AUSTRALIAN

pmi

PERFORMANCE OF MANUFACTURING INDEX®

Ai GROUP

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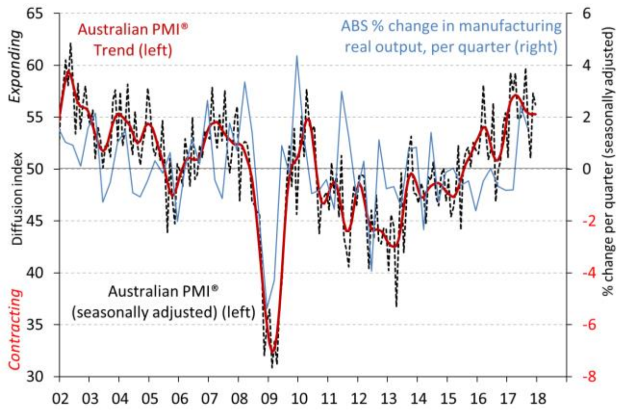
MANUFACTURING EXPANDING STEADILY AT END OF 2017

Australian PMI®	US Flash PMI	Eurozone Flash PMI	UK IHS PMI	Japan Flash PMI	China Caixin PMI
Dec 2017: 56.2 ↓	Dec 2017: 55.0 ↑	Dec 2017: 60.6 ↑	Nov 2017: 58.2 ↑	Dec 2017: 54.2 ↑	Nov 2017: 50.8 ↓

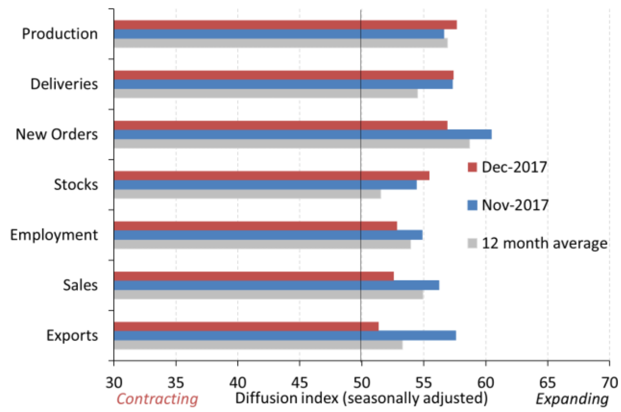
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) fell 1.1 points to 56.2 points in December, indicating further recovery in the month but at a slightly slower pace than in November (seasonally adjusted). Results above 50 points indicate expansion with higher results indicating a stronger expansion.
- December marked a fifteenth 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 December. Production, stocks (inventories) and supplier deliveries expanded at an accelerated pace while new orders, employment, exports and sales were slower, albeit still expanding in December.
- Six of the eight sub-sectors in the **Australian PMI®** expanded in December (trend). The very large food and beverages sub-sector strengthened further, with its index rising to its highest level since April 2016. The wood & paper sub-sector moved into contraction and the 'textiles, clothing, furniture and other' sub-sector stayed in contraction in December. The non-metallic minerals, machinery and equipment and wood & paper products sub-sectors remained positive but recorded their lowest monthly results of 2017 in December.
- Input prices (70.8 points) and wages (60.2 points) receded from recent highs in November, but are still above their long-run averages. Manufacturers continue to report problems with higher energy costs, but only some are able to pass on these cost rises to their customers.
- Participants in the **Australian PMI®** noted stronger production to fill long standing orders, after improved business conditions throughout 2017. Some participants noted reduced export orders and/or sales in December, possibly in response to the fluctuating Australian dollar and slower building activity (mainly affecting the non-metallic minerals sub-sector).



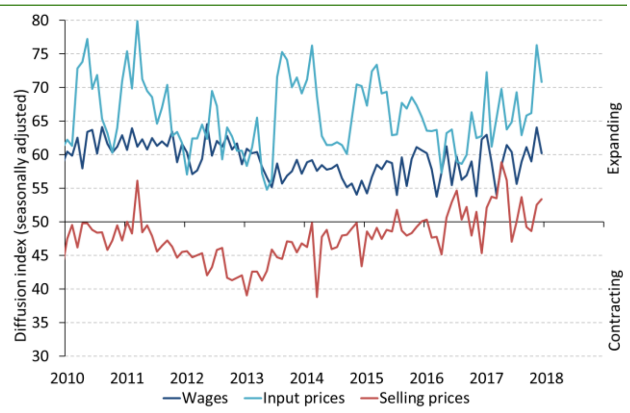
ACTIVITY SUB-INDEXES

- The production sub-index rose 1.1 points to 57.7 points in December, indicating a stronger pace of recovery after a mild contraction in October (48.4 points).
- The new orders sub-index fell by 3.5 points to 56.9 points in December, indicating a slower pace after fifteen months of expansion. Ongoing (but slower) growth in new orders suggests further growth for parts of manufacturing is likely in 2018.
- The exports sub-index fell 6.2 points to 51.4 points in December, slowing from November's strong rate of expansion (57.6 points). This sub-index has been volatile of late, probably reflecting changes in export orders in response to the fluctuating Australian dollar.
- The sales sub-index decreased by 3.6 points to 52.6 points in December, reflecting a pickup in local end-of-year sales.
- The employment sub-index weakened 2.0 points to 52.9 points in December. This indicated a slower but positive result, below the 12-month average of 53.9 points.
- Supplier deliveries improved by 0.1 points to 57.4 points in December, indicating increased supplies to meet production needs for end-of-year orders.
- Stocks (inventories) continued to be rebuilt in December, with this sub-index rising 1.1 points to 55.5 points. This probably relates to stocks that will be needed to cover summer seasonal shut-downs and/or for forward orders.
- Capacity utilisation across manufacturing jumped 4.8 percentage points higher to 79.7% of available capacity in December. This was the highest rate since at least May 2009.



WAGES AND PRICES SUB-INDEXES

- The input prices sub-index dropped by 5.6 points to 70.8 points in December, from a six-year high of 76.4 points in November. 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 to 60.2 points in December from a five-year high in November. This sub-index has been around 60 points for the majority of 2017 and provides further evidence of a steady pick-up in wages.
- The manufacturing selling price sub-index ticked up by 0.8 points to 53.4 points in December, signalling that some manufacturers have been able to pass on these cost increases to their customers.

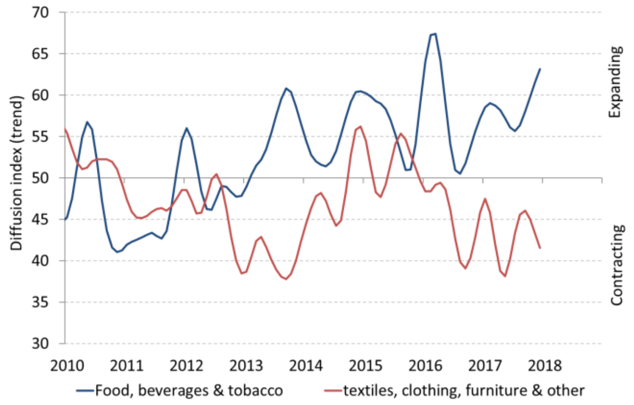


FOOD & BEVERAGES*

- The index for the largest manufacturing sub-sector, food and beverages, rose to 63.2 points in December (trend) its highest monthly result since April 2016. Production, new orders and deliveries were especially strong in this sub-sector this month. Input prices were elevated in this sub-sector, due to high energy and gas prices that are eating into margins.

TEXTILES, CLOTHING, FURNITURE & OTHER*

- The small, diverse textiles, clothing, furniture and other manufacturing sub-sector remained in contraction at 41.5 points in December (trend). This sub-sector has contracted in every month since November 2015 (trend) and appears to be deteriorating further. Bright spots in furniture and related homewares manufacturing during 2017 may fade in 2018, as the recent boom in residential construction comes off its peak.

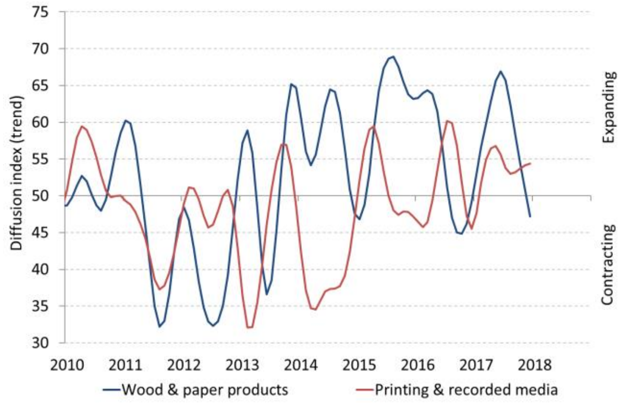


WOOD & PAPER*

- The small wood and paper products sub-sector's index contracted for the first time since December 2016, decreasing by 3.5 points to 47.2 points in December, after relatively strong results over the past few months (trend). Manufacturers in this sub-sector have been benefitting from growth in food processing (generating excellent growth in food packaging) and from strong orders for wooden building-related products, but this is now be waning.

PRINTING & RECORDED MEDIA*

- The very small printing and recorded media sub-sector continued its recent recovery path in December, with its index rising slightly to 54.4 points (trend). This sub-sector has expanded in every month since January 2017 (trend) after a protracted period of technology-related contraction. In 2017, steady demand has been coming through to printing and packaging services from the food, beverages and groceries sectors.

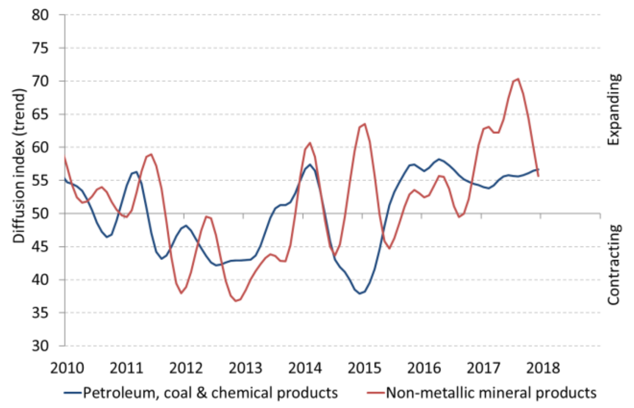


PETROLEUM, COAL & CHEMICALS*

- Growth in the large petroleum, coal, chemicals and rubber products sub-sector accelerated slightly to 56.7 points in December (trend). This sub-sector has been growing continuously and fairly steadily since mid-2015. 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's index indicated expansion at a slower pace in December (55.7 points), after accelerating strongly through much of 2017 (and after what had appeared to be a disruption to activity in November, trend). This was the lowest monthly result for this sub-sector in 2017. 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.

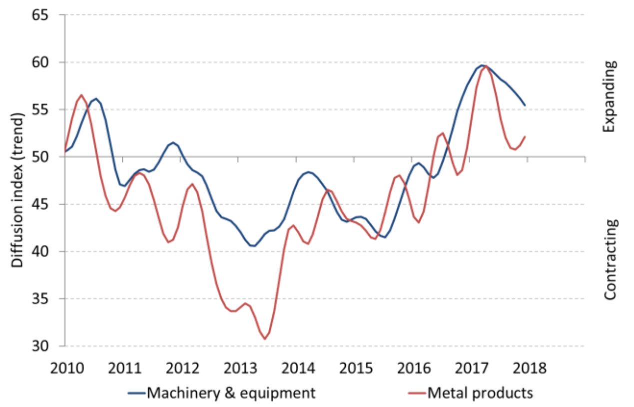


METAL PRODUCTS*

- The large metal products sub-sector's index improved to 52.1 points in December, following a recent dip and a strong recovery earlier in 2017 (trend). Buoyant production, sales and new orders indicate this sub-sector continues to benefit from engineering activity, mining, defence, utilities and agricultural projects. Energy costs remain an urgent concern for this sub-sector. In recent months, participants have reported shortages of skilled metal trades people, which is putting upward pressure on wages for skilled workers.

MACHINERY & EQUIPMENT*

- The large machinery and equipment sub-sector's index slowed to 55.4 points in December (trend), indicating a slower but relatively healthy rate of recovery. This sub-sector has expanded at various rates since mid-2016, which is especially pleasing since this period included the final exit of automotive assembly in Australia (previously a significant segment within this sub-sector). Despite this loss, other segments of machinery and equipment have continued to expand through 2017. Less positively, participants report that high input prices and low selling prices are squeezing machinery and equipment manufacturers' margins.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	**56.2**	**-1.1**	**56.0**	Exports	51.4	-6.2	53.3
Production	57.7	1.1	56.9	Sales	52.6	-3.6	54.9
New Orders	56.9	-3.5	58.7	Input Prices	70.8	-5.6	67.4
Employment	52.9	-2.0	53.9	Selling Prices	53.4	0.8	52.4
Inventories	55.5	1.1	51.5	Average Wages	60.2	-3.9	59.6
Supplier Deliveries	57.4	0.1	54.5	Capacity Utilisation (%)	79.7	4.8	76.9

* 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 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 indicates the strength of the expansion or decline. Survey results are based on a rotating sample of around 200 manufacturing companies each month. Seasonal adjustment and trend calculations follow standard statistical methodology. The current industry classifications commence from May 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.