TRANSCRIPT: Ai Group Chief Executive Innes Willox on Sky Business

*Transcript (partial): Interview - Leanne Jones, Sky Business discussing latest Australian Performance of Manufacturing Index with Innes Willox, Chief Executive, Australian Industry Group – The Australian manufacturing sector expanded for a fifth straight month in November, with the Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) improving by 2.3 points to 52.5*

INNES WILLOX: The flipside of that is that we are starting to see some input costs go up and that's because manufacturers have broken up their businesses in some way. Many of them have started to have offshore facilities and plants, and now with the dollar being lower that is making the costs of imports a bit higher. But overall the dollar is the driver. The higher dollar over the past two or three years has quite clearly left greater efficiencies in the manufacturing sector and now that the dollar is lower, manufacturers and industry are able to take advantage of those efficiencies. So things are pretty positive. As you said, Leanne, all the key indicators are up, except stocks, which indicates to us that businesses are starting to wind down in the lead up to Christmas. But when you think of production, employment, forward orders, sales, they're all in positive territory for the sector which is really very positive.

Leanne Jones: Absolutely. You speak about those positive sectors, and obviously the conditions underpinning that, the competitive Aussie dollar, those saving efficiencies there, where are you seeing areas of weakness in some of those sectors?

INNES WILLOX: Well there is still some ongoing weakness in the metals sector - what you might call traditional manufacturing - that's doing it tough. And that's a real concern. But we are starting to see some growth in other areas, wood products is well up, plastics and chemicals are well up and doing relatively well, and that's very pleasing to see. We are seeing some growth in textiles as well. So across the board things are on the improve, the lag is metal. What we are hearing anecdotally from members is that they're seeing a real slow down across automotive with the wind up of the three major car manufacturers. So they're seeing a little slow down in automotive. And of course a real slow down in mining related activity. That's becoming much more apparent as time goes on, that those two sectors are slowing, but then slack is being picked up in areas as I mentioned, plastics and chemicals, food is quite strong again, wood products. So although we are seeing some slow downs in some key sectors, we are seeing growth in others. And the real growth is in the exports.

Leanne Jones: Innes, manufacturing jobs as well, I've been hearing some comments from a number of our guests that really this area, particularly in the car manufacturing sector, those jobs there are so pivotal to the Australian economy, obviously also closely correlated to equity market moves as well. So this one I guess, manufacturing jobs, are very closely watched particularly by the reserve bank.

INNES WILLOX: Absolutely, and what we are starting to see is that real pressure around automotive, and it's just not the jobs itself, as crucial as they are, it's also the tools that are embedded in those jobs. These are quite high end, manufacturing highly technical jobs in many areas, and we don't want them to be lost. So we need to see conditions being created where those jobs can be picked up. And that's where things like next week's innovation statement from the Government is going to be crucial in setting some direction and giving business some confidence about government policy direction going forward so that they can make the investments and they can pick up the jobs. What we are seeing is core manufacturing has happened to become what is described as more advanced, more technologically, more technically based, perhaps less labour intensive and more capital intensive and we need to get manufacturers into a position to invest. And we have to give them the confidence. But we are going to go through a period where we will, we believe, see significant unemployment created through the next two years or so as the automotive sector winds down. Not just the three big car manufacturers, but also their supply chains as they start to get sorted out to see who can survive, who can grow, who can thrive, who can move into other markets. So we are in a key period when it comes to manufacturing jobs in the next couple of years, and it's going to be very very obvious and it's looming large.