

Manufacturing slows further in February

The Australian Industry Group Australian Performance of Manufacturing Index (Australian PMI®) fell a further 1.1 points to 44.3 points in February. This marked four consecutive months of contraction in Australian manufacturing for the first time since 2014 and was the lowest monthly result in almost five years (seasonally adjusted). Results below 50 points indicate contraction with lower results indicating a faster contraction in the month.

The indices for all manufacturing sectors deteriorated in February and all except food & beverages recorded a contraction in the month (results under 50 points, trend). The production, sales, new orders and exports indices fell further into contraction in February and were firmly negative.

This was the first month in which respondents to the Australian PMI reported the effects of the new coronavirus 'COVID-19'. Respondents said that travel restrictions in response to COVID-19 are already denting exports of Australian manufactured goods, particularly consumable items into China. The 'heavy' manufacturing sectors (equipment, machinery, metals) reported supply chain disruptions due to factory and freight closures in China. Locally, respondents remain concerned about drought, weak demand from the construction sector and the generally slow pace of the economy. Despite weak new orders and production, the employment index improved in February to be broadly stable (and above its own long-run average).

Looking ahead, the new orders index in the Australian PMI® plunged to its lowest level since July 2013. This suggests a very sharp deterioration in new orders and even weaker demand conditions ahead for manufacturers.

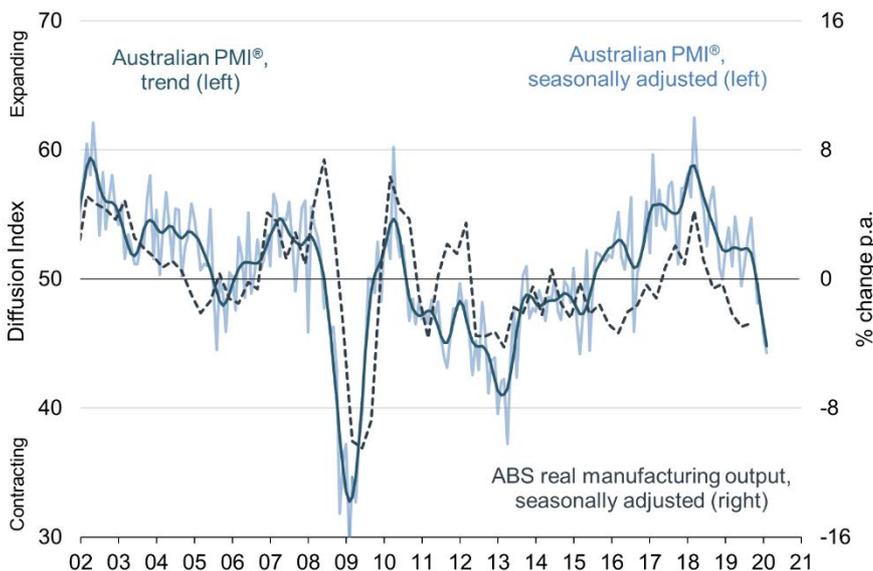
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Australian PMI® ▼ 1.1 points (seasonally adjusted)	44.3
Australian PMI® ▼ 1.5 points (trend)	44.8
Food & beverages ▼ 1.9 points (trend)	55.0
Machinery & equipment ▼ 1.3 points (trend)	47.1
Metal products ▼ 3.2 points (trend)	35.9
Chemicals ▼ 1.1 points (trend)	44.7
Building materials, wood & other ▼ 0.8 points (trend)	35.4
TCF, paper & printing ▼ 0.6 points (trend)	39.1

Australian PMI® (seasonally adjusted and trend)



Manufacturing sectors: All manufacturing sectors experienced weaker conditions in February than in January (trend). Food & beverages is now the only manufacturing sector to be expanding (results over 50 points) but its growth has slowed significantly in recent months. All other sectors contracted in February and at a faster pace than in January (trend).

Manufacturing wages and prices: The growth in input prices has slowed since Q3 2019 and remains below the long-run average for this index. This easing of input price rises is welcome, given that manufacturing profit margins have been squeezed over many years by high input costs and especially energy costs. The selling price index accelerated in February to be broadly stable, indicating prices did not move much in the month. The average wages index eased further in February, which indicates that a lower proportion of businesses are facing upward wage pressures.

Manufacturing activity: Six of the seven activity indices contracted and one was stable in February. The employment index was broadly stable while all other activity indices contracted. Four of the seven activity indices contracted at a faster pace in February than in January, including the indices for production, sales, new orders and exports.

Manufacturing highlights: The large food & beverages sector remained positive in February on a trend basis, largely due to a strong Christmas period. However, even this sector fell into contraction on a seasonally adjusted basis in February, with respondents noting slow local sales due to the summer weather and slower exports due to the impact of COVID-19. The employment index improved in February to be broadly stable and remains above its long-run average.

Manufacturing concerns: The production, sales, new orders and exports indices fell further into contraction in February and were firmly negative. COVID-19 is already denting exports of Australian manufactured goods, particularly consumable items into China. The 'heavy' manufacturing sectors are reporting supply chain disruptions because of freight and factory closures in China. Locally, drought remains a major concern in some parts of the country, despite better recent rain. The 'metals' and 'building materials, wood, furniture & other' sectors reported weak demand from the construction industry.

AUSTRALIAN PMI® KEY NUMBERS	Index this month	Change from last month	Long-run average		Index this month	Change from last month	Long-run average
<i>seasonally adjusted</i>				<i>trend</i>			
Australian PMI®	44.3	-1.1	50.6	Australian PMI®	44.8	-1.5	50.5
Production	40.4	-4.8	51.3	Food & beverages	55.0	-1.9	53.5
Employment	49.1	0.7	48.8	Machinery & equipment	47.1	-1.3	49.7
New Orders	41.7	-2.0	51.2	Metals products	35.9	-3.2	47.4
Supplier Deliveries	46.5	2.8	50.9	Petroleum, coal, chemicals & rubber products	44.7	-1.1	51.3
Finished stocks	48.5	0.7	49.6	Building, wood, furniture & other products	35.4	-0.8	50.2
Exports	44.5	-5.3	50.1	Textiles, clothing, footwear, paper & printing	39.1	-0.6	46.5
Sales	43.1	-2.3	49.2				
Input Prices	57.4	-4.5	67.6				
Selling Prices	50.4	3.8	48.1				
Average Wages	54.9	-0.3	59.1				
Capacity Utilisation (%)	74.2	-1.1	73.7				

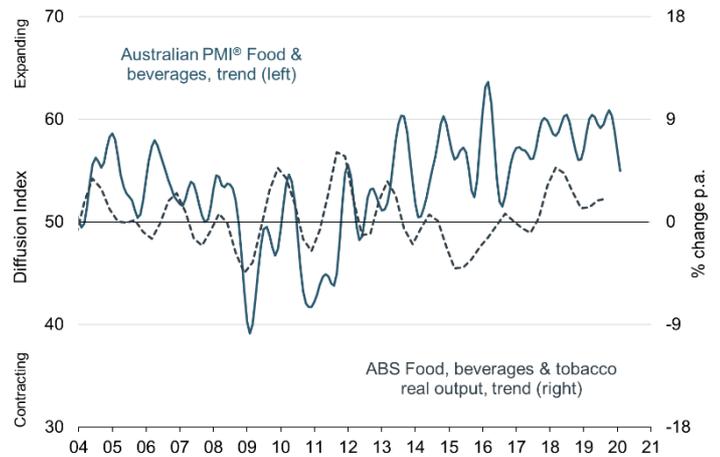
Results above 50 points indicate expansion. All indexes for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

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 2019	104.5	-0.7	-2.0	5.5% of total GDP
Nominal sales, \$bn, year to Sep 2019	354.7	1.0	1.0	12.1% of non-farm business sales
Nominal export earnings, \$bn, year to Dec 2019 (<i>original</i>)	127.3	2.1	8.1	25.8% of total export earnings
Nominal company profits (GOP), \$bn, year to Sep 2019	31.0	-1.4	-6.1	8.2% of non-farm company profits (GOP)
Nominal investment (CAPEX), \$bn, year to Dec 2019	9.7	-10.2	-1.2	7.9% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Sep 2019	54.1	0.5	2.6	9.5% of non-farm business wages
Number of filled manufacturing jobs, '000, Sep Qtr 2019	904.8	1.1	3.1	6.3% of total filled jobs
Number of employing manufacturing businesses, 2018-19	48,002	N/A	0.2	5.4% of employing businesses

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

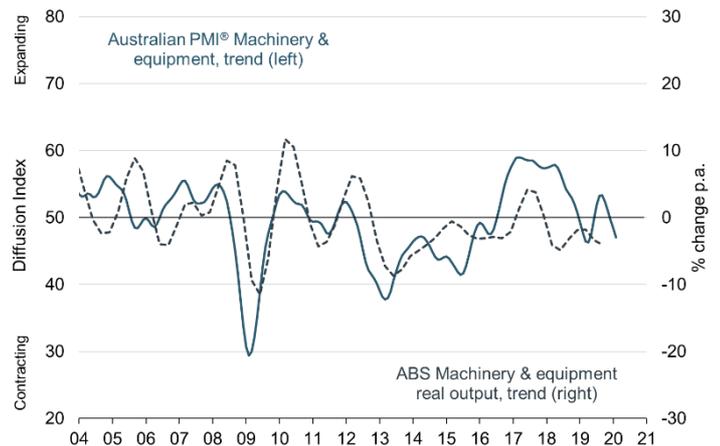
Food and beverages

- The food, beverages & tobacco sector produced \$25.8bn in real value-added output in the year to Q3 2019 (25% of manufacturing real value-added output).
- It employed 237,000 people in November 2019 (27% of manufacturing employment).
- The index for food & beverages decreased by 1.9 points to 55.0 points, indicating a decelerating rate of expansion in February (trend).
- The large food & beverages sector remained positive in February on a trend basis, largely due to a strong Christmas period. However, the sector fell into contraction on a seasonally adjusted basis, with respondents noting slow local sales due to the summer weather conditions and slower exports due to the various global responses to COVID-19.



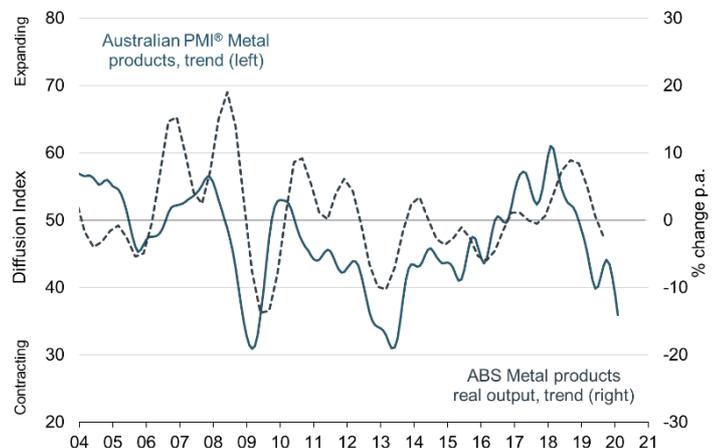
Machinery & Equipment

- The machinery & equipment sector produced \$20.2bn in real value-added output in the year to Q3 2019 (19% of manufacturing real value-added output).
- It employed 181,000 people in November 2019 (20% of manufacturing employment).
- The index for machinery & equipment fell by 1.3 points to 47.1 points, indicating a further contraction in February after several months of recovery during late 2019 (trend).
- Despite some recent rain in parts of Australia, many machinery & equipment manufacturers are still reporting that drought conditions are inhibiting new orders. Some respondents in this sector noted supply chain difficulties with regard to imported parts from China.



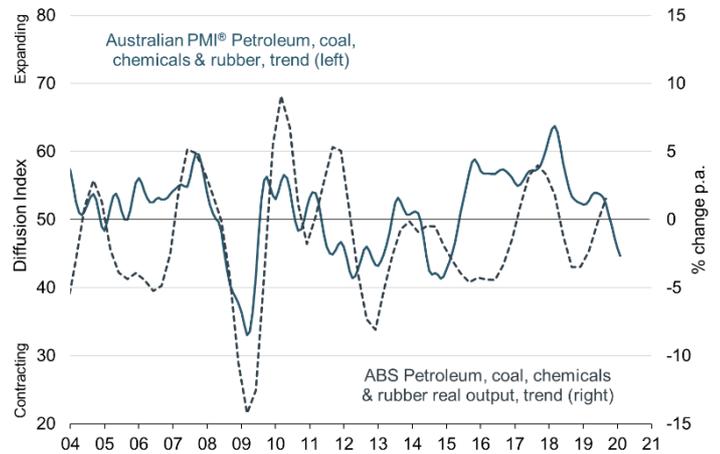
Metal Products

- The metal products sector produced \$17.8bn in real value-added output in the year to Q3 2019 (17% of manufacturing real value-added output).
- It employed 143,000 people in November 2019 (16% of manufacturing employment).
- The metals products index dropped by 3.2 points to 35.9 points in February, indicating a faster rate of contraction and the lowest result since August 2013 (trend). Despite some encouraging signs of recovery at the end of 2019, this sector has fallen further into contraction in 2020.
- Respondents noted generally slower local conditions and reduced demand from the construction industry.



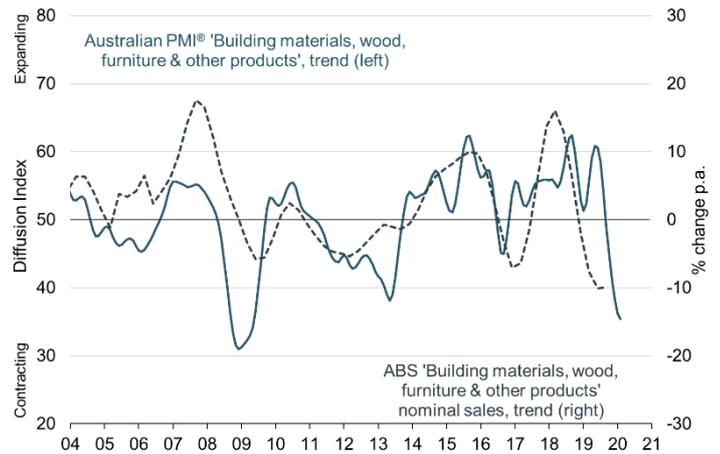
Petroleum, coal, chemicals & rubber

- The petroleum, coal, chemicals & rubber sector produced \$20.3bn in real value-added output in the year to Q3 2019 (19% of manufacturing real value-added output).
- It employed 92,000 people in November 2019 (10% of manufacturing employment).
- The index for the chemicals sector fell by 1.1 points to 44.7 points, indicating contracting conditions (trend).
- Some respondents reported higher sales because of their own renewed marketing efforts and the introduction of new products. However, most noted lower levels of customer orders and some reported delays in shipments of products to and from China, possibly due to freight movement restrictions in response to COVID-19.



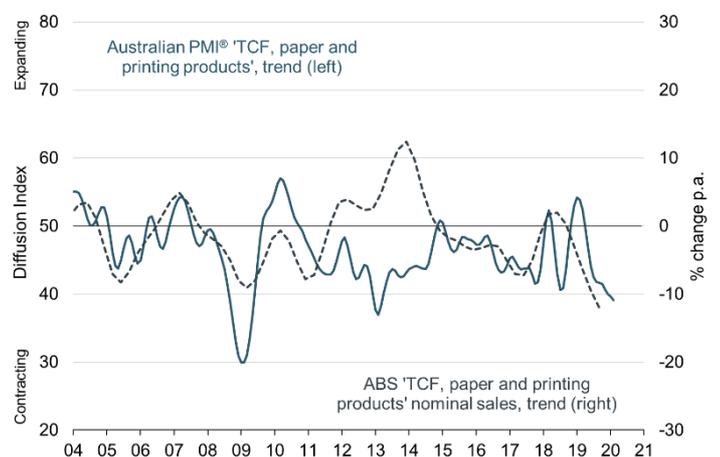
Building materials, wood, furniture & other manufacturing products

- The building materials, wood, furniture & other products sector employed 149,000 people in November 2019 (17% 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 this diverse (but mainly housing-related) sector eased by a further 0.8 points to 35.4 points, indicating a faster rate of contraction in February (trend).
- This was the lowest monthly result for this sector since 2009 (following the GFC). Despite resurgent house prices since mid-2019, residential construction activity is still contracting, which is reducing demand for locally manufactured building and furnishing materials.



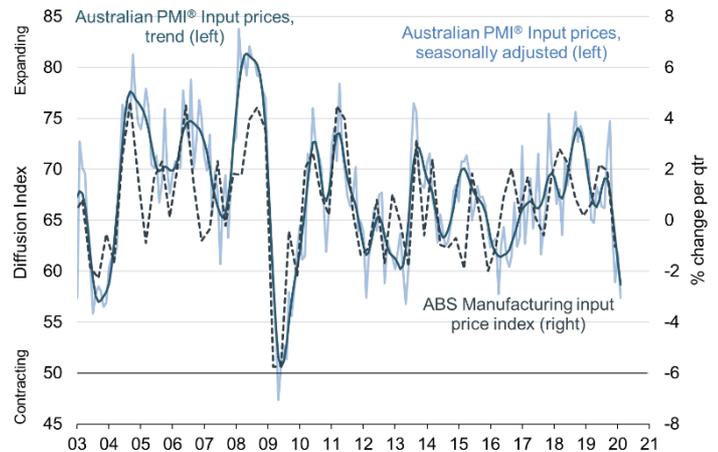
TCF, paper and printing products

- The textiles, clothing, footwear (TCF), paper & printing products sector employed 83,000 people in November 2019 (9% of manufacturing employment). This sector makes textiles, clothing, footwear, paper, cardboard, packaging, printed products and recorded media.
- The index for textiles, clothing, footwear (TCF), paper & printing products eased by a further 0.6 points to 39.1 points in February (trend), which is the lowest monthly result for this sector since March 2013.
- Some respondents noted that high energy and labour costs are impacting their profit margins in February.



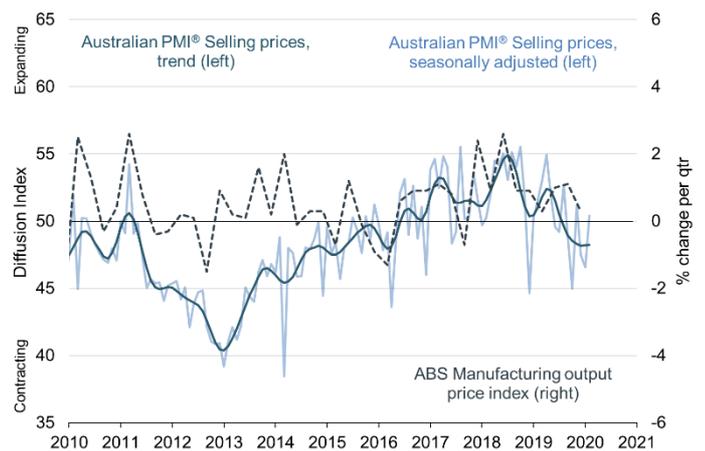
Input prices

- Manufacturers' input prices fell by an average of 1.0% over the quarter but increased by 3.7% over the year in Q4 2019, according to the ABS Producer Price Index.
- The Australian PMI® input price index slowed by 4.5 points to 57.4 points in February (seasonally adjusted). This indicates that manufacturing input prices increased at a slower pace in February than in January.
- This result is below the long-run average for this index of 67.6 points (since 2003) and is the lowest monthly result since May 2013.
- The input price index is now indicating a possible fall in input prices of up to 2% in Q1 of 2020, based on its historical relationship with the ABS Producer Price Index.



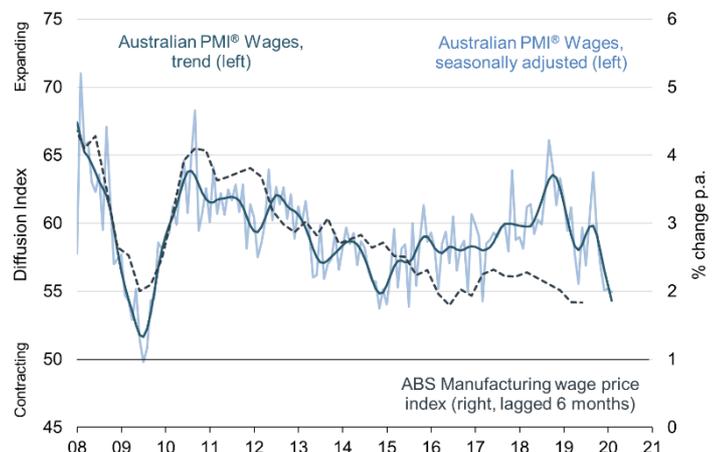
Selling prices

- Manufacturers' output (selling) prices rose by an average of 0.3% over the quarter and 2.7% over the year in Q4 2019, according to the ABS Producer Price Index (PPI).
- The selling price index recovered by 3.8 points to 50.4 points in February (seasonally adjusted). This indicates that manufacturers' selling prices were broadly stable, on average, in February.
- This result is above the long-run average for this index of 48.1 points (since 2007).
- Despite this month's improvement, the selling price index trend is now indicating a possible fall in manufacturers' average selling prices in Q1 of 2020, based on its historical relationship with the ABS Producer Price Index.



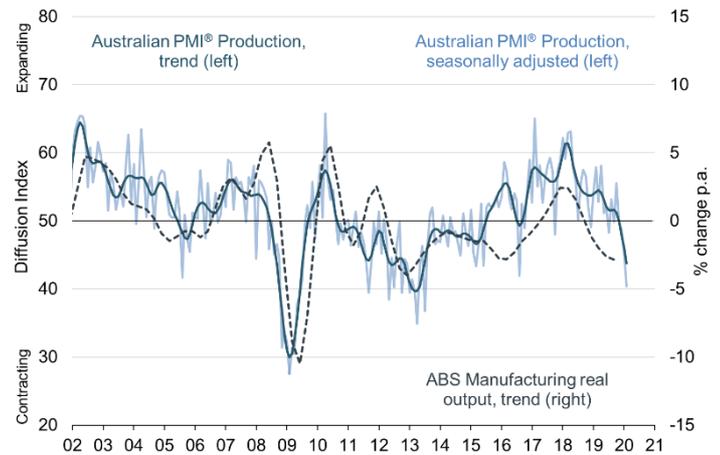
Average wages

- Private sector wages across the manufacturing industry rose by an average of 0.4% over the quarter and 1.8% over the year in Q4 2019, according to the ABS Wage Price Index (WPI).
- The Australian PMI® average wages index edged lower in February, falling by 0.3 points to 54.9 points. This indicates manufacturing wages rose at a slightly slower pace in February than in January (seasonally adjusted).
- This result is below the long-run average for this index of 59.1 points (since 2007) and was the lowest monthly result since November 2016.
- The wage price index suggests average wage growth in manufacturing is unlikely to strengthen in 2020, based on its historical relationship with the ABS wage price index.



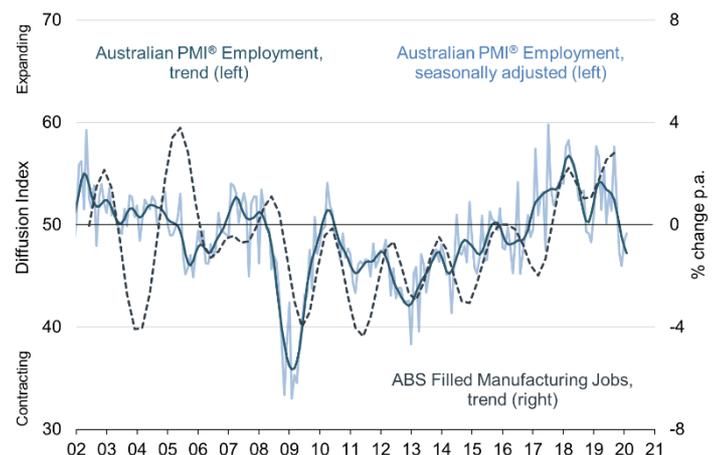
Production

- The manufacturing industry produced \$104.5bn in real value-added output in the year to Q3 2019 (5.5% of Gross Domestic Product, GDP). Manufacturers' value-added output fell by 0.7% q/q and 2.0% p.a. in Q3 2019.
- The Australian PMI® production index weakened by a further 4.8 points to 40.4 points in February, indicating a steeper contraction in production (seasonally adjusted).
- February was below the long-run average for this index (51.3 points since 2001) and its lowest level since July 2013. This implies another contraction in manufacturing value-added output is likely in Q1 of 2020, based on the historical relationship with ABS value added output data.
- Production was reported to be especially low in the food & beverages sector and the metal products sector.



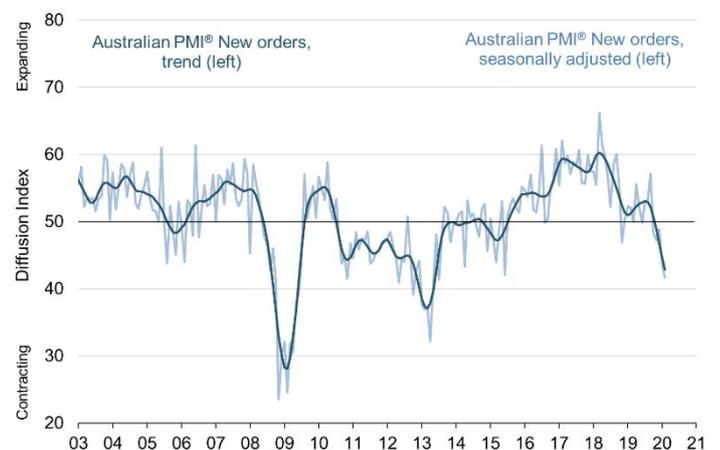
Employment

- There were 904,800 filled jobs in manufacturing in Q3 2019 (6.3% of all filled jobs in Australia), according to the ABS Labour Account. The number of filled manufacturing jobs increased by 1.1% in the quarter and 3.1% over the year to Q3 2019.
- The Australian PMI® employment index improved by 0.7 points to 49.1 points in January, indicating broadly stable employment in February (seasonally adjusted). The index remains above its own long-run average (48.8 points since 2001).
- Despite this month's improvement, the Australian PMI® employment index fell sharply at the end of 2019. This suggests the number of manufacturing filled jobs probably dropped in Q4 2019 and/or in Q1 of 2020, after recovering strength through 2018 and early 2019.



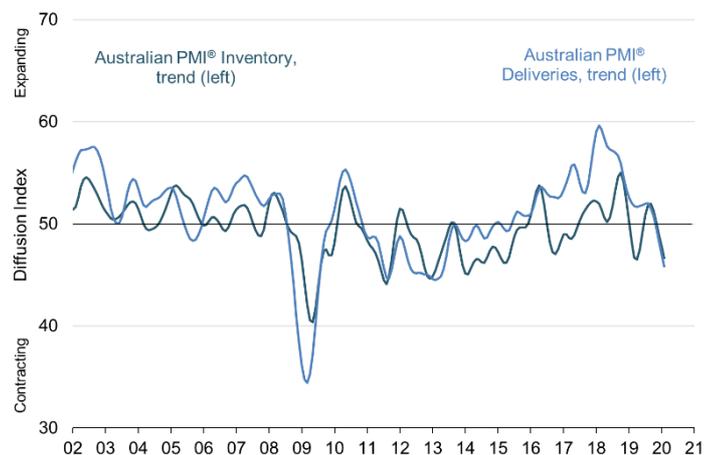
New orders

- The Australian PMI® new orders index dropped by 2.0 points to 41.7 points in January, indicating a sharper pace of contraction in new orders (seasonally adjusted).
- This result is below the long-run average for this index of 51.2 points (since 2001) and is the lowest monthly result since July 2013. It suggests tougher conditions ahead for manufacturers in some sectors.
- New orders were lower in all sectors in February. The metal products sector noted lower new orders from the local construction sector while food & beverage respondents noted reduced local new orders because of lower tourism spending and reduced export demand.



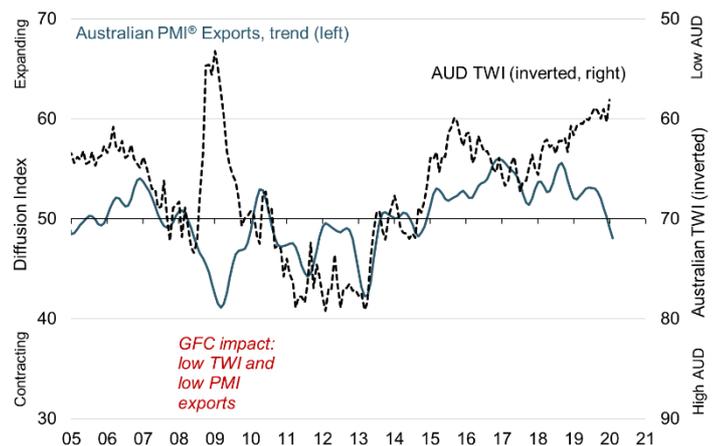
Supplier deliveries & finished stocks

- The supplier deliveries index rose by 2.8 points to 46.5 points in February, indicating a contracting supply of raw materials ordered by manufacturers, albeit contracting at a slower pace than in January (seasonally adjusted).
- This result is below the long-run average for this index of 50.9 points (since 2001).
- The finished stocks (inventories) index rose by 0.7 points to 48.5 points in February. This indicates a slower pace of contraction in finished stock levels across the manufacturing sectors (seasonally adjusted).



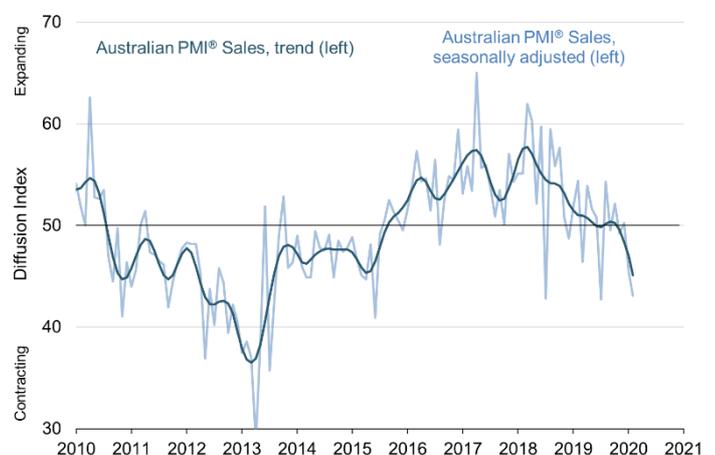
Exports

- Export earnings for Australian manufactured goods were worth \$127.3bn in the year to December 2019 (26% of total annual export earnings), according to ABS data.
- The Australian PMI® exports index plunged by 5.3 points to 44.5 points in February, indicating a sudden and sharp contraction (seasonally adjusted).
- The trade weighted index (TWI) – the Australian dollar weighted against trading partner currencies – has fallen since 2017. A lower TWI tends to support exports. Since 2018 however, the Australian PMI® exports index has fallen despite a lower TWI, indicating that other factors are probably influencing manufacturers’ export growth.
- Respondents said freight and travel restrictions due to COVID-19 are disrupting their exports of manufactured goods into China, particularly for consumables.



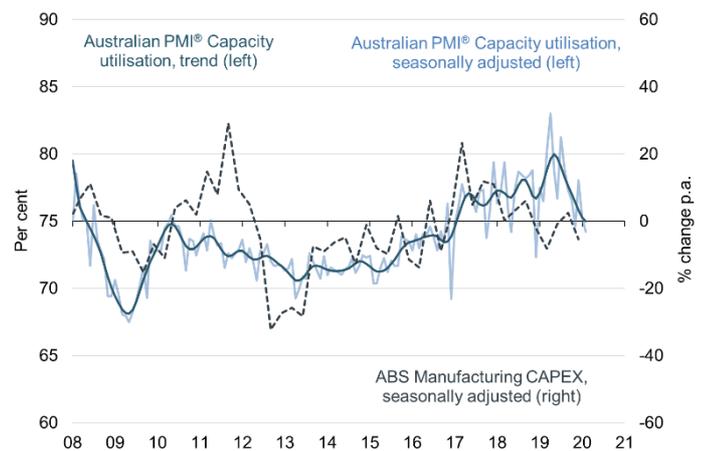
Sales

- The sales index decreased by 2.3 points to 43.1 points. This indicates a further reduction in sales levels after stable sales in December (seasonally adjusted).
- This result is below the long-run average for this index of 49.2 points (since 2009).
- Respondents reported that local sales levels were especially low for the ‘food & beverages’, ‘building materials, wood, furniture & other’ and the ‘TCF, paper & printing products’ sectors.



Capacity utilisation

- Australia manufacturers invested \$9.7bn in capital expenditure (CAPEX) in 2019, according to the latest ABS CAPEX estimate (nominal dollars). Manufacturing CAPEX fell by 10.1% q/q and 5.4% p.a. in Q4 of 2019.
- The Australian PMI® capacity utilisation indicator eased a further 1.1 percentage points to 74.2% of available capacity in February (seasonally adjusted). This was the lowest level of capacity utilisation since December 2018 but remains above the long-run average for this index of 73.7% (since 2007).
- Lower rates of capacity utilisation have been historically associated with lower levels of investment growth in manufacturing. This latest weak result suggests further falls in manufacturing CAPEX are likely in 2020.



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 www.aigroup.com.au/resourcecentre/economics.

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