

## MANUFACTURING CONSOLIDATES IN MAY

**Australian PMI®**  
May 2016: **51.0** ↓

**US Flash PMI**  
May 2016: **50.5** ↓

**Eurozone Flash PMI**  
May 2016: **51.5** ↓

**UK CIPS PMI**  
Apr 2016: **49.2** ↓

**Japan Flash PMI**  
Apr 2016: **47.6** ↓

**China Caixin PMI**  
Apr 2016: **49.4** ↓

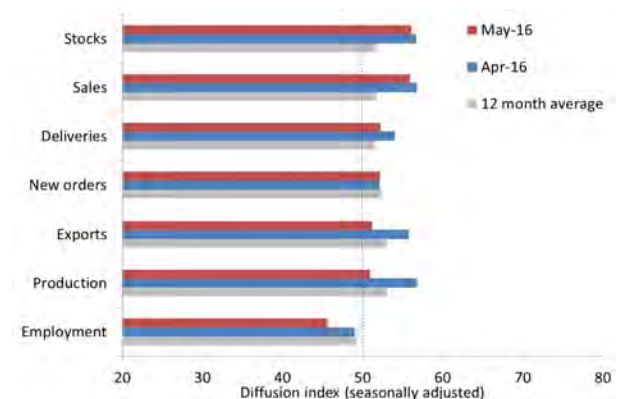
### KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) fell 2.4 points to 51.0 points in May, indicating stable to moderately expanding manufacturing activity in the month (results above 50 points indicate expansion).
- The May result consolidates several months of strong activity and continues the longest unbroken period of growth for the **Australian PMI®** since September 2006.
- The lift in the Australian dollar in early 2016 is likely contributing to some of this cooling in growth. Since the RBA rate cut in early May however, the Australian dollar has given up much of its early 2016 gains. This renewed depreciation may assist manufacturers to recover their export growth momentum in the coming months.
- Six of the seven manufacturing activity sub-indexes in the **Australian PMI®** remained above 50 points in May, although most eased from last month, indicating a slower pace of growth. Only the employment sub-index continued to contract (45.6 points) in May.
- Five of the eight manufacturing sub-sectors in the **Australian PMI®** expanded in May (three month moving averages). Food & beverages (65.3 points) and wood & paper products (67.7 points) sub-sectors had the strongest expansion, followed by the petroleum & chemicals (59.9 points) sub-sector. Non-metallic mineral products (51.5 points) eased but continued expanding. Printing & recorded media (49.7 points) and machinery & equipment (50.6 points) both stabilised, while metal products (44.1 points) and textiles, clothing & other goods manufacturing (47.1 points) contracted in May.
- Comments from manufacturers in May indicate some wariness about the potential effects on their business from the upcoming Federal Election. Margins remain tight and competition is aggressive, particularly from overseas businesses. The recent volatility in the Australian dollar is having some adverse effects and input prices continue to climb as a result. Defence spending appears to be lifting activity in some sectors, but drought conditions in some locations are dampening manufacturing activity elsewhere.



### ACTIVITY SUB-INDEXES

- The production sub-index in the **Australian PMI®** fell by 5.9 points in May to 50.9 points, marking an eleventh month of expansion and the longest run since August 2004.
- The sales sub-index eased by 0.9 points to 55.9 points but remained relatively robust. May marked four months in a row of expansion and an average of 56.3 points during this time.
- The stocks sub-index (manufacturers' inventory) eased by 0.6 points, but remained relatively strong at 56.1 points. This indicates a further build-up in stocks in May 2016.
- The exports sub-index fell by 4.5 points to 51.2 points in May. The exports sub-index expanded for a ninth month. This indicates that export growth is continuing despite increases in the Australian dollar in early 2016. Stronger growth in exports may return if the recent depreciation of the Australian dollar is sustained or if it depreciates further.
- The sub-index for deliveries of supplier inputs fell by 1.7 points but remained in expansion, at 52.3 points in May.
- The employment sub-index fell by 3.4 points to 45.6 points in May, moving from stable to contraction. The 12-month average for this sub-index remains below 50 points (in contraction) highlighting the long-term weakness in the manufacturing labour market.
- Manufacturers' capacity utilisation rate\* increased to 75.4% in May (from 74.4%), continuing an upward trend from late 2015.



### WAGES AND PRICES SUB-INDEXES

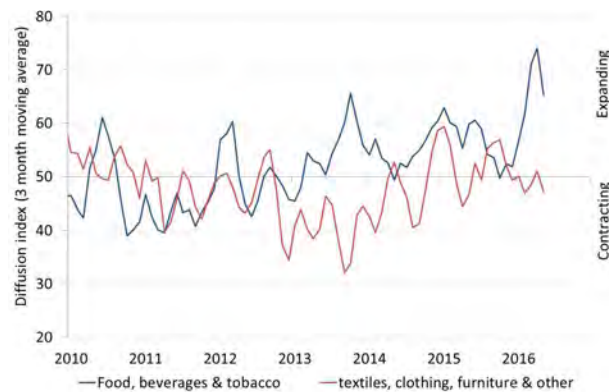
- The **Australian PMI®** input prices sub-index\* increased by 5.9 points in May to 63.2 points, reversing the easing in input price pressures seen last month.
- The wages sub-index\* of the **Australian PMI®** increased by 3.9 points to 61.3 points in May. Wage growth appears to be strengthening again, despite weak labour demand.
- The manufacturing selling prices sub-index\* of the **Australian PMI®** reversed its downward trend in early 2016, climbing 5.5 points in May to stabilise at 50.6 points.



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

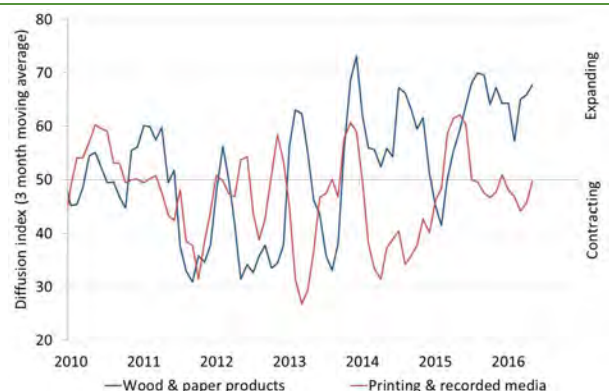
## FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER\*

- The index for the largest manufacturing sub-sector, **food, beverages and tobacco**, fell by 8.8 points in May but remains in strong expansion at 65.3 points. This sub-sector has expanded in all months of the past year. The lower Australian dollar has benefitted this sub-sector, with strong exports growth and the replacement of imports. Respondents in the **Australian PMI®** noted increases in sales and inventories, but more stable conditions in exports and new orders in May. The very strong growth in this sector may be moderating for now, but it could be spurred higher in future months by the recently depreciating Australian dollar.
- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector's index fell back into contraction, dropping 3.9 points to 47.1 points. This sub-sector has struggled to move more firmly out of contraction over the last six months.



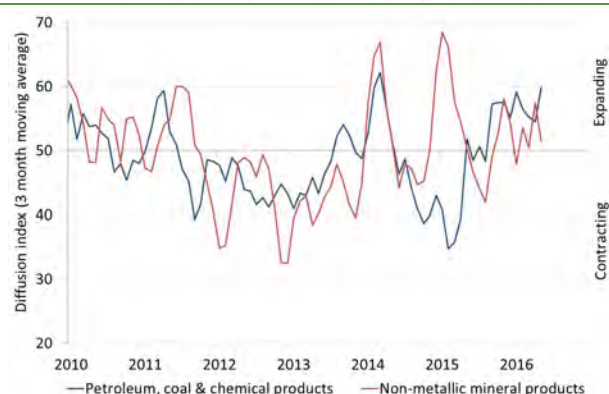
## WOOD & PAPER; PRINTING & RECORDED MEDIA\*

- The relatively small **wood and paper products** sub-sector expanded for a fifteenth consecutive month in May, lifting by 1.9 points to reach 67.7 points. Wood and paper sub-sector respondents in the **Australian PMI®** reported higher levels of sales, stocks and employment. Indicating growth in demand, a build-up in inventories and even some hiring. This sub-sector appears to be recovering as a result of increased demand from the residential building industry (for wood products) and the food sector (for paper packaging).
- Activity in the very small **printing and recorded media** sub-sector recovered to stable conditions in May, increasing by 4.1 points to 49.7 points after several months of contraction. Rapid technology change and intense import competition continue to weigh heavily on this sector. Respondents in the **Australian PMI®** reported increases in production, new orders and sales in May, suggesting a more positive outlook ahead.



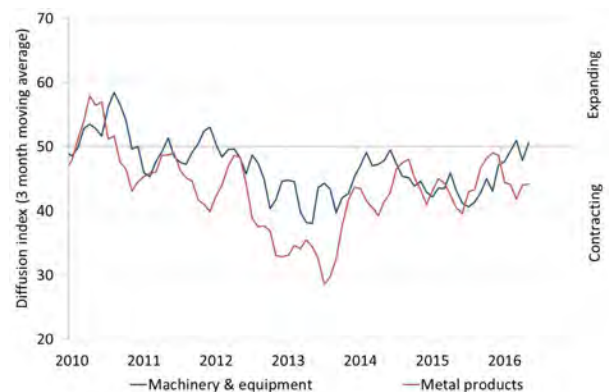
## PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS\*

- The **petroleum, coal, chemicals and rubber products** sub-sector strengthened in May, increasing by 5.4 points to 59.9 points and completing a ninth month of expansion. 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 an increase in most activity sub-indices, particularly sales, new orders and production, indicating stronger demand for this sub-sector's products is likely in the months ahead.
- The **non-metallic mineral products** sub-sector's index fell by 6.0 points to 51.5 points in May, indicating a slower pace of growth after strong conditions in April. This sub-sector produces building products such as tiles, bricks, cement and glass, with demand coming from residential builders, engineering construction. It also makes products for the local automotive supply chain (e.g. glass car parts). Respondents in the **Australian PMI®** noted stronger sales, deliveries and employment in May.



## METAL PRODUCTS; MACHINERY & EQUIPMENT\*

- The large **metal products** sub-sector's index remained in contraction, lifting by just 0.2 points to 44.1 points in May. This sub-sector has contracted continuously since September 2010. Respondents in the **Australian PMI®** reported weak conditions across all activity sub-indices. They said that weak demand in May was due to strong competition from Chinese producers, major engineering project completions and an uncertain outlook for parts of the Australian and global steel industry, within which many of them operate (e.g. with Arrium entering voluntary administration in South Australia).
- The large **machinery and equipment** sub-sector recovered to stable conditions in May, gaining 2.8 points to 50.6 points. This latest period of stabilisation – despite the ongoing exit of Australia's local automotive assembly operations and their long supply chains – suggests that other parts of this sub-sector (outside automotive) are doing better. Respondents from this sub-sector in the **Australian PMI®** cited improved production, sales and new orders in May.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
<b>Australian PMI®</b>	<b>51.0</b>	<b>-2.4</b>	<b>51.7</b>	<b>Exports</b>	51.2	-4.5	53.0
<b>Production</b>	50.9	-5.9	53.1	<b>Sales</b>	55.9	-0.9	51.8
<b>New Orders</b>	52.2	+0.1	52.3	<b>Input Prices</b>	63.2	+5.9	64.5
<b>Employment</b>	45.6	-3.4	49.2	<b>Selling Prices</b>	50.6	+5.5	48.9
<b>Inventories (stocks)</b>	56.1	-0.6	51.7	<b>Average Wages</b>	61.3	+3.9	58.3
<b>Supplier Deliveries</b>	52.3	-1.7	51.5	<b>Cap. Utilisation (%)</b>	75.4	+1.0	73.1

\* 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 May 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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