

Business *Spectator*

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CEO *pulse*

Number 09
October 2010



Views from the top ...

**Australia's leading
chief executives on:**

- The two-tier economy
- Exchange rates
- Economic outlook
- What keeps them awake at night
- What they'd tell Glenn Stevens

GA RESEARCH

Highlights from the CEOs surveyed this month:**CEOs on the Economy**

- CEOs are increasingly optimistic about prospects for the Australian economy (75% compared to 70% in September) and for their own organisation in the next 12 months (79% compared to 77% in September).
- This month, more CEOs report they are expecting employment, capital investment, profit and sales levels will increase in the next 12 months.
- Surveyed CEOs' average score of the government's performance in managing the economy has continued an upward trend to 4.8 out of 10 (compared to 4.5 last month).

CEOs on Exchange Rates

- A majority of surveyed CEOs (61%) report that the recent increase in the value of the Australian Dollar compared to the US Dollar has had a negative impact on the Australian economy as a whole.
- While two in five surveyed CEOs (39%) report the increased value of the Australian Dollar has had a negative impact on their industry, they are evenly split on the impact on their company with roughly a third reporting negative (30%), positive (34%) and no impact (36%).
- The majority of surveyed CEOs report that the higher value of the Australian Dollar has led to no change in imports, exports, hiring of employees or outsourcing work overseas. However, it has impacted smaller proportions of CEO participants in the form of more outsourcing of work overseas (25%), less exports (20%), more importing (16%) and less hiring of employees (11%).

CEOs on the Two-Tier Economy

- Almost all surveyed CEOs subscribe to the idea of a two-tier economy and half report that, on balance, the two-tier economy has had a negative impact on their company (50%), their industry (50%) and the Australian economy as a whole (48%).
- More than half of surveyed CEOs (55%) report that over the next 12 months, they think their industry/sector will grow on par with the economy overall. The other half are split, with around a quarter reporting that their company will grow faster than the economy overall (23%) and a quarter reporting they think it will grow slower than the economy overall (23%).
- Around half of surveyed CEOs (52%) report they believe that domestic consumer demand is the primary growth driver in their industry/sector. Around a quarter (23%) say they believe the primary driver is domestic investment demand and one in five (20%) say they believe it is export market demand.

CEO Advice to the Governor of the Reserve Bank, Glenn Stevens

- When asked what advice they would give to the Governor of the Reserve Bank of Australia, Glenn Stevens, many CEO participants said they would like to see him exercise caution and consider a broad range of factors when making decisions about interest rates. They feel this is important because of uneven improvement in the economy and its implications on the exchange rate. Many also say he is doing a good job, is thoughtful and communicates his opinions well and some suggest he gets involved in a range of other important policy areas.

Methodology

Research design and analysis for the CEO Pulse was conducted by GA Research, an independent market and social research firm that is a member of the Association of Market and Social Research Organisations (AMSRO) and accredited to AS: ISO 20252. Fieldwork was conducted by independent operator AFS.

The sample comprised n=56 CEOs of organisations with an Australian turnover of \$100 million or more who opted to participate in a five minute survey conducted over the phone or online between Monday 11 October and Sunday 24 October 2010. CEOs who participated in the survey did so anonymously and represented listed, unlisted and not-for-profit Australian companies as well as the Australian operations of global companies. Industry sectors included professional, commercial and other services including legal and financial services, manufacturing, healthcare, hospitality, retail, mining and agriculture.

Note that some percentages for single response questions presented in this report may not add up to 100% due to rounding. Significant differences between September 2010 and October 2010 at the 5% level (95% confidence) are reported where relevant.

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For more information regarding the research please contact
GA Research on (02) 9552 8996 or research@garesearch.com.au.

If you are a CEO and wish to register your interest in participating, please go to
www.businessspectator.com.au/CEOPulse.

CEO pulse

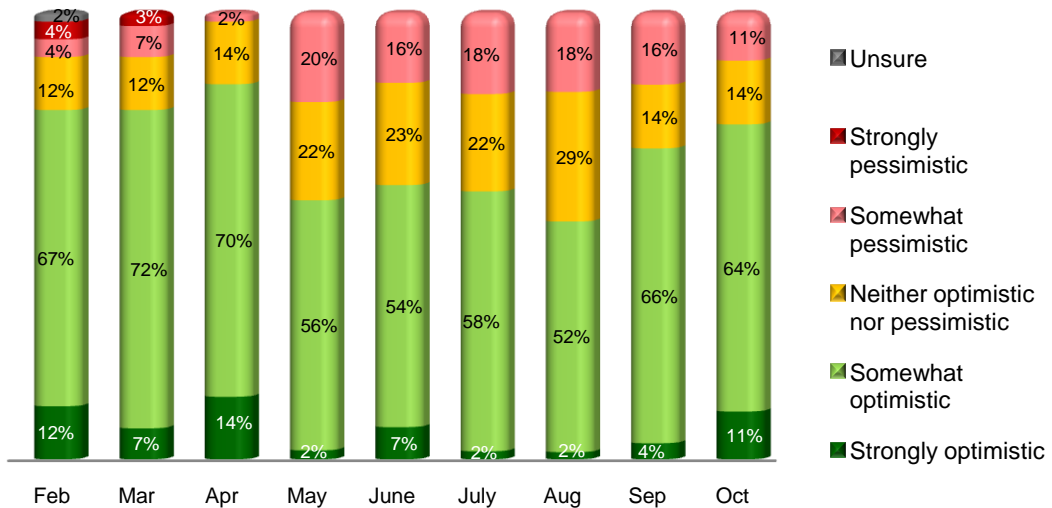
CEO Sentiment

Question 1: To what extent are you optimistic or pessimistic about...? (Feb 2010; n=51, March 2010; n=75, April 2010; n=56, May 2010; n=50, June; n=83, July; n=55, August; n=62, September; n=56, October; n=56)

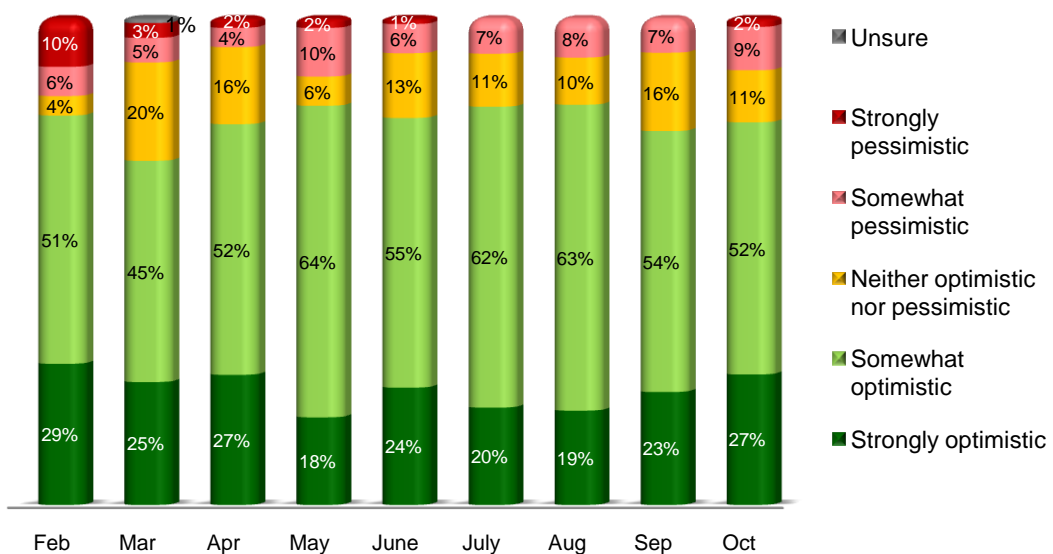
Optimism about prospects for the Australian economy in the next 12 months amongst surveyed CEOs has increased again this month (75% compared to 70% in September).

CEO's optimism about the prospects for their own organisation in the next 12 months has also increased slightly (79% compared to 77% in September).

Prospects for the Australian economy in the next 12 months



Prospects for your organisation in the next 12 months



CEO pulse

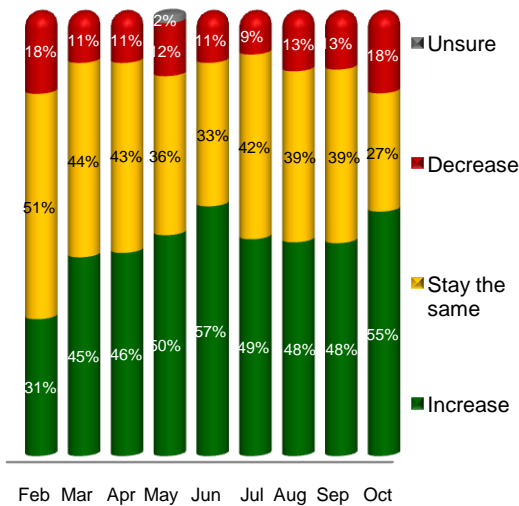
Short Term Company Outlook

Question 2: Thinking about your organisation in the next 12 months, do you expect the following to increase, decrease or stay the same? (Feb 2010; n=51, March 2010; n=75, April 2010; n=56, May 2010; n=50, June; n=83, July; n=55, August; n=62, September; n=56, October; n=56)

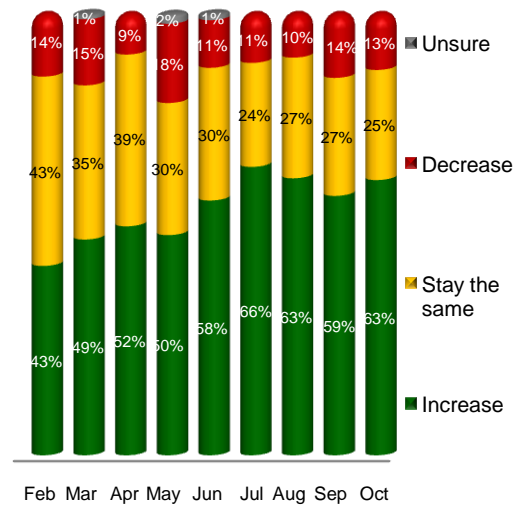
This month, more CEOs report they are expecting employment, capital investment, profit and sales levels will increase in the next 12 months.

Conversely, more CEOs also report they are expecting a decrease in employment (18% compared to 13% last month), with fewer CEOs reporting they expect employment levels will stay the same (27% from 39% last month).

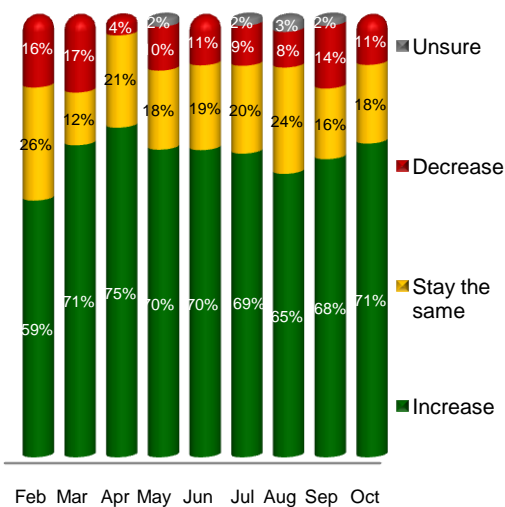
Employment



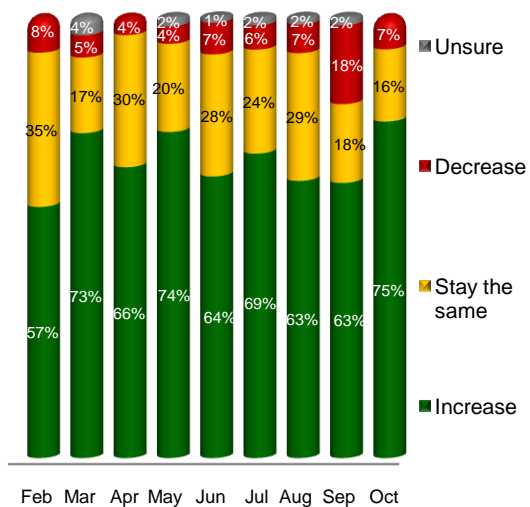
Capital Investment



Profit



Sales



CEO pulse

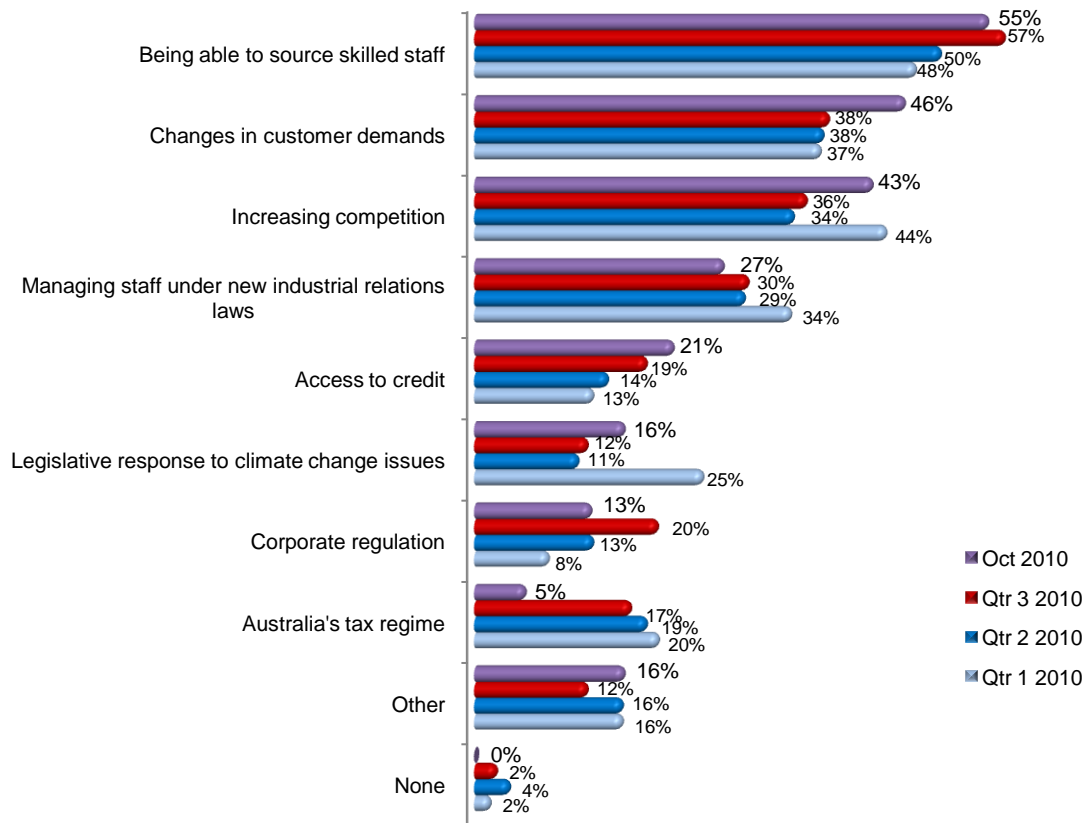
Issues Keeping CEOs Awake at Night

Question 3: Which, if any, of the following issues facing your company are most likely to keep you awake at night? (Qtr 1 2010; n=126, Qtr 2 2010; n=189, Qtr 3 2010; n=173, October; n=56) Pick up to three. [Up to three responses permitted – percentages add to more than 100%]

The issue mostly likely to keep surveyed CEOs awake at night remains ‘being able to source skilled staff’ (55% compared to 57% last quarter).

The other key issues this month, in descending order of importance are:

- Changes in customer demand (46% compared to 38% last quarter)
- Increasing competition (43% compared to 36% last quarter)
- Managing staff under new industrial relations laws (27% compared to 30% last quarter)
- Access to credit (21% compared to 19% last quarter)



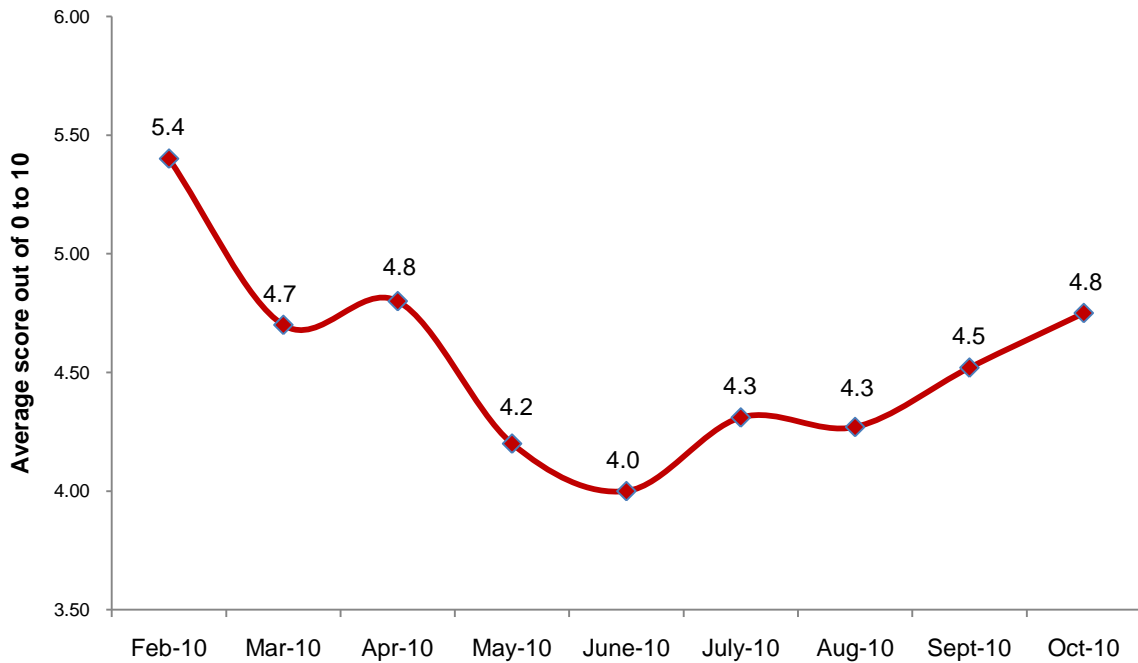
A small number of surveyed CEOs (16%) say that a range of other issues facing their company are most likely to keep them awake at night. These include concerns around exchange rates, regulatory decisions, new business opportunities and imports.

CEO pulse

Perceptions of Government Performance on the Economy

Question 4: Give the federal government a score out of 10 on its performance in managing the economy, where 0 means it is doing an extremely poor job and 10 means it is doing an outstanding job. (Feb 2010; n=51, March 2010; n=75, April 2010; n=56, May 2010; n=50, June; n=83, July; n=55, August; n=62, September; n=56, October; n=56)

Surveyed CEOs' average score of the government's performance in managing the economy has continued an upward trend to 4.8 out of 10 (compared to 4.5 last month). The median score remains at 5 out of 10.



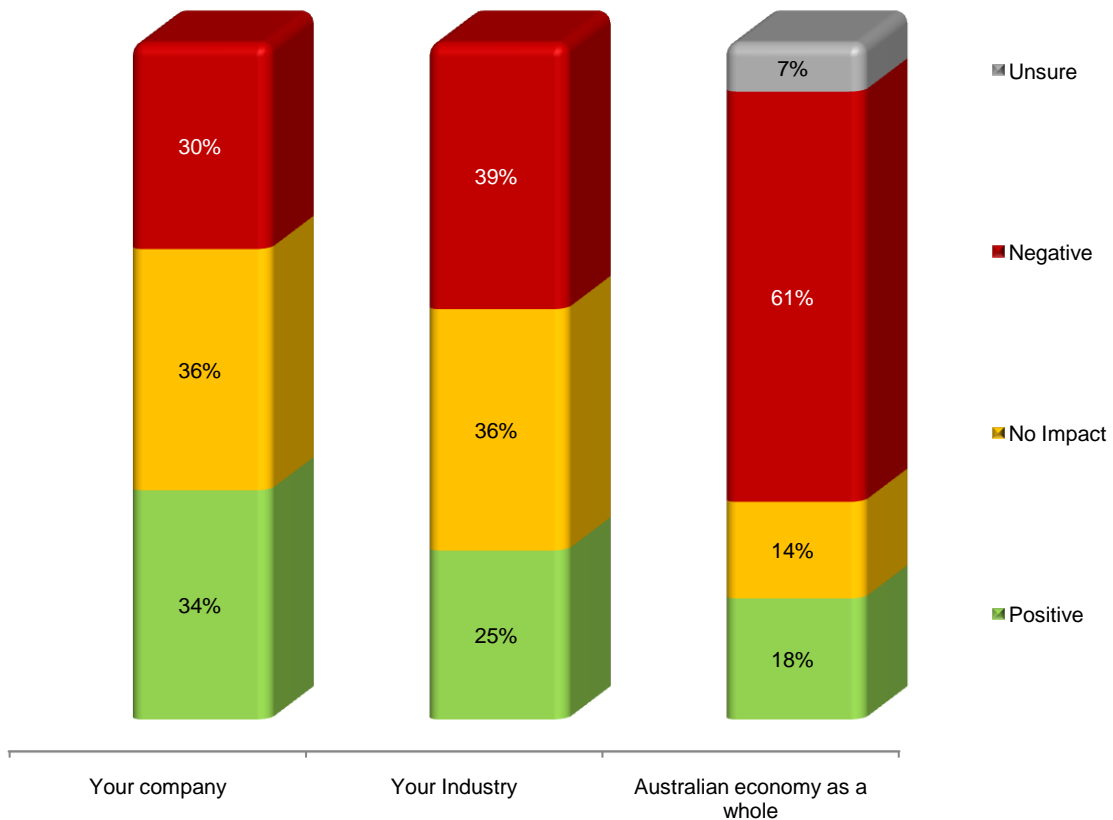
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Impact of Increased Value of \$AUD

Question 5: Thinking of the recent increase in the value of the Australian Dollar compared to the US Dollar, on balance, would you say that this has had a positive or negative impact on your company, your industry and the Australian economy as a whole? (n=56)

A majority of surveyed CEOs (61%) report that the recent increase in the value of the Australian Dollar compared to the US Dollar has had a negative impact on the Australian economy as a whole.

While two in five surveyed CEOs (39%) report a negative impact on their industry, they are evenly split on the impact on their company with roughly a third reporting negative (30%), positive (34%) and no impact (36%).



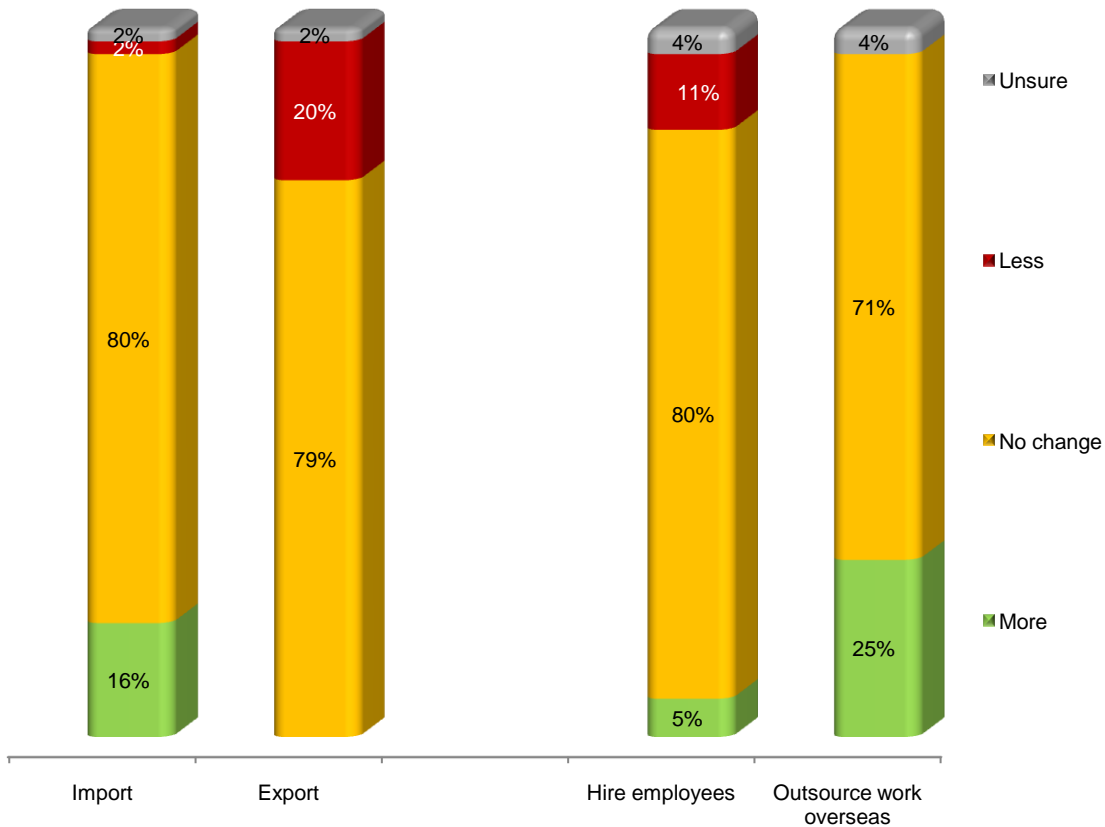
CEO pulse

Response to Increased \$AUD

Question 6: As a result of the increased value of the Australian Dollar, has your company done more or less of the following? (n=56)

The majority of surveyed CEOs report that their company has had no change in imports (80%), exports (79%), hiring of employees (80%) or outsourcing work overseas (71%) as a result of the increased value of the Australian Dollar.

However, the higher value of the Australian Dollar has impacted smaller proportions of CEO participants in the form of more outsourcing of work overseas (25%), less exports (20%), more importing (16%) and less hiring of employees (11%).



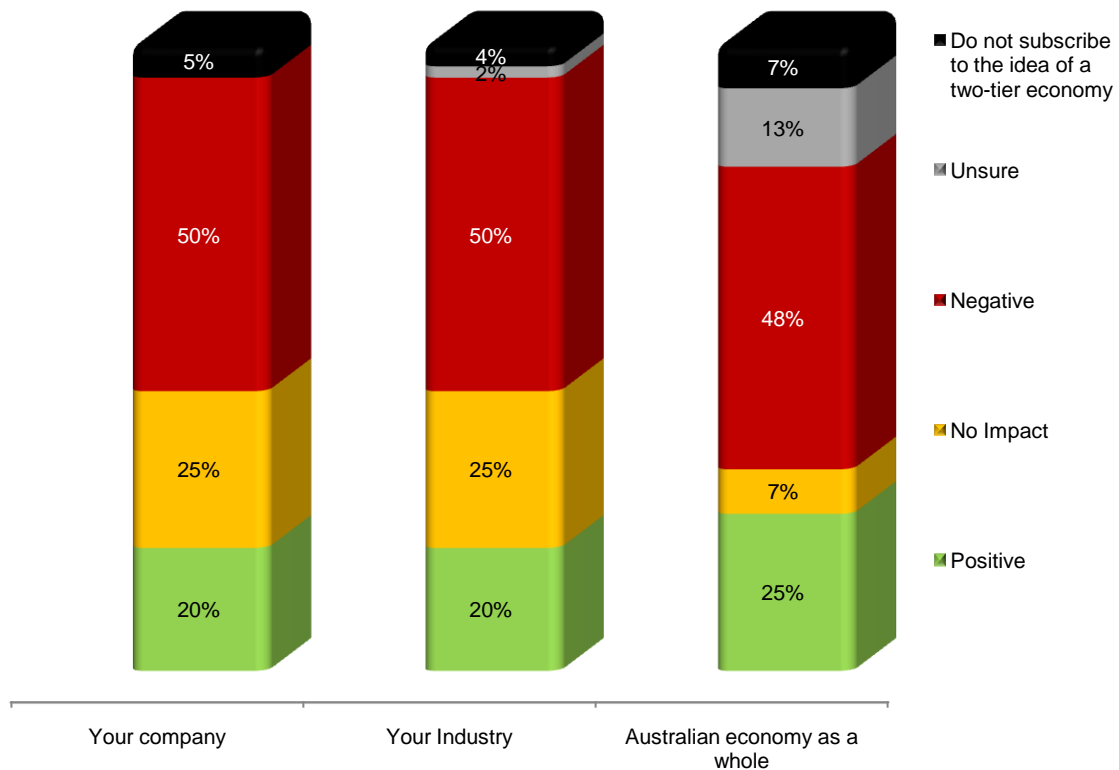
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Impact of Two-Tier Economy

Question 7: Several prominent economists, including the Governor of the Reserve Bank, Glenn Stevens, have said that Australia is experiencing a two-tier economy, where some sectors of the economy such as the mining and commodities sectors are booming, while others are not experiencing as much growth. Would you say that on balance the two-tier economy has had a positive or negative impact on your company, your industry and the Australian economy as a whole or do you not subscribe to the idea of a two-tier economy? (n=56)

Almost all surveyed CEOs subscribe to the idea of a two-tier economy and half report that, on balance, the two-tier economy has had a negative impact on their company (50%), their industry (50%) and the Australian economy as a whole (48%).

The other half report a mixture of no impact, positive impact and being unsure. Thinking about the impact on the Australian economy as a whole, CEOs are less likely to say that it has no impact and more likely to say they are unsure.



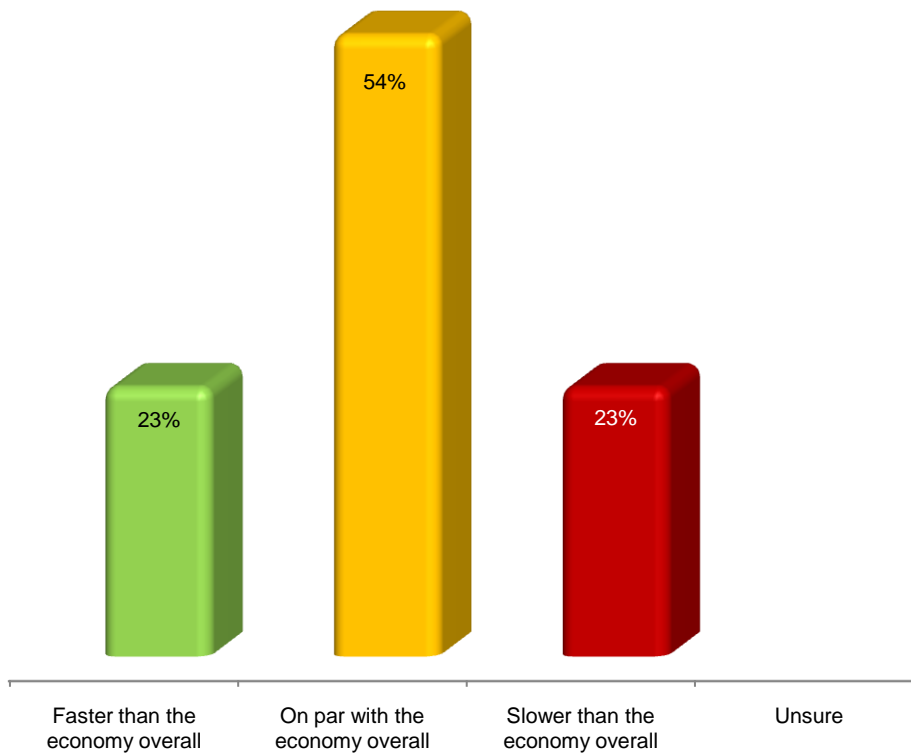
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CEO Expectations of Growth in their Industry

Question 8: Over the next 12 months, do you think that your industry/sector will grow...? (n=56)

More than half of surveyed CEOs (55%) report that over the next 12 months, they think their industry/sector will grow on par with the economy overall.

The other half are split, with around a quarter reporting that they think their company will grow faster than the economy overall (23%) and a quarter slower than the economy overall (23%).



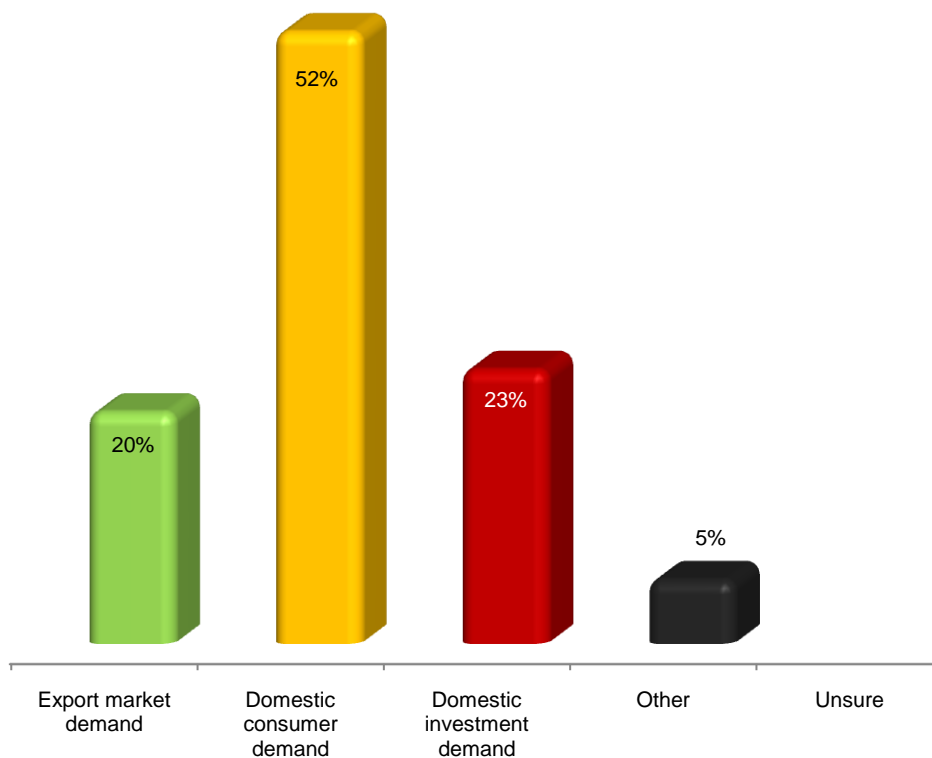
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CEO Opinion of Primary Growth Driver

Question 9: Which of the following do you believe is the primary growth driver in your industry/sector? (n=56)

Around half of surveyed CEOs (52%) report they believe that domestic consumer demand is the primary growth driver in their industry/sector.

Around a quarter (23%) report they believe the primary growth driver in their industry/sector is domestic investment demand and one in five (20%) report they believe it is export market demand.



CEOs' Advice to Leading Public Figure: Governor of the Reserve Bank of Australia, Glenn Stevens

Question 10: Each month we will ask you to give a single piece of advice to a leading public figure. This month, what advice would you like to give the Governor of the Reserve Bank of Australia, Glenn Stevens? Please finish this sentence: "I think Glenn Stevens should..." (n=56)
[Unprompted, open-ended question. Responses coded by GA Research into key themes]

When asked what advice they would give to the Governor of the Reserve Bank of Australia, Glenn Stevens, there were three common themes in CEO's comments.

Firstly, many CEO participants said they would like to see Glenn Stevens exercise caution and consider a broad range of factors when making decisions about interest rates. They feel this is important because of uneven improvement in the economy and its implications on exchange rate implications. The factors mentioned included consumer demand, external pressures on the Australian economy, the impact of decisions on the Australian Dollar and all industry sectors, but particularly non-mining industries like domestic tourism, housing and manufacturers. They also mention the impact of decisions in different states and amongst different demographic groups in society as well as the need for sustainable business growth.

Many CEO participants said they feel Glenn Stevens does consider many of these factors, is very thoughtful and communicates his opinions well. However, a few said they would like to see more focus on the real impact of the Reserve Bank's decisions.

"Keep doing a solid job and be mindful of the impact of policy on consumer demand."

"...the RBA has too much confidence at a 10,000 metre level and not enough on the ground perspective to balance it. Retail is currently very tough and consumer sentiment is frankly pretty terrible. The RBA has little perception of these things and they are fundamental to the outlook of a modern consumer driven economy..."

Secondly, around a quarter of CEOs commented on where they would like to see interest rates heading. Of these, around half said they'd like to see them hold steady, at least until after Christmas when we might see some movement in the US and Europe, while the other half were split. Some wanted to see increased rates to help prevent a housing bubble while others said they'd like to see reduced rates.

"Don't act too hastily in raising interest rates. While we are seeing improving economic conditions, the improvement is uneven and may prove to be fragile once the fiscal stimulus comes to an end."

"Increase interest rates to prevent a housing bubble. Housing prices are unsustainably high."

Finally, some CEOs want to see Glenn Stevens become more vocal on a range of policy areas including ways to reduce the value of the Australian Dollar against the US Dollar, the banking sector, tax reform, savings rates, infrastructure funding and promoting labour market flexibility - even though they acknowledge that some of these things are not in his job description.

"The two speed economy is a myth and the effect the higher Australian dollar as a result of the interest rate differential of the US should be given much higher priority than short term inflation concerns."

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A blue butterfly is flying towards a pink flower stem that is being held by a chameleon. The chameleon is perched on a branch, and its tongue is extended towards the flower. The background is dark green with ferns.

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