ACCI–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

247th report June 2023 (survey conducted from 15 May 2023 to 9 June 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 weakened in the June survey, stepping down from a robust 53.9 in the March quarter to 50.7.
- With a reading around the break-even mark of 50, this indicates that conditions are approaching a stalling speed. The survey reported broadly flat new orders and employment, a decline in overtime and a slowing in output growth.
- In short, the survey finds that the manufacturing sector is looking into a clear slowdown in broader activity, compounded by elevated costs and persistent headwinds around the availability of labour, and to a lesser extent, materials.
- The Expected Composite rose slightly, to 52.6 in June but was coming from 51.2 in March, which was the softest reading since 2014, outside of the pandemic-era lows in mid-2020.
- The general business mood plummeted from an already pessimistic level, with a net 32% of respondents now expecting the general business situation to worsen over the next six months, a result that eclipses the lows seen in the midst of the pandemic and is the weakest reading since the GFC.
- New orders all but stalled in the June quarter, with a net 1% of respondents reporting a decline. Having fallen from 15% in Q1, growth in new orders is the softest non-pandemic-affected read since Q3 2013.
- In response to the ongoing difficulty in sourcing labour and rising average unit costs, manufacturer's are looking to invest in order to lift capacity and/or reduce labour costs. A net 29% of firms are intending to increase plant and equipment investment over the next 12 months, up from a net 10% in March.
- The survey finds that the cost crisis facing manufacturers has shown few signs of letting up. In the June quarter, input cost pressures remained acute, with a net 67% of firms reporting a rise in average unit costs, little changed from March's net 70% and among the highest readings since 1982.
- In response, the proportion of firms reporting an increase in selling prices rose to 42%, the highest reading since 1988. Still, with selling price increases trailing the rise in average costs, manufacturers continue to experience significant margin squeeze.
- Labour shortages remain intense but have eased somewhat over recent quarters as the economy slowed and as immigration numbers have picked up following the international border reopening. A net 50.8% of respondents indicated that labour was "harder to find", off the series high of 65.8% in Q3 2022.

Contents

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

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

Editors
Andrew Hanlan, Senior Economist, Westpac Banking Corporation
Ryan Wells, Analyst, 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 247th consecutive survey was closed on 9 June 2023.

A total of **298** 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 2023.

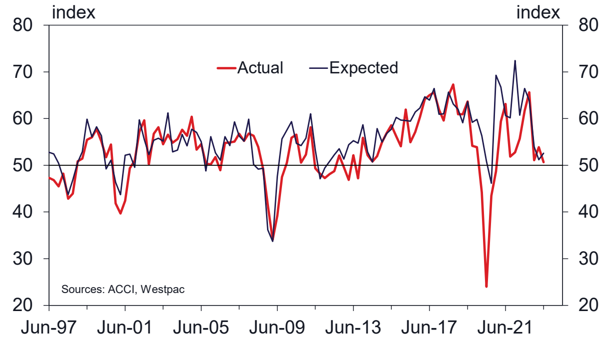
Key survey results

Westpac–ACCI Composites (seasonally adjusted)

	Q1 2023	Q2 2023
Actual – composite index	53.9	50.7
Expected – composite index	51.2	52.6

- The Westpac-ACCI Actual Composite weakened in the June survey, falling to 50.7 from 53.9.
- With a reading around the break-even mark of 50, this indicates that conditions are approaching a stalling speed. The survey reported broadly flat new orders and employment, a decline in overtime and a slowing in output growth.
- The fading of earlier tailwinds and rising interest rates are contributing to a downbeat outlook for demand, while labour shortages and cost pressures continue.
- The Expected Composite rose to 52.6 in Q2, up slightly from 51.2 in Q1 which was the softest reading since 2014 (outside of the pandemic-era lows).

Westpac–ACCI Composite indexes
Actual & expected, sa

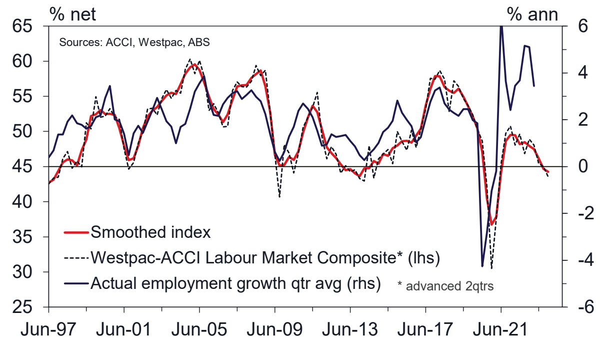


Westpac–ACCI Labour Market Composite

	Q1 2023	Q2 2023
Composite index	45.0	43.5

- 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 deteriorated further, from 45.0 to 43.5 in Q2, 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 that employment growth is tracking a similar pace to that of end-2022, the 2.8% annualised gain over Q1 also representing a slowdown from earlier strength in the first half of 2022.

Labour Composite and employment trends

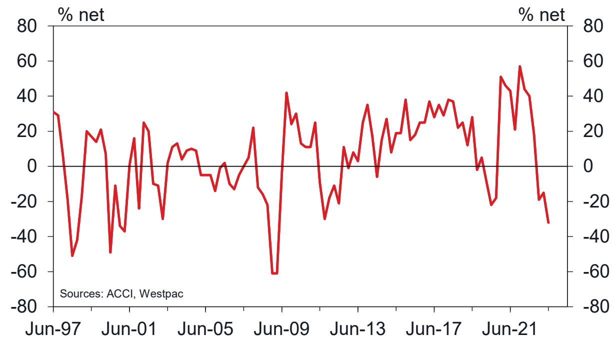


General business situation

	Q1 2023	Q2 2023
Net balance	–15	–32

- Manufacturing sentiment about the general business outlook has been pessimistic over the last six months, –19 in December and –15 in March, reflecting a sudden stalling in demand after a significant burst.
- Move forward to the June quarter, and sentiment has plummeted further. A net 32% of respondents expect the general business situation to worsen over the next six months, weaker than pandemic-era observations and the weakest reading since the GFC.
- The deeply pessimistic business mood is consistent with the intense cost pressures and prospective slowdown in demand facing manufacturers.
- With the RBA continuing to raise interest rates, the risk is for a further weakening in business sentiment during 2023.

General business situation
Next six months



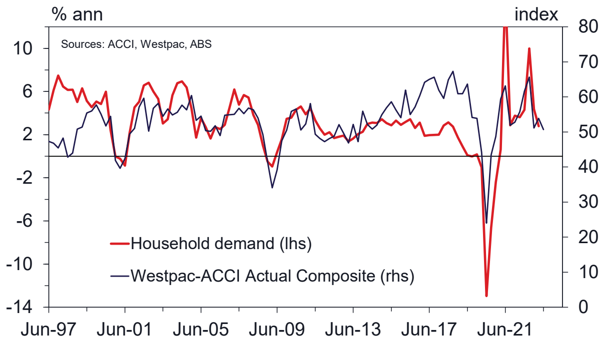
The business cycle & economic outlook

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 elevated costs and persistent headwinds around the availability of labour, and to a lesser extent, materials.
- With interest rates continuing to rise and its cumulative impact 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

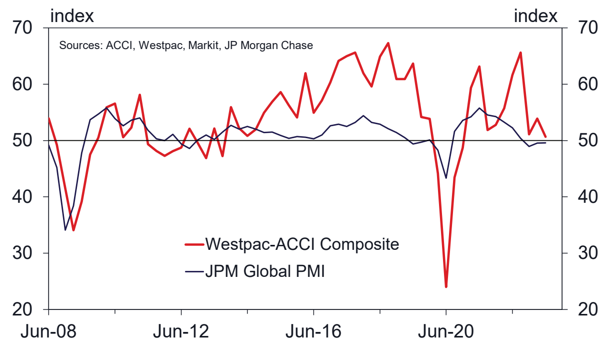


Australian & World manufacturing surveys

- Global and Australian manufacturing cycles tend to be synchronised, especially at major turning points. Historically, the ACCI-Westpac Actual Composite has moved broadly in line with global manufacturing conditions.
- Global manufacturing PMIs began to cool in the second half of 2022, as central banks tightened policy and supply-side disruptions persisted.
- Moving into 2023, the manufacturing sector globally has – in aggregate – held in broadly weak territory.
- The US and Eurozone manufacturing PMIs have weakened materially since the second half of 2022, holding consistently in contractionary territory (46.9 and 44.8 respectively).

Australian & World manufacturing surveys

Westpac-ACCI & Global PMI indexes

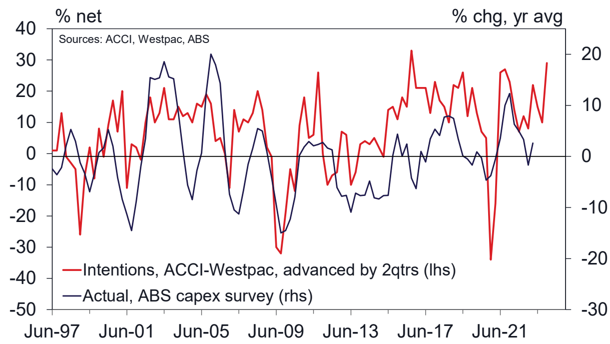


Manufacturing & business investment

- The ACCI-Westpac survey has a solid track record of predicting equipment trends in manufacturing sector investment.
- The survey finds that manufacturers' investment intentions strengthened in the June quarter (as discussed in more detail below).
- This is an encouraging finding. If sustained, it would suggest that manufacturers are looking to expand capacity and boost productivity, at a time of relatively scarce labour, and are looking through near-term softness in demand.
- Official ABS data reveals that over the past three years, there has been an upward trend in equipment investment spending by the sector – including a strong showing in the opening quarter of 2023.

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.

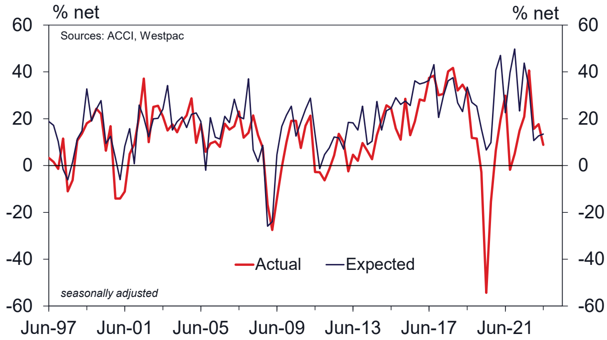
Activity & orders

Output (seasonally adjusted)

	Q1 2023	Q2 2023
Actual – net balance	18	9
Expected – net balance	13	13

- The survey indicates the momentum in output growth slowed in June, with a net 9% of firms reporting an increase in output in Q2, down from a net 18% in Q1.
- The slowing in output was broadly in line with the decline in new orders, suggesting firms are reining in production in response to softer demand.
- The economic outlook remains bleak, as interest rates continue to rise and its cumulative impact begins to be felt, curbing demand.
- Expectations for output have taken a material step lower over recent quarters, representing the softest readings since the outset of the pandemic. A net 13% of respondents expect output to rise next quarter.

Output growth
Actual & expected

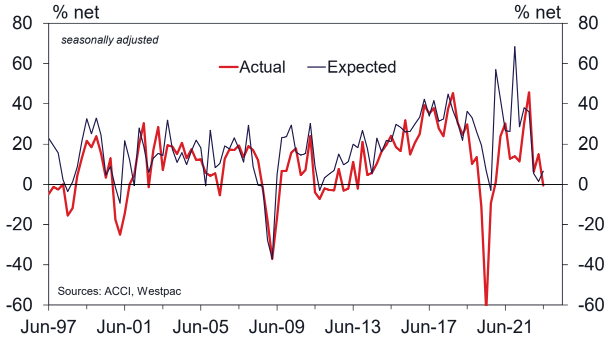


New orders (seasonally adjusted)

	Q1 2023	Q2 2023
Actual – net balance	15	–1
Expected – net balance	1	7

- New orders stalled in the June quarter, with a net 1% of respondents reporting a decline, in line with manufacturers own expectations from March.
- Having fallen from 15% in Q1, growth in new orders is the softest since Q3 2013, outside of the pandemic-related slump in 2020.
- The bounce in new orders in March – associated with the first 'disruption-free' summer since the onset of COVID-19 – proved to be temporary, the gloomy outlook now clearly weighing on prospects for new orders.
- Expectations are subdued, as they were in Q1, with a net 7% anticipating a rise next quarter – down from 34% on average over the 2021 and 2022.

New orders
Actual & expected

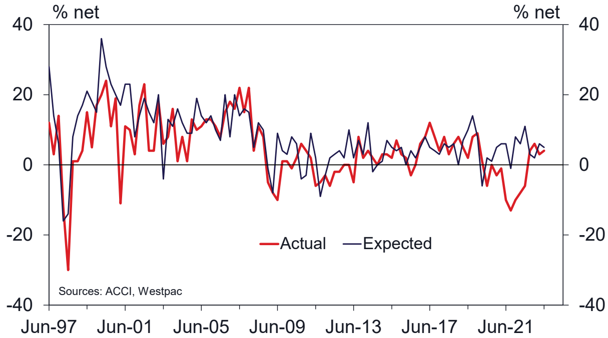


Exports

	Q1 2023	Q2 2023
Actual – net balance	3	4
Expected – net balance	6	5

- Export conditions remain mildly supportive, the survey reports.
- Exports rose over the June quarter, with a net 4% 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.
- Export deliveries have found some support in easing freight costs and improved shipping availability, alongside a lower AUD over the period.
- Expectations were broadly unchanged in Q2, with a net 5% of respondents anticipating an increase in exports over the next three months.

Export deliveries
Actual & expected



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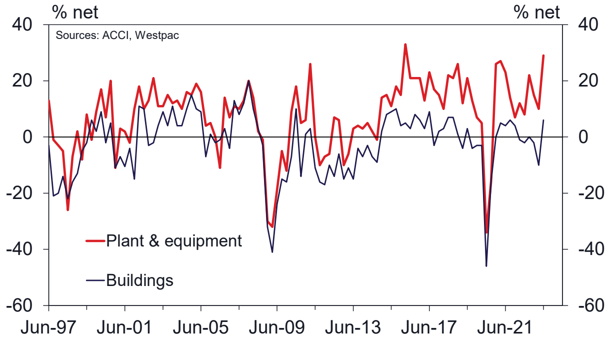
Investment & profitability

Investment intentions

	Q1 2023	Q2 2023
Plant & Equipment – net balance	10	29
Building – net balance	–10	6

- Investment intentions bounced notably in the June survey, rising to an elevated level.
- Manufacturers, in response to a challenging context characterised by difficulty in sourcing labour and rising average unit costs, are looking to invest in order to lift capacity and/or reduce labour costs.
- A net 29% of firms are intending to increase plant and equipment investment over the next 12 months, up from a net 10% in March and broadly in line with the results seen when Australia emerged from the initial pandemic lockdowns in 2020.
- Whether firms can meet these expectations given the gloomy outlook remains a key question.

Investment intentions
Next twelve months

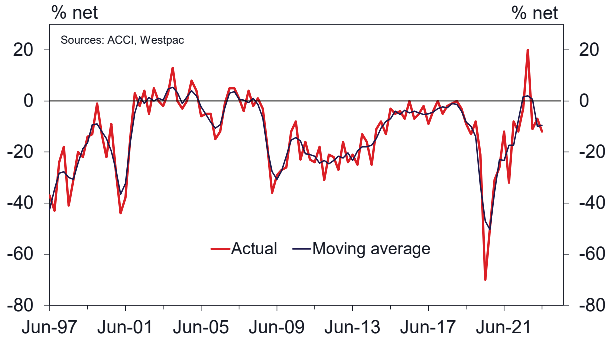


Capacity utilisation

	Q1 2023	Q2 2023
Net balance	–7	–12

- The moderate bounce in demand during the March quarter saw fewer firms operating below normal levels of capacity.
- Moving forward to the June quarter, the picture is more mixed. Slightly more firms were operating at above average capacity – improving from 19% to 20%. However, there were also more firms operating at below average capacity – up from 26% to 32%.
- Overall, a larger net number of firms reported underutilisation, from 7% in Q1 to 12% in Q2.
- Significant headwinds around the availability of labour, coupled with lingering issues with material shortages, are impacting the ability of some firms to operate at capacity.

Capacity utilisation

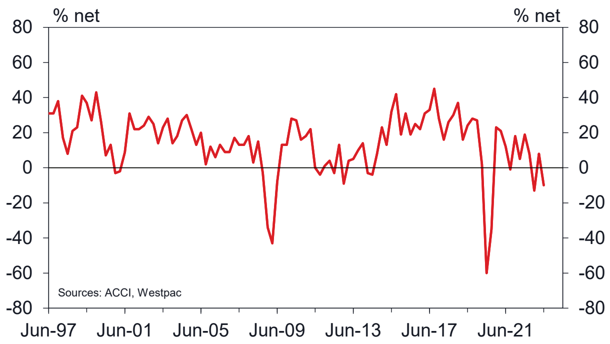


Profit expectations

	Q1 2023	Q2 2023
Net balance	8	–10

- The profitability of the manufacturing sector rose to be at a subdued level in the March quarter amid a moderate improvement in demand.
- In the latest survey, profit expectations have returned to a pessimistic level, with a net 10% of manufacturers anticipating that profits will decline in the coming year. Consistently similar results can only be found in major economic disruptions such as the pandemic, the GFC and the early-90s recession.
- Margins in the manufacturing sector remain under duress and the competitiveness of some firms is being significantly eroded.
- Expectations of subdued turnover in the period ahead provides little upside.

Profit expectations
Next twelve months



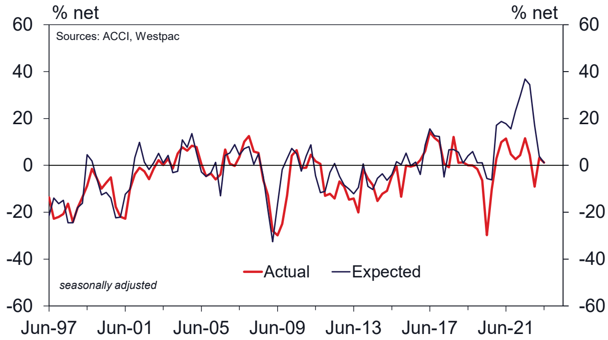
The labour market

Numbers employed (seasonally adjusted)

	Q1 2023	Q2 2023
Actual – net balance	3	1
Expected – net balance	4	1

- The June survey indicates that employment dynamics in the manufacturing sector remained lacklustre, with a net 1% of firms reporting an increase in employment during the quarter.
- This stalling in employment growth looks to be largely 'supply-driven' with manufacturers continuing to cite 'difficulty sourcing labour' as the single factor most limiting production at historically elevated levels.
- The drying-up of new orders also provides less of an incentive for firms to expand their workforce.
- At a net 1%, employment expectations are at their softest level since Q2/Q3 2020, when Australia was amidst the worst of the pandemic.

Numbers employed
Actual & expected

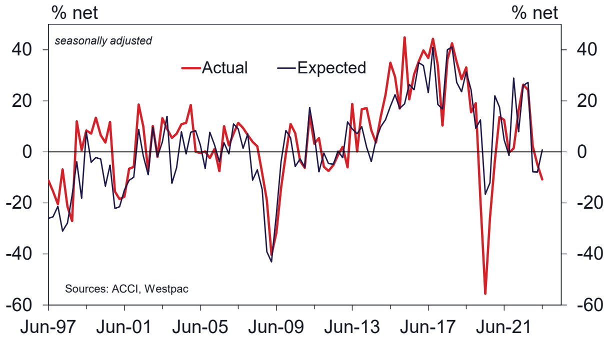


Overtime worked (seasonally adjusted)

	Q1 2023	Q2 2023
Actual – net balance	-5	-11
Expected – net balance	-8	1

- Consistent with slowing output growth and subdued new orders, the use of overtime saw a further and sizeable decline in the June quarter.
- The survey reports that a net 11% of firms decreased overtime, a deterioration from the net 5% that also reported a reduction in Q1. Outside of the pandemic, this is the weakest result since the GFC period.
- Given the gloomy outlook for demand, the use of overtime will likely fall going forward.
- Overtime expectations were broadly flat in June, with a net 1% of respondents foreseeing an increase in overtime over the coming months.

Overtime worked
Actual & expected

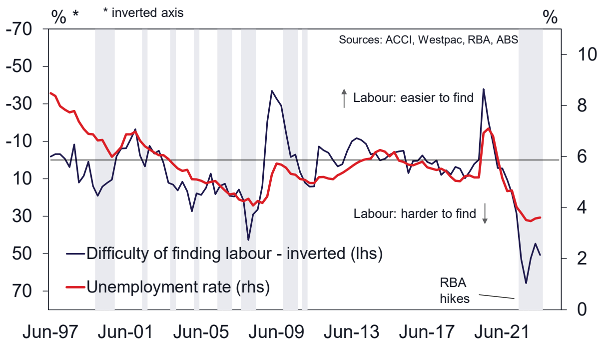


Difficulty of finding labour (seasonally adjusted)

	Q1 2023	Q2 2023
Net balance	44.6	50.8

- 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, but have eased somewhat over recent quarters as the economy has slowed and as immigration numbers have lifted on the national border reopening.
- A net 50.8% of respondents indicated that labour was "harder to find", up from 44.6% in Q1 albeit lower than the series high of 67.5% from Q3 2022.
- Nationally, the unemployment is at 3.6%, currently still near a 50-year low – evidence that labour shortages remain acute.

Labour market tightness



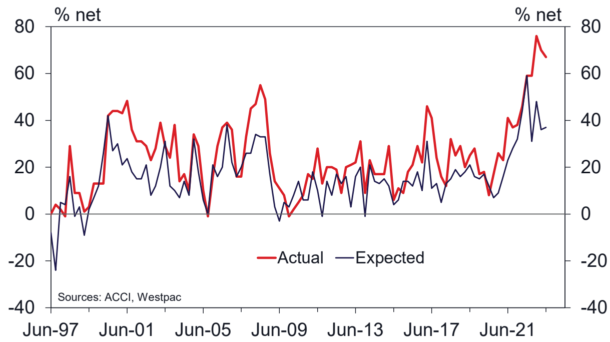
Prices & inflation

Average unit costs

	Q1 2023	Q2 2023
Actual – net balance	70	67
Expected – net balance	36	37

- The survey finds that there has been barely any let-up in the cost crisis facing manufacturers, with a net 67% of firms reporting a rise in average unit costs in the June quarter – little changed from March's net 70% and among the highest readings since 1982.
- Manufacturers have endured an extended period of elevated costs, associated with labour and material shortages and surging energy costs. Measures to address the latter, introduced towards the end of 2022, are yet to provide significant relief.
- A net 37% of firms expect average costs to rise in the period ahead, broadly unchanged from a net 36% in March – a view which proved to be too optimistic.

Average unit costs
Actual & expected

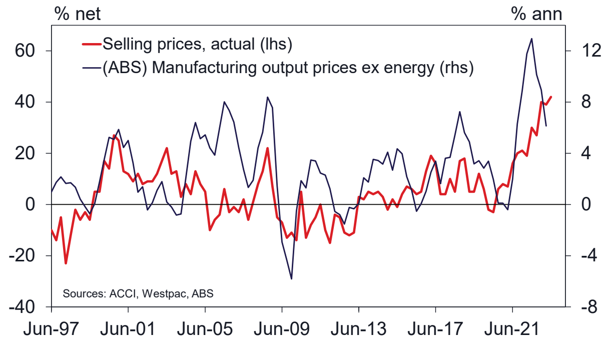


Average selling prices

	Q1 2023	Q2 2023
Actual – net balance	39	42
Expected – net balance	22	20

- 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 June survey. The proportion of firms reporting an increase in selling prices rose modestly, up from a net 39% in Q1 to a net 42% in Q2 – the highest reading since June 1988. That is, however, significantly below the net 67% reporting a rise in average unit costs over the same period.
- A net 20% of respondents expect selling prices will rise again over the next three months – once again below the expected pace of cost increases.

Manufacturing upstream price pressures

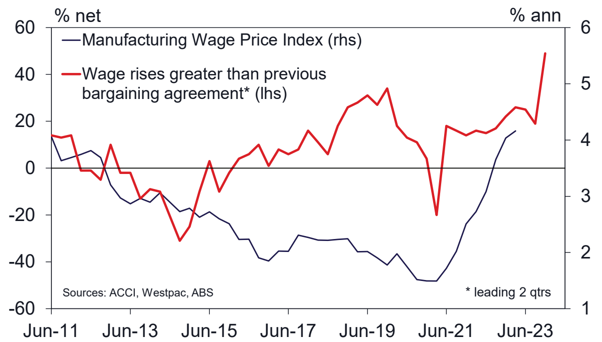


Manufacturing wages

	Q1 2023	Q2 2023
Net balance	19	49

- 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 June quarter, a net 49% of respondents expect their next enterprise wage agreement to deliver an outcome above their last – the highest reading in the history of the series dating back to 1997.
- The tone of the survey is broadly consistent with the direction of official data on wage trends in the sector.
- The ABS reports that manufacturing wages are accelerating sharply, with annual growth climbing to just above 4% – the strongest outcome in over a decade.

Manufacturing wage growth



Factors limiting production

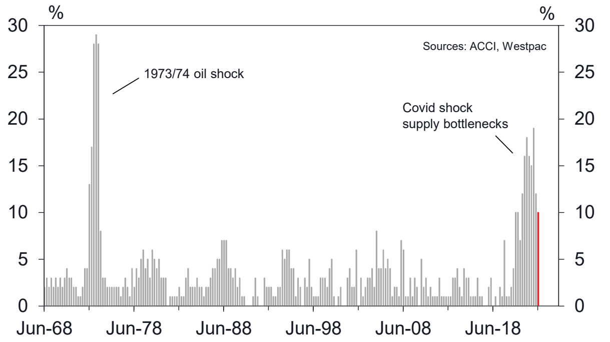
Factors limiting production

- The latest survey confirms that the manufacturing sector is facing ongoing significant supply headwinds.
- "Labour" remains a stand-out constraint, with 40% of manufacturers citing it as the single factor most limiting production. While down from the record high of 49% in March, it is amongst some of the highest readings in the series history dating back to 1966.
- "Materials" constraints have been a significant factor over last year, and remain so in the June quarter, albeit to a milder degree (moderating from 12% to 10%) as supply disruptions, both domestic and global, ease.
- Firms identifying "finance" as the single factor most limiting production ticked down, from 7% to 5%, though manufacturers continue to note the growing difficulty in obtaining finance.
- Respondents citing "other" factors fell to 0%, with COVID-19 related disruptions no longer a concern.

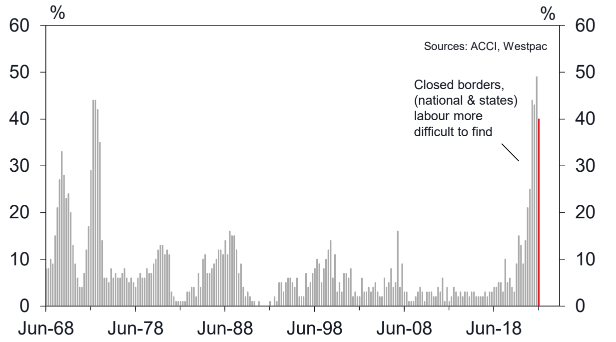
Factors limiting production

	Q4 2022	Q1 2023	Q2 2023
Orders (%)	26	24	36
Capacity (%)	9	5	6
Labour (%)	43	49	40
Finance (%)	1	7	5
Materials (%)	19	12	10
Other (%)	1	2	0
None (%)	1	1	3

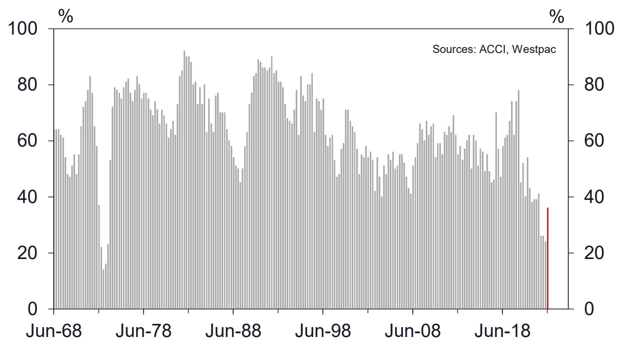
Materials: "single factor" most limiting production



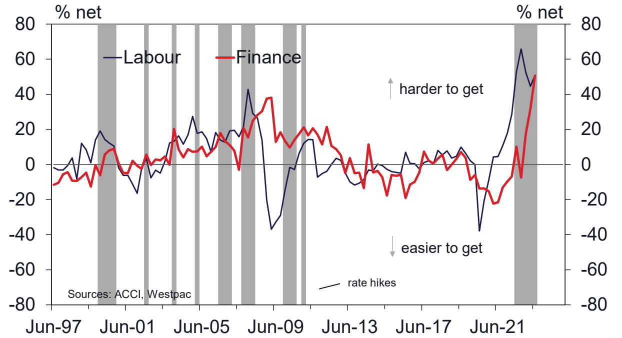
Labour: "single factor" most limiting production



Orders: "single factor" most limiting production



Availability of labour & finance
seasonally adjusted



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
−32	9	50	41

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

Net balance	Above Normal	Normal	Below Normal
−12	20	48	32

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

None	3	Orders	36
Materials	10	Finance	5
Labour	40	Capacity	6
Other	0		

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?	43	45	53	2
(b)	finance?	35	35	65	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?	6	15	76	9
(b)	on plant & machinery?	29	36	57	7

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	Up	Same	Down	Net balance	Up	Same	Down
6. Numbers employed	3	16	71	13	3	10	83	7
7. Overtime worked	−8	9	74	17	0	6	88	6
8. All new orders received	−4	17	62	21	7	14	79	7
9. Orders accepted but not yet delivered	0	11	78	11	−1	5	89	6
10. Output	7	30	47	23	14	20	74	6
11. Average costs per unit of output	67	67	33	0	37	37	63	0
12. Average selling prices	42	43	56	1	20	20	80	0
13. Export deliveries	4	8	88	4	5	7	91	2
14. Stock of raw materials	−3	6	85	9	−3	5	87	8
15. Stocks of finished goods	0	6	88	6	−7	4	85	11

Summary of results (not seasonally adjusted)

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

(a) Improve?	9
(b) Remain unchanged?	72
(c) Decline?	19
Net balance	**-10**

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?	49
(b) Same?	51
(c) Less?	0
Net balance	**49**

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	27
Textiles, fabrics, floor coverings, felt, canvas, rope	3
Clothing, footwear	2
Wood, wood products, furniture	6
Paper, paper products, printing	3
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	12
Non-metallic mineral products: glass, pottery, cement bricks	11
Basic metal products: processing, smelting, refining, pipes & tubes	3
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	9
Other machinery & equipment: electrical, industrial scientific, photographic	13
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
26	7	25	42

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

WA	SA	VIC	NSW/ACT	QLD	TAS
14	14	24	26	18	4

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.

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Publication enquiries, Economics, economics@westpac.com.au

Things you should know.

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