

Manufacturing expands for tenth consecutive month despite lockdowns

The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) stayed in strong expansionary territory at 60.8 points in July but eased by 2.4 points from the record high in June (seasonally adjusted). This indicated strong (but decelerating) growth for manufacturing activity in June, despite widespread lockdowns. This was the tenth consecutive month of recovery for the **Australian PMI®** following the severe disruptions of COVID-19 in 2020. Results above 50 points indicate expansion, with higher results indicating a faster rate of expansion.

The machinery & equipment, metal products and chemicals manufacturing sectors all reached record highs in July (trend). A new high was also recorded for the input price index in July. Respondents attributed surging activity and prices to strong demand for manufactured products that supply the construction, mining, agricultural and transport sectors.

All seven of the activity indicators the **Australian PMI®** expanded in July, although three moderated slightly from the previous month. The new orders index remained elevated but fell from a record high in June. Some manufacturers continue to report “catch-up” orders from customers who delayed orders in 2020. Continued uncertainty due to rolling lockdowns have led to order cancellations and/or postponements for some manufacturers. Manufacturers reported concerns about lockdowns, supply chain disruptions, input costs and difficulties finding suitable staff in July.

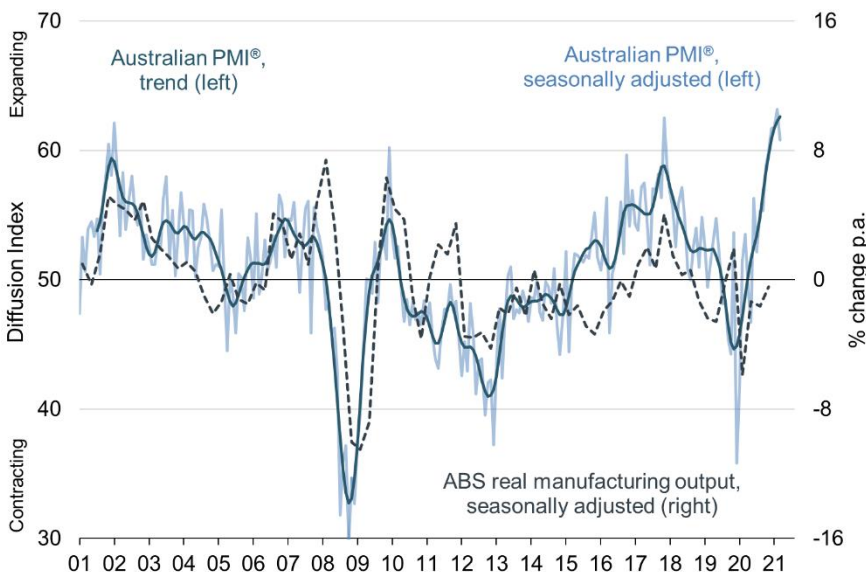
July 2021

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Australian PMI® ▼ 2.4 points (seasonally adjusted)	60.8
Australian PMI® ▲ 0.3 points (trend)	62.6
Food & beverages - 0.0 points (trend)	61.9
Machinery & equipment ▲ 0.2 points (trend)	65.0
Metal products ▲ 2.2 points (trend)	62.3
Chemicals ▲ 1.0 points (trend)	66.1
Building materials, wood & other ▼ 0.6 points (trend)	62.9
TCF, paper & printing ▼ 0.3 points (trend)	59.3

Australian PMI® (seasonally adjusted)



Manufacturing sectors: All six manufacturing sectors in the **Australian PMI®** expanded (results above 50 points, trend) and four sectors expanded at a faster pace in July than in June (trend). The machinery & equipment, chemicals and metal products sectors all hit record highs (trend), despite lockdowns in Melbourne, Sydney and Adelaide in July.

Manufacturing wages and prices: The **Australian PMI®** input price index increased to a record high in July, eclipsing the previous record in February 2008 (seasonally adjusted). Input price rises were reported from all manufacturing sectors in July. The **selling prices index** rose to the second highest result for this index since the series began in 2007. The higher selling price index suggests more manufacturers are now passing on some of these higher costs to their customers. The **Australian PMI® average wages index** increased to its highest monthly result for this index since 2008 (seasonally adjusted) The large rise in July seems to reflect some reversals for the wage freezes implemented during the past financial year. July also coincided with a 2.5% increase to the minimum wage which will flow through to award rates and agreements.

Manufacturing activity: All seven activity indexes expanded in July (results above 50 points). Production expanded in most states and territories but was lower in New South Wales than elsewhere due to lockdowns in Sydney and other large local government areas. Expansions in finished stocks, new orders and exports moderated in July. Some exporters reported difficulty finding empty shipping containers and/or booking shipping space to export their products.

Manufacturing highlights: The machinery & equipment, chemicals and metal products sectors all hit record highs in July with strong demand for manufactured products that supply firms in construction, mining, agricultural and transport. Some respondents said more customers are looking for certainty and reliability in supply chains and opting for Australian suppliers.

Manufacturing concerns: Production expanded in most states and territories but was lower in New South Wales due to lockdowns in Sydney and selected NSW regional areas. High prices for various metals, raw materials and imported components continue to create difficulties for many manufacturers. While some respondents report higher demand for Australian made products due to difficulty sourcing materials from overseas, others have shifted production back to their overseas facilities due to an inability to source suitable skilled labour and/or inputs and materials in Australia.

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>trend</i>			
Australian PMI®	60.8	-2.4	50.8	Australian PMI®	62.6	0.3	50.8
Production	61.8	1.1	51.6	Food & beverages	61.9	0.0	53.9
Employment	60.8	0.5	49.2	Machinery & equipment	65.0	0.2	50.3
New Orders	62.5	-8.1	51.5	Metals products	62.3	2.2	47.5
Supplier Deliveries	59.6	1.3	51.0	Petroleum, coal, chemicals & rubber products	66.1	1.0	51.7
Finished stocks	55.1	-5.2	49.8	Building, wood, furniture & other products	62.9	-0.6	50.1
Exports	53.6	-6.6	50.1	Textiles, clothing, footwear, paper & printing	59.3	-0.3	46.9
Sales	61.7	2.7	49.5				
Input Prices	84.6	5.8	67.7				
Selling Prices	64.7	1.1	48.6				
Average Wages	69.1	7.5	58.8				
Capacity Utilisation (%)	79.0	-3.3	74.2				

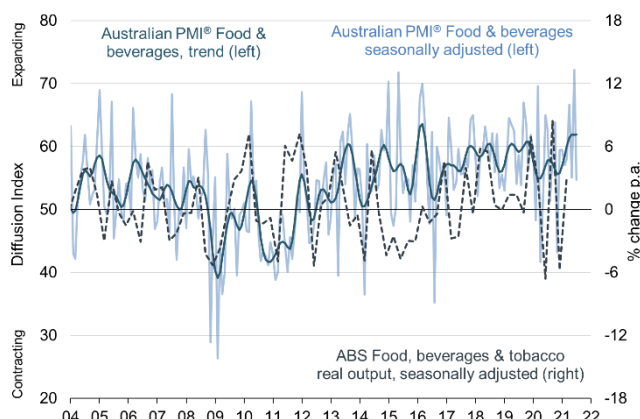
Results above 50 points indicate expansion. All indexes for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

MANUFACTURING REPORT CARD: Latest ABS data	Level	change q/q	change y/y	Share of total
<i>Latest ABS data, seasonally adjusted</i>	\$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 May 2021	117.6	-0.4	-5.9	26.2% 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 Mar 2021	9.5	3.0	-0.9	8.0% 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.

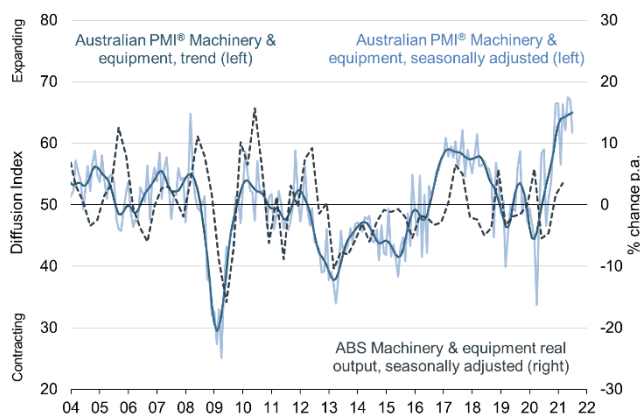
Food & beverages

- 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, remained at 61.9 points in July, indicating another strong month of expansion (trend).
- Supermarket grocery sales were up due to lockdowns across different parts of the country, but lockdowns hurt food & beverage manufacturers selling to other retailers, to the restaurant industry and into overseas markets.



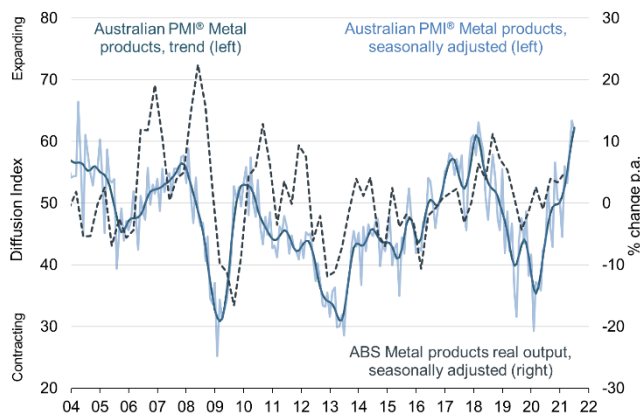
Machinery & Equipment

- 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 edged 0.2 points higher to 65.0 points in July, indicating a record high for this sector (trend).
- Machinery and equipment respondents noted strong demand for products from customers in the mining, agricultural and transport sectors. Respondents said this was due to tax incentives such as the instant asset write off and completing orders for the end of financial year. Supply chain issues were the main concern for this sector, but some respondents said more customers are looking for certainty and reliability in their supply chains and are therefore opting for Australian suppliers.



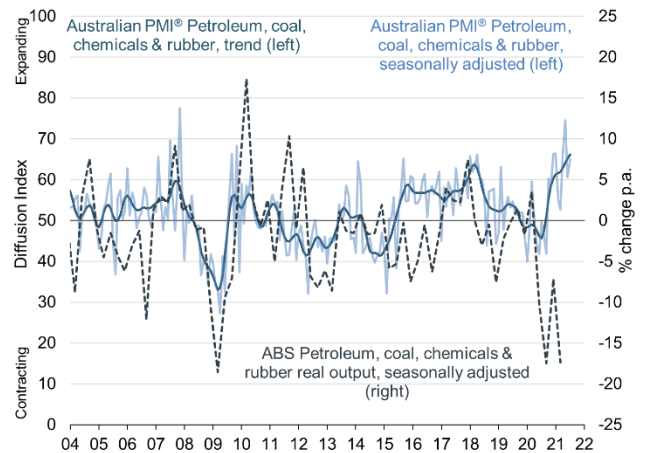
Metal Products

- 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 rose by another 2.2 points to 62.3 points, indicating a stronger expansion in July and a record high for this index (trend).
- Respondents reported strong demand from the building industry, but some commented that they already expect this source of demand to slow in coming months.



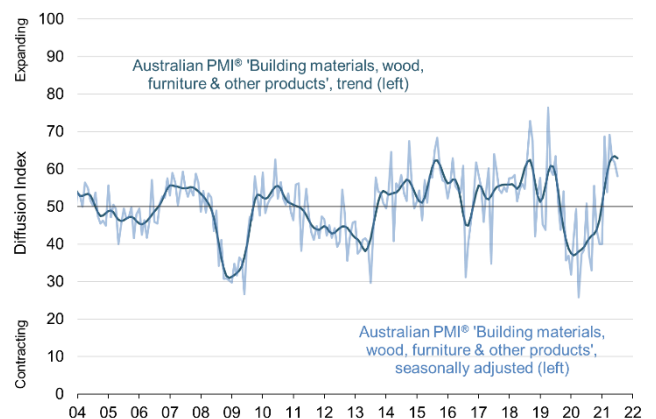
Petroleum, coal, chemicals & rubber

- 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).
- The chemicals sector's index rose by 1.0 point to 66.1 points in July, to a new record high (trend).
- This diverse sector produces, chemicals, fertilisers, toiletries, pharmaceuticals, health supplements and rubber items, as well as paints, adhesives and surface treatments.
- Manufacturers of personal care items that are sold in supermarkets reported strong sales, while the more industrial manufacturers in this sector reported strong demand from the residential construction industry.



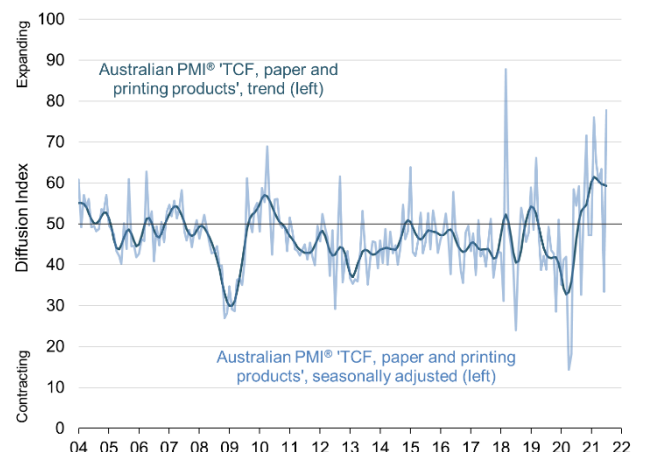
Building materials, wood, furniture & other manufacturing products

- 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 sector fell by 0.6 points to 62.9 points, indicating a strong expansion in July.
- Stocks (inventories) were heavily depleted in this sector in July, with many respondents reporting delivery delays from local and international suppliers.



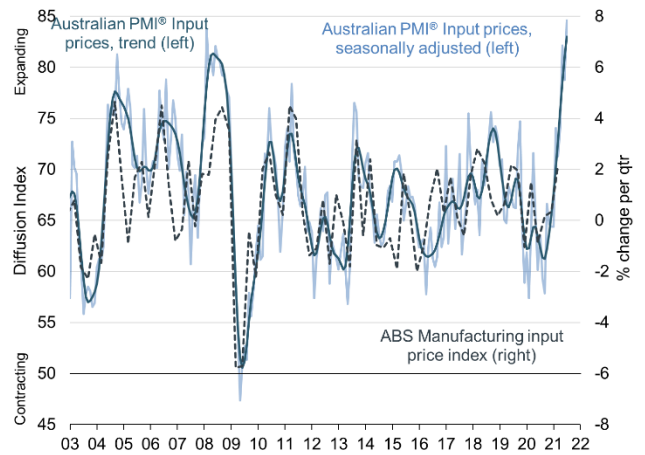
TCF, paper and printing products

- 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 products and recorded media.
- The index for this sector eased a further 0.3 points to 59.3 points in July, indicating expanding activity but at a slower pace than in June (trend).
- Respondents in this sector reported uncertainty due to widespread lockdowns across the country which have led to order cancellations and postponements.



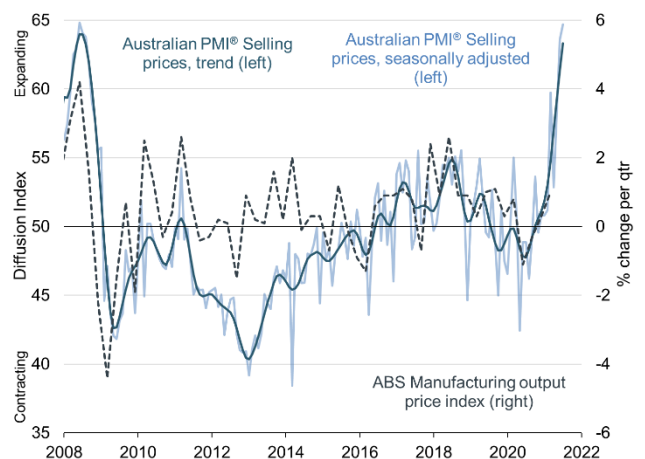
Input prices

- Manufacturers' input prices rose by an average of 2.2% over the quarter and 1.8% over the year to Q1 of 2021 (ABS *Producer Price Index*).
- The **Australian PMI®** input price index jumped 5.8 points to 84.6 points in July (seasonally adjusted), indicating that increased at a faster pace in July. This was a record high for this index, eclipsing the previous record in February 2008.
- Supply chain disruptions continued to be widespread for manufacturers in July with respondents reporting delivery delays and price rises for imported and Australian-sourced materials, inputs and components. Prices rises were elevated in all manufacturing sectors. The availability of empty shipping containers was a concern for both importers and exporters in July.



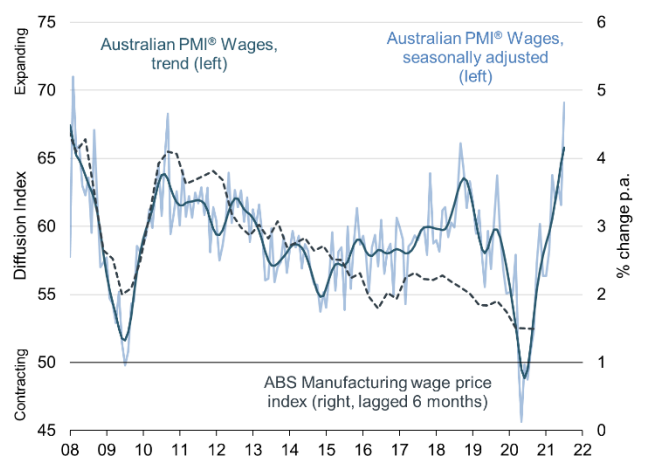
Selling prices

- Manufacturers' output (selling) prices rose by an average of 1.0% over the quarter but remained stable (0.0%) over the year to Q1 of 2021 (ABS *Producer Price Index*).
- The selling price index increased 1.1 points to 64.7 points in July (seasonally adjusted). This was the second highest result for this index since the series began in 2007 and was the sixth month of accelerating increases.
- The higher selling price index suggests more manufacturers are now passing on some of these higher costs to their customers. Rising selling prices were recorded by all sectors in July.



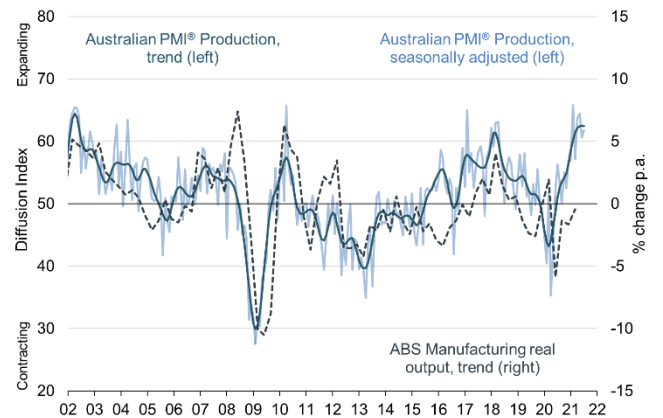
Average wages

- Private sector wages across the manufacturing industry rose by an average of 0.4% over the quarter and 1.5% p.a. in Q1 of 2021 (ABS *Wage Price Index*).
- The Australian PMI® average wages index jumped 7.5 points to 69.1 points in July (seasonally adjusted), indicating an acceleration in wages growth across the manufacturing industry, on average, compared to June. This was the highest reading for this index since 2008.
- July is typically when most manufacturing sector wage rises occur. The large rise in July 2021 represents some reversal of wage freezes that were implemented over the past financial year, plus an increase of 2.5% in the national minimum wage, which will flow through to award rates and linked agreements across the industry.



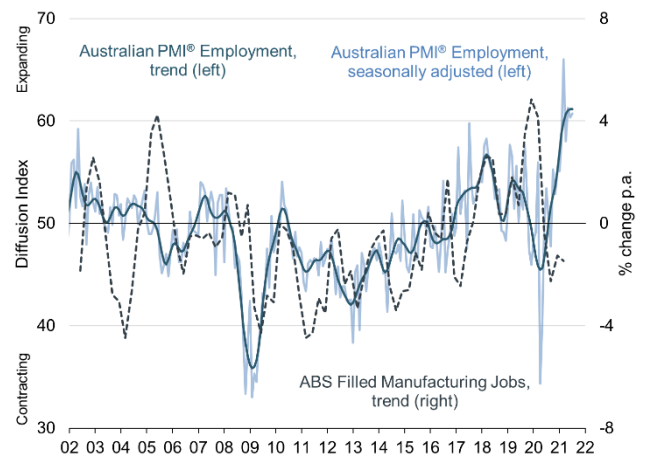
Production

- 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 rose 1.1 points higher 61.8 points, indicating strong production levels in July (seasonally adjusted).
- Production expanded in most states and territories but was lower in New South Wales than other states due to lockdowns and operational restrictions in Sydney and other regional areas.



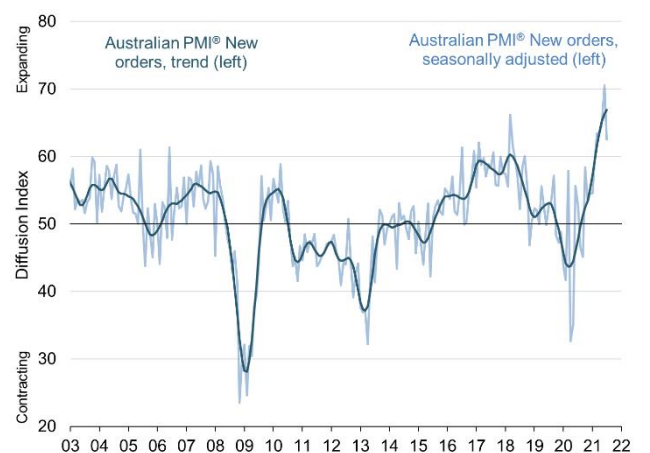
Employment

- 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 edged 0.5 points higher to 60.8 points in July (seasonally adjusted). Employment growth was particularly strong in machinery & equipment manufacturing.
- Some respondents reported ongoing difficulty hiring staff in some regions and occupations (for example: production workers). Some manufacturers are offering on the job training to upskill existing staff.



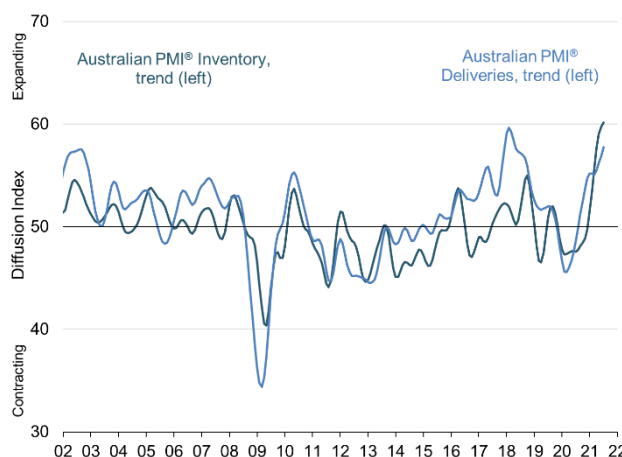
New orders

- The new orders index dropped by 8.1 points from a record high in June but remains in strong expansion at 62.5 points in July (seasonally adjusted).
- This strength in new orders for Australian manufacturers suggests further expansion in production and sales in the remaining months of 2021.
- Some manufacturers continue to report “catch-up” orders from customers who delayed their orders in 2020. Continued uncertainty due to widespread lockdowns have led to order cancellations and postponements for some manufacturers.



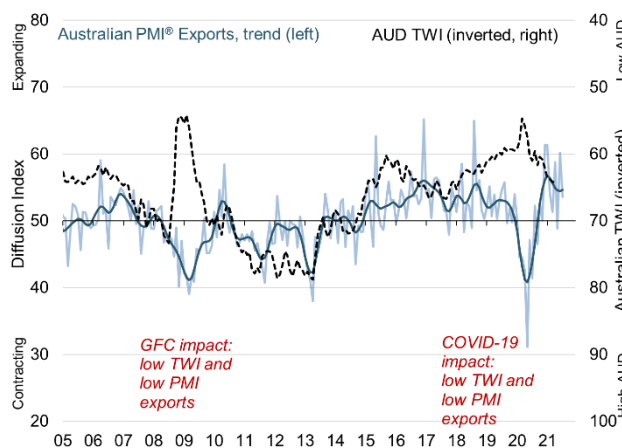
Supplier deliveries & finished stocks

- The supplier deliveries index increased 1.3 points to 59.6 points in July, indicating an increase in the supply of raw materials ordered by manufacturers and at a faster pace than in June (seasonally adjusted).
- The stocks (inventories) index dropped 5.5 points to 55.1 points in July, indicating an increase in stock levels held by manufacturers but at a slower pace compared to June (seasonally adjusted). On a trend basis, this index has recorded expansions for all of 2021. Some manufacturers are intentionally increasing inventory levels to meet future demand and to hedge against delayed deliveries or unavailable materials due to supply disruptions.



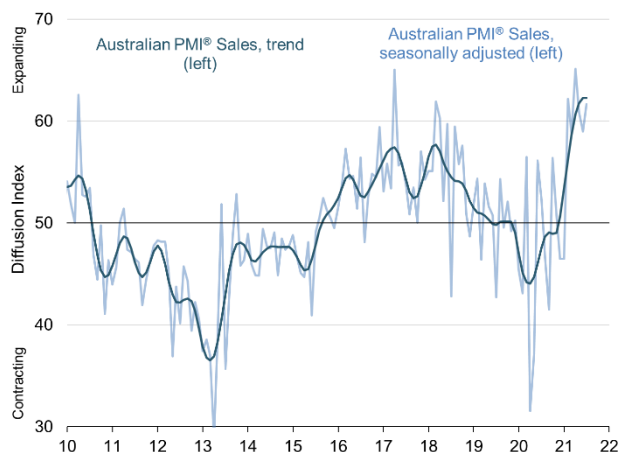
Exports

- Export earnings for Australian manufactured goods were worth \$117.6 in the year to May 2021 (26% of total annual export earnings, ABS data).
- The **Australian PMI®** exports index fell by 6.6 points to 53.6 points, indicating expanding exports but at a slower pace than in June (seasonally adjusted).
- The trade-weighted index (TWI, weighted against trading partner currencies) was at relatively low levels in 2020. Manufacturing exports contracted in most months of 2020 due to the COVID-19 pandemic and related trade disruptions, despite the low TWI. In 2021, the exports index is moving back towards its historical relationship with the TWI which suggests that export trends are reverting back toward more 'normal' patterns.



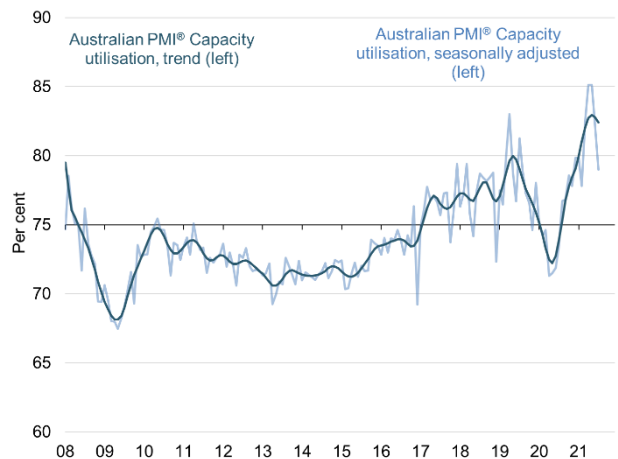
Sales

- The sales index climbed 2.7 points to 61.7 points in July, indicating another strong month of manufacturing sales (seasonally adjusted).
- Sales were higher in all manufacturing sectors but were particularly strong for machinery & equipment and chemicals manufacturers in July.
- This result is well above the long-term average of 49.5 points for this index (since 2009).



Capacity utilisation

- Australia's manufacturers invested \$9.5bn in capital expenditure (CAPEX) over the year to Q1 2021 (real dollars).
- The **Australian PMI®** capacity utilisation index eased further in July, falling by 3.3 percentage points to 79.0% of capacity being utilised in July (seasonally adjusted). Some respondents are considering capital investments to enable extra production or would like to increase staff to match demand but are finding it difficult to recruit staff with the right skills in the right locations.
- 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.

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