

MANUFACTURING SEES STRONG START TO 2018

Australian PMI®
Jan 2018: 58.7 ↑

US Flash PMI
Dec 2017: 55.5 ↑

Eurozone Flash PMI
Jan 2018: 59.6 ↓

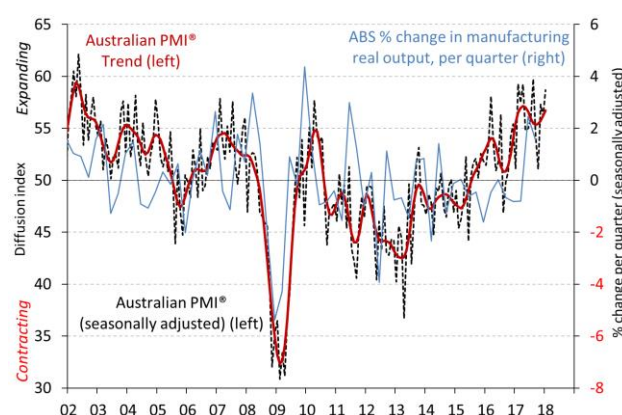
UK IHS PMI
Dec 2017: 56.3 ↓

Japan Flash PMI
Jan 2018: 54.4 ↑

China Caixin PMI
Dec 2017: 51.5 ↑

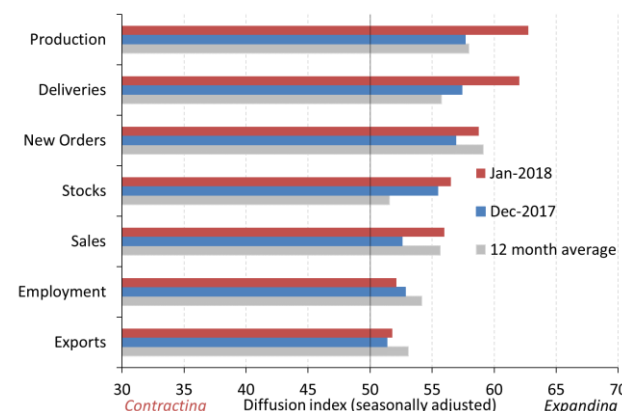
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) increased by 2.5 points to 58.7 points in January, indicating faster growth in January 2018 than at the end of 2017 (seasonally adjusted). Results above 50 points indicate expansion with higher results indicating a stronger expansion.
- January marked a sixteenth month of expanding or stable conditions for the **Australian PMI®** and the longest run of expansion since 2005. The **Australian PMI®** has now 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 January. This marks a third consecutive month in which all seven activity sub-indexes have expanded. Six of the seven activity indexes accelerated in January, with only the employment sub-index decelerating a touch.
- Five of the eight sub-sectors in the **Australian PMI®** expanded in January, one sub-sector was stable and two contracted (trend). Large differences in conditions are evident. The petroleum, coal and chemicals sub-sector's index rose to its highest monthly result since at least 2009 (67.9 points), while the textile, clothing & other sub-sector recorded its lowest monthly result since at least 2009 (33.5 points). Expansion accelerated in the food and beverages sub-sector and the metal products sub-sector.
- Input prices (69.7 points) and wages (59.1 points) continued to recede from recent highs in November. Selling prices (49.2 points) indicate mild price reductions in January. Manufacturers continue to report that higher energy costs are eating into their margins.
- Participants in the **Australian PMI®** noted increased activity for manufacturers who are supplying upcoming infrastructure projects and the mining industry. Some participants said they are losing export shares again due to strong international competition and possibly due to recent rises in the Australian dollar since late 2017.



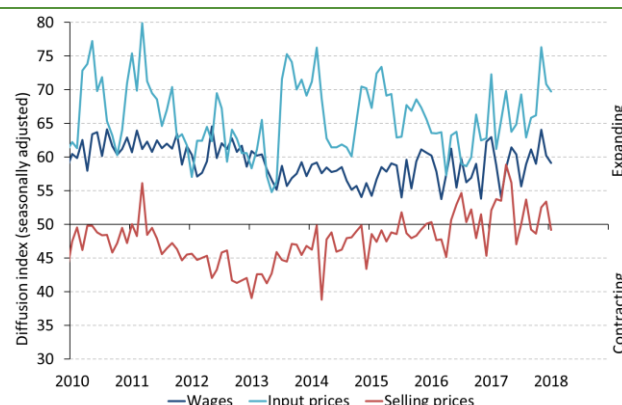
ACTIVITY SUB-INDEXES

- The production sub-index jumped 5.0 points to 62.7 points in January, the strongest pace of expansion for this sub-index since February 2017 (65.3 points).
- The new orders sub-index rose by 1.9 points to 58.8 points in January, indicating a faster pace of expansion. Ongoing growth in new orders suggests further expansion for parts of manufacturing is likely in 2018.
- The exports sub-index improved by just 0.4 points to 51.8 points in January. This is below the 12-month average for this sub-index (53.1 points) and probably reflects more sluggish growth in export orders in response to the rising Australian dollar.
- The sales sub-index increased by 3.4 points to 56.0 points in January, reflecting a pickup in local sales following the traditional Christmas shut-down period.
- The employment sub-index weakened by 0.8 points to 52.1 points in January. This indicated a slower but positive result, below the 12-month average of 54.2 points.
- Supplier deliveries accelerated by 4.6 points to 62.0 points in January, indicating increased supplies being ordered in to meet forward production needs for new-year orders.
- Stocks (inventories) continued to be rebuilt in January, with this sub-index expanding by 1.0 points to 56.5 points. This probably relates to stocks needed to cover forward orders.
- Capacity utilisation pulled back from a record high in December of 79.7% to 76.0% of available capacity in January.



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 1.1 point to 69.7 points in January. Although lower, the latest input price sub-index continues to indicate elevated pricing pressures across manufacturing. Manufacturers continue to report difficulties accommodating recently higher energy costs.
- The wages sub-index fell by 1.1 point to 59.1 points in January after recording a five-year high in November. This sub-index sat at around 60 points for the majority of 2017. It suggests a steady pick-up in wages, particularly in the metal products and machinery & equipment sub-sectors.
- The manufacturing selling price sub-index dropped 4.2 points to 49.2 points, indicating mild price reductions in January.

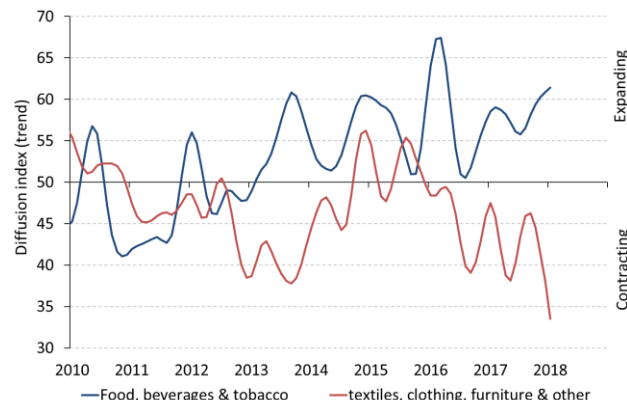


FOOD & BEVERAGES*

- The index for the largest manufacturing sub-sector, food and beverages, rose to 61.4 points in January (trend), its highest monthly result since April 2016. Production was especially strong in this sub-sector this month while selling prices remain subdued with respondents noting weakening wholesale prices.

TEXTILES, CLOTHING, FURNITURE & OTHER*

- The small, diverse textiles, clothing, furniture and other manufacturing sub-sector recorded its lowest index level (33.5 points) since at least 2009 in January (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.

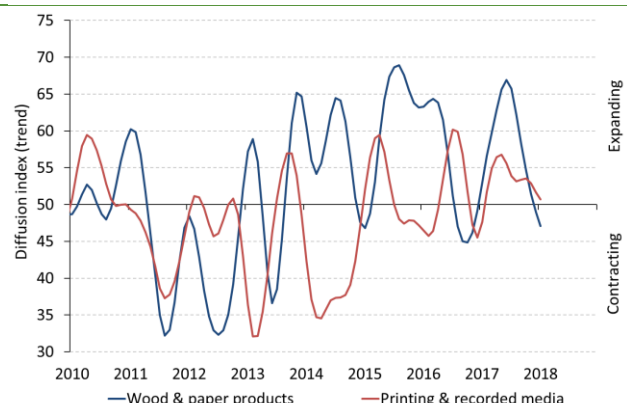


WOOD & PAPER*

- After a relatively strong recovery throughout 2017, the small wood and paper products sub-sector contracted in January, dropping by 1.9 points to 47.1 points in January, as orders from residential building customers begin to tail off. Production levels were low in this sub-sector while inventory levels appear to be rising.

PRINTING & RECORDED MEDIA*

- The very small printing and recorded media sub-sector decelerated to stable conditions in January, with its index falling by 1.0 point to 50.7 points. New orders and production remain subdued as the steady growth in demand for printing and packaging services from the food, beverages and groceries sector throughout 2017 appear to be levelling off.

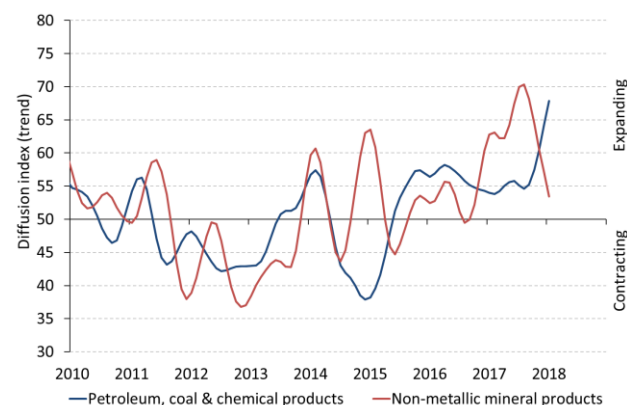


PETROLEUM, COAL & CHEMICALS*

- Growth in the large petroleum, coal, chemicals and rubber products sub-sector jumped 3.5 points to its highest index level (67.9 points) since at least 2009 in January (trend). This sub-sector has been growing steadily since mid-2015, with respondents noting an increase in new orders. 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 (mainly building-related products) sub-sector expanded in January, albeit at a slower pace. This sub-sector's index fell 3.6 points to 53.4 points in January to its lowest level since October 2016 after expanding throughout 2017 (trend). Demand for building-related products (e.g. glass, cement and tiles) from residential construction has slowed from recent peaks, although forward orders from Government and other construction projects are filling some of the gaps.

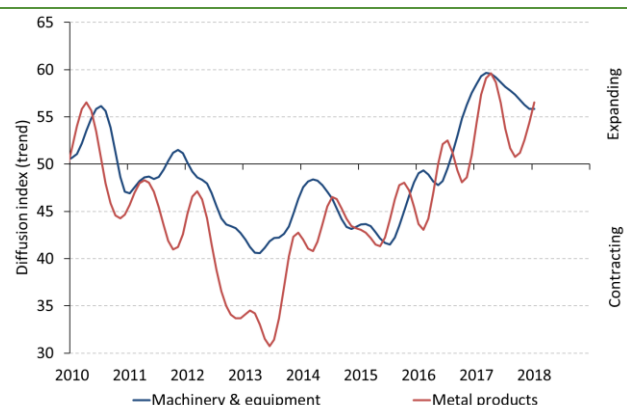


METAL PRODUCTS*

- The large metal products sub-sector's index improved to 56.5 points in January, following a recent slow patch and a strong recovery earlier in 2017 (trend). Buoyant deliveries and new orders indicate this 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 an urgent concern for this sub-sector in 2018.

MACHINERY & EQUIPMENT*

- The large machinery and equipment sub-sector's index held steady at 55.9 points in January after expanding throughout 2017. New orders and deliveries 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 noted difficulties finding skilled staff to fill production and warehousing roles. Energy costs remain an urgent issue for this sub-sector.



Seasonally adjusted	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
Australian PMI®	58.7	2.5	56.6	Exports	51.8	0.4	53.1
Production	62.7	5.0	58.0	Sales	56.0	3.4	55.6
New Orders	58.8	1.9	59.1	Input Prices	69.7	-1.1	67.2
Employment	52.1	-0.8	54.2	Selling Prices	49.2	-4.2	52.2
Inventories	56.5	1.0	51.6	Average Wages	59.1	-1.1	59.3
Supplier Deliveries	62.0	4.6	55.7	Capacity Utilisation (%)	76.0	-3.7	77.1

* 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.aigroup.com.au/policy-and-research/economics/economicindicators/>.**

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