

# Positive start to the new financial year for manufacturing

The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) rose by 2.0 points to 53.5 points in July (seasonally adjusted), indicating a more convincing expansion. Results above 50 points indicate expansion with higher results indicating a faster rate of expansion.

Australian manufacturing has now expanded for two consecutive months for the first time since October 2019. Despite the improvement, weak spots persist. The expansion in July was driven by the two largest manufacturing sectors (in terms of employment): the large food & beverage and machinery & equipment sectors. All other sectors are reporting difficult trading conditions due to the impact of COVID-19.

Production, employment, supplier deliveries and finished stocks expanded and at a faster rate than in June. Respondents across all manufacturing sectors noted increased interest in locally made manufactured goods. The extension to the instant asset tax write-off for businesses (announced in May) is one of the factors improving conditions in the machinery & equipment sector.

In contrast, manufacturers who supply locally made metal products and building materials to the construction industry continue to report a sharp reduction in new orders. Some exporters said their overseas markets are essentially shut down because of COVID-19.

July 2020

## MEDIA CONTACT

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<b>Australian PMI®</b> ▲ 2.0 points (seasonally adjusted)	<b>53.5</b>
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<b>Australian PMI®</b> ▲ 1.7 points (trend)	<b>49.1</b>
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<b>Food &amp; beverages</b> ▲ 1.9 points (trend)	<b>59.4</b>
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<b>Machinery &amp; equipment</b> ▲ 3.2 points (trend)	<b>54.3</b>
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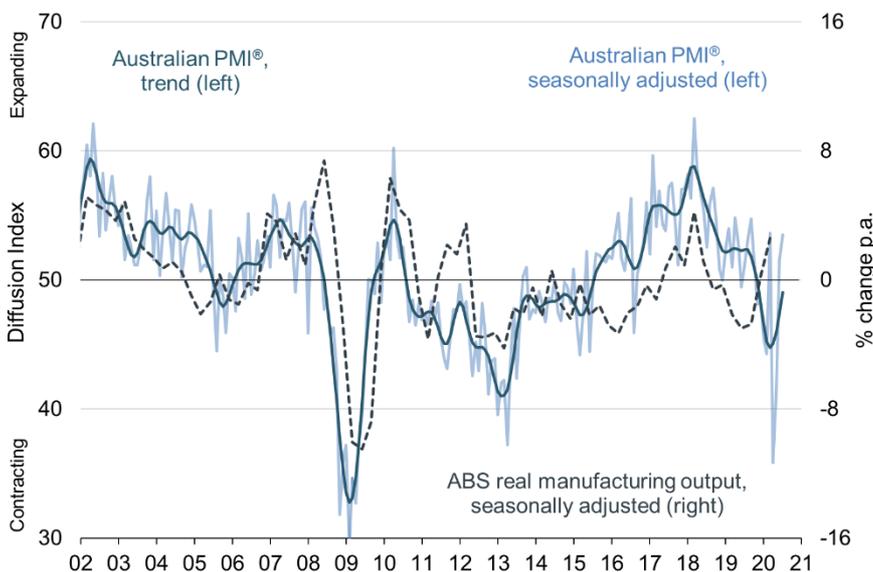
<b>Metal products</b> ▲ 1.5 points (trend)	<b>41.3</b>
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<b>Chemicals</b> ▼ 0.6 points (trend)	<b>46.8</b>
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<b>Building materials, wood &amp; other</b> ▲ 1.8 points (trend)	<b>42.5</b>
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<b>TCF, paper &amp; printing</b> ▲ 5.3 points (trend)	<b>44.6</b>
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**Australian PMI® (seasonally adjusted and trend)**



**Manufacturing sectors:** Four of the six manufacturing sectors in the Australian PMI® contracted in July (trend). Only the large food & beverage and machinery & equipment sectors indicated expanding conditions. Respondents across all manufacturing sectors noted increased interest in locally made manufactured goods. In contrast, manufacturers who supply locally made metal products and building materials to the construction industry continue to report a sharp reduction in new orders.

**Manufacturing wages and prices:** Input costs rose in July but remain below the long-term average. Manufacturers' selling prices declined, on average, and at the same rate as in June. The Australian PMI® average wages index increased on an unadjusted basis but contracted on a seasonally adjusted basis in July. This is because of a large seasonal adjustment to the data that occurs in July every year due to the usual implementation of the minimum wage increase. This year a 1.75% minimum wage increase is scheduled for November across the manufacturing awards.

**Manufacturing activity:** Six of the seven activity indices expanded in July. The export index contracted, indicating a decline in manufacturing exports. Production, employment, supplier deliveries and finished stocks expanded and at a faster rate than June. New orders also expanded but at a slower pace than June.

**Manufacturing highlights:** There was a further stabilisation in manufacturing conditions in July. Food & beverage manufacturers noted stabilising demand after months of volatility, while the instant asset tax write-off increased sales for many machinery & equipment manufacturers. Other respondents in this sector noted an increase in demand from the transport and agricultural machinery & equipment. Respondents across all manufacturing sectors noted increased interest in locally made manufactured goods.

**Manufacturing concerns:** The improvement in manufacturing conditions in July was driven by only two sectors: food & beverages and machinery & equipment. Metal products; chemicals; building materials, wood, furniture & other manufacturing remained firmly in contraction in July. Manufacturers in these sectors reported a lack of sales from customers due to COVID-19. Some respondents noted that they have completed previous orders but had few new orders coming in.

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®	53.5	2.0	50.5	Australian PMI®	49.1	1.7	50.4
Production	56.4	4.1	51.2	Food & beverages	59.4	1.9	53.6
Employment	53.4	3.8	48.8	Machinery & equipment	54.3	3.2	49.6
New Orders	52.7	-3.0	51.1	Metals products	41.3	1.5	47.1
Supplier Deliveries	51.8	4.2	50.8	Petroleum, coal, chemicals & rubber products	46.8	-0.6	51.2
Finished stocks	51.8	5.3	49.6	Building, wood, furniture & other products	42.5	1.8	49.9
Exports	41.4	-5.8	49.9	Textiles, clothing, footwear, paper & printing	44.6	5.3	46.3
Sales	52.2	-3.9	49.1				
Input Prices	63.5	3.3	67.5				
Selling Prices	48.9	0.0	48.1				
Average Wages	48.8	-1.0	58.8				
Capacity Utilisation (%)	73.4	1.5	73.7				

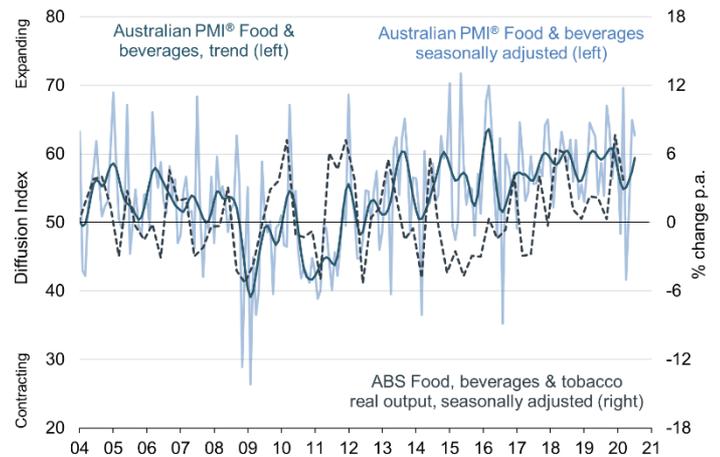
Results above 50 points indicate expansion. All indexes for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

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 Mar 2020	105.2	0.7	-0.8	5.5% of total GDP
Nominal sales, \$bn, year to Mar 2020	360.8	1.0	1.0	12.2% of non-farm business sales
Nominal export earnings, \$bn, year to May 2020 (original)	125.1	-0.7	2.3	25.9% of total export earnings
Nominal company profits (GOP), \$bn, year to Mar 2020	31.5	1.5	-2.4	8.2% of non-farm company profits (GOP)
Nominal investment (CAPEX), \$bn, year to Mar 2020	9.4	1.7	0.6	8.2% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Mar 2020	55.4	1.3	3.5	9.5% of non-farm business wages
Number of filled manufacturing jobs, '000, Mar Qtr 2020	926.0	0.5	3.6	6.4% 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.

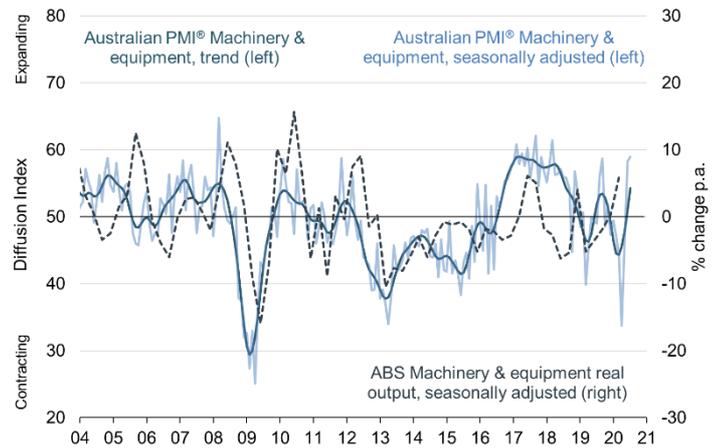
### Food & beverages

- The food, beverages & tobacco sector produced \$26.5bn in real value-added output in the year to Q1 2020 (25% of manufacturing real value-added output).
- It employed 240,000 people in May 2020 (27% of manufacturing employment).
- The large food & beverages sector increased 1.7 points to 59.4 points, indicating a faster expansion in July (trend).
- New orders were elevated in July with some food & beverages manufacturers noting stabilising demand in July after months of volatility. Some respondents said Stage 3 activity restrictions in Victoria impacted sales in the second half of July.



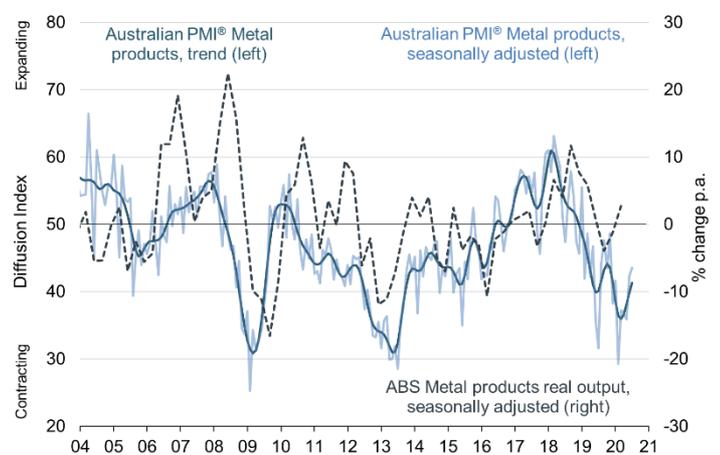
### Machinery & Equipment

- The machinery & equipment sector produced \$20.5bn in real value-added output in the year to Q1 2020 (19% of manufacturing real value-added output).
- It employed 179,000 people in May 2020 (20% of manufacturing employment).
- The large machinery & equipment sector improved in July with its index rising by 3.2 points to 54.3 points (trend).
- The instant asset tax write-off increased sales for many machinery & equipment manufacturers in July. Some respondents noted an increase in demand from the transport and agricultural machinery & equipment.



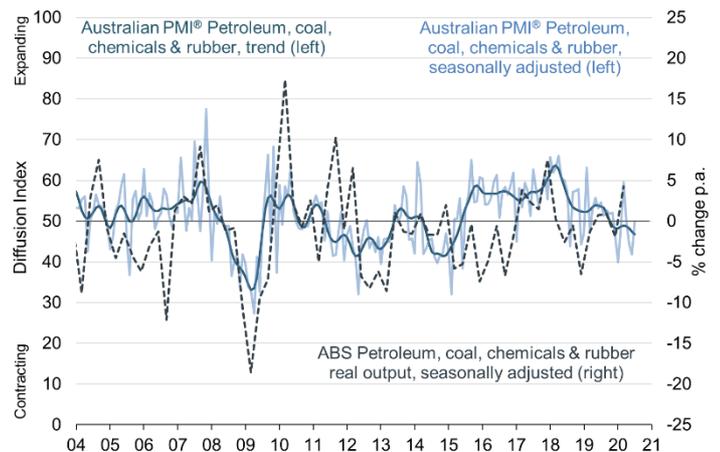
### Metal Products

- The metal products sector produced \$17.9bn in real value-added output in the year to Q1 2020 (17% of manufacturing real value-added output).
- It employed 142,000 people in May 2020 (16% of manufacturing employment).
- The metal products index increased 1.5 points but remains in deep contraction in July at 41.3 points (trend).
- Sales and exports were weak in this sector with respondents noting reduced demand across from many industries (e.g. construction, hospitality, retail). A minority of respondents have noted a shift from clients wanting Australian made products.



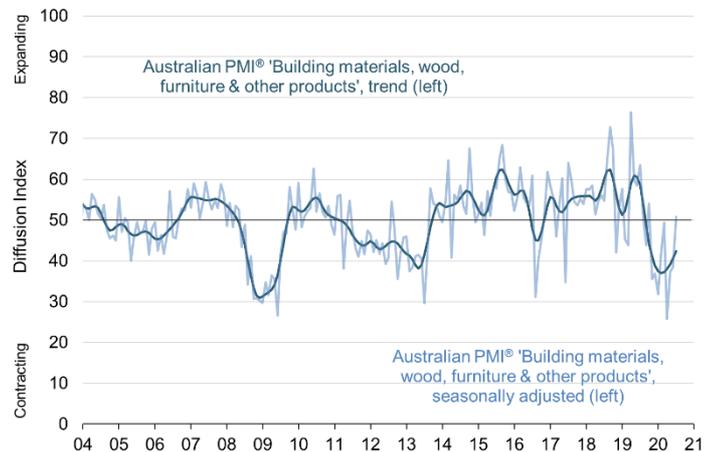
### Petroleum, coal, chemicals & rubber

- The petroleum, coal, chemicals & rubber sector produced \$20.5bn in real value-added output in the year to Q1 2020 (19% of manufacturing real value-added output). It employed 94,000 people in May 2020 (11% of manufacturing employment).
- The index for the chemicals sector eased 0.6 points to 46.8 points, indicating contracting conditions in July (trend).
- Manufacturers reported a lack of sales from customers due to COVID-19. Some respondents noted that they have completed previous orders but there are no new orders coming in.



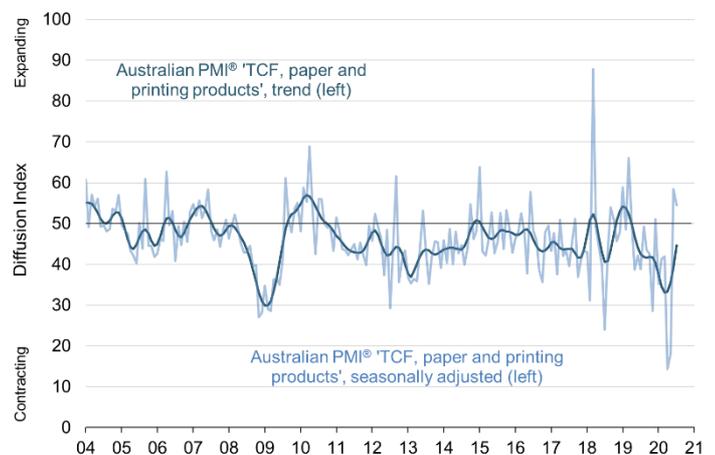
### Building materials, wood, furniture & other manufacturing products

- The building materials, wood, furniture & other products sector employed 147,000 people in May 2020 (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 construction-related) sector improved by 1.8 points but remains firmly in contraction at 42.5 points in July (trend). Commercial building suppliers noted a rapid decline in sales and are not expecting a rebound until workers return to office buildings.



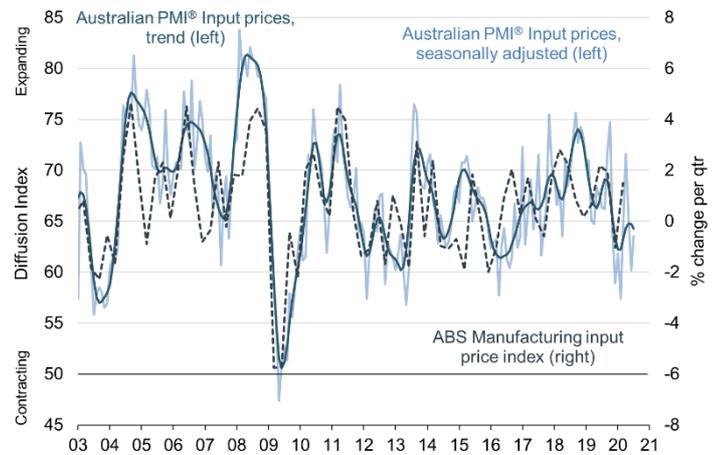
### TCF, paper and printing products

- The textiles, clothing, footwear (TCF), paper & printing products sector employed 84,000 people in May 2020 (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 rose 5.3 points to 44.6 points in July (trend).
- Some respondents noted increased interest in locally made manufactured goods, but many reported weak demand from customers in July.



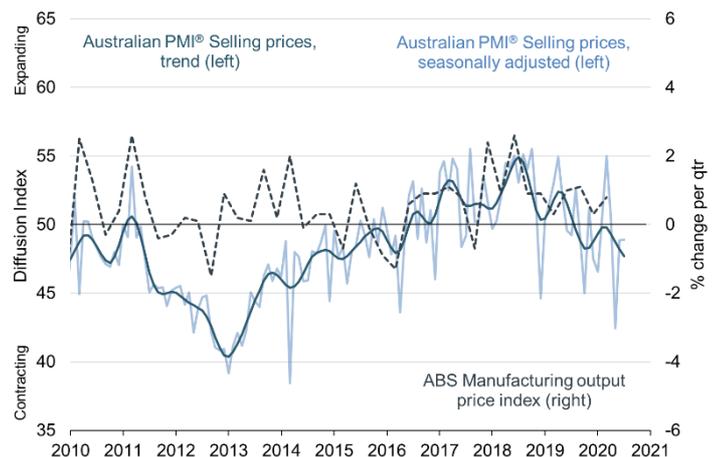
Input prices

- Manufacturers' input prices rose by an average of 1.5% over the quarter and by 4.6% over the year in Q1 2020, according to the ABS Producer Price Index.
- The Australian PMI® input price index rose 3.3 points to 63.2 points in July (seasonally adjusted), indicating faster price increases for manufacturing inputs.
- This index is well below the long-run average for this index of 67.5 points (since 2003).
- Respondents noted the opening of some state borders reduced the time to obtain inputs. Some businesses operating across border communities, particularly the Victorian border, noted disruptions to the movement of goods and their employees, despite having permits.



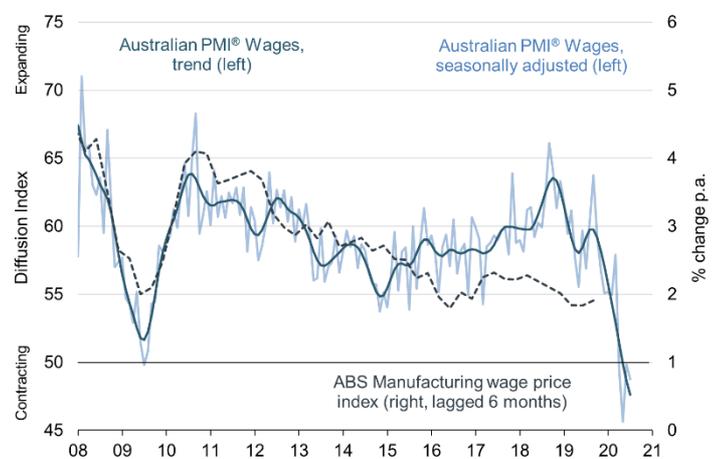
Selling prices

- Manufacturers' output (selling) prices rose by an average of 0.8% over the quarter and 3.2% over the year in Q1 2020, according to the ABS Producer Price Index (PPI).
- The selling price index did not change in July and remained at 48.9 points (seasonally adjusted). This indicates that manufacturers' selling prices declined, on average, and at the same rate as in June.
- This index is above its own long-run average of 48.1 points (since 2003).
- Selling prices increased in food & beverage manufacturing, were stable in the TCF, paper & printing products sector, but fell in the rest of the manufacturing sectors.



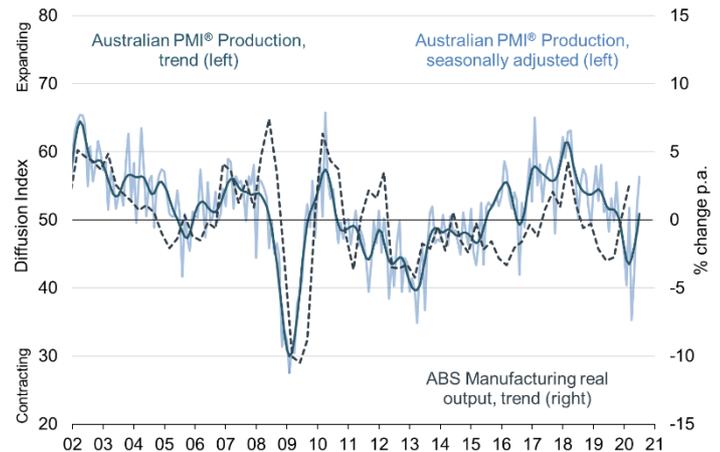
Average wages

- Private sector wages across the manufacturing industry rose by an average of 0.5% over the quarter and 1.9% p.a. in Q1 2020, according to the ABS Wage Price Index.
- The Australian PMI® average wages index eased 1.0 points to 48.8 points (seasonally adjusted), indicating falling average wages across the manufacturing sector.
- The Australian PMI® average wages index increased on an unadjusted basis but contracted on a seasonally adjusted basis in July. This is because of a large seasonal adjustment that occurs in July every year due to the usual implementation of the minimum wage increase. This year a 1.75% minimum wage increase is scheduled for November across the manufacturing awards.



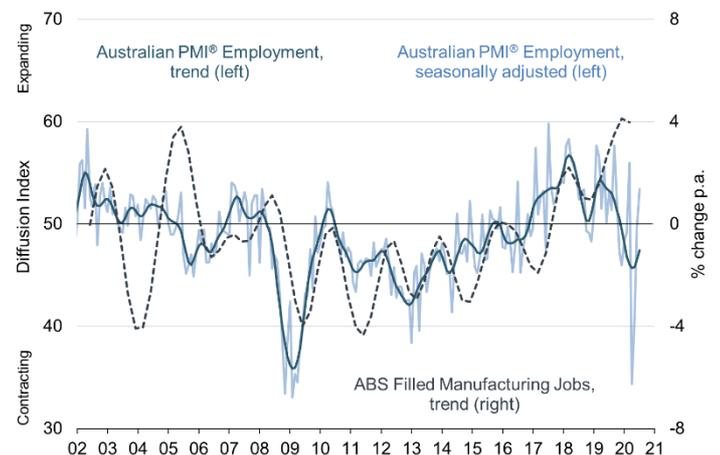
## Production

- The manufacturing industry produced \$105.2bn in real value-added output in the year to Q1 2020 (5.5% of Gross Domestic Product, GDP). Manufacturers' value-added output was higher (0.7% q/q) in Q1 of 2020 and fell by 0.8% over the year to Q1 2020.
- The Australian PMI® production index increased a further 4.1 points to 56.4 points in July (seasonally adjusted).
- Production was elevated for machinery & equipment manufacturers with respondents producing orders for clients who were claiming the instant asset tax write-off. Production was also elevated for some paper & printing manufacturers, it contracted for the chemicals, building materials and the metal product sectors in July.



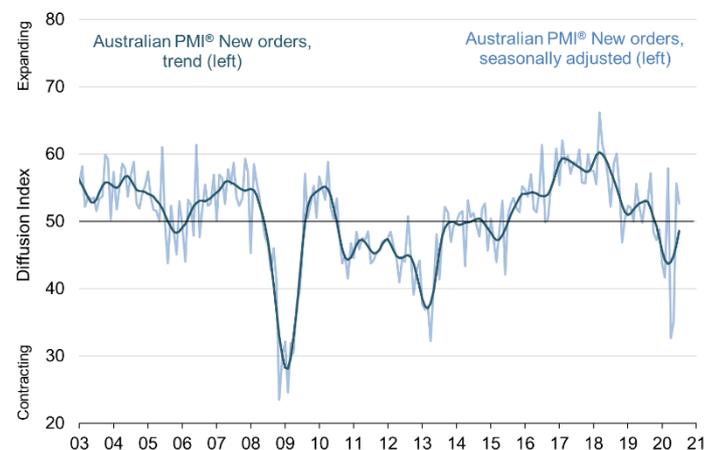
## Employment

- There were 926,000 filled jobs in manufacturing in Q1 2020 (6.4% of all filled jobs in Australia), according to the ABS *Labour Account*. The number of filled jobs in manufacturing increased by 0.5% q/q and 3.6% p.a. to Q1 2020. The more volatile ABS *Labour Force Survey* identified 852,800 people working in manufacturing in May 2020, down 7.4% q/q and 5.0% p.a. (seasonally adjusted).
- The Australian PMI® employment index rose 3.8 points into expansion at 53.4 points in July (seasonally adjusted). Employment fell in the chemicals, TCF, paper & printing and the metal product sectors in July. Employment expanded in food & beverage sector.



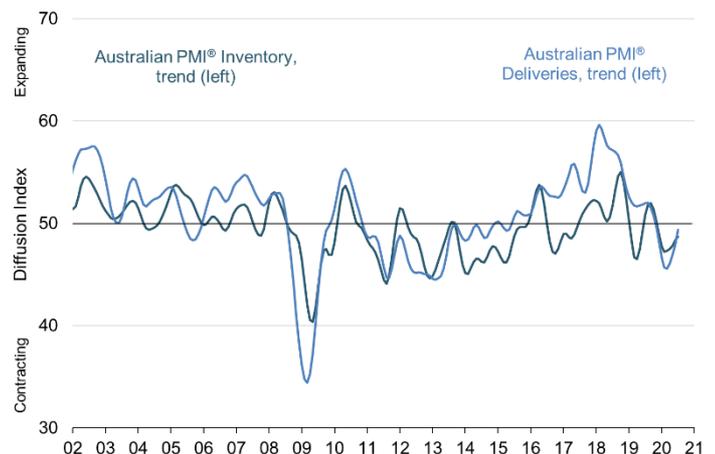
## New orders

- After jumping 20.6 points to 55.7 points in June, the new orders index eased in July (seasonally adjusted). The index fell by 3.0 points to 52.7 points.
- This indicates that new orders increased, on average, for Australian manufacturers but at a slower rate than in June. It suggests a recovery in manufacturing production in the coming months.
- New orders increased for food & beverage and machinery & equipment manufacturers but deteriorated for building materials, chemicals and metal products.



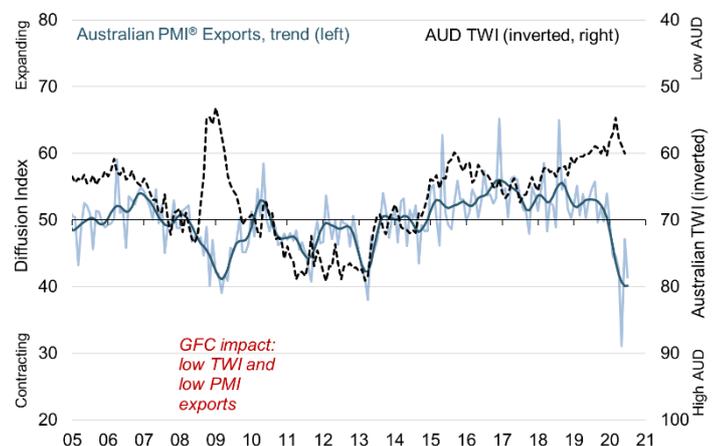
### Supplier deliveries & finished stocks

- The supplier deliveries index increased 4.2 points to 51.8 points in July, indicating the supply of raw materials ordered by manufacturers rose in July (seasonally adjusted).
- The finished stocks (inventories) index jumped 5.3 points into expansion at 51.8 points in July. This indicates expanding stock levels across the manufacturing sectors (seasonally adjusted).



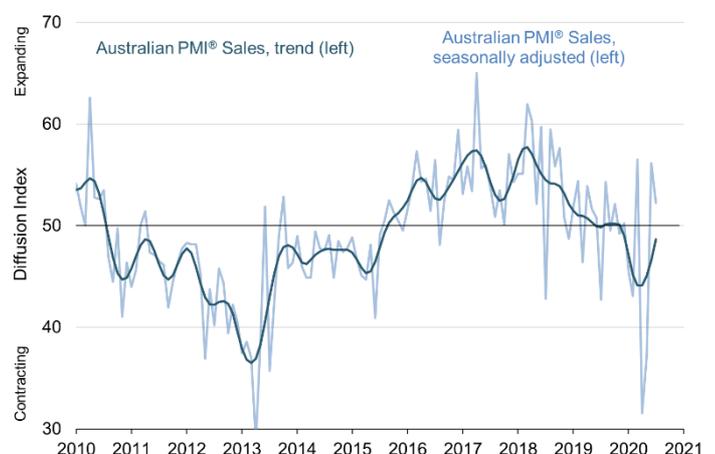
### Exports

- Export earnings for Australian manufactured goods were worth \$125.1bn in the year to May 2020 (26% of total annual export earnings), according to ABS data.
- The Australian PMI® exports index fell 5.8 points and was the only activity index to indicate contraction in July at 41.4 points (seasonally adjusted).
- The trade weighted index (TWI) – the Australian dollar weighted against trading partner currencies – is at relatively low levels, but manufacturing exports have continued to contract through 2020 due to the COVID-19 pandemic disruptions.
- Some exporters said their overseas markets are essentially shut down because of COVID-19.



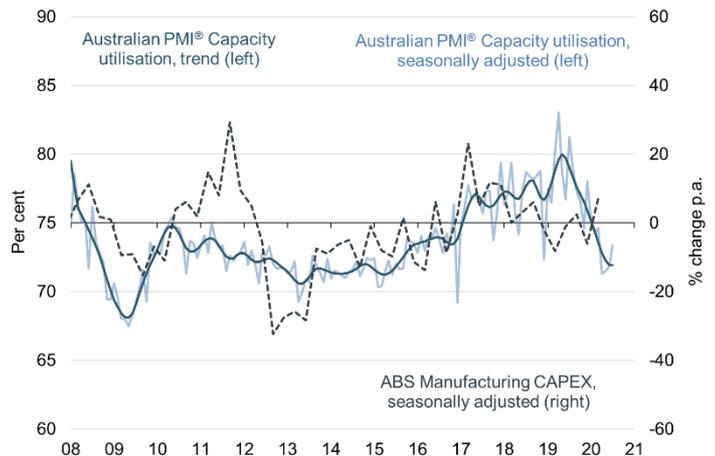
### Sales

- The sales index fell 3.9 points but remained in expansion at 52.5 points in July (seasonally adjusted).
- This result indicates growth in sales in July but at a slower rate than in June and is above the long-term average of 49.1 points (since 2009).
- Rising sales were evident in the food & beverage and machinery & equipment sectors, however sales remained deeply contractionary in the metals and building materials sectors.



## Capacity utilisation

- Australia manufacturers invested \$9.4bn in capital expenditure (CAPEX) in the year to Q1 2020, according to the latest ABS CAPEX estimate (nominal dollars). Manufacturing CAPEX increased 1.7% q/q and 0.6% through the year in Q1 of 2020.
- The Australian PMI® capacity utilisation index increased by 1.5 percentage points to 73.4% of available capacity being used in July (seasonally adjusted).
- This is just below the long-run average for this index of 73.7% (since 2007). It has fallen steadily since reaching a record high in April 2019, with the decline accelerating since the start of the COVID-19 pandemic.



### 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](http://www.aigroup.com.au/resourcecentre/economics).

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