AUSTRALIAN PMI
PERFORMANCE OF MANUFACTURING INDEX®

AUSTRALIAN INDUSTRY GROUP

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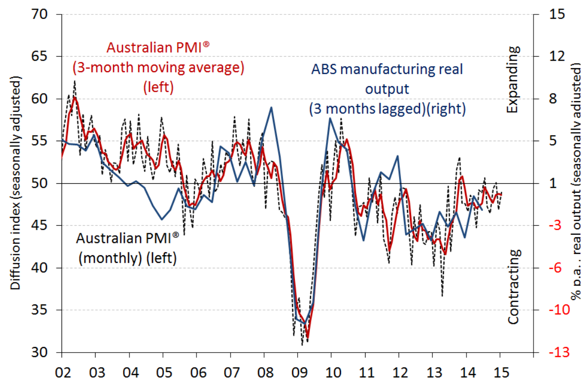
LOWER DOLLAR BOOSTS MANUFACTURING EXPORTS

Australian PMI®	US Flash PMI	Markit Eurozone PMI	UK CIPS PMI	Japan Flash PMI	China Flash PMI
Jan 2015: 49.0 ↑	Jan 2015: **53.7** ↓	Jan 2015: **51.0** ↑	Dec 2014: **52.5** ↓	Jan 2015: **52.1** ↑	Jan 2015: **49.8** ↑

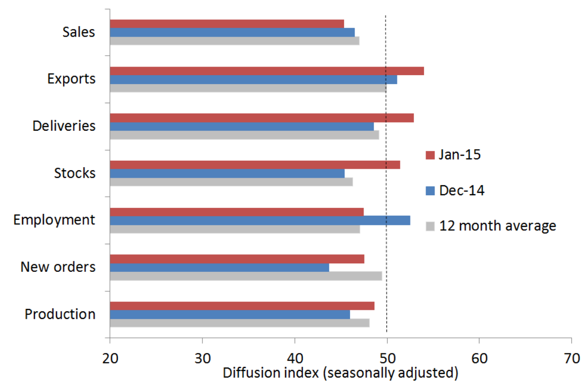
KEY FINDINGS

- The Australian Industry Group Australian Performance of Manufacturing Index **(Australian PMI®)** increased by 2.1 points to 49.0 points in January (seasonally adjusted). This indicated broadly stable conditions across the manufacturing sector this month (readings below 50 points indicate contraction, with the distance from 50 indicating the strength of the contraction).
- The **Australian PMI®** typically 'leads' ABS data for manufacturing output by around 3 months. Recent results from the **Australian PMI®** suggest manufacturing output (measured as 'value added' by the ABS) is likely to be broadly flat in Q4 2014 and so far in 2015.
- Three of the seven activity sub-indexes of the **Australian PMI®** were above 50 points in January. Manufacturing exports expanded for a second month in January. Supplier deliveries and stock levels returned to expansion this month following a contraction in December 2014. Although the new orders and production sub-indexes improved in January, they both remained below 50 points (i.e. contraction). Manufacturing sales contracted for an eighth consecutive month, while manufacturing employment contracted again after a brief expansion late in 2014.
- Three of the eight manufacturing sub-sectors in the **Australian PMI®** expanded (i.e. above 50 points) in January. The large food and beverages sub-sector continued to expand, while the relatively small textiles, clothing and furniture sub-sector, and non-metallic mineral products (mainly building materials) both expanded for a third consecutive month.
- Respondents to the **Australian PMI®** indicated the further depreciation in the Australian dollar has boosted export volumes over recent months. However, the lower dollar has also increased prices for imported inputs and businesses still report intense import competition. The sharp drop in mining investment, the progressive closure of automotive assembly in Australia, and weak business investment more generally, are also discouraging demand for locally made machinery and components.



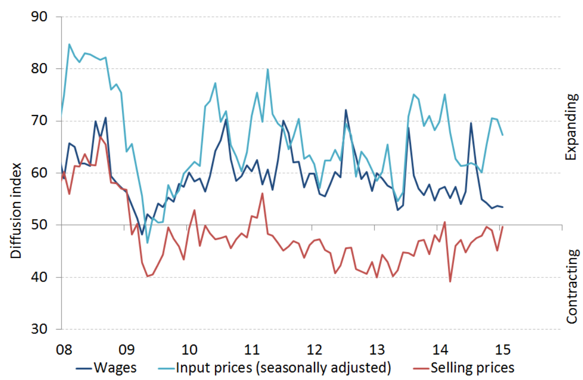
ACTIVITY SUB-INDEXES

- Manufacturing exports expanded for a second month in January, with this sub-index increasing by another 3.0 points to 54.0 points. This lift in exports likely reflected the further depreciation of the Australian dollar since September 2014. Indeed, manufacturing exports have expanded in three out of the past four months, since October 2014.
- Manufacturers also increased their stock levels after two months of reduction, with the stock (or inventories) sub-index increasing by 6.0 points to 51.4 points in January. The supplier deliveries sub-index also returned to expansion in January, increasing by 4.3 points to 52.9 points.
- Following a 10.6-point drop in December 2014, the new orders sub-index in the **Australian PMI®** recovered somewhat in January, increasing by 3.9 points to 47.6 points. Nonetheless, this still signalled a moderate contraction in manufacturing new orders this month.
- The production sub-index also increased by 2.7 points to 48.6 points in January, although it indicated a third month of contraction. Meanwhile, manufacturing sales contracted for an eighth consecutive month, with the sales sub-index decreasing by 1.1 points to 45.3 points in January.
- Reflecting these ongoing challenges, manufacturing employment contracted in January following a brief expansion last month. The employment sub-index dropped by 5.0 points to 47.5 points.
- Manufacturers' capacity utilisation rate declined by 3.1 percentage points, with an average of 71.4% of total capacity being utilised across the manufacturing sector in January.



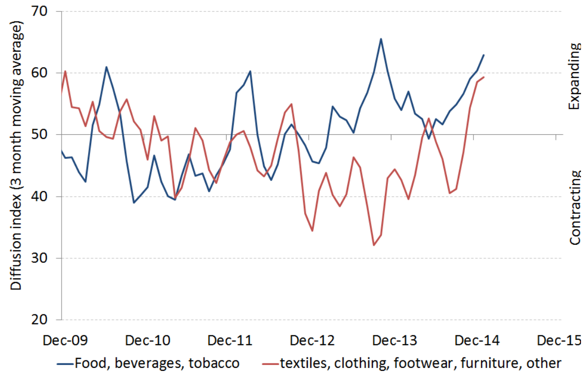
WAGES AND PRICES SUB-INDEXES

- The input prices sub-index of the **Australian PMI®** declined by 2.9 points to 67.3 points in January, although it remains at an elevated level and well above the 12-month average of 65.5 points. The ongoing rise in input prices likely reflected higher prices for imported inputs as the Australian dollar depreciates further.
- The wages sub-index was almost unchanged in January, at 53.5 points (down 0.3 points). This suggests that annual manufacturing wages growth is likely to remain subdued (e.g. 2.8% p.a. in Q3 2014, according to ABS wage index data) in the 2014 December quarter and in the first months of 2015. Slower manufacturing wage growth reflects ongoing weak labour demand, with the unemployment rate remaining near a 12-year high, at 6.2% and employment growth of just 1.4% p.a. in December 2014, as well as very low background inflation (1.7% p.a. in December).
- Manufacturing selling prices stabilised in January, with the sub-index increasing by 4.6 points to 49.7 points. This stabilisation likely reflected a reduction in downward pricing pressure from import competition, as the lower dollar pushes up the price of imports. However, ongoing increases in input prices and wages continue to weigh on manufacturers' pricing margins.



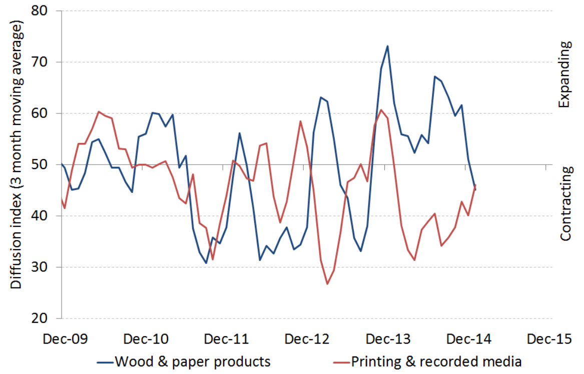
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector's** index increased by 2.5 points to 62.9 points in January (three-month moving averages). This marked the eighth month of expansion after the sub-sector briefly contracted in May 2014. The food, beverages and tobacco sub-sector is the single largest manufacturing sub-sector. It has recorded the strongest growth among all the manufacturing sub-sectors over the past two years. Solid local demand and increased export volumes (due to a lower dollar) are helping to support sales of locally made food and beverages.
- The small but very diverse **textiles, clothing, footwear, furniture and other manufacturing sub-sector** expanded for a third month in January. The sub-sector's index was almost unchanged, at 59.3 points (up 0.7 points, three-month moving averages). The further depreciation of the Australian dollar since September 2014, lower petrol prices, and reports of better than expected retail sales over the Christmas trading period have boosted local demand and export volumes for Australian made clothing, footwear and personal products. Stronger residential building over the past year has also increased demand for locally made furniture.



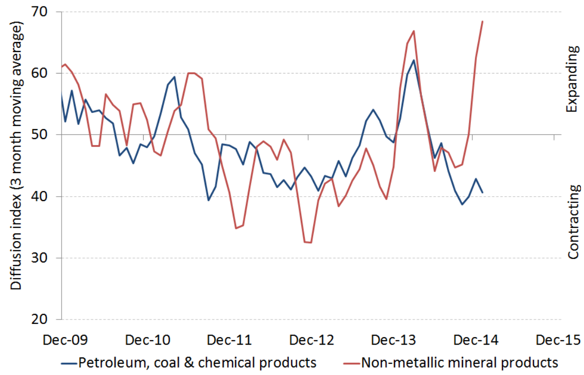
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- The relatively small **wood and paper products sub-sector** contracted (i.e. below 50 points) in January, for the first time since September 2013. The sub-sector's index declined by another 6.0 points in January following a 10.5-point drop in December 2014 (three-month moving averages). The increase in residential building activity over the past year and ongoing growth in food and beverages production have supported demand for wood-based building products and paper-based packaging products. Feedback from respondents suggests this month's contraction might be a temporary lull, but they noted that inquiries from the residential building industry have eased since late 2014.
- The very small **printing and recorded media sub-sector** continued to contract in January, although the sub-sector's index recovered by 5.9 points to 46.1 points (three-month moving averages). This signalled the slowest pace of contraction since January 2014. This sub-sector last expanded in December 2013. Although respondents noted that inquiry levels have picked up somewhat over recent months, radical technology changes, soft business activity and strong import competition continue to dampen sales for locally printed products and recorded media.



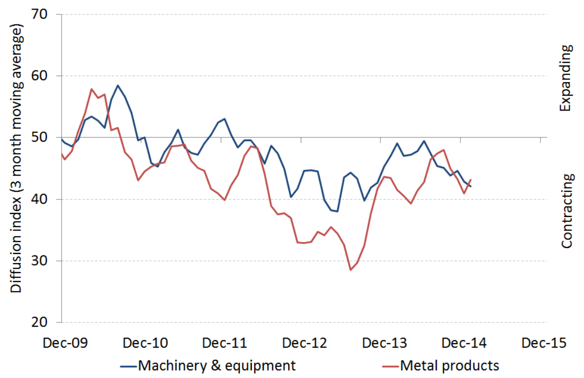
PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector**'s index declined by 2.2 points to 40.7 points in January (three-month moving averages), indicating the eighth consecutive month of contraction (i.e. below 50 points). Despite the latest depreciation of the Australian dollar, import competition remains intense and weaker demand from Asian countries is weighing on export volumes. Meanwhile, sales of Australian-made chemical inputs and components are being affected by the rapid decline in local mining construction activity, the progressive closure of automotive assembly and weak economic conditions more generally.
- The **non-metallic mineral products sub-sector**'s index rose by another 5.9 points in January to 68.4 points (three-month moving average). This signalled a third consecutive month of expansion and the fastest pace of expansion for this sub-sector in the post-GFC era. The lift in residential building activity over the past year has directly benefited the non-metallic mineral products sub-sector, which mainly produces building materials such as tiles, bricks, cement and glass. Although import competition remains strong, respondents noted that exports have picked up over recent months due to further decline in the Australian dollar since September 2014.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The very large **metal products sub-sector's** index moved up by 2.2 points to 43.1 points in January (three-month moving averages). This sub-sector has been in contraction since September 2010. There are few signs of improved conditions in the metal products sub-sector, with all of its activity sub-indexes were still below 50 points (i.e. contraction) in January.
- The index for the closely related **machinery and equipment sub-sector** was almost unchanged, at 42.1 points (down 0.8 points) in January (three-month moving averages). This important sub-sector last expanded in January 2012. It includes automotive, other transport equipment, mining, agricultural, industrial and other specialist machinery and equipment. The rate of contraction is expected to worsen over the coming year, as local automotive production reduces more sharply and demand for new equipment from the mining sector slows further.
- Respondents across the metal products and machinery and equipment sub-sectors reported a general lack of new orders in January. Demand for locally made metal products and machinery and equipment has benefitted somewhat from a lower Australian dollar and higher residential building activity over the past year. However, the ongoing sharp drop in mining investment, the progressive closure of Australian automotive assembly, and generally weak business investment continue to weigh on new orders and sales volumes. Respondents also noted that lower commodity prices are putting downward pressure on prices for finished metal 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®	**49.0**	**2.1**	**48.3**	**Exports**	54.0	3.0	50.0
Production	48.6	2.7	48.1	**Sales**	45.3	-1.1	47.0
New Orders	47.6	3.9	49.5	**Input Prices**	67.3	-2.9	65.5
Employment	47.5	-5.0	47.0	**Selling Prices (unadj.)**	49.7	4.6	47.0
Inventories (stocks)	51.4	6.0	46.3	**Average Wages (unadj.)**	53.5	-0.3	56.7
Supplier Deliveries	52.9	4.3	49.1	**Cap. Utilisation (%)(unadj.)**	71.4	-3.1	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.
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