

AUSTRALIAN Performance of Manufacturing Index



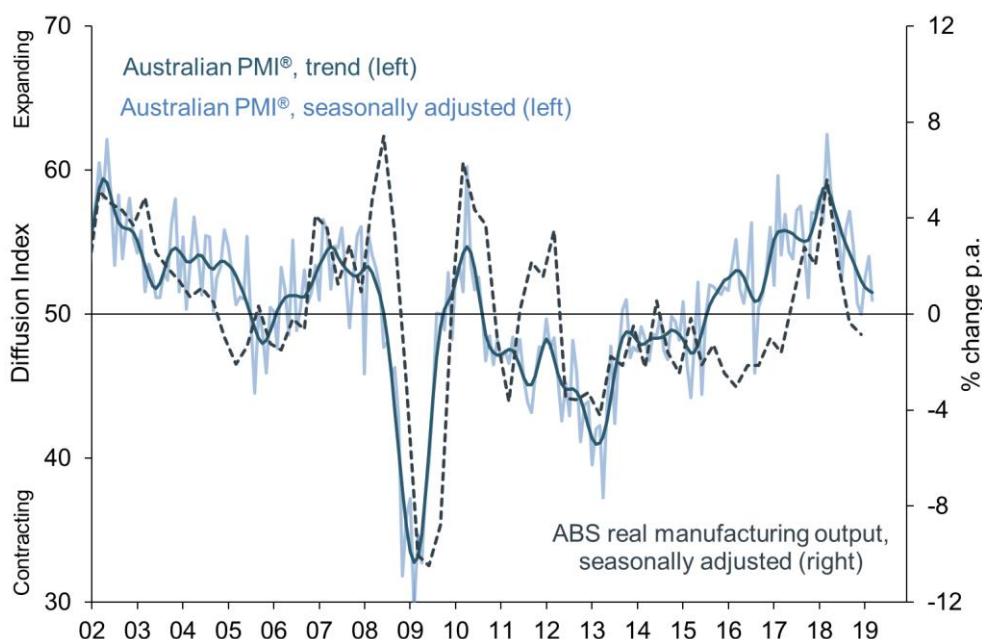
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Manufacturing recovery slows again in March

The Australian Industry Group Australian Performance of Manufacturing Index (Australian PMI®) fell 3.0 points to 51.0 points in March 2019 (seasonally adjusted). This slower pace of expansion in March follows a stronger month in February but a flat end to 2018. Results above 50 points indicate expansion with higher results indicating a larger expansion.

The Australian PMI® has been stable or positive (50 points or higher) since August 2016, but it has been trending lower since mid-2018. Respondents to the Australian PMI® reported slower conditions in March 2018. Some respondents attributed this to a general slowing in the economy while others said their customers are delaying orders until after the Federal election. The downturn in local housing construction is affecting demand for building-related manufactured goods. More positively, manufacturers in the ‘textiles, clothing, footwear, paper and printing’ and ‘food and beverages’ sectors reported higher than usual demand for this time of year, with the lower Australian dollar helping to stabilise exports.

Australian PMI® (seasonally adjusted and trend)



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

<p>AUSTRALIAN PMI®</p> <p>51.0</p> <p>↓ 3.0 POINTS (seasonally adjusted)</p>	<p>FOOD & BEVERAGES</p> <p>59.0</p> <p>↑ 1.4 POINTS (trend)</p>	<p>MACHINERY & EQUIPMENT</p> <p>46.1</p> <p>↓ 1.7 POINTS (trend)</p>	<p>METAL PRODUCTS</p> <p>46.6</p> <p>↓ 0.9 POINTS (trend)</p>
<p>AUSTRALIAN PMI®</p> <p>51.5</p> <p>↓ 0.1 POINTS (trend)</p>	<p>CHEMICALS</p> <p>51.3</p> <p>↓ 0.8 POINTS (trend)</p>	<p>BUILDING MATERIALS, WOOD, FURNITURE & OTHER</p> <p>44.7</p> <p>↓ 2.5 POINTS (trend)</p>	<p>TCF, PAPER & PRINTING</p> <p>57.7</p> <p>↑ 2.0 POINTS (trend)</p>

Australian PMI® summary

Manufacturing sectors: There was a clear divergence amongst the six manufacturing sectors in March. 'Food & beverages', 'chemicals' and the 'textiles, clothing, footwear, paper & printing' sectors expanded while the 'machinery & equipment', 'metals' and 'building materials, wood, furniture & other manufacturing' sectors contracted in March (trend). Respondents in the contracting sectors said the downturn in housing construction is slowing demand for building-related products while the drought continues to weigh on demand for machinery and equipment for the agricultural and rural sectors.

Manufacturing wages and prices: The input price index remains elevated but fell below its historical average in March for the first time since April 2018. Input prices remain elevated for energy-intensive sectors, reflecting their ongoing problems with high input costs for gas and electricity. The average wage index rose in March but continues to slow from its recent peak in September 2018. The selling prices index indicated very mild price rises in March (up 1.4 points to 53.0 points).

Manufacturing activity: Four of the seven activity indexes in the Australian PMI® indicated expansion or stable conditions in March (i.e. results below 50 points). The production and employment activity indexes indicated expansion in March, while new orders and exports were stable. All indexes were lower in March compared to February except for the finished stocks (inventories) index, which rose by 1.6 points but remains below 50 points, indicating contraction.

Manufacturing highlights: Manufacturers in 'textiles, clothing, footwear, paper and printing' (mainly in paper packaging) and 'food and beverages' reported higher than usual demand for this time of year. Some respondents servicing the mining sector, construction and defence supply chains reported higher levels of new orders and activity in March.

Manufacturing concerns: Respondents to the Australian PMI® reported slowing economic conditions in March. Some attributed this to a generally slowing local economy while others said their customers are delaying purchases until after the Federal election. The downturn in housing construction is slowing demand for building-related products, while the drought continues to detract from demand for machinery, equipment and other products for the agricultural and rural sectors.

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®	51.0	-3.0	54.1	Australian PMI®	51.5	-0.1	54.2
Production	52.8	-5.1	55.2	Food & beverages	59.0	1.4	58.3
Employment	56.6	-1.1	53.2	Machinery & equipment	46.1	-1.7	52.9
New Orders	50.0	-2.0	54.6	Metals products	46.4	-0.9	51.9
Supplier Deliveries	45.7	-7.2	54.7	Petroleum, coal, chemicals			
Finished stocks	46.1	1.6	51.1	& rubber products	51.3	-0.8	55.0
Exports	50.7	-4.5	53.1	Building, wood, furniture			
Sales	46.4	-8.0	53.3	& other products	44.7	-2.5	55.5
Input Prices	65.1	-5.9	70.7	Textiles, clothing, footwear,			
Selling Prices	53.0	1.4	52.7	paper & printing	57.7	2.0	48.5
Average Wages	61.2	1.7	61.7				
Capacity Utilisation (%)	80.2	3.7	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>	\$bn	%	%	%
Real value-added output, \$bn, year to Dec 2018	104.9	-0.2	1.6	5.7% of total GDP
Nominal sales, \$bn, year to Dec 2018	355.8	1.0	1.1	12.4% of non-farm business sales
Nominal export earnings, \$bn, year to Jan 2019 (<i>original</i>)	118.4	2.4	10.3	26.7% of total export earnings
Nominal company profits (GOP), \$bn, year to Dec 2018	32.9	-0.7	5.7	8.7% of non-farm company profits (GOP)
Nominal investment (CAPEX), \$bn, year to Dec 2018	9.5	-0.5	1.7	8.0% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Dec 2018	53.1	0.7	3.1	9.5% of non-farm business wages
Number of employed persons, '000, Feb 2019	857.1	-6.3	-6.8	6.7% 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 Q4 2018 (26% of manufacturing real value-added output). It employed 247,700 people in February 2019 (27% of manufacturing employment).

The index for the largest manufacturing sector, food and beverages, edged up by 1.4 points to 59.0 points (trend), indicating a faster rate of expansion in March.

Production, employment and new orders were stronger in March as producers made up for recent seasonal and weather-related shut downs. Stocks (inventories) and deliveries contracted. Participants in this sector reported stronger sales, new orders and exports in March 2019 compared to March in previous years.

Machinery & equipment

The machinery & equipment sector produced \$19.3bn in real value-added output in the year to Q4 2018 (18% of manufacturing real value-added output). It employed 184,400 people in February 2019 (20% of manufacturing employment).

The machinery & equipment sector's index fell by 1.7 points to 46.1 points, indicating a sharper rate of contraction in March. This sector's index has slowed in each of the past twelve months, since reaching a recent peak in March 2018.

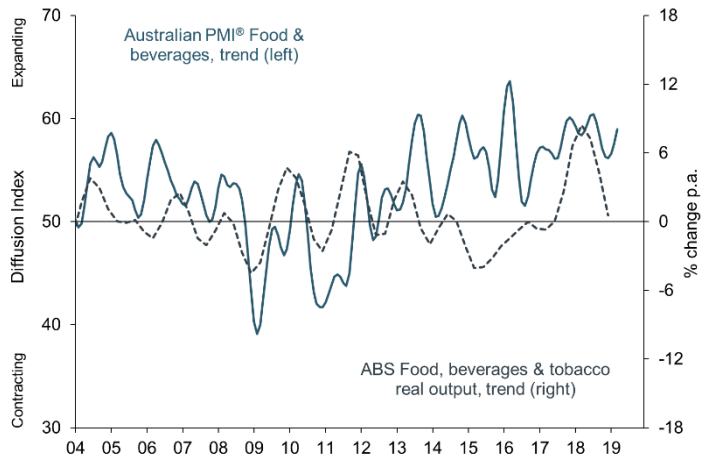
Manufacturers in this sector make equipment for mining, agriculture, other manufacturers, construction, healthcare and transport. Some respondents noted delays in new orders and project commencements that they attributed to recent and upcoming elections. Others noted fewer orders from agricultural customers affected by drought.

Metal products

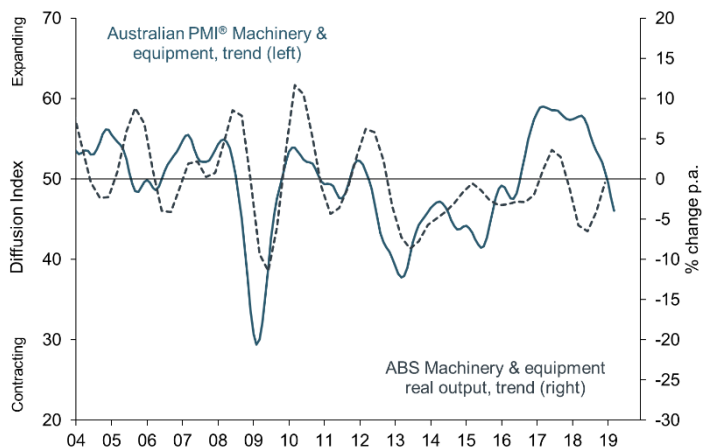
The metal products sector produced \$17.0bn in real value-added output in the year to Q4 2018 (16% of manufacturing real value-added output) and employed 138,000 people in February 2019 (15% of manufacturing employment).

The large metals sector contracted at a faster pace in March, with its index dropping by 0.9 points to 46.4 points (trend). This sector's strong recovery in 2017 and 2018 appears to have come to an end in 2019, with the sector contracting in every month of 2019 to date. Respondents reported weaker demand from residential construction and agricultural customers in March.

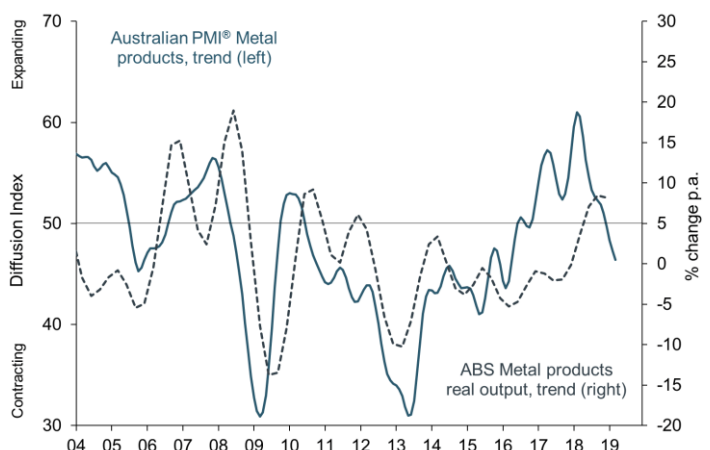
Food & beverages



Machinery & equipment



Metals products



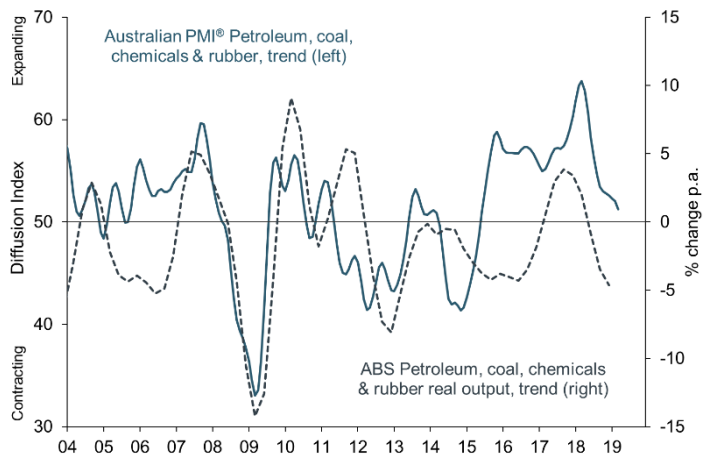
Australian PMI® sectors

Petroleum, coal, chemicals & rubber products

The 'petroleum, coal, chemicals & rubber' sector produced \$18.9bn in real value-added output in the year to Q4 2018 (18% of manufacturing real value-added output). It employed 94,400 people in February 2019 (10% of manufacturing employment).

The index for the chemicals sector declined by 0.8 points to 51.3 points in March (trend), indicating a slower rate of growth in the month. Like other manufacturing sectors, conditions have decelerated since early 2018. Exports remained strong for this sector in March. This diverse sector produces chemicals, fertilisers, toiletries, pharmaceuticals, health supplements, rubber items, as well as paints, adhesives and surface treatments.

Petroleum, coal, chemicals & rubber products

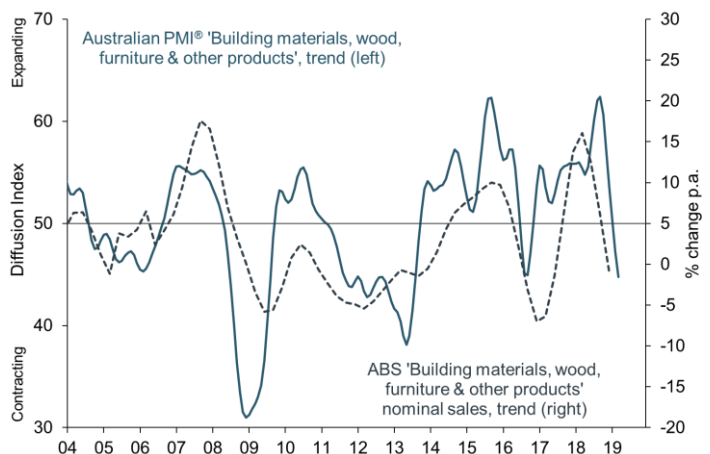


Building materials, wood, furniture & other manufacturing products

The building materials, wood, furniture & other manufacturing products sector employed 163,500 people in February 2019 (18% of manufacturing employment).

The index for the building materials, wood, furniture and other manufacturing products (including building-related products such as glass, bricks, cement, tiles, porcelain, timber, furniture, furnishings and other products) fell a further 2.5 points to 44.7 points in March (trend). This is the lowest reading for this sector since July 2013. Demand for building-related products and furnishings has dropped sharply since this sector peaked in September 2018. Recent falls in monthly building approvals are reflected in lower forward orders for this sector, suggesting a slower year ahead in 2019.

Building materials, wood, furniture & other manufacturing products

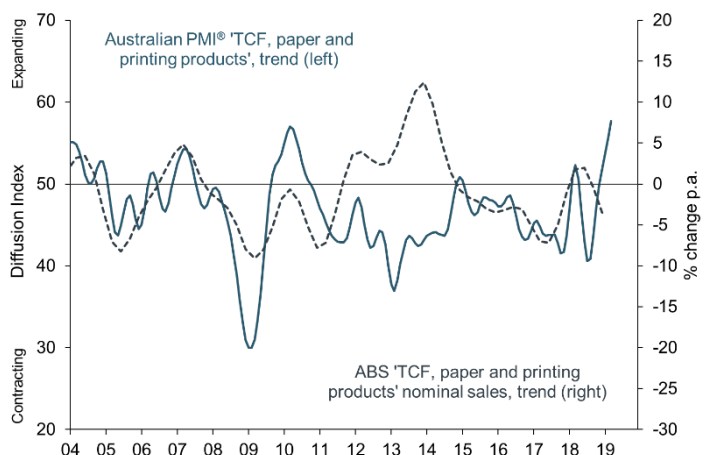


TCF, paper & printing products

The TCF, paper & printing products sector employed 90,200 people in February 2019 (10% of manufacturing employment).

This small but diverse sector makes textiles, clothing, footwear, paper, cardboard, printed products and recorded media. Its index rose by 2.0 points to 57.7 points in March (trend). Some respondents making paper, packaging and printed goods reported higher than usual demand for this time of year, which they attributed to forward orders for Easter. 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.

TCF, paper & printing products



Australian PMI® prices and wages

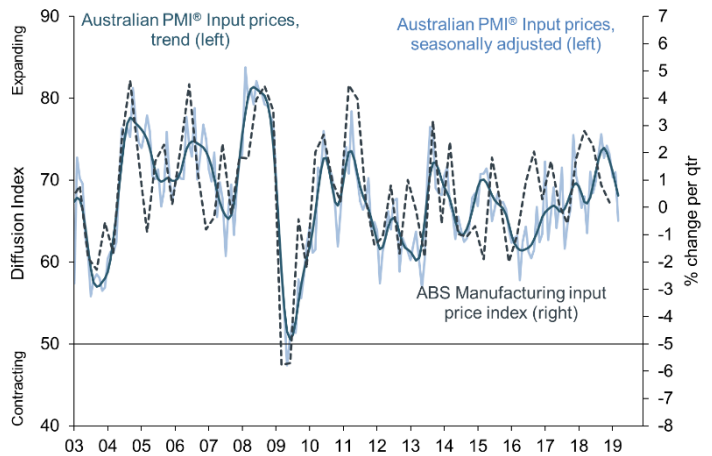
Input prices

Manufacturing input prices rose by an average of 6.2% over the year in Q4 2018, according to the ABS Producer Price Index (PPI).

The input price index dropped by 5.9 points to 65.1 points in March (seasonally adjusted). It has decelerated since reaching a recent peak of 75.6 points in September 2018 (seasonally adjusted revised data). March was the first time the input price index has fallen below its long-run average since April 2018 (67.7 points).

Input prices remained elevated for energy-intensive sectors including the machinery and equipment and metals sectors, reflecting their high energy costs. It was surprisingly subdued in the chemicals sector in March.

Input prices



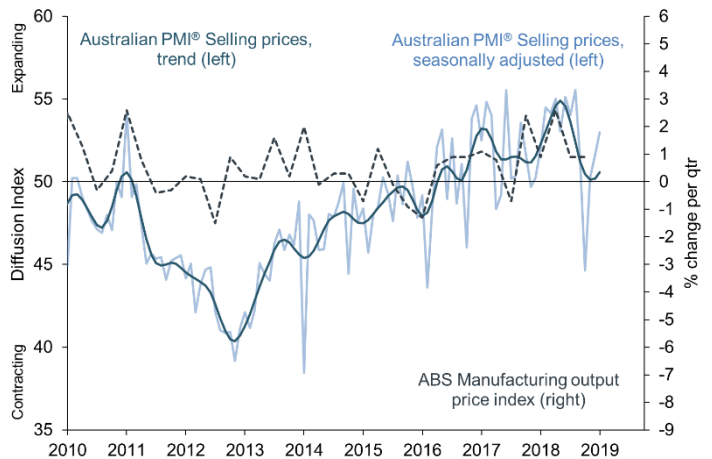
Selling prices

Manufacturing output prices rose by an average of 5.4% over the year in Q4 2018, according to the ABS Producer Price Index (PPI).

The manufacturing selling prices index rose by 1.4 points to 53.0 points in March (seasonally adjusted). This indicates that prices for some manufactured goods are going up again and at a faster rate than in February.

The heightened pricing volatility over recent months appears to be related to swings in commodity prices (affecting metals manufacturers' pricing) and in food and beverage prices that have been affected by drought.

Selling prices



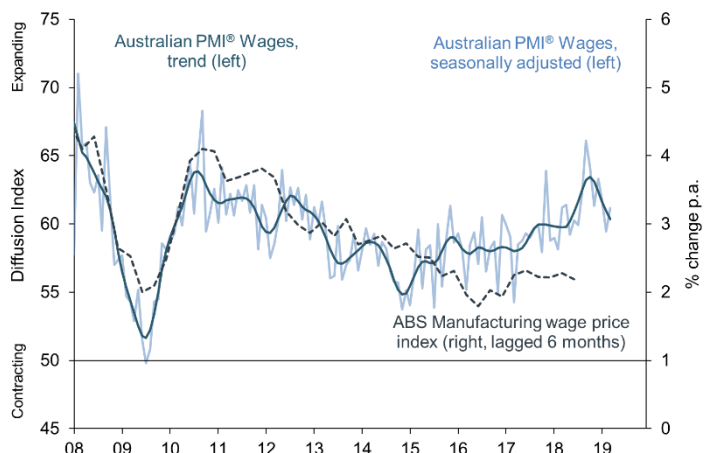
Average wages

Private sector wages across the manufacturing industry rose by an average of 2.2% over the year in Q4 2018, according to the ABS Wage Price Index (WPI).

The average wage index rose by 1.7 points to 61.2 points in March, indicating an acceleration in wage pressure across the manufacturing sector (seasonally adjusted).

This index rose steadily throughout 2017 and 2018 but has been trending lower since its recent peak in September 2018, indicating that fewer manufacturing businesses are now implementing wage rises, compared to the recent peak in Q3 of 2018.

Average wages



Australian PMI® activity

Production

The manufacturing industry produced \$104.9bn in real value-added output in the year to Q4 2018 (5.7% of Gross Domestic Product, GDP). Manufacturers' value-added output fell by 0.2% through the quarter in Q4 2018 but remained 1.6% higher through the year.

The production index fell to 52.8 points in March after rising in February (seasonally adjusted), indicating a weaker rate of expansion. This follows a brief contraction in late 2018. Production in Queensland was boosted by defence and mining maintenance projects. Food and beverages production remains expansionary nationally, despite drought-affected activity in some states. The 'building materials, furniture and other' manufacturing sector recorded weak production, reflecting the downturn in housing construction and slower demand for building-related products.

Employment

Manufacturing employed 857,100 people in February 2019 (6.7% of Australia's workforce, seasonally adjusted). Manufacturing employment fell by 6.8% p.a. to February 2019 (seasonally adjusted).

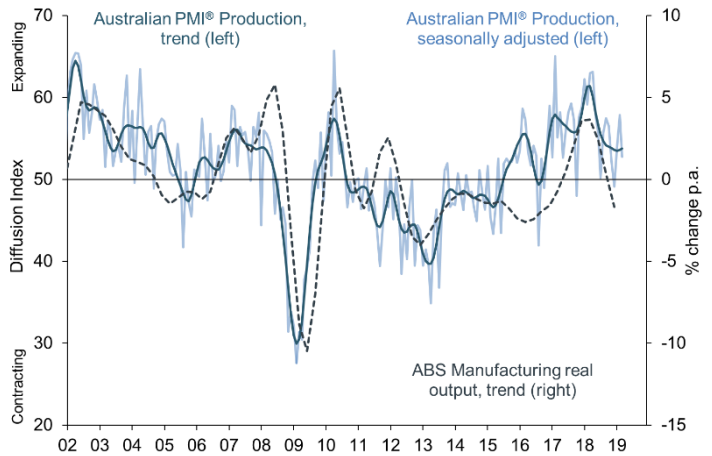
The employment index eased by 1.1 points to 56.6 points indicating slower growth in March (seasonally adjusted). This suggests businesses are now hiring again or increasing work hours, after an extended lull through summer. Employment was strongest in the 'food and beverages' sector and the smaller 'textiles, clothing, footwear, paper and printing products' sector, probably in response to the higher than usual demand that was noted by respondents in these sectors.

New orders

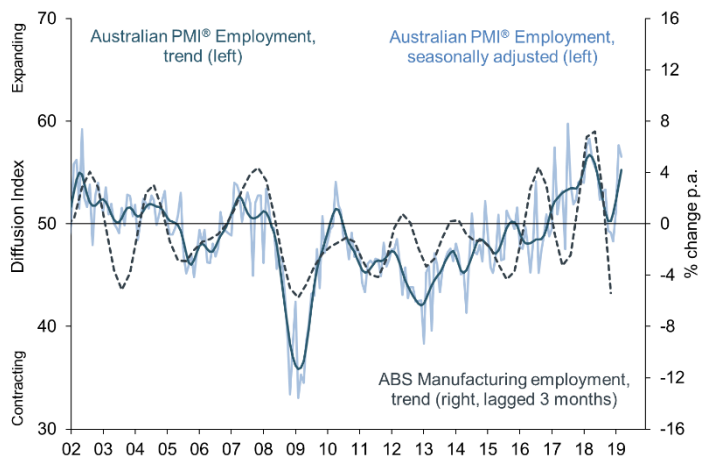
The new orders index fell by 2.0 points to 50.0 points in March (seasonally adjusted), indicating stability on average across manufacturing.

New orders remained expansionary in the food and beverages sector but were particularly weak in the machinery and equipment sector. Some respondents attributed this to a slowing economy while others said their customers are delaying new orders for larger machinery and equipment items until after the Federal election.

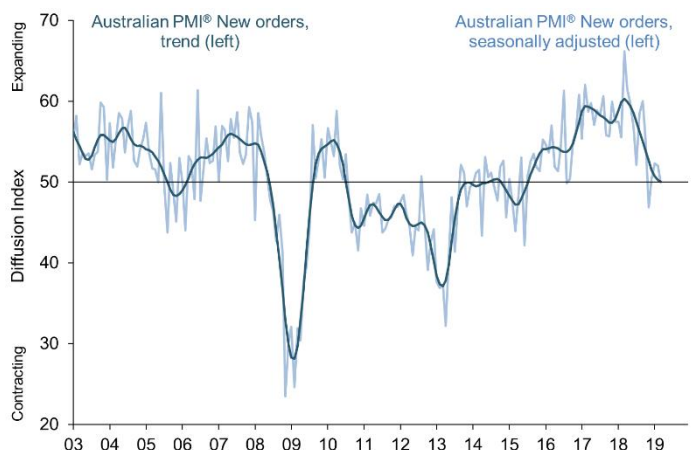
Production



Employment



New orders



Australian PMI® activity

Supplier deliveries and finished stocks

The Australian PMI® deliveries index dropped by 7.2 points into contraction at 45.7 points in March (seasonally adjusted). This suggests the deliveries of inputs from suppliers fell in March, possibly because of weather related events or because manufacturers expect they will require less inputs in the coming months.

The index for finished stocks (inventories) increased by 1.6 points but remained in contraction at 46.1 points in March (seasonally adjusted). This indicates that finished stocks were being depleted again in March, but at a slower rate than in February. With slower forward orders coming in, producers appear to be reducing their stock levels and input deliveries in anticipation of a slower year ahead.

Exports

Nominal export earnings for Australian manufacturers were worth \$118.4bn in the year to January 2019 (27% 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 decreased by a further 4.5 points to be stable at 50.7 points in March (seasonally adjusted). Exports in March were stronger in the metals and chemicals sectors but reasonably stable in the large food and beverages sector. Exports by the chemicals sector continue to benefit from strong international demand for Australian-made pharmaceuticals, skincare products, health supplements and vitamins.

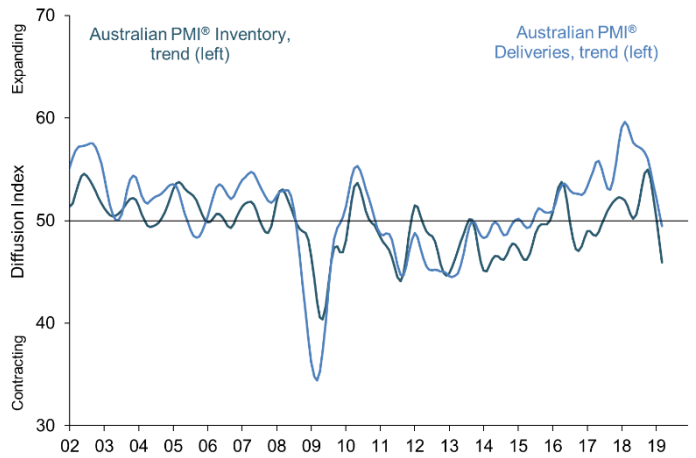
Sales

Australian manufacturers' nominal sales were worth \$355.8bn in the year to Q3 2018. They grew by 1.0% through the quarter and 1.1% through the year to Q4 2018, according the latest ABS Business Indicators data.

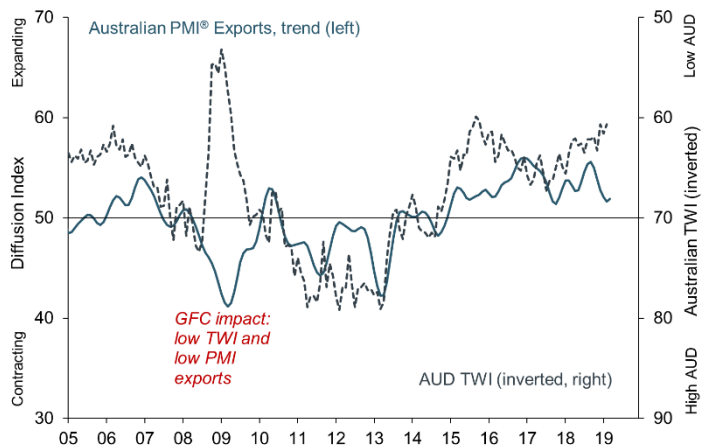
The Australian PMI® sales index dropped by 8.0 points to be in contraction at 46.4 points in March (seasonally adjusted). The sales index continues to track lower in 2019, after reaching a recent peak in Q1 of 2018.

Sales were particularly weak in the 'building materials, wood, furniture and other' manufacturing sector in March as well as in energy-intensive sectors including chemicals, machinery & equipment and metal products.

Supplier deliveries and finished stocks

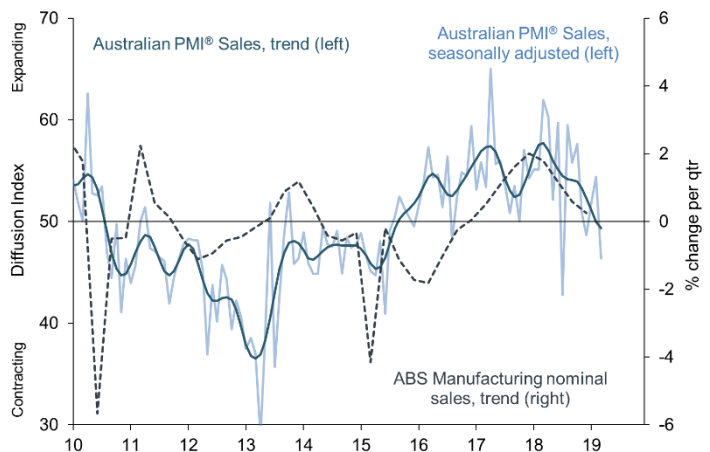


Exports



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

Sales



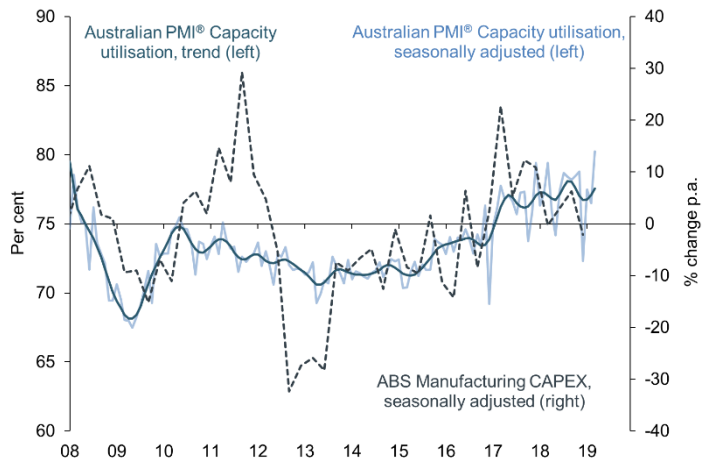
Australian PMI® activity

Capacity Utilisation

Australian manufacturers invested \$9.5bn in capital expenditure (CAPEX) in the year to Q4 2018. Their CAPEX fell by 0.5% through the quarter but rose 1.7% through the year to Q4 2018, according to the latest ABS CAPEX data.

The Australian PMI® capacity utilisation indicator jumped by 3.7 percentage points to 80.2% of available capacity in March (seasonally adjusted). This is a record high for this indicator. It comes after a sudden fall at the end of 2018. This elevated level of capacity utilisation suggests manufacturers may need to increase their investment and/or employment to expand their capacity, in order to meet any future acceleration in 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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