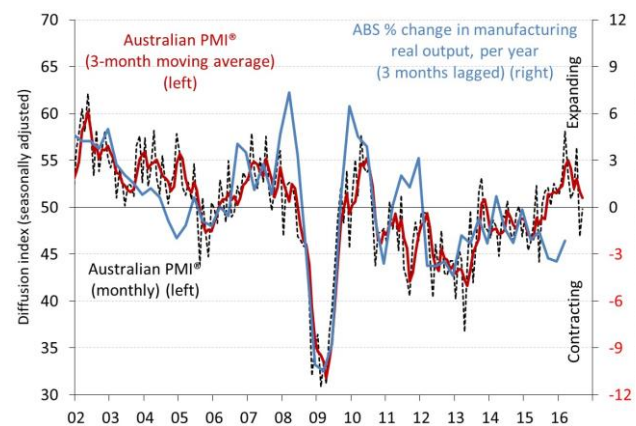


MANUFACTURING STABILISES IN SEPTEMBER

Australian PMI® Sep 2016: 49.8↑	US Flash PMI Sep 2016: 51.4↓	Eurozone Flash PMI Sep 2016: 52.6↑	UK PMI Aug 2016: 53.3↑	Japan Flash PMI Sep 2016: 50.3↑	China Caixin PMI Aug 2016: 50.0↓
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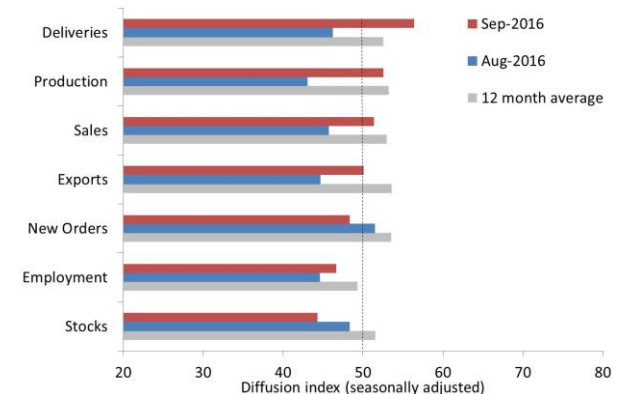
KEY FINDINGS

- After a sharp drop in August, the Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) increased by 2.9 points to a broadly stable 49.8 points in September (results below 50 indicate contraction, the distance from 50 points indicates the strength of contraction).
- The stabilisation in the **Australian PMI®** in September was heavily influenced by activity in the food & beverages sub-sector which recovered after contracting in August. This key sector (now contributing around 28% of all manufacturing output) appears to have addressed the factors that drove a contraction in production and sales in August.
- Three of the seven activity sub-indexes in the **Australian PMI®** expanded in September after contracting in August. Production (52.6 points), deliveries (56.4 points) and sales (51.4 points) expanded and exports stabilised (50.0 points). Employment (46.7 points) and stocks (44.3 points) contracted again. New orders slipped into contraction (48.3 points).
- Five of the eight manufacturing sub-sectors in the **Australian PMI®** expanded in September (three month moving averages), including printing & recorded media (62.8 points), petroleum & chemical products (52.7 points), metal products (51.3 points), food & beverages (52.8 points) and machinery & equipment (52.8 points).
- Comments from manufacturers in September indicate a steady improvement in demand and exports in some sectors after last month's dip. Variability in the exchange rate and persisting oversupply in some markets is curbing activity. Margin pressures appear to be intensifying due to ongoing high input costs (particularly for imported inputs and energy). Lower government orders, the sharp fall-off in mining construction work and the completion of major infrastructure projects (with no imminent replacement projects in the pipeline) and wet weather in some locations has also dampened activity.



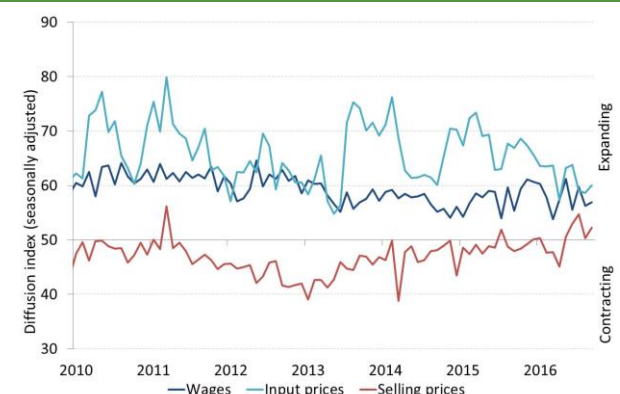
ACTIVITY SUB-INDEXES

- The production sub-index bounced up by 9.6 points in September, returning to expansion at 52.6 points. With the exception of August, all months in the past year showed expansion. This recovery in production in 2016 is evident in the ABS production data also, which show that real manufacturing value added output recovered by 1.0% in the June quarter of 2016.
- The new orders sub-index declined by 3.2 points and slipped into contraction at 48.3 points. This suggests tougher conditions ahead for manufacturers in some sub-sectors.
- The sales sub-index climbed 5.7 points, returning to expansion at 51.4 points. This was reflected in manufacturers' comments about a recovery in local demand during the month.
- The exports sub-index stabilised in September, gaining 5.3 points to reach 50.0 points. Exports were generally steady across all sub-sectors, while the large food & beverages sub-sector reported a strong recovery in exports in September.
- The employment sub-index increased by 2.1 points but stayed in contraction at 46.7 points. The latest ABS employment data indicate total manufacturing employment recovered by 10,000 in the year to August, after losing around 200,000 jobs over the previous 7 years.
- The sub-index for deliveries in the **Australian PMI®** rebounded in September, increasing by a strong 10.2 points to 56.4 points and returning the sub-index to expansionary territory.
- The stocks sub-index (inventories) remained in contraction in September, falling 4.0 points to 44.3 points, indicating a continued running down of inventories by manufacturers.
- Capacity utilisation* recovered to 74.4% in September, above the series average of 72.2%.



WAGES AND PRICES SUB-INDEXES

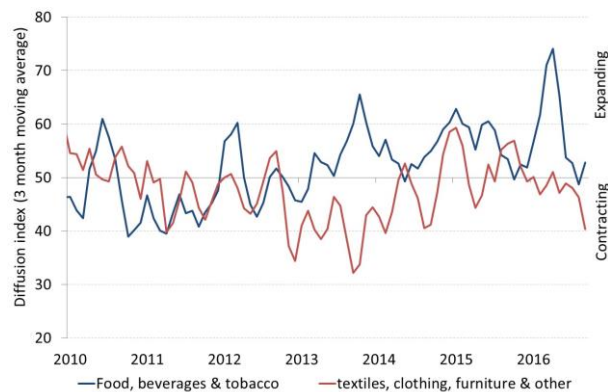
- The **Australian PMI®** input prices sub-index* increased by 1.3 points in September to 60.0 points, intensifying input pricing pressures again. This appears to reflect the depreciation in the Australian dollar (relative to a year or two ago), which is elevating prices for imported inputs. Some manufacturers also indicated cost pressures from higher energy prices.
- The wages sub-index* of the **Australian PMI®** inched 0.7 points higher to 56.9 points in September, adding further cost pressures to manufacturers.
- The manufacturing selling prices sub-index* of the **Australian PMI®** increased by 2.0 points in September to 52.3 points, indicating manufacturers were able to increase their selling prices and pass on some of the input and wage cost increases seen in the month.



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

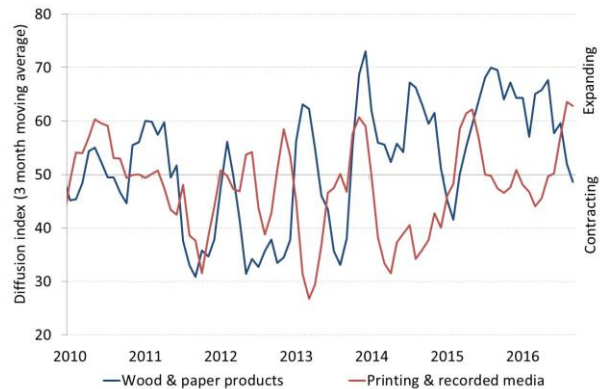
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The index for the largest manufacturing sub-sector, **food, beverages and tobacco**, recovered in September, increasing by 4.1 points to 52.8 points and reversing the temporary contraction seen in August. The August contraction may have been due to a build-up in inventories after some previous overproduction in the sub-sector. This situation looks to have improved in September, with respondents in the **Australian PMI®** noting expansions in all key activity sub-indices except inventories. Production, deliveries and exports all look to have expanded strongly during September.
- The small, diverse **textiles, clothing, furniture and other manufacturing** sub-sector's index fell further behind in September, declining by 5.9 points to 40.4 points. This sub-sector has been contracting for five months now. Respondents in the **Australian PMI®** noted weak local demand and generally weak conditions across all sub-indices.



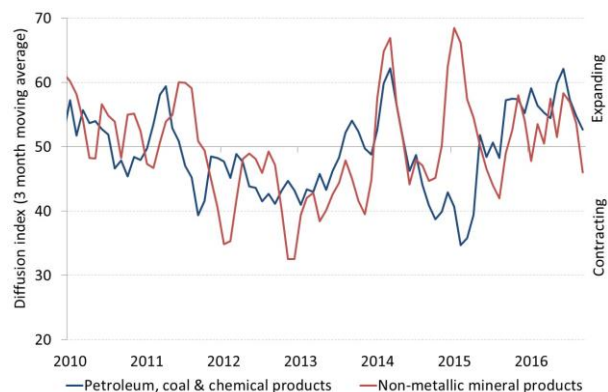
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products** sub-sector index declined 3.4 points and fell into contraction at 48.6 points. This ended an eighteen-month run of expansion for the sub-sector. Respondents in the **Australian PMI®** reported weaker demand, with especially weak new orders and sales. While the sub-sector has benefitted from elevated residential building activity (generating demand for wood products), this boost appears to be waning. The fall in new orders means conditions look less promising for this sub-sector in the months ahead.
- The very small **printing and recorded media** sub-sector's index inched lower in September, decreasing by 0.8 points but remaining strong at 62.8 points. Respondents in the **Australian PMI®** reported a lift in employment, sales and deliveries in September. The sub-sector faces ongoing challenges however, with rapid technology change and intense import competition weighing on long-term growth. Weaker new orders may weigh on sales and production for this sub-sector in coming months.



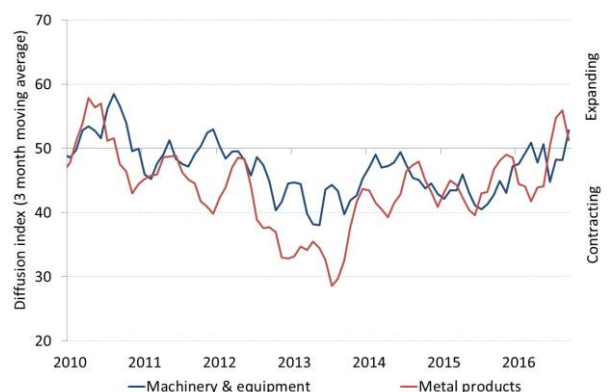
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products** sub-sector's index eased again in September, declining by 2.1 points but remaining in expansion at 52.7 points. This sub-sector has now expanded for thirteen months in a row. Respondents in this sub-sector in the **Australian PMI®** noted stronger sales, production, new orders, deliveries and exports. The sub-sector looks to be in good shape and set to grow further in the months ahead. 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 fell into contraction in September, declining by 7.6 points to 46.0 points. This was the first month of contraction for this sub-sector since January 2016. Respondents in the **Australian PMI®** noted weaker new orders and employment for the month. 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 this month's decline in new orders may reflect a turning point in the current residential building cycle.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products** sub-sector's index continued to indicate expansion in September, marking four months of continuous expansion. Although the index fell by 4.6 points it maintained a mildly expansionary level of 51.3 points. Respondents in the **Australian PMI®** cited generally good conditions, although slower new orders and patchy demand dampened activity in September.
- The large **machinery and equipment** sub-sector moved out of contraction in September, increasing by 4.6 points to 52.8 points. The sub-sector has been struggling to break into a sustained period of expansion. For September, respondents from this sub-sector in the **Australian PMI®** reported healthy levels of sales, production, new orders and deliveries.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	49.8	+2.9	52.2	Exports	50.0	+5.3	53.6
Production	52.6	+9.6	53.2	Sales	51.4	+5.7	53.0
New Orders	48.3	-3.2	53.5	Input Prices	60.0	+1.3	62.9
Employment	46.7	+2.1	49.3	Selling Prices	52.3	+2.0	50.0
Inventories (stocks)	44.3	-4.0	51.5	Average Wages	56.9	+0.7	58.3
Supplier Deliveries	56.4	+10.2	52.5	Cap. Utilisation (%)	74.4	+2.7	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 September 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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