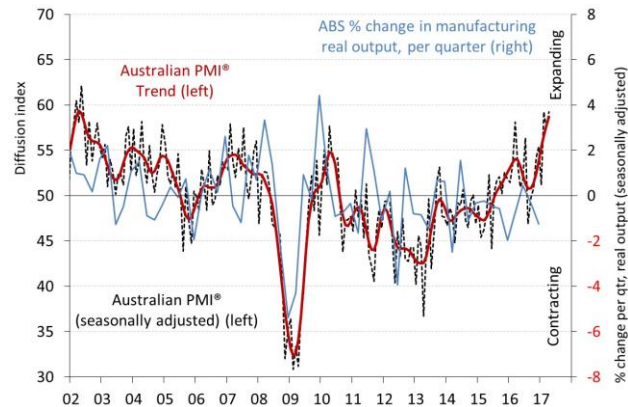


MANUFACTURING STRENGTHENS IN APRIL

Australian PMI® Apr 2017: 59.2 ↑	US Flash PMI Apr 2017: 52.8 ↓	Eurozone Flash PMI Apr 2017: 56.8 ↑	UK PMI Mar 2017: 54.2 ↓	Japan Flash PMI Apr 2017: 52.8 ↑	China Caixin PMI Mar 2017: 51.2 ↓
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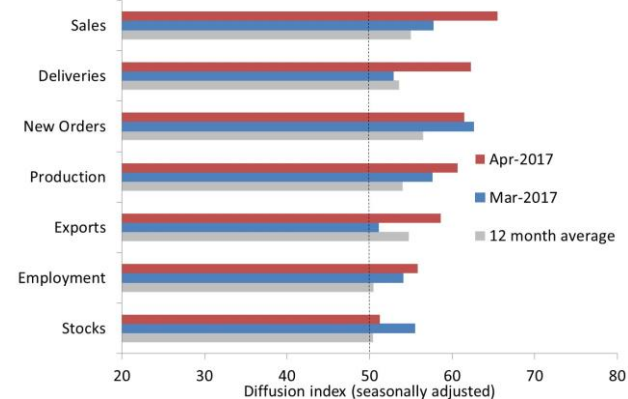
KEY FINDINGS

- Australian manufacturing continued its recent recovery in April with the Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) climbing 1.7 points to 59.2 points (results above 50 indicate expansion with the distance from 50 points indicating the strength of expansion). This was the seventh consecutive month of expansion for the **Australian PMI®** and the strongest monthly result since February 2017 and before that, since May 2002.
- All seven activity sub-indexes in the **Australian PMI®** expanded in April. New orders remained elevated (61.5 points) while sales surged higher (65.5 points), as did production (60.7 points), exports (58.6 points) and employment (55.9 points). Inventories eased to a more modest rate of expansion (51.2 points) in April.
- Seven of the eight sub-sectors in the **Australian PMI®** expanded in April (trend data), with six of them above 60 points. Food & beverages continued its strong run of expansion (60.1 points), as did wood & paper products (64.4 points). The recovery in printing & recorded media strengthened (61.7 points), as did non-metallic mineral products (63.3 points), metal products (61.2 points), machinery and equipment (60.5 points) and petroleum, coal & chemical products (56.4 points). The small but very diverse textiles, clothing, furniture and other products sub-sector contracted again in April and at a faster rate (44.8 points).
- Comments from manufacturers in April indicate demand continues to improve. Increasing exports are a key theme, with several manufacturers reporting success in new markets in Asia. Stronger output and prices in the local agricultural and mining sectors is supporting demand for some types of machinery, equipment and chemicals, while large public infrastructure projects are fuelling demand for building materials, metals, transport equipment and others. Cyclone Debbie appears to have dampening activity in Queensland and Northern NSW, although the direct impact on manufacturing has not been severe.
- Rapidly rising energy costs remains an urgent issue for many manufacturers. At the same time, selling prices are relatively subdued, with surpluses in some markets and intense overseas competition keeping margins tight.



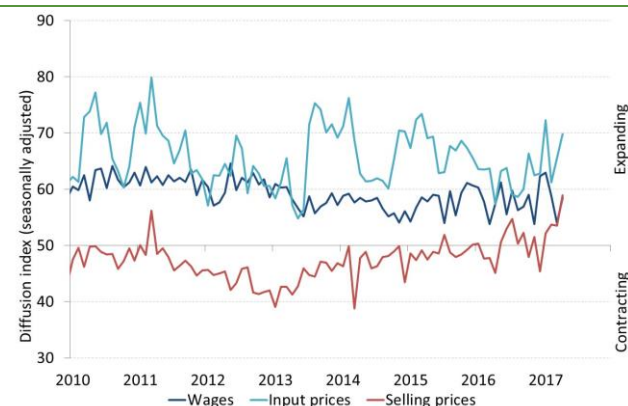
ACTIVITY SUB-INDEXES

- The production sub-index jumped 3.1 points to 60.7 points in April. This sub-index remains elevated, after achieving the strongest monthly result since May 2002 in February this year.
- In a positive sign for the outlook for manufacturing growth, the new orders sub-index remained elevated at 61.5 points, despite drifting 1.1 points lower in April.
- The sales sub-index jumped 7.8 points higher in April, to reach 65.5 points. This was the highest monthly result for this sub-index since it began in May 2009.
- The exports sub-index increased by 7.5 points in April to a more expansionary 58.6 points. The Australian dollar traded lower in April, which may have helped to revive export growth.
- The employment sub-index increased by 1.8 points to a more expansionary 55.9 points in April. This is consistent with recent ABS estimates which show that around 39,900 jobs returned to manufacturing in the year to February 2017, an increase of 4.6% over the year.
- The deliveries sub-index jumped by 9.4 points to a strongly expansionary 62.3 points in April.
- The stocks sub-index (inventories) eased by 4.3 points to a less expansionary 51.2 points.
- Capacity utilisation remained high in April, at 77.4% of all available capacity.



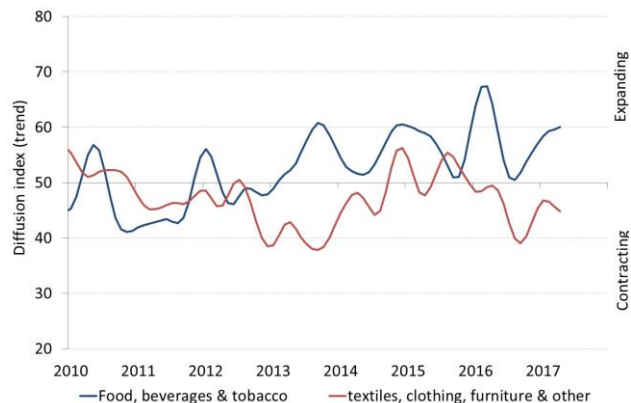
WAGES AND PRICES SUB-INDEXES

- The input prices sub-index increased by 4.3 points in April to 69.8 points. Respondents to the **Australian PMI®** in April highlighted soaring energy prices as a key input cost increase in recent months. Higher commodity prices might also be pushing input prices higher.
- The wages sub-index increased by 4.4 points to a relatively elevated 58.4 points in April.
- Manufacturing selling prices appear to be recovering, with the sub-index jumping 5.4 points to 58.9 points in April. This marks the fourth month of expansion for selling prices and the highest monthly result since September 2008. Manufacturers may be regaining some ability to pass through cost increases, although their input costs and wages are now increasing briskly also. This may point to more inflationary conditions (for example by higher input commodity prices and especially energy prices), as opposed to improvements in manufacturers margins.



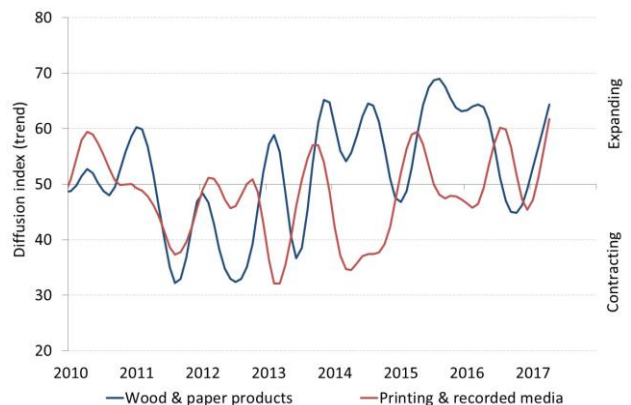
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The index for the largest manufacturing sub-sector, **food, beverages and tobacco**, increased by 0.5 points to a very strong 60.1 points in April (trend). This was the highest monthly result for this sub-sector since April 2016. Food and beverages processors in the **Australian PMI**[®] noted stronger Easter sales, but surpluses for some products are holding prices down. Some also noted a build-up in inventories due to anticipated industrial action. Sales and exports were particularly strong for food processors during the month.
- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector fell further into contraction in April, with its index decreasing by 0.9 points to 44.8 points. April marks sixteen months of contraction for this sub-sector. Respondents in this sub-sector in the **Australian PMI**[®] highlighted that spiralling energy costs are making them particularly vulnerable as they are highly trade-exposed and largely unable to pass on these higher costs. Respondents also cited a lack of confidence pervading the industry. These businesses appeared to have shed employees and lost ground on exports in April.



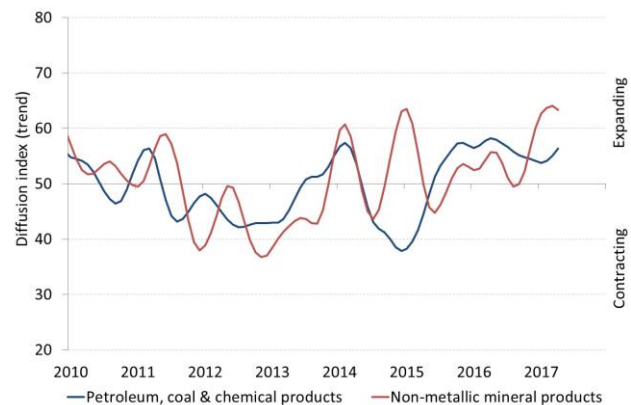
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The small **wood and paper products** sub-sector's index increased by 3.7 points to a very strong 64.4 points in April. This sub-sector continues to gather pace following a slump in late 2016, with April marking the fourth month of growth and the highest result since March 2016. Manufacturers in this sub-sector are benefitting from recent growth in food processing (food packaging) and elevated residential building activity (generating demand for wood-based building products). Respondents in this sub-sector in the **Australian PMI**[®] also noted demand from some large projects this month. Their recent lift in activity appears to be broad-based, with particularly strong growth in new orders and deliveries.
- The very small **printing and recorded media** sub-sector continued to rebound in April, with its index increasing by 4.9 points to a very strong 61.7 points. This was the strongest monthly result since the trend series for this sub-sector commenced in May 2009. Even so, disruptions from rapid technology change and intense import competition continue to weigh on this sub-sector. Respondents in this sub-sector in the **Australian PMI**[®] noted that some of the growth in April was due to a catch up in production due to large orders from earlier in 2017. Most sub-indexes expanded in April, especially production, employment and sales.



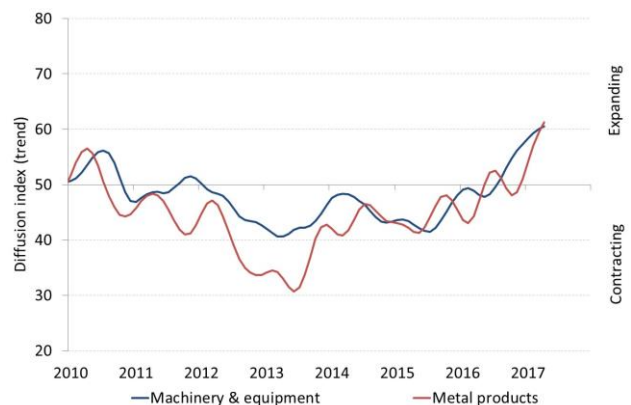
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products** sub-sector's index increased by 1.3 points in April to a more expansionary 56.4 points. This marked almost two years of continuous growth. While growth has cooled for the sub-sector since mid-2016, stronger growth may now be returning. 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. Respondents in the **Australian PMI**[®] noted difficulties with soaring energy costs and disruptions to supply, but stronger demand from government projects and better agricultural and mining conditions.
- The **non-metallic mineral products** sub-sector (mainly building materials) completed seventh months of growth in April, with the sub-index at a very strong 63.3 points (trend). Demand is coming from local residential builders and from growing exports. Local building activity is expected to ease from recent peaks later in 2017. Respondents in the **Australian PMI**[®] noted higher demand from both the local and export markets in April. Conditions eased slightly due to lower growth in inventories and disruptions due to Cyclone Debbie.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products** sub-sector's index increased by a further 1.7 points to 61.2 points in April. This sub-sector continues to recover from deeply contractionary conditions over the past five years. It is benefiting from stronger demand from residential housing activity and stronger metals and commodity prices. Respondents from this sub-sector in the **Australian PMI**[®] said rising exports, elevated construction activity and demand from large infrastructure projects were helping the sub-sector to recover. Expansions in deliveries, sales and exports were evident this month.
- The large **machinery and equipment** sub-sector's index strengthened by 0.4 points to 60.5 points in April. This was a ninth month of growth. It is occurring despite the ongoing contraction in automotive assembly (and is possibly reflecting the progressive loss of auto manufacturers from the **Australian PMI**[®] survey). For manufacturers not involved in auto production, respondents in the **Australian PMI**[®] noted increasing demand from Asian markets and stronger domestic demand, including from construction, mining and agricultural customers. Some respondents noted disruptions due to Cyclone Debbie. New orders were particularly high in April, while production and sales were also high.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI [®]	59.2	1.7	53.6	Exports	58.6	7.5	54.8
Production	60.7	3.1	54.0	Sales	65.5	7.8	55.0
New Orders	61.5	-1.1	56.5	Input Prices	69.8	4.3	63.8
Employment	55.9	1.8	50.5	Selling Prices	58.9	5.4	52.0
Inventories	51.2	-4.3	50.4	Average Wages	58.4	4.4	58.2
Supplier Deliveries	62.3	9.4	53.6	Capacity Utilisation (%)	77.4	-1.7	74.9

* All sub-sector indexes in the **Australian PMI**[®] are reported in trend terms (Henderson 13-month filter) 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 April 2013. New industry classifications applied from April 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.aicgroup.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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