ACCI–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

242nd report March 2022 (survey conducted from 14 February to 1 March)

- 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 conditions expanded at a moderate pace in the opening quarter of 2022, an improvement on the stalling of activity over the second half of 2021 associated with the delta lockdowns - albeit the start of the new year was disrupted somewhat by the outbreak of the mild omicron variant.
- The Westpac-ACCI actual composite index lifted to 56.7 in Q1, up from 50.8. Output, +16, and new orders, +14, advanced modestly, the survey reports. This was largely facilitated by an increase in overtime, as well as a modest increase in employment numbers.
- Expectations are positive, with the Westpac-ACCI expected composite at 61.7, understandably down from the 73.6 in Q4, which represented an anticipated rebound from a weak base. Respondents anticipate a further rise in new orders, and a lift in output, +26.
- While the survey results on output and new orders are an improvement on the challenging period over the previous six months, they describe a moderate rather than brisk pace of expansion. By way of comparison, the expansion period of 2017 and 2018, when the housing sector was in a strong uptrend, actual new orders and actual output both printed at +35 on average each quarter. The housing sector is cooling, with approvals well off their highs, albeit the level of activity is likely to remain high.
- Manufacturing will benefit from growth dynamics beyond housing, notably households spending more freely and a significant increase in public transport infrastructure activity as state governments commit to additional projects.
- Again, the survey highlights that the manufacturing sector faces considerable supply headwinds – with pressures intensifying further in early 2022. This is a handbrake on the pace of recovery, as well as leading to higher prices for consumers.
- Manufacturers' ability to produce is being hampered by labour constraints, which are the most acute since 1974, and difficulties in sourcing materials, which are the most pronounced since the oil shock of the mid-1970s. This reflects global supply bottlenecks and border closures.
- Manufacturers are facing significant and sustained cost pressures - these cost pressures intensified further at the start of 2022 and are at the highest level since 2008. A net 46% reported a lift in costs in the March quarter, up from an already elevated +38. The costs of these headwinds are apparent from the weakness of profit expectations, which deteriorated from +18 to +5, a well below average reading.

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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 242nd consecutive survey was closed on 1 March 2022.

A total of **178** 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 2022.

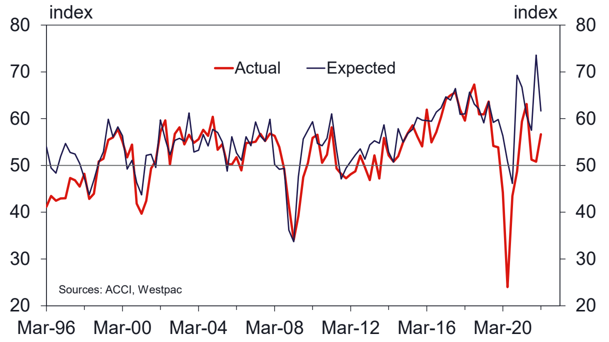
Key survey results

Westpac–ACCI Composites (seasonally adjusted)

	Q4 2021	Q1 2022
Actual – composite index	50.8	56.7
Expected – composite index	73.6	61.7

- After activity stalled over the second half of 2021, impacted by delta lockdowns, manufacturing sector conditions have materially improved. The Westpac-ACCI actual composite index lifted to 56.7, from 50.8.
- The lift in output and employment in Q1 is certainly a positive but omicron disruptions over the holiday period likely held activity back from Q4's ambitious expectations - with demand crimped and supply-side issues around labour and material inputs aggravated.
- At 61.7, the Expected Composite is at a very solid level, albeit down from the historic high of 73.6. This positive outlook reflects expectations of a moderate expansion in output associated with the relaxation of covid restrictions.

Westpac–ACCI Composite indexes
Actual & expected, sa

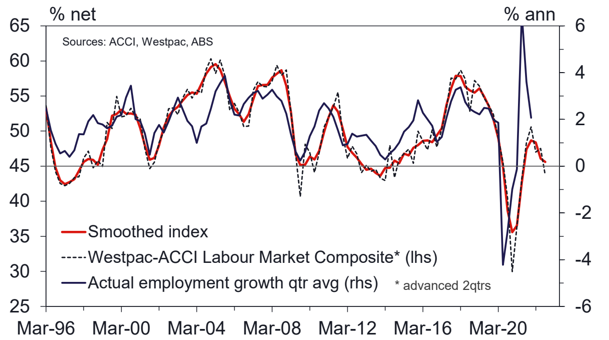


Westpac–ACCI Labour Market Composite

	Q4 2021	Q1 2022
Composite index	47.5	43.7

- 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.
- In this update, the Labour Market Composite moderated to 43.7, down from 47.5. That is down from the 50.6 ahead of delta, but still well up from the lows of 2020.
- Official data confirm that employment levels rebounded sharply from the shock in 2020, at the outset of the pandemic. Annual employment growth has throttled back to be 2.1% for the December quarter 2021.

Labour Composite and employment trends

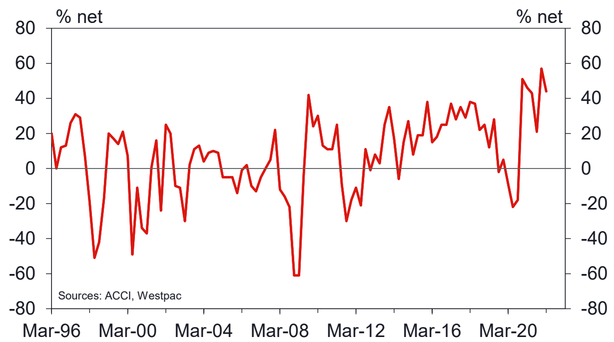


General business situation

	Q4 2021	Q1 2022
Net balance	57	44

- Manufacturing sentiment about the general business outlook bounced back in the December quarter with the reopening from delta lockdowns.
- In the March quarter, respondents remained positive. A net 44% expect the general business situation to improve over the next six months. While down from a +57% in Q4, this is still well above average.
- The omicron outbreak proved to be short-lived and covid restrictions have again been relaxed, with a return to lockdowns unlikely.
- The survey result is consistent with the general consensus that the Australian economy is set for a robust recovery over 2022, supported by pent-up consumer demand and expansionary policy settings.

General business situation
Next six months



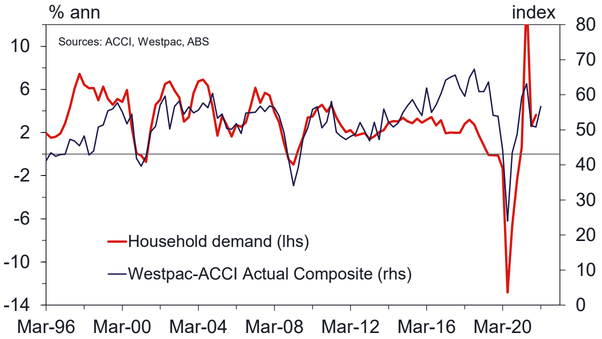
The business cycle & economic outlook

Manufacturing & the business cycle

- The Westpac-ACCI Actual Composite index has a solid track record of predicting near-term domestic economic conditions and identifying turning points in the cycle.
- Fluctuations in the stringency of covid related restrictions have been central to consumer's ability to spend during the pandemic and in turn the fortunes of the manufacturing sector.
- The easing of restrictions after the delta lockdowns, and then after the brief omicron outbreak early in 2022, is associated with improved economic conditions.
- Consumer spending bounced back in the December quarter and for manufacturers output advanced in the opening quarter of 2022, the survey reports.

Manufacturing and the business cycle

Westpac-ACCI Composite & household demand

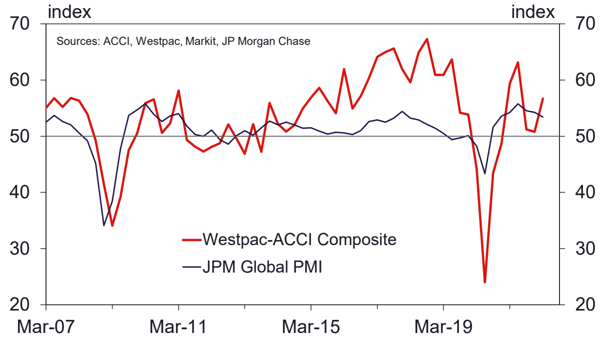


Australian & World manufacturing surveys

- 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 and into 2022, the manufacturing sector globally has - in aggregate - remained comfortably in the expansion zone, notwithstanding the ongoing challenges of covid.
- The US manufacturing ISM printed a robust 58.6 for February, down from a 64.7 high last March. China's Caixin manufacturing PMI has cooled, hovering around the 50 mark since last July, down from 55 late in 2020, as China's economy lost momentum.

Australian & World manufacturing surveys

Westpac-ACCI & Global PMI indexes

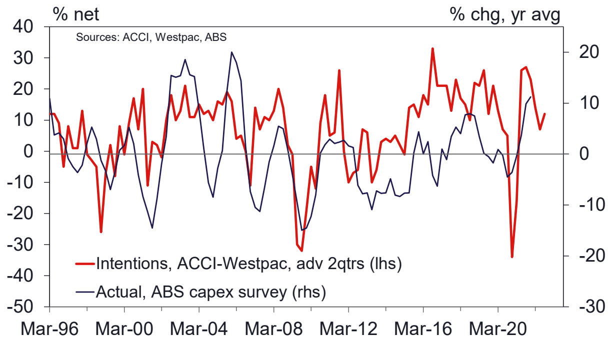


Manufacturing & business investment

- The ACCI-Westpac survey has a solid track record of tracking trends in equipment investment across the manufacturing sector.
- Respondents equipment investment intentions early in 2022 are mildly positive, at +12, up from +7 at the end of 2021, in the wake of the delta lockdowns.
- This latest reading is against the backdrop of new orders expanding at a moderate pace and with the general mood of businesses relatively positive.
- Official ABS data reveals that the manufacturing sector trimmed equipment spending in mid-2021, down by -6.3% and -0.8% in Q2 and Q3, responding to the delta lockdown disruptions. The year ended on a more positive tone, spending up by 1.7% in Q4. For the 2021 year as a whole, equipment spending was 11% higher than in 2020 - a period greatly disrupted by the initial onset of the pandemic.

Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



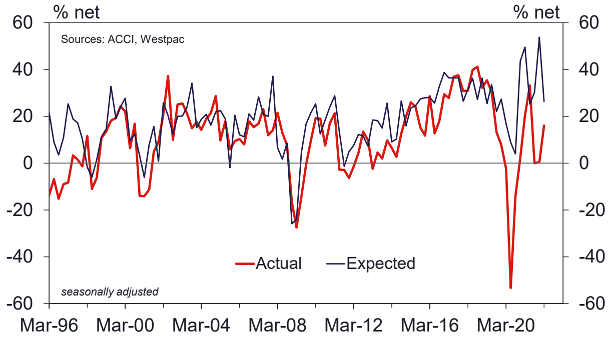
Activity & orders

Output (seasonally adjusted)

	Q4 2021	Q1 2022
Actual – net balance	0	16
Expected – net balance	54	26

- The survey indicated that output, having stalled over the second half of 2021 due to delta, has moved into a period of moderate expansion. A net 16% of respondents increased output through Q1, up from 0.
- Output growth is still well below the brisk pace of 2017 and 2018, a quarterly average of +35%, associated with a strong upswing in housing activity.
- Labour and materials continue to be cited (at historically elevated levels) as a primary constraint to production.
- Expectations have moderated but remain positive, with a net 26% of firms expecting output will increase over the next quarter.

Output growth
Actual & expected

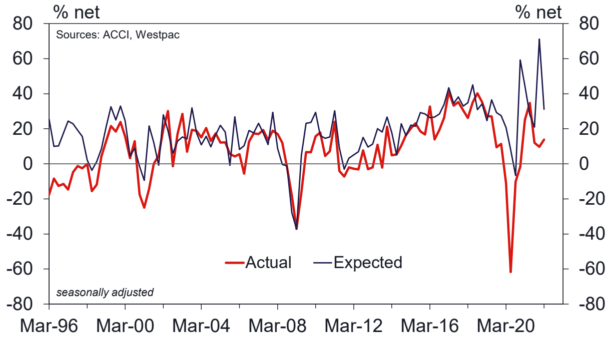


New orders (seasonally adjusted)

	Q4 2021	Q1 2022
Actual – net balance	10	14
Expected – net balance	71	31

- New orders continued to expand at a moderate pace, with a net 14% of respondents reporting an increase in the March quarter - following similar sized gains over the past half year. This is much lower than the 2017-2018 average of +35%.
- The prospects for new orders have been buoyed by the strength of consumer spending on the reopening. However, housing conditions are more mixed, with approvals well down from their highs.
- Expectations have cooled since the series high in Q4. Currently, a net 31% of firms expect new orders to lift.
- In general, actual new orders have significantly undershot expectations during the pandemic, reflecting covid disruptions and supply headwinds.

New orders
Actual & expected

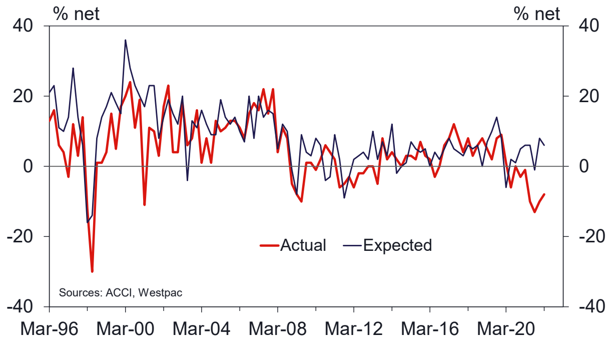


Exports

	Q4 2021	Q1 2022
Actual – net balance	–10	–8
Expected – net balance	8	6

- Exports fell over the March quarter, with a net 8% of firms reporting a reduction. This marks yet another quarter of contraction, following a net 10%, 13% and 10% reduction in the previous three quarters.
- Since the outbreak of the pandemic, manufactured exports have struggled and are still yet to recover. Supply headwinds, around freight costs and shipping availability, and patchy export demand are key concerns of manufacturers.
- Expectations were positive in Q1, with a net 6% of respondents anticipating an increase in exports over the next three months. Firms are still circumspect around the disruptions to the trade network and the impact of tensions with a major trading partner.

Export deliveries
Actual & expected



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.

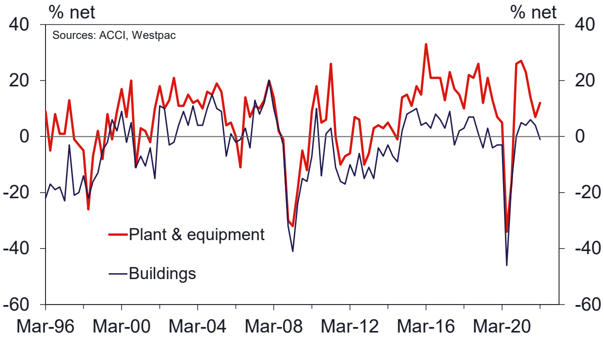
Investment & profitability

Investment intentions

	Q4 2021	Q1 2022
Plant & Equipment – net balance	7	12
Building – net balance	4	–1

- Investment intentions were mildly positive in the March survey, consistent with the moderate expansion of output. Firms are still looking to invest but not to the same degree of confidence seen in the first half of 2021 - when Australia emerged from the shock at the outset of the pandemic.
- A net 12% of firms are intending to increase plant and equipment investment over the next 12 months, well down from a net 27% at the start of 2021.
- Building projections for the year ahead moderated, with a net 1% planning a decrease. This broadly aligns with the subdued trend over the past year, indicating the need for firms to rein in excess capacity before a significant recovery in building investment can occur.

Investment intentions
Next twelve months

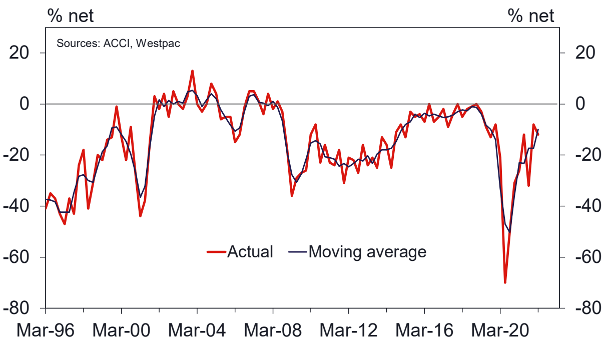


Capacity utilisation

	Q4 2021	Q1 2022
Net balance	–8	–12

- The reopening from delta lockdowns in the December quarter saw significantly fewer firms operating at below average levels of capacity, with the proportion of firms reporting underutilisation moving from a net 32% in September to a net 8% in December.
- Moving forward to the March quarter, and the picture was mixed. Slightly fewer firms were operating at below average capacity - improving from 23% to 21%. However, there were also fewer firms operating at above average capacity - falling from 15% to 9%.
- Overall, a larger net number of firms reported underutilisation, from 8% in Q4 to 12% in Q1.
- Significant supply headwinds - including ongoing material and labour shortages - have impacted the ability of some firms to operate at capacity.

Capacity utilisation

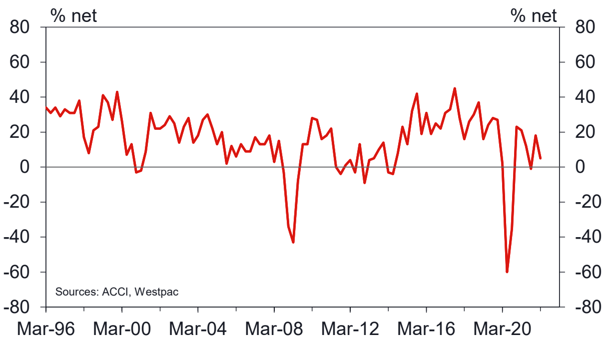


Profit expectations

	Q4 2021	Q1 2022
Net balance	18	5

- The profitability of the manufacturing sector rebounded in Q4 to an underwhelming net +18%. That was off a weak base associated with the delta lockdowns.
- In the latest survey, profit expectations weakened to be subdued, with only a net 5% of firms anticipating that profits will rise in the coming year. This is well below the long-run average of a net 20%.
- These subdued profit expectations are evidence that intense cost pressures and supply headwinds are having a material and significant adverse impact on the manufacturing sector. Profitability is being squeezed, despite the prospect of an uptrend in turnover.

Profit expectations
Next twelve months



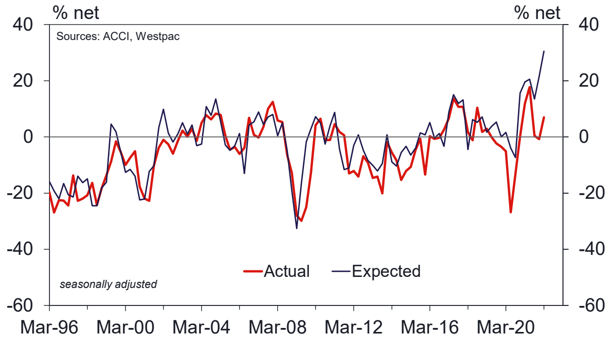
The labour market

Numbers employed (seasonally adjusted)

	Q4 2021	Q1 2022
Actual – net balance	–1	7
Expected – net balance	22	31

- The March survey indicates that employment dynamics in the manufacturing sector have improved somewhat. A net 7% of firms increased employment in the quarter, up from a net 1% reduction in Q4.
- However, employment outcomes are evidently constrained - with actual outcomes falling substantially short of expectations (plans) - evidence of labour shortages, exacerbated by covid disruptions, with omicron over summer the latest.
- Expectations for future employment were highly positive. Currently at a series high, a net 31% of firms intend to grow their workforce in the next quarter. Recent experience suggests that firms will be unlikely to meet these expectations.

Numbers employed
Actual & expected

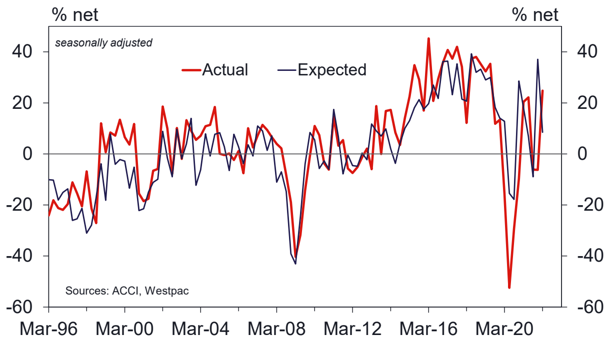


Overtime worked (seasonally adjusted)

	Q4 2021	Q1 2022
Actual – net balance	–6	25
Expected – net balance	37	8

- With employment outcomes constrained, at a time of rising output (albeit moderately so), manufacturers turned to additional overtime. The survey reports that a net 25% of firms increased overtime in the March quarter.
- This is a turnaround from a net 6% reporting reduced overtime in both September and December, during delta and associated with the stalling of output.
- Overtime expectations moderated in March, with a net 8% of firms foreseeing an increase in overtime in the coming months compared to a net 37% in December. However, ongoing labour shortages will likely see overtime again being used to fill the void.

Overtime worked
Actual & expected

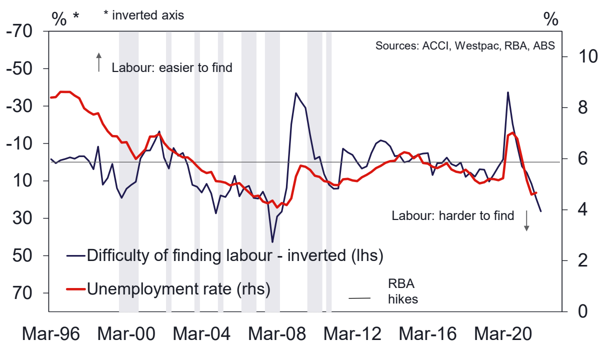


Difficulty of finding labour (seasonally adjusted)

	Q4 2021	Q1 2022
Net balance	19.4	26.3

- 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.
- Since early last year, manufacturers have reported increasingly challenging conditions for finding labour.
- In Q1, a net 26.3% of respondents indicated that labour was "harder to find", the tightest conditions since 2008 (ahead of the impact of the GFC), following a net 19.4% in Q4.
- Covid disruptions and closed borders, at a time of strong demand (supported by substantial policy stimulus), has the unemployment rate at 4.2% currently - and set to move below 4% this year, for the first time since 1974.

Labour market tightness



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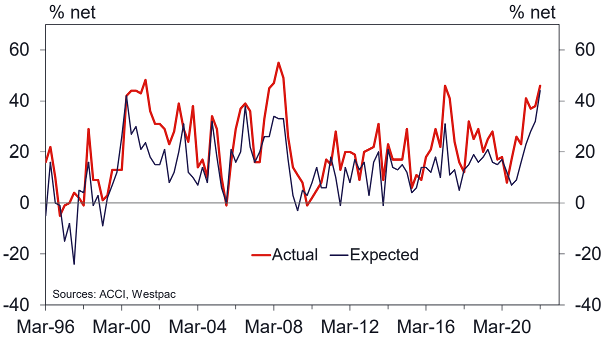
Prices & inflation

Average unit costs

	Q4 2021	Q1 2022
Actual – net balance	38	46
Expected – net balance	32	44

- In the March quarter, input cost pressures intensified further, with a net 46% of manufacturers reporting higher input costs. The average for the year, 41%, eclipses the 2017 high and is the highest since 2008.
- Both "labour" and "materials" have been cited as constraints to output expansion at the highest rate since 1974 - tightness in the labour market and ongoing supply chain disruptions are eroding profitability in the sector through rising costs.
- Manufacturers expect that intense cost pressures will continue, with a net 44% reporting they anticipate average costs will rise further in the period ahead. This is significantly higher than a net 32% reported in the December quarter.

Average unit costs
Actual & expected

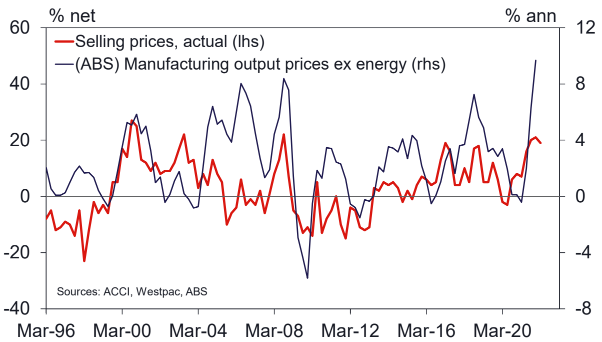


Average selling prices

	Q4 2021	Q1 2022
Actual – net balance	21	19
Expected – net balance	22	26

- 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 first quarter of 2021. The proportion of firms reporting an increase in selling prices declined, down from a net 21% in Q4 to a net 19% in Q1. This is substantially below the net 46% reporting a rise in average unit costs over the same period.
- A net 26% of respondents expect selling prices will rise over the next three months as intense cost pressures continue - which will see margins squeezed further.

Manufacturing upstream price pressures

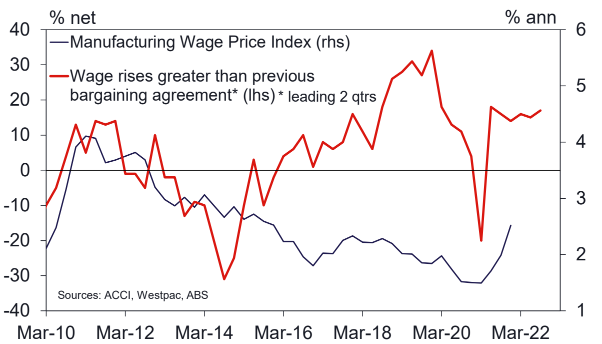


Manufacturing wages

	Q4 2021	Q1 2022
Net balance	15	17

- The survey reports that firms expect wages growth to increase in future enterprise bargaining agreements, a turnaround from the decline observed at the outset of the pandemic.
- In the March quarter, a net 17% of respondents anticipate that their next enterprise wage agreement will deliver an outcome above their last. That is little changed from the net 16% and 15% in Q3 and Q4.
- The recent lift in manufacturing wage expectations is broadly consistent with the direction of official data.
- Annual growth of the ABS Wage Price Index for the sector has quickly rebounded to be above levels prior to the pandemic. With labour market conditions set to tighten further, wages growth will continue to lift.

Manufacturing wage growth



Factors limiting production

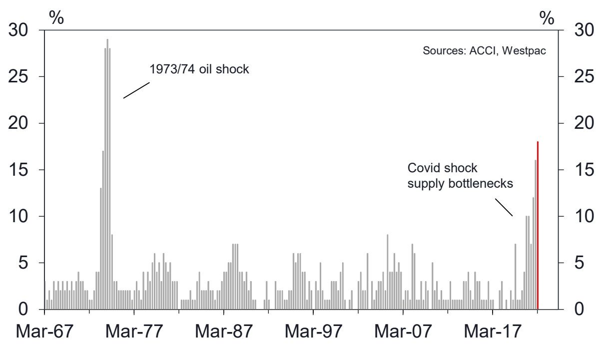
Factors limiting production

- The latest survey confirms that the manufacturing sector is still facing significant supply headwinds.
- "Material" constraints have been a factor over the past year, intensifying further in the March quarter - to be at the highest since 1974, associated with the oil shock, as bottlenecks emerge, locally and globally.
- Border closures and strong demand have led 21% of manufacturers to cite labour as the single factor most limiting production - up from 14%, the highest since 1974 (when unemployment was last below 4%).
- The number of firms who identified "other" factors as most limiting has continued to moderate, from 26% to 19%, as covid restrictions are relaxed post omicron.
- Respondents citing orders as the single factor most limiting production was unchanged at 39%, well below the long run average of 64%.

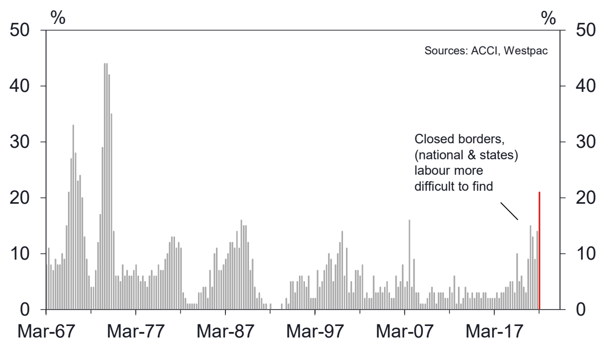
Factors limiting production

	Q3 2021	Q4 2021	Q1 2022
Orders (%)	38	39	39
Capacity (%)	4	2	2
Labour (%)	9	14	21
Finance (%)	2	2	0
Materials (%)	12	16	18
Other (%)	35	26	19
None (%)	0	1	1

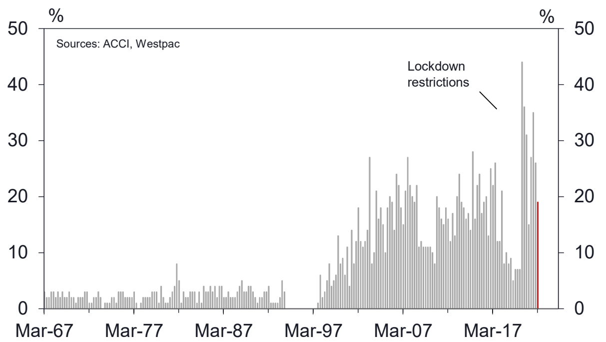
Materials: "single factor" most limiting production



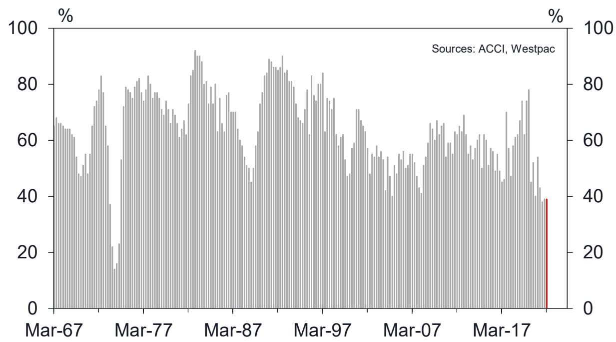
Labour: "single factor" most limiting production



"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
44	53	38	9

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

Net balance	Above Normal	Normal	Below Normal
–12	9	70	21

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

None	1	Orders	39
Material	18	Finance	0
Labour	21	Capacity	2
Other	19		

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?	29	35	59	6
(b)	finance?	–7	2	89	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?	–1	9	81	10
(b)	on plant & machinery?	12	23	66	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	5	12	81	7	31	35	61	4
7.	Overtime worked	14	21	72	7	15	29	57	14
8.	All new orders received	10	25	60	15	39	47	45	8
9.	Orders accepted but not yet delivered	12	18	76	6	10	22	66	12
10.	Output	8	29	50	21	31	40	51	9
11.	Average costs per unit of output	46	46	54	0	44	44	56	0
12.	Average selling prices	19	20	79	1	26	26	74	0
13.	Export deliveries	–8	3	86	11	6	9	88	3
14.	Stock of raw materials	6	18	70	12	–7	9	75	16
15.	Stocks of finished goods	3	14	75	11	4	11	82	7

Summary of results (not seasonally adjusted)

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

(a) Improve?	13
(b) Remain unchanged?	79
(c) Decline?	8
Net balance	**5**

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?	17
(b) Same?	83
(c) Less?	0
Net balance	**17**

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	17
Textiles, fabrics, floor coverings, felt, canvas, rope	3
Clothing, footwear	4
Wood, wood products, furniture	1
Paper, paper products, printing	8
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	11
Non-metallic mineral products: glass, pottery, cement bricks	7
Basic metal products: processing, smelting, refining, pipes & tubes	6
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	16
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	4
Other machinery & equipment: electrical, industrial scientific, photographic	20
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	3

B. How many employees are covered by this return?

1-100	101-200	201-1000	Over 1000
51	12	16	21

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

WA	SA	VIC	NSW/ACT	QLD	TAS
11	12	23	33	16	5

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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