

# Manufacturing recovery interrupted by widespread lockdowns in August

The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) dropped by 9.2 points to 51.6 points, indicating extremely weak expansion across manufacturing in August and effectively pausing a solid period of recovery throughout 2021 (seasonally adjusted). Although remaining very mildly positive, this was the weakest monthly result for the **Australian PMI®** since September 2020. Results above 50 points indicate expansion, with higher results indicating a faster rate of expansion.

The activity indexes in the **Australian PMI®** indicate that in August, average sales and production levels paused but exports and deliveries from suppliers both contracted (results below 50 points). Forward orders and inventories continued to expand, suggesting that sales are being delayed.

Indexes for most manufacturing sectors in the **Australian PMI®** fell sharply in August, with machinery and equipment stalling (50 points) and metal products and building products both falling into contraction (well below 50 points). The very large food & beverage sector continued to report expansion in August, as did the related chemicals sector (which includes cleaning and sanitation products) and the TCF, printing and paper sector (which includes packaging for food, groceries and deliveries). These sectors continue to supply retailers nationally, despite widespread lockdowns.

Outside of NSW and Victoria, respondents report continuing demand in all manufacturing sectors, including products that supply the construction, agricultural and transport sectors. In NSW and Victoria however, activity stalled outside the food, beverages and grocery manufacturing sectors, with many manufacturers forced to operate at reduced capacity or shut down completely. **Australian PMI®** measures for both states fell into contraction.

August 2021

## MEDIA CONTACT

Tony Melville  
Australian Industry Group  
Tel: 0419 190 347

<b>Australian PMI®</b> ▼ 9.2 points (seasonally adjusted)	<b>51.6</b>
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<b>Australian PMI®</b> ▼ 1.5 points (trend)	<b>57.9</b>
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<b>Food &amp; beverages</b> ▲ 1.7 points (seas. adj)	<b>56.5</b>
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<b>Machinery &amp; equipment</b> ▼ -11.3 points (seas. adj)	<b>50.4</b>
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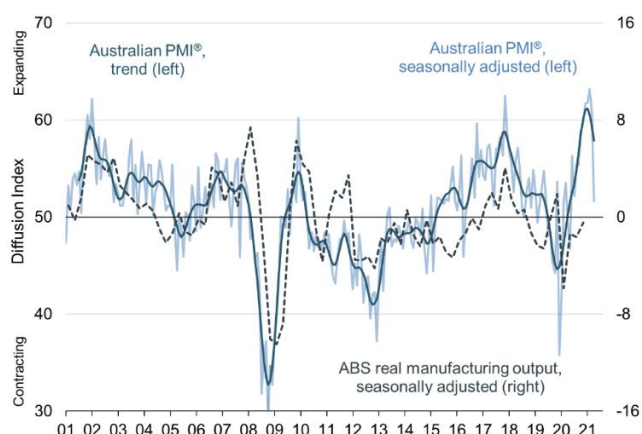
<b>Metal products</b> ▼ -16.2 points (seas. adj.)	<b>45.5</b>
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<b>Chemicals</b> ▼ -8.5 points (seas. adj.)	<b>56.4</b>
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<b>Building materials, wood &amp; other</b> ▼ -15.8 points (seas. adj.)	<b>42.4</b>
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<b>TCF, paper &amp; printing</b> ▼ -24.4 points (seas. adj.)	<b>53.3</b>
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## Australian PMI® and ABS manufacturing output



**Manufacturing sectors:** Of the six manufacturing sectors in the **Australian PMI®** only food and beverages expanded at a faster pace in August (results above 50 points, seasonally adjusted). The related sectors of chemicals and TCF, paper and printing also expanded, albeit at a slower rate. Machinery and equipment manufacturing stalled while metal products and building materials manufacturing contracted due to restricted manufacturing and construction activity in NSW and Vic.

**Manufacturing wages and prices:** The **Australian PMI®** input price index eased from a record high in July, but remained elevated in August (seasonally adjusted). Manufacturers continue to report high freight costs. The selling prices index eased in August but remains well above its own long-term average. The high selling price index suggests more manufacturers are passing on some of their cost increases to their customers. The **Australian PMI®** average wages index slowed in August after recording a large rise in July, which is the month in which most manufacturing sector wage rises typically occur (seasonally adjusted).

**Manufacturing activity:** All activity indexes fell in August, with especially large falls in supplier deliveries, sales and production, as manufacturers in NSW and Victoria paused incoming deliveries of raw materials and reduced operations. Growth in new orders and inventories slowed but remained positive, which augurs well for future growth after lockdowns.

**Manufacturing highlights:** Outside of NSW and Victoria, respondents continue to report strong demand for a wide range of locally manufactured products, including demand from customers in the construction, agricultural and transport sectors. Some respondents said they were receiving increased orders from customers in these industries who are seeking more localised sources of supply in order to increase certainty and reliability in their own supply chains. New orders and inventories remain elevated across all sectors, which augurs well for a resumption in activity when current lockdowns end.

**Manufacturing concerns:** Manufacturing activity and sales stalled in NSW and Victoria in August due to lockdowns. Many manufacturers in these states reported operating at reduced capacity or closing completely. Some reported uncertainty about their own “essential worker” status. Nationally, respondents are reporting high prices for various metals, raw materials and imported components. Rising overseas freight costs was negatively impacting manufacturers importing and exporting.

AUSTRALIAN PMI® KEY NUMBERS	Index this month	Change from last month	Long-run average	AUSTRALIAN PMI® SECTORS	Index this month	Change from last month	Long-run average
<i>seasonally adjusted</i>				<i>seasonally adjusted</i>			
<b>Australian PMI®</b>	<b>51.6</b>	<b>-9.2</b>	<b>50.8</b>	<b>Sectors</b>			
Production	50.2	-11.6	51.5	Food & beverages	56.5	1.7	53.9
Employment	51.4	-9.4	49.2	Machinery & equipment	50.4	-11.3	50.3
New Orders	57.1	-5.4	51.5	Metals products	45.5	-16.2	47.5
Supplier Deliveries	41.3	-18.3	51.0	Petroleum, coal, chemicals			
Finished stocks	55.0	-0.1	49.8	& rubber products	56.4	-8.5	51.7
Exports	45.1	-8.5	50.1	Building, wood, furniture			
Sales	49.9	-11.8	49.5	& other products	42.4	-15.8	50.0
Input Prices	81.3	-3.3	67.7	Textiles, clothing, footwear,			
Selling Prices	61.7	-3.0	48.7	paper & printing	53.3	-24.4	47.0
Average Wages	62.4	-6.7	58.8	<i>trend</i>			
Capacity Utilisation (%)	79.0	0.0	74.2	<b>Australian PMI®</b>	<b>57.9</b>	<b>-1.5</b>	<b>50.8</b>

Results above 50 points indicate expansion.

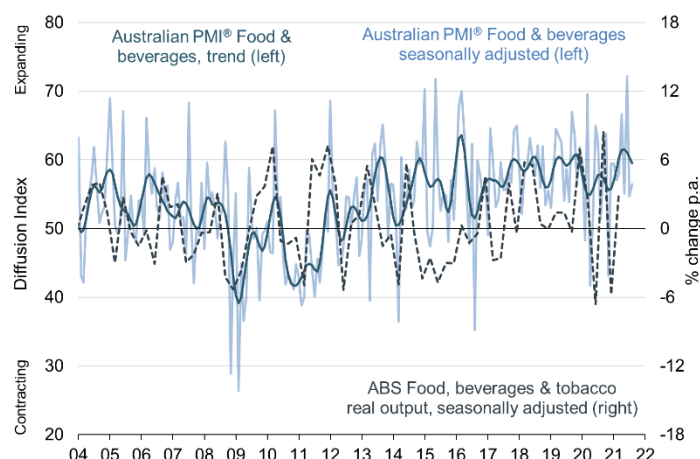
Trend indexes in the Australia PMI® are calculated with a Henderson 13-month filter.

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 Mar 2021		107.4	-0.1	-2.3	5.6% of total GDP
Nominal sales, \$bn, year to Mar 2021		354.4	1.0	1.0	12.5% of non-farm business sales
Nominal export earnings, \$bn, year to Jun 2021		117.6	1.6	-5.4	25.8% of total export earnings
Nominal company profits (GOP), \$bn, year to Mar 2021		38.4	3.7	21.7	8.5% of non-farm company profits
Real investment (CAPEX), \$bn, year to Jun 2021		9.8	2.9	4.4	8.1% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Mar 2021		55.6	0.0	0.3	9.5% of non-farm business wages
Manufacturing filled jobs, Mar 2021		912.7	0.3	-1.5	6.4% of filled jobs
Employing manufacturing businesses, 2019-20		46,733	N/A	-0.5	5.3% of employing businesses

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

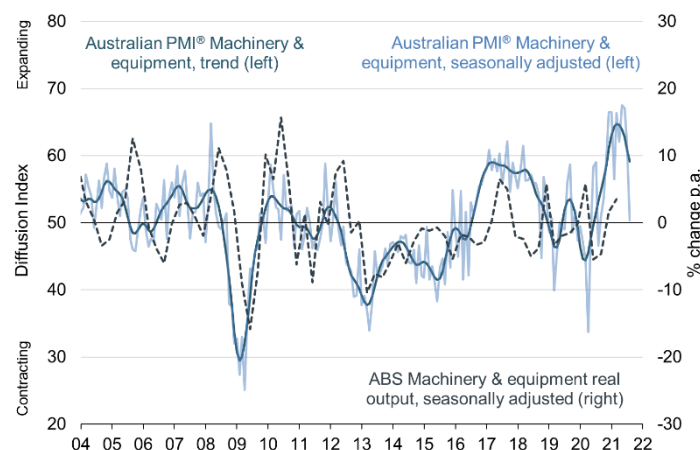
## Food & beverages

- The food and beverages (& tobacco) sector produced \$27.4bn in real value-added output in the year to Q1 2021 (25% of manufacturing real value-added output). It employed 235,000 people in May 2021 (27% of manufacturing employment, ABS data). It is Australia's largest manufacturing sector.
- The index for the largest manufacturing sector, food and beverages, increased by 1.7 points to 56.5 points in August, indicating another strong month of expansion despite widespread lockdowns (seas. adj.).
- Supermarket and grocery sales remain high during lockdowns across many parts of Australia, but sales to the restaurant industry and overseas markets are lower.



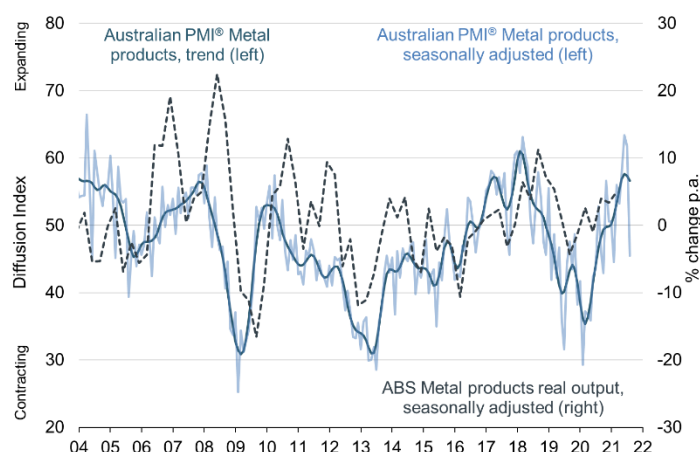
## Machinery & Equipment

- The machinery & equipment sector produced \$22.5bn in real value-added output in the year to Q1 2021 (21% of manufacturing real value-added output). It employed 176,000 people in May 2021 (20% of manufacturing employment, ABS data).
- The machinery & equipment sector's index fell by 11.3 points to 50.4 points in August, indicating a pause after a strong recovery over the past six months (seas. adj.).
- Outside of NSW and Victoria, machinery and equipment manufacturers said demand is strong from customers in the agricultural and transport sectors. Supply chain disruptions are a key concern in this sector nationally.



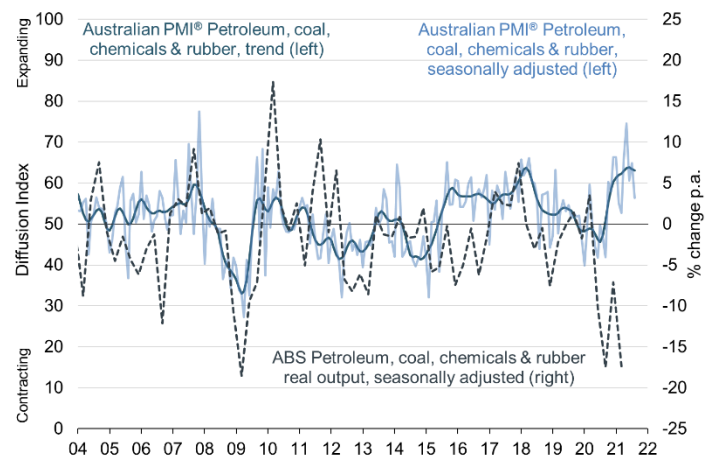
## Metal Products

- The metal products sector produced \$17.9bn in real value-added output in the year to Q1 2021 (17% of manufacturing real value-added output). It employed 138,000 people in May 2021 (16% of manufacturing employment, ABS data).
- The metal products index declined by 16.2 points to 45.5 points in August, indicating a sudden contraction after five months of recovery (seas. adj.). This sudden drop reflected lockdown requirements in NSW and Vic, with respondents in both states reporting that their employees were not permitted to work at full capacity in August.



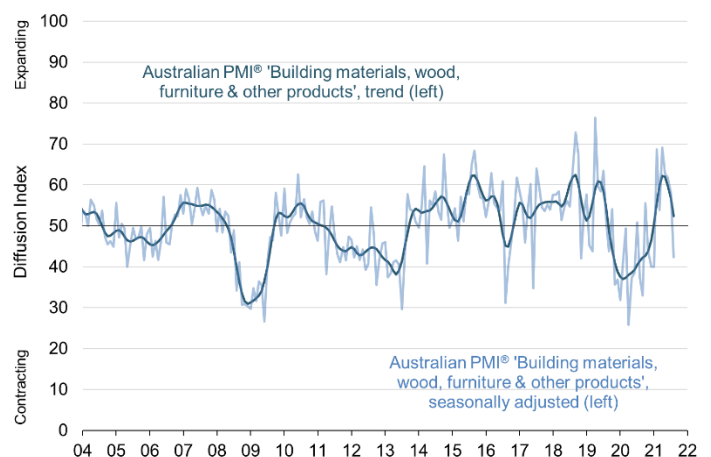
## Petroleum, coal, chemicals & rubber

- The petroleum, coal, chemicals & rubber sector produced \$17.4bn in real value-added output in the year to Q1 2021 (16% of manufacturing real value-added output). It employed 96,000 people in May 2021 (11% of manufacturing employment, ABS data). This diverse sector produces, chemicals, fertilisers, toiletries, pharmaceuticals, health supplements and rubber items, as well as paints, adhesives and surface treatments.
- The chemicals sector's index dropped by 8.5 points but stayed in expansion at 56.4 points in August (seas. adj.).
- Manufacturers of personal care items that are sold in supermarkets reported strong sales, while manufacturers of industrial and construction-related products reported a decline in sales due to COVID-19 lockdowns. Some reported operational disruptions due to lockdown activity requirements in NSW and Vic.



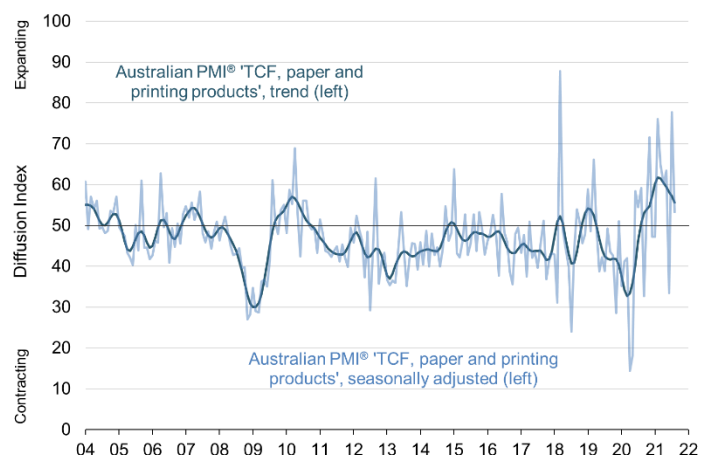
## Building materials, wood, furniture & other manufacturing products

- The building materials, wood, furniture & other products sector employed 143,000 people in May 2021 (16% 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 the building materials, furniture and other manufacturing products fell by 15.8 points to 42.4 points in August (seas.adj.). This contraction was mainly due to heavily restricted construction activity in NSW in August. Respondents in NSW and Vic reported uncertainty about their own "essential worker" right to operate in August.



## TCF, paper and printing products

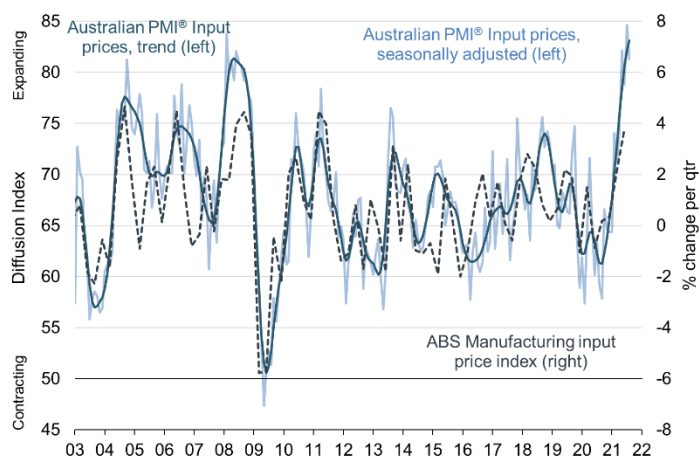
- The textiles, clothing, footwear (TCF), paper & printing products sector employed 84,000 people in May 2021 (10% of manufacturing employment, ABS data).
- This sector makes textiles, clothing, footwear, paper, cardboard, packaging, printed and recorded products.
- The index for this sector plunged by 24.4 points to 53.3 points in August, indicating expanding activity but at a slower pace than in recent months (seas. adj.).
- Respondents in this sector reported a pause in demand and production due to COVID-19 lockdowns in NSW and Vic, plus disruptions for their exports to Asian markets.





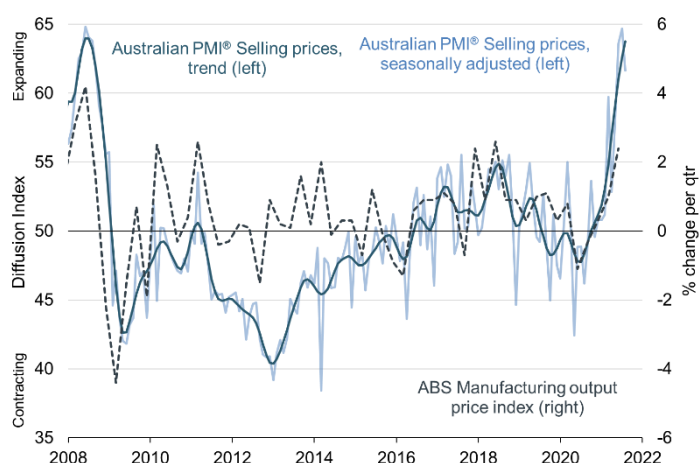
## Input prices

- Manufacturers' input prices rose by an average of 3.7% over the quarter and 6.6% over the year to Q2 of 2021 (ABS *Producer Price Index*).
- The **Australian PMI®** input price index eased by 3.3 points to 81.3 points in August (seasonally adjusted), indicating input prices increased at a rapid pace in August but at a slightly slower pace than the record high for this index that was recorded in July 2021.
- Manufacturers reported further significant price increases for raw materials in August. Input prices are elevated in all manufacturing sectors. Respondents reported delivery delays and shortages of imported and Australian-sourced materials, inputs and components. Record-high international freight costs are also pushing up input costs for manufacturers who import and export.



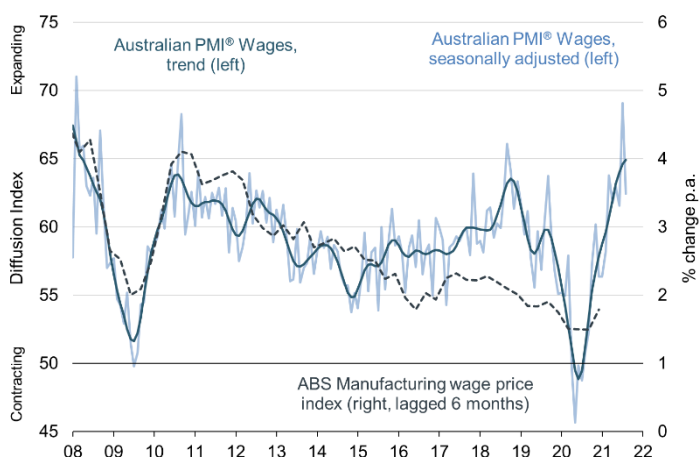
## Selling prices

- Manufacturers' output (selling) prices rose by an average of 2.4% over the quarter and 3.5% over the year to Q2 of 2021 (ABS *Producer Price Index*).
- The selling price index decreased by 3.0 points to 61.7 points in August (seasonally adjusted). This indicates selling prices rose at a strong pace in August, but at a slightly slower pace than in July. This was the seventh consecutive month of accelerating price increases.
- The higher selling price index indicates that more manufacturers are passing on their higher costs to their customers, as input pricing pressures build up.



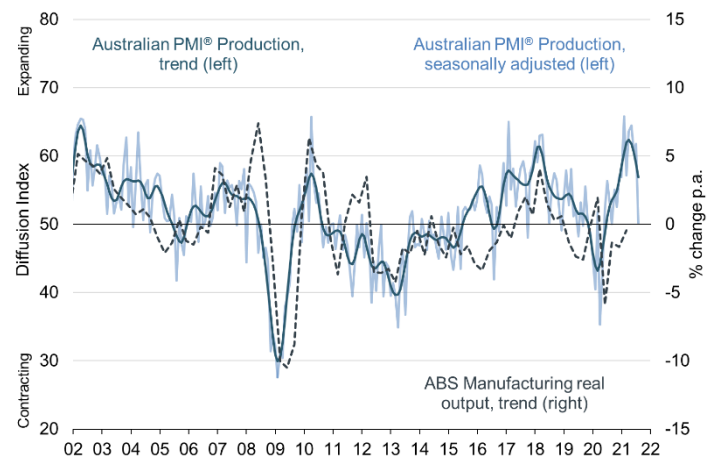
## Average wages

- Private sector wages across the manufacturing industry rose by an average of 0.5% over the quarter and 1.8% p.a. in Q2 of 2021 (ABS *Wage Price Index*).
- The Australian PMI® average wages index fell by 6.7 points to 62.4 points in August after recording a large rise in July (seasonally adjusted). This indicates positive wages growth across the manufacturing industry, on average, but at a slower pace compared to July (which was the highest monthly result for this index since 2008).
- This deceleration in August was expected because most manufacturing sector wage rises typically occur in July.



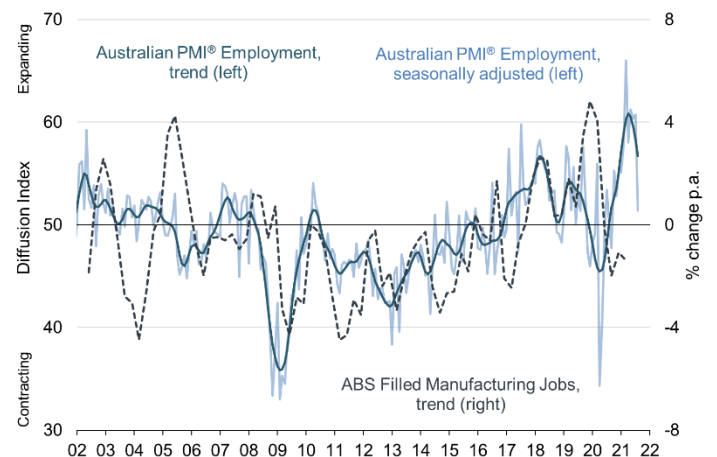
## Production

- The manufacturing industry produced \$107.4bn in real value-added output in the year to Q1 2021 (5.6% of Gross Domestic Product, GDP). Manufacturers' value-added output fell by 0.1% through the quarter and was down by 2.3% through the year to Q1 2021 (ABS data).
- The Australian PMI® production index dropped by 11.6 points to be broadly stable at 50.2 points in August (seasonally adjusted).
- Production expanded in most states and territories but the index moved sharply lower in NSW and Victoria due to lockdowns that included operational restrictions.



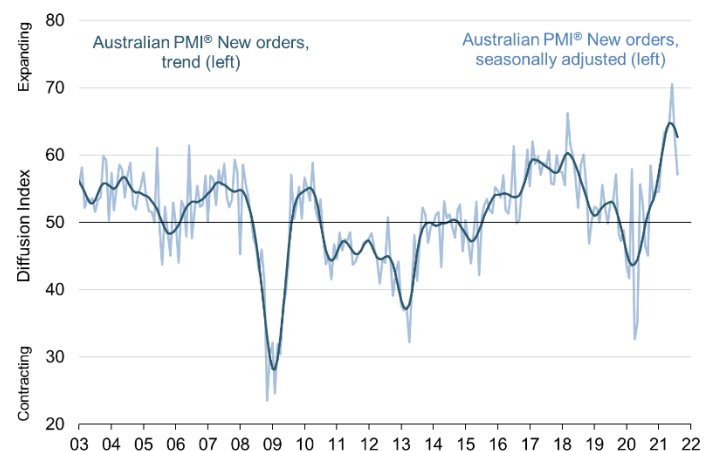
## Employment

- There were 912,700 filled jobs in manufacturing in Q1 of 2021 accounting for 6.4% of all filled jobs in Australia (ABS *Labour Account*).
- The more timely (but more volatile) ABS *Labour Force Survey* identified 908,200 people working in manufacturing in May 2021, up by 1.2% from February 2021 and 5.8% from May 2020 (seasonally adjusted).
- The Australian PMI® employment index decreased by 9.4 points to 51.4 points in August (seasonally adjusted), indicating that employment continued to expand mildly, and at a much slower rate than in recent months. This slowing in recruitment reflects operational restrictions in NSW and Vic as well as nation-wide skill shortages.



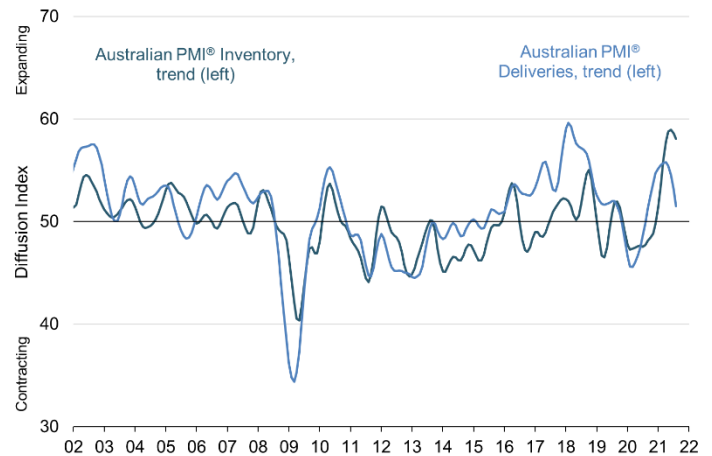
## New orders

- The new orders index declined by 5.4 points but remained in expansion at 57.1 points in August (seasonally adjusted).
- The new orders index stayed elevated due to a high result for the food & beverage sector in August. It was lower in most other sectors. Even so, the unexpected strength in new orders for Australian manufacturers suggests a quick recovery in production and sales can be expected in the remaining months of 2021, after the current lockdown restrictions on operations are lifted.
- Continued uncertainty due to widespread lockdowns have led to the cancellation and postponement of regular orders for some manufacturers. These orders are likely to resume at a later date, once lockdowns are relaxed.



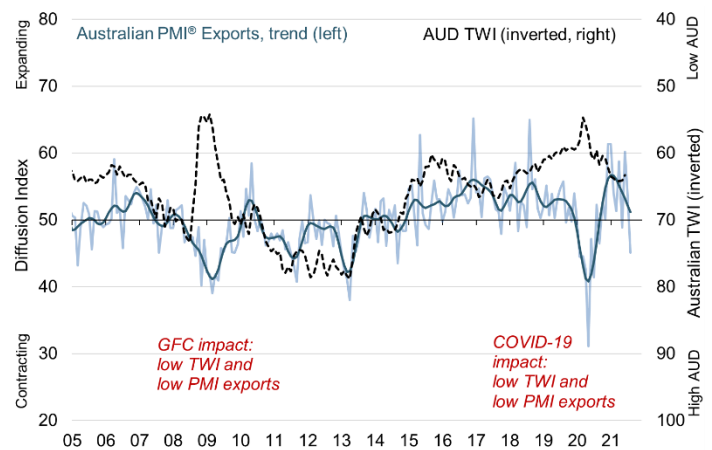
## Supplier deliveries & finished stocks

- The supplier deliveries index fell sharply by 18.3 points to 41.3 points in August, indicating a sudden drop in the supply of raw materials ordered by manufacturers (seasonally adjusted). This index has been positive since September 2020, with many manufacturers increasing the size of their orders in response to global supply chain disruptions. However, the index fell into contraction as manufacturers in NSW and Victoria paused the delivery of raw materials.
- The stocks (inventories) index eased by 0.1 points to 55.0 points in August, indicating an increase in stock levels held by manufacturers at around the same pace as July (seasonally adjusted). Some manufacturers are intentionally increasing their inventory levels to meet future demand and to hedge against delayed deliveries or future supply shortages and disruptions.



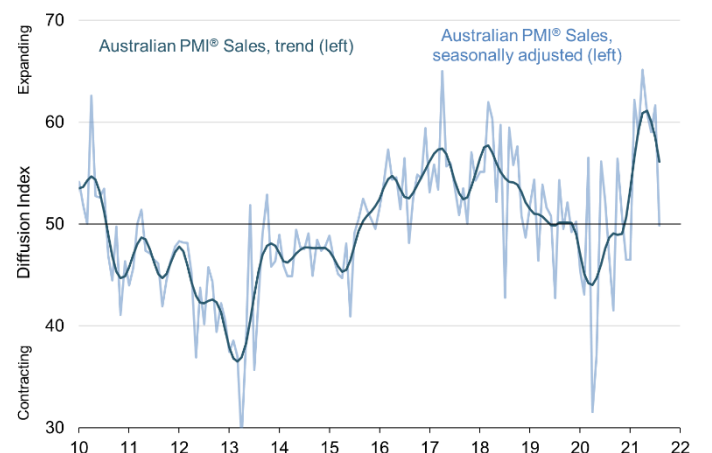
## Exports

- Export earnings for Australian manufactured goods were worth \$117.6 in the year to June 2021 (26% of total annual export earnings, ABS data).
- The **Australian PMI®** exports index fell by a further 8.5 points into contraction at 45.1 points in August (seasonally adjusted).
- Exports contracted in most manufacturing sectors in August. They were stable for machinery & equipment exporters and expanded for building material exporters.
- The trade-weighted index (TWI) – the Australian dollar weighted against trading partner currencies – is at relatively low levels in 2021. Manufacturing exports contracted in August, most likely due to pandemic-related trade disruptions.



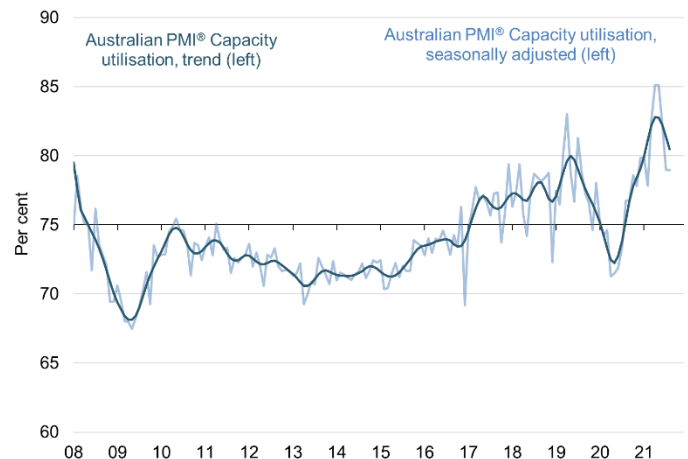
## Sales

- The sales index dropped by 11.8 points from a strong expansion in July to be approximately stable at 49.9 points in August (seasonally adjusted).
- Sales expanded for food & beverage and chemicals manufacturers in August but contracted for all other manufacturing sectors. Sales were particularly weak in NSW and Victoria in August, with many manufacturers closed or operating at reduced capacity.
- This result is very close to the long-term average of 49.5 points for this index (since 2009).



## Capacity utilisation

- Australia's manufacturers invested \$9.8bn in capital expenditure (CAPEX) over the year to Q2 2021 (real dollars).
- The **Australian PMI®** capacity utilisation index remained relatively elevated at 79.0% of capacity being utilised in August (seasonally adjusted). Capacity utilisation was high in the food & beverage and chemicals sector but lower in all other sectors. Many respondents reported a “wait and see” approach to making new investments in capital and/or recruiting more labour.
- The current climate of heightened uncertainty and risk aversion might mean that businesses want to run closer to their existing ‘full capacity’ before investing in new capacity (buildings, plant and equipment).



### 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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