AUSTRALIAN
PERFORMANCE OF MANUFACTURING INDEX

Manufacturing expands in June

The Australian Industry Group Australian Performance of Manufacturing Index **(Australian PMI®)** moved into positive territory in June, increasing by 9.9 points to 51.5 points. Results above 50 points indicate expansion with higher results indicating a faster rate of expansion.

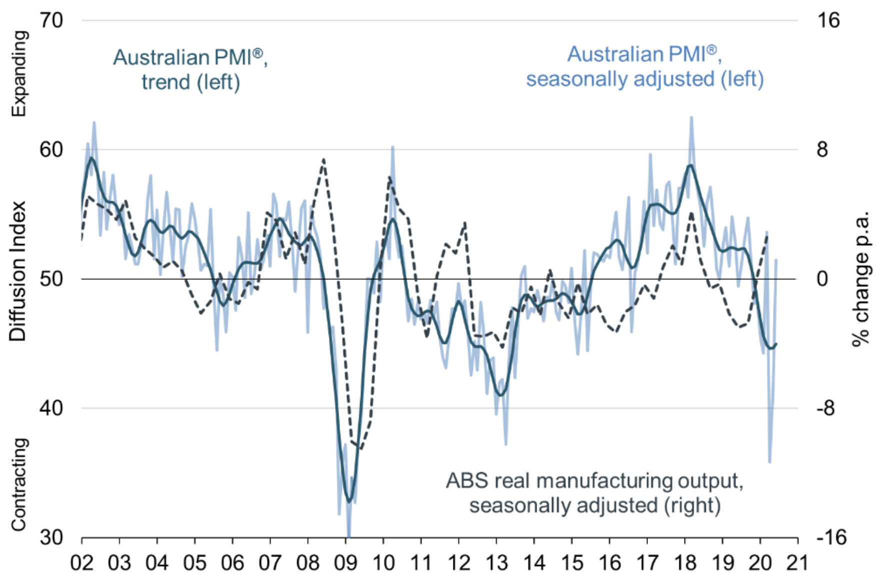
Parts of Australian manufacturing expanded mildly in June for the first time since February (seasonally adjusted). This indicates an improvement from the depths of April and May, rather than a recovery to buoyant conditions.

Across the sectors included in the Australian PMI, almost all of the improvement in June was concentrated in the large food and beverages sector. Food and beverage manufacturers said new orders from food wholesale distributors are improving, as trading restrictions are relaxed.

The extension to the instant asset tax write-off for businesses (announced in May) was already helping to increase demand for some local machinery & equipment manufacturers in June. Less positively, manufacturers who supply locally made metal products and building materials to the construction industry reported a sharp reduction in new orders.

The Australian PMI® has displayed more volatility than usual in recent months, in line with other economic indicators. It experienced its largest ever monthly fall in April followed by its largest ever monthly rise in June.

Australian PMI® (seasonally adjusted and trend)



June 2020

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Australian PMI® ▲ 9.8 points (seasonally adjusted)	**51.5**
Australian PMI® ▲ 0.3 points (trend)	**45.0**
Food & beverages ▲ 0.4 points (trend)	**55.4**
Machinery & equipment ▲ 1.9 points (trend)	**48.2**
Metal products ▲ 1.3 points (trend)	**38.3**
Chemicals ▼ 1.0 points (trend)	**46.7**
Building materials, wood & other ▼ 0.4 points (trend)	**36.9**
TCF, paper & printing ▲ 0.6 points (trend)	**33.3**

Summary

Manufacturing sectors: Five of the six manufacturing sectors in the Australian PMI® contracted in June (trend). Only the large food & beverage sector indicated expanding conditions. Those supplying locally made metal products and building materials to the construction industry reported low production, sales and new orders. Food & beverage manufacturers noted new orders from food distributors to services industries as trading restrictions are relaxed. Some machinery & equipment manufacturers reported that the extension to the instant asset write-off for businesses helped to increase demand in June.

Manufacturing wages and prices: Input costs continued to increase but at a slower rate than the previous month. Manufacturers' selling prices declined, on average, but at a slower rate than in May. The Australian PMI® average wages index indicated, stable wages across the manufacturing sector

Manufacturing activity: Three of the seven activity indices indicated a expansion, three indicated contraction, the employment index was stable in June. The production, sales and new orders indices jumped into expansion in June, while the supplier deliveries and finished stocks contracted. The manufacturing export index improved but remains in contraction, indicating declining exports.

Manufacturing highlights: Australian manufacturing expanded, albeit mildly, for the first time since February. The new orders index jumped into expansion in June indicating improved production in the coming months. Food & beverage manufacturers reported new orders from distributers as restaurants and pubs start to reopen. The instant asset tax write-off increased demand for some machinery & equipment manufacturers.

Manufacturing concerns: Some manufacturers reported that they have implemented stand downs because they have suffered significantly reduced sales, but do not qualify for JobKeeper (which requires a fall in revenue of 30% or more). Manufacturers in the metal products and 'building materials, wood, furniture & other products' sectors remain firmly in contraction. Respondents in these sectors reported low levels of production, sales and new orders because of the pandemic. Some exporters said their overseas markets are essentially shut down by COVID-19, as of June.

AUSTRALIAN PMI® KEY NUMBERS	Index this month	Change from last month	Long-run average		Index this month	Change from last month	Long-run average
seasonally adjusted				*trend*			
Australian PMI®	**51.5**	**9.9**	**50.5**	**Australian PMI®**	**45.0**	**0.3**	**50.4**
Production	52.3	9.9	51.2	Food & beverages	55.4	0.4	53.6
Employment	49.6	8.9	48.8	Machinery & equipment	48.2	1.9	49.6
New Orders	55.7	20.6	51.1	Metals products	38.3	1.3	47.2
Supplier Deliveries	47.6	-2.7	50.8	Petroleum, coal, chemicals			
Finished stocks	46.5	-1.4	49.6	& rubber products	46.7	-1.0	51.2
Exports	47.2	16.1	49.9	Building, wood, furniture			
Sales	56.1	19.0	49.1	& other products	36.9	-0.4	49.9
Input Prices	60.2	-5.2	67.6	Textiles, clothing, footwear,			
Selling Prices	48.9	6.5	48.1	paper & printing	33.3	0.6	46.3
Average Wages	49.8	4.2	58.8				
Capacity Utilisation (%)	71.9	0.4	73.7				

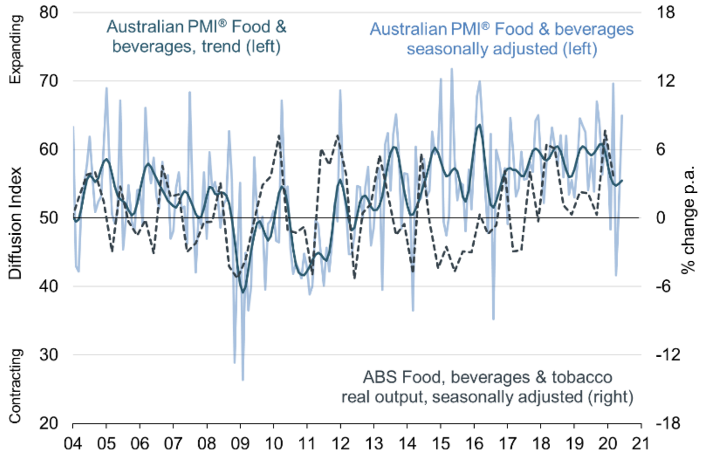
Results above 50 points indicate expansion. All indexes for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

MANUFACTURING REPORT CARD: Latest ABS data	Level	change q/q	change y/y	Share of total
Latest ABS data, seasonally adjusted		%	%	%
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 Apr 2020 *(original)*	127.1	0.6	4.5	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.*

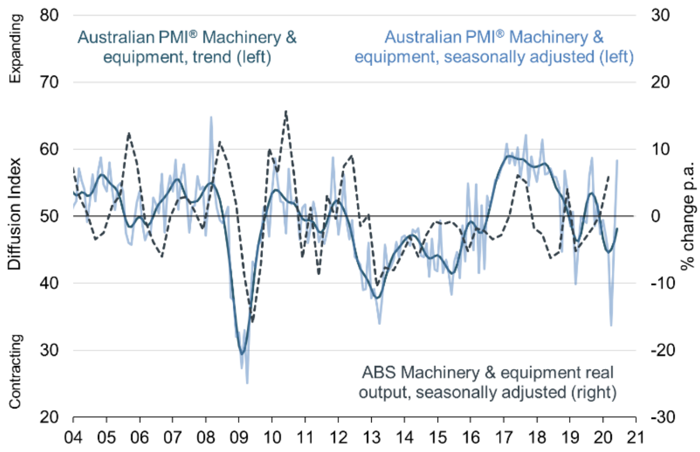
Food & beverages

- 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 246,000 people in February 2020 (27% of manufacturing employment).
- The large food & beverages sector edged 0.4 points higher to 55.4 points, indicating expanding conditions in June (trend).
- Some manufacturers noted new orders from food distributers that deliver to the hospitality sector as restaurants and pubs re-open in line with trading restrictions easing. Some respondents said sales were subdued after shopper stockpiling in recent months.



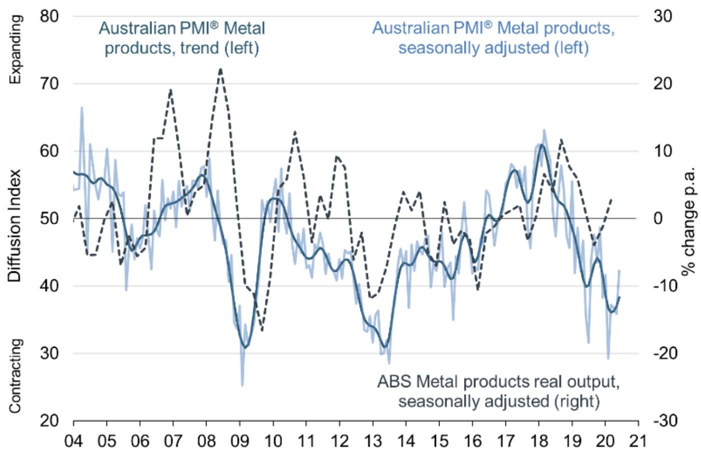
Machinery & Equipment

- 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 180,000 people in February 2020 (20% of manufacturing employment).
- The index for machinery & equipment rose 1.9 points to 48.2 points in June, indicating a mild contraction but at a slower rate than May (trend).
- The instant asset tax write-off increased demand for many machinery & equipment manufacturers in June. Other machinery & equipment respondents reported significantly slower sales as well as delays in the delivery of raw materials due to COVID-19 restrictions.



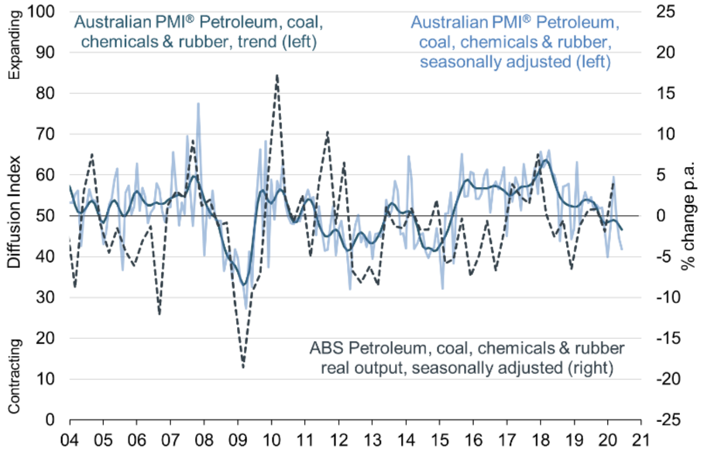
Metal Products

- 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 146,000 people in February 2020 (16% of manufacturing employment).
- The metal products index increased 1.3 points to 38.3 points in June, indicating a slower rate of contraction in June (trend).
- New orders were weak in this sector reflecting that many respondents in this sector expect a further slowdown after July. Some suppliers to the construction industry noted reductions in work.



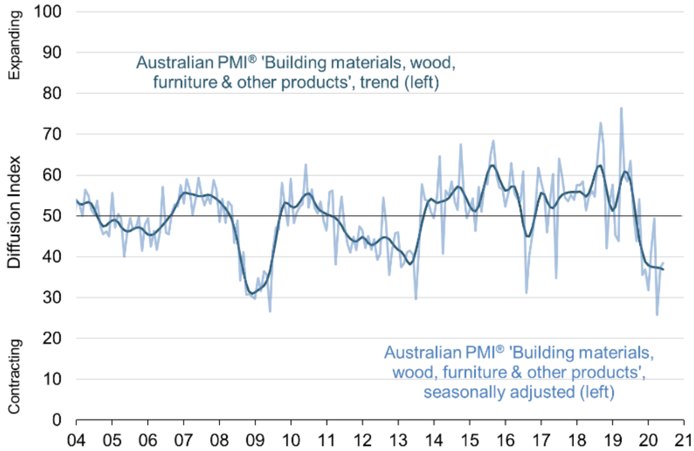
Petroleum, coal, chemicals & rubber

- 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 96,000 people in February 2020 (11% of manufacturing employment).
- The index for the chemicals sector fell 1.0 point to 46.7 points, indicating contracting conditions in June (trend).
- Manufacturers reported a lack of orders domestically and from overseas customers. Some respondents noted that orders from July had been brought forward into June, possibly because of the end-of-the financial-year.



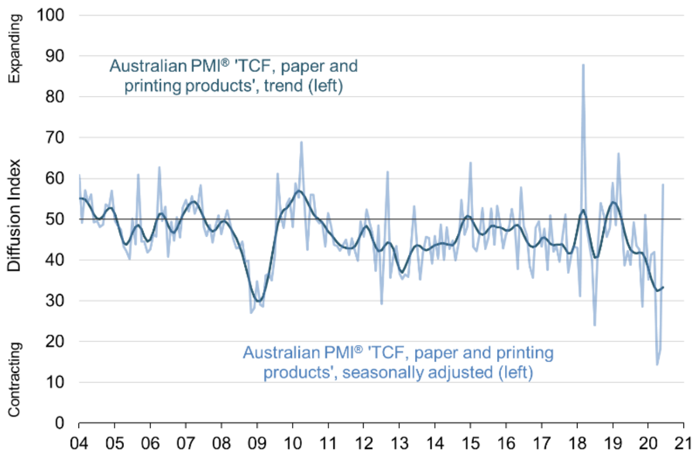
Building materials, wood, furniture & other manufacturing products

- The building materials, wood, furniture & other products sector employed 147,000 people in February 2020 (16% 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 eased a further 0.4 points to 36.9 points in June (trend). This indicates the sector contracted further in June. Commercial building suppliers noted a rapid decline in sales and are not expecting a rebound until workers return to office buildings. Manufacturers supplying to the wider construction industry reported that they are currently busy filling previous orders but are expecting a decline in the coming months. This suggests a further contraction in activity is likely ahead for this sector.



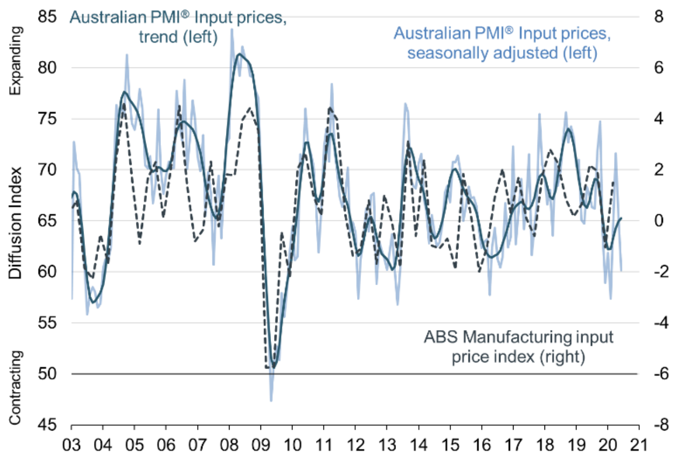
TCF, paper and printing products

- The textiles, clothing, footwear (TCF), paper & printing products sector employed 83,000 people in February 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 increased 0.6 points to 33.3 points in June (trend). Following months of deep contraction, the sector expanded on a seasonally adjusted basis.
- Exports were lower in this sector, but some respondents noted an increase in activity as trading restrictions are eased.



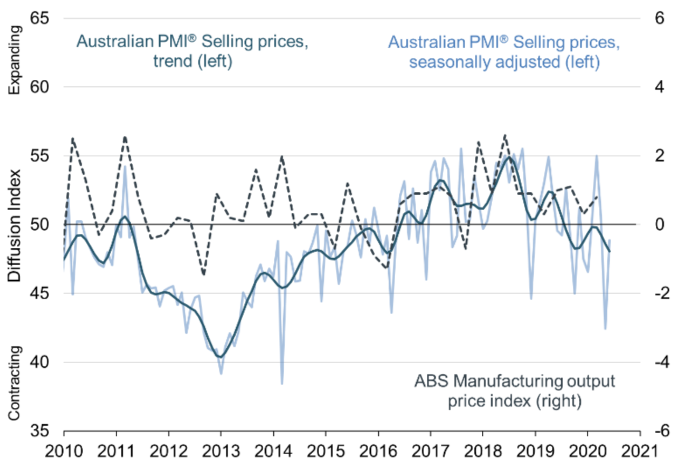
Input prices

- 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 fell 5.2 points to 60.2 points in June (seasonally adjusted), indicating slower price increases for manufacturing inputs.
- The increase in input prices continued to ease in June after a sharp acceleration in May. This index is now well below the long-run average for this index of 67.6 points (since 2003).
- Some machinery & equipment manufacturers reported difficulty obtaining raw materials in a timely manner.



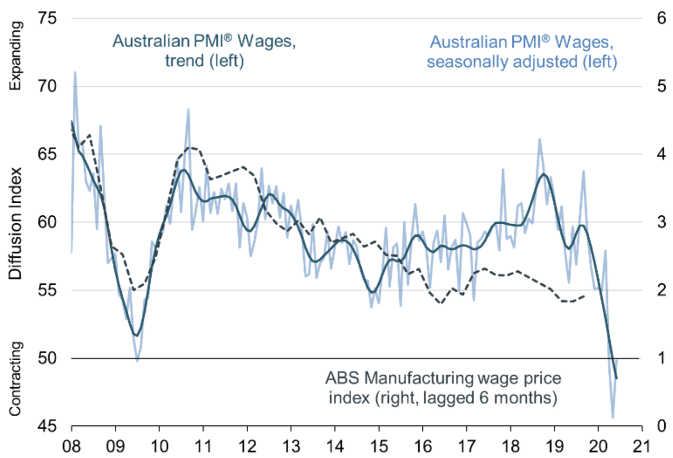
Selling prices

- 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 rose 6.5 points to 48.9 points in June (seasonally adjusted). This indicates that manufacturers' selling prices declined, on average, but at a slower rate than in May.
- This index is now above its own long-run average of 48.1 points (since 2003).
- Selling prices were stable across most manufacturing sectors, except for the metals and building materials sectors which experienced falling selling prices.



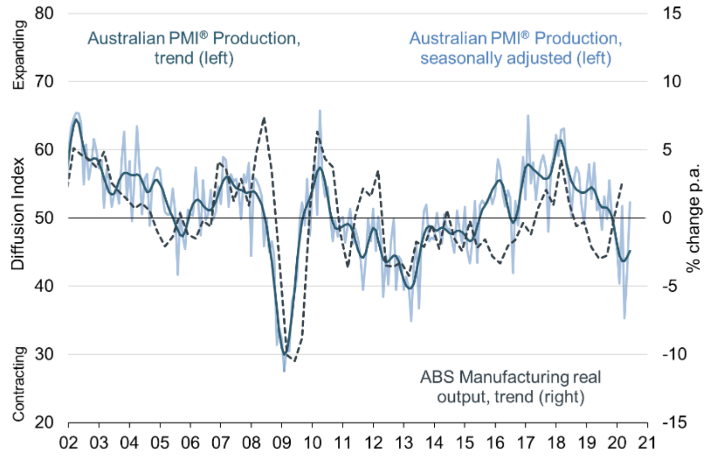
Average wages

- 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 increased by 4.2 points to 49.8 points (seasonally adjusted), indicating stable average wages across the manufacturing sector.
- The seasonal bump in the index that usually occurs in July because of the Fair Work Commission's minimum wage decision will now likely occur in November. This is when the 1.75% minimum wage increase for 2020-21 becomes operative across the manufacturing awards.



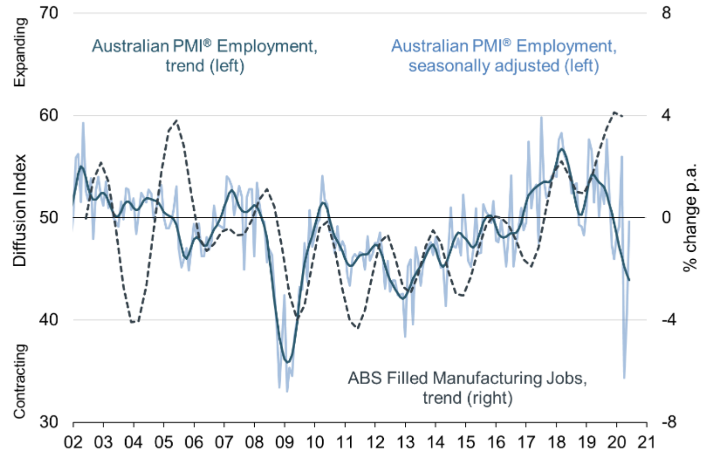
Production

- 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 recovered more of the ground it lost in April, rising a further 9.9 points into expansion at 52.3 points in June (seasonally adjusted).
- Production was elevated for machinery & equipment, and some paper & printing manufacturers. Production contracted for the chemicals, building materials and the metal product sectors in June.



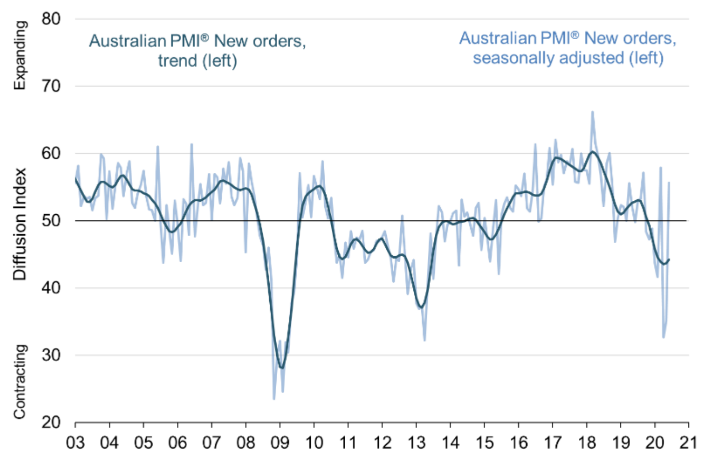
Employment

- 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. (trend).
- The Australian PMI® employment index increased by 8.9 points to 49.6 points, indicating broadly stable employment levels in June (seasonally adjusted). Employment fell in the chemicals, building materials and the metal product sectors in June.



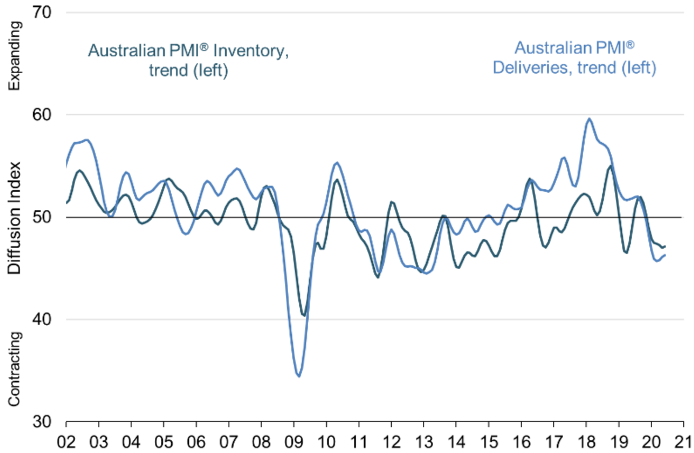
New orders

- After plummeting in April, the new orders index recovered in June, rising by 20.6 points to 55.7 points (seasonally adjusted). This indicates that new orders increased, on average, for Australian manufacturers and suggests a recovery in manufacturing production in the coming months.
- This was the largest month-to-month increase in the series history (since 2001). Like many other economic indicators at present, the new orders index has experienced higher than usual volatility in recent months, experiencing its largest ever fall (in April) and its largest ever rise (in June).
- New orders increased for food & beverage and machinery & equipment manufacturers but deteriorated for building materials, chemicals and metal products.



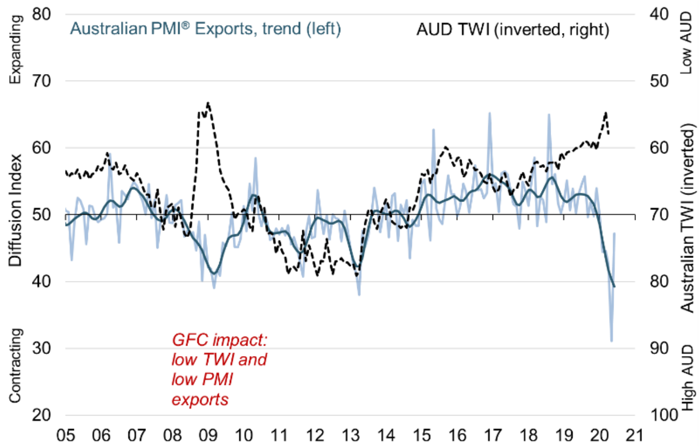
Supplier deliveries & finished stocks

- The supplier deliveries index slowed 2.7 points to 47.6 points in June, indicating falling supply of raw materials ordered by manufacturers (seasonally adjusted). Some manufacturers reported difficulty sourcing imported raw materials.
- The finished stocks (inventories) index fell by 1.4 points to 46.5 points in June. This indicates falling stock levels across the manufacturing sectors (seasonally adjusted) and at a faster rate than in May.



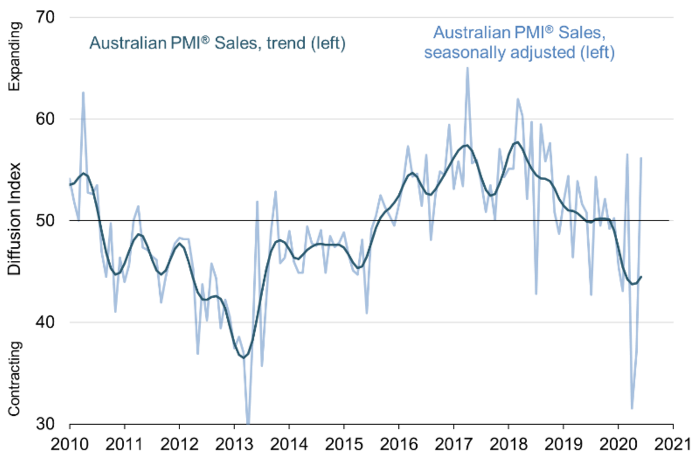
Exports

- Export earnings for Australian manufactured goods were worth $127.1bn in the year to April 2020 (26% of total annual export earnings), according to ABS data.
- The Australian PMI® exports index jumped 16.2 points but remained in contraction at 47.2 points in June (seasonally adjusted).
- The trade weighted index (TWI) – the Australian dollar weighted against trading partner currencies – has fallen further in recent months, but manufacturing exports have continued to contract through 2020, due to the COVID-19 pandemic disruptions.



Sales

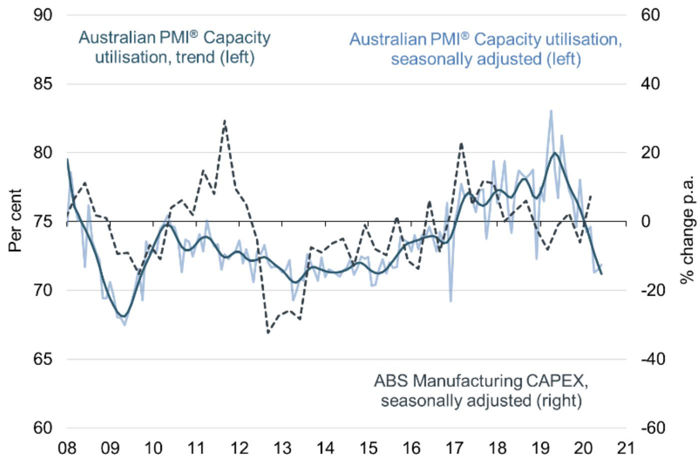
- The sales index jumped back into expansion, rising 19.0 points to 56.1 points in June (seasonally adjusted).
- This result indicates rising sales in June and is the largest month-to-month increase in the series history (since 2009).
- Rising sales were evident in the machinery & equipment sector as businesses purchased machinery & equipment before the end-of-financial-year. Some respondents in this sector noted that the larger than usual demand was because of the instant asset write-off.
- Sales remain deeply contractionary in the metals and building materials sectors.



Activity and data definitions

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 0.4 percentage points to 71.9% of available capacity in June (seasonally adjusted).
- This is 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.



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.