Ai Group Chief Executive, Innes Willox, discusses Australian manufacturing, energy and political/Senate issues on Sky News Business with James Daggar-Nickson and Leanne Jones

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Journalist: The 13th consecutive month of growth, that is pretty significant for the manufacturing sector.

Willox: We describe this as a pause, but there are some good signs coming down the track in those numbers. 51.1 was a quite significant increase in new orders, which augurs well for the rest of the year, and for sales and employment as well for the rest of the year. Where there was fault was in production and in exports and that tells us that the slightly increased dollar through October did have a little bit of an impact.

The other thing that came through was the impact of the automotive closure in SA which was really washed through in October. SA’s performance, if you disaggregated it, we don’t do this all the time, but SA went into negative territory for manufacturing for the month which is maybe not surprising given the closure of automotive. But the rest of manufacturing overall is doing pretty well. Very strong across infrastructure and construction related manufacturing, and across food and beverages, which are also very strong. We’d say this is a pause. We’d have 26 out of 28 months of expansion in manufacturing which is a very positive thing, the only two months of decline were just after the last federal election – so now 13 months in a row. So this is a pretty solid number.

Journalist: You spoke there about the high Aussie dollar with that export growth slowing there. We have started to see that weakness coming through, certainly in recent weeks. We’re now heading to that 75 marks, some are even talking about 70 cents into next year. If that weakness continues do you think that that could continue to spark a bit of a spurge in activity towards the end of the year.

Willox: The thing that I keep hearing from manufacturers, from those who are export focussed, is that movements in the dollar, even small ones, are really significant. We did see that slight elevation through late September – October period and now it’s coming off. We think, looking forward, we should see a bit of a pick-up around exports which would be positive. What really stood out for us was that forward orders were quite strong, and new orders. That’s really positive. We think that things should pick up and run quite strongly through the rest of the year.

Journalist: Taking a look at a break down in terms of the PMI today, I would have thought it would be positive to see 6 out of the 8 subsectors expanding, led by the non-metallic mineral sector. So non-mining. However, very much the record high of 72 in October off the back of strong demand for building related products. Is there concern that we’ve hit the peak, that we’re beyond the peak in terms of that building/construction? I wonder if we’ll start to see a softness in those quarters to come.

Willox: That’s possible, there’s still quite strong building activity occurring particularly in Sydney and Melbourne and that is sustaining a lot of activity. Talking to those in construction they would say without that building activity in Sydney or Melbourne that sector would be in real trouble. That has sustained us for a long time. What we’re seeing is a bit of a transition across from building/construction through to infrastructure/construction
occurring. Particularly in Sydney and Melbourne. The interesting thing to note too when you start digging into the figures is that when SA went to contraction NSW went a little bit backwards in October. It didn’t go into contraction but it did go backwards a little and we don’t know why that it is.

You may be right and that is something that we’re keeping an eye on. We can only go so far with apartment construction and we’re probably getting to the high point of that at the moment and that’s where infrastructure will start to kick in. The thing that we’re starting to see more and more in the commentary that we get from members is that they’re starting to see some real signs of skills shortages emerging which may in turn start to put some wage pressure on industry particularly those construction related parts of manufacturing going into next year.

**Journalist:** Energy. I just wonder a lot of the businesses, the members that you speak to. So much has been written about energy costs and we’ve seen the increases. The government’s energy plan: your thoughts on it and the state of politics of getting this through. Last week was shocking for the Turnbull government, one they’d like to forget. Do you still have optimism around the ability to get the energy plans through, because you know business, and households need relief.

**Wilcox:** We’re in the worst of it now because we’ve had a billing cycle that companies have just gone through. We’ve seen the prices top off a little bit in the past four or five months. We would say that period from about February to June when contracts were up was about the worst.

A lot of contracts are now locked into it for another year or two. But companies now are starting to get slightly reduced prices. They’re still very elevated, and it is still very significant cost pressure for business. For many the difference between profit and not having a profit is the increased energy costs they’ve sustained. This is going to be a pressure point for three to five years to come.

We can’t see much fundamentally changing over the short-term period ahead.

**Journalist:** Will the government get it through?

**Wilcox:** Well they have to work it through with the states, and there’s a COAG meeting coming up. That will be the telling point. The other point is that politics at the moment is pretty terrible. We’re seeing senators drop like flies. They’ll get replaced from within but it all adds to uncertainty. When was the last time that these indexes, manufacturing, construction, services, all went into negative territory? It was just after the last election when there was real political uncertainty. And political uncertainty really impacts business sentiment, you can’t understated it.