AiGROUP

# Manufacturing in Australia

## Performance and outlook report 2025

Ai Group Research & Economics

**July 2025**

https://www.aigroup.com.au/resourcecentre/research-economics/

# Manufacturing in Australia in 2025

## KEY PERFORMANCE FACTORS IN 2024

**Recession conditions return** – after three years of post-pandemic growth, manufacturing fell into recession in 2024

**Slowing economy bites** – weak growth in Australia drags on industrial and consumer sectors, with manufacturing hardest hit

**Cost pressures mount** – wages, input and energy costs continuing to rise despite slowing economy, crimping margins

**Industry composition shifts** – with processing (food/metals) growing while others face competitiveness challenges

**Investment remains robust** – while capex levels fell slightly in 2024, they remain structurally higher than before the pandemic

## OUTLOOK THEMES FOR 2025

**Productivity blues** –productivity has declined since the pandemic, pointing to longer-term challenges for competitiveness

**Gas and the future** – structurally elevated gas prices weigh on the 'heavier' branches, demanding transition strategies

**Trade war looms** – manufacturing is the most trade-exposed Australian industry, posing risks for exporters and importers

**Skills shortages remain** – access to technical and professional workforces remain poor despite an easing labour market

**R&D is key** – manufacturing is our most R&D intensive industry, but how can rates be maintained while conditions are weak?

## KEY INDUSTRY DATA

In 2024, Australian manufacturing saw:

**0.6%**
Sales and income growth

**-1.2%**
Real (inflation-adjusted) output growth

**1.0%**
Employment growth

**-3.3%**
Profits growth

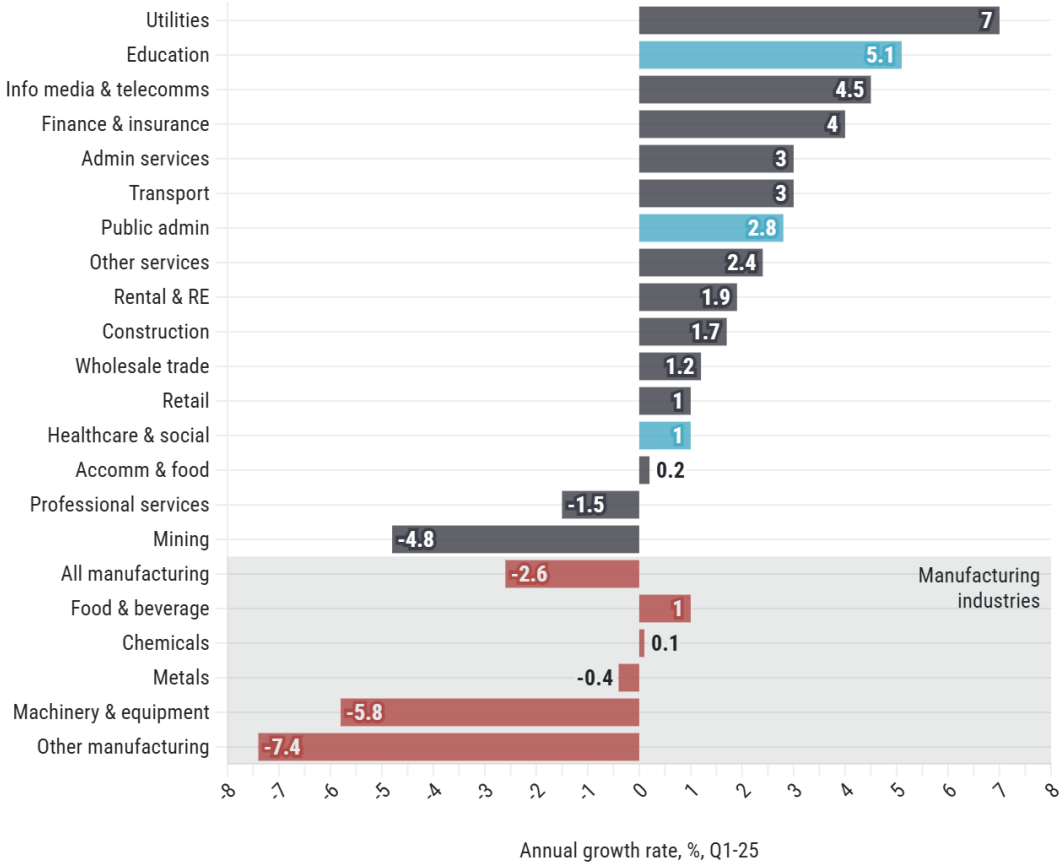
# Key manufacturing thematics for 2025

# **Manufacturing recession:** Industry contracts as costs and conditions bite

- The post-pandemic boom in manufacturing ended in 2024, with the industry falling into recession in the middle of the year.
- All branches of manufacturing are affected, with only food & beverage still in growth.
- Business conditions are particularly weak across the industrial and consumer sectors, but manufacturing is the weakest of the group.
- Slow economic conditions have seen demand fall, while wage and input costs continue to rise putting pressure on margins.
- Manufacturing is particularly affected as it must also contend with trade disruptions, high gas prices, and skills shortages.

**Australian industry growth rates first quarter 2025**

Manufacturing enters recession in 2024



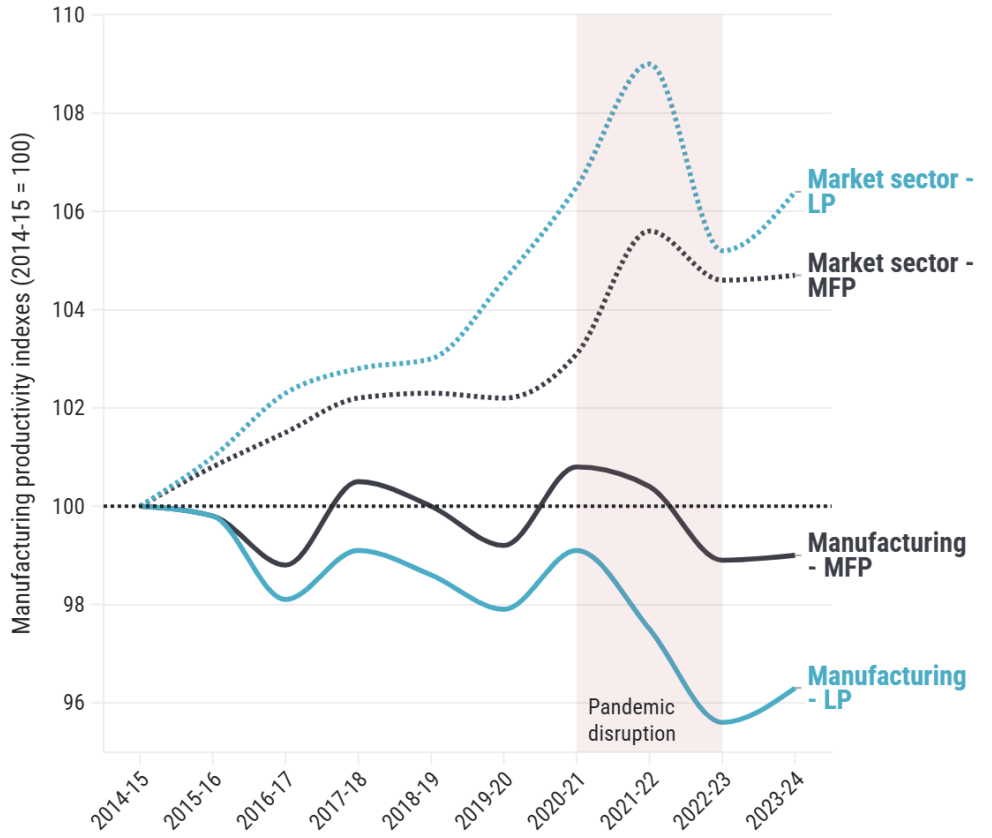

Source: ABS National Accounts • Ai Group Research & Economics
Light blue bars indicate government-funded sectors

# **Productivity:** National productivity crisis especially afflicts manufacturing

- Productivity performance in Australian manufacturing has been poor for a decade.
- Overall (or multifactor) productivity is 1% lower than in 2014-15, while labour productivity has declined by 3.7%.
- This compares poorly to 4.7% rise in industry-wide productivity over the same period.
- Manufacturing productivity declined rapidly during the disruptions of the pandemic, and has not shown a recovery trend since.
- Skills shortages, insufficient investment levels and rising costs are contributing factors.
- Falling productivity augurs poorly for international competitiveness.

## Manufacturing productivity growth in Australia

Productivity has declined significantly since the pandemic



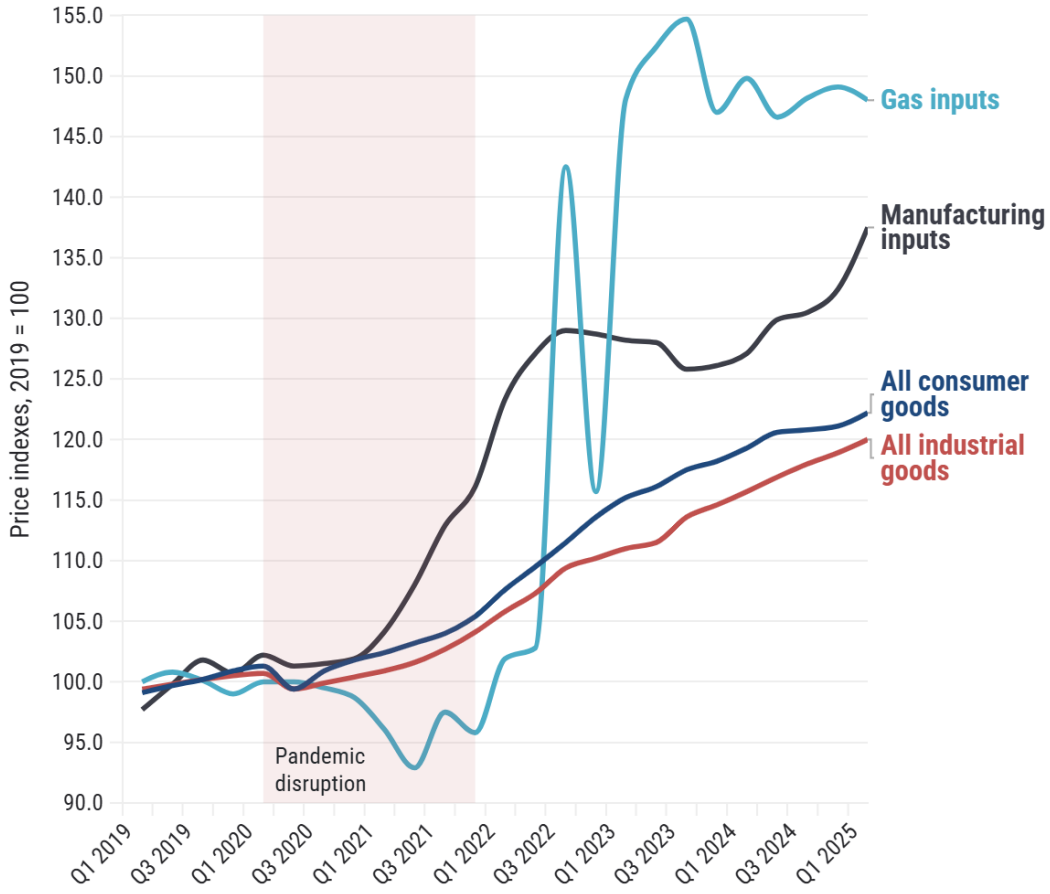

Source: ABS EIMFP, Tables 1 & 6 • Ai Group Research & Economics
MFP is multi-factor productivity, LP is labour productivity.

# **Energy prices:** Surging gas prices are cruelling heavy manufacturing

- Energy has been a major driver of the cost pressures on manufacturing.
- The Russian invasion of Ukraine in 2022 saw global energy prices soar, forcing up manufacturer gas prices by 55%.
- Despite the subsequent moderation in global energy markets, manufacturer prices have barely eased, and remain 49% above 2019.
- This has driven manufacturer input costs well above background rates of consumer and industrial inflation, pressuring margins.
- Gas prices are especially prohibitive for chemicals and metals manufacturers, which have both seen output fall since 2022.

## Australian manufacturing input prices

Manufacturing inputs rise well above inflation, driven by gas



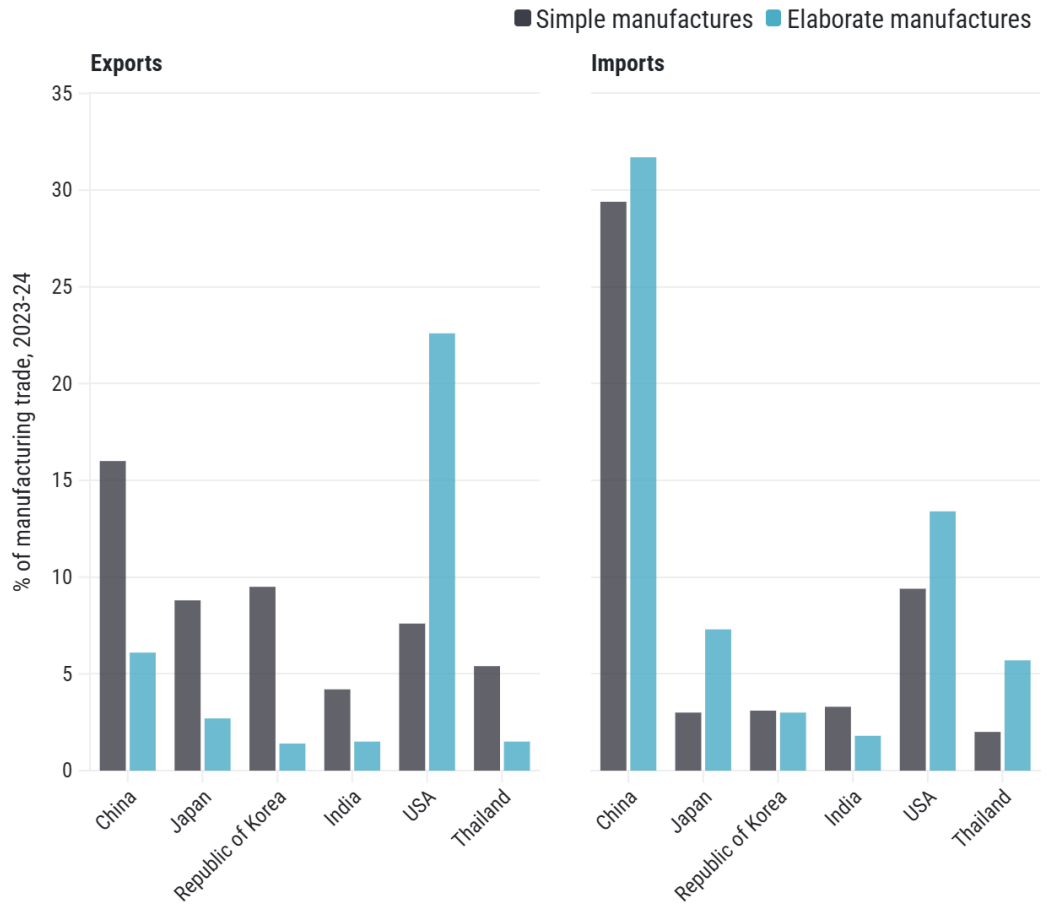

Source: ABS PPI, ABS CPI • Ai Group Research & Economics

# **Trade war risks:** Australian manufacturing caught between US and China

- Australian manufacturing is delicately positioned in terms of trade warfare between the US and China.
- The US is Australia's dominant market for higher-value manufacturing exports, exposing exporting businesses to direct US tariff risks.
- China is the dominant source of imports for both higher- and lower-value goods. If Chinese product is diverted by US tariffs this could raise import-competition in the local market.
- It is common for Australian manufacturers to process lower-value imports from China into higher-value exports. Businesses may also be affected by value-add rules in US tariffs.

## Australia's manufacturing trading partners

China dominant in imports, US critical for high value exports



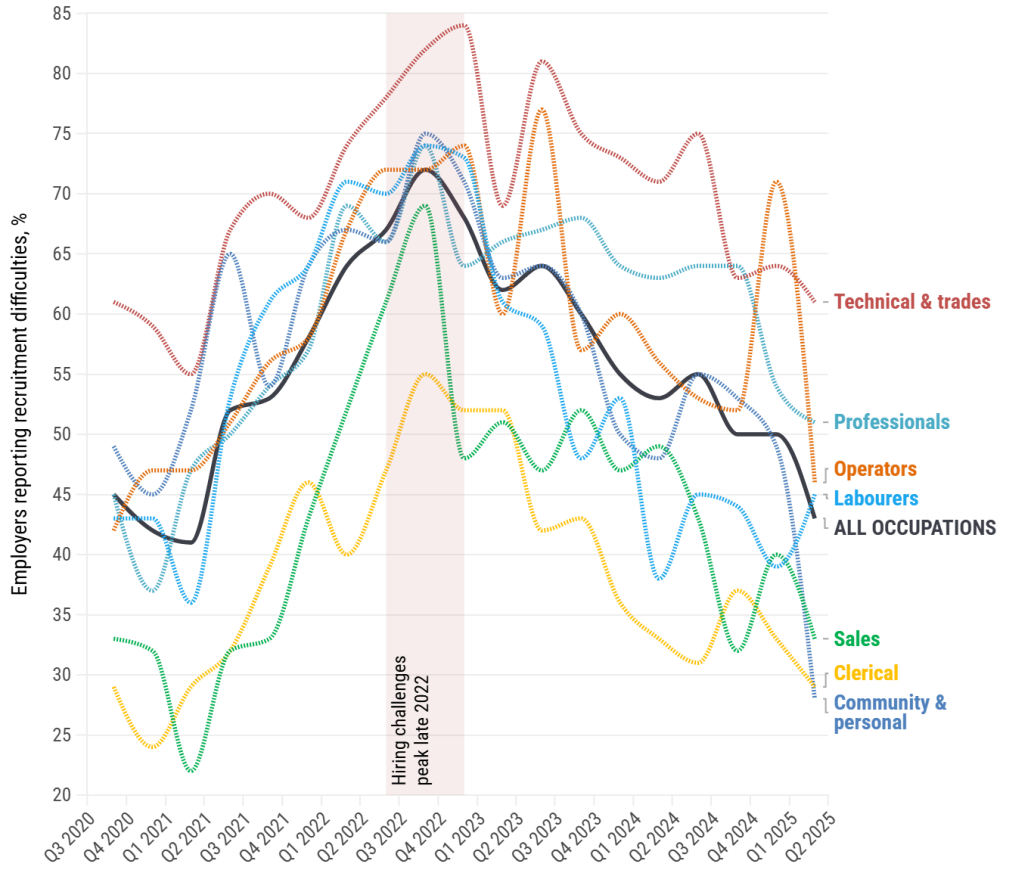

Source: DFAT TRIEC pivot table • Ai Group Research & Economics

# **Skills:** Manufacturing struggles with trades and professionals shortages

- Skills shortages are perennial, but a record tight labour market exacerbates the problem for the manufacturing workforce.
- Recruitment difficulty soared in 2022 – 72% of advertised roles were difficult to fill. Slowing economy since has seen difficulties ease back.
- However skills shortages remain acute for two occupational groups:
- *Technicians & trades*, due to training gaps and mobility barriers like occupational licensing
- *Professionals*, due to finer occupational segmentation and emerging skills needs
- Manufacturing is highly dependent on these groups, leading to worst workforce shortages.

**Recruitment difficulty in Australia by occupation 2020-2025**

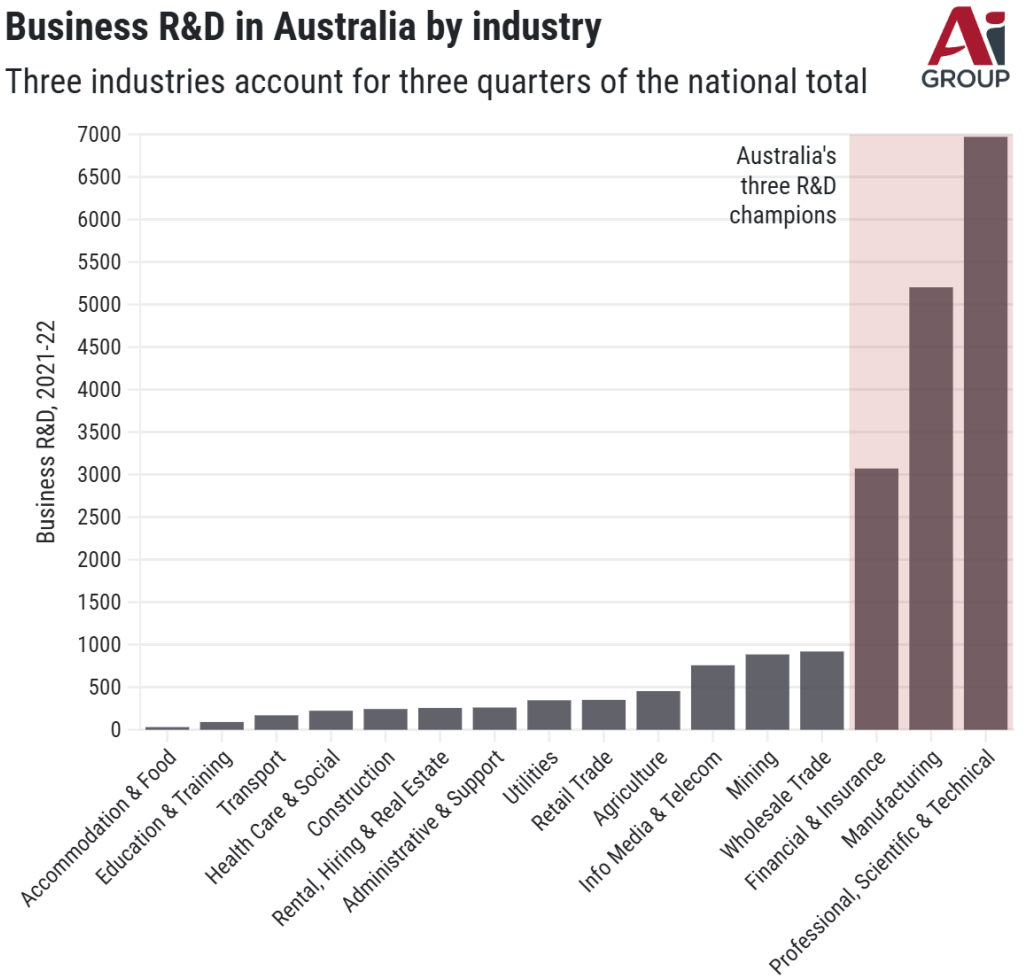
Hiring challenges ease from 2022 peak, but remain for skilled roles




Source: JSA REOS • Ai Group Research & Economics

# **Research & development:** Trade and upgrading forges a national R&D champion

- Manufacturing is one of Australia's top three industries for business R&D, with spending exceeding AUD 5 billion in 2021-22.
- Manufacturing reinvests 4.2% of value-add into R&D, the highest rate of any industry in Australia. The all industry-average is 0.9%.
- Its high R&D rate reflects trade-exposure - competition with imports at home and challengers abroad - drive innovation.
- The shift towards higher value branches of manufacturing over the last decade also underpins greater R&D needs and intensity.
- Weakening manufacturing conditions threaten Australia's overall R&D performance.




Source: ABS Research and Experimental Development, Businesses • Ai Group Research & Economics

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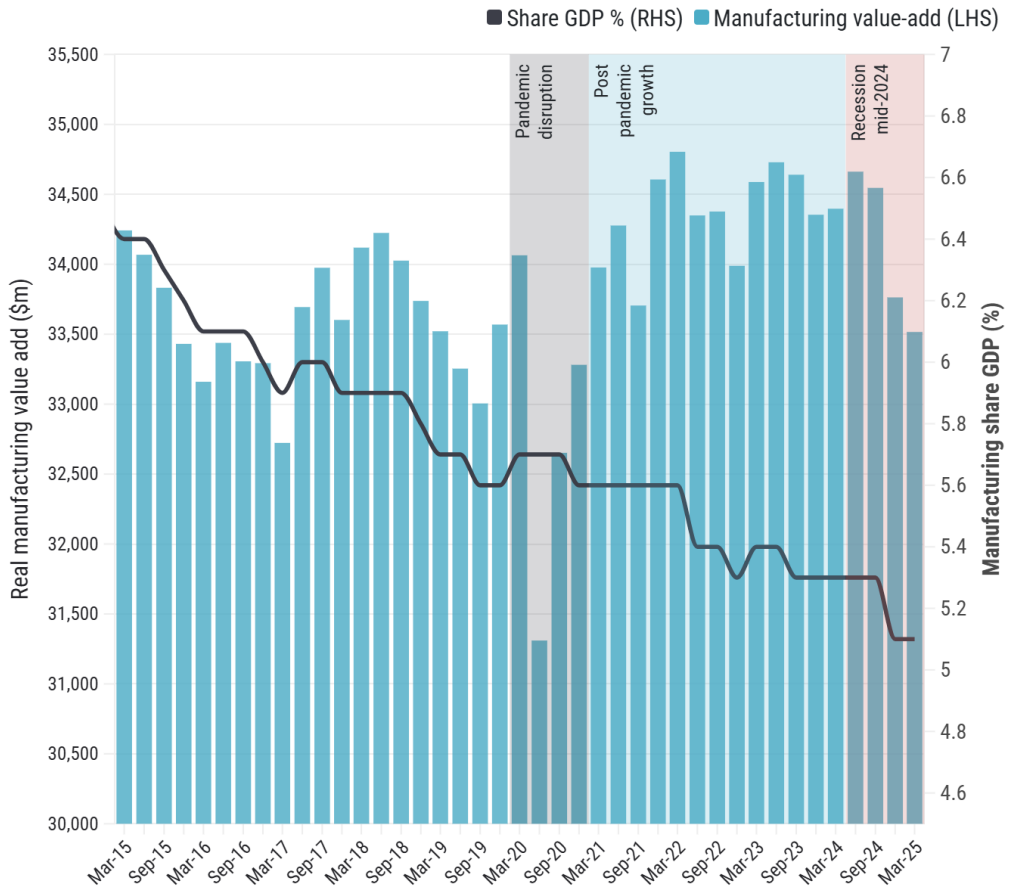
# Industrial performance indicators

# **Manufacturing output:** Post-pandemic boom turns to recession in 2024

- Manufacturing's post-pandemic growth phase came to an end in mid-2024.
- In 2022 and 2023, strong economic growth alongside supply chain disruptions increased demand for manufactures. Output surged by around 10%.
- As the economy slowed and supply chains returned to normal in 2024, this growth stimulus was withdrawn.
- Manufacturing entered into recession in mid-2024, with output since returning to around its pre-pandemic level.
- The manufacturing share of GDP has continued to decline – from 6.8% to 5.1% over the last decade – as the industry has grown slower than the broader economy.

**Australian manufacturing value-added**

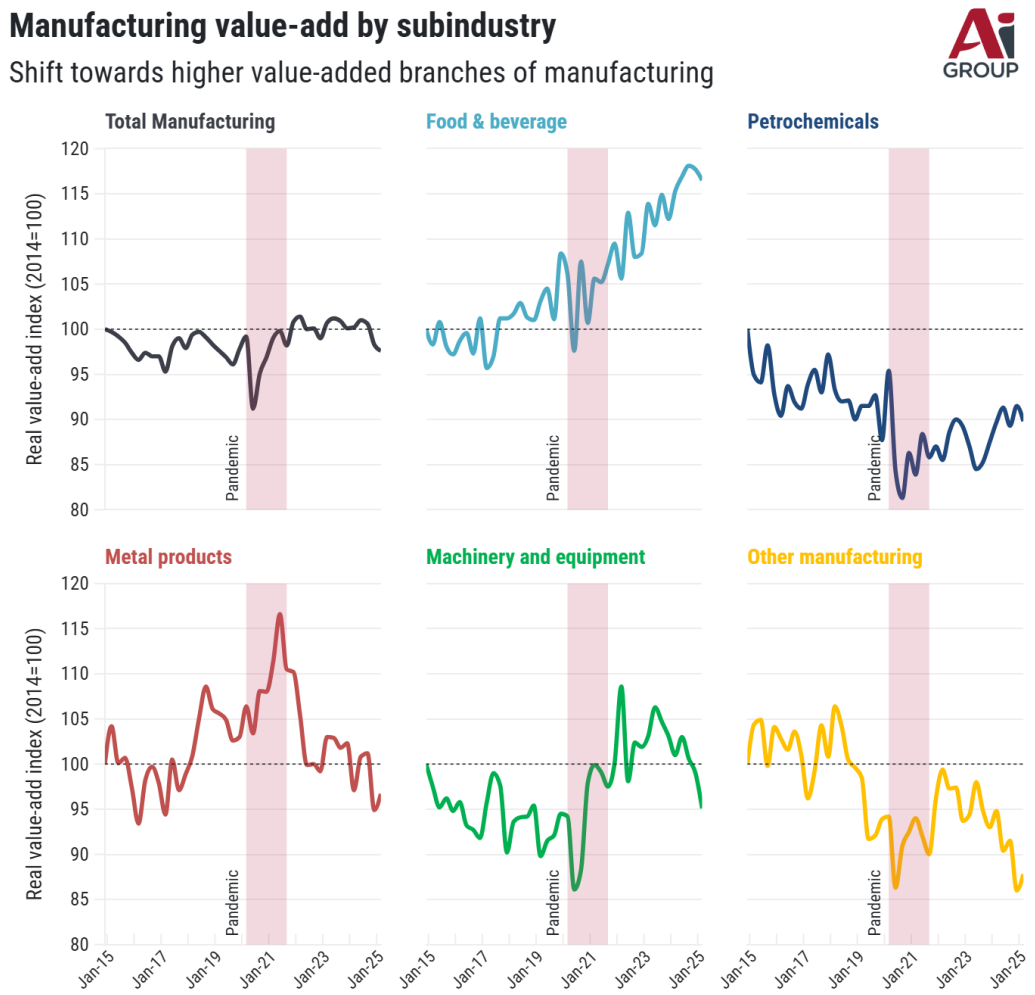
Post-pandemic growth turns to recession conditions from mid-2024




Source: ABS Australian National Accounts • Ai Group Research & Economics

# **Industry composition:** Continued consolidation towards higher value products

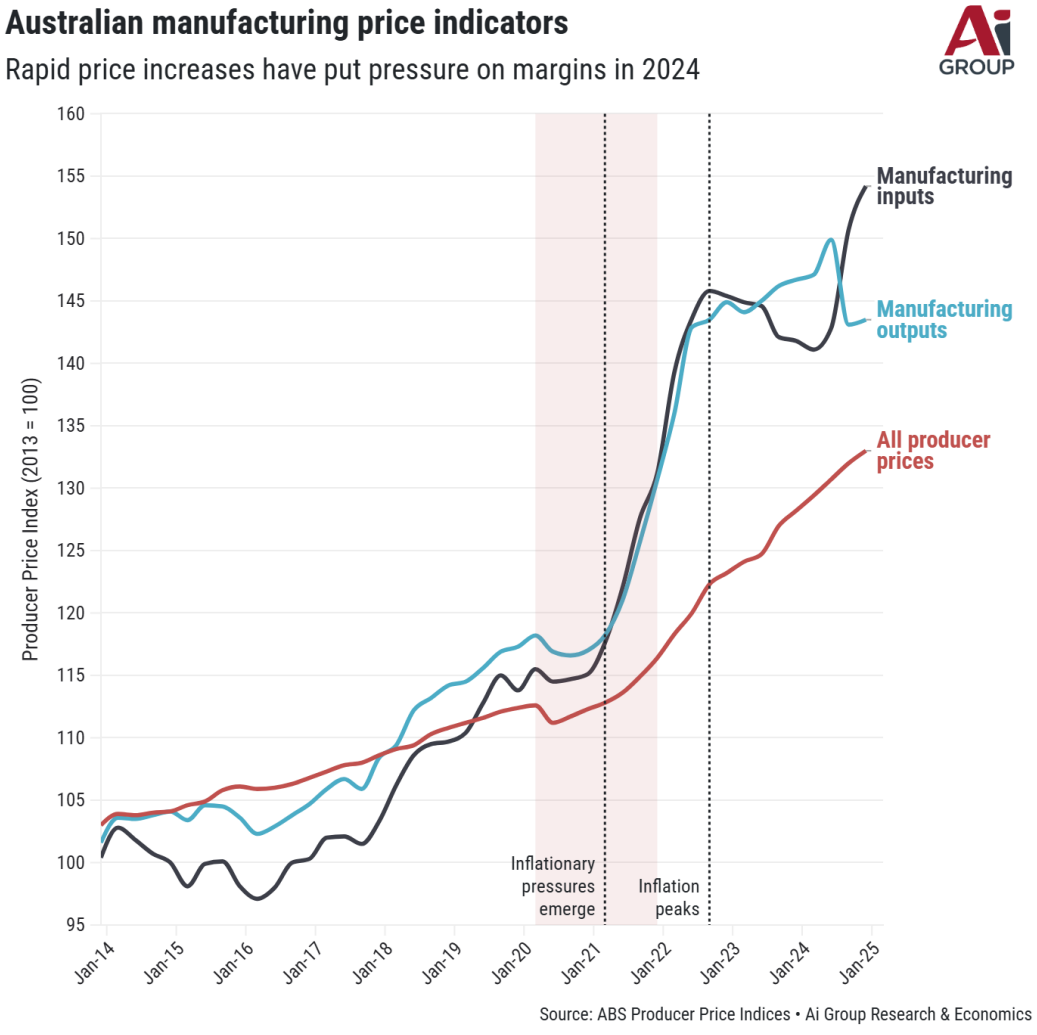
- The composition of Australian manufacturing has shifted towards higher value-added branches.
- Food & beverage production has steadily climbed since the pandemic, servicing both domestic and export markets.
- Metals and machinery & equipment grew strongly since the pandemic, but have seen some of this growth ease in 2024 with more difficult economic conditions.
- Petrochemicals and other manufacturing have both seen output steadily decline.
- This shift reflects a consolidation towards branches where Australia has comparative advantage in technology and skills.




Source: ABS Australian National Accounts • Ai Group Research & Economics

# **Manufacturing prices:** Surging prices begin to weigh on industry in 2024

- Manufacturing prices have outpaced broader inflationary trends since the pandemic.
- While industrial prices grew 18% over the last four years, both manufacturing input and output prices have risen substantially faster.
- Supply chain disruptions and energy price increases were the key contributors behind surging manufacturing prices.
- Until 2023 manufacturers were protected from inflation, with increases in input prices mostly passed through to sales prices.
- But in 2024, weak economic conditions saw sales prices decline while input prices continued to rise. This is placing emerging pressure on manufacturer margins.

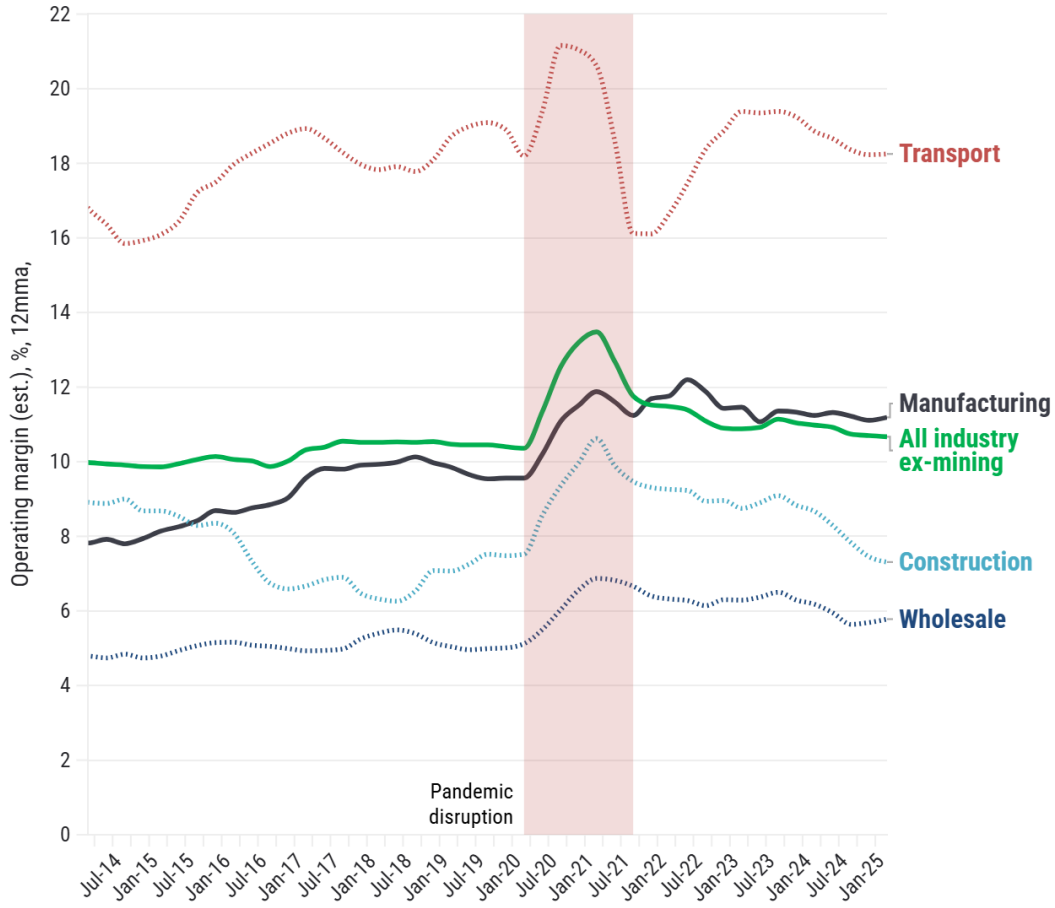


# **Financial performance:** Improving margins as industry consolidates

- Manufacturer margins have been improving over the last decade in Australia.
- Margins declined following the GFC, associated with the exit of the auto industry.
- They recovered from 2015 to return to near the all-industry level, reflecting the consolidation toward more competitive subindustries.
- Post-pandemic growth saw manufacturer margins improve from 10% to 12%, and now exceed the all-industry rate for the first time since 2007.
- Manufacturing is the only industrial sector to see a material improvement in business margins, with others still near long-term levels.

## Manufacturing margins in Australia

Strong margin recovery since the pandemic, exceeds all-industry again



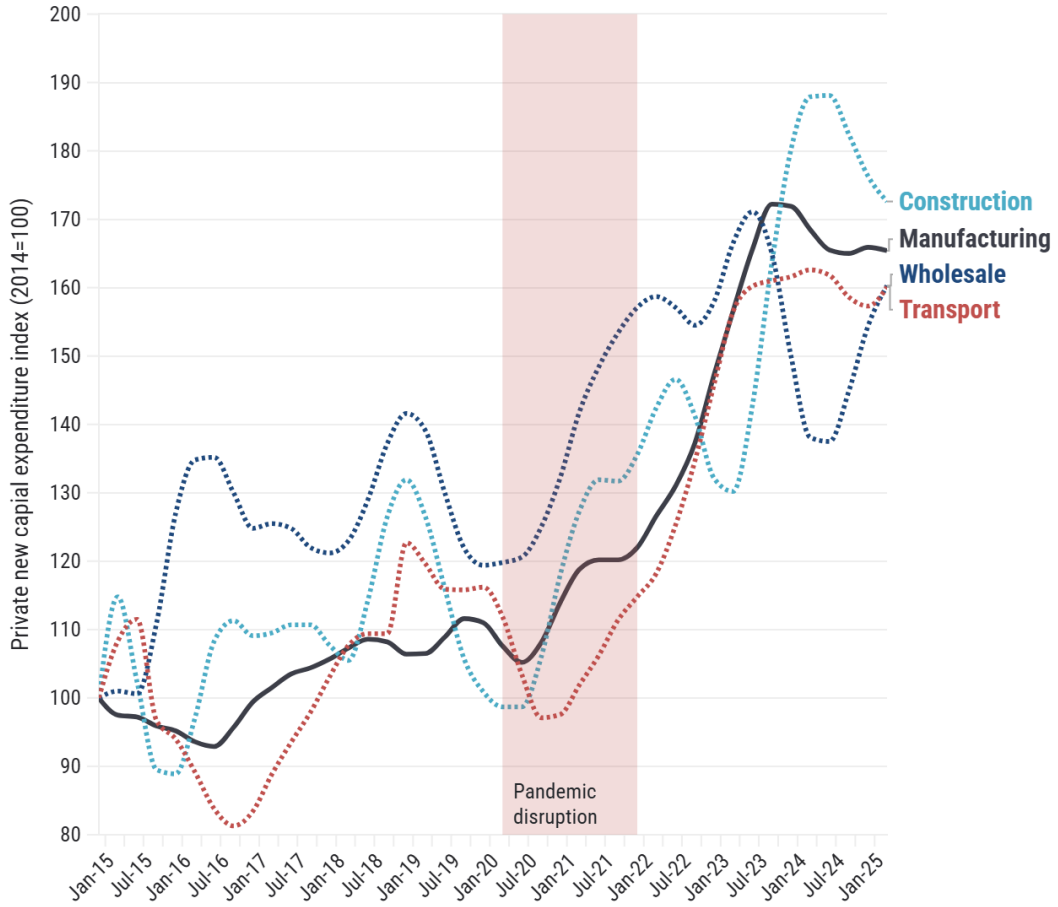

Source: ABS Business Indicators • Ai Group Research & Economics

# **Capital expenditure:** Structural uplift in manufacturing and allied investment

- Investment levels in Australian manufacturing rose significantly following the pandemic, but growth levelled off in 2024.
- Industrial capex levels leaped following the pandemic, as businesses invested to meet growing demand from economic recovery and disrupted supply chains.
- Manufacturing investment levels in 2023 were 55% higher than in 2019. Allied industrial sectors saw a similar degree of uplift.
- As conditions deteriorated in 2024, manufacturing investment eased back by around 10%.
- However, capex levels remains structurally higher than the years before the pandemic.

**Capital expenditure in Australian manufacturing**

Manufacturing investment uplifts with allied industrials



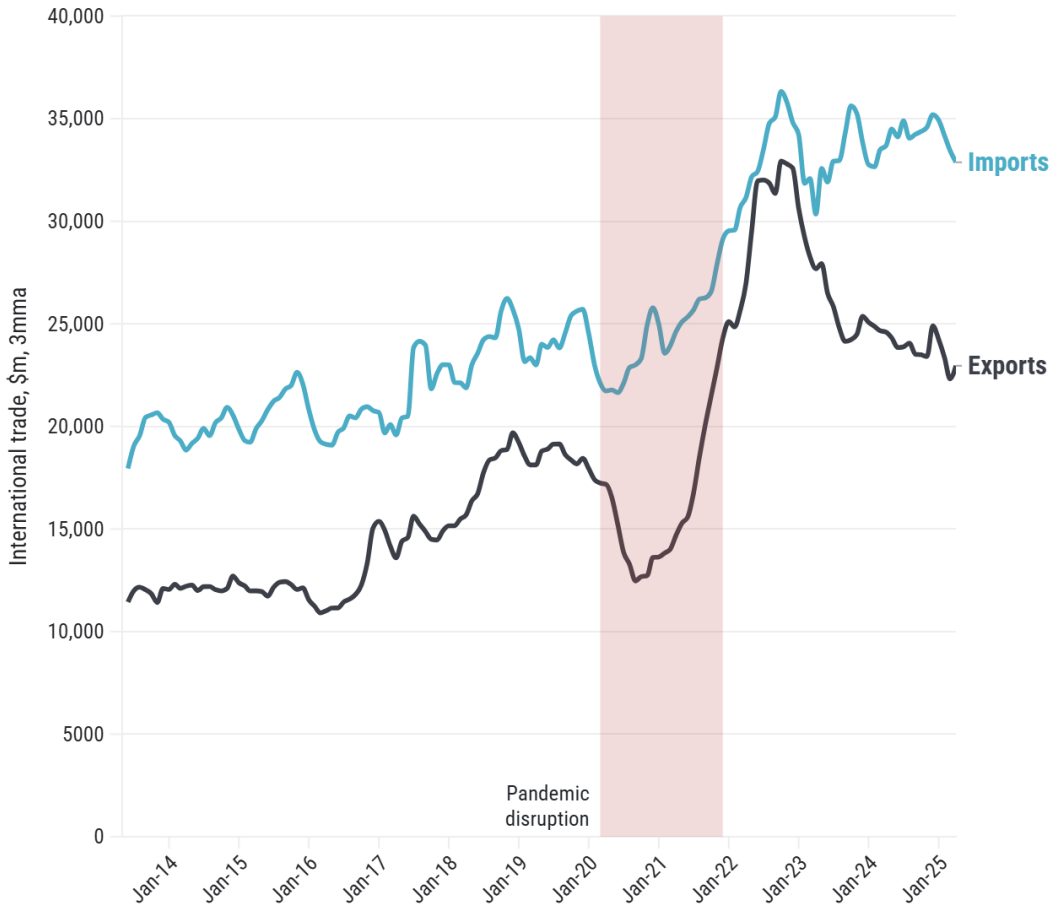

Source: ABS Capex, Table 5 • Ai Group Research & Economics

# **Trade in manufactures:** Pandemic trade boom weakens for exporters in 2024

- Australia's trade in manufactured goods – both imports and exports – grew significantly during and after the pandemic.
- Supply-side constraints for industrial goods during the pandemic drove both imports and exports of manufactures higher.
- Manufactured exports rose ~60% between 2020 and 2023. Imports grew by ~45%, closing the trade deficit in manufactures.
- From 2023, the restoration of supply chains saw exports moderate, but they have stabilised at higher levels – indicating some new market access has been retained.
- But imports have not followed exports down, leading to the reopening of the trade deficit.

**Australian trade in manufactured goods**

A post-pandemic export boom had receded in 2024



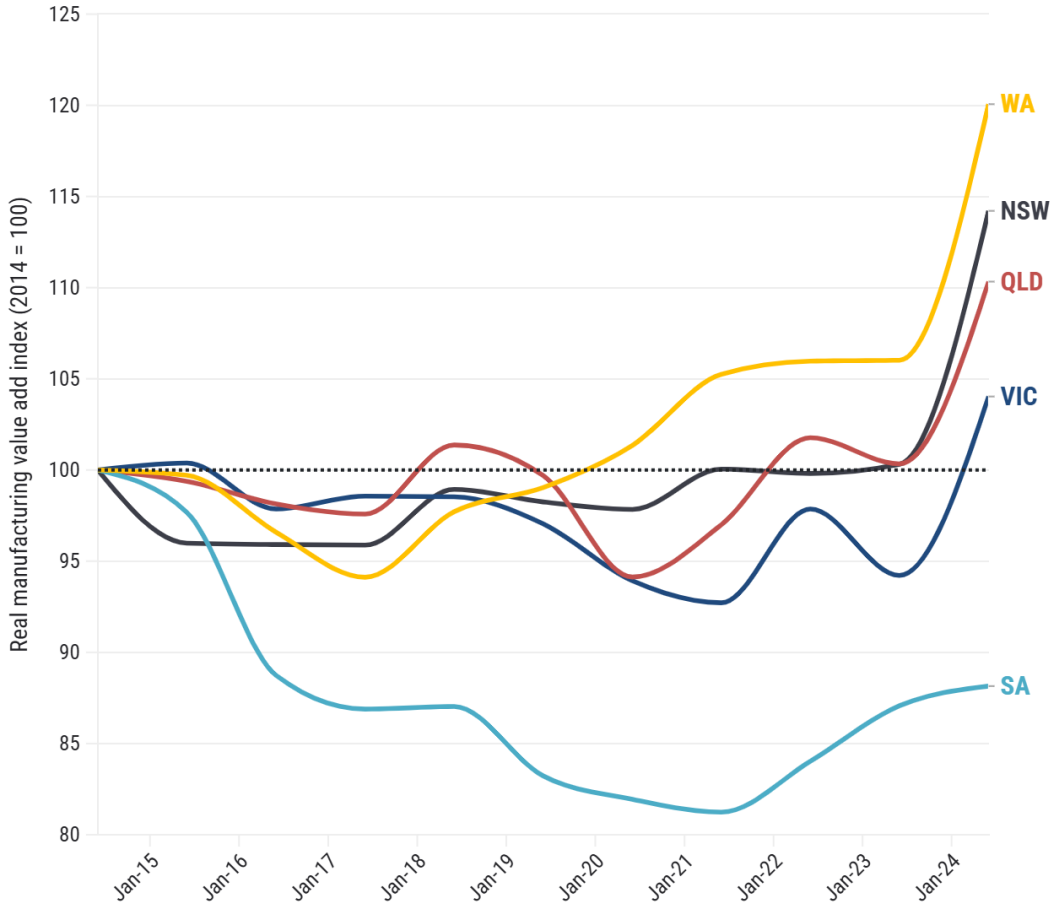

Source: ABS International Trade in Goods • Ai Group Research & Economics

# **Industrial geography:** Shift from traditional to emerging manufacturing bases

- The location of Australian manufacturing has rapidly shifted since the pandemic.
- The emerging states - WA and QLD – have seen dramatic growth in manufacturing output, driven by backward and forward connections to dynamic local resource sectors.
- VIC and SA saw output decline. This reflects pressures on the chemicals and metals industries.
- After a decade of decline, NSW manufacturing has enjoyed a post-pandemic boost driven by equipment and food.
- As industry composition shifts, so too will its geography within Australia.

**Manufacturing output of Australian states**

Shift from traditional to emerging manufacturing bases




Source: ABS State Accounts • Ai Group Research & Economics

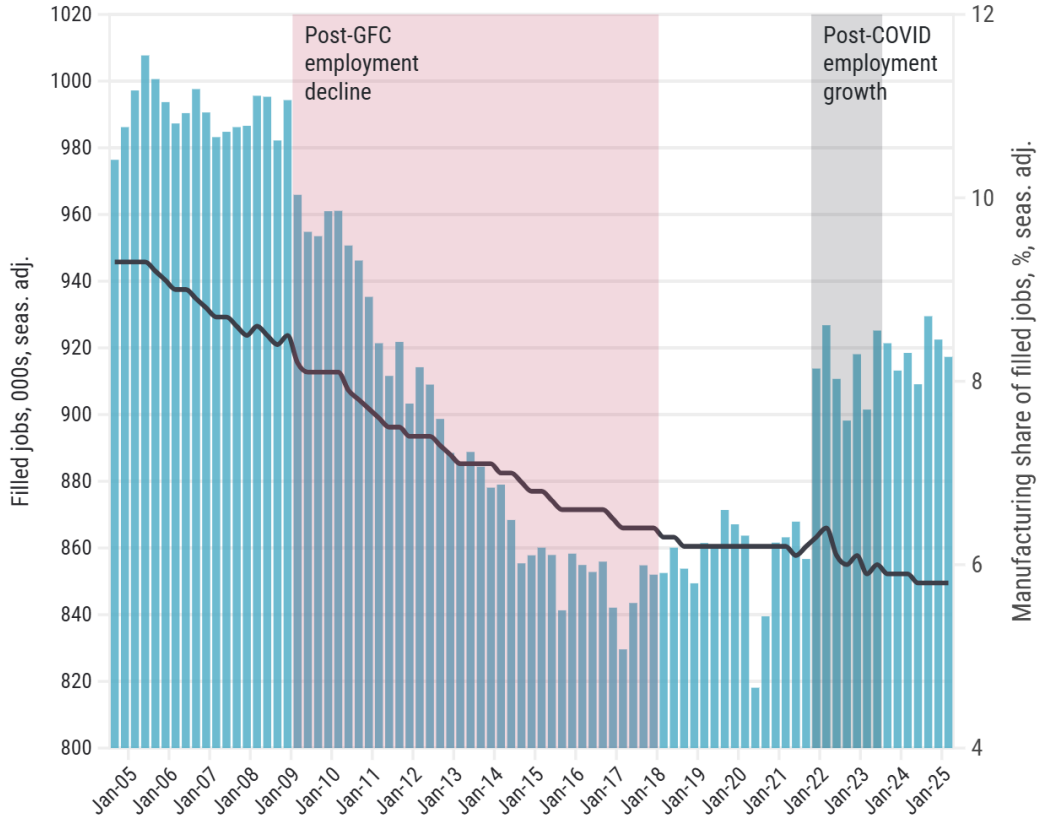
# Employment and workforce indicators

# **Manufacturing jobs:** Pandemic partially reverses post-GFC workforce falls

- There were 928,600 manufacturing jobs in Australia in the December quarter of 2024.
- There has been a 7% increase in manufacturing jobs since the pandemic, reflecting recent growth in the industry.
- However, post-pandemic growth only partially recovers a 15% decline in jobs which occurred in the years following the GFC.
- The manufacturing share of total Australian jobs declined from around 10% two decades ago to 6% by 2018.
- The share of Australian jobs in manufacturing has been broadly stable but dipped under 6% since then.

**Australian manufacturing employment**

Post-COVID employment boost partially reverses post-GFC decline



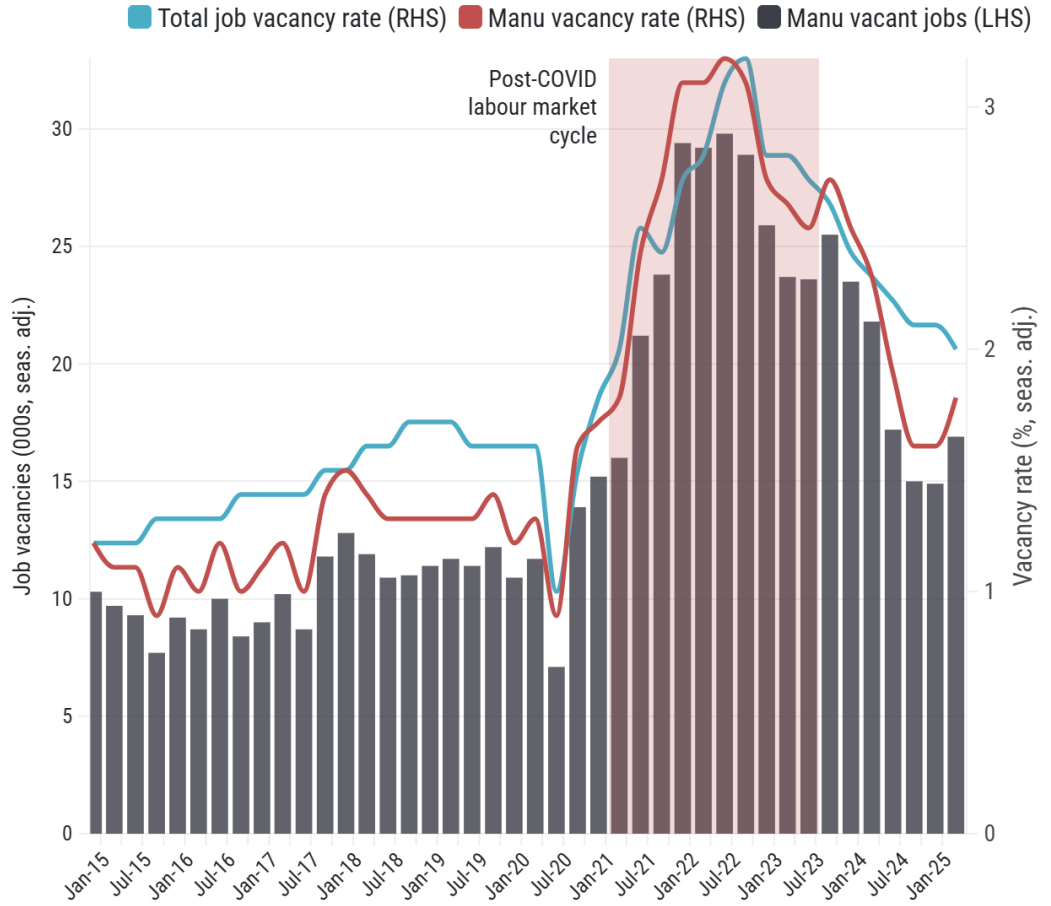

Source: ABS Labour Accounts, Table 1 & 4 • Ai Group Research & Economics

# **Job vacancies**: Vacancies ease with manufacturing slowdown but remain high

- There are currently 16,900 job vacancies in Australian manufacturing.
- The tight labour market following the pandemic saw job vacancies in manufacturing increase dramatically.
- Vacancies peaked in the March quarter of 2022 and fell substantially in 2024.
- The manufacturing vacancy rate currently sits at 1.8%. This is lower than the national (2.0%) vacancy rate and reflects the slowdown in the industry over 2024.
- Manufacturing vacancies remain elevated above their long-run rate of 1.0-1.5%, pointing to ongoing labour and skills shortages.

**Australian manufacturing job vacancies**

Despite easing in 2024 vacancies remain elevated



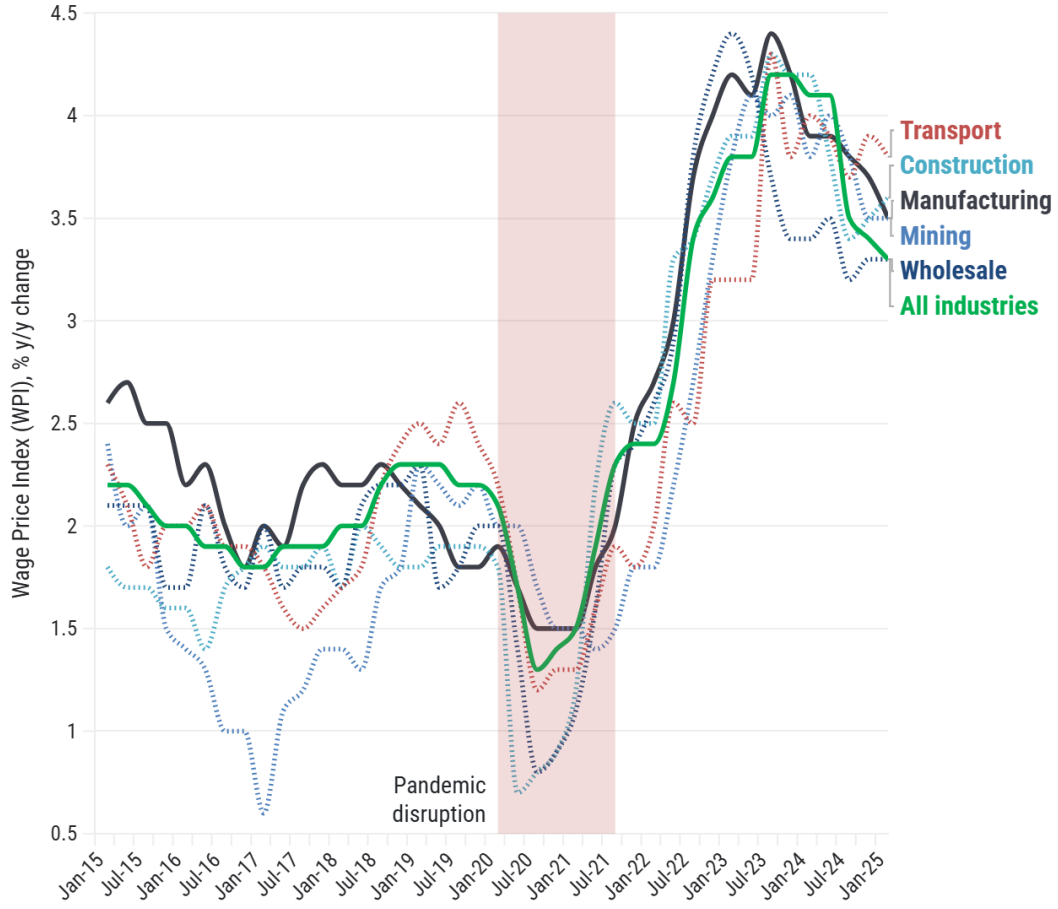

Source: ABS Labour Account, Table 4 • Ai Group Research & Economics

# **Wages:** Industrial wages surge, putting extra pressure on manufacturing

- Manufacturing wages increased at an annual rate of 3.5% in the March quarter of 2025.
- Manufacturing wages spiked during the tight labour market, and have eased slightly across 2024.
- Manufacturing wages have broadly tracked with those of allied industrials, reflecting the shared workforce of the group.
- Despite the recent decline, industrial wages growth remains well-above its long-term rate of 2.0-2.5%
- Manufacturing has less capacity to pass on high wage increases than other industrials, due to the competitive pressure of its trade-exposure to imports.

**Wages growth in Australian manufacturing**

Similar to other industries, highest rate of wage growth in 16 years



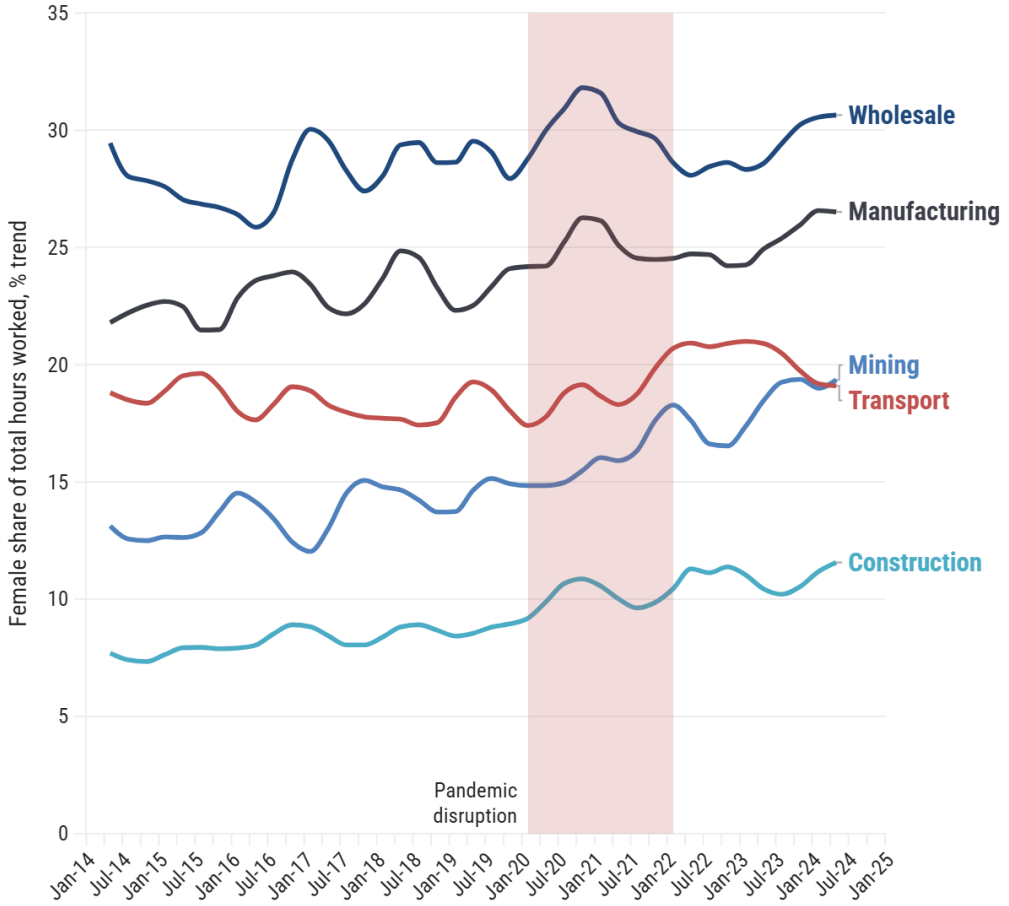

Source: ABS Wage Price Index, Table 1, 5b • Ai Group Research & Economics

# **Workforce gender composition:** Manufacturing leads among industrials

- The gender composition of the Australian manufacturing workforce has shifted slightly in the last decade.
- Over the past ten years, the female share of the manufacturing workforce rose from 21.8% to 26.5% of hours worked.
- Full-time male employment remains the industry norm, accounting for two-thirds of the current workforce.
- Manufacturing has delivered the second largest uplift in female participation amongst industrial sectors, edged out only by mining.
- Higher rates of automation in mining and manufacturing have enabled their increase in female participation.

**Female share of industrial workforces in Australia**

Automation enables strong female uplifts in manufacturing and mining



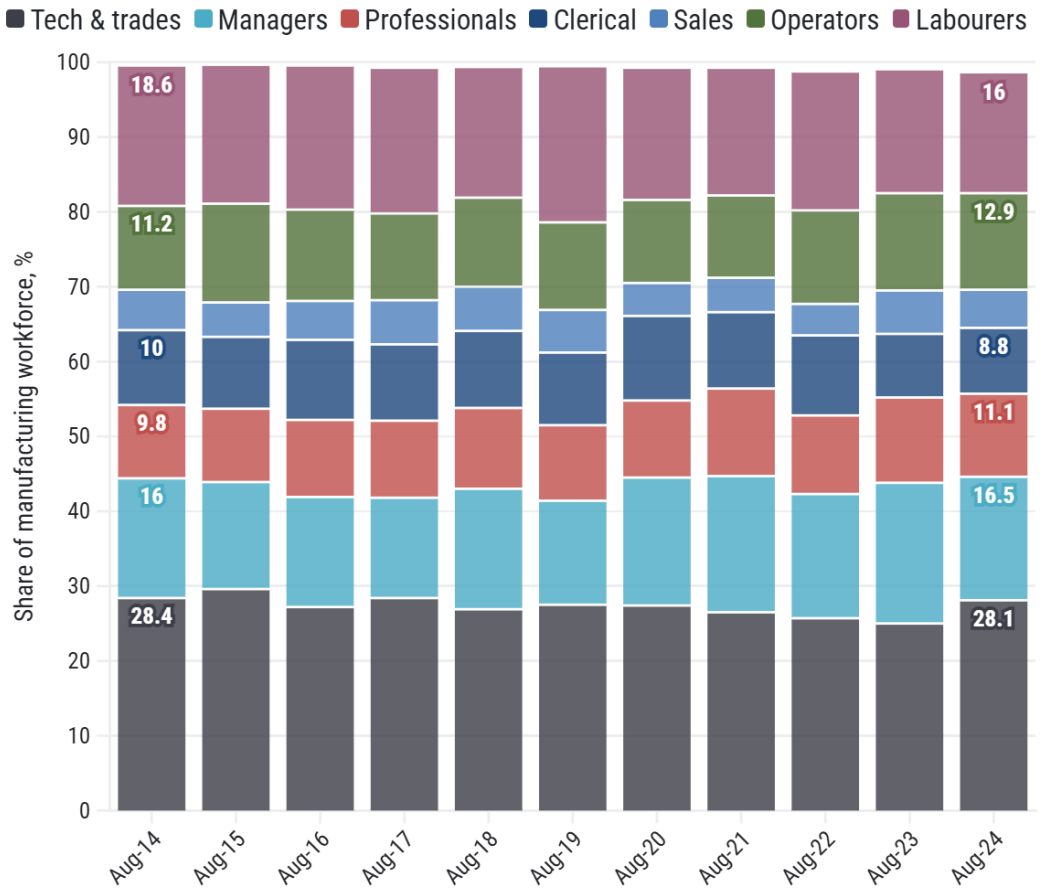

Source: ABS Labour Force Survey microdata • Ai Group Research & Economics

# **Occupational composition:** Skilled roles remain dominant labour source

- The occupational composition of the manufacturing workforce has maintained a high reliance on skilled labour.
- Skilled roles – managers, professionals and technicians & trades – account for 56% of all manufacturing jobs.
- Manufacturing is considerably more trades intensive (28.5% of workforce) than economy-wide level (12.2%)
- The occupational composition of manufacturing has changed only slightly in the last decade, with a slight uptick in professional and operator roles.
- This makes manufacturing highly sensitive to skills availability, particularly for trades roles which are in acute national shortage.

**Occupational composition of the manufacturing workforce**

Skilled labour - particularly technical roles - remains dominant




Source: ABS LFS microdata • Ai Group Research & Economics

# Key manufacturing data

## Key manufacturing statistics

| Total Manufacturing | 2024-25 |
|---|---|
| GDP | $33,516 million (5.1% of total) |
| Number of employees | 881,500 (6.1% of total) |
| Number of employing businesses | 48,360 (5.4% of total) |
| Export earnings | $23,515 million (55.0% of total) |
| Manufacturing profits | $12,779 million (26.1% of total*) |
| Manufacturing revenue | $7,633 million (17.8% of total*) |
| Manufacturing wages bill | $15,686 million (8.7% of total*) |
| Manufacturing investment | $3,601 million (7.8% of total) |
| BERD (2021-22) | $5,203 million (27.1% of total) |

ABS, National Accounts, Mar'25 • ABS Australian Industry, Research and Experimental Development, Businesses, 2021-22, ABS Private New Capital Expenditure and Expected Expenditure, Jun 2024, ABS International Trade in Goods and Services, Mar'25

## Manufacturing employment data, Feb 2025

| | Employment ('000) | Share (%) |
|---|---|---|
| Manufacturing total | 881.50 | 100.00 |
| Food, beverage & tobacco products | 221.60 | 25.10 |
| Machinery & equipment w/ transport | 71.20 | 8.10 |
| Machinery and equipment | 138.40 | 15.70 |
| Metal products | 134.30 | 15.20 |
| Chemicals, petroleum and rubber | 91.10 | 10.30 |
| Building, wood, furniture & other | 147.60 | 16.70 |
| TCF, paper & printing products | 75.10 | 8.50 |
| Manufacturing nfd | 7.10 | 0.80 |

Source: ABS, Labour Force Detailed Quarterly, Feb 2025, Ai Group Research & Economics