

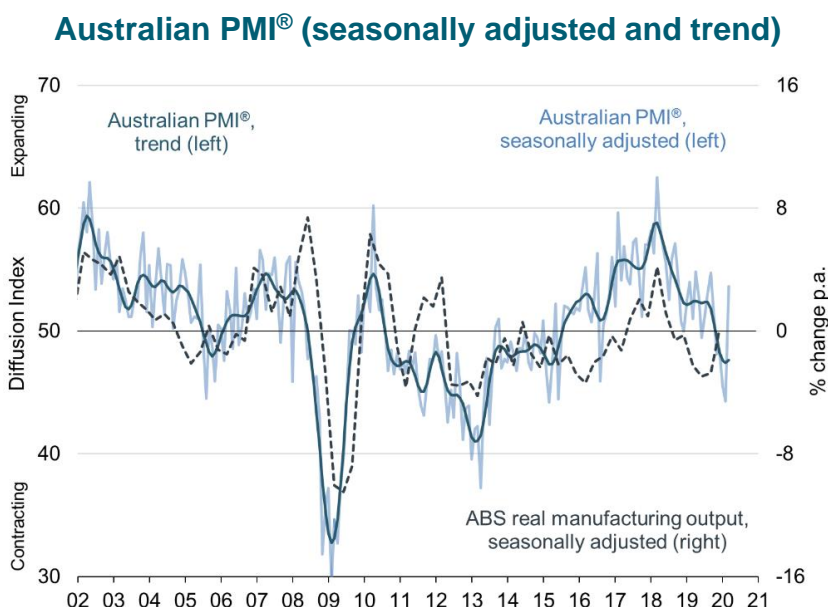
# Shopper stockpiling boosts local food and grocery manufacturing in March

The Australian Industry Group Australian Performance of Manufacturing Index (Australian PMI®) jumped by 9.4 points to 53.7 points in March, indicating an expansion in Australian manufacturing in March after four months of contraction (seasonally adjusted). Results above 50 points indicate expansion with higher results indicating a faster rate of expansion.

This somewhat surprising expansion – in the midst of the escalating COVID-19 pandemic and emerging recession – is almost entirely due to a huge surge in demand for manufactured food, groceries and personal care items, as shoppers stock up on processed food, toilet paper, cleaning products and other household essentials. The local manufacturing sectors that make these goods (mainly ‘food & beverages’ and ‘chemicals’) account for a large proportion of Australian manufacturing in 2020 (compared to past decades and compared to other countries) and so these sectors make a relatively large contribution to the headline Australian PMI® index.

In contrast, the more traditional ‘heavy, industrial manufacturers’ reported contracting conditions in March, as local and export demand for machinery, equipment, building materials and especially metal products evaporates.

The timing of responses was significant in the Australian PMI® this month. Responses received earlier in the month –before the announcement of widespread activity restrictions in Australia – were more positive than those received towards the end of March. Responses from the food & beverages and chemicals sectors remained positive up until the end of the month.



MARCH 2020

## MEDIA CONTACT

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<b>Australian PMI®</b> ▲ 9.4 points (seasonally adjusted)	<b>53.7</b>
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<b>Australian PMI®</b> ▲ 0.2 points (trend)	<b>47.6</b>
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<b>Food &amp; beverages</b> - 0.0 points (trend)	<b>59.0</b>
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<b>Machinery &amp; equipment</b> ▼ 1.1 points (trend)	<b>45.5</b>
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<b>Metal products</b> ▼ 3.2 points (trend)	<b>34.5</b>
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<b>Chemicals</b> ▲ 1.2 points (trend)	<b>50.1</b>
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<b>Building materials, wood &amp; other</b> ▲ 1.4 points (trend)	<b>40.9</b>
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<b>TCF, paper &amp; printing</b> ▲ 0.6 points (trend)	<b>40.8</b>
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**Manufacturing sectors:** Four of the six manufacturing sectors in the Australian PMI® contracted in March, one was stable (the chemicals sector) and the large food & beverages sector expanded (trend). There was a clear divergence between the manufacturing sectors in March. Food & beverage and the chemical sector reported a spike in sales, production and new orders while the other manufacturing sectors reported a difficult trading environment.

**Manufacturing wages and prices:** Input prices increased in March as some manufacturers reported difficulty sourcing raw materials from their usual suppliers. Higher prices for international air freight were a new source of concern for both importers and exporters. The selling prices index accelerated into expansion (above 50 points) in March, indicating higher selling prices, on average, for Australian manufacturers. The average wages index increased in March but remains below its own long-run average.

**Manufacturing activity:** Five of the seven activity indices expanded, one was stable and two contracted in March. Sales, production, new orders and employment rebounded into expansion, largely due to increased demand for food and other household-related consumable manufactured goods. Finished stocks were stable, with declines in food inventories but larger stockpiles elsewhere. Deliveries and exports contracted due to COVID-19 related freight disruptions and restrictions.

**Manufacturing highlights:** The largest Australian manufacturing sector - food & beverages - rebounded into expansion (on a seasonally adjusted and trend basis) due to households stockpiling in anticipation of activity restrictions and perceived supply disruptions due to the COVID-19 pandemic. The chemicals sector experienced a spike in demand due to a huge surge in sales of pharmaceuticals, toiletries and health supplements.

**Manufacturing concerns:** The sharp spike in the Australian PMI® sales, production and new orders indices was almost wholly experienced in the food and beverages sector. Elsewhere, the 'heavy' manufacturing sectors (equipment, machinery, metals) reported significant supply chain disruptions and tumbling export orders due to global factory and freight disruptions as a result of the COVID-19 pandemic. Increased lead times and prices for air freight are affecting importers and exporters.

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®	53.7	9.4	50.6	Australian PMI®	47.6	0.2	50.5
Production	51.8	11.4	51.3	Food & beverages	59.0	-0.0	53.6
Employment	56.0	6.9	48.9	Machinery & equipment	45.5	-1.1	49.7
New Orders	57.9	16.2	51.3	Metals products	34.5	-2.0	47.3
Supplier Deliveries	48.3	1.8	50.9	Petroleum, coal, chemicals			
Finished stocks	49.2	0.7	49.6	& rubber products	50.1	1.2	51.3
Exports	44.6	0.1	50.1	Building, wood, furniture			
Sales	56.5	13.4	49.2	& other products	40.9	1.4	50.1
Input Prices	64.0	6.6	67.6	Textiles, clothing, footwear,			
Selling Prices	55.0	4.6	48.1	paper & printing	40.8	0.6	46.5
Average Wages	57.9	3.0	59.1				
Capacity Utilisation (%)	74.6	0.4	73.7				

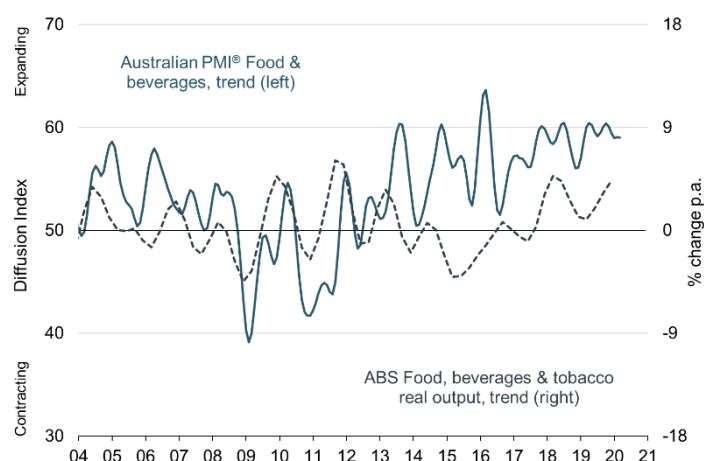
Results above 50 points indicate expansion. All indexes for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

MANUFACTURING REPORT CARD: Latest ABS data	Level	change q/q	change y/y	Share of total
<i>Latest ABS data, seasonally adjusted</i>		%	%	%
Real value-added output, \$bn, year to Dec 2019	104.5	0.0	-2.0	5.5% of total GDP
Nominal sales, \$bn, year to Dec 2019	355.8	1.0	1.0	12.0% of non-farm business sales
Nominal export earnings, \$bn, year to Jan 2020 (original)	126.4	0.7	6.8	25.7% of total export earnings
Nominal company profits (GOP), \$bn, year to Dec 2019	31.0	-0.3	-5.5	8.1% of non-farm company profits (GOP)
Nominal investment (CAPEX), \$bn, year to Dec 2019	9.3	-1.4	-3.0	7.9% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Dec 2019	54.7	1.1	2.9	9.5% of non-farm business wages
Number of filled manufacturing jobs, '000, Dec Qtr 2019	921.2	1.1	4.5	7.2% 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.

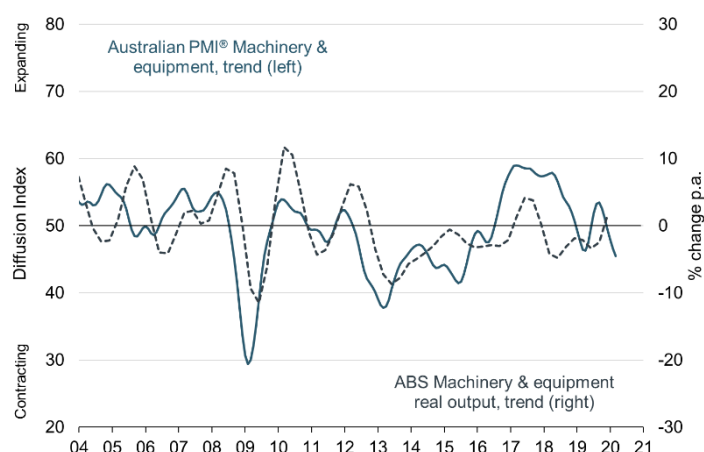
## Food & beverages

- The food, beverages & tobacco sector produced \$26.3bn in real value-added output in the year to Q4 2019 (25% of manufacturing real value-added output).
- It employed 246,000 people in February 2020 (27% of manufacturing employment).
- The index for food & beverages remained at 59.0 points in March, indicating the same rate of expansion as in February (trend).
- In seasonally adjusted terms however, this sector rebounded into a strong and sudden expansion in March (after a decline in February), due to shopper stockpiling of household essentials in anticipation of activity restrictions due to the COVID-19 pandemic.



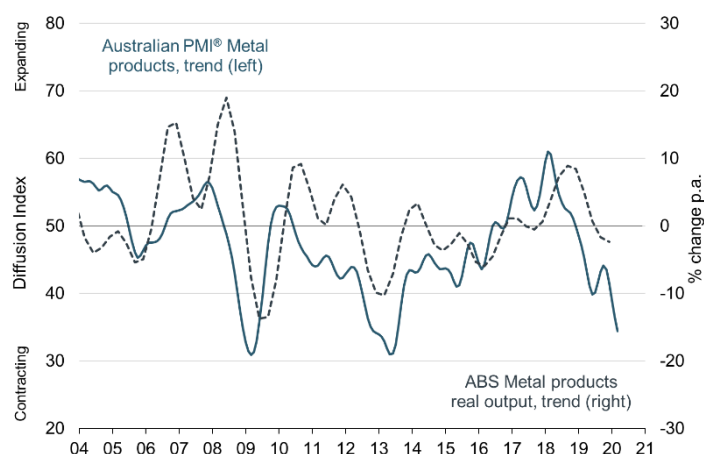
## Machinery & Equipment

- The machinery & equipment sector produced \$20.2bn in real value-added output in the year to Q4 2019 (19% of manufacturing real value-added output).
- It employed 180,000 people in February 2020 (20% of manufacturing employment).
- The index for machinery & equipment fell by 1.1 points to 45.5 points, indicating a further contraction in March after a few months of recovery during late 2019 (trend).
- Manufacturers in this sector noted low local and export demand earlier in March, while respondents from later in the month noted rising economic uncertainty due to the COVID-19 pandemic. Some respondents noted supply chain delivery difficulties for parts imported from China.



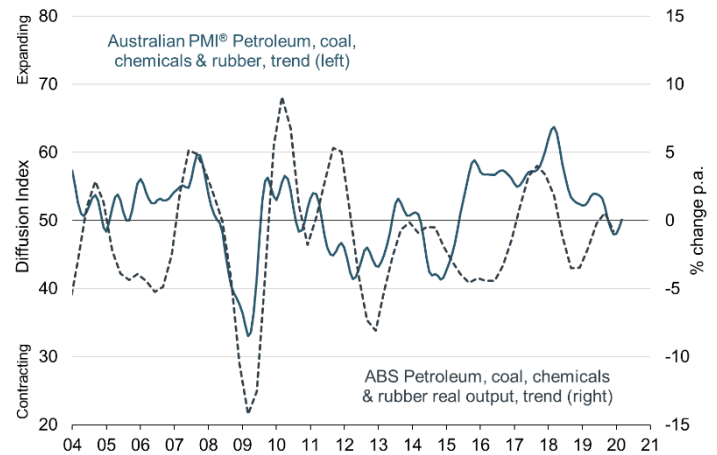
## Metal Products

- The metal products sector produced \$17.8bn in real value-added output in the year to Q4 2019 (17% of manufacturing real value-added output).
- It employed 146,000 people in February 2020 (16% of manufacturing employment).
- The metal products index fell by a further 2.0 points to 34.5 points in March, indicating a faster rate of contraction and the lowest result since July 2013 (trend).
- Many respondents said COVID-19 restrictions meant they are shutting down their operations. Some respondents noted that demand had already been low for some time before the impact of the virus.



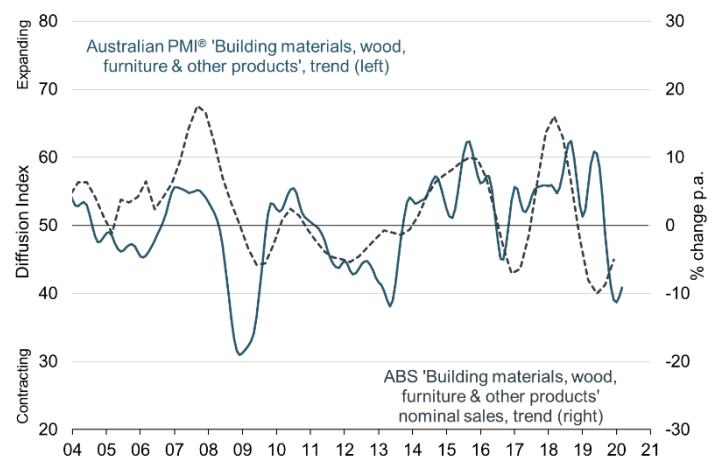
## Petroleum, coal, chemicals & rubber

- The petroleum, coal, chemicals & rubber sector produced \$20.3bn in real value-added output in the year to Q4 2019 (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 grew by 1.2 points to 50.1 points, indicating stable conditions (trend).
- On a seasonally adjusted basis however, this sector's index jumped up by 10 points into expansion, due to a spike in demand for personal care items (e.g. hand sanitizer), pharmaceuticals, cleaning products, toiletries and health supplements, much of which is made locally.
- Respondents from this sector who are not making consumable items reported difficult local and global economic conditions.



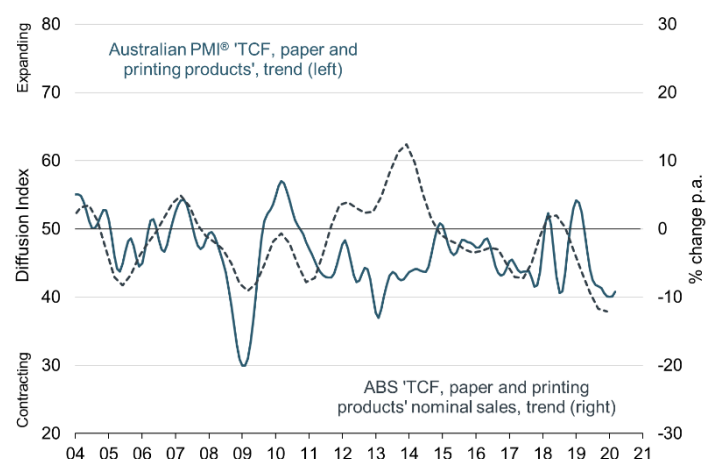
## Building materials, wood, furniture & other manufacturing products

- 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 housing-related) sector improved 1.4 points to 40.9 points, indicating a slower rate of contraction in March (trend).
- 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

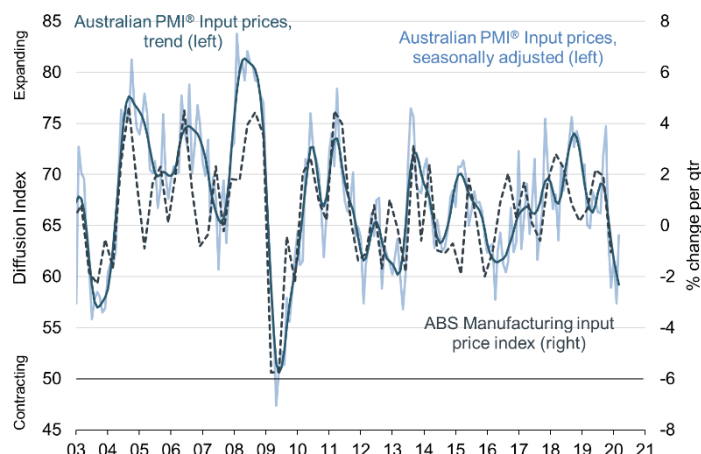
- The textiles, clothing, footwear (TCF), paper & printing products sector employed 83,000 people in February 2020 (9% of manufacturing employment). This sector makes textiles, clothing, footwear, paper, cardboard, packaging, printed products and recorded media.
- The index for textiles, clothing, footwear (TCF), paper & printing products rose by 0.6 points to 40.8 points in March (trend). This is below the long-run average (since 2003) of 46.5 points for this index.
- Some respondents reported difficulty exporting and importing due to a scarcity of shipping container space.





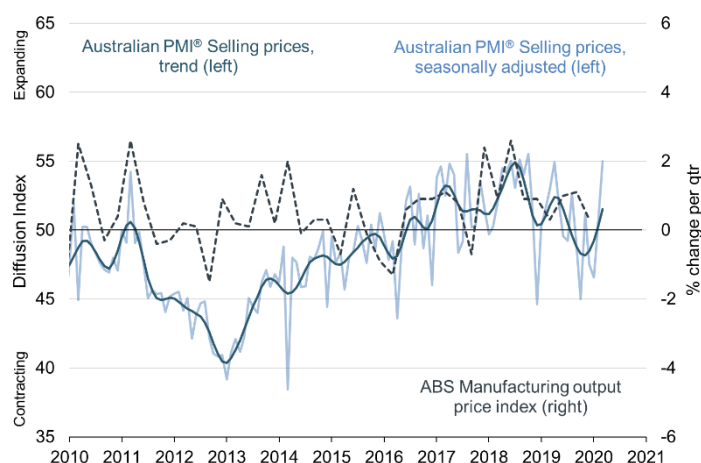
## Input prices

- 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 increased by 6.6 points to 64.0 points in March (seasonally adjusted). This indicates that manufacturing input prices increased at a faster pace in March than in February.
- This was the highest result since November 2019 but remained below the long-run average for this index of 67.6 points (since 2003).
- Increased lead times and prices for air freight were a concern for both importers and exporters. This may have been a factor in rising input prices reported in March.



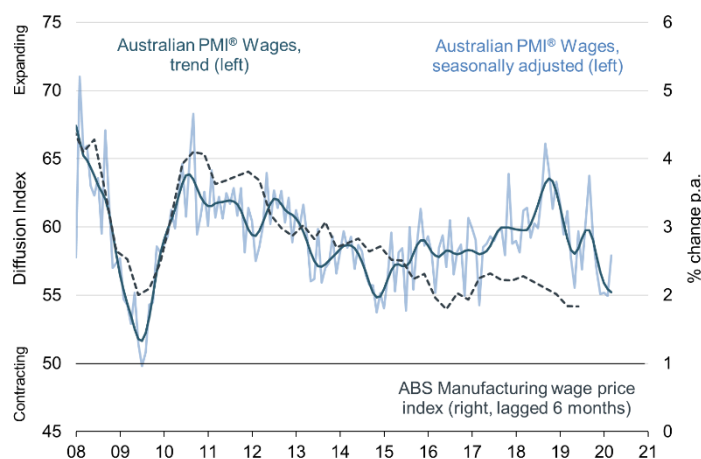
## Selling prices

- 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 rose by 4.6 points to a relatively strong expansion at 55.0 points in March (seasonally adjusted). This indicates that manufacturers' selling prices increased, on average, in March.
- This result is well above the long-run average for this index of 48.1 points (since 2007).
- Selling prices rose across all manufacturing sectors except for the metal products sector. They were especially elevated for food & beverage manufacturers in March, as local demand for their products surged.



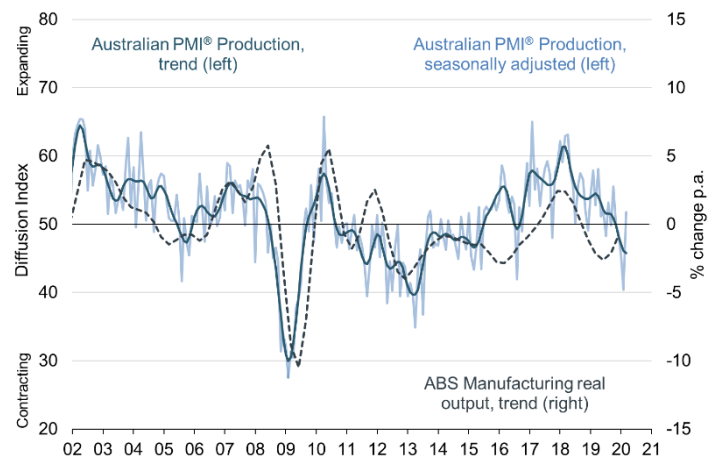
## Average wages

- Private sector wages across the manufacturing industry rose by an average of 0.4% over the quarter and 1.8% p.a. in Q4 2019, according to the ABS Wage Price Index.
- The Australian PMI® average wages index increased by 3.0 points to 57.9 points in March. This indicates manufacturing wages rose at a faster pace in March than in February (seasonally adjusted).
- Despite the increase in March, the wage price index has been trending down in early 2020. This suggests that even before the disruptions of the COVID-19 pandemic, average wage growth in manufacturing was unlikely to strengthen in 2020, based on its historical relationship with the ABS wage price index.



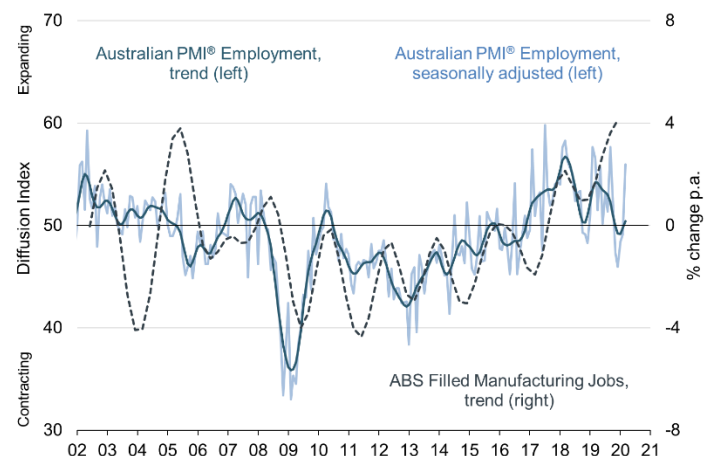
## Production

- The manufacturing industry produced \$104.5bn in real value-added output in the year to Q4 2019 (5.5% of Gross Domestic Product, GDP). Manufacturers' value-added output was flat (0.0% q/q) in Q4 of 2019 but fell by 2.0% over the year to Q4 2019.
- The Australian PMI® production index jumped by 11.4 points to 51.8 points, indicating a mild expansion in total manufacturing production for the first time in 2020 (seasonally adjusted).
- Production was elevated for chemical products such as disinfectants and hand sanitisers as well as for food & beverage items, groceries and even infant milk formula.
- Production was especially low in the metal products sector.



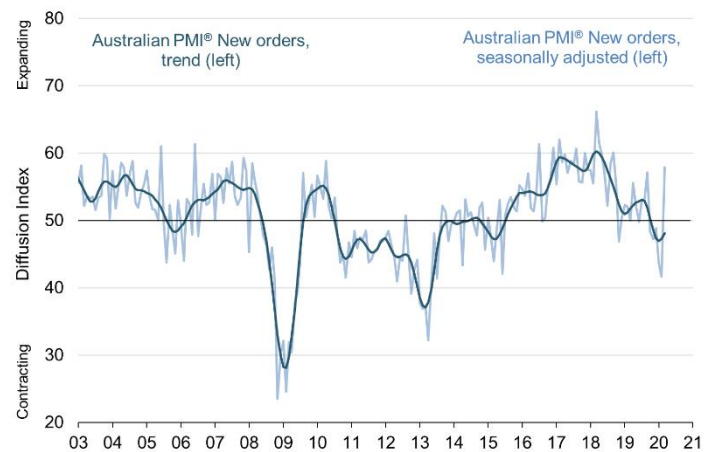
## Employment

- There were 921,200 filled jobs in manufacturing in Q4 2019 (7.2% 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 4.5% over the year to Q4 2019.
- The Australian PMI® employment index strengthened by 6.9 points to 56.0 points in March, indicating expanding manufacturing employment (seasonally adjusted). The index remains well above its own long-run average (48.9 points since 2001).
- The employment index increased in the food & beverage and chemicals sector but fell in the metals and TCF, paper & printing products sectors, in line with production.



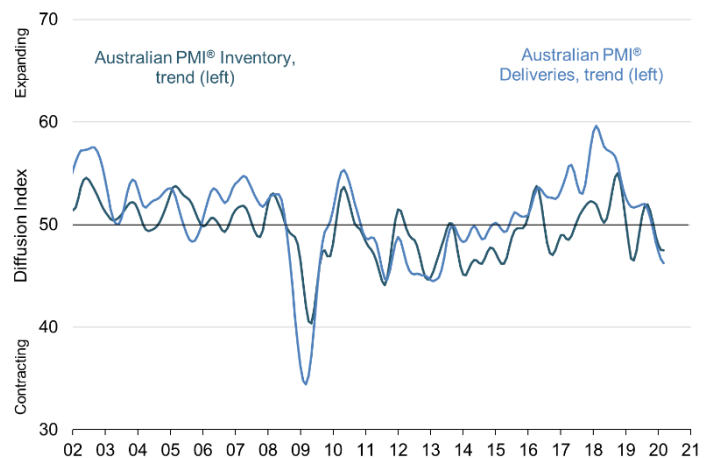
## New orders

- The Australian PMI® new orders index jumped by 16.2 points to 57.9 points in March, indicating a steep expansion in new orders (seasonally adjusted).
- This result is well above the long-run average for this index of 51.3 points (since 2001).
- The new orders activity index showed a very large divergence between manufacturing sectors in March. New orders for 'food & beverages' and 'chemicals' spiked sharply higher in March but contracted deeply for the 'machinery & equipment', 'metal products', 'building materials, wood, furniture & other' and the 'TCF, paper & printing products' sectors.



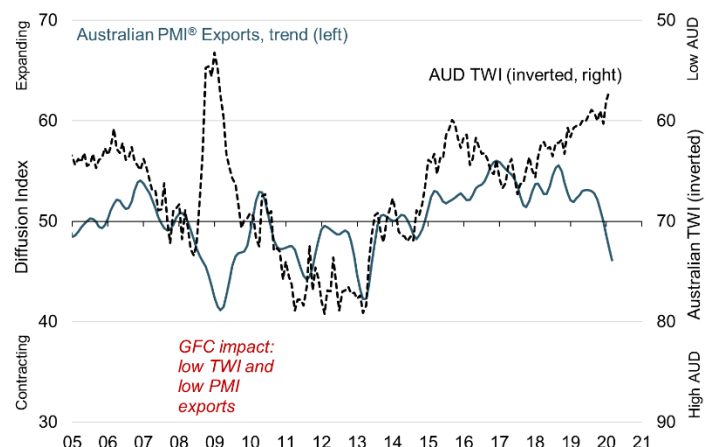
## Supplier deliveries & finished stocks

- The supplier deliveries index increased by 1.8 points to 48.3 points in March, indicating a contracting supply of raw materials ordered by manufacturers, albeit at a slower pace than in February (seasonally adjusted).
- This result is below the long-run average for this index of 50.9 points (since 2001).
- Some manufacturers reporting difficulty sourcing raw materials from local and offshore suppliers in March.
- The finished stocks (inventories) index rose by 0.7 points to 49.2 points in March. This indicates broadly stable stock levels across the manufacturing sectors (seasonally adjusted) but masks a divergence between the sectors, with declining inventories in the food and beverages sector but rising inventories elsewhere.



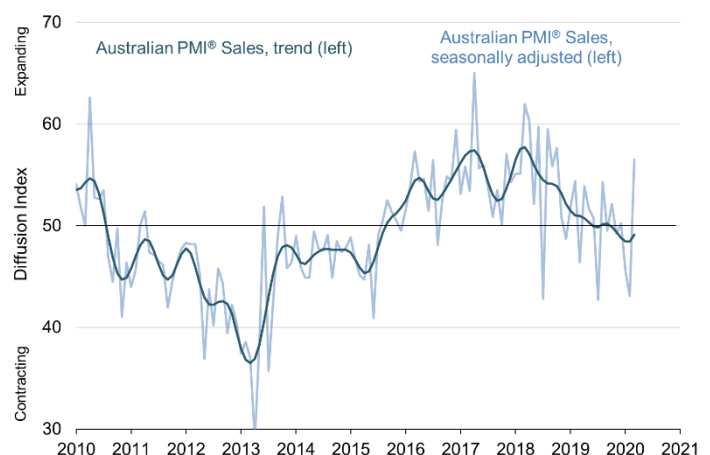
## Exports

- Export earnings for Australian manufactured goods were worth \$126.4bn in the year to January 2020 (26% of total annual export earnings), according to ABS data.
- The Australian PMI® exports index rose by 0.1 point but remained in contraction at 44.6 points in March, after recording a sudden contraction in February (seasonally adjusted).
- Despite the trade weighted index (TWI) – the Australian dollar weighted against trading partner currencies – falling in recent months, exports contracted across the board in March due to COVID-19 related disruptions.
- Increased lead times and prices for air freight were a concern for both importers and exporters in March.



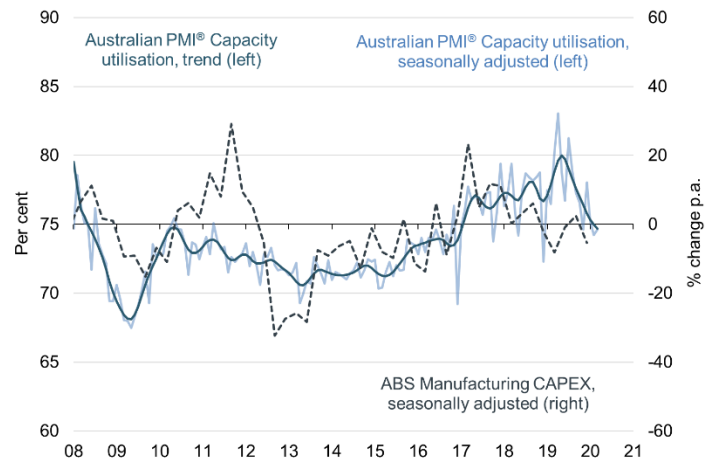
## Sales

- The sales index jumped by 13.4 points to 56.5 points. This indicates expanding sales levels in March, after contracting sales in February and January (seasonally adjusted).
- This result is above the long-run average for this index of 49.2 points (since 2009).
- Sales were elevated for chemical products (disinfectants and hand sanitisers), grocery products as well as food & beverage items.
- Sales were lower for building materials and machinery & equipment. Respondents reported that sales have virtually collapsed for metal products and textiles, clothing & paper products.



## 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 increased 0.4 percentage points to 74.6% of available capacity in March (seasonally adjusted).
- This is just above the long-run average for this index of 73.7% (since 2007) but has fallen since reaching its 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](http://www.aigroup.com.au/resourcecentre/economics).

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