



SHARP FALL IN MANUFACTURING ACTIVITY IN APRIL

Australian PMI®
Apr 2014: 44.8 ↓

USA Flash PMI
Apr 2014: 55.4 ↓

Eurozone Flash PMI
Apr 2014: 53.3 ↑

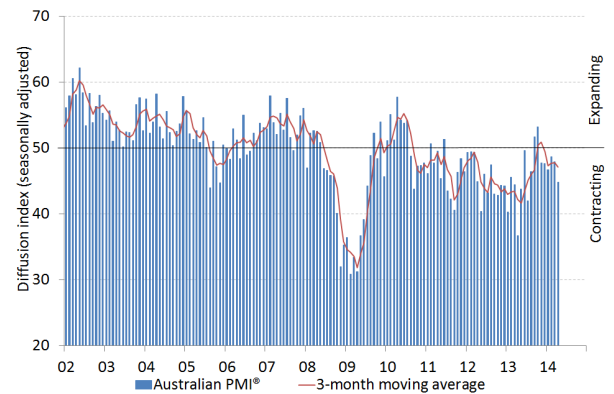
UK CIPS PMI
Mar 2014: 55.3 ↓

Japan JMTA PMI
Mar 2014: 53.9 ↓

China Flash PMI
Apr 2014: 48.3 ↑

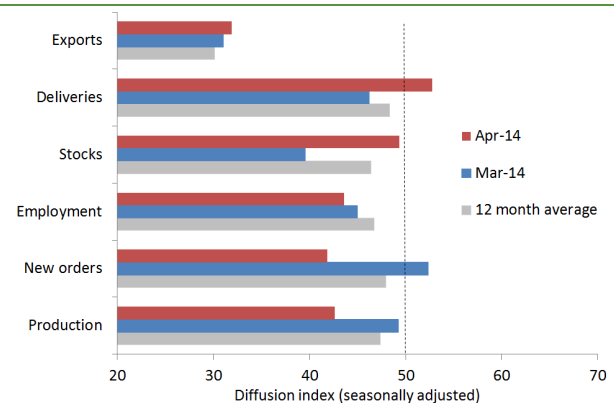
KEY FINDINGS

- The latest Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) fell sharply in April, dropping by 3.1 points to 44.8 points (seasonally adjusted). This signalled the fastest pace of contraction in the manufacturing industry since July 2013 (readings below 50 points indicate contraction).
- This month the production sub-index of the **Australian PMI®** fell by 6.6 points to 42.6 points while the new orders sub-index dropped by 10.5 points to 41.8 points, following an expansion in new orders in March. Reflecting these difficult trading conditions, manufacturing employment contracted at a faster pace in April (down 1.4 points to 43.6 points). Conditions remain extremely difficult in the manufacturing export markets, with the exports sub-index remaining around 30 points this month. On the other hand, the stocks sub-index improved to 49.3 points this month, edging close to stabilisation. The supplier deliveries sub-index also increased, reaching its first expansion since October 2013.
- Manufacturing selling prices fell at a slower pace in April, with this sub-index rising by 6.9 points to 46.1 points. Manufacturers' margins remain under significant pressure, even though wage growth remains relatively constrained and growth in input costs also slowed.
- Across the manufacturing sub-sectors, four expanded and four contracted in April. The very large food and beverages sub-sector expanded again this month (up 1.8 points to 55.2 points, three month moving average). The petroleum, coal, chemicals and rubber products (56.8 points), non-metallic minerals (58.5 points), and smaller wood and paper products (51.7 points) sub-sectors all expanded too, although their pace of expansion slowed notably this month. The large metal products and machinery and equipment sub-sectors contracted again in April (three month moving averages), with the metal products sub-sector indicating a continuous period of decline since September 2010.
- Respondents to the **Australian PMI®** widely cited a lack of new orders and activity in the manufacturing industry this month, even after allowing for the usual run of seasonal holidays in April. Many also pointed towards renewed strength in the Australian dollar, which has reportedly intensified import competition and dampened demand for locally made products.



ACTIVITY SUB-INDEXES

- The production sub-index in the **Australian PMI®** fell by 6.6 points to 42.6 points this month, the lowest level since April 2013.
- New orders also dropped by 10.5 points to just 41.8 points in April, indicating the sharpest contraction in new orders in the past 13 months. This followed a brief expansion in new orders in March. Reflecting these difficult conditions, manufacturing employment contracted at a faster pace, with the sub-index decreasing by 1.4 points to 43.6 points this month. Conditions remain extremely difficult for domestic manufacturing exporters, with the sub-index remaining just above 30 points in April.
- Supplier deliveries picked up by 6.6 points to 52.8 points in April, signalling the first expansion since October 2013. However, manufacturers continued to run down their inventories this month despite the stocks sub-index recovered by 9.8 points to 49.3 points.
- Manufacturers' capacity utilisation rates declined to an average of 69.8% of total capacity available.



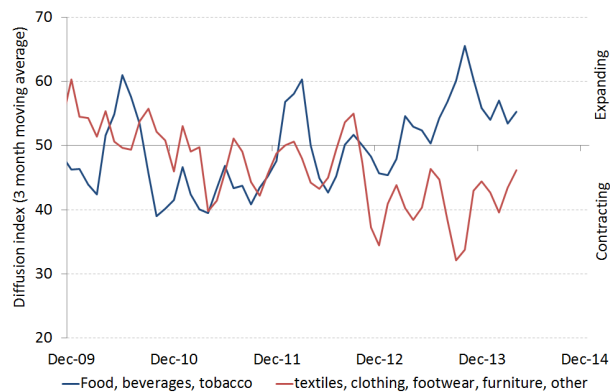
WAGES AND PRICES SUB-INDEXES

- Manufacturing selling prices fell again in April, albeit at a slower pace than last month, with the sub-index increasing by 6.9 points to 46.1 points. The decline in selling prices was particularly obvious in the metal products, machinery and equipment, and textiles, clothing and other manufacturing sub-sectors.
- The input prices index declined again this month, dropping by 4.9 points to 62.8 points. This represented the smallest input cost increase for domestic manufacturers since June 2013.
- The wages sub-index picked up by 2.2 points to 57.4 points. Nevertheless, this sub-index suggests that wage growth remains relatively contained this month.
- Businesses remain under significant margin pressure this month, despite more constrained wage and input cost increases, as selling prices continued to decline.



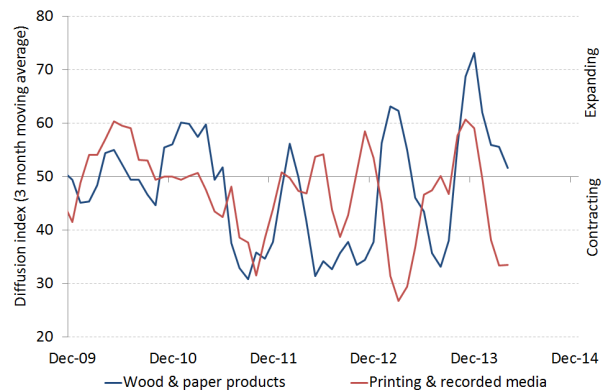
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector** continued to expand this month (above 50 points, three month moving averages), with the relevant index increasing by 1.8 points to 55.2 points. This sub-sector has now expanded for 14 months. The sub-indexes suggest that conditions remained generally solid in this industry over the past month.
- The **textiles, clothing, footwear, furniture and other manufacturing sub-sector** contracted again in April, although the index for this sub-sector increased by 2.7 points to 46.1 points, to reach its highest reading since June 2013 (three month moving averages). Nonetheless, this industry has been in continuous contraction over the past 19 months. Feedback indicates an ongoing lack of new orders from local customers in this sub-sector.



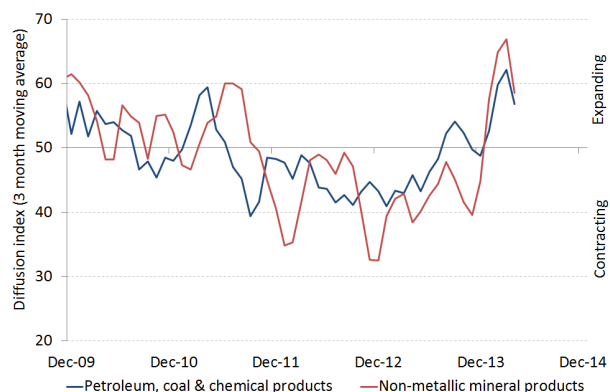
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The index for the relatively small **wood and paper products sub-sector** declined by 3.9 points to 51.7 points in April (three month moving averages). This reading still points towards a mild expansion in this sub-sector, which has been growing since October 2013. 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). This sub-sector may be benefiting from strengthening construction activity.
- Conditions remain extremely challenging in the very small **printing and recorded media sub-sector**, with this sub-sector's index almost unchanged, at 33.5 points in April (three month moving averages). Radical technological changes and strong import competition continue to significantly affect this industry, which has now contracted for four months.



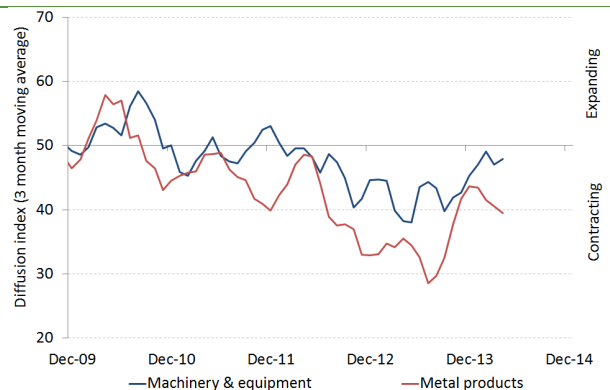
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector** expanded (above 50 points) for a fourth straight month in April, although its pace of expansion slowed notably, with the sub-sector index falling by 5.3 points to 56.8 points (three month moving averages). Sub-indexes suggest that both production and new orders contracted this month. Comments suggest that import competition has increased following the recent appreciation of the Australian dollar. This sub-sector is affected by demand fluctuations across the economy as it includes a wide range of products, from basic petrochemicals and compounds to advanced adhesives, pharmaceuticals and cosmetics.
- The **non-metallic mineral products sub-sector** also expanded for a fourth consecutive month in April. However, the sub-sector index dropped by 8.4 points to 58.5 points, indicating a slower pace of expansion (three month moving average). This sub-sector mainly produces building materials (e.g. tiles, bricks, cement and glass). Demand is picking up in line with stronger local building activity, but this sub-sector is also seeing increasing rates of import penetration and direct import competition. Respondents expressed concerns about the high level of the Australian dollar and rising import competition over recent months.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The very large **metal products sub-sector's** index declined further in April, decreasing by 1 point to 39.5 points (three month moving averages), signalling a more severe pace of contraction. This sub-sector has been contracting (i.e. readings below 50 points) since September 2010 and is showing clear signs of worsening weakness at present, with all sub-indexes remaining significantly below 50 points this month. Respondents in the metal products sub-sector widely cited a lack of new orders and a general decline in sub-sector activity. The recent appreciation of the Australian dollar has reportedly intensified import competition again and dampened demand for locally made products.
- The index for the large **machinery and equipment sub-sector** recovered slightly this month, increasing by 0.9 points to 47.9 points. This very important manufacturing sub-sector has been in contraction since February 2012 (three month moving averages). Although feedback indicates conditions have improved for a number of businesses in this sub-sector, many others reported weak levels of new orders and heavier import competition this 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®	44.8	-3.1	47.5	Exports	31.9	30.1
Production	42.6	-6.6	47.4	Input Prices	62.8	67.9
New Orders	41.8	-10.5	48.0	Selling Prices (unadj.)	46.1	45.4
Employment	43.6	-1.4	46.8	Average Wages (unadj.)	57.4	57.3
Inventories (stocks)	49.3	9.8	46.4	Capacity Utilisation (%) (unadj.)	69.8	71.4
Supplier Deliveries	52.8	6.6	48.4			

* 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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