ACCI–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

246th report March 2023 (survey conducted from 13 February 2023 to 6 March 2023)

- 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 in the March survey, up to 55.0 from 49.0, but is still well down from the mid-2022 highs of around 65.
- The result represents a partial rebound to a modest expansion in the March quarter - but in the context of a trend downturn. The survey reported similar expansions in output and new orders in March and a modest increase in employment – broadly in line with December quarter expectations.
- Across the Australian economy, the fading of earlier tailwinds and intensifying headwinds from high inflation and sharply rising interest rates are contributing to a downbeat outlook for demand. At the same time, labour shortages and cost pressures continue.
- The Expected Composite eased from 54.9 to 52.1. That is the softest reading since 2014, outside of the mid-2020 pandemic low.
- The general business mood is deeply pessimistic, with a net 15% of respondents anticipating that the general business situation will worsen over the next six months, little changed from -19% last quarter and together around the lows of mid-2020, when the pandemic began.
- New orders, having stalled in Q4, bounced to a mildly positive level, with a net 18% of respondents reporting a rise. This represents a material cooling from the burst evident in Q2 and Q3 last year which was associated with the reopening. Expectations for new order are subdued, as they were in Q4, with only a net 4% of respondents anticipating a rise next quarter.
- Manufacturer's investment intentions have moderated, consistent with the unfolding downturn. A net 10% of firms are intending to increase plant and equipment investment over the next 12 months, down from 15% last quarter and well down on 22% in September.
- The survey provides further confirmation that manufacturers are facing into a cost crisis and a significant loss of competitiveness.
- In the March quarter, input cost pressures remained acute, with a net 70% of manufacturers reporting higher input costs – little changed from December's net 76% and among the highest readings since 1982.
- Labour shortages remain intense, albeit they have eased somewhat over the past half year as the economy slowed and with immigration numbers lifting on the national border reopening. A net 42.3% of respondents indicated that labour was "harder to find" - off the series high of 67.5% in Q3.

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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 246th consecutive survey was closed on 6 March 2022.

A total of **243** 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 May and June 2023.

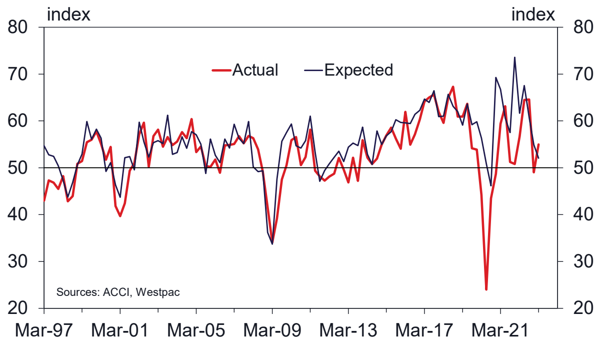
Key survey results

Westpac–ACCI Composites (seasonally adjusted)

	Q4 2022	Q1 2023
Actual – composite index	49.0	55.0
Expected – composite index	54.9	52.1

- The Westpac-ACCI Actual Composite improved in the March survey, up to 55.0 from 49.0, but is still well down from the mid-2022 highs of around 65.
- The result represents a partial rebound to a modest expansion – but in the context of a trend downturn. The survey reported similar expansions in output and new orders in March and a modest increase in employment – broadly in line with Q4's expectations.
- The fading of earlier tailwinds and sharpy higher interest rates are contributing to a downbeat outlook for demand, while labour shortages and cost pressures continue. The Expected Composite eased from 54.9 to 52.1. That is the softest reading since 2014 (outside of the pandemic low of mid-2020).

Westpac-ACCI Composite indexes
Actual & expected, sa

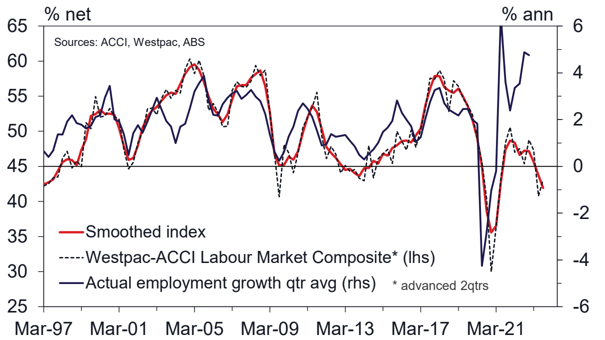


Westpac–ACCI Labour Market Composite

	Q4 2022	Q1 2023
Composite index	43.4	43.1

- 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 was broadly unchanged, from 43.4 to 43.1 in Q1, a weak reading but well above the 2020 low of 30.
- 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 data reports strong employment growth over the 2022 year, at 4.8% to the December quarter. However, growth slowed to 2.2% annualised over the final months of the year as the economy slowed.

Labour Composite and employment trends

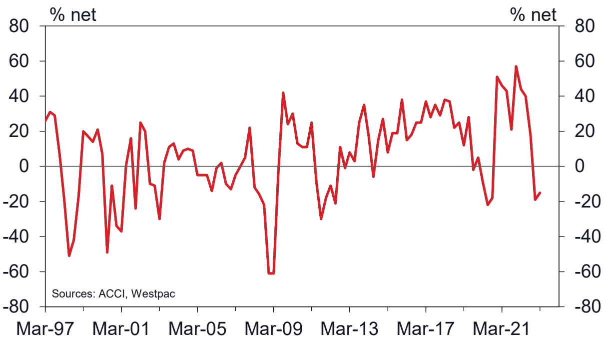


General business situation

	Q4 2022	Q1 2023
Net balance	–19	–15

- Manufacturing sentiment about the general business situation plummeted from +40 in mid-2022 to be deeply pessimistic in the December quarter, reflecting a sudden stalling in demand after a significant burst.
- Move forward to the March quarter, and sentiment remains weak. A net 15% of respondents anticipate the general business situation will worsen over the next six months, little changed from the -19% in Q4, around the lows of mid-2020 as the pandemic began.
- The pessimistic business mood is consistent with the fact that manufacturers are facing into an intense cost crisis and a prospective slowdown in demand.
- With the cumulative impact of the RBA's tightening cycle yet to fully impact, the risk is for a further weakening in business sentiment during 2023.

General business situation
Next six months



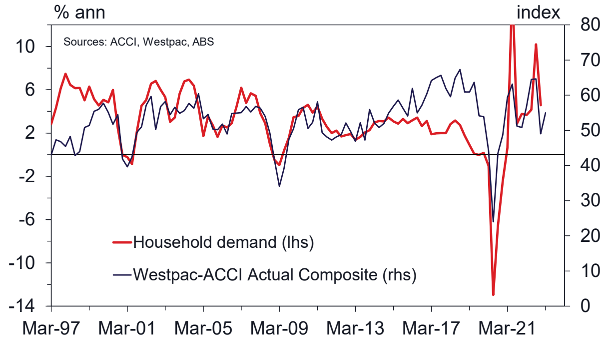
The business cycle & economic outlook

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.
- The rebound in activity, associated with the conclusion of lockdowns and tailwinds from earlier policy stimulus, saw a material improvement in economic conditions over most of last year.
- In 2023, the manufacturing sector is looking into a clear slowdown in broader activity, compounded by surging costs and persistent headwinds around the availability of labour and materials.
- With the cumulative impact of interest rate increases yet to fully materialise, conditions in the manufacturing sector are at risk of slowing further over the period ahead.

Manufacturing and the business cycle

Westpac-ACCI Composite & household demand

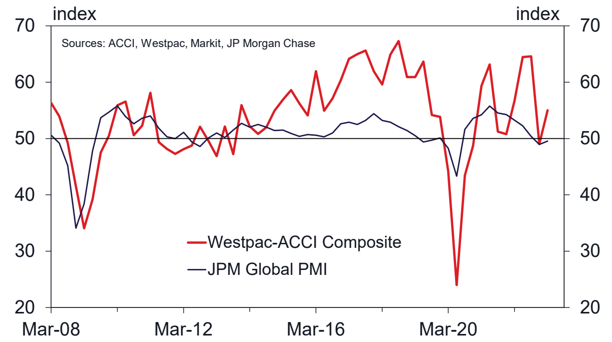


Australian & World manufacturing surveys

- 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 begun to cool in the second half of 2022, as central banks tightened policy and supply-side disruptions persisted.
- Moving into the early 2023, the manufacturing sector globally has – in aggregate – held in broadly weak territory. The US and Eurozone manufacturing PMIs have exhibited a clear downtrend since early last year, and are now consolidating in contractionary territory (47.7 and 48.5 respectively).
- By contrast, China's belated removal of COVID-zero restrictions has reinvigorated their manufacturing sector, the Caixin PMI rising to 51.6.

Australian & World manufacturing surveys

Westpac-ACCI & Global PMI indexes

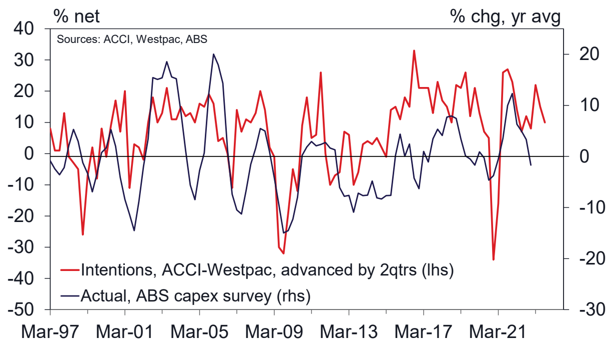


Manufacturing & business investment

- The ACCI-Westpac survey has a solid track record of tracking equipment investment trends by the manufacturing sector.
- The survey finds that manufacturers' investment intentions cooled late in 2022 and into 2023 (as discussed below), mirroring the trend slowdown in demand.
- Official ABS data lends support to an emerging cooling of equipment investment spending by the sector – with a weak end to the 2022 year. Prior to this, an uptrend was evident – with a rise of 3.6% for the 2020/21 financial year, followed by a 4.9% rise for 2021/22.

Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



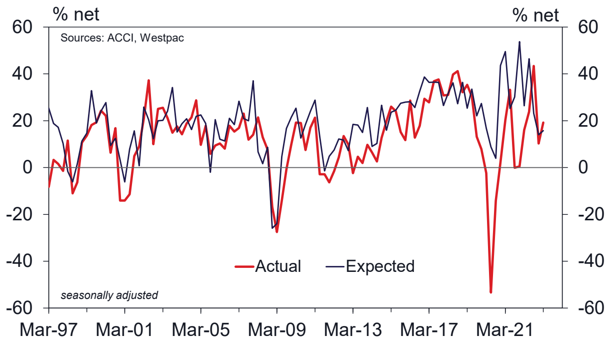
Activity & orders

Output (seasonally adjusted)

	Q4 2022	Q1 2023
Actual – net balance	10	19
Expected – net balance	14	16

- The survey indicates that output improved somewhat, to expand at a moderate pace. A net 19% of respondents increased output, up from a net 10% in Q4 – but well down from the Q3 high of 43%.
- The increase in output moved in line with the expansion in new orders, suggesting firms were comfortably able to meet the flow of new orders.
- The economy is in transition, however, as earlier tailwinds continue to fade and higher interest rates begin to bite, curbing demand.
- Expectations for output have taken a material step lower over the past six months – with readings the softest since the outset of the pandemic. A net 16% of respondents expect output to rise next quarter.

Output growth
Actual & expected

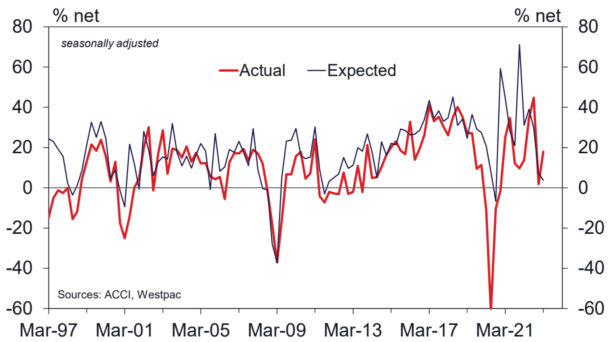


New orders (seasonally adjusted)

	Q4 2022	Q1 2023
Actual – net balance	2	18
Expected – net balance	7	4

- Growth in new orders has cooled from the burst experienced in Q2 and Q3 last year, associated with the reopening.
- New orders, having stalled in Q4, bounced to a mildly positive level, with a net 18% of respondents reporting a rise. This compares to the five-year pre-pandemic average of 26%.
- Being the first 'disruption-free' summer period since the onset of COVID-19, demand conditions were likely supportive in the quarter, though the cumulative impact of RBA rate hikes is weighing on the outlook.
- Expectations are subdued, as they were in Q4, with only a net 4% anticipating a rise next quarter - down from 40% on average over the previous 2 years.

New orders
Actual & expected

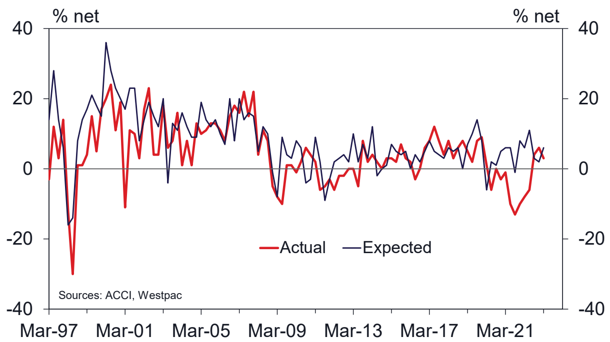


Exports

	Q4 2022	Q1 2023
Actual – net balance	6	3
Expected – net balance	2	6

- Export conditions remain mildly supportive, the survey reports.
- Exports rose over the March quarter, with a net 3% of firms reporting an increase. This marks a continued but modest improvement since Q3 2022, after a run of negative readings on exports since March 2020, at the outset of the pandemic.
- Headwinds around freight costs and shipping availability have continued to ease, so too domestic disruptions, lending some support to export deliveries.
- Expectations improved in Q1, with a net 6% of respondents anticipating an increase in exports over the next three months.

Export deliveries
Actual & expected



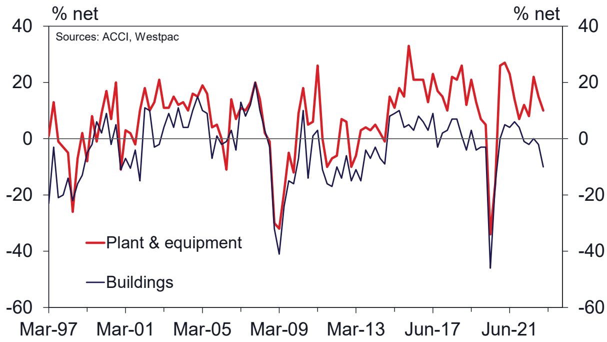
Investment & profitability

Investment intentions

	Q4 2022	Q1 2023
Plant & Equipment – net balance	15	10
Building – net balance	–2	–10

- Investment intentions moderated further in the March survey, holding at a mildly positive level.
- Firms are still looking to invest but to a lower degree of confidence compared to the second half of 2022. Whether firms can meet these expectations given the gloomy outlook is a key question.
- A net 10% of firms are intending to increase plant and equipment investment over the next 12 months, moderating from a net 15% in December and well down from a net 22% in September.
- Building projections for the year ahead continued to soften, with a net 10% planning a decrease over the next 12 months.

Investment intentions
Next twelve months

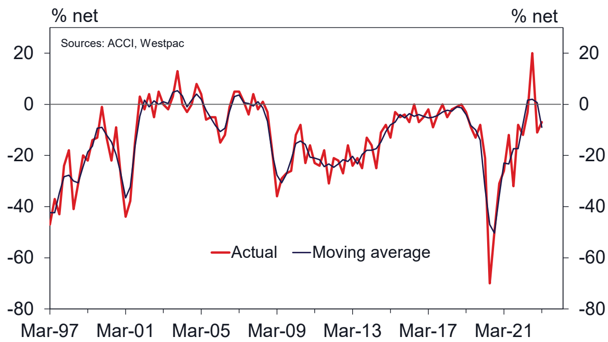


Capacity utilisation

	Q4 2022	Q1 2023
Net balance	–11	–7

- The stalling in demand during the December quarter saw firms return to operating at below normal levels of capacity in line with the decade-average.
- Moving forward to the March quarter, and firms regained some of their momentum. While a smaller proportion of firms are operating above capacity (23% to 19%), substantially fewer firms are operating below capacity (34% to 26%).
- This contributed to the net number of firms operating below capacity improving slightly from 11% to 7%, representing only a partial recovery.
- Significant headwinds around the availability of labour, coupled with lasting issues on material shortages, are impacting the ability of some firms to operate at capacity.

Capacity utilisation

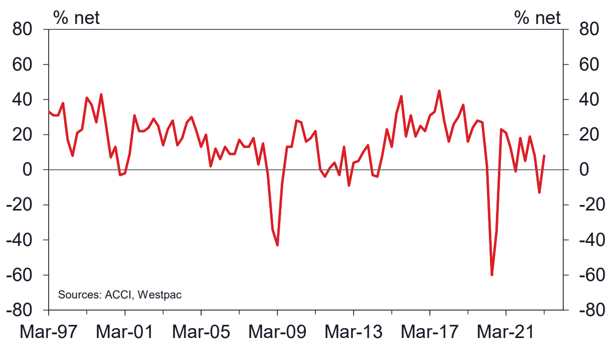


Profit expectations

	Q4 2022	Q1 2023
Net balance	–13	8

- The profitability of the manufacturing sector slipped into negative territory in the December quarter amid historic cost pressures and a stalling of new orders.
- In the latest survey, profit expectations have returned back to a positive but subdued level, with a net 8% of firms anticipating that profits will rise in the coming year. While in line with the September quarter result, it is still well below the long-run average of a net 20%.
- Margins in the manufacturing sector remain under duress and the competitiveness of some firms is being significantly eroded. Recently announced measures pertaining to the energy cost crisis should provide some support in time.
- However, expectations of subdued turnover in the period ahead provides little upside for profits.

Profit expectations
Next twelve 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.

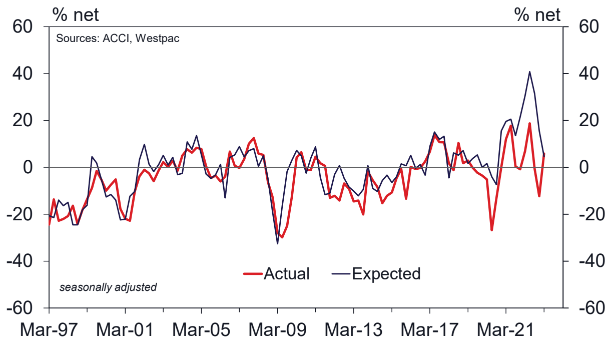
The labour market

Numbers employed (seasonally adjusted)

	Q4 2022	Q1 2023
Actual – net balance	–12	6
Expected – net balance	16	5

- The March survey indicates that employment dynamics in the manufacturing sector improved in the period. A net 6% of firms increased employment in the quarter, up from a net decline of 12% in Q4.
- While the modest rise in employment aligns with the slight easing in firms' ability to find labour, outcomes are still clearly constrained by the historic tightness of the labour market.
- However, the subdued outlook for new orders growth provides less of an incentive for firms to grow their workforce.
- At a net 5%, employment expectations are at their softest level since the Q3 2020, when Australia was amidst the worst of the pandemic.

Numbers employed
Actual & expected

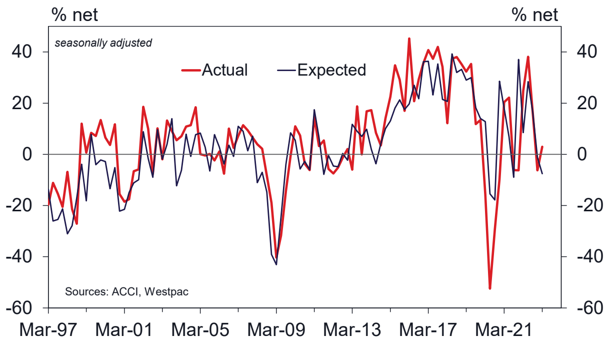


Overtime worked (seasonally adjusted)

	Q4 2022	Q1 2023
Actual – net balance	-6	3
Expected – net balance	-1	-8

- With firms able to grow their workforce in the period, at a time of moderate output growth, the use of overtime saw only a small rise.
- The survey reports that a net 3% of firms increased overtime, a turnaround from a net 6% that decreased overtime in Q4. These outcomes contrast with large increases over much of 2022, an average +26%.
- Given the gloomy outlook for demand, the use of overtime will likely fall going forward.
- Overtime expectations deteriorated further in March, with a net 8% of respondents foreseeing a decrease in overtime in the coming months.

Overtime worked
Actual & expected

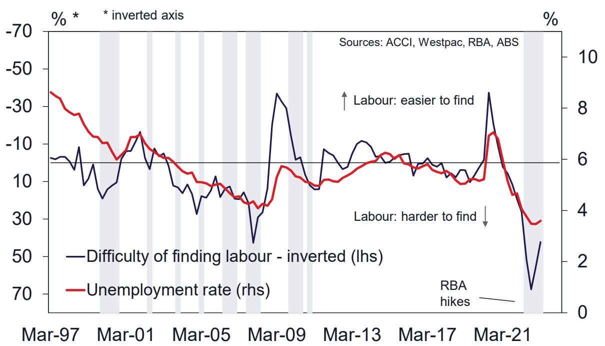


Difficulty of finding labour (seasonally adjusted)

	Q4 2022	Q1 2023
Net balance	55.4	42.3

- 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, labour shortages remain intense, albeit they have eased somewhat over the past half year as the economy slowed and as immigration numbers lifted on the national border reopening.
- A net 42.3% of respondents indicated that labour was "harder to find", down from 55.4% in Q4 and 67.5% in Q3, which is the series high dating back to 1974.
- Nationally, the unemployment rate at 3.7% currently is still near a 50 year low – evidence that labour shortages remain acute.

Labour market tightness



Prices & inflation

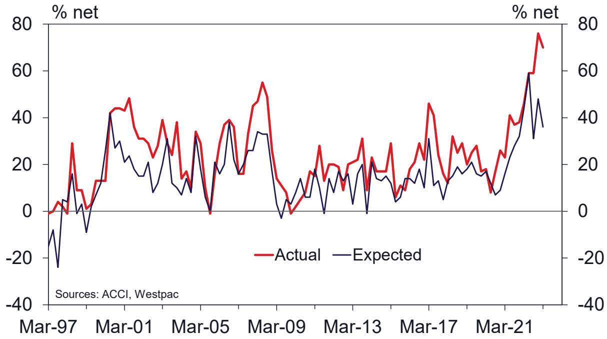
Average unit costs

	Q4 2022	Q1 2023
Actual – net balance	76	70
Expected – net balance	48	36

- The survey finds that manufacturers are facing into a cost crisis and a significant loss of competitiveness.
- In the March quarter, input cost pressures remained acute, with a net 70% of manufacturers reporting higher input costs – little changed from December's net 76% and among the highest readings since 1982.
- Surging energy costs are compounding the challenges faced by the sector - associated with labour and material shortages. Measures to address energy costs, introduced in the final weeks of 2022, have yet to provide relief.
- A net 36% of firms expect average costs to rise in the period ahead, down from a net 48% in Q4.

Average unit costs

Actual & expected

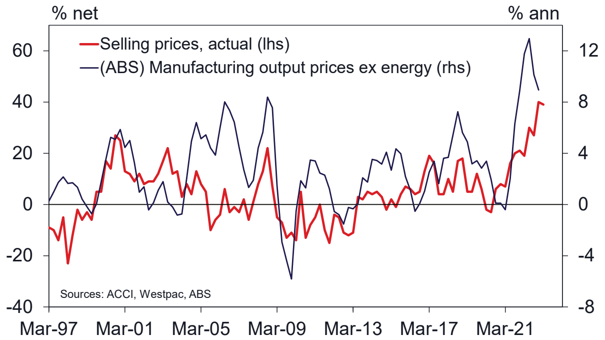


Average selling prices

	Q4 2022	Q1 2023
Actual – net balance	40	39
Expected – net balance	27	22

- 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 evident again in the March survey. The proportion of firms reporting an increase in selling prices was a sizeable 39% in the period, in line with the 40% in the last quarter. That is, however, significantly below the net 70% reporting a rise in average unit costs over the same period.
- A net 22% of respondents expect selling prices will rise over the next three months - once again below the expected pace of cost increases.

Manufacturing upstream price pressures

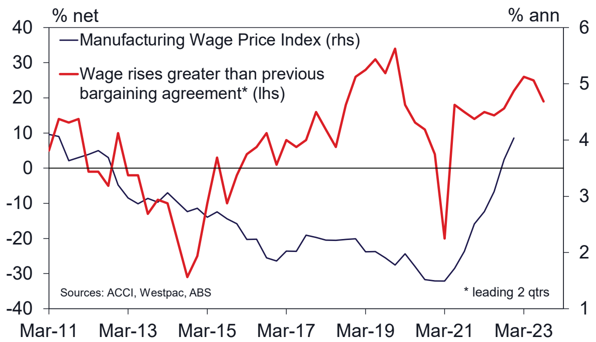


Manufacturing wages

	Q4 2022	Q1 2023
Net balance	25	19

- Wage pressures are strong as the labour market remains historically tight, the survey finds. Respondents expect further upward pressure in future enterprise bargaining agreements.
- In the March quarter, a net 19% of respondents anticipate that their next enterprise wage agreement will deliver an outcome above their last. While softer than the Q4 reading of 25%, it is still well above the historic average of 8%.
- The tone of the survey is broadly consistent with official data on wage trends in the sector. The ABS reports that manufacturing wages are accelerating sharply, with annual growth climbing to around 4% – the strongest outcome in over a decade.

Manufacturing wage growth



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Factors limiting production

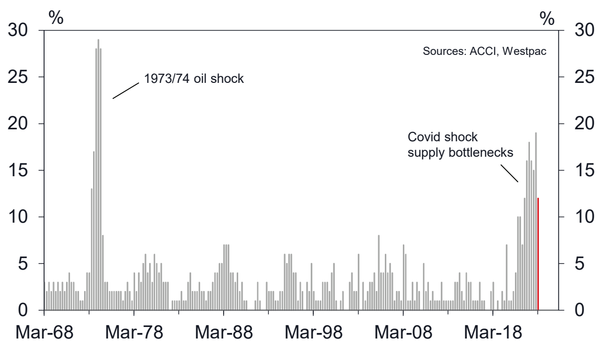
Factors limiting production

- The latest survey confirms that the manufacturing sector is facing ongoing significant supply headwinds. Albeit there have been shifts – with access to finance an emerging issue while COVID-19 restrictions (as indicated by "other") are no longer a concern.
- Firms identifying "finance" as the single factor most limiting production rose, from 1% to 7%, as the RBA's rapid tightening cycle begins to materially impact.
- "Material" constraints have been a factor over the last year, and remain so in the March quarter, albeit to a softer degree (moderating from 19% to 12%) as supply disruptions, both domestic and global, ease.
- Meanwhile, "labour" continues to stand out as a major constraint, with 49% of manufacturers citing it as the single factor most limiting production – a series high dating back to 1966, eclipsing the Q3/Q4 1973 high associated with the oil shock.

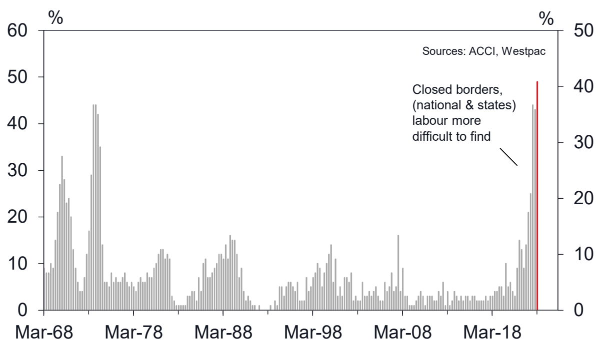
Factors limiting production

	Q3 2022	Q4 2022	Q1 2023
Orders (%)	26	26	24
Capacity (%)	6	9	5
Labour (%)	44	43	49
Finance (%)	0	1	7
Materials (%)	15	19	12
Other (%)	7	1	2
None (%)	2	1	1

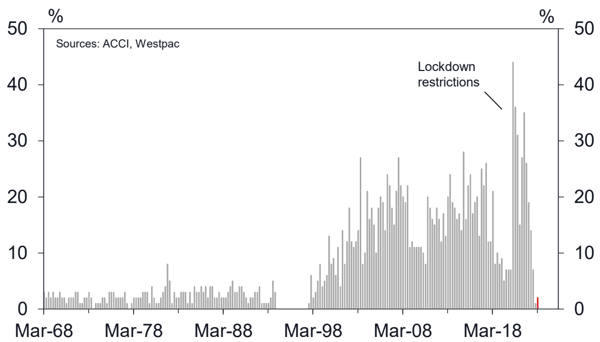
Materials: "single factor" most limiting production



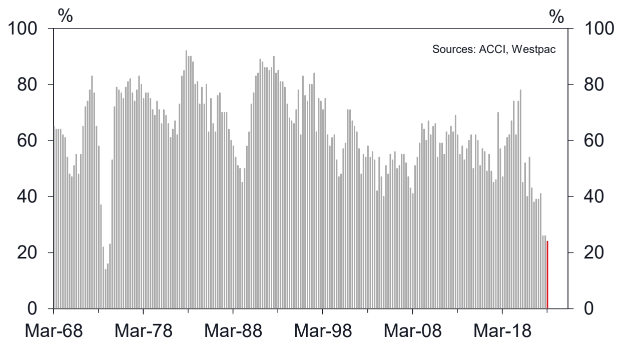
Labour: "single factor" most limiting production



"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
-15	10	65	25

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

Net balance	Above Normal	Normal	Below Normal
-7	19	55	26

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

None	1	Orders	24
Materials	12	Finance	7
Labour	49	Capacity	5
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?	45	45	55	0
(b)	finance?	31	32	67	1

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?	-10	8	74	18
(b)	on plant & machinery?	10	23	64	13

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	4	16	72	12	5	12	81	7
7.	Overtime worked	-6	12	70	18	-2	2	94	4
8.	All new orders received	14	26	62	12	10	15	80	5
9.	Orders accepted but not yet delivered	-8	4	84	12	-1	4	91	5
10.	Output	11	27	57	16	20	22	76	2
11.	Average costs per unit of output	70	74	22	4	36	37	62	1
12.	Average selling prices	39	44	51	5	22	22	78	0
13.	Export deliveries	3	10	83	7	6	6	94	0
14.	Stock of raw materials	-7	2	89	9	-2	3	92	5
15.	Stocks of finished goods	-5	5	85	10	-1	3	93	4

Summary of results (not seasonally adjusted)

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

(a) Improve?	22
(b) Remain unchanged?	64
(c) Decline?	14
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?	19
(b) Same?	81
(c) Less?	0
Net balance	**19**

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	38
Textiles, fabrics, floor coverings, felt, canvas, rope	1
Clothing, footwear	2
Wood, wood products, furniture	5
Paper, paper products, printing	4
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	14
Non–metallic mineral products: glass, pottery, cement bricks	5
Basic metal products: processing, smelting, refining, pipes & tubes	2
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	4
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	2
Other machinery & equipment: electrical, industrial scientific, photographic	16
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	7

B. How many employees are covered by this return?

1–100	101–200	201–1000	Over 1000
33	6	15	46

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

WA	SA	VIC	NSW/ACT	QLD	TAS
12	13	26	28	15	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 14 March 2023
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Things you should know.

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