Australian Chamber of Commerce and Industry

ACCI–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

248th report September 2023 (survey conducted from 14 August to 4 September 2023)

- The Australian Chamber-Westpac Survey of Industrial Trends, Australia's longest running business survey dating from 1966, provides a timely update on manufacturing and insights into economy-wide trends.
- The Westpac-ACCI Actual Composite moved sideways, at 51.3 for the September quarter, following 51.1.
- With a reading around the break-even mark of 50, this indicates that conditions are approaching a stalling speed. The survey reported flat new orders for a second quarter, declines in employment and overtime, and a modest rise in output aided by an easing of labour and material shortages.
- The key message and the number one concern of manufacturers is weak new orders. Back-to-back flat new orders (with only a net 1% reporting a rise for both June and September quarters) is consistent with the marked slowing of the Australian economy. The economic downturn is centred on consumer spending, which was flat in the June quarter as household real disposable income contracted for a fifth consecutive quarter, squeezed by rising living costs, higher interest rates and additional tax obligations.
- The general business mood remains deeply pessimistic. A net 35% of respondents expect the general business situation to worsen over the next six months, little changed from a net 32% the previous quarter. These results eclipse the pandemic lows and are the weakest since 2008/09, following the GFC.
- The Expected Composite rose to a still subdued 54.3, up from 52.9 last quarter but 9pts below a year ago and well down on pre-COVID levels. A net 14% of respondents expect higher new orders next quarter, which compares to a net 31% average for the five years pre-covid. There is a risk that these relatively modest expectations again prove to be too optimistic, as they were in June, at a net +7%.
- Inflation pressures have eased the survey finds, which along with the soft demand backdrop, adds to the case for the RBA remaining on hold and suggest that official interest rates have likely peaked.
- On average unit costs, a net 37% of manufacturers reported an increase in September. That is well down from 67% in June and an end 2022 peak of 76%, but still above the pre-pandemic average of 23%. This mirrors the deceleration in goods inflation domestically and globally.
- Labour is not as "difficult to find", at a net 4.1%, sharply lower from a net 51.4% in June, with rising labour supply now sufficient to meet additional labour demand.
- However, with the unemployment rate still around historic lows, some 37% of respondents expect higher wage rises in future bargaining agreements. Official data reports that wages growth for the sector (as measured by the Wage Price Index) has accelerated to just over 4%, matching the peak of 2011 – together the highest outcomes since the pre-GFC period of 2007-2008.
- A net 1% expect profits to deteriorate in the year ahead, an improvement on June (a net 10% expecting a deterioration) but a still downbeat view in the face of ongoing margin squeeze and soft demand.

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 248th consecutive survey was closed on 4 September 2023.

A total of **315** 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 November and December 2023.

Key survey results

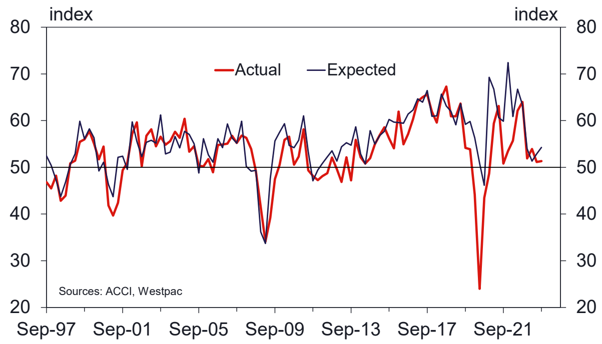
Westpac–ACCI Composites (seasonally adjusted)

	Q2 2023	Q3 2023
Actual – composite index	51.1	51.3
Expected – composite index	52.9	54.3

- The Westpac-ACCI Actual Composite moved sideways in the September quarter, at 51.3 from 51.1.
- 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 for a second quarter, declines in employment and overtime, and only a modest rise in output.
- The Expected Composite rose to 54.3 in Q3, up from 52.9 in Q1, as cost pressures and labour shortages begin to ease from intense levels. Respondents expect new orders, which have stalled, to improve. However, with the impact of earlier RBA interest rate rises yet to be fully felt, these expectations may again prove to be too optimistic.

Westpac-ACCI Composite indexes

Actual & expected, sa

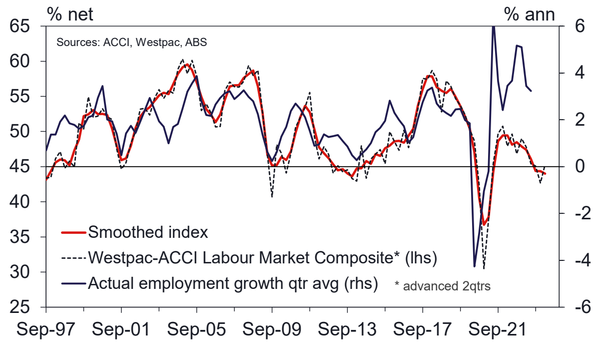


Westpac–ACCI Labour Market Composite

	Q2 2023	Q3 2023
Composite index	42.7	45.3

- The survey provides insights into economy-wide employment growth. This highlights the key linkages between manufacturing and the labour market.
- In this update, the Labour Market Composite improved slightly, from 42.7 in Q2 to 45.3 in Q3, still a weak reading but well above the 2020 low of 30.
- The Composite is currently undershooting nationwide employment trends. This may in part reflect uneven growth across the economy.
- In addition, current employment strength, at 3.2%yr, reflects pent-up labour demand (which emerged during the pandemic) being met by the recent lift in labour supply. That has jobs growth, temporarily, running well above output growth, which is 2.1%yr.

Labour Composite and employment trends



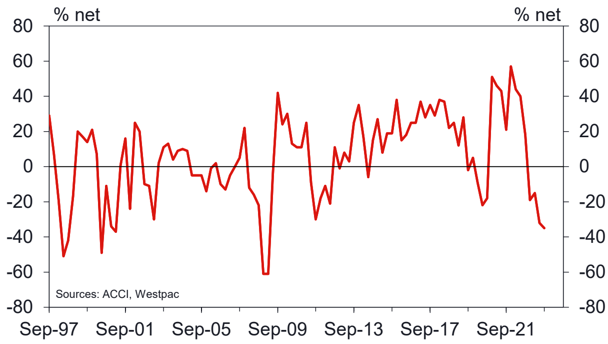
General business situation

	Q2 2023	Q3 2023
Net balance	–32	–35

- Manufacturing sentiment about the general business outlook proved to be deeply pessimistic in the June quarter, in line with the intense cost pressures and prospective slowdown in demand.
- Move forward to September, and sentiment remained very weak. A net 35% of respondents expect the general business situation to worsen over the next six months, weaker than pandemic-era observations and the weakest reading since the GFC.
- There have been some encouraging developments, particularly the moderation in both cost pressures and labour shortages. However, overwhelmingly, the subdued demand outlook – a consequence of rapid interest rate tightening – points to lasting weakness in business sentiment over 2023.

General business situation

Next six months



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.

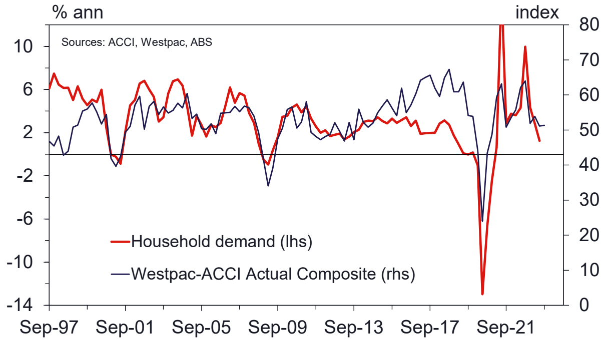
The business cycle & economic outlook

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 in 2021 and the tailwinds from earlier policy stimulus, saw a material improvement in conditions over most of last year.
- In 2023, the manufacturing sector is looking into a clear slowdown in broader activity, while pressures around elevated costs and labour shortages are only just beginning to moderate from very intense levels.
- With the cumulative impact of interest rate rises yet to fully materialise, conditions in the manufacturing sector are at risk of slowing further over the period ahead.

Manufacturing and the business cycle

Westpac-ACCI Composite & household demand

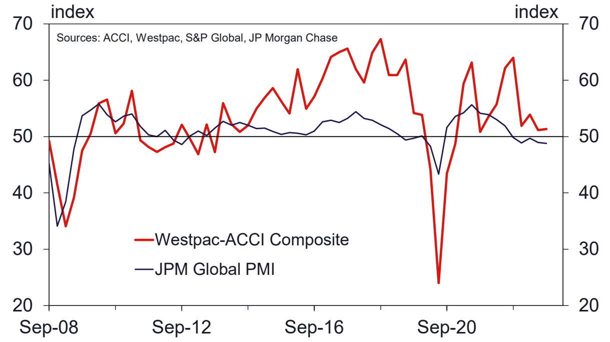


Australian & World manufacturing surveys

- Global and Australian manufacturing cycles tend to be synchronised, especially at major turning points. Historically, the Westpac-ACCI Actual Composite has moved broadly in line with global manufacturing conditions.
- Global manufacturing PMIs began to cool in the second half of 2022, as central banks tightened policy and supply-side disruptions persisted.
- So far in 2023, the manufacturing sector globally has – in aggregate – held broadly in weak territory. This is especially evident for the Eurozone manufacturing PMI (at 43.5), although the US ISM manufacturing PMI also remains in contractionary territory, notwithstanding some marginal improvements recently (at 47.6).
- While China's belated removal of COVID-zero restrictions has seen more volatility of late, it remains supportive overall, the Caixin PMI at 51.0 currently.

Australian & World manufacturing surveys

Westpac-ACCI & Global PMI indexes

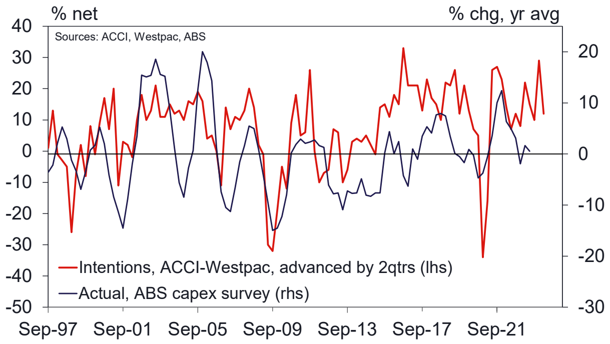


Manufacturing & business investment

- The ACCI-Westpac survey has a solid record of tracking equipment investment trends in the manufacturing sector.
- The survey finds that manufacturers' investment intentions, while still positive, cooled in late 2022 and through 2023. That was notwithstanding a bounce upon the conclusion of the financial year – associated with the wind-up of some generous tax incentives.
- Official ABS data report that manufacturers lifted real equipment spending in the 2022/23 financial year – albeit by a tepid 0.6%, with growth slowing from that for 2020/21, 3.6%, and 2021/22, 4.9%.
- The investment backdrop for the year ahead is a challenging one, with slowing consumer demand weighing on the need for growth in equipment spending.

Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



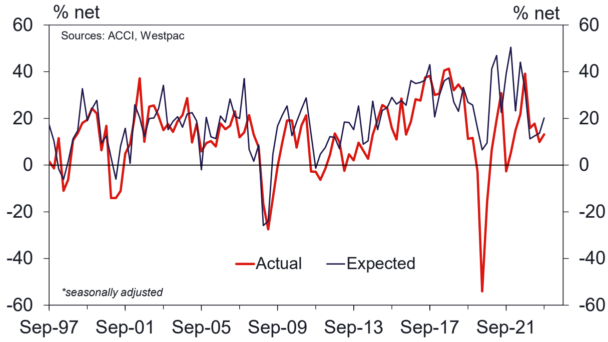
Activity & orders

Output (seasonally adjusted)

	Q2 2023	Q3 2023
Actual – net balance	10	13
Expected – net balance	14	20

- The survey indicates that output growth improved a little in September, with a net 13% of firms reporting an increase in output in Q3.
- The expansion in output, albeit at a subdued level, is somewhat at odds with the stalling in new orders and the weakness in employment, suggesting this may only be short-lived, particularly if new orders continue to surprise to the downside.
- Expectations have improved gradually over the past year but remain soft overall, among the lowest readings since 2014, outside of the pandemic.
- A net 20% of firms expect output to rise next quarter, well below the net 32% this time a year ago and the five-year pre-pandemic average of 30%.

Output growth
Actual & expected

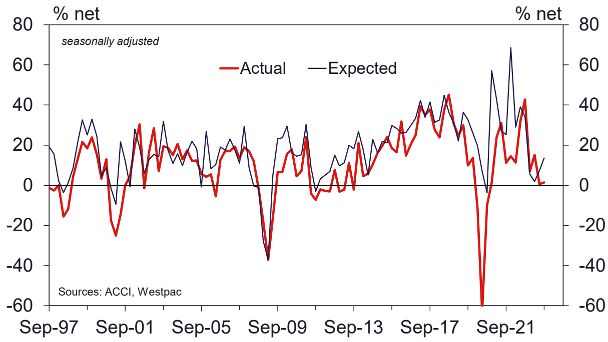


New orders (seasonally adjusted)

	Q2 2023	Q3 2023
Actual – net balance	1	1
Expected – net balance	7	14

- New orders were broadly flat in both the June and September quarters, with a net 1% of respondents reporting an increase in each period, the weakest outcomes since Q3 2013 (outside of the pandemic).
- The economic outlook remains gloomy, as the full impact of higher interest rates continues to materialise, curbing demand. Its impact is uneven, however, as interest rate sensitive sectors weaken while activity in other sectors, like construction, is supported by a large pipeline of projects.
- Expectations improved, with a net 14% anticipating a rise in the period ahead, up from 7%. Whether these modest expectations again prove too optimistic, given the uncertain outlook, remains a key question.

New orders
Actual & expected

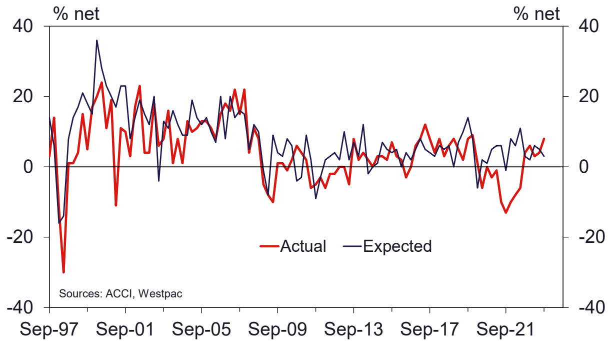


Exports

	Q2 2023	Q3 2023
Actual – net balance	4	8
Expected – net balance	5	3

- Export conditions continued to improve, the survey reports.
- Exports rose over the September quarter, with a net 8% of firms reporting an increase. This is the highest result since December 2019, before the onset of the pandemic.
- Consistent with official data, export deliveries have found support from a weaker AUD and fewer instances of domestic disruptions.
- Expectations remained positive but subdued in Q3, with a net 3% of respondents anticipating an increase in exports over the next three months.

Export deliveries
Actual & expected



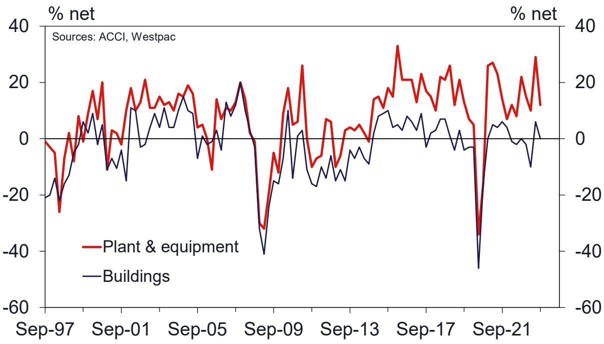
Investment & profitability

Investment intentions

	Q2 2023	Q3 2023
Plant & Equipment – net balance	29	12
Building – net balance	6	0

- In the September quarter, investment intentions pulled back notably, as some generous tax incentives expired at the conclusion of the financial year.
- A net 12% of firms are intending to increase plant and equipment investment over the next twelve months, down from a net 29% in June, to be in line with the result seen in March.
- Firms are still looking to invest in order to expand capacity, albeit to a lower degree of confidence than was seen over the second half of 2022.
- Building projections for the year ahead remain soft. On balance, firms are neither planning to increase or decrease building investment over the next 12 months.

Investment intentions
Next twelve months

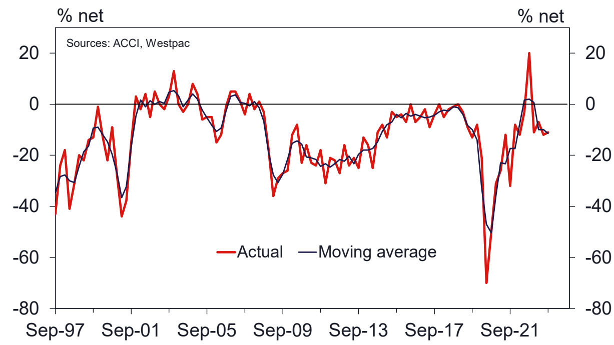


Capacity utilisation

	Q2 2023	Q3 2023
Net balance	–12	–11

- The softening in demand during the June quarter saw more firms operating below normal levels of capacity.
- Moving forward to the September quarter, the picture is little changed. While slightly fewer firms were operating at above average capacity (20% to 17%), there were also fewer firms operating at below average capacity (32% to 28%).
- Overall, the net number of firms reporting underutilisation was broadly stable, moderating only slightly from 12% to 11%, roughly on par with the decade-average.
- Easing of labour and material shortages will aid firms' ability to operate at normal levels of capacity. Key will be trends in new orders.

Capacity utilisation

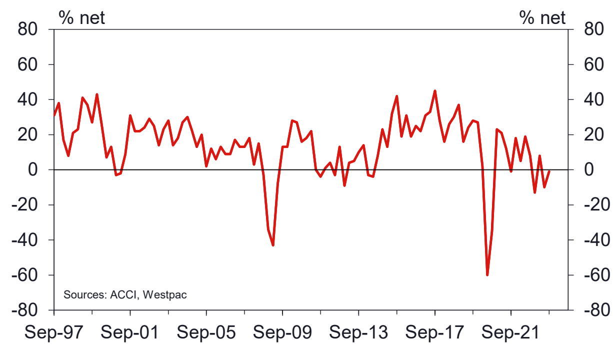


Profit expectations

	Q2 2023	Q3 2023
Net balance	–10	–1

- The profitability of the manufacturing sector slipped into negative territory in the June quarter amid a softening in demand conditions.
- In the latest survey, profit expectations improved but remain well below average levels, with a net 1% of manufacturers anticipating that profits will decline in the coming year.
- Cost pressures, while still elevated, have eased and are expected to ease further. Margin squeeze is still expected to continue, but to be less intense.
- Flat new orders for the past two quarters and the downbeat attitude around the general business situation are clearly weighing on firm's profit expectations.

Profit expectations
Next twelve months



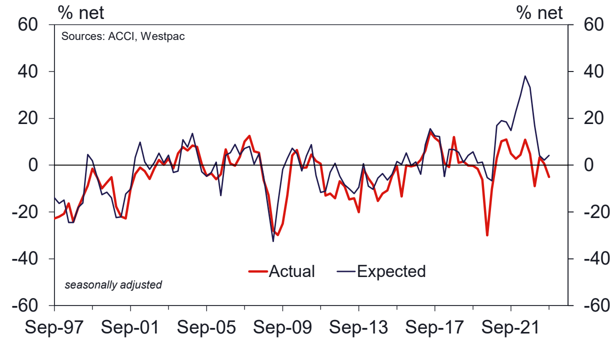
The labour market

Numbers employed (seasonally adjusted)

	Q2 2023	Q3 2023
Actual – net balance	1	–5
Expected – net balance	2	4

- The September survey indicates that employment dynamics in the manufacturing sector weakened from an already subdued level, with a net 5% of firms reporting a decline in employment during the quarter.
- Firms are no longer reporting an intense shortage of labour supply, but given the broader context of stalling new orders and downbeat business sentiment, manufacturers have little incentive to expand their workforce.
- Employment expectations have shifted from strength throughout 2021 and 2022, to softness in 2023, associated with the stalling of new orders. Currently, a net 4% expect to expand their workforce in the next three months.

Numbers employed
Actual & expected

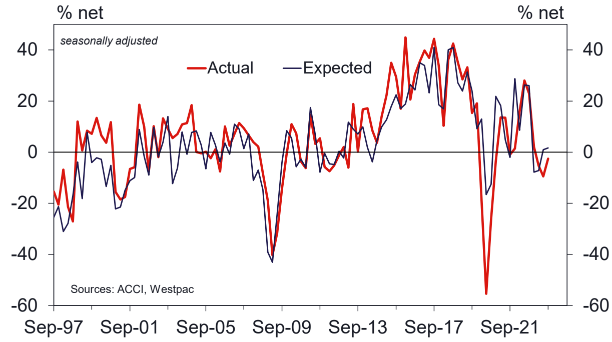


Overtime worked (seasonally adjusted)

	Q2 2023	Q3 2023
Actual – net balance	-9	-3
Expected – net balance	1	2

- Over 2023, manufacturers have been reporting reductions overtime in response to a stalling in new orders.
- The survey reports that a net 3% of firms reduced overtime – the third consecutive quarterly decline, albeit more moderate than the net 9% and 5% reported in Q2 and Q1 respectively.
- Given the gloomy outlook for demand, the use of overtime will likely fall going forward.
- Overtime expectations were broadly unchanged in September, with a net 2% of respondents foreseeing an increase in overtime over the coming months.

Overtime worked
Actual & expected

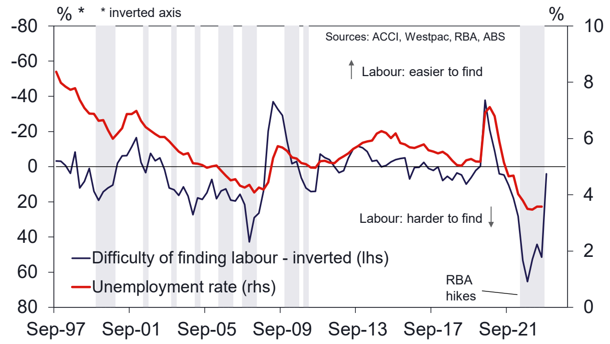


Difficulty of finding labour (seasonally adjusted)

	Q2 2023	Q3 2023
Net balance	51.4	4.1

- 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.
- Since June 2022, firms consistently reported an acute difficulty in sourcing labour, to a degree not-before-seen in the history of the survey (dating to 1974).
- That picture has shifted. In September, only a net 4.1% of respondents indicated that labour was "harder to find" – a material improvement on the net 51.4% in June. Labour supply has strengthened, with annual working age population growth lifting to 2.8%.
- Nationally, unemployment has edged up from the historic low of 3.4% to be at 3.7%, with labour demand now being met by rising labour supply.

Labour market tightness



Prices & inflation

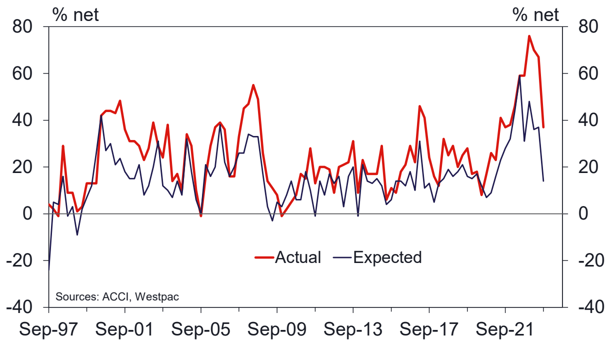
Average unit costs

	Q2 2023	Q3 2023
Actual – net balance	67	37
Expected – net balance	37	14

- The survey finds that the cost pressures facing manufacturers, while still elevated, have eased from the recent historical highs, mirroring the deceleration in goods inflation both domestically and globally.
- In September, a net 37% of firms reported a rise in average unit costs, down from 67% in June and an end 2022 peak of 76%. That is still materially above the five-year pre-pandemic average of 23%.
- Manufacturers have long been anticipating a moderation in average unit costs, and expectations point toward this trend continuing. A net 14% of firms expect average costs to rise in the period ahead, the lowest since the second half of 2020, and before that, the start of 2018.

Average unit costs

Actual & expected

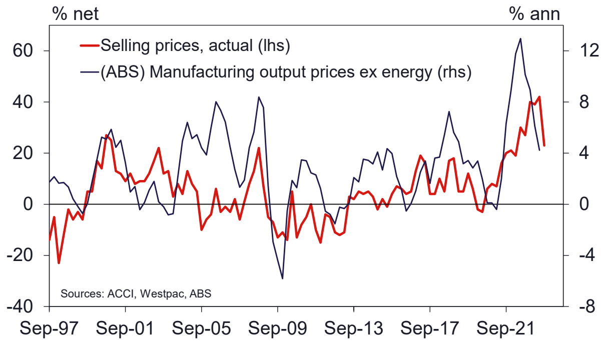


Average selling prices

	Q2 2023	Q3 2023
Actual – net balance	42	23
Expected – net balance	20	6

- With cost pressures moderating, and the weak demand backdrop, the proportion of firms reporting an increase in prices fell notably, from a net 42% in June to a net 23% in the September quarter.
- Throughout this period of escalating costs, margins have been squeezed, with only a partial pass through of higher costs to consumers.
- In the September quarter, selling prices continued to trail costs, albeit to a milder degree.
- A net 6% of respondents expect selling prices to rise over the next three months. That is well down on the past 2½ years but still trails cost pressures – implying some ongoing margin squeeze.

Manufacturing upstream price pressures

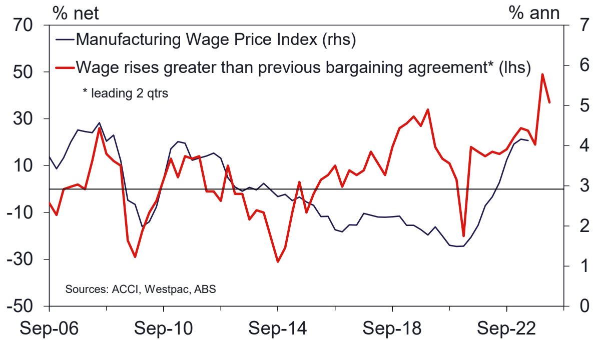


Manufacturing wages

	Q2 2023	Q3 2023
Net balance	49	37

- Wage pressures are strong as the labour market remains historically tight, the survey finds. Respondents expect further upward pressure in future bargaining agreements.
- In the September quarter, a net 37% of respondents expect their next enterprise wage agreement to deliver an outcome above their last – a pull-back from the series high of 49% in Q2.
- The tone of the survey is broadly consistent with the direction of official data on wage trends in the sector. The ABS reports that manufacturing wages have accelerated sharply, with annual wages growth climbing to just above 4%. That matches the 2011 peak, together the highest outcomes since the period 2007 to 2008.

Manufacturing wage growth



Factors limiting production

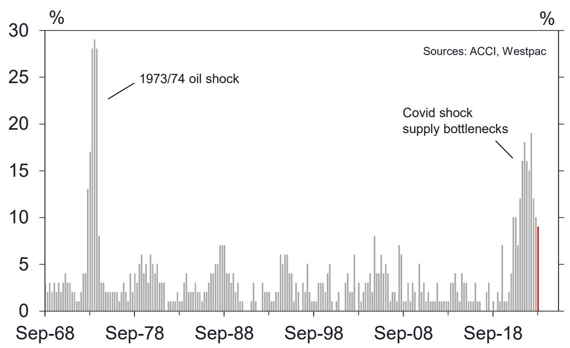
Factors limiting production

- The latest survey confirms a continuation of the recent emerging trends around the relative limitations to production. Labour and material shortages are less intense, while order weakness is a growing concern.
- A lack of "orders" is now the number one concern, cited by 44% of respondents as the single factor most limiting production, up from 24% in March.
- "Labour" shortage concerns have moderated from a March peak of 49% to 32% in September, which is still well above the historic average of 8%.
- "Material" constraints have been a factor over the last year, and remain so in September, albeit to a softer degree (at 9%, down from an end 2022 peak of 19) as supply disruptions domestically and globally ease.
- Respondents continue to identify the "difficulty in obtaining finance" as an issue, but on this relative measure, the reading fell to 0% in September.

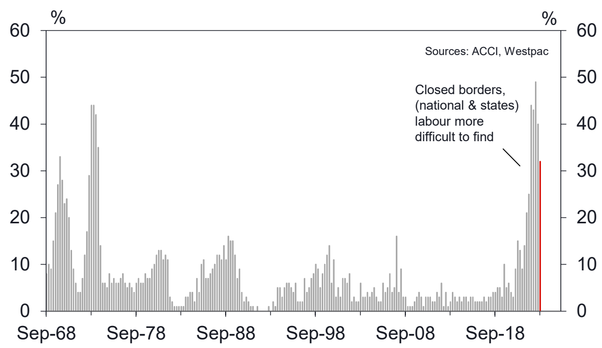
Factors limiting production

	Q1 2023	Q2 2023	Q3 2023
Orders (%)	24	36	44
Capacity (%)	5	6	8
Labour (%)	49	40	32
Finance (%)	7	5	0
Materials (%)	12	10	9
Other (%)	2	0	2
None (%)	1	3	5

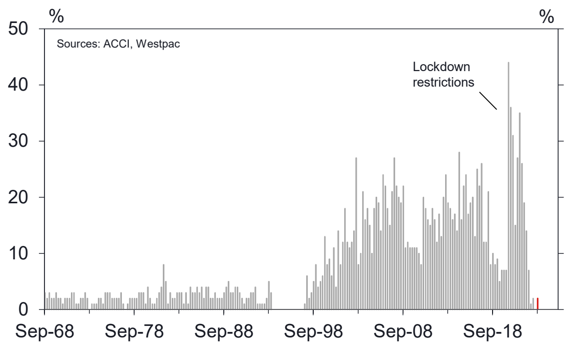
Materials: "single factor" most limiting production



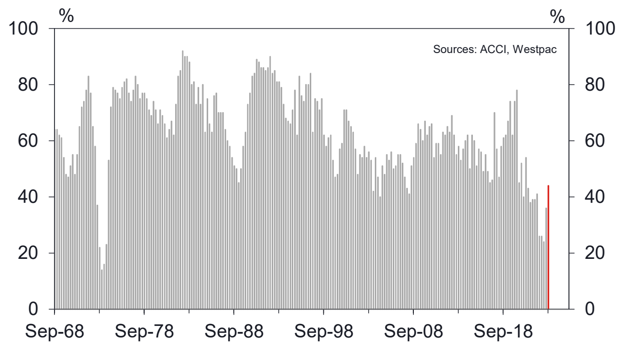
Labour: "single factor" most limiting production



"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
-35	9	47	44

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

Net balance	Above Normal	Normal	Below Normal
-11	17	55	28

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

None	5	**Orders**	44
Materials	9	**Finance**	0
Labour	32	**Capacity**	8
Other	2		

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?	6	18	70	12
(b)	finance?	15	17	81	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?	0	16	68	16
(b)	on plant & machinery?	12	25	62	13

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	-8	17	58	25	3	13	77	10
7. Overtime worked	-9	13	65	22	-4	6	84	10
8. All new orders received	-2	26	46	28	12	20	72	8
9. Orders accepted but not yet delivered	-1	11	77	12	-3	4	89	7
10. Output	16	34	48	18	11	19	73	8
11. Average costs per unit of output	37	44	49	7	14	18	78	4
12. Average selling prices	23	27	69	4	6	12	82	6
13. Export deliveries	8	11	86	3	3	4	95	1
14. Stock of raw materials	-9	5	81	14	-6	4	86	10
15. Stocks of finished goods	-4	10	76	14	-1	4	91	5

Summary of results (not seasonally adjusted)

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

(a) Improve?	16
(b) Remain unchanged?	67
(c) Decline?	17
Net balance	**-1**

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?	37
(b) Same?	63
(c) Less?	0
Net balance	**37**

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	26
Textiles, fabrics, floor coverings, felt, canvas, rope	3
Clothing, footwear	1
Wood, wood products, furniture	6
Paper, paper products, printing	4
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	13
Non-metallic mineral products: glass, pottery, cement bricks	9
Basic metal products: processing, smelting, refining, pipes & tubes	3
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	9
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	7
Other machinery & equipment: electrical, industrial scientific, photographic	14
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	5

B. How many employees are covered by this return?

1-100	101-200	201-1000	Over 1000
30	8	23	39

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

WA	SA	VIC	NSW/ACT	QLD	TAS
13	12	24	30	17	4

The Westpac-ACCI Composite Indices

The Westpac-ACCI Actual and Expected Composite indices are weighted averages of the activity measures in the survey. The weights are as follows: employment 20%; new orders 30%; output 25%; orders accepted but not delivered 15%; overtime 10%.

The Westpac-ACCI Labour Market Composite is a function of actual employment, with a weight of almost 50%, as well as: expected employment; expected overtime; new orders; order backlog; and expected order backlog.

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