ACCI–Westpac
Survey of Industrial Trends

Australian Chamber of Commerce and Industry & Westpac Banking Corporation

195th report June quarter 2010 (survey conducted 7 May – 11 June)

- The Westpac–ACCI Actual Composite Index dipped 0.4pts to 56.6 in 2010Q2, falling well short of the very strong predictions embodied in the previous Survey's Expected Composite Index (64.7). However, at its second highest since 2008Q1, and well above its decade average (52.1), it continues to signal expanding activity at an above-trend pace.
- Our modelling indicates that the resiliently robust level of the Actual Composite Index continues to point to a strong acceleration in overall private sector final demand growth and business investment growth through 2010.
- Some deceleration is predicted for the September quarter 2010, but to a resilient, still above-trend pace. The Expected Composite Index fell 9.9pts to 54.8 from a record high, but remains above its decade average (53.1).
- General business sentiment deteriorated 17pts to a net +13 (lowest since 2009Q2) with solid Q2 activity outcomes falling short of even stronger strong Q1 predictions, RBA rate hikes in April and May, and elevated concerns over the global outlook amidst the European debt crisis. Still, at its fifth highest since 2002Q2, sentiment remains well above its decade average (–3%).
- The Labour Market Composite Index net balance dipped 1pt to +7, but remained above its decade average (+5) at its second highest since 2007Q4. This level remains consistent with an acceleration in employment growth to 3% in 2010H2 from the current 2.5% pace, taking the unemployment rate gradually lower to 5% by year end.
- The net balance measure of labour market tightness eased slightly to –3% from –2%. That level remains below its decade average (+5%), but is well up from its 2009Q1 low (–37%). Wage growth expectations rose for the fifth consecutive quarter to their highest since 2008Q1, surpassing their decade average and pointing to rising wage inflation through 2010H2.
- Financial conditions deteriorated slightly with the net balance reporting finance as 'harder to get' rising to 12% from 11%, above the decade average (10%) for the twelfth straight quarter, but well below the 2009Q1 peak of 40%.
- The investment outlook strengthened with high profit expectations and the fifth consecutive rise in capacity utilisation to its highest since 2008Q3. Investment plans improved markedly for plant and equipment and buildings to well above decade average levels.
- Selling prices rose for the first time since 2008Q4, although continued to undershoot predictions. Expectations for Q3 are stronger.
- Export deliveries improved slightly, but fell short of prior expectations for the eighth straight quarter, and predictions for Q3 eased.

Contents

The Survey of Industrial Trends produced by the Australian Chamber of Commerce and Industry & Westpac Banking Corporation is a quarterly publication.

Enquiries

Anthony Thompson, Senior Economist, Westpac Banking Corporation, Ph (61–2) 8254 8039
Eugene Bajkowski, Consulting Economist, Australian Chamber of Commerce and Industry,
Ph (61–2) 6249 6128 or (61–2) 6273 2311

Editors

Anthony Thompson, Senior Economist, Westpac Banking Corporation
Eugene Bajkowski, 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 195th consecutive survey was closed in the week ending 11 June 2010. A total of 308 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 September 2010.

Key survey results

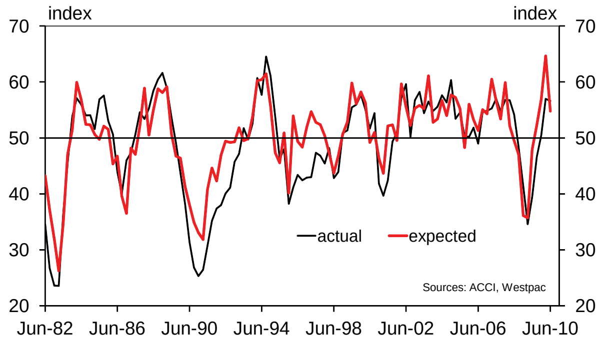
Westpac–ACCI composites, seasonally adjusted

	Q1 2010	Q2 2010
Actual – composite index	57.0	56.6
Expected – composite index	64.7	54.8

- The Actual Composite Index edged 0.4pts lower to 56.6 in the June quarter after a 6.5pt jump previously. The outcome also fell short of respondents' extremely strong prior predictions embodied in the March quarter survey's Expected Composite Index.
- Still, at its second highest since 2008Q1, the Index remained well above its decade average (52.1), indicative of expansion at a still above-trend pace. Improvements were seen in new orders, output, employment and order backlog growth in what is usually a seasonally stronger quarter.
- Slower expansion is expected in Q3 but at a resilient, above-trend pace. The Expected Composite Index fell 9.9pts to 54.8 (decade average 53.1), the lowest since 2009Q3. Weaker growth is expected across all components in what is usually a seasonally firmer quarter.

Westpac-ACCI composite indexes

Actual & expected, sa

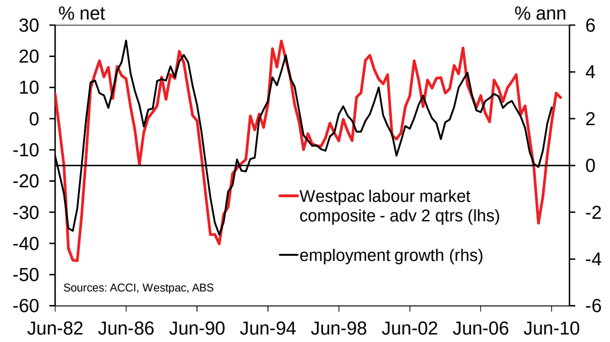


Westpac–ACCI labour market composite

	Q1 2010	Q2 2010
Net balance	8	7

- Labour demand softened marginally in the quarter with the net balance of the Labour Market Composite Index falling 1pt to +7. Still, that's its second highest level since 2007Q4, remaining above its decade average (+5).
- This index provides a reliable guide to jobs growth for the total economy with a two quarter lead. At +7, the net balance is historically consistent with an acceleration in annual jobs growth from May's 2.5%yr trend pace to 3%yr in 2010Q3, and only slightly below that in Q4, near 3%yr.
- The slight dip in the Composite was driven by an expected decline in overtime, marginally reinforced by slightly softer expected employment growth, with a partial offset from slightly stronger actual employment growth in the quarter.

Jobs growth to hold around 3% 2010H2



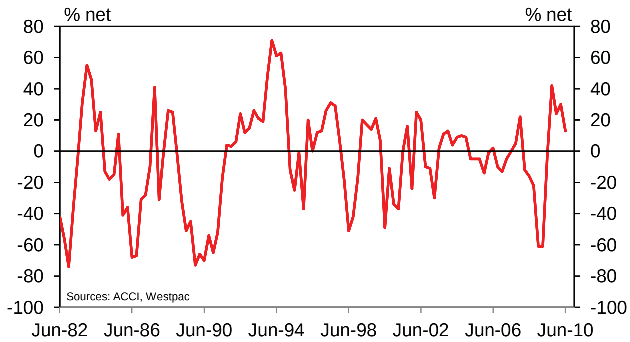
General business situation

	Q1 2010	Q2 2010
Net balance	30	13

- With respondents' solid activity outcomes falling short of robust prior predictions, softer domestic demand growth in the March quarter, RBA rate hikes in April and May, and growing concerns over the global outlook amidst the European debt crisis, general business expectations deteriorated in the June quarter.
- The proportion of respondents predicting an improvement in the general business situation in the next six months declined (32% vs 38%). Around half (49% vs 54%) expect no change. Those expecting a deterioration doubled (19% vs 8%), resulting in a lower net outcome of 13% (vs 30%), the weakest since 2009Q2. However, this result remains well over the decade average of –3%, at its fifth highest since 2002Q2.

General business situation

Next six months



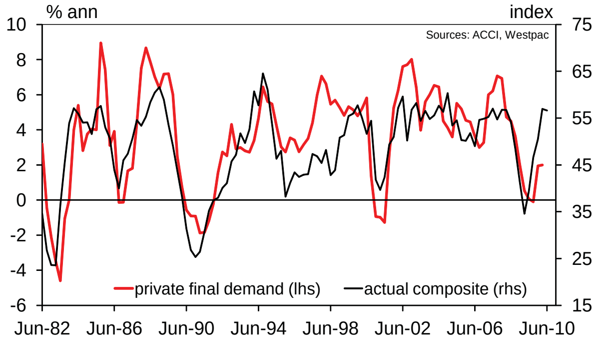
The business cycle & economic outlook

Westpac–ACCI survey & the business cycle

- The Westpac–ACCI Actual Composite Index has a strong track record of predicting near-term private final demand growth, including identifying turning points in the cycle.
- Although 0.4ppts lower at 56.6 in the June quarter, the Actual Composite Index remains well above its decade average (52.1) implying an acceleration in annual private sector final demand growth in mid-2010 to an above-trend pace.
- At a level of 56.6, the Actual Composite Index is historically consistent with an acceleration in annual private final demand growth towards around 5%yr in mid-2010, markedly higher than the 2.0%yr pace in the 2010Q1 National Accounts, which itself was up from a low of –0.1%yr in 2009Q3.

Manufacturing & the business cycle

Westpac-ACCI composite index & private demand

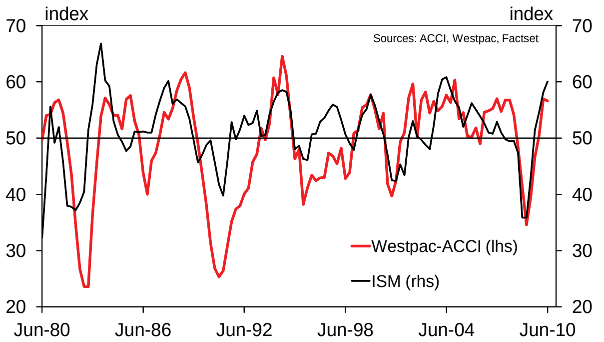


Australian & US manufacturing surveys

- The US and Australian manufacturing cycles have an historical tendency to move broadly in synch, especially over the last two years. The June quarter 2009 was a turning point from the 2008 deterioration in manufacturing conditions in both economies. The Australian index of actual conditions recovered to expansionary territory in 2009Q4, lagging by one quarter the resumption of expansion in US manufacturing. The June quarter 2010 saw US conditions open an outperformance gap with Australian conditions (which eased slightly), with US conditions accelerating with the support of inventory rebuilding and fiscal stimulus.
- Despite this US outperformance in the June quarter, both Australian and US indexes remain in strong expansionary territory. The US manufacturing ISM index has averaged 60.05 so far in 2010Q2, the strongest since 2004Q2, up from a 2010Q1 average of 58.17.

Australian & US manufacturing surveys

Westpac-ACCI & ISM composite indexes

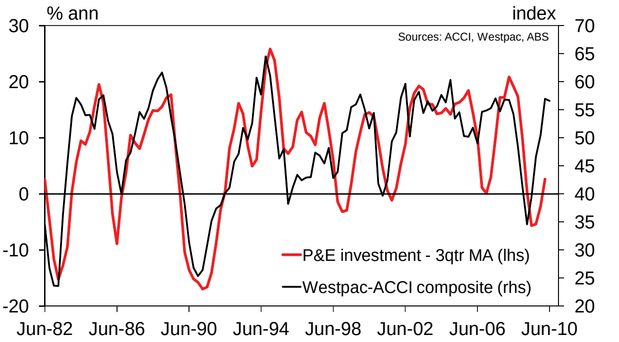


Westpac–ACCI survey & business investment

- The Westpac–ACCI Actual Composite Index also has a leading relationship with annual growth in economy-wide business investment spending on plant and equipment.
- Despite the slight pullback in the 2010Q2 Actual Composite Index, it remains firmly in the region consistent with strong, accelerating annual growth in total plant and equipment investment spending.
- The impending investment upswing will be led by the mining sector, but the second estimate of manufacturing capex plans for 2010/11 from the ABS was also markedly more upbeat. Manufacturing investment fundamentals are improving with above-trend expansion expected to continue, rising capacity utilisation and historically strong profit expectations. Indeed, manufacturers' twelve month plant and equipment plans rose further in this survey.

Activity & capital investment

Westpac-ACCI composite & plant & equipment investment



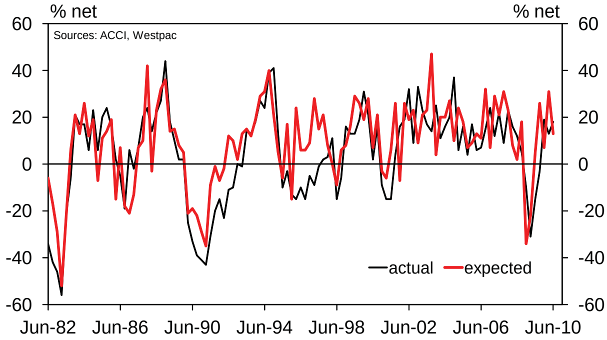
Activity & orders

Output

	Q1 2010	Q2 2010
Actual – net balance	13	18
Expected – net balance	31	13

- While well below record high predictions from the prior survey, the actual net output indicator still rose strongly in the June quarter 2010. However, while remaining historically robust, forward predictions have more than halved, reflecting softer expectations for new orders growth and declines in the backlog of orders. The proportion of respondents reporting an increase in output edged up from 32% to 33% while those recording a decrease declined (15% vs 19%), resulting in a net balance of 18% (vs 13%), the second highest since 2007Q4 and well above the decade average (11%) for the third straight quarter. More moderate output growth is predicted for the next three months (net 13% vs 31%), around the decade average prediction (14%), which is nonetheless the strongest expectation for a September quarter since 2007.

Output growth
Actual & expected

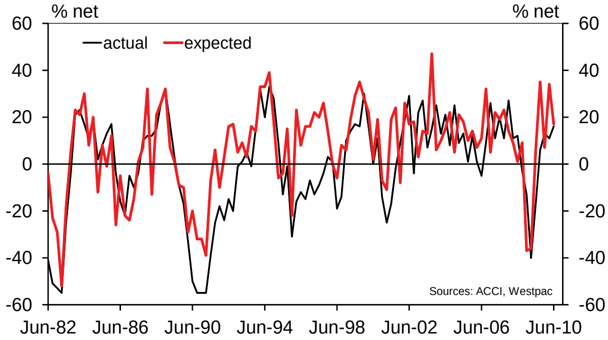


New orders

	Q1 2010	Q2 2010
Actual – net balance	11	16
Expected – net balance	34	17

- Similarly, while markedly short of the record high predictions of three months ago, the net outcome for new orders was also well up in the June quarter 2010. The proportion of respondents reporting an increase in new orders edged up (31% vs 30%). Those reporting a decline was lower (15% vs 19%), resulting in a net balance of 16% (vs 11%), the highest since 2007Q4, above the decade average (8%) for the third consecutive quarter. On balance, an almost unchanged result is predicted for the September quarter 2010 (17% vs 34%).
- The net indicator for orders accepted but not yet delivered has remained virtually unchanged at its decade average of –2% (vs –3%). However, a modest rise (5% vs 18%) is predicted for the September quarter 2010.

New orders
Actual & expected

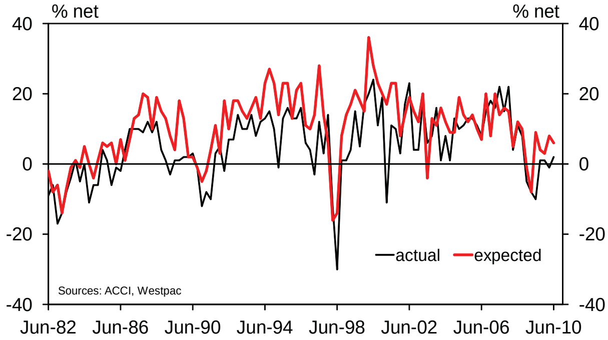


Exports

	Q1 2010	Q2 2010
Actual – net balance	–1	2
Expected – net balance	8	6

- The net export deliveries indicator improved marginally in the June quarter 2010, but remained well below its decade average (8%) for the seventh straight quarter and below prior predictions (8%) for the eighth straight quarter. The proportion reporting a rise in export deliveries was virtually unchanged (10% vs 11%). Those recording a decline was lower (8% vs 12%), giving a net outcome of 2% (vs –1%). Stronger export growth is predicted for the next three months, helped by a near 8% fall in the AUD/USD since the prior survey, although increased concerns over global growth have tempered expectations relative to last survey (6% vs 8% vs decade average of 12%).

Export deliveries
Actual & expected

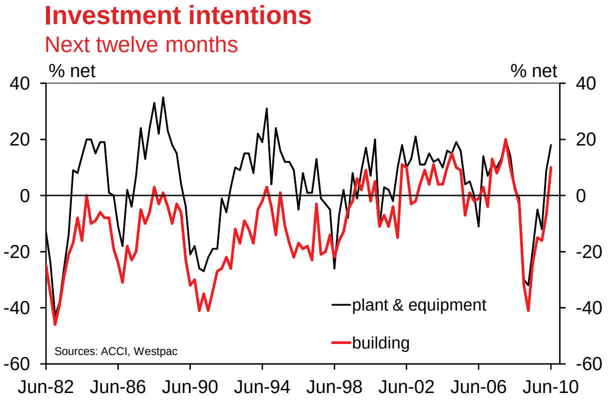


Investment & profitability

Investment intentions

	Q1 2010	Q2 2010
Plant & Equipment – net balance	9	18
Building – net balance	–7	10

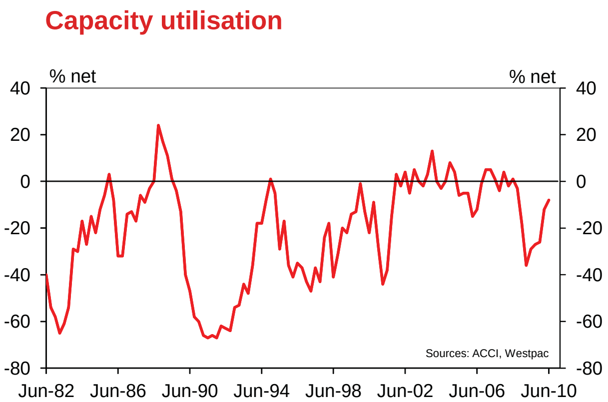
- Despite softer general business confidence, but reflecting strong activity indicators and respondents' generally robust forward projections in respect of their own firms over the last two quarters, manufacturers' 12 month plans for plant and equipment investment spending firmed markedly further in the June quarter 2010. The proportion reporting plans to increase spending was unchanged at 30%, but the proportion predicting a decline fell (12% vs 21%), resulting in doubling of the net outcome from 9% to 18%, the highest since 2007Q4 at triple its decade average (6%).
- Spending plans for buildings rose strongly to their highest since 2008Q1, surpassing their decade average (0%) for the first time since 2008Q2. 22% of respondents predict an increase (vs 18%) and only 12% a decline (vs 25%), driving the net indicator to an historically high 10% (vs –7% prev).



Capacity utilisation

	Q1 2010	Q2 2010
Net balance	–12	–8

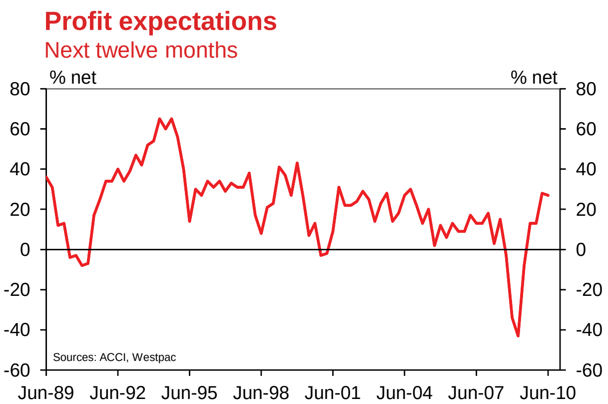
- On balance, the net capacity utilisation indicator firmed again in the June quarter 2010 for the fifth consecutive quarter, rising from –12% to –8%. That is its highest level since 2008Q3, close to the decade average of –7%, and well above its full history average (since 1966) of –19% for the second straight quarter. More than a fifth of respondents (21% vs 14%) reported working above their normal capacity. The proportion working below their normal capacity levels was marginally higher (29% vs 26%). Half the manufacturers surveyed (50% vs 60%) reported working at their normal capacity levels.



Profit expectations

	Q1 2010	Q2 2010
Net balance	28	27

- With above-trend expansion continuing, historically subdued unit cost growth, and achieved increases in selling prices with predictions of more to come, profit expectations remained strong in the June quarter 2010 at their second highest since 2004Q3, and more than double their decade average (13%). The proportion of manufacturers surveyed expecting to achieve higher profitability in the next 12 months rose from 40% to 45%. However, those predicting a decline also rose (18% vs 12%), resulting in a virtually unchanged net balance of 27% (vs 28%). More than a third of the respondents (37% vs 48%) expect no change in their profitability levels.



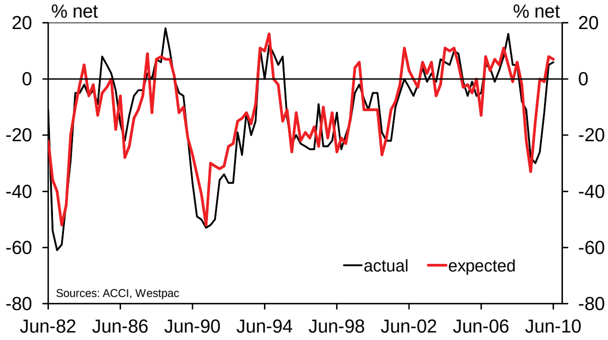
The labour market

Numbers employed

	Q1 2010	Q2 2010
Actual – net balance	5	6
Expected – net balance	8	7

- On balance, there was virtually no change in the actual and expected net employment indicators, both remaining firm at well above their decade averages in the June quarter 2010. The proportion reporting an increase in numbers employed fell from 20% to 15%. However, the proportion reporting a decline was also lower (9% vs 15%), resulting in a marginally firmer net balance of 6% (vs 5%), the highest since 2007Q4 and well above the decade average (–3%). The net outlook for the next three months predicts similarly robust growth, remaining virtually unchanged at 7% (vs 8% prev), the second strongest employment prediction since 2007Q3 and well above the decade average prediction (–2%).

Numbers employed
Actual & expected

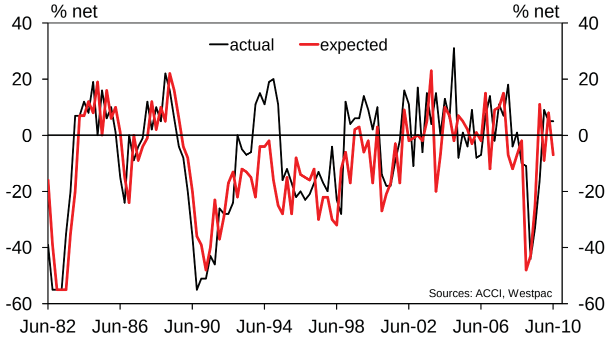


Overtime worked

	Q1 2010	Q2 2010
Actual – net balance	5	5
Expected – net balance	8	–7

- The actual overtime worked net indicator remained unchanged in the June quarter 2010 at its second highest since 2007Q4, still well above its decade average (0%). However, on balance, a decline is predicted for next three months. The proportion of respondents reporting an increase in overtime worked eased (25% vs 27%). The proportion reporting a decline eased equally (20% vs 22%), resulting in an unchanged net outcome of 5%. The proportion reporting no change rose marginally (55% vs 51%). However, a solid decline in the net overtime worked indicator is predicted for the September quarter 2010 (–7% vs 8%).

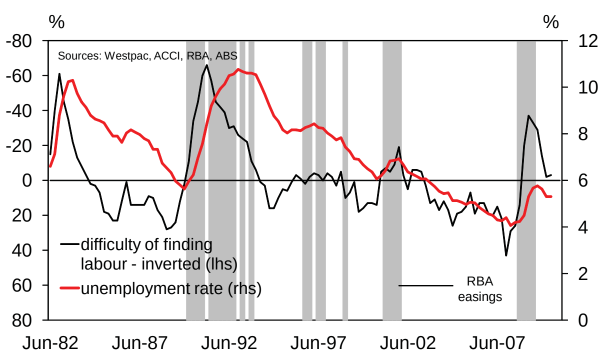
Overtime worked
Actual & expected



Labour market tightness

- With a slight easing in labour market demand indicators (Labour Market Composite Index net balance down 1pt to +7) respondents reported marginally less difficulty of finding labour, remaining well below average. The net balance reporting labour as "harder to get" eased to –3% from –2% (decade average +5%), although it remains well up from the 2009Q1 low of –37%.
- The Labour Market Composite Index net balance is consistent with jobs growth around 3%yr in 2010H2, which (with rising labour force growth) would gradually take the unemployment rate to 5% by year end. The labour market tightness net balance has not yet reached a level consistent with a lower unemployment rate than the current 5.2%, suggesting firms are aware of spare capacity in their existing workforce (trend avg hrs worked still 2.2% below mid-08 peak), an 'easier' channel for increasing labour usage.

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.

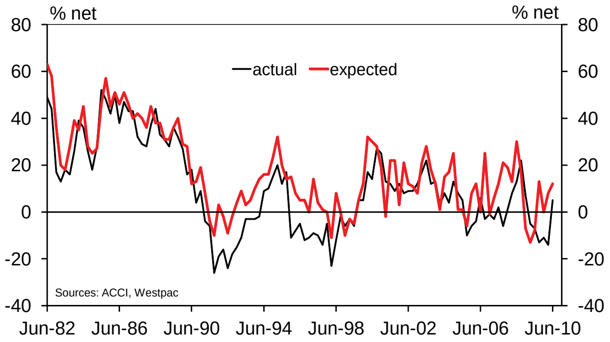
Prices & inflation

Average selling prices

	Q1 2010	Q2 2010
Actual – net balance	–14	5
Expected – net balance	8	12

- On balance, average selling prices rose for the first time since 2008Q4 in the June quarter 2010, at a close to decade average pace (6%), although short of prior predictions (8%). The proportion of respondents reporting price increases rose from 16% to 19%. Those recording a decline halved (14% vs 30%), resulting in a much higher net balance of 5% (vs –14%).
- With above-trend activity expectations and the actual achievement of price rises in the June quarter, forward projections predict a further rise in the net outcome for average selling prices in the September quarter 2010 (12% vs 8% vs decade average 11%). That is the strongest selling price expectation since 2009Q3. However, we note that net pricing outcomes have fallen short of prior predictions in 15 of the last 18 quarters.

Average selling prices
Actual & expected

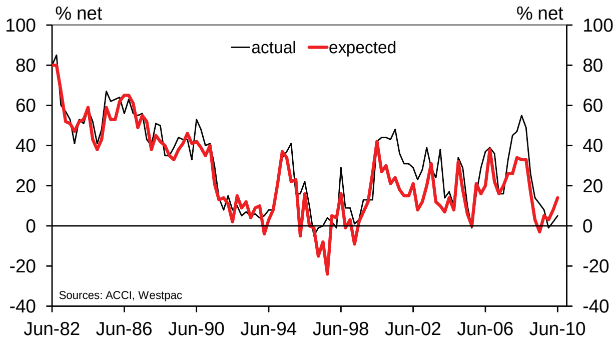


Average unit costs

	Q1 2010	Q2 2010
Actual – net balance	2	5
Expected – net balance	8	14

- On balance, while below predictions (8%), the pace of average unit cost increases accelerated in the June quarter 2010, but remained well below the decade average outcome. The proportion of respondents reporting cost increases eased (15% vs 19%). Those reporting cost decreases was well down (10% vs 17%), resulting in a net balance of 5% (vs 2%), still well below the decade average (27%). Three quarters of the respondents (75% vs 64%) reported no change. On balance, a further acceleration of the pace of cost increases is predicted for the September quarter 2010 (14% vs 8%) but at a still below decade average pace (the decade average expectation is 18%).

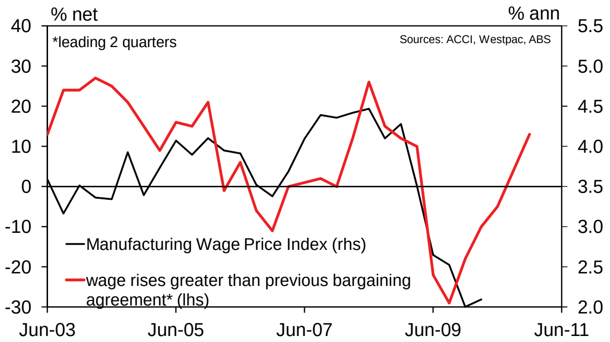
Average unit costs
Actual & expected



Manufacturing wages

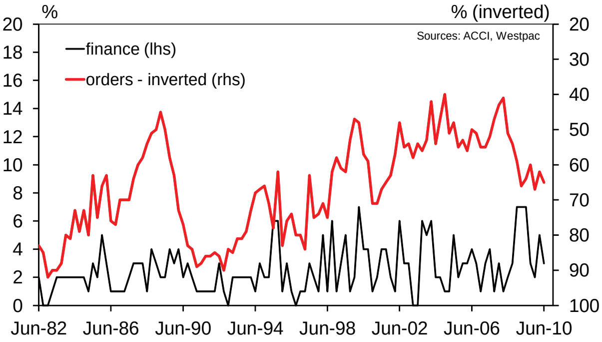
- With a resilient Labour Market Composite Index net balance and the net difficulty of finding labour still well up from its 2009Q1 low, manufacturers' net wage growth expectations rose at an accelerating pace for the fifth consecutive quarter in the June quarter 2010.
- A net balance of 13% (vs 4% previously) of respondents expect wage rises in their firm's next round of enterprise bargaining agreements to be higher than the previous outcome, the strongest since 2008Q1.
- This net result is now above the decade average (10%) and points to a rise in manufacturing wage growth through 2010H2 from (using the private sector manufacturing wage price index) 2010Q1's 2.1%yr pace to around 4%yr.

Manufacturing wage growth pressures



Other results

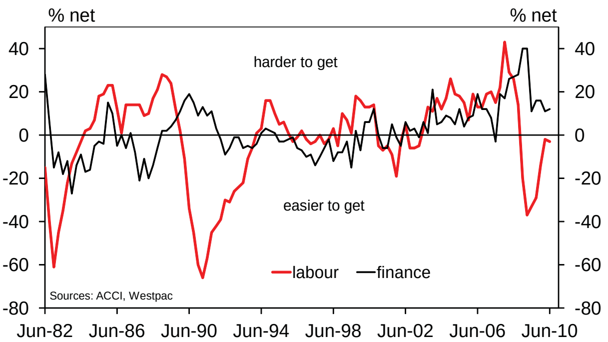
Key factor limiting production
% of respondents



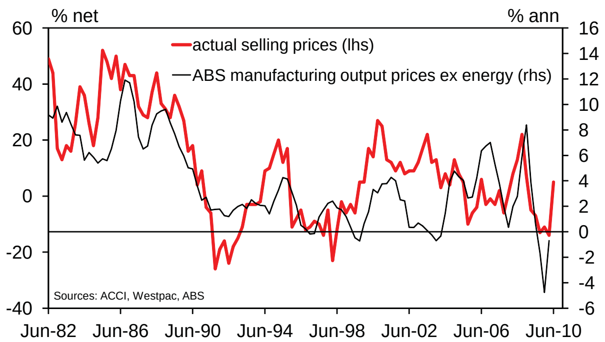
Factors limiting production

	Q4 2009	Q1 2010	Q2 2010
Orders (%)	67	62	65
Capacity (%)	6	7	7
Labour (%)	3	4	3
Finance (%)	2	5	3
Materials (%)	2	0	5
None (%)	9	11	7
Other (%)	11	11	10

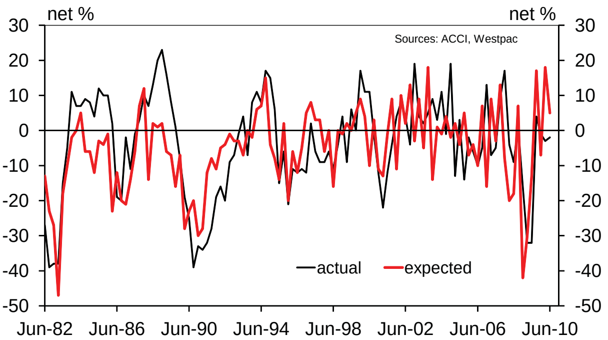
Availability of labour & finance



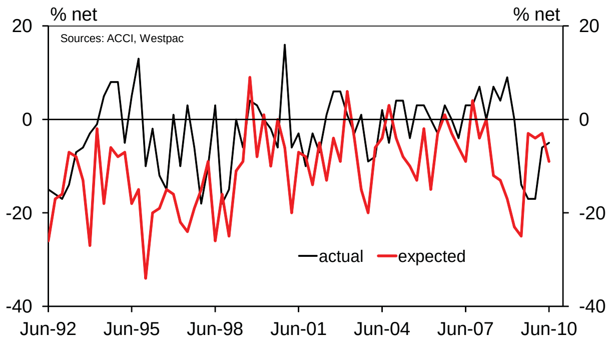
Mfg upstream price pressures rebuilding



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
+13%	32%	49%	19%

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

Net balance	Above normal	Normal	Below normal
–8%	21%	50%	29%

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

Orders	65%	Finance	3%
Capacity	7%	Labour	3%
Materials	5%	None	7%
Other	10%		

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?	**–3%**	6%	85%	9%
(b) finance?	**+12%**	18%	76%	6%

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?	**+10%**	22%	66%	12%
(b) on plant & machinery?	**+18%**	30%	58%	12%

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	**+6%**	15%	76%	9%	**+7%**	15%	77%	8%
7. Overtime worked	**+5%**	25%	55%	20%	**–7%**	13%	67%	20%
8. All new orders received	**+16%**	31%	54%	15%	**+17%**	29%	59%	12%
9. Orders accepted but not yet delivered	**–2%**	16%	66%	18%	**+5%**	20%	65%	15%
10. Output	**+18%**	33%	52%	15%	**+13%**	25%	63%	12%
11. Average costs per unit of output	**+5%**	15%	75%	10%	**+14%**	20%	74%	6%
12. Average selling prices	**+5%**	19%	67%	14%	**+12%**	21%	70%	9%
13. Export deliveries	**+2%**	10%	82%	8%	**+6%**	10%	86%	4%
14. Stock of raw materials	**–5%**	14%	67%	19%	**–4%**	12%	72%	16%
15. Stocks of finished goods	**–5%**	14%	67%	19%	**–9%**	11%	69%	20%

Summary of results

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

(a) Improve?	45%
(b) Remain unchanged?	37%
(c) Decline?	18%
Net balance	**+27%**

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?	75%
(c) Less?	6%
Net balance	**+13%**

A. Industry profile of survey**:**

	(% of respondents)
Food, beverages, tobacco	13
Textiles, fabrics, floor coverings, felt, canvas, rope	3
Clothing, footwear	5
Wood, wood products, furniture	4
Paper, paper products, printing	9
Chemicals, paints, pharmaceuticals, soaps, cosmetics petroleum & coal products	11
Non–metallic mineral products: glass, pottery, cement bricks	9
Basic metal products: processing, smelting, refining, pipes & tubes	3
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	7
Other machinery & equipment: electrical, industrial scientific, photographic	13
Miscellaneous: including manufacturers of leather, plastic & rubber, sporting equipment, jewellery	10

B. How many employees are covered by this return?

1–100	101–200	201–1000	Over 1000
49%	13%	14%	24%

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

WA	SA	VIC	NSW	QLD	TAS
9%	11%	26%	35%	13%	6%

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%.

This issue was finalised on 18 June 2010

Publication enquiries, Economics, Telephone (61–2) 8254 8720, economics@westpac.com.au