Australian Chamber–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

237th report December 2020 (survey conducted 9 November to 1 December 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 improved to 48.4 in the December quarter after rising to 42.8 in the September quarter. This recovery follows the dramatic fall to 24.0 in the June quarter associated with the initial lockdown and the response to covid.
- With the activity index nearing 50, this suggests conditions are stabilising. The survey reports that output has expanded for the first time this calendar year whilst new orders only contracted marginally.
- The covid pandemic and the measures to combat the virus have had a dramatic impact on the Australian economy - which slumped into recession in 2020 for the first time in 29 years. The rebound has experienced setbacks, with Victoria enduring a second wave of infections and returning to lock-down.
- As with the broader economy, conditions in the manufacturing industry are mixed across sectors. The construction sector, which had experienced a prolonged downturn, has begun to pick up as low interest rates and the HomeBuilder scheme support housing demand.
- Respondents' expectations around their own businesses have jumped higher on positive vaccine news and the reopening in Victoria. The Expected Composite leapt to 69.1 in December from 46.1 in September, eclipsing the highs seen during the rebounds that followed previous downturns. This stronger print points to a burst of new orders and output at the start of 2021, in part a catch-up after a challenging year.
- Manufacturers are also optimistic around the general outlook. A net 51% of respondents expect the general business situation to improve over the next six months, well above a net 18% who expected conditions to deteriorate in September.
- Exports retraced in December, reflecting the ongoing fragility of the global economy and elevated trade tensions. A net 5% of respondents anticipate that exports will increase over the next quarter.
- The December survey saw a turnaround in profit expectations, a net 23% of firms expecting profitability to improve in coming months. Consistent with the latest ABS survey of capex plans, investment intentions also improved in December. On balance, 26% of firms plan to increase equipment investment in the coming year.
- The survey's Labour Market Composite, which broadly tracks economy-wide employment growth, remains subdued at 41.4, albeit up from 36.3 in September. The index correctly foreshadowed recent cycles - the uplift in employment in 2017 and the slowing from 2018. The current reading implies that employment will remain at weak levels over coming quarters.

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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.

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, Economist, 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 237th consecutive survey was closed on 1 December 2020.

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 February and March 2021.

Key survey results

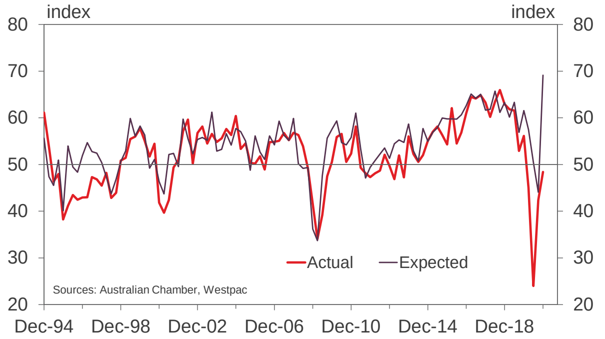
Westpac–AusChamber Composites *(seasonally adjusted)*

	Q3 2020	Q4 2020
Actual – composite index	42.8	48.4
Expected – composite index	46.1	69.1

- The Westpac–AusChamber Actual Composite improved to 48.4 in the December survey after rising to 42.8 in September. This recovery follows a dramatic fall to 24.0 in June on the national lock-down.
- With the index around 50, this suggests conditions are stabilising. Output expanded for the first time since Q4 2019 and new orders contracted marginally.
- The Expected composite jumped to 69.1 from 46.1. This strong read eclipsed the highs that have been seen in previous rebounds from economic downturns.
- Victoria's reopening was a key development, supporting conditions in Q4 and accelerating the recovery.

Westpac-AusChamber Composite indexes

Actual & expected, sa

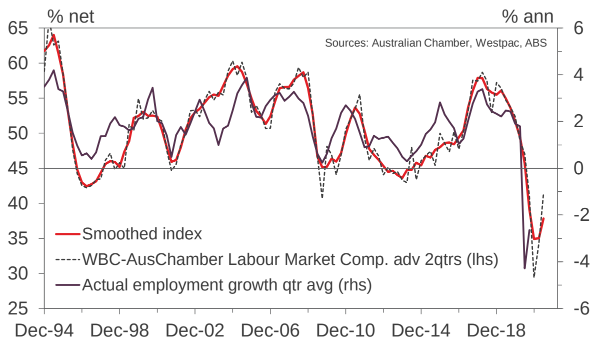


Westpac–AusChamber Labour Market Composite

	Q3 2020	Q4 2020
Composite index	36.3	41.4

- The survey provides insights into economy-wide employment growth. This highlights the key linkages between manufacturing and the labour market.
- The Westpac–AusChamber Labour Market Composite correctly foreshadowed recent cycles - the uplift in employment in 2017, then the slowing from 2018.
- In 2020, the Composite plunged to 29.7 in Q2, then lifted to 36.3 in Q3 and to 41.4 in December.
- The weakness seen in the survey is consistent with official data. The ABS reports that full-time job levels in October are roughly 2% lower than a year earlier.
- Below its long run-average, the Composite suggests that the labour market will remain soft in coming quarters.

Employment: hit by covid recession



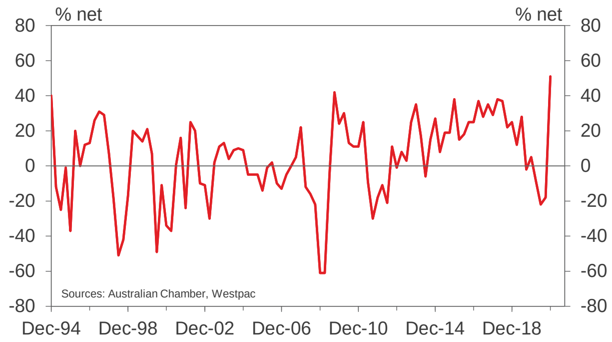
General business situation

	Q3 2020	Q4 2020
Net balance	–18	51

- Manufacturing sentiment was severely shaken by the covid crisis and the ensuing recession. The initial restrictions from the national lock-down and the second wave in Victoria served as a major headwind to the outlook.
- In the December quarter, expectations bounced. A net 51% of respondents now anticipate that the general business situation will improve over the next six months.
- That is a dramatic improvement on the September reading, and broadly comparable to the pace of recovery seen after the GFC and 1990's recession.
- The drivers include Victoria's reopening, the continued suppression of the virus across the rest of the country, and positive news around a vaccine.

General business situation

Next six months



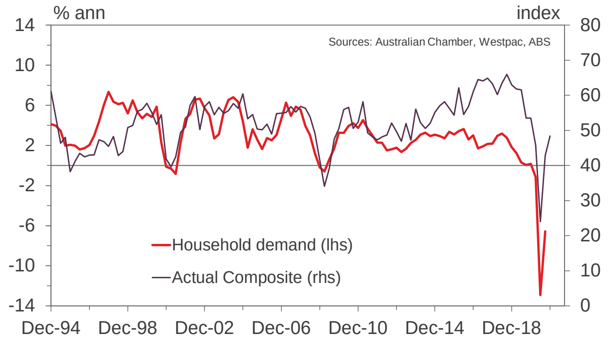
The business cycle & economic outlook

Manufacturing & the business cycle

- The Westpac–AusChamber Actual Composite index has a solid track record of predicting near-term domestic economic conditions and identifying turning points in the cycle.
- The covid pandemic and restrictions in response to the virus – notably temporary lock-downs – disrupted the activity and impacted global supply chains. Consumer spending in Australia plunged by 12.5% in the June quarter, at the height of the national lock-down.
- The reopening of economies – with some setbacks – was the key development in the December quarter, leading to an improvement of conditions across the manufacturing sector.
- Interestingly, new conditions under social distancing and the closure of international borders have boosted some sectors through expenditure switching.

Manufacturing & the business cycle

Westpac-AusChamber Composite & household demand

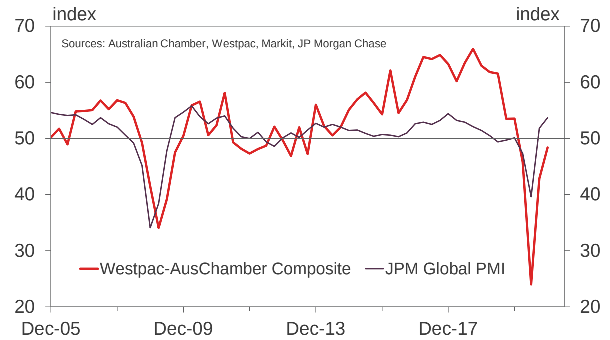


Australian & World manufacturing surveys

- 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.
- Although global manufacturing PMIs plummeted in April, they were among the few industries to experience an equally rapid comeback. They have since recovered to near pre-covid levels.
- China, with a significant manufacturing presence, has made a strong recovery. At its latest read, the Caixin China PMI was at 54.9, up from a low of 40.3.
- Both US and Eurozone manufacturing PMIs are sitting above the 50-threshold for expansion (56.7 and 53.8 respectively). This has been led by a pick up in output and new orders as economies reopen and business sentiment improves.

Australian & World manufacturing surveys

Westpac-AusChamber & Global PMI indexes

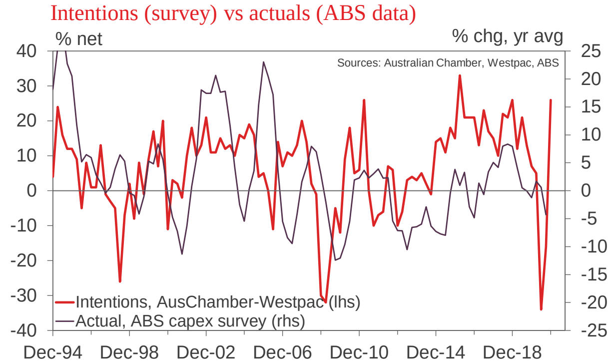


Manufacturing & business investment

- The AusChamber–Westpac survey has a solid track record of predicting equipment investment from the manufacturing sector.
- Firms' investment intentions have turned up, with a net 26% planning to increase plant and equipment investment in 2021. This is well above June's extreme low of a net 34% expecting to reduce spending.
- In the Q3 ABS capex update, manufacturing investment plans for 2020/21 while still pointing to a decline in spending were upgraded significantly on those previously. Between the Q2 and Q3 surveys the comparison to the corresponding estimate a year ago improved from -11% to -5%.
- The official data suggests that an overhang of spare capacity and broader uncertainty are still weighing on the investment outlook.

Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



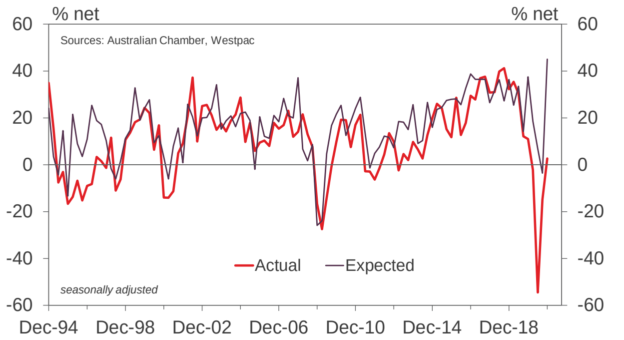
Activity & orders

Output *(seasonally adjusted)*

	Q3 2020	Q4 2020
Actual – net balance	–15	3
Expected – net balance	2	45

- The survey indicated that output expanded for the first time in the calendar year, albeit modestly. A net 3% of firms increased output over the December quarter, a significant improvement on the net 15% decline in September.
- Expectations spiked to a series high in December, a net 45% of firms expecting output will increase over the next three months. The surge reflects a recovery from an extremely low base, particularly as Victoria emerges from lock-down.
- The series is also capturing the fact that firms anticipate that output will rebound in Q1 - the new year is typically a slower period for activity, and a strong underlying result is being further compounded by seasonal adjustment.

Output growth
Actual & expected

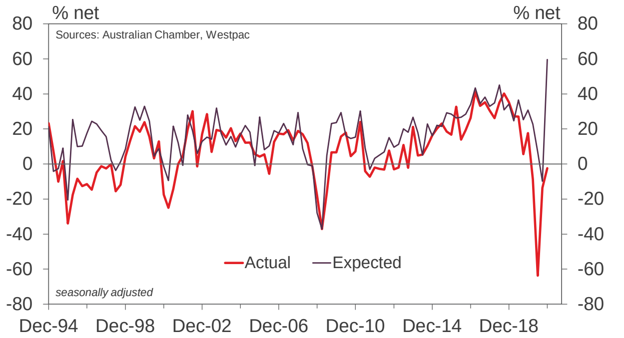


New orders *(seasonally adjusted)*

	Q3 2020	Q4 2020
Actual – net balance	-11	-2
Expected – net balance	-7	60

- New orders have stabilised, with a net 2% of firms reporting fewer new orders in December. This compares to a net 11% in September and a series low of 62% in June.
- The prospects for new orders have been buoyed by the reopenings and returning consumer confidence. Firms also foresee a "catching-up" of lost orders as conditions normalise.
- Consistent with the improvement in the business outlook, a net 60% of firms expect new orders will rise in the next quarter - a series high and a dramatic turnaround from the net 7% expecting new orders to decline in the September survey.

New orders
Actual & expected

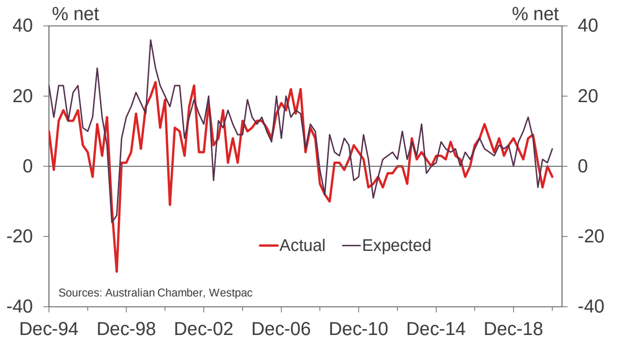


Exports

	Q3 2020	Q4 2020
Actual – net balance	0	-3
Expected – net balance	1	5

- Exports saw a modest contraction in Q4, with a net 3% of firms reporting a decline. This compares to a flat result in the Q3. Supply chain disruptions and weak international demand have remained a headwind to export growth throughout 2020.
- Around the outlook, firms were more upbeat. A net 5% anticipate rising exports in the first quarter of 2021. Firms may be considering the prospects of a vaccine, with governments around the world planning for immunisations to begin in late 2020/early 2021.
- Despite the pickup, expectations remain below their long-run average. Firms are still circumspect around the fragility of the global economy and the potential for trade tensions to escalate further.

Export deliveries
Actual & expected



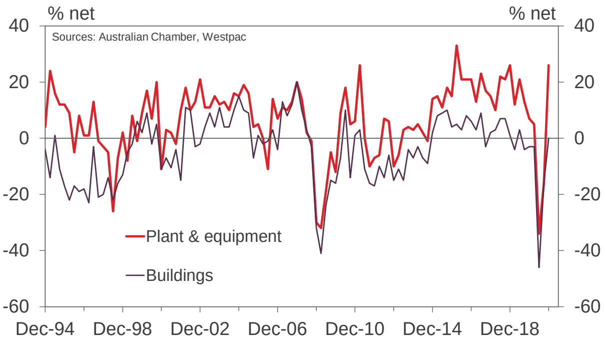
Investment & profitability

Investment intentions

	Q3 2020	Q4 2020
Plant & Equipment – net balance	–16	26
Building – net balance	–16	0

- Investment intensions turned around in the December survey. Firms are responding to the improvement in the general business outlook and preparing for an anticipated burst of orders in the new year.
- A net 26% of firms are intending to increase plant and equipment investment over the next 12 months, a sizeable improvement on the net 16% planning to reduce spending in September and the highest read in two years.
- Building intentions for the year ahead were less upbeat, printing flat on balance. However, this was an increase from the net 16% planning to reduce spending in September. Building investment is unlikely to post a meaningful turnaround until firms rein in excess capacity.

Investment intentions
Next twelve months

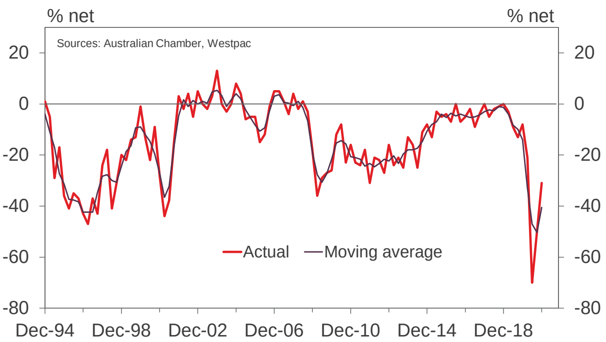


Capacity utilisation

	Q3 2020	Q4 2020
Net balance	–50	-31

- The recession of 2020 associated with the response to covid leaves the manufacturing sector and the broader economy with considerable excess capacity.
- At the nadir of the crisis in June, a net 70% of firms reported underutilitsation. Following this, September's survey revealed a moderate improvement to a net 50%.
- In December, firms have continued to make headway, with a net 31% of firms indicating they were operating below capacity. Expressed differently, 52% of firms were at or above full capacity in December, up from 39% in September.
- Ongoing restrictions - such as social distancing requirements in the workplace - are impacting the ability of firms to operate normally.

Capacity utilisation

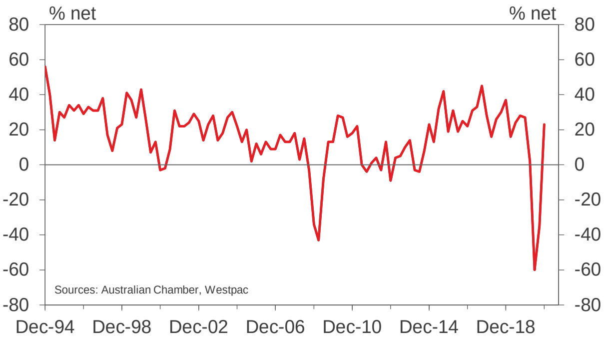


Profit expectations

	Q3 2020	Q4 2020
Net balance	-35	23

- The profitability of the manufacturing sector has been hard hit by the covid recession.
- Manufacturers' profit expectations plummeted in June, before posting a moderate improvement in September.
- The December survey saw expectations recover: a net 23% of firms now anticipate that profits will rise in the coming year. Profit expectations are now sitting around their long-run average.
- The turnaround in expectations is consistent with the burst of activity that firms anticipate in the coming quarter. Stronger selling price expectations are providing support, but cost pressures remain a concern.

Profit expectations
Next twelve months



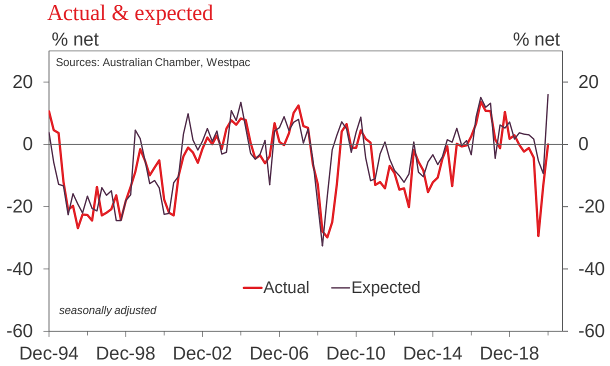
The labour market

Numbers employed *(seasonally adjusted)*

	Q3 2020	Q4 2020
Actual – net balance	–14	0
Expected – net balance	–8	16

- Firms have made material adjustments to their business operations in response to the covid recession. During the June and September quarters, this included a scaling back of their workforces.
- The December survey indicates that employment dynamics in the manufacturing sector have stabilised. The number of firms that decreased employment over the quarter was equivalent to the number that reported an increase. The vast majority of firms reported no change to the size of their workforce.
- Expectations of future employment were a positive in the Q4 update. Approaching the series high, a net 16% of firms plan to expand their workforce in the coming months.

Numbers employed
Actual & expected

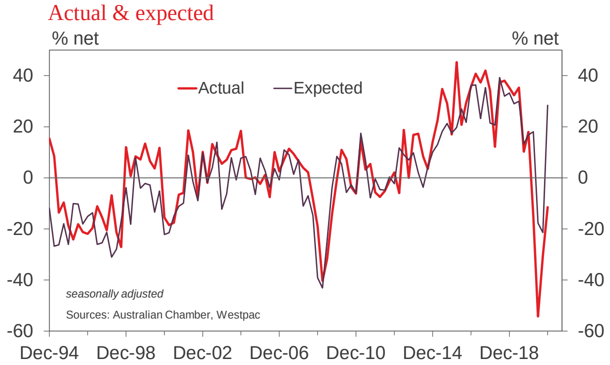


Overtime worked *(seasonally adjusted)*

	Q3 2020	Q4 2020
Actual – net balance	–28	–11
Expected – net balance	–17	28

- Consistent with the degree of underutilisation, the use of overtime remained soft in December.
- The survey reports that a net 11% of firms reduced overtime. However, this represents a material improvement on the net 28% in September, and is well above the net 54% in June (a level not seen since the trough of the 1990's recession)
- Overtime expectations turned up sharply in December, keeping pace with the improvement in the broader outlook. A net 28% of firms foresee an increase in overtime in the coming months. This print is consistent with the levels that prevailed between 2016 and 2019.

Overtime worked
Actual & expected

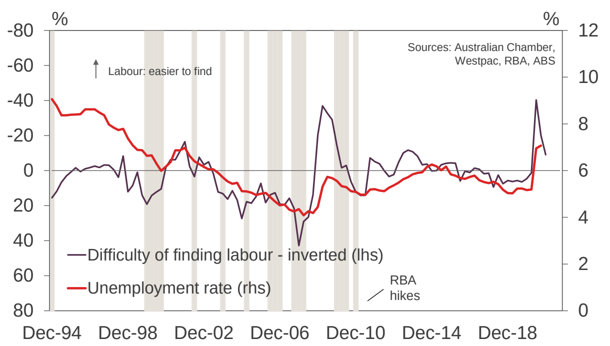


Difficulty of finding labour *(seasonally adjusted)*

	Q3 2020	Q4 2020
Net balance	–20	–9

- 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 9% of firms indicated labour was "easier to find" in December, an improvement on a net 20% in September. When asked to identify the factors constraining output, "labour" contributed its second largest share since 2008. International and inter-state border closures may be hindering firms' ability to meet their hiring intentions.
- The covid recession has seen the unemployment rate jump from around 5.0% in February to 7.5% in July. The October labour force survey reported that the unemployment rate is currently 7.0%.

Labour market tightness



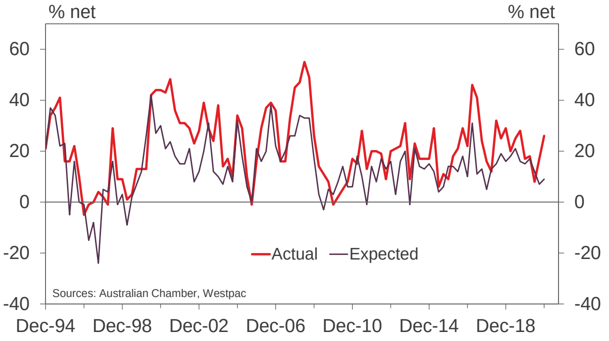
Prices & inflation

Average unit costs

	Q3 2020	Q4 2020
Actual – net balance	17	26
Expected – net balance	7	9

- In the years prior to covid, input cost inflation was a heightened concern for manufacturing firms - most notably around energy costs.
- Cost escalation is an ongoing issue - which is even more challenging during covid as revenues fall. In December, a net 26% of firms reported that input costs rose, up from a net 17% in September.
- The heightened proportion of "labour" serving as an output constraint is one contributor to rising costs. In the December survey, firms also reported that "materials" were limiting production at the highest rate since 1975 - supply chain disruptions are a likely cause.

Average unit costs
Actual & expected

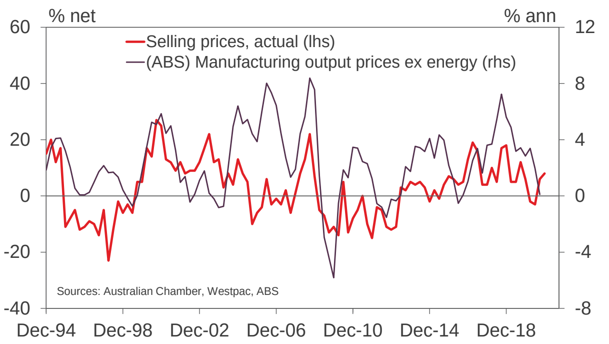


Average selling prices

	Q3 2020	Q4 2020
Actual – net balance	6	8
Expected – net balance	5	12

- Selling price increases have typically been more moderate relative to the rise in average unit costs.
- This dynamic was evident in the final quarter of 2020. The latest survey reports that a net 8% of respondents increased prices in Q4, in comparison to the net 26% that faced rising input costs over the same period.
- A net 12% of respondents expect selling prices will rise over the next three months as the economy reopens.
- Rising commodity prices will also be playing a role in higher cost, which may be passed on through higher prices.

Manufacturing upstream price pressures

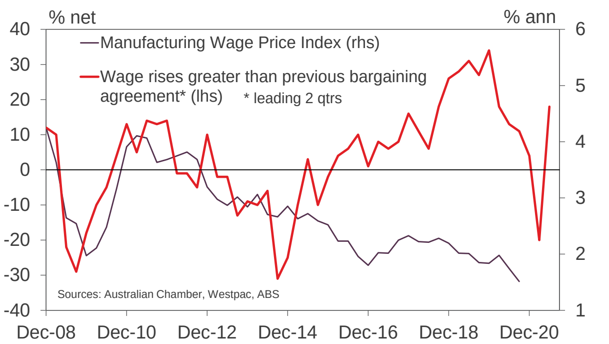


Manufacturing wages

	Q3 2020	Q4 2020
Net balance	–20	18

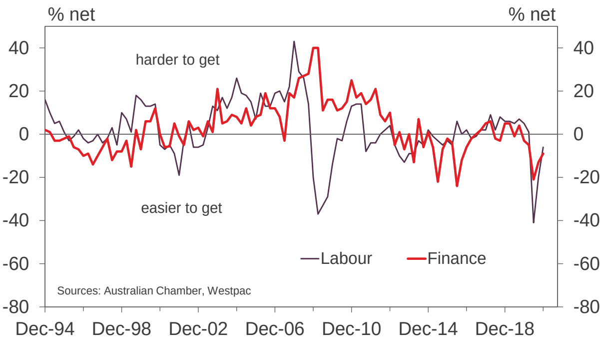
- The survey reports that firms expect upward revisions to manufacturing wages - reversing the decline observed during the peak of the crisis.
- In December, a net 18% of respondents expect that their next wage deal will deliver an outcome above their last, firmly above the net 20% who expected lower outcomes in the September survey.
- Official data shows that manufacturing wage inflation has been slowing since late 2018. In the November Statement on Monetary Policy, the RBA noted that wage freezes had been a common response to the impact of the pandemic on business conditions. More than half of the firms in the Bank's liaison program reported they had enacted a wage freeze or expected to implement one in the year ahead.

Manufacturing wage growth



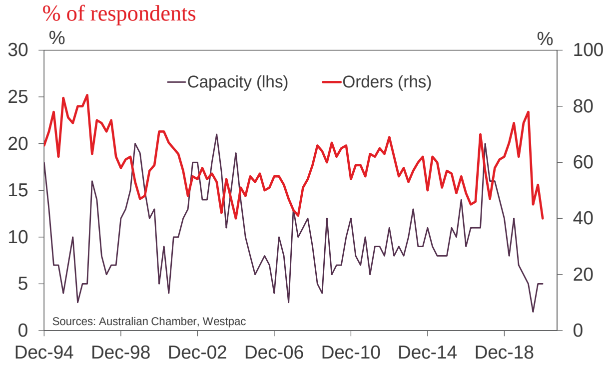
Other results

Availability of labour & finance



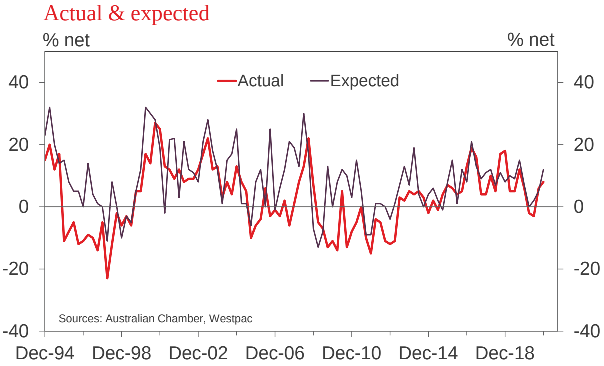
Key factor limiting production

% of respondents

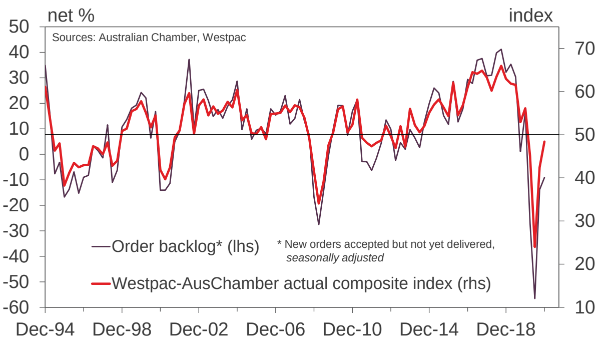


Average selling prices

Actual & expected

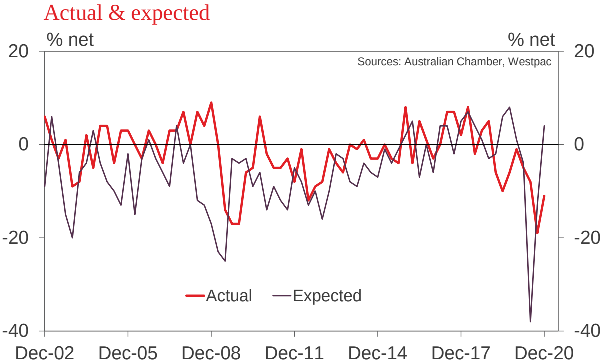


Order backlog & actual conditions



Stocks of finished goods

Actual & expected



Factors limiting production

	Q2 2020	Q3 2020	Q4 2020
Orders (%)	45	52	40
Capacity (%)	2	5	5
Labour (%)	4	3	9
Finance (%)	3	0	3
Materials (%)	2	4	10
Other (%)	44	36	31
None (%)	0	0	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
51	61	29	10

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

Net balance	Above Normal	Normal	Below Normal
-31	17	35	48

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

None	2	Orders	40
Material	10	Finance	3
Labour	9	Capacity	5
Other	31		

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?	-6	20	54	26
(b)	finance?	-9	9	73	18

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?	0	15	70	15
(b)	on plant & machinery?	26	34	58	8

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	4	13	78	9	16	23	70	7
7.	Overtime worked	4	24	56	20	21	31	59	10
8.	All new orders received	13	36	41	23	47	58	31	11
9.	Orders accepted but not yet delivered	3	16	71	13	7	20	67	13
10.	Output	14	37	40	23	41	48	45	7
11.	Average costs per unit of output	26	29	68	3	9	16	77	7
12.	Average selling prices	8	12	84	4	12	13	86	1
13.	Export deliveries	-3	9	79	12	5	12	81	7
14.	Stock of raw materials	-7	17	59	24	9	22	65	13
15.	Stocks of finished goods	-11	12	65	23	4	19	66	15

Summary of results *(not seasonally adjusted)*

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

(a) Improve?	40
(b) Remain unchanged?	43
(c) Decline?	17
Net balance	**23**

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?	70
(c) Less?	6
Net balance	**18**

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	18
Textiles, fabrics, floor coverings, felt, canvas, rope	5
Clothing, footwear	3
Wood, wood products, furniture	5
Paper, paper products, printing	7
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	10
Non-metallic mineral products: glass, pottery, cement bricks	6
Basic metal products: processing, smelting, refining, pipes & tubes	1
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	13
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	2
Other machinery & equipment: electrical, industrial scientific, photographic	23
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	7

B. How many employees are covered by this return?

1-100	101-200	201-1000	Over 1000
61	11	10	18

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

WA	SA	VIC	NSW/ACT	QLD	TAS
8	12	29	36	12	3

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 8 December 2020
Publication enquiries, Economics, Telephone (61-2) 8254 8720, economics@westpac.com.au

Things you should know.

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