Australian Chamber of Commerce and Industry

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Australian Chamber–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

223rd report June 2017 (survey conducted 11 May to 5 June 2017)

- The Australian Chamber-Westpac Survey of Industrial Trends, Australia's longest running business survey dating from 1966, provides a timely update on manufacturing and insights into economy-wide trends.
- The Westpac-AusChamber Actual Composite index strengthened in June 2017, rising 1.8pts to 65.0, extending the rebound from a dip to 55.1 in June 2016, coinciding with the July Federal election.
- The above par reading for the Composite index, which has trended higher since 2014, reflects strength across output, new orders, overtime and employment. Output improved significantly in the quarter, matching the strength in new orders.
- Manufacturing is benefitting from: increased state spending on infrastructure, stronger world growth, spillover effects from a positive income shock to mining and agriculture, an increase in international competitiveness due to a lower currency, recent gains in commercial construction and an upswing in home building - though growth has moderated. Even so, there are some negatives: consumer spending is constrained by slow wage growth, energy costs are up and overseas competition is intense.
- The modest uptrend in exports has resumed after stumbling in 2016, with a net 12% of firms reporting a rise in export deliveries. Expectations are modestly positive, supported by a lower AUD and a rise in world trade volumes after a long period of contraction, though restricted by international pressures.
- Expectations are positive, centred on new orders and output as well as employment. The Expected Composite is at 65.9 in June, up 2.1pts from March. A net 28% expect the general business environment to strengthen over the next six months, an upbeat mood, but not as optimistic as March's 37%.
- Businesses continue to see a positive year for profits, driven by rising turnover and a lower Australian dollar boosting export returns. A net 33% expect profits to rise in the coming twelve months.
- Equipment investment intentions have been positive over recent years, consistent with some reduction in the sector's spare capacity and improving profitability. A net 23% expect to increase equipment spending in the next year. Building investment intentions are mildly positive, at a net 9% of firms.
- The survey's Labour Market Composite, which broadly tracks economy-wide jobs growth, was 58.4 in June, pointing to robust jobs momentum through 2017.

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The Survey of Industrial Trends produced by the Australian Chamber of Commerce and Industry & Westpac Banking Corporation is a quarterly publication.

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Net response or "balance" is calculated by the proportion of "ups" less "downs" on individual questions, thereby yielding the net balance.
A positive balance indicates a net upward or improving trend and a minus balance a net downward or deteriorating trend.

The 223rd consecutive survey was closed on 5 June 2017.
A total of 255 responses were received, and provided a reasonable cross-section of Australian manufacturing in respect of industry groups and size of operation.
The next survey will be conducted over August/September 2017.

Key survey results

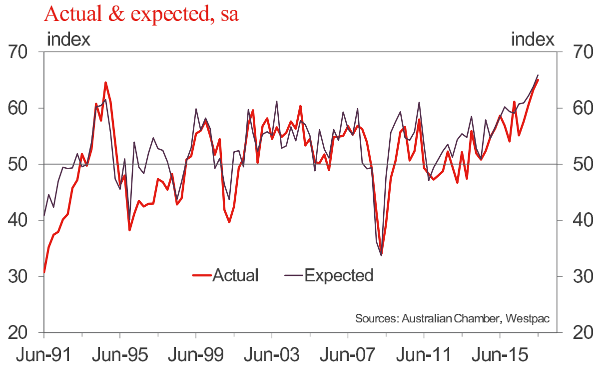
Westpac–AusChamber Composites *(seasonally adjusted)*

	Q1 2017	Q2 2017
Actual – composite index	63.2	65.0
Expected – composite index	63.8	65.9

- The Westpac-AusChamber Actual Composite Index continued to gain, lifting to 65.0 in June 2017 from 63.2 in March. Momentum has steadily risen following a drop to 55.1 in June 2016.
- Contributing to the strong result was a jump in output, increased new orders and overtime, while employment and backlog lifted.
- The high Composite level reflects an increased state infrastructure spend along with a lift in commercial construction supporting domestic demand, while a low Australian dollar and a cyclical rise in global manufacturing is boosting exports.
- The Expected Composite is at 65.9 with strength across new orders, output, employment and backlog.

Westpac-AusChamber Composite indexes

Actual & expected, sa

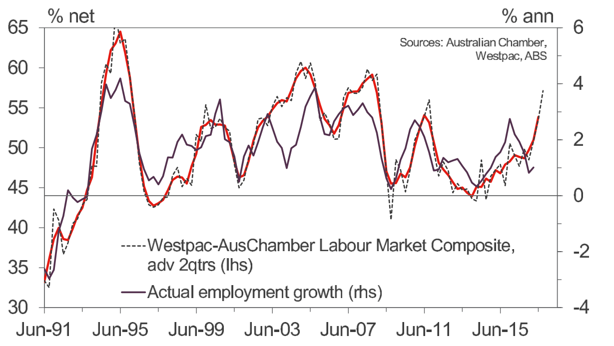


Westpac–AusChamber Labour Market Composite

	Q1 2017	Q2 2017
Net balance	57.1	58.4

- The survey provides insights into economy wide employment growth. This highlights the key linkages between manufacturing and the labour market.
- The Westpac-AusChamber Labour Market Composite rose to an elevated 58.4 in June. A reading at this level points to strength in economy-wide jobs growth, approaching around 3% in 2017.
- This would be a marked improvement from 2016, when annual employment growth undershot fundamentals, slowing to around 1%, down from 2.6% in 2015.
- Official employment data confirms a turnaround in employment momentum. In the six months to April, jobs increased by 2.8% annualised.

Employment: momentum picking up through 2017



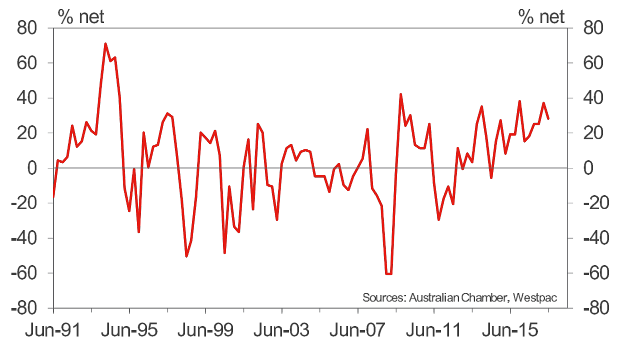
General business situation

	Q1 2017	Q2 2017
Net balance	37	28

- Manufacturing firms have a positive assessment of general business conditions. In June, a net 28% of respondents expect the business environment to improve over the next six months.
- While this remains a positive outlook, it is a lower result than March's 37% of respondents. The fall is in contrast to the Expected Composite Index, which rose to 65.9 from 63.8, in line with the Actual Composite movement.
- State governments are investing more in new transport projects and a positive income shock to mining and agriculture has spilled over to other sectors. Externally, a relatively low AUD and stronger world growth are supporting exports.

General business situation

Next six months



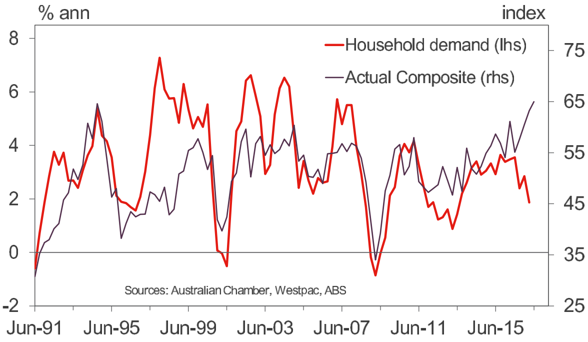
The business cycle & economic outlook

Manufacturing & the business cycle

- The Westpac-AusChamber Actual Composite Index has a solid track record of predicting near-term domestic economic conditions, identifying turning points in the cycle.
- The Composite tracks movements in household demand, highlighting the key linkages between the consumer, home building (both new and renovations), and manufacturing.
- GDP grew by 0.3% in Q1 2017, after a 1.1% jump in Q4 which reversed a contraction in Q3. Household demand rose by 0.1% in Q1 and 1.9% over the year, with consumption constrained by slow wage growth.
- The Actual Composite Index points to the Australian economy rebounding from Q1's soft figure. Activity in Q1, particularly home building, was significantly impacted by weather disruptions.

Manufacturing & the business cycle

Westpac-AusChamber Composite & household demand

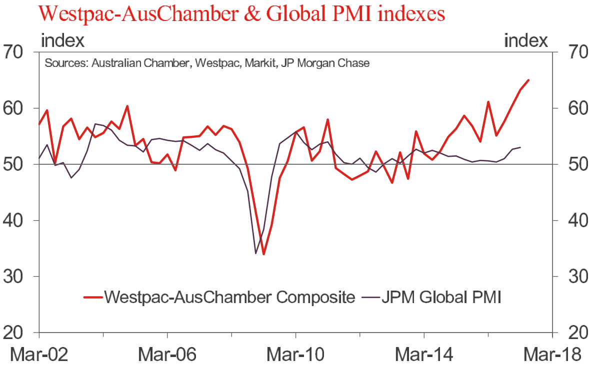


Australian & World manufacturing surveys

- Global and Australian manufacturing cycles have historically been highly synchronised, particularly at major turning points.
- The Westpac-AusChamber Actual Composite has tended to closely follow global manufacturing indexes. However, since 2014, the Australian manufacturing sector has outperformed, as easier monetary policy triggered a sharp upswing in home building activity.
- More recently, global manufacturing conditions have strengthened, evident across Europe, Asia and the US. In conjunction, there has been a rise in world trade volumes after some years of sustained contraction.

Australian & World manufacturing surveys

Westpac-AusChamber & Global PMI indexes

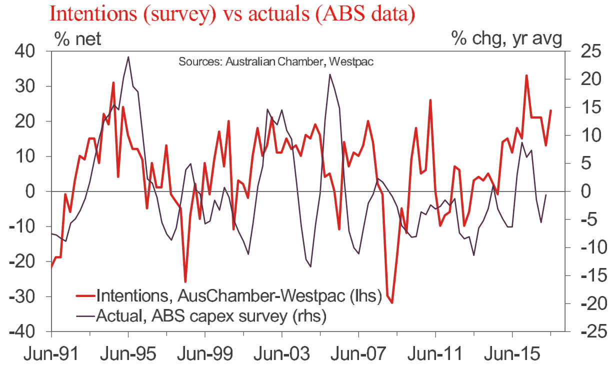


Manufacturing & business investment

- The AusChamber-Westpac survey has a solid track record of predicting equipment investment by the manufacturing sector.
- Respondents are looking to invest with a net 23% of firms in June intending to increase plant & equipment investment in the year ahead. This follows a dip to 13% in March, with the survey now back to the same levels as the second half of 2016.
- The official ABS capex survey reports that year average actual manufacturing equipment investment grew by 7.3% in the 2015/16 financial year. The 2016/17 year started on a softer note after a brief dip to -5.7% in December, but has since bounced back to -0.6% in March. The AusChamber-Westpac survey suggests that the rebound will continue with a strong Q2 reading.

Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



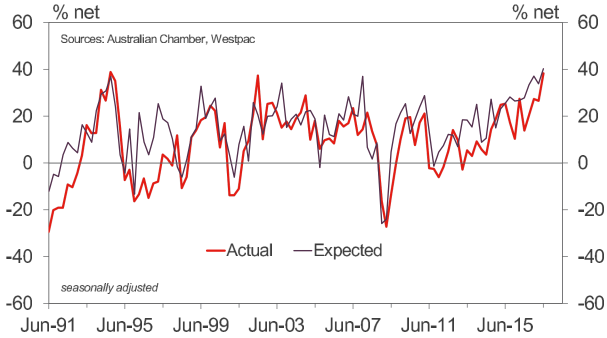
Activity & orders

Output *(seasonally adjusted)*

	Q1 2017	Q2 2017
Actual – net balance	26	38
Expected – net balance	34	40

- Manufacturing output continued to expand for a twelfth quarter in a row. The uptrend emerged during the second half of 2014 and has since extended into 2017. A net 38% of firms expanded output in June.
- Despite some volatility in actual output during late 2015, as the housing sector cooled briefly in response to tighter lending standards, and in June 2016, when uncertainty was high in relation to the federal election, expectations have correctly indicated that output would remain strong.
- Expectations are for further expansion with a net 40% of respondents seeing output lifting in the next three months, consistent with stronger new orders.

Output growth
Actual & expected

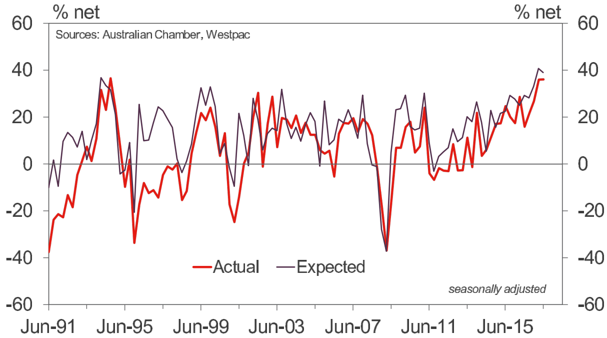


New orders *(seasonally adjusted)*

	Q1 2017	Q2 2017
Actual – net balance	36	36
Expected – net balance	41	39

- New orders recorded another quarter of strength, a trend evident for the twelfth consecutive period.
- Underpinning strong output growth, a net 36% of respondents reported an increase in new orders in June. This is in line with March's result and an improvement from December's net 26%.
- Expectations point to continued strength with a net 39% of firms in June expecting higher new orders for the next three months, similar to a net 41% in March.
- The strong reading reflects a rebound in business conditions and a pick up in the global economy providing support to the manufacturing sector. A recent synchronised lift across apartments, commercial and engineering construction new orders is also a positive factor.

New orders
Actual & expected

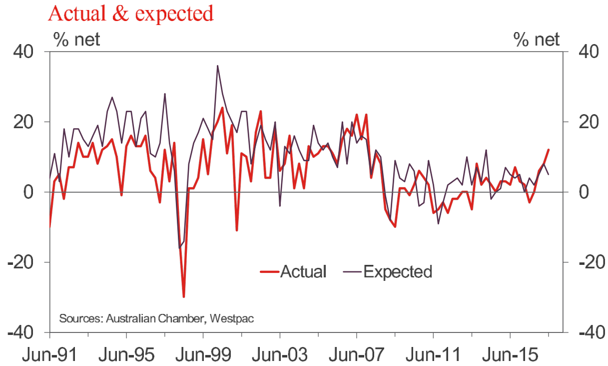


Exports

	Q1 2017	Q2 2017
Actual – net balance	8	12
Expected – net balance	8	5

- Exports continued to rise in June, holding the uptrend in tact, with a net 12% of firms indicating increased export deliveries.
- Since the commodity boom unwind and consequent fall in the AUD, exports had risen steadily from the second half of 2013 to early 2016. It then stumbled in June 2016, with a net 3% of respondents reporting lower exports.
- Following that brief dip, exports have consistently gained. This corresponds with broader data indicating that world trade volumes rose through late 2016 into 2017, following a period of sustained contraction.

Export deliveries
Actual & expected



Investment & profitability

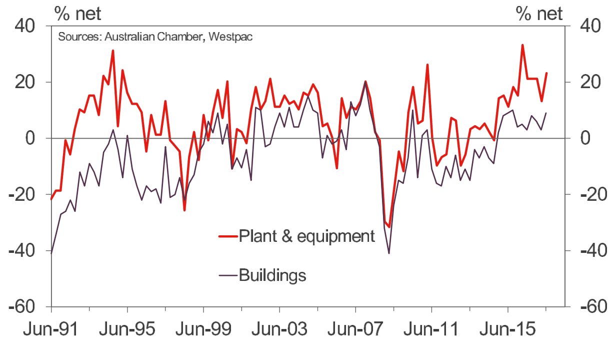
Investment intentions

	Q1 2017	Q2 2017
Plant & Equipment – net balance	13	23
Building – net balance	3	9

- The survey, as it has since late 2014, indicates an upswing in equipment investment in the manufacturing sector.
- A net 23% of respondents in June expect to increase investment in plant and equipment over the next twelve months. This is a return to just above December's net 21%, after a brief dip to a net 13% in March.
- Building intentions were less positive but improved to a net 9% respondents in June expecting to increase investment spending over the next 12 months from a net 3% in March.

Investment intentions

Next twelve months

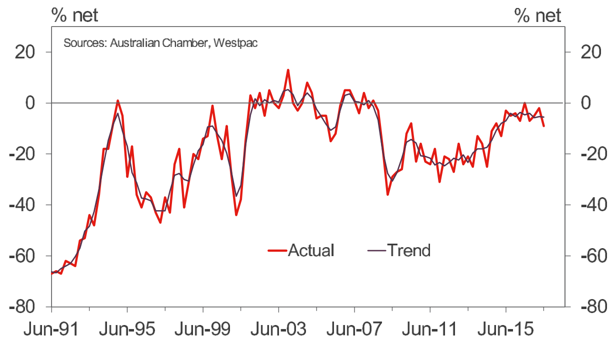


Capacity utilisation

	Q1 2017	Q2 2017
Net balance	-2	-9

- Capacity utilisation levels were still elevated in June, albeit a little lower than in March, maintaining a relatively high level over the last 18 months following an uptrend which emerged in late 2013.
- In June, the number of respondents operating above capacity was less than those operating below normal by a net 9%, which is a drop from a net 2% in March.
- June's survey indicates that firms have acted on their investment intentions and expanded capacity to meet current higher output levels, and in addition, leave a degree of spare capacity in expectation of further increases in demand.

Capacity utilisation



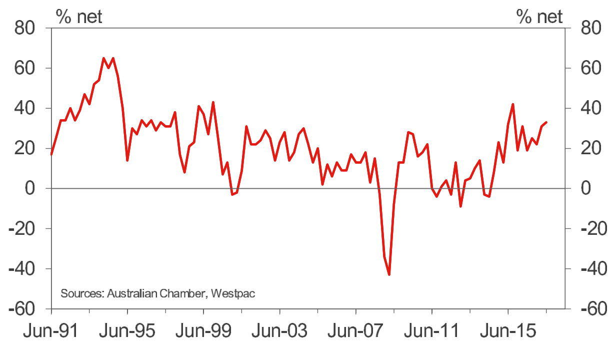
Profit expectations

	Q1 2017	Q2 2017
Net balance	31	33

- Firms continue to have a positive outlook for profits.
- A net 33% of firms in June expect profitability to increase in the next twelve months. This is broadly in line with March's reading of a net 31% but is in excess of the long-run average of the series, +19%.
- The positive outlook is consistent with official measures of current profits. The ABS Business Indicators Survey report shows that manufacturing profits rose by 24% over the year to March.
- However, profit expectations are below the highs prevailing in 2015. Cost escalations have re-emerged, resulting in increased margin pressure.

Profit expectations

Next twelve months



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

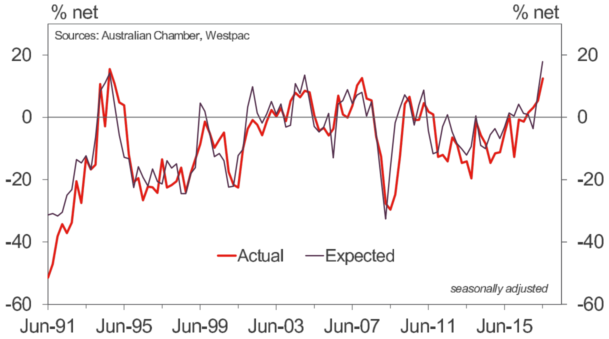
The labour market

Numbers employed *(seasonally adjusted)*

	Q1 2017	Q2 2017
Actual – net balance	5	12
Expected – net balance	7	18

- The recent rise in manufacturing hiring has extended into June after a period of contraction in 2011 to mid 2016.
- In June, a net 12% of respondents reported increasing their workforce, up from a net 5% in March, evident of the need for firms to increase their workforce in response to higher demand.
- The result is consistent with the official ABS measures which show that manufacturing firms added a modest amount of jobs in the year to February 2017 after previous years of contraction.
- Expectations point to durability in the expansion. A net 18% of firms are looking to expand their workforce in the next three months.

Numbers employed
Actual & expected

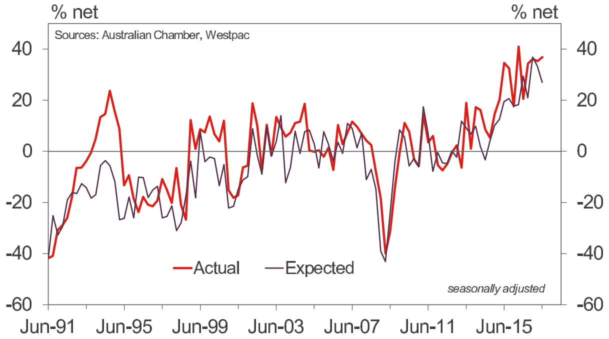


Overtime worked *(seasonally adjusted)*

	Q1 2017	Q2 2017
Actual – net balance	35	37
Expected – net balance	33	27

- Over the past four years, firms have indicated that they have increased the use of overtime in response to higher new orders.
- The use of overtime appears to be more widespread than it has been in the past, with a net 37% of respondents increasing overtime in the period, in line with March's net 35% and December's net 36%.
- Persistent strength in overtime is not the norm. It is interesting then that there are some tentative signs of a shift, with overtime expectations moderating a little in June to a net 27% from 33%. This is associated with the lift in actual and expected employment.

Overtime worked
Actual & expected

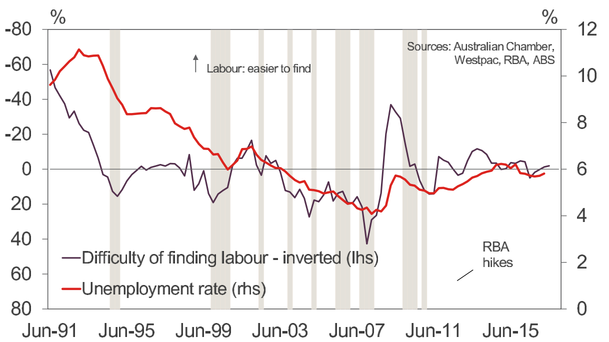


Difficulty of finding labour *(seasonally adjusted)*

	Q1 2017	Q2 2017
Net balance	-1	-2

- The survey provides insights into the tone of the overall labour market. Respondents' views on the difficulty of finding labour broadly tracks shifts in the unemployment rate for the Australian economy.
- In June, a net 2% of respondents reported labour as easier to find, consistent with results from recent surveys.
- The official ABS data suggests labour market conditions were mixed over the past year. The unemployment rate did move higher, lifting from around 5.6% in September 2016 to 5.9% in March, in part due to a rising participation rate. Although, in April, the unemployment rate dipped to 5.7%.

Labour market tightness



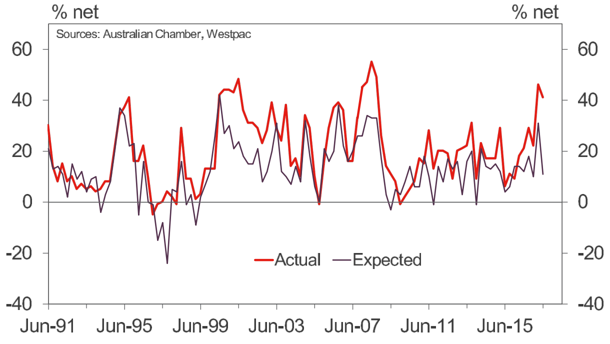
Prices & inflation

Average unit costs

	Q1 2017	Q2 2017
Actual – net balance	46	41
Expected – net balance	31	11

- In 2016, and in particular the first half of 2017, cost escalation re-emerged as an issue for manufacturers. This follows a period where cost rises were subdued.
- In June, a net 41% of respondents reported a rise in unit costs, in line with March's net 46% which was a spike from more modest survey results in 2016.
- This comes against a backdrop of a bounce in commodity prices and higher electricity prices.
- As the commodity jump unwinds, firms' expectations for cost pressures have moderated, with a net 11% expecting higher unit costs in the next three months. That said, electricity costs remain a pressing concern.

Average unit costs
Actual & expected

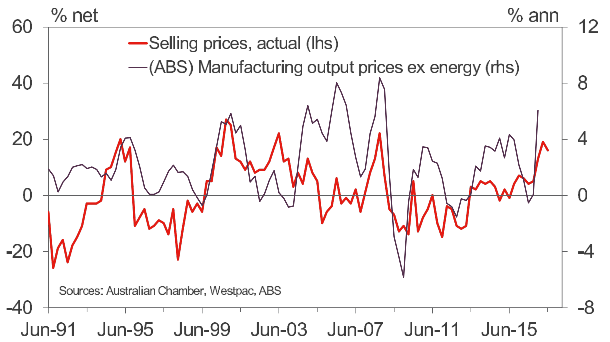


Average selling prices

	Q1 2017	Q2 2017
Actual – net balance	19	16
Expected – net balance	21	13

- Price rises for manufacturers have been more prevalent since mid 2013, in contrast to the lack of pricing power which was the norm post GFC.
- A net 16% of respondents in June indicated that they increased prices, broadly in line with a net 19% in March.
- In June, expectations fell from a net 21% in March to a net 13% of firms seeing an increase in selling prices in the next three months.
- This is consistent with cost pressures. Manufacturing firms are unlikely to have the scope to fully absorb commodity and electricity price rises.

Manufacturing upstream price pressures

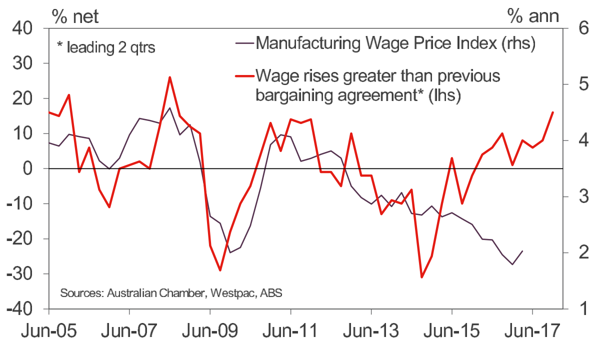


Manufacturing wages

	Q1 2017	Q2 2017
Net balance	8	16

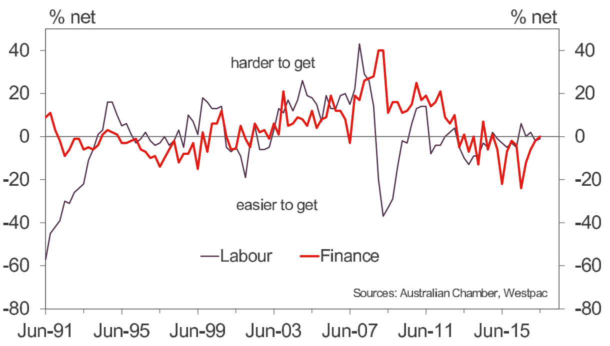
- The survey indicates a strengthening of wages growth in the year ahead with a net 16% of firms expecting their next wage deal to deliver an outcome above the last.
- This is up from a net 8% in March, a figure suggesting a more moderate lift in wages growth.
- Recently, indications from the survey have deviated from official measures reported by the ABS with annual wage growth remaining very low.
- However in the March quarter, ABS manufacturing wage growth stabilised, and increased wages growth would be consistent with higher demand and increased hiring evident in this survey.

Manufacturing wage growth



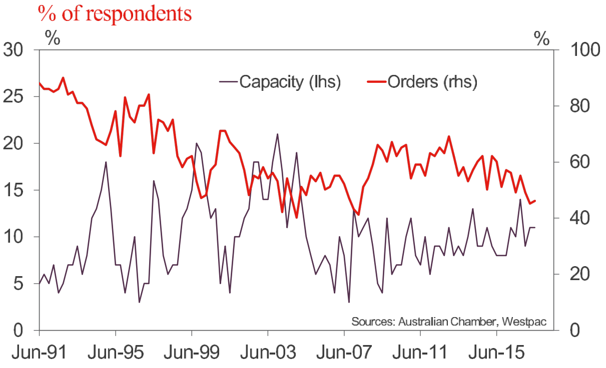
Other results

Availability of labour & finance



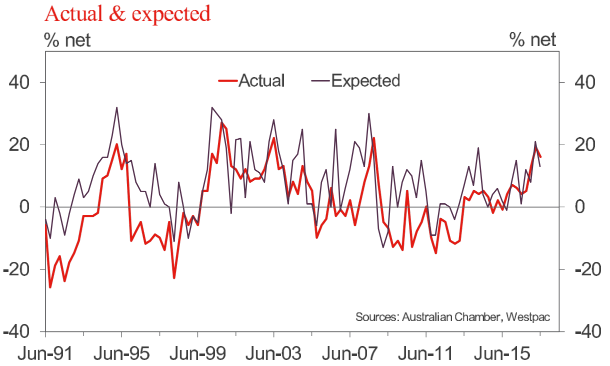
Key factor limiting production

% of respondents

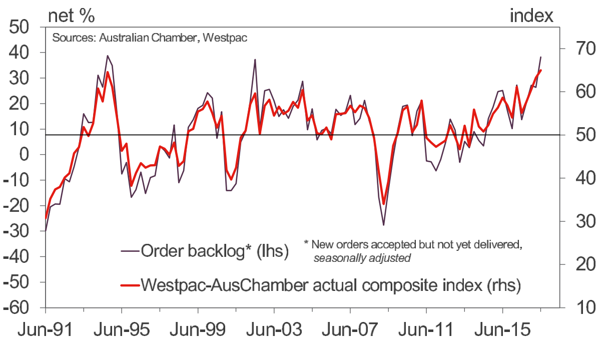


Average selling prices

Actual & expected

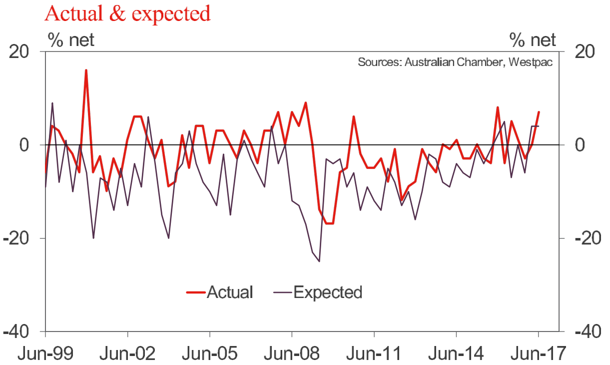


Order backlog & actual conditions



Stocks of finished goods

Actual & expected



Factors limiting production

	Q4 2016	Q1 2017	Q2 2017
Orders (%)	49	45	46
Capacity (%)	9	11	11
Labour (%)	2	2	3
Finance (%)	2	5	5
Materials (%)	1	1	0
Other (%)	25	22	26
None (%)	12	14	9

Summary of results *(not seasonally adjusted)*

1. Do you consider that the general business situation in Australia will improve, remain the same, or deteriorate in the next six months?

Net balance	Improve	Same	Deteriorate
28	43	42	15

2. At what level of capacity utilisation are you working?

Net balance	Above Normal	Normal	Below Normal
-9	13	65	22

3. What single factor is most limiting your ability to increase production?

None	9	Orders	46
Material	0	Finance	5
Labour	3	Capacity	11
Other	26		

4. Do you find it is now harder, easier, or the same as it was three months ago to get:

		Net balance	Harder	Same	Easier
(a)	labour?	-1	4	91	5
(b)	finance?	0	4	92	4

5. Do you expect your company's capital expenditure during the next twelve month to be greater, the same, or less than the past year:

		Net balance	Greater	Same	Less
(a)	on buildings?	9	22	65	13
(b)	on plant & machinery?	23	36	51	13

Excluding normal seasonal changes, what has been your company's experience over the past three months & what changes do you expect during the next three months in respect of:

		Change in position in the last 3 months				*Expected change during the next 3 months*			
		Net balance	Improve	Same	Down	Net balance	Improve	Same	Down
6.	Numbers employed	13	16	81	3	14	18	78	4
7.	Overtime worked	35	40	55	5	23	28	67	5
8.	All new orders received	32	41	50	9	34	40	54	6
9.	Orders accepted but not yet delivered	15	21	73	6	19	24	71	5
10.	Output	35	42	51	7	36	40	56	4
11.	Average costs per unit of output	41	46	49	5	11	17	77	6
12.	Average selling prices	16	19	78	3	13	15	83	2
13.	Export deliveries	12	16	80	4	5	9	87	4
14.	Stock of raw materials	4	13	78	9	5	12	81	7
15.	Stocks of finished goods	7	17	73	10	4	13	78	9

Summary of results *(not seasonally adjusted)*

16. Over the next twelve months do you expect your firm's profitability to:

(a) Improve?	44
(b) Remain unchanged?	45
(c) Decline?	11
Net balance	**33**

17. Do you expect your firm's next wage enterprise deal will produce annual rises which vis–a–vis the previous deal are:

(a) Greater?	23
(b) Same?	70
(c) Less?	7
Net balance	**16**

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	15
Textiles, fabrics, floor coverings, felt, canvas, rope	4
Clothing, footwear	8
Wood, wood products, furniture	4
Paper, paper products, printing	9
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	15
Non-metallic mineral products: glass, pottery, cement bricks	3
Basic metal products: processing, smelting, refining, pipes & tubes	2
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	13
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	6
Other machinery & equipment: electrical, industrial scientific, photographic	10
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	11

B. How many employees are covered by this return?

1–100	101–200	201–1000	Over 1000
57	6	22	15

C. In which state is the main production to which this return relates?

WA	SA	VIC	NSW/ACT	QLD	TAS
12	10	22	37	14	5

The Westpac–AusChamber Composite Indices

The Westpac–AusChamber Actual and Expected Composite indices are weighted averages of the activity measures in the survey. The weights are as follows: employment 20%; new orders 30%; output 25%; orders accepted but not delivered 15%; overtime 10%.

The Westpac-AusChamber Labour Market Composite is a function of actual employment, with a weight of almost 50%, as well as: expected employment; expected overtime; new orders; order backlog; and expected order backlog.

This issue was finalised on 9 June 2017
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Things you should know.

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