

# Australian Chamber–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

## 224<sup>th</sup> report September 2017 (survey conducted 1<sup>st</sup> August to 4<sup>th</sup> September 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 September 2017, up 1.1pts to 66.1. This extends the rebound from 55.1 in June 2016, a dip coinciding with the July Federal election.
- The above par reading for the Composite index, which has trended higher since 2014, reflects strength in new orders, output, overtime, backlog and employment. September saw maintained strength in output, new orders and employment, while backlog and overtime lifted.
- Manufacturing is benefitting from: a strong upswing in public infrastructure spending; stronger world growth; a lift in non-residential construction; a still relatively low Australian dollar; and an elevated level of home building activity. Even so, there are some negatives: consumer spending is constrained by slow wage growth; while offshore competition in the manufacturing sector continues to be intense.
- The modest uptrend in exports has resumed after stumbling in 2016, with a net 8% of firms indicating a rise in export deliveries. Export expectations are moderately positive, coinciding with rising world trade volumes after a period of contraction as well as continued support from a relatively low AUD.
- Expectations are positive, centred on new orders and output as well as backlog and overtime. The Expected Composite is at 65.2 in September, down slightly from 65.7 in June. A net 35% expect the general business environment to strengthen over the next six months, continuing the upbeat mood.
- Equipment investment intentions of respondents have been positive over recent years in response to rising demand and consistent with some reduction in the sector's spare capacity, as well as improving profitability. A net 17% expect to increase equipment investment in the next year. Building intentions have dipped to a net -3%, down from 9% in June.
- The survey's Labour Market Composite, which broadly tracks economy-wide jobs growth, is at 60.1 in September, pointing to continued solid jobs growth in 2017. The index correctly foreshadowed the acceleration in Australian employment evident in the first half of this year.

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## Enquiries

Economics, Westpac Banking Corporation, Ph (61-2) 8254 8720  
Eugene Bajkowski, Consulting Economist, Australian Chamber of Commerce and Industry,  
Ph (61-2) 6249 6128 or (61-2) 6273 2311

## Editors

Simon Murray, Economist, Westpac Banking Corporation  
Andrew Hanlan, Senior Economist, Westpac Banking Corporation  
Eugene Bajkowski, Consulting Economist, Australian Chamber of Commerce and Industry  
Miranda Herron, Senior Consultant, Australian Chamber of Commerce and Industry

Email: [economics@westpac.com.au](mailto:economics@westpac.com.au)

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 224<sup>th</sup> consecutive survey was closed on 4 September 2017.

A total of **302** 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 November/December 2017.

# Key survey results

## Westpac–AusChamber Composites *(seasonally adjusted)*

	Q2 2017	Q3 2017
Actual – composite index	65.0	66.1
Expected – composite index	65.7	65.2

- The Westpac–AusChamber Actual Composite Index rose to 66.1 in the September 2017 from 65.0 in June. This marks the fifth consecutive increase in the index from a base of 55.1 in June 2016.
- The positive result is underpinned by maintained strength in output, new orders and employment, while backlog and overtime consolidated further.
- The elevated composite reflects the boost from increased state infrastructure investment; a lift in nonresidential construction; a cyclical rise in global growth which is supported by a relatively low AUD.
- The Expected Composite is at 65.2, down a touch from 65.7 in June, but still indicates that firms are anticipating that higher activity continues at pace.

## Westpac–AusChamber Labour Market Composite

	Q2 2017	Q3 2017
Net balance	58.6	60.1

- 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 increased to 60.1 from 58.6 in June. The strong reading indicates continuing acceleration in employment growth.
- The index has correctly led the uplift in employment from a slowdown in 2016, when annual jobs growth, at around 1.0%, undershot fundamentals.
- Official employment data continues to confirm solid employment momentum. In the six months to July, employment increased by 3.3% annualised.

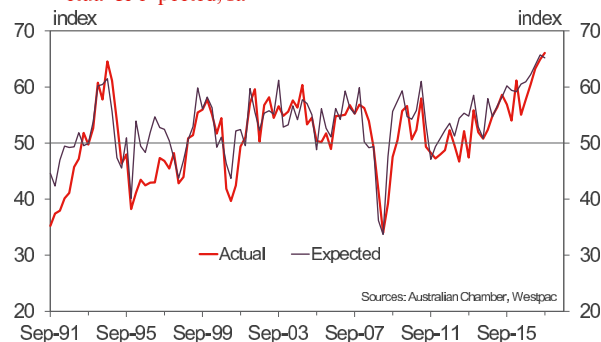
## General business situation

	Q2 2017	Q3 2017
Net balance	28	35

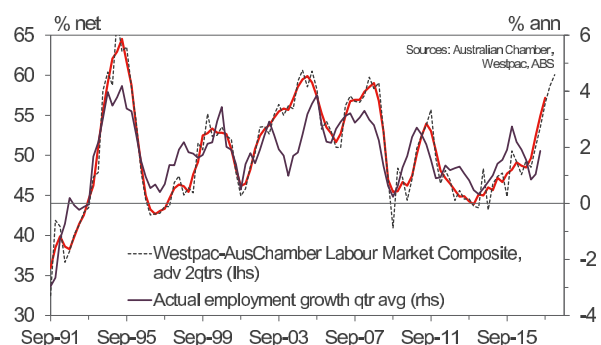
- The manufacturing sector is positive on the general business situation. In September, a net 35% of respondents expect the business environment to improve over the next six months.
- This is a return to the similarly positive assessment evident in March, of a net 37% of respondents, after a dip to 28% in June. This latest update is now consistent with the Expected Composite, which stayed relatively stable over the same period.
- The upbeat mood of manufacturers mirrors the positive business sentiment in Australia more generally, as well as that internationally. This is against a backdrop of improved conditions globally and domestically.

## Westpac–AusChamber Composite indexes

Actual & expected, sa

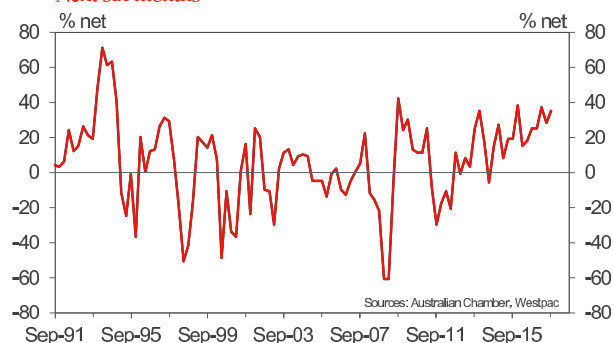


## Employment: momentum picking up through 2017



## General business situation

Next six months



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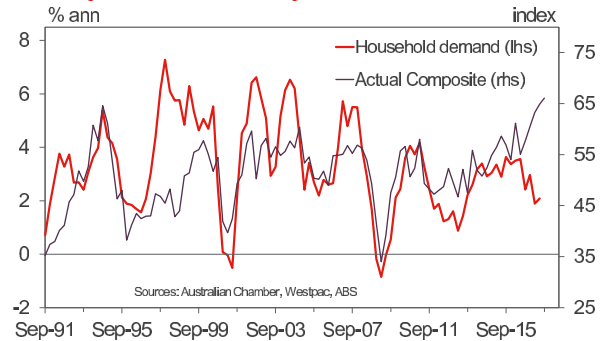
# The business cycle & economic outlook

## 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 generally tracks household demand as well as other key demand drivers. More recently, the manufacturing sector has been boosted by forces outside of the household sector such as higher business investment; a lift in overall construction; and a relatively low AUD supporting food production.
- The Actual Composite Index points to the Australian economy seeing further solid growth in 2017, though the home building upswing is cresting.
- However in part, the index is elevated relative to actual manufacturing output due to the temporary compositional effect of firms exiting the auto sector.

## Manufacturing & the business cycle

Westpac-AusChamber Composite & household demand

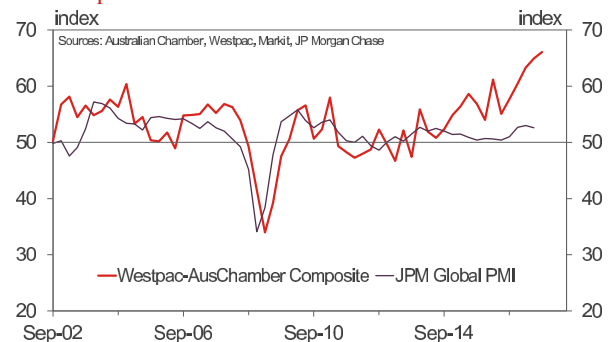


## Australian & World manufacturing surveys

- Global and Australian manufacturing cycles tend to be synchronised, particularly at major turning points.
- Up until 2014, the Westpac-AusChamber Actual Composite had moved broadly in line with global manufacturing indices.
- However, since then, the index has deviated to the upside. Partly this reflects Australian manufacturing outperformance as easier monetary policy triggered an upswing in home building activity, as well as the transitional issue of exiting firms.
- In recent times, global manufacturing conditions have strengthened, particularly in developed economies. This is consistent with stronger GDP growth readings and a rise in world trade volumes after some years of sustained contraction.

## Australian & World manufacturing surveys

Westpac-AusChamber & Global PMI indexes

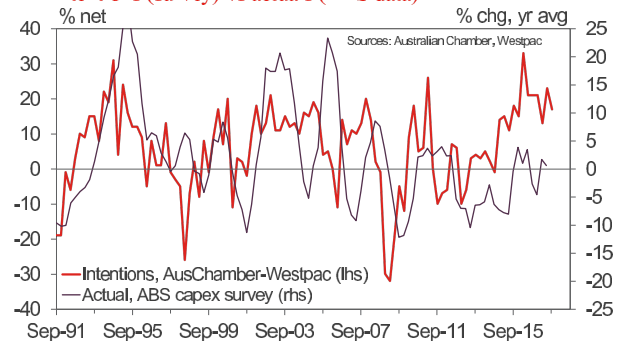


## Manufacturing & business investment

- The AusChamber-Westpac survey has a solid record of predicting equipment investment by the manufacturing sector.
- Firms are planning to invest. In September, a net 17% of respondents are intending to increase plant & equipment investment in the year ahead.
- The ABS capex survey confirms that real manufacturing equipment investment is expanding. It grew by 3.5% in the 2015/16 financial year, followed by a further gain in 2016/17, up 0.6%.
- The AusChamber-Westpac survey points to a continuation of the uptrend in equipment investment.

## Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



# Activity & orders

## Output *(seasonally adjusted)*

	Q2 2017	Q3 2017
Actual – net balance	38	41
Expected – net balance	40	36

- Manufacturing output has expanded for 13 quarters in a row. The uptrend emerged in the second half of 2014 and has continued since. A net 41% of firms increased output in September, up from 38% in June.
- Manufacturing output experienced some volatility during late 2015 as the housing sector cooled briefly in response to tighter lending standards. Recently, the sector is being pushed forward by public infrastructure spending; commercial construction developments; and the relatively low AUD which is providing tailwinds for the food and beverages sector.
- Expectations continue to be positive reflected by a net 36% of respondents expecting output to lift in the next three months.

## New orders *(seasonally adjusted)*

	Q2 2017	Q3 2017
Actual – net balance	36	39
Expected – net balance	39	38

- New orders are consistent with the rise in output. It too has expanded for thirteen consecutive quarters.
- A net 39% of firms indicated higher new orders in September, which is broadly in line with June and March's response but an improvement on December's net 26%.
- Expectations are similarly positive and point to continued expansion. In September, a net 38% of respondents expect increased new orders over the next three months.
- Business conditions in Australia have remained supportive through 2017, seeing increased private investment in addition to a strong upswing in public infrastructure spending.

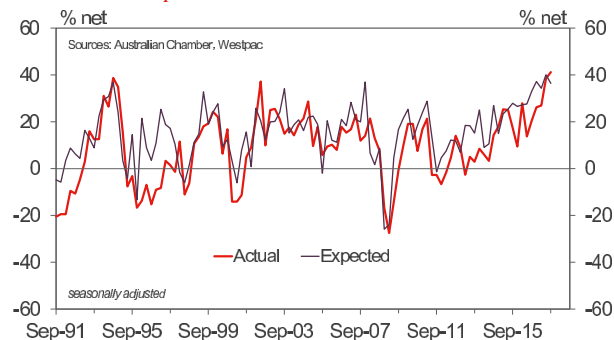
## Exports

	Q2 2017	Q3 2017
Actual – net balance	12	8
Expected – net balance	5	4

- Exports posted another solid quarter of expansion. A net 8% of respondents indicate that exports increased in the September quarter, though it is down from 12% in June but in line with the 8% in March.
- Supported by a lower AUD following the mining boom, exports rose consistently through mid 2013 to early 2016. However in June 2016, exports reported a brief dip with a net 3% of respondents reporting lower exports.
- Since then, exports have been in an uptrend. This corresponds with stronger world growth and increased trade volumes which have risen through late 2016 into 2017 after a period of contraction.

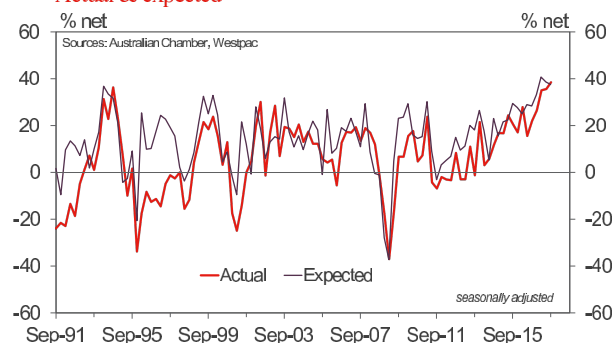
## Output growth

### Actual & expected



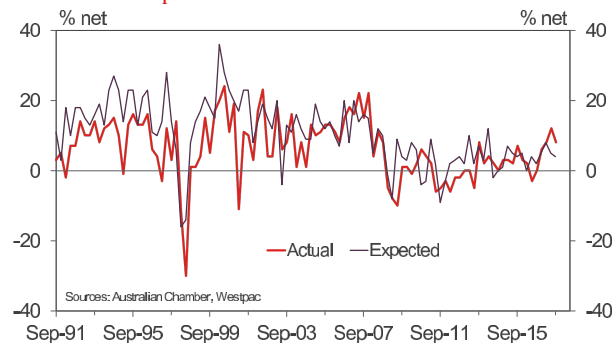
## New orders

### Actual & expected



## Export deliveries

### Actual & expected



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# Investment & profitability

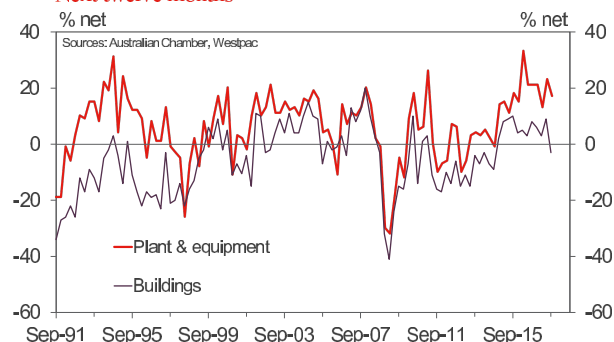
## Investment intentions

	Q2 2017	Q3 2017
Plant & Equipment – net balance	23	17
Building – net balance	9	-3

- The survey, as it has since late 2014, indicates that manufacturing firms are increasing equipment investment to meet rising demand.
- In September, a net 17% of respondents intend on increasing equipment investment over the next twelve months. This is broadly consistent with the last five quarters.
- Building investment intentions fell in the September quarter and firms are now on a net basis expecting less investment. A net 3% of respondents are intending to decrease building investment over the next 12 months. This is the first indication of a net decrease since September 2014.

## Investment intentions

Next twelve months

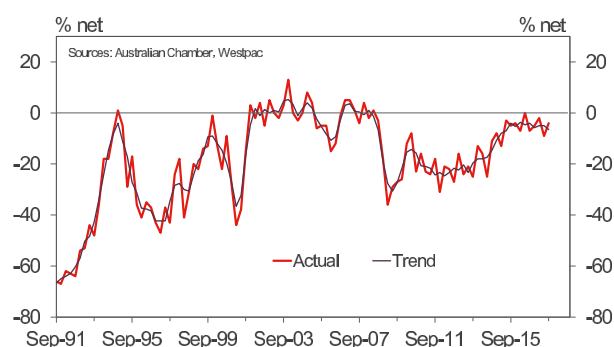


## Capacity utilisation

	Q2 2017	Q3 2017
Net balance	-9	-4

- Capacity utilisation levels remain high in September, having maintained an elevated level over the past two years. This followed an uptrend that emerged in late 2013.
- The number of respondents operating above capacity was lower than those operating below capacity by a net 4%. This is a stronger result than June's net 9%, although not greatly different from a net 2% in March.
- The proportion of respondents operating at normal capacity levels is elevated, at 80%.
- September's survey result indicates that firms have acted on their investment intentions and expanded capacity to meet rising demand from higher new orders.

## Capacity utilisation



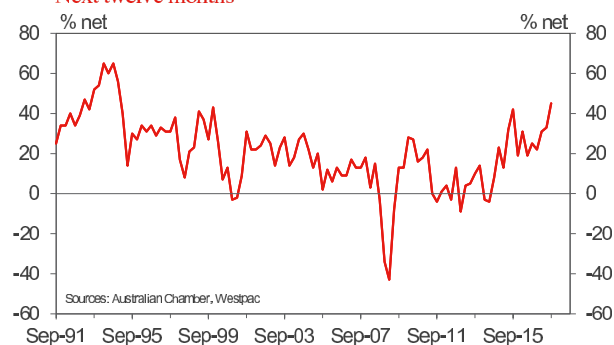
## Profit expectations

	Q2 2017	Q3 2017
Net balance	33	45

- Manufacturing firms are anticipating that profits will continue to grow.
- In September, a net 45% of respondents expect that profitability will increase in the next twelve months. This is a jump from a net 33% in June and is considerably higher than the long run average of 21%.
- The positive outlook is consistent with official measures of current profits. The ABS business indicators survey shows that manufacturing profits have increased by 9.3% over the year to June.
- Profit expectations are now back to the highs in 2015. This comes as volumes continue to grow while cost pressures have recently eased.

## Profit expectations

Next twelve months



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# The labour market

## Numbers employed *(seasonally adjusted)*

	Q2 2017	Q3 2017
Actual – net balance	12	13
Expected – net balance	17	11

- Firms continue to increase hiring in response to stronger demand. Manufacturing employment has grown steadily in the first three quarters of 2017 after a long period of contraction from 2011 to mid 2016.
- A net 13% of respondents have indicated that they increased their workforce in the September quarter, in line with June's net 12% which marked an improvement on March's net 5%.
- Official ABS data confirms that manufacturing firms are expanding their workforce, adding fifteen thousand jobs in the year to May. This is a material turnaround from the performance of recent years.

## Overtime worked *(seasonally adjusted)*

	Q2 2017	Q3 2017
Actual – net balance	38	47
Expected – net balance	30	32

- Over the past four years, firms have indicated that they have increased the use of overtime in response to rising new orders and output.
- The trend towards a more widespread use of overtime has continued in the September quarter. A net 47% of respondents report increasing the use of overtime in the period, up from a net 38% in June.
- Persistent strength in overtime is not the norm. While overtime expectations have moderated slightly from a peak of a net 36% in December to a net 32% in September, the use of increased overtime may continue for some time yet given the modest tightening we have seen in the labour market.

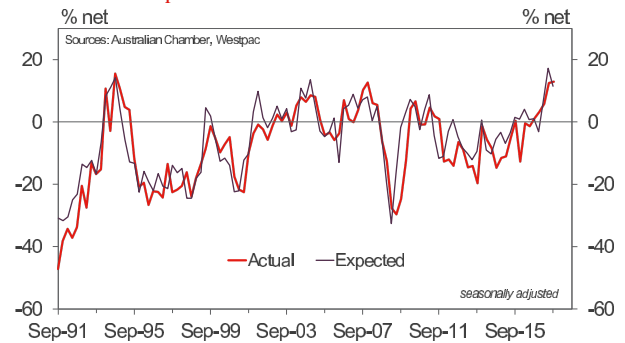
## Difficulty of finding labour *(seasonally adjusted)*

	Q2 2017	Q3 2017
Net balance	-1	3

- 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.
- A net 3% of respondents indicate that labour was harder to find in the September quarter, a slight increase from recent survey results.
- The official ABS data also suggests that the labour market tightened over recent months. The unemployment rate rose to 5.9% in March but has since fallen to 5.6% in July as the pace of jobs growth has picked up.

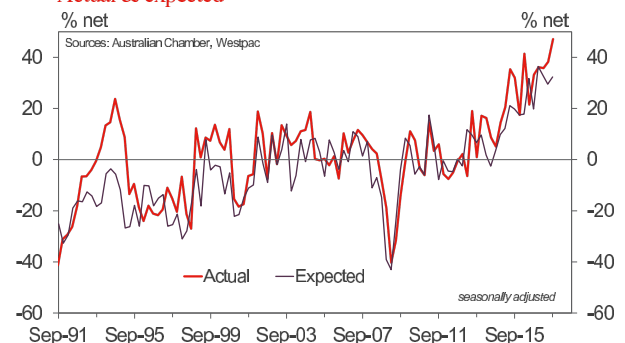
## Numbers employed

### Actual & expected

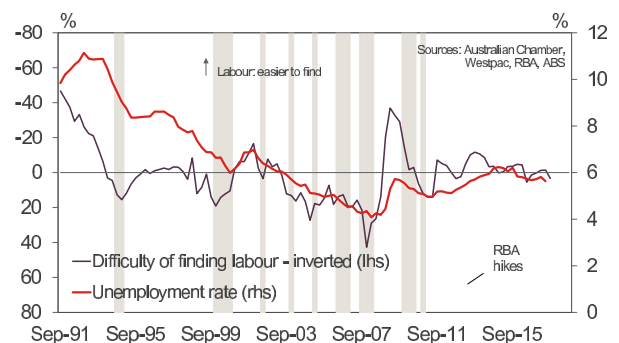


## Overtime worked

### Actual & expected



## Labour market tightness



# Prices & inflation

## Average unit costs

	Q2 2017	Q3 2017
Actual – net balance	41	24
Expected – net balance	11	3

- In 2016, and in particular the first half of 2017, input price escalation has been an issue for manufacturers. This follows a period of subdued cost rises.
- In March a net 46% of respondents indicated that unit costs had increased, which was sustained in June at a net 41%. These relatively high readings coincided with significant increases in commodity and energy costs.
- In the September quarter, with the initial price shock having passed, the figure moderated to a net 24% of respondents indicating that unit costs have increased.
- That said, electricity prices are elevated and the issue remains fluid, with a heightened degree of uncertainty.

## Average selling prices

	Q2 2017	Q3 2017
Actual – net balance	16	4
Expected – net balance	13	9

- Price increases for manufacturers have been more prevalent since mid 2013, in contrast to the lack of pricing power which was the norm post GFC.
- In September, a net 4% of respondents report that they raised prices. This is a drop from a net 16% in June.
- Expectations also softened, but to a lesser extent, with a net 9% of respondents indicating that they will increase selling prices in the next three months compared to a net 13% in June.
- The result is consistent with the easing in cost pressures as firms have less of a need to pass on input price rises.

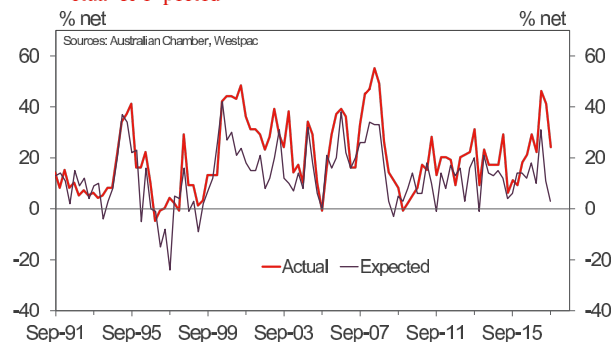
## Manufacturing wages

	Q2 2017	Q3 2017
Net balance	16	11

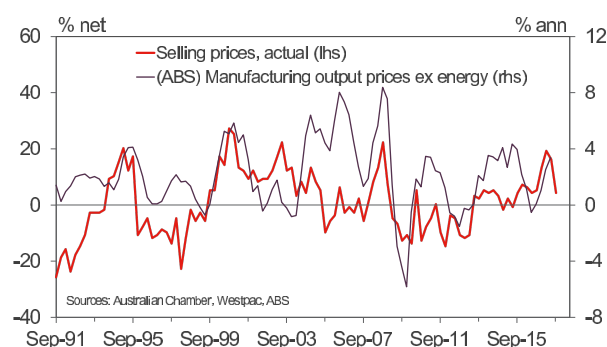
- The survey suggests higher wages growth in the year ahead. A net 11% of respondents expect their next wage bill to deliver an outcome above the last.
- This is a moderation from a net 16% in June but the survey measure remains above levels of a year ago.
- Indications from the survey have deviated from official measures reported by the ABS with annual wage growth remaining very subdued.
- The official ABS wage price index shows manufacturing wage growth has steadied at a 2.0% annual pace which is tracking slightly ahead of the economy wide measure at 1.9%.

## Average unit costs

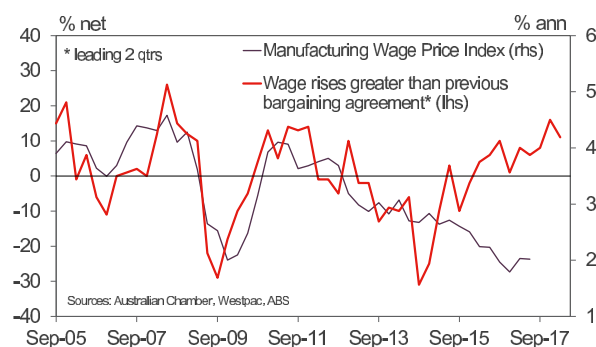
### Actual & expected



## Manufacturing upstream price pressures

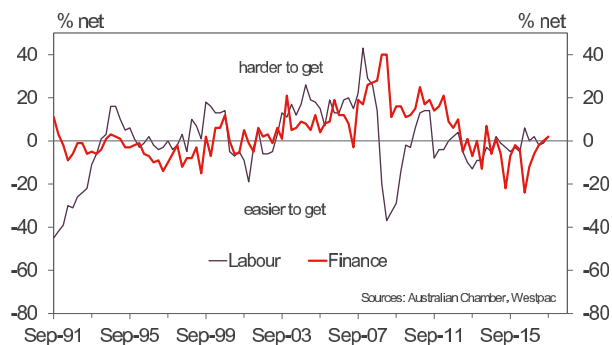


## Manufacturing wage growth

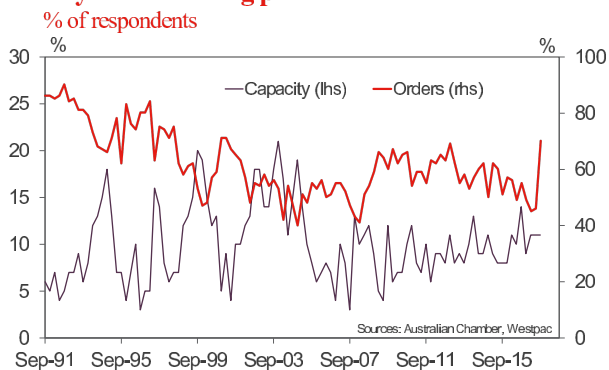


# Other results

## Availability of labour & finance

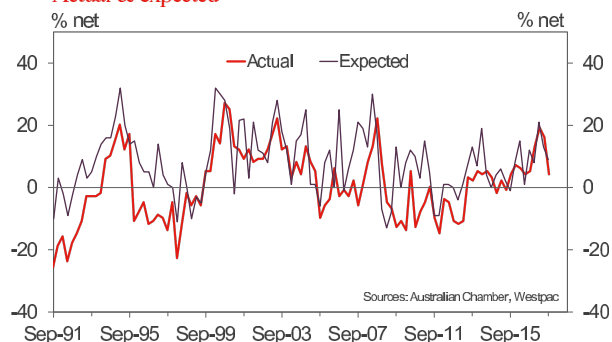


## Key factor limiting production

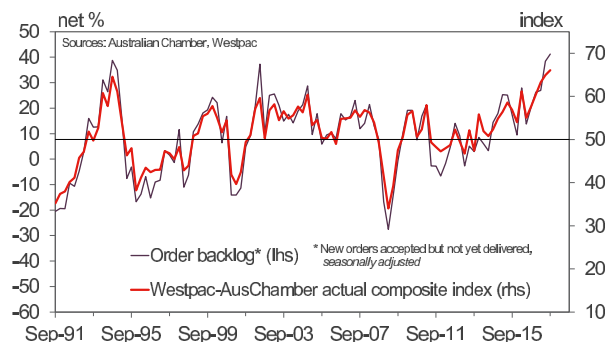


## Average selling prices

Actual & expected

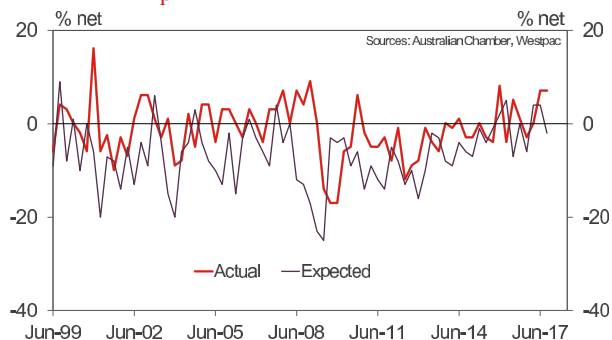


## Order backlog & actual conditions



## Stocks of finished goods

Actual & expected



## Factors limiting production

	Q1 2017	Q2 2017	Q3 2017
Orders (%)	45	46	70
Capacity (%)	11	11	11
Labour (%)	2	3	2
Finance (%)	5	5	4
Materials (%)	1	0	0
Other (%)	22	26	12
None (%)	14	9	1

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# 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
35	42	51	7

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

Net balance	Above Normal	Normal	Below Normal
-4	8	80	12

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

None	1	Orders	70
Material	0	Finance	4
Labour	2	Capacity	11
Other	12		

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?	2	5	92	3
(b) finance?	2	3	96	1

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?	-3	8	81	11
(b) on plant & machinery?	17	25	67	8

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	18	77	5	15	18	79	3
7. Overtime worked	42	45	52	3	45	49	47	4
8. All new orders received	33	42	49	9	46	53	40	7
9. Orders accepted but not yet delivered	20	24	72	4	40	42	56	2
10. Output	37	43	51	6	46	51	44	5
11. Average costs per unit of output	24	28	68	4	13	14	85	1
12. Average selling prices	4	10	84	6	9	9	91	0
13. Export deliveries	8	11	86	3	4	6	92	2
14. Stock of raw materials	-1	8	83	9	-1	8	83	9
15. Stocks of finished goods	7	14	79	7	-2	9	80	11

# Summary of results (not seasonally adjusted)

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

(a) Improve?	49
(b) Remain unchanged?	47
(c) Decline?	4
<b>Net balance</b>	<b>45</b>

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?	17
(b) Same?	77
(c) Less?	6
<b>Net balance</b>	<b>11</b>

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	15
Textiles, fabrics, floor coverings, felt, canvas, rope	4
Clothing, footwear	6
Wood, wood products, furniture	3
Paper, paper products, printing	11
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	14
Non-metallic mineral products: glass, pottery, cement bricks	6
Basic metal products: processing, smelting, refining, pipes & tubes	3
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	16
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	5
Other machinery & equipment: electrical, industrial scientific, photographic	9
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	8

B. How many employees are covered by this return?

1-100	101-200	201-1000	Over 1000
48	7	20	25

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

WA	SA	VIC	NSW/ACT	QLD	TAS
11	9	19	41	14	6

## 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.

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