

ACCI–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

252nd report September 2024 (survey conducted from 5 August to 2 September 2024)

- The Westpac-ACCI Actual Composite gathered momentum moving into the second half of the year, lifting from 54.6 in June to 56.0 to September. Having moved above the breakeven threshold of 50, conditions are beginning to show signs of improving in the manufacturing sector. The September survey reported an ongoing recovery in new orders, a consolidation in output and a bounce in overtime, but a decline in employment.
- The main takeaway from this update is that manufacturers are finding some pockets of demand amid a tough backdrop for the broader economy and lingering supply-side challenges within the sector.
- Growth in new orders was firmer than expected, with a net 20% of firms reporting a rise in September, following a net 21% in June. Output growth was little-changed over the same period however, with a net 14% of firms reporting an increase. Firms are drawing on inventory stocks to meet demand, but in a context where output is less responsive, order backlogs are growing.
- Firms responded to the resilience in new orders via an increase in overtime. The latest survey found a net 11% of firms increased overtime in September, marking the first rise since December 2022. A net 12% of manufacturers are also looking to increase the size of their workforce over the next three months.
- The Expected Composite was virtually unchanged, ticking down slightly from 53.0 in Q2 to 52.9 in Q3, indicating firms still expect demand conditions to improve, albeit at a more modest pace than recent actual outcomes. Partially offsetting this, supply-side issues remain a key concern of manufacturers.
- The survey finds that cost pressures facing manufacturers remain acute and incredibly volatile. In September, a net 51% of firms reported a rise in average unit costs – albeit down from a net 71% in June, it is still well above the average net 19% that reported an increase over the ten years prior to the onset of the pandemic.
- Manufacturers have little scope to pass on rising costs to consumers, with a net 26% reporting a rise in prices – well below the net proportion of those that reported an increase in costs over the same period, implying that there is still a degree of ongoing margin squeeze in the sector.
- Additionally, a net 13.1% of respondents indicated that labour was more “difficult to find” in Q3, a modest increase from the net 11.7% in Q2. That is consistent with the evidence on the relative factor limitations to production, which find that both “labour” – and also “materials” – are still seen as a much larger constraint on output compared to pre-pandemic norms.
- 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 35% in September compared to a net 42% in June.
- Having faced persistent headwinds around labour availability and cost pressures, manufacturers are developing a clear appetite for capacity expansion. In the September survey, investment intentions forged ahead to a historic high (dating back to 1966), with a net 36% and 22% of respondents intending to increase investment spending on equipment and buildings respectively, over the next twelve months.

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[westpaciq.com.au](https://www.westpaciq.com.au)

Internet: www.westpac.com.au
Email: economics@westpac.com.au

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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.

Enquiries

Economics, Westpac Banking Corporation,
Email: economics@westpac.com.au.
Miranda Herron, Senior Consultant, Australian Chamber of Commerce and Industry

Editors

Ryan Wells, Economist, Westpac Banking Corporation & Miranda Herron, Senior Consultant, Australian Chamber of Commerce and Industry

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 252nd consecutive survey was closed on Monday, 2 September 2023

A total of **363** 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 November and December 2024.

Key survey results

Westpac-ACCI Composites (seasonally adjusted)

	Q2 2024	Q3 2024
Actual - composite index	54.6	56.0
Expected - composite index	53.0	52.9

- The Westpac-ACCI Actual Composite moved higher in the September quarter, rising from 54.6 to 56.0.
- Having moved above the breakeven threshold of 50, conditions are beginning to show signs of improving in the sector. An ongoing recovery in new orders and a bounce in overtime were the main drivers, while a decline in employment acted as a partial drag.
- The Expected Composite was virtually unchanged in September, ticking down slightly from 53.0 to 52.9. This suggests that firms still expect demand conditions to improve, albeit at a more modest pace compared to recent actual outcomes.

Westpac-ACCI Labour Market Composite

	Q2 2024	Q3 2024
Composite index	43.7	42.6

- 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 eased modestly, from 43.7 in Q2 to 42.6 in Q3.
- The Composite has undershot nationwide employment trends recently, reflecting uneven growth across the economy and the fact that labour shortages have been more acute for manufacturers.
- Official data from June 2024 reports that economy-wide employment growth has cooled to a pace of 1.6%yr, as the economic slowdown broadened.

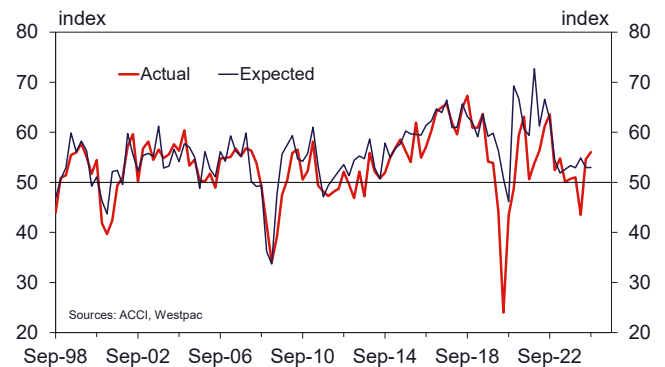
General business situation

	Q2 2024	Q3 2024
Net balance	-42	-35

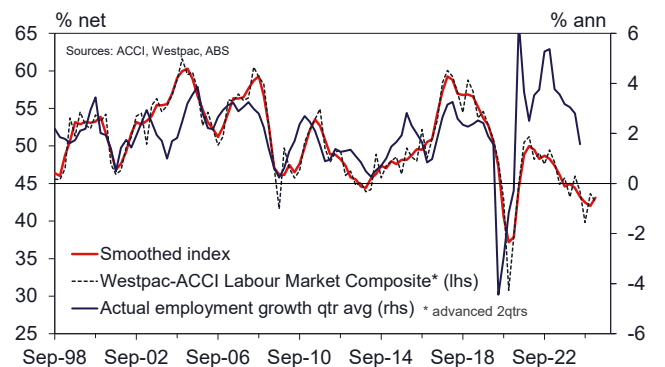
- Manufacturing sentiment around the general business outlook deteriorated rapidly over 2022 and 2023, as manufacturers were hit with a cost crisis and rapid interest rate increases.
- Sentiment continued to improve in September but remains at a deeply pessimistic level, with a net 35% of respondents expecting the general business situation to worsen over the next six months.
- Policy relief still has some time before it works its way through the economy, leaving the onus on how supply-side issues – surrounding costs and labour availability – evolve in the interim.

Westpac-ACCI Composite indexes

Actual & expected, sa

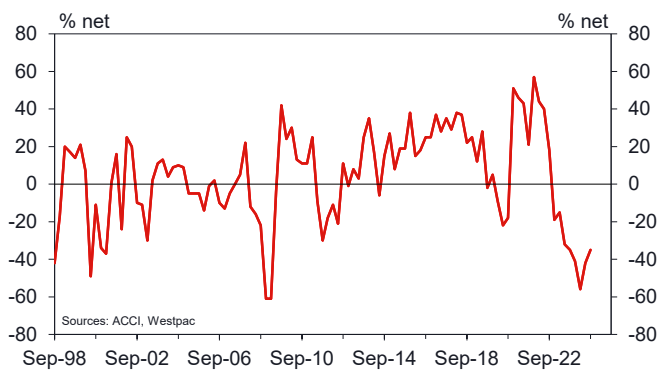


Labour composite & employment trends



General business situation

Next six months



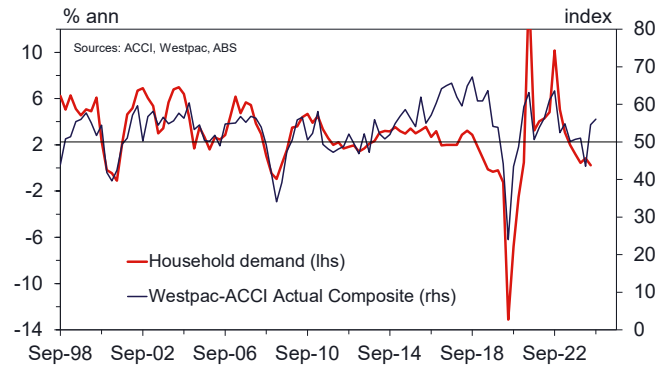
Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

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 Q2 National Accounts showcased a domestic economy that is stuck in the slow lane, underpinned by a weakening private economy. Pressures around the cost-of-living, high interest rates and a rising tax take are weighing heavily on the household sector. This is beginning to spill over into the business sector, seeing private demand slow to a stalling speed.
- Constructively, the latest survey suggests some manufacturers are finding pockets of demand amid a tough economic backdrop. Policy relief, in the form of tax cuts, are still yet to fully work their way through the economy, offering some scope for support ahead.

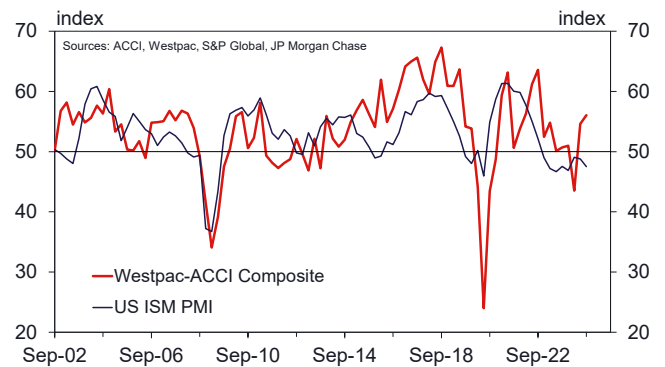
Manufacturing & the business cycle Westpac-ACCI Composite & household demand



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 advanced peer economies is struggling to gain momentum, buffeted by a soft global demand and disruptions to shipping routes. While Australian manufacturers have been relatively more insulated from these dynamics, concerns around costs and input constraints remain.
- In the US, the ISM PMI has slowed since the start of the year, easing to 47.2 in August. Europe's manufacturing sector is also stuck below the breakeven threshold, holding at 45.8 in August.

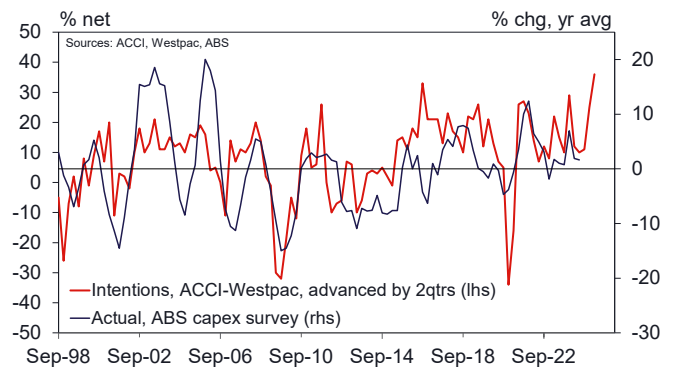
Australian & US manufacturing surveys Westpac-ACCI & ISM PMI indexes



Manufacturing & business investment

- The ACCI-Westpac survey broadly tracks equipment spending trends in the manufacturing sector.
- Official ABS data confirms that manufacturing equipment spending consolidated after the initial reopening 'burst'. From an initially robust pace of 4.9% in 2021/22, equipment investment in the manufacturing sector slowed to a tepid 1.0% in 2022/23, before improving to 1.6% in 2023/24.
- Investment intentions continued to forge ahead at a strong pace in the September survey, up to a fresh record high (dating back to 1966) for both plant/equipment and building projections.
- This suggests that manufacturers are developing a clear appetite for capacity expansion, having faced persistent pressures around costs and inputs.

Manufacturing equipment investment Intentions (survey) vs actuals (ABS data)



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Activity & orders

Output (seasonally adjusted)

	Q2 2024	Q3 2024
Actual - net balance	12	14
Expected - net balance	12	11

- The survey indicates that momentum in output growth broadly held its pace in September, with a net 14% of firms reporting an increase.
- This was broadly in line with manufacturers' own expectations from last quarter despite an unexpected degree of resilience in new orders.
- Firms are drawing on inventory stocks in order to meet demand, but in a context where output is less responsive, order backlogs are growing.
- Manufacturers anticipate output growth to edge down slightly, with a net 11% of firms expecting output to rise in December.

New orders (seasonally adjusted)

	Q2 2024	Q3 2024
Actual - net balance	21	20
Expected - net balance	10	7

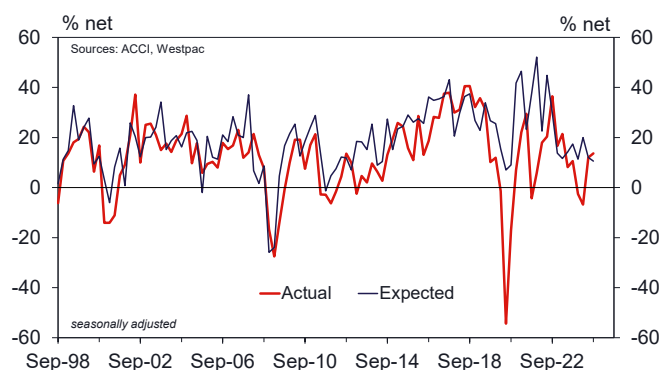
- Growth in new orders was firmer than expected in September, with a net 20% of manufacturers reporting an increase, in line with June's net 21%.
- The recent improvement in demand conditions suggests that firms are finding some pockets of demand amid a tough economic backdrop.
- Policy relief, in the form of tax cuts, are still yet to fully work their way through the economy, offering some scope for further support in the period ahead.
- Manufacturers remain somewhat circumspect on the outlook however, with only a net 7% expecting an increase in new orders over the next three months.

Exports

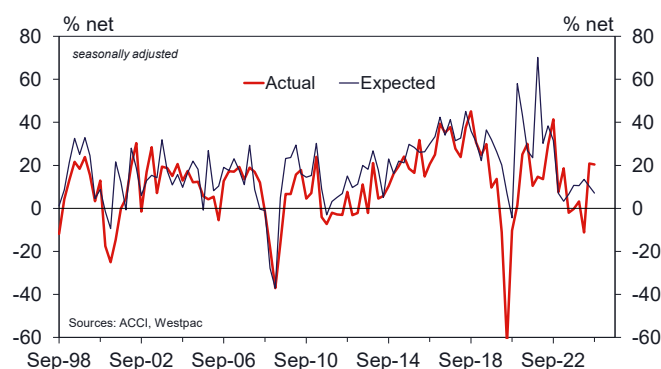
	Q2 2024	Q3 2024
Actual - net balance	6	10
Expected - net balance	10	2

- The latest survey finds that export conditions remain supportive.
- Exports were spot on with manufacturers own expectations, with a net 10% of firms reporting an increase over the September quarter.
- Domestic manufacturers have been relatively more insulated from recent disruptions to global shipping routes, which together with a competitive Australian dollar, has supported an extended period of gains.
- Looking ahead, firms expect exports to soften, with a net 2% of anticipate a rise in exports over the next three months.

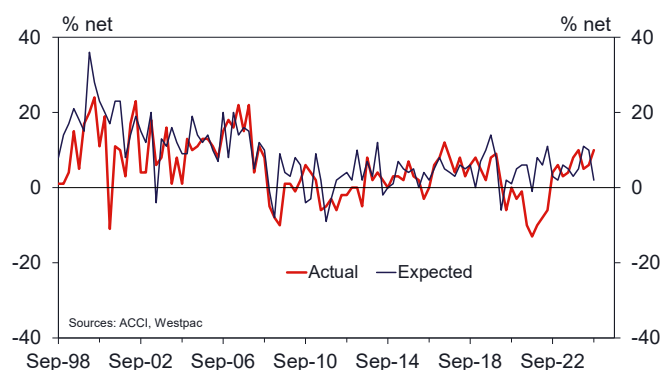
Output growth Actual & expected



New orders Actual & expected



Export deliveries Actual & expected



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Investment & profitability

Investment intentions

	Q2 2024	Q3 2024
Plant & Equipment - net balance	25	36
Building - net balance	19	22

- The rebound in investment intentions, which started to gather pace in Q2, continued to forge ahead in Q3, rising to a historic high (dating back to 1966).
- This was true across both plant/equipment and building projections for the year ahead, rising to a net 36% and a net 22% respectively.
- The latest result suggests that manufacturers are developing a clear appetite for capacity expansion, having faced persistent headwinds around labour availability and cost pressures for much of period following the reopening from COVID-19.

Capacity utilisation

	Q2 2024	Q3 2024
Net balance	-21	-4

- Capacity utilisation in the manufacturing sector continued to improve into the second half of 2024, in line with brisk growth in new orders.
- There were more firms operating at above average capacity (21% to 27%) and fewer firms operating at below average capacity (42% to 31%), resulting in a net 4% reporting underutilisation, closer in line with the five-year pre-pandemic average.
- Issues around labour availability and supply chains - while not as acute as last year - are still having some impact on firms' ability to operate at capacity.

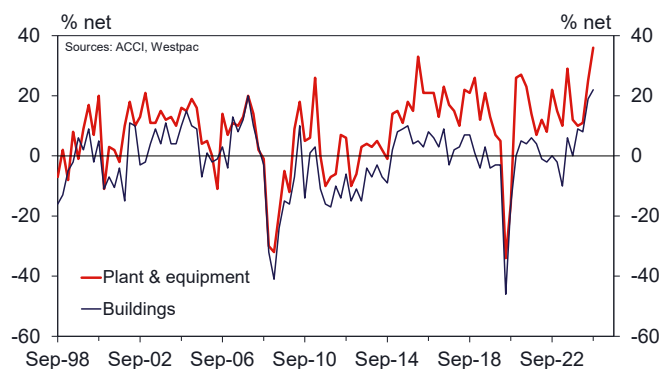
Profit expectations

	Q2 2024	Q3 2024
Net balance	0	3

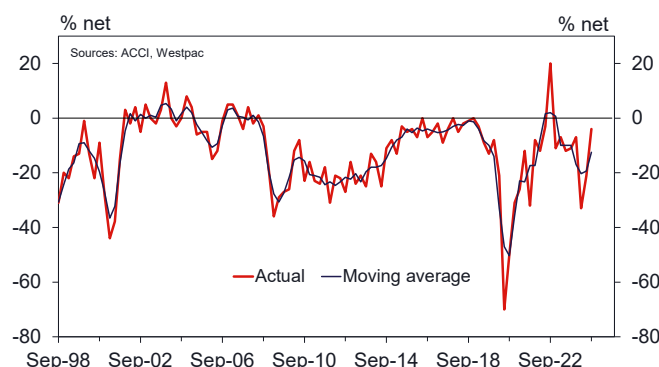
- Over the past three years, profit expectations have hovered around a 'neutral' level of zero, interspersed with occasional moves higher or lower.
- In September, manufacturers' expectations for profits lifted from neutral to modestly positive, with a net 3% of firms anticipating an increase over the coming year. That is, however, still well below the long-run average of a net 19% anticipating an increase.
- Robust demand over the past six months was certainly welcome, but lingering issues around elevated and volatile cost pressures continue to have a significant bearing over the sector's profitability.

Investment intentions

Next twelve months

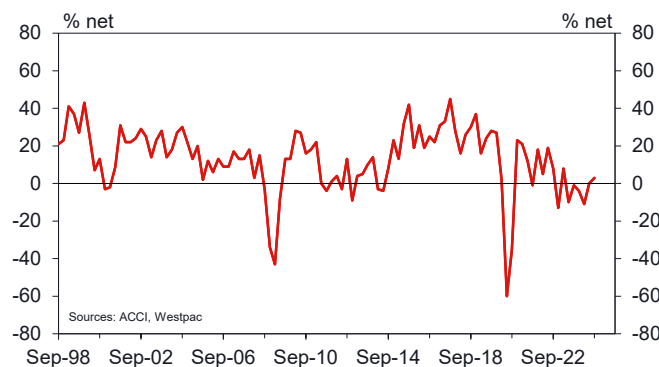


Capacity utilisation



Profit expectations

Next twelve months



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The labour market

Numbers employed (seasonally adjusted)

	Q2 2024	Q3 2024
Actual - net balance	-11	-5
Expected - net balance	0	12

- Manufacturers began calibrating the size of their workforce this year, in response to an extended stagnation in demand after the 'reopening' burst.
- That dynamic persisted into September, with a net 5% of firms reducing head count.
- Expectations suggest firms are positioned to increase their workforce over the next three months, with a net 12% anticipating a rise in employment.
- Whether these expectations can be met are an open question, given actual employment outcomes have undershot expectations over recent years, reflecting issues around the availability of skilled labour.

Overtime worked (seasonally adjusted)

	Q2 2024	Q3 2024
Actual - net balance	-4	11
Expected - net balance	-11	-11

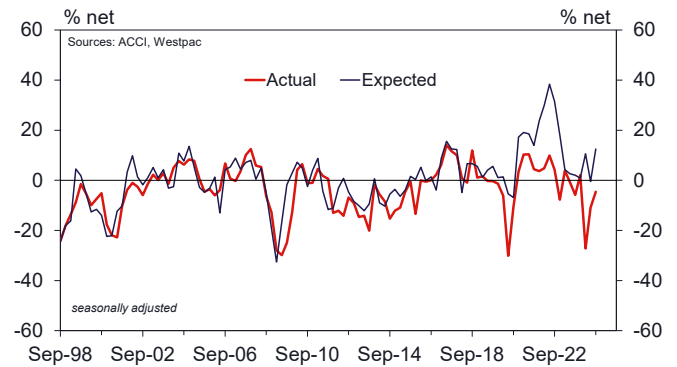
- Firms responded to a robust quarter for new orders via an increase overtime, the latest survey suggests. A net 11% of firms increased overtime in September, marking the first rise since December 2022.
- Manufacturers have utilised overtime as a means to retain flexibility over the past year - reducing hours in response to soft demand initially, and increasing hours following solid growth in new orders recently.
- Overtime expectations are unchanged from Q2 to Q3, with a net 11% of manufacturers continuing to anticipate a fall - the nuance this time, however, is that firms are looking to offset this with an increase in the size of their workforce.

Difficulty of finding labour (seasonally adjusted)

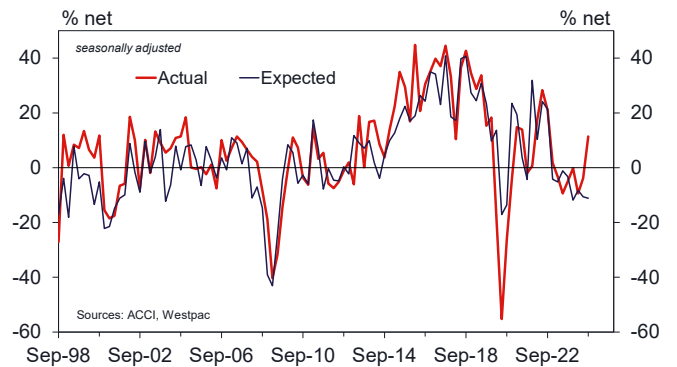
	Q2 2024	Q3 2024
Net balance	11.7	13.1

- 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.
- On balance, manufacturers reported modest increase in the difficulty to find labour, with a net 13.1% indicating that labour was "harder to find" in Q3.
- Labour availability is much less dire than it once was, following rapid growth in Australia's labour supply.
- The reopening dynamic is having varying impacts across different sectors though, with availability of skilled labour still clearly an issue for manufacturers.

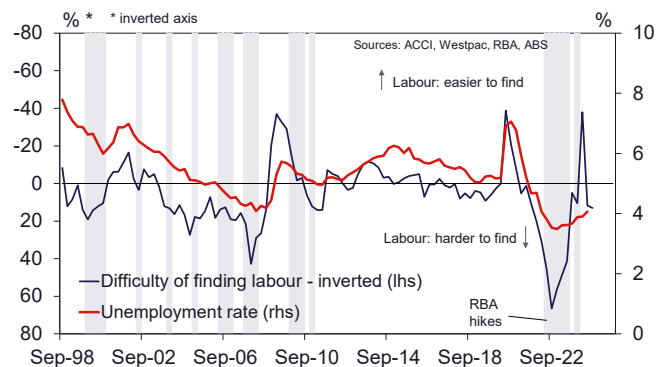
Numbers employed Actual & expected



Overtime worked Actual & expected



Labour market tightness



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Prices & inflation

Average unit costs

	Q2 2024	Q3 2024
Actual - net balance	71	51
Expected - net balance	23	12

- The survey still finds that the cost pressures facing manufacturers remain acute and incredibly volatile. In September, a net 51% of firms reported a rise in average costs, a step down from the net 71% in June.
- Over the past year, volatility in average unit costs – measured by standard deviation – was about twice as large as it was over 2009-19. Cost pressures also remain well above 'norms', tracking a net 54% on a year-average basis versus a net 19% over 2009-19.
- Expectations eased slightly, from a net 23% to a net 12%. There remains uncertainty however, given that manufacturers' cost expectations have undershot realised outcomes over the past two years.

Average selling prices

	Q2 2024	Q3 2024
Actual - net balance	50	26
Expected - net balance	18	9

- Following a step-down in unit cost pressures, the proportion of firms reporting an increase in prices also eased, from a net 50% in Q2 to a net 26% in Q3.
- That proportion is well below the net 51% reporting a rise in average unit costs over the same period, highlighting that manufacturers have little scope to pass on rising costs to consumers, implying margins continue to be squeezed across the sector.
- Despite this, firms still do not expect further large increases in selling prices, with a net 9% anticipating a rise over the next three months, implying some ongoing margin squeeze but to a lesser extent.

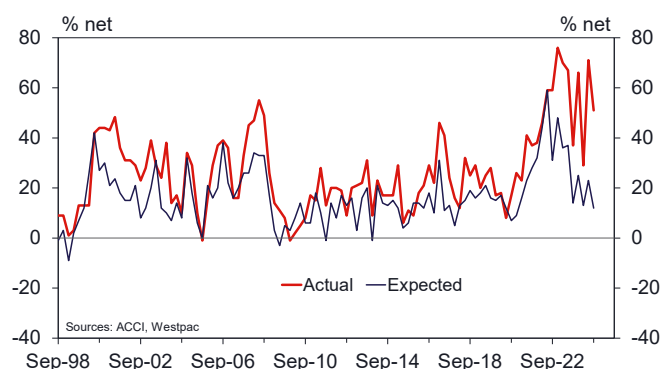
Manufacturing wages

	Q2 2024	Q3 2024
Net balance	30	36

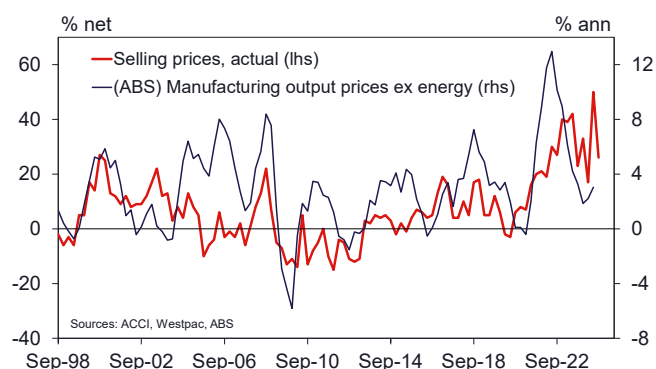
- Manufacturers continue to expect further upward pressure on wages, the survey finds.
- In September, a net 36% of respondents expect their next enterprise wage agreement to deliver an outcome above their last, up from a net 30% in June.
- While expectations remain elevated versus history, they have moved off its highs – a tone that is broadly consistent with official data on wage trends for the sector and the Fair Work Commission's decision.
- The ABS reports manufacturing wages are tracking a pace of 3.9%yr, down from a peak of 4.4%yr to be slightly below the economy-wide average of 4.1%yr.

Average unit costs

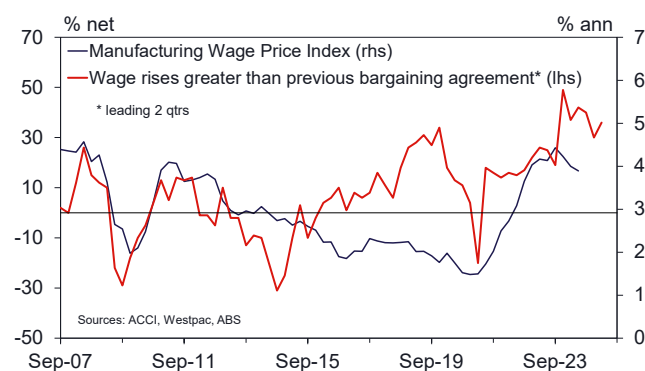
Actual & expected



Manufacturing upstream price pressures



Manufacturing wage growth



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Factors limiting production

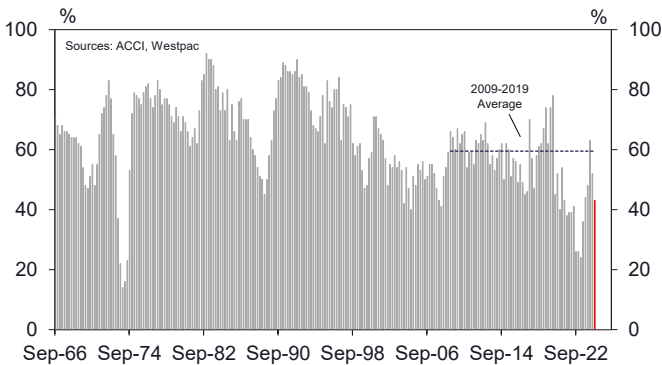
Factors limiting production

- "Orders" were cited by 43% of manufacturers as the single factor most limiting production, marking an ongoing downtrend from March as manufacturers continue to find some pockets of demand.
- "Labour" is still viewed as a significant factor limiting production, up slightly from 23% to 24%, to still be well above the 2009-19 average of 3%.
- "Material" shortages are less of a concern compared to last year, though at 6%, it is still clearly an issue, above the post-GFC and pre-COVID average of 2%.
- Given demand's resilience and that supply-side constraints are not as intense as they once were, 17% of respondents did not identify a factor that was limiting production, the highest since March 2005.

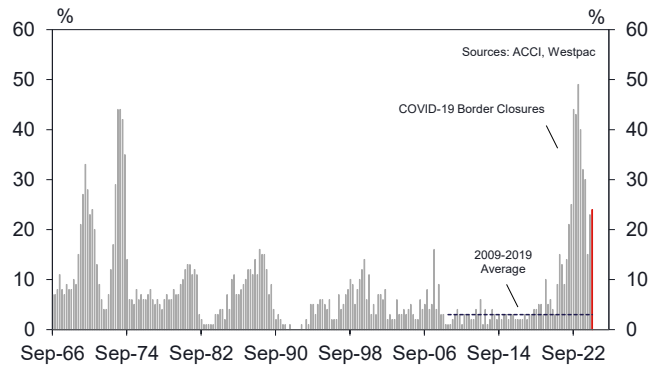
Factors limiting production

	Q1 2024	Q2 2024	Q3 2024
Orders (%)	63	52	43
Capacity (%)	5	9	8
Labour (%)	15	23	24
Finance (%)	0	3	0
Materials (%)	7	6	6
Other (%)	1	2	2
None (%)	9	5	17

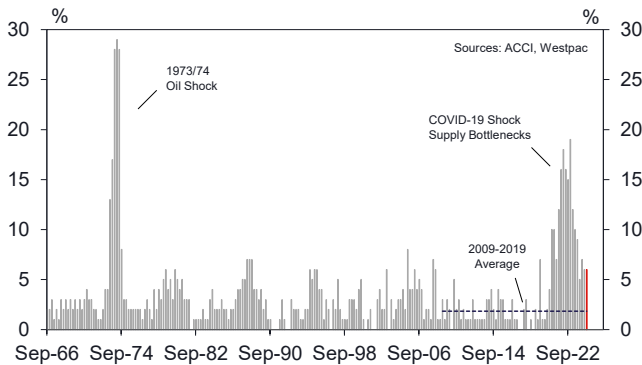
"Orders": single most limiting factor



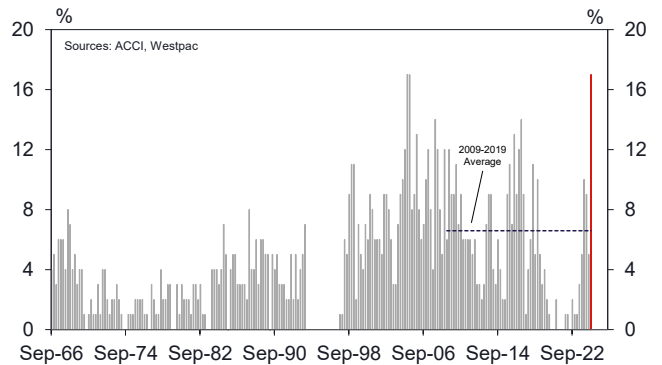
"Labour": single most limiting factor



"Materials": single most limiting factor



"None": single most limiting factor



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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
-35	12	41	47

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

Net balance	Above Normal	Normal	Below Normal
-4	27	42	31

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

None	17	Orders	43
Materials	6	Finance	0
Labour	24	Capacity	8
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	31	52	17
(b)	finance?	13	15	83	2

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?	22	27	68	5
(b)	on plant & machinery?	36	41	54	5

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:

	<i>Change in position in the last three months</i>			<i>Expected change during the next three months</i>				
	Net balance	Up	Same	Down	Net balance	Up	Same	Down
6. Numbers employed	-7	19	55	26	14	21	72	7
7. Overtime worked	7	28	51	21	-11	1	87	12
8. All new orders received	19	42	35	23	9	17	75	8
9. Orders accepted but not yet delivered	11	25	61	14	0	9	82	9
10. Output	20	47	26	27	5	16	73	11
11. Average costs per unit of output	51	54	43	3	12	13	86	1
12. Average selling prices	26	30	66	4	9	12	85	3
13. Export deliveries	10	12	86	2	2	5	92	3
14. Stock of raw materials	-2	4	90	6	-3	0	97	3
15. Stocks of finished goods	-10	1	88	11	-4	3	90	7

Summary of results (not seasonally adjusted)

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

(a) Improve?	23
(b) Remain unchanged?	57
(c) Decline?	20
Net balance	3

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?	36
(b) Same?	64
(c) Less?	0
Net balance	36

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	27
Textiles, fabrics, floor coverings, felt, canvas, rope	1
Clothing, footwear	1
Wood, wood products, furniture	6
Paper, paper products, printing	4
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	10
Non-metallic mineral products: glass, pottery, cement bricks	12
Basic metal products: processing, smelting, refining, pipes & tubes	2
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	7
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	6
Other machinery & equipment: electrical, industrial scientific, photographic	20
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	4

B. How many employees are covered by this return?

	1-100	101-200	201-1000	Over 1000
	20	4	18	58

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

	WA	SA	VIC	NSW/ACT	QLD	TAS
	15	15	23	25	16	6

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.



Corporate directory

Westpac Economics / Australia

Sydney

Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis

Chief Economist Westpac Group
E: luci.ellis@westpac.com.au

Matthew Hassan

Head of Australian Macro-Forecasting
E: mhassan@westpac.com.au

Elliot Clarke

Head of International Economics
E: eclarke@westpac.com.au

Justin Smirk

Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante

Senior Economist
E: pat.bustamante@westpac.com.au

Mantas Vanagas

Senior Economist
E: mantas.vanagas@westpac.com.au

Illiana Jain

Economist
E: illiana.jain@westpac.com.au

Ryan Wells

Economist
E: ryan.wells@westpac.com.au

Jameson Coombs

Economist
E: jameson.coombs@westpac.com.au

Neha Sharma

Economist
E: neha.sharma1@westpac.com.au

Westpac Economics / New Zealand

Auckland

Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold

Chief Economist NZ
E: kelly.eckhold@westpac.co.nz

Michael Gordon

Senior Economist
E: michael.gordon@westpac.co.nz

Darren Gibbs

Senior Economist
E: darren.gibbs@westpac.co.nz

Satish Ranchhod

Senior Economist
E: satish.ranchhod@westpac.co.nz

Paul Clark

Industry Economist
E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva

1 Thomson Street
Suva, Fiji

Shamal Chand

Senior Economist
E: shamal.chand@westpac.com.au



westpaciq.com.au

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