

MANUFACTURING BROADLY STABLE IN OCTOBER

Australian PMI®
Oct 2014: 49.4 ↑

USA Flash PMI
Oct 2014: 56.2 ↓

Eurozone Flash PMI
Oct 2014: 50.7 ↑

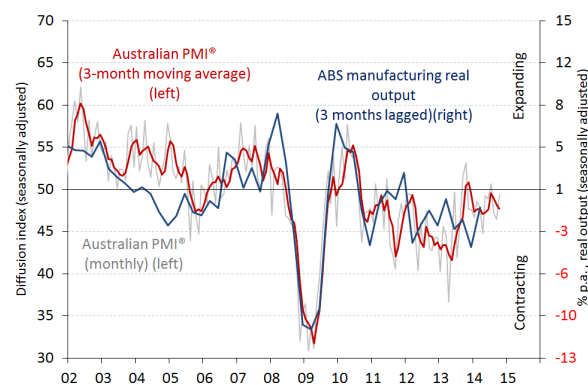
UK CIPS PMI
Sep 2014: 51.6 ↓

Japan Flash PMI
Oct 2014: 52.8 ↑

China Flash PMI
Oct 2014: 50.4 ↑

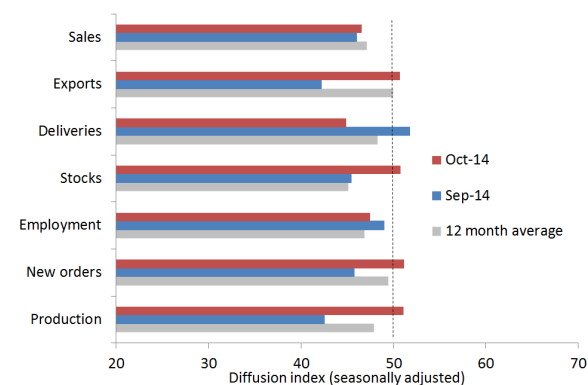
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) increased by 2.9 points to 49.4 points in October (seasonally adjusted), indicating conditions were very close to stable across the manufacturing sector this month (readings below 50 points indicate contraction). However, the three-month moving average moved slightly lower, to 47.7 points in October. Recent results from the **Australian PMI®** suggest annual growth in manufacturing output (as measured by ABS gross value added volumes) is likely to remain at or below zero in the September and December quarters of 2014.
- Three of the five activity sub-indexes were above 50 points in October, but pointed to a very mild expansion in conditions at best. The production, new orders, and stocks sub-indexes of the **Australian PMI®** all moved above 50 points (i.e. expansion) this month. Manufacturing exports also expanded mildly in October, partly in response to the depreciation of the Australian dollar since early September. This month's expansion in manufacturing exports was limited to the food, beverages and tobacco sub-sector. The employment, supplier deliveries and sales sub-indexes all contracted this month (i.e. readings below 50 points).
- Across the eight manufacturing sub-sectors in the **Australian PMI®**, only the large food and beverages (56.7 points) and the wood and paper products (59.5 points) sub-sectors expanded in October. All other sub-sectors contracted again this month (three-month averages).
- Respondents to the **Australian PMI®** indicated that despite a depreciation in the Australian dollar since early September, it remains relatively high and is still supporting intense import competition. More generally, businesses remain cautious and reluctant to invest. As the end of Australian automotive assembly moves closer and mining expansion slows, many manufacturers remain wary about the outlook for locally-made products and components.



ACTIVITY SUB-INDEXES

- The production sub-index in the **Australian PMI®** rose by 8.6 points to 51.1 points (i.e. expansion) in October. This followed two months of contraction in manufacturing production.
- New orders also expanded in October, following two months of contraction. The sub-index increased by 5.3 points to 51.1 points this month, indicating a stronger pipeline of new work.
- Despite an expansion in both production and new orders this month, the sales sub-index indicated a fifth month of contraction in October, increasing by just 0.6 points to 46.6 points.
- The employment sub-index in the **Australian PMI®** declined by 1.5 points to 47.5 points in October, pointing towards a faster pace of contraction this month. The 6-month moving average of the employment sub-index suggests annual growth in ABS manufacturing employment (trend) is likely to remain slightly negative over the remainder of 2014.
- The supplier deliveries sub-index fell by 6.9 points to 44.9 points in October, indicating a faster contraction. More positively however, manufacturers' stock levels stabilised this month, with the stock (or inventories) sub-index moving up by 5.3 points to 50.8 points in October. This followed 12 months of contraction in manufacturing inventories.
- Manufacturers' capacity utilisation rate improved slightly this month, with an average of 72.5% of total capacity being utilised across the manufacturing sector in October.
- Manufacturing exports recovered a touch in October, with the exports sub-index increasing by 8.5 points to 50.7 points, signalling a very mild expansion. This pick-up in exports was evident in the food, beverage and tobacco products sub-sector only.



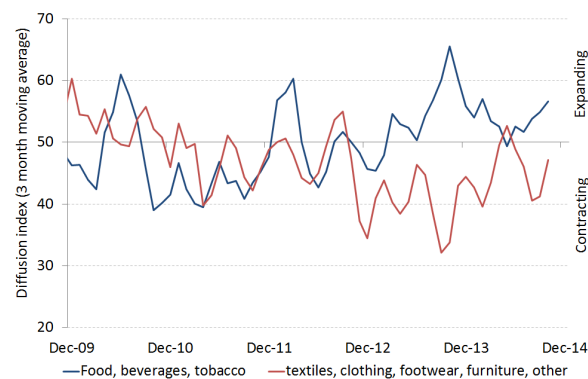
WAGES AND PRICES SUB-INDEXES

- Manufacturing selling prices were broadly stable in October, with the sub-index moving up by 1.7 points to 49.7 points. The long period of falling selling prices, together with ongoing increases in wage and input costs, means that manufacturers' margins remain tight.
- The input prices sub-index of the **Australian PMI®** moved up by 5.2 points to 65.3 points this month, the highest level since March 2014. This increase might reflect rising prices for imported inputs as the Australian dollar weakens. It interrupts a slower pace of growth in manufacturing input costs that had been evident since around July 2014.
- The wages sub-index was almost unchanged in October, at 54.3 points (down 0.7 points), suggesting that annual private sector manufacturing wages growth is likely to remain slow (e.g. 2.7% p.a. in Q2 2014, according to ABS wage index data) in the near term. This restraint in manufacturing wage growth reflects ongoing weakness in the national labour market (with the unemployment rate at 6.0% in September), as well as subdued background inflation, with the CPI increasing by just 2.3% p.a. in the September quarter of 2014.



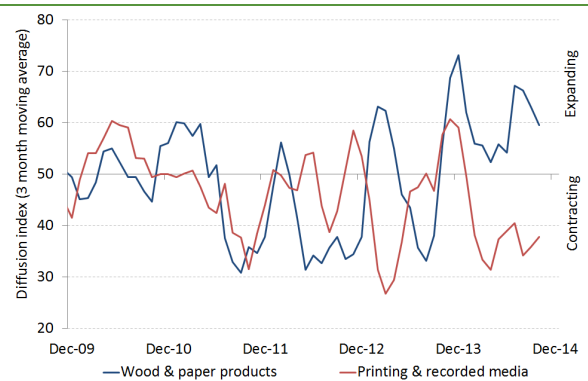
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector's** index moved up by 1.8 points to 56.7 points in October (three-month moving averages). This sub-sector has expanded (above 50 points) in every month since March 2013, except for May 2014. The sub-indexes continue to indicate solid conditions in this sub-sector, with sales, new orders, production, employment and supplier deliveries all expanding in October (i.e. above 50 points). The food, beverages and tobacco sub-sector, the single largest manufacturing sub-sector, has had the strongest growth trend of all the manufacturing sub-sectors over the past one to two years.
- The small but very diverse **textiles, clothing, footwear, furniture and other manufacturing sub-sector** contracted for a fifth month in October (i.e. below 50 points). However, the speed of contraction slowed this month, with the sub-sector index increasing by 5.9 points to 47.1 points (three-month moving averages). Although the depreciation of the Australian dollar since September is said to have boosted demand slightly, local retail sales for clothing, footwear and personal accessories remain weak, amid intense and well-established import competition.



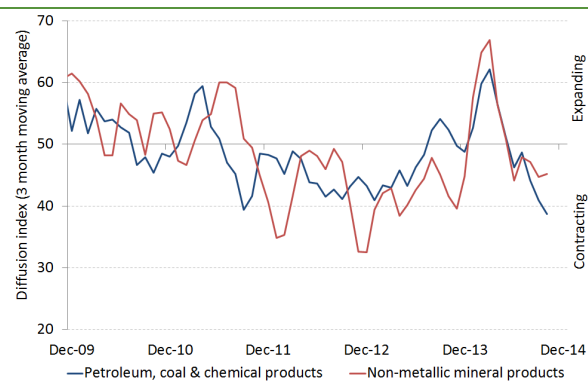
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products sub-sector** expanded (i.e. above 50 points) for a thirteenth consecutive month in October, although the sub-sector index declined by 3.7 points to 59.5 points, suggesting a slower pace of expansion (three-month moving averages). Nevertheless, all major activity sub-indexes for this sub-sector were above 50 points this month. Demand for wood products, especially wood-based building products and paper-based packaging products, has benefitted from the recent pick-up in residential construction activity and the ongoing expansion in food and beverages production.
- The very small **printing and recorded media sub-sector** contracted for a tenth consecutive month in October. This sub-sector's index increased by 1.9 points to 37.8 points this month, but continued to indicate a worrying pace of contraction (below 40 points, in three-month moving averages). Radical technology changes, strong import competition, and significant downward pricing pressures continue to weigh heavily on the printing and recorded media sub-sector, with further reports from participants of business rationalisation and closures.



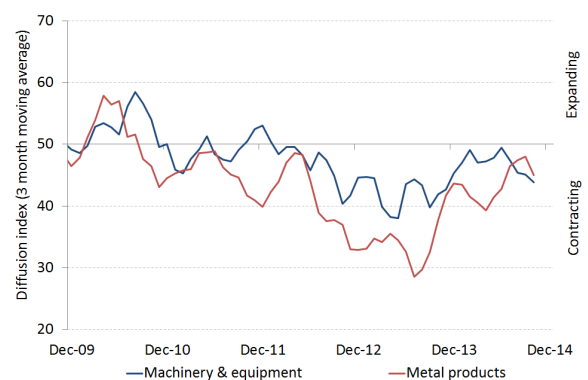
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector** contracted (below 50 points) for a fifth consecutive month in October. This sub-sector's index declined by 2.2 points to 38.7 points this month, the lowest reading since July 2009 (three-month moving averages). Respondents noted that the Australian dollar, notwithstanding its depreciation since early September, continues to weigh heavily on export volumes and to attract intense import competition. In addition, the scheduled closure Australian automotive assembly and the slower pace of mining construction and expansion have overshadowed higher demand for locally made inputs and components from the recent pick-up in residential construction activity.
- The **non-metallic mineral products sub-sector's** index was almost unchanged in October, at 45.2 points (up 0.5 points, three-month moving average). This sub-sector has contracted for five consecutive months. This sub-sector mainly produces building materials such as tiles, bricks, cement and glass and it usually benefits from any pick-up in local building activity. However, it is facing stronger import penetration, encouraged by a relatively high dollar.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The very large **metal products sub-sector's** index declined by 2.9 points to 45.0 points in October, signalling a 50th consecutive month – more than four years – of contraction (three-month moving averages). All of the metal products sub-sector's major activity sub-indexes remained indicative of contraction this month (i.e. below 50 points).
- The index for the closely related **machinery and equipment sub-sector** declined by 1.3 points to 43.8 points in October (three-month moving averages). This sub-sector has been in contraction since February 2012 and all of the major sub-indexes for this sub-sector remained below 50 points this month. This important manufacturing sub-sector produces automotive and other transport equipment as well as mining, agricultural and other specialist machinery. Conditions are likely to worsen in 2015, as automotive production reduces more sharply.
- Respondents across the metal products and machinery and equipment sub-sectors continued to report a lack of new orders this month, partly due to the decline in mining investment activity and demand for locally made products. More generally, businesses remain extremely cautious and reluctant to invest in new equipment or labour. Despite the recent depreciation, the Australian dollar remains relatively high and import competition remains intense.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	49.4	2.9	47.9	Exports	50.7	8.5	49.9
Production	51.1	8.6	47.9	Sales	46.6	0.6	47.1
New Orders	51.1	5.3	49.5	Input Prices	65.3	5.2	65.5
Employment	47.5	-1.5	46.8	Selling Prices (unadj.)	49.7	1.7	46.6
Inventories (stocks)	50.8	5.3	45.1	Average Wages (unadj.)	54.3	-0.7	57.5
Supplier Deliveries	44.9	-6.9	48.3	Cap. Utilisation (%)(unadj.)	72.5	1.3	71.5

* 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.