

Australian Chamber–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

234th report March 2020 (survey conducted 10 February to 3 March 2020)

- 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 to 45.0 in the March quarter from 56.1 in December. That compares to a level of 52.9 in September, and largely reflects the impact of temporary disruptions to business conditions.
- The survey also indicates that respondents can see through existing challenges and expect a return to normality in the near-term. The Expected Composite printed at a robust 57.5 in March, albeit down from 61.5 reported in December.
- The softer update in the Actual Composite were evident across the sub-components. Employment, new orders, output, backlog and overtime all declined. In particular, new orders and output contracted for the first time since 2013/14. The weak start to 2020 is largely a product of transitory disruptions to demand and the supply chain, including the bushfires, the homebuilding downturn and the drought. The COVID-19 outbreak presents a new and material source of disruption and uncertainty.
- 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 has depreciated 3.6% in trade-weighted terms since the time of the last survey, supporting exporters and import-competing firms.
- Sentiment amongst manufacturers has clearly been dented by recent disturbances to the business environment. The survey indicates that a net 9% of respondents expect the general business situation to deteriorate over the next six months. This is down from December, where a net 5% of firms expected business conditions to improve.
- The moderate export uptrend has been interrupted in 2020 as global trade is impacted by COVID-19. Respondents indicate that exports were broadly flat in March and anticipate a decline in June.
- Equipment investment plans eased a little in March. A net 5% of firms plan to increase investment over the next six months, moderating from a net 7% in December.
- The survey's Labour Market Composite, which broadly tracks economy-wide employment growth, is at 44.7. The index correctly led the uplift in employment in 2017 and identified the turning point to slower momentum in 2018 and in 2019. The index suggests employment growth will ease further in 2020.

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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 234th consecutive survey was closed on 3 March 2020.

A total of **241** 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 2020.

Key survey results

Westpac–AusChamber Composites *(seasonally adjusted)*

	Q4 2019	Q1 2020
Actual – composite index	56.1	45.0
Expected – composite index	61.5	57.5

- The Westpac-AusChamber Actual Composite fell to 45.0 in the March quarter from 56.1 in December. This sharp pullback reflects the challenging environment that has been created by temporary disruptions.
- The impact of these disruptions on business conditions can be seen across all sub-components.
- The soft result is driven by a number of transitory factors, including the bushfires, the homebuilding downturn and the drought. The novel coronavirus also presents a considerable source of uncertainty.
- The Expected Composite moderated to 57.5 in the March quarter from 61.5 in December. The index is still elevated, indicating that firms expect a return to normality in the near-term.

Westpac–AusChamber Labour Market Composite

	Q4 2019	Q1 2020
Composite index	48.7	44.7

- 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 some slowing in 2018 and 2019.
- The Composite slipped further below 50 in this survey, weakening to 44.7 in the March quarter from 48.7 in December.
- The survey points to some further slowing in jobs growth. However, the extent of any slowdown is uncertain given the temporary nature of the disruptions.

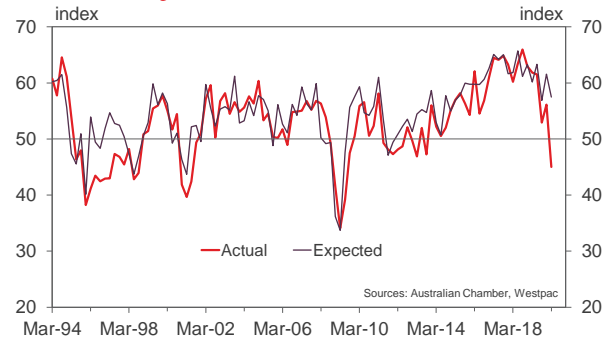
General business situation

	Q4 2019	Q1 2020
Net balance	5	-9

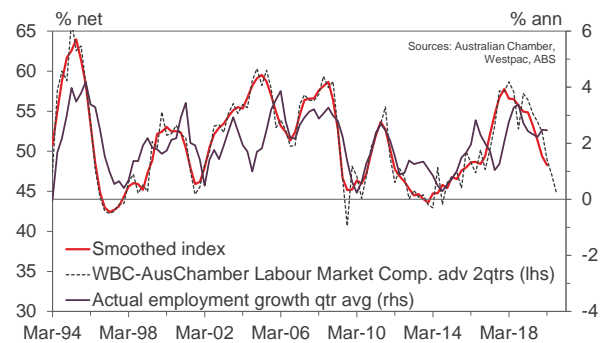
- Sentiment amongst manufacturers has clearly been dented by recent disturbances to the business environment.
- In March quarter, a net 9% of respondents expect the general business situation to deteriorate over the next six months.
- This follows a net 5% expecting an improvement in conditions in December. This indicates that on balance, firms had been anticipating a positive start to 2020.
- The current reading is the lowest since mid-2012.
- A plus in the current environment is that the lower Australian dollar is providing some support.

Westpac-AusChamber Composite indexes

Actual & expected, sa

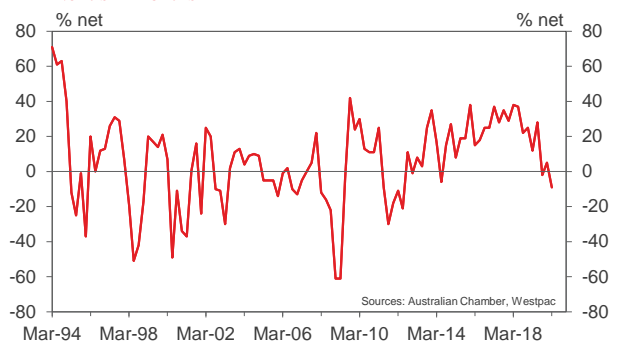


Employment: momentum has peaked



General business situation

Next six months



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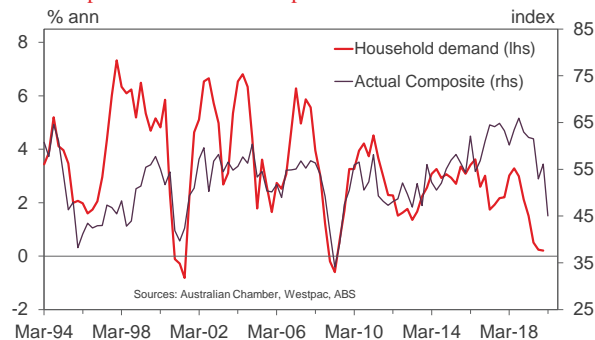
The business cycle & economic outlook

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.
- 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 2.2%yr in 2019 and is heavily reliant on public spending and net exports. Private demand growth was sluggish at 0.1%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 slightly up by 0.1%yr.

Manufacturing & the business cycle

Westpac-AusChamber Composite & household demand

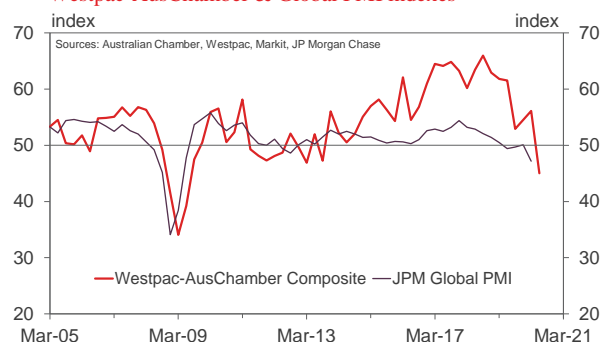


Australian & World manufacturing surveys

- 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 slowed in 2019. A factor was heightened trade policy tensions creating general uncertainty, which in turn saw businesses delay investment decisions.
- In 2020, the focus has shifted to COVID_19. Disruptions, particularly in China, have seen conditions in the global manufacturing sector weaken. China's manufacturing PMI fell to 35.7 in February from 50.0 in January. In turn, this dragged the global manufacturing PMI to 47.2 from 50.4 over the same period.

Australian & World manufacturing surveys

Westpac-AusChamber & Global PMI indexes

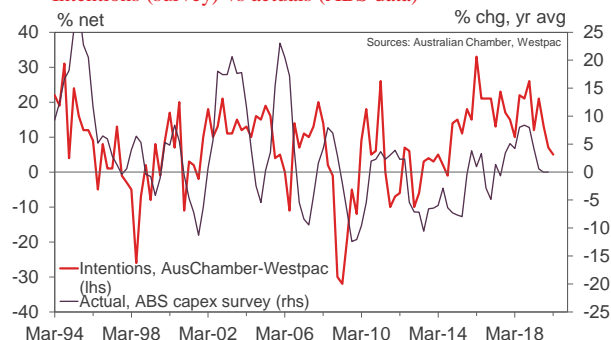


Manufacturing & business investment

- The AusChamber-Westpac survey has a solid track record of predicting equipment investment from the manufacturing sector.
- Manufacturing firms' investment intentions moderated in March. A net 5% of firms are planning to increase plant and equipment investment over the next twelve months. This is down from a net 7% in December.
- 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 financial year has remained on a subdued path.

Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



Activity & orders

Output *(seasonally adjusted)*

	Q4 2019	Q1 2020
Actual - net balance	11	-2
Expected - net balance	37	19

- This survey indicates that manufacturing output has contracted for the first time in 23 quarters, as disruptions, including to the supply chain, weigh on production.
- Whilst the pace of output growth had been moderating over the last year, this is the first time since early 2014 that it has fallen below zero.
- A net 2% of firms indicated that output had decreased in March, well below the net 11% that reported an increase in December.
- Respondents are still positive on the near-term outlook. The number of firms expecting an increase in production moderated to net 19% in March from net 37% in December.

New orders *(seasonally adjusted)*

	Q4 2019	Q1 2020
Actual - net balance	18	-9
Expected - net balance	31	23

- New orders declined in the opening months of 2020 (the first fall since mid-2013). The home building downturn continues, while uncertainty has spiked on disruptions from the bushfires and COVID-19.
- A net 9% of respondents reported fewer new orders in March, well below the net 31% who identified that new orders had increased over December.
- Expectations paint a far more sanguine picture, suggesting that firms can see through the temporarily soft climate.
- A net 23% of firms expect new orders to rise in the coming quarter, a relatively robust reading, albeit down from a net 31% in December.

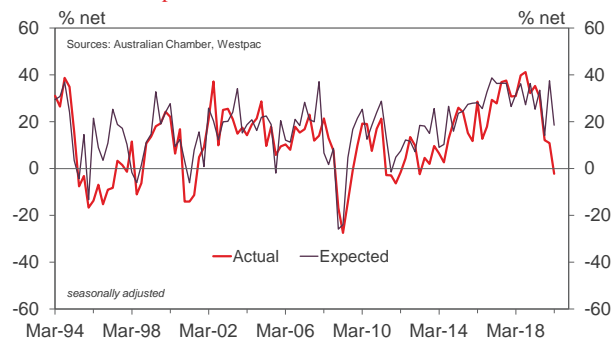
Exports

	Q4 2019	Q1 2020
Actual - net balance	9	1
Expected - net balance	8	-6

- The uptrend in exports has been interrupted by the current shock to global trade.
- The number of respondents reporting a rise in exports moderated from a net 9% at the end of 2019 to a net 1% in March.
- Expectations have dipped into negative territory, with a net 6% of respondents anticipating exports to fall over the next three months. It is likely that firms expect subdued activity in China, and the disruptive effect of the virus on international trade flows to persist into the near future.
- The Australian dollar is performing its traditional role as an economic stabiliser. The AUD trade weighted index is down 3.6% from the beginning of December.

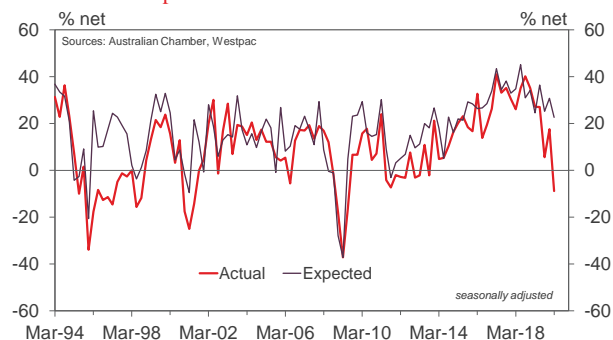
Output growth

Actual & expected



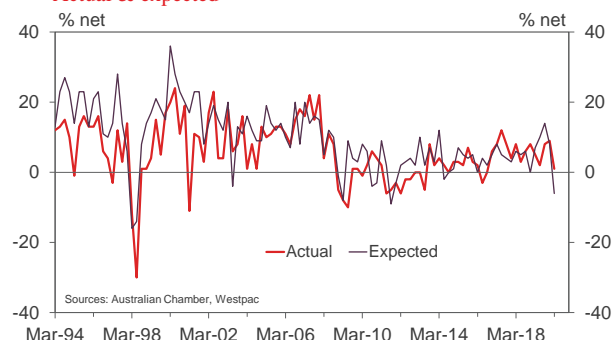
New orders

Actual & expected



Export deliveries

Actual & expected



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Investment & profitability

Investment intentions

	Q4 2019	Q1 2020
Plant & Equipment - net balance	7	5
Building - net balance	-3	-3

- The survey indicates that firms are planning to increase equipment investment; however intentions moderated slightly in March.
- A net 5% of firms are intending to increase investment over the next six months. Whilst official data indicates that real manufacturing equipment investment has been sluggish, outcomes vary by sector. Mining continues to rebound while other sectors are soft.
- Building intentions remained subdued in March. A net 3% of firms are planning to decrease investment over the next six months, unchanged since the previous read in December.

Capacity utilisation

	Q4 2019	Q1 2020
Net balance	-8	-21

- Capacity utilisation has eased off sharply in March, after holding at a relatively high level from late 2013 to early 2019.
- A net 21% of firms indicated that they were operating below capacity in March. Previously, levels had stabilised in December with a net 8% reporting under-utilisation.
- Expressed differently, a net 72% of firms were at or above full capacity in March, down from a net 83% in December and in line with a net 74% in September.
- This soft result is consistent with the contraction in new orders and output in the quarter.

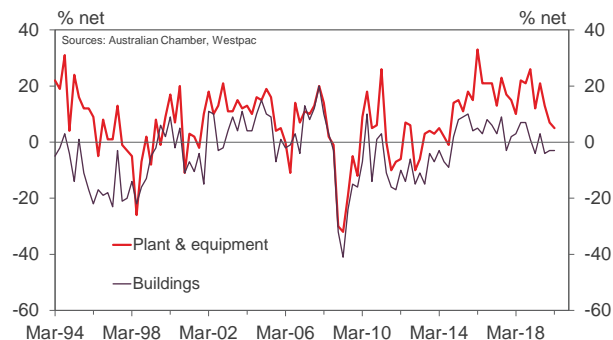
Profit expectations

	Q4 2019	Q1 2020
Net balance	27	2

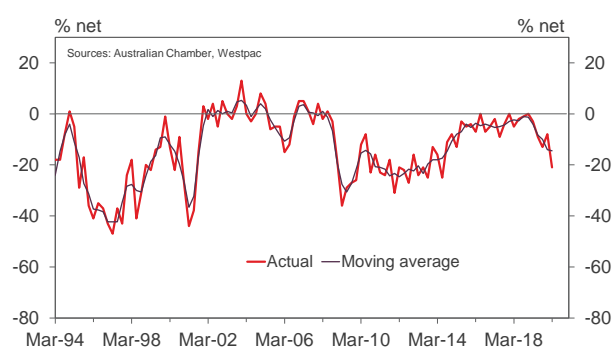
- Manufacturers' profit expectations were scaled back considerably in March, consistent with the challenging environment early in the new year.
- In March, a net 2% of firms expect profitability to improve over the next twelve months, well below the net 27% in December. The balance of optimistic firms is still positive, as profits should lift when conditions and orders begin to normalise.
- 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. The 2019/20 year has started on a better note, with profits stabilising.

Investment intentions

Next twelve months

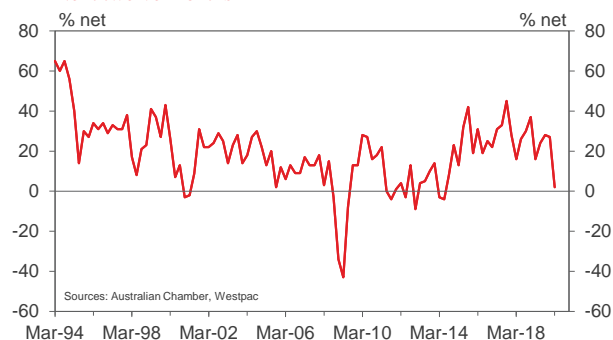


Capacity utilisation



Profit expectations

Next twelve months



The labour market

Numbers employed *(seasonally adjusted)*

	Q4 2019	Q1 2020
Actual - net balance	-1	-4
Expected - net balance	3	2

- Manufacturing employment growth had been sluggish in 2019 after a period of moderate gains.
- In March, a net 4% of firms indicated that they decreased employment. That is softer than the number reported in December and September.
- The March result, a contraction in manufacturing employment, is in line with the decline in capacity utilisation. In a broader sense, employment growth in the Australian economy has recently dropped a notch lower, putting some pressure on the unemployment rate.

Overtime worked *(seasonally adjusted)*

	Q4 2019	Q1 2020
Actual - net balance	18	-15
Expected - net balance	17	18

- Consistent with a decline in production and employment, the use of overtime dropped sharply in March.
- Whilst quarterly responses can be volatile, the use of overtime has not declined on balance since mid-2013. In March, a net 15% of respondents indicated that they reduced overtime, down from a net 18% who increased overtime use in December.
- Expectations suggest that the use of overtime will increase in the near term. A net 18% of firms anticipate an increase in overtime over the next three months, compared to a net 17% in December. A driving factor will be the influx of orders as disruptions abate.

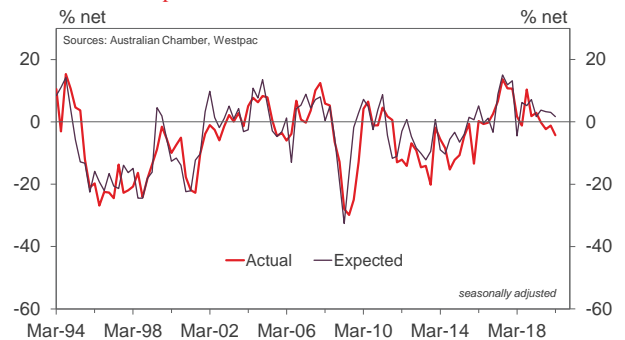
Difficulty of finding labour *(seasonally adjusted)*

	Q4 2019	Q1 2020
Net balance	5	1

- 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 1% of firms indicated labour was "harder to find" in March, an easing on a net 5% for December - indicating some cooling of the labour market.
- The unemployment rate ticked slightly higher coming into 2020, and is currently at 5.3%. This is up from 5.0% at the start of 2019, but still below the 5.5% rate seen in the middle of 2018.

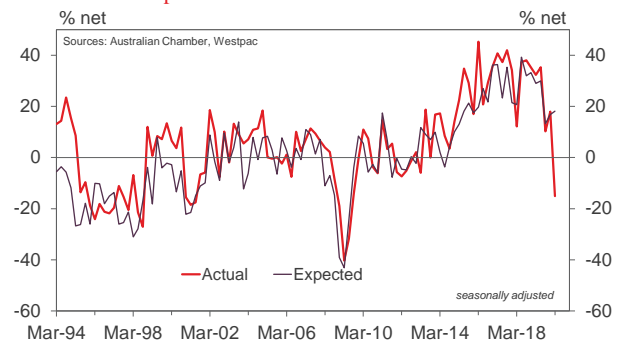
Numbers employed

Actual & expected

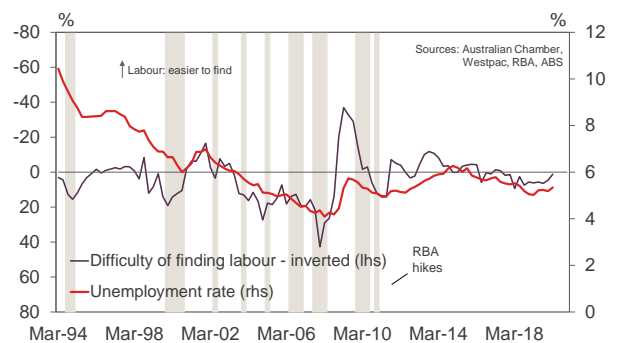


Overtime worked

Actual & expected



Labour market tightness



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Prices & inflation

Average unit costs

	Q4 2019	Q1 2020
Actual - net balance	17	18
Expected - net balance	15	17

- 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 18% of firms report that costs increased in March, in line with a net 17% in December.
- 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 selling prices

	Q4 2019	Q1 2020
Actual - net balance	6	-2
Expected - net balance	7	0

- Selling price increases have typically been more moderate relative to the rise in average unit costs.
- In March quarter, a net 2% of respondents indicated they lowered their prices, down from a net 6% who reported increased selling prices in December. March's result is well below the net percentage of firms reporting an increase in unit costs.
- On balance, selling prices have not fallen in eighteen quarters.
- Expectations also moderated. In March, the number of firms who expected to raise or lower their selling prices was balanced. This is down from a net 7% of firms who anticipated increased selling prices in December.

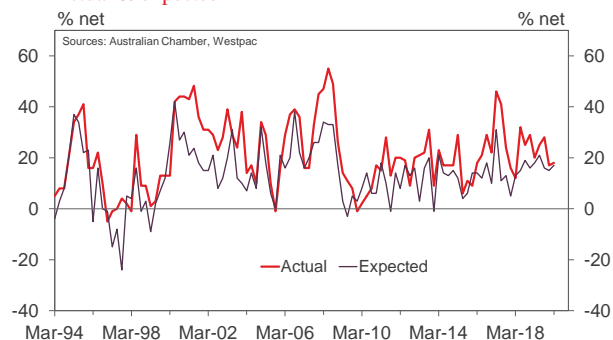
Manufacturing wages

	Q4 2019	Q1 2020
Net balance	13	11

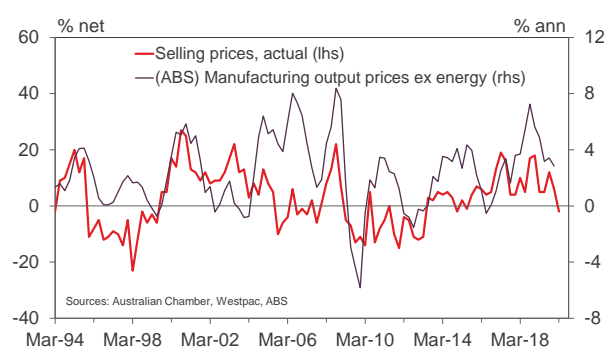
- The survey reports a softening trend on the wages front. In March, a net 11% of respondents expect that their next wage deal will deliver an outcome above their last, down slightly from a net 13% in December and further below a net 18% in September.
- Official data shows that manufacturing wage inflation has been broadly 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%.

Average unit costs

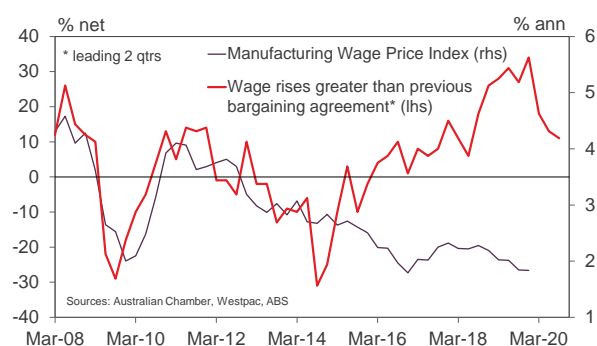
Actual & expected



Manufacturing upstream price pressures



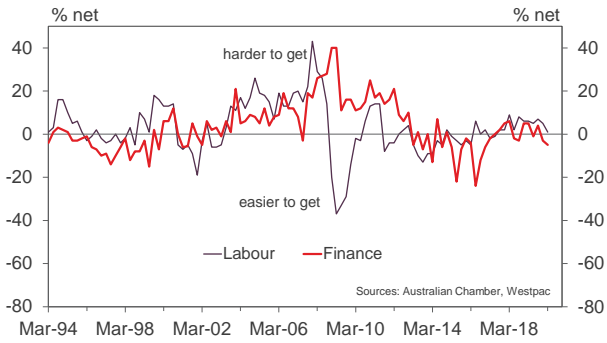
Manufacturing wage growth



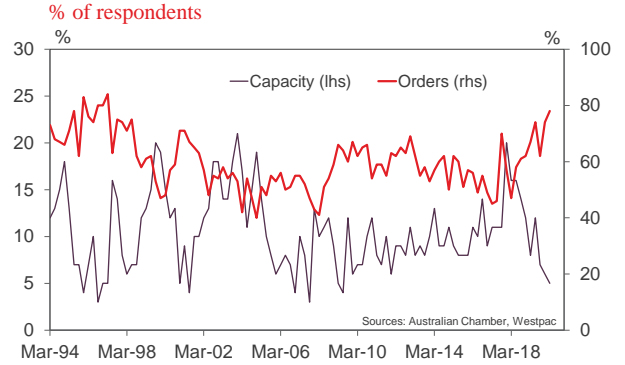
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Other results

Availability of labour & finance

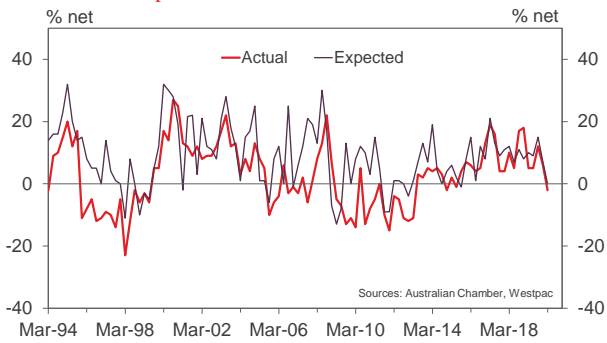


Key factor limiting production

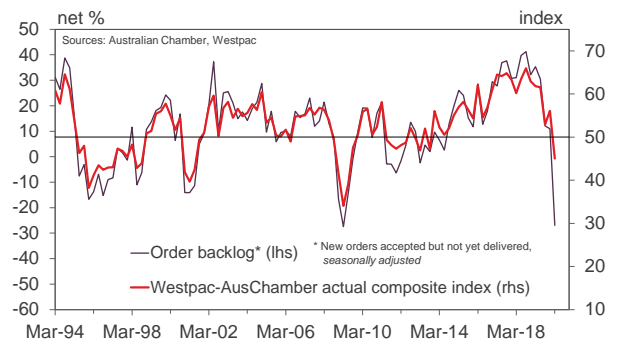


Average selling prices

Actual & expected

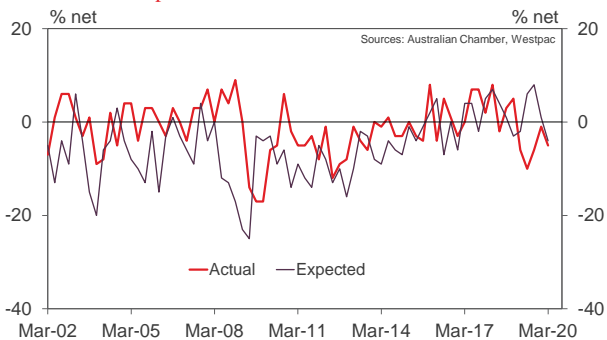


Order backlog & actual conditions



Stocks of finished goods

Actual & expected



Factors limiting production

	Q3 2019	Q4 2019	Q1 2020
Orders (%)	62	74	78
Capacity (%)	7	6	5
Labour (%)	10	5	6
Finance (%)	3	5	2
Materials (%)	7	1	1
Other (%)	7	7	7
None (%)	4	2	1

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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
-9	17	57	26

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

Net balance	Above Normal	Normal	Below Normal
-21	7	65	28

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

None	1	Orders	78
Material	1	Finance	2
Labour	6	Capacity	5
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?	1	5	91	4
(b) finance?	-5	3	89	8

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	14	69	17
(b) on plant & machinery?	5	21	63	16

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	-7	4	85	11	2	8	86	6
7. Overtime worked	-23	13	51	36	19	34	51	15
8. All new orders received	-14	15	56	29	28	41	46	13
9. Orders accepted but not yet delivered	-32	6	56	38	9	24	61	15
10. Output	-9	15	61	24	21	33	55	12
11. Average costs per unit of output	18	22	74	4	17	23	71	6
12. Average selling prices	-2	9	80	11	0	9	82	9
13. Export deliveries	1	7	87	6	-6	8	78	14
14. Stock of raw materials	-8	10	72	18	-10	12	66	22
15. Stocks of finished goods	-5	15	65	20	-4	15	66	19

Summary of results (not seasonally adjusted)

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

(a) Improve?	24
(b) Remain unchanged?	54
(c) Decline?	22
Net balance	2

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?	24
(b) Same?	81
(c) Less?	4
Net balance	11

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	17
Textiles, fabrics, floor coverings, felt, canvas, rope	6
Clothing, footwear	5
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	17
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	2
Other machinery & equipment: electrical, industrial scientific, photographic	18
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
	57	12	13	18

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

	WA	SA	VIC	NSW/ACT	QLD	TAS
	11	12	19	40	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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