

Business *Spectator*

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CEO *pulse*

Number 04
May 2010



Views from the top...

Australia's leading chief executives on:

- | Federal Budget
- | Resource Super Profits Tax
- | Economic Outlook
- | What keeps them awake at night
- | What they'd tell Malcolm Turnbull

GA RESEARCH

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

- While overall sentiment about the economy is still quite positive, there appears to be growing pessimism about the economic prospects of the country. Optimism about prospects for the Australian economy in the next 12 months has fallen significantly this month (58% compared to 84% in April) and pessimism has increased significantly (20% compared to 2% in April).
- While optimism about the prospects for their own organisation in the next 12 months has increased overall this month (82% compared to 79% in April), it has softened with 18% strongly optimistic (compared to 27% in April).
- CEO's scorecard for the government's performance in managing the economy shows a drop to 4.22 out of 10 (compared to 4.8 last month and 4.98 in Qtr 1 2010).

CEOs on the 2010/11 Federal Budget

- There appears to be some cynicism about the budget. Around eight out of ten CEOs surveyed agree that it avoided making tough decisions about spending (78%) and just over half disagree that the budget is a demonstration of responsible economic management.
- Most (76%) say that a reduction in the company tax rate to 28% will have a net positive impact on the Australian economy overall and less than half (42%) say that an increase in the superannuation guarantee to 12% will have a net positive impact.
- Most CEOs surveyed say that the government's tax reforms, as outlined in its response to the Henry Tax Review and the budget, will have no impact on their company (60%) or their industry (56%), but they are split over whether the impact on the Australian economy and the future of Australia as a whole will be positive or negative.
- Around one fifth of surveyed CEOs say they would have liked more measures related to tax reform included in the budget, in particular, changes to both company and individual tax.

CEOs and the Resource Super Profits Tax

- On balance, CEOs surveyed tend to say that the resource super profits tax will have a negative impact.
 - Around 48% say they expect it will have a net negative impact on the Australian economy overall and 28% say it will have a net positive impact.
 - Just over half (52%) agree that it threatens the future of the Australian mining industry. Most agree that global mining companies will choose to invest in countries other than Australia because of this tax (58%), although a similar proportion (54%) agree that the mining companies are exaggerating the likely impact on their businesses.
- Either way, most CEOs surveyed (64%) agree that it is a short-term tax grab in an election year. However, there is a split between those who agree and disagree that it will allow the Australian people to share the benefits of the mining boom.

CEO Advice to Malcolm Turnbull

- Although roughly a quarter of CEOs who responded to the survey said that Malcolm Turnbull should leave politics, around half gave him advice related to staying in politics and supporting the Liberal party in its endeavours. Of those, some say he should simply work hard in his current role and bring forth his business skills to help the party develop its economic policies; others suggest that he should strive to get back on the front bench, if not aim to regain the leadership position.

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=50 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 Thursday 13 May and Monday 24 May 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 and other services, manufacturing, healthcare, hospitality, retail, mining, financial services 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 months at the 5% level (95% confidence) are reported where relevant.

Figures quoted in this report as Quarter 1, 2010 are based on the combined results from the February (n=51) and March (n=75) 2010 Business Spectator Accenture CEO Pulse surveys.

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

CEO pulse

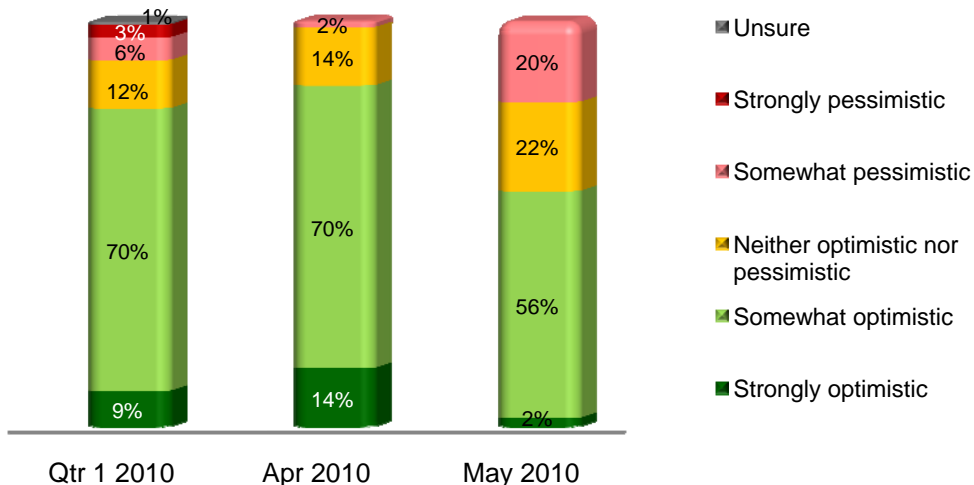
CEO Sentiment

Question 1: To what extent are you optimistic or pessimistic about...? (Qtr 1 2010; n=126, Apr; n=56, May: n=50)

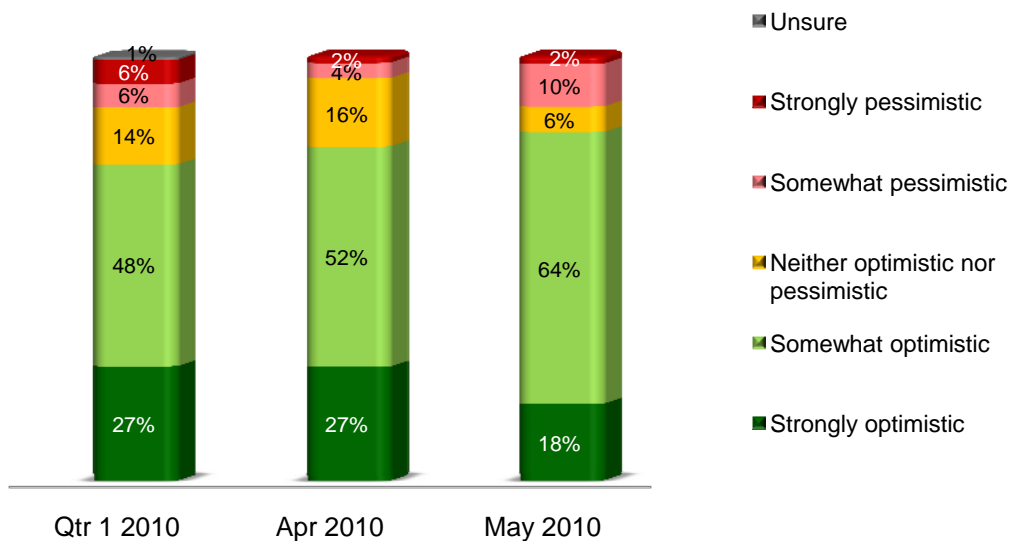
Optimism about prospects for the Australian economy in the next 12 months amongst surveyed CEOs has fallen significantly this month (58% compared to 84% in April and 79% in Qtr 1 2010) and pessimism has increased significantly (20% compared to 2% in April and 9% in Qtr 1 2010).

By contrast, optimism about the prospects for their own organisation in the next 12 months has increased overall this month (82% compared to 79% in April and 75% in Qtr 1 2010), but with some softening (18% strongly optimistic compared to 27% in April and Qtr 1 2010).

Prospects for the Australian economy in the next 12 months



Prospects for your organisation in the next 12 months



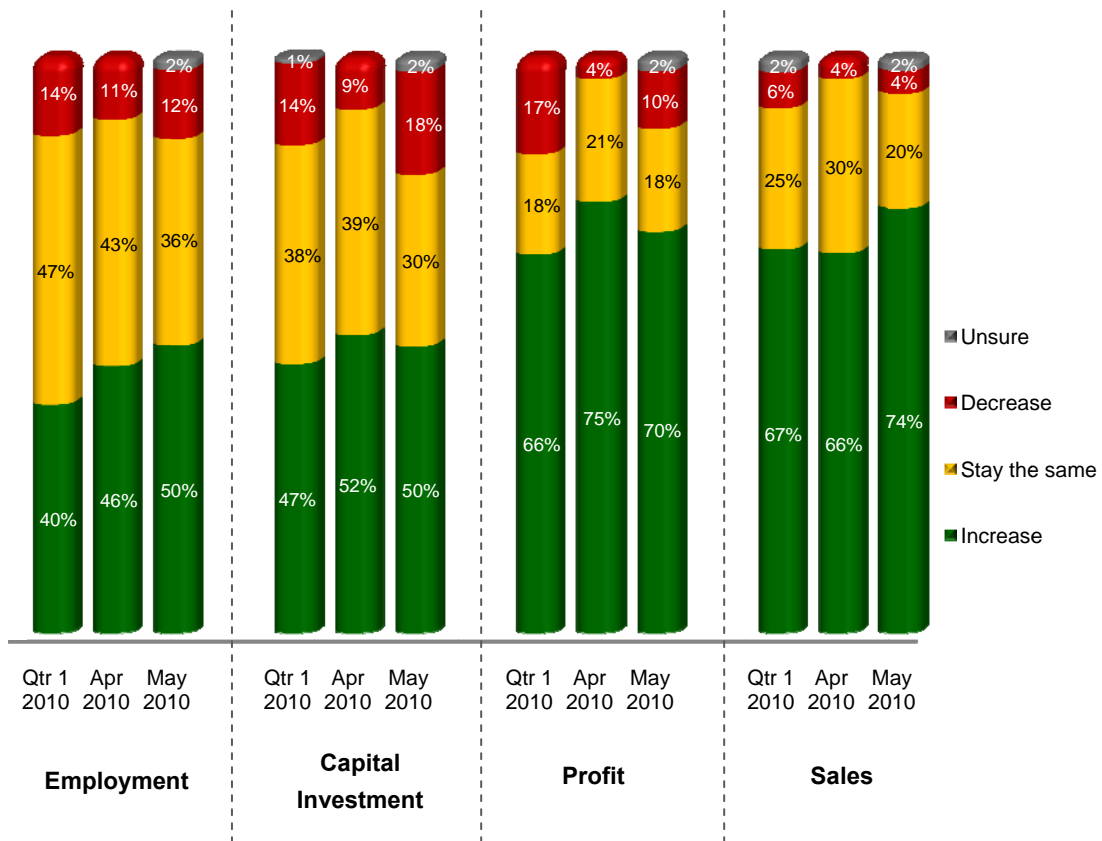
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Short Term Company Outlook

Question 2: Thinking about your organisation in the next 12 months, do you expect the following to increase, decrease or stay the same? (Qtr1 2010; n=126, Apr; n=56, May; n=50)

While expectations of increased sales has increased (74% compared to 66% last month), fewer CEOs surveyed are expecting increases in profit (70% compared to 75% last month).

The proportion of CEOs surveyed who say that they expect growth in employment and capital investment over the next 12 months has remained steady.



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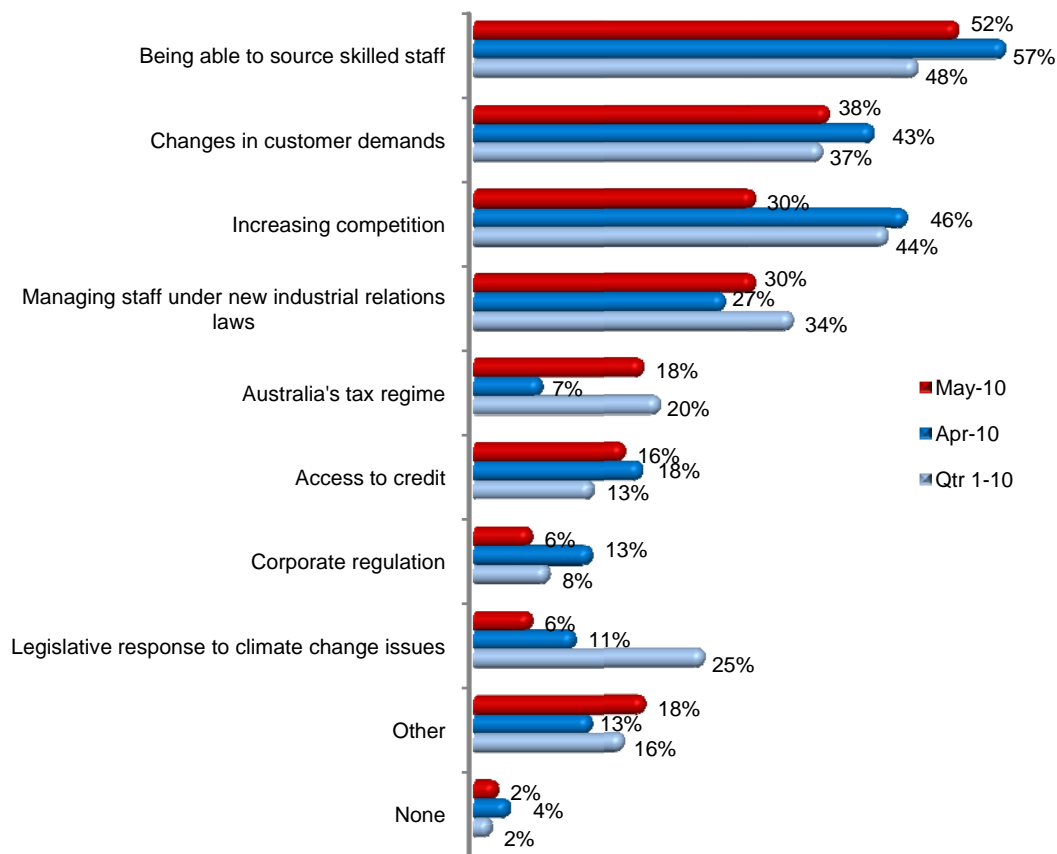
Issues Keeping CEOs Awake at Night

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, Apr; n=56, May; n=50) Pick up to three. [Up to three responses permitted – percentages add to more than 100%]

This month, the issue mostly likely to keep surveyed CEOs awake at night remains ‘being able to source skilled staff’ (52%, compared to 57% last month).

The other key issues in descending order of importance are:

- Changes in customer demand (38% compared to 43% last month)
- Increasing competition (30% compared to 46% last month)
- Managing staff under new industrial relations laws (30%, same as last month)
- Australia’s tax regime (18% compared to 7% last month)



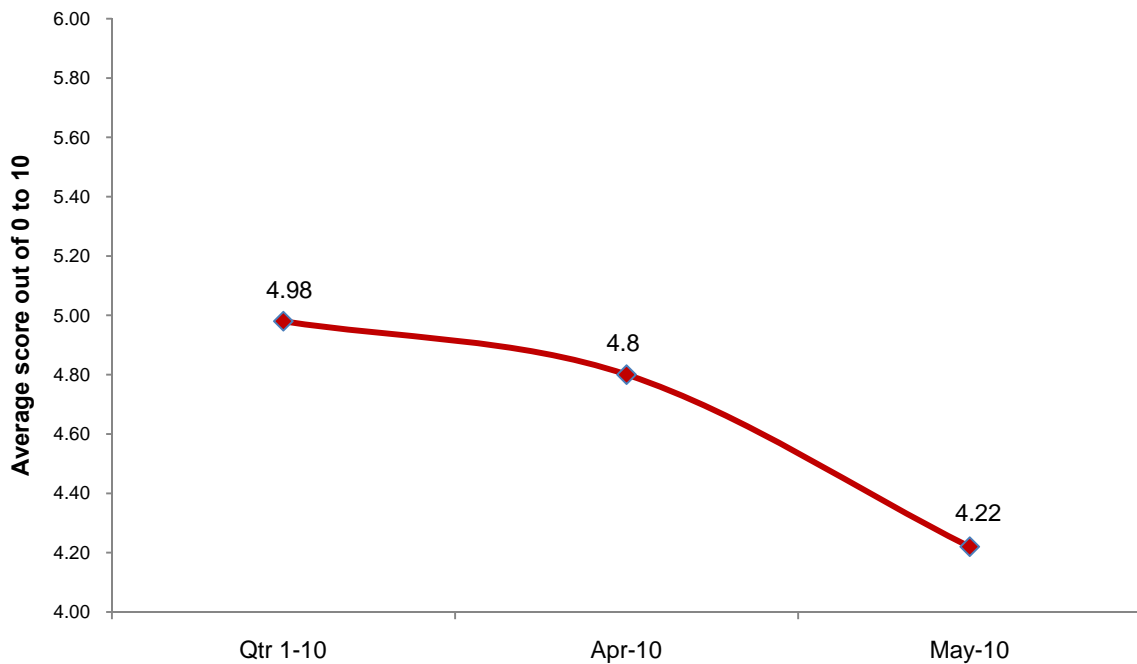
A small number of surveyed CEOs (18%) say that a range of other issues facing their company are most likely to keep them awake at night. These include issues around the government’s recent announcements including the resource super profit tax, as well as other industry regulation, with one CEO saying “a returned Labor government” is most likely to keep them awake at night. Issues such as an economic recovery without sales growth, profitability and the Australian dollar were also mentioned.

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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. (Qtr 1 2010; n=126, Apr; n=56, May; n=50)

CEO's scorecard for the government's performance in managing the economy shows a drop to 4.22 out of 10 (compared to 4.8 last month and 4.98 in Qtr 1 2010). The median score is 4 out of 10 (compared to 5 last month).



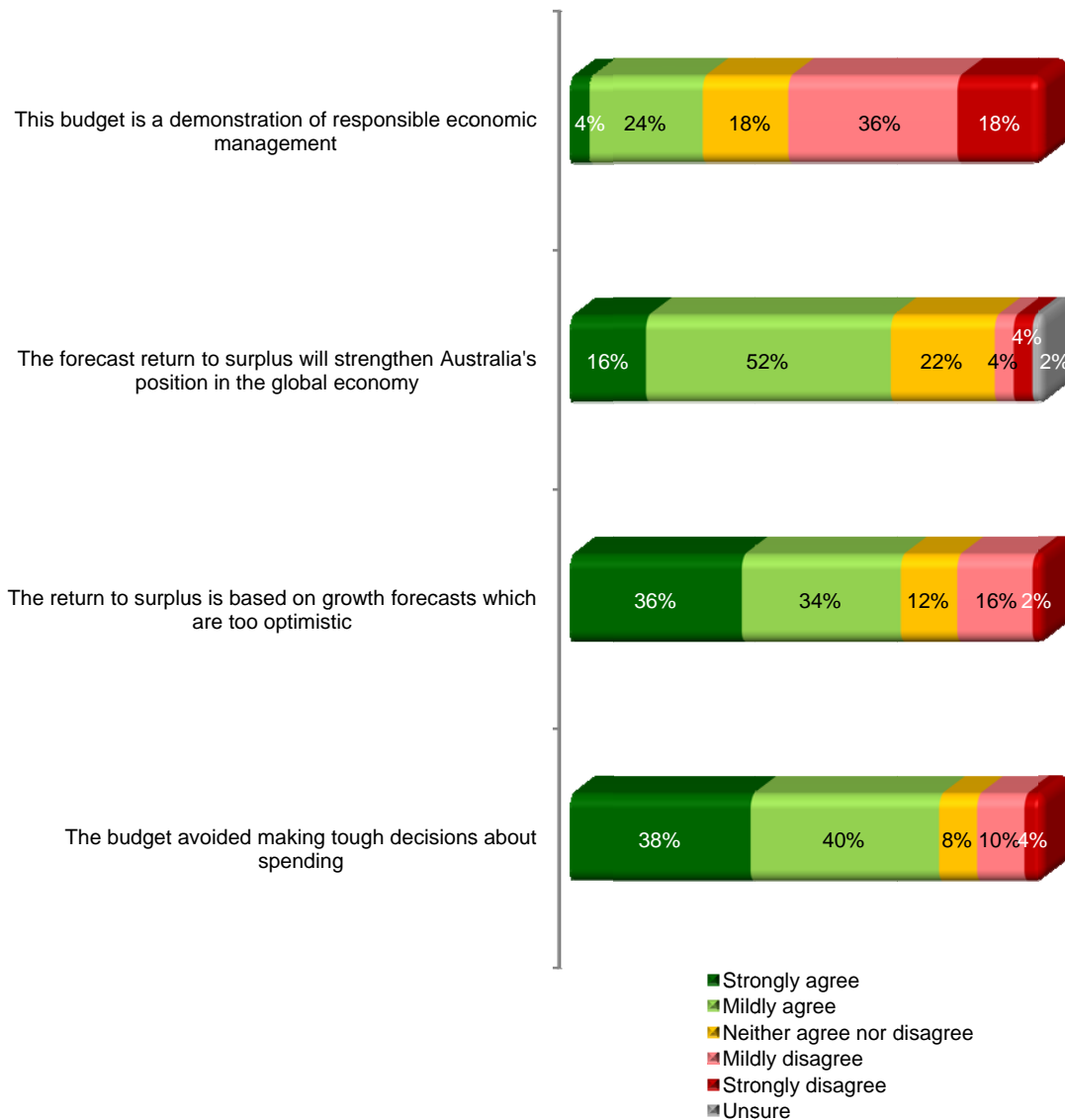
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CEOs Perceptions of the 2010/11 Federal Budget

Question 5: To what extent do you, as a CEO, agree or disagree with each of the following statements that have been said about the federal budget for 2010/11? (n=50)

There appears to be some cynicism amongst CEOs surveyed about the 2010/11 federal budget. Around eight out of ten CEOs surveyed agree that the budget avoided making tough decisions about spending (78%) and more than half (54%) disagree that the budget is a demonstration of responsible economic management.

While more than two-thirds of CEOs surveyed (68%) agree that the forecast return to surplus will strengthen Australia's position in the global economy, about the same proportion (70%) agree that the return to surplus is based on growth forecasts which are too optimistic.



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CEO Perceptions of the Resource Super Profits Tax

Question 6: Here are some things that people have said about the proposed resource super profits tax. To what extent do you agree or disagree with each? (n=50)

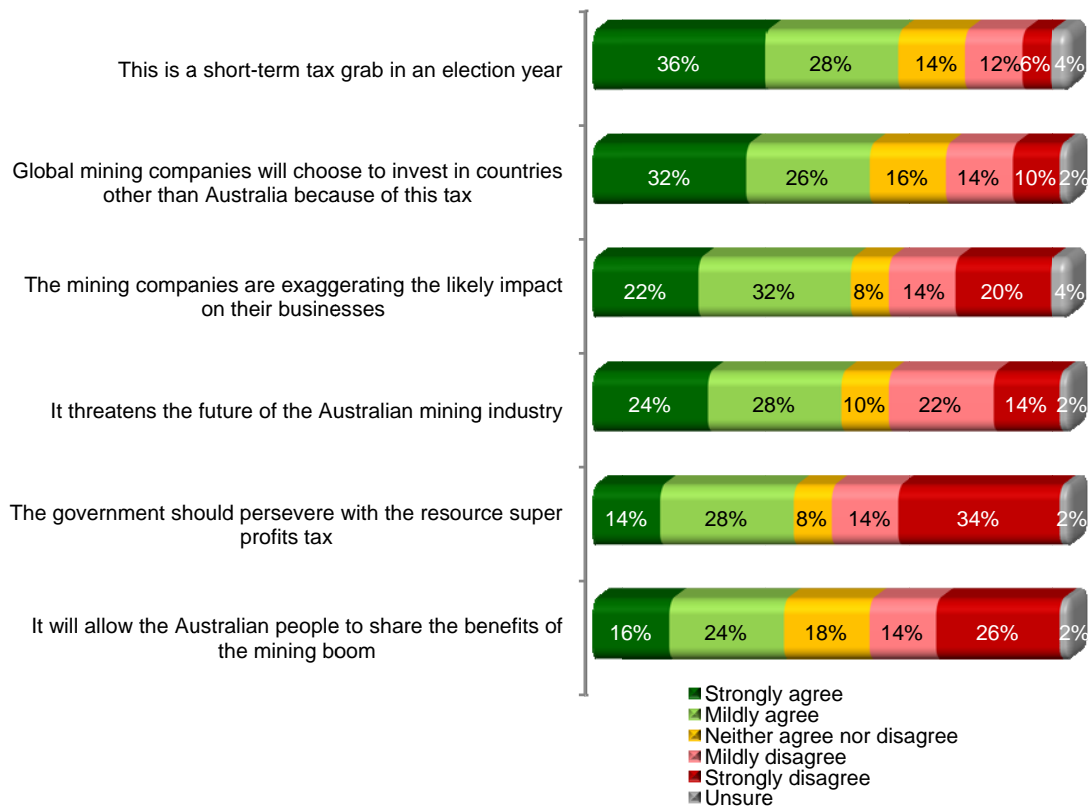
On balance, CEOs surveyed tend to say that the resource super profits tax will have a negative impact.

- Just over half (52%) agree that it threatens the future of the Australian mining industry.
- Most agree that global mining companies will choose to invest in countries other than Australia because of this tax (58%), although a similar proportion (54%) agrees that the mining companies are exaggerating the likely impact on their businesses.

However, there is a split between those who agree (40%) and disagree (40%) that it will allow the Australian people to share the benefits of the mining boom.

There is also a split in opinion as to whether the government should persevere with the resource super profits tax, 42% agree that the government should persevere with it and 48% disagree.

Either way, most CEOs surveyed (64%) agree that the proposed resource super profits tax is a short-term tax grab in an election year.



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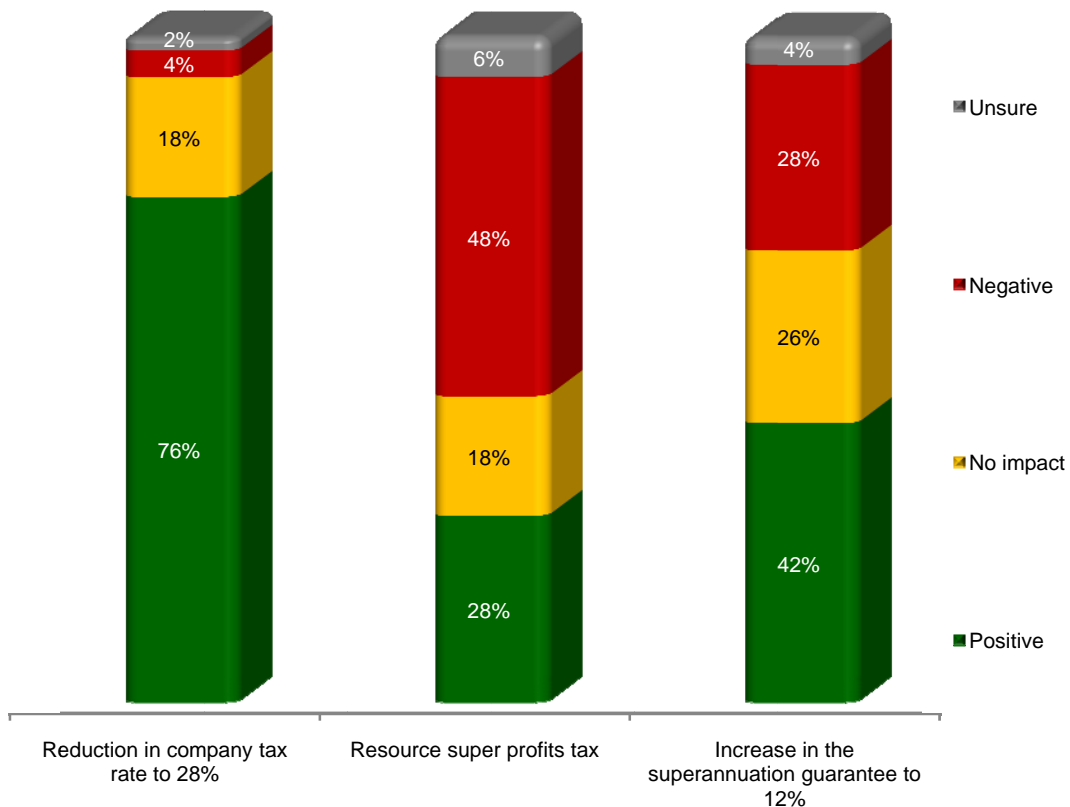
CEO Perceptions of the Government's response to the Henry Tax Review

Question 7: For each of the following components of the government's tax reforms as outlined in its response to the Henry Tax Review, do you think they will have a net positive or negative impact on the Australian economy overall? (n=50)

There is strong support for the reduction in the company tax rate to 28%, with most CEOs surveyed (76%) saying it will have a net positive impact on the Australian economy overall.

Less than half (42%) say that an increase in the superannuation guarantee to 12% will have a net positive impact.

However, less than a third (28%) of CEOs surveyed say that the resource super profits tax will have a net positive impact on the Australian economy overall, with almost half (48%) saying that it will have a net negative impact.



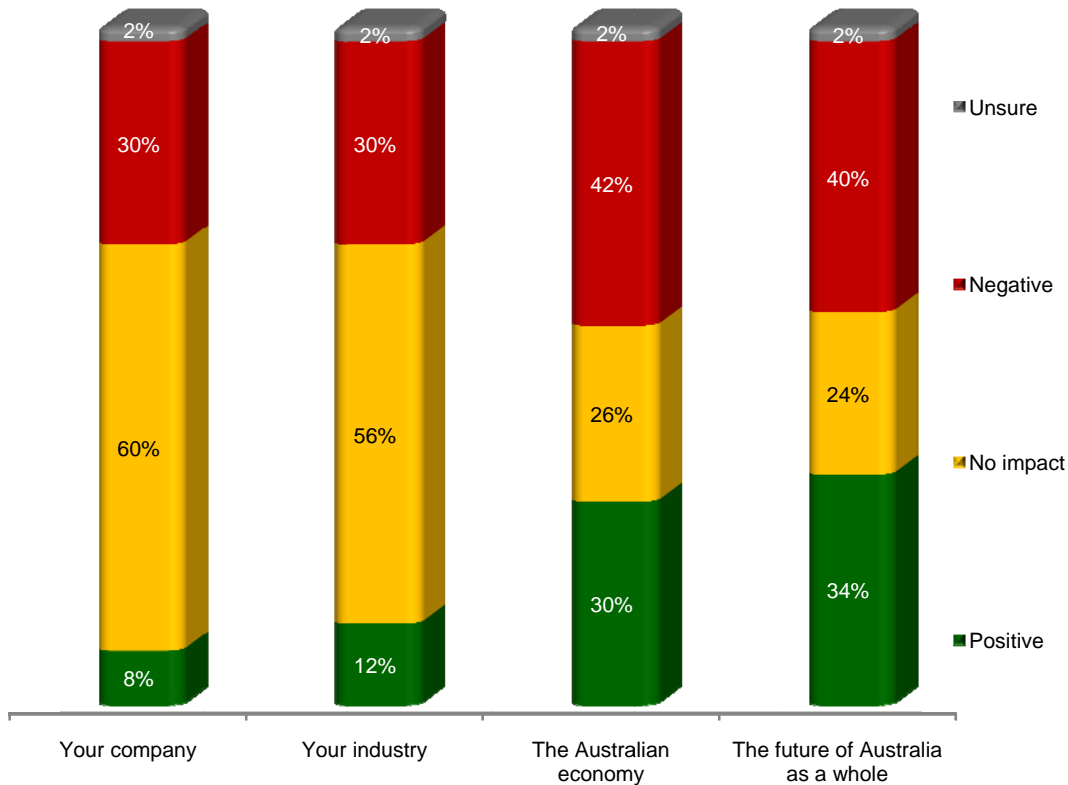
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CEO Perceptions on the Impact of Tax Reforms

Question 8: Overall, do you think that the government's tax reforms as outlined in its response to the Henry Tax Review and the 2010/11 budget will have a net positive or negative impact on ...? (n=50)

Most CEOs surveyed say that the government's tax reforms, as outlined in its response to the Henry Tax Review and the 2010/11 budget, will have no impact on their company (60%) or their industry (56%).

However, CEOs surveyed are split over the impact on the Australian economy and the future of Australia as a whole, with around a third saying it will have a positive impact (30% - Australian economy, 34% - future of Australia as a whole) and a higher proportion saying it will have a negative impact (42% - Australian economy, 40% - future of Australia as a whole).



What else CEOs would liked to have seen in the 2010/11 Budget

Question 9: Thinking of the 2010/11 budget, what one other measure, if any, would you have liked to see included? (n=50)

Around one fifth of surveyed CEOs say they would have liked more measures related to tax reform included in the budget, in particular they wanted to see changes to both company and individual tax arrangements.

[I would liked to have seen included] A more comprehensive income tax reform improving benefits across all income thresholds. Generally I agree that this was really a 'lazy budget' that had little substance.

Clearer measures and actions to clarify the tax system to enable Australia to operate on a level playing field with Asian nations, such as Singapore, to attract foreign fund investment into the country.

We should have a simplified tax structure, in other words, taking on more of the words of the Henry Tax Review implementations.

The next most common item mentioned by the CEO sample concerned budgetary measures that addressed climate change and related environmental issues.

Some move, however small, towards [addressing] climate change. Not necessarily a carbon tax, but some evidence that this will again become a focus at some point in the future would be good.

...an emissions trading scheme.

Higher charges on water usage. More incentive for green economic decisions.

A similar percentage of CEOs surveyed were concerned that the budget did not include initiatives that would improve conditions for those who may be more disadvantaged in society.

[I would liked to have seen included] funding to address increasing homelessness, given Rudd's promise on this issue.

... more spending in the disability sector.

Other areas that CEOs said should have been included in the budget included reduced government spending; greater incentives for superannuation contributions; measures to improve productivity and export potential for Australian companies and promoting more foreign investment.

Addressing (reducing) spending, particularly at the Government level - there is a significant amount of bureaucratic waste; leadership on reducing this would have been valuable...

Superannuation changes that allow individuals to invest more heavily in super rather than the current restrictions that are in place.

Greater impetus in promoting sustainable manufacturing.

Initiatives to assist export industries at a time of unfavourable exchange rates.

CEOs' Advice to Leading Public Figure: Malcolm Turnbull

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 Liberal member for Wentworth, Malcolm Turnbull? Please finish this sentence: "I think Malcolm Turnbull should....." (n=50) [Unprompted, open-ended question. Responses coded by GA Research into key themes]

The advice given to Malcolm Turnbull from CEOs who were surveyed was very much 'stay or go'. Around a quarter said that he should leave politics, while around one in ten had nothing to say, and the remainder mainly offered advice in terms of his ongoing role within the Liberal Party and the Coalition more broadly.

"Reverse his recent decision and retire from politics. He has had his turn and failed so move on and give new faces the opportunity to make a positive difference."

Although the most common single response was to leave politics, about half of the respondents made various comments in relation to him staying in politics, suggesting that there is more support for him staying than leaving. Some say he should simply use his current position and work hard to support the Liberal party.

"Embrace his current position and use his significant skills for the betterment of the country."

A fairly common theme was to draw upon his business background in helping the Coalition to develop strong economic policies.

"Regroup and put his best skills to use as Treasurer. He is brilliant BUT has a poor persona that people find hard to like."

"Bring his not insignificant financial acumen to the Liberal table by supporting Abbott in the latter's primary area of weakness."

Around one in ten think that he should try and get back on the front bench, with a few suggesting he should go for the Shadow Treasurer role, and around the same number suggesting he should be prepared to take back the leadership of the Liberal party.

"Be ready to step up again when Abbott fails."

"Hang in there, his turn will come."

"Seek to return to the shadow cabinet as Shadow Treasurer and focus on the ETS; was a piece of gross mismanagement by the government."

A few just said he should make up his mind and be very clear about what he stands for.

"[Should] not have resigned, then done a back flip. He should do his best to support the momentum that the Liberals now have. He should offer to help articulate the government's failings."

"Either leave politics or fight."

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