

Australian Chamber–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

235th report June 2020 (survey conducted 1 May to 2 June 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 24.0 in the June quarter, to be around the historic low for the series, indicating a sharp contraction in activity in the period. That is down from 45.0 in March and compares to 52.9 in December 2019.
- The COVID-19 global pandemic and the measures to combat the virus have had a dramatic impact on the Australian economy - which is now in recession for the first time in 29 years. The manufacturing sector has been greatly impacted by the disruptions and the downturn.
- The weak update in the Actual Composite was evident across the sub-components: employment, new orders, output, order backlog and overtime all posted a sizeable contraction over the June quarter.
- As with the broader economy, within this overall weak picture, conditions in the manufacturing industry are mixed across sectors. The downturn in construction, particularly residential, has weighed heavily on metals manufacturers. However, the unprecedented conditions presented unique opportunities for certain segments - with demand soaring for medical equipment and disinfectants.
- Around the general outlook, sentiment amongst manufacturers has been dented by recent disruptions to the business environment. The survey indicates that a net 22% of respondents expect the general business situation to deteriorate over the next six months, down from a net 9% in March.
- However, around their own businesses, the survey indicates that respondents can see through existing challenges and expect a return towards relative normality in the near term as the economy begins to re-open. The Expected Composite was resilient at 50.5 in June, albeit down from 57.5 in March.
- The moderate export uptrend that commenced in 2017 has been interrupted by the impact of the virus. Respondents indicate that exports fell in June, but anticipate a mild recovery over the next quarter.
- The downturn has had some significant impacts on the sector the survey finds. Profit expectations slumped to -60 in June, spare capacity has jumped and investment plans have been scaled back. A net 34% of firms plan to decrease equipment investment over the next year, in contrast to a net 5% in March expecting to lift spending.
- The survey's Labour Market Composite, which broadly tracks economy-wide employment growth, moderated sharply, from 44.7 to 27.2. The index correctly led the uplift in employment in 2017 and identified the turning point to slower momentum in 2018 and in 2019. At a series low, the index implies that employment growth will weaken further in 2020.

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Enquiries

Economics, Westpac Banking Corporation, Ph (61-2) 8254 8720
Eugene Bajkowski OAM, Consulting Economist, Australian Chamber of Commerce and Industry,
Ph (61-2) 6249 6128

Editors

Andrew Hanlan, Senior Economist, Westpac Banking Corporation
Lochlan Halloway, Westpac Banking Corporation
Eugene Bajkowski OAM, Consulting Economist, Australian Chamber of Commerce and Industry
Miranda Herron, Senior Consultant, Australian Chamber of Commerce and Industry

Email: economics@westpac.com.au

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 235th consecutive survey was closed on 2 June 2020.

A total of **232** 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 and September 2020.

Key survey results

Westpac–AusChamber Composites *(seasonally adjusted)*

	Q1 2020	Q2 2020
Actual – composite index	45.0	24.0
Expected – composite index	57.5	50.5

- The Westpac–AusChamber Actual Composite fell to 24.0 in the June quarter from 45.0 in March, to be around its historic low. This sharp fall reflects the challenging environment that has been created by the novel coronavirus.
- The impact of virus-related disruptions on business conditions can be seen across all sub-components. Weakness was concentrated in output, new orders and order backlog, which all fell to around series low.
- The Expected Composite moderated to 50.5 in the June quarter from 57.5 in March. The index remains around its long-run average of 52, indicating that firms expect a near-term return towards normality as the economy begins to re-open.

Westpac–AusChamber Labour Market Composite

	Q1 2020	Q2 2020
Composite index	44.7	27.2

- 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 fell further below 50 in this survey, weakening to 27.2 in the June quarter from 44.7 in March.
- The survey points to a further and sharp contraction in jobs growth, but the outlook remains highly uncertain as the economy exits the shut-downs associated with the pandemic.

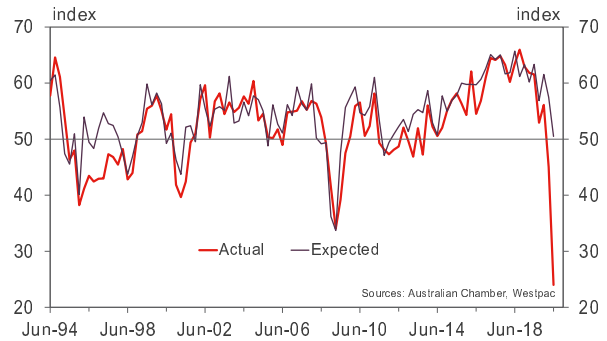
General business situation

	Q1 2020	Q2 2020
Net balance	-9	-22

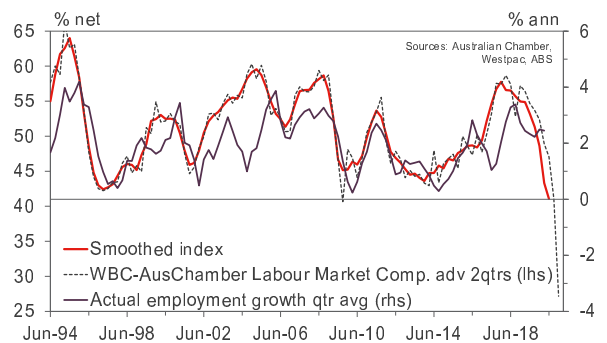
- Sentiment amongst manufacturers has clearly been dented by recent disturbances to the business environment.
- In the June quarter, a net 22% of respondents expect the general business situation to deteriorate over the next six months.
- In March, when firms were making an initial assessment of the coronavirus impact, a net 9% expected to conditions to weaken.
- The index remains comfortably above levels seen during the global financial crisis, which bottomed at -66 in December 2008 / March 2009.

Westpac-AusChamber Composite indexes

Actual & expected, sa

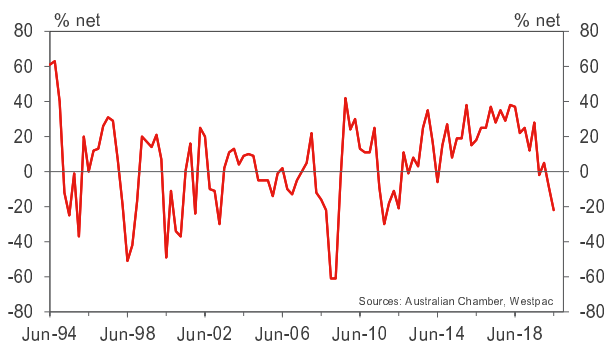


Employment: momentum turns down



General business situation

Next six months



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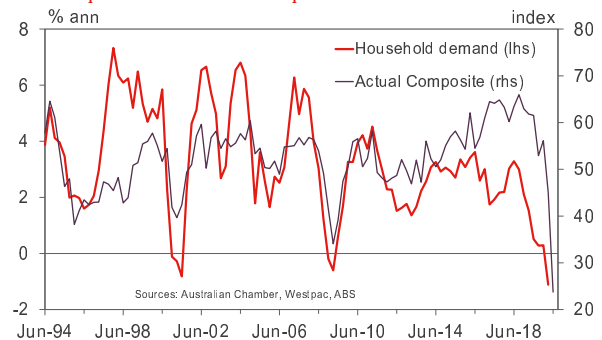
The business cycle & economic outlook

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.
- The global pandemic and the associated partial "lock-down" in Australia (with non-essential workers encouraged to work from home) had a dramatic impact on economic activity - including in the manufacturing sector - during the June quarter.
- That said, the impact has been unevenly distributed across sectors, consequently, conditions vary significantly by type of manufacturing activity.

Manufacturing & the business cycle

Westpac-AusChamber Composite & household demand

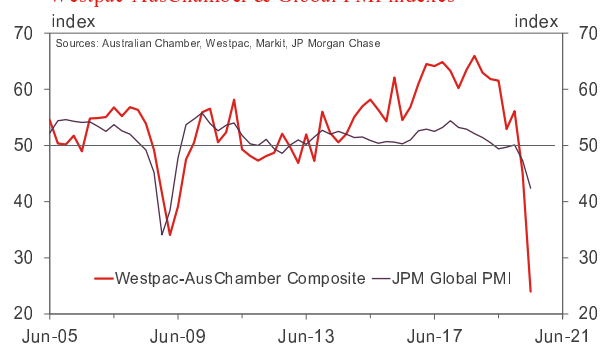


Australian & World manufacturing surveys

- 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.
- In 2020, the manufacturing environment has been dominated by COVID-19. April manufacturing PMIs for the US (36) and eurozone (33) fell to their lowest levels since the GFC, and a majority of nations saw output and new orders subindices fall to a series low. In turn, this dragged the global manufacturing PMI to 39.8, its weakest print since March 2009.
- However, manufacturing appears to have stabilised since April. In particular, China's Caixin manufacturing PMI recovered to 50.7 in May from a low of 40.3 in February. This has provided offsetting support for global manufacturing conditions.

Australian & World manufacturing surveys

Westpac-AusChamber & Global PMI indexes

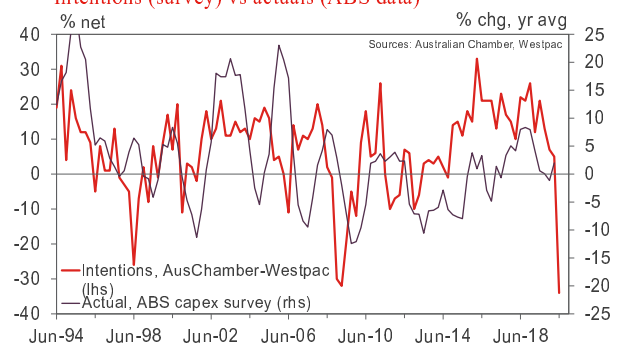


Manufacturing & business investment

- The AusChamber-Westpac survey has a solid track record of predicting equipment investment from the manufacturing sector.
- Manufacturing firms curtailed their investment intentions in the June quarter. A net 34% of firms are planning to decrease plant and equipment investment over the next twelve months. In March, a net 5% intended to increase investment.
- The ABS capex survey indicates that real manufacturing equipment investment has been sluggish and expectations are mixed. The strength evident in 2017/18 gave way to a consolidation in 2018/19 and some volatility in 2019/20. The 2020/21 expectations have been scaled back to be deeply negative.

Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



Activity & orders

Output *(seasonally adjusted)*

	Q1 2020	Q2 2020
Actual - net balance	-2	-55
Expected - net balance	19	7

- A net 55% of firms indicated that output had decreased in the June quarter, well below a net 2% in March. Prior to the coronavirus shock, output had been consistently expanding since early 2013.
- When asked about the factor most limiting the ability to increase production, 44% of firms identified the "other" category (outside of finance, material, orders, labour and capacity). In proportional terms, this is by far the largest response rate for this category in the history of the survey, and points to unique limitations stemming from shutdowns and social distancing guidelines on the factory floor.
- Respondents are still positive on the near-term outlook, with a net 7% of firms expecting to increase production over the next three months.

New orders *(seasonally adjusted)*

	Q1 2020	Q2 2020
Actual - net balance	-9	-64
Expected - net balance	23	7

- New orders declined sharply over the first half of 2020, interrupting a seven-year run of steady new orders growth.
- A net 64% of respondents reported fewer new orders in June, well below the net 9% who identified that new orders had decreased over March.
- Expectations - which proved to be too optimistic in March - are for new orders to edge higher in the coming three months as the economy begins to reopen.
- A net 7% of firms expect new orders to rise in the coming quarter, down from a net 23% in March.

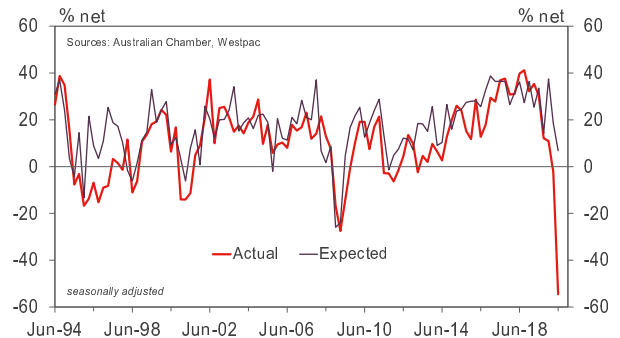
Exports

	Q1 2020	Q2 2020
Actual - net balance	1	-6
Expected - net balance	-6	2

- The coronavirus shock has been profoundly challenging for global trade. Reflecting this, a net 6% of manufacturing firms reported falling exports in June, compared to a net 1% increase over Q1.
- Expectations posted a recovery from the negative read in March, with a net 2% of respondents anticipating exports will increase over the next quarter. Firms will be expecting activity to gradually normalise in coming months, and will also be encouraged by the rebound of activity in China.
- The Australian dollar has rebounded sharply since mid-March, to be back around US70¢, the level prevailing at the start of the year. That is still well down from the highs recorded in 2013.

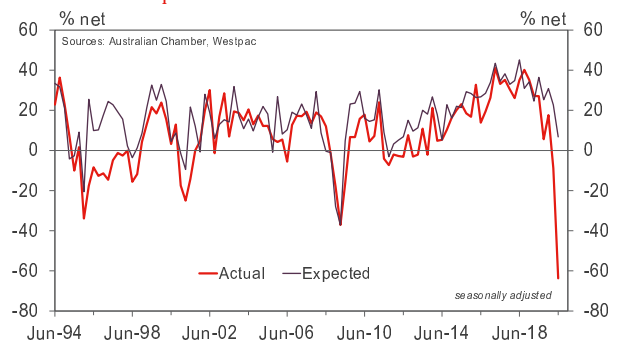
Output growth

Actual & expected



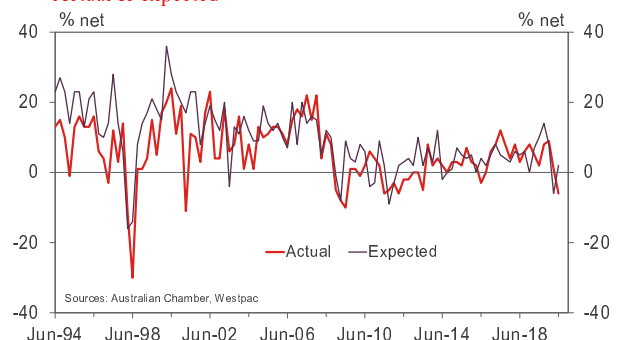
New orders

Actual & expected



Export deliveries

Actual & expected



Investment & profitability

Investment intentions

	Q1 2020	Q2 2020
Plant & Equipment - net balance	5	-34
Building - net balance	-3	-46

- With the economy experiencing a period of weaker sales and heightened uncertainty, manufacturers are clearly concerned around the business outlook.
- A net 34% of firms are intending to decrease plant and equipment investment over the next twelve months. This compares with a net 5% who intended to increase investment in March.
- Investment will remain constrained until firms rein in excess spare capacity, which spiked sharply in June.
- Building intentions also retrenched in Q2. A net 46% of firms are planning to decrease building investment over the next twelve months, down from a net 3% in March.

Capacity utilisation

	Q1 2020	Q2 2020
Net balance	-21	-70

- The survey indicates that capacity utilisation fell sharply in the June quarter, as firms responded to the contraction in new orders and output.
- A net 70% of firms indicated that they were operating below capacity in June. This compares to 21% in March, and 8% in December 2019.
- Expressed differently, only 25% of firms were at or above full capacity in June, down from a net 72% in March. This represents the highest rate of under-utilisation in the history of the survey.
- This soft result is consistent with official statistics, the April ABS labour force survey revealing that the underutilisation rate rose to a record high of 19.9%. Social distancing requirements in the workplace will have also played a role in lower utilisation.

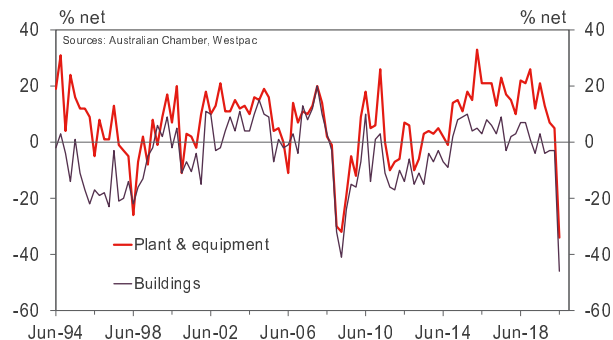
Profit expectations

	Q1 2020	Q2 2020
Net balance	2	-60

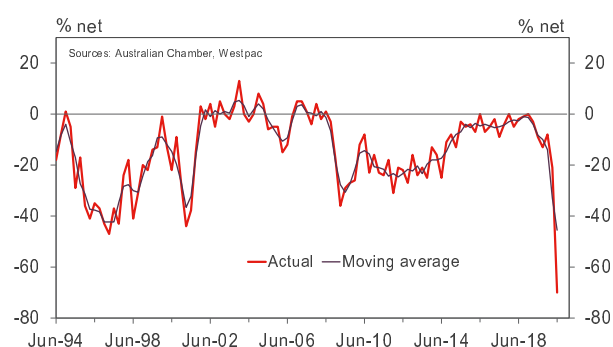
- Manufacturers' profit expectations were scaled back considerably in Q2, consistent with the challenging environment caused by the pandemic.
- The weaker sales environment has had a significant impact on revenues. Moreover, prices will be under downward pressure in this environment, while costs continue to rise.
- In June, a net 60% of firms expect profitability to fall over the next twelve months, well below the net 2% who anticipated stronger profits in March.

Investment intentions

Next twelve months

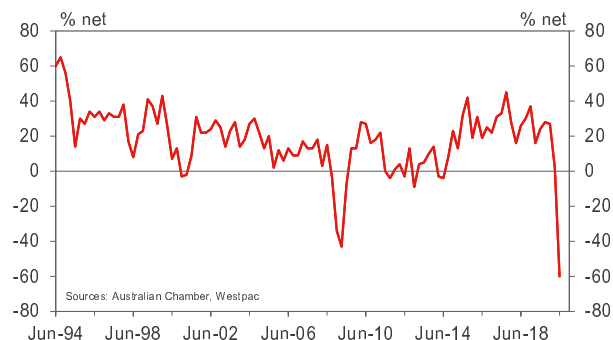


Capacity utilisation



Profit expectations

Next twelve months



The labour market

Numbers employed *(seasonally adjusted)*

	Q4 2019	Q1 2020
Actual - net balance	-4	-29
Expected - net balance	2	-5

- The June survey indicates a pronounced fall in manufacturing employment, with a net 29% of firms reporting a reduction in employment over the quarter.
- This contraction is in line with the sharp decline in capacity utilisation. In a broader sense, the labour force shed a considerable number of jobs in April, putting upward pressure on the unemployment rate.
- Expectations of future employment eased by far less than actual employment. The Jobkeeper program has ensured that many employees will remain attached to their firm, and can return to work relatively quickly when disruptions abate and demand normalises.

Overtime worked *(seasonally adjusted)*

	Q1 2020	Q2 2020
Actual - net balance	-15	-54
Expected - net balance	18	-18

- Consistent with a decline in production and employment, the use of overtime dropped sharply in June.
- A net 54% of respondents indicated that they reduced overtime, down from a net 15% in March. Responses will vary across the manufacturing sector: Those who produced goods that were stockpiled, such as chemical and food manufacturers, likely increased overtime to meet the spike in demand. However, conditions across more vulnerable sectors will have softened considerably.
- A net 18% of firms are expecting to reduce overtime over the next three months.

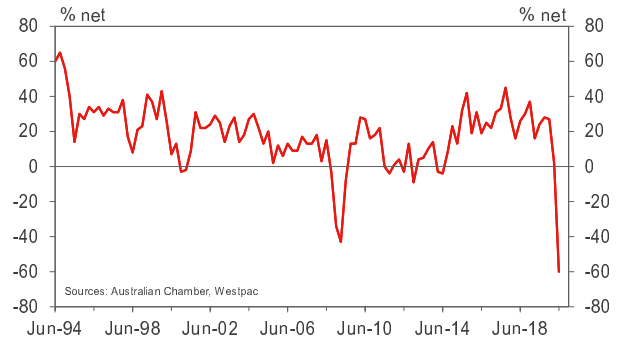
Difficulty of finding labour *(seasonally adjusted)*

	Q1 2020	Q2 2020
Net balance	1	-40

- The survey provides insights into the tone of the overall labour market. Firms' views on the difficulty of finding labour broadly track shifts in the unemployment rate for the Australian economy.
- A net 40% of firms indicated labour was "easier to find" in June, a considerable fall from the net 1% who reported labour was "harder to find" in March. Whilst this points to considerable slack in the labour market, the survey remains well above the levels seen during the early 1980s and 1990s recessions, on both occasions falling below -60.0.
- Resulting from the heavy disruptions to demand, the unemployment rate has jumped higher over the second quarter, and is currently at 6.2% - but would be 9.6% if the participation rate was unchanged.

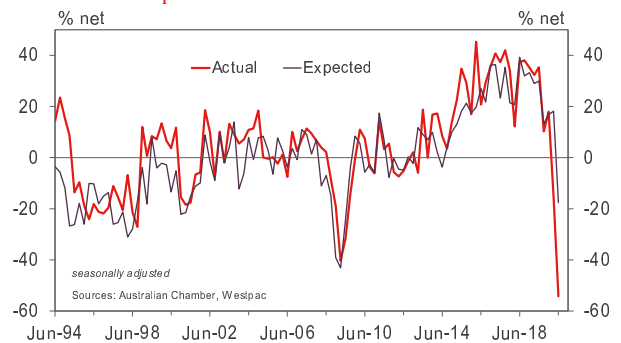
Profit expectations

Next twelve months

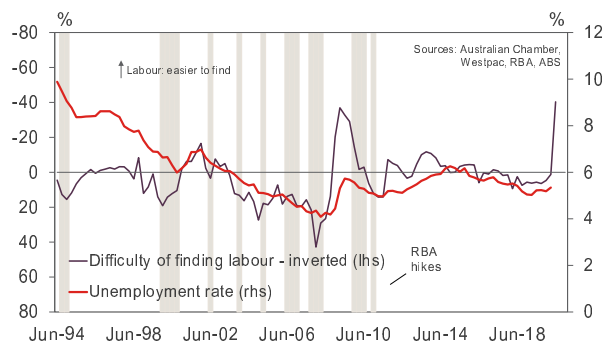


Overtime worked

Actual & expected



Labour market tightness



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Prices & inflation

Average unit costs

	Q1 2020	Q2 2020
Actual - net balance	18	8
Expected - net balance	17	12

- 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.
- Whilst the issue remains an ongoing challenge, the number of firms reporting an increase in costs eased to a net 8% in June from 18% in March. On balance, this is the lowest read in five years.
- Coming into Q2, the price of crude oil plummeted, which will reduce the energy bill for many manufacturers. However, the key focus of many firms remains the cost of electricity.

Average selling prices

	Q1 2020	Q2 2020
Actual - net balance	-2	-3
Expected - net balance	0	2

- Selling price increases have typically been more moderate relative to the rise in average unit costs. In the June quarter, a net 3% of respondents indicated they lowered their prices, down from a net 2% in March. June's result is well below the net percentage of firms reporting an increase in unit costs.
- Prior to the first half of 2020, selling prices had not fallen in five years.
- Expectations ticked up in June, a net 2% of firms intending to increase selling prices over the next three months. A near-term rise in selling prices would support manufacturing margins, and apply upward pressure on consumer price inflation.

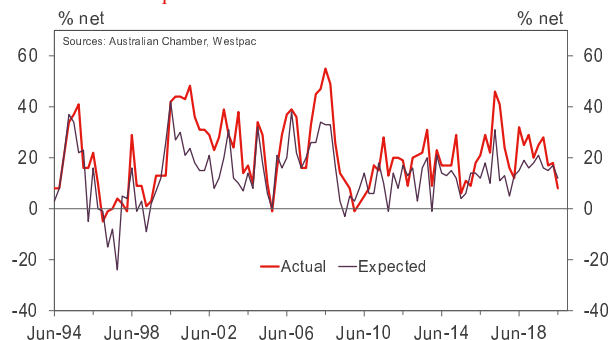
Manufacturing wages

	Q1 2020	Q2 2020
Net balance	11	4

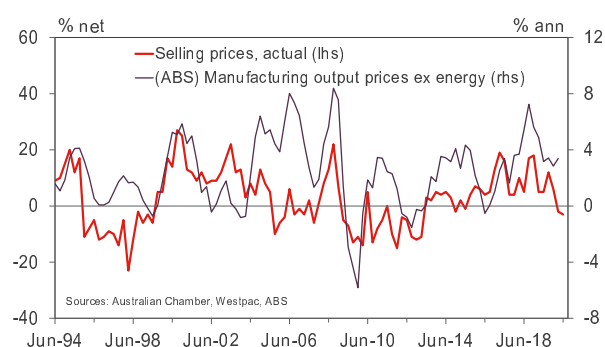
- The survey reports a softening trend on the wages front - that trend accelerated in June as the pandemic hit.
- In June, a net 4% of respondents expect that their next wage deal will deliver an outcome above their last, down from a net 11% in March and further below a net 13% in December.
- Official data 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 anticipate a pick-up until we approach full employment levels of around 4-4.5%.

Average unit costs

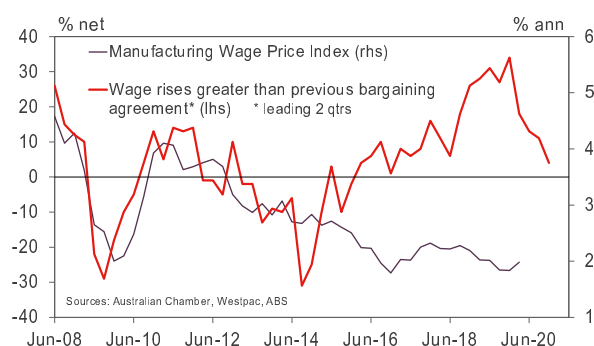
Actual & expected



Manufacturing upstream price pressures

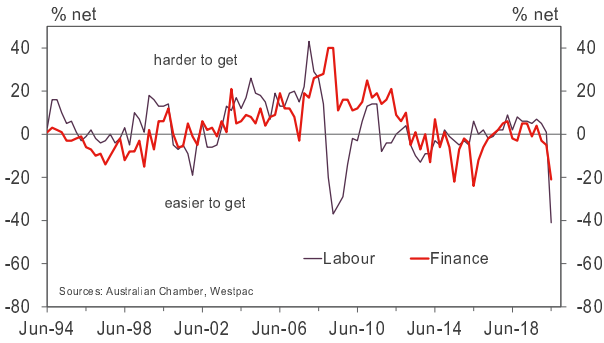


Manufacturing wage growth

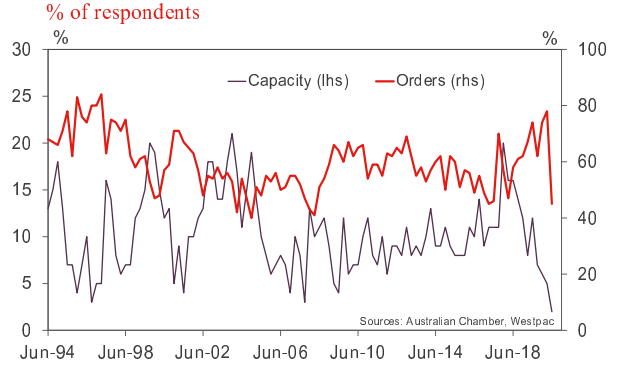


Other results

Availability of labour & finance

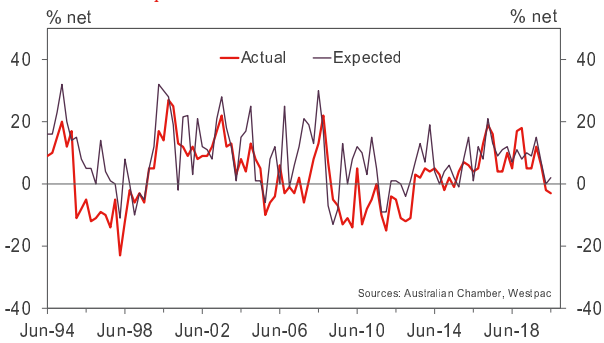


Key factor limiting production

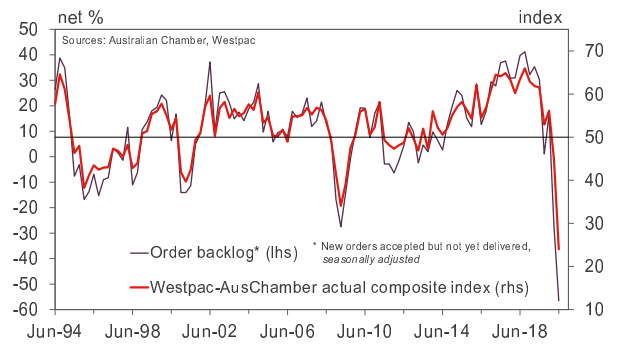


Average selling prices

Actual & expected

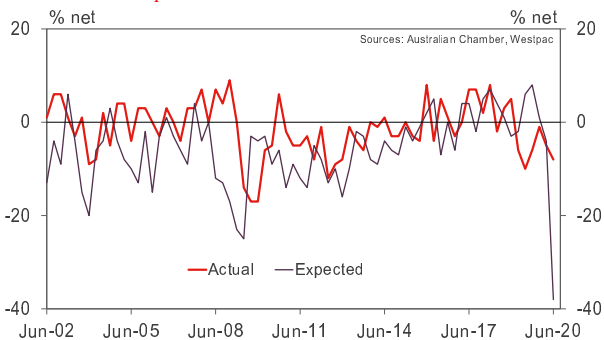


Order backlog & actual conditions



Stocks of finished goods

Actual & expected



Factors limiting production

	Q4 2019	Q1 2020	Q2 2020
Orders (%)	74	78	45
Capacity (%)	6	5	2
Labour (%)	5	6	4
Finance (%)	5	2	3
Materials (%)	1	1	2
Other (%)	7	7	44
None (%)	2	1	0

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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
-22	21	36	43

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

Net balance	Above Normal	Normal	Below Normal
-70	5	20	75

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

None	0	Orders	45
Material	2	Finance	3
Labour	4	Capacity	2
Other	44		

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?	-41	1	57	42
(b) finance?	-21	6	67	27

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?	-46	3	48	49
(b) on plant & machinery?	-34	12	42	46

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	-30	2	66	32	-5	4	87	9
7. Overtime worked	-55	4	37	59	-17	13	57	30
8. All new orders received	-64	6	24	70	8	33	42	25
9. Orders accepted but not yet delivered	-57	4	35	61	-3	19	59	22
10. Output	-55	5	35	60	8	31	46	23
11. Average costs per unit of output	8	15	78	7	12	15	82	3
12. Average selling prices	-3	3	91	6	2	10	82	8
13. Export deliveries	-6	4	86	10	2	8	86	6
14. Stock of raw materials	-21	10	59	31	-21	6	67	27
15. Stocks of finished goods	-8	25	42	33	-38	3	56	41

Summary of results (not seasonally adjusted)

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

(a) Improve?	9
(b) Remain unchanged?	22
(c) Decline?	69
Net balance	-60

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?	13
(b) Same?	78
(c) Less?	9
Net balance	4

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	2
Paper, paper products, printing	8
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	3
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	27
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	6

B. How many employees are covered by this return?

1-100	101-200	201-1000	Over 1000
48	14	13	25

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

WA	SA	VIC	NSW/ACT	QLD	TAS
12	14	22	34	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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