MANUFACTURING GROWTH SLOWS IN MAY

<table>
<thead>
<tr>
<th>Australian PMI®</th>
<th>US Flash PMI</th>
<th>Eurozone Flash PMI</th>
<th>UK PMI</th>
<th>Japan Flash PMI</th>
<th>China Caixin PMI</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2017: 54.8</td>
<td>May 2017: 52.5</td>
<td>May 2017: 58.4</td>
<td>Apr 2017: 57.3</td>
<td>May 2017: 52.0</td>
<td>Apr 2017: 50.3</td>
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**KEY FINDINGS**

- The Australian Industry Group Australian Performance of Manufacturing Index (Australian PMI®) stayed in expansionary territory at 54.8 points in May, but it eased by 4.4 points and indicated a slower rate of growth (results above 50 indicate expansion with the distance from 50 points indicating the strength of expansion). This was the eighth month of expansion for the Australian PMI®. The last six months have averaged 56.2 points.

- All seven activity sub-indexes in the Australian PMI® expanded in May albeit at a slower pace than in April. New orders remained elevated (58.1 points), suggesting the current expansion has some way to run. Employment (54.2 points), deliveries (55.8 points) and sales (54.4 points) remained relatively strong. Exports (52.0 points) slowed but remained expansionary, as did production (52.2 points) and stocks (50.9 points).

- Seven out of eight sub-sectors in the Australian PMI® expanded in May, the same as in April (trend data). Expansions continued across all sub-sectors except textiles, clothing and other manufacturing (39.4 points). The recovery in wood & paper products strengthened (65.3 points) as did printing & recorded media (62.5 points), petroleum, coal & chemical products (56.7 points) and metal products (60.9 points). Other sub-sectors kept expanding but at a slower pace, including food & beverages (56.8 points), non-metallic mineral products (62.1 points) and machinery & equipment (58.9 points).

- Manufacturers reported slower conditions than previous months, although demand is still relatively elevated. Exports are a key source of growth with many manufacturers strongly focussed on export markets. Less positively, others are feeling the impacts of the exiting auto industry more acutely. Strong overseas competition remains evident and the Federal Budget has caused some unease. Slower retail conditions are also having some negative impacts for manufacturers, while slow capital expenditure by business is limiting demand for others. Elevated input costs are an ongoing challenge, particularly for raw materials and energy costs. Specialised labour shortages are posing challenges for some manufacturers.

**ACTIVITY SUB-INDEXES**

- The production sub-index fell 8.5 points to 52.2 points in May. This sub-index remains expansionary but has come off the high levels evident over the past three months.

- The new orders sub-index remained high at 58.1 points. Although easing by 3.4 points in May, this index continues to indicate good growth prospects for manufacturing.

- The sales sub-index declined 11.1 points from a very high point in April to reach 54.4 points in May. This was the fourth month of expansion for this sub-index.

- The exports sub-index fell to 52.0 points in May from a very high level in April (58.6 point). Exports remain a key source of growth for manufacturers. Metals and commodities prices eased recently and this has likely reduced metal goods export values.

- The employment sub-index eased by 1.7 points to 54.2 points in May but remained expansionary. This is consistent with ABS estimates showing 39,900 jobs returned to manufacturing in the year to February 2017, an increase of 4.6% over the year (trend).

- The deliveries sub-index fell by 6.5 points but remained expansionary at 55.8 points.

- The stocks sub-index (inventories) was stable at 50.9 points (down 0.3 points) in May.

- Capacity utilisation rose by 1.5 percentage points May to 78.9% of available capacity.

**WAGES AND PRICES SUB-INDEXES**

- The input prices sub-index decreased by 6.0 points in May to 63.8 points. Input prices have been elevated over the past six months, with this sub-index averaging 65.9 points.

- The wages sub-index increased by 3.0 points to an elevated 61.4 points in May.

- The manufacturing selling price sub-index decreased 2.7 points in May, but remains stronger than in recent years at 56.2 points. This marks the fifth month of expansion for selling prices. It may indicate some relief to manufacturers in being able to pass on more of their cost increases. This may also point to more inflationary conditions (triggered, for example, by higher input prices and especially energy prices), with consumer inflation and producer prices showing some recovery in price growth in the March quarter (ABS data).
The index for the largest manufacturing sub-sector, food, beverages and tobacco, eased by 1.1 points to 56.8 points in May (trend). Food and beverage processors in the Australian PMI® noted a surplus in some markets which had been depressing selling prices but is now dissipating, as well as slower domestic demand and tough conditions in retail. More positively, the sub-sector benefited from higher exports in the month, as well as higher new orders and sales. Growth looks set to continue in 2017 for this sub-sector.

The diverse small textile, clothing, furniture and other manufacturing sub-sector fell further into contraction in May, with its index decreasing by 2.7 points to 39.4 points. This sub-sector is still struggling, with respondents in this sub-sector in the Australian PMI® highlighting challenges from spiralling energy costs, imports and exchange rates and exposure to struggling retailers. All activity sub-indices were contractionary for this sub-sector in May.

WOOD & PAPER; PRINTING & RECORDED MEDIA®

The small wood and paper products sub-sector’s index increased by 2.4 points to 65.3 points in May. Growth continues to accelerate following a slump in late 2016. Manufacturers in this sub-sector are benefiting from recent growth in food processing (driven by strong growth in food packaging) and elevated residential building activity, which is generating demand for wood-based building products. Positively for the outlook, new orders remained elevated, as did the employment and production sub-indices for this sub-sector.

Growth in the very small printing and recorded media sub-sector picked up in May, with its index increasing by 3.0 points to 62.5 points. This suggests a recovery or at least some respite from the long-term disruptions of rapid technology change and intense import competition. New orders and deliveries were higher in May, pointing to further growth during the remainder of 2017.

PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS®

The large petroleum, coal, chemicals and rubber products sub-sector’s index increased by 1.0 point in May to 57.6 points. 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. Respondents in the Australian PMI® noted increasing raw material costs in May and strong international competition, but they also saw good export opportunities. Expansions in employment and stocks supported growth in this sub-sector in May.

The non-metallic mineral products sub-sector (mainly building materials) eased slightly (down by 0.5 points) but maintained a strong rate of expansion in May, at 62.1 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 elevated activity from transport infrastructure projects in May. Very strong growth in new orders, as well as growth in sales and stocks, suggests bright prospects ahead for the sub-sector.

METAL PRODUCTS; MACHINERY & EQUIPMENT®

The large metal products sub-sector’s index increased by 0.8 points to 60.9 points in May. 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 prices. Export markets and recovery from Cyclone Debbie are adding to demand. Expansions in deliveries, sales and exports were evident this month. Despite this resurgence in activity however, respondents from this sub-sector in the Australian PMI® had rising energy costs, raw material costs, lack of skilled labour and intense overseas competition are creating new challenges.

The large machinery and equipment sub-sector’s index increased by 0.3 points to 58.9 points in May. Growth is occurring despite the ongoing contraction in automotive assembly (mainly building materials) and slow capital spending by businesses. It is benefiting from stronger demand from residential housing activity and elevated residential building activity, which is generating demand for wood-based building products. Positively for the outlook, new orders remained elevated, as did the employment and production sub-indices for this sub-sector.

Seasonally adjusted Index from last month 12 month average

Australia PMI® 54.8 -4.4 53.9 Exports 52.0 -6.6 54.8
Production 52.2 -8.5 54.1 Sales 54.4 -11.1 54.9
New Orders 58.1 -3.4 57.0 Input Prices 63.8 -6.0 63.8
Employment 54.2 -1.7 51.2 Selling Prices 56.2 -2.7 52.5
Inventories 50.9 -0.3 50.0 Average Wages 61.4 3.0 58.3
Supplier Deliveries 55.8 -6.5 53.8 Capacity Utilisation (%) 78.9 1.5 75.2

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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 May 2013. New industry classifications applied from May 2012 (and back-dated to 2009) based on the ANZSIC 2006 coding system and ABS 2011-12 Industry weights.