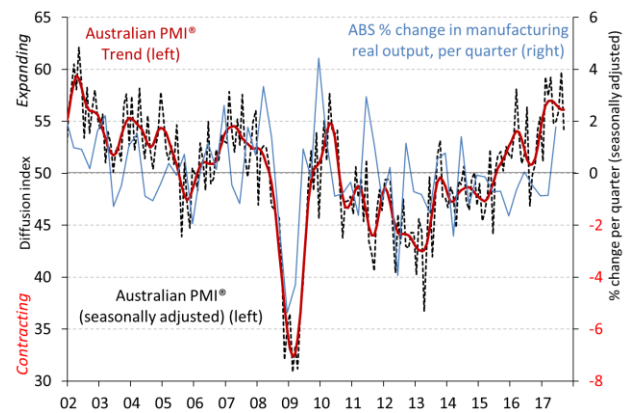


MANUFACTURING SOLDIERS ON THROUGH SEPTEMBER

Australian PMI® Aug 2017: 54.2 ↓	US Flash PMI Sep 2017: 53.0 ↑	Eurozone Flash PMI Sep 2017: 58.2 ↑	UK IHS PMI Aug 2017: 56.9 ↑	Japan Flash PMI Sep 2017: 52.6 ↑	China Caixin PMI Aug 2017: 51.6 ↑
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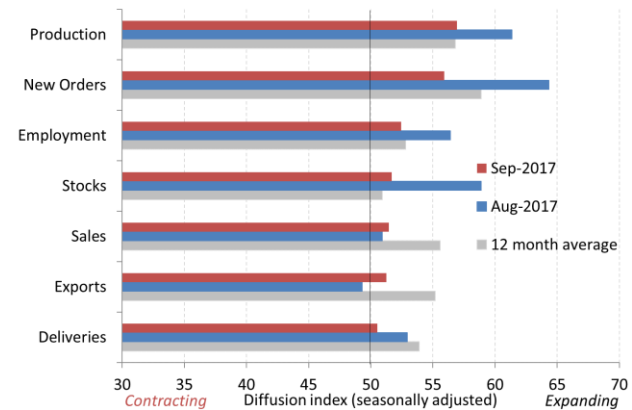
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) fell 5.6 points in September to 54.2 points (seasonally adjusted), indicating a deceleration in growth after August's spike to a recent high of 59.8 points. Results above 50 points indicate expansion with higher results indicating a stronger expansion.
- September marked a twelfth consecutive month of expansion for the **Australian PMI®** and the longest run of expansion since 2007 in the seasonally adjusted series. In trend terms, growth is continuing but looks to have decelerated through the September quarter.
- The **Australian PMI®** is currently leading the ABS manufacturing output data by about three months. The latest ABS estimate of manufacturing output volumes indicated growth of 1.8% q/q in the June quarter of 2017, the strongest quarter of growth since June 2011. The latest results from the **Australian PMI®** indicate another quarter of growth in ABS output volumes is likely in September 2017, but probably at a slower pace than in June.
- All seven activity sub-indexes in the **Australian PMI®** expanded or were stable in September (seasonally adjusted). Exports recovered (rising to 51.2 points) after a mild contraction in August (49.3 points). All others expanded but at slower rate than in August.
- All eight sub-sectors in the **Australian PMI®** expanded in September (trend). Non-metallic mineral products (75.5 points) hit a new record high, reflecting the strength of demand for building-related products. Other large sub-sectors grew at a decelerating pace this month.
- Positive sources of local demand for manufacturers in September included apartment and infrastructure construction; mining and agricultural equipment; renewables and utilities. A longer colder winter reportedly contributed to increased demand for heating equipment. Respondents also reported a rare spike in exports of construction-related products for emergency relief and reconstruction in the US following recent hurricane damage. Last orders are now under way for suppliers of components to Australian automotive assembly.



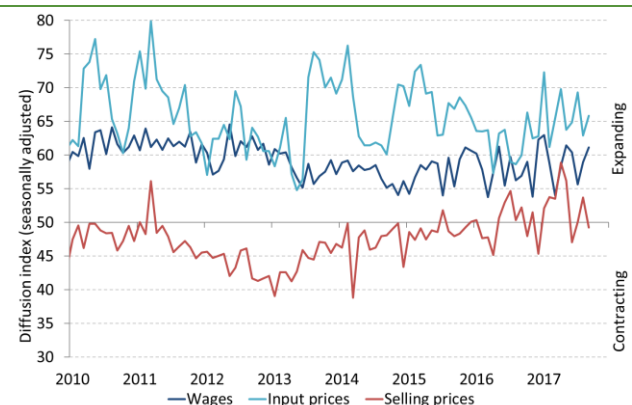
ACTIVITY SUB-INDEXES

- The production sub-index fell by 4.5 points to 56.9 points in September, coming down from last month's spike and indicating a slower pace of growth (seasonally adjusted). The production sub-index has indicated expansion in every month so far this year.
- The new orders sub-index dropped 8.4 points to 55.9 points in September, almost where it was in July. Ongoing (but slower) growth in new orders suggests further growth for parts of manufacturing through the rest of 2017.
- The sales sub-index ticked up to 51.4 points from 50.9 points in August, indicating modest growth in sales this month, after a stable month in August.
- The exports sub-index fell by 1.9 points to 51.2 points in September, indicating a quick recovery from last month's mild fall. This probably reflects movements in the dollar.
- The employment sub-index fell by a further 4.0 points to 52.4 points in September, indicating a slower rate of expansion. This is consistent with recent ABS estimates that show manufacturing employee numbers declining in the three months to August but more hours being worked across the industry (that is, fewer people were working more hours).
- The deliveries sub-index fell by 2.4 points to 50.5 points in September, signalling stability.
- The stocks sub-index (inventories) fell by 7.2 points to 51.7 points, indicating a very modest increase in inventories, after spiking much higher in August.
- Capacity utilisation rose to 77.6% of available capacity, its highest since May.



WAGES AND PRICES SUB-INDEXES

- The input prices sub-index rose to 65.8 points in September, close to its average over the past 12 months (65.6 points). Input price rises are continuing to cause problems for manufacturers, with margins being eroded by spiralling energy costs and rising raw materials prices for some key commodities.
- The wages sub-index rose by a further 2.2 points to 61.2 points in September. This is above the average over the past twelve months (58.9 points) for this sub-index.
- The manufacturing selling price sub-index fell by 4.4 points to 49.3 points in September, indicating stable pricing after some sporadic price rises in previous months of 2017, as selling prices lifted to match rising input costs and rising demand. Any gains in selling prices have remained relatively subdued however, so the pressure on manufacturers' margins continues. Mounting energy costs are further squeezing their profitability.

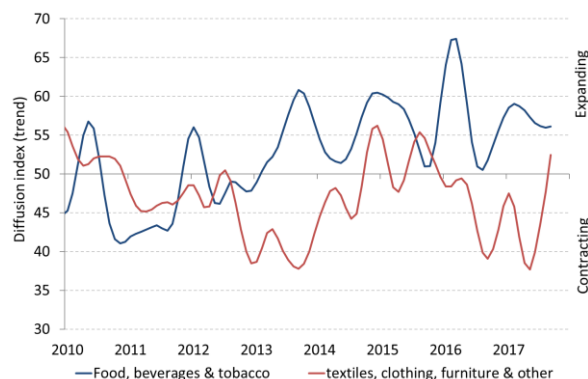


FOOD & BEVERAGES*

- The index for the largest manufacturing sub-sector, **food, beverages and tobacco**, rose marginally to 56.1 points in September (trend) continuing its long run of expansion. New orders and food exports kept expanding, albeit at a slower pace, while production and current sales picked up in September.

TEXTILES, CLOTHING, FURNITURE & OTHER*

- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector improved to 52.5 points in September, indicating a month of mild recovery after contracting in every month since November 2015 (trend). Bright spots are evident in furniture and related homewares manufacturing.

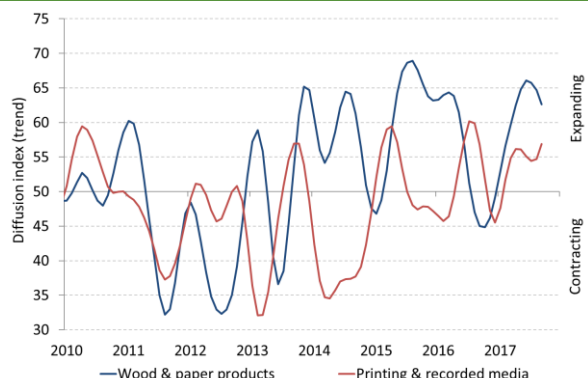


WOOD & PAPER*

The small **wood and paper products** sub-sector's index decreased to 62.2 points in September, after exceptionally 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. Production and sales were stronger this month, while forward orders moderated from relatively elevated levels.

PRINTING & RECORDED MEDIA*

- The recent recovery in the very small **printing and recorded media** sub-sector accelerated again in September, with its index rising to 56.9 points (trend). This was the strongest monthly result for this sub-sector since August 2016 (trend). Current production and sales were stronger in September, but forward orders and supplier deliveries were not, suggesting a slower period ahead.

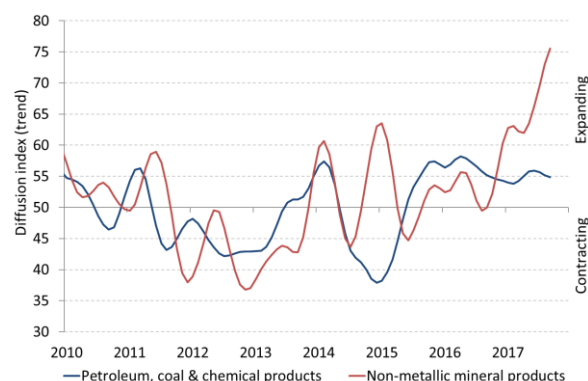


PETROLEUM, COAL & CHEMICALS*

- Growth in the large **petroleum, coal, chemicals and rubber products** sub-sector slowed a touch, with its index falling to 54.9 points in September (trend). 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. Exports and local construction activity are helping to drive growth in this sub-sector in the **Australian PMI**®.

NON-METALLIC MINERALS*

- The **non-metallic mineral products** sub-sector's index (mainly building materials) jumped a further 1.5 points to a record high of 75.5 points in September (highest monthly level since this sub-series commenced in 2009, trend). Local apartments and infrastructure projects are still boosting demand. Respondents from this sub-sector in the **Australian PMI**® also reported unexpected export orders to the US in September, as a result of emergency relief and reconstruction operations in the wake of recent hurricane damage. Businesses in this key sub-sector remain extremely concerned about high energy prices.

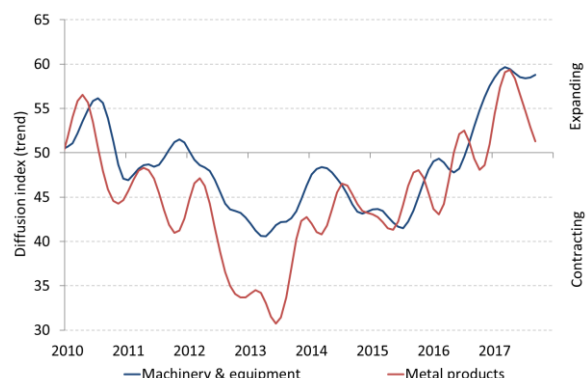


METAL PRODUCTS*

- The large **metal products** sub-sector's index fell to 51.3 points in September, its lowest monthly result this year. This sub-sector's recent recovery is cooling, but it is still benefiting from stronger demand from construction and engineering activity, as well as mining, utilities (renewables and water projects) and agricultural projects (grain silos and wine storage facilities). Energy costs are an urgent concern for all manufacturers in this sub-sector.

MACHINERY & EQUIPMENT*

- The large **machinery and equipment** sub-sector's index was largely unchanged at 58.8 points in September, indicating a relatively healthy rate of recovery. This recovery is occurring despite the loss of automotive assembly, with a handful of respondents in the auto supply chain reporting 'last orders' being processed in September. Closures for some suppliers are now very imminent. Other respondents from this sub-sector in the **Australian PMI**® noted increased demand for specialist equipment from food processing, agriculture, mining, transport, utilities and construction. 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 ®	54.2	-5.6	55.6	Exports	51.2	1.9	55.2
Production	56.9	-4.5	56.8	Sales	51.4	0.5	55.6
New Orders	55.9	-8.4	58.9	Input Prices	65.8	2.9	65.6
Employment	52.4	-4.0	52.8	Selling Prices	49.3	-4.4	51.6
Inventories	51.7	-7.2	50.9	Average Wages	61.2	2.2	58.9
Supplier Deliveries	50.5	-2.4	53.9	Capacity Utilisation (%)	77.6	0.6	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.aigroup.com.au/economics>.

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