

MANUFACTURING FALTERS DESPITE A LIFT IN EXPORTS

Australian PMI®
 Mar 2015: 46.3 ↑

US Flash PMI
 Mar 2015: 55.3 ↑

Markit Eurozone PMI
 Mar 2015: 51.9 ↑

UK CIPS PMI
 Feb 2015: 54.1 ↑

Japan Flash PMI
 Mar 2015: 50.4 ↓

China Flash PMI
 Mar 2015: 49.2 ↓

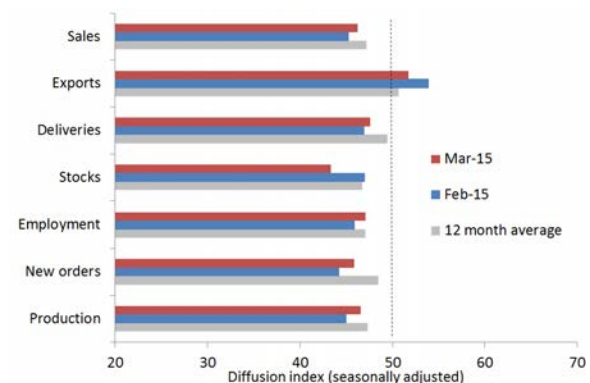
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) moved up by 0.9 points to 46.3 points in March (seasonally adjusted). This indicated a fourth consecutive month of contraction in activity (readings below 50 points indicate contraction) across the manufacturing sector following a brief stabilisation in November 2014.
- The **Australian PMI®** typically 'leads' ABS data for manufacturing output by around 3 months. Recent results from the **Australian PMI®** suggest growth in manufacturing output (measured as 'value added' by the ABS) is likely to be slightly negative again in the March quarter of 2015.
- Manufacturing exports expanded for a fourth consecutive month in March as the impacts of the lower dollar continue to flow through. Much of this growth was concentrated in food and beverages exports, although other manufacturing sub-sectors also experienced a boost in the value of their exports, either due to higher export volumes or a lower dollar.
- Other activity indicators in the **Australian PMI®** continued to indicate very weak domestic demand. Manufacturing production contracted (i.e. below 50 points) for a fifth consecutive month while new orders fell for a fourth month. Manufacturing sales declined for a 10th month in March. Supplier deliveries and stock levels also contracted for a second month in March after a brief expansion in January, while manufacturing employment contracted for a third month.
- Four of the eight manufacturing sub-sectors in the **Australian PMI®** expanded (i.e. above 50 points) in March: food and beverages (for a 10th month); non-metallic mineral products (mainly building materials, for a fifth month); wood and paper; and printing and recorded media.
- The lower Australian dollar continues to boost manufacturing export volumes. However, survey participants also noted that the lower dollar is increasing prices for imported inputs. And despite stronger residential building activity, weak local demand continues to weigh heavily on activity. This month manufacturers noted the further drop in mining construction, the progressive closure of automotive assembly, subdued local business investment in equipment, as well as political uncertainties in Canberra and in New South Wales ahead of the state election.



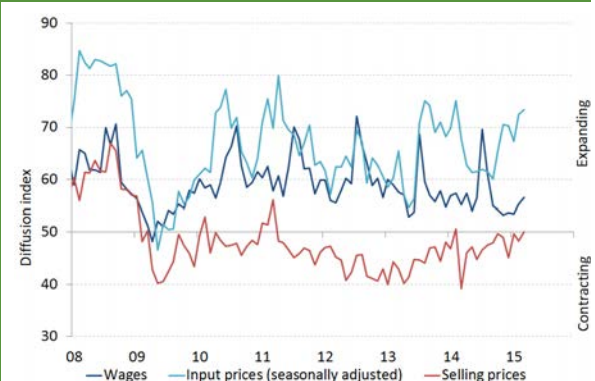
ACTIVITY SUB-INDEXES

- Manufacturing exports expanded for a fourth month in March, although this sub-index moved somewhat lower at 51.7 points (down 2.2 points). The lower Australian dollar since September 2014 continues to assist manufacturing export volumes, with the exports sub-index expanding in five out of the past six months.
- Despite this strengthening in manufacturing exports, total manufacturing sales contracted for a 10th consecutive month, with the sales sub-index slightly higher at 46.2 points (up 1.0 point).
- The new orders sub-index in the **Australian PMI®** signalled a fourth month of contraction, moving up by 1.7 points to 45.9 points in March. The production sub-index increased by 1.6 points to 46.6 points in March, which was a fifth month of contraction.
- Reflecting ongoing weak trading conditions, manufacturers reduced their supplier deliveries and stock levels for a second month in March. The supplier deliveries sub-index increased by 0.7 points to 47.6 points, while the stock (or inventories) sub-index fell by 3.6 points to 43.4 points.
- Manufacturing employment fell for a third month in March, albeit at a slower pace. The employment sub-index increased by 1.2 points to 47.1 points.
- Manufacturers' capacity utilisation rate deteriorated by 1.4 percentage points, with an average of 69.4% of total capacity being utilised by manufacturers in March. This was the lowest manufacturing capacity utilisation rate recorded in the **Australian PMI®** since May 2013.



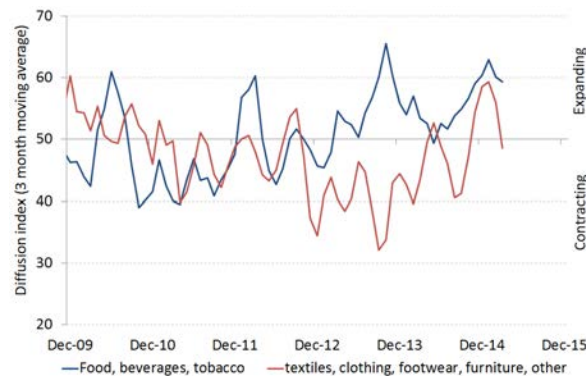
WAGES AND PRICES SUB-INDEXES

- The input prices sub-index of the **Australian PMI®** increased by another 1.0 point to 73.4 points in March. It remained well above its 12-month average of 65.7 points. This large increase in input prices likely reflected higher prices for imported inputs due to a recently lower dollar.
- The wages sub-index increased by 1.3 points to 56.5 points in March. This level suggests that annual manufacturing wages growth is likely to remain contained in the 2015 March quarter following a 2.8% p.a. increase in Q4 2014 (according to ABS wage index data). The slow wage growth reflects ongoing declines in manufacturing employment (down 2.7% p.a. in the latest ABS data for February), as well as a rising national unemployment rate (6.3% in February) and low background inflation (1.7% p.a. in December 2014).
- Manufacturing selling prices were stable this month, with the sub-index increasing by 1.7 points to exactly 50.0 points. This stabilisation, after 12 months of contraction, indicates some easing of downward pricing pressures from import competition as the impacts of the lower dollar continue to flow through. The jump in input prices in the face of stable output prices does however, point to ongoing margin pressures for manufacturers.



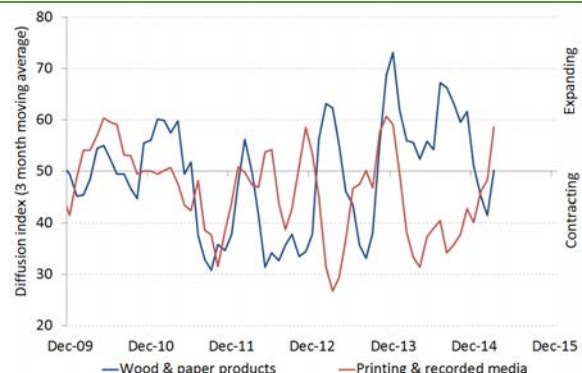
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector's** index declined marginally by 0.7 points to 59.4 points in March (three-month moving averages). This signalled a 10th month of continuous expansion in this sub-sector. This sub-sector is the single largest in manufacturing and has recorded the most consistent growth among manufacturers over the past two years. Local demand remains solid and export volumes are picking up, in line with the lower Australian dollar. A few respondents raised concerns this month about a potential supply shortage of breeding stock (e.g. cattle) over the next few years and its possible impact on the food manufacturing industry.
- The small but very diverse **textiles, clothing, footwear, furniture and other manufacturing sub-sector** contracted in March following four months of expansion. The sub-sector's index dropped by 7.3 points to 48.6 points this month (three-month moving averages). Feedback suggests weak consumer sentiment, economic uncertainties and the New South Wales election affected demand for Australian-made clothing, furniture and personal products in March.



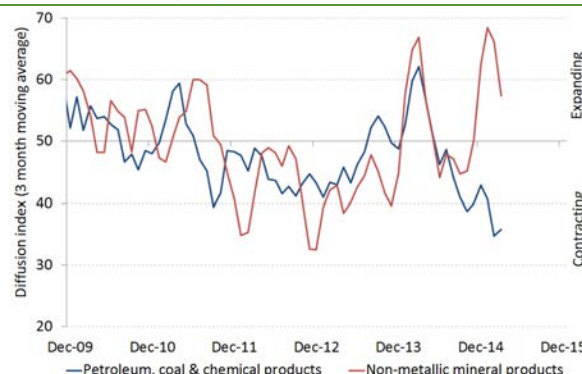
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- Conditions in the relatively small **wood and paper products sub-sector** stabilised in March following two months of contraction. The sub-sector's index rose by 8.6 points to 50.1 points (three-month moving averages). The increase in residential building activity over the past year and ongoing growth in food and beverages production appear to be supporting demand for wood-based building products and paper-based packaging products again in March 2015, just as it did for 15 consecutive months between October 2013 and December 2014.
- The very small **printing and recorded media sub-sector's** index rose by 10.3 points to 58.6 points in March (three-month moving averages). This signalled the first expansion in this sub-sector since December 2013, after 14 months of contraction. Performance in this sub-sector has been sporadic, with technology changes, soft business activity and ongoing intense import competition continuing to weigh heavily on sales for locally printed product and recorded media.



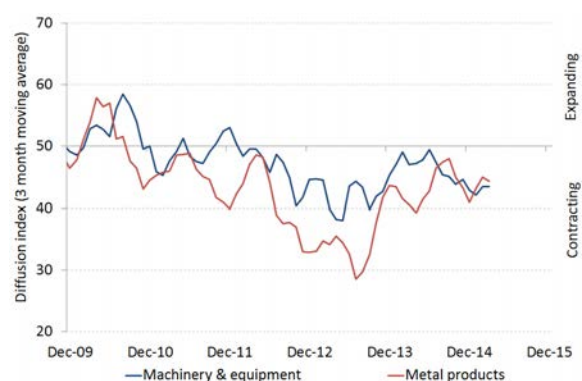
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector's** index increased by 1.1 points to 35.8 points in March (three-month moving averages). This signalled a 10th consecutive month of contraction (i.e. below 50 points). Although the lower Australian dollar has boosted export volumes somewhat, overseas demand, particular that from China, is reported to have slowed in recent months. Within Australia, the ongoing decline in local mining construction activity, the progressive closure of automotive assembly and soft general business conditions continue to dampen demand for Australian-made chemical inputs and components.
- The **non-metallic mineral products sub-sector** expanded for a fifth month in March, albeit at a slower pace. The sub-sector's index declined by 8.7 points to 57.4 points (three-month moving average). This sub-sector mainly produces building materials such as tiles, bricks, cement and glass. It is benefiting from the improvement in residential building activity, while a lower Australian dollar has improved export opportunities for a number of manufacturers.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products sub-sector's** index decreased by 0.7 points to 44.3 points in March (three-month moving averages). This sub-sector has been in contraction since September 2010.
- The index for the closely related **machinery and equipment sub-sector** remained at 43.5 points this month (three-month moving averages). This sub-sector includes automotive, other transport equipment, mining, agricultural, industrial and other specialist machinery. It has contracted in every month since February 2012 (three month moving averages).
- Respondents across the **metal products** and **machinery and equipment** sub-sectors cited an ongoing lack of demand in March. Despite the benefits of stronger residential building activity and a lower Australian dollar for new orders and sales, these positives are still being outweighed by the negative influence of declining resource construction activity, the progressive closure of Australian automotive assembly, and generally weak business investment. Federal and state policy uncertainties are also said to have affected or delayed equipment investment decisions.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	46.3	0.9	47.9	Exports	51.7	-2.2	50.7
Production	46.6	1.6	47.3	Sales	46.2	1.0	47.2
New Orders	45.9	1.7	48.4	Input Prices	73.4	1.0	65.7
Employment	47.1	1.2	47.1	Selling Prices (unadj.)	50.0	1.7	47.7
Inventories (stocks)	43.4	-3.6	46.7	Average Wages (unadj.)	56.5	1.3	56.7
Supplier Deliveries	47.6	0.7	49.4	Cap. Utilisation (%)(unadj.)	69.4	-1.4	71.4

- All sub-sector indexes in the **Australian PMI®** are reported as three-month moving averages (3mma), so as to better identify the trends in these volatile monthly data.

What is the Australian PMI®? The Australian Industry Group **Australian Performance of Manufacturing Index (Australian PMI®)** is a seasonally adjusted 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 is indicative of the strength of the expansion or decline. Survey results are based on a rotating sample of around 200 manufacturing companies each month. New monthly seasonal adjustment factors were applied in April 2013. New industry classifications applied from December 2012 (and back-dated to 2009) based on the ANZSIC 2006 coding system and ABS 2011-12 industry weights. For further economic analysis and information from the Australian Industry Group, visit <http://www.aiigroup.com.au/economics>. For further information on international PMI data, visit <http://www.markiteconomics.com> or <http://www.cipsa.com.au>.

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