Australian Chamber of Commerce and Industry

ACCI–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

245th report December 2022 (survey conducted from 5 November to 2 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 Westpac-ACCI Actual Composite index moderated sharply in the December quarter, stepping down from an elevated 64.6 in the September quarter to 49.0. 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, a decline in employment and overtime, and a sharp deceleration in output
- The tone of the survey has shifted dramatically from the upbeat note of three months ago to a sobering end to the year for the manufacturing sector and a challenging outlook.
- The survey finds that the burst of demand enjoyed by the manufacturing sector on the reopening of the economy from delta lockdowns and the omicron disruptions has come to an end. Earlier tailwinds to activity have faded, replaced by the headwinds of rapid interest rate rises by the RBA and high inflation.
- New orders all but stalled in the December quarter, only a net 2% reporting a rise. A net 10% of firms increased output, down from the series high of 43% in Q3, to be well below the decade average of 17%.
- The Expected Composite, which proved to be overly optimistic in the previous update, eased from 60.8 to 54.9 in the December quarter, reflective of the softer demand outlook.
- In addition to ongoing material and labour shortages, surging energy costs have instigated a cost crisis – significantly reducing the competitiveness of the sector and threatening the viability of some businesses.
- In the December quarter, a net 76% of firms reported a rise in average unit costs - well above the net 59% in Q3 and the highest reading since the high inflation days of 1982.
- Both "labour" and "materials" continue to be cited as key constraints to output expansion at levels last seen during the oil shock of 1973/74. Some 43% of respondents cited labour as the single factor most limiting production, broadly unchanged from 44%. Material constraints intensified, with 19% citing this as the single factor most limiting production, up from 15%.
- Against this backdrop, profit expectations have swung from subdued, at a net plus 8%, to deeply negative, with 13% anticipating a deterioration over the upcoming twelve months. Business sentiment has similarly become deeply pessimistic, following an average reading of plus 18%, with a net 19% expecting general business conditions to worsen over the next six months.
- The clear message from this survey, the manufacturing sector is facing into a crisis of competitiveness and consumers should brace for further sharp price increases.

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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 245th consecutive survey was closed on 2 December 2022.

A total of **269** 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 2023.

Key survey results

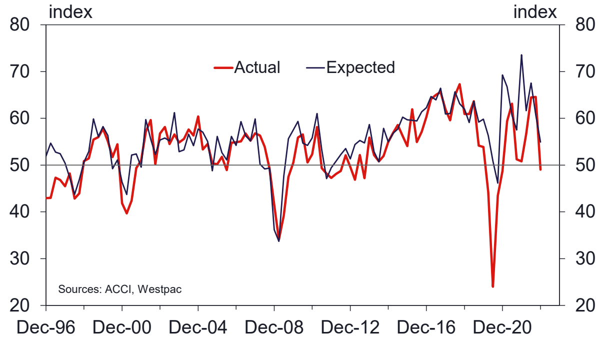
Westpac–ACCI Composites (seasonally adjusted)

	Q3 2022	Q4 2022
Actual – composite index	64.6	49.0
Expected – composite index	60.8	54.9

- The Westpac-ACCI Actual Composite moderated in the December survey, down to 49.0 from 64.6
- 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, a decline in employment and overtime, and a sharp deceleration in output.
- The fading of earlier tailwinds and rising interest rates are contributing to a slowing in demand. In addition to the ongoing shortages of materials and labour, surging energy costs have instigated a cost crisis - threatening the viability of some businesses.
- The Expected Composite eased from 60.8 to 54.9 in Q4 on the softer demand outlook.

Westpac-ACCI Composite indexes

Actual & expected, sa

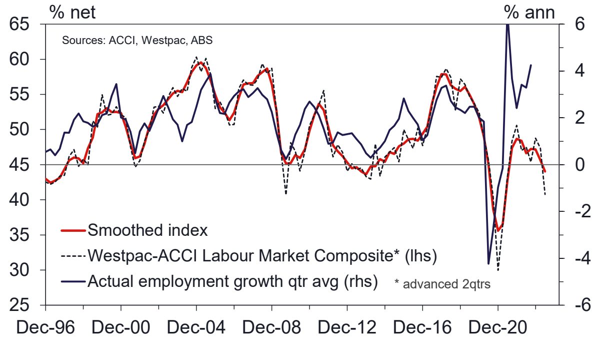


Westpac–ACCI Labour Market Composite

	Q3 2022	Q4 2022
Composite index	47.3	40.8

- The survey historically 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 materially, from 47.3 to 40.8 in Q4, 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 figures report annual employment growth at 4.3% in Q3 - likely skewed towards service segments during this phase of reopening.

Labour Composite and employment trends



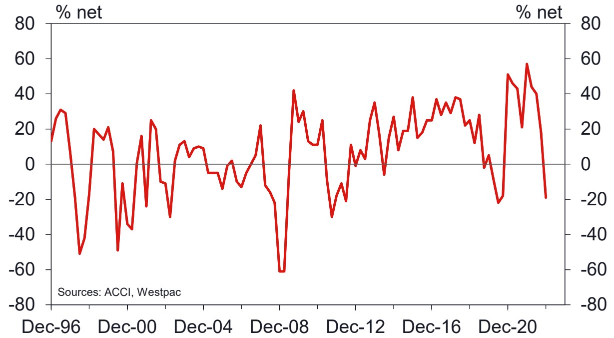
General business situation

	Q3 2022	Q4 2022
Net balance	18	–19

- Manufacturing sentiment about the general business outlook cooled in the September quarter, returning to around an average level of plus 18%, in line with expectations that the demand burst was set to fade.
- Move forward to the December quarter, sentiment has soured, to be deeply pessimistic. A net 19% of respondents anticipate the general business situation will worsen over the next six months, broadly in line with the mid-2020 low -22%.
- The business mood is being clearly impacted by rising interest rates, a stalling of new orders and the dire cost situation faced by manufacturers, which is greatly reducing competitiveness. With the RBA set to raise interest rates further, the risk is for a further weakening of business sentiment.

General business situation

Next six months



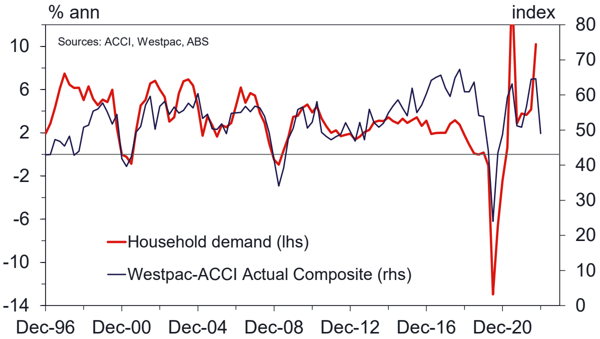
The business cycle & economic outlook

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 this year.
- The cycle for manufacturing has since turned, with the fading of the reopening effect, supply headwinds around materials and labour, and surging costs all associated with decelerating economic conditions.
- As interest rates continue to rise and the above headwinds continue to impact, conditions in the manufacturing sector are at risk of slowing further over the period ahead.

Manufacturing and the business cycle

Westpac-ACCI Composite & household demand

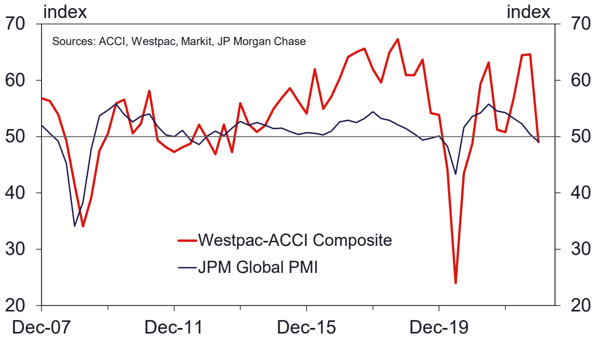


Australian & World manufacturing surveys

- Global and Australian manufacturing cycles tend to be synchronised, especially at major turning points. Historically, the Westpac-ACCI Actual Composite has moved broadly in line with global manufacturing conditions.
- Global manufacturing PMIs plummeted in April 2020 at the outset of the pandemic. Subsequently, the sector globally experienced a rapid recovery.
- Moving into the later half of 2022, the manufacturing sector globally has - in aggregate - begun to cool.
- The US manufacturing ISM retreated from its highs earlier this year, now dipping into contractionary territory at 49.0. Eurozone and China manufacturing PMIs are also weak, reflecting a loss of momentum impacted by the Ukraine war and ongoing virus disruptions (47.1 and 49.4 respectively).

Australian & World manufacturing surveys

Westpac-ACCI & Global PMI indexes

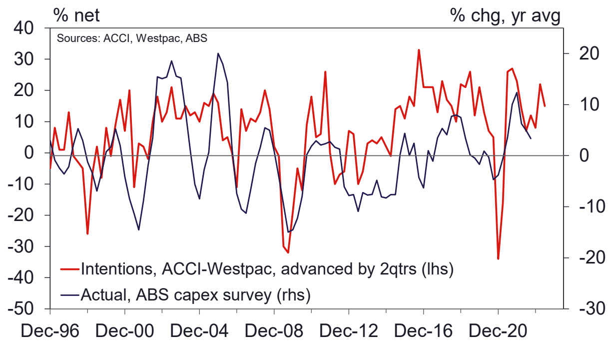


Manufacturing & business investment

- The ACCI-Westpac survey has a solid track record of tracking trends in equipment investment across the manufacturing sector.
- The survey finds that manufacturers' investment intentions remain positive, albeit having weakened in the December quarter. A net 15% of respondents intend to increase equipment spending over the next 12 months, down from 22% in September.
- Official ABS data confirm ongoing momentum in equipment spending by the sector and with likely further upside in the near-term.
- The ABS reports that the manufacturing sector expanded equipment spending in the September quarter, to be about 5% higher than levels a year earlier and well up on pre-covid levels.

Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



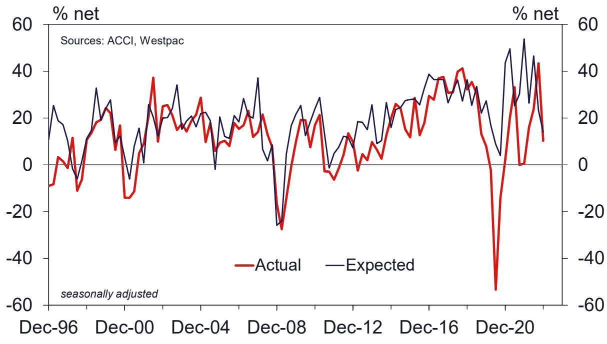
Activity & orders

Output (seasonally adjusted)

	Q3 2022	Q4 2022
Actual – net balance	43	10
Expected – net balance	23	14

- The survey indicates the momentum in output growth slowed appreciably in December.
- A net 10% of firms increased output over Q4, down from the series high of 43% in Q3 to be well below the decade-average of 17%.
- The economy is in transition as earlier tailwinds, which supported a period of robust expansion this year, continues to fade, and rising interest rates and elevated costs begin to impact.
- Expectations have continued to ease materially. A net 14% of manufacturers expect output to rise over the next quarter, down from a net 46% and 23% in Q2 and Q3 respectively.

Output growth
Actual & expected

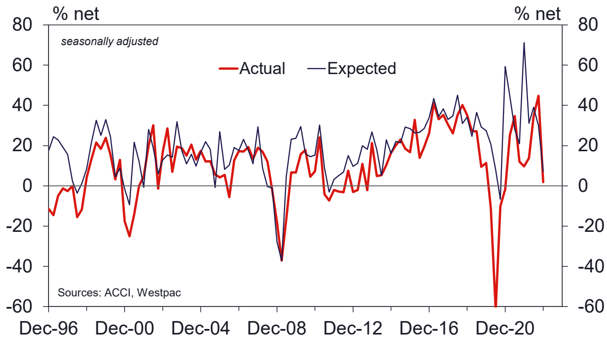


New orders (seasonally adjusted)

	Q3 2022	Q4 2022
Actual – net balance	45	2
Expected – net balance	30	7

- New orders all but stalled in the December quarter, with only a net 2% of respondents reporting a rise.
- Having fallen from the series high of 45% in Q3, growth in new orders is the softest since Q3 2013, besides the pandemic-related slump over the course of 2020.
- With the strong burst in demand over mid-year now drying up, prospects for new orders have weakened materially.
- The survey reports expectations, which were overly optimistic in the previous update, moderated to a subdued level. A net 7% of firms expect new orders to rise in the next three months, down from 30% three months ago.

New orders
Actual & expected

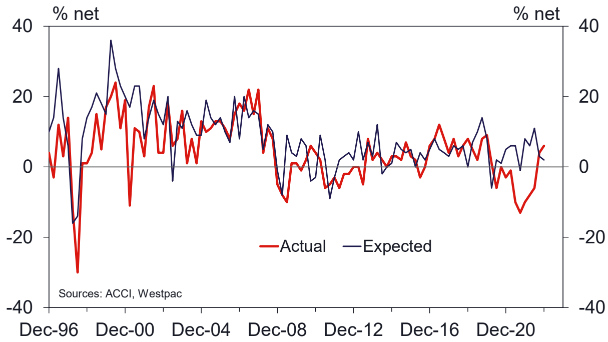


Exports

	Q3 2022	Q4 2022
Actual – net balance	4	6
Expected – net balance	3	2

- Exports conditions remain supportive, the survey reports.
- Exports rose over the December quarter, with a net 6% of firms reporting an increase. This marks a continued improvement from Q3, after a run of negative readings on exports since March 2020.
- Headwinds around freight costs and shipping availability have continued to ease, so too domestic disruptions, lending some support to export deliveries.
- Expectations remained positive but subdued in Q4, with a net 2% of respondents anticipating an increase in exports over the next three months.

Export deliveries
Actual & expected



Investment & profitability

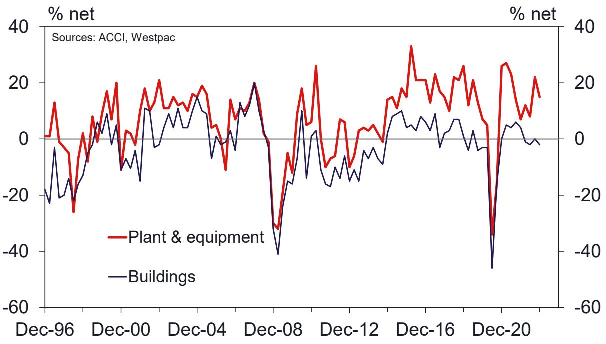
Investment intentions

	Q3 2022	Q4 2022
Plant & Equipment – net balance	22	15
Building – net balance	0	-2

- Investment intentions moderated in the December survey, holding at a positive level.
- Firms are still looking to invest with a greater degree of confidence compared to late 2021, early 2022. Whether firms can meet these expectations given the gloomy outlook is a key question.
- A net 15% of firms are intending to increase plant and equipment investment over the next 12 months, down from the net 22% in Q3 and similar to the net 12% just after the 'delta' outbreak in Q1.
- Building projections for the year ahead remain broadly unchanged and soft, with a net 2% planning a decrease.

Investment intentions

Next twelve months

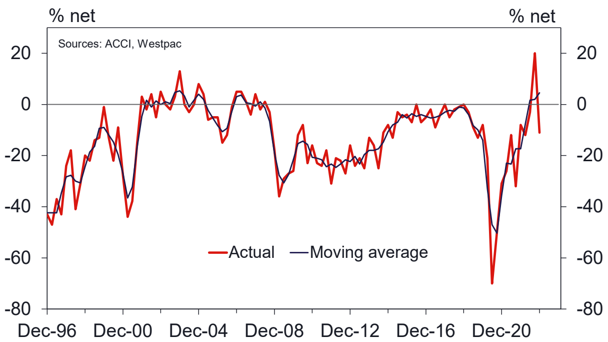


Capacity utilisation

	Q3 2022	Q4 2022
Net balance	20	-11

- The surge in demand over the September quarter saw firms operating well beyond normal capacity levels for the first time since 2008.
- In the December quarter, substantially more firms operated at below average capacity - up from 11% to 34%. There were also fewer firms operating at above average capacity - falling from 31% to 23%.
- Overall, a net 11% of manufacturers reported underutilisation, a retreat from the net 20% that reported overutilisation in Q4 - a rare occurrence.
- Ongoing significant supply headwinds - including ongoing material and labour shortages - are impacting the ability of some firms to operate at capacity.

Capacity utilisation



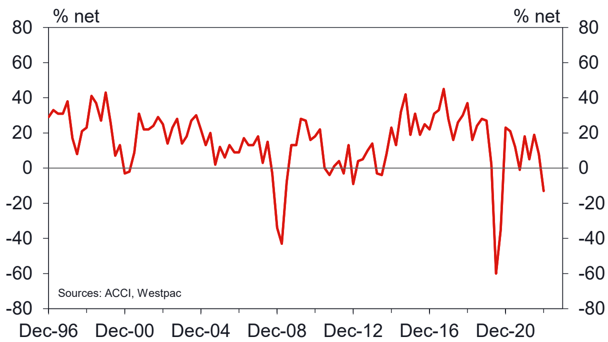
Profit expectations

	Q3 2022	Q4 2022
Net balance	8	-13

- The profitability of the manufacturing sector faltered under the weight of intense cost pressures in the September quarter, cooling to a subdued net plus 8%.
- In this update, profit expectations have turned deeply negative. A net 13% of firms anticipate that profits will decline in the coming year. 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 are under intense pressure and the competitiveness of some firms is being significantly eroded, hit by an unprecedented cost crisis, as energy costs spike, and the limited ability to pass on those higher costs.
- Expectations of subdued turnover in the period ahead provides little upside.

Profit expectations

Next twelve months



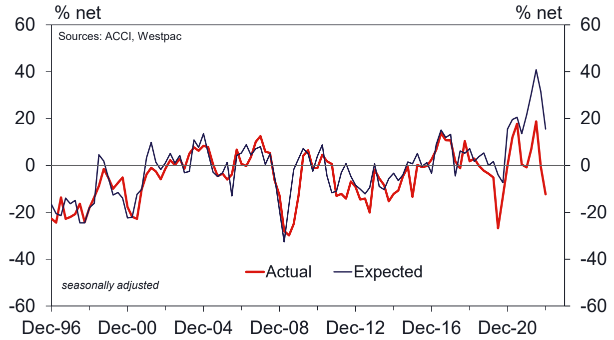
The labour market

Numbers employed (seasonally adjusted)

	Q3 2022	Q4 2022
Actual – net balance	–1	–12
Expected – net balance	31	16

- The December survey indicates that employment dynamics in the manufacturing sector declined in the period. A net 12% of firms decreased employment in the quarter, more than the net 1% in Q3.
- Firms are continuing to find it difficult to source labour, citing it as the single factor most limiting production at historically elevated levels.
- The collapse in new orders also provides less of an incentive for firms to grow their workforce.
- While employment expectations are positive, at a net 16%, outcomes have fallen well short of expectations for the six quarters since September 2021.

Numbers employed
Actual & expected

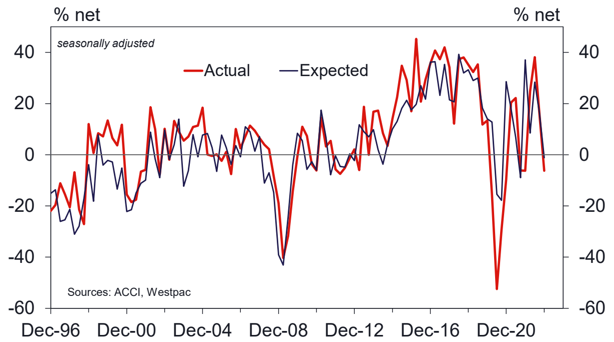


Overtime worked (seasonally adjusted)

	Q3 2022	Q4 2022
Actual – net balance	16	–6
Expected – net balance	16	–1

- Consistent with slowing output growth and subdued new orders, the use of overtime saw a further and sizeable decline in the December quarter.
- The survey reports that a net 6% of firms decreased overtime, down from a net 16% that increased overtime in Q3. This matches the levels seen during the onset of the 'delta' outbreak in Q3/Q4 2021.
- Given the gloomy outlook for demand, the use of overtime will likely continue to fall.
- Overtime expectations deteriorated in December, with a net 1% of respondents foreseeing a decrease in overtime in the coming months.

Overtime worked
Actual & expected

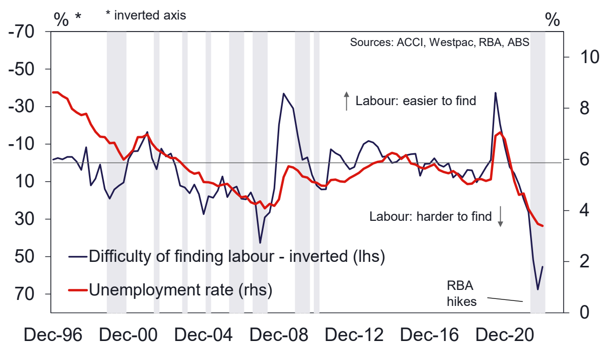


Difficulty of finding labour (seasonally adjusted)

	Q3 2022	Q4 2022
Net balance	67.5	55.4

- 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, it is clear that manufacturers are still facing an intense shortage of labour supply.
- A net 55.4% of respondents indicated that labour was "harder to find", a modest easing from 67.5% last quarter, which is the series high dating back to 1974.
- A critical undersupply of labour, fuelled by illness-related absences and a lack of skilled migrants, has the unemployment rate at 3.4% - the lowest since 1974. With the labour market set to remain tight, firms will likely continue to find difficulty in sourcing labour.

Labour market tightness



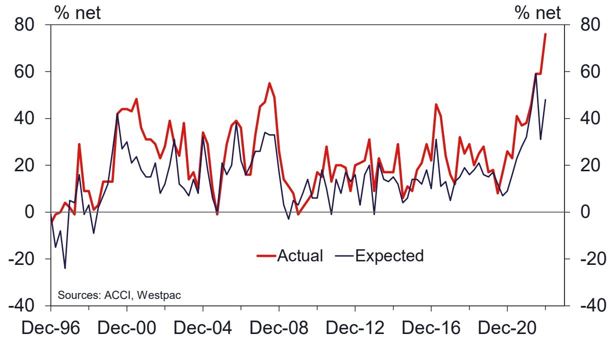
Prices & inflation

Average unit costs

	Q3 2022	Q4 2022
Actual – net balance	59	76
Expected – net balance	31	48

- The survey finds that manufacturers are facing into a cost crisis and a significant loss of competitiveness.
- In the December quarter, a net 76% of firms reported a rise in average unit costs - above the net 59% in Q3 and the highest reading since 1982.
- Both "labour" and "materials" continue to be cited as key constraints to output expansion at historically elevated levels. Surging gas and energy costs are compounding the challenges faced by the sector, eroding profitability through sharply rising costs.
- A net 48% of firms expect average costs to rise in the period ahead. That is up from a net 31% in September - a view which proved to be too optimistic.

Average unit costs
Actual & expected

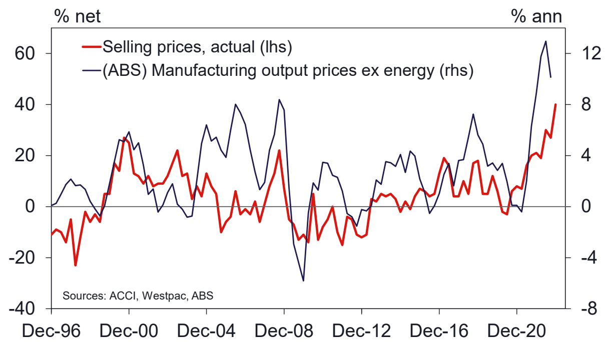


Average selling prices

	Q3 2022	Q4 2022
Actual – net balance	27	40
Expected – net balance	25	27

- 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 December survey and will likely continue. The proportion of firms reporting an increase in selling prices was a sizeable 40% in the period, up from 27% in the last quarter. That is however significantly below the net 76% reporting a rise in average unit costs over the same period.
- A net 27% 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

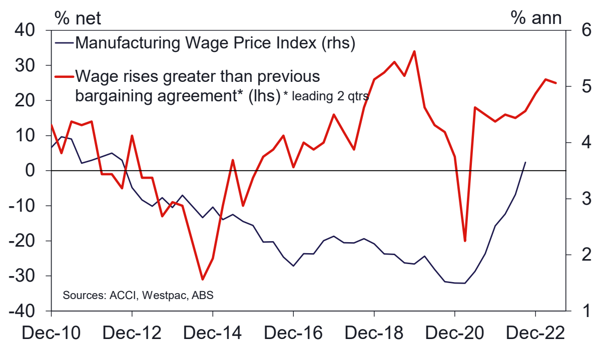


Manufacturing wages

	Q3 2022	Q4 2022
Net balance	26	25

- Wage pressures are building as the labour market tightens further, the survey finds. Respondents expect further upward pressure in future enterprise bargaining agreements.
- In the December quarter, a net 25% of respondents anticipate that their next enterprise wage agreement will deliver an outcome above their last. That is in line with the Q3 reading and up from 15% a year earlier.
- The tone of the survey is broadly consistent with official data on wage trends in the sector. The ABS reports that manufacturing wages are accelerating sharply, with annual growth climbing to around 3.7% - the strongest outcome in a decade.

Manufacturing wage growth



Factors limiting production

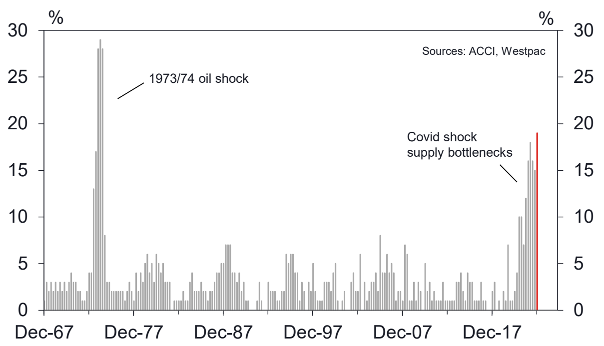
Factors limiting production

- The latest survey confirms that the manufacturing sector is facing ongoing significant supply headwinds.
- Material constraints, emerging from late 2021, intensified in the December quarter, with 19% citing this as the single factor most limiting production - the most acute since the 1973/74 oil shock.
- In line with the dire unavailability of labour, 43% of manufacturers cite "labour" as the single factor most limiting production. This matches the Q3 reading (of 44%), and is broadly in line with the series high in Q2/Q3 1973, associated with the oil shock.
- Firms identifying "other" factors moderated further, from 7% to 1%, as COVID-19 related disruptions continued to fade.
- Respondents citing "orders" as the single factor most limiting production held steady at 26%, well below the long run average of 63%.

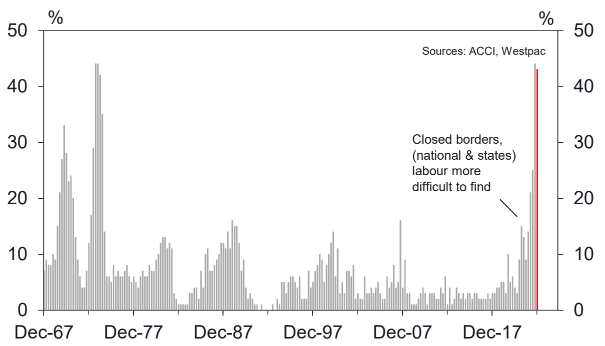
Factors limiting production

	Q2 2022	Q3 2022	Q4 2022
Orders (%)	41	26	26
Capacity (%)	2	6	9
Labour (%)	25	44	43
Finance (%)	2	0	1
Materials (%)	16	15	19
Other (%)	14	7	1
None (%)	0	2	1

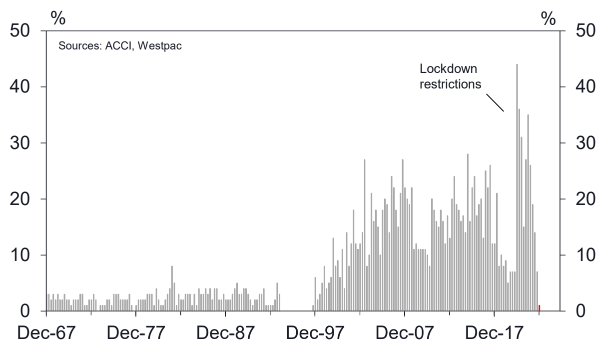
Materials: "single factor" most limiting production



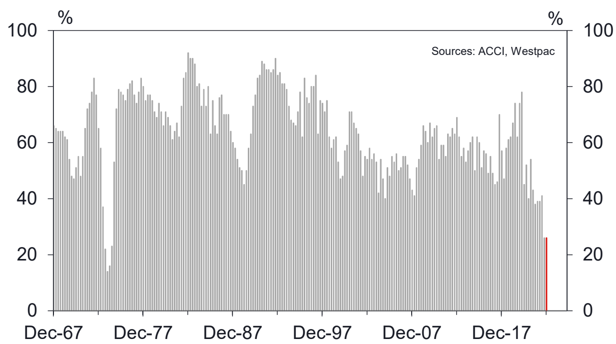
Labour: "single factor" most limiting production



"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
−19	13	55	32

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

Net balance	Above Normal	Normal	Below Normal
−11	23	43	34

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

None	1	Orders	26
Materials	19	Finance	1
Labour	43	Capacity	9
Other	1		

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?	58	59	40	1
(b)	finance?	28	30	68	2

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?	−2	14	70	16
(b)	on plant & machinery?	15	24	67	9

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	−9	17	57	26	16	23	70	7
7.	Overtime worked	8	22	64	14	−7	6	81	13
8.	All new orders received	17	30	57	13	−1	10	79	11
9.	Orders accepted but not yet delivered	−1	9	81	10	−10	1	88	11
10.	Output	23	38	47	15	12	19	74	7
11.	Average costs per unit of output	76	76	24	0	48	50	48	2
12.	Average selling prices	40	42	56	2	27	29	69	2
13.	Export deliveries	6	10	86	4	2	5	92	3
14.	Stock of raw materials	2	9	84	7	−6	3	88	9
15.	Stocks of finished goods	−1	7	85	8	−7	3	87	10

Summary of results (not seasonally adjusted)

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

(a) Improve?	10
(b) Remain unchanged?	67
(c) Decline?	23
Net balance	**-13**

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?	25
(b) Same?	75
(c) Less?	0
Net balance	**25**

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	34
Textiles, fabrics, floor coverings, felt, canvas, rope	1
Clothing, footwear	1
Wood, wood products, furniture	4
Paper, paper products, printing	4
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	17
Non-metallic mineral products: glass, pottery, cement bricks	8
Basic metal products: processing, smelting, refining, pipes & tubes	2
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	6
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	2
Other machinery & equipment: electrical, industrial scientific, photographic	15
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
33	10	20	37

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

WA	SA	VIC	NSW/ACT	QLD	TAS
13	13	23	30	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.

This report was finalised on 14 December 2022
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Things you should know.

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