

Manufacturing Futures

Innes Willox

Director, International and Government Relations

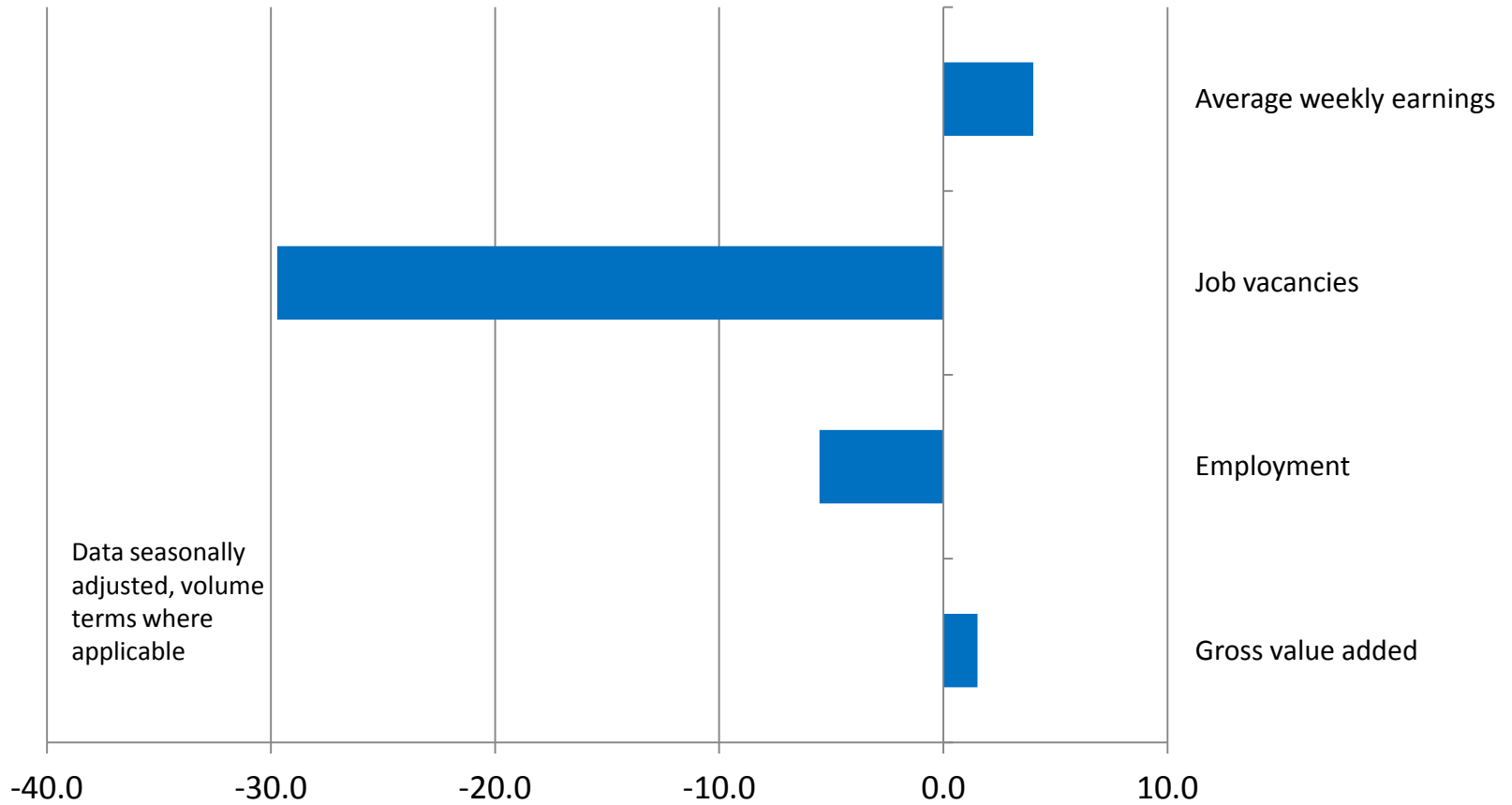
Australian Industry Group

Outline of presentation

- State of the Australian manufacturing sector
- Challenges facing the sector
- Opportunities
- Regional manufacturing in Victoria
- Concluding comments

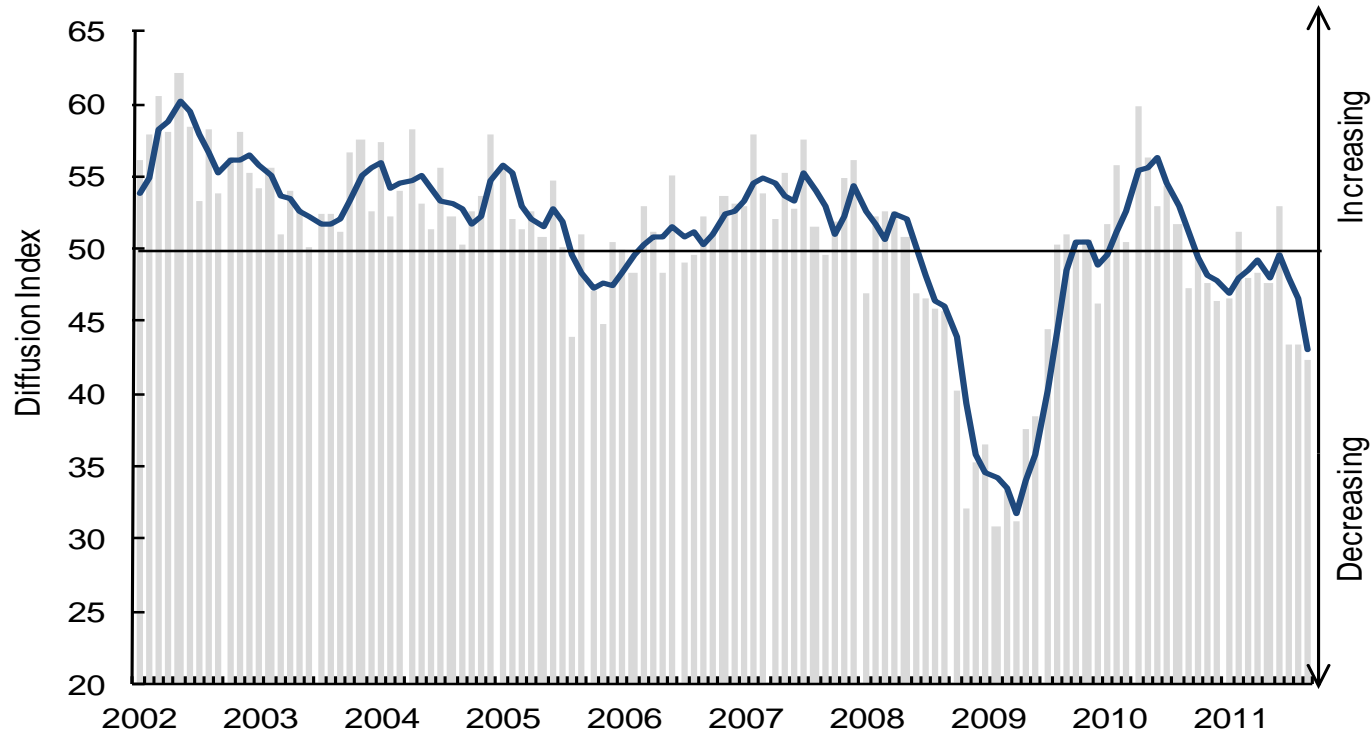
Current state of manufacturing sector

Year on year growth in manufacturing sector indicators



Current state of manufacturing sector

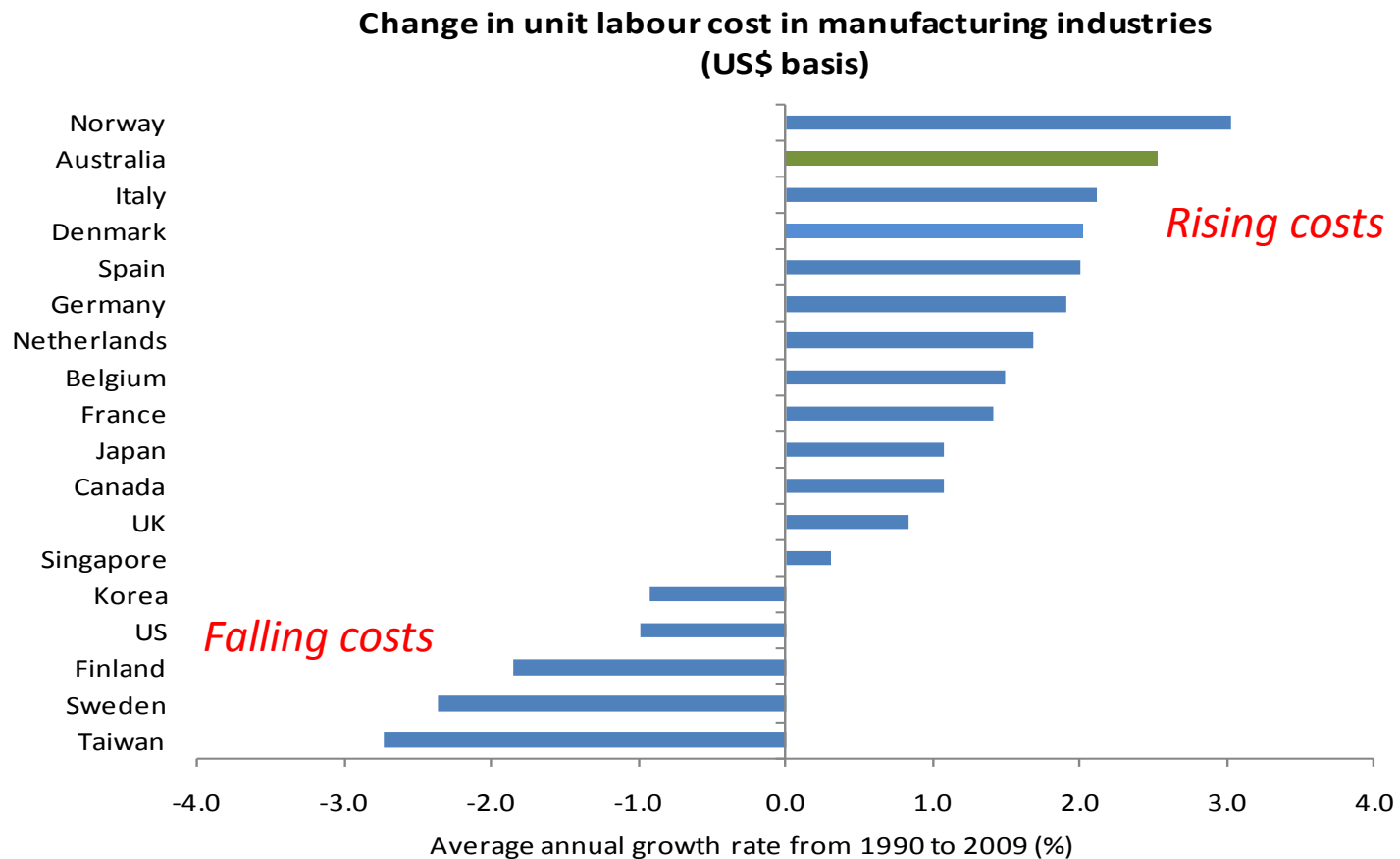
Australian PMI



— Australian PMI — 3-month moving average

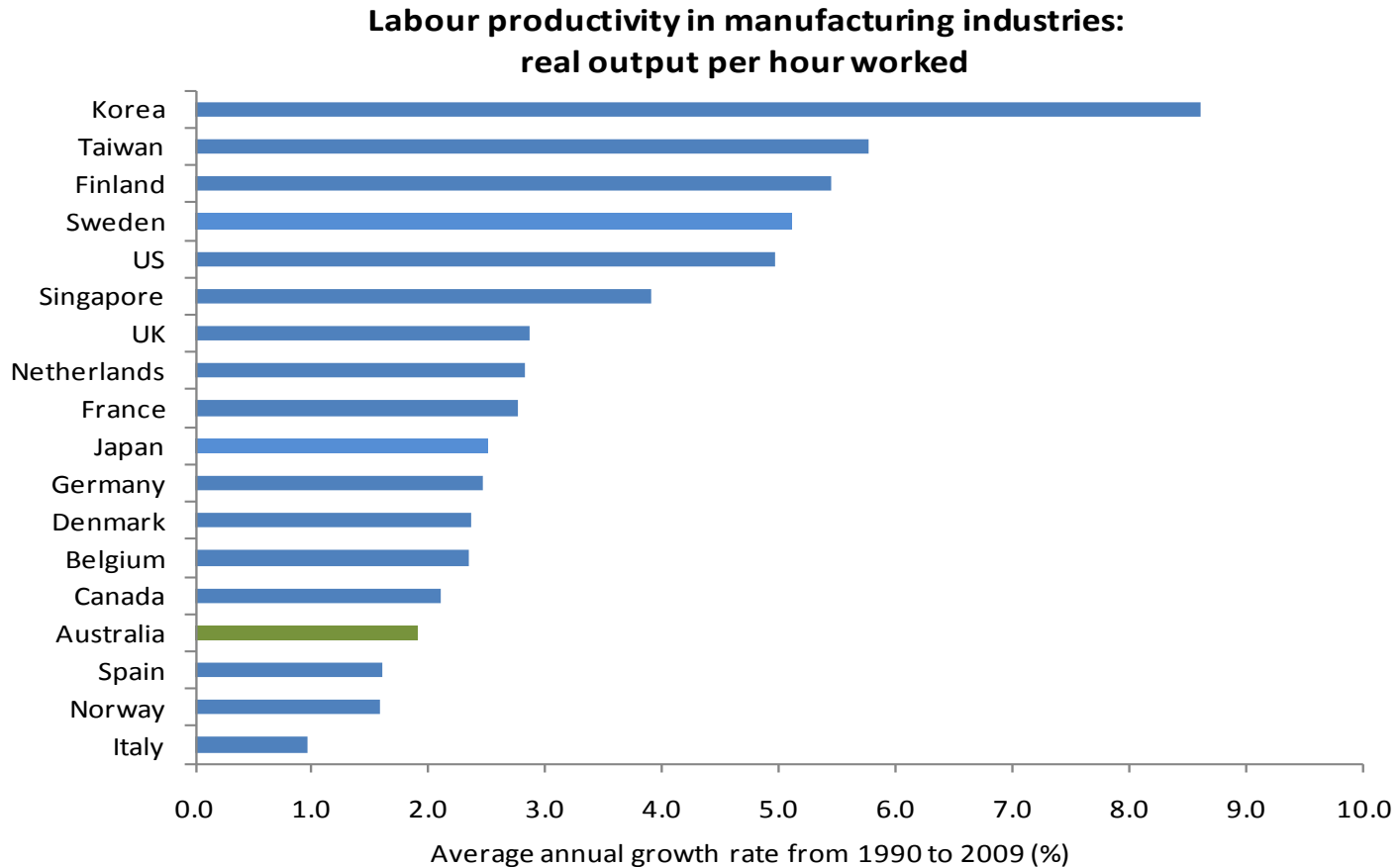
Challenges for manufacturers

- Weakened cost competitiveness



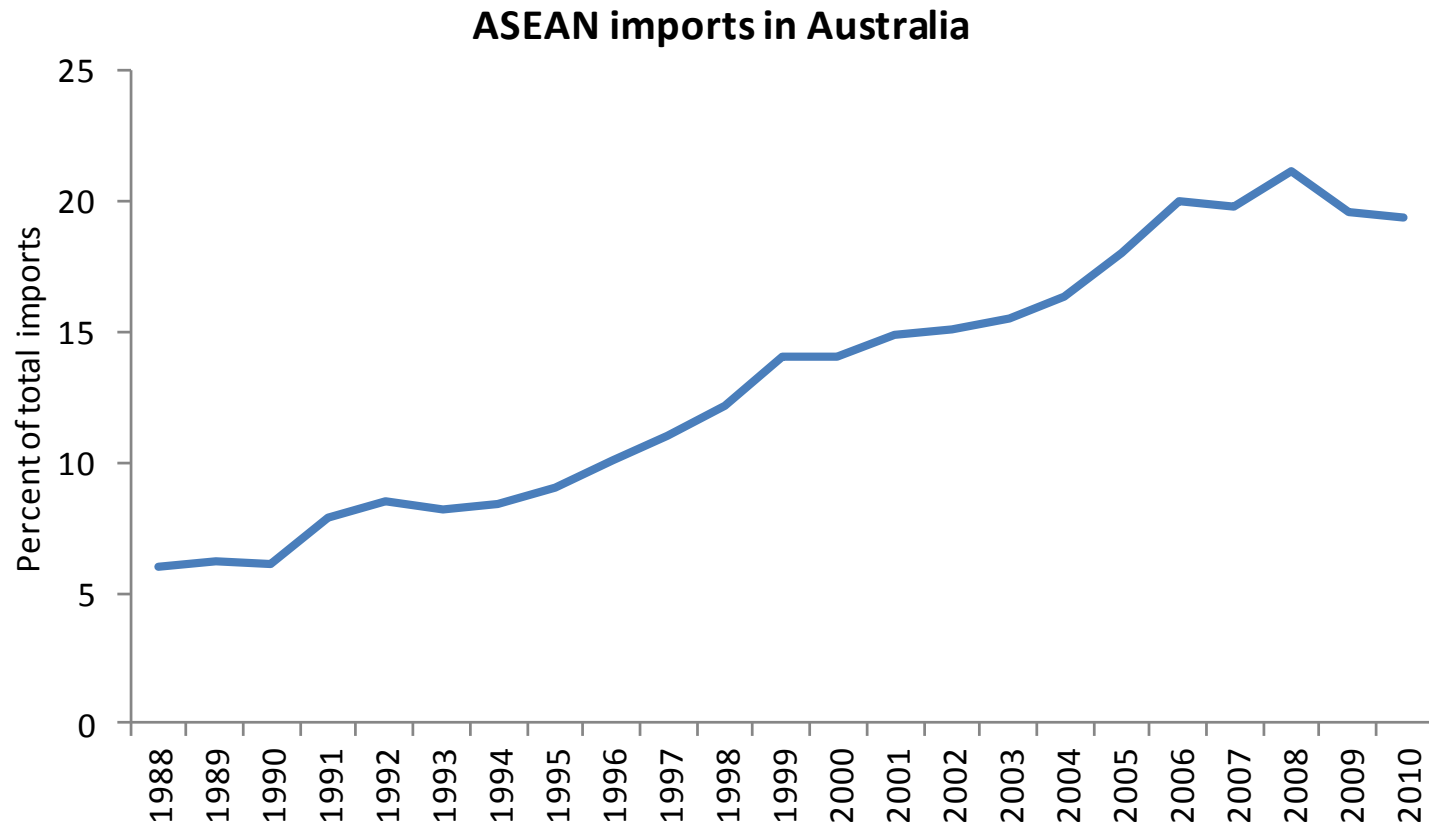
Challenges for manufacturers

- Slow labour productivity growth



Challenges for manufacturers

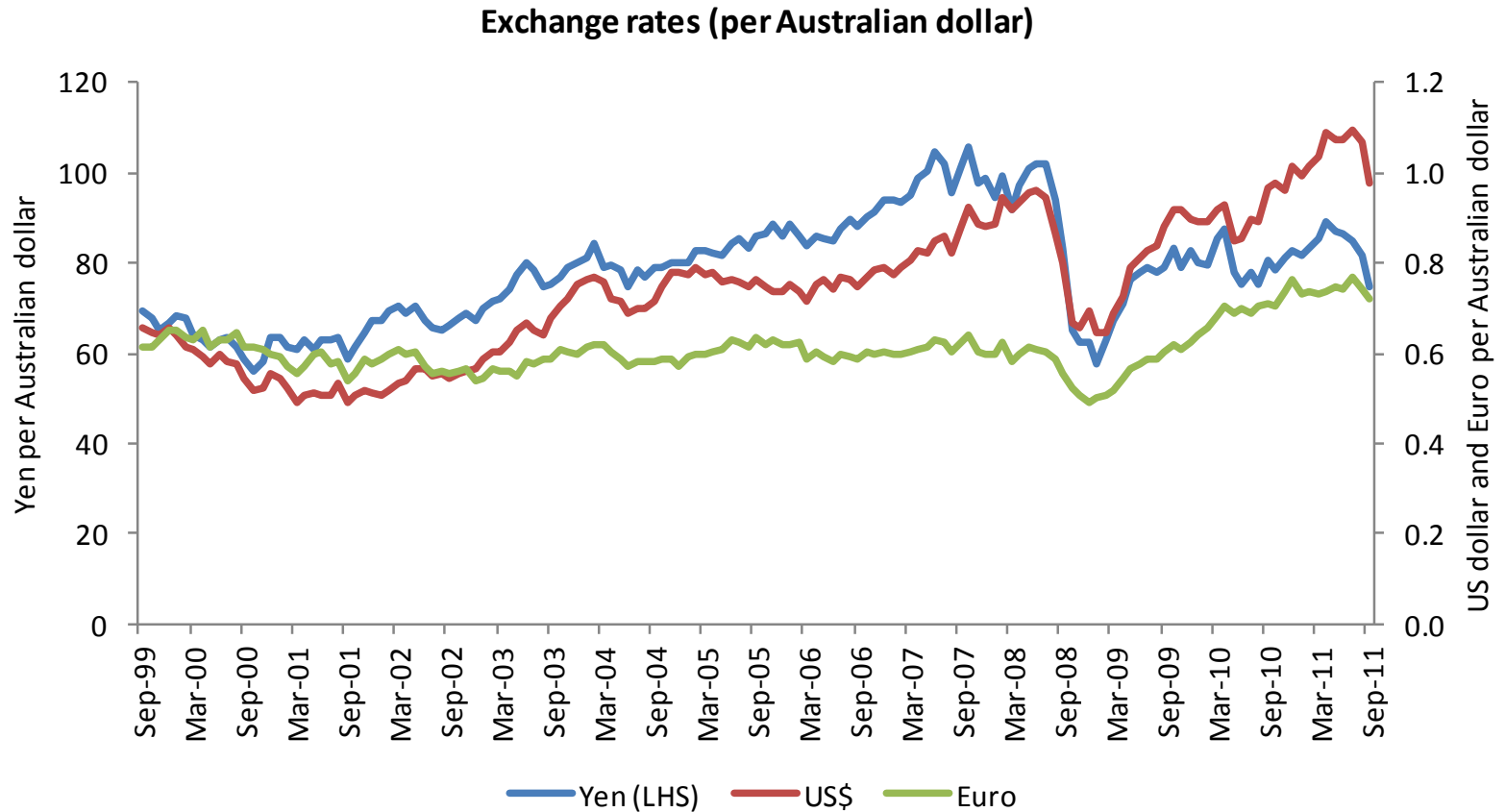
- Increased import competition from emerging economies



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

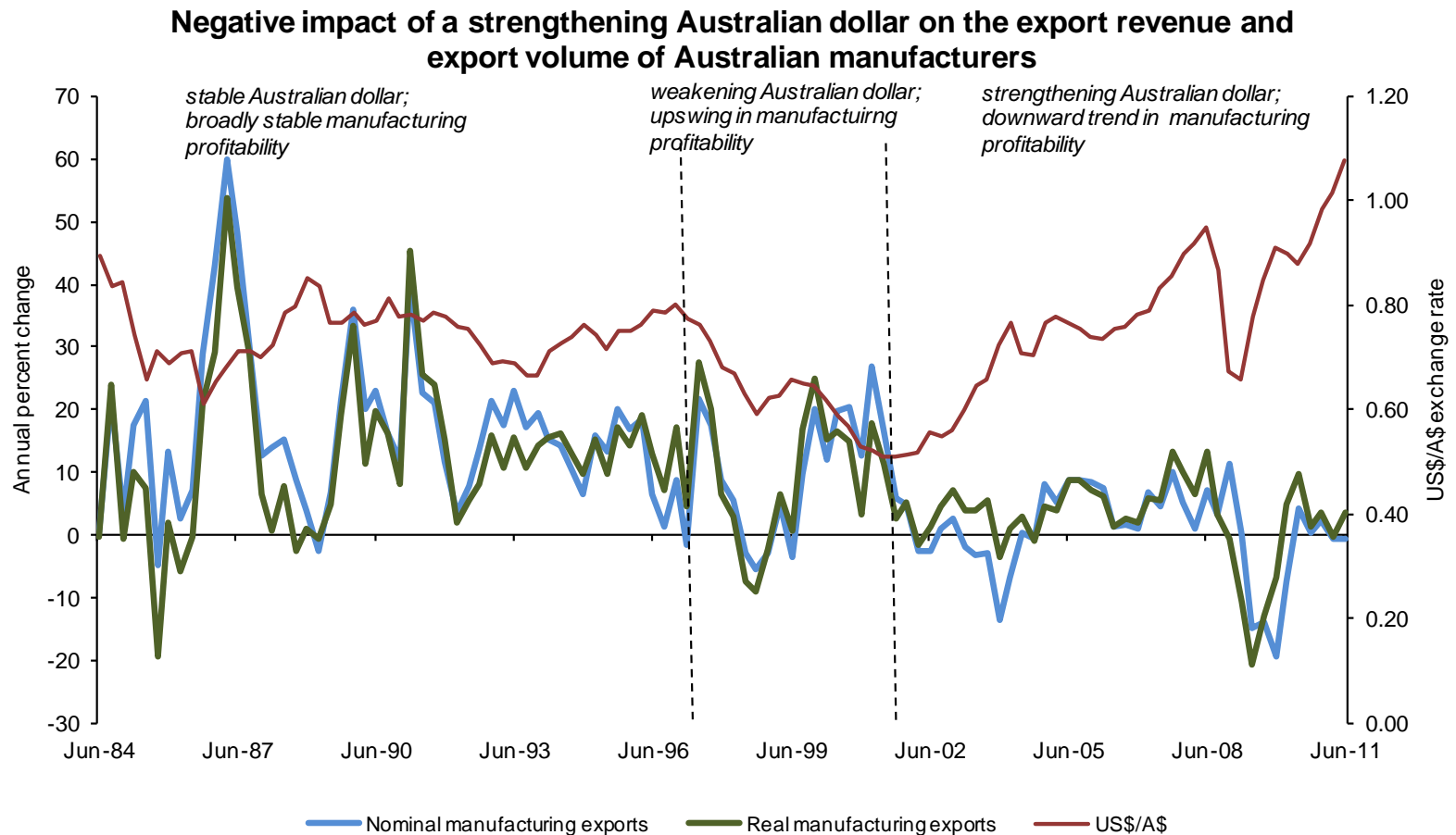
Challenges for manufacturers

- Strong Australian dollar



Challenges for manufacturers

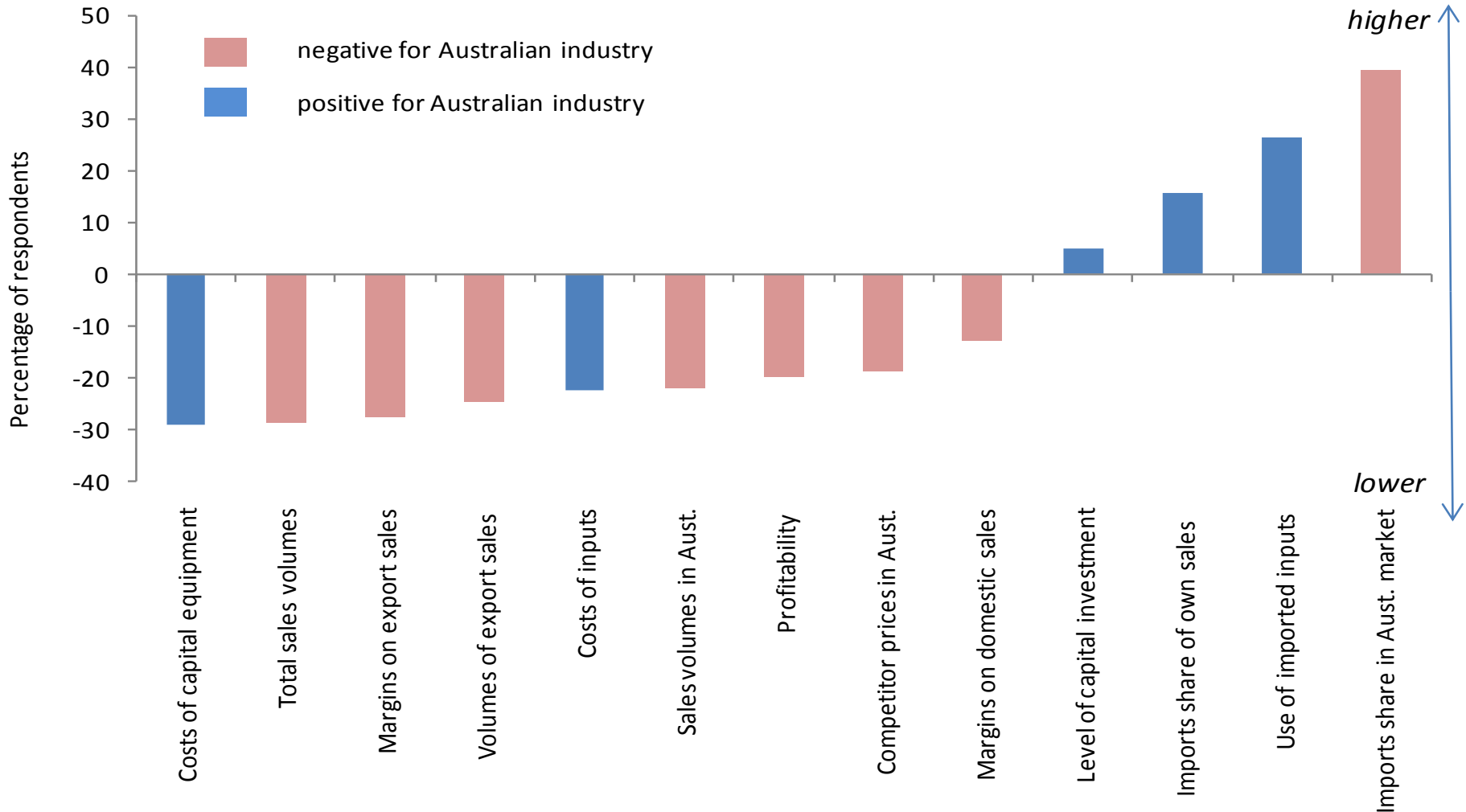
- Strong Australian dollar weakens manufacturing exports



Challenges for manufacturers

- Net impact of strong Australian dollar on manufacturing exports

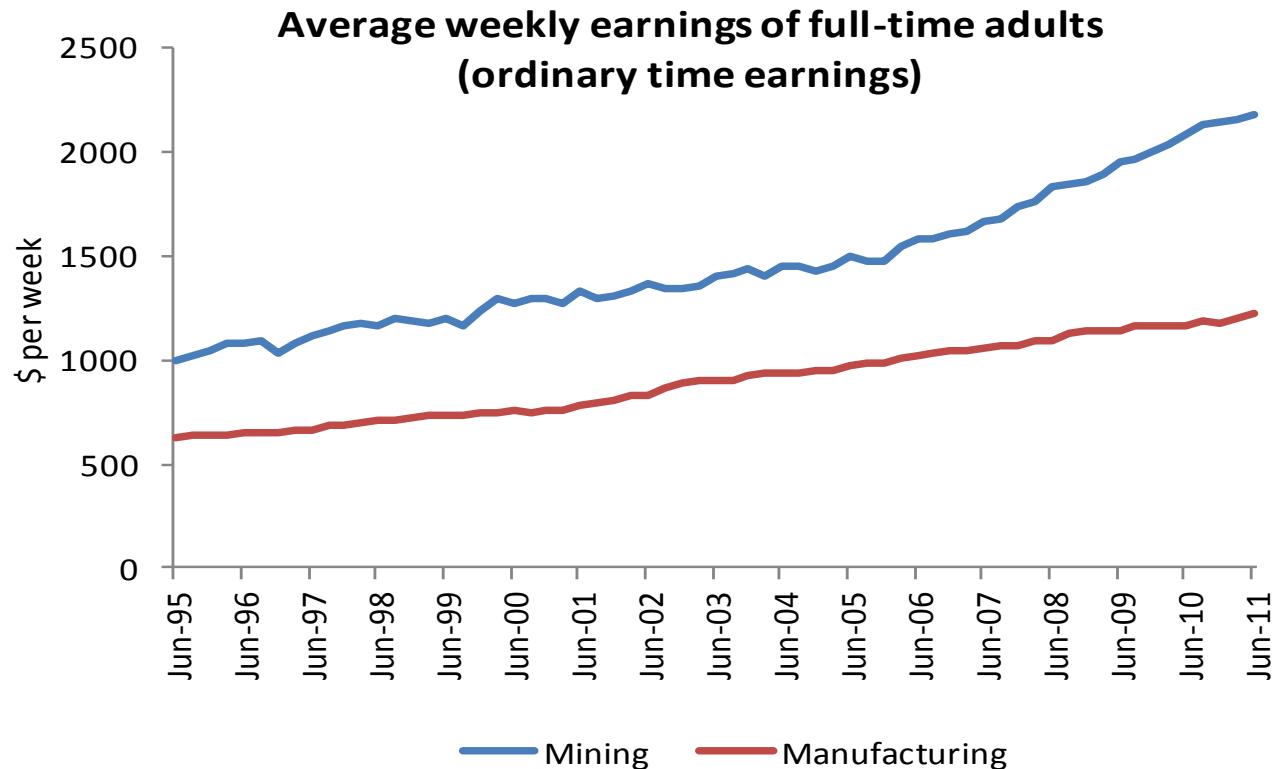
Net impact of strengthening Australian dollar



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



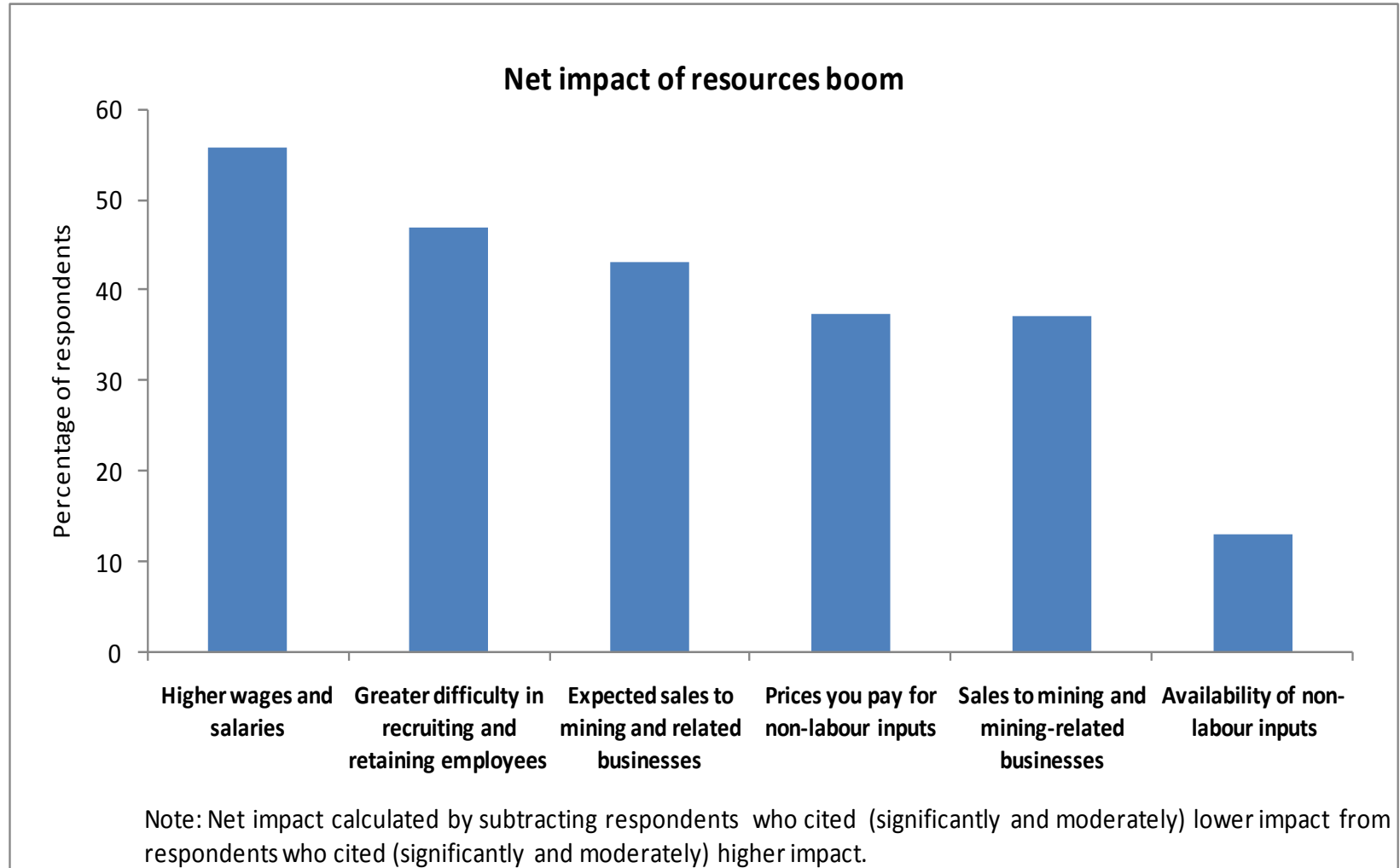
Challenges for manufacturers

- Ageing workforce



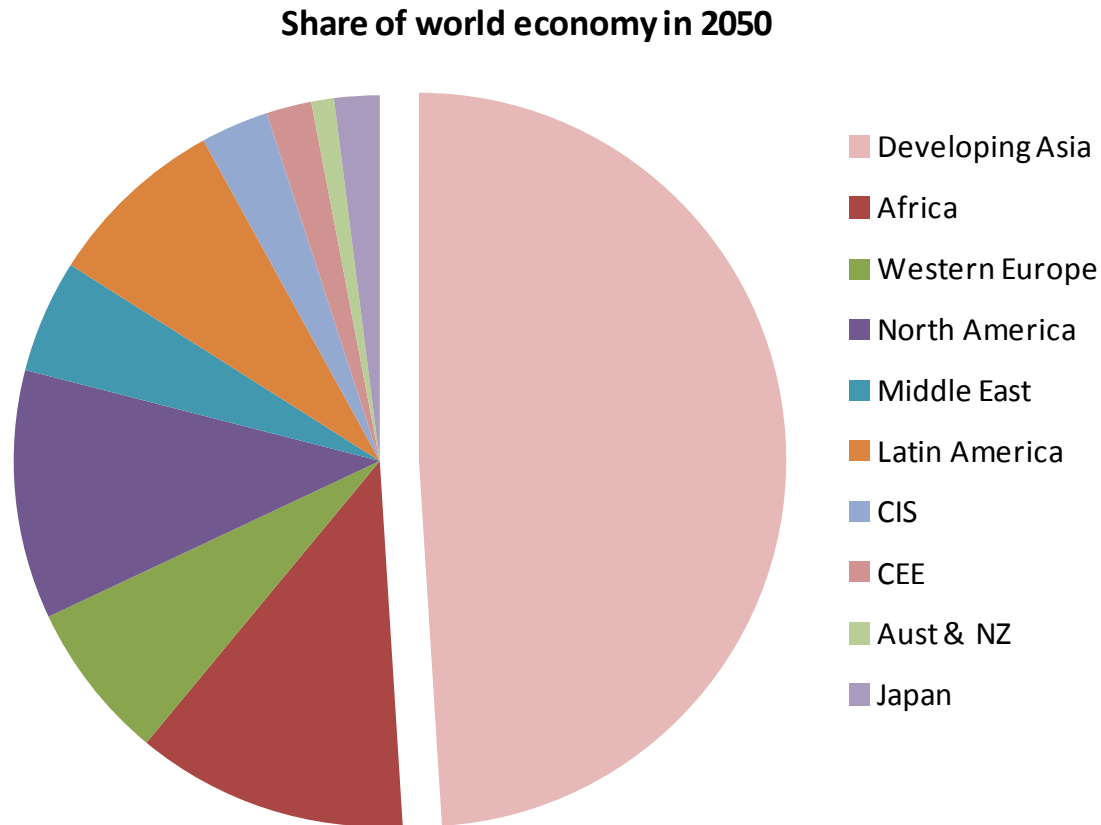
Challenges for manufacturers

- Ambiguous impact of mining boom



Opportunities for manufacturers

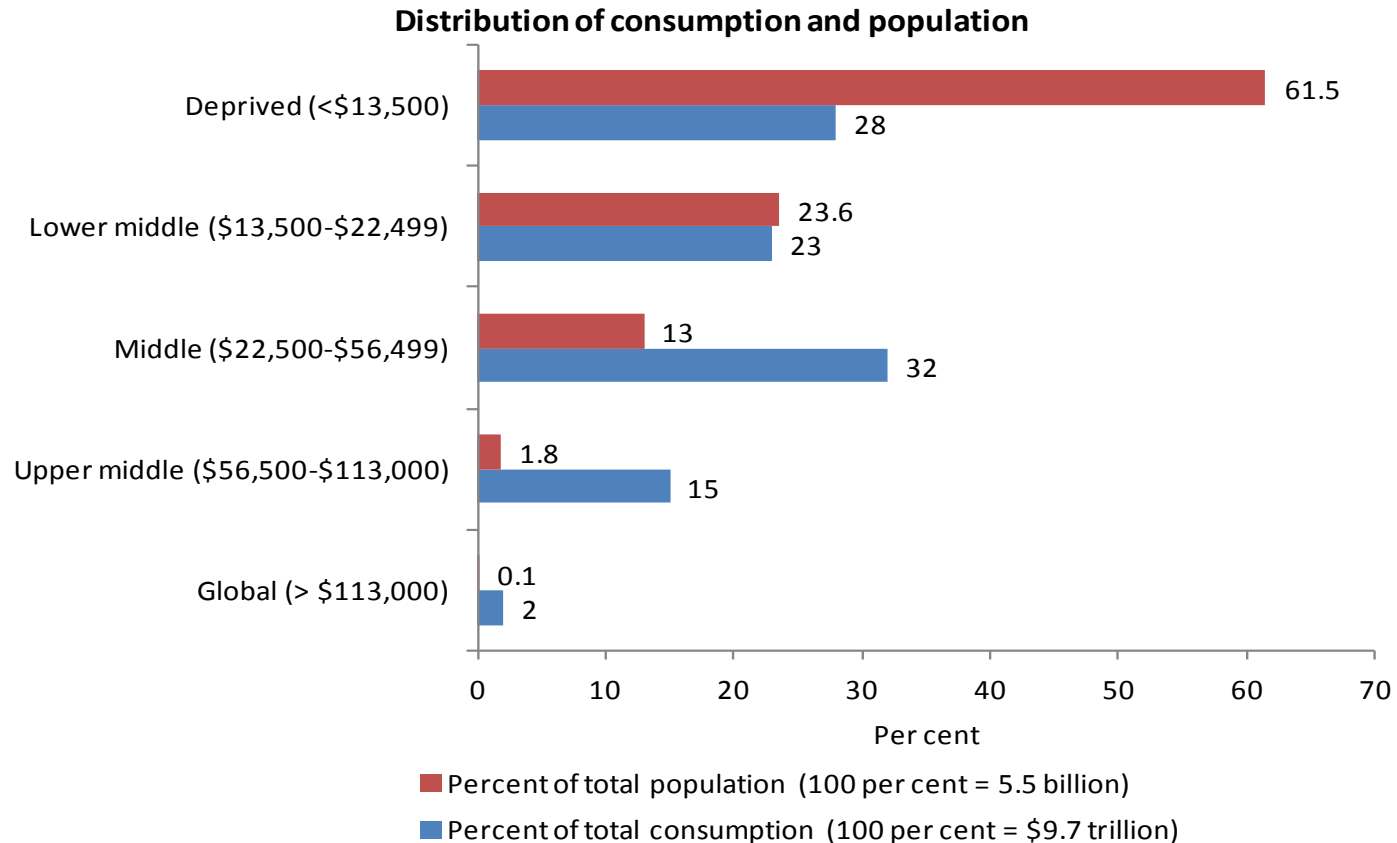
- Increase exports to booming Asian economies



Source: W. H. Buiter and E. Rahbari (2011), "Global Growth Generators: Moving Beyond Emerging Markets and BRICs", Centre for Economic Policy Research Policy Insight No. 55

Opportunities for manufacturers

- Catering to emerging middle class in developing economies



Note: Annual household income displayed in parenthesis along the vertical axis

Source: Court, D. D. & Narasimhan, L. (2010), 'Capturing the World's Emerging Middle Class', McKinsey Quarterly July 2010

Opportunities for manufacturers

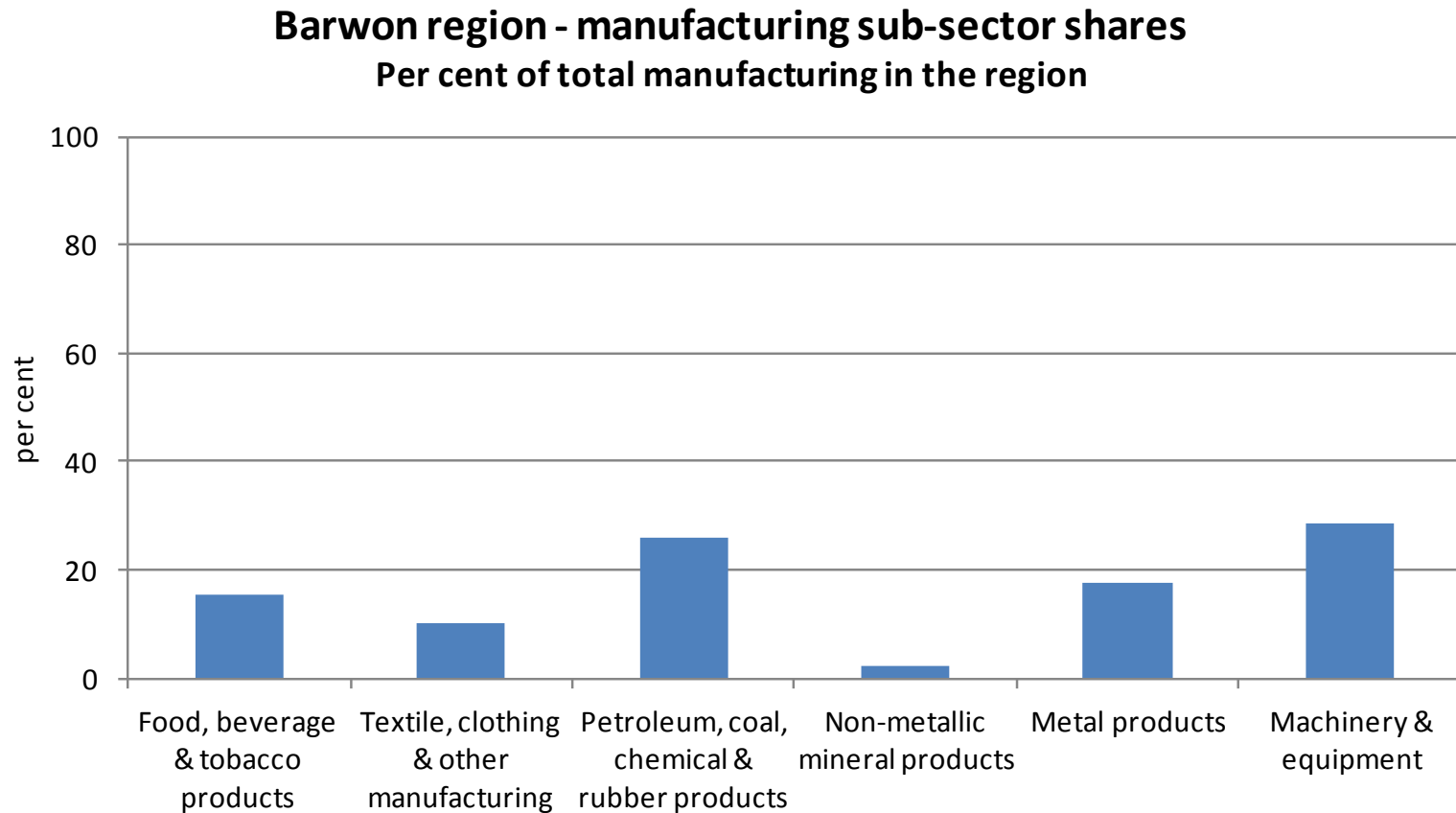
- Developing high-technology manufacturing
- Producing and selling green products and services
- Upstream processing of raw materials (from mining and agriculture sectors)

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



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



AUSTRALIAN INDUSTRY
GROUP