

# Manufacturing stabilises in November

The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) declined 4.2 points to 52.1 points (seasonally adjusted), indicating expanding conditions in November but at a slower rate than in October. Results above 50 points indicate expansion with higher results indicating a faster rate of expansion.

The result largely reflects stabilisation in conditions after a bounce-back into positive territory, following Victoria's easing of activity restrictions in October. South Australia had the largest fall of any state due to lost production from the three-day shutdown. Still, it remained in positive territory because of robust agricultural conditions, which boosted demand for food & beverage and machinery & equipment manufacturers. Victoria recorded its first month of expansion since March.

Respondents said easing activity restrictions and government spending boosted production in November. The disruptions to supply chains have resulted in more anecdotal evidence of customers wishing to purchase from Australian manufacturers. COVID-19 and the associated uncertainty around lockdowns and business investment remain the main issue impacting Australian manufacturers.

November 2020

## MEDIA CONTACT

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<b>Australian PMI®</b> ▼ 4.2 points (seasonally adjusted)	<b>52.1</b>
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<b>Australian PMI®</b> ▲ 0.3 points (trend)	<b>53.0</b>
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<b>Food &amp; beverages</b> ▼ 20.8 points (s.a.)	<b>43.1</b>
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<b>Machinery &amp; equipment</b> ▲ 6.2 points (s.a.)	<b>60.0</b>
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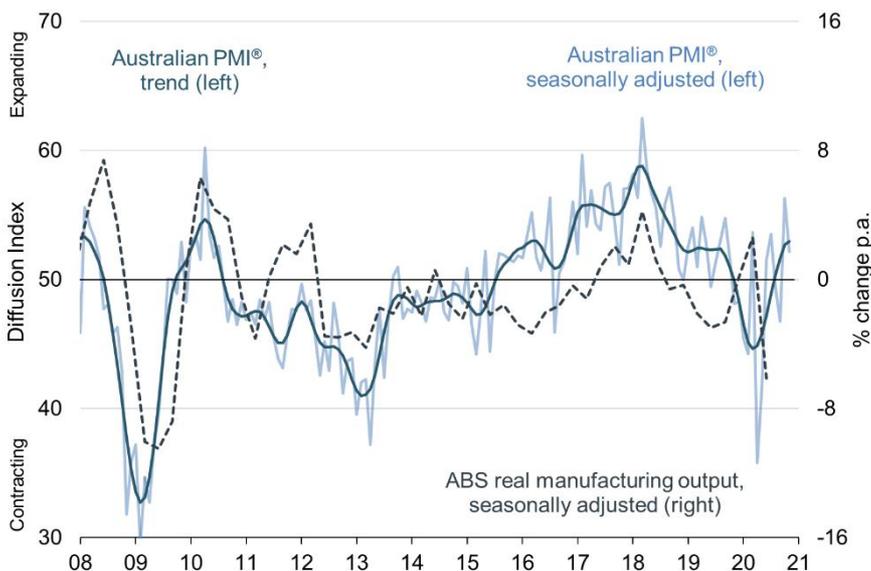
<b>Metal products</b> ▲ 13.7 points (s.a.)	<b>56.6</b>
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<b>Chemicals</b> ▼ 2.4 points (s.a.)	<b>57.9</b>
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<b>Building materials, wood &amp; other</b> ▼ 11.7 points (s.a.)	<b>43.8</b>
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<b>TCF, paper &amp; printing</b> ▲ 17.3 points (s.a.)	<b>71.6</b>
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**Australian PMI® and ABS real manufacturing output**



**Manufacturing sectors:** Four of the six manufacturing sectors in the **Australian PMI®** expanded and the food & beverages and the building materials, wood, furniture & other products sectors contracted in November (seasonally adjusted). There was a large fall into negative territory for food & beverage manufacturers for various reasons, including falling supermarket sales, low demand in tourism regions, and flat export markets. Respondents in the TCF, paper & printing sector reported improved market activity and an increase in customer demand.

**Manufacturing wages and prices:** The input price index eased slightly in November, indicating slower price increases, on average, for manufacturers (seasonally adjusted). Manufacturers' selling prices, on average, remained stable in November. **Australian PMI®** average wages index rose back above its long-run average. This is probably because manufacturing award increases were implemented in November instead of July in 2020.

**Manufacturing activity:** Four of the seven activity indices expanded in November, two were stable and finished stocks fell into contraction. All seven activity indices declined from the October results, with South Australia leading the declines due to lost production from the three-day shutdown. Exports were largely stable across most manufacturing sectors with mixed responses from participants – some said exports were up while others noted weak international demand.

**Manufacturing highlights:** Australian manufacturing stabilised with a modest expansion in November after a bounce-back into positive territory following Victoria's easing of activity restrictions in October. Respondents said easing activity restrictions and government spending boosted production in November. The disruptions to supply chains have resulted in more anecdotal evidence of customers wishing to purchase from Australian manufacturers.

**Manufacturing concerns:** COVID-19 and the associated uncertainty around lockdowns and business investment remain the main issue impacting Australian manufacturers. There was a large seasonally adjusted fall into negative territory for food & beverage manufacturers in November for various reasons, including falling supermarket sales, low demand in tourism regions, and flat export markets. Some respondents noted the Port Botany dispute is resulting in inbound shipments that are more than four weeks late at a time when air freight is expensive.

AUSTRALIAN PMI® KEY NUMBERS	Index this month	Change from last month	Long-run average	AUSTRALIAN PMI® SECTORS (TREND)	Index this month	Change from last month	Long-run average
<i>seasonally adjusted</i>				<i>seasonally adjusted</i>			
Australian PMI®	52.1	-4.2	50.5	Australian PMI®	52.1	-4.2	50.5
Production	52.5	-2.6	51.2	Food & beverages	43.1	-20.8	53.6
Employment	52.8	-2.5	48.8	Machinery & equipment	60.0	6.2	49.8
New Orders	53.3	-5.1	51.1	Metals products	56.6	13.7	47.3
Supplier Deliveries	53.5	-5.3	50.9	Petroleum, coal, chemicals			
Finished stocks	44.3	-6.9	49.5	& rubber products	57.9	-2.4	51.3
Exports	50.0	-2.7	49.9	Building, wood, furniture			
Sales	50.7	-5.7	49.1	& other products	43.8	-11.7	49.8
Input Prices	64.6	-2.0	67.4	Textiles, clothing, footwear,			
Selling Prices	49.6	-4.0	48.2	paper & printing	71.6	17.3	46.6
Average Wages	60.2	2.9	58.6				
Capacity Utilisation (%)	77.8	-0.8	73.8				

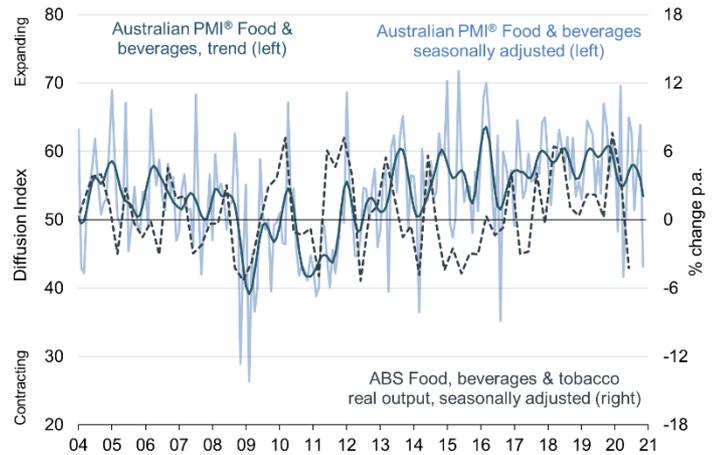
Results above 50 points indicate expansion. All indices for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

MANUFACTURING REPORT CARD: Latest ABS data	Level	change q/q	change y/y	Share of total
<i>Latest ABS data, seasonally adjusted</i>	\$bn	%	%	%
Real value-added output, \$bn, year to Jun 2020	103.7	-1.5	-1.5	5.5% of total GDP
Nominal sales, \$bn, year to Jun 2020	357.2	1.0	1.0	12.2% of non-farm business sales
Nominal export earnings, \$bn, year to Aug 2020	122.0	-2.4	-1.2	26.8% of total export earnings
Nominal company profits (GOP), \$bn, year to Jun 2020	32.8	4.2	4.3	8.2% of non-farm company profits
Nominal investment (CAPEX), \$bn, year to Sep 2020	9.5	-2.9	-2.3	8.4% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Jun 2020	55.6	0.3	3.2	9.5% of non-farm business wages
People employed in manufacturing, August 2020	862,200	1.1	-1.3	6.7% of total employment
Employing manufacturing businesses, 2018-19	48,002	N/A	0.2	5.4% of employing businesses

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

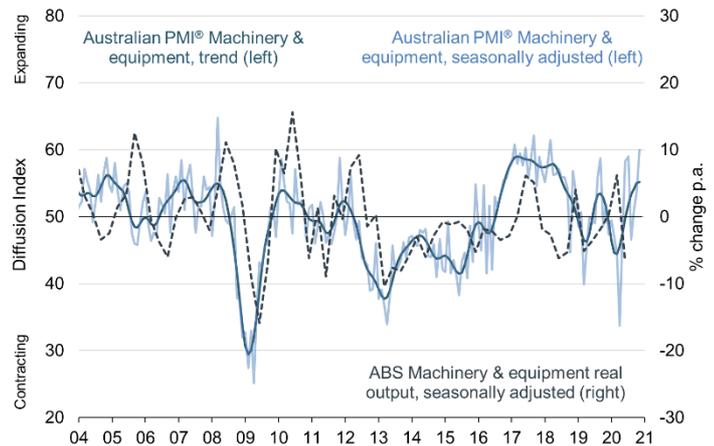
### Food & beverages

- The food, beverages & tobacco sector produced \$26.5bn in real value-added output in the year to Q2 2020 (25% of manufacturing real value-added output). It employed 234,000 people in August 2020 (27% of manufacturing employment, ABS data).
- The index for food and beverages (the largest manufacturing sector) fell by 2.5 points to 53.5 points, indicating a slower expansion in November (trend).
- On a seasonally adjusted basis, there was a large fall into negative territory for food & beverage manufacturers for various reasons, including falling supermarket sales, low demand in tourism regions, and flat export markets.



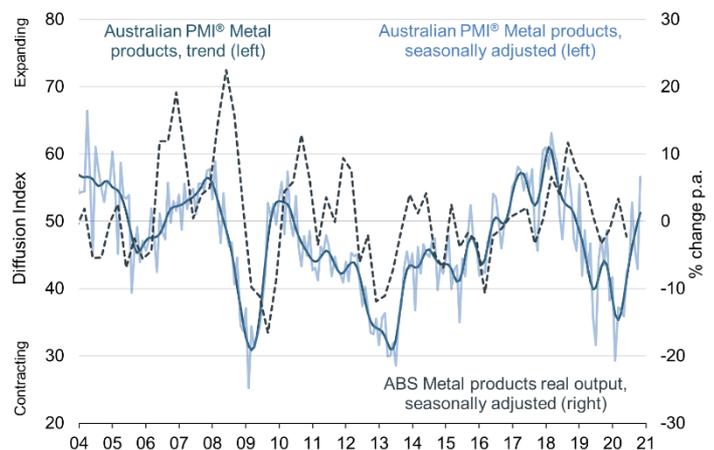
### Machinery & Equipment

- The machinery & equipment sector produced \$19.5bn in real value-added output in the year to Q2 2020 (19% of manufacturing real value-added output). It employed 179,000 people in August 2020 (20% of manufacturing employment, ABS data).
- The index for the large machinery & equipment sector rose by 0.2 points to 55.2 points in November, indicating expanding conditions (trend).
- Respondents said easing activity restrictions and government spending boosted production in November. Some respondents noted strong demand from the medical sector but those selling to the mining market reported a fall in sales.



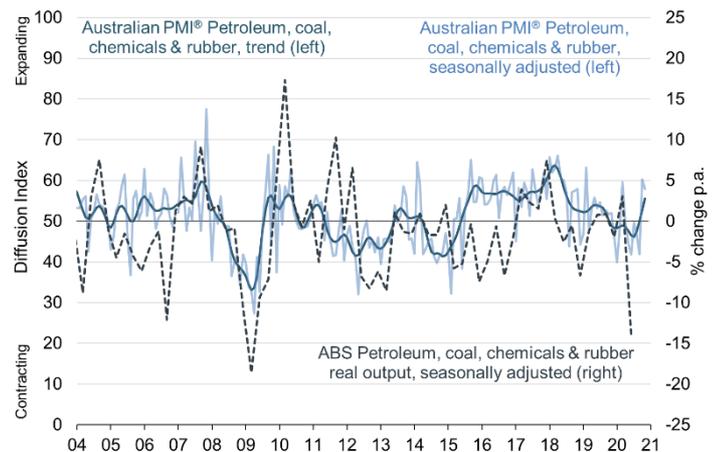
### Metal Products

- The metal products sector produced \$17.9bn in real value-added output in the year to Q2 2020 (17% of manufacturing real value-added output). It employed 142,000 people in August 2020 (16% of manufacturing employment, ABS data).
- The metal products index increased 1.5 points to 51.3 points in November, indicating expansion (trend).
- Some respondents reported that their competitors were having stock issues or the difficulty importing products. The disruptions to supply chains have resulted in more anecdotal evidence of customers wishing to purchase from Australian manufacturers.



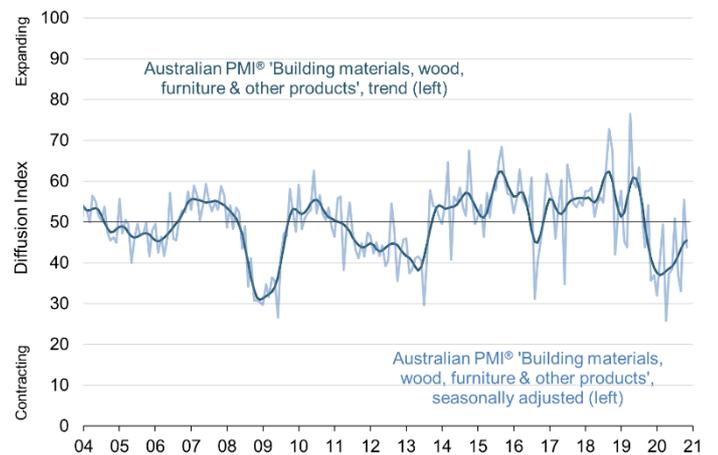
### Petroleum, coal, chemicals & rubber

- The petroleum, coal, chemicals & rubber sector produced \$19.7bn in real value-added output in the year to Q2 2020 (19% of manufacturing real value-added output). It employed 94,000 people in August 2020 (11% of manufacturing employment, ABS data).
- The chemicals sector index rose by 2.8 points to 55.6 points, indicating expanding conditions in November (trend).
- Sales and production were elevated in November, but some respondents noted weak demand in the petrochemical industry as a result of the downturn in aviation.



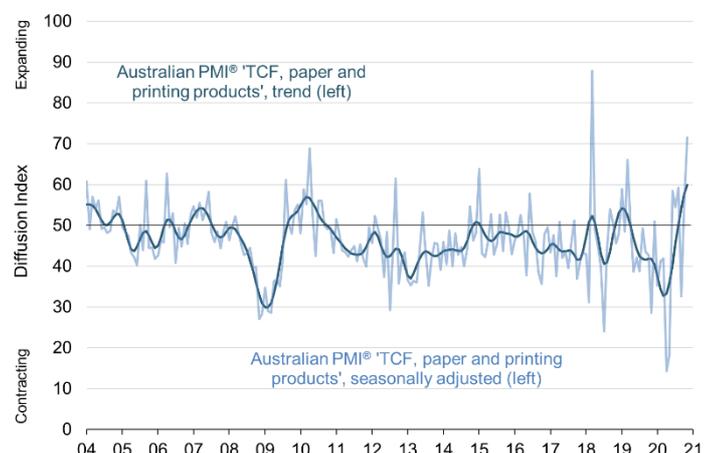
### Building materials, wood, furniture & other manufacturing products

- The building materials, wood, furniture & other products sector employed 150,000 people in August 2020 (17% of manufacturing employment, ABS data).
- 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 0.6 points but remained in contraction at 45.5 points (trend), indicating a slower rate of contraction in November.
- Respondents noted better construction activity in New South Wales and Queensland but poor sales and longer delivery times in Victoria.



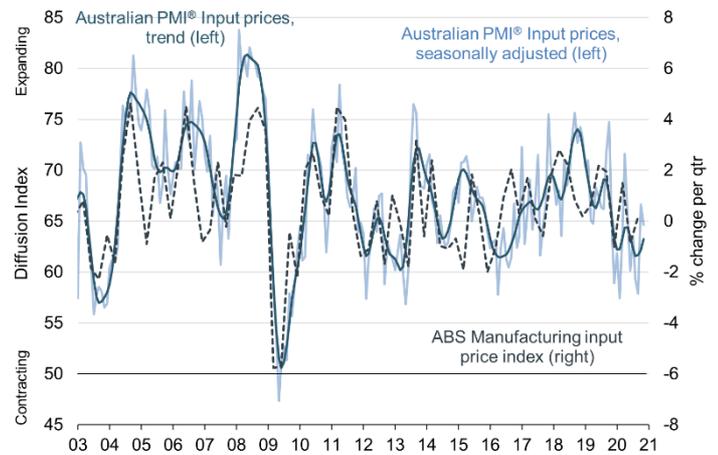
### TCF, paper and printing products

- The textiles, clothing, footwear (TCF), paper & printing products sector employed 84,000 people in August 2020 (10% of manufacturing employment, ABS data). This sector makes textiles, clothing, footwear, paper, cardboard, packaging, printed products, and recorded media.
- The index for textiles, clothing, footwear (TCF), paper & printing products jumped 2.4 points into expansion at 59.9 points in November (trend).
- Respondents noted improved market activity and an increase in customer demand.



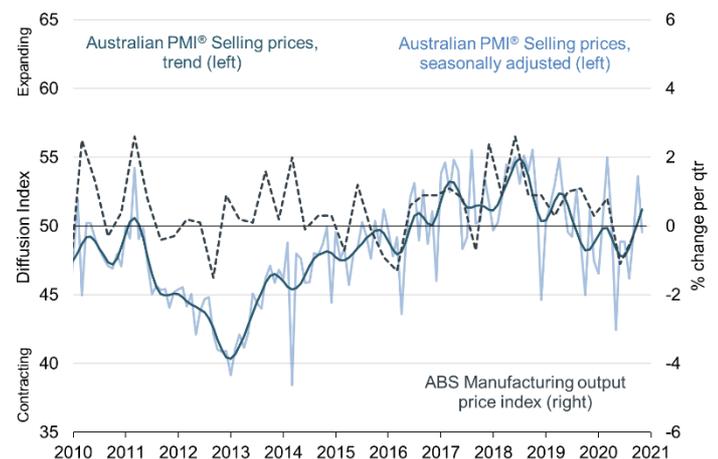
Input prices

- Manufacturers' input prices rose by an average of 0.2% over the quarter but decreased by 0.3% over the year in Q3 2020 (ABS *Producer Price Index*).
- The Australian PMI® input price index eased 2.0 points to 64.6 points in November (seasonally adjusted), indicating slower price increases, on average, for manufacturers.
- This index has been volatile through 2020 but has mostly remained well below the long-run average of 67.4 points for this index (since 2003).
- Some respondents noted longer delivery times for inputs into and out of Victoria, while others said a rise in agricultural commodity prices lifted their input costs.



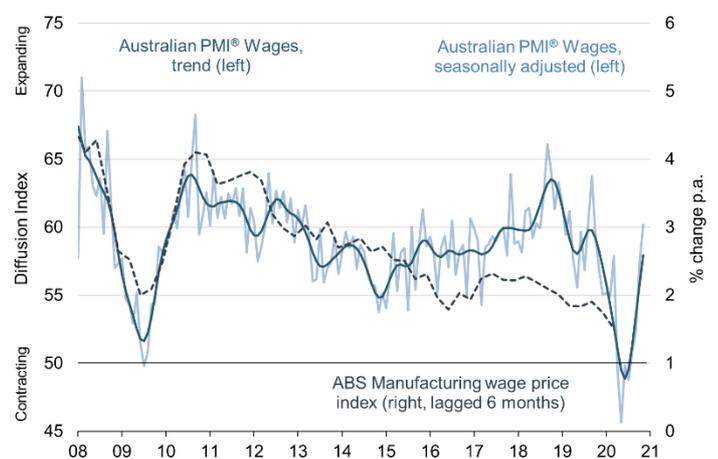
Selling prices

- Manufacturers' output (selling) prices fell by an average of 0.3% over the quarter but fell by 0.3 over the year in Q3 2020 (ABS *Producer Price Index*).
- The selling price index decreased 4.0 points to be broadly stable at 49.6 points in November (seasonally adjusted). This indicates that manufacturers' selling prices, on average, stayed the same as in October.
- This index is above its own long-run average of 48.2 points (since 2003).
- Selling prices decreased in the building materials sectors in November but rose for chemicals and TCF, paper & printing manufacturers.



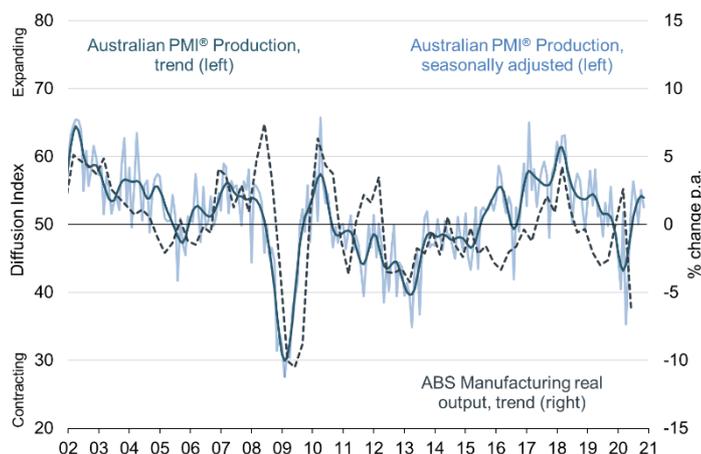
Average wages

- Private sector wages across the manufacturing industry rose by an average of 0.4% over the quarter and 1.5% p.a. in Q3 2020 (ABS *Wage Price Index*).
- The Australian PMI® average wages index increased a further 2.9 points to 60.2 points (seasonally adjusted), indicating rising wages across the manufacturing sector, on average, in November.
- This index since is back above its long-run average. This is probably because manufacturing award increases were implemented in November instead of July. The Australian PMI® average wages index was below 50 points from April to July. COVID-19 activity restrictions and recession have constrained wage rises across all manufacturing sectors.



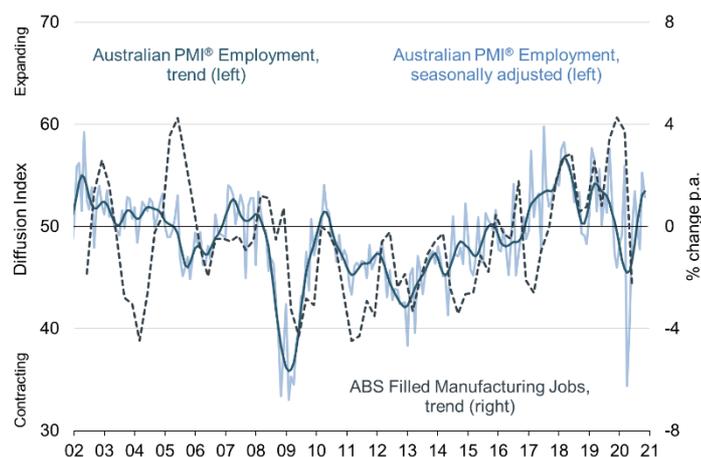
## Production

- The manufacturing industry produced \$103.7bn in real value-added output in the year to Q2 2020 (5.5% of Gross Domestic Product, GDP). Manufacturers' value-added output was lower (-1.5% q/q) in Q2 of 2020 and fell by 1.5% over the year to Q2 2020 (ABS data).
- The Australian PMI® production index eased 2.6 points to 52.5 points, indicating a modest expansion in production levels in November (seasonally adjusted).
- Production was elevated for machinery & equipment, metal products and TCF, paper & printing products sectors. South Australia had the largest fall of any state due to lost production from the three-day shutdown.



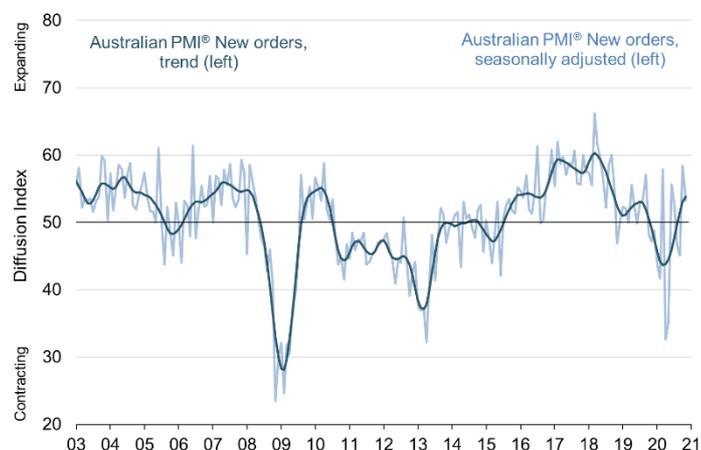
## Employment

- There were 873,400 filled jobs in manufacturing in Q2 of 2020 (6.4% of all filled jobs in Australia). The number of filled jobs in manufacturing decreased by 5.7% q/q and 2.5% p.a. to Q1 2020 (ABS *Labour Account*).
- The more volatile ABS *Labour Force Survey* identified 862,200 people working in manufacturing in August 2020, up 1.1% since May but down 1.3% over the year (seasonally adjusted).
- The Australian PMI® employment index fell 2.5 points to 52.8 points (seasonally adjusted), indicating rising manufacturing employment in November but at a slower pace than in October. Some respondents noted difficulty recruiting production employees.



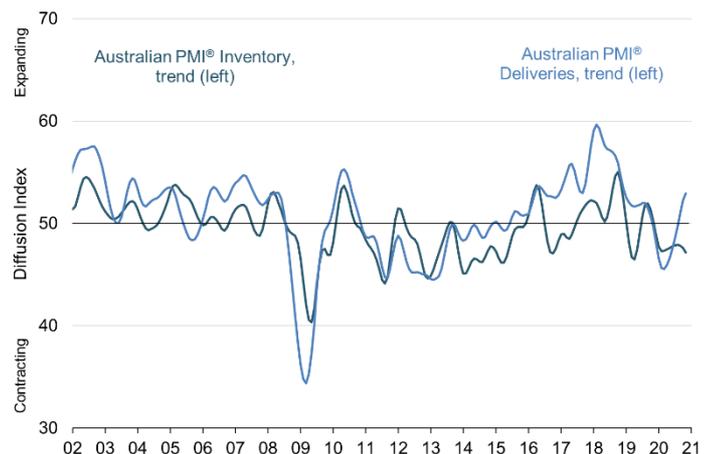
## New orders

- The new orders index dropped 5.1 points to 53.3 points in November. This comes after a large 13.3-point rise in October.
- This indicates that new orders increased, on average, for Australian manufacturers but at a slower rate than in October. It suggests more stable production and sales growth in the lead up to Christmas.
- New orders expanded in all sectors in November except for the building material sectors.



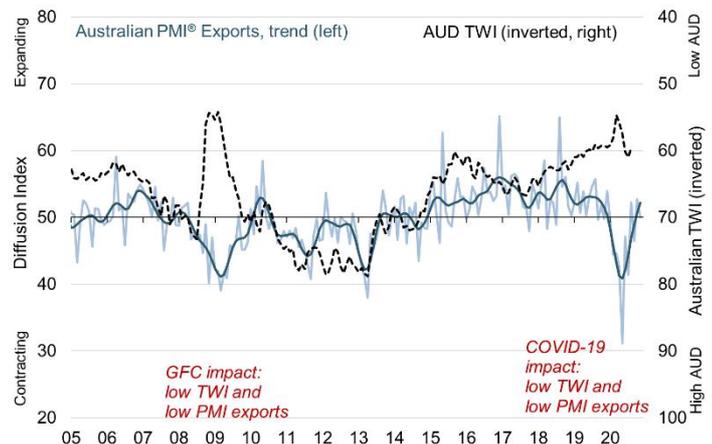
### Supplier deliveries & finished stocks

- The supplier deliveries index declined 5.3 points to 53.5 points in November, indicating an increase in the supply of raw materials ordered by manufacturers, but at a slower rate than in October (seasonally adjusted).
- The finished stocks (inventories) index dropped 6.9 points to 44.3 points in November. This indicates large fall in stock levels across the manufacturing sectors in November (seasonally adjusted).



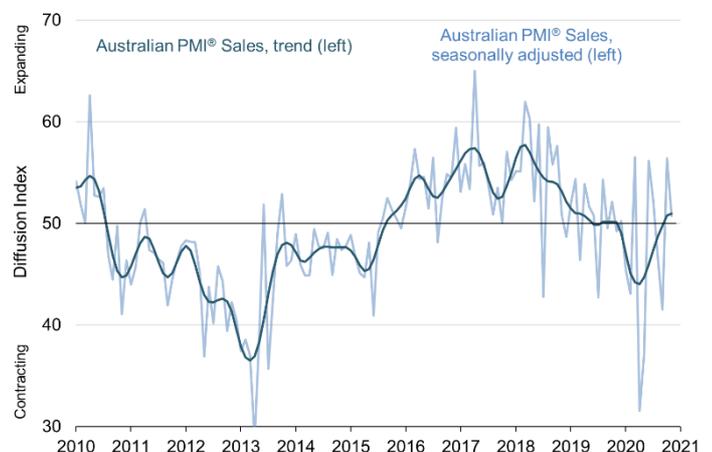
### Exports

- Export earnings for Australian manufactured goods were worth \$122.0 bn in the year to August 2020 (26% of total annual export earnings, ABS data).
- The Australian PMI® exports index decreased 2.7 points to 50.0 points, indicating stable exports for Australian manufacturers in November (seasonally adjusted).
- Exports were largely stable across most manufacturing sectors with mixed responses from participants – some said exports were up while others noted weak international demand.
- The trade-weighted index (TWI) – the Australian dollar weighted against trading partner currencies – is at relatively low levels in 2020. However, manufacturing exports have continued to contract in most months’ of 2020 due to the COVID-19 pandemic disruptions.



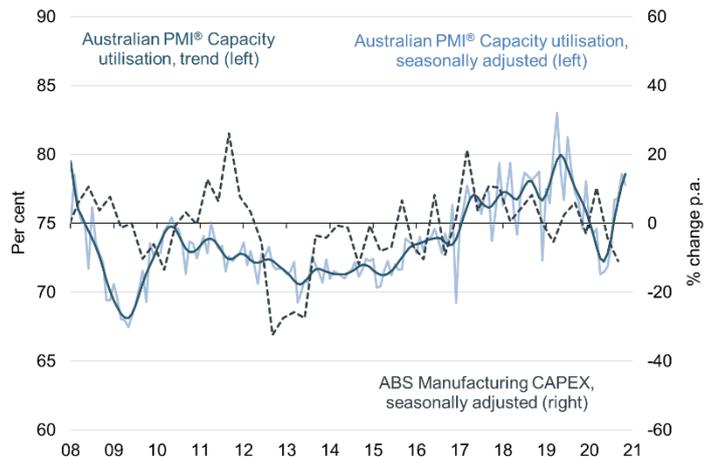
### Sales

- The sales index declined 5.7 points to be broadly stable at 50.7 points in November (seasonally adjusted).
- This result remains above the long-term average of 49.1 points for this index (since 2009).
- Sales were buoyant in the TCF, paper & printing products but declined in the building materials sectors.
- Some respondents noted that sales have been extremely volatile in 2020. The reduction in sales for some manufacturers has results in reduced hours for staff.



## Capacity utilisation

- According to the latest ABS CAPEX estimate, Australia's manufacturers invested \$9.5bn in capital expenditure (CAPEX) in the year to Q3 2020 (nominal dollars). Manufacturing CAPEX fell by 2.9% through the quarter and by 2.3% through the year in Q3 of 2020.
- The Australian PMI® capacity utilisation index eased by 0.8 percentage points to 77.8% of available capacity being used in November (seasonally adjusted).
- This is above the long-run average for this index of 73.8% (since 2007). Capacity utilisation appears to be structurally higher than earlier in the decade, possibly indicating that businesses want to run closer to their existing 'full capacity' before investing in new capacity due to increased uncertainty.



### 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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