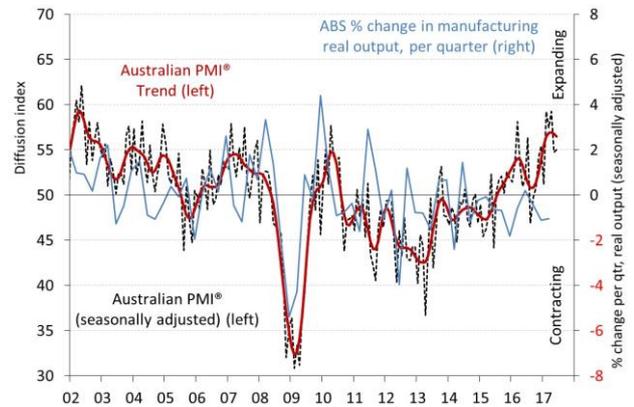


MANUFACTURING EXPANSION EXTENDS INTO JUNE

Australian PMI® Jun 2017: 55.0 ↑	US Flash PMI Jun 2017: 52.1 ↓	Eurozone Flash PMI Jun 2017: 57.3 ↓	UK PMI May 2017: 56.5 ↓	Japan Flash PMI Jun 2017: 52.0 -	China Caixin PMI May 2017: 49.6 ↓
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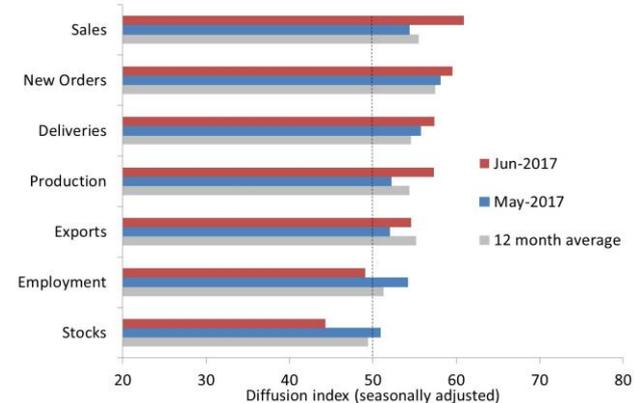
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) inched 0.2 points higher to 55.0 points in June (results above 50 indicate expansion with the distance from 50 points indicating the strength of expansion). This was the ninth consecutive month of expansion for the **Australian PMI®**.
- Five of the seven activity sub-indexes in the **Australian PMI®** expanded in June. New orders strengthened to 59.5 points and sales surged to 60.9 points, indicating healthy demand and positive near term growth. Expansions in supplier deliveries (57.4 points), exports (54.6 points) and production (57.3 points) strengthened in June. Employment moved into mild contraction (49.0 points) while stocks also contracted (44.3 points).
- The **Australian PMI®** continues to indicate stronger conditions in manufacturing than does the ABS measure of value added output (which shrank again in March 2017). This is because the **Australian PMI®** tracks a broader set of indicators than output volumes alone. Its current strength reflects positive results for new orders, exports, sales and deliveries.
- Seven out of eight sub-sectors in the **Australian PMI®** expanded in June (trend data). Expansions continued across all sub-sectors except textiles & clothing (29.2 points). Wood & paper products strengthened further (65.3 points), as did printing & recorded media (61.2 points) and machinery & equipment (60.1 points). Expansions in petroleum, coal & chemical products (54.1 points), non-metallic mineral products (58.8 points), food & beverages (56.9 points) and metal products (59.0 points) eased in June.
- Manufacturers cited steadily rising demand in June. Large construction projects are buoying activity, including in transport, defence and commercial construction, while stronger activity in agriculture and renewable energy is creating other opportunities. Manufacturers involved in the auto assembly supply chain are closing, exiting or moving into other markets. Some manufacturers' markets are oversupplied, keeping prices depressed. Other challenges noted by manufacturers in June included: energy supply and costs; energy policy uncertainty; rising input prices; exchange rate fluctuations; strong international competition (particularly from Asia); and struggling local retail customers.



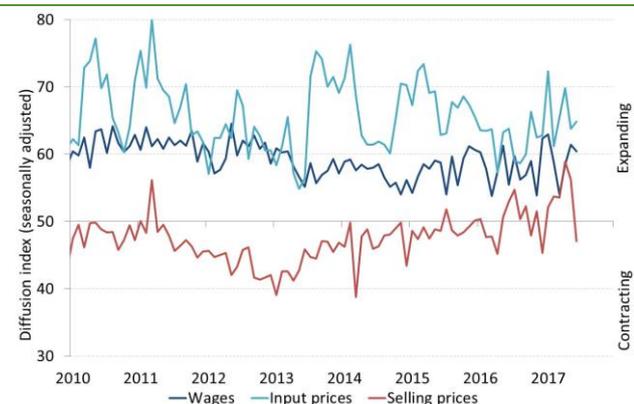
ACTIVITY SUB-INDEXES

- The production sub-index increased 5.1 points to 57.3 points in June. This sub-index has shown solid expansion recently, with an average over the last six months of 57.2 points.
- The new orders sub-index climbed a further 1.4 points to 59.5 points in June. This sub-index suggests a further period of growth ahead for manufacturing.
- The sales sub-index rebounded back to elevated levels in June, increasing 6.5 points to 60.9 points. This was the fifth month of expansion for this sub-index.
- The exports sub-index moved up 2.6 points to a more expansionary 54.6 points in June. Exports expanded more strongly in the food & beverages and metal products sub-sectors.
- The employment sub-index moved into mild contraction at 49.0 points in June. This is consistent with recent ABS estimates showing 15,100 jobs recovered in manufacturing in the year to May 2017, but a loss of 5,400 jobs in the three months to May 2017 (trend).
- The deliveries sub-index strengthened by 1.6 points to a 57.4 points in June.
- The stocks sub-index (inventories) fell by 6.6 points to 44.3 points, indicating a reduction in inventories in June. This followed a modest build-up in stocks in May.
- Capacity utilisation eased by 1.7 percentage points in June to 77.2% of available capacity.



WAGES AND PRICES SUB-INDEXES

- The input prices sub-index increased by 1.1 points in June to 64.9 points. Input prices have become elevated again over the past six months, with this sub-index averaging 66.2 points.
- The wages sub-index decreased by 1.0 points but remains slightly elevated at 60.4 points. This is just above the ten-year average (2007 to 2017) for this sub-index of 59.2 points.
- The manufacturing selling price sub-index fell by 9.1 points to 47.1 points in June, ending a rare five months of price increases. Manufacturers noted surpluses in some markets are now depressing prices again, or at least limiting their ability to raise their prices further. The large food & beverages sector appears to have weathered significant declines in selling prices in the month. Together with increasing input prices (especially for energy costs) and wages for skilled and specialist labour, this is likely to add further pressure to manufacturers' margins.



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

- The index for the largest manufacturing sub-sector, **food, beverages and tobacco**, eased by 0.8 points to 56.9 points in June (trend) but continued its long run of expansion. This sub-sector continues to report higher exports. Food and beverages processors in the **Australian PMI**[®] noted surpluses in some markets in June, which have been depressing selling prices. Employment contracted for this sub-sector in June.
- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector sank deeper into contraction in June, with its index decreasing by 4.7 points to 29.2 points. This was the lowest monthly result for this sub-sector since the current sub-index commenced in 2009 (and among the lowest results recorded prior to that in the three separate sub-indexes of textiles, clothing and footwear and miscellaneous manufacturing). Respondents in this sub-sector cited weak demand due to struggling local retail customers, lower exports and heavy import competition. All activity sub-indexes were contractionary for this sub-sector in June.



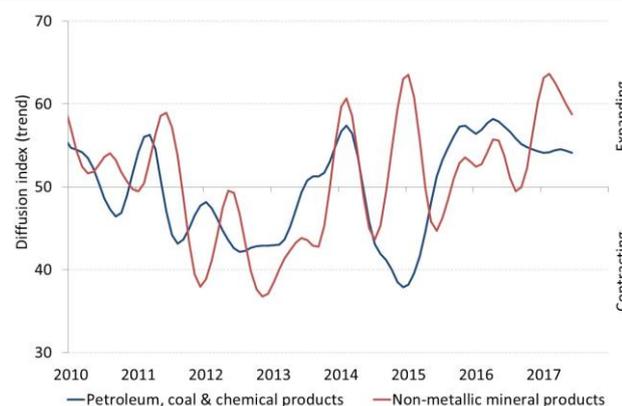
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The small **wood and paper products** sub-sector's index increased by 1.2 points to 65.3 points in June. This was the highest monthly result for this sub-sector since October 2015 (trend). Manufacturers in this sub-sector are benefitting from growth in food processing (generating good growth in food packaging) and elevated residential building activity, which is generating demand for wood-based building products. Employment, new orders and sales were higher in June, which bodes well for continued growth in this sub-sector.
- Growth in the very small **printing and recorded media** sub-sector picked up in June, with its index increasing by 1.7 points to 61.2 points. This was the highest monthly result for this sub-sector since the current sub-index commenced in 2009 (trend). This sub-sector is benefitting from another bout of strong but volatile recovery in sales in 2017, after a protracted period of shrinkage from 2011 to 2016. This volatility might reflect somewhat sporadic demand for printed and recorded manufacturing products.



PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- Growth in the large **petroleum, coal, chemicals and rubber products** sub-sector moderated down by 0.2 points to 54.1 points in June. This sub-sector has been growing continuously since mid-2015. 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. A build-up of inventory drove most of the growth in June, suggesting that growth may continue to cool if sales growth or exports do not soak up this build-up in stock levels.
- The **non-metallic mineral products** sub-sector (mainly building materials) expanded at a slower pace in June, declining by 1.1 points to 58.8 points. Demand is coming from local residential builders and from growing exports. Local residential building activity is beginning to ease from recent peaks, but non-residential building activity is now picking up pace. Encouragingly, expansionary results for new orders, production, sales and deliveries were evident in June. Respondents in the **Australian PMI**[®] also noted a boost from increasing small business activity.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products** sub-sector's index eased by 0.4 points to 59.0 points in June. This surge represents a recovery from a long period of contractionary conditions over the previous five years. It is benefitting from stronger demand from residential housing activity and stronger metals and commodity prices. Respondents from this sub-sector in the **Australian PMI**[®] noted stronger demand from commercial construction customers, mining activity (mainly coal), and customers in the defence and utilities sectors in June. Growth was also underpinned by stronger exports in the month.
- The large **machinery and equipment** sub-sector's index increased by 0.2 points to 60.1 points in June. This was the highest monthly result for this sub-sector since the current sub-index commenced in 2009 (trend). Recovery is occurring despite the loss of automotive assembly (and is possibly reflecting the progressive loss of auto manufacturers from the **Australian PMI**[®] survey, as they close or exit Australia). Respondents in the **Australian PMI**[®] noted increased demand for exports (mainly to Asia), from renewable energy projects and from other new capital investment projects, but stiffening competition from imports.



Seasonally adjusted	Index this month	Change from last month	12 month average	Index this month	Change from last month	12 month average
Australian PMI [®]	55.0	0.2	54.2	Exports	54.6	2.6
Production	57.3	5.1	54.4	Sales	60.9	6.5
New Orders	59.5	1.4	57.4	Input Prices	64.9	1.1
Employment	49.0	-5.2	51.3	Selling Prices	47.1	-9.1
Inventories	44.3	-6.6	49.4	Average Wages	60.4	-1.0
Supplier Deliveries	57.4	1.6	54.5	Capacity Utilisation (%)	77.2	-1.7

* 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 June 2013. New industry classifications applied from June 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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