AUSTRALIAN pmi
PERFORMANCE OF MANUFACTURING INDEX®

AUSTRALIAN INDUSTRY GROUP

MEDIA CONTACT
Tony Melville
Australian Industry Group
Tel: 0419 190 347

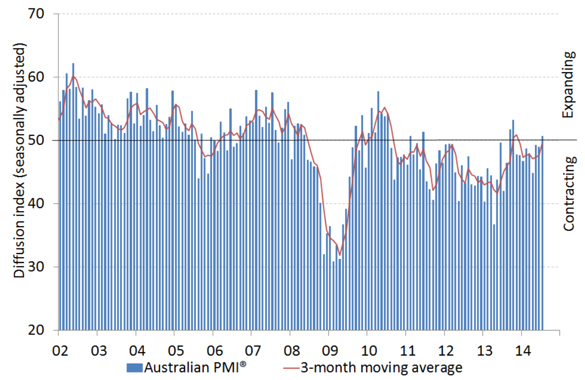
JULY 2014

MANUFACTURING SECTOR EXPANDS SLIGHTLY IN JULY

Australian PMI®	USA Flash PMI	Eurozone Flash PMI	UK CIPS PMI	Japan Flash PMI	China Flash PMI
Jul 2014: **50.7** ↑	Jul 2014: **56.3** ↓	Jul 2014: **51.9** ↑	Jun 2014: **57.5** ↑	Jul 2014: **50.8** ↓	Jul 2014: **52.0** ↑

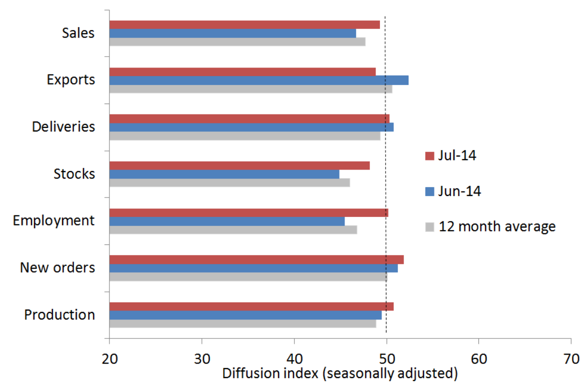
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index **(Australian PMI®)** moved into positive territory this month, following eight months of contraction between November 2013 and June 2014. The index increased by 1.7 points, to 50.7 points (seasonally adjusted), indicating broadly stable conditions across the manufacturing sector. The three-month-moving-average also edged higher in July, to 49.6 points, indicating very mild contraction.
- Many respondents to the **Australian PMI®** expressed renewed concern about the stronger Australian dollar, which has increased import competition and lowered demand and selling prices for locally made products again this month. Meanwhile, wages and input costs continued to grow, placing extra pressure on manufacturing businesses' margins.
- Across the eight manufacturing sub-sectors in the **Australian PMI®**, only the large food and beverages (51.7 points) and the smaller wood and paper products (67.2 points) sub-sectors expanded in July. The metal products, machinery and equipment, and petroleum, coal, chemicals and rubber products sub-sectors continued to contract (i.e. below 50 points).
- Four of the five activity sub-indexes were above 50 points in July, but they were only pointing towards a stabilisation or very mild expansion in conditions at best. Both the stocks and sales sub-indexes remained in contraction this month (i.e. below 50 points). More positively for the outlook, the new orders sub-index of the **Australian PMI®** stayed above 50 points (i.e. expansion) for the third month in July. Conditions deteriorated for manufacturing exports, reflecting the ongoing strength in the Australian dollar, which currently sits at around US$0.94.



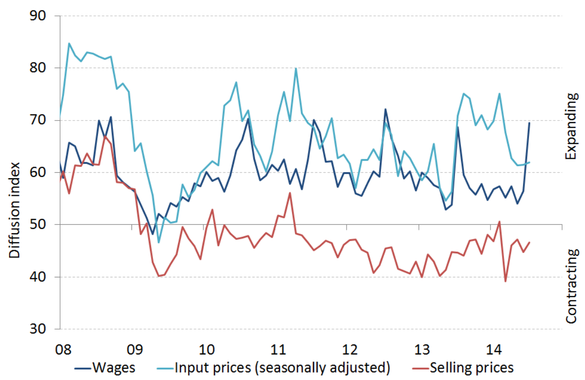
ACTIVITY SUB-INDEXES

- The production sub-index in the **Australian PMI®** increased 1.3 points to 50.8 points in July, suggesting a mild expansion. This followed a contraction in production (49.4 points) in June.
- New orders in the **Australian PMI®** expanded for the third month in July, with the sub-index moving up by 0.7 points to 51.9 points and indicating a stronger pipeline of new work.
- The sales sub-index continued to indicate contraction, albeit at a decelerating rate. This sub-index increased by 2.6 points to 49.3 points in July.
- The employment sub-index increased by 4.7 points to 50.2 points, signalling a stabilisation in manufacturing employment this month. This followed seven months of contraction in manufacturing employment between December 2013 and June 2014.
- The supplier deliveries sub-index declined by 0.4 points to 50.3 points in July. It has indicated broadly stable delivery levels over the past two months.
- Manufacturers continued to run down their inventories this month, albeit at a slower pace, with the stocks (or inventories) sub-index increasing by 3.3 points to 48.2 points.
- Manufacturers' capacity utilisation rate deteriorated slightly this month, with an average of 70.3% of total capacity being utilised across the manufacturing sector in July.
- Manufacturing exports contracted in July, with the exports sub-index decreasing by 3.5 points to 48.8 points, as the continued strength in the dollar dampened export sales.



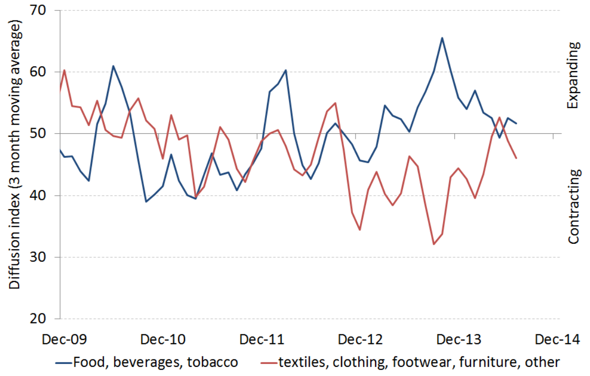
WAGES AND PRICES SUB-INDEXES

- Manufacturing selling prices remained soft in July, with the sub-index increasing by 1.8 points to 46.6 points. This indicates ongoing decline in selling prices and means that businesses' margins remain under pressure this month, as wage and input costs continue to grow.
- The input prices sub-index increased slightly this month to 61.9 points. The large increase in gas prices in New South Wales from 1 July was not immediately evident this month, but it may flow through to higher gas contract prices and to prices for other intermediate inputs for the manufacturing industry over the coming months.
- The wages sub-index rose by 13.1 points to 69.6 points this month, reflecting the 3% increase in the national minimum and award wage rates, as well as the increase in the Superannuation Guarantee rate to 9.5% that took effect from 1 July. Inflation has also accelerated recently, but the weakness in the national labour market may help to contain any further acceleration in private wage growth. This is reflected in the latest ABS data, showing employment growth of only 0.9% p.a. and an unemployment rate of 6.0% in June.



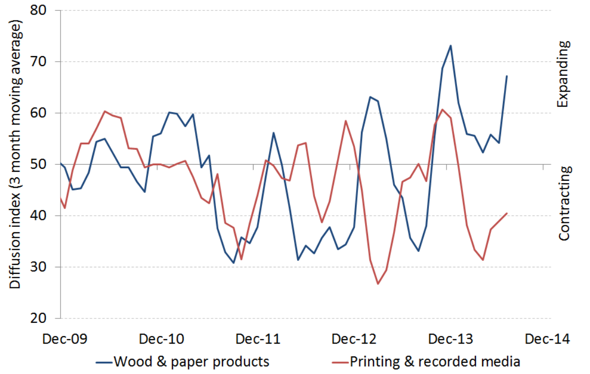
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector** expanded mildly for a second month in July (above 50 points). The sub-sector's index decreased by 0.8 points to 51.7 points this month (three month moving averages). The sub-indexes suggest production has been in contraction (i.e. below 50 points) for three months in this sub-sector, although new orders continue to expand. Employment and supplier deliveries were also stronger this month in this sub-sector. Food, beverages and tobacco is the single largest manufacturing sub-sector, accounting for around 20% of national manufacturing output and employment. It has had the strongest growth trend of all the manufacturing sub-sectors over the past year.
- The small but very diverse **textiles, clothing, footwear, furniture and other manufacturing sub-sector** contracted for the second month in July (i.e. below 50 points). The index for this sub-sector decreased by 2.8 points to 46.1 points this month (three month moving averages). Increased import competition associated with the higher Australian dollar, combined with weak retail sales for clothing, footwear and personal accessories, is weighing heavily on demand for locally made products.



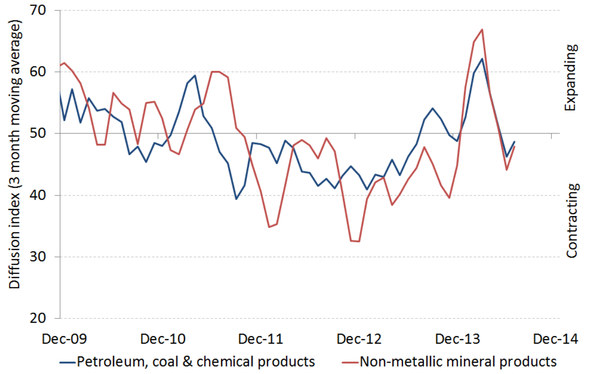
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The index for the relatively small **wood and paper products sub-sector** rose by 13.0 points to 67.2 points in July, the highest reading for this sub-sector since December 2013 (three month moving averages). This sub-sector has been in expansion (i.e. above 50 points) since October 2013 and all of its major sub-indexes remain above 50 points this month. The recent pick-up in residential construction activity appears to be driving up demand for wood products and particularly wood-based building products, while the ongoing expansion in food and beverages production is directly benefiting demand for paper-based packaging products.
- The very small **printing and recorded media sub-sector** contracted again this month. This sub-sector's index increased by 1.6 points, but remains at the very weak level of 40.5 points in July (three month moving averages). This sector has been in serious contraction for seven months now. Radical technology changes and strong import competition continue to affect this sub-sector, which has seen many businesses scaling back their local production or exiting the industry altogether.



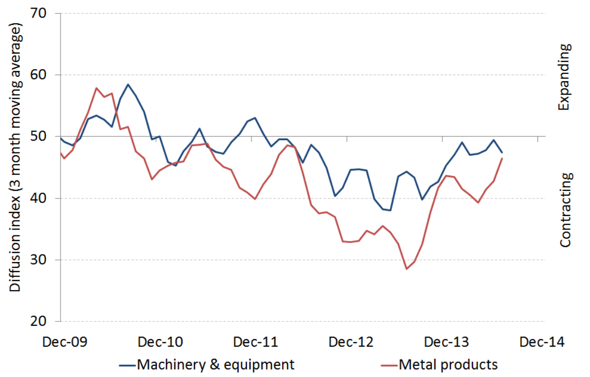
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector** contracted for a second month in July (below 50 points). This sub-sector's index moved up by 2.4 points to 48.7 points this month (three month moving averages). Respondents indicated that the recent appreciation of the Australian dollar has increased import competition. In New South Wales, the Independent Pricing and Regulatory Tribunal's (IPART) decision to increase the state's regulated retail gas price by an average of 17.8% on 1 July 2014 will place additional margin pressures on this sub-sector, since gas is used extensively as a basic material and as an energy source in the production of petrochemical compounds, adhesives and chemicals.
- The **non-metallic mineral products sub-sector** contracted again in July following five months of solid expansion between January and May 2014, with the sub-sector's index picking up by 3.7 points to 47.9 points this month (three month moving average). This industry mainly produces building materials such as tiles, bricks, cement and glass. Although stronger local building activity is benefiting this sub-sector, the ongoing strength in the Australian dollar is strengthening the flow of imports that compete directly against locally made products.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The very large **metal products sub-sector's** index increased by 3.6 points to 46.5 points in July, the highest reading since May 2012 (three month moving averages). Nevertheless, this index still points towards contraction in the metal products sub-sector, which has been contracting (i.e. readings below 50 points) since September 2010. This long-term decline has been due to intense global competition in metals production and relatively weak demand from local house builders and commercial construction. Although house construction activity is now improving - with potential flow-on benefits for demand for structural metal products - all of this sub-sector's major sub-indexes remained below 50 points in July.
- The index for the large **machinery and equipment sub-sector** declined in July, moving down by 2.0 points to 47.4 points (three month moving averages). This important manufacturing sub-sector includes automotive and other transport equipment as well as mining, agricultural and other specialist machinery. As a group, they have been in contraction since February 2012. All of this sub-sector's major sub-indexes were below 50 points this month.
- Respondents continued to cite a lack of new orders across the metal products and machinery and equipment sub-sectors this month. In addition, import competition has intensified considerably following the appreciation of the Australian dollar in recent months. This has led to significant downward pricing pressures and reduced demand for locally made products.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	**50.7**	**1.7**	**48.6**	**Exports**	48.8	-3.5	50.6
Production	50.8	1.3	48.9	**Sales**	49.3	2.6	47.7
New Orders	51.9	0.7	50.1	**Input Prices**	61.9	0.5	68.1
Employment	50.2	4.7	46.8	**Selling Prices (unadj.)**	46.6	1.8	46.0
Inventories (stocks)	48.2	3.3	46.0	**Average Wages (unadj.)**	69.6	13.1	57.6
Supplier Deliveries	50.3	-0.4	49.3	**Cap. Utilisation (%)(unadj.)**	70.3	-0.9	71.7

* 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.**