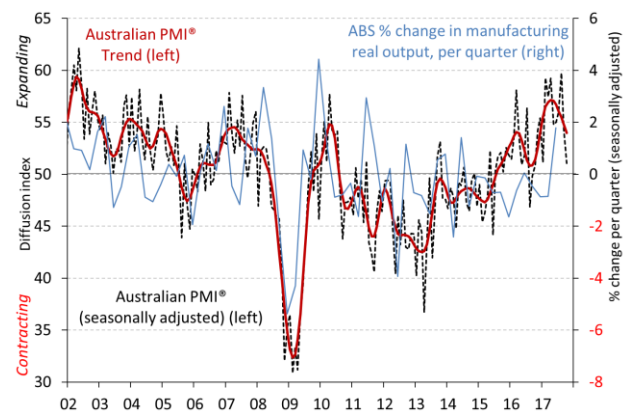


MANUFACTURING RECOVERY SLOWS IN OCTOBER

Australian PMI® Oct 2017: 51.1 ↓	US Flash PMI Oct 2017: 54.5 ↑	Eurozone Flash PMI Oct 2017: 58.7 ↓	UK IHS PMI Sep 2017: 55.9 ↓	Japan Flash PMI Oct 2017: 52.5 ↓	China Caixin PMI Sep 2017: 51.0 ↓
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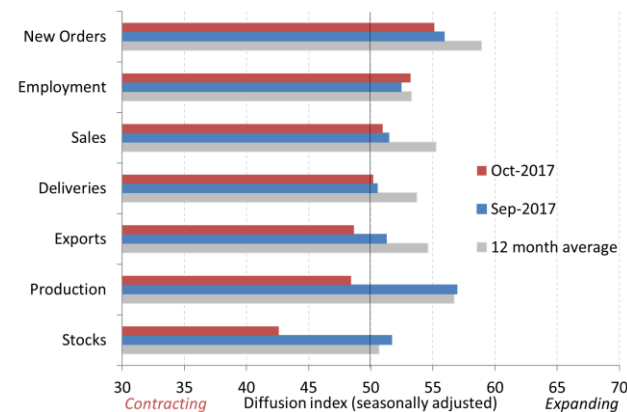
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) fell 3.1 points to 51.1 points in October (seasonally adjusted), indicating slower growth after a run of stronger monthly expansions over the previous six months. Results above 50 points indicate expansion with higher results indicating a stronger expansion.
- September marked a thirteenth month of expanding or stable conditions for the **Australian PMI®** and the longest run of expansion since 2007. Growth has slowed since mid-2017 however, with October indicating the slowest monthly growth since January 2017.
- Of the seven activity sub-indexes in the **Australian PMI®**, three expanded, three contracted and one was stable in October (seasonally adjusted). New orders and sales expanded (results over 50 points), but at slower rates than in September. Employment expanded more strongly, while supplier deliveries were stable for a second month. Exports, production and stocks (inventories) all contracted in October (results under 50 points).
- Six of the eight sub-sectors in the **Australian PMI®** expanded in October (trend) and two contracted. The non-metallic minerals sub-sector remained at a record high (72.2 points) due to strong demand for building-related products. The food and beverages sub-sector also performed well in October, while other sub-sectors expanded at slower rates.
- October marked the end of automotive assembly in Australia, with the closure of the last car assembly lines at GMH in Adelaide and Toyota in Melbourne. This was reflected in lower results (and an absolute contraction) in the **Australian PMI®** in South Australia.
- Outside the automotive sub-sector, conditions appeared to be relatively buoyant, if a touch slower, in October. Positive sources of local demand for manufacturers included apartment and infrastructure construction; defence, mining and agricultural equipment; renewables and utilities. Higher input costs for electricity, gas, milk and butter are biting into margins.



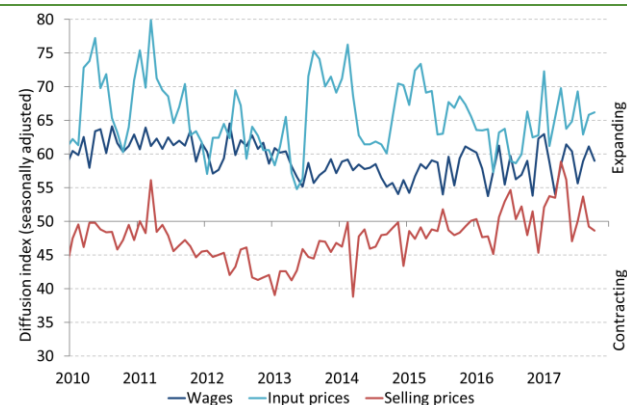
ACTIVITY SUB-INDEXES

- The production sub-index plunged 8.4 points to 48.4 points in October, indicating the first monthly drop in production since August 2016 (seasonally adjusted). Production declined in metal products and in the textiles, clothing and other sub-sector.
- The new orders sub-index dropped 0.8 points to 55.1 points in October, indicating thirteen months of expansion. Ongoing (but slower) growth in new orders suggests further growth for parts of manufacturing through the rest of 2017. New orders growth was strongest in the food & beverages, wood & paper and non-metallic mineral sub-sectors in October.
- The sales sub-index inched 0.4 points lower to 51.0 points in October, indicating a modest but steady rate of growth in sales.
- The exports sub-index fell into contraction, at 48.7 points in October. This sub-index has been volatile of late, probably reflects movements in response to the Australian dollar.
- The employment sub-index strengthened to 53.2 points in October, indicating further recovery in manufacturing employment, mainly in the food & beverages sub-sector.
- Supplier deliveries were stable at 50.2 points for a second consecutive month in October.
- The stocks sub-index (inventories) fell sharply to 42.6 points, indicating a drawdown from inventories that had been building up in previous months.
- Reflecting the reduction in production this month, capacity utilisation across manufacturing fell to 74.7% of available capacity, its lowest since December 2016.



WAGES AND PRICES SUB-INDEXES

- The input prices sub-index rose a further 0.4 points to 66.2 points in October, indicating elevated pricing pressures across manufacturing. Manufacturers continued to report difficulties accommodating spiralling energy costs and rising raw materials prices for some key commodities. Food processors in the **Australian PMI®** are reporting steep price rises for dairy product inputs and especially butter, in addition to energy and gas price rises.
- The wages sub-index fell to 59.0 points in October. This sub-index has bounced around 60 points over the past six months but appears to be trending downward from its recent peak late in 2016. This suggests less pressure to increase wages across the manufacturing sector.
- The manufacturing selling price sub-index remained under 50 points and indicating mild price reductions in October, after some sporadic price rises in previous months of 2017. Gains in selling prices have remained relatively subdued in 2017, so the latest input price rises for energy, dairy and other inputs will be squeezing manufacturers' margins again.



FOOD & BEVERAGES*

The index for the largest manufacturing sub-sector, **food and beverages**, rose marginally to 57.1 points in October (trend) its highest monthly result since May. New orders, current sales and employment were especially strong in this sub-sector in October. Respondents from this sub-sector in the **Australian PMI®** are reporting steep price rises for dairy product inputs and especially butter, in addition to the energy and gas price rises faced by all.

TEXTILES, CLOTHING, FURNITURE & OTHER*

- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector remained in contraction at 48.5 points in October, albeit at a slower pace. This sub-sector has contracted in every month since November 2015 (trend). Bright spots are evident in furniture and related homewares manufacturing due to demand flow-ons from residential housing construction.

WOOD & PAPER*

- The small wood and paper products sub-sector's index expanded at a slower pace in October, after relatively strong results over the past few months (trend). Manufacturers in this sub-sector are benefitting from growth in food processing (generating excellent growth in food packaging) and elevated residential building activity, which is generating demand for wood-based building products. New orders remained buoyant in October, suggesting further growth for at least the remainder of 2017.

PRINTING & RECORDED MEDIA*

- The recovery in the very small **printing and recorded media** sub-sector slowed in October, with its index falling to 52.1 points (trend). This sub-sector has expanded in every month since January 2017 (trend). Current production and sales were stable in October, but forward orders and supplier deliveries are sliding lower, suggesting slower conditions ahead.

PETROLEUM, COAL & CHEMICALS*

- Growth in the large **petroleum, coal, chemicals and rubber products** sub-sector slowed further, with its index falling to 53.9 points in October (trend). This sub-sector has been growing continuously since mid-2015 but appears to be decelerating. 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.

NON-METALLIC MINERALS*

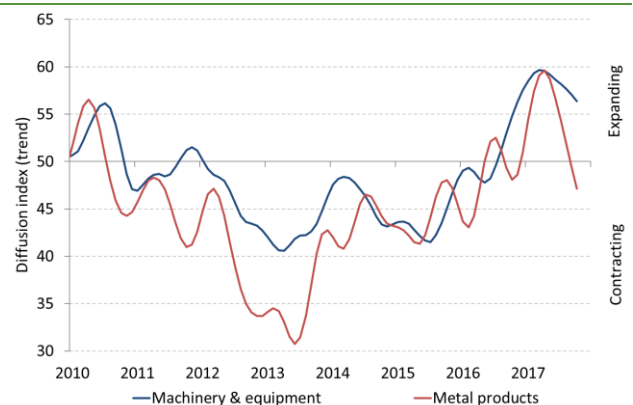
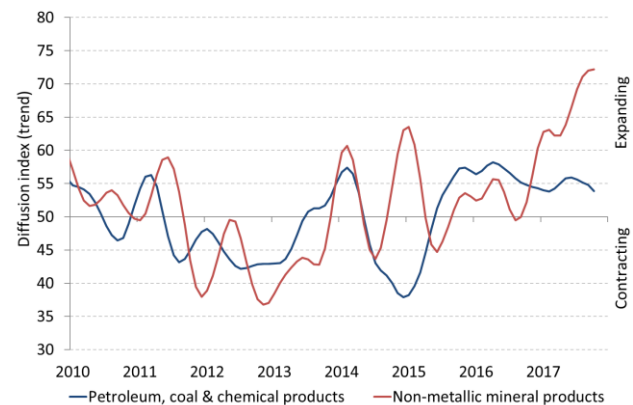
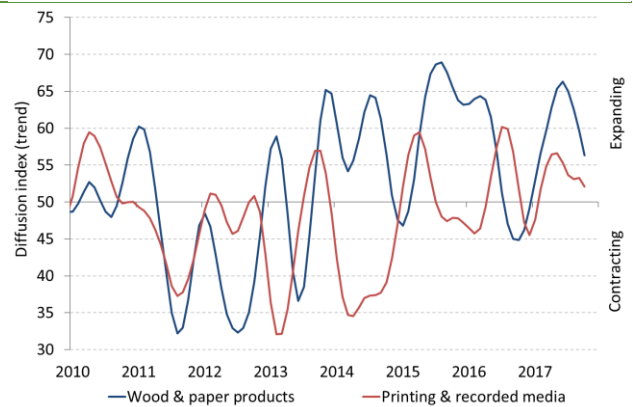
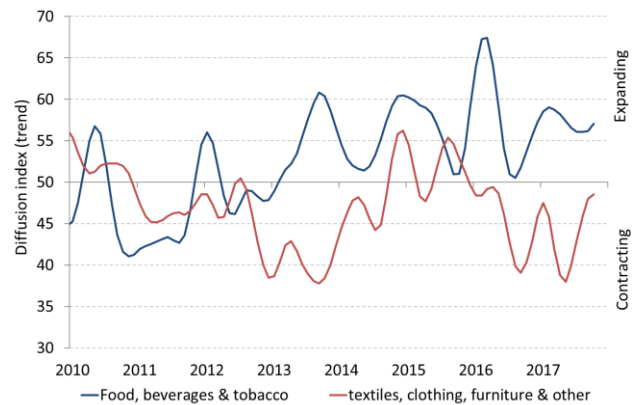
- The **non-metallic mineral products** sub-sector's index (mainly building materials) stayed at its record high of 72.2 points in October (highest monthly level since this sub-series commenced in 2009, trend). Local apartments and infrastructure projects are still boosting production and sales in October, but a drop in forward orders this month suggests production could soon begin to slow, in line with the a slower phased in the housing construction cycle.

METAL PRODUCTS*

- The large **metal products** sub-sector's index fell to 47.1 points in October, indicating a second month of contraction after a strong recovery earlier in 2017. This sub-sector's recent recovery is cooling, but it is still benefiting from construction and engineering activity, as well as mining, defence, utilities and agricultural projects. Energy costs remain an urgent concern for all manufacturers in this sub-sector.

MACHINERY & EQUIPMENT*

- The large **machinery and equipment** sub-sector's index slowed to 56.4 points in October, indicating a slower but relatively healthy rate of recovery. This recovery is occurring despite the loss of automotive assembly, which is included in this sub-sector. Non-automotive respondents from this sub-sector in the **Australian PMI®** noted increased demand for specialist equipment from food processing, agriculture, mining, transport, utilities and construction customers. Energy costs are their main concern at present.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	51.1	-3.1	55.6	Exports	48.7	-2.5	54.6
Production	48.4	-8.5	56.7	Sales	51.0	-0.4	55.2
New Orders	55.1	-0.8	58.9	Input Prices	66.2	0.4	65.6
Employment	53.2	0.8	53.3	Selling Prices	48.6	-0.7	51.7
Inventories	42.6	-9.1	50.7	Average Wages	59.0	-2.2	58.9
Supplier Deliveries	50.2	-0.3	53.7	Capacity Utilisation (%)	74.7	-2.9	76.2

* 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 indicates the strength of the expansion or decline. Survey results are based on a rotating sample of around 200 manufacturing companies each month. Seasonal adjustment and trend calculations follow standard statistical methodology. The current industry classifications commence from May 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.aiigroup.com.au/economics>. © The Australian Industry Group, 2015. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part to be reproduced by any process or means without the prior written permission of The Australian Industry Group. **Disclaimer:** The Australian Industry Group provides information services to its members and others, which include economic and industry policy and forecasting services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.