ACCI–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

251st report June 2024 (survey conducted from 13 May to 7 June 2024)

- The Australian Chamber-Westpac Survey of Industrial Trends, Australia's longest running business survey dating from 1966, provides a timely update on manufacturing and insights into economy-wide trends.
- The Westpac-ACCI Actual Composite improved materially heading into mid-year, lifting from 43.4 in the March quarter to 54.1 in the June quarter.
- With a reading above the breakeven threshold of 50, this indicates that conditions are improving in the manufacturing sector. Compositionally, a bounce in new orders and an increase in output were the key drivers, while respondents reported further declines in employment and overtime.
- The broader economic backdrop for manufacturers has been challenging over the past year, highlighted by stalling new orders growth. This culminated in a material decline in orders in March 2024, marking a slower than usual return to business from the summer holidays. That weakness was not expected to last though, and orders have posted a solid rebound in June 2024, with a net 20% of firms reporting a rise.
- The Expected Composite moderated slightly, from 54.7 in March to 52.8 in June. Firms still expect demand conditions to improve, albeit at a more modest pace. Partially offsetting this, supply-side issues remain a concern of manufacturers.
- The survey finds that manufacturers continued to reduce overtime and scale back the size of their workforce, a net 6% and 11% doing so respectively. The improvement in labour availability last quarter looks to have been temporary, with a net 12.1% respondents finding labour more "difficult to find", providing manufacturers with limited scope to expand the size of their workforce.
- Cost pressures facing manufacturers remain acute and incredibly volatile. The latest survey finds a net 71% of firms reported a rise in average unit costs, the highest result since the cycle peak in December 2022 (76%). On a year-average basis, costs have eased slightly – from a net 68% in June 2022 to 51% in June 2023 – but they remain well above the 2009-19 average (19%).
- Manufacturers, in response to ongoing difficulty in sourcing labour and rising average unit costs, are looking to invest to lift capacity and meet demand, with a net 25% of respondents intending to increase equipment spending over the next twelve months.
- The mood of manufacturers about the general business outlook for the next six months improved but remains deeply pessimistic – those expecting a deterioration outnumber those expecting an improvement by a net 42% in June compared to a net 56% in March.
- Profit expectations improved, following the bounce in demand. However, they remain well below average levels, as elevated and volatile cost pressures continue to loom over manufacturers. On balance, respondents neither expect an improvement or a deterioration in profits over the coming year.

Contents

The Survey of Industrial Trends produced by the Australian Chamber of Commerce and Industry & Westpac Banking Corporation is a quarterly publication.

It is Australia's longest running business survey dating from 1966, providing a timely update on manufacturing and insights into economy-wide trends.

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Net response or "balance" is calculated by the proportion of "ups" less "downs" on individual questions, thereby yielding the net balance. A positive balance indicates a net upward or improving trend and a minus balance a net downward or deteriorating trend.

The 251st consecutive survey was closed on 7 June 2023

A total of **286** responses were received, and provided a reasonable cross-section of Australian manufacturing in respect of industry groups and size of operation.

The next survey will be conducted over August and September 2024.

Key survey results

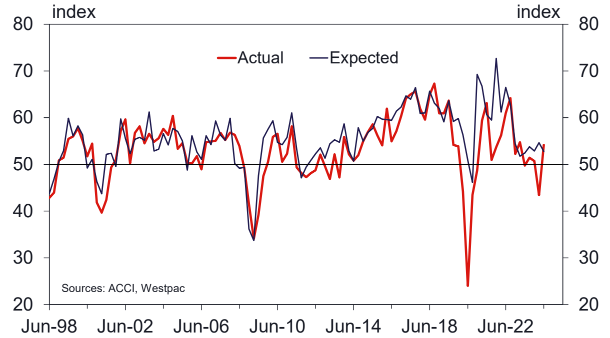
Westpac–ACCI Composites (seasonally adjusted)

	Q1 2024	Q2 2024
Actual – composite index	43.4	54.1
Expected – composite index	54.7	52.8

- The Westpac-ACCI Actual Composite rebounded moving into mid-year, rising from 43.4 to 54.1, in line with the Expected Composite from last quarter.
- With a reading above the breakeven threshold of 50, this indicates that conditions are improving in the manufacturing sector. Compositionally, a bounce in new orders and expansion in output were the drivers, while employment and overtime continued to decline.
- The Expected Composite moderated slightly, from 54.7 in March to 52.8 in June. Firms still expect demand conditions to improve ahead, albeit at a more modest pace. Partially offsetting this, supply-side issues remain a concern of manufacturers.

Westpac-ACCI Composite indexes

Actual & expected, sa

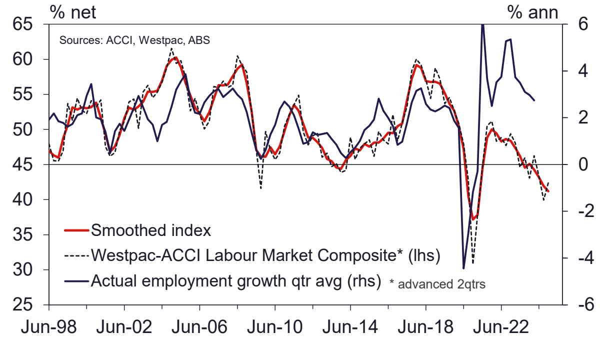


Westpac–ACCI Labour Market Composite

	Q1 2024	Q2 2024
Composite index	39.9	42.4

- The survey provides insights into economy-wide employment growth. This highlights the key linkages between manufacturing and the labour market.
- In this update, the Labour Market Composite lifted modestly, from 39.9 in Q1 to 42.4 in Q2 – marking the two weakest reads since reopening from COVID-19.
- The Composite is currently undershooting nationwide employment trends, reflecting uneven growth across the economy and that labour shortages appear to be more acute for manufacturers.
- Highlighting this point, official data from March 2024 reports that economy-wide employment growth is tracking a year-average pace of +2.8%yr, compared to manufacturing's year-average pace of –0.2%yr.

Labour Composite and employment trends



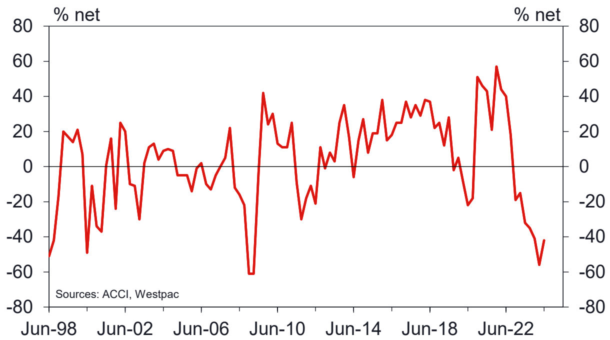
General business situation

	Q1 2024	Q2 2024
Net balance	–56	–42

- Manufacturing sentiment about the general business outlook deteriorated rapidly over 2022 and 2023, as manufacturers were hit with a cost crisis and rapid interest rate increases.
- Sentiment improved in June but remains at a deeply pessimistic level overall, with a net 42% of respondents expecting the general business situation to worsen over the next six months.
- Confidence clearly remains in a fragile state given volatile and broadly elevated cost pressures, and lasting concerns over labour and material availability.
- While policy relief may provide some support to demand into the second half of the year, lingering supply-side issues are likely to remain a headwind to confidence near-term.

General business situation

Next six months



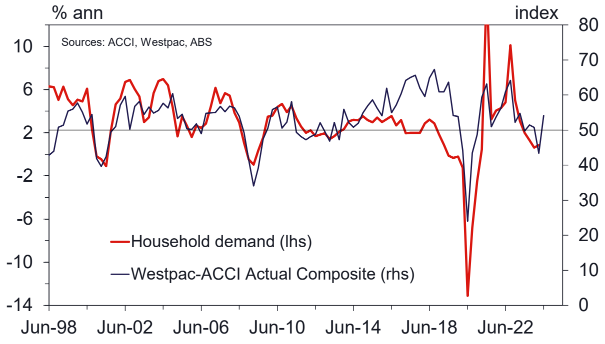
The business cycle & economic outlook

Manufacturing & the business cycle

- The Westpac-ACCI Actual Composite has a solid track record of predicting near-term domestic economic conditions and identifying turning points in the cycle.
- The domestic economy continued to limp along in the opening quarter. Growth in domestic household spending remains soft, as the rising cost-of-living, higher interest rates and higher tax payments have resulted in a sharp squeeze on real disposable incomes. The impact of these pressures is permeating through the private economy, seeing private demand approach a stalling speed.
- Constructively, manufacturers reported a bounce in demand in the June survey. Tax cuts may also further support demand conditions ahead, but uncertainties remain – particularly around the supply side.

Manufacturing and the business cycle

Westpac-ACCI Composite & household demand

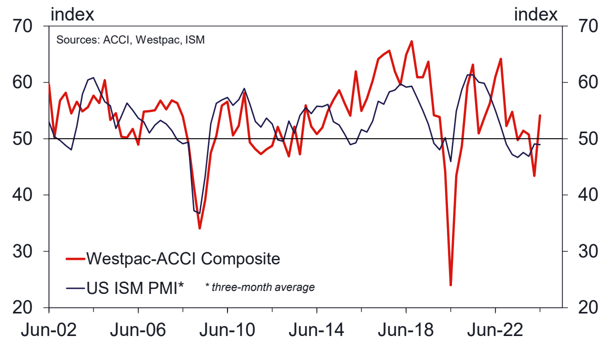


Australian & World manufacturing surveys

- Global and Australian manufacturing cycles tend to be synchronised, especially at major turning points. The Westpac-ACCI Actual Composite typically moves in line with global manufacturing conditions.
- Manufacturing activity in key advanced economies looks to be moving past its nadir, though conditions appear to be stabilising rather than turning up strongly. This has broadly been the case in Australia, albeit with more volatility over the first half of this year.
- In the US, the ISM PMI is staging a gradual recovery from earlier weakness. At 48.7 in May, it remains below the breakeven threshold and the relatively sound five-year pre-pandemic average (54.0).
- Europe's manufacturing sector is also beginning to recover, but from a weaker starting point. At 47.3 in May, it is similarly still in contractionary territory.

Australian & US manufacturing surveys

Westpac-ACCI & ISM PMI indexes

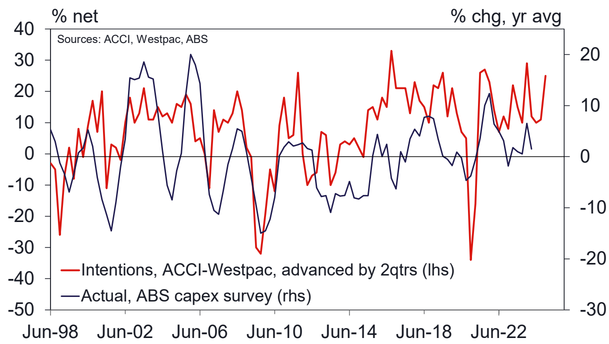


Manufacturing & business investment

- The ACCI-Westpac survey broadly tracks equipment spending trends in the manufacturing sector.
- The survey finds that manufacturers' investment intentions have eased since the reopening from COVID-19 – albeit with volatility quarter-to-quarter.
- Official ABS data confirms that manufacturing equipment spending expanded in 2020/21, up by 3.6%, and increased further in 2021/22, up another 4.9%. Then, equipment growth slowed to a tepid 1% for the 2022/23 financial year. Spending has been volatile on a quarterly basis since, as manufacturers became more cautious in their spending decisions.
- Investment intentions strengthened notably in the June survey, suggesting manufacturers are looking to expand capacity (as discussed in more detail below).

Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



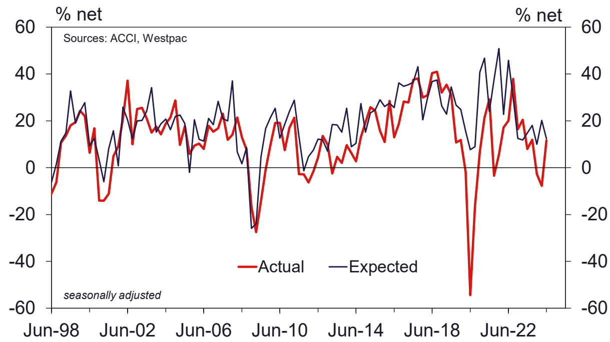
Activity & orders

Output (seasonally adjusted)

	Q1 2024	Q2 2024
Actual – net balance	–8	12
Expected – net balance	20	12

- The survey indicates that momentum in output growth improved in June, with a net 12% of firms reporting an increase during the period.
- The expansion in output marks a welcome turnaround from recent declines over December (–3%) and March (–8%), albeit to a relatively subdued level overall.
- Manufacturers broadly anticipate output growth to remain steady at its current level, with a net 12% of firms expect output to rise next quarter.
- While some firms are reporting some level of spare capacity, there remains uncertainty around firms' ability to respond to a recovery in demand given lingering constraints around labour and materials.

Output growth
Actual & expected

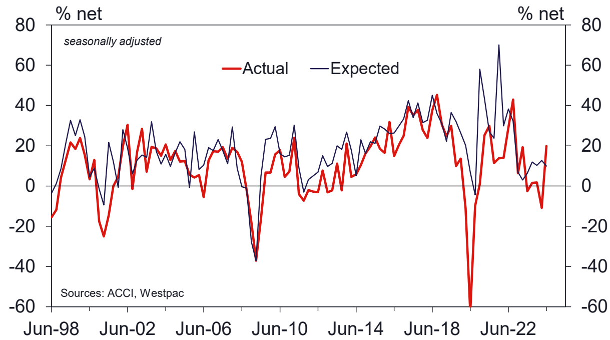


New orders (seasonally adjusted)

	Q1 2024	Q2 2024
Actual – net balance	–11	20
Expected – net balance	13	10

- Demand conditions have been challenging in the sector, as the stalling in new orders over H2 2023 gave way to a material decline in the March quarter.
- Broadly in line with manufacturers' own expectations, March's weakness in demand looks to have been overstated, with a net 20% of respondents reporting an increase in new orders.
- Although the broader economic backdrop over the past year has been difficult, policy relief – in the form of tax cuts – supports prospects for an ongoing improvement in demand conditions over H2 2024.
- Firms anticipate more modest growth in new orders, with a net 10% expecting a rise in the next quarter.

New orders
Actual & expected

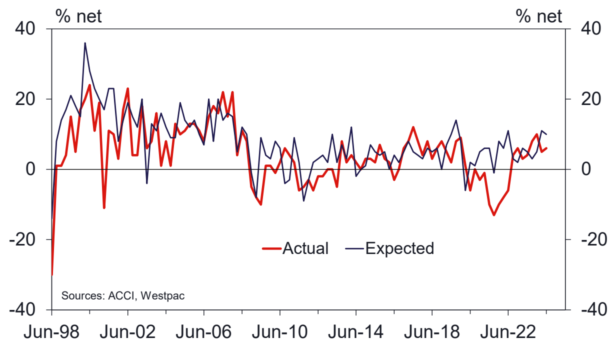


Exports

	Q1 2024	Q2 2024
Actual – net balance	5	6
Expected – net balance	11	10

- Export conditions remain broadly supportive, the survey finds.
- Exports rose in the June quarter, with a net 6% of firms reporting an increase – in line with the net 5% from the March quarter
- That marks an extended period of improvement since Q3 2022 – as pandemic-era disruptions began to fade – coinciding with a more competitive Australian dollar.
- Looking ahead, a net 10% of manufacturers anticipate a rise in exports over the next three months. The extent to which recent increases in shipping costs and freight rates could impact remains an open question.

Export deliveries
Actual & expected



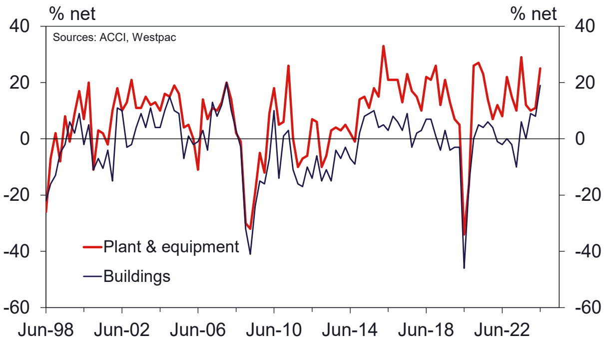
Investment & profitability

Investment intentions

	Q1 2024	Q2 2024
Plant & Equipment – net balance	11	25
Building – net balance	8	19

- Investment intentions bounced notably in the June survey, rising to an elevated level.
- Manufacturers, in response to ongoing difficulty in sourcing labour and rising average unit costs, are looking to invest to lift capacity and meet demand.
- A net 25% of respondents are intending to increase equipment spending over the next twelve months. This was driven by fewer firms intending to decrease investment (23% to 10%), with those intending to increase broadly steady at a high level (34% to 35%).
- Building projections for the year ahead meanwhile surged to its highest level since Q4 2007, with a net 19% planning an increase.

Investment intentions
Next twelve months

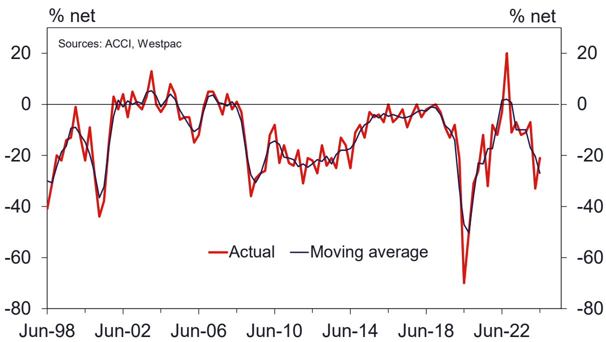


Capacity utilisation

	Q1 2024	Q2 2024
Net balance	–33	–21

- Over 2023, activity in the manufacturing sector and the national economy was slowing, and capacity utilisation began to ease from an elevated level.
- After a bounce in output and demand moving into the middle of 2024, capacity utilisation in the manufacturing sector improved, the survey reports.
- There were more firms operating at above average capacity (8% to 21%) and roughly the same amount of firms operating at below average capacity (41% to 42%), resulting in a net 21% reporting underutilisation.
- Issues around supply chains and the availability of materials and skilled labour inputs are still impacting the ability of some firms to operate at capacity.

Capacity utilisation

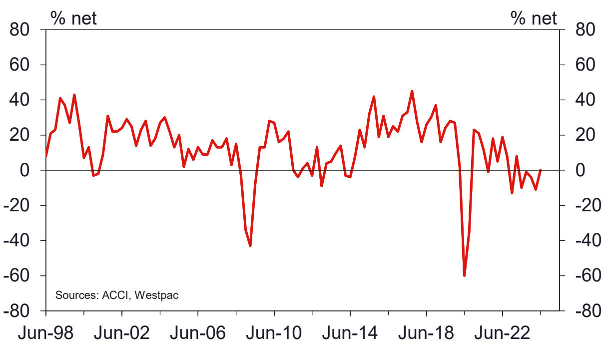


Profit expectations

	Q1 2024	Q2 2024
Net balance	–11	0

- Since the initial reopening from the pandemic, the profitability of the manufacturing sector has continued to trend lower.
- In June, profit expectations improved but remained at well below average levels. On balance, manufacturers neither expect an improvement or a deterioration in profits over the coming year, well below the long-run average of a net 19% anticipating an increase.
- While the latest bounce in demand is constructive, lacklustre outcomes over the past year have had a significant bearing on profit expectations.
- Additionally, elevated and volatile cost pressures continue to loom over manufacturers.

Profit expectations
Next twelve months



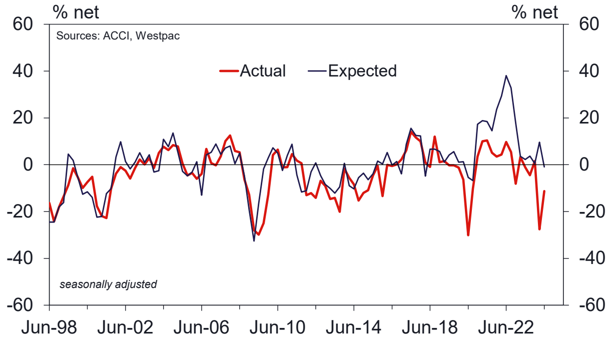
The labour market

Numbers employed (seasonally adjusted)

	Q1 2024	Q2 2024
Actual – net balance	-28	-11
Expected – net balance	10	-1

- Manufacturers were hesitant to calibrate the size of their workforce over the course of last year, instead preferring to reduce overtime to retain flexibility.
- The latest survey confirmed that manufacturers have continued to adjust head count this year, a net 11% of respondents reporting a reduction in employment in June, following a net 28% reduction in March.
- Expectations suggest firms broadly do not anticipate changes to the size of their workforce, with only a net 1% expecting a decline over the next three months.
- With lingering issues around labour availability, the ability for manufacturers to expand their workforce remains limited.

Numbers employed
Actual & expected

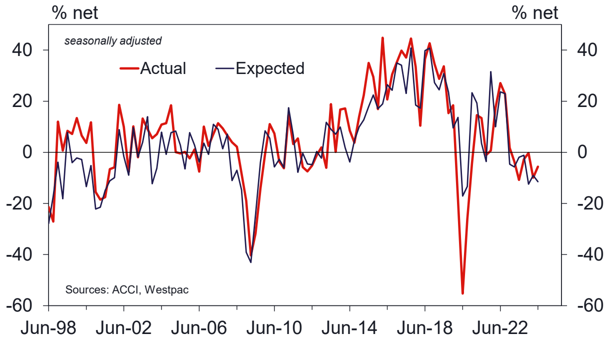


Overtime worked (seasonally adjusted)

	Q1 2024	Q2 2024
Actual – net balance	-10	-6
Expected – net balance	-9	-11

- As the economic slowdown materialised over 2023, manufacturers adjusted their labour usage by reducing overtime hours worked.
- That dynamic has persisted into 2024, with a net 6% of firms decreasing overtime in June, fewer than the net 10% reporting a decline in March.
- Over the next three months, a net 11% of respondents anticipate a further moderation in overtime.
- The weakness in overtime expectations – in contrast to employment expectations – highlights a preference to adjust hours worked where needed over the period ahead, rather than head count.

Overtime worked
Actual & expected

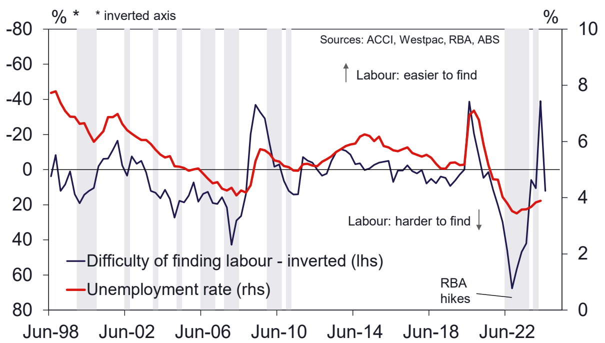


Difficulty of finding labour (seasonally adjusted)

	Q1 2024	Q2 2024
Net balance	-39.0	12.1

- The survey provides insights into the tone of the overall labour market. Firms' views on the difficulty of finding labour broadly tracks shifts in the unemployment rate for the Australian economy.
- Recall in March, manufacturers reported a sudden improvement in labour availability, with a net 39% of respondents indicating it was "easier to find" labour.
- This proved to be temporary, however. In June, a net 12.1% of respondents indicated that labour was now "harder to find" versus three months ago.
- While labour availability is not nearly as dire as it was in 2022 and H1 2023 – following rapid growth in Australia's labour supply – results over the past four quarters broadly suggest that there remains some difficulty in sourcing skilled labour.

Labour market tightness



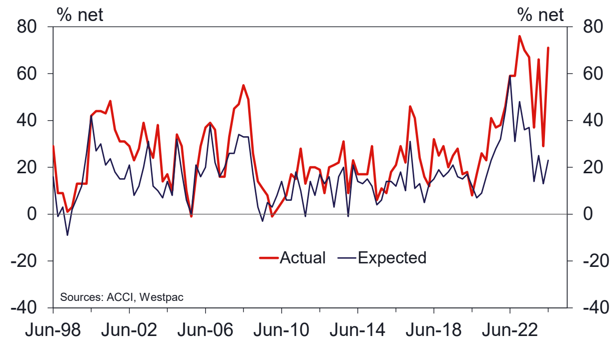
Prices & inflation

Average unit costs

	Q1 2024	Q2 2024
Actual – net balance	29	71
Expected – net balance	13	23

- The survey finds that the cost pressures facing manufacturers remain acute and incredibly volatile.
- In June, a net 71% of firms reported a rise in average unit costs, the highest result since the cycle peak of the net 76% that reported a rise in December 2022 – recent increases in shipping costs and freight rates offer a partial explanation for the latest spike.
- Costs have eased slightly on a year-average basis – from a net 68% in Q2 2022 to 51% in Q2 2023 – but they remain well above the 2009-19 average (19%).
- Expectations rose more mildly, from a net 13% to a net 23%. Uncertainty remains, given expectations have undershot outcomes over the past two years.

Average unit costs
Actual & expected

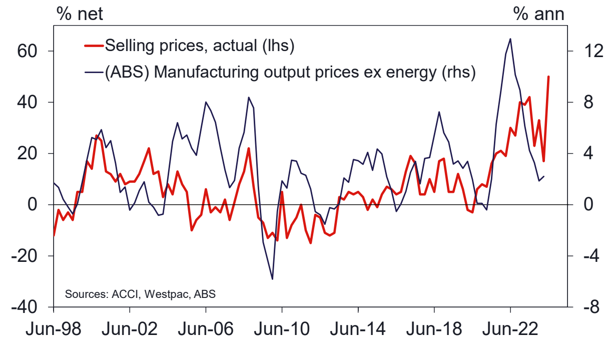


Average selling prices

	Q1 2024	Q2 2024
Actual – net balance	17	50
Expected – net balance	14	18

- Following a rise in unit cost pressures, the proportion of firms reporting an increase in prices also rose, from a net 17% in March to a net 50% in June.
- That proportion is still below the net 71% reporting a rise in average unit costs over the same period – with selling prices trailing costs, manufacturers are only partially passing through higher costs to consumers, implying margins are being squeezed across the sector.
- Firms do not expect further large increases in selling prices, with a net 18% anticipating a rise over the next three months, implying some ongoing margin squeeze, but to a lesser extent moving forward.

Manufacturing upstream price pressures

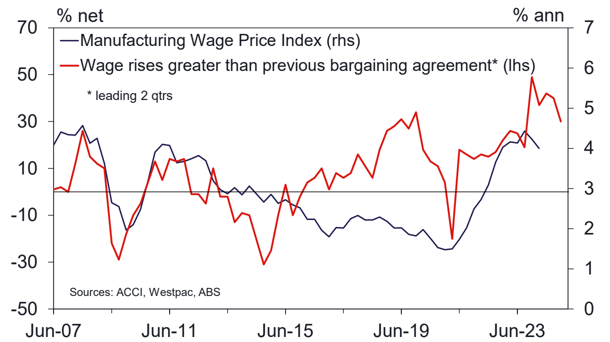


Manufacturing wages

	Q1 2024	Q2 2024
Net balance	40	30

- Manufacturers continue to expect further upward pressure on wages, the survey finds.
- In June, a net 30% of respondents expect their next enterprise wage agreement to deliver an outcome above their last, a pull-back from the net 40% in Q1 2024 and is the lowest reading since Q1 2023 (19%).
- The tone of the survey is broadly consistent with official data on wage trends for the sector and the recent Fair Work Commission decision on minimum wages and awards.
- The ABS reports wages growth in the manufacturing sector has moved off its peak, from 4.4%yr in September 2023 to 4.0%yr in March 2024, broadly in line with the economy-wide average of 4.1%yr.

Manufacturing wage growth



Factors limiting production

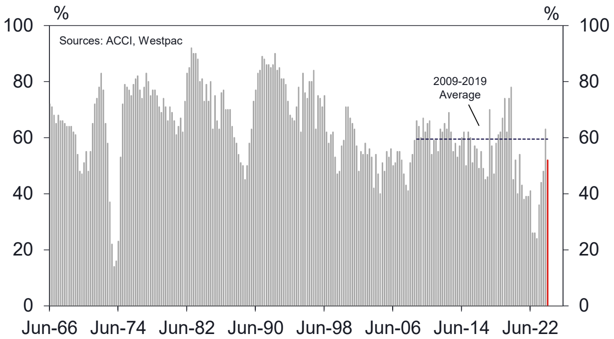
Factors limiting production

- Dynamics around the relative limitations of production suggest that concerns around supply-side issues returned to the fore, as demand conditions improved.
- "Orders" were less of a relative concern in June, cited by 52% of manufacturers as the single factor most limiting production, following a rebound in orders.
- This put the spotlight back on "labour" constraints, seeing the share of firms of identify this as the factor most limiting production rise from 15% to 23%, well above the 2009-19 average of 3%.
- "Material" shortages are less of a concern compared to last year, though at 6%, it remains above the 2% average observed between the GFC and pandemic.
- Given the prominence of the above three factors, the proportion of respondents identifying "capacity", "finance" or "other" as the single-most limiting factor are still below the 2009-19 average.

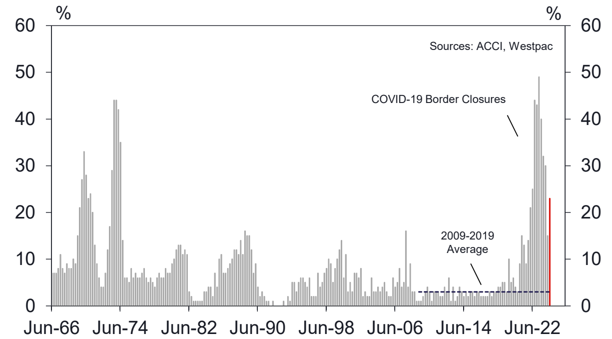
Factors limiting production

	Q4 2023	Q1 2024	Q2 2024
Orders (%)	48	63	52
Capacity (%)	4	5	9
Labour (%)	30	15	23
Finance (%)	0	0	3
Materials (%)	5	7	6
Other (%)	3	1	2
None (%)	10	9	5

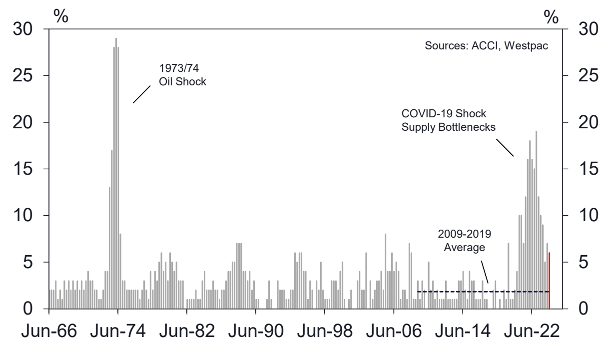
Orders: "single factor" most limiting production



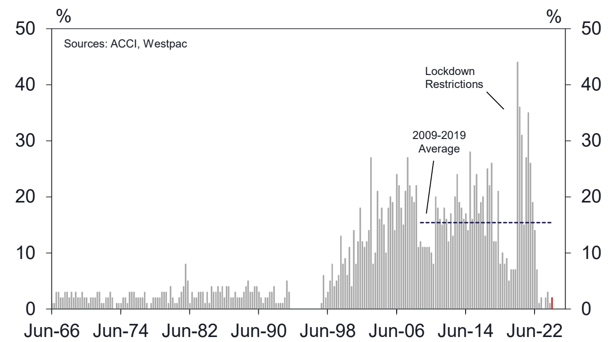
Labour: "single factor" most limiting production



Materials: "single factor" most limiting production



"Other": single factor most limiting production



Summary of results (not seasonally adjusted)

1. Do you consider that the general business situation in Australia will improve, remain the same, or deteriorate in the next six months?

Net balance	Improve	Same	Deteriorate
-42	9	40	51

2. At what level of capacity utilisation are you working?

Net balance	Above Normal	Normal	Below Normal
-21	21	37	42

3. What single factor is most limiting your ability to increase production?

None	5	**Orders**	52
Materials	6	**Finance**	3
Labour	23	**Capacity**	9
Other	2		

4. Do you find it is now harder, easier, or the same as it was three months ago to get:

		Net balance	Harder	Same	Easier
(a)	labour?	14	28	58	14
(b)	finance?	20	20	80	0

5. Do you expect your company's capital expenditure during the next twelve month to be greater, the same, or less than the past year:

		Net balance	Greater	Same	Less
(a)	on buildings?	19	28	63	9
(b)	on plant & machinery?	25	35	55	10

Excluding normal seasonal changes, what has been your company's experience over the past three months & what changes do you expect during the next three months in respect of:

		Change in position in the last three months				*Expected change during the next three months*			
		Net balance	Up	Same	Down	Net balance	Up	Same	Down
6.	Numbers employed	-7	23	47	30	0	14	72	14
7.	Overtime worked	-2	19	60	21	-9	5	81	14
8.	All new orders received	19	40	39	21	11	16	79	5
9.	Orders accepted but not yet delivered	21	27	67	6	12	13	86	1
10.	Output	11	33	45	22	12	21	70	9
11.	Average costs per unit of output	71	73	25	2	23	24	75	1
12.	Average selling prices	50	52	46	2	18	20	78	2
13.	Export deliveries	6	7	92	1	10	10	90	0
14.	Stock of raw materials	-8	2	88	10	-3	2	93	5
15.	Stocks of finished goods	-11	1	87	12	3	6	91	3

Summary of results (not seasonally adjusted)

16. Over the next twelve months do you expect your firm's profitability to:

(a) Improve?	19
(b) Remain unchanged?	62
(c) Decline?	19
Net balance	**0**

17. Do you expect your firm's next wage enterprise deal will produce annual rises which vis-a-vis the previous deal are:

(a) Greater?	30
(b) Same?	70
(c) Less?	0
Net balance	**30**

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	27
Textiles, fabrics, floor coverings, felt, canvas, rope	2
Clothing, footwear	1
Wood, wood products, furniture	6
Paper, paper products, printing	3
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	11
Non-metallic mineral products: glass, pottery, cement bricks	7
Basic metal products: processing, smelting, refining, pipes & tubes	1
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	9
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	7
Other machinery & equipment: electrical, industrial scientific, photographic	23
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	3

B. How many employees are covered by this return?

1-100	101-200	201-1000	Over 1000
24	7	14	55

C. In which state is the main production to which this return relates?

WA	SA	VIC	NSW/ACT	QLD	TAS
15	15	24	25	16	5

The Westpac-ACCI Composite Indices

The Westpac-ACCI Actual and Expected Composite indices are weighted averages of the activity measures in the survey. The weights are as follows: employment 20%; new orders 30%; output 25%; orders accepted but not delivered 15%; overtime 10%.

The Westpac-ACCI Labour Market Composite is a function of actual employment, with a weight of almost 50%, as well as: expected employment; expected overtime; new orders; order backlog; and expected order backlog.

This report was finalised on 20 June 2024
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