Australian manufacturing: trends, influences and outlook

CEDA
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Julie Toth
Chief Economist

Industry value-added output as a share of GDP, to Mar 2016

Production from these six industries accounts for nearly half of Australia’s GDP (44%)

Source: ABS, National Accounts, Mar 2016
Manufacturing value-added output: roughly same size now as in 2000, but pre-GFC peak (2008) not regained.

Source: ABS, National Accounts, Mar 2016
Manufacturing profits followed a similar path: pre-GFC peak not regained. Lower $ and margins since 2013

Manufacturing industry nominal profits, $bn to Mar 2016

Source: ABS, Business Indicators, Mar 2016
Manufacturing CAPEX was higher than mining in 2005. Slumped in 2007 and again in 2013. Set to fall further.

Source: ABS, Private Capital Expenditure, Mar 2016
Manufacturing employment: bigger, more visible fall than the drop in output since 2008. Now at 860,000 (7% of total).

Source: ABS, Labour Force Quarterly Detail, to Feb 2016

Industry employment, to Feb 2016
Manufacturing is rebalancing not disappearing: more ‘consumables’ (food, groceries, health), less ‘heavies’

Real value added output: industry size ($bn)

Growth pockets
Food, beverages, groceries
Specialist machinery
Pharma, cosmetics, toiletries, vitamins, health supplements
Building materials
Industrial textiles, furniture

Source: ABS National Accounts
Manufacturing is rebalancing: more food, health products, building materials. Less machinery, materials, printing

**Australian PMI sub-sectors, May 2016**

- **Growth pockets**
  - Food, beverages, groceries
  - Specialist machinery
  - Pharma, cosmetics, toiletries, vitamins, health supplements
  - Building materials
  - Industrial textiles, furniture

Source: Ai Group Australian PMI
‘Advanced manufacturing’? Yes we do. how much?

All manufacturing: 83,595 businesses (June 2015)
47,868 businesses with employees (Jun 2015)
860,000 employees (Feb 2016)

‘Advanced’ manufac: 19,000 businesses (Jun 2013) 23%
250,000 employees (Jun 2013) 29%

“Advanced manufacturing companies are defined by their ability to draw together the skills of a multidisciplinary team, using technologies to capture customers’ needs and transform them into products and related services. The market niches in which they may compete typically have low volumes, and require quick response, cost-and value competitiveness and after-sales support.” (Dep Industry 2014)

Source: ABS and Dept Industry
Rebalancing is greatly assisted by the lower AUD: stronger manufacturing exports plus import replacements.

**Australian TWI and Australian PMI exports sub-index**

Sources: RBA and Ai Group
Rebalancing also assisted by more residential building: stronger demand for building materials and furnishings

*Australian building approvals, value per month, to April 2016*

*Sources: ABS*
Exports and import replacement helped by the lower AUD, but Australia is still “a difficult place to do business”

WEF Global Competitiveness Indicators: problematic factors for doing business in Australia

* WEF respondents were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5 (least problematic). The score corresponds to the responses weighted according to their rankings.

Source: WEF Global Competitiveness Report, 2015-16.
Global leaders in manufacturing: Australia ranks 21st in 2016

Global manufacturing nations: the top five

“\textit{It is back to the future at the top of the manufacturing rankings … a shift to higher value, advanced manufacturing will fuel competitiveness going forward}” Deloitte.

KEY ATTRIBUTES:
1. Continuous investment, R&D
2. Innovation/talent clusters
3. High-value goods & services
4. Advanced tech., high skills
Global leaders in manufacturing: drivers of success

Global manufacturing nations: the top six and their performance drivers

<table>
<thead>
<tr>
<th>Selected country manufacturing competitiveness drivers</th>
<th>United States</th>
<th>Germany</th>
<th>Japan</th>
<th>South Korea</th>
<th>China</th>
<th>India</th>
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<tbody>
<tr>
<td>TALENT</td>
<td>89.5</td>
<td>97.4</td>
<td>88.7</td>
<td>64.9</td>
<td>55.5</td>
<td>51.5</td>
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<tr>
<td>INNOVATION POLICY AND INFRASTRUCTURE</td>
<td>98.7</td>
<td>93.9</td>
<td>87.8</td>
<td>65.4</td>
<td>47.1</td>
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<tr>
<td>COST COMPETITIVENESS</td>
<td>39.3</td>
<td>37.2</td>
<td>38.1</td>
<td>59.5</td>
<td>96.3</td>
<td>83.5</td>
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<tr>
<td>ENERGY POLICY</td>
<td>68.9</td>
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<td>62.3</td>
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<tr>
<td>PHYSICAL INFRASTRUCTURE</td>
<td>90.8</td>
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<td>89.9</td>
<td>69.2</td>
<td>55.7</td>
<td>10.0</td>
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<tr>
<td>LEGAL AND REGULATORY ENVIRONMENT</td>
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<td>89.3</td>
<td>78.9</td>
<td>57.2</td>
<td>24.7</td>
<td>18.8</td>
</tr>
</tbody>
</table>

Source: Deloitte Global Manufacturing Competitiveness Index 2016
Global leaders in manufacturing: supply chains and trade

Global manufacturing exports for top 10 manufacturers: size and type

Source: Deloitte Global Manufacturing Competitiveness Index 2016
‘Key industry sectors’ for current Aust Gov industry policy

1. **Food and agribusiness** (agriculture, food processing, packaging)
   - 182,000 businesses, 527,000 employees

2. **Mining Equipment, Technology & Services**
   - 1,200 businesses, 386,000 employees

3. **Oil, Gas & Energy Resources**
   - 2,000 businesses, 128,000 employees

4. **Advanced Manufacturing** (complex high-value goods)
   - 19,000 businesses, 250,000 employees

5. **Medical Technologies & Pharmaceuticals**
   - 7,000 businesses, 71,000 employees

**Total: 309,000 businesses** (15% of all businesses in Australia)

Source: Dept Industry, 2014 and 2015
Opportunities and challenges for manufacturing in 2016-17

GLOBAL
• Global growth and trade: IMF says slower for longer.
• Global commodities: prices up or down? oversupply? demand?
• Technology & consumer changes: hot spots? hot products?
• Competitive changes: advanced technologies, skills, products?

LOCAL
• Australian dollar: up or down?
• Australia’s house construction cycle: slowing or spreading?
• Business investment cycle: slower for longer? for how long?
• Demise of automotive assembly in Australia: response? transition?
• Federal election: who/what/when/where/how will industry policy go?