The Australian Industry Group

NATIONAL CEO SURVEY

Business Prospects in 2016: Cautious New Hope

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AiGROUP

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Key messages

Business prospects in 2016: cautious new hope

Ai Group's annual Business Prospects Survey of Australian CEOs finds business leaders more optimistic about their prospects for 2016 than they have been for any of the previous three years. However, there remain significant risks for the business outlook for the coming year.

A key factor underlying these improved expectations is the lower Australian dollar. Having a dollar around 70 US cents is in stark contrast to a couple of years ago when it frequently traded above parity. This has been a boon for our exporters and for import replacement. If sustained (as is suggested by falling commodity prices), the lower dollar is likely to be the single brightest factor in the outlook for domestic producers in 2016.

The period of strength in residential construction has also fuelled greater optimism although signs are emerging that further growth will be difficult to sustain.

While CEOs' expectations for 2016 are more optimistic than in recent years, they still point to a mixed year ahead. Businesses in services industries are generally optimistic about their prospects for further growth in sales and profits. Some manufacturers are also quietly confident that the lower dollar will continue to support their expansion into global markets and help them regain domestic contracts and market share.

Other parts of the manufacturing sector are less optimistic. The impending exit of automotive assembly from Australia will be highly disruptive this year. Engineering and mining-related businesses are generally circumspect, reflecting the ongoing turmoil in global energy, commodity and equity markets and the associated slowing of growth in China. Like the dollar, the sharp falls in oil, iron ore and other key prices will be a two-edged sword for many businesses.

For importers and for businesses with a large proportion of imported inputs the lower dollar poses considerable challenges.

There are significant risks to the Australian business outlook for 2016. Global commodity and equity markets have already experienced considerable volatility in the first month of 2016. Global financial markets are likely to remain on edge and vulnerable to disruption through much of 2016.

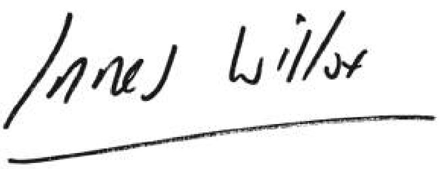
These risks are tempering the 2016 outlook of business leaders. The dominant impediment to business growth for the year ahead is slow demand growth, locally and globally. The confidence to invest and to hire remains vulnerable, as indicated by modest investment and employment intentions, even across the more dominant services industries.

As they confront this mixed outlook, CEOs are taking steps to actively lift their performance. With broadly similar results across industries, the major strategies CEOs anticipate adopting are: growing sales of existing products and services; introducing new products or services; and taking advantage of the lower dollar to expand into global markets. These strategies rank well ahead of downsizing and cost-cutting, which were among the leading strategies in 2013 and 2014. Although cost cutting remains on the agenda for some businesses in 2016 – mainly in the construction and mining-related industries – elsewhere, the priority is on new technologies and on measures to grow and innovate.

There are clear messages for policy-makers from CEOs in this Ai Group 2016 Business Prospects report. Local conditions have improved for the non-mining industries since last year, primarily due to the lower dollar. But we are still struggling to establish and sustain significant new sources of growth. Businesses are working hard to eke out much-needed productivity gains, but government also has a critical role in supporting confidence, competitiveness, investment and innovation.

In this Federal election year, our policy debate needs to focus squarely on several key areas:

- Improving the tax system – to lift its efficiency, to reduce barriers to investment and innovation, and to strengthen and stabilise our revenue bases;
- Investing in skills and education including with a stronger emphasis on science, technology, engineering and maths (STEM) skills;
- Removing the barriers to business growth, employment and workforce participation imposed by inflexibilities in our workplace relations arrangements; and
- Supporting a faster pace of innovation including by lifting business-research collaboration.



Innes Willox

Chief Executive
Australian Industry Group

Executive summary

This report is based on Ai Group's annual 'Business Prospects' survey of Australian CEOs. The survey was conducted throughout October and November 2015. Details of this year's survey questionnaire and respondents are in the Appendix. Data from public sources such as the ABS, RBA and Treasury are also included.

More CEOs are optimistic about general business conditions in 2016 than at any time in the past three years. This improved outlook reflects more favourable developments in the economic and business landscape through the latter half of 2015 including: further drops in the Australian dollar; low interest rates and inflation; a more strongly improving labour market; a resurgent residential construction sector; improving consumer confidence and local spending; and the positive response to the change in Australia's political leadership.

Nonetheless, some significant storm clouds remain on the horizon. Not least among the risks for 2016 are the volatility in financial markets, recent trends in commodity prices and the fragility of the global economy. 2016 will also bring the uncertainties of a Federal election.

However, 2015 was a better year for more businesses, with actual conditions closer to what CEOs had been expecting. 31% of CEOs reported an improvement in their general business conditions, up from just 18% who experienced an improvement in business conditions in 2014 and 16% in 2013. Even so, 47% of CEOs still reported deterioration in general business conditions in 2015. As a result, the 'net balance' of business conditions came in at a relatively poor -16% for 2015. This was remarkably close to initial CEO expectations for 2015 (-16%) but was 'less worse' than the net balances for 2014 (-41%) and 2013 (-49%).[1]

For 2016, 39% of CEOs expect their general business conditions to improve relative to 2015, while 23% expect their business conditions to deteriorate and 37% expect conditions to remain the same. In aggregate, this gives a net balance of +15% for expected business conditions.

This is a marked improvement in mood compared to just one year earlier, when only 25% of CEOs had expected 2015 to be better than 2014 and 41% expected it to be worse (giving a net balance of -16% for expected business conditions in 2015). On average, Australian CEOs were disappointed with their general business conditions in 2013 and 2014. Actual conditions turned out to be worse than initial expectations in each year, and the majority of CEOs reported deterioration in their business conditions in both years (65% in 2013 and 59% in 2014).

[1] Percentage of respondents to Ai Group's Business Prospects surveys, weighted by industry output across the four major industry groups of: manufacturing; construction; services; and mining and mining services.

General business conditions in 2016

Across all of the industries included in the Business Prospects Survey 2016 (aggregate results, weighted by the real value added output of each industry), Australian CEOs told us about their key expectations for the year ahead.

Better sales and profits

- Turnover (nominal sales) will improve for the majority of businesses, with 63% of CEOs expecting their own annual sales to increase in 2016, 21% expecting no change and 16% expecting a decrease. For 2015, 51% of CEOs reported an increase in annual sales, slightly higher than the 49% who had been anticipating higher sales revenue one year earlier.
- Export income will rise for 26% of businesses in 2016 and be stable for 68% of businesses, with just 6% expecting their export income to fall. This growth or stability for the majority of businesses comes after 48% reported increased export earnings in 2015, with another 32% reporting no change from 2014. This solid growth in export income in 2015 had largely met expectations, with 49% of businesses having expected to grow their export income in 2015, one year earlier. It reflects the fall in the Australian dollar.
- Profit margins will improve for 47% of businesses in 2016, be stable for 30% and will shrink for 22% of businesses. This indicates more businesses are optimistic about improving their profitability in 2016 compared to 2015. For 2015, 37% of businesses reported an improvement in their profit margins.

Mixed plans for growth in business inputs

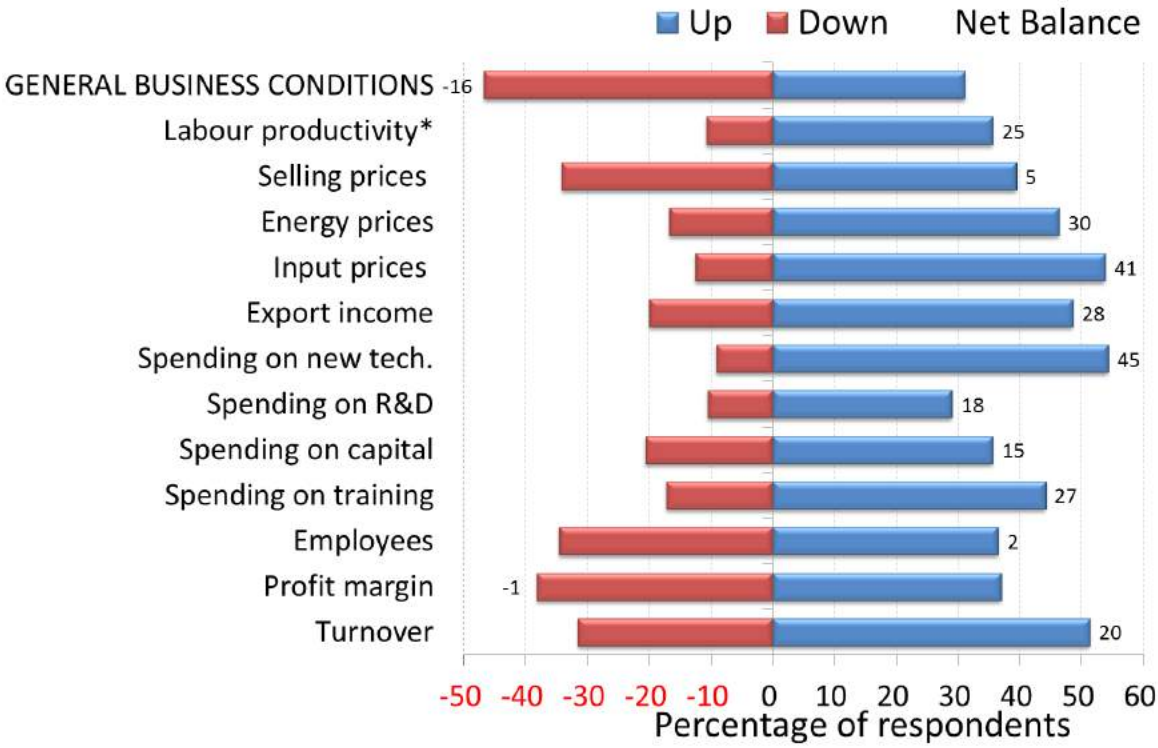
- Employment numbers will increase in 36% of businesses, about the same proportion that reported an increase in employment in 2015 (36%) and who had planned to increase employment in 2015 one year earlier (34%). 27% of businesses expect to decrease their headcount (versus 35% that actually did so in 2015) and 37% will keep their staff numbers the same in 2016.
- Training expenditure will grow in 47% of businesses, up slightly from 44% of businesses who increased their spending on staff training in 2015. 11% of businesses will cut their spending on staff training in 2016, compared with 17% of businesses in 2015.
- Labour productivity is expected to improve in 49% of businesses, up from 36% of businesses that reported an actual improvement in 2015. Another 48% expect no change to their labour productivity, with just 3% expecting a deterioration. This is more optimistic than the reported experiences of 2015, in which only 36% of businesses reported improving their labour productivity and 11% reported a deterioration. It is also more optimistic than a year earlier, when just 39% of CEOs had expected better labour productivity.

- Capital expenditure on physical assets will grow in 43% of businesses, but will be unchanged in 38% of businesses and will decline in 19% of businesses. This is a stronger investment outlook than in 2015, when 36% of businesses increased their annual capital investments, 57% spent the same as in 2014 and 21% cut their annual investment expenditure. It is also stronger than the initial expectations for capital expenditure one year earlier, when 30% of businesses had said they planned to increase their investment spending in 2015, compared to 2014 (43% had planned no change and 27% planned to cut).
- R&D expenditure will grow in 36% of businesses, up from 29% who reported an increase in their R&D spending in 2015 and 22% who had planned to increase their R&D spending, one year earlier. 51% will keep their annual R&D spending stable and 13% plan to reduce it in 2016.
- Spending on new technologies will grow in 59% of businesses and be stable in 35% of businesses in 2016, with just 6% planning to cut this key area of investment expenditure. This is a similar profile to 2015, when 54% of businesses reported that they increased their spending on new technologies, 9% reported a cut and 37% said they spent about the same as in 2014.

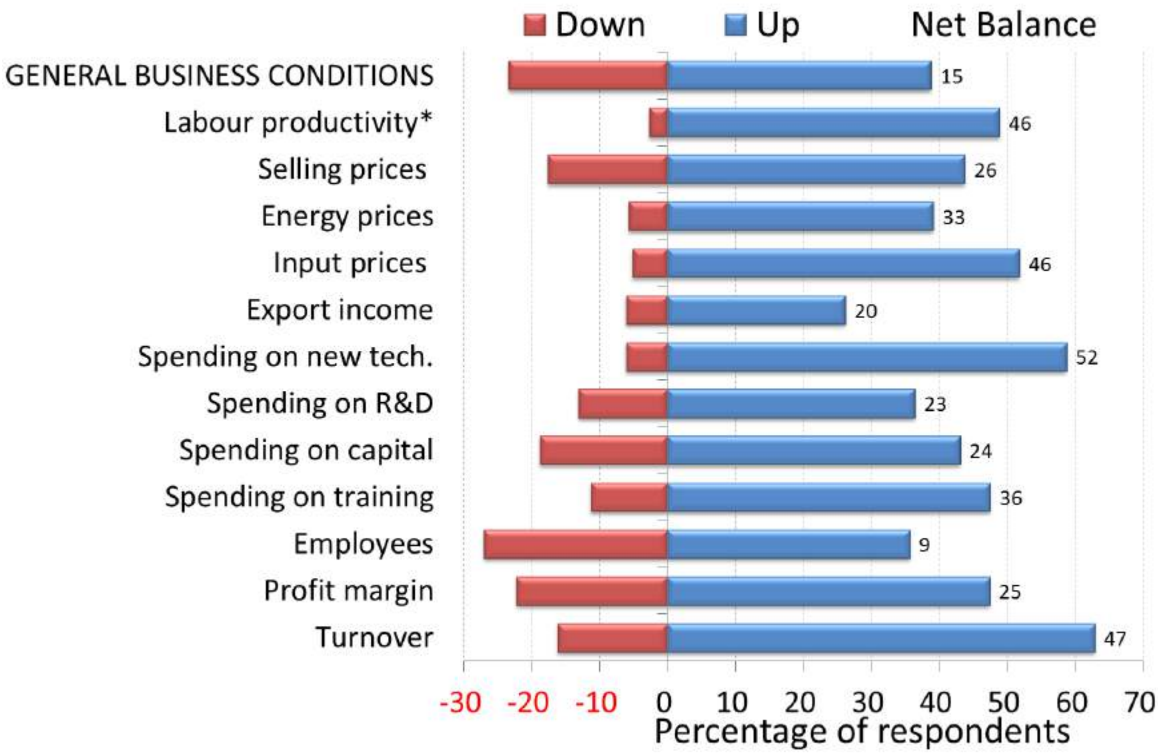
Mixed expectations for business pricing

- Input prices are expected to increase in 2016 for 52% of businesses and to remain stable for 43%. In 2015, 54% of businesses reported an increase in input pricing, while 13% reported a price decrease. This experience in 2015 was largely in line with their pricing expectations of a year earlier, although rather more businesses saw their input prices fall (13%) than had expected a price fall to occur (7%).
- Energy prices are expected to increase in 2016 for 39% of businesses and to remain stable for 55%. This will come on top of the energy price increases already reported by 46% of businesses in 2015.
- More businesses are hoping to increase their selling prices in 2016 (44%) than were able to do so in 2015 (39%) or had planned to do so a year earlier (34%). Conversely, fewer businesses plan to cut their prices in 2016 (18%), compared to those that reported actually cutting their selling prices in 2015 (34%). Looking back at 2015, only 17% had planned to cut their prices a year earlier, so at least some of 2015's price cuts must have been unanticipated movements, probably in response to changing market conditions and/or changes in global pricing (e.g. for metals and commodities) during the year.

Reported change in business conditions, 2015



Expected change in business conditions, 2016



Percentage of respondents to Ai Group's Business Prospects survey 2016. Weighted by industry value added real output in 2015 (derived, from ABS *National Accounts*, September 2015), across the four major ANZSIC 2006 industry groups of: manufacturing; construction; services (excluding public administration); and mining and mining services.

* Labour productivity is defined as "output per hour worked" in your own business.

Economic conditions in 2016

Australian CEOs' expectations for 2016 reflect their economic environment and are in line with Government forecasts for the economy. The latest ABS estimates for GDP confirmed the gradual improvement in the non-mining parts of the economy seen over 2015. GDP growth accelerated to 2.5% p.a. in the September quarter of 2015, up from 1.9% p.a. in the June quarter of 2015 and 2.2% p.a. in 2014. This faster annual growth rate is still relatively low, compared to Australia's long-run average (or 'trend') GDP growth rate of around 3¼%.

The *National Accounts* also showed growth in a greater range of industries in the second half of 2015. That is, the drivers of growth seem to be widening. The five largest industries (mining, finance, healthcare, construction and manufacturing) all grew in real output terms in the September quarter, with only manufacturing (the fifth largest industry) showing a decline over the year to September. Mining and finance continued to grow larger, with output up 4.1% and 5.3% p.a. respectively in the year to September.

The labour market improved through 2015, with employment growth picking up and the unemployment rate remaining around 6.0% (as of November, trend), rather than rising to 6.5% as had been forecast by Treasury a year earlier. Treasury officials now forecast the unemployment rate will stay at a relatively elevated 6.0% through 2016-17. Employment will grow by 2.0% in 2015-16, which is slower than the 3.0% growth seen in 2015. Average wages are expected to grow by 2.5% p.a., which is around its current pace and a touch higher than the expected headline inflation rate of 2.0% for 2015-16 (implying a small degree of real wage growth).

Looking ahead, the RBA forecasts Australian growth will remain below trend through to mid-2016, before strengthening above trend by mid-2017, according to its recent Statement on Monetary Policy (Table 1). One of the biggest factors shaping growth in 2016 will be the path taken by global commodity prices and the Australian dollar, both of which fell sharply in 2015 and are expected by many to move even lower in 2016. This trend is a negative development for the mining industry, but could help to boost demand in other sectors:

> *… stronger US numbers and falling commodity prices have seen the AUD fall below US70 cents for only the third time since the global financial crisis. Overall, although lower commodity prices are bad news for local income growth, if the AUD falls in tandem, this should help to offset the negative impact on growth and accelerate the re-balancing of growth to the non-mining sectors. Low inflation, partly a result of lower oil prices, means the RBA has scope to cut rates further in coming months, but if the AUD keeps sliding, they may not need to. (Paul Bloxham, HSBC, 11 January 2016)*

Complicating the picture somewhat, weak capital expenditure indicators for 2016 mean that the RBA expects the ongoing decline in mining investment to dampen growth, while the investment outlook for other industries remains subdued. This weak outlook for investment could worsen for mining as prices and profits slide, but the brighter outlook elsewhere in the economy could see a partial recovery in investment from non-mining industries. Export volumes (but perhaps not earnings) and dwelling investment are expected to remain stronger, while household consumption is forecast to strengthen to an above-average pace in 2016, as more consumer spending comes back to local retailers and service providers in response to the lower dollar.

Treasury forecast a similar set of growth rates for Australia in its latest update on the Australian economy in December 2015 (the Mid-Year Economic and Fiscal Outlook, MYEFO). Growth in Australian GDP is now expected to be 2.5% in 2015-16 (down from 2.75% in the May Budget) and 2.75% in 2016-17 (down from 3.25% in the May Budget). Slower GDP growth in 2015-16 owes mainly to a larger fall in engineering investment (expected to decline by 9.5% in 2015-16) than was forecast in the May Budget. Demand for Australian exports is expected to remain strong in volume terms, although not to the extent anticipated in the May Budget. National earnings from exports could be lower however, due to declining commodity prices. On the positive side, Treasury expects dwelling construction will be stronger in 2015-16 than it had previously forecast. Looking further ahead, growth is forecast to strengthen to around 3% in 2017-18 and 2018-19.

The RBA and Treasury have also downgraded their estimate of the economy's 'potential' growth rate, that is, the rate of real GDP growth that is consistent with a stable inflation rate. Treasury now views 2.75% as the "goldilocks rate of growth" for Australia, down from 3.0% previously. This is consistent with the view of RBA Governor Glenn Stevens, who noted in 2015 that 'potential' economic growth is now lower than it was a few years ago, due to slower net migration rates, which flow through into slower labour force and GDP growth. Looking ahead, Australia's 'potential' real GDP growth rate could move higher again, if improvements can be made in its three key ingredients of (1) population growth, (2) workforce participation and (3) productivity.

RBA forecasts for real GDP growth and Consumer Price Inflation

Year-ended % p.a.	**Jun 2015 (actual)**	**Dec 2015**	**Jun 2016**	**Dec 2016**	**Jun 2017**	**Dec 2017**
GDP growth	2.0	2.25	2.0-3.0	2.5-3.5	2.75-3.75	3.0-4.0
CPI (headline)	1.5	1.75	1.5-2.5	2.0-3.0	2.0-3.0	2.0-3.0

Source: ABS, RBA *Statement of Monetary Policy* November 2015.

Industry expectations for 2016

This year's Ai Group CEO Survey of Business Prospects included CEOs from four major industries: manufacturing; services; construction; and mining and mining services. Headline results for each of these industries are summarised here, with detailed findings presented in the 'Industry Prospects' section below.

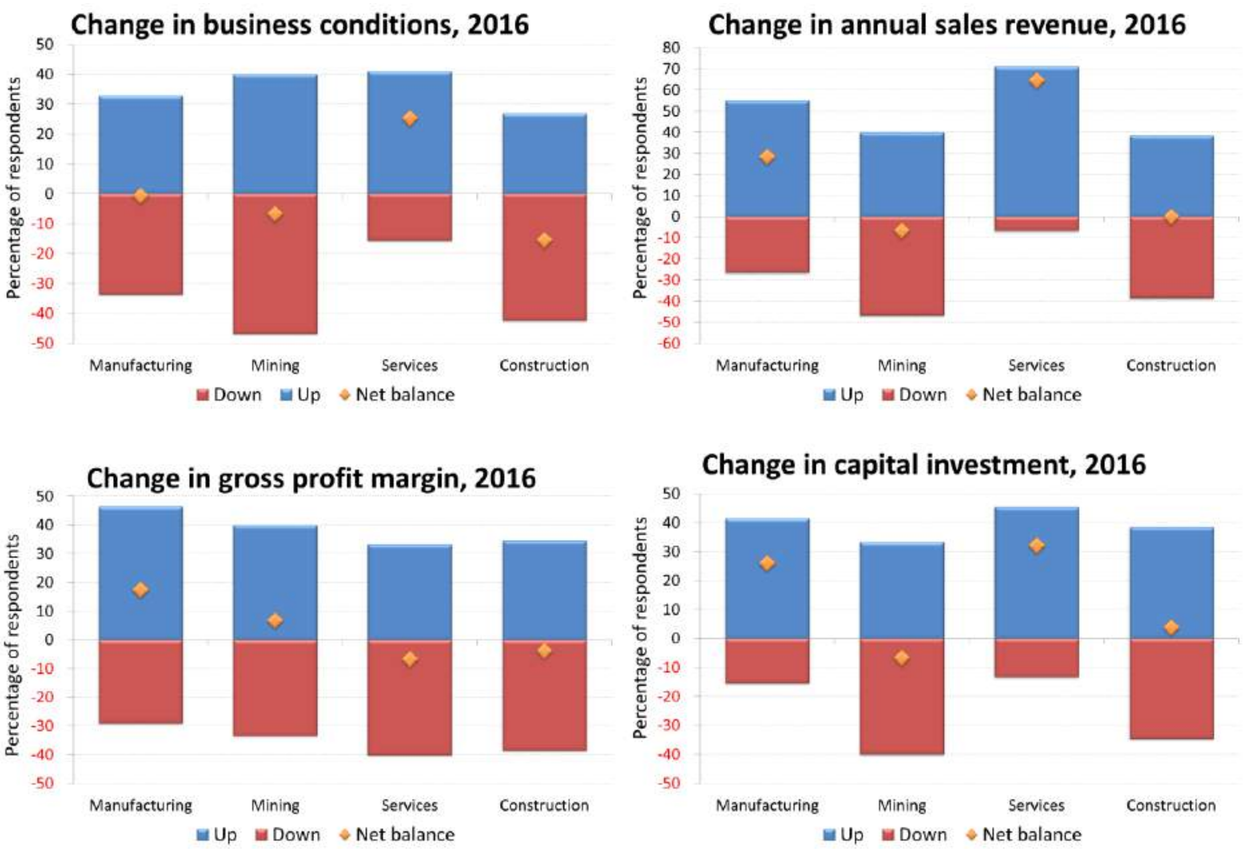
Mining and mining services CEOs are more likely to be pessimistic than optimistic about 2016 (a net balance of -6.7%). Mining accounted for 9% of GDP (in value added output terms) but only 2% of employment in 2015. The majority of mining and mining services CEOs (86%) reported that business conditions deteriorated in 2015, compared with 2014. None reported an improvement. This reflected the dramatic drops in global commodity prices through 2015, with consequent flow-on deteriorations for mining-related services. This downturn happened more swiftly and deeply than had been anticipated a year earlier, when 45% of mining CEOs had said they were expecting 2015 to be a worse year for mining industry conditions than 2014. After a relatively disappointing year for many mining businesses in 2015, mining and mining services CEOs are fairly evenly divided in their expectations for 2016. 40% expect conditions to improve while 47% expect them to deteriorate further in 2016, relative to 2015 and 13% expect no change in conditions during 2016.

Manufacturers are also more likely to be pessimistic than optimistic about 2016, albeit to a lesser extent (a net balance of -0.7%). Manufacturing accounted for 6% of GDP (value added output) and 7% of employment in 2015. After a difficult year in 2014 (in which 60% of manufacturing CEOs reported deteriorating conditions compared to 2013), 2015 proved better or at least no worse than 2014 for more manufacturing businesses. 33% reported that conditions improved in 2015 compared to 2014, while 28% said they were the same. 39% reported that 2015 was an even worse year than 2014 for their own businesses' trading conditions. Reflecting these experiences in 2015, manufacturing CEOs are evenly divided in their expectations for 2016. 33% of CEOs expect their general business conditions will improve in 2016, 33% believe they will be the same as 2015 and 34% expect their general business conditions will deteriorate in 2016.

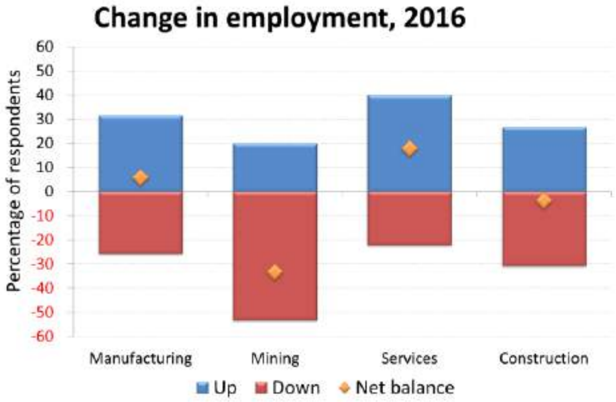
Construction businesses are the least optimistic for 2016 (a net balance of -15%). The construction industry accounted for 8% of GDP (value added outputs) and 9% of employment in 2015. Construction industry CEOs reported a mix of business conditions in 2015, but on average they experienced a better year in 2015 than they had in 2014. For 2015, 35% of construction industry CEOs reported better business conditions (versus 19% for 2014) and 38% reported a worse year in 2015 (versus 57% in 2014). For 2016, more construction businesses are expecting a worse year (42%) than had indicated such pessimism one year earlier (28% had expected 2015 to be worse). 31% are expecting their general business conditions to be the same in 2016 as they were in 2015, and 27% are hoping for better conditions in 2016.

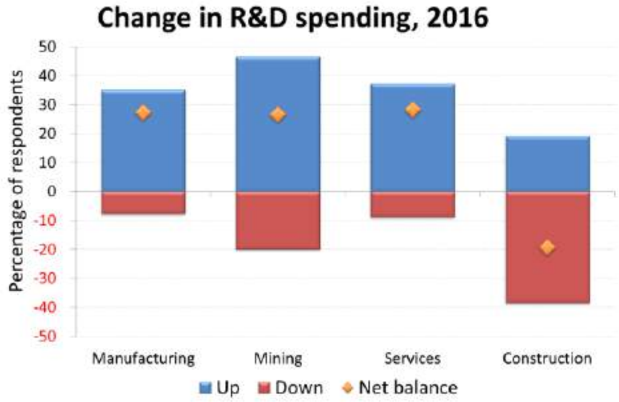
Services businesses are the most optimistic industry group with regard to business conditions in 2016 (a net balance of +25%). The services industries included in this report are finance; healthcare; professional services; education; transport; retail trade; wholesale trade; IT and telecommunications; real estate services; administrative services; hospitality; personal services; and arts and recreation. Together, these industries accounted for around 55% of GDP (measured as value added output) and 70% of employment in 2015.[2] After a relatively lacklustre year in 2015 for general business conditions but good sales growth for 60% of service industries businesses, 43% of service industries CEOs expect the same conditions in 2016 and 41% expect better conditions in 2016. 16% are bracing for tougher conditions in 2016 than they saw in 2015.

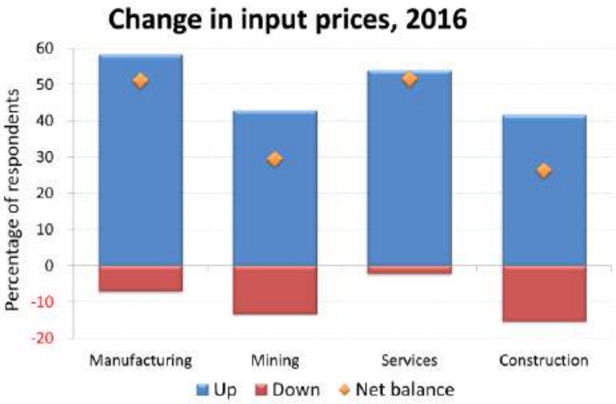
CEOs' expectations for key business indicators in 2016, by industry

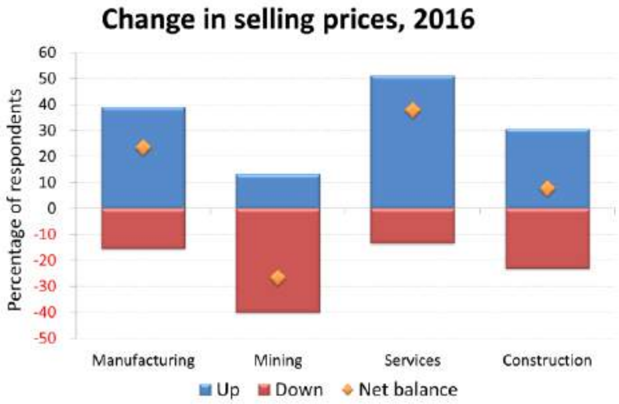


[2] Public administration is not included in the services industries covered in this report. It accounted for 5.5% of GDP and 6% of employment in 2015. Utilities (2.7% of GDP in 2015) and agricultural businesses (2% of GDP in 2015) are not included in this report. GDP also includes 'ownership of dwellings' (8.7% of GDP in 2015), 'taxes less subsidies' (6.5% of GDP in 2015) and 'statistical discrepancies' (typically 0.2% of GDP).









Business challenges for 2016

Looking at the key concerns that Australia's CEOs hold for their business growth prospects in 2016, weak customer demand is the single most common concern. 27% of CEOs ranked weak customer demand as one of their three main concerns, up from 25% for 2015 and 21% for 2014. This underscores the fragility of confidence in the outlook, but also highlights the primary importance of customer demand to all businesses.

Other concerns held by CEOs for their business growth prospects in 2016 mainly related to industrial relations and labour-related issues:

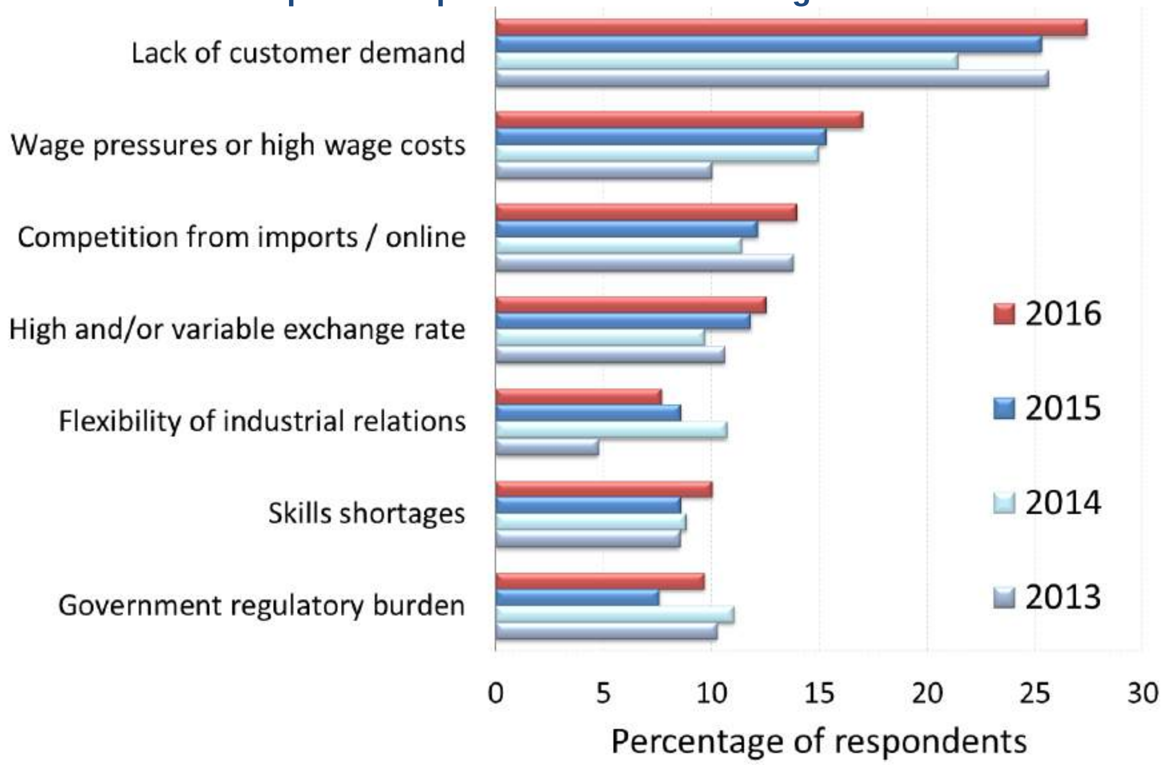
- Wage costs are of concern to 17% of CEOs, up from 15% for 2015. With background inflation and wage rises at relatively subdued levels in 2015, concern seems to relate to the inability to pass on any wage rises, rather than the absolute level of wages within a business. This pressure on margins is evident in the pessimism many CEOs felt about their ability to improve their profit margins in 2016.
- Skills shortages are a concern for 10% of CEOs, slightly more than in previous years (around 9% in each of 2013, 2014 and 2015). This might be an early indicator that CEOs expect recently stronger demand for skilled labour across key industries and skilled occupations (e.g. in selected services industries and in construction) will continue into 2016.

- 8% of CEOs felt that the flexibility of industrial relations (that is, industrial relations flexibility limitations other than wages and skill shortages) is an impediment to their business growth in 2016, down from 9% in 2015 and 11% in 2014.

Other concerns held by CEOs for their business growth prospects in 2016 included:

- Competition from imports or online sellers is a key impediment for 14% of CEOs, up from 12% in 2015. Related to this, 12% of CEOs feel that Australia's exchange rate is an impediment due to volatility and/or high levels (despite falls in the value of the Australian dollar since 2013).
- Government regulatory burden is an expected impediment to growth for just under 10% of CEOs in 2016, up from 8% in 2015 but lower than in 2014 (11%).

Expected impediments to business growth*



* Percentage of respondents who nominated each factor as one of their top 3 impediments to growth, unweighted.

Business strategies for 2016

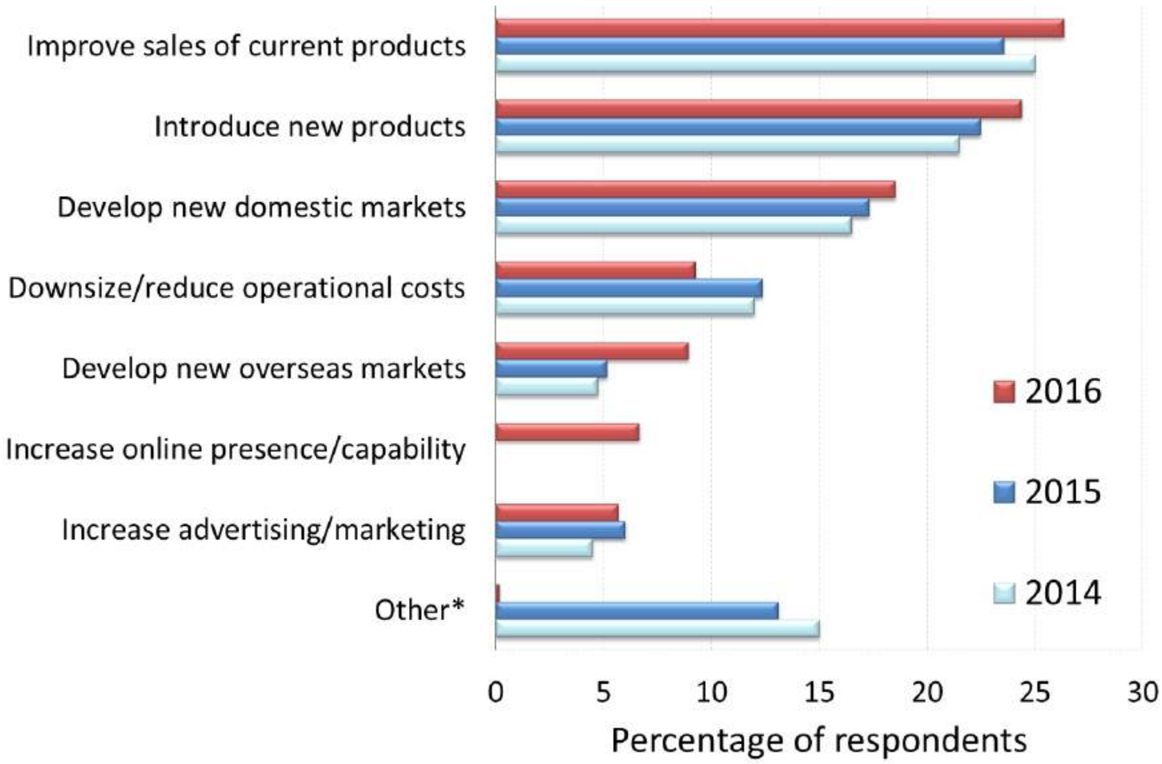
In response to these challenges, more CEOs plan to concentrate on improving sales of their current products in 2016 than in 2015 or 2014, and to introduce new products. In 2016, 26% of CEOs will include 'improving sales of current products or services' in their top three business strategies (up from 24% in 2015). 24% will include the development and introduction of new products or services in 2016 (up from 22% in 2015).

18% of CEOs will seek to develop new markets for their products in Australia (the domestic market) while 9% will focus on developing new markets overseas. The proportion of CEOs who are including overseas markets in their business development strategy has risen in 2016, relative to 2015 or 2014 (around 5% per year). This reflects improved global cost competitiveness due to the lower Australian dollar, which is encouraging more businesses to try their luck in export markets. The conclusion of bilateral trade agreements with key Asian trade partners in 2015 may also be encouraging more Australian businesses to look to exports for growth.

Less emphasis will be given to downsizing and cost reduction as a business strategy in 2016, with fewer CEOs including these in their top three strategies for 2016 (9%) than in 2015 or 2014 (around 12% per year).

Improving online capabilities is a central part of 2016 business strategies for 7% of CEOs in 2016, while stronger advertising and marketing is included in 2016 business strategies for 6% of CEOs. The proportions of businesses including these areas in their strategy for 2016 are not markedly different from the strategies that CEOs had planned to implement for 2015 and 2014.

Expected business strategies*



* Percentage of respondents who nominated each strategy as one of their top 3 strategies, unweighted.

* 'Other' strategies in 2014 and 2015 included: increasing online capabilities; investing in communications technologies; investing in energy efficiencies; increasing offshore inputs; partnering with other businesses; acquiring new businesses.

Mining and mining services

The Australian mining industry produces coal (black for exports and smaller amounts of brown coal for local consumption), iron ore, oil and gas (including LNG and CSG), uranium, gold, copper, other metals, diamonds and other gemstones. Mining services provide mining equipment, maintenance, exploration, geology, engineering and various project management services.

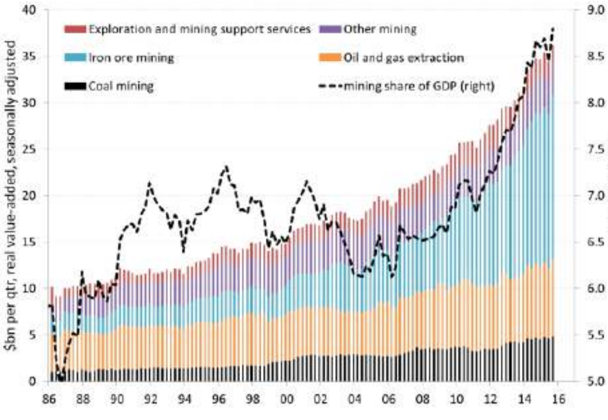
General business conditions

Australian mining industry output is growing rapidly, as a result of large expansions in capacity during the recent mining investment boom (often referred to as an investment 'super-cycle'). Mining output volumes grew by 4.1% in the year to September 2015 and by an average of 7.1% per year over the five years to 2015.

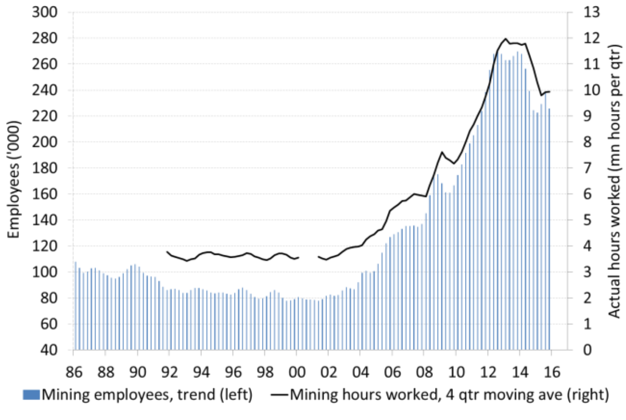
Although mining output volumes are still growing strongly, the industry's employment, profits and investment all peaked between 2012 and 2014. Since that period, new facilities have been completed and global commodity prices have fallen dramatically, eating into profits and reducing demand for further investment. Mining industry investment peaked at $95bn in 2012-13 (60% of all business investment in that year). In 2015-16, the industry is spending half that amount ($49bn, or 43% of all business investment). Mining industry employment almost tripled in the decade from 2004 to 2014, rising from around 100,000 in 2004 to a peak of 270,000 in early 2014. Employment numbers dropped to around 225,000 in 2015, as prices fell and mining sites were rationalised. Further cost reductions are expected, as miners respond to falling margins.

Mining and mining services: key business indicators

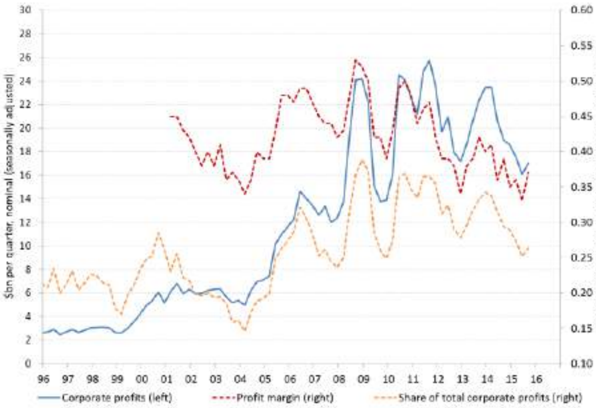
Value added output growth (to Sep 2015)



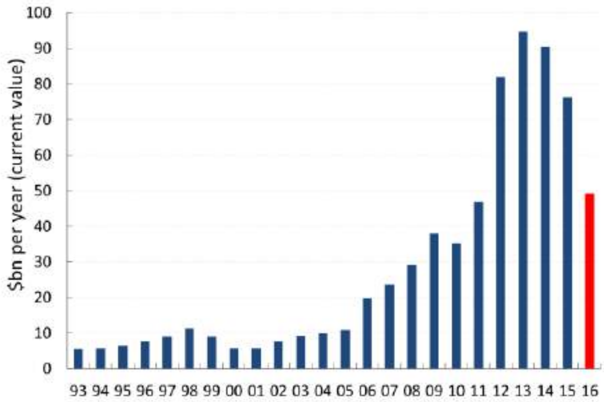
Employment (to Nov 2015)



Corporate profits (to Sep 2015)



Capital investment (annual, to 2015-16)



Sources: ABS *Australian National Accounts* Sep 2015; ABS *Labour Force Australia, Detailed Quarterly,* Nov 2015; ABS *Business Indicators*; ABS *Private New Capital Expenditure and Expected Expenditure,* Sep 2015.

Business experiences in 2015

The majority of mining and mining services CEOs (86%) reported that business conditions deteriorated in 2015, compared with 2014. None reported an improvement. This reflected the dramatic drops in global commodity prices through 2015, with consequent flow-on deteriorations for mining-related services. This downturn happened more swiftly and deeply than had been anticipated a year earlier, when 45% of mining CEOs had said they were expecting 2015 to be a worse year for mining industry conditions than 2014.

Mining sales and profits in 2015

- Sales (turnover) declined for 73% of mining business (by an average of 16%), were unchanged for 20% of businesses and increased for 7% of businesses (by an average of 4%) in 2015. This was a worse outcome than had been expected, since 78% of mining businesses had reported a year earlier that they expected sales to grow in 2015. This unexpected drop in revenue reflected the sharp price falls in 2015.
- Export income declined for 33% of mining businesses but held steady for 50% of them in 2015. This means that less than half of mining businesses achieved their export expectations, since one year earlier 78% of mining and mining services CEOs had expected to grow their export revenue in 2015.
- Profit margins followed suit, with 67% reporting a fall (by an average of 9%), 13% reporting no change, and 20% reporting an improvement in profit margins in 2015 (by an average of 6%), relative to 2014.

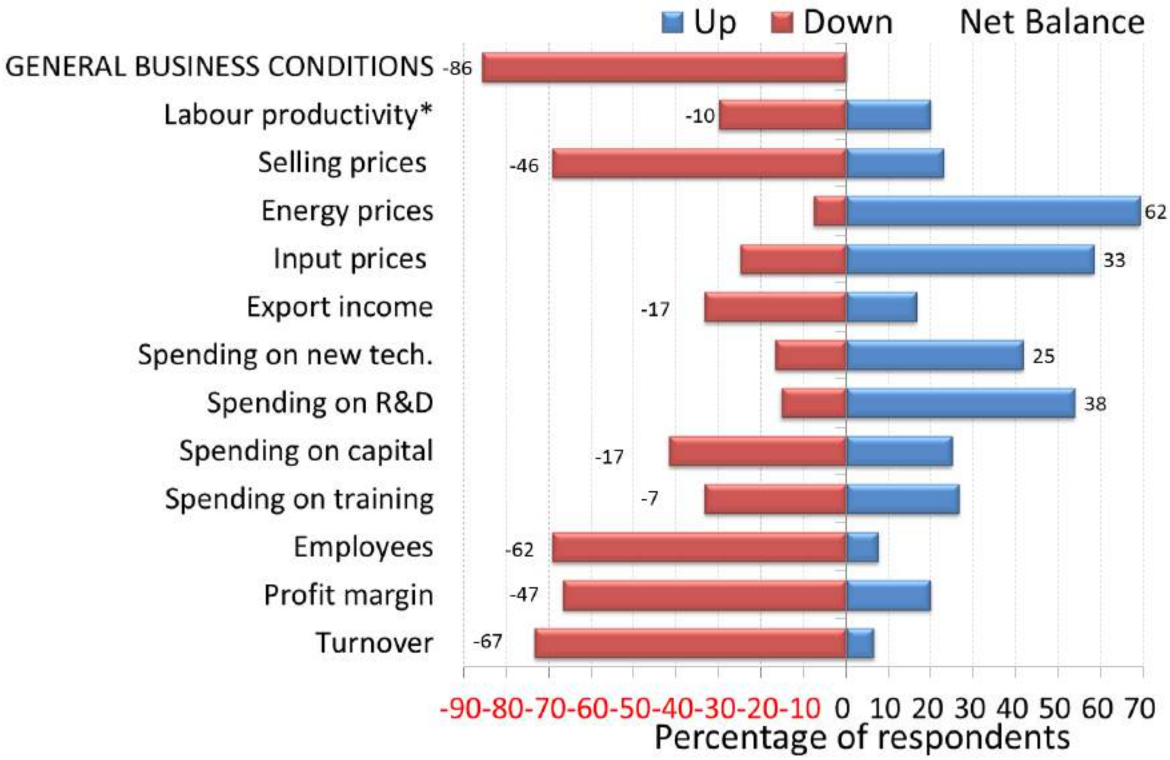
Mining business inputs in 2015

- After growing their workforces over the past five years, mining companies are now shedding in response to lower revenues and profits. Employment numbers were reduced in 69% of mining businesses, held steady in 23% and grew in 8% of businesses in 2015, relative to 2014. Only 29% of mining CEOs had reported one year earlier that they were planning to cut staff in 2015, suggesting that at least half of those who shed jobs in 2015 did so at short notice, in response to their rapid deterioration in revenue.
- Staff training was cut in 33% of mining businesses and was stable in 40% of businesses in 2015.
- Labour productivity was unchanged for 50% of businesses in 2015 and improved for 30% of them.
- As indicated in the ABS data above, capital investment by mining companies dropped substantially in 2014-15, relative to the ‘boom’ levels of 2013-14. Mining and mining services CEOs reported big cuts to investment spending in 2015 in 42% of businesses (with an average cut of 49%) but stable spending in 33% and increased investment in 25% of businesses. This increase in investment for a quarter of mining businesses probably reflects the long ‘tail’ of projects still in the pipeline for completion, despite the sudden deterioration in conditions, revenue and profitability across the industry in 2015.
- Within this total investment spending, 54% of mining CEOs reported an increase in their spending on R&D (and 15% cut it) and 42% increased their spending on new technologies in 2015 (and 17% cut it). This suggests that even when revenue and funding for investment purposes gets as tight as they did in 2015, the key areas of R&D and new technologies remained a high priority for most mining and mining services companies.

Mining business prices in 2015

- Input prices for mining and mining services businesses increased in 58% of businesses in 2015 but fell for 25%. Energy prices paid by mining businesses went up for 69% of mining businesses in 2015.
- Reflecting the fall in commodity pricing, selling prices fell for 69% of mining businesses in 2015. 23% of mining businesses (primarily in mining services in response to the lower Australian dollar) needed to raise their prices, relative to 2014. This was a touch worse than their initial pricing expectations for 2015 as reported one year earlier, since about half had expected to cut their selling prices in 2015 (and 13% had expected needing to raise their prices in 2015).

Mining and mining services: reported change in business conditions, 2015



* Labour productivity is defined as "output per hour worked" in your own business.

Business expectations for 2016

After a relatively disappointing year for many mining businesses in 2015, mining and mining services CEOs are fairly evenly divided in their expectations for 2016. 40% expect conditions to improve while 47% expect them to deteriorate further in 2016, relative to 2015. 13% expect no change in their conditions during 2016.

Mining sales and profits in 2016

- Sales revenue (turnover) is expected to grow in 2016 for 40% of mining and mining services businesses but to decline for 47% of businesses. 13% of mining CEOs expect no change in sales revenues in 2016.
- Export revenue is expected to grow in 50% of mining businesses in 2016 and stay unchanged in 33%. This expected growth and stability in exports, despite global price falls, probably reflects the lower Australian dollar, which increases export earnings in Australian dollar terms, even if prices are stable.
- Profit margins are expected to fare slightly better than sales in 2016, with 40% expecting to improve their profit margin, 27% expecting it to be stable and 33% expecting it to deteriorate in 2016.

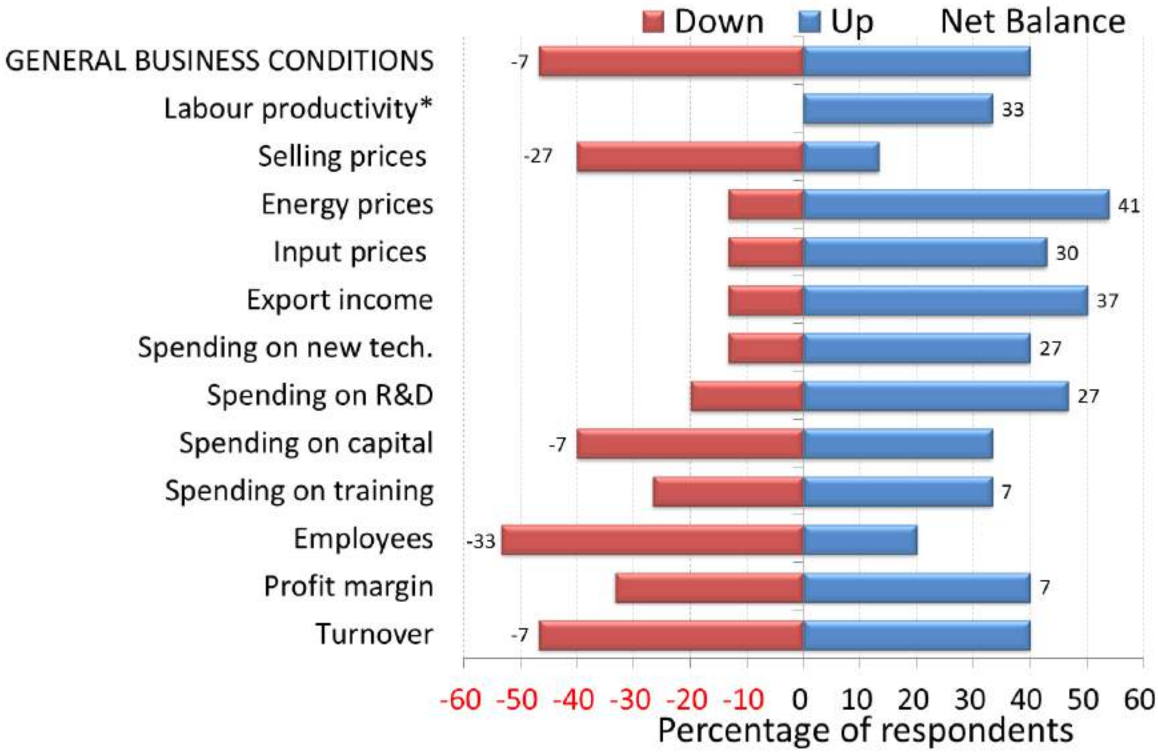
Mining business inputs in 2016

- After significant staff cuts in 2015, 53% of mining CEOs report that they plan to reduce employment in 2016. Employment will be stable in 27% of mining businesses and will grow in 20% of businesses. This is a larger proportion of mining businesses expecting to cut labour than in previous years.
- Despite widespread plans for employment reductions, staff training expenditure will go up in one third of mining businesses and be stable in 40%. 27% will reduce their expenditure on staff training in 2016.
- Labour productivity is expected to be stable in 67% of mining businesses in 2016 and to improve in 33%. No mining CEOs report that they expect labour productivity to deteriorate in their business in 2016.
- After significant cuts in 2015 (albeit from extreme peaks), capital investment will be cut further in 2016 by 40% of mining businesses. Spending levels will be unchanged in 27% and 33% of mining business CEOs will increase their capital investment spending in 2016.
- Within this investment expenditure, R&D spending will grow in 47% of mining businesses in 2016 and spending on new technologies will grow in 40% of mining businesses. 33% of mining CEOs plan no changes to their R&D spending while 47% plan no change to their spending on new technologies.

Mining business prices in 2016

- After a volatile year for commodity and input prices in 2015, 40% of mining CEOs hope their input prices will be stable in 2016. 43% expect their input prices will rise, while 13% expect them to fall.
- Energy prices are expected to rise further in 2016 for 54% of mining CEOs. No change in energy prices is expected by 27% of mining CEOs for 2016.
- Selling prices are expected to be stable in 2016 for 47% of mining businesses, relative to 2015, but to fall for 40% of mining businesses. Just 13% expect they will raise their selling prices in 2016, from 2015 pricing levels. This lack of growth for most mining businesses' output prices suggests fairly pessimistic expectations across the mining industry for global commodity prices and for the Australian dollar in 2016.

Mining and mining services: expected change in business conditions, 2016



* Labour productivity is defined as “output per hour worked” in your own business.

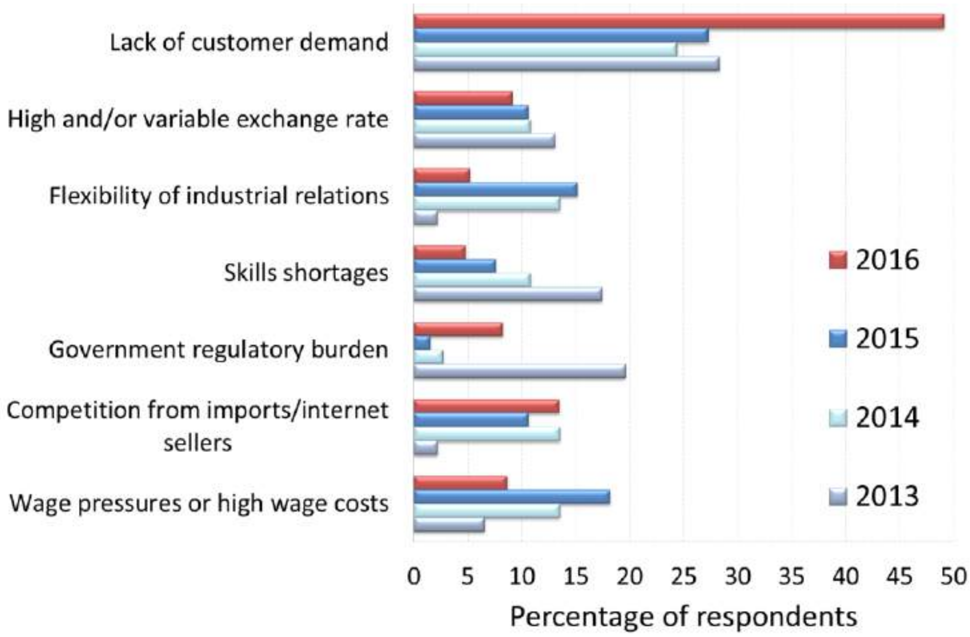
Business challenges and strategies for 2016

A lack of customer demand is the main impediment for mining and mining services businesses in 2016. 34% of respondents ranked it as their highest concern; it is a larger factor than in 2015 (27%), 2014 (24%) and 2013 (28%) reflecting the downturn in global demand for mining outputs. Wage costs (20.7%) were the secondary concern for mining CEOs, followed by competition from imports and internet sellers (17%). These follow similar concerns for the past few years, while issues such as regulatory burdens and skills shortages are relatively minor in comparison to a lack of demand.

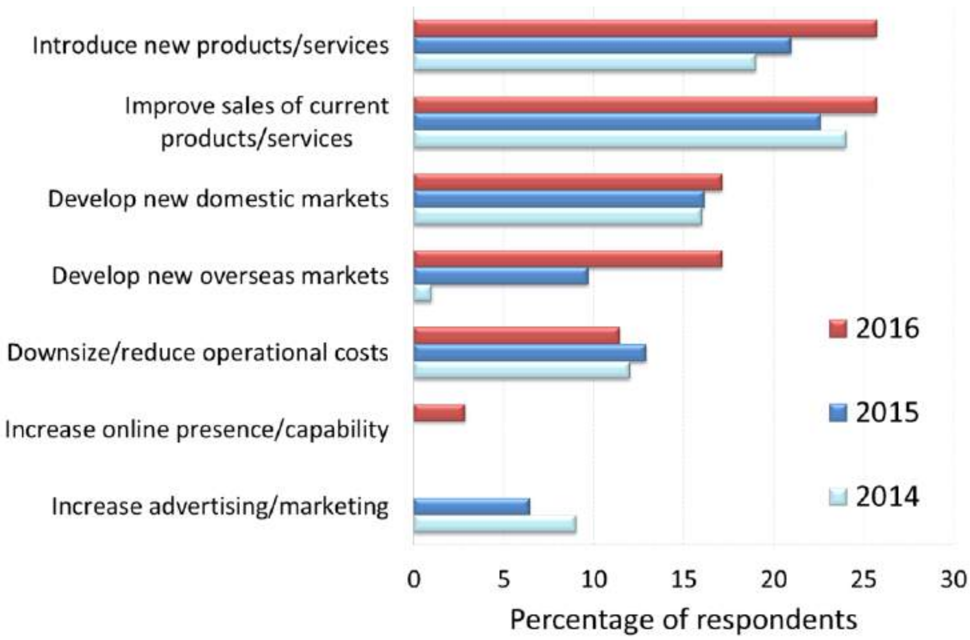
In response to these risks, mining and mining services CEOs plan to focus equally on introducing new products and services (26%) and improving sales of current products and services (26%). The attention given to new products and services has increased since 2015 (21%) but is lower than in 2014 (28%). Improving current products and services has risen from 23% in 2015 and 2014. While developing domestic markets has remained steady as a strategy over the past three years, there has been a significant increase in interest in overseas markets, as a response to the fall in the Australian dollar and a drop in domestic demand.

In 2015 almost all (93%) mining CEOs needed to change their business strategy due to a deterioration in business conditions. For most respondents who said they implemented changes, the main adjustments were to strategies to reduce costs to the business. This included restructuring the business, reducing investment in machinery and equipment, outsourcing work previously done in-house, narrowing their business focus and changing the way they marketed their products.

Mining and mining services: impediments to growth



Mining and mining services: business strategies



Manufacturing industries

Australian manufacturing businesses produce food, beverages, tobacco, transport equipment, 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, toys, printed materials and recorded media.

General business conditions

All manufacturing output volumes shrank by 0.9% in the year to September 2015. Manufacturing output volumes have shrunk by an average of 0.4% per year over the five years to 2015. Across the manufacturing industries, only food and beverages production volumes were bigger in 2015 than they had been in 2010. Non-metallic minerals production (mainly building materials) was about the same size, while all other manufacturing industries had shrunk. This trend, against a backdrop of strong growth in other industries (e.g. mining and selected services), has meant that in total, manufacturing output had shrunk to 6% of GDP in 2015, down from 9% a decade earlier and 10% two decades earlier.

Aggregate profits for corporate manufacturers peaked (in nominal terms) in 2008. Sales, exports and profits plunged following the GFC but then partially and temporarily recovered in 2010. Since 2011, manufacturing sales and profits have been eroded by a prolonged period of an historically high Australian dollar, as well as by technology changes and huge global trade shifts. Production and employment levels have followed suit.

The single most visible area of reduction in Australian manufacturing in recent years has been automotive production. All three passenger car assembly companies (Toyota, GMH and Ford) are ceasing their assembly operations in Australia by 2017. This is having major repercussions on all businesses involved in their supply chains, as well as on many other businesses associated with this key manufacturing industry. Around 160 businesses and 50,000 people were directly employed in the automotive supply chain in 2014, mainly in South Australia and Victoria. Many thousands more are involved on the periphery or indirectly. This exit process is less than half-way through, with all three assembly companies still operating a local assembly line in 2016, albeit at steadily reducing output and employment levels.

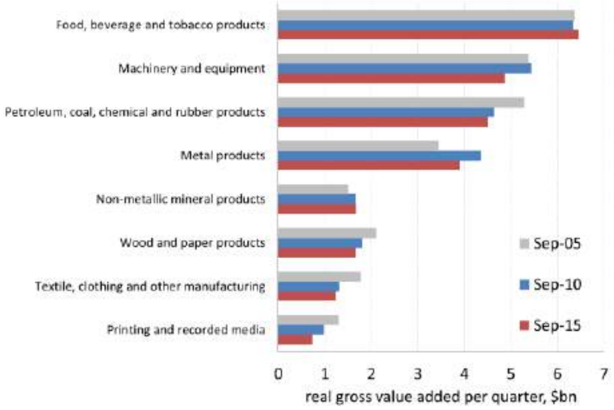
Total manufacturing employment fell to around 850,000 by November 2015. Manufacturing has lost 200,000 jobs since 2008, or 18% of its 2008 workforce. This is a larger number and rate of job shedding than occurred in the last recession in the early 1990s, when 140,000 manufacturing jobs (12%) were cut over four years. This recent round of job-shedding has been due to sales and production losses but also due to labour-saving productivity improvements and changes in technologies.

The manufacturing industries and segments with the largest reductions in employment since 2010 have been: primary metals production (down 27,500 jobs or 30%); printing and recorded media (down 22,500 or 40%); transport equipment including automotive production (down 15,500 or 17%); machinery manufacturing (down 12,000 or 10%); and textiles, clothing and footwear manufacturing (down 7,000 or 17%).

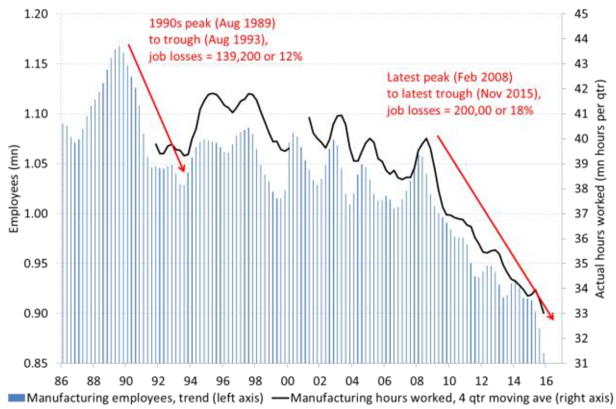
Manufacturing investment spending peaked at around $13bn in 2011-12, as businesses sought to respond to technology changes and to global production and demand changes. It plunged to $8.6bn in 2014-15 and is set to fall to $7.7bn in 2015-16 (in current prices). Australia's automotive sector was traditionally a large investor in physical capital, as well as in new technologies and R&D. With this advanced and capital-intensive sector now exiting from Australia, it is very unlikely that aggregate investment spending across all manufacturing industries will return to its previous level in the medium term.

Manufacturing industries: key business indicators

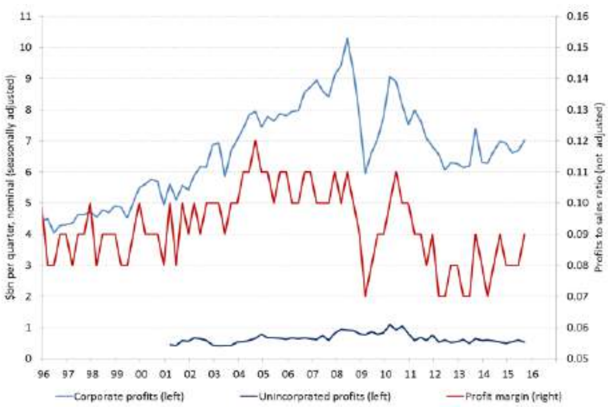
Value added output (to Sep 2015)



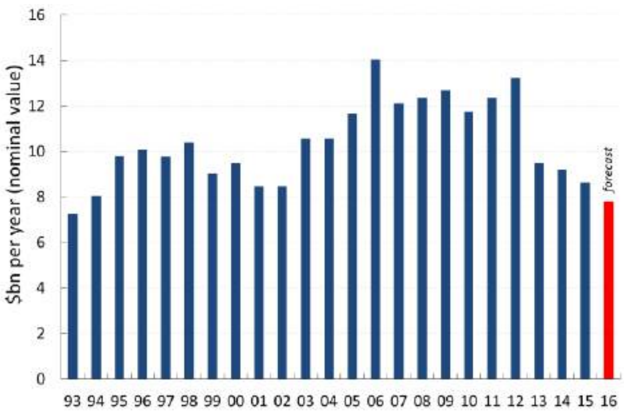
Employment (trend, to Nov 2015)



Profits (to Sep 2015)



Capital investment (annual, to 2015-16)



Sources: ABS *Australian National Accounts* Sep 2015; ABS *Labour Force Australia, Detailed Quarterly,* Nov 2015; ABS *Business Indicators*; ABS *Private New Capital Expenditure and Expected Expenditure,* Sep 2015.

Manufacturing industries: output and employment, 2015

	Value added output, Sep 2015 (seasonally adjusted data)			Employment, Nov 2015 (original, unadjusted data)		
Industry (ANZSIC codes)	**$bn per quarter**	**% share of manufac.**	**% change since 2010**	**'000 people**	**% share of manufac.**	**% change since 2010**
Food, beverage & tobacco	6,446	25.8	1.7	235.3	27.5	3.4
Machinery &equipment	4,873	19.5	-10.5	181.8	21.3	-13.2
Petroleum & chemicals	4,510	18.0	-2.7	85.4	10.0	0.7
Metal products	3,906	15.6	-10.3	109.1	12.8	-23.9
Non-metallic minerals	1,673	6.7	0.8	34.0	4.0	-8.4
Wood & paper	1,662	6.6	-7.6	58.3	6.8	10.0
Textile, clothing & other	1,230	4.9	-6.4	117.8	13.8	-28.2
Printing & recorded media	733	2.9	-24.7	33.5	3.9	-40.2
Manufacturing	25,033	6.1 of GDP*	-5.8	855.2	7.2 of all	-12.3
GDP*	**411,643**		**14.1**	**11,919.1**		**7.0**

* All industries do not sum to GDP due to individual seasonal adjustment of industries and additional items that are included in GDP such as 'ownership of dwellings', 'taxes less subsidies' and 'statistical discrepancy'.
Sources: ABS *Australian National Accounts* Sep 2015; ABS *Labour Force Australia, Detailed Quarterly,* Nov 2015.

Business experiences in 2015

After a difficult year in 2014 (in which 60% of manufacturing CEOs reported deteriorating conditions compared to 2013), 2015 proved better or at least no worse than 2014 for more manufacturing businesses. 33% reported that conditions improved in 2015 compared to 2014, while 28% said they were the same. 39% reported that 2015 was an even worse year than 2014 for their own businesses' trading conditions.

Despite these mixed results, in aggregate they suggest conditions were a touch better than manufacturing CEOs had been hoping to see in 2015. One year earlier, 24% of manufacturing CEOs had said they were expecting their conditions to improve in 2015 and 44% had expected a further deterioration in conditions.

Manufacturing sales and profits in 2015

- Sales revenue (turnover) grew for 53% of manufacturing businesses in 2015, by an average of 17%. 17% reported no change in sales and 30% reported a decline. This revenue growth for the majority in 2015 is a welcome development, after sales declined for 45% in 2014 and 54% in 2013. More businesses saw sales growth in 2015 than had been expected one year earlier, since 49% had expected sales growth in 2015 and 34% had expected their sales revenue to fall (as reported one year earlier).

- Export earnings grew for the majority (56%) of manufacturing businesses in 2015 (up by an average of 24%), but 28% reported a decline (down by an average of 32%). This indicates a welcome improvement in the proportion of manufacturing businesses that are growing their exports (up from 28% in 2014). The large minority of manufacturing CEOs that saw a decline in exports indicates that trading conditions remain exceedingly tough globally, even when exports are being supported by the lower dollar.
- Profit margins improved in 2015 in line with better sales, but not to the same extent. 46% of manufacturing CEOs reported better profit margins in 2015 than in 2014 (up by an average of 19%), while 37% reported reduced profit margins in 2015 (down by an average of 16%).

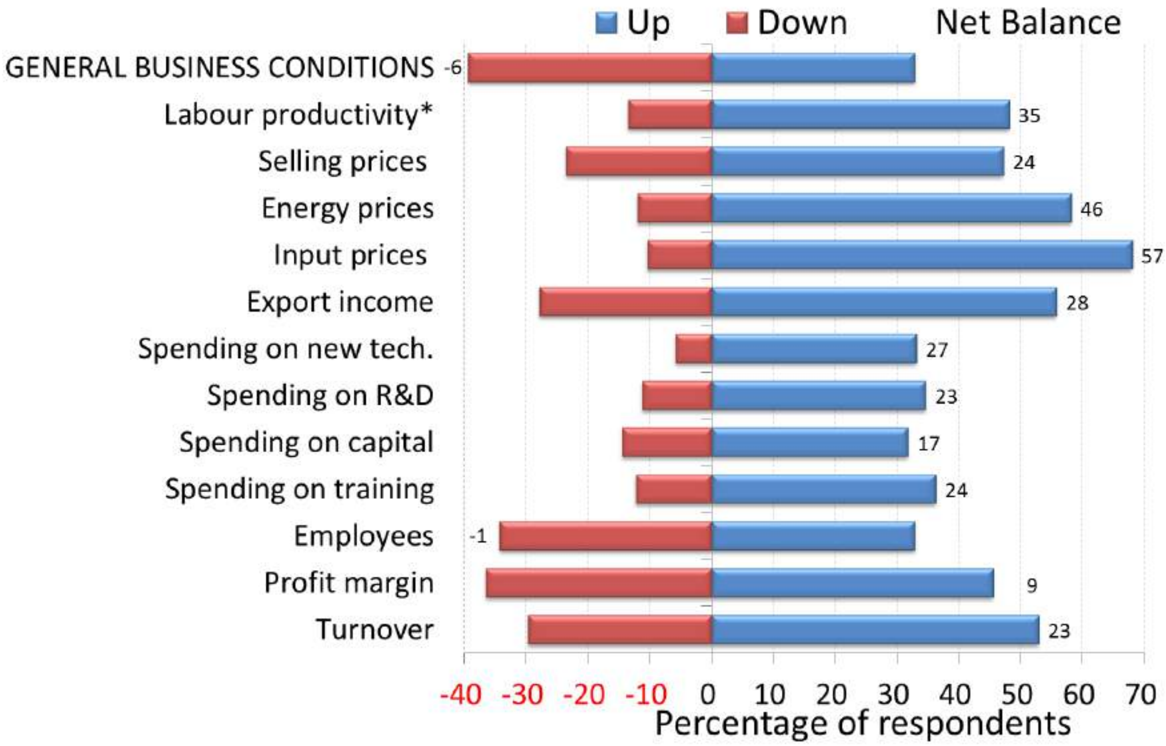
Manufacturing business inputs in 2015

- Manufacturers were evenly split in their employment decisions in 2015. 33% of manufacturing businesses increased employee numbers in 2015 (up by an average of 11%), 33% kept them the same and 34% reduced employment (down by an average of 12%). Labour reductions are still occurring, but they are spread over fewer businesses than in 2014, when 42% of manufacturers reported a cut.
- Staff training expenditure increased in 36% of manufacturing businesses in 2015 (largely in the same businesses that increased their headcount), remained the same in 51% and was reduced in 12%.
- Labour productivity improved in 2015 for 48% of manufacturing businesses (up by an average of 6%) and held steady for 38%. This is a better outcome than in 2014, when only 27% of manufacturing CEOs reported an improvement in their own business' labour productivity and 51% saw no change at all. 14% of manufacturing CEOs reported a worsening in their labour productivity in 2015 (down by an average of 9%), versus 21% in 2014.
- Capital investment expenditure is reducing, in aggregate, across all manufacturing businesses (see ABS data above), but the cuts appear to be concentrated within sectors (e.g. automotive manufacturing) and within groups of businesses that have closed or exited Australia in recent years. The majority of current manufacturing CEOs (54%) report they did not change the amount they invested in 2015. 14% of manufacturing businesses reduced their investment expenditure in 2015 (by an average of 40%) and 32% increased their expenditure (by an average of 34%). This outcome indicates expenditure growth in more businesses than had initially been expected a year earlier, when 25% of CEOs said they were planning to cut their investment spending in 2015 and 29% were planning to increase spending in 2015.
- Reflecting this distribution of capital expenditure in 2015, 54% of manufacturing CEOs reported no change in their R&D spending in 2015 and 61% reported no change in their spending on new technologies. 35% of businesses increased their annual R&D spending in 2015 and 33% increased their annual spending on new technologies in 2015.

Manufacturing business prices in 2015

- Input prices increased in 2015 for the majority of manufacturing businesses (68%). This partly reflected the less helpful flipside of the lower dollar, which has meant price rises for many imported inputs.
- Energy prices paid by manufacturers increased for 58% of businesses (up by an average of 9%) and remained stable for 30% in 2015.
- Not all businesses that experienced increased input prices were able to pass these cost increases on to their customers in 2015. Selling prices set by manufacturers went up in 2015 for 47% of businesses (by an average of 5%), held steady for 29% and had to be cut in 24% of businesses in 2015 (by an average of 8%). This lack of price-setting power is indicative of the strong competition faced locally and globally.

Manufacturing: reported change in business conditions, 2015



* Labour productivity is defined as “output per hour worked” in your own business.

Business expectations for 2016

Reflecting their experiences in 2015, manufacturing CEOs are evenly divided in their expectations for 2016. 33% of CEOs expect their general business conditions will improve in 2016, 33% believe they will be the same as 2015 and 34% expect their general business conditions will deteriorate in 2016.

Manufacturing sales and profits in 2016

- Manufacturing CEOs are generally optimistic about their sales prospects in 2016, with 55% expecting to grow their annual sales (turnover) and 19% expecting to be able to hold them steady. That said, a sizeable minority (26%) are concerned their business sales will fall in 2016.
- Export earnings are expected to be stable in 2016 for 49% of manufacturing businesses and to grow in 41% of businesses. Just 10% of manufacturing CEOs are expecting a drop in their exports in 2016.
- Manufacturing CEOs are rather less optimistic about their profit margins than about their sales growth in 2016, with 46% of CEOs expecting to improve their profit margin and 25% expecting to keep it stable. 29% of manufacturing CEOs are concerned their profit margin will shrink in 2016.

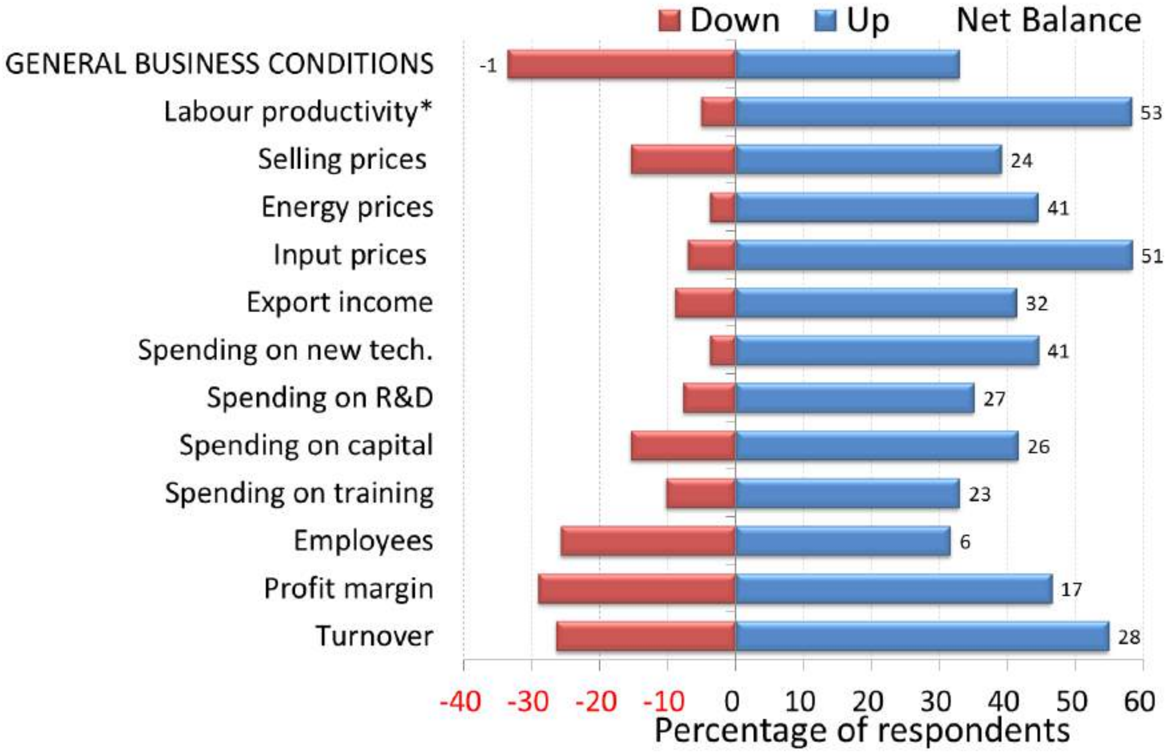
Manufacturing business inputs in 2016

- More manufacturing CEOs expect to be able to keep their employment numbers stable in 2016 (43%) than were able to actually do so in 2015 (33%) or 2014 (40%). More manufacturers plan to increase their employment numbers in 2016 (32%) than had planned to do so one year earlier, for 2015 (24%). Conversely, fewer are planning to make cuts to their workforce in 2016 (26%) than had planned did so one year earlier, for 2015 (36%).
- Annual staff training expenditure will not change in 2016 for the majority of manufacturing businesses (57%), relative to 2015. 33% will increase their training budget and 10% will cut it.
- Manufacturing CEOs are upbeat about the opportunities for labour productivity gains in 2016, with 58% expecting to improve their labour productivity and just 5% fearing a drop in their own business.
- Capital investment plans will involve no change in annual investment spending for 43% of manufacturing businesses in 2016 but will require an increase in spending in 42% of businesses. 15% of businesses will cut their investment spending in 2016.
- Annual R&D budgets will not change for 57% of manufacturing CEOs in 2016 and spending on new technologies will not change for 52%. 35% of businesses will increase their R&D budget in 2016 and 45% will increase their allocation for new technologies. Just 8% of manufacturing businesses plan to cut their R&D spending and 4% will spend less on new technologies in 2016 than they did in 2015. This stability and/or growth in R&D-related spending underscores the high priority accorded to innovation and new technologies by the majority of Australian manufacturing businesses.

Manufacturing business prices in 2016

- Input prices are expected to rise further in 2016 for 58% of manufacturing businesses. 34% hope to keep their input prices stable and 7% are looking for a cut in input pricing. The high proportion of CEOs expecting input prices to rise, despite Australia's low inflation environment and falling global commodity prices, probably reflects the influence of the Australian dollar on imported inputs (pushing Australian dollar prices higher) and possibly widespread drought pushing up prices for local agricultural produce.
- Energy prices are expected to go up in 2016 for 44% of manufacturing businesses and to be stable in 51%. Just 5% of manufacturing CEOs hope to cut their energy input prices in 2016.
- Selling prices will be unchanged for 45% of manufacturing businesses in 2016, despite the input cost increases they are expecting to absorb. 39% of manufacturing CEOs expect to be able to increase their selling prices, while 16% anticipate cutting their prices in 2016.

Manufacturing: expected change in business conditions, 2016



* Labour productivity is defined as "output per hour worked" in your own business.

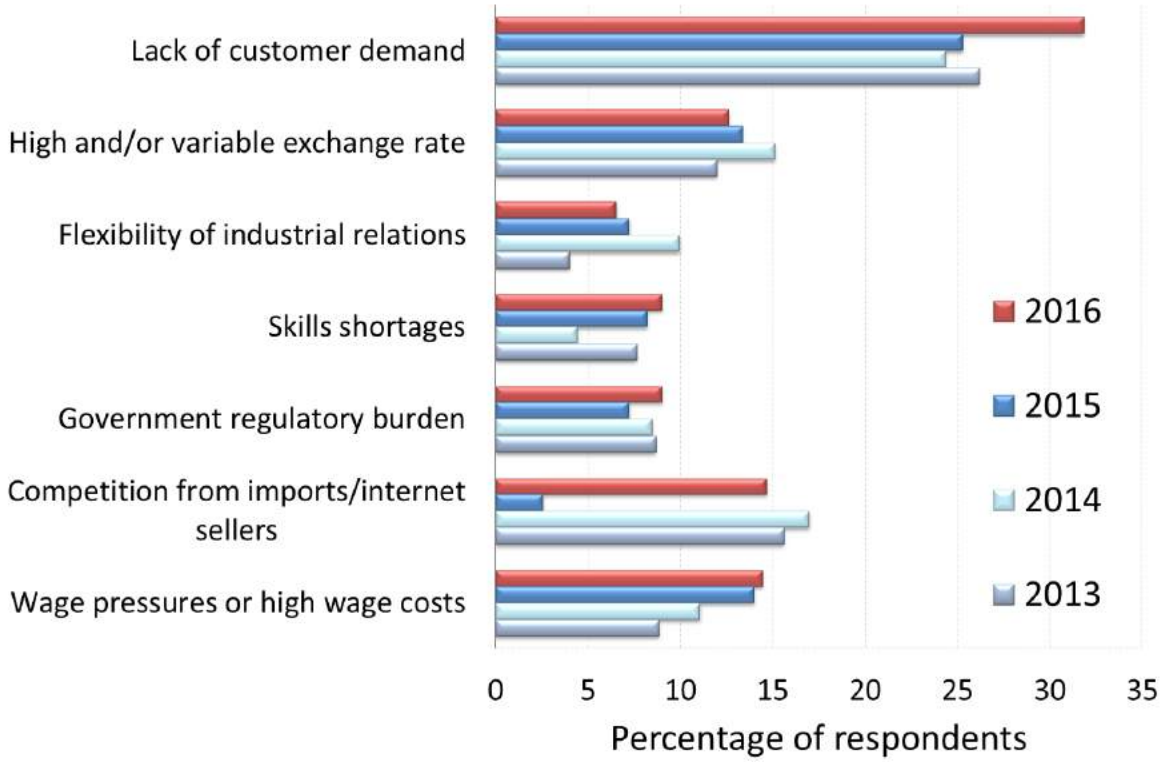
Business challenges and strategies for 2016

Manufacturing CEOs expect lack of customer demand (27%) to be the main challenge facing their business in 2016, up slightly from 25% in 2015 and 24% in 2014. Wage cost pressures have risen in the past few years with 16% of respondents ranking it within their top three inhibitors of business growth for 2016, steadily rising from 9% in 2013. Competition from imports remains a concern with 15% of CEOs believing it to constrain business, up from 14% in 2015. Similarly, the variable dollar exchange rate is a concern for 15% of CEOs in 2016, up from 13% in 2015 and 15% in 2014.

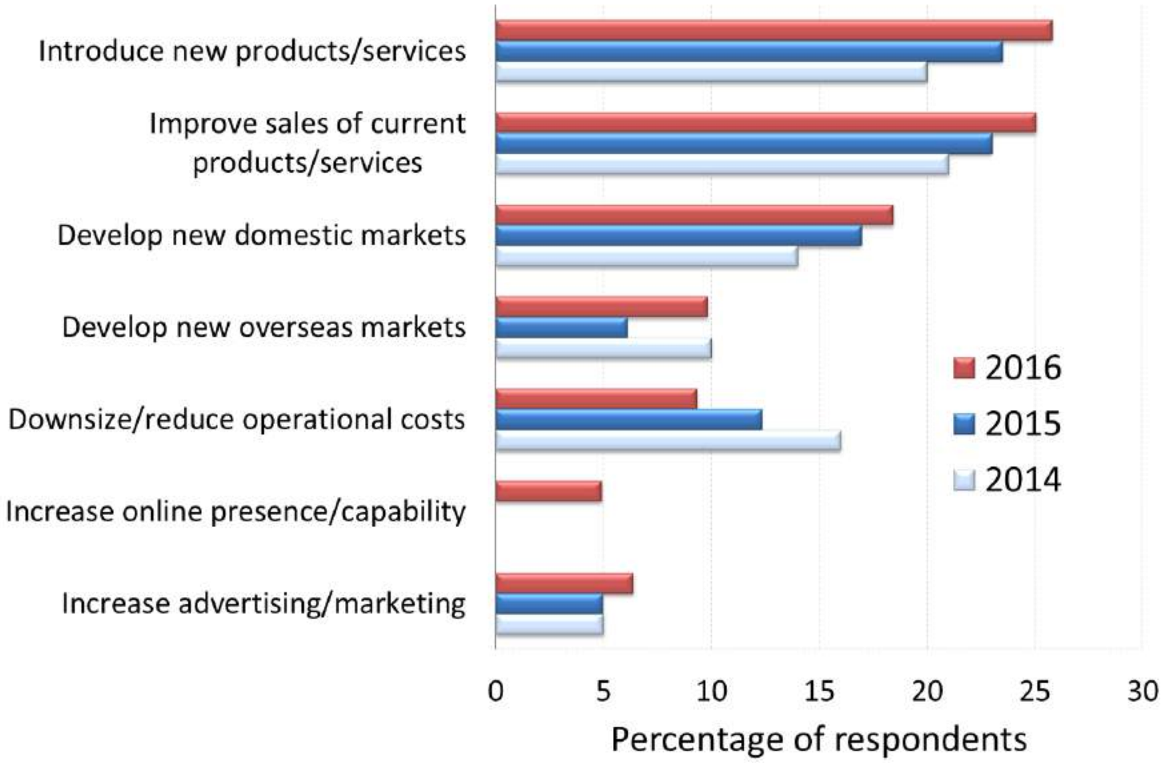
In response to these risks, manufacturing CEOs plan to introduce new products and services (26%) and improve sales of current products and services (25%). These have been the main two strategies of manufacturing businesses for the past three years. Introducing new products and services has increased as a growth strategy for businesses from 20% in 2014 to 23% in 2015 and 26% in 2016. Improving sales of current products and services has seen a similar rise in popularity as a business strategy from 21% in 2014 to 23% in 2015 and 25% in 2016. Developing domestic markets (18%) has also increased as a growth strategy in consecutive years, as well as developing new export markets, in line with the lower Australian dollar. Downsizing and reducing operational costs has fallen in popularity as a growth strategy since 2014.

In 2015, 57% of manufacturing CEOs adjusted their business plans in response to changing business conditions. Changes to plans included greater emphasis on exports, including finding and developing new markets, increased marketing efforts and further investment in machinery and equipment. Diversification was also a common theme in changes to business strategy, particularly for those manufacturers in the process of exiting the automotive industry. For those whose revised strategies included reducing costs, decreasing staff was the most common change stated. Interestingly, several respondents mentioned the introduction, re-introduction or renewed interested in lean processes.

Manufacturing industries: impediments to growth



Manufacturing industries: business strategies



Construction

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).

General business conditions

Construction is Australia's third largest industry, in terms of the value of its output (around 8% of GDP) and number of employees (1.05 million or 9% of all employment). Construction has large numbers of mobile small businesses, with 30% of workers self-employed as independent contractors (ABS, 2014 data). Construction businesses of all sizes are experiencing very different demand cycles at present, depending on their sector:

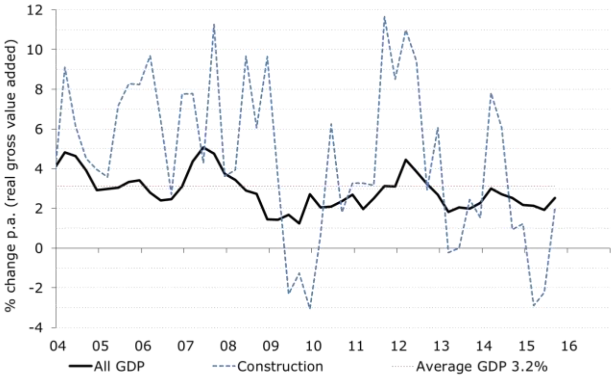
Engineering construction (mining, industrial, transport and other heavy infrastructure) is slow, following the mining-related engineering boom of 2010-14. Major engineering projects are still under construction in some states, including LNG facilities in Queensland and transport projects in NSW.

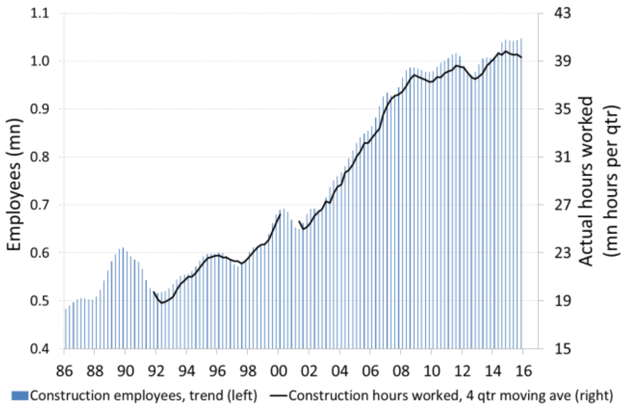
Commercial construction (shops, offices, warehouses) has been stable but lacklustre for several years. Building approvals data suggest retail and tourist accommodation construction will be stronger in 2016.

Housing construction (and especially high-rise multi-unit developments) has been strong in NSW and Victoria but subdued in other states. Building approvals suggest this cycle will peak sometime in 2016.

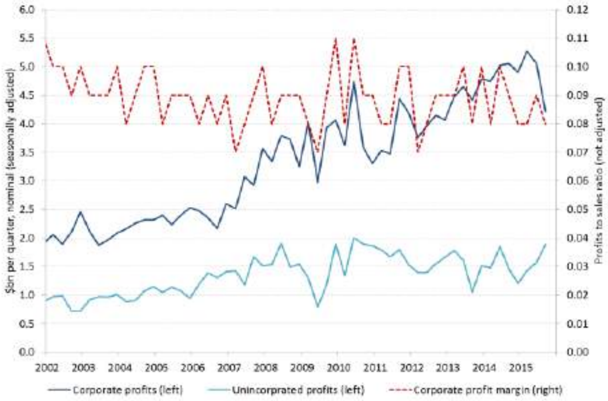
Construction: key business indicators

Value added output growth (Index to Sep 2015) **Employment (to Nov 2015)**





Profits (to Sep 2015) **Investment in construction (to Sep 2015)**



Sources: ABS *Australian National Accounts* Sep 2015; ABS *Labour Force Australia, Detailed Quarterly,* Nov 2015; ABS *Business Indicators*.

Business experiences in 2015

Construction industry CEOs reported a mix of business conditions in 2015, but on average, they had a better year in 2015 than they had in 2014. For 2015, 35% of construction industry CEOs reported better business conditions (versus 19% for 2014) and 38% reported a worse year in 2015 (versus 57% in 2014). The remainder in both years reported no change in conditions (27% in 2015 and 24% in 2014).

This was also a better result than construction CEOs had initially expected for 2015, as indicated one year earlier, when a third of construction CEOs had expected an improvement and 28% had expected a deterioration in their general business conditions in 2015, relative to 2014.

Construction sales and profits in 2015

- Annual sales revenue improved for 41% of construction businesses in 2015 (by an average of 19%) but declined for 33% of businesses (by an average of 19%) and remained steady for 26% in 2015. This divergent result was better than the sales growth achieved in 2014, when 53% reported declining sales. It was, however, a touch below industry expectations for 2015, in that 50% had initially expected their sales to improve in 2015 (as reported one year earlier) but only 41% actually achieved sales growth.
- Just 11% of construction businesses reported any export earnings in 2015. Of these, two thirds reported a drop in export earnings in 2015, relative to 2014, while one third reported stable export earnings.
- Profit margins were up for a third of construction businesses in 2015 (by an average of 30%), stable for a third and down for a third (by an average of 28%). This wide variation in sales and profitability experiences reflects the variety of trends being experienced across construction industry sectors (e.g. engineering versus housing) and locations (e.g. regional locations versus inner Sydney and Melbourne).

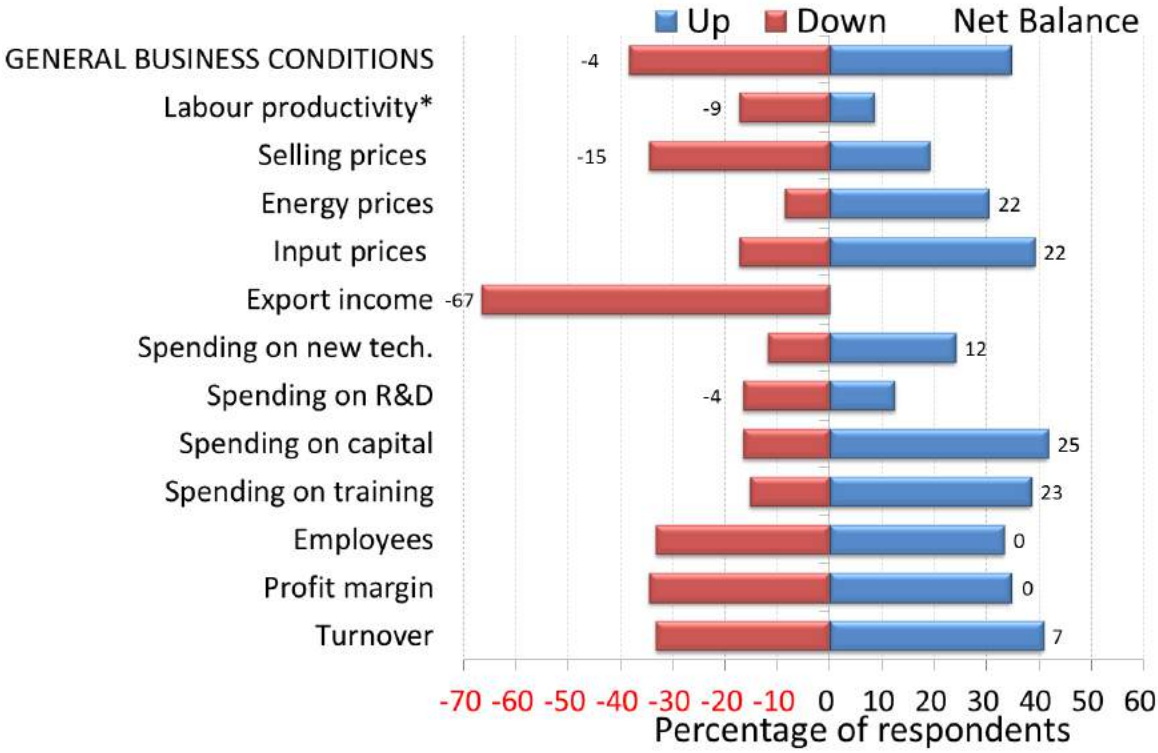
Construction business inputs in 2015

- Exactly one third of construction businesses reported increasing, decreasing or keeping constant their employee numbers in 2015. This was slightly more positive than in 2014, when only 24% reported an employment increase, but was in line with the industry's initial expectations for employment for 2015.
- Staff training expenditure went up in 2015 for 38% of construction businesses and was stable for 46%.
- Labour productivity did not change for 74% of construction businesses in 2015. Just 9% reported an improvement in 2015 while 17% said their labour productivity declined.
- Annual capital investment expenditure (which is mainly spent on machinery and equipment rather than on buildings for construction companies) was unchanged for 42% of businesses in 2015 and increased for 42% of businesses (up by an average of 8%). 17% of construction businesses cut their investment spending in 2015, with a handful making large cuts to their spending (down by an average of 58%).
- Annual spending on R&D did not change in 2015 for 71% of construction businesses, while spending on new technologies did not change for 64%. 13% of construction businesses increased their R&D spending in 2015 and 24% increased their spending on new technologies.

Construction business prices in 2015

- Input prices were stable for 43% of construction businesses in 2015 but increased for 39% of businesses (up by an average of 6%). 17% reported price falls for the inputs purchased in 2015.
- Energy prices were stable for 61% of construction businesses in 2015 but increased for 30% of businesses (up by an average of 9%). 9% of businesses reported price falls for their energy in 2015.
- Selling prices were stable for 46% of construction businesses in 2015. 19% of businesses were able to increase their prices in 2015 (by an average of 5%) and 35% were forced to cut their prices to customers in 2015 (by an average of 7%). This was a far greater proportion of construction businesses making price cuts in 2015 than had initially planned to do so, since just 10% had reported one year earlier that they had planned to cut prices in 2015 (and two-thirds planning to keep their pricing constant).

Construction: reported change in business conditions, 2015



* Labour productivity is defined as “output per hour worked” in your own business.

Business expectations for 2016

More construction businesses are expecting a worse year in 2016 (42%) than had indicated such pessimism one year earlier (28% had expected 2015 to be worse). 31% are expecting their general business conditions to be the same in 2016 as they were in 2015, and 27% are hoping for better conditions in 2016.

Construction sales and profits in 2016

- Annual sales revenue is expected to grow for 38% of construction businesses in 2016, to shrink for 38% and to stay the same for 23% of businesses in 2016.
- Export earnings will be unchanged for 82% of construction businesses in 2016. However, 89% of construction businesses reported zero export earnings for 2015 in this year’s survey. 9% of construction businesses hope to grow their exports in 2016 and 9% expect their exports to fall from 2015 levels.
- Profit margins will largely follow sales revenue in 2016, with 38% of construction businesses expecting their profit margin to grow in 2016, 35% expecting a drop and 27% expecting no change from 2015.

Construction business inputs in 2016

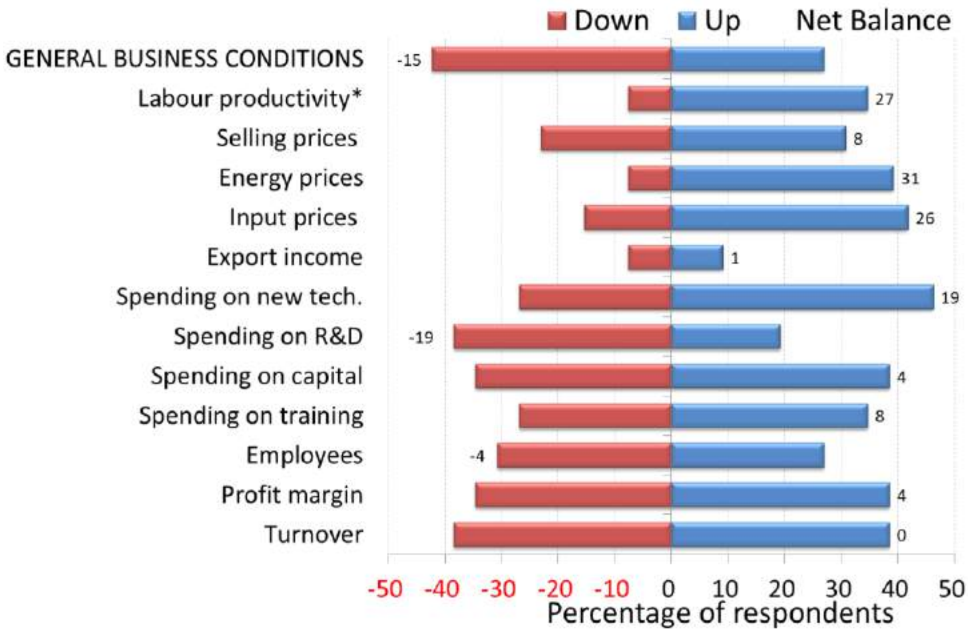
- Employment numbers will be stable in 42% of construction businesses in 2016. 27% of construction CEOs plan to increase employment in 2016, while 31% plan to cut their headcount.

- Annual spending on staff training will be unchanged for 38% of construction businesses in 2016. It will increase for 35% of businesses and decrease for 27% of businesses.
- Labour productivity will be unchanged for 58% of construction businesses in 2016. 35% are hoping for an improvement, while 8% fear their labour productivity will decline in 2016.
- Annual capital investment spending (which is mainly spent on machinery and equipment rather than on buildings for construction companies) will be stable for 27% of construction businesses in 2016. It will increase for 38% of businesses and decline for 35%, relative to the amounts they spent in 2015.
- As in previous years, construction CEOs are more likely to increase their spending on new technologies than on R&D in 2016. Spending on new technologies will go up for 46% of construction businesses and spending on R&D will go up for 19% of businesses in 2016. Annual spending on R&D will be stable for 42% of construction businesses in 2016, while 27% will spend the same on new technologies in 2016 as they did in 2015. 38% of businesses plan to cut their R&D spending in 2016 and 27% will cut their spending on new technologies.

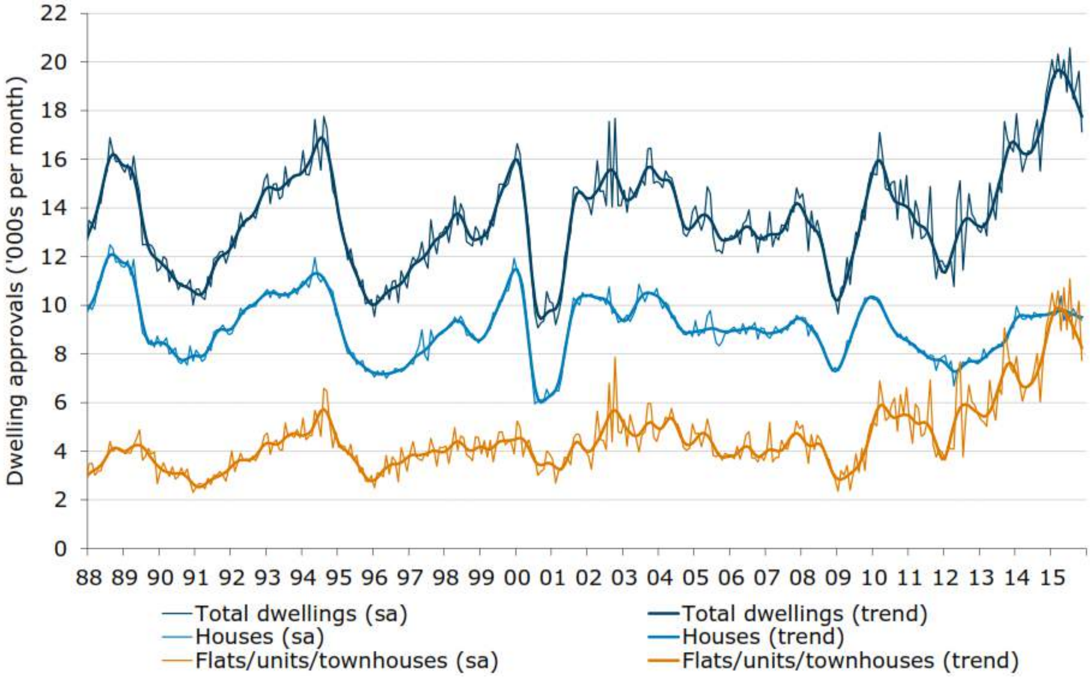
Construction business prices in 2016

- Input price increases are expected in 2016 by 42% of construction businesses, with stable prices expected by another 42%.
- Energy prices are expected to be stable in 2016 for 52% of construction businesses. 39% of construction businesses expect energy prices to rise in 2016.
- Selling prices will be stable for 46% of construction businesses in 2016. 31% plan to raise their prices.

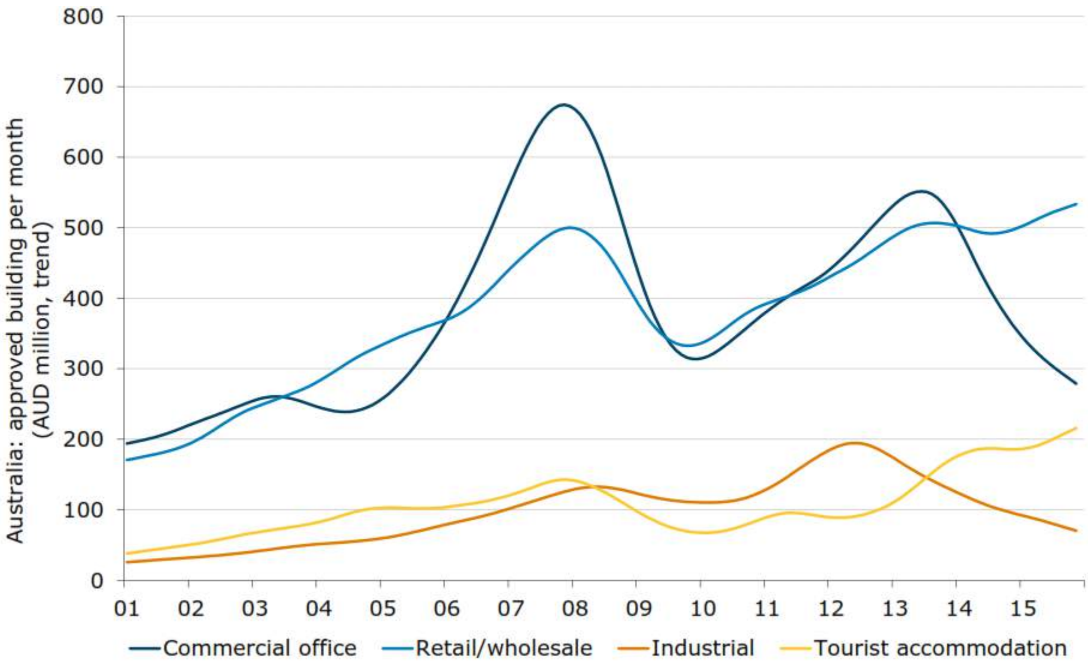
Construction: expected change in business conditions, 2016



Number of housing approvals (to Nov 2015)



Value of non-residential building approvals (to Nov 2015)



Source: ABS *Building Approvals Australia*, Nov 2015; ANZ Research.

Resources and energy related construction projects (committed), 2015

Source: Department of Industry, Innovation and Science, *Resources and Energy Major Projects*, Oct 2015.

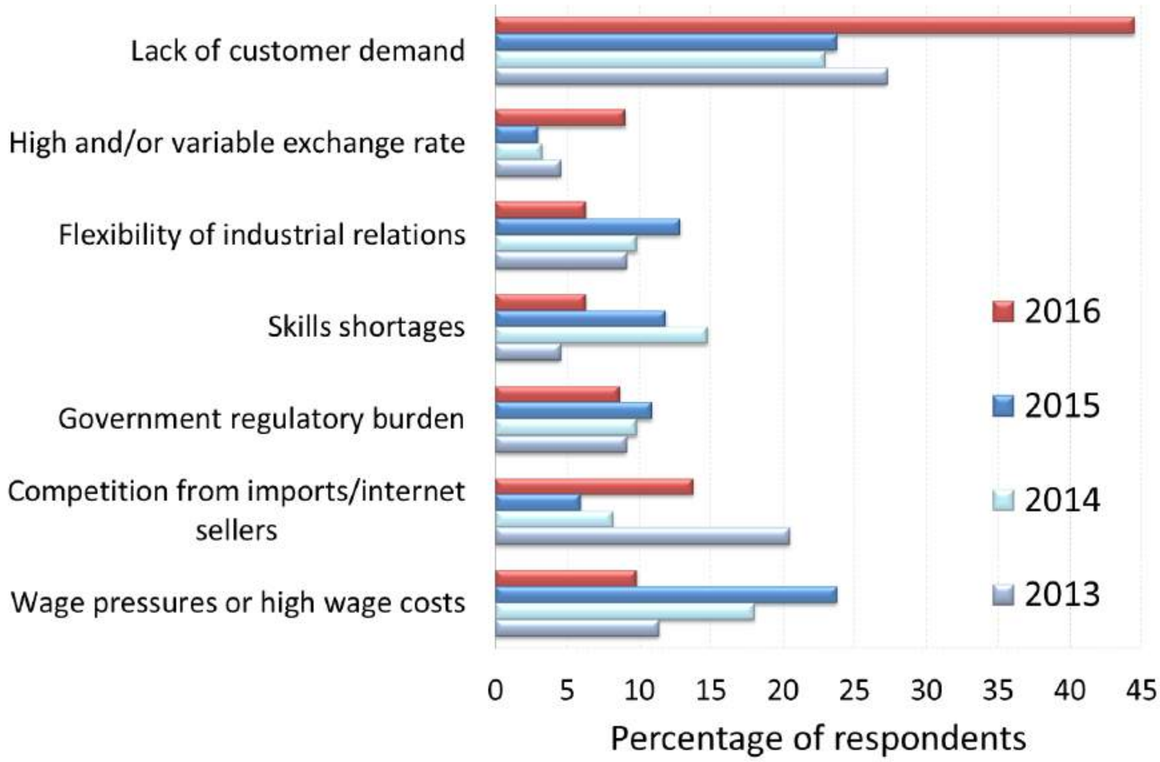
Business challenges and strategies for 2016

Construction industry CEOs expect weak customer demand to be the main challenge facing their business in 2016, with 30% of CEOs ranking it as their largest barrier to growth, up from 24% in 2015 and 23% in 2014. Wage pressures or high wage costs (17%) were the second greatest impediment, down from 24% in 2015 and more in line with 18% of responses in 2014. Skills shortages (11%), flexibility of industrial relations (11%) and competition from imports/internet sellers (11%) were equally of concern to businesses in 2016. Skills shortages and industrial relations concerns were broadly in line with the impediments listed a year ago for 2015. Increased competition from imports and internet sellers has risen as a concern, up from 6% last year.

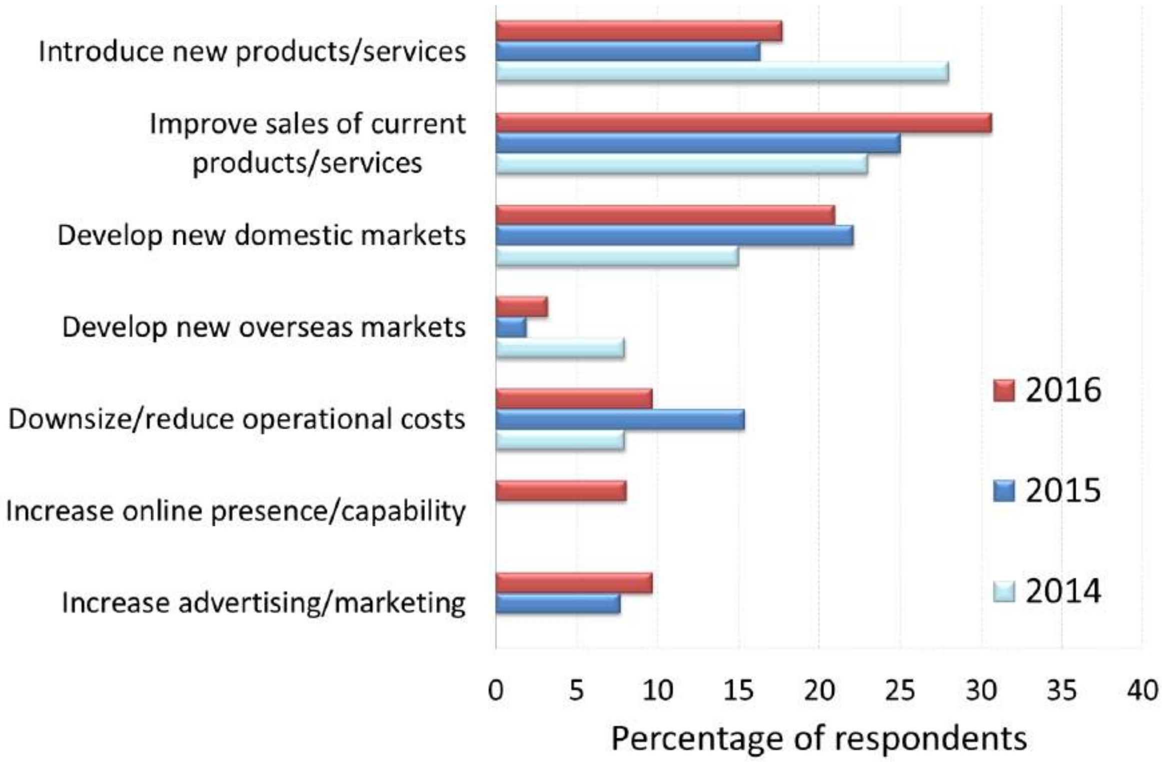
In response to these risks, 30% of construction CEOs plan to improve sales of current products and services, up from 25% in 2015 and 23% in 2014. Focusing on developing domestic markets (21%) is the second major strategy from growing business, followed by introducing new products and services (18%).These have been the top three strategies for CEOs for the past three years by a large margin, only cost cutting in 2015 was also a widely considered as a strategy for growth. Downsizing and reducing operations costs (10%), increasing marketing activity (10%) and increasing their online presence and capability (8%) were also considered in the top three strategies for business growth. The least popular strategy is developing new overseas markets, with only 3% of construction respondents ranking it as one of their top three strategies.

In 2015, 65% of construction CEOs modified their business strategy in response to changes in their business conditions. These modifications included reducing staff and other costs to the business, increasing marketing and focusing on core revenue streams. Businesses also looked to increase revenue by increasing their maintenance and service offerings and focusing on their more profitable customers.

Construction: impediments to growth



Construction: business strategies



Services industries

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.[3]

General business conditions

The Australian economy has been transitioning from industrial production (agriculture, mining, manufacturing, utilities) to services production for many decades, as have all advanced economies. This has seen the services industries grow absolutely, and as a share of the economy. Collectively, the services industries now account for well over half of GDP and three quarters of employment. This trend towards services is due to national income levels, demographics, economic cycles, technological advances and global developments.

In goods distribution industries (transport & storage, retail trade, wholesale trade)

- Retail, wholesale and transport have experienced slower growth rates than other services industries in recent years, due to changing consumption preferences that favour spending on services over physical items. Market saturation has been reached for many older types of household appliances and goods.
- Retailers and wholesalers with bricks and mortar shops face new competition from internet-based sellers with lower overheads and with international reach. The lower Australian dollar in 2015 has helped to refocus consumers' attention on locally-based retailing in 2015, but online selling will continue to grow.
- Technological changes have enabled greater levels of self-service (as well as online retailing), which has reduced labour intensity across retailing and wholesaling. This has enabled stronger output growth than employment growth, with wholesalers cutting employment since 2010, even though output has grown.

In consumer service industries (healthcare, welfare services, education, accommodation, restaurants and cafes, arts, recreation, personal services)

[3] 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% of each of GDP and employment in 2015.

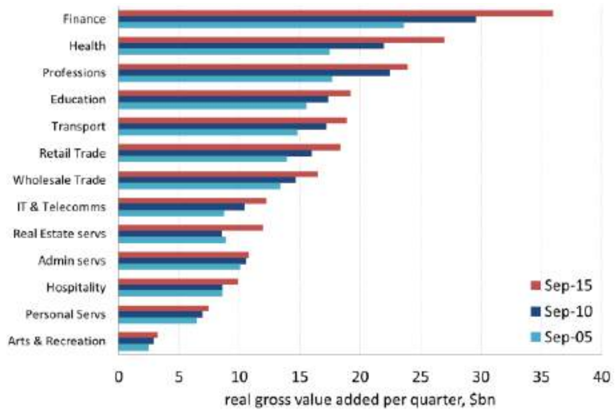
- Healthcare and education are the 'gentle giants' of the services industries, with both showing steady growth in output and employment over many years. Healthcare (including welfare and social services) is now Australia's largest employer (1.5 million workers or 13% of all workers) and has consistent annual output growth of around 4%. Education is smaller, but growth accelerated in 2015, with the lower Australian dollar attracting more international students to the well-established tertiary education market.
- Discretionary services to households (arts, recreation, hospitality, personal services) have experienced strong but volatile growth rates in recent years, depending on local confidence and the Australian dollar.

In business-to-business service industries (finance and insurance, professional services, real estate services, administrative services, IT, media and telecommunications)

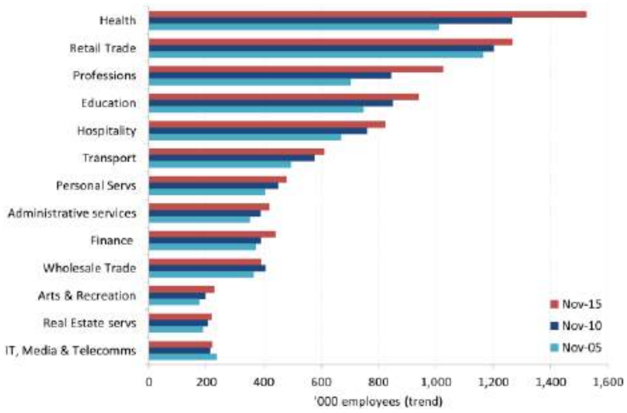
- Finance and insurance services continue to grow strongly, due to offshore growth opportunities and the size and strength of Australia's superannuation sector.
- Professional and administrative services had a static year in 2015, as investment remains slow. These industries have had slower than average output growth rates in recent years, as new technologies have affected how and when other businesses need to buy in these types of services.
- Real estate, IT and telecommunications recovered to stronger levels of activity and profitability in 2015, with real estate buoyed by the surge in housing investment in NSW and Victoria.

Services industries: key business indicators

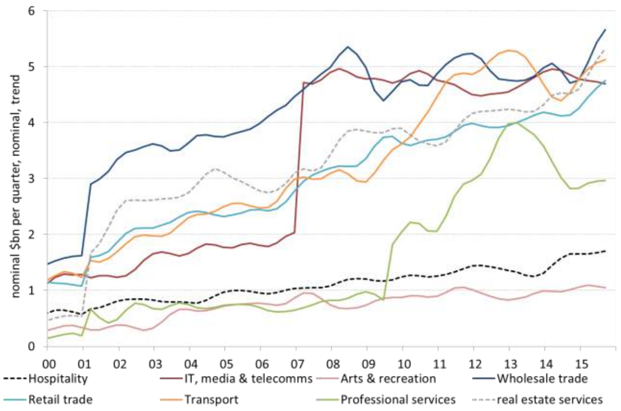
Value added output (to Sep 2015)



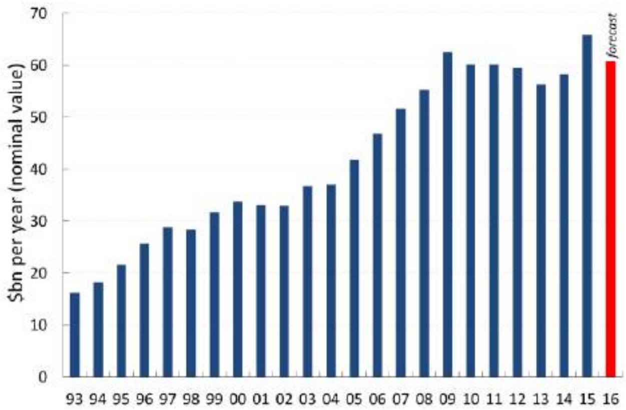
Employment (to Nov 2015)



Corporate profits (to Sep 2015)



Capital investment (annual, to 2015-16)



Services industries: output and employment, 2015

	Value added output, Sep 2015			Employment, Nov 2015 (trend)		
Industry (ANZSIC codes)	**$bn per quarter**	**% share of GDP***	**% change since 2010**	**'000 people**	**% share of all**	**% change since 2010**
Goods distribution (distribution and sale of physical goods to consumers and other businesses)						
Retail Trade	18,353	4.5	14.6	1,267.4	10.7	5.5
Wholesale Trade	16,522	4.0	12.9	391.3	3.3	-3.7
Transport	18,908	4.6	9.9	611.2	5.1	6.1
Consumer services (services provided mainly to individuals and households)						
Health	26,944	6.5	22.7	1,523.0	12.8	20.3
Education	19,197	4.7	10.7	938.0	7.9	10.4
Hospitality	9,871	2.4	14.6	824.1	6.9	8.5
Personal services	7,455	1.8	7.3	478.5	4.0	6.4
Arts & Recreation	3,230	0.8	10.9	227.7	1.9	16.0
Business services (services provided mainly to other businesses, but also to individuals and households)						
Finance	35,977	8.7	21.7	440.2	3.7	12.8
Professions	23,959	5.8	6.6	1,023.3	8.6	21.2
IT, Telecomms	12,212	3.0	17.5	219.8	1.9	3.4
Real estate services	11,986	2.9	40.0	216.8	1.8	5.9
Admin. services	10,747	2.6	1.6	418.5	3.5	7.7
GDP *	**411,643**		**14.1**	**11,882**		**6.9**

* All industries do not sum to GDP due to individual seasonal adjustment of industries and additional items that are included in GDP such as 'ownership of dwellings', 'taxes less subsidies' and 'statistical discrepancy'.
Sources: ABS *Australian National Accounts* Sep 2015; ABS *Labour Force Australia, Detailed Quarterly,* Nov 2015; ABS *Business Indicators*; ABS *Private New Capital Expenditure and Expected Expenditure,* Sep 2015.

Business experiences in 2015

The majority of service industries CEOs reported that business conditions were the same (22%) or worse (42%) in 2015, compared with 2014. 36% of CEOs reported an improvement. This lack of improvement came as a disappointment after a tough year for many service industries in 2014. A year earlier, 56% of service industries CEOs had reported that business conditions in 2014 were worse than they had been in 2013.

For 2015, more businesses experienced an actual deterioration in their business conditions (42%) than had initially expected a deterioration, as reported one year earlier (36% of businesses). On the other hand, more businesses experienced a better year in 2015 (36%) than had initially expected an improvement (22%).

Services industries sales and profits in 2015

- Despite the predominance of services businesses reporting flat or worsening general business conditions in 2015, 60% of CEOs reported that their own annual sales revenue increased in 2015, by an average of 14%. 24% said their sales revenue declined in 2015 (down by an average of 12%) and 16% saw no change. More services businesses experienced an actual increase in sales in 2015 (60%) than had initially expected an increase in 2015, as reported one year earlier (48%).
- Only 22% of service industry businesses reported any export earnings for 2015 in this year's survey. 60% of this group reported an increase in their export earnings, relative to 2014 (up by an average of 15%). 30% reported no change in export earnings and 10% had a fall in exports in 2015.
- Profit margin trends were more variable than sales in 2015, with 39% of service industry businesses reporting profit margin growth in 2015 (up by an average of 12%), 27% reporting no change and 34% reporting large falls in margins (down by an average of 28%) in 2015, relative to 2014.

Services industries business inputs in 2015

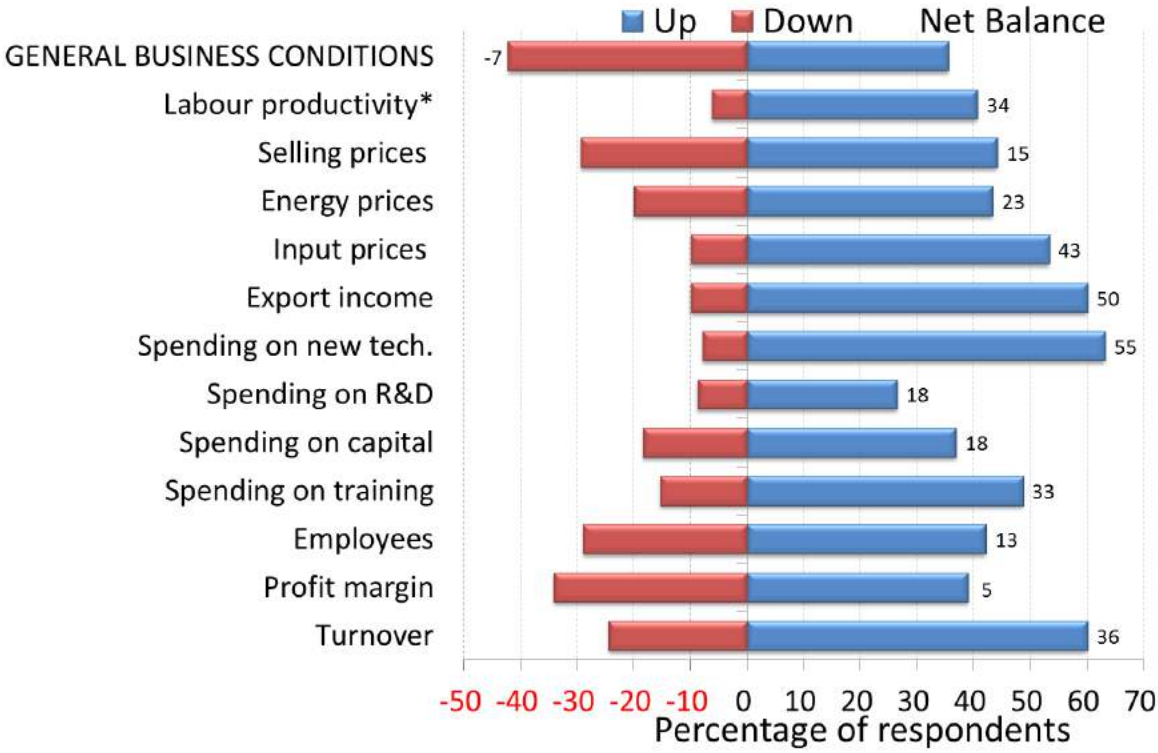
- Reflecting the stronger sales for many businesses in 2015, employment grew in 42% of service industry businesses in 2015 (up by an average of 12%) and stayed the same in 29% of businesses, relative to 2014. 29% of services CEOs cut staff numbers in 2015, by an average of 10%. Only 14% of service industry businesses had planned to make staff cuts in 2015 one year earlier, so some of these cuts may have been at short notice, in response to disappointing sales and/or margin performance during the year.
- Annual spending on staff training increased in 49% of service industry businesses in 2015 and was stable in 36% of businesses, relative to 2014. 15% of businesses cut their training expenditure in 2015.
- Labour productivity was stable in 2015 for 53% of service industry businesses and improved for 41% of businesses in 2015. 6% reported a deterioration in their business' labour productivity.

- Annual capital investment was stable in 45% of service industry businesses in 2015. It grew in 37% of businesses (up by an average of 11%) and was cut in 18% of businesses (by an average of 44%). This result was in line with CEO plans for investment spending one year earlier, when 45% had indicated no plans to change their annual capital expenditure for 2015 and one third had planned to increase it.
- As with construction businesses, new technologies are a higher priority for increased expenditure than R&D for many service industry businesses. In 2015, 65% did not change their level of annual R&D spending, but 63% increased their spending on new technologies. Just 8% cut their annual budget for new technologies in 2015 and 9% cut their annual spending on R&D in 2015.

Services industries business prices in 2015

- Input prices went up in 2015 for 53% of service industry businesses, possibly reflecting the higher cost of imported inputs. Prices were stable for 37% of service industry businesses in 2015. These price rises were largely anticipated, 47% of service industry CEOs had expected input prices to increase in 2015.
- Energy prices went up in 2015 for 43% of service industry businesses and were stable for 37% of businesses. 20% of service businesses reported a decrease in prices for their energy inputs in 2015.
- Selling prices increased for 44% of service industry businesses in 2015 (up by an average of 5%). Prices were cut in 29% of businesses (by an average of 7%) and held stable in 26% of businesses. More businesses increased their selling prices in 2015 (43%) than had initially indicated that they planned to do so, one year earlier (38%). This possibly reflects the increase in input prices experienced by the majority of businesses during 2015, and the need to raise selling prices in order to protect margins.

Services: reported change in business conditions, 2015



* Labour productivity is defined as “output per hour worked” in your own business.

Business expectations for 2016

After a relatively lacklustre year for general business conditions (but good sales growth for 60% of service industries businesses) in 2015, 43% of service industries CEOs expect the same conditions in 2016 and 41% expect better conditions in 2016. 16% are bracing for tougher conditions in 2016 than they saw in 2015.

Services industries sales and profits in 2016

- After good growth in sales for most service industry businesses in 2015, 71% are looking for another increase in sales in 2016. 22% are planning around zero sales growth, while 7% are bracing for a fall.
- 78% of service industry businesses reported no export earnings in 2015. For 2016, 71% expect no change in their exports, while 23% expect them to increase.
- Profit margins are expected to improve for exactly half of service industry businesses in 2016. Stable margins are planned for 32% of service industry businesses, while 18% are concerned they will fall.

Services industries business inputs in 2016

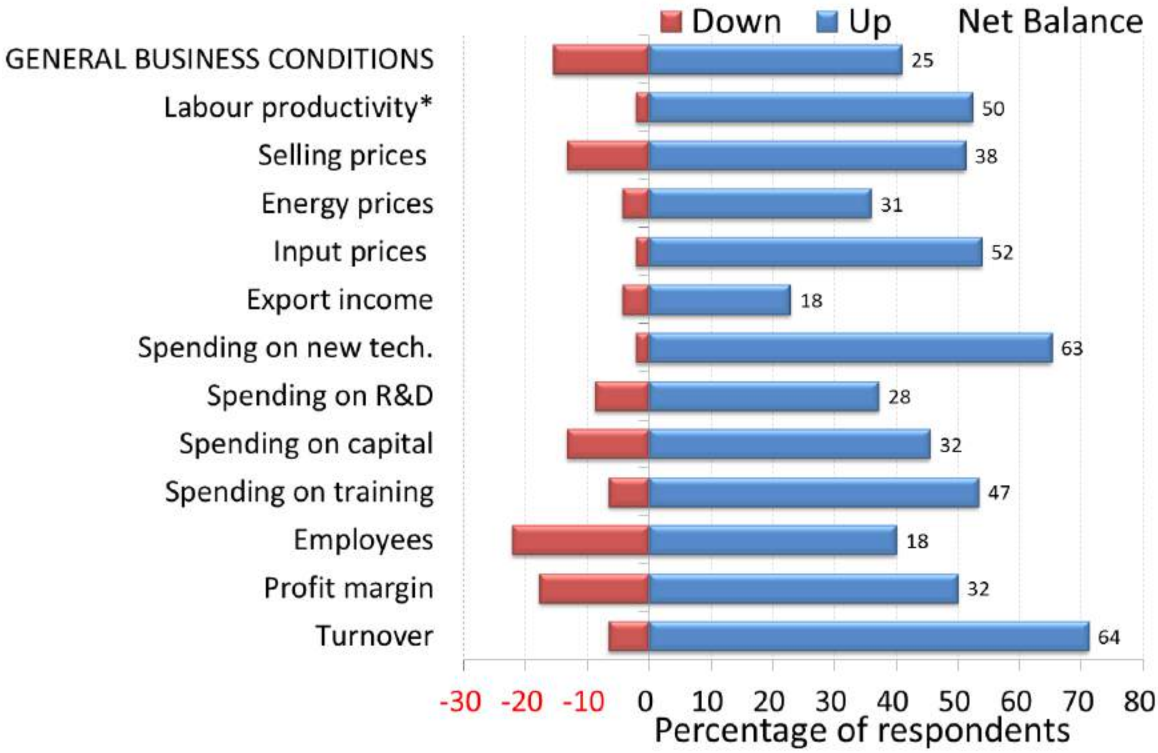
- Employment intentions remain patchy across the service industries for 2016. 40% of CEOs indicate they intend to increase their employee numbers, 38% will keep them stable and 22% plan to make cuts.

- Staff training expenditure will be increased in 53% of service industry businesses in 2016. 40% of service industry businesses plan to make no changes to this area in 2016.
- Labour productivity improvements are expected for 52% of service industry businesses in 2016. 45% expect no change from their 2015 levels
- Annual capital investment levels will grow for 45% of service industry businesses and will hold steady for 41% service industry businesses. 14% plan to make cuts to their annual investment program.
- As in 2015, new technologies are a higher priority for increased expenditure than R&D for the majority of service industry businesses. 65% of service industry businesses will increase their expenditure on new technologies in 2016 (relative to 2015), while 37% will increase their spending on R&D. Annual R&D spending will be stable in 2016 for 53% of service industry businesses, as will new technology spending for 33% of service industry businesses. Just 2% of service industry businesses will cut their annual spending on new technologies in 2016 and 9% will cut their annual spending on R&D in 2016.

Services industries business prices in 2016

- Further rises in input prices are expected in 2016 for 54% of service industry businesses, reflecting the impact of the lower dollar on pricing for imported inputs. 44% of service industry businesses expect their input prices to remain stable, while only 3% expect their input prices to fall.
- Energy prices are expected to stay stable for 59% of service industry businesses and to rise for 36% of service industry businesses. Just 5% expect their annual energy input costs to fall in 2016.
- Selling prices are moving up, in line with these input price rises, as businesses seek to protect their margins. 51% of service industry businesses plan to raise their selling prices in 2016, while 34% plan to keep them unchanged. 15% of service industry businesses may need to cut their prices in 2016.

Services: expected change in business conditions, 2016



* Labour productivity is defined as "output per hour worked" in your own business.

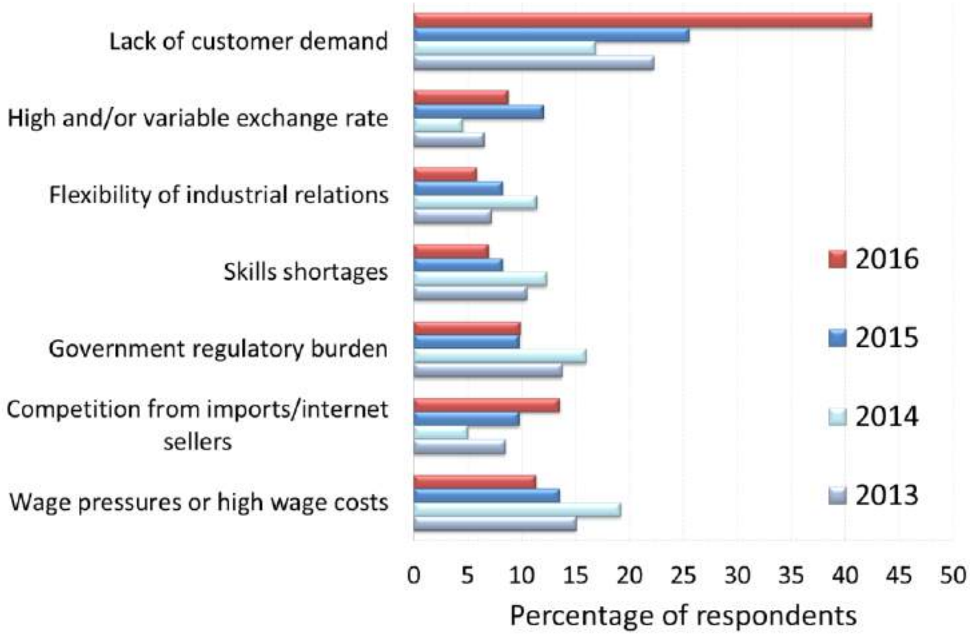
Business challenges and strategies for 2016

A lack of customer demand is considered the biggest impediment to business growth by 25% of services business CEOs, down slightly from 26% in 2015 but up from 16% in 2014. Wage pressures (19%) are the second most common factor to inhibit business growth, up from 13% in 2015 and returning to similar levels as 2014 (19%). The burden on businesses to comply with government regulations was considered the third largest factor to constrain businesses, at 16%, up from 10% in 2015 and returning to similar levels as 2014 (16%). Competition from imports and internet sellers (11%), was a higher concern than the variable exchange rate (8%) and the flexibility of industrial relations (8%).

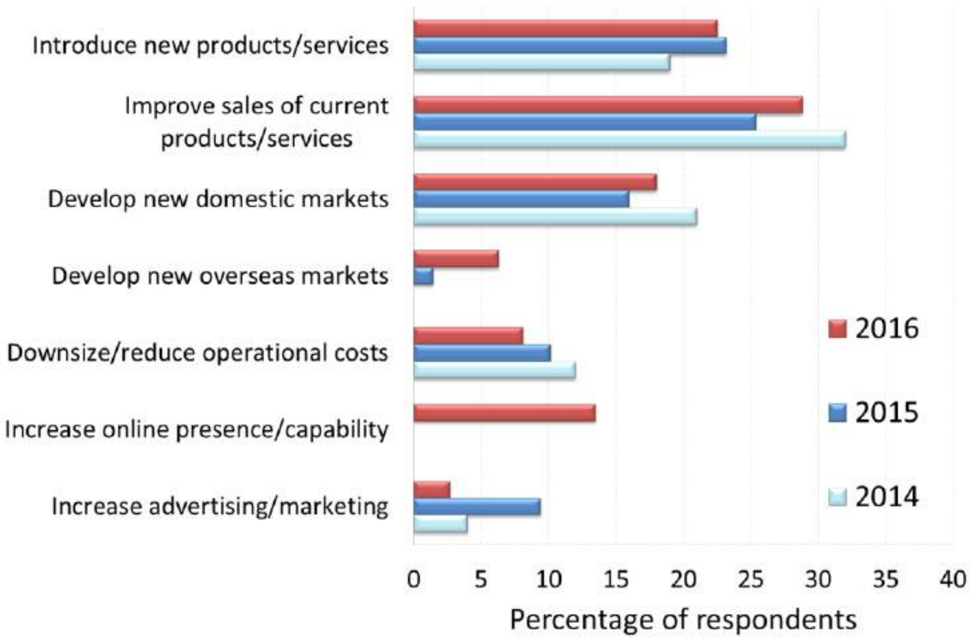
In response to these risks, 29% of service industries CEOs plan to concentrate their efforts on improving sales of current products and services in 2016, up from 25% in 2015 and 24% in 2014. Following this, introducing new products and services is the next most considered plan for 22% of businesses, down slightly from 2015 (23%) but still higher than 2014 (19%). In line with these plans, developing new domestic markets is the third most popular strategy with 18% of CEOs ranking it within their top three strategies, up from 16% in 2015 and 2014. In contrast to other industries and reflecting the nature of their businesses, 13% of services CEOs are prioritising an increase in their online presence and capabilities.

In 2015, 53% of service industries CEOs needed to change their business strategy to manage changes in business conditions. Service businesses, more than the industrial sectors, mentioned an internal focus for their changes to plans. For many businesses this involved focusing on the processes within the business and increasing the effectiveness of their operations, improving systems and finding efficiencies. Re-evaluating staff roles, increased training, restructuring and better integrating teams were some of the strategies used. Overwhelmingly, the changes focused on internal processes rather than external opportunities.

Services industries: impediments to growth



Services industries: business strategies



Appendix

National CEO Survey Business Prospects in 2016: survey participants

Responses were received from the CEOs of 248 businesses across Australia in October and November 2015. Together, these businesses employed around 97,300 people (400 people each on average) and had an aggregate annual turnover of around $42 billion in 2015.

All Australian States (except Tasmania) 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 (64.5%). Manufacturing's share of this sample is higher than its share of national production (around 6%). 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 2015) in order to adjust for these characteristics of the sample. The analysis for each of the four industry groups was not affected.

	CEO Survey: Business Prospects 2016		**ABS data (2014-15)**
Industry	Number of respondents	% of respondents	Value added output, % of GDP
Mining and mining services	15	6.0	8.4
Manufacturing	160	64.5	6.1
Construction	27	10.9	7.6
Services	46	18.5	52.6
Total*	**248**	**100.0**	**74.7***

	CEO Survey: Business Prospects 2016		**ABS data (2014-15)**
State	Number of respondents	% of respondents	Gross state product, % of GDP
NSW	65	26.2	31.9
Vic	111	44.8	22.4
Qld	46	18.5	19.0
WA	2	0.8	15.4
SA	24	9.7	6.1
ACT	-	-	2.2
NT	-	-	1.4
Tas	-	-	1.6
Total	**248**	**100**	**100**

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 and other services.

All industries do not sum to GDP due to: the exclusion from this report of utilities (2.7% of GDP in 2015), public administration (5.2% of GDP) and agriculture (2% of GDP); individual seasonal adjustment of industries; and additional items that are included in GDP such as 'ownership of dwellings' (8.7% of GDP in 2015), 'taxes less subsidies' (6.5% of GDP in 2015) and 'statistical discrepancies' (typically 0.2% of GDP).

National CEO Survey Business Prospects in 2016: questionnaire

1. Record number *(for data processing purposes only. All responses are confidential and de-identified)*	
2. Postcode	
3. In which industry does your business mainly operate? *Please tick one box only, for your main activity*	
☐ Mining and/or mining services (e.g. exploration, mining engineering or mining processing)	☐ Construction (e.g. engineering, infrastructure, commercial, residential construction or contracting)
☐ Manufacturing (e.g. making food, beverages, chemicals, equipment, building materials, metals, textiles, furniture)	☐ Services (e.g. retail, wholesale, transport, post, IT, media, health, education, cafes, hotels, entertainment)
☐ Other industry (please specify): ______	
4. What was your approximate annual turnover in 2015?	**$ ______**
5. How many people did you employ in 2015?	______ people
6. If exporting, what was the total value of exports for your business in 2015?	**$ _____**
7. Approximately what percentage of all your inputs (by value) were sourced offshore in 2015? ______%	
8. By what percentage did the following factors change in your business in 2015, compared to 2014?	

Please complete one box only for each:	Down *(write in %)*	No change *(tick if applicable)*	Up *(write in %)*
Annual turnover	______ %	☐	______ %
Gross profit margin	______ %	☐	______ %
Number of employees	______ %	☐	______ %
Spending on staff training	______ %	☐	______ %
Spending on physical capital (e.g. buildings)	______ %	☐	______ %
Spending on research & development	______ %	☐	______ %
Spending on new technology	______ %	☐	______ %
Export income	______ %	☐	______ %
Input prices	______ %	☐	______ %
Energy prices (inputs)	______ %	☐	______ %
Selling prices	______ %	☐	______ %
Labour productivity (output per hour worked)	______ %	☐	______ %
General business conditions in your sector	☐ Worse	☐ No change	☐ Better

9. If your labour productivity changed in 2015 (up or down), what were the main factors? *Please list factors*

____

10. Did you change any parts of your business model, plan or strategies in 2015 due to business conditions?

☐ Yes ☐ No ☐ we don't have a formal business model, plan or strategy

If yes, what did you change in 2015? ____

11. IF your business was EXPORTING in 2015 or is planning to export in 2016, at what AUD/USD exchange rate do your exports become uncompetitive with products from other countries? __________US cents

12. IF your business was competing with IMPORTS in the Australian market in 2015, at what AUD/USD exchange rate do your products become uncompetitive with imported products from other countries? ______US cents

13. How did the lower Australian dollar affect your business in 2015? __________________________________

… -- Questions 14 to 23 were on other topics that are not included in this report --…

24. Do you expect the following factors to change in your business in 2016, compared to 2015?

Please tick one box only for each factor:	Down	No change	Up
Annual turnover	☐	☐	☐
Gross profit margin	☐	☐	☐
Number of employees	☐	☐	☐
Spending on staff training	☐	☐	☐
Spending on physical capital	☐	☐	☐
Spending on research & development	☐	☐	☐
Spending on new technology	☐	☐	☐
Export income	☐	☐	☐
Input prices	☐	☐	☐
Energy prices (inputs)	☐	☐	☐
Selling prices	☐	☐	☐
Labour productivity (output per hour worked)	☐	☐	☐
General business conditions in your sector	☐	☐	☐

25. What key growth strategies do you plan to implement in your business during 2016?
Please rank all relevant strategies, starting with 1 as your most important strategy

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):__________________	______

26. What factors do you expect will inhibit your business growth in 2016?
Please rank all relevant inhibiting factors, starting with 1 as your most important inhibiting factor

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): ________________	______

GROUP