Australian Chamber of Commerce and Industry

Australian Chamber–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

233rd report December 2019 (survey conducted 31 October to 2 December 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 rose to 56.1 in December from 52.9 in September. That compares to a level of 61.5 in June and confirms that activity has lost momentum. Conditions have moderated to be at levels prevailing in 2015.
- These recent softer updates for the Composite were evident across the sub-components. Employment, new orders, output, backlog and overtime have all eased back to more modest levels. This is consistent with the loss of momentum in the broader economy. Annual GDP growth was just 1.7%yr in the September quarter, moderating from 3.2% in mid-2018, and is heavily reliant on public spending and net exports. Private demand declined by 0.4% over the past year due to a contraction in business and dwelling investment, while consumption growth was soft at 1.2% – the slowest pace since the GFC.
- As with the economy overall, conditions in the manufacturing industry are mixed across the 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. Looking ahead, recent policy stimulus will help to cushion the economy, but the outlook remains uncertain with consumers exercising caution around spending decisions.
- The mood of manufacturers is mixed. Respondents are circumspect about the general business outlook over the next six months, with only a net 5% expecting an improvement. That said, this is a modest turnaround from the September reading, when a net 2% expected conditions to deteriorate – the softest reading since 2014. By contrast, respondents are optimistic on the outlook for their own businesses for the opening quarter of 2020, with the Expected Composite lifting to 61.5 from 56.9.
- Exports continue on a moderate uptrend. In December a net 9% of respondents indicated an increase in exports. A relatively low level of the Australian dollar is helping exports and import-competing firms. On a trade-weighted basis, the Australian dollar is down 9% since the beginning of 2018.
- Equipment investment intentions continued to ease back in December. A net 7% of firms plan to increase investment in the next six months, compared to a net 13% in September and 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. The last two surveys have shown the Composite moving another notch lower, consistent with the further softening of employment growth seen so far in the second half 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 233rd consecutive survey was closed on 2 December 2019.

A total of **248** 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 2020.

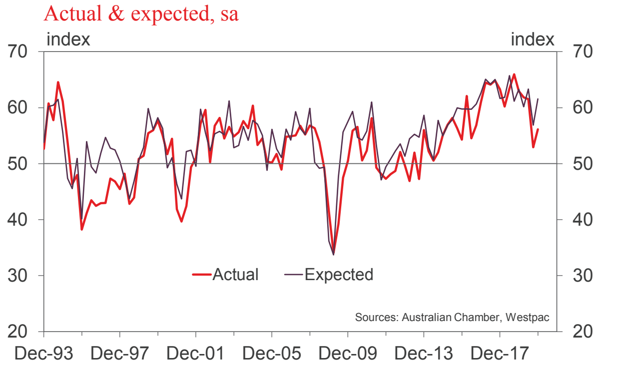
Key survey results

Westpac–AusChamber Composites *(seasonally adjusted)*

	Q3 2019	Q4 2019
Actual – composite index	52.9	56.1
Expected – composite index	56.9	61.5

- The Westpac-AusChamber Actual Composite rose to 56.1 in December from 52.9 in September. The back-to-back softer reads are in line with the 2015 average, and confirms conditions have eased back materially.
- The more modest level of conditions are seen across the various sub-components: employment, new orders, output, backlog and overtime.
- The result reflects that overall Australian economic growth has been below trend in the past five quarters.
- The Expected Composite rose to 61.5 in December, up from 56.9 in September, suggesting that firms anticipate a positive start to 2020.

Westpac-AusChamber Composite indexes
Actual & expected, sa

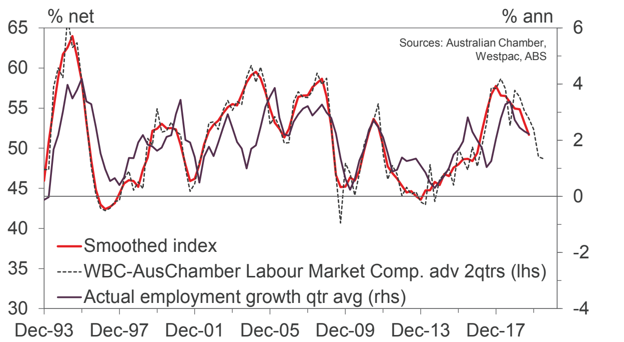


Westpac–AusChamber Labour Market Composite

	Q3 2019	Q4 2019
Net balance	48.9	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 Composite has slipped below 50, weakening over the past two surveys, firstly to 48.9 in September and now 48.7 in December.
- Official data indicates employment growth is softening from the pace in the first half of 2019. As at October, six month annualised employment growth is back to 1.6%, slightly below population growth.

Employment: momentum has peaked

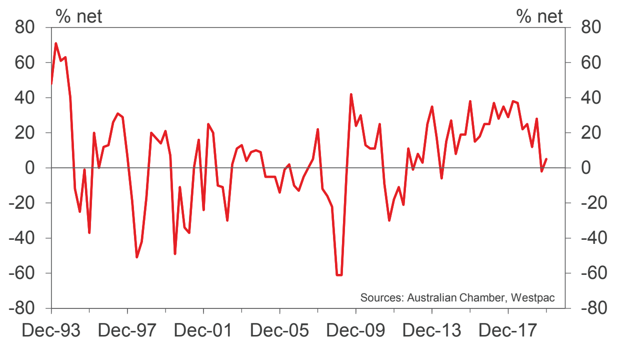


General business situation

	Q3 2019	Q4 2019
Net balance	–2	5

- The general mood among manufacturing firms stabilised in December but remains at an overall cautious level.
- In December, a net 5% of respondents expect the general business situation to improve over the next six months.
- That follows a net -2% read in September which was the weakest result since mid-2014, when the Australian economy was still recovering from a subdued period of growth in 2013.
- Slow economic growth and heightened global policy uncertainty is weighing on business confidence. Against this, a softer Australian dollar is providing some offsetting support.

General business situation
Next six months

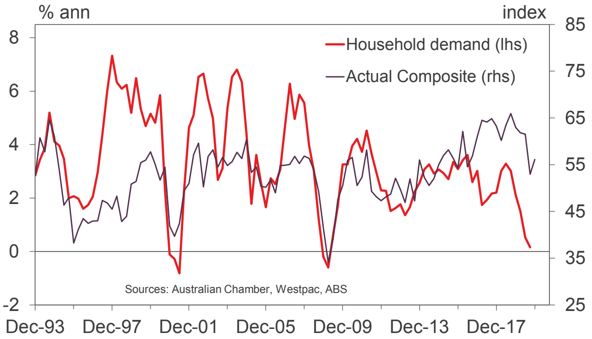


The business cycle & economic outlook

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.
- Growth in the Australian economy has been patchy across different sectors, and consequently, conditions vary significantly by type of manufacturing activity.
- Official data shows annual GDP growth was just 1.7%yr in the September quarter and is heavily reliant on public spending and net exports. Private demand is down 0.4%yr due to a contraction in business and dwelling investment met by subdued consumption growth of 1.2%yr – the slowest pace since the GFC. Manufacturing output is down 2.7%yr.

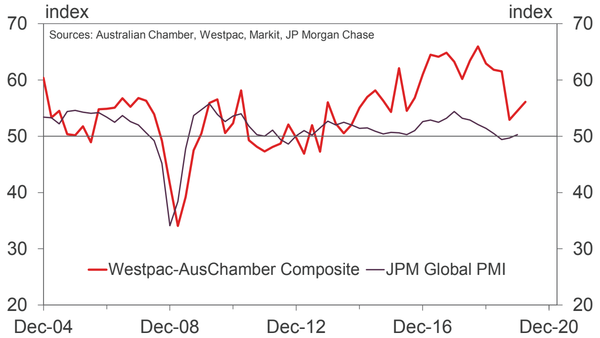
Manufacturing & the business cycle
Westpac-AusChamber Composite & household demand



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.
- Global manufacturing continued to slow in 2019. A factor is heightening trade policy tensions creating general uncertainty, which in turn is seeing businesses delay investment decisions.
- Of late, the global manufacturing PMI has stabilised with some geopolitical tensions easing over recent months. However, the index remains subdued at 50.3, indicating stagnating activity. Whether this level represents a trough in the cycle largely depends on whether global geopolitical stability can be sustained.

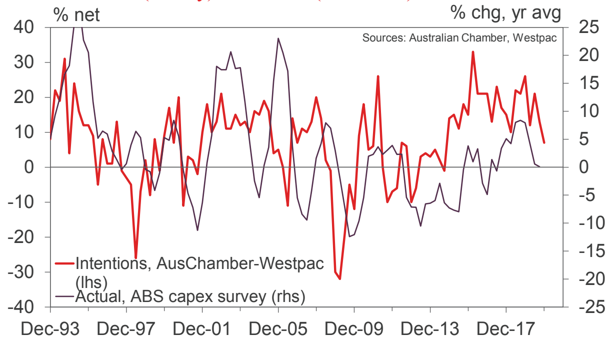
Australian & World manufacturing surveys
Westpac-AusChamber & Global PMI indexes



Manufacturing & business investment

- The AusChamber-Westpac survey has a solid track record of predicting equipment investment from the manufacturing sector.
- Manufacturing firms' investment intentions moderated in December. A net 7% of firms are planning to increase plant and equipment investment over the next twelve months. This is down from a net 13% in September.
- The ABS capex survey indicates that real manufacturing equipment investment is sluggish. The 2018/19 financial year saw flat growth in equipment investment. The consolidation follows an outsized 7.9% lift in 2017/18 - the largest annual increase since the GFC. The 2019/20 year has started off on a soft note.

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.

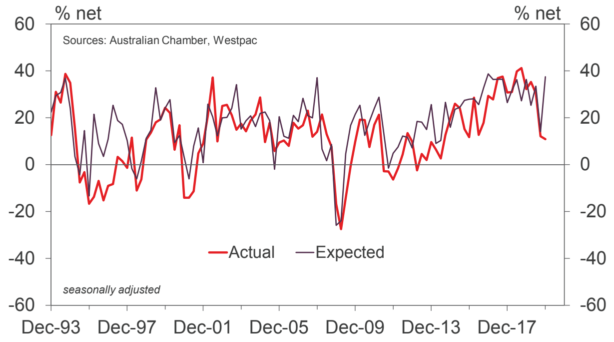
Activity & orders

Output *(seasonally adjusted)*

	Q3 2019	Q4 2019
Actual – net balance	12	11
Expected – net balance	14	37

- This survey indicates that manufacturing output has expanded for the past twenty-two consecutive quarters.
- However, the pace of expansion slowed sharply in September, and that modest level was maintained in December.
- A net 11% of firms indicated increased output in December, slightly below a net 12% in September and well down from a net 30% in June.
- Respondents are positive on the near-term outlook - expectations lifted sharply, with a net 37% anticipating higher output in the next three months, up from a net 14% in September.

Output growth
Actual & expected

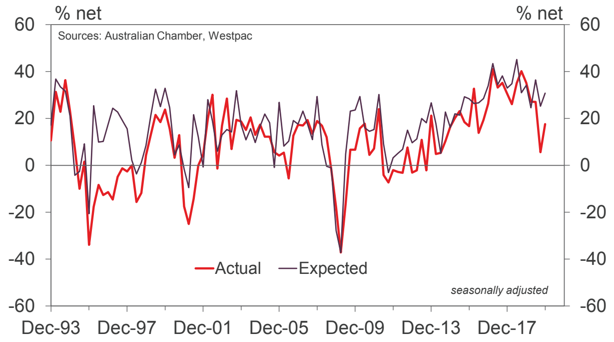


New orders *(seasonally adjusted)*

	Q3 2019	Q4 2019
Actual – net balance	6	18
Expected – net balance	25	31

- New orders are increasing at a moderate pace in December, an improvement from a soft read in September but far short of the robust pace seen in 2017 and 2018.
- A net 18% of respondents reported higher new orders in December, up from a net 6% in September, which was the weakest read since 2013.
- Expectations have held firmer than the decline in actual new orders, the wedge opening up over the last two quarters. In December, a net 31% of firms expect new orders to increase over the next three months, up from a net 25% in September.

New orders
Actual & expected

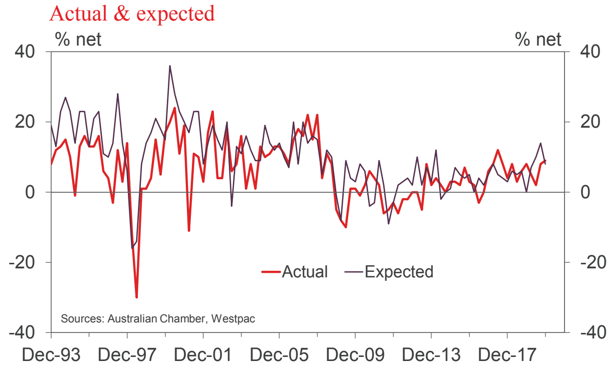


Exports

	Q3 2019	Q4 2019
Actual – net balance	8	9
Expected – net balance	14	8

- Exports are in a moderate uptrend, supported by the relatively low level of the Australian dollar. A net 9% of respondents indicated an increase in exports in December, edging up from a net 8% in September.
- Expectations are similarly positive. In December, a net 8% of firms expect higher exports over the next three months, down from a net 14% in September but broadly in line with a net 10% recorded in June.
- The Australian dollar is performing its traditional role as an economic stabiliser. The AUD trade weighted index is down by 9% from its level at the beginning of 2018, providing a tailwind for Australian manufacturers, in particular for those in the food and beverage industry.

Export deliveries
Actual & expected



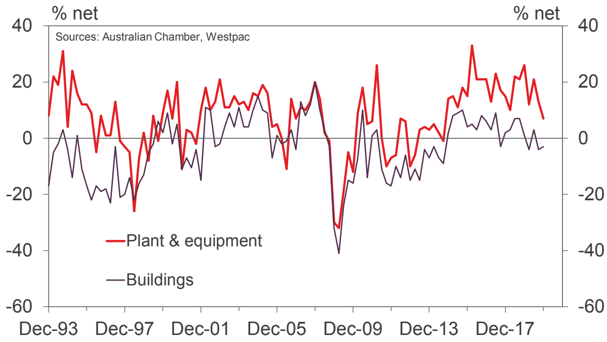
Investment & profitability

Investment intentions

	Q3 2019	Q4 2019
Plant & Equipment – net balance	13	7
Building – net balance	–4	-3

- The survey has suggested that manufacturing firms are planning to increase equipment investment but intentions moderated in December.
- A net 7% of firms are intending to increase investment over the next six months. That is the softest pace since 2014 and down from a net 13% in September. Official data indicates that real manufacturing equipment investment has been sluggish. However, outcomes vary by sector. Mining is lifting from its trough while other sectors are soft.
- Building intentions remained subdued in December. A net 3% of firms are planning to decrease investment over the next six months, in line with a net 4% recorded in September.

Investment intentions
Next twelve months

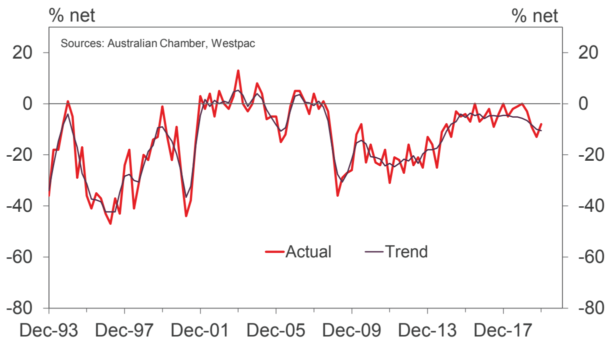


Capacity utilisation

	Q3 2019	Q4 2019
Net balance	–13	–8

- Capacity utilisation has eased off in recent quarters after holding a relatively high level from late 2013 to early 2019.
- Levels stabilised in December, a net 8% indicating they are operating below capacity compared to a net 13% in September.
- Expressed differently, a net 83% of firms were at or above full capacity in December, up from a net 74% in September and in line with the net 83% recorded in June.
- The steadier result is consistent with the stabilisation in the overall Composite. Of the firms surveyed, 74% cite new orders as the single factor most limiting their ability to increase production.

Capacity utilisation

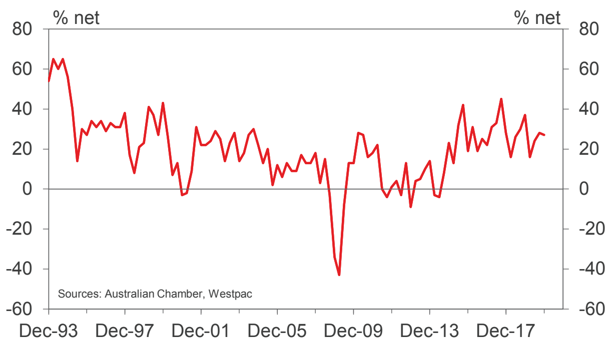


Profit expectations

	Q3 2019	Q4 2019
Net balance	28	27

- Manufacturing firms profit expectations held steady in December but are still down from the peak in September 2017.
- In December a net 27% of firms expect profitability to improve over the next twelve months, a tad lower than the net 28% in September. This is higher than the net 16% in the March survey but much lower than the net 45% recorded 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. The 2019/20 year has started on a better note, with profits stabilising.

Profit expectations
Next twelve months



The labour market

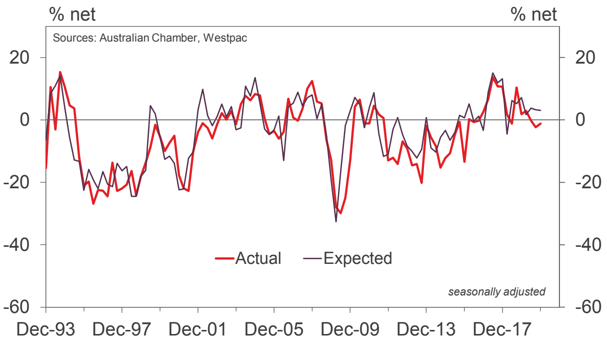
Numbers employed *(seasonally adjusted)*

	Q3 2019	Q4 2019
Actual – net balance	–2	–1
Expected – net balance	3	3

- Manufacturing employment growth has been sluggish over the past year after a period of moderate gains.
- In December, a net 1% of firms indicated that they decreased employment versus those indicating that they increased employment. That is broadly in line with the results seen in September and June.
- The turn in the trend of manufacturing employment emerged in September 2017. December's result confirms two quarters of contraction and is line with weaker demand conditions and the decline in capacity utilisation. In a broader sense, employment growth in the Australian economy has dropped another notch lower of late, putting upward pressure on the unemployment rate.

Numbers employed

Actual & expected



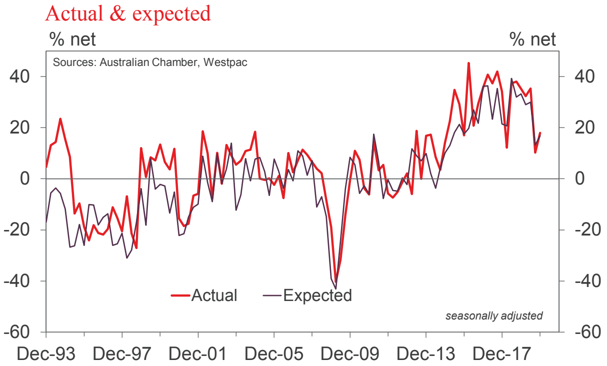
Overtime worked *(seasonally adjusted)*

	Q3 2019	Q4 2019
Actual – net balance	10	18
Expected – net balance	13	17

- Consistent with softening in demand and employment, the use of overtime dropped sharply in September and was only slightly up on that level in December. Previously, the increased use of overtime had been widely reported since late 2014.
- In December, a net 18% of respondents indicated that they increased overtime, up from a net 10% in September but significantly lower than a net 35% in June. December's level is now back around rates seen prior to 2014.
- Expectations suggest a continued reduced use of overtime. A net 17% of firms anticipating an increase in overtime over the next three months compared to a net 13% in September and a net 30% in June.

Overtime worked

Actual & expected

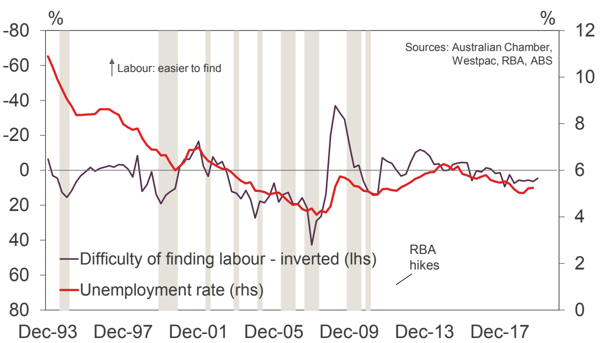


Difficulty of finding labour *(seasonally adjusted)*

	Q3 2019	Q4 2019
Net balance	6	5

- 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 5% of firms indicated labour was harder to find in December, slightly down from a net 6% recorded in both September and June. The proportion has been broadly stable for the past six surveys.
- The unemployment rate has ticked higher in 2019 to be at 5.3% currently - up from 5.0% at the start of the year but still down from the 5.5% rate in the middle of 2018.

Labour market tightness



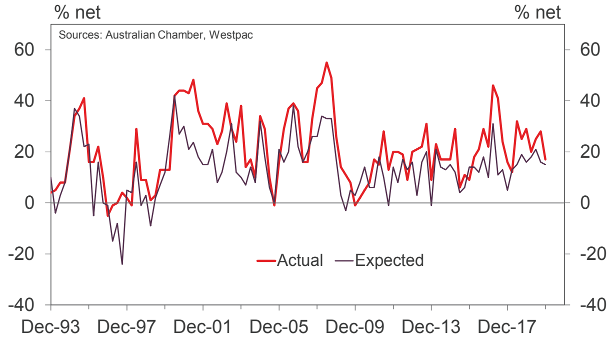
Prices & inflation

Average unit costs

	Q3 2019	Q4 2019
Actual – net balance	28	17
Expected – net balance	16	15

- In 2016, and in particular the first half of 2017, input cost inflation was a heightened concern for manufacturing firms. This followed a period of more modest cost rises.
- The issue remains an ongoing challenge. A net 17% of firms report that costs increased in December, down from a net 28% in September and 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 is having an impact, and those that use imported inputs are likely to have faced higher cost pressures due to the lower Australian dollar.

Average unit costs
Actual & expected

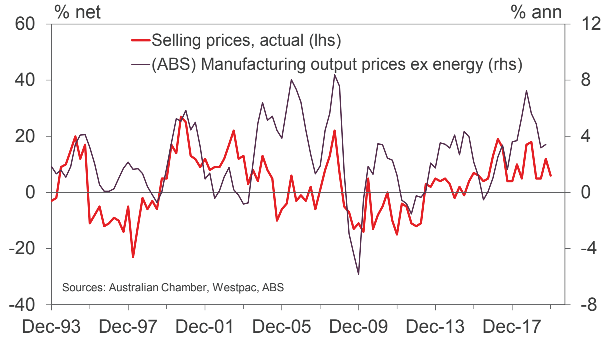


Average selling prices

	Q3 2019	Q4 2019
Actual – net balance	12	6
Expected – net balance	15	7

- Selling price increases have been more moderate relative to the rise in average unit costs.
- In December, a net 6% of respondents indicated that they increased prices, down from a net 12% in September to be back more in line with the net 5% recorded in June. December's result is well below the net percentage reporting an increase in unit costs.
- Expectations also moderated. In December, a net 7% anticipate increasing selling prices over the next three months compared to a net 15% in September.
- Over recent quarters, the survey has been tracking below the official data for manufacturing output prices excluding energy.

Manufacturing upstream price pressures

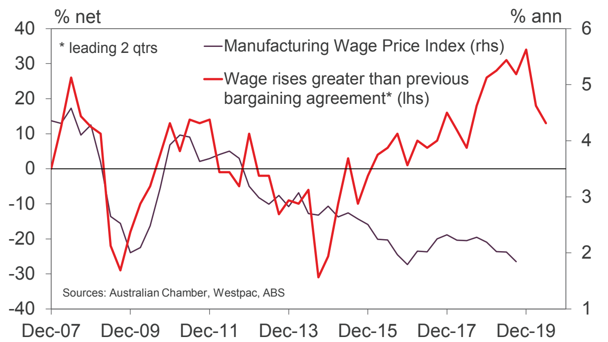


Manufacturing wages

	Q3 2019	Q4 2019
Net balance	18	13

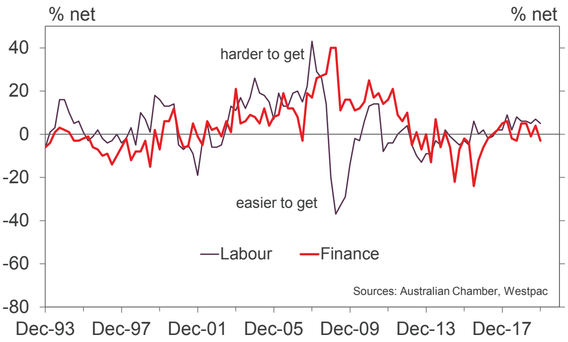
- In December, a net 13% of respondents expect that their next wage deal will deliver an outcome above the last, down from a net 18% in September and far lower than the net 30% recorded in the June survey.
- The softening trend is consistent with official data which shows that manufacturing wage inflation has been slowing since late 2018.
- More broadly, wage inflation has been soft across the entire economy and the RBA does not expect it to pick up until we approach full employment levels around 4-4.5% – significantly below the current unemployment rate of 5.3%.

Manufacturing wage growth



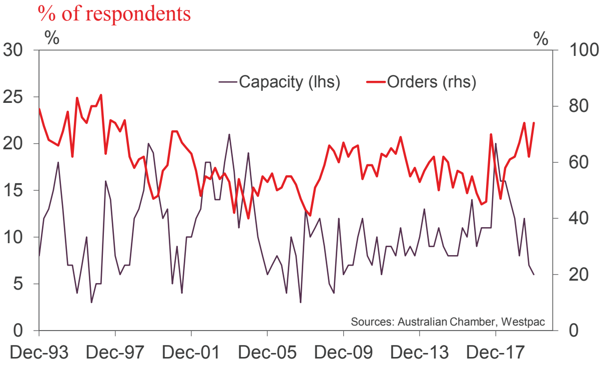
Other results

Availability of labour & finance



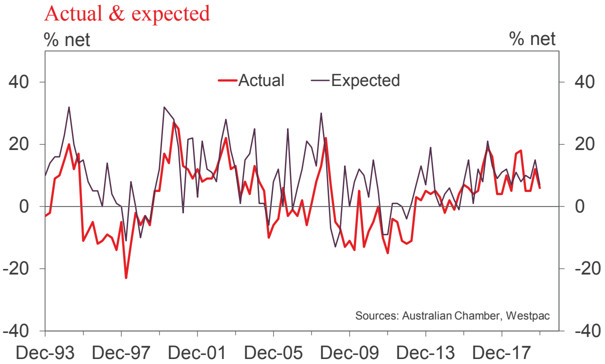
Key factor limiting production

% of respondents

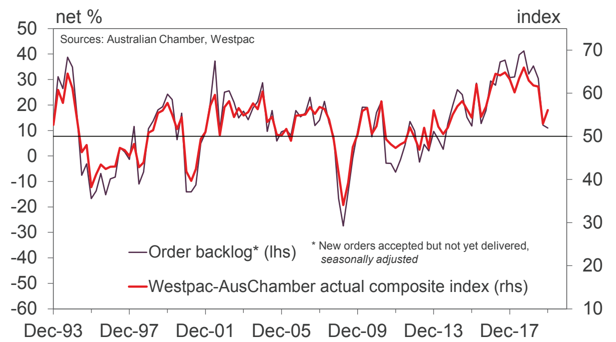


Average selling prices

Actual & expected

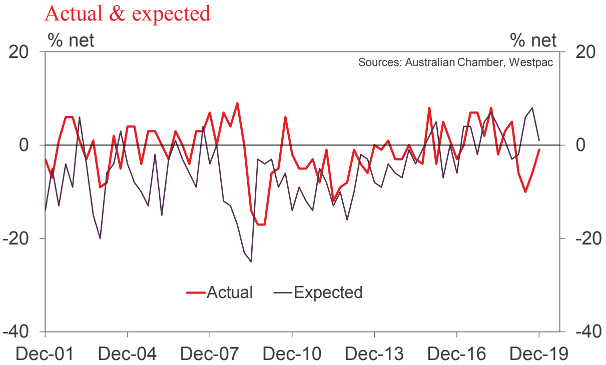


Order backlog & actual conditions



Stocks of finished goods

Actual & expected



Factors limiting production

	Q2 2019	Q3 2019	Q4 2019
Orders (%)	74	62	74
Capacity (%)	12	7	6
Labour (%)	3	10	5
Finance (%)	3	3	5
Materials (%)	1	7	1
Other (%)	5	7	7
None (%)	3	4	2

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
5	21	63	16

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

Net balance	Above Normal	Normal	Below Normal
-8	9	74	17

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

None	2	Orders	74
Material	1	Finance	5
Labour	5	Capacity	6
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?	5	12	81	7
(b)	finance?	-3	12	73	15

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	12	73	15
(b)	on plant & machinery?	7	22	63	15

Excluding normal seasonal changes, what has been your company's experience over the past three months & what changes do you expect during the next three months in respect of:

		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	6	88	6	0	7	86	7
7.	Overtime worked	30	38	54	8	7	23	61	16
8.	All new orders received	27	44	39	17	17	30	58	13
9.	Orders accepted but not yet delivered	26	37	52	11	4	18	68	14
10.	Output	20	33	54	13	24	33	58	9
11.	Average costs per unit of output	17	21	75	4	15	21	73	6
12.	Average selling prices	6	10	86	4	7	10	87	3
13.	Export deliveries	9	15	79	6	8	10	88	2
14.	Stock of raw materials	-7	10	73	17	-3	10	77	13
15.	Stocks of finished goods	-1	14	71	15	1	13	75	12

Summary of results *(not seasonally adjusted)*

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

(a) Improve?	39
(b) Remain unchanged?	49
(c) Decline?	12
Net balance	**27**

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?	16
(b) Same?	81
(c) Less?	3
Net balance	**13**

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	15
Textiles, fabrics, floor coverings, felt, canvas, rope	6
Clothing, footwear	4
Wood, wood products, furniture	3
Paper, paper products, printing	9
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	8
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	14
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	2
Other machinery & equipment: electrical, industrial scientific, photographic	23
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
51	12	17	20

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

WA	SA	VIC	NSW/ACT	QLD	TAS
13	12	21	33	15	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.

This report was finalised on 10 December 2019
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Things you should know.

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