



MEDIA CONTACT

Tony Melville
Australian Industry Group
Tel: 02 6233 0716

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MANUFACTURING CONTRACTION EASES IN FEB

Australian PMI®
Feb 2014: 48.6 ↑

USA Flash PMI
Feb 2014: 56.7 ↑

Eurozone Flash PMI
Feb 2014: 53.0 ↓

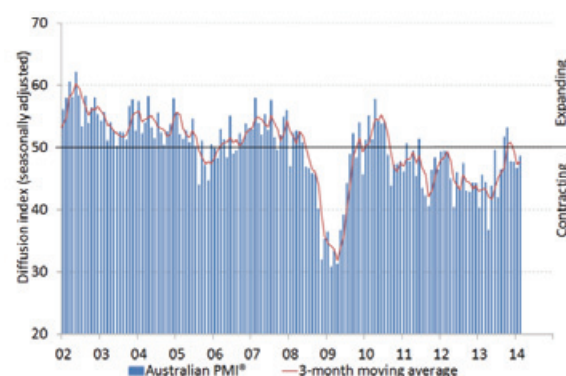
UK CIPS PMI
Jan 2014: 56.7 ↓

Japan JMTA PMI
Jan 2014: 56.6 ↑

China Flash PMI
Feb 2014: 48.3 ↓

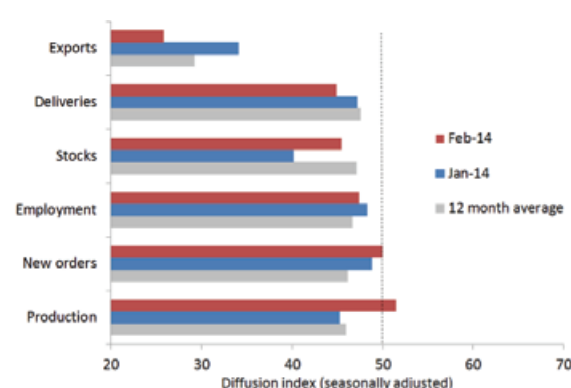
KEY FINDINGS

- The latest Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) firmed by 1.9 points in February, rising to 48.6 points (seasonally adjusted). The **Australian PMI®** has signalled contraction in the sector in each of the past four months (readings below 50 points indicate contraction), following a brief period of expansion in September and October 2013.
- This month the production sub-index of the **Australian PMI®** showed a strong improvement, increasing by 6.3 points to 51.5 points. The new orders sub-index also edged higher in February to reach 50.0 points, suggesting new orders were broadly stable in February. The sub-indices for employment, stocks and supplier deliveries however, continued to indicate contraction in the month with readings below 50 points. Export markets remain extremely tough for manufacturers, with the sub-index falling below 30 points again in February.
- Manufacturing selling prices stabilised at 50.3 points in February, with this sub-index moving (marginally) above 50 points for the first time in almost three years. Input prices continue to rise strongly however and margins remain under significant pressure.
- Across the sub-sectors, the food and beverages sub-sector has now been expanding (readings above 50 points) since March 2013 (three month moving averages). The petroleum, coal, chemicals and rubber products sub-sector index indicated growth for a second month. Both non-metallic minerals and wood and paper products expanded in February, in line with rising construction activity. In contrast, the large metal products and machinery and equipment manufacturing sub-sectors continued to contract in February (three month moving averages).
- Several respondents to the **Australian PMI®** said the Australian dollar is still too high to support their business. A number of respondents voiced their concerns for the broader manufacturing sector arising from Toyota's announcement in early February that it will cease Australian automotive production in 2017. Feedback from participants indicates that this announcement has already affected business confidence.



ACTIVITY SUB-INDEXES

- The production sub-index in the **Australian PMI®** jumped by 6.3 points to 51.5 points in February. This was its highest level since October 2013 and well above its 12-month average.
- New orders also increased marginally to 50.0 points, following three months of contraction (readings below 50 points). While lifting marginally in the month, new orders remain at low levels with feedback from respondents pointing to a general lack of growth in forward orders notwithstanding some bright spots.
- Supplier deliveries contracted for a fourth consecutive month in February. This sub-index decreased by 2.3 points to 44.9 points in February to be at its lowest level since May 2013.
- The stocks sub-index increased by 5.4 points to 45.5 points, but it is still suggesting contraction.
- The employment sub-index contracted again this month. The manufacturing employment sub-index (employment is usually a lagging indicator of activity) stabilised momentarily in November 2013 at 50.1 points but has otherwise been contracting since November 2011. This pattern is evident in the ABS data for manufacturing employment also.
- Export markets remain very tough, with the sub-index falling below 30 points again in February.
- Manufacturers' capacity utilisation rate picked up slightly to 71.8% of total capacity available.



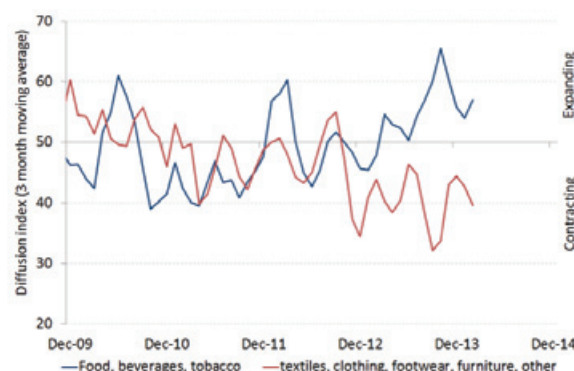
WAGES AND PRICES SUB-INDEXES

- Manufacturing selling prices stabilised (moving marginally above 50 points) for the first time in almost three years. Wages and input costs continue to rise strongly however, suggesting businesses remain under significant margin pressure.
- The selling prices index increased by 3.8 points in February to 50.6 points, signalling the first increase in manufacturing selling prices since March 2011.
- The input prices index rose sharply this month to its highest level since August 2013 (up 5.3 points to 75.1 points). Feedback from respondents suggests higher prices for raw materials (partly due to higher import costs flowing from the earlier fall in the Australian dollar) and transport.
- The wages sub-index increased marginally by 0.5 points to 57.4 points. This sub-index suggests that wage growth remains relatively contained, as the domestic labour market continues to soften (zero employment growth over the year to January 2014 and a 6.0% unemployment rate). This follows the lowest private sector wage growth since 1997-98 of only 2.5% p.a. in December 2013.



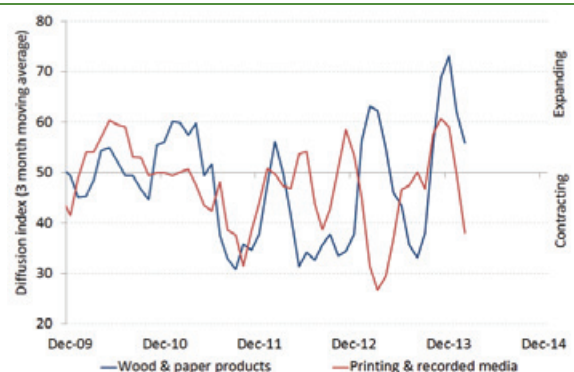
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector** continued to expand this month (above 50 points, three month moving averages), increasing by 3.0 points to 57.1 points in February. This sub-index has been indicating expansion since March 2013. Sub-indexes suggest that local new orders have been expanding in this industry over the past 10 months, roughly since the Australian dollar dropped below parity last April. Comments from respondents suggest problems in the supply chain (e.g. availability of fruit and livestock due to drought) may have detracted from business conditions this month.
- The **textiles, clothing, footwear, furniture and other manufacturing sub-sector** contracted at a faster pace in February. The index for this sub-sector fell by 3.1 points to 39.6 points (three month moving averages). Comments from businesses suggest that conditions remain very difficult in this sub-sector, reflecting difficult trading conditions for local non-food retailers. The ABS for example, reported that nominal retail sales for clothing, footwear and personal accessories declined by 2.1% month on month in December 2013 (seasonally adjusted).



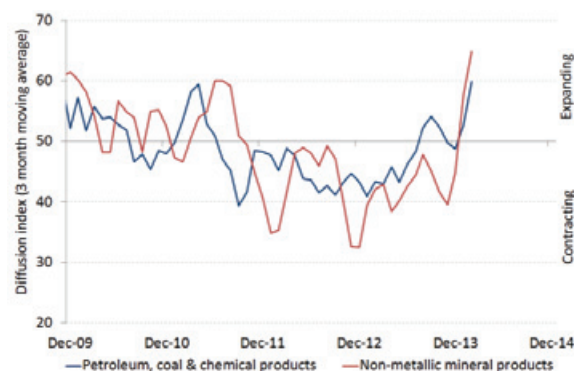
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products sub-sector** expanded for a fifth month in February, although the pace of expansion slowed again with the index falling by 6.0 points to 55.9 points (three month moving averages). Comments from respondents indicate that while demand for timber has increased as building activity picks up, there have been stronger input cost rises over the past month, particularly for raw materials.
- Conditions deteriorated sharply in the small **printing and recorded media sub-sector**, with the index falling by 11.5 points to just 38.2 points in February (three month moving average). This signals a severe contraction in the industry, following a short-lived expansion between October and December 2013. This sub-sector continues to face increasing competition from imported printed products, as well as radical technological changes.



PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector** expanded (above 50 points) for a second month in February (up 7.2 points to 59.9 points, three month moving averages). Sub-indexes suggest that production, new orders, supplier deliveries and employment all expanded more strongly in this industry this month. This sub-sector is affected by demand fluctuations across the economy as it includes a wide range of products, from basic petrochemicals and adhesives to pharmaceuticals and cosmetics.
- The **non-metallic mineral products sub-sector** index also moved up sharply in February, rising by 7.3 points to 64.8 points (three month moving average), its highest level since the GFC in 2008. This industry has now expanded for two consecutive months, as the recent upturn in domestic building activity starts to flow into increased demand and activity for this sub-sector. Sub-indexes suggest that new orders have been growing over the past four months in this industry (above 50 points), although the employment sub-index remains below 50 points (suggesting employment contraction). This sub-industry produces key products used by residential and commercial construction such as bricks, glass, cement and tiles.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The index for the large **metal products sub-sector** declined by 1.9 points in February, to 41.5 points (three month moving averages). This sub-sector has been contracting since September 2010 (below 50 points). The upcoming closure of Alcoa's Point Henry smelter and rolling mill (as announced on 18 February 2014) is indicative of the challenging conditions faced by the metal production sub-sector in recent years. There are few signs in the sub-indexes to suggest conditions in metal products manufacturing will improve anytime soon. Participants indicated that GM Holden and Toyota's decision to exit domestic automotive production by 2017 may already be negatively affecting forward orders for a few businesses in automotive supply chains.
- The index for the large **machinery and equipment sub-sector** edged higher in February, increasing by 2.0 points to 49.1 points (three month moving averages). This was the highest reading for this sub-sector since April 2012. However, all the sub-indexes indicate ongoing mild contraction in machinery and equipment manufacturing, with none moving above 50 points in the month.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	48.6	1.9	46.5	Exports	25.8	-8.3	29.2
Production	51.5	6.3	46.0	Input Prices	75.1	5.3	67.2
New Orders	50.0	1.2	46.1	Selling Prices (unadj.)	50.6	3.8	45.2
Employment	47.4	-0.9	46.7	Average Wages (unadj.)	57.4	0.5	57.4
Inventories (stocks)	45.5	5.4	47.1	Capacity Utilisation (%)	71.8	1.5	71.3
Supplier Deliveries	44.9	-2.3	47.6	(unadj.)			

* 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, 2013. 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.