



**AUSTRALIAN  
INDUSTRY  
GROUP**

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**JANUARY 2014**

# MANUFACTURING SLIPS AGAIN IN JANUARY

**Australian PMI®**  
Jan 2014: 46.7 ↓

**USA Flash PMI**  
Jan 2014: 53.7 ↓

**Eurozone Flash PMI**  
Jan 2014: 53.9 ↑

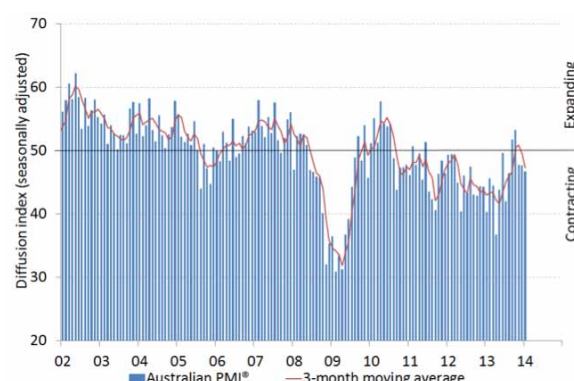
**UK CIPS PMI**  
Dec 2013: 57.3 ↓

**Japan JMMA PMI**  
Dec 2013: 55.2 ↑

**China Flash PMI**  
Jan 2014: 49.6 ↓

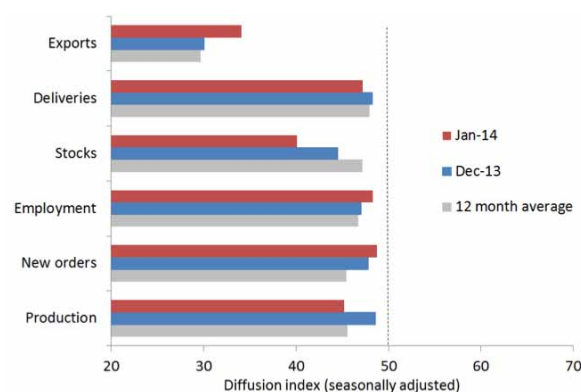
## KEY FINDINGS

- The latest Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) declined by 0.9 points in January, to 46.7 points (seasonally adjusted). The **Australian PMI®** has now contracted for a third consecutive month (readings below 50 points indicate contraction) and the index had expanded in only two months (immediately after the 2013 Federal election) since June 2011.
- All of the **Australian PMI®** sub-indexes remained below 50 points this month, indicating contraction. The pace of contraction was strongest for the stocks and production sub-indexes. The exports sub-index improved in January but remains very weak.
- Across the sub-sectors, the food and beverages manufacturing sub-sector expanded again in January, though at its slowest pace since July 2013 (three month moving averages). Meanwhile, the petroleum, coal, chemicals and rubber products sub-sector index expanded (readings above 50 points) after two months of contraction, and non-metallic mineral products expanded for the first time since September 2011. In contrast, metal products and machinery and equipment manufacturing continued to contract in January (in three month moving average terms).
- Comments from survey participants generally indicated that conditions remain fragile within local manufacturing, with many businesses pointing to an ongoing lack of demand, new orders or exports.



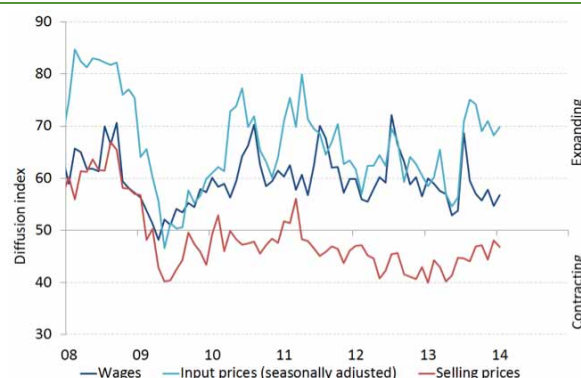
## ACTIVITY SUB-INDEXES

- The seasonally-adjusted production sub-index in the **Australian PMI®** fell by 3.4 points to 45.2 points in January, to be at its lowest level since June 2013 and slightly below its 12-month average (seasonally adjusted).
- New orders firmed marginally to 48.8 points, though it contracted for a third month after two months of mild expansion following the 2013 Federal election (above 50 points). Respondents again noted a lack of orders this month, though this was partly driven by seasonal factors.
- Supplier deliveries also contracted for three months in a row to January, after expanding in September and October 2013. This sub-index decreased by 1.1 points to 47.2 points in January.
- Inventories contracted at their fastest pace since January 2013, with this sub-index falling by 4.4 points to 40.1 points.
- The employment sub-index remained in mild contraction this month. Employment numbers (usually a lagging indicator of activity) have been in trend decline since November 2011 and only stabilised briefly in November 2013 (i.e. just above 50 points) before gently falling again.
- The exports sub-index firmed again in January (to 34.1 points) but it remains at extremely low levels. Comments from manufacturers indicate that a lower Australian dollar has started to benefit some manufacturing businesses but exports remain fragile.
- Manufacturers' capacity utilisation rate fell sharply to 70.4% of total capacity available, the lowest level of capacity utilisation in the sector since August 2013.



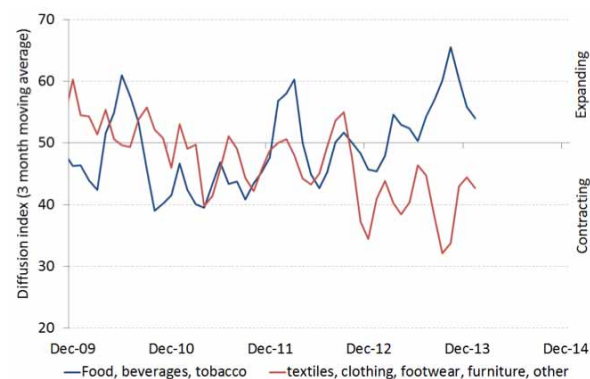
## WAGES AND PRICES SUB-INDEXES

- The latest cost and price sub-indexes show there remains a large gap between increasing wages and input costs and reducing selling prices. This gap has been a constant feature since early 2009 and indicates significant margin pressures across manufacturing.
- The selling prices index declined by 1.3 points in January to 46.8 points. Manufacturing selling prices have been contracting (i.e. below 50 points) since April 2011.
- Input prices continued to increase strongly this month. While wages growth also picked up pace in January, it remained below its recent seasonal peak in July 2013 (68.7 points) and the 12-month average of 57.6 points. Over the past few months this sub-index has suggested that wage growth slowed in the 2013 December quarter, as domestic employment growth remained subdued and the unemployment rate continued to edge higher, as was evident for example, in the ABS labour force data for December 2013.



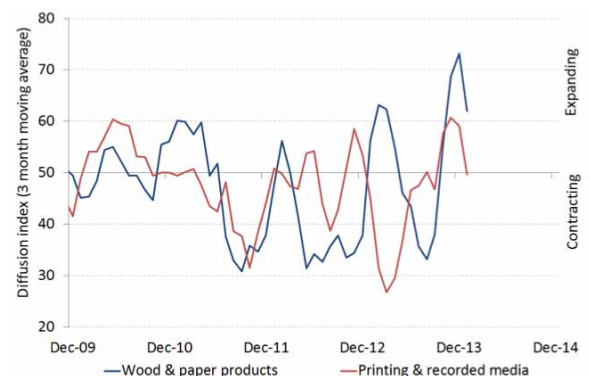
## FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER\*

- The **food, beverages and tobacco sub-sector** expanded again this month (i.e. readings above 50 points, three month moving averages), albeit at a slower pace. Conditions in this sub-sector appeared to have softened in January, even after taking account of the usual seasonal shut-downs, with a notable deterioration in production, supplier deliveries and stocks. In contrast, exports in this industry appeared to have improved this month, with the relevant sub-index moving into expansion (i.e. above 50 points) following two months of contraction.
- The **textiles, clothing, footwear, furniture and other manufacturing sub-sector** contracted again in January (down 1.7 points to 42.7 points, three month moving averages). Comments and sub-indices from businesses in this sub-sector suggest that weak local retail sales and heightened seasonal factors this year have weighed on domestic business production and orders. This sub-sector last showed a brief period of expansion in August and September 2012 (three month moving averages).



## WOOD & PAPER; PRINTING & RECORDED MEDIA\*

- The relatively small **wood and paper products sub-sector** expanded for a fourth month in January, though the index fell by 11.1 points to 61.9 points (three month moving averages). Comments from respondents indicate that demand for wood products associated with the building industry picked up, as housing construction activity starts to gather momentum across the country. This sub-sector is directly affected by changes in demand from other manufacturing sub-sectors including food and groceries (packaging), building products (building timbers) and furniture (wood products).
- Conditions deteriorated markedly in the small **printing and recorded media sub-sector**, with the index falling by 9.3 points to 49.7 points in January (three month moving average) after three months of expansion. Sub-indices suggest that new orders, supplier deliveries and stocks all softened in this industry this month as it continues to adjust to radical technological changes and faces increasing imports of printed products.



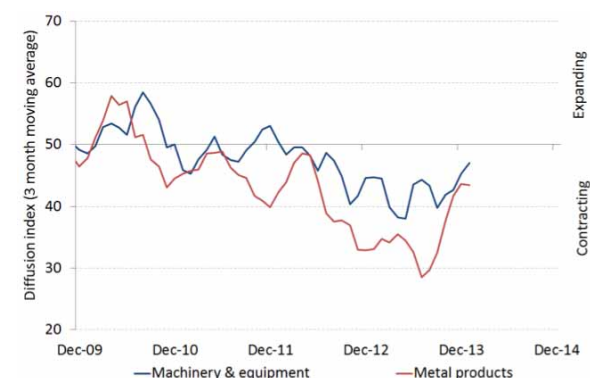
## PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS\*

- The **petroleum, coal, chemicals and rubber products sub-sector** expanded in January (52.7 points) after two months of contraction (readings below 50 points, three month moving averages). This sub-sector is affected by demand fluctuations across the economy as it makes a wide range of products, from basic petrochemicals and adhesives to pharmaceuticals and cosmetics.
- The **non-metallic mineral products sub-sector** index also moved above 50 points in January (57.6 points, three month moving average), the first expansion in this sub-sector since September 2011. Like the wood and paper products sub-sector (see above), the recent upturn in domestic residential and commercial building activity appears to be slowly flowing through to increased business activity for this sub-sector. In particular, sub-indices suggest that new orders have been growing (i.e. above 50 points) over the past three months. This industry produces key products such as bricks, glass, cement, and tiles that are used by residential and commercial construction.



## METAL PRODUCTS; MACHINERY & EQUIPMENT\*

- The index for the large **metal products sub-sector** remained broadly unchanged in January, at 43.4 points (three month moving averages), indicating ongoing contraction in the sub-sector. Conditions in metal products manufacturing have been tough since September 2010 (below 50 points), though the pace of decline has slowed over recent months.
- The index for the large **machinery and equipment sub-sector** improved to 47 points in January (three month moving averages), though it continued to indicate mild contraction. Sub-indices suggest that conditions are starting to stabilise in machinery and equipment manufacturing, with both new orders and employment edging towards the neutral 50-point mark (which marks the separation between expansion and contraction). However, production, supplier deliveries and inventories all contracted again in January for this sub-sector, while the exports sub-index remained weak (below 35 points). Respondents in this industry indicated that low business and consumer confidence continue to weigh on demand for their products.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
<b>Australian PMI®</b>	<b>46.7</b>	<b>-0.9</b>	<b>46.3</b>	<b>Exports</b>	<b>34.1</b>	<b>4.0</b>	<b>29.7</b>
<b>Production</b>	<b>45.2</b>	<b>-3.4</b>	<b>45.6</b>	<b>Input Prices</b>	<b>69.8</b>	<b>1.6</b>	<b>66.0</b>
<b>New Orders</b>	<b>48.8</b>	<b>1.0</b>	<b>45.4</b>	<b>Selling Prices (unadj.)</b>	<b>46.8</b>	<b>-1.3</b>	<b>44.7</b>
<b>Employment</b>	<b>48.3</b>	<b>1.3</b>	<b>46.7</b>	<b>Average Wages (unadj.)</b>	<b>56.9</b>	<b>2.1</b>	<b>57.6</b>
<b>Inventories (stocks)</b>	<b>40.1</b>	<b>-4.4</b>	<b>47.2</b>	<b>Capacity Utilisation (%)</b>	<b>70.4</b>	<b>-4.8</b>	<b>71.4</b>
<b>Supplier Deliveries</b>	<b>47.2</b>	<b>-1.1</b>	<b>47.9</b>	<b>(unadj.)</b>			

\* 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>.

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