PERFORMANCE OF MANUFACTURING INDEX®

AUSTRALIAN PMI

AUSTRALIAN INDUSTRY GROUP

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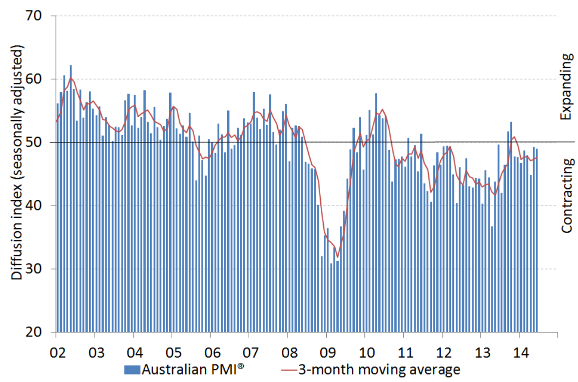
MANUFACTURING CONTRACTS AGAIN IN JUNE

Australian PMI®	USA Flash PMI	Eurozone Flash PMI	UK CIPS PMI	Japan Flash PMI	China Flash PMI
Jun 2014: **48.9** ↓	Jun 2014: **57.5** ↑	Jun 2014: **51.9** ↓	May 2014: **57.0** ↓	Jun 2014: **51.1** ↑	Jun 2014: **50.8** ↑

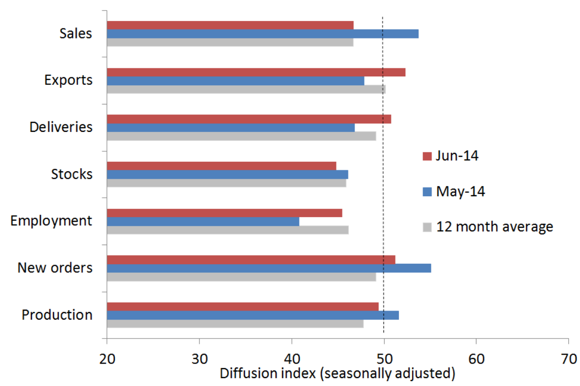
KEY FINDINGS

- The latest Australian Industry Group Australian Performance of Manufacturing Index **(Australian PMI®)** remained in contraction for an eighth consecutive month in June. It moved down very slightly, by 0.3 points, to 48.9 points (seasonally adjusted). Readings below 50 points in the **Australian PMI®** indicate contraction. The three-month-moving-average **Australian PMI®** was broadly unchanged in June, at 47.6 points, indicating mild contraction.
- This month, many respondents to the **Australian PMI®** cited concerns about the renewed strength of the Australian dollar, which has increased import competition and lowered demand for locally made products. This has most strongly affected businesses in the metal products, machinery and equipment, and petroleum, coal, chemicals and rubber products sub-sectors. Although the Australian dollar is currently lower than the levels seen between 2011 and 2012, it has appreciated by around 8.5% since February this year and is sitting around US$0.94.
- Across the eight manufacturing sub-sectors in the **Australian PMI®**, only the large food and beverages (52.5 points) and the smaller wood and paper products (54.2 points) sub-sectors expanded in June. The metal products, machinery and equipment, and petroleum, coal, chemicals and rubber products sub-sectors all contracted this month (i.e. below 50 points).
- Both the production and sales sub-indexes declined into contraction June, following a brief expansion in May. Manufacturing employment contracted at a slower pace in June. More positively for the outlook, the new orders sub-index of the **Australian PMI®** stayed above 50 points this month (i.e. expansion). Conditions improved for manufacturing exports in June, despite the high dollar, but this month's expansion in exports was limited to the food, beverages and tobacco sub-sector and a handful of businesses in other sub-sectors.



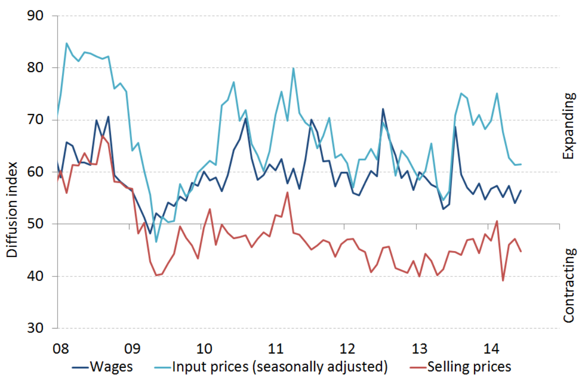
ACTIVITY SUB-INDEXES

- The production sub-index in the **Australian PMI®** declined 2.2 points to 49.4 points in June, suggesting mild contraction. This followed a brief expansion in production (51.6 points) in May.
- New orders in the **Australian PMI®** expanded again in June, albeit at a weaker rate, with the sub-index declining by 3.9 points to 51.2 points.
- The sales sub-index declined by 7.0 points to 46.7 points in June. This large fall came after the sales sub-index hit its first expansionary reading (53.7 points) since October 2013 in May.
- The employment sub-index increased by 4.6 points to 45.5 points in June, signalling a more moderate contraction in manufacturing employment than in May. The ABS estimates that manufacturing employment declined by 28,300 (-3% q/q) in the three months to May, taking total Australian employment in manufacturing to 921,500 people (8% of all employment).
- The supplier deliveries sub-index moved up by 3.9 points to 50.8 points in June (indicating broadly stable delivery levels), following a contraction in May.
- Manufacturers continued to run down their inventories in June, and at a faster pace, with the stocks (or inventories) sub-index decreasing by 1.3 points to 44.8 points.
- Manufacturers' capacity utilisation rate improved slightly this month, with an average of 71.2% of total capacity being utilised across the manufacturing sector in June.
- Manufacturing exports lifted in June, with the exports sub-index increasing by 4.5 points to 52.3 points (i.e. expansion). However, this improvement was evident only for the food, beverages and tobacco sub-sector and for a handful of businesses in other sub-sectors.



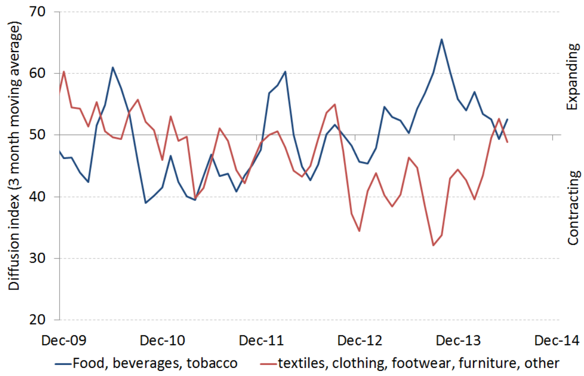
WAGES AND PRICES SUB-INDEXES

- Manufacturing selling prices were weaker in June, with the sub-index decreasing by 2.3 points to 44.8 points.
- The input prices sub-index was unchanged this month, at 61.4 points.
- The wages sub-index increased by 2.4 points to 56.5 points, suggesting that wages growth remains relatively constrained in June. This restraint in wages growth reflects the weakness in the national labour market with ABS data indicating employment growth of only 0.9% p.a. and an unemployment rate of 5.8% in May.
- The ongoing decline in selling prices means that businesses' margins remain under pressure in June, despite this moderation in wages growth and input cost increases.



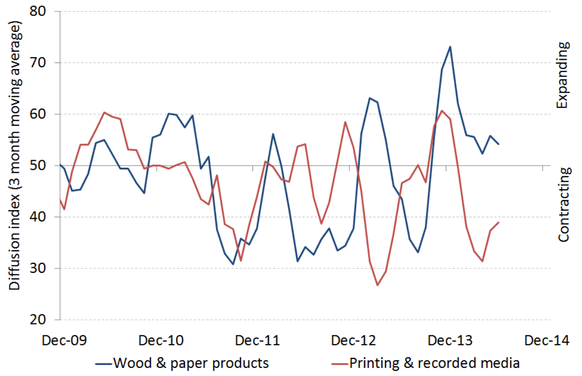
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector** returned to expansion (above 50 points) this month following a brief contraction in May. The sub-sector's index increased by 3.2 points to 52.5 points in June (three month moving averages), although the detailed sub-indexes suggest production remains in contraction this month in this sub-sector (i.e. below 50 points). Food, beverages and tobacco is the single largest manufacturing sub-sector (around 20% of national manufacturing output and employment) and it has had the best growth profile in the **Australian PMI®** over the past two years. The sustained growth of this sub-sector is crucial to the future health of the total manufacturing sector.
- The small **textiles, clothing, footwear, furniture and other manufacturing sub-sector** contracted this month (i.e. below 50 points) after a brief indication of expansion in May. The index for this sub-sector decreased by 3.7 points to 48.9 points in June (three month moving averages). Feedback suggests that heavier import competition associated with the higher Australian dollar is dampening demand for locally made products again. A number of businesses said they are struggling to break even, with reports that more businesses are ceasing production, moving their production facilities offshore, and/or becoming importers/wholesalers.



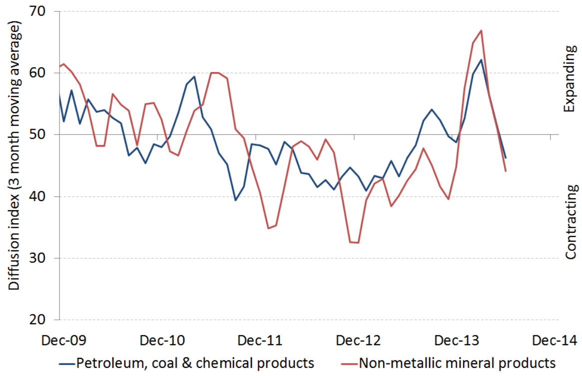
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The index for the relatively small **wood and paper products sub-sector** decreased by 1.6 points to 54.2 points in June (three month moving averages). This sub-sector has now expanded for nine consecutive months (three month moving averages). All major sub-indexes remain above 50 points this month for this sub-sector. The recent pick-up in residential construction activity appears to be flowing through to increased demand for wood products and particularly wood-based building products. This sub-sector is also directly affected by changes in conditions in other manufacturing sub-sectors including food and groceries (packaging) and furniture (wood products). It may be benefiting for example, from the mild expansion in food and beverages production.
- The very small **printing and recorded media sub-sector** continued to struggle this month. This sub-sector's index improved by 1.6 points, but remains at the very weak level of 38.9 points in June (three month moving averages). This sector has been in serious contraction since February 2014. Radical technology changes and strong import competition remain the key challenges for this industry, with feedback indicating that more printing businesses are scaling back their local production or have exited the industry altogether.



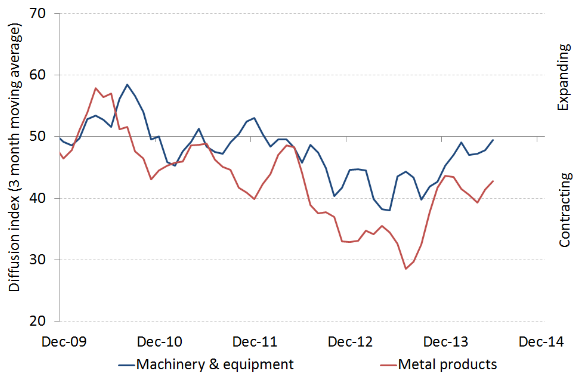
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- This month, the **petroleum, coal, chemicals and rubber products sub-sector** contracted for the first time since December 2013 (below 50 points). The sub-sector index dropped by 4.9 points to 46.3 points in June (three month moving averages). Survey participants indicated that the recent appreciation of the Australian dollar has increased import competition and weakened their export volumes. 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** contracted in June following five months of solid expansion. The sub-sector index decreased by 6.8 points to 44.2 points (three month moving average). This sub-sector mainly produces building materials (e.g. tiles, bricks, cement and glass). Despite the benefits of stronger local building activity, the renewed strength in the Australian dollar is nominated as the main concern for this industry at present.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The very large **metal products sub-sector's** index moved up by 1.4 points, to 42.8 points in June (three month moving averages). Although it improved, this index still indicates a worrying pace of contraction in this sub-sector, which has been contracting (i.e. readings below 50 points) since September 2010. All of this sub-sector's major sub-indexes stayed below 50 points this month. Respondents continued to report a lack of new orders across the metal products sub-sector in June. Furthermore, import competition has intensified noticeably following the appreciation of the Australian dollar in recent months.
- The index for the large **machinery and equipment sub-sector** also increased this month, moving up by 1.6 points to 49.5 points (three month moving averages). This very important manufacturing sub-sector has been in contraction since February 2012. Although it is moving closer to stabilisation (i.e. 50 points), the recent appreciation of Australian dollar is dampening demand for locally made machinery and equipment, so further contraction seems likely.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	**48.9**	**-0.3**	**47.9**	**Exports**	52.3	+4.5	50.1
Production	49.4	-2.2	47.8	**Sales**	46.7	-7.0	46.7
New Orders	51.2	-3.9	49.2	**Input Prices**	61.4	0.0	68.9
Employment	45.5	+4.6	46.2	**Selling Prices (unadj.)**	44.8	-2.3	45.9
Inventories (stocks)	44.8	-1.3	45.9	**Average Wages (unadj.)**	56.5	+2.4	57.6
Supplier Deliveries	50.8	3.9	49.1	**Cap. Utilisation (%)(unadj.)**	71.2	+1.2	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.**