Australian Chamber of Commerce and Industry

ACCI–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

241st report December 2021 (survey conducted from 9 November to 1 December)

- 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 survey finds that the stalling of conditions in the manufacturing sector, which emerged in the September quarter, extended into the December quarter.
- The Westpac-ACCI actual composite index held around the breakeven mark of 50, at 50.8, following a 51.2 in the September quarter and well down from a buoyant 63.1 in June, ahead of the delta outbreak. Output was flat in the quarter, the survey reports, so too employment levels in the sector. New orders expanded modestly, up a net +10%, just sufficient to sustain output at current levels.
- Conditions in the December quarter proved to be more challenging than respondents anticipated. The staggered reopening from the delta lockdowns in NSW and Victoria crimped demand, while significant supply headwinds continued, around labour and material availability.
- Expectations are upbeat as NSW and Victoria emerge from lockdown, facilitated by high vaccination rates. The Westpac-ACCI expected composite jumped to 73.6, an historic high. Respondents anticipate a burst of new orders in the opening quarter of 2022, including an element of catch-up, with a net 71% expecting an increase - a record high, coming off a low base.
- Recall that the economy had considerable momentum ahead of the delta outbreak and substantial policy stimulus is boosting demand, pointing to a strong recovery in 2022. Pent-up household demand, an uptrend in home building activity, a lift in business equipment spending and a wave of public works projects will together boost orders for the manufacturing sector.
- Respondents have tempered their equipment investment intentions, a legacy of the recent lockdowns, with a net 7% planning to increase spending in the year ahead, down from 23% in June.
- The survey also highlights that the manufacturing sector faces considerable supply headwinds. This is leading to higher prices for consumers and is a potential handbrake on the pace of recovery.
- Manufacturers' ability to produce is being constrained by difficulties in finding labour, which are the most acute since 2008, and difficulties in sourcing inputs, which are the most pronounced since the oil shock of the mid-1970s. This reflects global supply bottlenecks and border closures. A reopening of borders is needed to help ease some of these pressures.
- Manufacturers are facing intense and sustained cost pressures - at the highest level since 2008. A net 38% reported a lift in costs in the December quarter. Profit expectations, while bouncing back on the prospective reopening, are stuck at levels a little below the long-run average.

Contents

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 241st consecutive survey was closed on 1 December 2021.

A total of **189** 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 2021.

Key survey results

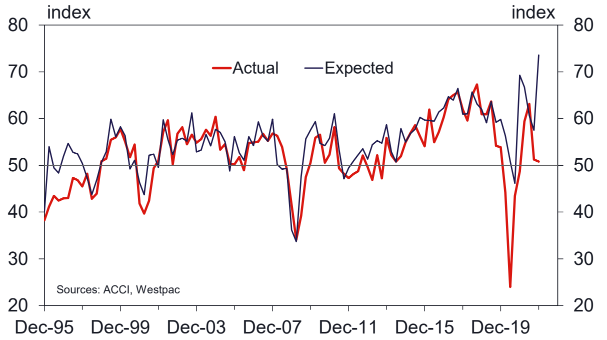
Westpac-ACCI Composites (seasonally adjusted)

	Q3 2021	Q4 2021
Actual – composite index	51.2	50.8
Expected – composite index	57.5	73.6

- The stalling of conditions in the manufacturing sector, which emerged in Q3, extended into Q4. The Westpac-ACCI actual composite index held at around the break even mark of 50, at 50.8 in Q4, following a 51.2 for Q3, well down from a buoyant 63.1 in Q2.
- Conditions in Q4 were more challenging than anticipated. The staggered reopening from delta lockdowns crimped demand, compounded by supply headwinds, around the availability of labour and material inputs. Output was flat in Q4, so too employment levels in the sector.
- Expectations are for a strong burst of activity in Q1 of 2022 on the reopening from lockdowns. The Expected Composite jumped to 73.6, an historic high.

Westpac-ACCI Composite indexes

Actual & expected, sa

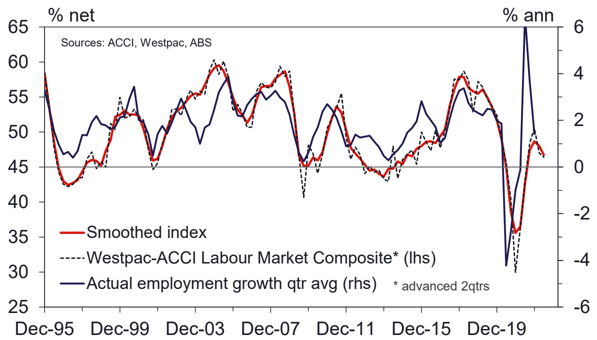


Westpac-ACCI Labour Market Composite

	Q3 2021	Q4 2021
Composite index	47.0	46.4

- The survey provides insights into economy-wide employment growth. This highlights the key linkages between manufacturing and the labour market.
- Over recent years, the Westpac-ACCI Labour Market Composite continued to broadly track the large swings in employment.
- During the covid pandemic, labour market conditions have been particularly volatile - with the stop-start situation created by lockdowns and reopenings.
- The Labour Market Composite was little changed in Q4, at 46.4, from 47.0 in Q3. That is down from 50.6 ahead of delta, but still well up from the lows of 2020. Employment conditions will likely improve in 2022, facilitated by the reopening.

Labour Composite and employment trends



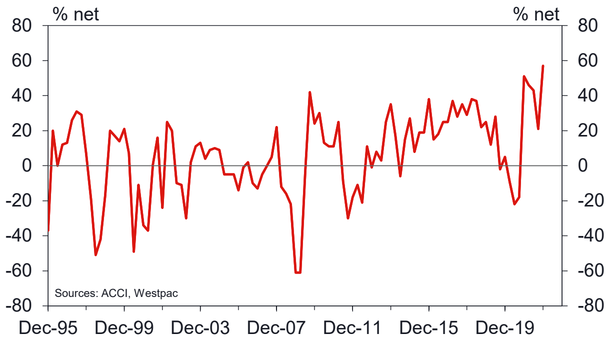
General business situation

	Q3 2021	Q4 2021
Net balance	21	57

- Manufacturing sentiment proved to be relatively resilient during the September quarter, at a net +21%, in the face of the delta outbreak and lockdowns.
- Move forward to the December quarter and expectations bounced strongly. A net 57% of respondents anticipate the general business situation will improve over the next six months.
- With the economy having considerable momentum ahead of delta, prospects are for a sharp rebound on reopening and a strong recovery through 2022.
- Businesses are encouraged by the high vaccination rates - suggesting that we are unlikely to see a return to extended and widespread lockdowns.

General business situation

Next six months

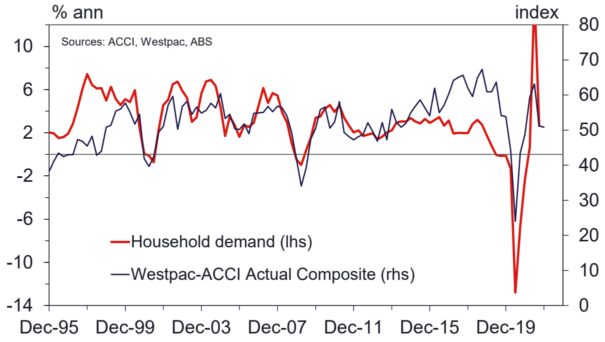


The business cycle & economic outlook

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 covid pandemic and restrictions in response to the virus have significantly disrupted activity and impacted global supply chains. Household demand contracted by 4.4% in the September quarter, associated with the delta lockdowns, which compares to an -11.5% fall in Q2 2020.
- The end of these recent lockdowns will see household demand snap-back. Policy makers have responded to the pandemic by providing a tidal wave of stimulus - boosting activity (when covid restrictions permit), with strong flow-on effects to manufacturing.

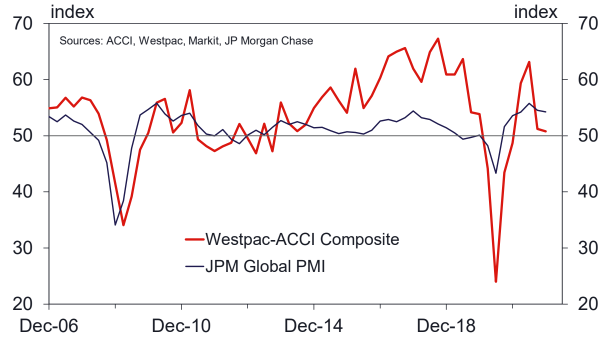
Manufacturing and the business cycle
Westpac-ACCI Composite & household demand



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.
- In 2021, the manufacturing sector globally has - in aggregate - remained comfortably in expansion zone, notwithstanding the ongoing challenges of covid.
- The US manufacturing ISM printed a buoyant 61.1 fro November, extending recent strength. China's Caixin manufacturing PMI has cooled, moderating to 50, down from 52 mid-year and over 54 in 2020, as China's economy has lost momentum.

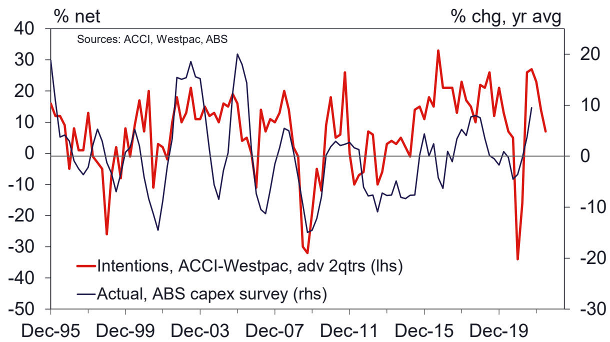
Australian & World manufacturing surveys
Westpac-ACCI & Global PMI indexes



Manufacturing & business investment

- The ACCI–Westpac survey has a solid track record of predicting equipment investment from the manufacturing sector.
- Respondents' investment intentions have moderated over the second half of 2021 - a legacy of the recent lockdowns. A net 7% of respondents plan to increase equipment investment over the coming year, down from 14% in Q3 and from a robust 23% in Q2
- That said, this is still a resilient prospect, relative to the sharp falls in the wake of the 2020 lockdown.
- Official ABS data reveal that the manufacturing sector trimmed equipment spending of late, with falls of -7.9% and -2.4% in Q2 and Q3, respectively. That follows strength over the previous 6 months - encouraged by the reopening from the initial lockdown and supported by generous government tax incentives.

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



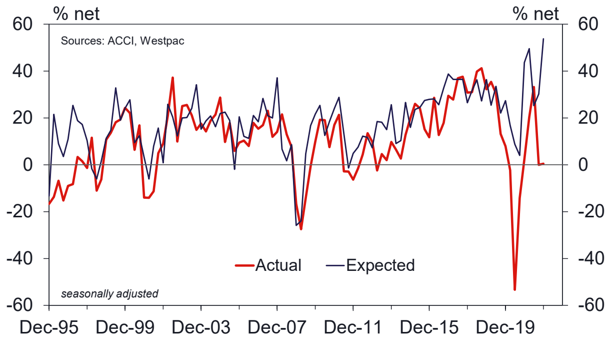
Activity & orders

Output (seasonally adjusted)

	Q3 2021	Q4 2021
Actual – net balance	0	0
Expected – net balance	30	54

- The survey indicates that output remained flat in the December quarter. A net 0% of manufacturing companies increased output through Q4, matching the Q3 result and contrasting with a strong positive net 33% in June.
- The flat outcome indicates that conditions in Q4 were more challenging than anticipated - with a staggered reopening from lockdowns crimping demand and with ongoing supply headwinds (labour and materials) weighing heavily on manufacturing.
- Expectations improved markedly, with a net 54% of firms expecting output will increase over the next quarter. This record high reading reflects a likely fast-paced rebound from lockdowns, off a low base.

Output growth
Actual & expected

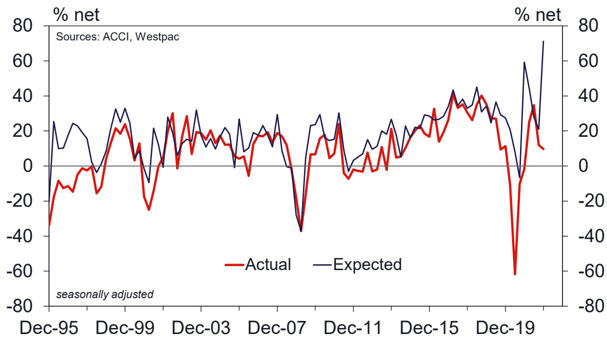


New orders (seasonally adjusted)

	Q3 2021	Q4 2021
Actual – net balance	12	10
Expected – net balance	21	71

- New orders expanded at a modest pace over the second half of 2021, with a net 10% of respondents reporting an increase in Q4. That follows a net 12% for Q3, well down from a net 35% in Q2.
- The modest expansion of new orders was sufficient to sustain output at current levels. Strong momentum prior to delta and expectations of a snap-back in activity on reopening prevented the collapse in new orders evident during the 2020 lockdown.
- The reopening from delta lockdowns is expected to see a burst of new orders in the opening quarter of 2022, with a net 71% expecting an increase. The consumer, home building activity, public works, and business equipment spending will all likely be supportive of rising new orders.

New orders
Actual & expected

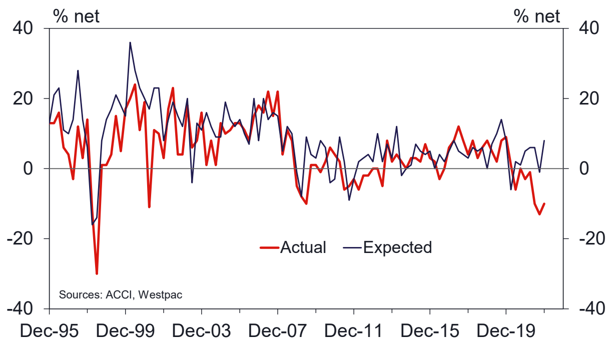


Exports

	Q3 2021	Q4 2021
Actual – net balance	–13	-10
Expected – net balance	–1	8

- Exports declined over Q4, with a net 10% of firms reporting a reduction. This follows a net 13%, 10% and 1% reduction in the previous three quarters, marking a full year of contraction.
- Mixed global conditions, associated with rolling outbreaks of the virus, have been a drag on exports.
- Supply headwinds, around freight costs and shipping availability are key concerns, both in sourcing inputs and exporting finished goods.
- Expectations posted a recovery from the negative read in September, with a net 8% of respondents anticipating exports will increase over the next quarter.

Export deliveries
Actual & expected



Investment & profitability

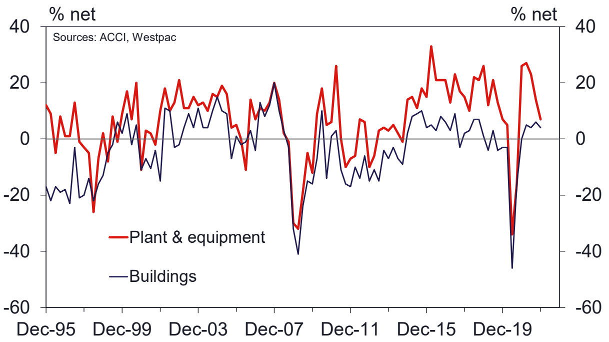
Investment intentions

	Q3 2021	Q4 2021
Plant & Equipment – net balance	14	7
Building – net balance	6	4

- Investment intentions continued to moderate in the December survey. A net 7% of firms are intending to increase plant and equipment investment over the next 12 months. That is down from 14% in Q3 and from 23% in Q2.
- This paring back of investment intentions highlights the legacy from the recent disruptions and lockdowns - albeit this is much more resilient than occurred in the wake of the 2002 lockdown, when intentions plunged to a net -34%.
- Building investment for the year ahead similarly moderated, with a net 4% of firms planning to increase building investment over the next six months. This compares to a net 6% in September and extends a subdued trend.

Investment intentions

Next twelve months

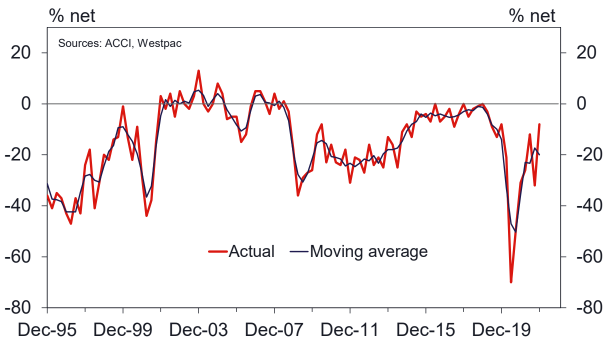


Capacity utilisation

	Q3 2021	Q4 2021
Net balance	-32	-8

- Stringent delta lockdowns in the September quarter left the manufacturing sector operating at capacity levels well below normal. A net 32% of firms reported underutilisation in the period, including 44% operating below capacity.
- Move forward to the December quarter, and significantly fewer firms were operating at below average levels of capacity - improving from 44% to 23%.
- This contributed to the net number of firms operating below capacity improving from -32% to -8%.
- Significant supply headwinds - including ongoing material and labour shortages - have also been a factor, impacting the ability of some firms to operate at capacity.

Capacity utilisation



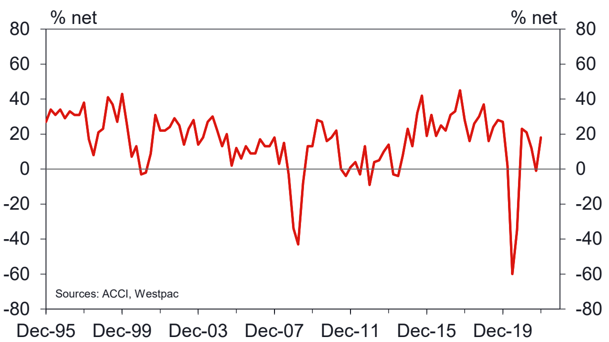
Profit expectations

	Q3 2021	Q4 2021
Net balance	-1	18

- The profitability of the manufacturing sector was hit by rising cost pressures and the extended lockdowns in NSW and Victoria.
- In the latest survey, profit expectations bounced markedly, with a net 18% of respondents expecting profits will rise in the coming twelve months - albeit that is at a level a little below the long-run average.
- The positive - the reopening from lockdowns is expected to bring favourable business conditions in next year as activity rebounds, improving turnover.
- The negative - supply headwinds are squeezing margins. Labour and material shortages are a concern, contributing to sustained and intense cost pressures - including around freight costs.

Profit expectations

Next twelve months



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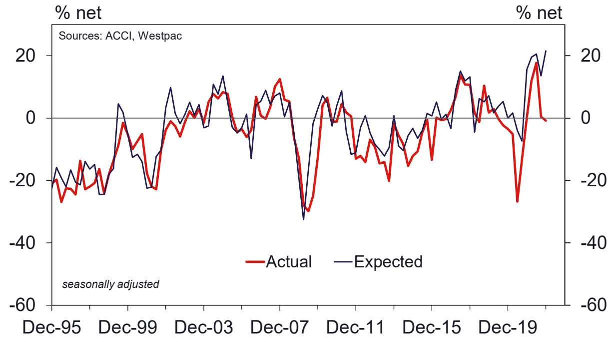
The labour market

Numbers employed (seasonally adjusted)

	Q3 2021	Q4 2021
Actual – net balance	0	-1
Expected – net balance	14	22

- Numbers employed in the sector in Q4 were broadly unchanged, with a net 1% reporting a reduction. This stalling of numbers employed in the sector is alongside the stalling of output over the second half of 2021, associated with the lockdowns.
- Also at play, skills shortage that manufacturers are facing nation-wide amidst a tight labour market and with closed borders, across the states and nationally.
- Expectations for future hiring are positive, in response to a likely burst of new orders, with a net 22% of firms intending to grow their workforce in the next quarter. Whether this can be achieved, given labour shortages, is a key question. The reopening of state borders will help to ease these pressures.

Numbers employed
Actual & expected

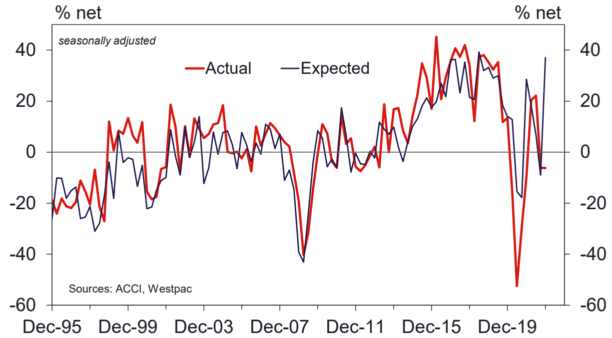


Overtime worked (seasonally adjusted)

	Q3 2021	Q4 2021
Actual – net balance	-6	-6
Expected – net balance	-9	37

- The survey reports that a net 6% of firms reduced overtime in December.
- This soft result matches the September read, where a net 6% of firms also reported a decline in overtime. The reduction in overtime aligns with a flat level of output and subdued capacity utilisation, both of which have been reported over the last two quarters.
- With the prospect of a burst of new orders early in the new year, firms will - in part - respond by increasing overtime. A net 37% of firms foresee an increase in overtime in the coming quarter.

Overtime worked
Actual & expected

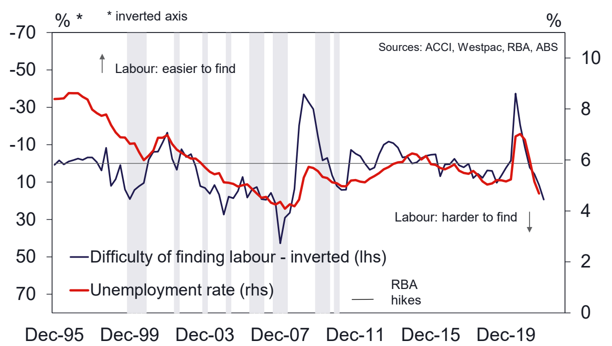


Difficulty of finding labour (seasonally adjusted)

	Q3 2021	Q4 2021
Net balance	11.5	19.4

- The survey provides insights into the tone of the overall labour market. Firms' views on the difficulty of finding labour broadly track shifts in the unemployment rate for the Australian economy.
- Over the course of the year, manufacturers have reported increasingly challenging conditions for finding labour.
- In Q4, a net 19.4% of respondents indicated that labour was "harder to find", the tightest conditions since 2008 Q2, and follows a net 11.5% in Q3.
- This reflects the challenges of sourcing workers in a time of reduced labour mobility with international and state border closures. The reopening of borders will help to ease some of these pressures - but the labour market is likely to remain tight.

Labour market tightness



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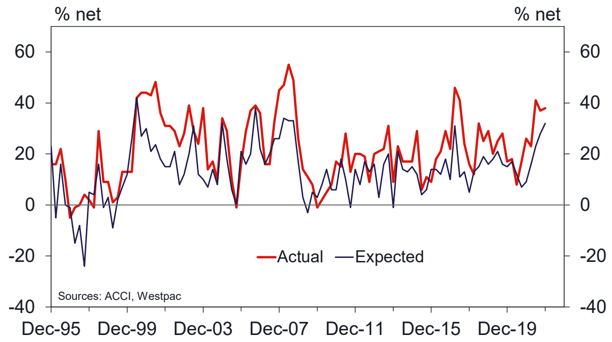
Prices & inflation

Average unit costs

	Q3 2021	Q4 2021
Actual – net balance	37	38
Expected – net balance	28	32

- In the December quarter, input cost pressures remained elevated, with a net 38% of firms reporting higher input costs. The sustained period of cost pressures over the last three quarters, at a net 39%, is the highest average level since December 2008.
- Cost inflation has been a significant issue throughout the covid pandemic and recovery, with supply chain disruptions globally and domestically, border closures and a tight labour market all viewed as contributing factors.
- Manufacturers expect that unit costs will continue to rise, with a net 32% reporting that they see further cost inflation in the next three months. This is up from the 28% reported for the September quarter.

Average unit costs
Actual & expected

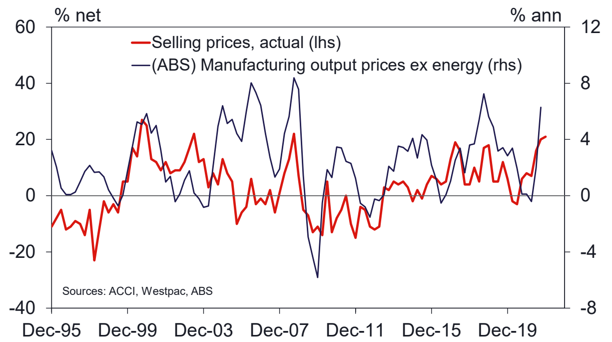


Average selling prices

	Q3 2021	Q4 2021
Actual – net balance	20	21
Expected – net balance	24	22

- Margins are being squeezed with only a partial pass through of higher costs to consumers. Selling price increases continue to trail the rise in average costs.
- This dynamic was again evident in the fourth quarter of 2021. A net 21% of respondents increased prices in the December quarter, well short of the net 38% rise in unit costs over the same period.
- A net 22% of respondents expect selling prices will rise over the next three months as the economy experiences a burst of activity upon reopening and as intense cost pressures continue.

Manufacturing upstream price pressures

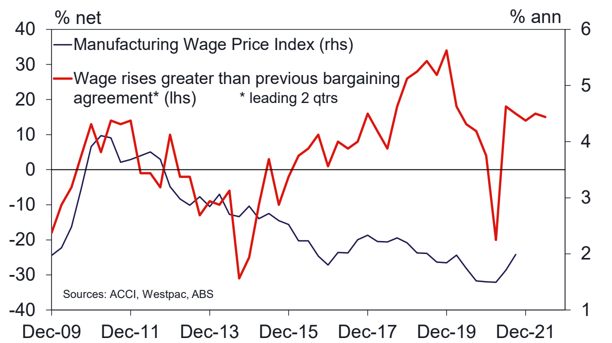


Manufacturing wages

	Q3 2021	Q4 2021
Net balance	16	15

- The survey reports that firms expect upward pressure on manufacturing wages, reversing the slowdown observed in 2020 when the pandemic first struck.
- In the December quarter, a net 15% of respondents anticipate that their next enterprise wage agreement will deliver an outcome above their last. That is little changed from the net 16% in Q3.
- The recent lift in manufacturing wage expectations is broadly consistent with the direction of official data.
- The ABS reports that annual wages growth has quickly rebounded, to be back at levels prior to the pandemic. With labour market conditions tight, and set to tighten further, wages growth will lift.

Manufacturing wage growth



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Factors limiting production

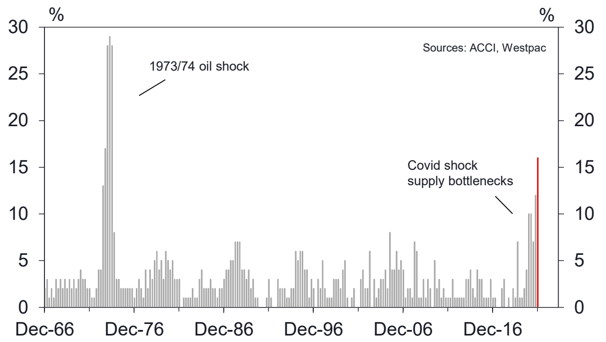
Factors limiting production

- The manufacturing sector is facing significant supply headwinds. The extent to which they ease as borders begin to reopen is a key uncertainty.
- In Q4, 16% of respondents cited materials as the single factor most limiting production. This is at the highest level since the oil shock of 1973, as bottlenecks emerge, locally and globally.
- With closed borders, 14% cite labour as the factor most limiting production - with the labour constraint over the past year the highest since 1988.
- The proportion of firms who identified "other" factors as most limiting moderated to 26% from 35%, as NSW and Victoria emerge from the delta lockdowns.
- Respondents citing orders as the single factor most limiting production was broadly unchanged, at 39, well below the long run average of 64.

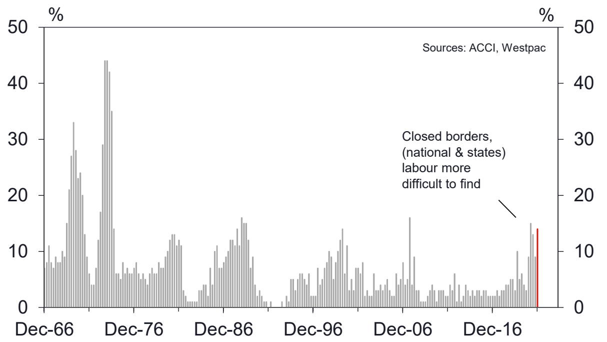
Factors limiting production

	Q2 2021	Q3 2021	Q4 2021
Orders (%)	43	38	39
Capacity (%)	7	4	2
Labour (%)	13	9	14
Finance (%)	3	2	2
Materials (%)	7	12	16
Other (%)	27	35	26
None (%)	0	0	1

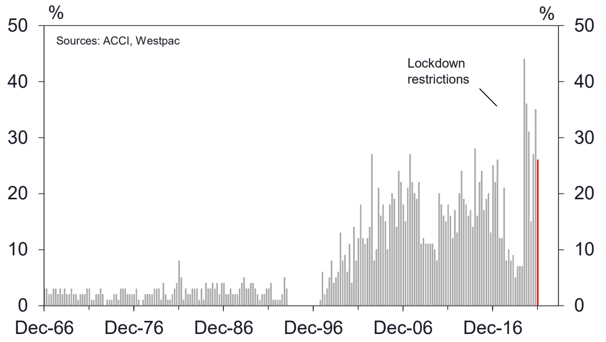
Materials: "single factor" most limiting production



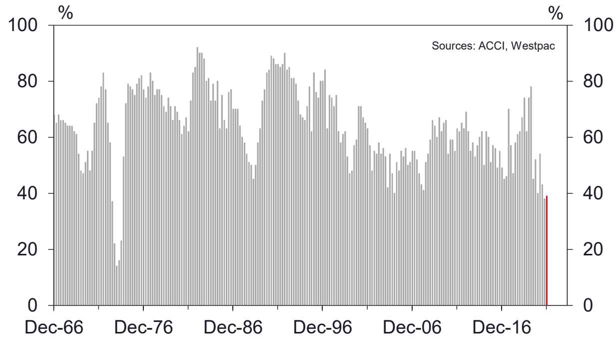
Labour: "single factor" most limiting production



"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
57	63	31	6

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

Net balance	Above Normal	Normal	Below Normal
-8	15	62	23

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

None	1	Orders	39
Material	16	Finance	2
Labour	14	Capacity	2
Other	26		

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?	22	23	76	1
(b)	finance?	-2	2	94	4

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?	4	10	84	6
(b)	on plant & machinery?	7	18	71	11

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	3	11	81	8	22	23	76	1
7.	Overtime worked	8	21	66	13	29	40	49	11
8.	All new orders received	26	35	56	9	58	60	38	2
9.	Orders accepted but not yet delivered	10	22	66	12	10	21	68	11
10.	Output	12	32	48	20	51	54	43	3
11.	Average costs per unit of output	38	39	60	1	32	35	62	3
12.	Average selling prices	21	21	79	0	22	22	78	0
13.	Export deliveries	-10	2	86	12	8	11	86	3
14.	Stock of raw materials	-2	11	76	13	8	15	78	7
15.	Stocks of finished goods	-12	8	72	20	8	14	80	6

Summary of results (not seasonally adjusted)

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

(a) Improve?	26
(b) Remain unchanged?	66
(c) Decline?	8
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?	16
(b) Same?	83
(c) Less?	1
Net balance	**15**

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	18
Textiles, fabrics, floor coverings, felt, canvas, rope	4
Clothing, footwear	5
Wood, wood products, furniture	2
Paper, paper products, printing	7
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	11
Non-metallic mineral products: glass, pottery, cement bricks	5
Basic metal products: processing, smelting, refining, pipes & tubes	3
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	14
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	5
Other machinery & equipment: electrical, industrial scientific, photographic	20
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	6

B. How many employees are covered by this return?

1-100	101-200	201-1000	Over 1000
54	11	16	19

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

WA	SA	VIC	NSW/ACT	QLD	TAS
10	13	25	32	14	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.

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Things you should know.

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