



CommBank Manufacturing Insights

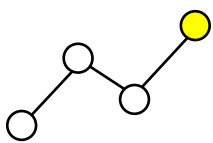
Steel and metal manufacturers and
distributors in focus

May 2024



Manufacturing Insights 2024

Australia's Steel and Metal manufacturers and distributors are in a transitional phase. Modernisation and decarbonisation imperatives are reshaping the strategic focus of many businesses. These areas are attracting investment as the sector strives for competitiveness, productivity, and sustainable growth in the year ahead.



Steel and Metal lead production volumes higher

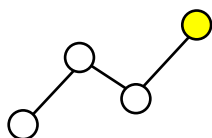
Around two in three Steel and Metal manufacturers and distributors grew revenue in 2023 and were more likely to have expanded production volumes relative to peers in other sectors. However, even as the sector increased output, and prices to offset rising operating costs, the research suggests that margins remained under pressure.

According to businesses, most of these performance trends are set to continue into 2024, albeit with minor variations. Most are predicting that production levels will continue rising and are seeking to increase staff numbers and capital expenditure to support it. Whilst the outlook across most performance indicators are similar to 2023, fewer businesses are expecting fixed costs to rise, and slightly more expect to increase staff.

	2023 (Slightly or significantly increased)	2024 outlook (Proportion expecting increase)	2023 vs 2024
Revenue	69%	71%	2%
Profit	64%	68%	4%
Employees	54%	58%	4%
Production levels	67%	65%	-2%
Prices	68%	65%	-3%
Fixed costs	67%	55%	-12%

Despite some expected easing, most manufacturers and distributors still see costs and economic factors as the highest-impact issues in the year ahead. To navigate inflationary pressures, 48% of businesses are focusing on improving productivity and cost management, the highest-rated response.

Having strategies in place to navigate headwinds and cost relief on the horizon may be buoying sentiment for the sector. Almost nine in 10 (87%) of Steel and Metal manufacturers and distributors are optimistic about conditions ahead. This includes more than one in three (34%) expressing strong confidence, higher than the all-industry average of 25%.



Responding to customer-led change

Compared to other sectors, more Steel and Metals manufacturers and distributors believe competitor activity will impact their business. Changing customer behaviours may play a role, with businesses observing stronger preferences for local and regional suppliers and a desire for competitive pricing. Many also experienced more scrutiny of sustainable practices and a higher expectation for data and digital integration capabilities.

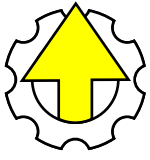
Just over two in three expect continued changes to customer behaviour to have a medium or high impact in 2024, and improvements to product quality and innovation, supply chains, cost-effective value and cyber defences are the top responses.

Observed changes in customer expectations in past 12 months

- 33% saw a preference for local or regional suppliers
- 33% saw a need for faster, more flexible delivery options
- 30% saw an increased demand for lower pricing
- 29% saw more scrutiny regarding sustainable and ethical practices
- 28% saw changes to order frequency

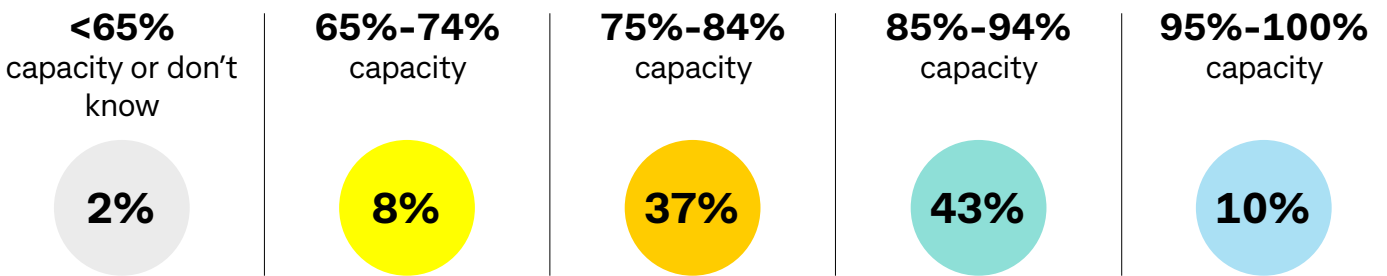
How the sector will adapt to customer expectations in next 12 months

- 38% will improve product and service quality
- 29% will streamline supply chain for efficiencies
- 28% more focus on product innovation and development
- 27% review or reposition pricing
- 26% upgrade cyber security systems and protocols
- 26% refine sales & marketing activities and messages to better articulate your proposition



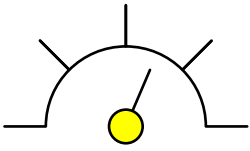
Upgrading skills, systems and gear to boost productivity

Capacity Utilisation Rate



Amid rising costs, labour shortages and higher production targets, productivity is firmly in focus for Steel and Metal manufacturers and distributors. However, outdated technology and plant and equipment, as well as skills are factors holding back higher productivity. Despite these challenges, 54% are operating at 85% or more of their maximum capacity, with most others achieving a 75-84% capacity utilisation rate. To increase productivity, Steel and Metal manufacturers and distributors aim to reskill staff and upgrade equipment and systems, and are prioritising capital expenditure to achieve it.

Top inhibitors of productivity	Top initiatives to boost productivity	Productivity drivers prioritised for CAPEX
<ul style="list-style-type: none">Outdated technology and software (39%)Labour skill level (38%)Ineffective operating systems (34%)Outdated plant and equipment (30%)Quick changes of customer orders (30%)	<ul style="list-style-type: none">General staff reskilling (46%)Capital expenditure to replace equipment and vehicles (38%)Tighter inventory management systems (37%)Closer collaboration with suppliers (36%)Review production KPIs (36%)	<ul style="list-style-type: none">Supply chain (53%)Technology and software (45%)Operating systems (44%)Plant, equipment, or vehicles (43%)Labour (40%)



Sector sets the pace for technology investment

More Steel and Metals manufacturers intend to lift technology investment in the year ahead than in other sectors. 90% of Steel and Metal Manufacturers are set to increase spend with 33% planning to significantly grow their budgets. The top reasons for adopting emerging technologies are productivity and efficiency gains (44%), followed by a better employee experience (37%). Costs, time, and expertise are the most common barriers, with most Steel and Metals manufacturers and distributors preparing staff for adoption through internal and external training.

Most impactful emerging technologies in next three to five years (rated top 3)

Supply chain integration platforms

38%

Track and trace for supply chain visibility

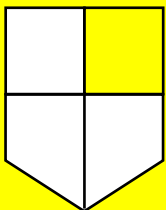
33%

Autonomous systems, machines and vehicles

29%

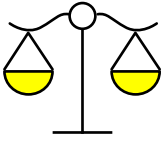
Artificial intelligence and machine learning

27%



Sector on cyber security alert

Almost 7 in 10 Steel and Metals manufacturers believe cyber security and data privacy will have a medium to high impact on their business in the year ahead. Already, 23% have experienced a cyber breach in the past 24 months, with employees being targeted by phishing and other social engineering attacks and increasing amounts of data collection, the most common vulnerabilities. The equal top defence tactic is updating software and hardware and conducting employee training, with the latter higher than other industry peers.



Balancing efficiencies and environmental impact

No sustainability initiatives

3%

In the initial stages of implementing

14%

Implemented some sustainable practices

58%

Implemented many sustainable practices

24%

Almost all Steel and Metals manufacturers have begun their sustainability journey. With 24% having implemented many sustainable practices, the sector is more mature relative to the all-industry average of 17%. The top drivers of sustainability initiatives include operational efficiencies, cost reduction and regulatory compliance, while the top obstacles are a lack of internal expertise, financial constraints, and supply chain complexities.

While reducing operational waste, using recycled materials, and shirking carbon emissions are the most commonly adopted practices, the fastest-growing initiatives are expected to be:

48%

Implementing technologies to accelerate sustainability

48%

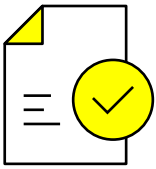
Product redesign and innovation to optimise sustainability

44%

Reducing energy usage and driving energy efficiency

44%

Using renewable energy sources or on-site generation



Preparedness for mandatory climate-related financial disclosure

Just 33% of Steel and Metal manufacturers and distributors have a good understanding of the Australian Government's incoming mandatory sustainability reporting regime, while 46% have some understanding. More than other sectors, Steel and Metal businesses believe it will lead to significant shifts in business strategy, with other top impacts of mandatory reporting obligations including:

43%

Agree it will significantly change business strategy

40%

Agree it will increase the cost of doing business

35%

Agree it will increase their investment in ESG



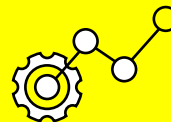
Learn more with CommBank Manufacturing Insights 2024

This provides just a snapshot of the findings from our latest research. The full report contains further information about:



Performance indicators

Financial and operational performance and outlook across manufacturing and distribution sectors.



Productivity tactics

Productivity enablers and detractors, and areas earmarked for capital investment.



Digital opportunities

Challenges and opportunities of emerging technologies such as AI, and cyber security initiatives.



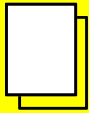
Sustainability imperatives

Existing and planned sustainability initiatives and the impact of the changing regulatory landscape.



About the Manufacturing Insights research

The CommBank Manufacturing Insights research is based on a survey of 464 manufacturers and distributors across Australia conducted in February 2024. This includes 120 operating in the Steel and Metal sector. The research examines current and future financial and operational performance drivers to support decision-makers as they develop their growth strategies.



To ensure you receive a copy of the CommBank Manufacturing Insights Report 2024, please register your interest by contacting Maria Christina at Maria.Christina@cba.com.au or go to CommBank.com.au/Manufacturing.

Things you should know:

The CommBank Manufacturing Insights (the research) has been published for general informational purposes only. As it has been prepared without considering your objectives, financial situation or needs, you should, before acting on the information, consider its appropriateness to your circumstances and if necessary seek the appropriate professional advice. Any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of each publications compilation, but no representation or warranty, either expressed or implied, is made or provided as to the accuracy, reliability or completeness of any statement made. Any opinions, conclusions or recommendations set forth are subject to change without notice. Any projections and forecasts are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. The Commonwealth Bank does not accept any liability for loss or damage arising out of the use of all or any part of the research.

The survey was undertaken by Fifth Quadrant on behalf of the Commonwealth Bank and the analysis was undertaken by Fifth Quadrant and the Commonwealth Bank.

Commonwealth Bank of Australia ABN 48 123 123 124 AFSL and Australian Credit Licence 234945