ACCI–Westpac
Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

193rd report December quarter 2009 **(survey conducted 28 October – 11 December)**

- The Westpac–ACCI Actual Composite Index rose 2.2pts to 50.4 in 2009Q4, its third consecutive rise to reach its highest since 2008Q2. Although weaker than predictions embodied in the prior Survey's Expected Composite Index and below its decade average (51.9) for the sixth straight quarter, at over 50 it signals expanding activity for the first time since 2008Q2.
- Stronger activity growth is predicted for the March quarter 2010, with the Expected Composite Index rising 0.3pts to 55.0, its highest since 2007Q4. This Index level implies an acceleration in growth to an above-par pace (decade average is 52.7).
- General business sentiment eased 18pts to a still strong net +24 (second highest since 2002Q1) dented by three straight interest rate hikes and a higher Australian dollar, but this only partially unwound a 103pt jump over the prior two quarters.
- The Labour Market Composite net balance improved by 11pts to –1, the highest read since 2008Q2, although below its decade average (+5). It has reached a level historically consistent with an acceleration in employment growth towards 2% annual in mid-2010 from the –0.1% annual pace trough in 2009Q3.
- The measure of the degree of labour market tightness saw a tightening of conditions with the net balance rising from –29% to –14%. This is well above its 2009Q1 low (–37%), but remains well below its decade average (+6%). Wage growth expectations also continued to rise moderately, but remain well below average.
- Financial conditions remained unchanged. The net balance of respondents reporting finance as 'harder to get' was steady at 16%, above its decade average (10%), but well below the 2009Q1 peak of 40%. Only 2% of respondents see finance as the most constraining factor for production growth, while a higher proportion (67% vs 60%) nominated insufficient orders.
- Lower general business confidence was accompanied by a softening in investment plans, leaving them well below their decade averages. Still, the Actual Composite remains in the region consistent with rising economy-wide investment.
- The relative weakness in manufacturers' investment plans is consistent with historically soft capacity utilisation. Despite the resumption of activity expansion, capacity utilisation rose only marginally to –26 from –27 (vs –8 decade average).
- Export deliveries continued to undershoot prior predictions, recording an unchanged marginally positive net outcome.
- Selling prices fell sharply again. Stability is expected for Q1, but actuals continue to undershoot. Unit costs fell slightly.

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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.

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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 193rd consecutive survey was closed in the week ending 11 December 2009. A total of 290 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 in March 2010.

Key survey results

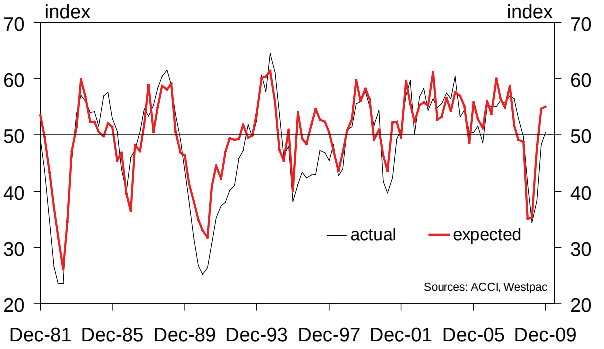
Westpac–ACCI composites, seasonally adjusted

	Q3 2009	Q4 2009
Actual – composite index	48.2	50.4
Expected – composite index	54.7	55.0

- The Actual Composite Index rose 2.2pts to 50.4 (highest since 2008Q2) in the December quarter, its third consecutive rise, after a 9.8pt jump previously. However, this was below respondents' prior predictions embodied in the September quarter survey's Expected Composite Index.
- While the Index remained below its decade average (51.9) for the sixth straight quarter, by rising above 50 it has returned to expansionary territory for the first time since 2008Q2, albeit at a below-trend pace. The drivers of the improvement were strong output growth, a much milder fall in jobs, rising overtime and stronger growth in new orders, partially offset by a slight fall in the order backlog.
- Above-trend expansion is expected in Q1 (decade average is 52.7) with the Expected Composite Index rising a further 0.3pts to 55.0 (highest since 2007Q4).

Westpac-ACCI composite indexes

Actual & expected, sa

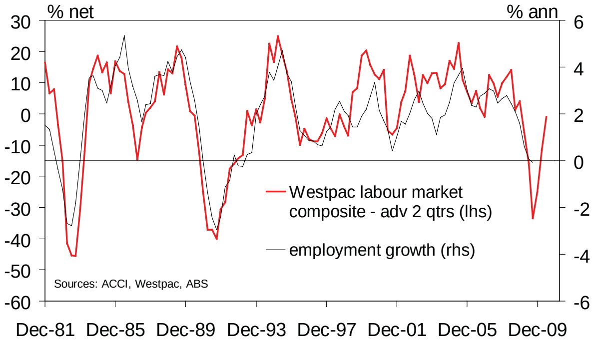


Westpac–ACCI labour market composite

	Q3 2009	Q4 2009
Net balance	–12	–1

- Labour demand continued to improve in the quarter with the net balance of the Labour Market Composite Index rising 11pts to –1. That is the highest read since 2008Q2, although it remains below its decade average (+5).
- This index provides a guide to future jobs growth for the aggregate economy. At –1, the net balance is consistent with annual jobs growth accelerating markedly through 2010H1. We expect jobs growth (qtly avg basis) to rise from a trough of –0.1%yr in 2009Q3 to +0.5%yr in 2009Q4, and this net balance is historically consistent with a rapid acceleration towards 2%yr mid-2010.
- The improvement in the Labour Market Composite Index was driven by a resumption of overtime growth (after five quarters of decline) and a milder fall in employment, partially offset by expected seasonal declines for Q1.

Jobs growth to accelerate 1H2010 towards 2%



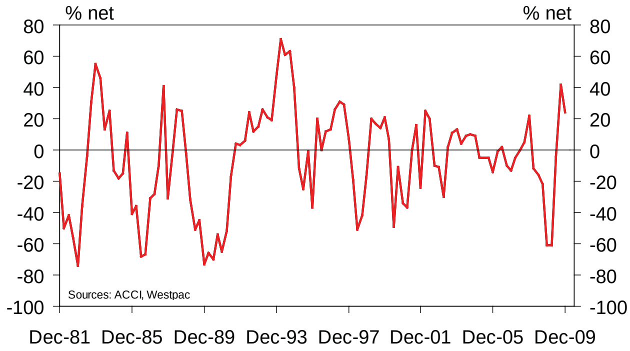
General business situation

	Q3 2009	Q4 2009
Net balance	42	24

- While remaining strongly positive, consistent with stronger actual growth in respondents' output and new orders, general business expectations softened in the December quarter. Reflecting the effect of three consecutive increases in interest rates, a higher AUD exchange rate and other domestic concerns, the proportion of respondents predicting an improvement in the general business situation in the next six months has fallen markedly from 50% to 37%. The proportion expecting a deterioration rose from 8% to 13%, while 50% expect no change. Although 18pts below the previous quarter, the net outcome of 24% only partially unwound a cumulative 103pt jump over the prior two quarters, remaining well above its decade average (–5%) at its second highest since 2002Q1.

General business situation

Next six months

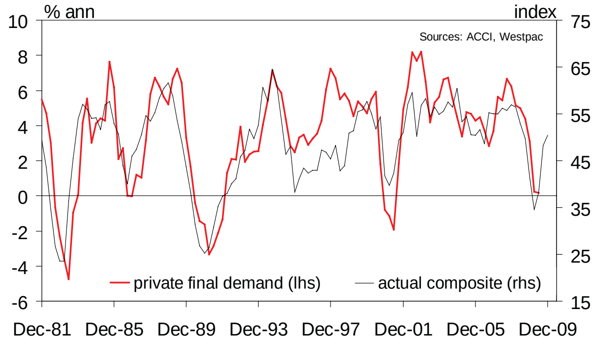


The business cycle & economic outlook

Westpac–ACCI survey & the business cycle

- The Westpac–ACCI Actual Composite Index has a solid track record of predicting near-term private final demand growth, including identifying cycle turning points.
- While the below-decade-average read for the index is consistent with below-trend manufacturing expansion, it is further beyond the key 37 level, a level historically consistent with positive annual growth in private sector final demand.
- At a level of 50.4, the Actual Composite Index is historically consistent with a strong acceleration in annual private final demand growth to around 3%yr into 2010, a marked pick up from the subdued 0.2%yr pace recorded in the 2009Q2 National Accounts.

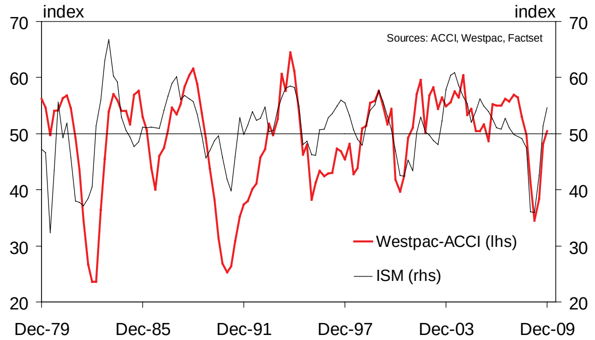
Manufacturing & the business cycle
Westpac-ACCI composite index & private demand



Australian & US manufacturing surveys

- The US and Australian manufacturing cycles have an historical tendency to move broadly in synch. The June quarter 2009 marked a turning point from the 2008 collapse in conditions, with an improvement in Australian manufacturing conditions which underperformed the improvement in the US. The September quarter saw stronger improvements in both economies, with Australian conditions remaining in slight contractionary territory, while US conditions returned to expansionary territory. The December quarter 2009 saw further improvements for both economies, with a slight Australian underperformance, but back into expansionary territory.
- While the Australian index has only now returned to expansionary territory, the US manufacturing ISM survey has been in expansionary territory for two quarters. The US index has averaged 54.65 so far in 2009Q4, the highest since 2006Q1, up from a Q3 average of 51.47.

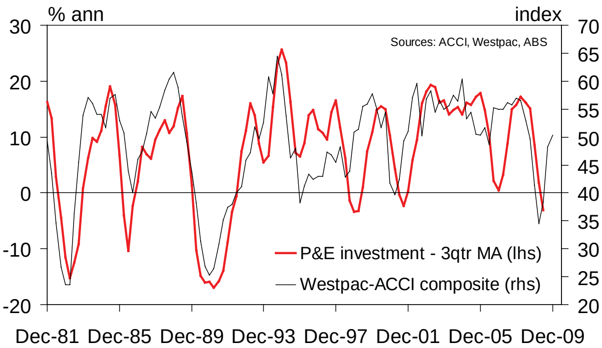
Australian & US manufacturing surveys
Westpac-ACCI & ISM composite indexes



Westpac–ACCI survey & business investment

- The Actual Composite Index also has a leading relationship with business investment spending across the aggregate economy, particularly on plant and equipment.
- The December quarter improvement in the Actual Composite Index has moved it further into the territory consistent with a resumption of solidly positive annual growth in total plant and equipment investment spending.
- However, this improvement is likely to be led by sectors other than manufacturing, particularly resources. While manufacturing investment plans for the next twelve months have recovered from their lows through 2009, they softened somewhat in the December quarter survey, particularly for plant and equipment, and remain well below their decade averages. Manufacturing capacity utilisation is only rising slowly and remains historically low.

Activity & capital investment
Westpac-ACCI composite & plant & equipment investment



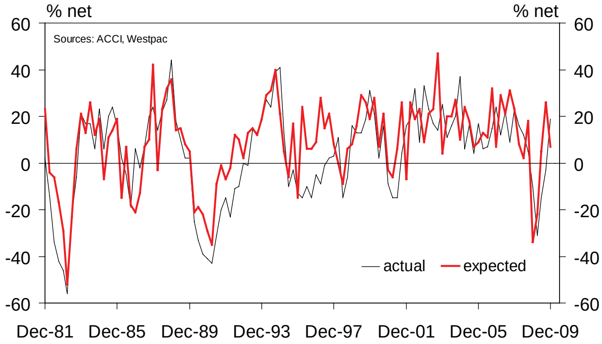
Activity & orders

Output

	Q3 2009	Q4 2009
Actual – net balance	–3	19
Expected – net balance	26	7

- While short of predictions, the actual net output indicator improved markedly in the December quarter, returning to positive growth territory after four quarters of contraction. The proportion of respondents reporting an increase in output rose strongly from 22% to 37% while those recording a decrease was well down (18% vs 25%), resulting in a much higher actual net balance of 19% (vs –3% actual and 26% predicted three months ago), the highest since 2007Q4 and above its decade average (11%) for the first time since 2008Q2. However, although positive, projections for the next three months are more subdued (7% vs 26%) consistent with a seasonal slowing in 2010Q1, although this is the firmest Q1 projection since 2007Q4.

Output growth
Actual & expected

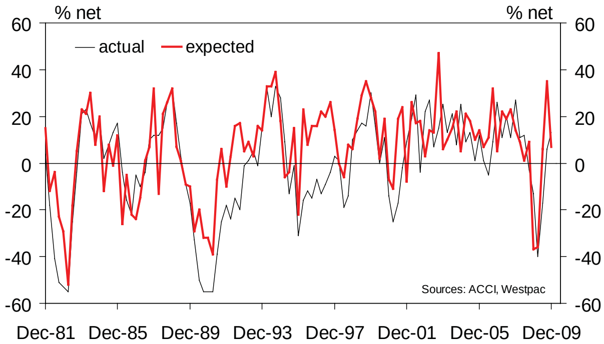


New orders

	Q3 2009	Q4 2009
Actual – net balance	6	13
Expected – net balance	35	7

- The net outcome for new orders was more than double the previous quarter's result although markedly below prior strong predictions. Predictions for the March quarter 2010 have remained positive but are also seasonally lower (although firmest Q1 prediction since 2007Q4). The proportion of respondents reporting an increase in new orders rose marginally (32% vs 31%). Those reporting a decline fell (19% vs 25%), resulting in a net balance of 13% (vs 6%), the highest since 2007Q4 and above the decade average (7%) for the first time since 2008Q2.
- The net indicator for orders accepted but not yet delivered fell from 4% to –1% (back to its decade average), with a –7% (vs 17% previously) net outcome predicted for the March quarter 2010.

New orders
Actual & expected

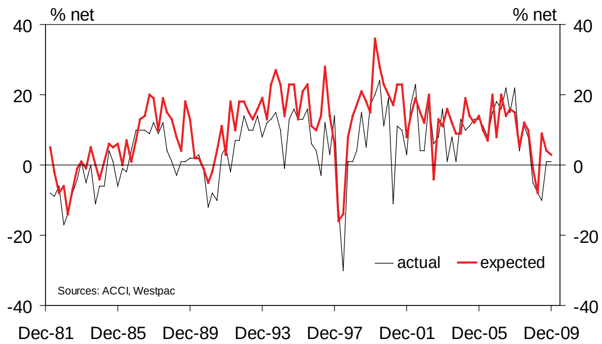


Exports

	Q3 2009	Q4 2009
Actual – net balance	1	1
Expected – net balance	4	3

- There was no change in net export deliveries growth in the December quarter 2009, which was marginally short of predictions for the sixth consecutive quarter. While the improving global growth and trade outlook has supported expectations for 2010Q1, the strong appreciation of the Australian dollar exchange rate and subdued 2009Q4 actual growth has tempered projections relative to three months ago. The proportion of respondents reporting a rise in export deliveries was unchanged at 10%. Those recording a decline was also unchanged (9%), resulting in a steady net outcome of 1%. A modest rise is again predicted for the March quarter 2010 (3% vs 4%).

Export deliveries
Actual & expected



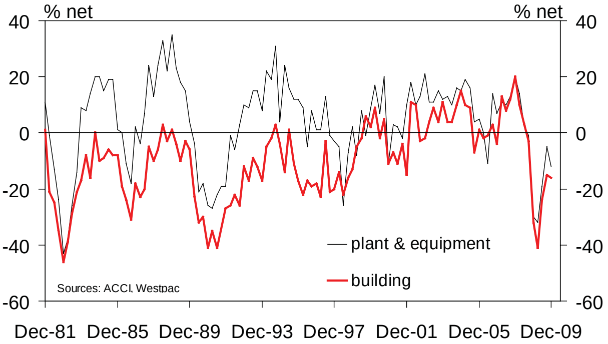
Investment & profitability

Investment intentions

	Q3 2009	Q4 2009
Plant & Equipment – net balance	–5	–12
Building – net balance	–15	–16

- Reflecting relatively softer general business confidence, and less robust forward projections for Q1, manufacturers' twelve month plans for plant and equipment investment spending softened in the December quarter, remaining well below their decade average (6%), although above their 2009Q1 low (–32%). The proportion reporting plans to increase their spending declined (17% vs 22%). The proportion expecting a decline was slightly higher (29% vs 27%), resulting in a softer net balance of –12% (vs –5%).
- Spending plans for buildings also eased, albeit marginally, and remained historically weak (decade average is 0%). A virtually unchanged proportion (10% vs 11%) predict a rise and an unchanged 26% a fall, resulting in a near steady negative net outcome of –16% (vs –15%), although this is well up from their 2009Q1 low (–41%).

Investment intentions
Next twelve months

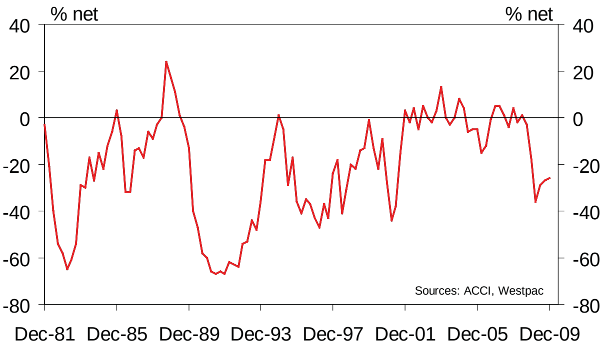


Capacity utilisation

	Q3 2009	Q4 2009
Net balance	–27	–26

- On balance, the net capacity utilisation indicator improved marginally in the December quarter, but remained net negative and well below its decade average (–8%). Of the respondents, still only 13% (vs 12%) reported working above their normal capacity. The proportion working below their normal capacity levels was unchanged (39%), resulting in a slightly higher negative net balance of –26% (vs –27%), the highest since 2008Q4. However, around half the manufacturers surveyed (48% vs 49%) reported working at their normal capacity levels.

Capacity utilisation

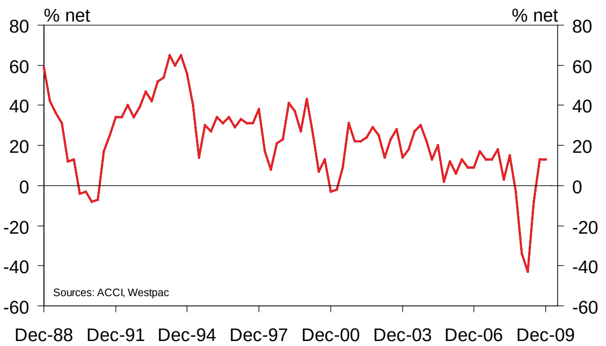


Profit expectations

	Q3 2009	Q4 2009
Net balance	13	13

- On balance, profit expectations remained unchanged at slightly above their decade average level (12%) in the December quarter 2009. While actual conditions returned to expansionary territory and a slight decline in unit costs was reported, it appears that ongoing marked declines in manufacturers' selling prices have offset, preventing any further improvement in respondents' profit outlook. The proportion of manufacturers surveyed expecting to achieve higher profitability in the next twelve months eased from 34% to 32%. Those predicting a decline was also marginally lower (19% vs 21%), resulting in an unchanged net balance of 13%. Almost half the respondents (49% vs 45%) again expect no change in their profitability levels.

Profit expectations
Next twelve months



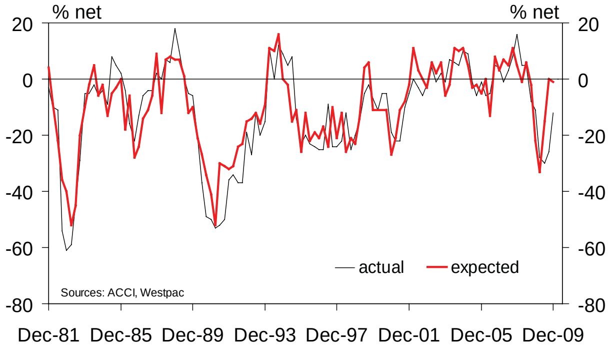
The labour market

Numbers employed

	Q3 2009	Q4 2009
Actual – net balance	–26	–12
Expected – net balance	0	–1

- On balance, while again consistent with contraction and well below prior predictions, the net employment indicator was firmer in the December quarter, but remained well below its decade average (–4%). The proportion of respondents recording an increase in numbers employed more than doubled from 4% to 10%. The proportion reporting a decrease was well down (22% vs 30%), resulting in a much less negative net balance of –12% (vs –26%), the highest since 2008Q4. However, the net outlook for the next three months, while remaining above its decade average (–3%), has marginally softened (–1% vs 0%), with 77% (vs 82%) expecting no change.

Numbers employed
Actual & expected

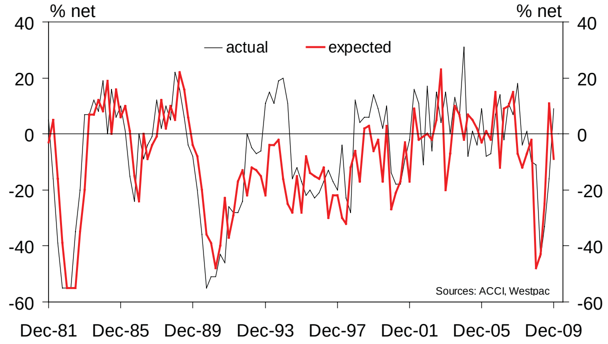


Overtime worked

	Q3 2009	Q4 2009
Actual – net balance	–16	9
Expected – net balance	11	–9

- The actual overtime worked indicator strengthened markedly to above average growth territory in the December quarter after five consecutive quarters of contraction, suggesting respondents have been increasingly relying on overtime rather than recruiting labour in the lead-up to the festive season. The proportion of respondents reporting an increase in overtime worked rose sharply (29% vs 17%). The proportion recording a decline was well down (20% vs 33%), resulting in a much stronger and positive net outcome of 9% (vs –16%). A strong largely seasonal decline in the net overtime worked indicator is predicted for the March quarter 2010 (–9% vs 11%), although this is the firmest Q1 prediction since 2007Q4.

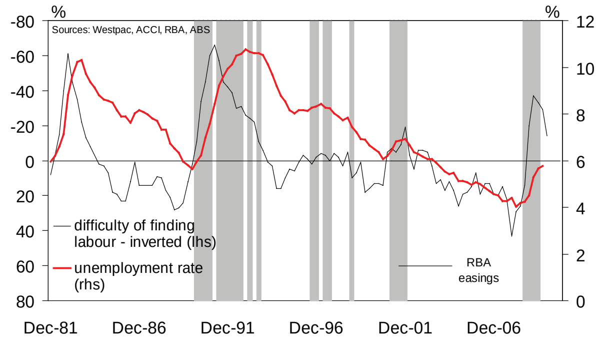
Overtime worked
Actual & expected



Labour market tightness

- With improvements in actual labour demand indicators in the December quarter survey, respondents have reported an increase in the difficulty of finding labour. The net balance reporting labour as "harder to get" rose to –14% from –29%. It remains well below the decade average (+6%), but is considerably higher than its low (–37% in 2009Q1) at its strongest since 2008Q3.
- The Labour Market Composite Index net balance is in the region consistent with an acceleration in employment growth towards 2%yr in mid-2010, a pace that would see the unemployment rate remain steady in an extended plateau around current levels (with ongoing strong labour force supply growth). The current labour market tightness net balance is consistent with an unemployment rate of around 7%, a far less dire prediction than in 2009Q1. We expect the unemployment rate to plateau at around 6%.

Difficulty of finding labour



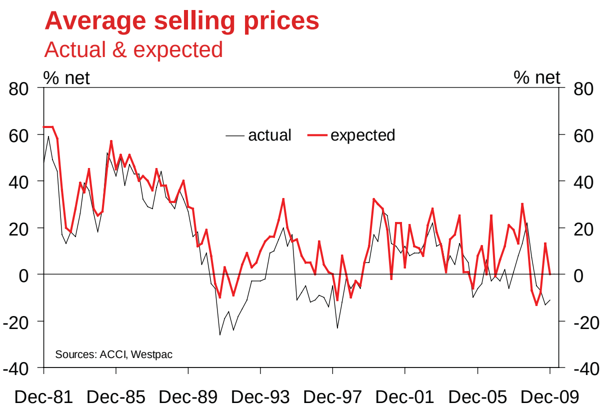
Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known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

Prices & inflation

Average selling prices

	Q3 2009	Q4 2009
Actual – net balance	–13	–11
Expected – net balance	13	0

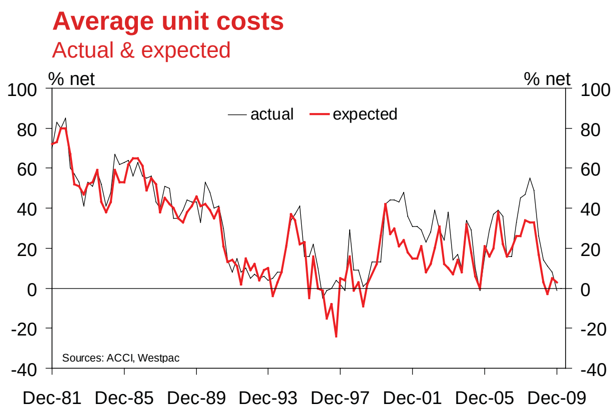
- Contrary to predictions of a rise, on balance, respondents' average selling prices fell again in the December quarter at a similar pace as in the previous quarter. The proportion of respondents reporting price increases remained unchanged at 11%. Those recording a decline eased (22% vs 20%) resulting in a marginally less negative net balance of –11% (vs –13%), the second lowest outcome since 1998Q2.
- With respondents' actual activity resuming expansion, price declines are predicted to end in Q1, although we note that actuals have fallen short of predictions in 13 of the last 16 quarters. Forward projections predict no change in the net outcome for average selling prices in the March quarter 2010 (0% vs 13%).



Average unit costs

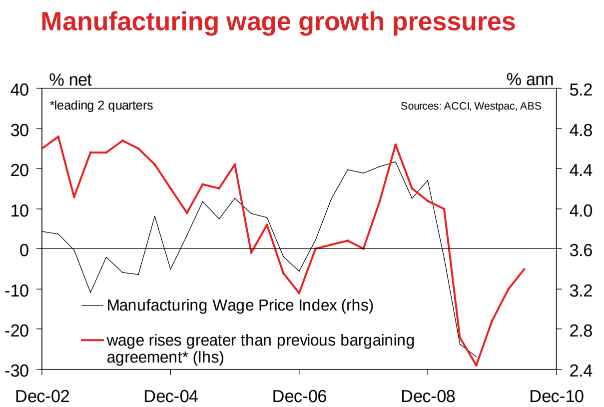
	Q3 2009	Q4 2009
Actual – net balance	8	–1
Expected – net balance	5	3

- Contrary to prior predictions of further (albeit slower) increases, average unit costs recorded a slight decline in the December quarter for the first time since 2005Q3. The proportion of respondents reporting unit cost increases eased (17% vs 19%). Those reporting cost decreases was well up (18% vs 11%), resulting in a net balance of –1% (vs 8%). That is the equal lowest net outcome since 1996Q4. However, two-thirds of the respondents (65% vs 70%) reported no change. On balance, a modest rise in unit costs is predicted for the March quarter 2010 (3% vs 5%) at a well below decade average (19%) pace.



Manufacturing wages

- With firmer labour demand indicators and a less easy "difficulty of finding labour", wage growth expectations rose moderately further in the December quarter.
- A net balance of –5% (vs –10% previously) of respondents expect wage rises in their firm's next round of enterprise bargaining wage agreements to be higher than the previous outcome. While well above the 2009Q1 low of –29%, this net result is still considerably below the decade average expectation (11%).
- The result implies a pick up in manufacturing wage growth through 2010H1 from (using the manufacturing wage price index) 2009Q3's 2.5%yr pace towards 3.4%yr.



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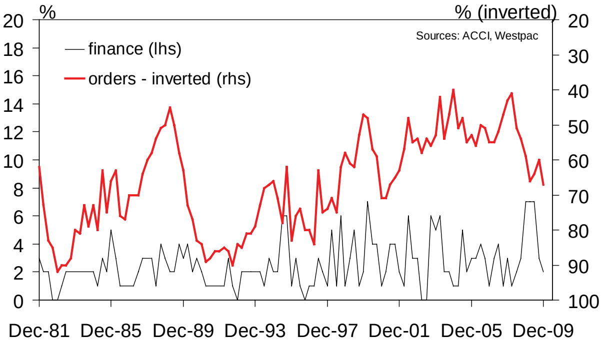
Other results

Key factor limiting production

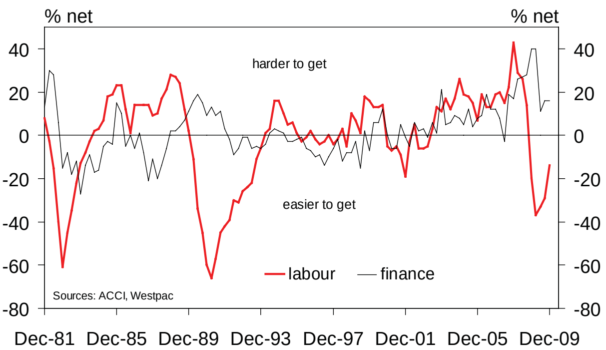
% of respondents



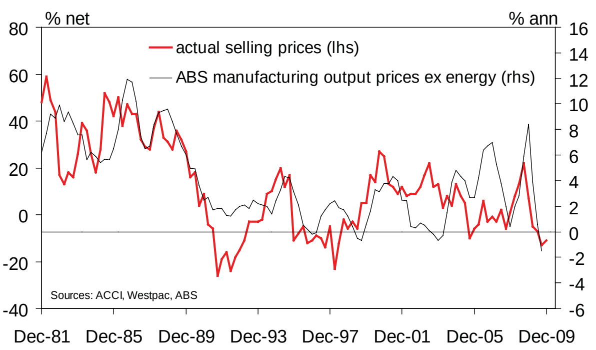
Factors limiting production

	Q2 2009	Q3 2009	Q4 2009
Orders (%)	64	60	67
Capacity (%)	4	12	6
Labour (%)	1	2	3
Finance (%)	7	3	2
Materials (%)	1	3	2
None (%)	12	9	9
Other (%)	11	11	11

Availability of labour & finance

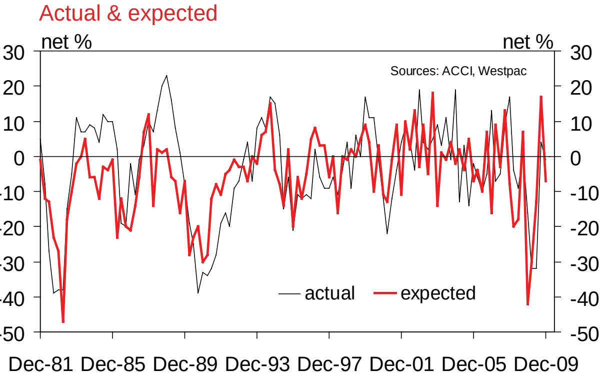


Mfg upstream price pressures subdued



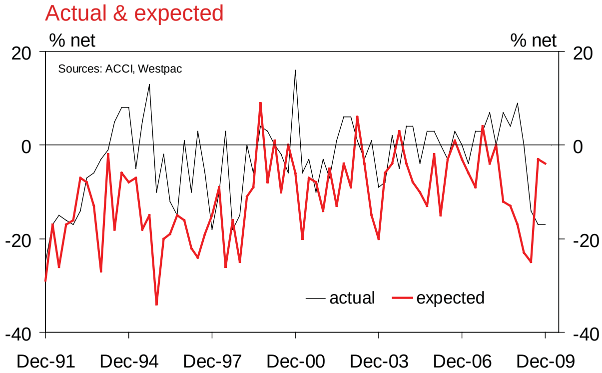
New orders accepted but not delivered

Actual & expected



Stocks of finished goods

Actual & expected



Summary of results

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
24%	37%	50%	13%

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

Net balance	Above normal	Normal	Below normal
–26%	13%	48%	39%

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

Orders	67%	Finance	2%
Capacity	6%	Labour	3%
Materials	2%	None	9%
Other	11%		

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?	**–14%**	2%	82%	16%
(b) finance?	**+16%**	27%	62%	11%

5. Do you expect your company's capital expenditure during the next twelve months to be greater, the same, or less than the past year:

	Net balance	Greater	Same	Less
(a) on buildings?	**–16%**	10%	64%	26%
(b) on plant & machinery?	**–12%**	17%	54%	29%

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	Up	Same	Down	**Net balance**	Up	Same	Down
6.	Numbers employed	**–12%**	10%	68%	22%	**–1%**	11%	77%	12%
7.	Overtime worked	**+9%**	29%	51%	20%	**–9%**	15%	61%	24%
8.	All new orders received	**+13%**	32%	49%	19%	**+7%**	23%	61%	16%
9.	Orders accepted but not yet delivered	**–1%**	21%	57%	22%	**–7%**	12%	69%	19%
10.	Output	**+19%**	37%	45%	18%	**+7%**	23%	61%	16%
11.	Average costs per unit of output	**–1%**	17%	65%	18%	**+3%**	19%	65%	16%
12.	Average selling prices	**–11%**	11%	67%	22%	**0%**	17%	66%	17%
13.	Export deliveries	**+1%**	10%	81%	9%	**+3%**	10%	83%	7%
14.	Stock of raw materials	**–16%**	7%	70%	23%	**–9%**	10%	71%	19%
15.	Stocks of finished goods	**–17%**	14%	55%	31%	**–4%**	17%	62%	21%

Summary of results

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

(a) Improve?	32%
(b) Remain unchanged?	49%
(c) Decline?	19%
Net balance	**+13%**

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?	69%
(c) Less?	18%
Net balance	**–5%**

A. Industry profile of survey**:**

	(% of respondents)
Food, beverages, tobacco	14
Textiles, fabrics, floor coverings, felt, canvas, rope	3
Clothing, footwear	4
Wood, wood products, furniture	3
Paper, paper products, printing	9
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	9
Non–metallic mineral products: glass, pottery, cement bricks	13
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	5
Other machinery & equipment: electrical, industrial scientific, photographic	13
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	9

B. How many employees are covered by this return?

1–100	101–200	201–1000	Over 1000
50%	13%	14%	23%

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

WA	SA	VIC	NSW	QLD	TAS
9%	11%	24%	37%	12%	7%

The Westpac–ACCI Composite Indices

The Westpac–ACCI actual and expected composite indices are weighted averages of the various 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 labour demand indicator is a weighted average of current and expected labour indicators from the Westpac–ACCI survey. The indicator is expressed as a detrended net balance. Approximate weights are as follows: employment 40%; expected employment 20%; overtime 30%; and expected overtime 10%.

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