

# MANUFACTURING FORGES AHEAD IN FEBRUARY

**Australian PMI®**  
Feb 2017: **59.3** ↑

**US Flash PMI**  
Feb 2017: **54.3** ↓

**Eurozone Flash PMI**  
Feb 2017: **55.5** ↑

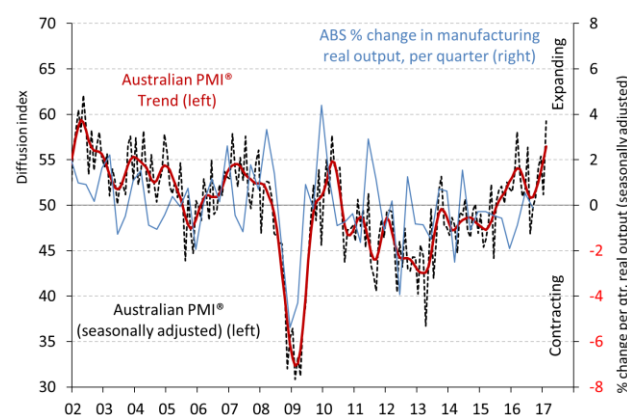
**UK PMI**  
Jan 2017: **55.9** ↓

**Japan Flash PMI**  
Feb 2017: **53.5** ↑

**China Caixin PMI**  
Jan 2017: **51.0** ↓

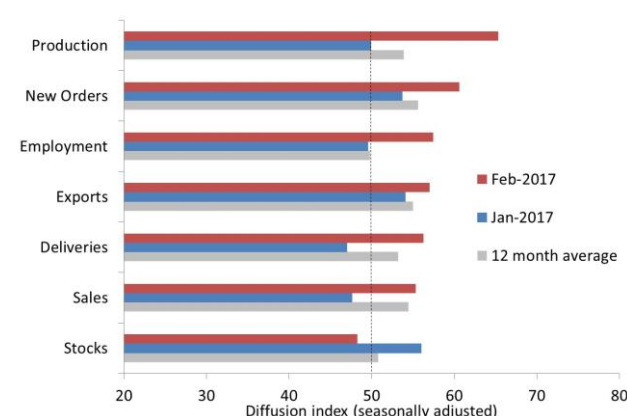
## KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) increased by 8.1 points in February to a strong 59.3 points (results above 50 indicate expansion with the distance from 50 points indicating the strength of expansion). This was the fifth consecutive month of expansion and the strongest result since May 2002.
- Six of the seven activity sub-indexes in the **Australian PMI®** expanded in February (seasonally adjusted). Encouragingly for the outlook, new orders (60.6 points) and sales (55.3 points) grew strongly. Production jumped from stable conditions in January to a strong expansion (65.3 points), as did employment (57.5 points). Deliveries lifted out of contraction (56.3 points) while exports strengthened further (57.0 points). Reflecting this surge in demand, inventories contracted mildly in the month (48.3 points).
- Seven of the eight sub-sectors in the **Australian PMI®** improved in February (trend). Food & beverages posted a strong result (58.8 points), as did non-metallic mineral products (66.3 points) and machinery & equipment (60.1 points), all building on expansions in January. Metal products (56.1 points) and petroleum, coal & chemical products (53.0 points) continued expanding well, while wood & paper products recovered from contraction (51.9 points). Only printing & recorded media remained in the doldrums (45.1 points).
- Comments from manufacturers in February indicate that demand looks to be increasing and confidence returning to some of the larger sub-sectors such as food processing and machinery and equipment (other than auto). Exports are continuing to provide a good source of growth, as are large transport infrastructure projects and increased activity in parts of mining and agriculture in response to the recovery in prices for bulk commodities, wool and some grains. On the inputs side, energy costs and energy reliability are posing a significant threat to ongoing profitability and viability for some manufacturers. Rising raw materials costs and supply constraints are causing increased price pressure and delaying some supplies. Also, intense competition is continuing, particularly from overseas firms.



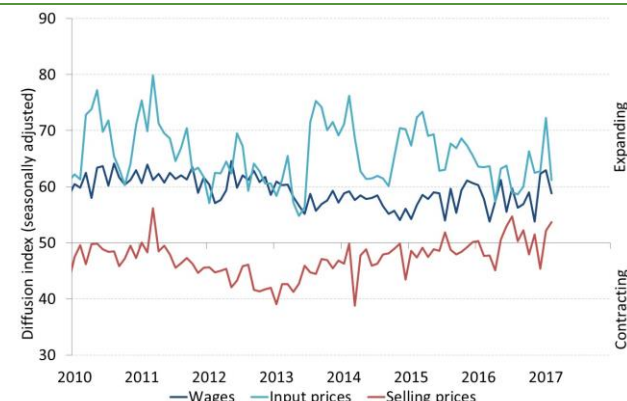
## ACTIVITY SUB-INDEXES

- The production sub-index surged by 15.4 points in February to 65.3 points, after a modest expansion in January. This was the strongest monthly result since May 2002.
- The new orders sub-index increased by 6.9 points to a 60.6 points. New orders have been around 60 points since late 2016, a good indicator for continuing near-term growth.
- Also pointing to positive near-term conditions, the sales sub-index increased by 7.7 points to 55.3 points in February, lifting out of a temporary contraction in January.
- The exports sub-index improved further in February, climbing 2.9 points to 57.0 points. Exports were a key source of growth in 2016 and are continuing to support activity. The exports sub-index has averaged a strong 56.9 points over the last six months.
- The employment sub-index increased by 7.9 points in February to 57.5 points, following six months of flat or weak growth. This was the strongest result since May 2002. The ABS estimates that around 61,000 jobs returned to manufacturing in the year to November 2016, an increase of 7% in one year, after losing 190,000 jobs since 2008 (trend data).
- The deliveries sub-index rebounded in February, climbing 9.3 points to 56.3 points.
- The stocks sub-index (inventories) fell by 7.7 points to 48.3 points in February.
- Capacity utilisation increased by 3.1 percentage points to 76.9% in February, the highest result since this series began in May 2009.



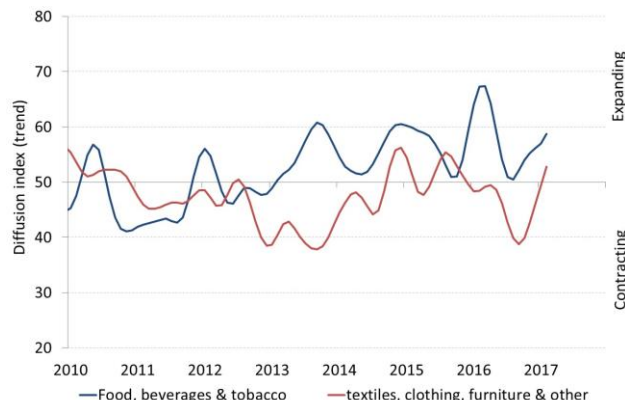
## WAGES AND PRICES SUB-INDEXES

- The input prices sub-index fell by 11.1 points in February to 61.2 points, easing back from extremely high levels in January but still pointing to cost rises. Sustained increases in input prices are tightening manufacturers margins. Input cost rises highlighted by respondents to the **Australian PMI®** include higher imported input costs (due to a lower Australian dollar), rising bulk commodity prices (e.g. oil, coal and iron ore) and more recently, soaring energy input costs.
- The wages sub-index eased by 4.2 points to 58.8 points in February, just above its average over the past 12 months (58.1 points) but right on its average since 2009 (58.8 points). Resurgent wage pressures are adding pressure to manufacturers margins.
- The manufacturing selling prices sub-index of the **Australian PMI®** inched 1.6 points higher to 53.7 points in February. This suggests an improvement in manufacturers' ability to pass on cost increases, but growth in input costs and wages is still outpacing selling prices.



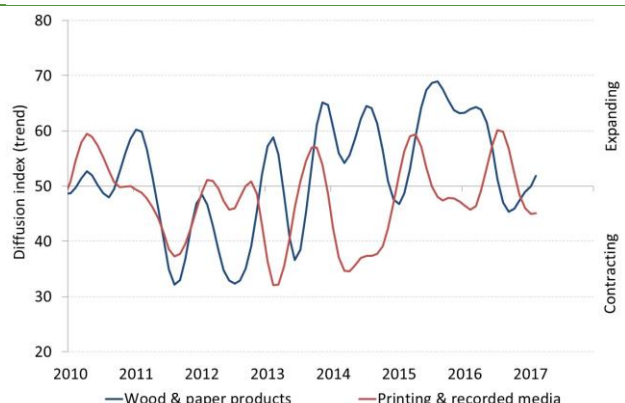
## FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER\*

- The index for the largest manufacturing sub-sector, **food, beverages and tobacco**, increased by 1.8 points to 58.8 points in February (trend). This was the fastest monthly expansion since May 2016 and marks more than 4 years of continuous expansion for the sub-sector. Food and beverages processors in the **Australian PMI®** noted good trading conditions, a boost in exports and higher orders and production, flagging healthy demand for the sub-sector and positive near term growth prospects.
- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector moved out of contraction in February, with the index increasing 3.5 points to 52.8 points. This improvement was due to higher production and supplier deliveries. Respondents in this sub-sector in the **Australian PMI®** cited generally improving economic conditions (globally) as a driver for their improving performance.



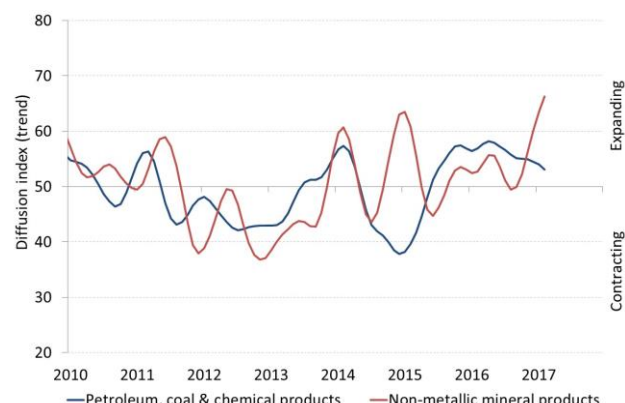
## WOOD & PAPER; PRINTING & RECORDED MEDIA\*

- The small **wood and paper products** sub-sector's index increased by 2.0 points to 51.9 points in February, indicating mild expansion. This continued a nascent recovery from a slump in late 2016. Manufacturers in this sub-sector have benefitted from recent growth in food processing (food packaging) and elevated residential building activity (generating demand for wood-based building products). The recent uplift in activity is due to generally improving demand, according to respondents in the **Australian PMI®**. However, much of the expansion in activity appears to be going into rising inventory levels rather than sales and as such, this latest expansion may not be sustained.
- The very small **printing and recorded media** sub-sector remained in contraction in February, with the index largely unchanged at 45.1 points. Disruptions from rapid technology change and intense import competition are detracting from this sub-sector, apparently outweighing the temporary recovery in demand that was evident in 2016.



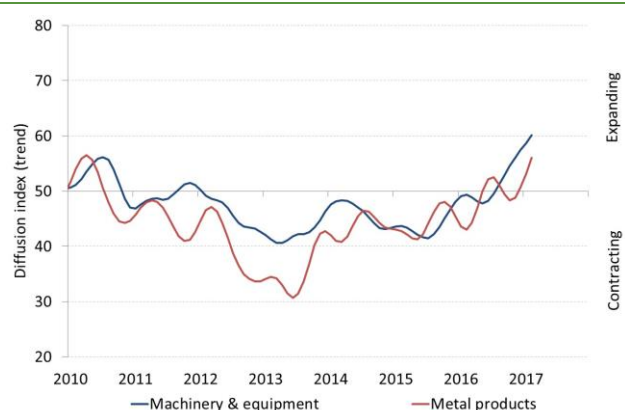
## PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS\*

- The **petroleum, coal, chemicals and rubber products** sub-sector's index eased by 1.0 points to 53.0 points in February. While remaining expansionary, conditions appear to be cooling for the sub-sector. Respondents in the **Australian PMI®** noted declining exports as a key reason for weaker activity in February. Production and inventory levels remained elevated. This increase in inventories (rather than in forward orders, local sales or exports) suggests production activity might cool in coming months. This extremely diverse sub-sector includes pharmaceuticals, toiletries and health supplements, as well as construction-related products such as paints, adhesives and surface treatments.
- The **non-metallic mineral products** sub-sector (mainly building materials) continued its robust growth in February, increasing by 2.8 points to 66.3 points. This was the highest monthly result for this sub-sector since at least mid-2009 (trend data). Respondents in the **Australian PMI®** noted increasing sales locally and to large export markets including New Zealand and China. Sales were particularly strong, but all activity indicators expanded in February. Demand is coming from local residential builders and from growing export opportunities. Local building activity is expected to ease from recent peaks in later 2017.



## METAL PRODUCTS; MACHINERY & EQUIPMENT\*

- The large **metal products** sub-sector's index increased by 3.0 points to 56.1 points in February. This sub-sector's recovery is consolidating after a lengthy period of decline. It is benefiting from stronger demand from residential housing activity and from stronger metals and commodity prices. Respondents in the **Australian PMI®** cited generally stronger demand (specifically from large transport infrastructure projects), increased exports and better steel prices as key drivers for the continued expansion. Most activity sub-indexes showed expansion in February, notably production and new orders.
- The large **machinery and equipment** sub-sector's index strengthened by 1.4 points to 60.1 points in February, growing for a seventh month in a row. Respondents in the **Australian PMI®** noted increasing exports, better confidence and some major supply contracts for transport, mining and agricultural equipment. Higher levels of production, employment, new orders and sales were evident. This growth is occurring despite the ongoing contraction in automotive assembly, which is included in this sub-sector. Some non-auto firms noted that they are concerned about possible disruptions to their own inputs from local suppliers that also sell into the remaining local auto supply chain and may close.



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>59.3</b>	<b>8.1</b>	<b>53.2</b>	<b>Exports</b>	57.0	2.9	55.0
<b>Production</b>	65.3	15.4	53.9	<b>Sales</b>	55.3	7.7	54.4
<b>New Orders</b>	60.6	6.9	55.6	<b>Input Prices</b>	61.2	-11.1	62.6
<b>Employment</b>	57.5	7.9	49.8	<b>Selling Prices</b>	53.7	1.6	50.4
<b>Inventories (stocks)</b>	48.3	-7.7	50.8	<b>Average Wages</b>	58.8	-4.2	58.1
<b>Supplier Deliveries</b>	56.3	9.3	53.2	<b>Cap. Utilisation (%)</b>	76.9	3.1	74.1

\* 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 February 2013. New industry classifications applied from February 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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