

Australian Performance of Manufacturing Index



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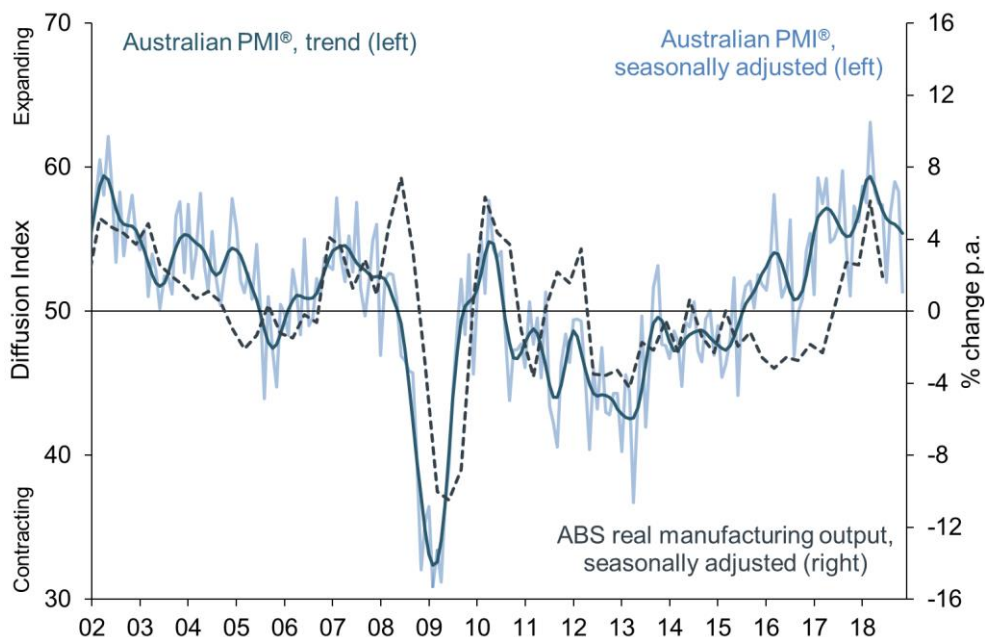
Manufacturing recovery slows in November

The Australian Industry Group Australian Performance of Manufacturing Index (Australian PMI®) fell 7.0 points to 51.3 points in November, indicating slower growth in the manufacturing sector (seasonally adjusted). This is the lowest result since October 2017. Results above 50 points indicate expansion with higher results indicating a stronger expansion.

Manufacturers reported expanding, albeit slowing conditions in November led by the non-metallic minerals sector and the large food & beverages sector. Manufacturing conditions were stronger in Victoria and South Australia but fell into contraction in New South Wales and Queensland.

The Australian PMI® has now indicated twenty-six months of uninterrupted recovery and expansion (results above 50 points), which is the longest run of recovery or expansion in this data series since 2005.

Australian PMI® (seasonally adjusted and trend)



AUSTRALIAN PMI® 51.3 ↓ 7.0 POINTS (seasonally adjusted)	FOOD & BEVERAGES 57.9 ↓ 0.9 POINTS (trend)	MACHINERY & EQUIPMENT 50.2 ↓ 1.0 POINTS (trend)	METAL PRODUCTS 50.9 ↓ 0.3 POINTS (trend)	CHEMICALS 54.5 ↑ 1.1 POINTS (trend)
AUSTRALIAN PMI® 55.4 ↓ 0.4 POINTS (trend)	NON-METALLIC MINERALS 74.9 ↓ 2.0 POINTS (trend)	TCF, FURNITURE & OTHER 49.9 ↑ 0.5 POINTS (trend)	WOOD & PAPER 56.8 ↓ 3.6 POINTS (trend)	PRINTING & RECORDED MEDIA 67.6 ↑ 4.6 POINTS (trend)

Australian PMI® summary

Manufacturing sectors: Five of the eight sectors in the Australian PMI® expanded in November and three were broadly stable (trend). Growth was led by the printing & recorded media, food & beverages and non-metallic minerals (mainly building and construction-related products) sectors. The large metals and machinery & equipment sectors reported buoyant conditions at the start of the year but have been slowing in the past six months to be broadly stable in November.

Manufacturing wages and prices: The input price index rose again in November and has had readings above 70 points for six of the last seven months. Input prices remain elevated for energy-intensive sectors, reflecting their ongoing problems with high input costs for gas and electricity. Food and beverage manufacturers reported higher prices for raw agricultural inputs and some quality issues due to the drought. The selling prices index fell in November indicating smaller price increases on average for manufacturing customers compared to October. The average wage index fell below its historical average in November, indicating that fewer manufacturing businesses lifted wages than in the preceding months.

Manufacturing activity: Five of the seven activity indexes in the Australian PMI® expanded in November and employment was broadly stable. The new orders index fell into contraction for the first time since September 2016 at 48.7 points in November. This suggests tougher conditions ahead for manufacturers in some sectors. Capacity utilisation remains above its long-run average, suggesting that increases in capital investment may soon be required.

Manufacturing highlights: Manufacturers reported expanding, albeit slowing conditions in November. Food and beverages manufacturers reported higher production in the lead up to Christmas, while respondents in other sectors reported high levels of activity related to infrastructure and construction projects, particularly in Victoria.

Manufacturing concerns: More manufacturing businesses reported deteriorating conditions in November which was reflected by the new orders index falling into contraction. Manufacturing conditions were stronger in Victoria and South Australia but fell into contraction in New South Wales and Queensland. Drought conditions in New South Wales and Queensland are now having an adverse impact on input costs and sales for some manufacturers.

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®	51.3	-7.0	57.2	Australian PMI®	55.4	-0.4	57.2
Production	51.8	-9.8	58.4	Food & beverages	57.9	-0.9	58.9
Employment	49.4	-3.2	54.7	Machinery & equipment	50.2	-1.0	56.1
New Orders	48.7	-10.1	58.3	Metals products	50.9	-0.3	55.3
Supplier Deliveries	54.4	-6.5	58.4	Chemicals	54.5	1.1	59.5
Finished stocks	57.4	1.4	53.6	Non-metallic minerals	74.9	-2.0	68.0
Exports	50.8	-4.3	53.8	TCF, furniture & other	49.9	0.5	47.0
Sales	52.6	-7.2	56.4	Wood and paper	56.8	-3.6	55.7
Input Prices	75.0	2.2	71.0	Printing and recorded media	67.6	4.6	53.7
Selling Prices	50.4	-6.7	54.0				
Average Wages	58.8	-8.2	61.5				
Capacity Utilisation (%)	79.5	-0.8	79.0				

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 June 2018	102.3	-1.5	1.9	5.8% of total GDP
Nominal sales, \$bn, year to June 2018	347.1	0.7	6.2	12.6% of non-farm business sales
Nominal export earnings, \$bn, year to Sep 2018 (<i>original</i>)	114.8	-	9.6	27.4% of total export earnings
Nominal company profits (GOP), \$bn, year to June 2018	32.3	1.5	8.3	9.7% of non-farm company profits (GOP)
Nominal investment (CAPEX), \$bn, year to Sep 2018	9.7	2.3	6.0	8.1% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to June 2018	52.3	0.5	2.5	5.9% of total employee earnings (COE)
Number of employed persons, '000, August 2018	976.4	2.2	9.7	7.6% of total employed persons

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

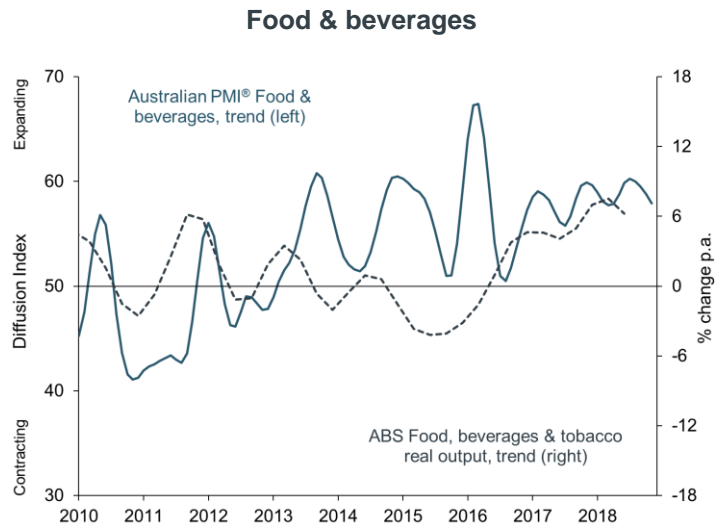
For more detail about the Ai Group Australian PMI® visit: www.aigroup.com.au/policy-and-research/economics/

Australian PMI® sectors

Food & beverages

The food, beverages & tobacco sector produced \$7.1bn in real value added output in Q2 2018 (28% of manufacturing real value added output). It employed 246,000 people in August 2018 (27% of manufacturing employment).

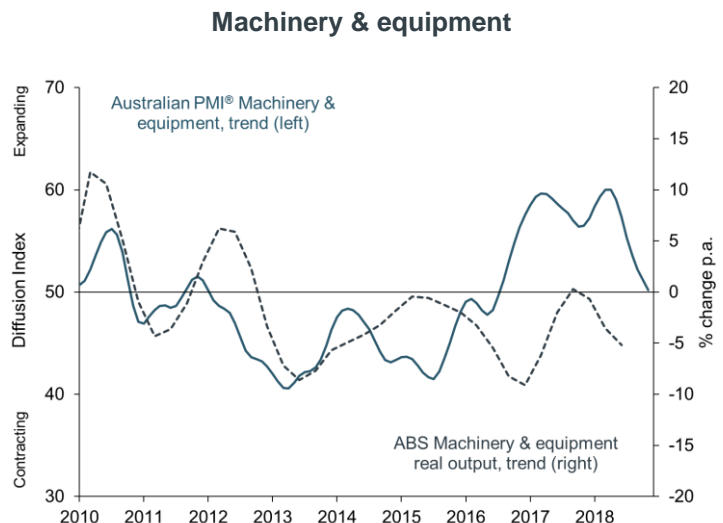
The index for the largest manufacturing sector, food & beverages, fell by 0.9 points to 57.9 points in November (trend). This sector has been expanding since early 2013. It has benefitted from strong export demand for high-quality food and beverage products, particularly from Asia. In November, several respondents reported higher production in the lead up to Christmas. Some food & beverage manufacturers reported higher prices for raw agricultural inputs and a few reported quality issues due to the drought in November.



Machinery & equipment

The machinery & equipment sector produced \$4.3bn in real value added output in Q2 2018 (17% of manufacturing real value added output). It employed 192,000 people in August 2018 (21% of manufacturing employment).

The machinery & equipment sector's index was broadly stable at 50.2 points in November, the lowest result since July 2016 (trend). This sector makes specialist equipment for mining, agriculture, food processing and other markets, as well as transport vehicles other than cars (e.g. trucks, trains, buses and boats). After recovering for the past two years, respondents noted lower sales in rural areas of Queensland and New South Wales because of the drought.

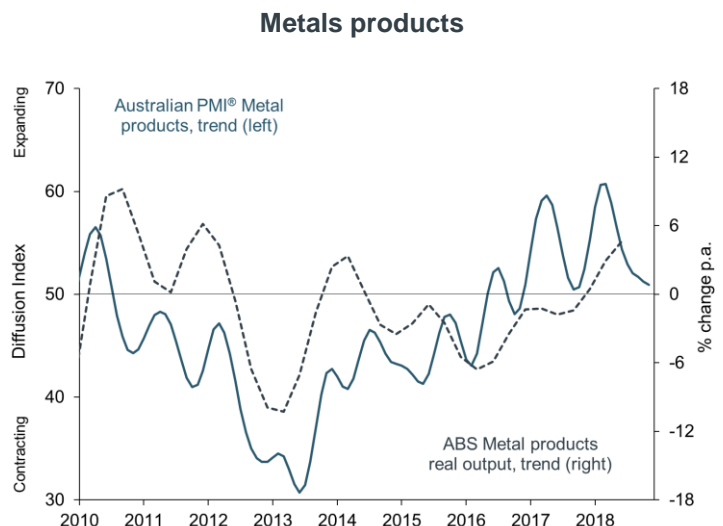


Metal products

The metal products sector produced \$3.9bn in real value added output in Q2 2018 (15% of manufacturing real value added output) and employed 135,000 people in August 2018 (15% of manufacturing employment).

The metals sector's index eased by 0.3 points to be largely stable at 50.9 points in November (trend). This sector has been slowing since the start of 2018 and this is the lowest result in just over a year.

Some respondents in the metals sector noted a slowdown in new orders and increasing import competition that is curbing activity.



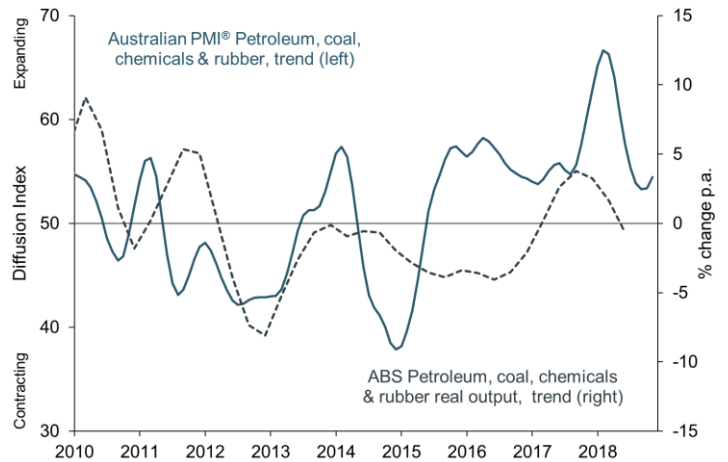
Australian PMI® sectors

Petroleum, coal, chemicals & rubber

The petroleum, coal, chemicals & rubber sector produced \$4.7bn in real value added output in Q2 2018 (18% of manufacturing real value added output). It employed 97,000 people in August 2018 (10% of manufacturing employment).

This sector's index increased 1.1 points to 54.5 points over the month, indicating a faster pace of expansion in November. This extremely diverse sub-sector includes fertilisers, pharmaceuticals, toiletries and health supplements, as well as construction-related products such as paints, adhesives and surface treatments. This sub-sector has been growing continuously and steadily since mid-2015.

Petroleum, coal, chemicals & rubber



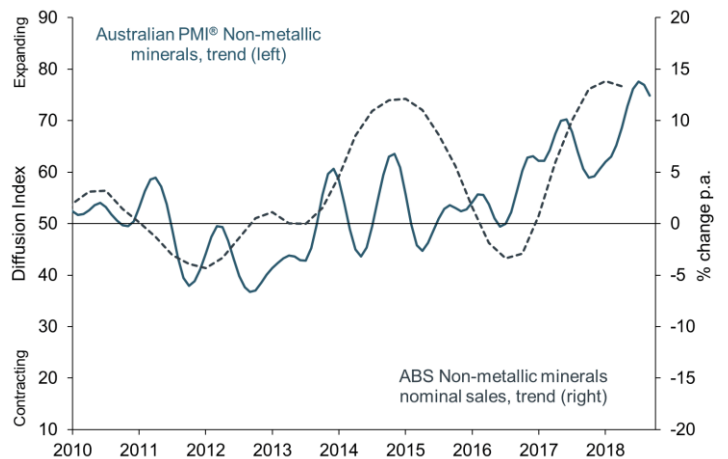
Non-metallic minerals

The non-metallic minerals sector employed 37,000 people in August 2018 (4% of manufacturing employment).

The index for the non-metallic mineral products sector (mainly building-related products such as glass, bricks, cement, tiles and porcelain products) fell 2.0 points to 74.9 points in November (trend).

Demand for building-related products has been strong in 2017 and 2018 with a record number of dwellings being built in Australia and buoyant levels of non-residential construction.

Non-metallic minerals

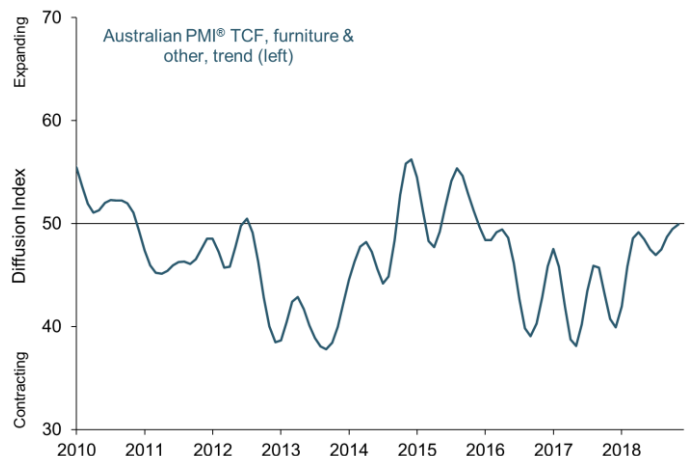


TCF, furniture & other manufacturing

The TCF, furniture and other manufacturing sector employed 121,000 people in August 2018 (13% of manufacturing employment).

The index for the small but diverse 'textile, clothing, footwear, furniture & other manufacturing' sector increased by 0.5 points to be broadly stable at 49.9 points in November (trend). This sector had been contracting since late 2015, albeit at a slower pace in 2018. It continues to face tough local and global trading conditions, with intense competition and falling consumer prices.

TCF, furniture & other manufacturing



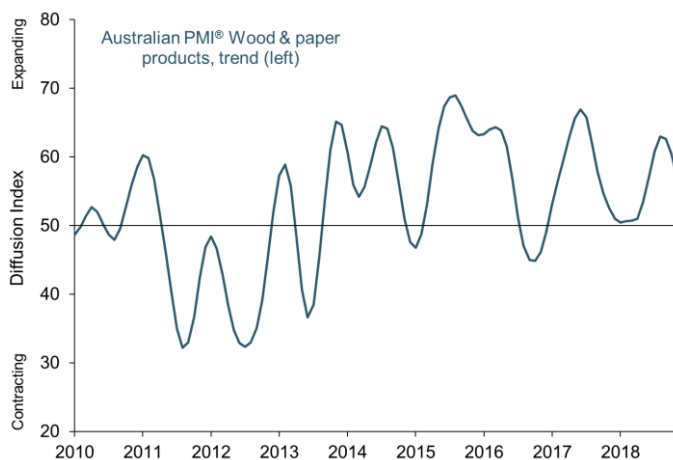
Australian PMI® sectors

Wood & paper

Wood and paper products employed 67,000 people in August 2018 (7% of manufacturing employment). This included 49,000 people employed in wood products and 18,000 people employed in pulp, paper and converted paper production.

The small wood and paper products sector's index decreased by 3.6 points to 56.8 points in November (trend). Businesses making wood products are benefiting from high levels of residential construction activity while businesses making various types of paper and cardboard products are being driven by strong demand for food and grocery packaging.

Wood & paper

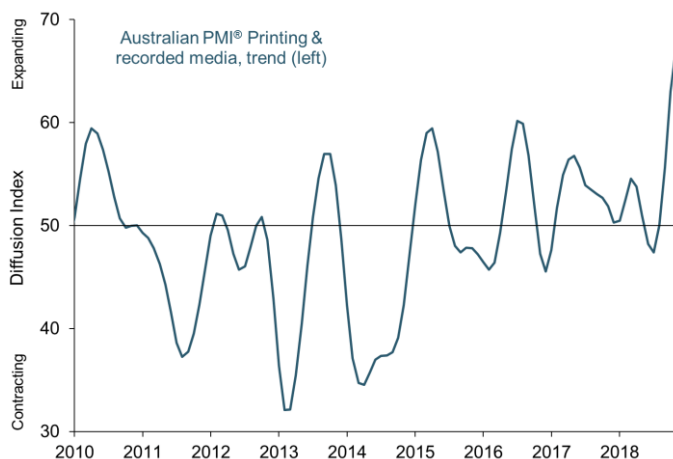


Printing & recorded media

Printing and recorded media employed 34,000 people in August 2018 (4% of manufacturing employment).

The very small printing and recorded media sector's index jumped by 4.6 points to 67.6 points, indicating expansion in November (trend). Activity in this sector continues to exhibit high volatility due to the ongoing effects of new digital technologies, offshore and online competition and changing local demand patterns.

Printing & recorded media

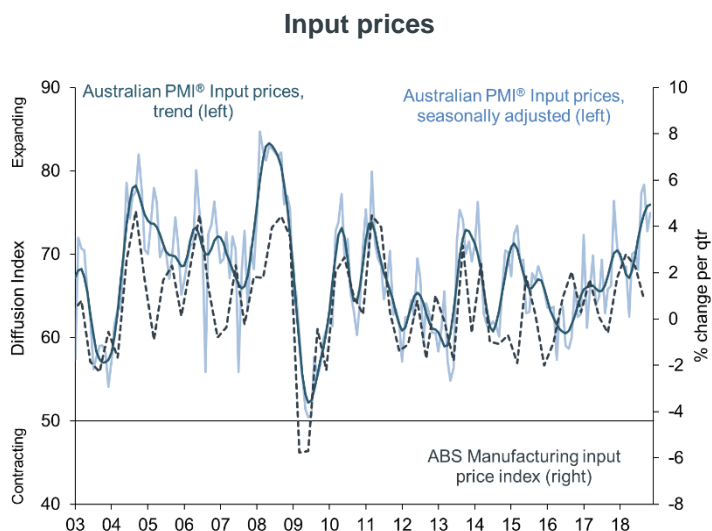


Australian PMI® prices and wages

Input prices

Manufacturing input prices rose by an average of 0.8% over the quarter and 7.9% over the year in Q3 2018, according to the ABS Producer Price Index (PPI).

The input prices index rose 2.2 points to 75.0 points in November. Food and beverage manufacturers reported higher prices for raw agricultural inputs. Input prices also remain elevated for petroleum, coal, chemical & rubber products, metal products and machinery and equipment, reflecting their ongoing issues with high energy input costs (gas and electricity). The effects of the falling oil price over the past month cannot be seen as it has yet to flow through the supply chain.

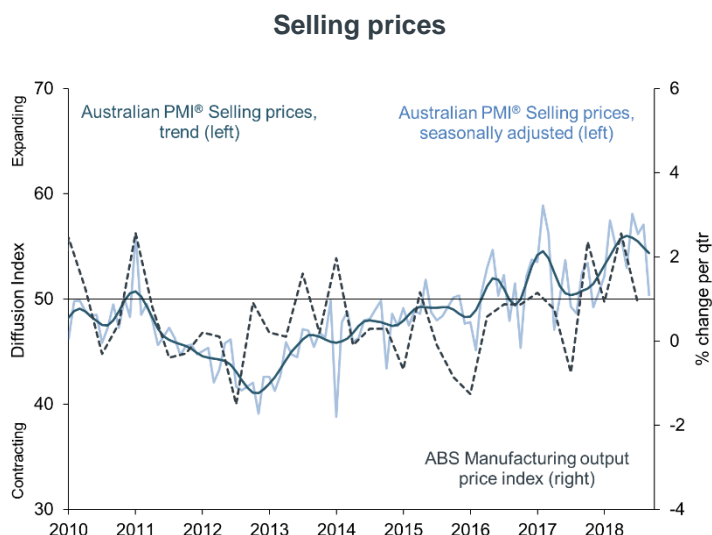


Selling prices

Manufacturing output prices rose by an average of 0.9% over the quarter and 6.9% over the year in Q2 2018, according to the ABS Producer Price Index (PPI).

The manufacturing selling price index dropped to its lowest level since the start of 2018, falling 6.7 points to 50.4 points in November. This indicates very modest price increases, on average, for manufacturing customers.

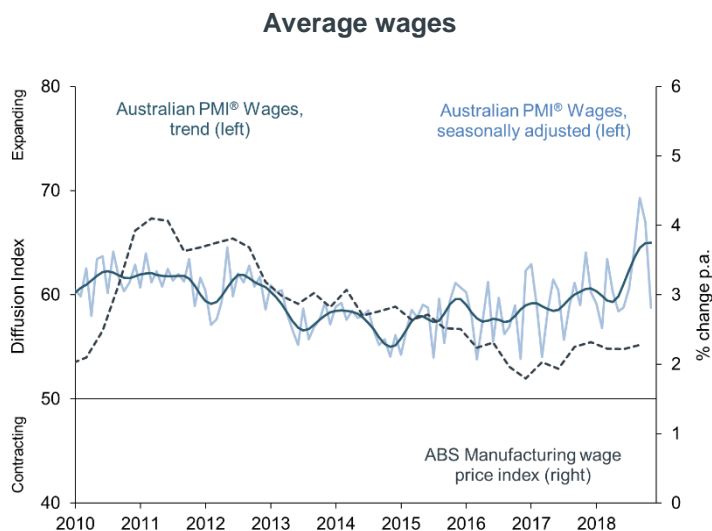
This index had been trending upwards in 2018 but appears to have halted. Food & beverages respondents reported falling selling prices in November with some respondents noting an oversupply of goods pushing prices down.



Average wages

Private sector wages across the manufacturing industry rose by an average of 0.9% over the quarter and 2.3% over the year in Q3 2018, according to the ABS Wage Price Index (WPI).

The average wages index fell by 8.2 points to 58.8 points in November and has fallen for two months since reaching a record high in September. This indicates a smaller proportion of businesses implemented wage increases in November than in October. This is the first time this index has been below its historical average of 59.1 points since June 2018 and most likely reflects the diminishing effect of wage increases associated with this year's minimum wage increase of 3.5% (from 1 July 2018) making its way through industrial awards and bargaining agreements.

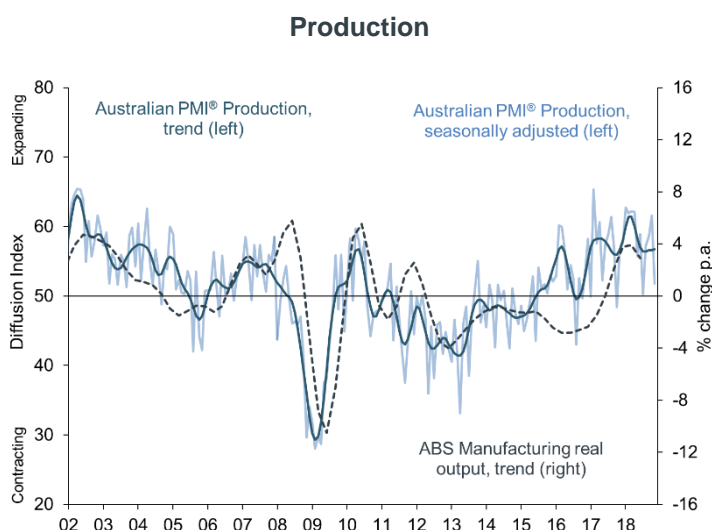


Australian PMI® activity

Production

The manufacturing industry produced \$26bn in real value added output in Q2 2018 (5.8% of Gross Domestic Product, GDP). Manufacturers' value added output fell by 1.5% over the quarter in Q2 2018 but remained 1.9% higher over the year.

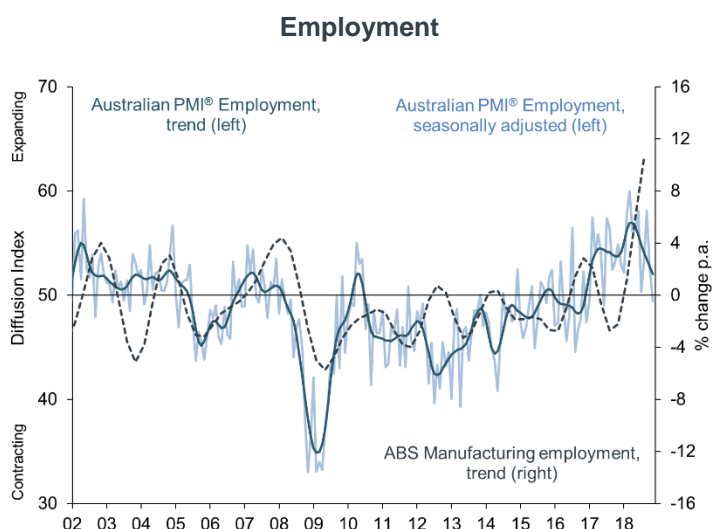
The Australian PMI® production index fell by 9.8 points to 51.8 points in November, indicating expanding production but at a much slower rate than in October. Production was especially weak in November in the wood & paper products sector.



Employment

Manufacturing employed 978,000 people in August 2018 (7.5% of Australia's total workforce, trend), its highest level since 2010. Manufacturing employment increased by 3.2% over the quarter and 10.5% over the year to August 2018 (trend). Manufacturing accounted for 30.4% of all new jobs created in Australia in the year to August 2018, according to the ABS Labour Force Quarterly Detail.

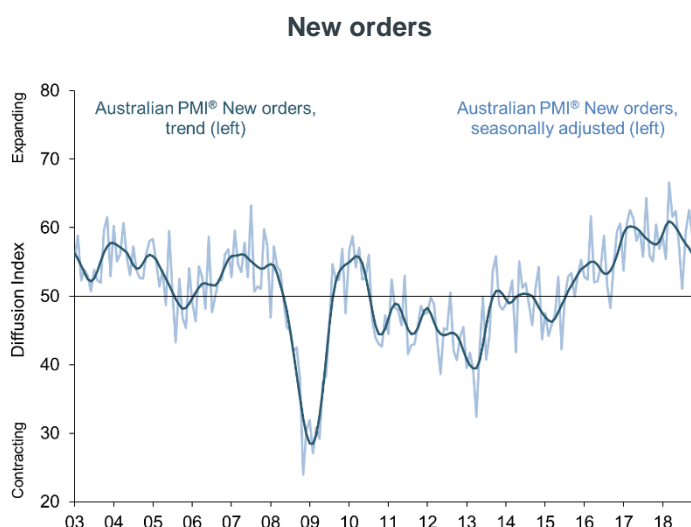
The Australian PMI® employment index moved into mild contraction to be at 49.4 points in November. This index was buoyant in the first half of 2018, reaching a record high in March 2018 but the index been trending down over the last few months.



New orders

The new orders index fell into contraction for the first time since September 2016 at 48.7 points in November. Although volatile month-to-month, this index has been trending down since the start of 2018 and could suggest tougher conditions ahead for manufacturers in some sectors.

New orders were particularly strong in the food & beverages and chemicals sectors but weaker in the metals sector.



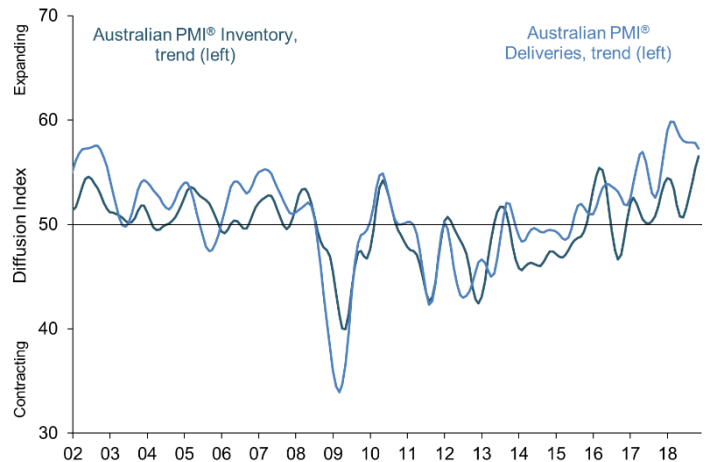
Australian PMI® activity

Supplier deliveries and finished stocks

The Australian PMI® deliveries index fell by 6.5 points to 54.4 points in November. This indicates an expanding supply of raw materials ordered by manufacturers to meet forward productions needs for end-of-year orders, albeit at a slower pace than in October.

The Australian PMI® finished stocks (inventories) index increased by 1.4 points to 57.4 points, indicating that finished stocks grew at a faster pace in November. This probably relates to stocks that will be needed to cover summer seasonal shut-downs and/or for forward orders.

Supplier deliveries and finished stocks

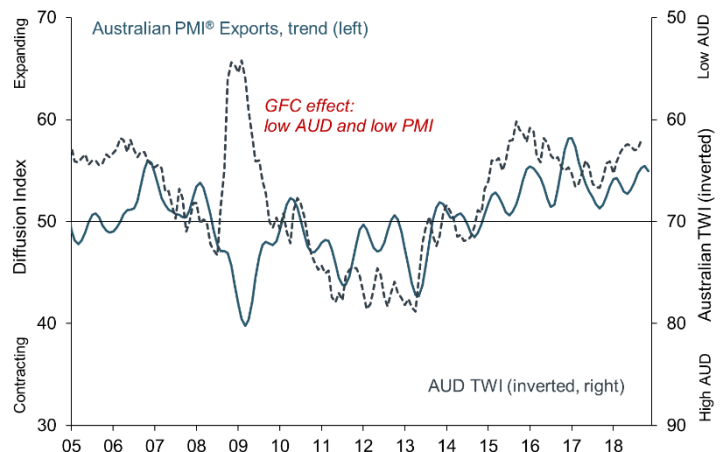


Exports

Nominal export earnings for Australian manufacturers were worth \$114.8bn in the year to September 2018 (27.4% of total annual export earnings). Australia's exports of manufactured goods are mainly metal products, followed by food and beverages and machinery and equipment, according to ABS International Trade data.

The Australian PMI® exports index fell by 4.3 points to 50.8 points, indicating that exports were broadly stable in November (seasonally adjusted). The exports index was dragged lower by the metals sector in November, but the food & beverages sector continues to report strong export demand for high-quality food and beverage products, particularly from Asia.

Exports



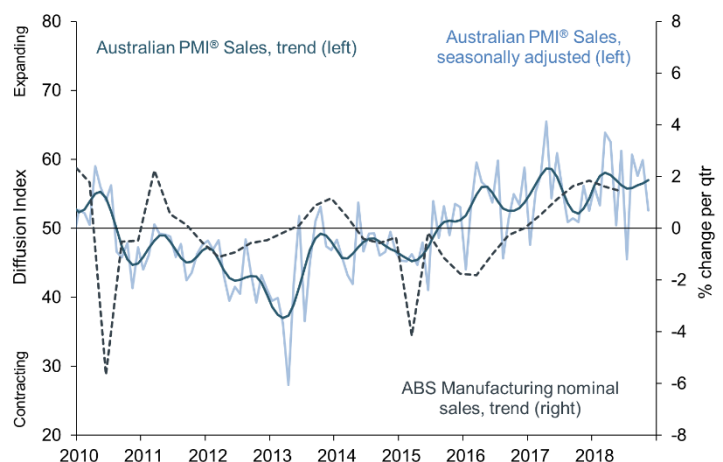
* AUD TWI = Australian dollar trade weighted index, monthly.

Sales

Australian manufacturers' nominal sales were worth \$347bn in the year to Q2 2018. They grew by 0.7% over the quarter and 6.2% over the year to Q2 2018, according to the latest ABS Business Indicators data. This growth represents an increase in real sales volumes over the year and not just a price rise. In inflation-adjusted terms, manufacturing sale volumes were up by 1.7% over the year to Q2 2018, a fourth consecutive quarter of growth.

The Australian PMI® sales index dropped by 7.2 points to 52.6 points in November. Sales were stronger in the food and beverages sector but weaker in the 'textile, clothing, footwear, furniture & other' sector.

Sales



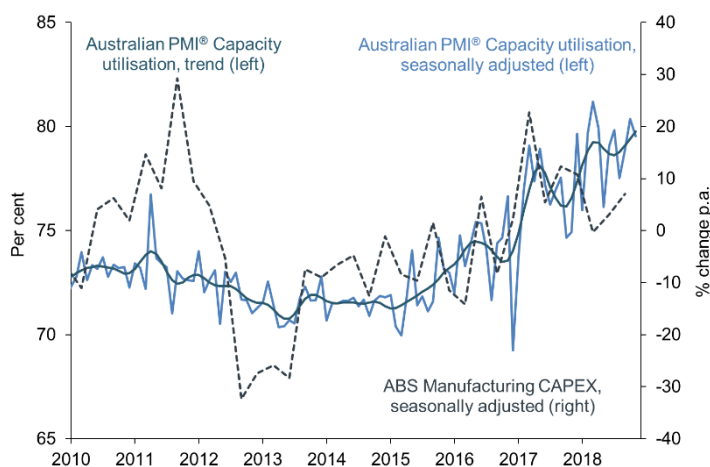
Australian PMI® activity

Capacity Utilisation

Australian manufacturers invested \$9.5bn in capital expenditure (CAPEX) in the year to Q3 2018. Their CAPEX rose by 2.3% over the quarter and 6.0% over the year to Q3 2018, according to the latest ABS CAPEX data.

The Australian PMI® capacity utilisation indicator fell by 0.8 percentage points to 79.0% of available capacity in November. It remains well above this indicator's long-run average of 73.4% of available capacity. This suggests that more businesses have low spare capacity and may soon need to invest to meet future growth requirements.

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 8 sectors are:

1. Food and beverage products (ANZSIC codes 11 and 122).
2. Machinery and 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. Non-metallic mineral products including glass, ceramic, cement, lime, plaster and concrete (ANZSIC code 20).
6. Textiles, leather, clothing, footwear, furniture and other products (ANZSIC codes 13 and 25).
7. Wood, paper and printing includes wood products, logs, timber, pulp, paper, paperboard and converted paper products (ANZSIC codes 14 and 15).
8. Printing and recorded media includes printing and the reproduction of recorded media (ANZSIC code 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 that includes all states and all sectors. 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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