ACCI–Westpac
Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

253rd report December 2024 (survey conducted from 13 November to 5 December 2024)

- The Westpac-ACCI Actual Composite lost some momentum during the final months of the year, easing from a reading of 55.3 in September to 50.0 in December. Currently spot on the breakeven threshold, the latest survey suggests that conditions in the manufacturing sector are neither expanding nor contracting. Compositionally, the December survey reported a pull-back in new orders, a decline in overtime and a modest expansion in output and employment.
- Manufacturers were able to find some 'pockets' of demand through mid-year, but it looks as though that support started to dry-up as the year drew to a close, emphasising the still-challenging economic backdrop, characterised by high inflation and elevated interest rates.
- Growth in new orders moderated sharply as the year drew to a close, with a net 5% reporting a decline in December, following solid growth over June and September. Output growth remained positive over the same period, with a net 6% of firms reporting an increase, suggesting firms were able to work down order backlogs and build up stock.
- In response to the latest decline in new orders, manufacturers pulled back on their use of overtime in December, with a net 9% of firms reporting a decline, broadly in line with manufacturers' own expectations from the previous quarter.
- Encouragingly, manufacturers expect this 'soft patch' to be relatively short-lived. The Expected Composite lifted from 53.3 in September to 57.4 in December, the highest level since September 2022, reflecting a much greater degree of optimism around the outlook for demand and output. That a net 5% of firms reported an increase in head count in December – following two years of flat-to-weak growth – suggests manufacturers are seeking to increase the size of their work force in anticipation of an expected recovery in demand over the period ahead.
- This optimism was also reflected by the considerable improvement in the mood about the general business outlook for the next six months. The number of firms expecting an improvement outnumbered those expecting a deterioration by a net 2% in December, the first positive reading since September 2022 during the reopening 'burst' of activity.
- Manufacturers still face a broad set of challenges, however. Cost pressures facing manufacturers continued to ease but remained elevated into year-end, with a net 34% of firms reporting an increase in average unit costs. Smoothing recent volatility, year-average measures of unit costs are tracking a very gradual downtrend, from a net 54% in Q3 to a net 46% in Q3, still well above the pre-pandemic 'norm' of a net 19%.
- Manufacturers have little scope to pass on rising costs to consumers, with a net 19% reporting a rise in prices. That is below the net proportion of firms that reported an increase in costs over the same period, implying margins continue to be squeezed to some extent – although encouragingly, is notable that the gap between these measures has fallen back to around average levels, suggesting the breadth of margin squeeze across the industry is returning to its 'norms'.
- Additionally, a net 16.1% of respondents indicated that labour was more "difficult to find" versus three months ago, a moderate increase from the net 11.8% 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'.

Contents

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This report was finalised on 13 December 2024.

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

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

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

The 253rd consecutive survey was closed on Monday, x December 2023

A total of **310** 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 February and March 2025.

Key survey results

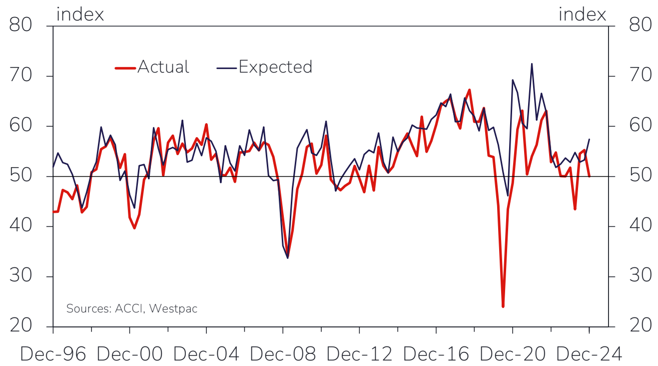
Westpac–ACCI Composites (seasonally adjusted)

	Q3 2024	Q4 2024
Actual – composite index	55.3	50.0
Expected – composite index	53.3	57.4

- The Westpac-ACCI Actual Composite moderated in the final months of the year, from a reading of 55.3 in the September quarter to 50.0 in December quarter.
- At the breakeven threshold of 50, the Actual Composite suggests conditions are neither expanding nor contracting in the sector. The main drivers were a pull-back in new orders and a decline in overtime, while a modest expansion in output and employment acted as partial offsets.
- With a greater degree of optimism around output and the demand outlook, the Expected Composite lifted to solid 57.4, the highest level since Q3 2022. Whether the full scale of these optimistic expectations can be realised, given the still-tough economic backdrop, remains to be seen.

Westpac–ACCI Composite indexes

Actual & expected, sa

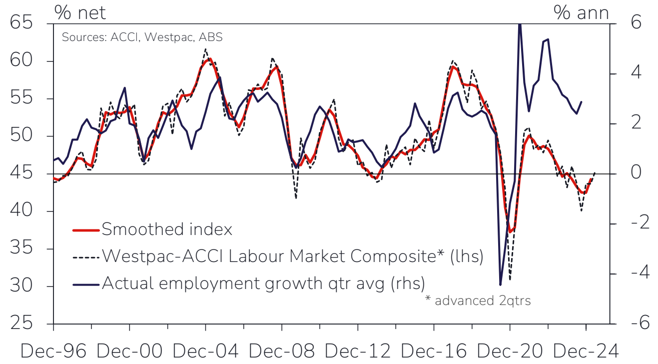


Westpac–ACCI Labour Market Composite

	Q3 2024	Q4 2024
Composite index	43.7	45.5

- The survey provides insights into economy-wide employment growth. This highlights the key linkages between manufacturing and the labour market.
- The Composite has undershot nationwide employment trend recently, reflecting the fact that growth across the economy has been varied, with employment growth remaining solid in industries such as health care and education, while other industries such as manufacturing continues to face issues around skilled labour availability.
- In this update, the Labour Market Composite improved slightly, from 43.7 in Q3 to 45.5 in Q4. Official data has also shown some signs of stabilisation, with aggregate employment growth holding broadly around 2.6%yr.

Labour composite & employment trends



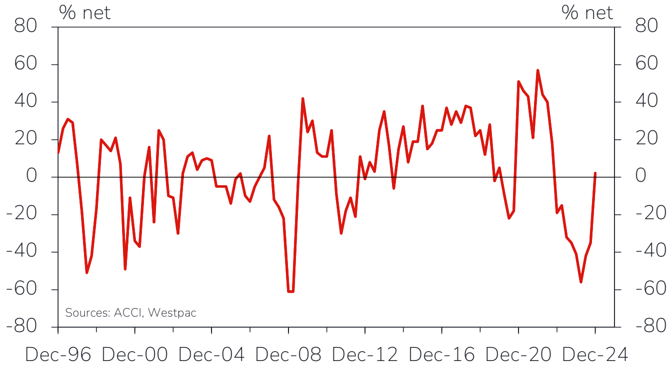
General business situation

	Q3 2024	Q4 2024
Net balance	–35	2

- Manufacturing sentiment around the general business outlook has been steadily improving from its nadir in March 2024, reflecting deep pessimism following the onset of rising costs and rapid interest rate increases.
- Move forward to December, and sentiment showcased a stunning improvement. Currently, a net 2% of respondents expect the general business situation to improve over the next six months – the first positive reading since Q3 2022.
- This result better reflects manufacturers' own expectations across various other segments of the survey, including the anticipation of a rebound in new orders in the new year, alongside some further improvements in output and labour market outcomes.

General business situation

Next six months



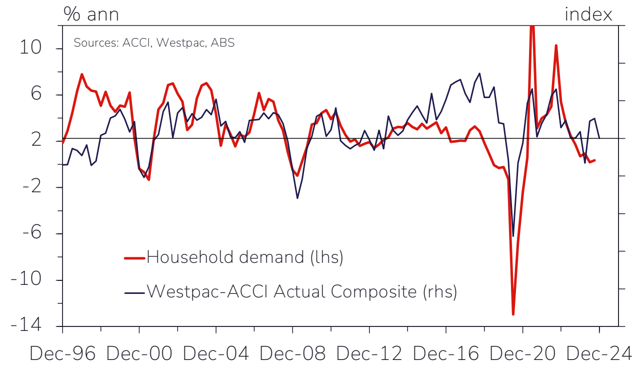
The business cycle & economic outlook

Manufacturing & the business cycle

- The Westpac-ACCI Actual Composite has a solid track record of predicting near-term domestic economic conditions and identifying turning points in the cycle.
- The Q3 National Accounts confirmed the domestic economy remains in a sluggish state, underpinned by a weakening private economy. While tax relief is starting to flow through the economy, households are initially focussed on rebuilding savings buffers after having experienced an extended period of real per capita disposable income declines.
- After finding some 'pockets' of demand through mid-year, the latest survey suggests that Australian manufacturers experienced a soft finish to 2024, consistent with the underlying soft from official data. Looking ahead, there is still some scope for tax cuts to provide further support to spending, provided the dynamics around household incomes and savings continue to normalise.

Manufacturing & the business cycle

Westpac-ACCI Composite & household demand

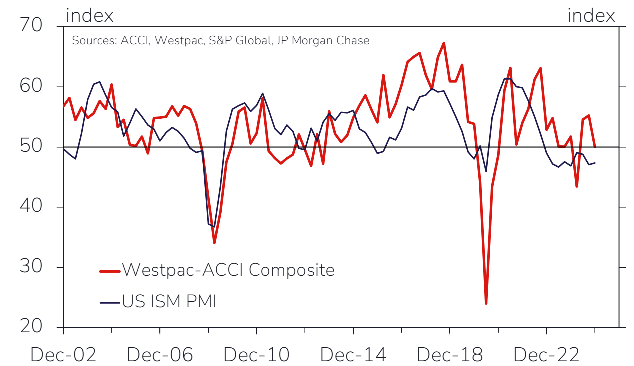


Australian & World manufacturing surveys

- 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.
- There is likely to be some degree of cross-country variation ahead, as each nation embarks on its own economic and policy normalisation post-inflation shock. For now though, other major economies are generally struggling to gain momentum in their respective manufacturing sectors.
- In the US, the ISM PMI has made up some ground from mid-year, but at 48.4 as of November, it remains slightly below 'breakeven'. In Europe, the S&P Global PMI suggests manufacturing sector has been stuck in contractionary territory, currently at 45.2. Meanwhile, China is yet to see a material response to recent stimulus, with the NBS PMI hovering broadly around the 'breakeven' mark of 50.

Australian & US manufacturing surveys

Westpac-ACCI & ISM PMI indexes

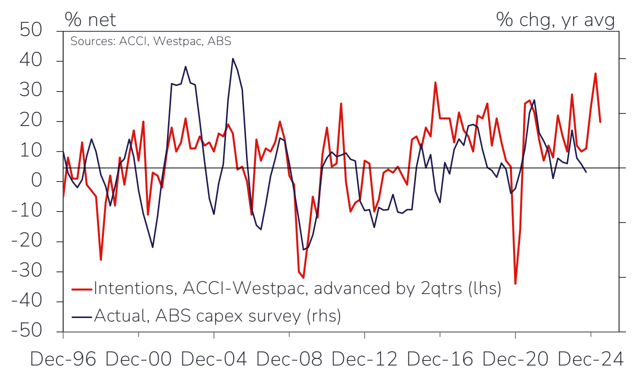


Manufacturing & business investment

- The ACCI-Westpac survey broadly tracks equipment spending trends in the manufacturing sector.
- ABS data suggests that manufacturing equipment spending eased after the initial reopening 'burst'. From an initially robust pace of 4.9%yr in 2021/22, equipment investment has slowed to a pace of 0.7% in 2023/24 and is starting to tick into negative on a year-average basis. That said, detailed data from the Annual National Accounts suggest that the manufacturing sector, after running down its capital stock for more than a decade before the pandemic, has started to rebuild its capital stock over the past few years.
- That theme is consistent with this survey's finding on manufacturers' investment intentions, which is signalling a clear appetite for capacity expansion provided there is a pick-up in domestic demand over the period ahead.

Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



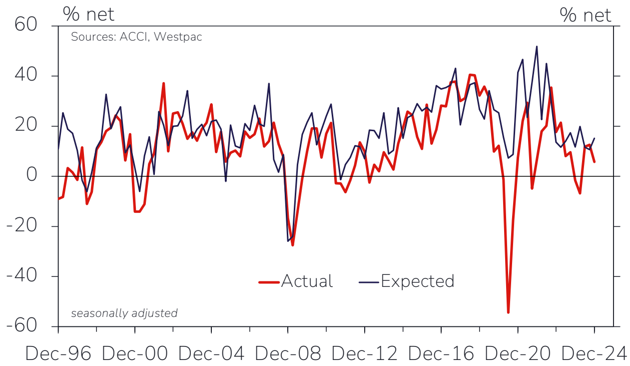
Activity & orders

Output (seasonally adjusted)

	Q3 2024	Q4 2024
Actual – net balance	13	6
Expected – net balance	11	15

- The survey indicates that momentum in output growth slowed into year-end, with a net 6% of firms reporting an increase in December, down from a net 13% in September.
- Despite the improvement in demand conditions over mid-year, output was unable to expand at a comparable pace, seeing order backlogs grow. Even with more modest growth in output in the latest quarter, weaker growth in new orders allowed firms to work down order backlogs and build up stock in anticipation of future demand.
- A net 15% of respondents anticipate an improvement output growth over the next three months – similar to the actual levels observed over June and September.

Output growth
Actual & expected

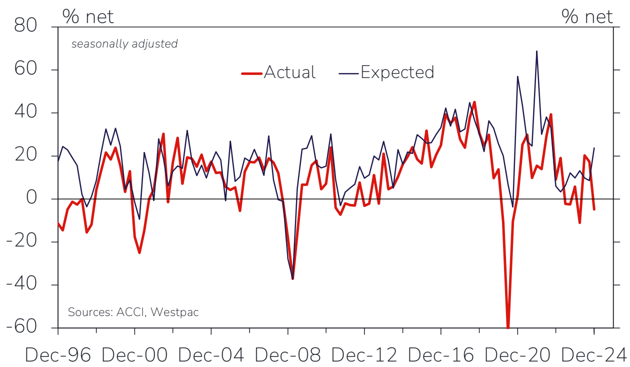


New orders (seasonally adjusted)

	Q3 2024	Q4 2024
Actual – net balance	17	–5
Expected – net balance	9	24

- Growth in new orders moderated sharply as the year drew to a close, with a net 5% reporting a decline in December.
- Coming off of solid growth in new orders over June and September, the latest result suggests the support from 'pockets' of demand have dried up amid the still-challenging economic backdrop, characterised by high inflation and elevated interest rates.
- That said, manufacturers have faith that the latest pull-back will be short-lived, with a net 24% anticipating a lift in new orders over the next three months. Policy relief, in the form of tax cuts, have some scope to offer further support over the period ahead.

New orders
Actual & expected

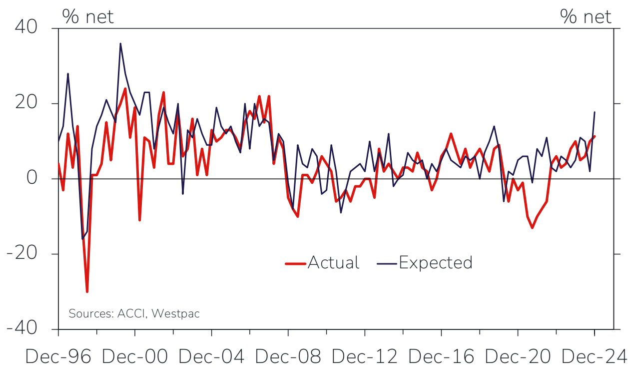


Exports

	Q3 2024	Q4 2024
Actual – net balance	10	11
Expected – net balance	2	18

- Exports were little-changed from September, with a net 11% of firms reporting an increase over the December quarter, a result that stood in contrast to manufacturers' own expectations for a softening in export deliveries.
- Looking ahead, manufacturers are decidedly optimistic on the outlook for exports, with a net 18% anticipating a further increase over the next three months.
- The immediate outlook is supported by relatively fewer instances of supply disruptions, a competitive Australian dollar and tentative signs of a recovery in global demand starting to form. Risks to global trade loom over the horizon, although the scale at which they materialise and its impacts are felt locally, remains highly uncertain.

Export deliveries
Actual & expected



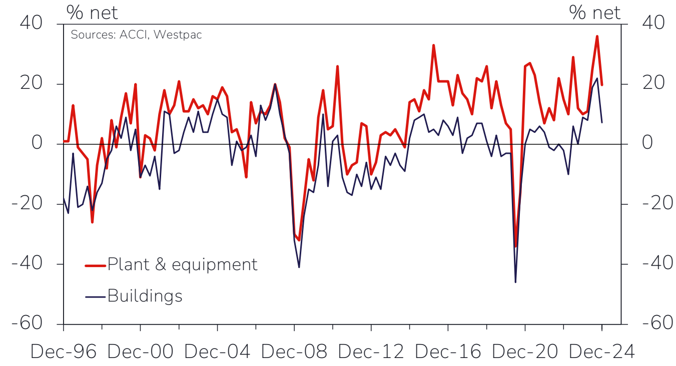
Investment & profitability

Investment intentions

	Q3 2024	Q4 2024
Plant & Equipment – net balance	36	19
Building – net balance	22	7

- After rebounding to a historic high in September (dating back to 1966), manufacturers' pared back their investment intentions in the December quarter.
- This was true across both plant/equipment and building projections for the year ahead, moderating to a still-elevated net 19% and a net 7% respectively.
- While off its historic high, these results remain consistent with a clear appetite for capacity expansion within the sector. The strength of these results reflects a degree of confidence in the medium-term economic outlook, with headwinds around supply capacity and cost pressures likely to ease further into next year.

Investment intentions
Next twelve months

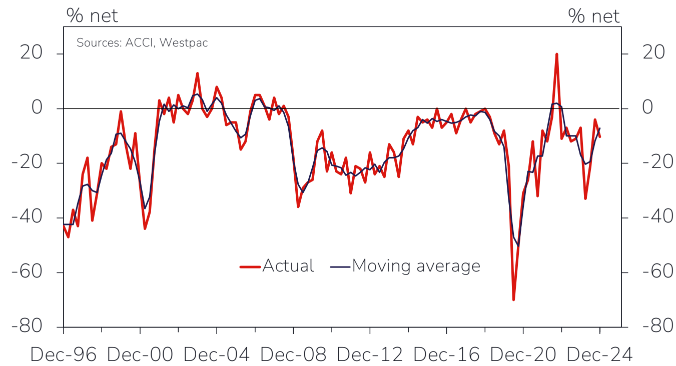


Capacity utilisation

	Q3 2024	Q4 2024
Net balance	–4	–10

- Capacity utilisation in the manufacturing sector eased back toward the pre-pandemic decade average in the final months of the year, mirroring the pull-back in new orders.
- While there was little-change in the proportion of firms operating at below-average capacity, there were fewer firms operating at above-average capacity (27% to 21%), resulting in a net 10% reporting underutilisation.
- While not as acute versus last year, issues around labour availability and supply chains may still be impacting the ability of some firms to operate at capacity. Looking ahead, the trend in new orders over next year will be key.

Capacity utilisation

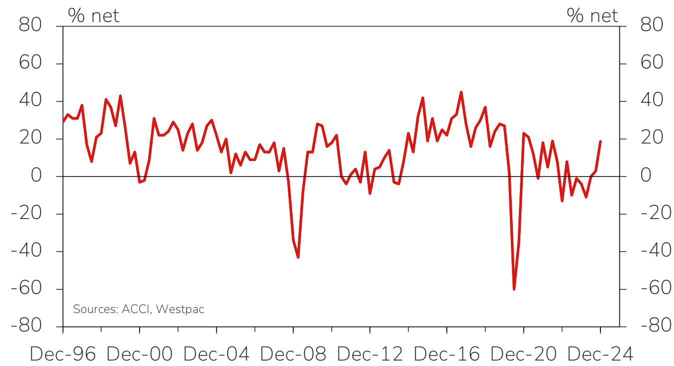


Profit expectations

	Q3 2024	Q4 2024
Net balance	3	19

- Since 2021, profit expectations have hovered near a 'neutral' level, interspersed with occasional moves higher or lower.
- Manufacturers' expectations for profits forged ahead at a rapid pace, with a net 19% of firms anticipating an increase over the coming year, back in line with the survey's long-run average (dating back to 1988).
- The gradual moderation in unit cost pressures, greater optimism over future demand conditions and prospects of future interest rate cuts are making for a more constructive profit outlook for manufacturing. That said, margins have been under intense pressure for some time in the sector and given the slow-moving dynamics around average costs, any prospective recovery is likely to be gradual at best.

Profit expectations
Next twelve months



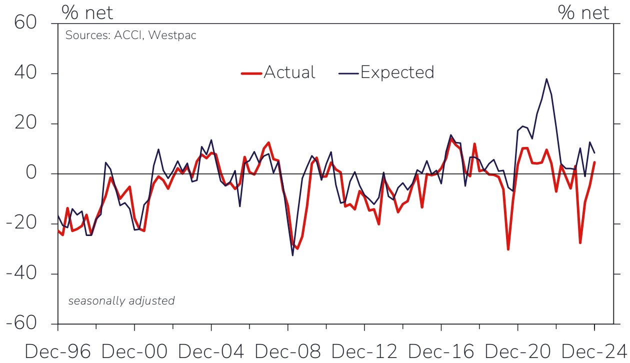
The labour market

Numbers employed (seasonally adjusted)

	Q3 2024	Q4 2024
Actual – net balance	–5	5
Expected – net balance	13	8

- Manufacturing employment improved somewhat heading into year-end, with a net 5% of firms reporting an increase in head count during the December quarter.
- This marks a tentative breakaway from the weak trend over the past two years, as manufacturers seek to increase the size of their work force in anticipation of stronger demand.
- Firms anticipate further increases ahead, with a net 8% of respondents expecting a rise in employment in March.
- Whether these expectations will be met are an open question, given actual employment outcomes have undershot expectations over recent years, reflecting lingering issues around the availability of skilled labour.

Numbers employed
Actual & expected

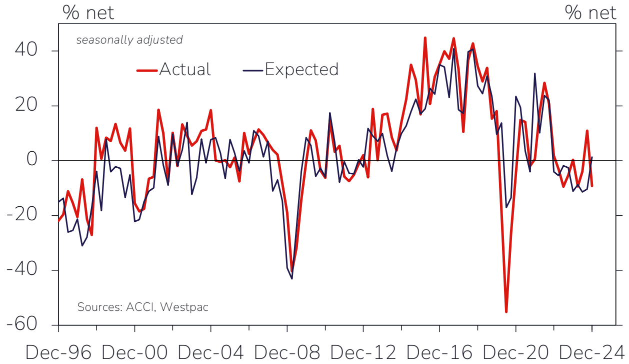


Overtime worked (seasonally adjusted)

	Q3 2024	Q4 2024
Actual – net balance	11	–9
Expected – net balance	–10	1

- Amid a backdrop of softer demand and an expansion in employment, firms pulled back on their use of overtime in December, with a net 9% reporting a decline – broadly in line with manufacturers' own expectations.
- Manufacturers have utilised overtime as a means to retain flexibility over the past year – increasing hours in response to firmer demand, and reducing hours during instances of softer growth in new orders, such as in the latest quarter.
- Overtime expectations have shifted from persistent weakness to a broadly neutral standing in the latest survey, with just a net 1% of respondents anticipating an increase in over the next three months, reflecting a renewed focus on increasing employment.

Overtime worked
Actual & expected

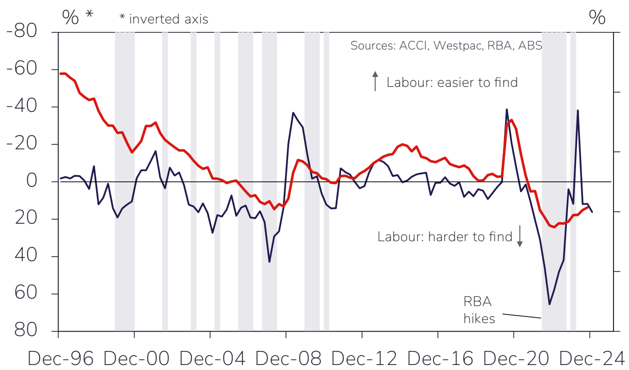


Difficulty of finding labour (seasonally adjusted)

	Q3 2024	Q4 2024
Net balance	11.8	16.1

- 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 a moderate increase in the difficulty to find labour, with a net 16.1% indicating that labour was "harder to find" in the December quarter.
- Rapid growth in Australia's labour supply means economy-wide labour availability is much less dire than it once was.
- However, our survey confirms that dynamics are distinct in manufacturing, with the availability of skilled labour still clearly a key factor limitation for firms in the industry.

Labour market tightness



Prices & inflation

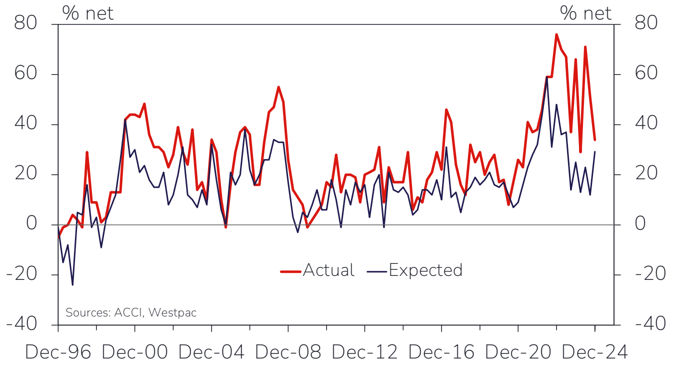
Average unit costs

	Q3 2024	Q4 2024
Actual – net balance	51	34
Expected – net balance	12	29

- The survey finds that cost pressures facing manufacturers continued to ease but remained elevated into year-end. In Q4, a net 34% of firms reported a rise in average unit costs, down from a net 51% in Q3 and a net 71% in Q2.
- Greater-than-usual volatility has made it more difficult to assess underlying trends. Nevertheless, it is encouraging to see the smoothed year-average measure track gradually downwards, from a net 54% in Q3 to a net 46% in Q4, although that remains above 'norm' of a net 19%.
- However, manufacturers remain somewhat circumspect on the sustainability of this downtrend, with a net 29% of manufacturers anticipating an increase in average costs over the next three months, up from a net 12% in Q3.

Average unit costs

Actual & expected

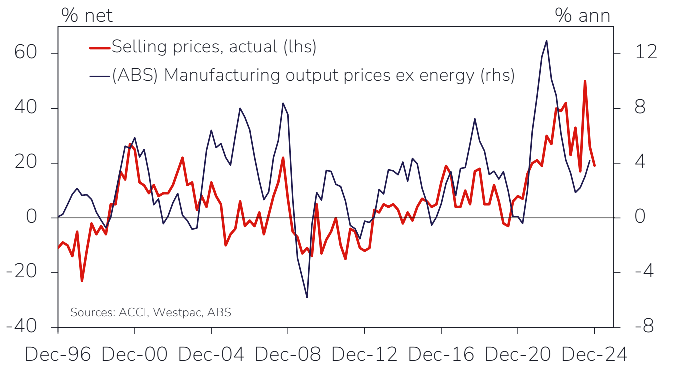


Average selling prices

	Q3 2024	Q4 2024
Actual – net balance	26	19
Expected – net balance	9	24

- Following another step-down in unit cost pressures, the proportion of firms reporting an increase in selling prices also eased, from a net 26% in Q3 to a net 19% in Q4.
- That proportion is below the net 34% reporting a rise in average costs over the same period, highlighting that manufacturers have little scope to pass on rising costs to consumers, implying margins continue to be squeezed.
- That said, the gap between these measures has fallen back to average levels, suggesting the breadth of margin squeeze across the industry is approaching its 'norms'.
- A net 23% of firms anticipate a rise in prices over the next three months, mirroring expectations for average costs.

Manufacturing upstream price pressures

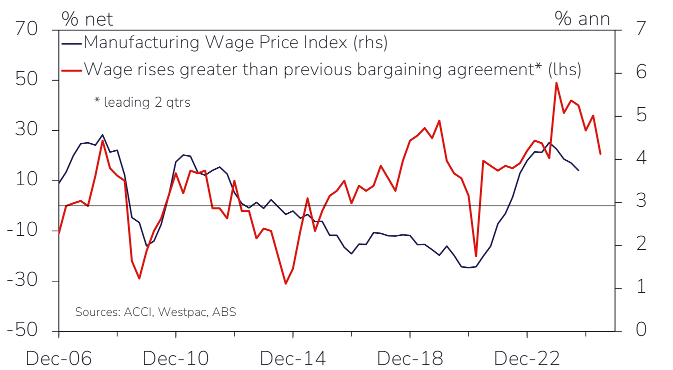


Manufacturing wages

	Q3 2024	Q4 2024
Net balance	36	21

- Manufacturers are becoming less concerned at the prospect of future upward pressure on wages, the survey finds.
- In December, a net 21% of respondents expect their next enterprise wage agreement to deliver an outcome above their last, down from a net 36% in September, albeit still above the historic average of a net 10%.
- The scale of the latest drop may partly reflect the shift in sample composition toward smaller employers, but the trend easing expectations since Q2 2023 remains consistent with the broad tone of official data on the sector. The ABS reports manufacturing wages have eased from a pace of 4.4%yr to 3.8%yr currently, slightly above the economy-wide pace of 3.5%yr.

Manufacturing wage growth



Factors limiting production

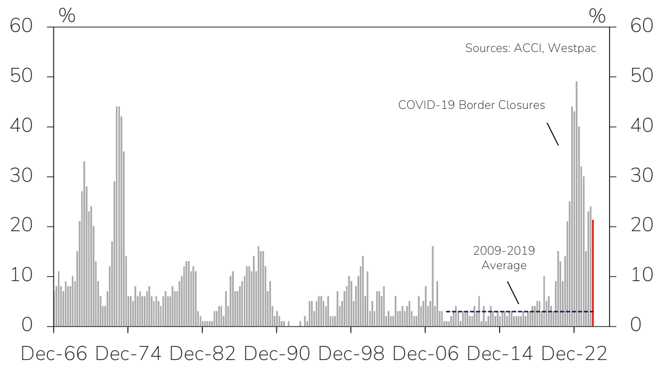
Factors limiting production

- "Labour" was cited by 21% of manufacturers as the single factor most limiting production – little-changed from prior quarters and still well above the 2009-19 average of 3%, indicating lingering issues around skilled labour availability.
- "Material" shortages were viewed as a greater concern in the latest quarter, up from 6% to 12%, emphasising the point that supply disruptions remain an important risk.
- The lift in "finance" as a relative constraint may be partly explained by the greater survey coverage of smaller manufacturers, rather than indicating a renewed tightening in financial conditions; when asked whether finance was more difficult to obtain now versus three months ago, results were virtually unchanged from last quarter.
- Given the prominence of the above, "orders" were not viewed as intense of a constraint as in previous quarters, tracking from a peak of 63% in March to 38% currently.

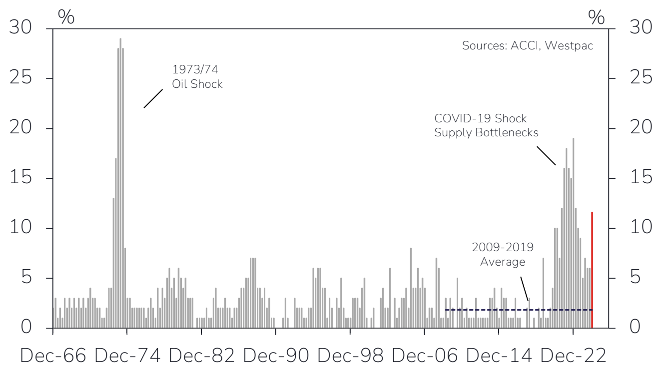
Factors limiting production

	Q2 2024	Q3 2024	Q4 2024
Orders (%)	52	43	38
Capacity (%)	9	8	6
Labour (%)	23	24	21
Finance (%)	3	0	10
Materials (%)	6	6	12
Other (%)	2	2	6
None (%)	5	17	6

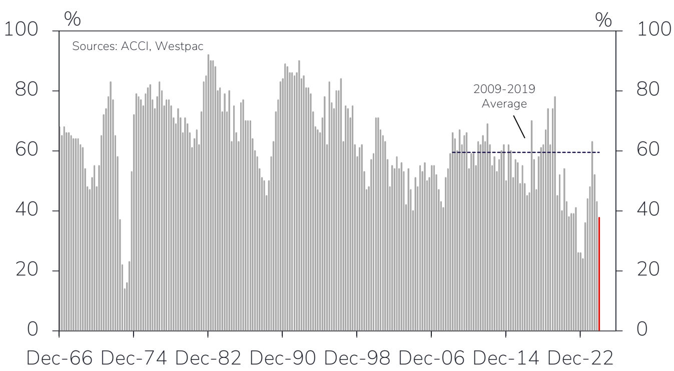
"Labour": single most limiting factor



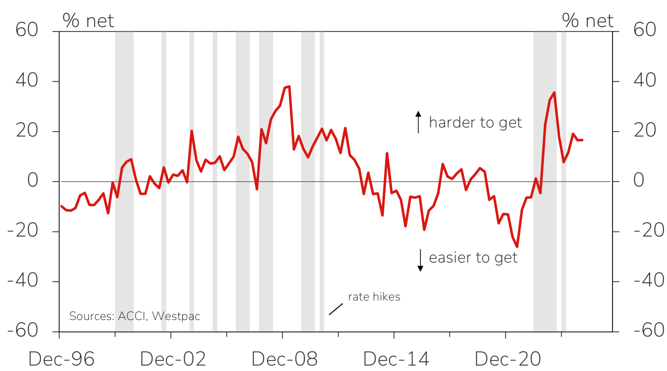
"Materials": single most limiting factor



"Orders": single most limiting factor



Difficulty in obtaining 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
2	27	49	25

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

Net balance	Above Normal	Normal	Below Normal
–10	21	47	32

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

None	6	**Orders**	38
Materials	12	**Finance**	10
Labour	21	**Capacity**	6
Other	6		

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?	15	30	55	15
(b)	finance?	21	30	61	9

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?	7	29	48	22
(b)	on plant & machinery?	20	39	43	19

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

	Change in position in the last three months				*Expected change during the next three months*			
	Net balance	Up	Same	Down	Net balance	Up	Same	Down
6. Numbers employed	1	21	58	20	5	23	58	18
7. Overtime worked	–5	22	51	27	–4	23	49	28
8. All new orders received	–1	28	42	30	14	35	45	21
9. Orders accepted but not yet delivered	0	18	64	18	9	24	60	15
10. Output	8	29	51	20	11	33	46	21
11. Average costs per unit of output	34	44	45	11	29	39	51	10
12. Average selling prices	19	31	57	12	24	32	59	8
13. Export deliveries	11	27	57	16	18	31	55	14
14. Stock of raw materials	2	27	48	25	13	29	54	16
15. Stocks of finished goods	4	25	54	21	5	24	56	19

Summary of results (not seasonally adjusted)

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

(a) Improve?	45
(b) Remain unchanged?	33
(c) Decline?	22
Net balance	23

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?	33
(b) Same?	52
(c) Less?	15
Net balance	18

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	21
Textiles, fabrics, floor coverings, felt, canvas, rope	2
Clothing, footwear	2
Wood, wood products, furniture	6
Paper, paper products, printing	6
Chemicals, paints, pharmaceuticals, soaps, cosmetics, petroleum & coal products	9
Non–metallic mineral products: glass, pottery, cement bricks	4
Basic metal products: processing, smelting, refining, pipes & tubes	5
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	13
Transport equipment: motor vehicles & parts (excluding repairs), rail, ships, aircraft (including repairs)	6
Other machinery & equipment: electrical, industrial, scientific, photographic	14
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	6
Other	8

B. How many employees are covered by this return?

1–100	101–200	201–1000	Over 1000
43	23	25	9

C. In which state (or states) is the main production to which this return relates? *

WA	SA	VIC	NSW	QLD	TAS	ACT/NT
11	9	25	32	16	3	3

In Questions 1–17, non-responses are excluded from net balance calculations and note that percentages might not add up to 100% due to rounding. In the state breakdown, note that percentages might not add up to 100% due to overlap.

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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