



Snapshot of impacts of the energy price shock on Australian manufacturers

Ai Group Research and Economics

August 2022



How has the energy price shock impacted Australian industry? Insights from Ai Group manufacturing businesses

Background

- An energy price shock has recently hit the world economy. Global gas and coal prices have approximately tripled in the last twelve months.
- Australia is not immune to this global shock. With domestic prices linked to international markets, energy costs for local users have dramatically grown.
- The impact of rising energy prices has fallen hardest on industry, particularly the energy-intensive manufacturing sectors
- To understand the impacts of the energy price shock on Australian industry, Ai Group contacted manufacturing and manufacturing-adjacent businesses during June-July 2022.
- We asked businesses regarding their energy use, the impact of rising prices, and how they are adapting their operations and strategy

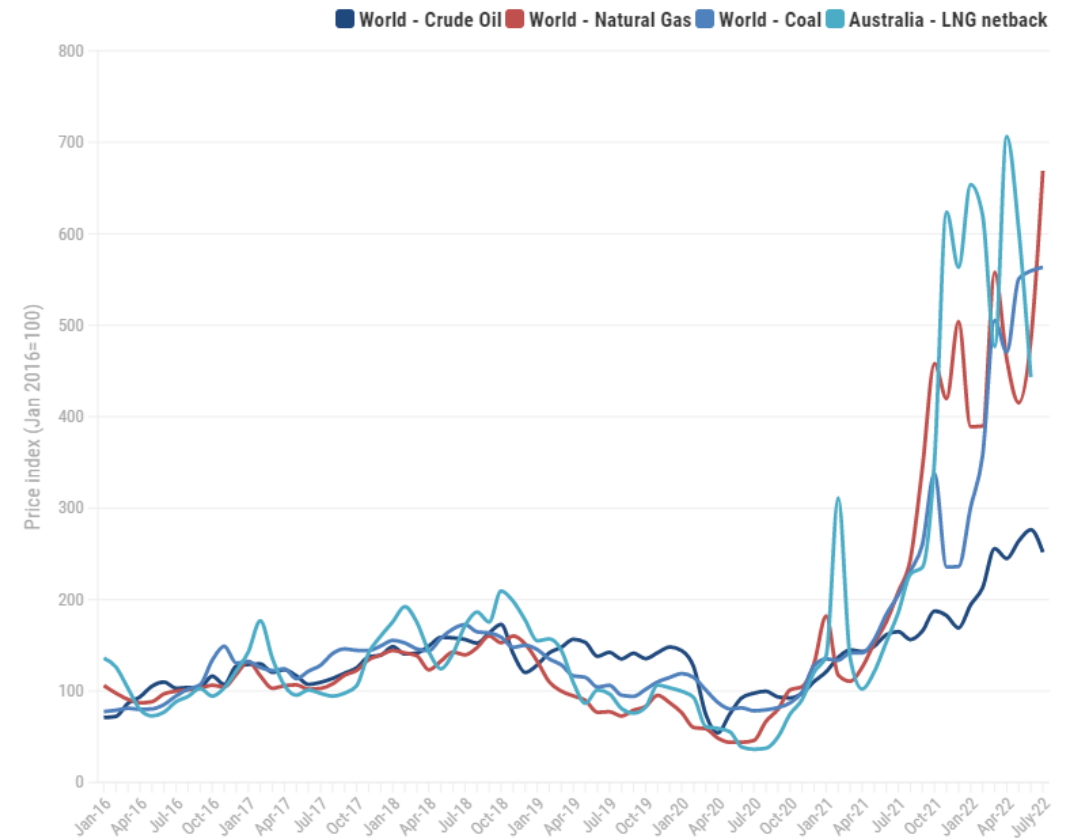
Key findings

- A majority (62%) of contacted Australian manufacturers have suffered significant negative effects from rising energy prices
- The chemicals, minerals processing, metals and construction services subsectors are most affected
- Only a small share (15%) report they are able to substantively pass on rising energy prices
- Most (78%) have already made lower-impact adjustments. These include agreeing to higher-priced energy contracts, and/or adjusting operations to minimise energy use
- 81% expect to make further changes over the coming year to adapt to rising energy prices.
- Some anticipated changes are more significant, such as reducing production (18%) or employment (21%)

The global energy shock of 2021-22

- Global energy prices have approximately tripled since the second quarter of 2021
- The shock was initially driven by post-COVID economic recovery, with energy prices starting to grow from April 2021
- Russia's invasion of Ukraine in February 2022 further accelerated this
- Electricity-facing energy commodities (gas and coal) have seen the highest price rises, while oil prices have grown more modestly
- Australian gas prices ("LNG netback") are linked to international price movements, and thus have closely tracked global markets

Global energy prices 2016-2022

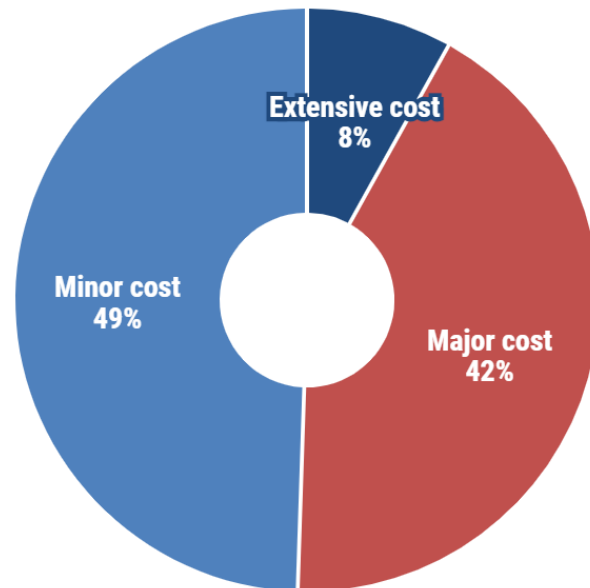


Source: [IMF Commodity Prices](#)

Energy is a significant cost for Australian industry, and price rises are having a material impact for the majority of manufacturers

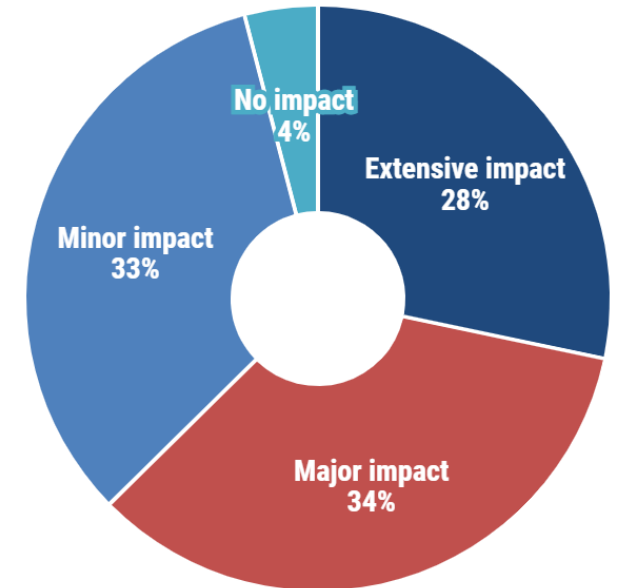
- Energy is a significant and impactful cost for Australian manufacturers.
- Half (50%) of contacted businesses indicated that energy was either a major or extensive component of their cost structure

What is the share of energy in the cost structure of your business?



- The majority (62%) of respondents indicate that rising energy prices are having a major or extensive impact on their business.
- Only 4% report that rising energy prices had no impact on their business

What is the impact of energy price rises on your business?

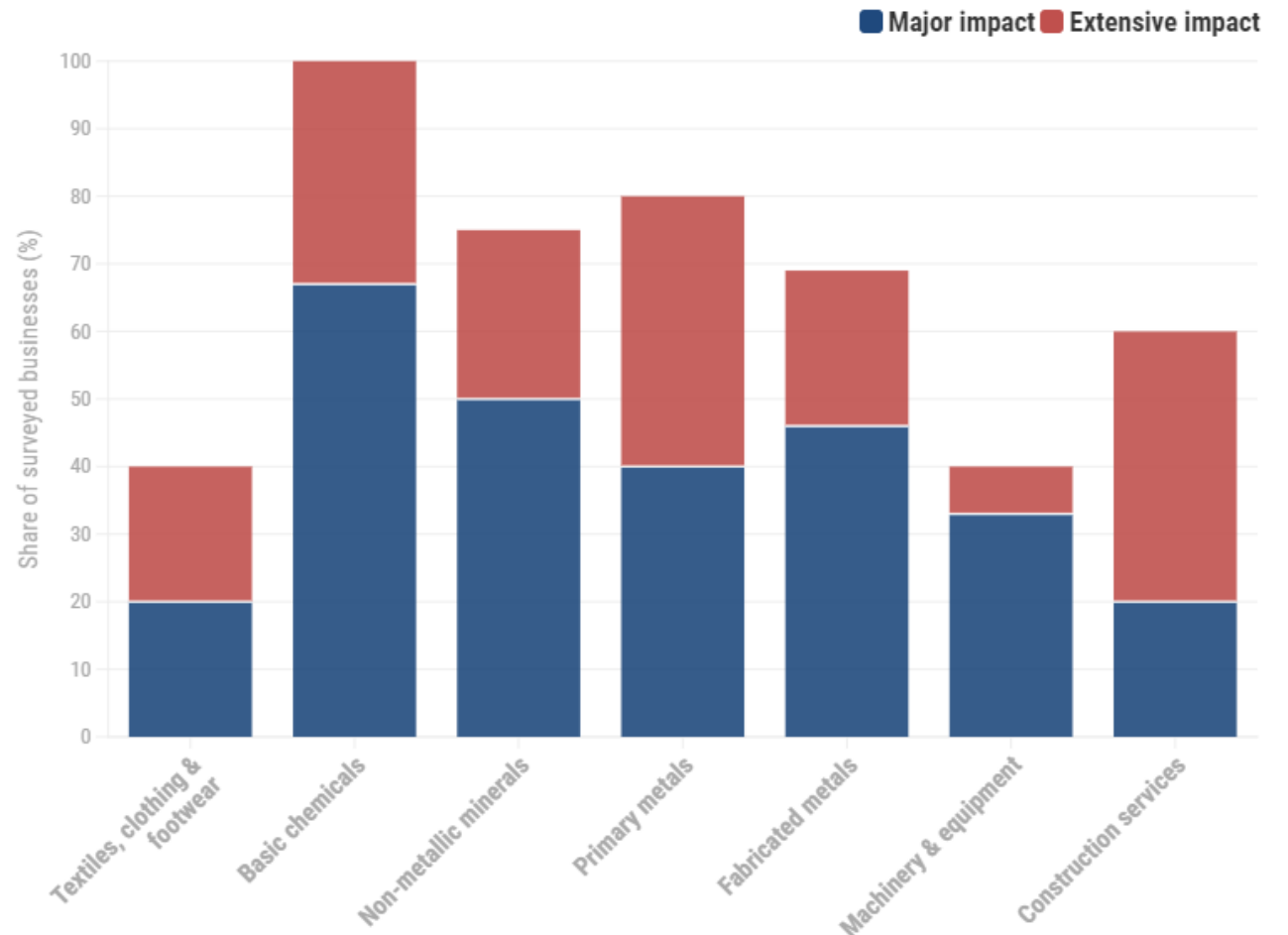


Rising prices most severely affect energy-intensive manufacturing sub-sectors

The manufacturing sub-sectors which are most exposed to energy price rises include:

- Basic chemicals processing (100% reporting major or extensive impact)
- Non-metallic minerals processing (75%)
- Primary (80%) and fabricated (69%) metals processing
- Construction services (60%)

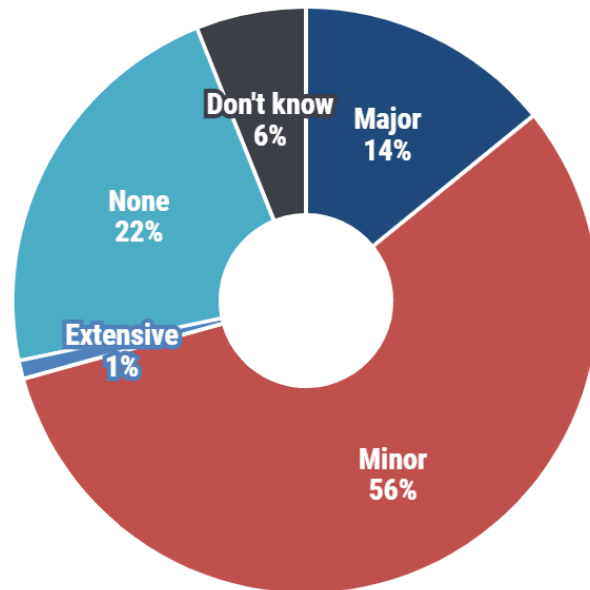
Impact of energy price rises by sector



Few manufacturing businesses can pass-on rising energy costs. They are instead making operational changes to adapt

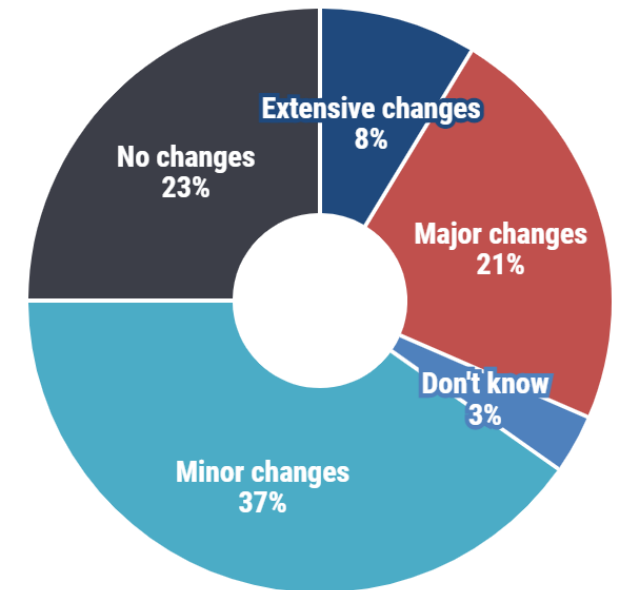
- The scale of energy price rises in 2022 has forced industry to quickly adapt
- Only a small proportion (15%) report they can pass-on a large portion of rising energy prices
- 22% report they cannot pass on rising energy price at all

What share of energy price rises can you **pass-on** to customers?



- Manufacturing has instead made operational changes to absorb rising energy prices
- 29% of respondents have made extensive or major operational changes, and another 37% have made minor changes
- Only a quarter (23%) have not changed operations due to rising energy prices

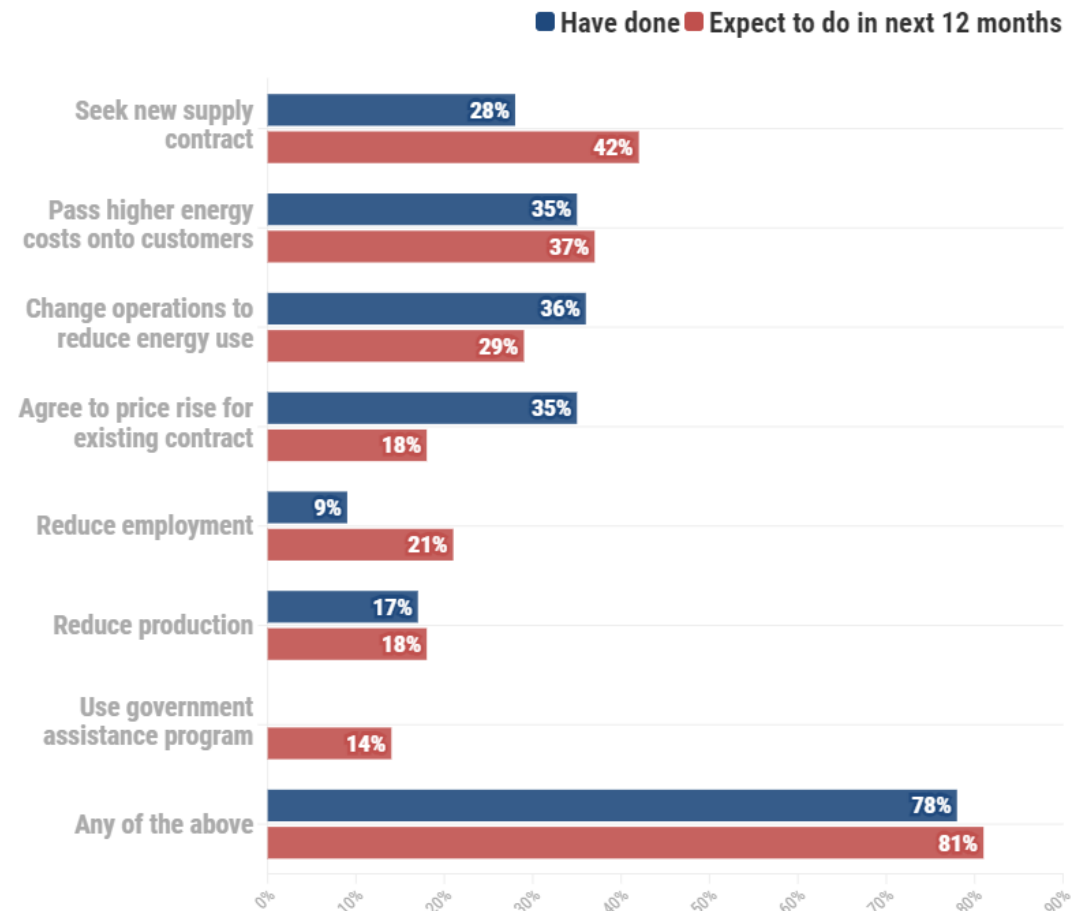
Have you made **operational changes** as a result of energy price rises?



Manufacturing has already made operational changes to adjust to high energy prices, and expects to take more significant actions in the next 12 months

- 78% of contacted manufacturers report making changes to adjust to high energy prices.
- 81% expect to make additional changes in the next twelve months
- The most common include renegotiating energy contracts, changing operations to reduce energy use, and attempting to pass-on costs
- Only a small minority have made more significant changes, such as reducing employment (9%) or reducing production (18%)
- However, 18% expect they will have to reduce production in 2022-23, and 21% expect they will need to reduce employment
- No respondents have used government assistance programs yet, and few expect to do so in 2022-23

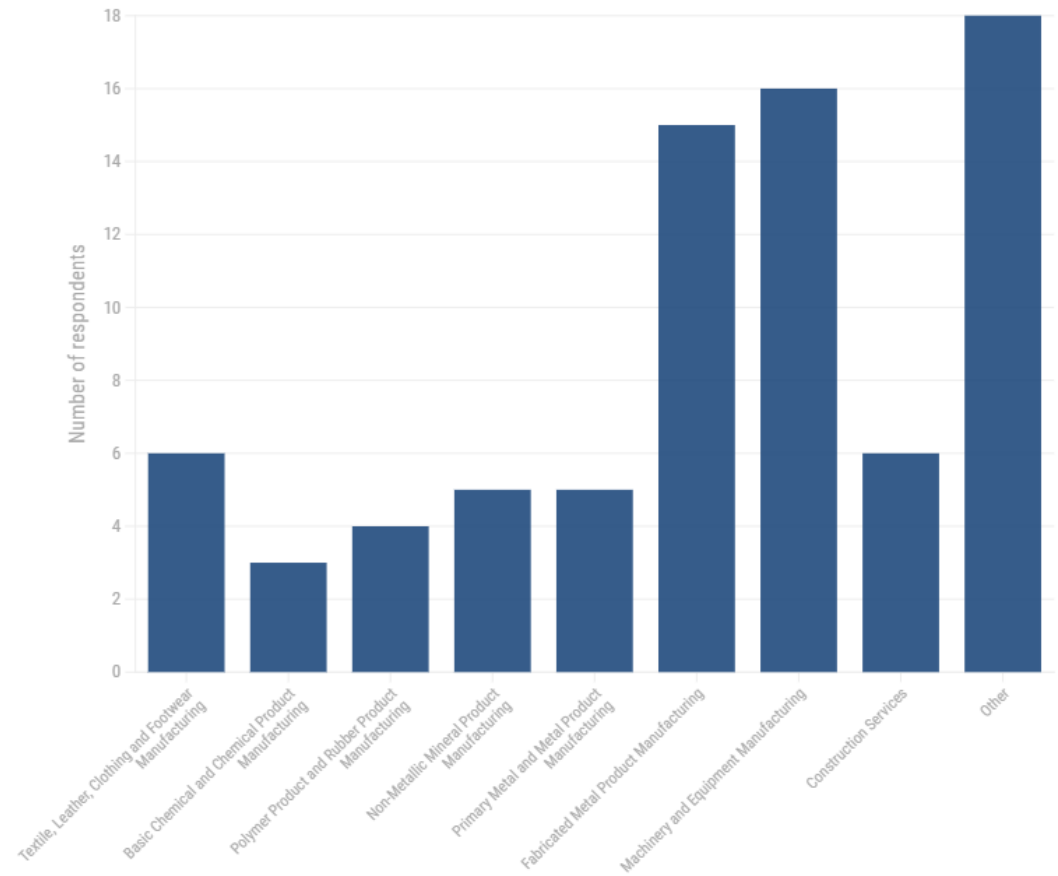
Responses to rising energy prices



Methodology

- Between 23 June and 5 August, Ai Group conducted a contacted members regarding their experiences of energy price rises
- 78 businesses completed a questionnaire. The sectoral composition of the responses is provided at right.
- The questionnaire asked businesses the following questions:
 1. To what extent has your business been impacted by rising energy prices?
 2. To what extent have you made changes to your business operations as a result of energy price rises or tight supply?
 3. What is the share of energy in your business's cost structure?
 4. To what extent is your business able to pass on rising energy costs through higher selling prices?
 5. How has your business responded and how do you expect to respond to the energy crisis?
 - No business response
 - Passed higher energy costs onto customers
 - Sought new energy supply contract
 - Agreed to price increases under existing energy supply contract
 - Changed operational practices to reduce energy use
 - Reduced overall production
 - Used a government energy assistance program
 - Other

Sectoral distribution of respondents





About the Australian Industry Group

The Australian Industry Group (Ai Group®) is a peak employer organisation representing traditional, innovative and emerging industry sectors. We are a truly national organisation which has been supporting businesses across Australia for nearly 150 years. Our vision is for thriving industries and a prosperous community. We offer our membership strong advocacy and an effective voice at all levels of government underpinned by our respected position of policy leadership and political non-partisanship.

Contact for this report

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