Manufacturing Futures

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Outline of presentation

• State of the Australian manufacturing sector
• Challenges facing the sector
• Opportunities
• Regional manufacturing in Victoria
• Concluding comments
Current state of manufacturing sector

Year on year growth in manufacturing sector indicators

Data seasonally adjusted, volume terms where applicable

- Average weekly earnings
- Job vacancies
- Employment
- Gross value added
Current state of manufacturing sector

Australian PMI

Diffusion Index

2002 2003 2004 2005 2006 2007 2008 2009 2010 2011

Increasing

Decreasing

Australian PMI

3-month moving average
Challenges for manufacturers

- Weakened cost competitiveness

![Change in unit labour cost in manufacturing industries](image)

- Rising costs
- Falling costs

Average annual growth rate from 1990 to 2009 (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Average Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>3.0</td>
</tr>
<tr>
<td>Australia</td>
<td>-2.0</td>
</tr>
<tr>
<td>Italy</td>
<td>-1.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>-1.0</td>
</tr>
<tr>
<td>Spain</td>
<td>-1.0</td>
</tr>
<tr>
<td>Germany</td>
<td>-1.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>-1.0</td>
</tr>
<tr>
<td>Belgium</td>
<td>-1.0</td>
</tr>
<tr>
<td>France</td>
<td>-1.0</td>
</tr>
<tr>
<td>Japan</td>
<td>-1.0</td>
</tr>
<tr>
<td>Canada</td>
<td>-1.0</td>
</tr>
<tr>
<td>UK</td>
<td>-1.0</td>
</tr>
<tr>
<td>Singapore</td>
<td>-2.0</td>
</tr>
<tr>
<td>Korea</td>
<td>-2.0</td>
</tr>
<tr>
<td>US</td>
<td>-2.0</td>
</tr>
<tr>
<td>Finland</td>
<td>-2.0</td>
</tr>
<tr>
<td>Sweden</td>
<td>-2.0</td>
</tr>
<tr>
<td>Taiwan</td>
<td>-4.0</td>
</tr>
</tbody>
</table>
Challenges for manufacturers

• Slow labour productivity growth
Challenges for manufacturers

- Increased import competition from emerging economies

Note: ASEAN comprises Brunei, Cambodia, Indonesia, Lao, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.
Challenges for manufacturers

- Strong Australian dollar
Challenges for manufacturers

- Strong Australian dollar weakens manufacturing exports

Negative impact of a strengthening Australian dollar on the export revenue and export volume of Australian manufacturers

- Stable Australian dollar; broadly stable manufacturing profitability
- Weakening Australian dollar; upswing in manufacturing profitability
- Strengthening Australian dollar; downward trend in manufacturing profitability

Graph showing annual percent change in US$/A$ exchange rate and trends in nominal and real manufacturing exports from Jun-84 to Jun-11.
Challenges for manufacturers

- Net impact of strong Australian dollar on manufacturing exports

Net impact of strengthening Australian dollar

- Costs of capital equipment
- Total sales volumes
- Margins on export sales
- Volumes of export sales
- Costs of inputs
- Sales volumes in Aust.
- Profitability
- Competitor prices in Aust.
- Margins on domestic sales
- Level of capital investment
- Imports share of own sales
- Use of imported inputs
- Imports share in Aust. market

Higher

Note: Net impact calculated by subtracting respondents who cited (significantly and moderately) lower impact from respondents who cited (significantly and moderately) higher impact.
Challenges for manufacturers

- Shortage of skilled workers

![Graph: Average weekly earnings of full-time adults (ordinary time earnings)]
Challenges for manufacturers

- Ageing workforce
Challenges for manufacturers

- Ambiguous impact of mining boom

Net impact of resources boom

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher wages and salaries</td>
<td>55</td>
</tr>
<tr>
<td>Greater difficulty in recruiting and retaining employees</td>
<td>45</td>
</tr>
<tr>
<td>Expected sales to mining and related businesses</td>
<td>35</td>
</tr>
<tr>
<td>Prices you pay for non-labour inputs</td>
<td>40</td>
</tr>
<tr>
<td>Sales to mining and mining-related businesses</td>
<td>30</td>
</tr>
<tr>
<td>Availability of non-labour inputs</td>
<td>10</td>
</tr>
</tbody>
</table>

Note: Net impact calculated by subtracting respondents who cited (significantly and moderately) lower impact from respondents who cited (significantly and moderately) higher impact.
Opportunities for manufacturers

• Increase exports to booming Asian economies

Opportunities for manufacturers

- Catering to emerging middle class in developing economies

Opportunities for manufacturers

• Developing high-technology manufacturing

• Producing and selling green products and services

• Upstream processing of raw materials (from mining and agriculture sectors)
Regional manufacturing in Victoria

- Regional economies are relatively more dependent on the prospects of the manufacturing sector
- Relative importance of a few manufacturing sub-sectors within regional economies:
  - Strong agricultural – food manufacturing links
  - Machinery and equipment manufacturing, e.g. clustering around motor vehicles and parts manufacturing (e.g. Geelong)
  - Concentration of petroleum, coal, chemical & rubber products manufacturing in some regions (e.g. La Trobe Valley)
Regional manufacturing in Victoria

- Example: the Barwon region

Barwon region - manufacturing sub-sector shares
Per cent of total manufacturing in the region
Regional manufacturing in Victoria

• Composition and relative importance of regional manufacturing points to risks and opportunities

• Food manufacturing:
  – *Opportunity*: great benefits for local economy as ‘food bowl’ for region, including exports to Asia
  – *Risk*: heavy reliance on any particular sub-sector can be risky (relative to diversified economy)

• Same applies to other regions and industries – generally relying on a narrow manufacturing base is not enough for sustained economic growth

• The challenge is for regions to further grow existing industries that are competitive and attract new and diversified industries
Concluding comments

• Investment in skills and workforce development to raise productivity
• Improving cost competitiveness is key to ensuring long term survival and prosperity of Australian manufacturers
• Emerging Asian economies present both challenges and opportunities for our manufacturers
• Engage Asian businesses and gain local knowledge while exploring overseas opportunities
• Review traditional business models and explore new global supply chain links and new markets/products