

MANUFACTURING CORRECTION IN AUGUST

Australian PMI®
Aug 2016: **46.9** ↓

US Flash PMI
Aug 2016: **52.1** ↓

Eurozone Flash PMI
Aug 2016: **51.8** ↓

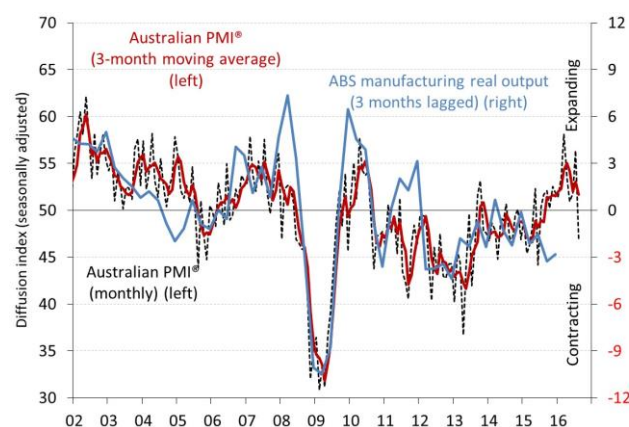
UK Flash PMI
Jul 2016: **48.2** ↓

Japan Flash PMI
Aug 2016: **49.6** ↑

China Caixin PMI
Jul 2016: **50.6** ↑

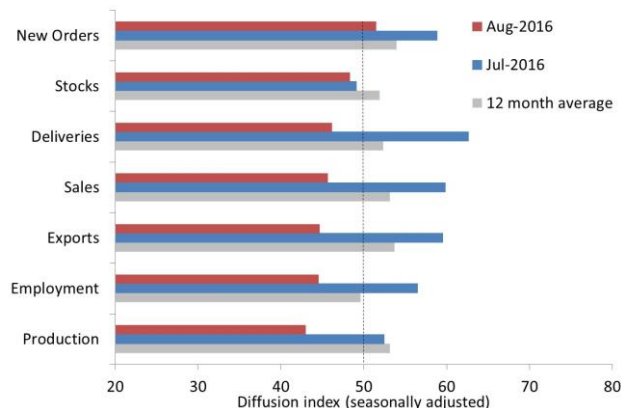
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) dropped by 9.5 points to 46.9 points in August (results above 50 indicate expansion, the distance from 50 points indicates the strength of expansion). While this marks an end to a thirteen-month expansion in the **Australian PMI®**, the strength in previous months is reflected in the three-month moving average remaining above 50 points (51.7).
- The softening in the **Australian PMI®** in August was heavily influenced by the food and beverages sub-sector. After several months of rising inventories, the sub-sector appears to be readjusting in the face of some over production. Also the textiles & clothing sub-sector suffered a slump in production and new orders which contributed to the overall contraction.
- Despite the overall contraction, five of the eight manufacturing sub-sectors in the **Australian PMI®** expanded in August (three month moving averages). The best expansion was in printing & recorded media (63.6 points), followed by metal products (55.9 points), petroleum, coal & chemical products (54.8 points), non-metallic mineral products (53.6 points) and wood & paper products (52.0 points). The food & beverages sub-sector slipped into contraction (48.7 points), while textiles & clothing (46.3 points) and machinery & equipment (48.2 points) remained in contraction for the month.
- Six of the seven manufacturing activity sub-indexes in the **Australian PMI®** contracted in August. Production (43.0 points), employment (44.6 points), inventories (48.3 points), deliveries (46.2 points), sales (45.7 points) and exports (44.7 points) all contracted during the month. Somewhat reassuringly, new orders continued to grow, albeit at a slower pace, (51.5 points). This suggests a correction to a mismatch between production and sales.
- Comments from manufacturers in August indicate patchy conditions, with lower ordering activity and exports for the month. Input prices continue to climb and some weakness in the mining and agricultural (dairy) industries are flowing through to manufacturers. Some manufacturers stated that reductions in government spending (Federal and State) has been dampening activity, while others noted a lingering lack of confidence (post-election) was keeping a lid on activity for them.



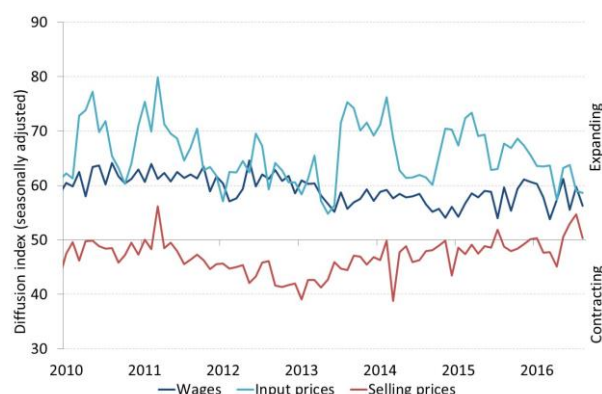
ACTIVITY SUB-INDEXES

- The production sub-index fell by 9.4 points in August to 43.0 points. This result was heavily influenced by reductions in the food & beverages and textiles & clothing sub-sectors.
- The new orders sub-index declined by 7.3 points but remained expansionary at 51.5 points. This indicates the possibility of better conditions ahead.
- The sales sub-index dropped to 45.7 points, flagging overall weaker demand in August.
- The exports sub-index fell 14.8 points in August to reach 44.7 points. This ends an eleven-month expansion and may reflect the relatively higher Australian dollar recently.
- After promising results in July, the employment sub-index declined to 44.6 points, moving into contractionary territory. This may indicate a reduction of staff by businesses.
- The sub-index for deliveries in the **Australian PMI®** fell to 46.2 points in August. This contraction in deliveries reinforces the weak conditions prevailing for some sub-sectors August (food & beverages and textiles & clothing).
- The stocks sub-index (inventory) contracted in August, declining to 48.3 points and indicating that businesses (particularly in food & beverages) are running down inventories.
- Capacity utilisation rates* declined to 71.7% in August (from 74.1%).



WAGES AND PRICES SUB-INDEXES

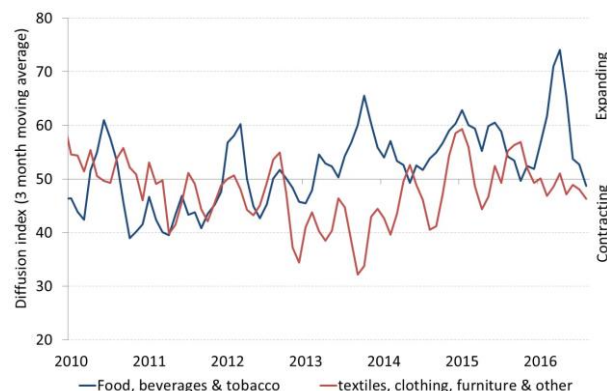
- The **Australian PMI®** input prices sub-index* edged 0.3 points lower in August to 58.7 points but remained relatively high, pointing to ongoing pricing pressures.
- The wages sub-index* of the **Australian PMI®** fell by 3.5 points but remained in expansionary territory, at 56.2 points in August.
- The manufacturing selling prices sub-index* of the **Australian PMI®** fell 4.4 points in August, reaching a stable 50.3 points. Selling prices had been trending higher but this looks to have reversed.



* From March 2016, the **Australian PMI®** sub-indexes for capacity utilisation, wages and selling prices are reported on a seasonally adjusted basis (previously unadjusted).

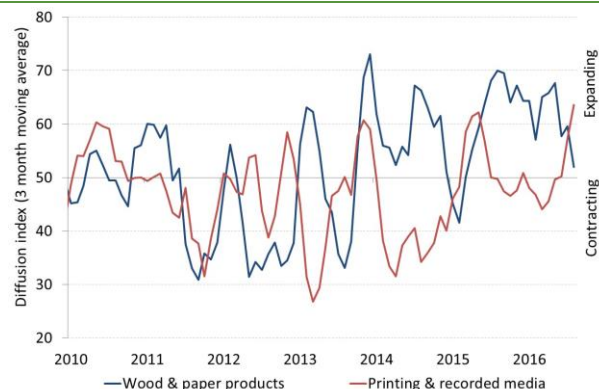
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The index for the largest manufacturing sub-sector, **food, beverages and tobacco**, declined by 4.0 points in August, to a contractionary 48.7 points. After especially strong growth earlier in 2016, growth in this sub-sector has cooled off. A build-up in inventories and stronger production in July have likely contributed to some overproduction in the sub-sector. Respondents in the **Australian PMI®** noted particularly weak production and deliveries, as well as a run-down in inventories, consistent with an environment of temporary oversupply. The contraction in this sub-sector should be viewed in a broader context, as new orders and sales remain expansionary, pointing to better conditions ahead.
- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector's index sunk further into contraction in August, falling by 1.8 points to 46.3 points. This sub-sector is struggling, with respondents in the **Australian PMI®** noting very weak production, employment, ordering and sales during the month. Respondents also noted some reductions in defence spending weighting on activity in August.



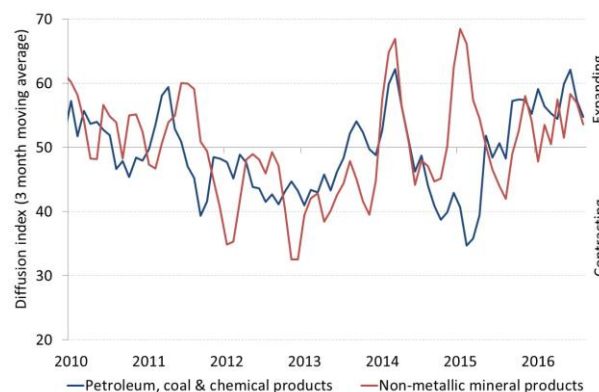
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products** sub-sector index came of a strong expansion in July, falling by 7.6 points but remaining in expansion at 52.0 points in August. Respondents in the **Australian PMI®** reported weaker production, ordering and exports during the month. This sub-sector is benefiting from continued elevated residential building activity (generating demand for wood products).
- The very small **printing and recorded media** sub-sector's index expanded again in August, increasing 6.4 points to a strong 63.6 points. Respondents in the **Australian PMI®** reported a lift in employment, production, new orders and deliveries in August. The sub-sector faces ongoing challenges however, with rapid technology change and intense import competition set to weight on future growth.



PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products** sub-sector's index eased by 2.5 points August, but remained in expansion at 54.8 points. This sub-sector has expanded for twelve months in a row now. This extremely diverse sub-sector includes current growth hot spots such as pharmaceuticals, toiletries and health supplements, as well as construction-related products such as paints, adhesives and surface treatments.
- The **non-metallic mineral products** sub-sector's index declined by 3.3 points to reach 53.6 points in August. This sub-sector produces building products such as tiles, bricks, cement and glass. Demand is mainly coming from residential builders rather than engineering construction or the local automotive supply chain (e.g. glass car parts). Respondents in the **Australian PMI®** noted weak new orders, sales and exports but stronger deliveries for the month.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products** sub-sector's index continued in its new found growth in August, increasing by 1.1 points to reach 55.9 points and marking three months of continuous expansion. However, pointing to more subdued conditions ahead, respondents in the **Australian PMI®** cited weaker new orders, sales and exports and a build-up in inventories in August.
- The large **machinery and equipment** sub-sector continued to contract in August, with the sub-sectors index largely unchanged at 48.2 points. Respondents from this sub-sector in the **Australian PMI®** reported weaker demand, some delay in large projects and weakness in the agricultural sector as reasons for the continued decline.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	46.9	-9.5	52.4	Exports	44.7	-14.8	53.7
Production	43.0	-9.4	53.2	Sales	45.7	-14.1	53.1
New Orders	51.5	-7.3	54.0	Input Prices	58.7	-0.3	63.4
Employment	44.6	-11.9	49.6	Selling Prices	50.3	-4.4	49.6
Inventories (stocks)	48.3	-0.8	51.9	Average Wages	56.2	-3.5	58.2
Supplier Deliveries	46.2	-16.4	52.3	Cap. Utilisation (%)	71.7	-2.4	73.6

* All sub-sector indexes in the **Australian PMI®** are reported as three-month moving averages (3mma), 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 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 August 2013. New industry classifications applied from December 2012 (and back-dated to 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>.

*For further information on international PMI data, visit <http://www.markiteconomics.com> or <http://www.cipsa.com.au>.

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