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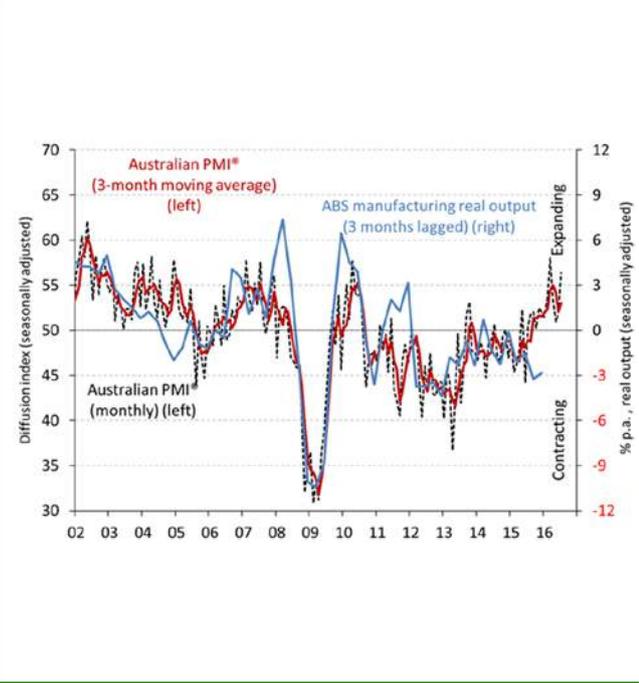
JULY 2016

MANUFACTURING PUSHES FURTHER AHEAD IN JULY

Australian PMI® Jul 2016: 56.4 ↑	US Flash PMI Jul 2016: 52.9 ↑	Eurozone Flash PMI Jul 2016: 51.9 ↓	UK Flash PMI Jul 2016: 49.1 ↓	Japan Flash PMI Jul 2016: 49.0 ↑	China Caixin PMI Jun 2016: 48.6 ↓
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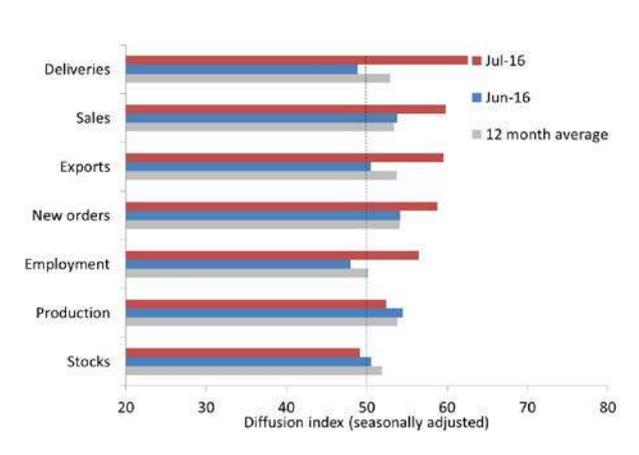
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) increased by 4.6 points to 56.4 points in July, adding momentum to last month's positive result (results above 50 points indicate expansion, with the distance from 50 points indicating the strength of expansion). This continues a recovery in the manufacturing sector that has now been running for thirteen months, marking the longest growth phase for the sector in well over a decade.
- The recovery in the **Australian PMI®** is closely linked to stronger exports and import replacements, assisted by a more competitive Australian dollar. The July result saw a bounce back after a short period of slower growth in the lead-up to the Federal Election.
- Six of the seven manufacturing activity sub-indexes in the **Australian PMI®** remained above 50 points in July. Inventories were broadly stable (49.1 points). In a positive result, deliveries (62.6 points), sales (59.8 points), exports (59.5 points), new orders (58.8 points) and employment (emerging from contraction to 56.5 points) all expanded at a stronger pace in July. Production also remained in expansion (52.4 points).
- Six of the eight manufacturing sub-sectors in the **Australian PMI®** expanded in July (three month moving averages). The most decisive expansions were in wood & paper products (59.6 points), petroleum, coal & chemical products (57.3 points), printing & recorded media (57.2 points) and non-metallic mineral products (56.9 points). Machinery & equipment (48.3 points) and textiles & clothing (48.1 points) remained in mild contraction.
- Comments from respondents in July indicate a boost to exports from the relatively lower Australian dollar. A small lift in commodity prices, the stabilisation of the steel industry and some new infrastructure projects are lifting activity. Lower mining and utilities investment are continuing to drag on growth, as is the dairy industry for some specialist manufacturers. Manufacturers sounded more upbeat, with indications that some purchasing that had been deferred due to the Federal Election is now going ahead.



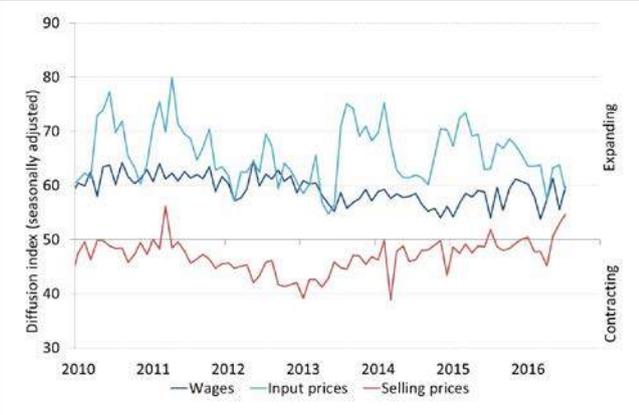
ACTIVITY SUB-INDEXES

- The production sub-index eased by 2.0 points in July to 52.4 points, completing thirteen months of continuous expansion, its longest run since August 2004.
- The new orders sub-index pushed higher by 4.7 points to reach 58.8 points. This was its highest reading since March and a positive indicator for the next few months.
- The sales sub-index jumped to 59.8 points, its highest result since September 2009.
- The exports sub-index bounced up 9.0 points in July to reach 59.5 points, its strongest growth since March 2008. The exports sub-index has expanded for eleven months.
- The employment sub-index also jumped, increasing 8.6 points to 56.5 points. This was the strongest rise since December 2004 and signals that manufacturers may be feeling more confident about recovering their staff numbers, after several years of job cuts.
- The sub-index for deliveries in the **Australian PMI®** jumped by 13.7 points to 62.6 points in July, the highest reading for this sub-index on record. Together with the stronger new orders sub-index, this suggests manufacturers may be gearing up for more production.
- The stocks sub-index (inventory) remained broadly stable, inching lower to 49.1 points.
- Capacity utilisation rates* eased to 74.1% in July (from 75.3%), but remain above average.



WAGES AND PRICES SUB-INDEXES

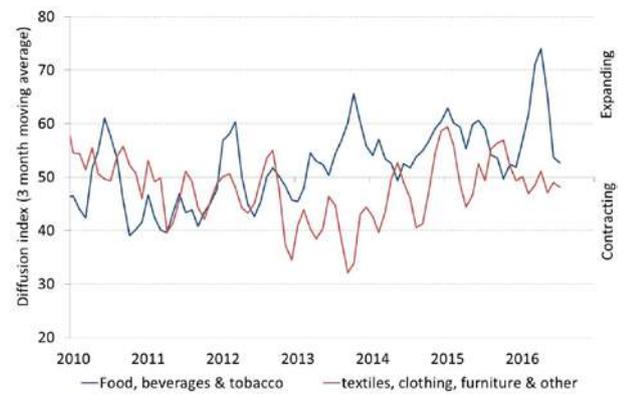
- The **Australian PMI®** input prices sub-index* decreased by 4.8 points in July to 59.0 points. Suggesting relatively lower (but ongoing) pricing pressures.
- The wages sub-index* of the **Australian PMI®** increased by 4.2 points to reach 59.7 points in July. Wage growth has been volatile in 2016, but is generally tracking below average.
- The manufacturing selling prices sub-index* of the **Australian PMI®** expanded in July, increasing by 1.7 points to 54.7 points. This relatively rare expansion in selling prices (and some easing in the growth of input prices) may be relieving some of the margin pressures felt by manufacturers over a very extended period.



* From March 2016, the **Australian PMI®** sub-indices for capacity utilisation, wages and selling prices are reported on a seasonally adjusted basis (previously unadjusted).

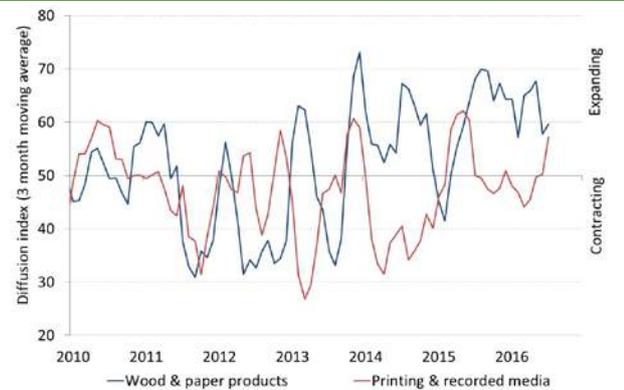
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The index for the largest manufacturing sub-sector, **food, beverages and tobacco**, eased by 1.0 point in July, but remains firmly in expansion (52.7 points). The recent cooling of growth in this sub-sectors comes after an especially strong growth spike in April. A recent uplift in sales, exports and new orders bode well for growth in the near term. Respondents in the **Australian PMI®** noted the high cost of beef in Australia, plus dairy industry concerns, are currently affecting some types of food processing activity.
- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector's index declined into contraction in July, falling by 0.8 points to 48.1 points. Respondents in the **Australian PMI®** noted softer new orders this month, as well as lower levels of sales and exports.



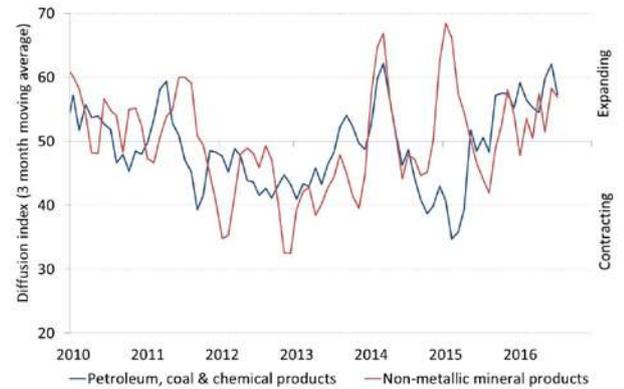
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products** sub-sector increased by 1.9 points in July, strengthening the sub-sectors expansion to 59.6 points. Respondents in the **Australian PMI®** reported stronger demand and higher levels of inventories and deliveries in July. Wood products businesses are benefiting from elevated residential building activity and packaging businesses are benefitting from growth in the food sector (generating demand for paper, card and wood packaging).
- The very small **printing and recorded media** sub-sector's index jumped by 7.0 points in July, to reach 57.2 points, shifting the sub-sector into expansion. Respondents in the **Australian PMI®** reported a lift in employment and production in July, but rapid technology change and intense import competition continue to weigh heavily on this sector.



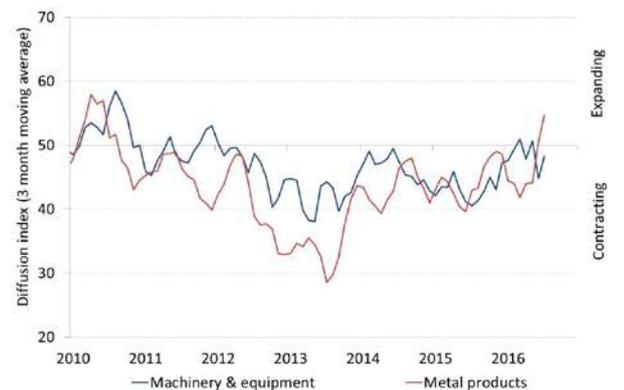
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products** sub-sector's index eased by 4.8 points in July, but maintained a healthy rate of expansion at 57.3 points. This sub-sector has expanded for eleven months in a row. This extremely diverse sub-sector includes current growth hot spots such as pharmaceuticals, toiletries and health supplements, as well as construction-related products such as paints, adhesives and surface treatments. Respondents in the **Australian PMI®** noted some possible delays in orders prior to the recent Federal Election, with some catch-up now evident. They noted weaker production but an increase in supplier deliveries in July.
- The **non-metallic mineral products** sub-sector's index declined by 1.4 points to reach 56.9 points in July. This marks ten months of expansion for this sub-sector, which produces building products such as tiles, bricks, cement and glass. Demand is mainly coming from residential builders rather than engineering construction or the local automotive supply chain (e.g. glass car parts). Respondents in the **Australian PMI®** noted a build-up in inventories but weaker new orders and sales in July. This points to more subdued production conditions in the months ahead.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products** sub-sector's index continued its very recent path out of contraction in July, increasing by 4.3 points to reach an expansionary 54.8 points. This was the sub-sector's best expansion since June 2010. Respondents in the **Australian PMI®** cited some ongoing headwinds but said they had stronger new orders and exports in July.
- The large **machinery and equipment sub-sector** continued to contract in July, albeit at a slower rate (up 3.5 points to 48.3 points). This ended a brief but promising period of stabilisation earlier in 2016. Respondents from this sub-sector in the **Australian PMI®** reported reduced sales and orders (which they attributed to Federal Election uncertainty), as well as the ongoing decline in mining investment levels, as weighing them down in July.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	56.4	+4.6	52.8	Exports	59.5	+9.0	53.7
Production	52.4	-2.0	53.8	Sales	59.8	+6.1	53.4
New Orders	58.8	+4.7	54.1	Input Prices	59.0	-4.8	64.2
Employment	56.5	+8.6	50.2	Selling Prices	54.7	+1.7	49.5
Inventories (stocks)	49.1	-1.5	51.9	Average Wages	59.7	+4.2	58.5
Supplier Deliveries	62.6	+13.7	52.9	Cap. Utilisation (%)	74.1	-1.2	73.6

* All sub-sector indexes in the **Australian PMI®** are reported as three-month moving averages (3mma), so as to better identify the trends in these volatile monthly data.

What is the Australian PMI®? The Australian Industry Group **Australian Performance of Manufacturing Index (Australian PMI®)** is a seasonally adjusted 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 is indicative of the strength of the expansion or decline. Survey results are based on a rotating sample of around 200 manufacturing companies each month. New monthly seasonal adjustment factors were applied in July 2013. New industry classifications applied from December 2012 (and back-dated to 2009) based on the ANZSIC 2006 coding system and ABS 2011-12 industry weights.

For further economic analysis and information from the Australian Industry Group, visit <http://www.aigroup.com.au/economics>.

*For further information on international PMI data, visit <http://www.markiteconomics.com> or <http://www.cipsa.com.au>.

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