

# Australian Chamber–Westpac Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

## 240<sup>th</sup> report September 2021 (survey conducted from 16 August to 13 September)

- 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 Survey for the September quarter, conducted through August to 13 September, found that the current rounds of lockdowns, centred in NSW and Victoria, as well as the ACT, have adversely impacted the manufacturing the sector. That was to be expected.
- The key point of interest, the severity of this latest shock. The positive news is that the Survey reports a degree of resilience in the face of the Delta outbreak. Output stalled, rather than contracting, and new orders expanded, rather than collapsing as occurred in 2020.
- The Westpac–AusChamber Actual Composite moderated to 51.2 in the September quarter, down from 63.1 for June. With a reading approaching 50, this indicates that conditions in the manufacturing sector largely stalled. Output was flat, so too employment with the impact of the NSW and Victorian disruptions offset by gains elsewhere.
- New orders expanded in the quarter, as reported by a net 12% of respondents – a moderation from a net 35% in the June quarter. The ongoing expansion in orders is in stark contrast to the collapse during the initial lockdown of 2020, when orders declined by a net -53% in the June quarter.
- The economy had considerable momentum ahead of the latest lockdowns, with an upswing in home building, strong consumer spending and rising government support, all providing a boost to the manufacturing sector. By contrast, conditions were already sluggish ahead of the initial lockdown.
- The survey finds that manufacturers are relatively positive about the outlook, with confidence that high vaccination rates will see NSW and Victoria reopen in the coming months, leading to a rebound in activity. The Expected Composite index is well above the 50 level, at 57.5, down only modestly from 60.6. A net 21% of respondents anticipate a rise in new orders in the December quarter.
- Notwithstanding a degree of resilience in the face of Delta and positive expectations, the survey found that the sector faces a number of challenges.
- Cost pressures have escalated during the pandemic to be at elevated levels, with a net 37% reporting a lift in costs. This, and the hit from the lockdowns, is hurting profitability, with a net 1% expecting profits to decline over the year ahead.
- Manufacturers’ ability to produce is being constrained by a number of aspects associated with the pandemic. Global supply bottlenecks have material constraints at the highest level since the oil shock of the mid-1970s, the survey finds. Border closures have contributed to labour constraints, which for the past three quarters were on average the highest since 2000, and before that, 1989.

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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 240<sup>th</sup> consecutive survey was closed on 13 September 2021.

A total of **210** 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 November and December 2021.

# Key survey results

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

	Q2 2021	Q3 2021
Actual – composite index	63.1	51.2
Expected – composite index	60.6	57.5

- The Westpac-AusChamber Actual Composite moderated to 51.2 in the Q3 survey, down from 63.1.
- With a reading approaching 50, this indicates that conditions largely stalled in the period. Output was flat, so too employment. New orders increased (albeit at a slower rate) while overtime declined.
- The lockdowns in NSW and Victoria are weighing on the manufacturing sector, although the impact is considerably less than the experience last year - the index plunged to a historic low of 24.0 in June 2020.
- Respondents see the current disruptions as temporary, anticipating a rebound in activity next quarter. The Expected Composite is at 57.5, down from 60.6, but still well above the 50 mark.

## Westpac–AusChamber Labour Market Composite

	Q2 2021	Q3 2021
Composite index	50.6	47.2

- The survey provides insights into economy-wide employment growth. This highlights the key linkages between manufacturing and the labour market.
- Over recent years, the Westpac–AusChamber Labour Market Composite continued to broadly track the large swings in employment.
- In this update, the Labour Market Composite moderated to 47.2, down from 50.6.
- This weakening of the index points to some near-term labour market pressures. This is to be expected as the Australian economy navigates another round of lockdowns, this time associated with the Bondi Delta outbreak.

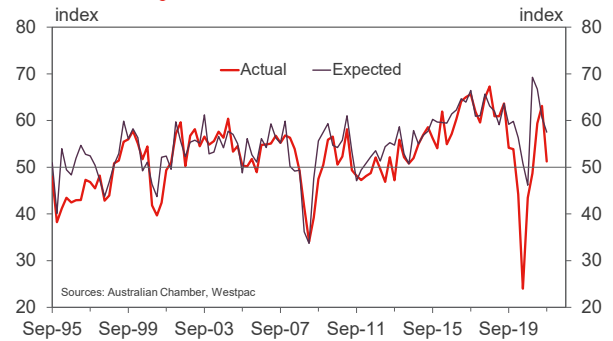
## General business situation

	Q2 2021	Q3 2021
Net balance	43	21

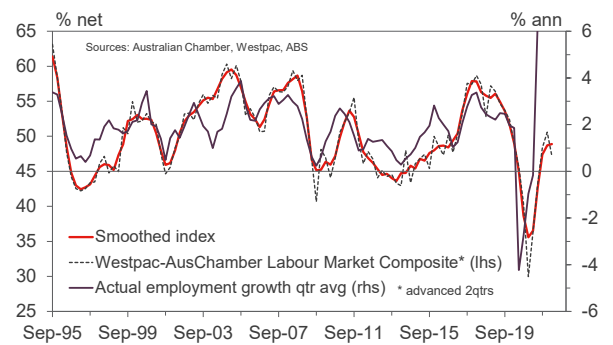
- Manufacturing sentiment is proving to be relatively resilient in the face of the Delta outbreak and the latest round of lockdowns.
- In the September quarter, respondents are positive. A net 21% expect the general business situation to improve over the next six months. While well down from +43% in Q2 this is still an above average reading.
- This resilience contrasts with the 2020 experience, when sentiment turned deeply negative (-22% in the June quarter). That was alongside a collapse in new orders, whereas on this occasion new orders rose.
- There is confidence that high vaccination rates provide a path out of lockdown; and that conditions will rebound, given recent strong momentum.

## Westpac-AusChamber Composite indexes

Actual & expected, sa

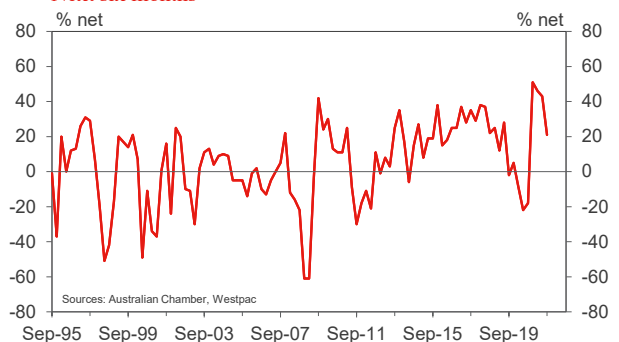


## Labour Composite and employment trends



## General business situation

Next six months



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.

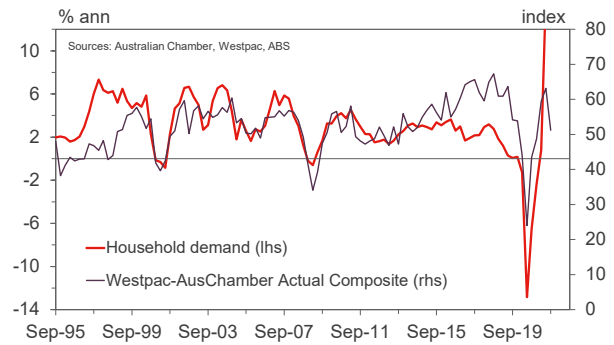
# The business cycle & economic outlook

## 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.
- The subsequent relaxation of restrictions, alongside substantial policy support (including a focus on boosting the housing sector), led to a sharp rebound in activity, with flow-on effects to manufacturing. Household demand advanced further in the June quarter to be well up on a year ago.
- However, household demand is set to take a significant step lower in the September quarter as the latest lockdowns impact.

## Manufacturing and the business cycle

### Westpac-AusChamber Composite & household demand

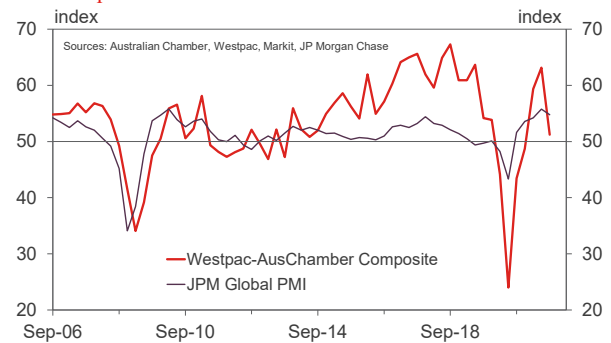


## Australian & World manufacturing surveys

- 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 PMIs plummeted in April 2020 at the outset of the pandemic. Subsequently, the manufacturing sector globally experienced a rapid recovery.
- In 2021, the pace of growth in the sector globally has eased as the boost from the initial reopening began to wane. Covid flare-ups have also been a factor.
- China's Caxin manufacturing PMI slipped to 49.2 in August, down from 50.3. The US manufacturing ISM printed at 59.9 for August, up fractionally on July, which was the lowest read since January.

## Australian & World manufacturing surveys

### Westpac-AusChamber & Global PMI indexes

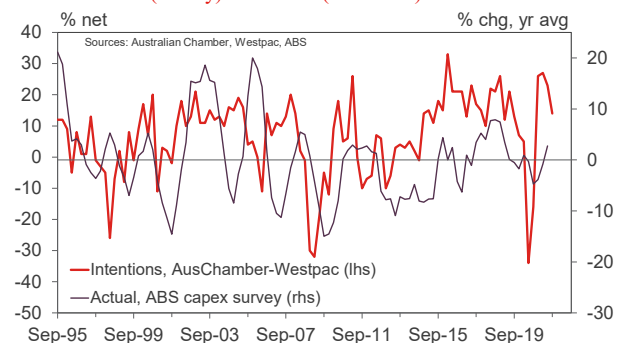


## Manufacturing & business investment

- The AusChamber-Westpac survey has a solid track record of predicting equipment investment from the manufacturing sector.
- Firms' investment intentions are proving to be relatively resilient in the face of Delta - a key theme from this survey update.
- A net 14% of respondents plan to increase equipment investment over the coming year. While that is down from 23% in June, it is still a robust reading.
- Official ABS data confirms that the manufacturing sector is boosting investment - with equipment spending 2.7% higher in 2020/21 than the year prior.
- Firms are responding to the strong underlying momentum in activity, which is likely to resume after the current lockdowns end, as well as the generous government tax incentives.

## Manufacturing equipment investment

### Intentions (survey) vs actuals (ABS data)



# Activity & orders

## Output *(seasonally adjusted)*

	Q2 2021	Q3 2021
Actual - net balance	33	0
Expected - net balance	25	30

- Output stalled in Q3 as the impacts of lockdowns across the major states offset gains elsewhere.
- A net 0% of manufacturing companies lifted production through Q3, compared to 33% in the June quarter and 20% in the March quarter.
- Whilst the flat Q3 outcome is significant, the most recent lockdowns have prompted a less precipitous effect on output when compared to the -53% fall reported in the 1st wave lockdowns in June 2020.
- Expectations remained elevated, with a net 30% of firms expecting output will increase over the next quarter. This suggests that impacts of lockdown are viewed as transitory, with recovery in sight.

## New orders *(seasonally adjusted)*

	Q2 2021	Q3 2021
Actual - net balance	35	12
Expected - net balance	28	21

- In defiance of Delta, new orders expanded in the September quarter, with a net 12% of companies reporting increases in new orders.
- Whilst we observe a moderation in Q3 following the net 35% expansion in Q2, new orders in Q3 were supported by strong momentum coming into lockdown. Notably, the home building upswing, consumer spending strength and rising public demand are providing a boost to manufacturers.
- Expectations held firm, with 21% of manufacturers surveyed anticipating that new orders will lift in the next three months. High vaccination rates will see NSW and Victoria emerge from lockdown during the December quarter.

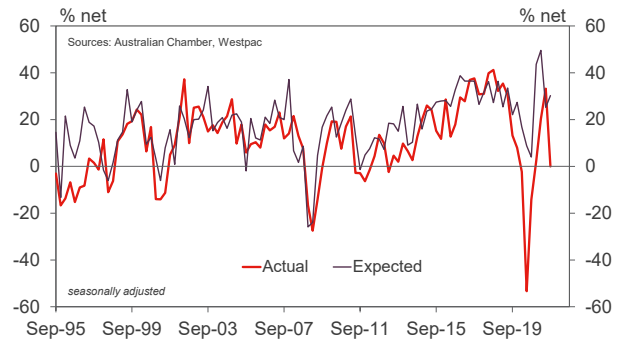
## Exports

	Q2 2021	Q3 2021
Actual - net balance	-10	-13
Expected - net balance	6	-1

- Exports fell over the September quarter, with a net 13% of firms reporting a reduction. This follows a net 10% and 1% decline in Q2 and Q1 respectively.
- Weighing on exports were lockdown related factors including factory closures due to covid infections, and elevated shipping costs. Additionally, exogenous to the lockdown were headwinds such as natural disasters disrupting key input materials production which caused further strain.
- The future outlook for exports in Q3 stalled, with a net 1% of firms expecting that exports will decline in the next three months.

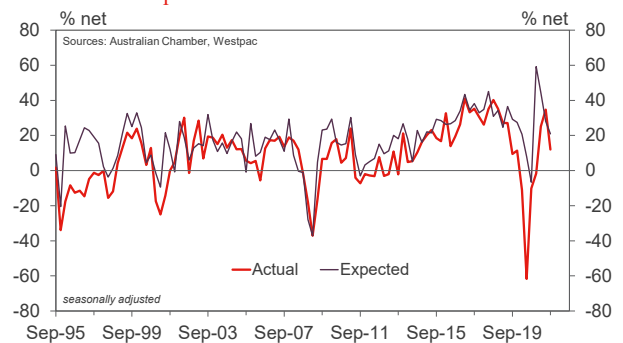
## Output growth

### Actual & expected



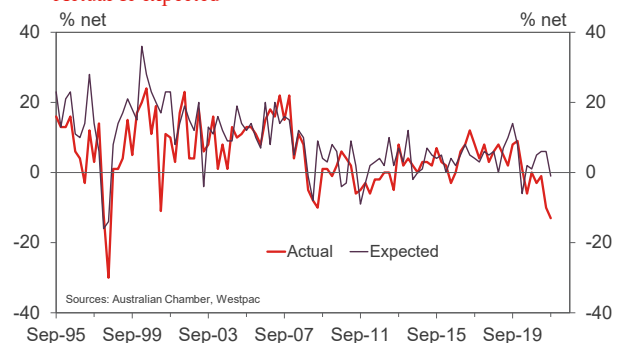
## New orders

### Actual & expected



## Export deliveries

### Actual & expected



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# Investment & profitability

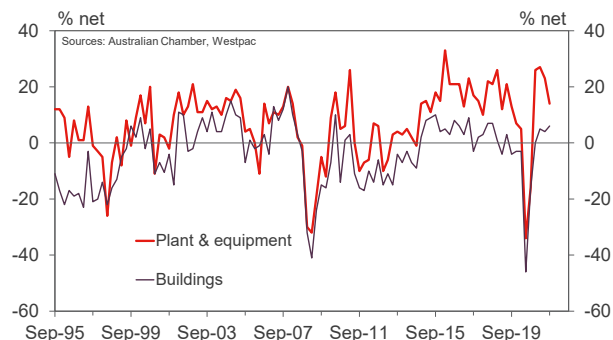
## Investment intentions

	Q2 2021	Q3 2021
Plant & Equipment - net balance	23	14
Building - net balance	4	6

- Despite a slight abatement from the highs seen in Q2, investment intentions remained firm for Q3, with 14% of respondents citing intentions to raise plant and equipment spend over the next 12 months.
- The positive business outlook suggests that manufacturing firms view current lockdown disruptions as temporary, and expect a solid bounce-back in activity once major states reopen.
- Building projections for the year ahead also persisted in positive territory, with a net 6% of firms looking to increase building spend. This compares to a net 4% in Q2 and a net 5% in Q1 of respondents who planned increases in building investment.

## Investment intentions

Next twelve months

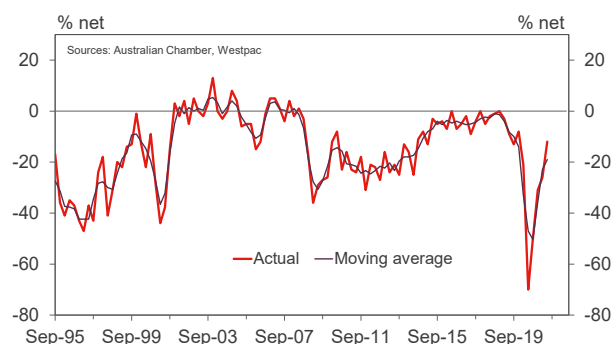


## Capacity utilisation

	Q2 2021	Q3 2021
Net balance	-12	-32

- Capital utilisation suffered in the September quarter, with a net 32% of firms reporting underutilisation of capacity. Stringent lockdowns across Victoria and NSW stalled the ability of firms to produce products at regular levels, with many manufacturers operating at reduced capacity or halting operations completely. Ambiguity surrounding "essential worker" status in NSW and Victoria further exacerbated activity.
- The silver lining to this capacity utilisation headline may be the limited restrictions faced by states besides NSW and Victoria, which may partially buffer the significant disruptions faced by these locked-down states.

## Capacity utilisation



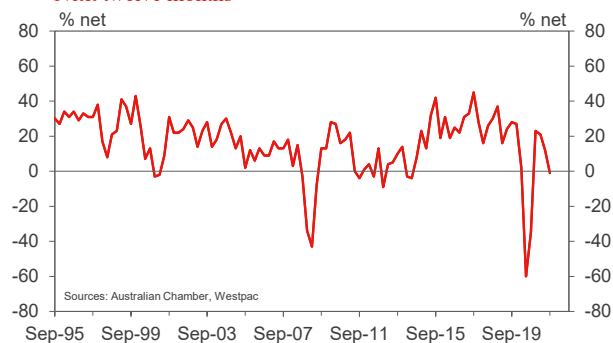
## Profit expectations

	Q2 2021	Q3 2021
Net balance	12	-1

- The extended lockdowns faced by major states and rising cost pressures hampered profit expectations for manufacturers for the coming year.
- A net 1% of responders expect profits will fall in the coming twelve months. This compares to a net 12% of firms in the June quarter citing profit would rise in the coming year.
- Capacity utilisation was heavily impacted by lockdowns and will play into profit expectations. Further, broad-based supply chain issues globally have spiked costs. Namely, freight costs have surged, whilst responders also cited higher prices for raw materials and imported components as dampening their profit forecasts.

## Profit expectations

Next twelve months



# The labour market

## Numbers employed *(seasonally adjusted)*

	Q2 2021	Q3 2021
Actual - net balance	18	0
Expected - net balance	21	14

- Numbers employed in the sector during the September quarter were unchanged the survey found, with a net 0% of firms reporting increases in hiring for Q3.
- Whilst this plateau in numbers employed highlights operational restrictions across NSW and Victoria, manufacturers are also facing a more broad-based skills shortage nation-wide amidst a tight labour market.
- Expectations for future hiring are positive, with a net 14% of firms citing their intentions to grow their workforce in the next few months. This reiterates the business confidence in a structured reopening underpinned by robust vaccination rates.

## Overtime worked *(seasonally adjusted)*

	Q2 2021	Q3 2021
Actual - net balance	22	-6
Expected - net balance	7	-9

- The use of overtime saw a marked deterioration in the September quarter, with a net 6% of companies reporting reduced overtime. This contrasts with the buoyant activity seen in the June quarter, where a net 22% of firms confirmed increased overtime.
- This reduction in overtime aligns with the worsening of capacity utilisation reported in the September quarter.
- Expectations for the coming three months seem to point to the prospect of excess capacity extending through to the end of the year. A net 9% of firms foresee a reduction in overtime in Q4.

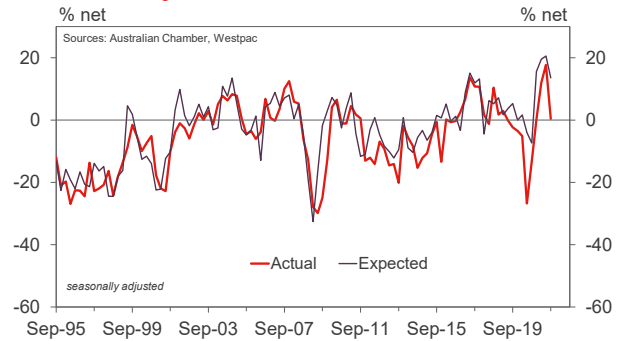
## Difficulty of finding labour *(seasonally adjusted)*

	Q2 2021	Q3 2021
Net balance	6	11.5

- 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.
- Over the last few quarters, manufacturers have report increasingly challenging conditions for finding labour. For September, a net 11.5% of responders indicated that labour was "harder to find", following a net 6% in June.
- The state detail shows elevated difficulty in WA and SA in finding labour. This reflects the challenges of sourcing labour amidst border closures and uncertainty surrounding inter-state travel reopenings.
- The lockdowns in NSW and Victoria, with rising infection rates, added another challenge.

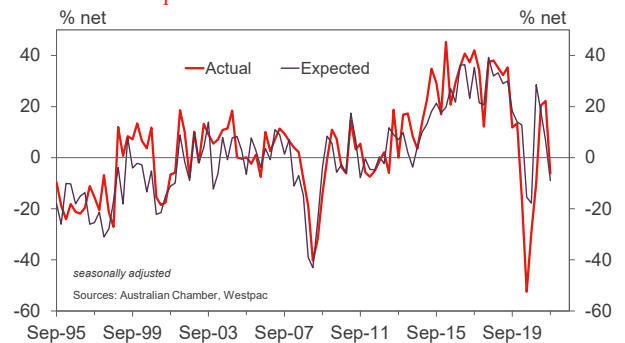
## Numbers employed

### Actual & expected

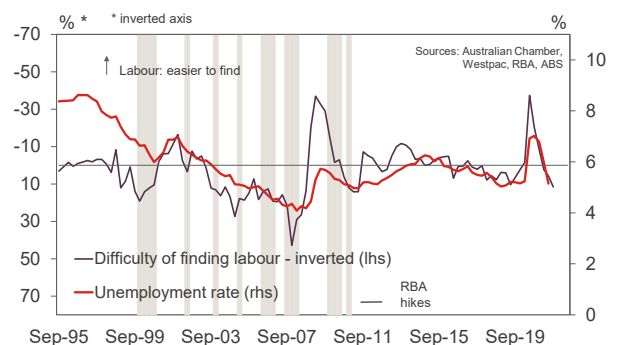


## Overtime worked

### Actual & expected



## Labour market tightness



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# Prices & inflation

## Average unit costs

	Q2 2021	Q3 2021
Actual - net balance	41	37
Expected - net balance	23	28

- In the September quarter, input costs remained elevated, with a net 37% of firms reporting higher input costs. This is only marginally below the net 41% seen in the June quarter, which highlights the intense cost pressures persisting in the manufacturing sector.
- Cost inflation has been a significant issues throughout the Covid pandemic, with supply chain disruption, closed borders and a tightening labour market all viewed as contributing factors.
- Manufacturers expect that unit costs will continue to rise, with 28% reporting that they see further cost inflation in the next three months. This is up from the 23% reported for the June quarter.

## Average selling prices

	Q2 2021	Q3 2021
Actual - net balance	16	20
Expected - net balance	13	24

- Selling price increases have typically been more moderate relative to the rise in average unit costs.
- This dynamic was evident in the third quarter of 2021. Although a net 20% of respondents increased prices in June quarter, a net 37% reported a rise in unit costs over the same period.
- However, compared to Q2, the percentage gap appears to be narrowing between firms who report cost pressures and firms who report higher selling prices. This may indicate a slight uptick in the proportion of manufacturers who are passing on input costs to customers - cost pressures that have been building up for some time now.

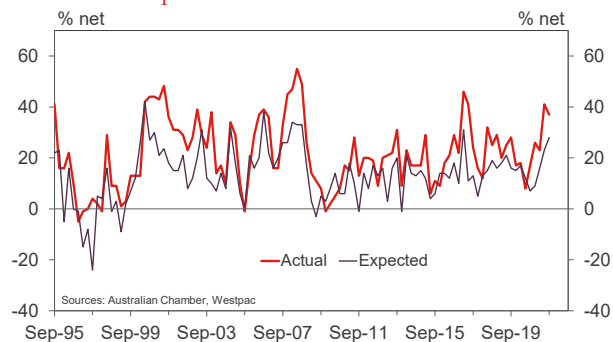
## Manufacturing wages

	Q2 2021	Q3 2021
Net balance	14	16

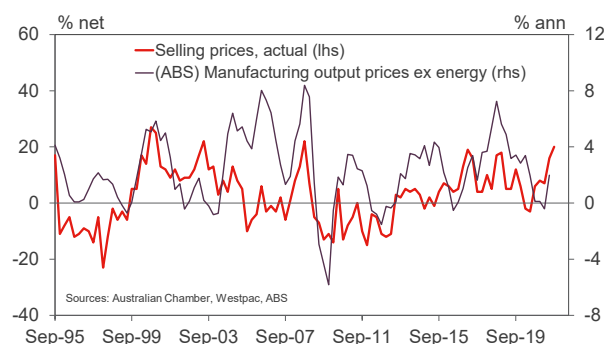
- The survey reports that firms expect an emerging upward pressure on manufacturing wages, reversing the slowdown observed during 2020 when the pandemic first struck.
- In the September quarter, a net 16% of respondents anticipate that their next enterprise wage agreement will deliver an outcome above their last.
- The recent lift in manufacturing wage expectations is broadly consistent with the direction of official data.
- Although annual growth of the ABS Wage Price Index was relatively subdued at 1.7%yr in Q2, the six month annualised pace is 2.1%, up sharply from a low of 0.6% for Q3 2020. In part, this is due to the unwinding of wage freezes.

## Average unit costs

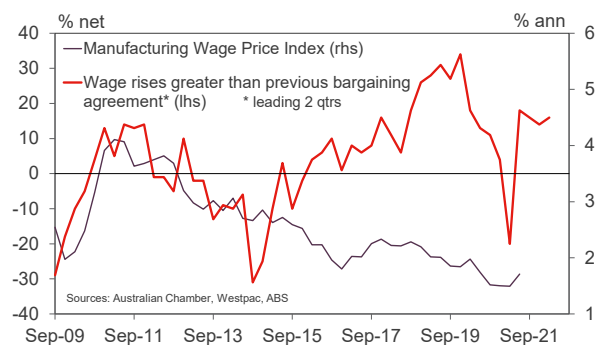
Actual & expected



## Manufacturing upstream price pressures



## Manufacturing wage growth





# Factors limiting production

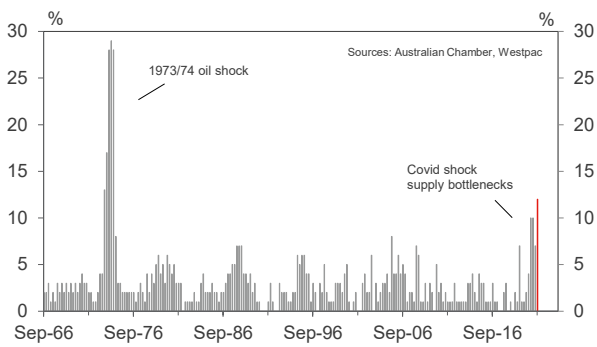
## Factors limiting production

- The latest survey update confirms that the Covid pandemic and associated restrictions continue to greatly limit respondents production.
- "Material" constraints have been a factor over the past year, intensifying in the September quarter - to be at the highest since the oil shock of 1973, as bottlenecks emerge, locally and globally.
- Border closures have contributed to "labour constraints" - which for the past 3 quarters were on average the highest since 2000, and before that, 1989.
- The number of firms who identified "other" factors increased to an elevated 35. This is likely a reaction to the lock-downs during the quarter.
- Not surprisingly, the number of respondents citing orders as a constraint is down, with the latest reading of 38 well below the long run average of 64.

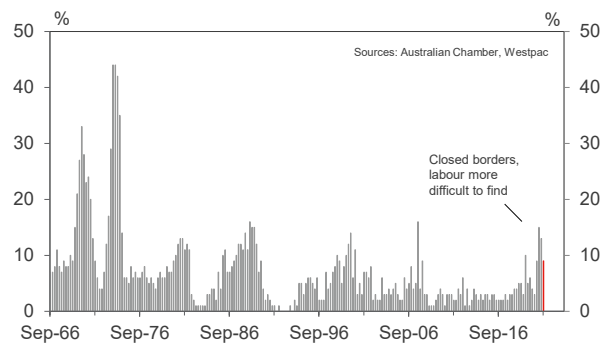
## Factors limiting production

	Q1 2021	Q2 2021	Q3 2021
Orders (%)	54	43	38
Capacity (%)	4	7	4
Labour (%)	15	13	9
Finance (%)	2	3	2
Materials (%)	10	7	12
Other (%)	15	27	35
None (%)	0	0	0

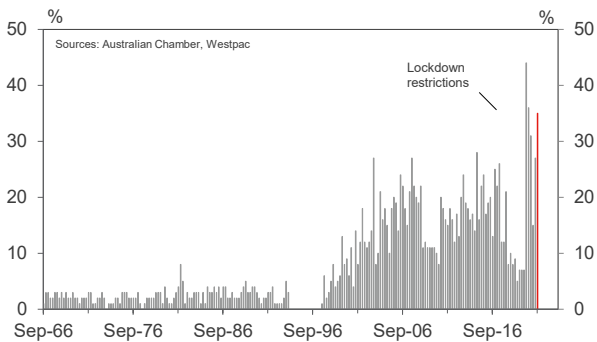
### Materials: "single factor" most limiting production



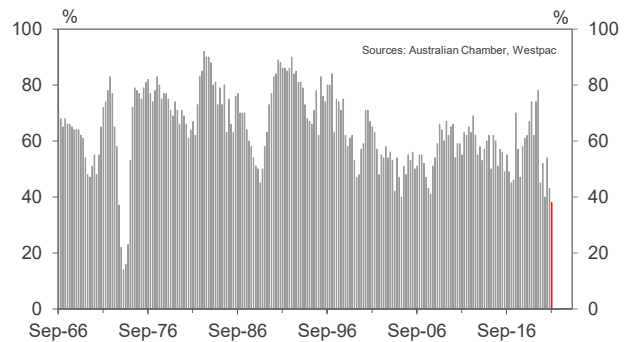
### Labour: "single factor" most limiting production



### "Other": single factor most limiting production



### Orders: "single factor" most limiting production



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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
21	40	41	19

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

Net balance	Above Normal	Normal	Below Normal
-32	12	44	44

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

None	0	Orders	38
Material	12	Finance	2
Labour	9	Capacity	4
Other	35		

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?	12	26	60	14
(b) finance?	-12	5	78	17

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?	6	20	66	14
(b) on plant & machinery?	14	28	58	14

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	3	12	79	9	14	20	74	6
7. Overtime worked	-7	18	57	25	-7	13	67	20
8. All new orders received	6	28	50	22	23	33	57	10
9. Orders accepted but not yet delivered	-13	9	69	22	6	15	76	9
10. Output	-1	23	53	24	29	39	51	10
11. Average costs per unit of output	37	40	57	3	28	31	66	3
12. Average selling prices	20	22	76	2	24	24	76	0
13. Export deliveries	-13	5	77	18	-1	6	87	7
14. Stock of raw materials	0	20	60	20	7	17	73	10
15. Stocks of finished goods	-4	13	70	17	5	15	75	10

# 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?	51
(c) Decline?	25
<b>Net balance</b>	<b>-1</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	20
Textiles, fabrics, floor coverings, felt, canvas, rope	3
Clothing, footwear	4
Wood, wood products, furniture	1
Paper, paper products, printing	7
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	12
Non-metallic mineral products: glass, pottery, cement bricks	6
Basic metal products: processing, smelting, refining, pipes & tubes	6
Fabricated metal products: structural & sheet metal, coating & finishing, wire, springs, hand tools	12
Transport equipment: motor vehicles & parts, excluding repairs, rail, ships, aircraft, including repairs	2
Other machinery & equipment: electrical, industrial scientific, photographic	20
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
	53	12	16	19

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

	WA	SA	VIC	NSW/ACT	QLD	TAS
	12	13	25	31	14	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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