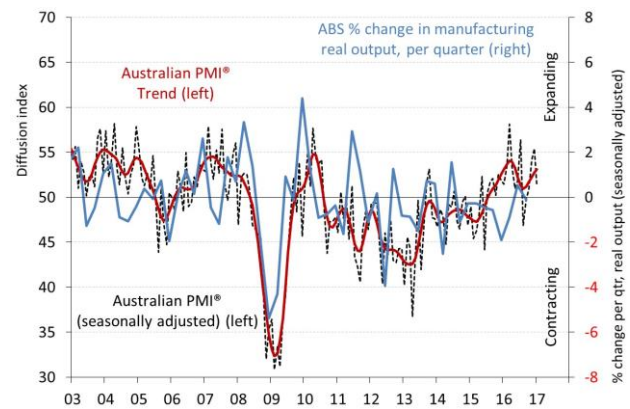


MANUFACTURING GROWTH CONSOLIDATES IN JANUARY

Australian PMI® Jan 2017: 51.2 ↓	US Flash PMI Jan 2017: 55.1 ↑	Eurozone Flash PMI Jan 2017: 55.1 ↑	UK PMI Dec 2016: 56.1 ↑	Japan Flash PMI Jan 2017: 52.8 ↑	China Caixin PMI Dec 2016: 51.9 ↑
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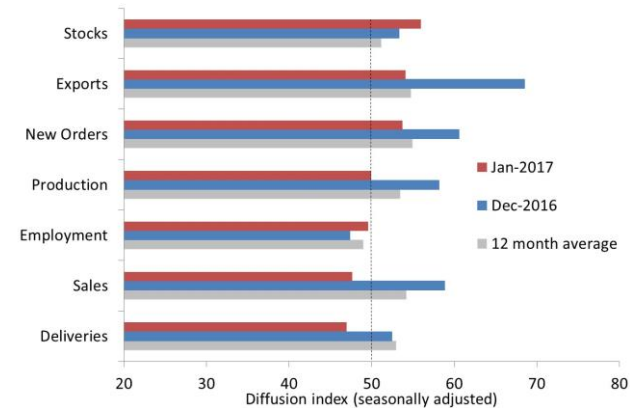
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) has expanded for a fourth consecutive month, with a reading of 51.2 points in January, albeit down by 4.2 points since December (results above 50 indicate expansion and the distance from 50 points indicates the strength of expansion). This adds to the solid growth seen at the end of 2016.
- Three of the seven seasonally-adjusted manufacturing sub-indexes expanded in January with two sub-indexes stable and two contracting. In a positive indicator for near term growth, new orders continued to expand (53.7 points). Exports expanded (54.1 points) and stock levels (56.0 points) built up over the month. Production (49.9 points) and employment (49.6 points) were stable while deliveries (47.0 points) and sales (47.6 points) contracted.
- In trend terms, four of the eight sub-sectors in the **Australian PMI®** expanded in January, two were stable and two contracted. Food & beverages (53.9 points) and petroleum & chemical products (53.5 points) continue to grow albeit at a slower pace. Non-metallic mineral products (65.9 points) and machinery & equipment (57.5 points) expanded at a quicker pace, while wood & paper products (50.5 points) and metals products (49.9 points) improved to more stable conditions. Textiles & clothing moved closer to stable conditions (47.9 points) while printing & recorded media sank further into contraction (35.5 points).
- Comments from manufacturers in January show new orders are picking up across many sub-sectors at the start of the year. While demand appears to be patchy, some construction projects are helping activity and pockets of growth in agriculture and mining (due to some recovery in commodity prices) are lifting activity for manufacturers. As with much of 2016, exports continue to spur growth mainly due to the continued lower Australian dollar. Recently, inventories look to have built up for most manufacturers and this may impact production in coming months. Energy costs and reliability remain prominent issues for manufacturers with higher prices in particular impacting the profitability of many manufacturers.



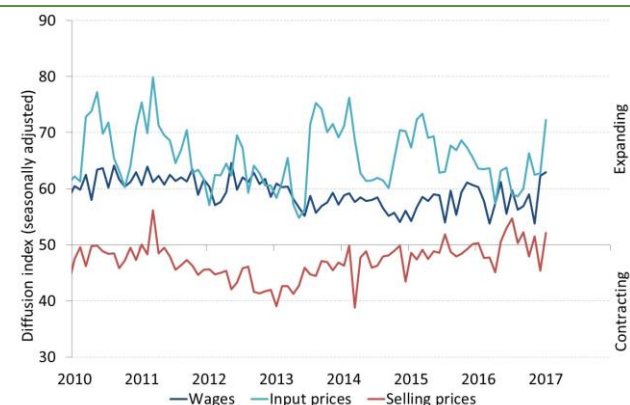
ACTIVITY SUB-INDEXES

- After the strongest result since March 2016 (in December), the production sub-index lost steam in January falling 8.3 points to reach a stable 49.9 points.
- More positively, the new orders sub-index maintained a solid expansion in January at 53.7 points. Coming off stronger growth in December (60.6 points), expansion in new orders has cooled but remains indicative of growth in coming months for manufacturers.
- The sales sub-index fell 11.2 points to 47.6 points in January suggesting softer demand coming into 2017 and possibly a rebalancing after December's robust growth (58.8 points).
- The exports sub-index cooled in January falling 14.4 points from 68.5 points. At 54.1 points, this indicates a consolidation of earlier (more rapid) growth and more modest expansion in January. This coincides with some modest gains in the Australian dollar since the end of 2016. However, the Australian dollar remains relatively low against major trading partner currencies and this continues to provide a key growth stimulus for manufacturers.
- The employment sub-index gained 2.2 points in January to reach a stable 49.6 points.
- The deliveries sub-index fell by 5.4 points in January to a contractionary 47.0 points.
- The stocks sub-index (inventories) increased 2.6 points to 53.4 points in January.
- Capacity utilisation* increased by 4.5% to 73.8% in January, a relatively high result.



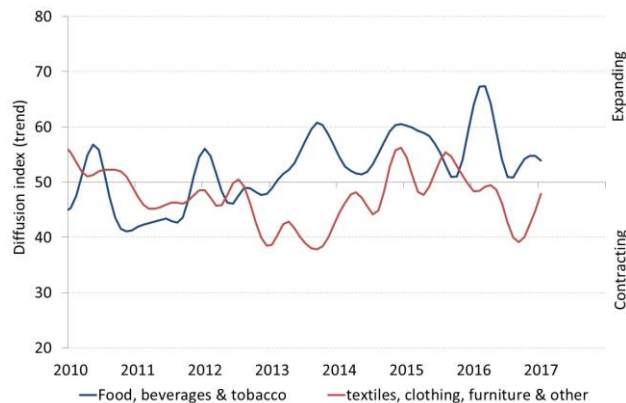
WAGES AND PRICES SUB-INDEXES

- The input prices sub-index jumped by 9.5 points in January to 72.3 points. Manufacturers are coming under increased pressure from input costs. Most acutely, surging energy costs are presenting challenges and have some manufacturers questioning their ongoing viability.
- The wages sub-index edged higher by 0.7 points to 63.0 points in January. Wage growth is remaining elevated and adding to pressures on manufactures margins.
- The manufacturing selling prices sub-index of the **Australian PMI®** expanded in January, increasing 6.7 points to 52.1 points. This welcome increase in selling prices allows some cost increases to be passed on, however growth in input costs and wages seems to have well outpaced growth in selling prices in recent months.



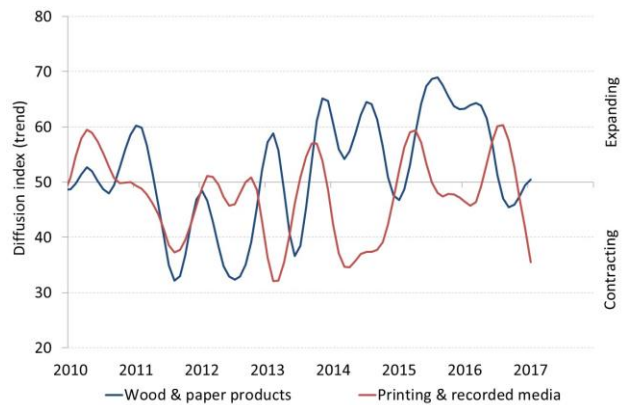
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The index for the largest manufacturing sub-sector, **food, beverages and tobacco**, eased back 0.9 points in January to 53.9 points. The sub-sector has been growing solidly over the last quarter, averaging 54.4 points. The growth in January was largely due to an increase in exports.
- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector remained in contraction in January, but increased 3.1 points in the month to reach 47.9 points. This sub-sector has been contracting since December 2015 and, while conditions have been challenging for the sub-sector, a slower rate of decline has been evident over the last quarter. Respondents in the **Australian PMI®** cited contracting employment and exports as key reasons for the continued contraction in January.



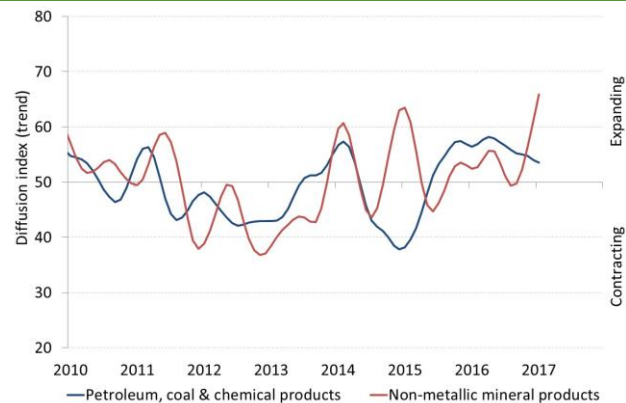
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The small **wood and paper products** sub-sector increased 1.1 points in January to a stable 50.5 points. After five months of contraction, this sub-sector appears to be recovering. Manufacturers within this sub-sector may have benefitted from the recent growth in food processing (food packaging) and elevated residential building activity (generating demand for wood-based building products). The most recent slump in activity may be due to softening demand for building products and the sub-sectors near term growth may therefore be more subdued, with more moderate levels of construction expected.
- The very small **printing and recorded media** sub-sector fell further into contraction in January decreasing by 6.2 points to a 35.5 points. Disruptions from rapid technological change and intense import competition may be impacting the sub-sector and will very likely weigh on long-term growth. Respondents to the **Australian PMI®** from this sub-sector noted contractions across most activity sub-indexes in January.



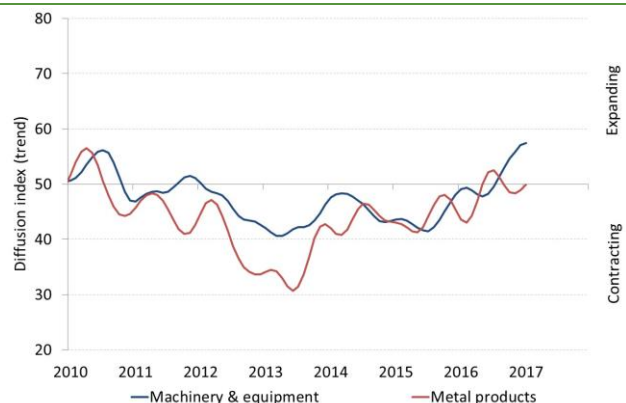
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products** sub-sector's index edged lower by 0.5 points but maintained its expansion at 53.5 points in January. This sub-sector has now expanded for twenty months in a row. However, conditions have recently cooled with respondents to the **Australian PMI®** from this sub-sector noting weaker activity across most activity sub-indexes in January. 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 is showing strong growth, lifting 4.8 points to reach 65.9 points in January. Respondents noted stronger new orders, sales and production in January. This sub-sector produces building products such as tiles, bricks, cement and glass. Demand has been mainly coming from residential builders rather than engineering construction, so lower demand from the residential building sector may keep a lid on near-term growth.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products** sub-sector's index increased 1.0 points in January to reach a stable 49.9 points. This sub-sector appears to be on-track for a recovery, with metals and commodity prices recently improving. Respondents in the **Australian PMI®** cited stronger production, employment, sales and exports and encouragingly, an uplift in new orders in January.
- The large **machinery and equipment** sub-sector strengthened in January, growing for a fourth month in a row and inching 0.4 points higher to 57.5 points. Respondents in the **Australian PMI®** noted elevated levels of production and new orders in January. This growth is occurring despite the ongoing contraction in automotive assembly. The sub-sector is also exposed to the mining industry and looks to be benefitting from a rebound in capital spending and maintenance from the mining and energy sectors.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	51.2	-4.2	52.7	Exports	54.1	-14.4	54.7
Production	49.9	-8.3	53.5	Sales	47.6	-11.2	54.2
New Orders	53.7	-6.9	55.0	Input Prices	72.3	9.5	62.8
Employment	49.6	2.2	49.0	Selling Prices	52.1	6.7	49.9
Inventories (stocks)	56.0	2.6	51.1	Average Wages	63.0	0.7	58.1
Supplier Deliveries	47.0	-5.4	52.9	Cap. Utilisation (%)	73.8	4.5	74.0

* 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 January 2013. New industry classifications applied from January 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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