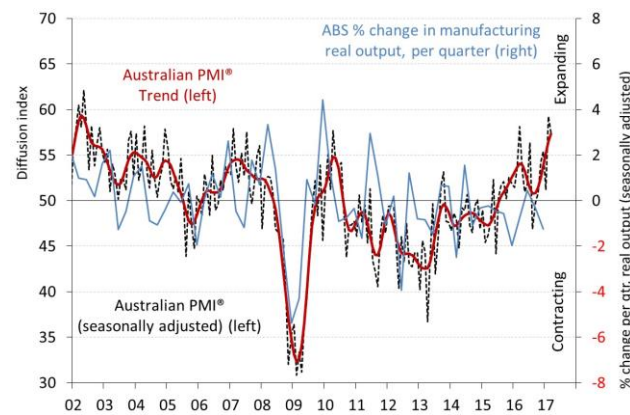


## MANUFACTURING REMAINS BUOYANT IN MARCH

<b>Australian PMI®</b> Mar 2017: <b>57.5</b> ↓	<b>US Flash PMI</b> Mar 2017: <b>53.4</b> ↓	<b>Eurozone Flash PMI</b> Mar 2017: <b>56.2</b> ↑	<b>UK PMI</b> Feb 2017: <b>54.6</b> ↓	<b>Japan Flash PMI</b> Mar 2017: <b>52.6</b> ↓	<b>China Caixin PMI</b> Feb 2017: <b>51.7</b> ↑
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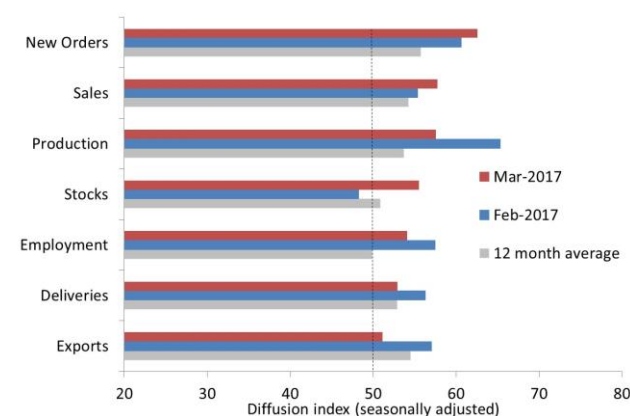
### KEY FINDINGS

- The Australian manufacturing sector expanded strongly again in March with the Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) down 1.8 points to register a solid 57.5 points in the month (results above 50 indicate expansion with the distance from 50 points indicating the strength of expansion). This was the sixth consecutive month of expansion for the **Australian PMI®**.
- All seven activity sub-indexes in the **Australian PMI®** expanded in March (seasonally adjusted). Expansions in new orders (62.6 points) and sales (57.7 points) strengthened. Production expanded while slowing from more robust growth last month (57.6 points) as did employment (54.1 points). Deliveries (52.9 points) and exports (51.1 points) eased to more modest growth, while inventories turned up in March (55.5 points).
- Five of the eight sub-sectors in the **Australian PMI®** expanded in March (trend) while two contracted and one was broadly stable. The strongest growth was in non-metallic mineral products (64.8 points) and food & beverages (63.4 points). Encouragingly, metals products (59.5 points) and machinery & equipment (60.5 points) strengthened in March, despite the ongoing exit of automotive assembly, which is included in machinery & equipment. Petroleum & chemical products was stable (50.9 points) while textiles & clothing (45.2 points) and printing & recorded media (48.5 points) remained in contraction.
- Comments from manufacturers in March indicate that demand continues to recover. Positive factors for demand include: higher prices for coal and other commodities; large infrastructure projects; the NBN rollout; stronger defence spending and stronger activity in the agricultural sector. Energy prices (particularly electricity) continue to play havoc with manufacturers. Concerns about energy pricing and security of supply are eroding profitability and confidence. Other input prices are increasing (including steel prices), which is putting manufacturers' margins under further pressure. Export growth appear to be easing off for some manufacturers, compared to the strong surge of exports seen in 2016.



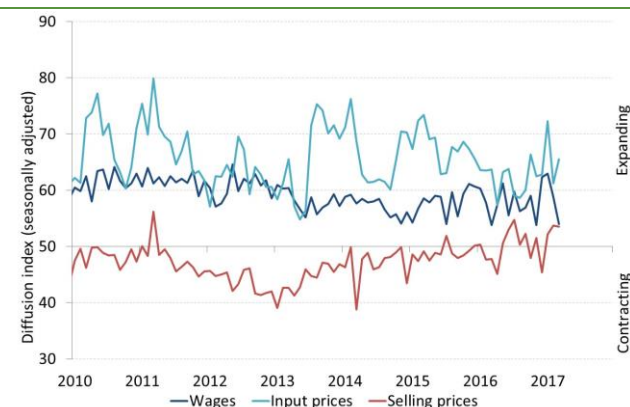
### ACTIVITY SUB-INDEXES

- The production sub-index fell by 7.7 points in March but remained firmly in expansion at 57.6 points. This comes after the strongest monthly result since May 2002 in February.
- The new orders sub-index increased a further 2.0 points to a strong 62.6 points. This bodes well for near-term growth, with an average of 60.7 points over the last six months.
- The sales sub-index edged up another 2.4 points in March, to reach 57.7 points, and reflecting reports of recovering demand for many manufacturers.
- The exports sub-index fell 5.9 points in March, to a mildly expansionary 51.1 points. The Australian dollar has been trending higher since the start of 2017 and this may have slowed export growth for manufacturers.
- The employment sub-index declined 3.4 points but remained expansionary at 54.1 points in March. Following on from the strongest result since May 2002 (in February), the March result is encouraging. The ABS estimates 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 fell by 3.4 points but remained expansionary at 52.9 points.
- The stocks sub-index (inventories) returned to growth, jumping 7.2 points to 55.5 points.
- In another sign of buoyant conditions, capacity utilisation increased by 2.2 percentage points to 79.1% in March, the highest result since this series began in May 2009.



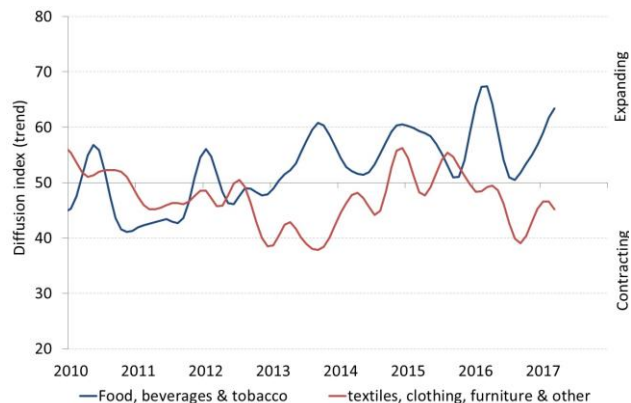
### WAGES AND PRICES SUB-INDEXES

- The input prices sub-index increased by 4.3 points in March to 65.5 points. Input cost rises highlighted by respondents to the **Australian PMI®** included higher steel and bulk commodity prices and soaring energy prices.
- The wages sub-index fell by 4.8 points but remained expansionary in March at 54.0 points. Pressures from wage increases have eased in the month, although wages growth is not necessarily trending downwards, with the series showing some volatility in recent months.
- The manufacturing selling prices sub-index of the **Australian PMI®** was largely unchanged at 53.5 points in March. This suggests some further improvement in manufacturers' ability to recover some cost increases in the market, although growth in input costs is still outpacing selling prices.



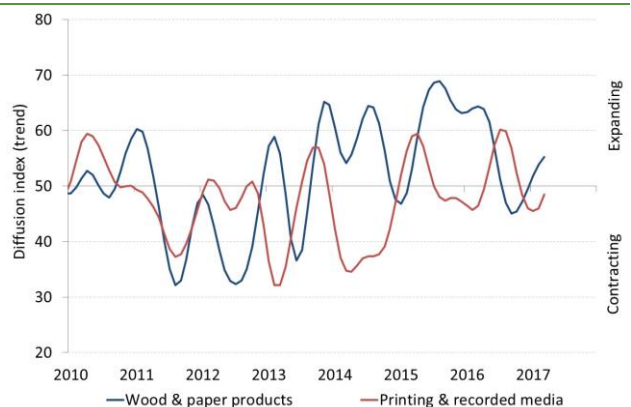
## FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER\*

- The index for the largest manufacturing sub-sector, **food, beverages and tobacco**, increased by 1.6 points to a strong 63.4 points in March (trend). Momentum appears to be picking up again for this sub-sector. Food and beverages processors in the **Australian PMI®** noted some new business and a build-up in inventories (some of it due to anticipated industrial action). New orders and exports were particularly strong during the month.
- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector fell further into contraction in March, with the index decreasing by 1.4 points to 45.2 points. Respondents in this sub-sector in the **Australian PMI®** cited mounting pressures from input costs, including imported inputs and rising local energy costs. All activity sub-indexes showed contraction for this sub-sector in March.



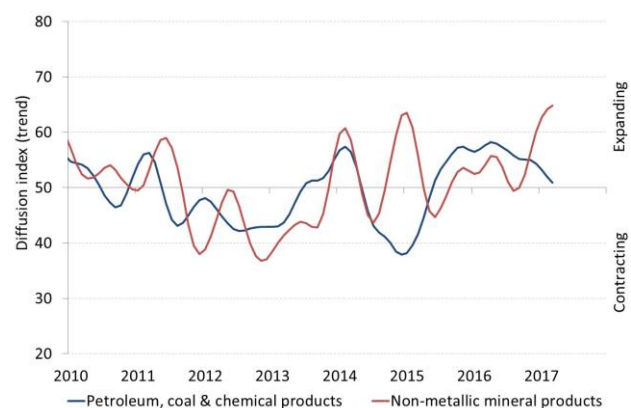
## WOOD & PAPER; PRINTING & RECORDED MEDIA\*

- The small **wood and paper products** sub-sector's index increased by 1.3 points to 55.2 points in March. This sub-sectors recovery is gathering pace following 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 lift in activity appears to be due to sales and employment growth, however inventories also appear to be building up.
- The very small **printing and recorded media** sub-sector remained in contraction in March, although the index increased by 2.5 points to 48.5 points, taking it closer to stable conditions. Disruptions from rapid technology change and intense import competition are detracting from this sub-sector. Relatively rarely for this sector, the **Australian PMI®** indicated an expansion in employment in March.



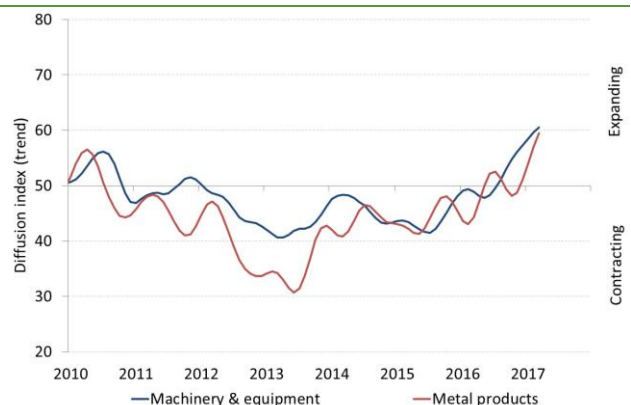
## PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS\*

- The **petroleum, coal, chemicals and rubber products** sub-sector's index eased a further 1.1 points in March to reach a stable 50.9 points. Conditions have been cooling for the sub-sector since mid-2016. This extremely diverse sub-sector includes pharmaceuticals, toiletries and health supplements, as well as construction-related products such as paints, adhesives and surface treatments. Respondents in the **Australian PMI®** noted some improvement in local demand, but declining exports, rising electricity costs and weather dampened activity in March. Positively, new orders and sales appear to be expanding and this may return the sub-sector to stronger growth in months ahead.
- The **non-metallic mineral products** sub-sector (mainly building materials) continued its run of growth in March, increasing to 64.8 points. This marks the sixth month of expansion for this sub-sector, with the last four months above 60 points. 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. Respondents in the **Australian PMI®** noted improving conditions in the coal mining industry (capital investment) were also flowing through to improving demand and activity. Conditions are looking more promising for this sub-sector, with all activity sub-indexes except inventories stronger in March.



## METAL PRODUCTS; MACHINERY & EQUIPMENT\*

- The large **metal products** sub-sector's index increased a further 2.6 points to reach 59.5 points in March. This marks the fourth month of expansion after a lengthy period of decline for this sub-sector. It is benefiting from stronger demand from residential housing activity and from stronger metals and commodity prices. Respondents in the **Australian PMI®** said activity is lifting due to a recovery in coal prices and subsequent increases in activity in mining, some large infrastructure projects and increased defence spending. Concerns about gas and electricity prices and availability are complicating the recovery of metals. Expansions in production, new orders, deliveries and sales were evident in March.
- The large **machinery and equipment** sub-sector's index strengthened by 0.9 points to 60.5 points in March, growing for an eight month in a row. This growth is occurring despite the ongoing contraction in automotive assembly. Respondents in the **Australian PMI®** noted some concerns about a softer economic outlook as well as spiralling energy costs. Stronger levels of production and employment were evident in March.



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>57.5</b>	<b>-1.8</b>	<b>53.1</b>	<b>Exports</b>	51.1	<b>-5.9</b>	54.5
<b>Production</b>	57.6	<b>-7.7</b>	53.7	<b>Sales</b>	57.7	2.4	54.3
<b>New Orders</b>	62.6	2.0	55.7	<b>Input Prices</b>	65.5	4.3	62.7
<b>Employment</b>	54.1	<b>-3.4</b>	49.9	<b>Selling Prices</b>	53.5	<b>-0.2</b>	50.9
<b>Inventories</b>	55.5	7.2	50.9	<b>Average Wages</b>	54.0	<b>-4.8</b>	58.2
<b>Supplier Deliveries</b>	52.9	<b>-3.4</b>	52.9	<b>Capacity Utilisation (%)</b>	79.1	2.2	74.6

\* 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 March 2013. New industry classifications applied from March 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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