

# Australian Chamber–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

## 229<sup>th</sup> report December 2018 (survey conducted 31 October to 3 December 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 declined in December 2018 to 63.1 from 66.2 in September. The Composite has indicated positive manufacturing conditions since December 2016.
- The well above average reading for the Composite index reflects strength in new orders, output, overtime and order backlog. The Australian economy has expanded around trend in the year to September 2018, annual output growth tracking at 2.8%.
- Manufacturing is benefitting from: an upswing in non-residential construction, particularly public infrastructure investment with a number of projects still to begin; a relatively low Australian dollar boosting competitiveness for exporters and import-competing firms; and a robust global growth backdrop despite some slowing of late. Against this, the drought in New South Wales and Queensland has created difficulties for agriculture and consequently the manufacturers who work with the sector.
- The uptrend in exports has continued at a moderate pace with a relatively low Australian dollar boosting international competitiveness. The Australian dollar has strengthened a little from its lows recently, and along with trade tensions, this has weighed on export expectations.
- Overall expectations are positive centred on new orders, output, backlog, overtime and employment. The Expected Composite rose to 63.5 in December from 61.1 in September. A net 25% of firms expect the general business situation to improve over the next six months, up slightly from a net 22% in September. This is down from a net 37% in June, possibly associated with a degree of public policy uncertainty ahead of the New South Wales state election and the Federal election in the first half of 2019. A general cooling in the Australian economy in the September quarter would have also tempered high expectations. Despite this, note that 94% of firms expect the general business situation to improve or remain unchanged.
- Equipment investment intentions of firms continue to be positive consistent with recent years of rising demand and high levels of capacity utilisation. A net 26% of respondents are planning to increase plant and equipment investment over the next twelve months. Building intentions moderated in December, a net 1% of firms plan to increase building investment in the next year, down from a net 7% in September.
- The survey's Labour Market Composite, which broadly tracks economy-wide jobs, is at 54.7. The index correctly led the uplift in employment in 2017 and identified the turning point to slower momentum in 2018. The current level of the index suggests continued solid employment growth into early 2019.

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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 229<sup>th</sup> consecutive survey was closed on 3 December 2018.

A total of **236** 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 February/March 2019.

# Key survey results

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

	Q3 2018	Q4 2018
Actual – composite index	66.2	63.1
Expected – composite index	61.1	63.5

- The Westpac–AusChamber Actual Composite Index declined to 63.1 in December from 66.2 in September. The index has held an above average level since December 2016.
- The positive result in the Composite is seen across new orders, output, overtime and backlog.
- Growth continues to be supported by a lower level of the AUD and public infrastructure investment. Of late, drought conditions in NSW and Qld are presenting concerns for some sectors of the manufacturing industry.
- The Expected Composite rose to 63.5 in December from 61.1 in September.

## Westpac–AusChamber Labour Market Composite

	Q3 2018	Q4 2018
Net balance	56.3	54.7

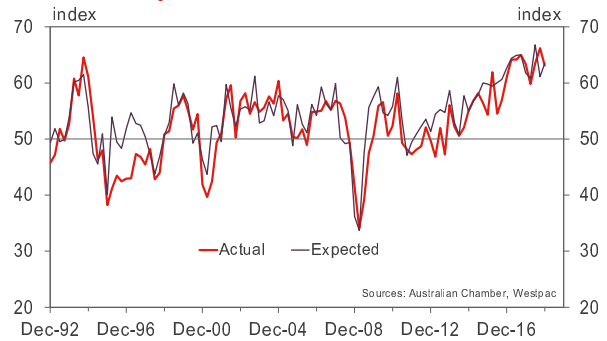
- The survey provides insights into economy-wide employment growth. This highlights the key linkages between manufacturing and the labour market.
- The Westpac–AusChamber Labour Market Composite declined to 54.7 in December from 56.3 in September.
- The index correctly foreshadowed the uplift in employment in 2017 and identified the turning point to the slower albeit still solid pace of jobs growth seen this year. The robust level of the index suggests momentum should continue into the start of 2019.
- Official data indicates year to date employment growth is currently tracking at a 2.1% annualised pace.

## General business situation

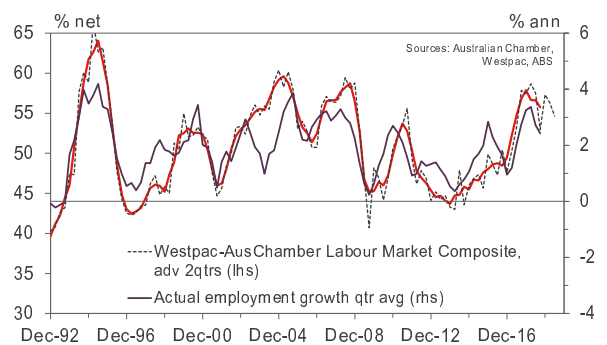
	Q3 2018	Q4 2018
Net balance	22	25

- Manufacturing firms are positive on the general business environment, though sentiment is off the levels seen in the first half of the year.
- In December, a net 25% of respondents expect the general business situation to improve over the next six months, up slightly from a net 22% in September.
- There is a degree of public policy uncertainty at the moment ahead of the NSW state election and Federal election in the first half of 2019. A general cooling in the Australian economy in the September quarter would have also tempered high expectations.
- Despite this, note that 94% of firms expect the general business situation to improve or remain unchanged.

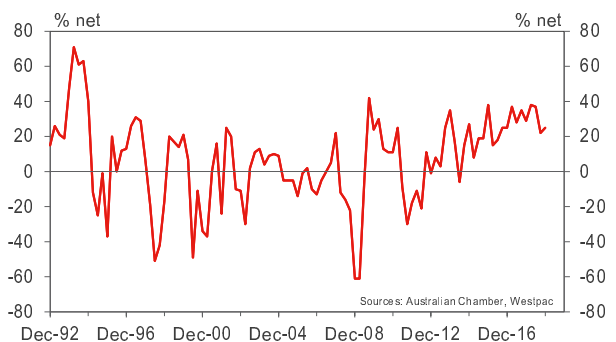
## Westpac–AusChamber Composite indexes Actual & expected, sa



## Employment: momentum has peaked



## 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.
- Recently, manufacturing activity has been supported mainly by sectors outside of the household sector.
- Non-residential construction, in particular public infrastructure investment, has been driving demand growth. The lower level of the Australian dollar has also boosted competitiveness for exporters and import-competing firms.
- The ABS national accounts showed manufacturing output increased by 2.0% in the 2017/18 financial year. The 2018/19 financial year has started off on a softer note, manufacturing output down 0.7% in the September quarter.

## Australian & World manufacturing surveys

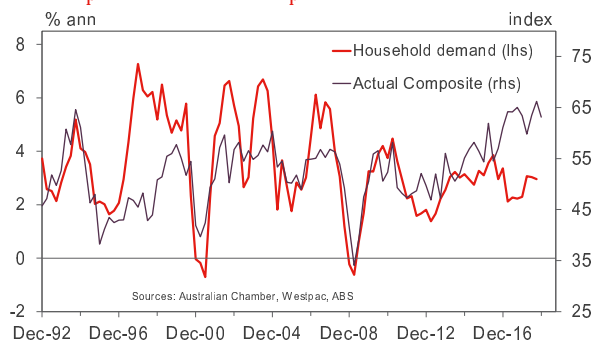
- Global and Australian manufacturing cycles tend to be synchronised, especially at major turning points.
- Historically, the Westpac-AusChamber Actual Composite has moved broadly in line with global manufacturing conditions.
- Since 2014, the Composite has deviated to the upside. In part, this indicated Australia was outperforming, consistent with the homebuilding upswing. However in part, it also reflected the transitional effect of exiting firms. More recently, public investment is boosting activity.
- Global manufacturing expanded in 2017 mirroring synchronised world growth and an uplift in international trade. In 2018, activity remains robust but has slowed and diverged across economies with sentiment impacted by concerns over trade policy and tighter financial conditions.

## 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 increase investment over the next year. In December, a net 26% of respondents are intending to increase plant and equipment investment over the next twelve months.
- The ABS capex survey confirms the strength in manufacturing equipment investment. The 2017/18 financial year saw a 7.9% lift in real manufacturing equipment investment - the largest annual increase since the GFC. This compares to a flat 2016/17 and a 3.0% rise in 2015/16. The 2018/19 year has started on a solid footing, real equipment investment up 1.1% in the September quarter.

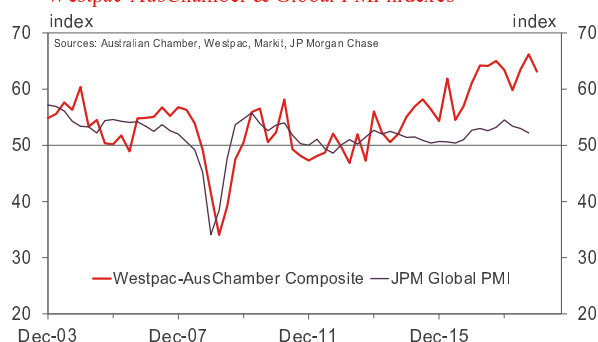
## Manufacturing & the business cycle

### Westpac-AusChamber Composite & household demand



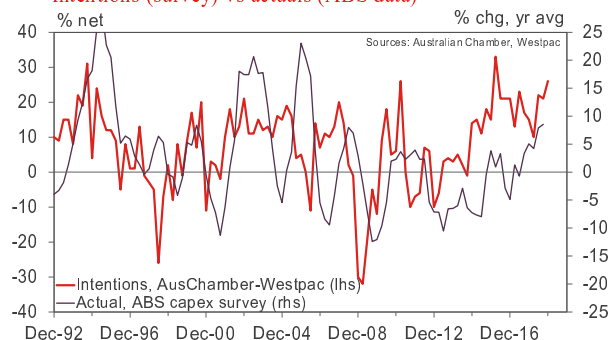
## Australian & World manufacturing surveys

### Westpac-AusChamber & Global PMI indexes



## Manufacturing equipment investment

### Intentions (survey) vs actuals (ABS data)



# Activity & orders

## Output *(seasonally adjusted)*

	Q3 2018	Q4 2018
Actual - net balance	42	32
Expected - net balance	27	36

- Manufacturing output has expanded for eighteen consecutive quarters. A net 32% of firms reported higher output in December.
- The uptrend emerged in 2014 and has maintained a solid pace. Momentum has fallen back from the peaks seen around the June and September quarters but is still at an above average level.
- Expectations indicate this pace can be held into the beginning of next year. In December, a net 36% of respondents expect output to increase in the next three months, up from a net 27% in September.

## New orders *(seasonally adjusted)*

	Q3 2018	Q4 2018
Actual - net balance	41	36
Expected - net balance	31	34

- Higher new orders are key to the expansion in manufacturing output. A net 36% of firms indicate that new orders increased in December.
- Expectations for new orders also firmed in December with a net 34% of firms anticipating new orders to increase in the next three months, just above the net 31% in September. This is consistent with a solid pace of expansion in the beginning of 2019, albeit a bit slower than that seen in the middle of 2018.
- The economic environment has been positive for manufacturing with public infrastructure investment a major driving force with governments continuing to add projects to the pipeline. However, spill-overs from the NSW and QLD drought are a drag.

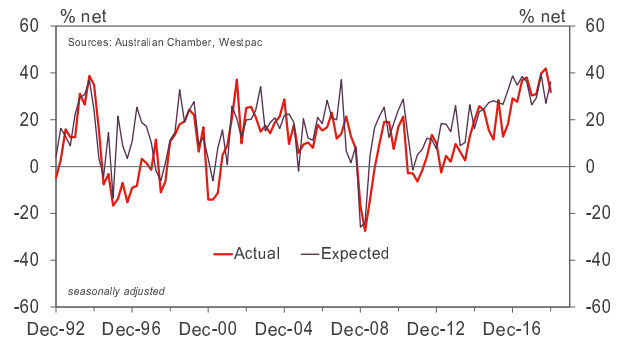
## Exports

	Q3 2018	Q4 2018
Actual - net balance	6	8
Expected - net balance	6	0

- Exports are maintaining a moderate uptrend. A net 8% of firms report that exports increased in December.
- The decline in the Australian dollar over 2018 has been supportive. The Australian dollar trade weighted index (TWI) reached 61.3 in late October - around yearly lows and 6% cheaper than the beginning of the year.
- Since then, the TWI has appreciated 3.4% to 63.3 as at the end of the November. Along with US-China trade tensions, this is likely weighing on manufacturing exporters' minds. In December, a net 0% of firms are expecting higher exports in the next three months, down from a net 6% in September.

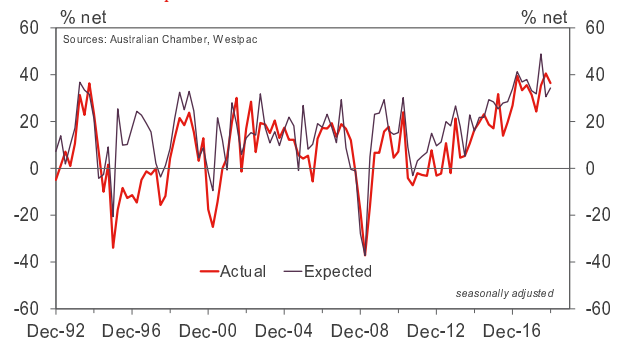
## Output growth

### Actual & expected



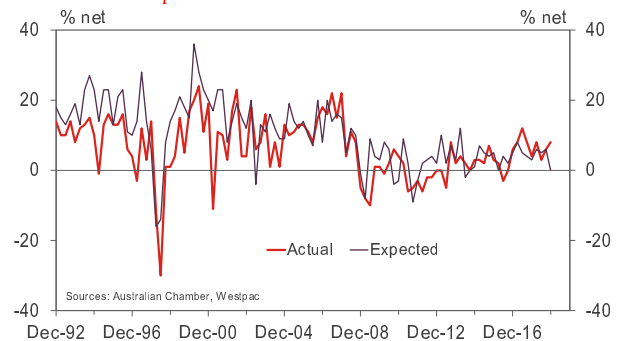
## New orders

### Actual & expected



## Export deliveries

### Actual & expected



# Investment & profitability

## Investment intentions

	Q3 2018	Q4 2018
Plant & Equipment - net balance	21	26
Building - net balance	7	1

- The survey, as it has since late 2014, indicates that manufacturing firms are intending to increase investment in response to higher demand and an overall positive business outlook.
- In December, a net 26% of firms are planning to increase plant and equipment investment over the next twelve months. Official ABS surveys show that the 2017/18 financial year was the strongest for real manufacturing equipment investment since the GFC, and early signs point to a solid result in 2018/19.
- Building investment intentions moderated in December, a net 1% of respondents indicating that they intend to increase building in the next twelve months, down from a net 7% in September.

## Capacity utilisation

	Q3 2018	Q4 2018
Net balance	-1	0

- Capacity utilisation remains at a high level after the uplift from late 2013 to late 2015 which has been followed by a gradual uptrend.
- In December, a net 89% of respondents report working at or above normal capacity levels. The number of firms operating above capacity is the same as the number of firms operating below capacity. The proportion operating at normal capacity has remained high since September 2017 at around three quarters.
- A net 62% of firms indicate that the single most important factor limiting their ability to increase production is orders. A total 12% of firms indicate that the most important factor is capacity which suggests that the investment uptrend has room to continue.

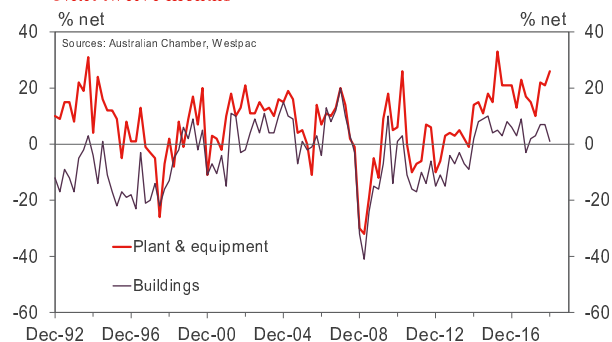
## Profit expectations

	Q3 2018	Q4 2018
Net balance	30	37

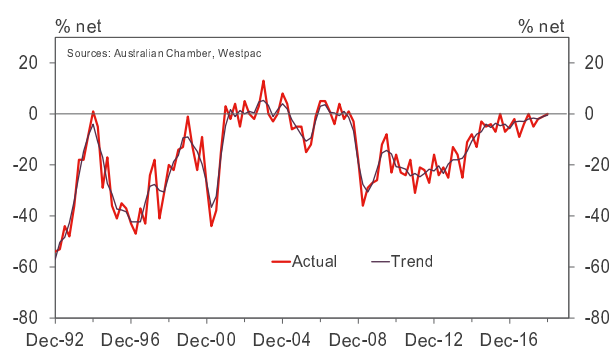
- Manufacturing firms have robust profit expectations consistent with the strength seen in output and new orders.
- Expectations continued to firm in December, after a dip in the outlook early in 2018. In December, a net 37% of respondents are anticipating that profitability will improve over the next twelve months.
- Official data is consistent with improving profitability in the manufacturing sector. The ABS Business Indicators survey reports that manufacturing gross operating profits increased by 10.1% in the 2017/18 financial year. In the year to September, gross operating profits are up 7.1%.

## Investment intentions

### Next twelve months

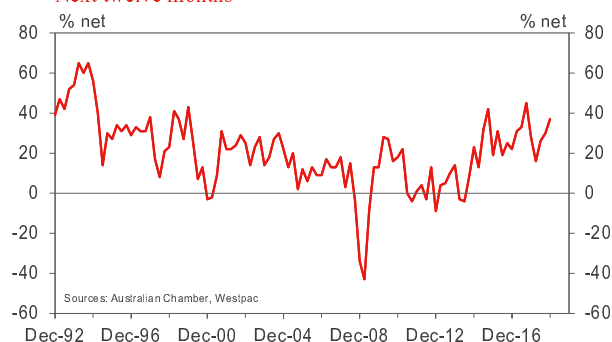


## Capacity utilisation



## Profit expectations

### Next twelve months



# The labour market

## Numbers employed *(seasonally adjusted)*

	Q3 2018	Q4 2018
Actual - net balance	10	3
Expected - net balance	4	9

- Manufacturing employment slowed down in December after a brief lift in September.
- A net 3% of respondents report that they increased their workforce in December, down from a net 10% in September. The average response in 2018 is lower than in 2017, a net 3% compared to a net 10%. That is consistent with the overall slowing in Australian employment growth over the year but note that it is still tracking along at a robust pace.
- A net 9% of firms expect to increase hiring in the next three months. This suggests that the slower employment growth in December will be short-lived.

## Overtime worked *(seasonally adjusted)*

	Q3 2018	Q4 2018
Actual - net balance	39	36
Expected - net balance	31	34

- The increased use of overtime continues to be widely reported, as it has since late 2014. That is in line with the uptrend in output.
- In December, a net 36% of firms report that they increased overtime. Expectations for the next quarter remain elevated, a net 34% in December compared to a net 31% in September.
- A high use of overtime was historically not the norm in the manufacturing sector. Firms are opting for a wait-and-see approach before committing to longer term labour commitments, using overtime as a means to meet rising output demand.

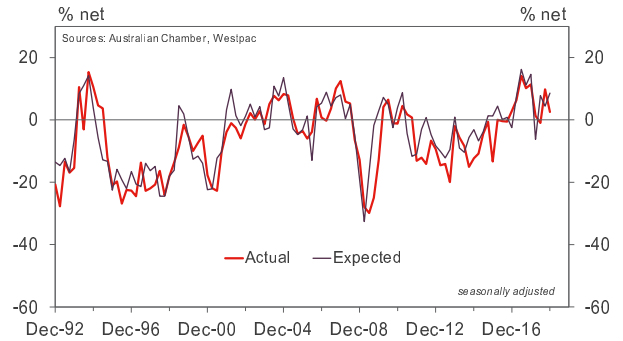
## Difficulty of finding labour *(seasonally adjusted)*

	Q3 2018	Q4 2018
Net balance	8	6

- 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 6% of firms indicate that labour was harder to find in December, just below the net 8% in September. The 2018 average of a net 6% is greater than the 2017 average of a net 0%.
- That coincides with the gradual decline in the unemployment rate over the past year. Official ABS data has shown employment growth tracking ahead of working age population growth. The unemployment rate is 5 per cent in October 2018, down from around 5½ per cent at the end of 2017.

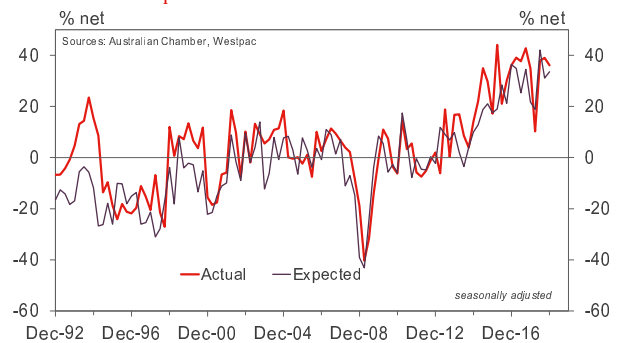
## Numbers employed

### Actual & expected

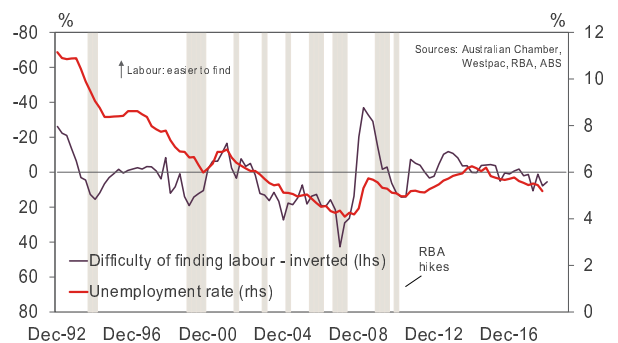


## Overtime worked

### Actual & expected



## Labour market tightness



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# Prices & inflation

## Average unit costs

	Q3 2018	Q4 2018
Actual - net balance	25	29
Expected - net balance	19	16

- In 2016, and in particular the first half of 2017, input cost inflation was a heightened concern for firms. This follows a period of subdued cost rises.
- The issue remains prescient with a net 29% of respondents reporting that unit costs increased in December. Expectations of future cost rises remain above average. A net 16% of firms anticipate that unit costs will increase over the next three months.
- Electricity costs have been in focus for most firms. In addition, high crude oil prices have been feeding into costs but have eased back over recent weeks. The drought in NSW and Qld will also be contributing to some input price pressures.

## Average selling prices

	Q3 2018	Q4 2018
Actual - net balance	17	18
Expected - net balance	11	8

- Price increases have become more prominent since mid 2013, in contrast to the lack of pricing power which was the norm prior to the GFC.
- Relative to the large increases in input costs, pass through to selling prices have occurred to a lesser extent. A net 18% of firms indicate increased selling prices in December, broadly in line with the net 17% in September and the full history average dating back to 1966.
- Expectations continue to track below actuals, a net 8% of respondents expecting higher selling prices in the next three months.

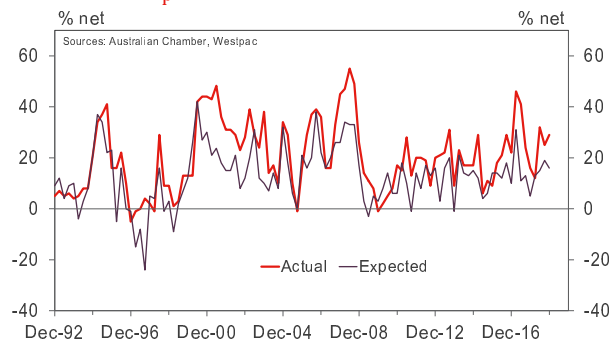
## Manufacturing wages

	Q3 2018	Q4 2018
Net balance	28	31

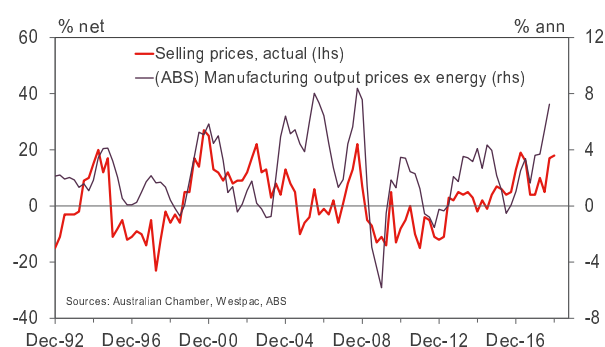
- The survey indicates that manufacturing wages growth will increase in the year ahead. In December, a net 31% of respondents expect that their next wage agreement will deliver an outcome above the last.
- The net percentage has been gradually trending up since mid-2017. This may in part relate to the Fair Work Commission's decision to lift award wages by an above average 3.3% in 2017/18 followed by another 3.5% increase in 2018/19.
- Official ABS wage price index data show annual manufacturing wages growth maintaining a pace of just over 2%, above the lows seen in 2016. The AusChamber-Westpac survey suggests manufacturing wages growth should resume a gradual uptrend over the next few quarters.

## Average unit costs

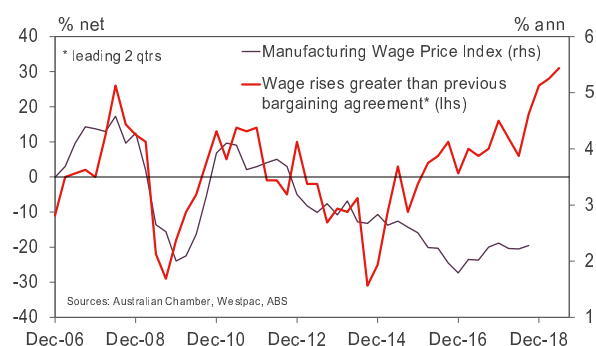
### Actual & expected



## Manufacturing upstream price pressures



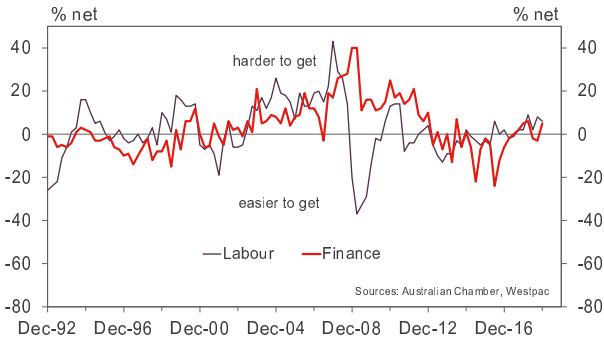
## Manufacturing wage growth



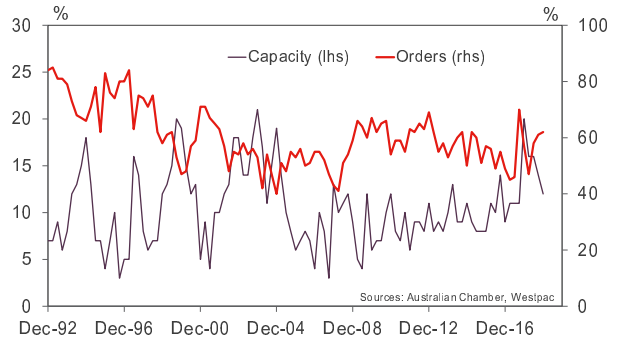


# Other results

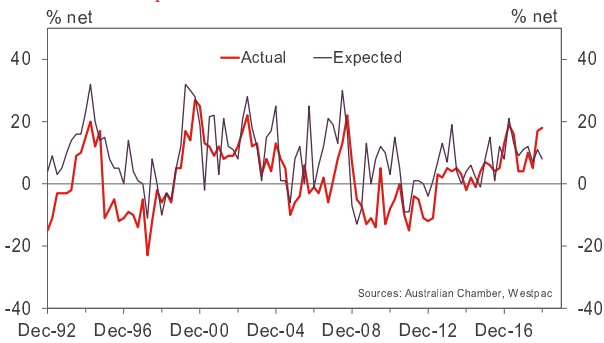
**Availability of labour & finance**



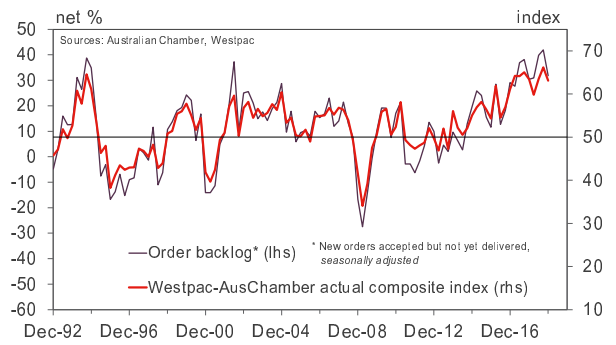
**Key factor limiting production**  
% of respondents



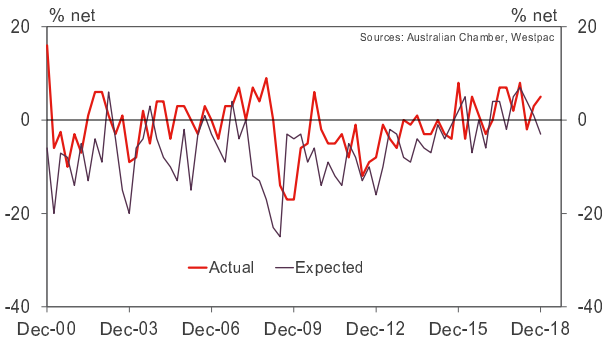
**Average selling prices**  
Actual & expected



**Order backlog & actual conditions**



**Stocks of finished goods**  
Actual & expected



**Factors limiting production**

	Q2 2018	Q3 2018	Q4 2018
Orders (%)	58	61	62
Capacity (%)	16	14	12
Labour (%)	4	4	5
Finance (%)	3	5	3
Materials (%)	0	1	0
Other (%)	8	10	8
None (%)	11	5	10

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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
25	31	63	6

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

Net balance	Above Normal	Normal	Below Normal
0	11	78	11

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

None	10	Orders	62
Material	0	Finance	3
Labour	5	Capacity	12
Other	8		

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?	6	6	94	0
(b) finance?	5	8	89	3

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?	1	9	83	8
(b) on plant & machinery?	26	32	62	6

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	3	9	85	6	4	7	90	3
7. Overtime worked	49	54	41	5	22	33	56	11
8. All new orders received	46	53	40	7	20	31	58	11
9. Orders accepted but not yet delivered	30	39	52	9	5	16	73	11
10. Output	43	51	41	8	23	32	59	9
11. Average costs per unit of output	29	32	65	3	16	19	78	3
12. Average selling prices	18	19	80	1	8	10	88	2
13. Export deliveries	8	11	86	3	0	3	94	3
14. Stock of raw materials	9	15	79	6	-5	6	83	11
15. Stocks of finished goods	5	12	81	7	-3	6	85	9

# Summary of results (not seasonally adjusted)

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

(a) Improve?	42
(b) Remain unchanged?	53
(c) Decline?	5
<b>Net balance</b>	<b>37</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?	34
(b) Same?	63
(c) Less?	3
<b>Net balance</b>	<b>31</b>

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	21
Textiles, fabrics, floor coverings, felt, canvas, rope	3
Clothing, footwear	5
Wood, wood products, furniture	3
Paper, paper products, printing	8
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	3
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	5
Other machinery & equipment: electrical, industrial scientific, photographic	17
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
47	11	14	28

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

WA	SA	VIC	NSW/ACT	QLD	TAS
11	11	17	44	12	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.

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### Things you should know.

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