

# Australian Chamber–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

## 226<sup>th</sup> report March 2018 (survey conducted 1st February to 2<sup>nd</sup> March 2018)

- 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 moderated in March 2018, declining to 58.3 from 63.4 in December. That pace of expansion has eased from 66.1 in September which followed a sustained uptrend that emerged after the index fell to 55.1 in June 2016, a dip coinciding with the July Federal election.
- The above par reading for the Composite index reflects strength in new orders, output, overtime and backlog though momentum has eased a touch. Notably new orders increased at a slower rate early in 2018. Employment consolidated after a pick-up in jobs during 2017.
- Manufacturing is benefitting from: a strong upswing in public infrastructure investment; renewed expansion in non-mining business investment; and a lift in global growth combined with a relatively low level of the Australian dollar. Against this are negatives relating to: moderate consumer spending constrained by slow wage growth; and continuing intensity from offshore competition. The level of home building has also turned lower from a high base.
- The uptrend in exports has continued at a moderate pace after stumbling back in 2016. A net 8% of firms indicate a rise in export deliveries in March. Export expectations are similarly positive as support from a relatively low AUD is coinciding with an uplift in world trade activity. Globally, the manufacturing sector is enjoying a period of expansion.
- Expectations are positive, centred on new orders, output, backlog and overtime. The Expected Composite is at 60.4 in March, down from 61.8 in December and off the peak of 65.7 in June. A net 38% expect the general business situation 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. This is also consistent with a reduction in the sector's spare capacity and improving profitability. A net 10% of firms expect to increase equipment investment in the next year. Building intentions are at a net 3%, maintaining December's recovery to a net 2% from September's net -3%.
- The survey's Labour Market Composite, which broadly tracks economy-wide jobs growth, is at 53.2, pointing to an easing in momentum from well above average jobs growth. The index correctly foreshadowed the acceleration in Australian employment through 2017 and points to solid results over the near-term.

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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.

## **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 226<sup>th</sup> consecutive survey was closed on 2 March 2018.

A total of **272** 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 May/June 2018.

# Key survey results

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

	Q4 2017	Q1 2018
Actual – composite index	63.4	58.3
Expected – composite index	61.8	60.4

- The Westpac-AusChamber Actual Composite Index dropped to 58.3 in March from 63.4 in December. This extends the decline from September’s top of 66.1 after a run of five consecutive increases.
- The Composite is still at an above average level with positive results in output, new orders, overtime and backlog. However, employment has moderated.
- Manufacturing is supported by the wave of state infrastructure projects as well as non-mining business investment. A relatively low AUD is also helping exporters and import-competing firms.
- The Expected Composite fell to 60.4 in March from 61.8 in December which suggests that the loss of momentum may steady in the near-term.

## Westpac–AusChamber Labour Market Composite

	Q4 2017	Q1 2018
Net balance	60.0	53.2

- 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 dropped to 53.2 in March from 60.0 in December.
- The Index correctly led the uplift in employment in 2017. Official data report that employment nationwide increased by a brisk 3.3% in 2017.
- With the Index now having turned down, that suggests that employment momentum may be peaking. Yet the still high level is indicative of solid jobs growth.

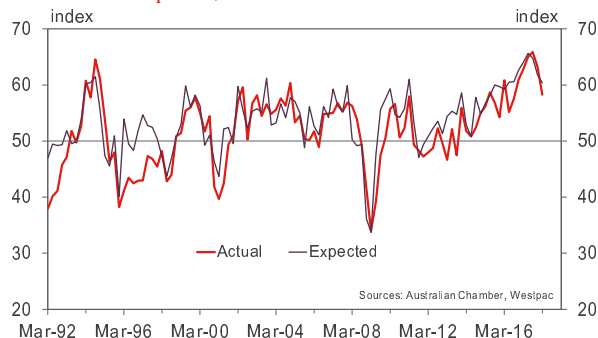
## General business situation

	Q4 2017	Q1 2018
Net balance	29	38

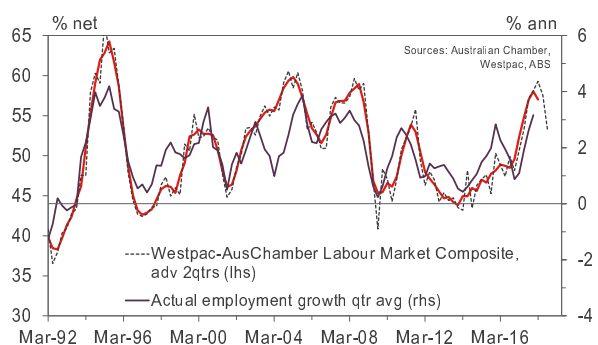
- Manufacturing firms are upbeat on the general business situation at the start of 2018. A net 38% of respondents in March expect the business environment to improve over the next six months.
- The positive outlook is consistent with results through 2017 and indicates that optimism has carried on through to 2018. It adds to the view that the manufacturing expansion is set to continue albeit the pace is likely to moderate.
- Businesses have been reporting improved conditions around the world as global growth recorded its strongest result for six years in 2017 and world trade picked up from a soft period. World growth is likely to hold around current highs in 2018.

## Westpac-AusChamber Composite indexes

Actual & expected, sa

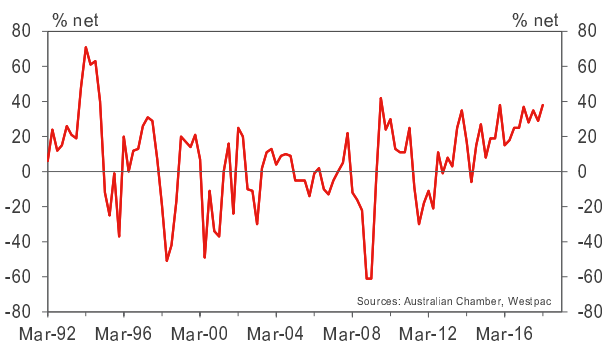


## Employment: momentum may be peaking



## General business situation

Next six 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.

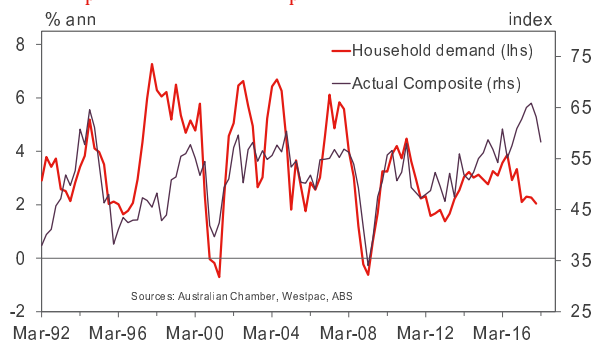
# The business cycle & economic outlook

## 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. More recently, manufacturing activity has been predominantly driven by forces outside of the household sector.
- A lower dollar is boosting international competitiveness which has benefitted food and beverages manufacturers. Increased public and private investment has also supported manufacturing related to the construction sector.
- The Actual Composite suggests that the economy should see solid growth over the near term but cresting home building has weighed on momentum.

## Manufacturing & the business cycle

Westpac-AusChamber Composite & household demand

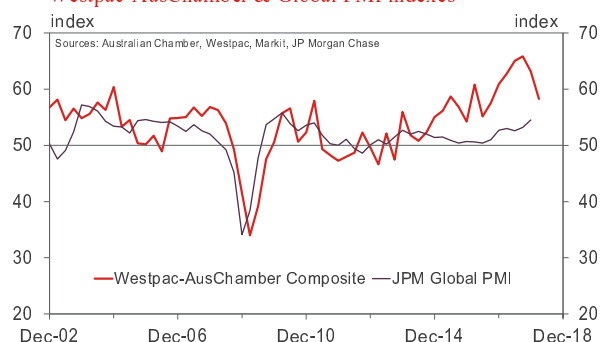


## Australian & World manufacturing surveys

- Global and Australian manufacturing cycles tend to be synchronised, particularly at major turning points.
- Historically, the Westpac-AusChamber Actual Composite had moved broadly in line with global manufacturing indices.
- However, since 2014, the Composite has deviated to the upside. In part, this reflects Australian manufacturing outperformance as easier monetary policy led to an upswing in homebuilding, but it also reflects the transitional effects of exiting firms.
- Global manufacturing expanded in 2017 as the world experienced a synchronised uplift in activity. The start of 2018 has begun with tentative signs of a slight moderation in global PMIs suggesting that momentum may be easing from elevated levels.

## Australian & World manufacturing surveys

Westpac-AusChamber & Global PMI indexes

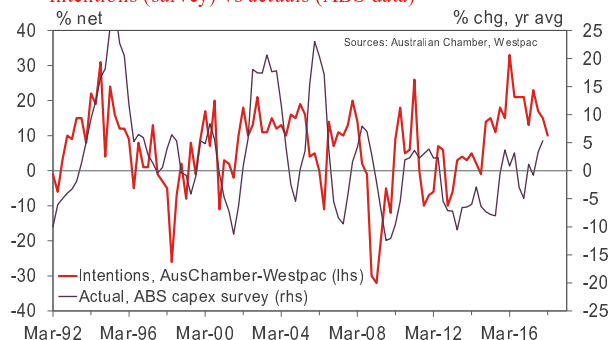


## Manufacturing & business investment

- The AusChamber-Westpac survey has a solid track record of predicting equipment investment from the manufacturing sector.
- Manufacturing firms are intending to invest in the year ahead. A net 10% of respondents expect to increase plant and equipment investment in the next twelve months.
- The ABS capex survey confirms that real manufacturing investment is expanding. The 2017/18 financial year has started well with real manufacturing equipment investment up 5.4%yr as at December 2017. This follows a softer 2016/17 - possibly hampered by uncertainty associated with the July Federal election - and a strong uplift in 2015/16.

## Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



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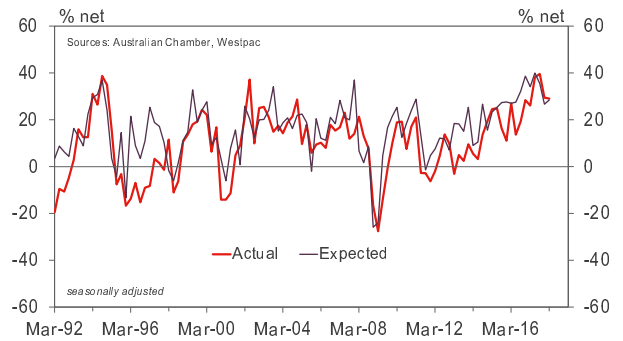
# Activity & orders

## Output *(seasonally adjusted)*

	Q4 2017	Q1 2018
Actual - net balance	29	29
Expected - net balance	26	29

- Manufacturing output posted its fifteenth quarter of successive expansion.
- The uptrend emerged in the second half of 2014 with momentum gradually picking up. However, the last two quarter's have seen a slower pace of output expansion.
- Expectations were marginally higher with a net 29% of respondents anticipating output to increase in the next three months up from a net 26% in December.

## Output growth Actual & expected

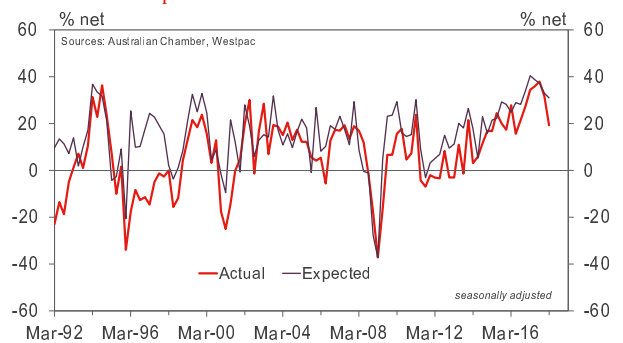


## New orders *(seasonally adjusted)*

	Q4 2017	Q1 2018
Actual - net balance	32	19
Expected - net balance	33	31

- The uplift in new orders has driven the increase in output and March saw a net 19% of respondents report higher new orders.
- A net 19% is well above the average for the series of 4% but is less than December's net 32%. 2017 was a strong year, averaging a net 35%.
- That said, expectations remain elevated. A net 31% of respondents anticipate higher new orders in the next three months, broadly unchanged from December's net 33%.
- The still buoyant expectation reading suggests the dip could be similar to a bout of temporary weakness in 2015 before orders recovered. But, it could instead be a sign of momentum peaking as well.

## New orders Actual & expected

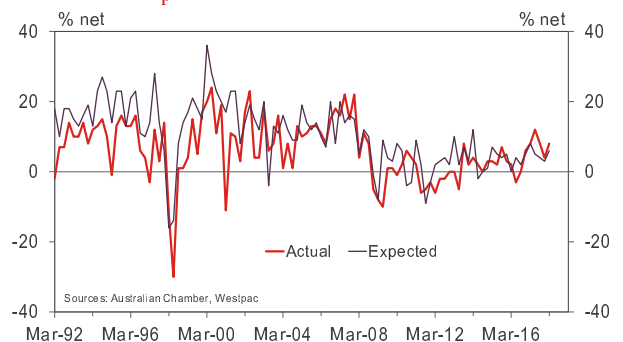


## Exports

	Q4 2017	Q1 2018
Actual - net balance	4	8
Expected - net balance	3	6

- Exports expanded at a moderate pace in March and improved on the December quarter's result. In March, a net 8% of firms indicated that exports rose, compared to a net 4% in December.
- Stronger world growth is spilling over to the Australian manufacturing sector as demand reverberates through the global supply chain. This is all the more helped by a relatively low level of the AUD. The currency on a trade-weighted basis has fallen modestly in early 2018 to be around 2017 lows.
- A net 6% indicate that they expect exports to expand in the next three months.

## Export deliveries Actual & expected



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# Investment & profitability

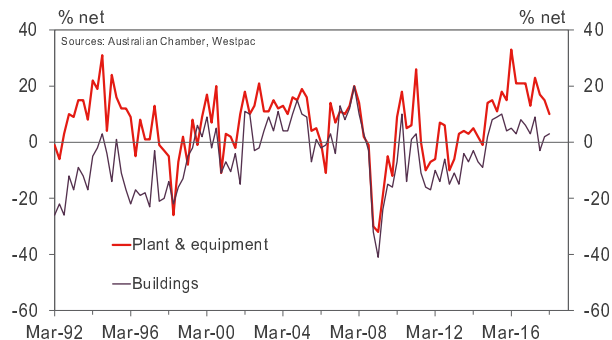
## Investment intentions

	Q4 2017	Q1 2018
Plant & Equipment - net balance	15	10
Building - net balance	2	3

- The survey, as it has since late 2014, reports that manufacturing firms are intending to increase investment in response to rising demand and at a time of positive business sentiment.
- A net 10% of firms indicated that they are planning to increase equipment investment over the next twelve months. This is slightly down on December's net 15% and the 2017 average of a net 18%.
- Building investment intentions held a positive level after a brief dip into a net negative number of respondents in the September quarter. In March, a net 3% of respondents expect to increase investment over the next twelve months.

## Investment intentions

Next twelve months

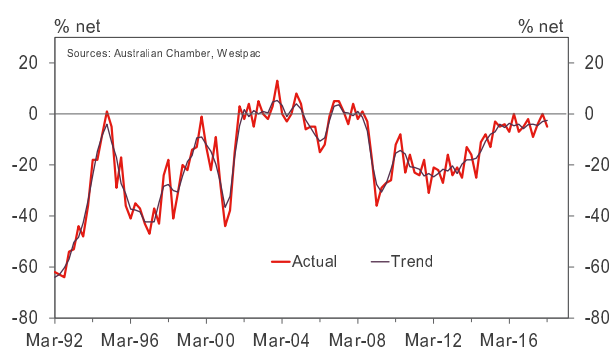


## Capacity utilisation

	Q4 2017	Q1 2018
Net balance	0	-5

- Capacity utilisation has maintained a high level following a strong uplift beginning in late 2013 and extending to late 2015.
- The number of respondents operating above normal capacity was less than the number below capacity by a net 5%. This is down on December's net 0% but in line with September's net 4% below capacity.
- In March, 16% of firms reported that the single factor that is most limiting their ability to increase production is capacity. This is below December's well above average 20% but is still greater than September's 11%.
- The drop in capacity utilisation pairs with increased investment and employment over 2017.

## Capacity utilisation



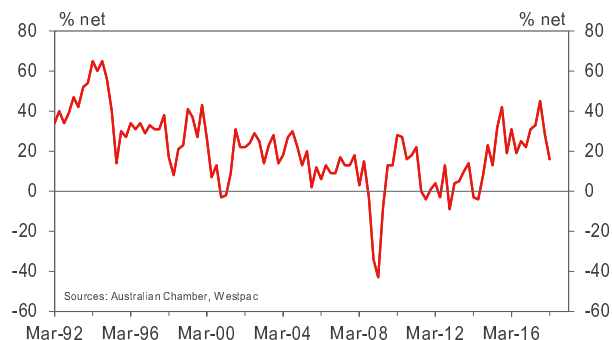
## Profit expectations

	Q4 2017	Q1 2018
Net balance	28	16

- Manufacturing firms are anticipating profitability will continue growing but expectations have eased from mid 2017, again indicative that the pace of expansion is moderating.
- A net 16% of firms are expecting that profitability will rise over the next twelve months. This is lower than December's net 28% which came off a peak in September of a net 45%.
- Compared to results over the longer term, the net 16% is just below the series average of 18% but higher than the average over the past decade of a net 12%.
- Past optimism is reflected in the ABS business indicators survey which showed manufacturing profits increased by 8.2% in 2017.

## Profit expectations

Next twelve months



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# The labour market

## Numbers employed *(seasonally adjusted)*

	Q4 2017	Q1 2018
Actual - net balance	13	1
Expected - net balance	15	-6

- The survey indicates that manufacturing employment consolidated in the March quarter following an uptick in jobs growth in 2017 after a period of contraction.
- A net 1% of firms reported that they expanded their workforce in March compared to a net 13% in December.
- Expectations weakened with a net 6% indicating that their employment base will shrink over the next three months.
- Official ABS data shows that manufacturing employment decreased 8.7% in the year to November 2017 but that includes base effects due to a spike at the end of 2016. Compared to August 2016, manufacturing employment has fallen by 2.6%.

## Overtime worked *(seasonally adjusted)*

	Q4 2017	Q1 2018
Actual - net balance	37	9
Expected - net balance	23	18

- Over the past five years, firms have indicated that they have increased the use of overtime due to higher new orders and output.
- In March, with new orders increasing at a slower pace, overtime worked moderated, similar to the consolidation in employment. A net 9% of firms indicated that they increased overtime in March. This compares to a net 37% in December and a net 47% in September, which are well above average levels.
- A net 18% of firms expecting to increase overtime in the next three months. That suggests March's drop may have also been due to lower than anticipated activity.

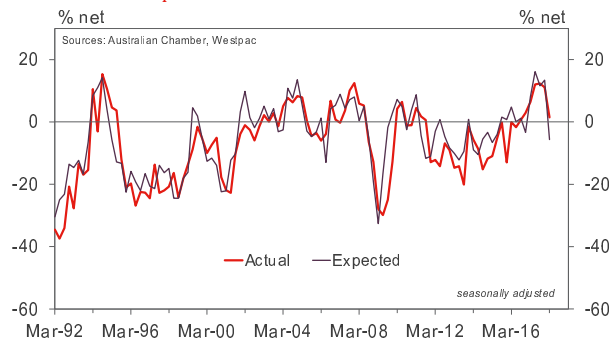
## Difficulty of finding labour *(seasonally adjusted)*

	Q4 2017	Q1 2018
Net balance	1	10

- The survey provides insights into the tone of the overall labour market. Firms' views on the difficulty of finding labour broadly tracks shifts in the unemployment rate for the Australian economy.
- A net 10% of respondents reported that labour was harder to find in March compared to a net 1% in December. This follows an extended period of little change in views on labour market conditions.
- The official ABS data suggests that the labour market has tightened since the beginning of 2017. As at January 2018, the unemployment rate is 5.5% with rising participation keeping up with annual employment growth of 3.3%.

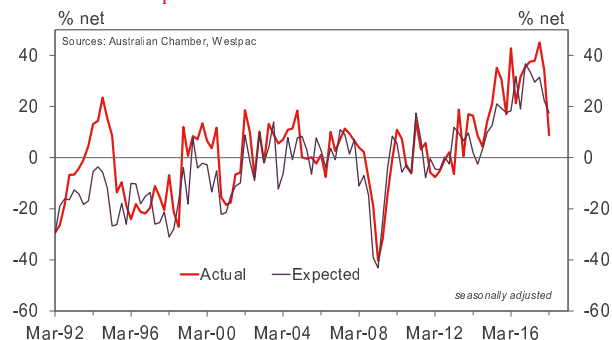
## Numbers employed

### Actual & expected

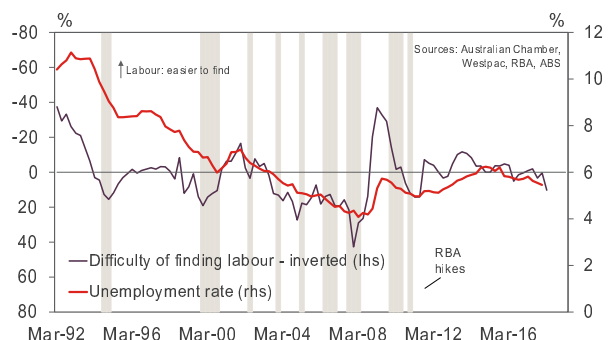


## Overtime worked

### Actual & expected



## Labour market tightness



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# Prices & inflation

## Average unit costs

	Q4 2017	Q1 2018
Actual - net balance	16	12
Expected - net balance	5	13

- In 2016, and in particular the first half of 2017, input cost escalation has been a concern for firms. This follows a period of subdued cost rises.
- Back in March 2017, a net 46% of respondents reported that unit costs had increased, and this was sustained further in June with a net 41%. The relatively high readings are due to a large jump in commodity and energy costs.
- The price shock eased through September and December. Moving forward to March 2018, the net 12% confirms that the initial jolt has come to pass.
- Electricity prices are still elevated and resolving the issue is likely to take time.

## Average selling prices

	Q4 2017	Q1 2018
Actual - net balance	4	10
Expected - net balance	11	12

- Price increases have become more prominent since mid 2013, in contrast to the lack of pricing power which was the norm prior to 2008.
- A net 10% of firms indicated that they increased prices in March, up from a net 4% in December.
- Higher prices are likely reflective of the stronger demand seen over the past few years but may also be in response to increasing input costs. In March, a net 12% of firms expect to increase selling prices in the next three months.

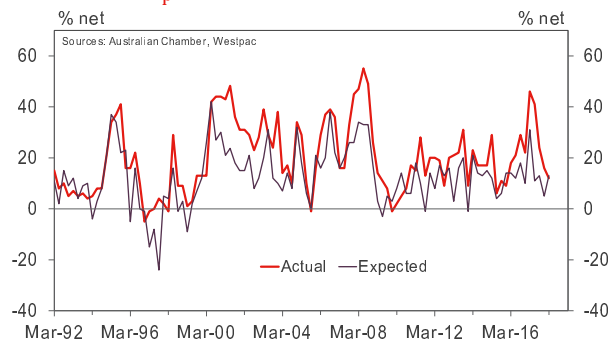
## Manufacturing wages

	Q4 2017	Q1 2018
Net balance	6	18

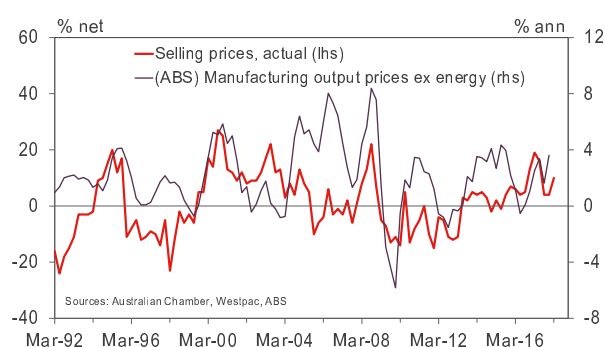
- The survey indicates a continuing lift in wages growth in the year ahead. A net 18% of respondents expect that their next wage bill will deliver an outcome above the last.
- March's result is back to being in line with June's net 16% after falling to a net 6% in December.
- While survey results have differed from the measures reported by the ABS over the past few years, official manufacturing wages have begun to stabilise and drift higher. Over 2017, yearly manufacturing wages growth was 2.3%, having gradually picked up from a low at the end of 2016 of 1.8%.

## Average unit costs

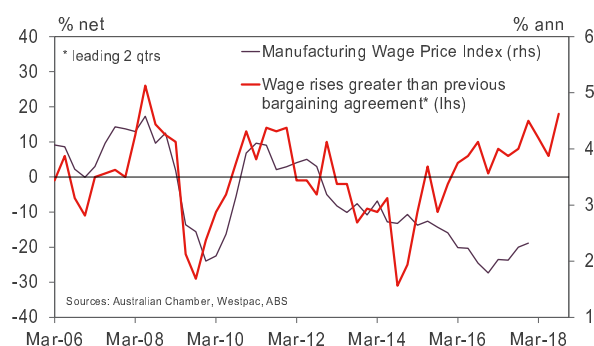
### Actual & expected



## Manufacturing upstream price pressures



## Manufacturing wage growth

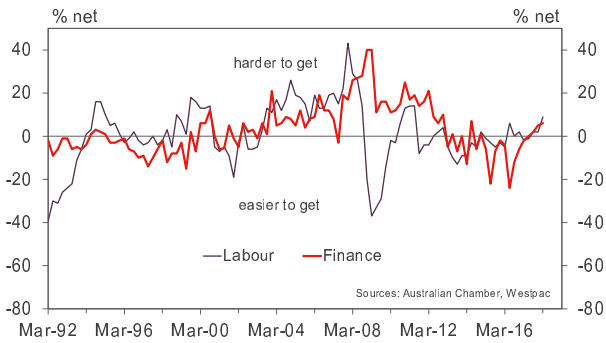


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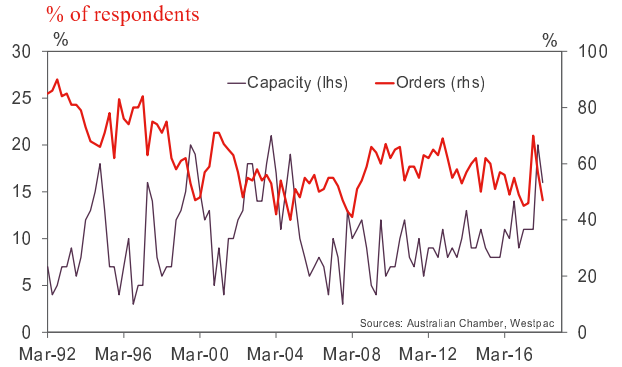


# Other results

## Availability of labour & finance

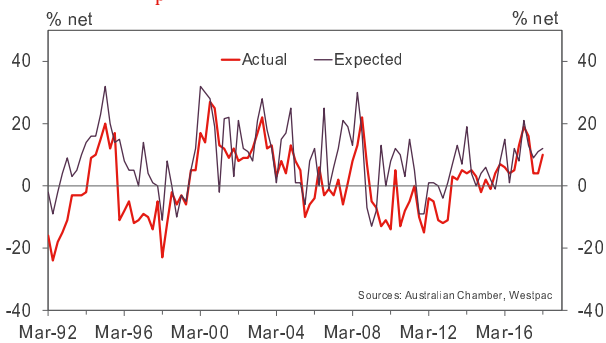


## Key factor limiting production

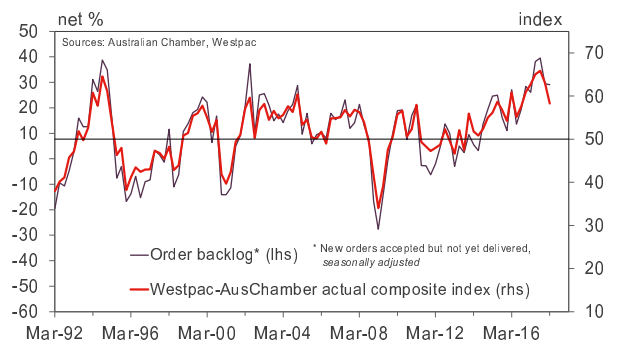


## Average selling prices

Actual & expected

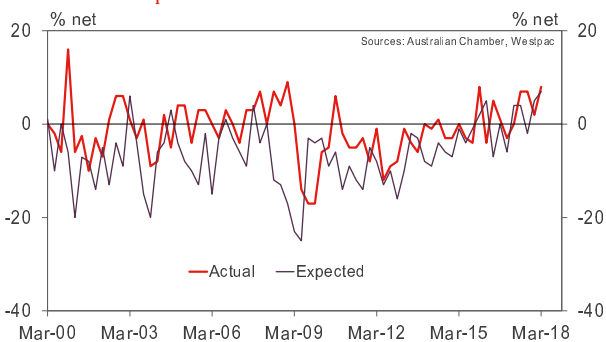


## Order backlog & actual conditions



## Stocks of finished goods

Actual & expected



## Factors limiting production

	Q3 2017	Q4 2017	Q1 2018
Orders (%)	70	57	47
Capacity (%)	11	20	16
Labour (%)	2	3	3
Finance (%)	4	2	4
Materials (%)	0	2	3
Other (%)	12	12	21
None (%)	1	4	6

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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
38	41	56	3

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

Net balance	Above Normal	Normal	Below Normal
-5	13	69	18

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

None	6	Orders	47
Material	3	Finance	4
Labour	3	Capacity	16
Other	21		

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?	9	13	83	4
(b) finance?	6	8	90	2

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	16	71	13
(b) on plant & machinery?	10	25	60	15

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:

	<i>Change in position in the last 3 months</i>				<i>Expected change during the next 3 months</i>			
	Net balance	Improve	Same	Down	Net balance	Improve	Same	Down
6. Numbers employed	-1	14	71	15	-4	7	82	11
7. Overtime worked	2	28	46	26	22	35	52	13
8. All new orders received	19	35	49	16	41	49	43	8
9. Orders accepted but not yet delivered	17	29	59	12	28	34	60	6
10. Output	22	32	58	10	35	46	43	11
11. Average costs per unit of output	12	18	76	6	13	17	79	4
12. Average selling prices	10	13	84	3	12	13	86	1
13. Export deliveries	8	13	82	5	6	12	82	6
14. Stock of raw materials	8	15	78	7	-1	9	81	10
15. Stocks of finished goods	8	13	82	5	7	14	79	7

# Summary of results (not seasonally adjusted)

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

(a) Improve?	33
(b) Remain unchanged?	50
(c) Decline?	17
<b>Net balance</b>	<b>16</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?	25
(b) Same?	68
(c) Less?	7
<b>Net balance</b>	<b>18</b>

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	14
Textiles, fabrics, floor coverings, felt, canvas, rope	7
Clothing, footwear	6
Wood, wood products, furniture	2
Paper, paper products, printing	9
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	11
Non-metallic mineral products: glass, pottery, cement bricks	3
Basic metal products: processing, smelting, refining, pipes & tubes	4
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	4
Other machinery & equipment: electrical, industrial scientific, photographic	16
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
52	7	15	26

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

WA	SA	VIC	NSW/ACT	QLD	TAS
11	11	19	42	11	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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### Things you should know.

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