

Australian Chamber–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

230th report March 2019 (survey conducted 13 February to 10 March 2019)

- 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 March to 61.7 from 63.0 in December. The Composite remains at a positive level but has weakened over the past two quarters.
- The reading for the Composite index is supported by rising output, overtime and backlog, but partly offset by new orders increasing at a slower pace and a flattening of employment. The Australian economy slowed significantly in the second half of 2018 to record below-trend growth of 2.3% through the year. That reflects weaker private demand, with public spending remaining a bright spot.
- A number of components of the Survey are suggestive of an emerging slowdown. Assessments of the general business situation, new orders expectations and equipment investment intentions are all at or around lows going back to 2015.
- Manufacturing is benefitting from the public infrastructure boom and a relatively low Australian dollar is boosting international competitiveness. However, negative domestic factors are gaining more prominence of late. The severe drought in NSW and Queensland continues to take its toll and declining home prices in Sydney and Melbourne are seeing a drop-off in dwelling construction as well as weak consumer spending with households already constrained by subdued income growth.
- The uptrend in exports has continued at a moderate pace with the depreciation in the Australian dollar helping to offset slower global growth. The AUD trade weighted index has fallen by around 5% since the previous survey closed at the beginning of December 2018.
- The Expected Composite fell to 59.6 in March from 63.2 in December. March's read is the softest result since early 2016. A net 12% of firms expect the general business situation to improve over the next six months. That is a four year low and well down from a net 25% in December.
- Equipment investment intentions of firms were tempered in March. A net 12% of firms are planning to increase plant and equipment investment over the next twelve months, compared to a net 26% in December. Building intentions eased with a net 4% of firms intending to decrease building in the next twelve months. This continues the decline from September's net 7% intending to increase building.
- The survey's Labour Market Composite, which broadly tracks economy-wide employment growth 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 suggests a continued moderate pace in the start of 2019.

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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 230th consecutive survey was closed on 10 March 2019.

A total of **307** 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 2019.

Key survey results

Westpac–AusChamber Composites *(seasonally adjusted)*

	Q4 2018	Q1 2019
Actual – composite index	63.0	61.7
Expected – composite index	63.2	59.6

- The Westpac-AusChamber Actual Composite Index declined to 61.7 in March from 63.0 in December, continuing softer momentum seen through end 2018.
- Rising output, overtime and backlog were supportive of conditions in March but new orders are increasing at a slower pace, so too is employment.
- Australian GDP growth slowed in the second half of 2018 to a 1% annualised pace from around a 4% annualised pace in the first half. Despite this, public spending remains a bright spot.
- The Expected Composite fell from 63.2 in December to 59.6 in March - the weakest level since March 2016 and suggestive of an emerging slowdown.

Westpac–AusChamber Labour Market Composite

	Q4 2018	Q1 2019
Net balance	54.6	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 was relatively unchanged in March at 54.7 compared to 54.6 in December.
- 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 in 2018. The current level of the index suggests a continued moderate pace for the start of 2019.
- Official data indicates employment grew 2.2% in 2018, an unusually robust pace when compared to below-trend 2.3% GDP growth seen through the year.

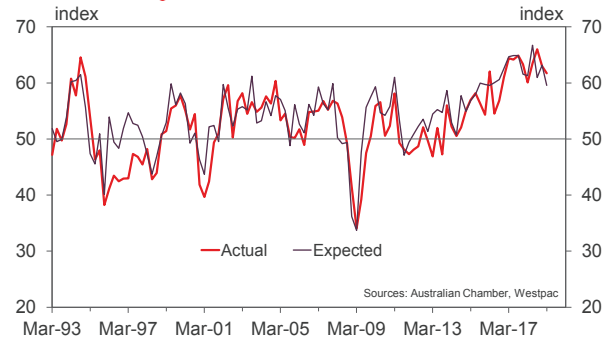
General business situation

	Q4 2018	Q1 2019
Net balance	25	12

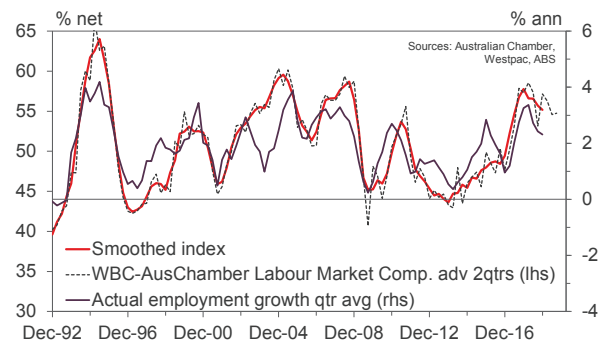
- Manufacturing firms are less optimistic on the general business environment with sentiment softening from levels in the first half of 2018.
- In March, a net 12% of firms expect the general business situation to improve over the next six months, down from a net 25% in December.
- That assessment of the overall business environment is the softest since March 2015, and is now broadly in line with the post-GFC average.
- Slower GDP growth, declining home prices and some policy uncertainty ahead of the Federal election are contributing factors to the less upbeat mood.

Westpac-AusChamber Composite indexes

Actual & expected, sa

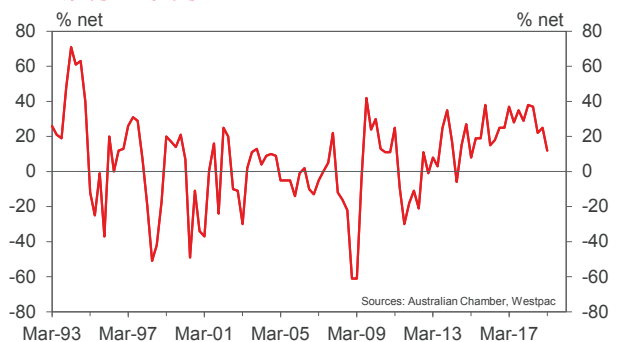


Employment: momentum has peaked



General business situation

Next six months



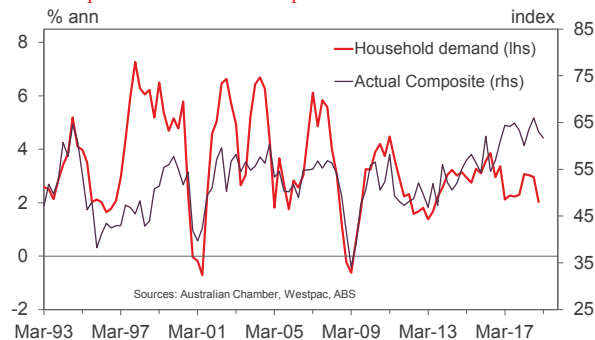
The business cycle & economic outlook

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.
- 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 AUD has also boosted international competitiveness, helping to offset a world trade slowdown.
- The ABS national accounts indicate manufacturing output contracted by 0.8% in 2018, following 2017's 2.1% gain which was the first calendar year of expansion since 2011.

Manufacturing & the business cycle

Westpac-AusChamber Composite & household demand

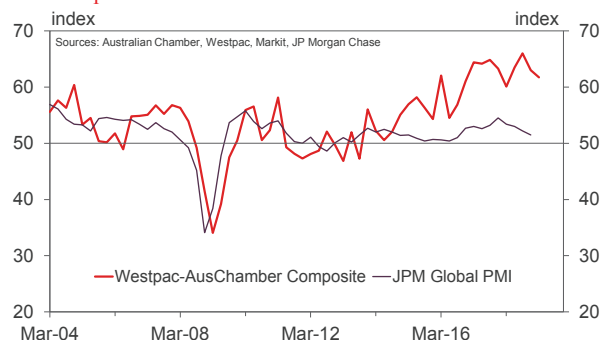


Australian & World manufacturing surveys

- 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.
- Global manufacturing slowed down considerably in the second half of 2018. In the early months of 2019, headline manufacturing PMI's in four major powerhouses - China, Europe, Japan and South Korea - are now at sub-50 levels, indicating a contraction.

Australian & World manufacturing surveys

Westpac-AusChamber & Global PMI indexes

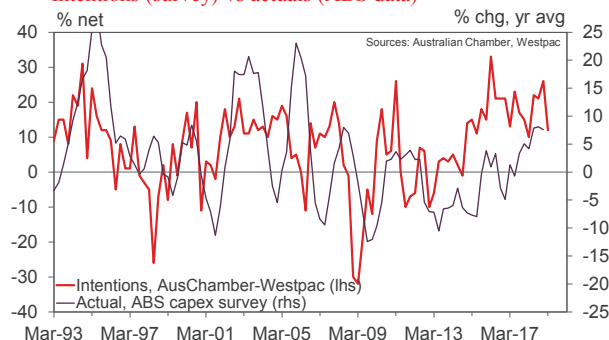


Manufacturing & business investment

- The AusChamber-Westpac survey has a solid track record of predicting equipment investment from the manufacturing sector.
- In March, manufacturing firms' investment intentions tempered. A net 12% of respondents are intending to increase plant and equipment investment over the next twelve months, down from a net 26% in December.
- The ABS capex survey confirms the previous 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. A still strong pace has been maintained in the first half of 2018/19 with the annual pace currently tracking at 7.6%. The survey result is suggestive of slowing investment ahead.

Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



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.

Activity & orders

Output *(seasonally adjusted)*

	Q4 2018	Q1 2019
Actual - net balance	32	36
Expected - net balance	36	25

- This survey suggests manufacturing output has expanded for nineteen consecutive quarters. A net 36% of respondents reported higher output in March.
- The uptrend emerged in 2014 and has maintained a solid pace but momentum has recently declined from the levels seen in the middle of 2018.
- Expectations suggest that momentum could moderate further. In March, a net 25% of firms indicated that they expect output to increase in the next three months, compared to a net 36% in December.

New orders *(seasonally adjusted)*

	Q4 2018	Q1 2019
Actual - net balance	36	26
Expected - net balance	34	22

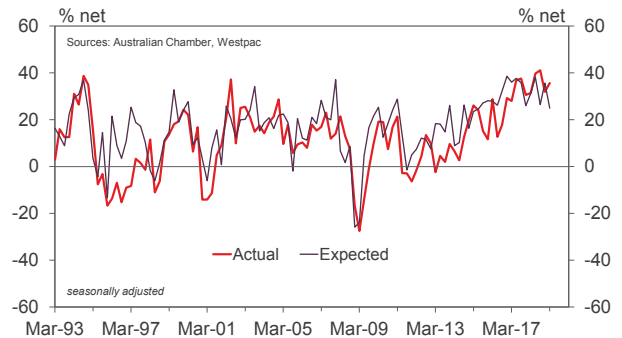
- New orders are increasing, but at a slower pace. A net 26% of firms reported higher new orders in March, compared to a net 36% in December. This result is in line with the soft start to March 2018, which together are the weakest since end 2016.
- Expectations were similarly lowered. In March, a net 22% of firms indicate that they expect higher new orders in the next three months, down from a net 34% in December. While that is still a positive net proportion, it is the softest result since mid-2015.
- Negative spill-overs from the drought and the housing downturn are weighing on manufacturing but public infrastructure investment remains a plus.

Exports

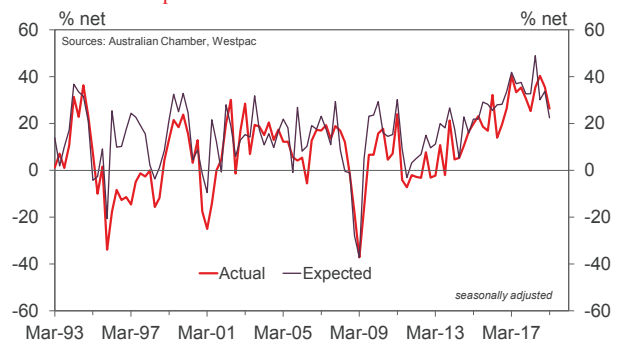
	Q4 2018	Q1 2019
Actual - net balance	8	5
Expected - net balance	0	7

- Exports are maintaining a moderate uptrend. A net 5% of respondents report exports increased in March. Expectations rebounded from a lull in December 2018. In March, a net 7% of firms anticipate higher exports in the next three months.
- As the Australian and global economy weakened last year, the Australian dollar depreciated, helping to offset some of the impact from weaker demand.
- The AUD trade weighted index has so far averaged a level of 60.9 in 2019, around 3% below 2018's 62.9 average. Currently it is 60.2, 5% lower than the level seen at the beginning of December when the previous survey closed.

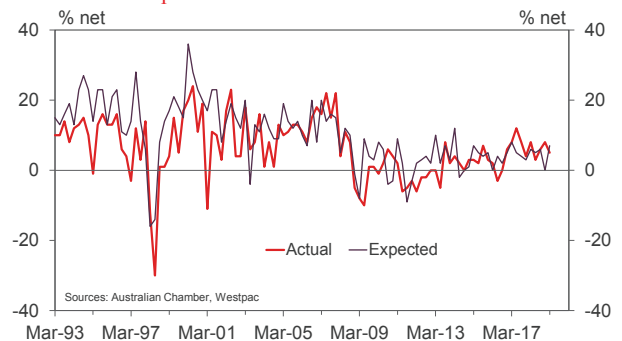
Output growth Actual & expected



New orders Actual & expected



Export deliveries Actual & expected



Investment & profitability

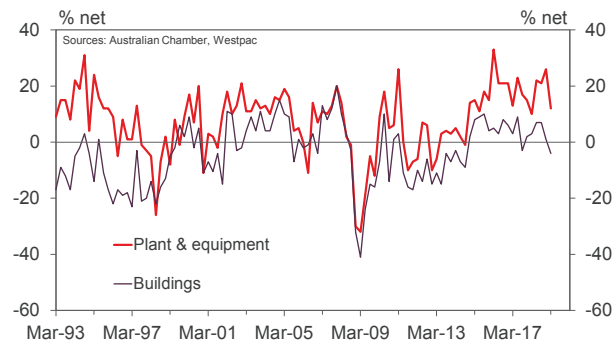
Investment intentions

	Q4 2018	Q1 2019
Plant & Equipment - net balance	26	12
Building - net balance	1	-4

- The survey, as it has since late 2014, indicates that manufacturing firms are planning to increase investment but intentions were tempered in March.
- In March, a net 12% of firms are intending to increase plant and equipment investment over the next twelve months, significantly lower than the net 26% recorded in December. The reduced plans are only just above the results seen in March 2018 which marked a low going back to 2015.
- Building intentions moderated further in March, a net 4% of firms expect to decrease building in the next 12 months. That compares to a net 7% expecting an increase back in September.

Investment intentions

Next twelve months

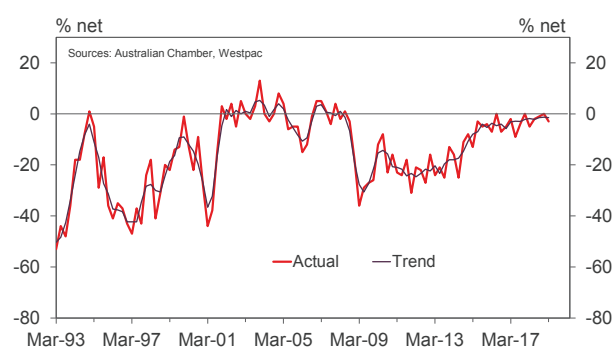


Capacity utilisation

	Q4 2018	Q1 2019
Net balance	0	-3

- 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 March, a net 88% of firms reported that they are operating at or above normal capacity, broadly unchanged from the net 89% in December.
- While, the number of firms operating below capacity exceeds those operating above capacity by a net 3%.
- A net 67% of firms in March indicate that the single most important factor limiting their ability to increase production is orders, up from a net 62% in December. A net 8% indicate that this factor is capacity, down from a net 12% in December, consistent with the uplift in equipment investment.

Capacity utilisation



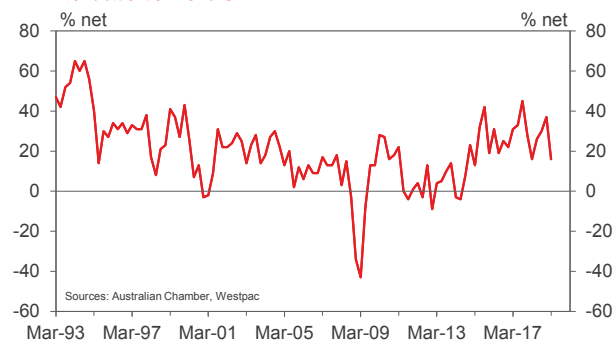
Profit expectations

	Q4 2018	Q1 2019
Net balance	37	16

- Manufacturing firms have lowered profit expectations in response to the less positive outlook.
- In March, a net 16% of firms anticipate profitability will improve over the next twelve months. The softer expectations are similar to the levels in March 2018 which is a low since 2015.
- The ABS business indicators survey reports that manufacturing gross operating profits increased by 10.1% in 2017/18. The first half of 2018/19 has begun on a soft note.

Profit expectations

Next twelve months



The labour market

Numbers employed *(seasonally adjusted)*

	Q4 2018	Q1 2019
Actual - net balance	2	3
Expected - net balance	7	1

- Manufacturing employment has slowed down in the past two quarters.
- A net 3% of firms report that they increased their workforce in March, broadly unchanged from the net 2% in December. The last two reads are down from a net 10% in September. The survey results are consistent with the overall slowing in Australian employment growth.
- A modest pace of manufacturing employment growth is likely to continue. In March, a net 1% of firms expect to increase their workforce in the next three months, down from a net 7% in December.

Overtime worked *(seasonally adjusted)*

	Q4 2018	Q1 2019
Actual - net balance	36	32
Expected - net balance	33	28

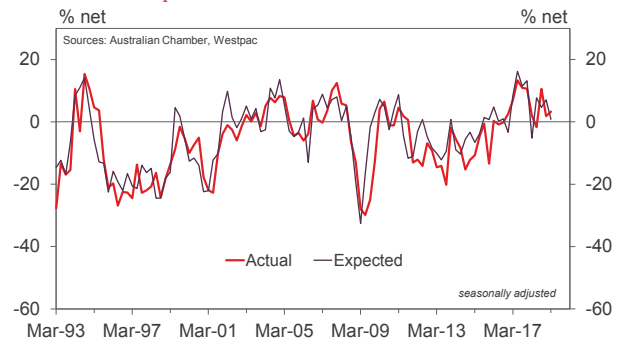
- The increased use of overtime continues to be widely reported, as it has since late 2014. That is in line with the uptrend in output.
- A net 32% of respondents report that they increased overtime in March. Expectations are similarly high with a net 28% of firms indicating that they anticipate increased overtime in the next three months.
- A high use of overtime was historically not the norm in the manufacturing sector. Firms are now opting for a wait-and-see approach, using overtime as a means of managing shifts in demand.

Difficulty of finding labour *(seasonally adjusted)*

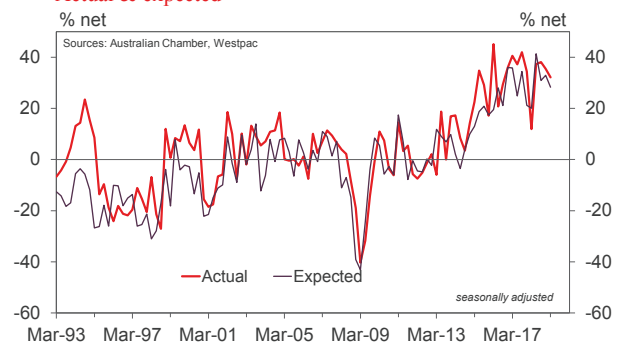
	Q4 2018	Q1 2019
Net balance	6	7

- 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 7% of firms report that labour was harder to find in March, relatively unchanged from December's net 6% and September's net 8%.
- The unemployment rate declined in Australia over 2018 from around 5½ per cent in the middle of the year, to a current 5 per cent as at January 2019. While employment growth did moderate over that period to 2.2%, it remained well above working age population of around 1.6%.

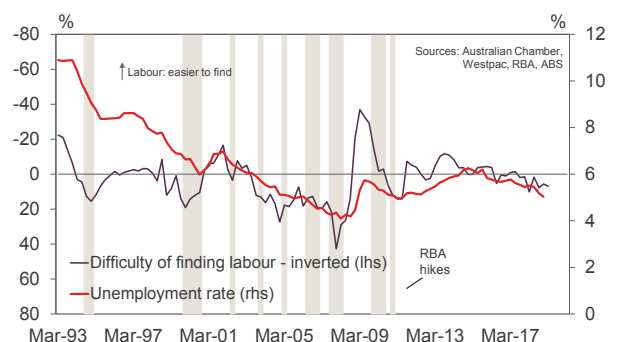
Numbers employed Actual & expected



Overtime worked Actual & expected



Labour market tightness



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Prices & inflation

Average unit costs

	Q4 2018	Q1 2019
Actual - net balance	29	20
Expected - net balance	16	18

- 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 persisted through 2018 and remains relevant as we begin 2019 with a net 20% of firms reporting that unit costs increased in March. Expectations of future cost rises also remain above average. In March, a net 18% of firms expects that unit costs will increase over the next three months.
- Electricity costs have been in focus for most firms. The severe drought in NSW and Queensland will also have had an impact since mid-2018.

Average selling prices

	Q4 2018	Q1 2019
Actual - net balance	18	5
Expected - net balance	8	10

- 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.
- Selling price increases were more subdued in March with a net 5% of respondents indicating increased prices compared to a net 18% in December.
- Expectations were more steady. In March, a net 10% of firms are expecting higher selling prices, slightly up from a net 8% in December.
- With the exception of December, expectations have been tracking above actuals.

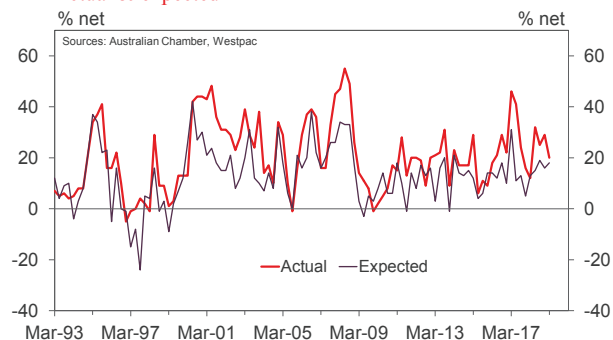
Manufacturing wages

	Q4 2018	Q1 2019
Net balance	31	27

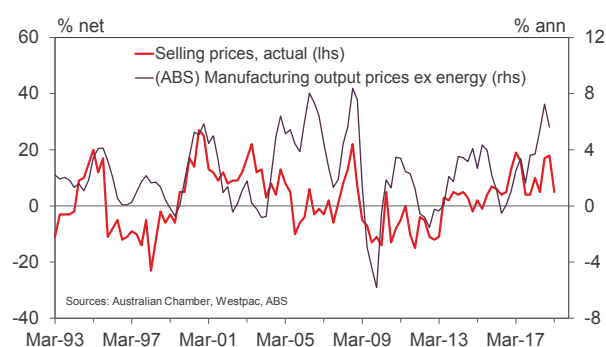
- The survey indicates that manufacturing wages growth will increase in the year ahead. In March, a net 27% of firms anticipate that their next wage agreement will deliver an outcome above the last.
- The net percentage has been gradually trending up since mid-2017. March's result is the first decline in the series since that trend began.
- Official ABS wage price index data indicates annual manufacturing wages growth is maintaining a pace just above 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

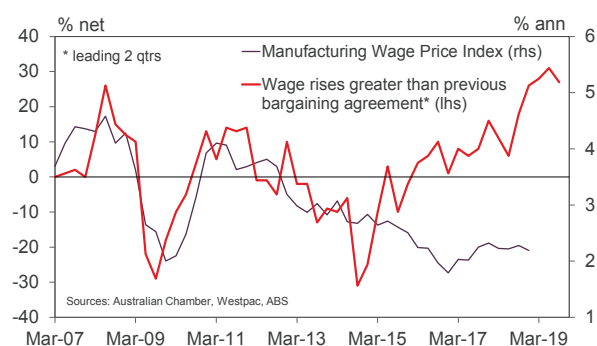
Actual & expected



Manufacturing upstream price pressures



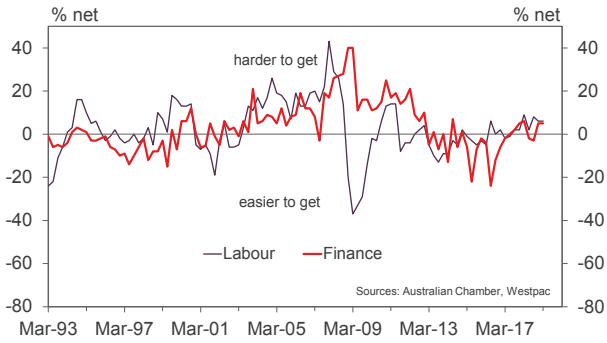
Manufacturing wage growth



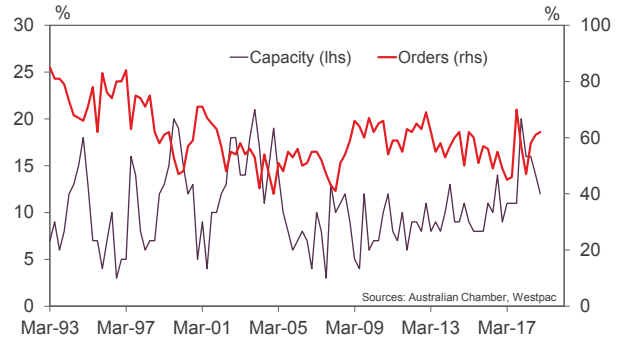
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Other results

Availability of labour & finance

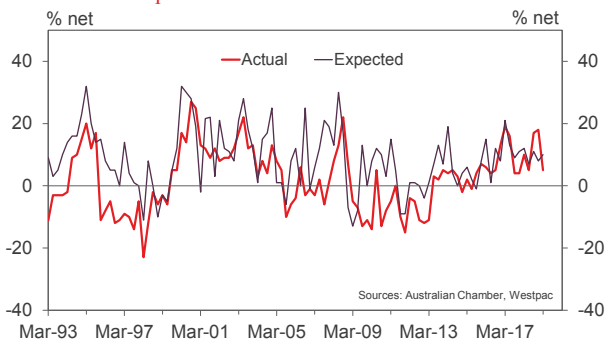


Key factor limiting production

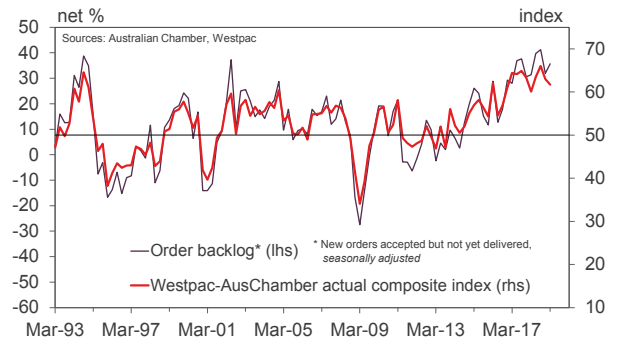


Average selling prices

Actual & expected

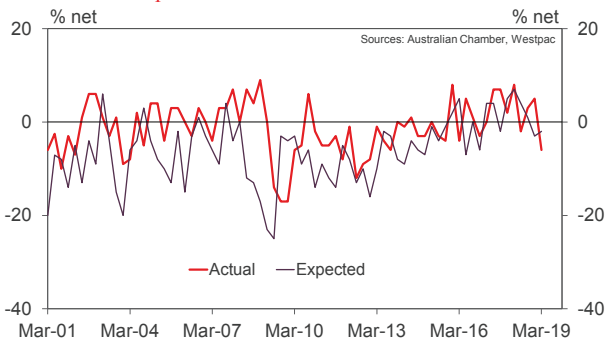


Order backlog & actual conditions



Stocks of finished goods

Actual & expected



Factors limiting production

	Q3 2018	Q4 2018	Q1 2019
Orders (%)	61	62	67
Capacity (%)	14	12	8
Labour (%)	4	5	5
Finance (%)	5	3	4
Materials (%)	1	0	2
Other (%)	10	8	9
None (%)	5	10	5

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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
12	30	52	18

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

Net balance	Above Normal	Normal	Below Normal
-3	9	79	12

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

None	5	Orders	67
Material	2	Finance	4
Labour	5	Capacity	8
Other	9		

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	10	86	4
(b) finance?	5	10	85	5

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?	-4	9	78	13
(b) on plant & machinery?	12	24	64	12

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	0	7	86	7	2	8	86	6
7. Overtime worked	20	35	50	15	30	43	44	13
8. All new orders received	20	35	50	15	30	36	58	6
9. Orders accepted but not yet delivered	15	26	63	11	22	28	66	6
10. Output	26	37	52	11	28	38	52	10
11. Average costs per unit of output	20	24	72	4	18	20	78	2
12. Average selling prices	5	8	89	3	10	13	84	3
13. Export deliveries	5	7	91	2	7	9	89	2
14. Stock of raw materials	-5	9	77	14	-6	9	76	15
15. Stocks of finished goods	-6	11	72	17	-2	13	72	15

Summary of results (not seasonally adjusted)

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

(a) Improve?	29
(b) Remain unchanged?	58
(c) Decline?	13
Net balance	16

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?	30
(b) Same?	67
(c) Less?	3
Net balance	27

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	18
Textiles, fabrics, floor coverings, felt, canvas, rope	3
Clothing, footwear	7
Wood, wood products, furniture	2
Paper, paper products, printing	11
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	11
Non-metallic mineral products: glass, pottery, cement bricks	5
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	14
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
52	10	14	24

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

WA	SA	VIC	NSW/ACT	QLD	TAS
10	11	18	44	13	4

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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