

# Australian Chamber–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

## 238<sup>th</sup> report March 2021 (survey conducted 8 February to 1 March 2021)

- 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 60.4 in the March quarter after rising to 48.8 in the December quarter and 43.4 in the September quarter. The recovery follows a dramatic fall to 24.0 in the June quarter associated with the initial lockdown and the response to Covid.
- With the activity index above 50, this suggests conditions are expanding. The survey reports that output started the year on a strong note and new orders have increased for the first time since Q4 2019.
- The Covid pandemic, and the measures to combat the virus, had a significant impact on the Australian economy - which slumped into recession in 2020 for the first time in 29 years. In the second half of the year, activity recovered briskly, with GDP advancing 3.4% and 3.1% in Q3 and Q4 respectively. This momentum has carried into the first quarter of 2021.
- As with the broader economy, this rebound is evident across the manufacturing sector. The construction industry, which had experienced a prolonged downturn, has begun to pick up as low interest rates and the HomeBuilder scheme support housing demand. Equipment investment has also lifted on the Federal Government's tax initiatives.
- Respondents' expectations around their own businesses have jumped higher on Australia's continued success in containing the virus and the broader activity rebound. At 67.4, the Expected Composite held at historically high levels in March, albeit a notch below the December survey at 69.6. This strong print points to a burst of new orders and output as we move further into 2021.
- Manufacturers are also optimistic around the general outlook. A net 46% of respondents expect the general business situation to improve over the next six months, broadly in line with the net 51% from the December survey, and well above the net 18% who expected conditions to deteriorate in September.
- Exports stabilised in March, but have lagged the recovery seen across the other subcomponents. Fragilities in the global trade network and elevated trade tensions remain a headwind.
- The March survey saw continued strength in profit expectations, a net 21% of firms expecting profitability to improve in coming months. Moreover, hiring intentions advanced to record levels, with a net 21% of firms intending to expand their workforce over the June quarter.
- Despite the positive update, there are still some clouds hanging over the manufacturing sector. In Q1, a net 23% of firms reported that input costs rose, in part a function of border closures and shortages of materials. For the first time since 2019, firms reported that labour was more difficult to find, and when asked to identify the factors constraining output, 'labour' contributed its largest share since 2007.

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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 238<sup>th</sup> consecutive survey was closed on 1 March 2021.

A total of **259** 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 and June 2021.

# Key survey results

## Westpac–AusChamber Composites *(seasonally adjusted)*

	Q4 2020	Q1 2021
Actual – composite index	48.8	60.4
Expected – composite index	69.6	67.4

- The Westpac–AusChamber Actual Composite improved markedly in the March survey, rising to 60.4 from 48.8 in December. This continues the recovery from the dramatic fall to 24.0 in June on the national lock-down.
- With the index above 50, this suggests that the sector is expanding. Output began 2021 on a strong note and orders rose for the first time in five quarters.
- At 67.4, the Expected Composite held at historically high levels in March, albeit a notch below the December survey at 69.6. This strong reading points to an expected burst of new orders and output as we move further into 2021, in part a catch-up after a challenging year.

## Westpac–AusChamber Labour Market Composite

	Q4 2020	Q1 2021
Composite index	43.3	48.0

- 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 Q2 2020, the Composite plunged to 29.7. The index improved over the following quarters, to be at 48.0 in March 2021.
- This profile is broadly consistent with official data. The January ABS labour force survey showed that employment was 6.7% above the nadir of the crisis, but 0.4% below January 2020. The ongoing recovery of the Composite suggests the labour market will continue to heal over coming months.

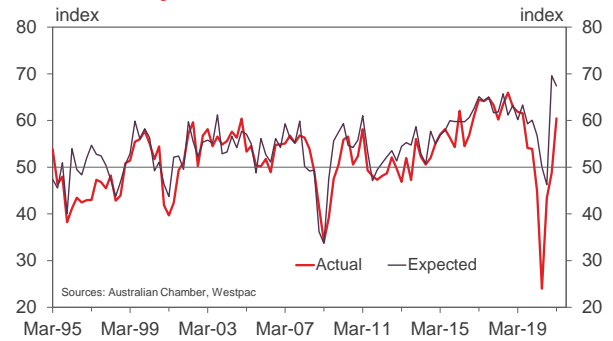
## General business situation

	Q4 2020	Q1 2021
Net balance	51	46

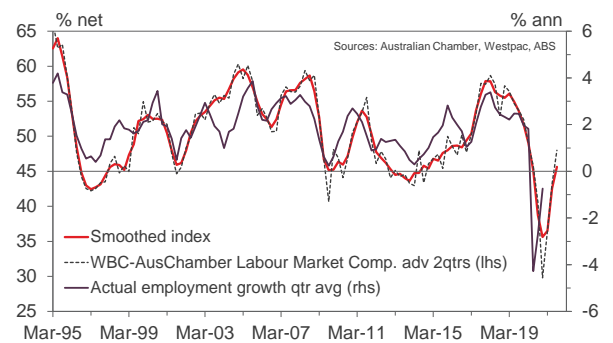
- Manufacturing sentiment was severely shaken by the Covid crisis and the ensuing recession. The initial restrictions from the national lock-down, and the second wave in Victoria, served as a major headwind to the outlook.
- In the March quarter, expectations remained exuberant. A net 46% of respondents now anticipate that the general business situation will improve over the next six months.
- That is broadly in line with the Q4 reading of 51%, and a dramatic improvement on Q3, when a net 18% of firms expected conditions to deteriorate.
- The drivers include the success in suppressing the virus, the commencement of the domestic vaccine rollout, and the strong rebound in activity.

## Westpac-AusChamber Composite indexes

Actual & expected, sa

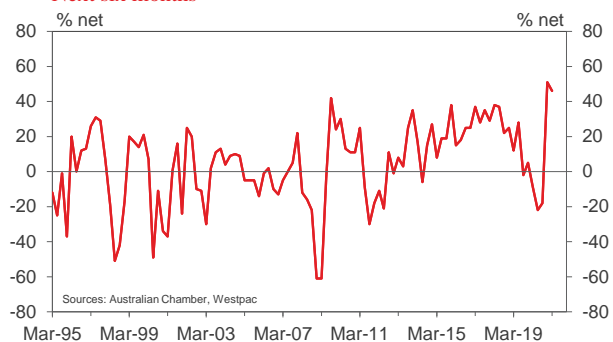


## Employment: hit by Covid recession



## General business situation

Next six months



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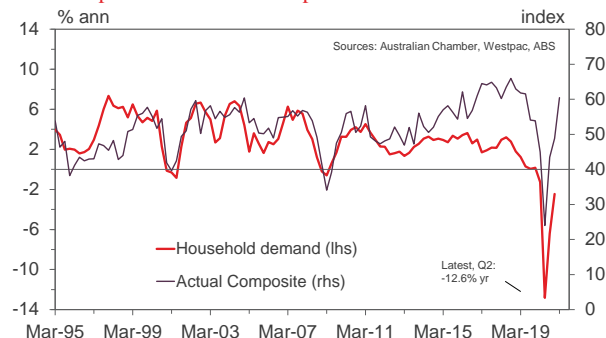
# The business cycle & economic outlook

## Manufacturing & the business cycle

- The Westpac-AusChamber Actual Composite index has a solid track record of predicting near-term domestic economic conditions and identifying turning points in the cycle.
- The Covid pandemic, and restrictions in response to the virus, disrupted activity and impacted global supply chains. Consumer spending in Australia plunged 12.5% in the June quarter, at the height of the national lock-down.
- Over the rest of 2020, the economy posted a strong recovery. GDP advanced 3.4% and 3.1% in Q3 and Q4 respectively, and this momentum has continued into the new year.
- The continued reopening of economies was the key development in Q1 2021, leading to an improvement of conditions across the manufacturing sector.

## Manufacturing & the business cycle

Westpac-AusChamber Composite & household demand

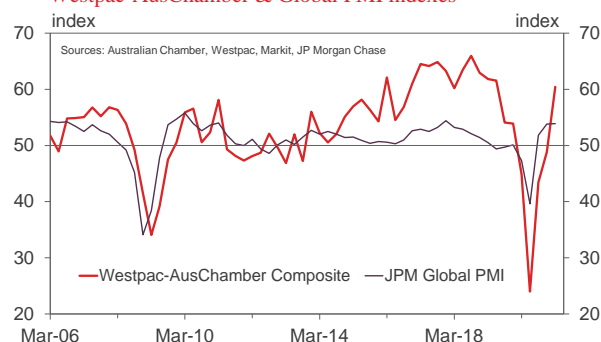


## Australian & World manufacturing surveys

- 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. Many surveys have recovered to be above pre-covid levels.
- China, with a significant manufacturing presence, has made a strong recovery. At its latest read, the Caixin China PMI was at 50.9, up from a low of 40.3.
- Both US and Eurozone manufacturing PMIs are sitting firmly above the 50-threshold for expansion (58.6 and 57.9 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

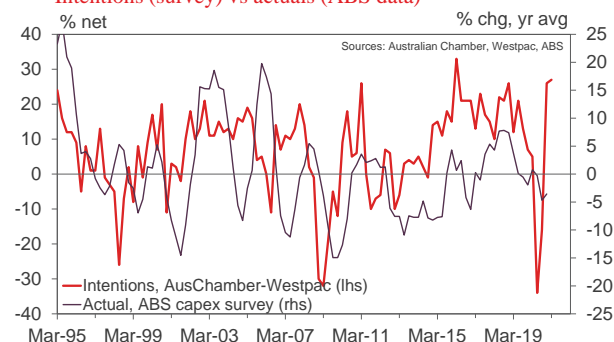


## Manufacturing & business investment

- The AusChamber-Westpac survey has a solid track record of predicting equipment investment from the manufacturing sector.
- Firms' investment intentions have continued to rebound, with a net 27% of respondents 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.
- The official ABS data provides tentative evidence of a turning point in equipment spending - by the sector and across the economy more generally, a development encouraged by tax incentives.
- For the December quarter 2020, the ABS capex survey reports equipment spending by the manufacturing sector advanced, to be modestly higher than the corresponding quarter a year earlier.

## Manufacturing equipment investment

Intentions (survey) vs actuals (ABS data)



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# Activity & orders

## Output *(seasonally adjusted)*

	Q4 2020	Q1 2021
Actual - net balance	3	21
Expected - net balance	47	52

- The survey indicated that output began the new year on a strong note. A net 21% of firms increased output over the March quarter, a significant improvement on the net 3% in December.
- Orders continue to be the single factor most limiting production, identified as the primary constraint for 54% of respondents. The proportions attributed to labour, materials and "other" (likely Covid related disruptions) are also running at historically elevated levels.
- Expectations pushed to a series high in March, a net 52% of firms expecting output will increase over the next three months. The surge reflects a recovery from an extremely low base, particularly in the wake of the Victorian lockdowns.

## New orders *(seasonally adjusted)*

	Q4 2020	Q1 2021
Actual - net balance	-1	27
Expected - net balance	61	46

- New orders have turned positive for the first time in five quarters, with a net 27% of firms reporting rising new orders in March. This compares to a net 1% reporting that new orders fell in December, and is well above the 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 46% of firms expect new orders will rise in the next quarter. Boosting orders is the strong housing upturn, in both new dwellings and renovations, and rising equipment investment on the Federal Government's tax initiatives.

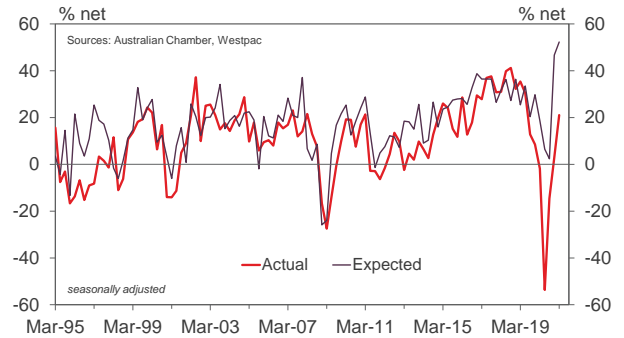
## Exports

	Q4 2020	Q1 2021
Actual - net balance	-3	-1
Expected - net balance	5	6

- Exports saw a modest contraction in Q1, with a net 1% of firms reporting a decline. This compares to a net 3% reporting a fall in exports over December. Supply chain disruptions and border closures remain a headwind to export growth as we move into 2021.
- Around the outlook, firms were more upbeat. A net 6% anticipate that exports will rise in the second quarter of 2021. This is a marginal improvement on the net 5% expecting a rise in exports in Q4.
- Despite the pickup, firms are still circumspect around the disruptions to the global trade network and the impact of ongoing tensions with a major trading partner. The recent appreciation of the Australian dollar toward USD 0.80 is also serving as a headwind.

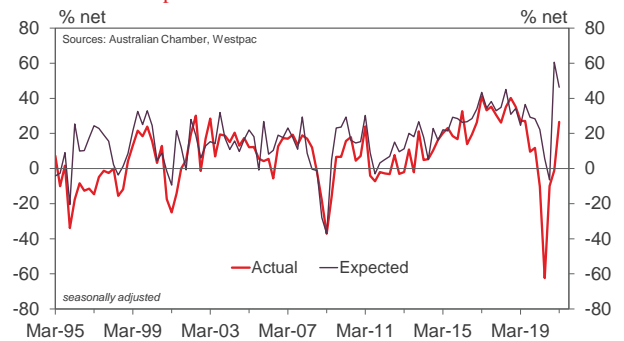
## Output growth

### Actual & expected



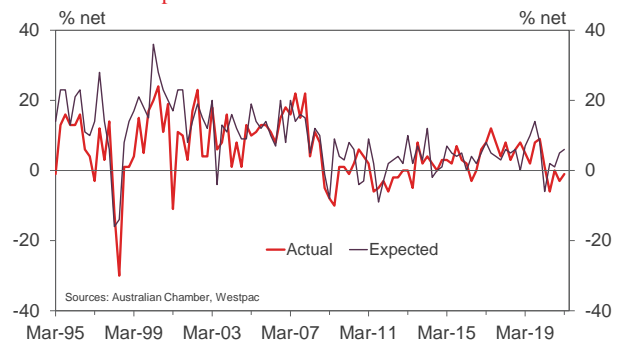
## New orders

### Actual & expected



## Export deliveries

### Actual & expected



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# Investment & profitability

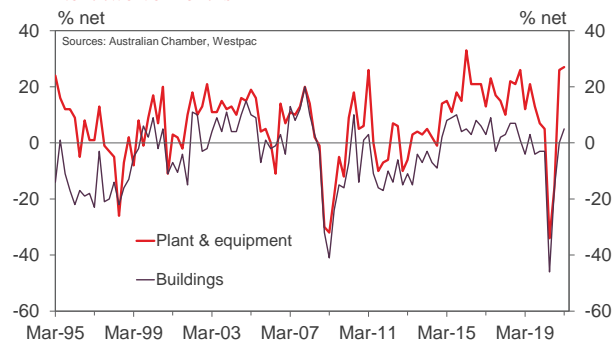
## Investment intentions

	Q4 2020	Q1 2021
Plant & Equipment - net balance	26	27
Building - net balance	0	5

- Investment intentions continued to improve in the March survey. Firms are responding to the improvement in the general business outlook and preparing for an anticipated burst of orders in the coming quarter.
- A net 27% of firms are intending to increase plant and equipment investment over the next 12 months, broadly in line with the net 26% in December, and the highest read in five years.
- Building intentions for the year ahead also turned positive, a net 5% planning an increase. This compares to a flat read in the December survey. Firms will need to rein in excess capacity before building investment can post a significant recovery.

## Investment intentions

Next twelve months

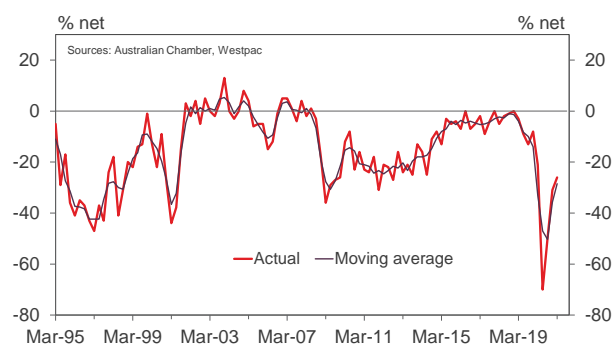


## Capacity utilisation

	Q4 2020	Q1 2021
Net balance	-31	-26

- 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 underutilisation. By the December survey, this had improved to a net 31%.
- In March, firms continued to make headway, with a net 26% of respondents indicating they were operating below capacity. Expressed differently, 59% of firms were at or above full capacity in March, up from 52% in December.
- Ongoing restrictions - such as social distancing requirements in the workplace and circuit-breaker lockdowns - are impacting the ability of firms to operate normally.

## Capacity utilisation



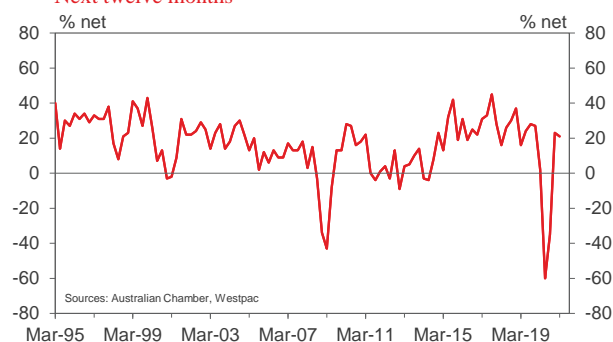
## Profit expectations

	Q4 2020	Q1 2021
Net balance	23	21

- The profitability of the manufacturing sector was hard hit by the Covid recession.
- Manufacturers' profit expectations plummeted in June, and then improved considerably into year end.
- In March, profit expectations remained upbeat: a net 21% of firms anticipating that profits will rise in the coming year.
- Although profit expectations are holding around the long-run average, they have eased off from a net 23% in December. One contributing factor is the significant rise in commodity prices over the quarter, and the flow on effects to unit costs.

## Profit expectations

Next twelve months



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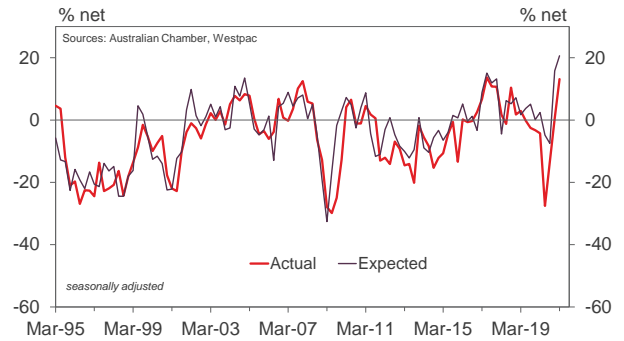
# The labour market

## Numbers employed *(seasonally adjusted)*

	Q4 2020	Q1 2021
Actual - net balance	1	13
Expected - net balance	16	21

- 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 March survey indicates that employment dynamics in the manufacturing sector have improved. A net 13% of firms increased employment over the quarter, up from a net 1% in December. In seasonally unadjusted terms, 80% of firms reported no change to the size of their workforce in Q1.
- Expectations of future employment were positive. Currently at a series high, a net 21% of firms plan to expand their workforce in the coming months.

## Numbers employed Actual & expected

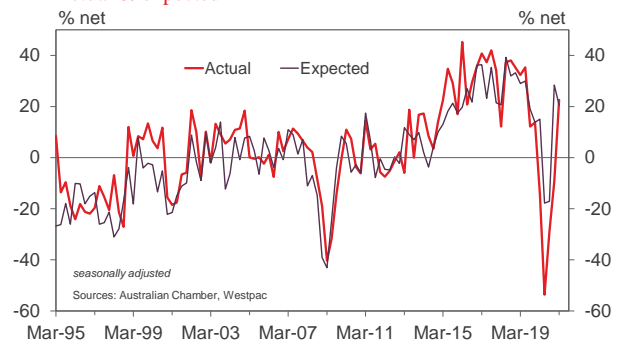


## Overtime worked *(seasonally adjusted)*

	Q4 2020	Q1 2021
Actual - net balance	-9	23
Expected - net balance	28	20

- Consistent with buoyant output and new orders, the use of overtime picked up in March.
- The survey reports that a net 23% of firms increased overtime. This is a material improvement on the net 9% reporting reduced overtime in December, and is well above the net -54% in June (a level not seen since the trough of the 1990's recession).
- Overtime expectations moderated in March, with a net 20% of firms foreseeing an increase in overtime in the coming months compared to a net 28% in December. Elevated rates of spare capacity remain a drag on the use of overtime.

## Overtime worked Actual & expected

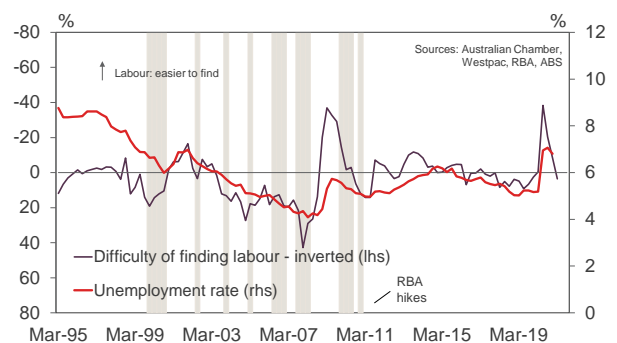


## Difficulty of finding labour *(seasonally adjusted)*

	Q4 2020	Q1 2021
Net balance	-8	4

- 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 4% of firms indicated labour was "harder to find" in March. This is a turnaround from December, when a net 8% reported labour was "easier to find" and is the first time this measure has been above zero since late 2019.
- When asked to identify the factors constraining output, "labour" contributed its largest share since December 2007. International and inter-state border closures may be hindering firms' ability to meet their hiring intentions.

## Labour market tightness



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# Prices & inflation

## Average unit costs

	Q4 2020	Q1 2021
Actual - net balance	26	23
Expected - net balance	9	16

- 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 was even more challenging during the Covid crisis as revenues fell. In March, a net 23% of firms reported that input costs rose, broadly in line with a net 26% in December.
- The heightened proportion of "labour" serving as an output constraint is one contributor to rising costs. In the March and December surveys, firms also reported that "materials" were limiting production at the highest rate since 1975 - supply chain disruptions are a likely cause.

## Average selling prices

	Q4 2020	Q1 2021
Actual - net balance	8	7
Expected - net balance	12	12

- Selling price increases have typically been more moderate relative to the rise in average unit costs.
- This dynamic was evident in the first quarter of 2021. The latest survey reports that a net 7% of respondents increased prices in Q1, in comparison to the net 23% 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 continues to reopen.
- Rising commodity prices will also be playing a role in higher costs, which may be passed on through higher prices.

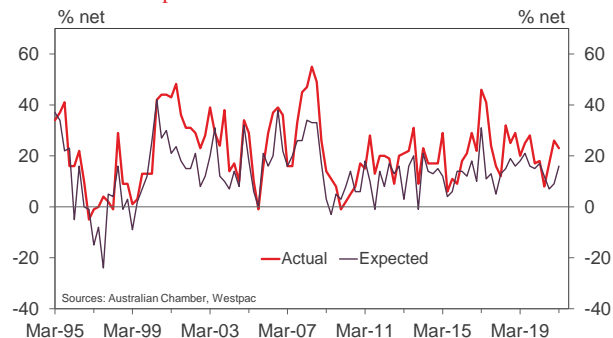
## Manufacturing wages

	Q4 2020	Q1 2021
Net balance	18	16

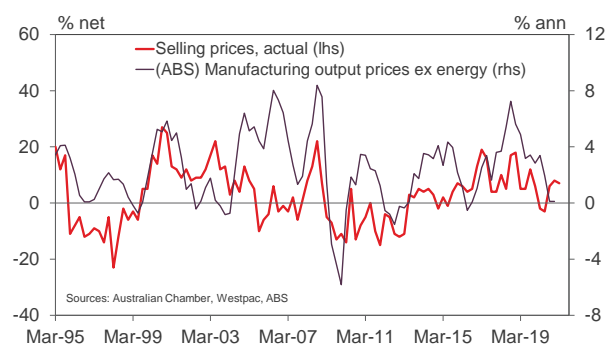
- The survey reports that firms expect upward revisions to manufacturing wages - reversing the decline observed during the peak of the crisis.
- In March, a net 16% of respondents expect that their next wage deal will deliver an outcome above their last. This is firmly above the trough in September of a net 20% who expected lower outcomes.
- The recent lift in manufacturing wage expectations is consistent with official data. Although annual growth of the ABS Wage Price Index held at a series low of 1.4%yr in Q4, the index jumped 0.6%qtr over the three months to December (the largest quarterly increase since June 2019). This was largely a function of unwinding wage freezes, and a reversal of the short-term wage cuts introduced earlier in the year.

## Average unit costs

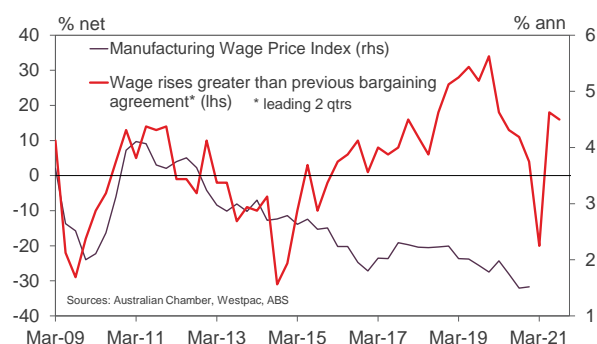
Actual & expected



## Manufacturing upstream price pressures



## Manufacturing wage growth

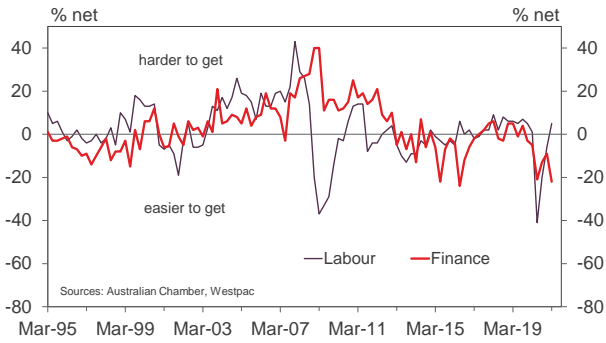


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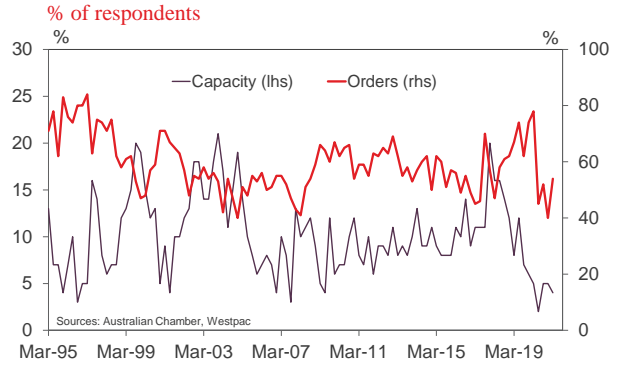


# Other results

**Availability of labour & finance**

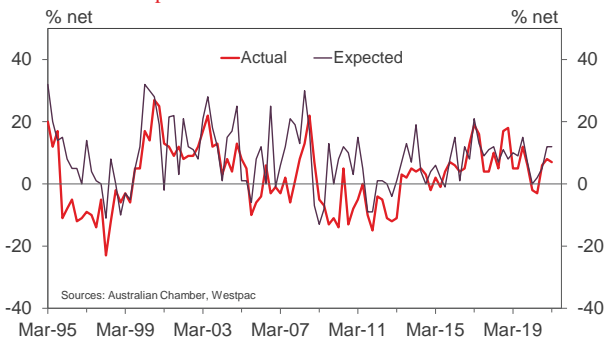


**Key factor limiting production**

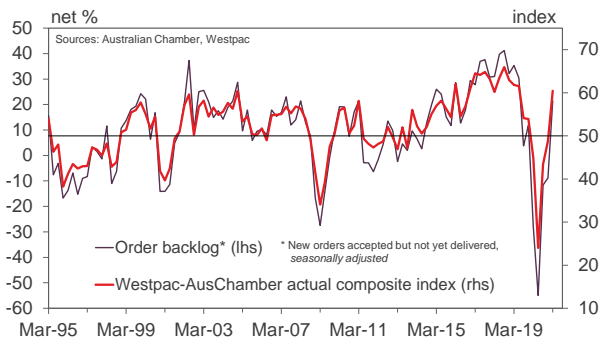


**Average selling prices**

Actual & expected

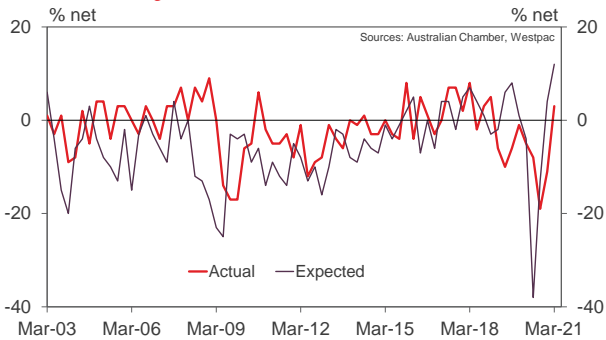


**Order backlog & actual conditions**



**Stocks of finished goods**

Actual & expected



**Factors limiting production**

	Q3 2020	Q4 2020	Q1 2021
Orders (%)	52	40	54
Capacity (%)	5	5	4
Labour (%)	3	9	15
Finance (%)	0	3	2
Materials (%)	4	10	10
Other (%)	36	31	15
None (%)	0	2	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
46	54	38	8

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

Net balance	Above Normal	Normal	Below Normal
-26	15	44	41

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

None	0	Orders	54
Material	10	Finance	2
Labour	15	Capacity	4
Other	15		

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	23	59	18
(b) finance?	-22	6	66	28

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?	5	15	75	10
(b) on plant & machinery?	27	34	59	7

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	10	15	80	5	20	22	76	2
7. Overtime worked	10	25	60	15	25	31	63	6
8. All new orders received	21	39	43	18	53	58	37	5
9. Orders accepted but not yet delivered	14	23	68	9	20	25	70	5
10. Output	12	29	54	17	55	58	39	3
11. Average costs per unit of output	23	26	71	3	16	23	70	7
12. Average selling prices	7	9	89	2	12	12	88	0
13. Export deliveries	-1	9	81	10	6	11	84	5
14. Stock of raw materials	6	18	70	12	16	25	66	9
15. Stocks of finished goods	3	14	75	11	12	22	68	10

# Summary of results (not seasonally adjusted)

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

(a) Improve?	36
(b) Remain unchanged?	49
(c) Decline?	15
<b>Net balance</b>	<b>21</b>

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?	19
(b) Same?	78
(c) Less?	3
<b>Net balance</b>	<b>16</b>

A. Industry profile of survey:

	(% of respondents)
Food, beverages, tobacco	16
Textiles, fabrics, floor coverings, felt, canvas, rope	5
Clothing, footwear	4
Wood, wood products, furniture	2
Paper, paper products, printing	8
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	12
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	15
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	3
Other machinery & equipment: electrical, industrial scientific, photographic	22
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	5

B. How many employees are covered by this return?

1-100	101-200	201-1000	Over 1000
59	9	12	20

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

WA	SA	VIC	NSW/ACT	QLD	TAS
10	9	25	42	11	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.



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