

AUSTRALIAN Performance of Manufacturing Index



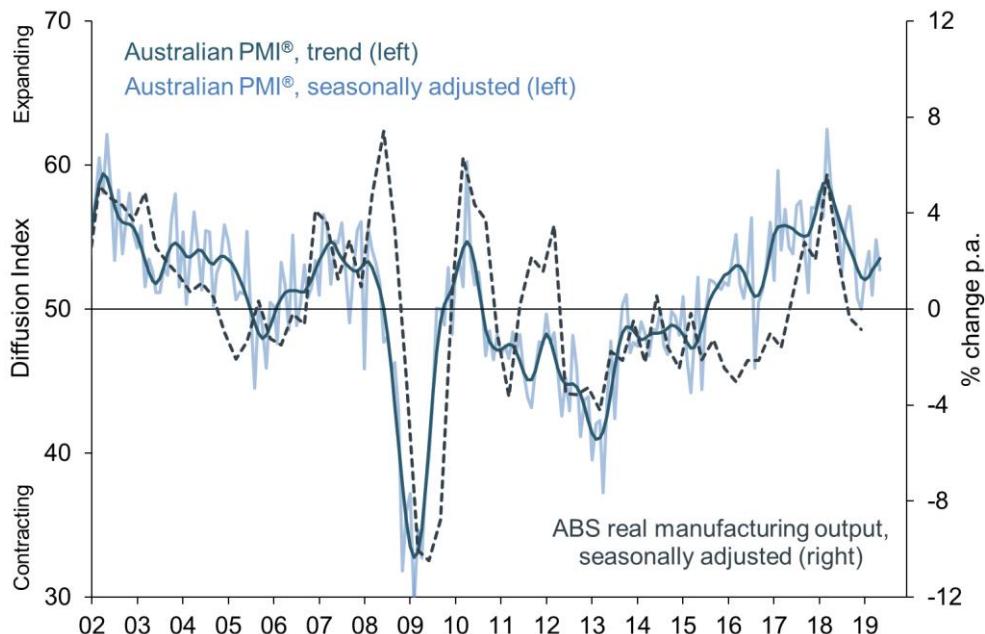
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Manufacturing recovery slows in May

The Australian Industry Group Australian Performance of Manufacturing Index (Australian PMI®) stayed in expansionary territory at 52.7 points in May, but eased by 2.1 points, indicating a slower rate of growth (seasonally adjusted). Results above 50 points indicate expansion with higher results indicating a stronger expansion in the month. The Australian PMI® has been stable or positive (50 points or higher) for 33 months. The last outright contraction in the Australian PMI® headline index was in August 2016 (monthly result below 50 points, seasonally adjusted).

Manufacturers reported slower conditions in May 2019 compared to April, although demand is still relatively elevated in most sectors. Manufacturers in the 'food and beverages' sector continue to report buoyant conditions, with the index for this sector reaching a record high (trend). In contrast, respondents from the metals and machinery & equipment sectors are reporting a downturn in demand in their sectors as well as further rises in their electricity costs.

Australian PMI® (seasonally adjusted and trend)



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

AUSTRALIAN PMI®	FOOD & BEVERAGES	MACHINERY & EQUIPMENT	METAL PRODUCTS
52.7	63.9	45.1	45.2
↓ 2.1 POINTS (seasonally adjusted)	↑ 1.8 POINTS (trend)	↓ 0.9 POINTS (trend)	↓ 0.3 POINTS (trend)
AUSTRALIAN PMI®	CHEMICALS	BUILDING MATERIALS, WOOD, FURNITURE & OTHER	TCF, PAPER & PRINTING
53.5	54.1	62.0	49.4
↑ 0.4 POINTS (trend)	↑ 0.8 POINTS (trend)	↑ 3.8 POINTS (trend)	↓ 1.9 POINTS (trend)

Australian PMI® summary

Manufacturing sectors: Three of the six sectors in the Australian PMI® expanded in May (trend). Advances in May were most marked in the food & beverages sector, which expanded at its fastest rate on record. Chemical and 'building materials, wood, furniture and other' manufacturers also reported positive conditions in May. Both the metal products and machinery & equipment sectors contracted further in May, weighed down by slowing economic conditions.

Manufacturing wages and prices: The input price index rose again in May, after falling in the previous two months. Manufacturers in the metals sector reported higher electricity costs in May. Elevated energy prices remain the largest concern for many manufacturers, with stable and effective policy in this area a key area of interest. Both the average wage index and the selling prices index eased in May but remained at expansionary levels.

Manufacturing activity: Five of the seven activity indices in the Australian PMI® indicated expanding conditions in May, while two indicated broadly stable conditions. All indices slowed in May except for the employment and finished stocks indices. The employment index recovered in May, lifting by 3.6 points to 55.1 points. This rebound in the employment index is a positive development, after the index fell into contraction at the end of 2018. The production index experienced its largest single-month fall since October 2017 (-6.9 points).

Manufacturing highlights: Manufacturers in the 'food and beverages' sector continue to report buoyant conditions with this index reaching a record high (trend). Export orders were buoyant in the chemicals sector in May. Respondents selling products to local non-residential construction, commercial buildings and defence industries reported winning new contracts. Conditions were also positive for manufacturers selling metal products and machinery & equipment to the mining and renewable energy sectors.

Manufacturing concerns: Manufacturers reported slower conditions in May compared to April, although demand is still relatively elevated. Metals and machinery & equipment respondents are reporting an overall downturn in demand for their sectors as well as further rises in electricity costs.

AUSTRALIAN PMI® KEY NUMBERS	Index this month	Change from last month	12-month average		Index this month	Change from last month	12-month average
seasonally adjusted				trend			
Australian PMI®	52.7	-2.1	53.5	Australian PMI®	53.5	0.4	53.6
Production	51.2	-6.9	54.2	Food & beverages	63.9	1.8	59.1
Employment	55.6	4.1	52.8	Machinery & equipment	45.1	-0.9	50.9
New Orders	52.3	-3.3	53.5	Metals products	45.2	-0.3	49.8
Supplier Deliveries	53.6	-3.6	54.6	Petroleum, coal, chemicals			
Finished stocks	50.8	2.9	51.2	& rubber products	54.1	0.8	53.8
Exports	50.3	-3.6	53.4	Building, wood, furniture			
Sales	51.6	-2.3	52.8	& other products	62.0	3.8	57.6
Input Prices	68.3	3.6	70.5	Textiles, clothing, footwear,			
Selling Prices	52.1	-2.8	52.6	paper & printing	49.4	-1.9	48.3
Average Wages	55.5	-2.2	61.1				
Capacity Utilisation (%)	78.8	-4.2	78.2				

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
Latest ABS data, seasonally adjusted	\$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	12.5% of non-farm business sales
Nominal export earnings, \$bn, year to Mar 2019 (original)	120.3	2.2	11.2	26.6% of total export earnings
Nominal company profits (GOP), \$bn, year to Dec 2018	32.9	-0.7	5.7	9.3% of non-farm company profits (GOP)
Nominal investment (CAPEX), \$bn, year to Mar 2019	9.3	-2.1	-0.5	7.9% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Dec 2018	53.1	0.7	3.1	9.6% 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 & beverages, improved by 1.8 points to a record high of 63.9 points (trend), indicating a faster rate of expansion in May.

Respondents noted healthy new orders in May. Capacity utilisation is currently at a high level. Input prices remain high in May mainly due to high prices (and reduced availability) of local agricultural inputs due to the drought.

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 large machinery & equipment sector's index fell by 0.9 points to 45.1 points (trend), indicating a sharper rate of contraction in May. This sector's index has slowed significantly since the end of 2018. It is now at its lowest monthly level since September 2015.

Respondents reported weak economic conditions detracting from demand. The high cost of imported materials also had a negative influence in May. More positively, some respondents reported renewed demand from customers in the mining and renewables sectors.

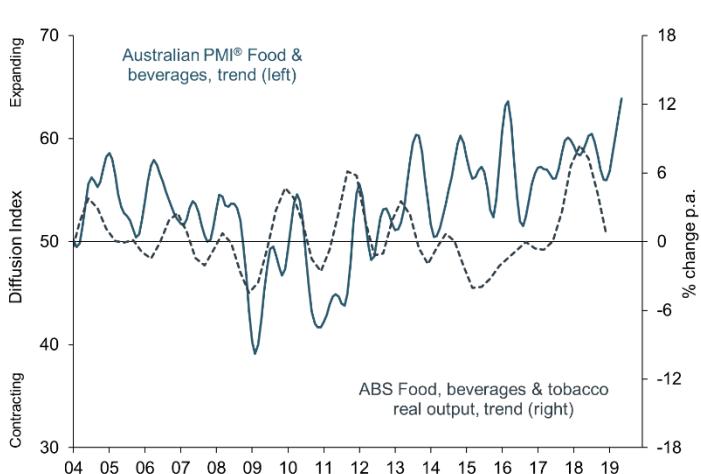
Metal products

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).

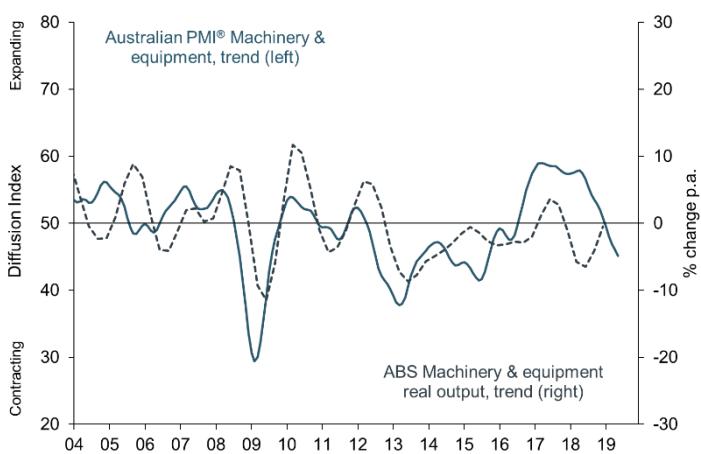
The large metals sector weakened further in May, falling by 0.3 points to 45.2 points (trend). This sector includes steel, aluminium, forging and downstream metal products. It has now contracted for six consecutive months.

Respondents are reporting an overall downturn in demand for the metals and engineering sector, as well as further rises in electricity input prices.

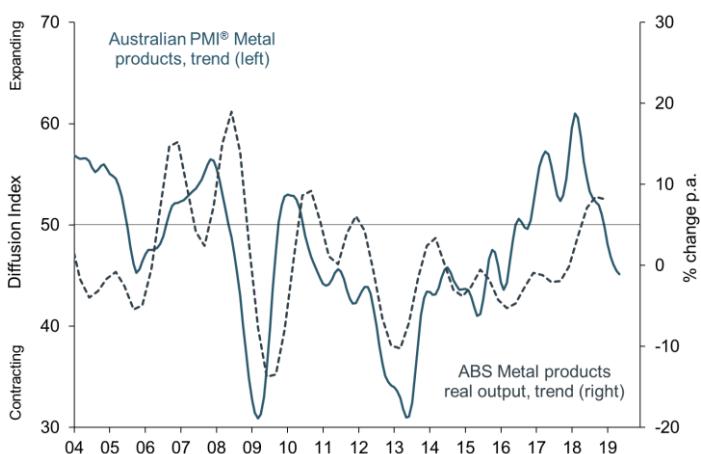
Food & beverages



Machinery & equipment



Metals products



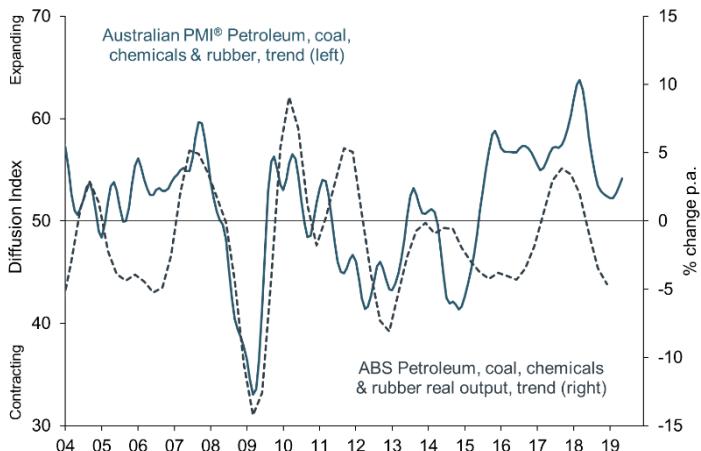
Australian PMI® sectors

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 diverse chemicals sector rose by 0.8 points to 54.1 points in May (trend). This extremely diverse sector produces chemicals, fertilisers, pharmaceuticals, toiletries and health supplements (all of which are growing steadily), as well as construction-related products such as paints, adhesives and surface treatments. Export orders were buoyant for this sector in May.

Petroleum, coal, chemicals & rubber products

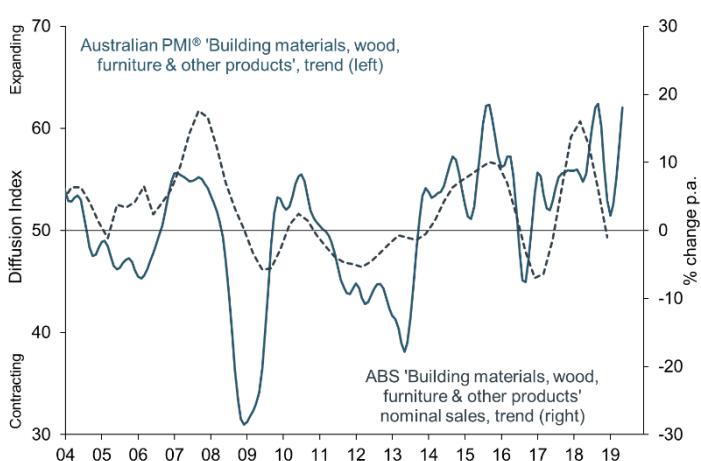


Building materials, wood, furniture & other manufacturing products

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 & other manufacturing' products (including building-related products such as glass, bricks, cement, tiles, porcelain, timber, furniture, furnishings and other household products) jumped up by 3.8 points to 62.0 points in May (trend). Respondents selling products into non-residential construction, commercial buildings and defence industry suppliers reported winning new contracts.

Building materials, wood, furniture & other manufacturing products

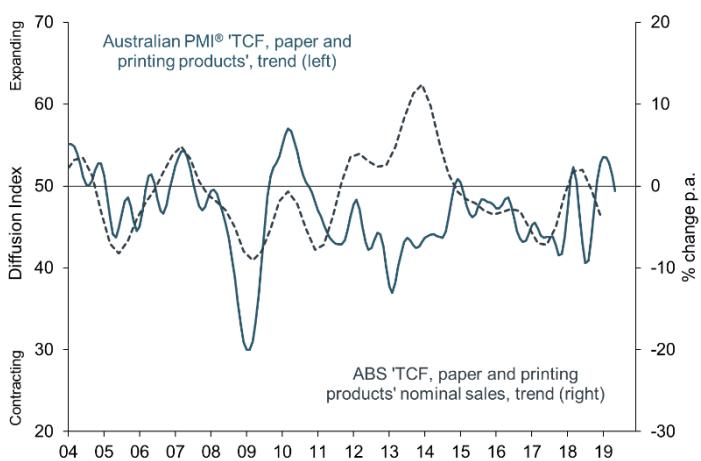


TCF, paper & printing products

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

The small but diverse 'TCF, paper & printing products' sector retreated to stable conditions in May with its index falling by 1.9 points to 49.4 points (trend). This sector makes textiles, clothing, footwear, paper, cardboard, printed products and recorded media. Respondents reported fairly negative conditions this month, with some noting weak consumer spending as a hindrance to new orders. This was the weakest monthly result for this sector since October 2018.

TCF, paper & printing products



Australian PMI® prices and wages

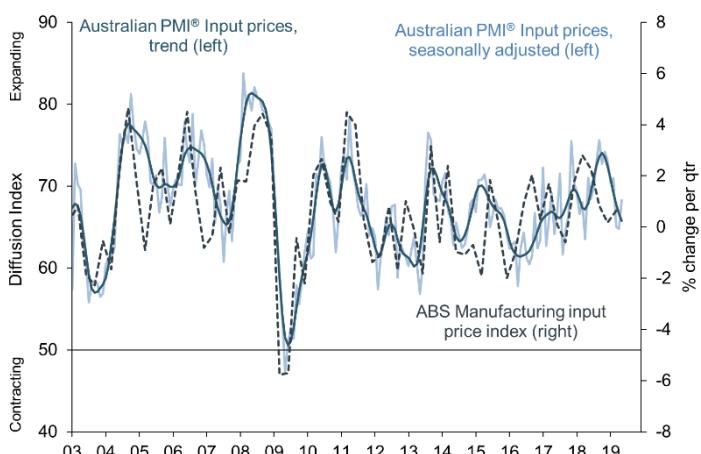
Input prices

Manufacturing input prices rose by an average 0.6% over the quarter and 4.0% over the year in Q1 2019, according to the ABS Producer Price Index (PPI).

The input price index accelerated by 3.6 points to 68.3 points in May (seasonally adjusted). This is the highest result since February, after two months of more subdued input price increases.

Input prices were high in May for the three largest manufacturing sectors – food & beverages, machinery & equipment and metal products. Several respondents in these sectors reported higher electricity costs in May.

Input prices

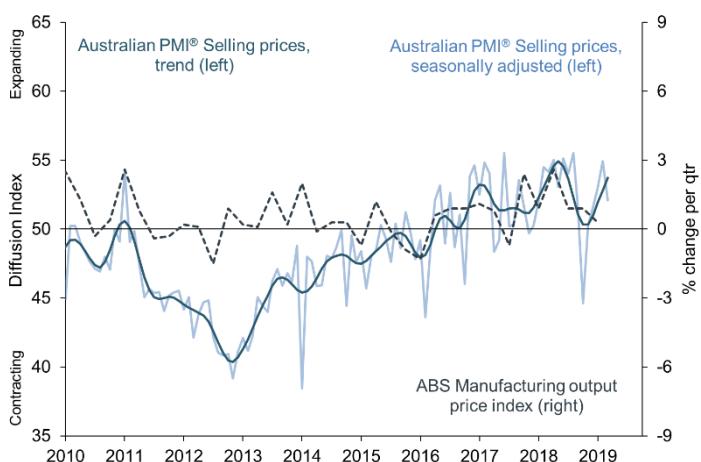


Selling prices

Manufacturing output prices rose by an average 0.3% over the quarter and 4.7% over the year in Q1 2019, according to the ABS Producer Price Index (PPI).

The manufacturing selling prices index fell by 2.8 points to 52.1 points in May (seasonally adjusted). This indicates that prices for some manufactured goods went up but at a slower pace in May compared to April. Selling price rises for manufacturers increased the fastest in the 'building materials, wood, furniture & other' sector. Although monthly data can be volatile, continuing expansion in this sub-index (results above 50 points) suggests that more of the cost pressures from manufacturing inputs (especially energy input costs) are being passed on to customers.

Selling prices

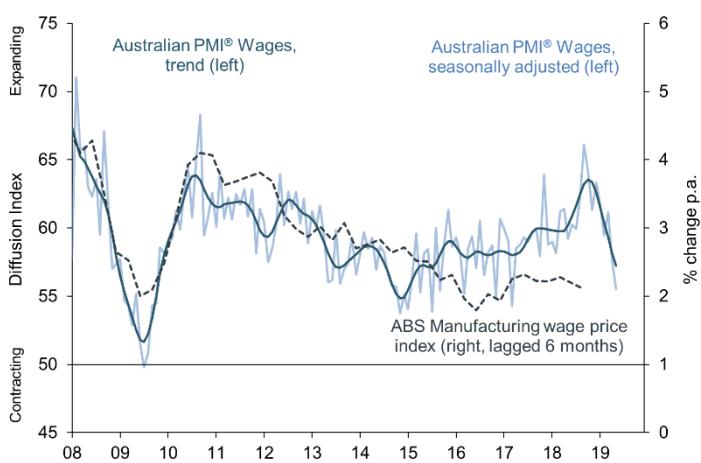


Average wages

Private sector wages across the manufacturing industry rose by an average of 0.4% over the quarter and 2.1% over the year in Q1 2019, according to the ABS Wage Price Index (WPI).

The average wage index declined by 2.2 points to 55.5 points in May, indicating ongoing wage pressures across the manufacturing sector, albeit at a slower rate (seasonally adjusted). This is the lowest monthly result for this index since March 2017 and is below the historical average of 59.2 points. This index has been trending lower since its recent peak in September 2018. It indicates that fewer manufacturing businesses are now implementing wage rises, compared to the recent peak in Q3 of 2018.

Average wages



Australian PMI® activity

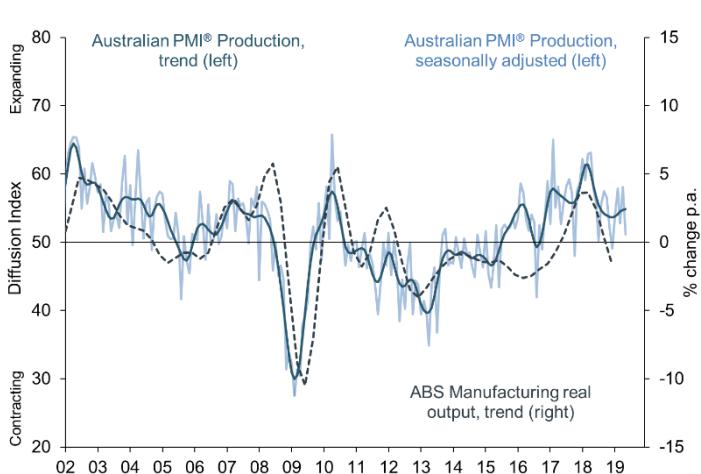
Production

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' annual value-added output fell by 0.2% through the quarter in Q4 2018 but remained 1.6% higher than one year earlier.

The production index dropped to its lowest level since December 2018, falling by 6.9 points to 51.2 points in May 2019 (seasonally adjusted).

Chemical manufacturers reported stronger production in May. The larger manufacturing sectors including food & beverages, machinery & equipment and metal products all reported contracting production in May.

Production

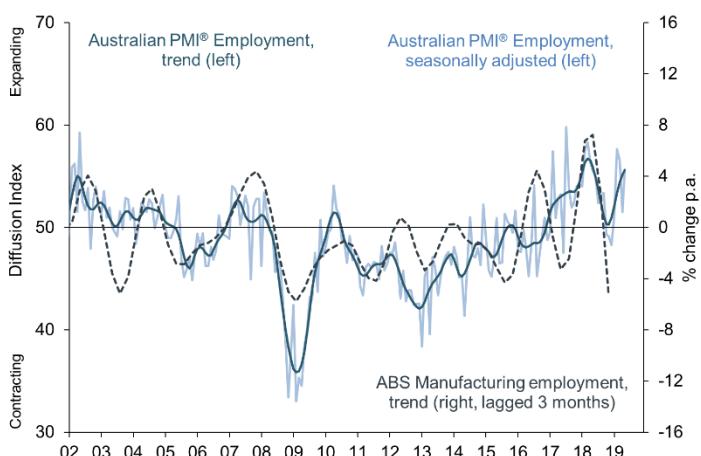


Employment

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 in the Australian PMI® recovered in May, lifting by 4.1 points to 55.6 points, after falling in April (seasonally adjusted). This rebound in the employment index is positive after the index fell into contraction at the end of 2018. ABS data indicate that manufacturing employment fell significantly over the summer period. Employment was weakest in the 'textiles, clothing, footwear, paper & printing products' sectors and was stable or expanding in all other sectors.

Employment

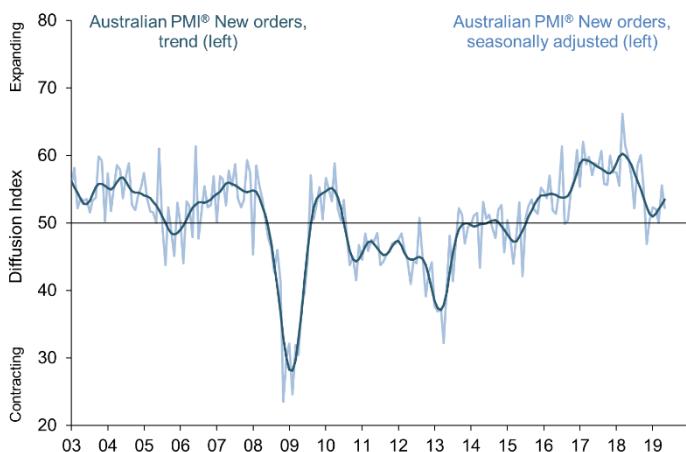


New orders

The new orders index was softer in May but remained mildly expansionary, falling by 3.3 points to 52.3 points (seasonally adjusted).

New orders expanded in the food & beverages sector but were particularly weak across most other sectors. Respondents in the metal products sector have been reporting fewer new orders since December 2018.

New orders



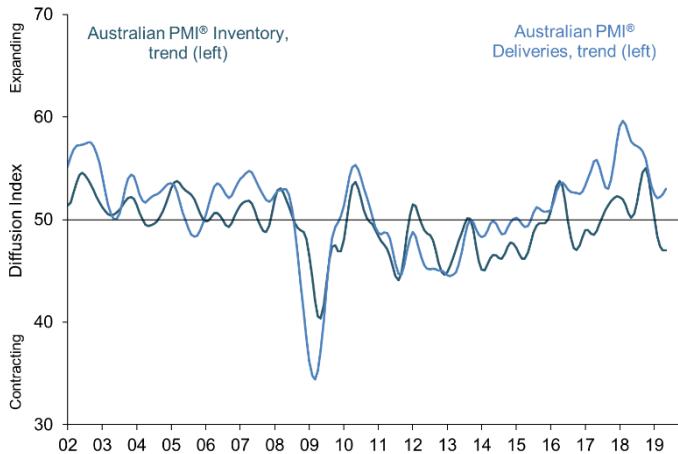
Australian PMI® activity

Supplier deliveries and finished stocks

The index for supplier deliveries index fell by 3.6 points to 53.6 points in May, remaining in expansion for a second month (seasonally adjusted). This suggests a rise in the deliveries of inputs from suppliers but at a slower rate in May than in April.

The finished stocks (inventories) index increased by 2.9 points to 50.8 points in May (seasonally adjusted). This indicates that finished stock levels were broadly stable in May, after being depleted in April. In trend terms, this index has fallen into contraction (i.e. stock depletions) after peaking in February 2018.

Supplier deliveries and finished stocks

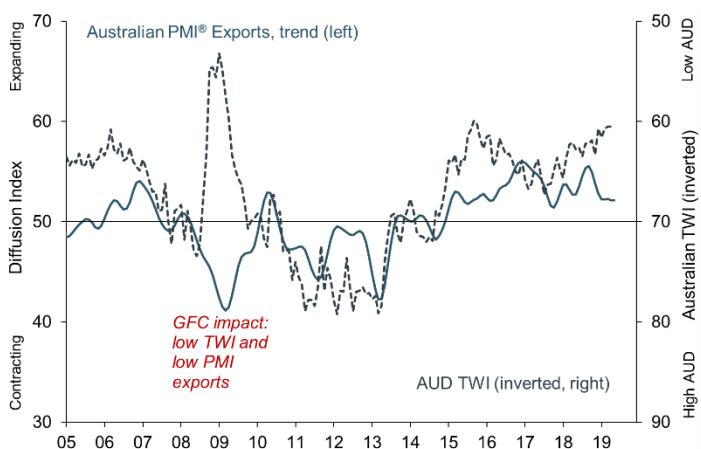


Exports

Nominal export earnings for Australian manufacturers were worth \$120.3bn in the year to March 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 fell by 3.6 points to 50.3 points in May (seasonally adjusted). This indicates that export orders were stable in May and lower than in April. The trade weight index (TWI) – the Australian dollar weighted against trading partner currencies – has fallen since the start of 2017. A lower TWI tends to make Australian manufacturers more competitive in export markets. In 2019 however, other factors appear to be weighing on the Australian PMI® exports index, which has not increased in recent months (as could normally be expected with a drop in the TWI).

Exports



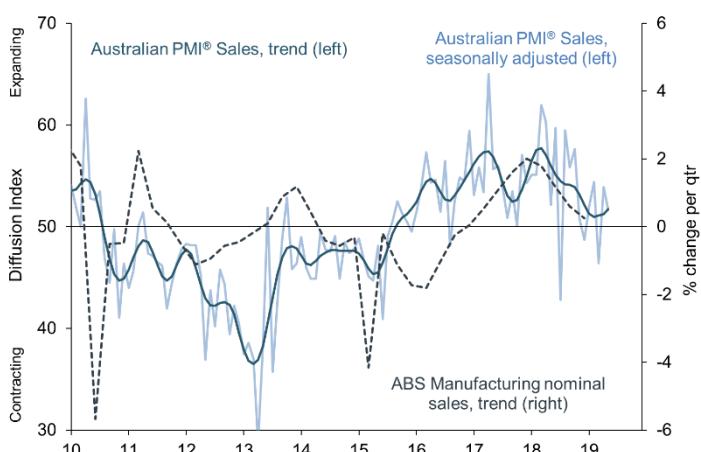
* AUD TWI = Australian dollar trade weighted index, monthly.

Sales

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

The Australian PMI® sales index eased by 2.8 points to 51.1 points in May, indicating rising sales but at a slower rate than in April (seasonally adjusted). In trend terms, the sales index appears to be stabilizing at just above 50 points after falling from record highs at the end of 2017.

Sales



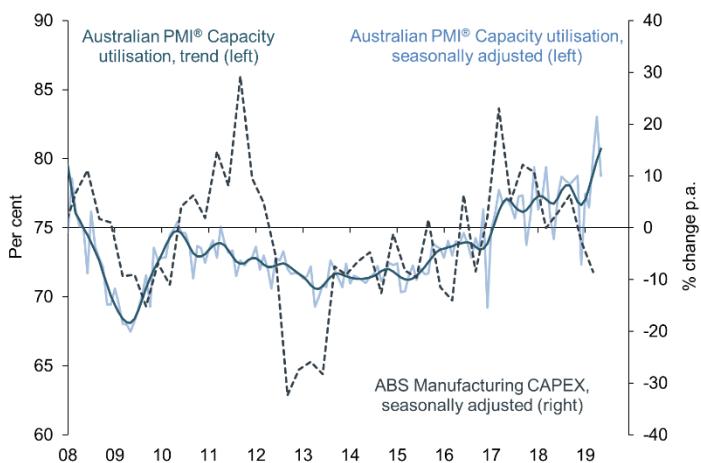
Australian PMI® activity

Capacity Utilisation

Australian manufacturers invested \$9.3bn in capital expenditure (CAPEX) in the year to Q1 2019. Their CAPEX fell by 2.1% through the quarter and 0.5% through the year to Q1 2019, according to the latest ABS CAPEX data.

The Australian PMI® capacity utilisation eased back from the record high reached in April. This indicator decreased by 4.2 percentage points to 78.8% of available capacity (seasonally adjusted). Respondents in the food & beverages sector been recording high levels of capacity utilisation compared to other sectors.

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 & other manufacturing products including glass, ceramic, cement, lime, plaster, concrete, wood, logs, timber, furniture & 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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