AUSTRALIAN

PERFORMANCE OF MANUFACTURING INDEX®

Ai GROUP

MEDIA CONTACT
Tony Melville
Australian Industry Group
Tel: 0419 190 347

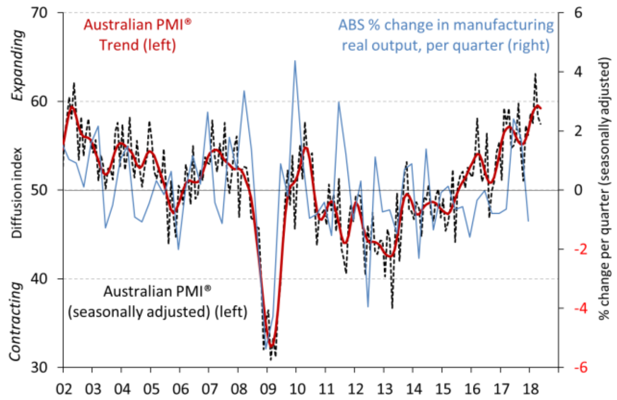
MAY 2018

MANUFACTURING GROWS FOR 20TH SUCCESSIVE MONTH

Australian PMI®	US Flash PMI	Eurozone Flash PMI	UK IHS PMI	Japan Flash PMI	China Caixin PMI
May 2018: 57.5 ↓	May 2018: 56.6 ↑	May 2018: 55.5 ↓	Apr 2018: 53.9 ↓	May 2018: 52.5 ↓	Apr 2018: 51.1 ↑

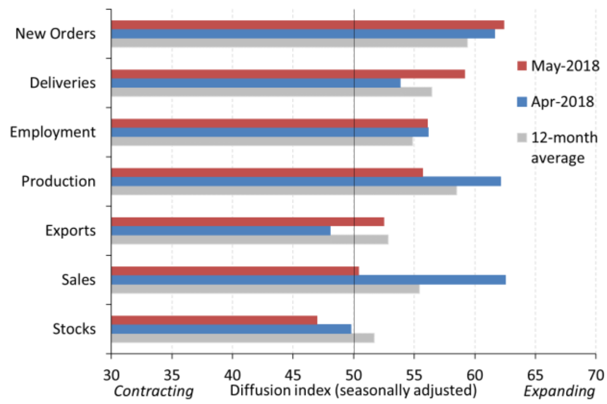
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) eased by 0.8 points to 57.5 points in May, indicating a 20th month of continuous growth, albeit at a slightly slower rate (seasonally adjusted). Results above 50 points indicate expansion with higher results indicating a stronger expansion.
- May 2018 marked the longest run of expanding or stable conditions for the **Australian PMI®** since 2005. The longest positive run was fifty continuous months from July 2001 to July 2005.
- Five of the seven activity sub-indexes in the **Australian PMI®** indicated expansion in May. Sales levels were stable in May (50.4 points), while finished stocks contracted (47.0 points), as manufacturers drew down on inventories. Some manufacturers reported raw material shortages or delays in May and so they drew down on their inventories to meet demand. The new orders sub-index remained above 60 points, indicating healthy demand and a strong likelihood of further near-term growth.
- Seven of the eight sub-sectors in the **Australian PMI®** expanded in May, with only the wood and paper products sub-sector indicating stable conditions (trend). None contracted.
- Sub-sectors that provide manufactured goods for large transport projects and the construction sector continue to report very strong levels of activity, particularly from the eastern states (albeit slowing from very high levels earlier in 2018). Manufacturers on the east coast continue to report strong demand from the civil engineering (mainly transport projects), commercial building and defence industries.



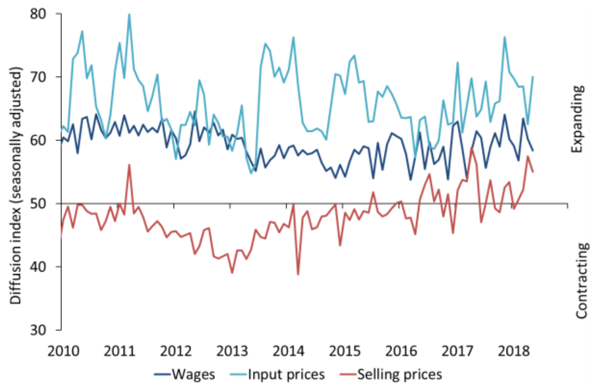
ACTIVITY SUB-INDEXES

- The new orders sub-index edged up by 0.8 points to 62.4 points in May. This sub-index has been strongly positive (expanding) since late 2016. It continues to indicate good growth prospects for manufacturing for the remainder of 2018.
- The deliveries index rebounded by 5.4 points to 59.2 points in May, after falling 12.7 points in April (from a record high of 66.6 points in March). This indicated a catch-up period of orders to meet forward production needs, after disruptions and delays to supplies in April.
- The employment sub-index held steady at 56.1 points in May, indicating another month of recovery in manufacturing employment numbers.
- Production eased by 6.4 points to 55.7 points in May, indicating a slower pace of growth. This was the first result below 60 points in 2018 for this sub-index.
- The exports sub-index rose by 4.5 points to 52.5 points in May, partially reversing the large decline into a mild contraction in April (down 10.9 points to 48.0 points). This suggests a temporary disruption to exports growth may have occurred during April.
- The sales sub-index fell by 12.1 points to 50.4 points, indicating stable sales levels in May. Weaker sales were evident in the food & beverages; textiles, clothing and footwear; and wood & paper products sub-sectors.
- The stocks sub-index fell by 2.8 points to 47.0 points, indicating that finished stocks contracted in May. Some manufacturers reported raw material shortages in May and said they were forced to draw down on their inventories to meet demand instead.
- Capacity utilisation eased by 3.8 percentage points to 76.1% of available capacity in May.



WAGES AND PRICES SUB-INDEXES

- The input prices sub-index jumped by 7.5 points to 70.0 points in May. Input prices remain elevated for petroleum, coal, chemical and rubber products, metal products and non-metallic minerals (building materials), reflecting their high energy input costs.
- The wages sub-index slowed by 1.9 points to 58.4 points in May, indicating a slower – but still relatively elevated - pace of wage increases across manufacturing.
- The manufacturing selling price sub-index dropped by 2.4 points to 55.1 points, indicating more modest price increases for manufacturing customers in May.
- Although selling prices have risen in recent months, the combination of cost pressures – notably energy costs – and intense import competition continue to keep margins tight and restrain wage rises.

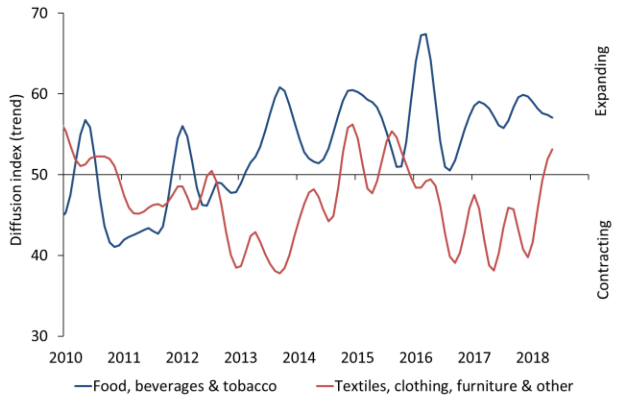


FOOD & BEVERAGES*

- The index for the largest manufacturing sub-sector, food and beverages, slowed by 0.3 points to 57.1 points in May (trend) but continued its long run of expansion. New orders were strong in this sub-sector which augurs well for future growth, although current sales were a touch weaker. This sub-sector has been expanding since early 2013 (trend).

TEXTILES, CLOTHING, FURNITURE & OTHER*

- The small but diverse textile, clothing, furniture & other manufacturing sub-sector continued its recent rebound, with its index rising by 1.3 points to 53.2 points in May (trend). This rebound might prove to be temporary however, with contracting new orders indicating this sub-sector will slow again in the coming months.

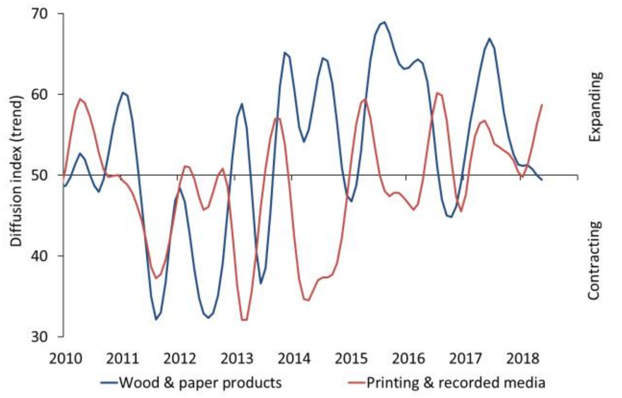


WOOD & PAPER*

- The small wood and paper products sub-sector's index decreased by 0.6 points to 49.4 points, indicating stable conditions in May (trend). This sub-sector's strong recovery in 2017 appears to have abated. Some parts of wood manufacturing were benefiting from elevated residential building activity (generating demand for wood-based building products) throughout 2017, but this boost appears to be waning in 2018, as the residential construction cycle slows. Paper and packaging producers are still benefiting from growth in food, beverages and groceries production.

PRINTING & RECORDED MEDIA*

- The very small printing and recorded media sub-sector's index increased by 2.3 points to 58.7 points (trend), indicating faster expansion in May. This suggests some respite from the long-term disruptions of technological change and intense import competition. This sub-sector has been particularly volatile of late, with changes in seasonal ordering and purchasing patterns likely playing a part. Production levels were particularly strong for this sub-sector in April and May.

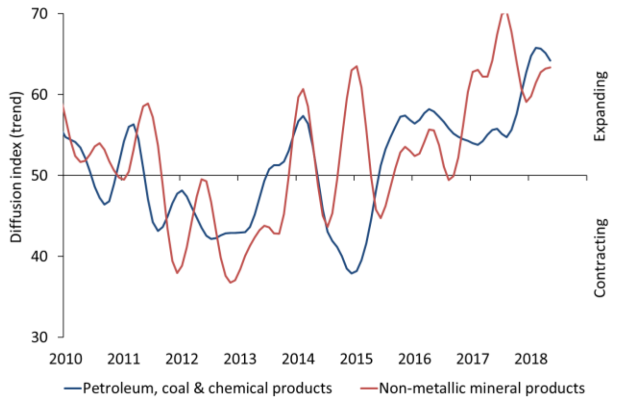


PETROLEUM, COAL & CHEMICALS*

- The large petroleum, coal and chemicals sub-sector continued its strong run with its index falling just 0.9 points to 64.2 points in May, from a record high in April (trend). This sub-sector has been recovering since mid-2015, supported by the recent housing construction boom and more recently by large infrastructure projects on the east coast. This extremely diverse sub-sector includes fertilisers, agricultural chemicals, pharmaceuticals, toiletries and health supplements (all of which are growing steadily), as well as construction-related products such as paints, adhesives and surface treatments. High gas costs are a particular concern for parts of this sector that use gas as a feedstock rather than an energy source.

NON-METALLIC MINERALS*

- The index for the non-metallic mineral products (mainly building-related products) sub-sector rose slightly to 63.3 points, maintaining a strong rate of expansion in May (trend). Local residential building activity is beginning to ease from recent peaks, but non-residential building activity is picking up pace and supporting activity in this sub-sector. Stronger forward orders suggest conditions will remain broadly positive through 2018.

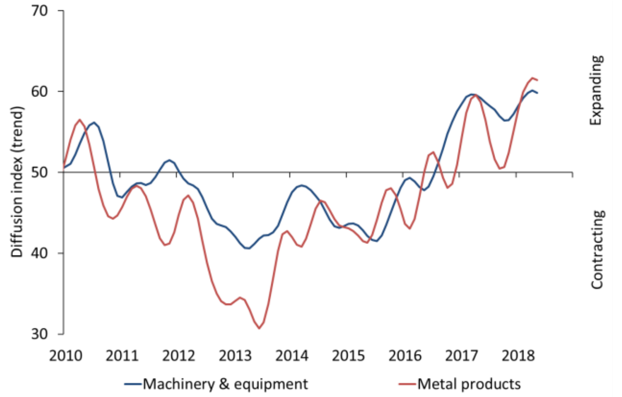


METAL PRODUCTS*

- The large metal products sub-sector's index eased by 0.2 points to 61.4 points in May. This sub-sector has been sporadically recovering since late 2016, after deeply contractionary conditions from 2010 to 2016. Domestic sales were slightly weaker in May as local demand from east coast infrastructure projects eased back from very high levels. Employment and exports are reported to be strong at present in this sub-sector.

MACHINERY & EQUIPMENT*

- The large machinery and equipment sub-sector's index fell by 0.3 points to 59.9 points in May. This sub-sector has recorded 19 consecutive months of stable or expanding activity, after five years of contractionary conditions. This sub-sector includes specialist equipment for mining, agriculture, food processing and other markets, as well as transport vehicles other than cars - such as trucks, trains, buses and boats – all of which appear to be in demand in 2018. Some respondents in this sub-sector noted that increased competition from cheaper imports was limiting their ability to raise selling prices in May.



Seasonally adjusted	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
Australian PMI®	**57.5**	**-0.8**	**57.1**	Exports	52.5	4.5	52.9
Production	55.7	-6.4	58.5	Sales	50.4	-12.1	55.4
New Orders	62.4	0.8	59.4	Input Prices	70.0	7.5	68.0
Employment	56.1	0.0	54.9	Selling Prices	55.1	-2.4	51.6
Inventories	47.0	-2.8	51.7	Average Wages	58.4	-1.9	59.8
Supplier Deliveries	59.2	5.4	56.4	Capacity Utilisation (%)	76.1	-3.8	77.5

* 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/.