

Australian Chamber–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

232nd report September 2019 (survey conducted 8 August to 2 September 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 fell sharply to 52.9 in September from 61.5 in June. The further loss in momentum continues the weakening trend seen since mid-2018.
- The softer result in the Composite was seen across all sub-components. Employment, new orders, output, backlog and overtime have now all eased back to modest levels. In particular, new orders have fallen to the softest level since 2013 - a net 6% reporting higher new orders in September compared to a net 27% in June. The deterioration in conditions mirrors that of the broader Australian economy. Annual growth has slowed to 1.4%yr, the slowest pace since the time of the GFC - September 2009. Very weak private demand is being partly offset by a continued lift in public spending.
- As with the economy overall, conditions in the manufacturing industry are mixed across different sectors. Most notably, the downturn in construction, in particular residential works, has weighed heavily on metals manufacturers. Against this, the Australian dollar is performing its role as an economic shock-absorber. Having depreciated 3% in trade-weighted terms since the time of the last survey, the cheaper AUD is supporting exporters and import-competing firms. Looking ahead, recent policy stimulus will help to provide support to conditions, but the outlook remains uncertain.
- Manufacturing firms' sentiment regarding the general business situation soured in September, following the brief lift in June associated with the passing of policy uncertainty post the Federal election. In September, a net 2% of firms expect the general business situation to deteriorate over the next six months compared to a net 28% expecting an improvement in June. The Expected Composite also weakened in September but to a lesser extent, declining to 56.9 from 63.3 in June. That suggests that the abrupt drop in the Actual Composite in September may in part be related to temporary factors, such as lumpiness in the public infrastructure pipeline.
- Exports continue on a moderate uptrend and picked up a bit of pace in September. A net 8% of firms reported higher exports, which compares to a net 2% in June.
- Equipment investment intentions eased back in September. A net 12% of respondents plan to increase investment over the next six months, down from a net 21% in June.
- The survey's Labour Market Composite, which broadly tracks economy-wide employment growth, is at 48.7. The index correctly led the uplift in employment in 2017 and identified the turning point to slower momentum in 2018. Currently, it suggests employment growth will ease over the second half of 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 232nd consecutive survey was closed on 2 September 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 November/December 2019.

Key survey results

Westpac–AusChamber Composites *(seasonally adjusted)*

	Q2 2019	Q3 2019
Actual – composite index	61.5	52.9
Expected – composite index	63.3	56.9

- The Westpac-AusChamber Actual Composite fell sharply to 52.9 in September from 61.5 in June. That continues the run of weakening momentum evident since mid-2018.
- The deterioration in conditions has been seen across the various sub-components: employment, new orders, output, backlog and overtime.
- The backdrop is that overall Australian output growth has been below trend for the past four quarters. This has been marked by a downturn in the construction sector, in particular residential works.
- The Expected Composite softened to 56.9 in September from 63.3 in June.

Westpac–AusChamber Labour Market Composite

	Q2 2019	Q3 2019
Net balance	52.4	48.7

- 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 correctly foreshadowed the uplift in employment in 2017 and identified the turning point to the slower albeit still solid pace in 2018 and the first half of 2019.
- The index declined to 48.7 in September from 52.4 in June, suggesting employment growth will slow down further over the second half of 2019.
- Official data indicates employment grew 2.6% in the year to July 2019, an unusually robust pace compared to below-trend 1.4% annual GDP growth.

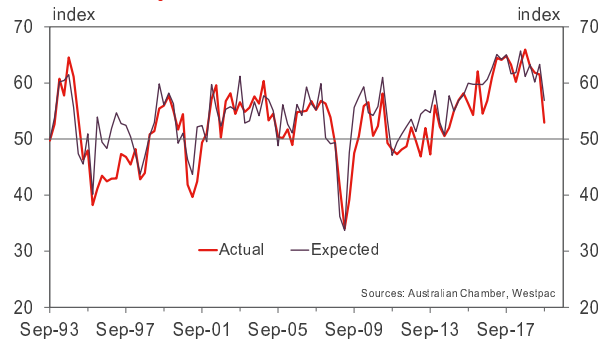
General business situation

	Q2 2019	Q3 2019
Net balance	28	-2

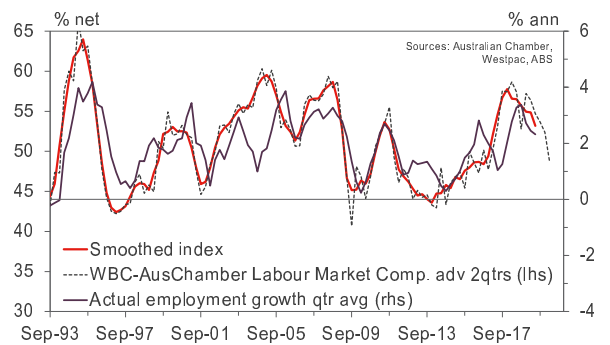
- Sentiment soured amongst manufacturing firms in September, continuing the trend lower following a brief lift in June, post the Federal election
- In September, a net 2% of respondents expect the general business situation to deteriorate over the next six months, down from a net 28% expecting improvement in June.
- That is the weakest result since mid-2014, when the Australian economy was still recovering from a subdued period of growth in 2013.
- Currently, growth in the Australian economy is moving slower than over that period and global economic uncertainty is elevated - namely in relation to the Sino-US trade war. Against this, a weaker Australian dollar is providing some offsetting support.

Westpac-AusChamber Composite indexes

Actual & expected, sa

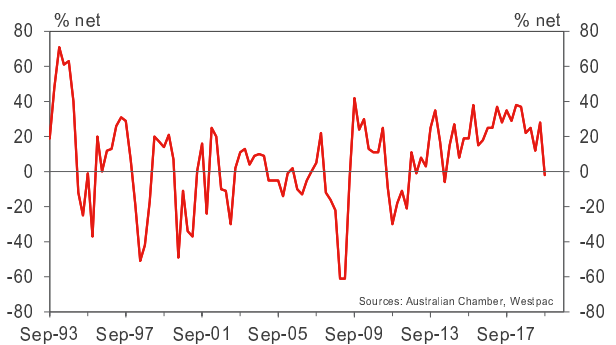


Employment: momentum has peaked



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 manufacturing vary in accordance with patchiness seen in the overall economy. Construction has moved from adding 1.2ppts to GDP growth in the year to June 2018 to subtracting 1.3ppts in the year to June 2019. The turnaround has weighed particularly on metals manufacturing. A weaker AUD is acting as shock-absorber and is benefitting exporters and import-competing firms.
- The national accounts show manufacturing output fell 1.4% in Q2. Annual growth in the year to June of -3.0% compares to +2.1% in the year to June 2018.

Australian & World manufacturing surveys

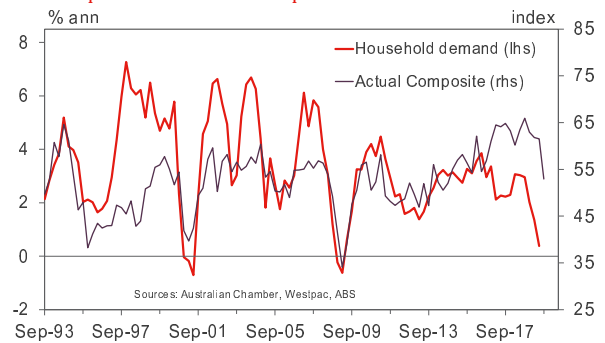
- Global and Australian manufacturing cycles tend to be synchronised, especially at major turning points.
- Historically, the Westpac-AusChamber Actual Composite has moved broadly in line with global manufacturing conditions.
- Global manufacturing has continued to slow in 2019. A factor is heightening trade policy tensions creating general uncertainty, which in turn is seeing businesses delay investment decisions.
- The index remained below 50 in August at 49.5. The last four reads have indicated global manufacturing is contracting with activity growth around the worst seen 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 moderated in September. A net 13% of firms are planning to increase plant and equipment investment over the next twelve months. This is down from a net 21% in June but broadly in with the net 12% in March.
- The ABS capex survey indicates that real manufacturing equipment investment is sluggish. The 2018/19 financial year saw flat growth in equipment investment. The disappointing result follows an outsized 7.9% lift in 2017/18 - the largest annual increase since the GFC.

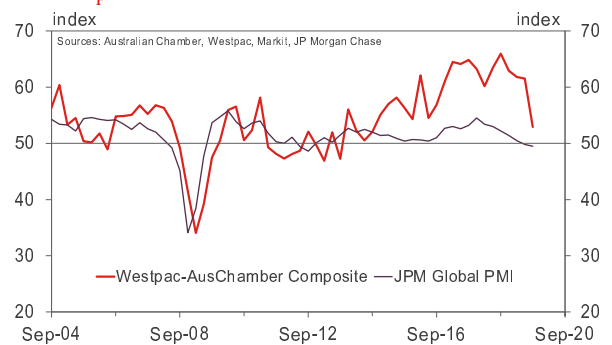
Manufacturing & the business cycle

Westpac-AusChamber Composite & household demand



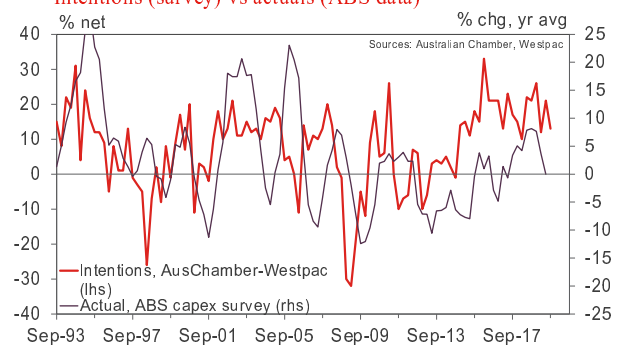
Australian & World manufacturing surveys

Westpac-AusChamber & Global PMI indexes



Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



Activity & orders

Output *(seasonally adjusted)*

	Q2 2019	Q3 2019
Actual - net balance	30	12
Expected - net balance	34	14

- This survey suggests manufacturing output has expanded for twenty-one consecutive quarters but the pace of expansion slowed sharply in September. A net 12% of firms report higher output in September compared to a net 30% in June.
- The September result follows a period of softening momentum since mid-2018 as growth in the Australian economy abruptly shifted downward.
- Expectations mirrored the move in the Actual read. In September, a net 14% of respondents expect output to increase in the next three months, down from a net 34% in June. That decline is consistent with the even larger loss of momentum in new orders.

New orders *(seasonally adjusted)*

	Q2 2019	Q3 2019
Actual - net balance	27	6
Expected - net balance	36	25

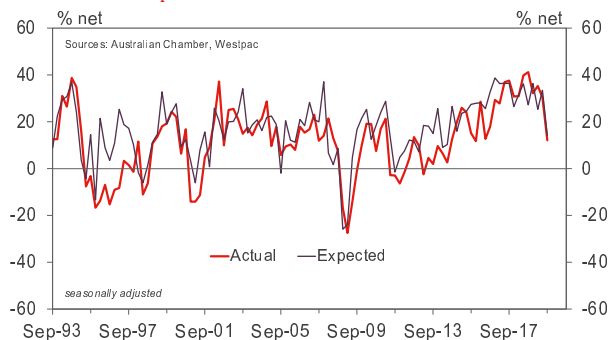
- New orders are increasing at only a modest pace in September, in contrast to the robust results seen in 2017 and 2018.
- A net 6% of firms indicated new orders increased in September, a steep decrease from a net 27% in June. September's result is the weakest read since 2013.
- Expectations held up a little a better. A net 25% of firms expect new orders to increase in the next three months compared to a net 36% in June. That suggests some of the weakness in September may be short-lived. It is likely that some lumpiness in the public infrastructure pipeline has contributed to a short-term drop in demand, although the trend in overall economic activity is not encouraging.

Exports

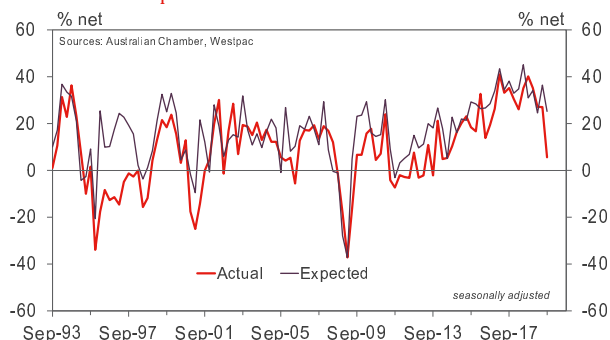
	Q2 2019	Q3 2019
Actual - net balance	2	8
Expected - net balance	10	14

- Exports are in a moderate uptrend, supported by continued depreciation in the Australian dollar. A net 8% of respondents reported higher exports in September, up from a net 2% in June.
- Expectations are even more positive. In September, a net 14% of firms expect an increase in exports in the next three months, building on the net 10% reported in June.
- The Australian dollar is performing its traditional role as an economic stabiliser. The AUD trade-weighted index declined 3% over the three months to end-August.

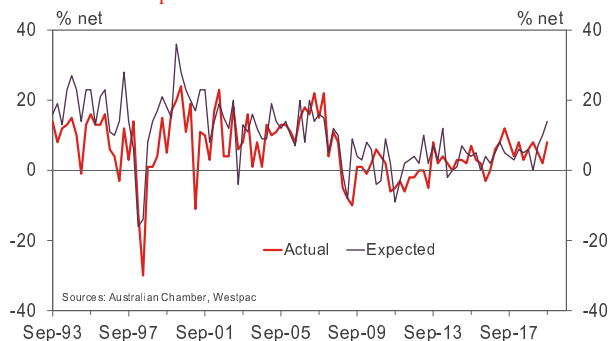
Output growth Actual & expected



New orders Actual & expected



Export deliveries Actual & expected



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Investment & profitability

Investment intentions

	Q2 2019	Q3 2019
Plant & Equipment - net balance	21	13
Building - net balance	3	-4

- The survey has suggested that manufacturing firms are intending to increase equipment investment.
- Equipment investment plans moderated in September. A net 13% of respondents are intending to increase investment over the next six months, down from a net 21% in June. Official data indicates real manufacturing equipment investment has been sluggish over the past year following the strong uplift in previous financial year.
- Building intentions similarly weakened in September, a net 4% of firms planning to decrease investment over the next six months. That compared to a net 3% intending to increase investment as at June but is broadly in line with the result seen in March.

Capacity utilisation

	Q2 2019	Q3 2019
Net balance	-9	-13

- Capacity utilisation has eased off in recent quarters after holding a relatively high level from late 2013 to early 2019.
- Capacity utilisation levels declined further in September, a net 13% indicating they are operating below capacity compared to a net 9% in June and a net 3% in March.
- Expressed differently, a net 74% are at or above full capacity in September, down from a net 83% in June.
- June and September's result marks a break from the steady trend in capacity since 2015. That period was marked by robust increases in output which has since given way to softer momentum.

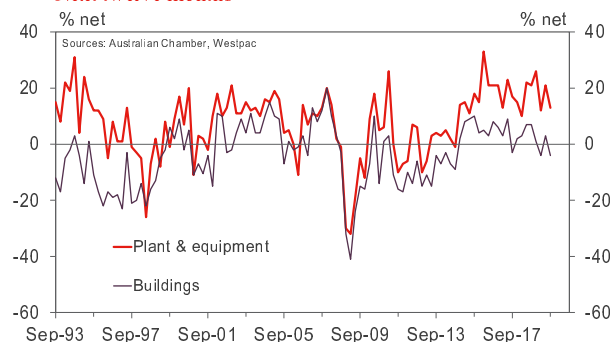
Profit expectations

	Q2 2019	Q3 2019
Net balance	24	28

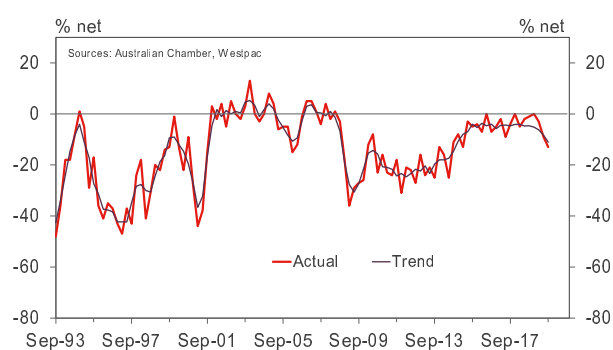
- Manufacturing firms profit expectations rose in September but are still down from the peak in September 2017.
- In September, a net 28% of firms expect profitability to improve over the next twelve months. This is higher than the net 16% in March 2019 but is well below the net 45% in September 2017.
- In contrast, the ABS business indicators survey reports that total manufacturing gross operating profits in the 2018/19 financial year was 2.7% lower than profits in 2017/18 but is still 4.4% higher than profits in 2016/17.

Investment intentions

Next twelve months

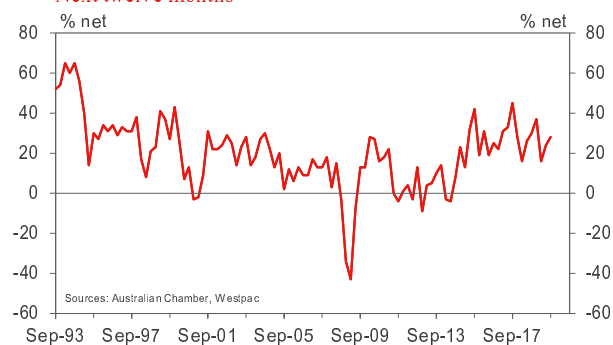


Capacity utilisation



Profit expectations

Next twelve months



The labour market

Numbers employed *(seasonally adjusted)*

	Q2 2019	Q3 2019
Actual - net balance	0	-2
Expected - net balance	4	3

- Manufacturing employment growth has been sluggish over the past year after a period of moderate gains.
- In September, a net 2% of firms indicated that they decreased employment versus those indicating that they increased employment. That is just below the result seen in June and continues on the softening trend that emerged in September 2017.
- The loss of momentum in manufacturing employment is in line with the more subdued demand conditions and the decline in capacity utilisation. In a broader sense since 2017, the pace of hiring has slowed across the economy at large.

Overtime worked *(seasonally adjusted)*

	Q2 2019	Q2 2019
Actual - net balance	35	10
Expected - net balance	30	13

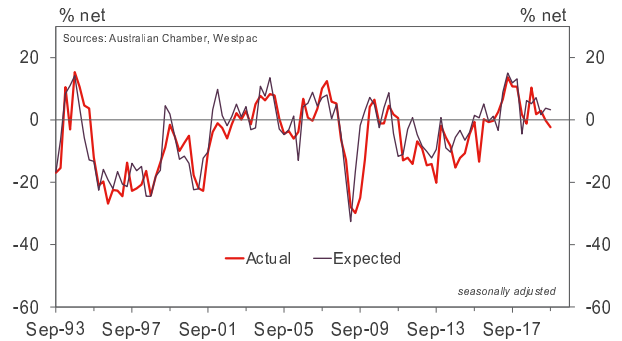
- Consistent with softening in demand and stabilising employment, the use of overtime dropped sharply in September. Previously, the increased use of overtime had been widely reported since late 2014.
- In September, a net 10% of firms indicated that they increased overtime, down from a net 35% in June. Expectations also softened, a net 13% of respondents anticipating an increase in overtime over the next three months compared to a net 30% in June.
- A high use of overtime was historically not the norm in the manufacturing sector and September's level is now back to around rates seen prior to 2014.

Difficulty of finding labour *(seasonally adjusted)*

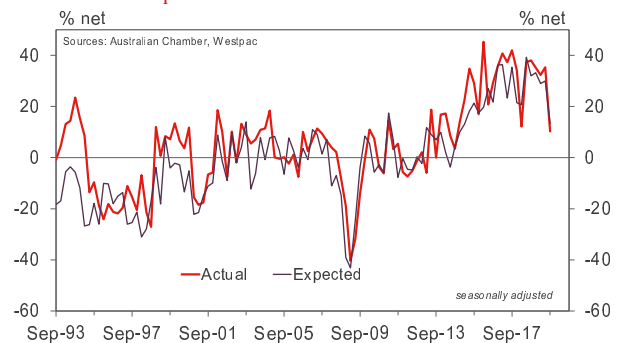
	Q2 2019	Q3 2019
Net balance	6	6

- 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 respondents indicated labour was harder to find in September, unchanged from June. The proportion has been broadly stable for the past five surveys.
- The unemployment rate ticked up in the first half of 2019 to 5.2% from the 5.0% level seen at the start of the year but is still down from the 5.5% rate seen in the middle of 2018. While employment growth remains firm, growth in labour supply has lifted at a higher rate.

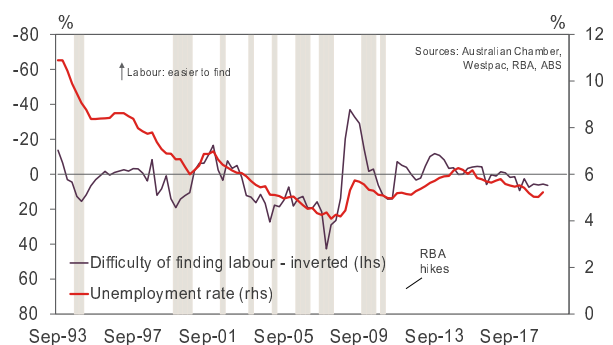
Numbers employed Actual & expected



Overtime worked Actual & expected



Labour market tightness



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Prices & inflation

Average unit costs

	Q2 2019	Q3 2019
Actual - net balance	25	28
Expected - net balance	21	16

- In 2016, and in particular the first half of 2017, input cost inflation was a heightened concern for manufacturing firms. This follows a period of subdued cost rises.
- The issue remains an ongoing challenge. A net 28% of respondents indicated that unit costs increased in September, up from a net 25% in June.
- Electricity costs have been the key focus for the majority of firms. For some industries, the severe drought in NSW and Queensland will have also had an impact, and those that use imported inputs are likely to have faced higher cost pressure due to the lower Australian dollar.

Average selling prices

	Q2 2019	Q3 2019
Actual - net balance	5	12
Expected - net balance	9	15

- Selling price increases have been more moderate in comparison to the rise in average unit costs.
- In September, a net 12% of firms increased prices, a lift from a net 5% in June, but still well below the net percentage reporting an increase in unit costs.
- Expectations similarly increased. In September, a net 15% anticipate higher selling prices over the next three months compared to a net 9% in June.
- Over recent quarters, the survey has been tracking below the official data for manufacturing output prices excluding energy.

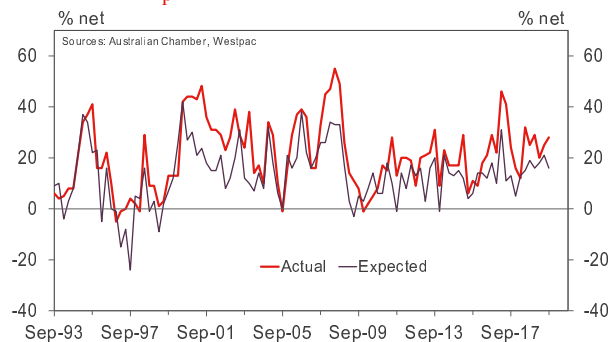
Manufacturing wages

	Q2 2019	Q3 2019
Net balance	34	18

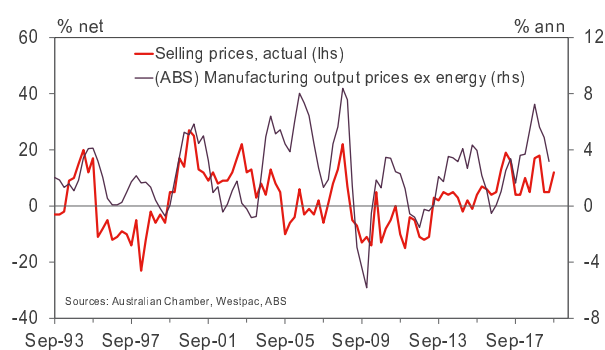
- The survey indicates that manufacturing wages will increase in the year ahead.
- In September, a net 18% of firms expect that their next wage bill will deliver an outcome above the last. This is down from a net 34% in June. The recent 3.0% increase in the minimum wage by the Fair Work Commission came into place on July 1. The increase is larger than national wage inflation of 2.3% but lower than 2018's decision for a 3.5% increase.
- Official ABS wage price index data indicate that annual manufacturing wages growth has a lost a little momentum, edging down over recent quarters to a 2%yr pace.

Average unit costs

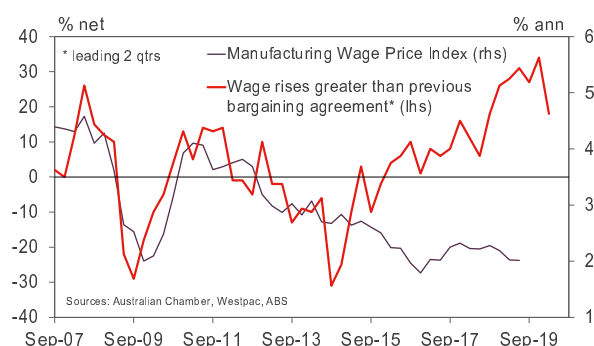
Actual & expected



Manufacturing upstream price pressures

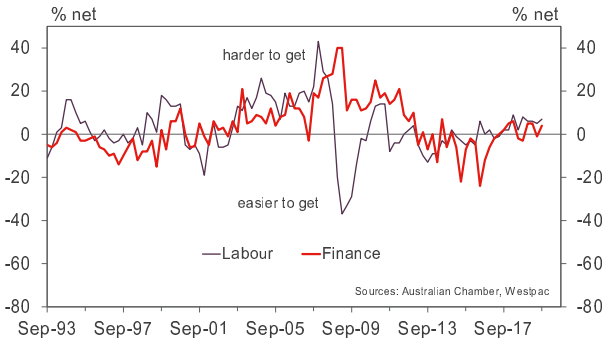


Manufacturing wage growth

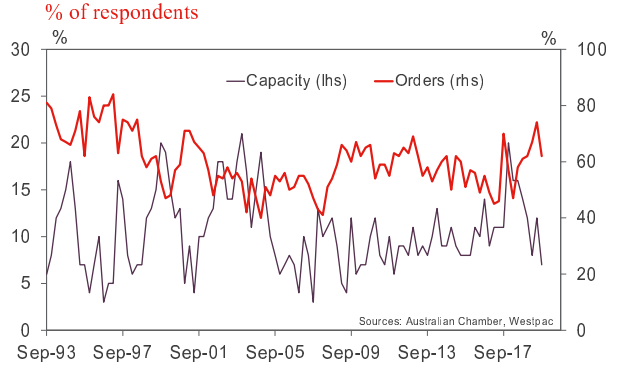


Other results

Availability of labour & finance

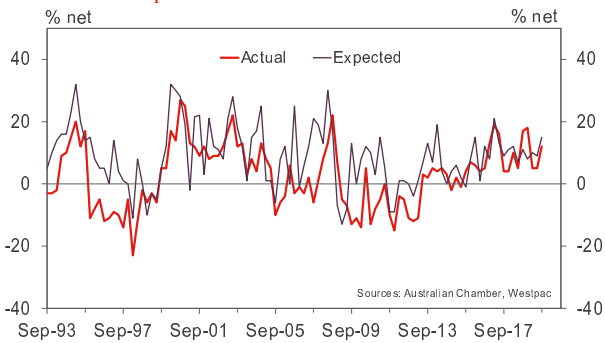


Key factor limiting production

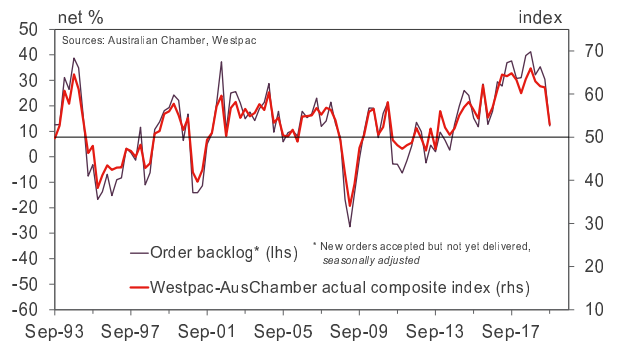


Average selling prices

Actual & expected

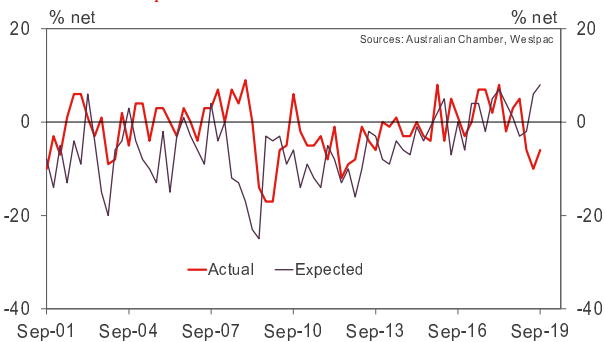


Order backlog & actual conditions



Stocks of finished goods

Actual & expected



Factors limiting production

	Q1 2019	Q2 2019	Q3 2019
Orders (%)	67	74	62
Capacity (%)	8	12	7
Labour (%)	5	3	10
Finance (%)	4	3	3
Materials (%)	2	1	7
Other (%)	9	5	7
None (%)	5	3	4

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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
-2	16	66	18

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

Net balance	Above Normal	Normal	Below Normal
-13	13	61	26

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

None	4	Orders	62
Material	7	Finance	3
Labour	10	Capacity	7
Other	7		

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?	7	15	77	8
(b) finance?	4	16	72	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?	-4	14	68	18
(b) on plant & machinery?	13	25	63	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	10	80	10	6	14	78	8
7. Overtime worked	11	22	67	11	21	30	61	9
8. All new orders received	4	23	58	19	32	40	52	8
9. Orders accepted but not yet delivered	1	15	71	14	19	25	69	6
10. Output	12	30	52	18	22	35	52	13
11. Average costs per unit of output	28	31	66	3	16	23	70	7
12. Average selling prices	12	18	76	6	15	18	79	3
13. Export deliveries	8	14	80	6	14	15	84	1
14. Stock of raw materials	-12	13	62	25	6	22	62	16
15. Stocks of finished goods	-6	12	70	18	8	17	74	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?	44
(c) Decline?	14
Net balance	28

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?	22
(b) Same?	74
(c) Less?	4
Net balance	18

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	15
Textiles, fabrics, floor coverings, felt, canvas, rope	7
Clothing, footwear	4
Wood, wood products, furniture	4
Paper, paper products, printing	9
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	7
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	10
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	6
Other machinery & equipment: electrical, industrial scientific, photographic	22
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	9

B. How many employees are covered by this return?

1-100	101-200	201-1000	Over 1000
58	13	15	15

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

WA	SA	VIC	NSW/ACT	QLD	TAS
12	13	23	32	16	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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