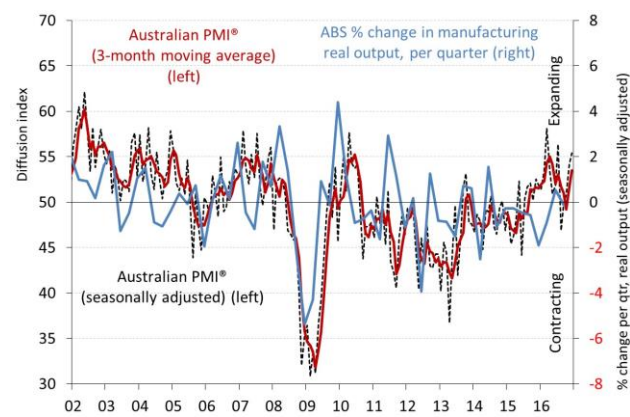


MANUFACTURING ENTERS NEW YEAR ON THE UP

Australian PMI® Dec 2016: 55.4 ↑	US Flash PMI Dec 2016: 54.2 ↑	Eurozone Flash PMI Dec 2016: 54.9 ↑	UK PMI Nov 2016: 53.4 ↓	Japan Flash PMI Dec 2016: 51.9 ↑	China Caixin PMI Nov 2016: 50.9 ↓
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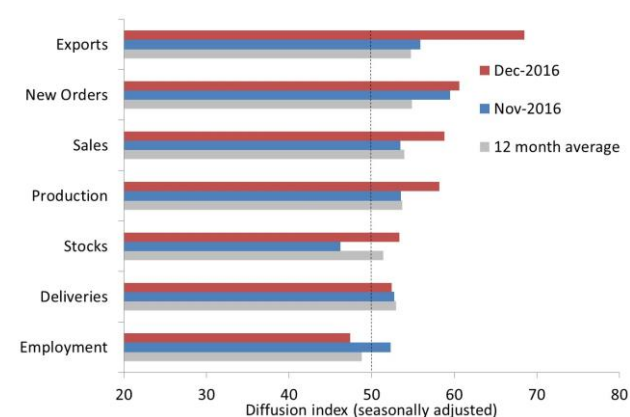
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) increased by 1.2 points to 55.4 points in December, finishing 2016 with a solid expansion (results above 50 indicate expansion, the distance from 50 points indicates the strength of expansion).
- Six of the seven activity sub-indexes in the **Australian PMI®** improved from November. Strong expansions in new orders (60.6 points) and sales (58.8 points) continued in December, while exports surged ahead (68.5 points), Production (58.2 points) also expanded more strongly while deliveries (52.4 points) continued to grow. Employment (47.4 points) slipped in December, in line with recently weaker jobs growth.
- Five of the eight sub-sectors in the **Australian PMI®** expanded in December (three month moving averages). Both food & beverages (57.1 points) and petroleum & chemical products (56.5 points) continue to perform strongly. Machinery & equipment (55.0 points) is showing signs of continued resilience. Non-metallic mineral products (57.9 points) bounced back to expansionary conditions while printing & recorded media (48.3 points) slipped from stable to mild contraction. Metal products (48.0 points) and textiles & clothing (44.3 points) remained contractionary, but at a weaker pace of contraction than previously.
- Comments from manufacturers in December indicate that demand (albeit somewhat mixed) appears to be improving again after a weak patch in the latter half of 2016. The recovery in commodity prices has led to better conditions for manufacturers exposed to the mining sector, with some revival of mining investment and maintenance spending. However, surging energy costs, weaker local demand and slower spending on particular major projects is depressing activity for some manufacturers.



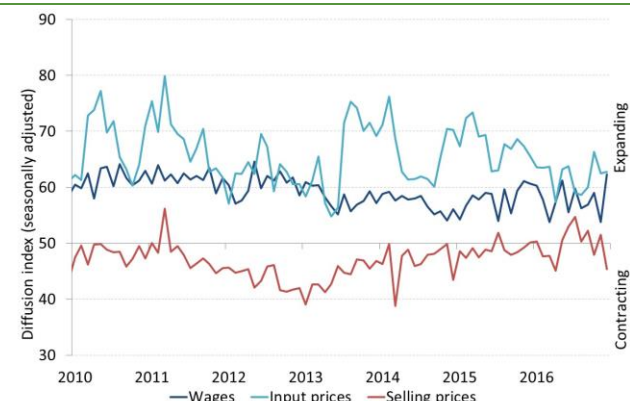
ACTIVITY SUB-INDEXES

- The production sub-index increased 4.7 points to a strong 58.2 points in December. This was the strongest monthly result for this key sub-index since March 2016.
- The new orders sub-index increased 1.1 points to a robust 60.6 points in December. This was also the strongest monthly result since March 2016 and points to a good start to 2017 for manufacturers.
- The sales sub-index jumped 5.3 points to 58.8 points in December. Together with stronger production and new orders, this suggests that local demand is strengthening.
- The exports sub-index surged 12.6 points higher in December to 68.5 points. Exports expanded solidly in 2016 in response to the lower Australian dollar. In recent months the Australian dollar has generally depreciated against its major trading partner currencies.
- The employment sub-index fell 4.9 points and returned to contractionary conditions at 47.4 points. This is consistent with weaker jobs growth more generally across the economy in late 2016 (up just 0.7% p.a. as of November, in the ABS labour force estimates).
- The deliveries sub-index fell by 0.3 points but remained expansionary at 52.4 points.
- The stocks sub-index (inventories) increased 7.2 points to 53.4 points in December, with a turnaround into inventory expansion after five months of declining inventories.
- Capacity utilisation* fell by 7.3% to 69.3% of total capacity being utilised in December.



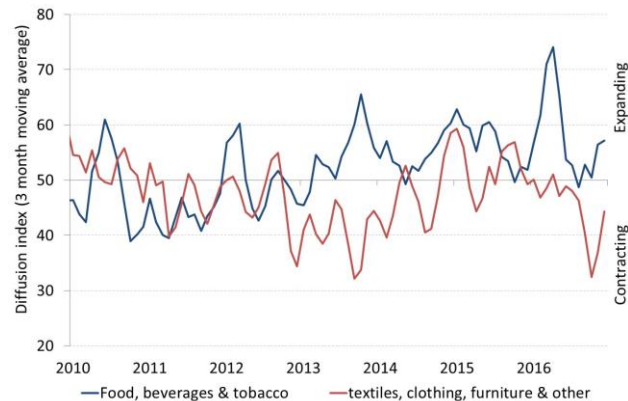
WAGES AND PRICES SUB-INDEXES

- The **Australian PMI®** input prices sub-index* inched 0.3 points higher in December to 62.8 points. It is likely that the depreciation in the Australian dollar (relative to a year or two ago), as well as surging energy prices are keeping input costs elevated.
- The wages sub-index* of the **Australian PMI®** increased by a significant 8.5 points to 62.3 points in December. This may herald a pickup in manufacturing wage growth early in 2017.
- The manufacturing selling prices sub-index* of the **Australian PMI®** fell 6.1 points in December to a contractionary 45.4 points. Together with increases in input costs and wages, this indicates manufacturers continue to face tightening margins heading into 2017.



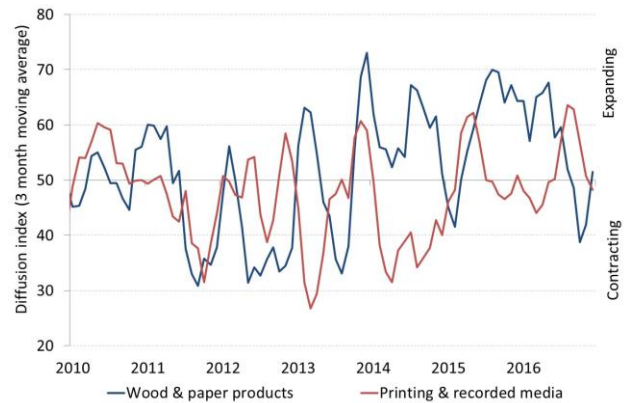
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The index for the largest manufacturing sub-sector, **food, beverages and tobacco**, increased by 0.6 points in December to 57.1 points, continuing the solid expansion in November. Respondents in the **Australian PMI®** noted particularly high new orders, production and exports in the month, foreshadowing another good year for this key sub-sector in 2017.
- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector remained in contraction in December, but the index recovered to less negative conditions, increasing 7.5 points to 44.3 points. This sub-sector has been contracting for eight months now. It appears that the sub-sector could be on track for recovery, with respondents in the **Australian PMI®** citing particularly strong ordering, sales, deliveries and exports during the month. Respondents noted local trading conditions continue to be heavily influenced by the Australian dollar and the relative strength of imported competition.



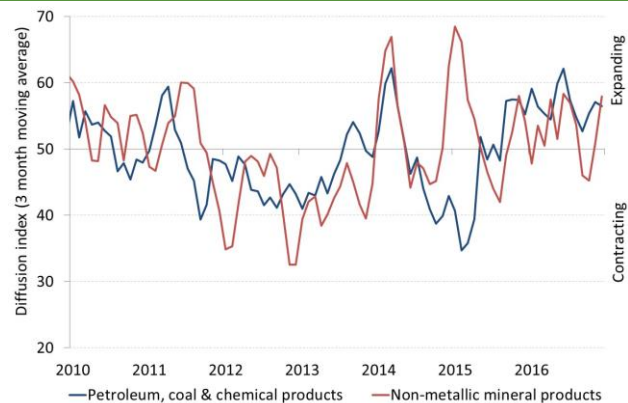
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The small **wood and paper products** sub-sector's index jumped by 9.6 points in December, lifting out of contraction to a mildly expansionary 51.5 points. Respondents in the **Australian PMI®** from this sub-sector cited strong new orders, sales and exports as key reasons for the turnaround. Wet weather conditions may have also affected recent activity. Paper products within this sub-sector includes food packaging, so parts of this sub-sector is benefitting from stronger food processing. This sub-sector has also benefitted from elevated residential building activity (generating demand for wood-based building products) through much of 2015 and 2016, but this boost finally appears to be waning, so the sub-sector's near term growth may be more subdued.
- The very small **printing and recorded media** sub-sector slipped into contraction in December, decreasing by 2.5 points to a 48.3 points. The sub-sector faces headwinds from rapid technology change and intense import competition, both of which are weighing on long-term growth. Respondents in the **Australian PMI®** noted contractions in production and employment in December.



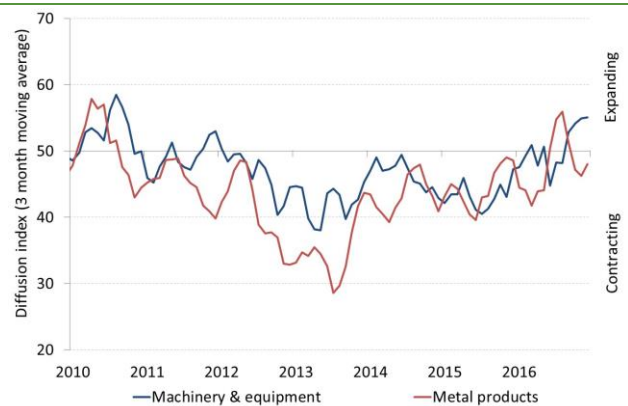
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products** sub-sector's index eased by 0.6 points but continued expanding solidly at 56.5 points in December. This sub-sector has now expanded for sixteen months in a row. Conditions remain upbeat for the sub-sector, with respondents in the **Australian PMI®** noting strong new ordering, sales, exports and production in December. This extremely diverse sub-sector includes 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 built on stable conditions in November with strong growth in December, jumping 7.1 points to reach 57.9 points. Respondents in the **Australian PMI®** noted stronger new orders, sales and production in December. This sub-sector produces building products such as tiles, bricks, cement and glass. Demand has been mainly coming from residential builders rather than engineering construction, so lower demand from the residential building sector may keep a lid on near term growth.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products** sub-sector's index improved 1.8 points in December but it remains in contraction at 48.0 points. Respondents in the **Australian PMI®** cited weak demand, softer economic conditions, higher input costs as well as a lack of large new engineering projects as factors weighing in activity.
- The large **machinery and equipment** sub-sector maintained its expansion for a fourth month, inching 0.1 points higher to 55.0 points in December and consolidating the recovery for this sub-sector. Respondents in the **Australian PMI®** noted stronger production, and deliveries in December. This recovery is occurring despite the ongoing contraction in automotive assembly. The sub-sector is also exposed to the mining industry and has struggled with the recent plunge in capital spending in mining, however respondents have noted that some capital spending, upgrading and maintenance is being revived by the miners alongside the recovery in commodity prices.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	55.4	+1.2	52.7	Exports	68.5	+12.6	54.7
Production	58.2	+4.7	53.7	Sales	58.8	+5.3	53.9
New Orders	60.6	+1.1	54.9	Input Prices	62.8	+0.3	62.0
Employment	47.4	-4.9	48.8	Selling Prices	45.4	-6.1	49.7
Inventories (stocks)	53.4	+7.2	51.4	Average Wages	62.3	+8.5	57.8
Supplier Deliveries	52.4	-0.3	53.0	Cap. Utilisation (%)	69.3	-7.3	73.8

* 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 December 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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