ACCI–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

244th report September 2022 (survey conducted from 8 August to 12 September)

- 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 index held in very strong territory, broadly unchanged at 64.6 following a 64.5 in June.
- The September result for the Composite was driven by an acceleration in output and new orders, to be at series highs and a little above the readings of 2018, but was constrained by a deterioration in employment in the sector, which stalled on labour shortages after posting a strong rebound in June.
- In short, the survey finds that the manufacturing sector experienced a burst of activity (increased output) in the September quarter, on a flood of new orders associated with the reopening effect from earlier lockdowns, as well as from other disruptions around covid and inclement weather.
- A net 45% of respondents reported an increase in new orders in September. The sector is benefitting from rising demand across consumers; business equipment investment; public infrastructure; as well as the agriculture and mining sector.
- The survey suggests that the reopening effect will likely fade in the December quarter. The Expected Composite index moderated to 60.8 from 67.5, with the pace of growth for output and new orders cooling, albeit to still reasonably robust levels. This moderation is also possibly due to some initial adverse impacts from the RBA's rapid fire interest rate hikes.
- While turnover is positive for the sector, labour and material shortages are resulting in spiralling costs.
- Manufacturers are facing into a labour shortage crisis, the survey suggests. Respondents were unable to expand their workforce in the quarter. A net 67.5% of respondents indicated that labour was "harder to find", up from 51.7% last quarter, the tightest conditions in the history of the series (dating back to 1974).
- These supply headwinds, around labour and material shortages, are hampering manufacturers' ability to produce on scale not seen since the early to mid-1970s.
- Cost pressures remained acute, with a net 59% of manufacturers reporting higher input costs. That is unchanged from the June quarter, at the highest reading since the high inflation days of 1985/86. The profit outlook deteriorated from a net 19% to a subdued net 8%, impacted by margin squeeze.
- The clear message from this survey, echoing that from the June update, is that consumers should brace for further sharp price increases.

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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.

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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 244th consecutive survey was closed on 12 September 2022.

A total of **232** 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 2022.

Key survey results

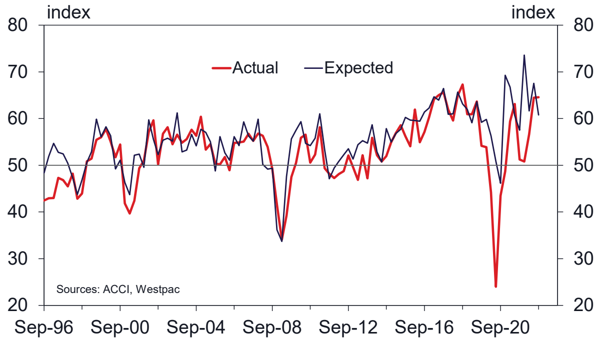
Westpac–ACCI Composites (seasonally adjusted)

	Q2 2022	Q3 2022
Actual – composite index	64.5	64.6
Expected – composite index	67.5	60.8

- The Westpac-ACCI Actual Composite held in very strong territory, broadly unchanged at 64.6 in Q3.
- With a reading firmly above 50, this indicates that conditions are expanding at a robust pace. This is evidence of strength in underlying demand midyear, which drove output and new orders to a series high, a little above their 2018 levels.
- Issues around materials and labour inputs, including covid related sick leave, are still present in Q3, with employment flat and an easing in the use of overtime.
- The Expected Composite eased from 67.5 to 60.8 in Q3 as respondents anticipate a waning of the reopening effect.

Westpac-ACCI Composite indexes

Actual & expected, sa

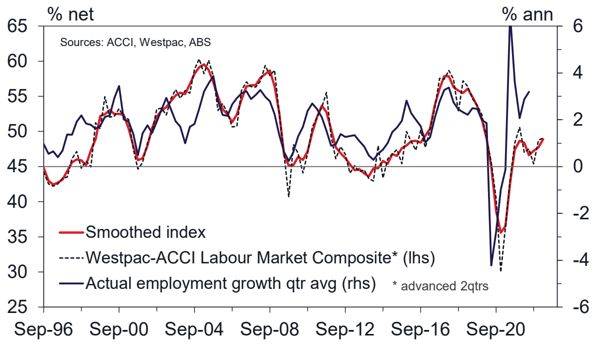


Westpac–ACCI Labour Market Composite

	Q2 2022	Q3 2022
Composite index	48.8	49.0

- The survey historically 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 was little changed, at 49.0, from 48.8 in Q2. That is still short of the 50.6 ahead of delta, but still well up from the lows of 2020.
- The Composite is currently undershooting nationwide employment trends - this may reflect uneven growth across the economy and that labour shortages appear to be more acute for manufacturers.
- Official figures report annual employment growth at 3.2% in the June quarter - likely skewed towards service segments during this phase of the reopening.

Labour Composite and employment trends



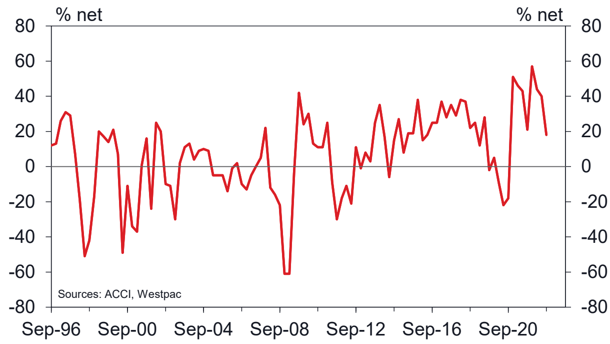
General business situation

	Q2 2022	Q3 2022
Net balance	40	18

- Manufacturing sentiment about the general business outlook proved to be buoyant in the June quarter, in line with the mid-year burst in activity.
- Move forward to the September quarter, sentiment has been marked down materially - albeit to levels still in the optimistic zone. A net 18% of respondents anticipate the general business situation will improve over the next six months, down from 40%.
- This cooling of the business mood is consistent with the likelihood that the reopening bust of activity is fading.
- With the RBA set to raise interest rates beyond "neutral", into outright contractionary territory, the risk is for a further weakening of business sentiment.

General business situation

Next six months

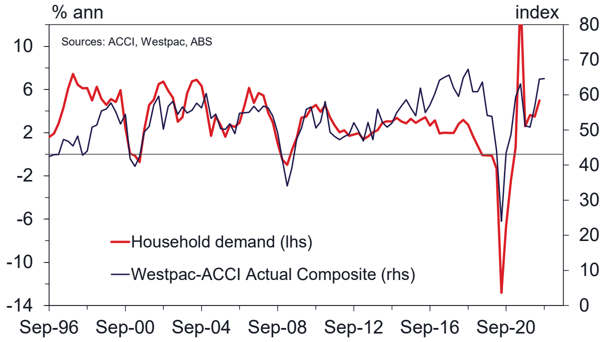


The business cycle & economic outlook

Manufacturing & the business cycle

- The Westpac-ACCI Actual Composite index has a solid track record of predicting near-term domestic economic conditions and identifying turning points in the cycle.
- Fluctuations in the stringency of health restrictions have been central to the consumer's ability to spend during the pandemic and in turn the fortunes of the manufacturing sector.
- The ongoing rebound in activity from the conclusion of lockdowns, and passing of weather related disruptions earlier this year, is associated with improved economic conditions.
- The manufacturing sector retained strong momentum in the September quarter, in line with strengthening consumer demand, as well as rising demand for business equipment and public infrastructure.

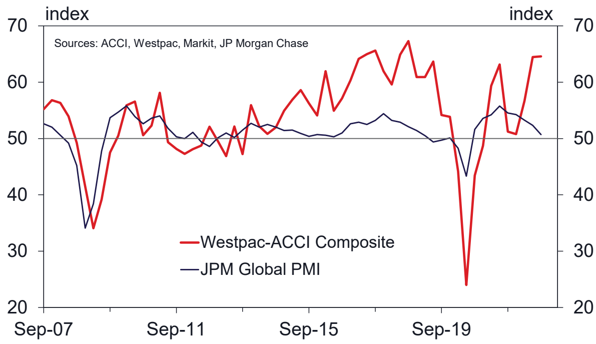
Manufacturing and the business cycle
Westpac-ACCI Composite & household demand



Australian & World manufacturing surveys

- Global and Australian manufacturing cycles tend to be synchronised, especially at major turning points. Historically, the Westpac-ACCI Actual Composite has moved broadly in line with global manufacturing conditions.
- Global manufacturing PMIs plummeted in April 2020 at the outset of the pandemic. Subsequently, the sector globally experienced a rapid recovery.
- Moving into the second half of 2022, the manufacturing sector globally has - in aggregate - begun to cool.
- Eurozone and China manufacturing PMIs have dipped into contractionary territory, moderating to 49.6 and 49.5 respectively, reflecting a loss of momentum impacted by the Ukraine war and ongoing virus disruptions. The US manufacturing ISM printed a more robust 52.8 for August.

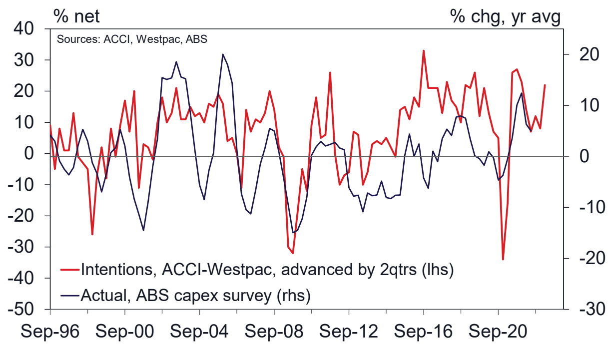
Australian & World manufacturing surveys
Westpac-ACCI & Global PMI indexes



Manufacturing & business investment

- The ACCI-Westpac survey has a solid track record of tracking trends in equipment investment across the manufacturing sector.
- The survey finds that manufacturers' investment intentions are positive and strengthened in the September quarter. A net 22% of respondents intend to increase equipment spending over the next 12 months, up from 8% in June.
- Official ABS data confirm a positive trend in equipment spending by the sector during 2021/22, increasing by 5% in real terms on the level of spending the financial year prior.
- The ABS survey was also positive on the equipment spending outlook for the sector - with the 3rd estimate of 2022/23 capex plans some 13% above the corresponding estimate the year prior.

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



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.

Activity & orders

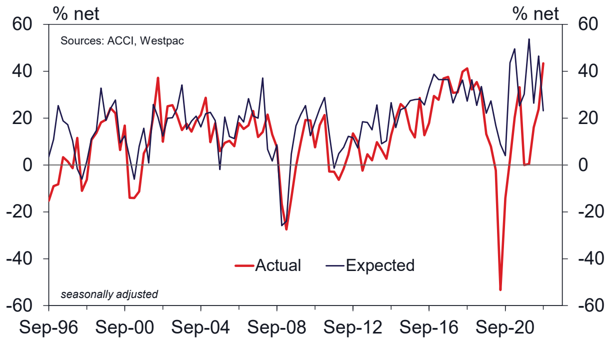
Output (seasonally adjusted)

	Q2 2022	Q3 2022
Actual – net balance	24	43
Expected – net balance	46	23

- The survey indicates an acceleration in momentum, with manufacturing output advancing to a series high in the September quarter. A net 43% of firms increased output through Q3, up from a net 24%, and a little above the 2018 high of 41%.
- This was associated with a flood of new orders and fewer disruptions - albeit some disruptions have continued and supply headwinds are a constraint.
- Expectations have eased back materially. A net 23% of firms expect output to rise over the next quarter, down from 46%. That is a little below the decade average and the softest since September 2020.
- This is consistent with a fading of the reopening effect and may signal that rate hikes are impacting.

Output growth

Actual & expected



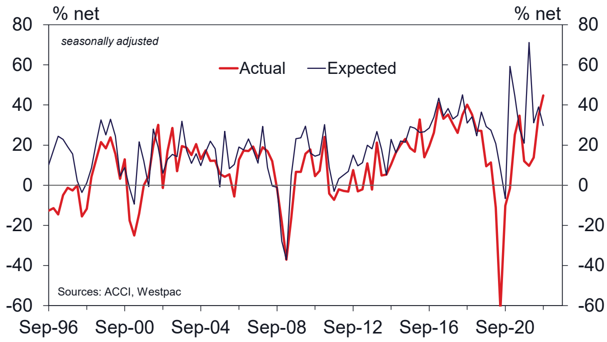
New orders (seasonally adjusted)

	Q2 2022	Q3 2022
Actual – net balance	35	45
Expected – net balance	39	30

- Growth in new orders forged ahead to a series high in September, with a net 45% of respondents reporting rising new orders in the quarter. That is up from 35% and eclipses the highs of 2018.
- Mid-year strength in new orders reflects rising demand across: consumer spending; business equipment investment; public infrastructure; as well as the agriculture and mining sector.
- With the fading of the reopening effect, new orders look set to expand at a slower rate going forward.
- Expectations moderated in September, to a net 30% from a net 39%, a reading only a little above the decade average.

New orders

Actual & expected



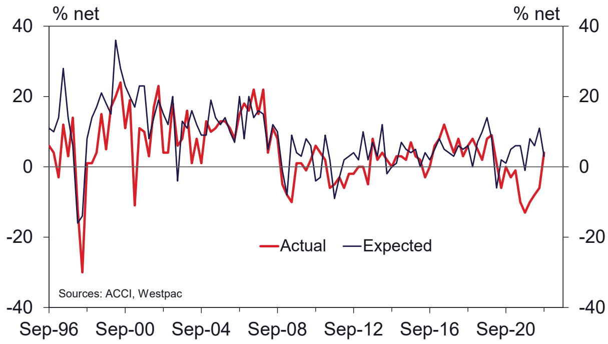
Exports

	Q2 2022	Q3 2022
Actual – net balance	-6	4
Expected – net balance	11	3

- Exports conditions have finally improved, the survey reports.
- Exports rose over the September quarter, with a net 4% of firms reporting an increase. This marks the first positive reading on exports since the onset of the pandemic in March 2020.
- Headwinds around freight costs and shipping availability have eased somewhat, so too domestic disruptions, lending some support to export deliveries.
- Expectations remained positive in Q3, with a net 3% of respondents anticipating an increase in exports over the next three months.

Export deliveries

Actual & expected



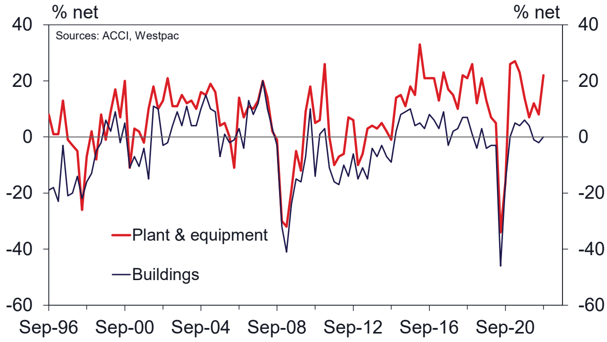
Investment & profitability

Investment intentions

	Q2 2022	Q3 2022
Plant & Equipment – net balance	8	22
Building – net balance	-2	0

- Investment intentions bounced notably in the September survey, consistent with the acceleration in output growth and capacity constraints. Firms are looking to invest with a much greater degree of confidence last seen in late 2020, early 2021 - when Australia emerged from the initial lockdown.
- A net 22% of firms are intending to increase plant and equipment investment over the next 12 months, well above the net 8% in Q2 2022 and similar to the net 23% prior to the 'delta' outbreak in Q2 2021.
- Building projections for the year ahead remain broadly unchanged at a soft level. On balance, firms are neither planning to increase or decrease building investment over the next 12 months.

Investment intentions
Next twelve months

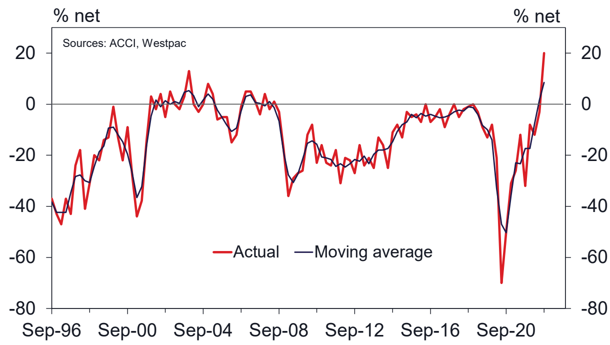


Capacity utilisation

	Q2 2022	Q3 2022
Net balance	-3	20

- Fewer virus and weather disruptions in the June quarter saw less firms operating at below average levels of capacity, with the proportion of firms reporting underutilisation moving from a net 12% in March to a net 3% in June.
- Moving forward to the September quarter, and firms are now operating well beyond normal or average capacity levels.
- A greater proportion of firms are operating above capacity (15% to 31%) and fewer firms are operating below capacity (18% to 11%), contributing to the net 20% of firms operating above average capacity.
- This is the highest level of capacity utilisation since Q3 1973, marking the first period since Q2 2008 whereby firms have reported overutilisation.

Capacity utilisation

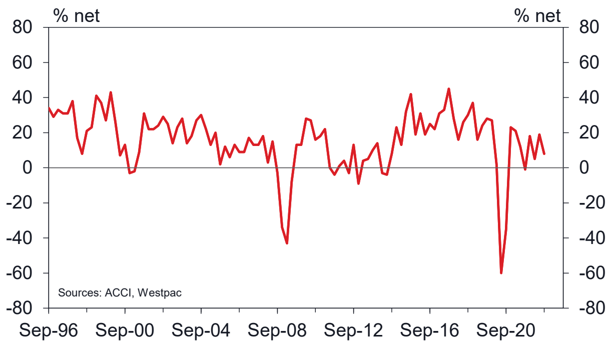


Profit expectations

	Q2 2022	Q3 2022
Net balance	19	8

- The profitability of the manufacturing sector rebounded in Q2 to an underwhelming net +19%. That was off a weak base associated with virus and weather disruptions.
- In the latest survey, profit expectations weakened to be subdued, with only a net 8% of firms anticipating that profits will rise in the coming year. This is well below the long-run average of a net 20%.
- This soft result is despite reasonably robust expectations around turnover - evidence that margins in the sector are under intense downward pressure, squeezed by spiralling costs and the limited ability to pass on those higher costs.

Profit expectations
Next twelve months



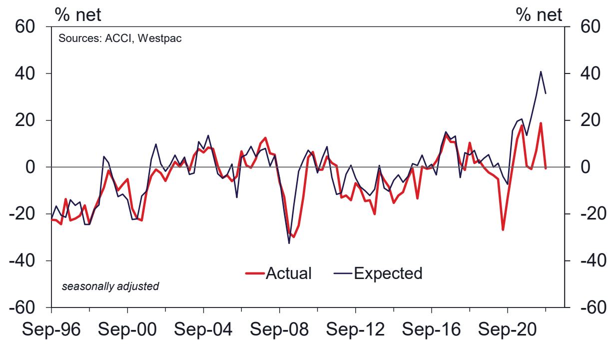
The labour market

Numbers employed (seasonally adjusted)

	Q2 2022	Q3 2022
Actual – net balance	19	–1
Expected – net balance	41	31

- Numbers employed in the sector during the September quarter were broadly unchanged, with a net 1% of firms reporting a reduction in hiring for Q3.
- This stalling of numbers employed highlights firms' difficulties in finding labour.
- It is surprising then that respondents were able to significantly expand output in the period - at face value implying a marked lift in productivity.
- While employment expectations are positive, at a net 31%, outcomes have fallen well short of expectations for the five quarters from September 2021.
- An ongoing inability to grow the workforce will materially constrain further gains in output.

Numbers employed
Actual & expected

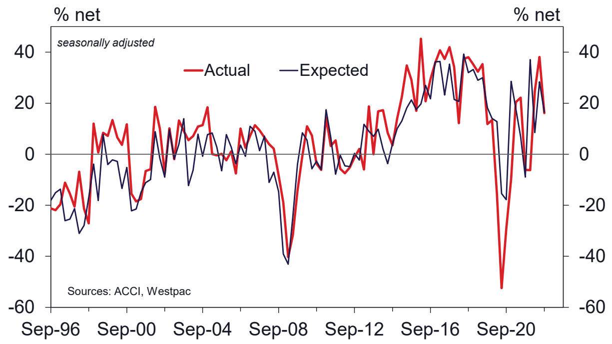


Overtime worked (seasonally adjusted)

	Q2 2022	Q3 2022
Actual – net balance	38	16
Expected – net balance	28	16

- Manufacturers are turning to overtime to expand output at a time of labour shortages - albeit the ability to do so is impacted in some periods by lockdowns and increases in sick leave.
- In the September quarter, there was a marked moderation in the use of overtime, though it remains at a positive level. This is somewhat surprising given the rise in output and flat employment - potentially evidence that covid sick leave remains elevated.
- A net 16% of companies reported an increase in overtime in Q3, down from a net 38% in Q2 and short of earlier expectations. For Q4, expectations are a net 16%, down from 28%.

Overtime worked
Actual & expected

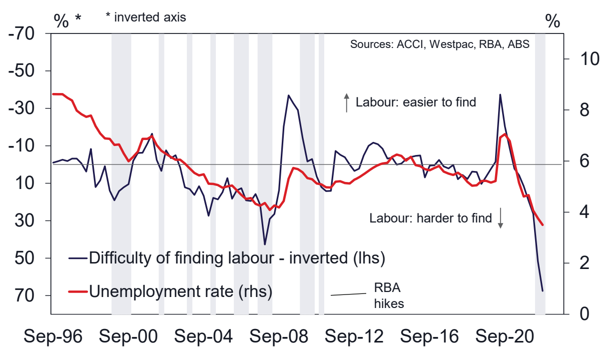


Difficulty of finding labour (seasonally adjusted)

	Q2 2022	Q3 2022
Net balance	51.7	67.5

- 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.
- In this update, it is clear that manufacturers are facing a labour supply crisis.
- A net 67.5% of respondents indicated that labour was "harder to find", the tightest conditions in the history of this series, dating back to 1974, and compares with an end 2007 reading of 42.8.
- A critical undersupply of labour at a time of strong demand has the unemployment rate at 3.5%, the lowest level since 1974. With the labour market set to tighten further, firms will likely continue to find difficulty in sourcing labour.

Labour market tightness



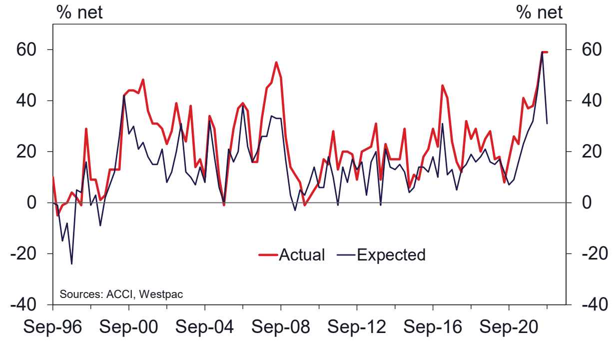
Prices & inflation

Average unit costs

	Q2 2022	Q3 2022
Actual – net balance	59	59
Expected – net balance	59	31

- In the September quarter, input cost pressures remained acute, with a net 59% of manufacturers reporting higher input costs - unchanged from June and the highest readings since the 1985/86 period.
- Both "labour" and "materials" continue to be cited as constraints to output expansion at historically elevated levels - dynamics that are eroding profitability in the sector through rising costs.
- Manufacturers expect that cost pressures will ease but remain at an uncomfortable level, with a net 31% of respondents anticipating average costs will rise further in the period ahead. Softening global oil prices are supporting firms' expectations.

Average unit costs
Actual & expected

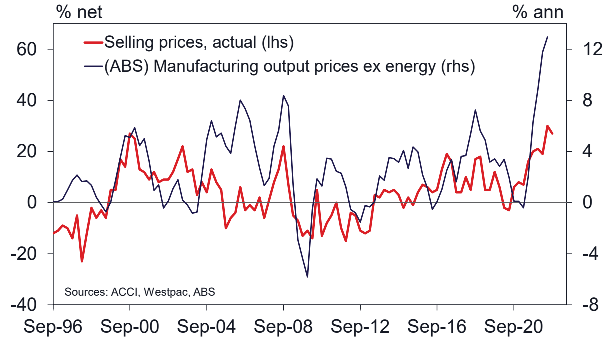


Average selling prices

	Q2 2022	Q3 2022
Actual – net balance	30	27
Expected – net balance	36	25

- Margins are being squeezed with only a partial pass through of spiralling costs to consumers. Selling price increases continue to trail the rise in average costs.
- This dynamic was again evident in the September quarter and will likely continue. The proportion of firms reporting an increase in selling prices was 27% in the period, down from 30% last quarter. That is substantially below the net 59% reporting a rise in average unit costs over the same period.
- A net 25% of respondents expect selling prices will rise over the next three months. Should firms' expectations on cost pressures materialise, the pressure on margins should then ease.

Manufacturing upstream price pressures

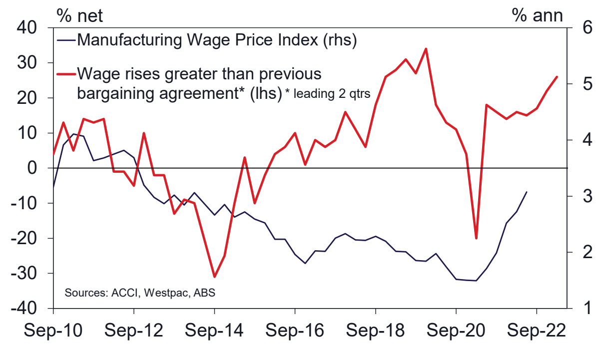


Manufacturing wages

	Q2 2022	Q3 2022
Net balance	22	26

- Wage pressures are building as the labour market tightens further, the survey finds. Respondents expect further upward pressure in future enterprise bargaining agreements.
- In the September quarter, a net 26% of respondents anticipate that their next enterprise wage agreement will deliver an outcome above their last. That is an increase from the a net 17% and 22% in Q1 and Q2.
- The tone of the survey is broadly consistent with official data on wage trends in the sector. The ABS reports manufacturing wages are accelerating sharply, with annual growth climbing to a little in excess of 3% - matching the high of 2014, and together the strongest outcomes since 2012.

Manufacturing wage growth



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Factors limiting production

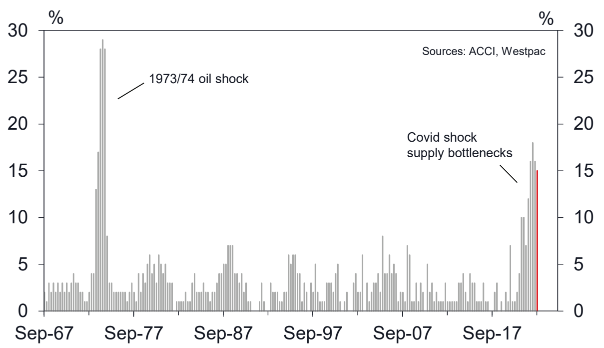
Factors limiting production

- The latest survey confirms that the manufacturing sector is facing ongoing significant supply headwinds.
- "Material" constraints have been a factor over the year, and remain so in the September quarter - the most acute since the 1973/74 oil shock.
- In line with the sharp deterioration in firms' ability to source labour, 44% of manufacturers cite "labour" as the single factor most limiting production. This is in line with the series high in Q2/Q3 1973 associated with the oil shock.
- Firms identifying "other" as the single factor most limiting production continued to moderate, from 14% to 7%, as COVID-19 related disruptions fade.
- Respondents citing "orders" as the single factor most limiting production fell to 26%, well below the long run average of 64%.

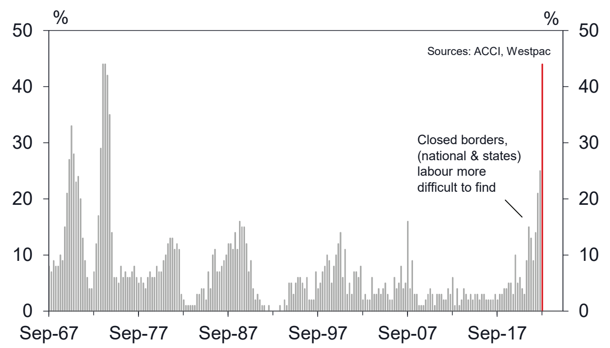
Factors limiting production

	Q1 2022	Q2 2022	Q3 2022
Orders (%)	39	41	26
Capacity (%)	2	2	6
Labour (%)	21	25	44
Finance (%)	0	2	0
Materials (%)	18	16	15
Other (%)	19	14	7
None (%)	1	0	2

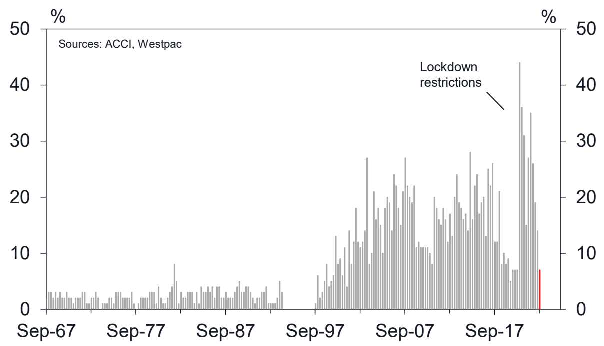
Materials: "single factor" most limiting production



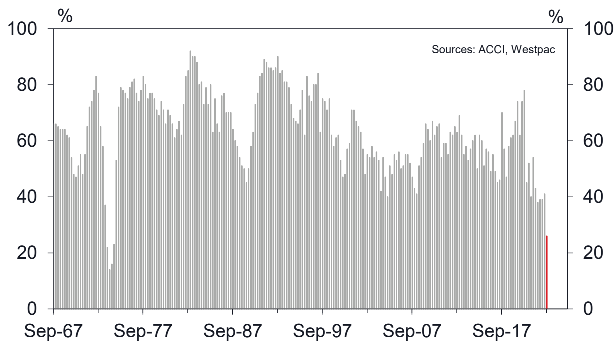
Labour: "single factor" most limiting production



"Other": single factor most limiting production



Orders: "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
18	37	44	19

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

Net balance	Above Normal	Normal	Below Normal
20	31	58	11

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

None	2	Orders	26
Materials	15	Finance	0
Labour	44	Capacity	6
Other	7		

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?	68	71	26	3
(b)	finance?	-6	9	76	15

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?	0	19	62	19
(b)	on plant & machinery?	22	37	48	15

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 3 months				*Expected change during the next 3 months*			
		Net balance	Improve	Same	Down	Net balance	Improve	Same	Down
6.	Numbers employed	2	15	72	13	32	35	62	3
7.	Overtime worked	15	22	71	7	19	24	71	5
8.	All new orders received	37	44	49	7	32	36	60	4
9.	Orders accepted but not yet delivered	13	16	81	3	3	10	83	7
10.	Output	42	47	48	5	22	28	66	6
11.	Average costs per unit of output	59	60	39	1	31	31	69	0
12.	Average selling prices	27	30	67	3	25	25	75	0
13.	Export deliveries	4	9	86	5	3	7	89	4
14.	Stock of raw materials	6	11	84	5	8	15	78	7
15.	Stocks of finished goods	-1	10	79	11	5	10	85	5

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?	62
(c) Decline?	15
Net balance	**8**

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?	26
(b) Same?	74
(c) Less?	0
Net balance	**26**

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	30
Textiles, fabrics, floor coverings, felt, canvas, rope	2
Clothing, footwear	2
Wood, wood products, furniture	4
Paper, paper products, printing	3
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	8
Non-metallic mineral products: glass, pottery, cement bricks	8
Basic metal products: processing, smelting, refining, pipes & tubes	4
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	5
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	2
Other machinery & equipment: electrical, industrial scientific, photographic	22
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	10

B. How many employees are covered by this return?

1-100	101-200	201-1000	Over 1000
26	9	24	41

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

WA	SA	VIC	NSW/ACT	QLD	TAS
15	15	22	25	17	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.

This report was finalised on 20 September 2022
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Things you should know.

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