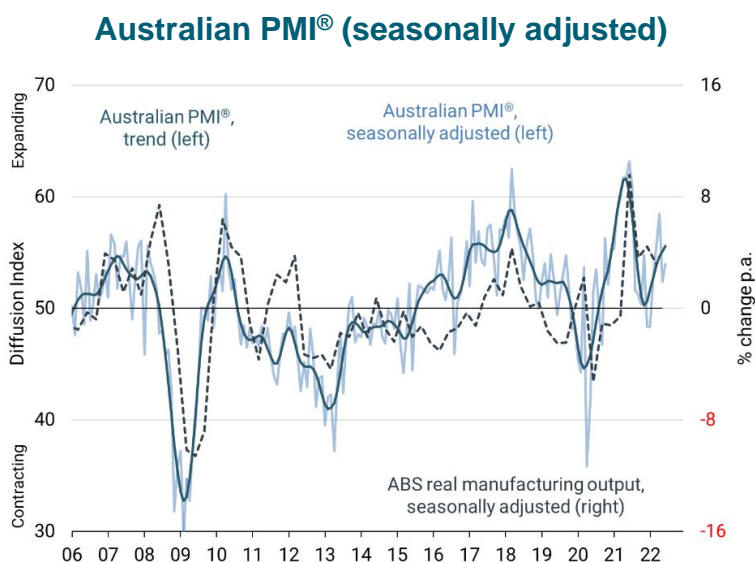


Higher manufacturing input costs fuel price rises

Key findings

- Manufacturing continued to expand moderately in June. Most subsectors improved but the metals sector declined dramatically.
- Labour challenges and supply chain disruptions remain the major structural constraints on manufacturing. Input prices rose again to mark the highest-ever reading in the **Australian PMI®** series.
- Most manufacturing activity indicators expanded in June. However, sales declined and are now in contraction, reflecting weaker market conditions than in past months.
- Manufacturing exports rebounded strongly, as shipping issues earlier in the year have cleared.

The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) rose by 1.6 points to 54.0 points in June 2022 (seasonally adjusted), indicating mild growth. The indicator has been in expansion since February 2022. Results above 50 points indicate expansion, with higher results indicating a faster rate of expansion.



June 2022

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Australian PMI®
▲ 1.6 points
(seasonally adjusted) **54.0**

Australian PMI®
▲ 0.5 points (trend) **55.6**

Food & beverages
▼ 2.5 points (seas. adj.) **45.0**

Machinery & equipment
▲ 5.3 points (seas. adj.) **57.3**

Metal products
▼ 16.2 points (seas. adj.) **40.7**

Chemicals
▲ 1.6 points (seas. adj.) **55.6**

Building materials, wood & other
▲ 2.1 points (seas. adj.) **52.4**

TCF, paper & printing
▲ 19.2 points (seas. adj.) **67.2**

Manufacturing sectors: Four of the six manufacturing sectors in the **Australian PMI®** expanded in June 2022. The TCF, paper & printing sector reported the strongest results rebounding to be strongly expansionary (seas. adj.). The food & beverage sector fell further into contraction in June and the metal products sectors contracted sharply from expansion the previous month. Both sectors were dragged down by weak production, sales and lower employment levels (seas. adj.).

Manufacturing wages and prices: The **Australian PMI®** input price index rose again in June to record the highest reading since 2002 (seasonally adjusted), indicating that the input price increases accelerated, on average, for manufacturers in June compared to May. Respondents stated that input cost pressures have started to impact margins. Manufacturers' selling prices also increased in June, but respondents noted that it was becoming difficult to lift prices. The **Australian PMI®** average wages index decelerated in June from the peak recorded for this series in May. This indicates a slower pace of increase in wages across the manufacturing sector in June (seasonally adjusted).

Manufacturing activity: Six of the seven activity indexes expanded in June (results above 50 points), with all six indexes expanding at a mildly accelerating rate. The employment index rose slightly in June but at a slower pace compared to May and still within the broadly stable range. The sales index declined further and remained in contraction to be below its own long-run average. Broadly weak conditions in manufacturing sales reflects the pressure of increased interest rates.

Manufacturing highlights: Manufacturing growth accelerated in June compared to May. Infrastructure spending, end of financial year, strong export demand, local demand and good business conditions contributed to a modest lift in the month. Some businesses indicated that the completed federal election reduced uncertainty for some construction industry customers.

Manufacturing concerns: Floods, input price increases and labour shortages had an inhibiting impact on conditions for a range of manufacturers in June. Several respondents indicated that they were yet to see improvements in demand following a softening prior to the federal election in May.

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>trend</i>			
Australian PMI®	54.0	1.6	50.9	Australian PMI®	55.6	0.5	50.9
				<i>seasonally adjusted</i>			
Production	54.7	2.4	51.6	Food & beverages	45.0	-2.5	53.6
Employment	51.0	0.8	49.2	Machinery & equipment	57.3	5.3	50.5
New Orders	55.7	0.7	51.7	Metals products	40.7	-16.2	47.7
Supplier Deliveries	51.5	3.5	50.8	Petroleum, coal, chemicals			
Finished stocks	56.7	1.0	50.0	& rubber products	55.6	1.6	51.8
Exports	53.0	10.1	50.0	Building, wood, furniture			
Sales	45.0	-2.6	49.7	& other products	52.4	2.1	50.3
Input Prices	89.3	2.8	68.3	Textiles, clothing, footwear,			
Selling Prices	67.8	2.1	49.9	paper & printing	67.2	19.2	48.8
Average Wages	69.3	-5.5	59.2				
Capacity Utilisation (%)	81.9	6.0	74.5				

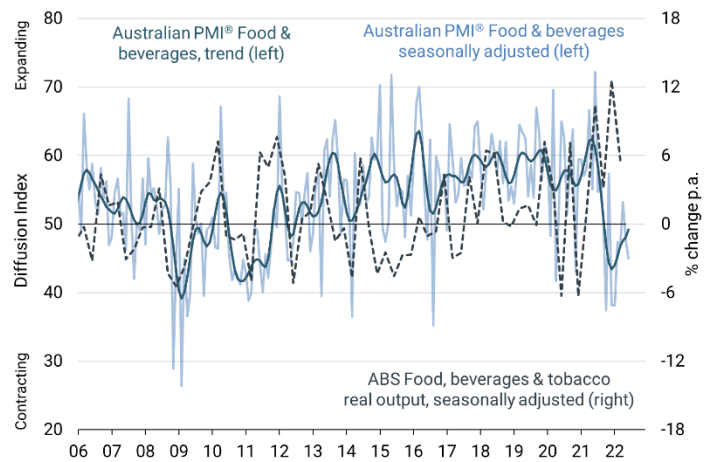
Results above 50 points indicate expansion. All indexes for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

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 2022	116.8	0.8	5.1	5.6% of total GDP
Nominal sales, \$bn, year to Mar 2022	397.6	1.0	1.1	12.2% of non-farm business sales
Nominal export earnings, \$bn, year to Mar 2022	126.2	2.7	8.9	22.5% of total export earnings
Nominal company profits (GOP), \$bn, year to Mar 2022	43.7	4.7	14.3	8.6% of non-farm company profits
Real investment (CAPEX), \$bn, year to Mar 2022	10.5	-1.4	6.4	7.9% of non-farm private sector CAPEX
Nominal aggregate wages, \$bn, year to Mar 2022	57.4	0.7	3.4	9.3% of non-farm business wages
Manufacturing employed persons, May 2022, million	831	-2.2	-8.7	6.1% of employed persons
Manufacturing businesses with employees, 2020-21	49,058	N/A	5.0	4.9% of employing businesses

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

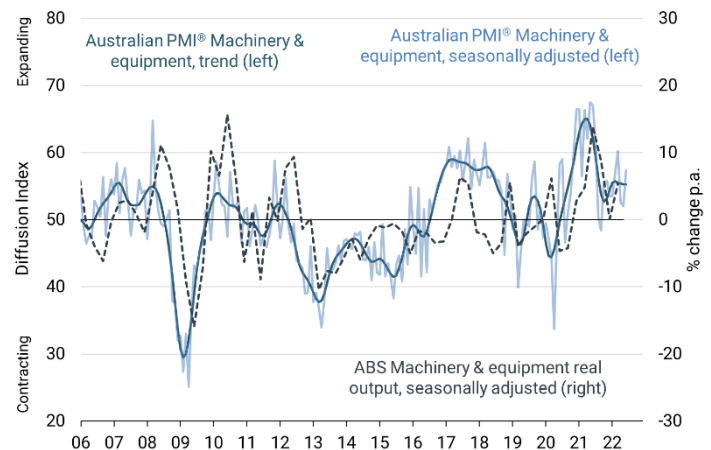
Food & Beverages

- The food and beverages (& tobacco) sector produced \$29.8bn in real value-added output in the year to Q1 2022 (25% of manufacturing real value-added output). It employed 240,000 people in May 2022 (27% of manufacturing employment, ABS data). It is Australia’s largest manufacturing sector.
- The index for food and beverages fell by another 2.5 points to 45.0 points in June, indicating very weak conditions (seasonally adjusted).
- Respondents noted ongoing constraining effect of floods on activity levels in June. Some businesses reported soft demand that has been evident since prior to the federal election, while others reported growth in sales to export markets, steady demand from supermarkets and a pick-up in demand from entertainment venues.



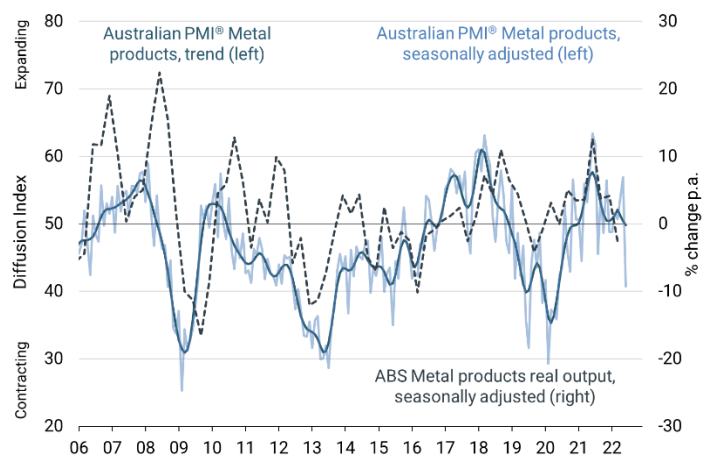
Machinery & Equipment

- The machinery & equipment sector produced \$25.9bn in real value-added output in the year to Q1 2022 (22% of manufacturing real value-added output). It employed 192,000 people in May 2022 (22% of manufacturing employment, ABS data).
- The index for the machinery & equipment sector rose by 5.3 points to 57.3 points, indicating a stronger pace of expansion in June (seasonally adjusted).
- Infrastructure spending, end of financial year, strong export growth, robust local demand and good business conditions contributed to growth in June. Some respondents said the completed federal election removed uncertainty in the construction industry.



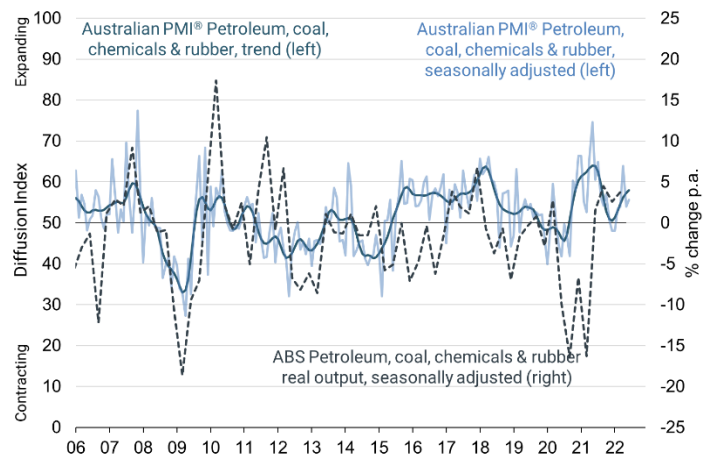
Metal Products

- The metal products sector produced \$19.4bn in real value-added output in the year to Q1 2022 (17% of manufacturing real value-added output). It employed 141,000 people in May 2022 (16% of manufacturing employment, ABS data).
- The metal products index plunged by 16.2 points to 40.7 points, indicating a reversal of the recovery recorded in April and May (seasonally adjusted).
- Fewer orders, labour and materials shortages and lower demand from some construction customers inhibited sales for metal products in June as some customers delayed commencement of new projects.



Petroleum, coal, chemicals & rubber

- The petroleum, coal, chemicals & rubber sector produced \$18.2bn in real value-added output in the year to Q1 2022 (16% of manufacturing real value-added output). It employed 81,000 people in May 2022 (9% of manufacturing employment, ABS data).
- The chemicals index improved by 1.6 points to 55.6 points in June, indicating a faster pace of expansion in the month after moderating in May (seasonally adjusted).
- A surge in exports and strong local demand stabilised sales for the sector, while staff and materials shortages impacted production for some businesses.



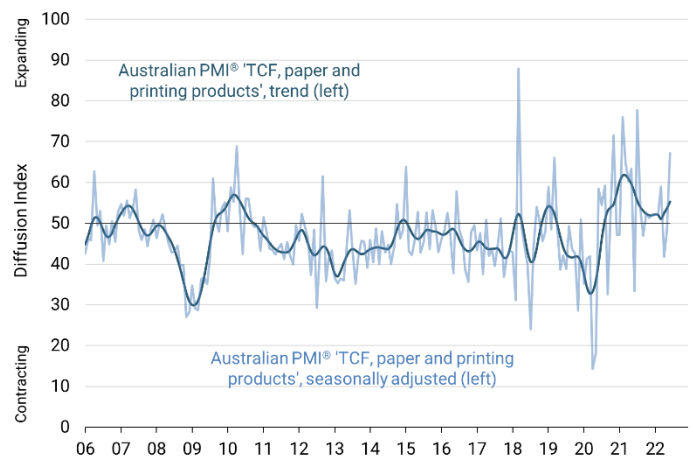
Building materials, wood, furniture & other manufacturing products

- The building materials, wood, furniture & other products sector employed 141,000 people in May 2022 (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 increased by 2.1 points to 52.3 points, following flat conditions in May (seas. adjusted).
- Skilled labour shortages including absenteeism caused by COVID-19 isolation requirements impacted production levels in June.



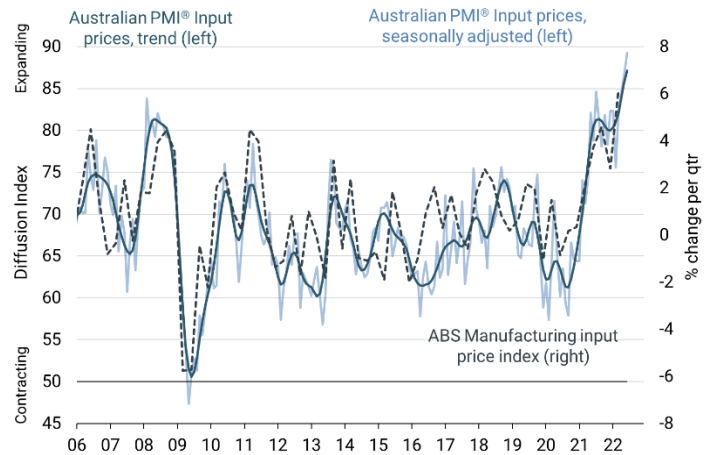
TCF, paper and printing products

- The textiles, clothing, footwear (TCF), paper & printing products sector employed 80,000 people in May 2022 (9% of manufacturing employment, ABS data).
- This sector makes textiles, clothing, footwear, paper, cardboard, packaging, printed products and recorded media.
- The index for this sector recovered by a further 19.2 points to be 67.2 points, indicating strong expansionary conditions in June (seasonally adjusted).
- Onshoring of work back to Australia and strong demand from the mining sector improved sales. Labour shortages and input price increases constrained activity in June.



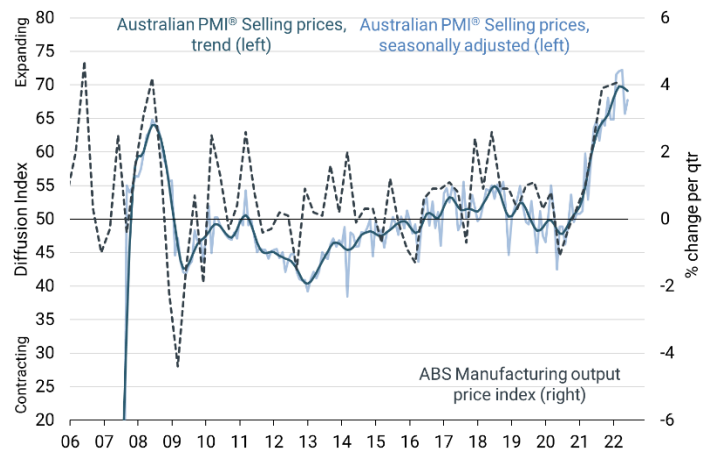
Input prices

- Manufacturers' input prices rose by an average of 18.5% over the quarter and 6.2% over the year to Q1 of 2022 (ABS, *Producer Price Index*).
- The **Australian PMI®** input price index rose by a further 2.8 points to 89.3 points to reach a series high in June (seasonally adjusted). Input prices have been elevated across 2021 and 2022 and are well above the long-run average of 68.3 points for this index (since 2003).
- Manufacturers across all segments reported price increases for raw materials, imported inputs and components. Respondents noted that input cost pressures are impacting margins as some manufacturers are unable to pass through all of the increases to customers.



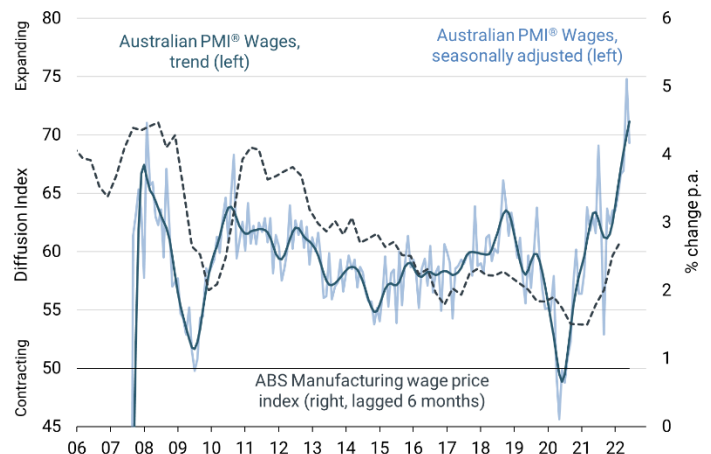
Selling prices

- Manufacturers' output (selling) prices rose by an average of 4.1% over the quarter and 15.1% over the year to Q1 of 2022 (ABS, *Producer Price Index*).
- The selling price index rose by 2.1 points to 67.8 points in June (seasonally adjusted). Although the higher selling price index suggests more manufacturers are able to pass on some of the higher costs to their customers, some respondents noted it is becoming difficult to further lift prices.
- Respondents reported higher selling prices in most sectors, but they were particularly strong in the building materials and TCF, paper and printing products sectors.



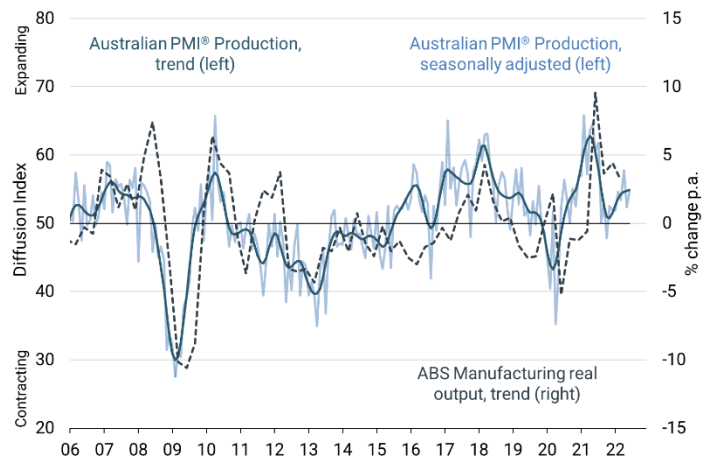
Average wages

- Private sector wages across the manufacturing industry rose by an average of 2.7% over the quarter and 0.6% over the year to Q1 of 2022 (ABS, *Wage Price Index*).
- The Australian PMI® average wages index decreased by 5.5 points to 69.3 points (seasonally adjusted), indicating a slower increase in wages across the manufacturing sector, on average, compared to May.
- The average wages index indicated expansion in all sectors (above 50 points) but was stronger in the TCF, paper and printing and chemical products sectors.



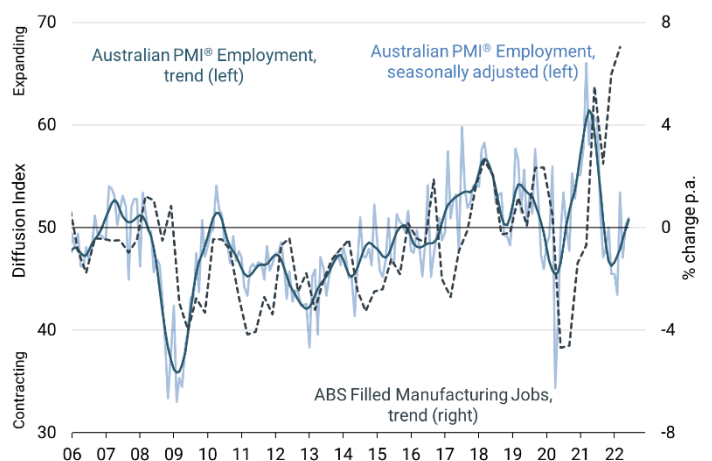
Production

- The manufacturing industry produced \$116.8bn in real value-added output in the year to Q1 2022 (5.6% of Gross Domestic Product, GDP). Manufacturers' value-added output rose by 0.8% over the quarter and 5.1% over the year to Q1 2022 (ABS data).
- The Australian PMI® production index increased by 2.4 points to 54.7 points in June, indicating an improvement in production levels (seasonally adjusted).
- Production contracted in the food & beverage and metal products sectors. Soft production levels in these sectors contributed to the overall weak conditions reported in the two sectors in June. Manufacturers in all other sectors reported an acceleration in production levels.



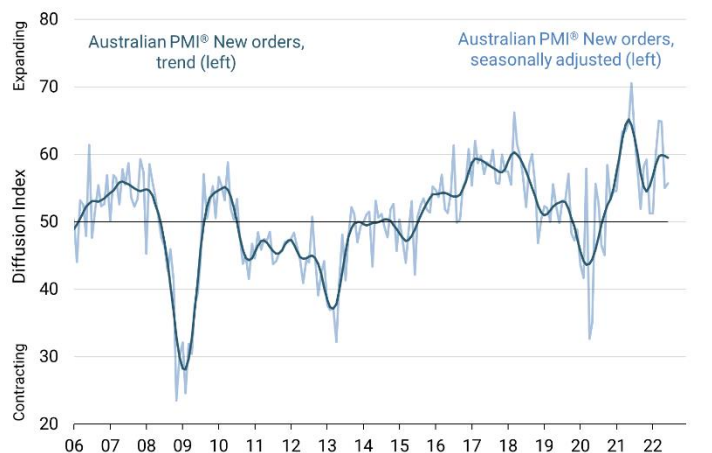
Employment

- There were 929,900 filled jobs in manufacturing in Q1 2022, accounting for 7.0% of all filled jobs in Australia (ABS Labour Account).
- The ABS Labour Force Survey identified 831,100 people working in manufacturing in May 2022, down 2.2% from February 2022 and 8.7% year on year respectively.
- The Australian PMI® employment index edged 0.8 points higher to 51.0 points in June, indicating broadly stable conditions in manufacturing employment in June (seasonally adjusted).
- Employment shrunk in the food & beverage and metal products sectors and was flat in chemicals and building materials. Shortages of skilled labour inhibited activity levels across sectors in June.



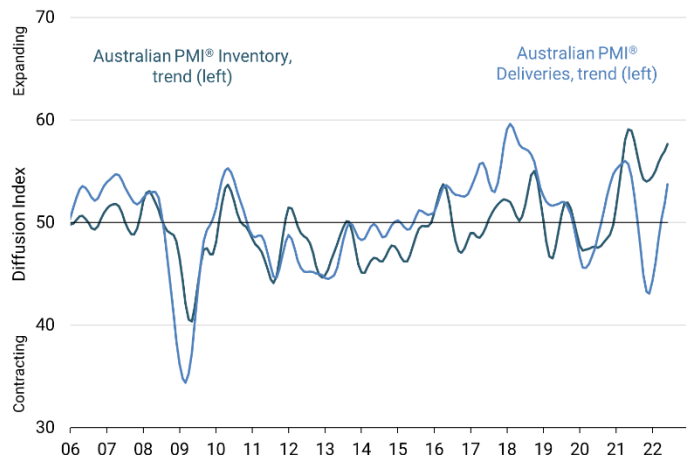
New orders

- The new orders index rose by 0.7 points to 55.7 points, indicating relatively strong customer demand in June (seasonally adjusted).
- The acceleration in new orders for Australian manufacturers suggests modest growth in production and sales in the next few months.
- New orders accelerated in three of the six manufacturing sectors, and was strongest in the TCF, paper and printing products sector. New orders for manufacturers in the metal and chemical products sectors declined.



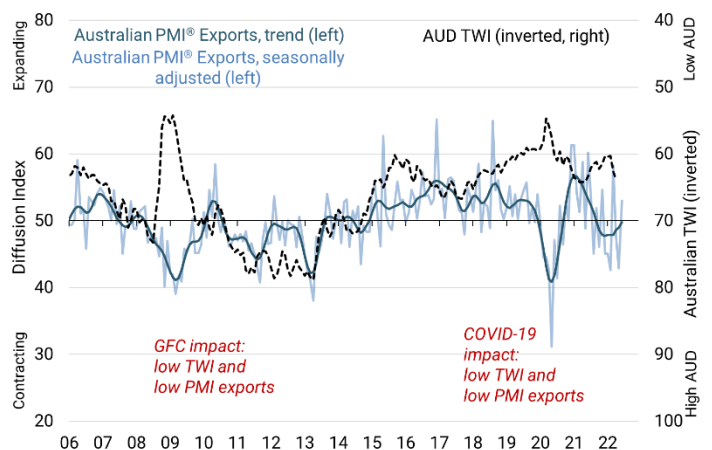
Supplier deliveries & finished stocks

- The supplier deliveries index accelerated by 3.5 points to 51.5 points in June, indicating an increase in the supply of raw materials ordered by manufacturers (seasonally adjusted).
- The stocks (inventories) index increased by 1.0 points to 56.7 points in June. This indicates a modest increase in stock levels held by manufacturers (seasonally adjusted). Some manufacturers reported they are placing orders over 12 months in advance to hedge against long lead times of raw materials.



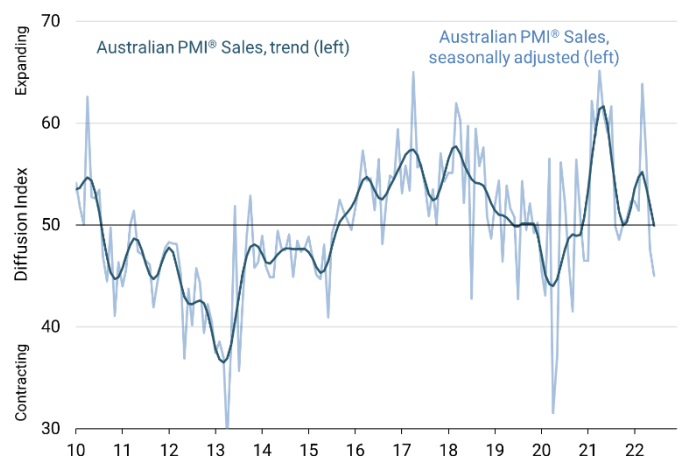
Exports

- Export earnings for Australian manufactured goods were worth \$126.2 bn in the year to April 2022 (23% of total annual export earnings, ABS data).
- The **Australian PMI®** exports index rebounded by 10.1 points to 53.0 points (seasonally adjusted). This reflects a recovery in export sales for manufacturers in June.
- Exports surged in the food & beverage products, and machinery & equipment sectors but exports demand is yet to pick-up in the metals and chemical products sectors.



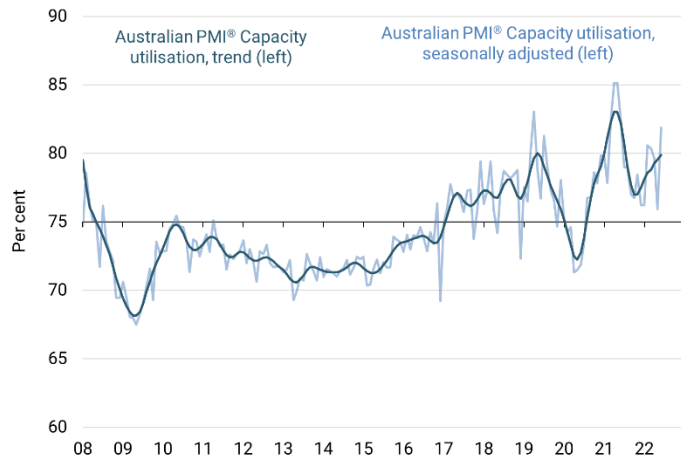
Sales

- The sales index fell by another 2.6 points to 45.0 points in June (seasonally adjusted). This indicates weak conditions in manufacturing sales and reflects the pressure of increased interest rates.
- This result is well below the long-term average of 49.7 points for this index (since 2009) and is the lowest reading for this series since September 2020.
- Manufacturers noted fewer sales in the month. Sales contracted in the food & beverage, metal products and chemicals sectors. The machinery & equipment sector recorded weaker growth in sales compared to May. Sales rebounded in the TCF, paper & printing and building materials sectors.



Capacity utilisation

- Australia's manufacturers invested \$10.5bn in capital expenditure (CAPEX) over the year to Q1 2022 (real dollars).
- The **Australian PMI®** capacity utilisation index rose by 6.0 percentage points to 81.9% in June (seasonally adjusted). This is above the long-run average for this index of 74.5% (since 2007) and is the highest monthly reading since June 2021. This suggests that manufacturers will need to increase employment and investment to increase production in future.



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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