

MANUFACTURING CONTRACTION EASES IN APRIL

Australian PMI®
 Apr 2015: 48.0 ↑

US Flash PMI
 Apr 2015: 54.2 ↓

Markit Eurozone PMI
 Apr 2015: 51.9 ↓

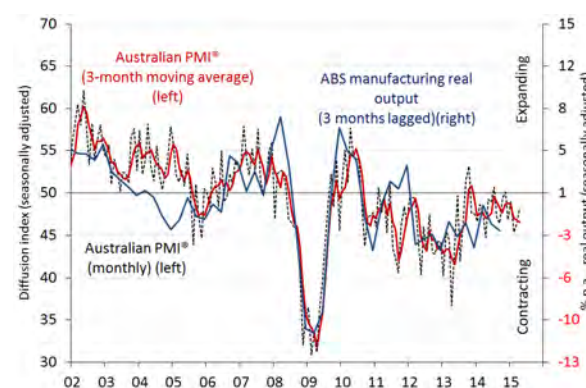
UK CIPS PMI
 Mar 2015: 54.4 ↑

Japan Flash PMI
 Apr 2015: 49.7 ↓

China Flash PMI
 Apr 2015: 49.2 ↑

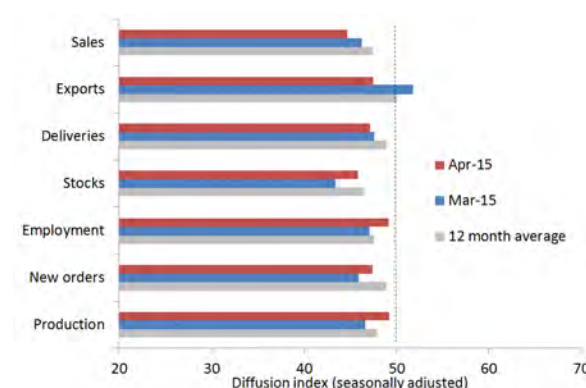
KEY FINDINGS

- Activity across the manufacturing industry contracted for a fifth month in April, although the pace of contraction eased. The Australian Industry Group Australian Performance of Manufacturing Index (**Australian PMI®**) moved up by 1.8 points to 48.0 points this month (readings below 50 points indicate contraction) (seasonally adjusted). This followed a brief stabilisation in manufacturing conditions in November 2014.
- The **Australian PMI®** typically 'leads' ABS data for manufacturing output by around 3 months. Recent results from the **Australian PMI®** suggest output in manufacturing (measured as 'value added' by the ABS) is likely to have shrunk again in the first four months of 2015.
- All of the seven activity sub-indexes in the **Australian PMI®** were below 50 points this month. Manufacturing exports contracted in April after four months of expansion, mainly due to a decline in food and beverages exports this month (previously the strongest sector). The benefits of the lower dollar continue to flow through elsewhere however, with the machinery and equipment sub-sector recording a fourth consecutive month of expansion in exports.
- Other activity indicators indicated very weak local demand. Manufacturing sales declined for an 11th month in April, while new orders fell for a fifth month. Manufacturing production contracted for a sixth consecutive month. Supplier deliveries and stock levels contracted for a third month in April, while manufacturing employment declined for a fourth month.
- Four of the eight manufacturing sub-sectors in the **Australian PMI®** expanded (i.e. above 50 points) in April: food and beverages (for an 11th month); non-metallic mineral products (mainly building materials, for a sixth month); wood and paper; and printing and recorded media. This was the same group of growing sub-sectors that was recorded in March.
- Despite the benefits from stronger residential construction activity, very low interest rates, and a lower Australian dollar, weak local demand continues to weigh heavily on manufacturing. Respondents cited demand problems arising from the ongoing drop in mining construction, the progressive closure of automotive assembly, subdued local business investment in equipment, as well as prolonged economic and political uncertainties. The lower Australian dollar had been providing support for exports (rising until now) but it is also increasing prices for imported inputs.



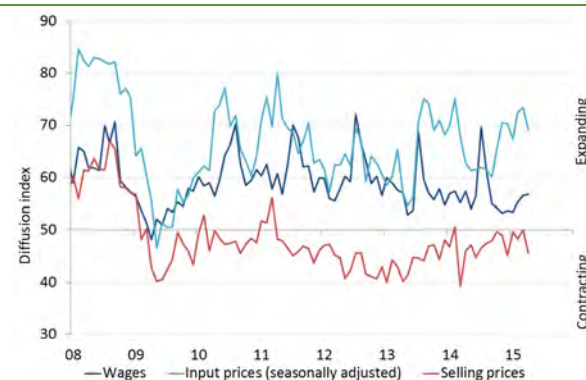
ACTIVITY SUB-INDEXES

- The new orders sub-index in the **Australian PMI®** indicated a fifth month of contraction, moving up by 1.6 points to 47.4 points in April. Meanwhile, manufacturing sales contracted for the 11th consecutive month, with the sales sub-index 1.5 points lower at 44.7 points.
- Given the prolonged weakness in sales and new orders, the production sub-index contracted for a sixth consecutive month in April, albeit at a more moderate pace (up 2.7 points to 49.3 points).
- As a result, manufacturers reduced their supplier deliveries and stock levels for a third month in April. The supplier deliveries sub-index decreased by 0.4 points to 47.2 points, while the stock (or inventories) sub-index moved up by 2.5 points to 45.9 points.
- Manufacturing employment fell for a fourth month in April. The employment sub-index increased by 2.1 points to 49.2 points, indicating a moderation in the pace of contraction this month.
- After four months of expansion, manufacturing exports contracted in April. The exports sub-index dropped by 4.3 points to 47.5 points, mainly due to a drop in exports in the food and beverages sub-sector, previously a sector of strength. On the other hand, the machinery and equipment sub-sector recorded the fourth consecutive month of expansion in exports in April.
- Manufacturers' capacity utilisation rate increased by 0.4 percentage points, with an average of 69.8% of total capacity being utilised by manufacturers in April.



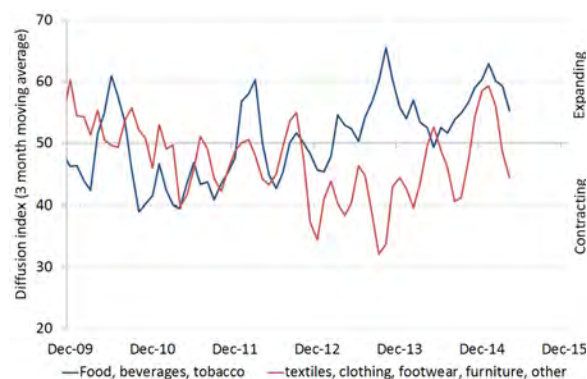
WAGES AND PRICES SUB-INDEXES

- The input prices sub-index of the **Australian PMI®** declined by 4.3 points to 69.1 points in April. However, it remained elevated and above the 12-month average of 66.2 points. The recent large rises in input prices likely reflect higher prices for imported inputs due to the lower dollar.
- The wages sub-index was hardly changed this month, at 56.8 points in April (up 0.3 points). This suggests that yearly manufacturing wages growth is likely to have remained contained over recent months following a 2.8% p.a. increase in Q4 2014 (according to ABS wage index data). The slow wage growth reflects ongoing declines in manufacturing employment (down a further 2.7% p.a. in February according to the latest ABS data), as well as a relatively high national unemployment rate (6.1% in March) and low background inflation (1.3% p.a. in Q1 2015).
- Manufacturing selling prices contracted again this month following a brief stabilisation in March. The sub-index fell by 4.5 points to 45.5 points. This contraction in selling prices, combined with moderate wage growth and the jump in input prices due to a lower Australian dollar, point to ongoing margin pressures for manufacturers.



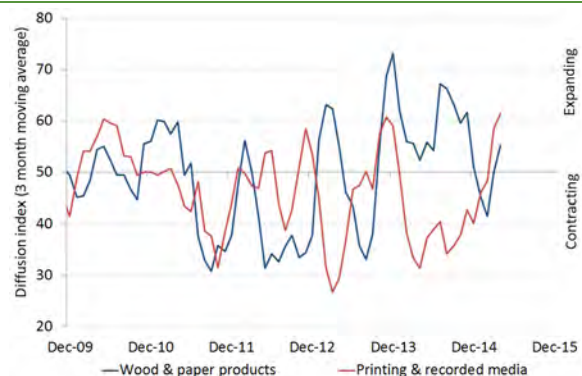
FOOD & BEVERAGES; TEXTILES, CLOTHING, FURNITURE & OTHER*

- The **food, beverages and tobacco sub-sector's** index dropped by 4.1 points to 55.3 points in April (three-month moving averages). Nevertheless, this still signalled an 11th month of expansion in this sub-sector. This sub-sector, the single largest in manufacturing, has recorded the most consistent growth among manufacturers over the past two years. Although local demand and export volumes remain solid, a few respondents expressed concerns about a potential supply shortage of breeding stock (e.g. cattle) over the next few years, as well as the indefinite ban imposed by the Papua New Guinea authorities on imported uncooked poultry products from Australia announced this month.
- The small but very diverse **textiles, clothing, footwear, furniture and other manufacturing sub-sector** contracted for a second month in April following four months of expansion. The sub-sector's index fell by another 4.2 points to 44.4 points this month (three-month moving averages). Although a lower Australian dollar has supported local sales and exports, weak consumer sentiment, economic uncertainties and the ongoing downturn in mining investment and related manufacturing activities are still weighing heavily on demand for Australian-made clothing, furniture and personal products in April.



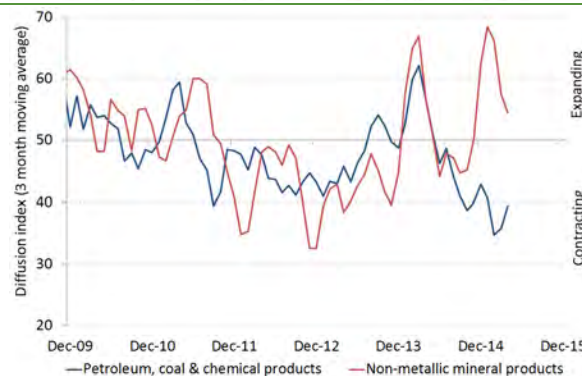
WOOD & PAPER; PRINTING & RECORDED MEDIA*

- Conditions in the relatively small **wood and paper products sub-sector** expanded in April after broadly stable conditions in March. The sub-sector's index rose by another 5.1 points to 55.2 points (three-month moving averages). Increased residential building activity over the past year and ongoing growth in food and beverages production are continuing to support demand for wood-based building products and paper-based packaging products over the past two months, just as it did for 15 consecutive months between October 2013 and December 2014.
- The very small **printing and recorded media sub-sector's** index increased by 2.8 points to 61.4 points in April (three-month moving averages). This signalled the second month of expansion in this sub-sector, after 14 months of continuous contraction since December 2013. However, conditions in this sub-sector remain patchy, with technology changes, soft business activity and ongoing intense import competition continuing to affect demand for locally printed product and recorded media.



PETROLEUM, COAL & CHEMICALS; NON-METALLIC MINERALS*

- The **petroleum, coal, chemicals and rubber products sub-sector's** index increased by 3.6 points to 39.4 points in April (three-month moving averages). This signalled an 11th consecutive month of contraction (i.e. below 50 points). Although a lower Australian dollar has assisted exports somewhat, the ongoing decline in local mining construction activity, the progressive closure of automotive assembly, soft general business conditions and public spending are still affecting local sales of Australian-made chemical inputs and components.
- The **non-metallic mineral products sub-sector** expanded for a sixth month in April. The sub-sector's index decreased again by 2.9 points to 54.5 points (three-month moving average). The improvement in residential building activity, as well as a lower Australian dollar, has increased local demand and export opportunities this sub-sector, which mainly produces building materials such as tiles, bricks, cement and glass.



METAL PRODUCTS; MACHINERY & EQUIPMENT*

- The large **metal products sub-sector's** index decreased by 1.9 points to 42.4 points in April (three-month moving averages). This sub-sector has contracted since September 2010.
- The index for the closely related **machinery and equipment sub-sector** increased by 2.5 points to 45.9 points this month (three-month moving averages). This sub-sector has contracted in every month since February 2012 (three month moving averages). The machinery and equipment sub-sector includes automotive, other transport equipment (trains, buses, boats etc.), mining equipment, agricultural, industrial and other specialist machinery.
- More positively, machinery and equipment exports have expanded for the fourth consecutive month in April, likely benefitting from a lower Australian dollar.
- Despite increased residential building activity, very low interest rates, and a lower Australian dollar, respondents across the **metal products and machinery and equipment** sub-sectors again raised concerns about a lack of demand in April. Ongoing sharp declines in resources construction activity, the progressive closure of Australian automotive assembly, and prolonged weakness in business investment due to economic and public policy uncertainties (e.g. in energy utilities) have continued to weigh on machinery and equipment investment decisions.



Seasonally adjusted	Index this month	Change from last month	12 month average		Index this month	Change from last month	12 month average
Australian PMI®	48.0	1.8	48.1	Exports	47.5	-4.3	50.1
Production	49.3	2.7	47.9	Sales	44.7	-1.5	47.4
New Orders	47.4	1.6	48.9	Input Prices	69.1	-4.3	66.2
Employment	49.2	2.1	47.5	Selling Prices (unadj.)	45.5	-4.5	47.6
Inventories (stocks)	45.9	2.5	46.4	Average Wages (unadj.)	56.8	0.3	56.6
Supplier Deliveries	47.2	-0.4	49.0	Cap. Utilisation (%) (unadj.)	69.8	0.4	71.4

* 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.aigroup.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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