

Australian Performance of Manufacturing Index



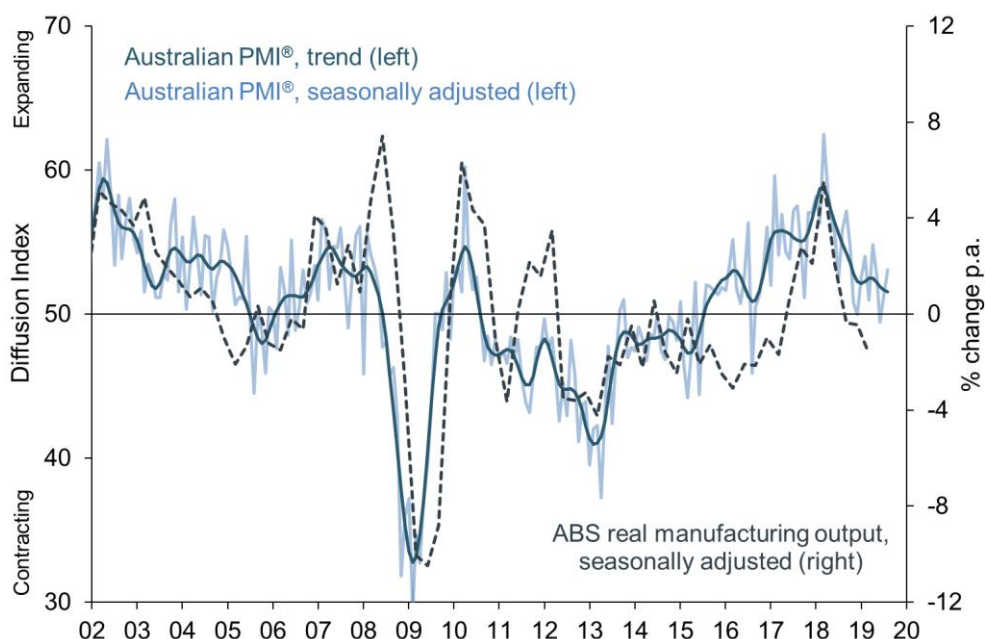
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Positive start to the new financial year for manufacturing

The Australian Industry Group Australian Performance of Manufacturing Index (Australian PMI®) rose by 1.8 points to 53.1 points in August (seasonally adjusted), indicating a more convincing expansion. Results above 50 points indicate expansion with higher results indicating stronger growth in the month.

Manufacturing conditions improved in August, with increasing levels of production and rising exports. Demand from defence and mining projects lifted the machinery and equipment sector into expansion, but the metals sector and other heavy industrial manufacturers are still reporting tough trading conditions. The food & beverages sector is still growing but recorded its lowest monthly result since November 2016, with some respondents noting higher prices and lower availability and/or quality of raw agricultural inputs because of the drought. Overseas demand for Australian manufactured products remains strong, particularly for consumable manufacturing products.

Australian PMI® (seasonally adjusted and trend)



Results above 50 points indicate expansion with higher results indicating a stronger expansion.

AUSTRALIAN PMI®

53.1

↑ 1.8 POINTS
(seasonally adjusted)

FOOD & BEVERAGES

55.8

↓ 1.7 POINTS
(trend)

MACHINERY & EQUIPMENT

52.5

↑ 1.6 POINTS
(trend)

METAL PRODUCTS

37.9

↓ 0.3 POINTS
(trend)

AUSTRALIAN PMI®

51.6

↓ 0.1 POINTS
(trend)

CHEMICALS

52.6

↓ 0.8 POINTS
(trend)

BUILDING MATERIALS, WOOD, FURNITURE & OTHER

59.6

↓ 0.5 POINTS
(trend)

TCF, PAPER & PRINTING

41.7

↓ 0.6 POINTS
(trend)

Australian PMI® summary

Manufacturing sectors: Four of the six sectors in the Australian PMI® expanded in August and two contracted (trend). Growth was slower for the 'building materials, wood, furniture & other' manufacturers, the large food & beverages sector and the chemicals sector in August while the machinery & equipment sector improved after several months of poor conditions. Weakness remains in the metal products and the small 'TCF, paper & printing products' sector which both fell deeper into contraction, with monthly results at their lowest levels since 2013.

Manufacturing wages and prices: Average selling prices increased while average input prices eased marginally, indicating that some profit margin pressure was alleviated in August. The average wage index rose above its long-run average in August, indicating a higher proportion of businesses are facing wage increases across manufacturing. This might reflect wage increases linked to this year's minimum wage increase of 3.0% (from 1 July 2019) making their way through Australia's system of industrial awards and agreements and/or skill shortages in discrete skilled occupations.

Manufacturing activity: All seven activity indices in the Australian PMI® indicated expanding conditions in August, with six of the seven indices indicating a faster rate of expansion. Production and sales rose back into expansion in August after contracting in July. The exports index expanded at a faster pace, as did the new orders index. This points to more positive condition ahead. Only the employment index indicated weaker conditions in August.

Manufacturing highlights: Production and sales rebounded in August following stronger readings of the new orders and supplier delivery indices in recent months (these two indices combined tend to be a leading indicator of actual production). Defence and mining projects lifted the machinery and equipment sector into expansion.

Manufacturing concerns: Weakness remains in the metal products and TCF, paper and printing sectors, with both reporting their weakest conditions since 2013. Respondents in the metal products sector reported that strong import competition (despite a lower Australian dollar) and the downturn in residential construction is negatively impacting their sales. The large food & beverages sector has been holding up the average level of manufacturing conditions for some time now. Although the food and beverages sector is still expanding, it reported its weakest condition since November 2016.

AUSTRALIAN PMI® KEY NUMBERS	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
<i>seasonally adjusted</i>				<i>trend</i>			
Australian PMI®	53.1	1.8	52.6	Australian PMI®	51.6	-0.1	52.5
Production	53.2	4.9	53.5	Food & beverages	55.8	-1.7	58.1
Employment	51.4	-1.8	52.3	Machinery & equipment	52.5	1.6	49.9
New Orders	53.3	0.3	52.6	Metals products	37.9	-0.3	45.6
Supplier Deliveries	52.9	1.0	53.0	Petroleum, coal, chemicals			
Finished stocks	55.8	6.9	50.7	& rubber products	52.6	-0.8	53.0
Exports	55.7	1.1	53.2	Building, wood, furniture			
Sales	54.3	11.6	51.6	& other products	59.6	-0.5	57.5
Input Prices	66.2	-0.1	69.6	Textiles, clothing, footwear,			
Selling Prices	52.7	3.5	51.6	paper & printing	41.7	-0.6	48.3
Average Wages	60.3	3.4	60.6				
Capacity Utilisation (%)	78.9	-2.4	78.4				

Results above 50 points indicate expansion. All indexes for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

MANUFACTURING REPORT CARD: Latest ABS data	Level	change q/q	change y/y	Share of total
<i>Latest ABS data, seasonally adjusted</i>	\$bn	%	%	%
Real value-added output, \$bn, year to Mar 2019	104.6	-0.4	-0.1	5.7% of total GDP
Nominal sales, \$bn, year to Mar 2019	355.7	1.0	1.0	12.4% of non-farm business sales
Nominal export earnings, \$bn, year to Jun 2019 (<i>original</i>)	122.7	2.1	11.1	26.1% of total export earnings
Nominal company profits (GOP), \$bn, year to Mar 2019	32.2	-1.7	2.0	8.9% of non-farm company profits (GOP)
Nominal investment (CAPEX), \$bn, year to Jun 2019	9.3	-0.1	-1.2	7.9% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Mar 2019	53.7	0.9	3.4	9.6% of non-farm business wages
Number of employed persons, '000, May 2019 (trend)	903.3	5.1	-5.1	7.0% of total employed persons

ABS data sources: Australian National Accounts; Australian Business Indicators; CAPEX; International Trade; Labour Force Quarterly Detail.

For more detail about the Ai Group Australian PMI® visit: www.aigroup.com.au/policy-and-research/economics/

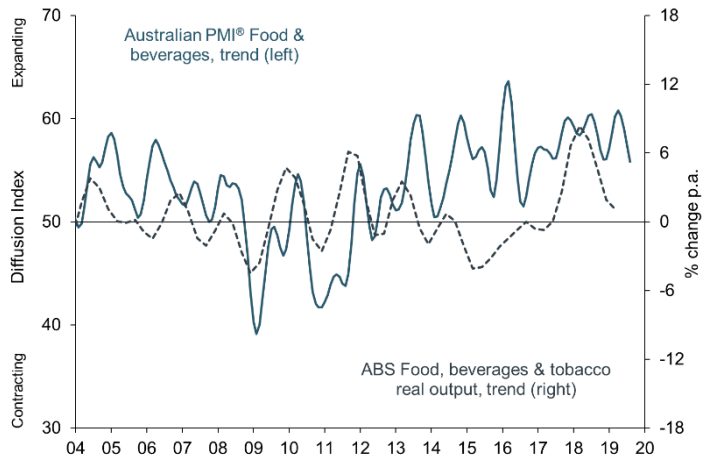
Australian PMI® sectors

Food & beverages

The food, beverages & tobacco sector produced \$27.5bn in real value-added output in the year to Q1 2019 (26% of manufacturing real value-added output). It employed 243,000 people in May 2019 (27% of manufacturing employment).

The index for the largest manufacturing sector, food & beverages, fell by a further 1.7 points to 55.8 points, indicating a slower rate of expansion in August (trend). This sector has been expanding since June 2012, but August was its slowest rate of expansion since November 2016. Exports have been particularly strong for this sector in recent months, but some respondents reported weaker domestic sales in August and higher raw material costs due to the drought.

Food & beverages

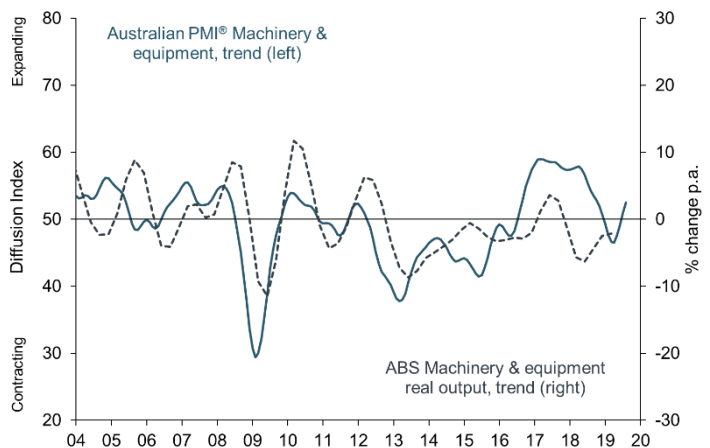


Machinery & equipment

The machinery & equipment sector produced \$19.0bn in real value-added output in the year to Q1 2019 (18% of manufacturing real value-added output). It employed 181,600 people in May 2019 (20% of manufacturing employment).

The large machinery & equipment sector improved in August with its index rising by 1.6 points to 52.5 points (trend). This sector makes specialist equipment for mining, agriculture, food processing and other markets, as well as transport vehicles other than cars (such as trucks, trains, buses and boats). Respondents selling machinery & equipment to the defence and mining sector reported better conditions but those selling to the agricultural sector reported weakness due to the drought. Some respondents reported that the lower Australian dollar was increasing the costs of their imported inputs including capital goods.

Machinery & equipment

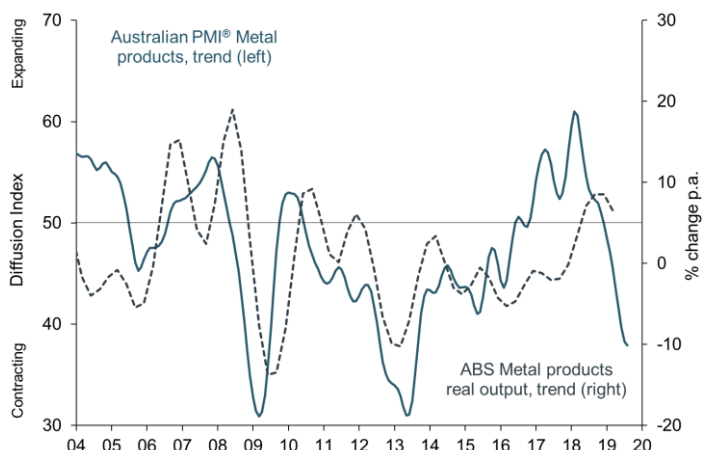


Metal products

The metal products sector produced \$17.3bn in real value-added output in the year to Q1 2019 (17% of manufacturing real value-added output) and employed 138,800 people in May 2019 (15% of manufacturing employment).

The large metals sector weakened further this month, recording its lowest monthly result since August 2013. Its index retreated by a further 0.3 points to 37.9 points, indicating a faster pace of contraction (trend). Respondents reported ongoing sluggish sales mainly due to the downturn in the construction industry, low market confidence and competition from cheaper imports.

Metals products



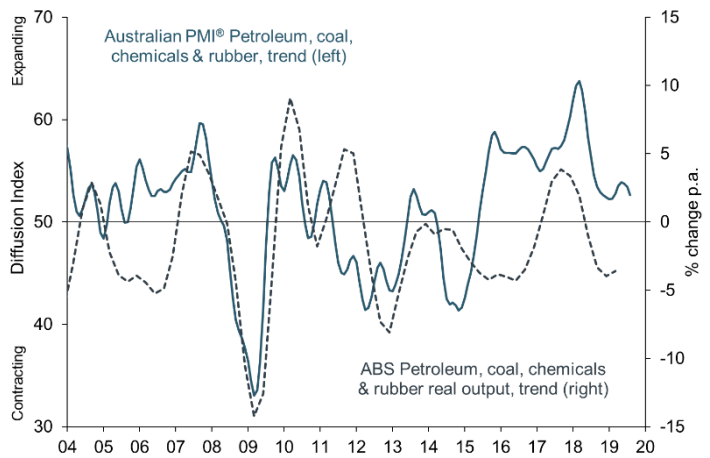
Australian PMI® sectors

Petroleum, coal, chemicals & rubber products

The petroleum, coal, chemicals & rubber sector produced \$18.8bn in real value-added output in the year to Q1 2019 (18% of manufacturing real value-added output). It employed 93,200 people in May 2019 (10% of manufacturing employment).

This sector reported mild expansion in August (52.6 points), but at a slower pace than in July (53.4 points). Production and employment contracted but finished stocks and sales expanded. This extremely diverse sector includes fertilisers, agricultural chemicals, pharmaceuticals, toiletries and health supplements (all of which are growing steadily), as well as construction-related products such as paints, adhesives and surface treatments, which are faring less well at present.

Petroleum, coal, chemicals & rubber products

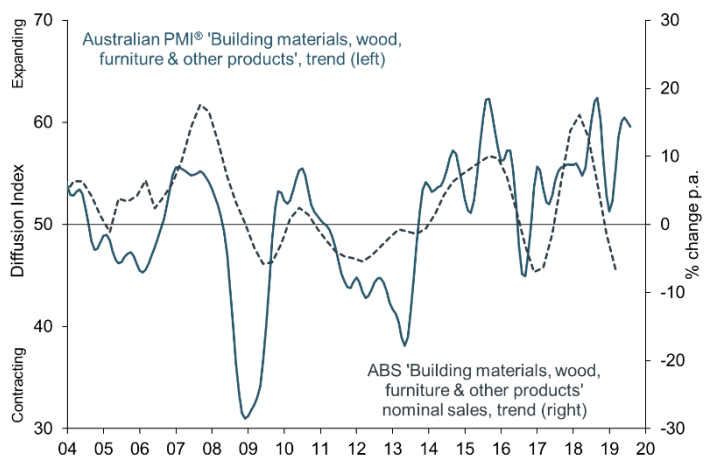


Building materials, wood, furniture & other manufacturing products

The building materials, wood, furniture & other manufacturing products sector employed 161,600 people in May 2019 (18% of manufacturing employment).

The index for the 'building materials, wood, furniture & other manufacturing' products (including building-related products such as glass, bricks, cement, tiles, porcelain, timber, furniture, furnishings and other household products) fell by 0.5 points to 59.6 points in August (trend). Some respondents reported stronger new orders from the mining industry, while Victoria respondents noted a lack of work due to rain-related disruptions in August (in stark contrast to ongoing drought conditions elsewhere).

Building materials, wood, furniture & other manufacturing products

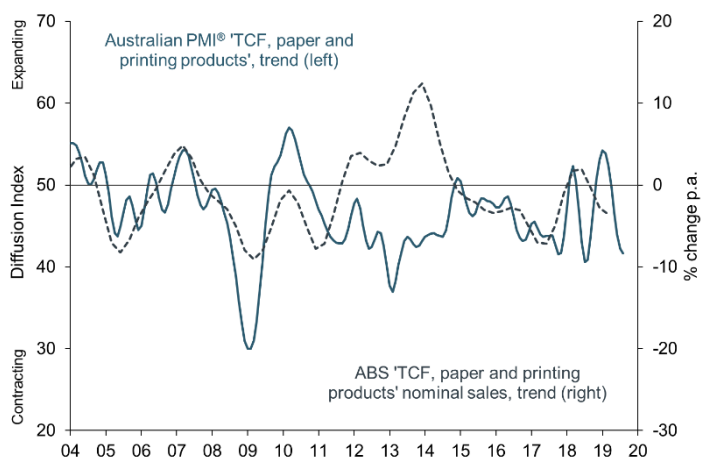


TCF, paper & printing products

The textiles clothing, footwear (TCF), paper & printing products sector employed 87,700 people in May 2019 (10% of manufacturing employment).

The small but diverse 'TCF, paper & printing products' sector makes textiles, clothing, footwear, paper, cardboard, packaging, printed products and recorded media. Its index fell by 0.6 points to its lowest level since 2013, at 41.7 points in August (trend). All activity indices for this sector contracted in August except for new orders, which could signal better conditions in the coming months. However, textiles, clothing and related segments continue to face tough local and global trading conditions.

TCF, paper & printing products



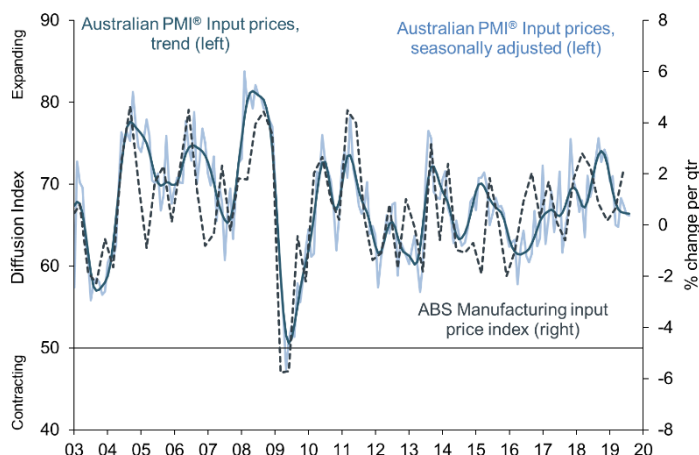
Australian PMI® prices and wages

Input prices

Manufacturing input prices rose by an average of 2.2% over the quarter and 3.9% over the year in Q2 2019, according to the ABS Producer Price Index (PPI).

Input price pressures eased slightly in August, falling by 0.1 points to 66.2 points (seasonally adjusted). This index is back around its long-term average (67.7 points) after rising quickly in 2018. The machinery & equipment and 'building materials, wood, furniture & other manufacturing' sectors reported high input costs in August. The lower trading range of the Australian dollar is good for exporters, but many manufacturers also import capital components and raw materials. Comments about the lower Australian dollar leading to rising input costs for manufacturers have increased in recent months.

Input prices

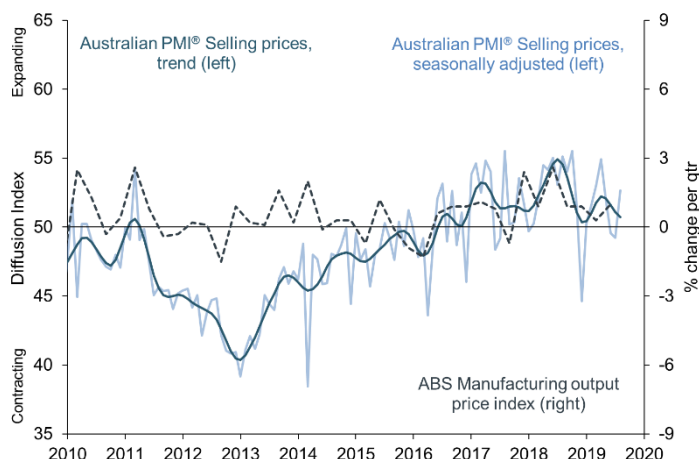


Selling prices

Manufacturing output prices rose by an average of 1.0% over the quarter and 3.0% over the year in Q2 2019, according to the ABS Producer Price Index (PPI).

The manufacturing selling prices index rebounded by 3.5 points back into expansion in August at 52.7 points, indicating rising selling prices (seasonally adjusted). Selling prices rose in the food & beverages and 'building materials, furniture and other' manufacturing sectors but fell in the heavy industrial sectors (machinery & equipment, metals and chemical products). Selling prices were particularly weak in the metals sector, with some respondents noting that increased import competition is making them unable to pass on input cost increases.

Selling prices

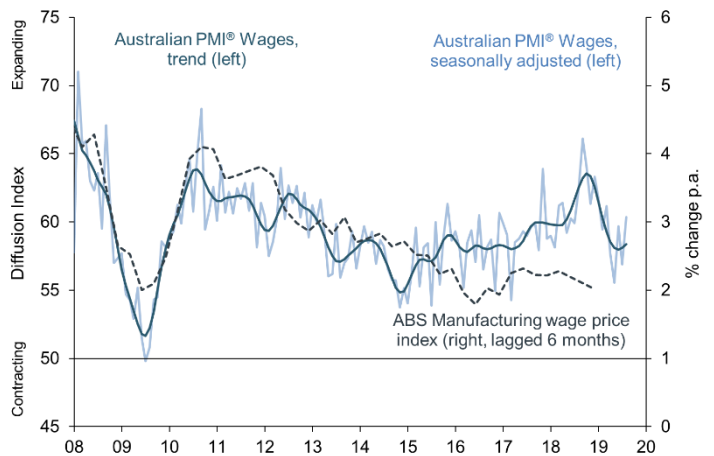


Average wages

Private sector wages across the manufacturing industry rose by an average of 0.4% over the quarter and 2.0% over the year in Q2 2019, according to the ABS Wage Price Index (WPI).

The average wage index rose by 3.4 points to 60.3 points August (seasonally adjusted). This indicates a higher proportion of businesses are facing wage increases across manufacturing. The average wages sub-index rose above the long-run average (59.2 points) in August. This might reflect wage increases linked to this year's minimum wage increase of 3.0% (from 1 July 2019) making their way through Australia's system of industrial awards and agreements. It might also reflect reports of skill shortages in discrete and specialised skilled occupations.

Average wages



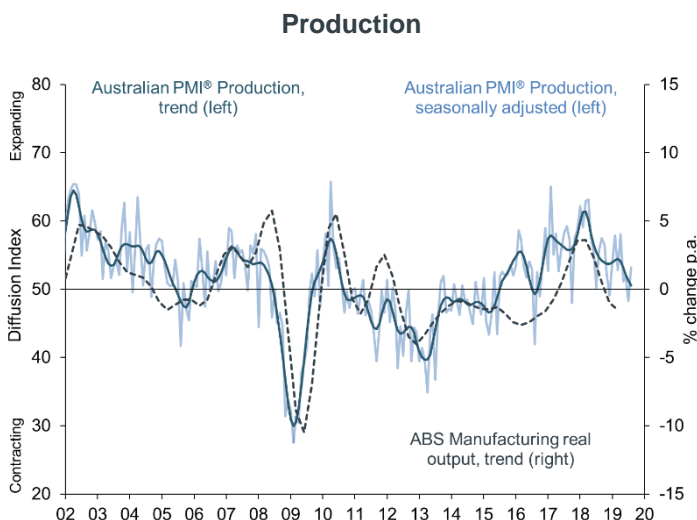
Australian PMI® activity

Production

The manufacturing industry produced \$104.6bn in real value-added output in the year to Q1 2019 (5.7% of Gross Domestic Product, GDP). Manufacturers' annual value-added output fell by 0.4% through the quarter in Q1 2019 and is 0.1% lower than one year earlier.

The production index rose back into expansion in August, after falling into contraction in July. The index rose by 4.9 points to 53.2 points in August (seasonally adjusted).

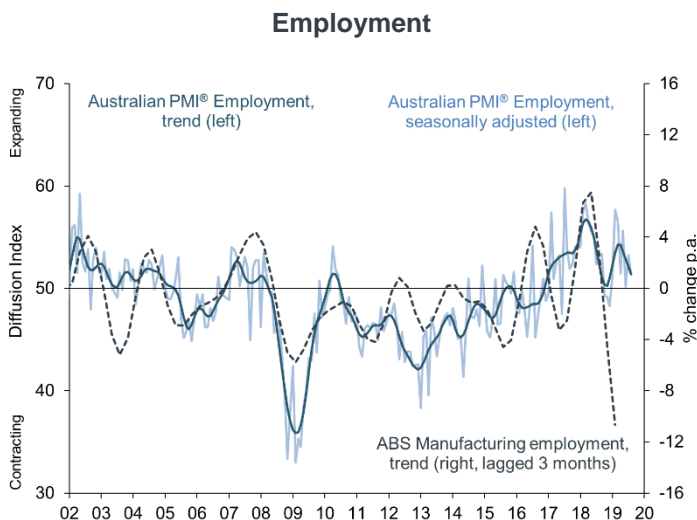
Food & beverage and machinery & equipment manufacturers reported stronger production in August, but the metal products and chemicals sectors reported very weak production levels.



Employment

Manufacturing employed 903,300 people in May 2019 (7.0% of Australia's workforce, seasonally adjusted). Manufacturing employment rose by 5.1% in the quarter but fell by 5.1% over the year to May 2019.

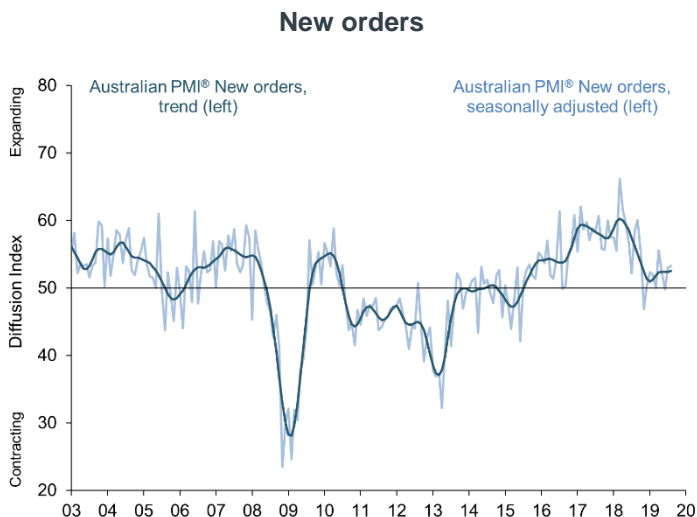
The employment index moderated by 1.8 points but remained in expansion at 51.4 points in August (seasonally adjusted). ABS data indicate total employment in manufacturing fell by 101,000 people over the year to May 2019 (trend). However, there appears to be an unusual degree of volatility in these ABS manufacturing employment data at present. An alternative measure of work in manufacturing, the ABS quarterly *Labour Account*, shows that manufacturing jobs continued to recover in 2018 and 2019, after a recent low in 2017. These *Labour Account* data estimate that there were 887,600 manufacturing jobs in Australia in Q1 (trend).



New orders

New orders grew in August, with this index rising very slightly by 0.3 points to 53.3 points (seasonally adjusted). This marks two months of improving new orders after the index fell into a mild contraction (below 50 points) at the end of the last financial year. This lift in new orders is a positive indicator for the next few months.

New orders were strong for 'food & beverages' and machinery and equipment but were contracting for metal products and 'building, wood, furniture & other' manufacturers in August.



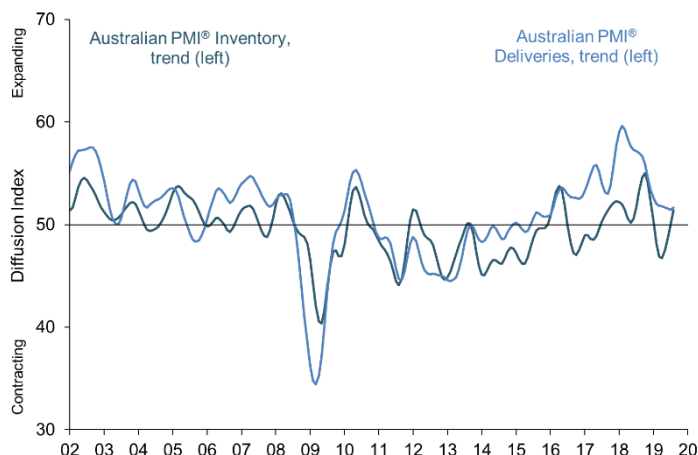
Australian PMI® activity

Supplier deliveries and finished stocks

The index for supplier deliveries rose by 1.0 points to 52.9 points in August. This index has expanded for the last two months after contracting in June. Together with the stronger new orders index, this suggests manufacturers might be gearing up for higher production levels in the coming months.

The finished stocks (inventories) index increased by 6.9 points into expansion at 55.8 points in August (seasonally adjusted). This indicated that finished stock levels increased on average across manufacturing in August.

Supplier deliveries and finished stocks



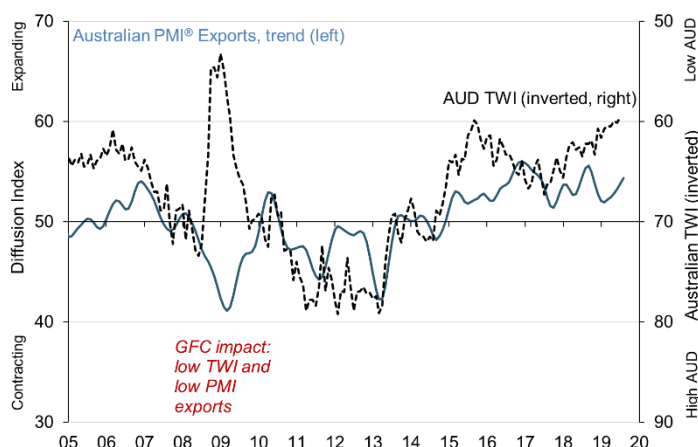
Exports

Nominal export earnings for Australian manufacturers were worth \$122.7bn in the year to June 2019 (26% of total annual export earnings). Australia's exports of manufactured goods are mainly metal products, followed by food & beverages and machinery & equipment, according to ABS International Trade data.

The Australian PMI® exports index increased by 1.1 points to 55.7 points in August (seasonally adjusted). This indicated growing exports for Australian manufacturers in August. This is the strongest result since October 2018.

In trend terms, the exports index last contracted in November 2014. This long expansion streak indicates there has been strong overseas demand for Australian manufactured products over the past five years.

Exports



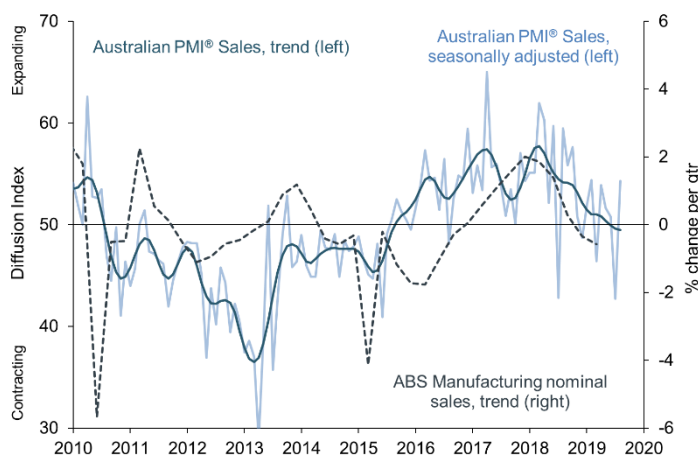
* AUD TWI = Australian dollar trade weighted index, monthly.

Sales

Australian manufacturers' nominal sales were worth \$355.7bn in the year to Q1 2019. They grew by 1.0% through the quarter and 1.0% through the year to Q1 2019, according the latest ABS Business Indicators data.

The Australian PMI® sales index rebounded from its lowest level since 2015 in August, jumping by 11.6 points to 54.3 points (seasonally adjusted). This indicates sales rose back into expansion in August. This activity index tends to be particularly volatile around the end of each financial year. Despite this recent lift, it has been trending lower since peaking in March 2018. Sales were especially low for the metal products sector in August but they expanded for chemical manufacturers.

Sales



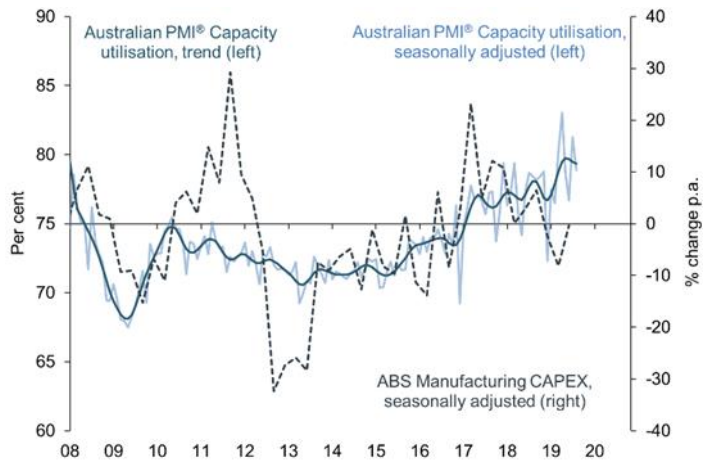
Australian PMI® activity

Capacity Utilisation

Australian manufacturers invested \$9.3bn in capital expenditure (CAPEX) in the year to Q2 2019. Their CAPEX fell by 0.1% through the quarter and 1.2% through the year to Q2 2019, according to the latest ABS CAPEX data.

The Australian PMI® capacity utilisation index fell by 2.4 percentage points to 78.9% of available capacity in August (seasonally adjusted). The average level of capacity utilisation in recent years has been higher than the historical average and higher than the amounts of CAPEX expenditure usually associated with this level of capacity utilisation. This could indicate that manufacturers are waiting longer to invest, despite high levels of utilisation, possibly because of increased uncertainty.

Capacity Utilisation



For more information about the Ai Group Australian PMI®:

www.aigroup.com.au/policy-and-research/economics/

Australian PMI® data definitions

The Australian PMI classifies each business according to their single main activity, using the industry data codes and definitions set out in the ANZSIC 2006. These classifications are comparable with all ABS data that use these same codes. For manufacturing in the Australian PMI, the definitions of the six sectors are:

1. Food & beverage products (ANZSIC codes 11 and 121).
2. Machinery & equipment manufacturing including motor vehicles, other transport equipment, professional and scientific equipment, electrical and electronic equipment, computers, domestic appliances, pumps, compressors, heating, cooling, ventilation, specialist equipment (ANZSIC codes 23 and 24).
3. Metal products including basic ferrous, non-ferrous, fabricated iron and steel, structural metals, metal containers, sheet metal and other metal products (ANZSIC codes 21 and 22).
4. Petroleum and coal-based products, basic chemicals, chemical products, fertilisers, pesticides, pharmaceuticals and medicinal products, cleaning compounds, toiletries, polymers and rubber products (ANZSIC codes 17, 18 and 19).
5. Building materials, wood, furniture & other manufacturing products including glass, ceramic, cement, lime, plaster, concrete, wood, logs, timber, furniture & other manufacturing products (ANZSIC codes 14, 20, 25).
6. TCF, paper and printing products including textiles, leather, clothing, footwear, pulp, paper, paperboard, converted paper products printing and the reproduction of recorded media (ANZSIC codes 13, 15, 16).

What is the Australian PMI®? The Australian Industry Group Australian Performance of Manufacturing Index (Australian PMI®) is a national composite index based on the diffusion indices for production, new orders, deliveries, inventories and employment with varying weights. An Australian PMI® reading above 50 points indicates that manufacturing is generally expanding; below 50, that it is declining. The distance from 50 indicates the strength of the expansion or decline. Australian PMI® results are based on responses from a national sample of manufacturers. The Australian PMI® uses the ANZSIC industry classifications for manufacturing sectors and sector weights derived from ABS industry output data. Seasonal adjustment and trend calculations follow ABS methodology. For further economic analysis and information from the Australian Industry Group, visit <http://www.aigroup.com.au/policy-and-research/economics/economicindicators/>.

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