

AUSTRALIAN Performance of Manufacturing Index



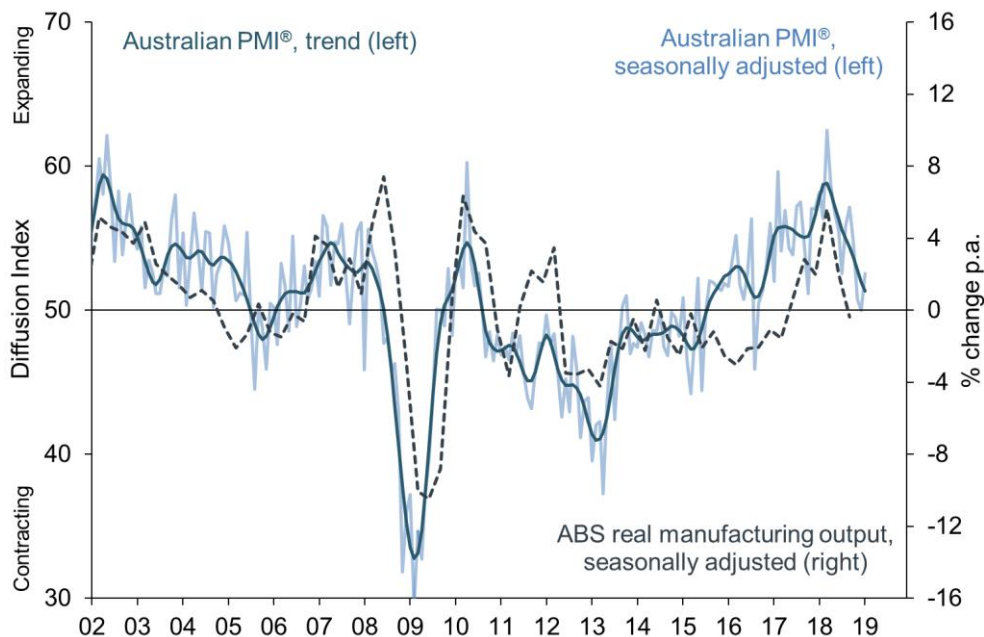
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Manufacturing sees slow but positive start to 2019

The Australian Industry Group Australian Performance of Manufacturing Index (Australian PMI®) recovered by 2.5 points to 52.5 points in January 2019 (seasonally adjusted) from a revised result of 50.0 points in December 2018 (previously estimated at 49.5 points, seasonally adjusted). Results above 50 points indicate expansion with higher results indicating a stronger expansion. This signals a very mild recovery in manufacturing conditions in January 2019, following a flat month in December 2018. December's result halted 26 months of continuous expansion in the Australian PMI®. Despite this month's improvement, the Australian PMI® continues to decelerate since reaching a recent peak in March 2018.

Six of the seven activity indexes in the Australian PMI® indicated expansion in January (i.e. above 50 points), but on average, they have been trending down since Q3 2018. Export orders seem to be improving mildly again after a lull in late 2018. Three of the six sectors in the Australian PMI® expanded in January 2019, two were stable and one contracted (trend).

Australian PMI® (seasonally adjusted and trend)



Results above 50 points indicate expansion with higher results indicating a stronger expansion.

AUSTRALIAN PMI® 52.5 ↑ 2.5 POINTS (seasonally adjusted)	FOOD & BEVERAGES 54.2 ↓ 1.0 POINTS (trend)	MACHINERY & EQUIPMENT 50.9 ↓ 0.5 POINTS (trend)	METAL PRODUCTS 50.8 ↓ 0.2 POINTS (trend)
AUSTRALIAN PMI® 51.3 ↓ 0.7 POINTS (trend)	CHEMICALS 49.3 ↓ 1.3 POINTS (trend)	BUILDING MATERIALS, WOOD, FURNITURE & OTHER 53.4 ↓ 2.0 POINTS (trend)	TCF, PAPER & PRINTING 54.8 ↑ 2.2 POINTS (trend)

Australian PMI® summary

Manufacturing sectors: Revised sector classifications and weights apply to the Australian PMI® from January 2019. The Australian PMI now includes six sectors instead of eight. Based on our revised classification, three of the six sectors in the Australian PMI® expanded in January 2019, two were broadly stable and one was in mild contraction (trend). Food and beverages is the largest sector in the Australian PMI® and continues to perform well. The two smallest sectors – “Building products, wood, furniture & other” and “TCF, paper and printing products” – also expanded in January 2019. The “machinery and equipment” and “metal products” sectors were flat, while the chemicals sector experienced a mild contraction (trend).

Manufacturing wages and prices: The input price index fell to 70.3 points in January after reaching a recent high in December. This index remains elevated, reflecting ongoing problems with rising input costs for gas and electricity. The average wage index moderated to 61.8 points in January but remains relatively elevated compared to the long-run average for this series (59.2 points). The selling prices index indicated stable prices in January, following price falls in December. Business margins remain very tight this month, since wage and input costs continue to rise while selling prices are flat.

Manufacturing activity: Six of the seven activity indexes in the Australian PMI® indicated expansion in January (i.e. above 50 points). On average, the activity indexes have been trending down since Q3 2018, indicating that conditions have weakened across the manufacturing industry. Export orders seem to be improving mildly again after a lull in late 2018.

Manufacturing highlights: Respondents in Victoria reported positive conditions relating to infrastructure, commercial construction and government contracts. Other states benefited from defence and mining maintenance projects. Several machinery manufacturers said they cut short their usual summer shut-down in order to meet demand from other businesses that are undertaking upgrades or maintenance work during their summer lull (e.g. in mining and food processing).

Manufacturing concerns: Business concerns in January were centred on energy costs, drought and delays in Government contracting arrangements over summer. Concerns about skill shortages are ongoing but do not appear to be worse than in late 2018. A small number of machinery and equipment makers noted difficulties among business customers in obtaining finance for new machinery and equipment, which is affecting sales and orders for some types of equipment manufacturers.

AUSTRALIAN PMI® KEY NUMBERS	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
<i>seasonally adjusted</i>				<i>trend</i>			
Australian PMI®	52.5	2.5	55.3	Australian PMI®	51.3	-0.7	55.3
Production	54.0	4.9	56.1	Food & beverages	54.2	-1.0	58.1
Employment	51.1	2.8	53.3	Machinery & equipment	50.9	-0.5	54.8
New Orders	52.3	2.0	56.3	Metals products	50.8	-0.2	54.5
Supplier Deliveries	55.6	6.2	56.5	Chemicals	49.3	-1.3	56.6
Finished stocks	47.7	-7.8	52.3	Building, wood, furniture & other	53.4	-2.0	57.5
Exports	52.1	1.8	53.7	TCF, paper and printing	54.8	2.2	47.9
Sales	51.9	3.2	54.7				
Input Prices	70.3	-2.9	70.6				
Selling Prices	50.2	5.6	52.5				
Average Wages	61.8	-1.5	61.6				
Capacity Utilisation (%)	77.5	5.2	77.2				

Results above 50 points indicate expansion. All indexes for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

MANUFACTURING REPORT CARD: Latest ABS data	Level	% change q/q	% change y/y	Share of total, %
<i>Latest ABS data, seasonally adjusted</i>				
Real value-added output, \$bn, year to Sep 2018	105.1	-0.1	2.3	5.8% of total GDP
Nominal sales, \$bn, year to Sep 2018	351.9	1.0	1.1	12.5% of non-farm business sales
Nominal export earnings, \$bn, year to Nov 2018 (original)	116.7	2.7	9.9	27.0% of total export earnings
Nominal company profits (GOP), \$bn, year to Sep 2018	32.9	1.8	8.2	9.5% of non-farm company profits (GOP)
Nominal investment (CAPEX), \$bn, year to Sep 2018	9.6	1.7	5.1	8.1% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Sep 2018	52.8	1.0	2.8	6.7% of total wages (COE)
Number of employed persons, '000, Nov 2018	916.3	-5.2	3.1	7.2% of total employed persons

ABS data sources: Australian National Accounts; Australian Business Indicators; CAPEX; International Trade; Labour Force Quarterly Detail.

For more detail about the Ai Group Australian PMI® visit: www.aigroup.com.au/policy-and-research/economics/

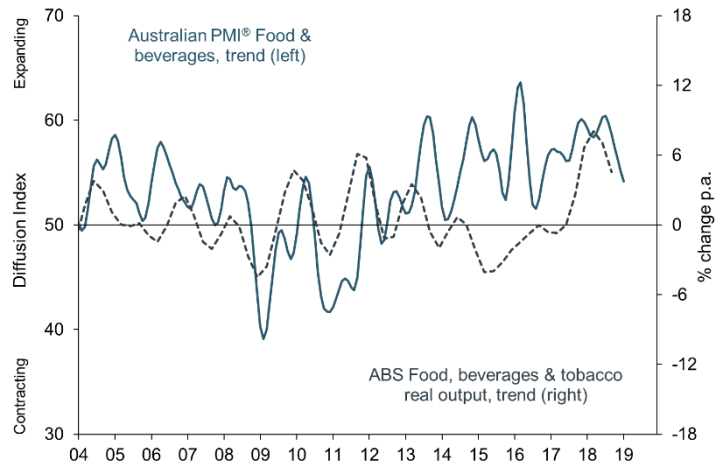
Australian PMI® sectors

Food & beverages

The food, beverages & tobacco sector produced \$27.2bn in real value-added output in the year to Q3 2018 (26% of manufacturing real value-added output). It employed 251,800 people in November 2018 (27% of manufacturing employment).

The index for the largest manufacturing sector, food and beverages, fell by 1.0 point to 54.2 points in January (trend). Although many food & beverage manufacturers continue to report sales growth, a small number reported lower production and sales due to seasonal shut-downs. Food and beverages exports bounced back in January after declining in December. This sector has been expanding since early 2013, mainly due to strong export demand for food and beverage products in recent years.

Food & beverages

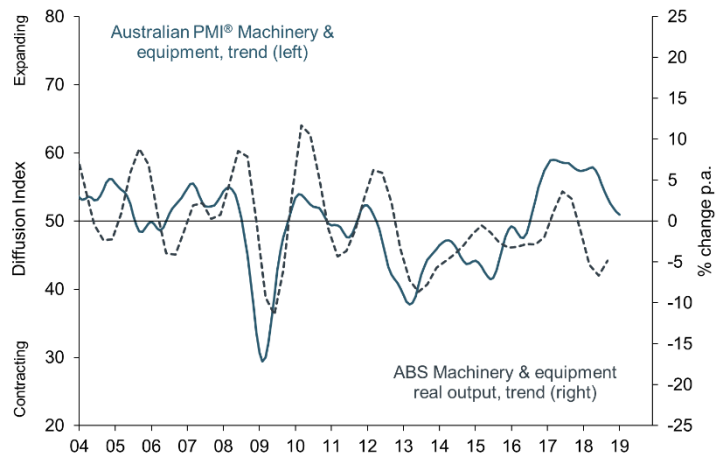


Machinery & equipment

The machinery & equipment sector produced \$19.1bn in real value-added output in the year to Q3 2018 (18% of manufacturing real value-added output). It employed 190,600 people in November 2018 (20% of manufacturing employment).

The index for the machinery & equipment sector fell 0.5 points to 50.9 in January, indicating broadly stable conditions (trend). This sector makes equipment for mining, agriculture, other manufacturers, construction, healthcare and transport markets. Maintenance programs in the mining sector and other parts of manufacturing (e.g. food and groceries) were a positive factor in January for some respondents but those supplying the agricultural sector continue to report subdued sales due to drought. January saw the first reports in many years of difficulties among some customers in obtaining finance, which has delayed or dampened local sales for equipment.

Machinery & equipment

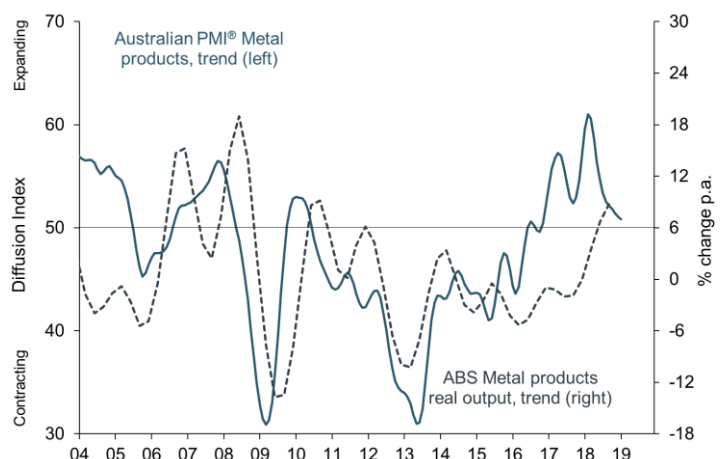


Metal products

The metal products sector produced \$16.7bn in real value-added output in the year to Q3 2018 (16% of manufacturing real value-added output) and employed 133,100 people in November 2018 (14% of manufacturing employment).

The large metals sector was broadly stable in January at 50.8 points (trend) after growing mildly in December (51.0 points, trend). Many respondents noted slower or flat sales in January, even for this (normally very quiet) time of year. Orders from larger construction customers appear to be slowing further, after decelerating through late 2018.

Metals products



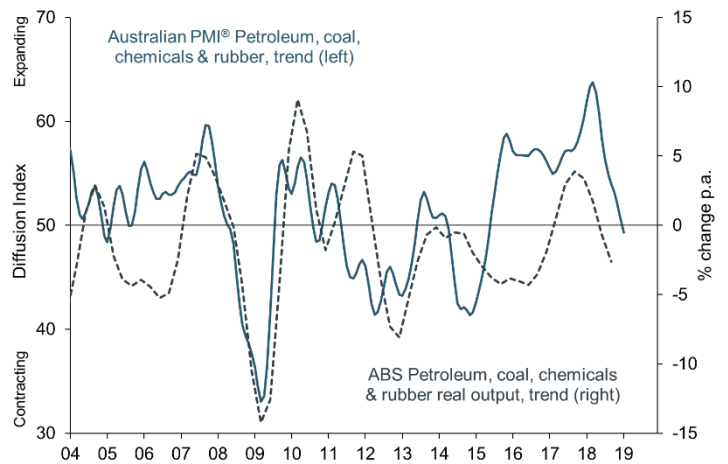
Australian PMI® sectors

Petroleum, coal, chemicals & rubber products

The petroleum, coal, chemicals & rubber sector produced \$19.3bn in real value-added output in the year to Q3 2018 (18% of manufacturing real value-added output). It employed 99,800 people in November 2018 (11% of manufacturing employment).

The chemicals sector's index dropped by 1.3 points to 49.3 points in January (trend), indicating stability or very mild contraction. This was the lowest monthly result since May 2015. Conditions have decelerated significantly since early 2018, with production and employment moving into contraction in January. This extremely diverse sector includes chemicals, fertilisers, pharmaceuticals, toiletries and health supplements, as well as construction products such as paints, adhesives and surface treatments.

Petroleum, coal, chemicals & rubber products

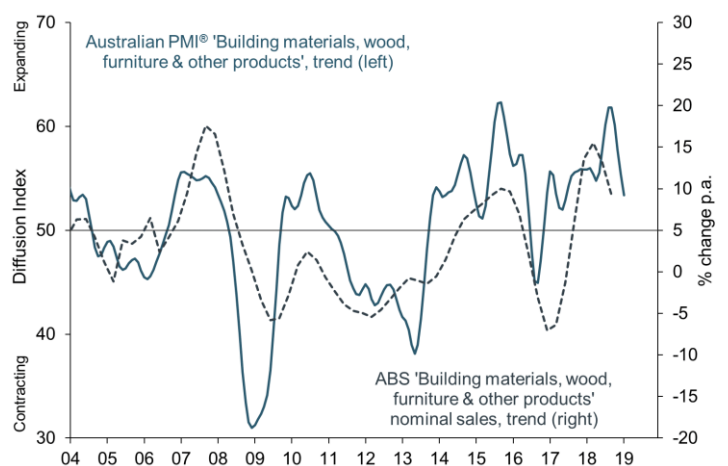


Building materials, wood, furniture & other manufacturing products

The building materials, wood, furniture & other manufacturing products sector employed 166,900 people in November 2018 (18% of manufacturing employment).

The index for the building materials, wood, furniture and other manufacturing products (mainly building-related products such as glass, bricks, cement, tiles, porcelain, timber, furniture, furnishings and other products) dropped by 2.0 points to 53.4 points in January (trend). Demand for building-related products and furnishings remains strong due to a record number of dwellings under construction across Australia as of late 2018. Recent falls in monthly building approvals are reflected in lower forward orders for this sector in summer and signal a slower year in 2019.

Building materials, wood, furniture & other manufacturing products

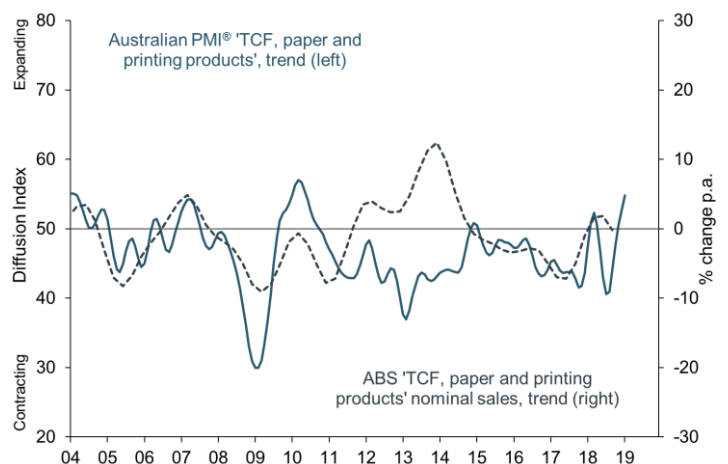


TCF, paper & printing products

The TCF, paper & printing products sector employed 91,600 people in November 2018 (10% of manufacturing employment).

This small but diverse sector makes textiles, clothing, footwear, paper, printed products and recorded media. Its index rose by 2.2 points to 54.8 points in January, indicating accelerating conditions after a volatile year in 2018 (trend). Manufacturers in this sector have faced tough local and global trading conditions over an extended period, with intense competition, new technologies and falling consumer prices denting local activity. In January respondents noted higher production of industrial textiles plus ongoing demand for printed cardboard and other packaging for food, beverages and groceries.

TCF, paper & printing products



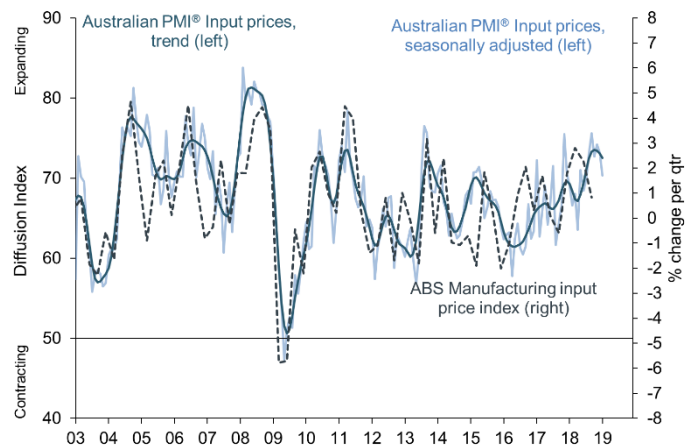
Australian PMI[®] prices and wages

Input prices

Manufacturing input prices rose by an average of 0.8% over the quarter and 7.9% over the year in Q3 2018, according to the ABS Producer Price Index (PPI).

The input price index fell by 2.9 points to 70.3 points in January (seasonally adjusted) but remains relatively elevated compared to the long-run average for this data series (67.7 points). It has decelerated since reaching a recent peak of 75.6 points in September 2018 (seasonally adjusted revised data). Input prices remain elevated for energy-intensive sectors, reflecting their ongoing problems with high input costs for gas and electricity.

Input prices

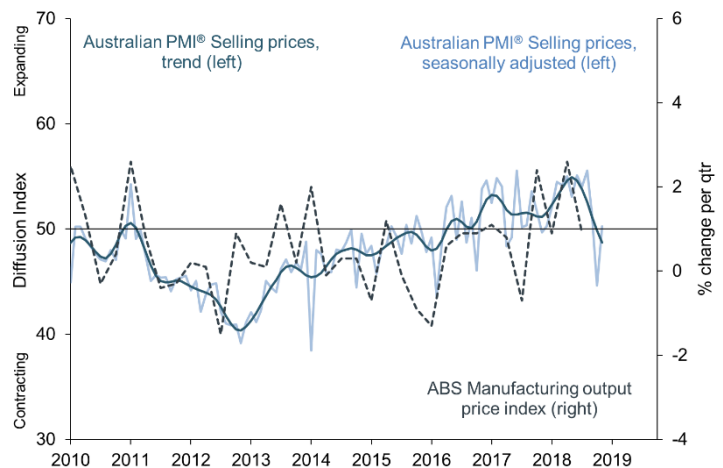


Selling prices

Manufacturing output prices rose by an average of 0.9% over the quarter and 6.9% over the year in Q3 2018, according to the ABS Producer Price Index (PPI).

The manufacturing selling prices index rose by 5.6 points in January to be stable at 50.2 points (seasonally adjusted). This indicates that prices held steady, on average, for manufacturing customers, following price falls in December. Selling prices rose in the growing food & beverages sector but fell in the static chemicals sector in January. This suggests that recent price falls in some sectors may be locked in for the time being. Businesses' margins remain very tight this month as a result, as wage and input costs continue to grow but cannot be passed on.

Selling prices

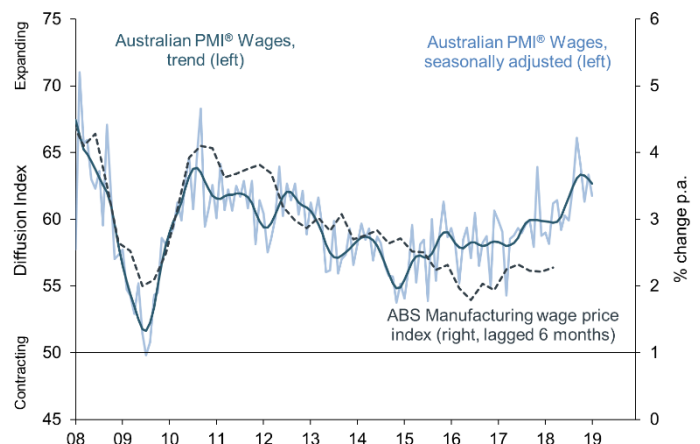


Average wages

Private sector wages across the manufacturing industry rose by an average of 0.9% over the quarter and 2.3% over the year in Q3 2018, according to the ABS Wage Price Index (WPI).

The average wage index moderated to 61.8 points (seasonally adjusted) in January but remains relatively elevated compared to the long-run average for this series (59.2 points). This index has been trending lower since its recent peak in September 2018, indicating that fewer manufacturing businesses are now implementing wage rises, relative to Q3 of 2018.

Average wages



Australian PMI® activity

Production

The manufacturing industry produced \$105.1bn in real value-added output in the year to Q3 2018 (5.8% of Gross Domestic Product, GDP). Manufacturers' value-added output fell by 0.1% through the quarter in Q3 2018 but remained 2.3% higher through the year.

The production index rose by 4.9 points to 54.0 points in January (seasonally adjusted revised data), indicating recovery following a mild contraction in December. Despite this latest improvement, the production index has been trending down since reaching a recent peak in Q1 of 2018. Respondents reported strong activity in Victoria related to infrastructure, commercial construction and government contracts. Production in other states was related to defence and mining maintenance projects. Food and beverages production remains expansionary nationally, despite drought-affected output in some states.

Employment

Manufacturing employed 916,300 people in November 2018 (7.2% of Australia's total workforce, seasonally adjusted). Manufacturing employment fell by 5.2% over the quarter but is 3.1% higher over the year to November 2018.

The employment index moved up by 2.8 points to 51.1 points in January, indicating mild growth after a surprise fall in December (seasonally adjusted revised data).

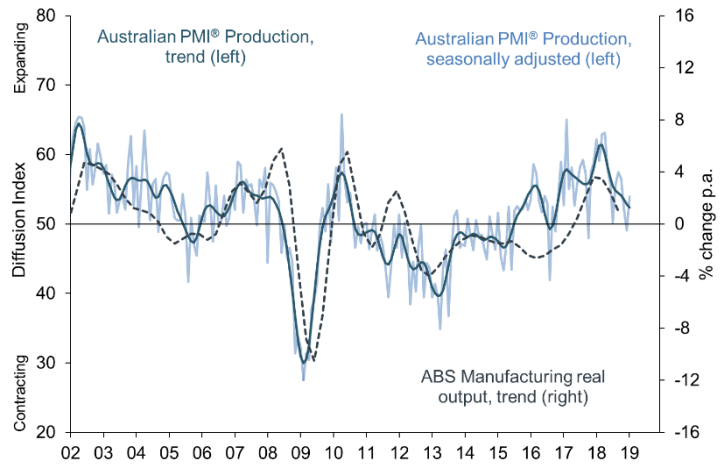
Respondents continue to report concerns about skill shortages in specialist roles and about their ability to attract and retain apprentices and trainees with suitable entry-level skills.

New orders

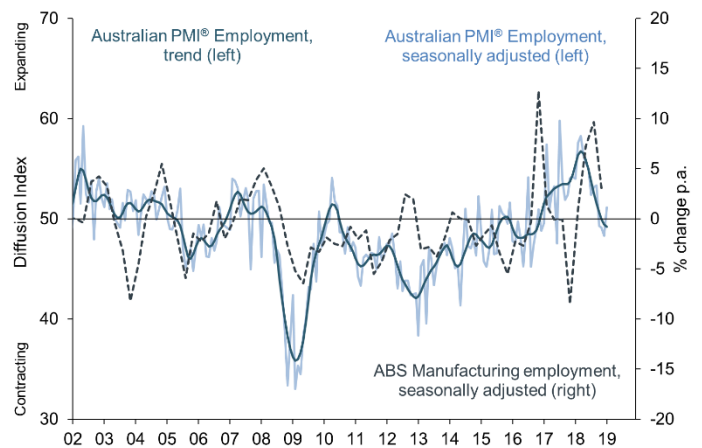
The new orders index improved by a further 2.0 points to 52.3 points in January, recovering from a stable month in December and a mild contraction in November (seasonally adjusted revised data).

New orders remained expansionary in the food and beverages sector in January and recovered in the machinery and equipment sector but were flat elsewhere. Machinery and equipment respondents reported that local orders picked up in January from larger customers in mining, infrastructure and defence but continued to track weakly for agriculture. A few respondents blamed recent falls in new orders for equipment and machinery on smaller customers' difficulties in obtaining finance.

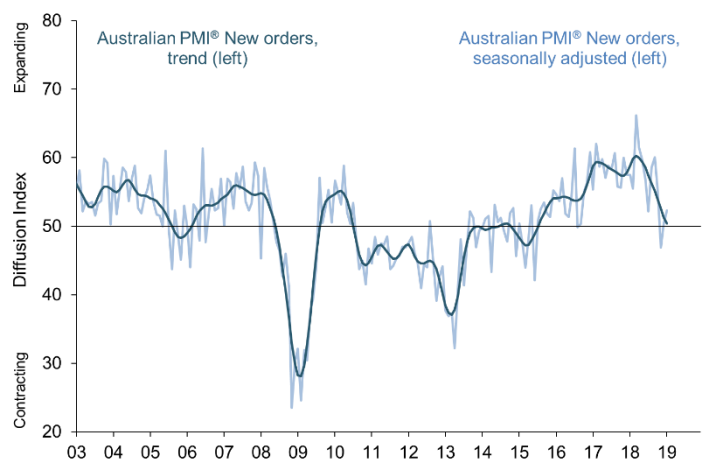
Production



Employment



New orders



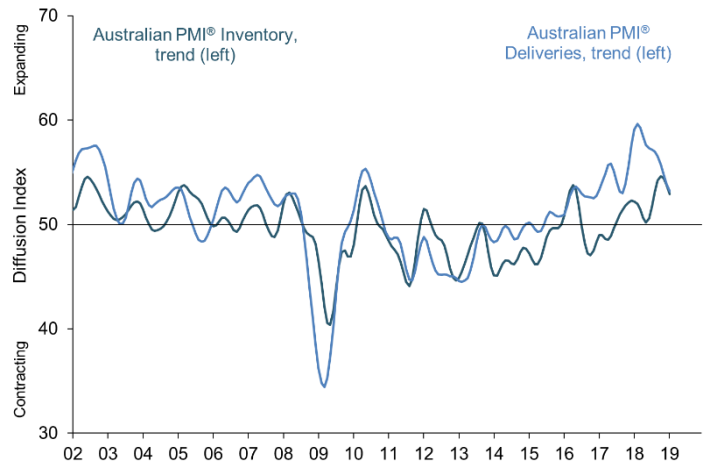
Australian PMI® activity

Supplier deliveries and finished stocks

The Australian PMI® deliveries index recovered by 6.2 points to 55.6 points in January, after contracting briefly in December (seasonally adjusted revised data). This suggests deliveries have already stepped up in line with production, following a lull in late 2018.

The Australian PMI® finished stocks (inventories) index dropped by 7.8 points to 47.7 points in January (seasonally adjusted revised data), indicating that finished stocks were depleted in order to meet demand in the month. This was in addition to normal stock depletions due to seasonal summer shut-downs and slow periods in some manufacturing sectors.

Supplier deliveries and finished stocks



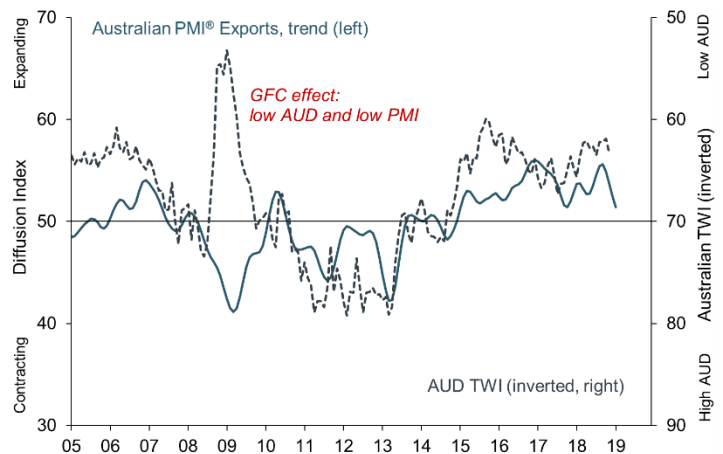
Exports

Nominal export earnings for Australian manufacturers were worth \$116.7bn in the year to November 2018 (27.0% of total annual export earnings). Australia's exports of manufactured goods are mainly metal products, followed by food & beverages and machinery & equipment, according to ABS International Trade data.

The Australian PMI® exports index improved by 1.8 points to 52.1 points in January (seasonally adjusted revised data), indicating a very mild recovery following a flat period in November and December.

Recovery was strongest in the large food & beverage sector. A small number of exporters in the chemicals and machinery and equipment sectors reported better export sales in January due to global shortages of their products and/or trade disruptions for international competitors.

Exports



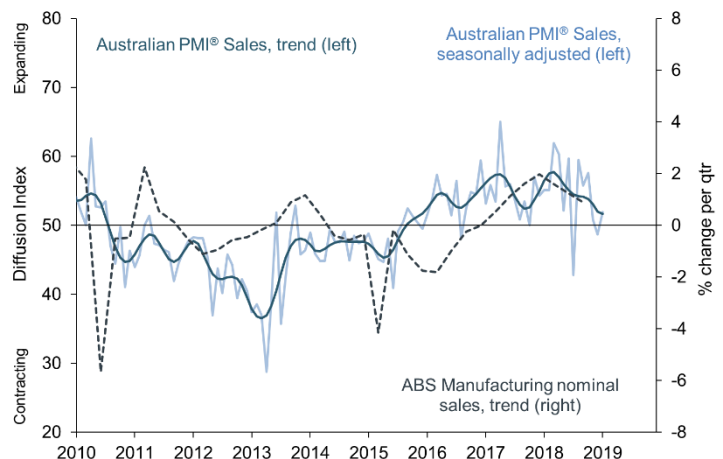
* AUD TWI = Australian dollar trade weighted index, monthly.

Sales

Australian manufacturers' nominal sales were worth \$352bn in the year to Q3 2018. They grew by 1.0% through the quarter and 1.1% through the year to Q3 2018, according to the latest ABS Business Indicators data.

The Australian PMI® sales index recovered by 3.2 points to 51.9 points in January, reversing a brief fall into contraction December (seasonally adjusted revised data). Even after this recovery, the sales index continues to track lower after reaching a recent peak in Q1 of 2018. January's sales recovery was strongest in the food & beverages and the machinery & equipment sectors.

Sales



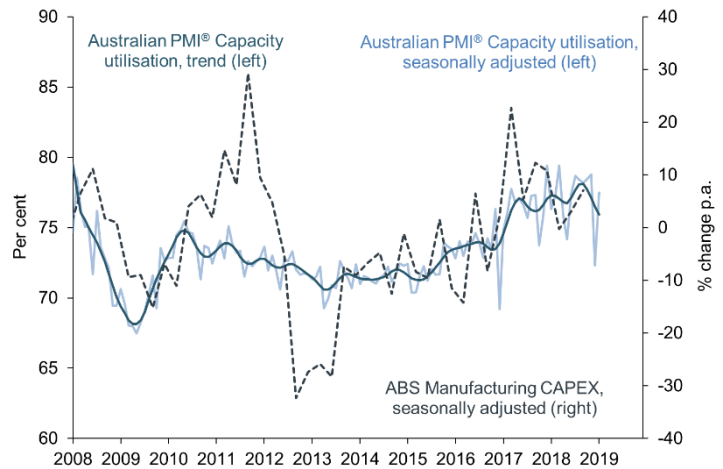
Australian PMI® activity

Capacity Utilisation

Australian manufacturers invested \$9.6bn in capital expenditure (CAPEX) in the year to Q3 2018. Their CAPEX rose by 1.7% through the quarter and 5.1% through the year to Q3 2018, according to the latest ABS CAPEX data.

The Australian PMI® capacity utilisation indicator rose by 5.2 percentage points to 77.5% of available capacity in January, up from a recent low of 72.3 points in December (seasonally adjusted revised data). This is well above this indicator's long-run average of 73.3%. Rises in capacity utilization are generally associated with rises in CAPEX and/or employment, as manufacturing businesses seek to expand their capacity in order to meet demand.

Capacity Utilisation



For more information about the Ai Group Australian PMI®:
www.aigroup.com.au/policy-and-research/economics/

Australian PMI® data definitions

The Australian PMI classifies each business according to their single main activity, using the industry data codes and definitions set out in the ANZSIC 2006. These classifications are comparable with all ABS data that use these same codes. For manufacturing in the Australian PMI, the definitions of the six sectors are:

1. Food & beverage products (ANZSIC codes 11 and 121).
2. Machinery & equipment manufacturing including motor vehicles, other transport equipment, professional and scientific equipment, electrical and electronic equipment, computers, domestic appliances, pumps, compressors, heating, cooling, ventilation, specialist equipment (ANZSIC codes 23 and 24).
3. Metal products including basic ferrous, non-ferrous, fabricated iron and steel, structural metals, metal containers, sheet metal and other metal products (ANZSIC codes 21 and 22).
4. Petroleum and coal-based products, basic chemicals, chemical products, fertilisers, pesticides, pharmaceuticals and medicinal products, cleaning compounds, toiletries, polymers and rubber products (ANZSIC codes 17, 18 and 19).
5. Building materials, wood, furniture and other manufacturing products including glass, ceramic, cement, lime, plaster, concrete, wood, logs, timber, furniture and other manufacturing products (ANZSIC codes 14, 20, 25).
6. TCF, paper and printing products including textiles, leather, clothing, footwear, pulp, paper, paperboard, converted paper products printing and the reproduction of recorded media (ANZSIC codes 13, 15, 16).

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. The Australian PMI® uses the ANZSIC industry classifications for manufacturing sectors and 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/>.

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