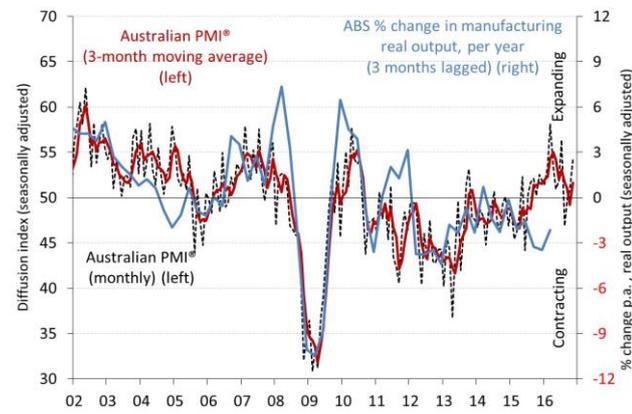


MANUFACTURING GAINS MOMENTUM IN NOVEMBER

Australian PMI® Nov 2016: 54.2 ↑	US Flash PMI Nov 2016: 53.9 ↑	Eurozone Flash PMI Nov 2016: 53.7 ↑	UK PMI Oct 2016: 54.3 ↓	Japan Flash PMI Nov 2016: 51.1 ↓	China Caixin PMI Sep 2016: 51.2 ↑
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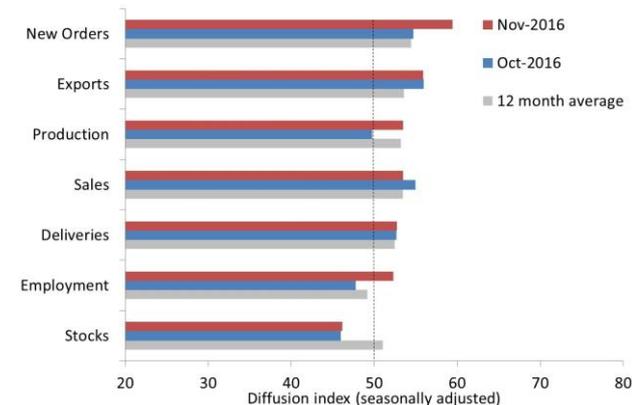
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) increased by 3.3 points to 54.2 points in November, indicating a more convincing expansion after more stable conditions recently (results above 50 indicate expansion, the distance from 50 points indicates the strength of expansion).
- The expansionary conditions were broad-based, with six of the seven sub-indexes in the **Australian PMI®** indicating expansion in November. The strong lift in new orders (59.5 points) together with solid growth in sales (53.5 points) is promising. Exports (55.9 points) continue to provide a source of growth for manufacturers. Deliveries (52.7 points) continued to expand, while production (53.5 points) and employment (52.3 points) returned to growth. The only activity index to contract in November was inventories (46.2 points). The November result points to gathering momentum for the sector.
- Three of the eight sub-sectors in the **Australian PMI®** expanded in November (three month moving averages), two were stable and three sub-sectors contracted. Food & beverages (56.5 points) and petroleum & chemical products (57.1 points) continue to outperform the other sub-sectors. Encouragingly, machinery & equipment (54.9 points) posted a third straight month of growth, while printing & recorded media (50.8 points) cooled to more stable conditions and non-metallic mineral products (50.8 points) lifted out of contraction to stable conditions in the month. Metal products (46.2 points), wood & paper products (41.9) and textiles & clothing (36.8 points) remained in the doldrums in the month.
- Comments from manufacturers in November indicate a general pickup in demand and confidence, while the relatively lower dollar and increased exports continue to provide momentum to many manufacturers. Weather conditions appear to be impacting manufactures, both directly and through increased raw material prices. Also, some concerns of a slowing economy and a volatile exchange rate are weighting on activity while sourcing affordable, skilled labour and rising input costs (inducing energy prices) are presenting problems for other manufacturers.



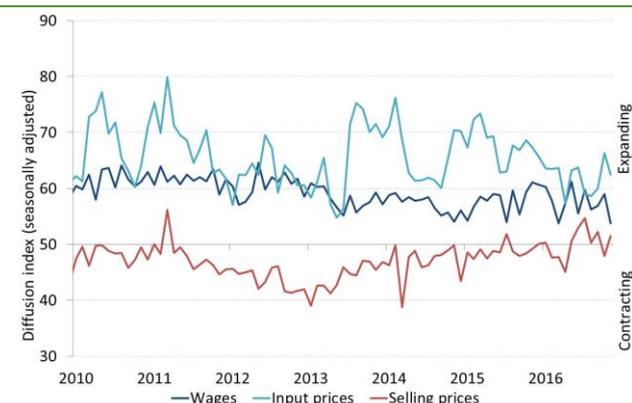
ACTIVITY SUB-INDEXES

- The production sub-index lifted 3.8 points to an expansionary 53.5 points in November. Production has been solid over the past year (averaging 53.2 points). This is also evident in recent ABS data, with real manufacturing output recovering by 1.0% in the June quarter.
- The new orders sub-index increased 4.8 points to a strong 59.5 points in November, indicating continuing momentum for manufacturers in the near term.
- The sales sub-index eased by 1.5 points but kept expanding at 53.5 points. This aligns with comments from manufacturers that demand appears to be picking up.
- Exports have expanded solidly recently and have averaged a strong 59.5 points over the past year. Exports continue to be an important growth driver for manufacturers.
- The employment sub-index climbed by 4.6 points and returned to expansion at 52.3 points.
- The sub-index for deliveries was unchanged at 52.7 points in November indicating further expansion.
- The stocks sub-index (inventories) inched 0.3 points higher to 46.2 points in November indicating a further drop in inventories.
- Capacity utilisation* improved by 1.9% to 76.6% in November, the highest since April 2011.



WAGES AND PRICES SUB-INDEXES

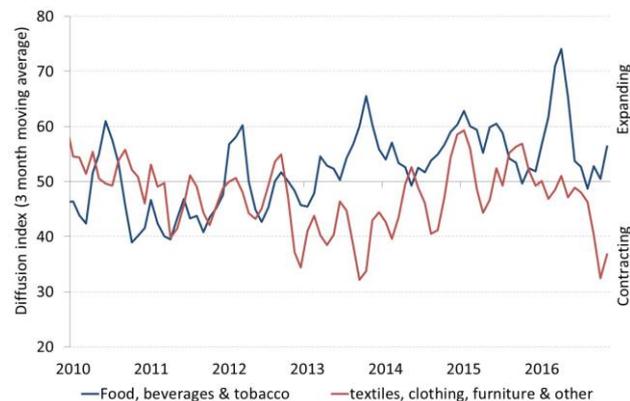
- The **Australian PMI®** input prices sub-index* eased by 3.8 points in November but remains elevated at 62.5 points. Increases in energy prices are an important factor in this outcome.
- The wages sub-index* of the **Australian PMI®** fell by 5.2 points to 53.8 points in November and suggests a continuation of the weak wages growth indicated by the ABS wages data for the September quarter.
- The manufacturing selling prices sub-index* of the **Australian PMI®** moved back into expansion in November, lifting 3.6 points to 51.5 points and indicating mild increases in selling prices.
- Comments from manufacturers point to difficulties in passing on full input cost increases. The RBA recently noted that such perceptions of lower pricing power by businesses are becoming more widespread.



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

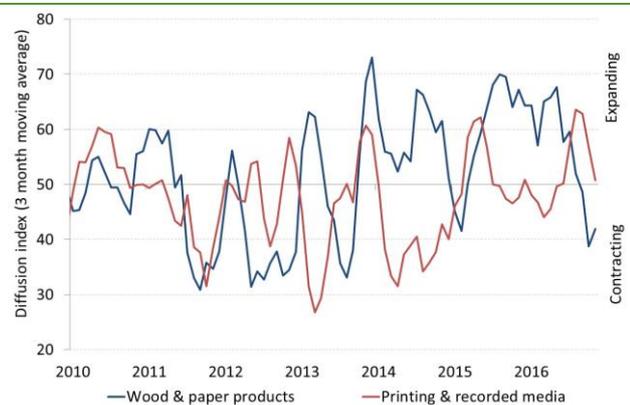
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The index for the largest manufacturing sub-sector, **food, beverages and tobacco**, surged 6.1 points higher in November to 56.5 points, lifting the sub-sector from stable to solid expansion. Positive indicators were broad based and respondents in the **Australian PMI®** noted particularly high new orders and exports in the month. Some respondents also noted difficulty in passing on rising input costs (particularly raw material cost increases due to weather).
- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector's index recovered a little in November, climbing 4.3 points to 36.8 points, with conditions slightly less native. This sub-sector has been contracting for seven months. Conditions may be turning around however, with respondents in the **Australian PMI®** citing stronger ordering and exports during the month. Respondents noted conditions were very much tied to the Australian dollar.



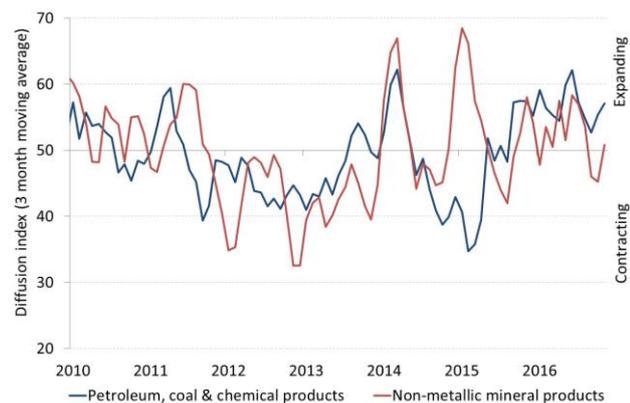
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products** sub-sector's index increased by 3.1 points, with conditions less negative at 41.9 points. Performance may improve further, with respondents in the **Australian PMI®** from this sub-sector citing stronger new orders. The sub-sector had benefitting 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 and the sub-sectors near term growth may be more subdued.
- The very small **printing and recorded media** sub-sector's index slowed in November, decreasing by 6.0 points to a stable 50.8 points. This sub-sector has come off strong growth in recent months. The sub-sector faces headwinds from rapid technology change and intense import competition, both of which are weighing on long-term growth.



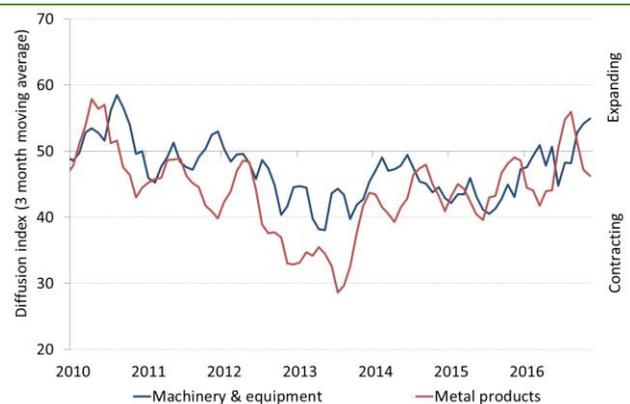
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products** sub-sector's index increased by 1.7 points to stronger growth at 57.1 points in November. This sub-sector has now expanded for fifteen months in a row. Very positively, respondents in this sub-sector noted stronger production, new orders and sales during the month. 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's index climbed out of contraction and stabilised in November, increasing 5.5 points to 50.8 points. Respondents in the **Australian PMI®** cited a broad based improvement, with stronger production, new orders, deliveries, sales and exports. 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 fell deeper into contraction in November, declining by 1.0 point to 46.2 points. Respondents in the **Australian PMI®** cited increasing overseas competition, weaker global demand and high input costs (including energy prices) as key reasons for the decline.
- The large **machinery and equipment** sub-sector posted a third month of expansion, increasing by 0.8 points to 54.9 points in November, signalling an ongoing recovery for the recently embattled sub-sector. Encouragingly, respondents in the **Australian PMI®** noted stronger production, new orders and sales as key growth drivers, suggesting the recovery may be durable in the short term. This recovery is occurring despite the ongoing contraction in automotive assembly, which is in the process of exiting from Australia and is included in 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®	54.2	+3.3	52.4	Exports	55.9	-0.1	53.6
Production	53.5	+3.8	53.2	Sales	53.5	-1.5	53.4
New Orders	59.5	+4.8	54.4	Input Prices	62.5	-3.8	62.3
Employment	52.3	+4.6	49.2	Selling Prices	51.5	+3.6	50.1
Inventories (stocks)	46.2	+0.3	51.0	Average Wages	53.8	-5.2	57.7
Supplier Deliveries	52.7	+0.0	52.4	Cap. Utilisation (%)	76.6	+1.9	74.1

* 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 November 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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