

EXPORTS PUSH MANUFACTURING AHEAD IN MAY

Australian PMI®
 May 2015: 52.3 ↑

US Flash PMI
 May 2015: 53.8 ↓

Markit Eurozone PMI
 May 2015: 52.3 ↑

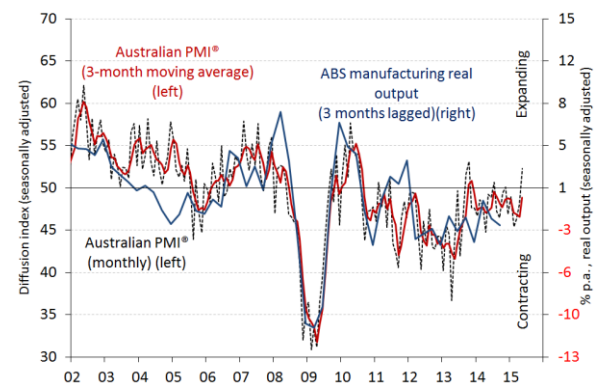
UK CIPS PMI
 Apr 2015: 51.9 ↓

Japan Flash PMI
 May 2015: 50.9 ↑

China Flash PMI
 May 2015: 49.1 ↑

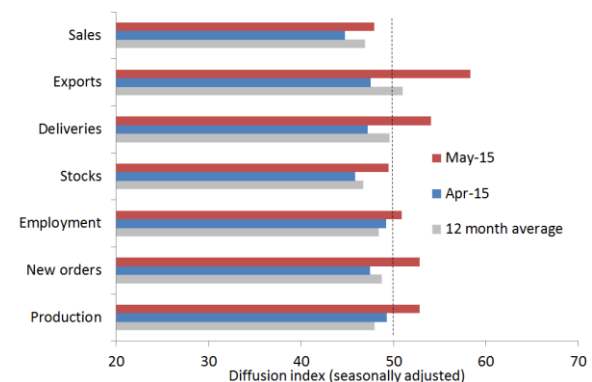
KEY FINDINGS

- Activity across the manufacturing industry expanded in May, boosted by a lift in manufacturing exports which have benefitted from the lower Australian dollar. This followed five months of contraction in manufacturing activity. The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) rose by 4.3 points to 52.3 points this month (readings above 50 points indicate expansion) (seasonally adjusted).
- The **Australian PMI®** typically 'leads' ABS data for manufacturing output by around 3 months. Recent results from the **Australian PMI®** suggest output in manufacturing (measured as 'value added' by the ABS) is likely to have been broadly steady so far in Q2 2015.
- Five of the seven activity sub-indexes in the **Australian PMI®** were above 50 points this month. Manufacturing exports expanded again in May after a brief contraction in April, mainly due to a resurgence in food and beverages exports this month. The benefits of the recently lower dollar also flowed through to other sectors, with the machinery and equipment sub-sector recording a fifth consecutive month of expansion in exports in May, despite an ongoing, pronounced contraction in overall activity levels in this sector.
- Manufacturing new orders expanded after five months of contraction while production also expanded after contracting for six months. However, manufacturing sales declined for a 12th month in May, signalling ongoing weakness in local demand. Supplier deliveries also expanded in May after three months of contraction while manufacturing stock levels almost stabilised. Manufacturing employment expanded very mildly after four months of decline.
- Five of the eight manufacturing sub-sectors in the **Australian PMI®** expanded (i.e. above 50 points) in May: food and beverages (for a 12th month); non-metallic mineral products (mainly building materials, for a seventh month); wood and paper and printing and recorded media (both for three months); and petroleum and chemical products expanded for the first time in a year.
- Manufacturing is benefiting from a lower Australian dollar, increased residential construction activity, and very low interest rates, but the rapid decline in mining construction, the progressive closure of automotive assembly, subdued local business investment in machinery and equipment, and an uncertain local outlook continue to weigh heavily on local demand.



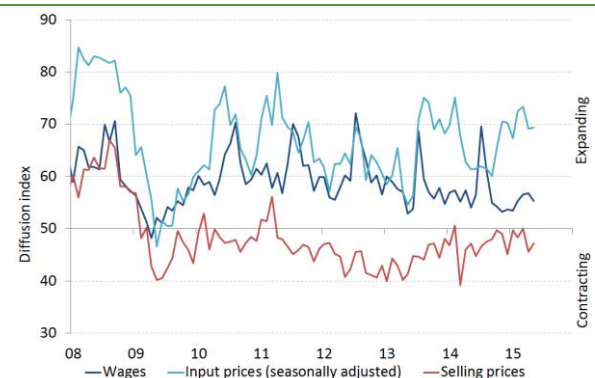
ACTIVITY SUB-INDEXES

- The new orders sub-index in the **Australian PMI®** increased by 5.4 points to 52.8 points in May. This signalled the first expansion after five months of contraction.
- The production sub-index (up 3.6 points to 52.9 points) also expanded in May after contracting for six months. However, manufacturing sales contracted for the 12th consecutive month, albeit at a slower pace, with the sales sub-index up 3.2 points to 47.9 points.
- Reflecting these improvements, supplier deliveries increased (up 6.9 points to 54.0 points) in May, following three months of cuts. Manufacturing stock levels almost stabilised this month, with the stock (or inventories) sub-index moving up by 3.6 points to 49.5 points.
- Manufacturing employment was broadly stable in May (up 1.7 points to 50.9 points) after four months of contraction.
- Manufacturing exports lifted by 10.9 points to 58.3 points in May after a brief contraction in April. This was its highest level since March 2008. Exports remain strongest in food and beverages. Machinery and equipment exports recorded a fifth month of expansion.
- Manufacturers' capacity utilisation rate rose by 2.5 percentage points, with an average of 72.3% of total capacity being utilised by manufacturers in May.



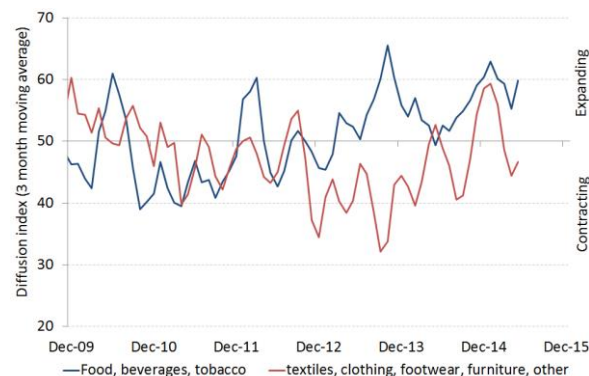
WAGES AND PRICES SUB-INDEXES

- The input prices sub-index of the **Australian PMI®** was almost unchanged in May, at 69.4 points (up 0.2 points). It remained elevated and above the 12-month average of 66.9 points, likely reflecting higher prices for imported inputs due to the recently lower dollar.
- The wages sub-index declined slightly this month by 1.5 points to 55.3 points in May. This suggests that annual manufacturing wages growth is likely to have remained contained so far in Q2. This followed a 2.6% p.a. increase in Q1 2015 (according to ABS wage index data). Slow wage growth reflects ongoing declines in manufacturing employment (down a further 2.7% p.a. in February according to the latest ABS data), as well as a relatively high national unemployment rate (6.2% in April) and low background inflation (1.3% p.a. in Q1 2015).
- Manufacturing selling prices contracted for a second month in May after a brief stabilisation in March. The sub-index recovered by 1.6 points to 47.2 points. The ongoing contraction in selling prices indicates fierce competition and ongoing margin pressures for manufacturers.



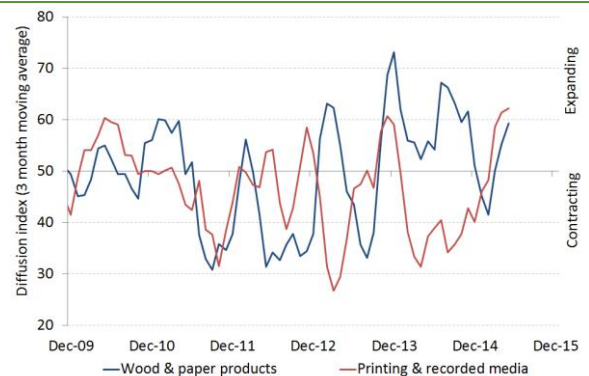
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector's** index increased by 4.6 points to 59.8 points in May (three-month moving averages), signalling a 12th month of expansion. Local demand for food and beverages has remained solid, while a recently lower Australian dollar has boosted export volumes. This sub-sector is the single largest in manufacturing. It has recorded the strongest and most consistent growth trend among manufacturers over the past two years.
- The small but very diverse **textiles, clothing, footwear, furniture and other manufacturing sub-sector** contracted for a third month in May after four months of expansion. The sub-sector's index increased by 2.2 points to 46.6 points this month (three-month moving averages). Despite the benefits from a lower Australian dollar and very low interest rates, ongoing economic uncertainties and fierce import competition continue to affect demand for Australian-made clothing, furniture and personal products. The tariff reductions for certain Textile, Clothing and Footwear (TCF) goods effective from 1 January 2015 (see [link](#)) and duty reductions for selected TCF items under the Japan-Australia Economic Partnership Agreement (JAPEPA) (see [link](#)) from 1 April 2015 are also encouraging further import competition in this sub-sector in 2015.



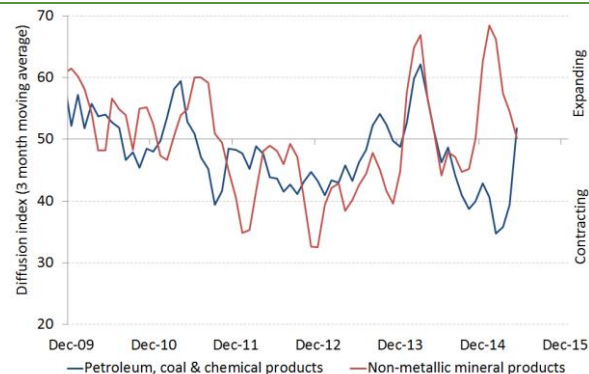
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- Activity in the relatively small **wood and paper products sub-sector** expanded for a third month in May. The sub-sector's index increased by another 4.0 points to 59.3 points (three-month moving averages). Ongoing strength in residential building activity and continued growth in food and beverages production appear to have been supporting demand for wood-based building products and paper-based packaging products over the past three months.
- The very small **printing and recorded media sub-sector** also expanded for a third month in May. The sub-sector index increased marginally by 0.7 points to 62.2 points (three-month moving averages). This sub-sector experienced 14 months of continuous contraction between December 2013 and February 2015. Despite the improvement in conditions over the past three months, rapid technology changes, soft business activity and ongoing intense import competition continue to affect demand for locally printed products and recorded media.



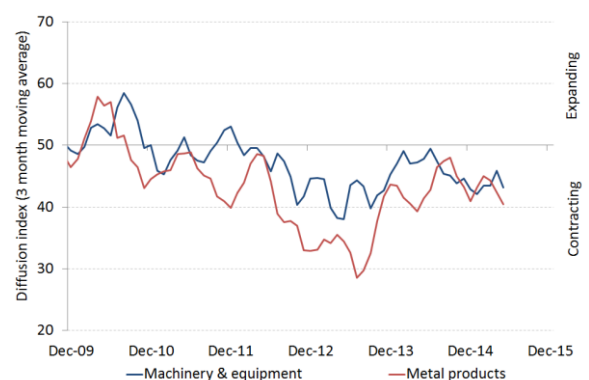
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector's** index increased for a third month, up by 12.4 points to 51.8 points in May (three-month moving averages). This signalled the first expansion (i.e. above 50 points) in this sub-sector in a year. A recently lower Australian dollar and strong residential building activity have assisted local sales and exports of Australian-made chemical inputs and components, but the progressive closure of automotive assembly, the ongoing decline in mining investment, and general weakness in business conditions continue to weigh heavily on this sub-sector.
- The **non-metallic mineral products sub-sector** expanded for a seventh month in May, albeit only mildly. The sub-sector's index decreased for a fourth month by 4.3 points to 50.2 points (three-month moving average). The improvement in residential building activity and a recently lower Australian dollar continue to benefit local demand and export opportunities for locally made building materials such as tiles, bricks, cement and glass.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products sub-sector's** index decreased by 2.0 points to 40.4 points in May (three-month moving averages). This sub-sector has contracted since September 2010. The index for the closely related **machinery and equipment sub-sector** also declined by 2.8 points to 43.2 points this month (three-month moving averages). This sub-sector has been in contraction since February 2012 (three month moving averages). The machinery and equipment sub-sector includes automotive, other transport equipment (trains, buses, boats etc.), mining equipment, agricultural, industrial and other specialist machinery.
- More positively, machinery and equipment exports expanded for the fifth consecutive month in May, likely benefitting from a recently lower Australian dollar.
- Despite the benefits of a lower Australian dollar, higher residential building activity, and very low interest rates, respondents across the **metal products** and **machinery and equipment** sub-sectors raised ongoing concerns about weak demand. Poor business investment, declining mining investment, and the progressive closure of Australian automotive assembly are still dragging on sales for locally made machinery and equipment. In addition, respondents raised concerns about the effects on import competition from the Japan-Australia Economic Partnership Agreement (JAPEPA), which provided duty reductions for a wide range of Japanese metal products and machinery and equipment imports, effective from 1 April 2015 (see [link](#)).



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	52.3	4.3	48.4	Exports	58.3	10.9	51.0
Production	52.9	3.6	48.0	Sales	47.9	3.2	46.9
New Orders	52.8	5.4	48.7	Input Prices	69.4	0.2	66.9
Employment	50.9	1.7	48.4	Selling Prices (unadj.)	47.2	1.6	47.6
Inventories (stocks)	49.5	3.6	46.7	Average Wages (unadj.)	55.3	-1.5	56.7
Supplier Deliveries	54.0	6.9	49.6	Cap. Utilisation (%)(unadj.)	72.3	2.5	71.6

* 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.aigroup.com.au/economics>. For further information on international PMI data, visit <http://www.markiteconomics.com> or <http://www.cipsa.com.au>. © The Australian Industry Group, 2015. This publication is copyright. Apart from any fair dealing for the purposes of private study or research permitted under applicable copyright legislation, no part may be reproduced by any process or means without the prior written permission of The Australian Industry Group. **Disclaimer:** The Australian Industry Group provides information services to its members and others, which include economic and industry policy and forecasting services. None of the information provided here is represented or implied to be legal, accounting, financial or investment advice and does not constitute financial product advice. The Australian Industry Group does not invite and does not expect any person to act or rely on any statement, opinion, representation or interference expressed or implied in this publication. All readers must make their own enquiries and obtain their own professional advice in relation to any issue or matter referred to herein before making any financial or other decision. The Australian Industry Group accepts no responsibility for any act or omission by any person relying in whole or in part upon the contents of this publication.