

Australian Chamber–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

231st report June 2019 (survey conducted 20 May to 6 June 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.
- This survey was conducted after the Federal election, held on 18 May.
- The Westpac–AusChamber Actual Composite index declined to 61.5 in June from 61.8 in March. The Composite remains at a positive level but suggests that the loss in momentum from mid-2018 has persisted into mid-2019.
- The reading for the Composite index is supported by rising output, albeit at a slower pace; new orders; backlog; and overtime. However, employment levels stagnated over the past three quarters. The Australian economy has slowed to an annual growth pace of 1.8%, the softest result since the time of the GFC - September 2009. Private demand is contracting but this is being offset by solid public spending.
- As with the economy at large, conditions in the manufacturing industry vary. A downturn in the housing sector, a drought in NSW and Queensland, and weak consumer spending on the back of subdued income growth is presenting difficulties for many manufacturing firms. At the same time, the lower Australian dollar and strong public infrastructure investment are supporting others. The export uptrend has continued at a moderate pace with the lower currency helping to offset slower global growth.
- There has been a lift in sentiment post the Federal election and with the RBA easing policy.
- The Expected Composite recovered to 63.3 in June from 60.2 in March. Similarly, optimism surrounding the general business situation bounced with a net 28% of respondents expecting an improvement over the next six months compared to a net 12% in March. The brief dip in manufacturing firm sentiment in March may have been associated with uncertainty ahead of the Federal election. Now that the election is over, along with added impetus from the RBA rate cut on 4 June, optimism has recovered back to levels seen in December 2018, although that is still well down from 2017 peaks.
- Equipment investment intentions of firms also rebounded in June. A net 21% of firms are planning to increase plant and equipment investment over the next twelve months, up from a net 12% in March. Building intentions are more modest but also rose to a net 3% intending to increase investment over the next twelve months from a net 4% seeing a decline.
- The survey's Labour Market Composite, which broadly tracks economy-wide employment growth, is at 52.4. The index correctly led the uplift in employment in 2017 and identified the turning point to slower momentum in 2018. The current level suggests employment growth should hold a moderate pace.

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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 231st consecutive survey was closed on 6 June 2019.

A total of **240** responses were received, and provided a reasonable cross-section of Australian manufacturing in respect of industry groups and size of operation.

The next survey will be conducted over August/September 2019.

Key survey results

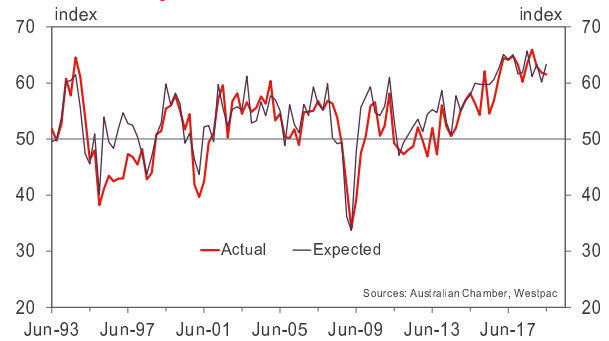
Westpac–AusChamber Composites *(seasonally adjusted)*

	Q1 2019	Q2 2019
Actual – composite index	61.8	61.5
Expected – composite index	60.2	63.3

- The Westpac-AusChamber Actual Composite Index declined to 61.5 in June from 61.8 in March, confirming that the loss in momentum from mid-2018 has persisted into mid-2019.
- Rising output, albeit at a slower pace, new orders, overtime and backlog are supportive of conditions in June, although note employment remains subdued.
- Australian GDP growth has been below trend over the three quarters to March 2019. Strong public spending is in contrast to weak private demand.
- The Expected Composite rebounded in June, rising to 63.3 from 60.2 in March. Note that this survey was taken after the Federal election on 18 May.

Westpac-AusChamber Composite indexes

Actual & expected, sa

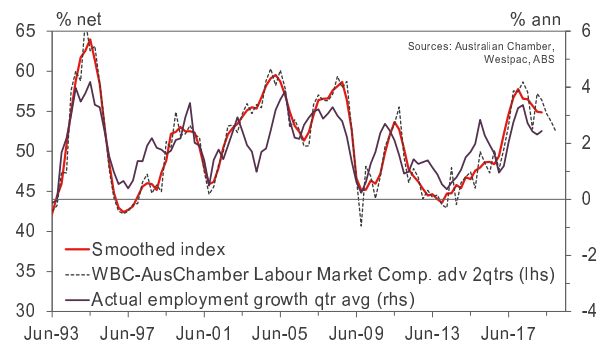


Westpac–AusChamber Labour Market Composite

	Q1 2019	Q2 2019
Net balance	53.7	52.4

- The survey provides insights into economy-wide employment growth. This highlights the key linkages between manufacturing and the labour market.
- The Westpac-AusChamber Labour Market Composite 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 index declined to 52.4 from 53.7 in June, pointing to a moderate pace being maintained in mid-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. Employment has continued at a solid pace in 2019 but unemployment has ticked up to 5.2% in April.

Employment: momentum has peaked



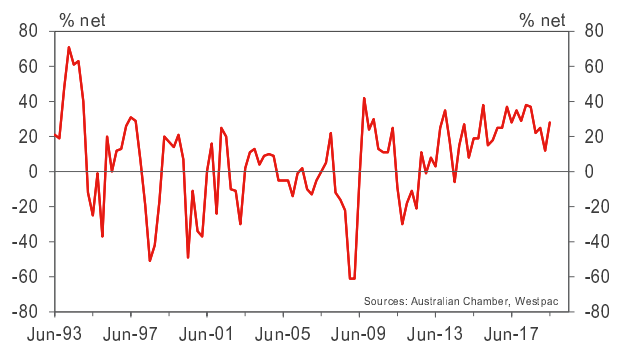
General business situation

	Q1 2019	Q2 2019
Net balance	12	28

- Optimism among manufacturing firms has recovered in June after a brief dip in March.
- In June, a net 28% of firms expect the general business situation to improve over the next six months, up from a net 12% in March.
- The assessment of the overall business environment in March was the softest since March 2015, and was broadly in line with the post-GFC average. Policy uncertainty ahead of the Federal election is likely to have played a part.
- Now that the election is over, plus an additional lift to sentiment from RBA rate cuts, business optimism has returned to the levels seen at the end of 2018, albeit still well down from 2017 peaks.

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.
- Recently, manufacturing activity has been supported mainly by sectors outside of the household sector.
- Conditions in the manufacturing industry are mixed with some sectors seeing growth while others are facing difficulties. Positives relate to a low level of the AUD supporting the food & beverage industry while other areas are seeing a boost to demand from strong public spending.
- The ABS national accounts show manufacturing output rose 0.7% in March but is down 1.6% annually. Activity has slowed from 2017's 2.1% gain which was the first calendar year of expansion since 2011.

Australian & World manufacturing surveys

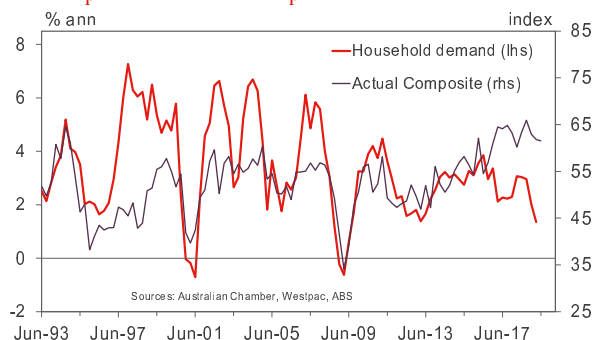
- Global and Australian manufacturing cycles tend to be synchronised, especially at major turning points.
- Historically, the Westpac-AusChamber Actual Composite has moved broadly in line with global manufacturing conditions.
- Since 2014, the Composite has deviated to the upside. In part, this indicated Australia was outperforming, consistent with the homebuilding upswing. However in part, it also reflected the transitional effect of exiting firms.
- Global manufacturing has continued to slow in 2019. A factor is heightening trade policy tensions. The index dropped marginally into contraction in May, and at 49.8, is tracking at the softest pace since October 2012. Weakness that materialised in Asia and Europe in 2018 has now spread to the US as well.

Manufacturing & business investment

- The AusChamber-Westpac survey has a solid track record of predicting equipment investment from the manufacturing sector.
- Manufacturing firms' investment intentions rebounded in June after a dip in March. A net 21% of firms are planning to increase plant and equipment investment over the next twelve months, up from a net 12% in March.
- The ABS capex survey confirms that manufacturing equipment investment is expanding. The 2017/18 financial year saw a 7.9% lift in real manufacturing equipment investment - the largest annual increase since the GFC. The annual pace has slowed to 3.5% in March 2019, consistent with the dip in the AusChamber-Westpac survey. It may be that uncertainty ahead of the Federal election saw firms temper investment intentions.

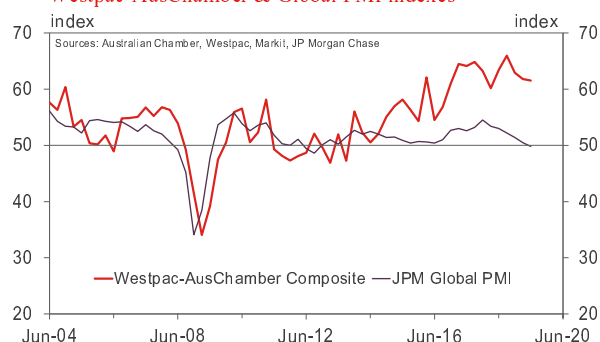
Manufacturing & the business cycle

Westpac-AusChamber Composite & household demand



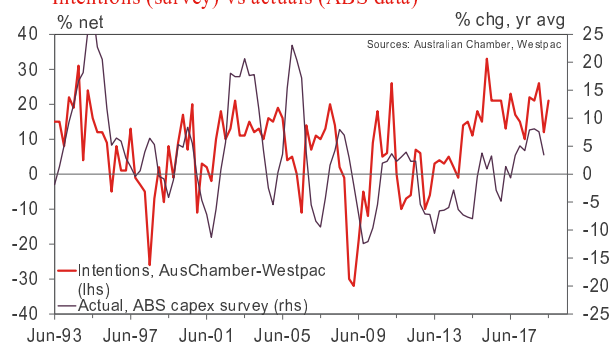
Australian & World manufacturing surveys

Westpac-AusChamber & Global PMI indexes



Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



Activity & orders

Output *(seasonally adjusted)*

	Q1 2019	Q2 2019
Actual - net balance	35	30
Expected - net balance	25	34

- This survey suggests manufacturing output has expanded for twenty consecutive quarters. A net 30% of firms reported higher output in June, representing a moderation from a net 35% in March.
- The uptrend emerged in 2014 and has maintained a solid pace. More recently, the survey has declined from levels seen in the middle of 2018.
- Expectations are pointing to a stabilisation in momentum. In June, a net 34% of respondents expect output to increase in the next three months. This is up from the net 25% in March.

New orders *(seasonally adjusted)*

	Q1 2019	Q2 2019
Actual - net balance	27	27
Expected - net balance	25	36

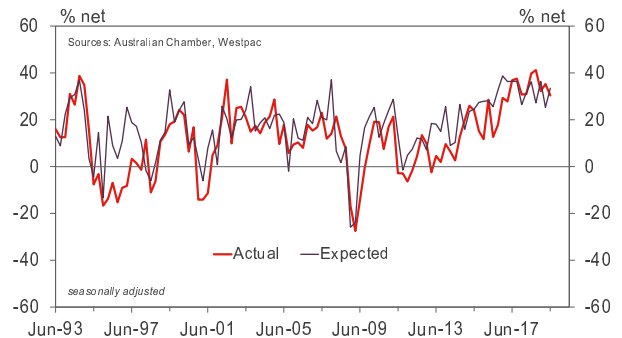
- New orders are increasing, but at a slower pace than in 2017 and 2018.
- A net 27% of respondents reported higher new orders in June, in line with the results in March, but well down from the net 36% in December.
- Activity across the sector varies. The housing downturn and spill-overs from the drought are negatives. Key positives are the boost from the lower dollar and from rising public infrastructure investment.
- Expectations lifted in June, a net 36% of firms anticipating higher new orders over the next three months compared to a net 25% in March. That is consistent with the general lift in optimism and prospects for additional policy stimulus.

Exports

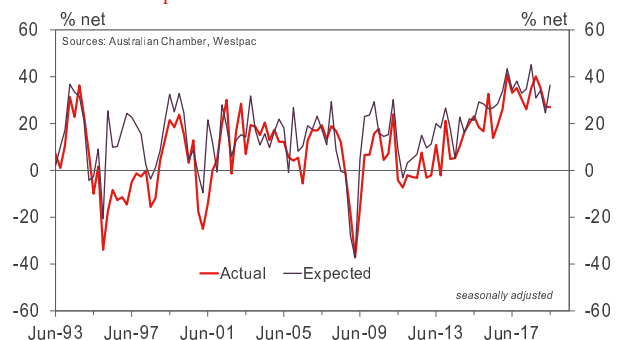
	Q1 2019	Q2 2019
Actual - net balance	5	2
Expected - net balance	7	10

- Exports are in a moderate uptrend. A net 2% of respondents reported that exports increased in June, down slightly from a net 5% in March.
- As the Australian and global economy weakened, and expectations for the RBA to ease monetary policy increased, the Australian dollar depreciated. This is helping to offset some of the impact from weaker demand.
- Export expectations continued to rise in June, a net 10% of firms expecting higher exports in the next three months, up from a net 7% in March. Key to realising these expectations is a continued downtrend in the AUD.

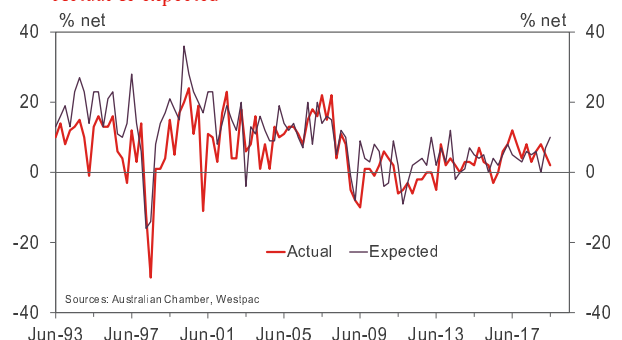
Output growth Actual & expected



New orders Actual & expected



Export deliveries Actual & expected



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Investment & profitability

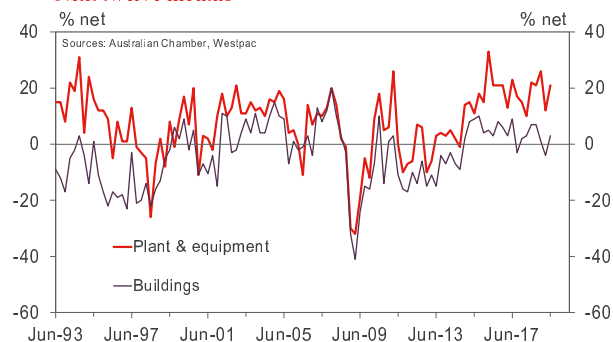
Investment intentions

	Q1 2019	Q2 2019
Plant & Equipment - net balance	12	21
Building - net balance	-4	3

- The survey, as it has since late 2014, indicates that manufacturing firms are planning to increase investment.
- After a brief dip in March, investment plans recovered in June. A net 21% of firms are intending to increase plant and equipment investment over the next six months. This is up from a net 12% in March and back to being in line with the average seen in 2018.
- Building intentions are less upbeat but are back in positive territory. A net 3% of firms are intending to increase building investment, compared to a net 4% seeing declines in March.

Investment intentions

Next twelve months

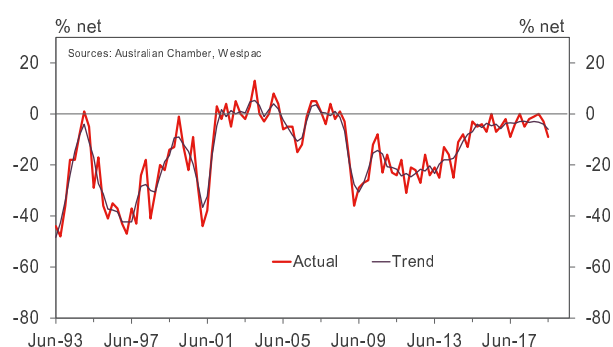


Capacity utilisation

	Q1 2019	Q2 2019
Net balance	-3	-9

- Capacity utilisation remains at a relatively high level after the uplift from late 2013 to late 2015.
- There was a decline in capacity utilisation in June, a net 9% of firms indicating that they are operating below capacity compared to a net 3% in March.
- Expressed differently, a net 83% are at or above normal capacity in June against a net 88% in March.
- The trend in capacity utilisation has held broadly flat since late 2015, but has been choppy from survey to survey. June's decline is reflective of the slower output expansion in the quarter combined with solid plant and equipment investment over recent times.

Capacity utilisation



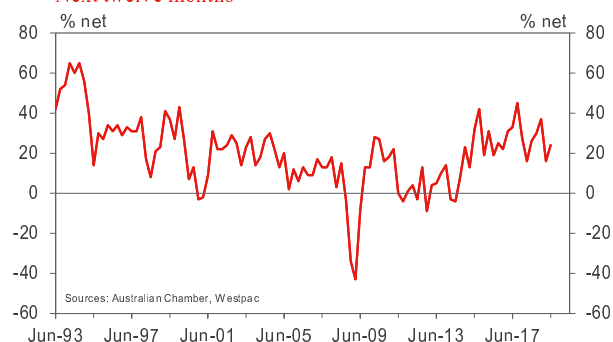
Profit expectations

	Q1 2019	Q2 2019
Net balance	16	24

- Manufacturing firms profit expectations rose in June but are still down from the recent peak in September 2017.
- In June, a net 24% of respondents anticipate profitability to improve over the next twelve months. This is up from a net 16% in March, but is significantly below the net 45% in September 2017.
- The ABS business indicators survey reports that manufacturing gross operating profits rose by 10.1% in 2017/18. The first three quarters of 2018/19 have been soft with the annual pace currently tracking at -6.8%.

Profit expectations

Next twelve months



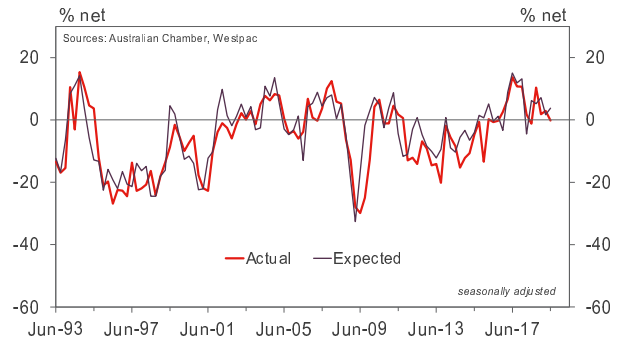
The labour market

Numbers employed *(seasonally adjusted)*

	Q1 2019	Q2 2019
Actual - net balance	3	0
Expected - net balance	2	4

- Manufacturing employment has been slow over the past three quarters.
- In June, there was an equal balance between firms indicating that they increased employment versus those indicating that they decreased employment. This is relatively unchanged from results in March and December showing a marginally higher proportion of those increasing employment.
- A modest pace of manufacturing employment is set to continue. In June, a net 4% of firms expect to increase employment over the next three months.

Numbers employed Actual & expected

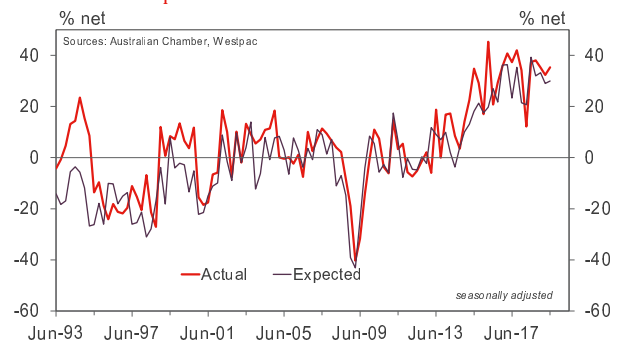


Overtime worked *(seasonally adjusted)*

	Q1 2019	Q2 2019
Actual - net balance	32	35
Expected - net balance	29	30

- The increased use of overtime continues to be widely reported, as it has since late 2014. That is consistent with the higher levels of activity.
- In June, a net 35% of firms reported that they increased overtime. This is in line with the average since 2015. Expectations remain high with a net 30% of firms seeing an increased use of overtime over the next three months.
- A high use of overtime was historically not the norm in the manufacturing sector. Firms are managing uncertainty over longer-term activity levels by using overtime in response to shifts in demand.

Overtime worked Actual & expected

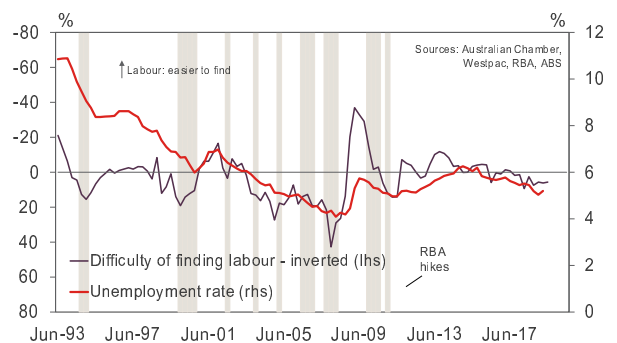


Difficulty of finding labour *(seasonally adjusted)*

	Q1 2019	Q2 2019
Net balance	6	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 report that labour was harder to find in June, unchanged from March. The proportion has been broadly stable since September.
- The unemployment rate declined in Australia over 2018 from 5½ per cent in the middle of the year, to 5 per cent in early 2019. More recently, the unemployment rate has ticked up to 5.2% as at April.

Labour market tightness



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Prices & inflation

Average unit costs

	Q1 2019	Q2 2019
Actual - net balance	20	25
Expected - net balance	18	21

- 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 has persisted through to the middle of 2019 with a net 25% of respondents reporting that unit costs increased in June. Expectations of further cost increases remain above average as well at a net 21%.
- Electricity costs have been the key focus for the majority of firms. For some industries, the severe drought in NSW and Queensland will also have had an impact since mid-2018.

Average selling prices

	Q1 2019	Q2 2019
Actual - net balance	5	5
Expected - net balance	10	9

- Selling price increases have been more moderate in comparison to the rise in average unit costs.
- In June, a net 5% of firms indicated increased prices, unchanged from March, but down from the brief lift higher to a net 18% in December and a net 17% in September.
- Expectations were also steady, a net 9% expecting higher selling prices over the next three months, compared to a net 10% in March.
- Of late, the survey has been tracking below the official PPI for manufacturing output prices excluding energy.

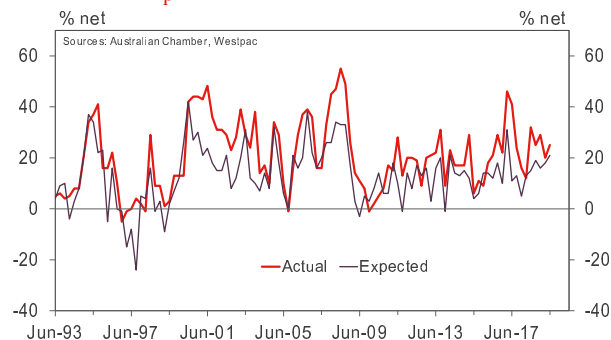
Manufacturing wages

	Q1 2019	Q2 2019
Net balance	27	34

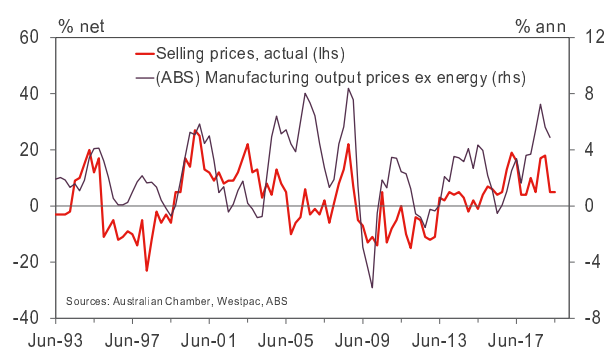
- The survey indicates that manufacturing wages growth will increase in the year ahead. In March, a net 27% of firms anticipate that their next wage agreement will deliver an outcome above the last.
- The net proportion has been trending up since mid-2017.
- Official ABS wage price index data indicates that annual manufacturing wages growth has lost a little momentum, edging down slightly over the past few quarters to March.
- The AusChamber-Westpac survey suggests that momentum should stabilise in the next few quarters, although since 2015, this survey has tended to overstate wage pressures.

Average unit costs

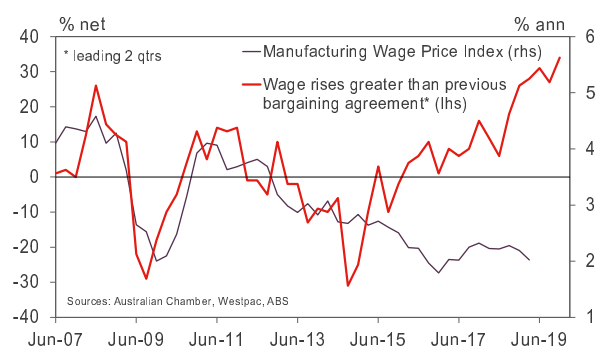
Actual & expected



Manufacturing upstream price pressures

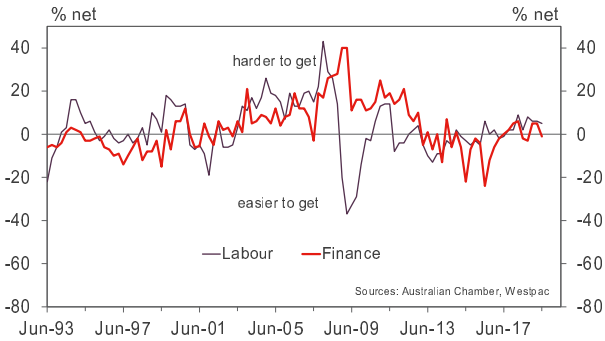


Manufacturing wage growth

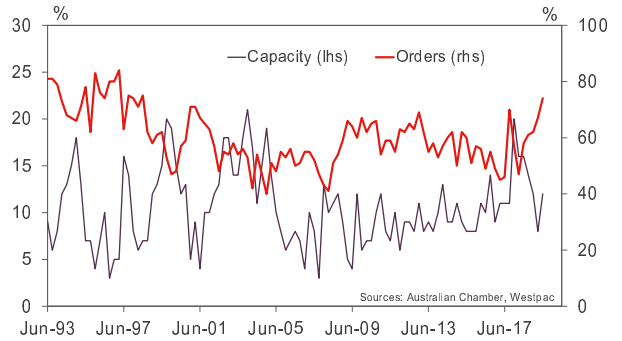


Other results

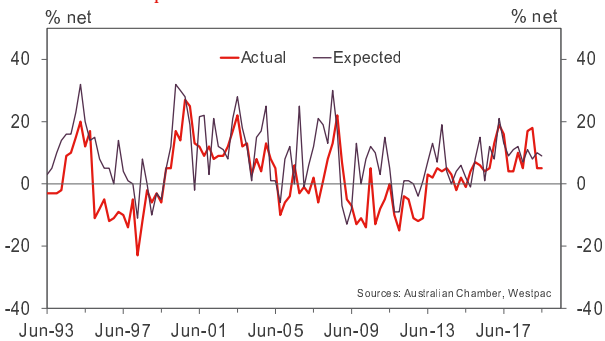
Availability of labour & finance



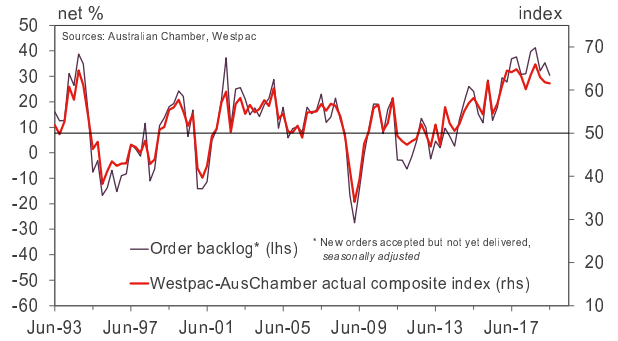
Key factor limiting production
% of respondents



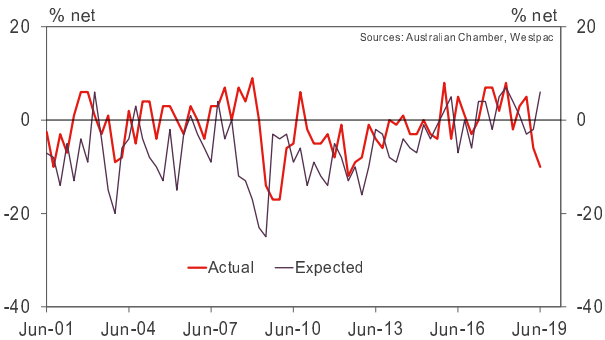
Average selling prices
Actual & expected



Order backlog & actual conditions



Stocks of finished goods
Actual & expected



Factors limiting production

	Q4 2018	Q1 2019	Q2 2019
Orders (%)	62	67	74
Capacity (%)	12	8	12
Labour (%)	5	5	3
Finance (%)	3	4	3
Materials (%)	0	2	1
Other (%)	8	9	5
None (%)	10	5	3

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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
28	41	46	13

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

Net balance	Above Normal	Normal	Below Normal
-9	8	75	17

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

None	3	Orders	74
Material	1	Finance	3
Labour	3	Capacity	12
Other	5		

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?	5	9	87	4
(b) finance?	-1	11	77	12

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	10	83	7
(b) on plant & machinery?	21	30	61	9

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	-1	9	81	10	4	7	90	3
7. Overtime worked	33	44	45	11	31	39	53	8
8. All new orders received	26	43	41	17	38	42	54	4
9. Orders accepted but not yet delivered	24	35	54	11	20	28	64	8
10. Output	29	41	47	12	35	41	53	6
11. Average costs per unit of output	25	27	71	2	21	22	77	1
12. Average selling prices	5	8	90	3	9	12	85	3
13. Export deliveries	2	6	90	4	10	10	90	0
14. Stock of raw materials	-1	12	75	13	2	12	78	10
15. Stocks of finished goods	-10	10	70	20	6	14	78	8

Summary of results (not seasonally adjusted)

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

(a) Improve?	36
(b) Remain unchanged?	52
(c) Decline?	12
Net balance	24

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?	36
(b) Same?	62
(c) Less?	2
Net balance	34

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	18
Textiles, fabrics, floor coverings, felt, canvas, rope	4
Clothing, footwear	5
Wood, wood products, furniture	3
Paper, paper products, printing	13
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	13
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	5
Other machinery & equipment: electrical, industrial scientific, photographic	14
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	7

B. How many employees are covered by this return?

	1-100	101-200	201-1000	Over 1000
	52	8	13	27

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

	WA	SA	VIC	NSW/ACT	QLD	TAS
	9	11	18	44	13	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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