

# Manufacturing recovery slows in May

## Key findings

- Manufacturing post-COVID recovery slowed down in May. While most subsectors remain in an expansionary phase, rates are lower than in recent months.
- Most manufacturing activity indicators including production, employment and new orders remained expansionary, while sales, exports and supplier deliveries fell into contraction.
- Labour challenges and supply chain disruptions remain the major structural constraints on manufacturing. Input prices and wages both rose further, to mark the highest readings in the **Australian PMI®** series.
- In May, Federal election uncertainty, poor weather and labour market issues hampered manufacturing recovery. Demand from the agriculture and resource sectors contributed to stability in May.

The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) fell by 6.1 points to 52.4 points in May 2022 (seasonally adjusted), indicating a weaker pace of expansion. This halts three months of consistent acceleration for the **Australian PMI®** since February 2022. Results above 50 points indicate expansion, with higher results indicating a faster rate of expansion.

May 2022

### MEDIA CONTACT

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**Australian PMI®**  
▼ 6.1 points  
(seasonally adjusted) **52.4**

**Australian PMI®**  
▲ 0.6 points (trend) **55.4**

**Food & beverages**  
▼ 5.7 points (seas. adj.) **47.5**

**Machinery & equipment**  
▼ 0.6 points (seas. adj.) **52.0**

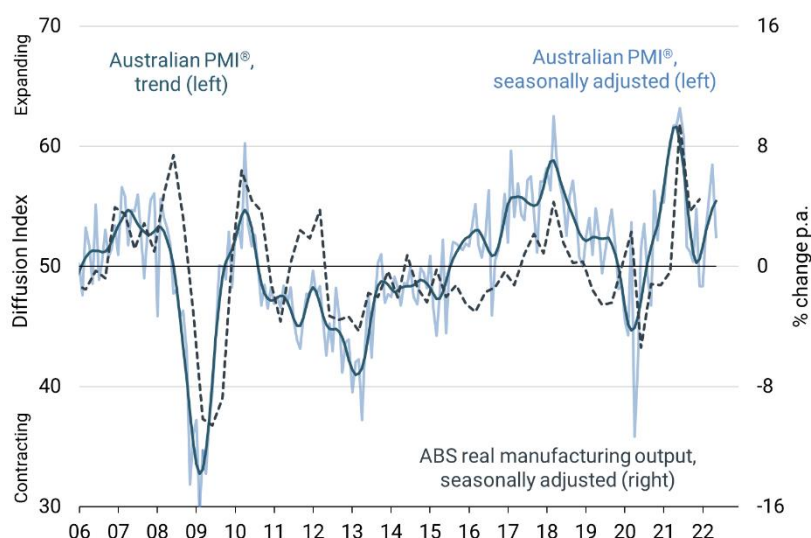
**Metal products**  
▲ 3.1 points (seas. adj.) **56.9**

**Chemicals**  
▼ 9.8 points (seas. adj.) **54.0**

**Building materials, wood & other**  
▼ 20.3 points (seas. adj.) **50.3**

**TCF, paper & printing**  
▲ 6.2 points (seas. adj.) **48.0**

## Australian PMI® (seasonally adjusted)



**Manufacturing sectors:** Four of the six manufacturing sectors in the **Australian PMI®** expanded in May 2022. Flat conditions were reported by manufacturers in building materials. The TCF, paper & printing sector improved but remained in contraction, while the large food & beverage sector fell back into contraction following a temporary recovery in April (seasonally adjusted). The machinery & equipment, and chemicals sectors expanded at a weaker rate. In contrast, metals manufacturers reported more upbeat conditions due to increased demand from the resource sector (seasonally adjusted).

**Manufacturing wages and prices:** The **Australian PMI®** input price index rose further in May to record the index's highest reading since 2002 (seasonally adjusted), indicating that the input price increases accelerated, on average, for manufacturers in May compared to April. Manufacturers' selling prices declined in May but remained well above its own long-run average (seas. adj.). The **Australian PMI®** average wages index accelerated to 74.8 points in May, an all-time high for this series. This indicates a faster pace of increase in wages across the manufacturing sector in May (seas. adj.).

**Manufacturing activity:** Four of the seven activity indexes expanded in May (results above 50 points), with three of the seven indexes expanding at a decelerating rate. The employment index lifted from contraction but remained stable. The production, new orders, and finished stocks indexes decelerated in May but remained in expansion. The supplier deliveries, sales and exports indexes contracted below their own long-run averages.

**Manufacturing highlights:** Manufacturing growth decelerated in May. Food & beverage manufacturers reported weaker conditions after a strong Easter seasonal demand. Businesses indicated that uncertainty around the federal election impacted sales in May. However, some respondents noted market was steady and consistent.

**Manufacturing concerns:** Manufacturers indicated floods, inflation, labour shortages and delivery disruptions as inhibitors in May, with some respondents selling off their business. Respondents noted loss of staff and difficulty hiring new staff in particular occupations, with some businesses stating that flooding led to the unavailability of staff in certain locations. Some respondents reported lower export orders, particularly from Europe. Some orders were cancelled due to interest rate hike.

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®	52.4	-6.1	50.9	Australian PMI®	55.4	0.6	50.8
				<i>seasonally adjusted</i>			
Production	52.3	-5.4	51.6	Food & beverages	47.5	-5.7	53.2
Employment	50.2	3.1	49.2	Machinery & equipment	52.0	-0.6	52.6
New Orders	55.0	-9.8	51.7	Metals products	56.9	3.1	53.9
Supplier Deliveries	48.0	-12.4	50.8	Petroleum, coal, chemicals			
Finished stocks	55.7	-5.5	50.0	& rubber products	54.0	-9.8	63.9
Exports	42.9	-4.8	50.0	Building, wood, furniture			
Sales	47.6	-8.8	49.7	& other products	50.3	-20.3	70.6
Input Prices	86.5	2.1	68.2	Textiles, clothing, footwear,			
Selling Prices	65.7	-6.5	49.8	paper & printing	48.0	6.2	41.8
Average Wages	74.8	7.9	59.1				
Capacity Utilisation (%)	75.9	-3.7	74.5				

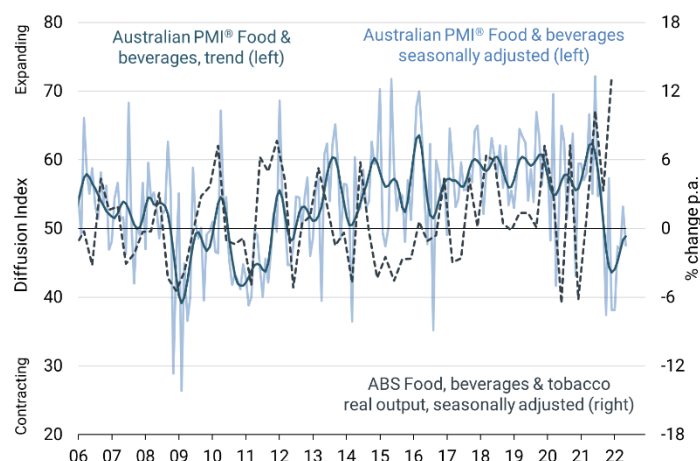
Results above 50 points indicate expansion. All indexes for sectors in the Australia PMI® are reported in trend terms (Henderson 13-month filter).

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 Dec 2021	115.9	1.1	4.2	5.7% of total GDP
Nominal sales, \$bn, year to Mar 2022	397.3	1.0	1.1	12.2% of non-farm business sales
Nominal export earnings, \$bn, year to Mar 2022	125.1	2.8	8.0	22.8% 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, Feb 2022, million	855	-1.2	-4.8	6.4% 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.

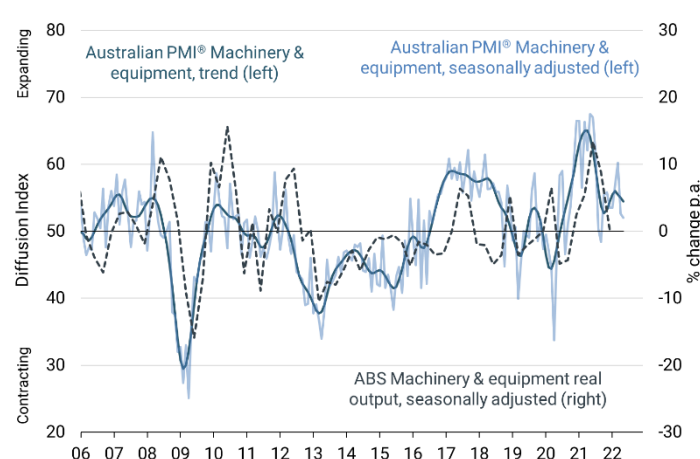
## Food & Beverages

- The food and beverages (& tobacco) sector produced \$29.4bn in real value-added output in the year to Q4 2021 (25% of manufacturing real value-added output). It employed 246,000 people in February 2022 (28% of manufacturing employment, ABS data). It is Australia's largest manufacturing sector.
- The index for food and beverages fell by 5.7 points to 47.5 points in May, indicating a reversal of the recovery recorded in April (seasonally adjusted).
- New orders and sales were down in May, but this is partly seasonal since food & beverage production is typically slower through the winter months. Some respondents noted the negative impact of rain and floods on their activity levels in May, particularly on the sales of fruits.



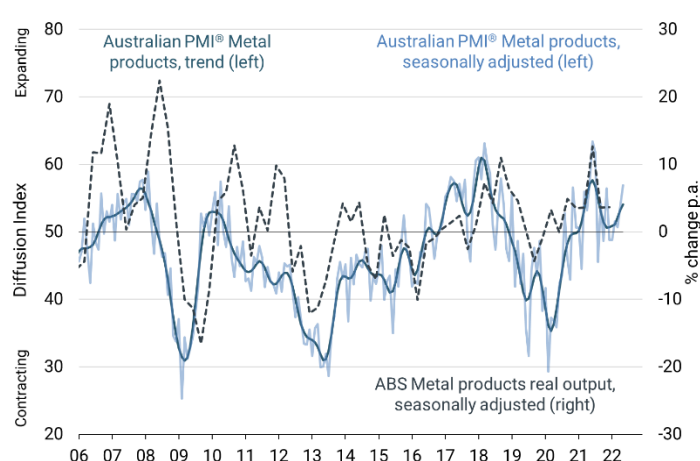
## Machinery & Equipment

- The machinery & equipment sector produced \$25.5bn in real value-added output in the year to Q4 2021 (22% of manufacturing real value-added output). It employed 192,000 people in February 2022 (21% of manufacturing employment, ABS data).
- The index for the machinery & equipment sector declined by 0.6 points to 52.0 points in May, following a sharp fall in April (seasonally adjusted).
- Machinery and equipment respondents noted rainfall, inflation, labour shortages and delivery disruptions as inhibitors in May, with some respondents selling off their business. Some businesses stated that the uncertainty around election in May impacted the supply of cab chassis.



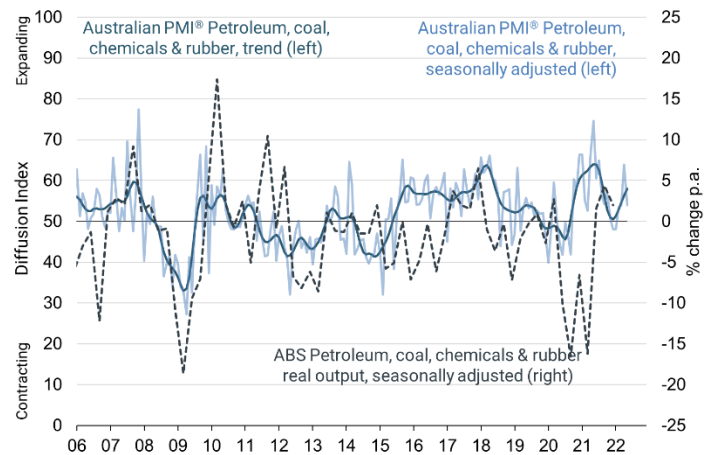
## Metal Products

- The metal products sector produced \$19.5bn in real value-added output in the year to Q4 2021 (17% of manufacturing real value-added output). It employed 143,000 people in February 2022 (16% of manufacturing employment, ABS data).
- The metal products index improved further by 3.1 points to 56.9 points, indicating a stronger expansion in May (seasonally adjusted).
- Increased demand from the resource sector and post-COVID recovery improved activity levels for metals manufacturers. Some businesses noted lower export orders, particularly from Europe. Previously confirmed orders were cancelled by some customers due to interest rate hike.



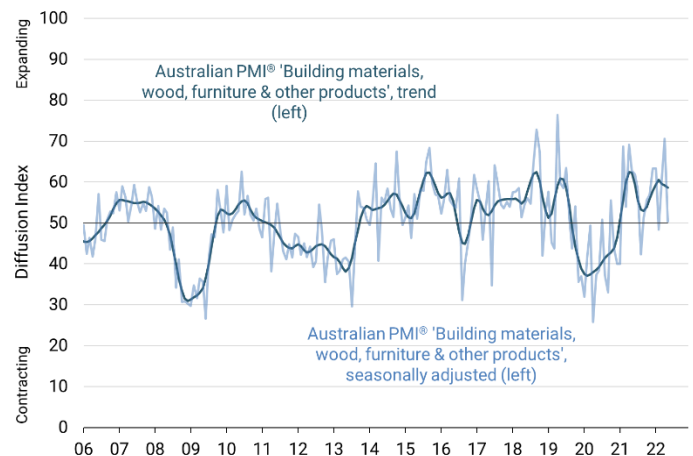
## Petroleum, coal, chemicals & rubber

- The petroleum, coal, chemicals & rubber sector produced \$18.0bn in real value-added output in the year to Q4 2021 (16% of manufacturing real value-added output). It employed 84,000 people in February 2022 (9% of manufacturing employment, ABS data).
- The chemicals sector's index fell by 9.8 points to 54.0 points in May, reversing the improvement recorded in April and indicating a slower pace of expansion in the month (seasonally adjusted).
- Supermarket sales and onshoring of work back to Australia improved sales. However, lack of employees, poor weather, and increasing work cover cases impacted activity for some respondents. Some respondents said that the floods on the east coast stopped fiberglass repairs, thus impacting sales.



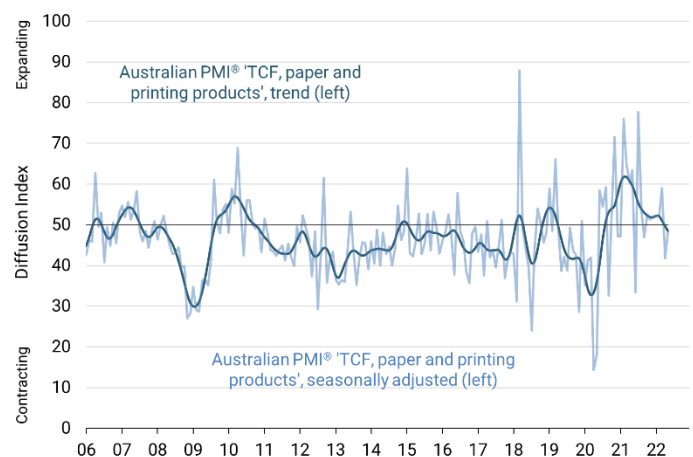
## Building materials, wood, furniture & other manufacturing products

- The building materials, wood, furniture & other products sector employed 146,000 people in February 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 plummeted by 20.3 points to 50.3 points, indicating flat conditions in May (seas. adjusted).
- Respondents noted supply constraints, delivery lead times from offshore, lack of skilled labour and federal election uncertainty impacted activity in May.



## TCF, paper and printing products

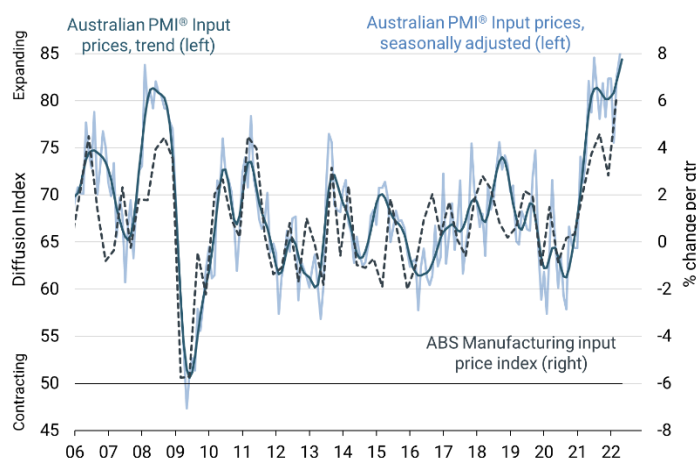
- The textiles, clothing, footwear (TCF), paper & printing products sector employed 83,000 people in February 2022 (9% of manufacturing employment, ABS data).
- This sector makes textiles, clothing, footwear, paper, cardboard, packaging, printed products and recorded media.
- The index for this sector partially recovered from the plunge recorded in April, rising by 6.2 points to 48.0 points, indicating contraction in May (seasonally adjusted).
- Respondents in this sector broadly reported lack of skilled workers, raw materials shortages and increasing costs as concerns in May.





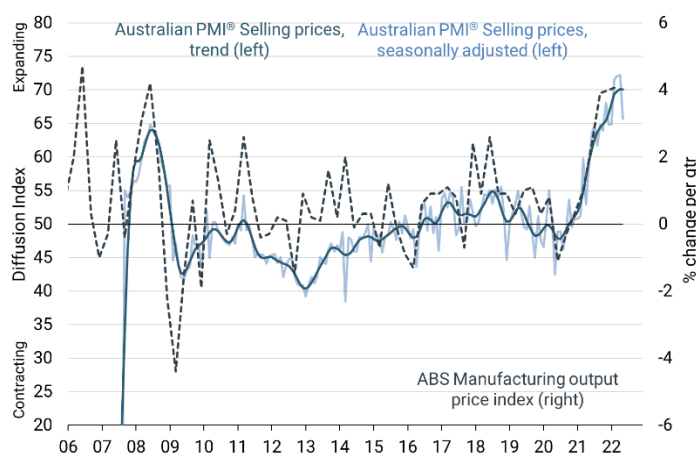
## Input prices

- Manufacturers' input prices rose by an average of 6.2% over the quarter and 18.5% over the year to Q1 of 2022 (ABS, *Producer Price Index*).
- The **Australian PMI®** input price index rose by a further 2.1 points to 86.5 points in May (seasonally adjusted), indicating that input price increases accelerated, on average, for manufacturers in May compared to April.
- This result remains above the long-run average of 68.2 points for this index (since 2003) and is the highest reading since the series started.
- Manufacturers across all segments reported prices increases for raw materials, imported inputs and components. They also reported delivery disruptions and high freight prices. Some respondents said they were increasing their planning horizons to be over 12 months to manage material lead times.



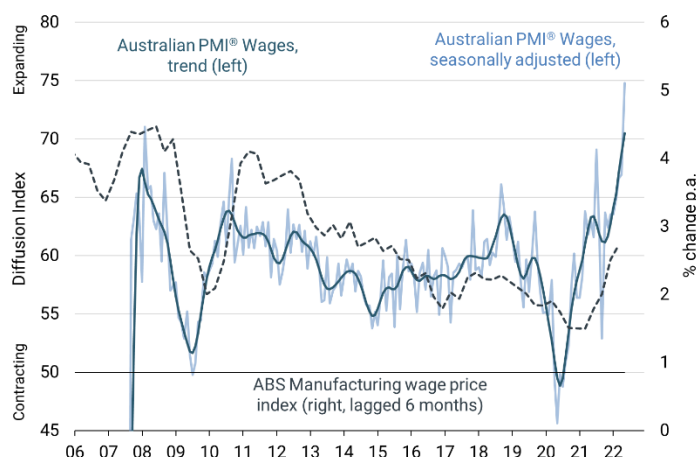
## Selling prices

- 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 fell by 6.5 points to 65.7 points in May (seasonally adjusted) but remained well above its own long-run average of 49.8 points. This indicates that manufacturers' selling prices, on average, remained elevated but lower than April levels.
- Respondents reported lower selling prices in all sectors, with the food & beverage and chemical products sectors recording the largest falls.



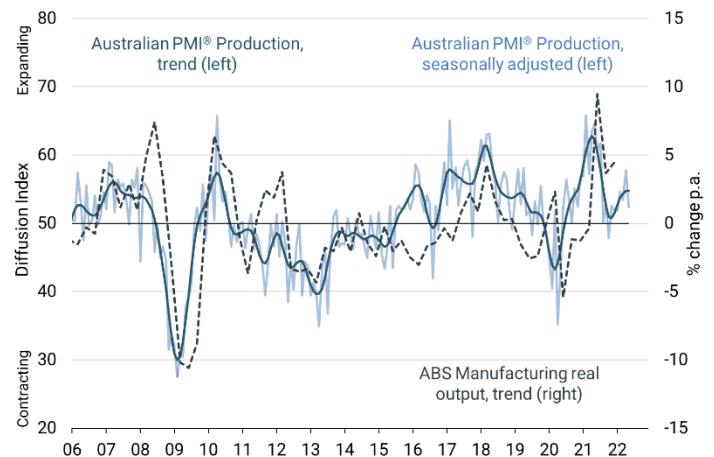
## Average wages

- Private sector wages across the manufacturing industry rose by an average of 0.9% over the quarter and 2.5% over the year to Q4 of 2021 (ABS, *Wage Price Index*).
- The Australian PMI® average wages index increased by 7.9 points to 74.8 points and a new series high in May (seasonally adjusted), indicating a faster increase in wages across the manufacturing sector, on average, compared to April.
- The average wages index indicated expansion in all sectors (above 50 points) but was more buoyant in the food & beverage and metals sectors.



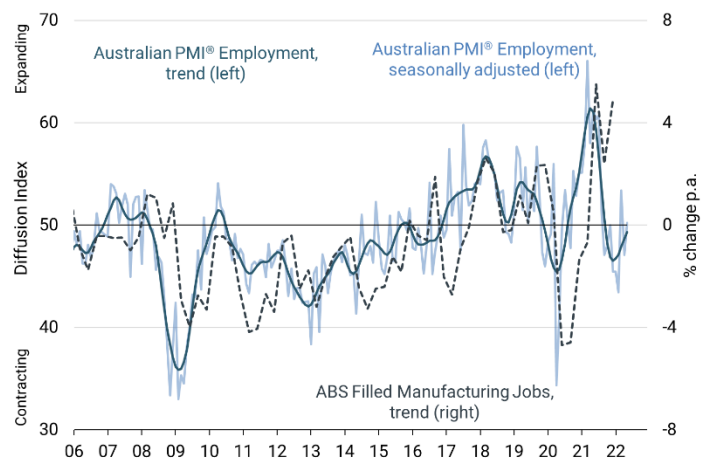
## Production

- The manufacturing industry produced \$115.9bn in real value-added output in the year to Q4 2021 (5.7% of Gross Domestic Product, GDP). Manufacturers' value-added output rose by 1.1% over the quarter and 4.2% over the year to Q4 2021 (ABS data).
- The Australian PMI® production index decreased by 5.4 points to 52.3 points in May, indicating a decline in production levels (seasonally adjusted).
- Production contracted in the chemicals, building materials, machinery & equipment and TCF, paper and printing products sectors. Manufacturers in the food & beverage and metals sectors reported an acceleration in production levels.



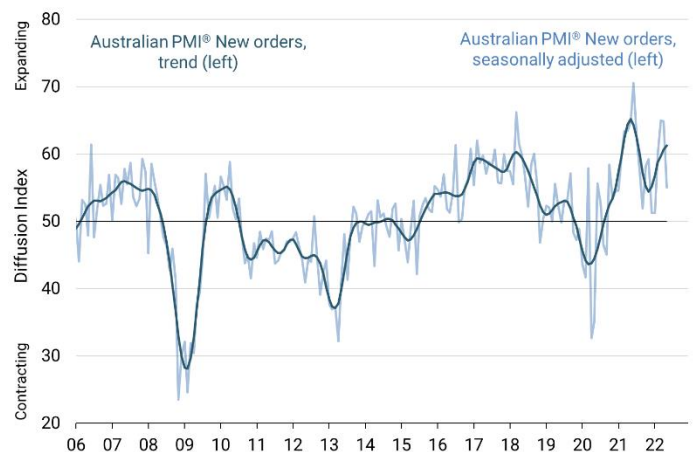
## Employment

- There were 911,300 filled jobs in manufacturing in Q4 2021, accounting for 6.3% of all filled jobs in Australia (ABS Labour Account).
- The ABS Labour Force Survey identified 854,700 people working in manufacturing in February 2022, down 1.2% from November 2021 and 4.8% year on year respectively.
- The Australian PMI® employment index rose by 3.1 points to 50.2 points in May, indicating broadly stable conditions in manufacturing employment in May (seasonally adjusted).
- Respondents noted loss of staff and difficulty hiring new staff in particular occupations, with some respondents reporting that flooding led to the unavailability of staff in certain locations.



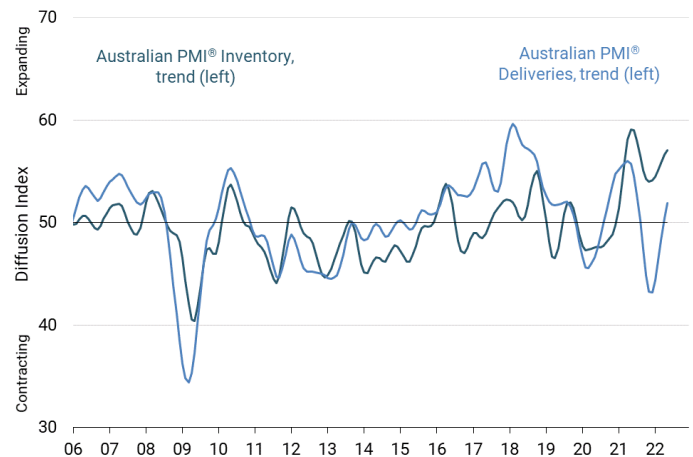
## New orders

- The new orders index decelerated by 9.8 points to 55.0 points in May, indicating weaker customer demand than in April (seasonally adjusted).
- The deceleration in new orders for Australian manufacturers suggests modest production and sales, ahead of the end of the financial year next month.
- New orders decelerated in five of the six manufacturing sectors, with food & beverage, metal products and TCF, paper & printing sectors falling into contraction. New orders for manufacturers in the chemical products and building materials sectors were broadly stable.



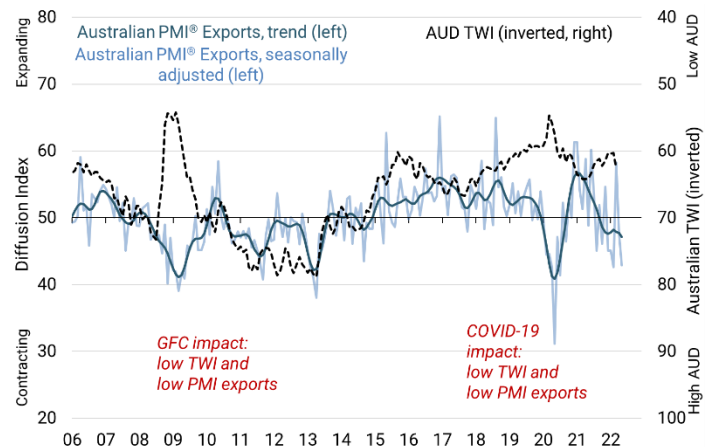
## Supplier deliveries & finished stocks

- The supplier deliveries index fell by 12.4 points to 48.0 points in May, indicating a decrease in the supply of raw materials ordered by manufacturers (seasonally adjusted).
- The stocks (inventories) index decreased by 5.5 points to 55.7 points in May. This indicates a decrease 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.



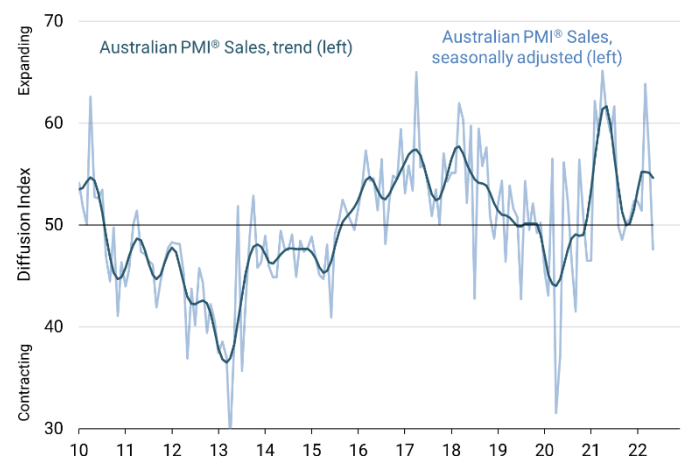
## Exports

- Export earnings for Australian manufactured goods were worth \$125.1 bn in the year to March 2022 (23% of total annual export earnings, ABS data).
- The **Australian PMI®** exports index decreased further by 4.8 points to 42.9 points (seasonally adjusted). This indicates a decline in export sales for manufacturers in May.
- Exports contracted in the food & beverage products, machinery & equipment, metals and TCF, paper & printing sectors, but was broadly stable in the building materials and chemical products sectors in May. Some respondents reported lower export orders, particularly from Europe.



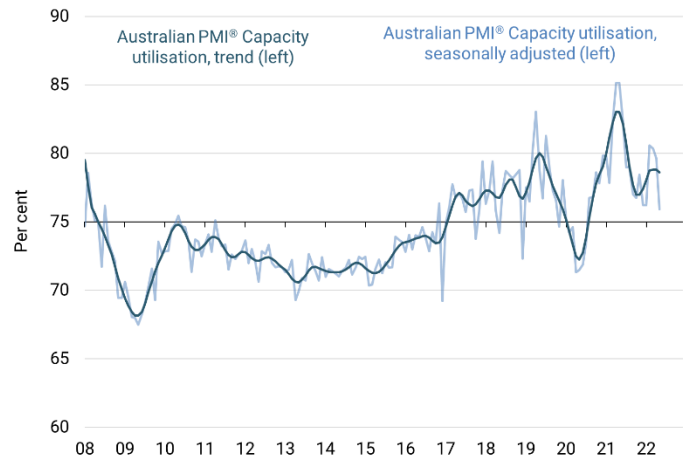
## Sales

- The sales index fell by another 8.8 points to 47.6 points in May (seasonally adjusted). This indicates broadly weak conditions in local manufacturing sales in May.
- Sales rose only in the machinery & equipment sector. Sales plummeted in the food & beverage, TCF, paper & printing and chemical products sectors.
- Sales remained strong in the machinery & equipment and metals sectors, flat in the building materials sector, but weak in other manufacturing sectors. Some manufacturers noted that sales were limited in May by the ability to produce and the uncertainty around the federal election.



## Capacity utilisation

- Australia's manufacturers invested \$10.6bn in capital expenditure (CAPEX) over the year to Q4 2021 (real dollars).
- The **Australian PMI®** capacity utilisation index fell by 3.7 percentage points to 75.9% in May (seasonally adjusted). This is above the long-run average for this index of 74.5% (since 2007). This suggests that pressure abounds on employment and investment to facilitate expansion.
- Some respondents reported decisions to invest 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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