	29	26
0.91 - 1.00 +	37	29	11	10	9	43	24	16	7	7

2.4 CHALLENGES FOR MANUFACTURERS IN 2018

When asked about the challenges expected to inhibit business growth in 2018, 31% of manufacturing CEOs identified a lack of customer demand as their most significant impediment. This was down from 42% of CEOs in 2017, and substantially down from 49% of respondents in 2016 (see Chart 21).

CHART 21 EXPECTED IMPEDIMENTS TO GROWTH FOR MANUFACTURERS, 2018



The second most concerning constraint for manufacturers in 2018 is competition from overseas and online businesses, with 18% of respondents ranking this as their primary concern. This is comparable to 2017 and higher than 2016 and earlier years.

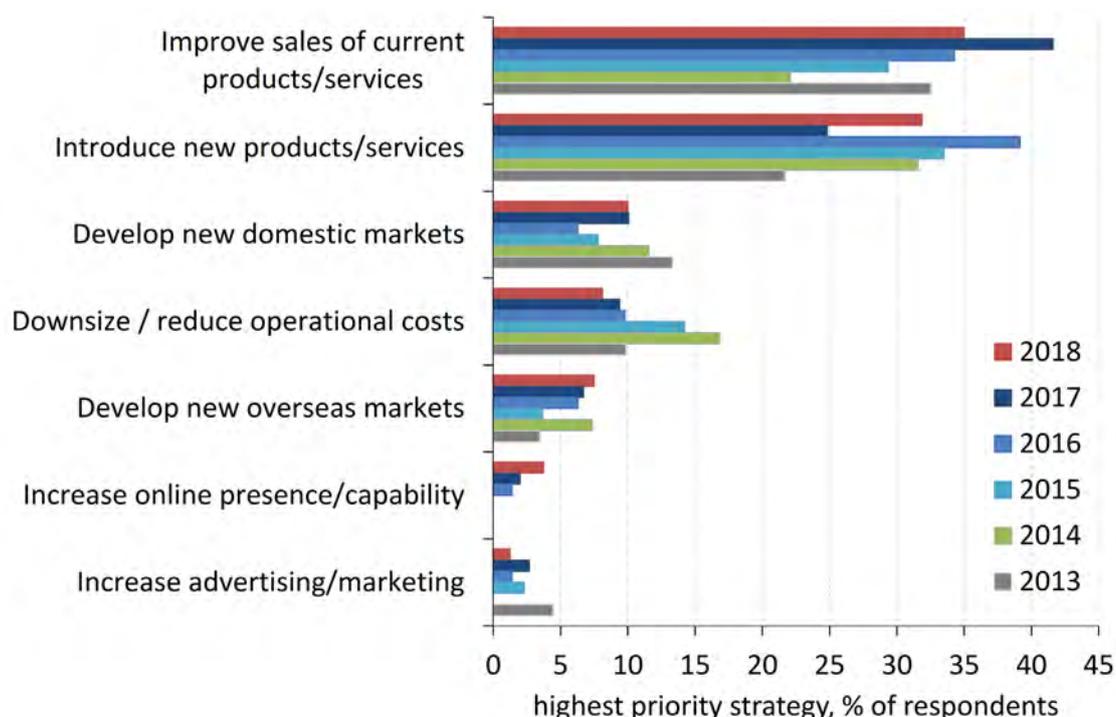
Skills shortages emerged as a considerable concern with 16% of respondents nominating this as their top inhibitor to business growth. Labour force skills and capabilities have increased as a concern for manufacturers since 2013. In 2017 it was the primary impediment to business growth for 10% of respondents - up from 5% in 2016. Wages pressures were a top concern for 8% of respondents, as was a high or variable exchange rate. A high and/or volatile exchange rate is also a concern for businesses importing inputs, exporting or both.

A further 7% of CEOs said government regulatory burden is their top concern in 2018, up from 4% in 2017.

2.5 STRATEGIES FOR MANUFACTURERS IN 2018

Manufacturing businesses expect their growth in 2018 to occur primarily from improving sales of current products and services, with 35% of respondents ranking it as their main strategy for growth. This is down from 42% of manufacturers who rated it their principal strategy in 2017, and a similar proportion of respondents (34%) in 2016 (see Chart 22).

CHART 22 BUSINESS STRATEGIES FOR MANUFACTURERS, 2018



Introducing new products and services is the second most popular strategy for businesses with 32% of manufacturers expecting to grow their business in this way. This is up from a quarter of respondents in 2017 but down from the 39% of manufacturers who favoured this option in 2016. Over the past couple of years there has been a slight change of strategy for manufacturers as more have moved to better leverage growth from existing products and services, than have focused on developing new items. Together these two strategies account for two thirds of the growth plans for manufacturers in 2018.

Developing new domestic markets is the leading growth strategy for 10% of manufacturing businesses, the same proportion as in 2017, and up from 6% in 2016, while downsizing and reducing operational costs has fallen consistently for manufacturers as their primary strategy down to 8% in 2018, from a high of 17% in 2014.

3. SERVICES BUSINESSES' PROSPECTS IN 2018

Services industries that mainly distribute and sell goods to businesses and consumers include transport, storage, wholesale trade and retail trade.

Services industries that mainly provide services to consumers include hospitality (cafes, restaurants, hotels and accommodation), education, healthcare, arts, recreation and personal services (such as hairdressing, mechanics and cleaning).

Services industries that provide services to both consumers and other businesses include IT, media, telecommunications, finance, professions (e.g. legal, accounting and engineering services), administrative services, rental and real estate services.⁵

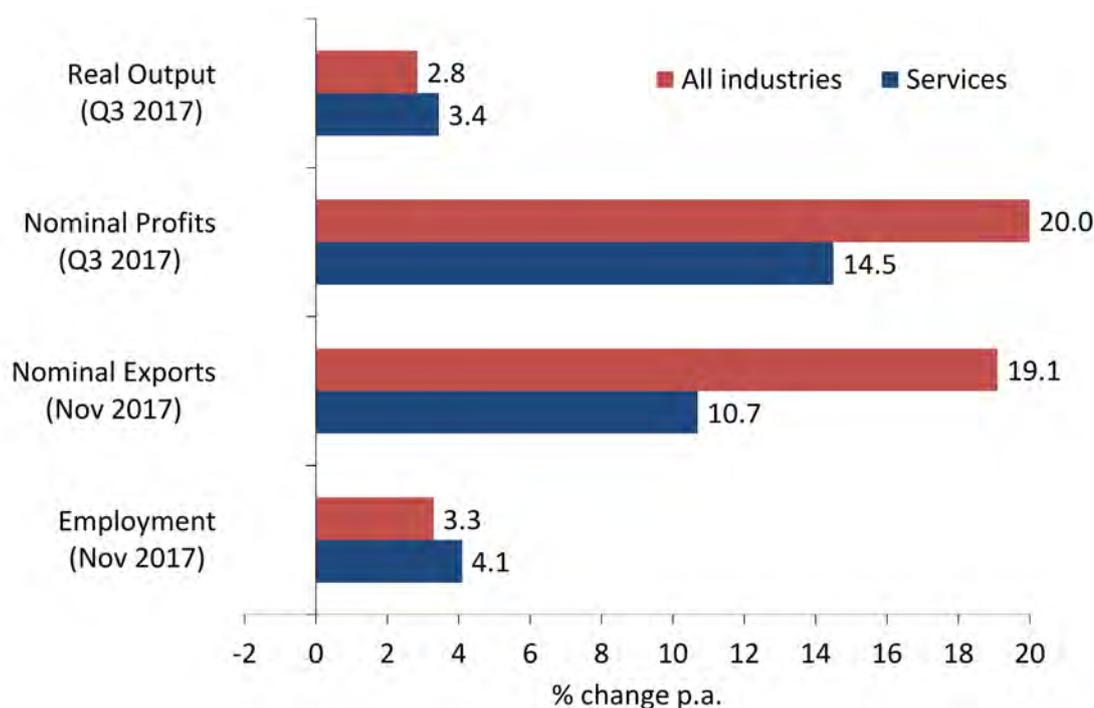
5. Public administration (government services) is another large services industry but it is excluded from the scope of this report. Public administration accounted for around 5.5% of GDP and 6.0% of employment in 2017.

3.1 SERVICES BUSINESS CONDITIONS IN 2017

The services sector outpaced the rest of the economy terms of output and employment growth in 2017 (see Chart 23). Services value-added (the ABS' preferred measure of real output volumes) improved 3.4% p.a. compared to 2.8% p.a. for the Australian economy. Professional services had the strongest annual growth (+6.0% p.a.), followed by health services (+4.6% p.a.) and the financial and insurance sector (+4.5% p.a.). Employment growth in the services sector was one of the main drivers behind the improving labour market in 2017, rising 4.1% p.a. compared to 3.3% p.a. for the entire labour market (trend). Employment growth in the services sector was largely concentrated in predominately lower-wage sectors such as health, retail and food and accommodation services (see Table 4).

Ai Group's **Australian PSI®** experienced a relatively strong year, reflecting an improvement in broader economic conditions (see Chart 24). Differences between services sectors remain apparent, with conditions better in the business-oriented sub-sectors than in the consumer-oriented sub-sectors. Business-oriented sub-sectors noted good levels of demand from the construction, infrastructure and mining sectors, while consumer-oriented sub-sectors reported hesitant consumer spending in 2017. The transport and storage sub-sector faced challenging headwinds from reduced volumes and sharp rises in energy costs. The large health, education and the community services sub-sector contracted in 2017 and probably suggests a pausing or slight reduction in growth rates after a strong period of expansion between 2013 to 2016. In contrast, conditions in personal and recreational services, property and business services, finance and insurance services and wholesale trade were particularly strong.

CHART 23 SERVICES KEY INDICATOR GROWTH, 2017

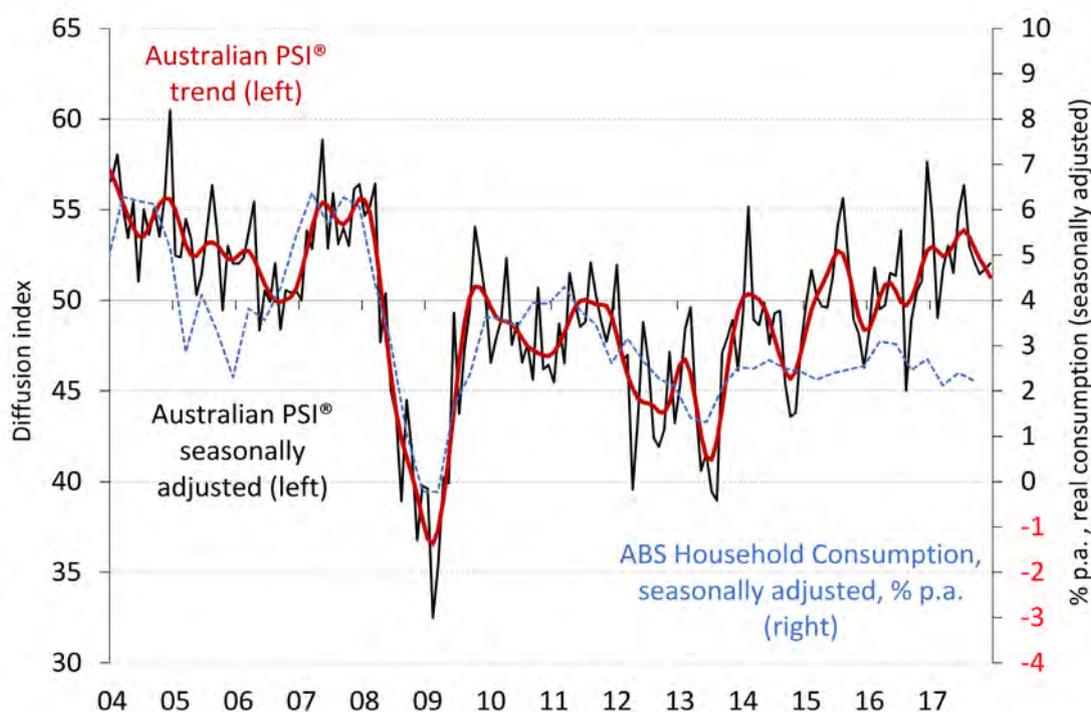


Sources: Ai Group and ABS Australian National Accounts Sep 2016.

TABLE 4 SERVICES INDUSTRIES: OUTPUT AND EMPLOYMENT, 2017

Industry (ANZSIC codes)	Value added output, Sep 2017 (seasonally adjusted data)			Employment, Nov 2017 (original, unadjusted data)		
	\$mn Sep qtr	share of services %	year on year change, %	People employed, '000	share of services %	Annual change %
Wholesale Trade	17,890	7.6	7.9	376.7	4.2	-0.5
Retail Trade	19,281	8.2	1.3	1286.9	14.4	4.9
Food & Accom. services	10,549	4.5	-3.5	896.1	10.0	4.7
Transport, Post & Warehousing	20,618	8.7	.07	646.8	7.2	6.6
IT, Media & Telecomms	11,349	4.8	2.2	215.0	2.4	2.2
Finance & Insurance	38,121	16.1	7.9	420.7	4.7	-3.5
Rental & Real Estate services	12,985	5.5	1.3	218.7	2.4	0.2
Professional services	29,608	12.5	-3.5	1033.0	11.5	0.2
Administrative services	13,668	5.8	.07	401.2	4.5	-7.4
Education	20,856	8.8	2.2	1024.3	11.4	5.5
Health	30,585	13.0	-3.5	1663.9	18.6	8.0
Arts & Recreation	3,489	1.5	.07	248.3	2.8	15.4
Personal & Other Services	7,130	3.0	1.9	524.5	5.9	9.3
Services	236,129	54.8% of GDP	3.4	8956.2	72.1% of all employed	4.1
Australian Economy (GDP)	430,724		2.8	12,420.6		3.3

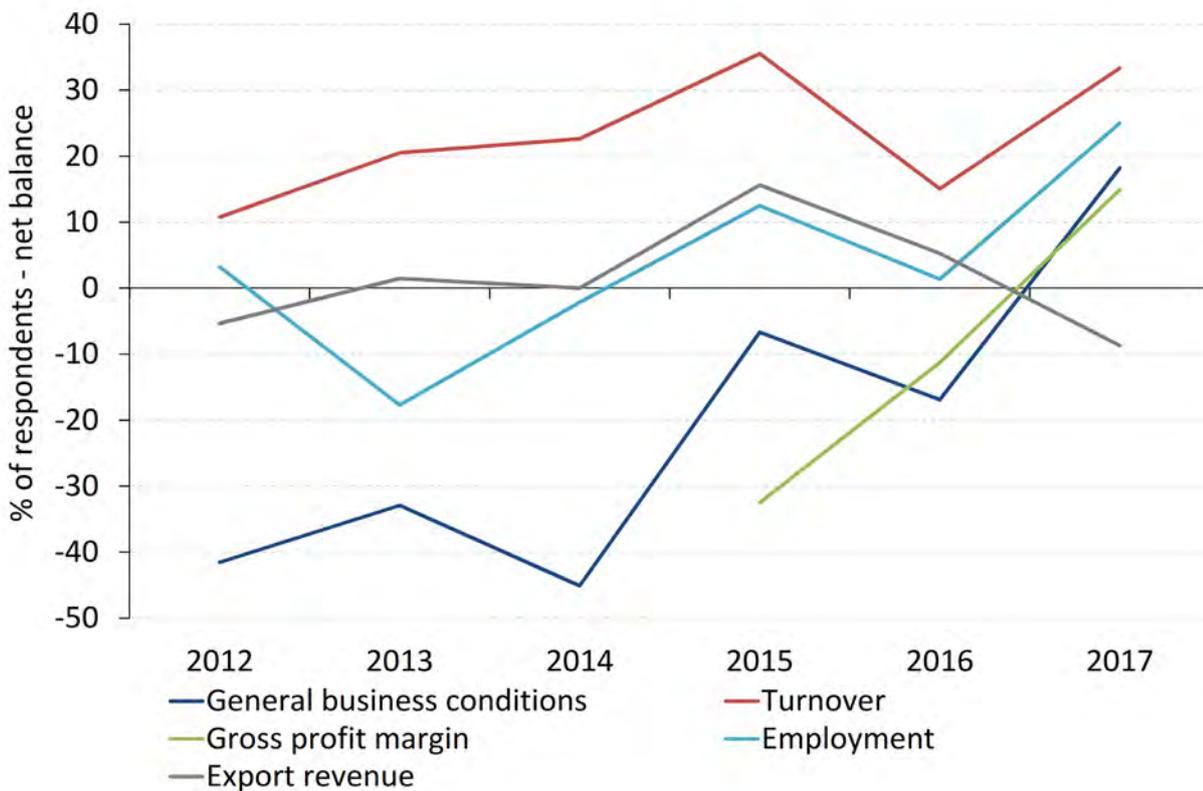
Sources: ABS Australian National Accounts Sep 2017; ABS Labour Force Australia, Detailed Quarterly, Nov 2017.

CHART 24 AUSTRALIAN PSI® AND ABS HOUSEHOLD CONSUMPTION

Sources: Ai Group and ABS Australian National Accounts Sep 2016.

In 2017, services sector CEOs reported improvements across several key performance measures after reporting deteriorating conditions 2016. In particular, business conditions improved substantially and outperformed expectations from the start of 2017. Turnover rebounded after a poor performance in 2016 with 52% of CEOs reporting an increase in turnover while 19% reported declining turnover in 2017 (+33% net balance). Similarly, gross profit margins expanded for a greater proportion of services businesses in 2017 than in the previous two years (see Chart 25). The number of CEOs reporting expanding gross profit margins (36%) outnumbered the proportion of CEOs that reported declining gross profit margins (21%, +15% net balance). Employment numbers did not change for the majority (50%) of services businesses in 2017 although more businesses in the services sector increased their employment numbers (38%) than decreased their employment numbers (13%) in 2017. Export revenue fell for a greater number of businesses than those reporting increases with 22% reporting an average decline in export revenue of 16% and 13% reporting an increase in export revenue (-9% net balance).

CHART 25 SERVICES BUSINESS KEY PERFORMANCE INDICATORS, 2012-2017



Looking at various types of business investment in 2017, spending on technology and staff training increased for 48% and 35% of businesses respectively, mostly in line with expectations at the start of the year (see Chart 26). For businesses reporting an increase in spending on technology, the average increase was 36% while the average increase for businesses reporting an increase in spending on staff training was 11%. R&D expenditure was slightly above expectations in 2017, with 23% of CEO's reporting an increase in spending and most respondents reported no change from 2016 (77%). In 2017, the number of CEOs reporting an increase in spending on physical capital fell to 21%, while the number of CEO's reporting a decrease in spending increased to 12% (+8% net balance).

As with manufacturers, energy prices increased for more service businesses in 2017 (see Chart 26), with 63% of CEO's reporting an increase in energy prices (+54% net balance), with an average price increase of 9.4%. Input prices for services were better in 2017 than in 2016, with 40% reporting an increase in input prices in 2017, compared to 45% in 2016 and slightly more respondents reporting declining input prices in 2017 (13%) compared to 2016 (9%). Selling prices improved from 2017, increasing for 41% of CEO's and decreasing for 17% (+23% net balance). This net balance is in line with CEO expectations at the start of 2017.

CHART 26 SERVICES EXPECTED VS REPORTED CONDITIONS, 2017

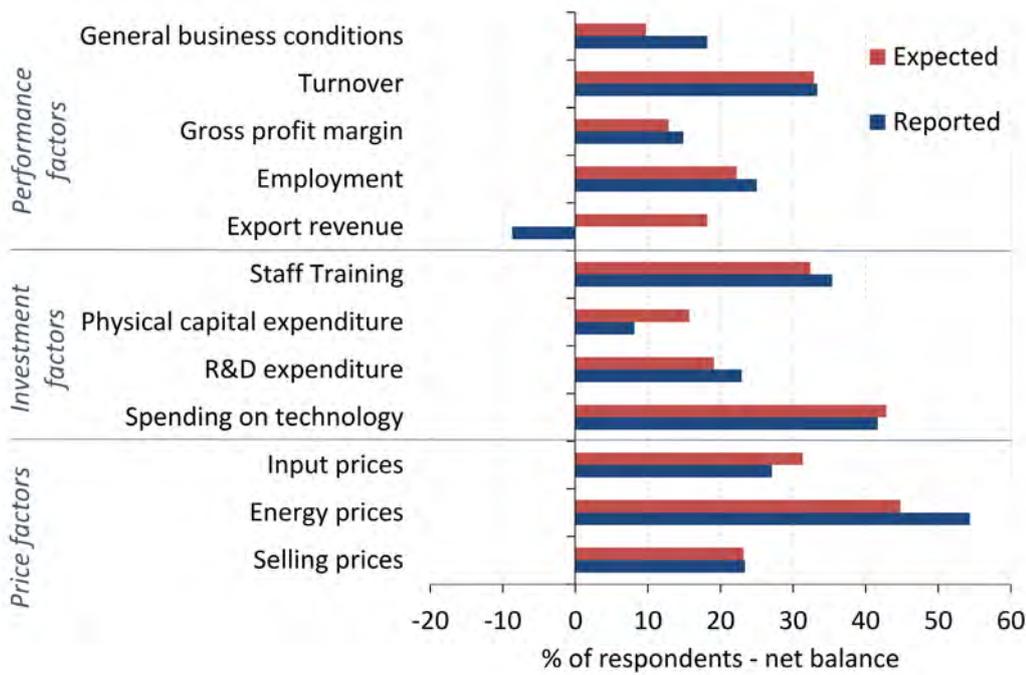
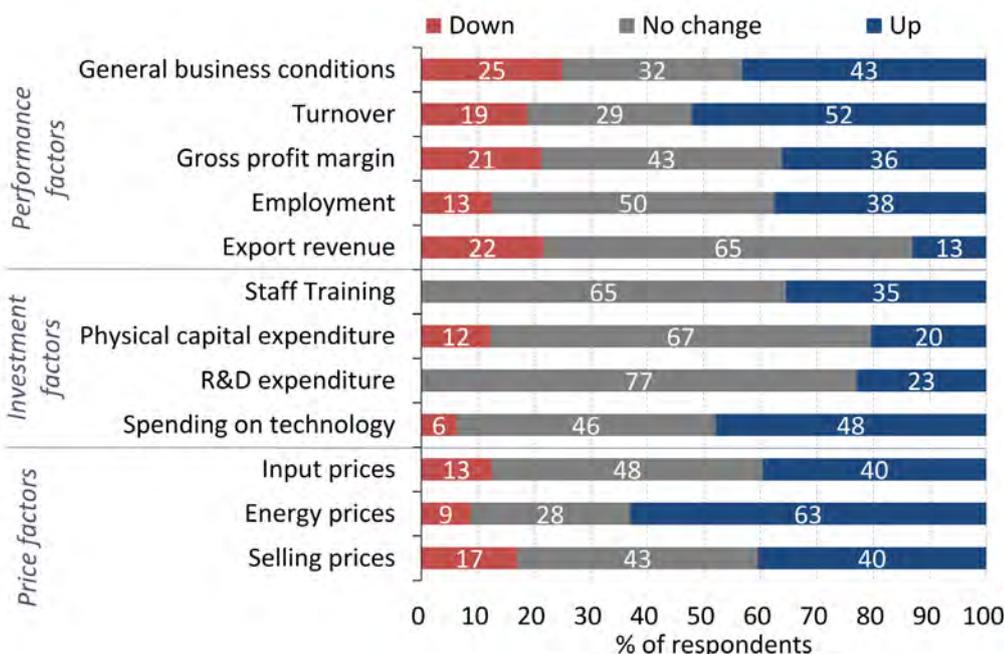


CHART 27 CHANGE IN SERVICES CONDITIONS, 2017



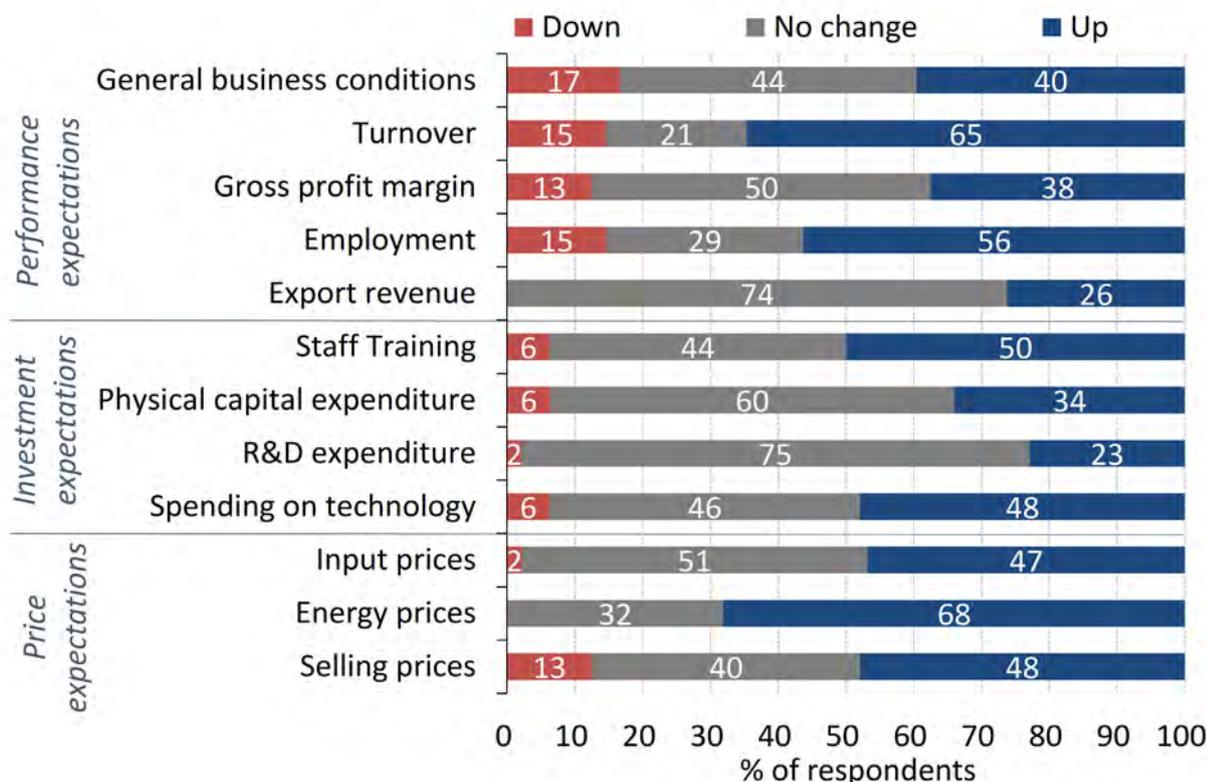
3.2 SERVICES BUSINESSES' EXPECTATIONS FOR 2018

Services sector CEOs are more optimistic about business condition for 2018 than they were a year earlier, expecting a continuation of the improved business conditions experienced in 2017. Heading into 2018, 40% of CEOs expect general business conditions to improve, while 17% expect a deterioration (+23% net balance). This is more optimistic than a year earlier, when 32% of service industry CEOs expected improving business conditions and 22% expected declining business conditions (+10% net balance). Encouragingly, the majority of service industry CEOs expect an increase in turn over (+65%) and employment (56%) as a result of an increase in activity. The proportion of CEOs that are expecting profit margins to increase has remained steady, but the proportion of CEOs expecting their gross profit margins to decline has decreased from 26% in 2017 to 13% in 2018. The majority (74%) of CEOs expect no change in the export revenue, while 24% are expecting export revenue to increase.

CEOs expect energy prices and input prices to rise in 2018. Energy prices remain a concern across the services industry with 68% of CEOs expecting their energy prices to increase and none expect prices to decline. Some 47% of service industry CEOs expect other input prices to rise in 2018 and 51% expect no change. More CEOs are expecting to pass on the expected price increases to customers with 48% expecting to increase selling prices, 40% expecting no change and 13% expecting to decrease their selling prices.

Services industry CEOs expect to increase investment on staff training and physical capital expenditure in 2018, with 50% of CEOs expecting to increase spending on staff training and 34% expecting to increase spending on physical capital expenditure. This is up from 38% of CEOs expecting to increase spending on staff training and 27% expecting to increase spending on physical capital expenditure in 2017. Expectations are similar to 2017 for spending on R&D expenditure and technology.

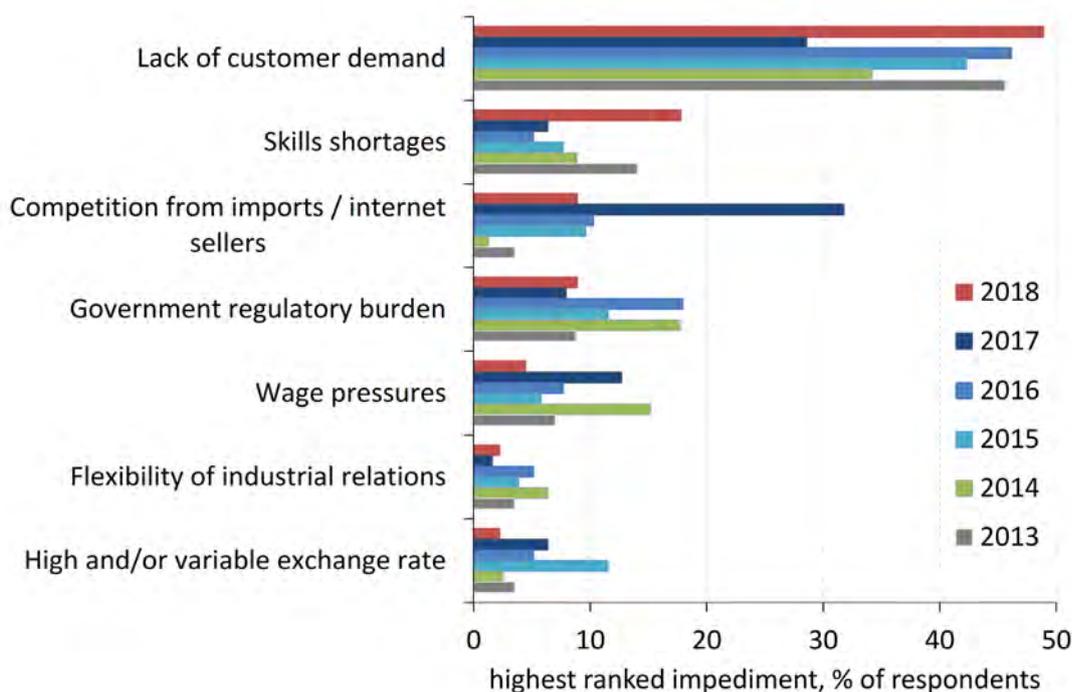
CHART 28 EXPECTED CHANGE IN SERVICES BUSINESS CONDITIONS, 2018



3.3 CHALLENGES FOR SERVICES BUSINESSES IN 2018

Services sector businesses consider a lack of customer demand to be the largest impediment to growth in 2018, with almost half (49%) of services CEOs identifying it as their main concern. This was up from 29% of CEOs in 2017, but a similar level to that seen in 2016 (46%) and 2015 (42%). It is however, the highest level recorded in the six years the CEO survey of business prospects has been conducted.

CHART 29 EXPECTED INHIBITORS TO GROWTH FOR SERVICES BUSINESSES IN 2018



The second most concerning constraint for services businesses in 2018 is skills shortages, this is a primary concern for 18% of services businesses, up from 6% in 2017 and 5% in 2016. While other issues have dominated concerns for services businesses in the past few years, the re-emergence of skills as a primary concern signals a new focus on the expectations that business have for skilled staff. From the introduction of new technologies to online capabilities, businesses are once again feeling pressures of skills shortages much as they did in 2013, meanwhile issues such as the exchange rate, wage pressures and competition from imports and online selling have fallen back for 2018.

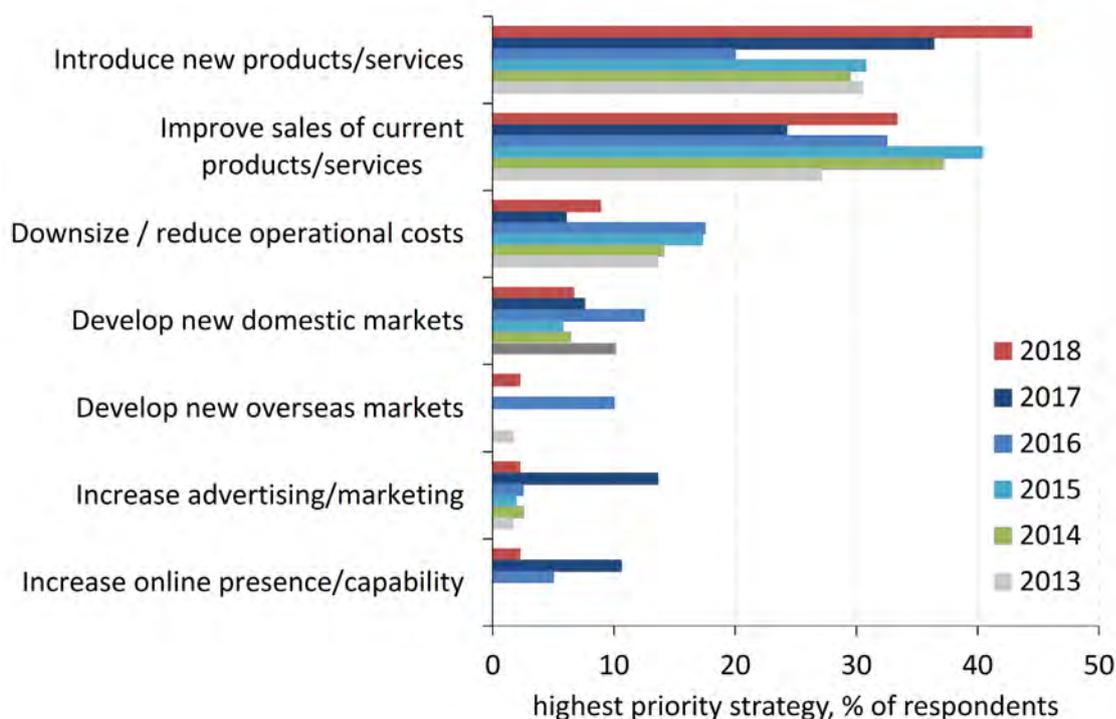
Competition from overseas and online businesses, has fallen as a major concern for 2018 with 9% of businesses ranking it their primary concern, down from 32% in 2017, back to the levels seen in 2016 and 2015 (10% each year).

Government regulatory burdens are a primary concern for 9% of services respondents, up slightly from 2017 (8%) but down from a survey high of 18% in 2016. Wage pressures have dropped as a primary concern for services businesses as have industrial relations and the value of the Australian dollar.

3.4 STRATEGIES FOR SERVICES BUSINESSES IN 2018

Services businesses expect their growth in 2018 to occur primarily from introducing new services, with 44% of respondents ranking it as their principal strategy for development. This has increased from 37% of services businesses who considered it their main plan in 2017, and a much smaller proportion (20%) in 2016.

CHART 30 BUSINESS STRATEGIES FOR SERVICES BUSINESSES 2018



Improving sales of current products and services is the second most popular strategy for businesses with 33% of services businesses planning to leverage existing offerings, up from around a quarter (24%) in 2017, and the same level (33%) of services businesses who favoured this as an option in 2016. Combined, introducing new products and services and focusing on existing outputs, account for the large majority (78%) of the growth plans for services businesses in 2018, more so than other industry sectors.

Downsizing and reducing operational costs is a first priority for 9% of services businesses, up from 6% in 2017 but well down on the 18% and 17% seen in 2016 and 2015 respectively. Developing new domestic markets has also fallen slightly to 7%, down from 8% in the previous year. While developing new markets, marketing and developing their online presence have a place in the growth plans of services businesses, they are not at the forefront of their development policies. In 2018 Services CEOs are anticipating focusing on their product offering first, before other measures are considered.

4. CONSTRUCTION INDUSTRY PROSPECTS IN 2018

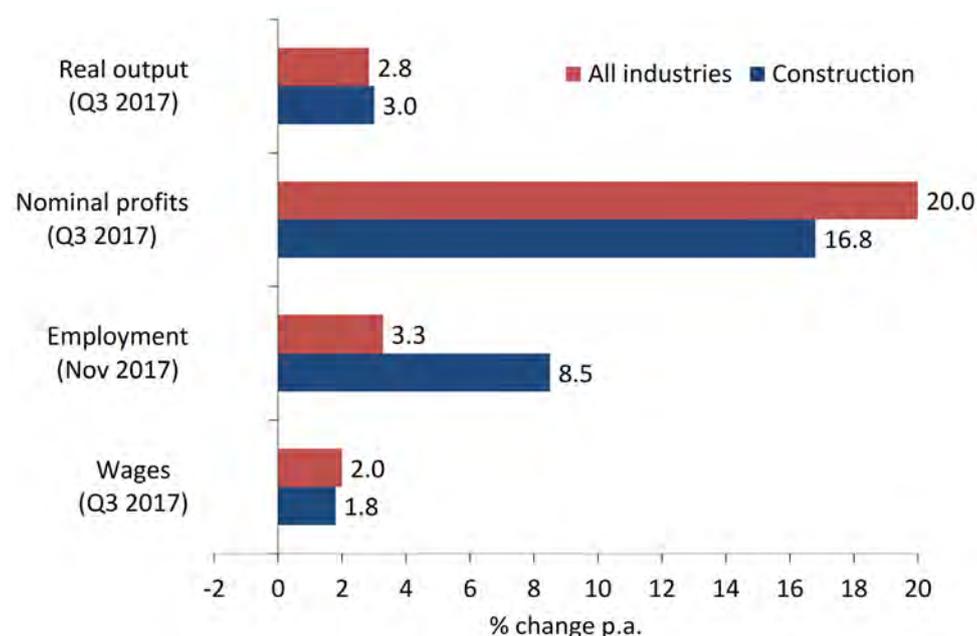
Australian construction activities include engineering construction (mining and transport infrastructure projects including roads, bridges and ports); commercial construction (offices, shopping centres, schools, hospitals and other public buildings); industrial construction (factories and warehouses); houses and multi-unit residences (flats, units and apartments). Mining services CEO responses were aggregated within the construction industry responses. Australian mining services businesses include mining equipment providers (e.g. mining extraction equipment and specialised machinery and equipment for mining construction, extraction and production) and mining services providers (e.g. exploration, engineering and project management services).

4.1 CONSTRUCTION INDUSTRY CONDITIONS IN 2017

Construction industry output accounted for 7.4% of total GDP in Q3 2017. Real construction output (in inflation adjusted terms) rose 3.0% p.a., driven by an increase in engineering construction (+9.4% p.a.), followed by building construction (+1.6% p.a.) and construction services (+1.1% p.a.). Engineering work has tapered off since the peak of the mining investment boom but appears to be rebounding from the most recent trough in 2016, as large transport and infrastructure projects in the eastern states come online. Despite warnings of a downturn in building investment, housing and non-residential building construction is poised to strengthen in the first half of 2018 with the value of residential and non-residential building approvals increasing in every month of 2017 (m/m, trend until to November 2017).

Employment growth has been strong for the construction industry, up 8.5% p.a. in November 2017, compared to 3.3% p.a. for the whole economy (trend). The sector employs well over one million people, accounting for 9.4% of the workforce. Only health services and retail trade employ more people nationwide, but both have high rates of part-time workers (49.7% in retail and 44.1% in health, versus 15.0% in construction), so the construction industry employs more full-time workers (around 960,000) than any other industry.

CHART 31 CONSTRUCTION KEY INDICATOR GROWTH, 2017



Notes: Output and profits are seasonally adjusted, employment is trend and the WPI is original. Source: ABS

TABLE 5 CONSTRUCTION INDUSTRIES: OUTPUT AND EMPLOYMENT, 2017

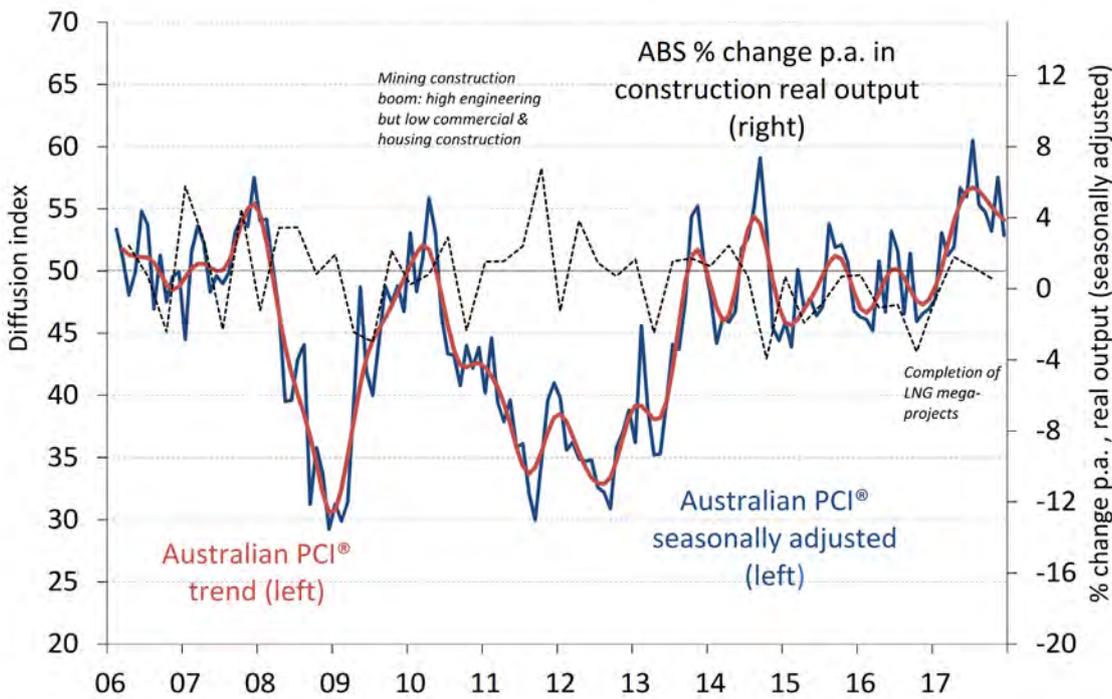
Industry (ANZSIC codes)	Smn Sep qtr	Value added output, Sep 2017 (seasonally adjusted data)		Employment, Nov 2017 (original, unadjusted data)		
		% share of manufac.	year on year change, %	'000 people	% share of manufac.	Annual % change
Building construction	6,894	21.6	1.6	303.4	26.1	12.1
Heavy and civil engineering	7,281	22.8	9.4	87.9	7.6	43.9
Construction services	17,751	55.6	1.1	769.6	66.2	11.5
Construction	31,936	7.4% of GDP	3.0	876.0	9.3% of all employed	9.5
Australian Economy (GDP)	430,724		2.8	12,445.7		3.2

Sources: ABS Australian National Accounts Sep 2017; ABS Labour Force Australia, Detailed Quarterly, Nov 2017.

Ai Group's **Australian PCI®** shows construction businesses experienced a positive year in 2017, after two years of struggling to gain traction (see Chart 32). Apart from January, the **Australian PCI®** recorded expansion in every month of 2017, peaking mid-year before the industry's overall growth momentum slowed in the final months of 2017. Apartment building activity retreated in 2017 with builders citing soft new orders and reduced investor activity as a steady widening of foreign investor penalties came in across a number of states. Even with the steady retreat in apartment building, construction activity was robust through the year. Reflecting the ABS data, the engineering construction sub-index remained elevated throughout 2017. The sub-sector recorded an 11½-year high in November on the back of rising momentum in the roll-out of large-scale infrastructure projects.

Builders and constructors reported higher input costs throughout 2017 - with energy, construction materials and wages all on the rise. An elevated wages sub-index in the **Australian PCI®**, along with a drop in the underemployment rate in the sector (from 6.4% in November 2016 to 4.4% in November 2017) provides further evidence of a steady pick-up in wages.

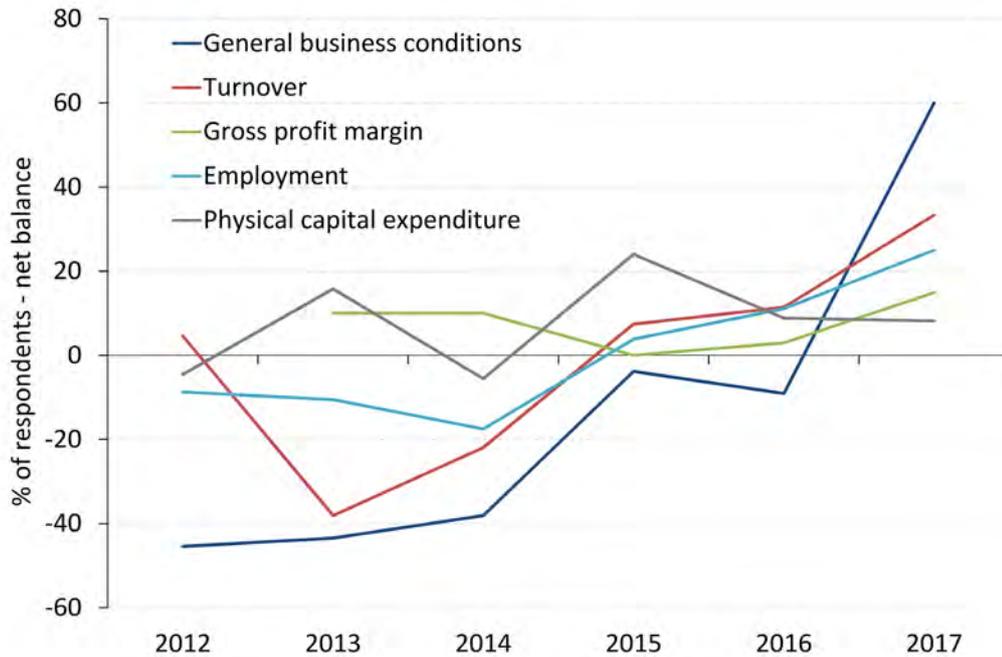
CHART 32 AUSTRALIAN PCI® AND ABS CONSTRUCTION OUTPUT VOLUMES



Source: Ai Group and ABS National Accounts.

Construction industry CEOs reported improved business conditions in 2017, with 63% of CEOs reporting improved conditions and only 3% reporting deteriorating conditions (+60% net balance). This compares to 30% of CEOs who had reported improving conditions in 2016 and 39% who had reported deteriorating conditions in 2016 (-9% net balance). The net balance of other key indicators in 2017 including turnover, gross profit margins and employment were higher than the previous 5 years (see Chart 33).

Similarly, 36% of construction CEOs said their profit margin improved in 2017 and 21% reported a decline (+15% net balance). For those with an increased profit margin in 2017, their margin increased by an average of 10%. For those with a shrinking margin, their profit margin contracted by an average of 16%.

CHART 33 CONSTRUCTION INDUSTRY BUSINESSES INDICATORS, 2012-2017

Other performance measures improved for construction businesses but fell short of expectations at the start of the year (see Chart 34). 52% of construction industry CEOs reported an increase in turnover and 19% reported a decline in 2017 (+33% net balance) compared to 62% of CEOs at the start of the year who had expected an increase in turnover and only 9% that expected a decline in turnover. Even though expectations were not met, 2017 was an improvement from 2016 with only 19% of CEOs reporting declining conditions in 2017 compared to 37% in 2016. A number of other key measures failed to meet expectations in 2017 including staff training, capital expenditure, spending on technology and selling prices.

In 2017, a greater proportion of CEOs reported an increase in investment spending than the proportion that reported declining investment spending across the four investment factors. However, most CEOs reported no change in staff training (65%), capital expenditure (67%) and R&D expenditure (77%). Continuing the positive trend from 2016 was the increase in spending on technology by construction businesses (see Chart 35). 48% of construction CEOs reported increasing spending on technology with an average increase in spending on technology of 36%, while only 6% reported a decrease in spending. Of those that decreased spending on technology, the average decrease was 9%.

As with the manufacturing and services industry, the majority of CEOs in the construction industry reported rising energy costs in 2017. 63% of CEOs reported rising energy prices with an average increase of 9%, while only 9% reported a decline in energy prices. Selling prices increased for 40% of CEOs in the construction sector and declined for 17% of construction CEOs. On net, this fell below CEO expectations from the start of the year where 42% expected an increase in selling prices and 3% of CEOs expected a decline in selling prices.

CHART 34 CONSTRUCTION INDUSTRY, EXPECTED VS ACTUAL CONDITIONS, 2017

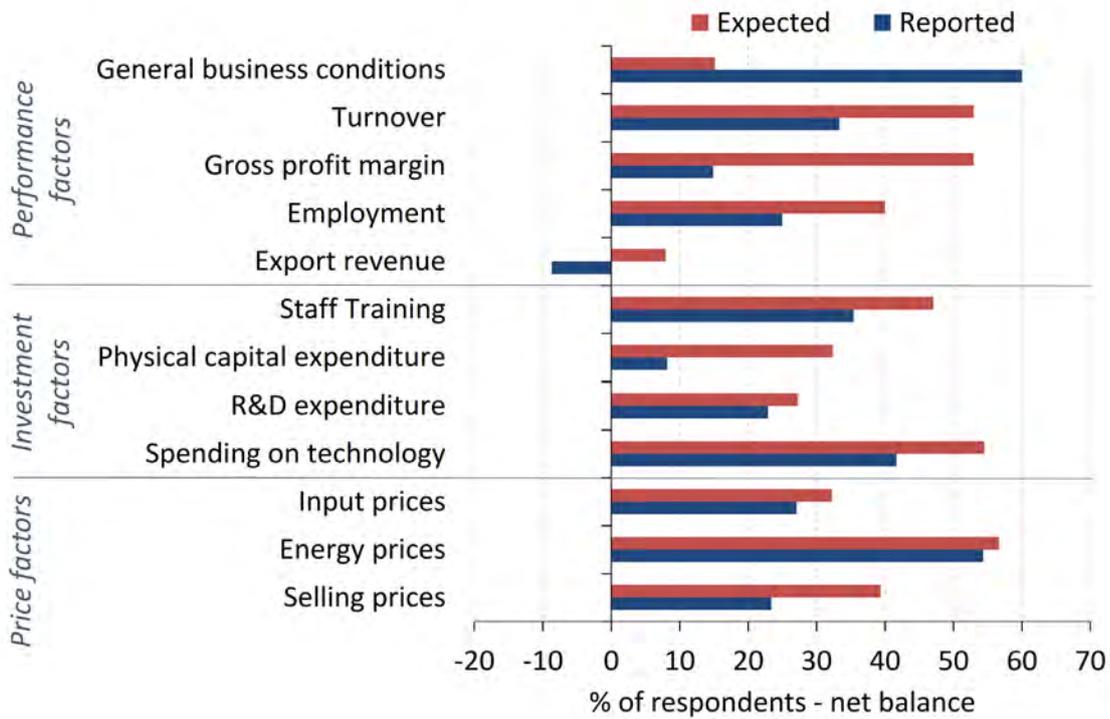
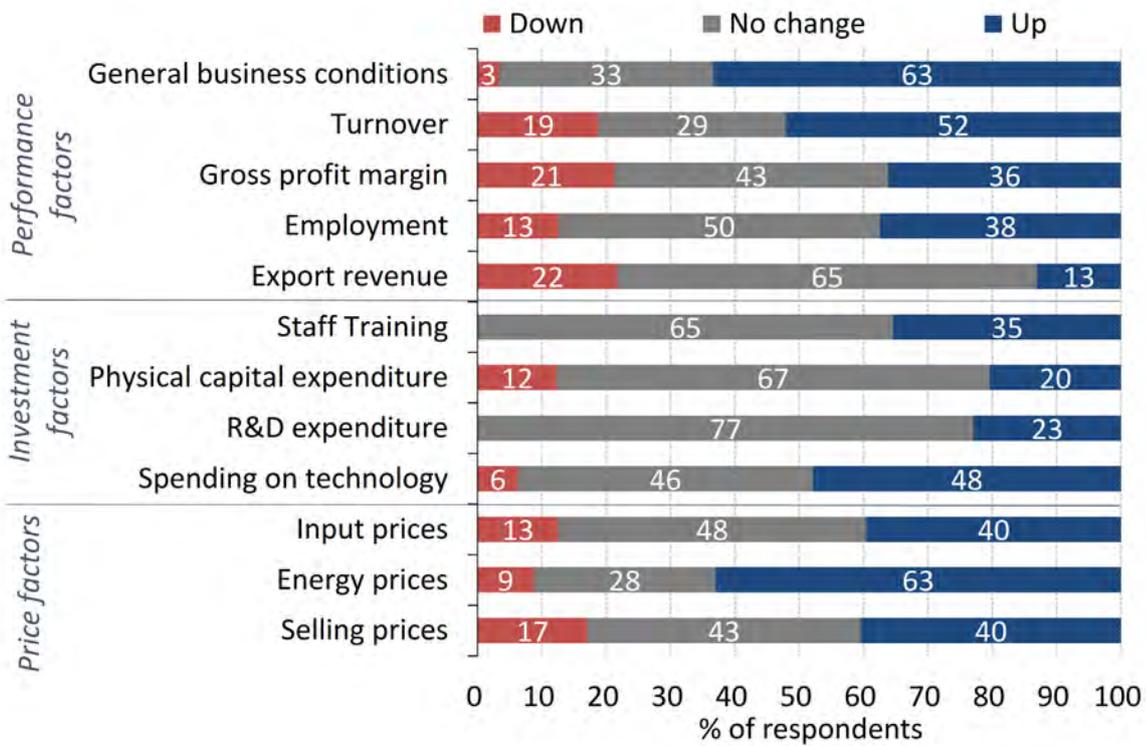


CHART 35 CHANGE IN CONSTRUCTION INDUSTRY CONDITIONS, 2017



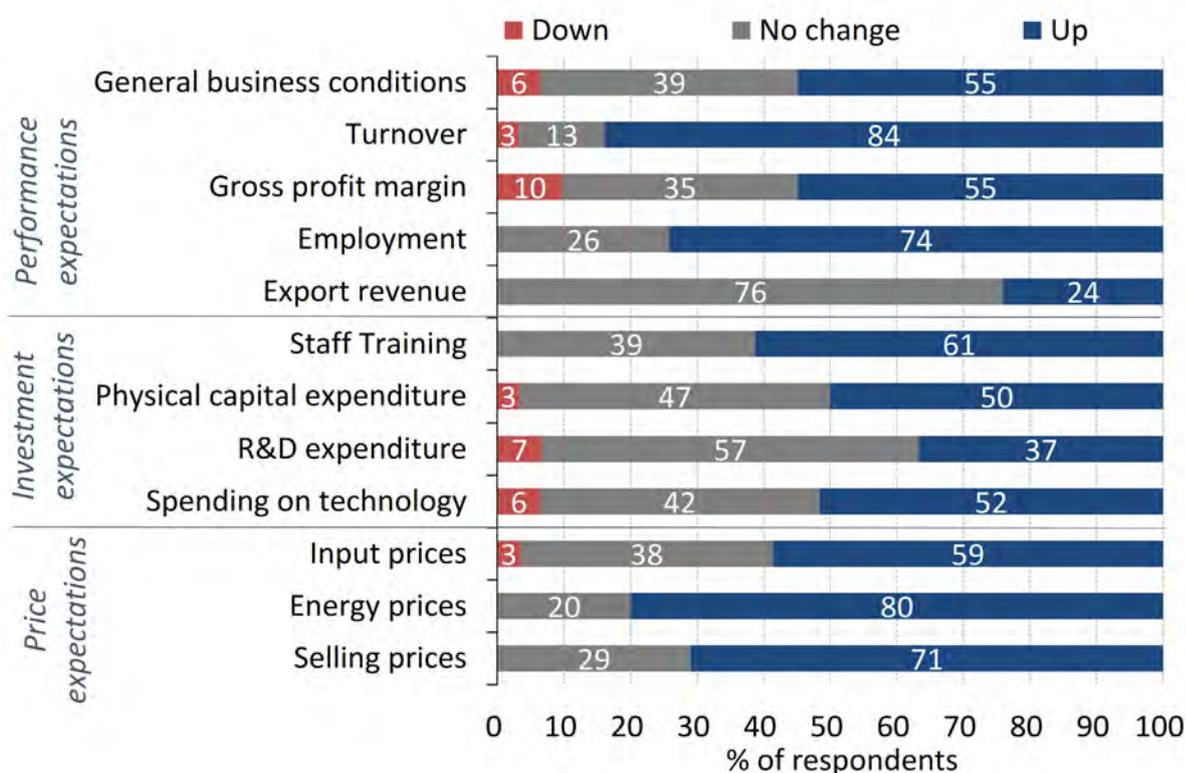
4.2 CONSTRUCTION BUSINESSES' EXPECTATIONS FOR 2018

Construction CEOs are optimistic about 2018 although rising energy prices and input costs remain a concern (see Chart 36). An encouraging 84% of construction CEOs expect their sales turnover to increase in 2018 and 55% expect an improvement in business conditions. Employment is expected to increase for most construction businesses, with 74% of CEOs indicating they expect to increase employment in 2018.

Construction CEOs expect to continue to invest in new technologies in 2018. Most CEOs expect to increase spending on staff training (61%), physical capital expenditure (50%) and technology (52%). 57% of CEOs expect no change to their R&D expenditure while 37% expect to increase R&D expenditure.

Energy prices are expected to continue to rise in 2018, with 80% of construction CEOs expecting energy prices to rise and 20% expecting no change. It appears, that many but not all expect to be able to pass on these costs, with 71% of CEOs expecting to increase their selling prices and 29% expecting no change.

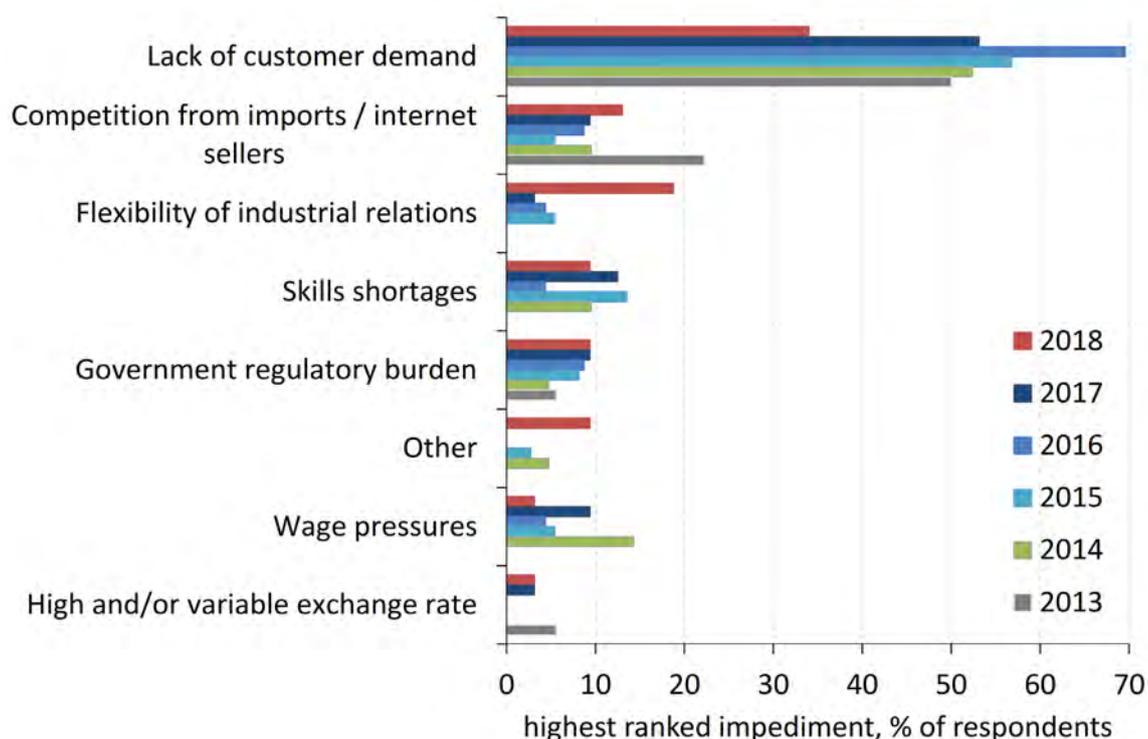
CHART 36 EXPECTED CHANGE IN CONSTRUCTION CONDITIONS, 2018



4.3 CHALLENGES FOR CONSTRUCTION BUSINESSES IN 2018

Just over a third (34%) of construction CEOs identified the largest risk to business growth in 2018 as a lack of customer demand. As in previous years this was the most commonly identified hindering factor facing construction CEOs in the year ahead, however it has fallen from over half of respondents in 2017 (53%) and more than two-thirds (69%) of CEOs in 2016.

CHART 37 EXPECTED CHANGE IN CONSTRUCTION CONDITIONS, 2018



Flexibility of industrial relations in 2018 was a primary concern for 19% of respondents, a substantial increase from 3% in 2017 and 4% in 2016. As skills shortages have lessened as a primary concern for respondents (down to 9% for 2018, compared to 13% in 2017) and wage pressures have also eased as a principal constraint (3% compared to 9% for 2017), it has made way for other issues surrounding employment to emerge.

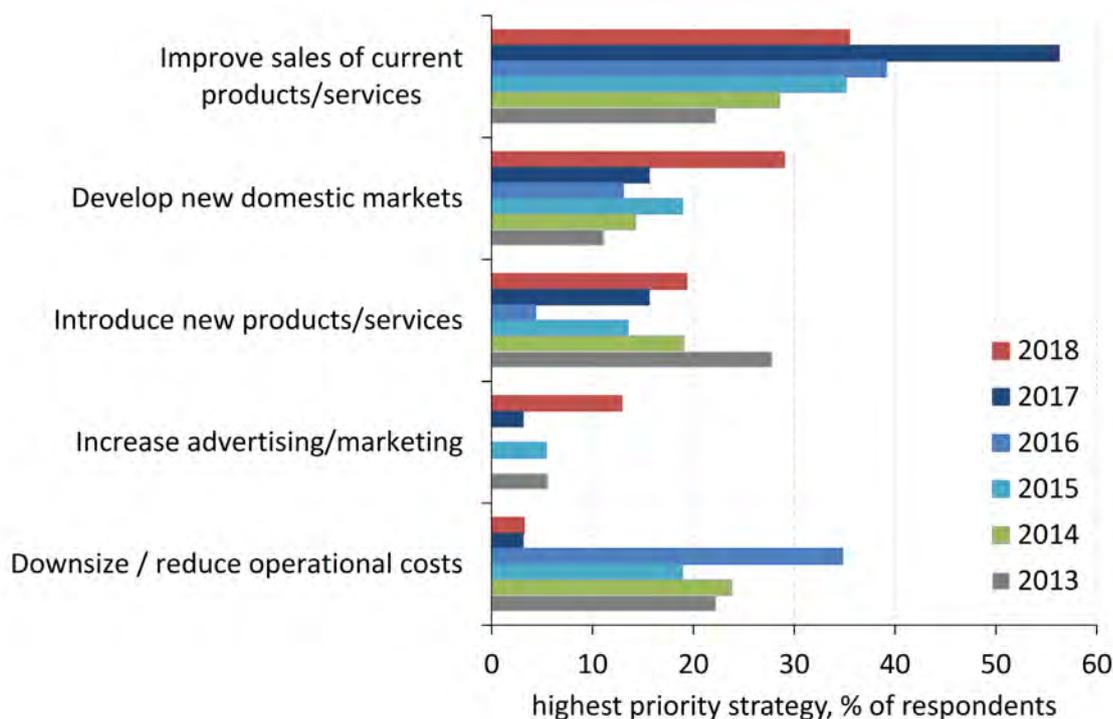
Competition from imports for businesses supplying to other businesses within the construction industry rose to 13%, up from 9% in 2017 and 2016. While this affected 13% of respondents as their foremost inhibitor, it is a factor that has been increasing since 2015.

Government regulations were a concern for 9% of respondents for 2018, much the same as they were for 2017 stable, after drifting up slightly the previous few years.

4.4 STRATEGIES FOR CONSTRUCTION BUSINESSES IN 2018

As in previous years, construction firms plan to focus on improving sales of their current products and services. However, after steadily increasing across the previous years the survey was conducted, this strategy has decreased as a primary strategy down to 36% of construction businesses from a survey high in 2017 of 56%.

CHART 38 BUSINESS STRATEGIES FOR CONSTRUCTORS 2018



Developing new domestic markets is the first priority for 29% of construction businesses, lifting from 16% in 2017 and 13% in 2016. Australian constructors are focusing on local markets in 2018 in response to infrastructure spending and strong building approvals in some states.

Introducing new products and services is the foremost plan for 19% of constructors up from 16% in 2017 and well up from 4% in 2016. Increasing advertising and marketing activity has lifted as a strategy for 13% of respondents, up from 3% in 2017 – prior to 2018 it did not really rate as a primary strategy for builders, but has risen in line with the desire to develop local markets.

As was the case for 2017, downsizing and reducing operational costs was a focus for 3% of respondents. After four years of considering it a primary strategy for a much greater proportion of constructors, the approach has alternated from one of constraining costs, to a focus on growth plans.

APPENDIX:

CEO BUSINESS PROSPECTS SURVEY 2018 PARTICIPANTS AND QUESTIONNAIRE

Responses were received from the CEOs of 269 private-sector businesses across Australia in October and November 2017. Together, these businesses employed around 43,000 people (170 people each on average) and had an aggregate annual turnover of around \$20 billion in 2017.

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 (69%). Manufacturing's share of this sample is higher than its share of national production (5.8%). 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 2016-17) in order to adjust for these characteristics of the sample. The analysis for each of the industry groups is not affected by the sample composition.

Industry	CEO Survey: Business Prospects 2018		ABS data (2016-17)
	Number of respondents	Number of respondents	Value added output, % of GDP
Manufacturing	186	69.1	5.8
Services	51	19.0	54.7
Construction and mining services	32	11.9	7.4*
Total	269	100.0	67.9**

Industry	CEO Survey: Business Prospects 2018		ABS data (2016-17)
	Number of respondents	Number of respondents	Value added output, % of GDP
NSW	75	27.9	33.0
VIC	128	47.6	22.6
QLD	40	14.9	18.2
WA	3	1.1	13.8
SA	22	8.2	6.0
TAS	1	0.4	1.7
Total	269	100	96.3%

*only includes construction value added output.

** These industries do not sum to GDP due to the exclusion of utilities (2.4% of GDP), public administration and safety services (5.5%), agriculture (2.4%), mining other than mining services (5.8% of GDP), ownership of dwellings (8.7% of GDP) and other additional statistical items that are included in GDP.

The services sectors represented in this 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.

1. Record Number:			
2. Postcode:			
3. In which industry does your business mainly operate? Please tick one box only, for your main activity			
<input type="checkbox"/> Mining and/or mining services (e.g. exploration, mining engineering or mining processing)			
<input type="checkbox"/> Manufacturing (e.g. making food, beverages, chemicals, equipment, building materials, metals, textiles, furniture)			
<input type="checkbox"/> Construction (e.g. engineering, infrastructure, commercial, residential construction or contracting)			
<input type="checkbox"/> Services (e.g. retail, wholesale, transport, professions, real estate, IT, media, health, education, cafes, hotels)			
<input type="checkbox"/> Other industry (please specify): _____			
4. What was your approximate annual turnover in 2017?			\$ _____
5. How many fulltime equivalent (FTE) people did you employ in 2017?			_____ FTE people
6. How many fulltime equivalent (FTE) apprentices or trainees did you employ in 2017?			_____ FTE employees
7. By what percentage did the following factors change in your business in 2017, compared to 2016?			
Please complete one box only for each of:	Down (write in %)	No change (tick if applicable)	Up (write in %)
Annual turnover	_____ %	<input type="checkbox"/>	_____ %
Gross profit margin	_____ %	<input type="checkbox"/>	_____ %
Number of employees	_____ %	<input type="checkbox"/>	_____ %
Spending on staff training & development	_____ %	<input type="checkbox"/>	_____ %
Spending on physical capital (e.g. buildings)	_____ %	<input type="checkbox"/>	_____ %
Spending on research & development	_____ %	<input type="checkbox"/>	_____ %
Spending on new technology	_____ %	<input type="checkbox"/>	_____ %
Export income	_____ %	<input type="checkbox"/>	_____ %
Input prices	_____ %	<input type="checkbox"/>	_____ %
Energy prices (inputs)	_____ %	<input type="checkbox"/>	_____ %
Selling prices	_____ %	<input type="checkbox"/>	_____ %
Labour productivity (output per hour worked)	_____ %	<input type="checkbox"/>	_____ %
General business conditions in your sector	<input type="checkbox"/> Worse	<input type="checkbox"/> No change	<input type="checkbox"/> Better
8. Did your business experience any difficulty in finding and/or retaining skilled labour in 2017?			
<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Don't know / Not applicable to my business	
If yes, in which occupations did you experience difficulties in 2017? Please list all occupations that apply _____			
9. Did you change any parts of your business model, plan or strategies in 2017 due to business conditions?			
<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> we don't have a formal business model, plan or strategy	
If yes, what did you change in 2017? _____			
10. If exporting, what was the total value of exports for your business in 2017?			\$ _____
11. If exporting, which countries did you export into in 2017? Please list all countries to which you sent exports: _____			
12. Approximately what percentage of all your inputs (by value) were imported in 2017?			_____ %
13. IF your business was EXPORTING in 2017 or is planning to export in 2018, at what AUD/USD exchange rate do your exports become uncompetitive with products from other countries? _____ US cents			
14. IF your business was competing with IMPORTS in the Australian market in 2017 or expecting to compete against imports in 2018, at what AUD/USD exchange rate do your products become uncompetitive with imported products from other countries? _____ US cents			

15. Do you expect the following factors to change in your business in 2018, compared to 2017?			
<i>Please tick one box only for each of:</i>	Down	No change	Up
Annual turnover	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gross profit margin	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Number of employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Spending on staff training & development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Spending on physical capital (e.g. buildings)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Spending on research & development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Spending on new technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Export income	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Input prices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Energy prices (inputs)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Selling prices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Labour productivity (output per hour worked)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
General business conditions in your sector	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. What factors do you expect will inhibit your business growth in 2018?			
<i>Please rank all factors that will inhibit your business in 2018, starting with 1 as your most important inhibiting factor</i>			
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): _____		
17. What key growth strategies do you plan to implement in your business during 2018?			
<i>Please rank all relevant strategies for 2018, starting with 1 as your most important strategy</i>			
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): _____		
18. Do you expect to experience any difficulty in finding and/or retaining skilled labour in 2018?			
<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Don't know / Not applicable to my business	
If yes, in which occupations do you expect difficulties in 2018? <i>Please list all occupations that apply</i>			
19. How do you plan to meet your labour and skill needs in 2018?			
<i>Please rank all relevant plans for 2018, starting with 1 as your most important plan</i>			
No action needed or planned _____	Employ casuals/individual contractors _____		
Retrain existing staff on the job _____	Employ university graduates _____		
Redesign jobs/flexible conditions _____	Employ apprentices and trainees _____		
Employ skilled/experienced local people _____	Outsource / contract out to other businesses _____		
Employ skilled/experienced migrants _____	Other (please specify) _____		
20. How many fulltime equivalent (FTE) apprentices or trainees will you employ in 2018? _____ FTE employees			
21. What are the main issues of concern to you regarding apprenticeships and traineeships in Australia?			
<i>Please rank all relevant concerns, starting with 1 as your most important concern</i>			
No issues or concerns _____	Lack of national consistency _____	Availability of training providers _____	
Lack of commencements _____	Availability of suitable apprentices _____	Literacy and numeracy issues _____	
Lack of completions _____	Other (please specify) _____		
22. What are the most important factors to you when recruiting University or Higher Education graduates?			
<i>Please rank all relevant factors, starting with 1 as your most important factor</i>			
University attended _____	Qualification obtained _____	Fit to your business culture _____	
Results obtained _____	International capabilities _____	Personal skills (e.g. teamwork, problem solving) _____	
Subjects undertaken _____	Relevant work experience _____	Other (please specify): _____	

