

MANUFACTURING CONTINUES POSITIVE START TO 2018

Australian PMI®
 Feb 2018: 57.5 ↓

US Flash PMI
 Feb 2017: 55.9 ↑

Eurozone Flash PMI
 Feb 2018: 58.5 ↓

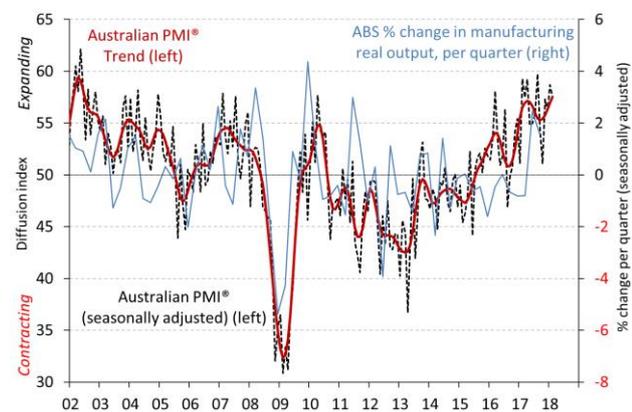
UK IHS PMI
 Jan 2017: 55.3 ↓

Japan Flash PMI
 Feb 2018: 54.0 ↓

China Caixin PMI
 Jan 2017: 51.5 -

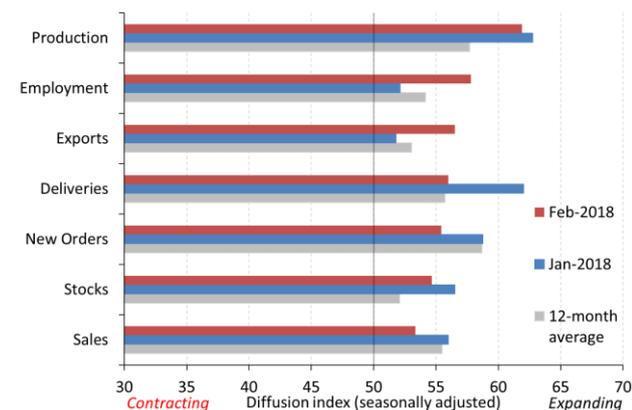
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) decreased by 1.2 points to 57.5 points in February, indicating further expansion in the month but at a slightly slower pace than in January (seasonally adjusted). Results above 50 points indicate expansion with higher results indicating a stronger expansion.
- February marked a seventeenth month of expanding or stable conditions for the **Australian PMI®** and the longest run of expansion since 2005. The **Australian PMI®** has been growing or stable in all but two months (Aug and Sep 2016) since July 2015.
- All seven activity sub-indexes in the **Australian PMI®** expanded in February. This marks a fourth consecutive month in which all seven activity sub-indexes have expanded. Five of the seven activity indexes slowed in February however, with only the employment and exports sub-indexes accelerating.
- Six of the eight sub-sectors in the **Australian PMI®** expanded in February and two contracted (trend). The larger manufacturing sub-sectors are continuing to see a sustained period of expansion and/or recovery, with six sub-sectors indicating expanding conditions since at least January 2017. Weaker conditions remain evident in the textile clothing & other; and the printing & recorded media sub-sectors.
- Input prices (68.5 points) and wages (56.8 points) continued to recede from the recent highs recorded in late 2017. Selling prices (50.6 points) were broadly stable in February.
- Labour and skill shortages are arising as issues for more manufacturers in 2018. Some participants in the **Australian PMI®** reported increased reliance on overtime to cover higher than usual activity over recent months. Many manufacturers are now looking to employ more staff but are finding it difficult to find skilled workers for their locations and/or specialisations. Manufacturers continue to report high energy costs eating into margins.



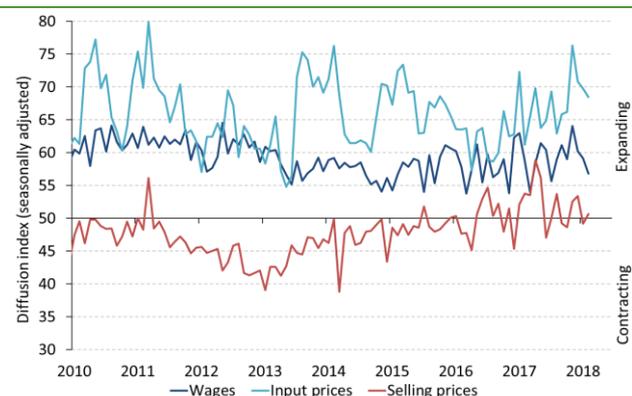
ACTIVITY SUB-INDEXES

- The production sub-index eased back by 0.8 points but remains buoyant at 61.9 points in February, well above the 12-month average of 57.7 points.
- The new orders sub-index fell by 3.4 points to 55.4 points in February. New orders were particularly strong in the non-metallic mineral products sub-sector (mainly building materials), indicating further expansion is likely for this sub-sector in 2018.
- Participants reported improved exports to the United States and Asia in February, which helped the exports sub-index jump 4.7 points higher to 56.5 points in February.
- The sales sub-index eased by 2.6 points to 53.4 points in February, reflecting slower but still-expanding growth in local sales.
- The employment sub-index jumped by 5.7 points to 57.8 points in February. After a sustained period of recovery and expansionary activity, some manufacturers are becoming confident enough to employ more staff.
- Supplier deliveries dropped by 6.0 points to 56.0 points in February, indicating a slower rate of supplies being ordered to meet forward production needs than in January.
- Stocks (inventories) continued to be rebuilt in February, but at a slower pace than in January with this sub-index falling by 1.8 points to 54.7 points.
- Capacity utilisation in February jumped back up to equal the record high recorded in December 2017 of 79.7% of available capacity. This suggests investment and employment might need to expand in some parts of manufacturing, in order to meet future demand



WAGES AND PRICES SUB-INDEXES

- The input prices sub-index continued to ease back from a six-year high of 76.4 points in November, falling by 1.2 point to 68.5 points in February. Although lower, the latest input price sub-index continues to indicate elevated pricing pressures across manufacturing. ABS data confirms the cumulative impact of energy price rises on manufacturers, with electricity input prices for manufacturers more than double the prices paid a decade ago.
- The wages sub-index fell by 2.3 points to 56.8 points in February, its lowest point since July 2017. This sub-index sat at around 60 points for the majority of 2017.
- The manufacturing selling price sub-index increased by 1.4 points to 50.6 points, indicating broadly stable selling prices being paid by manufacturers' customers in February, despite ongoing cost pressures from manufacturing inputs and especially energy inputs.

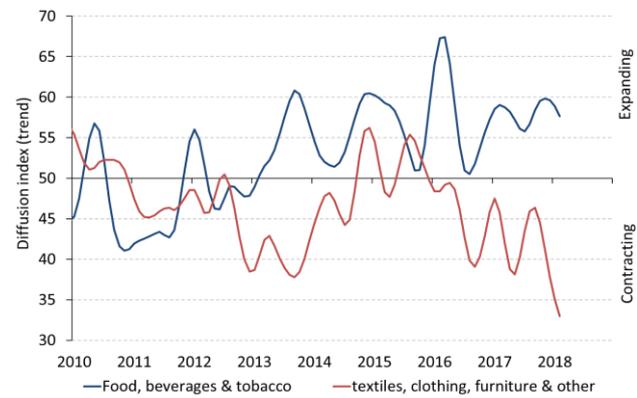


FOOD & BEVERAGES*

- The index for the largest manufacturing sub-sector, food and beverages, slowed by 1.2 points but remains firmly in expansion at 57.7 points in February (trend). Exports were especially strong in this sub-sector in February, although selling prices remain subdued with respondents noting weakening wholesale prices for food and beverages.

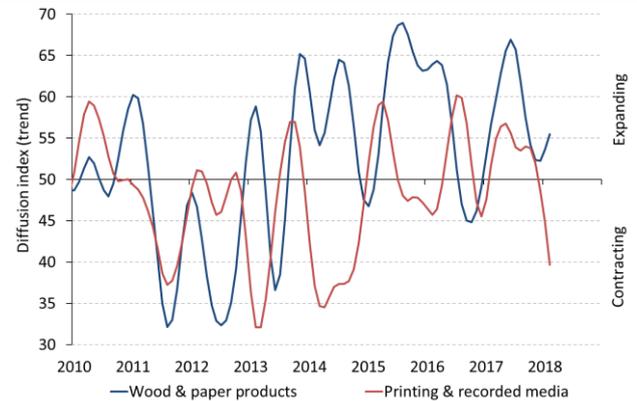
TEXTILES, CLOTHING, FURNITURE & OTHER*

- The small, diverse textiles, clothing, furniture and other manufacturing sub-sector recorded its lowest index level (33.0 points) since at least 2009 in February (trend). This sub-sector has contracted in every month since November 2015 at various rates (trend). Bright spots in furniture and related homewares manufacturing during 2017 appear to have faded, as the recent boom in residential construction comes off its peak. Textiles, clothing and related segments continue to face tough local and global trading conditions.



WOOD & PAPER*

- The small wood and paper products sub-sector expanded in February, accelerating by 1.9 points to 55.5 points. This sub-sector experienced a relatively strong recovery throughout 2017, benefiting from the growth in food processing which has generated related growth in the production of food packaging products.

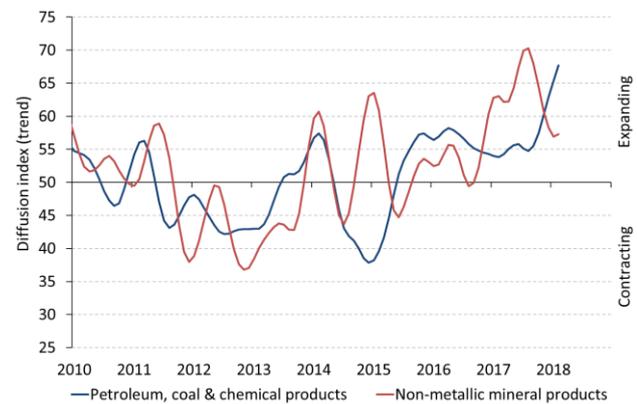


PRINTING & RECORDED MEDIA*

- The very small printing and recorded media sub-sector indicated contracting conditions in February, with its index falling by 5.3 points to 39.7 points. New orders and production remain subdued as 2017's growth in demand for printing services from the food, beverages and groceries sector now appears to be levelling off.

PETROLEUM, COAL & CHEMICALS*

- The large petroleum, coal, chemicals and rubber products sub-sector accelerated by 2.4 points to 67.7 points in February (trend). This sub-sector has been growing steadily since mid-2015, supporting the recent construction boom and now large infrastructure projects on the east coast. This extremely diverse sub-sector includes fertilisers, agricultural chemicals, pharmaceuticals, toiletries and health supplements, as well as construction-related products such as paints, adhesives and surface treatments.

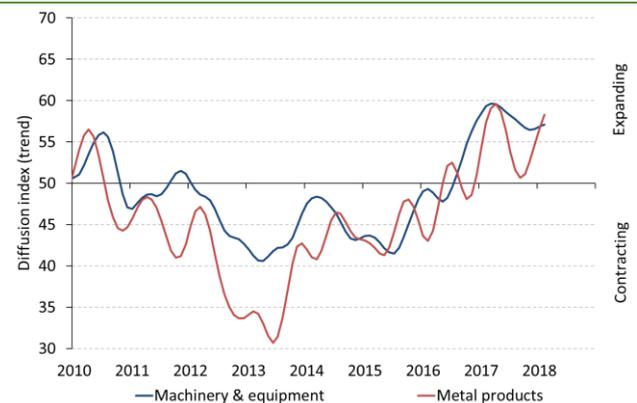


NON-METALLIC MINERALS*

- The non-metallic mineral products (mainly building-related products) sub-sector expanded in February, rising by 0.4 points to 57.3 points (trend). Participants noted an increase in sales over this traditionally slower time of year. This sub-sector has continued to recover and expand but at slower rates than the extremely high levels experienced in mid-2017. Growth for building-related products (e.g. concrete, bricks, glass, cement and tiles) from residential construction has slowed from recent peaks, although increases in forward orders from Government and other construction projects are filling some of the gaps.

METAL PRODUCTS*

- The large metal products sub-sector's index rose by 1.7 points to 58.3 points in February, following a recent slow patch and a strong recovery earlier in 2017 (trend). Finished stocks and deliveries were elevated in February as the sub-sector continues to benefit from engineering activity, mining and defence work. Input prices and wages remain elevated for this sub-sector. Energy costs remain a primary concern for this sub-sector in 2018.



MACHINERY & EQUIPMENT*

- The large machinery and equipment sub-sector's index rose by 0.2 points to 57.1 points in February after expanding throughout 2017. New orders remain buoyant in this sub-sector, particularly for transport equipment (trucks, buses, trains, trams and similar) and specialist industrial machinery (e.g. mining, agricultural and food processing machinery). Some respondents in this sub-sector noted an increase in export orders to the United States and Asia. Input costs remain problematic, as high energy costs continue to strain profit margins.

Seasonally adjusted	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
Australian PMI®	57.5	-1.2	56.4	Exports	56.5	4.7	53.1
Production	61.9	-0.8	57.7	Sales	53.4	-2.6	55.5
New Orders	55.4	-3.4	58.7	Input Prices	68.5	-1.2	67.8
Employment	57.8	5.7	54.2	Selling Prices	50.6	1.4	51.9
Inventories	54.7	-1.8	52.1	Average Wages	56.8	-2.3	59.1
Supplier Deliveries	56.0	-6.0	55.7	Capacity Utilisation (%)	79.7	3.7	77.4

* 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 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. Australian PMI® results are based on responses from a national sample of manufacturers that includes all states and all sub-sectors. The Australian PMI® uses the ANZSIC industry classifications for manufacturing sub-sectors and sub-sector weights derived from ABS industry output data. Seasonal adjustment and trend calculations follow ABS methodology. For further economic analysis and information from the Australian Industry Group, visit <http://www.aiigroup.com.au/policy-and-research/economics/economicindicators/>.

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