AiGROUP

November 2019

AUSTRALIAN Performance of Manufacturing Index

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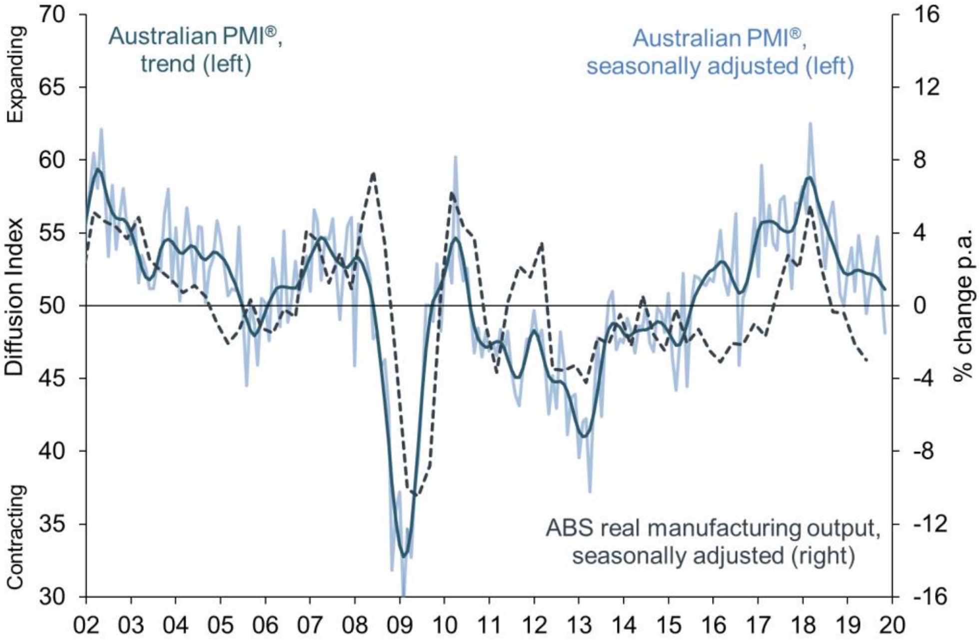
Weakest manufacturing conditions in three years

The Australian Industry Group Australian Performance of Manufacturing Index (Australian PMI®) fell by 3.5 points to 48.1 points, which is the lowest reading since August 2016 (seasonally adjusted). Results below 50 points indicate contraction with lower results indicating a faster contraction in the month.

The fall in the Australian PMI® to a level below the critical 50-points threshold (that separates expansion from contraction) has only occurred in three months since July 2015. The faster rate of contraction of the new orders index in November suggests a weak Christmas period ahead for Australian manufacturers. However, some manufacturing sectors are reporting better conditions than others, with manufacturers in the large food and beverage sector continuing to report buoyant conditions.

Australian PMI® (seasonally adjusted and trend)



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

AUSTRALIAN PMI®
48.1
↓ 3.5 POINTS (seasonally adjusted)

FOOD & BEVERAGES
60.8
↑ 0.4 POINTS (trend)

MACHINERY & EQUIPMENT
53.1
↓ 0.3 POINTS (trend)

METAL PRODUCTS
46.8
↑ 1.7 POINTS (trend)

AUSTRALIAN PMI®
51.1
↓ 0.4 POINTS (trend)

CHEMICALS
51.6
↓ 0.4 POINTS (trend)

BUILDING MATERIALS, WOOD, FURNITURE & OTHER
42.8
↓ 2.6 POINTS (trend)

TCF, PAPER & PRINTING
38.1
↓ 1.6 POINTS (trend)

Australian PMI® summary

Manufacturing sectors: Three of the six sectors in the Australian PMI® expanded in November and three contracted (trend). The 'food & beverages', 'machinery & equipment' and 'chemicals' sectors expanded. The 'metal products', 'building materials, wood & other manufacturing' and 'TCF, paper and printing' sectors contracted in November.

Manufacturing wages and prices: The growth in input prices slowed in November, falling below the long-run average for this index. The easing of input price rises in November is welcome given that manufacturing profit margins were reduced further over the last year according to ABS producer pricing data. The selling price index jumped into expansion, which indicates that manufacturers' selling prices increased in November. The average wages index eased further in November, which indicates that a lower proportion of businesses are facing upward wage pressures.

Manufacturing activity: As suggested in October, the recent weakness in new orders has now started to flow through to other activity indices. Employment, new orders and supplier deliveries contracted while production, sales and exports were stable. All activity indices were weaker in November except for finished stocks which remained in expansion. The faster rate of contraction of new orders in November suggests a weak Christmas period ahead for Australian manufacturers.

Manufacturing highlights: The large food & beverages sector remained elevated in November, driven by rising exports and a seasonal increase in demand because of Christmas. Although still contracting, the metals sector rate of contraction has slowed in recent months, with those businesses servicing mining and defence projects reporting solid market conditions.

Manufacturing concerns: Drought remains a top concern for many manufacturers, particularly those located in rural areas or those selling metal products and machinery & equipment to the agricultural sector. The small but diverse TCF, paper and printing' sector recorded its lowest reading since early 2013, with respondents noting weak market demand and rising raw material 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®	**48.1**	**-3.5**	**51.9**	**Australian PMI®**	**51.1**	**-0.4**	**52.1**
Production	49.7	-5.8	52.6	Food & beverages	60.8	0.4	59.3
Employment	47.3	-5.5	52.8	Machinery & equipment	53.1	-0.3	50.2
New Orders	47.2	-1.1	51.8	Metals products	46.8	1.7	44.3
Supplier Deliveries	45.3	-7.0	51.4	Petroleum, coal, chemicals			
Finished stocks	52.6	4.2	49.9	& rubber products	51.6	-0.4	52.8
Exports	49.8	-2.0	52.3	Building, wood, furniture			
Sales	49.2	-2.9	50.5	& other products	42.8	-2.6	53.5
Input Prices	64.0	-10.7	68.6	Textiles, clothing, footwear,			
Selling Prices	51.2	6.2	50.3	paper & printing	38.1	-1.6	46.5
Average Wages	56.8	-2.5	59.6				
Capacity Utilisation (%)	74.6	-2.0	77.8				

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 Jun 2019	103.7	-0.8	-1.5	5.6% of total GDP
Nominal sales, $bn, year to Jun 2019	355.2	1.0	1.0	12.2% of non-farm business sales
Nominal export earnings, $bn, year to Sep 2019 *(original)*	124.8	1.7	8.7	25.6% of total export earnings
Nominal company profits (GOP), $bn, year to Jun 2019	31.4	-2.8	-3.0	8.4% of non-farm company profits (GOP)
Nominal investment (CAPEX), $bn, year to Sep 2019	9.4	0.8	-2.0	7.9% of non-farm private sector CAPEX
Nominal aggregate wages, $bn, year to Jun 2019	53.8	0.4	3.0	9.6% of non-farm business wages
Number of filled manufacturing jobs, '000, Jun Qtr 2019	876.0	-0.4	0.1	6.1% of total filled jobs

ABS data sources: *Australian National Accounts; Australian Business Indicators; CAPEX; International Trade; Labour Account.*

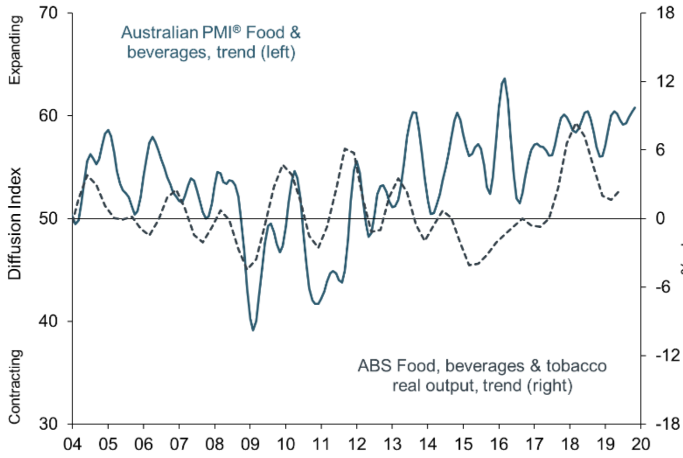
For more detail about the Ai Group Australian PMI® visit: www.aigroup.com.au/policy-and-research/economics/

Australian PMI® sectors

Food & beverages

- The food, beverages & tobacco sector produced $27.6bn in real value-added output in the year to Q2 2019 (27% of manufacturing real value-added output).
- It employed 237,000 people in August 2019 (27% of manufacturing employment).
- The index for food & beverages increased by 0.4 points to 60.8 points, indicating an accelerating rate of expansion in November (trend).
- The index for this sector remains above the long-run average (53.5 points since 2003).
- Respondents in the largest manufacturing sector noted rising exports and a seasonal increase in production in the lead up to Christmas.

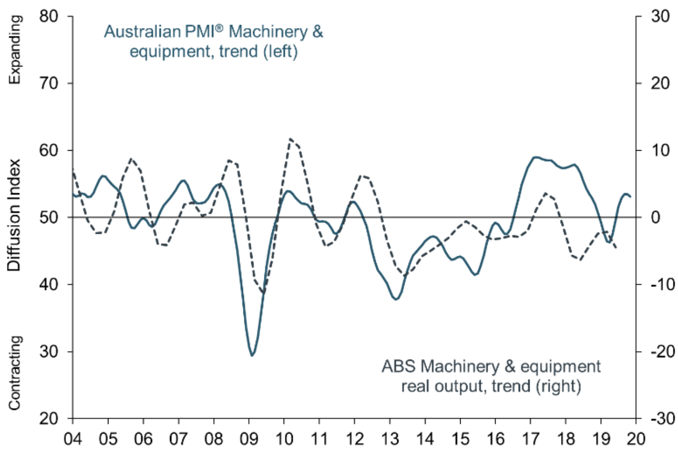
Food & beverages



Machinery & equipment

- The machinery & equipment sector produced $18.8bn in real value-added output in the year to Q2 2019 (18% of manufacturing real value-added output).
- It employed 178,000 people in August 2019 (20% of manufacturing employment).
- The index for machinery & equipment fell by 0.3 points to 53.1 points, indicating a slight slowing in the rate of expansion in November (trend).
- The index for this sector remains above the long-run average (49.7 points since 2003).
- Respondents who sell agricultural machinery & equipment are reporting weak conditions because of the drought.

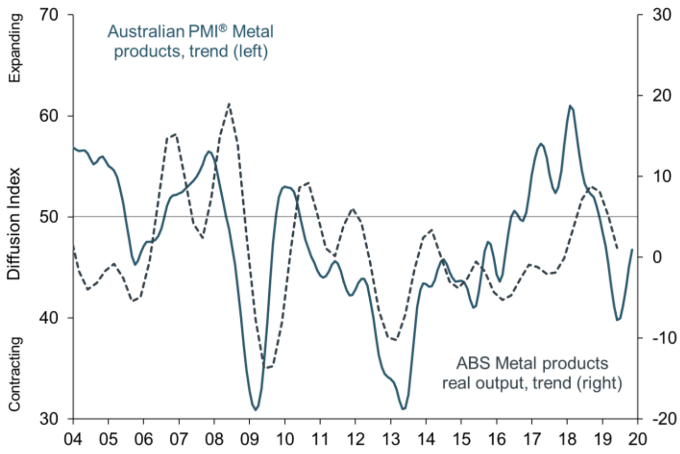
Machinery & equipment



Metal products

- The metal products sector produced $17.3bn in real value-added output in the year to Q2 2019 (17% of manufacturing real value-added output).
- It employed 136,000 people in August 2019 (15% of manufacturing employment).
- The index for metal products increased by 1.7 points to 46.8 points in November, indicating a slower rate of contraction (trend).
- The index for this sector is below the long-run average (47.5 points since 2003).
- Although still contracting, the metals sector rate of contraction has slowed in recent months, with those businesses servicing mining and defence projects reporting solid market conditions.

Metals products

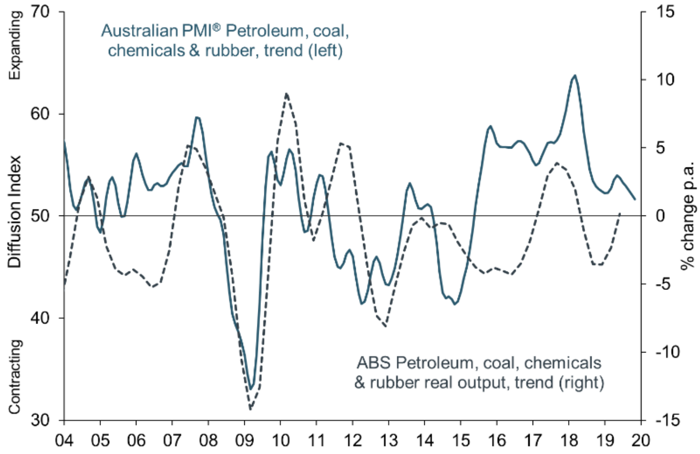


Australian PMI® sectors

Petroleum, coal, chemicals & rubber products

- The petroleum, coal, chemicals & rubber sector produced $18.9bn in real value-added output in the year to Q2 2019 (18% of manufacturing real value-added output).
- It employed 93,000 people in August 2019 (11% of manufacturing employment).
- The index for the chemicals sector eased by 0.4 points to 51.6 points, indicating a slight slowing in the rate of expansion in November (trend).
- The index for this sector is just above the long-run average (51.4 points since 2003).
- Some respondents noted increased competition and lower profit margins in November.

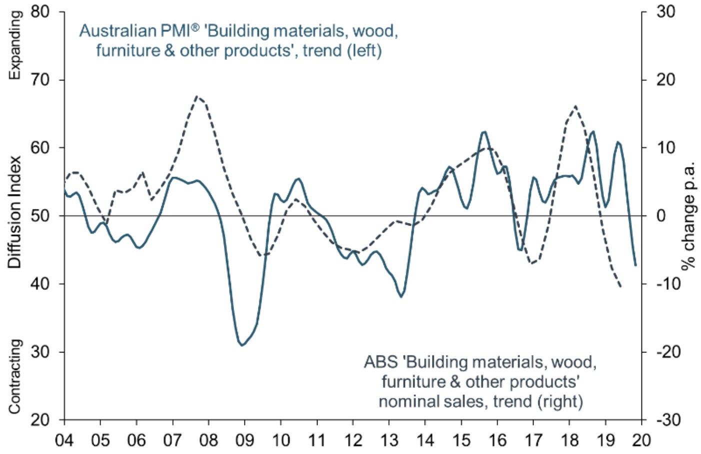
Petroleum, coal, chemicals & rubber products



Building materials, wood, furniture & other manufacturing products

- The building materials, wood, furniture & other manufacturing products sector employed 155,000 people in August 2019 (18% of manufacturing employment).
- This sector includes building-related products such as glass, bricks, cement, tiles, porcelain, timber, furniture, furnishings and other household products.
- The index for the building materials, wood, furniture & other manufacturing products fell by a further 2.6 points to 42.8 points, indicating contracting conditions in November (trend).
- The index for this sector is below the long-run average (50.4 points since 2003).
- Respondents noted that falling levels of building activity has reduced demand for manufactured building materials.

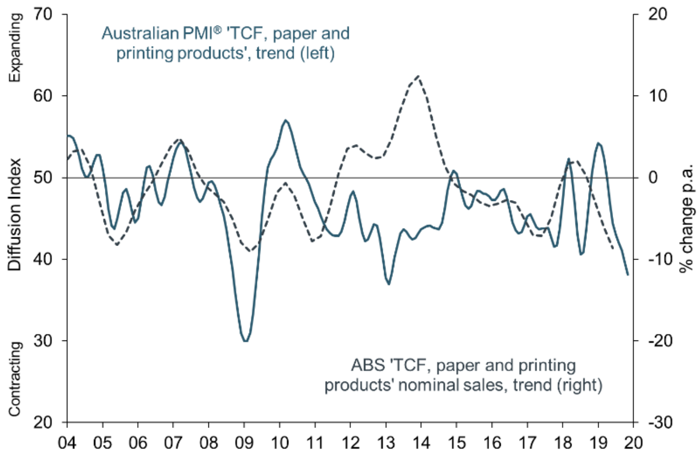
Building materials, wood, furniture & other manufacturing products



TCF, paper & printing products

- The textiles, clothing, footwear (TCF), paper & printing products sector employed 81,000 people in August 2019 (9% of manufacturing employment).
- This sector makes textiles, clothing, footwear, paper, cardboard, printed products and recorded media.
- The index for textiles, clothing, footwear (TCF), paper & printing products fell by 1.6 points to 38.1 points, indicating further contraction in November (trend).
- The index for this sector is below the long-run average (46.6 points since 2003) and is the lowest reading since February 2013.
- Weak demand and rising raw material costs were noted by respondents for the weak conditions in November in this small yet diverse manufacturing sector.

TCF, paper & printing products

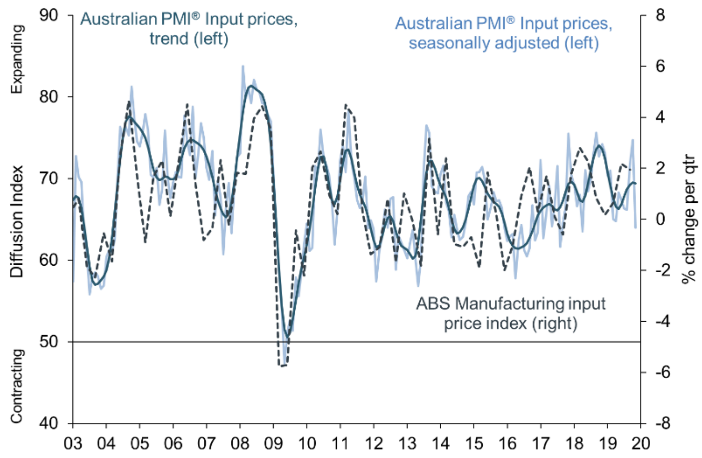


Australian PMI® prices and wages

Input prices

- Manufacturing input prices rose by an average of 2.0% over the quarter and 5.0% over the year in Q3 2019, according to the ABS Producer Price Index.
- The input price index dropped by 10.7 points to 64.0 points in November (seasonally adjusted). This indicates that input price increases slowed in November.
- This result is now below the long-run average for this index after recording the highest reading in a year in October (67.7 points since 2003).
- The easing in input price rises in November is welcome, given that manufacturing profit margins were reduced further over the last year according to ABS producer pricing data.

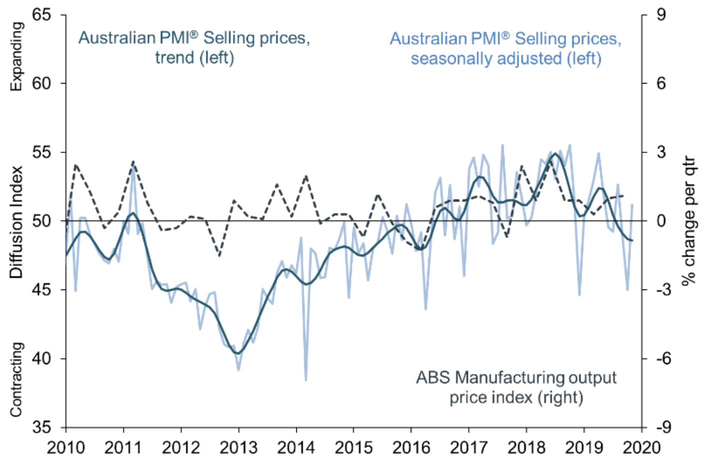
Input prices



Selling prices

- Manufacturing output (selling) prices rose by an average of 1.1% over the quarter and 3.3% over the year in Q3 2019, according to the ABS Producer Price Index (PPI).
- The selling price index jumped 6.2 points to 51.2 points in November (seasonally adjusted). This indicates that manufacturers' selling prices increased in November.
- This result is above the long-run average for this index (48.1 points since 2007).
- Respondents in the chemicals and TCF, paper and printing sectors noted fierce competition is reducing their ability to increase selling prices.

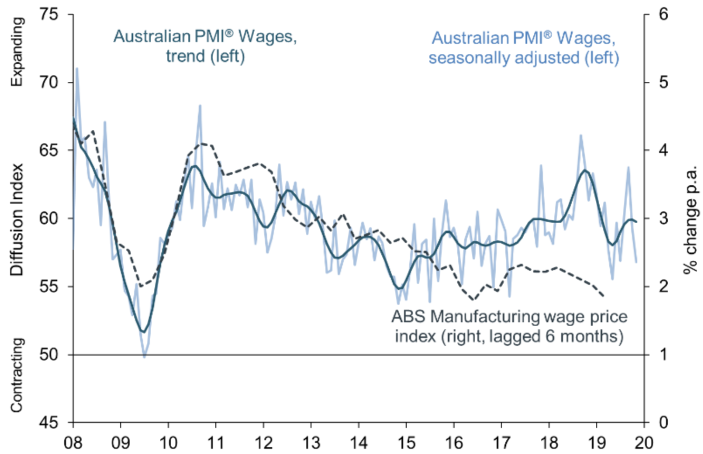
Selling prices



Average wages

- Private sector wages across the manufacturing industry rose by an average of 0.7% over the quarter and 1.8% over the year in Q3 2019, according to the ABS Wage Price Index (WPI).
- The average wages index fell by a further 2.5 points to 56.8 points in November, indicating manufacturing wages rose at a slower rate than in October (seasonally adjusted).
- This result fell below the long-run average for this index (59.2 points since 2007).

Average wages

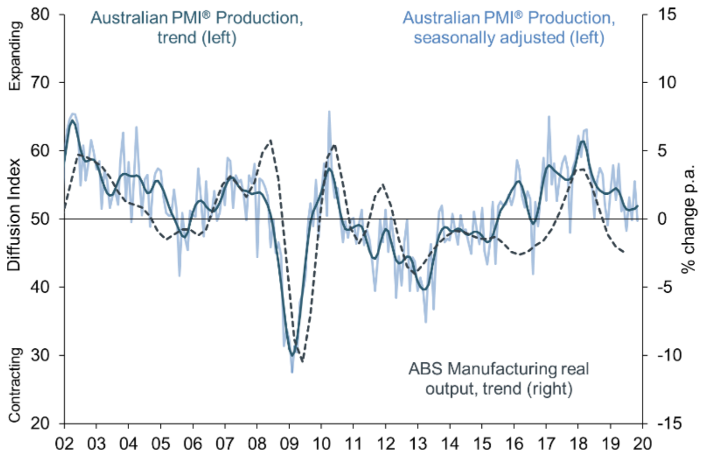


Australian PMI® activity

Production

- The manufacturing industry produced $103.7bn in real value-added output in the year to Q2 2019 (5.6% of Gross Domestic Product, GDP). Manufacturers' annual value-added output fell by 0.8% through the quarter and by 1.5% over the year to Q2 2019.
- The PMI production index lost all the gains made in October, falling by 5.8 points to 49.7 points, indicating stable production in November (seasonally adjusted).
- This result is below the long-run average for this index (51.4 points since 2001).
- Production levels were especially low for the 'building materials, wood, furniture & other manufacturing' and 'TCF, paper and printing' sectors. Production levels were elevated for food & beverage manufacturers in November.

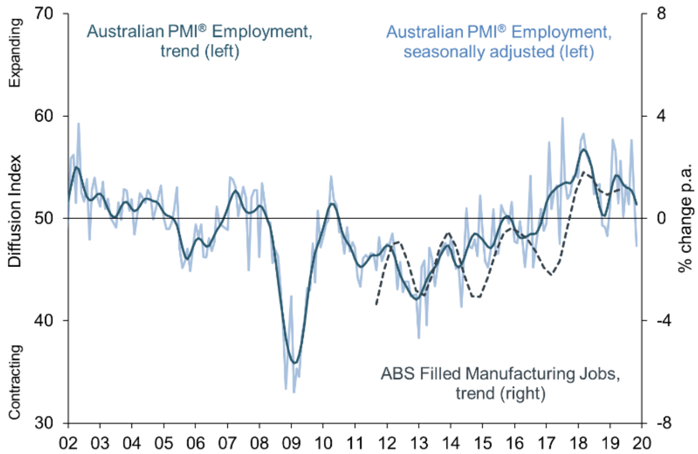
Production



Employment

- There were 876,000 filled jobs in manufacturing in Q2 2019 (6.1% of filled jobs in Australia), according to the ABS *Labour Account*. The number of filled manufacturing jobs fell by 0.4% in the quarter but were 0.1% higher over the year to Q2 2019.
- The employment index fell by 5.5 points to 47.3 points in November, indicating contracting manufacturing employment (seasonally adjusted).
- This result is below the long-run average for this index (48.9 points since 2001) and was the lowest reading since August 2016.

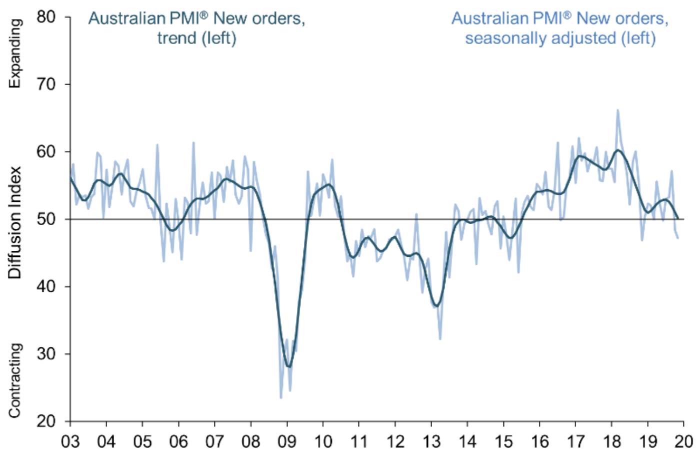
Employment



New orders

- The new orders index fell by a further 1.1 points to 47.2 points, indicating contracting new orders in November (seasonally adjusted).
- This result is below the long-run average for this index (51.3 points since 2001).
- Contracting new orders suggest slow or contracting growth in manufacturing production over the Christmas period.
- New orders growth was strong in food & beverages in November but was very weak in the TCF, paper and printing sector.

New orders

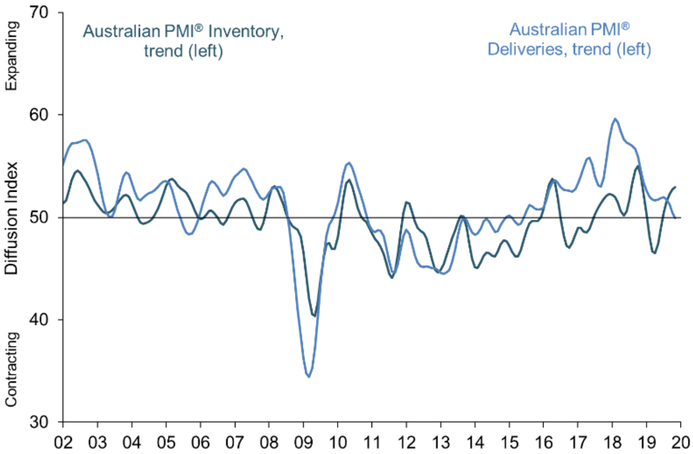


Australian PMI® activity

Supplier deliveries and finished stocks

- The supplier deliveries index dropped by 7.0 points into contraction at 45.3 points, indicating falling deliveries of raw materials in November (seasonally adjusted).
- This result is below the long-run average for this index (51.0 points since 2001).
- The finished stocks index increased by 4.2 points into expansion at 52.6 points in November (seasonally adjusted). This means stocks were increased, on average, across manufacturing sectors.
- This result is above the long-run average for this index (49.7 points since 2001).
- Inventory levels were elevated again for food & beverage and chemical manufacturers in November, possibly in anticipation of stronger orders in the lead-up to Christmas and Summer.

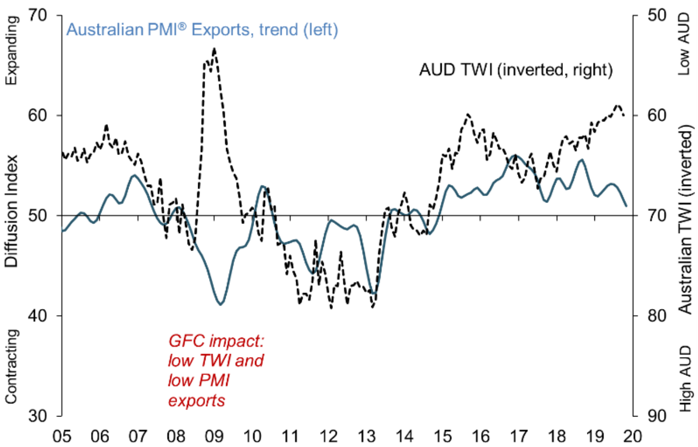
Supplier deliveries and finished stocks



Exports

- Nominal export earnings for Australian manufactured goods were worth $124.8bn in the year to September 2019 (26% of total annual export earnings). When measured by value, Australia's exports of manufactured goods are mainly metal products, followed by food & beverages and machinery & equipment, according to ABS *International Trade* data.
- The PMI exports index fell by 2.0 points to 49.8 points in November, indicating broadly stable manufacturing exports (seasonally adjusted).
- This result is below the long-run average for this index (50.1 points since 2005).
- Exports were particularly strong in the food and beverages sector in November.

Exports

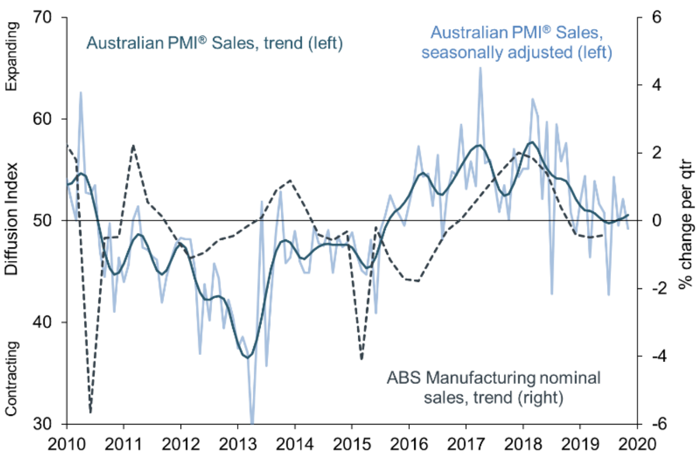


* AUD TWI = Australian dollar trade weighted index, monthly.

Sales

- The sales index decreased by 2.9 points to 49.2 points in November, indicating broadly stable sales levels after expanding sales levels in October (seasonally adjusted).
- This result is in line with the long-run average for this index (49.2 points since 2009).
- Sales levels were elevated for food & beverage and machinery & equipment sectors but fell in the metals and TCF, paper and printing sectors.

Sales

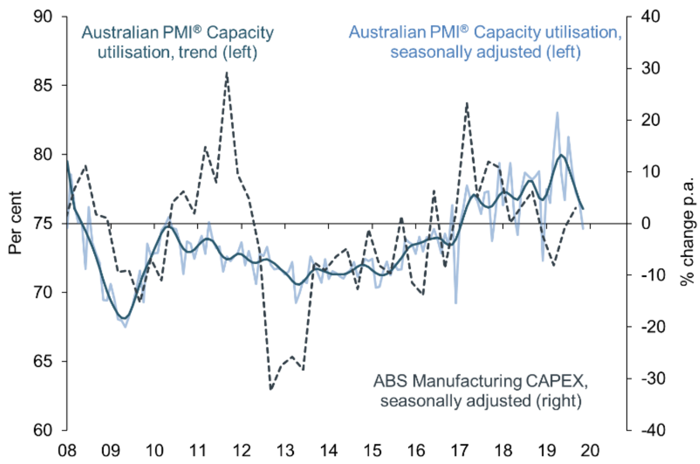


Australian PMI® activity

Capacity Utilisation

- Australian manufacturers invested $9.4bn in capital expenditure (CAPEX) in the year to Q3 2019. Their CAPEX rose by 0.8% through the quarter but fell 2.0% through the year to Q3 2019, according to the latest ABS CAPEX data.
- The Australian PMI® capacity utilisation indicator fell by 2.0 percentage points to 74.6% of available capacity in November (seasonally adjusted).
- This result remains above the long-run average for this index (73.7% since 2007) but is the lowest result in 2019. These relatively elevated levels of capacity utilisation suggest CAPEX will need to rise from here, if expansion is required by manufacturers in order to meet future growth 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 & 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/.