

MANUFACTURING REBOUNDS IN AUGUST DESPITE RISING COSTS

Australian PMI®
 Aug 2018: 56.7 ↑

US Flash PMI
 Aug 2018: 54.5 ↓

Eurozone Flash PMI
 Aug 2018: 54.6 ↓

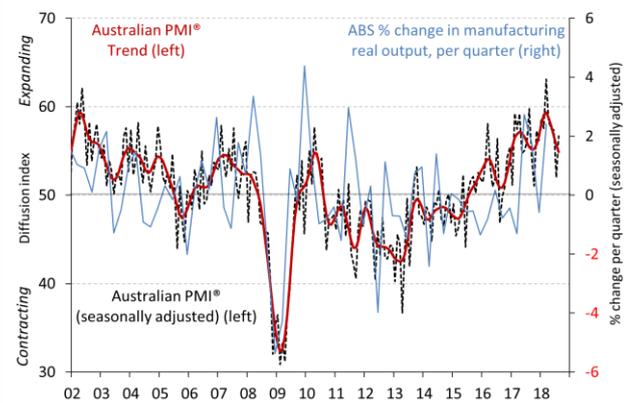
UK IHS PMI
 Jul 2018: 54.0 ↓

Japan Flash PMI
 Aug 2018: 52.5 ↑

China Caixin PMI
 Jul 2018: 50.8 ↓

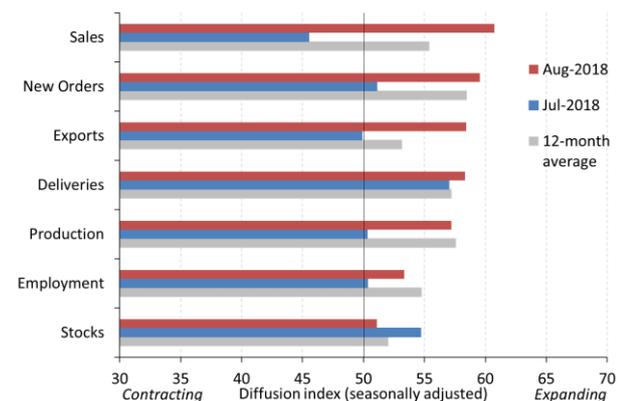
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) rose by 4.7 points to 56.7 points, indicating faster growth across the manufacturing sector in August (seasonally adjusted). Results above 50 points indicate expansion with higher results indicating a stronger expansion.
- The **Australian PMI®** has now indicated positive conditions (results above 50 points) for 23 consecutive months, which is the longest run of recovery or expansion since 2005.
- All seven activity sub-indexes in the **Australian PMI®** expanded in August. The exports sub-index has been lower than other activity sub-indexes over the past year, but it jumped 8.5 points to 58.4 points in August. Six of the seven activity sub-indexes accelerated in August, with only the inventories sub-index decelerating.
- Five of the eight sub-sectors in the **Australian PMI®** expanded in August (trend). Food & beverages, wood & paper products, chemicals, non-metallic minerals and machinery and equipment all remained expansionary in August. The small printing and recorded media and 'textiles, clothing & other manufacturing' sub-sectors contracted in July. The metal products sub-sector was broadly stable at 49.3 points in August. Recovery in the metals sub-sector has been slowing in recent months, with many respondents reporting slowing demand and stronger offshore competition.
- Drought conditions in New South Wales and Queensland are now having an adverse impact on input costs and sales for some manufacturers. Food and beverage manufacturers are reporting disrupted supply and higher prices of raw agricultural inputs, while manufacturers operating in the metals and machinery and equipment sub-sectors who sell to the agricultural sector or its supply chain are reporting reduced sales.



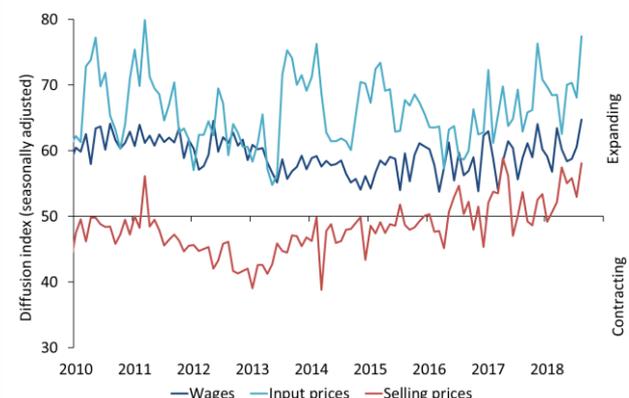
ACTIVITY SUB-INDEXES

- The sales sub-index rebounded by 15.2 points to 60.7 points in August, after recording its lowest result in July since early 2016. This sub-index tends to be especially volatile around the end of each financial year.
- New orders rose 8.5 points to 59.6 points in August, signalling further growth in many parts of manufacturing in the coming months.
- The exports sub-index jumped by 8.5 points to 58.4 points, possibly because of a lower Australian dollar in August. The exports sub-index was strongest in the food and beverages sub-sector this month.
- The employment sub-index rose by 3.0 points to 53.3 points, indicating growing manufacturing employment in August after a month of stagnation in July.
- The deliveries sub-index increased by 1.3 points to 58.3 points in August, indicating increased supplies of raw materials being ordered to meet forward production needs.
- The production index rose by 6.9 points to 57.2 points in August, indicating expanding production.
- The stocks sub-index dropped by 3.6 points to 51.1 points, indicating that finished stocks grew at a slower rate in August, but are not yet being depleted.
- Capacity utilisation eased to 77.5% of available capacity in August but it is still well above this indicator's long-run average of 73.2% of available capacity.



WAGES AND PRICES SUB-INDEXES

- The input prices sub-index jumped by 9.3 points to 77.4 points in August, its highest result since March 2011. Food and beverage manufacturers reported disruptions to supply and higher prices for raw agricultural inputs in August. Input prices also remain elevated for petroleum, coal, chemical and rubber products, metal products and machinery and equipment, reflecting their ongoing problems with high energy input costs (gas and electricity) and relatively elevated global commodity prices.
- The average wages sub-index continued to rise in August, increasing by 4.1 points to a record high of 64.7 points in August. This indicates a higher proportion of businesses are facing wage increases across manufacturing. The average wages sub-index has increased above the long-run average of 59.0 points in the last two months. This might reflect wage increases linked to this year's minimum wage increase of 3.5% (from 1 July 2018) making their way through Australia's system of industrial awards and agreements.
- The manufacturing selling price sub-index rose by 5.1 points to 58.1 points, indicating price increases for manufacturing customers in August. This is the highest result for this pricing sub-index since April 2017, indicating that customer price increases are becoming more widespread again among manufacturing businesses.

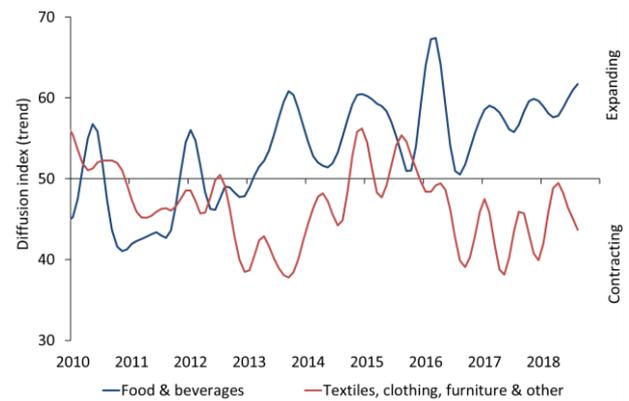


FOOD & BEVERAGES*

- The index for the largest manufacturing sub-sector, food and beverages, increased by 0.8 points to 61.7 points in August. It has been expanding since early 2013 (trend). Food and beverage manufacturers reported strong expansions in production, new orders and exports in August, but also disruptions to supply and higher prices for raw agricultural inputs. Exports have been particularly strong for this sub-sector in recent months, most likely due to a lower Australian dollar and steady growth in regional demand for Australian food products.

TEXTILES, CLOTHING, FURNITURE & OTHER*

- The index for the small but diverse 'textile, clothing, furniture & other manufacturing' sub-sector fell by 1.4 points to 43.7 points in August, indicating another month of contraction (trend). After seeing slightly better conditions at the start of 2018, bright spots in furniture and related homewares manufacturing appear to have faded. Textiles, clothing and related segments continue to face tough local and global trading conditions, with intense competition and falling consumer prices.

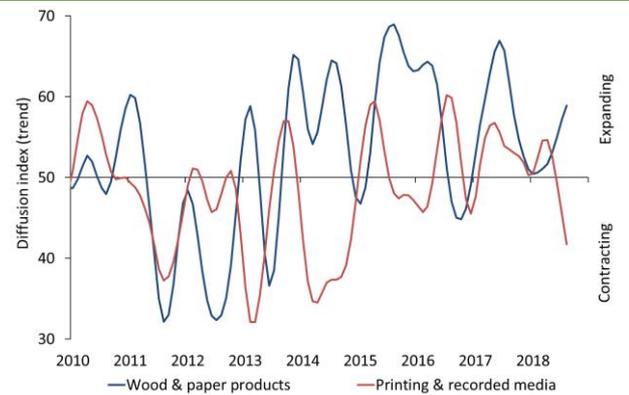


WOOD & PAPER*

- The small wood and paper products sub-sector's index increased by 1.7 points to 58.9 points, indicating expansion in August (trend). This sub-sector experienced a relatively strong recovery throughout 2017, benefiting from the growth in food processing which has generated related growth in the production of food packaging products. Some parts of wood manufacturing have also been benefiting from strong demand from housing and related construction projects, with house construction activity coming off a cyclical high.

PRINTING & RECORDED MEDIA*

- The very small printing and recorded media sub-sector's index fell further into contraction in August, falling by 3.7 points to 41.8 points (trend). Despite some respite in 2017 and early 2018, this sub-sector faces ongoing long-term challenges from rapid technology changes and intense import competition.

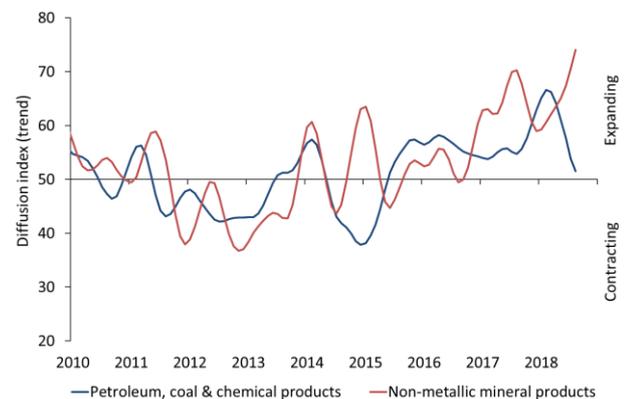


PETROLEUM, COAL & CHEMICALS*

- The index for the large petroleum, coal and chemicals sub-sector fell by 2.3 points to 51.5 points in August, indicating a slower rate of expansion (trend). This sub-sector's rate of expansion picked up in late 2017 as some manufacturers began servicing large infrastructure projects on the east coast but has slowed in recent months as rising energy costs reduce profit margins. High gas costs remain a special concern for chemical producers in this sub-sector, many of whom use gas as a feedstock rather than an energy source and cannot substitute other materials.

NON-METALLIC MINERALS*

- The index for the non-metallic mineral products (mainly building-related products) sub-sector rose to a record high of 74.1 points in August (trend). Demand for building-related products (e.g. glass, cement and tiles) remains elevated due to the strong pipeline of residential construction and non-residential construction work yet to be done.

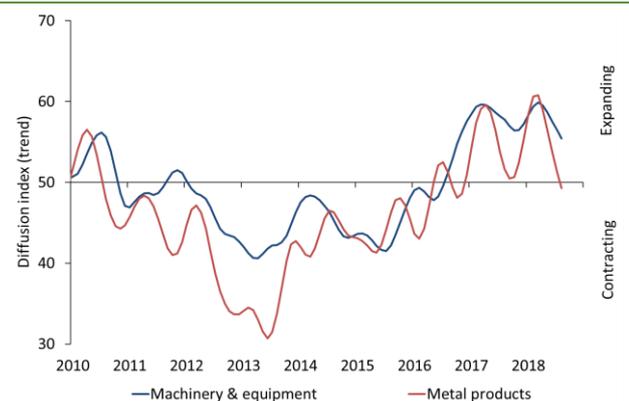


METAL PRODUCTS*

- The metals sub-sector was stable at 49.3 points in August. This sub-sector has been slowing in recent months, after welcome recoveries in orders in 2017 and early 2018. Many respondents are reporting slowing demand and strong competition from cheaper metal products imports. This is limiting their ability to win new contracts or raise their selling prices, despite increasing costs for their energy and raw materials.

MACHINERY & EQUIPMENT*

- The large machinery and equipment sub-sector's index decreased by 1.0 point to 55.4 points in August. This sub-sector makes specialist equipment for mining, agriculture, food processing and other markets, as well as transport vehicles other than cars (e.g. trucks, trains, buses and boats) all of which are in demand in 2018. In August, respondents noted drought conditions in Queensland and New South Wales are having an adverse impact on sales of machinery and equipment to the agricultural 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®	56.7	4.7	56.7	Exports	58.4	8.5	53.1
Production	57.2	6.9	57.6	Sales	60.7	15.2	55.4
New Orders	59.6	8.5	58.5	Input Prices	77.4	9.3	69.5
Employment	53.3	3.0	54.8	Selling Prices	58.1	5.1	52.9
Inventories	51.1	-3.6	52.0	Average Wages	64.7	4.1	60.5
Supplier Deliveries	58.3	1.3	57.2	Capacity Utilisation (%)	77.5	-2.3	78.0

* 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 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. Australian PMI® results are based on responses from a national sample of manufacturers that includes all states and all sub-sectors. The **Australian PMI®** uses the ANZSIC industry classifications for manufacturing sub-sectors and sub-sector weights derived from ABS industry output data. Seasonal adjustment and trend calculations follow ABS methodology. For further economic analysis and information from the Australian Industry Group, visit <http://www.aigroup.com.au/policy-and-research/economics/economicindicators/>.
© The Australian Industry Group, 2015. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part to be reproduced by any process or means without the prior written permission of The Australian Industry Group. **Disclaimer:** The Australian Industry Group provides information services to its members and others, which include economic and industry policy and forecasting services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.